MICHIGAN

Carl Levin
UNITED STATES SENATOR

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Contact: Senator Levin's Office
Phone: 202.224.6221

Senate Investigations Subcommittee Releases Levin-Coburn Report On the Financial Crisis

WASHINGTON – Concluding a two-year bipartisan investigation, Senator Carl Levin, D-Mich., and Senator Tom Coburn M.D., R-Okla., Chairman and Ranking Republican on the Senate Permanent Subcommittee on Investigations, today released **a 635-page final report** (PDF, 6MB) on their inquiry into key causes of the financial crisis. The report catalogs conflicts of interest, heedless risk-taking and failures of federal oversight that helped push the country into the deepest recession since the Great Depression.

Links to the full report and the exhibits are available at the bottom of this page.

"Using emails, memos and other internal documents, this report tells the inside story of an economic assault that cost millions of Americans their jobs and homes, while wiping out investors, good businesses, and markets," said Levin. "High risk lending, regulatory failures, inflated credit ratings, and Wall Street firms engaging in massive conflicts of interest, contaminated the U.S. financial system with toxic mortgages and undermined public trust in U.S. markets. Using their own words in documents subpoenaed by the Subcommittee, the report discloses how financial firms deliberately took advantage of their clients and investors, how credit rating agencies assigned AAA ratings to high risk securities, and how regulators sat on their hands instead of reining in the unsafe and unsound practices all around them. Rampant conflicts of interest are the threads that run through every chapter of this sordid story."

"The free market has helped make America great, but it only functions when people deal with each other honestly and transparently. At the heart of the financial crisis were unresolved, and often undisclosed, conflicts of interest," said Dr. Coburn. "Blame for this mess lies everywhere from federal regulators who cast a blind eye, Wall Street bankers

who let greed run wild, and members of Congress who failed to provide oversight."

The Levin-Coburn report expands on evidence gathered at four Subcommittee hearings in April 2010, examining four aspects of the crisis through detailed case studies: high-risk mortgage lending, using the case of Washington Mutual Bank, a $300 billion thrift that became the largest bank failure in U.S. history; regulatory inaction, focusing on the Office of Thrift Supervision's failed oversight of Washington Mutual; inflated credit ratings that misled investors, examining the actions of the nation's two largest credit rating agencies, Moody's and Standard & Poor's; and the role played by investment banks, focusing primarily on Goldman Sachs, creating and selling structured finance products that foisted billions of dollars of losses on investors, while the bank itself profited from betting against the mortgage market.

New Evidence. Today's report presents new facts, new findings and recommendations, with more than 700 new documents totaling over 5,800 pages. It recounts how Washington Mutual aggressively issued and sold high-risk mortgages to Wall Street, Fannie Mae, and Freddie Mac, even as its executives predicted a housing bubble that would burst, and offers new detail about how its regulator deferred to the bank's management. New documents show how Goldman used net short positions to benefit from the downturn in the mortgage market, and designed, marketed, and sold CDOs in ways that created conflicts of interest with the firm's clients and at times led to the bank's profiting from the same products that caused substantial losses for its clients. Other new information provides additional detail about how credit rating agencies rushed to rate new mortgage-backed securities and collect lucrative rating fees before issuing mass ratings downgrades that shocked the financial markets and triggered a collapse in the value of mortgage related securities. Over 120 new documents provide insights into how Deutsche Bank contributed to the mortgage mess.

"Our investigation found a financial snake pit rife with greed, conflicts of interest, and wrongdoing," said Levin. Among the report's highlights are the following.

- **High Risk Lending**. With an eye on short term profits, Washington Mutual launched a strategy of high-risk mortgage lending in early 2005, even as the bank's own top executives stated that the condition of the housing market "signifies a bubble" with risks that "will come back to haunt us." Executives forged ahead despite repeated warnings from inside and outside the bank that the risks were excessive, its lending standards and risk management systems were deficient, and many of its loans were tainted by fraud or prone to early default. WaMu's chief

credit officer complained at one point that "[a]ny attempts to enforce [a] more disciplined underwriting approach were continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization." From 2003 to 2006, WaMu shifted its loan originations from low risk, fixed rate mortgages, which fell from 64% to 25% of its loan originations, to high risk loans, which jumped from 19% to 55% of its originations. WaMu and its subprime lender, Long Beach Mortgage, securitized hundreds of billions of dollars in high risk, poor quality, sometimes fraudulent mortgages, at times without full disclosure to investors, weakening U.S. financial markets. New analysis shows how WaMu sold some of its high risk loans to Fannie Mae and Freddie Mac, and played one off the other to make more money.

- **Regulatory Failures.** The Office of Thrift Supervision (OTS), Washington Mutual's primary regulator, repeatedly failed to correct WaMu's unsafe and unsound lending practices, despite logging nearly 500 serious deficiencies at the bank over five years, from 2003 to 2008. New information details the regulator's deference to bank management and how it used the bank's short term profits to excuse high risk activities. Although WaMu recorded increasing problems from its high risk loans, including delinquencies that doubled year after year in its risky Option Adjustable Rate Mortgage (ARM) portfolio, OTS examiners failed to clamp down on WaMu's high risk lending. OTS did not even consider bringing an enforcement action against the bank until it began losing substantial sums in 2008. OTS also failed until 2008, to lower the bank's overall high rating or the rating awarded to WaMu's management, despite the bank's ongoing failure to correct serious deficiencies. When the Federal Deposit Insurance Corporation (FDIC) advocated taking tougher action, OTS officials not only refused, but impeded FDIC oversight of the bank. When the New York State Attorney General sued two appraisal firms for colluding with WaMu to inflate property values, OTS took nearly a year to conduct its own investigation and finally recommended taking action -- a week after the bank had failed. The OTS Director treated WaMu, which was its largest thrift and supplied 15% of the agency's budget, as a "constituent" and struck an apologetic tone when informing WaMu's CEO of its decision to take an enforcement action. When diligent oversight conflicted with OTS officials' desire to protect their "constituent" and the agency's own turf, they ignored their oversight responsibilities.
- **Inflated Credit Ratings.** The Report concludes that the most immediate cause of the financial crisis was the July 2007 mass ratings downgrades by Moody's and Standard & Poor's that exposed the risky nature of mortgage-related investments that, just months before, the same firms had deemed to be as safe as Treasury bills. The result was a collapse in the value of mortgage related securities that

devastated investors. Internal emails show that credit rating agency personnel knew their ratings would not "hold" and delayed imposing tougher ratings criteria to "massage the … numbers to preserve market share." Even after they finally adjusted their risk models to reflect the higher risk mortgages being issued, the firms often failed to apply the revised models to existing securities, and helped investment banks rush risky investments to market before tougher rating criteria took effect. They also continued to pull in lucrative fees of up to $135,000 to rate a mortgage backed security and up to $750,000 to rate a collateralized debt obligation (CDO) – fees that might have been lost if they angered issuers by providing lower ratings. The mass rating downgrades they finally initiated were not an effort to come clean, but were necessitated by skyrocketing mortgage delinquencies and securities plummeting in value. In the end, over 90% of the AAA ratings given to mortgage-backed securities in 2006 and 2007 were downgraded to junk status, including 75 out of 75 AAA-rated Long Beach securities issued in 2006. When sound credit ratings conflicted with collecting profitable fees, credit rating agencies chose the fees.

- **Investment Banks and Structured Finance.** Investment banks reviewed by the Subcommittee assembled and sold billions of dollars in mortgage-related investments that flooded financial markets with high-risk assets. They charged $1 to $8 million in fees to construct, underwrite, and market a mortgage-backed security, and $5 to $10 million per CDO. New documents detail how Deutsche Bank helped assembled a $1.1 billion CDO known as Gemstone 7, stood by as it was filled it with low-quality assets that its top CDO trader referred to as "crap" and "pigs," and rushed to sell it "before the market falls off a cliff." Deutsche Bank lost $4.5 billion when the mortgage market collapsed, but would have lost even more if it had not cut its losses by selling CDOs like Gemstone. When Goldman Sachs realized the mortgage market was in decline, it took actions to profit from that decline at the expense of its clients. New documents detail how, in 2007, Goldman's Structured Products Group twice amassed and profited from large net short positions in mortgage related securities. At the same time the firm was betting against the mortgage market as a whole, Goldman assembled and aggressively marketed to its clients poor quality CDOs that it actively bet against by taking large short positions in those transactions. New documents and information detail how Goldman recommended four CDOs, Hudson, Anderson, Timberwolf, and Abacus, to its clients without fully disclosing key information about those products, Goldman's own market views, or its adverse economic interests. For example, in Hudson, Goldman told investors that its interests were "aligned" with theirs when, in fact, Goldman held 100% of the short side of the CDO and had adverse interests to the investors,

and described Hudson's assets were "sourced from the Street," when in fact, Goldman had selected and priced the assets without any third party involvement. New documents also reveal that, at one point in May 2007, Goldman Sachs unsuccessfully tried to execute a "short squeeze" in the mortgage market so that Goldman could scoop up short positions at artificially depressed prices and profit as the mortgage market declined.

Recommendations. The Report offers 19 recommendations to address the conflicts of interest and abuses exposed in the Report. The recommendations advocate, for example, strong implementation of the new restrictions on proprietary trading and conflicts of interest; and action by the SEC to rank credit rating agencies according to the accuracy of their ratings. Other recommendations seek to advance low risk mortgages, greater transparency in the marketplace, and more protective capital, liquidity, and loss reserves.

For the full report and relevant exhibits, use the links below:

- **REPORT - Wall Street & the Financial Crisis - Anatomy of a Financial Collapse**
- **FOOTNOTE EXHIBIT LOCATOR (by FN and Bates)**
- **FN 107 - 1342 (pgs 1-1037)**
- **FN 1343 - 1459 (pgs 1038-2164)**
- **FN 1462 - 1576 (pgs 2165-3003)**
- **FN 1584 - 1622 (pgs 3004-3448)**
- **FN 1623 - 2406 (pgs 3449-4484)**
- **FN 2409 - 2706 (pgs 4485-5459)**
- **FN 2724 - 2831 (pgs 5460-5901)**

United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Tom Coburn, Ranking Minority Member

WALL STREET AND THE FINANCIAL CRISIS: Anatomy of a Financial Collapse

MAJORITY AND MINORITY STAFF REPORT

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

UNITED STATES SENATE



April 13, 2011

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Law Clerk

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Chief Clerk

WALL STREET AND THE FINANCIAL CRISIS:
Anatomy of a Financial Collapse

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# # #

Wall Street and The Financial Crisis: Anatomy of a Financial Collapse

April 13, 2011

In the fall of 2008, America suffered a devastating economic collapse. Once valuable securities lost most or all of their value, debt markets froze, stock markets plunged, and storied financial firms went under. Millions of Americans lost their jobs; millions of families lost their homes; and good businesses shut down. These events cast the United States into an economic recession so deep that the country has yet to fully recover.

This Report is the product of a two-year, bipartisan investigation by the U.S. Senate Permanent Subcommittee on Investigations into the origins of the 2008 financial crisis. The goals of this investigation were to construct a public record of the facts in order to deepen the understanding of what happened; identify some of the root causes of the crisis; and provide a factual foundation for the ongoing effort to fortify the country against the recurrence of a similar crisis in the future.

Using internal documents, communications, and interviews, the Report attempts to provide the clearest picture yet of what took place inside the walls of some of the financial institutions and regulatory agencies that contributed to the crisis. The investigation found that the crisis was not a natural disaster, but the result of high risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.

While this Report does not attempt to examine every key moment, or analyze every important cause of the crisis, it provides new, detailed, and compelling evidence of what happened. In so doing, we hope the Report leads to solutions that prevent it from happening again.

I. EXECUTIVE SUMMARY

A. Subcommittee Investigation

In November 2008, the Permanent Subcommittee on Investigations initiated its investigation into some of the key causes of the financial crisis. Since then, the Subcommittee has engaged in a wide-ranging inquiry, issuing subpoenas, conducting over 150 interviews and depositions, and consulting with dozens of government, academic, and private sector experts. The Subcommittee has accumulated and reviewed tens of millions of pages of documents, including court pleadings, filings with the Securities and Exchange Commission, trustee reports, prospectuses for public and private offerings, corporate board and committee minutes, mortgage transactions and analyses, memoranda, marketing materials, correspondence, and email. The Subcommittee has also reviewed documents prepared by or sent to or from banking and

securities regulators, including bank examination reports, reviews of securities firms, enforcement actions, analyses, memoranda, correspondence, and email.

In April 2010, the Subcommittee held four hearings examining four root causes of the financial crisis. Using case studies detailed in thousands of pages of documents released at the hearings, the Subcommittee presented and examined evidence showing how high risk lending by U.S. financial institutions; regulatory failures; inflated credit ratings; and high risk, poor quality financial products designed and sold by some investment banks, contributed to the financial crisis. This Report expands on those hearings and the case studies they featured. The case studies are Washington Mutual Bank, the largest bank failure in U.S. history; the federal Office of Thrift Supervision which oversaw Washington Mutual's demise; Moody's and Standard & Poor's, the country's two largest credit rating agencies; and Goldman Sachs and Deutsche Bank, two leaders in the design, marketing, and sale of mortgage related securities. This Report devotes a chapter to how each of the four causative factors, as illustrated by the case studies, fueled the 2008 financial crisis, providing findings of fact, analysis of the issues, and recommendations for next steps.

B. Overview

(1) High Risk Lending: Case Study of Washington Mutual Bank

The first chapter focuses on how high risk mortgage lending contributed to the financial crisis, using as a case study Washington Mutual Bank (WaMu). At the time of its failure, WaMu was the nation's largest thrift and sixth largest bank, with $300 billion in assets, $188 billion in deposits, 2,300 branches in 15 states, and over 43,000 employees. Beginning in 2004, it embarked upon a lending strategy to pursue higher profits by emphasizing high risk loans. By 2006, WaMu's high risk loans began incurring high rates of delinquency and default, and in 2007, its mortgage backed securities began incurring ratings downgrades and losses. Also in 2007, the bank itself began incurring losses due to a portfolio that contained poor quality and fraudulent loans and securities. Its stock price dropped as shareholders lost confidence, and depositors began withdrawing funds, eventually causing a liquidity crisis at the bank. On September 25, 2008, WaMu was seized by its regulator, the Office of Thrift Supervision, placed in receivership with the Federal Deposit Insurance Corporation (FDIC), and sold to JPMorgan Chase for $1.9 billion. Had the sale not gone through, WaMu's failure might have exhausted the entire $45 billion Deposit Insurance Fund.

This case study focuses on how one bank's search for increased growth and profit led to the origination and securitization of hundreds of billions of dollars in high risk, poor quality mortgages that ultimately plummeted in value, hurting investors, the bank, and the U.S. financial system. WaMu had held itself out as a prudent lender, but in reality, the bank turned increasingly to higher risk loans. Over a four-year period, those higher risk loans grew from 19% of WaMu's loan originations in 2003, to 55% in 2006, while its lower risk, fixed rate loans fell from 64% to 25% of its originations. At the same time, WaMu increased its securitization of

subprime loans sixfold, primarily through its subprime lender, Long Beach Mortgage Corporation, increasing such loans from nearly $4.5 billion in 2003, to $29 billion in 2006. From 2000 to 2007, WaMu and Long Beach together securitized at least $77 billion in subprime loans.

WaMu also originated an increasing number of its flagship product, Option Adjustable Rate Mortgages (Option ARMs), which created high risk, negatively amortizing mortgages and, from 2003 to 2007, represented as much as half of all of WaMu's loan originations. In 2006 alone, Washington Mutual originated more than $42.6 billion in Option ARM loans and sold or securitized at least $115 billion to investors, including sales to the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). In addition, WaMu greatly increased its origination and securitization of high risk home equity loan products. By 2007, home equity loans made up $63.5 billion or 27% of its home loan portfolio, a 130% increase from 2003.

At the same time that WaMu was implementing its high risk lending strategy, WaMu and Long Beach engaged in a host of shoddy lending practices that produced billions of dollars in high risk, poor quality mortgages and mortgage-backed securities. Those practices included qualifying high risk borrowers for larger loans than they could afford; steering borrowers from conventional mortgages to higher risk loan products; accepting loan applications without verifying the borrower's income; using loans with low, short term "teaser" rates that could lead to payment shock when higher interest rates took effect later on; promoting negatively amortizing loans in which many borrowers increased rather than paid down their debt; and authorizing loans with multiple layers of risk. In addition, WaMu and Long Beach failed to enforce compliance with their own lending standards; allowed excessive loan error and exception rates; exercised weak oversight over the third party mortgage brokers who supplied half or more of their loans; and tolerated the issuance of loans with fraudulent or erroneous borrower information. They also designed compensation incentives that rewarded loan personnel for issuing a large volume of higher risk loans, valuing speed and volume over loan quality.

As a result, WaMu, and particularly its Long Beach subsidiary, became known by industry insiders for its failed mortgages and poorly performing RMBS securities. Among sophisticated investors, its securitizations were understood to be some of the worst performing in the marketplace. Inside the bank, WaMu's President Steve Rotella described Long Beach as "terrible" and "a mess," with default rates that were "ugly." WaMu's high risk lending operation was also problem-plagued. WaMu management was provided with compelling evidence of deficient lending practices in internal emails, audit reports, and reviews. Internal reviews of two high volume WaMu loan centers, for example, described "extensive fraud" by employees who "willfully" circumvented bank policies. A WaMu review of internal controls to stop fraudulent loans from being sold to investors described them as "ineffective." On at least one occasion, senior managers knowingly sold delinquency-prone loans to investors. Aside from Long Beach, WaMu's President described WaMu's prime home loan business as the "worst managed business" he had seen in his career.

Documents obtained by the Subcommittee reveal that WaMu launched its high risk lending strategy primarily because higher risk loans and mortgage backed securities could be sold for higher prices on Wall Street. They garnered higher prices, because higher risk meant the securities paid a higher coupon rate than other comparably rated securities, and investors paid a higher price to buy them. Selling or securitizing the loans also removed them from WaMu's books and appeared to insulate the bank from risk.

The Subcommittee investigation indicates that unacceptable lending and securitization practices were not restricted to Washington Mutual, but were present at a host of financial institutions that originated, sold, and securitized billions of dollars in high risk, poor quality home loans that inundated U.S. financial markets. Many of the resulting securities ultimately plummeted in value, leaving banks and investors with huge losses that helped send the economy into a downward spiral. These lenders were not the victims of the financial crisis; the high risk loans they issued were the fuel that ignited the financial crisis.

(2) Regulatory Failures: Case Study of the Office of Thrift Supervision

The next chapter focuses on the failure of the Office of Thrift Supervision (OTS) to stop the unsafe and unsound practices that led to the demise of Washington Mutual, one of the nation's largest banks. Over a five year period from 2004 to 2008, OTS identified over 500 serious deficiencies at WaMu, yet failed to take action to force the bank to improve its lending operations and even impeded oversight by the bank's backup regulator, the FDIC.

Washington Mutual Bank was the largest thrift under the supervision of OTS and was among the eight largest financial institutions insured by the FDIC. Until 2006, WaMu was a profitable bank, but in 2007, many of its high risk home loans began experiencing increased rates of delinquency, default, and loss. After the market for subprime mortgage backed securities collapsed in July 2007, Washington Mutual was unable to sell or securitize its subprime loans and its loan portfolio fell in value. In September 2007, WaMu's stock price plummeted against the backdrop of its losses and a worsening financial crisis. From 2007 to 2008, WaMu's depositors withdrew a total of over $26 billion in deposits from the bank, triggering a liquidity crisis, followed by the bank's closure.

OTS records show that, during the five years prior to WaMu's collapse, OTS examiners repeatedly identified significant problems with Washington Mutual's lending practices, risk management, asset quality, and appraisal practices, and requested corrective action. Year after year, WaMu promised to correct the identified problems, but never did. OTS failed to respond with meaningful enforcement action, such as by downgrading WaMu's rating for safety and soundness, requiring a public plan with deadlines for corrective actions, or imposing civil fines for inaction. To the contrary, until shortly before the thrift's failure in 2008, OTS continually rated WaMu as financially sound.

The agency's failure to restrain WaMu's unsafe lending practices stemmed in part from an OTS regulatory culture that viewed its thrifts as "constituents," relied on bank management to

correct identified problems with minimal regulatory intervention, and expressed reluctance to interfere with even unsound lending and securitization practices. OTS displayed an unusual amount of deference to WaMu's management, choosing to rely on the bank to police itself in its use of safe and sound practices. The reasoning appeared to be that if OTS examiners simply identified the problems at the bank, OTS could then rely on WaMu's assurances that problems would be corrected, with little need for tough enforcement actions. It was a regulatory approach with disastrous results.

Despite identifying over 500 serious deficiencies in five years, OTS did not once, from 2004 to 2008, take a public enforcement action against Washington Mutual to correct its lending practices, nor did it lower the bank's rating for safety and soundness. Only in 2008, as the bank incurred mounting losses, did OTS finally take two informal, nonpublic enforcement actions, requiring WaMu to agree to a "Board Resolution" in March and a "Memorandum of Understanding" in September, neither of which imposed sufficient changes to prevent the bank's failure. OTS officials resisted calls by the FDIC, the bank's backup regulator, for stronger measures and even impeded FDIC oversight efforts by at times denying FDIC examiners office space and access to bank records. Tensions between the two agencies remained high until the end. Two weeks before the bank was seized, the FDIC Chairman contacted WaMu directly to inform it that the FDIC was likely to have a ratings disagreement with OTS and downgrade the bank's safety and soundness rating, and informed the OTS Director about that communication, prompting him to complain about the FDIC Chairman's "audacity."

Hindered by a culture of deference to management, demoralized examiners, and agency infighting, OTS officials allowed the bank's short term profits to excuse its risky practices and failed to evaluate the bank's actions in the context of the U.S. financial system as a whole. Its narrow regulatory focus prevented OTS from analyzing or acknowledging until it was too late that WaMu's practices could harm the broader economy.

OTS' failure to restrain Washington Mutual's unsafe lending practices allowed high risk loans at the bank to proliferate, negatively impacting investors across the United States and around the world. Similar regulatory failings by other agencies involving other lenders repeated the problem on a broad scale. The result was a mortgage market saturated with risky loans, and financial institutions that were supposed to hold predominantly safe investments but instead held portfolios rife with high risk, poor quality mortgages. When those loans began defaulting in record numbers and mortgage related securities plummeted in value, financial institutions around the globe suffered hundreds of billions of dollars in losses, triggering an economic disaster. The regulatory failures that set the stage for those losses were a proximate cause of the financial crisis.

(3) Inflated Credit Ratings: Case Study of Moody's and Standard & Poor's

The next chapter examines how inflated credit ratings contributed to the financial crisis by masking the true risk of many mortgage related securities. Using case studies involving Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Financial Services LLC

(S&P), the nation's two largest credit rating agencies, the Subcommittee identified multiple problems responsible for the inaccurate ratings, including conflicts of interest that placed achieving market share and increased revenues ahead of ensuring accurate ratings.

Between 2004 and 2007, Moody's and S&P issued credit ratings for tens of thousands of U.S. residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs). Taking in increasing revenue from Wall Street firms, Moody's and S&P issued AAA and other investment grade credit ratings for the vast majority of those RMBS and CDO securities, deeming them safe investments even though many relied on high risk home loans.[1] In late 2006, high risk mortgages began incurring delinquencies and defaults at an alarming rate. Despite signs of a deteriorating mortgage market, Moody's and S&P continued for six months to issue investment grade ratings for numerous RMBS and CDO securities.

Then, in July 2007, as mortgage delinquencies intensified and RMBS and CDO securities began incurring losses, both companies abruptly reversed course and began downgrading at record numbers hundreds and then thousands of their RMBS and CDO ratings, some less than a year old. Investors like banks, pension funds, and insurance companies, who are by rule barred from owning low rated securities, were forced to sell off their downgraded RMBS and CDO holdings, because they had lost their investment grade status. RMBS and CDO securities held by financial firms lost much of their value, and new securitizations were unable to find investors. The subprime RMBS market initially froze and then collapsed, leaving investors and financial firms around the world holding unmarketable subprime RMBS securities plummeting in value. A few months later, the CDO market collapsed as well.

Traditionally, investments holding AAA ratings have had a less than 1% probability of incurring defaults. But in 2007, the vast majority of RMBS and CDO securities with AAA ratings incurred substantial losses; some failed outright. Analysts have determined that over 90% of the AAA ratings given to subprime RMBS securities originated in 2006 and 2007 were later downgraded by the credit rating agencies to junk status. In the case of Long Beach, 75 out of 75 AAA rated Long Beach securities issued in 2006, were later downgraded to junk status, defaulted, or withdrawn. Investors and financial institutions holding the AAA rated securities lost significant value. Those widespread losses led, in turn, to a loss of investor confidence in the value of the AAA rating, in the holdings of major U.S. financial institutions, and even in the viability of U.S. financial markets.

Inaccurate AAA credit ratings introduced risk into the U.S. financial system and constituted a key cause of the financial crisis. In addition, the July mass downgrades, which were unprecedented in number and scope, precipitated the collapse of the RMBS and CDO secondary markets, and perhaps more than any other single event triggered the beginning of the financial crisis.

[1] S&P issues ratings using the "AAA" designation; Moody's equivalent rating is "Aaa." For ease of reference, this Report will refer to both ratings as "AAA."

The Subcommittee's investigation uncovered a host of factors responsible for the inaccurate credit ratings issued by Moody's and S&P. One significant cause was the inherent conflict of interest arising from the system used to pay for credit ratings. Credit rating agencies were paid by the Wall Street firms that sought their ratings and profited from the financial products being rated. Under this "issuer pays" model, the rating agencies were dependent upon those Wall Street firms to bring them business, and were vulnerable to threats that the firms would take their business elsewhere if they did not get the ratings they wanted. The ratings agencies weakened their standards as each competed to provide the most favorable rating to win business and greater market share. The result was a race to the bottom.

Additional factors responsible for the inaccurate ratings include rating models that failed to include relevant mortgage performance data, unclear and subjective criteria used to produce ratings, a failure to apply updated rating models to existing rated transactions, and a failure to provide adequate staffing to perform rating and surveillance services, despite record revenues. Compounding these problems were federal regulations that required the purchase of investment grade securities by banks and others, which created pressure on the credit rating agencies to issue investment grade ratings. While these federal regulations were intended to help investors stay away from unsafe securities, they had the opposite effect when the AAA ratings proved inaccurate.

Evidence gathered by the Subcommittee shows that the credit rating agencies were aware of problems in the mortgage market, including an unsustainable rise in housing prices, the high risk nature of the loans being issued, lax lending standards, and rampant mortgage fraud. Instead of using this information to temper their ratings, the firms continued to issue a high volume of investment grade ratings for mortgage backed securities. If the credit rating agencies had issued ratings that accurately reflected the increasing risk in the RMBS and CDO markets and appropriately adjusted existing ratings in those markets, they might have discouraged investors from purchasing high risk RMBS and CDO securities, and slowed the pace of securitizations.

It was not in the short term economic interest of either Moody's or S&P, however, to provide accurate credit ratings for high risk RMBS and CDO securities, because doing so would have hurt their own revenues. Instead, the credit rating agencies' profits became increasingly reliant on the fees generated by issuing a large volume of structured finance ratings. In the end, Moody's and S&P provided AAA ratings to tens of thousands of high risk RMBS and CDO securities and then, when those products began to incur losses, issued mass downgrades that shocked the financial markets, hammered the value of the mortgage related securities, and helped trigger the financial crisis.

(4) Investment Bank Abuses: Case Study of Goldman Sachs and Deutsche Bank

The final chapter examines how investment banks contributed to the financial crisis, using as case studies Goldman Sachs and Deutsche Bank, two leading participants in the U.S. mortgage market.

Investment banks can play an important role in the U.S. economy, helping to channel the nation's wealth into productive activities that create jobs and increase economic growth. But in the years leading up to the financial crisis, large investment banks designed and promoted complex financial instruments, often referred to as structured finance products, that were at the heart of the crisis. They included RMBS and CDO securities, credit default swaps (CDS), and CDS contracts linked to the ABX Index. These complex, high risk financial products were engineered, sold, and traded by the major U.S. investment banks.

From 2004 to 2008, U.S. financial institutions issued nearly $2.5 trillion in RMBS and over $1.4 trillion in CDO securities, backed primarily by mortgage related products. Investment banks typically charged fees of $1 to $8 million to act as the underwriter of an RMBS securitization, and $5 to $10 million to act as the placement agent for a CDO securitization. Those fees contributed substantial revenues to the investment banks, which established internal structured finance groups, as well as a variety of RMBS and CDO origination and trading desks within those groups, to handle mortgage related securitizations. Investment banks sold RMBS and CDO securities to investors around the world, and helped develop a secondary market where RMBS and CDO securities could be traded. The investment banks' trading desks participated in those secondary markets, buying and selling RMBS and CDO securities either on behalf of their clients or in connection with their own proprietary transactions.

The financial products developed by investment banks allowed investors to profit, not only from the success of an RMBS or CDO securitization, but also from its failure. CDS contracts, for example, allowed counterparties to wager on the rise or fall in the value of a specific RMBS security or on a collection of RMBS and other assets contained or referenced in a CDO. Major investment banks developed standardized CDS contracts that could also be traded on a secondary market. In addition, they established the ABX Index which allowed counterparties to wager on the rise or fall in the value of a basket of subprime RMBS securities, which could be used to reflect the status of the subprime mortgage market as a whole. The investment banks sometimes matched up parties who wanted to take opposite sides in a transaction and other times took one or the other side of the transaction to accommodate a client. At still other times, investment banks used these financial instruments to make their own proprietary wagers. In extreme cases, some investment banks set up structured finance transactions which enabled them to profit at the expense of their clients.

Two case studies, involving Goldman Sachs and Deutsche Bank, illustrate a variety of troubling practices that raise conflicts of interest and other concerns involving RMBS, CDO, CDS, and ABX related financial instruments that contributed to the financial crisis.

The Goldman Sachs case study focuses on how it used net short positions to benefit from the downturn in the mortgage market, and designed, marketed, and sold CDOs in ways that created conflicts of interest with the firm's clients and at times led to the bank's profiting from the same products that caused substantial losses for its clients.

From 2004 to 2008, Goldman was a major player in the U.S. mortgage market. In 2006 and 2007 alone, it designed and underwrote 93 RMBS and 27 mortgage related CDO securitizations totaling about $100 billion, bought and sold RMBS and CDO securities on behalf of its clients, and amassed its own multi-billion-dollar proprietary mortgage related holdings. In December 2006, however, when it saw evidence that the high risk mortgages underlying many RMBS and CDO securities were incurring accelerated rates of delinquency and default, Goldman quietly and abruptly reversed course.

Over the next two months, it rapidly sold off or wrote down the bulk of its existing subprime RMBS and CDO inventory, and began building a short position that would allow it to profit from the decline of the mortgage market. Throughout 2007, Goldman twice built up and cashed in sizeable mortgage related short positions. At its peak, Goldman's net short position totaled $13.9 billion. Overall in 2007, its net short position produced record profits totaling $3.7 billion for Goldman's Structured Products Group, which when combined with other mortgage losses, produced record net revenues of $1.2 billion for the Mortgage Department as a whole.

Throughout 2007, Goldman sold RMBS and CDO securities to its clients without disclosing its own net short position against the subprime market or its purchase of CDS contracts to gain from the loss in value of some of the very securities it was selling to its clients.

The case study examines in detail four CDOs that Goldman constructed and sold called Hudson 1, Anderson, Timberwolf, and Abacus 2007-AC1. In some cases, Goldman transferred risky assets from its own inventory into these CDOs; in others, it included poor quality assets that were likely to lose value or not perform. In three of the CDOs, Hudson, Anderson and Timberwolf, Goldman took a substantial portion of the short side of the CDO, essentially betting that the assets within the CDO would fall in value or not perform. Goldman's short position was in direct opposition to the clients to whom it was selling the CDO securities, yet it failed to disclose the size and nature of its short position while marketing the securities. While Goldman sometimes included obscure language in its marketing materials about the possibility of its taking a short position on the CDO securities it was selling, Goldman did not disclose to potential investors when it had already determined to take or had already taken short investments that would pay off if the particular security it was selling, or RMBS and CDO securities in general, performed poorly. In the case of Hudson 1, for example, Goldman took 100% of the short side of the $2 billion CDO, betting against the assets referenced in the CDO, and sold the Hudson securities to investors without disclosing its short position. When the securities lost value, Goldman made a $1.7 billion gain at the direct expense of the clients to whom it had sold the securities.

In the case of Anderson, Goldman selected a large number of poorly performing assets for the CDO, took 40% of the short position, and then marketed Anderson securities to its clients. When a client asked how Goldman "got comfortable" with the New Century loans in the CDO, Goldman personnel tried to dispel concerns about the loans, and did not disclose the firm's own negative view of them or its short position in the CDO.

In the case of Timberwolf, Goldman sold the securities to its clients even as it knew the securities were falling in value. In some cases, Goldman knowingly sold Timberwolf securities to clients at prices above its own book values and, within days or weeks of the sale, marked down the value of the sold securities, causing its clients to incur quick losses and requiring some to post higher margin or cash collateral. Timberwolf securities lost 80% of their value within five months of being issued and today are worthless. Goldman took 36% of the short position in the CDO and made money from that investment, but ultimately lost money when it could not sell all of the Timberwolf securities.

In the case of Abacus, Goldman did not take the short position, but allowed a hedge fund, Paulson & Co. Inc., that planned on shorting the CDO to play a major but hidden role in selecting its assets. Goldman marketed Abacus securities to its clients, knowing the CDO was designed to lose value and without disclosing the hedge fund's asset selection role or investment objective to potential investors. Three long investors together lost about $1 billion from their Abacus investments, while the Paulson hedge fund profited by about the same amount. Today, the Abacus securities are worthless.

In the Hudson and Timberwolf CDOs, Goldman also used its role as the collateral put provider or liquidation agent to advance its financial interest to the detriment of the clients to whom it sold the CDO securities.

The Deutsche Bank case study describes how the bank's top global CDO trader, Greg Lippmann, repeatedly warned and advised his Deutsche Bank colleagues and some of his clients seeking to buy short positions about the poor quality of the RMBS securities underlying many CDOs, described some of those securities as "crap" and "pigs," and predicted the assets and the CDO securities would lose value. At one point, Mr. Lippmann was asked to buy a specific CDO security and responded that it "rarely trades," but he "would take it and try to dupe someone" into buying it. He also at times referred to the industry's ongoing CDO marketing efforts as a "CDO machine" or "ponzi scheme." Deutsche Bank's senior management disagreed with his negative views, and used the bank's own funds to make large proprietary investments in mortgage related securities that, in 2007, had a notional or face value of $128 billion and a market value of more than $25 billion. Despite its positive view of the housing market, the bank allowed Mr. Lippmann to develop a large proprietary short position for the bank in the RMBS market, which from 2005 to 2007, totaled $5 billion. The bank cashed in the short position from 2007 to 2008, generating a profit of $1.5 billion, which Mr. Lippmann claims is more money on a single position than any other trade had ever made for Deutsche Bank in its history. Despite that gain, due to its large long holdings, Deutsche Bank lost nearly $4.5 billion from its mortgage related proprietary investments.

The Subcommittee also examined a $1.1 billion CDO underwritten by Deutsche Bank known as Gemstone CDO VII Ltd. (Gemstone 7), which issued securities in March 2007. It was one of 47 CDOs totaling $32 billion that Deutsche Bank underwrote from 2004 to 2008. Deutsche Bank made $4.7 million in fees from Gemstone 7, while the collateral manager, a hedge fund called HBK Capital Management, was slated to receive $3.3 million. Gemstone 7 concentrated risk by including within a single financial instrument 115 RMBS securities whose

financial success depended upon thousands of high risk, poor quality subprime loans. Many of those RMBS securities carried BBB, BBB-, or even BB credit ratings, making them among the highest risk RMBS securities sold to the public. Nearly a third of the RMBS securities contained subprime loans originated by Fremont, Long Beach, and New Century, lenders well known within the industry for issuing poor quality loans. Deutsche Bank also sold securities directly from its own inventory to the CDO. Deutsche Bank's CDO trading desk knew that many of these RMBS securities were likely to lose value, but did not object to their inclusion in Gemstone 7, even securities which Mr. Lippmann was calling "crap" or "pigs." Despite the poor quality of the underlying assets, Gemstone's top three tranches received AAA ratings. Deutsche Bank ultimately sold about $700 million in Gemstone securities, without disclosing to potential investors that its global head trader of CDOs had extremely negative views of a third of the assets in the CDO or that the bank's internal valuations showed that the assets had lost over $19 million in value since their purchase. Within months of being issued, the Gemstone 7 securities lost value; by November 2007, they began undergoing credit rating downgrades; and by July 2008, they became nearly worthless.

Both Goldman Sachs and Deutsche Bank underwrote securities using loans from subprime lenders known for issuing high risk, poor quality mortgages, and sold risky securities to investors across the United States and around the world. They also enabled the lenders to acquire new funds to originate still more high risk, poor quality loans. Both sold CDO securities without full disclosure of the negative views of some of their employees regarding the underlying assets and, in the case of Goldman, without full disclosure that it was shorting the very CDO securities it was marketing, raising questions about whether Goldman complied with its obligations to issue suitable investment recommendations and disclose material adverse interests.

The case studies also illustrate how these two investment banks continued to market new CDOs in 2007, even as U.S. mortgage delinquencies intensified, RMBS securities lost value, the U.S. mortgage market as a whole deteriorated, and investors lost confidence. Both kept producing and selling high risk, poor quality structured finance products in a negative market, in part because stopping the "CDO machine" would have meant less income for structured finance units, smaller executive bonuses, and even the disappearance of CDO desks and personnel, which is what finally happened. The two case studies also illustrate how certain complex structured finance products, such as synthetic CDOs and naked credit default swaps, amplified market risk by allowing investors with no ownership interest in the reference obligations to place unlimited side bets on their performance. Finally, the two case studies demonstrate how proprietary trading led to dramatic losses in the case of Deutsche Bank and undisclosed conflicts of interest in the case of Goldman Sachs.

Investment banks were the driving force behind the structured finance products that provided a steady stream of funding for lenders originating high risk, poor quality loans and that magnified risk throughout the U.S. financial system. The investment banks that engineered, sold, traded, and profited from mortgage related structured finance products were a major cause of the financial crisis.

C. Recommendations

The four causative factors examined in this Report are interconnected. Lenders introduced new levels of risk into the U.S. financial system by selling and securitizing complex home loans with high risk features and poor underwriting. The credit rating agencies labeled the resulting securities as safe investments, facilitating their purchase by institutional investors around the world. Federal banking regulators failed to ensure safe and sound lending practices and risk management, and stood on the sidelines as large financial institutions active in U.S. financial markets purchased billions of dollars in mortgage related securities containing high risk, poor quality mortgages. Investment banks magnified the risk to the system by engineering and promoting risky mortgage related structured finance products, and enabling investors to use naked credit default swaps and synthetic instruments to bet on the failure rather than the success of U.S. financial instruments. Some investment banks also ignored the conflicts of interest created by their products, placed their financial interests before those of their clients, and even bet against the very securities they were recommending and marketing to their clients. Together these factors produced a mortgage market saturated with high risk, poor quality mortgages and securities that, when they began incurring losses, caused financial institutions around the world to lose billions of dollars, produced rampant unemployment and foreclosures, and ruptured faith in U.S. capital markets.

Nearly three years later, the U.S. economy has yet to recover from the damage caused by the 2008 financial crisis. This Report is intended to help analysts, market participants, policymakers, and the public gain a deeper understanding of the origins of the crisis and take the steps needed to prevent excessive risk taking and conflicts of interest from causing similar damage in the future. Each of the four chapters in this Report examining a key aspect of the financial crisis begins with specific findings of fact, details the evidence gathered by the Subcommittee, and ends with recommendations. For ease of reference, all of the recommendations are reprinted here. For more information about each recommendation, please see the relevant chapter.

Recommendations on High Risk Lending

1. **Ensure "Qualified Mortgages" Are Low Risk.** Federal regulators should use their regulatory authority to ensure that all mortgages deemed to be "qualified residential mortgages" have a low risk of delinquency or default.

2. **Require Meaningful Risk Retention.** Federal regulators should issue a strong risk retention requirement under Section 941 by requiring the retention of not less than a 5% credit risk in each, or a representative sample of, an asset backed securitization's tranches, and by barring a hedging offset for a reasonable but limited period of time.

3. **Safeguard Against High Risk Products.** Federal banking regulators should safeguard taxpayer dollars by requiring banks with high risk structured finance products, including complex products with little or no reliable performance data, to meet conservative loss reserve, liquidity, and capital requirements.

4. **Require Greater Reserves for Negative Amortization Loans.** Federal banking regulators should use their regulatory authority to require banks issuing negatively amortizing loans that allow borrowers to defer payments of interest and principal, to maintain more conservative loss, liquidity, and capital reserves.

5. **Safeguard Bank Investment Portfolios.** Federal banking regulators should use the Section 620 banking activities study to identify high risk structured finance products and impose a reasonable limit on the amount of such high risk products that can be included in a bank's investment portfolio.

Recommendations on Regulatory Failures

1. **Complete OTS Dismantling.** The Office of the Comptroller of the Currency (OCC) should complete the dismantling of the Office of Thrift Supervision (OTS), despite attempts by some OTS officials to preserve the agency's identity and influence within the OCC.

2. **Strengthen Enforcement.** Federal banking regulators should conduct a review of their major financial institutions to identify those with ongoing, serious deficiencies, and review their enforcement approach to those institutions to eliminate any policy of deference to bank management, inflated CAMELS ratings, or use of short term profits to excuse high risk activities.

3. **Strengthen CAMELS Ratings.** Federal banking regulators should undertake a comprehensive review of the CAMELS ratings system to produce ratings that signal whether an institution is expected operate in a safe and sound manner over a specified period of time, asset quality ratings that reflect embedded risks rather than short term profits, management ratings that reflect any ongoing failure to correct identified deficiencies, and composite ratings that discourage systemic risks.

4. **Evaluate Impacts of High Risk Lending.** The Financial Stability Oversight Council should undertake a study to identify high risk lending practices at financial institutions, and evaluate the nature and significance of the impacts that these practices may have on U.S. financial systems as a whole.

Recommendations on Inflated Credit Ratings

1. **Rank Credit Rating Agencies by Accuracy.** The SEC should use its regulatory authority to rank the Nationally Recognized Statistical Rating Organizations in terms of performance, in particular the accuracy of their ratings.

2. **Help Investors Hold CRAs Accountable.** The SEC should use its regulatory authority to facilitate the ability of investors to hold credit rating agencies accountable in civil lawsuits for inflated credit ratings, when a credit rating agency knowingly or recklessly fails to conduct a reasonable investigation of the rated security.

3. **Strengthen CRA Operations.** The SEC should use its inspection, examination, and regulatory authority to ensure credit rating agencies institute internal controls, credit rating methodologies, and employee conflict of interest safeguards that advance rating accuracy.

4. **Ensure CRAs Recognize Risk.** The SEC should use its inspection, examination, and regulatory authority to ensure credit rating agencies assign higher risk to financial instruments whose performance cannot be reliably predicted due to their novelty or complexity, or that rely on assets from parties with a record for issuing poor quality assets.

5. **Strengthen Disclosure.** The SEC should exercise its authority under the new Section 78o-7(s) of Title 15 to ensure that the credit rating agencies complete the required new ratings forms by the end of the year and that the new forms provide comprehensible, consistent, and useful ratings information to investors, including by testing the proposed forms with actual investors.

6. **Reduce Ratings Reliance.** Federal regulators should reduce the federal government's reliance on privately issued credit ratings.

Recommendations on Investment Bank Abuses

1. **Review Structured Finance Transactions.** Federal regulators should review the RMBS, CDO, CDS, and ABX activities described in this Report to identify any violations of law and to examine ways to strengthen existing regulatory prohibitions against abusive practices involving structured finance products.

2. **Narrow Proprietary Trading Exceptions.** To ensure a meaningful ban on proprietary trading under Section 619, any exceptions to that ban, such as for market-making or risk-mitigating hedging activities, should be strictly limited in the implementing regulations to activities that serve clients or reduce risk.

3. **Design Strong Conflict of Interest Prohibitions.** Regulators implementing the conflict of interest prohibitions in Sections 619 and 621 should consider the types of conflicts of interest in the Goldman Sachs case study, as identified in Chapter VI(C)(6) of this Report.

4. **Study Bank Use of Structured Finance.** Regulators conducting the banking activities study under Section 620 should consider the role of federally insured banks in designing, marketing, and investing in structured finance products with risks that cannot be reliably measured and naked credit default swaps or synthetic financial instruments.

II. BACKGROUND

Understanding the recent financial crisis requires examining how U.S. financial markets have changed in fundamental ways over the past 15 years. The following provides a brief historical overview of some of those changes; explains some of the new financial products and trading strategies in the mortgage area; and provides background on credit ratings, investment banks, government sponsored enterprises, and financial regulators. It also provides a brief timeline of key events in the financial crisis. Two recurrent themes are the increasing amount of risk and conflicts of interest in U.S. financial markets.

A. Rise of Too-Big-To-Fail U.S. Financial Institutions

Until relatively recently, federal and state laws limited federally-chartered banks from branching across state lines.[2] Instead, as late as the 1990s, U.S. banking consisted primarily of thousands of modest-sized banks tied to local communities. Since 1990, the United States has witnessed the number of regional and local banks and thrifts shrink from just over 15,000 to approximately 8,000 by 2009,[3] while at the same time nearly 13,000 regional and local credit unions have been reduced to 7,500.[4] This broad-based approach meant that when a bank suffered losses, the United States could quickly close its doors, protect its depositors, and avoid significant damage to the U.S. banking system or economy. Decentralized banking also promoted competition, diffused credit in the marketplace, and prevented undue concentrations of financial power.

In the mid 1990s, the United States initiated substantial changes to the banking industry, some of which relaxed the rules under which banks operated, while others imposed new regulations, and still others encouraged increased risk-taking. In 1994, for the first time, Congress explicitly authorized interstate banking, which allowed federally-chartered banks to open branches nationwide more easily than before.[5] In 1999, Congress repealed the Glass-Steagall Act of 1933, which had generally required banks, investment banks, securities firms, and insurance companies to operate separately,[6] and instead allowed them to openly merge operations.[7] The same law also eliminated the Glass-Steagall prohibition on banks engaging in

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[2] See McFadden Act of 1927, P.L. 69-639 (prohibiting national banks from owning branches in multiple states); Bank Holding Company Act of 1956, P.L. 84-511 (prohibiting banking company companies from owning branches in multiple states). See also "Going Interstate: A New Dawn for U.S. Banking," The Regional Economist, a publication of the Federal Reserve Bank of St. Louis (7/1994).

[3] See U.S. Census Bureau, "Statistical Abstract of the United States 2011," at 735, http://www.census.gov/compendia/statab/2011/tables/11s1175.pdf.

[4] 1/3/2011 chart, "Insurance Fund Ten-Year Trends," supplied by the National Credit Union Administration (showing that, as of 12/31/1993, the United States had 12,317 federal and state credit unions). Data provided by the National Credit Union Administration, 1/3/11.

[5] Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, P.L. 103-328 (repealing statutory prohibitions on interstate banking).

[6] Glass-Steagall Act of 1933, also known as the Banking Act, P.L. 73-66.

[7] Gramm-Leach-Bliley Act of 1999, also known as the Financial Services Modernization Act, P.L. 106-102. Some banks had already begun to engage in securities and insurance activities, with the most prominent example at the time being Citicorp's 1998 merger with the Travelers insurance group.

proprietary trading[8] and exempted investment bank holding companies from direct federal regulation.[9] In 2000, Congress enacted the Commodity Futures Modernization Act which barred federal regulation of swaps and the trillion-dollar swap markets, and which allowed U.S. banks, broker-dealers, and other financial institutions to develop, market, and trade these unregulated financial products, including credit default swaps, foreign currency swaps, interest rate swaps, energy swaps, total return swaps, and more.[10]

In 2002, the Treasury Department, along with other federal bank regulatory agencies, altered the way capital reserves were calculated for banks, and encouraged the retention of securitized mortgages with investment grade credit ratings by allowing banks to hold less capital in reserve for them than if the individual mortgages were held directly on the banks' books.[11] In 2004, the SEC relaxed the capital requirements for large broker-dealers, allowing them to grow even larger, often with borrowed funds.[12] In 2005, when the SEC attempted to assert more control over the growing hedge fund industry, by requiring certain hedge funds to register with the agency, a federal Court of Appeals issued a 2006 opinion that invalidated the SEC regulation.[13]

These and other steps paved the way, over the course of little more than the last decade, for a relatively small number of U.S. banks and broker-dealers to become giant financial conglomerates involved in collecting deposits; financing loans; trading equities, swaps and commodities; and issuing, underwriting, and marketing billions of dollars in stock, debt instruments, insurance policies, and derivatives. As these financial institutions grew in size and complexity, and began playing an increasingly important role in the U.S. economy, policymakers began to ask whether the failure of one of these financial institutions could damage not only the U.S. financial system, but the U.S. economy as a whole. In a little over ten years, the creation of too-big-to-fail financial institutions had become a reality in the United States.[14]

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[8] Glass-Steagall Act, Section 16.

[9] Gramm-Leach-Bliley Act of 1999, also known as the Financial Services Modernization Act, P.L. 106-102. See also prepared statement of SEC Chairman Christopher Cox, "Role of Federal Regulators: Lessons from the Credit Crisis for the Future of Regulation," October 23, 2008 House Committee on Oversight and Government Reform Hearing, ("It was a fateful mistake in the Gramm-Leach-Bliley Act that neither the SEC nor any regulator was given the statutory authority to regulate investment bank holding companies other than on a voluntary basis.").

[10] The 2000 Commodity Futures Modernization Act (CFMA) was enacted as a title of the Consolidated Appropriations Act of 2001, P.L. 106-554.

[11] See 66 Fed. Reg. 59614 (Nov. 29, 2011), http://www.federalregister.gov/articles/2001/11/29/01-29179/risk-based-capital-guidelines-capital-adequacy-guidelines-capital-maintenance-capital-treatment-of.

[12] See "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities," RIN 3235-AI96, 17 CFR Parts 200 and 240 (8/20/2004) ("amended the net capital rule under the Securities Exchange Act of 1934 to establish a voluntary alternative method of computing net capital for certain broker-dealers"). The Consolidated Supervised Entities (CSE) program, which provided SEC oversight of investment bank holding companies that joined the CSE program on a voluntarily basis, was established by the SEC in 2004, and terminated by the SEC in 2008, after the financial crisis. The alternative net capital rules for broker-dealers were terminated at the same time.

[13] Goldstein v. SEC, 451 F.3d 873 (D.C. Cir. 2006).

[14] The financial crisis has not reversed this trend; it has accelerated it. By the end of 2008, Bank of America had purchased Countrywide and Merrill Lynch; Wells Fargo had acquired Wachovia Bank; and JPMorgan Chase had

Over the last ten years, some U.S. financial institutions have not only grown larger and more complex, but have also engaged in higher risk activities. The last decade has witnessed an explosion of so-called "innovative" financial products with embedded risks that are difficult to analyze and predict, including collateralized debt obligations, credit default swaps, exchange traded funds, commodity and swap indices, and more. Financial engineering produced these financial instruments which typically had little or no performance record to use for risk management purposes. Some U.S. financial institutions became major participants in the development of these financial products, designing, selling, and trading them in U.S. and global markets.

In addition, most major U.S. financial institutions began devoting increasing resources to so-called "proprietary trading," in which the firm's personnel used the firm's capital to gain investment returns for the firm itself rather than for its clients. Traditionally, U.S. banks, broker-dealers, and investment banks had offered investment advice and services to their clients, and did well when their clients did well. Over the last ten years, however, some firms began referring to their clients, not as customers, but as counterparties. In addition, some firms at times developed and used financial products in transactions in which the firm did well only when its clients, or counterparties, lost money. Some U.S. banks also sponsored affiliated hedge funds, provided them with billions of dollars in client and bank funds, and allowed the hedge funds to make high risk investments on the bank's behalf, seeking greater returns.

By 2005, as U.S. financial institutions reached unprecedented size and made increasing use of complex, high risk financial products, government oversight and regulation was increasingly incoherent and misguided.

B. High Risk Mortgage Lending

The U.S. mortgage market reflected many of the trends affecting the U.S. financial system as a whole. Prior to the early 1970s, families wishing to buy a home typically went to a local bank or mortgage company, applied for a loan and, after providing detailed financial information and a down payment, qualified for a 30-year fixed rate mortgage. The local bank or mortgage company then typically kept that mortgage until the homeowner paid it off, earning its profit from the interest rates and fees paid by the borrower.

Lenders were required to keep a certain amount of capital for each loan they issued, which effectively limited the number of loans one bank could have on its books. To increase their capital, some lenders began selling the loans on their books to other financial institutions that wanted to service the loans over time, and then used the profits to make new loans to prospective borrowers. Lenders began to make money, not from holding onto the loans they originated and collecting mortgage payments over the years, but from the relatively short term fees associated with originating and selling the loans.

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purchased Washington Mutual and Bear Stearns, creating the largest banks in U.S. history. By early 2009, each controlled more than 10% of all U.S. deposits. See, e.g., "Banks 'Too Big To Fail' Have Grown Even Bigger: Behemoths Born of the Bailout Reduce Consumer Choice, Tempt Corporate Moral Hazard," Washington Post (8/28/2009). Those banks plus Citigroup also issued one out of every two mortgages and two out of every three credit cards. Id.

By 2003, many lenders began using higher risk lending strategies involving the origination and sale of complex mortgages that differed substantially from the traditional 30-year fixed rate home loan. The following describes some of the securitization practices and higher risk mortgage products that came to dominate the mortgage market in the years leading up to the financial crisis.

Securitization. To make home loans sales more efficient and profitable, banks began making increasing use of a mechanism now called "securitization." In a securitization, a financial institution bundles a large number of home loans into a loan pool, and calculates the amount of mortgage payments that will be paid into that pool by the borrowers. The securitizer then forms a shell corporation or trust, often offshore, to hold the loan pool and use the mortgage revenue stream to support the creation of bonds that make payments to investors over time. Those bonds, which are registered with the SEC, are called residential mortgage backed securities (RMBS) and are typically sold in a public offering to investors. Investors typically make a payment up front, and then hold onto the RMBS securities which repay the principal plus interest over time. The amount of money paid periodically to the RMBS holders is often referred to as the RMBS "coupon rate."

For years, securitization worked well. Borrowers paid their 30-year, fixed rate mortgages with few defaults, and mortgage backed securities built up a reputation as a safe investment. Lenders earned fees for bundling the home loans into pools and either selling the pools or securitizing them into mortgage backed securities. Investment banks also earned fees from working with the lenders to assemble the pools, design the mortgage backed securities, obtain credit ratings for them, and sell the resulting securities to investors. Investors like pension funds, insurance companies, municipalities, university endowments, and hedge funds earned a reasonable rate of return on the RMBS securities they purchased.

Due to the 2002 Treasury rule that reduced capital reserves for securitized mortgages, RMBS holdings also became increasingly attractive to banks, which could determine how much capital they needed to hold based on the credit ratings their RMBS securities received from the credit ratings agencies. According to economist Arnold Kling, among other problems, the 2002 rule "created opportunities for banks to lower their ratio of capital to assets through structured financing" and "created the incentive for rating agencies to provide overly optimistic assessment of the risk in mortgage pools."[15]

High Risk Mortgages. The resulting increased demand for mortgage backed securities, joined with Wall Street's growing appetite for securitization fees, prompted lenders to issue mortgages not only to well qualified borrowers, but also higher risk borrowers. Higher risk borrowers were often referred to as "subprime" borrowers to distinguish them from the more creditworthy "prime" borrowers who traditionally qualified for home loans. Some lenders began

[15] "Not What They Had In Mind: A History of Policies that Produced the Financial Crisis of 2008," September 2009, Mercatus Center, http://mercatus.org/sites/default/files/publication/NotWhatTheyHadInMind(1).pdf.

to specialize in issuing loans to subprime borrowers and became known as subprime lenders.[16] Subprime loans provided new fuel for the securitization engines on Wall Street.

Federal law does not define subprime loans or subprime borrowers, but in 2001, guidance issued by federal banking regulators defined subprime borrowers as those with certain credit risk characteristics, including one or more of the following: (1) two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months; (2) a judgment or foreclosure in the prior 24 months; (3) a bankruptcy in the last five years; (4) a relatively high default probability as evidenced by, for example, a credit score below 660 on the FICO scale; or (5) a debt service-to-income ratio of 50% or more.[17] Some financial institutions reduced that definition to any borrower with a credit score below 660 or even 620 on the FICO scale;[18] while still others failed to institute any explicit definition of a subprime borrower or loan.[19] Credit scores are an underwriting tool used by lenders to evaluate the likelihood that a particular individual will repay his or her debts. FICO credit scores, developed by the Fair Issacs Corporation, are the most widely used credit scores in U.S. financial markets and provide scores ranging from 300 to 850, with the higher scores indicating greater creditworthiness.[20]

High risk loans were not confined, however, to those issued to subprime borrowers. Some lenders engaged in a host of risky lending practices that allowed them to quickly generate a large volume of high risk loans to both subprime and prime borrowers. Those practices, for example, required little or no verification of borrower income, required borrowers to provide little or no down payments, and used loans in which the borrower was not required to pay down the loan amount, and instead incurred added debt over time, known as "negative amortization" loans. Some lenders offered a low initial "teaser rate," followed by a higher interest rate that

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[16] A Federal Reserve Bank of New York research paper identifies the top ten subprime loan originators in 2006 as HSBC, New Century, Countrywide, Citigroup, WMC Mortgage, Fremont, Ameriquest Mortgage, Option One, Wells Fargo, and First Franklin. It identifies the top ten originators of subprime mortgage backed securities as Countrywide, New Century, Option One, Fremont, Washington Mutual, First Franklin, Residential Funding Corp., Lehman Brothers, WMC Mortgage, and Ameriquest. "Understanding the Securitization of Subprime Mortgage Credit," by Adam Ashcraft and Til Schuermann, Federal Reserve Bank of New York Staff Report No. 318, (3/2008) at 4.

[17] Interagency "Expanded Guidance for Subprime Lending Programs, (1/31/2001) at 3. See also "Understanding the Securitization of Subprime Mortgage Credit," by Adam Ashcraft and Til Schuermann, Federal Reserve Bank of New York Staff Report No. 318, (3/2008) at 14.

[18] See, e.g., 1/2005 "Definition of Higher Risk Lending," chart from Washington Mutual Board of Directors Finance Committee Discussion, JPM_WM00302979, Hearing Exhibit 4/13-2a; 4/2010 "Evaluation of Federal Regulatory Oversight of Washington Mutual Bank," report prepared by the Offices of Inspector General at the Department of the Treasury and Federal Deposit Insurance Corporation, at 8, Hearing Exhibit 4/16-82.

[19] See, e.g., Countrywide Financial Corporation, as described in SEC v. Mozilo, Case No. CV09-03994 (USDC CD Calif.), Complaint (June 4, 2009), at ¶¶ 20-21.

[20] To develop FICO scores, Fair Isaac uses proprietary mathematical models that draw upon databases of actual credit information to identify factors that can reliably be used to predict whether an individual will repay outstanding debt. Key factors in the FICO score include an individual's overall level of debt, payment history, types of credit extensions, and use of available credit lines. See "What's in Your FICO Score," Fair Isaac Corporation, http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx. Other types of credit scores have also been developed, including the VantageScore developed jointly by the three major credit bureaus, Equifax Inc., Experian Group Ltd., and TransUnion LLC, but the FICO score remains the most widely used credit score in U.S. financial markets.

took effect after a specified event or period of time, to enable borrowers with less income to make the initial, smaller loan payments. Some qualified borrowers according to whether they could afford to pay the lower initial rate, rather than the higher rate that took effect later, expanding the number of borrowers who could qualify for the loans. Some lenders deliberately issued loans that made economic sense for borrowers only if the borrowers could refinance the loan within a few years to retain the teaser rate, or sell the home to cover the loan costs. Some lenders also issued loans that depended upon the mortgaged home to increase in value over time, and cover the loan costs if the borrower defaulted. Still another risky practice engaged in by some lenders was to ignore signs of loan fraud and to issue and securitize loans suspected of containing fraudulent borrower information.

These practices were used to qualify borrowers for larger loans than they could have otherwise obtained. When borrowers took out larger loans, the mortgage broker typically profited from higher fees and commissions; the lender profited from higher fees and a better price for the loan on the secondary market; and Wall Street firms profited from a larger revenue stream to support bigger pools of mortgage backed securities.

The securitization of higher risk loans led to increased profits, but also injected greater risks into U.S. mortgage markets. Some U.S. lenders, like Washington Mutual and Countrywide, made wholesale shifts in their loan programs, reducing their sale of low risk, 30-year, fixed rate mortgages and increasing their sale of higher risk loans.[21] Because higher risk loans required borrowers to pay higher fees and a higher rate of interest, they produced greater initial profits for lenders than lower risk loans. In addition, Wall Street firms were willing to pay more for the higher risk loans, because once securitized, the AAA securities relying on those loans typically paid investors a higher rate of return than other AAA investments, due to the higher risk involved. As a result, investors were willing to pay more, and mortgaged backed securities relying on higher risk loans typically fetched a better price than those relying on lower risk loans. Lenders also incurred little risk from issuing the higher risk loans, since they quickly sold the loans and kept the risk off their books.

After 2000, the number of high risk loans increased rapidly, from about $125 billion in dollar value or 12% of all U.S. loan originations in 2000, to about $1 trillion in dollar value or 34% of all loan originations in 2006.[22] Altogether from 2000 to 2007, U.S. lenders originated about 14.5 million high risk loans.[23] The majority of those loans, 59%, were used to refinance

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[21] See, e.g., "Shift to Higher Margin Products," chart from Washington Mutual Board of Directors meeting, at JPM_WM00690894, Hearing Exhibit 4/13-3 (featuring discussion of the larger "gain on sale" produced by higher risk home loans); "WaMu Product Originations and Purchases By Percentage - 2003-2007," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1i (showing how higher risk loans grew from about 19% to about 55% of WaMu's loan originations); SEC v. Mozilo, Case No. CV09-03994 (USDC CD Calif.), Complaint (June 4, 2009), at ¶¶ 17-19 (alleging that higher risk loans doubled at Countrywide, increasing from about 31% to about 64% of its loan originations).

[22] 8/2010 "Nonprime Mortgages: Analysis of Loan Performance, Factors Associated with Defaults, and Data Sources," Government Accountability Office (GAO), Report No. GAO-10-805 at 1. These figures include subprime loans, Alt A, and option payment loans, but not home equity loans, which means the totals for high risk loans are understated.

[23] Id. at 5.

an existing loan, rather than buy a new home.[24] In addition, according to research performed by GAO, many of these borrowers:

> "refinanced their mortgages at a higher amount than the loan balance to convert their home equity into money for personal use (known as 'cash-out refinancing'). Of the subprime mortgages originated from 2000 through 2007, 55 percent were for cash-out refinancing, 9 percent were for no-cash-out refinancing, and 36 percent were for a home purchase."[25]

Some lenders became known inside the industry for issuing high risk, poor quality loans, yet during the years leading up to the financial crisis were able to securitize and sell their home loans with few problems. Subprime lenders like Long Beach Mortgage Corporation, New Century Financial Corporation, and Fremont Loan & Investment, for example, were known for issuing poor quality subprime loans.[26] Despite their reputations for poor quality loans, leading investment banks continued to do business with them and helped them sell or securitize hundreds of billions of dollars in home mortgages.

These three lenders and others issued a variety of nontraditional, high risk loans whose subsequent delinquencies and defaults later contributed to the financial crisis. They included hybrid adjustable rate mortgages, pick-a-payment or option ARM loans, interest-only loans, home equity loans, and Alt A and stated income loans. Although some of these loans had been in existence for years, they had previously been restricted to a relatively small group of borrowers who were generally able to repay their debts. In the years leading up to the financial crisis, however, lenders issued these higher risk loans to a wide variety of borrowers, including subprime borrowers, who often used them to purchase more expensive homes than they would have been able to buy using traditional fixed rate, 30-year loans.

Hybrid ARMs. One common high risk loan used by lenders in the years leading up to the financial crisis was the short term hybrid adjustable rate mortgage (Hybrid ARM), which was offered primarily to subprime borrowers. From 2000 to 2007, about 70% of subprime loans were Hybrid ARMs.[27] Hybrid ARMs were often referred to "2/28," "3/27," or "5/25" loans. These 30-year mortgages typically had a low fixed teaser rate, which then reset to a higher floating interest rate, after two years for the 2/28, three years for the 3/27, or five years for the 5/25. The initial loan payment was typically calculated by assuming the initial low, fixed interest rate would be used to pay down the loan. In some cases, the loan used payments that initially covered only the interest due on the loan and not any principal; these loans were called "interest only" loans. After the fixed period for the teaser rate expired, the monthly payment was typically recalculated using the higher floating rate to pay off the remaining principal and interest owing over the course of the remaining loan period. The resulting monthly payment was much

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[24] 7/28/2009 "Characteristics and Performance of Nonprime Mortgages," GAO, Report No. GAO-09-848R at 24, Table 3.
[25] Id. at 7.
[26] For more information about Long Beach, see Chapter III of this Report. For more information about New Century and Fremont, see section (D)(2)(c)-(d) of Chapter IV.
[27] 8/2010 "Nonprime Mortgages: Analysis of Loan Performance, Factors Associated with Defaults, and Data Sources," GAO, Report No. GAO-10-805 at 5, 11.

larger and sometimes caused borrowers to experience "payment shock" and default on their loans. To avoid the higher interest rate and the larger loan payment, many of the borrowers routinely refinanced their loans; when those borrowers were unable to refinance, many were unable to afford the higher mortgage payment and defaulted.

Pick-A-Payment or Option ARMs. Another common high risk loan, offered to both prime and subprime borrowers during the years leading up to the financial crisis, was known as the "pick-a-payment" or "option adjustable rate mortgage" (Option ARM). According to a 2009 GAO report:

> "[P]ayment-option ARMs were once specialized products for financially sophisticated borrowers but ultimately became more widespread. According to federal banking regulators and a range of industry participants, as home prices increased rapidly in some areas of the country, lenders began marketing payment-option ARMs as affordability products and made them available to less-creditworthy and lower-income borrowers."[28]

Option ARMs typically allowed the borrower to pay an initial low teaser rate, sometimes as low as a 1% annual rate for the first month, and then imposed a much higher interest rate linked to an index, while also giving the borrower a choice each month of how much to pay down the outstanding loan balance. These loans were called "pick-a-payment" or "option" ARMs, because borrowers were typically allowed to choose among four alternatives: (1) paying the fully amortizing amount needed to pay off the loan in 30 years; (2) paying an even higher amount to pay off the loan in 15 years; (3) paying only the interest owed that month and no principal; or (4) making a "minimum" payment that covered only a portion of the interest owed and none of the principal. If the minimum payment option were selected, the unpaid interest would be added to the loan principal. If, each month, the borrower made only the minimum payment, the loan principal would increase rather than decrease over time, creating a negatively amortizing loan.

Typically, after five years or when the loan principal reached a designated threshold, such as 110%, 115%, or 125% of the original loan amount, the loan would "recast." The borrower would then be required to make the fully amortizing payment needed to pay off the remaining loan amount within the remaining loan period. The new monthly payment amount was typically much greater, causing payment shock and increasing loan defaults. For example, a borrower taking out a $400,000 loan, with a teaser rate of 1.5% and subsequent interest rate of 6%, might have a minimum payment of $1,333. If the borrower then made only the minimum payments until the loan recast, the new payment using the 6% rate would be $2,786, an increase of more than 100%. What began as a 30-year loan for $400,000 became a 25-year loan for $432,000. To avoid having the loan recast, option ARM borrowers typically sought to refinance their loans. At some lenders, a significant portion of their option ARM business consisted of refinancing existing loans.

Home Equity Loans. A third type of high risk loan that became popular during the years leading up to the financial crisis was the home equity loan (HEL). HELs provided loans

[28] 7/28/2009 "Characteristics and Performance of Nonprime Mortgages," GAO, Report No. GAO-09-848R at 12-13.

secured by the borrower's equity in his or her home, which served as the loan collateral. HELs typically provided a lump sum loan amount that had to be repaid over a fixed period of time, such as 5, 10, or 30 years, using a fixed interest rate, although adjustable rates could also be used. A related loan, the Home Equity Line of Credit (HELOC), created a revolving line of credit, secured by the borrower's home, that the borrower could use at will, to take out and repay various levels of debt over time, typically using an adjustable rate of interest. Both HELs and HELOCs created liens against the borrower's house which, in the event of a default, could be sold to repay any outstanding loan amounts.

During the years leading up to the financial crisis, lenders provided HELs and HELOCs to both prime and subprime borrowers. They were typically high risk loans, because most were issued to borrowers who already had a mortgage on their homes and held only a limited amount of equity. The HEL or HELOC was typically able to establish only a "second lien" or "second mortgage" on the property. If the borrower later defaulted and the home sold, the sale proceeds would be used to pay off the primary mortgage first, and only then the HEL or HELOC. Often, the sale proceeds were insufficient to repay the HEL or HELOC loan. In addition, some lenders created home loan programs in which a HEL was issued as a "piggyback loan" to the primary home mortgage to finance all or part of the borrower's down payment.[29] Taken together, the HEL and the mortgage often provided the borrower with financing equal to 85%, 90%, or even 100% of the property's value.[30] The resulting high loan-to-value ratio, and the lack of borrower equity in the home, meant that, if the borrower defaulted and the home had to be sold, the sale proceeds were unlikely to be sufficient to repay both loans.

Alt A Loans. Another type of common loan during the years leading up to the financial crisis was the "Alt A" loan. Alt A loans were issued to borrowers with relatively good credit histories, but with aggressive underwriting that increased the risk of the loan.[31] For example, Alt A loans often allowed borrowers to obtain 100% financing of their homes, to have an unusually high debt-to-income ratio, or submit limited or even no documentation to establish their income levels. Alt A loans were sometimes referred to as "low doc" or "no doc" loans. They were originally developed for self employed individuals who could not easily establish their income by producing traditional W-2 tax return forms or pay stubs, and so were allowed to submit "alternative" documentation to establish their income or assets, such as bank statements.[32] The reasoning was that other underwriting criteria could be used to ensure that Alt A loans would be repaid, such as selecting only borrowers with a high credit score or with a property appraisal showing the home had substantial value in excess of the loan amount. According to GAO, from 2000 to 2006, the percentage of Alt A loans with less than full documentation of the borrower's income or assets rose from about 60% to 80%.[33]

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[29] 7/28/2009 "Characteristics and Performance of Nonprime Mortgages," GAO, Report No. GAO-09-848R at 9.
[30] Id. GAO determined that, in 2000, only about 2.4% of subprime loans had a combined loan-to-value ratio, including both first and second home liens, of 100%, but by 2006, the percentage had climbed tenfold to 29.3%.
[31] Id. at 1. GAO treated both low documentation loans and Option ARMs as Alt A loans. This Report considers Option ARMs as a separate loan category.
[32] See id. at 14.
[33] Id.

Stated Income Loans. Stated income loans were a more extreme form of low doc Alt A loans, in that they imposed no documentation requirements and required little effort by the lender to verify the borrower's income. These loans allowed borrowers simply to "state" their income, with no verification by the lender of the borrower's income or assets other than to consider the income's "reasonableness." They were sometimes called "NINA" loans, because "No Income" and "No Assets" of the borrower were verified by the lender. They were also referred to as "liar loans," since borrowers could lie about their incomes, and the lender would make little effort to substantiate the claimed income. Many lenders believed they could simply rely on the other underwriting tools, such as the borrower's credit score and the property appraisal, to ensure the loans would be repaid. Once rare and reserved only for wealthier borrowers, stated income loans became commonplace in the years leading up to the financial crisis. For example, at Washington Mutual Bank, one of the case studies in this Report, by the end of 2007, stated income loans made up 50% of its subprime loans, 73% of its Option ARMs, and 90% of its home equity loans.[34]

Nationwide, the percentage of high risk loans issued with low or no documentation of borrower income or assets was less dramatic. According to GAO, for example, from 2000 to 2006, the nationwide percentage of subprime loans with low or no documentation of borrower income or assets grew from about 20% to 38%.[35]

Volume and Speed. When lenders kept on their books the loans they issued, the creditworthiness of those loans determined whether the lender would turn a profit. Once lenders began to sell or securitize most of their loans, volume and speed, as opposed to creditworthiness, became the keys to a profitable securitization business.

In addition, in the years leading up to the financial crisis, investors that might normally insist on purchasing only high quality securities, purchased billions of dollars in RMBS securities containing poor quality, high risk loans, in part because those securities bore AAA ratings from the credit rating agencies, and in part because the securities offered higher returns compared to other AAA rated investments. Banks also bought investment grade RMBS securities to take advantage of their lower capital requirements. Increasingly, the buyers of RMBS securities began to forego detailed due diligence of the RMBS securities they purchased. Instead, they, like the lenders issuing the mortgages, operated in a mortgage market that came to be dominated by volume and speed, as opposed to credit risk.

Lenders that produced a high volume of loans could sell pools of the loans to Wall Street or to government sponsored entities like Fannie Mae and Freddie Mac. Likewise, they could securitize the loans and work with Wall Street investment banks to sell the securities to investors. These lenders passed on the risk of nonpayment to third parties, and so lost interest in whether the sold loans would, in fact, be repaid. Investment banks that securitized the loans garnered fees for their services and also typically passed on the risk of nonpayment to the investors who

[34] 4/2010 "Evaluation of Federal Regulatory Oversight of Washington Mutual Bank," prepared by the Offices of Inspector General at the Department of the Treasury and Federal Deposit Insurance Corporation, at 10, Hearing Exhibit 4/16-82.

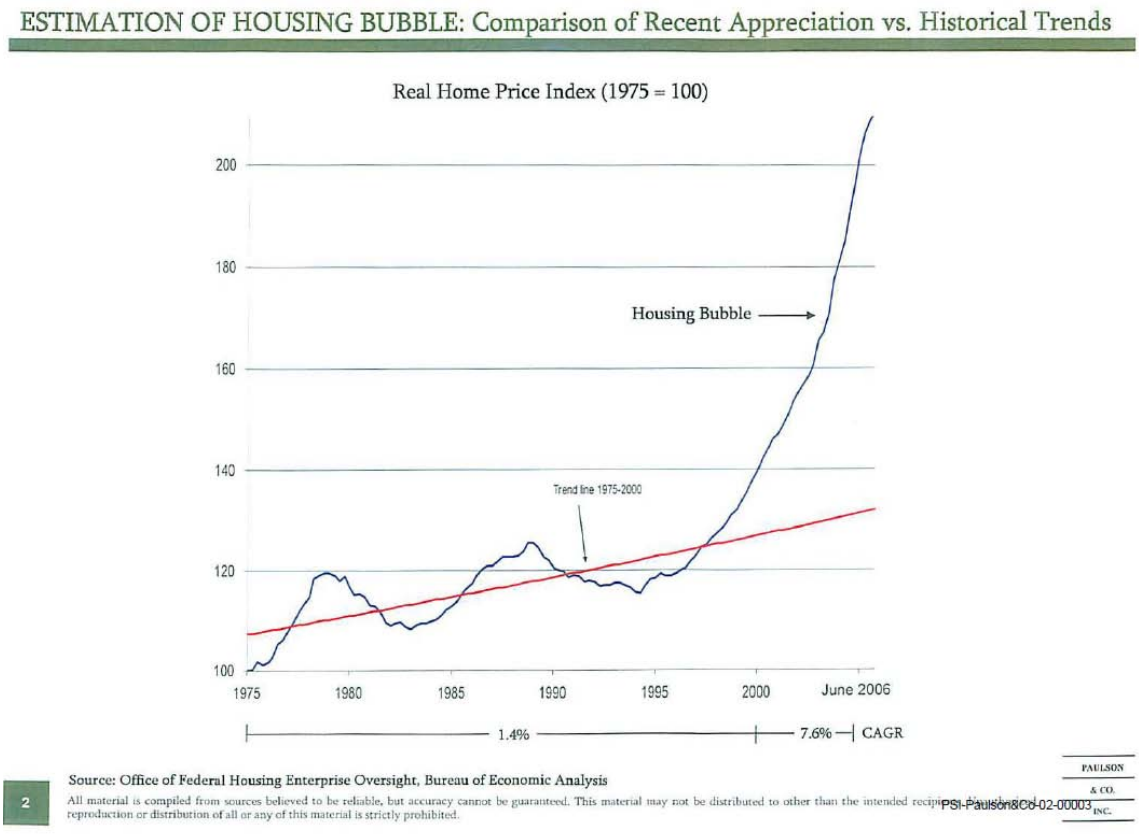
[35] 7/28/2009 "Characteristics and Performance of Nonprime Mortgages," GAO, Report No. GAO-09-848R at 14.

bought the mortgage backed securities. The investment banks were typically interested in loan repayment rates only to the extent needed to ensure defaulting loans did not cause losses to the mortgage backed securities they sold. Even some of the investors who purchased the mortgage backed securities lost interest in their creditworthiness, so long as they could buy "insurance" in the form of credit default swaps that paid off if a mortgage backed security defaulted.

To ensure an ongoing supply of loans for sale, lenders created compensation incentives that encouraged their personnel to quickly produce a high volume of loans. They also encouraged their staffs to issue or purchase higher risk loans, because those loans produced higher sale prices on Wall Street. Loan officers, for example, received more money per loan for originating higher risk loans and for exceeding established loan targets. Loan processing personnel were compensated according to the speed and number of the loans they processed. Loan officers and their sales associates received still more compensation, often called yield spread premiums, if they charged borrowers higher interest rates or points than required in the lender's rate sheets specifying loan prices, or included prepayment penalties in the loan agreements. The Subcommittee's investigation found that lenders employed few compensation incentives to encourage loan officers or loan processors to produce high quality, creditworthy loans in line with the lender's credit requirements.

As long as home prices kept rising, the high risk loans fueling the securitization markets produced few problems. Borrowers who could not make their loan payments could refinance their loans or sell their homes and use the sale proceeds to pay off their mortgages. As this chart shows, over the ten years before the crisis hit, housing prices shot up faster than they had in decades, allowing price increases to mask problems with the high risk loans being issued.[36]

[36] See "Estimation of Housing Bubble: Comparison of Recent Appreciation vs. Historical Trends," chart prepared by Paulson & Co. Inc., Hearing Exhibit 4/13-1j.



Borrowers were able to pay for the increasingly expensive homes, in part, because of the exotic, high risk loans and lax loan underwriting practices that allowed them to buy more house than they could really afford.

C. Credit Ratings and Structured Finance

Despite the increasing use of high risk loans to support mortgage related securities, mortgage related securities continued to receive AAA and other investment grade ratings from the credit rating agencies, indicating they were judged to be safe investments. Those credit ratings gave a sense of security to investors and enabled investors like pension funds, insurance companies, university endowments, and municipalities, which were often required to hold safe investments, to continue to purchase mortgage related securities.

Credit Ratings Generally. A credit rating is an assessment of the likelihood that a particular financial instrument, such as a corporate bond or mortgage backed security, may

default or incur losses.[37] A high credit rating indicates that a debt instrument is expected to be repaid and so qualifies as a safe investment.

Credit ratings are issued by private firms that have been officially designated by the SEC as Nationally Recognized Statistical Rating Organizations (NRSROs). NRSROs are usually referred to as "credit rating agencies." While there are ten registered credit rating agencies in the United States, the market is dominated by just three: Moody's Investors Service, Inc. (Moody's); Standard & Poor's Financial Services LLC (S&P); and Fitch Ratings Ltd. (Fitch).[38] By some accounts, these firms issue about 98% of the total credit ratings and collect 90% of total credit rating revenue in the United States.[39]

Credit ratings use a scale of letter grades to indicate credit risk, ranging from AAA to D, with AAA ratings designating the safest investments. Investments with AAA ratings have historically had low default rates. For example, S&P reported that its cumulative RMBS default rate by original rating class (through September 15, 2007) was 0.04% for AAA initial ratings and 1.09% for BBB.[40] Financial instruments bearing AAA through BBB- ratings are generally referred to as "investment grade," while those with ratings below BBB- (or Baa3) are referred to as "below investment grade" or sometimes as having "junk" status. Financial instruments that default receive a D rating from Standard & Poor's, but no rating at all from Moody's.

Investors often rely on credit ratings to gauge the safety of a particular investment. Some institutional investors design an investment strategy that calls for acquiring assets with specified credit ratings. State and federal law also restricts the amount of below investment grade bonds that certain investors can hold, such as pension funds and insurance companies.[41] Banks are also limited by law in the amount of noninvestment grade bonds they can hold, and are typically required to post additional capital for investments carrying riskier ratings. Because so many federal and state statutes and regulations required financial institutions to hold securities with investment grade ratings, the credit rating agencies were not only guaranteed a steady business, but were encouraged to issue AAA and other investment grade ratings. Issuers of securities and other financial instruments also worked hard to obtain favorable credit ratings to ensure more investors could buy their products.

Although the SEC has generally overseen the credit rating industry for many years, it had no statutory basis to exercise regulatory authority until enactment of the Credit Rating Agency Reform Act in September 2006. Concerned by the inflated credit ratings that had been issued for

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[37] See 9/3/2009 "Credit Rating Agencies and Their Regulation," prepared by the Congressional Research Service Report No. R40613 (revised report issued 4/9/2010). For more information about the credit rating process and the credit rating agencies, see Chapter V, below.

[38] See 9/25/2008 "Credit Rating Agencies—NRSROs," SEC, http://www.sec.gov/answers/nrsro.htm.

[39] See 9/3/2009 "Credit Rating Agencies and Their Regulation," prepared by the Congressional Research Service Report No. R40613 (revised report issued 4/9/2010).

[40] Prepared Statement of Vickie A. Tillman, Executive Vice President, Standard & Poor's Credit Market Services, "The Role of Credit Rating Agencies in the Structured Finance Market," before the U.S. House of Representatives Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Cong.Hrg. 110-62 (9/27/2007), S&P SEC-PSI 0001945-71, at 51. (See Chapter V below.) See also 1/2007 "Annual 2006 Global Corporate Default Study and Ratings Transitions," S&P.

[41] For more detail on these matters, see Chapter V, below.

bonds from Enron Corporation and other troubled corporations, Congress strengthened the SEC's authority over the credit rating industry. Among other provisions, the law established criteria for the NRSRO designation and authorized the SEC to conduct examinations of credit rating agencies. The law also, however, prohibited the SEC from regulating credit rating criteria or methodologies used in credit rating models. In June 2007, the SEC issued implementing regulations, which were essentially too late to affect the ratings already provided for mortgage related securities. One month later, in July 2007, the credit rating agencies issued the first of several mass downgrades of the ratings earlier issued for mortgage related securities.

Structured Finance. In recent years, Wall Street firms have devised increasingly complex financial instruments for sale to investors. These instruments are often referred to as structured finance. Because structured finance products are so complicated and opaque, investors often place particular reliance on credit ratings to determine whether they should buy them.

Among the oldest types of structured finance products are RMBS securities. To create these securities, issuers – often working with investment banks – bundle large numbers of home loans into a loan pool, and calculate the revenue stream coming into the loan pool from the individual mortgages. They then design a "waterfall" that delivers a stream of revenues in sequential order to specified "tranches." The first tranche is at the top of the waterfall and is typically the first to receive revenues from the mortgage pool. Since that tranche is guaranteed to be paid first, it is the safest investment in the pool. The issuer creates a security, often called a bond, linked to that first tranche. That security typically receives a AAA credit rating since its revenue stream is the most secure.

The security created from the next tranche receives the same or a lower credit rating and so on until the waterfall reaches the "equity" tranche at the bottom. The equity tranche typically receives no rating since it is the last to be paid, and therefore the first to incur losses if mortgages in the loan pool default. Since virtually every mortgage pool has at least some mortgages that default, equity tranches are intended to provide loss protection for the tranches above it. Because equity tranches are riskier, however, they are often assigned and receive a higher rate of interest and can be profitable if losses are minimal. One mortgage pool might produce five to a dozen or more tranches, each of which is used to create a residential mortgage backed security that is rated and then sold to investors.

Cash CDOs. Collateralized debt obligations (CDOs) are another type of structured finance product whose securities receive credit ratings and are sold to investors. CDOs are a more complex financial product that involves the re-securitization of existing income-producing assets. From 2004 through 2007, many CDOs included RMBS securities from multiple mortgage pools. For example, a CDO might contain BBB rated securities from 100 different RMBS securitizations. CDOs can also contain other types of assets, such as commercial mortgage backed securities, corporate bonds, or other CDO securities. These CDOs are often called "cash CDOs," because they receive cash revenues from the underlying RMBS bonds and other assets. If a CDO is designed so that it contains a specific list of assets that do not change, it is often called a "static" CDO; if the CDO's assets are allowed to change over time, it is often

referred to as a "managed" CDO. Like an RMBS securitization, the CDO arranger calculates the revenue stream coming into the pool of assets, designs a waterfall to divide those incoming revenues among a hierarchy of tranches, and uses each tranche to issue securities that can then be marketed to investors. The most senior tranches of a CDO may receive AAA ratings, even if all of its underlying assets have BBB ratings.

Synthetic CDOs. Some investment banks also created "synthetic CDOs" which mimicked cash CDOs, but did not contain actual mortgages or other assets that produced income. Instead, they simply "referenced" existing assets and then allowed investors to use credit default swaps to place bets on the performance of those referenced assets. Investors who bet that the referenced assets would maintain or increase in value bought the CDO's securities and, in exchange, received periodic coupon payments to recoup their principal investment plus interest. Investors who bet that the referenced assets would lose value or incur a specified negative credit event purchased one or more credit default swap contracts referencing the CDO's assets, and paid monthly premiums to the CDO in exchange for obtaining a large lump sum payment if the loss or other negative credit event actually occurred. Investors in synthetic CDOs who bet the referenced assets would maintain or increase in value were said to be on the "long" side, while investors who bet the assets would lose value or fail were said to be on the "short" side. Some investment banks also created "hybrid CDOs" which contained some cash assets as well as credit default swaps referencing other assets. Others created financial instruments called CDO squared or cubed, which contained or referenced tranches from other CDOs.

Like RMBS mortgage pools and cash CDOs, synthetic and hybrid CDOs pooled the payments they received, designed a waterfall assigning portions of the revenues to tranches set up in a certain order, created securities linked to the various tranches, and then sold the CDO securities to investors. Some CDOs employed a "portfolio selection agent" to select the initial assets for the CDO. In addition, some CDOs employed a "collateral manager" to select both the initial and subsequent assets that went into the CDO.

Ratings Used to Market RMBS and CDOs. Wall Street firms helped design RMBS and CDO securities, worked with the credit rating agencies to obtain ratings for the securities, and sold the securities to investors like pension funds, insurance companies, university endowments, municipalities, and hedge funds. Without investment grade ratings, Wall Street firms would have had a more difficult time selling structured finance products to investors, because each investor would have had to perform its own due diligence review of the product. In addition, their sales would have been restricted by federal and state regulations limiting certain institutional investors to the purchase of instruments carrying investment grade credit ratings. Still other regulations conditioned capital reserve requirements on the credit ratings assigned to a bank's investments. Investment grade credit ratings, thus, purported to simplify the investors' due diligence review, ensured some investors could make a purchase, reduced banks' capital calls, and otherwise enhanced the sales of the structured finance products. Here's how one federal bank regulator's handbook put it:

> "The rating agencies perform a critical role in structured finance — evaluating the credit quality of the transactions. Such agencies are considered credible because they possess

> the expertise to evaluate various underlying asset types, and because they do not have a financial interest in a security's cost or yield. Ratings are important because investors generally accept ratings by the major public rating agencies in lieu of conducting a due diligence investigation of the underlying assets and the servicer."[42]

The more complex and opaque the structured finance instruments became, the more reliant investors were on high credit ratings for the instruments to be marketable.

In addition to making structured finance products easier to sell to investors, Wall Street firms used financial engineering to combine AAA ratings – normally reserved for ultra-safe investments with low rates of return – with high risk assets, such as the AAA tranche from a subprime RMBS paying a relatively high rate of return. Higher rates of return, combined with AAA ratings, made subprime RMBS and related CDOs especially attractive investments.

Record Ratings and Revenues. From 2004 to 2007, Moody's and S&P produced a record number of ratings and a record amount of revenues for rating structured finance products. A 2008 S&P submission to the SEC indicates, for example, that from 2004 to 2007, S&P issued more than 5,500 RMBS ratings and more than 835 mortgage related CDO ratings.[43] According to a 2008 Moody's submission to the SEC, from 2004 to 2007, Moody's issued over 4,000 RMBS ratings and over 870 CDO ratings.[44]

Revenues increased dramatically over the same time period. The credit rating agencies charged substantial fees to rate a product. To obtain a rating during the height of the market, for example, S&P generally charged from $40,000 to $135,000 to rate tranches of an RMBS and from $30,000 to $750,000 to rate the tranches of a CDO.[45] Surveillance fees generally ranged from $5,000 to $50,000 per year for mortgage backed securities.[46] Over a five-year period, Moody's gross revenues from RMBS and CDO ratings more than tripled, going from over $61 million in 2002, to over $260 million in 2006.[47] S&P's revenue also increased. S&P's gross revenues for RMBS and mortgage related CDO ratings quadrupled, from over $64 million in

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[42] 11/1997 Comptroller of the Currency Administrator of National Banks Comptroller's Handbook, "Asset Securitization," at 11.

[43] 3/14/2008 compliance letter from S&P to SEC, SEC_OCIE_CRA_011218-59, at 20. These numbers represent the RMBS or CDO pools that were presented to S&P which then issued ratings for multiple tranches per RMBS or CDO pool. (See Chapter V below.)

[44] 3/11/2008 compliance letter from Moody's to SEC, SEC_OCIE_CRA_011212 and SEC_OCIE_CRA_011214. These numbers represent the RMBS or CDO pools that were presented to Moody's which then issued ratings for multiple tranches per RMBS or CDO pool. The data Moody's provided to the SEC on CDOs represented ABS CDOs, some of which may not be mortgage related. However, by 2004, most, but not all, CDOs relied primarily on mortgage related assets such as RMBS securities. Subcommittee interview of Gary Witt, former Managing Director of Moody's RMBS Group (10/29/2009). (See Chapter V below.)

[45] "U.S. Structured Ratings Fee Schedule Residential Mortgage-backed Financings and Residential Servicer Evaluations," prepared by S&P, S&P-PSI 0000028-35; and "U.S. Structured Ratings Fee Schedule Collateralized Debt Obligations Amended 3/7/2007," prepared by S&P, S&P-PSI 0000036-50. (See Chapter V below.)

[46] Id.

[47] 3/11/2008 compliance letter from Moody's to SEC, SEC_OCIE_CRA_011212 and SEC_OCIE_CRA_011214. The 2002 figure does not include gross revenue from CDO ratings as this figure was not readily available due to the transition of Moody's accounting systems. (See Chapter V below.)

2002, to over $265 million in 2006.[48] Altogether, revenues from the three leading credit rating agencies more than doubled from nearly $3 billion in 2002 to over $6 billion in 2007.[49]

Conflicts of Interest. Credit rating agencies are paid by the issuers seeking ratings for the products they sell. Issuers and the investment banks want high ratings, whether to help market their products or ensure they comply with federal regulations. Because credit rating agencies issue ratings to issuers and investment banks who bring them business, they are subject to an inherent conflict of interest that can create pressure on the credit rating agencies to issue favorable ratings to attract business. The issuers and investment banks engage in "ratings shopping," choosing the credit rating agency that offers the highest ratings. Ratings shopping weakens rating standards as the rating agencies who provide the most favorable ratings win more business. In September 2007, Moody's CEO described the problem this way: "What happened in '04 and '05 with respect to subordinated tranches is that our competition, Fitch and S&P, went nuts. Everything was investment grade."[50] In 2003, the SEC reported that "the potential conflicts of interest faced by credit rating agencies have increased in recent years, particularly given the expansion of large credit rating agencies into ancillary advisory and other businesses, and the continued rise in importance of rating agencies in the U.S. securities markets."[51]

Mass Downgrades. The credit ratings assigned to RMBS and CDO securities are designed to last the lifetime of the securities. Because circumstances can change, however, credit rating agencies conduct ongoing surveillance of each rated financial product to evaluate the rating and determine whether it should be upgraded or downgraded. Prior to the financial crisis, the numbers of downgrades and upgrades for structured finance ratings were substantially lower.[52] Beginning in July 2007, however, Moody's and S&P issued hundreds and then thousands of downgrades of RMBS and CDO ratings, the first mass downgrades in U.S. history.

From 2004 through the first half of 2007, Moody's and S&P provided AAA ratings to a majority of the RMBS and CDO securities issued in the United States, sometimes providing AAA ratings to as much as 95% of a securitization.[53] By 2010, analysts had determined that over 90% of the AAA ratings issued to RMBS securities originated in 2006 and 2007 had been downgraded to junk status.[54]

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[48] 3/14/2008 compliance letter from S&P to SEC, SEC_OCIE_CRA_011218-59, at 18-19. (See Chapter V below.)

[49] "Revenue of the Three Credit Rating Agencies: 2002-2007," chart prepared by the Subcommittee using data from http://thismatter.com/money, Hearing Exhibit 4/23-1g.

[50] 9/10/2007 Transcript of Raymond McDaniel at Moody's MD Town Hall Meeting, Hearing Exhibit 4/23-98.

[51] 1/2003 "Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets," prepared by the SEC, at 40. The report continued: "[C]oncerns had been expressed that a rating agency might be tempted to give a more favorable rating to a large issue because of the large fee, and to encourage the issuer to submit future large issues to the rating agency." Id. at 40 n.109.

[52] See, e.g., "3/26/2010 "Fitch Ratings Global Structured Finance 2009 Transition and Default Study," prepared by Fitch.

[53] See "MBS Ratings and the Mortgage Credit Boom," Federal Reserve Bank of New York Staff Report no. 449, May 2010, at 1.

[54] See, e.g., "Percent of the Original AAA Universe Currently Rated Below Investment Grade," chart prepared by BlackRock Solutions, Hearing Exhibit 4/23-1i. See also 3/2008 "Understanding the Securitization of Subprime Mortgage Credit," Federal Reserve Bank of New York Staff Report no. 318, at 58 and chart 31 ("92 percent of 1st-

Moody's and S&P began downgrading RMBS and CDO products in late 2006, when residential mortgage delinquency rates and losses began increasing. Then, in July 2007, both S&P and Moody's initiated the first of several mass downgrades that shocked the financial markets. On July 10, S&P placed on credit watch the ratings of 612 subprime RMBS with an original value of $7.35 billion. Later that day, Moody's downgraded 399 subprime RMBS with an original value of $5.2 billion. Two days later, S&P downgraded 498 of the ratings it had placed on credit watch.

In October 2007, Moody's began downgrading CDOs on a daily basis, downgrading more than 270 CDO securities with an original value of $10 billion. In December 2007, Moody's downgraded another $14 billion in CDOs, and placed another $105 billion on credit watch. Moody's calculated that, overall in 2007, "8725 ratings from 2116 deals were downgraded and 1954 ratings from 732 deals were upgraded,"[55] which means that it downgraded over four times more ratings than it upgraded. On January 30, 2008, S&P either downgraded or placed on credit watch over 8,200 ratings of subprime RMBS and CDO securities, representing issuance amounts of approximately $270.1 billion and $263.9 billion, respectively.[56]

These downgrades created significant turmoil in the securitization markets, as investors were required by regulations to sell off assets that had lost their investment grade status, holdings at financial firms plummeted in value, and new securitizations were unable to find investors. As a result, the subprime RMBS and CDO secondary markets slowed and then collapsed, and financial firms around the world were left holding billions of dollars in suddenly unmarketable RMBS and CDO securities.

D. Investment Banks

Historically, investment banks helped raise capital for business and other endeavors by helping to design, finance, and sell financial products like stocks or bonds. When a corporation needed capital to fund a large construction project, for example, it often hired an investment bank either to help it arrange a bank loan or raise capital by helping to market a new issue of shares or corporate bonds to investors. Investment banks also helped with corporate mergers and acquisitions. Today, investment banks also participate in a wide range of other financial activities, including offering broker-dealer and investment advisory services, and trading derivatives and commodities. Many have also been active in the mortgage market and have worked with lenders or mortgage brokers to package and sell mortgage loans and mortgage backed securities. Investment banks have traditionally performed these services in exchange for fees.

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lien subprime deals originated in 2006 as well as … 91.8 percent of 2nd-lien deals originated in 2006 have been downgraded.").

[55] 2/2008 "Structured Finance Ratings Transitions, 1983-2007," Credit Policy Special Comment prepared by Moody's, at 4.

[56] 6/24/2010 supplemental response from S&P to the Subcommittee, Exhibit N, Hearing Exhibit 4/23-108 (1/30/2008 "S&P Takes Action on 6,389 U.S. Subprime RMBS Ratings and 1,953 CDO Ratings," S&P's RatingsDirect). Ratings may appear on CreditWatch when events or deviations from an expected trend occur and additional information is needed to evaluate the rating.

If an investment bank agreed to act as an "underwriter" for the issuance of a new security to the public, it typically bore the risk of those securities on its books until the securities were sold. By law, securities sold to the public generally must be registered with the SEC.[57] Registration statements explain the purpose of a proposed public offering, an issuer's operations and management, key financial data, and other important facts to potential investors. Any offering document or prospectus provided to the investing public must also be filed with the SEC. If an issuer decides not to offer a new security to the general public, it can still offer it to investors through a "private placement."[58] Investment banks often act as the "placement agent" in these private offerings, helping to design, market and sell the security to selected investors. Solicitation documents in connection with private placements are not required to be filed with the SEC. Under the federal securities laws, however, investment banks that act as an underwriter or placement agent may be liable for any material misrepresentations or omissions of material facts made in connection with a solicitation or sale of a security to an investor.[59]

In the years leading up to the financial crisis, RMBS securities were generally registered with the SEC and sold in public offerings, while CDO securities were generally sold to investors through private placements. Investment banks frequently served as the underwriter or placement agent in those transactions, and typically sold both types of securities to large institutional investors.

In addition to arranging for a public or private offering, some investment banks take on the role of a "market maker," standing willing and able to buy or sell financial products to their clients or other market participants. To facilitate client orders to buy or sell those products, the investment bank may acquire an inventory of them and make them available for client transactions.[60] By filling both buy and sell orders, market makers help create a liquid market for the financial products and make it easier and more attractive for clients to buy and sell them. Market makers typically rely on fees in the form of markups in the price of the financial products for their profits.

At the same time, investment banks may decide to buy and sell the financial products for their own account, which is called "proprietary trading." Investment banks often use the same inventory of financial products to carry out both their market-making and proprietary trading activities. Investment banks that trade for their own account typically rely on changes in the values of the financial products to turn a profit.

Inventories that are used for market making and short term proprietary trading purposes are typically designated as a portfolio of assets "held for sale." Investment banks also typically maintain an inventory or portfolio of assets that they intend to keep as long term investments.

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[57] Securities Act of 1933, 15 U.S.C. § 77a (1933).
[58] See, e.g., Securities Act of 1933 §§ 3(b) and 4(2); 17 CFR §230.501 et seq. (Regulation D).
[59] Securities Act of 1933, §11, 15 U.S.C. § 77k; and Securities Exchange Act of 1934, § 10(b), 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder.
[60] For a detailed discussion of market making, see "Study & Recommendations on Prohibitions on Proprietary Trading & Certain Relationships with Hedge Funds & Private Equity Funds," prepared by the Financial Stability Oversight Council, at 28-29 (Jan. 18, 2011) (citing SEC Exchange Act Rel. No. 34-58775 (Oct. 14, 2008)).

This inventory or portfolio of long-term assets is typically designated as "held for investment," and is not used in day-to-day transactions.

Investment banks that carry out market-making and proprietary trading activities are required—by their banking regulator in the case of banks and bank holding companies[61] and by the SEC in the case of broker-dealers[62]—to track their investments and maintain sufficient capital to meet their regulatory requirements and financial obligations. These capital requirements typically vary based on how the positions are held and how they are classified. For example, assets that are "held for sale" or are in the "trading account" typically have lower capital requirements than those that are "held for investment," because of the expected lower risks associated with what are expected to be shorter term holdings.

Many investment banks use complex automated systems to analyze the "Value at Risk" ("VaR") associated with their holdings. To reduce the VaR attached to their holdings, investment banks employ a variety of methods to offset or "hedge" their risk. These methods can include diversifying their assets, taking a short position on related financial products, purchasing loss protection through insurance or credit default swaps, or taking positions in derivatives whose values move inversely to the value of the assets being hedged.

Shorting the Mortgage Market. Prior to the financial crisis, investors commonly purchased RMBS or CDO securities as long-term investments that produced a steady income. In 2006, however, the high risk mortgages underlying these securities began to incur record levels of delinquencies. Some investors, worried about the value of their holdings, sought to sell their RMBS or CDO securities, but had a difficult time doing so due to the lack of an active market. Some managed to sell their high risk RMBS securities to investment banks assembling cash CDOs.

Some investors, instead of selling their RMBS or CDO securities, purchased "insurance" against a loss by buying a credit default swap (CDS) that would pay off if the specified securities incurred losses or other negative credit events. By 2005, investment banks had standardized CDS contracts for RMBS and CDO securities, making this a practical alternative.

Much like insurance, the buyer of a CDS contract paid a periodic premium to the CDS seller, who guaranteed the referenced security against loss. CDS contracts referencing a single security or corporate bond became known as "single name" CDS contracts. If the referenced security later incurred a loss, the CDS seller had to pay an agreed-upon amount to the CDS buyer to cover the loss. Some investors began to purchase single name CDS contracts, not as a hedge to offset losses from RMBS or CDO securities they owned, but as a way to profit from particular RMBS or CDO securities they predicted would lose money. CDS contracts that paid off on securities that were not owned by the CDS buyer were known as "naked credit default swaps."

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[61] See, e.g., 12 CFR part 3, Appendix A (for the Office of the Comptroller of the Currency), 12 CFR part 208, Appendix A and 12 CFR part 225, Appendix A (for the Federal Reserve Board of Governors) and 12 CFR part 325, Appendix A (for the Federal Deposit Insurance Corporation).

[62] Securities Exchange Act of 1934, Rule 15c3-1.

Some investors purchased large numbers of these CDS contracts in a concerted strategy to profit from mortgage backed securities they believed would fail.

Some investment banks took the CDS approach a step further. In 2006, a consortium of investment banks led by Goldman Sachs and Deutsche Bank launched the ABX Index, which created five indices that tracked the aggregate performance of a basket of 20 designated subprime RMBS securitizations.[63] Borrowing from longstanding practice in commodities markets, investors could buy and sell contracts linked to the value of one of the ABX indices. Each contract consisted of a credit default swap agreement in which the parties could essentially wager on the rise or fall of the index value. According to a Goldman Sachs employee, the ABX Index "introduced a standardized tool that allow[ed] clients to quickly gain exposure to the asset class," in this case subprime RMBS securities. An investor – or investment bank – taking a short position in an ABX contract was, in effect, placing a bet that the basket of subprime RMBS securities would lose value.

Synthetic CDOs provided still another vehicle for shorting the mortgage market. In this approach, an investment bank created a synthetic CDO that referenced a variety of RMBS securities. One or more investors could take the "short" position by paying premiums to the CDO in exchange for a promise that the CDO would pay a specified amount if the referenced assets incurred a negative credit event, such as a default or credit rating downgrade. If that event took place, the CDO would have to pay an agreed-upon amount to the short investors to cover the loss, removing income from the CDO and causing losses for the long investors. Synthetic CDOs became a way for investors to short multiple specific RMBS securities that they expected would incur losses.

Proprietary Trading. Financial institutions also built increasingly large proprietary holdings of mortgage related assets. Numerous financial firms, including investment banks, bought RMBS and CDO securities, and retained these securities in their investment portfolios. Others retained these securities in their trading accounts to be used as inventory for short term trading activity, market making on behalf of clients, hedging, providing collateral for short term loans, or maintaining lower capital requirements. Deutsche Bank's RMBS Group in New York, for example, built up a $102 billion portfolio of RMBS and CDO securities, while the portfolio at an affiliated hedge fund, Winchester Capital, exceeded $8 billion.[64] Other financial firms, including Bear Stearns, Citibank, JPMorgan Chase, Lehman Brothers, Merrill Lynch, Morgan Stanley, and UBS also accumulated enormous propriety holdings in mortgage related products. When the value of these holdings dropped, some of these financial institutions lost tens of

[63] Each of the five indices tracked a different tranche of securities from the designated 20 subprime RMBS securitizations. One index tracked AAA rated securities from the 20 subprime RMBS securities; the second tracked AA rated securities from the 20 RMBS securitizations; and the remaining indices tracked baskets of A, BBB, and BBB rated RMBS securities. Every six months, a new set of RMBS securitizations was selected for a new ABX index. See 3/2008 "Understanding the Securitization of Subprime Mortgage Credit," prepared by Federal Reserve Bank of New York, Report No. 318, at 26. Markit Group Ltd. administered the ABX Index which issued indices in 2006 and 2007, but has not issued any new indices since then.

[64] For more information, see Chapter VI, section discussing Deutsche Bank.

billions of dollars,[65] and either declared bankruptcy, were sold off,[66] or were bailed out by U.S. taxpayers seeking to avoid damage to the U.S. economy as a whole.[67]

One investment bank, Goldman Sachs, built a large number of proprietary positions to short the mortgage market.[68] Goldman Sachs had helped to build an active mortgage market in the United States and had accumulated a huge portfolio of mortgage related products. In late 2006, Goldman Sachs decided to reverse course, using a variety of means to bet against the mortgage market. In some cases, Goldman Sachs took proprietary positions that paid off only when some of its clients lost money on the very securities that Goldman Sachs had sold to them and then shorted. Altogether in 2007, Goldman's mortgage department made $1.2 billion in net revenues from shorting the mortgage market.[69] Despite those gains, Goldman Sachs was given a $10 billion taxpayer bailout under the Troubled Asset Relief Program,[70] tens of billions of dollars in support through accessing the Federal Reserve's Primary Dealer Credit Facility,[71] and billions more in indirect government support[72] to ensure its continued existence.

E. Market Oversight

U.S. financial regulators failed to stop financial firms from engaging in high risk, conflict-ridden activities. Those regulatory failures arose, in part, from the fragmented nature of U.S. financial oversight as well as statutory barriers to regulating high risk financial products.

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[65] See, e.g., Goldman Sachs Group, Inc., 2008 Annual Report 27 (2009) (stating that the firm had "long proprietary positions in a number of [its] businesses. These positions are accounted for at fair value, and the declines in the values of assets have had a direct and large negative impact on [its] earnings in fiscal 2008."); see also, Viral V. Acharya and Matthew Richardson, "Causes of the Financial Crisis," 21 Critical Review 195, 199-204 (2009) (citing proprietary holdings of asset backed securities as one of the primary drivers of accumulated risks causing the financial crisis); "Prop Trading Losses Ain't Peanuts," The Street (1/27/2010), http://www.thestreet.com/story/10668047/prop-trading-losses-aint-peanuts.html.

[66] See, e.g., "Lehman Files for Bankruptcy; Merrill is Sold," New York Times (9/14/2008); and discussion in Chapter III of Washington Mutual Bank which was sold to JPMorgan Chase.

[67] See, e.g., Capital Purchase Program Transactions, under the Troubled Asset Relief Program, U.S. Department of the Treasury, at http://www.treasury.gov/initiatives/financial-stability/investment-programs/cpp/Pages/capitalpurchaseprogram.aspx.

[68] For more information, see Chapter VI, section describing Goldman Sachs.

[69] Id. Goldman's Structured Product Group Trading Desk earned $3.7 billion in net revenues, which was offset by losses on other desks within the mortgage department, resulting in the $1.2 billion in total net revenues.

[70] See, e.g., Capital Purchase Program Transactions, under the Troubled Asset Relief Program, U.S. Department of the Treasury, available at http://www.treasury.gov/initiatives/financial-stability/investment-programs/cpp/Pages/capitalpurchaseprogram.aspx and an example of a transactions report at http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/tarp-transactions/DocumentsTARPTransactions/transactions-report-062309.pdf.

[71] See data available at http://www.federalreserve.gov/newsevents/reform_pdcf.htm showing Goldman Sachs' use of the Primary Dealer Credit Facility 85 times in 2008.

[72] See, e.g., prepared statement of Neil Barofsky, Special Inspector General of the Troubled Asset Relief Program, "The Federal Bailout of AIG," before the House Committee on Oversight and Government Reform (1/27/2010), http://oversight.house.gov/images/stories/Hearings/pdfs/20100127barofsky.pdf (noting that some firms, including Goldman Sachs, disproportionately benefited from the federal government's bailout of AIG).

Oversight of Lenders. At the end of 2005, the United States had about 8,800 federally insured banks and thrifts,[73] plus about 8,700 federally insured credit unions, many of which were in the business of issuing home loans.[74] On the federal level, these financial institutions were overseen by five agencies: the Federal Reserve which oversaw state-chartered banks that were part of the federal reserve system as well as foreign banks and others; the Office of the Comptroller of the Currency (OCC) which oversaw banks with national charters; the Office of Thrift Supervision (OTS) which oversaw federally-chartered thrifts; the National Credit Union Administration which oversaw federal credit unions; and the Federal Deposit Insurance Corporation (FDIC) which oversaw financial institutions that have federal deposit insurance (hereinafter referred to as "federal bank regulators").[75] In addition, state banking regulators oversaw the state-chartered institutions and at times took action to require federally-chartered financial institutions to comply with certain state laws.

The primary responsibility of the federal bank regulators was to ensure the safety and soundness of the financial institutions they oversaw. One key mechanism they used to carry out that responsibility was to conduct examinations on a periodic basis of the financial institutions within their jurisdiction and provide the results in an annual Report of Examination ("ROE") given to the Board of Directors at each entity. The largest U.S. financial institutions typically operated under a "continuous exam" program, which required federal bank examiners to conduct a series of specialized examinations during the year with the results from all of those examinations included in the annual ROE.

Federal examination activities were typically led by an Examiner in Charge and were organized around a rating system called CAMELS that was used by all federal bank regulators. The CAMELS rating system evaluated a financial institution's: (C) capital adequacy, (A) asset quality, (M) management, (E) earnings, (L) liquidity, and (S) sensitivity to market risk. CAMELS ratings are on a scale of 1 to 5, in which 1 signifies a safe and secure bank with no cause for supervisory concern, 3 signifies an institution with supervisory concerns in one or more areas, and 5 signifies an unsafe and unsound bank with severe supervisory concerns. In the annual ROE, regulators typically provided a financial institution with a rating for each CAMELS component, as well as an overall composite rating on its safety and soundness.

In addition, the FDIC conducted its own examinations of financial institutions with federal deposit insurance. The FDIC reviews relied heavily on the examination findings and ROEs developed by the primary regulator of the financial institution, but the FDIC assigned its own CAMELS ratings to each institution. In addition, for institutions with assets of $10 billion or more, the FDIC established a Large Insured Depository Institutions ("LIDI") Program to assess and report on emerging risks that may pose a threat to the federal Deposit Insurance Fund. Under this program, the FDIC performed an ongoing analysis of emerging risks within each

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[73] See FDIC Quarterly Banking Profile, 1 (Fourth Quarter 2005) (showing that, as of 12/31/2005, the United States had 8,832 federal and state chartered insured banks and thrifts).

[74] See 1/3/2011 chart, "Insurance Fund Ten-Year Trends," supplied by the National Credit Union Administration (showing that, as of 12/31/2005, the United States had 8,695 federal and state credit unions).

[75] The Dodd-Frank Act has since abolished one of these agencies, the Office of Thrift Supervision, and assigned its duties to the OCC. See Chapter IV.

insured institution and assigned a quarterly risk rating, using a scale of A to E, with A being the best rating and E the worst.

If a regulator became concerned about the safety or soundness of a financial institution, it had a wide range of informal and formal enforcement actions that could be used to require operational changes. Informal actions included requiring the financial institution to issue a safety and soundness plan, memorandum of understanding, Board resolution, or commitment letter pledging to take specific corrective actions by a certain date, or issuing a supervisory letter to the financial institution listing specific "matters requiring attention." These informal enforcement actions are generally not made public and are not enforceable in court. Formal enforcement actions included a regulator's issuing a public memorandum of understanding, consent order, or cease and desist order requiring the financial institution to stop an unsafe practice or take an affirmative action to correct identified problems; imposing a civil monetary penalty; suspending or removing personnel from the financial institution; or referring misconduct for criminal prosecution.

A wide range of large and small banks and thrifts were active in the mortgage market. Banks like Bank of America, Citigroup, JPMorgan Chase, and Wells Fargo originated, purchased, and securitized billions of dollars in home loans each year. Thrifts, whose charters typically required them to hold 65% of their assets in mortgage related assets, also originated, purchased, sold, and securitized billions of dollars in home loans, including such major lenders as Countrywide Financial Corporation, IndyMac Bank, and Washington Mutual Bank. Some of these banks and thrifts also had affiliates, such as Long Beach Mortgage Corporation, which specialized in issuing subprime mortgages. Still more lenders operated outside of the regulated banking system, including New Century Financial Corporation and Fremont Loan & Investment, which used such corporate vehicles as industrial loan companies, real estate investment trusts, or publicly traded corporations to carry out their businesses. In addition, the mortgage market was populated with tens of thousands of mortgage brokers that were paid fees for their loans or for bringing qualified borrowers to a lender to execute a home loan.[76]

Oversight of Securities Firms. Another group of financial institutions active in the mortgage market were securities firms, including investment banks, broker-dealers, and investment advisors. These security firms did not originate home loans, but typically helped design, underwrite, market, or trade securities linked to residential mortgages, including the RMBS and CDO securities that were at the heart of the financial crisis. Key firms included Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley, and the asset management arms of large banks, including Citigroup, Deutsche Bank, and JPMorgan Chase. Some of these firms also had affiliates which specialized in securitizing subprime mortgages.

Securities firms were overseen on the federal level by the Securities and Exchange Commission (SEC) whose mission is to "protect investors, maintain fair, orderly, and efficient

[76] 1/2009 "Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System," prepared by the Government Accountability Office, Report No. GAO-09-216, at 26-27.

markets, and facilitate capital formation."[77] The SEC oversees the "key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds," primarily for the purpose of "promoting the disclosure of important market related information, maintaining fair dealing, and protecting against fraud."[78]

The securities firms central to the financial crisis were subject to a variety of SEC regulations in their roles as broker-dealers, investment advisors, market makers, underwriters, and placement agents. Most were also subject to oversight by state securities regulators.[79] The securities firms were required to submit a variety of public filings with the SEC about their operations and in connection with the issuance of new securities. The SEC's Office of Compliance Inspections and Examinations (OCIE) conducted inspections of broker-dealers, among others, to understand industry practices, encourage compliance, evaluate risk management, and detect violations of the securities laws. In addition, under the voluntary Consolidated Supervised Entities program, the SEC's Division of Trading and Markets monitored the investment activities of the largest broker-dealers, including Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley, Citigroup, and JP Morgan Chase, evaluating their capital levels, use of leverage, and risk management.[80]

Like bank regulators, if the SEC became concerned about a particular securities firm, it could choose from a range of informal and formal enforcement actions. Informal actions could include issuing a "deficiency letter" identifying problems and requiring the securities firm to take corrective action by a certain date. Formal enforcement actions, undertaken by the SEC's Division of Enforcement, could include civil proceedings before an administrative law judge; a civil complaint filed in federal district court; civil fines; an order to suspend or remove personnel from a firm or bar them from the brokerage industry; or a referral for criminal prosecution. Common securities violations included selling unregistered securities, misrepresenting information about a security, unfair dealing, price manipulation, and insider trading.[81]

Statutory and Regulatory Barriers. Federal and state financial regulators responsible for oversight of banks, securities firms, and other financial institutions in the years leading to the financial crisis operated under a number of statutory and regulatory constraints.

One key constraint was the sweeping statutory prohibition on the federal regulation of any type of swap, including credit default swaps. This prohibition took effect in 2000, with enactment of the Commodity Futures Modernization Act (CFMA).[82] The key statutory section explicitly prohibited federal regulators from requiring the registration of swaps as securities; issuing or enforcing any regulations or orders related to swaps; or imposing any recordkeeping

[77] See SEC website, "About the SEC: What We Do," www.sec.gov.
[78] Id.
[79] Some firms active in the U.S. securities and mortgage markets, such as hedge funds, operated without meaningful federal oversight by taking advantage of exemptions in the Investment Company Act of 1940.
[80] See 9/2008 "SEC's Oversight of Bear Stearns and Related Entities: The Consolidated Entity Program," report prepared by Office of the SEC Inspector General, Report No. 446-A.
[81] See SEC website, "About the SEC: What We Do," www.sec.gov.
[82] CFMA was included as a title of H.R. 4577, the Consolidated Appropriations Act of 2001, P.L.106-554.

requirements for swaps.[83] In addition, the law explicitly prohibited regulation of any "'interest rate swap,' including a rate floor, rate cap, rate collar, cross-currency rate swap, basis swap, currency swap, equity index swap, equity swap, debt index swap, debt swap, credit spread, credit default swap, credit swap, weather swap, or commodity swap."[84] These prohibitions meant that federal regulators could not even ask U.S. financial institutions to report on their swaps trades or holdings, much less regulate swap dealers or examine how swaps were affecting the mortgage market or other U.S. financial markets.

As a result, the multi-trillion-dollar U.S. swaps markets operated with virtually no disclosure requirements, no restrictions, and no oversight by any federal agency, including the market for credit default swaps which played a prominent role in the financial crisis. On September 23, 2008, in a hearing before the Senate Committee on Banking, Housing, and Urban Affairs, then SEC Chairman Christopher Cox testified that, as a result of the statutory prohibition, the credit default swap market "is completely lacking in transparency," "is regulated by no one," and "is ripe for fraud and manipulation."[85] In a September 26, 2008 press release, he discussed regulatory gaps impeding his agency and again raised the issue of swaps: "Unfortunately, as I reported to Congress this week, a massive hole remains: the approximately $60 trillion credit default swap market, which is regulated by no agency of government. Neither the SEC nor any regulator has authority even to require minimum disclosure."[86] In 2010, the Dodd-Frank Act removed the CFMA prohibition on regulating swaps.[87]

A second significant obstacle for financial regulators was the patchwork of federal and state laws and regulations applicable to high risk mortgages and mortgage brokers. Federal bank regulators took until October 2006, to provide guidance to federal banks on acceptable lending practices related to high risk home loans.[88] Even then, the regulators issued voluntary guidance whose standards were not enforceable in court and failed to address such key issues as the acceptability of stated income loans.[89] In addition, while Congress had authorized the Federal Reserve, in 1994, to issue regulations to prohibit deceptive or abusive mortgage practices – regulations that could have applied across the board to all types of lenders and mortgage brokers – the Federal Reserve failed to issue any until July 2008, after the financial crisis had already hit.[90]

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[83] CFMA, § 302, creating a new section 2A of the Securities Act of 1933.
[84] CFMA, § 301, creating a new section 206A of the Gramm-Leach-Bliley Act.
[85] Statement of SEC Chairman Christopher Cox, "Turmoil in U.S. Credit Markets: Recent Actions Regarding Government Sponsored Entities, Investment Banks and Other Financial Institutions," before the U.S. Senate Committee on Banking, Housing and Urban Affairs, S.Hrg. 110-1012 (9/23/2008).
[86] 9/26/2008 SEC press release, "Chairman Cox Announces End of Consolidated Supervised Entities Program," http://www.sec.gov/news/press/2008/2008-230.htm.
[87] Title VII of the Dodd-Frank Act.
[88] 10/4/2006 "Interagency Guidance on Nontraditional Mortgage Product Risks," (NTM Guidance), 71 Fed. Reg. 192 at 58609.
[89] For more information, see Chapter IV.
[90] Congress authorized the Federal Reserve to issue the regulations in Section 151 of the Home Ownership and Equity Protection Act of 1994 (HOEPA), P.L. 103-325. The Federal Reserve did not issue any regulations under HOEPA, however, until July 2008, when it amended Regulation Z. The new rules primarily strengthened consumer protections for "higher priced loans," which included many types of subprime loans. See "New Regulation Z Rules Enhance Protections for Mortgage Borrowers," Consumer Compliance Outlook (Fourth Quarter 2008) (Among

A third problem, exclusive to state regulators, was a 2005 regulation issued by the OCC to prohibit states from enforcing state consumer protection laws against national banks.[91] After the New York State Attorney General issued subpoenas to several national banks to enforce New York's fair lending laws, a legal battle ensued. In 2009, the Supreme Court invalidated the OCC regulation, and held that states were allowed to enforce state consumer protection laws against national banks.[92] During the intervening four years, however, state regulators had been effectively unable to enforce state laws prohibiting abusive mortgage practices against federally-chartered banks and thrifts.

Systemic Risk. While bank and securities regulators focused on the safety and soundness of individual financial institutions, no regulator was charged with identifying, preventing, or managing risks that threatened the safety and soundness of the overall U.S. financial system. In the area of high risk mortgage lending, for example, bank regulators allowed banks to issue high risk mortgages as long as it was profitable and the banks quickly sold the high risk loans to get them off their books. Securities regulators allowed investment banks to underwrite, buy, and sell mortgage backed securities relying on high risk mortgages, as long as the securities received high ratings from the credit rating agencies and so were deemed "safe" investments. No regulatory agency focused on what would happen when poor quality mortgages were allowed to saturate U.S. financial markets and contaminate RMBS and CDO securities with high risk loans. In addition, none of the regulators focused on the impact derivatives like credit default swaps might have in exacerbating risk exposures, since they were barred by federal law from regulating or even gathering data about these financial instruments.

F. Government Sponsored Enterprises

Between 1990 and 2004, homeownership rates in the United States increased rapidly from 64% to 69%, the highest level in 50 years.[93] While many highly regarded economists and officials argued at the time that this housing boom was the result of healthy economic activity, in retrospect, some federal housing policies encouraged people to purchase homes they were ultimately unable to afford, which helped to inflate the housing bubble.

Fannie Mae and Freddie Mac. Two government sponsored entities (GSE), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), were chartered by Congress to encourage homeownership primarily by providing a secondary market for home mortgages. They created that secondary market by purchasing loans from lenders, securitizing them, providing a guarantee that they would make up the cost of

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other requirements, the rules prohibited lenders "from making loans based on collateral without regard to [the borrower's] repayment ability," required lenders to "verify income and obligations," and imposed "more stringent restrictions on prepayment penalties." The rules also required lenders to "establish escrow accounts for taxes and mortgage related insurance for first-lien loans." In addition, the rules "prohibit[ed] coercion of appraisers, define[d] inappropriate practices for loan servicers, and require[d] early truth in lending disclosures for most mortgages.").

[91] 12 CFR § 7.4000.

[92] Cuomo v. Clearing House Association, Case No. 08-453, 129 S.Ct. 2710 (2009).

[93] U.S. Census Bureau, "Table 14. Homeownership Rates by Area: 1960 to 2009," http://www.census.gov/hhes/www/housing/hvs/annual09/ann09t14.xls.

any securitized mortgage that defaulted, and selling the resulting mortgage backed securities to investors. Many believed that the securities had the implicit backing of the federal government and viewed them as very safe investments, leading investors around the world to purchase them. The existence of this secondary market encouraged lenders to originate more loans, since they could easily sell them to the GSEs and use the profits to increase their lending.

Over time, however, Fannie Mae and Freddie Mac began to purchase larger quantities of higher risk loans, providing a secondary market for those loans and encouraging their proliferation. Between 2005 and 2007, Fannie Mae alone purchased billions of dollars in high risk home loans, including Option ARM, Alt A, and loans with subprime characteristics. For example, data from Fannie Mae shows that, in mid 2008, 62% of the Option ARM loans on its books had been purchased between 2005 and 2007.[94] Likewise, 84% of its interest-only loans were purchased in that time frame, as were 57% of those with FICO scores less than 620; 62% of its loans with loan-to-value ratios greater than 90; and 73% of its Alt A loans.[95] While these loans constituted only a small percentage of Fannie Mae's purchases at the time, they came to account for some its most significant losses. By the middle of 2009, Fannie Mae reported an unpaid principal balance of $878 billion for its loans with subprime characteristics, nearly a third of its total portfolio of $2.7 trillion.[96]

According to economist Arnold Kling, Fannie Mae and Freddie Mac purchased these loans after "lowering their own credit standards in order to maintain a presence in the market and to meet their affordable housing goals."[97]

Throughout their history, Fannie Mae and Freddie Mac were able to bundle the mortgages they purchased into securities that were popular with investors, because many believed the securities carried the implicit support of the federal government. The Congressional Budget Office found the following:

> "Because of their [Fannie Mae and Freddie Mac] size and interconnectedness with other financial institutions, they posed substantial systemic risk—the risk that their failure could impose very high costs on the financial system and the economy. The GSEs' market power also allowed them to use their profits partly to benefit their other stakeholders rather than exclusively to benefit mortgage borrowers. The implicit guarantee created an incentive for the GSEs to take excessive risks: Stakeholders would benefit when gambles paid off, but taxpayers would absorb the losses when they did not.
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> ... One way that Fannie Mae and Freddie Mac increased risk was by expanding the volume of mortgages and MBSs held in their portfolios, which exposed them to the risk

[94] Fannie Mae, 2008 Q2 10-Q Investor Summary, August 8, 2008, http://www.fanniemae.com/media/pdf/newsreleases/2008_Q2_10Q_Investor_Summary.pdf.
[95] Id.
[96] Fannie Mae, 2009 Second Quarter Credit Supplement, August 6, 2009, http://www.fanniemae.com/ir/pdf/sec/2009/q2credit_summary.pdf.
[97] "Not What They Had In Mind: A History of Policies that Produced the Financial Crisis of 2008," September 2009, Mercatus Center, http://mercatus.org/sites/default/files/publication/NotWhatTheyHadInMind(1).pdf.

> of losses from changes in interest or prepayment rates. Over the past decade, the two GSEs also increased their exposure to default losses by investing in lower-quality mortgages, such as subprime and Alt-A loans."[98]

The risks embedded in their mortgage portfolios finally overwhelmed the GSEs in September 2008, and both Fannie Mae and Freddie Mac were taken into conservatorship by the federal government. Since that time, the Treasury Department has spent nearly $150 billion to support the two GSEs, a total which projections show could rise to as high as $363 billion.[99]

Ginnie Mae. Additional housing policies that allowed borrowers with less than adequate credit to obtain traditional mortgages included programs at the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA). Both agencies provided loan guarantees to lenders that originated loans for borrowers that qualified under the agencies' rules. Many of the loans guaranteed by the FHA and VA, some of which required down payments as low as 3%, were bundled and sold as mortgage backed securities through the Government National Mortgage Association (Ginnie Mae), an additional government sponsored enterprise. Like Fannie Mae and Freddie Mac, Ginnie Mae guaranteed that it would make up for any securitized loan that defaulted, producing another type of mortgage backed security that was popular with investors, many of whom believed that the security carried an implicit federal guarantee.

In the years leading up to the financial crisis, FHA guaranteed millions of home loans worth hundreds of billions of dollars.[100] According to FHA data, as of 2011, nearly 20% of all FHA loans originated in 2008 were seriously delinquent, meaning borrowers had missed three or more payments, while loans originated in 2007 had a serious delinquency rate of over 22%. The 2007 and 2008 loans, which currently make up about 15% of FHA's active loan portfolio, remain the worst performing in that portfolio. In 2009 and 2010, FHA tightened its underwriting guidelines, and the loans it guaranteed performed substantially better. By early 2011, the serious delinquency rate for all FHA borrowers was about 8.8%, down from over 9.4% the prior year.

G. Administrative and Legislative Actions

In response to the financial crisis, Congress and the Executive Branch have taken a number of actions. Three that have brought significant changes are the Troubled Asset Relief Program, Federal Reserve assistance programs, and the Dodd-Frank Wall Street and Consumer Protection Act.

Troubled Asset Relief Program (TARP). On October 3, 2008, Congress passed and President Bush signed into law the Emergency Economic Stabilization Act of 2008, P.L. 110-

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[98] Congressional Budget Office, "Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market," December 2010, at x, http://www.cbo.gov/ftpdocs/120xx/doc12032/12-23-FannieFreddie.pdf.
[99] Federal Housing Finance Agency, News Release, "FHFA Releases Projections Showing Range of Potential Draws for Fannie Mae and Freddie Mac," October 21, 2010, http://fhfa.gov/webfiles/19409/Projections_102110.pdf.
[100] The statistics cited in this paragraph are taken from the U.S. Department of Housing and Urban Development, "FHA Single-Family Mutual Mortgage Insurance Fund Programs, Quarterly Report to Congress, FY 2011 Q1," March 17, 2011, at 4 and 19, http://www.hud.gov/offices/hsg/rmra/oe/rpts/rtc/fhartc_q1_2011.pdf.

343. This law, which passed both Houses with bipartisan majorities, established the Troubled Asset Relief Program (TARP) and authorized the expenditure of up to $700 billion to stop financial institutions from collapsing and further damaging the U.S. economy. Administered by the Department of the Treasury, with support from the Federal Reserve, TARP funds have been used to inject capital into or purchase or insure assets at hundreds of large and small banks.

The largest recipients of TARP funds were AIG, Ally Financial (formerly GMAC Financial Services), Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, PNC Financial Services, U.S. Bancorp, and Wells Fargo, as well as Chrysler, and General Motors. Most have repaid all or a substantial portion of the TARP funds they received.

Although initially expected to cost U.S. taxpayers more than $350 billion, the Congressional Budget Office estimated in November 2010, that the final cost of the TARP program will be approximately $25 billion.[101]

Federal Reserve Emergency Support Programs. In addition, as the financial crisis began to unfold, the Federal Reserve aggressively expanded its balance sheet from about $900 billion at the beginning of 2008, to more than $2.4 trillion in December 2010, to provide support to the U.S. financial system and economy. Using more than a dozen programs, through more than 21,000 individual transactions, the Federal Reserve provided trillions of dollars in assistance to U.S. and foreign financial institutions in an effort to promote liquidity and prevent a financial collapse.[102] In some instances, the Federal Reserve created new programs, such as its Agency Mortgage Backed Securities Purchase Program which purchased more than $1.25 trillion in mortgages backed by Fannie Mae, Freddie Mac, and Ginnie Mae.[103] In other instances, it modified and significantly expanded existing programs, such as by lowering the quality of collateral it accepted for access to and increasing lending by the discount window.

Dodd-Frank Act. On July 21, 2010, Congress passed and President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203. This law, which passed both Houses with bipartisan majorities, expanded the authority of regulatory agencies to try to prevent future financial crises. Among other provisions, the law:

– established a Financial Stability Oversight Council, made up of federal financial regulators and others, to identify and respond to emerging financial risks;

– established a Consumer Financial Protection Bureau to strengthen protections of American consumers from abusive financial products and practices;

– restricted proprietary trading and investments in hedge funds by banks and other large financial institutions;

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[101] 11/2010 "Report on the Troubled Asset Relief Program," prepared by the Congressional Budget Office, http://www.cbo.gov/ftpdocs/119xx/doc11980/11-29-TARP.pdf.

[102] "Usage of Federal Reserve Credit and Liquidity Facilities," Federal Reserve Board, available at http://www.federalreserve.gov/newsevents/reform_transaction.htm.

[103] "Agency Mortgage-Backed Securities Purchase Program," Federal Reserve Board, available at http://www.federalreserve.gov/newsevents/reform_mbs.htm.

– prohibited sponsors of asset backed securities from engaging in transactions that would involve or result in a material conflict of interest with investors in those securities;

– established procedures to require nonbank firms whose failure would threaten U.S. financial stability to divest some holdings or undergo an orderly liquidation;

– strengthened regulation of credit rating agencies;

– strengthened mortgage regulation, including by clamping down on high cost mortgages, requiring securitizers to retain limited liability for securities reliant on high risk mortgages, banning stated income loans, and restricting negative amortization loans;

– required better federal regulation of mortgage brokers;

– directed regulators to require greater capital and liquidity reserves;

– required regulation of derivatives and derivative dealers;

– required registration of certain hedge funds and private equity funds;

– authorized regulators to impose standards of conduct that are the same as those applicable to investment advisers on broker-dealers who provide personalized investment advice to retail customers; and

– abolished the Office of Thrift Supervision.

H. Financial Crisis Timeline

This Report reviews events from the period 2004 to 2008, in an effort to identify and explain four significant causes of the financial crisis. A variety of events could be identified as the start of the crisis. Candidates include the record number of home loan defaults that began in December 2006; the FDIC's March 2007 cease and desist order against Fremont Investment & Loan which exposed the existence of unsafe and unsound subprime lending practices; or the collapse of the Bear Stearns hedge funds in June 2007. Still another candidate is the two-week period in September 2008, when half a dozen major U.S. financial institutions failed, were forcibly sold, or were bailed out by U.S. taxpayers seeking to prevent a collapse of the U.S. economy.

This Report concludes, however, that the most immediate trigger to the financial crisis was the July 2007 decision by Moody's and S&P to downgrade hundreds of RMBS and CDO securities. The firms took this action because, in the words of one S&P senior analyst, the investment grade ratings could not "hold." By acknowledging that RMBS and CDO securities containing high risk, poor quality mortgages were not safe investments and were going to incur losses, the credit rating agencies admitted the emperor had no clothes. Investors stopped buying,

the value of the RMBS and CDO securities fell, and financial institutions around the world were suddenly left with unmarketable securities whose value was plummeting. The financial crisis was on.

Because of the complex nature of the financial crisis, this chapter concludes with a brief timeline of some key events from 2006 through 2008. The succeeding chapters provide more detailed examinations of the roles of high risk lending, federal regulators, credit ratings agencies, and investment banks in causing the financial crisis.

Financial Crisis Timeline[104]

December 2006:
Ownit Mortgage Solutions bankruptcy

February 27, 2007:
Freddie Mac announces it will no longer buy the most risky subprime mortgages

March 7, 2007:
FDIC issues cease & desist order against Fremont for unsafe and unsound banking

April 2, 2007:
New Century bankruptcy

June 17, 2007:
Two Bear Stearns subprime hedge funds collapse

July 10 and 12, 2007:
Credit rating agencies issue first mass downgrades of hundreds of RMBS and CDO securities

August 6, 2007:
American Home Mortgage bankruptcy

August 17, 2007:
Federal Reserve: "[M]arket conditions have deteriorated…. downside risks to growth have increased appreciably."

August 31, 2007:
Ameriquest Mortgage ceases operations

December 12, 2007:
Federal Reserve establishes Term Auction Facility to provide bank funding secured by collateral

January 2008:
ABX Index stops issuing new subprime indices

January 11, 2008:
Countrywide announces sale to Bank of America

January 30, 2008:
S&P downgrades or places on credit watch over 8,000 RMBS/CDO securities

March 24, 2008:
Federal Reserve Bank of New York forms Maiden Lane I to help JPMorgan Chase acquire Bear Stearns

May 29, 2008:
Bear Stearns shareholders approve sale

July 11, 2008:
IndyMac Bank fails and is seized by FDIC

July 15, 2008:
SEC restricts naked short selling of some financial stocks

September 7, 2008:
U.S. takes control of Fannie Mae & Freddie Mac

September 15, 2008:
Lehman Brothers bankruptcy

September 15, 2008
Merrill Lynch announces sale to Bank of America

September 16, 2008:
Federal Reserve offers $85 billion credit line to AIG; Reserve Primary Money Fund NAV falls below $1

September 21, 2008:
Goldman Sachs and Morgan Stanley convert to bank holding companies

September 25, 2008:
WaMu fails, seized by FDIC, sold to JPMorgan Chase

October 3, 2008:
Congress and President Bush establish TARP

October 12, 2008:
Wachovia sold to Wells Fargo

October 28, 2008:
U.S. uses TARP to buy $125 billion in preferred stock at 9 banks

November 25, 2008:
Federal Reserve buys Fannie and Freddie assets

[104] Many of these events are based upon a timeline prepared by the Federal Reserve Bank of St. Louis, "The Financial Crisis: A Timeline of Events and Policy Actions," http://timeline.stlouisfed.org/index.cfm?p=timeline.

III. HIGH RISK LENDING: CASE STUDY OF WASHINGTON MUTUAL BANK

Washington Mutual Bank, known also as WaMu, rose out the ashes of the great Seattle fire to make its first home loan in 1890. By 2004, WaMu had become one of the nation's largest financial institutions and a leading mortgage lender. Its demise just four years later provides a case history that traces not only the rise of high risk lending in the mortgage field, but also how those high risk mortgages led to the failure of a leading bank and contributed to the financial crisis of 2008.

For many years, WaMu was a mid-sized thrift, specializing in home mortgages. In the 1990s, WaMu initiated a period of growth and acquisition, expanding until it became the nation's largest thrift and sixth largest bank, with $300 billion in assets, $188 billion in deposits, 2,300 branches in 15 states, and over 43,000 employees. In 2003, its longtime CEO, Kerry Killinger, said he wanted to do for the lending industry what Wal-Mart and others did for their industries, by catering to middle and lower income Americans and helping the less well off buy homes.[105] Soon after, WaMu embarked on a strategy of high risk lending. By 2006, its high risk loans began incurring record rates of delinquency and default, and its securitizations saw ratings downgrades and losses. In 2007, the bank itself began incurring losses. Its shareholders lost confidence, and depositors began withdrawing funds, eventually causing a liquidity crisis. On September 25, 2008, 119 years to the day of its founding, WaMu was seized by its regulator, the Office of Thrift Supervision (OTS), and sold to JPMorgan Chase for $1.9 billion. Had the sale not gone through, WaMu's failure might have exhausted the $45 billion Deposit Insurance Fund. Washington Mutual is the largest bank failure in U.S. history.

This case study examines how one bank's strategy for growth and profit led to the origination and securitization of hundreds of billions of dollars in poor quality mortgages that undermined the U.S. financial system. WaMu had held itself out as a prudent lender, but in reality, the bank turned increasingly to higher risk loans. Its fixed rate mortgage originations fell from 64% of its loan originations in 2003, to 25% in 2006, while subprime, Option ARM, and home equity originations jumped from 19% of the originations to 55%. Using primarily loans from its subprime lender, Long Beach Mortgage Corporation, WaMu's subprime securitizations grew sixfold, increasing from about $4.5 billion in 2003, to $29 billion in securitizations in 2006. From 2000 to 2007, WaMu and Long Beach together securitized at least $77 billion in subprime loans. WaMu also increased its origination of Option ARMs, its flagship product, which from 2003 to 2007, represented as much as half of all of WaMu's loan originations. In 2006 alone, Washington Mutual originated more than $42.6 billion in Option ARM loans and sold or securitized at least $115 billion, including sales to the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). In addition, WaMu dramatically increased its origination and securitization of home equity loan products. By 2007,

[105] "Saying Yes, WaMu Built Empire on Shaky Loans," New York Times (12/27/2008) http://www.nytimes.com/2008/12/28/business/28wamu.html?_r=1 (quoting Mr. Killinger: "We hope to do to this industry what Wal-Mart did to theirs, Starbucks did to theirs, Costco did to theirs and Lowe's-Home Depot did to their industry. And I think if we've done our job, five years from now you're not going to call us a bank.").

home equity loans made up $63.5 billion or 27% of its home loan portfolio, a 130% increase from 2003.

At the same time that WaMu was implementing its High Risk Lending Strategy, WaMu and Long Beach engaged in a host of shoddy lending practices that contributed to a mortgage time bomb. Those practices included qualifying high risk borrowers for larger loans than they could afford; steering borrowers to higher risk loans; accepting loan applications without verifying the borrower's income; using loans with teaser rates that could lead to payment shock when higher interest rates took effect later on; promoting negatively amortizing loans in which many borrowers increased rather than paid down their debt; and authorizing loans with multiple layers of risk. In addition, WaMu and Long Beach failed to enforce compliance with their lending standards; allowed excessive loan error and exception rates; exercised weak oversight over the third party mortgage brokers who supplied half or more of their loans; and tolerated the issuance of loans with fraudulent or erroneous borrower information. They also designed compensation incentives that rewarded loan personnel for issuing a large volume of higher risk loans, valuing speed and volume over loan quality.

WaMu's combination of high risk loans, shoddy lending practices, and weak oversight produced hundreds of billions of dollars of poor quality loans that incurred early payment defaults, high rates of delinquency, and fraud. Long Beach mortgages experienced some of the highest rates of foreclosure in the industry and their securitizations were among the worst performing. Senior WaMu executives described Long Beach as "terrible" and "a mess," with default rates that were "ugly." WaMu's high risk lending operation was also problem-plagued. WaMu management knew of evidence of deficient lending practices, as seen in internal emails, audit reports, and reviews. Internal reviews of WaMu's loan centers, for example, described "extensive fraud" from employees "willfully" circumventing bank policy. An internal review found controls to stop fraudulent loans from being sold to investors were "ineffective." On at least one occasion, senior managers knowingly sold delinquency-prone loans to investors. Aside from Long Beach, WaMu's President Steve Rotella described WaMu's prime home loan business as the "worst managed business" he had seen in his career.

Documents obtained by the Subcommittee reveal that WaMu launched its High Risk Lending Strategy primarily because higher risk loans and mortgage backed securities could be sold for higher prices on Wall Street. They garnered higher prices, because higher risk meant they paid a higher coupon rate than other comparably rated securities, and investors paid a higher price to buy them. Selling or securitizing the loans also removed them from WaMu's books and appeared to insulate the bank from risk.

From 2004 to 2008, WaMu originated a huge number of poor quality mortgages, most of which were then resold to investment banks and other investors hungry for mortgage backed securities. For a period of time, demand for these securities was so great that WaMu formed its own securitization arm on Wall Street. Over a period of five years, WaMu and Long Beach churned out a steady stream of high risk, poor quality loans and mortgage backed securities that later defaulted at record rates. Once a prudent regional mortgage lender, Washington Mutual

tried—and ultimately failed—to use the profits from poor quality loans as a stepping stone to becoming a major Wall Street player.

Washington Mutual was far from the only lender that sold poor quality mortgages and mortgage backed securities that undermined U.S. financial markets. The Subcommittee investigation indicates that Washington Mutual was emblematic of a host of financial institutions that knowingly originated, sold, and securitized billions of dollars in high risk, poor quality home loans. These lenders were not the victims of the financial crisis; the high risk loans they issued became the fuel that ignited the financial crisis.

A. Subcommittee Investigation and Findings of Fact

As part of its investigation into high risk lending and the Washington Mutual case study, the Subcommittee collected millions of pages of documents from Washington Mutual, JPMorgan Chase, OTS, the FDIC, eAppraiseIT, Lenders Service Inc., Moody's, Standard & Poor's, various investment banks, Fannie Mae, Freddie Mac, and others. The documents included email, correspondence, internal memoranda, reports, legal pleadings, financial analysis, prospectuses, and more. The Subcommittee also conducted more than 30 interviews with former WaMu employees and regulatory officials. The Subcommittee also spoke with personnel from the Offices of the Inspector General at the Department of Treasury and the FDIC, who were engaged in a joint review of WaMu's regulatory oversight and the events leading to its demise. In addition, the Subcommittee spoke with nearly a dozen experts on a variety of banking, accounting, regulatory, and legal issues. On April 13, 2010, the Subcommittee held a hearing which took testimony from former WaMu officials and released 86 exhibits.[106]

In connection with the hearing, the Subcommittee released a joint memorandum from Chairman Carl Levin and Ranking Member Tom Coburn summarizing the investigation to date into Washington Mutual and the role of high risk home loans in the financial crisis. The memorandum contained the following findings of fact, which this Report reaffirms.

1. **High Risk Lending Strategy.** Washington Mutual ("WaMu") executives embarked upon a High Risk Lending Strategy and increased sales of high risk home loans to Wall Street, because they projected that high risk home loans, which generally charged higher rates of interest, would be more profitable for the bank than low risk home loans.

2. **Shoddy Lending Practices.** WaMu and its affiliate, Long Beach Mortgage Company ("Long Beach"), used shoddy lending practices riddled with credit, compliance, and operational deficiencies to make tens of thousands of high risk home loans that too often contained excessive risk, fraudulent information, or errors.

[106] "Wall Street and the Financial Crisis: The Role of High Risk Loans," before the U.S. Senate Permanent Subcommittee on Investigations, S.Hrg. 111-67 (April 13, 2010) (hereinafter "April 13, 2010 Subcommittee Hearing").

3. **Steering Borrowers to High Risk Loans.** WaMu and Long Beach too often steered borrowers into home loans they could not afford, allowing and encouraging them to make low initial payments that would be followed by much higher payments, and presumed that rising home prices would enable those borrowers to refinance their loans or sell their homes before the payments shot up.

4. **Polluting the Financial System.** WaMu and Long Beach securitized over $77 billion in subprime home loans and billions more in other high risk home loans, used Wall Street firms to sell the securities to investors worldwide, and polluted the financial system with mortgage backed securities which later incurred high rates of delinquency and loss.

5. **Securitizing Delinquency-Prone and Fraudulent Loans.** At times, WaMu selected and securitized loans that it had identified as likely to go delinquent, without disclosing its analysis to investors who bought the securities, and also securitized loans tainted by fraudulent information, without notifying purchasers of the fraud that was discovered.

6. **Destructive Compensation.** WaMu's compensation system rewarded loan officers and loan processors for originating large volumes of high risk loans, paid extra to loan officers who overcharged borrowers or added stiff prepayment penalties, and gave executives millions of dollars even when its High Risk Lending Strategy placed the bank in financial jeopardy.

B. Background

Washington Mutual Bank was a federally chartered thrift whose primary federal regulator was the Office of Thrift Supervision (OTS). As an insured depository institution, it was also overseen by the Federal Deposit Insurance Corporation (FDIC). Washington Mutual was a full service consumer and business bank. This Report focuses only on WaMu's home lending and securitization business. As part of that business, WaMu originated home loans, acquired home loans for investment and securitization, sold pools of loans, and also securitized pools of home loans that it had originated or acquired. It was also a leading servicer of residential mortgages.

(1) Major Business Lines and Key Personnel

From 2004 to 2008, WaMu had four major business lines.[107] The Home Loans Group handled WaMu's home mortgage originations, securitizations, and servicing operations. The Commercial Group handled apartment buildings and other commercial properties. The Retail Banking Group provided retail banking services to consumers and businesses across the country. The Card Services Group handled a credit card business purchased from Providian Financial Corporation.

[107] 9/25/2008 "OTS Fact Sheet on Washington Mutual Bank," Dochow_Darrel-00076154_001.

For most of the five-year period reviewed by the Subcommittee, WaMu was led by its longtime Chairman of the Board and Chief Executive Officer (CEO) Kerry Killinger who joined the bank in 1982, became bank president in 1988, and was appointed CEO in 1990. Mr. Killinger was the moving force behind WaMu's acquisitions and growth strategy during the 1990s, and made the fateful decision to embark upon its High Risk Lending Strategy in 2005. Mr. Killinger stepped down as Chairman of the Board in June 2008, after shareholders opposed having the same person occupy the bank's two top positions. He was dismissed from the bank on September 8, 2008, the same day WaMu was required by its regulator, OTS, to sign a public Memorandum of Understanding to address its lending and securitization deficiencies. Two weeks later the bank failed.

Other key members of the bank's senior management included President Steve Rotella who joined the bank in January 2005; Chief Financial Officer Tom Casey; President of the Home Loans Division David Schneider who joined the bank in July 2005; and General Counsel Faye Chapman. David Beck served as Executive Vice President in charge of the bank's Capital Markets Division, oversaw its securitization efforts, and reported to the head of Home Loans. Anthony Meola headed up the Home Loans Sales effort. Jim Vanasek was WaMu's Chief Credit Officer from 1999 until 2004, and was then appointed its Chief Risk Officer, a new position, from 2004-2005. After Mr. Vanasek's retirement, Ronald Cathcart took his place as Chief Risk Officer, and headed the bank's newly organized Enterprise Risk Management Division, serving in that post from 2005 to 2007.

(2) Loan Origination Channels

WaMu was one of the largest mortgage originators in the United States.[108] It originated and acquired residential mortgages through several methods, which it referred to as loan origination channels. WaMu referred to them as its retail, wholesale, subprime, correspondent, and conduit channels.

Retail Channel. In WaMu's parlance, "retail channel" loans were loans originated by WaMu employees, typically loan officers or sales associates operating out of WaMu branded loan centers. The prospective borrower typically communicated directly with the WaMu loan officer, who was often called a "loan consultant." WaMu considered all retail channel loans to be "prime" loans, regardless of the characteristics of the loan or the creditworthiness of the borrower, and sometimes referred to the retail channel as the "prime" channel. The retail channel originated significant numbers of Option ARM loans, which WaMu treated as prime loans, despite their inherent risks. According to the Inspectors General of the U.S. Treasury Department and the FDIC, who prepared a report on WaMu's failure (hereinafter "IG Report"), "Option ARMs represented as much as half of all loan originations from 2003 to 2007 and approximately $59 billion, or 47 percent, of the home loans on WaMu's balance sheet at the end

[108] See, e.g., "Mortgage Lender Rankings by Residential Originations," charts prepared by MortgageDaily.com (indicating WaMu was one of the top three issuers of U.S. residential mortgages from 2003 to 2005); "Washington Mutual to Acquire PNC's Residential Mortgage Business," Business Wire (10/2/2000), http://findarticles.com/p/articles/mi_m0EIN/is_2000_Oct_2/ai_65635032.

of 2007."[109] The retail channel was also used to originate substantial numbers of home equity loans and home equity lines of credit.

Wholesale Channel. According to WaMu, its "wholesale channel" loans were loans that the bank acquired from third party mortgage brokers. These brokers, who were not WaMu employees, located borrowers interested in purchasing a home or refinancing an existing mortgage, and explained available loans that could be underwritten by WaMu. The borrower's primary, and sometimes sole, contact was with the mortgage broker. The mortgage broker would then provide the borrower's information to a WaMu loan officer who would determine whether the bank would finance the loan. If the bank decided to finance the loan, the broker would receive a commission for its efforts. Third party mortgage brokers typically received little guidance or training from WaMu, aside from receiving daily "rate sheets" explaining the terms of the loans that WaMu was willing to accept and the available commissions. WaMu treated wholesale loans issued under the WaMu brand as prime loans.

Subprime Channel. WaMu also originated wholesale loans through its subprime affiliate and later subsidiary, Long Beach Mortgage Company ("Long Beach"). Long Beach was a purely wholesale lender, and employed no loan officers that worked directly with borrowers. Instead, its account executives developed relationships with third party mortgage brokers who brought prospective loans to the company, and if Long Beach accepted those loans, received a commission for their efforts. WaMu typically referred to Long Beach as its "subprime channel." Later, in 2007, when the bank decided to eliminate Long Beach as a separate entity, it rebranded Long Beach as its "Wholesale Specialty Lending" channel.

At times, WaMu also acquired subprime loans through "correspondent" or "conduit" channels, which it used to purchase closed loans—loans that had already been financed—from other lenders for investment or securitization. For example, WaMu at times operated a correspondent channel that it referred to as "Specialty Mortgage Finance" and used to purchase subprime loans from other lenders, especially Ameriquest, for inclusion in its investment portfolio. In addition, in 2005, its New York securitization arm, Washington Mutual Capital Corporation, established a "subprime conduit" to purchase closed subprime loans in bulk from other lenders for use in securitizations. At the end of 2006, WaMu reported that its investment portfolio included $4 billion in subprime loans from Long Beach and about $16 billion in subprime loans from other parties.[110]

Other Channels. At times, WaMu also originated or acquired loans in other ways. Its "Consumer Direct" channel, for example, originated loans over the phone or internet; borrowers did not need to meet in person with a WaMu loan officer. In addition, in 2004, Washington Mutual Capital Corporation (WCC) set up a conduit to purchase closed Alt A loans in bulk from

[109] 4/2010 "Evaluation of Federal Regulatory Oversight of Washington Mutual Bank," report prepared by the Offices of Inspector General at the Department of the Treasury and Federal Deposit Insurance Corporation, Hearing Exhibit 4/16-82 (hereinafter "IG Report").
[110] See 3/1/2007 Washington Mutual Inc. 10-K filing with the SEC, at 56.

other lenders and use them in securitizations. WCC shut down both the Alt A and subprime conduits in April 2008, after it became too difficult to find buyers for new securitizations.[111]

The Treasury and the FDIC IG report examining the failure of WaMu found that, from 2003 to 2007, the bulk of its residential loans—from 48% to 70%—came from third party lenders and brokers.[112] That report also determined that, in 2007, WaMu had 14 full-time employees overseeing 34,000 third party brokers doing business with the bank nationwide, and criticized the Bank's oversight and staffing effort.[113]

(3) Long Beach

WaMu had traditionally originated mortgages to well qualified prime borrowers. But in 1999, WaMu bought Long Beach Mortgage Company,[114] which was exclusively a subprime lender to borrowers whose credit histories did not support their getting a traditional mortgage.[115] Long Beach was located in Anaheim, California, had a network of loan centers across the country, and at its height had as many as 1,000 employees.

Long Beach made loans for the express purpose of securitizing them and profiting from the gain on sale; it did not hold loans for its own investment. It had no loan officers of its own, but relied entirely on third party mortgage brokers bringing proposed subprime loans to its doors. In 2000, the year after it was purchased by WaMu, Long Beach made and securitized approximately $2.5 billion in home loans. By 2006, its loan operations had increased more than tenfold, and Long Beach securitized nearly $30 billion in subprime home loans and sold the securities to investors.[116]

Long Beach's most common subprime loans were short term, hybrid adjustable rate mortgages, known as "2/28," "3/27," or "5/25" loans. These 30-year mortgages typically had a low fixed "teaser" rate, which then reset to a higher floating rate after two years for the 2/28, three years for the 3/27, or five years for the 5/25.[117] Long Beach typically qualified borrowers according to whether they could afford to pay the initial, low interest rate rather than the later,

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[111] See 6/11/2007 chart entitled, "Capital Markets Division Growth," JPM_WM03409858, Hearing Exhibit 4/13-47c.

[112] See prepared statement of Treasury IG Eric Thorson, "Wall Street and the Financial Crisis: Role of the Regulators," before the U.S. Senate Permanent Subcommittee on Investigations, S.Hrg. 111-672 (April 16, 2010) (hereinafter "April 16, 2010 Subcommittee Hearing"), at 5.

[113] 4/2010 IG Report, at 11, Hearing Exhibit 4/16-82.

[114] Washington Mutual Inc. actually purchased Long Beach Financial Corporation, the parent of Long Beach Mortgage Corporation, for about $350 million.

[115] 12/21/2005 OTS internal memorandum from OTS examiners to Darrel Dochow, OTSWMS06-007 0001009, Hearing Exhibit 4/16-31 ("LBMC was acquired… as a vehicle for WMI to access the subprime loan market. LBMC's core business is the origination of subprime mortgage loans through a nationwide network of mortgage brokers.").

[116] "Securitizations of Washington Mutual Subprime Home Loans," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1c.

[117] For more information about these types of loans, see Chapter II.

higher interest rate.[118] For "interest-only" loans, monthly loan payments were calculated to cover only the interest due on the loan and not any principal. After the fixed interest rate period expired, the monthly payment was typically recalculated to pay off the entire remaining loan within the remaining loan period at the higher floating rate. Unless borrowers could refinance, the suddenly increased monthly payments caused some borrowers to experience "payment shock" and default on their loans.

From 1999 to 2006, Long Beach operated as a subsidiary of Washington Mutual Inc., the parent of Washington Mutual Bank. Long Beach's loans repeatedly experienced early payment defaults, high delinquency rates, and losses, and its securitizations were among the worst performing in the market.[119] In 2006, in a bid to strengthen Long Beach's performance, WaMu received permission from its regulator, OTS, to purchase the company from its parent and make it a wholly owned subsidiary of the bank. WaMu installed new management, required the head of Long Beach to report to its Home Loans Division President, and promised OTS that it would improve Long Beach. When Long Beach's loans continued to perform poorly, in June 2007, WaMu shut down Long Beach as a separate entity, and took over its subprime lending operations, rebranding Long Beach as its "Wholesale Specialty Lending" channel. WaMu continued to issue and securitize subprime loans. After the subprime market essentially shut down a few months later in September 2007, WaMu ended all of its subprime lending.

From 2000 to 2007, Long Beach and WaMu together securitized tens of billions of dollars in subprime loans, creating mortgage backed securities that frequently received AAA or other investment grade credit ratings.[120] Although AAA securities are supposed to be very safe investments with low default rates of one to two percent, of the 75 Long Beach mortgage backed security tranches rated AAA by Standard and Poor's in 2006, all 75 have been downgraded to junk status, defaulted, or been withdrawn.[121] In most of the 2006 Long Beach securitizations, the underlying loans have delinquency rates of 50% or more.[122]

(4) Securitization

Washington Mutual depended on the securitization process to generate profit, manage risk, and obtain capital to originate new loans. Washington Mutual and Long Beach sold or securitized most of the subprime home loans they acquired. Initially, Washington Mutual kept most of its Option ARMs in its proprietary investment portfolio, but eventually began selling or securitizing those loans as well. From 2000 to 2007, Washington Mutual and Long Beach

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[118] See April 13, 2010 Subcommittee Hearing at 50.

[119] See 4/14/2005 email exchange between OTS examiners, "Fitch – LBMC Review," Hearing Exhibit 4/13-8a (discussing findings by Fitch, a credit rating agency, highlighting poor performance of Long Beach securities).

[120] "Securitizations of Washington Mutual Subprime Home Loans," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1c.

[121] See Standard and Poor's data at www.globalcreditportal.com.

[122] See, e.g., wamusecurities.com (subscription website maintained by JPMorgan Chase with data on Long Beach and WaMu mortgage backed securities showing, as of March 2011, delinquency rates for particular mortgage backed securities, including LBMLT 2006-1 – 58.44%; LBMLT 2006-6 – 60.06%; and LBMLT 2005-11 – 54.32%).

securitized at least $77 billion in subprime home loans. Washington Mutual sold or securitized at least $115 billion of Option ARM loans, as well as billions more of other types of high risk loans, including hybrid adjustable rate mortgages, Alt A, and home equity loans.

When Washington Mutual began securitizing its loans, it was dependent upon investment banks to help underwrite and sell its securitizations. In order to have greater control of the securitization process and to keep securitization underwriting fees in house, rather than paying them to investment banks, WaMu acquired a company able to handle securitizations and renamed it Washington Mutual Capital Corporation (WCC), which became a wholly owned subsidiary of the bank.[123] WCC was a registered broker-dealer and began to act as an underwriter of WaMu and Long Beach securitizations.[124] WCC worked with two other bank subsidiaries, Washington Mutual Mortgage Securities Corp. and Washington Mutual Asset Acceptance Corp., that provided warehousing for WaMu loans before they were securitized. WCC helped to assemble RMBS pools and sell the resulting RMBS securities to investors. At first it worked with other investment banks; later it became the sole underwriter of some WaMu securitizations.

WCC was initially based in Seattle with 30 to 40 employees.[125] In 2004, it moved its headquarters to Manhattan.[126] At the height of WCC operations, right before the collapse of the securitization market, WCC had over 200 employees and offices in Seattle, New York, Los Angeles, and Chicago, with the majority of its personnel in New York.[127] WCC closed its doors in December 2007, after the securitization markets collapsed.

(5) Overview of WaMu's Rise and Fall

Washington Mutual Bank (WaMu) was a wholly owned subsidiary of its parent holding company, Washington Mutual Inc.[128] From 1996 to 2002, WaMu acquired over a dozen other financial institutions, including American Savings Bank, Great Western Bank, Fleet Mortgage Corporation, Dime Bancorp, PNC Mortgage, and Long Beach, expanding to become the nation's largest thrift and sixth largest bank. WaMu also became one of the largest issuers of home loans in the country. Washington Mutual kept a portion of those loans for its own investment portfolio, and sold the rest either to Wall Street investors, usually after securitizing them, or to Fannie Mae or Freddie Mac. From 2001 to 2007, Washington Mutual sold approximately $430 billion in loans to Fannie Mae and Freddie Mac, representing nearly a quarter of its loan production during those years.

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[123] See 6/11/2007 chart entitled, "Capital Markets Division Growth," JPM_WM03409858, Hearing Exhibit 4/13-47c.
[124] Prepared statement of David Beck, April 13, 2010 Subcommittee Hearing at 2.
[125] Subcommittee interview of David Beck (3/2/2010).
[126] Id.
[127] Id.
[128] 9/25/2008 "OTS Fact Sheet on Washington Mutual Bank," Dochow_Darrel-00076154_001, at 002. Washington Mutual Inc. also owned a second, much smaller thrift, Washington Mutual Bank, FSB. Id.

In 2006, WaMu took several major actions that reduced the size of its Home Loans Group. It sold $140 billion in mortgage servicing rights to Wells Fargo; sold a $22 billion portfolio of home loans and other securities; and reduced its workforce significantly.[129]

In July 2007, after the Bear Stearns hedge funds collapsed and the credit rating agencies downgraded the ratings of hundreds of mortgaged backed securities, including over 40 Long Beach securities, the secondary market for subprime loans dried up. In September 2007, due to the difficulty of finding investors willing to purchase subprime loans or mortgage backed securities, Washington Mutual discontinued its subprime lending. It also became increasingly difficult for Washington Mutual to sell other types of high risk loans and related mortgage backed securities, including its Option ARMs and home equity products. Instead, WaMu retained these loans in its portfolios. By the end of the year, as the value of its loans and mortgage backed securities continued to drop, Washington Mutual began to incur significant losses, reporting a $1 billion loss in the fourth quarter of 2007, and another $1 billion loss in the first quarter of 2008.

In February 2008, based upon increasing deterioration in the bank's asset quality, earnings, and liquidity, OTS and the FDIC lowered the bank's safety and soundness rating to a 3 on a scale of 1 to 5, signaling it was a troubled institution.[130] In March 2008, at the request of OTS and the FDIC, Washington Mutual allowed several potential buyers of the bank to review its financial information.[131] JPMorgan Chase followed with a purchase offer that WaMu declined.[132] Instead, in April 2008, Washington Mutual's parent holding company raised $7 billion in new capital and provided $3 billion of those funds to the bank.[133] By June, the bank had shut down its wholesale lending channel.[134] It also closed over 180 loan centers and terminated 3,000 employees.[135] In addition, WaMu reduced its dividend to shareholders.[136]

In July 2008, a $30 billion subprime mortgage lender, IndyMac, failed and was placed into receivership by the government. In response, depositors became concerned about Washington Mutual and withdrew over $10 billion in deposits, putting pressure on the bank's liquidity. After the bank disclosed a $3.2 billion loss for the second quarter, its stock price continued to drop, and more deposits left.

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[129] Subcommittee interview of Steve Rotella (2/24/2010). See also 3/1/2007 Washington Mutual Inc. 10-K filing with the SEC, at 1 (Washington Mutual reduced its workforce from 60,789 to 49,824 from December 31, 2005 to December 31, 2006.); "Washington Mutual to cut 2,500 jobs," MarketWatch (2/15/2006), available at http://www.marketwatch.com/story/washington-mutual-cutting-2500-mortgage-jobs.

[130] See 2/27/2008 letter from Kerry Killinger to Washington Mutual Board of Directors, Hearing Exhibit 4/16-41.

[131] Subcommittee interviews of WaMu Chief Financial Officer Tom Casey (2/20/2010); and OTS West Region Office Director Darrel Dochow (3/3/2010); 4/2010 "Washington Mutual Regulators Timeline," prepared by the Subcommittee, Hearing Exhibit 4/16-1j.

[132] Subcommittee interview of Tom Casey (2/20/2010).

[133] 4/2010 "Washington Mutual Regulators Timeline," prepared by the Subcommittee, Hearing Exhibit 4/16-1j.

[134] See 2/27/2008 letter from Kerry Killinger to Washington Mutual Board of Directors, Hearing Exhibit 4/16-41.

[135] "Washington Mutual to Take Writedown, Slash Dividend," Bloomberg (12/10/2007), available at http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aNUz6NmbYZCQ.

[136] Id.

On September 8, 2008, Washington Mutual signed a public Memorandum of Understanding that it had negotiated with OTS and the FDIC to address the problems affecting the bank. Longtime CEO Kerry Killinger was forced to leave the bank, accepting a $15 million severance payment.[137] Allen Fishman was appointed his replacement.

On September 15, 2008, Lehman Brothers declared bankruptcy. Three days later, on September 18, OTS and the FDIC lowered Washington Mutual's rating to a "4," indicating that a bank failure was a possibility. The credit rating agencies also downgraded the credit ratings of the bank and its parent holding company. Over the span of eight days starting on September 15, nearly $17 billion in deposits left the bank. At that time, the Deposit Insurance Fund contained about $45 billion, an amount which could have been exhausted by the failure of a $300 billion institution like Washington Mutual. As the financial crisis worsened each day, regulatory concerns about the bank's liquidity and viability intensified.

Because of its liquidity problems and poor quality assets, OTS and the FDIC decided to close the bank. Unable to wait for a Friday, the day on which most banks are closed, the agencies acted on a Thursday, September 25, 2008, which was also the 119th anniversary of WaMu's founding. That day, OTS seized Washington Mutual Bank, placed it into receivership, and appointed the FDIC as the receiver. The FDIC facilitated its immediate sale to JPMorgan Chase for $1.9 billion. The sale eliminated the need to draw upon the Deposit Insurance Fund. WaMu's parent, Washington Mutual, Inc., declared bankruptcy soon after.

C. High Risk Lending Strategy

In 2004, Washington Mutual ramped up high risk home loan originations to borrowers that had not traditionally qualified for them. The following year, Washington Mutual adopted a high risk strategy to issue high risk mortgages, and then mitigate some of that risk by selling or securitizing many of the loans. When housing prices stopped climbing in late 2006, a large number of those risky loans began incurring extraordinary rates of delinquency as did the securities that relied on those loans for cash flow. In 2007, the problems with WaMu's High Risk Lending Strategy worsened, as delinquencies increased, the securitization market dried up, and the bank was unable to find buyers for its high risk loans or related securities.

The formal initiation of WaMu's High Risk Lending Strategy can be dated to January 2005, when a specific proposal was presented to the WaMu Board of Directors for approval.[138] WaMu adopted this strategy because its executives calculated that high risk home loans were more profitable than low risk loans, not only because the bank could charge borrowers higher interest rates and fees, but also because higher risk loans received higher prices when securitized and sold to investors. They garnered higher prices because, due to their higher risk, the securities paid a higher coupon rate than other comparably rated securities.

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[137] "Washington Mutual CEO Kerry Killinger: $100 Million in Compensation, 2003-2008," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1h.

[138] See 1/2005 "Higher Risk Lending Strategy 'Asset Allocation Initiative,'" submitted to Washington Mutual Board of Directors Finance Committee Discussion, JPM_WM00302975-93, Hearing Exhibit 4/13-2a.

Over a five-year period from 2003 to 2008, Washington Mutual Bank shifted its loan originations from primarily traditional 30-year fixed and government backed loans to primarily higher risk home loans. This shift included increased subprime loan activity at Long Beach, more subprime loans purchased through its Specialty Mortgage Finance correspondent channel, and more bulk purchases of subprime loans through its conduit channel for use in securitizations. WaMu also increased its originations and acquisitions of Option ARM, Alt A, and home equity loans. While the shift began earlier, the strategic decision to move toward higher risk loans was not fully articulated to regulators or the Board of Directors until the end of 2004 and the beginning of 2005.[139]

In about three years, from 2005 to 2007, WaMu issued hundreds of billions of higher risk loans, including $49 billion in subprime loans[140] and $59 billion in Option ARMs.[141] Data compiled by the Treasury and the FDIC Inspectors General showed that, by the end of 2007, Option ARMs constituted about 47% of all home loans on WaMu's balance sheet and home equity loans made up $63.5 billion or 27% of its home loan portfolio, a 130% increase from 2003.[142] According to an August 2006 internal WaMu presentation on Option ARM credit risk, from 1999 until 2006, Option ARM borrowers selected the minimum monthly payment more than 95% of the time.[143] The data also showed that at the end of 2007, 84% of the total value of the Option ARMs was negatively amortizing, meaning that the borrowers were going into deeper debt rather than paying off their loan balances.[144] In addition, by the end of 2007, stated income loans—loans in which the bank had not verified the borrower's income—represented 73% of WaMu's Option ARMs, 50% of its subprime loans, and 90% of its home equity loans.[145] WaMu also originated numerous loans with high loan-to-value (LTV) ratios, in which the loan amount exceeded 80% of the value of the underlying property. The Treasury and the FDIC Inspectors General determined, for example, that 44% of WaMu's subprime loans and 35% of its home equity loans had LTV ratios in excess of 80%.[146] Still another problem was that WaMu had high geographic concentrations of its home loans in California and Florida, states that ended up suffering above-average home value depreciation.[147]

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[139] See, e.g., 12/21/2004 "Asset Allocation Initiative: Higher Risk Lending Strategy and Increased Credit Risk Management," Washington Mutual Board of Directors Discussion, JPM_WM04107995-8008, Hearing Exhibit 4/13-2b; 1/2005 "Higher Risk Lending Strategy 'Asset Allocation Initiative,'" submitted to Washington Mutual Board of Directors Finance Committee Discussion, JPM_WM00302975-93, Hearing Exhibit 4/13-2a.

[140] "Securitizations of Washington Mutual Subprime Home Loans," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1c.

[141] 4/2010 IG Report, at 9, Hearing Exhibit 4/16-82.

[142] Id. at 9-10.

[143] See 8/2006 Washington Mutual internal report, "Option ARM Credit Risk," chart entitled, "Borrower-Selected Payment Behavior," at 7, Hearing Exhibit 4/13-37. The WaMu report also stated: "Almost all Option ARM borrowers select the minimum payment every month with very high persistency, regardless of changes in the interest rates or payment adjustments." Id. at 2.

[144] 4/2010 IG Report, at 9, Hearing Exhibit 4/16-82.

[145] Id. at 10.

[146] Id.

[147] Id. at 11.

(1) Strategic Direction

In 2004, WaMu set the stage for its High Risk Lending Strategy by formally adopting aggressive financial targets for the upcoming five-year time period. The new earnings targets created pressure for the bank to shift from its more conservative practices towards practices that carried more risk. Mr. Killinger described those targets in a June 2004 "Strategic Direction" memorandum to WaMu's Board of Directors: "Our primary financial targets for the next five years will be to achieve an average ROE [Return on Equity] of at least 18%, and average EPS [Earnings Per Share] growth of at least 13%."[148] In his memorandum to the Board, Mr. Killinger predicted continuing growth opportunities for the bank:

> "In a consolidating industry, it is appropriate to continually assess if shareholder value creation is best achieved by selling for a short-term change of control premium or to continue to build long-term value as an independent company. We believe remaining an independent company is appropriate at this time because of substantial growth opportunities we see ahead. We are especially encouraged with growth prospects for our consumer banking group. We would also note that our stock is currently trading at a price which we believe is substantially below the intrinsic value of our unique franchise. This makes it even more important to stay focused on building long-term shareholder value, diligently protecting our shareholders from inadequate unsolicited takeover proposals and maintaining our long held position of remaining an independent company."[149]

Mr. Killinger identified residential nonprime and adjustable rate mortgage loans as one of the primary bank businesses driving balance sheet growth.[150] Mr. Killinger also stated in the memorandum: "Wholesale and correspondent will be nationwide and retooled to deliver higher margin products."[151]

(2) Approval of Strategy

After 2002, Washington Mutual stopped acquiring lenders specializing in residential mortgages,[152] and embarked upon a new strategy to push the company's growth, focused on increasing its issuance and purchase of higher risk home loans. OTS took note of this strategy in WaMu's 2004 Report on Examination:

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[148] 6/1/2004 Washington Mutual memorandum from Kerry Killinger to the Board of Directors, "Strategic Direction," JPM_WM05385579 at 581.
[149] Id. at 582.
[150] Id.
[151] Id. at 585.
[152] The only new lender that Washington Mutual acquired after 2004 was Commercial Capital Bancorp in 2006.

> "Management provided us with a copy of the framework for WMI's 5-year (2005-2009) strategic plan [which] contemplates asset growth of at least 10% a year, with assets increasing to near $500 billion by 2009."[153]

OTS directed the bank to spell out its new lending strategy in a written document that had to be presented to and gain approval by the WaMu Board of Directors.[154]

In response, in January 2005, WaMu management developed a document entitled, "Higher Risk Lending Strategy" and presented it to its Board of Directors for approval to shift the bank's focus from originating low risk fixed rate and government backed loans to higher risk subprime, home equity, and Option ARM loans.[155] The Strategy disclosed that WaMu planned to increase both its issuance of higher risk loans and its offering of loans to higher risk borrowers. The explicit reasoning for the shift was the increased profitability of the higher risk loans, measured by actual bank data showing that those loans produced a higher "gain on sale" or profit for the bank compared to lower risk loans. For example, one chart supporting the Strategy showed that selling subprime loans garnered more than eight times the gain on sale as government backed loans.[156]

The WaMu submission to the Board noted that, in order for the plan to be successful, WaMu would need to carefully manage its residential mortgage business as well as its credit risk, meaning the risk that borrowers would not repay the higher risk loans.[157] During the Board's discussion of the strategy, credit officers noted that losses would likely lag by several years.[158] These documents show that WaMu knew that, even if loan losses did not immediately come to pass after initiating the High Risk Lending Strategy, it did not mean the strategy was free of problems.

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[153] See 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001509, Hearing Exhibit 4/16-94 [Sealed Exhibit].

[154] 6/30/2004 OTS Memo to Lawrence Carter from Zalka Ancely, OTSWME04-0000005357 at 61 ("Joint Memo #9 - Subprime Lending Strategy"); 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001483, Hearing Exhibit 4/16-94 [Sealed Exhibit]. See also 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302978, Hearing Exhibit 4/13-2a ("As we implement our Strategic Plan, we need to address OTS/FDIC 2004 Safety and Soundness Exam Joint Memos 8 & 9 . . . Joint Memo 9: Develop and present a SubPrime/Higher Risk Lending Strategy to the Board.").

[155] 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302978, Hearing Exhibit 4/13-2a; see also 4/2010 "WaMu Product Originations and Purchases by Percentage – 2003-2007," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1i.

[156] 4/18/2006 Washington Mutual Home Loans Discussion Board of Directors Meeting, at JPM_WM00690894, Hearing Exhibit 4/13-3 (see chart showing gain on sale for government loans was 13; for 30-year, fixed rate loans was 19; for option loans was 109; for home equity loans was 113; and for subprime loans was 150.).

[157] See 4/18/2006 Washington Mutual Home Loans Discussion Board of Directors Meeting, at JPM_WM00690899, Hearing Exhibit 4/13-3 (acknowledging that the risks of the High Risk Lending Strategy included managing credit risk, implementing lending technology and enacting organizational changes).

[158] 1/18/2005 Washington Mutual Inc. Washington Mutual Bank FA Finance Committee Minutes, JPM_WM06293964; see also 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302987, Hearing Exhibit 4/13-2a ("Lags in Effects of Expansion," chart showing peak loss rates in 2007).

(3) Definition of High Risk Lending

As part of the 2005 presentation to the Board of Directors outlining the strategy, OTS recommended that WaMu define higher risk lending.[159] The January 2005 presentation contained a slide defining "Higher Risk Lending":

> "For the purpose of establishing concentration limits, Higher Risk Lending strategies will be implemented in a 'phased' approach. Later in 2005 an expanded definition of Higher Risk Lending—encapsulating multiple risk layering and expanded underwriting criteria—and its corresponding concentration limit—will be presented for Board approval.
>
> "The initial definition is 'Consumer Loans to Higher Risk Borrowers', which at 11/30/04 totaled $32 Billion or 151% of total risk-based capital, comprised of:
>
> -Subprime loans, or all loans originated by Long Beach Mortgage or purchased through our Specialty Mortgage Finance program
>
> -SFR [Single Family Residential] and Consumer Loans to Borrowers with low credit scores at origination."[160]

A footnote on the slide defined "low credit scores" as less than a 620 FICO score for first lien single family residence mortgages, home equity loans, and home equity lines of credit. It defined low credit scores as less than 660 for second lien home equity loans (HEL) and lines of credit (HELOC), and other consumer loans.[161]

While the January 2005 presentation promised to present a fuller definition of higher risk loans for Board approval at some future date, a more complete definition had already been provided to the Board a few weeks earlier in a December 21, 2004 presentation entitled, "Asset Allocation Initiative: Higher Risk Lending Strategy and Increased Credit Risk Management."[162] This presentation contained the same basic definition of higher risk borrowers, but also provided a definition of higher risk loans.

Higher risk loans were defined as single family residence mortgages with a loan-to-value (LTV) ratio of equal to or greater than 90% if not credit enhanced, or a combined-loan-to-value

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[159] 6/30/2004 OTS Memo to Lawrence Carter from Zalka Ancely ("Joint Memo #8 - Loans to 'Higher-Risk Borrowers'"), OTSWME04-0000005357 at 61.
[160] 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302979, Hearing Exhibit 4/13-2a.
[161] Id. at JPM_WM00302979.
[162] 12/21/2004 "Asset Allocation Initiative: Higher Risk Lending Strategy and Increased Credit Risk Management," Washington Mutual Board of Directors Presentation, at JPM_WM04107995-8008, Hearing Exhibit 4/13-2b.

(CLTV) ratio of 95%. These numbers are a notable departure from the 80% LTV ratio traditionally required for a prime loan.[163] For home equity loans and lines of credit, WaMu considered a first lien to be high risk if it had a greater than 90% LTV ratio, and considered a second lien to be high risk if had a greater than 80% CLTV ratio.[164]

The December 2004 presentation also defined higher risk lending on the basis of expanded underwriting criteria and multiple risk layering:

> "Expanded Criteria
> -'No Income' loan documentation type
> -All Manufactured Housing loans …
>
> Multiple Risk Layering in SF[R] and 1st lien HEL/HELOC loans
> -Higher A- credit score or lacking LTV as strong compensating factor and
> -An additional risk factor from at least three of the following:
> -Higher uncertainty about ability to pay or 'stated income' documentation type
> -higher uncertainty about willingness to pay or collateral value"[165]

This document indicates that WaMu considered a mortgage to be higher risk if it lacked documentation regarding the borrower's income, described as a "no income" or "stated income" loan.

WaMu held billions of dollars in loans on its balance sheet.[166] Those assets fluctuated in value based on the changes in the interest rate. Fixed rate loans, in particular, incurred significant interest rate risk, because on a 30-year fixed rate mortgage, for example, WaMu agreed to receive interest payments at a certain rate for 30 years, but if the prevailing interest rate went up, WaMu's cost of money increased and the relative value of the fixed mortgages on its balance sheet went down. WaMu used various strategies to hedge its interest rate risk. One way to incur less interest rate risk was for WaMu to hold loans with variable interest rates, such as Hybrid ARMs typical of WaMu's subprime lending, or Option ARMs, WaMu's flagship "prime" product. These adjustable rate mortgages paid interest rates that, after the initial fixed rate period expired, were typically pegged to the Cost of Funds Index (COFI) or the Monthly Treasury Average (MTA), two common measures of prevailing interest rates.

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[163] See, e.g., 10/8/1999 "Interagency Guidance on High LTV Residential Real Estate Lending," http://www.federalreserve.gov/boarddocs/srletters/1993/SR9301.htm, and discussion of high LTV loans in section D(2)(b), below.

[164] 12/21/2004 "Asset Allocation Initiative: Higher Risk Lending Strategy and Increased Credit Risk Management," Washington Mutual Board of Directors Presentation, JPM_WM04107995-8008 at 7999, Hearing Exhibit 4/13-2b.

[165] Id. This slide lists only the two additional risk factors quoted, despite referring to "at least three of the following."

[166] See 9/25/2008 "OTS Fact Sheet on Washington Mutual Bank," Dochow_Darrel-00076154_001 ("Loans held: $118.9 billion in single-family loans held for investment - this includes $52.9 billion in payment option ARMs and $16.05 billion in subprime mortgage loans").

(4) Gain on Sale

WaMu's internal documents indicate that the primary motivation behind its High Risk Lending Strategy was the superior "gain on sale" profits generated by high risk loans.[167] Washington Mutual management had calculated that higher risk loans were more profitable when sold or securitized. Prior to sale, higher risk loans also produced greater short term profits, because the bank typically charged the borrowers a higher rate of interest and higher fees.

Higher risk home loans placed for sale were more profitable for WaMu, because of the higher price that Wall Street underwriters and investors were willing to pay for them. The profit that WaMu obtained by selling or securitizing a loan was known as the "gain on sale." Gain on sale figures for the loans produced by the bank were analyzed and presented to the WaMu Board of Directors. On April 18, 2006, David Schneider, the President of WaMu Home Loans division, provided the Board of Directors a confidential presentation entitled, "Home Loans Discussion."[168] The third slide in the presentation was entitled, "Home Loans Strategic Positioning," and stated: "Home Loans is accelerating significant business model changes to achieve consistent, long term financial objectives."[169] Beneath this heading the first listed objective was: "Shift from low-margin business to high-margin products,"[170] meaning from less profitable to more profitable loan products. The next slide in the presentation was entitled: "Shift to Higher Margin Products," and elaborated on that objective. The slide listed the actual gain on sale obtained by the bank, in 2005, for each type of loan WaMu offered, providing the "basis points" (bps) that each type of loan fetched on Wall Street:

2005 WaMu Gain on Sale Margin by Product
in bps[171]

Government	13
Fixed	19
Hybrid/ARM	25
Alt A	40
Option ARM	109
Home Equity	113
Subprime	150

[167] 1/18/2005 Washington Mutual Inc. Washington Mutual Bank FA Finance Committee Minutes at JPM_WM06293964; see also 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302977, Hearing Exhibit 4/13-2a
[168] 4/18/2006 "Home Loans Discussion Board of Directors Meeting," WaMu presentation, JPM_WM00690890-901, Hearing Exhibit 4/13-3.
[169] Id. at 893 [emphasis in original removed].
[170] Id.
[171] Id. at 894 [formatting as in the original].

Mr. Schneider told the Subcommittee that the numbers listed on the chart were not projections, but the numbers generated from actual, historical loan data.[172] As the chart makes clear, the least profitable loans for WaMu were government backed and fixed rate loans. Those loans were typically purchased by government sponsored enterprises (GSEs) like Fannie Mae, Freddie Mac, and Ginnie Mae which paid relatively low prices for them. Instead of focusing on those low margin loans, WaMu's management looked to make profits elsewhere, and elected to focus on the most profitable loans, which were the Option ARM, home equity, and subprime loans. In 2005, subprime loans, with 150 basis points, were eight times more profitable than a fixed rate loan at 19 basis points and more than 10 times as profitable as government backed loans.

The gain on sale data WaMu collected drove not only WaMu's decision to focus on higher risk home loans, but also how the bank priced those loans for borrowers. In determining how much it would charge for a loan, the bank calculated first what price the loan would obtain on Wall Street. As Mr. Beck explained in his testimony before the Subcommittee:

> "Because WaMu's capital markets organization was engaged in the secondary mortgage market, it had ready access to information regarding how the market priced loan products. Therefore my team helped determine the initial prices at which WaMu could offer loans by beginning with the applicable market prices for private or agency-backed mortgage securities and adding the various costs WaMu incurred in the origination, sale, and servicing of home loans."[173]

(5) Acknowledging Unsustainable Housing Price Increases

In 2004, before WaMu implemented its High Risk Lending Strategy, the Chief Risk Officer Jim Vanasek expressed internally concern about the unsustainable rise in housing prices, loosening lending standards, and the possible consequences. On September 2, 2004, just months before the formal presentation of the High Risk Lending Strategy to the Board of Directors, Mr. Vanasek circulated a prescient memorandum to WaMu's mortgage underwriting and appraisal staff, warning of a bubble in housing prices and encouraging tighter underwriting. The memorandum also captured a sense of the turmoil and pressure at WaMu. Under the subject heading, "Perspective," Mr. Vanasek wrote:

> "I want to share just a few thoughts with all of you as we begin the month of September. Clearly you have gone through a difficult period of time with all of the changes in the mortgage area of the bank. Staff cuts and recent defections have only added to the stress. Mark Hillis [a Senior Risk Officer] and I are painfully aware of the toll that this has taken on some of you and have felt it is important to tell you that we recognize it has been and continues to be difficult.

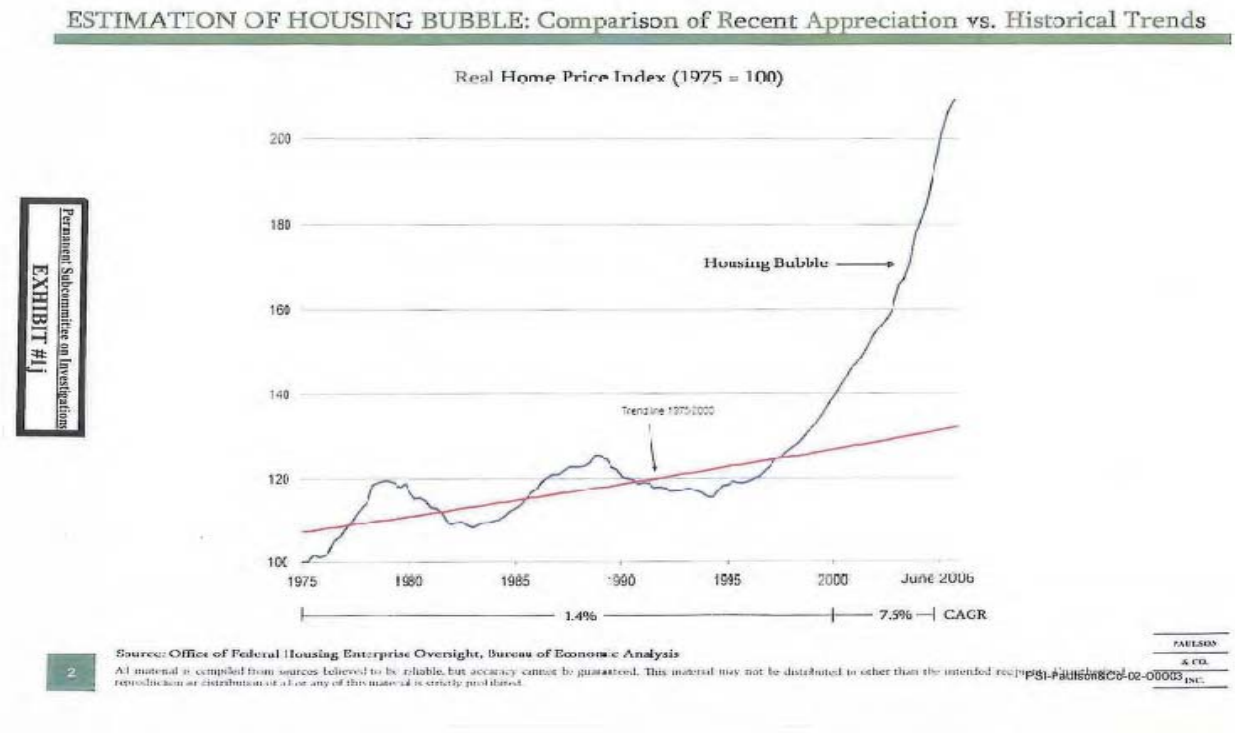
[172] Subcommittee interview of David Schneider (2/16/2010).
[173] April 13, 2010 Subcommittee Hearing at 53.

> "In the midst of all this change and stress, patience is growing thin. We understand that. We also know that loan originators are pushing very hard for deals. But we need to put all of this in perspective.
>
> "At this point in the mortgage cycle with prices having increased far beyond the rate of increase in personal incomes, there clearly comes a time when prices must slow down or perhaps even decline. There have been so many warnings of a Housing Bubble that we all tend now to ignore them because thus far it has not happened. I am not in the business of forecasting, but I have a healthy respect for the underlying data which says ultimately this environment is no longer sustainable. Therefore I would conclude that now is not the time to be pushing appraisal values. If anything we should be a bit more conservative across the board. Kerry Killinger and Bill Longbrake [a Vice Chair of WaMu] have both expressed renewed concern over this issue.
>
> "This is a point where we should be much more careful about exceptions. It is highly questionable as to how strong this economy may be; there is clearly no consensus on Wall Street. If the economy stalls, the combination of low FICOs, high LTVs and inordinate numbers of exceptions will come back to haunt us."[174]

Mr. Vanasek was the senior-most risk officer at WaMu, and had frequent interactions with Mr. Killinger and the Board of Directors. While his concerns may have been heard, they were not heeded.

Mr. Vanasek told the Subcommittee that, because of his predictions of a collapse in the housing market, he earned the derisive nickname "Dr. Doom."[175] But evidence of a housing bubble was overwhelming by 2005. Over the prior ten years, housing prices had skyrocketed in an unprecedented fashion, as the following chart prepared by Paulson & Co. Inc., based on data from the Bureau of Economic Analysis and the Office of Federal Housing Enterprise Oversight, demonstrates.[176]

[174] 9/2/2004 Washington Mutual memorandum from Jim Vanasek, "Perspective," Hearing Exhibit 4/13-78b.
[175] Subcommittee interview of Jim Vanasek (12/18/2009).
[176] "Estimation of Housing Bubble," PSI-Paulson&Co-02-00003, Hearing Exhibit 4/13-1j.



Mr. Vanasek shared his concerns with Mr. Killinger. At the Subcommittee's hearing, Mr. Killinger testified: "Now, beginning in 2005, 2 years before the financial crisis hit, I was publicly and repeatedly warning of the risks of a potential housing downturn."[177] In March 2005, he engaged in an email exchange with Mr. Vanasek, in which both agreed the United States was in the midst of a housing bubble. On March, 10, 2005, Mr. Vanasek emailed Mr. Killinger about many of the issues facing his risk management team, concluding:

> "My group is working as hard as I can reasonably ask any group to work and in several cases they are stretched to the absolute limit. Any words of support and appreciation would be very helpful to the morale of the group. These folks have stepped up to fixing any number of issues this year, many not at all of their own making."[178]

Mr. Killinger replied:

> "Thanks Jim. Overall, it appears we are making some good progress. Hopefully, the Regulators will agree that we are making some progress. I suspect the toughest thing for us will be to navigate through a period of high home prices, increased competitive conditions for reduced underwriting standards, and our need to grow the balance sheet. I

[177] April 13, 2010 Subcommittee Hearing at 85.
[178] 3/2005 WaMu internal email chain, Hearing Exhibit 4/13-78.

> have never seen such a high risk housing market as market after market thinks they are unique and for whatever reason are not likely to experience price declines. This typically signifies a bubble."

Mr. Vanasek agreed:

> "I could not agree more. All the classic signs are there and the likely outcome is probably not great. We would all like to think the air can come out of the balloon slowly but history would not lean you in that direction. Over the next month or so I am going to work hard on what I hope can be a lasting mechanism (legacy) for determining how much risk we can afford to take …."

Despite Mr. Killinger's awareness that housing prices were unsustainable, could drop suddenly, and could make it difficult for borrowers to refinance or sell their homes, Mr. Killinger continued to push forward with WaMu's High Risk Lending Strategy.

(6) Execution of the High Risk Lending Strategy

WaMu formally adopted the High Risk Lending Strategy in January 2005.[179] Over the following two years, management significantly shifted the bank's loan originations towards riskier loans as called for in the plan, but had to slow down the pace of implementation in the face of worsening market conditions. In retrospect, WaMu executives tried to portray their inability to fully execute the plan as a strategic choice rather than the result of a failed strategy. For example, Mr. Killinger testified at the Subcommittee hearing that the bank's High Risk Lending Strategy was only contemplated, but not really executed:

> "First, we had an adjustment in our strategy that started in about 2004 to gradually increase the amount of home equity, subprime, commercial real estate, and multi-family loans that we could hold on the balance sheet. We had that long-term strategy, but … we quickly determined that the housing market was increasing in its risk, and we put most of those strategies for expansion on hold."[180]

Mr. Killinger's claim that the High Risk Lending Strategy was put "on hold" is contradicted, however, by WaMu's SEC filings, its internal documents, and the testimony of other WaMu executives.

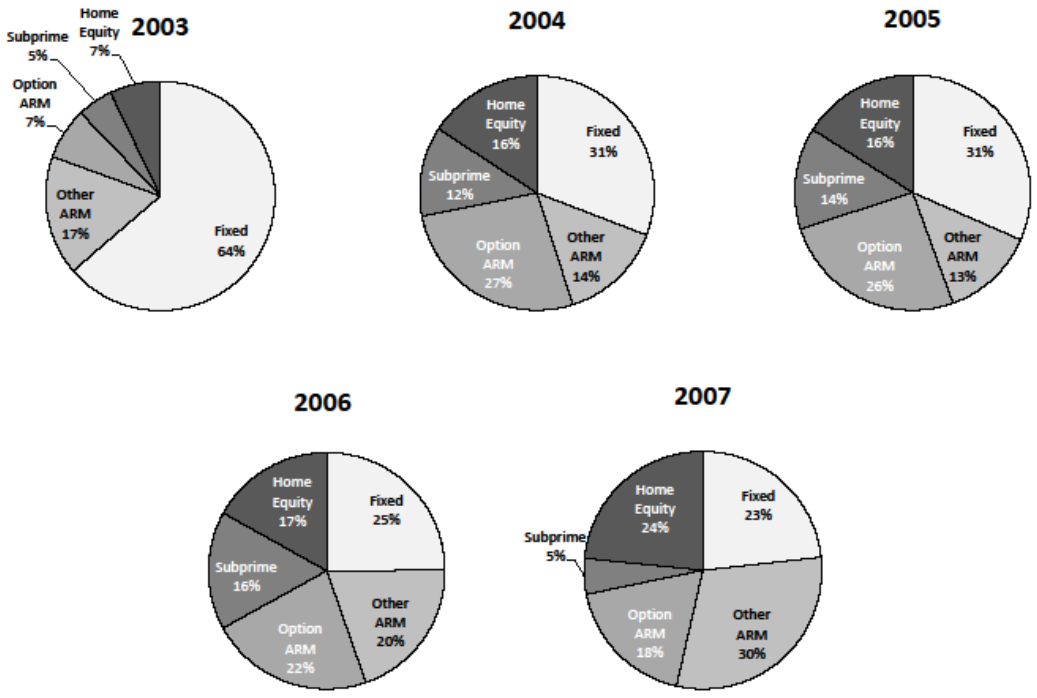
Washington Mutual's SEC filings contain loan origination and acquisition data showing that the bank did implement its High Risk Lending Strategy. Although rising defaults and the 2007 collapse of the subprime secondary market prevented WaMu from fully executing its plans, WaMu dramatically shifted the composition of the loans it originated and purchased, nearly

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[179] See 3/13/2006 OTS Report of Examination, at OTSWMS06-008 0001677, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[180] April 13, 2010 Subcommittee Hearing at 88.

doubling the percentage of higher risk home loans from 36% to 67%. The following chart, prepared by the Subcommittee using data from WaMu's SEC filings, demonstrates the shift.[181]

WAMU PRODUCT ORIGINATIONS AND PURCHASES BY PERCENTAGE - 2003-2007



Source: Washington Mutual Inc. SEC Filings, 2003-2007. Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

In 2003, 64% of WaMu's mortgage originations and purchases were fixed rate loans, and only 19% were subprime, Option ARM, or home equity loans. In 2004, 31% of WaMu's mortgage originations and purchases were fixed rate loans, and 55% were subprime, Option ARM, or home equity loans. In 2005, 31% of WaMu's mortgage originations and purchases were fixed rate loans, and 56% were subprime, Option ARM, or equity loans. By 2006, only 25% of WaMu's mortgage originations and purchases were fixed rate loans, and 55% were subprime, Option ARM, or home equity loans.[182] Even after market forces began taking their toll in 2007, and WaMu ended all subprime lending in the fall of that year, its higher risk originations and purchases at 47% were double its fixed rate loans at 23%.[183]

[181] 4/2010 "WaMu Product Originations and Purchases by Percentage – 2003-2007," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1i.
[182] Id.
[183] Id.

Mr. Killinger's annual "Strategic Direction" memoranda to the Board in 2005, 2006, and 2007, also contradict his testimony that the strategy of expanding high risk lending was put on hold. On the first page of his 2005 memorandum, Mr. Killinger wrote: "We continue to see excellent long-term growth opportunities for our key business lines of retail banking, mortgage banking, multi-family lending and sub-prime residential lending."[184] Rather than hold back on WaMu's stated strategy of risk expansion, Mr. Killinger told the Board that WaMu should accelerate it:

> "In order to reduce the impact of interest rate changes on our business, we have accelerated development of Alt-A, government and sub-prime loan products, as well as hybrid ARMs and other prime products, specifically for delivery through retail, wholesale and correspondent channels."[185]

The 2005 strategic direction memorandum also targeted Long Beach for expansion:

> "Long Beach is expected to originate $30 billion of loans this year, growing to $36 billion in 2006. To facilitate this growth, we plan to increase account managers by 100. We expect Long Beach to have 5% of the sub-prime market in 2005, growing to [a] 6% share in 2006."[186]

Despite warning against unsustainable housing prices in March 2005, Mr. Killinger's 2006 "Strategic Direction" memorandum to the Board put even more emphasis on growth than the 2005 memorandum. After reviewing the financial targets set in the five-year plan adopted in 2004, Mr. Killinger wrote: "To achieve these targets, we developed aggressive business plans around the themes of growth, productivity, innovation, risk management and people development."[187] His memorandum expressed no hesitation or qualification as to whether the high risk home lending strategy was still operative in 2006. The memorandum stated:

> "Finally, our Home Loan Group should complete its repositioning within the next twelve months and it should then be in position to grow its market share of Option ARM, home equity, sub prime and Alt. A loans. We should be able to increase our share of these categories to over 10%."[188]

Contrary to Mr. Killinger's hearing testimony, the 2006 memorandum indicates an expansion of WaMu's high risk home lending, rather than any curtailment:

> "We are refining our home loans business model to significantly curtail low margin Government and conventional fixed rate originations and servicing, and to significantly

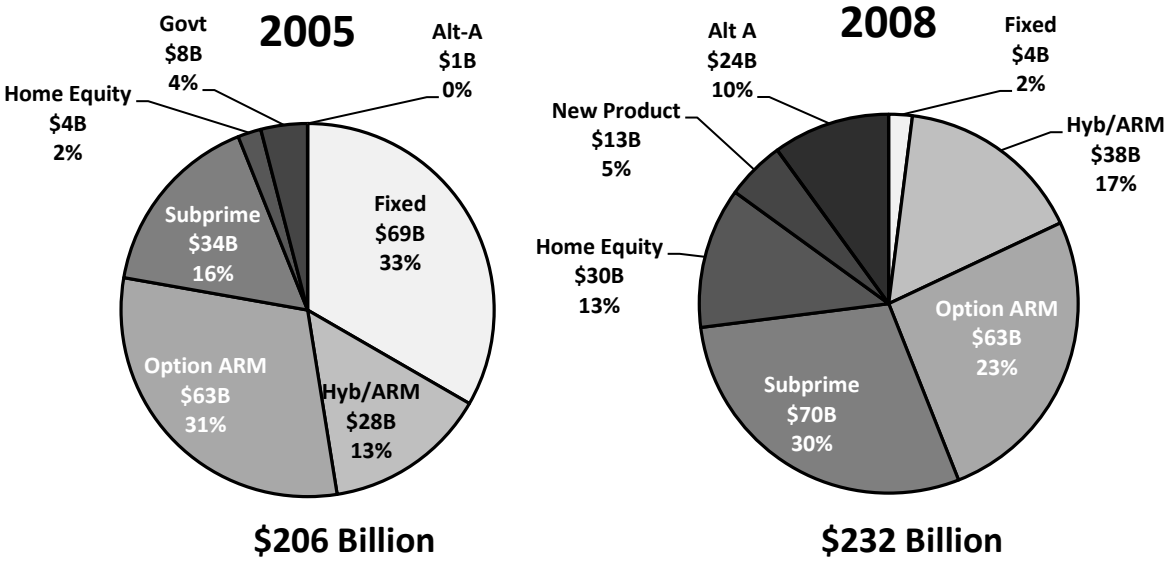
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[184] 6/1/2005 Washington Mutual memorandum from Kerry Killinger to the Board of Directors, "Strategic Direction," JPMC/WM - 0636-49 at 36, Hearing Exhibit 4/13-6c.
[185] Id. at 644.
[186] Id. at 646.
[187] 6/6/2006 Washington Mutual memorandum from Kerry Killinger to the Board of Directors, "Strategic Direction," JPM_00808312-324 at 314, Hearing Exhibit 4/13-6d.
[188] Id. at 315 [emphasis in original removed].

increase our origination and servicing of high margin home equity, Alt. A, sub prime and option ARMs. Action steps include merging Longbeach sub prime and the prime business under common management, merging correspondent activities into our correspondent channel, getting out of Government lending, curtailing conventional fixed rate production, expanding distribution of targeted high margin products through all distribution channels and potentially selling MSRs [Mortgage Servicing Rights] of low margin products. We expect these actions to result in significantly higher profitability and lower volatility over time."[189]

The April 16, 2006 "Home Loans Discussion" presentation by Home Loans President David Schneider, discussed above, also confirms WaMu's ongoing efforts to shift its loan business toward high risk lending. Page four of that presentation, entitled, "Shift to Higher Margin Products," shows two pie charts under the heading, "WaMu Volume by Product."[190] One chart depicts loan volume for 2005, and the second chart depicts projected loan volume for 2008:

WaMu Volume By Product
$ In Billions[191]



These charts demonstrate WaMu's intention to increase its loan originations over three years by almost $30 billion, focusing on increases in high risk loan products. Subprime originations, for example, were expected to grow from $34 billion in 2005 to $70 billion in 2008; Alt A originations were projected to grow from $1 billion in 2005 to $24 billion in 2008; and

[189] Id. at 319.
[190] 4/18/2006 "Home Loans Discussion Board of Directors Meeting," WaMu PowerPoint presentation, JPM_WM00690890-901 at 894, Hearing Exhibit 4/13-3.
[191] Id. [formatted for clarity].

Home Equity originations were projected to grow from $4 billion in 2005 to $30 billion in 2008. On the other hand, WaMu's low risk originations were expected to be curtailed dramatically. Government backed loan originations, which totaled $8 billion in 2005, were projected to be eliminated by 2008. Fixed rate loan originations were projected to decline from $69 billion in 2005 to $4 billion in 2008.

The 2007 "Strategic Direction" memorandum to the Board is dated June 18, 2007, well after U.S. housing prices had begun to decline, as Mr. Killinger acknowledged:

> "For the past two years, we have been predicting the bursting of the housing bubble and the likelihood of a slowing housing market. This scenario has now turned into a reality. Housing prices are declining in many areas of the country and sales are rapidly slowing. This is leading to an increase in delinquencies and loan losses. The sub-prime market was especially rocked as many sub-prime borrowers bought houses at the peak of the cycle and now find their houses are worth less and they are having difficulties refinancing their initial low-rate loans."[192]

While the memorandum's section on home loan strategy no longer focused on overall growth, it continued to push the shift to high risk lending, despite problems in the subprime market:

> "Home Loans is a large and important business, but at this point in the cycle, it is unprofitable. The key strategy for 2008 is to execute on the revised strategy adopted in 2006. … We need to optimize the sub-prime and prime distribution channels with particular emphasis on growing the retail banking, home loan center and consumer direct channels. We also expect to portfolio more of Home Loans' originations in 2008, including the new Mortgage Plus product. We will continue to emphasize higher-risk adjusted return products such as home equity, sub-prime first mortgages, Alt A mortgages and proprietary products such as Mortgage Plus."[193]

The testimony of other WaMu executives further confirms the bank's implementation of its High Risk Lending Strategy. Ronald Cathcart, who joined WaMu in 2006, to become the company's Chief Risk Officer, testified:

> "The company's strategic plan to shift its portfolios towards higher margin products was already underway when I arrived at WaMu. Basically, this strategy involved moving away from traditional mortgage lending into alternative lending programs involving adjustable-rate mortgages as well as into subprime products. The strategic shift to

[192] 6/18/2007 Washington Mutual memorandum from Kerry Killinger to the Board of Directors, "Strategic Direction," JPM_WM03227058-67 at 60, Hearing Exhibit 4/13-6a.

[193] Id. at 66 [emphasis in original removed]. See also 1/2007 Washington Mutual presentation, "Subprime Mortgage Program," JPM_WM02551400, Hearing Exhibit 4/13-5 (informing potential investors in its subprime RMBS securities that: "WaMu is focusing on higher margin products").

> higher-margin products resulted in the bank taking on a higher degree of credit risk because there was a greater chance that borrowers would default."[194]

Likewise, Steven Rotella, WaMu's President and Chief Operating Officer, who began with the bank in January 2005, testified before the Subcommittee:

> "In particular, I want to be very clear on the topic of high-risk lending, this Subcommittee's focus today. High-risk mortgage lending in WaMu's case, primarily Option ARMs and subprime loans through Long Beach Mortgage, a subsidiary of WaMu, were expanded and accelerated at explosive rates starting in the early 2000s, prior to my hiring in 2005…. In 2004 alone, the year before I joined, Option ARMs were up 124 [percent], and subprime lending was up 52 percent."[195]

In his testimony, Mr. Rotella took credit for curtailing WaMu's growth and high risk lending.[196] Mr. Rotella's own emails, however, show that he supported the High Risk Lending Strategy. On October 15, 2005, Mr. Rotella emailed Mr. Killinger about WaMu's 2006 strategic plan: "I think our focus needs to be on organic growth of home eq, and subprime, and greater utilization of [the Home Loans division] as we know it today to facilitate that at lower acquisition costs and greater efficiency."[197]

Mr. Killinger replied by email the next day: "Regarding Longbeach, I think there is a good opportunity to be a low cost provider and gain significant share when the industry implodes."[198] Responding to Mr. Rotella's ideas about the Home Loans division, Mr. Killinger wrote: "It makes sense to leverage the home loans distribution channels with home equity, sub prime, and alt. A."[199] In this late 2005 email exchange, WaMu's two senior-most executives contemplate reducing prime lending, not subprime. Mr. Killinger wrote: "If we can't make a shift in our business model, we might be better off exiting the prime space."[200]

Mr. Rotella replied to Mr. Killinger's email later on October 16, 2005. He continued to emphasize the importance of focusing on high risk lending, referring to his previous experience as a mortgage banker at JPMorgan Chase:

> "We did these kinds of analyses all the time at Chase which led us to run as fast as we could into home eq, alt a, subprime (our investment banking brethren stopped us from going too far here). We viewed prime as a source of scale benefits in servicing for the other areas and a conduit of higher margin product and aimed to hold our prime servicing

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[194] April 13, 2010 Subcommittee Hearing at 18-19.
[195] Id. at 83.
[196] See id., e.g., at 83-84.
[197] 10/15/2005-10/16/2005 email from Steve Rotella to Kerry Killinger, JPM_WM00665373-75.
[198] Id. at JPM_WM00665374.
[199] Id.
[200] Id.

> flat to down. I feel strongly that where we need to land is a new home loan unit that includes prime, heq, and subprime. It is a far superior model."[201]

In July 2008, just two months before the collapse of WaMu, Home Loans President David Schneider prepared an internal presentation entitled, "Home Loans Story, External & Internal Views."[202] The presentation was retrospective, providing timelines of WaMu's major strategy, policy, and personnel changes. The first substantive page of the presentation bears the heading, "Three fundamental business shifts occurred in Home Loans this millennium which shaped its performance and position in a volatile competitive landscape":

> **"2001 to 2005**
> 'Mono-line' business model focused on generating high volume of low-margin, prime products ….
>
> **2006**
> Targeted production franchise toward higher margin products to become a market leader in specific product segments….
>
> **2007 & Beyond**
> Subprime mortgage implosion fuels credit and liquidity crisis and the non-agency secondary market disappears[.]"

Mr. Scheider's retrospective presentation of the changes that occurred at WaMu is unambiguous: by 2006, WaMu had "targeted production franchise toward higher margin products."[203] According to the same presentation, that model change also lowered earnings volatility for WaMu by lessening exposure to Mortgage Servicing Rights.[204] Later slides provide more detail. A quarterly timeline is presented with the heading: "In an environment of internal and external large-scale change, Home Loans took bold actions to redefine its business into a sustainable model." In the strategy section for the second quarter of 2006, Mr. Schneider wrote: "New business model, high margin products."[205]

Despite warnings by some within its management about the unsustainable housing price bubble, WaMu pursued a High Risk Lending Strategy to generate short term profits from the favorable gain-on-sale margins offered by Wall Street for high risk loans and securitizations, for which the credit rating agencies continued to award AAA ratings. To succeed, the strategy was premised upon borrowers being able to refinance or sell their homes to pay off their loans in the event of a default. Stagnant or declining house prices made refinancing and home sales more difficult.

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[201] Id. at JPM_WM00665373.
[202] 7/2008 "Home Loans Story, External & Internal Views," Washington Mutual PowerPoint presentation, Hearing Exhibit 4/13-80.
[203] Id. at 1.
[204] Id.
[205] Id. at 4.

Effective implementation of the High Risk Lending Strategy also required robust risk management. But while WaMu was incurring significantly more credit risk than it had in the past, risk managers were marginalized, undermined, and subordinated to WaMu's business units. As a result, when credit risk management was most needed, WaMu found itself lacking in effective risk management and oversight.

D. Shoddy Lending Practices

At the same time they increased their higher risk lending, WaMu and Long Beach engaged in a host of poor lending practices that produced billions of dollars in poor quality loans. Those practices included offering high risk borrowers large loans; steering borrowers to higher risk loans; accepting loan applications without verifying the borrower's income; using loans with low teaser rates to entice borrowers to take out larger loans; promoting negative amortization loans which led to many borrowers increasing rather than paying down their debt over time; and authorizing loans with multiple layers of risk. WaMu and Long Beach also exercised weak oversight over their loan personnel and third party mortgage brokers, and tolerated the issuance of loans with fraudulent or erroneous borrower information.

(1) Long Beach

Throughout the period reviewed by the Subcommittee, from 2004 until its demise in September 2007, Long Beach was plagued with problems. Long Beach was one of the largest subprime lenders in the United States,[206] but it did not have any of its own loan officers. Long Beach operated exclusively as a "wholesale lender," meaning all of the loans it issued were obtained from third party mortgage brokers who had brought loans to the company to be financed. Long Beach "account executives" solicited and originated the mortgages that were initiated by mortgage brokers working directly with borrowers. Long Beach account executives were paid according to the volume of loans they originated, with little heed paid to loan quality.

Throughout the period reviewed by the Subcommittee, Long Beach's subprime home loans and mortgage backed securities were among the worst performing in the subprime industry. Its loans repeatedly experienced early payment defaults, its securities had among the highest delinquencies in the market, and its unexpected losses and repurchase demands damaged its parent corporation's financial results. Internal documentation from WaMu shows that senior management at the bank was fully aware of Long Beach's shoddy lending practices, but failed to correct them.

2003 Halt in Securitizations. For a brief period in 2003, Long Beach was required by WaMu lawyers to stop all securitizations until significant performance problems were remedied. While the problems were addressed and securitizations later resumed, many of the issues returned and lingered for several years.

[206] See 1/2007 Washington Mutual Presentation, "Subprime Mortgage Program," Hearing Exhibit 4/13-5 (slide showing Long Beach Annual Origination Volume).

The problems with Long Beach's loans and securitizations predated the company's purchase by WaMu in 1999, but continued after the purchase. An internal email at WaMu's primary federal regulator, the Office of Thrift Supervision (OTS), observed the following with respect to Long Beach's mortgage backed securities:

> "Performance data for 2003 and 2004 vintages appear to approximate industry average while issues prior to 2003 have horrible performance. LBMC finished in the top 12 worst annualized NCLs [net credit losses] in 1997 and 1999 thru 2003. LBMC nailed down the worst spot at top loser… in 2000 and placed 3rd in 2001."[207]

In 2003, Long Beach's performance deteriorated to the point that WaMu's legal department put a stop to all Long Beach securitizations until the company improved its operations.[208] An internal review of Long Beach's first quarter 2003 lending "concluded that 40% (109 of 271) of loans reviewed were considered unacceptable due to one or more critical errors."[209] According to a 2003 joint report issued by regulators from the FDIC and Washington State: "This raised concerns over LBMC's ability to meet the representations and warranty's made to facilitate sales of loan securitizations, and management halted securitization activity."[210] A Long Beach corporate credit review in August 2003 confirmed that "credit management and portfolio oversight practices were unsatisfactory."[211]

As a result of the halt in securitizations, Long Beach had to hold loans on its warehouse balance sheet, which increased by approximately $1 billion per month and reached nearly $5 billion by the end of November 2003. Long Beach had to borrow money from WaMu and other creditors to finance the surge.[212] The joint visitation report noted that unless Long Beach executed a $3 billion securitization by January 2004, "liquidity will be strained."[213] WaMu initiated a review of Long Beach led by its General Counsel Faye Chapman.[214] Her team evaluated the loans that had accumulated during the halt in securitizations. The joint visitation report noted that of 4,000 Long Beach loans reviewed by WaMu by the end of November 2003, less than one quarter, about 950, could be sold to investors, another 800 were unsaleable, and the rest—over half of the loans—had deficiencies that had to be remediated before a sale could take place.[215]

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[207] 4/2005 OTS internal email, Hearing Exhibit 4/13-8(a).
[208] Subcommittee interview of Faye Chapman, WaMu General Counsel (2/9/2010). See also 12/21/2005 OTS memorandum, "Long Beach Mortgage Corporation (LBMC)," OTSWMS06-007 0001010, Hearing Exhibit 4/16-31.
[209] 1/13/2004 report on "Joint Visitation Dated October 14, 2003," jointly prepared by the FDIC and the State of Washington Department of Financial Institutions, FDIC-E_00102515, at 3, Hearing Exhibit 4/13-8b (citing a Long Beach quality assurance report).
[210] Id.
[211] Id. (citing a Long Beach Corporate Credit Review report).
[212] Id.
[213] Id.
[214] Subcommittee interview of Fay Chapman (2/9/2010).
[215] 1/13/2004 report on "Joint Visitation Dated October 14, 2003," jointly prepared by the FDIC and the State of Washington Department of Financial Institutions, FDIC-E_00102515, at 3, Hearing Exhibit 4/13-8b.

After a short hiatus, WaMu allowed Long Beach to resume securitizing subprime loans in 2004.[216] An internal WaMu memorandum, later prepared by a WaMu risk officer who had been asked to review Long Beach in 2004, recalled significant problems:

> "You've asked for a chronological recap of ERM [Enterprise Risk Management] market risk involvement with Longbeach and the sub prime conduit. … [In] 2004: I conducted an informal but fairly intensive market risk audit of Longbeach …. The climate was very adversarial. … We found a total mess."[217]

A November 2004 email exchange between two WaMu risk officers provides a sense that poor quality loans were still a problem. The first WaMu risk officer wrote:

> "Just a heads-up that you may be getting some outreach from Carroll Moseley (or perhaps someone higher up in the chain) at Long Beach regarding their interest in exploring the transfer of … a small amount (maybe $10-20mm in UPB [unpaid principal balance]) of Piggieback 'seconds' (our favorite toxic combo of low FICO borrower and HLTV loan) from HFS [hold for sale portfolio] to HFI [hold for investment portfolio].
>
> "As Carroll described the situation, these are of such dubious credit quality that they can't possibly be sold for anything close to their 'value' if we held on to them. … I urged him to reach out to you directly on these questions. (E.g., it's entirely possible we might want to make a business decision to keep a small amount of this crap on our books if it was already written down to near zero, but we would want all parties to be clear that no precedent was being set for the product as a whole, etc., etc.)."[218]

The second risk officer sent the email to the head of Long Beach, with the comment, "I think it would be prudent for us to just sell all of these loans."

2005 Early Payment Defaults. Early in 2005, a number of Long Beach loans experienced "early payment defaults," meaning that the borrower failed to make a payment on the loan within three months of the loan being sold to investors. That a loan would default so soon after origination typically indicates that there was a problem in the underwriting process. Investors who bought EPD loans often demanded that Long Beach repurchase them, invoking the representations and warranties clause in the loan sales agreements.

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[216] Subcommittee interview of Fay Chapman (2/9/2010). See also 12/21/2005 OTS memorandum, "Long Beach Mortgage Corporation (LBMC)," OTSWMS06-007 0001010, Hearing Exhibit 4/16-31 ("In 2003, adverse internal reviews of LBMC operations led to a decision to temporarily cease securitization activity. WMU's Legal Department then led a special review of all loans in LBMC's pipeline and held-for-sale warehouse in order to ensure file documentation adequately supported securitization representations and warranties and that WMI was not exposed to a potentially significant contingent liability. Securitization activity was reinstated in early 2004 after the Legal Department concluded there was not a significant liability issue.").

[217] Undated memorandum from Dave Griffith to Michelle McCarthy, "Sub Prime Chronology," likely prepared in early 2007, JPM_WM02095572.

[218] 11/24/2004 email from Michael Smith to Mark Hillis and others, "LBMC Transfer of Piggiebacks from HFS to HFI," JPM_WM01407692.

To analyze what happened, WaMu conducted a "post mortem" review of 213 Long Beach loans that experienced first payment defaults in March, April, and May of 2005.[219] The review found that many early defaults were not only preventable, but that in some instances fraud should have been easily detected from the presence of "White Out" on an application or a borrower having two different signatures:

> "First Payment Defaults (FPD's) are preventable and / or detectable in nearly all cases (~99%)[.] Most FPD cases (60%) are failure of current control effectiveness[.] … High incident rate of potential fraud among FPD cases[.] … All roles in the origination process need to sharpen watch for misrepresentation and fraud[.] … Underwriting guidelines are not consistently followed and conditions are not consistently or effectively met[.] … Underwriters are not consistently recognizing non-arm's length transactions and/or underwriting associated risk effectively[.] … Credit Policy does not adequately address certain key risk elements in layered high risk transactions[.] …
>
> "66% of reviewed FPD cases had significant variances in the file[.] … Stated Income should be reviewed more closely ([fraud] incidence rate of 35%) …. Signatures should be checked – 14% Borrowers signature vary[.] Altered documents are usually detectable –5% White-out on documentation[.] … 92% of the Purchases reviewed are 100% CLTV [combined loan-to-value][.] … 52% are Stated Income."[220]

A subsequent review conducted by WaMu's General Auditor of the "root causes" of the Long Beach loans with early payment defaults pointed not only to lax lending standards and a lack of fraud controls, but also to "a push to increase loan volume":

> "In 2004, LBMC [Long Beach] relaxed underwriting guidelines and executed loan sales with provisions fundamentally different from previous securitizations. These changes, coupled with breakdowns in manual underwriting processes, were the primary drivers for the increase in repurchase volume. The shift to whole loan sales, including the EPD provision, brought to the surface the impact of relaxed credit guidelines, breakdowns in manual underwriting processes, and inexperienced subprime personnel. These factors, coupled with a push to increase loan volume and the lack of an automated fraud monitoring tool, exacerbated the deterioration in loan quality."[221]

Due to the early payment defaults, Long Beach was forced to repurchase loans totaling nearly $837 million in unpaid principal, and incurred a net loss of about $107 million.[222] This

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[219] 11/1/2005 "LBMC Post Mortem – Early Findings Read Out," prepared by WaMu, JPM_WM03737297, Hearing Exhibit 4/13-9.
[220] Id.
[221] 4/17/2006 WaMu memorandum to the Washington Mutual Inc. and WaMu Board of Directors' Audit Committee, "Long Beach Mortgage Company - Repurchase Reserve Root Cause Analysis," prepared by WaMu General Auditor, JPM_WM02533760-61, Hearing Exhibit 4/13-10.
[222] Id. (Long Beach "experienced a dramatic increase in EPD's [early payment defaults], during the third quarter of 2005 [which] … led to a large volume of required loan repurchases. The unpaid principal balance repurchased as a

loss overwhelmed Long Beach's repurchase reserves, leading to a reserve shortfall of nearly $75 million.[223] Due to its insufficient loss reserves, its outside auditor, Deloitte and Touche, cited Long Beach for a serious deficiency in its financial reporting.[224] These unexpected repurchases were significant enough that Washington Mutual Inc., Long Beach's parent company, made special mention of them in its 2005 10-K filing:

> "In 2004 and 2005, the Company's Long Beach Mortgage Company subsidiary engaged in whole loan sale transactions of originated subprime loans in which it agreed to repurchase from the investor each 'early payment default' loan at a price equal to the loan's face value plus the amount of any premium paid by the investor. An early payment default occurs when the borrower fails to make the first post-sale payment due on the loan by a contractually specified date. Usually when such an event occurs, the fair value of the loan at the time of its repurchase is lower than the face value. In the fourth quarter of 2005, the Company experienced increased incidents of repurchases of early payment default loans sold by Long Beach Mortgage Company and this trend is expected to continue in the first part of 2006.[225]

In addition to the early payment default problem, a September 2005 WaMu audit observed that at Long Beach, policies designed to mitigate the risk of predatory lending practices were not always followed. The audit report stated: "In 24 of 27 (88%) of the refinance transactions reviewed, policies established to preclude origination of loans providing no net tangible benefit to the borrower were not followed."[226] In addition, in 8 out of 10 of the newly issued refinance loans that WaMu reviewed, Long Beach had not followed procedures designed to detect "loan flipping," an industry term used to describe the practice of unscrupulous brokers or lenders quickly or repeatedly refinancing a borrower's loan to reap fees and profits but provide no benefit to the borrower.[227]

2006 Purchase of Long Beach. In response to all the problems at Long Beach, at the end of 2005, WaMu fired Long Beach's senior management and moved the company under the direct supervision of the President of WaMu's Home Loans Division, David Schneider.[228] Washington Mutual promised its regulator, OTS, that Long Beach would improve.[229] The bank also filed a formal application, requiring OTS approval, to purchase Long Beach from its parent company, so that it would become a wholly owned subsidiary of the bank.[230] WaMu told OTS that making Long Beach a subsidiary would give the bank greater control over Long Beach's

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result of the EPD provision for the year ended December 31, 2005 was $837.3 million. The net loss from these repurchases was approximately $107 million.").

[223] Id.

[224] Id.

[225] Washington Mutual Inc. 2005 10-K filing with the SEC.

[226] 9/21/2005 WaMu audit of Long Beach, JPM_WM04656627.

[227] Id.

[228] Subcommittee interview of David Schneider (2/17/2010).

[229] See, e.g., 12/21/2005 OTS memorandum, "Long Beach Mortgage Corporation (LBMC)," OTSWMS06-007 0001009, Hearing Exhibit 4/16-31.

[230] Id. at OTSWMS06-007 0001009 (stating WaMu filed a 12/12/2005 application to acquire Long Beach).

operations and allow it to strengthen Long Beach's lending practices and risk management, as well as reduce funding costs and administrative expenses.[231] In addition, WaMu proposed that it replace its current "Specialty Mortgage Finance" program, which involved purchasing subprime loans for its portfolio primarily from Ameriquest, with a similar loan portfolio provided by Long Beach.[232] OTS had expressed a number of concerns about Long Beach in connection with the purchase request,[233] but in December 2005, after obtaining commitments from WaMu to strengthen Long Beach's lending and risk management practices, OTS agreed to the purchase.[234] The actual purchase date was March 1, 2006.[235]

Immediately after the purchase in April 2006, after reviewing Long Beach's operations, WaMu President Rotella sent an email to WaMu CEO Killinger warning about the extent of the problems: "[D]elinquencies are up 140% and foreclosures close to 70%. … First payment defaults are way up and the 2005 vintage is way up relative to previous years. It is ugly."[236] Mr. Rotella, however, expressed hope that operations would improve:

> "Early changes by the new team from HL [Home Loans], who have deep subprime experience, indicate a solid opportunity to mitigate some of this. I would expect to see this emerge in 3 to 6 months. That said, much of the paper we originated in the 05 growth spurt was low quality. … I have the utmost confidence in the team overseeing this now and no doubt this unit will be more productive and better controlled, but I figured you should know this is not a pretty picture right now. We are all over it, but as we saw with repurchases, there was a lot of junk coming in."

Despite the new management and direct oversight by WaMu's Home Loans Division, Long Beach continued to perform poorly. Five months later, expected improvements had not materialized. In September 2006, Mr. Rotella sent another email to Mr. Killinger stating that Long Beach was still "terrible":

> "[Long Beach] is terrible, in fact negative right now. … We are being killed by the lingering movement of EPDs [early payment defaults] and other credit related issues …. [W]e are cleaning up a mess. Repurchases, EPDs, manual underwriting, very weak servicing/collections practices and a weak staff. Other than that, well you get the picture."[237]

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[231] Id. at OTSWMS06-007 0001010.
[232] Id. at OTSWMS06-007 0001011.
[233] See, e.g., 6/3/2005 OTS internal memorandum by OTS examiner to OTS Deputy Regional Director, at OTSWMS06-007 0002683, Hearing Exhibit 4/16-28.
[234] See 12/21/2005 OTS memorandum, "Long Beach Mortgage Corporation (LBMC)," OTSWMS06-007 0001009, Hearing Exhibit 4/16-31.
[235] "Washington Mutual Regulators Timeline," chart prepared by the Subcommittee, Hearing Exhibit 4/16-1j.
[236] 4/27/2006 email from Steve Rotella to Kerry Killinger, JPM_WM05380911, Hearing Exhibit 4/13-11.
[237] 9/14/2006 WaMu internal email, Hearing Exhibit 4/13-12.

Again, he expressed hope that the situation would improve: "The good news is David and his team are pros and are all over it."[238] Two months later, in November 2006, however, the head of WaMu Capital Markets in New York, David Beck, relayed even more bad news to Mr. Schneider, the Home Loans President: "LBMC [Long Beach] paper is among the worst performing in the mkt [market] in 2006."[239]

Despite the additional focus on improving its lending operations throughout 2006, Long Beach was once again flooded with repurchase requests. According to a memorandum later written by an FDIC examination specialist, "[d]uring 2006, more than 5,200 LBMC loans were repurchased, totaling $875.3 million."[240] Even though, in January 2006, the bank had ceased executing whole loan sales which allowed an automatic repurchase in the event of an EPD, 46% of the repurchase volume was as a result of EPDs. Further, 43% of the repurchase volume resulted from first payment defaults (FPDs) in which the borrower missed making the first payment on the loan after it was sold.[241] Another 10% of the repurchases resulted from violations related to representation and warranties (R&W) not included in the EPD or FPD numbers, meaning the violations were identified only later in the life of the loan.

R&W repurchases generally pose a challenge for a bank's loss reserves, because the potential liability—the repurchase request—continues for the life of the loan. The FDIC memorandum observed:

> "Management claims that R&W provisions are industry standard and indeed they may be. However, I still found that the Mortgage Loan Purchase Agreement contains some representations and warranties worth noting. For example, not only must the loans be 'underwritten in accordance with the seller's underwriting guideline,' but the 'origination, underwriting, and collection practices used by the seller with respect to each mortgage loan have been in all material respects legal, proper, prudent, and customary in the subprime mortgage business.' This provision elevates the potential that investors can put back a problem loan years after origination and not only must the loan have been underwritten in line with bank guidelines but must also have been underwritten in accordance with what is customary with other subprime lenders."[242]

R&W repurchase requests and loss reserves continued to be an issue at Long Beach. The fourth quarter of 2006 saw another spike in R&W repurchase requests, and in December the required amount of R&W loss reserves jumped from $18 million to $76 million.[243]

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[238] Id.
[239] 11/7/2006 WaMu internal email, Hearing Exhibit 4/13-50.
[240] See 6/5/2007 memorandum by Christopher Hovik, Examination Specialist, sent to FDIC Dedicated Examiner Steve Funaro, "WaMu – Long Beach Mortgage Company (LMC) Repurchases," at 1, FDIC_WAMU_000012348, Hearing Exhibit 4/13-13b.
[241] Id.
[242] Id.
[243] Id. at 3.

On December 22, 2006, the FDIC Dedicated Examiner at WaMu, Steve Funaro, sent an email to Mr. Schneider, the Home Loans President, raising questions about the unexpected loan defaults and repurchase demands. He wrote that Long Beach had the "[s]ame issues as FPD last quarter … Current forecast of 35 to 50m [million] risk." His email also noted potentially insufficient loss reserves related to WaMu's own subprime conduit that purchased subprime loans from other lenders and mortgage brokers, some of which were going out of business and would be unable to shoulder any liability for defaulting loans. His email noted forecasts of early payment defaults totaling $15.6 million and loan delinquencies totaling $10.7 million, in addition to other problems, and asked: "Why the miss? … Who is accountable?"[244]

Mr. Schneider forwarded the email to his team and expressed frustration at Long Beach's continuing problems:

> "Short story is this is not good. … There is [a] growing potential issue around Long Beach repurchases …. [W]e have a large potential risk from what appears to be a recent increase in repurchase requests. … We are all rapidly losing credibility as a management team."[245]

Performance in 2007 Worsens. The following year, 2007, was no better as the performance of WaMu's loan portfolio continued to deteriorate. WaMu's chief risk officer, Ron Cathcart, asked WaMu's Corporate Credit Review team to assess the quality of Long Beach loans and RMBS securities in light of the slowdown and decline in home prices in some areas.[246] In January 2007, he forwarded an email with the results of the review, which identified "key risk issues" related to recent loans and described deteriorating loan performance at Long Beach. The "top five priority issues" were:

> "Appraisal deficiencies that could impact value and were not addressed[;]
> Material misrepresentations relating to credit evaluation were confirmed[;]
> Legal documents were missing or contained errors or discrepancies[;]
> Credit evaluation or loan decision errors[; and]
> Required credit documentation was insufficient or missing from the file."[247]

The review also found: "[D]eterioration was accelerating in recent vintages with each vintage since 2002 having performed worse than the prior vintage." Mr. Cathcart also expressed concern that problems were not being reported to senior management. He wrote: "Long Beach represents a real problem for WaMu. … I am concerned that Credit Review may seem to have been standing on the sidelines while problems continue. For instance, why have Cathcart, Schneider, Rotella and Killinger received NO report on any of this?"[248]

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[244] 12/22/2006 email from Steve Funaro to David Schneider, Hearing Exhibit 4/13-13a.
[245] 12/2006 WaMu internal email, Hearing Exhibit 4/13-13a.
[246] 12/7/2006 email from Ron Cathcart to his colleagues, Hearing Exhibit 4/13-15.
[247] 1/2/2007 email from Ron Cathcart to Cory Gunderson, Hearing Exhibit 4/13-16.
[248] Id.

In February 2007, WaMu senior managers discussed "how best to dispose" of $433 million in Long Beach performing second lien loans, due to "disarray" in the securitization market.[249] David Beck, head of WaMu's Wall Street operation, wrote that securitizing the loans was "not a viable exit strategy" and noted:

> "Investors are suffering greater than expected losses from subprime in general as well as subprime 2nd lien transactions. As you know, they are challenging our underwriting representations and warrants. Long Beach was able to securitize 2nd liens once in 2006 in May. We sold the BBB- bonds to investors at Libor +260. To date, that transaction has already experienced 7% foreclosures."[250]

WaMu CEO Killinger complained privately to President Steve Rotella:

> "Is this basically saying that we are going to lose 15 [percent] on over $400 million of this product or 60 million. That is a pretty bad hit that reflects poorly on credit and others responsibility for buying this stuff. Is this showing up in hits to compensation or personnel changes."[251]

WaMu President Rotella responded:

> "This is second lien product originated 7-10 months ago from Long Beach. … In 2006 Beck's team started sprinkling seconds in deals as they could. And, we now have the % down to the low single digits, so that we can sell all into our deals (assuming the market doesn't get even worse)."

He continued: "In terms of folks losing their jobs, the people largely responsible for bringing us this stuff are gone, the senior management of LB."[252]

Also in February 2007, early payment defaults again ticked up. A review of the first quarter of 2007 found: "First payment defaults (FPDs) rose to 1.96% in March but are projected to fall back to 1.87% in April based on payments received through May 5th."[253] It also reported that the findings from a "deep dive into February FPDs revealed" that many of the problems could have been eliminated had existing guidelines been followed:

> "The root cause of over 70% of FPDs involved operational issues such as missed fraud flags, underwriting errors, and condition clearing errors. This finding indicates there may be opportunities to improve performance without further restricting underwriting guidelines."[254]

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[249] 2/2007 email chain among WaMu personnel, JPM_WM00673101-03, Hearing Exhibit 4/13-17.
[250] Id. at JPM_WM00673103.
[251] Id. at JPM_WM00673101.
[252] Id.
[253] "Quarterly Credit Risk Review SubPrime," prepared by WaMu Home Loans Risk Management (1st Quarter, 2007), Hearing Exhibit 4/13-18.
[254] Id.

In June 2007, WaMu decided to discontinue Long Beach as a separate entity, and instead placed its subprime lending operations in a new WaMu division called "Wholesale Specialty Lending." That division continued to purchase subprime loans and issue subprime securitizations.

Some months later, an internal WaMu review assessed "the effectiveness of the action plans developed and implemented by Home Loans to address" the first payment default problem in the Wholesale Specialty Lending division.[255] After reviewing 187 FPD loans from November 2006 through March 2007, the review found:

> "The overall system of credit risk management activities and process has major weaknesses resulting in unacceptable level of credit risk. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors."[256]

In particular, the review found:

> "Ineffectiveness of fraud detection tools – 132 of the 187 (71%) files were reviewed … for fraud. [The review] confirmed fraud on 115 [and 17 were] … 'highly suspect'. ... Credit weakness and underwriting deficiencies is a repeat finding …. 80 of the 112 (71%) stated income loans were identified for lack of reasonableness of income[.] 133 (71%) had credit evaluation or loan decision errors …. 58 (31%) had appraisal discrepancies or issues that raised concerns that the value was not supported."[257]

July 2007 was a critical moment not only for WaMu, but also for the broader market for mortgage securities. In that month, Moody's and S&P downgraded the ratings of hundreds of RMBS and CDO securities, including 40 Long Beach subprime securities.[258] The mass downgrades caused many investors to immediately stop buying subprime RMBS securities, and the securities plummeted in value. Wall Street firms were increasingly unable to find investors for new subprime RMBS securitizations.

In August 2007, WaMu's internal audit department released a lengthy audit report criticizing Long Beach's poor loan origination and underwriting practices.[259] By that time, Long Beach had been rebranded as WaMu's Wholesale Specialty Lending division, the subprime market had collapsed, and subprime loans were no longer marketable. The audit report nevertheless provided a detailed and negative review of its operations:

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[255] 9/28/2007 "Wholesale Specialty Lending-FPD," WaMu Corporate Credit Review, JPM_WM04013925, Hearing Exhibit 4/13-21.
[256] Id. at 2.
[257] Id. at 3.
[258] 7/10/2007-7/12/2007 excerpts from Standard & Poor's and Moody's Downgrades, Hearing Exhibit 4/23-99.
[259] 8/20/2007 "Long Beach Mortgage Loan Origination & Underwriting," WaMu audit report, JPM_WM02548939, Hearing Exhibit 4/13-19

> "[T]he overall system of risk management and internal controls has deficiencies related to multiple, critical origination and underwriting processes …. These deficiencies require immediate effective corrective action to limit continued exposure to losses. … Repeat Issue – Underwriting guidelines established to mitigate the risk of unsound underwriting decisions are not always followed …. Improvements in controls designed to ensure adherence to Exception Oversight Policy and Procedures is required …. [A]ccurate reporting and tracking of exceptions to policy does not exist."[260]

In response, Mr. Rotella wrote to WaMu's General Auditor: "This seems to me to be the ultimate in bayonetting the wounded, if not the dead."[261]

Subprime Lending Ends. In September 2007, with investors no longer interested in buying subprime loans or securitizations, WaMu shut down all of its subprime operations.[262] During the prior year, which was their peak, Long Beach and WaMu had securitized $29 billion in subprime loans; by 2007, due to the collapse of the subprime secondary market, WaMu's volume for the year dropped to $5.5 billion. Altogether, from 2000 to 2007, Long Beach and WaMu had securitized at least $77 billion in subprime loans.[263]

When asked about Long Beach at the Subcommittee's hearing, all of the WaMu former managers who testified remembered its operations as being problematic, and could not explain why WaMu failed to strengthen its operations. Mr. Vanasek, former Chief Risk Officer, testified that Long Beach did not have an effective risk management regime when he arrived at WaMu in 1999, and that it had not developed an effective risk management regime by the time he retired at the end of 2005.[264] Likewise, Mr. Cathcart, who replaced Mr. Vanasek as Chief Risk Officer, testified that Long Beach never developed effective risk management during the course of his tenure.[265]

At the April 13 Subcommittee hearing, Senator Levin asked Mr. Vanasek: "Is it fair to say that WaMu is not particularly worried about the risk associated with Long Beach subprime mortgages because it sold those loans and passed the risk on to investors?" Mr. Vanasek replied: "Yes, I would say that was a fair characterization."[266]

Home Loans President David Schneider, who had direct responsibility for addressing the problems at Long Beach, testified that he tried to improve Long Beach, but "ultimately decided … Long Beach was an operation that we should shut down."[267] WaMu President Steve Rotella also acknowledged the inability of WaMu management to resolve the problems at Long Beach:

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[260] Id. at JPM_WM02548940-41.
[261] 8/21/2007 email from Steve Rotella to Randy Melby, JPM_WM04859837, Hearing Exhibit 4/13-20.
[262] "Washington Mutual Regulators Timeline," chart prepared by the Subcommittee, Hearing Exhibit 4/16-1j.
[263] "Securitizations of Washington Mutual Subprime Home Loans," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1c.
[264] April 13, 2010 Subcommittee Hearing at 22.
[265] Id. at 22.
[266] Id. at 23.
[267] Id. at 55.

> "We did bring the volume in Long Beach down substantially every quarter starting in the first quarter of 2006. As we went through that process, it became increasingly clear, as I have indicated in here, that the problems in Long Beach were deep and the only way we could address those were to continue to cut back volume and ultimately shut it down."[268]

Community Impact. Long Beach's poor quality loans not only proved unprofitable for many investors, they were often devastating for the borrowers and their communities. Mr. Killinger testified at the Subcommittee hearing that WaMu, "entered the subprime business with our purchase of Long Beach Mortgage in 1999 to better serve an underserved market."[269] But the unfortunate result of many Long Beach loans was that they left communities reeling from widespread foreclosures and lost homes.

In November 2008, the Office of the Comptroller of the Currency (OCC) which oversees all nationally chartered banks, identified the ten metropolitan areas across the United States with the highest rates of foreclosure for subprime and Alt A mortgages originated from 2005 through 2007.[270] Those ten areas were, in order: Detroit, Cleveland, Stockton, Sacramento, Riverside/San Bernardino, Memphis, Miami/Fort Lauderdale, Bakersfield, Denver, and Las Vegas. The OCC then identified the lenders with the highest foreclosure rates in each of those devastated cities. Long Beach had the worst foreclosure rate in four of those areas, and was near the worst in five more, with the lone exception being Las Vegas. The OCC data also showed that, overall in the ten metropolitan areas, Long Beach mortgages had the second worst foreclosure rate of all the lenders reviewed, with over 11,700 foreclosures at the time of the report. Only New Century was worse.

(2) WaMu Retail Lending

Washington Mutual's problems were not confined to its subprime operations; they also affected its retail operations. WaMu loosened underwriting standards as part of its High Risk Lending Strategy, and received repeated criticisms from its regulators, as outlined in the next chapter, for weak underwriting standards, risk layering, excessive loan error and exception rates, appraisal problems, and loan fraud. In August of 2007, more than a year before the collapse of the bank, WaMu's President Steve Rotella emailed CEO Kerry Killinger saying that, aside from Long Beach, WaMu's prime home loan business "was the worst managed business I had seen in my career."[271]

(a) Inadequate Systems and Weak Oversight

One reason for WaMu's poor lending practices was its failure to adequately monitor the hundreds of billions of dollars of residential loans being issued each year by its own loan

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[268] Id. at 90.
[269] Id. at 86.
[270] 11/13/2008 "Worst Ten in the Worst Ten," document prepared by the Office of the Comptroller of the Currency, http://www.occ.treas.gov/news-issuances/news-releases/2009/nr-occ-2009-112b.pdf, Hearing Exhibit 4/13-58.
[271] 8/23/2007 email from Mr. Rotella to Mr. Killinger, JPM_WM00675851, Hearing Exhibit 4/13-79.

personnel. From 1990 until 2002, WaMu acquired more than 20 new banks and mortgage companies, including American Savings Bank, Great Western Bank, Fleet Mortgage Corporation, Dime Bancorp, PNC Mortgage, and Long Beach. WaMu struggled to integrate dozens of lending platforms, information technology systems, staffs, and policies, whose inconsistencies and gaps exposed the bank to loan errors and fraud.

To address the problem, WaMu invested millions of dollars in a technology program called Optis, which WaMu President Rotella described in the end as "a complete failure" that the bank "had to write off" and abandon.[272] In 2004, an OTS Report of Examination (ROE), which was given to the bank's Board of Directors, included this observation:

> "Our review disclosed that past rapid growth through acquisition and unprecedented mortgage refinance activity placed significant operational strain on [Washington Mutual] during the early part of the review period. Beginning in the second half of 2003, market conditions deteriorated, and the failure of [Washington Mutual] to fully integrate past mortgage banking acquisitions, address operational issues, and realize expectations from certain major IT initiatives exposed the institution's infrastructure weaknesses and began to negatively impact operating results."[273]

The records reviewed by the Subcommittee showed that, from 2004 until its shuttering in 2008, WaMu constantly struggled with information technology issues that limited its ability to monitor loan errors, exception rates, and indicators of loan fraud.

From 2004 to 2008, WaMu's regulators also repeatedly criticized WaMu's failure to exercise sufficient oversight of its loan personnel to reduce excessive loan error and exception rates that allowed the issuance of loans in violation of WaMu's credit standards.[274] In 2004, Craig Chapman, then the President of WaMu Home Loans, visited a number of the bank's loan centers around the country. Lawrence Carter, then OTS Examiner-in-Charge at WaMu, spoke with Mr. Chapman about what he found. Recalling that conversation in a later email, Mr. Carter wrote:

> "Craig has been going around the country visiting home lending and fulfillment offices. His view is that band-aids have been used to address past issues and that there is a fundamental absence of process."[275]

The regulators' examination reports on WaMu indicate that its oversight efforts remained weak. In February 2005, OTS stated that WaMu's loan underwriting "has been an area of

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[272] Subcommittee interview of Steve Rotella (2/24/2010).

[273] See 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001482, Hearing Exhibit 4/16-94 [Sealed Exhibit]. See also, e.g., 12/17/2004 email exchange among WaMu executives, "Risks/Costs to Moving GSE Share to FH," JPM_WM05501400, Hearing Exhibit 4/16-88 (noting that Fannie Mae "is well aware of our data integrity issues (miscoding which results in misdeliveries, expensive and time consuming data reconciliations), and has been exceedingly patient.").

[274] See, e.g., OTS examination reports cited in Chapter IV, below.

[275] 8/13/2004 email from Lawrence Carter to Michal Finn, Finn_Michael-00005331.

concern for several exams."[276] In June 2005, OTS expressed concern about the bank's underwriting exceptions and policy compliance.[277] In August of the same year, the OTS Report of Examination stated that, "the level of deficiencies, if left unchecked, could erode the credit quality of the portfolio," and specifically drew attention to WaMu concentrations in higher risk loans that were a direct result of its High Risk Lending Strategy.[278] 2006 was no better. OTS repeatedly criticized the level of underwriting exceptions and errors.[279]

Another problem was the weak role played by WaMu's compliance department. In March 2007, an OTS examiner noted that WaMu had just hired its "ninth compliance leader since 2000," and that its "compliance management program has suffered from a lack of steady, consistent leadership." The examiner added: "The Board of Directors should commission an evaluation of why smart, successful, effective managers can't succeed in this position. … (HINT: It has to do with top management not buying into the importance of compliance and turf warfare and Kerry [Killinger] not liking bad news.)"[280]

Still another problem was that WaMu failed to devote sufficient resources to overseeing the many loans it acquired from third party lenders and mortgage brokers. The 2010 Treasury and FDIC IG report found that, from 2003 to 2007, a substantial portion of WaMu's residential loans—from 48% to 70%—came from third party lenders and brokers.[281] The IG report also found:

> "The financial incentive to use wholesale loan channels for production was significant. According to an April 2006 internal presentation to the WaMu Board, it cost WaMu about 66 percent less to close a wholesale loan ($1,809 per loan) than it did to close a retail loan ($5,273). Thus, WaMu was able to reduce its cost of operations through the use of third-party originators but had far less oversight over the quality of originations."[282]

During its last five years, WaMu accepted loans from tens of thousands of third party brokers and lenders across the country, not only through its wholesale and correspondent channels, but also through its securitization conduits that bought Alt A and subprime loans in bulk. Evidence gathered by the Subcommittee from OTS examination reports, WaMu internal

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[276] 2/7/2005 OTS Letter to Washington Mutual Board of Directors on Matters Requiring Board Attention, OTSWMEF-0000047591, Hearing Exhibit 4/16-94 [Sealed Exhibit]. See the Regulator Chapter of this Report for more information.

[277] 6/3/2005 OTS Findings Memorandum, "Single Family Residential Home Loan review," OTSWME05-004 0000392, Hearing Exhibit 4/16-26. For more information, see Chapter IV, below.

[278] 3/14/2005 OTS Report of Examination, OTSWMS05-004 0001794, Hearing Exhibit 4/16-94 [Sealed Exhibit]. (Examination findings were issued to WaMu on August 28, 2005.)

[279] See, for example, 5/23/2006 OTS Exam Finding Memo, "Home Loan Underwriting, " OTSWMS06-008 0001299, Hearing Exhibit 4/16-33; and 8/29/2006 OTS Report of Examination, OTSWMS06-008 0001690, Hearing Exhibit 4/16-94 [Sealed Exhibit].

[280] 5/31/2007 Draft OTS Findings Memorandum, "Compliance Management Program," Franklin_Benjamin-00020408_001, Hearing Exhibit 4/16-9.

[281] 4/2010 IG Report, at 23, Hearing Exhibit 4/16-82.

[282] Id. at 23.

documents, and oral testimony shows that WaMu exercised weak oversight over the thousands of brokers submitting loans. For example, a 2003 OTS report concluded that WaMu's "annual review and monitoring process for wholesale mortgage brokers was inadequate, as management did not consider key performance indicators such as delinquency rates and fraud incidents."[283] A 2003 WaMu quality assurance review found an "error rate of 29 percent for wholesale mortgage loans, more than triple the acceptable error rate of 8 percent established by WaMu."[284] A 2004 OTS examination noted that 20,000 brokers and lenders had submitted loans to WaMu for approval during the year, a volume that was "challenging to manage."[285] A 2005 internal WaMu investigation of two high volume loan centers in Southern California that accepted loans from brokers found that "78% of the funded retail broker loans reviewed were found to contain fraud."[286] A 2006 internal WaMu inquiry into why loans purchased through its subprime conduit were experiencing high delinquency rates found the bank had securitized broker loans that were delinquent, not underwritten to standards, and suffering from "lower credit quality."[287]

OTS examinations in 2006 and 2007 also identified deficiencies in WaMu's oversight efforts.[288] For example, a 2007 OTS memorandum found that, in 2007, Washington Mutual had only 14 full-time employees overseeing more than 34,000 third party brokers submitting loans to the bank for approval,[289] which meant that each WaMu employee oversaw more than 2,400 brokers. The OTS examination not only questioned the staffing level, but also criticized the scorecard WaMu used to rate the mortgage brokers, which did not include the rates at which significant lending or documentation deficiencies were attributed to the broker, the rate at which the broker's loans were denied or produced unsaleable loans, or any indication of whether the broker was included on industry watch lists for prior or suspected misconduct.

In 2006, federal regulators issued Interagency Guidance on Nontraditional Mortgage Product Risks (NTM Guidance) providing standards on how banks "can offer nontraditional mortgage products in a safe and sound manner."[290] It focused, in part, on the need for banks to "have strong systems and controls in place for establishing and maintaining relationships" with third party lenders and brokers submitting high risk loans for approval. It instructed banks to monitor the quality of the submitted loans to detect problems such as "early payment defaults, incomplete documentation, and fraud." If problems arose, the NTM Guidance directed banks to "take immediate action":

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[283] Id.
[284] Id. at 24.
[285] Id.
[286] 11/16/2005 "Retail Fraud Risk Overview," prepared by WaMu Credit Risk Management, at JPM_WM02481938, Hearing Exhibit 4/13-22b.
[287] 12/12/2006 WaMu Market Risk Committee Minutes, JPM_WM02095545, Hearing Exhibit 4/13-28.
[288] 4/2010 IG Report, at 24-25, Hearing Exhibit 4/16-82.
[289] 6/7/2007 OTS Asset Quality Memo 11, "Broker Credit Administration," Hedger_Ann-00027930_001, Hearing Exhibit 4/16-10.
[290] 10/4/2006 "Interagency Guidance on Nontraditional Mortgage Product Risks," (NTM Guidance), 71 Fed. Reg. 192 at 58609.

> "Oversight of third party brokers and correspondents who originate nontraditional mortgage loans should involve monitoring the quality of originations so that they reflect the institution's lending standards and compliance with applicable laws and regulations. … If appraisal, loan documentation, credit problems or consumer complaints are discovered, the institution should take immediate action."[291]

WaMu did, at times, exercise oversight of its third party brokers. A 2006 credit review of its subprime loans, for example, showed that Long Beach—which by then reported to the WaMu Home Loans Division—had terminated relationships with ten brokers in 2006, primarily because their loans had experienced high rates of first payment defaults requiring Long Beach to repurchase them at significant expense.[292] But terminating those ten brokers was not enough to cure the many problems with the third party loans WaMu acquired. The report also noted that, in 2006, apparently for the first time, Long Beach had introduced "collateral and broker risk" into its underwriting process.[293]

WaMu closed down its wholesale and subprime channels in 2007, and its Alt A and subprime securitization conduits in 2008.

(b) Risk Layering

During the five-year period reviewed by the Subcommittee, from 2004 to 2008, WaMu issued many loans with multiple higher risk features, a practice known as "risk layering." At the April 13 Subcommittee hearing, Mr. Vanasek, its Chief Risk Officer from 2004 to 2005, testified about the dangers of this practice:

> "It was the layering of risk brought about by these incremental changes that so altered the underlying credit quality of mortgage lending which became painfully evident once housing prices peaked and began to decline. Some may characterize the events that took place as a 'perfect storm,' but I would describe it as an inevitable consequence of consistently adding risk to the portfolio in a period of inflated housing price appreciation."[294]

Stated Income Loans. One common risk layering practice at WaMu was to allow borrowers to "state" the amount of their annual income in their loan applications without any direct documentation or verification by the bank. Data compiled by the Treasury and the FDIC IG report showed that, by the end of 2007, 50% of WaMu's subprime loans, 73% of its Option ARMs, and 90% of its home equity loans were stated income loans.[295] The bank's acceptance of unverified income information came on top of its use of loans with other high risk features, such

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[291] Id. at 58615.
[292] 12/2006 "Home Loans – SubPrime Quarterly Credit Risk Review," JPM_WM04107374, Hearing Exhibit 4/13-14.
[293] Id. at JPM_WM04107375.
[294] April 13, 2010 Subcommittee Hearing at 16.
[295] 4/2010 IG Report, at 10, Hearing Exhibit 4/16-82.

as borrowers with low credit scores or the use of low initial teaser interest rates followed by much higher rates.

Stated income loans were originally developed to assist self employed individuals that had good credit and high net worth to obtain loans they could afford. But from 2004 to 2008, stated income loans became much more widespread, including with respect to a wide variety of high risk loans.[296] Mr. Cathcart testified at the Subcommittee hearing:

> "[Stated income loans] originated as a product for self-employed individuals who didn't have pay stubs and whose financial statements didn't necessarily reflect what they made. It was intended to be available for only the most creditworthy borrowers and it was supposed to be tested for reasonableness so that a person who said that they were a waiter or a lower-paid individual couldn't say that they had an income of $100,000.
>
> "I think that the standards eroded over time. At least I have become aware, reading all that has happened … standards eroded over time and that it became a competitive tool that was used by banks to gather business, so that if a loan consultant could send his loan to Bank A or Bank B, the consultant would say, well, why don't you go to Bank B? You don't have to state your income.
>
> "I do think, thinking it through, that there was a certain amount of coaxing that was possible between the loan consultant and the individual, which would be something which would be invisible to a bank that received the application and the only test for that would be reasonableness, which as you have heard there were some issues within the portfolio."[297]

WaMu required its loan personnel to determine whether a loan applicant's stated income was reasonable, but evidence obtained by the Subcommittee indicates that requirement was not effectively implemented. A 2008 press report about a WaMu stated income loan is illustrative:

> "As a supervisor at a Washington Mutual mortgage processing center, John D. Parsons was accustomed to seeing baby sitters claiming salaries worthy of college presidents, and schoolteachers with incomes rivaling stockbrokers. He rarely questioned them. A real estate frenzy was under way and WaMu, as his bank was known, was all about saying yes.
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> "Yet even by WaMu's relaxed standards, one mortgage four years ago raised eyebrows. The borrower was claiming a six-figure income and an unusual profession: mariachi singer.

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[296] See, e.g., NTM Guidance at 58614 ("Institutions increasingly rely on reduced documentation, particularly unverified income, to qualify borrowers for nontraditional mortgage loans."). The NTM Guidance directed banks to use stated income loans "with caution," but did not prohibit them or even issue guidance limiting their use. Id. at 58611, 58614.

[297] April 13, 2010 Subcommittee Hearing at 41.

> "Mr. Parsons could not verify the singer's income, so he had him photographed in front of his home dressed in his mariachi outfit. The photo went into a WaMu file. Approved."[298]

Instead of verifying borrower income, WaMu loan personnel apparently focused instead on borrower credit scores, as a proxy measure of a borrower's creditworthiness. The problem with this approach, however, was that a person could have a high credit score—reflecting the fact that they paid their bills on time—and still have an income that was insufficient to support the mortgage amount being requested.

High LTV Ratios. A second risk-layering practice at WaMu involved loan-to-value (LTV) ratios. LTV ratios are a critical risk management tool, because they compare the loan amount to the estimated dollar value of the property. If an LTV ratio is too high and the borrower defaults, the sale of the property may not produce sufficient proceeds to pay off the loan. In interagency guidance, federal banking regulators noted that banks should generally avoid issuing loans with LTV ratios over 80%, and directed banks to ensure that loans with LTV ratios of 90% or more have additional credit support such as mortgage insurance or added collateral.[299] The Treasury and the FDIC IG report found that WaMu held a "significant percentage" of home loans in which the LTV ratios exceeded 80%.[300]

These loans were the result of explicit WaMu policies allowing high LTV ratios to be used in loans that already had other high risk features. In February 2005, for example, WaMu set up automated loan approval parameters to approve loans with a 90% LTV in Option ARM and interest-only loans providing financing of up to $1 million.[301] Still another layer of risk was added to these loans by permitting the borrowers to have credit scores as low as 620.

The Treasury and the FDIC IG report determined that 44% of WaMu's subprime loans and 35% of its home equity loans had LTV ratios in excess of 80%.[302] These loans resulted in part from a 2006 WaMu decision to combine home equity loans bearing high LTV ratios with borrowers bearing low credit scores. That initiative was discussed in a June 2006 email sent to Mr. Rotella, after he inquired about the project. He was informed:

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[298] "Saying Yes, WaMu Built Empire on Shaky Loans," New York Times (12/27/08). When asked about this press report, WaMu told the Subcommittee that it had no record of this loan, but could not deny that the incident took place as reported. See also, in the following subsection, a WaMu loan issued to a "Sign Designer" who claimed earnings of $34,000 per month.

[299] See 10/8/1999 "Interagency Guidance on High LTV Residential Real Estate Lending," http://www.federalreserve.gov/boarddocs/srletters/1993/SR9301.htm.

[300] 4/2010 IG Report, at 10, Hearing Exhibit 4/16-82.

[301] 2/2005 email chain between Timothy Bates, Tony Meola, Mr. Rotella and others, JPM_WM00616783-84.

[302] 4/2010 IG Report, at 10, Hearing Exhibit 4/16-82. See also 3/1/2007 Washington Mutual Inc. 10-K filing with the SEC, at 52 (showing that, as of 12/31/2006, WaMu held $7.4 billion in home mortgages without private mortgage insurance or government guarantees with LTV ratios in excess of 80%, and $15 billion in home equity loans and lines of credit with LTV ratios in excess of 80%).

> "$4 billion home equity investment program [was] approved … last Friday. High CLTVs [Combined Loan-to-Value ratios] (up to 100%) and lower FICOs (down to 600) permitted with some concentration limits."[303]

In order to issue these loans as soon as possible in 2006, WaMu set up an underwriting team to provide "manual" approvals outside of its automated systems:

> "Our team is currently focused on several HE [Home Equity] modeling initiatives to include higher risk lending …. [W]e are adjusting our decision engine rules for a July roll out to allow for 580-620 [FICO scores] and LT 80% CLTV [combined loan-to-value] loans to be referred to a manual 'sub-prime' underwriting team that we are putting in place. … [W]e see this 580-620 segment as the biggest opportunity where we aren't lending today."[304]

Also in 2006, WaMu began issuing so-called "80/20 loans," in which a package of two loans are issued together, imposing an 80% LTV first lien and a 20% LTV second lien on the property, for a total combined LTV (CLTV) of 100%.[305] Loans that provide financing for 100% of a property's value are extremely high risk, because the borrower has no equity in the property, the borrower can stop payments on the loan without losing a personal investment, and a subsequent home sale may not produce sufficient funds to pay off the debt.[306] Yet in 2006, Home Loans Division President David Schneider approved issuing 80/20 loans despite the risk and despite the fact that WaMu's automatic underwriting system was not equipped to accept them, and loan officers initially had to use a manual system to issue the loans.[307]

Using Low Interest Rates to Qualify Borrowers. A third risk layering practice at WaMu was allowing loan officers to qualify prospective borrowers for short term hybrid ARMs or Option ARMs based upon only the initial low rate and not the higher interest rate that would take effect later on. In a filing with the SEC, for example, Washington Mutual Inc. wrote that its "underwriting guidelines" allowed "borrowers with hybrid adjustable-rate home loans … where the initial interest rate is fixed for 2 to 5 years" to be "qualified at the payment associated with the fixed interest rate charged in the initial contractual period."[308] In addition, in 2005, WaMu personnel informed OTS that, since 2004, the bank had not been qualifying its Option ARM

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[303] 6/13/2006 email from Cheryl Feltgen to David Schneider who forwarded it to Steve Rotella, JPM_WM01311922-23.

[304] 6/14/2006 email from Mark Hillis to Cheryl Feltgen, included in a longer email chain involving Mr. Rotella and Mr. Schneider, among others, JPM_WM01311922.

[305] See, e.g., 6/2006 email chain between Mr. Rotella, Mr. Schneider, Mr. Hillis, and Ms. Feltgen, JPM_WM01311922-23.

[306] See NTM Guidance at 58614. See also SEC v. Mozilo, Case No. CV09-03994 (USDC CD Calif.), Complaint (June 4, 2009), at ¶ 50 (quoting an email by Countrywide CEO Angelo Mozilo who, when discussing the 80/20 loans being issued by his bank, wrote: "In all my years in the business I have never seen a more toxic pr[o]duct.").

[307] Id.; Subcommittee interview of Cheryl Feltgen (2/6/2010). 2/2006 WaMu internal email chain, "FW: 80/20," JPM_WM03960778. See also 3/19/2007 email from Ron Cathcart to David Schneider, JPM_WM02571598, Hearing Exhibit 4/16-75 (indicating WaMu issued loans with CLTVs in excess of 95% until ending the practice in March 2007).

[308] See 3/1/2007 Washington Mutual Inc. 10-K filing with the SEC at 56.

borrowers using the "fully indexed rate."[309] Instead, WaMu was using a lower "administrative" rate that was "significantly less than the fully indexed rate."[310]

Borrowers, loan officers, and WaMu executives often assumed that hybrid and Option ARMs could be refinanced before the payments reset to higher levels—an expectation that eventually proved to be unfounded. In a November 30, 2007 email discussing loan modifications from Mr. Schneider to Mr. Killinger, Mr. Rotella and other senior executives, Mr. Schneider described WaMu's faulty assumptions about the "start rate" and life span of these loans:

> "I also think it is clear that the economic benefit of providing modifications for these borrowers is compelling for the following reasons:
>
> - None of these borrowers ever expected that they would have to pay at a rate greater than the start rate. In fact, for the most part they were qualified at the start rate
> - We need to provide incentive to these borrowers to maintain the home – especially if the home value has declined
> - When we booked these loans, we anticipated an average life of 2 years and never really anticipated the rate adjustments…."[311]

Qualifying borrowers using the lower initial interest rate enabled banks to qualify more borrowers for those loans and enabled them to issue loans for larger amounts. Concerned that more banks were beginning to use this risky practice, federal banking regulators addressed it in the October 2006 NTM Guidance, which cautioned banks to use the fully indexed rate when qualifying borrowers for a loan, including loans with lower initial teaser rates.[312] In addition, the Guidance provided that for negatively amortizing loans, banks should consider not only the "initial loan amount" but also "any balance increase that may accrue from the negative amortization provision."[313] After the NTM Guidance was issued, a WaMu analyst calculated that applying the new requirement to all of its loans would cause a 33% drop in its loan volume due to borrowers who would no longer qualify for its loans:

> "Implementing the NTM change for Purchase only drops additional 2.5% of volume … If we implement the NTM changes to all loans, then we'll see additional drop of 33% of volume."[314]

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[309] 9/15/2005 email from Darrel Dochow to OTS Examiner-In-Charge at WaMu, OTSWMS05-002 0000537, Hearing Exhibit 4/16-6. The "fully indexed rate" is the prevailing interest rate in the published index to which an adjustable rate mortgage is tied, plus the additional percentage points that the lender adds to the index value to calculate the loan's interest rate. See NTM Guidance at 58614, n.5.
[310] Id.
[311] 11/30/2007 email from David Schneider to John McMurray, Kerry Killinger and others, JPM_WM05382127-28.
[312] NTM Guidance at 58614.
[313] Id.
[314] 3/19/2007 email from Ron Cathcart to David Schneider, JPM_WM02571598, Hearing Exhibit 4/16-75.

In response to this information, WaMu's chief risk officer wrote that the impact on the bank "argues in favor of holding off on implementation until required to act for public relations … or regulatory reasons."

Because OTS gave the bank more than six months to come into compliance with the NTM Guidance, WaMu continued qualifying high risk borrowers using the lower interest rate, originating billions of dollars in new loans that would later suffer significant losses.

WaMu's risk-layering practices went beyond its use of stated income loans, high LTV ratios, and the qualification of borrowers using low initial interest rates. The bank also allowed its loan officers to issue large volumes of high risk loans to borrowers who did not occupy the homes they were purchasing or had large debt-to-income ratios.[315] On top of those risks, WaMu concentrated its loans in a small number of states, especially California and Florida, increasing the risk that a downturn in those states would have a disproportionate impact upon the delinquency rates of its already high risk loans.

At one point in 2004, Mr. Vanasek made a direct appeal to WaMu CEO Killinger, urging him to scale back the high risk lending practices that were beginning to dominate not only WaMu, but the U.S. mortgage market as a whole. Despite his efforts, he received no response:

> "As the market deteriorated, in 2004, I went to the Chairman and CEO with a proposal and a very strong personal appeal to publish a full-page ad in the *Wall Street Journal* disavowing many of the then-current industry underwriting practices, such as 100 percent loan-to-value subprime loans, and thereby adopt what I termed responsible lending practices. I acknowledged that in so doing the company would give up a degree of market share and lose some of the originators to the competition, but I believed that Washington Mutual needed to take an industry-leading position against deteriorating underwriting standards and products that were not in the best interests of the industry, the bank, or the consumers. There was, unfortunately, never any further discussion or response to the recommendation."[316]

(c) Loan Fraud

Perhaps the clearest evidence of WaMu's shoddy lending practices came when senior management was informed of loans containing fraudulent information, but then did little to stop the fraud.

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[315] See, e.g., OTS document, "Hybrid ARM Lending Survey" (regarding WaMu), undated but the OTS Examiner-in-Charge estimated it was prepared in March or mid-2007, JPM_WM03190673 ("For Subprime currently up to 100% LTV/CLTV with 50% DTI is allowed for full Doc depending on FICO score. Up to 95% LTV/CLTV is allowed with 50% DTI for Stated Doc depending on FICO score. … For No Income Verification, No Income No Ratio, and No Income No Asset only up to 95% LTV/CLTV is allowed.").

[316] April 13, 2010 Subcommittee Hearing at 17.

Downey and Montebello Fraud Investigations. The most significant example involves an internal WaMu investigation that, in 2005, uncovered substantial evidence of loan fraud involving two top producing loan offices in Southern California. WaMu management was presented with the findings, but failed to respond, leading to the same fraud allegations erupting again in 2007. According to the WaMu Home Loans Credit Risk Mitigation Team that conducted the 2005 internal investigation, it was initiated in response to "a sustained history of confirmed fraud findings over the past three years" involving the two offices, known as Downey and Montebello.[317] Each office was located in a low-income area of Los Angeles and headed by a loan officer who had won repeated WaMu awards for high volume loan production.

To conduct its inquiry, the WaMu Risk Mitigation Team reviewed all of the loans produced by the two offices over a two-month period from August to September 2005, which totaled 751 loans. Analysts scored the loans using a standard electronic fraud detection program, and then reviewed all of the loans flagged for possible fraud, as well as ten percent of the remaining loans.[318] A November 2005 memorandum summarizing the review stated that it found an "extensive level of loan fraud" caused primarily by employees circumventing bank policies:

> "[A]n extensive level of loan fraud exists in the Emerging Markets [loan processing centers], virtually all of it stemming from employees in these areas circumventing bank policy surrounding loan verification and review. Of the 129 detailed loan review[s] … conducted to date, 42% of the loans reviewed contained suspect activity or fraud, virtually all of it attributable to some sort of employee malfeasance or failure to execute company policy. In terms of employee activity enabling this perpetration of fraud, the following categories of activity appeared most frequently: inconsistent application of credit policy, errors or negligence, process design flaws, intentional circumvention of established processes, and overriding automated decisioning recommendations. … Based on the consistent and pervasive pattern of activity among these employees, we are recommending firm action be taken to address these particular willful behaviors on the part of the employees named."[319]

A presentation prepared for WaMu management provided additional detail.[320] It stated that, out of the 751 loans produced, the Risk Mitigation Team had selected 180 loans for detailed review, of which 129 had been completed.[321] It stated that 42% of the reviewed loans had "contained excessive levels of fraud related to loan qualifying data."[322] It also stated that the fraud findings did not differ between loans originated by WaMu's own loan officers and loans

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[317] 11/17/2005 WaMu internal memorandum, "So. CA Emerging Markets Targeted Loan Review Results," JPM_WM01083051, Hearing Exhibit 4/13-22a.
[318] Id.
[319] Id.
[320] 11/16/2005 "Retail Fraud Risk Overview," prepared by Credit Risk Management, JPM_WM02481934, Hearing Exhibit 4/13-22b.
[321] Id. at JPM_WM02481940.
[322] Id. at JPM_WM02481936.

originated by third party brokers and brought to the loan centers.[323] The presentation also stated that the fraud uncovered by the review was found to be "preventable with improved processes and controls."

The presentation indicated that the loan fraud involved primarily "misrepresentation of loan qualifying data," including misrepresentations of income and employment, false credit letters and appraisal issues.[324] The presentation included a few examples of misrepresentations, including:

> "Loan #0694256827[:] Misrepresentation [of] the borrower's identification and qualifying information were confirmed in every aspect of this file, including: – Income – SSN – Assets – Alternative credit reference letters – Possible Strawbuyer or Fictitious borrower[.] The credit package was found to be completely fabricated. Throughout the process, red flags were over-looked, process requirements were waived, and exceptions to policy were granted."[325]

The presentation noted that the loan delinquency rate for Luis Fragoso, the loan officer heading the Montebello loan office, was "289% worse than the delinquency performance for the entire open/active retail channel book of business," while the delinquency rate for Thomas Ramirez, the loan officer heading the Downey loan office was 157% worse.[326] The message from the Risk Mitigation Team was clear that the two head loan officers were willfully flouting bank policy, issuing poor quality loans, and needed to be the subject of "firm action" by the bank.

Three months prior to its formal presentation on the fraud, the Risk Mitigation Team supplied a lengthy email with its fraud findings to colleagues in the credit risk department. The August 2005 email provided spreadsheets containing data collected on the loans from the two offices as well as figures about the types of loans reviewed and fraud found.[327] Among other information, it indicated that at the Downey office, 83 loans had been reviewed, including 28 originated by the WaMu loan officer Thomas Ramirez, and 54 submitted to him by third party brokers; while at the Montebello office, 48 loans had been reviewed, including 19 originated by the WaMu loan officer Luis Fragoso and 29 submitted to him by third party brokers. The email was forwarded by a credit risk officer to WaMu's Chief Risk Officer Jim Vanasek, with the following comment:

> "As you requested in our Enterprise Fraud Committee meeting last Friday, the attached email contains a high-level summary of the investigations the Home Loans Risk Mit team has conducted on [the two offices] over the past year and a half, based on loans that were referred to them. … As you can see, among the referred cases there is an extremely high

[323] Id. at JPM_WM02481936.
[324] Id. at JPM_WM02481938.
[325] Id. at JPM_WM02481943.
[326] Id. at JPM_WM02481948.
[327] 8/29/2005 email from Jill Simons to Tim Bates, JPM_WM04026076-77, Hearing Exhibit 4/13-23b.

> incidence of confirmed fraud (58% for Ramirez, 83% for Fragoso) …. [Additional analysis] will allow us to substantially validate what we suspect, which is that the incidence of fraud in this area is greater than with other producers."[328]

At the Subcommittee hearing, Mr. Vanasek agreed these were "eye popping" rates of fraud.[329]

On November 18, 2005, Cheryl Feltgen, the Home Loans Chief Credit Officer, "had a very quick meeting" with Home Loans President David Schneider, the head of Home Loans sales Tony Meola, and others in which she reviewed the memorandum and presentation on the fraud investigation.[330] After the meeting, she sent an email to the Risk Mitigation Team stating: "The good news is that people are taking this very seriously. They requested some additional information that will aid in making some decisions on the right course of action."[331] She asked the Risk Mitigation Team to prepare a new spreadsheet with the loan information, which the team did over the weekend in anticipation of a Monday meeting.

The trail of documentation in 2005 about the fraud investigation ends there. Despite the year-long effort put into the investigation, the written materials prepared, the meetings held, and fraud rates in excess of 58% and 83% at the Downey and Montebello offices, no discernable actions were taken by WaMu management to address the fraud problem in those two offices. No one was fired or disciplined for routinely violating bank policy, no anti-fraud program was installed, no notice of the problem was sent to the bank's regulators, and no investors who purchased RMBS securities containing loans from those offices were alerted to the fraud problem underlying their high delinquency rates. Mr. Vanasek retired from the bank in December 2005, and the new Chief Risk Officer Ron Cathcart was never told about the fraud investigation. Senior personnel, including Mr. Schneider, Mr. Meola, and Ms. Feltgen, failed to follow up on the matter.

Over the next two years, the Downey and Montebello head loan officers, Mr. Ramizez and Mr. Fragoso, continued to issue high volumes of loans[332] and continued to win awards for their loan productivity, including winning trips to Hawaii as members of WaMu's "President's Club." One of the loan officers even suggested to bank President Steve Rotella ways to further relax bank lending standards.[333]

In June 2007, however, the fraud problem erupted again. That month, AIG, which provided mortgage insurance for some of WaMu's residential mortgages, contacted the bank with concerns about material misrepresentations and fraudulent documents included in

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[328] 8/30/2005 email from Tim Bates to Jim Vanasek and others, JPM_WM04026075, Hearing Exhibit 4/13-23b.
[329] April 13, 2010 Subcommittee Hearing at 28.
[330] 11/18/2005 email from Cheryl Feltgen to Nancy Gonseth on the Risk Mitigation Team and Tim Bates, JPM_WM03535695, Hearing Exhibit 4/13-23a.
[331] Id.
[332] At the Subcommittee's hearing, Mr. Vanasek testified that as much as $1 billion in loans originated out of these two offices per year. April 13, 2010 Subcommittee Hearing at 27.
[333] See, e.g., 3/2006 WaMu email chain, JPM_WM03985880-83.

mortgages being issued by Mr. Fragoso, the loan officer heading the Montebello office.[334] When no one responded to its concerns, in September 2007, AIG filed a Suspected Fraud Claim with the California Department of Insurance which, in turn, notified OTS of the problem.[335] The OTS Examiner-in-Charge at WaMu at the time, Benjamin Franklin, asked the bank to conduct an investigation into the matter.[336] WaMu's legal department asked the WaMu Corporate Fraud Investigation (CFI) group and the Audit department to conduct a joint inquiry.

Seven months later, in April 2008, CFI and the Audit department issued a 12-page memorandum with their findings.[337] The memorandum not only confirmed the presence of fraud in the Montebello office, citing a loan file review that found a fraud rate of 62%, it also uncovered the 2005 investigation that had identified the problem two years earlier, but was ignored by management. The 2008 memorandum stated:

> "In 2005, HL [Home Loans] Risk Mitigation provided Senior HL Management with an assessment of fraud and loan performance in the Retail Broker Program and two Southern California Emerging Markets [loan centers] for the period of September 2003 through August 2005. This assessment identified excessive levels of fraud related to loan qualifying data …. It also highlighted the Downey and Montebello [loan centers] as the primary contributors of these fraudulent loan documents based upon volume and articulated strategies to mitigate fraud. The report also stated that delinquency performance on these [loan centers] … were significantly worse that the delinquency performance for the entire open/active retail channel book of business. In 2007, HL Risk Mitigation mirrored their 2005 review with a smaller sample of loans and found that, for the September and October 2007 sampled time period, the volume of misrepresentation and suspected loan fraud continued to be high for this [loan center] (62% of the sampled loans)."[338]

Examples of fraudulent loan information uncovered in the 2007 review included falsified income documents, unreasonable income for the stated profession, false residency claims, inflated appraisal values, failure of the loan to meet bank guidelines, suspect social security numbers, misrepresented assets, and falsified credit information.[339]

The memorandum found that, in 2005, the WaMu Risk Mitigation Team had reported its findings to several WaMu managers whom it "felt were very aware of high volumes of fraud" in the loans issued by the two loan officers.[340] The memorandum reported that one individual believed that David Schneider "was made aware of these findings" and wanted Risk Mitigation

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[334] 4/4/2008 WaMu Memorandum of Results, "AIG/UG and OTS Allegation of Loan Frauds Originated by [name redacted]," at 1, Hearing Exhibit 4/13-24.
[335] Id. at 1.
[336] Subcommittee interview of Benjamin Franklin (2/18/2010).
[337] 4/4/2008 WaMu Memorandum of Results, "AIG/UG and OTS Allegation of Loan Frauds Originated by [name redacted]," at 1, Hearing Exhibit 4/13-24.
[338] Id. at 2.
[339] Id. at 3.
[340] Id. at 7.

to "monitor the situation."[341] But no one knew "of additional monitoring that was done, or efforts to bring additional attention to" the fraudulent loans from the Downey and Montebello offices. The memorandum also noted that no personnel action had been taken against either of the loan officers heading the two offices.[342] David Schneider was interviewed and "recalled little about the 2005 fraud findings or actions taken to address them."[343] He "thought the matter was handled or resolved." The WaMu memorandum concluded:

> "Outside of training sessions … in late 2005, there was little evidence that any of the recommended strategies were followed or that recommendations were operationalized. There were no targeted reviews conducted … on the Downey or Montebello loan portfolios between 2005 and the actions taken in December 2007."[344]

After the memorandum was issued, WaMu initially resisted providing a copy to OTS, claiming it was protected by attorney-client privilege.[345] The OTS Examiner-in-Charge Benjamin Franklin told the Subcommittee that he insisted on seeing the memorandum. After finally receiving it and reading about the substantial loan fraud occurring at the two loan offices since 2005, he told the Subcommittee that it was "the last straw" that ended his confidence that he could rely on WaMu to combat fraudulent practices within its own ranks.

The 2008 WaMu memorandum and a subsequent OTS examination memorandum[346] included a number of recommendations to address the fraud problem at the Downey and Montebello offices. The recommendations in the WaMu memorandum included actions to "[d]etermine appropriate disciplinary actions for employees"; "[e]nhance Code of Conduct training to stress each employee's role as a corporate steward and the consequences for passively facilitating the placement of loans into the origination process that could be suspect"; enhance WaMu compensation incentives "to support loan quality"; and determine if further analysis was required of the loans originated by the Montebello office or "the broader loan population (bank owned and securitized)" including "if actions are needed to address put backs or sales to investors of loans that contain misrepresentation[s] or other fraud findings."[347]

By the time WaMu issued the April 2008 memorandum on the Downey and Montebello fraud problem, however, the bank was already experiencing serious liquidity problems and was cutting back on its loan operations and personnel. On April 30, 2008, WaMu put an end to its wholesale loan channel which had accepted loans from third party mortgage brokers, closed 186

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[341] Id.
[342] Id.
[343] Id. at 8.
[344] Id. at 9.
[345] Subcommittee interview of Benjamin Franklin (2/18/2010).
[346] 1/7/2008 OTS Asset Quality Memo 22, "Loan Fraud Investigation," JPM_WM02448184, Hearing Exhibit 4/13-25.
[347] 4/4/2008 WaMu Memorandum of Results, "AIG/UG and OTS Allegation of Loan Frauds Originated by [name redacted]," at 4, Hearing Exhibit 4/13-24.

stand-alone loan centers, and reduced its workforce by 3,000.[348] The Downey and Montebello offices were closed as part of that larger effort. The two loan officers heading those offices left the bank and found other jobs in the mortgage industry that involve making loans to borrowers.

Other Fraud Problems. The loan fraud problems at the Downey and Montebello offices were not the only fraud problems plaguing WaMu. The Subcommittee uncovered three additional examples that demonstrate the problem was not isolated.

The first example involves the Westlake Village loan office outside of Los Angeles. On April 1, 2008, WaMu's Risk Mitigation Team sent thirteen home loans with early payment defaults to the WaMu Corporate Fraud Investigations (CFI) group for further examination.[349] All thirteen, whose unpaid loan balances totaled about $14.3 million, had been issued in 2007, by the Westlake Village loan office which was one of WaMu's top loan producers. Two loan officers, Chris O'Brien and Brian Minkow, who worked in tandem, had won multiple awards for their loan production and had a team of 14 sales associates assisting them.[350] CFI reviewed the referred loans which contained a variety of fraud indicators, including "fabricated asset statements, altered statements, income misrepresentation and one altered statement that is believed to have been used in two separate loans."[351] CFI then interviewed the loan officers, sales associates, and personnel at the WaMu "loan fulfillment center" (LFC) that processed Westlake Village loan applications.

In one egregious example of document "manufacturing," a sales associate confessed that if "it was too late to call the borrower," the "sales associates would take [bank] statements from other [loan] files and cut and paste the current borrower's name and address" onto the old bank statements.[352] The same sales associate "admitted that during that crunch time some of the Associates would 'manufacture' asset statements from previous loan docs," because end-of-month loans would often get funded without full documentation. The pressure to get the necessary documentation was "tremendous" and they had been told to get the loans funded "with whatever it took."[353]

The LFC loan processor in charge of handling Westlake Village's loan applications was fired, as was the sales associate who confessed to manufacturing false documents. The rest of the employees were also let go, when the office itself was closed on April 30, 2008, in

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[348] Subcommittee interview of Brian Minkow (2/16/2010); 5/27/2008 "Internal Investigative Report" on Westlake Home Loan Center, JPM_WM03171384, Hearing Exhibit 4/13-31. See also "Washington Mutual Exits Wholesale Lending Business, Will Close Home-Loan Centers," Mercury News, 4/7/2008, http://blogs.mercurynews.com/realestate/2008/04/07/washington-mutual-exits-wholesale-lending-business-will-close-home-loan-centers.

[349] 5/12/2008 "WaMu Significant Incident Notification (SIN)," JPM_WM05452386, Hearing Exhibit 4/13-30.

[350] Subcommittee interview of Brian Minkow (2/16/2010). See also 2005 "President's Club 2005 - Maui, Awards Night Show Script," Washington Mutual, Home Loans Group, Hearing Exhibit 4/13-63a (stating Mr. O'Brien and Mr. Minkow had produced $1.2 billion in loans in 2005).

[351] Id.

[352] 5/27/2008 "Internal Investigative Report" on Westlake Home Loan Center, JPM_WM03171384, Hearing Exhibit 4/13-31.

[353] 5/12/2008 "WaMu Significant Incident Notification (SIN)," JPM_WM05452386, Hearing Exhibit 4/13-30.

connection with WaMu's reorganization and downsizing. One of the loan officers who headed the office told the Subcommittee, however, that he had been offered another job within the bank, but declined it due to lower compensation.[354] He went on to work in the mortgage industry arranging residential loans.

The second example involves 25 Home Equity Lines of Credit (HELOCs) totaling $8.5 million that were originated in 2008 by a WaMu loan officer at the Sunnyvale loan office in California. Before all of the loans were funded, they were referred to the Risk Mitigation Team because of fraud indicators. On May 1, 2008, the loan files were sent on to the CFI group for further inquiry. An internal document summarizing the CFI investigation stated:

> "The review found that the borrowers indicated they owned the property free and clear when in fact existing liens were noted on the properties. The properties are located in California, Arizona and Washington. … WaMu used … Abbreviated Title reports [that] … do not provide existing lien information on the subject property."[355]

Of the 25 loan applications, 22 were ultimately terminated or declined. The employee involved in originating the loans was terminated as part of the April 30, 2008 reorganization.

The third example involves a review of 2006 and 2007 WaMu loans conducted by Radian Guaranty Inc., a company which provided mortgage insurance for those loans.[356] Radian's objectives were to test WaMu's "compliance with Radian's underwriting guidelines and eligible loan criteria," assess the quality of WaMu's underwriting decisions, "rate the risk of the individual loans insured," and identify any errors in the loan data transmitted to Radian.[357] The review looked at a random selection of 133 loans and found enough problems to give WaMu an overall rating of "unacceptable."[358]

The Radian review identified a number of problems in the loan files it deemed ineligible for insurance. In one, WaMu issued a $484,500 loan to a "Sign Designer" who claimed to be making $34,000 in income every month.[359] The Radian review observed: "Borrower's stated monthly income of $34,000 does not appear reasonable for a 'Sign Designer.'" The review also noted several high risk elements in the loan, which was an 85% LTV loan given to a borrower with a 689 credit score who used the loan to refinance an existing loan and "cash-out" the equity in the house. The review noted that the borrower received $203,000 at the loan closing. In addition, the review stated that WaMu had appraised the house at $575,000, but an automated appraisal verification program assigned the house a probable value of only $321,000, less than the amount of the loan.

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[354] Subcommittee interview of Brian Minkow (2/16/2010).
[355] 5/15/2008 "WaMu Significant Incident Notification (SIN)," JPM_WM05452389, Hearing Exhibit 4/13-32b.
[356] 2/7/2008 Radian Guaranty Inc. review of Washington Mutual Bank loans, JPM_WM02057526, Hearing Exhibit 4/13-33.
[357] Id. at 1.
[358] Id.
[359] Id. at 5.

Extent of Fraud. At the Subcommittee hearing, when asked about these matters, Mr. Vanasek, WaMu's Chief Risk Officer from 2004 to 2005, attributed the loan fraud to compensation incentives that rewarded loan personnel and mortgage brokers according to the volume of loans they processed rather than the quality of the loans they produced:

> "Because of the compensation systems rewarding volume versus quality and the independent structure of the originators, I am confident at times borrowers were coached to fill out applications with overstated incomes or net worth to meet the minimum underwriting requirements. Catching this kind of fraud was difficult at best and required the support of line management. Not surprisingly, loan originators constantly threatened to quit and to go to Countrywide or elsewhere if the loan applications were not approved."[360]

When asked by Senator Coburn if he thought the type of fraud at the Downey and Montebello loan offices extended beyond those two offices, Mr. Vanasek replied: "Yes, Senator."[361]

Another sobering internal WaMu report, issued in September 2008, a few weeks before the bank's failure, found that loans marked as containing fraudulent information had nevertheless been securitized and sold to investors. The report blamed ineffective controls that had "existed for some time":

> "The controls that are intended to prevent the sale of loans that have been confirmed by Risk Mitigation to contain misrepresentations or fraud are not currently effective. There is not a systematic process to prevent a loan in the Risk Mitigation Inventory and/or confirmed to contain suspicious activity from being sold to an investor. ... Of the 25 loans tested, 11 reflected a sale date after the completion of the investigation which confirmed fraud. There is evidence that this control weakness has existed for some time."[362]

Loans not meeting the bank's credit standards, deliberate risk layering, sales associates manufacturing documents, offices issuing loans in which 58%, 62%, or 83% contained evidence of loan fraud, and selling fraudulent loans to investors are evidence of deep seated problems that existed within WaMu's lending practices. Equally disturbing is evidence that when WaMu senior managers were confronted with evidence of substantial loan fraud, they failed to take corrective action. WaMu's failure to strengthen its lending practices, even when problems were identified, is emblematic of how lenders and mortgage brokers produced billions of dollars in high risk, poor quality home loans that contributed to the financial crisis.

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[360] April 13, 2010 Subcommittee Hearing at 17.
[361] Id. at 30.
[362] 9/8/2008 "WaMu Risk Mitigation and Mortgage Fraud 2008 Targeted Review," JPM_WM00312502, Hearing Exhibit 4/13-34.

(d) Steering Borrowers to High Risk Option ARMs

In addition to subprime loans, Washington Mutual made a variety of high risk loans to "prime" borrowers, including its flagship product, the Option Adjustable Rate Mortgage ("Option ARM"). Washington Mutual's Option ARMs typically offered borrowers an initial teaser rate, sometimes as low as 1% for the first month, which later adjusted to a much higher floating interest rate linked to an index, but gave borrowers the choice each month of paying a higher or lower amount. These loans were called "Option" ARMs, because borrowers were typically given four options: (1) paying the fully amortizing amount needed to pay off the loan in 30 years; (2) paying an even higher amount to pay off the loan in 15 years; (3) paying only the interest owed that month and no principal; or (4) making a "minimum payment" that covered only a portion of the interest owed and none of the principal.[363] If the borrower selected the minimum payment option, unpaid interest would be added to the loan principal. If the borrower repeatedly selected the minimum payment, the loan principal would increase rather than decrease over time, creating a negatively amortizing loan.

Negative amortization created additional credit risk for WaMu and posed a challenge to risk managers. At the April 13 Subcommittee hearing, Mr. Vanasek testified:

> "We had concerns from the standpoint of negative amortization that was accumulating and we had been reassured that in the past, borrowers would negatively amortize during difficult times and then make up for the lost payments in good times. But the percentage and the potential percentage for negative amortization was very large, and, of course the attendant payment shock was also very large, which was a concern to credit."[364]

Few executives at WaMu shared Mr. Vansek's concern about the Option ARM. To the extent that risk managers expressed concern, it was outweighed by the product's favorable gain-on-sale margin.

As part of its High Risk Lending Strategy, WaMu determined to increase its issuance of its Option ARM loans. To do that, WaMu had to convince customers to forego a simple, low risk conventional loan in favor of the complex and higher risk Option ARM. In late 2003, WaMu conducted two focus group studies to "explore ways to increase sales of Option ARMs, Washington Mutual's most profitable mortgage loan products."[365] The first focus group examined the views of WaMu loan consultants and third party mortgage brokers. The second focus group examined the views of WaMu Option ARM customers.

The report following the first focus group with WaMu loan consultants and mortgage brokers identified a number of impediments to selling Option ARMs. It noted that Option ARM

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[363] See 8/2006 "Option ARM Credit Risk," WaMu presentation, at 3, Hearing Exhibit 4/13-37; 10/17/2006 "Option ARM" draft presentation to the WaMu Board of Directors, JPM_WM02549027, Hearing Exhibit 4/13-38.
[364] April 13, 2010 Subcommittee Hearing at 49.
[365] 9/17/2003 "Option ARM Focus Groups – Phase II, WaMu Option ARM Customers," WaMu research report, at 3, Hearing Exhibit 4/13-35.

loans had to be "sold" to customers asking for a 30-year fixed loan, and training was needed to overcome the feeling of "many" WaMu loan consultants that Option ARMs were "bad" for their customers. The report also recommended increasing commissions so salespersons would take the "hour" needed to sell an Option ARM, and increasing loan processing times so salespersons and brokers were not inconvenienced. The report stated in part:

> "Option ARMs are **sold** to customers and few walk through the door and ask for them. ...
>
> If salespeople don't understand Option ARMs, they won't sell them. Many felt that more training would be needed to better educate salespeople about this type of loan, and to change the mindset of current Loan Consultants. Some felt there were many within Washington Mutual who simply felt these loans were 'bad' for customers, probably from a lack of understanding the product and how it could benefit customers. ...
>
> It is critical that salespeople fully understand a customer's financial situation and motivation for the loan. By taking into account these factors, they can recommend the loan that will best fit their customers' needs. Given today's low interest rate environment, it can be challenging to get salespeople to take the time to do this. Currently it is easier to give customers what they ask for (a 30 year fixed loan) than to sell them an Option ARM. They can take 20 minutes and sell a 30 fixed-rate loan, or spend an hour trying to sell an Option ARM.
>
> Commission caps make it unappealing for Mortgage Brokers to sell Washington Mutual Option ARMs. Most would not sell loans to customers with prepayment penalties, and given the low commission rate for selling them without the prepayment penalty, many simply go to another company or product where they can make more money.
>
> Slow ARM processing times (up to 90 days) can cause Mortgage Brokers to take business elsewhere…
>
> Improving collateral would help salespeople better explain Option ARMs to customers and take away some of the mystery. … They also would like improved brochures which talk to the customer in simple, easy to understand terms about features and benefits. They liked the current sample statements they are provided."[366]

The second focus group with existing Option ARM customers showed they were also unenthusiastic about the product. The focus group report stated:

> "In general, people do not seem to have a good understanding of their mortgage and its terms. What understanding they do have is framed by the concept of a 30-year fixed mortgage. Option ARMs are very complicated and need to be explained in simple, easy

[366] 8/14/2003 "Option ARM Focus Groups – Phase I, WaMu Loan Consultants and Mortgage Brokers," WaMu research report, at 3, Hearing Exhibit 4/13-36 [emphasis in original].

> to understand terms, prospective borrowers need to be educated about the loan – this is not a product that sells itself."[367]

The focus group identified several reasons that borrowers were leery of Option ARMs and suggested ways to address the unease: "Helping prospective borrowers understand payment and interest rate caps may mitigate fears of wild monthly payment swings …. Similarly, fears about negative amortization, a concept also not very well understood by the participants, could be reduced or eliminated by showing how much residential properties in the local market have appreciated over time."[368]

The main findings of the focus group included:

> "Few participants fully understood the Option ARM and its key benefits. A number of them were not familiar with the payment options or how they could be used. … Additionally, most did not understand how their interest rate was derived, how often their payments would change, and what, if any, were the interest and/or payment caps.
>
> "Perhaps the best selling point for the Option ARM loan was being shown how much lower their monthly payment would be by choosing an Option ARM versus a fixed-rate loan.
>
> "Many participants did not know what happened to their loan at the end of the fixed interest rate period. Most of them assumed they would have to sell or refinance because of a potential balloon payment or a steep jump in their payments. Because of these misperceptions, most participants expect to refinance their loans within the next three to five years."[369]

To increase Option ARM sales, WaMu increased the compensation paid to its loan personnel and outside mortgage brokers for the loans.[370] The bank also qualified borrowers for Option ARMs by using a monthly payment amount that was less than what the borrower would likely pay once the loan recast.[371]

The Option ARM was also frequently featured in sales promotion efforts communicated to loan officers through WaMu's internal alert email system known as, "e-Flash." For example, a June 5, 2006 e-Flash from Steve Stein, the Director of Retail Lending in the Home Loans division, to the entire retail sales team announced:

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[367] 9/17/2003 "Option ARM Focus Groups – Phase II, WaMu Option ARM Customers," WaMu research report, at 4, Hearing Exhibit 4/13-35.
[368] Id.
[369] Id. at 5 [emphasis in original].
[370] Subcommittee interview of David Schneider (2/17/2010).
[371] See April 13, 2010 Subcommittee Hearing at 50.

> "We are beginning to focus on higher-margin products like our flagship product, the Option ARM. This is a fantastic product for almost any borrower. To help our sales force feel more comfortable with selling the Option ARM to a wide variety of borrowers, we are rolling out a comprehensive skills assessment and training initiative. ... This initiative is not about selling the Option ARM to everyone. We will always stay true to our values and provide the right loan for every customer. … Through the skills assessment, training, role playing and a best-practices selling tips video, I think this retail sales team will be unstoppable with the Option ARM. … The Option ARM is our product and we can sell it better than anyone. I have great confidence that we'll improve our Option ARM market share quickly, like the experts that we are."[372]

One month later, Mr. Stein announced increased compensation incentives for selling Option ARMs. In another e-Flash to the entire retail sales team, Mr. Stein wrote:

> "You've seen and heard a lot recently about our refined business model and focus on higher margin products, especially Option ARMs. To further drive this focus, I'm pleased to announce the 2006 Option ARM Blitz – Quarterly Incentive Campaign. This will allow eligible Loan Consultants to earn 5 additional basis points on all Option ARM volume funded during the 3rd quarter 2006."[373]

Under the rules of the Option ARM Blitz, loan consultants who increased the percentage of Option ARMs they sold by at least 10% would receive an additional bonus. In August 2006, an e-Flash announced that the underwriting guidelines for Option ARMs had been loosened, allowing higher loan amounts for "condos and co-ops" and greater loan-to-value ratios for "low-doc" second home mortgages.[374] Also in August, an e-Flash announced that the "Option ARM Sales Mastery Program" that was launched in June, would now become part of the mandatory loan originator training curricula.[375]

In September 2006, WaMu introduced pricing incentives for Option ARMs in the consumer direct channel which waived all closing costs for Option ARMs except for an appraisal deposit.[376] In the fourth quarter of 2006, the consumer direct channel also held a contest called the "Fall Kickoff Contest." For each of the 13 weeks in the quarter, the loan consultant who scored the most points would receive a $100 gift card. An Option ARM sale was a "touchdown" and worth seven points; jumbo-fixed, equity, and nonprime mortgages were only "field goals" worth three points. At the end of the quarter the top five point winners were awarded with a $1,000 gift card.[377] In addition, from November 2006 through January 2007, e-Flashes sent to

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[372] 6/5/2006 "e-Flash" from Steve Stein to Retail Production Sales, JPM_WM03246053.
[373] 7/3/2006 "e-Flash" from Steve Stein to Retail Production Sales, JPM_WM04471136-37.
[374] 8/17/2006 "e-Flash" from Steve Stein, Arlene Hyde, and John Schleck to Production and Operations, JPM_WM03277786-87.
[375] 8/18/2006 "e-Flash" from Allen Myers to Retail Production Sales Managers, JPM_WM03277758.
[376] 8/31/2006 "e-Flash" from Mary Ann Kovach to Consumer Direct, JPM_WM03077747.
[377] 10/12/2006 "e-Flash" from Mary Ann Kovach to Consumer Direct, JPM_WM03627448-49.

consumer direct originators promoted Option ARM sales specials offering $1,000 off closing costs for loans under $300,000 and a waiver of all fees for loans greater than $300,000.[378]

Judging by sales of Option ARMs in 2004, after the completion of the focus groups, WaMu's strategy to push sales of Option ARM loans was successful. In 2003, WaMu originated $30.1 billion in Option ARMs; in 2004 WaMu more than doubled its Option ARM originations to $67.5 billion. Although sales of Option ARMs declined thereafter because of challenges in the market, in 2006, WaMu still originated $42.6 billion in Option ARMs. According to its internal documents, by 2006, Washington Mutual was the second largest Option ARM originator in the country.[379]

As WaMu's Option ARM portfolio grew, and as the wider economy worsened, the prevalence of negative amortization in the Option ARMs increased. While WaMu risk managers viewed negative amortization as a liability, WaMu accountants, following generally accepted accounting practices, treated negative amortization as an asset. In 2003, WaMu recognized $7 million in earnings from deferred interest due to negative amortization.[380] By 2006, capitalized interest recognized in earnings that resulted from negative amortization surpassed $1 billion; by 2007 it exceeded $1.4 billion.[381] In other words, as WaMu customers stopped paying down their mortgages, WaMu booked billions of dollars in earnings from the increasing unpaid balances. By another measure, in 2003, $959 million in Option ARM loans that WaMu held in its investment portfolio experienced negative amortization; in 2007, the figure was more than $48 billion.[382]

According to data compiled by the Treasury and the FDIC Inspectors General, in 2005, WaMu borrowers selected the minimum monthly payment option for 56% of the value of the Option ARM loans in its investment portfolio. By the end of 2007, 84% of the total value of the Option ARMs in WaMu's investment portfolio was negatively amortizing.[383] To avoid having their loans recast at a higher interest rate, Option ARM borrowers typically refinanced the outstanding loan balance. Some borrowers chose to refinance every year or two.[384] The Treasury and the FDIC IG report determined that a significant portion of Washington Mutual's Option ARM business consisted of refinancing existing loans.[385]

One WaMu loan officer, Brian Minkow, told the Subcommittee that he expected the vast majority of Option ARMs borrowers to sell or refinance their homes before their payments increased.[386] As long as home prices were appreciating, most borrowers were able to refinance if

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[378] See, e.g., 11/13/2006 "e-Flash" from Mary Ann Kovack to Consumer Direct, JPM_WM03077089-90.
[379] 2007 "Home Loans Product Strategy," WaMu presentation at JPM_WM03097203, Hearing Exhibit 4/13-60a (only Countrywide ranked higher).
[380] 2005 Washington Mutual Inc. 10-K filing with the SEC at 27.
[381] Id.
[382] Id. at 55; 3/2007 Washington Mutual Inc. 10-K filing with the SEC at 57.
[383] 4/2010 IG Report, at 9, Hearing Exhibit 4/16-82.
[384] Subcommittee interview of Brian Minkow (2/16/2010).
[385] 4/2010 IG Report, Hearing Exhibit 4/16-82.
[386] Subcommittee interview of Brian Minkow (2/16/2010).

they chose to. According to Mr. Minkow, who was one of WaMu's top loan consultants and in some years originated more than $1 billion in loans, 80% of his business was in Option ARMs, and 70% of his business consisted of refinances.[387] Once housing prices stopped rising, however, refinancing became difficult. At recast, many people found themselves in homes they could not afford, and began defaulting in record numbers.

WaMu was one of the largest originators of Option ARMs in the country. In 2006 alone, WaMu securitized or sold $115 billion in Option ARMs.[388] Like Long Beach securitizations, WaMu Option ARM securitizations performed badly starting in 2006, with loan delinquency rates between 30 and 50%, and rising.[389]

(e) Marginalization of WaMu Risk Managers

WaMu knowingly implemented a High Risk Lending Strategy, but failed to establish a corresponding system for risk management. Instead, it marginalized risk managers who warned about and attempted to limit the risk associated with the high risk strategy.

At the time it formally adopted its High Risk Lending Strategy, WaMu executives acknowledged the importance of managing the risks it created. For example, the January 2005 "Higher Risk Lending Strategy 'Asset Allocation Initiative'" presentation to the Board of Directors Finance Committee stated in its overview:

> "In order to generate more sustainable, consistent, higher margins within Washington Mutual, the **2005 Strategic Plan** calls for a shift in our mix of business, increasing our Credit Risk tolerance while continuing to mitigate our Market and Operational Risk positions.
>
> "The Corporate Credit Risk Management Department has been tasked, in conjunction with the Business Units, to develop a framework for the execution of this strategy. Our numerous activities include:
>
> -Selecting best available credit loss models
> -Developing analytical framework foundation
> -Identifying key strategy components per Regulatory Guidance documents
>
> "A strong governance process will be important as peak loss rates associated with this higher risk lending strategy will occur with a several year lag and the correlation between high risk loan products is important. For these reasons, the Credit Department will pro-

[387] Id.
[388] 10/17/2006 "Option ARM" draft presentation to the WaMu Board of Directors, JPM_WM02549027, Hearing Exhibit 4/13-38, chart at 2.
[389] See wamusecurities.com (subscription website maintained by JPMorgan Chase with data on Long Beach and WaMu mortgage backed securities showing, as of January 2011, delinquency rates for particular mortgage backed securities, including WMALT 2006 OA-3 – 57.87% and WAMU 2007-OA4 – 48.43%).

> actively review and manage the implementation of the Strategic Plan and provide quarterly feedback and recommendations to the Executive Committee and timely reporting to the Board."[390]

The robust risk management system contemplated by in the January 2005 memorandum, which was critical to the success of the High Risk Lending Strategy, was never meaningfully implemented. To the contrary, risk managers were marginalized, undermined, and often ignored. As former Chief Risk Manager Jim Vanasek testified at the April 13 Subcommittee hearing:

> "I made repeated efforts to cap the percentage of high-risk and subprime loans in the portfolio. Similarly, I put a moratorium on non-owner-occupied loans when the percentage of these assets grew excessively due to speculation in the housing market. I attempted to limit the number of stated income loans, loans made without verification of income. But without solid executive management support, it was questionable how effective any of these efforts proved to be."[391]

Later in the hearing, Mr. Vanasek had the following exchange with Senator Coburn:

> Senator Coburn: Did you ever step in and try to get people to take a more conservative approach at WaMu?
>
> Mr. Vanasek: Constantly.
>
> Senator Coburn: Were you listened to?
>
> Mr. Vanasek: Very seldom.
>
> Senator Coburn: [Had] you ever felt that your opinions were unwelcomed, and could you be specific?
>
> Mr. Vanasek: Yes. I used to use a phrase. It was a bit of humor or attempted humor. I used to say the world was a very dark and ugly place in reference to subprime loans. I cautioned about subprime loans consistently.[392]

Mr. Vanasek's description of his efforts is supported by contemporaneous internal documents. In a February 24, 2005 memorandum to the Executive Committee with the subject heading, "Critical Pending Decisions," for example, Mr. Vanasek cautioned against expanding WaMu's "risk appetite":

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[390] 1/2005 "Higher Risk Lending Strategy 'Asset Allocation Initiative,'" Washington Mutual Board of Directors Finance Committee Discussion, JPM_WM00302975, Hearing Exhibit 4/13-2a [emphasis in original].
[391] April 13, 2010 Subcommittee Hearing at 17.
[392] Id. at 32.

> "My credit team and I fear that we are considering expanding our risk appetite at exactly the wrong point and potentially walking straight into a regulatory challenge and criticism from both the Street and the Board. Said another way I fear that the timing of further expansion into higher risk lending beyond what was contemplated in the '05 Plan and most especially certain new products being considered is ill-timed given the overheated market and the risk [of] higher interest rates….
>
> So we come down to the basic question, is this the time to expand beyond the '05 Plan and/or to expand into new categories of higher risk assets? For my part I think not. We still need to complete EDE [Enterprise Decision Engine, an automated underwriting system], reduce policy exception levels, improve the pricing models, build our sub-prime collection capability, improve our modeling etc. We need to listen to our instincts about the overheated housing market and the likely outcome in our primary markets. We need to build further credibility with the regulators about the control exercised over our SFR underwriting and sub-prime underwriting particularly in LBMC."[393]

Mr. Vanasek retired in December 2005, in part, because the management support for his risk policies and culture was lacking.[394] When Mr. Vanasek left WaMu, the company lost one of the few senior officers urging caution regarding the high risk lending that came to dominate the bank. After his departure, many of his risk management policies were ignored or discarded. For example, by the end of 2007, stated income loans represented 73% of WaMu's Option ARMs, 50% of its subprime loans, and 90% of its home equity loans.[395]

Ronald Cathcart was hired in December 2005 to replace Mr. Vanasek, and became the Chief Enterprise Risk Officer. He had most recently been the Chief Risk Officer for Canadian Imperial Bank of Commerce's retail bank.[396] Although the High Risk Lending Strategy was well underway, after Mr. Vanasek's departure, risk management was in turmoil. Mr. Cathcart testified at the Subcommittee hearing: "When I arrived at WaMu, I inherited a Risk Department that was isolated from the rest of the bank and was struggling to be effective at a time when the mortgage industry was experiencing unprecedented demand for residential mortgage assets." In early 2006, the bank reorganized WaMu's risk management.[397] Under the new system, much of the risk management was subordinated to the WaMu business divisions, with each business division's Chief Risk Officer reporting to two bosses, Mr. Cathcart and the head of the business unit to which the Risk Officer was assigned. WaMu referred to this system of reporting as a "Double-Double."[398]

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[393] 2/24/2005 Washington Mutual memorandum from Jim Vanasek to the Executive Committee, "Critical Pending Decisions," JPM_WM01265462-64.
[394] Subcommittee interview of Jim Vanasek (12/18/2009 and 1/19/2010).
[395] 4/2010 IG Report, at 10, Hearing Exhibit 4/16-82.
[396] Subcommittee interview of Ronald Cathcart (2/23/2010).
[397] Id.
[398] Id.; Subcommittee interviews of David Schneider (2/17/2010) and Cheryl Feltgen (2/6/2010).

Cheryl Feltgen, for example, was the Chief Risk Officer for the Home Loans division. She reported both to Mr. Cathcart and to Mr. Schneider, the Home Loans President, setting up a tension between the two.[399] Mr. Schneider had hired Ms. Feltgen from Citi Mortgage, where she had been the Chief Marketing Officer, not a risk manager. Mr. Cathcart told the Subcommittee that he would not have hired her for the role, because of her lack of risk management experience.[400]

Ms. Feltgen told the Subcommittee that, although she was the Home Loans Chief Risk Officer, she also had responsibility to meet business goals. She indicated that she did not see her role as one of risk minimization, but rather of risk optimization.[401] Her 2007 performance evaluation reflected her dual responsibilities, but clearly subordinated her risk management duties to the achievement of business growth objectives. For example, the evaluation identified a series of goals and assigned each a percentage weighting to determine their precedence. Instead of assigning priority to her performance in the area of managing risk, Ms. Feltgen's number one performance goal for 2007 was "GROWTH" in home loans, given a weighting of 35%, followed by "RISK MANAGEMENT," given a weighting of only 25%.[402] Her performance review even listed specific sales targets:

> "Employee Goals
>
> **GROWTH 35%**
>
> 1. Achieve Net Income - $340 MM for 2007
> 2. HL [Home Loan] Product Sales (Incl. Conduit)
>   1. Home Equity - $18B
>   2. Subprime - $32B
>   3. Option ARM - $33B
>   4. Alt A - $10B
> 3. Customer Satisfaction (Total HL) – 55%"[403]

By conditioning her evaluation on whether her division hit pre-determined sales figures, the performance evaluation made her compensation more dependent upon the Home Loans division hitting revenue growth and product sales than upon her contributions to risk management.

Further complicating matters were Ms. Feltgen's two supervisors. In an interview, Ms. Feltgen stated that Ron Cathcart, her supervisor on risk matters, was "not well respected" and did not have "a strong voice." [404] On the other hand, she described David Schneider, her

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[399] See April 13, 2010 Subcommittee Hearing at 34; Subcommittee interviews of Mr. Cathcart (2/23/2010), Mr. Schneider (2/17/2010), and Ms. Feltgen (2/6/2010).
[400] Subcommittee interview of Ronald Cathcart (2/23/2010).
[401] Subcommittee interview of Cheryl Feltgen (2/6/2010).
[402] "Performance Review Form: Leadership," Hearing Exhibit 4/13-64 (the form is not dated, but Ms. Feltgen confirmed that it is the 2007 review).
[403] Id.
[404] Subcommittee interview of Cheryl Feltgen (2/6/2010).

supervisor on loan origination matters, as having a strong voice and acting more as her boss. This arrangement again de-emphasized the importance of her risk duties.

Ms. Feltgen's dedication to the growth of the Home Loans business is apparent in her communications with her staff. For example, on December 26, 2006, she sent a year-end email to her staff. Under the subject line, "Year-End 2006 Message for the Home Loans Risk Management Team," Ms. Feltgen wrote:

> "As we approach the close of 2006, it is fitting to reflect on the challenges and accomplishments of this past year and to look forward to 2007 and beyond. Earlier this year David Schneider and the leadership team of Home Loans articulated a new business strategy that included: (1) a shift to higher margin products (Alt-A, subprime and home equity); (2) reducing market risk… and taking on more credit risk and (3) aggressively attacking the cost structure. We have made great strides as a business on all of those fronts and you have all been a part of those accomplishments. You have partnered successfully with the business units of Home Loans in pursuit of our collective goal to drive profitable growth with the right balance of risk and return."[405]

The email continued with a list of "accomplishments of the Home Loans Risk Management Team in support of business goals," that included the following accomplishment: "Our appetite for credit risk was invigorated with the expansion of credit guidelines for various product segments including the 620 to 680 FICO, low docs and also for home equity."[406] The email continued with Ms. Feltgen stating her commitment to the High Risk Lending Strategy and emphasizing revenue and sales despite an acknowledgement of the worsening condition of the mortgage market:

> "The year 2007 will be another challenging year for the mortgage industry with mortgage origination volumes down, the inverted yield curve putting pressure on profitability and gain on sale margins at lower level than prior years. The focus on the three key elements of our 2006 strategy remains important: shift to higher margin products, reduce market risk and increase credit risk and attack the cost structure. … In 2007, we must find new ways to grow our revenue. Home Loans Risk Management has an important role to play in that effort.
>
> "David Schneider has encouraged us to 'BE BOLD'…. Recognize that 'we are all in sales' passionately focused on delivering great products and service to our customers."[407]

Ms. Feltgen's year-end bonus was based upon her performance review.[408] According to Mr. Cathcart, in 2007, the bank made bonus distributions more dependent on the performance of

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[405] 1/3/2007 email from Cheryl Feltgen, "Year-End 2006 Message for the Home Loans Risk Management Team," Hearing Exhibit 4/13-73.
[406] Id.
[407] Id.
[408] Subcommittee Interview of Ronald Cathcart (2/23/2010).

each business line, rather than the performance of the bank as a whole, which largely removed his control over compensation of his risk managers. Mr. Cathcart told the Subcommittee that he disagreed with this change because it made his risk managers, who reported to him and to the heads of the business units, more beholden to the business heads. Mr. Cathcart said he approached the head of Human Resources, and strongly objected to the change, but was told to take it up with Mr. Killinger. Mr. Cathcart told the Subcommittee that he voiced his objection to Mr. Killinger, but Mr. Killinger told him to talk to Mr. Rotella. He said that he took his objection to Mr. Rotella, but was unsuccessful at preventing the policy change.

Mr. Cathcart told the Subcommittee that this change created further separation between him and his risk managers, and compromised the independence of risk management.[409] He testified at the Subcommittee hearing:

> Mr. Cathcart: The chairman adopted a policy of what he called double reporting, and in the case of the Chief Risk Officers, although it was my preference to have them reporting directly to me, I shared that reporting relationship with the heads of the businesses so that clearly any of the Chief Risk Officers reporting to me had a direct line to management apart from me.
>
> Senator Coburn: And was that a negative or a positive in terms to the ultimate outcome in your view?
>
> Mr. Cathcart: It depended very much on the business unit and on the individual who was put in that double situation. I would say that in the case of home loans, it was not satisfactory because the Chief Risk Officer of that business favored the reporting relationship to the business rather than to risk.[410]

The subordination of risk management to sales was apparent at WaMu in many other ways as well. Tony Meola, the head of home loans sales, reported directly to David Schneider. He had direct access to Mr. Schneider and often pushed for more lenient lending standards. According to Ms. Feltgen, the sales people always wanted more lenient standards and more mortgage products, and Mr. Meola advocated for them.[411]

One example was the 80/20 loan, which consisted of a package of two loans issued together, an 80% LTV first lien and a 20% LTV second lien, for a total CLTV of 100%. Ms. Feltgen said she was nervous about the product, as a 100% CLTV was obviously very risky. WaMu's automatic underwriting system was not set up to accept such loans, but Mr. Meola wanted permission to "side step" the systems issue.[412] Mr. Schneider approved the product, and Ms. Feltgen ultimately signed off on it. She told the Subcommittee that it was a high risk

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[409] Id.
[410] April 13, 2010 Subcommittee Hearing at 34.
[411] Subcommittee Interview of Cheryl Feltgen (2/6/2010).
[412] See 2/2006 WaMu internal email chain, "FW: 80/20," JPM_WM03960778.

product, but was priced accordingly, and that it might have been successful if housing prices had not declined.[413]

When the housing market began to collapse, a time in which prudent risk management became even more critical, Mr. Cathcart, the Chief Enterprise Risk Manager, was accorded even less deference and authority. Mr. Cathcart testified at the April 13th hearing:

> "Financial conditions… deteriorated further in 2007 and 2008. As head of risk, I began to be excluded from key management decisions. By February 2008, I had been so fully isolated that I initiated a meeting with the Director, where I advised that I was being marginalized by senior management to the point that I was no longer able to discharge my responsibilities as Chief Enterprise Risk Officer of WaMu. Within several weeks, I was terminated by the Chairman."[414]

During his interview with the Subcommittee Mr. Cathcart provided additional detail about his marginalization by senior management.[415] He said that he initially had extensive interaction with the WaMu Board of Directors and presented to the full Board every six months. According to Mr. Cathcart, he attended all of the Board meetings until the end of 2007 or the beginning of 2008, at which time he was no longer invited. Mr. Cathcart felt he was excluded from Board meetings and calls with investment bankers because he was forthright about WaMu's mortgage loss rates, whereas senior management used older, more favorable numbers. According to Mr. Cathcart, during one of the last Board meetings he attended, after a presentation on expected mortgage losses, he interjected that the loan loss data being presented were already out of date, and the real figures would be much worse. He also recalled speaking up in a 2007 conference call with investment bankers to correct an overly optimistic loss figure. According to Mr. Cathcart, he was chastised for his corrections by WaMu management and told to leave the credit discussions to another senior manager.

Mr. Cathcart told the Subcommittee that regulators were also given out-of-date loss projections as the situation worsened, because Mr. Killinger and Mr. Rotella wanted to prevent a negative reaction. Mr. Cathcart said that the loss rates were increasing every week, and the regulators were being provided with three-week old information. Mr. Cathcart told the Subcommittee that in February or March 2008, he discovered that Mr. Killinger had provided the Director of OTS, John Reich, with out-of-date loss rates. Mr. Cathcart said that he called a meeting with Mr. Dochow, head of the OTS West Regional Office, and provided him with the current numbers. Mr. Cathcart said that Mr. Killinger found out about the meeting and was upset. In April, Mr Killinger fired Mr. Cathcart.

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[413] Subcommittee Interview of Cheryl Feltgen (2/6/2010). See also 2/2006 WaMu internal email chain, "FW: 80/20," JPM_WM03960778.
[414] April 13, 2010 Subcommittee Hearing at 19.
[415] Subcommittee interview of Ronald Cathcart (2/23/2010).

E. Polluting the Financial System

Washington Mutual, as the nation's largest thrift, was a leading issuer of home loans. When many of those loans began to go bad, they caused significant damage to the financial system.

Washington Mutual originated or acquired billions of dollars of home loans through multiple channels, including loans originated by its own loan officers, loans brought to the bank by third party mortgage brokers, and loans purchased in bulk from other lenders or firms. Its subprime lender, Long Beach, originated billions of dollars in home loans brought to it by third party mortgage brokers across the country. According to a 2007 WaMu presentation, by 2006, Washington Mutual was the second largest nonagency issuer of mortgage backed securities in the United States, behind Countrywide.[416]

Washington Mutual and Long Beach sold or securitized the vast majority of their subprime home loans. Initially, Washington Mutual kept most of its Option ARMs in its proprietary investment portfolio, but eventually began selling or securitizing those loans as well. With respect to other loans, such as fixed rate 30-year, Alt A, home equity, and jumbo loans, WaMu kept a portion for its own investment portfolio, and sold the rest either to Wall Street investors, usually after securitizing them, or to Fannie Mae or Freddie Mac.

By securitizing billions of dollars in poor quality loans, WaMu and Long Beach were able to decrease their risk exposure while passing along risk to others in the financial system. They polluted the financial system with mortgage backed securities which later incurred high rates of delinquency and loss. At times, WaMu securitized loans that it had identified as likely to go delinquent, without disclosing its analysis to investors to whom it sold the securities, and also securitized loans tainted by fraudulent information, without notifying purchasers of the fraud that was discovered and known to the bank.

(1) WaMu and Long Beach Securitizations

From 2000 to 2007, Washington Mutual and Long Beach securitized at least $77 billion in subprime and home equity loans.[417] WaMu also sold or securitized at least $115 billion in Option ARM loans.[418] Between 2000 and 2008, Washington Mutual sold over $500 billion in loans to Fannie Mae and Freddie Mac, accounting for more than a quarter of every dollar in loans WaMu originated.[419]

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[416] See 6/11/2007 chart entitled, "Rate of Growth Exceeds the Industry," JPM_WM03409860, Hearing Exhibit 4/13-47c.

[417] 6/2008 "WaMu Wholesale Specialty Lending Securitization Performance Summary," JPM_WM02678980, Hearing Exhibit 4/13-45.

[418] 10/17/2006 "Option ARM" draft presentation to the WaMu Board of Directors, JPM_WM02549027, Hearing Exhibit 4/13-38 (see chart at 2). See also 8/2006 "Option ARM Credit Risk," WaMu presentation, at JPM_WM00212644, Hearing Exhibit 4/13-37 (see chart at 5).

[419] See chart in section E(4), below, using loan data from Inside Mortgage Finance.

According to a 2007 WaMu presentation at a securities investor meeting in New York, in 2004, WaMu issued $37.2 billion in RMBS securitizations and was the sixth largest RMBS issuer in the United States.[420] In 2005, it doubled its production, issuing $73.8 billion in securitizations, and became the third largest issuer. In 2006, it issued $72.8 billion and was the second largest issuer, behind Countrywide.[421]

WaMu and Long Beach's securitizations produced only RMBS securities. Although WaMu considered issuing CDO securities as well, it never did so.[422] From 2004 to 2006, WaMu and Long Beach securitized dozens of pools of prime, subprime, Alt A, second lien, home equity, and Option ARM loans.[423] WaMu and Long Beach also sold "scratch and dent" pools of nonperforming loans, including nonperforming primary mortgages, second lien, and Option ARMs.[424]

At first, Washington Mutual worked with Wall Street firms to securitize its home loans, but later built up its own securitization arm, Washington Mutual Capital Corporation (WCC), which gradually took over the securitization of both WaMu and Long Beach loans. WCC was a private Washington State corporation that WaMu acquired from another bank in 2001, and renamed.[425] WCC became a wholly owned subsidiary of Washington Mutual Bank. In July 2002, WaMu announced that WCC would act as an institutional broker-dealer handling RMBS securities and would work with Wall Street investment banks to market and sell WaMu and Long Beach RMBS securities.[426]

WCC was initially based in Seattle, and by 2003, had between 30 and 40 employees.[427] In 2004, due to increasing securitizations, WaMu decided to move the headquarters of WCC to Manhattan.[428] In 2004, for the first time, WCC acted as the lead manager of a WaMu securitization. That same year, WCC initiated a "conduit program" to buy Alt A and subprime loans in bulk for securitization.[429] WCC issued its first Alt A securitization in 2005, and its first subprime securitization in 2006.[430] It also conducted whole loan sales and credit card

[420] See 6/11/2007 chart entitled, "Rate of Growth Exceeds the Industry," JPM_WM03409860, Hearing Exhibit 4/13-47c.
[421] Id. WaMu attributed its rapid rise in the issuer rankings over the three-year period to its establishment of a Conduit Program, which began buying loans in bulk in 2004. Id.
[422] See 12/15/2006 Enterprise Risk Management Committee, JPM_WM02656967. See also 10/25/2006 Asset-Liability Management Committee Meeting Agenda, JPM_WM02406624.
[423] See 6/2008 "WaMu Wholesale Specialty Lending Securitization Performance Summary," JPM_WM02678980, Hearing Exhibits 4/13-45 and 46; 6/11/2007 chart entitled, "WaMu Capital Corp Sole/Lead Underwriter," JPM_WM03409861, Hearing Exhibit 4/13-47c.
[424] See, e.g., undated "List of WaMu-Goldman Loans Sales and Securitizations," Hearing Exhibit 4/13-47b; 2/2007 internal WaMu email chain, JPM_WM00652762.
[425] See 6/11/2007 chart entitled, "Capital Markets Division Growth," JPM_WM03409858, Hearing Exhibit 4/13-47c.
[426] Id.
[427] Subcommittee interview of David Beck (3/2/2010).
[428] Id.
[429] See 6/11/2007 chart entitled, "Capital Markets Division Growth," JPM_WM03409858, Hearing Exhibit 4/13-47c.
[430] Id.

securitizations.[431] At its peak, right before the collapse of the subprime securitization market, WCC had over 200 employees and offices in Seattle, New York, Los Angeles, and Chicago. The majority of WCC employees were based in New York.[432] WCC was headed by Tim Maimone, WCC President, who reported to David Beck, Executive Vice President in charge of WaMu's Capital Markets Division. Mr. Beck reported to the President of WaMu's Home Loans Division, David Schneider.[433]

At the Subcommittee hearing on April 13, 2010, Mr. Beck explained the role of WCC in WaMu and Long Beach securitizations as follows:

> "WaMu Capital Corp. acted as an underwriter of securitization transactions generally involving Washington Mutual Mortgage Securities Corp. or WaMu Asset Acceptance Corp. Generally, one of the two entities would sell loans into a securitization trust in exchange for securities backed by the loans in question, and WaMu Capital Corp. would then underwrite the securities consistent with industry standards. As an underwriter, WaMu Capital Corp. sold mortgage-backed securities to a wide variety of institutional investors.[434]

WCC sold WaMu and Long Beach loans and RMBS securities to insurance companies, pension funds, hedge funds, other banks, and investment banks.[435] It also sold WaMu loans to Fannie Mae and Freddie Mac. WCC personnel marketed WaMu and Long Beach loans both in the United States and abroad.

Before WCC was able to act as a sole underwriter, WaMu and Long Beach worked with a variety of investment banks to arrange, underwrite, and sell its RMBS securitizations, including Bank of America, Credit Suisse, Deutsche Bank, Goldman Sachs, Lehman Brothers, Merrill Lynch, Royal Bank of Scotland, and UBS. To securitize its loans, WaMu typically assembled and sold a pool of loans to a qualifying special-purpose entity (QSPE) that it established for that purpose, typically a trust.[436] The QSPE then issued RMBS securities secured by future cash flows from the loan pool. Next, the QSPE—working with WCC and usually an investment bank—sold the RMBS securities to investors, and used the sale proceeds to repay WaMu for the

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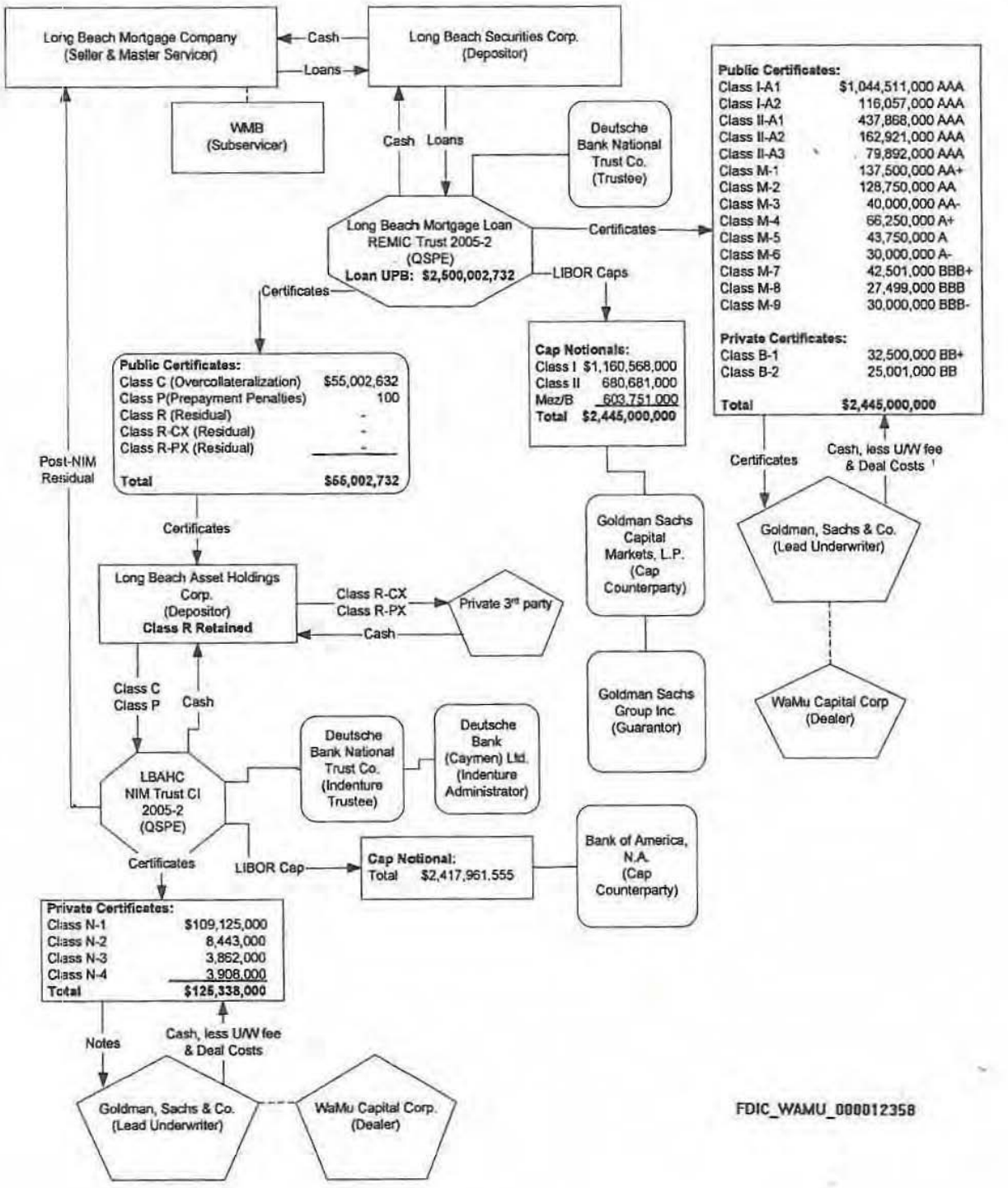
[431] Id.
[432] Subcommittee interview of David Beck (3/2/2010).
[433] Id.
[434] April 13, 2010 Subcommittee Hearing at 53. Washington Mutual Mortgage Securities Corp. (WMMSC) and WaMu Asset Acceptance Corp. (WAAC) served as warehouse entities that held WaMu loans intended for later securitization. Mr. Beck explained in his prepared statement: "WMMSC and WAAC purchased loans from WaMu, and from other mortgage originators, and held the loans until they were sold into the secondary market. WCC was a registered broker-dealer and acted as an underwriter of securitization deals for a period of time beginning in 2004 and ending in the middle of 2007. In addition to buying and selling mortgage loans, WMMSC acted as a 'master servicer' of securitizations. The master servicer collects and aggregates the payments made on loans in a securitized pool and forwards those payments to the Trustee who, in turn, distributes those payments to the holders of the securities backed by that loan pool." Id. at 163.
[435] See 6/11/2007 chart entitled, "Origination Through Distribution," JPM_WM03409859, Hearing Exhibit 4/13-47c; Subcommittee interview of David Beck (3/2/2010).
[436] See 3/2007 Washington Mutual Inc. 10-K filing with the SEC, at 45 (describing securitization process).

cost of the loan pool. Washington Mutual Inc. generally retained the right to service the loans. WaMu or Long Beach might also retain a senior, subordinated, residual, or other interest in the loan pool.

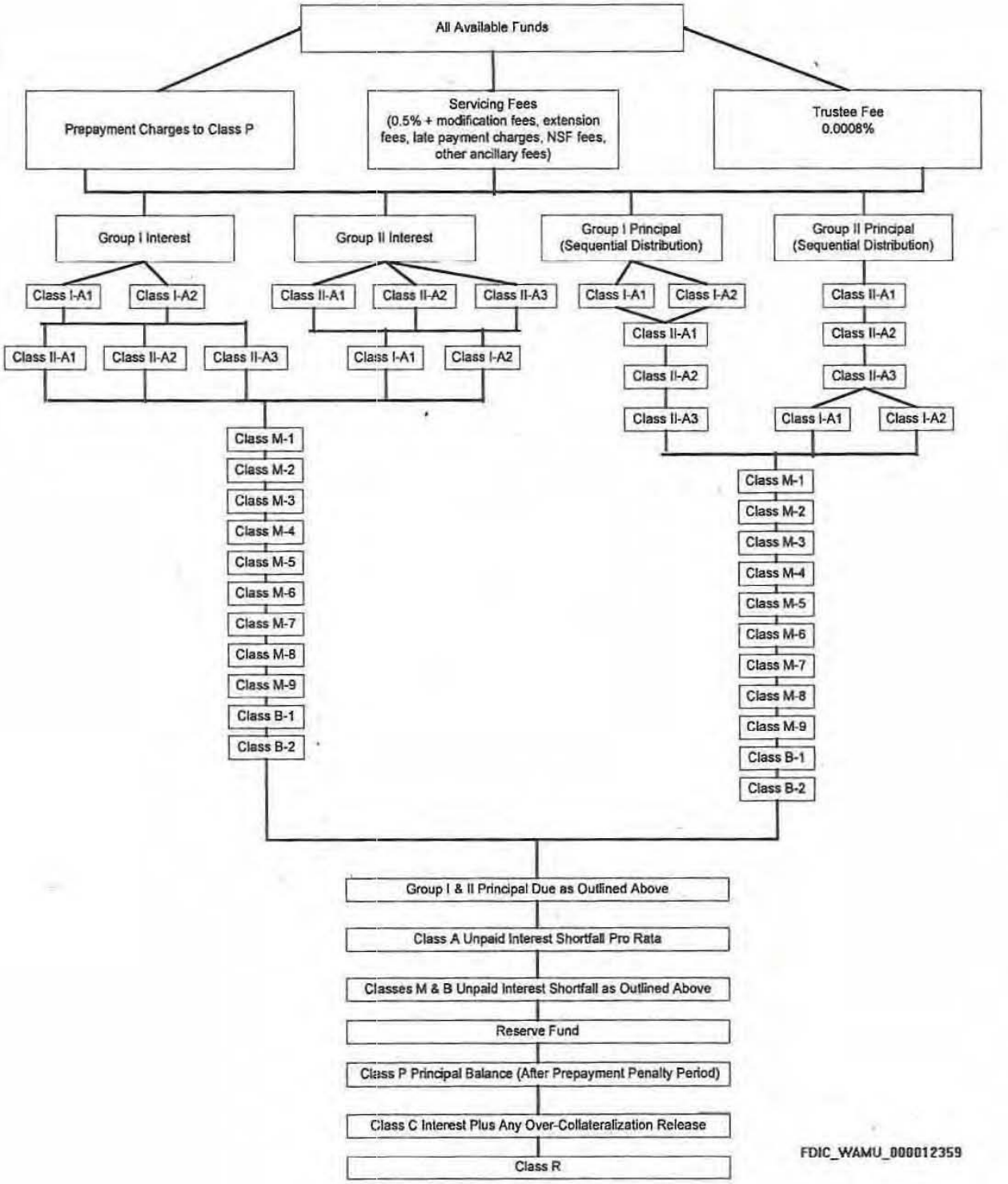
The following two diagrams created for a 2005 Long Beach securitization, LBMC 2005-2, demonstrate the complex structures created to issue the RMBS securities, as well as the "waterfall" constructed to determine how the mortgage payments being made into the securitization pool would be used.[437]

[437] See "LBMC 2005-2 Structure" and "LBMC 2005-2 Cash Flow Waterfall," FDIC_WAMU_000012358-59, Hearing Exhibit 47a.

LBMC 2005-2 Structure



LBMC 2005-2 Cash Flow Waterfall



FDIC_WAMU_000012359

In that particular securitization, Goldman Sachs served as the lead underwriter, WCC served as the securities dealer, Deutsche Bank served as the trustee of the trust set up to hold the securities, and Long Beach served as the mortgage servicer.

Another document, prepared by Goldman Sachs, shows the variety of relationships that WaMu engaged in as part of its securitization efforts.[438] That document, which consists of a list of various loan pools and related matters, shows that WaMu worked with Goldman Sachs to make whole loan sales; securitize loans insured by the Federal Home Administration or Veterans Administration; and securitize prime, subprime, Alt A, second lien, and scratch and dent nonperforming loans. It also shows that Goldman Sachs asked WaMu and Long Beach to repurchase more than $19.7 million in loans it had purchased from the bank.[439]

Goldman Sachs handled a number of securitizations for Long Beach. At one point in 2006, Goldman Sachs made a pitch to also handle loans issued by WaMu. One Goldman Sachs broker explained to a colleague in an email: "They have possibly the largest subprime portfolio on the planet."[440]

(2) Deficient Securitization Practices

Over the years, both Long Beach and Washington Mutual were repeatedly criticized by the bank's internal auditors and reviewers, as well as its regulators, OTS and the FDIC, for deficient lending and securitization practices. Their mortgage backed securities were among the worst performing in the marketplace due to poor quality loans that incurred early payment defaults, fraud, and high delinquency rates.

Long Beach Securitizations. In April 2005, an internal email sent by an OTS regulator recounted eight years of abysmal performance by Long Beach securities, noting that loan delinquencies and losses occurred in pools containing both fixed rate and adjustable rate mortgages:

> "[Securitizations] prior to 2003 have horrible performance…. For FRM [fixed rate mortgage] losses, LBMC finished in the top 12 worst annual NCLs [net credit losses] in 1997 and 1999 thru 2003. LBMC nailed down the number 1 spot as top loser with an NCL of 14.1% in 2000 and placed 3rd in 2001 with 10.5% .... For ARM losses, LBMC really outdid themselves with finishes as one of the top 4 worst performers for 1999 thru 2003. For specific ARM deals, LBMC made the top 10 worst deal list from 2000 thru 2002. LBMC had an extraordinary year in 2001 when their securitizations had 4 of the top 6 worst NCLs (range: 11.2% to 13.2%).

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[438] Undated "List of WaMu-Goldman Loans Sales and Securitizations," Hearing Exhibit 4/13-47b.
[439] Id.
[440] 3/24/2005 email from Kevin Gasvoda of Goldman Sachs to Christopher Gething, others, Hearing Exhibit 4/27-167b.

> "Although underwriting changes were made from 2002 thru 2004, the older issues are still dragging down overall performance. Despite having only 8% of UPB [unpaid balances] in 1st lien FRM pools prior to 2002 and only 14.3% in 2002 jr. lien pools, LBMC still had third worst delinquencies and NCLs for most of [the] period graphed from 11/02 thru 2/05 and was 2nd worst in NCLs in 2005 out of 10 issuers graphed. … At 2/05, LBMC was #1 with a 12% delinquency rate. Industry was around 8.25%. At 3/05, LBMC had a historical NCL rate of 2% smoking their closest competitor by 70bp and tripling the industry average."[441]

This email, which is based upon a 2005 Fitch analysis of Long Beach, shows that, from 1997 to March 2005, due to loan delinquencies and losses, Long Beach securities were among the very worst performing in the entire subprime industry.[442]

Long Beach's performance did not improve after 2005. In April 2006, for example, Nomura Securities issued an analysis of the ABX Index that tracked a basket of 20 subprime RMBS securities and identified Long Beach as the worst performer:

> "Long Beach Mortgage Loan Trust appears to be the poorest performing issuer, with its three deals averaging 15.67% in 60+ day delinquency and 12.75% in 90+ day delinquency. Unsurprisingly, all three deals issued by LBMLT have exceeded their delinquency trigger limits."[443]

In November 2006, while attending the Asset Backed Securities East Conference for the securitization industry, the head of WaMu's Capital Markets Division, David Beck, emailed WaMu's Home Loans President, David Schneider, that with respect to RMBS securities carrying noninvestment grade ratings, "LBMC [Long Beach] paper is among the worst performing paper in the mkt [market] in 2006. Subordinate buyers want answers."[444]

In March 2007, an analysis by JPMorgan Chase again singled out Long Beach securities for having the worst delinquency rates among the subprime securities tracked by the ABX Index:

> "Washington Mutual Inc.'s subprime bonds are suffering from some of the worst rates of delinquency among securities in benchmark indexes, according to JPMorgan Chase & Co. research. … Delinquencies of 60 days or more on loans supporting WaMu's Long Beach LBMLT 2006-1 issue jumped … to 19.44 percent … the highest among the 20

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[441] 4/14/2005 email from Steve Blelik to David Henry, "Fitch – LBMC Review," Hearing Exhibit 4/13-8a.
[442] Id.
[443] 4/19/2006 "ABX Index – The Constituent Breakdown," prepared by Nomura Securities International Inc., http://www.scribd.com/doc/19606903/Nomura-ABX-Index-The-Constituent-Breakdown.
[444] 11/7/2006 email from David Beck to David Schneider, Hearing Exhibit 4/13-50. See also 4/19/2006 "ABX Index – The Constituent Breakdown," prepared by Nomura Securities International Inc., http://www.scribd.com/doc/19606903/Nomura-ABX-Index-The-Constituent-Breakdown.

> bonds in the widely watched ABX-HE 06-2 index of bonds backed by residential loans to risky borrowers."[445]

In July 2007, Moody's and S&P downgraded the credit ratings of hundreds of subprime RMBS and CDO securities, due to rising mortgage delinquencies and defaults. Included were approximately 40 Long Beach securities.[446] A July 12, 2007 presentation prepared by Moody's to explain its ratings action shows that Long Beach was responsible for only 6% of all the subprime RMBS securities issued in 2006, but received 14% of the subprime RMBS ratings downgrades that day.[447] Only Fremont had a worse ratio.

Over time, even AAA rated Long Beach securities performed terribly. Of the 75 Long Beach mortgage backed security tranches rated AAA by Standard and Poor's in 2006, all 75 have been downgraded to junk status, defaulted, or been withdrawn.[448] In most of the 2006 Long Beach securitizations, the underlying loans have delinquency rates of 50% or more.[449]

The problems were not confined to Long Beach loans. In early 2008, for example, an investment adviser posted information on his personal blog about a WaMu-sponsored RMBS securitization known as WMALT 2007-OC1. Formed in May 2007, this pool contained about 1,700 Alt A loans with a total outstanding balance of about $515 million. WaMu was the sole underwriter. The credit rating agencies gave AAA and other investment grade ratings to more than 92% of the securitization, but within eight months, 15% of the pool was in foreclosure. The posting suggested that the poor performance of WaMu securities was systemic.

When informed by David Schneider of the complaint about the negative publicity surrounding the pool, David Beck responded:

> "Yes (ughh!) we are doing some peer group performance and looking at the servicing data … and putting together an analysis. … The collateral is full of limited doc layered risk alt a paper and at least half is TPO [third party originated]. The performance is not great but my opinion is not a WaMu specific issue."[450]

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[445] "WaMu subprime ABS delinquencies top ABX components," Reuters (3/27/2007), Hearing Exhibit 4/13-52.
[446] 7/10/2007-7/12/2007 excerpts from Standard & Poor's and Moody's Downgrades, Hearing Exhibit 4/23-99.
[447] 7/12/2007 "Moody's Structured Finance Teleconference and Web Cast: RMBS and CDO Rating Actions," MOODYS-PSI2010-0046902, Hearing Exhibit 4/23-106.
[448] See Standard and Poor's data at www.globalcreditportal.com.
[449] See, e.g., wamusecurities.com (subscription website maintained by JPMorgan Chase with data on Long Beach and WaMu mortgage backed securities showing, as of March 2011, delinquency rates for particular mortgage backed securities, including LBMLT 2006-1 – 58.44%; LBMLT 2006-6 – 60.06%; and LBMLT 2005-11 – 54.32%).
[450] 2/2/2008 email from David Beck to David Schneider and others, JPM_WM02445758, Hearing Exhibit 4/13-51.

Home Loans President David Schneider replied: "Ok – thanks …. Are we sure there isn't a reporting issue?" Today, those securities have all been downgraded to junk status and more than half of the underlying loans are delinquent or in foreclosure.[451]

Despite their poor performance, it is unclear that any investment bank refused to do business with either Long Beach or WaMu. As long as investors expressed interest in purchasing the securities, banks continued selling them until the entire subprime market collapsed. Before the market collapsed, WaMu earned hundreds of millions of dollars a year from its home loans sales and securitizations.[452]

Securitizing Fraudulent Loans. WaMu and Long Beach securitized not just poor quality loans, but also loans that its own personnel had flagged as containing fraudulent information. That fraudulent information included, for example, misrepresentations of the borrower's income and of the appraised value of the mortgaged property. In September 2008, WaMu's Corporate Credit Review team released a report which found that internal controls intended to prevent the sale of fraudulent loans to investors were ineffective:

> "The controls that are intended to prevent the sale of loans that have been confirmed by Risk Mitigation to contain misrepresentations or fraud are not currently effective. There is not a systematic process to prevent a loan in the Risk Mitigation Inventory and/or confirmed to contain suspicious activity from being sold to an investor. ... Of the 25 loans tested, 11 reflected a sale date after the completion of the investigation which confirmed fraud. There is evidence that this control weakness has existed for some time."[453]

In other words, even loans marked with a red flag indicating fraud were being sold to investors. The review identified several factors contributing to the problem, including insufficient resources devoted to anti-fraud work, an absence of automated procedures to alert personnel to fraud indicators, and inadequate training on fraud awareness and prevention. The 2008 review warned: "Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors."[454]

(3) Securitizing Delinquency-Prone Loans

The Subcommittee uncovered an instance in 2007 in which WaMu securitized certain types of loans that it had identified as most likely to go delinquent, but did not disclose its analysis to investors who bought the securities. Investors who purchased these securities without the benefit of that analysis quickly saw the value of their purchases fall.

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[451] As of December 2010, the total loan delinquency rate of the WMALT 2007-OC1 series was 57.37%. See wamusecurities.com.
[452] See 3/1/2007 Washington Mutual Inc. 10-K filing with the SEC, at 82, 87.
[453] 9/8/2008 "Risk Mitigation and Mortgage Fraud 2008 Targeted Review," WaMu Corporate Credit Review, JPM_WM00312502, Hearing Exhibit 4/13-34.
[454] Id.

WaMu securitization agreements prohibited the bank from using an "adverse selection" process when including loans within a securitized pool. On March 22, 2007, WaMu filed a prospectus for WMALT Series 2007-OA3, in which Washington Mutual Bank and Washington Mutual Mortgage Securities Corp. co-sponsored a securitization of a $2.3 billion pool of Option ARM loans. In the section entitled, "Representations and Warranties Regarding the Mortgage Loans," the prospectus stated:

> "Washington Mutual Mortgage Securities Corp. and Washington Mutual Bank, as applicable, used no adverse selection procedures in selecting the mortgage loans from among the outstanding adjustable rate conventional mortgage loans owned by it which were available for sale and as to which the representations and warranties in the mortgage loan sale agreement could be made."[455]

On the following page of the prospectus, under the section heading, "Criteria for Selection of Mortgage Loans," it stated:

> "Each co-sponsor selected the mortgage loans it sold to the depositor from among its portfolio of mortgage loans held for sale based on a variety of considerations, including type of mortgage loan, geographic concentration, range of mortgage interest rates, principle balance, credit scores and other characteristics described in Appendix B to this prospectus supplement, and taking into account investor preferences and the depositor's objective of obtaining the most favorable combination of ratings on the certificates."[456]

WaMu emails and memoranda obtained by the Subcommittee indicate that, prior to assembling the loan pool used in the WMALT 2007-OA3 securitization, WaMu identified delinquency-prone Option ARM mortgages in its "Held for Investment" loan portfolio and transferred those loans to its portfolio of mortgages available for sale or securitization. WaMu then used its "Held for Sale" loan portfolio to select the loans for the loan pool used in the WMALT 2007-OA3 securitization. The prospectus provides a list of criteria used to select the loans in the WMALT 2007-OA3 loan pool, but omits any mention of the fact that some of the loans were selected using statistical analysis designed to identify Option ARM loans likely to go delinquent quickly. The internal emails demonstrate that WaMu selected delinquency-prone loans for sale in order to move risk from the bank's books to the investors in WaMu securities, and profit from its internal analysis, which was not available to the market.

On Thursday, September 14, 2006, John Drastal, then Senior Managing Director of WCC, sent David Beck, head of WaMu's Capital Markets Division, with copies to others, an email regarding "Tom Casey visit," with the importance marked "high." Tom Casey was then the Chief Financial Officer of Washington Mutual Bank. In the email Mr. Drastal relayed Mr. Casey's concern about WaMu's exposure to Option ARM loans:

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[455] 3/22/2007 WaMu Prospectus Supplement, "Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OA3," at S-102, Hearing Exhibit 4/13-86b.
[456] Id. at S-103.

"David,

"Tom just stopped by after the Lehman investor conference. He says equity investors are totally freaking about housing now. He asked how we could prepare for this. A few items….

"2. On the portfolio side, he asked about exposure on option ARMs. We talked about looking to potentially sell '06 production Option ARMs in portfolio. He even said looking at this quarter. I don't think that this is possible but we should look at what the credit composition of this product is and see if we can sell quickly if it's the right thing to do (see Nagle's message). He doesn't for[e]see a tainting issue if we are doing it for credit issues. Youyi, can you get me a collateral strat from the portfolio?"[457]

Three months later, on Wednesday, February 14, 2007, a WaMu portfolio analyst and trader, Michael Liu, sent an email to a senior official in WaMu's portfolio management department, Richard W. Ellson, with the subject line: "Option ARM MTA and Option ARM MTA Delinquency." The email included the abbreviations "MTA," which stands for "Monthly Treasury Average," and "PPD," which stands for "Payment Past Due." The email provided a description of Option ARM loans in WaMu's investment portfolio that were delinquent in the fourth quarter of 2006:

"Hi Rick,

"Attached is the spreadsheet with the total Option ARM MTA … and Option ARM MTA >=1 PPD summary. Some points for the Option ARM MTA >=1PPD:

- $105mm in Nonaccrual is between FICO 501-540.
- $222mm in Nonaccrual between LTV 61-80.
- CA [California] represents the greatest amount of Delinquency (1PPD, 2PPD, 3PPD, nonaccrual)[.]
- Loans originated in 2004 and 2005 represent the highest amount of 3 PPD and nonaccrual [.]"[458]

On the same day, Mr. Ellson forwarded the email to the Division Executive for Portfolio Management and Research, Youyi Chen, with the following comments:

"Youyi – attached is a description of the Option ARMs that were delinquent in the 2006q4 [fourth quarter]. You can see that it is very much a function of FICOs and Low Doc loans. We are in the process of updating the optimum pricing matrix. Mike did the work. Your comments are appreciated."[459]

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[457] 9/14/2006 email from John Drastal to David Beck, with Youyi Chen and Doug Potolsky copied, "Tom Casey visit," Hearing Exhibit 4/13-40a.
[458] 2/2007 WaMu internal email chain, Hearing Exhibit 4/13-40b.
[459] Id.

Mr. Chen, in turn, forwarded the email to the head of WaMu's Capital Markets Division, David Beck. Mr. Chen's introductory comments indicated that the research had been performed in response to a question from WaMu Home Loans President David Schneider and was intended to identify criteria for the loans driving delinquencies in the Option ARM portfolio:

> "This answers partially [David] Schneider's questions on break down of the option arm delinquencies.
>
> "The details (1PPD tab) shows Low fico, low doc, and newer vintages are where most of the delinquency comes from, not a surprise."[460]

On the same day, February 14, Mr. Beck forwarded the entire email chain to David Schneider and WaMu Home Loans Risk Officer Cheryl Feltgen, adding his own view:

> "Please review. The performance of newly minted option arm loans is causing us problems. Cheryl can validate but my view is our alt a (high margin) option arms [are] not performing well.
>
> "We should address selling 1Q [first quarter] as soon as we can before we loose [sic] the oppty. We should have a figure out how to get this feedback to underwriting and fulfillment."[461]

Mr. Beck's message indicated that recently issued Option ARM loans were not performing well, and suggested selling them before the bank lost the opportunity. WaMu would lose the opportunity to sell those loans if, for example, they went delinquent, or if the market realized what WaMu analysts had already determined about their likelihood of going delinquent. Mr. Beck's email proposed selling the loans during the first quarter of the year, already six weeks underway, and "as soon as we can."

Four days later, on Sunday, February 18, Mr. Schneider replied to the email chain by requesting Ms. Feltgen's thoughts. Later that day, Ms. Feltgen responded with additional analysis and an offer to help further analyze the Option ARM delinquencies:

> "The results described below are similar to what my team has been observing. California, Option ARMs, large loan size ($1 to $2.5 million) have been the fastest increasing delinquency rates in the SFR [Single Family Residence] portfolio. Although the low FICO loans have … higher absolute delinquency rates, the higher FICOs have been increasing at a faster pace than the low FICOs. Our California concentration is getting close to 50% and many submarkets within California actually have declining house prices according to the most recent OFHEO [Office of Federal Housing Enterprise Oversight] data from third quarter of 2006. There is a meltdown in the subprime market which is creating a 'flight to quality'. I was talking to Robert Williams just after his

[460] Id.
[461] Id.

return from the Asia trip where he and Alan Magleby talked to potential investors for upcoming covered bond deals backed by our mortgages. There is still strong interest around the world in USA residential mortgages. Gain on sale margins for Option ARMs are attractive. This seems to me to be a great time to sell as many Option ARMs as we possibly can. Kerry Killinger was certainly encouraging us to think seriously about it at the MBR **[**Monthly Business Review] last week. What can I do to help? David, would your team like any help on determining the impact of selling certain groupings of Option ARMs on overall delinquencies? Let me know where we can help. Thanks."[462]

As Chief Risk Officer in WaMu's Home Loans division, Ms. Feltgen pointed out some counterintuitive features of the latest delinquencies, noting that the fastest increases in delinquencies occurred in large loans and loans with high FICO scores. She also noted that the subprime meltdown had led to a "flight to quality," and that foreign investors still had a strong interest in U.S. residential mortgages, suggesting that WaMu might be able to sell its likely-to-go delinquent Option ARMs to those foreign investors. From her perspective as a risk manager, she urged selling "as many Option ARMs as we can."

Her email also indicated that the topic of selling more Option ARMs had come up during the prior week at the monthly business review meeting, in which WaMu CEO Killinger expressed interest in exploring the idea.[463] Finally, Ms. Feltgen offered help in analyzing the impact of selling "certain groupings of Options ARMs" on overall delinquencies. Removing those problematic loans from the larger pool of Option ARM loans in the bank's investment portfolio would reduce loan delinquencies otherwise affecting the value of the portfolio as a whole.

Mr. Schneider sent a second email at 11:00 at night that same Sunday providing instructions for moving forward:

"Let[']s do the following:
1. db [David Beck] - please select the potential sample portfolios - along the lines we discussed at the mbr [Monthly Business Review]
2. cf [Cheryl Feltgen] - please run credit scenarios
3. db - coordinate with finance on buy/sell analysis
4. db/cf – recommendation"[464]

On Tuesday morning, February 20, 2007, Mr. Beck replied with additional analysis:

"Here's how I see this going.

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[462] Id.
[463] At the end of 2006, WaMu held about $63.5 billion in Option ARM mortgages, then comprising about 28% of its investment portfolio. See 3/2007 Washington Mutual Inc. 10-K filing with the SEC, at 52.
[464] 2/2007 WaMu internal email chain, Hearing Exhibit 4/13-40b.

> "From the MBR [Monthly Business Review], my notes indicate two portfolios we discussed for sale; the 2007 high margin production (Jan and Feb so far) and the seasoned COFI book.[465]
> "I will supply to Cheryl the loan level detail on both pools and the pricing assumptions for losses. Cheryl, you need to run scenario analysis and on losses versus pricing AND reserving assumptions. I can supply pricing assumptions but would like you to pull the ALLL [Allowance for Loan and Lease Losses] against these pools."[466]

Later that day, Ms. Feltgen forwarded the email chain to her team, changing the subject line to read: "URGENT NEED TO GET SOME WORK DONE IN THE NEXT COUPLE DAYS: Option ARM MTA and Option ARM MTA Delinquency." Clearly, time was of the essence:

> "See the attached string of emails. We are contemplating selling a larger portion of our Option ARMs than we have in the recent past. Gain on sale is attractive and this could be a way to address California concentration, rising delinquencies, falling house prices in California with a favorable arbitrage given that the market seems not to be yet discounting a lot for those factors. David Schneider has set a meeting for Friday morning with David Beck and me to hear our conclusions and recommendations. See the comments below about the information that we need to provide for this analysis. We will get the pools by tomorrow at the latest. We will need to coordinate with Joe Mattey and get input from him in order to make a judgment regarding the ALLL impact. ...
>
> "In addition to the specific information that David Beck asks for, I would like your input on portions of the Option ARM portfolio that we should be considering selling. We may have a different view than David Beck's team as to the most desirable to sell and we should provide that input. Our suggestion, for instance, might include loans in California markets where housing prices are declining. There may be other factors.
>
> "I will need to get from you by Thursday, February 22 end of day a summary of our conclusions and recommendations."[467]

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[465] Option ARMs were considered a "high margin" product within WaMu, because they produced a relatively high gain on sale when sold. See 4/18/2006 Washington Mutual Home Loans Discussion Board of Directors Meeting, at JPM_WM00690894, Hearing Exhibit 4/13-3 (chart showing gain on sale margin by product). "COFI" stands for "Cost of Funds Index" which is an index used to set variable interest rates. "Seasoned" means the loans are older production.
[466] 2/2007 WaMu internal email chain, Hearing Exhibit 4/13-40b.
[467] Id.

A WaMu risk analyst, Robert Shaw, replied the same day and identified eight specific factors that were driving delinquencies in the Option ARM portfolio:

> "Cheryl,
>
> "I reviewed the HFI [Hold for Investment] prime loan characteristics that contributed to rising 60+ delinquency rates[468] between 1/06 - 1/07 [January 6 and 7]. The results of this analysis show that seven combined factors contain $8.3 billion HFI Option ARM balances which experienced above-average increases in the 60+ delinquency rate during the last 12 months (a 821% increase, or 10 times faster than the average increase of 79%). I recommend that we select loans with some or all of these characteristics to develop a HFS [Hold for Sale] pool.
> "Below, I have listed the factors (layered), their percentage change in 60+ delinquency rate over the last 12 months, and HFI balances as of January 2007.[469]
>
> "1) HFI Option ARMs – 79% increase (.56% to 1.0%), $60.6 billion
> 2) Above + Vintages 2004-2007 – 179% increase (.33% to .92%), $47.8 billion
> 3) Above + CA – 312% increase (.16 to .66%), $23.7 billion
> 4) Above + NY/NJ/CT – 254% increase (.21 to .76%), $29.3 billion
> 5) Above + $351k-1mil – 460% increase (.12 to .70%), $17.2 billion
> 6) Above + FICO 700-739 – 1197% increase (.03% to .40%), $4.2 billion
> 7) Above + FICO 780+ - 1484% increase (.02% to .38%), $5.2 billion
> 8) Above + FICO 620-659 – 821% increase (.07 to .67%), $8.3 billion[.]"[470]

Essentially, the eight factors identified Option ARMs that were in certain states, like California, had certain FICO scores or certain loan amounts, or were issued during the period 2004-2007.

Later that same day, Ms. Feltgen forwarded Mr. Shaw's email to Mr. Beck, Mr. Chen, and Mr. Ellson. Her email carried the subject line: "Some thoughts on target population for potential Option ARM MTA loan sale." She wrote:

> "David, Youyi and Rick:
>
> "My team and I look forward to receiving the loan level detail on the pools of Option ARMs we are considering for sale. I thought it might be helpful insight to see the information Bob Shaw provides below about the components of the portfolio that have been the largest contributors to delinquency in recent times. I know this is mostly an exercise about gain on sale, but we might also be able to accomplish the other purpose of reducing risk and delinquency at the same time. Talk to you soon."[471]

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[468] A "60+ delinquency rate" applies to loans in which a payment is late by 60 days or more.
[469] 2/2007 WaMu internal email chain, Hearing Exhibit 4/13-40b.
[470] 2/20/2007 email from Robert Shaw to Cheryl Feltgen, Hearing Exhibit 4/13-41.
[471] 2/20/2007 email from Cheryl Feltgen to David Beck, Youyi Chen, and Richard Ellson, Hearing Exhibit 4/13-41.

A week later, on Sunday, February 25, 2007, Mr. Beck sent an email with the subject heading, "HFI Option Arms redirect to HFS," to much of WaMu's top management, including Mr. Schneider, Mr. Rotella, Mr. Casey, as well as the FDIC Examiner-In-Charge Steve Funaro, and others. The email indicated that a decision had been made to sell $3 billion in recent Option ARM loans, with as many as possible to be sold before the end of the quarter, which was four weeks away:

> "David [Schneider] and I spoke today. He's instructed me to take actions to sell all marketable Option Arms that we intend to transfer to portfolio in 1Q[first quarter], 2007. That amounts to roughly 3B [$3 billion] option arms availab[l]e for sale. I would like to get these loans into HFS [the Hold for Sale portfolio] immediately so that [I] can sell as many as possible in Q1.
>
> "John [Drastal], we are only targeting to sell Option Arms destined for portfolio since year end at this point. I'll need direction from you on any special accounting concerns or documentation you will need to get these loans in the warehouse without tainting the HFI [Hold for Investment] book.[472]
>
> "Michelle, I believe this action requires MRC [Market Risk Committee] approval. Please advise.
>
> "This week I'll work to get the necessary governance sign offs in place. Cheryl, please direct me on what form the approval request should take and what committees should review and authorize the request. I can pull all of the data.
>
> "We continue to work with Cheryl and the credit risk team to analyze emerging credit risks in our prime portfolio and recommend actions to mitigate them.
>
> "Thanks for your help,
> DJB"[473]

Two days later, on Tuesday, February 27, 2007, Mr. Chen sent an email with the subject line, "HFI selection criteria changes," to Michelle McCarthy, who was head of WaMu's Market Risk Management department[474] as well as chair of both its Market Risk Committee and Asset Liability Committee.[475] The email was copied to Mr. Beck, Ms. Feltgen and others, and showed that the implementation of the plan was underway:

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[472] Loans in a bank's Hold for Investment portfolio receive different accounting treatment than loans in the bank's Hold for Sale portfolio, and generally accepted accounting principles (GAAP) frown upon frequent transfers between the two portfolios. The GAAP principles were a key reason for Mr. Beck's instruction that the transfer of the Option ARM loans from WaMu's HFI to HFS portfolios proceed "without tainting the HFI book."

[473] 2/25/2007 email from David Beck to himself, David Schneider, Steve Rotella, Ron Cathcart, Tom Casey, Cheryl Feltgen, others, Hearing Exhibit 4/13-42b.

[474] 12/28/2007 WaMu internal report, "Disclosure Management," JPM_WM02414318.

[475] 3/9/2007 WaMu Market Risk Committee Meeting Minutes, Hearing Exhibit 4/13-43.

"After careful review with David and the teams, David suggested me to make the following recommendations to MRC [Market Risk Committee] on the existing prime HFI/HFS selection criteria

"1. Effective March 7th 2007, modify the portfolio option ARM and COFI ARM retention criteria (see attached 'existing HFI descriptions', 'section 1.01 to 1.11 and section 2.01 to 2.08') to include only following loans for the portfolio (HFI)

a. Super jumbo of size greater or equal to $ 3 MM (Risk based pricing applied, but difficult to sale)
b. Advantage 90 (high LTV loans without MI, very little production as 80/10/10 gets popularity)
c. Foreign Nationals (Risk based pricing applied, but difficult to sale due to FICO problems)
d. FICO less than 620, except employee loans in which case FICO can be re-stated after closing.
e. 3-4 units (excessive S & P level hit calls for portfolio execution)

"2. Further more, we would like to request, transferring from HFI to HFS, all the MTA option ARMs and COFI ARMs, **funded or locked between January 1st, 2007 to Mach [sic] 7th, 2007,** and DO NOT fit the criteria listed above, and DO NOT fit the criteria section 3.02 to 4.07 in the attached 'existing HFI descriptions')

"As a result of this change, we expected to securitize and settle about $ 2 billion more option/COFI ARMs in Q1-07 (mostly margin greater than 295), and going forward $ 1 billion per month potential incremental volume into HFS. For your information, the impact to gain on sale for the year is estimated to be about $180 MM pretax based on current market, and the impacts to 2007 portfolio NII is estimated to be about - $ 80 MM pretax.

"Also included in the attachment, is a pool of $1.3 billion option/COFI ARMs funded to portfolio between January 1st and February 22nd that will be re-classified as HFS based on the above recommendations. We understand that this population of loans will be growing from now to March 7th until the portfolio selection criteria are officially modified.

"We expected to start marketing the deal on March 12th, your prompt response will be greatly appreciated as the TSG [Technology Solutions Group] and QRM [Quantitative Risk Management] teams also need time to implement the coding changes."[476]

[476] 2/27/2007 email from Youyi Chen to Michelle McCarthy, with copies to David Beck, Cheryl Feltgen, Steve Fortunato, and others, "HFI selection criteria changes," Hearing Exhibit 4/13-42a [emphasis in original].

This email proposed several significant changes to WaMu's treatment of its Option ARMs. First, WaMu decided to require most of its Option ARMs to go directly into its Hold for Sale portfolio instead of going into its Held for Investment portfolio. In light of its analysis that Option ARM loans were rapidly deteriorating, the bank no longer wanted to treat them as investments it would keep, but immediately sell them. Second, the only Option ARMs that it would automatically direct into its investment portfolio were those that the bank considered to be so obviously of poor quality that they were "non-salable," according to another internal email.[477] Third, WaMu proposed transferring all Option ARM loans originated in 2007 from the investment portfolio to the sale portfolio. Since these three changes in how WaMu would treat its Option ARMs had compliance, accounting, and tax consequences, they had to be approved by the Market Risk Committee. That Committee was composed of senior risk officers throughout the bank as well as senior managers in the bank's finance, treasury, and portfolio management departments. The email indicated that the changes needed to be implemented within about a week so that marketing of some of the Option ARMs could begin by March 12.

On March 9, 2007 the Market Risk Committee met and approved the Option ARM proposal. The minutes of that meeting describe the changes that had been proposed:

> "- Change the Held for Investment (HFI) ARM and COFI ARM retention criteria to include only the following loans for HFI effective March 12, 2007; Super jumbo ≥ $3.0 million, Advantage 90, Foreign Nationals, FICO < 620 except employee loans in which case FICO can be re-stated after closing, and 3 to 4 units.
> - Increase Prime Option ARM's (including Second Liens) from $26.0 billion to $37.0 billion.
> - Transfer up to $3.0 billion of saleable Option ARM and COFI ARM loans originated between January 1, 2007 and March 12, 2007 from HFI to HFS (excluding HFI loans described above)."[478]

The minutes also recorded an exchange between Ms. McCarthy and another Committee member, Mr. Woods, who was the Chief Financial Officer of WaMu's Home Loans division:

> "A second part of the proposal requests approval to transfer up to $3.0 billion of saleable Option ARM and COFI ARM loans originated since January 1, 2007 from HFI to Held for Sale (HFS). In response to a question from Mr. Woods, Ms. McCarthy explained that there are other Option ARM loans not included in the criteria that we are retaining in portfolio. Ms. McCarthy noted that Ms. Feltgen ha[d] reviewed and approved this proposal. Mr. Woods noted that Deloitte has reviewed the proposal as well."[479]

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[477] 2/27/2007 email from Youyi Chen to David Griffith, "Option ARM," JPM_WM03117796 ("David, we sell all 295+ margin and other OA and COFI, and KEEP the 4 categories going forward due mostly to non-salable reasons.").
[478] 3/9/2007 WaMu Market Risk Committee Meeting Minutes, Hearing Exhibit 4/13-43.
[479] Id.

This exchange acknowledges that not all of the saleable Option ARM loans were diverted from the HFI to the HFS portfolio. WaMu chose to keep some Option ARMs and make other Option ARMs available for sale. The internal WaMu documents and communications reviewed by the Subcommittee strongly suggest that the decision to transfer the most recently originated Option ARMs from the Held-for-Investment portfolio to the Held-for-Sale portfolio was part of an effort to sell loans thought to be prone to delinquency, before they became delinquent. None of the hearing witnesses recalled how these loans were specifically selected for securitization, nor did any deny that they may have been selected for their propensity toward delinquency.[480]

The Subcommittee investigation determined that WaMu carried out the plan as approved, and transferred at least $1.5 billion Option ARMs originated in the first quarter of 2007, from the HFI to HFS portfolio. Of these loans, about 1,900 with a total value of a little over $1 billion were assembled into a pool and used in the WMALT 2007-OA3 securitization in March 2007.[481] WMALT 2007-OA3 securities were issued with WaMu as the sole underwriter and sold to investors.[482]

None of the materials associated with the sale of the WMALT 2007-OA3 securities informed investors of the process used to select the delinquency-prone Option ARMs from WaMu's investment portfolio and include them in the securitization.[483] Nor did WaMu inform investors of the internal analysis it performed to identify the delinquency-prone loans. Senator Levin questioned Mr. Beck about this point at the April 13 Subcommittee hearing:

> Senator Levin. When you said that investors were told of the characteristics of loans, they were told of all the characteristics of loans. Did they know, were they informed that loans with those or some of those characteristics had a greater propensity towards delinquency in WaMu's analysis? Were they told that?
>
> Mr. Beck. They were not told of the WaMu analysis.[484]

Predictably, the securitization performed badly. Approximately 87% of the securities received AAA ratings.[485] Within 9 months, by January 2008, those ratings began to be downgraded.[486] As of February 2010, more than half of the loans in WMALT Series 2007-OA3

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[480] Mr. Schneider and Mr. Beck were asked about this matter at the hearing. See April 13, 2010 Subcommittee Hearing at 75-82.

[481] 4/10/2010 Subcommittee email from Brent McIntosh, Sullivan & Cromwell LLP, Counsel for JPMorgan Chase [Sealed Exhibit].

[482] 3/22/2007 WaMu Prospectus Supplement, "Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OA3," at S-102, Hearing Exhibit 4/13-86b.

[483] See, e.g., id. See also April 13, 2010 Subcommittee Hearing at 80.

[484] April 13, 2010 Subcommittee Hearing at 82.

[485] 4/11/2007 "New Issue: Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA3 Trust," S&P's Global Credit Portal, www.globalcreditportal.com.

[486] See 1/14/2008 "Moody's takes negative rating actions on certain WaMu Option Arm deals issued in 2007," Moody's, http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR_147683.

were delinquent, and more than a quarter were in foreclosure.[487] All of the investment grade ratings have been downgraded to junk status, and the investors have incurred substantial losses.

(4) WaMu Loan Sales to Fannie Mae and Freddie Mac

Washington Mutual had longstanding relationships with a number of government sponsored enterprises (GSEs), including the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac).[488] Between 2000 and 2008, Washington Mutual sold over $500 billion in loans to Fannie Mae and Freddie Mac, accounting for more than a quarter of every dollar in loans WaMu originated.[489] While the majority of those loans involved lower risk, fixed rate mortgages, WaMu also sold Fannie and Freddie billions of dollars in higher risk Option ARMs.

Relationships with Fannie and Freddie. Fannie Mae and Freddie Mac purchase residential mortgages that meet specified underwriting standards and fall below a specified dollar threshold, so-called "conforming loans." They often enter into multi-year contracts with large mortgage issuers to purchase an agreed-upon volume of conforming loans at agreed-upon rates. Prior to 2005, Washington Mutual sold most of its conforming loans to Fannie Mae, with relatively little business going to Freddie Mac.[490] From at least 1999 through 2004, WaMu sold those loans to Fannie Mae through a long term "Alliance Agreement,"[491] that resulted in its providing more than 85% of its conforming loans to Fannie Mae.[492] In 2004, WaMu calculated that it "contributed 15% of Fannie Mae's 2003 mortgage business,"[493] and was "Fannie Mae's 2nd largest provider of business (behind Countrywide)."[494] Among the advantages that WaMu believed it gained from its relationship with Fannie Mae were help with balance sheet

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[487] "Select Delinquency and Loss Data for Washington Mutual Securitizations," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1g.

[488] See 9/29/2005 "GSE Forum," internal presentation prepared by WaMu, Hearing Exhibit 4/16-91 at JPM_WM02575608. As mentioned earlier, GSEs are Congressionally chartered, nongovernment owned financial institutions created for public policy purposes. At the time of the financial crisis, the GSEs included Fannie Mae, Freddie Mac, the Government National Mortgage Association (Ginnie Mae), and the Federal Home Loan Bank System (FHLBS), all of which were created by Congress to strengthen the availability of capital for home mortgage financing.

[489] See chart, below, using loan data from Inside Mortgage Finance.

[490] See 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, at JPM_WM02405463, Hearing Exhibit 4/16-86 ("At current level, alternative executions, e.g., Freddie Mac, FHLB, and private investors, do not win a significant level of business.").

[491] See 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, at JPM_WM02405462, Hearing Exhibit 4/16-86 (chart entitled, "Timeline of the Alliance Agreement").

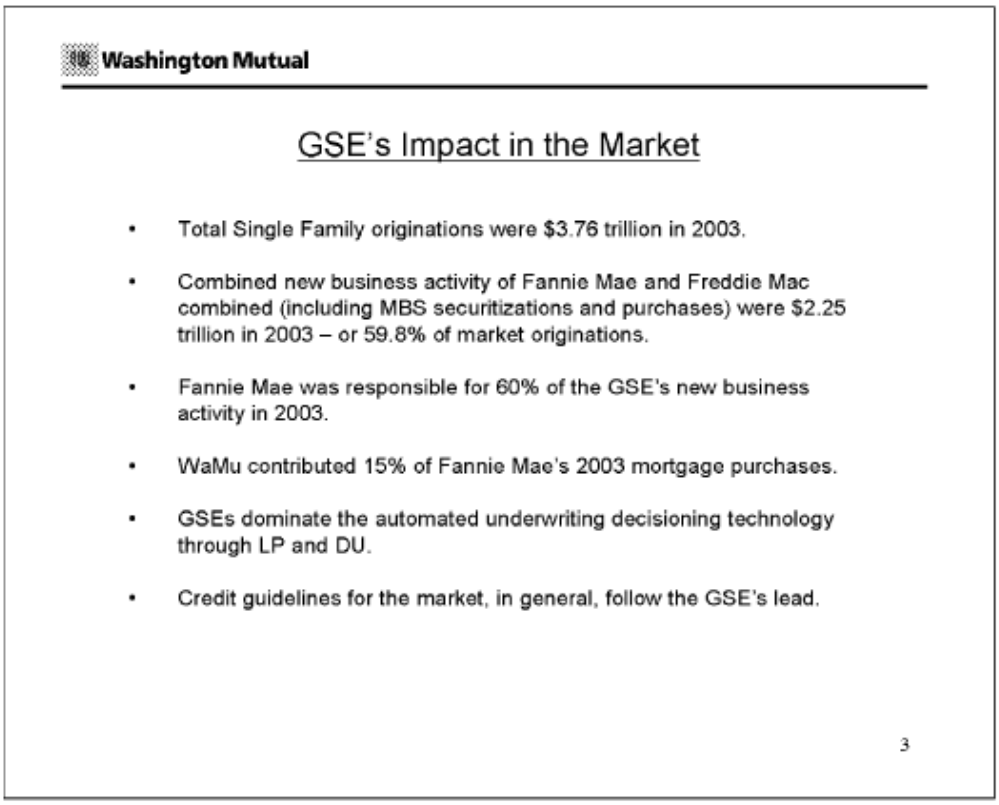
[492] See 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, at JPM_WM02405461, Hearing Exhibit 4/16-86 ("Under this Alliance Agreement with Fannie Mae, WaMu has agreed to deliver no less than 75% of eligible, conforming loans to Fannie Mae."); 2/23/2005 email exchange between David Beck and WaMu executives, Hearing Exhibit 4/16-85 ("5 years of 85%+ share with Fannie").

[493] 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, at JPM_WM02405459, Hearing Exhibit 4/16-86.

[494] Id. at JPM_WM02405467, Subcommittee Hearing Exhibit 4/16-86.

management, underwriting guidance, and support for WaMu's Community Reinvestment Act initiatives.[495]

The following slide, created by Washington Mutual in March 2004, provides an overview of the GSEs' impact on the mortgage market at the time as well as the status of WaMu's relationship with Fannie Mae in early 2004.[496]



Washington Mutual

GSE's Impact in the Market

- Total Single Family originations were $3.76 trillion in 2003.
- Combined new business activity of Fannie Mae and Freddie Mac combined (including MBS securitizations and purchases) were $2.25 trillion in 2003 – or 59.8% of market originations.
- Fannie Mae was responsible for 60% of the GSE's new business activity in 2003.
- WaMu contributed 15% of Fannie Mae's 2003 mortgage purchases.
- GSEs dominate the automated underwriting decisioning technology through LP and DU.
- Credit guidelines for the market, in general, follow the GSE's lead.

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[495] Id. at JPM_WM02405461, Subcommittee Hearing Exhibit 4/16-86. The Community Reinvestment Act (CRA) was passed by Congress to encourage banks to make loans in low- and moderate-income neighborhoods. See website of the Federal Financial Institutions Examination Council, "Community Reinvestment Act," http://www.ffiec.gov/cra/history.htm. Regulators, including the Office of Thrift Supervision, periodically reviewed banks' CRA activities and took them into account if a bank applied for deposit facilities or a merger or acquisition. Id. A 2005 presentation prepared by WaMu stated that its relationship with Freddie Mac helped the bank meet its CRA goals by purchasing more than $10 billion in qualifying loans. See 9/29/2005 "GSE Forum," presentation prepared by WaMu Capital Markets, at JPM_WM02575611, Hearing Exhibit 4/16-91. Between 1991 and 2006, WaMu was evaluated 20 times by OTS and the FDIC, achieving the highest possible CRA rating of "Outstanding" in each evaluation. See website of the Federal Financial Institutions Examination Council, ratings search for "Washington Mutual," http://www.ffiec.gov/craratings/default.aspx. Regulations state that an "outstanding" institution is one that not only meets the needs of its surrounding community, but utilizes "innovative or flexible lending practices." See 12 C.F.R. 345, Appendix A, http://www.fdic.gov/regulations/laws/rules/2000-6600.html#fdic2000appendixatopart345.

[496] Id. at JPM_WM02405459, Subcommittee Hearing Exhibit 4/16-86.

Despite Fannie Mae's long history with WaMu, in 2005, the bank made a major change and shifted the majority of its conforming loan business to Freddie Mac. WaMu made the change in part because its long term contract with Fannie Mae was up for renegotiation,[497] and Freddie Mac offered better terms. According to WaMu, Freddie Mac had purchased $6 billion of its Option ARM loans in 2004, without a contract in place, and WaMu wanted to sell more of those loans.[498] WaMu conducted detailed negotiations with both firms that lasted more than six months.[499] Internally, it considered a number of issues related to switching the majority of its conforming loans to Freddie Mac.[500] The deciding factor was Freddie Mac's offer to purchase 100% of WaMu's conforming Option ARM mortgages which were among the bank's most profitable loans.[501] In January 2005, in a document comparing the proposals from Fannie and Freddie, WaMu wrote:

> "The Freddie Mac Business Relationship [proposal] dated 12/21/2004 establishes another execution opportunity that diversifies WaMu's execution risk and confers material financial benefits for the Option ARM product. The key to the Freddie proposal is that it provides significant liquidity for our Option ARM originations, with more advantageous credit parameters, competitive g-fees and preferred access to their balance sheet relative to our current agreement with Fannie. Fannie has made it very clear to us that we should not expect to retain the same pricing and credit parameters for Option ARMs in our 2005 pricing agreement that we have enjoyed during 2004. For fixed rate loans and hybrids, g-fe[e]s adjusted for MAP Pricing and credit parameters are roughly equivalent to the Fannie Agreement."[502]

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[497] See 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, at JPM_WM02405468, Hearing Exhibit 4/16-86.

[498] See, e.g., 2/23/2005 email exchange between David Beck and WaMu executives, Hearing Exhibit 4/16-85 (reporting that Freddie Mac was "very aggressive in 2004 buying 6B of option arm without a share agreement in place.").

[499] See, e.g., 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, Hearing Exhibit 4/16-86; 12/17/2004 email exchange among WaMu executives, "Risks/Costs to Moving GSE Share to FH [Freddie Mac]," JPM_WM05501399, Hearing Exhibit 4/16-88; 1/5/2005 "Business Relationship Proposal Issues," document prepared by WaMu, Hearing Exhibit 4/16-90 (describing multiple issues negotiated with both firms); 2/23/2005 email exchange between David Beck and WaMu executives, Hearing Exhibit 4/16-85 (David Beck wrote: "Fannie negotiated hard for our business especially in the 11th hour." CEO Killinger responded: "Good work David. It appears we got a good economic outcome and haven't burnt any bridges for the future.").

[500] See 12/17/2004 email exchange among WaMu executives, "Risks/Costs to Moving GSE Share to FH [Freddie Mac]," at JPM_WM05501401, Hearing Exhibit 4/16-88 (listing multiple issues including whether Fannie Mae would "be less supportative [sic] of using their balance sheet to support our quarter-end liquidity needs").

[501] Id. at JPM_WM05501399 (describing Fannie Mae's offer to purchase two-thirds of WaMu's Option ARM production); 2/23/2005 email exchange between David Beck and WaMu executives, Hearing Exhibit 4/16-85 ("I reviewed the most recent proposals from Freddie and Fannie today with Steve. We agreed that the Freddie 65% minimum share (100% of option arms) proposal offers us between 26MM and 37MM of benefit depending on volume… 39% of our 2005 home loans gain on sale comes from conforming option arm sales. FH [Freddie Mac] stepped up with 21B of committed balance sheet and aggressive forward pricing for OA [Option ARMs] that result in the financial benefit over FN [Fannie Mae]."). WaMu originated both conforming and nonconforming Option ARMs, depending upon whether the loan exceeded the GSEs' dollar limit for the loans they would purchase.

[502] 1/5/2005 "Business Relationship Proposal Issues," document prepared by WaMu, Hearing Exhibit 4/16-90.

In April 2004, at the conclusion of its negotiations with Fannie and Freddie, WaMu entered into a one-year contract with Freddie Mac, switching the lion's share of the bank's conforming loans to that company and away from Fannie Mae.[503] According to WaMu, Freddie Mac's share of its conforming loans "went from 20% in Q1 [first quarter of 2005] to 81% in Q2 [second quarter of 2005]."[504] WaMu reported internally that, as a result of the new contract, it became the second largest seller of mortgages to Freddie Mac behind Wells Fargo, and that "[f]orty percent of FRE's [Freddie Mac's] portfolio growth in '05 can be attributed to WM's $8 billion sale of option ARMS."[505]

As the 2005 contract's expiration date neared, WaMu developed a list of issues to be negotiated with Freddie Mac for a new contract, noting that Freddie Mac "does not want to be a 'one-year' wonder."[506] WaMu also observed that "FRE is not likely to outbid FNM by such a wide margin on option ARMS like in the current contract."[507] In a list of "asks … to cement our relationship" with Freddie Mac, WaMu indicated, among other issues, that it would press Freddie Mac to buy more subprime and "lower quality loans":

- "**Credit** …
  - WM [WaMu] wants FRE [Freddie Mac] to expand the eligibility of lower quality loans to ensure WM is 'market competitive'. …
- **Non-prime**
  - Potential securitization of SMF [Specialty Mortgage Finance] assets ($1.5 - $10 bil) that will create liquidity for WM and create a positive affordability profile for FRE;
  - Expansion of credit profile into subprime; (Keith Johnson wants to keep this point very general); …
- **Liquidity** – we want to understand how we can best help the FRE portfolio w/Product.
  - Longer term portfolio commitment on option ARMS;
  - Broader deliverability guidelines w/respect to option ARMs."[508]

WaMu wrote that it also expected Freddie Mac to discuss trends related to accepting "lower documentation standards."[509]

In April 2006, WaMu signed a new, two-year contract with Freddie Mac, again agreeing to sell the majority of its conforming loans to that company.[510] WaMu President Steve Rotella

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[503] See 7/5/2006 "Freddie Mac – WaMu Meeting," document prepared by WaMu, JPM_WM03200453, Hearing Exhibit 4/16-87 ("WM executed a majority share arrangement w/FRE [Freddie Mac], effective 4/1/05 thru 3/31/06; included in that arrangement was a market-leading opportunity to sell up to $21 billion of option ARMs to the FRE portfolio.").
[504] Id.
[505] Id.
[506] Id.
[507] Id. at JPM_WM03200453.
[508] Id. at JPM_WM03200452-453 [italics in original omitted].
[509] Id. at JPM_WM03200454.

wrote: "Congratulations to the team for getting this done and with terrific results for the company."[511] In a document describing the "highlights" of the new agreement, a Wamu employee wrote:

> "Aligns WM with the stronger GSE over the next 12-18 months; we fully expect once FNM [Fannie Mae] gets its financial house in order to become a very aggressive competitor – just when this contract is coming up for renewal."[512]

WaMu's reference to the "stronger GSE" was in response to accounting scandals that, over the prior year, had weakened both Freddie Mac and Fannie Mae. In 2003, Freddie Mac announced that it had misstated its earnings by at least $4.5 billion, mostly by under-reporting its earnings in order to smooth the volatility of its quarterly earnings reports, and would be restating its earnings for the prior three years.[513] Later that year, Freddie Mac paid a $125 million civil fine to settle civil charges of accounting fraud brought by its regulator, the Office of Federal Housing Enterprise Oversight (OFHEO).[514] In September 2004, OFEHO issued a report finding that Fannie Mae had also violated accounting rules to smooth its earnings reports.[515] Fannie Mae later filed a $6.3 billion restatement of earnings and paid a $400 million fine.[516] Both GSEs also changed their senior management.

When asked at the Subcommittee hearing to define Washington Mutual's relationship with Fannie Mae and Freddie Mac, Mr. Rotella provided the following response:

> "Well, like all big mortgage lenders, Senator, Fannie Mae and Freddie Mac were important .... [T]here was a substantial amount of production that was sold off to either Fannie or Freddie. ... [A]ny mortgage lender that is in the mortgage business, given the government advantages and the duopoly that Fannie and Freddie had, needed to do business with them. It would be very difficult to be a mortgage player without them."[517]

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[510] See 4/28/2006 email exchange between WaMu executives, JPM_WM02521921, Hearing Exhibit 4/16-89 (celebrating contract that "David Schneider signed today").
[511] Id.
[512] Id.
[513] See "Freddie Mac Raises its Estimate of Errors," Associated Press (9/26/2003).
[514] See "Freddie to Settle with Fat Civil Fine," Associated Press (12/11/2003). In 2007, Freddie Mac paid an additional $50 million civil fine to the SEC to settle civil charges of securities fraud, without admitting or denying wrongdoing. "Freddie Mac to Pay $50 million," Associated Press (9/28/2007).
[515] 9/17/2004 Office of Federal Housing Enterprise Oversight Report of Findings to Date, "Special Examination of Fannie Mae," available at http://www.fhfa.gov/Preview-FHFAWWW/webfiles/748/FNMfindingstodate17sept04.pdf.
[516] See 2004 10-K filing with the SEC. Fannie Mae paid the $400 million civil fine in May 2006, to settle accounting fraud charges brought by OFHEO and SEC. See also "Fannie Settles Fraud Charges," National Mortgage News (5/29/2006).
[517] April 13, 2010 Subcommittee Hearing at 105, Senator Coburn question to Mr. Rotella.

Loan Sales to Fannie and Freddie. During the years examined by the Subcommittee, WaMu sold a variety of loans to both Fannie Mae and Freddie Mac, including 15, 20, and 30-year fixed rate mortgages; Option ARMs; interest-only ARMs; and hybrid ARMs.[518]

A September 2005 chart prepared by WaMu, identifying the loans it sold to Fannie Mae and Freddie Mac during the first part of that year, details the types and volumes of loans involved.[519] The chart showed, for example, that the largest category of loans that WaMu sold to Fannie and Freddie at that point in 2005 was fixed rate loans, which together totaled nearly 140,000 loans with a collective, total loan amount of about $24.3 billion.[520] The next largest category of loans was Option ARMs, which WaMu sold only to Freddie Mac and which consisted of 35,421 loans with a total loan amount of about $7.9 billion.[521] The third largest category was interest-only ARMs, totaling about 8,400 loans with a total loan amount of about $2 billion.[522] The fourth largest category was hybrid ARMs, totaling 6,500 loans with a total loan amount of about $1.4 billion.[523] WaMu also sold other loans to Fannie and Freddie which included 6,020 loans of various types bearing a total loan amount of about $2 billion.[524]

The chart showed that, altogether by September 2005, WaMu had sold Fannie and Freddie about 196,000 loans with a total loan amount of $36.5 billion.[525] About 70% were fixed rate loans;[526] about 20% were Option ARMs;[527] and other types of loans made up the final 10%. In addition to those single family mortgages, WaMu had an active business with Fannie and Freddie regarding loans related to multifamily apartment buildings.[528] The 2005 loan data indicates that WaMu sold twice as many loans to Fannie and Freddie as it did to all other buyers combined.[529] Most of those loans were fixed rate mortgages, but they also included the higher

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[518] See 9/29/2005 "GSE Forum," internal presentation prepared by WaMu, at JPM_WM02575611, Hearing Exhibit 4/16-91 (chart entitled, "WaMu's Deliveries – Contract to Date 2005"). For more information on these types of loans, see Chapter II, above. WaMu did not sell loans directly to Ginnie Mae which, instead, guaranteed certain government backed mortgages when they were securitized by one of its approved securitizers. The WaMu chart showed that, in 2005, WaMu originated 35,291 loans with a total loan amount of about $4.6 billion that were securitized with Ginnie Mae guarantees. Id.

[519] Id.

[520] Id. The WaMu chart showed that WaMu sold 31,460 fixed rate loans with a total loan amount of about $5.2 billion to Fannie Mae, and 108,246 loans with a total loan amount of about $19.1 billion to Freddie Mac.

[521] Id.

[522] Id. The WaMu chart showed that WaMu sold 5,350 interest-only ARMs with a total loan amount of about $1.3 billion to Fannie Mae, and 3,016 interest-only ARMs with a total loan amount of $724 million to Freddie Mac.

[523] Id. The WaMu chart showed that WaMu sold 3,250 hybrid ARMs with with a total loan amount of nearly $700 million to Fannie Mae, and 3,303 hybrid ARMs with a total loan amount of nearly $700 million to Freddie Mac.

[524] Id. See chart for more detail.

[525] Id. The chart showed that, altogether, WaMu sold about 45,000 loans with a total loan amount of $7.9 billion to Fannie Mae and 151,000 loans with a total loan amount of about $28.6 billion to Freddie Mac.

[526] By loan number, the percentage is 71%; by loan amount, the percentage is 67%.

[527] By loan number, the percentage is 18%; by loan amount, the percentage is 22%.

[528] See, e.g., 4/12/2004 "Pre-Meeting for Fannie Mae," internal presentation prepared by WaMu, at JPM_WM02405461, JPM_WM02405467, Hearing Exhibit 4/16-86 (chart entitled, "Overview of the Alliance," and "WaMu was responsible for 34.7% of Fannie Mae's Multifamily business").

[529] See 9/29/2005 "GSE Forum," internal presentation prepared by WaMu, at JPM_WM02575611, Hearing Exhibit 4/16-91 (chart entitled, "WaMu's Deliveries – Contract to Date 2005"). During the same time period in 2005, WaMu sold about 99,000 loans with a total loan amount of about $35 billion to buyers other than Fannie and

risk Option ARMs. In 2005, for example, WaMu sold three times as many Option ARMs to Freddie Mac than to all of its other buyers combined.[530]

The amount and variety of the loans that WaMu sold to the GSEs fluctuated over time. For example, the following chart, which is taken from data compiled by *Inside Mortgage Finance*, presents the total dollar volume of loans sold by WaMu to Fannie and Freddie from 2000 until 2008 when WaMu was sold, as well as the percentage those loans represented compared to WaMu's total loan originations.[531]

Year	Sold to Freddie Mac (in billions)	Sold to Fannie Mae (in billions)	Percent of Total WaMu Originations Sold to GSEs
2000	$ 0	$ 7.1	14%
2001	$ 1.4	$ 35.3	20%
2002	$ 0.2	$ 95.7	29%
2003	$ 2.2	$ 174.3	40%
2004	$ 1.1	$ 25.9	10%
2005	$ 34.6	$ 20.3	20%
2006	$ 32.3	$ 11.2	23%
2007	$ 31.8	$ 8.2	29%
2008	$ 20.8	$ 2.1	70%
TOTAL	**$ 124.4**	**$ 380.1**	**27.3%**

Source: Inside Mortgage Finance

The data indicates that, in total, WaMu sold more than half a trillion dollars in loans to the two GSEs in the nine years leading up to the bank's collapse, accounting for more than a quarter of all of the loans WaMu originated.

The documents obtained by the Subcommittee indicate that, from 2004 to 2008, Fannie Mae and Freddie Mac competed to purchase billions of dollars in WaMu's residential mortgage loans, and WaMu used that competition to negotiate better terms for its loan sales. Twice during that period, WaMu successfully played one GSE off the other to sell more high risk Option ARM loans under better terms to Freddie Mac.

Freddie. The two largest categories of loans sold to buyers other than Fannie or Freddie were jumbo loans (43,758 loans with a total loan amount of $26.9 billion) and government backed loans sold to Ginnie Mae (35,291 loans with a total loan amount of $4.6 billion). Id.

[530] Id. The chart indicates that WaMu sold over 17,000 loans with a total loan amount of nearly $4 billion to Freddie Mac, but only 5,841 Option ARMs with a total loan amount of $1.2 billion to all other buyers. It is possible, however, that the data on Option ARMs sold to other buyers is understated if some portion of the loans categorized on the chart as "jumbo" loans were, in fact, also Option ARMs. See, e.g., Id. at JPM_WM02575611, Hearing Exhibit 4/16-91 (interpretive note below chart); 8/2006 WaMu chart entitled, "WaMu Originations Product Mix," at JPM_WM00212644, Hearing Exhibit 4/13-37 (showing that WaMu used Option ARMs in both conforming and jumbo loans). In addition to selling Option ARMs to Freddie Mac and others, WaMu kept a portion of the Option ARMs it originated in its investment portfolio and securitized still others.

[531] "Historical Data from Inside Mortgage Finance, Inside Mortgage Finance, www.imfpubs.com/data.

F. Destructive Compensation Practices

Washington Mutual and Long Beach's compensation practices contributed to and deepened its high risk lending practices. Loan officers and processors were paid primarily on volume, not primarily on the quality of their loans, and were paid more for issuing higher risk loans. Loan officers and mortgage brokers were also paid more when they got borrowers to pay higher interest rates, even if the borrower qualified for a lower rate—a practice that enriched WaMu in the short term, but made defaults more likely down the road. Troubling compensation practices went right to the top. In 2008, when he was asked to leave the bank that failed under his management, CEO Kerry Killinger received a severance payment of $15 million.[532]

(1) Sales Culture

WaMu's compensation policies were rooted in the bank culture that put loan sales ahead of loan quality. As early as 2004, OTS expressed concern about WaMu's sales culture: "The overt causes for past underwriting concerns were many, but included: (1) A sales culture focused heavily on market share via loan production, (2) extremely high lending volumes."[533] In early 2005, WaMu's Chief Credit Officer complained to Mr. Rotella that: "[a]ny attempts to enforce [a] more disciplined underwriting approach were continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization."[534] The aggressiveness of the sales team toward underwriters was, in his words, "infectious and dangerous."[535]

In late 2006, as home mortgage delinquency rates began to accelerate and threaten the viability of WaMu's High Risk Lending Strategy, Home Loans President David Schneider presided over a "town hall" meeting to rally thousands of Seattle based employees of the WaMu Home Loans Group.[536] At the meeting, Mr. Schneider made a presentation, not just to WaMu's sales force, but also to the thousands of risk management, finance, and technology staff in

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[532] See "Washington Mutual CEO Kerry Killinger: $100 Million in Compensation, 2003-2008," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1h.

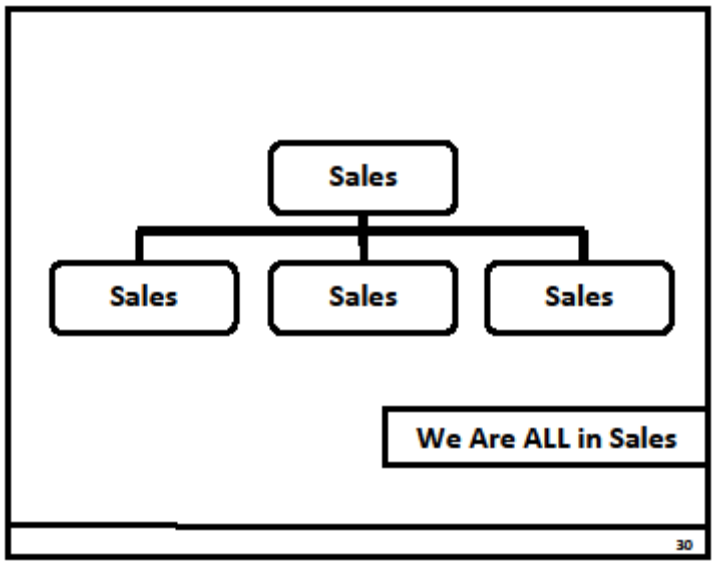
[533] 5/12/2004 OTS Safety & Soundness Examination Memo 5, "SFR Loan Origination Quality," at 1, Hearing Exhibit 4/16-17.

[534] Undated draft WaMu memorandum, "Historical Perspective HL – Underwriting: Providing a Context for Current Conditions, and Future Opportunities," JPM_WM00783315 (a legal pleading states this draft memorandum was prepared for Mr. Rotella by WaMu's Chief Credit Officer in or about February or March 2005; FDIC v. Killinger, Case No. 2:2011cv00459 (W.D. Wash.), Complaint (March 16, 2011), at ¶ 35).

[535] Undated draft WaMu memorandum, "Historical Perspective HL – Underwriting: Providing a Context for Current Conditions, and Future Opportunities," JPM_WM00783315, at JPM_WM00783322.

[536] Mr. Schneider told the Subcommittee that this meeting was held in early 2007, but Ms. Feltgen's end of 2006 email to her staff quotes Mr. Schneider's language from this presentation. 1/3/2007 email from Ron Cathcart to Cheryl Feltgen, Hearing Exhibit 4/13-73.

attendance.[537] The title and theme of his presentation was: "Be Bold."[538] One slide demonstrates the importance and pervasiveness of the sales culture at WaMu:[539]



When asked about this presentation, Mr. Schneider told the Subcommittee it was an appropriate message, even for WaMu's risk managers.[540]

The sales culture was also promoted through WaMu's "President's Club," which sponsored an annual all-expense-paid gala and retreat in an exotic locale, such as Hawaii or the Bahamas, where the top producing loan officers were feted and lavished with gifts and plaudits.[541] Only a limited number of top producing loan officers were made members of the club, and the President's Club trips were used to incentivize sales volume. Loan officers were encouraged to look up their sales rankings on the company's intranet to see if they would qualify for a trip.

In November 2006, as subprime mortgages began to incur delinquencies, Mr. Schneider sent a letter about the President's Club to WaMu loan consultants. Under a photo of the Grand Hyatt Kauai in Hawaii and the banner headline, "President's Club – Take the Lead!," Mr. Schneider wrote:

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[537] Subcommittee interview of David Schneider (2/17/2010).
[538] "Way2Go, Be Bold!," WaMu presentation prepared by David Schneider, Home Loans President, at 28, Hearing Exhibit 4/13-4.
[539] Id. at 30 [recreated by the Subcommittee staff from an image].
[540] Subcommittee interview of David Schneider (2/17/2010).
[541] Subcommittee interviews of Brian Minkow (2/16/2010), David Schneider (2/17/2010), and Kerry Killinger (2/5/2010).

> "I attended WaMu's President's Club last year for the first time and had an awesome time getting to know the stars of our sales force. You work hard, but you know how to have a good time too….
>
> "At the first-class awards dinner, I looked around the room and felt honored to be with so many talented people. Congratulations to those of you who were repeat President's Club honorees. Of those of you who have not yet reached the President's Club, I want each and every one of you to believe you have the potential to achieve this great reward. "Now is the time to really kick it into high gear and drive for attending this awesome event! Rankings are updated and posted monthly on the DashBoards (under reports) and on WaMu.net: President's Club Rankings. Where do you rank? What can you do to take your business [to] the next level? Your management team is here to help."[542]
>
> At the April 13 Subcommittee hearing, Mr. Schneider testified:
>
> "As housing prices peaked, the economy softened, and credit markets tightened, WaMu adopted increasingly conservative credit policies and moved away from loan products with greater credit risk. ... During my time at WaMu, we reduced and then entirely stopped making Alt A loans and Option ARM loans."[543]

However, his November 2006 letter to WaMu loan consultants showed no reticence about the High Risk Lending Strategy. The letter went on to say:

> "As you know, growth is a key area of focus for WaMu and Home Loans. I am extremely proud of the achievements in Production so far this year—and I know it's been tough. I'm especially pleased with your ability to change with the market and responsibly sell more higher-margin products—Option ARM, Home Equity, Non-prime, and Alt A. I also know that you—truly the best sales team in the industry—are up to the challenge of doing even more by year end. ...
>
> "I hope to see you in Kauai!"[544]

The 2005 President's Club retreat had taken place in Maui. The awards night was hosted by Magic Johnson. An excerpt of the script from the evening gives a sense of the proceedings:

> **"VOICE-OVER ANNOUNCER**
>
> Good evening ladies and gentleman and welcome to your President's Club 2005 Awards Night program!
>
> Please welcome the host of President's Club, the President of the Washington Mutual Home Loans Group, Mr. David Schneider!

[542] 11/2006 "President's Club - Take the Lead!," WaMu Home Loans flier, Hearing Exhibit 4/13-62.
[543] Prepared statement of David Schneider, April 13, 2010 Subcommittee Hearing.
[544] 11/2006 "President's Club - Take the Lead!," WaMu Home Loans flier, Hearing Exhibit 4/13-62.

WALK-UP MUSIC
FOR DAVID SCHNEIDER

DAVID SCHNEIDER

Thank you ladies and gentlemen, and welcome to this very special Awards Evening.

Wow, could you feel the energy and excitement tonight out on the Red Carpet?! Talk about star power!

And it was great fun to learn so much more about some of you during the interviews … and at the bar.

But don't worry. I'm told that the age-old tradition here at Washington Mutual is, 'What happens at President's Club stays at President's Club.' And who am I to mess with tradition?

Tonight we are gathered together to pay the highest respects and honors to those who deserve them the most, the President's Club Class of 2005. …

And of course I want to pay special homage to all of you astonishing returning champions of President's Club. You multiple award-winning superstars clearly lead our entire industry as the standard others can only attempt to match. You folks really do make this feel like the academy awards tonight because everywhere I turn I see another star of another box office sensation."[545]

This 2005 awards ceremony was attended by WaMu loan officers Luis Fragoso and Thomas Ramirez at the same time they were under investigation for fraud. Both were members of the President's Club in 2005 and 2006.

When asked about the sales culture at the bank, Mr. Vanasek testified at the hearing that he tried in vain to counter it. He recalled one occasion at an annual management retreat in 2004, in which the bank was promoting a new advertising slogan called, "The Power of Yes":

> "I stood in front of thousands of senior Washington Mutual managers and executives in an annual management retreat in 2004 and countered the senior executive ahead of me on the program who was rallying the troops with the company's advertising line, 'The power of yes.' The implication of that statement was that Washington Mutual would find some way to make a loan. The tag line symbolized the management attitude about mortgage lending more clearly than anything I can tell you.

[545] 2005 "President's Club 2005 - Maui, Awards Night Show Script," Washington Mutual, Home Loans Group, Hearing Exhibit 4/13-63a.

> "Because I believed this sent the wrong message to the loan originators, I felt compelled to counter the prior speaker by saying to the thousands present that the power of yes absolutely needed to be balanced by the wisdom of no. This was highly unusual for a member of the management team to do, especially in such a forum. In fact, it was so far out of the norm for meetings of this type that many considered my statement exceedingly risky from a career perspective."[546]

The President's Club annual trip was the pinnacle of WaMu awards to its top producing loan consultants. One loan consultant interviewed by the Subcommittee described it as an incredible experience, with first class airfare, daily gifts, lavish food, and top entertainment for both employees and their spouses.[547] It was also an opportunity to meet WaMu's top executives, including Mr. Killinger, Mr. Rotella, and Mr. Schneider. It sent a powerful message about the priority that WaMu placed on loan volume and sales of higher risk loans.

(2) Paying for Speed and Volume

The Long Beach and Washington Mutual compensation systems encouraged high volumes of risky loans but provided little or no incentive to ensure high quality loans that complied with the bank's credit requirements. WaMu loan officers or their sales associates typically interacted directly with customers interested in obtaining loans. Some also were allowed to accept loans brought to them by third party lenders or mortgage brokers. Long Beach account executives dealt only with third party lenders or mortgage brokers; they did not deal directly with customers. After reaching agreement on a loan, the WaMu or Long Beach loan officers or executives completed the loan application and sent it to a loan processing center where the application was reviewed by an underwriter and, if approved, underwent further processing and brought to a loan closing.

Long Beach and Washington Mutual loan officers received more money per loan for originating higher risk loans and for exceeding established loan targets. Loan processing personnel were compensated according to the speed and number of the loans they processed. Loan officers and their sales associates received still more compensation if they charged borrowers higher interest rates or points than required in bank rate sheets specifying loan prices, or included prepayment penalties in the loan agreements. That added compensation created incentives to increase loan profitability, but not loan quality. A 2008 OTS review elaborated:

> "[T]he review defines an origination culture focused more heavily on production volume rather than quality. An example of this was a finding that production personnel were allowed to participate in aspects of the income, employment, or asset verification process, a clear conflict of interest. … Prior OTS examinations have raised similar issues

[546] April 13, 2010 Subcommittee Hearing at 16-17.
[547] Subcommittee interview of Brian Minkow (2/16/2010).

including the need to implement incentive compensation programs to place greater emphasis on loan quality."[548]

(a) Long Beach Account Executives

Despite the years of internal and external audits that found a lack of internal controls at Long Beach that led to some of the worst rates of loan delinquency in the subprime industry, Long Beach continued to incentivize production volume over sound lending. The Subcommittee obtained a presentation of the Long Beach 2004 Incentive Plan.[549] The plan outlines four compensation tiers based on volume, creating a system where the largest producers not only make more money by issuing more loans, but rather, as producers climb more of the tiers, they earn a higher rate of commission as well. Tier 1 Long Beach account executives, those who closed 1-6 loans or funded up to $899,000 in loans per month, received 40 basis points (bps) commission for each broker sourced loan.[550] Tier 2 Long Beach account executives, those who closed 7-12 loans or funded between $900,000 and $2,499,999 in loans per month, received 50 bps commission for each broker sourced loan plus $30 per loan in additional compensation. Tier 3 Long Beach account executives, those who closed 13-26 loans or funded between $2,500,000 and $4,999,999 in loans per month, received 55 bps commission for each broker sourced loan plus $30 additional per loan. Tier 4 Long Beach account executives, those who closed more than 26 loans or funded more than $5,000,000 in loans per month, received 60 bps commission for each broker sourced loan.[551]

The 2004 Long Beach Incentive Plan also introduced a contingent compensation program called, "Long Term Cash Incentive Program," which provided bonuses tied to the performance of WaMu stock and could be converted to cash over a three-year period. Top producing Long Beach account executives received the Long Term Cash Incentive bonus calculated as a small percentage of overall volume. Like the tier system, as volume increased so did the percentage used to calculate the bonus. Account executives ranked in the top 25% in volume received a five bps bonus on their total production, account executives in the top 15% received a 7.5 bps bonus, and account executives in the top 5% received a 10 bps bonus. These bonuses could add up to tens of thousands, if not hundreds of thousands of dollars.[552]

In addition, in 2004, the top 40 Long Beach account executives were rewarded with a trip to the President's Club. Long Beach used a point system to calculate the top account executives for this purpose. Three points were awarded for each loan unit funded for first mortgages, two

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[548] 6/19/2008 OTS Findings Memorandum, "Loan Fraud Investigation," JPM_WM02448184, Hearing Exhibit 4/13-25.
[549] Documents regarding Long Beach compensation, Hearing Exhibit 4/13-59a.
[550] Id. The "units" referred to in the document are "loans." Subcommittee interview of Brian Minkow (2/16/2010). By awarding "basis points" the compensation system ensured that the account executives got a percentage of the loan amounts that they successfully issued after receiving loan information from a broker, incentivizing them to maximize the dollar amount of the loans they issued. Some were also paid a per loan fee, incentivizing them to sell as many loans as possible.
[551] Id.
[552] Id.

points were awarded for each purchase unit funded (as opposed to a refinance), and two points were awarded for each $100,000 funded. The point system created a competition that focused primarily on volume. The 2004 incentive plan makes no reference to loan quality.[553]

Long Beach regularly made changes to the compensation plan, but the basic volume incentives remained. In the 2007 incentive plan, which took effect after the collapse of the subprime market, the volume requirements were even greater than 2004 requirements. In 2007, the Tier 1 represented 1-9 qualified loans and up to $1,499,999 funded; Tier 2 was 10-13 qualified loans and between $1,500,000 and $2,399,000 funded; Tier 3 was 14-35 qualified loans and between $2,400,000 and $5,999,999 funded; Tier 4 was 36 or more loans and $6,000,000 or more funded.[554]

(b) WaMu Loan Consultants

Like Long Beach, at WaMu loan officers were compensated for the volume of loans closed and loan processors were compensated for speed of loan closing rather than a more balanced scorecard of timeliness and loan quality. According to the findings and recommendations from an April 2008 internal investigation into allegations of loan fraud at WaMu:

> "A design weakness here is that the loan consultants are allowed to communicate minimal loan requirements and obtain various verification documents from the borrower that [are] need[ed] to prove income, employment and assets. Since the loan consultant is also more intimately familiar with our documentation requirements and approval criteria, the temptation to advise the borrower on means and methods to game the system may occur. Our compensation and reward structure is heavily tilted for these employees toward production of closed loans."[555]

An undated presentation obtained by the Subcommittee entitled, "Home Loans Product Strategy, Strategy and Business Initiatives Update," outlines WaMu's 2007 Home Loans Strategy and shows the decisive role that compensation played, while providing still more evidence of WaMu's efforts to execute its High Risk Lending Strategy:

> **"2007 Product Strategy**
> ***Product strategy designed to drive profitability and growth***
>
> -Driving growth in higher margin products (Option ARM, Alt A, Home Equity, Subprime) …

[553] Id.
[554] Documents regarding Long Beach compensation, Hearing Exhibit 4/13-59b.
[555] 4/4/2008 WaMu Memorandum of Results, "AIG/UG and OTS Allegation of Loan Frauds Originated by [name redacted]," at 11, Hearing Exhibit 4/13-24.

> -Recruit and leverage seasoned Option ARM sales force, refresh existing training including top performer peer guidance
>
> -Maintain a compensation structure that supports the high margin product strategy"[556]

The presentation goes on to explain the Retail Loan Consultant incentive plan: "Incentive Tiers reward high margin products … such as the Option ARM, Non-Prime referrals and Home Equity Loans …. WaMu also provides a 15 bps 'kicker' for selling 3 year prepayment penalties."[557]

In order to promote high risk, high margin products, WaMu paid its loan consultants more to sell them. WaMu divided its products into four categories: "W," "A," "M," and "U." WaMu paid the highest commissions for "W" category products, and in general, commissions decreased though the other categories. "W" products included new Option ARMs, "Non-prime" referrals, and home equity loans. "A" products included Option ARM refinancings, new hybrid ARMs, new Alt A loans, and new fixed rate loans. Like Long Beach, WaMu also created four compensation tiers with increasing commissions based on volume. The tiers were called: "Bronze," "Silver," "Gold," and "Platinum."[558] Even in 2007, WaMu's compensation plan continued to incentivize volume and high risk mortgage products.

In 2007, WaMu also adopted a plan to pay "overages," essentially a payment to loan officers who managed to sells mortgages to clients with higher rates of interest than the clients qualified for or were called for in WaMu's daily rate sheets. The plan stated:

> "Overages … [give a] Loan Consultant [the] [a]bility to increase compensation [and] [e]nhance compensation/incentive for Sales Management …. Major national competitors have a similar plan in place in the market. "[559]

Under the 2007 plan, if a loan officer sold a loan that charged a higher rate of interest than WaMu would have accepted according to its rate sheet, WaMu would split the additional profit with the loan officer.[560] This compensation practice, often referred to as awarding "yield spread premiums," has been barred by the Dodd-Frank Act implementing financial reforms.[561]

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[556] 2007 WaMu Home Loans Product Strategy, "Strategy and Business Initiatives Update," JPM_WM03097217, Hearing Exhibit 4/13-60a [emphasis in original].
[557] Id.
[558] Id.
[559] 12/6/2006 WaMu Home Loan Credit Risk F2F, JPM_WM02583396-98, Hearing Exhibit 4/13-60b (The proposal to pay overages , adopted in 2007, increased compensation for loan officers who sold loans with a higher interest rate or more points than required on WaMu's daily rate sheet.)
[560] Subcommittee interview of David Schneider (2/17/2010).
[561] Section 1403 of the Dodd-Frank Act (prohibiting "steering incentives").

(c) Loan Processors and Quality Assurance Controllers

At Long Beach and WaMu, volume incentives were not limited to the sales people. Back office loan processors and quality control personnel were also compensated for volume. While WaMu executives and senior managers told the Subcommittee that quality control was emphasized and considered as part of employee compensation, the back office staff said otherwise.[562] Diane Kosch worked as a Quality Assurance Controller in a Long Beach Loan Fulfillment Center (LFC) in Dublin, California, east of San Francisco Bay. She told the Subcommittee that the pressure to keep up with the loan volume was enormous. Each month the LFC would set volume goals, measured in dollar value and the number of loans funded. At the end of each month the pressure to meet those goals intensified. Ms. Kosch said that at month's end, she sometimes worked from 6:00 a.m. until midnight reviewing loan files. Monthly rallies were held, and prizes were awarded to the underwriters and loan processors who had funded the most loans.[563]

Documents obtained by the Subcommittee confirm Ms. Kosch's recollections. A September 2004 email sent to all Dublin LFC employees with the subject line, "Daily Productivity – Dublin," by the area manager uses creative formatting to express enthusiasm:

> ***"Less than 1 week*** and we have a long way to go to hit our 440M! including today, we have 4 days of fundings to end the Quarter with a ***bang!*** With all the new UW changes, we will be swamped next month, **so don't hold any back!**
>
> 4 days…..it's time for the mad dash to the finish line! ***Who is in the running……***
>
> **Loan Set Up – Phuong** is pulling away with another 18 files set up yesterday for 275 MTD! 2nd place is held by **Jean** with 243…can you catch **Phuong**? Get ready Set Up – come October, it's going to get a ***little crazy!***
>
> **Underwriting – Michelle** did it! She broke the **200 mark** with 4 days left to go! ***Nice job Michelle!*** 2nd place is held by **Andre** with 176 for the month! Way to go **Andre!** Four other UW's had solid performances for the day as well including **Mikhail** with **15!** **Jason** and **Chioke** with 11 and June with 10 – The double digit club!"[564]

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[562] Subcommittee interview of Mark Brown (2/19/2010). Mr. Brown, WaMu National Underwriting Director, told the Subcommittee that incentives for loan processors were based on quality standards and monthly volume.
[563] Subcommittee interview of Diane Kosch (2/18/2010).
[564] 9/2004 Long Beach processing center internal email, Hearing Exhibit 4/13-61. In the email, "UW" stands for Underwriting or Underwriter, and "SLC" stands for Senior Loan Coordinator.

Ms. Kosch told the Subcommittee that from late 2005 until early 2007, loan volume increased and loan quality remained very poor. She said that just about every loan she reviewed was a stated income loan, sloppy, or appeared potentially fraudulent. Yet she was not given the resources or support to properly review each loan. Ms. Kosch said that she was told by a Quality Control manager that she should spend 15 minutes on each file, which she felt was insufficient. Yet, because Quality Assurance Controllers received a bonus on the basis of the number of loans they reviewed, she said some of her colleagues spent only ten minutes on each file.[565]

Ms. Kosch found that often, when she tried to stop the approval of a loan that did not meet quality standards, it would be referred to management and approved anyway. She said good Quality Assurance Controllers were treated like "black sheep," and hated because they got in the way of volume bonuses. She said certain brokers were identified as "elite," and the Dublin LFC employees were told to, "take care of them." Ms. Kosch even suspected some underwriters were getting kickbacks, in part, because of the clothes they wore and cars they drove, which she believed would have been unaffordable to even the top back office employees. She reported her suspicions to her supervisor, but she was not aware of any action taken as a result.

As it turns out, Ms. Kosch's concerns about fraud were not unfounded. The Daily Productivity email quoted above also lauds the work of a Senior Loan Coordinator (SLC) named John Ngo:

> "**SLC –** This one is still tight with **Sandy** holding on to the first place slot! **Sandy** funded 4 more on Friday for a MTD total of 46! 2nd place is **John Ngo** with 4 fundings on Friday and 44 MTD – only 2 back!"

About a year after this email was sent, the FBI began to question Mr. Ngo about a scheme to buy houses in Stockton, California with fake documents and stolen identities. According to court records, the FBI had uncovered documents that showed Mr. Ngo had received more than $100,000 in payments from a mortgage broker, allegedly bribes to approve bad loans. Mr. Ngo's estranged wife told the FBI that she didn't know how he could afford their $1.4 million home for which he made a down payment of $350,000. At the time, his salary at Long Beach was $54,000. [566]

Mr. Ngo later pled guilty to perjury and agreed to testify against his Long Beach sales associate, Joel Blanford. Long Beach paid Mr. Blanford more than $1 million in commissions each year from 2003-2005. According to the Department of Justice:

> "NGO admitted in his plea agreement that most of the payments were to ensure that fraudulent loan applications were processed and funded. NGO also admitted he received payments from Long Beach Mortgage sales representatives to push applications through the funding process. He knew many of these applications

[565] Subcommittee interview of Diane Kosch (2/18/2010).
[566] "At Top Subprime Mortgage Lender, Policies Were an Invitation to Fraud," Huffington Post Investigative Fund (12/21/2009), http://www.huffingtonpost.com/2009/12/21/at-long-beach-mortgage-a_n_399295.html.

> were fraudulent, and he and others took steps to 'fix' applications by creating false documents or adding false information to the applications or the loan file."[567]

(3) WaMu Executive Compensation

Questionable compensation practices did not stop in the loan offices, but went all the way to the top of the company. WaMu's CEO received millions of dollars in pay, even when his high risk loan strategy began unraveling, even when the bank began to falter, and even when he was asked to leave his post. From 2003 to 2007, Mr. Killinger was paid between $11 million and $20 million each year in cash, stock, and stock options. In addition, WaMu provided him with four retirement plans, a deferred bonus plan, and a separate deferred compensation plan. In 2008, when he was asked to leave to leave the bank, Mr. Killinger was paid $25 million, including $15 million in severance pay. Altogether, from 2003 to 2008, Washington Mutual paid Mr. Killinger nearly $100 million, on top of multi-million-dollar corporate retirement benefits.[568]

As WaMu began losing billions of dollars due to the declining value of its loans and mortgage backed securities, top management paid significant attention to ensuring that they would be well compensated despite the crisis. In January 2008, Mr. Killinger sent Mr. Rotella an email with the subject "comp," seeking input on formulating compensation recommendations for the Board of Directors' Human Resources Committee. The email discussed compensation for WaMu's top executives. Mr Killinger wrote: "Our current thinking is to recommend that equity grants be in options this year. … I am considering an additional restricted stock grant which would help a bit on retention and to help offset the low bonus for 2007." [569]

Mr. Rotella responded that he thought WaMu executives would want more of their bonuses in cash:

> "[T]he feeling people will have about this is tied to the level of pain on the cash bonus side …. Unfortunately more than a few feel that our stock price will not easily recover, that it is highly dependent on housing and credit and they can't influence that at all. This will come on the heels of what will be a terrible fourth qtr, and likely very poor results in the first half along with continued bad news in the environment. So we will have some people thinking, 'this is nice but I don't see the upside in a time frame that works.' Also, as you know folks feel very burned by the way their paper was tied to performance targets that they now see as unrealistic and tied to housing and have a jaundiced view of paper. … People want more certainty now with some leverage, not a high dose of leverage with low cash."[570]

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[567] 6/19/2008 Department of Justice press release, "Federal Authorities Announce Significant Regional Federal Mortgage Fraud Investigations and Prosecutions Coinciding with Nationwide 'Operation Malicious Mortgage' Takedown," http://sacramento.fbi.gov/dojpressrel/pressrel08/sc061908a.htm.
[568] "Washington Mutual CEO Kerry Killinger: $100 Million in Compensation, 2003-2008," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1h.
[569] 1/3/2008 email chain between Kerry Killinger and Steve Rotella, JPM_WM01335818, Hearing Exhibit 4/13-65.
[570] Id.

Mr. Killinger replied: "In short, the success of the comp program is up to you and me. I think we are putting the right economics and opportunities on the table. But we have to convince our folks that they will all make a lot of money by being with WaMu."[571]

In February 2008, the Human Resources Committee approved a bonus plan for executive officers that tried to shield the executive bonuses from any impact caused by WaMu's mounting mortgage losses. The Committee established a formula consisting of four weighted performance measures, but took steps to exclude mortgage losses. The first performance measure, for example, set a goal for WaMu's 2008 net operating profit, but adjusted the profit calculation to exclude: "(i) loan loss provisions other than related to our credit card business and (ii) expenses related to foreclosed real estate assets."[572] The second performance measure set a target limiting WaMu's 2008 noninterest expense, but excluded expenses related to: "(i) business resizing or restructuring and (ii) foreclosed real estate assets."[573]

WaMu filed its executive compensation plan with the SEC, as required. The exclusion of mortgage related losses and expenses in the plan attracted notice from shareholders and the press. One March 5, 2008 article entitled, "WaMu Board Shields Executives' Bonuses," reported: "The board of Washington Mutual Inc. has set compensation targets for top executives that will exclude some costs tied to mortgage losses and foreclosures when cash bonuses are calculated this year."[574] WaMu employees circulated the article through company email.[575] Investors and analysts raised concerns.

Mr. Killinger sought to respond to the controversy in a way that would placate investors without alienating executives. His solution was to eliminate bonuses for the top five executives, and make cash payments to the other executives, without making that fact public. In July, Mr. Killinger emailed Steve Frank, the Chairman of the Board of Directors, with his proposal:

> "We would like to have the HR [Human Resources] committee approve excluding the exec com [Executive Committee] from the 2008 bonus and to approve the cash retention grants to the non NEOs [Named Executive Officers]. This would allow me to respond to questions next week regarding the bonus plan on the analyst call. And it would help calm down some of the EC [Executive Committee] members."[576]

In other words, WaMu would announce publicly that none of the Executive Committee members would receive bonuses in 2008, while quietly paying "retention grants" rather than "bonuses" to the next tier of executives. Mr. Frank replied, "Sounds OK to me." Mr. Killinger followed up with the explanation: "We would disclose the exclusion of EC [Executive Committee] members from the bonus plan. There would be no disclosure of the retention cash payments. Option

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[571] Id.
[572] 2/28/2008 email from David Schneider, "FW: 2008 Leadership Bonus," JPM_WM02446549.
[573] Id.
[574] "WaMu Board Shields Executives' Bonuses," Wall Street Journal (3/5/2008), Hearing Exhibit 4/13-67.
[575] Id.
[576] 7/16/2008 email from Kerry Killinger, JPM_WM01240144, Hearing Exhibit 4/13-66.

grants would be held off until whenever other comp. actions were done."[577] At WaMu's annual meeting with shareholders, the Board indicated that it had "reversed" the decision to exclude mortgage losses when calculating executive bonuses and made no mention of the cash retention payments planned for some executives.[578]

When WaMu failed, shareholders lost all of their investments. Yet in the waning days of the company, top executives were still well taken care of. On September 8, 2008, Mr. Killinger walked away with $25 million, including $15 million in severance pay. His replacement, Allen Fishman, received a $7.5 million signing bonus for taking over the reins from Mr. Killinger in September 2008.[579] Eighteen days later, WaMu failed, and Mr. Fishman was out of a job. According to his contract, he was eligible for about $11 million in severance pay when the bank failed.[580] It is unclear how much of the severance he received.

G. Preventing High Risk Lending

Washington Mutual was a $300 billion, 120-year-old financial institution that was destroyed by high risk lending practices. By 2007, stated income loans—loans in which Washington Mutual made no effort to verify the borrower's income or assets—made up 50% of its subprime loans, 73% of its Option ARMs, and 90% of its home equity loans. Nearly half of its loans were Option ARMs of which 95% of the borrowers were making minimum payments and 84% were negatively amortizing. Numerous loans had loan-to-value ratios of over 80%, and some provided 100% financing. Loans issued by two high volume loan offices in the Los Angeles area were found to have loan fraud rates of 58, 62, and even 83%. Loan officer sales assistants were manufacturing borrower documentation. The bank's issuance of hundreds of billions of dollars in high risk, poor quality loans not only destroyed confidence in the bank, but also undermined the U.S. financial system.

The consequences of WaMu's High Risk Lending Strategy and the proliferation of its RMBS structured finance products incorporating high risk, poor quality loans provide critical lessons that need to be learned to protect the U.S. financial system from similar financial disasters. A number of developments over the past two years hold promise in helping to address many of the problems identified in the Washington Mutual case history.

(1) New Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), P.L. 111-203, which the President signed into law on July 21, 2010, contains a number of changes in law that will be implemented over the course of 2011. The Dodd-Frank changes

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[577] 7/16/2008 email from Kerry Killinger, JPM_WM01240144, Hearing Exhibit 4/13-66.
[578] See, e.g., "Shareholders Score at WaMu," Bloomberg BusinessWeek (4/15/2008) ("And perhaps most notable: WaMu reversed a much-criticized decision to leave out the company's mortgage related losses when calculating profits that determine executive bonuses for the year ahead.").
[579] "WaMu Creditors could Challenge Payments to Killinger, Others," Seattle Times (10/1/2008), Hearing Exhibit 4/13-68.
[580] "WaMu CEO: 3 Weeks Work, $18M," CNNMoney.com (9/26/2008).

include banning stated income loans; restricting negative amortization loans; requiring lenders to retain an interest in high risk loan pools that they sell or securitize; prohibiting lenders from steering borrowers to poor quality, high risk loans; and re-evaluating the role of high risk, structured finance products in bank portfolios.

Ban on Stated Income Loans. Multiple witnesses at the Subcommittee's April 16, 2010 hearing on the role of bank regulators expressed support for banning stated income loans. The FDIC Chairman Sheila Bair testified: "We are opposed to stated income. … We think you should document income."[581] When asked for his opinion of stated income loans, the FDIC Inspector General Jon Rymer responded: "I do not think they should be allowed,"[582] stressing the fraud risk: "I really can see no practical reason from a banker's perspective or a lender's perspective to encourage that. … That is just, to me, an opportunity to essentially encourage fraud." [583] Treasury Inspector General Eric Thorson also criticized stated income loans, explaining: "[T]he problem is, you can't assess the strength of the borrower and that has got to be at the foundation of underwriting, risk assessment, risk management."[584] Even the former head of OTS called stated income loans an "anathema" and expressed regret that OTS had allowed them.[585]

The Dodd-Frank Act essentially bans stated income loans by establishing minimum standards for residential mortgages in Title XIV of the law. Section 1411 establishes a new Section 129C of the Truth in Lending Act (TILA) prohibiting lenders from issuing a residential mortgage without first conducting a "good faith and reasonable" determination, based upon "verified and documented information," that a borrower has a "reasonable ability to repay the loan" and all applicable taxes, insurance, and assessments. Subsection 129C(a)(4) states the lender "shall verify" the borrower's income and assets by reviewing the borrower's W-2 tax form, tax returns, payroll receipts, financial institution records, or "other third-party documents that provide reasonably reliable evidence" of the borrower's income or assets. In addition, Section 1412 of the Dodd-Frank Act adds a new Subsection 129C(b) to TILA establishing a new category of "qualified mortgages" eligible for more favorable treatment under federal law. It states that, in all "qualified mortgages," the "income and financial resources" of the borrower must be "verified and documented."

These statutory requirements, by prohibiting lenders from issuing a residential mortgage without first verifying the borrower's income and assets, essentially put an end to stated income loans.[586]

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[581] April 16, 2010 Subcommittee Hearing at 88.
[582] Id. at 27.
[583] Id. at 15.
[584] Id. at 15.
[585] Id. at 42, 142.
[586] The Federal Reserve is charged with issuing regulations to implement Section 1411. Federal Reserve regulations issued in July 2008, under the authority of the Home Ownership and Equity Protection Act (HOEPA) of 1994, which took effect in October 2009, already require lenders issuing certain high cost mortgages to verify a borrower's ability to repay the loan. 73 Fed. Reg. 147, at 44543 (7/30/2008). Since the Dodd-Frank Act applies to all types of

Restrictions on Negative Amortization Loans. Witnesses at the Subcommittee's April 16 hearing also criticized WaMu's heavy reliance on Option ARM loans. These loans provided borrowers with a low initial interest rate, which was followed at a later time by a higher variable rate. Borrowers were generally qualified for the loans by assuming they would pay the lower rather than the higher rate. In addition, borrowers were allowed to select one of four types of monthly payments, including a "minimum payment" that was less than the interest and principal owed on the loan. If the borrower selected the minimum payment, the unpaid interest was added to the unpaid loan principal, which meant that the loan debt could increase rather than decrease over time, resulting in negative amortization.

At the Subcommittee hearing, the FDIC Inspector General Jon Rymer warned that negative amortization loans are "extraordinarily risky" for both borrowers and banks.[587] The FDIC Chairman Sheila Bair testified:

> "We are opposed to teaser rate underwriting. You need to underwrite at the fully indexed rate. You should document the customer's ability to repay, not just the initial introductory rate, but if it is an adjustable product, when it resets, as well."[588]

The Dodd-Frank Act does not ban negatively amortizing loans, but does impose new restrictions on them. Section 1411 amends TILA by adding a new Section 129C(6) that requires, for any residential mortgage that allows a borrower "to defer the repayment of any principal or interest," that the lender vet potential borrowers based upon the borrower's ability to make monthly loan payments on a fully amortizing schedule—meaning a schedule in which the loan would be fully repaid by the end of the loan period—instead of evaluating the borrower's ability to make payments at an initial teaser rate or in some amount that is less than the amount required at a fully amortized rate. The law also requires the lender, when qualifying a borrower, to "take into consideration any balance increase that may accrue from any negative amortization provision." This provision essentially codifies the provisions in the 2006 Nontraditional Mortgage Guidance regarding qualification of borrowers for negatively amortizing loans.

In addition, Section 1414 of the Dodd-Frank Act adds a new Section 129C(c) to TILA prohibiting lenders from issuing a mortgage with negative amortization without providing certain disclosures to the borrower prior to the loan. The lender is required to provide the borrower with an explanation of negative amortization in a manner prescribed by regulation as well as describe its impact, for example, how it can lead to an increase in the loan's outstanding principal balance. In the case of a first-time home buyer, the lender must also obtain documentation that the home buyer received homeownership counseling from a HUD-certified organization or counselor. Finally, Section 1412 of the Dodd-Frank Act, establishing the new favored category of "qualified mortgages," states those mortgages cannot negatively amortize.

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mortgage loans, the Federal Reserve is expected to issue revised regulations during 2011, expanding the verification requirement to all mortgage loans.

[587] April 16, 2010 Subcommittee Hearing at 16.

[588] Id. at 88.

Together, these borrower qualification and disclosure requirements, if well implemented, should reduce, although not eliminate, the issuance of negative amortization mortgages.

Risk Retention. One of the root causes of the financial crisis was the ability of lenders like Washington Mutual to securitize billions of dollars in high risk, poor quality loans, sell the resulting securities to investors, and then walk away from the risky loans it created. At the April 16 Subcommittee hearing, the FDIC Chairman Bair testified:

> "[W]e support legislation to require that issuers of mortgage securitizations retain some 'skin in the game' to provide added discipline for underwriting quality. In fact, the FDIC Board will consider … a proposal to require insured banks to retain a portion of the credit risk of any securitizations that they sponsor."[589]

Section 941(b) of the Dodd-Frank Act adds a new section 15G to the Securities Exchange Act of 1934 to require the federal banking agencies, SEC, Department of Housing and Urban Development, and Federal Housing Finance Agency jointly to prescribe regulations to "require any securitizer to retain an economic interest in a portion of the credit risk for any residential mortgage asset that the securitizer, through the issuance of an asset-backed security, transfers, sells, or conveys to a third party."[590] The retained economic interest must be "not less than 5 percent of the credit risk" of the assets backing the security, with an exception made for "qualified residential mortgages," to be further defined by the regulators. The regulators issued a proposed rule early in 2011, which is currently the subject of a public comment period.

In the meantime, the FDIC has issued a new regulation, effective September 30, 2010, that imposes a range of disclosure, risk retention, and other obligations on all insured banks that issue asset backed securitizations.[591] One of the provisions imposes a 5% risk retention requirement on all asset backed securitizations issued by an insured bank, whether backed by mortgages or other assets. The provision states that the bank sponsoring the securitization must:

> "retain an economic interest in a material portion, defined as not less than five (5) percent, of the credit risk of the financial assets. This retained interest may be either in the form of an interest of not less than five (5) percent in each of the credit tranches sold or transferred to the investors or in a representative sample of the securitized financial assets equal to not less than five (5) percent of the principal amount of the financial assets at transfer. This retained interest may not be sold or pledged or hedged, except for the hedging of interest rate or currency risk, during the term of the securitization."[592]

The provision also states that this risk retention requirement applies only until the "effective

[589] Id. at 81.
[590] Section 941(b) also imposes risk retention requirements on other types of asset backed securities and collateralized debt obligations.
[591] 12 CFR § 360.6.
[592] 12 CFR § 360.6(b)(5)(i).

date" of the regulations to be issued under Section 941 of the Dodd-Frank Act.

The FDIC risk retention requirement, followed by the risk retention requirement to be developed under the Dodd-Frank Act, should, if well implemented, end the ability of banks to magnify risk through issuing asset backed securities and then walking away from that risk. Instead, banks will be required to keep "skin in the game" until each securitization concludes.

Ban on Steering. The Washington Mutual case history also exposed another problem: compensation incentives that encouraged loan officers and mortgage brokers to steer borrowers to higher risk loans. Compensation incentives called "overages" at WaMu and "yield spread premiums" at other financial institutions also encouraged loan officers and mortgage brokers to charge borrowers higher interest rates and points than the bank would accept, so that the loan officer or mortgage banker could split the extra money taken from the borrower with the bank.

To ban these compensation incentives, Section 1403 of the Dodd-Frank Act creates a new Section 129B(c) in TILA prohibiting the payment of any steering incentives, including yield spread premiums. It states: "no mortgage originator shall receive from any person and no person shall pay to a mortgage originator, directly or indirectly, compensation that varies based on the terms of loan (other than the amount of the principal)." It also states explicitly that no provision of the section should be construed as "permitting any yield spread premium or other similar compensation." In addition, it directs the Federal Reserve to issue regulations to prohibit a range of abusive and unfair mortgage related practices, including prohibiting lenders and brokers from steering borrowers to mortgages for which they lack a reasonable ability to repay.

The Dodd-Frank provisions were enacted into law shortly before the Federal Reserve, in September 2010, promulgated new regulations prohibiting a number of unfair or abusive lending practices, including certain payments to mortgage originators.[593] In its notice, the Federal Reserve noted that its new regulations prohibit many of the same practices banned in Section 1403 of the Dodd Frank Act, but that it will fully implement the new Dodd-Frank measures in a future rulemaking.[594]

High Risk Loans. Still another problem exposed by the Washington Mutual case history is the fact that, in the years leading up to the financial crisis, many U.S. insured banks held highly risky loans and securities in their investment and sale portfolios. When those loans and securities lost value in 2007, many banks had to declare multi-billion-dollar losses that triggered shareholder flight and liquidity runs.

Section 620 of the Dodd-Frank Act requires the federal banking regulators, within 18 months, to prepare a report identifying the activities and investments that insured banks and their affiliates are allowed to engage in under federal and state law, regulation, order, and guidance, and analyzing the risks associated with those activities and investments. The federal banking agencies are also asked to make recommendations on whether each allowed activity or

[593] 75 Fed. Reg. 185 (9/24/2010).
[594] Id. at 58509.

investment is appropriate, could negatively affect the safety and soundness of the banking entity or the U.S. financial system, and should be restricted to reduce risk.

(2) Recommendations

To further strengthen standards and controls needed to prevent high risk lending and safeguard the Deposit Insurance Fund, this Report makes the following recommendations.

1. **Ensure "Qualified Mortgages" Are Low Risk.** Federal regulators should use their regulatory authority to ensure that all mortgages deemed to be "qualified residential mortgages" have a low risk of delinquency or default.

2. **Require Meaningful Risk Retention.** Federal regulators should issue a strong risk retention requirement under Section 941 by requiring the retention of not less than a 5% credit risk in each, or a representative sample of, an asset backed securitization's tranches, and by barring a hedging offset for a reasonable but limited period of time.

3. **Safeguard Against High Risk Products.** Federal banking regulators should safeguard taxpayer dollars by requiring banks with high risk structured finance products, including complex products with little or no reliable performance data, to meet conservative loss reserve, liquidity, and capital requirements.

4. **Require Greater Reserves for Negative Amortization Loans.** Federal banking regulators should use their regulatory authority to require banks issuing negatively amortizing loans that allow borrowers to defer payments of interest and principal, to maintain more conservative loss, liquidity, and capital reserves.

5. **Safeguard Bank Investment Portfolios.** Federal banking regulators should use the Section 620 banking activities study to identify high risk structured finance products and impose a reasonable limit on the amount of such high risk products that can be included in a bank's investment portfolio.

IV. REGULATORY FAILURE: CASE STUDY OF THE OFFICE OF THRIFT SUPERVISION

Washington Mutual Bank (WaMu), with more than $300 billion in assets, $188 billion in deposits, over 2,300 branches in 15 states, and 43,000 employees, was by late 2008 the largest thrift under the supervision of the Office of Thrift Supervision (OTS) and among the eight largest financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The bank's collapse in September 2008 came on the heels of the Lehman Brothers bankruptcy filing, accelerating the unraveling of the financial markets. WaMu's collapse also marked one of the most spectacular failures of federal bank regulators in recent history.

In 2007, many of WaMu's home loans, especially those with the highest risk profile, began experiencing increased rates of delinquency, default, and loss. After the subprime mortgage backed securities market collapsed in September 2007, Washington Mutual was unable to sell or securitize subprime loans and its loan portfolio began falling in value. By the fourth quarter of 2007, the bank recorded a loss of $1 billion, and then in the first half of 2008, WaMu lost $4.2 billion more. WaMu's stock price plummeted against the backdrop of these losses and a worsening financial crisis elsewhere on Wall Street, which was witnessing the forced sales of Countrywide Financial Corporation and Bear Stearns, the government takeover of IndyMac, Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, the taxpayer bailout of AIG, and the conversion of Goldman Sachs and Morgan Stanley into bank holding companies. From 2007 to 2008, WaMu's depositors withdrew a total of over $26 billion in deposits from the bank, triggering a liquidity crisis. On September 25, 2008, OTS placed Washington Mutual Bank into receivership, and the FDIC, as receiver, immediately sold it to JPMorgan Chase for $1.9 billion. Had the sale not gone through, Washington Mutual's failure could have exhausted the FDIC's entire $45 billion Deposit Insurance Fund.

OTS records show that, during the five years prior to its collapse, OTS examiners repeatedly identified significant problems with Washington Mutual's lending practices, risk management, and asset quality, and requested corrective action. Year after year, WaMu promised to correct the identified problems, but failed to do so. OTS, in turn, failed to respond with meaningful enforcement action, choosing instead to continue giving the bank inflated ratings for safety and soundness. Until shortly before the thrift's failure in 2008, OTS regularly gave WaMu a CAMELS rating of "2" out of "5," which signaled to the bank and other regulators that WaMu was fundamentally sound.

Federal bank regulators are charged with ensuring that U.S. financial institutions operate in a safe and sound manner. However, in the years leading up to the financial crisis, OTS failed to prevent Washington Mutual's increasing use of high risk lending practices and its origination and sale of tens of billions of dollars in poor quality home loans. The agency's failure to adequately monitor and regulate WaMu's high risk lending stemmed in part from an OTS regulatory culture that viewed its thrifts as "constituents," relied on them to correct the problems identified by OTS with minimal regulatory intervention, and expressed reluctance to interfere with even unsound lending and securitization practices. OTS displayed an unusual amount of

deference to WaMu's management, choosing to rely on the bank to police itself. The reasoning appeared to be that if OTS examiners simply identified the problems at the bank, OTS could then rely on WaMu's assurances that problems were corrected, with little need for tough enforcement actions. It was a regulatory approach with disastrous results.

Over the five-year period reviewed by the Subcommittee, OTS examiners identified over 500 serious deficiencies in WaMu operations. Yet OTS did not once, from 2004 to 2008, take a public enforcement action against Washington Mutual, even when the bank failed to correct major problems. Only in late 2008, as the bank incurred mounting losses, did OTS finally take two informal, nonpublic enforcement actions, requiring WaMu to agree to a Board Resolution in March and a Memorandum of Understanding in September, but neither action was sufficient to prevent the bank's failure. OTS officials resisted calls by the FDIC, the bank's backup regulator, for stronger measures and even impeded FDIC oversight efforts at the bank. Hindered by a culture of deference to management, demoralized examiners, and agency infighting, OTS officials allowed the bank's short term profits to excuse its risky practices and failed to evaluate the bank's actions in the context of the U.S. financial system as a whole.

OTS not only failed to prevent Washington Mutual from engaging in unsafe and unsound lending practices, it gave its tacit approval and allowed high risk loans to proliferate. As long as Washington Mutual was able to sell off its risky loans, neither OTS nor the FDIC expressed concerns about the impact of those loans elsewhere. By not sounding the alarm, OTS and the FDIC enabled WaMu to construct a multi-billion-dollar investment portfolio of high risk mortgage assets, and also permitted WaMu to sell hundreds of billions of dollars in high risk, poor quality loans and securities to other financial institutions and investors in the United States and around the world. Similar regulatory failings by OTS, the FDIC, and other agencies involving other lenders repeated these problems on a broad scale. The result was a mortgage market saturated with risky loans, and financial institutions that were supposed to hold predominantly safe investments but instead held portfolios rife with high risk, poor quality mortgages. When those loans began defaulting in record numbers and mortgage related securities plummeted in value, financial institutions around the globe suffered hundreds of billions of dollars in losses, triggering an economic disaster. The regulatory failures that set the stage for these losses were a proximate cause of the financial crisis.

A. Subcommittee Investigation and Findings of Fact

To analyze regulatory oversight of Washington Mutual, the Subcommittee subpoenaed documents from OTS, the FDIC, and WaMu, including bank examination reports, legal pleadings, reports, internal memoranda, correspondence, and email. The Subcommittee also conducted over two dozen interviews with OTS, FDIC, and WaMu personnel, including the FDIC Chairman, OTS Director, OTS and the FDIC senior examiners assigned to Washington Mutual, and senior WaMu executives. The Subcommittee also spoke with personnel from the Offices of the Inspector General (IG) at the FDIC and the Department of Treasury, who were engaged in a joint review of WaMu's failure. In addition, the Subcommittee spoke with nearly a dozen experts on a variety of banking, accounting, regulatory, and legal issues. On April 16, 2010, the Subcommittee held a hearing at which OTS, the FDIC, and IG officials provided

testimony; released 92 hearing exhibits; and released the FDIC and Treasury IGs' joint report on Washington Mutual.[595]

In connection with the hearing, the Subcommittee released a joint memorandum from Chairman Levin and Ranking Member Coburn summarizing the investigation to date into the role of the regulators overseeing WaMu. That memorandum stated:

> "Federal bank regulators are supposed to ensure the safety and soundness of individual U.S. financial institutions and, by extension, the U.S. banking system. Washington Mutual was just one of many financial institutions that federal banking regulators allowed to engage in such high risk home loan lending practices that they resulted in bank failure and damage to financial markets. The ineffective role of bank regulators was a major contributor to the 2008 financial crisis that continues to afflict the U.S. and world economy today."

On March 16, 2011, the FDIC sued the three top former executives of Washington Mutual for pursuing a high risk lending strategy without sufficient risk management practices and despite their knowledge of a weakening housing market.[596] The FDIC complaint states:

> "Chief Executive Officer Kerry K. Killinger ("Killinger"), Chief Operating Officer Stephen J. Rotella ("Rotella"), and Home Loans President David C. Schneider ("Schneider") caused Washington Mutual Bank ("WaMu" or "the Bank") to take extreme and historically unprecedented risks with WaMu's held-for-investment home loans portfolio. They focused on short term gains to increase their own compensation, with reckless disregard for WaMu's longer term safety and soundness. Their negligence, gross negligence and breaches of fiduciary duty caused WaMu to lose billions of dollars. The FDIC brings this Complaint to hold these three highly paid senior executives, who were chiefly responsible for WaMu's higher risk home lending program, accountable for the resulting losses."

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[595] See "Wall Street and the Financial Crisis: Role of the Regulators," before the U.S. Senate Permanent Subcommittee on Investigations, S.Hrg. 111-672 (April 16, 2010) (hereinafter "April 16, 2010 Subcommittee Hearing").

[596] The Federal Deposit Insurance Corporation v. Kerry K. Killinger, Stephen J. Rotella, David C. Schneider, et al., Case No. 2:11-CV-00459 (W.D. Wash.), Complaint (March 16, 2011), at http://graphics8.nytimes.com/packages/pdf/business/conformedcomplaint.pdf (hereinafter "FDIC Complaint Against WaMu Executives").

The Levin-Coburn memorandum contained joint findings of fact regarding the role of federal regulators in the Washington Mutual case history. Those findings of fact, which this Report reaffirms, are as follows.

1. **Largest U.S. Bank Failure.** From 2003 to 2008, OTS repeatedly identified significant problems with Washington Mutual's lending practices, risk management, and asset quality, but failed to force adequate corrective action, resulting in the largest bank failure in U.S. history.

2. **Shoddy Lending and Securitization Practices.** OTS allowed Washington Mutual and its affiliate Long Beach Mortgage Company to engage year after year in shoddy lending and securitization practices, failing to take enforcement action to stop its origination and sale of loans with fraudulent borrower information, appraisal problems, errors, and notoriously high rates of delinquency and loss.

3. **Unsafe Option ARM Loans.** OTS allowed Washington Mutual to originate hundreds of billions of dollars in high risk Option Adjustable Rate Mortgages, knowing that the bank used unsafe and unsound teaser rates, qualified borrowers using unrealistically low loan payments, permitted borrowers to make minimum payments resulting in negatively amortizing loans (*i.e.*, loans with increasing principal), relied on rising house prices and refinancing to avoid payment shock and loan defaults, and had no realistic data to calculate loan losses in markets with flat or declining house prices.

4. **Short Term Profits Over Long Term Fundamentals.** OTS abdicated its responsibility to ensure the long term safety and soundness of Washington Mutual by concluding that short term profits obtained by the bank precluded enforcement action to stop the bank's use of shoddy lending and securitization practices and unsafe and unsound loans.

5. **Impeding FDIC Oversight.** OTS impeded FDIC oversight of Washington Mutual by blocking its access to bank data, refusing to allow it to participate in bank examinations, rejecting requests to review bank loan files, and resisting the FDIC recommendations for stronger enforcement action.

6. **FDIC Shortfalls.** The FDIC, the backup regulator of Washington Mutual, was unable to conduct the analysis it wanted to evaluate the risk posed by the bank to the Deposit Insurance Fund, did not prevail against unreasonable actions taken by OTS to limit its examination authority, and did not initiate its own enforcement action against the bank in light of ongoing opposition by the primary federal bank regulators to FDIC enforcement authority.

7. **Recommendations Over Enforceable Requirements.** Federal bank regulators undermined efforts to end unsafe and unsound mortgage practices at U.S. banks by issuing guidance instead of enforceable regulations limiting those practices, failing to

prohibit many high risk mortgage practices, and failing to set clear deadlines for bank compliance.

8. **Failure to Recognize Systemic Risk.** OTS and the FDIC allowed Washington Mutual and Long Beach to reduce their own risk by selling hundreds of billions of dollars of high risk mortgage backed securities that polluted the financial system with poorly performing loans, undermined investor confidence in the secondary mortgage market, and contributed to massive credit rating downgrades, investor losses, disrupted markets, and the U.S. financial crisis.

9. **Ineffective and Demoralized Regulatory Culture.** The Washington Mutual case history exposes the regulatory culture at OTS in which bank examiners are frustrated and demoralized by their inability to stop unsafe and unsound practices, in which their supervisors are reluctant to use formal enforcement actions even after years of serious bank deficiencies, and in which regulators treat the banks they oversee as constituents rather than arms-length regulated entities.

B. Background

At the time of its collapse, Washington Mutual Savings Bank was a federally chartered thrift with over $188 billion in federal insured deposits. Its primary federal regulator was OTS. Due to its status as an insured depository institution, it was also overseen by the FDIC.

(1) Office of Thrift Supervision

The Office of Thrift Supervision was created in 1989, in response to the savings and loan crisis, to charter and regulate the thrift industry.[597] Thrifts are required by their charters to hold most of their assets in mortgage lending, and have traditionally focused on the issuance of home loans.[598] OTS was part of the U.S. Department of the Treasury and headed by a presidentially appointed director. Like other bank regulators, OTS was charged with ensuring the safety and soundness of the financial institutions it oversaw. Its operations were funded through semiannual fees assessed on the institutions it regulated, with the fee amount based on the size, condition, and complexity of each institution's portfolio. Washington Mutual was the largest thrift overseen by OTS and, from 2003 to 2008, paid at least $30 million in fees annually to the agency, which comprised 12-15% of all OTS revenue.[599]

[597] Twenty years after its establishment, OTS was abolished by the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203, (Dodd-Frank Act) which has transferred the agency's responsibilities to the Office of the Comptroller of the Currency (OCC), and directed the agency to cease all operations by 2012. This Report focuses on OTS during the time period 2004 through 2008.

[598] 6/19/2002 OTS Regulatory Bulletin, "Thrift Activities Regulatory Handbook Update" (some educational loans, SBLs, and credit card loans also count towards qualifying as a thrift), http://files.ots.treas.gov/74081.pdf.

[599] See April 16, 2010 Subcommittee Hearing at 11 (testimony of Treasury IG Eric Thorson).

In 2009, OTS oversaw about 765 thrift-chartered institutions.[600] OTS supervised its thrifts through four regional offices, each led by a Regional Director, Deputy Director, and Assistant Director. Regional offices assigned an Examiner-in-Charge to each thrift in its jurisdiction, along with other supporting examination personnel. Approximately three-quarters of the OTS workforce reported to its four regional offices, while the remaining quarter worked at OTS headquarters in Washington, D.C. Washington Mutual, whose headquarters were located in Seattle, was supervised by the Western Region Office which, through the end of 2008, was based in Daly City, California.

During the years reviewed by the Subcommittee, the OTS Executive Director was John Reich; the Deputy Director was Scott Polakoff; the Western Region Office Director was Michael Finn and later Darrel Dochow; and the Examiners-in-Charge at WaMu were Lawrence Carter and later Benjamin Franklin.

(2) Federal Deposit Insurance Corporation

WaMu's secondary federal regulator was the FDIC. The FDIC's mission is to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing failed institutions placed into receivership.[601] The FDIC administers the Deposit Insurance Fund, which is the primary mechanism used to protect covered deposits at U.S. financial institutions from loss. The Deposit Insurance Fund is financed through fees assessed on the insured institutions, with assessments based on the amount of deposits requiring insurance, the amount of assets at each institution, and the degree of risk posed by each institution to the insurance fund.

To minimize withdrawals from the Deposit Insurance Fund, the FDIC is assigned backup supervisory authority over approximately 3,000 federally insured depository institutions whose primary regulators are the Federal Reserve, OCC, and, until recently, OTS. Among other measures, the FDIC is authorized to conduct a "special examination" of any insured institution "to determine the condition of such depository institution for insurance purposes."[602] To facilitate and coordinate its oversight obligations with those of the primary bank regulators and ensure it is able to protect the Deposit Insurance Fund, the FDIC has entered into an inter-agency agreement with the primary bank regulators.[603] The 2002 version of that agreement, which was in effect until 2010, stated that the FDIC was authorized to request to participate in examinations of large institutions or higher risk financial institutions, recommend enforcement actions to be taken by the primary regulator, and if the primary regulator failed to act, take its own enforcement action with respect to an insured institution.

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[600] 2009 OTS Annual Report, "Agency Profile," http://www.ots.treas.gov/_files/482096.pdf.
[601] See "FDIC Mission, Vision, and Values," http://www.fdic.gov/about/mission/index.html.
[602] 12 U.S.C. § 1820(b)(3).
[603] The interagency agreement is entitled, "Coordination of Expanded Supervisory Information Sharing and Special Examinations." During the time period of the Subcommittee's investigation, the 2002 version of the interagency agreement, signed by the FDIC, Federal Reserve, OCC, and OTS, was in effect. In July 2010, the federal financial regulators agreed to adopt a stronger version, discussed later in this Report.

For the eight largest insured institutions at the time, the FDIC assigned at least one Dedicated Examiner to work on-site at the institution. The examiner's obligation is to evaluate the institution's risk to the Deposit Insurance Fund and work with the primary regulator to lower that risk. During the period covered by this Report, Washington Mutual was one of the eight and had an FDIC-assigned Dedicated Examiner who worked with OTS examiners to oversee the bank.

During the years examined by the Subcommittee, the FDIC Chairman was Sheila Bair; the Acting Deputy Director for the FDIC's Division of Supervision and Consumer Protection's Complex Financial Institution Branch was John Corston; in the San Francisco Region, the Director was John Carter and later Stan Ivie, and the Assistant Director was George Doerr. At WaMu, the FDIC's Dedicated Examiner was Stephen Funaro.

(3) Examination Process

The stated mission of OTS was "[t]o supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial services needs." The OTS Examination Handbook required "[p]roactive regulatory supervision" with a focus on evaluation of "future needs and potential risks to ensure the success of the thrift system in the long term."[604] OTS, like other bank regulators, had special access to the financial information of the thrifts under its regulation, which was otherwise kept confidential from the market and other parties.

To carry out its mission, OTS traditionally conducted an examination of each of the thrifts within its jurisdiction every 12 to 18 months and provided the results in a Report of Examination ("ROE"). In 2006, OTS initiated a "continuous exam" program for its largest thrifts, requiring its examiners to conduct a series of specialized examinations during the year with the results from all of those examinations included in an annual ROE. The Examiner-in-Charge led the examination activities which were organized around the CAMELS rating system used by all federal bank regulators. The CAMELS rating system evaluates a bank's: (C) capital adequacy, (A) asset quality, (M) management, (E) earnings, (L) liquidity, and (S) sensitivity to market risk. A CAMELS rating of 1 is the best rating, while 5 is the worst. In the annual ROE, OTS provided its thrifts with an evaluation and rating for each CAMELS component, as well as an overall composite rating on the bank's safety and soundness.[605]

At Washington Mutual, OTS examiners conducted both on-site and off-site activities to review bank operations, and maintained frequent communication with bank management through emails, telephone conferences, and meetings. During certain periods of the year, OTS examiners

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[604] 2004 OTS Examination Handbook, Section 010.2, OTSWMEF-0000031969, Hearing Exhibit 4/16-2.

[605] A 1 composite rating in the CAMELS system means "sound in every respect"; a 2 rating means "fundamentally sound"; a 3 rating means "exhibits some degree of supervisory concern in one or more of the component areas"; a 4 rating means "generally exhibits unsafe and unsound practices or conditions"; and a 5 rating means "exhibits extremely unsafe and unsound practices or conditions" and is of "greatest supervisory concern." See chart in the prepared statement of Treasury IG Eric Thorson at 7, reprinted in April 16, 2010 Subcommittee Hearing at 107.

had temporary offices at Washington Mutual for accessing bank information, collecting data from bank employees, performing analyses, and conducting other exam activities. Washington Mutual formed a Regulatory Relations office charged with overseeing its interactions and managing its relationships with personnel at OTS, the FDIC, and other regulators.

During the year, OTS examiners issued "findings memoranda," which set forth particular examination findings, and required a written response and corrective action plan from WaMu management. The memoranda contained three types of findings. The least severe was an "observation," defined as a "weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. … Observations may or may not be reviewed during subsequent examinations." The next level of finding was a "recommendation," defined as a "secondary concern requiring corrective action. … They may be included in the Report of Examination … Management's actions to address Recommendations are reviewed at subsequent or follow-up examinations." The most severe type of finding was a "criticism," defined as a "primary concern requiring corrective action … often summarized in the 'Matters Requiring Board Attention' … section of the Report of Examination. … They are subject to formal follow-up by examiners and, if left uncorrected, may result in stronger action."[606]

The most serious OTS examination findings were elevated to Washington Mutual Bank's Board of Directors by designating them as a "Matter Requiring Board Attention" (MRBA). MRBAs were set forth in the ROE and presented to the Board in an annual meeting attended by OTS and FDIC personnel. Washington Mutual tracked OTS findings, along with its own responses, through an internal system called Enterprise Risk Issue Control System (ERICS). ERICS was intended to help WaMu manage its relationship with its regulators by storing the regulators' findings in one central location. In one of its more unusual discoveries, the Subcommittee learned that OTS also came to rely largely on ERICS to track its dealings with WaMu. OTS' reliance on WaMu's tracking system was a unique departure from its usual practice of separately tracking the status of its past examination findings and a bank's responses.[607]

The FDIC also participated in the examinations of Washington Mutual. Because WaMu was one of the eight largest insured banks in the country, the FDIC assigned a full-time Dedicated Examiner to oversee its operations. Typically, the FDIC examiners worked with the primary regulator and participated in or relied upon the examinations scheduled by that regulator, rather than initiating separate FDIC examinations. At least once per year, the FDIC examiner performed an evaluation of the institution's risk to the Deposit Insurance Fund, typically relying primarily on the annual Report on Examination (ROE) issued by the primary regulator and the ROE's individual and composite CAMELS ratings for the institution. After reviewing the ROE as well as other examination and financial information, the FDIC examiner reviewed the CAMELS ratings for WaMu to ensure they were appropriate.

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[606] Descriptions of these terms appeared in OTS findings memoranda. See, e.g., 6/19/2008 OTS Findings Memorandum of Washington Mutual Bank, at Bisset_John-00046124_002, Hearing Exhibit 4/16-12a.

[607] See April 16, 2010 Subcommittee Hearing at 21 (information supplied by Treasury IG Thorson for the record).

In addition, for institutions with assets of $10 billion or more, the FDIC had established a Large Insured Depository Institutions ("LIDI") Program to assess and report on emerging risks that may pose a threat to the Deposit Insurance Fund. Under that program, the FDIC Dedicated Examiner and other FDIC regional case managers performed ongoing analysis of emerging risks within each covered institution and assigned it a quarterly risk rating, using a scale of A to E, with A being the best rating and E the worst. In addition, senior FDIC analysts within the Complex Financial Institutions Branch analyzed specific bank risks and developed supervisory strategies. If the FDIC viewed an institution as imposing an increasing risk to the Deposit Insurance Fund, it could perform one or more "special examinations" to take a closer look.

C. Washington Mutual Examination History

For the five-year period, from 2004 to 2008, OTS repeatedly identified significant problems with Washington Mutual's lending practices, risk management, appraisal procedures, and issued securities, and requested corrective action. WaMu promised to correct the identified deficiencies, but failed to do so. OTS failed, in turn, to take enforcement action to ensure the corrections were made, until the bank began losing billions of dollars. OTS also resisted and at times impeded FDIC examination efforts at Washington Mutual.

(1) Regulatory Challenges Related to Washington Mutual

Washington Mutual was a larger and more complex financial institution than any other thrift overseen by OTS, and presented numerous regulatory challenges. By 2007, Washington Mutual had over $300 billion in assets, 43,000 employees, and over 2,300 branches in 15 states, including a securitization office on Wall Street, a massive loan portfolio, and several lines of business, including home loans, credit cards, and commercial real estate.

Integration Issues. During the 1990s, as described in the prior chapter, WaMu embarked upon a strategy of growth through acquisition of smaller institutions, and over time became one of the largest mortgage lenders in the United States. One consequence of its acquisition strategy was that WaMu struggled with the logistical and managerial challenges of integrating a variety of lending platforms, information technology systems, staff, and policies into one system.

OTS was concerned about and critical of WaMu's integration efforts. In a 2004 Report on Examination (ROE), OTS wrote:

> "Our review disclosed that past rapid growth through acquisition and unprecedented mortgage refinance activity placed significant operational strain on [Washington Mutual] during the early part of the review period. Beginning in the second half of 2003, market conditions deteriorated, and the failure of [Washington Mutual] to fully integrate past mortgage banking acquisitions, address operational issues, and realize expectations from

> certain major IT initiatives exposed the institution's infrastructure weaknesses and began to negatively impact operating results."[608]

Long Beach. One of WaMu's acquisitions, in 1999, was Long Beach Mortgage Company (Long Beach), a subprime lender that became a source of significant management, asset quality, and risk problems. Long Beach's headquarters were located in Long Beach, California, but as a subsidiary of Washington Mutual Inc., the parent holding company of Washington Mutual Bank, it was subject to regulation by the State of Washington Department of Financial Institutions and the FDIC. Long Beach's business model was to purchase subprime loans from third party mortgage brokers and lenders and then sell or securitize the loans for sale to investors.

For the first seven years, from 1999 to 2006, OTS had no direct jurisdiction over Long Beach, since it was a subsidiary of WaMu's parent holding company, but not a subsidiary of the bank itself. OTS was limited to reviewing Long Beach indirectly by examining its effect on the holding company and WaMu. In late 2003, OTS examiners took greater notice of Long Beach after WaMu's legal department halted Long Beach's securitizations while it helped the company strengthen its internal controls. As many as 4,000 Long Beach loans were of such poor quality that three quarters of them could not be sold to investors. In 2005, Long Beach experienced a surge in early payment defaults, was forced to repurchase a significant number of loans, lost over $107 million, and overwhelmed its loss reserves. Washington Mutual requested permission to make Long Beach a division of the bank, so that it could assert greater control over Long Beach's operations, and in March 2006, OTS approved the purchase with conditions. In 2006, Long Beach experienced another surge of early payment defaults and was forced to repurchase additional loans. When Long Beach loans continued to have problems in 2007, Washington Mutual eliminated Long Beach as a separate operation and rebranded it as a Washington Mutual "Wholesale Specialty Lending" division. In August 2007, after the collapse of the subprime secondary market, WaMu stopped offering subprime loans and discontinued the last vestiges of the Long Beach operation.

High Risk Lending. In 2004, Washington Mutual shifted its strategy toward the issuance and purchase of higher risk home loans. OTS took note of the strategic shift in WaMu's 2004 ROE:

> "Management provided us with a copy of the framework for WMI's 5-year (2005-2009) strategic plan [which] contemplates asset growth of at least 10% a year, with assets increasing to near $500 billion by 2009."[609]

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[608] See 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001482, Hearing Exhibit 4/16-94 [Sealed Exhibit]. See also, e.g., 12/17/2004 email exchange among WaMu executives, "Risks/Costs to Moving GSE Share to FH," JPM_WM05501400, Hearing Exhibit 4/16-88 (noting that Fannie Mae "is well aware of our data integrity issues (miscoding which results in misdeliveries, expensive and time consuming data reconciliations), and has been exceedingly patient.").

[609] See 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001509, Hearing Exhibit 4/16-94 [Sealed Exhibit].

OTS recommended, and the bank agreed, to spell out its new lending strategy in a written document that had to be approved by the WaMu Board of Directors.[610]

The result was the bank's January 2005 High Risk Lending Strategy, discussed in the prior chapter, in which WaMu management obtained the approval of its Board to shift its focus from originating lower risk fixed rate and government backed loans to higher risk subprime, home equity, and Option ARM loans.[611] The High Risk Lending Strategy also outlined WaMu's plans to increase its issuance of higher risk loans to borrowers with a higher risk profile. The purpose of the shift was to maximize profits by originating loans with the highest profit margins, which were usually the highest risk loans. According to actual loan data analyzed by WaMu, higher risk loans, such as subprime, Option ARM, and home equity loans, produced a higher "gain on sale" or profit for the bank compared to lower risk loans. For example, a presentation supporting the High Risk Lending Strategy indicated that selling subprime loans garnered more than eight times the gain on sale as government backed loans.[612]

The WaMu submission to the Board noted that, in order for the plan to be successful, WaMu would need to carefully manage its residential mortgage business as well as its credit risk, meaning the risk that borrowers would not repay the higher risk loans.[613] During the Board's discussion of the strategy, credit officers noted that losses would likely lag by several years.[614] WaMu executives knew that even if loan losses did not immediately materialize, the strategy presented potentially significant risks down the road. OTS did not object to the High Risk Lending Strategy, even though OTS noted that the bank's five-year plan did not articulate a robust plan for managing the increased risk.[615]

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[610] 6/30/2004 OTS Memo to Lawrence Carter from Zalka Ancely, OTSWME04-0000005357 at 61 ("Joint Memo #9 - Subprime Lending Strategy"); 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001483 [Sealed Exhibit]. See also 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302978, Hearing Exhibit 4/13-2a ("As we implement our Strategic Plan, we need to address OTS/FDIC 2004 Safety and Soundness Exam Joint Memos 8 & 9 . . . Joint Memo 9: Develop and present a SubPrime/Higher Risk Lending Strategy to the Board.").

[611] 1/2005 "Higher Risk Lending Strategy Presentation," submitted to Washington Mutual Board of Directors, at JPM_WM00302978, Hearing Exhibit 4/13-2a; see also "WaMu Product Originations and Purchases by Percentage – 2003-2007," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1i.

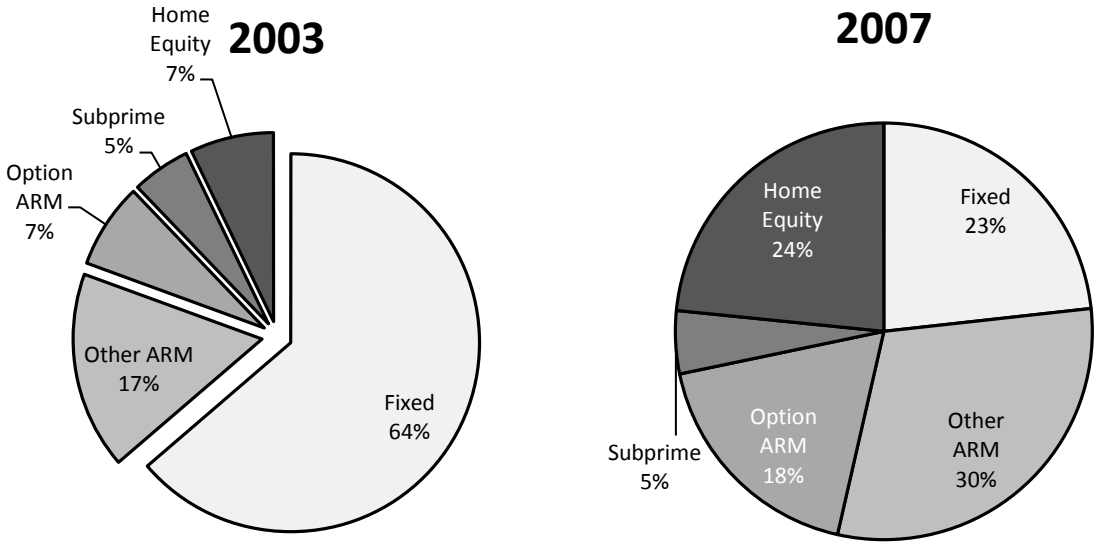
[612] 4/18/2006 Washington Mutual Home Loans Discussion Board of Directors Meeting, at JPM_WM00690894, Hearing Exhibit 4/13-3 (see chart showing gain on sale for government loans was 13 basis points (bps); for 30-year, fixed rate loans was 19 bps; for Option ARMs was 109 bps; for home equity loans was 113 bps; and for subprime loans was 150 bps.)

[613] The Home Loans presentation to the Board acknowledged that risks of the High Risk Lending Strategy included managing credit risk, implementing lending technology and enacting organizational changes. 4/18/2006 Washington Mutual Home Loans Discussion Board of Directors Meeting, at JPM_WM00690899, Hearing Exhibit 4/13-3.

[614] 1/18/2005 Washington Mutual Inc. Washington Mutual Bank FA Finance Committee Minutes, JPM_WM06293964-68 at 67; see also 1/2005 Washington Mutual, Higher Risk Lending Strategy Presentation, at JPM_WM00302987, Hearing Exhibit 4/13-2a (chart showing peak loss rates in 2007).

[615] See 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001509, Hearing Exhibit 4/16-94 [Sealed Exhibit].

Even before it received formal Board approval, Washington Mutual had begun shifting its loan originations toward higher risk loans. By 2007, rising defaults and the collapse of the subprime secondary market prevented WaMu from fully implementing its plans, but it did have time to shift the composition of the loans it originated and purchased, increasing the percentage of higher risk home loans from at least 19% in 2003, to over 47% in 2007.[616]



Over the course of nearly three years, from 2005 to 2007, WaMu issued and securitized hundreds of billions of high risk loans, including $49 billion in subprime loans[617] and $59 billion in Option ARMs.[618] Data compiled by the Treasury and the FDIC Inspectors General showed that, by the end of 2007, Option ARMs constituted about 47% of all home loans on WaMu's balance sheet, of which about 56% of the borrowers were making the minimum payment amounts.[619] The data also showed that 84% of the total value of the Option ARMs was negatively amortizing, meaning that the borrowers were going into deeper debt rather than paying off their loan balances.[620] In addition, by the end of 2007, stated income loans – loans in which the bank had not verified the borrower's income – represented 73% of WaMu's Option

[616] "WaMu Product Originations and Purchases by Percentage – 2003-2007," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1i.
[617] "Securitizations of Washington Mutual and Long Beach Subprime Home Loans," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1c.
[618] 4/2010 "Evaluation of Federal Regulatory Oversight of Washington Mutual Bank," report prepared by the Offices of Inspector General at the Department of the Treasury and Federal Deposit Insurance Corporation (hereinafter "Treasury and FDIC IG Report"), at 9, Hearing Exhibit 4/16-82.
[619] Id. An August 2006 WaMu internal presentation indicated that over 95% of its Option ARM borrowers were making minimum payments. See 8/2006 chart, "Borrower-Selected Payment Behavior," in WaMu internal presentation entitled, "Option ARM Credit Risk," JPM_WM00212646, Hearing Exhibit 4/13-37.
[620] See Treasury and FDIC IG Report, at 9, Hearing Exhibit 4/16-82.

ARMs, 50% of its subprime loans, and 90% of its home equity loans.[621] WaMu also originated numerous loans with high loan-to-value (LTV) ratios, in which the loan amount exceeded 80% of the value of the underlying property. The Inspectors General determined, for example, that 44% of WaMu's subprime loans and 35% of its home equity loans had LTV ratios in excess of 80%.[622] Still another problem was that WaMu had high concentrations of its home loans in California and Florida, states that ultimately suffered above-average home value depreciation.[623]

WaMu issued loans through its own retail loan offices, through Long Beach, which issued subprime loans initiated by third party mortgage brokers, and through correspondent and conduit programs in which the bank purchased loans from third parties. The Treasury and the FDIC Inspectors General observed that, from 2003 to 2007, 48 to 70% of WaMu's residential mortgages came from third party mortgage brokers, and that only 14 WaMu employees were responsible for overseeing more than 34,000 third party brokers, requiring each WaMu employee to oversee more than 2,400 third party brokers.[624]

When the subprime market collapsed in July 2007, Washington Mutual was left holding a portfolio saturated with high risk, poorly performing loans. Prior to the collapse, WaMu had sold or securitized the majority of the loans it had originated or purchased, undermining the U.S. home loan mortgage market with hundreds of billions of dollars in high risk, poor quality loans. OTS documentation shows that WaMu's regulators saw what was happening, identified the problems, but then took no enforcement actions to protect either Washington Mutual or the U.S. financial system from the bank's shoddy lending practices.

(2) Overview of Washington Mutual's Ratings History and Closure

An overview of Washington Mutual's ratings history shows how OTS and the FDIC were required to work together to oversee Washington Mutual, which the two agencies did with varying levels of success. At times, the relationship was productive and useful, while at others they found themselves bitterly at odds over how to proceed. As Washington Mutual's problems intensified, the working relationship between OTS and the FDIC grew more dysfunctional.

From 2004 to 2006, Washington Mutual was a profitable bank and enjoyed a 2 CAMELS rating from both agencies, signifying it was a fundamentally sound institution. In late 2006, as housing prices began to level off for the first time in years, subprime loans began to experience delinquencies and defaults. In part because borrowers were unable to refinance their loans, those delinquencies and defaults accelerated in 2007. The poorly performing loans began to affect the payments supporting subprime mortgage backed securities, which began to incur losses. In July 2007, the subprime market was performing so poorly that the major credit rating agencies suddenly downgraded hundreds of subprime mortgage backed securities, including over 40 issued by Long Beach. The subprime market slowed and then collapsed, and Washington Mutual was suddenly left with billions of dollars in unmarketable subprime loans and securities

[621] Id. at 10.
[622] Id.
[623] Id. at 11.
[624] See Thorson prepared statement, at 5, April 16, 2010 Subcommittee Hearing at 105.

that were plummeting in value. WaMu stopped issuing subprime loans. In the fourth quarter of 2007, WaMu reported a $1 billion loss.

As housing prices slowed and even began declining in some parts of the country, high risk prime loans, including hybrid adjustable rate mortgages, Alt A, and Option ARMs, also began incurring delinquencies and defaults.[625] By March 2008, the total delinquency rate for prime/Alt A loans underlying WaMu and Long Beach securitizations was 8.57%, more than twice the industry average.[626] In 2008, WaMu did not issue any new high risk, nonconforming mortgage securitizations due to, in the words of OTS, "continued market illiquidity, deterioration in the financial condition of the market, and the poor performance of WaMu's outstanding securitizations."[627]

In the first quarter of 2008, WaMu continued to incur losses as the value of its loan portfolio and mortgage backed securities continued to drop. In February 2008, OTS downgraded Washington Mutual for the first time, changing its CAMELS rating from a 2 to a 3, signifying that the bank was in trouble. Unfortunately, OTS did not follow up with a suitable enforcement action. Consistent with its own practice, OTS should have required WaMu to enter into a public Memorandum of Understanding specifying the measures WaMu would take to remedy its problems. Instead, in March, OTS allowed WaMu to issue a nonpublic Board Resolution in which the WaMu Board generally promised to address various problems, but did not identify any specific actions or deadlines.[628]

Also in March 2008, at the urging of the FDIC, OTS required Washington Mutual to allow potential buyers of the bank to conduct due diligence of its assets and operations.[629] Several institutions participated, and JPMorgan Chase made an offer to buy the bank which Washington Mutual turned down. By the end of the first quarter of 2008, Washington Mutual had lost another $1 billion. In April 2008, to reassure the market and its depositors, the holding company raised additional capital of $7 billion from the private sector and provided $3 billion of those funds to the bank. But by the end of the second quarter, WaMu lost another $3.2 billion. Its stock price plummeted, and depositors began withdrawing substantial sums from the bank.

In June 2008, as a result of the bank's financial and deposit losses, the FDIC downgraded WaMu to its lowest internal LIDI rating, an E, indicating "serious concern" that the bank would

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[625] WaMu's Chief Credit Officer informed the Board of Directors that WaMu was "heavily concentrated" in residential mortgages and high risk products as well as in "highly stressed" geographic markets, which negatively affected WaMu's portfolio performance. See 2/25/2008 Credit Risk Overview Report to the Board of Directors, prepared by John McMurray, WaMu Chief Credit Officer, JPM_WM02548447, at 28-29. He reported that WaMu's mortgages were 1366% of its common tangible equity, the highest percentage of any of the top 20 banks. He also informed the Board that the bank's residential mortgages "performed very poorly" and WaMu had "generally retained higher risk products (e.g., Option ARMS, 2nd Liens, Subprime, Low Doc)."

[626] OTS Fact Sheet 12, "Securitizations," Dochow_Darrel-00001364_001.

[627] Id.

[628] 3/17/2008 letter from Kerry Killinger to Darrel Dochow with enclosed Board Resolution, OTSWMS08-015 0001216. See also Treasury and FDIC IG Report at 31.

[629] Subcommittee interviews of WaMu Chief Financial Officer Tom Casey (2/20/2010); WaMu Controller Melissa Ballenger (2/14/2010); and OTS Western Region Office Director Darrel Dochow (3/3/2010); 4/2010 "Washington Mutual Regulators Timeline," prepared by the Subcommittee, Hearing Exhibit 4/16-1j.

cause a loss to the Deposit Insurance Fund. It also initiated a special insurance examination of WaMu, which it conducted concurrently with ongoing OTS examination efforts.[630]

Other financial institutions were also failing, compounding the concern of those who worried whether the Deposit Insurance Fund had sufficient funds. In July 2008, IndyMac Bank, another thrift with high risk loans, failed and was taken over by the FDIC.[631] In response, Washington Mutual depositors began to withdraw more funds from the bank, eventually removing over $10 billion.[632] The Federal Home Loan Bank of San Francisco also began to limit WaMu's borrowing, further straining its liquidity.[633] The parent holding company supplied an additional $2 billion in capital to the bank.

In the final three months before WaMu's collapse, tensions increased further between OTS and the FDIC as they disagreed on the course of action. On July 3, 2008, the head of OTS sent an email to the CEO of WaMu informing him that the agency had decided to require the bank to issue a nonpublic Memorandum of Understanding (MOU).[634] On July 15, OTS and the FDIC met with the WaMu Board of Directors to discuss the latest examination findings and formally advise the Board of the OTS decision to require the MOU. On July 21, 2008, the FDIC sent a letter to OTS urging it to take tough supervisory action in the MOU, including by requiring WaMu to increase its loan loss reserves, begin providing regular financial updates, and raise an additional $5 billion in capital.[635] OTS rejected the FDIC's advice.[636] On July 31, 2008, both OTS and FDIC officials met with WaMu's Board. An FDIC official suggested at the Board meeting that WaMu look for a strategic partner to buy or invest in the bank; OTS expressed anger that the FDIC had raised the issue without first clearing it with OTS.[637]

On August 1, 2008, the FDIC informed OTS that it thought WaMu should be downgraded to a 4 CAMELS rating, signaling it was a troubled bank exhibiting unsafe and unsound practices.[638] OTS strongly disagreed.[639] Also on August 1, OTS provided WaMu with the proposed MOU. The proposed MOU would require the bank to correct lending and risk management deficiencies identified in a June 30 examination report, develop a capital contingency plan (rather than, as the FDIC originally urged, raise additional capital), submit a 3-year business plan, and engage a consultant to review its underwriting, risk management,

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[630] See 7/21/2008 letter from FDIC to OTS, FDIC_WAMU_000001730, Hearing Exhibit 4/16-59.
[631] For more information on IndyMac Bank, see section E(2), below.
[632] See undated charts prepared by FDIC on "Daily Retail Deposit Change," FDIC-PSI-01-000009.
[633] See, e.g., 12/1/2008 "WaMu Bank Supervisory Timeline," prepared by OTS Examiner-in-Charge Benjamin Franklin, at Franklin_Benjamin-00035756_001, at 032 (7/22/2008 entry: "Although they have $60 billion in borrowing capacity, the FHLB is not in a position to fund more than about $4 to $5 billion a week"). See also FDIC LIDI Report for the Second Quarter of 2008, at FDIC_WAMU_000014991 [Sealed Exhibit].
[634] 7/3/2008 email from John Reich to Kerry Killinger, "MOU vs. Board Resolution," Hearing Exhibit 4/16-44.
[635] 7/21/2008 letter from FDIC to OTS, FDIC_WAMU_000001730, Hearing Exhibit 4/16-59.
[636] 7/22/2008 letter from OTS to FDIC, OTSWMS08-015 0001312, Hearing Exhibit 4/16-60.
[637] See 8/1/2008 email exchange among FDIC colleagues, FDIC-EM_00246958, Hearing Exhibit 4/16-64.
[638] 8/1/2008 email exchange among OTS officials, Hearing Exhibit 4/16-62. The FDIC had performed a capital analysis earlier in the summer and had been pushing for a downgrade for weeks. See 7/21/2008 letter from FDIC to OTS, FDIC_WAMU_000001730, Hearing Exhibit 4/16-59.
[639] 8/1/2008 email from OTS Director John Reich to FDIC Chairman Sheila Bair, Hearing Exhibit 416-63.

management, and board oversight. On August 4, WaMu asked OTS to drop the requirement that the consultant review the Board's oversight efforts, and OTS agreed.

On August 6, the FDIC Chairman asked the OTS Director to discuss contingency plans for an emergency closure of the bank. The OTS Director reacted negatively and sent an email criticizing the FDIC Chairman for acting as if it were the primary regulator of the bank.[640] As the agencies argued amongst themselves, the bank's condition continued to deteriorate.

By August 25, OTS and WaMu reached agreement on the terms of the MOU, but it was not actually signed until September 7, 2008.[641] Apart from the capitalization plan, OTS Deputy Director Scott Polakoff described the final MOU as a "benign supervisory document,"[642] meaning it would not bring about meaningful change at WaMu.[643]

On September 10, 2008, the FDIC Chairman, Sheila Bair, informed WaMu that there was a ratings disagreement between the FDIC and OTS, and that the FDIC was likely to downgrade WaMu to a 4. When she informed the OTS Director, John Reich, of her conversation with WaMu, he sent an internal email to his deputy, Scott Polakoff, venting his frustration that she had not discussed the matter with him first and allowed OTS to break the news to the bank: "I cannot believe the continuing audacity of this woman."[644]

Six days later, on September 16, 2008, Lehman Brothers declared bankruptcy, triggering another run on Washington Mutual. Over the next eight days, depositors pulled $17 billion in cash from WaMu's coffers, leading to a second liquidity crisis.[645] On September 18, the FDIC downgraded the bank to a 4 rating, and OTS agreed to the lower rating. Within days, because of the bank's accelerating liquidity problems, portfolio losses, share price decline, and other problems, OTS and the FDIC decided they had to close the bank.[646]

Due to the bank's worsening liquidity crisis, the regulators abandoned their customary practice of waiting until markets closed on Friday, and on Thursday, September 25, 2008, OTS closed Washington Mutual Bank and appointed the FDIC as receiver. The FDIC immediately sold the bank to JPMorgan Chase for $1.9 billion. If the sale had not gone through, Washington Mutual's $300 billion failure might have exhausted the entire $45 billion Deposit Insurance Fund.

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[640] See 8/6/2008 email from John Reich, OTS Director, to Sheila Bair, FDIC Chairman, "Re: W," FDIC-EM_00110089, Hearing Exhibit 4/16-66.
[641] 9/11/2008 OTS document, "WaMu Ratings," Hearing Exhibit 4/16-48.
[642] 7/28/2008 email from OTS Deputy Director Scott Polakoff to Timothy Ward, "Re: WAMU MOU," Polakoff_Scott-00060660_001, Hearing Exhibit 4/16-45.
[643] Subcommittee interview of Tim Ward, OTS Deputy Director of Examinations, Supervision and Consumer Protection (2/12/2010).
[644] 9/10/2008 email from OTS Director John Reich to OTS Deputy Director Scott Polakoff, Polakoff_Scott-00065461_001, Hearing Exhibit 4/16-68.
[645] See undated charts prepared by FDIC on "Daily Retail Deposit Change," FDIC-PSI-01-000009.
[646] See IG Report at 13.

(3) OTS Identification of WaMu Deficiencies

During the five-year period reviewed by the Subcommittee, from 2004 through 2008, OTS examiners identified over 500 serious deficiencies in Washington Mutual's lending, risk management, and appraisal practices.[647] OTS examiners also criticized the poor quality loans and mortgage backed securities issued by Long Beach, and received FDIC warnings regarding the bank's high risk activities. When WaMu failed in 2008, it was not a case of hidden problems coming to light; the bank's examiners were well aware of and had documented the bank's high risk, poor quality loans and deficient lending practices.

(a) Deficiencies in Lending Standards

From 2004 to 2008, OTS Findings Memoranda and annual Reports of Examination (ROE) repeatedly identified deficiencies in WaMu's lending standards and practices. Lending standards, also called "underwriting" standards, determine the types of loans that a loan officer may offer or purchase from a third party mortgage broker. These standards determine, for example, whether the loan officer may issue a "stated income" loan without verifying the borrower's professed income, issue a loan to a borrower with a low FICO score, or issue a loan providing 90% or even 100% of the appraised value of the property being purchased.

When regulators criticize a bank's lending or "underwriting" standards as weak or unsatisfactory, they are expressing concern that the bank is setting its standards too low, issuing risky loans that may not be repaid, and opening up the bank to later losses that could endanger its safety and soundness. When they criticize a bank for excessively high lending or underwriting "errors," regulators are expressing concern that the bank's loan officers are failing to comply with the bank's standards, such as by issuing a loan that finances 90% of a property's appraised value when the bank's lending standards prohibit issuing loans that finance more than 80% of the appraised value.

In addition to errors, regulators may express concern about the extent to which a bank allows its loan officers to make "exceptions" to its lending standards and issue a loan that does not comply with some aspects of its lending standards. Exceptions that are routinely approved can undermine the effectiveness of a bank's formal lending standards. Another common problem is inadequate loan documentation indicating whether or not a particular loan complies with the bank's lending standards, such as loan files that do not include a property's appraised value, the source of the borrower's income, or key analytics such as the loan-to-value or debt-to-income ratios. In the case of Washington Mutual, from 2004 to 2008, OTS examiners routinely found all four sets of problems: weak standards, high error and exception rates, and poor loan documentation.

2004 Lending Deficiencies. In 2004, OTS examiners identified a variety of problems with WaMu's lending standards. In May of that year, an OTS Findings Memorandum stated:

[647] See IG Report at 28.

> "Several of our recent examinations concluded that the Bank's single family loan underwriting was less than satisfactory due to excessive errors in the underwriting process, loan document preparation, and in associated activities."[648]

After reviewing an OTS examination of a loan sample, the FDIC examiner wrote that the loans:

> "reflected inconsistencies with underwriting and documentation practices, particularly in the brokered channel. Additionally, examiners noted that Washington Mutual's SFR [Single Family Residential] portfolio has an elevated level of risk to a significant volume of potential negative amortization loans, high delinquency and exception rates, and a substantial volume of loans with higher risk characteristics, such as low FICO scores."[649]

A few months later, in September, an OTS review of a sample of 2003 WaMu loans found "critical error rates as high as 57.3%":

> "[Residential Quality Assurance]'s review of 2003 originations disclosed critical error rates as high as 57.3 percent of certain loan samples, thereby indicating that SFR [Single Family Residential] underwriting still requires much improvement. While this group has appropriately identified underwriting deficiencies, it has not been as successful in effecting change."[650]

The same OTS Report of Examination observed that one of the three causes of underwriting deficiencies was "a sales culture focused on building market share." It also stated:

> "Notwithstanding satisfactory asset quality overall, some areas still require focused management and Board attention. Most important is the need to address weaknesses in single-family residential (SFR) underwriting, which is an ongoing issue from prior exams."[651]

The OTS ROE concluded: "Underwriting of SFR loans remains less than satisfactory."[652]

The next month, when OTS conducted a field visit to follow up on some of the problems identified earlier, it concluded:

> "The level of SFR [Single Family Residential] underwriting exceptions in our samples has been an ongoing examination issue for several years and one that management has found difficult to address. The institution instituted a major organizational/staffing

[648] 5/12/2004 OTS Memo 5, "SFR Loan Origination Quality," OTSWME04-0000004883.
[649] 5/20/2004 FDIC-DFI Memo 3, "Single Family Residential Review," OTSWME04-0000004889.
[650] 9/13/2004 OTS Report of Examination, at OTSWMS04-0000001498, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[651] 9/13/2004 OTS Report of Examination, at OTSWMS04-0000001492, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[652] 9/13/2004 OTS Report of Examination, at OTSWMS04-0000001497, Hearing Exhibit 4/16-94 [Sealed Exhibit].

> realignment in September 2003 and has continued to make additional adjustments since that time to address accumulating control issues."[653]

2005 Lending Deficiencies. In early 2005, OTS elevated the problems with the bank's lending standards to the attention of the WaMu Board of Directors. In a letter to the Board, OTS wrote:

> "SFR Loan Underwriting – This has been an area of concern for several exams. As management continues to make change in organization, staffing, and structure related to SFR loan underwriting, delays in meeting target dates become inevitable. The board should closely monitor these delays to ensure they do not become protracted."[654]

OTS officials attended a Board meeting to address this and other concerns. Yet a few months later, in June, an OTS examiner wrote: "We continue to have concerns regarding the number of underwriting exceptions and with issues that evidence lack of compliance with Bank policy."[655] The examination findings memorandum also noted that, while WaMu tried to make changes, those changes produced "only limited success" and loan underwriting remained "less than satisfactory."[656]

In August 2005, the OTS ROE for the year indicated that the lending standards problem had not been resolved:

> "[W]e remain concerned with the number of underwriting exceptions and with issues that evidence lack of compliance with bank policy …. [T]he level of deficiencies, if left unchecked, could erode the credit quality of the portfolio. Our concerns are increased with the risk profile of the portfolio is considered, including concentrations in Option ARM loans to higher-risk borrowers, in low and limited documentation loans, and loans with subprime or higher-risk characteristics. We are concerned further that the current market environment is masking potentially higher credit risk."[657]

2006 Lending Deficiencies. The same problems continued into 2006. In March 2006, OTS issued the same strong warning about WaMu's loan portfolio that it had provided in August 2005:

> "We believe the level of delinquencies, if left unchecked, could erode the credit quality of the portfolio. Our concerns are increased when the risk profile of the portfolio is considered, including concentrations in Option ARMS to higher-risk borrowers, in low and limited documentation loans, and loans with subprime or higher-risk characteristics.

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[653] 10/18/2004 OTS Field Visit Report of Examination, at OTSWMEF-0000047576-78, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[654] 2/7/2005 OTS Letter to Washington Mutual Board of Directors on Matters Requiring Board Attention, OTSWMEF-0000047591 [Sealed Exhibit].
[655] 6/3/2005 OTS Findings Memorandum, "Single Family Residential Home Loan Review," OTSWME05-004 0000392, Hearing Exhibit 4/16-26.
[656] Id. at OTSWME05-004 0000392.
[657] 8/29/2005 OTS Report of Examination, at OTSWMS05-004 0001794, Hearing Exhibit 4/16-94 [Sealed Exhibit].

> We are concerned further that the current market environment is masking potentially higher credit risk."[658]

Two months later, in May 2006, an OTS examiner wrote:

> "During the prior examination, we noted numerous instances of underwriters exceeding underwriting guidelines, errors in income calculations, errors in debt-to-income (DTI) calculations, lack of sufficient mitigating factors for credit-quality related issues, and insufficient title insurance coverage on negative amortization loans. . . . . [U]nderwriting errors [] continue to require management's attention."[659]

While OTS was documenting its concerns, however, it is apparent in hindsight that the agency tempered its criticism. The OTS examiner who authored the memo found that in his review, none of the negatively amortizing loans he analyzed for safety and soundness carried an "exception," meaning it "probably should not have been made."[660] Many of the loans made in this time period would later default.

Another OTS Findings Memorandum the same month concluded: "Overall, we concluded that the number and severity of underwriting errors noted remain at higher than acceptable levels."[661]

The 2006 OTS ROE for the year concluded:

> "Subprime underwriting practices remain less than satisfactory. . . . [T]he number and severity of underwriting exceptions and errors remain at higher than acceptable levels. . . . The findings of this judgmental sample are of particular concern since loans with risk layering . . . should reflect more, rather than less, stringent underwriting."[662]

2007 Lending Deficiencies. In 2007, the problems with WaMu's lending standards were no better, and the acceleration of high risk loan delinquencies and defaults threatened serious consequences.

By July 2007, the major credit rating agencies had begun mass ratings downgrades of hundreds of mortgage backed securities, the subprime secondary market froze, and WaMu was left holding billions of dollars worth of suddenly unmarketable subprime and other high risk loans. In September, the OTS ROE for the year concluded:

> "Underwriting policies, procedures, and practices were in need of improvement, particularly with respect to stated income lending. Based on our current findings, and the

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[658] 3/14/2006 OTS Report of Examination, at 19, OTSWMEF-0000047030, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[659] 5/23/2006 OTS Findings Memorandum, "Home Loan Underwriting," OTSWMS06-008 0001299, Hearing Exhibit 4/16-33.
[660] Id.
[661] 5/25/2006 OTS Findings Memorandum, "Loan Underwriting Review - Long Beach Mortgage," OTSWMS06-008 0001243, Hearing Exhibit 4/16-35.
[662] 8/26/2006 OTS Report of Examination, at OTSWMS06-008 0001680, Hearing Exhibit 4/16-94 [Sealed Exhibit].

> fact that a number of similar concerns were raised at prior examinations, we concluded that too much emphasis was placed on loan production, often at the expense of loan quality."[663]

The ROE also reported on an unsatisfactory review of loans that had been originated by Long Beach and warned that, if the problems were not promptly corrected, "heightened supervisory action would be taken":

> "Based on our review of 75 subprime loans originated by [Long Beach], we concluded that subprime underwriting practices remain less than satisfactory . . . . Given that this is a repeat concern and MRBA [Matter Requiring Board Attention], we informed management that underwriting must be promptly corrected, or heightened supervisory action would be taken, including limiting the Bank's ability to continue SFR subprime underwriting."[664]

In the fourth quarter of 2007, WaMu's loan portfolio lost $1 billion in value. Despite that loss, and the strong language in the 2007 examinations, OTS took no enforcement action against the bank that would result in WaMu's tightening its lending standards or strengthening compliance with the standards it had.

2008 Lending Deficiencies. In the first six months of 2008, WaMu continued to incur billions of dollars in losses, as its high risk loan portfolio lost value and its share price fell. In July 2008, about two months before the bank failed, OTS met with the WaMu Board of Directors to discuss, among other matters, the bank's deficient lending standards. While the presentation to the Board reiterated the concerns from past years, it failed to convey a sense of urgency to a bank on the verge of collapse. Instead, the presentation focused on long term corrective action that WaMu should take. The OTS written presentation to the Board included the following:

> "High SFR [Single Family Residential] losses due in part to downturn in real estate market but exacerbated by: geographic concentrations[,] risk layering[,] liberal underwriting policy[,] poor underwriting. … Discontinuing higher risk lending and tightened underwriting policy should improve asset quality; however, actions should have been taken sooner. …
>
> Significant underwriting and process weaknesses noted again in the Home Loans Group[.] ... Reducing higher risk lending products and practices should have been done sooner."[665]

Failure to Correct Deficient Lending Practices. In various reports for nearly five consecutive years, OTS criticized WaMu's lending standards, error and exception rates, and loan documentation, and directed the bank to improve its performance. When WaMu failed to improve during that span, OTS failed to take action, such as requiring a board resolution,

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[663] 9/18/2007 OTS Report of Examination, at OTSWMEF-0000046679, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[664] 9/18/2007 OTS Report of Examination, at OTSWMEF-0000047146, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[665] 7/15/2008 OTS Presentation to WaMu Board of Directors based on Comprehensive Examinations, Polakoff_Scott-00061303_007, 012, 027, Hearing Exhibit 4/16-12b.

memorandum of understanding, or cease and desist order compelling WaMu to tighten its lending standards and increase oversight of its loan officers to reduce underwriting error and exception rates and improve loan documentation. The result was that WaMu originated or purchased hundreds of billions of dollars of high risk loans, including stated income loans without verification of the borrower's assets or ability to repay the loan; loans with low FICO scores and high loan-to-value ratios; loans that required interest-only payments; and loan payments that did not cover even the interest owed, much less the principal.

(b) Deficiencies in Risk Management

Over the same five-year period, from 2004 to 2008, in addition to identifying deficiencies associated with WaMu's lending practices, OTS repeatedly identified problems with WaMu's risk management practices. Risk management involves identifying, evaluating, and mitigating the risks that threaten the safety, soundness, and profitability of an institution. At thrifts, the primary risk issues include setting lending standards that will produce profitable loans, enforcing those standards, evaluating the loan portfolio, identifying home loans that may default, establishing adequate reserves to cover potential losses, and advising on measures to lower the identified risks. When regulators criticize a bank's risk management practices as weak or unsatisfactory, they are expressing concern that the bank is failing to identify the types of risk that threaten the bank's safety and soundness and failing to take actions to reduce and manage those risks.

Within WaMu, from 2004-2005, oversight of risk management practices was assigned to a Chief Risk Officer. In 2006, it was assigned to an Enterprise Risk Management (ERM) Department headed by a Chief Enterprise Risk Officer. ERM employees reported, not only to the department, but also to particular lines of business such as the WaMu Home Loans Division, and reported both to the Chief Risk Officer and to the head of the business line, such as the president of the Home Loans Division. WaMu referred to this system of reporting as a "Double-Double."[666]

As with the bank's poor lending standards, OTS allowed ongoing risk management problems to fester without taking enforcement action. From 2004 to 2008, OTS explicitly and repeatedly alerted the WaMu Board of Directors to the need to strengthen the bank's risk management practices.

2004 Risk Management Deficiencies. In 2004, prior to the bank's adoption of its High Risk Lending Strategy, OTS expressed concern about the bank's risk management practices, highlighted the issue in the annual ROE, and brought it to the attention of the WaMu Board of Directors. The 2004 ROE stated:

[666] Subcommittee interviews of Ronald Cathcart (2/23/2010), David Schneider (2/17/2010), and Cheryl Feltgen (2/6/2010).

> "Board oversight and management performance has been satisfactory … but … increased operational risks warrant prompt attention. These issues limit the institution's flexibility and may threaten its ability to remain competitive and independent."[667]

At another point, the ROE warned: "Ensure cost-cutting measures are not impacting critical risk management areas."[668]

Another OTS examination that focused on WaMu's holding company identified multiple risks associated with Long Beach: "[P]rimary risks associated with Long Beach Mortgage Company remain regulatory risk, reputation risk, and liquidity of the secondary market in subprime loans."[669]

Its concern about WaMu's risk management practices prompted, in part, OTS' requirement that WaMu commit its high risk lending strategy to paper and gain explicit approval from the Board of Directors.

2005 Risk Management Deficiencies. In 2005, after adoption of the High Risk Lending Strategy, OTS again highlighted risk management issues in its examination reports and again brought the matter to the attention of WaMu's Board of Directors.

In March 2005, OTS observed that WaMu's five-year strategy, which increased credit risk for the bank, did not "clearly articulate the need to first focus on addressing the various operational challenges before embarking on new and potentially more risky growth initiatives."[670] OTS also wrote: "We discussed the lack of a clear focus in the plan on resolving operational challenges with CEO Killinger and the Board."[671] OTS continued to express concerns about the bank's weak risk management practices for the rest of the year, yet took no concrete enforcement action to compel the bank to address the issue. In June 2005, OTS described risk management weaknesses within WaMu's Corporate Risk Oversight group, a sub-group within the ERM Department responsible for evaluating credit and compliance risk. OTS wrote that it had deemed its comments as "criticisms" of the bank, because of the significance of the risk management function in addressing ongoing problems with the bank's lending standards and loan error rates:

> "Most of the findings are considered 'criticisms' due to the overall significance of CRO [Corporate Risk Oversight] activities and the fact that we have had concerns with quality assurance and underwriting processes within home lending for several years."[672]

In August 2005, in its annual Report on Examination, OTS urged the WaMu Board to obtain progress reports from the ERM Department and ensure it had sufficient resources to

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[667] 9/13/2004 OTS Report of Examination, at OTSWMS04-0000001504, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[668] Id. at OTSWMS04-000001488.
[669] 4/5/2004 OTS Report of Examination, at OTSWMEF-0000047477, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[670] 3/15/2004 OTS Report of Examination, at OTSWMS04-0000001509, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[671] Id.
[672] 6/1/2005 OTS Findings Memorandum, "Corporate Risk Oversight," OTSWMS05-005 0002046, Hearing Exhibit 4/16-23.

become an effective counterweight to the increased risk-taking entailed in the High Risk Lending Strategy:

> "Monitor and obtain reports from management on status of [Enterprise Risk Management] in terms of effectiveness and resource adequacy. … ERM provides an important check and balance on the company's profit-oriented units and warrants ongoing strong Board commitment given the institution's current strategic direction."[673]

The same ROE noted that the bank did not have effective procedures in place to evaluate the many exceptions being granted to allow loan officers to issue loans that failed to comply with the bank's lending standards, and urged attention to the risks being established:

> "Until full exception data collection, reporting, and follow-up processes are in place and stabilized, senior management and the Board cannot fully assess whether quality assurance processes are having a meaningful impact on line activities, including loan underwriting. We are particularly concerned with the establishment of good quality assurance process for SFR underwriting, which has been an issue for the past several examinations."[674]

A follow-up field examination, conducted in September 2005, stated:

> "We criticized the lack of Trend and Dashboard Report to senior management and the board, without which it is impossible to determine whether line functions are performing acceptably and, more specifically, whether the quality assurance process is having a meaningful impact on improving loan underwriting."[675]

2006 Risk Management Deficiencies. In 2006, OTS again expressed concern about WaMu's risk management practices, but took no further steps to compel improvements. The annual ROE urged the Board of Directors to:

> "[c]ontinue to monitor and obtain reports from management on the status of ERM to ensure its effectiveness and adequacy of resources. . . . ERM should provide an important check and balance on profit-oriented units … particularly given the bank's current strategy involving increased credit risk." [676]

The 2006 ROE also commented that: "[w]ithin ERM, fraud risk management at the enterprise level is in the early stage of development. … Currently, fraud management is decentralized and does not provide a streamlined process to effectively track fraud events across all business lines. In addition, consistent fraud reporting capabilities are not in place to consolidate data for analysis, reporting, and risk management at the enterprise level."[677]

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[673] 8/29/2005 OTS Report of Examination, at OTSWMS05-003 0001783, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[674] Id. at OTSWMS05-004 0001792.
[675] 10/3/2005 OTS Field Visit Report of Examination, at OTSWMEF-0000047602, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[676] 8/29/2006 OTS Report of Examination, at OTSWMS06-008 0001671, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[677] Id. at OTSWMS06-008 0001687, 91.

2007 Risk Management Deficiencies. In 2007, as high risk loan delinquencies and defaults accelerated and WaMu began to incur losses, OTS examiners used harsher language to describe the deficiencies in WaMu's risk management practices, criticizing the bank's failure to institute stronger risk controls and procedures at an earlier date, as recommended.

In June 2007, for example, OTS examiners completed a review critical of WaMu procedures to oversee the loans it purchased from third party mortgage brokers.[678] From 2003 to 2007, 48 to 70% of WaMu's loans were purchased from third parties.[679] An OTS memorandum noted that Washington Mutual had only 14 full-time employees overseeing more than 34,000 third party brokers submitting loans to the bank for approval. OTS also criticized the scorecard used to rate those brokers which, among other problems, did not include the rate at which significant lending or documentation deficiencies were attributed to the broker, the rate at which its loans were denied or produced unsaleable loans, or an indication of whether the broker was included in industry watchlists for misconduct. After describing these and other problems, rather than lower WaMu's safety and soundness scores for its poor oversight, however, the OTS memorandum made only the following observation: "Given the . . . increase in fraud, early payment defaults, first payment defaults, subprime delinquencies, etc., management should re-assess the adequacy of staffing."[680] WaMu management agreed with the finding, but provided no corrective action plan, stating only that "[s]taffing needs are evaluated continually and adjusted as necessary."[681]

In the September 2007 annual ROE, OTS wrote:

> "Risk management practices in the HLG (Home Loans Group) during most of the review period were inadequate …. We believe that there were sufficient negative credit trends that should have elicited more aggressive action by management with respect to limiting credit exposure. In particular, as previously noted, the risk misrepresentation in stated income loans has been generally reported for some time. This information should have led management to better assess the prudence of stated income lending and curtail riskier products well before we indicated during this examination that we would limit the Bank's ability to continue such lending." [682]

The ROE also faulted management and Board inaction:

> "Board oversight and management's performance was less than satisfactory. … Contributing factors should have been more proactively managed by the Board and management. The most significant of these factors include Matters Requiring Board

[678] 6/7/2007 OTS Asset Quality Memo 11, "Broker Credit Administration," Hedger_Ann-00027930_001, Hearing Exhibit 4/16-10.
[679] Prepared statement of Treasury IG Thorson, April 16, 2010 Subcommittee Hearing, at 5.
[680] 6/7/2007 OTS Asset Quality Memo 11, "Broker Credit Administration," Hedger_Ann-00027930_001, Hearing Exhibit 4/16-10.
[681] Id. at 011.
[682] 9/18/2007 OTS Report of Examination, at OTSWMEF-0000046681, Hearing Exhibit 4/16-94 [Sealed Exhibit].

> Attention that were noted in prior examinations but were not adequately addressed, including … an ERM function that was not fully effective."[683]

The ROE concluded: "The ERM function has been less than effective for some time. … ERM has not matured in a timely manner and other ERM functions have been generally ineffective."[684]

A separate OTS examination of WaMu's compliance function observed that WaMu had hired nine different compliance officers in the past seven years, and that "[t]his amount of turnover is very unusual for an institution of this size and is a cause for concern."[685]

Despite these harsh assessments in 2007, OTS again refrained from taking any enforcement action against the bank such as developing a nonpublic Memorandum of Understanding or a public Cease and Desist Order with concrete plans for strengthening WaMu's risk management efforts.

2008 Risk Management Deficiencies. In 2008, as WaMu continued to post billions of dollars in losses, OTS continued to express concerns about its risk management practices. In February 2008, OTS downgraded WaMu to a 3 CAMELS rating and required the bank to issue a Board Resolution committing to certain strategic initiatives including "a more disciplined framework for the identification and management of compliance risks."[686]

In June 2008, OTS issued a Findings Memorandum reacting to a WaMu internal review that found significant levels of loan fraud at a particular loan office, and expressed concern "as to whether similar conditions are systemic throughout the organization."[687] The memorandum noted that "a formalized process did not exist to identify, monitor, resolve, and escalate third party complaints" about loan fraud, expressed concern about "an origination culture focused more heavily on production volume rather than quality"; noted that the WaMu review had found the "loan origination process did not mitigate misrepresentation/fraud"; and described the "need to implement incentive compensation programs to place greater emphasis on loan quality."

As referenced above, in July 2008, two months before the bank's failure, OTS made a presentation to the WaMu Board which, among other problems, criticized its risk management efforts:

> "An adequate [Enterprise Risk Management] function still does not exist although this has been an MRBA [Matter Requiring Board Attention] for some time. Critical as a check and balance for profit oriented units[.] Necessary to ensure that critical risks are

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[683] Id. at OTSWMEF-0000046690.
[684] Id. at OTSWMEF-0000046691.
[685] 5/31/2007 Draft OTS Findings Memorandum, "Compliance Management Program," Franklin_Benjamin-00020408_001, Hearing Exhibit 4/16-9.
[686] 3/11/2008 WaMu presentation, "Summary of Management's Action to Address OTS Concerns," JPM_WM01022322; 3/17/2008 letter from Kerry Killinger to Darrel Dochow with enclosed Board Resolution, OTSWMS08-015 0001216 (committing to initiatives outlined by management).
[687] 6/19/2008 OTS Asset Quality Memo 22, Bisset_John-00046124_002, Hearing Exhibit 4/16-12a.

> identified, measured, monitored and communicated[.] Even more critical given increased credit, market, and operational risk."[688]

Failure to Correct Poor Risk Management. By neglecting to exercise its enforcement authority, OTS chronicled WaMu's inadequate risk management practices over a period of years, but ultimately failed to change its course of action. During a hearing of the Subcommittee, the Department of the Treasury Inspector General, Eric Thorson, whose office conducted an in-depth review of WaMu's regulatory oversight, testified:

> "Issues related to poor underwriting and weak risk controls were noted as far back as 2003, but the problem was OTS did not ensure that WaMu ever corrected those weaknesses. We had a hard time understanding why OTS would allow these satisfactory ratings to continue given that, over the years, they found the same things over and over."[689]

(c) Deficiencies in Home Appraisals

Still another area in which OTS failed to take appropriate enforcement action involves WaMu's appraisal practices. OTS failed to act even after other government entities accused WaMu of systematically inflating property values to justify larger and more risky home loans.

Appraisals provide estimated dollar valuations of property by independent experts. They play a key role in the mortgage lending process, because a property's appraised value is used to determine whether the property provides sufficient collateral to support a loan. Lending standards at most banks require loans to meet, for example, certain loan-to-value (LTV) ratios to ensure that, in the event of a default, the property can be sold and the proceeds used to pay off any outstanding debt.

From 2004 to mid-2006, WaMu conducted its own property appraisals as part of the loan approval process. During that period, OTS repeatedly expressed concerns about WaMu's appraisal efforts.[690] In May 2005, OTS criticized WaMu – the most severe type of finding – regarding its practice of allowing sellers to estimate the value of their property. OTS directed WaMu to stop including an Owner's Estimate of Value in documents sent to appraisers since it biased the review; this criticism had been repeatedly noted in prior examinations, yet WaMu did not satisfactorily address it until the end of 2005.[691] A second finding criticized WaMu's use of automated appraisal software, noting "significant technical document weaknesses."[692] OTS ultimately determined that none of WaMu's automated appraisals complied with standard appraisal practices and some even had "highly questionable value conclusions."[693] Despite this

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[688] 7/15/2008 OTS presentation to WaMu Board of Directors based on Comprehensive Examinations, Polakoff_Scott-00061303-028, Hearing Exhibit 4/16-12b.
[689] See April 16, 2010 Subcommittee Hearing at 25.
[690] See, e.g., 10/3/2005 OTS Report of Examination, at OTSWMEF-0000047601, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[691] 5/20/2005 OTS Memo 4, "Safety and Soundness Examination," at OTSWME06-039 0000214.
[692] Id.
[693] 3/14/2005 OTS Report of Examination, at OTSWMEN-000001794, Hearing Exhibit 4/16-94 [Sealed Exhibit].

dramatic criticism, OTS found in the next year's examination that WaMu had continued to use noncompliant automated appraisals.[694] Before any enforcement action was taken, WaMu management agreed to cease using automated appraisals by October 2006.

To address the issue, WaMu decided in mid-2006 to outsource its appraisal function to two vendors: eAppraiseIT and Lender Service Incorporated (LSI).[695] Calling the move "Project Cornerstone," WaMu fired all of its residential staff appraisers, reducing a staff of about 400 to 30,[696] and eAppraiseIT and LSI were tasked with conducting appraisals of homes purchased with WaMu loans.[697] WaMu assigned oversight of the outside appraisals to a new Appraisal Business Oversight (ABO) group, a unit within the WaMu Home Loans Risk Management division.

The Decision to Outsource. WaMu's decision to outsource the appraisal function received minimal attention from OTS. Documentation obtained by the Subcommittee indicates only a few meetings took place between OTS examiners and the WaMu staff tasked with the outsourcing. During a Subcommittee interview, the key OTS appraisal expert, Bruce Thorvig, explained that it was his first time supervising a large institution that decided to outsource the appraisal function.[698] Though the bank had repeatedly delayed taking action or failed to respond to OTS recommendations and criticisms in the appraisal area in the past, the OTS appraisal expert told the Subcommittee that he saw nothing to indicate that WaMu management could not competently handle a large appraisal outsourcing project of this scale.[699] In one of the few meetings that did occur between WaMu and OTS staff on appraisal issues, the bank's management came away with what they thought was full OTS approval for the outsourcing project,[700] though OTS' appraisal expert disputed that he was even in a position to grant approval and was instead simply receiving notification of WaMu's plans.[701]

Appraisal Problems. Problems began almost immediately after WaMu outsourced the appraisal function. Whether appraisals are conducted internally by the bank or through a vendor, the bank must take responsibility for establishing a standard process to ensure accurate, unbiased home appraisal values. One, for example, was a repeat problem from when WaMu did its own appraisals: "WaMu allowed a homeowner's estimate of the value of the home to be included on the form sent from WaMu to third party appraisers, thereby biasing the appraiser's evaluation" toward a higher home value, in violation of standard residential appraisal methods.[702] A seasoned appraisal compliance manager, who oversaw WaMu as an FDIC examiner prior to coming to work for the bank, drafted a February 2007 Residential Appraisal Department Review which included a long list of issues. Problems included: "undefined" appraisal standards and processes; "loosely defined" vendor management; "unreasonable and imprudent sales force

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[694] 5/23/2006 OTS Memo 2, "Safety and Soundness Examination," at OTSWME06-039 0000205.
[695] Undated OTS internal memo, OTSWMSP-00000001936-51 at 39 [Sealed Exhibit].
[696] Undated OTS internal memo, OTSWMEN-0000015926-31 at 28 [Sealed Exhibit].
[697] Undated OTS internal memo, OTSWMSP-00000001936-51 at 39 [Sealed Exhibit].
[698] Subcommittee Interview of Bruce Thorvig (2/24/2010).
[699] Id.
[700] 5/22/2006 WaMu internal email, OTSWMEN-0000020983.
[701] Subcommittee Interview of Bruce Thorvig (2/24/2010).
[702] IG Report, at 11, Hearing Exhibit 4/16-82.

influence over the appraisal function;" and a "broken" third party appraisal risk control process that "may be contributing to the increasing incidence of mortgage fraud."[703]

These problems continued without resolution or enforcement action from OTS throughout 2007. In an April 2007 memorandum, OTS detailed its concerns, both old and new, with WaMu's appraisal operations. OTS found that WaMu had failed to update and revise its appraisal manual after outsourcing, which put the bank at risk of regulatory violations. In addition, an OTS review of 54 WaMu appraisals identified a number of concerns:

> "Primary appraisal issues (red flags requiring attention by the underwriter or review appraiser) included seller paid closing costs and concession, misstatements/ contradictions, inadequate/incomplete explanations and support for the value conclusion, reconciliation of the sales comparison approach, and weakness in the appraisal review process."[704]

Despite the extent of these concerns, OTS issued a "recommendation" to the bank that it address the identified problems, rather than the stronger "criticism" which would have elevated the issue to the bank's senior management or Board of Directors.[705]

Attorney General Complaint. On November 1, 2007, the New York Attorney General issued a complaint against WaMu's appraisal vendors, LSI and eAppraiseIT, alleging fraud and collusion with WaMu to systematically inflate real estate values.[706] The complaint stated in part:

> "[F]irst American and eAppraiseIT have abdicated their role in providing 'third-party, unbiased valuations' for eAppraiseIT's largest client, WaMu. Instead, eAppraiseIT improperly allows WaMu's loan production staff to hand-pick appraisers who bring in appraisal values high enough to permit WaMu's loans to close, and improperly permits WaMu to pressure eAppraiseIT appraisers to change appraisal values that are too low to permit loans to close."[707]

Though OTS had been aware of the Attorney General's investigation in May 2007, it took no action until after the Attorney General issued the complaint. Even then, OTS did not initiate its own investigation until after an internal WaMu investigation was already underway. The OTS Western Region Director advised: "I believe OTS needs to open up its own special investigation. WaMu started their own special investigation a few days ago when this broke."[708]

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[703] 2/21/2007 draft internal WaMu report, "Residential Appraisal Department Review," OTSWMEN-0000000274 (drafted by Mark Swift).
[704] 4/5/2007 OTS Asset Quality Memo 2, OTSWME07-067 0001082.
[705] Id.
[706] 11/1/2007 New York Attorney General press release, http://www.ag.ny.gov/media_center/2007/nov/nov1a_07.html. Both companies appraised property in New York, which provided jurisdiction for the complaint.
[707] New York v. First American Corporation, et al., (N.Y. Sup.), Complaint (November 1, 2007), at 3.
[708] 11/7/2007 email from Darrel Dochow to Benjamin Franklin, Randy Thomas, others, OTSWMS07-011 0001294.

It took nearly a month for OTS to launch its own investigation into the allegations set out in the New York Attorney General's complaint.[709] In November 2007, when the director of OTS, John Reich, was presented with his agency's investigation plan, he responded:

> "This appears to be a comprehensive (and impressive) review schedule. It doesn't appear, on the surface anyway, to leverage off of WaMu's own review. Do you think we might be totally reinventing the wheel and possibly taking too long to complete our review?"[710]

Despite his concerns about how long the planned investigation might take, the OTS investigation proceeded as proposed. It took over 10 months, until September 2008, for OTS to gather, analyze, and reach conclusions about WaMu's appraisal practices.

The OTS investigation uncovered many instances of improper appraisals. After reviewing 225 loan files, the OTS appraisal expert found that "[n]umerous instances were identified where, because of undue influence on the appraiser, values were increased without supporting documentation."[711] OTS also found that WaMu had violated the agency's appraisal regulations by failing to comply with appraisal independence procedures after they outsourced the function.[712] The OTS investigation concluded that WaMu's appraisal practices constituted "unsafe or unsound banking practices."[713] The OTS investigation also concluded that WaMu was not in compliance with the Uniform Standards of Professional Appraisal Practice and other minimum appraisal standards.[714]

Failure to Correct Appraisal Deficiencies. Shortly before WaMu was sold, OTS' staff prepared a draft recommendation that the agency issue a cease and desist order to bar the bank from engaging in any activity that would lead to further violation of the appraisal regulations.[715] A cease and desist order would have been the first public enforcement action against WaMu regarding its lending practices. Ultimately, the legal staff submitted the memorandum to OTS' Deputy Director and Chief Counsel on October 3, 2008, more than a week after the bank collapsed and was sold.[716] By this point, the recommendation was too late and the issue was moot.

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[709] See undated OTS internal memo to John Bowman, OTSWMSP-0000001936 [Sealed Exhibit].
[710] 11/16/2007 email from OTS Director John Reich to OTS Operations Director Scott Polakoff, Reich_John-00040045_001.
[711] 7/28/2008 Draft Memo to Hugo Zia from Bruce Thorvig, OTSWMEN-0000015851 [Sealed Exhibit].
[712] See 12 CFR Part 564.
[713] Undated OTS internal memo, OTSWMSP-00000001936-51 at 47 [Sealed Exhibit].
[714] Id. at 37 [Sealed Exhibit]. The Subcommittee found no evidence that anyone in OTS senior management disputed the conclusions of the investigation.
[715] Id.
[716] OTS internal document, OTS Enforcement Status of Formal Investigations, Quigley_Lori-00231631_001.

(d) Deficiencies Related to Long Beach

In 1999, WaMu's parent holding company, Washington Mutual Inc., purchased Long Beach Mortgage Company (Long Beach). Long Beach's business model was to issue subprime loans initiated by third party mortgage lenders and brokers and then sell or package those loans into mortgage backed securities for sale to Wall Street firms. Beginning in 1999, Washington Mutual Bank worked closely with Long Beach to sell or securitize its subprime loans and exercised oversight over its lending and securitization operations. Because Long Beach was a subsidiary of Washington Mutual Inc., the holding company, however, and not a subsidiary of Washington Mutual Bank, OTS did not have direct regulatory authority over the company, but could review its operations to the extent they affected the holding company or the bank itself.

OTS was aware of ongoing problems with Long Beach's management, lending and risk standards, and issuance of poor quality loans and mortgage backed securities. OTS reported, for example, that Long Beach's "early operations as a subsidiary of [Washington Mutual Inc.] were characterized by a number of weaknesses" including "loan servicing weaknesses, documentation exceptions, high delinquencies, and concerns regarding compliance with securitization-related representations and warranties."[717] OTS also reported that, in 2003, "adverse internal reviews of [Long Beach] operations led to a decision to temporarily cease securitization activity" until a "special review" by the WaMu legal department ensured that file documentation "adequately supported securitization representations and warranties" made by Long Beach.[718] OTS was aware of an examination report issued by a state regulator and the FDIC after a review of 2003 Long Beach loans, which provides a sense of the extent of problems with those loans at the time:

> "An internal residential quality assurance (RQA) report for [Long Beach]'s first quarter 2003 … concluded that 40% (109 of 271) of loans reviewed were considered unacceptable due to one or more critical errors. This raised concerns over [Long Beach]'s ability to meet the representations and warranty's made to facilitate sales of loan securitizations, and management halted securitization activity. A separate credit review report … disclosed that [Long Beach]'s credit management and portfolio oversight practices were unsatisfactory. … Approximately 4,000 of the 13,000 loans in the warehouse had been reviewed … of these, approximately 950 were deemed saleable, 800 were deemed unsaleable, and the remainder contained deficiencies requiring remediation prior to sale. … [O]f 4,500 securitized loans eligible for foreclosure, 10% could not be foreclosed due to documentation issues."[719]

Despite these severe underwriting and operational problems, Long Beach resumed securitization of its subprime loans in 2004. In April 2005, OTS examiners circulated an internal email commenting on the poor quality of Long Beach loans and mortgage backed securities compared to its peers:

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[717] 12/21/2005 OTS internal memorandum by OTS examiners to OTS Deputy Regional Director, OTSWMS06-007 0001010, Hearing Exhibit 4/16-31.
[718] Id.
[719] 1/13/2004 FDIC-Washington State joint visitation report, FDIC-EM_00102515-20, Hearing Exhibit 4/13-8b. OTS held a copy of this report in its files, OTSWME04-0000029592.

> "Performance data for 2003 and 2004 vintages appear to approximate industry average while issues prior to 2003 have horrible performance. . . . [Long Beach] finished in the top 12 worst annualized [Net Credit Losses] in 1997 and 1999 thru 2003. [Long Beach nailed down the number 1 spot as top loser with an [Net Credit Loss] of 14.1% in 2000 and placed 3rd in 2001 with 10.5%. … For ARM [adjustable rate mortgage] losses, [Long Beach] really outdid themselves with finishes as one of the top 4 worst performers from 1999 through 2003. For specific ARM deals, [Long Beach] made the top 10 worst deal list from 2000 thru 2002. … Although underwriting changes were made from 2002 thru 2004, the older issues are still dragging down overall performance. … At 2/05, [Long Beach] was #1 with a 12% delinquency rate. Industry was around 8.25%."[720]

Six months later, after conducting a field visit, an OTS examiner wrote: "Older securitizations of [Long Beach] continue to have some issues due to previously known underwriting issues in some vintages. The deterioration in these older securitizations is not unexpected."[721]

Purchase of Long Beach. In 2005, Washington Mutual Bank proposed purchasing Long Beach from its holding company so that Long Beach would become a wholly owned subsidiary of the bank. In making the case for the purchase, which required OTS approval, WaMu contended that making Long Beach a subsidiary would give the bank greater control over Long Beach's operations and allow it to strengthen Long Beach's lending practices and risk management, as well as reduce funding costs and administrative expenses. In addition, WaMu proposed that it could replace its current "Specialty Mortgage Finance" program, which involved purchasing subprime loans for its portfolio primarily from Ameriquest, with a similar loan portfolio provided by Long Beach.[722]

In June 2005, an OTS examiner expressed concerns about the purchase in an internal memorandum to OTS regional management and recommended that the purchase be conditioned on operational improvements:

> "At the start of this examination, it was our intent to perform a review of the operation of [Long Beach] with the expectation that [Washington Mutual Inc.] or the bank would be requesting approval to move [Long Beach] as an operating subsidiary of the bank. Such a move would obviously place the heightened risks of a subprime lending operation directly within the regulated institution structure. Because of the high profile nature of the business of [Long Beach] and its problematic history, we believe that any and all concerns regarding the subprime operation need to be fully addressed prior to any move."[723]

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[720] 4/14/2005 OTS internal email, OTSWME05-012 0000806, Hearing Exhibit 4/16-19.
[721] 10/3/2005 OTS Holding Company Field Visit Report of Examination, at OTSWMS06-010 00002532, Hearing Exhibit 4/16-94 [Sealed Exhibit].
[722] See 12/21/2005 OTS internal memorandum by OTS examiners to OTS Deputy Regional Director, at OTSWMS06-007 0001011, Hearing Exhibit 4/16-31.
[723] 6/3/2005 OTS memorandum from Rich Kuczek to Darrel Dochow, "Long Beach Mortgage Corporation (LBMC) Review," OTSWMS06-007 0002683, Hearing Exhibit 4/16-28.

The memorandum identified several matters that required resolution prior to a WaMu purchase of Long Beach, including the establishment of pre- and post-funding loan quality reviews that were already in place at the bank. The memorandum also stated that Long Beach management had "worked diligently to improve its operation and correct significant deficiencies … reported in prior years," and observed, "there is definitely a new attitude and culture."[724]

OTS continued to review Long Beach's lending practices and found additional deficiencies throughout the year. Those deficiencies included errors in loan calculations of debt-to-income ratios, lack of documentation to support the reasonableness of borrower income on stated income loans, and lack of explanation of a borrower's ability to handle payment shock on loans with rising interest rates.[725] OTS also determined that Long Beach's newly created portfolio of subprime loans "had attributes that could result in higher risk" than WaMu's existing subprime loan portfolio.[726]

Nevertheless, in December 2005, OTS examiners wrote that, even though Long Beach was "engaged in a high-risk lending activity and we are not yet fully satisfied with its practices," they recommended approving WaMu's purchase of the company with certain conditions.[727] Those conditions included WaMu's reconsidering its high risk lending concentration limits, including "stated income loans with low FICOs and high LTV ratios"; WaMu's assurance that Long Beach would comply with certain loan guidance; a WaMu commitment to continue to bring down its loan exception and error rates; and a WaMu commitment to ensure its Enterprise Risk Management division would provide a "countervailing balance" to "imprudent" desires to expand Long Beach's subprime lending.[728]

About the same time as this memorandum was completed, OTS learned that, during the fourth quarter of 2005, Long Beach had been required to repurchase tens of millions of dollars of loans it had sold to third parties due to early payment defaults.[729] By December, this unexpected wave of repurchases had overwhelmed Long Beach's repurchase reserves, leading to a reserve shortfall of nearly $75 million. Altogether in the second half of 2005, Long Beach had to repurchase loans with about $837 million in unpaid principal, and incurred a net loss of about

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[724] Id. See also 5/19/2005 OTS email, "LBMC Fair Lending," OTSWMS05-005 0002002, Hearing Exhibit 4/16-20 ("I would not … feel comfortable with their moving [Long Beach] under the thrift without some conditions").
[725] See 12/21/2005 OTS internal memorandum by OTS examiners to OTS Deputy Regional Director Darrel Dochow, OTSWMS06-007 0001009-16, Hearing Exhibit 4/16-31.
[726] Id. at OTSWMS06-007 0001011.
[727] See 12/21/2005 OTS internal memorandum by OTS examiners to OTS Deputy Regional Director Darrel Dochow, OTSWMS06-007 0001009-16, Hearing Exhibit 4/16-31.
[728] Id. at OTSWMS06-007 0001015-16.
[729] See 10/3/2005 OTS Report of Examination, OTSWMS06-010 0002530, Hearing Exhibit 4/16-94 [Sealed Exhibit] (noting that, after a field visit to Long Beach that concluded in December 2005, OTS learned that loan repurchases had surged: "Subsequent to our on-site field visit, management informed us that loan repurchases had increased considerably. … Management indicated that approximately $0.6 billion in loans were repurchased during the fourth quarter of 2005 out of approximately $13.2 billion in total whole loan sales. The gross financial impact at December 31, 2005, was $72.3 million."); 1/20/2006 email from Darrel Dochow to Michael Finn and others, with chart, OTSWMS06-007 0001020 to 1021 (describing Long Beach repurchases).

$107 million.[730] In response, its auditor, Deloitte and Touche, cited Long Beach for a Significant Deficiency in its financial reporting. Despite the sudden evidence of Long Beach's poor quality loans, inadequate repurchase reserves, and negative earnings impact on its parent company, Washington Mutual Inc., OTS approved the bank's application to purchase Long Beach. OTS explained its decision to the Subcommittee by contending that the change in status gave WaMu more control over Long Beach to ensure its improvement.[731]

WaMu ultimately purchased Long Beach on March 1, 2006.[732] After the purchase, Long Beach's practices did not improve, but continued to exhibit numerous problems, as described in the prior chapter. A May 2006 OTS examination of Long Beach loans concluded, for example, "that the number and severity of underwriting errors noted remain at higher than acceptable levels."[733] In a June 2006 internal email to his colleagues, the OTS Regional Deputy Director wrote:

> "We gave them the benefit of doubt based on commitments and some progress when we allowed them to bring [Long Beach] into the bank, but … we have the same type of concerns remaining 6 months later."[734]

In the annual 2006 ROE and again in the annual 2007 ROE, OTS found that Long Beach's lending practices "remain[ed] less than satisfactory."[735] At a hearing of the Subcommittee on April 13, 2010, WaMu's chief credit risk officers from 2004 to 2008 uniformly condemned Long Beach's poor performance and testified that it had never developed an effective risk management system.[736]

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[730] See 4/17/2006 memorandum by WaMu General Auditor to Board of Directors' Audit Committees of Washington Mutual Inc. and Washington Mutual Bank, "Long Beach Repurchase Reserve Root Cause Analysis," JPM_WM02533760, Hearing Exhibit 4/13-10 (Long Beach "experienced a dramatic increase in EPD's [early payment defaults], during the third quarter of 2005 [which] … led to a large volume of required loan repurchases. The unpaid principal balance repurchased as a result of the EPD provision for the year ended December 31, 2005 was $837.3 million. The net loss from these repurchases was approximately $107 million.").

[731] Subcommittee interview of Benjamin Franklin (2/18/2010).

[732] See "Washington Mutual Regulators Timeline," chart prepared by the Subcommittee, Hearing Exhibit 4/16-1j.

[733] 5/25/2006 OTS Findings Memorandum, "Loan Underwriting Review - Long Beach Mortgage," OTSWMS06-008 0001243, Hearing Exhibit 4/16-35. See also 1/20/2006 email from Darrel Dochow to Michael Finn, et al., "LBMC EDP Impact," OTSWMS06-007 0001020 (emphasis added).

[734] 6/9/2006 email from Darrel Dochow to Richard Kuczek, Lawrence Carter, and Benjamin Franklin, "Findings Memos," OTSWMS06-008 0001253, Hearing Exhibit 4/16-36.

[735] 8/29/2006 OTS Report of Examination, at OTSWMS06-008 0001680, Hearing Exhibit 4/16-94 [Sealed Exhibit]; 9/18/2007 OTS Report of Examination, OTSWMEF-0000047146, Hearing Exhibit 4/16-94 ("Based on our review of 75 subprime loans originated by LBMC, we concluded that subprime underwriting practices remain less than satisfactory . . . . Given that this is a repeat concern and MRBA, we informed management that underwriting must be promptly corrected, or heightened supervisory action would be taken, including limiting the Bank's ability to continue SFR subprime underwriting.") [Sealed Exhibit].

[736] April 13, 2010 Subcommittee Hearing at 22.

(e) Over 500 Deficiencies in 5 Years

As part of their review of Washington Mutual, the Treasury and the FDIC Inspectors General determined that, over a five-year period, 2004-2008, OTS examiners identified a total of over 540 criticisms, observations, and recommendations related to WaMu operations.[737] At the Subcommittee hearing, when asked whether those 540 findings constituted "serious criticisms" of the bank, Treasury IG Eric Thorson responded: "Absolutely."[738] The FDIC Inspector General, Jon Rymer, agreed:

> "[T]he examiners, from what I have seen here, were pointing out the problems, underwriting problems, riskier products, concentrations, distributions, and markets that may display more risk – they were all significant problems and they were identified. At the end of the day, though, I don't think forceful enough action was taken."[739]

As WaMu accumulated hundreds of infractions from OTS, longstanding problems with asset quality in the bank's portfolio continued. While some observers have blamed WaMu's failure on its liquidity troubles in late 2008, years of unresolved problems festered below the surface.

The consequences of WaMu's failure to address its underwriting problems, risk concentrations, risk layering, and other problems were exponential increases in its loss rates. The FDIC later calculated the loss rates for several WaMu products. In WaMu's held-for-investment Option ARM portfolio, delinquency rates nearly doubled every year, rising from 0.48% at the end of 2005 to 0.90% a year later, to 2.63% at year end 2007, and up to 4.63% by June 30, 2008.[740] In its subprime portfolio, its delinquency rate increased from 7.39% in 2005 to 25.20% in June 2008.[741] The delinquency rate in its HELOC portfolio rose from 0.58% in 2005 to 4.00% in June 2008.[742] As a result, net charge-offs for WaMu's Option ARM portfolio rose from $15 million at year end 2005 to $37 million in 2006, to $147 million in 2007, and to $777 million by June 2008.[743] HELOC net charge-offs likewise increased, rising from $21 million in 2005, to $23 million in 2006, to $424 million in 2007, and to $1.19 billion by June 2008.[744] Subprime net charge-offs expanded even more rapidly, rising from $47 million in 2005, to $134 million in 2006, to $550 million in 2007, and $956 million by June 2008.[745] To account for these losses, WaMu's loss provisions jumped from $218 million in 2006 to over $2 billion in 2007, and an additional $6 billion by June 2008.[746]

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[737] Id. at 20. See also IG Report at 28.
[738] April 16, 2010 Subcommittee Hearing at 17.
[739] Id. at 18.
[740] See FDIC Complaint Against WaMu Executives at ¶ 79.
[741] Id.
[742] Id.
[743] Id. at ¶ 81.
[744] Id.
[745] Id.
[746] Id. at ¶ 82.

The joint report of the Treasury and the FDIC Inspectors General specifically identified WaMu's poor quality loans and poor risk management practices as the real cause of its failure, rather than the liquidity crisis that hit the bank in 2008.[747] During the Subcommittee's hearing, when asked why WaMu failed, a senior FDIC official put it this way: "Asset quality. Weak asset quality. It brought on the liquidity problems."[748] He explained:

> "If you have strong asset quality, you will not have liquidity issues because your assets – you can borrow either against them or you can sell them. If you have weak asset quality, then you are going to have liquidity issues at some point."[749]

(4) OTS Turf War Against the FDIC

As WaMu approached the end, tensions between OTS and the FDIC that had built up over two years evolved into a turf war. OTS examination and regional officials began to express distrust of their FDIC counterparts. The conflict was elevated to the top leaders of both agencies, who came to take different views of what to do with WaMu – the FDIC becoming more aggressive and OTS becoming more protective. When the bank's imminent collapse was no longer a question, the result was a hasty seizure and sale. Had the two government agencies acted in concert, rather than as adversaries, it is likely that WaMu's problems would have been resolved earlier and with less collateral damage. During an interview, the chairman of the FDIC, Sheila Bair, stated pointedly that WaMu "could have sold themselves in July if they had tried."[750] The same outcome was not accomplished until two months later in September when no other options remained, and OTS worked with the FDIC to make it happen.

As mentioned earlier, OTS was the primary, but not the only, federal bank regulator that oversaw Washington Mutual. Since WaMu was also an insured institution, the FDIC served as a backup examiner responsible for evaluating the risk that the bank posed to the Deposit Insurance Fund. Because WaMu was one of the eight largest insured institutions in the country, the FDIC had assigned a Dedicated Examiner whose full time responsibility was to determine whether the bank was operating in a safe and sound manner. The FDIC Examiner reviewed all OTS ROEs and examination findings, participated on many occasions in OTS examinations, and reviewed bank documents. The FDIC reviewed the CAMELS ratings for the bank, as well as LIDI ratings under its Large Insured Depository Institutions Program.

For many years, FDIC examiners worked cooperatively with OTS examiners to conduct oversight of WaMu. But beginning in 2006, OTS management expressed increasing reluctance to allow FDIC examiners to participate in WaMu examinations and review bank documents. Claiming that joint efforts created confusion about which agency was WaMu's primary

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[747] IG Report at 8.
[748] April 16, 2010 Subcommittee Hearing at 76. John Corston was the Acting Deputy Director of the FDIC's Division of Supervision and Consumer Protection, Complex Financial Institution Branch.
[749] Id.
[750] Subcommittee interview of Sheila Bair (4/5/2010).

regulator,[751] OTS officials employed a variety of tactics to limit the FDIC oversight of the bank, including restricting its physical access to office space at the bank, its participation in bank examinations, and its access to loan files. In addition, as the FDIC began to express greater concern about the bank's viability, recommend ratings downgrades, and urge enforcement action, OTS officials displayed increasing resistance to its advice. In the end, OTS not only undermined years of cooperative oversight efforts, but at times actively impeded FDIC oversight of one of the largest insured banks in the country.

Resisting FDIC Advice. During the period 2004-2008, internal FDIC evaluations of Washington Mutual were consistently more negative than those of OTS, at times creating friction between the two agencies. OTS also resisted the FDIC's advice to subject WaMu to stronger enforcement actions, downgrade its CAMELS rating, and solicit buyers for the bank.

As early as 2005, the FDIC examination team expressed concerns about WaMu's high risk lending strategy, even though the bank's management expressed confidence that the risks were manageable. In an internal memorandum, for example, the FDIC team identified multiple negative impacts on WaMu's loan portfolio if housing prices were to stop climbing. The memorandum stated in part:

> "Washington Mutual Bank's (WMB) single-family residential (SRF) loan portfolio has embedded risk factors that increase exposure to a widespread decline in housing prices. The overall level of risk is moderate, but increasing. … A general decline in housing prices would adversely impact: a) The SRF loan portfolio; b) The home equity loan portfolio; and c) Mortgage banking revenue. … In January 2005, management developed a higher-risk lending (HRL) strategy and defined company-wide higher-risk loans as … sub prime loans … SFR loans with FICO scores below 620, … consumer loans with FICO scores below 660, and … [the] Long Beach … portfolio. Management intends to expand the HRL definition and layer additional risk characteristics in the future. … Management acknowledges the risks posed by current market conditions and recognizes that a potential decline in housing prices is a distinct possibility. Management believes, however that the impact on WMB would be manageable, since the riskiest segments of production are sold to investors, and that these investors will bear the brunt of a bursting housing bubble."[752]

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[751] See, e.g., April 16, 2010 Subcommittee Hearing at 61 (testimony of OTS Director Reich: "[F]irst of all, the primary regulator is the primary Federal regulator, and when another regulator enters the premises, when the FDIC enters the premises, confusion develops about who is the primary regulator, who really is calling the shots, and who do we report to, which agency.")

[752] Undated draft memorandum from the WaMu examination team at the FDIC to the FDIC Section Chief for Large Banks, FDIC-EM_00251205-10, Hearing Exhibit 4/16-51a (likely mid-2005). In an interview, when shown the draft memorandum, FDIC Assistant Regional Director George Doerr, who was a member of the WaMu examination team, told the Subcommittee that this type of analysis was prepared for a select group of mortgage lenders, including WaMu, to understand where the mortgage market was headed and how it would affect those insured thrifts. He did not have a copy of the final version of the memorandum, but said the FDIC's analysis was discussed with OTS. Subcommittee interview of George Doerr (3/30/2010).

In mid-2005, an internal FDIC memorandum discussed the increased risk associated with the new types of higher risk mortgage loans being issued in the U.S. housing market:

> "Despite the favorable history, we believe recent lending practices and buyer behavior have elevated the risk of residential lending. Concerns are compounded by significantly increased investor activity and new loan products that allow less creditworthy borrowers to obtain mortgages. The new loan products of most concern include Option Adjustment Rate Mortgage (ARM) Loans, Interest Only (IO) Loans, and Piggyback Home Equity Loans."[753]

WaMu offered all three types of loans, in addition to subprime loans through Long Beach.

In 2007, an FDIC memorandum again identified WaMu's high risk home loans as its "primary risk," singling out both its subprime and Option ARM loans:

> "SFR [Single Family Residential loan] credit risk remains the primary risk. The bank has geographic concentrations, moderate exposure to subprime assets, and significant exposure to mortgage products with potential for payment shock. … The bank's credit culture emphasized home price appreciation and the ability to perpetually refinance. … In the past, the bank relied on quarterly sales of delinquent residential loans to manage its non performing assets. The bank's underwriting standards were lax as management originated loans under an originate to sell model. When the originate to sell model collapsed in July 2007 for private and subprime loans, management was no longer able to sell non performing assets. Consequently, non performing assets are now mounting, and the bank's credit risk mitigation strategy is no longer effective."[754]

From 2004 to 2008, the FDIC assigned LIDI ratings to WaMu that indicated a higher degree of risk at the bank than portrayed by the bank's CAMELS ratings. LIDI ratings are intended to convey the degree of risk that a bank might cause loss to the Deposit Insurance Fund, with A being the best rating and E the worst.[755] The FDIC IG explained the difference between LIDI and CAMELS ratings as follows: "LIDI ratings consider future risks at an institution, where CAMELS rating, in practice, are more point-in-time measures of performance."[756] As

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[753] 7/5/2005 memorandum from FDIC Associate Director John H. Corston to FDIC Associate Director Michael Zamorski, "Insured Institutions' Exposures to a Housing Slowdown," FDIC_WAMU_000015114, Hearing Exhibit 4/16-51b.

[754] FDIC Washington Mutual Bank LIDI Report, Q307, FDIC_WAMU_000014851, Hearing Exhibit 4/16-94 [Sealed Exhibit].

[755] An A rating indicates a "low risk" of concern that an institution will cause a loss to the Deposit Insurance Fund, a B rating indicates an "ordinary level of concern," a C rating indicates a "more than an ordinary level of concern," a D rating conveys a "high level of concern," and an E rating conveys "serious concerns." See prepared statement of FDIC IG Rymer at 5 (chart showing FDIC LIDI ratings descriptions), April 16, 2010 Subcommittee Hearing, at 124 (showing FDIC LIDI ratings description).

[756] Id.

early as 2004, the FDIC viewed WaMu as having higher levels of risk than indicated by its CAMELS ratings. This chart shows the comparable ratings over time:

WaMu CAMELS and LIDI Ratings, 2004-2008[757]

Assessment Period	CAMELS Composite Rating	LIDI Rating
January 2004	2	B
July 2004	2	B/C
January 2005	2	B/C
July 2005	2	B/C
January 2006	2	B/C
July 2006	2	B/C
March 2007	2	B/C
June 2007	2	C
September 2007	2	C
December 2007	2	C
March 2008	3	D
June 2008	3	E
September 2008	4	E

FDIC IG Rymer explained that the B/C rating meant that the FDIC viewed WaMu as posing a "somewhat more than ordinary risk" to the Deposit Insurance Fund, the C rating meant it "posed more than an ordinary risk," D meant the FDIC had "a high level of concern," and E meant that the FDIC had "serious concerns" that WaMu would cause a loss to the Fund.[758]

Despite assigning lower LIDI ratings to the bank, indicating the increasing risk it posed to the Deposit Insurance Fund, the FDIC – like OTS – continued to support a 2 CAMELS rating throughout 2007. The result of both regulators delaying a downgrade in WaMu's rating had a direct impact on FDIC operations. According to the FDIC Inspector General, WaMu's CAMELS rating of 2 prevented the FDIC from charging higher premiums for the Deposit Insurance Fund until February 2008, when its rating was dropped to a 3.[759] Higher premiums are one of the tools used by the FDIC to signal to financial institutions that they should better control their risk. Unfortunately, in this case, that tool was not available in 2005, 2006, or 2007.

OTS downgraded the bank to a 3 CAMELS rating in February 2008, after WaMu incurred substantial losses. OTS also required WaMu to issue a nonpublic Board Resolution making general commitments to strengthen its operations. The FDIC undertook a special insurance examination of the bank, analyzed its capital, and concluded that the bank should raise

[757] See prepared statement of FDIC IG Rymer at 6 (chart showing WaMu ratings and insurance assessments), April 16, 2010 Subcommittee Hearing at 125.
[758] Id.
[759] Prepared statement of FDIC IG Rymer at 6-7, April 16, 2010 Subcommittee Hearing, at 125-26. See also IG Report at 40-42.

additional capital.[760] The FDIC staff attempted to engage OTS staff in discussions about increasing the bank's capital and downgrading its CAMELS ratings, but OTS was not persuaded.[761]

In July 2008, tensions between the FDIC and OTS flared after the FDIC sent a letter to OTS urging it to take additional enforcement action: "As we discussed, we believe that [WaMu's] financial condition will continue to deteriorate unless prompt and effective supervisory action is taken."[762] The letter urged OTS to impose a "corrective program" that included requiring the bank to raise $5 billion in additional capital and provide quarterly reports on its financial condition. OTS not only rejected that advice, but also expressed the hope that the FDIC would refrain from future "unexpected letter exchanges."[763] In a separate email, Scott Polakoff, a senior OTS official called the FDIC letter "inappropriate and disingenuous":

> "I have read the attached letter from the FDIC regarding supervision of Wamu and am once again disappointed that the FDIC has confused its role as insurer with the role of the Primary Federal Regulator. Its letter is both inappropriate and disingenuous. I would like to see our response to the FDIC, which I assume will remind it that we, as the PFR, will continue to effectively supervise the entity and will continue to consider the FDIC's views."[764]

Two weeks later, on July 31, both OTS and the FDIC met with the WaMu Board of Directors to discuss the bank's problems. At that meeting, the FDIC Dedicated Examiner suggested that the bank look for a "strategic partner" who could buy or invest in the bank. The OTS director, John Reich, later expressed anger at the FDIC for failing to clear that suggestion first with OTS as the bank's primary regulator. An FDIC examiner wrote to his colleagues:

> "Major ill will at WAMU meeting yesterday caused by FDIC suggestion in front of WAMU management that they find a strategic partner. [OTS Director] Reich reportedly indicated that was totally inappropriate and that type of conversation should have occurred amongst regulatory agencies before it was openly discussed with management."[765]

The next day, on August 1, 2008, due to WaMu's increasing financial and deposit losses, the FDIC Chairman, Sheila Bair, suggested that the bank's condition merited a downgrade in its CAMELS rating to a 4, signaling a troubled bank.[766] The head of OTS sent an email to the head of the FDIC responding that "rating WaMu a 4 would be a big error":

> "In my view rating WaMu a 4 would be a big error in judging the facts in this situation. It would appear to be a rating resulting from fear and not a rating based on the condition

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[760] See 7/21/2008 letter from FDIC to OTS, FDIC_WAMU_000001730, Hearing Exhibit 4/16-59.
[761] Subcommittee interview of Steve Funaro (3/18/2010).
[762] 7/21/2008 letter from the FDIC to OTS, FDIC_WAMU_000001730, Hearing Exhibit 4/16-59.
[763] 7/22/2008 letter from OTS to the FDIC, OTSWMS08-015 0001312, Hearing Exhibit 4/16-60.
[764] 7/22/2008 email from OTS Deputy Director Scott Polakoff to OTS colleagues, Hearing Exhibit 4/16-59.
[765] 8/1/2008 email from David Promani to FDIC colleagues, FDIC-EM_00246958, Hearing Exhibit 4/16-64.
[766] See 8/1/2008, email from Darrell Dochow to OTS senior officials, Hearing Exhibit 4/16-62.

> of the institution. WaMu has both the capital and the liquidity to justify a 3 rating. It seems based on email exchanges which have taken place that FDIC supervisory staff in San Francisco is under pressure by the fear in Washington to downgrade this institution. … [P]rior to such action I would request a[n FDIC] Board meeting to consider the proper rating on this institution."[767]

The FDIC Chairman responded: "We will follow the appropriate procedures if the staff cannot agree."[768]

A few days later, Ms. Bair sent an email to Mr. Reich requesting a discussion of "contingency planning" for WaMu, including making "discrete inquiries" to determine whether any institution would be willing to buy the bank. The OTS Director responded with a lengthy email criticizing the request and stating in part:

> "I do not under any circumstances want to discuss this on Friday's conference call …. I should not have to remind you the FDIC has no role until the PFR [Primary Federal Regulator] (i.e. the OTS) rules on solvency …. You personally, and the FDIC as an agency, would likely create added instability if you pursue what I strongly believe would be a precipitous and unprecedented action. … It seems as though the FDIC is behaving as some sort of super-regulator – which you and it are not."[769]

In September 2008, Ms. Bair informed WaMu that there was a likely ratings disagreement between the FDIC and OTS, and that the FDIC intended to lower the bank's rating to a 4. After the FDIC Chairman informed the OTS Director by email of her conversation with WaMu, Mr. Reich forwarded the exchange to his OTS Deputy Director, upset that she had not come to him first with that information: "I cannot believe the continuing audacity of this woman."[770] Two weeks later, the bank failed.

Restricting Office Space and Information. Throughout the period examined by the Subcommittee, OTS not only rebuffed the FDIC's analysis and advice, it began to actively impede FDIC oversight efforts at WaMu. OTS even went so far as to limit the FDIC's physical access to office space, as well as to needed information, at WaMu's new headquarters. Prior to 2006, OTS had always provided the FDIC examiners with space in its on-site offices at the bank, making it easy for FDIC examiners to participate in OTS examinations. In the summer of 2006, however, following WaMu's move to a new headquarters in Seattle, OTS did not provide any of its desks for the FDIC examiners. OTS also restricted the FDIC's access to an important database that all examiners used to review WaMu documents, referred to as the "examiner's library." From July until November 2006, a period of about four months, the FDIC examiners were denied access to both office space on the bank's premises and the examiner's library. The

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[767] 8/1/2008 email from OTS Director John Reich to FDIC Chairman Sheila Bair, Hearing Exhibit 416-63.
[768] Id.
[769] 8/6/2008 email from OTS Director John Reich to FDIC Chairman Sheila Bair, "Re: W," FDIC-EM_00110089, Hearing Exhibit 4/16-66.
[770] 9/10/2008 email from OTS Director John Reich to OTS Deputy Director Scott Polakoff, Polakoff_Scott-00065461_001, Hearing Exhibit 4/16-68.

FDIC had to make multiple requests, taking the issue up through the OTS hierarchy in Washington, D.C. headquarters, to regain the access it had enjoyed for years at WaMu.

In an October 2006 email to the FDIC Assistant Regional Director, George Doerr, the FDIC Dedicated Examiner at WaMu, described in exasperation how he had been promised permanent space at the bank, but still did not have it. Demonstrating how poisoned the relationship was at that point, the FDIC examiner blamed the lack of cooperation on "stalling tactics and misrepresentations:"

> "Our issue is with OTS management (Finn and Dochow) and how they have apparently mislead RD [Regional Director] Carter, DRD [Deputy Regional Director] Villalba, you, and me. This regards space for the dedicated examiner and access to information …. I met with OTS examiners yesterday and they have not made arrangements for permanent space for me at the new location and protocols for information sharing have not been developed …. In July RD Carter [from FDIC] talked with Finn [from OTS] and he agreed to space and access. On 8/17 you and DRD Villalba had a telephone conversation with Dochow and he agreed it was not necessary to fix what was not broken and he promised access to space and information. On 9/15 I met with Dochow and he agreed to space and information sharing …. I am prepared for more of Dochow's stalling tactics and misrepresentations."[771]

Mr. Doerr forwarded the "info about OTS denying us space and access to information" to other FDIC officials stating: "The situation has gone from bad to worse."[772]

At the Subcommittee hearing, when asked why OTS took four months to restore FDIC access to office space and WaMu documents, Mr. Doerr of the FDIC responded:

> Mr. Doerr: I can't explain what the reason was. I personally think they didn't want us there. I mean, we were denied physical access and the access to this examiner library … of electronic materials that WaMu puts together for the regulators …. [Y]ou shouldn't have to go 4 months without having to have that. …
>
> Senator Levin: And it was essential that Mr. Funaro [the FDIC Dedicated Examiner] have access to that library in order to get information about the Washington Mutual?
>
> Mr. Doerr: Absolutely.[773]

By November 2006, when OTS relented and provided desk space and database access to the FDIC Dedicated Examiner, it did little to ameliorate the situation. Its actions contributed to a

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[771] 10/13/2006 email chain from Vanessa Villalba to J. George Doerr, John F. Carter, and John H. Corston, "Re: wamu quarterly," FDIC_WAMU_000014449, Hearing Exhibit 4/16-53. See also 9/6/2006 FDIC internal email chain, "OTS re: WAMU," FDIC-EM_00252239, Hearing Exhibit 4/16-51c ("He absolutely agreed you'd have access to the Examiner Library. And he hasn't arranged that.").

[772] Id.

[773] April 16, 2010 Subcommittee Hearing at 72-73.

worsening relationship between the two agencies, impeded FDIC oversight efforts, and weakened oversight of WaMu's activities.[774]

Restricting FDIC Examinations. At the same time OTS was withholding office space and database access from the FDIC examination team, it also, for the first time, refused an FDIC request to participate in an OTS examination of WaMu.

Although the FDIC has a broad statutory right to participate in examinations of insured depository institutions,[775] it had agreed to spell out how it would exercise that statutory authority in a 2002 Interagency Agreement with the Federal Reserve, OCC, and OTS.[776] The Interagency Agreement authorized the FDIC to conduct "special examinations" of insured institutions that "represent a heightened risk" to the Deposit Insurance Fund, defined as institutions with a 3, 4, or 5 rating on the CAMELS scale or which were "undercapitalized as defined under Prompt Corrective Action" standards.[777] Other FDIC bank examinations had to be authorized by the primary regulator. Prior to 2006, OTS had routinely authorized joint OTS-FDIC examinations without regard to the CAMELS ratings, but in January 2006, OTS suddenly changed its policy. The change was signaled in an email sent by a senior OTS official to his colleagues:

> "The message was crystal clear today. Absolutely no FDIC participation on any OTS 1 and 2 rated exams. . . . We should also deny FDIC requests to participate on HC [holding company] or affiliate exams.
>
> Permission for FDIC to join us on WaMu … will stand for now, but they should not be [in] direct contact with thrift management or be requesting info directly from the thrift."[778]

This email signaled the beginning of a much more restrictive policy toward the FDIC participation in OTS examinations, even though in January 2006, OTS indicated it would allow an exception for the FDIC examiners to continue participating in its scheduled examination of WaMu. The reasons for this change in policy were never made clear, but in several interviews, OTS and FDIC officials attributed it to certain senior OTS officials who were reluctant to share thrift oversight responsibilities with the FDIC.

In August 2006, the FDIC made what it viewed as a routine request to join in the next OTS examination of WaMu, which was designed to focus, in part, on WaMu's subprime lending. To the surprise and consternation of the FDIC, the OTS Regional Director Michael Finn sent a letter denying the request and stating that OTS would instead "share our exam findings with the

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[774] See also IG Report at 42-45 ("It appears that 2006 was a turning point in the relationship between FDIC and OTS in terms of information sharing that carried through to 2008.").
[775] See 12 U.S.C. § 1820(b)(3).
[776] See "Coordination of Expanded Supervisory Information Sharing and Special Examinations," PSI-FDIC-10-0001.
[777] Id.
[778] 1/24/2006 email from OTS senior official Michael Finn to Edwin Chow and Darrel Dochow, OTSWM06-006 0000129, Hearing Exhibit 4/16-49.

FDIC, as we have in the past."[779] Mr. Finn wrote that because WaMu's CAMELS rating was a 2 and FDIC had not shown "any concerns regarding our past or planned examination activities, and our continued commitment to share all appropriate information, the FDIC has not shown the regulatory need to participate in the upcoming Washington Mutual examination."

After discussing the Finn letter in an internal email, the FDIC Assistant Regional Director, George Doerr, wrote to his colleagues:

> "Obviously, we have a major problem here. OTS is taking the approach we need to establish a 'regulatory need to participate' on an exam, and that the basis would have to be disagreement on exam findings. Mr. Finn is totally missing the point on our need for timely accurate information to properly categorize WAMU for deposit insurance premium purposes, more so now than ever in the past."[780]

In October 2006, John Carter with the FDIC sent Michael Finn of OTS a letter repeating the FDIC's request to participate in the WaMu examination:

> "I have received your response to our August 14 2006 letter in which we request permission to participate in aspects of the upcoming examination of Washington Mutual Bank. Regarding your reasoning for rejecting our participation in these target reviews, you are correct that our request is not predicated on any current disagreement related to examination findings or concerns regarding supervisory activities at Washington Mutual. Such criteria are not prerequisite for requesting – or for the OTS granting – FDIC staff participation in target examination activities.
>
> As you are aware, the FDIC and the OTS have a long, cooperative, and productive working relationship with respect to the examination of Washington Mutual Bank, which we hope to continue. Past experience has proven that our participation in targeted reviews is beneficial to our respective Agencies, as well as to the Bank. … The 2002 Agreement clearly allows for FDIC staff participation in examination activities to evaluate the risk of a particular banking activity to the deposit insurance fund.
>
> Washington Mutual Bank is very large insured financial institution, and in our view participation on the upcoming targeted reviews is necessary to fulfill our responsibilities to protect the deposit insurance fund."[781]

On November 10, 2006, Mr. Finn responded with a letter that, again, refused to allow the FDIC to participate in the WaMu examination:

> "OTS does not seek to have FDIC staff actively participate in our examination activities and conclusions at Washington Mutual. We do understand your need for access to

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[779] 9/6/2006 FDIC internal email chain, "OTS re: WAMU," FDIC-EM_00252239-40, Hearing Exhibit 4/16-51c.
[780] Id. at FDIC-EM_00252240.
[781] 10/6/2006 letter from FDIC senior official John Carter to OTS senior official Michael Finn, FDIC_WAMU_000014445-46, Hearing Exhibit 4/16-52a.

> examination information and your need to meet with OTS staff to discuss our supervisory activities at Washington Mutual. To facilitate this information sharing and discussions, we have agreed to allow your Dedicated Examiner … to conduct his FDIC risk assessment activities on site at Washington Mutual when our examination team is on site. All FDIC requests for information should continue to be funneled through our examiner-in-charge."[782]

The OTS letter also restricted the ability of the FDIC to place more than one examiner on site at WaMu, even though the bank, with $300 billion in assets, was one of the largest insured institutions in the country and was engaged in a high risk lending strategy:

> "We also understand that the FDIC may occasionally request OTS permission to have FDIC examination staff assist [its Dedicated Examiner] on site at Washington Mutual in his risk assessment activities. We will consider these limited requests to send additional FDIC staff to Washington Mutual on a case-by-case basis."[783]

Despite the negative tone of the OTS letter, the FDIC persisted in its request, and OTS eventually allowed the FDIC examiners to participate in some WaMu examinations in 2006 and 2007, though it continued to press the FDIC to limit its requests and personnel.[784]

During the Subcommittee hearing, the FDIC staff described their surprise at the new OTS policy and frustration at its seemingly circular reasoning – that the FDIC needed to specify a "basis" and "disagreement" with OTS to justify joining an OTS examination, but the FDIC was also barred from participating in the very examinations that could develop that basis and disagreement.[785]

Restricting Access to Loan Files. Even after OTS reluctantly allowed the FDIC to participate in some OTS examinations, it held firm in its refusal to allow the FDIC to directly review WaMu loan files, insisting that the FDIC instead rely on the findings and conclusions of OTS examiners who conducted the loan file reviews.

In September 2006, when OTS first refused to give the FDIC direct access to WaMu loan files, an FDIC senior official commented: "The OTS must really be afraid of what we might come across, but bottom line is we need access to the information."[786] The FDIC explained to the Subcommittee that it needed direct access to the loan files to assess the higher risk loans WaMu was issuing, both to evaluate what insurance fees should be imposed on Washington Mutual and to assess the extent of any threat to the Deposit Insurance Fund.

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[782] 11/10/2006 letter from OTS senior official Michael Finn to FDIC Regional Director John Carter, OTSWMS06-008 0001827, Hearing Exhibit 4/16-52b.
[783] Id.
[784] See, e.g., 1/22/2007 letter from Michael Finn to John Carter, Hearing Exhibit 4/16-52d.
[785] See, e.g., April 16, 2010 Subcommittee Hearing at 73-74.
[786] 9/7/2006 email from FDIC senior official John Carter to George Doerr, FDIC-EM_00252239, Hearing Exhibit 4/16-51c.

In February 2007, OTS refused an FDIC request to review WaMu loan files to evaluate the bank's compliance with recently issued federal guidance on how to handle nontraditional mortgages, such as subprime, stated income, and negatively amortizing loans. Even though Washington Mutual was issuing exactly those types of loans under its High Risk Lending Strategy, OTS indicated that it did not plan to evaluate WaMu's compliance with the guidance and did not want the FDIC to perform that evaluation either. In a February email, the FDIC Dedicated Examiner at WaMu informed the FDIC Assistant Regional Director: "OTS is restricting FDIC on the current examination in the SFR [single family residential loan] review segment. OTS will not allow us to review SFR loan files."[787] The Assistant Regional Director relayed the development to the Regional Director: "John, here we go again. … OTS wants to draw a distinction between loan file review as an examination activity (that they object to) vs. risk assessment (which they do not object to). I don't fathom the distinction."[788]

Two months later, in April 2007, the FDIC continued to press for permission to review WaMu loan files. The FDIC Assistant Regional Deputy wrote in an email to a colleague:

> "[OTS Regional Director] Finn pushed back on his previous approval of our participation in the 2007 exam targets, specifically as to our ability to work loan files alongside OTS examiner, and we were particularly interested in WAMU's compliance with nontraditional mortgage guidance. ... Mr. Finn and his examiner, Ben Franklin, stated that OTS did not intend to look at files for purposes of testing nontraditional mortgage guidance until after the bank made a few changes they had agreed to. I asked if we could then join the file review whenever ots did look at this, and he said, 'No.'"[789]

At the Subcommittee hearing, when asked about these incidents, the FDIC Chairman Sheila Bair testified:

> "[I]n 2005 … OTS management determined that FDIC should not actively participate in OTS examinations at WaMu, citing the 2002 interagency agreement. In subsequent years, FDIC faced repeated resistance to its efforts to fully participate in examinations of WaMu. Even as late as 2008, as problems at WaMu were becoming more apparent, OTS management sought to limit the number of FDIC examiners involved in the examination and did not permit the FDIC to review loan files."[790]

Both the Treasury and the FDIC Inspectors General were critical of OTS' actions. In response to a question about "[w]hether or not OTS should have allowed the FDIC to help" with the examinations of WaMu, FDIC IG Rymer responded:

> "[I]t is clear to me that they [OTS] should have. … [T]hey [the FDIC] had concerns and those concerns were principally driven by its own LIDI analysis. … [T]here is no question in my mind that the FDIC's request for back-up authority, simply given the

[787] 2/6/2007 email from Stephen Funaro to George Doerr, Hearing Exhibit 4/16-55.
[788] 2/6/2007 email from George Doerr to John Carter and others, Hearing Exhibit 4/16-55.
[789] 4/30/2007 email from George Doerr to David Collins, FDIC_WAMU 000014457, Hearing Exhibit 4/16-57.
[790] April 16, 2010 Subcommittee Hearing at 80-81 (testimony of Sheila Bair).

> sheer size of WaMu, was, to me, enough reason for FDIC to ask for back-up authority."[791]

Treasury IG Thorson agreed:

> "I agree with Mr. Rymer. … [T]he sheer size of the bank would say that there should be a maximum of cooperation, not to mention the fact that it is dictated by statute, as well. … [A]s a matter of policy, I think they [OTS] should have allowed that. No matter what their reasoning was, as a matter of policy, they should have, yes."[792]

OTS Turf War. At the Subcommittee hearing, John Reich, the OTS Director, was asked about the friction between the two agencies. In response to a question about the August 2008 email in which he wrote that the FDIC had "no role" at WaMu until OTS "rules on solvency,"[793] Mr. Reich stressed that the key point he was trying to convey was that OTS was WaMu's primary federal regulator:

> Mr. Reich: I think basically and fundamentally it was who was the primary Federal regulator.
>
> Senator Levin: It was turf, in a word.
>
> Mr. Reich: I think OTS had the responsibility as the primary Federal regulator.
>
> Senator Levin: Turf.
>
> Mr. Reich: We had the statutory responsibility.
>
> Senator Levin: Instead of going at this as partners –
>
> Mr. Reich: I have more than most – an understanding of the role of the FDIC and their need to participate. I have been there."[794]

The evidence shows that OTS senior officials not only resisted, but resented the FDIC participation in the oversight of Washington Mutual Bank and deliberately took actions that limited the FDIC oversight, even in the face of a deteriorating $300 billion institution whose failure could have exhausted the entire Deposit Insurance Fund. After contrasting OTS' hard-edged treatment of the FDIC with the collaborative approach it took towards WaMu, Senator Levin observed:

> "About the only time OTS showed backbone was against another agency's moving, in your view, into your turf. Boy, that really got your dander up. That got your blood pressure up. I do not see your blood pressure getting up against a bank which is engaged

[791] April 16, 2010 Subcommittee Hearing at 34.
[792] Id. at 35.
[793] See 8/6/2008 email from OTS Director John Reich to FDIC Chairman Sheila Bair, "Re: W," FDIC-EM_00110089, Hearing Exhibit 4/16-66 ("I should not have to remind you the FDIC has no role until the PFR [Primary Federal Regulator] (i.e. the OTS) rules on solvency.").
[794] April 16, 2010 Subcommittee Hearing at 64.

> in the kind of dangerous practices that the bank engaged in, dangerous to their solvency, dangerous to their investors, dangerous to their depositors, dangerous to this economy."[795]

Because OTS has been abolished, its turf war with the FDIC is over. But witnesses from the FDIC told the Subcommittee that the remaining banking regulators also sometimes resist its participation in bank oversight. In particular, a senior FDIC official told the Subcommittee that, although the FDIC has the statutory authority to take an enforcement action against a bank, the FDIC has never used that authority because the other regulators would view it as "an act of war." The WaMu case history demonstrates how important it is for our federal regulators to view each other as partners rather than adversaries in the effort to ensure the safety and soundness of U.S. financial institutions.

D. Regulatory Failures

In a market economy, the purpose of regulation within the financial markets is to provide a level playing field that works for everyone involved, from the financial institutions, to the investors, to the consumers and businesses that rely on well functioning financial systems. When financial regulators fail to enforce the rules in an effective and even handed manner, they not only tilt the playing field in favor of some and not others, but also risk creating systemic problems that can damage the markets and even the entire economy.

At the April 16, 2010 hearing of the Subcommittee, Senator Coburn had the following exchange with Inspectors General Thorson and Rymer, which explains in part why OTS failed as a regulator to address WaMu's harmful lending policies:

> Senator Coburn: As I sat here and listened to both the opening statement of the Chairman and to your statements, I come to the conclusion that actually investors would have been better off had there been no OTS because, in essence, the investors could not get behind the scene to see what was essentially misled by OTS because they had faith the regulators were not finding any problems, when, in fact, the record shows there are tons of problems, just there was no action taken on it. ... I mean, we had people continually investing in this business on the basis—as a matter of fact, they raised an additional $7 billion before they collapsed, on the basis that OTS said everything was fine, when, in fact, OTS knew everything was not fine and was not getting it changed. Would you agree with that statement or not?
>
> Mr. Thorson: Yes, sir. I think ... basically assigning a 'satisfactory' rating when conditions are not is contradictory to the very purpose for which regulators use a rating system. I think that is what you are saying.
>
> Senator Coburn: Any comments on that Mr. Rymer?
>
> Mr. Rymer: I would agree with Mr. Thorson. ...

[795] Id. at 66.

> Senator Coburn: [To Mr. Thorson] By your statement, it would imply almost that OTS is an enabler of this effort rather than an enabler of making sure that the American people's taxpayer dollars and the trust in institutions that are supposed to be regulated by an agency of the Federal Government can be trusted.
>
> Mr. Thorson: Right.

In trying to understand why OTS failed to make use of its enforcement tools to compel WaMu to operate in a safe and sound manner, the Subcommittee investigation has identified factors that have resonance not only in the recent financial crisis, but are critical for regulators and policymakers to address in order to avoid future financial disasters as well.

(1) OTS' Failed Oversight of WaMu

During the five-year period of the Subcommittee's inquiry, from 2004 to 2008, OTS identified over 500 serious operational deficiencies at WaMu and Long Beach. At WaMu, the problems included weak lending standards, high loan exception and error rates, noncompliance with bank loan policy, weak risk management, poor appraisal practices, and poor quality loans. At Long Beach, OTS identified many of the same problems and added on top of those, weak management, poor quality mortgage backed securities, and inadequate repurchase reserves. The problems are described in examination report after examination report, and OTS raised many of the same concerns, in writing and in person, with WaMu's Board of Directors.

But for all those years, OTS did little beyond describing the problems and asking bank executives to make improvements. When the reforms failed to materialize, the problems continued, and the risk increased, OTS stood on the sidelines. Subcommittee interviews found that, until 2008, OTS regulators never even held internal discussions about taking an enforcement action against the bank. In 2008, in the face of mounting losses, OTS took two informal, nonpublic enforcement actions, which contained few mandatory measures or deadlines and were together insufficient to save the bank.

In trying to understand the agency's years of inaction, the Subcommittee's investigation concluded that the lack of enforcement reflected an OTS culture of deference to bank management, demoralized examiners whose oversight efforts were unsupported by their supervisors, and a narrow regulatory focus that allowed short term profits to excuse high risk activities and disregarded systemic risk. Inflated CAMELS ratings may have further reduced the pressure to act, while conflicts of interest may have also tempered OTS' willingness to take tough enforcement action against WaMu.

(a) Deference to Management

Part of the reason that OTS declined to take enforcement action against Washington Mutual was a posture of deference to the management of the institutions it regulated. Ronald Cathcart, WaMu's chief enterprise risk officer from 2006-2008, described OTS as essentially believing in "self-regulation":

> "I … have actually operated in banks under three regulators, in Canada under the Office of the Supervisor of Financial Institutions, at Bank One under the OCC, and then at Washington Mutual under the OTS[.] … [T]he approach that the OTS took was much more light-handed than I was used to. It seemed as if the regulator was prepared to allow the bank to work through its problems and had a higher degree of tolerance that I had … seen with the other two regulators. … I would say that the OTS did believe in self-regulation."[796]

A former OTS regulator who later took a job with WaMu, was quoted in a press report as saying that OTS provided "by far the softest" oversight of any federal bank regulator.[797]

Evidence of OTS' unusually deferential approach can be found in its internal documents, starting at the top. In a May 2007 email, for example, cancelling lunch with a colleague so he could instead have lunch with WaMu's CEO, Kerry Killinger, OTS Director, John Reich, described the bank as "my largest constituent."[798] At the Subcommittee hearing, Mr. Reich defended using the term, testifying that referring to others as constituents was a "habit" he had picked up while working on Capitol Hill.[799] One Senator pointed out that OTS' true constituents were not the banks it regulated, but "the American people it was supposed to protect from unsafe and unsound banking practices."[800]

On another occasion in July 2008, Mr. Reich sent an email to Mr. Killinger informing him that OTS had decided to issue a Memorandum of Understanding (MOU) to address issues of concern at the bank. In the email, the OTS Director apologized twice for his method of communication, but also sounded a note of regret for his decision to take a tougher approach:

> "Kerry,
>
> I'm sorry to communicate by email – I've left a couple of messages on your office phone, but I'm guessing you may be off for a long weekend.
>
> I've been wrestling with the issue of an MOU versus a Board Resolution as a result of our conversation in my office last week. And I've decided that an MOU is the right approach for OTS to do in this situation ….
>
> We almost always do an MOU for 3-rated institutions, and if someone were looking over our shoulders, they would probably be surprised we don't already have one in place. …
>
> So as much as I would like to be able to say a Board Resolution is the appropriate regulatory response, I don't really believe it is. I do believe we need to do an MOU. We

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[796] April 13, 2010 Subcommittee Hearing, at 39-40 (Testimony of Ronald J. Cathcart, former WaMu Chief Enterprise Risk Officer, 2006-2008).
[797] "Lax Regulators Helped Doom Washington Mutual," Associated Press (4/16/2010).
[798] 5/2/2007 email from OTS Director John Reich to Shelley Hymes, "Re: Lunch Friday," Reich_John-00025837_001, Hearing Exhibit 4/16-78.
[799] April 16, 2010 Subcommittee Hearing at 36.
[800] Id. at 5 (opening statement of Senator Levin).

> don't consider it a disclosable event, and we also think the investment community won't be surprised if they learn of it, and would probably only be surprised to learn one didn't already exist.
>
> Again, I'm sorry to communicate this decision by email, but I'm scheduled to be out of the office next week myself and wanted you to have this information.
>
> Best regard, Kerry,
>
> John"[801]

The email does not convey a message from an arms-length regulator concerned about a failing bank. To the contrary, the email conveys a sense of familiarity and discloses that the head of OTS knew his agency had already been providing preferential treatment to the bank by failing to impose an MOU after its downgrade to a 3 rating five months earlier, in February 2008. Mr. Reich stated that others "looking over our shoulders … would probably be surprised" an MOU was not already in place at WaMu.

When asked about this email at the Subcommittee hearing, the Treasury and the FDIC Inspectors General both expressed discomfort with its language and tone:

> Mr. Thorson: Again, he sort of apologizes in the previous document that this could become known. This gets right to the heart of what you were talking about, the culture. … [T]here is not an acceptance of the fact that a strong regulatory control helps them.
>
> Senator Levin: This is far too cozy?
>
> Mr. Thorson: Absolutely, as far as I am concerned, yes.
>
> Senator Levin: Mr. Rymer, do you have any reaction to this?
>
> Mr. Rymer: It does indicate a level of familiarity that makes me uncomfortable.[802]

Equally telling is the fact that, even after sending the email, OTS delayed imposing the MOU on WaMu for another two months, waiting until September 2008, just three weeks before the bank's failure.[803]

Like the head of the agency, OTS examiners also took a deferential approach to WaMu. In a January 2006 email discussing WaMu's desire to purchase Long Beach, for example, the OTS Examiner-in-Charge indicated that, rather than insist the bank clean up Long Beach

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[801] 7/3/2008 email from OTS Director John Reich to WaMu CEO Kerry Killinger, OTSWMS08-014 0000912-13, Hearing Exhibit 4/16-44.

[802] April 16, 2010 Subcommittee Hearing at 34.

[803] See also id. at 46 (When asked why OTS took so long to complete the MOU, former OTS Director John Reich testified: "I don't know, to tell you the truth. I do not know why it took so long to implement the MOU. … I regret [the] … delay.").

problems before the purchase, OTS would have to rely on its "relationship" with WaMu to get the job done:

> "The letter [from WaMu] seems okay. They obviously want to leave it a little squishy, of course, on the growth plans, but at least they make a firm commitment to clean up the underwriting issues. At some level, it seems we have to rely on our relationship and their understanding that we are not comfortable with current underwriting practices and don't want them [Long Beach] to grow significantly without having the practices cleaned up first."[804]

On another occasion in June 2006, the same OTS Examiner-in-Charge sent a lengthy email to his Regional Director discussing plans for the annual WaMu Report on Examination (ROE). His email expressed concern about losing credibility with the bank if OTS pressed too hard on certain reforms, twice noted the bank's size and complexity, and stressed that the bank was making progress in fixing identified problems:

> "[W]e still have some strong feelings on some items that I'd like to 'push back' … some on. Generally we feel that we are quite balanced and do not have any gloves on in our approach to our findings and conclusions at WAMU. We have some concern that if we press forward with some things … we may run the risk of losing some credibility in terms of understanding the size and complexity of their business and looking as though we do not have a balanced perspective. My own fear is that we may not have done enough to communicate to you [the Regional Director] why we feel that the few negative things we have brought up through findings memos and meetings, while important to keep in front of management, are not so serious they wipe out all the right things the institution is doing in all those areas we reviewed and did not have any issues, nor should they negate the ongoing good progress in making improvements in a manner that seems reasonable given the size, complexity, and status of the institution."[805]

The Examiner-in-Charge then listed three areas of concern, problems at Long Beach which he seemed to downplay, the need to limit the number of corrective actions listed in the ROE, and the need to review how OTS cited the bank for compliance violations. In the Long Beach discussion, he wrote that improvements "will take time because of size and complexity …. We don't feel demanding more than providing us with an acceptable action plan with realistic timelines is appropriate or necessary at this time." On the corrective actions, he wrote that the list had to be limited or "more important findings will get lost. … We feel strongly that we should not cite all findings and corrective actions within the body of the ROE … [which] is already not getting read I believe." He also expressed concern that OTS was "starting to 'over-meeting' the institution" and suggested that "the exit meeting" with the bank to discuss the ROE findings had "become almost unnecessary."

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[804] 1/27/2006 email from Lawrence Carter to Darrel Dochow, OTSWMS06-008 0001082, Hearing Exhibit 4/16-32.
[805] 6/15/2006 email from Lawrence Carter to Darrel Dochow, Dochow_Darrel-00022908_001, Hearing Exhibit 4/16-7.

After urging patience on WaMu reforms, suggesting a limit on the corrective actions listed in the ROE, and recommending fewer meetings with WaMu management, the curious final line in the email is: "My management class this week has made me feel empowered! Can you tell? Please don't fire me!"

Additional evidence of OTS deference is its reliance on WaMu to track its own compliance with OTS findings calling for corrective action. At all other thrifts, OTS tracked the extent to which the thrift implemented OTS findings, using its own systems. But at WaMu, OTS did not keep its own records, but relied on WaMu's Enterprise Risk Issue Control System (ERICS). The Treasury and the FDIC Inspectors General criticized this arrangement, noting that they were unable to use WaMu's system to determine the status of multiple OTS findings.[806] In addition, they noted that, in 2006, ERICS discontinued its practice of identifying "repeat findings," making it difficult to identify and track those findings.[807] Their report explicitly recommends against OTS' relying on a bank's systems in the future to track compliance.

Finally, the actual language used by OTS in its reports and memoranda that described deficiencies demonstrated a passive approach to dealing with management. Common phrases noted that the bank's practices were "less than satisfactory," error rates were at "higher than acceptable levels," and "management's actions did not improve underwriting to a satisfactory level." OTS reports rarely used more assertive language that, for example, called the bank's efforts unsatisfactory, inadequate, or ineffective. An exchange at the Subcommittee hearing between Senator Levin and the OTS Examiner-in-Charge at WaMu from 2004 to 2006, Lawrence Carter, captured the issue:

> "Mr. Carter: I think that what I said here is that we could not conclude that their progress was wholly inadequate, because they did make some progress.
>
> Senator Levin: … Can you use the words, 'Folks, your progress was inadequate?' Are you able to tell them that?
>
> Mr. Carter: For their progress on this specific action plan, I did not conclude we could tell them that.
>
> Senator Levin: That it was inadequate?
>
> Mr. Carter: That is right.
>
> Senator Levin: You could tell them it was not wholly adequate.
>
> Mr. Carter: Yes.
>
> Senator Levin: But not inadequate.
>
> Mr. Carter: I do not think I could say it was wholly inadequate.

[806] See, e.g., IG Report at 30.
[807] See Thorson prepared statement, April 16, 2010 Subcommittee Hearing at 12.

> Senator Levin: I did not use the word 'wholly.' You could tell them it was not wholly adequate, but you could not tell them it was inadequate. That is what you are telling us.
>
> Mr. Carter: Yes.
>
> Senator Levin: That is the kind of bureaucratic speech which I think sends the message to people you regulate that, hey, folks, you are making progress, instead of telling them it is inadequate."[808]

At times, WaMu took advantage of its special relationship with OTS and lobbied for leniency. In one instance from May 2006, a WaMu official from the Regulatory Relations division sent an email to his colleagues stating that he was able to convince the agency to reduce an audit "criticism" to the less serious category of a "recommendation": "OTS confirmed today that they will re-issue this memo without the 'Criticism.' It will be a 'Recommendation.'"[809] His colleague forwarded the email to bank executives noting: "Good news - John was able to get the OTS to see the light and revise the Underwriting rating to a Recommendation."[810]

A more serious incident involved WaMu's 2005 discovery, after almost a year-long investigation by an internal Home Loans Risk Mitigation Team, of substantial loan fraud taking place at two high volume loan offices in California, known as Downey and Montebello. The WaMu investigators found that 83% of the loans reviewed from the Downey office and 58% of the loans reviewed from the Montebello office contained fraudulent information, either with respect to the borrower or the appraised value of the property. The investigators wrote up their findings and presented them to WaMu's Chief Risk Officer and the President of Home Loans.[811] No one, however, informed OTS, and WaMu took no action to stop the fraudulent loans.

Two years later, in 2007, after a mortgage insurer refused to insure any more loans issued by the lead loan officer in the Montebello office, OTS directed WaMu to investigate the matter. WaMu's internal auditors launched an investigation, confirmed the loan fraud problem at the Montebello office, and also uncovered the 2005 investigation whose fraud findings had been ignored. WaMu took until April 2008 to produce a report documenting its findings.[812] WaMu also initially resisted providing the report to OTS, claiming it was protected by attorney-client

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[808] April 16, 2010 Subcommittee Hearing at 60-61.

[809] 5/30/2006 email from John Robinson, WaMu VP of Regulatory Relations, to colleagues, JPM_WM02619435. Hearing Exhibit 4/16-34.

[810] 5/30/2006 email from Wayne Pollack, WaMu SVP, to David Schneider, et al., JPM_WM02619434, Hearing Exhibit 4/16-34.

[811] See 11/17/2005 WaMu internal memorandum, "re So. CA Emerging Markets Targeting Loan Review Results," JPM_WM01083051, Hearing Exhibit 4/13-22a; 11/16/2005 WaMu internal PowerPoint presentation, "Retail Fraud Risk Overview," JPM_WM02481934-49, Hearing Exhibit 4/13-22b; 11/19/2005 email from Cheryl Feltgen to colleagues, "Re: Retail Fraud Risk Overview," JPM_WM03535694-95, Hearing Exhibit 4/13-23a; 8/29/2005 email from Jill Simons to Timothy Bates, "Risk Mit Loan review data 'Confidential,'" JPM_WM04026076-77, Hearing Exhibit 4/13-23b.

[812] 4/4/2008 WaMu internal memorandum, from June Thoreson-Rogers, Corporate Fraud Investigations, and Michele Snyer, Deputy General Auditor, to Stewart Landefeld, Acting Chief Legal Officer, and others, Hearing Exhibit 4/13-24.

privilege.[813] The OTS Examiner-in-Charge at the time told the Subcommittee that he insisted on seeing the report. After finally receiving it and reading about the substantial loan fraud occurring at the two loan offices since 2005, he told the Subcommittee that it was "the last straw" that ended his confidence that he could rely on WaMu to combat fraudulent practices within its own ranks.

OTS' deference to WaMu management appeared to be the result of a deliberate posture of reliance on the bank to take the steps needed to ensure that its personnel were engaged in safe and sound practices. The reasoning appeared to be that if OTS examiners simply identified the problems at the bank, OTS could then rely on WaMu's own self interest, competence, and discipline to ensure the problems were corrected, with no need for tough enforcement action. It was a regulatory approach with disastrous results. While OTS may have hoped that it could accomplish its regulatory responsibilities by simply identifying problems without the threat of enforcement action, that approach proved ineffective.

(b) Demoralized Examiners

For five years, OTS examiners identified serious problems with WaMu's lending practices and risk management, but OTS senior officials failed to support their efforts by using the agency's enforcement tools to compel the bank to correct the identified problems. WaMu's chief risk officer from 2004 to 2005, James Vanasek, remarked at the Subcommittee hearing on how OTS examiners seemed to receive little support from more senior officials in terms of enforcement:

> "[T]he OTS Examiner-in-Charge during the period time in which I was involved … did an excellent job of finding and raising the issues. Likewise, I found good performance from … the FDIC Examiner-in-Charge. … What I cannot explain is why the superiors in the agencies didn't take a tougher tone with the banks given the degree of … negative findings. My experience with the OTS, versus with the OCC, was completely different. So there seemed to be a tolerance there or a political influence on senior management of those agencies that prevent them from taking a more active stance. By a more active stance, I mean putting the banks under letters of agreement and forcing change."[814]

Internal OTS documents and emails indicate that the result was a cadre of OTS examiners who were skeptical of their ability to effect meaningful change at WaMu, who were too often rebuffed by their own management when they tried to reduce risk or strengthen bank controls, and whose leaders worked to weaken rather than strengthen the standards used by examiners to hold banks accountable.

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[813] Subcommittee interview of OTS Examiner-in-Charge Benjamin Franklin (2/17/2010).

[814] April 13, 2010 Subcommittee Hearing at 39 (testimony of James G. Vanasek, former WaMu Chief Risk Officer, 2004-2005).

Low Expectations. The documents show that OTS examiners had low expectations that WaMu would actually implement recommended changes at the bank. Ultimately, OTS examiners adapted to the situation, they gave up trying to make the bank act more quickly, and WaMu was able to delay needed changes for long periods of time if it wished.

In 2003, for example, one OTS examiner wrote to the Examiner-in-Charge:

> "It is clear from my experience that changes seem to progress slowly at WaMu so I don't know if we can expect faster progress …. If any target is missed, as happens at WaMu, then we may not be in a position to determine the effectiveness of the corrective actions."[815]

In 2005, another OTS examiner wrote: "They agree to take all action required to correct the problem. The Target Completion Dates are not real timely but fine for WaMu."[816]

Other examiners were more critical. In 2007, for example, one OTS examiner wrote:

> "Regulatory Relations [the WaMu office established to work with regulators] is a joke. The purpose of this group seems to be how can we give the regulators the bare minimum without them raising a fuss."[817]

The examiner also wrote:

> "WaMu's compliance management program has suffered from a lack of steady, consistent leadership. Dick Stevenson, who took over as Chief Compliance Officer on March 2, 2007, is the bank's ninth compliance leader since 2000. … The OTS is very concerned that this lack of consistent, stable leadership leaves the program vulnerable. This amount of turnover is very unusual for an institution of this size and is a cause for concern. The Board of Directors should commission an evaluation of why smart, successful, effective managers can't succeed in this position. If you would like my opinion, just ask. (HINT: It has to do with top management not buying into the importance of compliance and turf warfare and Kerry [Killinger] not liking bad news.)"[818]

In an interview, OTS examiner Benjamin Franklin, who worked at the agency for 24 years, told the Subcommittee that the thrifts he oversaw generally did not "collaborate" with the agency but would "fight" OTS reviews and resist OTS recommendations. He said that at WaMu,

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[815] 6/27/2003 email from Dennis Fitzgerald, OTS Examiner, to Lawrence Carter, OTSWEM04-0000006748, Hearing Exhibit 4/16-15.
[816] 6/8/2005 email from Verlin Campbell, OTS Examiner, to Zalka Ancely, OTS Examiner, OTSWME05-003 0000634, Hearing Exhibit 4/16-29.
[817] 5/31/2007 Draft Compliance Memo from Susie Clark, OTS Compliance Specialist, Franklin_Benjamin-00020408_002, Hearing Exhibit 4/16-9.
[818] Id. at Franklin_Benjamin-00020408_001.

"for the most part" OTS examiners were "butting heads" with bank personnel and it was difficult to effect change.[819]

Weak Standards. The documents show that the OTS examiners were also frustrated by the agency's weak standards, which made it difficult to cite WaMu for violations or require the bank to strengthen its operations.

In 2007, for example, an examiner critical of WaMu's compliance procedures wanted to downgrade the bank's compliance rating from 2 to 3, but told the OTS Examiner-in-Charge that, due to the lack of standards on compliance matters, she didn't believe she could win a battle with the bank:

> "I'm not up for the fight or the blood pressure problems. … It doesn't matter that we are right, what matters is how it is framed. … They [Washington Mutual] aren't interested in our 'opinions' of the [compliance] program. They want black and white, violations or not. … [O]ur training always emphasizes 'Best Practices' but when it comes down to it, we don't have the resources to show the risk."[820]

At another point, when discussing standards for calculating acceptable loan error rates, an OTS examiner wrote:

> "We will need additional discussion of acceptable error rates and how we view their [WaMu's] standard. … [A] 2.5 percent error rate would mean that approximate[ly] $600.0 million could be originated and be within acceptable guidelines. A 20.0 percent medium error rate means that $4.8 billion of loans with these types of errors could be originated without a criticism. The latter seem[s] especially high when you consider that their medium criteria includes loans that we don't think should be made."[821]

The OTS Examiner-in-Charge responded with a lengthy email criticizing outdated, unclear OTS standards on the acceptable loan error rate for a portfolio of subprime loans:

> "Unfortunately, our sampling standards are 10 years old and we have no standards of acceptance really. It depends on our own comfort levels, which differ. … Moreover, our guidance requires that an exception be SIGNIFICANT, which ... we have over time interpreted as loans that should not have been made. … While we may (and have) questioned the reasonableness of these standards, they are all we have at this time. If our tolerance for some reason is now a lot lower than our handbook standards, it would be nice to have this clarified. I have always used these standards as rough benchmarks and not absolutes myself, upping my expectations for higher risk portfolios. … It would be

[819] Subcommittee interview of Benjamin Franklin (2/17/2010).
[820] 6/3/2007 email from OTS examiner Mary Clark to Examiner-in-Charge Benjamin Franklin, "Compliance Rating," OTSWMS07-013 0002576, Hearing Exhibit 4/16-39.
[821] 11/21/2005 email exchange between OTS examiner Benjamin Franklin and Examiner-in-Charge Lawrence Carter and others, OTSEMS05-004 0001911-12, Hearing Exhibit 4/16-30.

nice if they [higher risk loan portfolios] could meet even higher expectations, but that would require us to agree on what the standard should be."[822]

At another point, the same Examiner-in-Charge wrote a long email discussing issues related to a decision by WaMu to qualify borrowers for adjustable rate mortgages using an interest rate that was less than the highest rate that could be charged under the loan. He complained that it was difficult to force WaMu to comply with the OTS "policy of underwriting at or near the fully indexed rate," when "in terms of policy, I am not sure we have ever had a really hard rule that institutions MUST underwrite to the fully indexed rate."[823] He also noted that OTS sometimes made an exception to that rule for loans held for sale.

NTM Guidance. While some OTS examiners were complaining about the agency's weak standards, other OTS officials worked to ensure that new standards being developed for high risk mortgages would not restrain WaMu's lending practices. The effort began in 2006 with an aim to address concerns about lax lending standards and the risks posed by subprime, negatively amortizing, and other exotic home loans. The federal banking agencies convened a joint effort to reduce the risk associated with those mortgages by issuing interagency guidance for "nontraditional mortgage" products ("NTM Guidance"). Washington Mutual filed public comments on the proposed NTM Guidance and argued that Option ARM and Interest-Only loans were "considered more safe and sound for portfolio lenders than many fixed rate mortgages," so regulators should "not discourage lenders from offering these products."[824] It also stated that calculating a potential borrower's "DTI [debt-to-income ratio] based on the potential payment shock from negative amortization would be highly speculative" and "inappropriate to use in lending decisions."[825] During subsequent negotiations to finalize that guidance, OTS argued for less stringent lending standards than other regulators were advocating and bolstered its points using data supplied by Washington Mutual.[826]

In one July 2006 email, for example, an OTS official expressed the view that early versions of the new guidance focused too much on negative amortization loans, which were popular with several thrifts and at WaMu in particular, and failed to also look closely at other high risk lending products more common elsewhere.[827] He also wrote that OTS needed to address this issue and "should consider going on the offensive, rather than defensive to refute the OCC's positions" on negatively amortizing loans, defending the loans using WaMu Option ARM loan data.[828] In August, several OTS officials discussed over email how to prevent the

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[822] Id.

[823] 9/15/2005 email from OTS Examiner-in-Charge Lawrence Carter to OTS Western Region Deputy Director Darrel Dochow, OTSWMS05-002 0000535, Hearing Exhibit 4/16-6.

[824] 3/29/2006 letter from Washington Mutual Home Loans President David C. Schneider to OTS Chief Counsel, Proposed Guidance – Interagency Guidance on Nontraditional Mortgage Products 70 Fed. Reg. 77249, JPM_WM04473292.

[825] Id. at JPM_WM04473298.

[826] Subcommittee interviews of Sheila Bair (4/5/2010) and George Doerr (3/30/2010). The Subcommittee was told that OTS was the "most sympathetic to industry" concerns of the participating agencies and was especially protective of Option ARMs.

[827] 7/27/2006 email from Steven Gregovich to Grovetta Gardineer and others, "NTM Open Issues," OSWMS06-008 0001491-495, Hearing Exhibit 4/16-71.

[828] Id.

proposed restrictions on negatively amortizing loans from going farther than they believed necessary, noting in part the "profitable secondary market" for Option ARMs and the fact that "hybrid IO [interest only] ARMs are a huge product for Wamu." One OTS official wrote:

> "We have dealt with this product [negatively amortizing loans] longer than any other regulator and have a strong understanding of best practices. I just don't see us taking a back seat on guidance that is so innate to the thrift industry."[829]

OTS officials argued variously that the new proposal would wrongly put the focus on "products" instead of "underwriting," as well as that it would hurt the business of large thrifts like WaMu.[830]

The NTM Guidance was finally issued on October 4, 2006.[831] The final version did not fully reflect the recommendations of OTS on negatively amortizing loans. Among other matters, it called on banks to:

- evaluate a borrower's ability to fully repay a prospective loan, including any balance increase from negative amortization;
- qualify borrowers using the higher interest rate that would apply after any teaser or introductory interest rate;
- avoid loans whose repayment was dependent solely upon the value of the collateral or the borrower's ability to refinance the loan; and
- implement strong quality control and risk mitigation procedures for loans containing layers of risk, including loans with no documentation requirements, no verification of the borrower's income or assets, or high loan-to-value ratios.

The Guidance also called for capital levels commensurate with risk and adequate allowances for loan losses.

The Guidance was not promulgated as a bank regulation that could be enforced in court, and it contained no explicit deadline for compliance. Instead, it provided policies and procedures that regulators could use as benchmarks during examinations. Agencies could penalize noncompliance with the standards through lower CAMELS ratings or enforcement actions. FDIC officials told the Subcommittee that the FDIC expected banks to come into immediate

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[829] 8/14/2006 email from Kurt Kirch to David Henry and Steven Gregovich, "Latest AMP Guidance," Hearing Exhibit 4/16-72.
[830] 7/27/2006 email from Steven Gregovich to Grovetta Gardineer, et al., "NTM Open Issues," OSWMS06-008 0001491-495, Hearing Exhibit 4/16-71.
[831] 10/4/2006 "Interagency Guidance on Nontraditional Mortgage Product Risks," (NTM Guidance), 71 Fed. Reg. 192 at 58609.

compliance with the Guidance, and that no agency should have been telling a bank that it did not have to comply with the new standards.[832]

A few days after the NTM Guidance went into effect, WaMu officials met with OTS about implementation and reported back that OTS had indicated that compliance was something institutions "should" do, not something they "must" do.[833] According to a written summary by WaMu of its October 12, 2006 meeting with OTS to discuss the new rules, OTS told the bank that it "view[ed] the guidance as flexible" and "specifically pointed out that the language in the guidance says 'should' vs. 'must' in most cases and they [were] looking to WaMu to establish our position on how the guidance impacts our business processes."[834]

In 2007, OTS conducted a review of WaMu's Option ARM activities and compliance efforts and found that three months after the NTM Guidance had become effective, the bank was not yet complying with the new standards when issuing Option ARMs.[835] The OTS review noted that as of January 31, 2007, the bank had a total of $62 billion in outstanding Option ARMs in its investment portfolio, of which 80% were negatively amortizing.[836] The review stated that, as of December 31, 2006, WaMu was not in compliance with the NTM Guidance, because it continued not to consider potential negative amortization amounts when qualifying borrowers for Option ARMs; placed too much reliance on FICO scores instead of income verification to qualify borrowers for nontraditional mortgages; failed to consider amortizing payments or payment shocks when qualifying borrowers for interest only loans; and placed too much reliance on collateral, rather than borrower income, as the primary repayment source in the event of a loan default.[837] The review contained no recommendations for actions to ensure WaMu changed its procedures.

In April 2007, the FDIC asked OTS for permission to conduct its own review of WaMu loan files to evaluate the bank's compliance with the NTM Guidance.[838] OTS refused, however, to provide the FDIC with access to the relevant loan files and effectively blocked the review.[839] The FDIC Assistant Regional Director George Doerr told the Subcommittee that when he

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[832] Subcommittee interviews of Sheila Bair (4/5/2010) and George Doerr (3/30/2010).

[833] See 10/2006 OTS Meeting, "Washington Mutual Alternative Mortgage Guidance Implementation Plan," JPM_WM02549033, Hearing Exhibit 4/16-73.

[834] Id. at JPM_WM02549037. Subcommittee interview of Darrel Dochow (3/3/2010) (indicating that the NTM Guidance used "should" instead of "must" to avoid being a "one-size-fits-all" set of requirements). See also Subcommittee interview of John Bowman (4/6/2010) (indicating that guidance is not enforceable and that giving banks more time to comply was a reasonable approach).

[835] See undated OTS document, "Option ARM Neg Am Review Workprogram 212A(1) & Nontraditional Mortgage Guidance Review," OTSWMEF-0000009888, Hearing Exhibit 4/16-74. The document quotes Option ARM data from March 31, 2007, indicating that the document was prepared after that date.

[836] Id. at OTSWMEF-0000009890.

[837] Id. at OTSWMEF-0000009893-94.

[838] See, e.g., 4/30/2007 email from FDIC Western Region Assistant Director George Doerr to FDIC official David Collins, FDIC_WAMU 000014457, Hearing Exhibit 4/16-57.

[839] See April 16, 2010 Subcommittee Hearing at 33 (Testimony of FDIC IG John Rymer: "OTS did grant FDIC greater access at WaMu, but limited FDIC's review of WaMu's residential loan files. The FDIC wanted to review these files to assess underwriting and WaMu's compliance with the Non-Traditional Mortgage Guidance."); See also April 16, 2010 Subcommittee Hearing at 187 (Testimony of George Doerr, FDIC).

contacted OTS official Mike Finn about the FDIC's request to review WaMu loan files to test NTM compliance, Mr. Finn said that OTS was giving its institutions more time to comply with the guidance, even though it had taken effect more than six months earlier.[840] The FDIC Chairman Sheila Bair told the Subcommittee that the FDIC had not known until then that OTS was allowing institutions to delay compliance with the NTM Guidance and were "surprised" by the agency's actions. She said that normally, if an institution needs more time to comply with new standards, a regulator required it to provide a written plan with milestones for achieving compliance.[841]

Documents uncovered by the Subcommittee show how WaMu took advantage of the delay to continue its high risk lending practices. The NTM Guidance directed banks, for example, to evaluate a borrower's ability to repay a mortgage using the highest interest rate that would be charged under the loan and the fully amortized payment amount rather than any smaller or minimum payment amount. After determining that those new requirements could lead to a 33% drop in Option ARM loan volume due to borrowers who would no longer qualify for the loans, WaMu's Chief Enterprise Risk Officer, Ron Cathcart, advised "holding off on implementation until required to act for public relations (CFC [Countrywide] announces unexpectedly) or regulatory reasons."[842] When he made that suggestion in March 2007, OTS had already allowed Washington Mutual to delay its compliance with the Guidance for six months, resulting in the bank's originating billions of dollars in new Option ARM loans that would later suffer significant losses.[843] Instead of using the NTM Guidance as an opportunity to strengthen WaMu's lending standards and reduce its loan risk, OTS chose to delay its implementation.

In addition, in May 2007, when an OTS official attempted to stop WaMu from issuing mortgages without verifying borrower incomes, relying on the NTM Guidance and other rules as justification, OTS senior management rebuffed the official's efforts. Instead, OTS senior managers interpreted its standards as allowing thrifts to continue issuing "stated income loans," also called "No Income No Asset" (NINA) or "no doc" loans, because they permitted lenders to provide credit without verifying the borrower's income or assets. On May 15, 2007, after reviewing a summary of WaMu's loans, an OTS official in Washington, Bill Magrini, sent an email to the OTS Examiner-in-Charge with responsibility for WaMu stating:

> "I note that WAMU makes a significant amount of No-doc loans. OTS policy states that no-doc loans are unsafe and unsound. I assume they mean no doc regarding NINA or no income-no asset loans.

[840] Subcommittee interview of George Doerr (3/30/2010).
[841] Subcommittee interview of Sheila Bair (4/5/2010).
[842] 3/19/2007 email from Ron Cathcart to David Schneider, JPM_WM02571598, Hearing Exhibit 4/16-75.
[843] See wamusecurities.com. (subscription website maintained by JPMorgan Chase with data on Long Beach and WaMu mortgage backed securities showing, as of January 2011, delinquency rates for particular mortgage backed securities, including WMALT 2006 OA-3 – 57.87%).

> Without even asking for income or assets/liabilities, the loans are collateral-dependent. This is imprudent … [T]he interagency NTM Guidance states specifically that collateral dependent loans are unsafe and unsound. …
>
> Does WAMU have any plans to amend its policies per no doc loans?"[844]

The Examiner-in-Charge, Benjamin Franklin, relayed the inquiry to the then Director of the OTS Western Region Office, Darrel Dochow, and stated that, while WaMu had not issued "true NINAs" in the past, the bank had begun "doing NINA's in 2006 through their conduit program. As such, all these loans are held for sale." He estimated WaMu then had about $90 million of NINA loans held for sale, had originated about $600 million in 2006, and would originate the same amount again in 2007.[845]

Mr. Dochow responded that he was already in regular contact with OTS officials in Washington about WaMu and "there is no need to duplicate with Bill Magrini as far as I know."[846] Later the same day, Mr. Dochow wrote:

> "I am being told that Bill's views may not necessarily represent OTS policy in these matters. I value Bill's input, but we should be careful about relaying his views to others as being OTS policy, absent collaborating written guidance. [His] views … are somewhat inconsistent with NTM guidance and industry practice. I also understand Grovetta [another OTS official] promised to clarify section 212 of the handbook in several areas as a result of the NTM roundtable discussion in Wash DC last month."[847]

That same day, another OTS official, Mark Reiley, sent an email indicating his belief that sections of the OTS handbook barred WaMu from issuing NINA loans, even when those loans were originated for sale to Wall Street:

> "The Handbook guidance Section 212 states that no-doc loans (NINAs) are unsafe and unsound loans (Pg. 212.7). Furthermore, even if the no-doc (NINA) loans are originated and held for sale the guidance indicates (pg. 212.8) the association must use prudent underwriting and documentation standards and we have already concluded they are unsafe and unsound. Even if the institution holds the loans for a short period of time. … [T]his is a hot topic in DC and we are getting a significant amount of push back from the

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[844] See 5/15/2007 email from OTS Examiner-in-Charge Benjamin Franklin to OTS Western Region Director Darrel Dochow, Franklin_Benjamin-00020449_001, Hearing Exhibit 4/16-79 (quoting email from Bill Magrini). See also 3/27/2007 email from OTS official Bill Magrini to OTS colleagues, Quigley_Lori-00110324, Hearing Exhibit 4/16-76 ("I noted that several of our institutions make NINA loans. That, in my humble opinion is collateral dependent lending and deemed unsafe and unsound by all the agencies. … It is not at all surprising that delinquencies are up, even among Alt-A. In my opinion, credit standards have gone too low."). See also undated OTS document, "Option ARM Neg Am Review Workprogram 212A(1) & Nontraditional Mortgage Guidance Review," at OTSWMEF-0000009891, Hearing Exhibit 4/16-74 (determining that 73% of the Option ARMs in WaMu's portfolio were "low doc" loans).

[845] 5/16/2007 email from OTS Western Region Director Darrel Dochow to OTS Examiner-in-Charge Benjamin Franklin, Franklin_Benjamin-00020449_001, Hearing Exhibit 4/16-79.

[846] Id.

[847] Id.

> industry. … At this point I don't think a memo is the best avenue, I think we need to request in writing that WAMU respond to us on how the NINA's comply with the handbook guidance?"

The WaMu Examiner-in-Charge, Benjamin Franklin, responded:

> "I didn't intend to send a memo until I got a blessing from [the Western Region Director] or DC on what our official policy is on this. … [M]any of our larger institutions now do NINAs (including Countrywide) …. Apparently [OTS policy official] Bill Magrini is the lone ranger in his view that NINA's are imprudent. West region position seems to be that FICO, appraisal, and other documentation … is sufficient to assess the borrower's ability to repay in all but subprime loans. While I probably fall more into the Magrini camp (until we get empirical data to support NINAs are not imprudent) we will just document our findings … until the 'official' policy on this has been worked out."[848]

A year later, in October 2008, after WaMu's failure, the same Examiner-in-Charge, Benjamin Franklin, wrote to a colleague:

> "[N]ot one regulatory agency had a rule or guideline saying you couldn't do stated income lending, even to this day. That, I find incredible. We criticized stated income lending at WaMu but they never got it completely fixed. … [I]n hindsight, I'm convinced that it is just a flawed product that can't be fixed and never should have been allowed in the first place. How do you really assess underwriting adequacy when you allow the borrower to tell you what he makes without verification. We used to have documentation requirements for underwriting in the regs, but when those were taken out, the industry slowly migrated to an anything goes that got us into this mess. … When I told Scott Polakoff [OTS Deputy Director] that stated income subprime should not be made under any circumstance, I was corrected by Mike Finn [OTS Western Region head] that that was not the West Region's position. I rest my case."[849]

Data compiled by the Treasury and FDIC Inspectors General shows that, by the end of 2007, stated income loans – loans in which the bank did not verify the borrower's income – represented 50% of WaMu's subprime loans, 73% of its Option ARMs, and 90% of its home equity loans.[850] At the Subcommittee hearing, virtually every witness condemned stated income loans as unsafe and unsound.[851] OTS Director John Reich testified that he regretted not doing more to prevent supervised thrifts from issuing stated income loans.[852]

Subcommittee interviews with OTS examiners who worked at WaMu found those examiners to be demoralized and frustrated at their inability to effect change at the bank. They

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[848] Id.
[849] 10/7/2008 email exchange between OTS Examiner-in-Charge Benjamin Franklin and OTS examiner Thomas Constantine, "West Region Update," Franklin_Benjamin-00034415_001, Hearing Exhibit 4/16-14.
[850] 4/2010 "Evaluation of Federal Regulatory Oversight of Washington Mutual Bank," prepared by the Offices of Inspector General at the Department of the Treasury and Federal Deposit Insurance Corporation, at 10, Hearing Exhibit 4/16-82.
[851] See, e.g., April 16, 2010 Subcommittee Hearing at 14-15, 41-42.
[852] Id. at 42 ("In hindsight, I regret it.").

had identified serious deficiencies at the bank year after year, with no enforcement consequences; some tried to interpret OTS standards in ways that would reduce risk, only to be rebuffed by their leaders; and others were told that the NTM Guidance being enforced by other agencies did not have standards that could be enforced by OTS examiners. Days after WaMu's failure, one OTS examiner had this to say about OTS leadership:

> "My examination history here is filled with the editing and removal of my comments as well as predictions (that turned out to be true) by EICs [Examiners-in-Charge]. No system in place to keep that from happening. Instead we put whitewashers and scaredity cats in charge of the most problematic shops. I don't know what happened to you at WAMU, but I was critical of their accounting at Card Services and the AP. Fortunately, I think I made the 'don't let him come back here' list. … [O]ur leadership screwed us and can't acknowledge it. They should resign."[853]

(c) Narrow Regulatory Focus

In addition to a policy of deference to management, weak standards, and demoralized examiners, OTS employed an overly narrow regulatory focus that allowed WaMu's short term profits to excuse its risky practices and that ignored systemic risk. For a time, its short term profits masked the problems at Washington Mutual, and regulators allowed practices which they knew to be risky and problematic to continue. Because it mishandled its responsibilities, OTS gave the illusion to investors, economists, policy makers, and others that the bank was sound, when in reality, it was just the opposite. Unfortunately, the truth of the matter was not revealed until it was too late, and the bank collapsed.

Using Short Term Profits to Excuse Risk. OTS justified not taking enforcement action against WaMu in part by pointing to Washington Mutual's profits and low loss rates during the height of the mortgage boom, claiming they made it difficult to require the bank to reduce the risks threatening its safety and soundness. In 2005, when faced with underwriting problems at WaMu, the OTS Examiner-in-Charge put it this way:

> "It has been hard for us to justify doing much more than constantly nagging (okay, 'chastising') through ROE [Reports of Examination] and meetings, since they [WaMu] have not been really adversely impacted in terms of losses. It has been getting better and has not recently been bad enough to warrant any ratings downgrade."[854]

The OTS Handbook was explicit, however, in stating that profits should not be used to overlook or excuse high risk activities:

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[853] 10/7/2008 emails from OTS examiner Thomas Constantine to OTS Examiner-in-Charge Benjamin Franklin, "West Region Update," Franklin_Benjamin-00034415_002, Hearing Exhibit 4/16-14.

[854] 9/15/2005 email from Examiner-in-Charge Lawrence Carter to Western Region Deputy Director Darrel Dochow, OTSWMS05-002 0000535, Hearing Exhibit 4/16-6.

> "If an association has high exposure to credit risk, it is not sufficient to demonstrate that the loans are profitable or that the association has not experienced insignificant losses in the near term."[855]

But in the case of Washington Mutual, profits did make a difference. At the Subcommittee hearing, when asked by Senator Kaufman to identify one or two reasons why no regulatory action was taken against WaMu, the FDIC IG Jon Rymer testified as follows:

> "[L]et me start by saying I think the problem in 2005, 2006, and into 2007, the problem was the bank was profitable. I think there was a great reluctance to [take action], even though problems were there in underwriting, the product mix, the distribution process, the origination process, all in my view extraordinarily risky …. [T]he people in [agency] leadership positions have to be willing to make the tough calls and be experienced enough to know that today's risky practices may show today profitability, but to explain to management and enforce with regulatory action that risky profitability is going to have a cost. It either has a cost in control processes an institution would have to invest in now, or it is going to have a cost ultimately to the bank's profitability and perhaps eventually to the Deposit Insurance Fund."[856]

In his prepared statement, the Treasury Inspector General, Eric Thorson, noted that OTS examiners told his staff they did not lower WaMu's CAMELS ratings because "even though underwriting and risk management practices were less than satisfactory, WaMu was making money and loans were performing."[857]

This problem was not isolated within OTS, however, but applied to other regulatory agencies as well. The FDIC Inspector General noted, for example, that the bank's profitability also tempered the FDIC views of the bank. He explained that, prior to 2008, the FDIC did not challenge WaMu's 2 CAMELS ratings, because "the risks in WaMu's portfolio had not manifested themselves as losses and nonperforming loans, and therefore did not impact WaMu's financial statements."[858] At the same time, an internal FDIC analysis of the bank identified a long list of "embedded risk factors" in WaMu's home loans that, despite the bank's profitability, exposed the bank to losses in the event of "a widespread decline in housing prices."[859]

In the financial industry, high risk activities are undertaken by financial institutions to earn higher marginal returns. The role of the regulator is to enforce rules that ensure the risks an institution undertakes do not unfairly transfer that risk to others or threaten the safety and soundness of the economy, despite any short term profits. In the case of the FDIC, the judgment

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[855] 11/2004 Office of Thrift Supervision Examination Handbook, at 070.8, OTSWMEF-0000032053; 2/2011 Office of Thrift Supervision Examination Handbook, at 070.9, http://www.ots.treas.gov/_files/422008.pdf (quote is the same in updated version of handbook). See also April 16, 2010 Subcommittee Hearing at 19 (testimony of FDIC and Treasury Inspectors General).

[856] April 16, 2010 Subcommittee Hearing at 24-26.

[857] Thorson prepared statement at 10, April 16, 2010 Subcommittee Hearing at 110.

[858] Rymer prepared statement at 10, April 16, 2010 Subcommittee Hearing at 129.

[859] Undated draft memorandum from the WaMu examination team at the FDIC to the FDIC Section Chief for Large Banks, FDIC-EM_00251205-10, Hearing Exhibit 4/16-51a (likely mid-2005).

includes whether the risk threatens loss to the Deposit Insurance Fund. Any firm that decides to take a risk should be the only firm, along with its investors, to bear the brunt of the problem if it turns out to have been a mistake. Regulators that, when faced with short term profits, stop evaluating or downplay attendant risks that could produce later losses fail in their obligation to ensure the safety and soundness of the financial institutions they are regulating. In the case of WaMu, both OTS and the FDIC allowed the bank's success in the short term to paper over its underlying problems.

In October 2008, after Washington Mutual failed, the OTS Examiner-in-Charge at the bank, Benjamin Franklin, deplored OTS' failure to prevent its thrifts from engaging in high risk lending because "the losses were slow in coming":

> "You know, I think that once we (pretty much all the regulators) acquiesced that stated income lending was a reasonable thing, and then compounded that with the sheer insanity of stated income, subprime, 100% CLTV [Combined Loan-to-Value], lending, we were on the figurative bridge to nowhere. Even those of us that were early opponents let ourselves be swayed somewhat by those that accused us of being 'chicken little' because the losses were slow in coming, and let[']s not forget the mantra that 'our shops have to make these loans in order to be competitive'. I will never be talked out of something I know to be fundamentally wrong ever again!!"[860]

Failure to Consider Financial System Impacts. A related failing was that OTS took a narrow view of its regulatory responsibilities, evaluating each thrift as an individual institution without evaluating the effect of thrift practices on the financial system as a whole. The U.S. Government Accountability Office, in a 2009 evaluation of how OTS and other federal financial regulators oversaw risk management practices, concluded that none of the regulators took a systemic view of factors that could harm the financial system:

> "Even when regulators perform horizontal examinations across institutions in areas such as stress testing, credit risk practices, and the risks of structured mortgage products, they do not consistently use the results to identify potential system risks."[861]

Evidence of this narrow regulatory focus includes the fact that OTS examiners carefully evaluated risk factors affecting home loans that WaMu kept on its books in a portfolio of loans held for investment, but paid less attention to the bank's portfolio of loans held for sale. OTS apparently reasoned that the loans held for sale would soon be off WaMu's books so that little analysis was necessary. From 2000 to 2007, WaMu securitized about $77 billion in subprime

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[860] 10/7/2008 email from OTS Examiner-in-Charge Benjamin Franklin to OTS Examiner Thomas Constantine, Franklin_Benjamin-00034415, Hearing Exhibit 4/16-14.

[861] 3/18/2009 Government Accountability Office, "Review of Regulators' Oversight of Risk Management Systems at a Limited Number of Large, Complex Financial Institutions," Testimony of Orice M. Williams, Hearing Exhibit 4/16-83 (GAO reviewed risk management practices of OTS, as well as the Federal Reserve, the Office of the Comptroller of the Currency, the SEC, and self-regulatory organizations.).

loans, mostly from Long Beach, as well as about $115 billion in Option ARM loans.[862] Internal documents indicate that OTS did not consider the problems that could result from widespread defaults of poorly underwritten mortgage securities from WaMu and other thrifts.

Numerous documents show that OTS and the FDIC were, in fact, aware that WaMu was issuing high risk loans that led to poor quality securitizations:

> 2005 OTS email describing poor quality Long Beach mortgage backed securities: "Performance data for 2003 and 2004 vintages appear to approximate industry average while issues [of securities] prior to 2003 have horrible performance. ... [Long Beach] finished in the top 12 worst annualized [net credit losses] in 1997 and 1999 thru 2003. … At 2/05, [Long Beach] was #1 with a 12% delinquency rate. Industry was around 8.25%."[863]
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> 2005 FDIC analysis of WaMu high risk loans: "Management acknowledges the risks posed by current market conditions and recognizes that a potential decline in housing prices is a distinct possibility. Management believes, however that the impact on [WaMu] would be manageable, since the riskiest segments of production are sold to investors, and that these investors will bear the brunt of a bursting housing bubble."[864]
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> 2005 OTS email discussing allowing lower standards for loans held for sale: "[L]oans held for sale could be underwritten to secondary market standards …. I believe we would still find that secondary market requirements are more lax than our policy on underwriting to fully indexed rates. … [I]f you allow them [WaMu] the exception for loans held for sale … they probably do not have a ton of loans that fall far outside our policy guidance."[865]
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> 2006 OTS email discussing Long Beach loans that had to be repurchased from buyers: "The primary reasons for the problem were … [g]eneral lower quality 2005 production due to economy and lowered standards …. The $4.749 billion in loans on [Long Beach] books at 12/31/05 are largely comprised of the same 2005 vintage production that was sold in the whole loan sales and are now subject to the increased repurchases. … Management is balancing the probability that these loans will perform worse than expected and priced for, versus the increased income they generate … in considering whether to [sell] some or all of the portfolio."[866]

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[862] "Securitizations of Washington Mutual and Long Beach Subprime Home Loans," chart prepared by the Subcommittee, Hearing Exhibit 4/13-1c; 10/17/2006 "Option ARM" draft presentation to the WaMu Board of Directors, JPM_WM02549027, chart at 2, Hearing Exhibit 4/13-38.
[863] 4/14/2005 email from OTS examiner to colleagues, OTSWME05-0120000806, Hearing Exhibit 4/13-8a.
[864] Undated draft memorandum from WaMu examination team to the FDIC Section Chief for Large Banks, FDIC-EM_00251205-10, Hearing Exhibit 4/16-51a (likely mid-2005).
[865] 9/16/2005 email from OTS Examiner-in-Charge at WaMu, OTSWMS05-002 0000535, Hearing Exhibit 4/16-6.
[866] 1/20/2006 email from Darrel Dochow to Michael Finn and others, OTSWMS06-007 0001020.

> 2008 OTS email after WaMu's failure: "We were satisfied that the loans were originated for sale. SEC and FED [were] asleep at the switch with the securitization and repackaging of the cash flows, irrespective of who they were selling to."[867]
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> 2005 WaMu audit of Loan Sales and Securitization planned no further audit for three years. In March 2007, OTS informally suggested that more frequent audits would be appropriate given the high volume and high risk nature of WaMu's securitization activity and "data integrity issues surrounding the creation of securitization trusts, resulting in loan repurchases from those trusts."[868] OTS was two years too late, however; the secondary market for subprime securities collapsed four months later.

Neither OTS nor the FDIC saw preventing WaMu's sale of high risk mortgages into U.S. securitization markets as part of its regulatory responsibilities.

(d) Inflated CAMELS Ratings

Still another possible explanation for OTS' inaction may have been the overly positive CAMELS ratings it assigned WaMu. From 2004 until early 2008, WaMu held a 2 rating, which meant that it was "fundamentally sound," had "satisfactory risk management," and had "only moderate weaknesses that [were] within the board's and management's capability and willingness to correct."[869] A lower CAMELS rating would have represented one of the strongest actions that OTS and the FDIC could have taken, because it would have required changes from WaMu.

Both the Treasury and the FDIC Inspector General criticized the assignment of the 2 ratings as inaccurate and inappropriate, highlighting how those inflated ratings masked the true problems.[870] Treasury IG Thorson focused in particular on the 2 rating assigned to WaMu's high risk home loans:

> "[W]e find it difficult to understand how OTS could assign WaMu a satisfactory asset quality 2-rating for so long. Assigning a satisfactory rating when conditions are not satisfactory sends a mixed and inappropriate supervisory message to the institution and its board. It is also contrary to the very purpose for which regulators use the CAMELS rating system."[871]

Inspector General Thorson also criticized the 2 rating assigned to WaMu's management, which signaled "satisfactory performance by management and the Board of Directors and

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[867] 10/7/2008 email from OTS examiner Thomas Constantine to OTS colleague Benjamin Franklin, Franklin_Benjamin-00034415_001, Hearing Exhibit 4/16-14.
[868] See 3/5/2007 WAMU Examination "Review of Securitization," OTSWME07-075 0000780-791 at 789 (data gathered from WaMu's Market Risk Committee minutes, Dec. 2006 and Jan. 2007).
[869] Thorson prepared statement at 7, April 16, 2010 Subcommittee Hearing at 107.
[870] See, e.g., Treasury and FDIC IG Report at 16.
[871] Thorson prepared statement at 10, April 16, 2010 Subcommittee Hearing at 110. See also id. at 8, April 16, 2010 Subcommittee Hearing at 108.

satisfactory risk management practices."[872] He noted that OTS gave management this positive rating until June 2008, despite the bank's ongoing failure to correct the many deficiencies identified by OTS examiners and the fact that management problems at WaMu were longstanding. At the Subcommittee hearing, the FDIC Inspector General Rymer also criticized the 2 rating assigned to WaMu's management:

> "[T]he management piece should be, in my view, downgraded if management has not demonstrated that it has built the adequate systems and control processes and governance processes to help manage problems when they eventually do occur in assets. … I find it difficult to understand why the management rating at a minimum was not lowered much earlier on."[873]

The FDIC Inspector General also noted that, from 2004 to 2008, the FDIC had assigned LIDI ratings to WaMu that indicated a higher degree of risk at the bank than portrayed by the bank's CAMELS ratings. He observed that LIDI ratings, which are intended to convey the degree of risk that a bank might cause loss to the Deposit Insurance Fund, are designed to be more forward-looking and incorporate consideration of future risks to a bank, as compared to CAMELS ratings, which are designed to convey the state of an institution at a particular point in time.[874]

WaMu kept its 2 rating despite the five-year litany of lending, risk management, appraisal, and Long Beach deficiencies identified by OTS examiners from 2004 to 2008. It was only in February 2008, after the bank began to incur substantial losses, that OTS downgraded the bank to a 3. When the FDIC urged a further downgrade to a 4 rating in the summer of 2008, OTS disagreed. In September 2008, however, while still resisting the ratings downgrade, OTS acknowledged internally that WaMu's poor quality loans and poor risk management were the source of its problems:

> "The bank's overall unsatisfactory condition is primarily the result of the poor asset quality and operating performance in the bank's major Home Loans Group area of business. … The deteriorating asset quality in the Home Loans Group is accompanied by inadequacies in risk management, internal controls, and oversight that made more vulnerable to the current housing and economic downturn. The examination criticized past liberal home loan underwriting practices and concentrated delivery of nontraditional mortgage products to higher risk geographic markets."[875]

It was only on September 18, 2008, after the bank began to run out of the cash needed to conduct its affairs and the FDIC independently downgraded the bank to a 4, that OTS finally agreed to the downgrade. One week later, OTS placed the bank into receivership.

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[872] See Thorson prepared statement at 11, April 16, 2010 Subcommittee Hearing at 111.
[873] April 16, 2010 Subcommittee Hearing at 24-26.
[874] See, e.g., Rymer prepared statement at 5.
[875] 9/11/2008 OTS document, "WaMu Ratings of 3/343432," Polakoff_Scott-00065325, Hearing Exhibit 4/16-48.

Hindsight establishes that the CAMELS ratings assigned to Washington Mutual Bank were inflated. Whether the ratings inflation was attributable to the OTS culture of deference to management, examiners who were too intimidated to downgrade the agency's largest institution, an overly narrow regulatory focus that was blinded by WaMu's short term profits and ignored systemic risk, or an absence of forward-looking risk analysis, the WaMu collapse suggests that the CAMELS rating system did not work as it should.

(e) Fee Issues

During the investigation, when asked why OTS senior officials were not tougher on Washington Mutual Bank, several persons brought up the issue of fees – that WaMu supplied $30 million or nearly 15% of the fees per year that paid for OTS' operating expenses. WaMu's former Chief Risk Officer James Vanasek offered this speculation:

> "I think you have to look at the fact that Washington Mutual made up a substantial portion of the assets of the OTS and one wonders if the continuation of the agency would have existed had Washington Mutual failed."[876]

The issue was also raised by Treasury IG Thorson who warned that OTS should have been "very clear from top to bottom" that WaMu's payment of $30 million in fees per year to OTS was "not a factor. It just [was] not."[877]

The OCC and OTS are the only federal banking regulators reliant on fees paid by their regulated entities to fund their operations. At OTS, Washington Mutual was far larger than any other thrift overseen by the agency and was a far larger and more important contributor to the agency's budget. It is possible that the agency's oversight was tempered by recognition of the thrift's unique importance to the agency's finances and a concern that tough regulation might cause WaMu to convert its charter and switch to a different regulator. Its dependence on WaMu fees may have given OTS the incentive to avoid subjecting WaMu to regulatory enforcement actions and ultimately compromised its judgments.

Conclusion. WaMu is the largest bank failure in the history of the United States. When OTS seized it, WaMu had $307 billion in assets. By comparison, the next largest U.S. bank failure was Continental Illinois, which had $40 billion in assets when it collapsed in 1984. OTS' failure to act allowed Washington Mutual to engage in unsafe and unsound practices that cost borrowers their homes, led to a loss of confidence in the bank, and sent hundreds of billions of dollars of toxic mortgages into the financial system with its resulting impact on financial markets at large. Even more sobering is the fact that WaMu's failure was large enough that, if the bank had not been purchased by JPMorgan Chase, it could have exhausted the entire Deposit Insurance Fund which then contained about $45 billion. Exhausting the Deposit Insurance Fund

[876] April 13, 2010 Subcommittee Hearing at 40 (Testimony of James Vanasek).
[877] See April 16, 2010 Subcommittee Hearing at 25.

could have triggered additional panic and loss of confidence in the U.S. banking system and financial markets.

(2) Other Regulatory Failures

Washington Mutual was not the only failed thrift overseen by OTS. In 2008, OTS closed the doors of five thrifts with combined assets of $354 billion.[878] Another seven thrifts holding collective assets of $350 billion were sold or declared bankruptcy.[879] Virtually all of these thrifts conducted high risk lending, accumulated portfolios with high risk assets, and sold high risk, poor quality mortgages to other financial institutions and investors. At the Subcommittee hearing, the Treasury Inspector General testified that, after completing 17 reviews and working on another 33 reviews of a variety of failed financial institutions, he could say that OTS' lack of enforcement action was "not unique to WaMu" and lax enforcement by the relevant federal banking regulator was "not unique to OTS."[880]

Mortgage lenders other than banks also failed. Many of these mortgage lenders had operated as private firms, rather than as depository institutions, and were not overseen by any federal or state bank regulator. Some were overseen by the SEC; others were not overseen by any federal financial regulator. Some became large companies handling billions of dollars in residential loans annually, yet operated under minimal and ineffective regulatory oversight. When residential loans began to default in late 2006, and the subprime securitization market dried up in 2007, these firms were unable to sell their loans, developed liquidity problems, and went out of business. Together, these failed mortgage lenders, like the failed thrifts, contributed to systemic risk that damaged the U.S. banking system, U.S. financial markets, and the U.S. economy as a whole.

(a) Countrywide

Countrywide Financial Corporation, now a division of Bank of America and known as Bank of America Home Loans, was formerly the largest independent mortgage lender in the United States and one of the most prolific issuers of subprime mortgages.[881] For a number of years, Countrywide operated as a national bank under the OCC. In March 2007, it converted to a thrift charter and operated for its last 18 months under the regulatory supervision of OTS.[882] At its height, Countrywide had approximately $200 billion in assets, 62,000 employees, and issued in excess of $400 billion in residential mortgages each year. In 2008, Countrywide originated

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[878] 1/2009 Center for Responsible Lending report, "The Second S&L Scandal," at 1, Hearing Exhibit 4/16-84.
[879] Id.
[880] April 16, 2010 Subcommittee Hearing at 18 (Testimony of Treasury IG Thorson). The Treasury IG also reviewed, for example, failed banks overseen by the OCC.
[881] See, e.g., "Mortgage Lender Rankings by Residential Originations," charts prepared by MortgageDaily.com, http://www.mortgagedaily.com/MortgageLenderRanking.asp (indicating Countrywide was one of the top three issuers of U.S. residential mortgages from 2003 to 2008); "A Mortgage Crisis Begins to Spiral, and the Casualties Mount," New York Times (3/5/2007).
[882] 3/5/2007 OTS press release, "OTS Approves Countrywide Application," http://www.ots.treas.gov/_files/777014.html.

nearly 20% of all mortgages in the United States.[883] But in August 2008, after the collapse of the subprime secondary market, Countrywide could no longer sell or securitize its subprime loans and was unable to obtain replacement financing, forcing the bank into a liquidity crisis.[884] By the end of the summer of 2008, it would have declared bankruptcy, but for its sale to Bank of America for $2.8 billion.[885]

Neither the OCC nor OTS ever filed a public enforcement action against the bank. In June 2009, the SEC filed suit against the three most senior Countrywide executives, the chief executive officer, the chief operating officer and president, and the chief financial officer, charging them with fraudulently misleading investors by representing that Countrywide had issued loans primarily to "prime" or low risk borrowers, when it had actually written increasingly risky loans that senior executives knew would result in substantial defaults and delinquencies.[886] In addition, the SEC charged that CEO Angelo Mozilo had violated his federal disclosure obligations and engaged in insider trading.[887]

The SEC complaint detailed the bank's increasingly risky underwriting and lending practices from 2005 to 2007, including its use of stated income loans, loan-to-value ratios in excess of 95%, loans to borrowers with low FICO scores, frequent use of loan exceptions, and willingness to match the loan terms of any competitor. Like WaMu, from 2003 to 2007, the bank switched from issuing primarily low risk, 30-year loans, to subprime and other high risk mortgages.[888]

The complaint also described how Mr. Mozilo was internally alarmed and critical of the increased credit risks that Countrywide was incurring, while at the same time telling investors that the bank was more prudent than its competitors.[889] The SEC complaint cited, for example, an April 2006 email from Mr. Mozilo discussing Countrywide's issuance of subprime 80/20 loans, which are loans that have no down payment and are comprised of a first loan for 80% of the home's value and a second loan for the remaining 20% of the value, resulting in a loan-to-value ratio of 100%. Mr. Mozilo wrote: "In all my years in the business I have never seen a more toxic pr[o]duct."[890] In another email that same month, after being informed that most borrowers were making the minimum payments allowed on Option ARM loans, Mr. Mozilo wrote: "Since over 70% have opted to make the lower payment it appears it is just a matter of time that we will be faced with much higher resets and therefore much higher delinquencies."[891]

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[883] OCC, "Annual Report: Fiscal Year 2009," http://www.occ.gov/static/publications/annrpt/2009AnnualReport.pdf.
[884] See, e.g., SEC v. Mozilo, Case No. CV09-03994 (USDC CD Calif.), Complaint (June 4, 2009), at ¶¶ 102-104 (hereinafter "SEC Complaint against Countrywide Executives").
[885] "Countrywide Financial Corporation," New York Times (10/15/2010).
[886] SEC Complaint against Countrywide Executives.
[887] Id.
[888] See, e.g., SEC Complaint against Countrywide Executives, at ¶¶ 17-19.
[889] See, e.g., id. at ¶¶ 6-7.
[890] Id. at ¶ 50.
[891] Id. at ¶ 63.

Later he warned that the bank was "flying blind" on the ultimate delinquency rate and should consider selling the loans.[892] The SEC complaint also stated:

> "Mozilo went on to write that he had 'personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan[s].' Mozilo noted that, 'In my conversations with Sambol [Countrywide's chief operating officer] he calls the 100% sub prime seconds as the 'milk' of the business. Frankly, I consider that product line to be the poison of ours."[893]

On October 15, 2010, the SEC announced a record settlement with the three Countrywide executives.[894] Mr. Mozilo agreed to pay $22.5 million to settle the disclosure fraud allegations and $45 million to settle the insider trading allegations, bringing his total settlement to $67.5 million.[895] He also agreed to be permanently barred from serving as an officer or director of a publicly traded corporation. Countrywide's former chief operating officer paid $5.5 million and agreed to a three-year bar. The chief financial officer paid $130,000 and agreed to a one-year bar on practicing before the SEC.

In June 2010, in a case brought by the Federal Trade Commission, Countrywide agreed to pay penalties of $108 million for charging inflated mortgage servicing fees to homeowners in delinquency, including excessive fees to inspect property or mow lawns for people struggling to keep their homes.[896] In August 2010, Countrywide and some former executives agreed to pay $600 million to settle several class action lawsuits.[897]

(b) IndyMac

IndyMac Bank was established in 1985 by Countrywide co-founders Angelo Mozilo and David Loeb. While its lines of business changed over time, in 2000, it became a chartered thrift overseen by OTS, and grew to become the country's ninth-largest originator of residential mortgage loans.[898] IndyMac specialized in two types of high risk home loans, Alt A loans which did not require verification or documentation of the borrower's income, assets or employment; and Option ARM loans which allowed borrowers to pay less than the fully amortized cost of the mortgage. From 2004 to 2006, Option ARMs made up 75% of IndyMac's home loans and, in 2006, IndyMac allowed 75% of its Option ARM borrowers to make only the minimum payment

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[892] Id. at ¶ 68-69.
[893] Id. at ¶ 49.
[894] 10/15/2010 SEC Press Release, "Former Countrywide CEO Angelo Mozilo to Pay SEC's Largest-Ever Financial Penalty Against a Public Company's Senior Executive," http://www.sec.gov/news/press/2010/2010-197.htm.
[895] Id.
[896] 6/7/2010 U.S. Federal Trade Commission press release, "Countrywide Will Pay $108 Million for Overcharging Struggling Homeowners; Loan Servicer Inflated Fees, Mishandled Loans of Borrowers in Bankruptcy," http://www.ftc.gov/opa/2010/06/countrywide.shtm.
[897] See, e.g., "$600 Million Countrywide Settlement," Associated Press (8/3/2010).
[898] 2/26/2009 Office of Inspector General, Dept. of the Treasury Audit Report, "Safety and Soundness: Material Loss Review of IndyMac Bank," at 40, http://www.treasury.gov/about/organizational-structure/ig/Documents/oig09032.pdf (hereinafter "IG Report on IndyMac Bank").

required by the loan, triggering negative amortization. In addition to originating loans, IndyMac packaged them into securities and sold them on the secondary market.[899]

In July 2007, after the credit rating agencies downgraded the ratings on most subprime mortgage backed securities and the subprime secondary market collapsed, IndyMac – like WaMu – was left holding a large inventory of poor quality mortgage loans it could not sell. As delinquencies increased and the value of the mortgages fell, IndyMac incurred substantial losses, and its depositors began withdrawing funds. The withdrawals continued throughout 2007 and into 2008, eventually reaching $1.55 billion and triggering a liquidity crisis at the bank.[900] In July 2008, IndyMac collapsed and was seized by the FDIC, which had to pay more than $10 billion from the Deposit Insurance Fund to protect insured deposits and pay related expenses.[901]

As it did with WaMu, OTS gave IndyMac high CAMELS ratings until shortly before the thrift's failure, despite the fact that OTS had identified numerous problems with IndyMac's subprime mortgage business practices.[902] Those problems included adopting an overly narrow definition of "subprime," so that IndyMac could maintain a lower level of capital reserves;[903] poor underwriting and sloppy property appraisal practices;[904] and improper risk mitigation.[905] Neither OTS nor the FDIC ever took a public enforcement action against the bank.

After IndyMac's failure, the Treasury Inspector General conducted a review and issued a report evaluating OTS' oversight efforts.[906] The report attributed IndyMac's collapse to its strategy of rapid growth; originating and securitizing nontraditional, high risk loans; lack of verification of borrowers' income or assets; lax underwriting; and reliance on high interest loans for its own operations.[907] The Treasury IG found that OTS was aware of IndyMac's problems, but did not take sufficient enforcement action to correct them.[908] According to the Inspector

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[899] Id. at 7.
[900] Id. at 3.
[901] Id. at 1.
[902] Id. at 8.
[903] Id. at 18.
[904] Id. at 21-31.
[905] Id.
[906] Id. In addition to the Material Loss Review, the Treasury Inspector General investigated OTS' conduct in permitting thrifts, including IndyMac to backdate certain capital infusions. See 12/22/2008 Office of the Inspector General, Dept. of the Treasury, Letter to Ranking Member Charles Grassley, Senate Committee on Finance, http://media.washingtonpost.com/wp-srv/business/documents/Indymac_Thorson_122308pdf.pdf?sid=ST2008122202386. Darrel Dochow was removed from his position as Director of the OTS West Division for having allowed IndyMac to backdate a capital contribution of $18 million, which made it appear stronger than it really was in the relevant financial statement. Then Acting OTS Director Scott Polakoff was also placed on leave during the backdating investigation, but he disputed that he directed anyone to allow backdated capital injections and asserted that the real impetus for his being placed on leave was his Congressional testimony critical of the agency's conduct related to AIG. Subcommittee interview of Scott Polakoff (3/16/10).
[907] 3/31/2009 Office of the Inspector General, Dept. of the Treasury, "Semiannual Report to Congress," at 15, http://www.treasury.gov/about/organizational-structure/ig/Documents/sar042009.pdf.
[908] Id. at 31.

General, OTS typically relied on the "cooperation of IndyMac management to obtain needed improvements" – which was usually not forthcoming – to remedy identified problems.[909]

In February 2011, the SEC charged three former senior IndyMac executives with securities fraud for misleading investors about the company's deteriorating financial condition.[910] The SEC alleged that the former CEO and two former CFOs participated in the filing of false and misleading disclosures about the financial stability of IndyMac and its main subsidiary, IndyMac Bank F.S.B. One of the executives – S. Blair Abernathy, former CFO – has agreed to settle the SEC's charges without admitting or denying the allegations for approximately $125,000. The SEC's complaint against former CEO Michael W. Perry and former CFO A. Scott Keys seeks, among other things, disgorgement, financial penalties, and a bar on their acting as an officer or director of a publicly traded corporation.[911]

IndyMac was the third-largest bank failure in U.S. history and the largest collapse of a FDIC-insured depository institution since 1984.[912] At the time of its collapse, IndyMac had $32 billion in assets and $19 billion in deposits, of which approximately $18 billion were insured by the FDIC.[913] IndyMac's failure cost the FDIC $10.7 billion,[914] a figure which, at the time, represented over 10% of the federal Deposit Insurance Fund.[915]

(c) New Century

New Century Financial Corporation is an example of a failed mortgage lender that operated largely without federal or state oversight, other than as a publicly traded corporation overseen by the SEC. New Century originated, purchased, sold, and serviced billions of dollars in subprime residential mortgages, operating not as a bank or thrift, but first as a private corporation, then as a publicly traded corporation, and finally, beginning in 2004, as a publicly traded Real Estate Investment Trust (REIT).[916] By 2007, New Century had approximately 7,200 employees, offices across the country, and a loan production volume of $51.6 billion, making it

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[909] Id. at 38.
[910] 2/11/2011 SEC press release, "SEC Charges Former Mortgage Lending Executives With Securities Fraud," http://www.sec.gov/news/press/2011/2011-43.htm.
[911] Id.
[912] "The Fall of IndyMac," CNNMoney.com (7/13/2008).
[913] Id.
[914] 3/31/2010 Office of Inspector General, Dept. of the Treasury, "Semiannual Report to Congress," http://www.treasury.gov/about/organizational-structure/ig/Documents/March%202010%20SAR%20Final%20%20(04-30-10).pdf.
[915] "Crisis Deepens as Big Bank Fails; IndyMac Seized in Largest Bust in Two Decades," Wall Street Journal (7/12/2008).
[916] See SEC v. Morrice, Case No. SACV09-01426 (USDC CD Calif.), Complaint (Dec. 7, 2009), ¶¶ 12-13 (hereinafter "SEC Complaint against New Century Executives"). See also In re New Century, Case No. 2:07-cv-00931-DDP (USDC CD Calif.), Amended Consolidated Class Action Complaint (March 24, 2008), at ¶¶ 55-58 (hereinafter "New Century Class Action Complaint").

the second largest subprime lender in the country.[917] Because it did not accept deposits or have insured accounts, it was not overseen by any federal or state bank regulator.

In 2007, after the company announced its intent to restate its 2006 financial results, investors lost confidence in the company, its stock plummeted, and New Century collapsed. In April 2007, it filed for bankruptcy.[918] In February 2008, the bankruptcy examiner released a detailed report that found New Century was responsible for "significant improper and imprudent practices related to its loan originations, operations, accounting and financial reporting processes."[919] Like WaMu, New Century had engaged in a number of harmful mortgage practices, including "increasing loan originations, without due regard to the risks associated with that business strategy"; risk layering in which it issued high risk loans to high risk borrowers, including originating in excess of 40% of its loans on a stated income basis; allowing multiple exceptions to underwriting standards; and utilizing poor risk management practices that relied on the company's selling or securitizing its high risk mortgages rather than retaining them.

After New Century's bankruptcy, a 2007 class action complaint was filed by the New York State Teachers' Retirement System and others alleging that New Century executives had violated federal securities laws and committed fraud.[920] Among other matters, the complaint alleged that the company sold poor quality loans that incurred early payment defaults, received numerous demands from third party buyers of the loans to repurchase them, and built up a huge backlog of hundreds of millions of dollars in repurchase requests that the company deliberately delayed paying to make its 2005 and 2006 financial results appear better than they actually were.[921] The complaint also alleged that New Century issued loans using lax underwriting standards to maximize loan production,[922] and "routinely and increasingly lent money to people who were unable to repay the debt shortly after the loans were closed."[923] The suit took note of a news article stating: "Loans made by New Century, which filed for bankruptcy protection in March, have some of the highest default rates in the industry."[924]

In December 2009, the SEC filed a civil complaint charging three former New Century executives, the CEO, CFO, and controller, with fraudulent accounting that misled investors about the company's finances.[925] The SEC alleged that, while the company's financial disclosures painted a picture that the company's performance exceeded that of its peers, its executives had failed to disclose material negative information, such as significant increases in its loans' early

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[917] In re New Century TRS Holdings, Inc., Case No. 07-10416 (KJC) (US Bankruptcy Court, Del.), 2/29/2008 Final Report of Michael J. Missal, Bankruptcy Court Examiner, at 2, http://graphics8.nytimes.com/packages/pdf/business/Final_Report_New_Century.pdf (hereinafter "New Century Bankruptcy Report"). See also New Century Class Action Complaint at ¶ 59-60.
[918] In re New Century TRS Holdings, Inc., Case No. 07-10416 (KJC) (US Bankruptcy Court, Del.).
[919] New Century Bankruptcy Report.
[920] New Century Class Action Complaint.
[921] Id. at ¶¶ 75-79.
[922] Id. at ¶ 112. See also ¶¶ 126-130.
[923] Id. at ¶ 113. See also ¶¶ 114-116.
[924] Id. at ¶ 123.
[925] SEC Complaint against New Century Executives; See also 12/7/2009 SEC Press Release, "SEC Charges Former Offices of Subprime Lender New Century With Fraud."

payment defaults and a backlog of loan repurchases, which had the effect of materially overstating the company's financial results. The SEC complaint also stated that, although New Century had represented itself as a prudent subprime lender, it "soon became evident that its lending practices, far from being 'responsible,' were the recipe for financial disaster."[926] The complaint detailed a number of high risk lending practices, including the issuance of interest only loans; 80/20 loans with loan-to-value ratios of 100%; and stated income loans in which the borrower's income and assets were unverified.[927] The complaint charged the New Century executives with downplaying the riskiness of the company's loans and concealing their high delinquency rates.

In July 2010, the three former New Century executives settled the SEC complaint for about $1.5 million, without admitting or denying wrongdoing.[928] Each also agreed to be barred from serving as an officer or director of any publicly traded corporation for five years. A larger group of about a dozen former New Century officers and directors settled several class action and other shareholder lawsuits for $88.5 million.[929]

In 2007, New Century reported publicly that it was under criminal investigation by the U.S. Attorney's Office for the Central District of California, but no indictment of the company or any executive has been filed.[930]

(d) Fremont

Fremont Investment & Loan was once the fifth largest subprime mortgage lender in the United States.[931] At its peak in 2006, it had $13 billion in assets, 3,500 employees, and nearly two dozen offices.[932] Fremont Investment & Loan was neither a bank nor a thrift, but an "industrial loan company" that issued loans and held insured deposits.[933] It was owned by Fremont General Credit Corporation which was owned, in turn, by Fremont General Corporation. In 2007, the bank was the subject of an FDIC cease and desist order which identified multiple problems with its operations and ordered the bank to cease its subprime lending.[934] In 2008, due to insufficient capital, the FDIC ordered Fremont General Corporation to either recapitalize the bank or sell it. The bank was then sold to CapitalSource, Inc.[935] In June

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[926] SEC Complaint against New Century Executives at 3.
[927] See, e.g., SEC Complaint against New Century Executives at ¶¶ 24-32.
[928] See 7/30/2010 SEC Litigation Release No. 21609, "SEC Settles With Former Officers of Subprime Lender New Century, " http:www.sec.gov/litigation/litreleases/2010/lr21609.htm.
[929] See, e.g., "New Century Ex-leaders to Pay $90 Million in Settlements," Los Angeles Times (7/31/2010).
[930] See 3/12/2007 New Century Financial Corporation Form 8-K, Item 8.01.
[931] "Fremont Ordered by FDIC to Find Buyer; Curbs Imposed," Bloomberg (3/28/2010), http://www.bloomberg.com/apps/news?pid=newsarchive&sid=atIgi9otRZ3k.
[932] 3/2006 Fremont General Corporation Form 10-K filed with the SEC.
[933] Id.
[934] In re Fremont Investment & Loan, Order to Cease and Desist, Docket No. FDIC-07-035b (March 7, 2007) (hereinafter "Fremont Cease and Desist Order").
[935] In re Fremont Investment & Loan, Supervisory Prompt Corrective Action Directive, Docket No. FDIC-08-069 PCAS (March 26, 2008); "CapitalSource, Inc.," Hoover's Company Records. See also "CapitalSource to Acquire Fremont's Retail Arm," New York Times (4/14/2008).

2008, Fremont General Corporation declared bankruptcy under Chapter 11 and has since reorganized as Signature Group Holdings, Inc.[936]

As a California based industrial loan company, Fremont Investment & Loan was overseen by the California Department of Financial Institutions, a state bank regulator. Since it had deposits that were federally insured, Fremont was also regulated by the FDIC.[937] The March 2007 FDIC cease and desist order required the bank to end its subprime lending business, due to "unsafe and unsound banking practices and violations of law," including operating with "a large volume of poor quality loans"; "unsatisfactory lending practices"; "excessive risk"; and inadequate capital.[938] The FDIC also determined that the bank lacked effective risk management practices, lacked adequate mortgage underwriting criteria, and was "approving loans with loan-to-value ratios approaching or exceeding 100 percent of the value of the collateral."[939]

Many of the specific practices cited in the cease and desist order mirror the FDIC and OTS criticisms of WaMu. For example, the FDIC determined that Fremont was "marketing and extending adjustable-rate mortgage ('ARM') products to subprime borrowers in an unsafe and unsound manner that greatly increase[d] the risk that borrowers will default"; "qualifying borrowers for loans with low initial payments based on an introductory or 'start' rate that will expire after an initial period"; "approving borrowers without considering appropriate documentation and/or verification of the their income"; and issuing loans with "features likely to require frequent refinancing to maintain an affordable monthly payment and/or to avoid foreclosure."[940] Fremont later reported receiving default notices on $3.15 billion in subprime mortgages it had sold to investors.[941]

One year later, in March 2008, the FDIC filed another public enforcement action against the bank, for failing to provide an acceptable capital restoration plan or obtaining sufficient capital, and ordered the bank's parent company to either adequately capitalize the bank within 60 days or sell it.[942] The bank was then sold to CapitalSource, Inc.

The FDIC took action against Fremont much earlier – in March 2007 – than other regulators did with respect to other financial institutions, including OTS' nonpublic enforcement actions against WaMu in March and September 2008; the FDIC's seizure of IndyMac in July 2008; the SEC's action against Countrywide in June 2009; and the SEC's action against New

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[936] In re Fremont General Corporation, Case No. 8:08-bk-13421-ES (US Bankruptcy Court, CD Calif.), First Status Report (July 30, 2010) (included in 7/30/2010 Fremont General Corporation 8K filing with the SEC).
[937] 2006 Fremont 10-K Statement with the SEC.
[938] Fremont Cease and Desist Order at 1-3. See also 3/7/2007 FDIC press release, "FDIC Issues Cease and Desist Order Against Fremont Investment & Loan, Brea, California, and its Parents."
[939] Fremont Cease and Desist Order at 2-4.
[940] Id. at 3.
[941] See 3/4/2008 Fremont General Corporation press release, "Fremont General Corporation Announces Receipt of Notice of Covenant Default With Respect to Guaranties Issued in Connection With Certain Prior Residential Sub-Prime Loan Sale Transactions," http://media.corporate-ir.net/media_files/irol/10/106265/08-03-04N%20FGCAnnouncesDefaultNoticewithRRELoanTransactions.pdf. See also "CapitalSource to Acquire Fremont's Retail Arm," New York Times (4/14/2008).
[942] In re Fremont Investment & Loan, Supervisory Prompt Corrective Action Directive, Docket No. FDIC-08-069 PCAS (March 26, 2008).

Century in December 2009. By putting an early end to Fremont's subprime lending, the FDIC stopped it from selling additional poor quality mortgage backed securities into U.S. securitization markets.

In November 2008, the OCC researched the ten metropolitan areas with the highest foreclosure rates and identified the ten lenders in each area with the most foreclosed loans; Long Beach, Countrywide, IndyMac, New Century, and Fremont all made the list of the "Worst Ten in the Worst Ten."[943] Moody's, the credit rating agency, later calculated that, in 2006 alone, Long Beach, New Century, and Fremont were responsible for 24% of the residential subprime mortgage backed securities issued, but 50% of the subsequent credit rating downgrades of those securities.[944] The fact is that each of these lenders issued billions of dollars in high risk, poor quality home loans. By allowing these lenders, for years, to sell and securitize billions of dollars in poor quality, high risk home loans, regulators permitted them to contaminate the secondary market and introduce systemic risk throughout the U.S. financial system.

E. Preventing Regulatory Failures

Regulators stood on the sidelines as U.S. mortgage lenders introduced increasingly high risk mortgage products into the U.S. mortgage market. Stated income loans, NINA loans, and so-called "liar loans" were issued without verifying the borrower's income or assets. Alt A loans also had reduced documentation requirements. Interest-only loans, Option ARMs, and hybrid ARMs involved charging low introductory interest rates on loans that could be refinanced before much higher interest rates took effect. Negative amortization loans – loans that became bigger rather than smaller over time – became commonplace. Home equity loans and lines of credit, piggybacks and silent seconds, 100% financing – all involved loans that required the borrower to make virtually no down payment or equity investment in the property, relying instead on the value of the property to ensure repayment of the loan. All of these loans involved higher risks than the 30-year and 15-year fixed rate mortgages that dominated the U.S. mortgage market prior to 2004. When property values stopped climbing in late 2006, these higher risk loans began incurring delinquencies, losses, and defaults at record rates.

A number of new developments have occurred in the past several years to address the problems highlighted throughout this Report.

(1) New Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which the President signed into law on July 21, 2010, contains many changes in the law that will be implemented over the next year. The Dodd-Frank changes include abolishing OTS, banning stated income loans, and restricting negative amortization loans. Other developments include a revised interagency agreement strengthening the FDIC's ability to conduct examinations of

[943] See 11/13/2008 "Worst Ten in the Worst Ten," document prepared by the OCC, Hearing Exhibit 4/13-58.
[944] 7/12/2007 "Moody's Structured Finance Teleconference and Web Cast: RMBS and CDO Rating Actions," prepared by Moody's Investors Service, Hearing Exhibit 4/23-106.

insured depository institutions and a new FDIC deposit insurance pricing system that requires higher risk institutions to pay higher insurance fees.

OTS Abolished. One significant new change brought about by the Dodd-Frank Act is the abolishment of the Office of Thrift Supervision. Title III of the Dodd-Frank Act reassigned OTS' duties and personnel to other agencies, primarily the Office of the Comptroller of the Currency (OCC).[945] Although some OTS officials claim the law intended OTS to be a merger partner with the OCC, the statute is clear in its intent to abolish OTS, rather than effect a merger of equals.

Revised Interagency Agreement. A second important change is that the interagency agreement that guides when the FDIC can examine an insured institution was altered to give the FDIC increased authority. Under federal law, the FDIC can conduct an examination of an insured depository institution "whenever the [FDIC] Board of Directors determines a special examination … is necessary to determine the condition of such depository institution for insurance purposes."[946] Despite this broad statutory grant of examination authority, in 2002, the FDIC agreed to limit the circumstances in which it would examine banks subject to regulation by another agency. The resulting interagency agreement essentially required the FDIC to establish that an institution was at "heightened risk" of causing loss to the Deposit Insurance Fund before the FDIC could compel another banking regulator to allow the FDIC to participate in an examination of its operations. OTS used that agreement to impede the FDIC's participation in examinations of WaMu.

In 2010, the FDIC renegotiated that agreement with the other financial regulators, and they signed a revised version that will facilitate more cooperation on a less bureaucratic and more timely basis.[947] Compared to the 2002 version, the revised agreement explicitly provides for special examinations of a broader scope of insured depository institutions. It also streamlined the process for resolving differences in CAMELS ratings between financial regulators. In the case of WaMu, this new process would have helped facilitate a quicker response to WaMu's deteriorating condition. Additionally, the new agreement establishes a continuous on-site FDIC presence, with five or more examiners, at certain large institutions, including those that receive ratings under the FDIC's Large Insured Depository Institutions Program. This new provision ensures the FDIC has consistent access to information about big banks that, by virtue of their size, pose the most risk to the Deposit Insurance Fund. Finally, after first discussing it with the primary federal regulator, the FDIC is permitted to gather information directly from financial institutions. These provisions will help ensure that the FDIC can obtain the information needed to safeguard the Deposit Insurance Fund.

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[945] See, e.g., Section 312 of the Dodd-Frank Act.

[946] 12 U.S.C. § 1820(b)(3).

[947] 9/17/2010 letter from FDIC Chairman Sheila C. Bair to the Subcommittee, PSI-FDIC-13-000001 ("Enclosed please find a signed copy of a revised and much-strengthened memorandum of understanding among the FDIC and other bank regulators which will greatly enhance our ability to continually access and monitor information related to our risks as deposit insurer. I believe this is a very strong agreement and one which we accomplished due in no small part to the work of your Subcommittee in identifying weaknesses in the supervisory processes leading up to the failure of Washington Mutual.").

Risk Factors in Insurance Fees. Under a new FDIC deposit insurance pricing system that takes effect in 2011, large depository institutions with higher risk activities will be required to pay higher fees into the Deposit Insurance Fund.[948] This new assessment system is designed to "better capture risk at the time large institutions assume the risk, to better differentiate among institutions for risk and take a more forward-looking view of risk, [and] to better take into account the losses that the FDIC may incur if such an insured depository institution fails."[949] It is the product of both past FDIC revisions and changes to the insurance fund assessment system made by the Dodd-Frank Act.[950] It is intended to impose higher assessments on large banks "with high-risk asset concentrations, less stable balance sheet liquidity, or potentially higher loss severity in the event of failure," and impose those higher assessments when the banks "assume these risks rather than when conditions deteriorate."[951] Under this new system, banks with higher risk activities will be assessed higher fees, not only to safeguard the insurance fund and allocate insurance costs more fairly, but also to help discourage high risk activities.

Financial Stability Oversight Council. The Dodd-Frank Act has also established a new intra-governmental council, the Financial Stability Oversight Council (FSOC), to identify systemic risks and respond to emerging threats to the stability of the U.S. financial system.[952] The council is comprised of ten existing regulators in the financial services sector, including the Chairman of the Federal Reserve Board of Governors, the Chairman of the FDIC, and the Comptroller of the Currency, and is chaired by the Secretary of the Treasury. This Council is intended to ensure that U.S. financial regulators consider the safety and soundness of not only individual financial institutions, but also of U.S. financial markets and systems as a whole.

(2) Recommendations

To further strengthen oversight of financial institutions to reduce risk, protect U.S. financial markets and the economy, and safeguard the Deposit Insurance Fund, this Report makes the following recommendations.

1. **Complete OTS Dismantling.** The Office of the Comptroller of the Currency (OCC) should complete the dismantling of the Office of Thrift Supervision (OTS), despite attempts by some OTS officials to preserve the agency's identity and influence within the OCC.

2. **Strengthen Enforcement.** Federal banking regulators should conduct a review of their major financial institutions to identify those with ongoing, serious deficiencies, and review their enforcement approach to those institutions to eliminate any policy of deference to bank management, inflated CAMELS ratings, or use of short term profits to excuse high risk activities.

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[948] See 2/7/2011 FDIC Final Rule of Assessments, Dividends, Assessment Base and Large Bank Pricing, RIN 3064.
[949] Id.
[950] See Sections 331, 332 and 334 of the Dodd-Frank Act.
[951] 2/7/2011 FDIC press release, "FDIC Approves Final Rule of Assessments, Dividends, Assessment Base and Large Bank Pricing," http://www.fdic.gov/news/news/press/2011/pr11028.html.
[952] See Title I, Subtitle A, of the Dodd-Frank Act establishing the Financial Stability Oversight Council, including Section 112(a) which provides its purposes and duties.

3. **Strengthen CAMELS Ratings.** Federal banking regulators should undertake a comprehensive review of the CAMELS ratings system to produce ratings that signal whether an institution is expected operate in a safe and sound manner over a specified period of time, asset quality ratings that reflect embedded risks rather than short term profits, management ratings that reflect any ongoing failure to correct identified deficiencies, and composite ratings that discourage systemic risks.

4. **Evaluate Impacts of High Risk Lending.** The Financial Stability Oversight Council should undertake a study to identify high risk lending practices at financial institutions, and evaluate the nature and significance of the impacts that these practices may have on U.S. financial systems as a whole.

V. INFLATED CREDIT RATINGS: CASE STUDY OF MOODY'S AND STANDARD & POOR'S

Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Financial Services LLC (S&P), the two largest credit rating agencies (CRAs) in the United States, issued the AAA ratings that made residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs) seem like safe investments, helped build an active market for those securities, and then, beginning in July 2007, downgraded the vast majority of those AAA ratings to junk status.[953] The July mass downgrades sent the value of mortgage related securities plummeting, precipitated the collapse of the RMBS and CDO secondary markets, and perhaps more than any other single event triggered the financial crisis.

In the months and years of buildup to the financial crisis, warnings about the massive problems in the mortgage industry were not adequately addressed within the ratings industry. By the time the rating agencies admitted their AAA ratings were inaccurate, it took the form of a massive ratings correction that was unprecedented in U.S. financial markets. The result was an economic earthquake from which the aftershocks continue today.

Between 2004 and 2007, taking in increasing revenue from Wall Street firms, Moody's and S&P issued investment grade credit ratings for the vast majority of the RMBS and CDO securities issued in the United States, deeming them safe investments even though many relied on subprime and other high risk home loans. In late 2006, high risk mortgages began to go delinquent at an alarming rate. Despite signs of a deteriorating mortgage market, Moody's and S&P continued for six months to issue investment grade ratings for numerous subprime RMBS and CDO securities. In July 2007, as mortgage defaults intensified and subprime RMBS and CDO securities began incurring losses, both companies abruptly reversed course and began downgrading at record numbers hundreds and then thousands of their RMBS and CDO ratings, some less than a year old. Investors like banks, pension funds, and insurance companies were suddenly forced to sell off their RMBS and CDO holdings, because they had lost their investment grade status. RMBS and CDO securities held by financial firms lost much of their value, and new securitizations were unable to find investors. The subprime RMBS market initially froze and then collapsed, leaving investors and financial firms around the world holding unmarketable subprime RMBS securities plummeting in value. A few months later, the CDO market collapsed as well.

Traditionally, investments holding AAA ratings have had a less than 1% probability of incurring defaults. But in the financial crisis, the vast majority of RMBS and CDO securities with AAA ratings incurred substantial losses; some failed outright. Investors and financial institutions holding those AAA securities lost significant value. Those widespread losses led, in turn, to a loss of investor confidence in the value of the AAA rating, in the holdings of major U.S. financial institutions, and even in the viability of U.S. financial markets. Inaccurate AAA

[953] S&P issues ratings using the "AAA" designation; Moody's equivalent rating is "Aaa." For ease of reference, this Report will refer to both ratings as "AAA."

credit ratings introduced systemic risk into the U.S. financial system and constituted a key cause of the financial crisis.

The Subcommittee's investigation uncovered a host of factors responsible for the inaccurate credit ratings issued by Moody's and S&P. One significant cause was the inherent conflict of interest arising from the system used to pay for credit ratings. Credit rating agencies were paid by the Wall Street firms that sought their ratings and profited from the financial products being rated. The rating companies were dependent upon those Wall Street firms to bring them business and were vulnerable to threats that the firms would take their business elsewhere if they did not get the ratings they wanted. Rating standards weakened as each credit rating agency competed to provide the most favorable rating to win business and greater market share. The result was a race to the bottom.

Additional factors responsible for the inaccurate ratings include rating models that failed to include relevant mortgage performance data, unclear and subjective criteria used to produce ratings, a failure to apply updated rating models to existing rated transactions, and a failure to provide adequate staffing to perform rating and surveillance services, despite record revenues. Compounding these problems were federal regulations that required the purchase of investment grade securities by banks and others, thereby creating pressure on the credit rating agencies to issue investment grade ratings. Still another factor were the Securities and Exchange Commission's (SEC) regulations which required use of credit ratings by Nationally Recognized Statistical Rating Organizations (NRSRO) for various purposes but, until recently, resulted in only three NRSROs, thereby limiting competition.[954]

Evidence gathered by the Subcommittee shows that credit rating agencies were aware of problems in the mortgage market, including an unsustainable rise in housing prices, the high risk nature of the loans being issued, lax lending standards, and rampant mortgage fraud. Instead of using this information to temper their ratings, the firms continued to issue a high volume of investment grade ratings for mortgage backed securities. If the credit rating agencies had issued ratings that accurately exposed the increasing risk in the RMBS and CDO markets and appropriately adjusted existing ratings in those markets, they might have discouraged investors from purchasing high risk RMBS and CDO securities, slowed the pace of securitizations, and as a result reduced their own profits. It was not in the short term economic self interest of either Moody's or S&P to provide accurate credit ratings for high risk RMBS and CDO securities, because doing so would have hurt their own revenues. Instead, the credit rating agencies' profits became increasingly reliant on the fees generated by issuing a large volume of investment grade ratings.

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[954] See, e.g., 1/2003 "Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets," prepared by the SEC, at 5-6 (explaining how the SEC came to rely on NRSRO credit ratings); 9/3/2009 "Credit Rating Agencies and Their Regulation," report prepared by the Congressional Research Service, Report No. R40613 (revised report issued 4/9/2010) (finding that, prior to the 2006 Credit Rating Agency Reform Act, "[t]he SEC never defined the term NRSRO or specified how a CRA might become one. Its approach has been described as essentially one of 'we know-it-when-we-see-it.' The resulting limited growth in the pool of NRSROs was widely believed to have helped to further entrench the three dominant CRAs: by some accounts, they have about 98% of total ratings and collect 90% of total rating revenue." 9/3/2009 version of the report at 2-3).

Looking back after the first shock of the crisis, one Moody's managing director offered this critical self analysis:

> "[W]hy didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both."[955]

A. Subcommittee Investigation and Findings of Fact

For more than one year, the Subcommittee conducted an in-depth investigation of the role of credit rating agencies in the financial crisis, using as case histories Moody's and S&P. The Subcommittee subpoenaed and reviewed hundreds of thousands of documents from both companies including reports, analyses, memoranda, correspondence, and email, as well as documents from a number of financial institutions that obtained ratings for RMBS and CDO securities. The Subcommittee also collected and reviewed documents from the SEC and reports produced by academics and government agencies on credit rating issues. In addition, the Subcommittee conducted nearly two dozen interviews with current and former Moody's and S&P executives, managers, and analysts, and consulted with credit rating experts from the SEC, Federal Reserve, academia, and industry. On April 23, 2010, the Subcommittee held a hearing and released 100 hearing exhibits.[956]

In connection with the hearing, the Subcommittee released a joint memorandum from Chairman Levin and Ranking Member Coburn summarizing the investigation into the credit rating agencies and the problems with the credit ratings assigned to RMBS and CDO securities. The memorandum contained joint findings regarding the role of the credit rating agencies in the Moody's and S&P case histories, which this Report reaffirms. The findings of fact are as follows.

1. **Inaccurate Rating Models.** From 2004 to 2007, Moody's and S&P used credit rating models with data that was inadequate to predict how high risk residential mortgages, such as subprime, interest only, and option adjustable rate mortgages, would perform.

2. **Competitive Pressures.** Competitive pressures, including the drive for market share and need to accommodate investment bankers bringing in business, affected the credit ratings issued by Moody's and S&P.

3. **Failure to Re-evaluate.** By 2006, Moody's and S&P knew their ratings of RMBS and CDOs were inaccurate, revised their rating models to produce more accurate ratings, but then failed to use the revised model to re-evaluate existing RMBS and

[955] 9/2007 anonymous Moody's Managing Director after a Moody's Town Hall meeting on the financial crisis, at 763, Hearing Exhibit 4/23-98.
[956] "Wall Street and the Financial Crisis: The Role of Credit Rating Agencies," before the U.S. Senate Permanent Subcommittee on Investigations, S.Hrg. 11-673 (4/23/2010) (hereinafter "April 23, 2010 Subcommittee Hearing").

CDO securities, delaying thousands of rating downgrades and allowing those securities to carry inflated ratings that could mislead investors.

4. **Failure to Factor in Fraud, Laxity, or Housing Bubble.** From 2004 to 2007, Moody's and S&P knew of increased credit risks due to mortgage fraud, lax underwriting standards, and unsustainable housing price appreciation, but failed adequately to incorporate those factors into their credit rating models.

5. **Inadequate Resources.** Despite record profits from 2004 to 2007, Moody's and S&P failed to assign sufficient resources to adequately rate new products and test the accuracy of existing ratings.

6. **Mass Downgrades Shocked Market.** Mass downgrades by Moody's and S&P, including downgrades of hundreds of subprime RMBS over a few days in July 2007, downgrades by Moody's of CDOs in October 2007, and actions taken (including downgrading and placing securities on credit watch with negative implications) by S&P on over 6,300 RMBS and 1,900 CDOs on one day in January 2008, shocked the financial markets, helped cause the collapse of the subprime secondary market, triggered sales of assets that had lost investment grade status, and damaged holdings of financial firms worldwide, contributing to the financial crisis.

7. **Failed Ratings.** Moody's and S&P each rated more than 10,000 RMBS securities from 2006 to 2007, downgraded a substantial number within a year, and, by 2010, had downgraded many AAA ratings to junk status.

8. **Statutory Bar.** The SEC is barred by statute from conducting needed oversight into the substance, procedures, and methodologies of the credit rating models.

9. **Legal Pressure for AAA Ratings.** Legal requirements that some regulated entities, such as banks, broker-dealers, insurance companies, pension funds, and others, hold assets with AAA or investment grade credit ratings, created pressure on credit rating agencies to issue inflated ratings making assets eligible for purchase by those entities.

B. Background

(1) Credit Ratings Generally

Credit ratings, which first gained prominence in the late 1800s, are supposed to provide independent assessments of the creditworthiness of particular financial instruments, such as a corporate bond, mortgage backed security, or CDO. Essentially, credit ratings predict the likelihood that a debt will be repaid.[957]

[957] 9/3/2009 "Credit Rating Agencies and Their Regulation," report prepared by the Congressional Research Service, Report No. R40613 (revised report issued 4/9/2010).

The United States has three major credit rating agencies: Moody's, S&P, and Fitch Rating Ltd., each of which is a NRSRO. By some accounts, these three firms issue about 98% of total credit ratings and collect 90% of total credit rating revenue.[958]

Paying for Ratings. Prior to the 1929 crash, credit rating agencies made money by charging subscription fees to investors who were considering investing in the financial instruments being rated. This method of payment was known as the "subscriber-pays" model. Following the 1929 crash, the credit rating agencies fell out of favor. As one academic expert has explained:

> "Investors were no longer very interested in purchasing ratings, particularly given the agencies' poor track record in anticipating the sharp drop in bond values beginning in late 1929. … The rating business remained stagnant for decades."[959]

In 1970, the credit rating agencies changed to an "issuer-pays" model and have used it since.[960] In this model, the party seeking to issue a financial instrument, such as a bond or security, pays the credit rating agency to analyze the credit risk and assign a credit rating to the financial instrument.

Credit Ratings. Credit ratings use a scale of letter grades, from AAA to C, with AAA ratings designating the safest investments and the other grades designating investments at greater risk of default.[961] Investments with AAA ratings have historically had low default rates. For example, S&P reported that its cumulative RMBS default rate by original rating class (through September 15, 2007) was 0.04% for AAA initial ratings and 1.09% for BBB.[962] Financial instruments bearing AAA through BBB- ratings are generally called "investment grade," while those with ratings below BBB- (or Baa3) are referred to as "below investment grade" or sometimes as "junk" investments. Financial instruments that default receive a D rating from S&P, but no rating at all by Moody's.

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[958] Id.

[959] "How and Why Credit Rating Agencies Are Not Like Other Gatekeepers," Frank Partnoy, University of San Diego Law School Legal Studies Research Paper Series (5/2006), at 63.

[960] 9/3/2009 "Credit Rating Agencies and Their Regulation," report prepared by the Congressional Research Service, Report No. R40613 (revised report issued 4/9/2010). A few small credit rating agencies use the "subscriber-pays" model. However, 99% of outstanding credit ratings are issued by agencies using the "issuer-pays" model. 1/2011 "Annual Report on Nationally Recognized Statistical Rating Organizations," report prepared by the SEC, at 6.

[961] The Moody's rating system is similar in concept but with a slightly different naming convention. For example its top rating scale is Aaa, Aa1, Aa2, Aa3, A1, A2, A3.

[962] Prepared statement of Vickie A. Tillman, Executive Vice President, Standard & Poor's Credit Market Services, "The Role of Credit Rating Agencies in the Structured Finance Market," before U.S. House of Representatives Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Cong.Hrg. 110-62 (9/27/2007), S&P SEN-PSI 0001945-71, at 51. See also 1/2007 S&P document, "Annual 2006 Global Corporate Default Study and Ratings Transitions."

Investors often rely on credit ratings to gauge the safety of a particular investment. A former senior credit analyst at Moody's explained that investors use ratings to:

> "satisfy any number of possible needs: institutional investors such as insurance companies and pension funds may have portfolio guidelines or requirements, investment fund portfolio managers may have risk-based capital requirements or investment committee requirements. And of course, private investors lacking the resources to do separate analysis may use the published ratings as their principal determinant of the risk of the investment."[963]

Legal Requirements. Some state and federal laws restrict the amount of below investment grade bonds that certain investors can hold, such as pension funds, insurance companies, and banks. Banks, for example, are limited by law in the amount of non-investment grade bonds they can hold, and are sometimes required to post additional capital for those higher risk instruments.[964] Broker-dealers and money market funds that register with the SEC operate under similar restrictions.[965] The rationale behind these legal requirements is to require or provide economic incentives for banks and other financial institutions to purchase investments that have been identified as liquid and "safe" by an independent third party with a high level of market expertise, such as a credit rating agency. Because so many federal and state statutes and regulations require the purchase of investment grade ratings, issuers of securities and other instruments work hard to obtain favorable credit ratings to ensure regulated financial institutions can buy their products. As a result, those legal requirements not only increased the demand for investment grade ratings, but also created pressure on credit rating agencies to issue top ratings in order to make the rated products eligible for purchase by regulated financial institutions. The legal requirements also generated more work and greater profits for the credit rating agencies.

CRA Oversight and Accountability. The credit rating agencies are currently subject to regulation by the SEC. In September 2006, Congress enacted the Credit Rating Agency Reform Act, P.L. 109-291, to require SEC oversight of the credit rating industry. Among other provisions, the law charged the SEC with designating NRSROs and defined that term for the first time. By 2008, the SEC had granted NRSRO status to ten credit rating agencies (CRA).[966] The

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[963] Prepared statement of Richard Michalek, Former VP/Senior Credit Officer, Moody's Investors Service, April 23, 2010 Subcommittee Hearing, at 2 (hereinafter "Michalek prepared statement"). See also 8/29/2006 email from Greg Lippmann, (Deutsche Bank), to Paolo Pellegrini (Paulson & Co.) and others, DBSI_PSI_EMAIL01625848 at 52 ("Since a CDO without a triple-A-rated senior tranche would be unmarketable, their imprimatur is indispensable.");11/13/2007 email from Ralph Silva (Goldman Sachs), GS MBS-E-010023525, Tri-Lateral Combined Comments Attachment, GS MBS-E-01035693-715, at 713 ("Investors in subprime related securities, especially higher rated bonds, have historically relied significantly on bond ratings particularly when securities are purchased by structured investing vehicles."); M&T Bank Corporation v. Gemstone CDO VII, Ltd., Index No. 200800764 (N.Y. Sup.), Complaint, (June 16, 2008) at 12.

[964] See, e.g., Section 28 (d) and (e) of the Federal Deposit Insurance Act, codified at 12 U.S.C. § 1831e(d)-(e).

[965] See, e.g., Rule 15c3-1 of the Securities Exchange Act of 1934 (allowing broker-dealers to avoid "haircuts" for net capital requirements provided they hold instruments with investment grade credit ratings); and Rule 2a-7 of the Investment Company Act of 1940 (limiting money market funds to investments in "high quality" securities).

[966] The ten NRSROs are Moody's; Standard & Poor's; Fitch; A.M. Best Company, Inc.; DBRS Ltd.; Egan-Jones Rating Company; Japan Credit Rating Agency, Ltd.; LACE Financial Corp.; Rating and Investment Information,

Act also directed the SEC to conduct examinations of the CRAs, while at the same time prohibiting the SEC from regulating the substance, criteria, or methodologies used in credit rating models.[967]

Prior to the 2006 Reform Act, CRAs had been subject to uneven or limited regulatory oversight by state and federal agencies. The SEC had developed the NRSRO system, for example, but had no clear statutory basis for establishing that system or exercising regulatory authority over the credit rating agencies. Because the requirements for the NRSRO designation were not defined in law, the SEC had designated only three rating agencies, limiting competition. No government agency conducted routine examinations of the credit rating agencies or the procedures they used to rate financial products.

In addition, private investors have generally been unable to hold CRAs accountable for poor quality ratings or other malfeasance through civil lawsuits.[968] The CRAs have successfully won dismissal of investor lawsuits, claiming that they are in the financial publishing business and their opinions are protected under the First Amendment.[969] In addition, the CRAs have attempted to avoid any legal liability for their ratings by making disclaimers to investors who potentially may rely on their opinions. For example, S&P's disclaimer reads as follows:

> "Standard & Poor's Ratings
> Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. ..."[970]

RMBS and CDO Ratings. Over the last ten years, Wall Street firms have devised ever more complex financial instruments for sale to investors, including the RMBS and CDO securities that played a key role in the financial crisis. Because of the complexity of the instruments, investors often relied heavily on credit ratings to determine whether they could or should buy the products. For a fee, Wall Street firms helped design the RMBS and CDO securities, worked with the credit rating agencies to obtain ratings, and sold the securities to investors like pension funds, insurance companies, university endowments, municipalities, and

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Inc.; and Realpoint LLC. 9/25/2008 "Credit Rating Agencies – NRSROs," SEC, available at http://www.sec.gov/answers/nrsro.htm.

[967] See Sections 15E(c)(2) and 17(a)(1) of the Securities Exchange Act of 1934, as amended by the Credit Rating Agency Reform Act of 2006, codified at 15 U.S.C § 78o-7(c)(2) and § 78q(a)(1).

[968] "How and Why Credit Rating Agencies Are Not Like Other Gatekeepers," Frank Partnoy, University of San Diego Law School Legal Studies Research Paper Series (5/2006), at 61.

[969] Id.

[970] Standard & Poor's ClassicDirect website, https://www.eclassicdirect.com/NASApp/cotw/CotwLogin.jsp.

hedge funds.[971] Without investment grade ratings, Wall Street firms would have had a much more difficult time selling these products to investors, because each investor would have had to perform its own due diligence review of the financial instrument. Credit ratings simplified the review and enhanced the sales. Here's how one federal bank regulatory handbook put it:

> "The rating agencies perform a critical role in structured finance – evaluating the credit quality of the transactions. Such agencies are considered credible because they possess the expertise to evaluate various underlying asset types, and because they do not have a financial interest in a security's cost or yield. Ratings are important because investors generally accept ratings by the major public rating agencies in lieu of conducting a due diligence investigation of the underlying assets and the servicer."[972]

In addition to making structured finance products easier to sell to investors, Wall Street firms used financial engineering to create high risk assets that were given AAA ratings – ratings which are normally reserved for ultra-safe investments with low rates of return. Firms combined high risk assets, such as the BBB tranches from subprime mortgage backed securities paying a relatively high rate of return, in a new financial instrument, such as a CDO, that issued securities with AAA ratings and were purportedly safe investments. Higher rates of return, combined with AAA ratings, made subprime RMBS and related CDO securities especially attractive investments.

(2) The Rating Process

Prior to the massive ratings downgrade in mid-2007, the RMBS and CDO rating process followed a generally well-defined pattern. It began with the firm designing the securitization – the arranger – sending a detailed proposal to the credit rating agency. The proposal contained information on the mortgage pools involved and how the security would be structured. The rating agency examined the proposal and provided comments and suggestions, before ultimately agreeing to run the securitization through one of its models. The results from the model were used by a rating committee within the agency to determine a final rating, which was then published.

Arrangers. For RMBS, the "arranger" – typically an investment bank – initiated the rating process by sending to the credit rating agency information about a prospective RMBS and data about the mortgage loans included in the prospective pool. The data typically identified the characteristics of each mortgage in the pool including: the principal amount, geographic location of the property, FICO score, loan to value ratio of the property, and type of loan. In the case of a CDO, the process also included a review of the underlying assets, but was based primarily on the ratings those assets had already received.

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[971] See 9/2009 "The Financial Crisis of 2007-2009: Causes and Circumstances," report prepared by the Task Force on the Cause of the Financial Crisis, Banking Law Committee, Section of Business Law, American Bar Association (This report was prepared by a subgroup of the Banking Law Committee and did not represent the official position of the Committee or the Association).

[972] 11/1997 Comptroller of the Currency Administrator of National Banks Comptroller's Handbook, "Asset Securitization," at 11.

In addition to data on the assets, the arranger provided a proposed capital structure for the financial instrument, identifying, for example, how many tranches would be created, how the revenues being paid into the RMBS or CDO would be divided up among those tranches, and how many of the tranches were designed to receive investment grade ratings. The arranger also identified one or more "credit enhancements" for the pool to create a financial cushion that would protect the designated investment grade tranches from expected losses.[973]

Credit Enhancements. Arrangers used a variety of credit enhancements. The most common was "subordination" in which the arranger "creates a hierarchy of loss absorption among the tranche securities."[974] To create that hierarchy, the arranger placed the pool's tranches in an order, with the lowest tranche required to absorb any losses first, before the next highest tranche. Losses might occur, for example, if borrowers defaulted on their mortgages and stopped making mortgage payments into the pool. Lower level tranches most at risk of having to absorb losses typically received noninvestment grade ratings from the credit rating agencies, while the higher level tranches that were protected from loss typically received investment grade ratings. One key task for both the arrangers and the credit rating agencies was to calculate the amount of "subordination" required to ensure that the higher tranches in a pool were protected from loss and could be given AAA or other investment grade ratings.

A second common form of credit enhancement was "over-collateralization." In this credit enhancement, the arranger ensured that the revenues expected to be produced by the assets in a pool exceeded the revenues designated to be paid out to each of the tranches. That excess amount provided a financial cushion for the pool and was used to create an "equity" tranche, which was the first tranche in the pool to absorb losses if the expected payments into the pool were reduced. This equity tranche was subordinate to all the other tranches in the pool and did not receive any credit rating. The larger the excess, the larger the equity tranche, and the larger the cushion created to absorb losses and protect the more senior tranches in the pool. In some pools, the equity tranche was also designed to pay a relatively higher rate of return to the party or parties who held that tranche due to its higher risk.

Still another common form of credit enhancement was the creation of "excess spread," which involved designating an amount of revenue to pay the pool's monthly expenses and other liabilities, but ensuring that the amount was slightly more than what was likely needed for that purpose. Any funds not actually spent on expenses would provide an additional financial cushion to absorb losses, if necessary.

Credit Rating Models. After the arranger submitted the pool information, proposed capital structure, and proposed credit enhancements to the CRA, a CRA analyst was assigned to evaluate the proposed financial instrument. The first step that most CRA analysts took was to use a credit rating model to evaluate the rate of probable defaults or expected losses from the

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[973] See, e.g., 7/2008 "Summary Report of Issues Identified in the Commission Staff's Examination of Select Credit Rating Agencies," report prepared by the SEC, at 6-10.
[974] Id. at 6.

asset pool. Credit rating models are mathematical constructs that analyze a large number of data points related to the likelihood of an asset defaulting. RMBS rating models typically use statistical analyses of past mortgage performance data to calculate expected RMBS default rates and losses. In contrast, rather than statistics, CDO models use assumptions to build simulations that can be used to project likely CDO defaults and losses.

The major RMBS credit rating model at Moody's was called the Mortgage Metrics Model (M3), while the S&P model was called the Loan Evaluation and Estimate of Loss System (LEVELS). Both models used large amounts of statistical data related to the performance of residential mortgages over time to develop criteria to analyze and rate submitted mortgage pools. CRA analysts relied on these quantitative models to predict expected loss (Moody's) or the probability of default (S&P) for a pool of residential loans.

To derive the default or loss rate for an RMBS pool of residential mortgages, the CRA analyst typically fed a "loan tape" – most commonly a spreadsheet provided by the arranger with details on each loan – into the credit rating model. The rating model then automatically assessed the expected credit performance of each loan in the pool and aggregated that information. To perform this function, the model selected certain data points from the loan tape, such as borrower credit scores or loan-to-value ratios, and compared that information to past mortgage data using various assumptions, to determine the likely "frequency of foreclosure" and "loss severity" for the particular types of mortgages under consideration. It then projected the level of "credit enhancement," or cushion needed to protect investment grade tranches from loss.

For riskier loans, the model required a larger cushion to protect investment grade tranches from losses. For example, the model might project that 30% of the pool's incoming revenue would need to be set aside to ensure that the remaining 70% of incoming revenues would be protected from any losses. Tranches representing the 70% of the incoming revenues could then receive AAA ratings, while the remaining 30% of incoming revenues could be assigned to support the payment of expenses, an equity tranche, or one or more of the subordinated tranches.

In addition to using quantitative models, Moody's analysts also took into account qualitative factors in their analysis of expected default and loss rates. For example, Moody's analysts considered the quality of the originators and servicers of the loans included in a pool. Originators known for issuing poor quality loans or servicers known for providing poor quality servicing could decrease the loss levels calculated for a pool by a significant degree, up to a total of 20%.[975] Moody's only began incorporating that type of analysis into its M3 ratings process in December 2006, only six months before the mass downgrades began.[976] In contrast, S&P

[975] See 2008 SEC Examination Report for Moody's Investor Services Inc., PSI-SEC (Moodys Exam Report)-14-0001-16, at 2-3, footnote 5.

[976] Id. See also 7/2008 "Summary Report of Issues Identified in the Commission Staff's Examination of Select Credit Rating Agencies," report prepared by the Securities and Exchange Commission, at 35, n.70.

analysts did not conduct this type of analysis of mortgage originators and servicers during the time period examined in this Report.[977]

Credit Analysis. After obtaining the model's projections for the cushion or subordination needed to protect the pool's investment grade tranches from loss, the CRA analyst compared that projection to the tranches and credit enhancements actually proposed for the particular pool to evaluate their sufficiency.

In addition to evaluating an RMBS pool's expected default and loss rates, credit enhancements, and capital structure, CRA analysts conducted a cash flow analysis of the interest and principal payments to be made into the proposed pool to determine that the revenue generated would be sufficient to pay the rates of return projected for each proposed tranche. CRA analysts also reviewed the proposed legal structure of the financial instrument to understand how it worked and how revenues and losses would be allocated. Some RMBS and CDO transactions included complex "waterfalls" that allocated projected revenues and expected losses among an array of expenses, tranches, and parties. The CRA analyst was expected to evaluate whether the projected revenues were sufficient for the designated purposes. The CRA review also included a legal analysis "ensuring that there was no structural risk presented due to a failure to fulfill minimally necessary legal requirements … and confirming that the deal documentation accurately and faithfully described the structure modeled by the Quant [quantitative analyst]."[978]

The process for assigning credit ratings to cash CDOs followed a similar path. CRA analysts used CDO rating models to predict the CDO's expected defaults and losses. However, unlike RMBS statistical models that used past performance data to predict RMBS default and loss rates, the CDO models relied primarily on the underlying ratings of the assets as well as on a set of assumptions, such as asset correlation, and ran multiple simulations to predict how the CDO pool would perform. The CDO simulation model at Moody's was called "CDOROM," while the S&P CDO model was called the "CDO Evaluator," which was repeatedly updated, eventually to "Evaluator 3" or "E3." Both companies' CDO models analyzed the likely rates of loss for assets within a particular CDO, but neither model re-analyzed any underlying RMBS securities included within a CDO. Instead, both models simply relied on the credit rating already assigned to those securities.[979]

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[977] In November 2008, after the time period examined in this Report, S&P published enhanced criteria requiring the quality of mortgage originators and their underwriting processes to be factored into its RMBS rating analyses. 6/24/2010 supplemental letter from S&P to the Subcommittee, Hearing Exhibit 4/23-108, Exhibit W, 11/25/2008 "Standard &Poor's Enhanced Mortgage Originator and Underwriting Review Criteria for U.S. RMBS."

[978] Michalek prepared statement, at 4.

[979] Synthetic CDOs, on the other hand, involved a different type of credit analysis. Unlike RMBS and cash CDOs, synthetic CDOs do not contain any cash producing assets, but simply reference them. The revenues paid into synthetic CDOs do not come from mortgages or other assets, but from counterparties betting that the referenced assets will lose value or suffer a specified credit event.

After calculating the CDO's default and loss rates and the cushion or subordination needed to protect the pool's investment grade tranches from loss, the CRA analyst examined the CDO's capital structure, credit enhancements, cash flow, and legal structure, in the same manner as for an RMBS pool.

Evidence gathered by the Subcommittee indicates that it was common for a CRA analyst to speak with the arranger or issuer of an RMBS or CDO to gather additional information and discuss how a proposed financial instrument would work. Among other tasks, the analyst worked with the arranger or issuer to evaluate the cash flows, the number and size of the tranches, the size and nature of the credit enhancements, and the rating each tranche would receive. Documents obtained by the Subcommittee show that CRA analysts and investment bankers often negotiated over how specific deal attributes would affect the credit ratings of particular tranches.

Rating Recommendations. After completing analysis of a proposed financial instrument, the CRA analyst developed a rating recommendation for each proposed RMBS or CDO tranche that would be used to issue securities, and presented the recommended ratings internally to a rating committee composed of other analysts and managers within the credit rating agency. The rating committee reviewed and then voted on the analyst's recommendations. Once the committee approved the ratings, a rating committee memorandum was prepared memorializing the actions taken, and the ratings were provided to the arranger. If the arranger indicated that the issuer accepted the ratings, the credit rating agency made the ratings available publicly. If dissatisfied, the arranger could appeal a ratings decision.[980] The entire rating process typically took several weeks, sometimes longer for novel or complex transactions.

RMBS and CDO Groups. Moody's and S&P had separate groups and analysts responsible for rating RMBS and CDOs. In 2007, Moody's RMBS ratings were issued by the RMBS Group, which had about 25 analysts, while it had about 50 derivatives analysts in its Derivatives Group, whose responsibilities included rating CDOs.[981] Each group responsible for rating these products was headed by a Team Managing Director who reported to a Group Managing Director. Both the RMBS Group and the Derivatives Group were housed in the Structured Finance Group. The setup was similar at S&P. At S&P, RMBS ratings were issued by the RMBS Group, which had about 90 analysts in 2007, while CDO ratings were issued by the Global CDO Group, with about 85 analysts.[982] Each group was headed by a Managing Director, and housed in the Structured Finance Ratings Group which was headed by a Senior Managing Director.

During the years reviewed by the Subcommittee, at Moody's, the CEO and Chairman of the Board was Raymond W. McDaniel, Jr.; the Senior Managing Director of the Structured

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[980] 7/2008 "Summary Report of Issues Identified in the Commission Staff's Examination of Select Credit Rating Agencies," report prepared by the Securities and Exchange Commission, at 9.

[981] 3/11/2008 compliance letter from Moody's to SEC, SEC_OCIE_CRA_011212; SEC_OCIE_CRA_011214; and SEC_OCIE_CRA_011217.

[982] 3/14/2008 compliance letter from S&P to SEC, SEC_OCIE_CRA_011218-59, at 32-34, and at 43-44.

Finance Group was Brian Clarkson; the head of the RMBS Group was Pramila Gupta; and the heads of the Derivatives CDO analysts were Gus Harris and Yuri Yoshizawa. At S&P, the President was Kathleen A. Corbet; the Senior Managing Director of the Structured Finance Ratings Group was Joanne Rose; the head of the RMBS Group was Frank Raiter and then Susan Barnes; and the head of the Global CDO Group was Richard Gugliada.

Surveillance. Following an initial credit rating, both Moody's and S&P conducted ongoing surveillance of all rated securities to evaluate a product's ongoing credit risk and to determine whether its credit rating should be affirmed, upgraded, or downgraded over the life of the security. Both used automated surveillance tools that, on a monthly basis, flagged securities whose performance indicated their rating might need to be adjusted to reflect the current risk of default or loss. Surveillance analysts investigated the flagged securities and presented recommendations for rating changes to a ratings committee. Within both the RMBS and Derivatives Groups, in 2007, Moody's had 15 RMBS surveillance analysts and 24 derivatives surveillance analysts, respectively.[983] S&P maintained a Structured Finance Surveillance Group that included an RMBS Surveillance Group and a CDO Surveillance Group, with about 20 analysts in each group in 2007.[984] Each of these groups was headed by a Managing Director who reported to the head of the Structured Finance Group. The Managing Director for Moody's surveillance analysts was Nicolas Weill. At S&P, the Managing Director of the Structured Finance Surveillance Group was Peter D'Erchia.

Meaning of Ratings. The purpose of a credit rating, whether stated at first issuance or after surveillance, is to forecast a security's probability of default (S&P) or expected loss (Moody's). If the security has an extremely low likelihood of default, credit rating agencies grant it AAA status. For securities with a higher probability of default, they provide lower credit ratings.

When asked about the meaning of an AAA rating, Moody's CEO Raymond McDaniel explained that it represented the safest type of investment and had the same significance across various types of financial products.[985] While all credit rating agencies leave room for error by designing procedures to downgrade or upgrade ratings over time, Moody's and S&P told the Subcommittee that their ratings are designed to take into account future performance. Prior to the financial crisis, the numbers of downgrades and upgrades for structured finance ratings were substantially lower.[986]

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[983] 3/11/2008 compliance letter from Moody's to SEC, SEC_OCIE_CRA_011212; SEC_OCIE_CRA_011214; and SEC_OCIE_CRA_011217.
[984] 3/14/2008 compliance letter from S&P to SEC, SEC_OCIE_CRA_011218-59, at 48-49, and at 56-57.
[985] Subcommittee interview of Raymond McDaniel (4/6/2010).
[986] See, e.g., 3/26/2010 "Fitch Ratings Global Structured Finance 2009 Transition and Default Study," prepared by Fitch.

(3) Record Revenues

From 2004 to 2007, Moody's and S&P produced a record number of ratings and a record amount of revenues in structured finance, primarily because of RMBS and CDO ratings. A 2008 S&P submission to the SEC indicates, for example, that from 2004 to 2007, S&P issued more than 5,500 RMBS ratings and more than 835 mortgage related CDO ratings.[987] The number of ratings it issued increased each year, going from approximately 700 RMBS ratings in 2002, to more than 1,600 in 2006. Its mortgage related CDO ratings increased tenfold, going from 34 in 2002, to over 340 in 2006.[988] Moody's experienced similar growth. According to a 2008 Moody's submission to the SEC, from 2004 to 2007, it issued over 4,000 RMBS ratings and over 870 CDO ratings.[989] Moody's also increased the ratings it issued each year, going from approximately 540 RMBS and 45 CDO ratings in 2002, to more than 1,200 RMBS and 360 CDO ratings in 2006.[990]

Both companies charged substantial fees to rate a product. To obtain an RMBS or CDO rating during the height of the market, for example, S&P charged issuers generally from $40,000 to $135,000 to rate tranches of an RMBS and from $30,000 to $750,000 to rate the tranches of a CDO.[991] Surveillance fees, which may be imposed at the initial rating or annually, ranged generally from $5,000 to $50,000 for these mortgage backed securities.[992]

Revenues increased dramatically over time as well. Moody's gross revenues from RMBS and CDO ratings more than tripled in five years, from over $61 million in 2002, to over $260 million in 2006.[993] S&P's revenue increased even more. In 2002, S&P's gross revenue for RMBS and mortgage related CDO ratings was over $64 million and increased to over $265 million in 2006.[994] In that same period, revenues from S&P's structured finance group tripled from about $184 million in 2002 to over $561 million in 2007.[995] In 2002, structured finance ratings contributed 36% to S&P's bottom line; in 2007, it made up 49% of all S&P revenues

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[987] 3/14/2008 compliance letter from S&P to SEC, SEC_OCIE_CRA_011218-59, at 20. These numbers represent the RMBS or CDO pools that were presented to S&P which then issued ratings for multiple tranches per RMBS or CDO pool.

[988] Id.

[989] 3/11/2008 compliance letter from Moody's to SEC, SEC_OCIE_CRA_011212 and SEC_OCIE_CRA_011214. These numbers represent the RMBS or CDO pools that were presented to Moody's which then issued ratings for multiple tranches per RMBS or CDO pool. The data Moody's provided to the SEC on CDOs represented ABS CDOs, some of which may not be mortgage related. However, by 2004, most, but not all, CDOs relied primarily on mortgage related assets such as RMBS securities. Subcommittee interview of Gary Witt, former Managing Director of Moody's RMBS Group (10/29/2009).

[990] Id.

[991] See, e.g., "U.S. Structured Ratings Fee Schedule Residential Mortgage-Backed Financings and Residential Servicer Evaluations," prepared by S&P, S&P-PSI 0000028-35; and "U.S. Structured Ratings Fee Schedule Collateralized Debt Obligations Amended 3/7/2007," prepared by S&P, S&P-PSI 0000036-50.

[992] Id.

[993] 3/11/2008 compliance letter from Moody's to SEC, SEC_OCIE_CRA_011212 and SEC_OCIE_CRA_011214. The 2002 figure does not include gross revenue from CDO ratings as this figure was not readily available due to the transition of Moody's accounting systems.

[994] 3/14/2008 compliance letter from S&P to SEC, SEC_OCIE_CRA_011218-59, at 18-19.

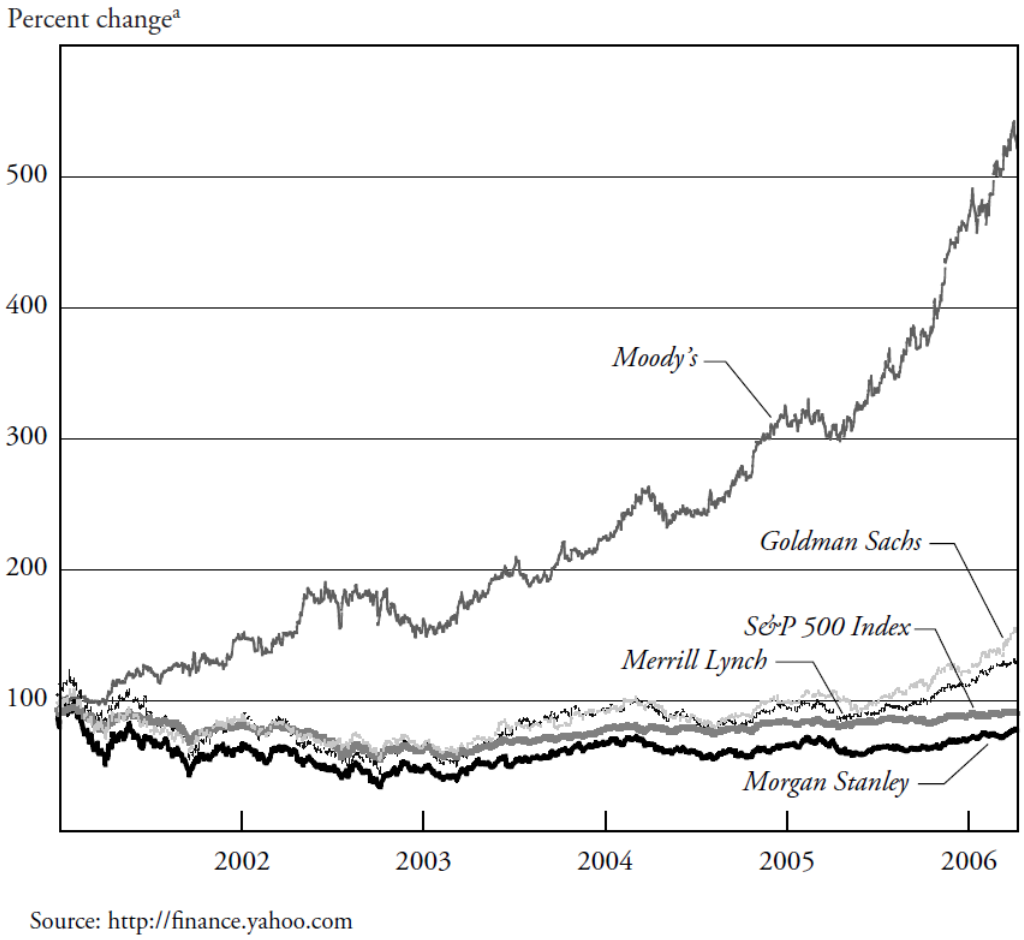
[995] Id. at 19.

from ratings.[996] In addition, from 2000 to 2007, operating margins at the CRAs averaged 53%.[997] Altogether, revenues from the three leading credit rating agencies more than doubled from nearly $3 billion in 2002 to over $6 billion in 2007.[998]

Both companies also saw their share prices shoot up. The chart below reflects the significant price increase that Moody's shares experienced as a result of increased revenues during the years of explosive growth in the ratings of both RMBS and CDOs.[999] Moody's percentage gain in share price far outpaced the major investment banks on Wall Street from 2002 to 2006.

[996] Id. at 19.
[997] "Debt Watchdogs: Tamed or Caught Napping?" New York Times (12/7/2008). The operating margin is a ratio used to measure a company's operating efficiency and is calculated by dividing operating income by net sales.
[998] "Revenue of the Three Credit Rating Agencies: 2002-2007," chart prepared by Subcommittee using data from thismatter.com/money, Hearing Exhibit 4/23-1g.
[999] "How and Why Credit Rating Agencies Are Not Like Other Gatekeepers," Frank Partnoy, University of San Diego Law School Legal Studies Research Paper Series (5/2006), at 67.

Figure 3-1. *Change in Moody's Share Price versus S&P 500 versus Major Investment Banks*



Source: http://finance.yahoo.com

Standard & Poor's is a division of The McGraw-Hill Companies (NYSE: MHP), whose share price also increased significantly during this time period.[1000]

Top CRA executives received millions of dollars each year in compensation. Moody's CEO, Raymond McDaniel, for example, earned more than $8 million in total compensation in 2006.[1001] Brian Clarkson, the head of Moody's structured finance group, received $3.8 million in total compensation in the same year.[1002] Upper and middle managers also did well. Moody's managing directors made between $385,000 to about $460,000 in compensation in 2007, before

[1000] See "The McGraw-Hill Companies, Inc.," Google Finance, http://www.google.com/finance?q=mcgraw+hill.
[1001] 3/19/2008 Moody's 2008 Proxy Statement, "Summary Compensation Table."
[1002] Id.

stock options. Including stock options, their total compensation ranged from almost $700,000 to over $930,000.[1003] S&P managers received similar compensation.[1004]

C. Mass Credit Rating Downgrades

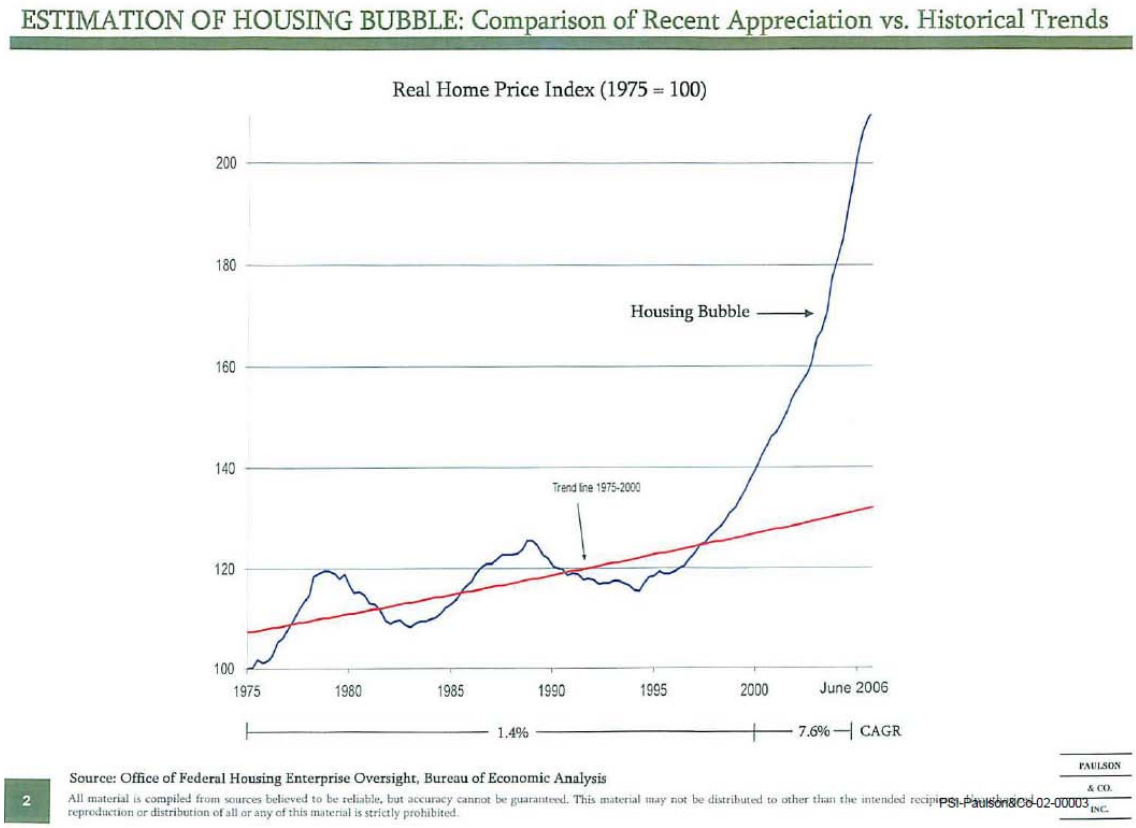
In the years leading up to the financial crisis, Moody's and S&P together issued investment grade ratings for tens of thousands of RMBS and CDO securities, earning substantial sums for issuing these ratings. In mid-2007, however, both credit rating agencies suddenly reversed course and began downgrading hundreds, then thousands of RMBS and CDO ratings. These mass downgrades shocked the financial markets, contributed to the collapse of the subprime RMBS and CDO secondary markets, triggered sales of assets that had lost investment grade status, and damaged holdings of financial firms worldwide. Perhaps more than any other single event, the sudden mass downgrades of RMBS and CDO ratings were the immediate trigger for the financial crisis.

To understand why the credit rating agencies suddenly reversed course and how their RMBS and CDO ratings downgrades impacted the financial markets, it is useful to review trends in the housing and mortgage backed security markets in the years leading up to the crisis.

(1) Increasing High Risk Loans and Unaffordable Housing

The years prior to the financial crisis saw increasing numbers of borrowers buying not only more homes than usual, but higher priced homes, requiring larger and more frequent loans that were constantly refinanced. By 2005, about 69% of Americans had purchased homes, the largest percentage in American history.[1005] In the five-year period running up to 2006, the median home price, adjusted for inflation, increased 50 percent.[1006] The pace of home price appreciation was on an unsustainable trajectory, as is illustrated by the chart below.[1007]

[1003] 4/27/2007 email from Yuri Yoshizawa to Noel Kirnon, PSI-MOODYS-RFN-000044 (Attachment, PSI-MOODYS-RFN-000045).
[1004] See S&P's "Global Compensation Guidelines 2007/2008," S&P-SEC 067708, 067733, 067740, and 067747.
[1005] See 3/1/2006 "Housing Vacancies and Homeownership Annual Statistics: 2005," U.S. Census Bureau.
[1006] "Housing Bubble Trouble," The Weekly Standard (4/10/2006).
[1007] 1/25/2010, "Estimation of Housing Bubble: Comparison of Recent Appreciation vs. Historical Trends," chart prepared by Paulson & Co. Inc., Hearing Exhibit 4/23-1j.



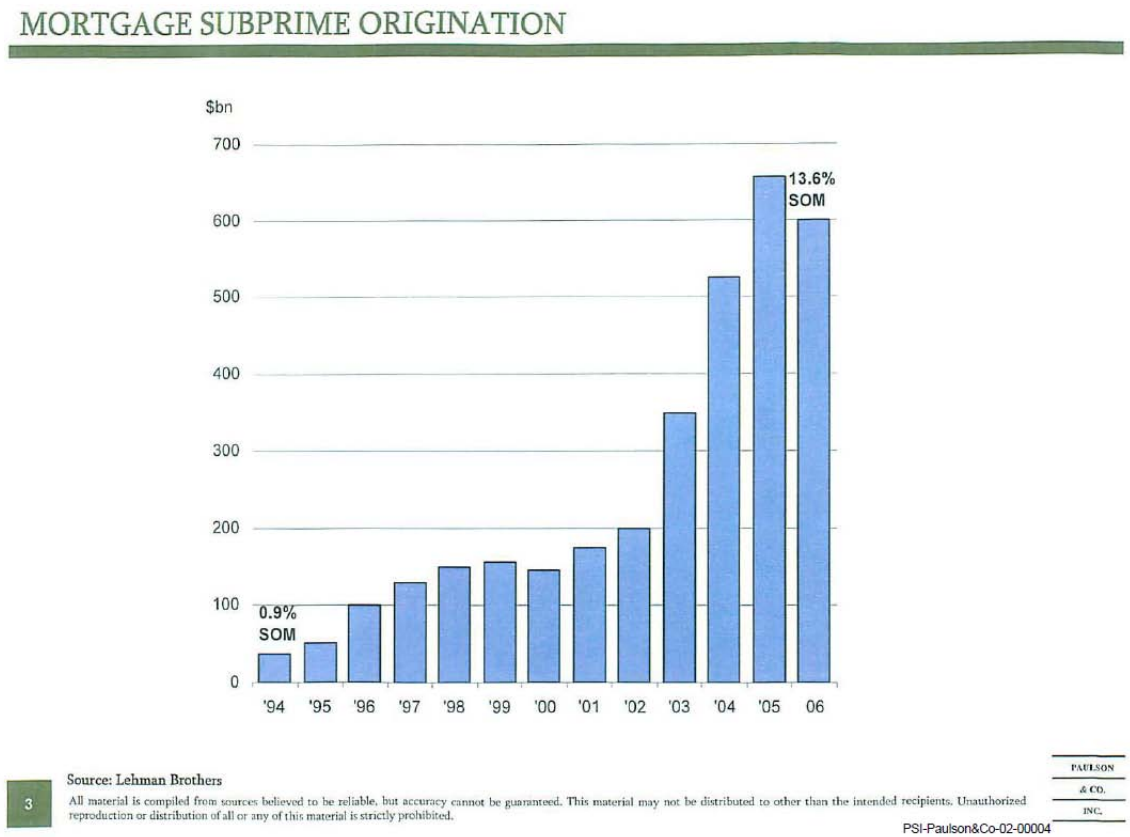
Subprime lending fueled the overall growth in housing demand and housing price increases that began in the late 1990s and ran through mid-2006.[1008] "Between 2000 and 2007, backers of subprime mortgage-backed securities – primarily Wall Street and European investment banks – underwrote $2.1 trillion worth of [subprime mortgage backed securities] business, according to data from trade publication *Inside Mortgage Finance*."[1009] By 2006, subprime lending made up 13.5% of mortgage lending in the United States, a fivefold increase from 2001.[1010] The graph below reflects the unprecedented growth in subprime mortgages between 2003 and 2006.[1011]

[1008] See 3/2009 U.S. Department of Housing and Urban Development Interim Report to Congress, "Root Causes of the Foreclosure Crisis," at 36. See also "A Brief History of Credit Rating Agencies: How Financial Regulation Entrenched this Industry's Role in the Subprime Mortgage Debacle of 2007 – 2008," Mercatus on Policy (10/2009), at 2.

[1009] "The Roots of the Financial Crisis: Who is to Blame?" The Center for Public Integrity (5/6/2009), http://www.publicintegrity.org/investigations/economic_meltdown/articles/entry/1286.

[1010] 3/2009 U.S. Department of Housing and Urban Development Interim Report to Congress, "Root Causes of the Foreclosure Crisis," at 7.

[1011] 1/25/2010, "Mortgage Subprime Origination," chart prepared by Paulson & Co. Inc., PSI-Paulson&Co-02-0001-21, at 4.



To enable subprime borrowers to buy homes that they would not traditionally qualify for, lenders began using exotic mortgage products that reduced or eliminated the need for large down payments and allowed monthly mortgage payments that reflected less than the fully amortized cost of the loan. For example, some types of mortgages allowed borrowers to obtain loans for 100% of the cost of a house; make monthly payments that covered only the interest owed on the loan; or pay artificially low initial interest rates on loans that could be refinanced before higher interest rates took effect. In 2006, Barron's reported that first-time home buyers put no money down 43% of the time in 2005; interest only loans made up approximately 33% of new mortgages and home equity loans in 2005, up from 0.6% in 2000; by 2005, 15% of borrowers owed at least 10% more than their home was worth; and more than $2.5 trillion in adjustable rate mortgages were due to reset to higher interest rates in 2006 and 2007.[1012]

These new mortgage products were not confined to subprime borrowers; they were also offered to prime borrowers who used them to purchase expensive homes. Many borrowers also used them to refinance their homes and take out cash against their homes' increased value. Lenders also increased their issuance of home equity loans and lines of credit that offered low

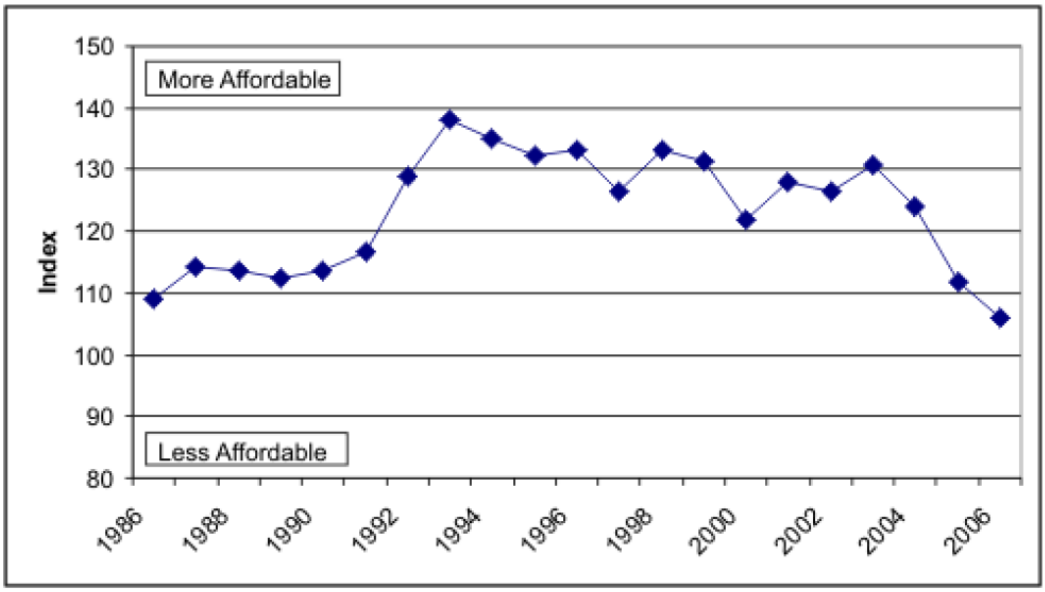
[1012] "The No-Money-Down Disaster," Barron's (8/21/2006).

initial interest rates or interest-only features, often taking a second lien on an already mortgaged home.[1013]

Subprime loans, Alt A mortgages that required little or no documentation, and home equity loans all posed a greater risk of default than traditional 30-year, fixed rate mortgages. By 2006, the combined market share of these higher risk home loans totaled nearly 50% of all mortgage originations.[1014]

At the same time housing prices and high risk loans were increasing, the National Association of Realtors' housing affordability index showed that, by 2006, housing had become less affordable than at any point in the previous 20 years, as presented in the graph below.[1015] The "affordability index" measures how easy it is for a typical family to afford a typical mortgage. Higher numbers mean that homes are more affordable, while lower numbers mean that homes are generally less affordable.

Figure 2. Housing Affordability Index, 1986-2006



Source: National Association of Realtors.

Notes: Affordability index is based on median house prices, median family income, and mortgage rates, using a composite of fixed and adjustable mortgage rates. The index defines higher values as more affordable.

By the end of 2006, the concentration of higher risk loans for less affordable homes had set the stage for an unprecedented number of credit rating downgrades on mortgage related securities.

[1013] 3/2009 U.S. Department of Housing and Urban Development Interim Report to Congress, "Root Causes of the Foreclosure Crisis," at 8.
[1014] Id.
[1015] 11/7/2007 "Would a Housing Crash Cause a Recession?" report prepared by the Congressional Research Service, at 3-4.

(2) Mass Downgrades

Although ratings downgrades for investment grade securities are supposed to be relatively infrequent, in 2007, they took place on a massive scale that was unprecedented in U.S. financial markets. Beginning in July 2007, Moody's and S&P downgraded hundreds and then thousands of RMBS and CDO ratings, causing the rated securities to lose value and become much more difficult to sell, and leading to the subsequent collapse of the RMBS and CDO secondary markets. The massive downgrades made it clear that the original ratings were not only deeply flawed, but the U.S. mortgage market was much riskier than previously portrayed.

Housing prices peaked in 2006. In late 2006, as the increase in housing prices slowed or leveled out, refinancing became more difficult, and delinquencies in subprime residential mortgages began to multiply. By January 2007, nearly 10% of all subprime loans were delinquent, a 68% increase from January 2006.[1016] Housing prices then began to decline, exposing more borrowers who had purchased homes that they could not afford and could no longer refinance. Subprime lenders also began to close their doors, which the U.S. Department of Housing and Urban Development marked as the beginning of economic trouble:

> "Arguably, the first tremors of the national mortgage crisis were felt in early December 2006 when two sizeable subprime lenders, Ownit Mortgage Solutions and Sebring Capital, failed. The Wall Street Journal described the closing of these firms as 'sending shock waves' through the mortgage-bond market. …By late February 2007 when the number of subprime lenders shuttering their doors had reached 22, one of the first headlines announcing the onset of a 'mortgage crisis' appeared in the Daily Telegraph of London."[1017]

During the first half of 2007, despite the news of failing subprime lenders and increasing subprime mortgage defaults, Moody's and S&P continued to issue AAA credit ratings for a large number of RMBS and CDO securities. In the first week of July 2007 alone, S&P issued over 1,500 new RMBS ratings, a number that almost equaled the average number of RMBS ratings it issued in each of the preceding three months.[1018] From July 5 to July 11, 2007, Moody's issued approximately 675 new RMBS ratings, nearly double its weekly average in the prior month.[1019] The timing of this surge of new ratings on the eve of the mass downgrades is troubling, and raises serious questions about whether S&P and Moody's quickly pushed these ratings through to avoid losing revenues before the mass downgrades began.

[1016] 1/25/2010 "60 Day+Delinquency and Foreclosure," chart prepared by Paulson & Co. Inc., PSI-Paulson&Co-02-0001-21, at 15. Subcommittee interview of Sihan Shu (2/24/2010).

[1017] 3/2009 U.S. Department of Housing and Urban Development Interim Report to Congress, "Root Causes of the Foreclosure Crisis," at 2 [citations omitted].

[1018] 6/24/2010 supplemental response from S&P to the Subcommittee, at 12, Hearing Exhibit 4/23-108.

[1019] Data compiled by the Subcommittee using 6/14/2007 "Structured Finance New Ratings: May 28, 2007 through June 13, 2007," Moody's; 6/28/2007 "Structured Finance New Ratings: June 11, 2007 through June 27, 2007," Moody's; 7/5/2007 "Structured Finance New Ratings: June 18, 2007 through July 4, 2007," Moody's; and 7/12/2007 "Structured Finance New Ratings: June 25, 2007 through July 11, 2007," Moody's.

In the second week of July 2007, S&P and Moody's initiated the first of several mass rating downgrades, shocking the financial markets. On July 10, S&P placed on credit watch, the ratings of 612 subprime RMBS with an original value of $7.35 billion,[1020] and two days later downgraded 498 of these securities.[1021] On July 10, Moody's downgraded 399 subprime RMBS with an original value of $5.2 billion.[1022] By the end of July, S&P had downgraded more than 1,000 RMBS and almost 100 CDO securities.[1023] This volume of rating downgrades was unprecedented in U.S. financial markets.

The downgrades created significant turmoil in the securitization markets, as investors were required to sell off RMBS and CDO securities that had lost their investment grade status, RMBS and CDO securities in the investment portfolios of financial firms lost much of their value, and new securitizations were unable to find investors. The subprime RMBS secondary market initially froze and then collapsed, leaving financial firms around the world holding suddenly unmarketable subprime RMBS securities that were plummeting in value.[1024]

Neither Moody's nor S&P produced any meaningful contemporaneous documentation explaining their decisions to issue mass downgrades in July 2007, disclosing how the mass downgrades by the two companies happened to occur two days apart, or analyzing the possible impact of their actions on the financial markets. When Moody's CEO, Raymond McDaniel, was asked about the July downgrades, he indicated that he could not recall any aspect of the decision-making process.[1025] He told the Subcommittee that he was merely informed that the downgrades would occur, but was not personally involved in the decision.[1026]

[1020] 6/24/2010 supplemental response from S&P to the Subcommittee, Exhibit H, Hearing Exhibit 4/23-108 (7/11/2007 "S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced," S&P RatingsDirect (correcting the original version issued on 7/10/2007)).

[1021] 6/24/2010 supplemental response from S&P to the Subcommittee, Exhibit I, Hearing Exhibit 4/23-108 (7/12/2007 "Various U.S. First-Lien Subprime RMBS Classes Downgraded," S&P's RatingsDirect).

[1022] 7/30/2010 supplemental response from Moody's to the Subcommittee, Hearing Exhibit 4/23-106 (7/12/2007 Moody's Structured Finance Teleconference and Web Cast, "RMBS and CDO Rating Actions," at MOODYS-PSI2010-0046899-900). The $5.2 billion also included the original value of 32 tranches that were put on review for possible downgrade that same day.

[1023] 6/24/2010 supplemental response from S&P to the Subcommittee, at 3, 6, Hearing Exhibit 4/23-108. According to this letter, the July downgrades were not the first to take place during 2007. The letter reports that, altogether in the first six months of 2007, S&P downgraded 739 RMBS and 25 CDOs. These downgrades, however, took place on multiple days over a six-month period. Prior to July, Moody's had downgraded approximately 480 RMBS during the first six months of 2007 (this figure was calculated by the Subcommittee based on information from Moody's "Structured Finance: Changes & Confirmations" reports for that time period).

[1024] See 3/19/2007 "Subprime Mortgages: Primer on Current Lending and Foreclosure Issues," report prepared by the Congressional Research Service, Report No. RL33930; 5/2008 "The Subprime Lending Crisis: Causes and Effects of the Mortgage Meltdown," report prepared by CCH, at 13.

[1025] Subcommittee interview of Ray McDaniel (4/6/2010).

[1026] Id. At S&P, no emails were produced that explained the decision-making process, but a few indicated that, prior to the mass downgrades, the RMBS Group was required to make a presentation to the chief executive of its parent company about "how we rated the deals and are preparing to deal with the fallout (downgrades)." 3/18/2007 email from Michael Gutierrez to William LeRoy, Hearing Exhibit 4/23-52a; 3/2007 S&P internal email chain, "Pre-empting bad press on the subprime situation," Hearing Exhibit 4/23-52c.

Although neither Moody's nor S&P produced documentation on its internal decision-making process related to the mass downgrades, one bank, UBS, produced an email in connection with a court case indicating that Moody's was meeting with a series of investment banks to discuss the upcoming downgrades. In an email dated July 5, 2007, five days before the mass downgrades began, a UBS banker sent an email to a colleague about a meeting with Moody's:

> "I just got off the phone with David Oman …. Apparently they're meeting w/ Moodys to discuss impacts of ABS subprime downgrades, etc. Has he been in contact with the [UBS] Desk? It sounds like Moodys is trying to figure out when to start downgrading, and how much damage they're going to cause – they're meeting with various investment banks."[1027]

It is unclear how much notice Moody's or S&P provided to investment banks regarding their planned actions.

One senior executive at S&P, Ian Bell, the head of European structured finance ratings, provided his own views in a post-mortem analysis a few days after the initial downgrades. He expressed frustration and concern that S&P had mishandled its public explanation of the mass downgrades, writing:

> "[O]ne aspect of our handling of the subprime that really concerns me is what I see as our arrogance in our messaging. Maybe it is because I am away from the center of the action and so have more of an 'outsider's' point of view. …
>
> I listened to the telecon TWICE. That guy [who asked a question about the timing of the mass downgrades] was not a 'jerk'. He asked an entirely legitimate question that we should have anticipated. He then got upset when we totally fluffed our answer. We did sound like the Nixon White House. Instead of dismissing people like him or assuming some dark motive on their part, we should ask ourselves how we could have so mishandled the answer to such an obvious question.
>
> I have thought for awhile now that if this company suffers from an Arthur Andersen event, we will not be brought down by a lack of ethics as I have never seen an organisation more ethical, nor will it be by greed as this plays so little role in our motivations; it will be arrogance."[1028]

In August 2007, Eric Kolchinsky, a managing director of Moody's CDO analysts, sent an urgent email to his superiors about the pressures to rate still more new CDOs in the midst of the mass downgrades:

[1027] 7/5/2007 email from David Goldsteen (UBS) to Dayna Corlito (UBS), "ABS Subprime & Moody's downgrades," UBS-CT 021485, Hearing Exhibit 4/23-94o.
[1028] 7/13/2007 internal S&P email from Ian Bell to Tom Gillis and Joanne Rose, Hearing Exhibit 4/23-54a.

> "[E]ach of our current deals is in crisis mode. This is compounded by the fact that we have introduced new criteria for ABS CDOs. Our changes are a response to the fact that we are already putting deals closed in the spring on watch for downgrade. This is unacceptable and we cannot rate the new deals in the same away [sic] we have done before. ... [B]ankers are under enormous pressure to turn their warehouses into CDO notes."[1029]

Both Moody's and S&P continued to rate new CDO securities despite their companies' accelerating downgrades.

In October 2007, Moody's began downgrading CDOs on a daily basis, using the month to downgrade more than 270 CDO securities with an original value of $10 billion.[1030] In December 2007, Moody's downgraded another $14 billion in CDOs, and placed another $105 billion on credit watch. Moody's calculated that, overall in 2007, "8725 ratings from 2116 deals were downgraded and 1954 ratings from 732 deals were upgraded," which means it issued four times as many downgrades as upgrades.[1031] S&P calculated that, during the second half of 2007, it downgraded over 9,000 RMBS ratings.[1032]

The downgrades continued into 2008. On January 30, 2008, S&P took action on over 6,300 subprime RMBS securities and over 1,900 CDO securities—meaning it either downgraded their ratings or placed the securities on credit watch with negative implications. The affected RMBS and CDO securities represented issuance amounts of approximately $270.1 billion and $263.9 billion, respectively.[1033]

The rating downgrades affected a wide range of RMBS and CDO securities. Some of the downgraded securities had been rated years earlier; others had received AAA ratings less than 12 months before. For example, in April 2007, both Moody's and S&P gave AAA ratings to three tranches of approximately $1.5 billion in a cash CDO known as Vertical ABS CDO 2007-1. Six months later, the majority of the CDO's tranches were downgraded to junk status; in 2008, the CDO's ratings were withdrawn, it assets were liquidated, and the AAA rated securities became worthless. In another case, in February and March 2007, Moody's and S&P gave AAA ratings to 5 tranches of about a $1 billion RMBS securitization known as GSAMP Trust 2007-FM2. In late 2007, both credit rating agencies began downgrading the securities; by 2008, they began

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[1029] 8/22/2007 email from Moody's Eric Kolchinsky, "Deal Management," Hearing Exhibit 4/23-42.
[1030] 7/30/2010 supplemental response from Moody's to the Subcommittee, at 9, Hearing Exhibit 4/23-106. In an email sent in the midst of these CDO downgrades, one Moody's analyst commented to a colleague: "You're right about CDOs as WMD – but it's only CDOs backed by subprime that are WMD." 11/27/2007 email from William May to Deepali Advani, Hearing Exhibit 4/23-58.
[1031] 2/2008 "Structured Finance Ratings Transitions, 1983-2007," Credit Policy Special Comment prepared by Moody's, at 4.
[1032] 6/24/2010 supplemental response from S&P to the Subcommittee, at 6, Hearing Exhibit 4/23-108.
[1033] 6/24/2010 supplemental response from S&P to the Subcommittee, Exhibit N, Hearing Exhibit 4/23-108 (1/30/2008 "S&P Takes Action on 6,389 U.S. Subprime RMBS Ratings and 1,953 CDO Ratings," S&P's RatingsDirect).

downgrading the AAA rated securities, and by August 2009 S&P had downgraded all its tranches to noninvestment grade or junk status.

One more striking example involved a $1.6 billion hybrid CDO known as Delphinus CDO 2007-1, Ltd., which was downgraded a few months after its rating was issued. Moody's gave AAA ratings to seven of its tranches and S&P to six tranches in July and August 2007, respectively, but began downgrading its securities by the end of the year, and by the end of 2008, had fully downgraded its AAA rated securities to junk status.[1034]

Analysts have determined that, by 2010, over 90% of subprime RMBS securities issued in 2006 and 2007 and originally rated AAA had been downgraded to junk status by Moody's and S&P.[1035]

Percent of the Original AAA Universe
Currently Rated Below Investment Grade

Vintage	Prime Fixed	Prime ARM	Alt-A Fixed	Alt-A ARM	Option ARM	Subprime
2004	3%	9%	10%	17%	50%	11%
2005	39%	58%	73%	81%	76%	53%
2006	81%	90%	96%	98%	97%	93%
2007	92%	90%	98%	96%	97%	91%

Source: BlackRock Solutions as of February 8, 2010.
Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.

D. Ratings Deficiencies

The Subcommittee's investigation uncovered a host of factors responsible for the inaccurate credit ratings assigned by Moody's and S&P to RMBS and CDO securities. Those factors include the drive for market share, pressure from investment banks to inflate ratings, inaccurate rating models, and inadequate rating and surveillance resources. In addition, federal regulations that limited certain financial institutions to the purchase of investment grade financial instruments encouraged investment banks and investors to pursue and credit rating agencies to provide those top ratings. All these factors played out against the backdrop of an ongoing conflict of interest that arose from how the credit rating agencies earned their income. If the

[1034] For more details about these three examples, see "Fact Sheet for Three Examples of Failed AAA Ratings," prepared by the Subcommittee based on information from S&P and Moody's websites.

[1035] See "Percent of the Original AAA Universe Currently Rated Below Investment Grade," chart prepared by the Subcommittee using data from BlackRock Solutions, Hearing Exhibit 4/23-1i. See also 3/2008 "Understanding the Securitization of Subprime Mortgage Credit," report prepared by Federal Reserve Bank of New York staff, no. 318, at 58 and table 31 ("92 percent of 1st-lien subprime deals originated in 2006 as well as … 91.8 percent of 2nd-lien deals originated in 2006 have been downgraded."). See also "Regulatory Use of Credit Ratings: How it Impacts the Behavior of Market Constituents," University of Westminster - School of Law International Finance Review (2/2009), at 65-104 (citations omitted) ("As of February 2008, Moody's had downgraded at least one tranche of 94.2% of the subprime RMBS issues it rated in 2006, including 100% of the 2006 RMBS backed by second-lien loans, and 76.9% of the issues rated in 2007. In its rating transition report, S&P wrote that it had downgraded 44.3% of the subprime tranches it rated between the first quarter of 2005 and the third quarter of 2007.")

credit rating agencies had issued ratings that accurately exposed the increasing risk in the RMBS and CDO markets, they may have discouraged investors from purchasing those securities, slowed the pace of securitizations, and as a result reduced their own profits. It was not in the short term economic self-interest of either Moody's or S&P to provide accurate credit risk ratings for high risk RMBS and CDO securities.

(1) Awareness of Increasing Credit Risks

The evidence shows that analysts within Moody's and S&P were aware of the increasing risks in the mortgage market in the years leading up to the financial crisis, including higher risk mortgage products, increasingly lax lending standards, poor quality loans, unsustainable housing prices, and increasing mortgage fraud. Yet for years, neither credit rating agency heeded warnings – even their own – about the need to adjust their processes to accurately reflect the increasing credit risk.

Moody's and S&P began issuing public warnings about problems in the mortgage market as early as 2003, yet continued to issue inflated ratings for RMBS and CDO securities before abruptly reversing course in July 2007. Moody's CEO testified before the House Committee on Oversight and Government Reform, for example, that Moody's had been warning the market continuously since 2003, about the deterioration in lending standards and inflated housing prices.

> "Beginning in July 2003, we published warnings about the increased risks we saw and took action to adjust our assumptions for the portions of the residential mortgage backed securities ("RMBS") market that we were asked to rate."[1036]

Both S&P and Moody's published a number of articles indicating the potential for deterioration in RMBS performance.[1037] For example, in September 2005, S&P published a report entitled, "Who Will Be Left Holding the Bag?" The report contained this strong warning:

> "It's a question that comes to mind whenever one price increase after another – say, for ridiculously expensive homes – leaves each succeeding buyer out on the end of a longer

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[1036]Prepared statement of Raymond W. McDaniel, Moody's Chairman and Chief Executive Officer, "Credit Rating Agencies and the Financial Crisis," before the U.S. House of Representatives Committee on Oversight and Government Reform, Cong.Hrg. 110-155 (10/22/2008), at 1 (hereinafter "10/22/2008 McDaniel prepared statement").

[1037] See, e.g., 6/24/2010 supplemental response from S&P to the Subcommittee, Hearing Exhibit 4/23-108 (4/20/2005 Subprime Lenders: Basking in the Glow of A Still-Benign Economy, but Clouds Forming on the Horizon" S&P; 9/13/2005 "Simulated Housing Market Decline Reveals Defaults Only in Lowest-Rated U.S. RMBS Transactions," S&P; and 1/19/2006 "U.S. RMBS Market Still Robust, But Risks Are Increasing and Growth Drivers Are Softening" S&P). "Housing Market Downturn in Full Swing," Moody's Economy.com (10/4/2006); 1/18/2007 "Special Report: Early Defaults Rise in Mortgage Securitization," Moody's ; and 9/21/2007 "Special Report: Moody's Subprime Mortgage Servicer Survey on Loan Modifications," Moody's. See 10/22/2008 McDaniel prepared statement at 13-14. In addition, in March 2007 Moody's warned of the possible effect that downgrades of subprime mortgage backed securities might have on its structured finance CDOs. See 3/2007 "The Impact of Subprime Residential Mortgage-Backed Securities on Moody's-Rated Structured Finance CDOs: A Preliminary Review," Moody's.

> and longer limb: When the limb finally breaks, who's going to get hurt? In the red-hot U.S. housing market, that's no longer a theoretical riddle. Investors are starting to ask which real estate vehicles carry the most risk – and if mortgage defaults surge, who will end up suffering the most."[1038]

Internal Moody's and S&P emails further demonstrate that senior management and ratings personnel were aware of the deteriorating mortgage market and increasing credit risk. In June 2005, for example, an outside mortgage broker who had seen the head of S&P's RMBS Group, Susan Barnes, on a television program sent her an email warning about the "seeds of destruction" in the financial markets. He noted that no one at the time seemed interested in fixing the looming problems:

> "I have contacted the OTS, FDIC and others and my concerns are not addressed. I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk. I am confident our present housing bubble is not from supply and demand of housing, but from money supply. In my professional opinion the biggest perpetrator is Washington Mutual. 1) No income documentation loans. 2) Option ARMS (negative amortization) ... 5) 100% financing loans. I have seen instances where WAMU approved buyers for purchase loans; where the fully indexed interest only payments represented 100% of borrower's gross monthly income. We need to stop this madness!!!"[1039]

Several email chains among S&P employees in the Servicer Evaluation Group in Structured Finance demonstrate a clear awareness of mortgage market problems. One from September 2006, for example, with the subject line "Nightmare Mortgages," contains an exchange with startling frankness and foresight. One S&P employee circulated an article on mortgage problems, stating: "Interesting Business Week article on Option ARMs, quoting anecdotes involving some of our favorite servicers." Another responded: "This is frightening. It wreaks of greed, unregulated brokers, and 'not so prudent' lenders."[1040] Another employee commenting on the same article said: "I'm surprised the OCC and FDIC doesn't come downharder [sic] on these guys - this is like another banking crisis potentially looming!!"[1041]

Another email chain that same month shows that at least some employees understood the significance of problems within the mortgage market nine months before the mass downgrades began. One S&P employee wrote: "I think [a circulated article is] telling us that underwriting fraud; appraisal fraud and the general appetite for new product among originators is resulting in loans being made that shouldn't be made. … [I]f [Eliot] Spitzer [then-New York Attorney General] could prove coercion this could be a RICO offense!" A colleague responded that the

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[1038] "Economic Research: Who Will be Left Holding the Bag?" S&P's RatingsDirect (9/12/2005).
[1039] 7/22/2005 email from Michael Blomquist (Resource Realty) to Susan Barnes (S&P), "Washington Mutual," Hearing Exhibit 4/23-45.
[1040] 9/2/2006 email from Robert Mackey to Richard Koch, "Nightmare Mortgages," Hearing Exhibit 4/23-46a.
[1041] 9/5/2006 email from Michael Gutierrez to Richard Koch and Edward Highland, "RE: Nightmare Mortgages," Hearing Exhibit 4/23-46b.

head of the S&P Surveillance Group "told me that broken down to loan level what she is seeing in losses is as bad as high 40's – low 50% I'd love to be able to publish a commentary with this data but maybe too much of a powder keg."[1042]

In a third email chain from August 2006, commenting on an article about problems in the mortgage market, a director in the S&P Servicer Evaluation Group wrote: "I'm not surprised; there has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine."[1043] Another S&P director in the same group wrote in an October 2006 internal email about a news article entitled, "More Home Loans Go Sour – Though New Data Show Rising Delinquencies, Lenders Continue to Loosen Mortgage Standards": "Pretty grim news as we suspected – note also the 'mailing in the keys and walking away' epidemic has begun – I think things are going to get mighty ugly next year!"[1044] Still another S&P email the same month circulated an article entitled, "Home Prices Keep Sliding; Buyers Sit Tight," and remarked: "[J]ust curious...are there ever any positive repo[r]ts on the housing market?"[1045]

An email among several S&P employees a few months later circulated an article entitled, "The Mortgage Mess Spreads" with one person noting ominously: "This is like watching a hurricane from FL [Florida] moving up the coast slowly towards us. Not sure if we will get hit in full or get trounced a bit or escape without severe damage..."[1046]

Government Warnings. At the same time the credit rating agencies were publishing reports and circulating articles internally about the deteriorating mortgage market, several government agencies issued public warnings about lax lending standards and increasing mortgage fraud. A 2004 quarterly report by the FDIC, for example, sounded an alarm over the likelihood of more high risk loan delinquencies:

> "[I]t is unlikely that home prices are poised to plunge nationwide, even when mortgage rates rise .... The greater risk to insured institutions is the potential for increased credit delinquencies and losses among highly leveraged, subprime, and ARM borrowers. These

[1042] 9/29/2006 email from Michael Gutierrez, Director at S&P, PSI-S&P-RFN-000029.
[1043] 8/7/2006 email from Richard Koch, Director at S&P, Hearing Exhibit 4/23-1d.
[1044] 10/20/2006 email from Michael Gutierrez to Richard Koch and others, Hearing Exhibit 4/23-47.
[1045] 10/26/2006 email from Ernestine Warner to Robert Pollsen, Hearing Exhibit 4/23-48.
[1046] 3/9/2007 email from KP Rajan, Hearing Exhibit 4/23-51. See also 2/14/2006 email from Robert Pollsen, PSI-S&P-RFN-000038 (forwarding "Coming Home to Roost," Barron's (2/13/2006), which includes the sentences "The red-hot U.S. housing market may be fast approaching its date with destiny .... much anxiety is being focused on a looming 'reset problem.'"); see also 3/25/2007 S&P internal email chain, PSI-S&P-RFN-000006 (forwarding "Slow-Motion Train Wreck Picks Up Speed," Barron's (3/26/2007)). 3/26/2007 Moody's internal email, PSI-S&P-RFN-000003 (forwarding "Slow-Motion Train Wreck Picks Up Speed," Barron's (3/26/2007)); 10/19/2006 Moody's internal email, PSI-MOODYS-RFN-000009 (forwarding "More Home Loans Go Sour—Though New Data Show Rising Delinquencies, Lenders Continue to Loosen Mortgage Standards," The Wall Street Journal (10/19/2006)); 9/6/2006 Moody's internal email, PSI-MOODYS-RFN-000001 (forwarding "The No-Money-Down Disaster." Barron's (8/21/2006)).

> high-risk segments of mortgage lending may drive overall mortgage loss rates higher if home prices decline or interest rates rise."[1047]

In 2005, in its 11th Annual Survey on Credit Underwriting Practices, the Office of the Comptroller of the Currency (OCC), which oversees nationally chartered banks, described a significant lowering of retail lending standards, noting it was the first time in the survey's history that a net lowering of retail lending practices had been observed. The OCC wrote:

> "Retail lending has undergone a dramatic transformation in recent years as banks have aggressively moved into the retail arena to solidify market positions and gain market share. Higher credit limits and loan-to-value ratios, lower credit scores, lower minimum payments, more revolving debt, less documentation and verification, and lengthening amortizations - have introduced more risk to retail portfolios."[1048]

Starting in 2004, federal law enforcement agencies also issued multiple warnings about fraud in the mortgage marketplace. For example, the Federal Bureau of Investigation (FBI) made national headlines when it warned that mortgage fraud had the potential to be a national epidemic,[1049] and issued a 2004 report describing how mortgage fraud was becoming more prevalent. The report noted: "Criminal activity has become more complex and loan frauds are expanding to multitransactional frauds involving groups of people from top management to industry professionals who assist in the loan application process."[1050] The FBI also testified about the problem before Congress:

> "The potential impact of mortgage fraud on financial institutions and the stock market is clear. If fraudulent practices become systemic within the mortgage industry and mortgage fraud is allowed to become unrestrained, it will ultimately place financial institutions at risk and have adverse effects on the stock market."[1051]

In 2006, the FBI reported that the number of Suspicious Activity Reports describing mortgage fraud had risen significantly since 2001.[1052]

[1047] "Housing Bubble Concerns and the Outlook for Mortgage Credit Quality," FDIC Outlook (Spring 2004), available at http://www.fdic.gov/bank/analytical/regional/ro20041q/na/infocus.html.

[1048] 6/2005 "Survey of Credit Underwriting Practices," report prepared by the Office of the Comptroller of the Currency, at 6, available at http://www.occ.gov/publications/publications-by-type/survey-credit-underwriting/pub-survey-cred-under-2005.pdf.

[1049] "FBI: Mortgage Fraud Becoming an 'Epidemic,'" USA Today (9/17/2004).

[1050] FY 2004 "Financial Institution Fraud and Failure Report," prepared by the Federal Bureau of Investigation, available at http://www.fbi.gov/stats-services/publications/fiff_04.

[1051] Prepared statement of Chris Swecker, Assistant Director of the Criminal Investigative Division, Federal Bureau of Investigation, "Mortgage Fraud and Its Impact on Mortgage Lenders," before the U.S. House of Representatives Financial Services Subcommittee on Housing and Community Opportunity, Cong.Hrg. 108-116 (10/7/2004), at 2.

[1052] "Financial Crimes Report to the Public: Fiscal Year 2006, October 1, 2005 – September 30, 2006," prepared by the Federal Bureau of Investigation, available at http://www.fbi.gov/stats-services/publications/fcs_report2006/financial-crimes-report-to-the-public-2006-pdf/view.

The FBI's fraud warnings were repeated by industry analysts. The Mortgage Bankers Association's Mortgage Asset Research Institute (MARI), for example, had been reporting increasing fraud in mortgages for years. In April 2007, MARI reported a 30% increase in 2006 in loans with suspected mortgage fraud. The report also noted that while 55% of overall fraud incidents reported to MARI involved loan application fraud, the percentage of subprime loans with loan application fraud was even higher at 65%.[1053]

Press Reports. Warnings in the national press concerning the threat posed by deteriorating mortgages and unsustainable housing prices were also prevalent. A University of Florida website has collected dozens of these articles, many of which were published in 2005. The headlines include: "Fed Debates Pricking the U.S. Housing 'Bubble'," New York Times, May 31, 2005; "Yale Professor Predicts Housing 'Bubble' Will Burst," NPR, June 3, 2005; "Cover Story: Bubble Bath of Doom" [warning of overheated real estate market], Washington Post, July 4, 2005; "Housing Affordability Hits 14-Year Low," The Wall Street Journal, December 22, 2005; "Foreclosure Rates Rise Across the U.S.," NPR, May 30, 2006; "For Sale Signs Multiply Across U.S.," The Wall Street Journal, July 20, 2006; and "Housing Gets Ugly," New York Times, August 25, 2006.[1054]

Had Moody's and S&P heeded their own warnings as well as the warnings in government reports and the national press, they might have issued more conservative, including fewer AAA, ratings for RMBS and CDO securities from 2005 to 2007; required additional credit enhancements earlier; and issued ratings downgrades earlier and with greater frequency, gradually letting the air out of the housing bubble instead of puncturing it with the mass downgrades that began in July 2007. The problem, however, was that neither company had a financial incentive to assign tougher credit ratings to the very securities that for a short while increased their revenues, boosted their stock prices, and expanded their executive compensation. Instead, ongoing conflicts of interest, inaccurate credit rating models, and inadequate rating and surveillance resources made it possible for Moody's and S&P to ignore their own warnings about the U.S. mortgage market. In the longer run, these decisions cost both companies dearly. Between January 2007 and January 2009, the stock price for both The McGraw-Hill Companies (S&P's parent company) and Moody's fell nearly 70%, and neither share price has fully recovered.

(2) CRA Conflicts of Interest

In transitioning from the *fact* that the rating agencies issued inaccurate ratings to the question of *why* they did, one of the primary issues is the conflicts of interest inherent in the "issuer-pays" model. Under this system, the firm interested in profiting from an RMBS or CDO security is required to pay for the credit rating needed to sell the security. Moreover, it requires the credit rating agencies to obtain business from the very companies paying for their rating

[1053] 4/2007 "Ninth Periodic Mortgage Fraud Case Report to Mortgage Bankers Association," prepared by the Mortgage Asset Research Institute, LLC, at 10.
[1054] "Business Library – The Housing Bubble," University of Florida George A. Smathers Libraries, http://www.uflib.ufl.edu/cm/business/cases/housing_bubble.htm.

judgment. The result is a system that creates strong incentives for the rating agencies to inflate their ratings to attract business, and for the issuers and arrangers of the securities to engage in "ratings shopping" to obtain the highest ratings for their financial products.

The conflict of interest inherent in an issuer-pay setup is clear: rating agencies are incentivized to offer the highest ratings, as opposed to offering the most accurate ratings, in order to attract business. It is much like a person trying to sell a home and hiring a third-party appraiser to make sure it is worth the price. Only, with the credit rating agencies, it is the seller who hires the appraiser on behalf of the buyer – the result is a misalignment of interests. This system, currently permitted by the SEC, underlies the "issuers-pay" model.

The credit rating agencies assured Congress and the investing public that they could "manage" these conflicts, but the evidence indicates that the drive for market share and increasing revenues, ratings shopping, and investment bank pressures have undermined the ratings process and the quality of the ratings themselves. Multiple former Moody's and S&P employees told the Subcommittee that, in the years leading up to the financial crisis, gaining market share, increasing revenues, and pleasing investment bankers bringing business to the firm assumed a higher priority than issuing accurate RMBS and CDO credit ratings.

(a) Drive for Market Share

Prior to the explosive growth in revenues generated from the ratings of mortgage backed securities, the credit rating agencies had a reputation for exercising independent judgment and taking pride in requiring the information and performing the analysis needed to issue accurate credit ratings. A journalist captured the rating agency culture in a 1995 article when she wrote: "Ask a [company's] treasurer for his opinion of rating agencies, and he'll probably rank them somewhere between a trip to the dentist and an IRS audit. You can't control them, and you can't escape them."[1055]

But a number of analysts who worked for Moody's during the 1990s and into the new decade told the Subcommittee that a major cultural shift took place at the company around 2000. They told the Subcommittee that, prior to 2000, Moody's was academically oriented and conservative in its issuance of ratings. That changed, according to those interviewed, with the rise of Brian Clarkson who worked at Moody's from 1990 to 2008, and rose from Group Managing Director of the Global Asset Backed Finance Group to President and Chief Operating Officer of Moody's. These employees indicated that during Mr. Clarkson's tenure Moody's began to focus less on striving for accurate credit ratings, and more on increasing market share and "servicing the client," who was identified as the investment banks that brought business to the firm.

This testimonial evidence that increasing revenues gained importance is corroborated by documents obtained by the Subcommittee during the course of its investigation. For example, in a March 2000 email, the head of Moody's Structured Finance Group in Paris wrote that she was

[1055] "Rating the Rating Agencies," Treasury and Risk Management (7/1995).

leaving the firm, because she was uncomfortable with "the lack of a strategy I can clearly understand, other than maximize the market share and the gross margin with insufficient resources."[1056] A 2002 Moody's survey of the Structured Finance Group (SFG) also documents the shift, finding that most employees who responded to the survey indicated that SFG business objectives included: generating increased revenue; increasing market share; fostering good relationships with issuers and investors; and delivering high quality ratings and research. According to the survey results: "When asked about how business objectives were translated into day-to-day work, most agreed that writing deals was paramount, while writing research and developing new products and services received less emphasis. Most agreed that there was a strong emphasis on relationships with issuers and investment bankers."[1057]

A 2003 email sent by Mr. Clarkson to one of his senior managers about the performance of the Structured Finance Real Estate and Derivatives Group further demonstrates the firm's emphasis on market share. Mr. Clarkson wrote:

> "Noel and his team handled the increase and met or exceeded almost every financial and market share objective and goal for his Group. … Through November total revenue for Noel's Group has grown 16% compared with budgeted growth of 10% with CMBS [Commercial Mortgage Backed Securities] up 19% and Derivatives up 14%. This was achieved by taking advantage of increased CMBS issuance volumes and by meeting or slightly exceeding market share objectives for the Group. The Derivatives team has achieved a year to date 96% market share compared to a target share of 95%. This is down approximately 2% from 2002 primarily due to not rating Insurance TRUP CDO's and rating less subordinated tranches. Noel's team is considering whether we need to refine our approach to these securities. The CMBS team was able to meet their target share of 75%. However this was down from 84% market share in 2002 primarily due to competitor's [sic] easing their standards to capture share."[1058]

This performance analysis notes that the team being reviewed put up a strong performance despite competitors "easing their standards to capture [market] share." It also notes that for certain CDOs and "less subordinated tranches," Moody's might "need to refine our approach." The clear emphasis of the analysis is increasing revenues and meeting "market share objectives," and appears silent with regard to issuing accurate ratings.

One former Moody's senior vice president, Mark Froeba, told the Subcommittee that Mr. Clarkson used fear and intimidation tactics to make analysts spend less time on the ratings process and work more cooperatively with investment bankers.[1059] At the Subcommittee hearing, another former Moody's senior analyst, Richard Michalek, described a meeting that he

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[1056] 3/19/2000 email from Catherine Gerst to Debra Perry, Moody's Chief Administrative Officer, PSI-MOODYS-RFN-000039.
[1057] 5/2/2002 Moody's SFG 2002 Associate Survey, prepared by Metrus Group, at 4, Hearing Exhibit 4/23-92a.
[1058] 12/1/2003 email from Brian Clarkson to Noel Kirnon, Managing Director of Real Estate and Derivatives Group, Hearing Exhibit 4/23-15.
[1059] Subcommittee interview of Mark Froeba (10/27/2010). See also 6/2/2010 statement of Mark Froeba submitted by request to the Financial Crisis Inquiry Commission.

had with Mr. Clarkson shortly after he was promoted to head of the Structured Finance Group. Mr. Michalek stated:

> "In my 'discussion,' I was told that he [Mr. Clarkson] had met with the investment banks to learn how our Group was working with the various clients and whether there were any analysts who were either particularly difficult or particularly valuable. I was named … as two of the more 'difficult' analysts who had a reputation for making 'too many' comments on the deal documentation.
>
> The conversation was quite uncomfortable, and it didn't improve when he described how he had previously had to fire [another analyst], a former leader of the Asset-Backed group who he otherwise considered a 'good guy.' He described how, because of the numerous complaints he had received about [that analyst's] extreme conservatism, rigidity and insensitivity to client perspective, he was left with no choice. … He then asked me to convince him why he shouldn't fire me. … [T]he primary message of the conversation was plain: further complaints from the 'customers' would very likely abruptly end my career at Moody's."[1060]

Several former Moody's employees have testified that Moody's employees were fired when they challenged senior management with a more conservative approach to rating RMBS and CDO securities. According to Mr. Froeba:

> "[T]he fear was real, not rare and not at all healthy. You began to hear of analysts, even whole groups of analysts, at Moody's who had lost their jobs because they were doing their jobs, identifying risks and describing them accurately."[1061]

A former Managing Director, Eric Kolchinsky, one of the senior managers in charge of the business line which rated subprime backed CDOs at Moody's stated:

> "Managers of rating groups were expected by their supervisors and ultimately the Board of Directors of Moody's to build, or at least maintain, market share. It was an unspoken understanding that loss of market share would cause a manager to lose his or her job."[1062]

He described how market share concerns were addressed:

> "Senior management would periodically distribute emails detailing their departments' market share. These emails were limited to Managing Directors only. Even if the market share dropped by a few percentage points, managers would be expected to justify

[1060] Michalek prepared statement, at 13-14.
[1061] 6/2/2010 statement of Mark Froeba, submitted by request to the Financial Crisis Inquiry Commission, at 4.
[1062] Prepared Statement of Eric Kolchinsky, Former Managing Director at Moody's Investor Service, April 23, 2010 Subcommittee Hearing, at 1.

> 'missing' the deals which were not rated. Colleagues have described enormous pressure from their superiors when their market share dipped."[1063]

A Moody's email sent in early October 2007 to Managing Directors of the CDO Group illustrates the intense pressure placed on CDO analysts to retain or increase market share, even in the midst of the onset of the financial crisis.[1064] This email reported that for CDOs:

> "Market share by deal count [had] dropped to 94%, though by volume it's 97%. It's lower than the 98+% in prior quarters. Any reason for concern, are issuers being more selective to control costs (is Fitch cheaper?) or is it an aberration[?]"[1065]

This email was sent during the same period when Moody's began downgrading CDOs on a daily basis, eventually downgrading almost 1,500 CDO securities with an original value likely in the tens of billions in the last three months of 2007 alone. Despite the internal recognition at Moody's that previously rated CDOs were at substantial risk for downgrades, the email shows management pressing the CDO Managing Directors about losing a few points of market share in the middle of an accelerating ratings disaster.

The drive for market share was similarly emphasized at S&P. One former S&P Managing Director in charge of the RMBS Ratings Group described it as follows:

> "By 2004 the structured finance department at S&P was a major source of revenue and profit for the parent company, McGraw-Hill. Focus was directed at collecting market share and revenue data on a monthly basis from the various structured finance rating groups and forwarded to the finance staff at S&P."[1066]

Numerous internal emails illustrate not only S&P's drive to maintain or increase market share, but also how that pressure negatively impacted the ratings process, placing revenue concerns ahead of ratings quality. For example, in a 2004 email, S&P management discussed the possibility of changing its CDO ratings criteria in response to an "ongoing threat of losing deals":

> "We are meeting with your group this week **to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals**."[1067]

[1063] Id. at 2.
[1064] 10/5/2007 email from Sunil Surana to Yuri Yoshizawa, and others, "RE: 3Q Market Coverage-CDO," Hearing Exhibit 4/23-24a.
[1065] Id.
[1066] Prepared statement of Frank Raiter, Former Managing Director at S&P, April 23, 2010 Subcommittee Hearing, at 5.
[1067] 8/17/2004 email from S&P manager, "RE: SF CIA: CDO methodology invokes reactions," Hearing Exhibit 4/23-3 [emphasis in the original].

On another occasion, in response to a 2005 email stating that S&P's ratings model needed to be adjusted to account for the higher risks associated with subprime loans, a director in RMBS research, Frank Parisi, wrote that S&P could have released a different ratings model, LEVELS 6.0, months ago "if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share."[1068] This same director wrote in an email a month later: "Screwing with criteria to 'get the deal' is putting the entire S&P franchise at risk – it's a bad idea."[1069]

A 2004 email chain among members of the S&P Analytical Policy Board, which set standards to ensure integrity for the ratings process, provides additional evidence of how market share concerns affected the credit ratings process. In that chain of emails, a senior S&P manager, Gale Scott, openly expressed concern about how a criteria change could impact market share and cause S&P to lose business. Ms. Scott wrote: "I am trying to ascertain whether we can determine at this point if we will suffer any loss of business because of our decision and if so, how much? We should have an effective way of measuring the impact of our decision over time."[1070] After a colleague reassured her that he did not believe it would cause a loss of business, she reiterated her concerns, noting, "I think the criteria process must include appropriate testing and feedback from the marketplace."

On another occasion, an August 2006 email reveals the frustration that at least one S&P employee in the Servicer Evaluation Group felt about the dependence of his employer on the issuers of structured finance products, going so far as to describe the rating agencies as having "a kind of Stockholm syndrome" – the phenomenon in which a captive begins to identify with the captor:

> "They've become so beholden to their top issuers for revenue they have all developed a kind of Stockholm syndrome which they mistakenly tag as Customer Value creation."[1071]

In October 2007, Moody's Chief Credit Officer explicitly raised concerns at the highest levels of the firm that it was losing market share "[w]ith the loosening of the traditional duopoly" between Moody's and S&P, noting that Fitch was becoming an "acceptable substitute."[1072] In a memorandum entitled, "Credit Policy issues at Moody's suggested by the subprime/liquidity crisis," the author set out to answer the question, "how do rating agencies compete?" [1073] The candid reflection noted that in an ideal situation "ratings quality" would be paramount, but the need to maintain, and even increase, market share, coupled with pressures exerted by the companies seeking credit ratings, were also affecting the quality of its ratings. Moody's Chief Credit Officer wrote the following lament:

[1068] 3/23/2005 email from Frank Parisi to Thomas Warrack, and others, Hearing Exhibit 4/23-5.
[1069] 6/14/2005 email from Frank Parisi to Frank Bruzese, and others, Hearing Exhibit 4/23-6.
[1070] 11/9/2004 email from Gale Scott to Perry Inglis, Hearing Exhibit 4/23-4.
[1071] 8/8/2006 email from Michael Gutierrez to Richard Koch, "RE: Loss Severity vs gross/net proceeds," Hearing Exhibit 4/23-14.
[1072] 10/21/2007 Moody's internal email, Hearing Exhibit 4/23-24b. Although this email is addressed to and from the CEO, the Chief Credit Officer told the Subcommittee that he wrote the memorandum attached to the email. Subcommittee interview of Andy Kimball (4/15/2010).
[1073] Id.

> "Analysts and MDs [Managing Directors] are continually 'pitched' by bankers, issuers, investors – all with reasonable arguments – whose views can color credit judgment, sometimes improving it, other times degrading it (we 'drink the kool-aid'). Coupled with strong internal emphasis on market share & margin focus, this does constitute a 'risk' to ratings quality."[1074]

By the time his memorandum was written, both Moody's and S&P were already issuing thousands of RMBS and CDO rating downgrades, admitting that their prior investment grade ratings had not accurately reflected the risk that these investments would fail.

(b) Investment Bank Pressure

At the same time Moody's and S&P were pressuring their RMBS and CDO analysts to increase market share and revenues, the investment banks responsible for bringing RMBS and CDO business to the firms were pressuring those same analysts to ease rating standards. Former Moody's and S&P analysts and managers interviewed by the Subcommittee described, for example, how investment bankers pressured them to get their deals done quickly, increase the size of the tranches that received AAA ratings, and reduce the credit enhancements protecting the AAA tranches from loss. They also pressed the CRA analysts and managers to ignore a host of factors that could be seen as increasing credit risk. Sometimes described as "ratings shopping," the analysts described how some investment bankers threatened to take their business to another credit rating agency if they did not get the favorable treatment they wanted. The evidence collected by the Subcommittee indicates that the pressure exerted by investment banks frequently impacted the ratings process, enabling the banks to obtain more favorable treatment than they otherwise would have received.

The type of blatant pressure exerted by some investment bankers is captured in a 2006 email in which a UBS banker warned an S&P senior manager not to use a new, more conservative rating model for CDOs. He wrote:

> "[H]eard you guys are revising your residential mbs [mortgage backed security] rating methodology - getting very punitive on silent seconds. [H]eard your ratings could be 5 notches back of [Moody's] equivalent. [G]onna kill your resi[dential] biz. [M]ay force us to do moodyfitch only cdos!"[1075]

When asked by his colleague about the change in the model, an S&P senior manager, Thomas Warrack, noted that the new model "took a more conservative approach" that would result in "raising our credit support requirements going forward," but Mr. Warrack was also quick to add: "We certainly did [not] intend to do anything to bump us off a significant amount of deals."[1076]

[1074] Id.
[1075] 5/3/2006 email from Robert Morelli (UBS) to Peter Kambeseles (S&P), Hearing Exhibit 4/23-11.
[1076] Id.

In another instance in May 2007, an S&P analyst reported to her colleagues about attempting to apply a default stress test to a CDO transaction proposed by Lehman Brothers. She wrote:

> "[T]hey claim that their competitor investment banks are currently doing loads of deals that are static in the US and where no such stress is applied. … [W]e'd initially calculated some way of coming up with the stresses, by assuming the lowest rated assets default first …. [T]hey claim that once they have priced the whole thing, it is possible that the spreads would change …. We suggested that it was up to them to build up some cushion at the time they price, but they say this will always make their structures uneconomic and is basically unmanageable => I understand that to mean they would not take us on their deals."[1077]

Her supervisor responded in part: "I would recommend we do something. Unless we have too many deals in US where this could hurt."

On still another occasion in 2004, several S&P employees discussed the pressure to make their ratings profitable rather than just accurate, especially when their competitor employed lower rating standards:

> "We just lost a huge Mizuho RMBS deal to Moody's due to a huge difference in the required credit support level. It's a deal that six analysts worked through Golden Week so it especially hurts. What we found from the arranger was that our support level was at least 10% higher than Moody's. … Losing one or even several deals due to criteria issues, but this is so significant that it could have an impact in the future deals. There's no way we can get back on this one but we need to address this now in preparation for the future deals."[1078]

Other emails illustrate the difficulty of upgrading the ratings models, because of the potential disruption to securitizations in the process of being rated. Some investment banks applied various types of pressure to maintain the status quo, despite the fact that the newer models were considered more accurate. In a February 2006 email to an S&P analyst, for example, an investment banker from Citigroup wrote:

> "I am VERY concerned about this E3 [new CDO rating model]. If our current struc[ture], which we have been marketing to investors … doesn't work under the new assumptions, this will not be good. Happy to comply, if we pass, but will ask for an exception if we fail."[1079]

[1077] 5/23/2007 email from Claire Robert to Lapo Guadagnuolo, and others, Hearing Exhibit 4/23-31.
[1078] 5/25/2004 email from Yu-Tsung Chang to Joanne Rose and Pat Jordan, "Competition with Moody's," Hearing Exhibit 4/23-2.
[1079] 2/16/2006 email from Edward Tang (Citigroup) to Lina Kharnak (S&P), Hearing Exhibit 4/23-8.

In another instance from May 2005, an investment banker from Nomura in the middle of finalizing a securitization raised concerns that S&P was not only failing to provide the desired rating, but that a new model could make the situation worse. He wrote:

> "My desire is to keep S&P on all of my deals. I would rather not drop S&P from the upcoming deal, particularly if it ends up being for only a single deal until the new model is in place. Can you please review the approval process on this deal?"[1080]

Initially hesitant, S&P analysts ultimately decided to recommend approval of the deal in line with the banker's proposal.

The same pressure was applied to Moody's analysts. In an April 2007 email, for example, a SunTrust Bank employee told Moody's:

> "SunTrust is disconcerted by the dramatic increase in Moody's loss coverage levels given initial indications. … Our entire team is extremely concerned. ... Each of the other agencies reduced their initial levels, and the material divergence between Moody's levels and the other agencies seems unreasonable and unwarranted given our superior collateral and minimal tail risk."[1081]

On another occasion in March 2007, a Moody's analyst emailed a colleague about problems she was having with someone at Deutsche Bank after Moody's suggested adjustments to the deal: "[The Deutsche Bank investment banker] is pushing back dearly saying that the deal has been marketed already and that we came back 'too late' with this discovery …. She claims it's hard for them to change the structure at this point."[1082]

Special Treatment. Documents obtained by the Subcommittee indicate that investment bankers who complained about rating methodologies, criteria, or decisions were often able to obtain exceptions or other favorable treatment. In many instances, the decisions made by the credit rating agencies appeared to cross over from the healthy give and take involved in complex analysis to concessions made to prevent the loss of business. While the former facilitates efficient transactions, the second distorts the market and hurts investors.

In a February 2007 email directed to Moody's, for example, a Chase investment banker complained that a transaction would receive a significantly lower rating than the same product was slated to receive from another rating agency: "There's going to be a three notch difference when we print the deal if it goes out as is. I'm already having agita about the investor calls I'm going to get." Upon conferring with a colleague, the Moody's manager informed the banker that Moody's was able to make some changes after all: "I spoke to Osmin earlier and confirmed that

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[1080] 5/6/2005 email from Robert Gartner (Nomura) to Thomas Warrack (S&P), PSI-S&P-RFN-000024-28, at 28.
[1081] 4/12/2007 email from Patrick DellaValle (SunTrust) to David Teicher (Moody's), and others, PSI-MOODYS-RFN-000032.
[1082] 3/8/2007 email from Karen Ramallo to Yakov Krayn, Hearing Exhibit 4/23-22.

Jason is looking into some adjustments to his [Moody's] methodology that should be a benefit to you folks."[1083]

In another instance, a difference of opinion arose between Moody's and UBS over how to rate a UBS transaction known as Lancer II. One senior Moody's analyst wrote to her colleagues that, given the "time line for closing" the deal, they should side with the investment bank: "I agree that what the [Moody's rating] committee was asking is reasonable, but given the other modeling related issues and the time line for closing, I propose we let them go with the CDS Cp criteria for this deal."[1084]

S&P made similar concessions while rating three deals for Bear Stearns in 2006. An analyst wrote:

> "Bear Stearns is currently closing three deals this month which ha[ve] 40 year mortgages (negam) …. There was some discrepancy in that they were giving some more credit to recoveries than we would like to see. … [I]t was agreed that for the deals this month we were OK and they would address this issue for deals going forward."[1085]

While the rating process involved some level of subjective discretion, these electronic communications make it clear that in many cases, close calls were made in favor of the customer.

An exception made one time often turned into further exceptions down the road. In August 2006, for example, an investment banker from Morgan Stanley tried to leverage past exceptions into a new one, couching his request in the context of prior deals:

> "When you went from [model] 2.4 to 3.0, there was a period of time where you would rate on either model. I am asking for a similar 'dual option' window for a short period. I do not think this is unreasonable."

A frustrated S&P manager resisted, saying: "You want this to be a commodity relationship and this is EXACTLY what you get." But even in the midst of his defense, the same S&P manager reminded the banker how often he had granted exceptions in other transactions: "How many times have I accommodated you on tight deals? Neer, Hill, Yoo, Garzia, Nager, May, Miteva, Benson, Erdman all think I am helpful, no?"[1086]

[1083] 2/20/2007 email from Mark DiRienz (Moody's) to Robert Miller (Chase), PSI-MOODYS-RFN-000031. See also 4/27/2006 email from Karen Ramallo to Wioletta Frankowicz and others, Hearing Exhibit 4/23-18 ("For previous synthetic deals this wasn't as much of an issue since the ARM % wasn't as high, and … at this point, I would feel comfortable keeping the previously committed levels since such a large adjustment would be hard to explain to Bear …. So unless anybody objects, Joe and I will tell Bear that the levels stand where they were previously.").

[1084] 5/23/2007 email from Yvonne Fu to Arnaud Lasseron, PSI-MOODYS-RFN-000013.

[1085] 2/23/2006 email from Errol Arne to Martin Kennedy, and others, "Request for prioritization," PSI-S&P-RFN-000032.

[1086] 8/1/2006 email from Elwyn Wong (S&P) to Shawn Stoval (Morgan Stanley) and Belinda Ghetti (S&P), Hearing Exhibit 4/23-13.

Some rating analysts who granted exceptions to firm policies, and then tried to limit those exceptions in future deals, found it difficult to do. In June 2007, for example, a Moody's analyst agreed to an exception, while warning that no exceptions would be made in future transactions:

> "This is an issue we feel strongly about and it is a published Moody's criteria. We are making an exception for this deal only. … Going forward this has to be effective date level. I would urge you to let your colleagues know as well since we will not be in a position to give in on this issue in future deals."[1087]

A similar scenario played out at S&P. A Goldman Sachs banker strongly objected to a rating decision on a CDO called Abacus 2006-12:

> "I would add that this scenario is very different from an optional redemption as you point out below since the optional redemption is at Goldman's option and a stated maturity is not. We therefore cannot settle for the most conservative alternative as I believe you are suggesting."

The S&P director pushed back, saying that what Goldman wanted was "a significant departure from our current criteria," but then suggested an exception could be made if it were limited to the CDO at hand and did not apply to future transactions:

> "As you point out, it is a conservative position for S&P to take, but it is one we've taken with all Dealers. Since time is of the essence, this may be another issue that we table for 2006-12 [the CDO under consideration], but would have to be addressed in future trades."[1088]

But a Moody's analyst showed how difficult it was to allow an exception once and demand different conduct in the future:

> "I am worried that we are not able to give these complicated deals the attention they really deserve, and that they [Credit Suisse] are taking advantage of the 'light' review and the growing sense of 'precedent'.
>
> As for the precedential effects, we had indicated that some of the 'fixes' we agreed to in Qian's deal were 'for this deal only' … When I asked Roland if they had given further thought to a more robust approach, he said (unsurprisingly) that they had no success and could we please accept the same [stopgap] measure for this deal."[1089]

[1087] 6/28/2007 email from Pooja Bharwani (Moody's) to Frank Li (Citigroup), and others, PSI-MOODYS-RFN-000019.

[1088] 4/23/2006 email from Chris Meyer (S&P) to Geoffrey Williams and David Gerst (Goldman Sachs), and others, PSI-S&P-RFN-000002. See also 5/1/2006 email from Matthew Bieber (Goldman Sachs) to Malik Rashid (S&P), and others, PSI-S&P-RFN-000008-11, at 9 ("GS has not agreed to this hold back provision in any of our previous transactions (including the ABACUS deal that just closed last week) - and we cannot agree to it in this deal.").

[1089] 5/1/2006 email from Richard Michalek to Yuri Yoshizawa, Hearing Exhibit 4/23-19; see also 5/23/2007 email from Eric Kolchinsky to Yuri Yoshizawa and Yvonne Fu, PSI-MOODYS-RFN-000011 ("In that case, should we

Linking a Rating to a Fee. On at least one occasion, an investment bank seeking a credit rating attempted to link the ratings it would receive with the amount of fees it would pay. In June 2007, Merrill Lynch was seeking a rating from Moody's for a CDO known as Belden Point.[1090] Moody's agreed to rate the CDO, but only for a higher than usual fee using a "complex CDO fee schedule."[1091] Merrill Lynch responded: "[N]o one here has ever heard or seen this fee structure applied for any deal in the past. Could you point us to a precedent deal where we have approved this?"[1092] Moody's replied:

> "[W]e do not view this transaction as a standard CDO transaction and the rating process so far has already shown that the analysis for this deal is far more involved and will continue to be so. We have spent significant amount of resource[s] on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue."[1093]

The next day, Merrill Lynch wrote:

> "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try and get to some middle ground with respect to the ratings."[1094]

Moody's responded:

> "We agree that this will not be a precedent for future deals by default and we will discuss with you on a case by case basis if [the] Complex CDO rating application should be applied to future deals. We will certainly continue working with you on this transaction, but analytical discussions/outcomes should be independent of any fee discussions."[1095]

Vertical CDO. A transaction known as Vertical ABS CDO 2007-1 helps illustrate how imbalanced the relationship between investment bankers and rating analysts became. In connection with that CDO, an investment banker from UBS failed to cooperate with S&P rating analysts requesting information to analyze the transaction.

On March 30, 2007, an S&P analyst wrote that UBS wanted to close the deal in ten days, but was not providing the information S&P needed:

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exclude any mention of the one notch rule from the general communication? Instead, we should give comm[ittee] chairs the discretion to apply the rule as they see fit. In this way, there is less of a chance of it getting back to the bankers as a 'general rule'. They are more likely to know it as something that only applies, as a concession, on the deal that they are working on.").

[1090] See 6/11/2007 email exchange between Merrill Lynch and Moody's, Hearing Exhibit 4/23-23.

[1091] Id.

[1092] Id.

[1093] Id.

[1094] Id.

[1095] 6/12/2007 email from Moody's to Merrill Lynch, Hearing Exhibit 4/23-23 Addendum.

> "Sarah and I have been working with James Yao from UBS but we have not been getting cooperation from him. He has told me that I am jeopardizing the deal. … This is the third time that he refuses to model the cashflow according to the Indenture and Criteria."[1096]

A few days later, in an April 5, 2007 instant message, one S&P analyst wrote: "[W]hat happened? … [I] heard some fury." His colleague responded that it was Mr. Yao, the UBS banker.[1097] Later the same day, an S&P manager wrote that the three analysts:

> "[W]ould like to give us a heads-up with respect to the lack of responsiveness/cooperation from UBS … on Vertical 2007-1. There seems to be a general lack of interest to work WITH us, incorporate our comments, or modeling to our criteria. Based on their collective difficult experience so far, our analysts estimate a smooth closing is unlikely. (The behavior is not limited to this deal either.)" [1098]

An S&P senior director responded:

> "Vertical is politically closely tied to B of A – and is mostly a marketing shop – helping to take risk off books of B o A. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform."[1099]

Despite the uncooperative investment banker and prediction that the CDO was unlikely to perform, S&P analysts continued to work hard on the rating. One of the analysts sent an email to her colleagues describing their efforts to get the CDO to pass tests for issuing investment grade ratings:

> "Just wanted to let you know that this deal is closing and going Effective next Tuesday, but our rated Equity tranche (BBB) is failing in our cashflow modeling.
>
> "Sarah tried a lot of ways to have the model passed. Unfortunately we are still failing by 1bp [basis point], without any stress runs and without modeling certain fees (anticipated to be minimal).
>
> "In addition, we already incorporated the actual ramped up portfolio, and not a hypothetical one, for this exercise."[1100]

After another day of work, the analyst reported she had found a "mistake" that, when corrected, would allow Vertical to get the desired investment grade credit ratings:

[1096] 3/30/2007 email from Lois Cheng, "Vertical ABS CDO 2007-1, Ltd. UBS," Hearing Exhibit 4/23-94c.
[1097] 4/5/2007 instant message exchange between Brian Trant and Shannon Mooney, Hearing Exhibit 4/23-94a.
[1098] 4/5/2007 email from Bujiang Hu to Peter Kambeseles, and others, Hearing Exhibit 4/23-94b [emphasis in the original].
[1099] 4/5/2007 email from James Halprin to Bujiang Hu and others, Hearing Exhibit 4/23-94b.
[1100] 4/5/2007 email from Lois Cheng to Brian O'Keefe and Peter Kambeseles, and others, Hearing Exhibit 4/23-94c.

> "Just wanted to update you guys on Vertical. The model is passing now. We found a mistake in the waterfall modeling that was more punitive than necessary. James Yao [the UBS investment banker] has been notified and is probably having a chuckle at our expense. I still feel that his attitude toward our rating process and our team still needs to be addressed in some way."[1101]

These emails show S&P analysts expending great effort to provide favorable ratings to the UBS CDO, despite concerns about its creditworthiness.[1102]

On April 10, 2007, just three months before the July 2007 mass downgrades of subprime RMBS, S&P issued ratings for the Vertical securitization. All but one of the nine tranches were given investment grade ratings, with the top three receiving AAA. Moody's issued similar ratings.[1103]

Four months later in August 2007, all but the top three tranches were put on credit watch.[1104] Two months after that, in October, Moody's downgraded all but one of the Vertical securities to junk status.[1105] In 2008, the CDO was liquidated.[1106] The chart below shows how the various tranches were originally rated by S&P, only to be downgraded to a D—the rating given to securities in default.

ISSUE ID	ISSUER NAME	SERIES	COLLATERAL TYPE	SALE DATE	RATING		
					ORIGINAL	11/1/2007	1/31/2010
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	AAA	AAA	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	AAA	AAA	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	AAA	AAA	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	AA	AA	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	A	A	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	BBB	BBB	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	BBB-	BBB-	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	BB	BB	D
829994	Vertical ABS CDO 2007-1, Ltd		CDO.HYB.MZ.CDO.OF.ABS	4/10/2007	BBB-	BBB-	D

[1101] 4/6/2007 email from Lois Cheng to Brian O'Keefe and Peter Kambeseles, and others, Hearing Exhibit 4/23-94c.
[1102] For a similar situation involving an RMBS, see 2/8/2006 email exchange among S&P analysts, "EMC Compares," PSI-SP-000362, Hearing Exhibit 4/23-7 (describing how an analyst worked to find a way to reduce the size of the cushion that an RMBS had to set aside to protect its investment grade tranches from loss, and found that changing the way first loan payment dates were reported in LEVELS would produce a slight reduction; a colleague responded: "I don't think this is enough to satisfy them. What's the next step?").
[1103] 4/2007 Moody's internal memorandum from Saiyid Islam and Peter Hallenbeck to the Derivatives Rating Committee, Hearing Exhibit 4/23-94d. Moody's gave investment grade ratings to seven of the eight tranches it rated, including AAA ratings to the top three tranches.
[1104] Moody's downgrade of Vertical ABS CDO 2007-1, Hearing Exhibit 4/23-94k.
[1105] Id.; 10/25/2007 "Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downgrades Possible," Moody's; 1/14/2008 and 6/23/2008 "Moody's downgrades ratings of Notes issued by Vertical ABS CDO 2007-1, Ltd.," Moody's; 9/11/2008 "Moody's withdraws ratings of Notes issued by 34 ABS CDOs," Moody's. Moody's downgraded all but the super senior Vertical tranche to junk status in October 2007, just six months after giving investment grade ratings to seven of the eight tranches it rated. See 10/24/2007 email from Jonathan Polansky to Moody's colleagues, Hearing Exhibit 4/23-94f. S&P followed suit on November 14, 2007, downgrading all but two of Vertical's tranches, with five falling to junk status. 11/14/2007 "112 Ratings Lowered on 21 U.S. Cash Flow, Hybrid CDOs of ABS; $4.689B In Securities Affected," S&P.
[1106] 9/11/2008 "Moody's Withdraws Ratings of Notes Issued by 34 ABS CDOs," Moody's.

One of the purchasers of Vertical securities, a hedge fund called Pursuit Partners, sued UBS, S&P, and Moody's over the quick default. Both credit rating agencies filed successful motions to be dismissed from the lawsuit, but the court ordered UBS to set aside $35 million for a possible award to the investor. The investor had found internal UBS emails calling the investment grade Vertical securities "crap."[1107]

Barring Analysts. Rating analysts who insisted on obtaining detailed information about transactions sometimes became unpopular with investment bankers who pressured the analysts' directors to have them barred from rating their deals. One Moody's analyst, Richard Michalek, testified before the Subcommittee that he was prohibited from working on RMBS transactions for several banks because he scrutinized deals too closely. He stated:

> "During my tenure at Moody's, I was explicitly told that I was 'not welcome' on deals structured by certain banks. ... I was told by my then-current managing director in 2001 that I was 'asked to be replaced' on future deals by … CSFB [Credit Suisse First Boston], and then at Merrill Lynch. Years later, I was told by a different managing director that a CDO team leader at Goldman Sachs also asked, while praising the thoroughness of my work, that after four transactions he would prefer another lawyer be given an opportunity to work on his deals."[1108]

This analyst's claim was corroborated by the Moody's Managing Director who was his superior at the time.[1109]

At the Subcommittee's April 23 hearing, Yuri Yoshizawa, the Senior Managing Director of Moody's Derivatives Group testified that the relationship between CDO analysts and investment banks "could get very contentious and very abusive."[1110] She testified that she did get complaints from investment banks who wanted analysts removed from conducting their ratings, because they were unhappy with those analysts. She testified that "[t]here was always pressure from banks, including [removing analysts from transactions]."[1111] She stated that she did, in fact, remove analysts from rating certain banks' transactions, but claimed she did so to protect the analysts from abuse rather than to appease the complaining bank.[1112] When asked whether she ever protected her analysts by instead banning the abusive bank employee from Moody's interactions, she could not recall taking that action.

[1107] 8/28/2007 email from Evan Malik (UBS) to Hugh Corcoran (UBS) regarding Pursuit Partners' purchase of Vertical securities, Hearing Exhibit 4/23-94n.
[1108] Michalek prepared statement at 16.
[1109] Prepared statement of Gary Witt, Former Managing Director, Moody's Investors Service, submitted by request to the Financial Crisis Inquiry Commission (6/2/2010) at 6-7.
[1110] April 23, 2010 Subcommittee Hearing at 64. Employees from both Moody's and S&P confirmed this abusive conduct in interviews with the Subcommittee, which was also corroborated in emails. Subcommittee interviews of Richard Michalek (1/18/2010) and Eric Kolchinsky (10/7/2009). See also, e.g., 4/6/2007 email from Lois Cheng to Brian O'Keefe and Peter Kambeseles, and others, Hearing Exhibit 4/23-94c.
[1111] April 23, 2010 Subcommittee Hearing at 65.
[1112] Id. at 64, 66.

Ratings Shopping. It is not surprising that credit rating agencies at times gave into pressure from the investment banks and accorded them undue influence in the ratings process. The rating companies were directly dependent upon investment bankers to bring them business and were vulnerable to threats that the investment bankers would take their business elsewhere if they did not get the ratings they wanted. Moody's Chief Credit Officer told the Subcommittee staff that ratings shopping, the practice in which investment banks chose the credit rating agency offering the highest rating for a proposed transaction, was commonplace prior to 2008.[1113]

Ratings shopping inevitably weakens standards as each credit rating agency seeks to provide the most favorable rating to win business. It is a conflict of interest problem that results in a race to the bottom – with every credit rating agency competing to produce credit ratings to please its paying clients. Moody's CEO described the problem this way: "What happened in '04 and '05 with respect to subordinated tranches is that our competition, Fitch and S&P, went nuts. Everything was investment grade. It didn't really matter."[1114]

All of the witnesses who were questioned about ratings shopping during the Subcommittee's hearing confirmed its existence:

> Senator Levin: Ms. Yoshizawa [Senior Managing Director, Moody's Derivatives Group], we were advised by Moody's Chief Credit Officer that it was common knowledge that ratings shopping occurred in structured finance. In other words, investment bankers sought ratings from credit rating agencies who would give them their highest ratings. Would you agree with that?
>
> Ms. Yoshizawa: I agree that credit shopping does exist, yes.
>
> Senator Levin: Ms. Barnes [Managing Director, S&P RMBS Group], would you agree that the same thing existed in your area?
>
> Ms. Barnes: Yes, Mr. Chairman.[1115]

Moody's CEO, Ray McDaniel echoed this concern during the hearing:

> Senator Levin: There are a lot of interesting things there that your Chief Credit Officer, Mr. Kimball, wrote in October of 2007 …. One of the things he wrote, and this is under market share, he says in paragraph five, 'Ideally, competition would be primarily on the basis of ratings quality' – that is ideally – 'with a second component of price and a third

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[1113] Subcommittee interview of Andy Kimball (4/15/2010). See also 2007 Moody's draft "2007 Operating Plan: Public Finance, Global Structured Finance and Investor Services," prepared by Brian Clarkson, MIS-OCIE-RMBS-0419014-53, at 25. In a draft presentation Clarkson wrote: "Challenges for 2007 … Competitive issues (ex. Rating inflation, successful rating shopping ....)." He also noted in the presentation "increased 'rating shopping' by market participants."

[1114] 9/10/2007 Transcript of Raymond McDaniel at Moody's MD Town Hall Meeting, at 63, Hearing Exhibit 4/23-98.

[1115] April 23, 2010 Subcommittee Hearing at 66-67.

component of service. Unfortunately, of the three competitive factors, rating quality is proving the least powerful.' … 'It turns out that ratings quality has surprisingly few friends; issuers want high ratings; investors don't want rating downgrades; short-sighted bankers labor short-sightedly to game the rating agencies for a few extra basis points on execution.' Would you agree with that?

Mr. McDaniel: In this section, he is talking about the issue of rating shopping, and I agree that that existed then and exists now.[1116]

(3) Inaccurate Models

The conflict of interest problem was not the only reason that Moody's and S&P issued inaccurate RMBS and CDO credit ratings. Another problem was that the credit rating models they used were flawed. Over time, from 2004 to 2006, S&P and Moody's revised their rating models, but never enough to produce accurate forecasts of the coming wave of mortgage delinquencies and defaults. Key problems included inadequate performance data for the higher risk mortgages flooding the mortgage markets and inadequate correlation factors.

In addition, the companies failed to provide their ratings personnel with clear, consistent, and comprehensive criteria to evaluate complex structured finance deals. The absence of effective criteria was particularly problematic, because the ratings models did not conclusively determine the ratings for particular transactions. Instead, modeling results could be altered by the subjective judgment of analysts and their supervisors. This subjective factor, while unavoidable due to the complexity and novelty of the transactions being rated, rendered the process vulnerable to improper influence and inflated ratings.

(a) Inadequate Data

CRA analysts relied on their firm's quantitative rating models to calculate the probable default and loss rates for particular pools of assets. These models were handicapped, however, by a lack of relevant performance data for the high risk residential mortgages supporting most RMBS and CDO securities, by a lack of mortgage performance data in an era of stagnating or declining housing prices, by the credit rating agencies' unwillingness to devote sufficient resources to update their models, and by the failure of the models to incorporate accurate correlation assumptions predicting how defaulting mortgages might affect other mortgages.

Lack of High Risk Mortgage Performance Data. The CRA models failed, in part, because they relied on historical data to predict how RMBS securities would behave, and the models did not use adequate performance data in the development of criteria to rate subprime and other high risk mortgages that proliferated in the housing market in the years leading up to the financial crisis. From 2004 through 2007, many RMBS and CDO securities were comprised of residential mortgages that were not like those that had been modeled in the past. As one S&P email observed:

[1116] April 23, 2010 Subcommittee Hearing at 100-101.

> "[T]he assumptions and the historical data used [in the models] … never included the performance of these types of residential mortgage loans …. The data was gathered and computed during a time when loans with over 100% LTV or no stated income were rare."[1117]

In contrast to decades of actual performance data for 30-year mortgages with fixed interest rates, the new subprime, high risk products had little to no track record to predict their rates of default. In fact, Moody's RMBS rating model was not even used to rate subprime mortgages until December 2006; prior to that time, Moody's used a system of "benchmarking" in which it rated a subprime mortgage pool by comparing it to other subprime pools Moody's had already rated.[1118]

Lack of Data During Era of Stagnant or Falling Home Prices. In addition, the models operated with subprime data for mortgages that had not been exposed to stagnant or falling housing prices. As one February 2007 presentation from a Deutsche Bank investment banker explained, the models used to calculate "subprime mortgage lending criteria and bond subordination levels are based largely on performance experience that was mostly accumulated since the mid-1990s, when the nation's housing market has been booming."[1119] A former managing director in Moody's Structured Finance Group put it this way: "[I]t was 'like observing 100 years of weather in Antarctica to forecast the weather in Hawaii."[1120] In September 2007, after the crisis had begun, an S&P executive testified before Congress that:

> "[W]e are fully aware that, for all our reliance on our analysis of historically rooted data that sometimes went as far back as the Great Depression, some of that data has proved no longer to be as useful or reliable as it has historically been."[1121]

The absence of relevant data for use in RMBS modeling left the credit rating agencies unable to accurately predict mortgage default and loss rates when housing prices stopped climbing. The absence of relevant performance data for high risk mortgage products in an era of stagnant or declining housing prices impacted the rating of not only RMBS transactions, but also CDOs, which typically included RMBS securities and relied heavily on RMBS credit ratings.

Lack of Investment. One reason that Moody's and S&P lacked relevant loan performance data for their RMBS models was not simply that the data was difficult to obtain, but

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[1117] 9/30/2007 email from Belinda Ghetti to David Tesher, and others, Hearing Exhibit 4/23-33.

[1118] See 2008 SEC Examination Report for Moody's Investor Services Inc., PSI-SEC (Moodys Exam Report)-14-0001-16, at 3.

[1119] 2/2007 "Shorting Home Equity Mezzanine Tranches," Deutsche Bank Securities Inc., DBSI_PSI_EMAIL01988773-845, at 776. See also 6/4/2007 FDIC memorandum from Daniel Nuxoll to Stephen Funaro, "ALLL Modeling at Washington Mutual," FDIC_WAMU_000003743-52, at 47 ("Virtually none of the data is drawn from an episode of severe house price depreciation. Even introductory statistics textbooks caution against drawing conclusions about possibilities that are outside the data. A model based on data from a relatively benign period in the housing market cannot produce reliable inferences about the effects of a housing price collapse.").

[1120] "Triple-A Failure," New York Times (4/27/2008).

[1121] Prepared statement of Vickie Tillman, S&P Executive Vice President, "The Role of Credit Rating Agencies in the Structured Finance Market," before U.S. House of Representatives Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Cong.Hrg. 110-62 (9/27/2007), S&P SEN-PSI 0001945-71, at 46-47.

that both companies were reluctant to devote the resources needed to improve their modeling, despite soaring revenues.

Moody's senior managers even expressed skepticism about whether new loan data was needed and, in fact, generally did not purchase new loan data for a four-year period, from 2002 to 2006.[1122] In a 2000 internal email exchange, the head of Moody's Structured Finance Group at the time, Brian Clarkson, wrote the following regarding the purchasing of data for Moody's RMBS model:

> "I have a wild thought also – let[']s not even consider BUYING anymore data, programs, software or companies until we figure out what we have and what we intend to do with what we have. From what I have heard and read so far we have approaches (MBS, Tranching and Spread) few use or understand (let alone being able to explain it to the outside) and new data that we are unable to use. We want more data when most of the time we rate MBS deals using arbitrary rule of thumb?!! …
>
> "I suggest we spend less time asking for more data and software (I have not seen anything that sets forth the gains in revenue from such spending -- it is easy to ask for $$ -- much harder to justify it against competing projects) and more time figuring out how to utilize what we have by way of good analysis, a solid approach to this market a proper staffing model."[1123]

In response to Brian Clarkson's email, a managing director wrote:

> "As you know, I don't think we need to spend a lot of $ or resources to improve the model from an analytic perspective; but I'd need to defer to people more in the loop (looks like you're that person) on whether the marketing component mandates some announcement of model and data improvement. …
>
> Make sure you talk to Noel and maybe Fons about the decision to buy the data; I was invited to the original meeting so that the powers that be (at the time) could understand the data originally used. I felt that the arguments for buying the data and re-inventing the model were not persuasive …. The most convincing argument for buying the data was that it would be a cornerstone for marketing, that S&P touted the size of their database as a competitive advantage and that this was why they had the market share advantage."[1124]

Moody's advised the Subcommittee that, in fact, it generally did not obtain any new loan data for its RMBS model development for four years, from 2002 until 2006, although it continued to improve its RMBS model in other ways.[1125] In 2005, a Moody's employee survey

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[1122] 2/24/2011 Response from Moody's to Subcommittee questions. The Subcommittee asked Moody's to provide information on any new data it had received or purchased for its models from 2002 to 2007.
[1123] 11/3/2000 email from Brian Clarkson to David Zhai and others, PSI-MOODYS-RFN-000007.
[1124] 11/13/2000 email from Jay Siegel to Brian Clarkson, PSI-MOODYS-RFN-000007.
[1125] 2/17/2011 and 2/24/2011 Responses from Moody's to Subcommittee questions.

found that the company's employees felt that Moody's should have been spending more resources on improving its models.[1126] In 2006, Moody's obtained new loan level data for use in its new subprime model, M3 Subprime.[1127]

In contrast to Moody's, S&P did purchase new loan data on several occasions from 2002 to 2006, but told the Subcommittee that this data did not provide meaningful results that could be used in its RMBS model prior to 2006.[1128] In 2002, for example, S&P said that it purchased data on approximately 640,000 loans, including ARM and hybrid loans. S&P told the Subcommittee that it developed an equation from that data set which predicted a lower default rate for ARM and hybrid loans than for fixed rate loans. S&P considered this counter-intuitive and chose not to incorporate it into its model.[1129] In 2005, S&P purchased data on another 2.9 million loans that included first and second liens for prime, subprime, Alt A, high LTV, and home equity loans.[1130] S&P claimed that it made "concerted efforts to analyze" this data, "both by employing external consultants and dedicating resources within Standard & Poor's to analyze the data for criteria development."[1131]

Contrary to S&P's claim, the former head of the S&P RMBS Ratings Group, Frank Raiter, who worked at S&P until 2005, told the Subcommittee that management did not provide him with sufficient resources to analyze the data and develop improved criteria for the RMBS model.[1132] Mr. Raiter told the Subcommittee that he personally informed S&P's senior management about the need to update S&P's model with better loan data several years before the crisis.[1133] Mr. Raiter also testified that the "analysts at S&P had developed better methods for determining default which did capture some of the variations among products that were to become evident at the advent of the crisis,"[1134] but those methods were not incorporated into the RMBS model before he left in 2005. Mr. Raiter said that "[i]t is my opinion that had these models been implemented we would have had an earlier warning about the performance of many of the new products that subsequently lead [sic] to such substantial losses."[1135]

[1126] 4/7/2006 "Moody's Investor Service, BES-2005: Presentation to Derivatives Team," Hearing Exhibit 4/23-92b.
[1127] 2/24/2011 Response from Moody's to Subcommittee questions. Moody's also advised the Subcommittee that it "generally receives, as part of the surveillance process, updated loan performance statistics on a monthly basis for the collateral pools of the transactions it has rated." Moody's told the Subcommittee that its surveillance data tracked the deterioration in the RMBS market, and its rating committee members were able to incorporate that information into their rating considerations. 2/17/2011 Response from Moody's to Subcommittee questions.
[1128] 2/10/2011 Response from S&P to Subcommittee questions.
[1129] Id.
[1130] Id.
[1131] Id. S&P also told the Subcommittee that, between 2001 and 2008, it updated its RMBS model multiple times, using other types of data and analytical improvements. 2/2010 Standard & Poor's Presentation on LEVELS, PSI-Standard&Poor's-04-0001–0025, at 6.
[1132] Subcommittee interviews of Frank Raiter (7/15/2009 and 4/8/2010).
[1133] Id. See also prepared statement of Frank Raiter, "Credit Rating Agencies and the Financial Crisis," before the U.S. House of Representatives Committee on Oversight and Government Reform, Cong.Hrg. 110-155 (10/22/2008), at 5.
[1134] Prepared statement of Frank Raiter, "Credit Rating Agencies and the Financial Crisis," before the U.S. House of Representatives Committee on Oversight and Government Reform, Cong.Hrg. 110-155 (10/22/2008), at 5-6.
[1135] Id.

According to Mr. Raiter, even though S&P revenues had increased dramatically and were generated in large part by the RMBS Group, senior management had no interest in committing the resources needed to update the RMBS model with improved criteria from the new loan data. Mr. Raiter said that S&P did not spend sufficient money on better analytics, because S&P already dominated the RMBS ratings market: "[T]he RMBS group enjoyed the largest ratings market share among the three major rating agencies (often 92% or better), and improving the model would not add to S&P's revenues."[1136]

Poor Correlation Risk Assumptions. In addition to using inadequate loan performance data, the S&P and Moody's credit rating models also incorporated inadequate assumptions about the correlative risk of mortgage backed securities. Correlative risk measures the likelihood of multiple negative events happening simultaneously, such as the likelihood of RMBS assets defaulting together. It examines the likelihood, for example, that two houses in the same neighborhood will default together compared to two houses in different states. If the neighborhood houses are more likely to default together, they would have a higher correlation risk than the houses in different states.

The former head of S&P's Global CDO Group, Richard Gugliada, told the Subcommittee that the inaccurate RMBS and CDO ratings issued by his company were due, in part, to wrong assumptions in the S&P models about correlative risk.[1137] Mr. Gugliada explained that, because CDOs held fewer assets than RMBS, statistical analysis was less helpful, and the modeling instead required use of significant performance assumptions, including on correlative risk. He explained that the primary S&P CDO model, the "CDO Evaluator," ran 100,000 simulations to determine how a pool would perform. These simulations ran on a set of assumptions that took the place of historical performance data, according to Mr. Gugliada, and included assumptions on the probability of default and the correlation between assets if one or more assets began to default. He said that S&P believed that RMBS assets were more likely to default together than, for example, corporate bonds held in a CDO. He said that S&P had set the probability of corporate correlated defaults at 30 out of 100, and set the probability of RMBS correlated defaults at 40 out of 100. He said that the financial crisis has now shown that the RMBS correlative assumptions were far too low and should have been set closer to 80 or 90 out of 100.[1138]

On one occasion in 2006, an outside party also highlighted a problem with the S&P model's consideration of correlative risk. On March 20, 2006, a senior managing director at Aladdin Capital Management, LLC sent an email to S&P expressing concern about a later version of its CDO model, Evaluator 3:

> "Thanks for a terrific presentation at the UBS conference. I mentioned to you a possible error in the new Evaluator 3.0 assumptions:

[1136] Id. at 6.
[1137] Subcommittee interview of Richard Gugliada, Former Head of S&P's CDO Ratings Group (10/9/2009).
[1138] Id.

> Two companies in the same Region belonging to two *different* local Sectors are assumed to be correlated (by 5%), while if they belong to the *same* local Sector then they are *un*correlated.
>
> I think you probably didn't mean that."[1139]

Apparently, this problem with the model had already been identified within S&P. Two S&P employees discussed the problem on the same email, with one saying:

> "I have already brought this issue up and it was decided that it would be changed in the future, the next time we update the criteria. … [T]he correlation matrix is inconsistent."

Despite this clear problem resulting in the understatement of correlative risk for assets in the same region, S&P in this instance did not immediately take the steps needed to repair its CDO model.

At Moody's, a former Managing Director of the CDO Group, Gary Witt, observed a different set of correlation problems with Moody's CDO model. Mr. Witt, who was responsible for managing Moody's CDO analysts as well as its CDO modeling, told the Subcommittee that he had become uncomfortable with the lack of correlation built into the company's methodology.[1140] According to Mr. Witt, Moody's model, which then used the "Binomial Expansion Technique (BET)," addressed correlation by having a diversity score at a time when CDOs had diverse assets such as credit cards or aircraft lease revenues, in addition to RMBS securities. By 2004, however, Mr. Witt said that most CDOs contained primarily RMBS assets, lacked diversity, and made little use of the diversity score.

Mr. Witt told the Subcommittee that, from 2004 to 2005, he worked on modifying the BET model to improve its consideration of correlation factors. According to Mr. Witt, modeling changes like the one he worked on had to be done on an employee's own time – late nights and weekends – because there was no time during the work week due to the volume of deals. Indeed, during his eighteen month tenure as a Managing Director in the CDO Group, Mr. Witt "spent a huge amount of time working on methodology because the ABS CDO market especially was in transition from multi-sector to single sector transactions [RMBS]" which he felt necessitated an update of Moody's model.[1141] Mr. Witt indicated that, in June 2005, Moody's CDO model was changed to incorporate part of his suggested improvements, but did not go as far as he had proposed. When asked about this 2005 decision, Mr. Witt indicated that he did not feel that Moody's was getting the ratings wrong for CDOs with RMBS assets, but he did "think that we [Moody's] were not allocating nearly enough resources to get the ratings right."[1142]

[1139] 3/20/2006 email from Isaac Efrat (Aladdin Capital Management LLC) to David Tesher (S&P), Hearing Exhibit 4/23-26 [emphasis in original].
[1140] Subcommittee interview of Gary Witt, Former Managing Director, Moody's Investors Service (10/29/2009).
[1141] 6/2/2010 Statement of Gary Witt, Former Managing Director, Moody's Investors Service, submitted by request to the Financial Crisis Inquiry Commission, at 11.
[1142] Id. at 21.

The lack of performance data for high risk residential mortgage products, the lack of mortgage performance data in an era of stagnating or declining housing prices, the failure to expend resources to improve their model analytics, and incorrect correlation assumptions meant that the RMBS and CDO models used by Moody's and S&P were out of date, technically deficient, and could not provide accurate default and loss predictions to support the credit ratings being issued. Yet Moody's and S&P analysts told the Subcommittee that their analysts relied heavily on their model outputs to project the default and loss rates for RMBS and CDO pools and rate RMBS and CDO securities.

(b) Unclear and Subjective Ratings Process

Obtaining expected default and loss analysis from the Moody's and S&P credit rating models was only one aspect of the work performed by RMBS and CDO analysts. Equally important was their effort to analyze a proposed transaction's legal structure, cash flow, allocation of revenues, the size and nature of its tranches, and its credit enhancements. Analyzing each of these elements involved often complex judgments about how a transaction would work and what impact various factors would have on credit risk. Although both Moody's and S&P published a number of criteria, methodologies, and guidance on how to handle a variety of credit risk factors, the novelty and complexity of the RMBS and CDO transactions, the volume and speed of the ratings process, and inconsistent applications of the various rules, meant that CRA analysts were continuously faced with issues that were difficult to resolve about how to analyze a transaction and apply the company's standards. Evidence obtained by the Subcommittee indicates that, at times, ratings personnel acted with limited guidance, unclear criteria, and a limited understanding of the complex deals they were asked to rate.

Many documents obtained by the Subcommittee disclosed confusion and a high level of frustration from RMBS and CDO analysts about how to handle ratings issues and how the ratings process actually worked. In May 2007, for example, one S&P employee wrote: "[N]o body gives a straight answer about anything around here …. [H]ow about we come out with new [criteria] or a new stress and ac[tu]ally have clear cut parameters on what the hell we are supposed to do."[1143] Two years earlier, in May 2005, an S&P analyst complaining about a rating decision wrote:

> "Chui told me that while the three of us voted 'no', in writing, that there were 4 other 'yes' votes. … [T]his is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no 'logic trail' to refer to is another. ... Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients."[1144]

[1143] 5/8/2007 instant message exchange between Shannon Mooney and Andrew Loken, Hearing Exhibit 4/23-30b.

[1144] 5/12/2005 email from Michael Drexler to Kenneth Cheng and others, Hearing Exhibit 4/23-10c. In a similar email, S&P employees discuss questionable and inconsistent application of criteria. 8/7/2007 email from Andrew Loken to Shannon Mooney, Hearing Exhibit 4/23-96a ("Back in May, the deal had 2 assets default, which caused it to fail. We tried some things, and it never passed anything I ran. Next thing I know, I'm told that because it had

When asked by the SEC to compile a list of its rating criteria in 2007, S&P was unable to identify all of its criteria for making rating decisions. The head of criteria for the structured finance department, for example, who was tasked with gathering information for the SEC, wrote in an email to colleagues:

> "[O]ur published criteria as it currently stands is a bit too unwieldy and all over the map in terms of being current or comprehensive. ... [O]ur SF [Structured Finance] rating approach is inherently flexible and subjective, while much of our written criteria is detailed and prescriptive. Doing a complete inventory of our criteria and documenting all of the areas where it is out of date or inaccurate would appear to be a huge job ...."[1145]

The confused and subjective state of S&P criteria, including when the criteria had to be applied, is also evident in a May 2007 email sent by an S&P senior director to colleagues discussing whether to apply a default stress test to certain CDOs:

> "[T]he cash-flow criteria from 2004 (see below), actually states [using a default stress test when additional concerns about the CDO are raised] ... in the usual vague S&P's way .... Still, consistency is key for me and if we decide we do not need that, fine but I would recommend we do something. Unless we have too many deals in [the] US where this could hurt."[1146]

Moody's ratings criteria were equally subjective, changeable, and inconsistent. In an October 2007 internal email, for example, Moody's Chief Risk Officer wrote:

> "Methodologies & criteria are published and thus put boundaries on rating committee discretion. (However, there is usually plenty of latitude within those boundaries to register market influence.)"[1147]

Another factor was that ratings analysts were also under constant pressure to quickly analyze and rate complex RMBS and CDO transactions. To enable RMBS or CDO transactions to meet projected closing dates, it was not uncommon, as shown above, for CRA analysts to grant exceptions to established methodologies and criteria, put off analysis of complex issues to later transactions, and create precedents that investment banks invoked in subsequent

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gone effective already, it was surveillance's responsibility, and I never heard about it again. Anyway, because of that, I never created a new monitor.").

[1145] 3/14/2007 email from Calvin Wong to Tom Gillis, Hearing Exhibit 4/23-29. See also 2008 SEC Examination Report for Standard and Poor's Ratings Services, Inc., PSI-SEC (S&P Exam Report)-14-0001-24, at 6-7 ("[C]ertain significant aspects of the rating processes and the methodologies used to rate RMBS and CDOs were not always disclosed, or were not fully disclosed …. [S]everal communications by S&P employees to outside parties related to the application of unpublished criteria, such as 'not all our criteria is published. [F]or example, we have no published criteria on hybrid deals, which doesn't mean that we have no criteria,'" citing an 8/2006 email from the S&P Director of the Analytical Pool for the Global CDO Group.).

[1146] 5/24/2007 email from Lapo Guadagnuolo to Belinda Ghetti, and others, Hearing Exhibit 4/23-31.

[1147] 10/21/2007 Moody's internal email, Hearing Exhibit 4/23-24b. Although this email is addressed to and from the CEO, the Chief Credit Officer told the Subcommittee that he wrote the memorandum attached to the email. Subcommittee interview of Andy Kimball (4/15/2010).

securitizations. CRA analysts were then compelled to decide whether to follow an earlier exception, revert to the published methodology and criteria, or devise still another compromise. The result was additional confusion over how to rate complex RMBS and CDO securities.

Publication of the CRAs' ratings methodologies and criteria was also inconsistent. According to an October 2006 email sent by an investment banker at Morgan Stanley to an analyst at Moody's, for example, key methodology changes had not been made public: "Our problem here is that nobody has told us about the changes that we are later expected to adhere to. Since there is no published criteria outlining the change in methodology how are we supposed to find out about it?"[1148] On another occasion, a Moody's analyst sought guidance from senior managers because of the lack of consistency in applying certain criteria. He wrote: "Over time, different chairs have been giving different guidelines at different point[s] of time on how much over-enhancement we need for a bond to be notched up to Aaa."[1149] In a November 2007 email, another senior executive described the criteria problem this way: "It seems, though, that the more of the ad hoc rules we add, the further away from the data and models we move and the closer we move to building models that ape analysts expectations, no?"[1150]

The rating agency models were called by some the "black box," because they were difficult to understand and not always predictable. Issuers and investors alike vented frustrations toward the black box and that they had to base their decisions on a computer program few understood or could replicate. This email from June 20, 2006, recounts the conversation one Moody's employee had with another over frustrations they had heard from an outside issuer.

> "**Managers are tired of large 'grids.'** They would rather prefer a model based test like what S&P and Fitch do. Pascale disagrees with these managers. As a wrapper, she hates that the credit quality of what she wraps is linked to a black box. Also, she hates the fact that the black box can change from time to time.[1151]

A January 2007 email from BlackRock to S&P (and other rating agencies) also complained about the "black box" problem:

> "What steps are you taking to better communicate and comfort investors about your ratings process? In other w[o]rds, how do we break the 'black box' that determines enhancement levels?"[1152]

[1148] 10/19/2006 email from Graham Jones (Morgan Stanley) to Yuri Yoshizawa (Moody's) and others, Hearing Exhibit 4/23-37. See 2008 SEC Examination Report for Moody's Investor Services Inc., PSI-SEC (Moodys Exam Report)-14-0001-16, at 5 ("[C]ertain significant aspects of the rating processes and the methodologies used to rate RMBS and CDOs were not always disclosed, or were not fully disclosed ….").
[1149] 6/28/2007 email from Yi Zhang to Warren Kornfeld and others, Hearing Exhibit 4/23-39.
[1150] 11/28/2007 email from Roger Stein to Andrew Kimball and Michael Kanef, Hearing Exhibit 4/23-44.
[1151] 6/20/2006 email from Paul Mazataud to Noel Kirnon, MIS-OCIE-RMBS-0035460 [emphasis in original].
[1152] 1/16/2007 email from Kishore Yalamanchili (BlackRock) to Scott Mason (S&P), Glenn Costello (Fitch Ratings), and others, PSI-S&P-RFN-000044.

At times, some CRA analysts openly questioned their ability to rate some complex securities. In a December 2006 email chain regarding a synthetic CDO squared, for example, S&P analysts appeared challenged by a modeling problem and questioned their ability to rate the product. One analyst wrote: "Rating agencies continue to create and [sic] even bigger monster -- the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters."[1153] In an email written in a similar vein, an S&P manager preparing for a presentation wrote to her colleagues: "Can anyone give me a crash course on the 'hidden risks in CDO's of RMBS'?"[1154] In an April 2007 instant message, an S&P analyst offered this cynical comment: "[W]e rate every deal[.] [I]t could be structured by cows and we would rate it."[1155]

(4) Failure to Retest After Model Changes

Another key factor that contributed to inaccurate credit ratings was the failure of Moody's and S&P to retest outstanding RMBS and CDO securities after improvements were made to their credit rating models. These model improvements generally did not derive from data on new types of high risk mortgages, but were intended to improve the models' predictive capability,[1156] but even after they were made, CRA analysts failed to utilize them to downgrade artificially high RMBS and CDO credit ratings.

Key model adjustments were made in 2006 to both the RMBS and CDO models to improve their ability to predict expected default and loss rates for higher risk mortgages. Both Moody's and S&P decided to apply the revised models to rate new RMBS and CDO transactions, but not to retest outstanding subprime RMBS and CDO securities, even though many of those securities contained the same types of mortgages and risks that the models were recalibrated to evaluate. Had they retested the existing RMBS and CDO securities and issued appropriate rating downgrades starting in 2006, the CRAs could have signaled investors about the increasing risk in the mortgage market, possibly dampened the rate of securitizations, and possibly reduced the impact of the financial crisis.

Surveillance Obligations. Both Moody's and S&P were obligated by contract to conduct ongoing surveillance of the RMBS and CDO securities they rated to ensure the ratings remained valid over the life of the rated securities. In fact, both companies charged annual surveillance fees to the issuers of the securities to pay for the surveillance costs, and each had established a separate division to carry out surveillance duties. Due to the huge numbers of RMBS and CDO securities issued in the years leading up to the financial crisis, those surveillance divisions were responsible for reviewing tens of thousands of securities. The issue of whether to retest the outstanding securities using the revised credit rating models was, thus, a significant issue affecting numerous securities and substantial company resources.

[1153] 12/15/2006 email from Chris Meyer to Belinda Ghetti and Nicole Billick, Hearing Exhibit 4/23-27.
[1154] 1/17/2007 email from Monica Perelmuter to Kyle Beauchamp, and others, Hearing Exhibit 4/23-28.
[1155] 4/5/2007 instant message exchange between Shannon Mooney and Rahul Dilip Shah, Hearing Exhibit 4/23-30a.
[1156] These model improvements still significantly underestimated subprime risk as is evidenced by the sheer number of downgrades that occurred after the model improvements for securities issued in 2006 and 2007.

Increased Loss Protection. In July 2006, S&P made significant adjustments to its subprime RMBS model. S&P had determined that, to avoid an increasing risk of default, subprime RMBS securities required additional credit enhancements that would provide 40% more protection to keep the investment grade securities from experiencing losses.[1157] Moody's made similar adjustments to its RMBS model around the same time, settling on parameters that required 30% more loss protection. As Moody's explained to the Senate Banking Committee in September 2007:

> "In response to the increase in the riskiness of loans made during the last few years and the changing economic environment, Moody's steadily increased its loss expectations and subsequent levels of credit protection on pools of subprime loans. Our loss expectations and enhancement levels rose by about 30% over the 2003 to 2006 time period, and as a result, bonds issued in 2006 and rated by Moody's had more credit protection than bonds issued in earlier years."[1158]

The determination that RMBS pools required 30-40% more credit enhancements to protect higher rated tranches from loss reflected calculations by the updated CRA models that these asset pools were exposed to significantly more risk of delinquencies and defaults. Requiring increased loss protection meant that Moody's and S&P analysts had to require more revenues to be set aside in each pool to provide AAA ratings greater protection than before the model adjustments. Requiring increased loss protection also meant RMBS pools would have a smaller pool of AAA securities to sell to investors. That meant, in turn, that RMBS pools would produce fewer profits for issuers and arrangers. Requiring increased loss protection had a similar impact on CDOs that included RMBS assets.

Retesting RMBS Securities. Even though S&P and Moody's had independently revised their RMBS models and, by 2006, determined that additional credit enhancements of 30-40% were needed to protect investment grade tranches from loss, in 2006 and the first half of 2007, neither company used its revised models to evaluate existing rated subprime RMBS securities as part of its surveillance efforts.[1159] Instead S&P, for example, sent out a June 2006 email announcing that no retests would be done:

[1157] 3/19/2007 "Structured Finance Ratings - Overview and Impact of the Residential Subprime Market," S&P Monthly Review Meeting, at S&P SEC-PSI 0001473, Hearing Exhibit 4/23-52b.

[1158] Prepared statement of Michael Kanef, Group Managing Director of Moody's Asset Backed Finance Rating Group, "The Role and Impact of Credit Rating Agencies on the Subprime Credit Markets," before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, S.Hrg. 110-931 (9/26/2007), at 17.

[1159] 6/2006 S&P internal email exchange, Hearing Exhibit 4/23-72; and 3/31/2008 Moody's Structured Finance Credit Committee Meeting Notes, Hearing Exhibit 4/23-80. See also 7/16/2007 Moody's email from Joseph Snailer to Qingyu Liu, and others, PSI-MOODYS-RFN-000029 (when an analyst sought guidance on whether to use the new or old methodology for testing unrated tranches of outstanding deals, she was advised: "The ratings you are generating should reflect what we would have rated the deals when they were issued knowing what we knew then and using the methodology in effect then (ie, using the OC model we built then."); 6/1/2007 email from Moody's Senior Director in Structured Finance, "RE: Financial Times inquiry on transparency of assumptions," MIS-OCIE-RMBS-0364942-46, at 43.

> "Simply put – although the RMBS Group does not 'grandfather' existing deals, there is not an absolute and direct link between changes to our new ratings models and subsequent rating actions taken by the RMBS Surveillance Group. As a result, there will not be wholesale rating actions taken in July or shortly thereafter on outstanding RMBS transactions, absent a deterioration in performance and projected credit support on any individual transaction."[1160]

Moody's and S&P each advised the Subcommittee that it had decided not to retest any existing rated RMBS securities, because it felt that actual performance data for the pools in question would provide a better indicator of future defaults and loss than application of its statistical model. But actual loan performance data for the subprime mortgages in the pools – the fact that, for example, timely loan payments had been made in the past on most of those loans – provided an incomplete picture regarding whether those payments would continue to be made after home prices stopped climbing, refinancings became difficult, and higher interest rates took effect in many of the mortgages. By focusing only on actual past performance, the ratings ignored foreseeable problems and gave investors false assurances about the creditworthiness of the RMBS and CDO securities.

Some CRA employees expressed concern about the limitations placed on their ability to alter ratings to reflect expected performance of the rated securities. In a July 2007 email just before the mass ratings downgrades began, for example, an S&P senior executive raised concerns about these to the head of the RMBS Surveillance Group as follows:

> "Overall, our ratings should be based on our *expectations* of performance, not solely the *month to month* performance record, which will only be backward looking. ... Up to this point, Surveillance has been 'limited' in *when* we can downgrade a rating (only *after* it has experienced realized losses), how far we can adjust the rating (no more than 3 notches at a time is preferred), and how high up the capital structure we can go (not downgrading higher rated classes, if they 'pass' our stressed cash flow runs)."[1161]

In addition, many of the RMBS loans were less than a year old, making any performance data less significant and difficult to analyze. In others words, the loans were too unseasoned or new to offer any real predictive performance value.

[1160] 6/23/2006 email from Thomas Warrack to Pat Jordan and Rosario Buendia, Hearing Exhibit 4/23-72 [emphasis in original]. Despite this 2006 email, the former head of S&P's RMBS Group, Frank Raiter, told a House Committee: "At S&P, there was an ongoing, often heated discussion that using the ratings model in surveillance would allow for re-rating every deal monthly and provide significantly improved measures of current and future performance." Prepared statement of Frank L. Raiter, "Credit Rating Agencies and the Financial Crisis," before the U.S. House of Representatives Committee on Oversight and Government Reform, Cong.Hrg. 110-155 (10/22/2008), at 7.

[1161] 7/3/2007 S&P email from Cliff Griep to Ernestine Warner and Stephen Anderberg, Hearing Exhibit 4/23-32 [emphasis in original].

Some internal S&P emails suggest alternative explanations for the decision not to retest. In October 2005, for example, an S&P analytic manager in the Structured Finance Ratings Group sent an email to his colleagues asking: "How do we handle existing deals especially if there are material changes [to a model] that can cause existing ratings to change?" His email then laid out what he believed was S&P's position at that time:

- "I think the history has been to only re-review a deal under new assumptions/criteria when the deal is flagged for some performance reason. I do not know of a situation where there were wholesale changes to existing ratings when the primary group changed assumptions or even instituted new criteria. The two major reasons why we have taken the approach is (i) lack of sufficient personnel resources and (ii) not having the same models/information available for surveillance to relook at an existing deal with the new assumptions (i.e. no cash flow models for a number of assets). The third reason is concerns of how disruptive wholesale rating changes, based on a criteria change, can be to the market.

- CDO is current[ly] debating the issue and appropriate approach as they change the methodology."[1162]

This email suggests the reason retesting did not occur was, not because S&P thought actual performance data would produce more accurate ratings for existing pools, but because S&P did not have the resources to retest, and lower ratings on existing deals might have disrupted the marketplace, upsetting investment banks and investors. Several S&P managers and analysts confirmed in Subcommittee interviews that these were the real reasons for the decision not to retest existing RMBS securities.[1163] Moody's documents also suggest that resource constraints may lay behind its decision not to retest.[1164]

The Subcommittee also found evidence suggesting that investment banks may have rushed to have deals rated before the CRAs implemented more stringent revised models. In an attempt to explain why one RMBS security from the same vintage and originator was pricing better than another, a CDO trader wrote:

> "Only reasons I can think for my guys showing you a tighter level is that we are very short this one and that the June 06 deals have a taint that earlier months don[']t due to the theory that late June deals were crammed with bad stuff in order to beat the S & P [model] revisions.[1165]

[1162] 10/6/2005 email from Roy Chun, Hearing Exhibit 4/23-62.
[1163] Prepared statement of Frank Raiter, Former Managing Director at Standard & Poor's, April 23, 2010 Subcommittee Hearing, at 2; and Subcommittee interviews of S&P confidential sources (2/24/2010) and (4/9/2010).
[1164] See, e.g., 3/31/2008 Moody's Structured Finance Credit Committee Meeting Notes, Hearing Exhibit 4/23-80 ("Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating. Instead, it reviews only those obligations that it considers most prone to multi-notch rating changes, in light of the revised rating approach. This decision to selectively review certain ratings is made due to resource constraints.").
[1165] 10/20/2006 email from Greg Lippmann (Deutsche Bank) to Craig Carlozzi (Mast Capital), DBSI_PSI_EMAIL01774820.

Retesting CDO Securities. The debate over retesting existing CDO securities followed a similar path to the debate over retesting RMBS securities. The CDO Group at S&P first faced the retest question in the summer of 2005, when it made a major change to its CDO model, then Evaluator 3 (E3).[1166] The S&P CDO Group appeared ready to announce and implement the improved model that summer, but then took more than a year to implement it as the group struggled to rationalize why it would not retest existing CDO securities with the improved assumptions.[1167] Internal S&P emails indicate that the primary considerations were, again, resource limitations and possible disruption to the CDO market, rather than concerns over accuracy. For instance, in a June 2005 email sent to an S&P senior executive, the head of the CDO Group wrote:

> "The overarching issue at this point is what to do with currently rated transactions if we do release a new version of Evaluator. Some of [us] believe for both logistical and market reasons that the existing deals should mainly be 'grand fathered'. Others believe that we should run all deals using the new Evaluator. The problem with running all deals using E3 is twofold: we don't have the model or resource capacity to do so, nor do we all believe that even if we did have the capability, it would be the responsible thing to do to the market."[1168]

Several months later the S&P CDO Ratings Group was still deliberating the issue. In November 2005, an investment banker at Morgan Stanley who had concerns about whether E3 would be used to retest existing deals and those in the pipeline expressed frustration at the delay:

> "We are in a bit of a pickle here. My legal staff is not letting me send anything out to any investor on anything with an S&P rating right now. We are waiting for you to tell us … that you approve the disclaimer or are grandfathering [not retesting with E3] our existing and pipeline deals. My business is on 'pause' right now."[1169]

One S&P senior manager, frustrated by an inability to get an answer on the retesting issue, sent an email to a colleague complaining: "Lord help our f**king scam .... this has to be the stupidest place I have worked at."[1170]

[1166] The CDO models were simulation models dependent upon past credit ratings for the assets they included plus various performance and correlation assumptions. See earlier discussion of these models.
[1167] 7/12/2005 S&P internal email, "Delay in Evaluator 3.0 incorporation in EOD/CDOi platform," PSI-S&P-RFN-000017.
[1168] 6/21/2005 email from Pat Jordan to Cliff Griep, "RE: new CDO criteria," Hearing Exhibit 4/23-60. See also 3/21/2006 email from an S&P senior official, Hearing Exhibit 4/23-71. ("FYI. Just sat on a panel with Frderic Drevon, my opposite number at Moody's who fielded a question on what happens to old transactions when there is a change to rating methodologie[s]. The official Moody's line is that there is no 'grandfathering' and that old transactions are reviewed using the new criteria. However, the 'truth is that we do not have the resources to review thousands of transactions, so we focus on those that we feel are more at risk.'").
[1169] 11/23/2005 email from Brian Neer (Morgan Stanley) to Elwyn Wong (S&P), Hearing Exhibit 4/23-64.
[1170] 11/23/2005 email from Elwyn Wong to Andrea Bryan, Hearing Exhibit 4/23-64.

In May 2006, S&P circulated a draft policy setting up what seemed to be an informal screening process "prior to transition date" to see how existing CDOs would be affected by the revised CDO model. The draft offered a convoluted approach in an apparent attempt to avoid retesting all existing CDOs, which included allowing the use of the prior "E2" model and review "by a special E3 committee." The draft policy read in part as follows:

> " *****PRIVILEGED AND CONFIDENTIAL - S&P DISCUSSION PURPOSES ONLY*****
> **Prior to Transition Date (in preparation for final implementation of E3 for cash CDOs)**:
>
> - A large majority of the pre- E3 cash flow CDOs will be run through E3 in batch processes to see how the ratings look within the new model …
> - Ratings falling ***more than*** 3 notches +/- from the current tranche rating in the batch process will be reviewed in detail for any modeling, data, performance or other issues
> - If any transactions are found to be passing/failing E3 by more than 3 notches due to performance reasons they will be handled through the regular surveillance process to see if the ratings are stable under current criteria (i.e., if they pass E2.4.3 using current cash flow assumptions the ratings will remain unchanged)
> - If any transactions are found to be passing/failing E3 by more than 3 notches due to a model gap between E2.4.3 and E3, they will be reviewed by a special E3 committee ...."[1171]

It is unclear whether this screening actually took place.

Questions continued to be raised internally at S&P about the retesting issue. In March 2007, almost a year after the change was made in the CDO model, an S&P senior executive wrote to the Chief Criteria Officer in the structured finance department:

> "Why did the criteria change made in mid 2006 not impact any outstanding transactions at the time we changed it, especially given the magnitude of the change we are highlighting in the article? Should we apply the new criteria now, given what we now know? If we did, what would be the impact?"[1172]

In July 2007, the same senior executive raised the issue again in an email asking the S&P Analytic Policy Board to address the alignment of surveillance methodology and new model changes at a "special meeting."[1173] But by then, residential mortgages were already defaulting in record numbers, and the mass downgrades of RMBS and CDO ratings had begun.

[1171] 5/19/2006 email from Stephen Anderberg to Pat Jordan, David Tesher, and others, PSI-S&P-RFN-000021 [emphasis in original].
[1172] 3/12/2007 email from Cliff Griep to Tom Gillis, and others, PSI-S&P-RFN-000015.
[1173] 7/15/2007 email from Tom Gillis to Valencia Daniels, "Special APB meeting," Hearing Exhibit 4/23-74.

Consequences for Investors. During the April 23 Subcommittee hearing, credit ratings expert, Professor Arturo Cifuentes, explained to the Subcommittee the importance of retesting existing rated deals when there is a model change.

> Senator Levin: If a ratings model changes its assumptions or criteria, for instance, if it becomes materially more conservative, how important is it that the credit rating agency use the new assumptions or criteria to re-test or re-evaluate securities that are under surveillance?
>
> Mr. Cifuentes: Well, it is very important for two reasons: Because if you do not do that, you are basically creating two classes of securities, a low class and an upper class, and that creates a discrepancy in the market. At the same time, you are not being fair because you are giving an inflated rating then to a security or you are not communicating to the market that the ratings given before were of a different class.[1174]

Moody's and S&P updated their RMBS and CDO models with more conservative criteria in 2006, but then used the revised models to evaluate only new RMBS and CDO transactions, bypassing the existing RMBS and CDO securities that could have benefited from the new credit analysis. Even with respect to the new RMBS and CDOs, investment banks sought to delay use of the revised models that required additional credit enhancements to protect investment grade tranches from loss. For example, in May 2007, Morgan Stanley sent an email to a Moody's Managing Director with the following:

> "Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions [under] Moody's old methodology."[1175]

When asked about the failure of Moody's and S&P to retest existing securities after their model updates in 2006, the global head trader for CDOs from Deutsche Bank told the Subcommittee that he believed the credit rating agencies did not retest them, because to do so would have meant significant downgrades and "they did not want to upset the apple cart."[1176] Instead, the credit rating agencies waited until 2007, when the high risk mortgages underlying the outstanding RMBS and CDO securities incurred record delinquencies and defaults and then, based upon the actual loan performance, instituted mass ratings downgrades. Those sudden mass downgrades caught many financial institutions and other investors by surprise, leaving them with

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[1174] April 23, 2010 Subcommittee Hearing at 35.

[1175] 5/2/2007 email from Zach Buchwald (Morgan Stanley Executive Director) to William May (Moody's Managing Director), and others, Hearing Exhibit 4/23-76. See also 4/11/2007 email from Moody's Managing Director to Calyon, PSI-MOODYS-RFN-000040.

[1176] Subcommittee interview of Greg Lippmann, Former Managing Director and Global Head of Trading of CDOs for Deutsche Bank (10/18/2010). Mr. Lippmann said he thought the agencies' decision not to retest existing securities was "ridiculous."

billions of dollars of suddenly unmarketable securities. The RMBS secondary market collapsed soon after, and the CDO secondary market followed.

(5) Inadequate Resources

In addition to operating with conflicts of interest, models containing inadequate performance data, subjective and inconsistent rating criteria, and a policy against using improved models to retest outstanding RMBS and CDO securities, despite the increasing numbers of ratings issued each year and record revenues as a result, neither Moody's nor S&P hired sufficient staff or devoted sufficient resources to ensure that the initial rating process and the subsequent surveillance process produced accurate credit ratings.

Instead, both Moody's and S&P forced their staffs to churn out new ratings and conduct required surveillance with limited resources. Over time, the credit rating agencies' profits became increasingly connected to issuing a high volume of ratings. By not devoting sufficient resources to handle the high volume of ratings, the strain on resources negatively impacted the quality of the ratings and their surveillance.

High Speed Ratings. From 2000 to 2007, Moody's and S&P issued record numbers of RMBS and CDO ratings. Each year the number of ratings issued by each firm increased. According to SEC examinations of the firms, from 2002 to 2006, "the volume of RMBS deals rated by Moody's increased by 137%, and the number of CDO deals … increased by 700%."[1177] At S&P, the SEC determined that over the same time period, "the volume of RMBS deals rated by S&P increased by 130%, and the number of CDO deals … increased by over 900%."[1178] In addition to the rapid growth in numbers, the transactions themselves grew in complexity, requiring more time and talent to analyze.

The former head of the S&P RMBS Group, Frank Raiter, described the tension between profits and resources this way: "Management wanted increased revenues and profit while analysts wanted more staff, data and IT support which increased expenses and obviously reduced profit."[1179]

Moody's CEO, Ray McDaniel, readily acknowledged during the Subcommittee's April 23 hearing that resources were stressed and that Moody's was short staffed.[1180] He testified: "People were working longer hours than we wanted them to, working more days of the week than we wanted them to." He continued: "It was not for lack of having open positions, but with

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[1177] 2008 SEC Examination Report for Moody's Investor Services Inc., PSI-SEC (Moodys Exam Report)-14-0001-16, at 4.
[1178] 2008 SEC Examination Report for Standard and Poor's Ratings Services, Inc., PSI-SEC (S&P Exam Report)-14-0001-24, at 3.
[1179] Prepared statement of Frank Raiter, Former Managing Director at Standard & Poor's, April 23, 2010 Subcommittee Hearing, at 1-2.
[1180] April 23, 2010 Subcommittee Hearing at 96-97.

the pace at which the market was growing, it was difficult to fill positions as quickly as we would have liked."[1181]

Moody's staff, however, had raised concerns about personnel shortages impacting their work quality as early as 2002. A 2002 survey of the Structured Finance Group staff reported, for example:

> "[T]here is some concern about workload and its impact on operating effectiveness. … Most acknowledge that Moody's intends to run lean, but there is some question of whether effectiveness is compromised by the current deployment of staff."[1182]

Similar concerns were expressed three years later in a 2005 employee survey:

> "We are over worked. Too many demands are placed on us for admin[istrative] tasks ... and are detracting from primary workflow .... We need better technology to meet the demand of running increasingly sophisticated models."[1183]

In 2006, Moody's analyst Richard Michalek worried that investment bankers were taking advantage of the fact that analysts did not have the time to understand complex deals. He wrote:

> "I am worried that we are not able to give these complicated deals the attention they really deserve, and that they (CS) [Credit Suisse] are taking advantage of the 'light' review and the growing sense of 'precedent'."[1184]

Moody's managers and analysts interviewed by the Subcommittee stated that staff shortages impacted how much time could be spent analyzing a transaction. One analyst responsible for rating CDOs told the Subcommittee that, during the height of the boom, Moody's analysts didn't have time to understand the complex deals being rated and had to set priorities on what issues would be examined:

> "When I joined the [CDO] Group in 1999 there were seven lawyers and the Group rated something on the order of 40 – 60 transactions annually. In 2006, the Group rated over 600 transactions, using the resources of approximately 12 lawyers. The hyper-growth years from the second half of 2004 through 2006 represented a steady and constant adjustment to the amount of time that could be allotted to any particular deal's analysis, and with that adjustment, a constant re-ordering of the priority assigned to the issues to be raised at rating Committees."[1185]

[1181] Id. at 97.
[1182] 5/2/2002 "Moody's SFG 2002 Associate Survey: Highlights of Focus Groups and Interviews," Hearing Exhibit 4/23-92a at 6.
[1183] 4/7/2006 "Moody's Investor Service, BES-2005: Presentation to Derivatives Team," Hearing Exhibit 4/23-92b.
[1184] 5/1/2006 email from Richard Michalek to Yuri Yoshizawa, Hearing Exhibit 4/23-19.
[1185] Michalek prepared statement at 20, n.29.

A Moody's managing director responsible for supervising CDO analysts put it this way in a 2007 email: "Unfortunately, our analysts are o[v]erwhelmed…"[1186] Moody's CEO testified at the Subcommittee's hearing "[w]e had stress on our resources in this period, absolutely."[1187] Senator Levin asked him if Moody's was profitable at the time, and he responded "[w]e were profitable, yes."[1188]

S&P also experienced significant resource shortages. In 2004, for example, a managing director in the RMBS Group wrote a lengthy email about the resource problems impacting credit analysis:

> "I am trying to put my hat on not only for ABS/RMBS but for the department and be helpful but feel that it is necessary to re-iterate that there is a shortage in resources in RMBS. If I did not convey this to each of you I would be doing a disservice to each of you and the department. As an update, December is going to be our busiest month ever in RMBS. I am also concerned that there is a perception that we have been getting all the work done up until now and therefore can continue to do so.
>
> "We ran our Staffing model assuming the analysts are working 60 hours a week and we are short resources. We could talk about the assumptions and make modifications but the results would be similar. The analysts on average are working longer than this and we are burning them out. We have had a couple of resignations and expect more. It has come to my attention in the last couple of days that we have a number of staff members that are experiencing health issues."[1189]

A May 2006 internal email from an S&P senior manager in the Structured Finance Real Estate Ratings Group expressed similar concerns:

> "We spend most of our time keeping each other and our staff calm. Tensions are high. Just too much work, not enough people, pressure from company, quite a bit of turnover and no coordination of the non-deal 'stuff' they want us and our staff to do ...."[1190]

The head of the S&P CDO Ratings Group sent a 2006 email to the head of the Structured Finance Department to make a similar point. She wrote:

> "While I realize that our revenues and client service numbers don't indicate any ill [e]ffects from our severe understaffing situation, I am more concerned than ever that we are on a downward spiral of morale, analytical leadership/quality and client service."[1191]

[1186] 5/23/2007 email from Eric Kolchinsky to Yvonne Fu and Yuri Yoshizawa, Hearing Exhibit 4/23-91.
[1187] April 23, 2010 Subcommittee Hearing at 97.
[1188] Id.
[1189] 12/3/2004 email from Gail McDermott to Abe Losice and Pat Jordan, PSI-S&P-RFN-000034.
[1190] 5/2/2006 email from Gale Scott to Diane Cory, "RE: Change in scheduling/Coaching sessions/Other stuff," PSI-S&P-RFN-000012.
[1191] 10/31/2006 S&P internal email, "A CDO Director resignation," PSI-S&P-RFN-000001.

Some of the groups came up with creative ways to address their staffing shortages. For example, the head of the S&P RMBS Ratings Group between 2005 and 2007, Susan Barnes, advised the Subcommittee that her group regularly borrowed staff from the S&P Surveillance Group to assist with new ratings. She said that almost half the surveillance staff provided assistance on issuing new ratings during her tenure, and estimated that each person in the surveillance group might have contributed up to 25% of his or her time to issuing new ratings.[1192]

The Subcommittee investigation discovered a cadre of professional RMBS and CDO rating analysts who were rushed, overworked, and demoralized. They were asked to evaluate increasing numbers of increasingly complex financial instruments at high speed, using out-of-date rating models and unclear ratings criteria, while acting under pressure from management to increase market share and revenues and pressure from investment banks to ignore credit risk. These analysts were short staffed even as their employers collected record revenues.

Resource-Starved Surveillance. Resource shortages also impacted the ability of the credit rating agencies to conduct surveillance on outstanding rated RMBS and CDO securities to evaluate their credit risk. The credit rating agencies were contractually obligated to monitor the accuracy of the ratings they issued over the life of the rated transactions. CRA surveillance analysts were supposed to evaluate each rating on an ongoing basis to determine whether the rating should be affirmed, upgraded, or downgraded. To support this analysis, both companies collected substantial annual surveillance fees from the issuers of the financial instruments they rated, and set up surveillance groups to review the ratings. In the case of RMBS and CDO securities, the Subcommittee investigation found evidence that these surveillance groups may have lacked the resources to properly monitor the thousands of rated products.

At Moody's, for example, a 2007 email disclosed that about 26 surveillance analysts were responsible for tracking over 13,000 rated CDO securities:

> "Thanks for sharing the draft of the CDO surveillance piece you're planning to publish later this week. … In the section about your CDO surveillance infrastructure, we were struck by the data point about the 26 professionals who are dedicated to monitoring CDO ratings. While this is, no doubt, a strong team, we wanted to at least raise the question about whether the company's critics could twist that number – e.g., by comparing it to the 13,000+ CDOs you're monitoring – and once again question if you have adequate resources to do your job effectively. Given that potential risk, we thought you might consider removing any specific reference to the number of people on the CDO surveillance team."[1193]

The evidence of surveillance shortages at S&P was particularly telling. Although during an interview with the Subcommittee, the head of S&P's RMBS Surveillance Group from 2001 to 2008, Ernestine Warner, said she had adequate resources to conduct surveillance of rated RMBS

[1192] Subcommittee interview of Susan Barnes (3/18/2010).
[1193] 7/9/2007 email to Yuri Yoshizawa, "FW: CDO Surveillance Note 7_071.doc," PSI-MOODYS-RFN-000022.

securities during her tenure, her emails indicate otherwise.[1194] In emails sent over a two-year period, she repeatedly described and complained about a lack of resources that was impeding her group's ability to complete its work. In the spring of 2006, she emailed her colleague about her growing anxiety:

> "RMBS has an all time high of 5900 transactions. Each time I consider what my group is faced with, I become more and more anxious. The situation with Lal [a surveillance analyst], being off line or out of the group, is having a huge impact."[1195]

In June 2006, she wrote that the problems were not getting better:

> "It really feels like I am repeating myself when it comes to completing a very simple project and addressing some of the other surveillance needs. … The inability to make a decision about how the project is going to be resourced is causing undue stress. I have talked to you and Peter [D'Erchia, head of global structured finance surveillance,] about each of the issues below and at this point I am not sure what else you need from me. …
>
> To rehash the points below:
>
> In addition to the project above that involves some 863 deals, I have a back log of deals that are out of date with regard to ratings. … We recognize that I am still understaffed with these two additional bodies. … [W]e may be falling further behind at the rate the deals are closing. If we do not agree on the actual number, certainly we can agree that I need more recourse if I am ever going to be near compliance."[1196]

In December 2006, she wrote:

> "In light of the current state of residential mortgage performance, especially sub-prime, I think it would be very beneficial for the RMBS surveillance team to have the work being done by the temps to continue. It is still very important that performance data is loaded on a timely basis as this has an impact on our exception reports. Currently, there are nearly 1,000 deals with data loads aged beyond one month."[1197]

In February 2007, she expressed concerns about having adequate resources to address potential downgrades in RMBS:

> "I talked to Tommy yesterday and he thinks that the [RMBS] ratings are not going to hold through 2007. He asked me to begin discussing taking rating actions earlier on the

[1194] During an interview, the head of RMBS surveillance advised that she believed she was adequately resourced and prioritized her review of outstanding securities by focusing on 2006 and 2007 vintages that had performance problems. Subcommittee interview of Ernestine Warner (3/11/2010).
[1195] 4/28/2006 email from Ernestine Warner to Roy Chun, and others, Hearing Exhibit 4/23-82.
[1196] 6/1/2006 emails from Ernestine Warner to Roy Chun, Hearing Exhibit 4/23-83.
[1197] 12/20/2006 email from Ernestine Warner to Gail Houston, Roy Chun, others, Hearing Exhibit 4/23-84.

> poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now. A new process, without the right support, would be overwhelming. ... My group is under serious pressure to respond to the burgeoning poor performance of sub-prime deals. … we are really falling behind. … I am seeing evidence that I really need to add staff to keep up with what is going on with sub prime and mortgage performance in general, NOW."[1198]

In April 2007, a managing director at S&P in the Structured Finance Group wrote an email confirming the staffing shortages in the RMBS Surveillance Group:

> "We have worked together with Ernestine Warner (EW) to produce a staffing model for RMBS Surveillance (R-Surv). It is intended to measure the staffing needed for detailed surveillance of the 2006 vintage and also everything issued prior to that. This model shows that the R-Surv staff is short by 7 FTE [Full Time Employees] - about 3 Directors, 2 AD's, and 2 Associates. The model suggests that the current staff may have been right sized if we excluded coverage of the 2006 vintage, but was under titled lacking sufficient seniority, skill, and experience."[1199]

The global head of the S&P Structured Finance Surveillance Group, Peter D'Erchia, told the Subcommittee that, in late 2006, he expressed concerns to senior management about surveillance resources and the need to downgrade subprime in more significant numbers in light of the deteriorating subprime market.[1200] According to Mr. D'Erchia, the executive managing director of the Global Structured Finance Ratings Group, Joanne Rose, disagreed with him about the need to issue significantly more downgrades in subprime RMBS and this disagreement continued into the next year. He also told the Subcommittee that after this disagreement with her, he received a disappointing 2007 performance evaluation. He wrote the following in the employee comment section of his evaluation:

> "Even more offensive – and flatly wrong – is the statement that I am not working for a good outcome for S&P. That is all I am working towards and have been for 26 years. It is hard to respond to such comments, which I think reflect Joanne's [Rose] personal feelings arising from our disagreement over subprime debt deterioration, not professional assessment. … Such comments, and others like it, suggest to me that this year-end appraisal, in contrast to the mid-year appraisal, has more to do with our differences over subprime deterioration than an objective assessment of my overall performance."[1201]

In 2008, Mr. D'Erchia was removed from his surveillance position, where he oversaw more than 314 employees, as part of a reduction in force. He was subsequently rehired as a managing director in U.S. Public Finance at S&P, a position without staff to supervise.

[1198] 2/3/2007 email from Ernestine Warner to Peter D'Erchia, Hearing Exhibit 4/23-86 [emphasis in original].
[1199] 4/24/2007 email from Abe Losice to Susan Barnes, "Staffing for RMBS Surveillance," Hearing Exhibit 4/23-88.
[1200] Subcommittee interview of Peter D'Erchia (4/13/2010).
[1201] 2007 Performance Evaluation for Peter D'Erchia, S&P SEN-PSI 0007442; See also April 23, 2010 Subcommittee Hearing at 74-75.

Similarly, Ernestine Warner, the head of RMBS Surveillance, lost her managerial position and was reassigned to investor relations in the Structured Finance Group.

On July 10, 2007, amid record mortgage defaults, S&P abruptly began downgrading its outstanding RMBS and CDO ratings. In July alone, it downgraded the ratings of more than 1,000 RMBS and 100 CDO securities. Both credit rating agencies continued to issue significant downgrades throughout the remainder of 2007. On January 30, 2008, S&P took action on over 8,200 RMBS and CDO ratings – meaning it either downgraded their ratings or placed the securities on credit watch with negative implications. These and other downgrades, matched by equally substantial numbers at Moody's, paint a picture of CRA surveillance teams acting at top speed in overwhelming circumstances to correct thousands of inaccurate RMBS and CDO ratings. When asked to produce contemporaneous decision-making documents indicating how and when the ratings were selected for downgrade, neither S&P nor Moody's produced meaningful documentation. The facts suggest that CRA surveillance analysts with already substantial responsibilities and limited resources were forced to go into overdrive to clean up ratings that could not "hold."

(6) Mortgage Fraud

A final factor that contributed to inaccurate credit ratings involves mortgage fraud. Although the credit rating agencies were clearly aware of increased levels of mortgage fraud, they did not factor that credit risk into their quantitative models or adequately factor it into their qualitative analyses. The absence of that credit risk meant that the credit enhancements they required were insufficient, the tranches bearing AAA ratings were too large, and the ratings they issued were too optimistic.

Reports of mortgage fraud were frequent and mounted yearly prior to the financial crisis. As noted above, as early as 2004, the FBI began issuing reports on increased mortgage fraud.[1202] The FBI was also quoted in Congressional testimony and in the popular press about the mortgage fraud problem. CNN reported that "[r]ampant fraud in the mortgage industry has increased so sharply that the FBI warned Friday of an 'epidemic' of financial crimes which, if not curtailed, could become 'the next S&L crisis.'"[1203] In 2006, the FBI reported that the number of Suspicious Activity Reports on mortgage fraud had increased sixfold, from about 6,800 in 2002, to about 36,800 in 2006, while pending mortgage fraud cases nearly doubled from 436 in FY 2003 to 818 in FY 2006.[1204] The Mortgage Asset Research Institute, LLC (MARI) also reported increasing mortgage fraud over several years, including a 30% increase in 2006 alone.[1205]

[1202] FY 2004 "Financial Institution Fraud and Failure Report," prepared by the Federal Bureau of Investigation, available at http://www.fbi.gov/stats-services/publications/fiff_04.

[1203] "FBI warns of mortgage fraud 'epidemic'," CNN.com (9/17/2004), http://articles.cnn.com/2004-09-17/justice/mortgage.fraud_1_mortgage-fraud-mortgage-industry-s-1-crisis?_s=PM:LAW.

[1204] "Financial Crimes Report to the Public: Fiscal Year 2006, October 1, 2005 – September 30, 2006," prepared by the Federal Bureau of Investigation, available at http://www.fbi.gov/stats-services/publications/fcs_report2006/financial-crimes-report-to-the-public-2006-pdf/view.

[1205] 4/2007 "Ninth Periodic Mortgage Fraud Case Report to Mortgage Bankers Association," prepared by Mortgage Asset Research Institute, LLC.

Published reports, as well as internal emails, demonstrate that analysts within both Moody's and S&P were aware of the serious mortgage fraud problem in the industry.[1206] Despite being on notice about the problem and despite assertions about the importance of loan data quality in the ratings process for structured finance securities,[1207] neither Moody's nor S&P established procedures to account for the possibility of fraud in its ratings process. For example, neither company took any steps to ensure that the loan data provided for specific RMBS loan pools had been reviewed for accuracy.[1208] The former head of S&P's RMBS Group, Frank Raiter, stated in his prepared testimony for the Subcommittee hearing that the S&P rating process did not include any "due diligence" review of the loan tape or any requirement for the provider of the loan tape to certify its accuracy. He stated: "We were discouraged from even using the term 'due diligence' as it was believed to expose S&P to liability."[1209] Fraud was also not factored into the RMBS or CDO quantitative models.[1210]

Yet when Moody's and S&P initiated the mass downgrades of RMBS and CDO securities in July 2007, they directed some of the blame for the rating errors on the volume of mortgage fraud. On July 10, 2007, when S&P announced that it was placing 612 U.S. subprime RMBS on negative credit watch, S&P noted the high incidence of fraud reported by MARI, "misrepresentations on credit reports," and that "[d]ata quality concerning some of the borrower and loan characteristics provided during the rating process [had] also come under question."[1211] In October 2007, the CEO of Fitch Ratings, another ratings firm, said in an interview that "the blame may lie with fraudulent lending practices, not his industry."[1212] Moody's made similar observations. In 2008, Moody's CEO Ray McDaniel told a panel at the World Economic Forum:

> "In hindsight, it is pretty clear that there was a failure in some key assumptions that were supporting our analytics and our models. … [One reason for the failure was that the]

[1206] See, e.g., 9/2/2006 email chain between Richard Koch, Robert Mackey, and Michael Gutierrez, "Nightmare Mortgages," Hearing Exhibit 4/23-46a; 9/5/2006 email chain between Edward Highland, Michael Gutierrez, and Richard Koch, "Nightmare Mortgages," Hearing Exhibit 4/23-46b; and 9/29/2006 email from Michael Gutierrez, Director of S&P, PSI-S&P-RFN-000029.

[1207] See, e.g., 6/24/2010 supplemental response from S&P to the Subcommittee, Exhibit H, Hearing Exhibit 4/23-108 (7/11/2007 "S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced," S&P's RatingsDirect (correcting the original version issued on 7/10/2007)).

[1208] See, e.g., 2008 SEC Examination Report for Moody's Investor Services Inc., PSI-SEC (Moodys Exam Report)-14-0001-16, at 7; and 2008 SEC Examination Report for Standard and Poor's Ratings Services, Inc., PSI-SEC (S&P Exam Report)-14-0001-24, at 11 (finding with respect to each credit rating agency that it "did not engage in any due diligence or otherwise seek to verify the accuracy and quality of the loan data underlying the RMBS pools it rated").

[1209] Prepared statement of Frank Raiter, Former Managing Director at Standard & Poor's, April 23, 2010 Subcommittee Hearing, at 3.

[1210] Subcommittee interviews of Susan Barnes (3/18/2010) and Richard Gugliada (10/9/2009).

[1211] 6/24/2010 supplemental response from S&P to the Subcommittee, Exhibit H, Hearing Exhibit 4/23-108 (7/11/2007 "S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced," S&P's RatingsDirect (correcting the original version issued on 7/10/2007)).

[1212] 10/12/2007 Moody's internal email, PSI-MOODYS-RFN-000035 (citing "Fitch CEO says fraudulent lending practices may have contributed to problems with ratings," Associated Press, and noting: "After S&P, Fitch is now blaming fraud for the impact on RMBS, at least partially.").

> 'information quality' [given to Moody's,] both the complete[ness] and veracity, was deteriorating."[1213]

In 2007, Fitch Ratings decided to conduct a review of some mortgage loan files to evaluate the impact of poor lending standards on loan quality. On November 28, 2007, Fitch issued a report entitled, "The Impact of Poor Underwriting Practices and Fraud in Subprime RMBS Performance." After reviewing a "sample of 45 subprime loans, targeting high CLTV [combined loan to value] [and] stated documentation loans, including many with early missed payments," Fitch reported that it decided to summarize information about the impact of fraud, as well as lax lending standards, on the mortgages. Fitch explained: "[t]he result of the analysis was disconcerting at best, as there was the appearance of fraud or misrepresentation in almost every file."[1214]

To address concerns about fraud and lax underwriting standards generally, S&P considered a potential policy change in November 2007 that would give an evaluation of the quality of services provided by third parties more influence in the ratings process. An S&P managing director wrote:

> "We believe our analytical process and rating opinions will be enhanced by an increased focus on the role third parties can play in influencing loan default and loss performance. … [W]e'd like to set up meetings where specific mortgage originators, investment banks and mortgage servicers are discussed. We would like to use these meetings to share ideas with a goal of determining whether loss estimates should be altered based upon your collective input."[1215]

An S&P employee who received this announcement wrote to a colleague: "Should have been doing this all along." [1216]

S&P later decided that its analysts would also review specific loan originators that supplied loans for the pool. Loans issued by originators with a reputation for issuing poor quality loans, including loans marked by fraud, would be considered a greater credit risk and ratings for the pool containing the loans would reflect that risk. S&P finalized that policy in November 2008.[1217] As part of its ratings analysis, S&P now ranks mortgage originators based on the past historical performance of their loans and factors the assessment of the originator into credit enhancement levels for RMBS.[1218]

[1213] "Moody's: They Lied to Us," New York Times (1/25/2008), http://norris.blogs.nytimes.com/2008/01/25/moodys-they-lied-to-us/.
[1214] 11/28/2007 "The Impact of Poor Underwriting Practices and Fraud in Subprime RMBS Performance," report prepared by Fitch Ratings, at 4, Hearing Exhibit 4/23-100.
[1215] 11/15/2007 email from Thomas Warrack to Michael Gutierrez, and others, Hearing Exhibit 4/23-34.
[1216] 11/15/2007 email from Robert Mackey to Michael Gutierrez, and others, Hearing Exhibit 4/23-34.
[1217] 6/24/2010 supplemental letter from S&P to the Subcommittee, Exhibit W, Hearing Exhibit 4/23-108 (11/25/2008 "Standard & Poor's Enhanced Mortgage Originator and Underwriting Review Criteria for U.S. RMBS," S&P's RatingsDirect).
[1218] Id.

In September 2007, Moody's solicited industry feedback on proposed enhancements to its evaluation of nonprime RMBS securitizations, including the need for third-party due diligence reviews of the loans in a securitization. Moody's wrote: "To improve the accuracy of loan information upon which it relies, Moody's will look for additional oversight by a qualified third party."[1219] In November 2008, Moody's issued a report detailing its enhanced approach to RMBS originator assessments.[1220]

E. Preventing Inflated Credit Ratings

Weak credit rating agency performance has long been a source of concern to financial regulators. Many investors rely on credit ratings to identify "safe" investments. Many regulated financial institutions, including banks, broker-dealers, insurance companies, pension funds, mutual funds, money market funds, and others have been required to operate under restrictions related to their purchase of "investment grade" versus "noninvestment grade" financial instruments. When credit agencies issue inaccurate credit ratings, both retail investors and regulated financial institutions may mistakenly purchase financial instruments that are riskier than they intended or are permitted to buy. The recent financial crisis has demonstrated how the unintended purchase of high risk financial products by multiple investors and financial institutions can create systemic risk and endanger, not only U.S. financial markets, but the entire U.S. economy.

(1) Past Credit Rating Agency Oversight

Even before the recent financial crisis, the SEC and Congress had been reviewing the need for increased regulatory oversight of the credit rating industry. In 1994, for example, the SEC "issued a Concept Release soliciting public comment on the appropriate role of ratings in the federal securities laws, and the need to establish formal procedures for recognizing and monitoring the activities of [credit rating agencies]."[1221]

In 2002, the Senate Committee on Governmental Affairs examined the collapse of the Enron Corporation, focusing in part on how the credit rating agencies assigned investment grade credit ratings to the company "until a mere four days before Enron declared bankruptcy."[1222] The Committee issued a report finding, among other things, that the credit rating agencies:

[1219] "Moody's Proposes Enhancements to Non-Prime RMBS Securitization," Moody's (9/25/2007).

[1220] "Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities (RMBS)," Moody's, Hearing Exhibit 4/23-106 (originally issued 11/24/2008 but due to minor changes was republished on 10/5/2009).

[1221] 1/2003 "Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets," prepared by the SEC, at 5.

[1222] 10/8/2002 "Financial Oversight of Enron: The SEC and Private-Sector Watchdogs," prepared by the U.S. Senate Committee on Governmental Affairs, at 6. See also "Rating the Raters: Enron and the Credit Rating Agencies," before the U.S. Senate Committee on Governmental Affairs, S.Hrg. 107-471 (3/20/2002). The Committee has since been renamed as the Committee on Homeland Security and Governmental Affairs.

> "failed to detect Enron's problems – or take sufficiently seriously the problems they were aware of – until it was too late because they did not exercise the proper diligence. … [T]he agencies did not perform a thorough analysis of Enron's public filings; did not pay appropriate attention to allegations of financial fraud; and repeatedly took company officials at their word … despite indications that the company had misled the rating agencies in the past."[1223]

The report also found the credit rating "analysts [did] not view themselves as accountable for their actions," since the rating agencies were subject to little regulation or oversight, and their liability for poor quality ratings was limited by regulatory exemptions and First Amendment protections.[1224] The report recommended "increased oversight for these rating agencies in order to ensure that the public's trust in these firms is well-placed."[1225]

In 2002, the Sarbanes-Oxley Act required the SEC to conduct a study into the role of credit rating agencies in the securities markets, including any barriers to accurately evaluating the financial condition of the issuers of securities they rate.[1226] In response, the SEC initiated an in-depth study of the credit rating industry and released its findings in a 2003 report. The SEC's oversight efforts "included informal discussions with credit rating agencies and market participants, formal examinations of credit rating agencies, and public hearings, where market participants were given the opportunity to offer their views on credit rating agencies and their role in the capital markets."[1227] The report expressed a number of concerns about CRA operations, including "potential conflicts of interest caused by the [issuer-pays model]."[1228]

The Credit Rating Agency Reform Act, which was signed into law in September 2006, was designed to address some of the shortcomings identified by Congress and the SEC. The Act made it clear that the SEC had jurisdiction to conduct oversight of the credit rating industry, and formally charged the agency with designating companies as NRSROs.[1229] The statute also required NRSROs to meet certain criteria before registering with the SEC. In addition, the statute instructed the SEC to promulgate regulations requiring NRSROs to establish policies and procedures to prevent the misuse of nonpublic information and to disclose and manage conflicts of interest.[1230] Those regulations were designed to take effect in September 2007.

In the summer of 2007, after the mass downgrades of RMBS and CDO ratings had begun and as the financial crisis began to intensify, the SEC initiated its first examinations of the major

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[1223] 10/8/2002 "Financial Oversight of Enron: The SEC and Private-Sector Watchdogs," prepared by the U.S. Senate Committee on Governmental Affairs, at 6, 108.
[1224] Id. at 122.
[1225] Id. at 6.
[1226] Section 702 of the Sarbanes-Oxley Act of 2002.
[1227] 1/2003 "Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets," prepared by the SEC, at 4.
[1228] Id. at 19.
[1229] 9/3/2009 "Credit Rating Agencies and Their Regulation," report prepared by the Congressional Research Service, Report No. R40613 (revised report issued 4/9/2010).
[1230] Id.

credit rating agencies. According to the SEC, "[t]he purpose of the examinations was to develop an understanding of the practices of the rating agencies surrounding the rating of RMBS and CDOs."[1231] The examinations reviewed CRA practices from January 2004 to December 2007. In 2008, the SEC issued a report summarizing its findings. The report found that "there was a substantial increase in the number and in the complexity of RMBS and CDO deals," "significant aspects of the ratings process were not always disclosed," the ratings policies and procedures were not fully documented, "the surveillance processes used by the rating agencies appear to have been less robust than the processes used for initial ratings," and the "rating agencies' internal audit processes varied significantly."[1232] In addition, the report raised a number of conflict of interest issues that influenced the ratings process, noted that the rating agencies failed to verify the accuracy or quality of the loan data used to derive their ratings, and raised questions about the factors that were or were not used to derive the credit ratings.[1233]

(2) New Developments

Although the Credit Rating Agency Reform Act of 2006 strengthened oversight of the credit rating agencies, Congress passed further reforms in response to the financial crisis to address weaknesses in regulatory oversight of the credit rating industry. The Dodd-Frank Act dedicated an entire subtitle to those credit rating reforms which substantially broadened the powers of the SEC to oversee and regulate the credit rating industry and explicitly allowed investors, for the first time, to file civil suits against credit rating agencies.[1234] The major reforms include the following:

a. establishment of a new SEC Office of Credit Ratings charged with overseeing the credit rating industry, including by conducting at least annual NRSRO examinations whose reports must be made public;

b. SEC authority to discipline, fine, and deregister a credit rating agency and associated personnel for violating the law;

c. SEC authority to deregister a credit rating agency for issuing poor ratings;

d. authority for investors to file private causes of action against credit rating agencies that knowingly or recklessly fail to conduct a reasonable investigation of a rated product;

e. requirements for credit rating agencies to establish internal controls to ensure high quality ratings and disclose information about their rating methodologies and about each issued rating;

[1231] 7/2008 "Summary Report of Issues Identified in the Commission Staff's Examinations of Select Credit Rating Agencies," prepared by the SEC, at 1. The CRAs examined by the SEC were not formally subject to the Credit Rating Agency Reform Act of 2006 or its implementing SEC regulations until September 2007.
[1232] Id. at 1-2.
[1233] Id. at 14, 17-18, 23-29, 31-37.
[1234] See Title IX, Subtitle C – Improvements to the Regulation of Credit Rating Agencies of the Dodd-Frank Act.

f. amendments to federal statutes removing references to credit ratings and credit rating agencies in order to reduce reliance on ratings;

g. a GAO study to evaluate alternative compensation models for ratings that would create financial incentives to issue more accurate ratings; and

h. an SEC study of the conflicts of interest affecting ratings of structured finance products, followed by the mandatory development of a plan to reduce ratings shopping.[1235]

The Act stated that these reforms were needed, "[b]ecause of the systemic importance of credit ratings and the reliance placed on credit ratings by individual and institutional investors and financial regulators," and because "credit rating agencies are central to capital formation, investor confidence, and the efficient performance of the United States economy."[1236]

(3) Recommendations

To further strengthen the accuracy of credit ratings and reduce systemic risk, this Report makes the following recommendations.

1. **Rank Credit Rating Agencies by Accuracy.** The SEC should use its regulatory authority to rank the Nationally Recognized Statistical Rating Organizations in terms of performance, in particular the accuracy of their ratings.

2. **Help Investors Hold CRAs Accountable.** The SEC should use its regulatory authority to facilitate the ability of investors to hold credit rating agencies accountable in civil lawsuits for inflated credit ratings, when a credit rating agency knowingly or recklessly fails to conduct a reasonable investigation of the rated security.

3. **Strengthen CRA Operations.** The SEC should use its inspection, examination, and regulatory authority to ensure credit rating agencies institute internal controls, credit rating methodologies, and employee conflict of interest safeguards that advance rating accuracy.

4. **Ensure CRAs Recognize Risk.** The SEC should use its inspection, examination, and regulatory authority to ensure credit rating agencies assign higher risk to financial instruments whose performance cannot be reliably predicted due to their novelty or complexity, or that rely on assets from parties with a record for issuing poor quality assets.

[1235] See id. at §§ 931-939H; "Conference report to accompany H.R. 4173," Cong. Report No. 111-517 (June 29, 2010).
[1236] See Section 931 of the Dodd-Frank Act.

5. **Strengthen Disclosure.** The SEC should exercise its authority under the new Section 78o-7(s) of Title 15 to ensure that the credit rating agencies complete the required new ratings forms by the end of the year and that the new forms provide comprehensible, consistent, and useful ratings information to investors, including by testing the proposed forms with actual investors.

6. **Reduce Ratings Reliance.** Federal regulators should reduce the federal government's reliance on privately issued credit ratings.

VI. INVESTMENT BANK ABUSES: CASE STUDY OF GOLDMAN SACHS AND DEUTSCHE BANK

A key factor in the recent financial crisis was the role played by complex financial instruments, often referred to as structured finance products, such as residential mortgage backed securities (RMBS), collateralized debt obligations (CDOs), and credit default swaps (CDS), including CDS contracts linked to the ABX Index. These financial products were envisioned, engineered, sold, and traded by major U.S. investment banks.

From 2004 to 2008, U.S. financial institutions issued nearly $2.5 trillion in RMBS securities and over $1.4 trillion in CDOs securitizing primarily mortgage related products.[1237] Investment banks charged fees ranging from $1 to $8 million to act as the underwriter of an RMBS securitization,[1238] and from $5 to $10 million to act as the placement agent for a CDO securitization.[1239] Those fees contributed substantial revenues to the investment banks which set up structured finance groups, and a variety of RMBS and CDO origination and trading desks within those groups, to handle mortgage related securitizations. Investment banks placed these securities with investors around the world, and helped develop a secondary market where private RMBS and CDO securities could be bought and sold. The investment banks' trading desks participated in those secondary markets, buying and selling RMBS and CDO securities either for their customers or for themselves.

Some of these financial products allowed investors to profit, not only from the success of an RMBS or CDO securitization, but also from its failure. CDS contracts, for example, allowed counterparties to wager on the rise or fall in the value of a specific RMBS security or on a collection of RMBS and other assets contained or referenced in a CDO. Major investment banks also developed standardized CDS contracts that could be traded on a secondary market. In

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[1237] 3/4/2011 "U.S. Mortgage-Related Securities Issuance" and 1/1/2011 "Global CDO Issuance," charts prepared by Securities Industry and Financial Markets Association, www.sifma.org/research/statistics.aspx. The RMBS total does not include about $6.6 trillion in RMBS securities issued by government sponsored enterprises like Fannie Mae and Freddie Mac.

[1238] See, e.g., 2/2011 chart, "Goldman Sachs Expected Profit from RMBS Securitizations," prepared by the U.S. Senate Permanent Subcommittee on Investigations using Goldman-produced documents for securitizations from 2005-2007 (underlying documents retained in Subcommittee file); 3/21/2011 letter from Deutsche Bank counsel, PSI-Deutsche_Bank-32-0001.

[1239] See "Banks' Self-Dealing Super-Charged Financial Crisis," ProPublica (8/26/2010), http://www.propublica.org/article/banks-self-dealing-super-charged-financial-crisis ("A typical CDO could net the bank that created it between $5 million and $10 million – about half of which usually ended up as employee bonuses. Indeed, Wall Street awarded record bonuses in 2006, a hefty chunk of which came from the CDO business."). Fee information obtained by the Subcommittee is consistent with this range of CDO fees. For example, Deutsche Bank received nearly $5 million in fees for Gemstone 7, and the head of its CDO Group said that Deutsche Bank received typically between $5 and 10 million in fees, while Goldman Sachs charged a range of $5 to $30 million in fees for Camber 7, Fort Denison, and the Hudson Mezzanine 1 and 2 CDOs. 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71 and 3/15/2007 Gemstone CDO VII Ltd. Closing Memorandum, DB_PSI_00133536-41; Subcommittee interview of Michael Lamont (9/29/2010); and Goldman Sachs response to Subcommittee QFRs at PSI-QFR-GS0249.

addition, they established the ABX Index which allowed counterparties to wager on the rise or fall in the value of a basket of subprime RMBS securities, and which could be used to reflect the state of the subprime mortgage market as a whole.

Investment banks sometimes matched up parties who wanted to take opposite sides in a structured finance transaction, and other times took one or the other side of a transaction to accommodate a client. At still other times, investment banks used these financial instruments to make their own proprietary wagers. In extreme cases, some investments banks set up structured finance transactions which enabled them to profit at the expense of their clients.

Two case studies, involving Goldman Sachs and Deutsche Bank, illustrate a variety of troubling and sometimes abusive practices involving the origination or use of RMBS, CDO, CDS, and ABX financial instruments. Those practices included at times constructing RMBS or CDOs with assets that senior employees within the investment banks knew were of poor quality; underwriting securitizations for lenders known within the industry for issuing high risk, poor quality mortgages or RMBS securities; selling RMBS or CDO securities without full disclosure of the investment bank's own adverse interests; and causing investors to whom they sold the securities to incur substantial losses.

In the case of Goldman Sachs, the practices included exploiting conflicts of interest with the firm's clients. For example, Goldman used CDS and ABX contracts to place billions of dollars of bets that specific RMBS securities, baskets of RMBS securities, or collections of assets in CDOs would fall in value, while at the same time convincing customers to invest in new RMBS and CDO securities. In one instance, Goldman took the entire short side of a $2 billion CDO known as Hudson 1, selected assets for the CDO to transfer risk from Goldman's own holdings, allowed investors to buy the CDO securities without fully disclosing its own short position, and when the CDO lost value, made a $1.7 billion gain at the expense of the clients to whom it had sold the securities. While Goldman Sachs sometimes told customers that it might take an adverse investment position to the RMBS or CDO securities it was selling them, Goldman did not disclose that, in fact, it already had significant proprietary investments that would pay off if the particular security it was selling or if RMBS and CDO securities in general fell in value. In another instance, Goldman marketed a CDO known as Abacus 2007-AC1 to clients without disclosing that it had allowed the sole short party in the CDO, a hedge fund, to play a major role in selecting the assets. The Abacus securities quickly lost value, and the three long investors together lost $1 billion, while the hedge fund profited by about the same amount. In still other instances, Goldman took on the role of a collateral put provider or liquidation agent in a CDO, and leveraged that role to obtain added financial benefits to the fiscal detriment of the clients to whom it sold the CDO securities.

In the case of Deutsche Bank, during 2006 and 2007, the bank's top CDO trader, Greg Lippmann, repeatedly warned and advised his Deutsche Bank colleagues and some of his clients seeking to buy short positions about the poor quality of the RMBS securities underlying many CDOs, describing some of those securities as "crap" and "pigs." At one point, Mr. Lippmann

was asked to buy a specific CDO security and responded that it "rarely trades," but he "would take it and try to dupe someone" into buying it. He also disparaged RMBS securities that, at the same time, were being included in Gemstone 7, a CDO being assembled by the bank for sale to investors. Gemstone 7 included or referenced 115 RMBS securities, many of which carried BBB, BBB-, or even BB credit ratings, making them among the highest risk RMBS securities sold to the public, yet received AAA ratings for its top three tranches. Deutsche Bank sold $700 million in Gemstone securities to eight investors who saw their investments rapidly incur delinquencies, rating downgrades, and losses. Mr. Lippmann at times referred to the industry's ongoing CDO marketing efforts as a "CDO machine" or "ponzi scheme," and predicted that the U.S. mortgage market as a whole would eventually plummet in value. Deutsche Bank's senior management disagreed with his negative views, and used the bank's own funds to make large proprietary investments in mortgage related securities that, in 2007, had a notional or face value of $128 billion and a market value of more than $25 billion. At the same time, Deutsche Bank allowed Mr. Lippmann to develop for the bank a $5 billion proprietary short position in the RMBS market, which it later cashed in for a profit of approximately $1.5 billion. Despite that gain, in 2007, due to its substantial long investments, Deutsche Bank incurred an overall loss of about $4.5 billion from its mortgage related proprietary investments.

The two case studies illustrate how investment banks engaged in high intensity sales efforts to market new CDOs in 2007, even as U.S. mortgage delinquencies climbed, RMBS securities incurred losses, the U.S. mortgage market as a whole deteriorated, and investors lost confidence. They demonstrate how these investment banks benefitted from structured finance fees, and had little incentive to stop producing and selling high risk, poor quality structured finance products. They also illustrate how the development of complex structured finance products, such as synthetic CDOs and naked credit default swaps, amplified market risk by allowing investors with no ownership interest in the "reference obligations" to place unlimited side bets on their performance. Finally, the two case histories demonstrate how proprietary trading led to dramatic losses in the case of Deutsche Bank and to conflicts of interest in the case of Goldman Sachs.

Investment banks were a major driving force behind the structured finance products that provided a steady stream of funding for lenders to originate high risk, poor quality loans and that magnified risk throughout the U.S. financial system. The investment banks that engineered, sold, traded, and profited from mortgage related structured finance products were a major cause of the financial crisis.

A. Background

(1) Investment Banks In General

Historically, investment banks helped raise capital for business and other endeavors by helping to design, finance, and sell financial products like stocks or bonds. When a corporation needed capital to fund a large construction project, for example, it often hired an investment bank either to arrange a bank loan or to raise capital by designing, financing, and marketing an issue of shares or corporate bonds for sale to investors. Investment banks performed these services in exchange for fees.

Today, investment banks also participate in a wide range of other financial activities, including providing broker-dealer and investment advisory services, and trading commodities and derivatives. Investment banks also often engage in proprietary trading, meaning trading with their own money and not on behalf of a customer. Many investment banks are structured today as affiliates of one or more banks.

Under the Glass-Steagall Act of 1933, certain types of financial institutions had been prohibited from commingling their services. For example, with limited exceptions, only broker-dealers could provide brokerage services; only banks could offer banking; and only insurers could offer insurance. Each financial sector had its own primary regulator who was generally prohibited from regulating services outside of its jurisdiction.[1240] Glass-Steagall also contained prohibitions against proprietary trading.[1241] One reason for keeping the sectors separate was to ensure that banks with federally insured deposits did not engage in the type of high risk activities that might be the bread and butter of a broker-dealer or commodities trader. Another reason was to avoid the conflicts of interest that might arise, for example, from a financial institution pressuring its clients to obtain all of its financial services from the same firm. A third reason was to avoid the conflicts of interest that arise when a financial institution is allowed to act for its own benefit in a proprietary capacity, while at the same time acting on behalf of customers in an agency or fiduciary capacity.

Glass-Steagall was repealed in 1999, after which the barriers between banks, broker-dealers, and insurance firms fell. U.S. financial institutions not only began offering a mix of financial services, but also intensified their proprietary trading activities. The resulting changes in the way financial institutions were organized and operated made it more difficult for regulators to distinguish between activities intended to benefit customers versus the financial institution itself. The expanded set of financial services investment banks were allowed to offer also contributed to the multiple and significant conflicts of interest that arose between some investment banks and their clients during the financial crisis.

[1240] Federal law has never established a "super-regulator" with jurisdiction to police compliance and conduct across banking, brokerage, investment advisory, and insurance sectors, and that remains the case today.

[1241] See Section 16 of the Banking Act of 1933, Pub. L.73-66 (also known as the Glass-Steagall Act).

(2) Roles and Duties of an Investment Bank: Market Maker, Underwriter, Placement Agent, Broker-Dealer

Investment banks typically play a variety of significant roles when dealing with their clients, including that of market maker, underwriter, placement agent, and broker-dealer. Each role brings different legal obligations under federal securities law.

Market Maker. A "market maker" is typically a dealer in financial instruments that stands ready to buy and sell for its own account a particular financial instrument on a regular and continuous basis at a publicly quoted price.[1242] A major responsibility of a market maker is filling orders on behalf of customers. Market markers do not solicit customers; instead they maintain buy and sell quotes in a public setting, demonstrating their readiness to either buy or sell the specified security, and customers come to them. For example, a market maker in a particular stock typically posts the prices at which it is willing to buy or sell that stock, attracting customers based on the competitiveness of its prices. This activity by market makers helps provide liquidity and efficiency in the trading market for the security.[1243] It is common for a particular security to have multiple market makers who competitively quote the security.

Market makers generally use the same inventory of assets to carry out both their market-making and proprietary trading activities. Market makers are allowed, in certain circumstances specified by the SEC, to sell securities short in situations to satisfy market demand when they do not have the securities in their inventory in order to provide liquidity. Market makers have among the most narrow disclosure obligations under federal securities law, since they do not actively solicit clients or make investment recommendations to them. Their disclosure obligations are generally limited to providing fair and accurate information related to the execution of a particular trade.[1244] Market makers are also subject to the securities laws' prohibitions against fraud and market manipulation. In addition, they are subject to legal requirements relating to the handling of customer orders, for example using best execution efforts when placing a client's buy or sell order.[1245]

Underwriter and Placement Agent. If an investment bank agrees to act as an "underwriter" for the issuance of a new security to the public, such as an RMBS, it typically

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[1242] Section 3(a)(38) of the Securities Exchange Act of 1934 states: "The term "market maker" means any specialist permitted to act as a dealer, any dealer acting in the capacity of block positioner, and any dealer who, with respect to a security, holds himself out (by entering quotations in an inter-dealer communications system or otherwise) as being willing to buy and sell such security for his own account on a regular or continuous basis." See also SEC website, http://www.sec.gov/answers/mktmaker.htm; FINRA website, FAQs, "What Does a Market Maker Do?" http://finra.atgnow.com/finra/categoryBrowse.do.

[1243] See SEC website, http://www.sec.gov/answers/mktmaker.htm; FINRA website, FAQs, "What Does a Market Maker Do?" http://finra.atgnow.com/finra/categoryBrowse.do.

[1244] 1/2011 "Study on Investment Advisers and Broker-Dealers," study conducted by the U.S. Securities and Exchange Commission, at 55, http://www.sec.gov/news/studies/2011/913studyfinal.pdf.

[1245] See Responses to Questions for the Record from Goldman Sachs at PSI_QFR_GS0046.

purchases the securities from the issuer, holds them on its books, conducts the public offering, and bears the financial risk until the securities are sold to the public. By law, securities sold to the public must be registered with the SEC. Underwriters help issuers prepare and file the registration statements filed with the SEC, which explain to potential investors the purpose of a proposed public offering, the issuer's operations and management, key financial data, and other important facts. Any offering document, or prospectus, given to the investing public in connection with a registered security must also be filed with the SEC.

If a security is not offered to the general public, it can still be offered to investors through a "private placement." Investment banks often act as the "placement agent," performing intermediary services between those seeking to raise money and investors. Placement agents often help issuers design the securities, produce the offering materials, and market the new securities to investors. Offering documents in connection with private placements are exempt from SEC registration and are not filed with the SEC.

In the years leading up to the financial crisis, RMBS securities were registered with the SEC, while CDOs were sold to investors through private placements. Both of these securities were also traded in a secondary market by market makers. Investment banks sold both types of securities primarily to large institutional investors, such as other banks, pension funds, insurance companies, municipalities, university endowments, and hedge funds.

Whether acting as an underwriter or placement agent, a major part of the investment bank's responsibility is to solicit customers to buy the new securities being offered. Under the securities laws, investment banks that act as an underwriter or placement agent for new securities are liable for any material misrepresentation or omission of a material fact made in connection with a solicitation or sale of those securities to investors.[1246]

The obligation of an underwriter and placement agent to disclose material facts to every investor it solicits comes from two sources: the duties as an underwriter specifically, and the duties as a broker-dealer generally. With respect to duties relating to being an underwriter, the U.S. Court of Appeals for the First Circuit observed that underwriters have a "unique position" in the securities industry:

[1246] See Sections 11 and 12 of Securities Act of 1933. See also Rule 10b-5 of the Securities Exchange Act of 1934. See also, e.g., SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180, 201 (1963) ("Experience has shown that disclosure in such situations, while not onerous to the advisor, is needed to preserve the climate of fair dealing which is so essential to maintain public confidence in the securities industry and to preserve the economic health of the country."). See also SEC Study on Investment Advisers and Broker-Dealers at 51 (citations omitted) ("Under the so-called 'shingle' theory …, a broker-dealer makes an implicit representation to those persons with whom it transacts business that it will deal fairly with them, consistent with the standards of the profession. … Actions taken by the broker-dealer that are not fair to the customer must be disclosed in order to make this implied representation of fairness not misleading.").

> "[T]he relationship between the underwriter and its customer implicitly involves a favorable recommendation of the issued security. … Although the underwriter cannot be a guarantor of the soundness of any issue, he may not give it his implied stamp of approval without having a reasonable basis for concluding that the issue is sound."[1247]

In addition, Section 11 of the Securities Act of 1933 makes underwriters liable to any investor in any registered security if any part of the registration statement "contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading."[1248]

Broker-Dealer. Broker-dealers also have affirmative disclosure obligations to their clients. With respect to the duties of a broker-dealer, the SEC has held:

> "[W]hen a securities dealer recommends a stock to a customer, it is not only obligated to avoid affirmative misstatements, but also must disclose material adverse facts to which it is aware. That includes disclosure of 'adverse interests' such as 'economic self interest' that could have influenced its recommendation."[1249]

To help broker-dealers understand when they are obligated to disclose material adverse facts to investors, the Financial Industry Regulatory Authority (FINRA) has further defined the term "recommendation":

> "[A] broad range of circumstances may cause a transaction to be considered recommended, and this determination does not depend on the classification of the transaction by a particular member as 'solicited' or 'unsolicited.' In particular a transaction will be considered to be recommended when the member or its associated person brings a specific security to the attention of the customer through any means, including, but not limited to, direct telephone communication, the delivery of promotional material through the mail, or the transmission of electronic messages."[1250]

There is no indication in any law or regulation that the obligation to disclose material adverse facts is diminished or waived in relation to the level of sophistication of the potential investor.[1251]

[1247] SEC v. Tambone, 550 F.3d 106 (1st Cir. 2008) [citations omitted].

[1248] Section 11 of the Securities Act of 1933, codified at 15 U.S.C. § 77a.

[1249] In the Matter of Richmark Capital Corporation, Securities Exchange Act Rel. No. 48758 (Nov. 7, 2003) (citing Chasins v. Smith Barney & Co., Inc., 438 F.3d 1167, 1172 (2d Cir. 1970) ("The investor… must be permitted to evaluate overlapping motivations through appropriate disclosures, especially where one motivation is economic self-interest")).

[1250] FINRA Notice No. 96-60.

[1251] See FINRA Rules 2210(d)(1)(A) and 2211(a)(3) and (d)(1) (by rule all institutional sales material and correspondence may not "omit any material fact or qualification if the omission, in the light of the context of the material presented, would cause the communications to be misleading."). See also FINRA Rule 2310 and IM-2310-

(3) Structured Finance Products

Over time, investment banks have devised, marketed, and sold increasingly complex financial instruments to investors, often referred to as "structured finance" products. These products include residential mortgage backed securities (RMBS), collateralized debt obligations (CDOs), and credit default swaps (CDS), including CDS contracts linked to the ABX Index, all of which played a central role in the financial crisis.

RMBS and CDO Securities. RMBS and CDO securities are two common types of structured finance products. RMBS securities contain pools of mortgage loans, while CDOs contain or reference pools of RMBS securities and other assets. RMBS concentrate risk by including thousands of subprime and other high risk home loans, with similar characteristics and risks, in a single financial instrument. Mortgage related CDOs concentrate risk even more by including hundreds or thousands of RMBS securities, with similar characteristics and risks, in a single financial instrument. In addition, while some CDOs included only AAA rated RMBS securities, others known as "mezzanine" CDOs contained RMBS securities that carried the riskier BBB, BBB-, and even BB credit ratings and were more susceptible to losses if the underlying mortgages began to incur delinquencies or defaults.

Some investment banks went a step farther and assembled CDO securities into pools and resecuritized them as so-called "CDO squared" instruments, which further concentrated the risk in the underlying CDOs.[1252] Some investment banks also assembled "synthetic CDOs," which did not contain any actual RMBS securities or other assets, but merely referenced them. Some devised "hybrid CDOs," which contained a mix of cash and synthetic assets.

The securitization process generated billions of dollars in funds that allowed investment banks to supply financing to lenders to issue still more high risk mortgages and securities, which investment banks and others then sold or securitized in exchange for still more fees. This cycle was repeated again and again, introducing more and more risk to a wider and wider range of investors.

Credit Default Swaps. Some investment banks modified still another structured finance product, a derivative known as a credit default swap (CDS), for use in the mortgage market. Much like an insurance contract, a CDS is a contract between two parties in which one party guarantees payment to the other if the assets referenced in the contract lose value or experience a negative credit event. The party selling the insurance is referred to as the "long" party, since it profits if the referenced asset performs well. The party buying the insurance protection is referred to as the "short" party because it profits if the referenced asset to perform poorly.

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3 (suitability obligation to institutional customers).

[1252] CDO squared transactions will generally be referred to in this Report as "CDO^2." Some Goldman materials also use the term "CDO^2."

The short party, or CDS buyer, typically pays periodic premiums, similar to insurance premiums, to the long party or CDS seller, who has guaranteed the referenced assets against a loss in value or a negative credit event such as a credit rating downgrade, default, or bankruptcy. If the loss or negative credit event occurs, the CDS seller is required to pay an agreed upon amount to the CDS buyer. Many CDS contracts also tracked the changing value of the referenced assets over time, and required the long and short parties to post cash collateral with each other to secure payment of their respective contractual obligations.

CDS contracts that reference a single, specific security or bond for protection against a loss in value or negative credit event have become known as "single name" CDS contracts. Other CDS contracts have been designed to protect a broader basket of securities, bonds, or other assets.

By 2005, investment banks had standardized CDS contracts that referred to a "single name" RMBS or CDO security. Some investment banks and investors, which held large inventories of RMBS and CDO securities, purchased those single name CDS contracts as a hedge against possible losses in the value of their holdings. Other investors, including investment banks, began to purchase single name CDS contracts, not as a hedge to offset losses from the RMBS or CDO securities they owned, but as a way to profit from particular RMBS or CDO securities they predicted would lose value or fail. CDS contracts that paid off on securities that were not owned by the CDS buyer became known as "naked credit default swaps." Naked CDS contracts enabled investors to bet against mortgage related assets, using the minimal capital needed to make the periodic premium payments and collateral calls required by a CDS contract.

The key significance of the CDS product for the mortgage market was that it offered an alternative to investing in RMBS and CDO securities that would perform well. Single name CDS contracts instead enabled investors to place their dollars in financial instruments that would pay off if specific RMBS or CDO securities lost value or failed.

ABX Index. In January 2006, a consortium of investment banks, led by Goldman Sachs and Deutsche Bank, launched still another type of structured finance product, linked to a newly created "ABX Index," to enable investors to bet on multiple subprime RMBS securities at once. The ABX Index was administered by a private company called the Markit Group and consisted of five separate indices, each of which tracked the performance of a different basket of 20 designated subprime RMBS securities.[1253] The values of the securities in each basket were aggregated into a single composite value that rose and fell over time. Investors could then arrange, through a broker-dealer, to enter into a CDS contract with another party using the ABX basket of subprime RMBS securities as the "reference obligation" and the relevant ABX Index value as the agreed

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[1253] Each of the five indices tracked a different basket of subprime RMBS securities. One index tracked a basket of 20 AAA rated RMBS securities; the second a basket of AA rated RMBS securities; and the remaining indices tracked baskets of A, BBB, and BBB- rated RMBS securities. Every six months, a new set of RMBS securities was selected for each index. See 3/2008 Federal Reserve Bank of New York Staff Report No. 318, "Understanding the Securitization of Subprime Mortgage Credit," at 26. Markit Group Ltd. administered the ABX Index which issued indices in 2006 and 2007, but has not issued any new indices since then.

upon value of that basket. For a fee, investors could take either the "long" position, betting on the rise of the index, or the "short" position, betting on the fall of the index, without having to physically purchase or hold any of the referenced securities or raise the capital needed to pay for the full face value of those referenced securities. The index also used standardized CDS contracts that remained in effect for a standard period of time, making it easier for investors to participate in the market, and buy and sell ABX-linked CDS contracts.

The ABX Index allowed investors to place unlimited bets on the performance of one or more of the subprime RMBS baskets. It also made it easier and cheaper for investors, including some investment banks, to short the subprime mortgage market in bulk.[1254] Investment banks not only helped establish the ABX Index, they encouraged their clients to enter into CDS contracts based upon the ABX Index, and used it themselves to bet on the mortgage market as a whole. The ABX Index expanded the risks inherent in the subprime mortgage market by providing investors with a way to make unlimited investments in RMBS securities.

Synthetic CDOs. By mid-2006, there was a large demand for RMBS and CDO securities as well as a growing demand for CDS contracts to short the mortgage market. To meet this demand, investment banks and others began to make greater use of synthetic CDOs, which could be assembled more quickly, since they did not require the CDO arranger to find and purchase actual RMBS securities or other assets. The increasing use of synthetic CDOs injected even greater risk into the mortgage market by enabling investors to make unlimited wagers on various groups of mortgage related assets and, if those assets performed poorly, expanding the number of investors who would realize losses.

Synthetic CDOs did not depend upon actual RMBS securities or other assets to bring in cash to pay investors. Instead, the CDO simply developed a list of existing RMBS or CDO securities or other assets that would be used as its "reference obligations." The parties to the CDO were not required to possess an ownership interest in any of those reference obligations; the CDO simply tracked their performance over time. The performance of the underlying reference obligations, in the aggregate, determined the performance of the synthetic CDO.

The synthetic CDO made or lost money for its investors by establishing a contractual agreement that they would make payments to each other, based upon the aggregate performance of the underlying referenced assets, using CDS contracts. The "short" party essentially agreed to make periodic payments, similar to insurance premiums, to the other party in exchange for an agreement that the "long" party would pay the full face value of the synthetic CDO if the underlying assets lost value or experienced a defined credit event such as a ratings downgrade. In essence, then, the synthetic CDO set up a wager in which the short party bet that its underlying assets would perform poorly, while the long party bet that they would perform well.

[1254] Subcommittee Interview of Joshua Birnbaum (4/22/2010); Subcommittee Interview of Rajiv Kamilla (10/12/2010).

Synthetic CDOs provided still another vehicle for investors looking to short the mortgage market in bulk. The synthetic CDO typically referenced a variety of RMBS securities. One or more investors could then take the "short" position and wager that the referenced securities as a whole would fall in value or otherwise perform poorly. Synthetic CDOs became a way for investors to short multiple specific RMBS securities that they expected to incur delinquencies, defaults, and losses.

Synthetic CDOs magnified the risk in the mortgage market, because arrangers had no limit on the number of synthetic CDOs they could create. In addition, multiple synthetic CDOs could reference the same RMBS and CDO securities in various combinations, and sell financial instruments dependent upon the same sets of high risk, poor quality loans over and over again to various investors. Since every synthetic CDO had to have a "short" party betting on the failure of the referenced assets, at least some poor quality RMBS and CDO securities could be included in each transaction to attract those investors. When some of the high risk, poor quality loans later incurred delinquencies or defaults, they caused losses, not in a single RMBS, but in multiple cash, synthetic, and hybrid CDOs whose securities had been sold to a wide circle of investors.[1255]

Conflicts of Interest. Investment banks that designed, obtained credit ratings for, underwrote, sold, managed, and serviced CDO securities, made money from the fees they charged for these and other services. Investment banks reportedly netted from $5 to $10 million in fees per CDO.[1256] Some also constructed CDOs to transfer the financial risk of poorly performing RMBS and CDO securities from their own holdings to the investors they were soliciting to buy the CDO securities.[1257] By selling the CDO securities to investors, the investment banks profited not only from the CDO sales, but also eliminated possible losses from the assets removed from their warehouse accounts. In some instances, unbeknownst to the customers and investors, the investment banks that sold them CDO securities bet against those instruments by taking short positions through single name CDS contracts. Some even took the short side of the CDO they

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[1255] See, e.g., "Senate's Goldman Probe Shows Toxic Magnification," Wall Street Journal (5/2/2010) (showing how a single $38 million subprime RMBS, created in June 2006, was included in 30 CDOs and, by 2008, had caused $280 million in losses to investors).

[1256] See "Banks' Self-Dealing Super-Charged Financial Crisis," ProPublica (8/26/2010), http://www.propublica.org/article/banks-self-dealing-super-charged-financial-crisis ("A typical CDO could net the bank that created it between $5 million and $10 million – about half of which usually ended up as employee bonuses. Indeed, Wall Street awarded record bonuses in 2006, a hefty chunk of which came from the CDO business."). Fee information obtained by the Subcommittee is consistent with this range of CDO fees. For example, Deutsche Bank received nearly $5 million in fees for Gemstone 7, and the head of its CDO group said that Deutsche bank received typically between $5 and 10 million in fees, while Goldman Sachs charged a range of $5 to $30 million in fees for Camber 7, Fort Denison, and the Hudson Mezzanine 1 and 2 CDOs. 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71 and 3/15/2007 Gemstone CDO VII Ltd. Closing Memorandum, DB_PSI_00133536-41; Subcommittee interview of Michael Lamont (9/29/2010); and Goldman Sachs response to Subcommittee QFRs at PSI-QFR-GS0249.

[1257] See, e.g., discussion of the Hudson CDO, below; Subcommittee interview of Daniel Sparks (4/15/10) (Goldman tried selling subprime loans but could not; it was easier and more efficient to securitize them and then sell the securitized product to transfer loans in bulk; it was also easier to sell CDOs than individual underlying positions).

constructed, and profited when the referenced assets lost value, and the investors to whom they had sold the long side of the CDO were required to make substantial payments to the CDO.

The following two case studies examine how two investment banks active in the U.S. mortgage market constructed, marketed, and sold RMBS and CDO securities; how their activities magnified risk in the mortgage market; and how conflicts of interest negatively impacted investors and contributed to the financial crisis. The Deutsche Bank case history provides an insider's view of what one senior CDO trader described as Wall Street's "CDO machine." It reveals the trader's negative view of the mortgage market in general, the poor quality RMBS assets placed in a CDO that Deutsche Bank marketed to clients, and the fees that made it difficult for investment banks like Deutsche Bank to stop selling CDOs. The Goldman Sachs case history shows how one investment bank was able to profit from the collapse of the mortgage market, and ignored substantial conflicts of interest to profit at the expense of its clients in the sale of RMBS and CDO securities.

B. Running the CDO Machine: Case Study of Deutsche Bank

This case history examines the role of Deutsche Bank USA in the design, marketing, and sale of collateralized debt obligations (CDOs) that incorporated or referenced residential mortgage backed securities (RMBS).

From 2004 to 2008, U.S. financial institutions issued over $1.4 trillion worth of CDO securities. At first, this complex structured finance product proved highly profitable for investment banks which established CDO departments and trading desks to create and market the securities. By early 2007, however, due to declining housing prices, accelerating mortgage delinquencies, and RMBS losses, investor interest in CDOs began to drop off sharply. In July 2007, the major credit rating agencies began lowering credit ratings for many CDO securities, at times eliminating the investment grade ratings that had supported CDO sales. Despite waning investor interest, U.S. investment banks continued to issue new mortgage related CDOs throughout 2007, in an apparent effort to sustain their fees and CDO departments. Some investment banks supported the CDO market by purchasing existing CDO securities for inclusion in new, even more complex CDOs, seeking customers in Europe and Asia, or retaining risky CDO securities on their own books.

Deutsche Bank was a major player in the CDO market, both in creating new CDO issues and trading these securities in the secondary market. Deutsche Bank's top global CDO trader, Greg Lippmann, began to express concerns that the CDO market was unsustainable. By the middle of 2006, Mr. Lippmann repeatedly warned and advised his Deutsche Bank colleagues and some of his clients seeking to buy short positions about the poor quality of the assets underlying many CDOs. He described some of those assets as "crap" and "pigs," and predicted the assets and the CDO securities would lose value.

At one point, Mr. Lippmann was asked to buy a specific CDO security and responded that it "rarely trades," but he "would take it and try to dupe someone" into buying it. He also at times referred to the industry's ongoing CDO marketing efforts as a "CDO machine" or "ponzi scheme." Deutsche Bank's senior management disagreed with his negative views, and used the bank's own funds to make large proprietary investments in mortgage related securities that, in 2007, had a notional or face value of $128 billion and a market value of more than $25 billion.

Despite disagreeing with his negative views on the mortgage market, Deutsche Bank allowed Mr. Lippmann, in 2005, to develop a large proprietary short position for the bank in the RMBS market. Since carrying that short position required the bank to pay millions of dollars in premiums, senior management also required Mr. Lippmann to defray or eliminate those costs by convincing others to take short positions in the mortgage market, thereby generating fees for the bank from arranging those shorts. In 2006, Mr. Lippmann generated an estimated $200 million in fees by encouraging his clients, such as hedge funds, to buy short positions. Simultaneously, Mr. Lippmann increased the size of the bank's short position by taking the short side of credit default swaps (CDS) referencing individual RMBS securities, an investment strategy often

referred to as investing in "single name CDS" contracts. Over a two-year period from 2005 to 2007, Mr. Lippmann built a massive short position in single name CDS contracts totaling $5 billion. From 2007 to 2008, at the direction of the bank's senior management, he cashed in that position, generating a profit for his trading desk of approximately $1.5 billion, which he claims made more money on a single position than any other trade had ever made for Deutsche Bank in its history. Despite that gain, due to its substantial long investments, Deutsche Bank incurred an overall loss of about $4.5 billion from its mortgage related proprietary investments.[1258]

To understand how Deutsche Bank continued to issue and market CDO securities even as the market for mortgage related securities began collapsing, the Subcommittee examined a specific CDO in detail, called Gemstone CDO VII Ltd. (Gemstone 7). In October 2006, Deutsche Bank began assisting in the gathering of assets for Gemstone 7, which issued its securities in March 2007. It was the last in a series of CDOs sponsored by HBK Capital Management (HBK), a large hedge fund which acted as the collateral manager for the CDO. Deutsche Bank made $4.7 million in fees from the deal, while HBK was slated to receive $3.3 million. It was not the last CDO issued by Deutsche Bank. Even after Gemstone 7 was issued in March of 2007, Deutsche Bank issued 9 additional CDOs.

Gemstone 7 was a hybrid CDO containing or referencing a variety of high risk, subprime RMBS securities initially valued at $1.1 billion when issued. Deutsche Bank's head global trader, Mr. Lippmann, recognized that these RMBS securities were high risk and likely to lose value, but did not object to their inclusion in Gemstone 7. Deutsche Bank, the sole placement agent, marketed the initial offering of Gemstone 7 in the first quarter of 2007. Its top tranches received AAA ratings from Standard & Poor's and Moody's, despite signs that the CDO market was failing and the CDO itself contained many poor quality assets.

Nearly a third of Gemstone's assets consisted of high risk subprime loans originated by Fremont, Long Beach, and New Century, three lenders known at the time within the financial industry for issuing poor quality loans and RMBS securities. Although HBK directed the selection of assets for Gemstone 7, Mr. Lippmann's CDO Trading Desk was involved in the process and did not object to including certain RMBS securities in Gemstone 7, even though Mr. Lippmann was simultaneously referring to them as "crap" or "pigs." Mr. Lippmann was also at the same time advising some of his clients to short some of those same RMBS securities. In addition, Deutsche Bank sold five RMBS securities directly from its inventory to Gemstone 7, several of which were also contemporaneously disparaged by Mr. Lippmann.

The Deutsche Bank sales force aggressively sought purchasers for the CDO securities, while certain executives expressed concerns about the financial risk of retaining Gemstone 7 assets as the market was deteriorating in early 2007. In its struggle to sell Gemstone 7, Deutsche Bank motivated its sales force with special financial incentives, and sought out buyers in Europe and Asia because the U.S. market had dried up. Deutsche Bank also talked of providing HBK's marks, instead of its own, to clients asking about the value of Gemstone 7's assets, since HBK's

[1258] Subcommittee interview of Greg Lippmann (10/18/2010); Net Revenues from ABS Products Backed by U.S. Residential Mortgages, DB_PSI_C00000003.

marks showed the CDO's assets performing better. Deutsche Bank was ultimately unable to sell $400 million, or 36%, of the Gemstone 7 securities, and agreed with HBK to split the unsold securities, each taking $200 million onto its own books. Deutsche Bank did not disclose to the eight investors whom it had solicited and convinced to buy Gemstone 7, that its global head trader of CDOs had an extremely negative view of a third of the assets in the CDO or that the bank's internal valuations showed that the assets had lost over $19 million in value since purchased.[1259]

Gemstone 7 also demonstrated how CDOs magnified risk by including or referencing within itself 115 different RMBS securities containing thousands of high risk, poor quality subprime loans. Many of those RMBS securities carried BB ratings, which are non-investment grade credit ratings and were among the highest risk securities in the CDO. Gemstone 7 also included CDO securities that, in themselves, concentrated the risk of their underlying assets. Over 75% of Gemstone's assets consisted of RMBS securities with ratings of BBB or lower, including approximately 33% with non-investment grade ratings, yet Gemstone's top three tranches were given AAA ratings by the credit rating agencies. The next three tranches were given investment grade ratings as well. Those investment grade ratings enabled investors like pension funds, insurance companies, university endowments, and municipalities, some of which were required by law, regulation, or their investment plans to put their funds in safe investments, to consider buying Gemstone securities. Eight investors actually purchased them. Within eight months, the Gemstone securities began incurring rating downgrades. By July 2008, all seven tranches in the CDO had been downgraded to junk status, and the long investors were almost completely wiped out. Today, the Gemstone 7 securities are nearly worthless.

Deutsche Bank was, in Mr. Lippmann's words, part of a "CDO machine" run by investment banks that produced hundreds of billions of high risk CDO securities. Because the fees to design and market CDOs ranged from $5 to $10 million per CDO, investment bankers had a strong financial incentive to continue issuing them, even in the face of waning investor interest and poor quality assets, since reduced CDO activity would have led to less income for structured finance units, smaller bonuses for executives, and even the disappearance of CDO departments, which is eventually what occurred. The Deutsche Bank case history provides a cautionary tale for both market participants and regulators about how complex structured finance products gain advocates within an organization committed to pushing the products through the pipeline to maintain revenues and jobs, regardless of the financial risks or possible impact on the marketplace.

[1259] See Sections 11 and 12 of Securities Act of 1933. See also Rule 10b-5 of the Securities Exchange Act of 1934. For a more detailed discussion of the legal obligations of underwriters, placement agents, and broker-dealers, see Section C(6) on conflicts of interest analysis, below.

(1) Subcommittee Investigation and Findings of Fact

As part of its investigation into the CDO market and the Deutsche Bank case study, the Subcommittee collected and reviewed hundreds of thousands of Deutsche Bank documents including reports, analyses, memoranda, correspondence, transcripts, spreadsheets, and email. The Subcommittee also collected and reviewed documents from HBK Capital Management, several financial institutions that purchased Deutsche Bank CDO securities, and the Securities and Exchange Commission (SEC). In addition, the Subcommittee conducted 14 interviews, including interviews with current and former Deutsche Bank and HBK executives, managers, sales representatives, and traders; spoke with personnel from the financial institutions that invested in Gemstone 7; and consulted with a number of experts from the SEC, academia, and industry.

Based upon the Subcommittee's review, the Report makes the following findings of fact.

1. **CDO Machine.** From late 2006 through 2007, despite increasing mortgage delinquencies, RMBS losses, and investor flight from the U.S. mortgage market, U.S. investment banks continued to issue new CDOs, including Deutsche Bank which issued 15 new CDOs securitizing nearly $11.5 billion of primarily mortgage related assets from December 2006 to December 2007.

2. **Fee Incentives.** Because the fees charged to design and market CDOs were in the range of $5 to $10 million per CDO, investment banks had strong incentives to continue issuing CDOs despite increasing risks and waning investor interest, since reduced CDO activity meant less revenues for structured finance units and even the disappearance of CDO departments and trading desks, which is eventually what occurred.

3. **Deutsche Bank's $5 Billion Short.** Although Deutsche Bank as a whole and through an affiliated hedge fund, Winchester Capital, made proprietary investments in long mortgage related assets, the bank also permitted its head CDO trader to make a $5 billion short investment that bet against the mortgage market and produced bank profits totaling approximately $1.5 billion.

4. **Proprietary Loss.** By 2007, Deutsche Bank, through its mortgage department and an affiliated hedge fund, had substantial proprietary holdings in the mortgage market, including more than $25 billion in long investments and a $5 billion short position, which together resulted in 2007 losses to the bank of about $4.5 billion.

5. **Gemstone 7.** In the face of a deteriorating market, Deutsche Bank aggressively sold a $1.1 billion CDO, Gemstone 7, which included RMBS securities that the bank's top CDO trader had disparaged as "crap" and "pigs," and which produced $1.1 billion of high risk, poor quality securities that are now virtually worthless.

(2) Deutsche Bank Background

CDOs In General. According to the Securities Industry and Financial Markets Association, $1.4 trillion worth of CDOs were issued in the United States from 2004 through the end of 2007.[1260] The following chart depicts the dramatic rise and fall of the U.S. CDO market over the last ten years, with total CDO issuance reaching its peak in 2006 at $520 billion, and then falling to a low of $4 billion in 2009.[1261]

Total Annual CDO Issuance
2000-2009

Year	Total CDO Issuance ($ in billions)
2000	67.99
2001	78.45
2002	83.07
2003	86.63
2004	157.82
2005	251.27
2006	520.64
2007	481.60
2008	61.89
2009	4.34

In 2006 and 2007, investment banks created around half a trillion dollars in CDO securities each year, even as U.S. housing prices began to stagnate and decline, subprime mortgages began to default at record rates, and RMBS securities began to incur dramatic losses. By the middle of 2007, due to the increasing risks, U.S. institutional investors like pension funds, hedge funds, and others began to purchase fewer CDO securities, and investment banks turned their attention increasingly to European and Asian investors as well as the issuers of new CDOs who became the primary buyers of CDO securities.[1262] In 2007, U.S. investment banks kept issuing and selling CDOs despite slowed sales, which meant that investment banks had to retain an increasing portion of the unsold assets on their own balance sheets.[1263]

[1260] 10/15/2010 "Global CDO Issuance," Securities Industry and Financial Markets Association, http://www.sifma.org/research/statistics.aspx.

[1261] Chart prepared by the Subcommittee using data from 10/15/2010 "Global CDO Issuance," Securities Industry and Financial Markets Association, http://www.sifma.org/research/statistics.aspx. By 2004, most, but not all, CDOs relied primarily on mortgage related assets such as RMBS securities. Subcommittee interview of Gary Witt, former Managing Director of Moody's RMBS Group (10/29/2009).

[1262] See 7/12/2007 email from Michael Lamont to Boaz Weinstein at Deutsche Bank, DBSI_01201843; "Banks' Self-Dealing Super Charged Financial Crisis," ProPublica (8/26/2010), http://www.propublica.org/article/banks-self-dealing-super-charged-financial-crisis; and "Mortgage-Bond Pioneer Dislikes What He Sees," Wall Street Journal (2/24/2007).

[1263] "Banks' Self-Dealing Super Charged Financial Crisis," ProPublica (8/26/2010).

The credit rating agencies marked a "sea change" in the CDO market in 2007, in which investment banks issued CDOs at near record levels in the first half of the year, but then sharply reined in their efforts after the mass rating downgrades of RMBS and CDO securities began in July 2007:

> "[The CDO] market in the U.S. was very active in terms of issuance throughout the first half of 2007. … The year 2007 saw a sea change for the CDO market. Moody's rated more than 100 SF [structured finance] CDO transactions in each of the first two quarters, but the number fell sharply to 40 in the third quarter and to just eight in the fourth quarter as the sheer speed and magnitude of the subprime mortgage fallout significantly weakened investors' confidence."[1264]

In the years leading up to the financial crisis, the typical size of a CDO deal was between $1 and $1.5 billion,[1265] and generated large fees for investment banks in the range of $5 to $10 million per CDO.[1266] To handle these transactions, a number of large investment banks established CDO departments and trading desks charged with designing, underwriting, selling, or trading CDO securities. The CDO origination desks typically worked with the investment banks' structured finance sales forces to sell the resulting CDO securities. This structure meant that stopping the issuance of CDO securities would require the investment banks to lose out on the fees, prestige, and market share tied to CDO sales. In addition, whole CDO departments, with their dedicated bankers, traders, and supervisors, would have to disappear, which is eventually what happened after the CDO market crashed.

CDOs at Deutsche Bank. From 2004 to 2008, Deutsche Bank issued 47 asset backed CDOs for a total securitization of $32.2 billion.[1267] According to analysts, in both 2006 and 2007, Deutsche Bank ranked fourth globally in issuing asset backed CDOs, behind Merrill Lynch, JPMorgan Chase, and Citigroup.[1268]

[1264] Moody's 2008 Global CDO Review (3/3/2008).

[1265] "Wall Street's money machine breaks down," CNNMoney.com (11/12/2007), http://money.cnn.com/magazines/fortune/fortune_archive/2007/11/26/101232838/index.htm.

[1266] See "Banks' Self-Dealing Super-Charged Financial Crisis," ProPublica (8/26/2010), http://www.propublica.org/article/banks-self-dealing-super-charged-financial-crisis ("A typical CDO could net the bank that created it between $5 million and $10 million – about half of which usually ended up as employee bonuses. Indeed, Wall Street awarded record bonuses in 2006, a hefty chunk of which came from the CDO business."). Fee information obtained by the Subcommittee is consistent with this range of CDO fees. For example, Deutsche Bank received nearly $5 million in fees for Gemstone 7, and the head of its CDO Group said that Deutsche bank received typically between $5 and 10 million in fees per CDO, while Goldman Sachs charged a range of $5 to $30 million in fees for its Camber 7, Fort Denison, and Hudson Mezzanine 1 and 2 CDOs. 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71; undated Gemstone 7 Securitization Credit Report, MTSS000011-13; 3/15/2007 Gemstone CDO VII Ltd. Closing Memorandum, DB_PSI_00133536-41; Subcommittee interview of Michael Lamont (Deutsche Bank) (9/29/2010); 3/21/2011 letter from Deutsche Bank's counsel to the Subcommittee, PSI-Deutsche_Bank-0001-04; Goldman Sachs response to Subcommittee QFRs at PSI-QFR-GS0249.

[1267] Chart, ABS CDOs Issued by DBSI (between 2004 and 2008), PSI-Deutsche_Bank-02-0005-23.

[1268] See "Global ABS CDO Issuance" chart, Reuters (4/20/2010), http://graphics.thomsonreuters.com/10/04/GLB_GCDOV0410.gif; "Banks in Talks to End Bond Probe," Wall Street

At Deutsche Bank, five different parts of the Securitized Product Group played key roles in its CDO business. They were the CDO Group (North America); the CDO sales force, formally called Securitized Products; the CDO Syndication Desk which helped promote and track CDO sales; the mortgage department; and the CDO Trading Desk, formally called ABS (Asset Backed Security) Trading, CDO Trading, and ABS Correlation Trading.

The CDO Group had two co-heads, Michael Lamont and Michael Herzig, and approximately 20 employees. The heads of the group reported to Richard D'Albert, Global Head of Deutsche Bank's Securitized Product Group. The CDO Group designed and structured the bank's CDOs, analyzed the assets that went into the CDOs, monitored the purchasing and warehousing of those assets, obtained CDO credit ratings, prepared CDO legal documentation, acted as the CDO underwriter or placement agent on behalf of Deutsche Bank, and oversaw the issuance of the CDO securities.[1269]

The CDO sales force sold the resulting CDO securities for Deutsche Bank. It received assistance from the CDO Syndication, sometimes called the "syndicate," which helped promote the deals with investors and tracked CDO sales. The CDO sales force was headed by Sean Whelan and Michael Jones. They reported to Munir D'auhajre, overall head of sales, who reported, in turn, to Fred Brettschneider, the head of the Institutional Client Group of Deutsche Bank Americas. The CDO sales force had approximately 20 employees. In the United States, the CDO Syndication had about seven employees, and was headed by Anthony Pawlowski, who reported to Mr. Lamont and Mr. Herzig, who headed the CDO Group.

The Deutsche Bank mortgage department was responsible for purchasing residential mortgages from a variety of sources, warehousing those mortgages, and securitizing the mortgages into RMBS securities for which Deutsche Bank acted as the underwriter or placement agent. Some of those RMBS securities were later included or referenced in CDOs issued by the bank.

The CDO Trading Desk was headed by Greg Lippmann, who served as global head of Deutsche Bank's CDO, ABS, and ABS Correlation Trading Desks.[1270] Those desks were responsible for trading a variety of RMBS, CDO, and other asset backed securities on the secondary market. Mr. Lippmann had a staff of approximately 30 employees, 20 in the United States and 10 in London. Like the head of the CDO Group, Mr. Lippmann reported to Mr. D'Albert, the head of the bank's Securitized Product Group. Mr. Lippmann was also the head of

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Journal (12/2/2010), http://online.wsj.com/article/SB10001424052748704594804575649170454587534.html?KEYWORDS=Banks+in+Talks+to+End+Bond+Probe. See also 10/2006, "CDO Primary Update Progress Report," prepared by Deutsche Bank, DBSI_PSI_EMAIL03970167-72, at 68 (ranking Deutsche Bank as third in CDO issuances as of October 2006).

[1269] Subcommittee interview of Michael Lamont (9/29/2010).

[1270] Organizational Chart for Deutsche Bank Global CDO Group, DB_PSI_C00000001.

risk management for all new issue CDOs and described himself as "involved in underwriting, structuring, marketing and hedging our warehouse risk for new issue cdos."[1271]

The CDO Trading Desk conducted trades for both clients and other Deutsche Bank entities. It was further divided into three trading desks, designated the CDO, ABS, and ABS Correlation Desks. Each traded certain structured finance products, tracked relevant market news and developed expertise in its assigned products, and served as a source of asset and market information for other branches of Deutsche Bank. The CDO Desk focused on buying and selling CDO securities; the ABS Desk concentrated on trading RMBS and other asset backed securities as well as short trading strategies involving credit default swap (CDS) contracts in single name RMBS; and the ABS Correlation Desk acted primarily in a market making capacity for Deutsche Bank clients, trading both long and short RMBS and CDO securities and CDS contracts with the objective of taking offsetting positions that minimized the bank's risk.[1272]

Mr. Lippmann was well known in the CDO marketplace as a trader. He had joined Deutsche Bank in 2000, after a stint at Credit Suisse trading bonds. One publication noted that Mr. Lippmann "made his name with big bets on a housing bust," continuing: "Mr. Lippmann emerged as a Cassandra of the financial crisis, spotting cracks in the mortgage market as early as 2006. His warnings helped Deutsche brace for the crisis. He also helped investors — and himself — land huge profits as big bets that the housing market would collapse materialized."[1273]

(3) Deutsche Bank's $5 Billion Short

In 2006 and 2007, Deutsche Bank's top CDO trader, Greg Lippmann, repeatedly warned his Deutsche Bank colleagues and some clients outside of the bank about the poor quality of the assets underlying many RMBS and CDO securities. Although senior management within the bank did not agree with his views, they allowed Mr. Lippmann, in 2005, to establish a large short position on behalf of the bank, essentially betting that mortgage related securities would fall in value. From 2005 to 2007, Mr. Lippmann built that position into a $5 billion short.

(a) Lippmann's Negative Views of Mortgage Related Assets

Emails produced to the Subcommittee provide repeated examples of Mr. Lippmann's negative views of mortgage related assets, particularly those involving subprime mortgages. At times, he expressed his views to colleagues within the bank; at other times he expressed them in connection with advising a client to bet against an RMBS security by taking a short position. At times, Mr. Lippmann recommended that his clients short poor quality RMBS assets, even while his trading desk was participating in a selection process that included those same assets in

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[1271] 7/14/2006 email from Greg Lippmann to Melissa Goldsmith at Deutsche Bank, DBSI_PSI_EMAIL01400135-37.

[1272] Subcommittee interview of Greg Lippmann (10/18/2010).

[1273] "Lippmann, Deutsche Trader, Steps Down," New York Times (4/21/2010), http://dealbook.nytimes.com/2010/04/21/lippmann-deutsche-trader-steps-down/. See also Michael Lewis, The Big Short (2010), at 64.

Gemstone 7. The following emails by Mr. Lippmann, written during 2006 and 2007, provide examples of his negative views.

- Emails regarding LBMLT 2004-3 M8, a subprime RMBS security issued by Long Beach: "[T]his bond blows."[1274] (2/24/2006)

- Email providing Deutsche Bank trader his opinion regarding RMBS shelves: ["[Y]ikes didn't see that[.] … [H]alf of these are crap and rest are ok[.] …[C]rap-heat pchlt sail tmts."[1275] (4/5/2006)

- Email advising an investment banker at JPMorgan Chase regarding subprime RMBS securities issued by Aegis Asset Backed Securities Trust ("aabst"), Bay View Financial Acquisition Trust ("bayv"), Home Equity Mortgage Loan Asset Based Trust ("inabs"), Park Place Securities Inc. ("ppsi"), and Structured Asset Investment Loan ("sail"): "This is a good pool for you because it has a fair number of weak names but not so many that investors should balk (I wouldn't add more of these) and also has only a few names that are very good."[1276] (6/23/2006)

- Email advising an investment banker at Oppenheimer Funds: "[Y]ou can certainly build a portfolio by picking only bad names and you have largely done that as Rasc ahl is considered bad as is Fremont (bsabs fr, fhlt, jpmac fre, sabr fr, nheli fm deals) ace, arsi and lbmlt."[1277] Mr. Lippmann listed ACE Securities Corp. as a "bad name" even though it was created by and associated with Deutsche Bank itself.[1278] (8/4/2006)

[1274] 2/24/2006 emails between Greg Lippmann and Rocky Kurita at Deutsche Bank, DBSI_PSI_EMAIL00966290. Mr. Lippmann's negative comments did not begin in 2006; as early as May 2005, he wrote that the "real money flows are buying protection." 5/11/2005 email from Greg Lippmann to Rocky Kurita at Deutsche Bank, DBSI_PSI_EMAIL00048683.

[1275] 4/5/2006 email from Greg Lippmann to Deutsche Bank employee, DBSI_PSI_EMAIL01073270. The acronyms in the email refer to the following lenders: Home Equity Asset Trust ("heat"), People's Choice Home Loan Securities Trust ("pchlt"), Structured Asset Investment Loan ("sail"), and Terwin Mortgage Trust ("tmts").

[1276] 6/23/2006 email from Greg Lippmann to Derek Kaufman at JPMorgan, DBSI_PSI_EMAIL01344930-33.

[1277] 8/4/2006 email from Greg Lippmann to Michelle Borre at Oppenheimer Funds, DBSI_PSI_EMAIL01528941-43. The acronyms in the email refer to the following lenders: Residential Asset Securities Corp. ("Rasc"), American Home Loans ("ahl"), Fremont ("fr," "fre," "fm," and "fhlt"), Bear Stearns Asset Backed Securities (bsabs), JPMorgan Acquisition Trust ("jpmac"), Securitized Asset Backed Receivables Trust ("sabr"), Nomura Home Equity Loan, Inc. ("nheli"), ACE Securities Corp. ("ace"), Argent Securities Inc. ("arsi"), and Long Beach Mortgage Trust ("lbmlt").

[1278] Subcommittee interview of Greg Lippmann (10/18/2010); Subcommittee interview with Deutsche Bank's counsel (3/7/2011); 3/21/2011 letter from Deutsche Bank's counsel to the Subcommittee (ACE is one of "Deutsche Bank's own shelf offerings."), PSI-Deutsche_Bank-32-0001-04. See also 3/2/2011 letter from Deutsche Bank's counsel to the Subcommittee ("Deutsche Bank has no ownership interest in ACE Securities Corp. ('ACE'). All shares of ACE are held by Altamont Holdings Corp, a Delaware corporation. Deutsche Bank Securities, Inc. ('DBSI'), however, is an administrative agent for ACE and in that role has authority to act on behalf of ACE in connection with offerings of asset-backed securities, including RMBS offerings. … Deutsche Bank hired the AMACAR Group, LLC ('AMACAR') to assist in the creation of ACE to act as a registrant and depositor in

- Email to co-head of the Deutsche Bank CDO Group and to Global Head of Deutsche Bank's Securitized Product Group: "I was going to reject this [long purchase of a synthetic CDO] because it seems to be a pig cdo position dump 60^ but then I noticed winchester [Deutsche Bank affiliated hedge fund] is the portfolio selector…..any idea???"[1279] (8/4/2006)

- Email responding to a hedge fund trader at Spinnaker Capital asking about a subprime RMBS security issued by Credit Based Asset Servicing and Securitization, LLC ("cbass"): "That said I can probably short this name to some CDO fool."[1280] (8/30/2006)

- Email responding to a hedge fund trader at Spinnaker Capital asking about MABS 2006-FRE1, a subprime RMBS security that contained Fremont loans and was issued by Mortgage Asset Securitization Transactions Asset-Backed Securities Trust: "This kind of stuff rarely trades in the synthetic market and will be tough for us to cover i.e. short to a CDO fool. That said if u gave us an order at 260 we would take it and try to dupe someone."[1281] (9/1/2006)

- Email describing MABS 2006-FRE1, a subprime RMBS security that contained Fremont loans and was issued by Mortgage Asset Securitization Transactions Asset-Backed Securities Trust, as a "crap bond."[1282] (9/01/2006)

- Email describing MSHEL 2006-1 B3, an RMBS security issued by Morgan Stanley as "crap we shorted"; referring to GSAMP 2006-HE3 M9, an RMBS security issued by Goldman Sachs, as "this bond sucks but we are short 20MM"; and noting with regard to ACE, which was created by and associated with Deutsche Bank, that "ace is generally horrible."[1283] (9/21/2006)

- Email responding to a hedge fund trader at Mast Capital: "Long Beach is one of the weakest names in the market."[1284] (10/20/2006)

- Email to a client selecting bonds to short: "u have picked some crap right away so u have figured it out."[1285] (12/04/2006)

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connection with RMBS offerings sponsored and/or underwritten by Deutsche Bank."), PSI-DeutscheBank-31-0004-06.

[1279] 8/23/2006 email from Greg Lippmann to Michael Lamont and Richard D'Albert, DBSI_PSI_EMAIL01605465.

[1280] 8/30/2006 email from Greg Lippmann to Bradley Wickens at Spinnaker Capital, DBSI_PSI_EMAIL01634802.

[1281] 9/1/2006 email from Greg Lippmann to Bradley Wickens at Spinnaker Capital, DBSI_PSI_EMAIL02228884.

[1282] 9/1/2006 email from Greg Lippmann to Bradley Wickens at Spinnaker Capital, DBSI_PSI_EMAIL01645016.

[1283] 9/21/2006 email from Greg Lippmann to Deutsche Bank employee, DBSI_PSI_EMAIL01689001-02. In an October 2006 email, a Deutsche Bank employee wrote to Mr. Lippmann and others that a number of RMBS such as LBMLT, HEAT, INABS, AMSI/ARSI, RAMP/RASC, and CWL "would be impossible to sell to the public" due to their poor quality. 10/2/2006 email from Axel Kunde at Deutsche Bank to Sean Whelan with copy to Mr. Lippmann, DBSI_PSI_EMAIL02255361.

[1284] 10/20/2006 email from Greg Lippmann to Craig Carlozzi at Mast Capital, DBSI_PSI_EMAIL01774820-21.

- Email regarding GSAMP 06-NC2 M8, an RMBS security that contained New Century loans and was issued by Goldman Sachs: "[T]his is an absolute pig."[1286] (12/8/2006)

- Email describing ABSHE 2006-HE1 M7, a subprime RMBS security issued by Asset Backed Securities Corporation Home Equity Loan Trust, as a "crap deal"; and describing ACE 2006 HE2 M7, a subprime RMBS securitization issued by ACE Securities Corp., as: "[D]eal is a pig!"[1287] (3/1/2007)

When asked about these emails, Mr. Lippmann told the Subcommittee that he generally thought all assets in CDOs were weak, and that his descriptions were often a form of posturing while negotiating prices with his clients. In a number of cases, however, Mr. Lippmann was assisting his clients in devising short strategies or communicating with Deutsche Bank colleagues, rather than negotiating with clients over prices. As will be seen later in this Report, some of the RMBS securities he criticized were, at virtually the same time, being included by his trading desk in Gemstone 7, which was later sold by Deutsche Bank's CDO Group.

In addition to disparaging individual RMBS securities, Mr. Lippmann expressed repeated negative views about the CDO market as a whole. At times during 2006 and 2007, he referred to CDO underwriting activity by investment banks as the workings of a "CDO machine" or "ponzi scheme."[1288] In June 2006, for example, a year before CDO credit ratings began to be downgraded en masse, Mr. Lippmann sent an email to a hedge fund trader warning about the state of the CDO market: "[S]tuff is flat b/c [because] the cdo machine has not slowed but I am fielding 2-4 new guys a day that are kicking the tires so we probably don't go tighter." [1289] A few months later, in August 2006, Mr. Lippmann wrote about the coming market crash: "I don't care what some trained seal bull market research person says this stuff has a real chance of massively blowing up."[1290]

When asked about his comments, Mr. Lippmann told the Subcommittee that the CDO market was not really a ponzi scheme, because people did receive an investment return, and asserted that he had used the term because he was "grasping at things" to prove he was right in his short position.[1291] Mr. Lippmann also told the Subcommittee that that while he knew that the major credit rating agencies had given AAA ratings to an unusually large number of RMBS and CDO securities and most people believed in the ratings, he did not. He also told the

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[1285] 12/4/2006 email from Greg Lippmann to Mark Lee at Contrarian Capital, DBSI_PSI_EMAIL01866336. The acronyms in the email refer to the following lenders: Bear Stearns Asset Backed Securities ("bsabs"), Option One Mortgage Loan Trust ("omlt"), and Ameriquest Mortgage Securities, Inc. ("amsi").
[1286] 12/8/2006 email from Greg Lippmann to Peter Faulkner at PSAM LLC, DBSI_PSI_EMAIL01882188.
[1287] 3/1/2007 email from Greg Lippmann to Joris Hoedemaekers at Oasis Capital UK, DBSI_PSI_EMAIL02033845.
[1288] In the 1920s, Charles Ponzi defrauded thousands of investors in a speculation scheme that "involves the payment of purported returns to existing investors from funds contributed by new investors." "Ponzi Schemes – Frequently Asked Questions," SEC, http://www.sec.gov/answers/ponzi.htm.
[1289] 6/8/2006 email from Greg Lippmann to Bradley Wickens at Spinnaker Capital, DBSI_PSI_EMAIL01282551.
[1290] 8/29/2006 email from Greg Lippmann to Bradley Wickens at Spinnaker Capital, DBSI_PSI_EMAIL01628496.
[1291] Subcommittee interview of Greg Lippmann (10/18/2010).

Subcommittee that he "told his views to anyone who would listen" but most CDO investors disagreed with him.[1292]

In March 2007, Mr. Lippmann again expressed his view that mortgage related assets were "blowing up":

> "I remain firm in my belief that these are blowing up whether people like it or not and that hpa [housing price appreciation] is far less relevant than these bulls think. Can't blame them because if this blows up lots of people lose their jobs so they must deny in hope that that will help prevent the collapse. At this price I'm nearly just as short as I've ever been."[1293]

(b) Building and Cashing in the $5 Billion Short

Mr. Lippmann did not just express negative views of RMBS and CDO securities to his colleagues and clients, he also acquired a significant short position on those assets on behalf of Deutsche Bank. Despite the views of virtually all other senior executives at the bank that RMBS and CDO securities would gain in value over time, Mr. Lippmann convinced the bank to allow him to initiate and build a substantial proprietary short position that would pay off only if mortgage related securities lost value.

Initiating the Short Position. In 2005, Deutsche Bank was heavily invested in the U.S. mortgage market and, by 2007, had accumulated a long position in mortgage related assets that, according to Deutsche Bank, had a notional or face value of $128 billion and a market value of more than $25 billion.[1294] These positions had been accumulated and were held primarily by the Deutsche Bank mortgage department, the ABS Trading Desk, and a Deutsche Bank affiliated hedge fund, Winchester Capital, which was based in London.[1295]

Mr. Lippmann told the Subcommittee that, despite the bank's positive view of the mortgage market, in the fall of 2005, he requested permission to establish a proprietary trading

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[1292] Subcommittee interview of Greg Lippmann (10/18/2010).

[1293] 3/4/2007 email from Greg Lippmann to Harvey Allon at Braddock Financial, DBSI_PSI_EMAIL02041351-53. On June 23, 2007, Mr. Lippmann wrote to a Deutsche Bank colleague, "Yup this is the beginning of phase 2 (the bulls still can't see it), sales by the longs and how do you think the foreign banks will feel when they see that the true mark for what they have is … this could be the end of the cdo biz." 6/23/2007 email from Greg Lippmann to Michael George, DBSI_PSI_EMAIL02584591.

[1294] According to Deutsche Bank, as of March 31, 2007, it held a total long position in mortgage related securities whose notional or face value totaled $127.8 billion, including $4.3 billion at "ABS Correlation London"; $5 billion at "CDO Primary Issue/New York"; $102 billion at "RMBS/New York"; $7.6 billion at "SPG-Asset Finance/New York"; and $8.9 billion at "Winchester Capital/London." 3/2/2011 letter from Deutsche Bank's counsel to the Subcommittee, PSI-DeutscheBank-31-0004-06. The market value of those positions was substantially lower. For example, according to Deutsche Bank, the $102 billion long investment held by its RMBS/New York office had a market value of about $24 billion. 3/21/2011 letter from Deutsche Bank's counsel to the Subcommittee, PSI-Deutsche_Bank-32-0001-04.

[1295] Id.

position that would short RMBS securities.[1296] He explained that he made this request after reviewing data he received from a Deutsche Bank quantitative analyst, Eugene Xu. He said that this data showed that, in regions of the United States where housing prices had increased by 13%, the default rates for subprime mortgages had increased to 7%.[1297] At the same time, he said, in other regions where housing prices had increased only 4%, the subprime mortgage default rates had quadrupled to 28%.[1298] Mr. Lippmann explained that he had concluded that even a moderate slow down in rising housing prices would result in significant subprime mortgage defaults, that there was considerable correlation among these subprime mortgages, and that the defaults would affect BBB rated RMBS securities. Mr. Lippmann stressed that his negative view of RMBS securities was based primarily on his view that moderating home prices would cause subprime mortgage defaults and was not dependent upon the quality of the subprime loans.[1299]

In the fall of 2005, Mr. Lippmann said that he approached his supervisor Richard D'Albert, Global Head of the Structured Products Group, for permission to enter into CDS agreements to short RMBS securities totaling $1 billion.[1300] He said that he explained at the time that a cost benefit analysis favored a short RMBS position, because the bank would pay a relatively small amount of CDS premiums per year in exchange for a potentially huge payout. Mr. Lippmann said that he estimated at the time that, when the costs were compared to the potential payout if the BBB securities defaulted, the proposed short position offered a potential payout ratio of 8 to 1.

Mr. Lippmann also developed a presentation supporting his position entitled, "Shorting Home Equity Mezzanine Tranches." It made the following points:

- "Over 50% of outstanding subprime mortgages are located in MSAs [metropolitan statistical areas] with double digit 5 year average of annual home price growth rates.

- There is a strong negative correlation between home price appreciation and loss severity.

- Default of subprime mortgages are also strongly negatively correlated with home price growth rates.

[1296] Subcommittee interview of Greg Lippmann (10/18/2010). When asked if the position was a proprietary investment by the bank, Mr. Lippmann told the Subcommittee that it was. Id. Deutsche Bank acknowledges in a 20-F filing with the U.S. Securities and Exchange Commission that it conducts proprietary trading, in addition to trading activity that facilitates customer business. Deutsche Bank stated that it trades for its own account (i.e., uses its capital) to exploit market opportunities. See Deutsche Bank Aktiengesellschaft's Form 20-F filed with the Securities and Exchange Commission on March 26, 2008, at 24.
[1297] Subcommittee interview of Greg Lippmann (10/18/2010).
[1298] Subcommittee interview of Greg Lippmann (10/18/2010).
[1299] Id.
[1300] Id.

- Nearly $440 billion subprime mortgages will experience payment shocks in the next 3 years.

- Products that may be riskier than traditional home equity/subprime mortgages have become popular." [1301]

Mr. Lippmann told the Subcommittee that Mr. D'Albert approved his taking the short position in or around November 2005, but said the trade was so big and controversial that Mr. Lippmann also had to get the approval of Rajeev Misra, Global Head of Credit Trading, Securitization and Commodities, who was based in London.[1302] Mr. Lippmann said that, in or around November 2005, Mr. Misra reluctantly gave his approval for the short position, even though Mr. Misra believed mortgage related securities would continue to increase in value over time.

Building the Short Position. Mr. Lippmann told the Subcommittee that he used some existing short positions that had been undertaken as hedges to begin building his position.[1303] He said that, throughout 2006, he gradually accumulated a larger short position, which eventually reached $2 billion. According to Mr. Lippmann, Deutsche Bank senior management reluctantly went along.[1304] He told the Subcommittee that, at one point in 2006, Boaz Weinstein, who reported to Mr. Misra, told him that the carrying costs of his position, which required the bank to pay insurance-like premiums to support the $2 billion short position, had become so large that he had to find a way to pay for them. According to Mr. Lippmann, the bank's senior management asked him to persuade them that he was right by demonstrating that others were willing to "short" the market as well. Mr. Lippmann told the Subcommittee he was then motivated to convince his clients that they ought to short the mortgage market, arrange the shorts for them, and make enough in fees from those transactions to pay for the costs of his multi-billion-dollar short.[1305]

Mr. Lippmann told the Subcommittee that he spent much of 2006 pitching his clients to short the mortgage market. He said that he often made presentations to prospective clients sharing with them his "strategy on how to cash in on a slowing housing market."[1306] He said that, in early 2006, he expended approximately 200 hours trying to convince AIG to short single name RMBS, but was unsuccessful. He told the Subcommittee that he also believed that his presentations helped convince AIG to stop buying RMBS and CDO securities and stop selling CDS protection for those deals. In an August 2006 email, Mr. Lippmann wrote: "In 05 for a time, we sold EVERY single one to AIG. They stepped out of the market in March of 06 after speaking with me and our research people (and I don't doubt other dealers)."[1307] Mr. Lippmann

[1301] 9/2005 "Shorting Home Equity Mezzanine Tranches, A Strategy to Cash in on a Slowing Housing Market," DBSI_PSI_EMAIL00502892-29.
[1302] Subcommittee interview of Greg Lippmann (10/18/2010).
[1303] Id.
[1304] Id.
[1305] Id.
[1306] Id.
[1307] 8/26/2006 email from Greg Lippmann to Richard Axilrod at Moore Capital, DBSI_PSI_EMAIL01618236.

told the Subcommittee that Mr. Lamont, who co-led Deutsche Bank's CDO Group, was not pleased that Mr. Lippmann had convinced AIG, a very large purchaser of long interest in RMBS and CDO securities, to stop buying them.

The documents indicate that Mr. Lippmann and his trading team were aware at the time that the CDO Trading Desk was expected to promote rather than discourage client interest in purchasing Deutsche Bank's CDO securities. One of Mr. Lippmann's top traders, Rocky Kurita, put it this way in mid-2005: "[W]e have to make money. Customer happiness is a secondary goal but we cannot lose sight of the trading desk[']s other role of supporting new issue and the customer franchise."[1308] In a 2007 email to a client, Mr. Lippmann wrote: "[P]lease please do not forward these emails outside of your firm. … I do not want to be blamed by the new issue people for destroying their business."[1309]

Although Mr. Lippmann was unsuccessful in convincing AIG to short RMBS and CDO securities, he did convince some of his other clients, usually hedge funds, to undertake such shorts, primarily by purchasing single name CDS contracts referencing specific RMBS securities. Those trades generated substantial sums for the ABS Correlation Trading Desk which acted as a market maker in the CDS market for those clients. Mr. Lippmann told the Subcommittee that the shorts executed by his clients ultimately generated about $200 million in revenues for his desk in 2006.[1310]

Defending the Short. According to Mr. Lippmann, in December 2006, he met in London with a senior bank official, Anshu Jain, Head of Global Markets at Deutsche Bank, and suggested that Deutsche Bank's long positions in mortgage related securities created too much exposure for the bank and should be reduced.[1311] Mr. Lippmann recommended that the bank hedge its risk using his short strategy. His suggestion was not acted upon, but as the market grew more volatile in late 2006 and early 2007, Mr. Lippmann's short position began to gain in value and caught the attention of senior management at the bank.

Mr. Lippmann told the Subcommittee that, in January 2007, he met with Mr. Jain, Mr. Misra, and Mr. D'Albert at a hotel in Lisbon, where all three again challenged him to defend his short position by noting that it had required him to pay out $20 million in CDS premiums during 2006.[1312] Mr. Lippmann told the Subcommittee that he countered by pointing out, while he had paid out $20 million, his desk made $200 million from trading in RMBS and CDO shorts for his clients. He said that the three concluded he could keep his short position.[1313] According to Mr. Lippmann, in February 2007, Mr. Jain met with him again to discuss whether or not to keep his short position, because it had gained in value and Deutsche Bank could cash in the position and

[1308] 5/12/2005 email from Rocky Kurita to Greg Lippmann, DBSI_PSI_EMAIL00054826.
[1309] 2/1/2007 email from Greg Lippmann to Wyck Brown at Braddock Financial, DBSI_PSI_EMAIL01969867.
[1310] Subcommittee interview of Greg Lippmann (10/18/2010).
[1311] Subcommittee interview of Greg Lippmann (10/18/2010).
[1312] Subcommittee interview of Greg Lippmann (10/18/2010).
[1313] Subcommittee interview of Greg Lippmann (10/18/2010).

take the profits at that time. Mr. Lippmann said that the result of the meeting was that, once again, his position was left in place.

While defending his position within the bank, Mr. Lippmann continued to speak with his outside clients about his negative views of the market, continued to make presentations to potential clients about shorting the market,[1314] and continued to execute shorts for them, while building his desk's proprietary short position.

According to Mr. Lippmann, in late February or early March 2007, as the ABX Index showed subprime RMBS securities losing value and subprime mortgages continued incurring delinquencies at record rates, an ad hoc meeting of Deutsche Bank's executive committee took place in London to discuss the bank's risk exposure in mortgage related securities. According to Mr. Lippmann, he happened to be in London at the time and was invited to attend. He estimated that ten to twelve persons were at the meeting in person, and another two to four persons participated by telephone. He said that, at the meeting, Deutsche Bank executives discussed whether the recent market volatility reflected short term or longer term trends and whether the bank should make any changes in its holdings.[1315] At that time, Mr. Lippmann held the only large short position on behalf of the bank, then about $4 to 5 billion in size.[1316] In contrast, the Deutsche Bank mortgage group held $102 billion in long RMBS and CDO securities, and Winchester Capital, Deutsche Bank's hedge fund affiliate, held a net long position of $8.9 billion.[1317] Mr. Lippmann told the Subcommittee that he was the only person at the meeting who argued for the bank to increase its short position.[1318]

At the time of the London meeting, Mr. Lippmann's position was showing a significant profit. Mr. Misra brought up the alternative of cashing in his position while RMBS prices were down, because he thought prices were in a short term dip and the profits might disappear later on. Mr. Lippmann contended that the bank should not only keep his short position, but increase it, but more senior voices disagreed with him. He told the Subcommittee that the decision at the end of the meeting was for all parties to keep their positions unchanged, including Mr. Lippmann.[1319]

Cashing In the Short. In July 2007, the major credit rating agencies began issuing downgrades of RMBS and CDO securities, in particular those that incorporated or referenced subprime mortgages. The value of those securities began to plummet. By the end of the summer of 2007, Deutsche Bank initiated efforts to sell off the long positions held by Winchester Capital and other Deutsche Bank entities, reflecting a shift in the bank's strategy, but its sales force had

[1314] See, e.g., 2/2007 presentation, "Shorting Home Equity Mezzanine Tranches," prepared by Mr. Lippmann, DBSI_PSI_EMAIL01988773-845.
[1315] Subcommittee interview of Greg Lippmann (10/18/2010).
[1316] 2/23/2007 email from Greg Lippmann to Anshu Jain, DBSI_PSI_EMAIL02383117-18.
[1317] 3/2/2011 letter from Deutsche Bank's counsel to the Subcommittee, PSI-DeutscheBank-31-0004-06.
[1318] Subcommittee interview of Greg Lippmann (10/18/2010).
[1319] Id.

difficulty due to the lack of customers willing to buy long.[1320] During 2007 and 2008, at the direction of senior management, Mr. Lippmann gradually cashed in his short position, obtaining a total return of about $1.5 billion, which Mr. Lippmann told the Subcommittee he believes was the largest profit obtained from a single position in Deutsche Bank history.[1321]

Despite the gain from Mr. Lippmann's short position, Deutsche Bank told the Subcommittee that, overall in 2007, it had a long position in mortgage related holdings, with a face value of about $128 billion and a market value of more than $25 billion. Deutsche Bank told the Subcommittee that, despite the size of these holdings and their declining value, it lost only about $4.5 billion on those mortgage related holdings for the year.[1322] Deutsche Bank also filed a 2007 annual report with the SEC claiming a 2007 profit of €7.2 billion.[1323] When asked why its large long position in mortgage holdings did not lose more value, Deutsche Bank told the Subcommittee that it had placed large hedges, using U.S. Treasury bonds, which reduced its losses.[1324]

(4) The "CDO Machine"

From 2006 to 2007, Mr. Lippmann repeatedly cautioned his colleagues and clients that the mortgage market was headed for a downfall, convinced a number of his clients to short RMBS and CDO securities, and built his $5 billion short position on behalf of Deutsche Bank. Meanwhile, the "CDO machine," as he described it, continued issuing new CDO securities through the end of 2007. The reasons for this continuing CDO activity, despite a deteriorating mortgage market and waning investor interest, are key to understanding how these complex, high risk, structured finance products ended up in multiple financial portfolios throughout the U.S. financial system.

Mr. Lippmann was frequently asked why, given his negative views, the CDO market was continuing to operate. He pointed to investment bank fees, prestige, and pressure to preserve the CDO jobs involved. In August 2006, for example, Mr. Lippmann wrote:

[1320] Subcommittee interview of Jordan Milman (10/22/2010). Mr. Milman, one of Mr. Lippmann's top traders, stated that the market first weakened in February 2007, stabilized until June or July 2007, and then it was a "one way train" down from then through 2008. Id.

[1321] Subcommittee interview of Greg Lippmann (10/18/2010). See Net Revenues from ABS Products Backed by U.S. Residential Mortgages, DB_PSI_C00000003.

[1322] According to a chart prepared by Deutsche Bank for the Subcommittee, in 2007 and 2008, its RMBS holdings lost about $3.4 billion; the CDO Group lost about $1.0 billion; Winchester Capital lost about $1.1 billion; and two other trading desks lost nearly $650 million. These losses were offset by the $1.5 billion gain from the bank's short position, for total mortgage related losses of about $4.5 billion. Net Revenues from ABS Products Backed by U.S. Residential Mortgages, DB_PSI_C00000003.

[1323] Deutsche Bank stated in its annual report filed with the SEC that it ended 2007 in the black, due to gains in other areas of the bank, including its Corporate and Investment Bank which reported a pre-tax profit of €5.1 billion and its Private Clients and Asset Management division which reported a pre-tax profit of €2.1 billion. See Deutsche Bank's 2007 annual report filed with the SEC, in particular the Executive Summary of Deutsche Bank's Annual Report and the letter from the Chairman of the Board.

[1324] Subcommittee interview with Deutsche Bank's counsel (3/7/2011). See also 3/21/2011 letter and accompanying chart from Deutsche Bank's counsel to the Subcommittee, PSI-Deutsche_Bank-32-0001-04.

> "Why have we done this? It is not without reluctance and we are looking for ways to get out of this risk, but for now the view has been, we like the fees and the league table credit (and dammit we have a budget to make)."[1325]

In January 2007, after a trader asked Mr. Lippmann why the CDO market hadn't imploded, Mr. Lippmann responded: "league table, fees, never has one blown up yet."[1326] The reference to "league table credit" indicates that investment banks considered it prestigious to be listed as the leading producer of a complex structured finance product like CDOs, and used their standing in the tables that tracked total origination numbers as a way of burnishing their reputations, attracting top talent, and generating new business. An October 2006 "Progress Report" on its CDO business, for example, which was prepared internally by the bank, included a slide entitled, "CDO Primary Revenue Forecast and League Tables," in which a chart ranked Deutsche Bank third in CDO issuance, behind Merrill Lynch and Citigroup.[1327] The slide indicated that Deutsche Bank had completed 38 CDOs to date, had a 7% share of the CDO market, and "expected to close 50 deals by year end," with the "pipeline for Q1 and Q2 2007 building." The final page of the presentation, providing a chart listing the top 20 Deutsche Bank CDO salespersons by region, together with their individual sales credits, identifies some of the bank personnel invested in the continuation of the CDO business.

On the issue of fees, the head of Deutsche Bank's CDO Group Michael Lamont told the Subcommittee that he estimated the bank received 40-200 basis points for each CDO created, depending upon the complexity of the CDO.[1328] He indicated those fees translated into about $5 to $10 million per CDO.[1329] When asked what he meant by saying "we have a budget to make," Mr. Lippmann explained that new CDO deals had to be completed continuously to produce the revenues needed to support the budgets of the CDO desks and departments involved with their creation.[1330]

[1325] 8/26/2006 email from Greg Lippmann to Richard Axilrod at Moore Capital, DBSI_PSI_EMAIL01618236-42. On August 1, 2006, Mr. Lippmann wrote to Mr. Milman, "who has all this crap and let me know which ones to look at looks like a lot of crappy deals." 8/1/2006 email from Greg Lippmann to Jordan Milman, DBSI_PSI_EMAIL01510643. Mr. Lippmann's negative views were shared by his traders. In an email originally sent by one of the traders on his desk, Rocky Kurita, the CDO business is set to a song, "CDO Oh Baby," by Vanilla Ice with the following lyrics: "Yo vip let's kick it! CDO oh baby, CDO oh baby. All right, stop, collaborate and listen. Spreads are wide with a technical invasion. Home Eq Subs were trading so tightly. Until Hedge Funds Bot Protection daily and nightly. Will they stop? Yo I don't know. Turn up the Arb and let's go. To the extreme Macro Funds do damage like a vandal. Now, BBs are trading with a new handle. Print, even if the housing bubble looms. There are never ends to real estate booms. If there is a problem, yo, we'll solve it. Check out the spreads while my structurer revolves it. CDO oh baby, CDO oh baby." 11/8/2005 email from Jordan Milman to Greg Lippmann, DBSI_PSI_EMAIL00686597-601 (forwarding an 11/8/2005 email from Rocky Kurita at Deutsche Bank).

[1326] 1/5/2007 email from Greg Lippmann to Chris Madison at Mast Capital, DBSI_PSI_EMAIL02333467-68.

[1327] 10/2006, "CDO Primary Update Progress Report," DBSI_PSI_EMAIL03970167-72, at 68.

[1328] Subcommittee interview of Michael Lamont (9/29/2010).

[1329] Id.

[1330] Subcommittee interview of Greg Lippmann (10/18/2010).

A similar view as to why the CDO business continued to operate despite increasing market risk was expressed by a former executive at the hedge fund Paulson & Co. in a January 2007 email exchange with another investor. The Paulson executive wrote:

> "It is true that the market is not pricing the subprime RMBS wipeout scenario. In my opinion this situation is due to the fact that rating agencies, CDO managers and underwriters have all the incentives to keep the game going, while 'real money' investors have neither the analytic tools nor the institutional framework to take action before the losses that one could anticipate based [on] the 'news' available everywhere are actually realized."[1331]

At the end of September 2006, the head of Deutsche Bank's sales force, Sean Whelan, wrote to Mr. Lippmann expressing concern that some CDO tranches were getting increasingly difficult to sell: "[T]he equity and the AAA were the parts we found difficult to place."[1332] Mr. Lippmann told the Subcommittee that once firms could not sell an entire CDO to investors, it was a warning that the market was waning, and the investment banks should have stopped structuring new ones.[1333] Instead of getting out of the CDO business, however, he said, a new source of CDO demand was found – when new CDOs started buying old CDO securities to include in their assets. One media report explained how this worked:

> "As the housing boom began to slow in mid-2006, investors became skittish about the riskier parts of those investments. So the banks created – and ultimately provided most of the money for – new CDOs. Those new CDOs bought the hard-to-sell pieces of the original CDOs. The result was a daisy chain that solved one problem but created another: Each new CDO had its own risky pieces. Banks created yet other CDOs to buy those."[1334]

Research conducted by Thetica Systems, at the request of ProPublica, found that in the last years before the financial crisis, CDOs had become the dominant purchaser of high risk CDO securities, largely replacing real money investors like pension funds, insurance companies, and hedge funds. The CDO market analysis found that, by 2007, 67% of the high risk mezzanine CDO securities had been purchased by other CDOs, up from 36% in 2004.[1335]

[1331] 1/14/2007 email from Paolo Pellegrini at Paulson to Ananth Krishnamurthy at 3a Investors, PAULSON ABACUS 0234459.

[1332] 9/27/2006 email from Sean Whelan to Greg Lippmann, DBSI_PSI_EMAIL02255361-63.

[1333] Subcommittee interview of Greg Lippmann (10/18/2010). Mr. Lippmann told the Subcommittee that he thought Mr. Lamont's CDO Group at Deutsche Bank had too many CDOs in the pipeline in the spring of 2007, when it could not sell all of its CDO securities. He reported that he told Mr. Lamont that defaults would increase.

[1334] "Banks' Self-Dealing Super Charged Financial Crisis," ProPublica, (8/26/2010), http://www.propublica.org/article/banks-self-dealing-super-charged-financial-crisis.

[1335] Id. ProPublica even found that, from 2006 to 2007, nearly half of all the CDOs sponsored by Merrill Lynch bought significant portions of other Merrill CDOs.

Mr. Lippmann told the Subcommittee that he considered it a "shady" practice when, in 2006, difficult-to-sell BBB CDO tranches began to be placed in new CDOs.[1336] In a June 2007 email to Mr. Lippmann, Richard Kim, a Deutsche Bank Managing Director, described placing unsold CDO tranches into a new CDO to be sold to investors as a "CDO2 balance sheet dump."[1337]

In addition to placing unsold CDO securities in newly issued CDOs, investment banks turned increasingly to non-U.S. investors to keep the CDO machine going. In August 2006, Mr. Lippmann noted that European and Asian banks were being targeted to buy CDOs:

> "Hear what you are saying and in a normal market your logic would be inarguable, but the demand for this crap is virtually entirely technically driven, all cdos. And each person at the cdo table thinks someone else is the fool- cdo equity, ostensibly only two buyers one mutual fund in Australia, and one hedge fund in Chicago, who is actually putting on a bearish correlation trade: bbb sold mostly ponzi-like to other cdos with limited distribution in Europe. AA and Junior AAA sold mostly to high grade cdos and to a certain extent European and Asian banks and lastly the senior AAA, this may ultimately break the cdo market."[1338]

In a December 2006 email, Mr. Lippmann wrote to a client: "[W]ho owns the cdos…insurance company and german and asian banks…and high grade cdos (can you say ponzi scheme)[?]"[1339] In early 2007, he wrote:

"[T]he other side is all cdos..so it is the cdo investors who r on the other side who buys cdos: aaa-reinsurance, ws [Wall Street] conduits, European and Asian banks, aa-high grade cdos, European and Asian banks and insurers..some US insurers, bbb other mezz [mezzanine] abs [asset-backed security] cdos (i.e. ponzi scheme), European banks and insurers, equity some US hedge funds, Asian insurance companies, Australian and Japanese retail investors through mutual funds." [1340]

In February 2007, when an investor wrote to Mr. Lippmann inquiring about the status of the "CDO machine," Mr. Lippmann responded: "[G]etting slower but not dead yet[.] … 2-5 ramping a day instead of 10-15[.] … [H]earing of many investors in asia especially shutting down … but the window is not completely shut yet."[1341] Deutsche Bank emails demonstrate that, in 2007, like other investment banks, it was actively trying to sell CDOs in Asia.[1342]

[1336] Subcommittee interview of Greg Lippmann (10/18/2010).
[1337] 6/14/2007 email from Richard Kim at Deutsche Bank to Greg Lippmann, DBSI_PSI_EMAIL02202920.
[1338] 8/26/2006 email from Greg Lippmann to Richard Axilrod at Moore Capital, DBSI_PSI_EMAIL01618236.
[1339] 12/4/2006 email from Greg Lippmann to Deutsche Bank employee, DBSI_PSI_EMAIL01867147-49.
[1340] 2/27/2007 email from Greg Lippmann to Fabrizio Wittenburg at Deutsche Bank, DBSI_PSI_EMAIL02027053-55.
[1341] 2/20/2007 email from Greg Lippmann to David Homan at Moore Capital, DBSI_PSI_EMAIL02006853-54.
[1342] See, e.g., "I would like these guys to push Asia sales on this…, but also as Ilinca said, the question arises why weren't they working on this thus far?" 2/21/2007 email from Abhayad Kamat at Deutsche Bank to Michael Lamont and others at Deutsche Bank, DBSI_PSI_EMAIL04056326-36.

Mr. Lippmann had an unrelentingly negative view of the RMBS and CDO securities he traded. He believed the securities would ultimately lose value, but he also believed investment banks would do all they could to sustain the CDO market for as long as possible due to the CDO fees, prestige, market share, and jobs at stake.

(5) Gemstone

To understand how one investment bank, Deutsche Bank, continued to develop and aggressively solicit its clients to purchase CDO securities even as mortgage related securities lost value and the CDO market began collapsing, the Subcommittee examined in detail Gemstone 7, a $1.1 billion CDO. Gemstone 7 was assembled and marketed by Deutsche Bank, as sole placement agent, from October 2006 to March 2007.[1343] Gemstone 7 was the last in a series of CDOs sponsored by HBK Capital Management (HBK), a large hedge fund.[1344]

Deutsche Bank issued the Gemstone 7 securities in March 2007. Six out of Gemstone's seven tranches received investment grade ratings, including AAA ratings for the top three tranches. Two months later, in July 2007, the major credit rating agencies issued mass rating downgrades of RMBS and CDO securities, including 19 of the 115 RMBS securities included or referenced in Gemstone 7. In November 2007, the credit rating agencies began to downgrade the Gemstone 7 securities. Today, all seven tranches have been downgraded to junk status, and the Gemstone 7 securities are nearly worthless.

(a) Background on Gemstone

Gemstone 7 was a $1.1 billion hybrid CDO whose assets consisted predominantly of high risk subprime RMBS securities. Nearly 90% of its assets were mid and subprime RMBS securities with 33% carrying non-investment grade ratings.[1345] Of the remaining assets, 4.5% were CDO securities; 3.3% were commercial mortgage backed securities; and 3.5% were securities backed by pools of student loans.[1346] When the deal closed in March 2007, Gemstone 7 had about $476 million in cash RMBS assets as well as $625 million in synthetic assets.[1347] Gemstone 7 was constructed as a "partially static" CDO, meaning that while some of its assets were set and could not change, others could be replaced by the collateral manager, HBK.

[1343] In the Gemstone 7 offering circular, Deutsche Bank is described as the placement agent: "The Notes purchased by the Initial Purchaser, if any, will be privately placed with eligible investors by the Initial Purchaser" where the Initial Purchaser was Deutsche Bank. Gemstone 7 Offering Circular, GEM7-00000427-816 at GEM7-00000640. In contrast, other documents produced by Deutsche Bank indicate that the bank was acting as an underwriter in the Gemstone 7 transaction. See, e.g., 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71 and undated Gemstone 7 Securitization Credit Report, MTSS000011-13. For ease of reference but without making a judgment on the matter, this Report uses the term "placement agent" when describing Deutsche Bank's role in Gemstone 7.

[1344] Subcommittee interview of HBK Managing Director Jamiel Akhtar (9/15/2010).

[1345] The intended portfolio composition of Gemstone 7 was disclosed to investors in a Debt Investor Presentation. See 2/2007 Gemstone 7 Debt Investor Presentation, GEM7-00001687-1747 at 1695.

[1346] Id. at 1691.

[1347] 9/14/2010 Gemstone 7 Asset Chart, PSI-Deutsche Bank-17-Gemstone7-0001-03.

HBK is a Dallas based hedge fund that was founded in October 1991, and by 2007, managed approximately $12 billion in capital.[1348] According to HBK, its Structured Products Group, one of its 21 business units, was "one of the leading purchasers and long-term investors in credit sensitive mortgages … including RMBS and ABS, a component in HBK's overall strategy since 2002."[1349] Deutsche Bank told the Subcommittee that HBK had a reputation as a competent manager of mortgage related assets.[1350] HBK had acted as the collateral manager for seven previous CDO deals (six named Gemstone), choosing to alternate the mandate for the deals between Lehman Brothers and Deutsche Bank.

In October 2006, HBK retained Deutsche Bank to act as the placement agent for Gemstone 7. Under the agreement, HBK was to receive 30 basis points, or 0.3%, per year of the notional amount of Gemstone 7 (approximately $3.3 million) in return for serving as the collateral manager. Deutsche Bank was slated to receive $6.79 million in "underwriting fees," but because the deal did not sell completely, Deutsche Bank ultimately received a lesser amount of $4.7 million.[1351]

On October 25, 2006, HBK and Deutsche Bank signed an agreement outlining the terms of Gemstone 7. HBK told the Subcommittee:

> "The collateral purchased under the warehouse arrangement was selected by HBK and subject to Deutsche Bank's right of approval. The warehouse documents originally contemplated a total collateral pool of $750 million, which was increased to $1.1 billion in late December 2006."[1352]

On October 24, 2006, Deutsche Bank opened a warehouse account to store the assets that would serve as the collateral for the CDO when it closed.[1353] Deutsche Bank and HBK shared the risk

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[1348] 1/2007 Gemstone 7 Debt Investor Presentation, at 17, DBSI_PSI_EMAIL01980000-60.
[1349] Id.
[1350] Subcommittee interview of Sean Whelan, co-head of Deutsche Bank sales force (9/22/2010).
[1351] See 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71; undated Gemstone 7 Securitization Credit Report, MTSS000011-13; 3/15/2007 Gemstone CDO VII Ltd. Closing Memorandum, DB_PSI_00133536-41. According to the Gemstone Offering Circular, HBK was to receive "0.30% per annum on the Quarterly Amount payable in arrears on each distribution date." 3/15/2007 Offering Circular for Gemstone CDO VII, Ltd., GEM7-00000427-816, "The Management Agreement," at 168. As opposed to an upfront fee, which Deutsche Bank received, the fee to HBK was paid quarterly. Thus, 0.30% of $1.1 billion translates to a fee of approximately $3.3 million for HBK. See 7/11/2007 email from Chehao Lu at Deutsche Bank to Marco Lukesch at HBK, GEM7-00003568. See also email noting HBK's quarterly collateral management fee of $826,067.88 as of September 11, 2007. 9/11/2007 email from Eric Martel at HBK to Jamiel Akhtar at HBK, GEM7-00006900.
[1352] 8/20/2010 letter from HBK's counsel to the Subcommittee, at 2.
[1353] See chart, "Assets Purchased by Gemstone VII CDO during Warehouse Period," GEM7-00001831-33 (showing assets purchased during the warehouse period). According to Credit magazine, "The financial press will often make its first mention of a 'new' CDO on or around the time of its closing – with the closing date generally the day on which the CDO issues tranches of debt and equity to investors. Prior to that day, however, there will have been a so-called pre-closing or 'warehousing' period, typically lasting between three and six months. During that period the asset manager will have acquired (or 'warehoused') assets to act as collateral for the securities to be issued by the CDO … on the closing day." See "CDO Guide: recovery rates," Credit (May 2004), http://db.riskwaters.com/public/showPage.html?page=133193.

for any change in value of the warehoused assets if the deal failed to close. Pursuant to the risk sharing agreement, if the deal failed to close, HBK would incur the risk for the first $80 million in losses, and Deutsche Bank would bear the remaining risk.[1354]

Deutsche Bank CDO Group. Several departments and desks at Deutsche Bank were involved in designing, marketing, and selling the Gemstone 7 securities. The CDO Group, co-headed by Michael Lamont and Michael Herzig, was responsible for designing its structure, monitoring the purchasing and warehousing of its assets, obtaining its credit ratings, preparing the legal documentation, establishing its administrative structure, obtaining underwriting approval of the deal, designing the marketing materials, and overseeing the issuance of the CDO securities.[1355] Abhayad Kamat within the CDO Group was assigned lead responsibility for structuring Gemstone 7.[1356] The CDO Trading Desk, headed by Greg Lippmann, participated in the CDO approval process once HBK selected assets. The CDO sales force, headed by Sean Whelan and Michael Jones, was responsible for selling the Gemstone 7 CDO securities.

To issue the CDO securities, Deutsche Bank established an offshore corporation in the Cayman Islands called Gemstone CDO VII, Ltd.[1357] To administer the corporation, Deutsche Bank appointed its Cayman Island affiliate, Deutsche Bank Cayman, which is a licensed trust company.[1358] As administrator, Deutsche Bank Cayman provided Gemstone 7 with the administrative services needed to operate the CDO securitization, including but not limited to, providing office facilities and secretarial staff, maintaining the books and records required by Cayman law, naming at least two Cayman directors, and acting as the Share Registrar for Gemstone shares.[1359]

HBK's Long Investment in Gemstone. HBK routinely purchased the equity tranche,[1360] also known as the residual interest, in all of its Gemstone deals, including Gemstone 7.[1361] HBK told investors in its sales presentation that "HBK has retained 100% of the equity

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[1354] 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71.

[1355] Subcommittee interview of Michael Lamont (9/29/2010).

[1356] Subcommittee interview of Abhayad Kamat (10/8/2010).

[1357] Gemstone CDO VII Ltd. Certificate of Incorporation and Memorandum and Articles of Association of Gemstone CDO VII Ltd., DB_PSI_00236844.

[1358] Deutsche Bank International Limited is a wholly owned subsidiary of Deutsche Bank AG. It currently has several offices around the world, including one in the Cayman Islands, Deutsche Bank (Cayman) Limited ("DB Cayman"), that was opened in 1983. "Deutsche Bank International Ltd.," Bloomberg Businessweek, http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=884191; "Deutsche Bank in the Cayman Islands," Deutsche Bank, http://www.dboffshore.com/page.php?title=cayman_islands. DB Cayman is a licensed trust company incorporated in the Cayman Islands. Preference Share Paying Agency Agreement, GEM7-00001089-1030, at 1092.

[1359] Amended and Restated Administrative Agreement, GEM7-00001223-31; Preference Share Paying Agency Agreement, GEM7-00001089-1130 at 1095-96.

[1360] An equity tranche is the tranche in an RMBS or CDO structure that is designed to be the first to incur any losses from the securitization. Since it is expected to incur at least some level of losses, the equity tranche is usually not given a credit rating and is often retained by the originator of the securitization. See American Banker definition, http://www.americanbanker.com/glossary/e.html.

[1361] According to HBK, "HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan level analysis, due diligence, and in house surveillance. HBK is seen as not as a trader but as a

from CDO transactions resulting in strong alignment of interests between HBK and investors."[1362] According to Kevin Jenks, HBK's collateral manager, HBK had a "buy and hold" approach to all of its Gemstone CDOs.[1363] HBK also told the Subcommittee that it participated in Gemstone 7 with "the objective of obtaining long exposure to the CDO's collateral, on a leveraged basis, through ownership of the Residual interest."[1364]

HBK deals were known for containing above average concentrations of BB or lower rated assets, but HBK prided itself on its ability to run in-depth analysis and accurate stress tests on assets it selected for its CDOs.[1365] HBK expected to receive a 15% return on its investment in the equity tranche.[1366] In its investor presentation, HBK stated: "The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices."[1367] HBK's presentation also claimed that, as of January 2007, it had only three downgrades in its asset backed security portfolio, and that its upgrade to downgrade ratio was 23 to 3.[1368] Investor M&T Bank, who later purchased Gemstone 7 securities, told the Subcommittee that it had relied on HBK's assertions when choosing what it thought was an investment with "minimal risk."[1369]

HBK informed the Subcommittee that it had never shorted any of the assets in its seven Gemstone CDOs, that its CDO trade book was evenly matched with long and short CDO assets during the 2006-2007 period,[1370] and that it lost over $700 million in its Structured Credit business unit during 2007.[1371]

(b) Gemstone Asset Selection

As the collateral manager, HBK selected the assets for Gemstone 7, subject to approval by Deutsche Bank's structuring and trading groups before each asset could be placed in the Deutsche Bank warehouse account for the CDO.[1372] According to HBK and Deutsche Bank

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vigilant investor that maximizes value through intensive analysis and surveillance." 1/2007 Gemstone 7 Debt Investor Presentation, DBSI_PSI_EMAIL01980000-60 at 23.

[1362] Id.

[1363] Subcommittee interview of Kevin Jenks (10/13/2010). Also see 1/2007 Gemstone 7 Debt Investor Presentation, DBSI_PSI_EMAIL01980000-60 at 25.

[1364] 8/20/2010 letter from HBK's counsel to the Subcommittee.

[1365] Subcommittee interview of Abhayad Kamat (10/8/2010). Mr. Kamat was the individual at Deutsche Bank who was primarily responsible for structuring Gemstone 7.

[1366] Subcommittee interview of Jamiel Akhtar (9/15/2010).

[1367] 1/2007 Gemstone 7 Debt Investor Presentation, DBSI_PSI_EMAIL01980000-60 at 17.

[1368] Id. at 25.

[1369] Subcommittee interview of M&T (9/20/2010).

[1370] According to HBK, "HBK never had a short position in any securities issued by the Gemstone 7 CDO." HBK also told the Subcommittee staff that it had approximately $350 million of long exposure in Gemstone 7 and another $800 million of "additional long exposure to the same assets underlying collateral outside the CDO." 8/20/2010 letter from HBK's counsel to the Subcommittee. HBK told the Subcommittee that it did at times take short positions in certain mortgage backed securities unrelated to the Gemstone transactions.

[1371] 8/20/2010 letter from HBK's counsel to the Subcommittee, and exhibit to letter, HBK's exposure to Gemstone VII Notes, GEM7-00000001-10.

[1372] Subcommittee interview of Abhayad Kamat (10/8/2010).

personnel, the approval process worked in the following manner. First, HBK identified the RMBS, CDO, and other securities it wanted to include or reference in the CDO. HBK then sent an email to Mr. Lippmann or his traders at Deutsche Bank requesting that the identified assets be placed in the warehouse account for Gemstone 7. Deutsche Bank traders, sometimes in consultation with Mr. Lamont's structuring group, would then either approve or voice concerns regarding the proposed assets. If they had concerns, the traders would work with HBK personnel to resolve them. For example, on January 9, 2007, HBK's Jason Lowry sent an email to Mr. Lippmann and his trader, Jordan Milman, with a list of RMBS securities proposed for inclusion in Gemstone 7, and asked: "This is the last BB list for approval. Could you take a look?" On the same day, Mr. Milman wrote back: "approved contingent upon first pay defaults getting bought back on the 2 heat bonds."[1373]

Although the Gemstone 7 offering circular did not describe Deutsche Bank's role in the asset selection process, the private engagement agreement between HBK and Deutsche Bank did.[1374] According to the terms of the engagement agreement, Deutsche Bank agreed to provide, among other items, the following service: "advising the Issuer [Gemstone 7] and the Company [HBK] on the selection and acquisition of the Underlying Assets" and "the scope of due diligence for the Underlying Assets."[1375] Under both the engagement agreement and a separate risk sharing agreement, Deutsche Bank also had the right to reject assets selected by HBK for the Gemstone warehouse account.[1376] When asked about Deutsche Bank's obligations under these agreements, Mr. Lippmann told the Subcommittee that he viewed Deutsche Bank as having an obligation to the entity, Gemstone 7, to price the assets accurately as they were purchased, which included comparing the price of each security or CDS contract on the date it went into the warehouse account to its market price and ensuring that the CDO did not overpay for the assets it purchased.[1377] Mr. Lippmann's trader, Mr. Milman, and Mr. Kamat, of Mr. Lamont's CDO Group, agreed with that assessment.[1378] All three also stated that the engagement agreement did not require Deutsche Bank to analyze the quality of the assets being purchased or how those assets were expected to perform.

On the other hand, documents reviewed by the Subcommittee indicate, in at least a few instances, that Deutsche Bank personnel voiced concerns about an RMBS security being placed in the deal due to performance concerns in addition to price. For example, Mr. Kamat, who also assisted Mr. Lippmann's trading desks, wrote to Mr. Jenks about the quality of an asset being

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[1373] See, e.g., 1/9/2007 email from Jason Lowry to Greg Lippmann, GEM7-00002154; and 12/11/2006 email from Greg Lippmann to Kevin Jenks, GEM7-00002805. The term "heat" refers to an RMBS security issued by Home Equity Asset Trust.

[1374] The Gemstone 7 offering circular states that with regard to the purchase of underlying assets: "The Issuer [Gemstone 7] will acquire Underlying Assets from a warehouse facility (the 'Warehouse Facility') provided by an affiliate of DBSI [Deutsche Bank Securities, Inc.], which provides for the purchase of Asset-Backed Securities at the direction of the Collateral Manager [HBK] on behalf of the Issuer prior to the Closing Date." Gemstone 7 Offering Circular, GEM7-00000427-816 at 494.

[1375] 10/25/2006 signed letter agreement between HBK and Deutsche Bank, GEM7-00000071-89 at 72.

[1376] 10/25/2006 signed letter agreement between HBK and Deutsche Bank, GEM7-00000071-89 at 72; and 10/24/2006 Risk Sharing Agreement, GEM7-00000090-99 at 91.

[1377] Subcommittee interview of Greg Lippmann (10/18/2010).

[1378] Subcommittee interview of Jordan Milman (10/22/2010) and Abhayad Kamat (10/8/2010).

considered for Gemstone 7. Mr. Kamat wrote: "MLMI 2005-HE1 B3 [is] on credit watch – do you want to move this out of the portfolio – investors might question/resist[.]" Mr. Jenks responded: "[N]o let's leave it in[.]"[1379]

On another occasion, Mr. Jenks from HBK exchanged several emails with Mr. Lippmann about several RMBS securities that Mr. Jenks wanted to include in the Gemstone 7 warehouse account. Mr. Jenks sent the list to Mr. Lippmann and wrote: "please approve." Mr. Lippmann responded: "ok approved but would like to lower these 2 pts each given recent press on fhlt and significant widening in the baa3 cds. Is that cool?" The term "fhlt" referred to RMBS securities issued by Fremont; by saying he wanted to "lower these 2 pts," Mr. Lippman indicated he wanted to assign them a lower value for warehouse purposes. Mr. Jenks replied: "Greg, Fremont overall is really not trading badly just the ones on downgrade watch," to which Mr. Lippmann responded: "we have seen the fhlt 05-d bbb-trade wide …. please work with me on this. … I am trying to work with you." Mr. Jenks replied:

> "Greg, I have been trying to work with you. Doing trades just with you and not on bid lists. But we play in the higher quality part of the market, I really expected you to approve the list as is. We still have several hundred million of bonds to do in cds form to do [sic]."[1380]

This exchange shows that Mr. Lippmann was cognizant of the quality of the assets being included in the CDO, and pushed for lower prices when he thought the assets were of poor quality.

HBK told the Subcommittee that it selected good quality bonds using a very complex model to analyze them.[1381] It told investors that it "analyze[d] every bond in the market, providing for a vast range of data …. [F]rom this data, trends can be observed early regarding the bonds themselves as well as the general economy and the implications on future issuance."[1382] HBK provided this description for the Subcommittee regarding the tools it used in the asset selection process:

> "HBK used a statistically driven mortgage behavior model to help make trading decisions and select assets for inclusion in the Gemstone VII CDO. Three separate database tools were utilized in this process. First, HBK licensed a commercial database called *LP Database*, which contained detailed information and performance history for millions of non-agency mortgages. The *LP Database* was a robust dataset comprising close to 80% of the market, back to the 1996 vintage. Utilizing the data acquired from the *LP*

[1379] 1/5/2007 email from Abhayad Kamat to Kevin Jenks, GEM7-00001977.
[1380] 12/8/2006 and 12/11/2006 emails between Mr. Lippmann and Mr. Jenks, DBSI_PSI_EMAIL01886779-80.
[1381] See 1/2007 Gemstone 7 Debt Investor Presentation, DBSI_PSI_EMAIL01980000-60 ("HBK's investment model utilizes proprietary default, prepay and severity loan level models to make investments in the residential market. ... Transaction performance is tracked monthly via trustee surveillance reports and ongoing loan level information to monitor and analyze parameters such as collateral yields, delinquency and default trends, recoveries, prepayments, and available credit enhancement.").
[1382] Id. at 42.

> *Database*, HBK then developed a proprietary system called the *Loss Model* that forecasted the likelihood of default, prepayment, delinquency, or timely payment for an individual mortgage monthly over a ten-year time horizon. The *Loss Model* made these forecasts based on a series of 50 loan characteristics, including whether the mortgage was a first or second lien mortgage, the type of mortgage *(e.g.*, fixed or ARM), its geographic location, FICO score, loan-to-value ratio, and level of documentation, and projections of home price appreciation and unemployment rates.
>
> Finally, HBK merged the information from the *Loss Model* into a *Bond Evaluation Engine*, which was based on software licensed from Intex Solutions. The *Bond Evaluation Engine* provided information that assisted HBK traders in pricing mortgage bonds and evaluating how the bonds might perform under certain stresses. … This portion of the analysis focused on the structure and enhancements of the RMBS and how those structures would contribute to bond performance."[1383]

Mr. Jenks of HBK told the Subcommittee that HBK "never had a bond that we thought was bad that was put in a CDO."[1384] Mr. Jenks also told the Subcommittee that he had frequent conversations with Mr. Lippmann, was aware of his "negative housing view," but disagreed with the magnitude of Mr. Lippmann's negative views.[1385] Mr. Lippmann told the Subcommittee that although he occasionally suggested bonds to Mr. Jenks for Gemstone 7, and Mr. Jenks at times purchased them, Mr. Jenks had strong views on the assets that should be included in the CDO and was not required to listen to him. HBK and Deutsche Bank emails confirm that Mr. Lippmann or his traders offered at times to sell certain bonds to HBK, which occasionally purchased them.[1386] Deutsche Bank sold five bonds from its inventory, with a value of more than $27 million, to HBK for inclusion in Gemstone 7.[1387] According to Mr. Lamont, his CDO Group was "agnostic" towards the quality of the assets that HBK purchased for Gemstone 7, and told the Subcommittee that investors had relied on HBK, the collateral manager, to analyze their quality.[1388] Mr. Lamont said that the role of the CDO Group was, not to select the CDO's assets, but to structure the deal and then use models to conduct stress tests on it.[1389]

[1383] 10/12/2010 letter from HBK's counsel to the Subcommittee.
[1384] Subcommittee interview of Kevin Jenks (10/13/2010).
[1385] Id.
[1386] See, e.g., 12/8/2006 email from Greg Lippmann to Kevin Jenks, DBSI_PSI_EMAIL01883072 (discussing trade they agreed to). See also 2/23/2007 email from Jordan Milman to Greg Lippmann, DBSI_PSI_EMAIL02022054 ("I'd rather just have Ilinca show hbk, he loves bonds like this.").
[1387] Assets Purchased by Gemstone VII CDO during Warehouse Period, GEM7-00001831-33.
[1388] Subcommittee interview of Michael Lamont (9/29/2010). Kamat also agreed that Deutsche Bank was agnostic with regard to the quality of the assets. Subcommittee interview of Abhayad Kamat (10/8/2010).
[1389] Subcommittee interview of Michael Lamont (9/29/2010).

(c) Gemstone Risks and Poor Quality Assets

Gemstone 7's assets were assembled in late 2006 and early 2007, when the mortgage market was deteriorating and subprime mortgages were experiencing record delinquency rates. The CDO posed a host of risks due to both the state of the market and the poor quality of many of its underlying assets.

Credit Report. In December 2006, Mr. Lamont's CDO Group prepared a Credit Report for Deutsche Bank's credit risk management group to obtain internal approval for the securitization of Gemstone 7.[1390] The Credit Report noted the following business risks for Deutsche Bank regarding Gemstone 7, including the possibility that the bank would be unable to sell $400 million of the Gemstone securities, which carried "significant" risk:

- "The portfolio is concentrated on RMBS obligations, with 67.6%, 20.2% and 1.9% of the RMBS exposure represented by 2005, 2006, and 2007 vintages, respectively, which results in significant vintage risk."

- "RMBS accounts for ~90.0% of the initial collateral portfolio."

- "All unsold tranches have been taken back by HBK except for the Class A-1B ($400mm). Currently, we are working with [redacted] to see if they will be interested in taking the tranche. The plan for distribution if [redacted] decides not to take the tranche, will be a senior sequential repack. The Class A-1B will be broken into two tranches. DB will take the senior part (Class A-1B(i) $200mm) and HBK will take the bottom part (Class A-1B(i) $200mm). Once the repack is setup, then DB will try to syndicate the Class A-1B(i)." [1391]

The business risks described in the internal Deutsche Bank credit report relating to "significant vintage risk" for the 2005, 2006, and 2007 vintage RMBS securities[1392]were not disclosed in the Gemstone 7 offering materials given to investors. Although the March 15, 2007 Offering Circular contained a "Risk Factor" section describing multiple risks associated with an investment in Gemstone 7, including those associated with residential asset backed securities, the Offering Circular was silent with respect to the above risks identified in the Credit Report, which were highlighted for Deutsche Bank management.

[1390] Id. See undated Gemstone 7 Securitization Credit Report, MTSS000011-13 and 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71. The 12/20/2006 Credit Report appears to be an earlier version of the document.
[1391] Gemstone 7 Securitization Credit Report, MTSS000011-13.
[1392] Id.

The Offering Circular did, however, describe in detail a number of significant risks associated with RMBS securities. For example, it stated:

- "The risk of losses on residential mortgage loans is particularly relevant now. While there is always a risk of defaults or delinquencies in payment, recently losses on residential mortgage loans have been increasing and may continue to increase in the future. The losses have been most significant in respect of subprime mortgage loans but all are affected.

- A number of factors are contributing to the increase in losses. Residential property values that increased for many years are now declining. … Declining property values also exacerbate the losses due to a failure to apply adequate standards to potential borrowers. Failures to properly screen borrowers may include failures to do adequate due diligence on a borrower (including employment and income history) or the relevant property (including valuation) or failures to follow predatory lending and the other borrower-protection statutes. Increases in interest rates may also contribute to higher rates of loss. ...

- The increase in delinquencies and defaults has contributed to a declining market for mortgage loans. The declining market has, in turn, seriously impacted mortgage originators and servicers. … The financial difficulties of servicers in particular are likely to result in losses in respect of securities backed by residential mortgage loans. … At any one time, the portfolio of Residential ABS Securities may be backed by residential loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions."[1393]

These disclosures demonstrate that both HBK and Deutsche Bank were well aware of the deteriorating mortgage market and increased risks associated with RMBS and CDO securities, even as they were marketing the Gemstone 7 securities and claiming HBK had applied careful analysis in the asset selection process to ensure good quality CDO securities.

Long Beach-Fremont-New Century Bonds. A substantial portion of the cash and synthetic assets included in Gemstone 7, 30% in all, involved subprime residential mortgages issued by three subprime lenders, Long Beach, Fremont, and New Century, all known for issuing poor quality loans and securities.[1394] Loans by these lenders were among the first to collapse. According to Moody's, these three originators, plus WMC Corporation, accounted for 31% of

[1393] 3/15/2007 Offering Circular for Gemstone CDO VII, Ltd., GEM7-00000427-816 at 483-84. While an earlier offering circular for Gemstone 7, dated February 14, 2007, identifies some risks associated with the CDO, the March offering circular contains additional language, quoted above, on the risks associated with the deteriorating mortgage market. 2/14/2007 Offering Circular for Gemstone CDO VII, Ltd., PSI-M&T_Bank-02-0001-370.

[1394] For more information on these three lenders, see sections D(3)(d) and E(2)(c)-(d) of Chapter IV. Mr. Jenks of HBK told the Subcommittee that he saw data showing that Long Beach and Fremont were poor performers, but he thought the performance varied depending upon the tranche, and he believed he could pick the better tranches. He thought he could buy low, structure the deal well, and make money. Subcommittee interview of Kevin Jenks (10/13/2010).

the subprime RMBS securities issued in 2006, but 63% of the rating downgrades issued in the second week of July 2007, when the mass rating downgrades began.[1395]

During the period when securities were being assembled for the Gemstone 7 warehouse in late 2006 and early 2007, Mr. Lippmann frequently disparaged many of the same assets he and his traders allowed to be included in Gemstone 7. About $27 million of these assets came from Deutsche Bank's own inventory. In emails to colleagues and his clients, Mr. Lippmann used words like "crap" and "pig" to describe the assets. Mr. Lippmann brought some of the assets of Gemstone 7 to the attention of some of his clients that shorted these assets.[1396]

On October 20, 2006, for example, one of Mr. Lippmann's clients sent him an email seeking advice about certain subprime bonds issued by Long Beach Mortgage Loan and Trust (LBMLT) and other originators. Mr. Lippmann responded:

> "LBMLT-06-5 M9-375. Long Beach is one of the weakest names in the market. We shorted this bond to a CDO in the mid-300s on October 13[.] Deal was done before S&P changed their criteria on July 1. Lots of 40 year mortgages …. Less than half the loans have full documentation and 10% are investor properties. This is a real pig.
>
> LBMLT -06-2 M9 350. See above on Long Beach. This one is already performing poorly with substantial delinquencies …. Further the FICO is less than the 06-05 and there are fewer full doc loans. This seems a better short than the 06-5. Only reason I can think for my guys showing you a tighter level is that we are short this one and that the June 06 deals have a taint that earlier months don[']t due to the theory that late June deals were crammed with bad stuff in order to beat the S & P revisions."[1397]

Despite these negative views of Long Beach, Mr. Lippmann's group raised no concerns when $25 million in LBMLT 2006-5 M9 securities was purchased by HBK for Gemstone 7's warehouse account, $20 million of which was purchased on October 24, 2006, four days after Mr. Lippmann's email. Altogether, a total of $79.5 million in Long Beach bonds went into Gemstone 7.[1398]

Mr. Lippmann had similar negative views of RMBS securities containing subprime loans originated by Fremont, yet his group did not object to including Fremont securities in Gemstone 7. For instance, on December 6, 2006, Mr. Lippmann's traders did not object to including $20 million of an RMBS known as SABR 2005-FR4 B3 for Gemstone 7, which contained Fremont loans.[1399] One week earlier, on November 29, 2006, when asked by a bank colleague about the

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[1395] 7/12/2007 Moody's Structured Finance Teleconference and Web Cast: RMBS and CDO Rating Actions, at Moody's SI 2010-0046902, Hearing Exhibit 4/23-106.
[1396] Subcommittee interview of counsel for Deutsche Bank (2/1/2011).
[1397] 10/20/2006 email from Greg Lippmann to Craig Carlozzi at Mast Capital, DBSI_PSI_EMAIL01774820-21.
[1398] 9/14/2010 Gemstone 7 Asset Chart, PSI-DeutscheBank-17-Gemstone7-0001-03.
[1399] Id.

same RMBS security, Mr. Lippmann labeled it a "pig."[1400] Two days later, on December 1, 2006, Mr. Lippmann declared in an email to a client that the security was "blowing up."[1401]

In addition, on November 29, 2006, Mr. Lippmann called still another RMBS security with Fremont loans, FHLT 2005-A M9, a "pig."[1402] Yet a month earlier, on October 30, 2006, approximately $1 million of FHLT 2005-A M9 had been purchased for Gemstone 7, with no objection from Mr. Lippmann's trading desk.[1403]

Mr. Lippmann made similar negative remarks about RMBS securities containing subprime loans originated by New Century. On November 28, 2006, Mr. Lippmann wrote: "MABS 2005-NC2 M9 … huge payment shock coming."[1404] Yet six weeks later, on January 17, 2007, $10 million of this exact asset, MABS 2005-NC2 M9, was purchased by Gemstone 7, without objection from Mr. Lippmann's traders.[1405] On December 8, 2006, Mr. Lippmann wrote about another New Century security underwritten by Goldman Sachs: "GSAMP 06-nc2 m8 this is an absolute pig."[1406] Although Gemstone 7 did not purchase the M8 securities, it did purchase a total of $30 million in GSAMP 2006-NC2 M9 securities – from a lower tranche in the same securitization with less subordination. It purchased those securities over a month-long period, with $10 million of the securities on November 13, 2006; another $10 million on December 8, 2006; and still another $10 million on December 21, 2006.[1407] In addition, on December 18, 2006, Gemstone 7 purchased $8.8 million worth of a similar security, GSAMP 2006-NC2 B2.[1408]

Mr. Lippmann was equally critical of New Century loans securitized by ACE, an entity created by and associated with Deutsche Bank. On September 21, 2006, for example, when asked by a Deutsche Bank salesperson for his opinion of ACE 2006-NC1 M9, an RMBS issued by ACE with New Century subprime loans, Mr. Lippmann responded that ACE was "generally horrible."[1409] On March 2, 2007, a client sent an email to Mr. Lippmann stating: "[T]hey are

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[1400] With regard to the asset, Mr. Lippmann wrote: "pig probably a 400-525 market." 11/29/2006 email from Greg Lippmann to Francis Blair at Deutsche Bank, DBSI_PSI_EMAIL01853153.

[1401] See 12/1/2006 email from Greg Lippmann to Tyler Duncan at Wayzata Investment Partners, DBSI_PSI_EMAIL01864446 (Mr. Lippmann wrote: "sabr 05-fr4 b3 another Fremont blowing up we traded in august at 260"). Later in January 2007, Greg Lippmann wrote: "SABR Fr [Fremont] blows." 1/25/2007 email from Greg Lippmann to Mark Lee at Contrarian Capital, DBSI_PSI_EMAIL01961580.

[1402] 11/29/2006 email from Greg Lippmann to Jashin Patel at Deutsche Bank, "Where is this pig marked?," DBSI_PSI_EMAIL01854608.

[1403] 9/14/2010 Gemstone 7 Asset Chart, PSI-DeutscheBank-17-Gemstone7-0001-03.

[1404] 11/28/2006 email from Greg Lippmann to Rocky Kurita, DBSI_PSI_EMAIL01846000.

[1405] See 9/14/2010 Gemstone 7 Asset Chart, PSI-DeutscheBank-17-Gemstone7-0001-03.

[1406] 12/8/2006 email from Greg Lippmann to Peter Faulkner at PSAM, LLC, DBSI_PSI_EMAIL01882188.

[1407] See 9/14/2010 Gemstone 7 Asset Chart, PSI-DeutscheBank-17-Gemstone7-0001-03.

[1408] Id.

[1409] 9/21/2006 email from Greg Lippmann to Melissa Goldsmith at Deutsche Bank, DBSI_PSI_EMAIL01689001-02. Mr. Lippmann confirmed to the Subcommittee that he believed ACE was "horrible." Subcommittee interview of Greg Lippmann (10/18/2010). On May 19, 2006, Mr. Lippmann wrote to a Deutsche Bank colleague, "We traded that ACE piece of crap with Ike at 380." 5/19/2006 email from Greg Lippmann to Rocky Kurita at Deutsche Bank, DBSI_PSI_EMAIL0120552. On May 29, 2007, Mr. Lippmann wrote with regard to ACE 2006-ASP3 M7,

claiming that DB [Deutsche Bank] was one of the last ones to tighten standards on buying loans to securitize. [Y]ou were right - ACE is crap." Mr. Lippmann responded: "INDEED … IT IS."[1410] Yet on December 19, 2006, Mr. Lippmann's traders did not object to the purchase of $10 million of ACE 2006-NC1 M9 for Gemstone 7.[1411]

Mr. Lippmann also had negative opinions about other securities purchased for Gemstone 7. On March 1, 2007, for example, Mr. Lippmann wrote that ABSHE 2006-HE1 M7 was "crap."[1412] But $5 million of this same security had been purchased three months earlier by Gemstone 7, on November 16, 2006, without objection from Mr. Lippmann's trading desk.[1413] In still another instance, on March 19, 2007, Mr. Milman described FFML 2006-FF13 as "a piece of crap."[1414] Yet over the prior five months, the Lippmann trading desk had approved the purchase of a total of $38.5 million of this exact bond, FFML 2006-FF13, for inclusion in Gemstone 7: $11.7 million of the class B1 securities on October 30, 2006; $16.2 million of the class B2 securities on November 17, 2006 and January 9, 2007; and $10.6 million of the class M9 securities on March 15, 2007.[1415]

Securities from Deutsche Bank's Inventory. Gemstone 7 purchased five securities totaling $27 million directly from Deutsche Bank's inventory.[1416] Mr. Lippmann, and his trader Jordan Milman, shared negative views of one of the bonds, ACE 2006-HE1 M10, a security in which over 75% of the loans had been originated by Fremont.[1417] In an instant message conversation in December 2006, Mr. Lippmann asked Mr. Milman his thoughts on ACE 2006-HE1 M10. Mr. Lippmann asked: "DOESNT THIS DEAL BLOW," to which Mr. Milman replied: "yes it blows I am seeing 20-40% writedowns."[1418] Not only did HBK include $10 million of this asset in the Gemstone 7 warehouse account, HBK purchased it from Deutsche Bank that same month through one of Mr. Lippmann's traders.[1419] Thus, Deutsche Bank allowed Gemstone 7 to acquire a $10 million asset that its traders believed would perform poorly, and effectively removed the financial risk of this asset from its own inventory, shifting it to its customers.

"this stinks though I didn't mention it." 5/29/2007 email from Greg Lippmann to Danielle Pluthero at Deutsche Bank, DBSI_PSI_EMAIL02532365.

[1410] 3/2/2007 email from Greg Lippmann to Clark Baker at Harbinger Capital, DBSI_PSI_EMAIL02038599.

[1411] 9/14/2010 Gemstone 7 Asset Chart, PSI-DeutscheBank-17-Gemstone7-0001-03.

[1412] 3/1/2007 email from Greg Lippmann to Joris Hoedemaekers at Oasis Capital, DBSI_PSI_EMAIL02033845.

[1413] 9/14/2010 Gemstone 7 Asset Chart, PSI-DeutscheBank-17-Gemstone7-0001-03.

[1414] 3/19/2007 email from Jordan Milman to Greg Lippmann, DBSI_PSI_EMAIL02412084.

[1415] 9/14/2010 Gemstone 7 Asset Chart, PSI-Deutsche Bank-17-Gemstone7-0001-03.

[1416] These five securities were: (1) ACE 2006-HE1 M10, (2) Securitized Asset Backed Receivables (SABR) 2005-OP1 B4, (3) Ameriquest Mortgage Securities Inc. (AMSI) 2005-R11 M10, (4) Deutsche Bank Alt-A Securities, Inc. (DBALT) 2006-AR6 M10, and (5) First Franklin Mtg Loan Asset Backed Certificate (FFML) 2005-1 B4. See Assets Purchased by Gemstone VII CDO during Warehouse Period, GEM7-00001831-33. See also 9/14/2010 Gemstone 7 Asset Chart, PSI-Deutsche Bank-17-Gemstone7-0001-03.

[1417] 9/14/2010 Gemstone 7 Asset Chart, PSI-Deutsche Bank-17-Gemstone7-0001-03.

[1418] 12/1/2006 instant message conversation between Greg Lippmann and Jordan Milman, DBSI_PSI_EMAIL01863636.

[1419] 12/19/2006 email from Jason Lowry at HBK to Greg Lippmann and others at Deutsche Bank, DBSI_PSI_EMAIL01910568; 12/19/2006 email from Greg Lippmann to Jordan Milman and others at Deutsche Bank, DBSI_PSI_EMAIL01910580.

Mr. Lippmann expressed a negative outlook for other assets as well, including SABR 2005-OP1, that was taken from Deutsche Bank's inventory and sold to Gemstone 7. On August 26, 2006, Mr. Lippmann wrote to a client about more securities "blowing up," including SABR 2005-OP1:

> "I am encouraged that in spite of the virility of the cdo bid, there are numerous examples of bonds blowing up … the tripling of serious delinq [delinquencies] in sabr 05-opl to over 6.5% since feb even though the avg [average] mortgage age is now only 21 months i.e. hasn't reset yet …. What I'm saying is there is plenty of fundamental evidence that bonds are blowing up even as the new issue and index market are remaining buoyant."[1420]

On December 12, 2006, with no objection from Mr. Lippmann's desk, Gemstone 7 purchased $5.5 million of SABR 2005-OP1 B4 from Deutsche Bank, the same asset that he had described months earlier as incurring "serious delinquencies."[1421]

A third example involved securities issued by Ameriquest Mortgage Securities Inc. (AMSI), which Gemstone purchased from Deutsche Bank's inventory. On April 6, 2006, Mr. Lippmann called AMSI 2005-R7 M8 a "crap name."[1422] In a June 16, 2006 email, Mr. Lippmann called AMSI generally a "weakish name."[1423] On December 12, 2006, Gemstone 7 purchased $5 million of another RMBS, AMSI 2005-R11 M10, with no objection from the Lippmann trading desk.[1424]

In still another instance, Deutsche Bank praised its sales force for placing a security it was having difficulty selling as the underwriter, Deutsche Alt-A Securities Inc. (DBALT) 2006-AR6, in Gemstone 7. On November 17, 2006, the Deutsche Bank Option Arms Desk sent the following email, "The Arms Desk would like to express its sincere appreciation to the sales force for an outstanding job in helping us place the bonds off DBALT 06-AR6. Thanks a lot!!"[1425] Less than two weeks later, on November 29, 2006, a member of the Deutsche Bank sales force wrote: "Some success in CMO [collateralized mortgage obligation] land today: Sold 9 mm [million] DBALT 06-AR6 M10 (Ba2/BBB-) to HBK. This class was never sold in the new issue

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[1420] 8/26/2006 email from Greg Lippmann to Richard Axilrod, DBSI_PSI_EMAIL01618236.
[1421] Assets Purchased by Gemstone VII CDO during Warehouse Period, GEM7-00001831-33.
[1422] 4/6/2006 email from Greg Lippmann to himself, DBSI_PSI_EMAIL01075218.
[1423] 6/16/2006 email from Greg Lippmann to Rocky Kurita, DBSI_PSI_EMAIL01314036.
[1424] Assets Purchased by Gemstone VII CDO during Warehouse Period. GEM7-00001831-33.
[1425] 11/17/2006 email from Deutsche Arms to Deutsche Bank employees, DBSI_PSI_EMAIL01831021; 11/14/2006 email from Deutsche Arms to Deutsche Bank employees, DBSI_PSI_EMAIL01822045. DBALT was "one of Deutsche Bank's own shelf offerings." 3/21/2011 letter from Deutsche Bank's counsel to the Subcommittee, PSI-Deutsche_Bank-32-0001-04.

marketing." [1426] HBK records indicate that, the next day, it agreed to purchase $8.8 million of DBALT 2006-AR6 M10.[1427]

Many investors would likely have found the negative views of Mr. Lippmann, Deutsche Bank's top CDO trader, important to their decision as to whether or not to buy Gemstone 7, but his views, as described above, were not disclosed to them. At the time, the traders on his desk as well as other Deutsche Bank CDO personnel knew that many clients valued and relied on Mr. Lippmann's opinion when making investment decisions, yet did not disclose his views of the specific assets included in Gemstone 7.[1428] M&T Bank told the Subcommittee that had it known about Mr. Lippmann's views, it might have "thought twice" before purchasing Gemstone 7 securities.[1429]

(d) Gemstone Sales Effort

Deutsche Bank began aggressively marketing Gemstone 7 to investors beginning in January 2007.[1430] The bank communicated with potential investors about Gemstone 7 in a variety of ways, including through emails, telephone calls, face to face meetings, and at conferences. Deutsche Bank personnel also went on what they called "road shows" to cities around the world, to meet investors and pitch the CDO to them.[1431] Sean Whelan, co-head of the Deutsche Bank CDO sales force, and Ilinca Bogza, a vice president in the Deutsche Bank syndicate group, worked to market Gemstone 7 to investors, including by scheduling road shows and personal meetings with potential investors.

Investors were typically shown a "Debt Investor Presentation" that had been prepared by HBK and Deutsche Bank.[1432] That presentation provided an overview of the transaction, a description of HBK's organization, and its investment strategy. The presentation highlighted investment considerations, including HBK's expertise in the capital markets, how its structured products exhibit relatively stable performance, and their low default history. The presentation also contained a description of HBK's analytical systems and surveillance capabilities, and included an appendix describing the risk factors for the deal. HBK told the Subcommittee that its employees attended investor meetings, and were at times called upon to answer questions, but did not always participate in the Gemstone 7 sales efforts which were led by Deutsche Bank.[1433]

[1426] 11/29/2006 email from Larry Pike to Eleanny Pichardo and others, DB_PSI_01731794.
[1427] 11/30/2006 email from Jason Lowry at HBK to Abhayad Kamat and others, GEM7-00005480. See also Assets Purchased by Gemstone VII CDO during Warehouse Period, GEM7-00001831-33.
[1428] See 7/6/2006 email from Axel Kunde to Greg Lippmann, DBSI_PSI_EMAIL01374694 ("If you tell the sales guy the bond is really bad his investor will use that as an argument against us and demand we buy back his note, because he trusted DB [Deutsche Bank] to pick a good portfolio etc, etc.").
[1429] Subcommittee Interview of M&T (9/20/2010).
[1430] See, e.g., 1/25/2007 Deutsche Bank internal email chain, DB_PSI_00346491-99, at 99.
[1431] Subcommittee interview of Sean Whelan (9/22/2010).
[1432] See, e.g., 1/2007 Gemstone 7 Debt Investor Presentation, DBSI_PSI_EMAIL01980000-60 and 2/8/2007 Gemstone 7 Debt Investor Presentation, GEM7-00001687-1747.
[1433] Subcommittee interview of Kevin Jenks (10/13/2010).

One Gemstone investor, M&T Bank, told the Subcommittee that, after observing a presentation made by Mr. Jenks and receiving Deutsche Bank's assurances in connection with its solicitation efforts, it believed that Gemstone 7 securities posed minimal investment risk.[1434] According to the transcript of a telephone call on February 5, 2007, Sean Whelan of Deutsche Bank's sales force pitched the Gemstone 7 deal to M&T Bank and stated in part: "If you indicate early, like Gemstone deals go very well, and this deal will all go very well and it will get oversubscribed."[1435] The following day, February 6, 2007, Mr. Whelan again pitched the deal to M&T and stated that Gemstone 7 "was like a lay up."[1436] When asked about these comments, Mr. Whelan told the Subcommittee that what he meant was that working with a quality hedge fund like HBK was a "lay up," not that the Gemstone 7 deal itself was a "lay up."[1437] With regards to his comment about oversubscription, he said he was referring to the tranches that M&T Bank was considering purchasing, which ultimately were fully subscribed.[1438]

In early 2007, as the closing date for Gemstone 7 neared, the Deutsche Bank sales force was having difficulty getting commitments from investors to buy Gemstone securities. Many investors who were solicited declined to invest because of concerns about the high concentration in subprime RMBS with BBB or BB ratings.[1439] In the beginning of 2007, there was a general lack of buyer interest in mortgage related securities in the United States, other than from new CDOs purchasing CDO securities from prior deals. It was not the first time, however, that a Gemstone deal involving Deutsche Bank and HBK could not be fully sold. HBK had conditioned Deutsche Bank's participation in Gemstone 7 on its purchasing unsold securities from Gemstone 4 and 5, BB rated securities that HBK still had on its books for $13.1 million. In an email sent to a colleague, an HBK Managing Director Jamiel Akhtar wrote:

> "As a condition for receiving the underwriting mandate, Kevin [Jenks] and I insisted that DB [Deutsche Bank] buy from us the $13.1mm of BB rated CDO liabilities HBK retained on its own books from Gemstone IV and V. This was a fairly sharp-elbowed tactic on our part, as the BB bonds are the worst part of the capital structure, but I felt like we should be sharp-elbowed with DB right now."[1440]

The head of Deutsche Bank's CDO Group, Michael Lamont, sent an email to the CDO Group banker assigned lead responsibility for structuring Gemstone 7, acknowledging the risk the bank took on by purchasing the earlier unsold securities, but also noting the "nice" fee being paid to the bank: "[T]hat is part of the risk we took when we were awarded the mandate and we are still making a nice all in fee."[1441] When Deutsche Bank told HBK that it intended to resell the Gemstone 4 and 5 securities, the HBK official indicated it was "ok with that as long as it is

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[1434] Subcommittee interview of M&T (9/20/2010).
[1435] 2/5/2007 telephone transcript between Sean Whelan and Alex Craig of M&T, MTSS000920-25, at 22.
[1436] 2/6/2007 telephone transcript between Sean Whelan, and Alex Craig and David Borchard of M&T, MTSS000929-31, at 31.
[1437] Subcommittee interview of Sean Whelan (9/22/2010).
[1438] Id.
[1439] See spreadsheet containing potential investor feedback regarding Gemstone 7, DBSI_PSI00117568.
[1440] 10/5/2006 email from Jamiel Akhtar at HBK to Jon Mosle at HBK, GEM7-00006353.
[1441] 2/8/2007 email from Michael Lamont to Abhayad Kamat, DBSI_PSI_EMAIL04045219-24.

not blasted out to everyone so as not to affect his current deal [Gemstone 7] in the market."[1442] Deutsche Bank and HBK did not disclose in the Gemstone 7 offering materials both the bank's purchase of the Gemstone 4 and 5 securities as a precondition to the deal and the bank's plan to sell the Gemstone 4 and 5 securities contemporaneously with the Gemstone 7 securities.

Struggle to Sell Gemstone. Evidence obtained by the Subcommittee shows that both HBK and Deutsche Bank were concerned about their exposure should Gemstone 7 not be fully subscribed and worked hard to sell the deal in the face of U.S. investor disinterest.[1443] According to the terms of the Gemstone deal, if the securities were not fully sold, the risk of the first $80 million in losses would fall on HBK, while all remaining losses would fall on Deutsche Bank.[1444] On February 27, 2007, Mr. Kamat of Deutsche Bank wrote to Mr. Jenks of HBK about selling the Gemstone 4 and 5 securities and brought up the CDO Group's need to reduce risk: "[W]e are trying to reduce our exposure right now given internal very senior mgmt review of our business." Mr. Jenks responded: "We are also trying to reduce exposure."[1445]

In January 2007, Michael Lamont, head of Deutsche Bank's CDO Group, and Mr. Jenks, the HBK collateral manager, discussed the urgency of selling Gemstone 7 in the face of a deteriorating market. On January 9, 2007, Mr. Jenks wrote to Mr. Lamont: "[W]ith this market this way and probably going to get worse we would like to really move on the cdo. Please allocate the resources to expedite this." Four minutes later Mr. Lamont responded: "[W]e are focused on this as well. We don't have a deal in the market and you will be first."[1446]

Several developments in early 2007 signaled problems in the mortgage industry. On January 29, 2007, subprime lender Fremont Investment & Loan announced that it had "severed ties" with 8,000 brokers whose loans had high delinquency rates.[1447] The following week on February 7, 2007, New Century, another major subprime lender, disclosed in a conference call with investors that "the level of early-payment defaults and loan repurchases [had] led to tighter underwriting guidelines," that its nonprime loan production would be declining, and that it would be restating its earnings.[1448] An additional warning to the market that occurred as Gemstone was being marketed to investors was the plunge in the ABX Index that tracked the value of subprime RMBS securities. In February 2007, the ABX Index fell from a high of $0.90 early in the month

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[1442] Id. at 24.

[1443] Subcommittee interview of Kevin Jenks (10/13/2010). Mr. Jenks recalled that there were more non U.S. investors in CDOs in 2007, but he believed that was because there was not much of a CDO market in Europe. Subcommittee interview of Kevin Jenks (10/13/2010). Mr. Whelan told the Subcommittee that in 2006 and 2007, CDO subscription was "spotty." Subcommittee interview of Sean Whelan (9/22/2010).

[1444] 12/20/2006 Gemstone 7 Securitization Credit Report, DB_PSI_00237655-71.

[1445] 2/27/2007 email between Abhayad Kamat and Kevin Jenks, DB_PSI_00421609 (discussing potential exposure due to purchase of earlier Gemstone 4 and 5 tranches in Gemstone 7).

[1446] 1/9/2007 email chain between Michael Lamont and Kevin Jenks, GEM7-00002156.

[1447] 2/1/2007 S&P internal email, "Defaults cause Fremont to end ties to 8,000 brokers," Hearing Exhibit 4/23-93d.

[1448] "New Century plunges on loan production," MarketWatch (2/8/2007), http://www.marketwatch.com/story/new-centurys-shares-punished-over-loan-production-warning. On the day before the New Century conference call, Deutsche Bank received a request from HBK to approve a New Century asset purchase for the Gemstone 7 deal and approved this request on February 9. See 2/9/2007 email from Jordan Milman to Ashley Bonilla at HBK, DB_PSI_00845552.

to $0.69 by the end of the month, indicating a drop of more than 23% in the value of subprime RMBS securities.[1449] These and other events affected both the RMBS and CDO markets, since so many CDOs included or referenced subprime RMBS securities.

Emails reviewed by the Subcommittee show that CDO personnel at Deutsche Bank were well aware of the worsening CDO market and were rushing to sell Gemstone 7 before the market collapsed. On February 7, 2007, Mr. Lippmann, reacting to the New Century developments, raised concerns with Mr. Lamont about the ability of Deutsche Bank to continue to sell CDO securities: "I was calling about warehouse marks and distribution risk b/c [because] hearing rumors about other dealers having big trouble placing this stuff."[1450] The next day, February 8, 2007, Mr. Lamont told Abhayad Kamat, the CDO Group employee structuring Gemstone 7: "[R]egardless we need to sell it [Gemstone 7] now while we still can."[1451] The same day, Mr. Lamont wrote to Mr. Jenks at HBK: "Keep your fingers crossed but I think we will price this just before the market falls off a cliff."[1452] The next day, February 9, 2007, Ilinca Bogza, of the Deutsche Bank syndicate group, wrote to Mr. Lamont: "Jenks just called me. … He is frightened that accounts will pull their orders given the widening in abx today. … He mentioned he was going to give you a call. He is very nervous."[1453]

On February 13, 2007, the head of Deutsche Bank's syndicate group, Anthony Pawlowski, wrote to Mr. Lamont: "I am not sure how to push guys upstairs without having them crack. Everyone wants to price this deal asap (Sean Whelan [co-head of Deutsche Bank's CDO sales force] is pushing for Friday to lock up his guys on the AAA and AA)[.] Let me know."[1454] A week later, on February 20, 2007, Mr. Lamont wrote to Deutsche Bank syndicate to ask:

> "[O]n our managed mezz[anine] abs [asset backed security] CDOs last year what was the split by risk tranche across deals between real money and cdo warehouses. The street may be pulling back so this would be good info to have as we think about how we are going to place risk."[1455]

[1449] On Feb. 23, 2007, MarketWatch announced: "The ABX.HE index that tracks CDS on the riskiest subprime loans, rated BBB-, that were sold in the second half of 2006 fell to $0.69 on Friday, according to Markit.com, which administers the indexes. That's down from $0.72 on Thursday and $0.79 at the beginning of the week. In early February, this index was above 90." "Subprime mortgage derivatives index plunges; Bankruptcies, losses in subprime home loan industry spark drop," MarketWatch (2/23/2007), http://www.marketwatch.com/story/index-of-subprime-mortgage-derivatives-plunges-on-sector-woes.

[1450] 2/7/2007 email from Greg Lippmann to Michael Lamont, DBSI_PSI_EMAIL02366193-96, at 94. When Mr. Lamont heard about the New Century developments he wrote: "yikes. I think we will stay short a while." 2/7/2007 email from Michael Lamont to Greg Lippmann, DBSI_PSI_EMAIL02366194.

[1451] 2/8/2007 email from Michael Lamont to Abhayad Kamat, DBSI_PSI_EMAIL04045219-24.

[1452] 2/8/2007 email from Michael Lamont to Kevin Jenks, DBSI_PSI_EMAIL04045360.

[1453] 2/9/2007 email from Ilinca Bogza to Michael Lamont, DBSI_PSI_EMAIL04047421-23.

[1454] 2/13/2007 email from Anthony Pawlowski at Deutsche Bank to Michael Lamont, DBSI_PSI_EMAIL04049521.

[1455] 2/20/2007 email from Michael Lamont to Ilinca Bogza, DBSI_PSI_EMAIL04054492. On February 20, 2007, a client of Mr. Lippmann's who was looking to short more RMBS commented in an email to him about the negative news concerning Novastar Financial Inc., which announced losses that day. His client described the situation in the market "like the plague." 2/20/2007 email from Steven Eisman at Frontpoint Partners to Greg Lippmann, DBSI_PSI_EMAIL02008182.

In one odd instance, Ms. Bogza, from the CDO syndicate, sent an email to the Deutsche Bank sales force suggesting that Gemstone 7 was experiencing greater investor interest than it really was. The February 20, 2007 email by Ms. Bogza stated that the bank had received an "indication of [investor] interest" in 75% of the BBB securities in Gemstone 7.[1456] After receiving this email, Mr. Lippmann wrote to Ms. Bogza: "[W]ow that much interest in the bbb? Is that real?? We would take as much as you can oversell."[1457] Ms. Bogza responded: "no, that is definitely not real …. it is at 50%; can't oversell any tranche to be honest," to which Mr. Lippmann responded: "very sneaky."[1458]

In late February, as the market continued to deteriorate, Deutsche Bank attempted to motivate its employees to sell Gemstone 7 by providing special incentives to its sales force for selling the deal. On February 21, 2007, Mr. Kamat wrote to Ms. Bogza: "[W]e need help on selling the As and BBBs in the Gemstone CDO 7 transaction – we have nearly 50% unsold on both tranches in the transaction."[1459] In another email the same day, he wrote: "[S]hould we offer more PCs for Gemstone 7 CDO given the market?"[1460] "PCs" refers to Production Credits, which were used to boost a salesperson's compensation including through an end-of-year bonus. Later the same night, Mr. Kamat sent an email to the co-head of the CDO Group seeking to increase the Production Credits that could be awarded for selling Gemstone 7: "[D]ouble digit PCs? I guess my original offer of 300 on single-As and 600 on triple-Bs is too low … what can we offer?"[1461]

Showing Investors Higher Marks. As the value of mortgage related assets grew more volatile, some potential investors in Gemstone 7 inquired about the mark to market (MTM) value of the CDO's underlying assets. MTM is a valuation method by which the current value of an asset is recorded on a firm's books at the price it would sell in the marketplace on the day it is marked. Investors at times inquire about MTM values to determine if the underlying assets of a CDO have dropped in value since their inclusion in the warehouse account. Traders who closely follow buy and sell activity for a particular class of assets are generally best able to provide the most accurate current valuation. At Deutsche Bank, the CDO Trading Desk marked the value of assets monthly as a service to its clients and at times provided this service to HBK for the assets underlying Gemstone 7.[1462] HBK also prepared its own internal marks valuing Gemstone's assets. According to both Deutsche Bank and HBK, assigning a mark is a very complicated process that involves credit analysis of the securities at issue. Both explained it was not unusual for different entities to mark an asset differently.[1463]

[1456] 2/20/2007 email from Ilinca Bogza to sales force, DBSI_PSI_EMAIL02007608.
[1457] 2/20/2007 email from Greg Lippmann to Ilinca Bogza, DBSI_PSI_EMAIL02007608.
[1458] 2/20/2007 email between Greg Lippmann and Ilinca Bogza, DBSI_PSI_EMAIL02007794.
[1459] 2/21/2007 email from Abhayad Kamat to Ilinca Bogza, DBSI_PSI_EMAIL04055827.
[1460] Id.
[1461] 2/21/2007 email from Abhayad Kamat at Deutsche Bank to Michael Lamont and others at Deutsche Bank, DBSI_PSI_EMAIL04056326-36.
[1462] 3/27/2007 email from Richard Leclezio at Deutsche Bank to Jordan Milman noting that HBK has requested marks from Deutsche Bank, DB_PSI_00423053-61.
[1463] Subcommittee interview of Jordan Milman (10/22/2010). Subcommittee interview of Kevin Jenks (10/13/2010).

During the marketing phase of Gemstone 7, documents indicate several potential investors asked Deutsche Bank to provide MTM values for the underlying assets in the CDO. In response, those potential investors were given HBK's marks, rather than the generally lower valuations assigned to the assets by Deutsche Bank's CDO Trading Desk. On January 23, 2007, Mr. Kamat sent an email to HBK explaining that some potential investors had requested marks for the Gemstone 7 assets:

> "Some investors are asking for current marks on the Gemstone 7 CDO portfolio. The attached file has the purchase price and the current marks that we got from our desk. There are many bonds where the price difference between purchase price and current mark is more than 4% …. I have asked Jordan [Milman, a Deutsche Bank trader] to review the marks but it would be great if you could have someone at HBK review also to check if the current marks seem correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors."[1464]

Before he heard back from HBK, Mr. Kamat sent a very similar request to Mr. Milman to review the marks to verify them. He wrote:

> "There are many [Gemstone 7] bonds where the price difference between purchase price and the current mark is more than 4% …. Before we send these over to CDO investors, pls could you review to check if the current marks are correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors."[1465]

The next day, a Deutsche Bank trader verified the marks: "I checked the names that Abhayad [Kamat] highlighted [and] most are marked within the recent color[.] [T]here are 4 which should be tightened."[1466]

On January 23, 2007, Mr. Kamat learned that HBK's marks showed a loss of 0.9% or $9.4 million in the Gemstone 7 portfolio, while Deutsche Bank's marks showed a greater loss of 1.7% or $19 million.[1467] On January 24, 2007, Mr. Kamat directed Deutsche Bank's syndicate group to share HBK's marks with investors instead of Deutsche Bank's. He wrote: "[F]or investors who have asked for current marks on the Gemstone CDO 7 portfolio, tell them: HBK says that the overall current portfolio is down USD 9 million."[1468]

A couple weeks later, a question arose about using Deutsche Bank marks for Gemstone 7. On February 7, 2007, Ms. Bogza from the syndicate group wrote to Mr. Kamat: "Why can we

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[1464] 1/23/2007 email from Abhayad Kamat to HBK, GEM7-00003101. This document has HBK showing a loss of $9.4 million in the value of the Gemstone assets, whereas Deutsche Bank showed a loss of $19 million. In interviews with the Subcommittee, both Mr. Milman and Mr. Lippmann said that a 1.74% drop would not have concerned them because of the relative small dollars involved compared to the $1.1 billion deal.
[1465] 1/23/2007 email from Abhayad Kamat to Jordan Milman, DB_PSI_00465462.
[1466] 1/24/2007 email from Jashin Patel to Jordan Milman, DB_PSI_00843917.
[1467] 1/23/2007 email from Abhayad Kamat to HBK, GEM7-00003101.
[1468] 1/24/2007 email from Abhayad Kamat to Chehao Lu and others at Deutsche Bank, DB_PSI_00741750-52.

not show a priced [marked] portfolio?? We need to show this [to investors]." Mr. Kamat responded: "[T]he marks we got from Jordan are too low … and it will take quite some time if we try to take on an exercise where we try to get kevin and jordan to agree on the correct marks."[1469] Mr. Kamat wrote to another colleague later that day: "[U]se this for the current prices to be sent to investors, but please note to investors that this is from HBK."[1470] HBK also appeared to want to show higher marks to investors. When Mr. Kamat emailed Mr. Jenks seeking marks for the Gemstone 7 portfolio on February 7, Mr. Jenks sent an internal email to an HBK assistant trader. Mr. Jenks wrote: "Need line item marks for cdo portfolio[.] use dec or jan depending on which is better[.]"[1471]

When asked about these documents, Mr. Kamat stated that he advised using HBK's marks instead of Deutsche Bank's marks, because HBK's marks were better due to the collateral manager's familiarity with the assets.[1472] However, Deutsche Bank's trading desk was one of the biggest traders in RMBS and CDOs on Wall Street, making it unlikely that the desk could not adequately price the assets that it traded. Deutsche Bank also chose not to share both sets of marks with investors; it shared only the HBK marks showing higher asset values.

When HBK was asked about this matter, Mr. Jenks told the Subcommittee that he did not authorize Deutsche Bank to give out HBK's marks to investors and would be "surprised" if Deutsche Bank had given out HBK's marks.[1473] Mr. Jenks only recalled one time when an investor asked Deutsche Bank for Gemstone 7 marks. When the Subcommittee asked several of the investors who ultimately purchased Gemstone securities if they had asked for marks showing the current value of the underlying assets, M&T Bank told the Subcommittee that it did not know to ask for marks.[1474] Standard Chartered, Wachovia, and Commerzbank told the Subcommittee that they did not ask for the marks and it would have been unusual for them to do so. Eight days before the Gemstone CDO closed and its securities issued, HBK estimated that its portfolio marks were down approximately $30 million.[1475]

$400 Million of Unsold Securities. The mortgage market continued to worsen in March as Deutsche Bank continued to market the Gemstone securities. On March 8, 2007, one week before the Gemstone 7 deal closed, New Century – the subprime lender whose RMBS securities made up part of Gemstone – filed an 8-K with the SEC which said: "The Company has only been able to fund a portion of its loans this week. In addition, its capacity to fund new originations is substantially limited due to its lenders' restrictions or refusals to allow the Company to access their financing arrangements."[1476] New Century's financial troubles were

[1469] 2/7/2007 emails between Abhayad Kamat and Ilinca Bogza, DB_PSI_00434692-96.
[1470] 2/7/2007 email from Abhayad Kamat to Chehao Lu, DB_PSI_00711486.
[1471] 2/7/2007 email from Kevin Jenks to Jason Lowry, GEM7-00003084.
[1472] Subcommittee interview of Abhayad Kamat (10/8/2010).
[1473] Subcommittee interview of Kevin Jenks (10/13/2010).
[1474] Subcommittee interview of M&T (9/20/2010).
[1475] 3/7/2007 email from Kevin Jenks to Abhayad Kamat, GEM7-00001958.
[1476] 3/8/2007 New Century Financial Corporation 8-K filing with the SEC. Even senior Deutsche Bank management was aware of the problems involving New Century and Fremont during this time period. On March 2, 2007, Mr. Lippmann sent an email to Mr. Misra, copying Mr. D'Albert, with a subject line: "Fremont Shut Down Sub-Prime

prominently reported in the financial press on March 11, 2007.[1477] On March 15, 2007, the day Gemstone 7 closed, Bear Stearns said that "residential mortgage-related revenue decreased from the prior year period, reflecting weakness in the U.S. residential mortgage-backed securities market. … New Century Financial Corp., which had been a major provider of loans to people with risky credit, said it has lost support from its financial backers and is being delisted from the NYSE."[1478] New Century comprised 15% of Gemstone 7.

Ultimately $400 million of Gemstone 7 was unsold. Although not contractually obligated to do so, Deutsche Bank agreed to split the unsold $400 million of Gemstone 7 securities between itself and HBK.[1479] Meetings concerning taking back the $400 million were held at the highest levels of both Deutsche Bank and HBK.[1480] As Mr. Lippmann put it: "[W]e don't have much choice … either we repo for them or we take it down."[1481]

Deutsche Bank and HBK were unable to sell 36% of the securities and instead kept those securities on their books. Mr. Jenks of HBK told the Subcommittee that he always wanted to know if unsold portions of a CDO he was interested in investing in would be bought back by the

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business" that contained a number of negative news headlines concerning New Century including, "New Century says U.S. attorney conducting criminal probe … New Century says NYSE reviewing transactions in its securities … New Century says SEC requested meeting on restatement." The next day Mr. Misra replied to Mr. Lippmann, "Well, no regrets. Let's hold tight on our shorts now. It will be a bumpy market to market ride but we will prevail." 3/2/2007 and 3/3/2007 email chain between Mr. Lippmann and Mr. Misra, DBSI_PSI_EMAIL02392659-61.

[1477] See, e.g., "Crisis Looms In Market for Mortgages," The New York Times (3/11/2007), http://www.nytimes.com/2007/03/11/business/11mortgage.html. ("On March 1, a Wall Street analyst at Bear Stearns wrote an upbeat report on a company that specializes in making mortgages to cash-poor homebuyers. The company, New Century Financial, had already disclosed that a growing number of borrowers were defaulting, and its stock, at around $15, had lost half its value in three weeks. What happened next seems all too familiar to investors who bought technology stocks in 2000 at the breathless urging of Wall Street analysts. Last week, New Century said it would stop making loans and needed emergency financing to survive. The stock collapsed to $3.21.")

[1478] "Bear Stearns 1Q profit rises 8 percent on strong results in bonds, credit," Associated Press Financial Wire (3/15/2007). Also see "New Century Understated Debt; Faces SEC Probe, Stock Delisting," Associated Press (3/13/2007), http://www.cnbc.com/id/17590171/New_Century_Understated_Debt_Faces_SEC_Probe_Stock_Delisting; "New Century Subpoenaed, Faces Delisting," Washington Post (3/13/2007), http://www.washingtonpost.com/wp-dyn/content/article/2007/03/13/AR2007031300603.html.

[1479] On 3/14/2007, Fred Brettschneider, head of Deutsche Bank institutional sales, wrote: "We believe that we have reached an acceptable compromise with HBK. We will be restructuring the unsold mezz AAA and we will underwrite the senior portion leaving them [HBK] with the junior piece." 3/14/2007 email from Fred Brettschneider to Anshu Jain and others, DBSI_PSI_EMAIL02064810-12. On 3/27/2007, Larry Pike of Deutsche Bank wrote with regard to Gemstone 7, "400mm of the unsold bonds were a middle (mezz) AAA class that were expected to be purchased by an investor who backed out at a late stage due to a deteriorating market. HBK was upset about this and wanted DB to take these bonds down, threatening to curtail business globally with HBK if we didn't." 3/27/2007 email from Larry Pike to Sean Whelan and others, DB_PSI_00859611.

[1480] Subcommittee interview of Michael Lamont (9/29/2010).

[1481] Apparently, Mr. Lippmann was explaining that either Deutsche Bank could "repo" or loan money to HBK in order for HBK to purchase the unsold Gemstone 7 securities or Deutsche Bank would have to "take it down" – either purchase the securities itself or liquidate the CDO. 2/20/2007 email from Greg Lippmann to Rich Rizzo at Deutsche Bank, DBSI_PSI_EMAIL02377303.

underwriter, but he did not know if everyone asked about this.[1482] M&T Bank told the Subcommittee that it would have been useful information, though it would have been more concerned if the tranches it was purchasing were not fully subscribed.[1483]

(e) Gemstone Losses

Gemstone 7 closed on March 15, 2007, and received credit ratings from S&P and Moody's on the same day.[1484] The top three tranches, representing 73% of the value of the CDO, received AAA ratings. The next three tranches received investment grade ratings of AA, A, and BBB.[1485] The CDO received these ratings even though one third of its underlying assets carried non-investment grade ratings.

Eight months later, in November 2007, five of its seven tranches were downgraded, including one of its AAA rated tranches. By July 2008, all seven tranches had been downgraded to junk status, and the Gemstone securities were nearly worthless. This chart, using S&P data, displays the downgrades.[1486]

Gemstone VII Ratings by Tranche

Tranche	Initial Rating: Date	1st Downgrade: Date	2nd Downgrade: Date	3rd Downgrade: Date
Class A-1a	AAA: March 15, 2007	A+: Feb. 5, 2008	BB+: July 11, 2008	CC: August 19, 2009
Class A-1b	AAA: March 15, 2007	B-: Feb. 5, 2008	CC: July 11, 2008	n/a
Class A-2	AAA: March 15, 2007	AA-: Nov. 21, 2007	CCC-: Feb. 5, 2008	CC: July 11, 2008
Class B	AA: March 15, 2007	BBB: Nov. 21, 2007	CC: Feb. 5, 2008	n/a
Class C	A: March 15, 2007	B-: Nov. 21, 2007	CC: Feb. 5, 2008	n/a
Class D	BBB: March 15, 2007	CCC+: Nov. 21, 2007	CC: Feb. 5, 2008	n/a
Class E	BB+: March 15, 2007	CCC: Nov. 21, 2007	CC: Feb. 5, 2008	n/a
Preference Shares	Not rated			

Source: S&P

Investors contacted by the Subcommittee reported that they had lost all or most of their investments. In June 2008, M&T Bank wrote down the value of its Gemstone 7 securities to

[1482] Subcommittee interview of Kevin Jenks (10/13/2010).
[1483] Subcommittee interview of M&T (9/20/2010). In addition, Standard Chartered reported that it didn't know that a portion of the CDO was unsold, and that it would have been information worth knowing but that it wouldn't have ultimately impacted its decision to invest in Gemstone 7. Subcommittee interview of counsel for Standard Chartered (10/14/2010).
[1484] 3/15/2007 letter from S&P to Gemstone CDO VII Ltd, GEM7-00001658-61; 3/15/2007 letter from Moody's to Gemstone CDO VII Ltd., GEM7-00001657.
[1485] Gemstone 7 ratings from S&P's RatingsDirect on the Global Credit Portal, https://www.globalcreditportal.com/ratingsdirect/Login.do, with subscription.
[1486] Chart prepared by the Subcommittee using data from S&P's RatingsDirect on the Global Credit Portal, https://www.globalcreditportal.com/ratingsdirect/Login.do, with subscription.

about 2% of their original value – from $82 million to $1.87 million.[1487] Wachovia Bank told the Subcommittee that its $40 million investment in Gemstone paid out approximately $3 million from 2007-2010, but is currently worth nothing.[1488] Standard Chartered Bank told the Subcommittee that, in 2008, it liquidated its Gemstone investment and received approximately 25-30% of its initial $224 million investment.[1489] Commerzbank told the Subcommittee that its initial $16 million investment in Gemstone is currently worth nothing.[1490]

(6) Other Deutsche Bank CDOs

Gemstone 7 was only one of many CDOs that Deutsche Bank assembled and underwrote as the mortgage market deteriorated in 2007. From December 2006 through December 2007, Deutsche Bank issued 15 new CDOs with assets totaling $11.5 billion.[1491] The Subcommittee did not examine these CDOs, but a brief discussion of a few shows that the bank's issuance of high risk mortgage related assets was not confined to Gemstone 7.

Magnetar CDOs. Magnetar is a Chicago based hedge fund that, according to press reports, worked with several financial institutions to create CDOs with riskier assets and then bet on those CDOs to fail.[1492] Deutsche Bank underwrote one of those CDOs and served as trustee for two other Magnetar CDOs.

According to press reports, Magnetar's investment strategy was to purchase the riskiest portion of a CDO – the equity – and, at the same time, to purchase short positions on other tranches of the same CDO.[1493] Thus, Magnetar would receive a large return on the equity if the security did well, but would also receive a substantial payment from its short positions if the securities lost value. This strategy was dubbed by some as the "Magnetar Trade." It apparently generated large profits for Magnetar. By the end of 2007, when the market was in turmoil, Magnetar's Constellation Fund was up 76% and its Capital Fund was up 26%.[1494]

Mr. Lippmann disapproved of the Magnetar CDOs.[1495] In August 2006, when an investor asked Mr. Lippmann about Magnetar, he responded that it was a "Chicago based hedge

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[1487] M&T Bank Corporation v. Gemstone CDO VII, (N.Y. Sup.), Complaint (June 16, 2008), DB_PSI_00000027-79, at ¶ 52. For a list of customers and their allocations of Gemstone 7, see Gemstone VII Summary, DB_PSI_00711305.
[1488] 11/19/2010, 11/23/2010 emails from counsel of Wachovia to Subcommittee staff.
[1489] Subcommittee interview of counsel of Standard Chartered (11/23/2010).
[1490] 12/7/2010 email from counsel of Commerzbank to Subcommittee staff.
[1491] ABS CDOs Issued by DBSI (between 2004 and 2008), PSI-Deutsche_Bank-02-0005-23.
[1492] See, e.g., "The Magnetar Trade: How One Hedge Fund Helped Keep the Bubble Going," ProPublica (4/9/2010), http://www.propublica.org/article/the-magnetar-trade-how-one-hedge-fund-helped-keep-the-housing-bubble-going.
[1493] Id.
[1494] "Magnetar's Exit: A Deal So Bad Even a Credit-Rating Agency Balked," ProPublica (4/9/2010), http://www.propublica.org/article/magnetars-exit-a-deal-so-bad-even-a-credit-rating-agency-balked.
[1495] Subcommittee interview of Greg Lippmann (10/18/2010).

fund that is buying tons of cdo equity and shorting the single names …. [T]hey are buying equity and shorting the single names … a bit devious."[1496]

In May 2006, Magnetar created its first CDO, Orion 2006-1 Ltd, a $1.3 billion hybrid CDO with cash and synthetic assets.[1497] The CDO closed on May 26, 2006, and was underwritten by Calyon and managed by NIBC Credit Management, Inc.[1498] Deutsche Bank's Special Situations Group purchased equity in Orion, and helped create the CDO.[1499] A Deutsche Bank employee, Michael Henriques, who worked on Orion as managing director of the Special Situations Group, left Deutsche Bank and ultimately went to work for Magnetar.[1500]

Although Orion received investment grade ratings from Fitch and Moody's in June 2006,[1501] a little over a year later, on August 21, 2007, Fitch issued the first of several rating downgrades.[1502] In November 2007, Moody's downgraded the Class A notes six notches and the Class B notes seven notches.[1503] By May 2008, every class of Orion's securities had been downgraded to junk status.[1504]

START CDOs. Deutsche Bank also underwrote six START CDOs with a combined value of $5.25 billion from June 2005 to December 2006.[1505] In one of the deals, Deutsche Bank worked with Elliot Advisors, a hedge fund that bought the equity tranche in the CDO and

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[1496] 8/23/2006 email from Jeremy Coon at Passport Management to Greg Lippmann, DBSI_PSI_EMAIL01603121. In another email, when asked how Magnetar distorted the market, Mr. Lippmann responded, "easy but lengthy answer get him on the phone and call me." 8/31/2006 email from Warren Dowd at Deutsche Bank to Greg Lippmann, DBSI_PSI_EMAIL01641089.

[1497] See Loreley Financing v. Credit Agricole Corporate and Investment Bank, (N.Y. Sup.), (10/29/2010). Orion 2006-1 is one of two Magnetar CDOs that are the subjects of this lawsuit filed by Loreley Financing, a European-based investment fund, and Crédit Agricole, a French bank. See also "Magnetar Deals at Center of New Lawsuit," ProPublica (10/25/2010), http://www.propublica.org/article/magnetar-deals-at-center-of-new-lawsuit.

[1498] See Loreley Financing v. Credit Agricole Corporate and Investment Bank, (N.Y, Sup.), (10/29/2010) (alleging Calyon permitted Magnetar to select poor assets for the two Magnetar CDOs and fraudulently induced investors to purchase the securities).

[1499] "Magnetar Gets Started," ProPublica (4/9/2010), http://www.propublica.org/article/magnetar-gets-started; Loreley Financing v. Credit Agricole Corporate and Investment Bank, (N.Y. Sup.), (10/29/2010).

[1500] Loreley Financing v. Credit Agricole Corporate and Investment Bank, (N.Y. Sup.), (10/29/2010).

[1501] "Fitch Rates Orion 2006-1, Ltd./LLC.," BusinessWire (5/26/2006), http://www.thefreelibrary.com/Fitch+Rates+Orion+2006-1,+Ltd.%2FLLC.-a0146274727; 6/9/2006 "$292.5 Million of Debt Securities Rated, $936 Million of Senior Credit Swap Risk Rated," Moody's, http://v3.moodys.com/viewresearchdoc.aspx?docid=PR_109282.

[1502] Fitch downgraded the CDO's Class A notes from AAA to AA, the Class B notes from AA to A-, the Class C notes from A to BB, and the Class D notes from BBB to B+. "Fitch Downgrades $289MM of Orion 2006-1, Ltd.," BusinessWire (8/21/2007), http://www.highbeam.com/doc/1G1-167859601.html.

[1503] 11/1/2007 "Moody's takes neg action on Orion 2006-1," Moody's, http://v3.moodys.com/viewresearchdoc.aspx?docid=PR_143474.

[1504] 10/28/2010 "Moody's lowers ratings of 95 Notes issued by 56 structured finance CDO transactions," Moody's, http://v3.moodys.com/viewresearchdoc.aspx?docid=PR_208444.

[1505] They included Static Residential 2005-A for $1 billion; Static Residential 2005-B for $1 billion; Static Residential 2005-C for $500 million; Static Residential 2006-A for $1 billion; Static Residential 2006-B for $1 billion; and Static Residential 2006-C for $750 million. Chart, ABS CDOs Issued by DBSI (between 2004 and 2008), PSI-Deutsche_Bank-02-0005-23.

simultaneously bought CDS protection against the entire structure, essentially shorting the deal and betting that the value of its assets would fall.[1506] On four of the deals, Deutsche Bank worked with Paulson Advisors, a hedge fund that bought the equity tranche and apparently shorted the rest of the CDO, while Deutsche Bank sold the rest of the securities.[1507] An internal Deutsche Bank email explained one of the 2005 START CDOs as follows:

> "The $1 billion START 2005-B trade was backed by a static pool of CDS on mezzanine RMBS for Paulson Advisors ($4 bln risk arb hedge fund). Paulson retained the bottom 6% of the trade and we sold the rest of the capital structure. Paulson, who came to us with the strong desire to short the U.S. housing market, wrote CDS on underlying ABS (over 100 names) to DB [Deutsche Bank] and DB intermediated them into the deal."[1508]

Mr. Lamont told the Subcommittee that Mr. Paulson shorted the START deals, and he believed investors were aware of that fact. Mr. Lamont told the Subcommittee that Mr. Lippmann's ABS desk shorted all of the START CDOs as an intermediary and this was confirmed by Mr. Lippmann. In an email discussing START with a Deutsche Bank colleague, Mr. Lippmann advised him to buy protection for the bank against START. He wrote: "Start is crap you should short because I bet we'll have to … buyback cash ones next year."[1509]

Mr. Lippmann told the Subcommittee that Deutsche Bank ended up losing a great deal of money on the START deals. One Deutsche Bank employee wrote to Mr. Lippmann regarding one of the deals in June 2007: "This along with our remaining held inventory if we can't sell away we repack into a CDO 2 balance sheet dump later this summer. Worst case we hold it but it is probably the lesser of two evils (the greater evil being our held START position)."[1510]

(7) Analysis

Deutsche Bank was the fourth largest issuer of CDOs in the United States. It continued to issue CDOs after mortgages began losing money at record rates, investor interest waned, and its most senior CDO trader concluded that the mortgage market in general and the specific RMBS securities being included in the bank's own CDOs were going to lose value. Mr. Lippmann derided specific RMBS securities and advised his clients to short them, at the same time his desk was allowing the very same securities to be included or referenced in Gemstone 7, a CDO that the bank was assembling for sale to its clients. In fact, the bank was selling some assets that Mr. Lippmann believed contained "crap." While the Gemstone CDO was constructed and marketed by the bank's CDO Desk, which is separate from the trading desk controlled by Mr. Lippmann, both desks knew of Mr. Lippmann's negative views. The bank managed to sell $700 million in Gemstone 7 securities which then failed within months, leaving the bank's clients with worthless investments.

[1506] Subcommittee interview of Michael Lamont (9/29/2010).
[1507] Subcommittee interview of Greg Lippmann (10/18/2010).
[1508] 10/10/2005 email from Michael Raynes at Deutsche Bank to Greg Lippmann, DBSI_PSI_EMAIL00574452.
[1509] 12/14/2006 email from Greg Lippmann to Taranjit Sabharwal at Deutsche Bank, DBSI_PSI_EMAIL01895617.
[1510] 6/14/2007 email from Richard Kim at Deutsche Bank to Greg Lippmann, DBSI_PSI_EMAIL02202920.

$700 million in Gemstone 7 securities which then failed within months, leaving the bank's clients with worthless investments.

This case history raises several concerns. The first is that Deutsche Bank allowed the inclusion of Gemstone 7 assets which its most senior CDO trader was asked to review and saw as likely to lose value. Second, the bank sold poor quality assets from its own inventory to the CDO. Third, the bank aggressively marketed the CDO securities to clients despite the negative views of its most senior CDO trader, falling values, and the deteriorating market. Fourth, the bank failed to inform potential investors of Mr. Lippmann's negative views of the underlying assets and its inability to sell over a third of Gemstone's securities. Each of these issues focuses on the poor quality of the financial product that Deutsche Bank helped assemble and sell. Still another concern raised by this case history is the fact that the bank made large proprietary investments in the mortgage market that resulted in multi-billion-dollar losses – losses that, in this instance, did not require taxpayer relief but, due to their size, could have caused material damage to both U.S. investors and the U.S. economy.

C. Failing to Manage Conflicts of Interest: Case Study of Goldman Sachs

The Goldman Sachs case study shows how one investment bank profited from the collapse of the mortgage market and engaged in troubling and sometimes abusive practices that raise multiple conflict of interest concerns. The first part of this case study shows how Goldman used structured finance products, including CDO, CDS, and ABX instruments, to take a proprietary net short position against the subprime mortgage market. Reaching its peak at $13.9 billion, Goldman's net short investments realized record gains for the Structured Products Group in 2007 of over $3.7 billion which, when combined with other mortgage losses, resulted in overall net revenues for Goldman's Mortgage Department of $1.2 billion. The second half of the case study shows how Goldman engaged in securitization practices that magnified risk in the market by selling high risk, poor quality mortgage products to investors around the world. The Hudson, Anderson, Timberwolf, and Abacus CDOs show how Goldman used these financial instruments to transfer risk associated with its high risk assets, assist a favored client make a $1 billion gain, and profit at the direct expense of the clients that invested in the Goldman CDOs. In addition, the case study shows how conflicts of interest related to proprietary investments led Goldman to conceal its adverse financial interests from potential investors, sell investors poor quality investments, and place its financial interests before those of its clients.

(1) Subcommittee Investigation and Findings of Fact

During the course of its investigation into the Goldman Sachs case study, the Subcommittee issued 13 document subpoenas as well as multiple document request letters to financial institutions, government agencies, hedge funds, due diligence firms, insurance companies, individuals, and others. The Subcommittee obtained tens of millions of pages of documents, including internal reports, memoranda, correspondence, spreadsheets, and email. The Subcommittee conducted over 55 interviews and one deposition, including interviews with a variety of senior executives and Mortgage Department personnel at Goldman Sachs. The Subcommittee also spoke with agency officials, law enforcement, and industry and academic experts in financial products and securities law. On April 27, 2010, the Subcommittee held a hearing which took testimony from Goldman senior executives and current and former employees of its Mortgage Department, and released 173 hearing exhibits.[1511] After that hearing, the Subcommittee gathered additional information in post-hearing interviews and through post-hearing questions for the record.[1512]

[1511] "Wall Street and the Financial Crisis: The Role of Investment Banks," before the U.S. Senate Permanent Subcommittee on Investigations, S.Hrg. 111-674 (4/27/2010) (hereinafter "April 27, 2010 Subcommittee Hearing").

[1512] See, e.g., Responses to Questions for the Record from Goldman Sachs, including Lloyd C. Blankfein; David A. Viniar; Craig W. Broderick; Daniel L. Sparks; Michael J. Swenson; Joshua S. Birnbaum; and Fabrice P. Tourre, PSI_QFR_GS0001-548 [Redacted]. Unredacted version maintained in the files of the Subcommittee [Sealed Exhibit]. (Hereinafter referred to as "Response to Subcommittee QFR.")

In connection with the hearing, the Subcommittee released a joint memorandum from Chairman Levin and Ranking Member Coburn summarizing the investigation to date into the role of the investment banks in the financial crisis. The memorandum contained the following findings of fact, which this Report reaffirms, regarding the Goldman Sachs case study.

1. **Securitizing High Risk Mortgages.** From 2004 to 2007, in exchange for lucrative fees, Goldman Sachs helped lenders like Long Beach, Fremont, and New Century, securitize high risk, poor quality loans, obtain favorable credit ratings for the resulting residential mortgage backed securities (RMBS), and sell the RMBS securities to investors, pushing billions of dollars of risky mortgages into the financial system.

2. **Magnifying Risk.** Goldman Sachs magnified the impact of toxic mortgages on financial markets by re-securitizing RMBS securities in collateralized debt obligations (CDOs), referencing them in synthetic CDOs, selling the CDO securities to investors, and using credit default swaps and index trading to profit from the failure of the same RMBS and CDO securities it sold.

3. **Shorting the Mortgage Market.** As high risk mortgage delinquencies increased, and RMBS and CDO securities began to lose value, Goldman Sachs took a net short position on the mortgage market, remaining net short throughout 2007, and cashed in very large short positions, generating billions of dollars in gain.

4. **Conflict Between Client Interests and Proprietary Trading.** In 2007, Goldman Sachs went beyond its role as market maker for clients seeking to buy or sell mortgage related securities, traded billions of dollars in mortgage related assets for the benefit of the firm without disclosing its proprietary positions to clients, and instructed its sales force to sell mortgage related assets, including high risk RMBS and CDO securities that Goldman Sachs wanted to get off its books, and utilizing key roles in CDO transactions to promote its own interests at the expense of investors, creating a conflict between the firm's proprietary interests and the interests of its clients.

5. **Abacus Transaction.** Goldman Sachs structured, underwrote, and sold a synthetic CDO called Abacus 2007-AC1, did not disclose to the Moody's analyst overseeing the rating of the CDO that a hedge fund client taking a short position in the CDO had helped to select the referenced assets, and also did not disclose that fact to other investors.

6. **Using Naked Credit Default Swaps.** Goldman Sachs used credit default swaps (CDS) on assets it did not own to bet against the mortgage market through single name and index CDS transactions, generating substantial revenues in the process.

(2) Goldman Sachs Background

Goldman Sachs was established in 1869 as an investment bank.[1513] Originally a private partnership, in 1999, it became a publicly traded corporation. In 2008, it converted to a bank holding company. Its headquarters are located in New York City, and the firm manages about $870 billion in assets.[1514] Goldman employs about 14,000 employees in the United States and 32,500 worldwide. In 2007, it reported net revenues of $11.6 billion, of which $3.7 billion was generated by the Structured Products Group in the Mortgage Department, primarily as a result of its subprime investment activities.[1515]

Unlike other Wall Street banks, Goldman has no retail banking operations. It does not accept deposits from, nor lend to, retail customers, nor does its broker-dealer provide advice to or execute trades on behalf of retail customers. Goldman provides services only to so-called "sophisticated" institutional investors, generally large corporations, financial services firms, pension funds, hedge funds, and a few very wealthy individuals.[1516]

For most of its history, Goldman operated exclusively as an investment bank, providing investment advice to corporate clients, arranging and executing mergers and acquisitions, and arranging financing for customers through stock and bond offerings. After the 1999 repeal of the Glass-Steagall Act, which had restricted the activities that could be engaged in by investment banks, Goldman expanded its operations.[1517]

Over the last ten years, traditional investment banking activities have become a small percentage of Goldman's business. Goldman has instead become primarily a Wall Street trading house, providing broker-dealer services to institutional customers, acting as a prime broker to hedge funds,[1518] structuring and financing deals for customers from its own capital, and conducting proprietary trading activities for its own benefit. In the years leading up to the financial crisis, Goldman became an active investor and participant in the deals and transactions that it was handling for clients as well as selling to investors.[1519]

[1513] The background information about Goldman in this section was taken from several sources. See "Profile, Goldman Sachs," Reuters.com; "Profile, The Goldman Sachs Group, Inc.," Hoovers.com; 4/19/2010, "A Brief History of Goldman Sachs – Timeline," Wall Street Journal; 1/2010, "The Bank Job," Vanity Fair (written with cooperation of Goldman Sachs).

[1514] During 2006 and 2007, Goldman's headquarters were at 85 Broad Street in Manhattan. In 2010, the firm moved its headquarters to 200 West Street in Manhattan. See "Morgan Stanley May Lease Old Goldman Sachs Building," Bloomberg (10/18/2010).

[1515] See Goldman Sachs Form 10-K for the fiscal year ending Nov. 30, 2007, filed with the SEC on 1/28/2008, at 64; 11/30/2007 "SPG Trading Mortgages Weekly Metrics 30-November-2007," GS MBS-E-015646485.

[1516] See supra note 1513.

[1517] Id.

[1518] "Prime brokers" are generally large broker-dealers that provide a special set of services to special clients, including securities lending, leveraged trade execution, and cash management. See definition of "prime brokerage" at Investopedia.com.

[1519] See supra note 1513.

Goldman Sachs Mortgage Department. In 2006 and 2007, the time period reviewed by the Subcommittee, the most senior Goldman executives were the Chairman of the Board and Chief Executive Officer Lloyd Blankfein; Chief Operating Officer and Co-President Gary Cohn; Co-President Jon Winkelried; and Chief Financial Officer David Viniar. Goldman's Chief Risk Officer, Craig Broderick, was head of the Market Risk Management & Analysis area of the firm, which monitored and measured risk for the firm as a whole and for each business unit. Goldman's Treasurer, Sarah Smith, was in charge of the Controllers area of the firm, which was responsible for financial accounting, profit and loss statements, customer credit, collateral/margin matters, and position valuation verification.[1520]

In 2006 and 2007, Goldman Sachs' operating activities were divided into three segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.[1521] The Trading and Principal Investments Segment was divided into three businesses: Fixed Income, Currency and Commodities (FICC); Equities; and Principal Investments.[1522] FICC had five principal businesses: commodities; credit products; currencies; interest rate products; and mortgage related securities and loan products and other asset backed instruments.[1523]

In its mortgage business, Goldman Sachs acted as a market maker, underwriter, placement agent, and proprietary trader in residential and commercial mortgage related securities, loan products, and other asset backed and derivative products.[1524] The Mortgage Department was responsible for buying and selling virtually all of the firm's mortgage related assets. It originated and invested in residential and commercial mortgage backed securities; developed, traded, and marketed structured products and derivatives backed by mortgages; and traded mortgage market products on exchanges.[1525]

In 2006 and 2007, the head of the Mortgage Department was Daniel Sparks. Goldman Co-Presidents Gary Cohn and Jon Winkelried, as well as CFO David Viniar, had been involved in Mr. Sparks' earlier career at Goldman, and he maintained frequent, direct contact with them regarding the Mortgage Department.[1526] In 2006, Mr. Sparks formally reported first to Jonathan Sobel, who had run the Mortgage Department prior to Mr. Sparks.[1527] He next reported to Richard Ruzika, who was then co-head of Commodities.[1528] In late 2006, Mr. Sparks began reporting directly to Thomas Montag, who was co-head of Global Securities for the Americas, which included both the FICC Division and the Equities Division.[1529] In mid-2007, Mr. Sparks

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[1520] Subcommittee interview of David Viniar (4/13/2010); Craig Broderick (4/9/2010); and Daniel Sparks (4/15/2010).
[1521] 2/6/2007 Goldman Sachs Form 10-K filing with the SEC.
[1522] Id.
[1523] Id.
[1524] Id.
[1525] Id.
[1526] Subcommittee interview of Daniel Sparks (4/15/10).
[1527] Id.
[1528] Id.
[1529] Id.

began reporting to Donald Mullen, who was head of U.S. Credit Sales & Trading, and Mr. Mullen in turn reported to Mr. Montag.[1530]

The Mortgage Department was divided into seven different desks: (1) the Residential Whole Loan Trading Desk; (2) the Structured Product Group (SPG) Trading Desk; (3) the CDO Origination Desk, which also handled collateralized loan obligations (CLOs); (4) the Structured Product Syndicate and Asset Backed Security (ABS) Finance Desk; (5) the Collateralized Mortgage Obligations (CMO) and Derivatives Desk; (6) the Advisory Group Desk; and (7) the Commercial Real Estate Loan Trading Desk.[1531]

The Residential Whole Loan Trading Desk was headed by Kevin Gasvoda.[1532] It bought packages of residential whole loans; issued RMBS securities in the subprime, Alt A and prime categories; originated residential and commercial mortgages; and gave lines of credit to certain selected mortgage lenders in exchange for direct access to pools of mortgages they originated, in so-called "conduit" arrangements.[1533]

The SPG Trading Desk was headed by Michael Swenson.[1534] It was further subdivided into three different desks: the ABS Desk, the Correlation Trading Desk, and the Commercial Mortgage Backed Securities (CMBS) Desk. The ABS Desk was also headed by Michael Swenson and traded mainly synthetic asset backed securities, particularly RMBS and CDO securities and single name CDS contracts related to RMBS and CDOs. The ABS Desk also had an important sub-desk called the ABX Trading Desk, which was headed by Joshua Birnbaum, and traded synthetic mortgage backed securities based on the ABX Index. The Correlation Trading Desk was headed by Jonathan Egol. It structured, marketed, and traded complex synthetic structured finance products, including a series of 23 CDOs known as Abacus.[1535] The CMBS Desk was headed by David Lehman and traded commercial mortgage backed securities. With the exception of the Correlation Desk, the SPG Trading Desk was primarily devoted to "secondary trading," meaning the buying and selling of pre-existing asset backed securities. The SPG Trading Desk was also sometimes referred to as the "Mortgage Secondary Trading Desk."

[1530] Id.

[1531] "North America Mortgages," chart prepared by Goldman Sachs, GS MBS-E-007818849 (showing organization of Mortgage Department).

[1532] Id.

[1533] See, e.g., 6/27/2006 email from Brian O'Brien to John Cassidy, "Conduit Sellers and u'writing guides," GS MBS-E-004060914.

[1534] Subcommittee interview of Michael Swenson (4/16/2010).

[1535] 4/22/2010 Goldman Sachs Form 8-K filing with the SEC. Of the 23 Abacus CDOs, 16 contained primarily mortgage related assets.

The CDO Origination Desk was headed by Peter Ostrem.[1536] This desk structured and originated most of Goldman's CDOs and CLOs, excluding Abacus. The CDO Desk was primarily an underwriting desk that arranged for the issuance of new securities which had not yet been sold in the marketplace. Because of its underwriting focus, the CDO Desk's activities required a higher level of disclosure to customers regarding newly issued securities than was ordinarily required of a secondary trading desk, which buys and sells only pre-existing securities.[1537] Goldman maintained an inventory of RMBS and CDO securities to carry out activities for its clients and proprietary trading for the firm.

The Structured Product (SP) Syndicate and ABS Finance Desk was headed by Bunty Bohra and Curtis Probst.[1538] This desk was often referred to simply as the "Syndicate." It coordinated Goldman's sales efforts and the issuance of different securities across different desks.

In the middle of 2007, the Mortgage Department was restructured. One key change was that the CDO Origination Desk was moved into the secondary trading area under the SPG Trading Desk. Mr. Lehman was designated as head of the CDO Origination Desk, with assistance from Mr. Swenson.[1539] As a result, the SPG Trading Desk had responsibility for selling new Goldman-originated CDO securities as well as engaging in secondary trading of pre-existing CDOs and RMBS securities, related credit default swaps (CDS), ABX trading, correlation trading, property derivatives, CMBS, and other asset backed securities.[1540]

In 2006 and 2007, the Residential Whole Loan Trading Desk underwrote 93 RMBS worth $72 billion.[1541] The CDO Origination Desk acted as a placement agent and underwrote approximately 27 mortgage based CDOs worth $28 billion.[1542] Of the 27 CDOs, 84% were hybrid CDOs, 15% were synthetic, and only about 1% were cash CDOs with physical assets.[1543] The mortgage-based CDOs included 8 CDOs on the Abacus platform, with $5 billion in issued securities;[1544] a $2 billion synthetic CDO known as Hudson Mezzanine 2006-1; a $300 million synthetic CDO known as Anderson Mezzanine 2007-1; and $1 billion hybrid CDO known as Timberwolf I.

[1536] "North America Mortgages," chart prepared by Goldman, GS MBS-E-007818849 (showing organization of Mortgage Department). In 2006, Mr. Ostrem co-headed the CDO Origination Desk with David Rosenblum, who was primarily involved in the CLO aspects of the desk's activities. Mr. Rosenblum was in the process of leaving the Mortgage Department for a position in the Credit business in late 2006, though he continued to have some responsibilities with respect to the CDO Origination Desk.

[1537] See discussion of the disclosure obligations of broker-dealers, underwriters, and placement agents, above. The Correlation Trading Desk, which also arranged for the issuance of new CDOs had the same obligations as the CDO desk when issuing a new CDO.

[1538] "North America Mortgages," chart prepared by Goldman, GS MBS-E-007818849 (showing organization of Mortgage Department).

[1539] "Mortgages Organizational Structure," chart prepared by Goldman Sachs, GS MBS-E-010872812.

[1540] Id.

[1541] Undated chart prepared by Goldman for the Subcommittee, GS-PSI-00172.

[1542] Undated chart prepared by Goldman for the Subcommittee, GS MBS 0000021129 and GS MBS 0000004276.

[1543] Id.

[1544] Id.

(3) Overview of Goldman Sachs Case Study

This Report looks at two activities undertaken by Goldman in 2006 and 2007. The first is Goldman's intensive effort, beginning in December 2006 and continuing through 2007, to profit from the subprime mortgage market collapse, particularly by shorting subprime mortgage assets. The second is how, in 2006 and 2007, Goldman used mortgage related CDOs to unload the risk associated with its faltering high risk mortgage assets onto clients, help a favored client make a $1 billion gain, and profit from the failure of the very CDO securities it sold to its clients.

These activities raise questions related to Goldman's compliance with its obligations to provide suitable investment recommendations to its clients and disclose its material adverse interests to potential investors. They also raise questions about whether some of Goldman's incomplete disclosures were deceptive, and whether some of its activities generated conflicts of interest in which Goldman placed its financial interests before those of its clients. They also raise questions about the high risk nature of some structured finance products and their role in U.S. financial markets.

(a) Overview of How Goldman Shorted the Subprime Mortgage Market

Beginning in December 2006 and continuing through 2007, Goldman twice built and profited from large net short positions in mortgage related securities, generating billions of dollars in gross revenues for the Mortgage Department. Its first net short peaked at about $10 billion in February 2007, and the Mortgage Department as a whole generated first quarter revenues of about $368 million, after deducting losses and writedowns on subprime loan and warehouse inventory.[1545] The second net short, referred to by Goldman Chief Financial Officer David Viniar as "the big short,"[1546] peaked in June at $13.9 billion. As a result of this net short, the SPG Trading Desk generated third quarter revenues of about $2.8 billion, which were offset by losses on other mortgage desks, but still left the Mortgage Department with more than $741 million in profits.[1547] Altogether in 2007, Goldman's net short positions from derivatives generated net revenues of $3.7 billion.[1548] These positions were so large and risky that the Mortgage Department repeatedly breached its risk limits, and Goldman's senior management responded by repeatedly giving the Mortgage Department new and higher temporary risk limits to accommodate its trading.[1549] At one point in 2007, Goldman's Value-at-Risk measure

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[1545] See net short chart prepared by the Subcommittee, below; 9/17/2007 Presentation to GS Board of Directors, Residential Mortgage Business at 5, GS MBS-E-001793845, Hearing Exhibit 4/27-41; 3/10/2007 email to Daniel Sparks, "Mortgage Presentation to the board," GS MBS-E-013323395, Hearing Exhibit 4/27-17.

[1546] 7/25/2007 email from Mr. Viniar to Mr. Cohn, "Private & Confidential: FICC Financial Package 07/25/07," GS MBS-E-009861799, Hearing Exhibit 4/27-26.

[1547] 10/2007 Global Mortgages, Business Unit Townhall at 4-5, GS MBS-E-013703463, Hearing Exhibit 4/27-47.

[1548] 4Q07 Fact Sheet prepared for David Viniar, GS MBS-E-009724276, Hearing Exhibit 4/27-159.

[1549] See discussion of risk limits, VAR measurements, and risk reports, below.

indicated that the Mortgage Department was contributing 54% of the firm's total market risk, even though it ordinarily contributed only about 2% of its total net revenues.[1550]

To build its net short positions, Goldman's Mortgage Department personnel used structured finance products to engage in multiple, complex transactions. Its efforts included selling high risk loans, RMBS, CDO, ABX, and other mortgage related assets from its inventory and warehouse accounts; shorting RMBS and CDO securities, either by shorting the assets themselves or by taking the short side of CDS contracts that referenced them, in order to profit from their fall in value; and shorting multiple other mortgage backed assets simultaneously, including different tranches of the ABX Index, tranches of CDOs, and CDS contracts on such assets. To lock in its profits after the short assets fell in value, Goldman often entered into offsetting CDS contracts to "cover its shorts," as explained below. Senior Goldman executives directed and monitored these activities.

The evidence reviewed by the Subcommittee shows that some of the transactions leading to Goldman's short positions were undertaken to advance Goldman's own proprietary financial interests and not as a function of its market making role to assist clients in buying or selling assets. In the end, Goldman profited from the failure of many of the RMBS and CDO securities it had underwritten and sold. As Goldman CEO Lloyd Blankfein explained in an internal email to his colleagues in November 2007: "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts."[1551]

Covering Shorts to Lock In Profits. To understand how Goldman profited from its short positions, it is important to understand references in its internal documents to "covering" or "monetizing" its shorts. When Goldman built its short positions, it generally used CDS contracts to short a variety of mortgage related securities, including individual RMBS and CDO securities and baskets of 20 RMBS securities identified in the ABX indices. Goldman's shorts then gained or lost value over time, depending upon how the underlying referenced assets performed during the same period.

Most CDS contracts expire after a specified number of years. As explained earlier, during the covered period, the short party makes periodic premium payments to the opposing long party in the CDO. The short party is essentially betting that a "credit event" will take place during the covered period that will result in the long party having to provide it with a large

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[1550] Id. "Value-at-Risk" or VAR is a key risk measurement system used by Goldman. At a 95% confidence level, VAR represents the dollar amount a business unit could expect to lose once every 20 trading days or about once per month. Subcommittee interview of Craig Broderick (4/9/2010). See also Philippe Jorion, "Value at Risk: The New Benchmark for Managing Financial Risk," at 20 (3d ed. 2007).

[1551] 11/18/2007 email from Lloyd Blankfein, "RE: NYT," GS MBS-E-009696333, Hearing Exhibit 4/27-52.

payment that outweighs the cost of the short party's premium payments.[1552] However, the short party does not have to wait for a credit event in order to realize a gain on its CDS contract.

One possible alternative is for the short party simply to sell its short position to another party for a profit. If, however, the short party does not want to sell or has no ready buyer, the short party can still lock in a gain by entering into a second, offsetting CDS contract in which it takes the long position on an offsetting asset, an action often referred to as "covering the short."

In practice, there were several different, technical methods for a party to cover its short positions. The simplest example is if the short party bought a $100,000 CDS contract whose reference asset is a single RMBS security. Suppose after one month the RMBS security performs so poorly that the market value of the short position increases to $150,000. If the short party wanted to lock in the $50,000 gain, it could do so simply by entering into a new offsetting CDS contract, referencing the same RMBS security, in which it takes the long position with a new party who takes the short position at the new higher market value of $150,000. The result would be that the original short party would own a short position and a long position that offset each other, and would lock in the $50,000 difference in value as profit.

During 2007, Goldman executives repeatedly directed the Mortgage Department to "cover its shorts" and lock in the gains from the increased value of its short positions. When it covered its short positions by entering into offsetting contracts, the Mortgage Department simultaneously "monetized" its short positions – recorded the locked in profit. That is because, when it covered a short by entering into an offsetting contract, the Mortgage Department's general practice was to record a profit on its books equal to the gain on the original short position. Because the original purchase price of the CDS was known and fixed, and the new higher price obtained in the offsetting transaction was known and fixed, the Mortgage Department was able to capture the difference between the two prices as profit.

Going Past Home: The First Net Short. Because Goldman's activities were so varied and complex during the period reviewed, this overview provides a brief summary of the key events detailed in the following sections. The review begins in mid to late 2006, when Goldman realized that the market for subprime mortgage backed securities was beginning to decline, and the large long positions it held in ABX assets, loans, RMBS and CDO securities, and other mortgage related assets began to pose a disproportionate risk to both the Mortgage Department and the firm.[1553] In October 2006, the Mortgage Department designed a synthetic CDO called

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[1552] Under standard CDS contracts designed by the International Swaps and Derivatives Association (ISDA), a credit event is defined as a (1) bankruptcy; (2) failure to pay; (3) restructuring; (4) repudiation of or moratorium on payment in the event of an authorized government intervention; or (5) an acceleration of an obligation. Another common credit event is incurring a credit rating loss.

[1553] See, e.g., 10/17/2006-10/18/2006 email from Tom Montag to Daniel Sparks, "3 things," GS MBS-E-010917469 (acquisition of a large net long position described as "slipp[ing] up a bit"). In an email to Goldman Co-President Gary Cohn, Richard Ruzika criticized the accumulation of the large net long position: "You know and I know this position was allowed to get too big – for the liquidity in the market, our infrastructure, and the ability of our traders. That statement would be the same even if we had gotten the market direction correct – although the

Hudson Mezzanine 2006-1, which included over $1.2 billion of long positions on CDS contracts to offset risk associated with ABX assets in Goldman's own inventory and another $800 million in single name CDS contracts referencing subprime RMBS securities that Goldman wanted to short; the Mortgage Department then sold the Hudson securities to its clients.[1554] While this CDO transferred $1.2 billion of subprime risk from Goldman's inventory to its clients and gave Goldman an opportunity to short another $800 million in RMBS securities it thought would perform poorly, the Mortgage Department still held billions of dollars of long positions in subprime mortgage related assets, primarily in ABX index assets.[1555]

On December 14, 2006, as Goldman's mortgage related assets continued to lose value, Goldman's Chief Financial Officer, David Viniar, held a meeting with key Mortgage Department personnel and issued instructions for the Department to "get closer to home."[1556] By "closer to home," Mr. Viniar meant for the Mortgage Department to assume a more neutral risk position, one that was neither substantially long nor short, but actions taken by the Mortgage Department in response to his instructions quickly shot past "home," resulting in Goldman's first large net short position in February 2007.[1557]

The actions taken by the Mortgage Department included selling outright from its inventory large numbers of subprime RMBS, CDO, and ABX assets, even at a loss, while simultaneously buying CDS contracts to hedge the long assets remaining in its inventory. The Mortgage Department also halted new RMBS securitizations, began emptying its RMBS warehouse accounts, and generally stopped purchasing new assets for its CDO warehouse accounts. It also purchased the short side of CDS contracts referencing the ABX index for a basket of AAA rated subprime residential loans, as a kind of "disaster insurance" in the event that even AAA rated mortgages started defaulting.

Within about a month of the "closer to home" meeting, in January 2007, the Mortgage Department had largely eliminated or offset Goldman's long positions on subprime mortgage related assets. The Mortgage Department then started to build a multi-billion-dollar short position to enable the firm to profit from the subprime RMBS and CDO securities starting to lose value. By the end of the first quarter of 2007, the Mortgage Department had swung from a $6 billion net long position in December 2006, to a $10 billion net short position in late February

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vultures wouldn't be circling. You also know that we probably would have gotten the position correct had I been involved a year ago – I probably would have gotten short to protect our warehouse and general hedge against the business given our outlook in the space." 2/5/2007 email from Richard Ruzika to Gary Cohn, "Are you living Morgatages? [sic]," GS MBS-E-016165784.

[1554] For more information about the Hudson CDO, see below.

[1555] See, e.g., 12/7/2006 email from Tom Montag, GS MBS-E-009756572 ("I don't think we should panic regarding ABX holdings").

[1556] 12/14/2006 email from Daniel Sparks, "Subprime risk meeting with Viniar/McMahon Summary," GS MBS-E-009726498, Hearing Exhibit 4/27-3.

[1557] Subcommittee interview of David Viniar (4/13/2010).

2007, a $16 billion reversal.[1558] A senior Goldman executive later described a net short position of $3 billion in subprime mortgage backed securities as "huge and outsized."[1559] But Goldman's net short position in February 2007 was $10 billion – more than triple that size.

In late February, Goldman's Operating Committee, a subcommittee of its Firmwide Risk Committee, became concerned about the size of the $10 billion net short position. The Firmwide Risk Committee (FWRC) was co-chaired by Mr. Viniar, and Messrs. Cohn and Blankfein regularly attended its meetings.[1560] The concern arose, in part, because the $10 billion net short position had dramatically increased the Mortgage Department's Value-at-Risk or "VAR," the primary measure Goldman used to compute its risk. The Committee ordered the Department to lock in its profits by "covering its shorts," as explained above. The Mortgage Department complied by covering most, but not all, of the $10 billion net short and brought down its VAR. It then maintained a relatively lower risk profile from March through May 2007.

Attempted Short Squeeze. In May 2007, the Mortgage Department's Asset Backed Security (ABS) Trading Desk attempted a "short squeeze" of the CDS market that was intended to compel other market participants to sell their short positions at artificially low prices.[1561] Goldman's ABS Desk was still in the process of covering the Mortgage Department's shorts by offering CDS contracts in which Goldman took the long side. The ABS Desk devised a plan in which it would offer those CDS contracts to short parties at lower and lower prices, in an effort to drive down the overall market price of the shorts. As prices fell, Goldman's expectation was that other short parties would begin to sell their short positions, in order to avoid having to sell at still lower prices. The ABS Desk planned to buy up those short positions at the artificially low prices it had caused, thereby rebuilding its own net short position at a lower cost.[1562] The ABS Desk initiated its plan, and during the same period Goldman customers protested the lower values assigned by Goldman to their short positions as out of line with the market. Despite the lower prices, the parties who already held short positions generally kept them and did not try to sell them. In June, after learning that two Bear Stearns hedge funds specializing in subprime mortgage assets might collapse, the ABS Desk abandoned its short squeeze effort and recommenced buying short positions at the prevailing market prices.

The Big Short. In mid-June 2007, the two Bear Stearns hedge funds did collapse, triggering another steep decline in the value of subprime mortgage assets. In response, Goldman immediately went short again, to profit from the falling prices. Within two weeks, Goldman had massed a large number of CDS contracts shorting a variety of subprime mortgage assets. On

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[1558] 3/10/2007 email to Daniel Sparks, "Mortgage Presentation to the board," GS MBS-E-013323395, Hearing Exhibit 4/27-17. 12/13/2006 Goldman email, "Subprime Mortgage Risk," Hearing Exhibit 4/27-2.

[1559] 8/23/2007 email from Tom Montag, "Current Outstanding Notional SN ames," GS MBS-E-010621231.

[1560] 11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715 at 695).

[1561] 9/7/2007 Fixed Income, Currency and Commodities Annual Individual Review Book, Self-Review of Deeb Salem, GS-PSI-03157-80 at 72 (hereinafter "Salem 2007 Self-Review").

[1562] Id.

June 22, 2007, Goldman's net short position reached its peak of approximately $13.9 billion, as calculated by the Subcommittee.[1563] That total included the $9 billion in AAA ABX assets that Goldman had earlier acquired as "disaster protection," in case the subprime market as a whole lost value. The resulting net short, referred to by Mr. Viniar as the "big short," was nearly 40% larger than its first net short which had peaked at $10 billion in February 2007.

To lock in its profits on the $13.9 billion short, the Mortgage Department began working to cover its shorts, buying long assets and entering into offsetting CDS contracts in which it took the long position. On July 10, 2007, the credit rating agencies issued the first of many mass rating downgrades that affected hundreds and then thousands of RMBS and CDO securities, whose values began to fall even more rapidly.[1564] The Mortgage Department was able to purchase long assets at a low cost, managed to cover most of its short positions, and locked in its profits. At the same time, the Mortgage Department maintained a net short position in higher risk subprime RMBS securities carrying credit ratings of BBB or BBB-, betting that those securities would lose still more value and produce still more profits for the firm. In August, however, Goldman senior management again became concerned about the size of the Department's net short position and its VAR levels, which had reached record levels. On August 21, 2007, Goldman's Chief Operating Officer Gary Cohn ordered the Mortgage Department to "get down now."

Big Short Profits. In response, the Mortgage Department began another round of covering its shorts and locking in its profits, including the shorts referencing BBB and BBB- rated RMBS securities. In the third quarter of 2007, the SPG Trading Desk reported record revenues from its short positions totaling $2.8 billion.[1565] By the end of 2007, the SPG Trading Desk in the Mortgage Department recorded year-end net revenues totaling $3.7 billion, which were used to offset losses on other desks, leaving the Mortgage Department as a whole with record net revenues of over $1.2 billion for the year.[1566] The head of the SPG Desk, Michael Swenson, later wrote that 2007 was "the [year] I am most proud of to date," because of the "extraordinary profits" from the short positions he had advocated.[1567] His colleague, Joshua Birnbaum who headed the ABX Desk within SPG, also reviewed the year in terms of the profitable short positions it built. He wrote: "The prevailing opinion within the department was that we should just 'get close to home' and pare down our long," but he decided his ABS Desk should "not only

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[1563] See chart entitled, "Goldman Sachs Mortgage Department Total Net Short Position, February-December 2007 in $ Billions," prepared by the Permanent Subcommittee on Investigations, Hearing Exhibit 4/27-162 (April 2010 version), updated January 2011 (updated version), derived from Goldman Sachs Mortgage Strategies, Mortgage Dept Top Sheets provided by Goldman Sachs (hereinafter "PSI Net Short Chart"), See Section C(4)(g).

[1564] For more information about the mass rating downgrades, see Chapter V, above. See also 7/10/2007 Goldman email, "GS Cashflow/Abacus CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS," GS MBS-E-001837256.

[1565] 10/2007 Global Mortgages, Business Unit Townhall at 4-5, GS MBS-E-013703463, Hearing Exhibit 4/27-47.

[1566] Quarterly Breakdown of Mortgage P/L, GS MBS-E-009713204 at 205. Goldman's gross revenues from all derivative products, without deduction of related losses, were apparently $5.9 billion. 4Q07 Fact Sheet prepared for David Viniar (FY07 P&L [profit and loss]: . . . derivatives +5.9B), GS MBS-E-009724276, Hearing Exhibit 4/27-159.

[1567] Swenson self evaluation, Hearing Exhibit 4/27-55b.

... get flat, but get VERY short."[1568] He wrote: "[W]e implemented the plan by hitting on almost every single name CDO protection buying opportunity in a 2-month period. Much of the plan began working by February as the market dropped 25 points and our very profitable year was under way." When the subprime mortgage market fell further in July after the credit rating mass downgrades, he wrote: "We had a blow-out [profit and loss] month, making over $1Bln that month."[1569]

The $3.7 billion in net revenues from the SPG's short positions helped to offset other mortgage related losses, and, at year's end, at a time when mortgage departments at other large financial institutions were reporting record losses, Goldman's Mortgage Department reported overall net revenues of $1.2 billion.[1570]

(b) Overview of Goldman's CDO Activities

This Report also examines four CDOs that Goldman originated, underwrote, and marketed in the years leading up to the financial crisis: Hudson Mezzanine 2006-1, Anderson Mezzanine 2007-1, Timberwolf I, and Abacus 2007-AC1. Hudson was conceived in 2006, and issued its securities in December 2006, as Goldman began its concerted effort to sell its mortgage holdings. Anderson, Timberwolf, and Abacus issued their securities in 2007, as RMBS and CDO securities were losing value, and Goldman was shorting the subprime mortgage market.

During 2007, as Goldman built and profited from its net short positions in the first and third quarters of the year, it continued to design, underwrite, and sell CDO securities. Due to waning investor interest, in February 2007, Goldman conducted a review of the CDOs in its pipeline. The Mortgage Department decided to cancel four pending CDOs, downsize another two, and bring all of its remaining CDOs to market as quickly as possible. Also in February 2007, the Mortgage Department limited its CDO Origination Desk to carrying out only the CDO transactions already underway.

"Gameplan" for CDO Valuation Project. In the first quarter of 2007, Goldman's Mortgage Department worked to sell the warehouse assets from the discontinued CDOs, the securities issued by past Goldman-originated CDOs, and the new securities from CDOs being originated by Goldman in 2006 and 2007. In May 2007, as CDO sales slowed dramatically, Goldman became concerned about the lack of sales prices to establish the value of its CDO holdings. Goldman needed accurate values, not just to establish its CDO sales prices, but also to value the CDO securities for collateral purposes and in compliance with Goldman's policy of using up-to-date market values for all of its holdings.[1571] On May 11, 2007, Goldman senior executives, including Mr. Cohn and Mr. Viniar, Mortgage Department personnel, controllers, and

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[1568] Birnbaum self evaluation, Hearing Exhibit 4/27-55c.
[1569] Id.
[1570] Quarterly Breakdown of Mortgage P/L, GS MBS-E-009713204 at 205.
[1571] 5/11/2007 email from Daniel Sparks, "You okay?," GS MBS-E-019659221.

others held a meeting and developed a "Gameplan" for a CDO valuation project.[1572] The Gameplan called for the Mortgage Department, over the course of about a week, to use three different valuation methods to price all of its CDO warehouse assets, unsold securities from past CDOs, and new securities from the CDOs currently being marketed to clients.[1573]

While the CDO valuation project was underway, Goldman senior executive Thomas Montag asked Daniel Sparks for an estimate of how much the firm would need to write down the value of its CDO assets. Mr. Sparks responded that "the base case from traders is down [$]382 [million]." He also wrote: "I think we should take the write-down, but market [the CDO securities] at much higher levels."[1574] Another Goldman senior executive, Harvey Schwartz, expressed concern about selling clients CDO securities at one price and then immediately devaluing them: "[D]on't think we can trade this with our clients andf [sic] then mark them down dramatically the next day."[1575] At the same time, Goldman's Chief Credit Risk Officer Craig Broderick told his staff to anticipate deep markdowns and highlighted the need to identify clients that might suffer financial difficulty if Goldman devalued their CDO securities and demanded they post more cash collateral.

On May 20, 2007, the Gameplan results were summarized in an internal presentation.[1576] It projected that Goldman would have to take from $248 to $440 million in writedowns on unsold CDO securities and warehouse assets, making it clear to Goldman executives that its CDO assets were losing value rapidly.[1577] In several drafts of the presentation, the Mortgage Department had also written that Goldman's CDOs were expected "to underperform," but that statement was removed from the final presentation given to senior executives.[1578]

Targeted Sales. The Gameplan also recommended a two-pronged approach to selling the firm's remaining CDO assets. First, it recommended transfer of the CDO warehouse assets to the Mortgage Department's SPG Trading Desk for further valuation and sale. Second, it recommended that the Mortgage Department use a "targeted" approach to sell off the existing and

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[1572] Id.; 5/14/2007 email from David Lehman, "Gameplan – asset model analysis," GS MBS-E-001865782 (last email in a longer email chain).

[1573] Id.; 5/14/2007 email from Elisha Weisel, "Modelling Approaches for Cash ABS CDO/CDO^2," GS MBS-E-001863618.

[1574] 5/14/2007 email from Tom Montag to Daniel Sparks, GS MBS-E-019642797.

[1575] 5/11/2007 email from Harvey Schwartz to Daniel Sparks, Tom Montag, and others, GS MBS-E-010780864.

[1576] 5/20/2007 email, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file, "Mortgages Department, May 2007," Goldman presentation, GS MBS-E-010965212); see also 5/19/2007 "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," Goldman presentation, GS MBS-E-010951926.

[1577] 5/19/2007 "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," Goldman presentation, GS MBS-E-010951926.

[1578] Compare 5/19/2007 "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," Goldman presentation, GS MBS-E-010951926, with 5/20/2007 "Mortgages Department, May 2007," Goldman presentation, GS MBS-E-010965212.

new securities from Goldman-originated CDOs, naming four hedge funds as the primary targets and providing a list of another 35 clients as secondary targets.[1579]

At the same time, Mr. Sparks named David Lehman, a commercial mortgage backed securities trader, as the new head of the CDO Origination Desk. Shortly thereafter, Goldman dismantled the CDO Origination Desk and moved all remaining CDO securities to the SPG Trading Desk, where he was based. The SPG Trading Desk, which was a secondary trading desk and had little experience with underwriting, assumed responsibility for marketing the remaining unsold Goldman-originated CDO securities. The SPG Trading Desk's lack of underwriting experience meant that it was less familiar with the obligations of underwriters and placement agents to disclose all material adverse interests to potential investors.

The SPG Trading Desk worked with Goldman's sales force to market the CDO securities. Goldman employed "hard sell" tactics, repeatedly urging its sales force to sell the CDO securities and target clients with limited CDO familiarity.[1580] After trying the Gameplan's "targeted" client approach during May, June, and July 2007, the Mortgage Department switched back to issuing sales directives or "axes" to its entire sales force, including sales offices abroad. Axes on CDOs generally went out at weekly or monthly intervals, identified specific CDO securities as top sales priorities, and offered additional financial incentives for selling them. Despite the CDOs' declining value, the sales force succeeded in selling some of the CDO securities, primarily to clients in Europe, Asia, Australia, and the Middle East, but was unable to sell all of them.

The four CDOs that the Subcommittee examined illustrate a variety of conflict of interest issues related to how Goldman designed, marketed, and administered them.

Hudson Mezzanine 2006-1. Hudson Mezzanine 2006-1 (Hudson 1) was a $2 billion synthetic CDO comprised of $1.2 billion in ABX assets from Goldman's own inventory, and $800 million in single name CDS contracts on subprime RMBS and CDO securities that Goldman wanted to short. It was called a "mezzanine" CDO, because the referenced RMBS securities carried the riskier credit ratings of BBB or BBB-. Goldman used the CDO to transfer the risk associated with its ABX assets to investors that bought Hudson 1 securities. Goldman also took 100% of the short side of the CDO, which meant that it would profit if any of the Hudson securities lost value. In addition, Goldman exercised complete control over the CDO by playing virtually every key role in its establishment and administration, including the roles of underwriter, initial purchaser of the issued securities, senior swap counterparty, credit protection buyer, collateral put provider, and liquidation agent.

[1579] 5/19/2007 "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," Goldman presentation, GS MBS-E-010951926; 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212).

[1580] See discussions of Hudson, Anderson, Timberwolf, and Abacus sales efforts, below.

Goldman began marketing Hudson 1 securities in October 2006, soliciting clients to buy Hudson securities. It did not fully disclose to potential investors material facts related to Goldman's investment interests, the source of the CDO's assets, and their pricing. The Hudson 1 marketing materials stated prominently, for example, that Goldman's interests were "aligned" with investors, because Goldman was buying a portion of the Hudson 1 equity tranche.[1581] In its marketing materials, Goldman did not mention that it was also shorting all $2 billion of Hudson's assets – an investment that far outweighed its $6 million equity share and which was directly adverse to the interests of prospective investors. In addition, the marketing materials stated that Hudson 1's assets were "sourced from the Street" and that it was "not a balance sheet CDO."[1582] However, $1.2 billion of the Hudson assets had been selected solely to transfer risk from ABX assets in Goldman's own inventory.

Goldman also did not disclose in the materials that it had priced the assets without using any actual third party sales. The absence of arm's length pricing was significant, because the Hudson CDO was designed to short the ABX Index using single name RMBS securities, and there was a pricing mismatch between the two types of assets.[1583] Goldman not only determined the pricing for the RMBS securities purchased by Hudson 1, but retained the profit from the pricing differential. The marketing materials did not inform investors of Goldman's role in the pricing, the pricing methodology used, or the gain it afforded to Goldman. In addition, the marketing materials stated Hudson 1 was "not a balance sheet" CDO, without disclosing that Hudson had been designed from its inception to remove substantial risk from Goldman's balance sheet.

The Hudson 1 Offering Circular contained language that may have also misled investors about Goldman's true investment interest in the CDO. The Offering Circular stated:

> "[Goldman Sachs International] and/or any of its affiliates may invest and/or deal, for their own respective accounts for which they have investment discretion, in securities or in other interests in the Reference Entities, in obligations of the Reference Entities or in the obligors in respect of any Reference Obligations or Collateral Securities ... , or in credit default swaps ... , total return swaps or other instruments enabling credit and/or other risks to be traded that are linked to one or more Investments."[1584]

This provision seems to inform investors that Goldman "may invest" for its own account in the CDO's securities, reference obligations, or CDS contracts, while withholding the fact that, by the time the Offering Circular had been drafted, Goldman had already determined to take 100% of the short position in the CDO, an investment which was directly adverse to the interests of Hudson securities investors.

[1581] 10/2006 Goldman Sachs report, "Hudson Mezzanine Funding, 2006-1, LTD.," at 4, GS MBS-E-009546963, Hearing Exhibit 4/27-87.

[1582] Id.

[1583] For more information on this pricing mismatch, see the Hudson discussion, below.

[1584] 12/3/2006 Hudson Mezzanine 2006-1, LTD. Offering Circular, GS MBS- E-021821196 at 251 (emphasis added).

Once Hudson issued its securities, Goldman placed a priority on selling them, and delayed the issuance of a CDO on behalf of another client in order to facilitate Hudson sales. Goldman sales representatives reported that clients expressed skepticism regarding the quality of the Hudson assets, but Goldman continued to promote the sale of the CDO.

In 2008, as Hudson's assets lost value and received rating downgrades from the credit rating agencies, Goldman, in its role as liquidation agent, was tasked with selling those assets to limit losses to the long investors. The major Hudson investor, Morgan Stanley, pressed Goldman to do just that. Goldman, however, delayed selling the assets for months. As the assets dropped in value, Goldman's short position increased in value. Morgan Stanley's representative reported to a colleague that when Goldman rejected the firm's request to sell the poorly performing Hudson assets, "I broke my phone." [1585] He also sent an email to the head of Goldman's CDO Desk saying: "[O]ne day I hope I get the real reason why you are doing this to me."[1586] Morgan Stanley lost nearly $960 million on its Hudson investment.

Anderson Mezzanine 2007-1. Anderson Mezzanine 2007-1 (Anderson) was another synthetic CDO referencing BBB and BBB- rated subprime RMBS securities. It was issued in March 2007. Among other roles, Goldman served as the CDO's placement agent, initial purchaser, collateral put provider, and liquidation agent. Goldman hired another firm, a New York hedge fund founded by former Goldman employees, GSC Partners, to act as the collateral manager. Goldman took a short position on approximately 40% of the $305 million in assets underlying Anderson.

Anderson referenced a number of poor quality assets. Those assets had been selected by GSC Partners, with the approval of Goldman. Over 45% of the referenced subprime RMBS securities contained mortgages originated by New Century, a subprime lender known within the industry, including Goldman, for issuing poor quality loans and which was experiencing financial problems while Anderson was being structured and marketed.[1587] Inside Goldman, staff were aware of New Century's problems and were taking action to return substantial numbers of substandard loans purchased from New Century and demand repayment for them.[1588] Other assets in the Anderson CDO were also performing poorly, and at one point, Goldman personnel estimated

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[1585] 2/6/2008 email from John Pearce to Michael Petrick, HUD-CDO-00005146.

[1586] 2/7/2008 email from John Pearce to David Lehman, HUD-CDO-00005147.

[1587] In April 2007, the month after Anderson issued its securities, New Century announced it would have to restate its earnings. It declared bankruptcy soon after. For more information about New Century, see Chapter IV, section E(2)(c).

[1588] See, e.g., 3/2007 Goldman internal email, GS MBS-E-002146861, Hearing Exhibit 4/27-77 ("I recommend putting back 26% of the pool....if possible."). See also 2/2/2007 email from Matthew Nichols to Kevin Gasvoda, GS MBS-E-005556331 ("NC is running a 10% drop rate [due diligence drop] at ~6 points / drop and 4% EPD rate at close to 20 points."). 2/8/2007 email from John Cassidy to Joseph Ozment, others, GS MBS-E-002045021 ("Given the current state of the company I am no longer comfortable with the practice of taking loans with trailing docs . . . that we need in order to conduct compliance testing. . .").

its warehouse assets had fallen in value by $22 million.[1589] Due to the asset quality problems, the Mortgage Department head, Daniel Sparks, initially decided to cancel Anderson, but later changed his mind and decided to market the CDO as quickly as possible, using the $305 million in assets already in its warehouse account, rather than wait to accumulate all of the $500 million in assets initially planned.

When Anderson issued its securities in March 2007, Goldman placed a high priority on selling them, even delaying another CDO – Abacus 2007-AC1 which was being organized at the request of the Paulson hedge fund – to allow its sales force to concentrate on promoting Anderson. Potential investors raised questions about the quality of its underlying assets, especially the New Century loans, and Goldman provided its sales representatives with talking points to dispel concerns about the New Century assets. When one client asked how Goldman had gotten "comfortable" with the New Century loans, Goldman did not disclose to the client its own negative views of New Century loans or that it had 40% of the short side of the CDO.

Goldman marketed Anderson securities to a number of its clients, including pension funds, and recommended using Anderson securities as collateral security in other CDOs.[1590] In the end, Goldman sold only $102 million or about one third of the Anderson securities.[1591] Seven months after the securities were issued, they suffered their first credit rating downgrade. Currently, all of the Anderson securities have been reduced to junk status, and the Anderson investors have lost virtually their entire investments.

Timberwolf I CDO. Timberwolf I was a $1 billion hybrid CDO^2 transaction that referenced single-A rated securities from other CDOs. Those CDO securities referenced, in turn, RMBS securities carrying lower credit ratings, primarily BBB. Altogether, Timberwolf referenced 56 unique CDO securities that had over 4,500 unique underlying assets. Goldman served as the CDO's placement agent, initial purchaser, collateral put provider, and liquidation agent. It also hired a hedge fund with former Goldman employees, Greywolf Capital Management, to act as the collateral manager. Greywolf selected the CDO's assets, with Goldman's approval. Goldman took a short position on approximately 36% of the $1 billion in assets underlying Timberwolf.[1592]

Timberwolf's securities began losing value almost as soon as they were purchased. In February 2007, Goldman's Mortgage Department head told a senior executive that Timberwolf was one of two deals "to worry about." He also wrote that the assets in the Timberwolf warehouse account had declined so much in value that they had already exhausted Greywolf's responsibility to pay a portion of any warehouse losses, and any additional losses would be Goldman's exclusive

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[1589] 3/16/2007 GSI Risk Committee Memo, "GSI Warehousing for Structured Product CDOs," GS MBS-E-001806010.

[1590] 3/12/2007 email from Robert Black to Matthew Bieber and others, GS MBS-E-000898037.

[1591] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[1592] Among other assets, Goldman sold $15 million in certain Abacus securities to the Timberwolf CDO. Goldman held 100% of the short side of the relevant Abacus CDO. Its sale of the Abacus securities meant that Goldman held the short side of those assets, while Timberwolf investors took the long side.

obligation.[1593] Goldman rushed Timberwolf to market, and it closed on March 27, 2007, approximately six weeks ahead of schedule.[1594] Almost as soon as the Timberwolf securities were issued, they too began to lose value.

Despite doubts about its performance and asset quality, Goldman engaged in an aggressive campaign to sell the Timberwolf securities. As part of its tactics, Mr. Lehman instructed Goldman personnel not to provide written information to investors about how Goldman was valuing or pricing the Timberwolf securities, and its sales force offered no additional assistance to potential investors trying to evaluate the 4,500 underlying assets. Mr. Sparks and Mr. Lehman sent out numerous sales directives or "axes" to the Goldman sales force, stressing that Timberwolf was a priority for the firm.[1595] In April, Mr. Sparks suggested issuing "ginormous" sales credits to any salesperson who sold Timberwolf securities, only to find out that large sales credits had already been offered.[1596] In May, while Goldman was internally lowering the value of Timberwolf, it continued to sell the securities at a much higher price than the company knew it was worth. At one point, a member of the SPG Trading Desk issued an email to clients and investors, advising them that the market was rebounding and the downturn was "already a distant memory."[1597] Goldman also began targeting Timberwolf sales to "non-traditional" buyers and those with little CDO familiarity, such as increasing its marketing efforts in Europe and Asia.

On June 18, 2007, Goldman sold $100 million worth of Timberwolf securities to an Australian hedge fund, Basis Capital. Just 16 days later, on July 4, Goldman informed Basis Capital that the securities had lost value, and it had to post additional cash collateral to secure its CDS contract. On July 12, Goldman told Basis Capital that the value had dropped again, and still more collateral needed to be posted. In less than a month, the value of Timberwolf had fallen by $37.5 million. Basis Capital posted the additional capital, but soon after declared bankruptcy. On June 1, Goldman Sachs sold $36 million in Timberwolf securities to a Korean life insurance company, Hungkuk Life, that had little familiarity with the product. The head of the Korean sales office said his office was willing to sell the company additional securities, if assured the office would receive a 7% sales credit. Goldman agreed, and said "get 'er done." The sales office sold another $56 million in Timberwolf securities to the life insurance company which paid $76 per share when Goldman's internal value for the security was $65. Within ten days of that sale, Thomas Montag, a senior Goldman executive, sent an email to the Mortgage Department head, Daniel Sparks, stating: "boy that timeberwof [Timberwolf] was one shitty deal."[1598] Despite that comment, Goldman continued to market Timberwolf securities to its clients.

[1593] 2/26/2007 email between Tom Montag and Daniel Sparks, GS MBS-E-019164806.

[1594] 3/2007 Goldman internal email chain, GS MBS-E-001800634.

[1595] See, e.g., 6/2007-8/2007 Goldman internal emails, "Timberwolf Sales Efforts," Hearing Exhibit 4/27-166; 3/2007 Goldman internal email, "GS Syndicate Structured Product CDO Axes," Hearing Exhibit 4/27-100.

[1596] 4/19/2007 email chain between Daniel Sparks and Bunty Bohra, GS MBS-E-010539324, Hearing Exhibit 4/27-102 (Mr. Bohra responds, "[w]e have done that with Timberwolf already.").

[1597] 5/14/2007 email from Edwin Chin, GS MBS-E-012553986.

[1598] 6/2007 Goldman internal email to Daniel Sparks, Hearing Exhibit 4/27-105.

Goldman had also arranged for its subsidiary, Goldman Sachs International (GSI), to act as both the primary CDS counterparty and the collateral put provider in Timberwolf.[1599] Although GSI received a fee for serving as the collateral put provider, GSI began to refuse to approve Timberwolf's purchase of new collateral securities whose values might decline below par value and put Goldman at risk of having to make up the difference. Instead, GSI pressured Timberwolf to keep its collateral in cash, even though an internal Goldman analysis had confirmed that cash collateral produced lower returns for Timberwolf investors than collateral securities. When Greywolf objected to this practice, Goldman backed down and allowed the purchase of a narrow range of very safe, short term asset backed securities as collateral.

In the fall of 2007, a Goldman analyst provided executives with a price history for Timberwolf A2 securities. It showed that, in five months, Timberwolf securities had lost 80% of their value, falling from $94 in March to $15 in September. Upon receiving the pricing history, the Timberwolf deal captain, Matthew Bieber, wrote that March 27 – the day Timberwolf issued its securities – was "a day that will live in infamy."[1600] Timberwolf was liquidated in 2008.

Abacus 2007-AC1. Abacus 2007-AC1 was a $2 billion synthetic CDO that referenced BBB rated mid and subprime RMBS securities issued in 2006 and early 2007. It was a static CDO, meaning once selected, its reference obligations did not change. It was the last in a series of 16 Abacus CDOs that referenced primarily mortgage backed assets and were designed by Goldman. Those Abacus CDOs were known as single tranche CDOs, structures pioneered by Goldman to provide customized CDOs for clients interested in assuming a specific type and amount of investment risk. They enabled the client to select the assets, the size of the investment, the amount of subordination or cushion before the securities would be exposed to loss, and could be issued with a single tranche.[1601] The Abacus CDOs also enabled investors to short a selected group of RMBS or CDO securities at the same time. Goldman used the Abacus CDOs not only to sell short positions to investors, but also as a way for Goldman itself to short mortgage assets in bulk.[1602]

Abacus 2007-AC1 was the first and only Abacus transaction in which Goldman allowed a third party client to essentially "rent" its CDO structure and play a direct, principal role in the

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[1599] In synthetic CDOs, the cash proceeds from the sales of the CDO securities were used to purchase "collateral debt securities." Later, when cash was needed to make payments to a long or short party, those collateral securities were sold, and the cash was used to make the payments. In the event the collateral securities used to pay the short party (called "default swap collateral") could not be sold for face (par) value, Goldman, the short party, absorbed the loss, effectively serving as the default swap collateral put provider. For more information, see discussion of Goldman's actions taken while the collateral put provider of Timberwolf, below.

[1600] 9/17/2007 email from Matthew Bieber to Christopher Creed, GS MBS-E-000766370, Hearing Exhibit 4/27-106.

[1601] 6/2007 Goldman document, "CDO Platform Overview," at 31, GS MBS-E-001918722 ("ABACUS is the Goldman brand name for single-tranche CLN [credit linked note] issuances referencing portfolios comprised entirely of structured products."); 4/2006 Goldman presentation "Overview of Structured Products," GS MBS-E-016067482.

[1602] 3/12/2007 Goldman internal memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118.

selection of the assets. Goldman did not itself intend to invest in the CDO.[1603] Instead, it functioned primarily as an agent, earning fees for its roles in structuring, underwriting, and administering the CDO. Those roles included Goldman's acting as the placement agent, collateral securities selection agent, and collateral put provider. Unlike previous Abacus CDOs, Goldman employed a third party to serve as the portfolio selection agent, essentially using that agent to promote sales and mask the role of its client in the asset selection process.

Goldman originated Abacus 2007-AC1 in response to a request by Paulson & Co. Inc. ("Paulson"), a hedge fund that was among Goldman's largest customers for subprime mortgage related assets. Paulson had a very negative view of the mortgage market, which was publicly known, and wanted Goldman's assistance in structuring a transaction that would allow it to take a short position on a portfolio of subprime mortgage assets that it believed were likely to perform poorly or fail. Goldman allowed Paulson to use the Abacus CDO for that purpose. In entering into that arrangement with Paulson and simultaneously acting as the placement agent responsible for marketing the Abacus securities to long investors, Goldman created a conflict of interest between itself and the investors it would be soliciting to buy the Abacus securities.

Paulson established a set of criteria to select the reference assets for the Abacus CDO to achieve its investment objective.[1604] After establishing those parameters, Paulson worked with the actual portfolio section agent to select the assets. Documents show that Paulson proposed, substituted, rejected, and approved assets for the reference portfolio. Goldman was aware of Paulson's investment objective, the role it played in the selection of the reference assets, and the fact that the selection process yielded a set of poor quality assets. Of the final set of 90 assets referenced in the Abacus CDO portfolio, 49 had been initially proposed by Paulson. Yet Goldman did not publicly disclose the central role played by Paulson in the asset selection process or the fact that the economic interest held by an entity actively involved in the asset selection process was adverse to the interest of investors who would be taking the long position.

ACA Management LLC, the company hired by Goldman to serve as the portfolio selection agent, told the Subcommittee that, while it knew Paulson was involved, it was unaware of Paulson's true economic interest in the CDO. The ACA Managing Director who worked on the Abacus transaction stated that ACA believed that Paulson was going to invest in the equity tranche of the CDO, thus aligning its interests with those of ACA and other investors.[1605] ACA and its parent company both acquired long positions in the Abacus CDO as did a third investor. The Abacus securities lost value soon after purchase. The three long investors together lost more than

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[1603] As collateral put provider, which it performed for a fee, Goldman did carry risk in the Abacus 2007-AC1 transaction. In addition, shortly before the Abacus 2007-AC1 transaction closed, Goldman agreed to take the long side of a CDS contract on the performance of a small portion of the underlying assets when Paulson wanted to increase its short position at the last minute. Goldman tried to find an investor to assume its small long position, but was unable to do so.

[1604] April 27, 2010 Subcommittee Hearing at 82.

[1605] Subcommittee interview of Laura Schwartz (ACA) (4/23/2010). See also In the Matter of Abacus 2007-AC1 CDO, File No. HO-10911 (SEC), Statement of Laura Schwartz (January 21, 2010), ACA ABACUS 00004406 at 408. (hereinafter "Statement of Laura Schwartz").

$1 billion, while Paulson, the sole short investor, recorded a corresponding profit of about $1 billion. Today, the Abacus securities are worthless.

In addition to not disclosing the asset selection role and investment objective of the Paulson hedge fund, Goldman did not disclose to investors how its own economic interest was aligned with Paulson. In addition to accepting a sizable placement fee paid by Paulson for marketing the CDO securities, Goldman had entered into a side arrangement with the hedge fund in which it would receive additional fees from Paulson for arranging CDS contracts tied to the Abacus CDO that included low premium payments falling within a specified range.[1606] While those lower premium payments would benefit Paulson by lowering its costs, and benefit Goldman by providing it with additional fees, they would also reduce the amount of cash being paid into the CDO, disadvantaging the very investors to whom Goldman was marketing the Abacus securities. Goldman nevertheless entered into the arrangement, contrary to the interests of the long investors in Abacus, and failed to disclose the existence of the fee arrangement in the Abacus marketing materials.

On April 16, 2010, the SEC filed a complaint against Goldman and one of the lead salesmen for the Abacus CDO, Fabrice Tourre, alleging they had failed to disclose material adverse information to potential investors and committed securities fraud in violation of Section 17(a) of the Securities Act of 1933 and Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934. On July 14, 2010, Goldman reached a settlement with the SEC, admitting:

> "[T]he marketing materials for the ABACUS 2007-AC1 transaction contained incomplete information. In particular, it was a mistake for the Goldman marketing materials to state that the reference portfolio was 'selected by' ACA Management LLC without disclosing the role of Paulson & Co. Inc. in the portfolio selection process and that Paulson's economic interests were adverse to CDO investors."[1607]

Goldman agreed to pay a $550 million fine.

The Hudson, Anderson, Timberwolf, and Abacus CDOs provide concrete details about how Goldman designed, marketed, and administered mortgage related CDOs in 2006 and 2007. The four CDOs also raise questions about whether Goldman complied with its obligations to offer suitable investments that it believed would succeed, and provide full disclosure to investors of material adverse interests. They also illustrate a variety of conflicts of interest in the CDO transactions that Goldman resolved by placing its financial interests and favored clients before those of its other clients.

[1606] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025-28, Hearing Exhibit 4/27-118.

[1607] Securities and Exchange Commission v. Goldman, Sachs & Co. and Fabrice Tourre, Case No. 10-CV-3229, (S.D.N.Y.), Consent of Goldman Sachs, (July 14, 2010), at 2.

Each of the four CDOs examined by the Subcommittee presents conflict of interest concerns and elements of deception related to how information about the CDO was presented to investors, including disclosures related to the relevant CDO's asset selection process, the quality and value of the CDO's assets and securities, and the nature and size of Goldman's proprietary financial interests. The Subcommittee's investigation raises questions regarding whether Goldman complied with its obligations to disclose material information to investors, including its material adverse interests, and to refrain from making investment recommendations that are unsuitable for any investor by recommending financial instruments designed to lose value and perform poorly. A key issue underlying much of this analysis is the structuring of and disclosures related to financial instruments that enable an investment bank to bet against the very financial products it is selling to clients.

(4) How Goldman Shorted the Subprime Mortgage Market

Having provided an overview of Goldman's shorting activities and CDO activities in the years leading up to the financial crisis, this next section of the Report provides detailed information about how Goldman shorted the subprime mortgage market.

(a) Starting $6 Billion Net Long

By mid-2006, Goldman's Mortgage Department had a predominantly pessimistic view of the U.S. subprime mortgage market. According to Michael Swenson, head of the Mortgage Department's Structured Products Group: "[D]uring the early summer of 2006 it was clear that the market fundamentals in subprime and the highly levered nature of CDOs [were] going to have a very unhappy ending."[1608]

$6 Billion Long. In mid-2006, Goldman held billions of dollars in long subprime mortgage related securities, in particular the long side of CDS contracts referencing the ABX Index. In September 2006, Mortgage Department head Daniel Sparks and his superior, Jonathan Sobel, initiated a series of meetings with Mr. Swenson, head of the Structured Products Group (SPG), and Mr. Birnbaum, the Mortgage Department's top trader in ABX assets, to discuss the Department's long holdings.[1609] In those meetings, they discussed whether the Asset Backed Security (ABS) Trading Desk within SPG should get out of its existing positions or "double-down." After the first meeting, Mr. Birnbaum emailed Mr. Swenson:

[1608] 9/26/2007 Michael J. Swenson Self-Review, GS-PSI-02396-401 at 398, Hearing Exhibit 4/27-55b. See also 12/14/2006 email from Daniel Sparks to Messrs. Montag and Ruzika, "Subprime risk meeting with Viniar/McMahon Summary," GS MBS-E-009726498, Hearing Exhibit 4/27-3 ("there will be very good opportunities as the market[] goes into what is likely to be even greater distress"); 7/13/2006 email from Stuart Bernstein copied to Mr. Cohn, GS MBS-E-016209254 ("he believes the REIT market is dead. We agreed . . . that as the market got worse, his 'distressed' expertise would be more (not less) interesting to investors"). See also Section 5(a)(iii) below regarding Goldman executives' negative views of the market for subprime mortgages and subprime mortgage backed securities.

[1609] 9/19/2006 email chain between Joshua Birnbaum and Daniel Sparks, "ABX," GS MBS-E-012683946.

> "Sobel and Sparks want to know if we should exit or double down. We double down if we have a structured place to go with the risk. ... [W]e are going to sit down with the CDO guys and talk about a deal."[1610]

If the Department's existing long positions could be transferred off SPG's books by finding a "structured place to go with the risk," the ABS Trading Desk would then be free to "double down" by taking on new positions and risk.

That same month, September 2006, the ABS and CDO Desks reached agreement on constructing a new CDO to provide the ABS Desk with a "structured exit" from some of its existing investments. The result was Hudson Mezzanine 2007-1, a CDO designed by Goldman to transfer to Hudson investors the risk associated with $1.2 billion in net long ABX assets then in Goldman's inventory. The Hudson CDO was also designed to allow Goldman to short $800 million in RMBS securities to offset a portion of its long ABX assets.[1611]

In December 2006, even after the $2 billion Hudson CDO was constructed, the Mortgage Department calculated that it still had a $6 billion net long position in subprime mortgage related assets.[1612] Goldman's ABX holdings continued to be a major source of its long assets.

Goldman's Long ABX Assets. In January 2006, Goldman, Deutsche Bank, and several other Wall Street firms launched the ABX Index which, for the first time, allowed investors to use standardized CDS contracts to invest in baskets of subprime RMBS securities. The ABX Index measured the aggregate performance of a selected basket of 20 RMBS securitizations, producing a single value that rose or fell over time in line with the performance of the underlying RMBS securities.[1613] Investors could enter into CDS contracts that used a particular ABX Index as the "reference obligation," without physically purchasing or holding any of the RMBS securities in the underlying basket. Because the ABX Index itself was synthetic, and did not depend upon the acquisition of large blocks of RMBS securities, it enabled an unlimited number of investors to make unlimited bets on the performance of a group of subprime RMBS securities, using standardized contracts that could be bought and sold. The ABX Index also made it economical for investors to short subprime RMBS securities in bulk.[1614]

[1610] Id.

[1611] Goldman responses to Subcommittee QFRs at PSI_QFR_GS0239. For more information on Hudson, see section C(5)(b)(ii)AA., below.

[1612] 3/10/2007 email to Daniel Sparks, "Mortgage presentation to the Board," GS MBS-E-013323395, Hearing Exhibit 4/27-17 (Mortgage Department was $6 billion net long at start of the quarter). 12/13/2006 Goldman email, "Subprime Mortgage Risk," Hearing Exhibit 4/27-2.

[1613] The ABX Index actually consisted of five separate indices. Each index tracked a different set of RMBS securities pulled from the 20 RMBS securitizations in the ABX basket. The sets varied according to their assigned credit ratings. One index tracked the 20 RMBS securities with AAA ratings, another tracked the 20 RMBS securities with AA ratings, and so on.

[1614] Subcommittee interview of Joshua Birnbaum (10/1/2010); Subcommittee interview of Rajiv Kamilla (10/12/2010).

In internal documents, Goldman described itself as "the leader and principal driver in the creation of" the ABX Index.[1615] In July 2006, Joshua Birnbaum, Rajiv Kamilla, David Lehman, and Michael Swenson from the Mortgage Department nominated Goldman's role in the creation of both the ABX and CMBX – a similar index based on Commercial Mortgage Backed Securities – for an internal Goldman award, called the "Mike Mortara Award for Innovation."[1616] That award "recognize[d] the creative, forward-looking, and entrepreneurial contributions of an individual or team" within the equities or fixed income divisions.[1617] The Mortgage Department personnel wrote that the new indices "enable[d] market participants to trade risk without ownership of the underlying SP [structured product] security - thereby permitting market participants to efficiently go short the risk of these securities."[1618] They also wrote that "Goldman Dominates Client Trading Volume" with "an estimated 40% market share, and also "dominates the inter-dealer market."[1619] In 2007, Rajiv Kamilla, the ABS trader who spearheaded Goldman's efforts to launch the ABX Index, wrote that he "[c]ontinued to enhance our trading dominance in ... ABX indices."[1620]

While Mr. Kamilla led Goldman's efforts to develop the ABX Index, the firm's day-to-day ABX trading was conducted primarily by Joshua Birnbaum on the Mortgage Department's Structured Products Group (SPG) Trading Desk.[1621] Mr. Birnbaum had a negative view of the

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[1615] 6/20/2006 email from David Lehman, "Mortara Nomination – ABX/CMBX Indices," GS MBS-E-014038810 (attached file, "2006 Mike Mortara Award for Innovation Nomination Template for ABX & CMBX Indices," GS MBS-E-014038811 at 6 (hereinafter "Mortara Award Submission")).

[1616] Id. at 8.

[1617] 6/20/2006 email from "Equities and FICC Communications" to "All Equities and FICC," Mike Mortara Award for Innovation," GS MBS-E-010879020 [original email].

[1618] Mortara Award Submission at 2.

[1619] Id. at 3-4. See also 8/30/2006 Fixed Income, Currency and Commodities Individual Review Book for Rajiv K. Kamilla, at 20, GS-PSI-04064 (hereinafter "Kamilla 2006 Review"); 9/6/2007 Fixed Income, Currency and Commodities Individual Review Book for Rajiv K. Kamilla, at 19, GS-PSI-04100 (hereinafter "Kamilla 2007 Review").

[1620] Kamilla 2007 Review at 19. In 2007, Mr. Kamilla was named a Managing Partner at Goldman.

[1621] Daniel Sparks, the Mortgage Department head, viewed Mr. Birnbaum as a talented trader, writing in October 2006: "Josh for EMD [Extended Managing Director] – he is an extraordinary commercial talent and a key franchise driver. ... He will make us a lot of money." 10/17/2006-10/18/2006 emails from Daniel Sparks, "3 things," GS MBS-E-010917469. Other Goldman senior executives also relied on his trading skills. See, e.g., 2/21/2007 email from David Lehman, "ACA/Paulson Post," GS MBS-E-003813259 (before approving the Abacus CDO, Mr. Lehman asked Mr. Tourre to "[w]alk josh through the $, if that makes sense, let's go"); 6/29/2007 email from David Lehman, "ABS Update," GS MBS-E-011187909 (during exceptionally bad trading day, Mr. Lehman asked Mr. Swenson, "Is Josh in? Mr. Swenson replied "No he is in Spain – don't worry I am fine.").

subprime mortgage market, and favored the firm's building a net short position.[1622] However, during 2006, Goldman's overall ABX position was net long, not net short.

Goldman was net long because, as a market maker that helped launch the ABX Index in 2006, it facilitated ABX trades for a number of clients, and many of those clients – primarily hedge funds – went almost exclusively short, requiring Goldman to take the opposing long side of the CDS contracts referencing the ABX indices.[1623] These transactions enabled Goldman to amass a 30-40% market share in ABX trading during its first year of existence. But by mid-2006, they had also contributed to the Mortgage Department's net long position in subprime mortgage related assets. When the mortgage market began showing signs of strain in the second half of 2006, the risks associated with the firm's net long ABX position became more of a concern.[1624] Senior

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[1622] Subcommittee interview of Joshua Birnbaum (4/22/2010). Throughout 2006, Mr. Birnbaum was also working to develop a new product for Goldman, a suite of home price derivatives that would track the Case/Schiller Home Price Indices. Like the ABX Index, a derivative product tracking the Case/Schiller Indices would enable investors to bet on the rise or fall in home prices in various U.S. markets, and provide another vehicle to short the mortgage market. See 12/18/2006 New Product Memorandum, "Launch of US Property Derivatives Trading," GS MBS-E-013492538. In May 2006, Mr. Swenson forwarded an email to Mr. Birnbaum about another financial firm seeking to develop the same type of home price derivatives as Mr. Birnbaum. A note with the email said: "FYI–The cat is crawling out of the bag," meaning that other firms were thinking about launching similar products. See 5/16/2006 email from Michael Swenson to Joshua Birnbaum, "Housing Futures and Options," GS MBS-E-016087363. Goldman offered the new U.S. property derivatives briefly in 2007, but they did not develop significant trading volumes. Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1623] The ABX Index began trading in January 2006. Goldman's position in the ABX Index was flat when the Index debuted, but became long and grew considerably longer in the fall of 2006. See, e.g., 10/17/2006-10/18/2006 email exchange between Daniel Sparks and Tom Montag, "3 things," GS MBS-E-010917469; 3/1/2007 email from Daniel Sparks, "Dinner," GS MBS-E-002356757, Hearing Exhibit 4/27-143 ("Most of the synthetic flows were hedge funds getting short and CDO vehicles getting long."). Goldman executives also told the Subcommittee that the firm often took the long side of ABX transactions in which hedge funds were going short. Subcommittee interview of Daniel Sparks (4/15/2010); Subcommittee interview of David Viniar (4/13/2010). See also, e.g., 8/10/2006 email from Goldman salesperson, "Paulson bookings," GS MBS-E-012395893 ("GS sold 550mm protection on ABX.HE.A 06-2 to Paulson"); 12/7/2006 email chain between Daniel Sparks and Tom Montag, "More thorough response," GS MBS-E-010931324 (Goldman had previously handled approximately $9 billion in transactions for Paulson); Subcommittee interview of Michael Swenson (4/16/2010) ("Paulson [hedge fund] was the biggest counterparty on day 1 [of the ABX Index] and throughout 2006").

[1624] Mr. Birnbaum's acquisition of a large net long position in the ABX was viewed negatively by Goldman senior executives. When Mr. Sparks recommended Mr. Birnbaum for a promotion to managing director in October 2006, Mr. Montag responded: "Josh slipped a bit with the abx position etc. Is that appropriate." Mr. Sparks replied: "Josh ... has had a rough couple of months. But he has handled it very well and is a key person for our franchise. I don't think those 2 months should confuse his value to the firm." 10/17/2006 email exchange between Daniel Sparks and Tom Montag, "3 things," GS MBS-E-010917469. Mr. Birnbaum was named a managing director later that month, but Mr. Montag again raised the issue of his net long ABX position when Mr. Sparks sought to allow Mr. Birnbaum to continue buying equity put options on companies with subprime exposure. Mr. Montag wrote: "Unfortunately trader josh has not demonstrated a track record of controlling his position. ... Instead of these lousy hedges he should just be selling his position." 3/21/2007 email chain between Tom Montag and Daniel Sparks, GS MBS-E-010629379, Hearing Exhibit 4/27-21. See also 2/5/2007 email from Richard Ruzika to Gary Cohn, "Are you living Morgatages [sic]," GS MBS-E-016165784 (Mr. Ruzika: "You know and I know this position was allowed to get too big – for the liquidity in the market, our infrastructure, and the ability of our traders. That statement would be the same even if we had gotten the market direction correct –although the vultures would not be circling.").

Goldman executives expressed the view that the subprime mortgage related market was likely to get much worse, and the firm should prepare for it.[1625]

In December 2006, Goldman used the Hudson CDO to transfer the risk associated with $1.2 billion of its ABX long holdings to Hudson investors. But even after this transfer, Goldman still had billions of dollars in long ABX holdings on its books.

Goldman's Long Mortgage Holdings. In addition to its long ABX holdings, the Mortgage Department's $6 billion net long position in December 2006 was due to a large inventory of RMBS, CDO, and other mortgage related assets in Goldman's investment and sale inventories and in its CDO warehouses. In 2006, the Mortgage Department conducted numerous RMBS and CDO securitizations that required it to acquire and repackage whole loans, RMBS and CDO securities, and other mortgage related assets. When assembling CDOs, Goldman often worked with third party partners. These strategic partners bought a portion of the equity and bore some of the risk of loss in the CDO. The partners were generally smaller financial firms, such as hedge funds or asset managers with expertise in CDOs or a particular asset class. For a fee, the partners also sometimes served as a CDO's collateral manager, helping to select the assets.[1626]

Peter Ostrem, who was head of the CDO Origination Desk from 2006 until May 2007, was aware of substantial problems in the subprime mortgage market, but believed that the market distress was temporary and the market would stabilize.[1627] Mr. Ostrem wanted to continue to increase the CDO Desk's business by producing as many marketable CDOs as possible.[1628] Darryl Herrick, who worked for Mr. Ostrem on the CDO Origination Desk expressed the view that hedge funds were shorting only the worst CDOs: "[CDO] shelves people are shorting are enhanced garbage."[1629]

The CDO Origination Desk was a primary contributor to the Mortgage Department's net long position, as Goldman often had to hold or "warehouse" subprime assets until they were

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[1625] See, e.g., 12/15/2006 email from David Viniar to Tom Montag, "Subprime Risk Meeting with Viniar/McMahon Summary," GS MBS-E-009726498, Hearing Exhibit 4/27-3 ("there will be very good opportunities as the markets goes into what is likely to be even greater distress"); 2/8/2007 email from Daniel Sparks, "Post," GS MBS-E-002201668, Hearing Exhibit 4/27-7 ("Subprime environment going from bad to worse (think whack a mole)."); 1/9/2007 Goldman Presentation, "Mortgage Department Update," GS MBS-E-002320968 ("Risks, Challenges and Structural Issues: –Very tough going in Resi Credit world – p&l [profit and loss] will be challenging; –Housing price and loan volume declines; –Investing in business in very difficult environment"); cf. 11/1/2006 Goldman Structured Products Strategist memorandum, "Q3 Mortgage Investor Survey," GS MBS-E-006576068-76 ("Clients expect a downturn in housing in 2007, investors worried about high LTV [loan-to-value], low/no doc loans, pay option ARMs, origination volumes to be down 10% in 2007").

[1626] Subcommittee interview of Peter Ostrem (10/5/2010); Subcommittee interview of Darryl Herrick (10/13/2010).

[1627] Subcommittee interview of Peter Ostrem (10/5/2010). See also, e.g., 8/10/2006 email from Peter Ostrem to Daniel Sparks, "Leh CDO Fund," GS MBS-E-010898470 (urging Goldman to "do our own fund. SP CDO desk. Big time.").

[1628] Subcommittee interview of Peter Ostrem (10/5/2010).

[1629] 6/8/2006 email from Darryl Herrick to Peter Ostrem, "**GS ABS** RMBS CDS Lineup," GS MBS-E-016445770.

packaged into a CDO.[1630] Each CDO was designed to include or reference hundreds of millions or billions of dollars in assets, which the CDO Origination Desk and its partners had to locate and acquire, a process called "ramping" that averaged six to nine months per CDO.[1631] Goldman and its partners acquired these assets from other large Wall Street broker-dealers, often called "the Street," or took them from their own inventory of assets.

When assembling a CDO, Goldman generally opened an internal "warehouse account" for the CDO in which it stored the acquired assets until a target amount was achieved, and the CDO was brought to market. While the assets were in the warehouse account, they were included in Goldman's warehouse balance sheet and contributed to its long or short positions. When the bulk of the target assets were acquired for a particular CDO, perhaps 75% to 95% of the total, in some cases Goldman priced the CDO securities and began selling them to clients who were told what the remaining assets would likely be.[1632] When a CDO transaction "closed" and its securities were issued, Goldman transferred the relevant assets from its warehouse account to the corporation or trust established for the CDO.[1633] The CDO entity then housed the long assets that had been on Goldman's warehouse books, and Goldman was left with a corresponding short position which it could keep or sell to the CDO's short parties.

In 2006 and early 2007, since it was often acquiring assets for several CDOs at once, the CDO Desk generally had a substantial net long position in subprime assets in its CDO warehouse accounts.[1634] For example, as of March 16, 2007, Goldman calculated that its CDO warehouses contained $4.7 billion in mortgage related assets.[1635] After deducting potential liabilities assumed by Goldman's partners and making other adjustments, Goldman calculated that it had $2.3 billion in net long warehouse risk.[1636] In early 2007, Goldman executives began to express concern about the risks posed by the subprime mortgage related assets in the CDO warehouse accounts.[1637]

[1630] Subcommittee interview of Daniel Sparks (4/15/2010); Subcommittee interview of Peter Ostrem (10/5/2010).

[1631] See 5/19/2007 Goldman presentation, "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," GS MBS-E-010951926 ("average ramp period 6-9 months").

[1632] See, e.g. 3/7/2007 and 3/13/2007 internal emails, "Timberwolf I, Ltd. Preliminary Offering Circular," GS MBS-E-001800634 (Collateral manager Greywolf wrote: "We will not be fully ramped and I want to use the remaining bucket strategically. Is it OK if we have 5% ramp post-close?" Goldman responded: "We represented to BSAM [Bear Stearns Asset Management] that deal would be fully ramped upon closing. As long as they're ok (or get veto rights), I don't have any issue.").

[1633] Subcommittee interview of Daniel Sparks (4/15/2010); Subcommittee interview of David Lehman (4/12/2010).

[1634] See, e.g., 3/16/2007 Goldman memorandum from Mitch Resnick and Peter Ostrem to GSI Risk Committee, "GSI Warehousing for Structured Product CDOs," GS MBS-E-001806010; 2/8/2007 email from Daniel Sparks to Messrs. Cohn, Montag, Viniar et al., "Post," GS MBS-E-002201668, Hearing Exhibit 4/27-7 ("Loan business is long by nature and goal is to mitigate."); Subcommittee interview of Peter Ostrem (10/15/2010).

[1635] 3/16/2007 Goldman memorandum from Mitch Resnick and Peter Ostrem to GSI Risk Committee, "GSI Warehousing for Structured Product CDOs," GS MBS-E-001806010.

[1636] Id.

[1637] 2/28/2007 email from David Rosenblum to Peter Ostrem, "Pete– pls send me cob 2/28 MTM for SP CDO WH's first thing in the morning," GS MBS-E-001800707; 2/28/2007 email from David Rosenblum, "Hedges Status Report," GS MBS-E-002640538 (new ABX hedges added and other hedges allocated to ensure that CDO warehouse risk was fully hedged); 2/22/2007 email from Peter Ostrem to David Rosenblum, "League Tables," GS MBS-E-001800683 ("FYI Liquidating 3 warehouses tomorrow."); 2/22/2007 email from Daniel Sparks to Tom Montag, GS

On December 7, 2006, Daniel Sparks, the Mortgage Department head, exchanged emails with Goldman senior executive Thomas Montag about why Goldman was not doing more to reduce the firm's risk associated with its net long positions.[1638] On the same day, Mr. Montag complained to CFO David Viniar about the Mortgage Department's lack of aggressiveness in trying to reduce its net long ABX position:

> "[O]n ABX having numerous conversations–I don't think we should panic out but we certainly didn't do a good job of keeping pressure on ... makes me mad because they should have kept doing it ugh."[1639]

The next week, Mr. Viniar called a meeting with the Mortgage Department to discuss its holdings.

(b) Going Past Home: Goldman's First Net Short

CFO David Viniar told the Subcommittee that, in early December 2006, he received reports showing that the Mortgage Department had lost money on ten successive days.[1640]

Viniar Meeting. On December 14, 2006, Mr. Viniar convened a meeting in the conference room next to his office on the 30th floor, in which he and other senior Goldman executives met for several hours with Mortgage Department managers, as well as representatives from Market Risk Management & Analysis and from the Controllers group.[1641] At the meeting, Mr. Viniar and other Goldman executives conducted an in-depth review of the Mortgage Department's holdings. Mr. Viniar concluded the Mortgage Department's position in subprime mortgage related assets was too long, and its risk exposure was too great.[1642]

Mr. Viniar and others told the Subcommittee that Mr. Viniar's basic message to the Mortgage Department at the December meeting was not necessarily to go short, but instead to "get closer to home."[1643] In trading parlance, "home" means a net neutral trading position – a position

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MBS-E-010989710 ("There are a few deals that look tough now, including a A-rated CDO of CDOs with Greywolf [Timberwolf]").

[1638] 12/7/2006 email chain between Daniel Sparks and Tom Montag, "More thorough response," GS MBS-E-010931324. Mr. Montag also raised the possibility of hiring a trader from the Paulson hedge fund to help Goldman short the mortgage market. In addition, the email exchange indicates that Goldman had previously done $7 billion in transactions with the Paulson hedge fund, but had not done much with the hedge fund recently. Mr. Sparks wrote: "They had asked us to do another tranched protection trade for them, and seem fine with it being pushed to January." Id. The tranched protection trade for Paulson that Mr. Sparks mentioned later became the Abacus 2007-AC1 CDO discussed in this Report.

[1639] 12/7/2006 email chain between Tom Montag and David Viniar, GS MBS-E-009756572.

[1640] Subcommittee interview of David Viniar (4/13/2010).

[1641] 12/14/2006 email from Daniel Sparks, "Subprime risk meeting with Viniar/McMahon Summary," GS MBS-E-009726498, Hearing Exhibit 4/27-3.

[1642] Id. See also 12/15/2006 email from David Viniar to Tom Montag, GS MBS-E-009726498, Hearing Exhibit 4/27-3.

[1643] Subcommittee interview of David Viniar (4/13/2010), Daniel Sparks (4/15/2010), and David Lehman (4/12/2010).

that is neither significantly short nor long.[1644] Mr. Viniar told the Subcommittee that, by telling the Mortgage Department to "get closer to home," he meant that it should assume a more neutral risk position.[1645] One way to "get closer to home" was for the Department to sell its long assets. Another way to achieve a more neutral risk position was for the Department to take new short positions to offset its existing long positions.[1646]

Internal documents indicate that the directions given to the Mortgage Department in the December meeting were more detailed than the general instruction to "get closer to home." In an email sent on the same day by Mr. Sparks to Goldman executives Messrs. Montag and Ruzika entitled, "Subprime risk meeting with Viniar/McMahon Summary," Mr. Sparks wrote:

> "Followups:
> 1. Reduce exposure, sell more ABX index outright, basis trade of index vs. CDS too large.
> 2. Distribute as much as possible on bonds created from new loan securitizations and clean previous positions.
> 3. Sell some more resid[ual]s
> 4. Mark [the value of assets in] the CDO warehouse more regularly ...
> 5. Stay focused on the credit of the originators we buy loans from and lend to
> 6. Stay focused and aggressive on MLN [Mortgage Lending Network] (warehouse customer and originator we have EPDs [early payment defaults] to that is likely to fail)
> 7. Be ready for the good opportunities that are coming (keep powder dry and look around the market hard)."[1647]

The next day, December 15, 2006, Mr. Montag forwarded Mr. Sparks' email to Mr. Viniar asking: "is this a fair summary?"[1648] Mr. Viniar replied: "Yes." Mr. Viniar noted:

> "On ABX, the position is reasonably sensible but is just too big. Might have to spend a little to size it appropriately. On everything else my basic message was let's be aggressive distributing things because there will be very good opportunities as the markets [go] into

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[1644] Subcommittee interview of David Viniar (4/13/2010).

[1645] Id.

[1646] Id. In terms of risk reduction, taking on offsetting short positions to reduce long positions does not necessarily offer the same degree of certainty of risk protection as simply selling off the long assets. In many cases, the offsets may not perfectly match, leaving some degree of risk exposure known as "basis risk." See, e.g., 2/12/2007 email from Mr. Sobel to Mr. Cohn, "Post today," GS MBS-E-009763506 ("Risk that concerns me is basis between ABX and single names."); 2/11/2007 email from Tom Montag, GS MBS-E-009688192 (discussing ABX offsets: "There is no est[imated] loss in the basis risk. Big wildcard. They [the traders] think they have correlation right and moves either way should be ok but obviously index assumptions have been wrong starting last may or june when positions were being put on and the gains seduced us to do more.").

[1647] 12/14/2006 email from Daniel Sparks, "Subprime risk meeting with Viniar/McMahon Summary," GS MBS-E-009726498, Hearing Exhibit 4/27-3. "Residuals" refers to the equity positions that Goldman had retained from the RMBS and CDO securitizations it originated.

[1648] 12/14/2006 email from Tom Montag to David Viniar, GS MBS-E-009726498, Hearing Exhibit 4/27-3.

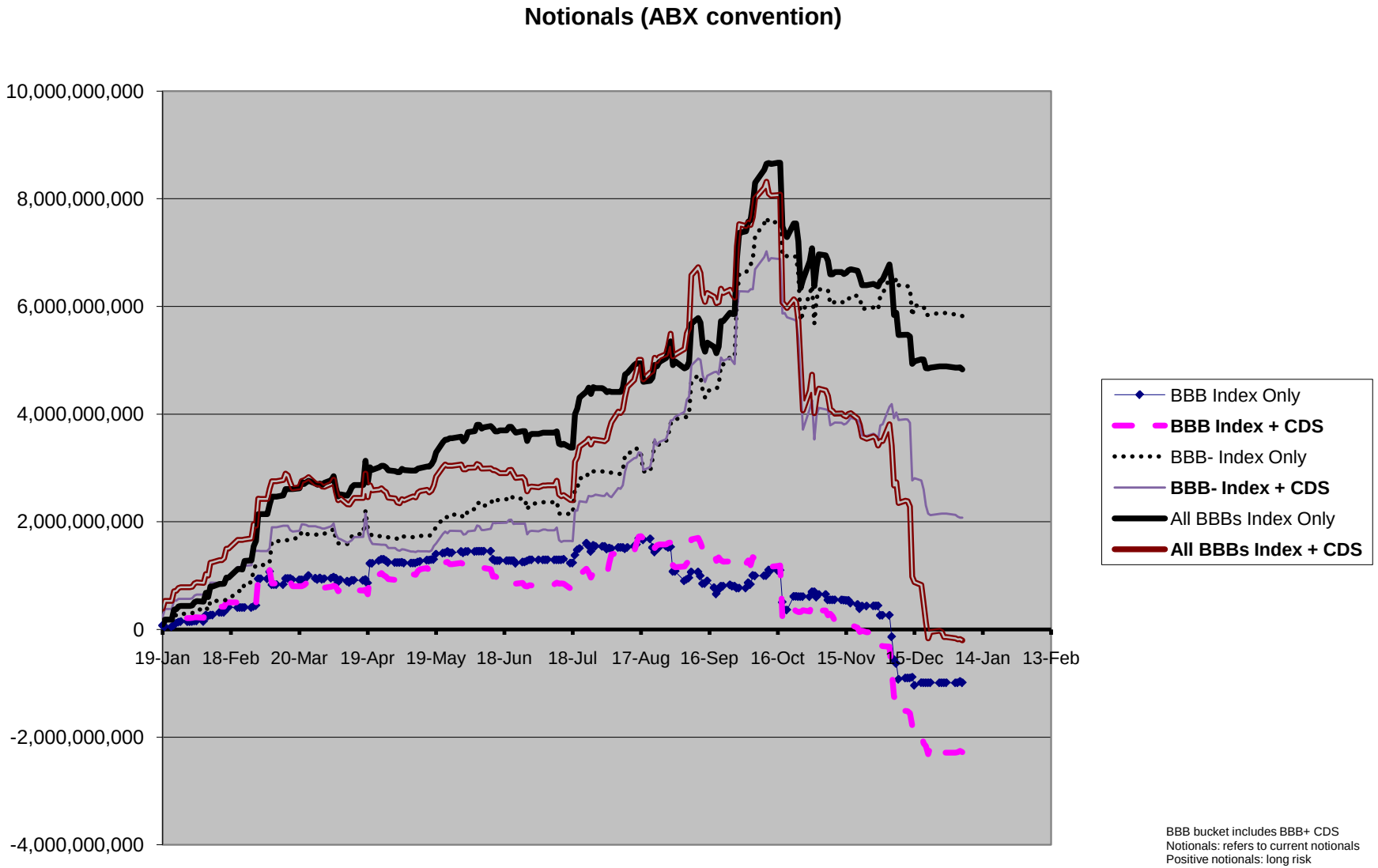
what is likely to be even greater distress and we want to be in a position to take advantage of them."[1649]

In response to the Viniar meeting, the Mortgage Department took immediate action. It began selling its long ABX positions outright when possible and entering into large single name CDS shorts to offset its remaining long assets. Goldman personnel developed a chart depicting the long positions the Mortgage Department had taken on BBB and BBB- rated ABX assets.[1650] This chart also showed how quickly the Mortgage Department moved after the Viniar meeting to offset those long positions by amassing single name RMBS and CDS short positions.

[SEE CHART NEXT PAGE: *Notionals (ABX convention)*, prepared by Goldman Sachs, reformatted by the Permanent Subcommittee on Investigations to be readable in black and white print, GS MBS-E-010214410.]

[1649] 12/15/2006 email from David Viniar to Tom Montag, GS MBS-E-009726498, Hearing Exhibit 4/27-3.

[1650] See 1/5/2007 "Notionals (ABX Convention)" chart, taken from "Index and Single Name Position History 2006 as of 05Jan07.xls," attachment to 1/8/2007 email from Joshua Birnbaum to Daniel Sparks, "ABX Subprime Risk by vintages," GS MBS-E-010214409. The SPG Desk also periodically updated that chart. See, e.g., chart attachments to 2/6/2007 email from Kevin Kao to Joshua Birnbaum, "Index and Single Name Position History 2006 as of 05Feb07.xls," GS MBS-E-012744553; chart attachments to 2/23/2007 email from Tom Barrett to Kevin Kao, Michael Swenson and Justin Gmelich, "Index and Single Name Position History 2006 As of 22Feb07.xls," GS MBS-E-012411673; chart attachments to 3/2/2007 email from Kevin Kao to Joshua Birnbaum, "Index and Single Name Position History 2006 As of 01Mar07.xls," GS MBS-E-012776557.



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, February 2011.
Derived from Goldman Sachs document, GS MBS-E-010214410.

Within about a month, in January 2007, the Mortgage Department had largely eliminated or offset its long subprime mortgage assets, but it didn't stop there. In January and February, the Mortgage Department began building a multi-billion-dollar short position as part of a plan by the SPG Trading Desk to profit from the subprime RMBS and CDO securities starting to lose value. The plan was discussed with Mr. Sparks and Mr. Ruzika before it was set in motion. By the end of February 2007, the Department had swung from a $6 billion net long position to a $10 billion net short position, a $16 billion reversal in the span of two months.

Selling Assets Outright. On December 14, 2006, the same day as the Viniar meeting, Kevin Gasvoda, head of the Residential Whole Loan Trading group, instructed his staff to begin selling the RMBS securities in Goldman's inventory, focusing on RMBS securities issued from Goldman-originated securitizations. He urged them to "move stuff out" even at a loss:

> "[P]ls refocus on retained new issue bond positions and move them out. ... [W]e don't want to be hamstrung based on old inventory. Refocus efforts and move stuff out even if you have to take a small loss."[1651]

In February 2007, to further encourage sales, Mr. Gasvoda issued a sales directive or "axe" to the Goldman sales force to sell the remaining RMBS securities from Goldman-originated RMBS securitizations. On February 9, 2007, the sales force reported a substantial number of sales, and Mr. Gasvoda replied: "Great job syndicate and sales, appreciate the focus."[1652]

In February 2007, Goldman CEO Lloyd Blankfein personally reviewed the Mortgage Department's efforts to reduce its subprime RMBS whole loan, securities, and residual equity positions, asking Mr. Montag: "[W]hat is the short summary of our risk and the further writedowns that are likely[?]"[1653] After a short report from Mr. Montag, Mr. Blankfein replied:

> "[Y]ou refer to losses stemming from residual positions in old deals. Could/should we have cleaned up these books before and are we doing enough right now to sell off cats and dogs in other books throughout the division?"[1654]

[1651] 12/14/2007 email from Mr. Gasvoda, "Retained bonds," GS MBS-E-010935323, Hearing Exhibit 4/27-72.
[1652] 2/9/2007 email exchange between Kevin Gasvoda and sales syndicate, "GS Syndicate RMBS Axes (INTERNAL)," GS MBS-E-010370495, Hearing Exhibit 4/27-73.
[1653] 2/11/2007 email exchange between Lloyd Blankfein and Tom Montag, "Mortgage Risk – Credit residential," GS MBS-E-009686838, Hearing Exhibit 4/27-130.
[1654] Id.

At the end of February, Goldman's controllers prepared a summary of the changes in Goldman's RMBS and whole loan inventory since December 2006, and reported:

> "Residential Credit Loans: The overall loans inventory decreased from $11bn to $7bn. ... subprime loans decreased from $6.3bn to $1.5bn, Second Liens decreased from $1.5bn to $0.7bn and S&D [scratch and dent] Loans remained unchanged at $0.8bn."[1655]

This analysis indicates that, in less than three months, Goldman had reduced its subprime loan inventory by over two-thirds, and its second lien inventory by half.

The Mortgage Department reduced its inventory, not only by selling assets outright, but also by reducing its purchase of whole loans and securitization efforts. In March 2007, Goldman informed its Board of Directors and the SEC that it had stopped purchasing subprime loans and RMBS securities through, in its words, the use of "conservative bids."[1656] While those presentations did not explain the phrase "conservative bids," an email to Goldman's Chief Credit Officer, Craig Broderick, discussing a March 2007 presentation to Goldman's Audit Committee about the subprime mortgage business, was much more explicit: "Just fyi not for the memo, my understanding is that the desk is no longer buying subprime. (We are low balling on bids)."[1657] Still another method to reduce its loan inventory was an ongoing effort by the Mortgage Department to return defaulted or fraudulent loans to the lenders from which it had purchased them.

On April 23, 2007, Mr. Gasvoda reported to Messrs. Montag and Sparks a dramatic reduction in Goldman's inventory of subprime loans and RMBS securities:

> "[W]e have $180mm in loans (unsecuritized) and $255mm of residuals off old deals. The $180mm of loans is the smallest we've been since we started the business in 2002. We had been running at an average loan position balance in subprime of around $4B . ... The $255mm we have retained is from deals dating back to 2002 and while we've developed some buying partners, it is not a deep market. These have been intentional principal retained positions."[1658]

[1655] 2/23/2007 "Significant Cash Inventory Change (Q1'07 vs. Q4'06)," prepared by Goldman, GS MBS-E-010037310, Hearing Exhibit 4/27-12. "Scratch and dent" loans are loans that are not performing.

[1656] 3/26/2007 Goldman presentation to Board of Directors, "Subprime Mortgage Business," GS MBS-E-005565527, Hearing Exhibit 4/27-22 ; 3/14/2007 Goldman Presentation to SEC, "Subprime Mortgage Business 14-Mar-2007," at 7, GS MBS-E-010022328.

[1657] 3/2/2007 email from Patrick Welch to Craig Broderick, "Audit Committee Package_Feb 21_Draft_Mortgage_Page.ppt," GS MBS-E-009986805, Hearing Exhibit 4/27-63. In the context of assets offered by a customer to the Correlation Desk, it appears that Mr. Egol also may have returned an unappealing bid: "Many of these assets are garbage. I told her should would not like the level [the price bid by Goldman] . . . ." 2/26/2007 email from Jon Egol, "Portfolio for Proposed Transaction 070226 (2).xls," GS MBS-E-002631719.

[1658] 4/22/2007 email from Kevin Gasvoda, "Resi credit QTD/YTD P&L and positions," GS MBS-E-010474983.

The subprime loan balance of $180 million was just over one-tenth of the $1.5 billion total Goldman had held at the end of February 2007, reflecting a reduction in its subprime inventory over a two-month span by nearly 90%. Overall, the $180 million loan balance was down from an average subprime loan position balance of $4 billion, which was a 95% reduction in overall subprime loan inventory levels.

Building the First Short Position. At the same time the Residential Whole Loan Trading Desk was selling loans and RMBS securities, the Structured Product Group (SPG) Trading Desk was working to sell its inventory of long CDS contracts linked to the ABX indices.[1659] At first, in December and January, because so many market participants were going short, the SPG's ABX Trading Desk found its long ABX positions difficult to sell.[1660] The ABS Desk then decided to offset the long ABX assets in part by purchasing the short side of single name CDS contracts on certain RMBS and CDO securities.[1661] Within about six weeks, by February 2007, the ABS Desk had acquired a huge net short position in single name CDS contracts referencing RMBS and CDO securities that totaled more than $5 billion. By then, the ABX market had stabilized somewhat, and the ABS Desk was able to sell outright more of its long ABX positions. Rather than slow down once its $6 billion long position was offset, however, the ABS Desk used CDS contracts to short RMBS and CDO securities "at every opportunity," in the words of one trader, going increasingly net short.[1662]

[1659] The Mortgage Department also worked to sell assets from its CDO warehouse accounts, an issue discussed in part below and in part in connection with the Report's section on Goldman's CDO activity.

[1660] Subcommittee interview of Michael Swenson (4/16/2010).

[1661] Id. By adopting the strategy of offsetting the long positions with similar, but not necessarily identical short positions, the SPG Desk was incurring a very large amount of basis risk – the risk of a mismatch between the offsetting assets. Mr. Sparks and other senior Goldman executives wanted to reduce that basis risk by paring the positions down on both sides – selling the long assets and covering the short assets. The SPG Desk was not, however, making the progress Mr. Sparks wanted to see in reducing the basis risk. On January 23, 2007, Mr. Sparks wrote to Messrs. Swenson, Birnbaum, and Lehman:

> "It does not look like you made any progress on the things we discussed – I want a plan and daily reports on progress. Not to be difficult, but if you 3 are too busy I can add someone who can focus on the issue. My other concern is I want to stay nimble, and not get too wedded to one way positions – getting massively short could be more painful than what we have experienced."

1/23/2007 email from Daniel Sparks, GS MBS-E-010267341. A week later, Mr. Swenson requested a meeting with Mr. Sparks and Mr. Ruzika to discuss the difficulties the traders were encountering in reducing the basis risk. He wrote: "I want to go over the facts of what we are up against." 1/30/2007 email from Michael Swenson to David Lehman, GS MBS-E-011375519. Mr. Swenson and Mr. Birnbaum met with Mr. Ruzika and Mr. Sparks around February 1, 2007. The group apparently discussed the SPG Desk's net short position and the difficulties of reducing the basis risk. On February 5, 2007, Mr. Ruzika wrote to Mr. Cohn about how the short position was "allowed to get too big" and stated: "I don't want to be short – I want to neutralize the risk and shed our basis risk." 2/5/2007 email from Richard Ruzika to Gary Cohn, "Are you living Morgatages [sic]?," GS MBS-E- 016165784. About a week later, when the large net short positions began producing large profits, Mr. Ruzika apparently changed his mind and became supportive of the large net short, though he still wanted to reduce basis risk "whenever possible." 2/13/2007 email from Richard Ruzika to Gary Cohn, "Catch up," GS MBS-E-019794071.

[1662] Salem 2007 Self-Review, GS-PSI-03157 at 71-72.

On February 12, 2007, Mr. Sparks reported to senior management on the Mortgage Department's progress and the substantial profits that its new net short position was already showing:

> "(1) +20mm [million] P&L [profit and loss] today.
> Secondary trading desk is net short risk in the form of single names and structured index vs index longs (some index shorts also). Large move down again today ....
>
> (2) Possible significant upside in book.
> The desk has been moving [marking down] single names about 1/3 of what they feel the correct correlation [to ABX Index] is (around 70%). . . . As the market has moved so much one way, there is the potential for the book to currently have significant upside embedded in it.[1663]
>
> (3) Loan & resid[ual] books flat [i.e., already hedged]."[1664]

[1663] The reference to 70% in the email involves correlation assumptions. Correlation trading depends upon assumptions about the relative values between one asset (such as a CDS contract referencing the ABX Index) and another (such as a CDS contract referencing a single RMBS security). A correlation value of 100% means that the values of both assets move together in the same amounts. With 100% correlation, a 10% decline in the value of one asset implies a 10% decline in the value of the other. The correlation ratios between different assets are a matter of the trading desk's informed judgment. As one Goldman mortgage trader noted: "We should discuss base correlations live . . . there is no market standard for calculating them." 3/26/2007 email from SPG Trading to Goldman London, "ABX – TABX : Request from [customer]," GS MBS-E-021893369. Once a correlation ratio was set, however, the general practice at Goldman was to change correlation ratios only upon a showing of observable market trade prices supporting the change. Traders, thus, engaged in frequent discussions of "observability." A change in correlation ratios could result in an immediate markdown or markup of particular positions, which could effect Goldman's profit and loss calculations, collateral calls, and the value of individual customer positions.

In his February 12 email, Mr. Sparks wrote that the SPG Desk had been marking down the value of single name long CDS contracts by only one-third of the amount that would apply if the desk's true calculation of the correlation between single name and ABX CDS contracts was correct – that the two products were more closely correlated than the market recognized. Mr. Swenson told the Subcommittee that, in late 2006 and early 2007, single name long CDS contracts were trading at higher prices than similar ABX CDS contracts, and the observable market prices of single name CDS contracts were not falling as quickly as market professionals thought they should. Subcommittee interview of Michael Swenson (4/16/2010). Nonetheless, in a steeply declining market, Goldman's Mortgage Department assumed that the single name long CDS contracts would eventually fall to the same low values as the long ABX contracts. If that happened, since the SPG Desk was net short single name CDS contracts, the anticipated drop in value would result in an equivalent amount of profit for the desk's short position – hence, Mr. Sparks' reference to the "upside embedded in" the book.

On February 14, 2007, the Mortgage Department actually captured that upside by changing its correlation assumptions to recognize a higher correlation between single name CDS and ABX CDS contracts. Using the new assumptions, Goldman then marked down the value of its customers' single name CDS contracts to levels closer to the ABX Index assets. As the short party to those same CDS contracts, Goldman also realized a profit of $100 million in a single day. See 2/14/2007 email from Arbind Jha to Michael Swenson, "Mortgages Estimate REVISED," GS MBS-E-012474685.

[1664] 2/12/2007 email from Daniel Sparks, "Post today," GS MBS-E-009763506.

On February 14, 2007, Mr. Sparks again reported to senior management on the Department's progress, describing how it was neutralizing its net long position:

> "[O]ur risk reduction program consisted of: (1) selling index outright (2) buying single name protection and (3) buying protection on super-senior portions of the BBB/BBB- index. ... That is good for us position-wise, bad for accounts who wrote that protection .... but could hurt our CDO pipeline position as CDOs will be harder to do."[1665]

"Overall," Mr. Sparks wrote, "as a business we are selling our longs and covering our shorts."[1666]

With respect to market conditions, Mr. Sparks reported:

> "Subprime environment – bad and getting worse. Everyday is a major fight for some aspect of the business (think whack-a-mole). Trading position has basically squared ... plan to play from short side. Loan business is long by nature and goal is to mitigate. Credit issues are worsening on deals and pain is broad (including investors in certain GS-issued deals). Distressed opportunities will be real, but we aren't close to that time yet."[1667]

In order to "play from the short side," the Mortgage Department continued building a net short position, employing aggressive strategies.[1668] Mr. Birnbaum, Goldman's ABX trader, later wrote: "I concluded that we should not only get flat, but get VERY short."[1669] He wrote that he then "socialized," or discussed, his proposal with others in the Mortgage Department, and "we all agreed the plan made sense."[1670] The ABS Desk began implementing the plan by taking a very

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[1665] 2/14/2007 email from Daniel Sparks, "Post," GS MBS-E-009635410, Hearing Exhibit 4/27-8.

[1666] 3/21/2007 email from Daniel Sparks to Tom Montag, GS MBS-E-010629379, Hearing Exhibit 4/27-21. See also 2/19/2007 email from Mr. Sparks to Mr. Montag, "2 things," GS MBS-E-010378492 ("Please send a short note to Josh Birnbaum, Mike Swenson and David Lehman telling them great week – short singles and short CDOs."); 2/28/2007 email from Michael Sherwood to Messrs. Sparks, Swenson, Birnbaum and Lehman, "ABX/Single name notional/risk history," GS MBS-E-010389296 (Mr. Sherwood, a London managing director and member of the Firmwide Risk Committee, wrote: "Many congrats on last few weeks trading ... keep it up!").

[1667] 2/8/2007 email from Daniel Sparks, "Post," GS MBS-E-002201668, Hearing Exhibit 4/27-7.

[1668] Id.; see also 3/10/2007 email from Mr. Dinias to Daniel Sparks, "Mortgage Presentation to the board," GS MBS-E-013323395, Hearing Exhibit 4/27-17; 3/11/2007 email from Daniel Sparks, "Risk Changes Over Quarter," GS MBS-E-010400546, Hearing Exhibit 4/27-18; cf. 3/27/2007 Presentation to GS Board of Directors, "Subprime Mortgage Business," GS MBS-E-005565527, Hearing Exhibit 4/27-22.

[1669] 9/26/2007 2007 EMD Reviews, Joshua Birnbaum Self-Review, Hearing Exhibit 4/27-55c. In his self-review, Mr. Birnbaum provided a detailed explanation of his reasons for recommending that the SPG Desk go "VERY short": "(1) Given how much ABX we had purchased through the broker market in 2006, the world would think GS was very long for the foreseeable future. We could use that fear to our advantage if we could flip our risk, (2) After unsuccessfully trying to sell our long to some of [a Goldman salesperson's] accounts, I realized traditional distressed buyers were no more likely to buy ABX at 85, 75, 65, etc. than at 95. The cash flow was just too binary, so there would be little support if negative momentum began, (3) The fundamentals for mortgage credit were undeniably deteriorating, (4) CDO managers were in denial ... [their positive market] sentiments would allow us to amass large amounts of cheap single name protection if we desired, and (5) If the market truly tanked, the already large CDO warehouses would have to liquidate, further exacerbating the move and ultimately allowing us to cover." Id.

[1670] Id.

large short position in single name CDS contracts referencing RMBS and CDO securities to offset the Department's remaining ABX long position:

> "After socializing the plan with [Daniel] Sparks and ultimately [Richard] Ruzika, we implemented the plan by hitting on almost [every] single name CDO protection buying opportunity in a 2-month period. Much of the plan began working by February when the market dropped 25 points and our profitable year was underway."[1671]

By clearing the plan with Mr. Sparks and Mr. Ruzika first, SPG Trading Desk informed senior management of its intent to use the firm's capital to build the net short position. Mr. Birnbaum also wrote:

> "When we were socializing our plan to get short in the beginning of the year, I put together a tool . . . quantifying our position risk and the p&l [profit and loss] under various market level scenarios. I believe this was key for senior management to gain confidence that we were taking controlled and quantifiable risk that was well understood."[1672]

The Mortgage Department's lead trader in single name CDS contracts referencing RMBS securities, Deeb Salem, also described the plan in his 2007 performance self-evaluation:

> "Mike [Swenson], Josh [Birnbaum] and I were able to learn from our bad long position at the end of 2006 and layout the game plan to put on an enormous directional short. The results of that are obvious."[1673]

In an interview, Mr. Salem told the Subcommittee that the "obvious" results he was referring to were the desk's resulting profits.[1674]

The ABS Desk within the Structured Product Group (SPG) used CDS contracts to short RMBS and CDO securities as well as the ABX Index. The Correlation Desk within SPG used a different technique, obtaining approval to use a Goldman-designed CDO platform, Abacus, "to short structured product CDOs in bulk. The ABACUS transactions are currently one of the unique formats available to . . . [short] in large size on this type of structured product risk."[1675]

From January to late February, the Mortgage Department continued to pile on short positions in the subprime mortgage market.[1676] By the end of the first quarter in 2007, it had built a

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[1671] Id.
[1672] Id.
[1673] Salem 2007 Self-Review at GS-PSI-03157 at 71-72.
[1674] Subcommittee interview of Deeb Salem (10/6/2010).
[1675] 3/12/2007 Mortgage Capital Committee memo, "ABACUS Transaction to be Lightly-Managed by Lion Capital," at 2, GS MBS-E-002665382, Hearing Exhibit 4/27-150.
[1676] See 3/10/2007 email from Mr. Dinias to Daniel Sparks, "Mortgage Presentation to the board," GS MBS-E-013323395, Hearing Exhibit 4/27-17; 3/11/2007 email from Daniel Sparks, "Risk Changes Over Quarter," GS MBS-E-010400546, Hearing Exhibit 4/27-18; 3/27/2007 presentation to GS Board of Directors, "Subprime Mortgage

$10 billion net short position. In a later performance self-evaluation, Mr. Salem described the aggregate $10 billion net short position as "HUGE" and "enormous."[1677] A Goldman senior executive, Thomas Montag, later referred to a net short position of $3 billion in subprime mortgage backed securities as "huge and outsized."[1678] Goldman's net short position in February 2007 was more than three times that size.

Profiting from the First Net Short. In February 2007, Goldman's senior management decided that the $10 billion net short position had become too risky, and ordered the Mortgage Department to cover a portion of the short. Covering some of the short not only reduced the risk, but also locked in some of the profit associated with the position.

In late February 2007, the Mortgage Department's net short position, coupled with added volatility in the subprime mortgage market, caused a sharp increase in the Department's risk profile, as measured by Value at Risk or "VAR." Goldman had assigned a VAR limit of $35 million to the Mortgage Department.[1679] In November 2006, the Department's reported VAR was $13 million, well below its limit.[1680] By late February 2007, however, its VAR had reached $85 million – an increase of over 550%.[1681]

Goldman senior management closely monitored the Department's increasing VAR. On February 23, 2007, Goldman risk controllers told senior executives that the Mortgage Department's increasing VAR was "primarily driven by a combination of increased volatility in ABX market and the [SPG] desk increasing their net short risk in RMBS subprime sector."[1682] On February 14, 2007, Justin Gmelich, a managing director asked to help Mr. Sparks with the Mortgage Department on a short term basis, sent an email to Mr. Montag expressing unease with the Department's increasing risk profile:

> "Abx risk should be working to get closer to home. My opinion, singles v. short index is too big (no news here). Abx correlation trade is good. I think we should be covering a bit of our short. There is a lot to do."[1683]

Business," at 8, GS MBS-E-005565527, Hearing Exhibit 4/27-22 [footnote omitted].

[1677] Salem 2007 Self-Evaluation [emphasis in original].

[1678] 8/23/2007 email from Tom Montag, "Current Outstanding Notional SN ames," GS MBS-E-010621231.

[1679] 2/8/2007 email from Bill McMahon, "VaR limit for Mtg SPG," GS MBS-E-009980807.

[1680] 2/23/2007 Goldman internal document, "Mortgage VaR Change (Q1'07 vs. Q4'06)," GS MBS-E-010037310, Hearing Exhibit 4/27-12; 3/8/2007 email from Jha Arbind, "Risk changes over the quarter," GS MBS-E-010400546, Hearing Exhibit 4/27-18.

[1681] Id.

[1682] 2/23/2007 Goldman internal document, "Mortgage VaR Change (Q1'07 vs. Q4'06)," GS MBS-E-010037310, Hearing Exhibit 4/27-12.

[1683] 2/14/2007 email from Mr. Gmelich to Tom Montag, GS MBS-E-016165580.

Mr. Montag forwarded Mr. Gmelich's email to Goldman's Co-Presidents, Gary Cohn and Jon Winkelried, as well as to Mr. Ruzika, commenting: "clearly need to opportunistically take position down."[1684]

On February 21, 2007, senior management told Mr. Sparks to reduce the size of the Mortgage Department's $10 billion net short position by covering $3 billion.[1685] Mr. Sparks communicated the decision to personnel on the SPG Desk:

> "We need to buy back $1 billion single names and $2 billion of the stuff below [CDO securities] – today. I know that sounds huge, but you can do it – spend bid/offer, pay through the market, whatever to get it done.
>
> It is a great time to do it – bad news on HPA [housing price appreciation], originators pulling out, recent upticks in unemployment, originator pain. . . .
>
> This is a time to just do it, show respect for risk, and show the ability to listen and execute firm directives.
>
> You called the trade right, now monetize a lot of it.
>
> You guys are doing very well."[1686]

Although some SPG traders disagreed with the decision,[1687] the Mortgage Department took immediate action in response to the order. By the end of the day, February 21, 2007, Mr. Sparks reported to senior management that the ABS Desk had covered $400 million in single name CDS contracts, but had not been able to reach the $3 billion goal:

> "Market sold off significantly (BBB and BBB- indices over 100 bps wider) We covered over $400mm single names – still significant work to do. ...
>
> "We are net short, but mostly in single name CDS and some tranched index vs the some [sic] index longs. We are working to cover more, but liquidity makes it tough. Volatility is causing our VAR numbers to grow dramatically."[1688]

[1684] Id.

[1685] 2/22/2007 email from Daniel Sparks to Messrs. Birnbaum, Swenson and Lehman, "Block size tranche protection offers for Paulson or others," GS MBS-E-010381411.

[1686] Id.

[1687] Subcommittee interview of Joshua Birnbaum (4/22/2010) (Mr. Birnbaum wanted to continue to hold the short position, rather than cover it, since he thought it would earn additional profit); see also 2007 Birnbaum Self-Review, Hearing Exhibit 4/27-55c (Mr. Birnbaum wrote that he should have argued more forcefully against covering the shorts in February 2007).

[1688] 2/21/2007 email chain from Daniel Sparks, "Mortgages today," GS MBS-E-010381094, Hearing Exhibit 4/27-10. In response, Mr. Viniar wrote to Mr. Sparks: "Good start. Keep covering." 2/21/2007 email from David Viniar to Daniel Sparks, "Mortgages today," GS MBS-E-009757841. In another email, Mr. Montag wrote: "How hard are

Mr. Ruzika sent an email to Mr. Montag and Mr. Sparks commenting on the covering efforts:

> "I think Dan's guys are being practical. I know Bill [McMahon] was upset but covering the single name bbb and bbb- is prudent as it cuts vol and var the most. ... Guys didn't give up bid ask but they also didn't stand on the bid."[1689]

The Mortgage Department found that its single name CDS contracts were difficult to cover, in part because many of the referenced RMBS and CDO securities had already been acquired by securitizers for inclusion in CDOs and so were not for sale.[1690] That meant the SPG Trading Desk could not cover its single name short positions simply by buying the offsetting long asset – the RMBS and CDO securities were no longer available for purchase.[1691] Instead, the SPG Desk had to use offsetting CDS contracts, ones which referenced the same RMBS or CDO securities, but in which Goldman took the long side.[1692] The problem with those contracts, however, was that many market participants had already acquired short positions on RMBS and CDO securities and weren't in the market to buy more. In addition, their purchases had driven up the price of short contracts. Between market saturation and high price levels, Goldman found few buyers when it wanted to cover its shorts.[1693] The Mortgage Department's inability to cover its single name shorts concerned Messrs. Montag and Ruzika, who continued to press for quick progress.

On February 25, 2007, Mr. Sparks reported to Messrs. Montag and Ruzika on the Mortgage Department's progress after a week of effort:

> "Cover[ed] around [$]1.55 billion single name subprime BBB- CDS and about $700mm single name subprime BBB CDS. The desk also net sold over $400mm BBB- ABX index. Desk is net short, but less than before. Shorts are in senior tranches of indexes sold and in single names. Plan is to continue to trade from short side, cover more single names and sell BBB- index outright."[1694]

On February 27, 2007, Mr. Ruzika sent an email to Messrs. Montag, Gmelich and Sparks indicating that the Mortgage Department needed to reduce its net short position by covering even more than $3 billion in shorts: "There are two issues – first is the size of the short – I want to see

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we pushing covering some of singlename. Let's not be bidoffer foolish. The downside isn't worth the upside imo." 2/21/2007 email from Tom Montag to Daniel Sparks, GS MBS-E-017237596. Mr. Sparks replied: "Pushing hard, but need to be realistic with respect to expectation on liquidity. Very hard to force it. Trade has been right, and should continue to run (though there will be bumps). Entire team knows we have to reduce and is focused on it." Id. Mr. Montag responded: "If you sold it in a bad market u ough[t] to be able to buy it." Id.

[1689] 2/22/2007 email from Richard Ruzika to Tom Montag and Daniel Sparks, GS MBS-E-010381967.

[1690] Subcommittee interview of Michael Swenson (4/16/2010).

[1691] Id.

[1692] Id.

[1693] A similar situation existed at the time in the market for commercial mortgage backed securities (CMBS). In a February email to Mr. Lehman, a CMBS trader remarked: "It's amazing that everyone was lifting [accepting bids on] cmbs 1 and 2 [CMBX indices], but NOBODY will bid single names." 2/23/2007 email from [CMBS trader] to David Lehman, "CT CDO w/ [Bank]," GS MBS-E-011270138-39 [emphasis in original].

[1694] 2/25/2007 email from Daniel Sparks to Tom Montag, "Questions you had asked," GS MBS-E-010987763.

us getting the short down to 4.5 bil[lion] net. ... Second – the basis in the book needs to be reduced as well."[1695] Less than an hour later, Mr. Ruzika sent Mr. Sparks another email at the conclusion of a meeting of Goldman's Operating Committee (OpCom), comprised of Goldman's senior executives. In an email entitled, "OpCom Directive," Mr. Ruzika wrote:

> "Dan. Directly from the opcom we have to pick up the pace of buying back single names even if it costs us some money. I know your guys are trying but we can pay away some if it helps to get size done."[1696]

In response, Mr. Sparks immediately sent an email to Mr. Swenson, Mr. Lehman, and Mr. Birnbaum regarding the "Opcom directive." He wrote: "Buyback single names in size today."[1697] He also sent the SPG and CDO Desk managers a set of "Goals":

> "Reduce risk. That means:
> (1) get m[o]re super-seniors done on CDOs or take other steps to reduce CDO pipeline risk;
> (2) cover more single name shorts BBB- and BBB
> (3) reduce the basis trade between BBB- index and BBB- single names
> (4) reduce the index/index trades in A and AAA."[1698]

Mr. Sparks' list of goals showed that he was closely tracking the SPG Desk's activities and directed them to reduce rather than eliminate its basis and index trades.

At the end of February, the Mortgage Department's efforts got a substantial boost when a new hedge fund client, Harbinger, purchased the short side of $4 billion in single name CDS contracts referencing RMBS securities.[1699] By taking the long side in those contracts, the Mortgage Department was able to cover its shorts by the same amount.

[1695] 2/27/2007 email from Richard Ruzika to Tom Montag, Justin Gmelich, and Daniel Sparks, GS MBS-E-002204942.

[1696] Id.

[1697] 2/27/2007 email from Daniel Sparks, "Opcom Directive," GS MBS-E-017250218.

[1698] 2/27/2007 email from Daniel Sparks, "Goals," GS MBS-E-010387086, Hearing Exhibit 4/27-11.

[1699] See, e.g., 2/22/2007 Goldman internal emails, GS MBS-E-018938493, GS MBS-E-018940734; 2/27/2007 email from Michael Swenson to Bill McMahon, GS MBS-E-012502371 ("Bought 1.5bb of sn baa3 risk from harbinger."); 3/1/2007 email from Daniel Sparks, "SN Protection Offers for Harbinger (50 names)," GS MBS-E-019460848 ("Trade was executed at +725 "); 3/3/2007 email to Michael Swenson and Daniel Sparks, "Harbinger Update," GS MBS-E-010707216. As a result, Harbinger became Goldman's largest hedge fund counterparty credit risk: "Harbinger is our #1 hedge fund exposure globally. We had to explain this to the SEC this month." 4/20/2007 Goldman internal email, "Harbinger didn't add the last piece we had spoke of, but are now thinking of adding ~50mm," GS MBS-E-012523933. Harbinger was also instrumental in Goldman's second round of short covering efforts in August 2007. See, e.g., 7/30/2007 email to Michael Swenson, "Harbinger Single-A Offerings.xls," GS MBS-E-012374026; 8/23/2007 email from Michael Swenson, "Harbinger Post," GS MBS-E-009739009.

On February 28, 2007, Mr. Sparks reported at a Firmwide Risk Committee meeting on the Mortgage Department's progress in reducing its VAR.[1700] The committee minutes reflect that Mr. Sparks' report stated the following:

> "–VaR up due to vols. Business working to reduce exposures; a lot of shorts already covered.
> –ABX widened 500bp on the week. Business covered $4BN in single names.
> –Noted a lot of negative news in the subprime market with rumors on everyone.
> –CDS on CDOs started to widen significantly over the week . ...
> –Business continuing to clear out loans."[1701]

Five days later, on March 5, 2007, Mr. Montag requested another update: "Do we think the business is net short, long or flat right now?" Mr. Sparks responded: "We think the overall business is net short." Mr. Gmelich added: "I think we have a very modest short across all the businesses at current market levels. I concur with Dan."[1702]

The Mortgage Department's efforts to cover its $10 billion net short position reduced its VAR; it also allowed the Department to lock in and record large profits from its net shorts. In March 2007, in connection with Goldman's quarterly earnings call with analysts, "Mortgage Talking Points" prepared for Mr. Viniar stated that the Department's revenues were primarily the result of its short positions:

> "The Mortgage business' revenues were primarily driven by synthetic short positions concentrated in BBB/BBB- sub prime exposure and single A CDO exposure which benefitted from spread widening."[1703]

At the end of the first quarter of 2007, the Mortgage Department reported total net revenues of $368 million.[1704]

The Mortgage Department continued its efforts to cover the rest of its short position. On March 14, 2007, Mr. Sparks reported to Messrs. Cohn and Montag that a Goldman salesperson

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[1700] 2/28/2006 Goldman internal memorandum, "Firmwide Risk Committee: February 28th FWR Minutes, "GS MBS-E-009687468, Hearing Exhibit 4/27-13 [sic - correct year is 2007].

[1701] Id. See also 2007 Swenson Self-Review ("we prudently covered $5bb of single-name shorts at the all time lows at the time back in February"), Hearing Exhibit 4/27-55b.

[1702] 3/5/2007 email from Tom Montag, GS MBS-E-010393092. Goldman COO Gary Cohn expressed concern that a positive move in the markets would cause the Mortgage Department to incur large losses due to its net short: "A big plus would hurt the Mortgage business but Justin [Gmelich] thinks he has a big trade lined up for the morning to get us out of a bunch of our short risk." 3/5/2007 email from Gary Cohn, GS MBS-E-009656525, Hearing Exhibit 4/27-15. The big trade referred to by Mr. Cohn was one of the Harbinger trades that enabled Goldman to cover $4 billion of its single name CDS short positions.

[1703] 3/9/2007 email to David Viniar, "Mortgage Talking Points for Earnings Call," GS MBS-E-009762678, Hearing Exhibit 4/27-16.

[1704] 9/17/2007 Presentation to GS Board of Directors, Residential Mortgage Business at 5, GS MBS-E-001793840, Hearing Exhibit 4/27-41.

"did a fantastic job for the desk by bringing in $1.2BB [billion] in A-rated single names today."[1705] Mr. Montag in turn reported to Goldman CEO Lloyd Blankfein: "Covered another 1.2 billion in shorts in mortgages–almost flat–now need to reduce risk."[1706]

That same day, March 14, 2007, in response to his request, the Mortgage Department sent Mr. Ruzika a detailed breakdown of its subprime mortgage holdings.[1707] It disclosed that, despite offsetting short and long positions in a number of areas, the SPG Desk still held three sizeable net short positions involving about $2.6 billion in ABX assets, $2.2 billion in single name CDS contracts, and $2 billion in mezzanine CDOs.[1708]

Goldman personnel prepared the following chart tracking the SPG Trading Desk's efforts to cover its BBB and BBB- net short position from February through mid-May 2007.[1709]

> [SEE CHART NEXT PAGE: *Notionals (ABX convention)*, prepared by Goldman Sachs, reformatted by the Permanent Subcommittee on Investigations to be readable in black and white print, GS MBS-E-012890600.]

AAA Disaster Insurance. Despite all the attention paid to the Mortgage Department's subprime mortgage holdings beginning in December 2006, one large short position seemed to have escaped the directives of senior management in the first quarter of 2007 to cover the Department's shorts. It consisted of a massive $9 billion net short position made up of CDS contracts referencing an ABX index that tracked a basket of 20 AAA rated subprime RMBS securities.[1710] Goldman representatives could not recall when that short position was acquired, who acquired it, or whether proprietary funds were used,[1711] but the CDS contracts appear to have been held at a relatively constant level of $9 billion from some time in 2006 until July 2007.[1712] Mr. Sparks told the Subcommittee that the net short position served as a form of low cost "disaster insurance" that would pay off only in a "worst case" scenario – when even the top tier AAA rated RMBS securities, among the safest of all subprime mortgage investments, lost value.[1713]

[1705] 3/17/2007 email from Daniel Sparks and Tom Montag, "Cactus Delivers," GS MBS-E-009632839.

[1706] Id. Mr. Montag's comment suggests that he may have wanted the Mortgage Department to reduce the size of both its longs and shorts to reduce its overall risk, or to reduce its basis risk, the risk that arises when two different types of assets are used to offset one another, and the assets are imperfectly matched.

[1707] 3/14/2007 email from David Lehman, "ABS Trading - Subprime risk," GS MBS-E-010397102.

[1708] Id.

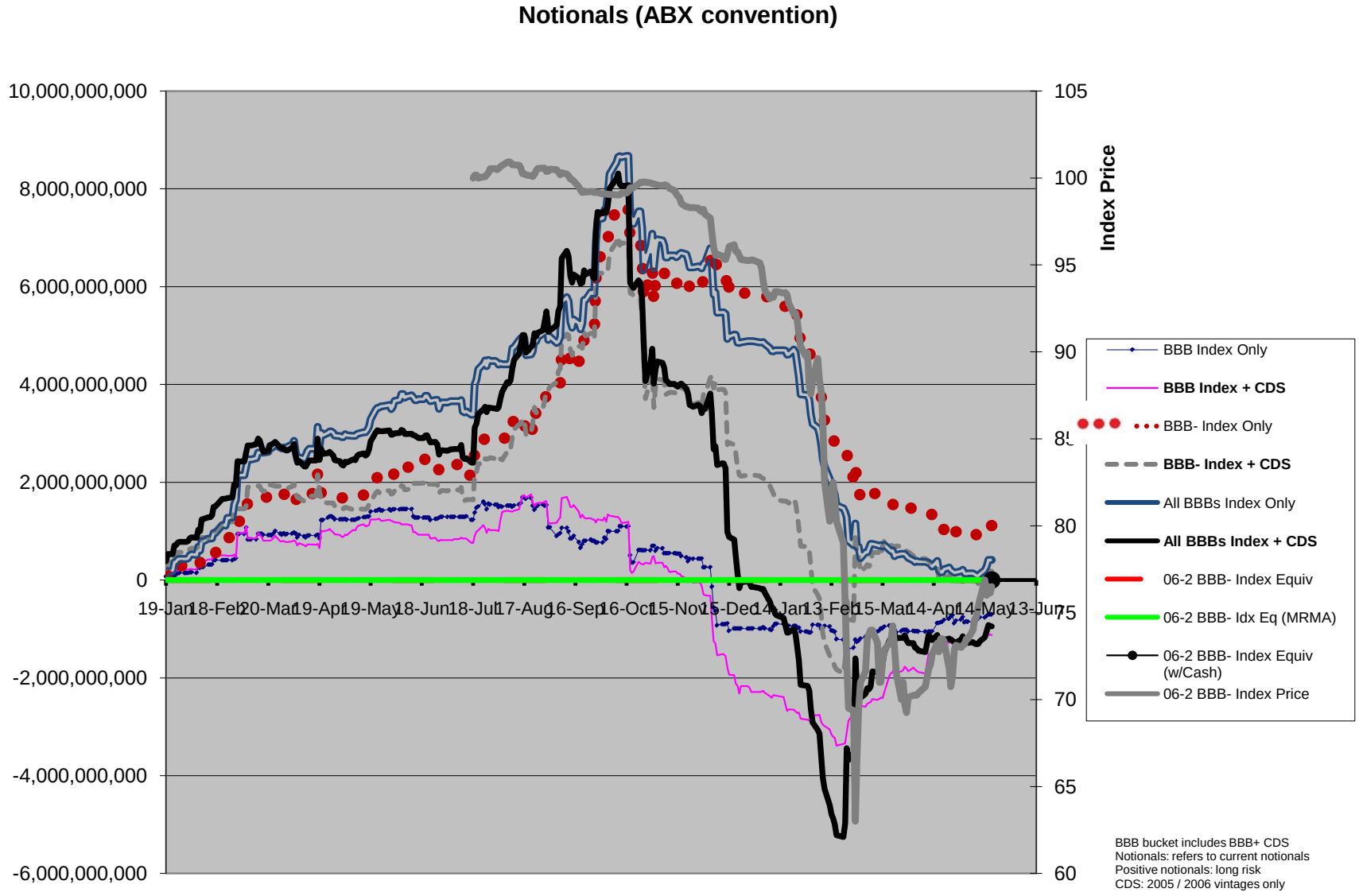
[1709] See "Notionals (ABX Convention)," chart attached to 5/23/2007 email from Kevin Kao to Joshua Birnbaum, "RMBS Subprime risk history as of 18May07," GS MBS-E-012890599.

[1710] See, e.g., 3/8/2007 email from Mr. Sparks, "Mortgage Risk," GS MBS-E-002206279, Hearing Exhibit 4/27-75 (noting Mortgage Department's $9 billion short position on the AAA ABX index).

[1711] Subcommittee interview of Daniel Sparks (4/15/2010), David Lehman (4/12/2010), Joshua Birnbaum (4/22/2010), and Michael Swenson (4/16/2010).

[1712] See chart entitled "Goldman Sachs Mortgage Department Total Net Short Position, February-December 2007 in $ Billions," prepared by the Subcommittee, April 2010, updated January 2011, derived from Goldman Mortgage Strategies and Mortgage Department Top Sheets.

[1713] Subcommittee interview of Daniel Sparks (10/3/2010).



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, February 2011.
Derived from Goldman Sachs document, GS MBS-E-012890600.

The most comprehensive description of the AAA ABX short position located by the Subcommittee was a chart prepared by a Mortgage Department analyst in August 2007. The analyst sent the chart to Mr. Birnbaum at his request, to show the Mortgage Department's overall position in synthetic products, including CDS contracts referencing ABX, RMBS, and CDO assets.[1714] The chart includes the AAA ABX short position as a long, nearly flat line showing an approximately $9 billion net short until early July 2007, when the value turned sharply upward.[1715] The analyst wrote in an August email, after much of the AAA ABX net short position had been covered: "M[ortgage] department is short ABX AAA [$]8.7b[illion], splitting among ABS/Alt A/prime/conduit in the beginning of fiscal year 2007, and is now long [$]410m[illion]." While this chart and the covering email do not reveal the origin of the AAA short, they indicate that, by early 2007, it was split between the ABS Trading Desk in the Structured Product Group and three desks in Mr. Gasvoda's Residential Whole Loan Trading area – the Alt A Trading Desk under Genevieve Nestor, the Prime Trading Desk under Clay DeJacinto, and the Conduit for conducting subprime loan pool securitizations under Matt Nichols.

Goldman emails provide additional information about the AAA ABX short. One series of emails, from March 2007, indicates that about $8 billion of the $9 billion AAA short was then held by the three desks in Mr. Gasvoda's Residential Whole Loan Trading area, and that he favored maintaining the short, because it provided billions of dollars in coverage and cost only $5 million per quarter in premiums to maintain. On March 4, 2007, Mr. Gasvoda emailed Mr. Sparks with "Quick Thoughts on ABX AAA risk":

> "I talked to [Matt] Nichols and Clay [DeJacinto] about the AAA ABX short. Think it offers a good amount downside protection w/ relatively light pain if we're wrong. Below is a $8B ABX AAA short #s. It costs us $5mm/quarter to carry. On the downside, if the market rallies to par ... we drop $50mm. Taking it to 0 spread we lose $80mm.
>
> "On the upside front, we get good jump risk. If AAA's widen to current AA levels ... we gain $70mm and if spreads move up to super senior risk pricing in CDOs ... we're up $190mm.

[1714] 8/17/2007 Goldman internal chart, "RMBS Subprime Notional History (Mtg Dept.)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a. The analyst's cover email stated: "The attached spreadsheet covers the single name and ABX positions of the entire mortgage department for the fiscal year 2007. I spot checked the numbers with risk reports they tie out well." See also 8/17/2007 email from Joshua Birnbaum, GS MBS-012928388, Hearing Exhibit 4/27-56b.

[1715] When shown the chart during his interview, Mr. Sparks told the Subcommittee he was unfamiliar with it and pointed what he believed to be an anomaly related to its depiction of the Mortgage Department's short position involving BBB rated RMBS securities. He also indicated that he could not confirm its depiction of the AAA ABX short position. Since multiple Goldman email messages confirm the existence of the AAA ABX short position during most of Goldman's fiscal year 2007, however, the chart's depiction of that position as a nearly flat line at about $9 billion short until July 2007 appears consistent with the other evidence.

> "Net, think this is a good position to have on given downside protection and relatively light upside pain. If we get an opportunity to buy some back next week, think we should but I'm thinking buy back $1-2B, not $8B."[1716]

Mr. Sparks replied to Mr. Gasvoda: "Good trading response and thought process. We need to consider daily."[1717]

The next day, March 5, 2007, the Residential Whole Loan Trading Desk under Mr. Gasvoda and the CDO Origination Desk under Peter Ostrem exchanged information about the "ABX hedges" that each business was carrying to reduce the risk associated with its respective long assets.[1718] The Residential Whole Loan Trading Desk reported: "[b]elow are all our ABX hedges across our Resi Credit + Prime books," which included approximately $7 billion in AAA ABX holdings.[1719] The CDO Origination Desk, in turn, reported holding another $2.25 billion in AAA ABX "hedges."[1720] A few days earlier, with respect to the CDO Origination Desk's holdings, Mr. Egol had remarked: "Love that huge AAA abx short."[1721]

Although the $7 billion figure reported by Mr. Gasvoda's group on March 5 was $1 billion less than the $8 billion reported the day before,[1722] and the $2.25 billion reported by the CDO Origination Desk was larger than the $1 billion that the August 2007 email later ascribed to the Structured Product Group, all of the evidence indicates that Goldman had a massive AAA ABX short position in 2007. A few days later, on March 8, 2007, in an email to senior management entitled, "Mortgage Risk," Mr. Sparks described the AAA ABX short as a hedge against long positions in the Department's loan books and CDO warehouse accounts:

> "[O]verall the department has significant shorts against loan books and the CDO warehouse. The bulk of these shorts ($9BB) are on the AAA index, so the downside is limited as the index trades at 99."[1723]

[1716] 3/4/2007 email from Kevin Gasvoda to Daniel Sparks, "Quick thoughts on ABX AAA risk," GS MBS-E-010398072.

[1717] Id. Despite Mr. Gasvoda's suggestion that he might try to cover a portion of the $8 billion net short, the AAA ABX short position in Mr. Gasvoda's area appears to have remained unchanged until around July 2007. 8/17/2007 Goldman internal chart, "RMBS Subprime Notional History (Mtg Dept.)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a.

[1718] Goldman's hedging practice was that each desk was responsible for its own hedges. Accordingly, different desks would not necessarily share information about their respective hedges, even if both were hedging with the same product, such as an ABX short.

[1719] 3/5/2007 email from Cyrus Pouraghabagher, "ABX hedges for Resi businesses," GS MBS-E-012085546.

[1720] Id.

[1721] 2/28/2007 email from Jonathan Egol to Fabrice Tourre, "Hedges Status Report," GS MBS-E-002628642.

[1722] The report from Mr. Gasvoda's group may have inadvertently omitted a particular loan book that was holding the additional $1 billion in hedges, the figure may be a typographical error, or the group may have chosen not to disclose some of its hedges. The Goldman personnel interviewed by the Subcommittee were unable to explain the discrepancy.

[1723] 3/8/2007 email from Daniel Sparks, "Mortgage Risk," GS MBS-E-002206279, Hearing Exhibit 4/27-75.

In this email to senior executives, Mr. Sparks put the size of the AAA ABX short at $9 billion, which seems to have been the amount most commonly cited for the short.[1724]

When asked about the Gasvoda email which described the AAA ABX short as an inexpensive "jump risk,"[1725] Mr. Sparks told the Subcommittee that the email was referring to acquiring "jump insurance" against a sudden, huge loss arising from the total default of an asset.[1726] In this context, the short was acquired as insurance against the unlikely event that a significant portion of the AAA rated RMBS securities identified in the ABX Index defaulted simultaneously.[1727] Since AAA rated RMBS securities were typically the safest of the RMBS securities offered for sale, it was widely believed in 2006 and 2007, that they would remain untouched even if defaulting mortgages harmed riskier RMBS securities. By shorting AAA rated RMBS securities, Goldman was insuring against a "tail risk" – the risk of an event that appeared to have a very small probability of ever actually occurring, but which was likely to cause catastrophic losses if it did occur. Mr. Sparks also explained that, since the subprime mortgage industry considered losses in AAA rated RMBS securities to be exceedingly unlikely, the price of acquiring and holding such a short position was relatively inexpensive.[1728]

From the time the $9 billion AAA ABX short was acquired in 2006 until July 2007, it was not included in Goldman senior management's directives to cover shorts, and it does not appear to have been part of the Mortgage Department's efforts to get "closer to home," build a net short position in early 2007, or cover that net short in February and March.[1729] The $9 billion AAA ABX short may have been left out of management's directives on the first net short, because it was serving as a hedge for long subprime mortgage assets held by several Mortgage Department desks.[1730] As those long assets were sold or written down, however, no apparent steps were taken to unwind or remove the $9 billion AAA ABX hedge.[1731] By June 2007, it remained almost entirely intact as a net short. The value, cost, and risk associated with the AAA ABX short had been monitored, but not acted upon, until the short suddenly began approaching profitability and

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[1724] Id.; see also 8/23/2007 email from Tom Montag to Lloyd Blankfein, GS MBS-E-009585951, Hearing Exhibit 4/27-37 (Mortgage Department "bought back 9 billion of AAA abx index over last two weeks."); 8/23/2007 email from Tom Montag to Gary Cohn and David Viniar, "Harbinger Post," GS MBS-E-009739009.

[1725] 3/4/2007 email Kevin Gasvoda to Daniel Sparks, "Quick thoughts on ABX AAA risk," GS MBS-E-010398072 (" we get good jump risk . . . Net, think this is a good position to have on given downside protection and relatively light upside pain.").

[1726] Subcommittee interview of Daniel Sparks (4/15/2010).

[1727] Id.

[1728] Id.

[1729] See 8/17/2007 Goldman internal chart, "RMBS Subprime Notional History (Mtg Dept.)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a.

[1730] The AAA ABX short appears to have served as a hedge for long assets in the Whole Loan and CDO Origination areas in March 2007. Many of those assets were sold during the spring and summer of 2007. If a hedged asset is sold, the hedge is ordinarily unwound commensurately. See, e.g., 5/30/2007 email from David Lehman, "ABX hedges – Buy order," GS MBS-E-011106690 (directing the unwinding of certain short ABX hedges held against the CDO Origination Desk when the CDO positions were transferred to another desk).

[1731] See 8/17/2007 Goldman internal chart, "RMBS Subprime Notional History (Mtg Dept.)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a.

began contributing to high VAR levels for the Mortgage Department. It then drew the attention of Goldman senior management which included the AAA ABX short in its directive to cover the firm's second big net short. Covering the AAA ABX net short contributed to the multi-billion-dollar profits realized by Goldman in the third and fourth quarters of 2007.

Report To Board. On March 26, 2007, Mr. Sparks and Goldman senior executives gave a presentation to Goldman's Board of Directors regarding the firm's subprime mortgage business.[1732] The presentation recapped for the Board the various steps the Mortgage Department had taken since December 2006, in response to the deterioration of the subprime mortgage market.[1733] The presentation noted, among other measures, the following steps:

> "– GS reduces CDO activity
> – Residual assets marked down to reflect market deterioration
> – GS reverses long market position through purchases of single name CDS and reductions of ABX
> – GS effectively halts new purchases of sub-prime loan pools through conservative bids
> – Warehouse lending business reduced
> – EPD [early payment default] claims continue to increase as market environment continues to soften."[1734]

By the time this presentation was given to the Board of Directors, Goldman's Mortgage Department had swung from a $6 billion net long position in December 2006, to a $10 billion net short position in February 2007, and then acted to cover much of that net short. Despite having to sell billions of dollars in RMBS and CDO securities and whole loans at low prices, and enter into billions of dollars of offsetting long CDS contracts, Goldman's mortgage business managed to book net revenues for the first quarter totaling $368 million.[1735]

In a section entitled, "Lessons Learned," the presentation stated: "Capital markets and financial innovation spread and increase risk,"[1736] an acknowledgment by Goldman that "financial innovation," which in this context included ABX, CDO, and CDS instruments, had magnified the risk in the U.S. mortgage market.

[1732] 3/26/2007 Goldman presentation to Board of Directors, "Subprime Mortgage Business," GS MBS-E-005565527, Hearing Exhibit 4/27-22. While the final version of the presentation indicated Goldman had an overall net long position in subprime assets by about $900 million, a near-final draft of the presentation indicated that Goldman had an overall net short position of $2.8 billion. 3/16/2007 draft presentation to Board of Directors by Daniel Sparks, "Subprime Mortgage Business," GS MBS-E-002207710. The primary difference between the two figures appears to be the inclusion in the final version of Goldman's net long holdings of Alt A mortgages, even though Alt A assets are not usually considered to be subprime mortgages. Subcommittee interview of David Viniar (4/13/2010).

[1733] Id. at 4.

[1734] Id. at 8 [footnotes defining CDO and CDS omitted].

[1735] 9/17/2007 Presentation to Goldman Sachs Board of Directors, Residential Mortgage Business, at 5, GS MBS-E-001793840, Hearing Exhibit 4/27-41.

[1736] 3/26/2007 Goldman Sachs presentation to Board of Directors, "Subprime Mortgage Business," GS MBS-E-005565527, Hearing Exhibit 4/27-22.

(c) Attempted Short Squeeze

In May 2007, Goldman's Structured Product Group (SPG) continued to work to cover the Mortgage Department's short position by offering to take the long side of CDS contracts referencing RMBS and CDO securities, but found few buyers. Many market participants had already shorted subprime mortgage assets, driving the price relatively high, and few wanted to buy additional short positions at the prevailing price. In order to turn the situation to its benefit, SPG's traders attempted to carry out a "short squeeze" of the subprime CDS market in May 2007.[1737]

The ABS Desk's traders were already offering single name CDS contracts in which Goldman would take the long position, in order to cover the Mortgage Department's short position.[1738] To effectuate a short squeeze, they appear to have decided to offer the short positions on those contracts at lower and lower prices, in order to drive down the market price of subprime CDS shorts to artificially low levels. Once prices fell below what the existing CDS holders had paid for their short positions, the CDS holders would have to record a loss on their holdings and might have to post additional cash collateral with their opposing long parties. Goldman hoped the CDS holders would react by selling their short positions at the lower market price. When the sell off was large enough and the price low enough, Goldman planned to move in and buy more shorts for itself at the artificially low price.

This short-squeeze strategy was later laid out in a 2007 performance self-evaluation by one of the traders on Goldman's ABS Desk who participated in the activity, Deeb Salem. In the self-evaluation he provided to senior management, Mr. Salem wrote:

> "In May, while we were remain[ing] as negative as ever on the fundamentals in sub-prime, the market was trading VERY SHORT, and susceptible to a squeeze. We began to encourage this squeeze, with plans of getting very short again, after the short squeezed [sic] cause[d] capitulation of these shorts. This strategy seemed do-able and brilliant, but once the negative fundamental news kept coming in at a tremendous rate, we stopped waiting for the shorts to capitulate, and instead just reinitiated shorts ourselves immediately."[1739]

When interviewed by the Subcommittee, Mr. Salem denied that the ABS Desk ever intended to squeeze the market, and claimed that he had wrongly worded his self-evaluation.[1740] He said that reading his self-evaluation as a description of an intended short squeeze put too much emphasis on "words."[1741]

[1737] See, e.g., Salem 2007 Self-Review.

[1738] See, e.g. 4/5/2007 email from Deeb Salem, "let's sell ~200mm in Baa2 protection . . .," GS MBS-E-004516519 (Mr. Swenson's reply: "Make that 500mm").

[1739] Deeb Salem 2007 Self-Review [emphasis in original].

[1740] Subcommittee interview of Deeb Salem (10/6/2010).

[1741] Id.

Mr. Salem's description of an attempted short squeeze by Goldman's Structured Product Group (SPG) is supported by other evidence. In May 2007, Michael Swenson, the head of both SPG and ABS Desks and Mr. Salem's supervisor, wrote emails that appear to confirm the attempted short squeeze. In the first email, dated May 25, 2007, Mr. Swenson wrote:

> "We should be offering sn [single name] protection down on the offer side to the street on tier one stuff to cause maximum pain."[1742]

Four days later, on May 29, 2007, Mr. Swenson followed up with another email:

> "We should start killing the sn [single name] shorts in the street – let's pick some high quality stuff that guys are hoping is wider today and offer protection tight – this will have people totally demoralized."[1743]

When asked about these emails, Mr. Swenson also denied that Goldman had attempted to squeeze the CDS short market. He claimed that the cost of single name CDS shorts had gone too high, and the purpose behind Goldman's actions was to restore balance to the market.[1744] Mr. Swenson could not explain, however, why in an effort to restore balance to the market, he used the phrases "cause maximum pain," and "this will have people totally demoralized."

Goldman documents show there was a plan and an attempt to conduct a short squeeze, despite the harm that might be caused to Goldman's clients. Contemporaneous emails further show that clients were complaining about a sudden markdown by Goldman in the value of their short positions, especially compared to prevailing market prices and the worsening of the subprime market itself.[1745]

On May 18, 2007, a Friday, the ABS Desk marked down the value of many of its clients' CDS short positions. On Monday, May 21, Mr. Salem sent an email to Mr. Swenson and Edwin Chin entitled, "A few things . . . pain-related."[1746]

> "Guys r gonna complain about their marks [hedge fund] already emailed me. I would talk about the recent flow of OWICS [offers] and the levels ... they have been trading as the

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[1742] 5/25/2007 email from Michael Swenson to Edwin Chin and Deeb Salem, GS MBS-E-012443115.

[1743] 5/29/2007 email from Michael Swenson to Deeb Salem, "they want to think about doing this again," GS MBS-E-012561798.

[1744] Subcommittee interview of Michael Swenson (10/8/2010).

[1745] Goldman's CDS collateral agreements were usually bilateral, meaning collateral could flow either way, to the short or long party, depending upon price movements in the underlying assets. Subcommittee interview of Michael Swenson (10/18/2010). Clients wrote emails to Goldman questioning how they could owe collateral on CDS contracts they had only recently purchased from Goldman.

[1746] 5/21/2007 email from Deeb Salem to Michael Swenson and Edwin Chin, "A few things pain-related," GS MBS-E-021887795 [ellipses in original].

> reason we moved marks on Friday. ... [Another customer] lost 6 pct based on fridays moves."[1747]

That same day, a Goldman sales representative sent Mr. Chin a complaint from a hedge fund customer named Stanfield Capital regarding the lower values assigned to its CDS short positions. The sales representative wrote:

> "Stanfield feels we are marking them tighter than other dealers with whom they have similar protection. ...
>
> "In addition, 14 of the 25 names below were marked over 100 bps [basis points] tighter week-on-week. That is a massive move and is creating major stress at the clients, as we can't see a similar move in the broader market. ...
>
> "Finally, be aware that Stanfield may look for you to offer protection very close to your mark. ... I'm hoping your attention to the marks below will defuse a situation in which they think we're messing with them via our marks on their protection."[1748]

Mr. Chin forwarded the email to Mr. Swenson and Mr. Salem. Mr. Swenson replied: "We are ok with that they do not have much more gun powder."[1749] Mr. Swenson's response suggested that Goldman did not have to be concerned about Stanfield's threat to buy CDS shorts at the same low price Goldman had applied to his CDS holdings, since Stanfield did not have the financial resources – the "gun powder" – to make a large purchase.

On May 24, 2007, the Stanfield trader wrote to Goldman that he had thought the purchase of the CDS contract signaled the beginning of a partnership between Stanfield and Goldman, but he had lost credibility with his company because of the CDS contracts and expressed concern that he may have been "naive to trust the pitch" from Goldman:

> "When we put on the Single A protection trade the underlying names were suppose[d] to have a large similarity to the index. ... The indexes are up only a couple of points since we did the trade. Looking at the mid's on our Single A trades we have tightened roughly 33%. ... I'm just trying to figure out how we can reverse some of the losses we have incurred.
>
> Also, from where our BBB trade was marked last Friday ...[t]his trade is tighter by 35% as well. ...
>
> I had always thought that these trades were meant to be the start of a partnership building of future business between Stanfield and Goldman Sachs. I know we are big boys and we did the trade there is no doubt of that. What I am attempting to do is either cut our losses and

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[1747] Id.
[1748] 5/21/2007 email to Edwin Chin, "Edwin–Important–Stanfield levels," GS MBS-E-012570169.
[1749] Id.

> get out or determine what I can say to keep this trade on .... I've lost a lot of credi[b]ility on the desk with this trade. Maybe I was naive to trust the pitch on the trade. It has cost me a lot."[1750]

A week later, on May 31, 2007, Stark Investments indicated interest in buying a short on certain RMBS securities backed by home equity loans. The Goldman sales representative trying to close the sale emailed SPG personnel that the client was hesitating due to Goldman's valuations which were "drastically different" from other dealers:

> "Stark has an interest in looking at this trade; but there is an obstacle we need to address: They feel Goldman is very inconsistent in the single name HEL [Home Equity Loan] CDS marks that we provide them. We are drastically different in marking positions versus other dealers. It is an annoyance that would potentially limit their interest in putting on incremental CDS trades. I can name specific examples if you would like. Please advise."[1751]

Mr. Salem replied: "you couldn't be more wrong," while Mr. Swenson replied:

> "Frankly, we believe we are best in class and have numerous data from controllers, collateral posting and markit (the company, not market) that reflect upon this. This process is thoroughly reviewed by all levels of senior management at GS. ...
>
> "Unlike other dealers we stand by our marks and are willing to transact in the context of our marks. ...
>
> We also don't mark our book wide if we are long protection and tight if we are short. we mark to market."[1752]

When the salesman replied: "I am trying to work with you guys," Mr. Swenson chided him: "You need to manage their opinions on marks – that has been fully vetted over here."[1753]

On June 7, 2007, Mortgage Department personnel learned that two Bear Stearns hedge funds specializing in subprime mortgage assets were in financial distress.[1754] In response, the ABS Desk immediately decided to buy more shorts at the prevailing market price to take advantage of the possible collapse of the Bear Stearns hedge funds, which would send subprime mortgage prices

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[1750] 5/24/2007 email from Stanfield, "Our thoughts on single-name RMBS CDS," GS MBS-E-012891722.

[1751] 5/31/2007 email from sales to Edwin Chin and Deeb Salem, "Stark CDO CDS potential trade 5/31," GS MBS-E-012443662.

[1752] Id.; see also, e.g., "Valuation & Pricing Related to Transactions with AIG," prepared by Goldman in response to inquiry by the Financial Crisis Inquiry Commission, GS MBS 0000039096.

[1753] 5/31/2007 Goldman email chain, "Stark CDO CDS potential trade 5/31," GS MBS-E-012443675. Mr. Swenson made no mention of his email from two days earlier in which he recommended lowering CDS values to "have people totally demoralized." 5/29/2007 email from Michael Swenson to Deeb Salem, GS MBS-E-012561798.

[1754] 6/7/2007 Goldman internal email chain, "BSAM Post," GS MBS-E-011184213.

still lower. To do so meant the ABS Desk had to sacrifice its "short squeeze" play. On June 7, 2007, Mr. Salem emailed Messrs. Swenson and Chin:

> "We need to go to magnetar [a hedge fund] and see if we can buy a bunch of the cdo protection. ... Can tell them we have a protection buyer, who is looking to get into this trade now that spreads have tightened back in."[1755]

Raising no concerns about the proposed deception, Mr. Swenson replied "Great idea."[1756] Mr. Salem continued:

> "Should we also send an email to select sales people in the mtg [mortgage] sales force saying that we r looking to buy a block of single name protection vs a cdo OUT OF COMP [in a private, off-market transaction]? It's a no lose situation . . . either we get some sn [single name] protection that we want or we gave these guys a chance and nobody can say we aren't working with them."[1757]

Mr. Swenson responded: "We need to be careful." Mr. Chin wrote that he knew of another CDO collateral manager that might also be willing to sell some shorts: "I mentioned there was a hedge fund on the side and he was very axed to do something."[1758]

Having decided to start buying shorts outright, the ABS Desk also stopped offering to sell CDS short positions to Goldman customers, effectively abandoning the attempted short squeeze. On June 8, 2007, Mr. Swenson told his traders: "[w]ant to slow down on protection offers."[1759] On June 10, 2007, in response to a customer inquiry about a CDS short, Mr. Salem wrote: "Not sure if we have any to offer any more."[1760] Mr. Swenson was less equivocal: "Really don't want to offer any."[1761] On June 13, 2007, a Goldman salesman emailed SPG personnel: "[Customer] is looking to buy protection on cdos."[1762] Mr. Salem replied: "too late!"

Once it began buying CDS shorts, the SPG Desk immediately changed its CDS short valuations and began increasing their value. Clients with long positions began to complain that the marks were too high, and internal Goldman business units also raised questions. For example, on June 11, 2007, a Goldman valuation specialist sent an email to Mr. Swenson, with copies to Compliance and the Controller's Office noting that "Client challenging marks," followed by

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[1755] 6/7/2007 email from Deeb Salem to Michael Swenson and Edwin Chin, GS MBS-E-012444252.
[1756] Id.
[1757] Id.
[1758] Id.
[1759] 6/8/2007 email from Michael Swenson to Benjamin Case, Edwin Chin, and Deeb Salem, "CDO CDS protection offers," GS MBS-E-012551726.
[1760] 6/10/2007 email from Michael Swenson to Deeb Salem, Edwin Chin, and salesman, "CDSs on CDOs," GS MBS-E-012551460.
[1761] Id.
[1762] 6/13/2007 email from sales, "CDO protection," GS MBS-E-012445931.

"Trading has agreed to change ... marks."[1763] The next day, June 12, 2007, a Goldman representative from the Controller's Office sent an email to Mr. Salem, asking: "Given recent gyrations in the ABX and CDS markets, when can I come by to discuss how you are marking the book tonight?"[1764] The following week, on June 19, 2007, the Controller's office sent an email to Mr. Swenson raising questions about values assigned to certain CDS contracts: "These levels look quite wide. Do you have any specific market color that points this direction?"[1765]

The May 2007 attempted short squeeze described in Mr. Salem's performance self-evaluation did not succeed in compelling existing CDS holders to sell their short positions. In Subcommittee interviews, Mr. Salem and Mr. Swenson denied that an attempted short squeeze even took place. Any attempt that did take place was apparently abandoned in June 2007, when Goldman stopped offering to sell CDS short positions. Trading with the intent to manipulate market prices, even if unsuccessful, is a violation of the federal securities laws.[1766] Given the novelty of credit default swaps and their use in the mortgage field, however, the Subcommittee is unaware of any enforcement action or case applying an anti-manipulate prohibition to the CDS market. Because Goldman is a registered broker-dealer subject to the supervision of the Financial Industry Regulatory Authority (FINRA), the conduct of its ABS traders raises questions about their compliance with FINRA's Rule 2010, which provides: "A member, in the conduct of his or her business, must observe high standards of commercial honor and just and equitable principles of trade."

(d) Building the Big Short

In the months of June and July 2007, Goldman's Mortgage Department went short again. This time, it built an even larger net short position than earlier in the year, reaching a peak of $13.9 billion in late June,[1767] which Mr. Viniar later referred to as "the big short."[1768] This net short

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[1763] 6/11/2007 Goldman email chain, "Please advise – Client challenging marks," GS MBS-E-018947548.

[1764] 6/12/2007 email from controllers, "CDS," GS MBS-E-012445404.

[1765] 6/19/2007 email from controllers, "A3 subprime bonds in transition account," GS MBS-E-012458169. Mr. Swenson replied: "Tier 4 bonds talk to Deeb [Salem]."

[1766] See Markowski v. SEC, 274 F.3d 525, 527-28 (D.C. Cir. 2001) (Congress determined that "'manipulation' may be illegal solely because of the actor's purpose"); In re IPO Litigation, 241 F. Supp. 2d 281, 391 (S.D.N.Y. 2003) (no additional requirements aside from manipulative intent); H.R. Rep. No. 1383, 73rd Cong., 2d Sess. 20 (1934) (under Securities Exchange Act, "if a person is merely trying to acquire a large block of stock for investment, or desires to dispose of his holdings, his knowledge that in doing so he will affect the market price does not make his actions unlawful. His transactions become unlawful only when they are made for the purpose of raising or depressing the market price."); but see GLF Advantage Fund, Ltd. v. Colkitt, 272 F.3d 189, 205 (3d Cir. 2001) (requiring, in addition to manipulative intent, "that the alleged manipulator injected inaccurate information into the market or created a false impression of market activity"). Single name CDS contracts referencing RMBS and CDO securities appear to qualify as "security-based swap agreements" subject to anti-manipulation and anti-fraud prohibitions under the federal securities laws.

[1767] PSI Net Short Position Chart; 8/17/2007 Goldman chart, "RMBS Subprime Notional History (Mtg Dept.)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a.

[1768] 7/25/2007 email from Mr. Viniar to Mr. Cohn, "Private & Confidential: FICC Financial Package 07/25/07," GS MBS-E-009861799, Hearing Exhibit 4/27-26.

position included the $9 billion AAA ABX short which had suddenly begun gaining value as the subprime market worsened. In June, two Bear Stearns hedge funds specializing in subprime mortgage assets collapsed. In July 2007, the credit rating agencies began downgrading ratings for hundreds and then thousands of RMBS and CDO securities. Soon after, the subprime mortgage backed securities market froze and then collapsed. Each of these events increased the value of Goldman's net short position.

Bear Stearns Hedge Fund Collapse. The collapse of the Bear Stearns hedge funds in mid-June triggered Goldman's effort to rebuild its net short position. On June 7, 2007, the Mortgage Department learned that the Bear Stearns hedge funds were seeking quietly to sell some of their subprime portfolio to meet client redemption requests, which Goldman interpreted as a signal of serious financial distress.[1769] After reviewing the hedge funds' assets, one Goldman employee remarked:

> "In total these two portfolios add up to roughly $17bil in total exposure after leverage. It goes without saying that if this portfolio were to be released into the market the implications would be pretty severe."[1770]

[1769] See 6/7/2007 Goldman email chain, "BSAM Post," GS MBS-E-011184213.

[1770] Id. Some have suggested that the financial problems experienced by the Bear Stearns hedge funds were caused in part by severe markdowns taken by Goldman on assets held in the funds' portfolios, and that Goldman caused the funds to collapse. In its final report, the Financial Crisis Inquiry Commission ("FCIC") briefly addressed these allegations. See The Financial Crisis Inquiry Report 2010 at 237-40, 244 (hereinafter "Final Report"). Goldman denied the allegations with respect to its April and May 2007 marks in filings with the FCIC. See 11/1/2010 letter from Goldman counsel Janet Broecke to FCIC, "FCIC Requests for Documents and Information" and Appendices A-G, available at www2.goldmansachs.com. The FCIC's Final Report was critical of Goldman's marks in general as being significantly lower than those of other banks and noted in particular its collateral dispute with AIG. See Final Report at 243-44, 265-71. With respect to the Bear Stearns hedge funds, however, the Final Report merely noted that Bear Stearns had disputed marks from Goldman and three other banks and cited the testimony of the funds' portfolio manager, Ralph Cioffi, that "a number of factors contributed to the April revision [in the hedge funds' values, which ultimately led to the funds' collapse], and Goldman's marks were one factor." Final Report at 240.

In addition to the markdowns in April and May, Goldman also marked down certain CDO securities held by the Bear Stearns funds in June 2007, but it appears those June markdowns did not play a significant role in the hedge funds' collapse. That month, Goldman marked down their positions in four Goldman CDOs by two points each. See, e.g., 6/8/2007 email from Jonathan Egol to Daniel Sparks, "BSAM mark recap," GS MBS-E-001920339 (Mr. Egol emailed Mr. Sparks a recap of the Bear Stearns markdowns and stated: "We lowered the marks on 4 bonds down 2 pts each.").

Mr. Swenson had urged larger markdowns, but his advice was not followed. On June 7, 2007, Mr. Egol had first marked down the funds' holdings in a single Abacus CDO by 2 points, from 89 to 87. Mr. Egol emailed Mr. Sparks a spreadsheet with a cover note: "GS exposure to BSAM [Bear Stearns Asset Management] as of today. ABACUS mark corrected to 87 to handle." 6/7/2007 email from Mr. Egol to Mr. Sparks GS MBS-E-003375593. Since Abacus was only one of four Goldman CDOs in which the Bear Stearns funds held positions, Mr. Swenson emailed Mr. Lehman recommending further markdowns:

> Mr. Swenson: I am on the same page [as] egol we n[e]ed to mark him [Ralph Cioffi, Portfolio Manager of the Bear Stearns funds]

On June 8, 2007, Mr. Sparks received an urgent early morning email from Goldman's Japan office regarding "unprecedented overnight [rates] market volatility," suggesting that he call in the ABX traders early.[1771] "Given the recent correlation of risk assume this is not a good sign for RMBS/ABS spreads."[1772] Later that day, when another trader complained about "getting crushed" in the ABX market, Mr. Birnbaum replied: "Patience, patience. The CDO unwind has only begun."[1773]

Around June 12, 2007, public news accounts indicated that the two Bear Stearns funds were unable to meet collateral calls on their subprime mortgage backed securities holdings.[1774] The funds also devalued their Net Asset Valuations (NAVs) to significantly lower levels, which effectively triggered the funds' total collapse.[1775]

> Mr. Lehman: Told Egol I'm comfortable w/ the prices, especially when u include the 5 pt [percent] HC [haircut.] Don't think mar[k]ing him down 1 or 2 pts makes sense or sends the right message .... I wud run it by Dan [Sparks] and get his take ... [M]y opinion is that the Firm is appropriately protected w/ current HC [haircut] and mark.
> Mr. Swenson: We need to mark him he is the biggest elephant by far and it has an impact on the m$arket[.]
> Mr. Lehman: How much do u [sic] want to mark him by?
> Mr. Swenson: A lot[.]
> Mr. Lehman: I disagree on this one . . . Let's talk tomorrow[.]
> Mr. Swenson: He is done[.]

6/7/2007 email exchange between Mr. Swenson and Mr. Lehman, "BSAM Post," GS MBS-E-011184213.

The next day, Friday, June 8, 2007, Mr. Egol reported he had marked down all four CDO positions by two points. 6/8/2007 email from Jon Egol to Daniel Sparks, "BSAM mark recap," GS MBS-E-001920339. Upon reviewing the marks the following Monday, Mr. Sparks wrote: "The marks look stale." 6/11/2007 email from Daniel Sparks, "BSAM Exposure Summary," GS MBS-E-010798675. A Mortgage Department employee replied: "Marks for everything but the correlation positions are taken from work egol did last thurs. Correlation marks are as of friday's cob [close of business]." Id.

On June 12, Bear Stearns announced that it would be changing the hedge funds' Net Asset Valuations (NAVs). 6/12/2007 email to Craig Broderick, "BSAM Bullet Points," GS MBS-E-009967117 ("BSAM is currently in the process of restating their performance figures for April, from down 5% to down 10%. This was due to many dealers changing the way they are marking their Repo positions"). The Mortgage Department later marked down two Timberwolf tranches owned by the Bear Stearns hedge funds by another 2 points and 5 points, respectively, to 95 and 89, before it bought them back from Bear Stearns at 96 and 90 on June 19, 2007, in a negotiated unwind of the Bear funds' positions with Goldman. See 6/22/2007 emails from Mr. Lehman, "BSAM Repo Summary," GS MBS-E-001916435. See also 6/18/2007 email from Mr. Lehman, "Today's Bear Stearns Prices," GS MBS-E-001919600; 6/27/2007 email from Mr. Sparks to Mr. Viniar, "CDO^2s," GS MBS-E-009747489.

[1771] 6/8/2007 email to Daniel Sparks, "Heads Up – rates market volatile," GS MBS-E-010796702.

[1772] Id.

[1773] 6/8/2007 email from Joshua Birnbaum, "* ABX Markets 07-1, 06-2, 06-1: 11:00 a.m.," GS MBS-E-012900708.

[1774] 6/12/2007 email to Craig Broderick, "BSAM Bullet Points," GS MBS-E-009967117.

[1775] Id. A month later, on July 17, 2007, Mr. Sparks reported to Mr. Mullen and Mr. Montag that the Bear Stearns funds were "returning 9 cents and 0 cents on the dollar in the less-levered and more-levered funds." 7/17/2007 email from Daniel Sparks, "Mortgages Estimate," GS MBS-E-010857498.

The failure of the Bear Stearns hedge funds triggered another decline in the value of subprime mortgage related assets. The ABX Index, which was already falling, began a steep, sharp decline. The collapse had further negative effects when the hedge funds' massive subprime holdings were suddenly dumped on the market for sale, further depressing prices of subprime RMBS and CDO assets.

The creditors of the Bear Stearns hedge funds met with Bear Stearns management in an attempt to organize a "workout" solution to stabilize the funds.[1776] While those efforts were underway, Goldman and Bear Stearns agreed to an unwind in which Goldman bought back $300 million of two AAA CDO tranches of Goldman's Timberwolf CDO, which the hedge funds had purchased two months earlier in April 2007. Goldman paid Bear Stearns 96 and 90 cents on the dollar, respectively, for the two Timberwolf tranches.[1777] Goldman also bought a few other RMBS and CDO assets, which it immediately sold.[1778] The attempt to organize a workout solution for the funds was ultimately unsuccessful. Large blocks of subprime assets from the Bear Stearns hedge funds' inventory began flooding the market, further depressing subprime asset values.[1779]

Goldman's Structured Product Group (SPG) took the collapse of the Bear Stearns hedge funds as the signal to begin rebuilding its net short position. As Joshua Birnbaum, the head ABX trader on the SPG Desk, later wrote:

> "[T]he Bear Stearns Asset Management (BSAM) situation changed everything. I felt that this mark-to-market event for CDO risk would begin a further unraveling in mortgage

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[1776] 6/12/2007 email to Craig Broderick, "BSAM Bullet Points," GS MBS-E-009967117.

[1777] See 6/22/2007 emails from David Lehman, "BSAM Repo Summary," GS MBS-E-001916435. See also 6/18/2007 email from David Lehman, "Today's Bear Stearns Prices," GS MBS-E-001919600; 6/27/2007 email from Daniel Sparks to David Viniar, "CDO^2s," GS MBS-E-009747489. The prices Goldman paid to Bear Stearns on the A1B and A1C tranches of Timberwolf were approximately one cent (or 100 basis points) above its own internal marks on the Timberwolf tranches in the week of June 18, which were then at 95 and 89 points, respectively. Id. In May 2007, Goldman had completed a re-evaluation of its CDO assets, which suggested on a preliminary basis that the AAA Timberwolf securities should be marked down dramatically in value. Accordingly, Goldman may have been generous toward Bear Stearns in buying back the Timberwolf positions at 96 and 90. On the other hand, repurchasing the Timberwolf securities near its own low internal marks might have reduced the price Goldman could obtain in reselling the tranches, which it identified in a June 22 sales directive to its sales force and recommended selling at 98.5 and 95, respectively. When asked about the buyback of the Timberwolf tranches, Mr. Viniar told the Subcommittee that Goldman had financed the purchase of both tranches and may have been legally entitled to seize them, but there are circumstances in which Goldman voluntarily settles a dispute on agreed terms, rather than going through the legal process entailed in seizing and selling collateral. Subcommittee interview of David Viniar. (4/13/2010).

[1778] 6/22/2007 email from Tom Montag to Daniel Sparks, "Few Trade Posts," GS MBS-E-010849103 (Mr. Montag: "Can I get a complete rundown on everything we bought from BSAM and what's left?" Mr. Sparks: "Yes – main thing left is 300mm timberwolfs Other large positions were tmts - gone, octan - gone, abacus - we will collapse against short There were some small rmbs positions.").

[1779] At the time, a trader from another bank stated in a market update: "[T]he BSAM [Bear Stearns Asset Managment] story will dictate the tone in the market in the short term, as a continued liquidation of their holdings will put further downward price pressure on ... ABX trading." 6/18/2007 email to Edwin Chin, "ABX Open," GS MBS-E-021890868.

> credit. Again, when the prevailing opinion in the department was to remain close to home, I pushed everyone on the [SPG] desk to sell risk aggressively and quickly. We sold billions of index and single name risk."[1780]

In a later internal presentation for Goldman senior executives which Mr. Birnbaum drafted for another purpose,[1781] Mr. Birnbaum wrote that, after the Bear Stearns funds collapsed, SPG's Trading Desks went net short outright and that the shorts were not a hedge for long positions:

> "By June, all retained CDO and RMBS positions were identified already hedged. ... SPG trading reinitiated shorts post BSAM [Bear Stearns Asset Management] unwind on an outright basis with no accompanying CDO or RMBS retained position longs. In other words, the shorts *were not a hedge.*"[1782]

On June 29, 2007, the ABX Index and the value of single name CDS contracts referencing RMBS and CDO securities plummeted in value and continued dropping until mid-July. Mr. Swenson, head of the SPG Trading Desk, exchanged emails with Mr. Lehman and other Goldman executives about that day's trading: "There is absolutely no support at the lower levels from the street. CDOs are wider by 50 bps or more." Mr. Lehman responded: "[W]e r in the middle of a mkt meltdown."[1783]

On July 10, 2007, the two primary ratings agencies, Standard & Poor's and Moody's, began the first of many mass ratings downgrades for subprime RMBS and CDO securities.[1784] The downgrades sent another negative shockwave through the subprime mortgage market as investors scrambled to assess the impact of the downgrades on their RMBS and CDO holdings.[1785] On July 12, 2007, when still more RMBS and CDO ratings downgrades were announced, Mr. Birnbaum

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[1780] 9/26/2007 2007 MD Reviews, Joshua Birnbaum Self-Review, GS-PSI-01956, Hearing Exhibit 4/27-55c. The SPG Desk's ABX shorting efforts caught the attention of another Goldman trader who was apparently unaware of Mr. Birnbaum's strategy. The trader emailed: "yo-who the F- is getting short the ABX at these levels." 6/21/2007 email to Deeb Salem, GS MBS-E-021905440.

[1781] This presentation was drafted to support a proposal that the SPG traders be compensated in a manner similar to hedge fund managers. 10/3/2007 "SPG Trading – 2007," presentation by Joshua Birnbaum, GS MBS-E-015654036. Mr. Birnbaum had drafted the presentation on behalf of the SPG Trading Desk as a whole. Mr. Swenson and Mr. Lehman reviewed and commented upon the presentation, and Mr. Birnbaum revised it to make the changes they suggested. See, e.g., 10/2/2007 email from David Lehman to Joshua Birnbaum, "SPG Trading - 2007.ppt," GS MBS-E-015653681 (providing comments and suggesting text for presentation). Mr. Birnbaum replied and copied Mr. Swenson on the email chain as well: "I added your bullet and one more." Id. See also 10/4/2007 email from Joshua Birnbaum to Michael Swenson and David Lehman, "How's this?," GS MBS-E-015712249 (forwarding another revised bullet point for presentation). Mr. Birnbaum told the Subcommittee, however, that the SPG Trading Desk ultimately did not use the presentation. See Birnbaum responses to Subcommittee QFRs at PSI_QFR_GS0509.

[1782] 10/3/2007 "SPG Trading – 2007," presentation by Joshua Birnbaum, GS MBS-E-015654036 [emphasis in original]. See also Birnbaum responses to Subcommittee QFRs at PSI_QFR_GS0509.

[1783] 6/29/2007 emails between Michael Swenson and David Lehman, "ABS Update," GS MBS-E-011154528.

[1784] 7/10/2007 Goldman internal email, "GS Cashflow/Abacus CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS," GS MBS-E-001837256.

[1785] See id.

wrote to his colleagues: "Seen massive flows recently. Many accounts 'throwing in the towel'. Anybody who tried to call the bottom left in bodybags."[1786]

On July 27, 2007, a Goldman senior sales executive summarized the state of the market:

> "Whether you remember '94, '98, or '03, the general themes/patterns are consistent. An initial dislocation to the market (in this instance a credit deterioration in sub prime mortgages) acts as a tipping point and leads to spread widening in other sectors. This in turn quickly becomes a liquidity crunch/crisis. It appears this is where the structured product market is now – searching for liquidity. This has produced numerous capitulation/liquidation situations and forced customers to trade. . . . The impact of this week leaves the account base in three camps: The Paralyzed . . . The Wounded (some fatally) . . . The Opportunistic."[1787]

Although the July subprime market meltdown was a disaster for many investors, the value of Goldman's net short positions climbed rapidly. Senior management at all levels were aware of the Mortgage Department's net short and the profits it was generating. On July 20, 2007, CEO Lloyd Blankfein and COO Gary Cohn received a profit and loss report showing that the Mortgage Department was up $72.7 million for the day, across almost every mortgage trading desk. Mr. Cohn wrote to Mr. Blankfein: "There is a net short."[1788] On July 24, 2007, the Mortgage Department posted a profit of $83 million for the day, while the firm's overall net revenue for the day was only $74 million.[1789] Mr. Viniar forwarded the report to Mr. Blankfein with a note saying: "Mergers, overnight asia and especially short mortgages saved the day." On July 29, 2007, Mr. Sparks reported to Messrs. Montag and Mullen:

> "Department-wide P&L [Profit & Loss] for the week was $375mm (this is after adjusting for the $100mm [error] discussed today). Correlation P&L on the week was $234mm, with CMBS, CDOs, and RMBS/ABX shorts all contributing."[1790]

Mr. Birnbaum later recapped the SPG Trading Desk's profits during this period: "[W]hen the [ABX] index dropped 25 pts in July, we had a blow-out p&l month, making over $1Bln that month."[1791]

[1786] 7/12/2007 email from Joshua Birnbaum, "ABX Markets 07-1, 06-2, 06-1: 12:00 p.m.," GS MBS-E-012944742, Hearing Exhibit 4/27-146.

[1787] 7/27/2007 email to Tom Montag, Daniel Sparks, and Donald Mullen, "Structured Products Weekly Update – 7/27/07," GS MBS-E-010876357.

[1788] 7/20/2007 email from Gary Cohn to Lloyd Blankfein, "Private & Confidential: FICC Financial Package 07/20/07," GS MBS-E-009648405, Hearing Exhibit 4/27-24.

[1789] 7/24/2007 email from David Viniar to Lloyd Blankfein, "Daily Estimate 07-24-07 – Net Revenues $74M," GS MBS-E-009690033, Hearing Exhibit 4/27-25.

[1790] 7/29/2007 email from Daniel Sparks to Tom Montag, "Correlation information you asked for," GS MBS-E-010876594, Hearing Exhibit 4/27-27.

[1791] 9/26/2007 2007 EMD Reviews, Joshua Birnbaum Self-Review, GS-PSI-01975, Hearing Exhibit 4/27-55c.

Covering the Big Short to Lock in Profits. Starting in July and throughout August 2007, Goldman undertook an intensive effort to cover its $13.9 billion net short and lock in its profits. To do so, the Mortgage Department bought long assets, offered CDS contracts in which it took the long side, and even sold some short positions.

The Mortgage Department was particularly focused on purchasing long AAA assets to cover Goldman's $9 billion AAA ABX short, to lock in the unexpected profits on that position. In August 2007, Mr. Lehman, co-head of the SPG Desk, wrote: "[A]s swenny/deeb/josh have done an awesome job sourcing risk, the CDO transition book AAA ABX short decreased from 1.55bb to 250m over the past two weeks – we love covering that trade."[1792] On August 23, 2007, Mr. Montag reported to Messrs. Cohn and Viniar: "We ... bought back almost 9 billion of aaa abx over last two weeks."[1793]

From mid-July through the end of August, the Mortgage Department also covered a range of other shorts.[1794] On August 5, 2007, Mr. Swenson reported a "phenomenal week":

> "In summary, a phenomenal week for covering our Index shorts on the week. The ABS Desk bought $3.3bb of ABX Index across various vintages and ratings over the past week. $1.5 billion was retained by the ABS desk to cover shorts in ABX ($900mm in ABX 06-1 As being the most significant) and $1.0 billion was sold to internal desks across the mortgage department ($925mm in triple-As)."[1795]

Mr. Swenson also reported that the Mortgage Department was still $8.3 billion net short across all subprime asset classes, including $4 billion of AAA ABX assets.[1796]

On August 8, the market rallied for a short period, and the Mortgage Department's net short position suffered a $100 million loss. Mr. Swenson explained: "Market rallied especially at the top end of the capital structure – AAA (up 2 pts), AA (up 3 pts), and A (up 2 pt.)." He reported that the Department still held a $3.1 billion net short in AAA rated subprime mortgage assets.[1797] Mr. Montag replied: "now on to the 3 billion short."[1798] The next day, August 9, 2007, Mr. Montag reported to his colleagues: "mortgages bought back 1 billion of 3 billion short in AAA indices at ½ to 1 point better than yesterday."[1799]

[1792] 8/11/2007 email from David Lehman, "Japan exposure to CDOs," GS MBS-E-001929202.

[1793] 8/23/2007 email from Tom Montag to Gary Cohn and David Viniar, "Harbinger Post," GS MBS-E-009739009. See also 8/21/2007 email from Michael Swenson, "Mortgage Commentary for Firmwide Risk Committee," GS MBS-E-010619375 ("Current SPG Trading Desk Position Summary: – RMBS AAA – long $2.2bb").

[1794] The one short position the Mortgage Department did not attempt to cover was its $3 billion net short in BBB and BBB- rated RMBS securities, as discussed below.

[1795] 8/5/2007 email from Michael Swenson, "great week," GS MBS-E-012376888, Hearing Exhibit 4/27-28.

[1796] Id.

[1797] Id.

[1798] 8/8/2007 email from Tom Montag to Michael Swenson and David Lehman, GS MBS-E-011088957.

[1799] 8/9/2007 email from Tom Montag, GS MBS-E-009640293.

On August 11, 2007, reports of firms having to sell CDO securities in Asia prompted Mr. Mullen to ask: "Did we cover to[o] soon? Looks like more selling at the higher end of cap stack"[1800] Mr. Lehman replied: "Don't th[in]k so – we haven't covered any CDO risk (we have gone the other way by 1.44bb since June 1st) and that is where the market still has bad longs – th[in]k AAA rmbs is a very different trade."[1801]

On August 20, 2007, Mr. Sparks reported on the Mortgage Department's progress in covering its net short, telling Mr. Montag: "[L]oan books had been heavily net short (still are some – especially ... in alt a) and I have been forcing them to cover over the past 2 weeks." Mr. Montag responded: "[H]eavily isn't the half of it – we have bought back 4 - 5 billion and still short."[1802]

Buying More AAA RMBS Securities. In August 2007, the Mortgage Department proposed buying $10 billion in AAA rated RMBS securities, but did not receive permission to initiate the investment.

By August 2007, AAA rated RMBS and CDO securities were available from many financial firms at a very low price. On August 14, 2007, in summarizing the prior week's trading Mr. Swenson wrote: "Top of the capital structure is where all the action is. AAAs are extremely cheap .... [W]ant to scale into a large long."[1803] Mr. Sparks agreed: "[T]he AAA ABX index is a great opportunity and we continue to like it."[1804] On August 19, 2007, Mr. Lehman reported that the Mortgage Department had purchased $1.6 billion of the long side of CDS contracts referencing the ABX Index for AAA RMBS securities, and that its value had increased 1.5 percent over the prior week. Given Goldman's dominant market share and recent large purchases, however, Mr. Montag was skeptical: "How much of the aaa outperforming was us buying?"[1805] Mr. Birnbaum responded: "On the AAA outperformance question, I think AAAs would have performed similarly without our adding."[1806] He also wrote that the "likelihood of loss on 'real' RMBS AAAs (i.e., not AAA CDOs)," was "remote."[1807]

[1800] 8/11/2007 emails between Donald Mullen and David Lehman, "Japan exposure to CDOs," GS MBS-E-001929202.

[1801] Id. See also 8/11/2007 email from Daniel Sparks to Tom Montag and Donald Mullen, "GSC ms prop/Paulson swap," GS MBS-E-010673306 ("We need to keep buying AAA ABX, and now we can start looking to cover some CDO CDS").

[1802] 8/20/2007 email exchange between Daniel Sparks and Tim Montag, "Hsbc loans," GS MBS-E-010681855.

[1803] 8/14/2007 email from Michael Swenson, "ABS Summary for Week Ended August 10th," GS MBS-E-010678428.

[1804] Id.

[1805] 8/19/2007 email from Tom Montag, "Mtg Department Weekly Update," GS MBS-E-010681647.

[1806] Id.

[1807] Id. Not everyone at Goldman agreed that the risk of loss on AAA was "remote." On July 29, 2007, Mr. Rosenblum circulated an email to Mortgage Department managers and research analysts with a series of questions about how AAA subprime RMBS securities would be affected by other market developments. 6/29/2007 email from David Rosenblum, GS MBS-E-010060183. The head of Goldman's Structured Product Strategies area, Alan Brazil, responded: "Well, as is becoming clearer to the market is [sic] that the subprime issue is really a triple-a issue, either directly as a aaa subprime or indirectly in a aaa cdo. As a rough guide, over 90% of a subprime deal are in aaas. ... And once you start downgrading bbb/bbb- you will ultimately be start [sic] downgrading aaas. And, in my view, that

According to Mr. Birnbaum, a key reason for buying the AAA rated assets was that Mr. Birnbaum and others in the Mortgage Department wanted to maintain a large short position in ABX assets referencing BBB and BBB- rated RMBS securities, because they believed the ABX Index for those securities would fall even further.[1808] Mr. Birnbaum told the Subcommittee that covering the BBB/BBB- net short position in August would have amounted to leaving money on the table.[1809] He explained that the Mortgage Department thought that buying a proportionate amount of AAA ABX long positions could be used to offset the risks of continuing to hold the BBB/BBB- short until the ABX Index bottomed out.[1810]

On August 14, 2007, Mr. Sparks updated Goldman senior executives on the success of the Mortgage Department's efforts to cover its shorts and added that the Department was interested in increasing its purchase of AAA rated RMBS securities: "we will likely come to you soon and say we'd like to get long billions[.]"[1811] Senior executives reacted with skepticism.[1812] Mr. Sparks responded: "We're continuing to cover some shorts and we may cover some BBB with AAA, but I got the message clearly that we shouldn't get long without Gary [Cohn]/Tom [Montag]/Don [Mullen] all saying OK."[1813]

On August 20, 2007, Mr. Sparks pitched the idea again to Mr. Montag and other senior executives in an email entitled, "Big Opportunity":

> "We are seeing large liquidations - we bought $350mm AAA subprime RMBS from ... SIV unwinds today. ... We think it is now time to start using balance sheet and it is a unique opportunity with real upside - specifically for AAA RMBS. We've sold over $100mm of what we bought today – most up 1-2 points.
>
> That's a great trade – buy and flip up 1-2 points, however, we're not always going to be able to do that - and there's the opportunity for us to make 5-10 points if we have a longer term hold."[1814]

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is a significant escalation of the subprime meltdown. ... At its heart, the main shoe to fall will be when the rating agencies downgrade to the aaa level. I don't see as they have much of a choice. Mez[zanine] aaa cdo trade in the 20 and 30s cannot be overlooked even by the agencies." Id.

[1808] Subcommittee interview of Joshua Birnbaum (4/22/2010).

[1809] Id.

[1810] Id.

[1811] 8/14/2007 email from Daniel Sparks, "Fw: Post," GS MBS-E-010678053, Hearing Exhibit 4/27-30.

[1812] See 8/14/2007 email from Gary Cohn to Daniel Sparks, "Fw: Post," GS MBS-E-010678053, Hearing Exhibit 4/27-30 ("Talk to me before you go long."); 8/14/2007 email from Tom Montag, "Post," GS MBS-E-009741145("We will not be going long billions. Lots of risk to clean up first imo").

[1813] 8/15/2007 email from Daniel Sparks, "Post," GS MBS-E-009740784, Hearing Exhibit 4/27-32.

[1814] 8/20/2007 email from Daniel Sparks to Gary Cohn, David Viniar, Jon Winkelried, Tom Montag, and Donald Mullen, "Big Opportunity," GS MBS-E-009739836. See also 8/20/2007 email exchange between Daniel Sparks and Tom Montag, "Hsbc loans," GS MBS-E-010681855 (Mr. Sparks pitched the plan again to Mr. Montag separately: "As a overall business, we're not short AAA's anymore. We are putting on the long index (mostly AAA)/short single name mezz trade on .... We are planning to continue to play offense. . . . Discussions on the up the quality trade (top cap stack and top quality collateral) were had in various times with don [Mullen], gary [Cohn] and bill

On August 21, 2007, Mr. Birnbaum presented the Mortgage Department's plan to buy up to $10 billion in AAA rated RMBS securities.[1815] The plan had dual objectives, to profit from the intrinsic financial value of the proposed assets and to use those assets to preserve, rather than cover, the Department's existing $3.5 billion BBB/BBB- net short:

> "– The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.
>
> – We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.
>
> – Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.
>
> – At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15 points higher in cash. ...
>
> – On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [seller] list to [customer] and 100% of the AAAs from [seller] to [customer] and [customer]."[1816]

Mr. Montag responded that he wanted to discuss the concept further.[1817] Mr. McMahon wrote: "What are we holding against the 3.5b mezz shorts right now? Why don't we just cover the shorts?"[1818] Co-President Gary Cohn emailed Messrs. Mullen, Winkelried, and Montag: "I do like the idea but you[r] call."[1819] Before any further discussion took place, however, events overtook the debate.

[McMahon]. We aren't going crazy with it, just being opportunistic. Before we get large, we are going to lay out a strategy for the four of you.").

[1815] 8/21/2007 email from Joshua Birnbaum, "Potential large subprime trade and impact on firmwide VAR," GS MBS-E-016359332, Hearing Exhibit 4/27-34; 8/21/2007 email from Joshua Birnbaum, "For 2 p.m. meeting," GS MBS-E-010608145 (graphs in support of plan to go long up to $10 billion in AAA ABX index).

[1816] Id.

[1817] See 8/21/2007 email from Mr. Montag to Mr. Birnbaum, GS MBS-E-010682736 ("FYI. I think it would be much better for all concerned that we all discuss this and any strategy and have agreem[e]nt before we go to the presidents and cfo .... Secondly, I think we should be reducing our basis trades to reduce var as is .... Let's sit down").

[1818] 8/21/2007 email from Bill McMahon, "Potential large subprime trade and impact on Firmwide VAR," GS MBS-E-012606879.

[1819] 8/21/2007 email from Joshua Birnbaum, "Potential large subprime trade and impact on firmwide VAR," GS MBS-E-016359332, Hearing Exhibit 4/27-34

(e) "Get Down Now"

Despite direction from senior management to cover its $13.9 billion net short position, the Mortgage Department continued to maintain several large net shorts, including at least $3 billion in single name CDS contracts referencing BBB and BBB- rated RMBS securities that it expected to gain in profits. In August 2007, Co-President Gary Cohn finally issued an order to "get down now."[1820]

Excessive VAR. By late August, a combination of the large net short and volatility in the subprime mortgage market had driven the Mortgage Department's VAR to an all-time high. When the AAA ABX short position was far out-of-the-money, it entailed little market risk, as it was not actively traded and had little likelihood of ever paying off. Once the AAA ABX short became profitable, however, the $9 billion position was so large that it had a major impact on the firm's risk measurements. Even a small percentage change in $9 billion can cause substantial changes in a profit and loss statement. As Mr. Sparks explained: "The combination of our large AAA ABX index shorts and the relatively new volatility in the AAA part of the index will result in much larger daily swings in P&L [profit and loss] both ways."[1821]

As predicted, due to the $9 billion short, the Mortgage Department's daily profit and loss reports began to show much larger swings.[1822] For example, while the Mortgage Department showed a profit of $71 million on July 21,[1823] it showed a loss of $100 million on August 8.[1824] Upon hearing of that loss, Mr. Montag asked "so who lost the hundy?"[1825] Mr. Birnbaum wrote to a colleague: "I'm sure the AAA ABX is being blamed as the reason the dept was down 100 yest[erday]."[1826] While some in the Mortgage Department disagreed with the use of VAR as a

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[1820] 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-009778573.

[1821] 7/21/2007 email from Daniel Sparks to Donald Mullen, Tom Montag, and others, "Mortgages Estimate," GS MBS-E-009640287.

[1822] See id. (noting $50 million down trading day, followed by a day in which the AAA index accounted for half of the day's profit).

[1823] Id.

[1824] 8/9/2007 email from Joshua Birnbaum to Deeb Salem, GS MBS-E-012927140.

[1825] 8/8/2007 email from Tom Montag to Michael Swenson and David Lehman, GS MBS-E-011311633. Mr. Swenson explained that the approximately $100 million loss was split between the Residential Whole Loan Trading Desk, the SPG Trading Desk, and the CDO Origination Desk. Id.

[1826] 8/9/2007 email from Joshua Birnbaum to Deeb Salem, GS MBS-E-012927140.

measure of risk,[1827] the gyrations in daily profit and loss figures demonstrated that the $9 billion net short posed real risk to Goldman.

VAR depends primarily on the aggregate size of net asset positions and the volatility of the relevant market. Goldman was holding several large net short positions, the subprime market had become extremely volatile, and the Department's efforts to cover its shorts further complicated matters. Although Goldman's covering of its $9 billion net short AAA position would ordinarily be expected to reduce risk, the massive size of the position, combined with unprecedented levels of volatility in the market, the speed of Goldman's covering, and the size of the trades involved, resulted in steep increases in the Department's VAR.

The Mortgage Department's VAR had increased from around $13 million in mid-2006, well under the Department's permanent limit of $35 million, to $85 million in February 2007, to a high of around $113 million in August 2007.[1828] The $113 million figure exceeded the Department's $35 million permanent VAR limit by more than 350%. Moreover, the Mortgage Department, which had never contributed more than about 2% of firmwide net revenue prior to 2007, was generating some 54% of all the risk incurred by the firm in August 2007. The Mortgage Department's risk level, however profitable, was of increasing concern from a firmwide perspective.[1829]

In an effort to maximize the profit potential from its net short positions, SPG personnel in the Mortgage Department argued against indiscriminately covering all of the Department's shorts.[1830] But the Mortgage Department's VAR level proved to be both intractable and highly unpredictable.[1831] It also contributed to record high levels of firmwide VAR, a figure carefully

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[1827] 8/9/2007 email from Joshua Birnbaum to Deeb Salem, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927200 ("These VAR numbers are ludicrous, btw. Completely overestimated for SPG trading, underestimated for other mortgage desks."). See also 8/21/2007 email from Joshua Birnbaum to Bill McMahon, "Potential large subprime trade and impact on Firmwide VAR," GS MBS-E-012606879 ("We have the 13.5Bln IO which makes us less short by $1-1.5 Bln . . . .") (IO is an asset arising from differences in the duration and timing of CDS premium payment streams); 8/21/2007 email from Michael Dinias, "Trading VaR Analysis," GS MBS-E-009993267 ("the mortgage desk has questioned the size of the implied short exposure (i.e. desk believes they are less short than implied by the VaR model). We are reviewing the current VaR methodology with the mortgage traders/strategists and assessing the impact of various potential enhancements."); Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1828] For more information on the Mortgage Department's VAR levels, see below.

[1829] On August 7, 2007, a senior risk executive wrote to Messrs. Cohn, Viniar, and McMahon: "We are doing a detailed analysis of mortgage and credit trading var contributors to see where we might get the most efficient var reduction." 8/7/2007 email from Bruce Petersen, "VaR," GS MBS-E-009775575.

[1830] See, e.g., 8/21/2007 email from Joshua Birnbaum, "Potential large subprime trade and impact on firmwide VAR," GS MBS-E-016359332, Hearing Exhibit 4/27-34 (favoring preservation of the $3.5 billion BBB/BBB- short).

[1831] Risk controller Robert Berry explained to Messrs. Viniar, McMahon, and Broderick that VAR was becoming acutely sensitive to estimates of correlation implicit in the data used in the VAR computation: "[T]here will be days where 'nothing happened' – positions didn't change, markets were quiet, but small changes in correlation will mean the difference between 140 and 160. It will really be difficult to explain to you and to the desks why we were under [VAR limits] yesterday but over today." 8/15/2007 email from Robert Berry, "MarketRisk: End of Day Summary –

monitored by the firm's most senior management. The Mortgage Department and its risk controllers tried unsuccessfully to reduce the Department's VAR, and were discussing new alternatives,[1832] when Goldman's Co-President Gary Cohn intervened. On August 15, 2007, the same day that Goldman's firmwide VAR hit a then-record high of $165 million, Mr. Cohn emailed the Mortgage Department's senior managers, risk analysts and controllers: "There is no room for debate – we must get down now."[1833]

The Mortgage Department took immediate action. To reduce its VAR, the Department had to sell at least some of its BBB/BBB- net short position.[1834] On August 23, 2007, Mr. Swenson reported that Harbinger had bought a large block of single name CDS contracts shorting BBB/BBB- rated RMBS securities which allowed Goldman to take the long side: "We just printed $400mm of Singles with Harbinger. 130mm of BBB and 270mm BBB-." Mr. Montag passed the message on to Messrs. Cohn and Viniar: "Finally actuall[y] covering singles." Mr. Cohn responded: "Great."[1835]

But even after that $400 million sale, Mr. Sparks reported to Mr. Montag: "[W]e are short ... about $3BB single names."[1836] Mr. Montag responded that the $3 billion net short position was "huge and outsized" and $800 million had to be sold: "[I]f I make you sell a whopping 800 [million] out of 3 billion which is less than 30% how can anyone complain–the position is huge

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cob 8/10/07," GS MBS-E-009779885. Mr. McMahon responded: "var can swing between 140 and 160 without any changes in the complexion of our trading books – essentially it is just noise." 8/15/2007 email from Bill McMahon to Gary Cohn and David Viniar, "Trading VaR $165mm," GS MBS-E-009778573.

[1832] See, e.g., 8/15/2007 email from Michael Dinias, "Hedge Analysis cob 8/13/07," GS MBS-E-010678553 (analyzing 6 potential VAR-reducing trading scenarios featuring different proposed transactions); 8/21/2007 email from Michael Dinias, "Trading VaR Analysis," GS MBS-E-009993267 (analyzing the VAR-reducing impact of going long in various classes of assets); 8/22/2007 email from Daniel Sparks to Tom Montag and Donald Mullen, "VAR reduction possibilities," GS MBS-E-010619824 (proposed transactions in single name CDS protection to reduce VAR).

[1833] 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-009778573. Mr. Viniar agreed. Two days earlier, after seeing a daily risk report showing Firmwide VAR at $159 million, Mr. Viniar emailed senior risk executives: "No comment necessary. Get it down." 8/13/2007 email from David Viniar to Bill McMahon, Craig Broderick, and Robert Berry, "MarketRisk: End of Day Summary – cob 8/10/2007," GS MBS-E-009779885. Even after Mr. Cohn's order to "get down now," Firmwide VAR continued to increase. On August 16, Firmwide VAR rose from $165 million to $171 million. 8/16/2007 email from Michael Dinias, "Trading VAR $171mm," GS MBS-E-099775568. On August 17, it rose to $174 million. 8/17/2007 email to David Viniar, Gary Cohn, Jon Winkelried, Tom Montag, Bill McMahon, Craig Broderick et al., "Weekly Market Risk Summary as of 8/17/07," GS MBS-E-009756424.

[1834] On August 22, 2007, Mr. Montag emailed Mr. Blankfein: "[W]e are covering a number of shorts in mortgages today and tomorrow–probably $1.5 billion worth–will reduce mortgages [VAR] hopefully to below 80." 8/22/2007 email from Tom Montag to Lloyd Blankfein, "Trading VaR $144mm," GS MBS-E-009605812, Hearing Exhibit 4/27-36. The next morning Mr. Montag emailed Mr. Blankfein that the Department "covered about 700 million in shorts in mtgs last night–500 million in single names . . . . lots more to go–but they fortunately had bought back 9 billion of AAA abx index over last two weeks." 8/23/2007 email from Tom Montag to Lloyd Blankfein, GS MBS-E-009585951, Hearing Exhibit 4/27-37.

[1835] 8/23/2007 email from Michael Swenson, "Harbinger Post," GS MBS-E-009739009.

[1836] 8/23/2007 email from Daniel Sparks, "Current Outstanding Notional SN ames," GS MBS-E-010621231.

and outsized."[1837] At the end of the trading day on August 23, Mr. Montag asked Mr. Sparks: "How much did we cover–shooting for $1 billion." Mr. Sparks responded: "Not much more today - trying."[1838]

Although the Mortgage Department did not cover its shorts as quickly as Mr. Montag wanted, within days of Mr. Cohn's August 15 order to "get down," Goldman's firmwide trading VAR had dropped by $40 million and the Mortgage Department's VAR had dropped below $100 million.[1839] On August 23, 2007, Mr. Cohn forwarded a VAR report to CEO Lloyd Blankfein: "The message got through." Mr. Blankfein responded: "Good job." Mr. Cohn wrote: "Down 40 in 2 days."[1840]

Although the Mortgage Department's VAR measure fell substantially, it remained well above its permanent risk limit of $35 million throughout the rest of 2007.[1841] In addition, although Goldman senior executives rejected the Mortgage Department's plan to buy $10 billion in AAA rated RMBS securities,[1842] the Department ultimately purchased over $2.2 billion in AAA rated RMBS securities[1843] and continued to hold and strategically sell off its BBB and other short positions through the end of 2007.[1844]

[1837] Id.

[1838] 8/23/2007 email exchange between Tom Montag and Daniel Sparks, "Current Outstanding Notional SN ames," GS MBS-E-010621324.

[1839] 8/23/2007 email exchange between Gary Cohn and Lloyd Blankfein, "Trading VaR $133mm," GS MBS-E-009643469.

[1840] Id. Goldman senior executives continued to monitor the Mortgage Department's actions. For example, on August 31, 2007, Mr. Montag emailed Mr. Lehman: "abx hurting us today? Mkt over reacting?" 8/31/2007 email from Tom Montag, "Structured Products Weekly Update – 08/30/07 (Internal Use only)," GS MBS-E-009589083. Mr. Birnbaum responded: "Based on the markets we are making, we would be ok in this move. We are +50mm in AAAs alone right now." Mr. Montag forwarded the emails to Mr. Blankfein who wrote: "Thanks. Appreciate the posts, I'm watching the financial news."

[1841] 12/2007 Quarterly Market Risk Review, GS MBS-E-009586222, Hearing Exhibit 4/27-54f (third quarter mortgages average VAR was $68 million; fourth quarter mortgages average VAR was $75 million).

[1842] Subcommittee interview of David Viniar (4/13/2010); Subcommittee interview of Daniel Sparks (4/15/2010); Subcommittee interview of Joshua Birnbaum (4/22/2010).

[1843] 8/21/2007 email from Michael Swenson, "Mortgage Commentary for Firmwide Risk Committee," GS MBS-E-010619375 ("Current SPG Trading Desk Position Summary: – RMBS AAA – long $2.2bb"); Michael J. Swenson, responses to Subcommittee QFRs at PSI_QFR_GS0474.

[1844] In the week of December 6, 2007, the Mortgage Department's risk managers noted "an increase in net short position in the residential sector." 12/7/2007 email to David Viniar, "Weekly Market Risk Summary as of 12/06/07," GS MBS-E-009708911, Hearing Exhibit 4/27-53. See also 9/5/2007 email from Michael Swenson to Tom Montag, "ABS Update," GS MBS-E-012386239, Hearing Exhibit 4/27-39; 9/23/2007 email to David Viniar, "Mortgage P&L for the Week Ended 9/21," GS MBS-E-009732431, Hearing Exhibit 4/27-43 (Finance division reported that, in week of September 21, the Mortgage Department reported $63 million from "short synthetic positions including SPG Trading (+$40M), CDO (+22M) and Residential Credit (+12M).").

(f) Profiting from the Big Short: Making "Serious Money"

Goldman's short positions continued to produce profits for the firm, as mortgage related assets continued to lose value. In September 2007, one of the key traders in the Mortgage Department, Deeb Salem, summarized four key short-side trading strategies that enabled the Mortgage Department to profit from the collapse of the subprime mortgage market:[1845]

(a) a "dispersion trade," in which Goldman took advantage of "mispriced" single name CDS contracts that referenced very poorly performing RMBS securities, but were not priced much lower than better performing RMBS securities, resulting in profits of $750 million "so far";

(b) a massive purchase of single name CDS contracts referencing a variety of RMBS securities, taking advantage of Goldman's estimated 33% "dominant" market share in single name CDS to make a "HUGE directional bet" against the subprime mortgage market, resulting in profits of $1.7 billion;[1846]

(c) the purchase "at a discount" of single name CDS contracts referencing Alt A and A rated RMBS securities, which "others don't want/know where to price," resulting in profits of $400 million "so far"; and

(d) the purchase of single name CDS contracts on A, AA and AAA rated CDO securities "in size," amassing an "enormous" market share whose profits had "exceeded all of our high expectations" at $900 million "so far."[1847]

[1845] Salem 2007 Self-Review.

[1846] Id. [emphasis in original].

[1847] Id. Mr. Salem described the trading strategies as follows:

"a. The Dispersion Trade
More than a year ago, Edwin [Chin] and I realized that the dispersion amongst single-name subprime CDS was grossly mispriced. Bad names (tier 4), that the market almost universally disliked traded only 50 bps wider than securities that we all agreed were superior. ... So for the past year, we bought protection on tier 4 names at every chance possible . . . When we wanted to flatten out the book, we just wrote protection on the tier 1 names. Amazingly we did this for most of the year without a usable model to value different single names. ... We were very aggressive with pricing and only shared risk with smart guys if they gave us insight on names to go short or go long in return. Even when the dispersion widened out . . . by the end of February, Edwin and I refused to monetize the trade .... With 3-4bb of notional in this dispersion trade, we have recognized $750mm of P&L so far on this trade.

"b. Our single name market share:
Having traded over $200bb of notional in SN [single name] CDS, GS is the dominant market-maker in single name CDS. We approximate our market share to be greater than 33%. ... This market share and willingness to trade size proved invaluable in November, December and January when we decided to make the HUGE directional bet of being long SN CDS protection [or "short risk," i.e., taking the short side of a CDS transaction]. ... If we did not have such presence in the SN CDS market, it is unlikely that we would have achieved the size short that we desired and eventually put on. We're up $1.7bb in RMBS SN CDS!

In October 2007, after the credit rating agencies downgraded hundreds of CDO securities,[1848] Mr. Swenson wrote to Mr. Mullen that the downgrades would eventually cause defaults in many CDO securities that Goldman had shorted, meaning that Goldman's "CDS protection premiums paid out will go to zero,"[1849] and Goldman would receive substantial CDS payments on those CDOs from the long parties. Mr. Mullen responded: "Looks like we're going to make some serious money." Mr. Swenson replied: "Yes, we are well-positioned."[1850]

Indeed, the Mortgage Department made $110 million the very next day.[1851] Mr. Swenson explained: "65mm was from yesterday's downgrades which lead to the selloff." Mr. Mullen replied: "Great day!"[1852] By the end of 2007, the Mortgage Department had brought in approximately $3.7 billion in net revenues from its SPG Trading Desk.[1853]

(g) Goldman's Records Confirm Large Short Position

In addition to contemporaneous emails, presentations, and reports, Goldman's large net short position is reflected in its own financial records, including its Mortgage Department Top Sheets.[1854] Goldman's Mortgage Department kept records of its overall net short positions across

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"c. Willingness to put on trades that others don't want/know where to price
The 2 most successful trades in this regard have been our $70mm long Alt-A protection and our $1-2bb long sub-prime Single-A protection [i.e., being "short risk" or taking short side in a CDS transaction]. When CDOs wanted to sell Alt-A and single-A protection ... the rest of the street was tentative. ... We viewed this as a tremendous opportunity to buy cheap out-of-the-money options at a significant discount to fair-value. Our exit strategy was always that if sub-prime fundamentals got bad enough, and they did, that the contagion would have to spread up the capital structure because cum loss vol/uncertainty has to go up thus. . . .$400mm so far for the desk ....

"d. CDO CDS trade:
This trade has made $900mm so far, which exceeded all of our high expectations for the trade. I had the confidence and desire for the desk to buy A, AA, and AAA CDO CDS protection in size during the fall of 2006 for several reasons: ... [T]he rating agencies' correlation assumptions were out of whack with the growing concern about the housing market and the remarkable similarity between the bonds in a CDO, the difficulty that GS was having in placing such mezzanine liabilities and the complexity of such securities scared hedge funds from buying the protection themselves. Edwin and I used the same aggressive strategies in purchasing protection that we used to dominate the SN CDS market. Our market share was enormous ... and we did every ... trade possible." Id.

[1848] See, e.g., 10/11/2007 email from Michael Swenson to Donald Mullen, "Early post on P and L," GS MBS-E-016031234, Hearing Exhibit 4/27-69. For more information about this downgrade, see Chapter V.

[1849] Id.

[1850] Id.

[1851] 10/12/2007 email exchange between Michael Swenson and Donald Mullen, "P and L," GS MBS-E-018936577, Hearing Exhibit 4/27-68.

[1852] Id.

[1853] See 10/3/2007 Goldman presentation, "SPG Trading – 2007," GS MBS-E-015654036. See also 11/16/2007 Goldman chart, "Mortgages Weekly Metrics 16-November-2007," GS MBS-E-015863620 ("P&L YTD Annl 3,742,461").

[1854] See, e.g., 4/2010 "Goldman Sachs Mortgage Department Total Net Short Position, February - December 2007 in $ Billions," chart prepared by the Subcommittee, Hearing Exhibit 4/27-162 (compiled from Top Sheets); examples of Top Sheets include GS MBS-E-010369585 and GS MBS-E-010850895, Hearing Exhibit 4/27-162.

various subprime asset classes on a daily basis throughout most of 2007.[1855] Those records indicate that the Mortgage Department had large net short positions in the subprime mortgage market throughout most of 2007. Goldman's documents reveal that it had a $10 billion net short position at the end of February 2007, and a $13.9 billion net short position in mid-June 2007.[1856]

(i) Top Sheets

Daniel Sparks told the Subcommittee that, in 2006 and earlier, he was frustrated because he felt Goldman had inadequate systems to track and aggregate the daily positions of the various desks in the Mortgage Department.[1857] At the end of each trading day, he had to review up to a dozen separate reports from the desks to develop a composite mental picture of the Mortgage Department's overall positions. To remedy this shortcoming, in February 2007, Mr. Sparks and the Department's strategic analysts, sometimes called "strats," developed a single-page report called the Mortgage Department Top Sheet.[1858]

The Mortgage Department Top Sheet became the primary report through which the Mortgage Department tracked its daily positions in various classes of mortgage related assets. It provided a comprehensive listing of the Mortgage Department's long and short positions in different asset classes across all desks at the end of each trading day. The Top Sheet drew data from up to a dozen separate reports generated by Goldman's electronic systems. Mr. Sparks told the Subcommittee that the Top Sheet evolved over time to become a good tool that provided a comprehensive record of the Department's positions.[1859] The Goldman Controller's office told the Subcommittee that Goldman did not maintain any other type of comprehensive daily report regarding the Mortgage Department's net positions in various asset classes.[1860]

[1855] Id.

[1856] See 2/26/2007 Mortgage Department Top Sheet, GS MBS-E-010388545, and 6/25/2007 Mortgage Department Top Sheet, GS MBS-E-010850895, Hearing Exhibit 4/27-162.

[1857] Subcommittee interview of Daniel Sparks (4/15/2010).

[1858] Subcommittee interview of Daniel Sparks (4/15/2010); 2/26/2007 email to Daniel Sparks, Michael Swenson, and others, "New cross desk Top Sheet risk report," GS MBS-E-010386051.

[1859] Subcommittee interview of Daniel Sparks (4/15/2010).

[1860] Subcommittee discussions with Goldman Controller staff on Responses to Questions for the Record and related documents. Despite the fact that the Mortgage Department Top Sheet was the primary comprehensive position report available to Mortgage Department managers, some more senior Goldman executives appeared to be unaware of its existence. Chief Risk Officer Craig Broderick, for example, testified that he was unaware of a Mortgage Department Top Sheet and he thought the "top sheet" concept might not be suitable for the Mortgage Department. Subcommittee interview of Craig Broderick (4/9/2010). His risk office produced its own daily risk reports that translated the Mortgage Department's electronic trading data directly into risk measures, such as "VAR." Id.; see also, e.g., 8/9/2007 email from risk manager, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-010674894 (attached Goldman report, "Mortgage Risk Report – 8/9/07," GS MBS-E-010674895). The Controller's office also produced its own reports based on the Mortgage Department's electronic trading data, such as the daily profit and loss report for the Mortgage Department. Subcommittee discussions with Goldman Controller staff on responses to Subcommittee QFRs and related documents. See also 7/20/2007 email from controllers, "Mortgages Estimate," GS MBS-E-009640287.

The Top Sheet was literally the top sheet, or cover page, to a comprehensive report distributed daily to Mr. Sparks and other Mortgage Department managers.[1861] The top line of the Top Sheet listed the aggregate total amounts held by the Mortgage Department in various asset classes, including AAA, AA, BBB, and BBB- rated assets.[1862] During most of 2007, the Top Sheet also provided an overall net short or long figure that summed across the top line totals for each of the respective asset classes, providing an overall figure by which the Mortgage Department was net long or net short across all asset classes each day. By plotting this overall net figure for each daily Top Sheet, the Subcommittee developed a graph of the Mortgage Department's net position during 2007, as indicated on the chart on the following page.[1863]

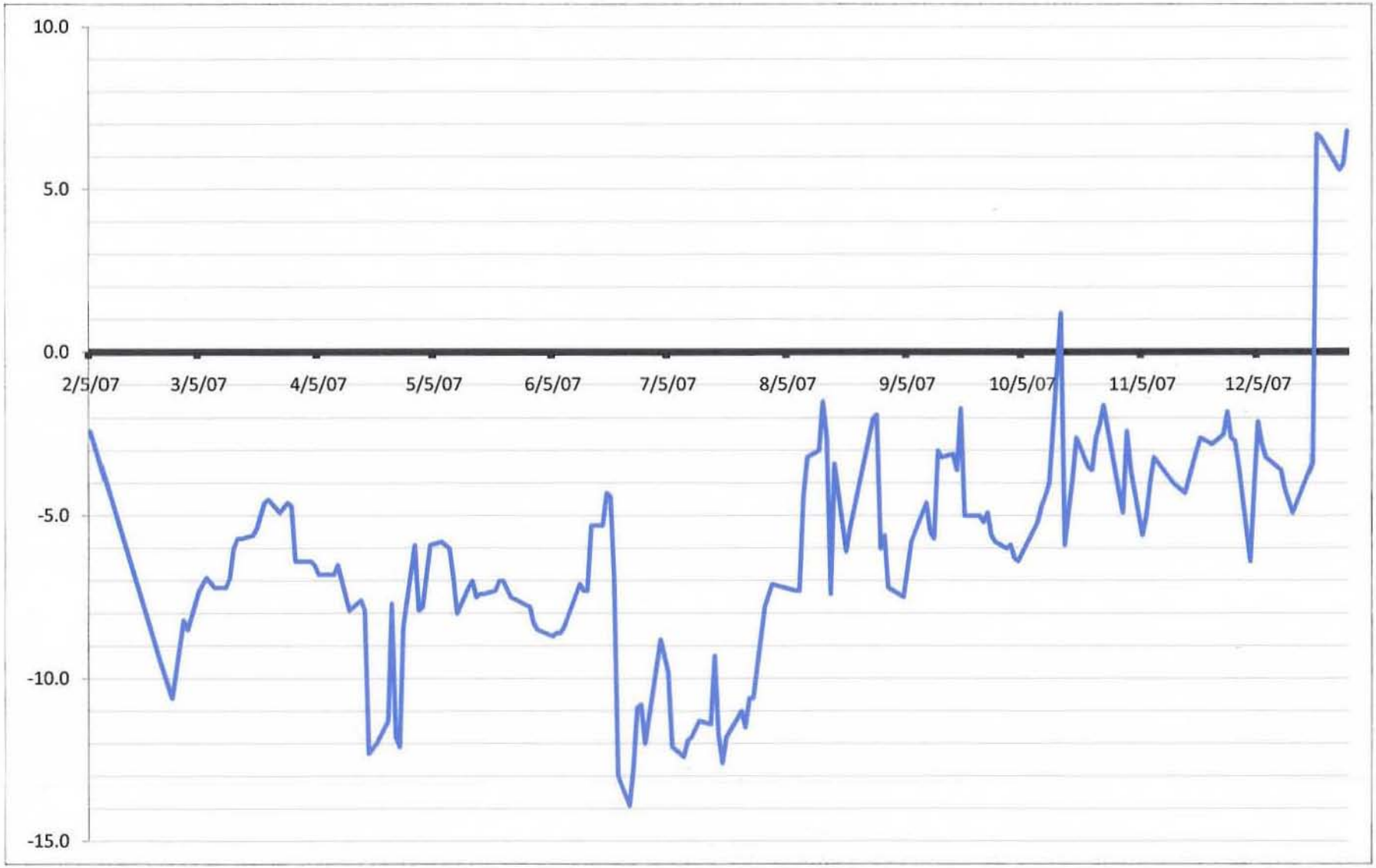
[SEE CHART NEXT PAGE: *Goldman Sachs Mortgage Department Total Net Short Position*, prepared by the Permanent Subcommittee on Investigations.]

[1861] 2/26/2007 email to Daniel Sparks, Michael Swenson, and others, "New cross desk Top Sheet risk report," GS MBS-E-010386051. The Mortgage Department shared its Top Sheet and several sub-reports for September 25, 2007, with Mr. Viniar around October 1, 2007, in a presentation that summarized the changes in the Mortgage Department's long/short positions across all desks and all assets since the initiation of the Gameplan in May 2007. 10/1/2007 Goldman internal document, "September Risk Pack Viniar," GS MBS-E-013693128 (attached to 10/1/2007 email, "Viniar Risk Pack - Sept," GS MBS-E-013693127).

[1862] The balance of the page provided detail regarding the amount of each asset class held by each of the Mortgage Department's desks or business units. Behind the top sheet, the report provided detailed data regarding the various desks and provided different data analyses, such as changes in position from week to week. The last page of each report listed all of the electronic data sources and separate reports from which the Top Sheet was compiled. See, e.g., 2/5/2007 Mortgage Department Top Sheet, GS MBS-E-010369585, Hearing Exhibit 4/27-162.

[1863] See chart entitled, "Goldman Sachs Mortgage Department Total Net Short Position, February-December 2007 in $ Billions," prepared by the Permanent Subcommittee on Investigations, Hearing Exhibit 4/27-162 (April 2010 version), updated January 2011 (updated version), derived from Goldman Sachs Mortgage Strategies, Mortgage Dept Top Sheets provided by Goldman Sachs (hereinafter "PSI Net Short Chart").

Goldman Sachs Mortgage Department Total Net Short Position, February - December 2007 in $ Billions
(Market Value, Including All Synthetic and Cash Positions in Mortgage Related Products)



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010. Updated January, 2011.
Derived from Goldman Sachs Mortgage Strategies, Mortgage Dept Top Sheets provided by Goldman Sachs.

The Subcommittee's net short chart is generally consistent with a Goldman chart that Mr. Birnbaum asked one of the Mortgage Department's analysts to prepare for him in August 2007, which can be seen on the following page.

> [SEE CHART NEXT PAGE: *RMBS Subprime Notional History*, prepared by Goldman Sachs.][1864]

The "zero" line in the middle of the chart represents a neutral trading position that is neither net long nor net short. To use Mr. Viniar's description, the zero line represents "home." The area below the zero line represents net short positions; the area above the line represents net long positions. The chart shows that the Goldman Mortgage Department was net short throughout 2007, with a total net short position that reached $13.9 billion in July.

[1864] 8/17/2007 Goldman internal chart, "RMBS Subprime Notional History (Mtg Dept - Mtg NYC SPG Portfolio)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a. The title of the Goldman chart, "NYC SPG Trading" is confusing, as Mr. Birnbaum asked the analyst, Kevin Kao, for a chart of all synthetic positions across the entire Mortgage Department (including areas other than SPG Trading). In an email to Mr. Birnbaum, Mr. Kao confirmed that despite the title, the chart actually included all synthetic positions across the entire Mortgage Department, and not just the SPG Trading Desk positions. 8/17/2007 email from Mr. Kao to Mr. Birnbaum, GS MBS-E-012929469. Mr. Kao explained that his chart did not include cash positions, meaning long positions in mortgage loans or RMBS from any remaining warehouse inventory. Id. That omission was not significant, however, since Goldman had rapidly sold off the vast bulk of its cash inventory starting in November 2006. 4/2010 "Goldman Sachs Long Cash Subprime Mortgage Exposure, Investments in Subprime Mortgage Loans, and Investments in Subprime Mortgage Backed Securities November 24, 2006 vs. August 31, 2007 - in $ Billions," chart prepared by the Subcommittee, Hearing Exhibit 4/27-163. In any event, the Subcommittee's net short chart includes the Department's cash positions and demonstrates that any long cash positions were insufficient to offset the shorts, as the Mortgage Department was massively net short throughout most of 2007. See PSI Net Short Chart.

In his Supplemental Responses to Questions for the Record from the Subcommittee, Mr. Birnbaum conceded that the Subcommittee's net short chart includes cash positions and therefore fixed the problem of being limited to synthetics as was the case with Goldman's own net short chart. See 8/17/2007 Goldman internal chart, "RMBS Subprime Notional History (Mtg Dept - Mtg NYC SPG Portfolio)," GS MBS-E-012928391, Hearing Exhibit 4/27-56a; Birnbaum responses to Subcommittee QFRs at PSI_QFR_GS0509. Mr. Birnbaum maintained his objection that the Subcommittee's net short chart improperly summed the notional amounts of different asset classes. Id. However, as noted in the text, the Mortgage Department's Top Sheet actually converted the notional amounts of each asset class into their market values, making it fair to sum across all asset classes.

RMBS Subprime Notional History
(Mtg Dept - "Mtg NYC SPG Portfolio")



Some Goldman representatives told the Subcommittee that they objected to both the Subcommittee's net short chart, and Goldman's own similar chart, on the grounds that the charts are too simplistic and fail to account for the relative "weight" or value of short positions in differing asset classes.[1865] For example, in a 2010 interview with the Subcommittee, Mr. Birnbaum said that because of their differing "weights" or values relative to one another, the notional amounts in each asset class could not simply be summed up together. For example, he said the notional amount of AAA assets cannot be added to the notional amount of BBB assets, because the market assigns each of those positions different weights or values relative to each other.[1866] He said that these relative weights or values are often expressed as specific "hedge ratios" which Goldman traders can call up on their computer screens in real time to tell them, for example, the amount of AAA assets they should buy long to hedge a given net short position in BBB assets.[1867] Each class also poses a different level of risk than the others. For example, short positions in AAA assets were relatively inexpensive, as the risk of loss in that tier was considered relatively low, while short positions in BBB assets would have higher prices, because the risk of loss was considered high. Mr. Birnbaum said the only chart of Goldman's net short position that he would accept as fairly representative would be one that was "Beta-adjusted" to account for differences in the relative weights, but he admitted that he was unaware of any such charts or reports created by Goldman during 2007.[1868] Without considering these relative weights (which continually change based on market price movements in various asset tiers), Mr. Birnbaum said it would be impossible to say that Goldman was ever "net short" at all or in what amount.[1869]

Goldman's own documents provide a different picture, however. The Top Sheet was the primary comprehensive record used by the Mortgage Department to track all net positions across the Mortgage Department. Goldman did not keep any other records that identified the Mortgage Department's net positions in various asset classes,[1870] and did not keep any records that used the "Beta-adjustment" method advocated by Mr. Birnbaum. By early March 2007, the Top Sheet generally expressed the market values of positions in different asset classes, rather than the

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[1865] See Birnbaum responses to Subcommittee QFRs at PSI_QFR_GS0509. Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1866] Subcommittee interview of Joshua Birnbaum (10/1/2010); Subcommittee interview of Michael Swenson (10/8/2010).

[1867] Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1868] Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1869] Id. Mr. Swenson made similar statements in his second Subcommittee interview. "Were we ever net short? It's hard to say what 'net short' means really." Subcommittee interview of Michael Swenson (10/8/2010). Mr. Swenson had no such difficulty, however, in his first Subcommittee interview. When asked the greatest amount by which he remembered his desk being net short, Mr. Swenson replied: "$9 billion." Subcommittee interview of Michael Swenson (4/16/2010).

[1870] As noted above, the risk management and controller areas at Goldman kept their own daily reports based on the Mortgage Department's electronic trading data, but they did not track Goldman's aggregate positions in each asset class on either a notional or market value basis. Rather, the risk area converted the Mortgage Department data into risk measures, while the controllers' area converted the data into profit and loss reports. Though based on the Mortgage Department's reported daily trading, these reports did not directly reflect specific net positions in subprime mortgage assets.

notional amount of the positions.[1871] By using the market values of positions in each asset class on a given day, the Mortgage Department did, in fact, create a reasonable method for summing across all asset classes in a single common denominator – the amount of cash the assets would bring in the market that day. Since the Subcommittee's net short chart relies on the Department's daily Top Sheet figures as expressed in market values rather than notional amounts, it does not suffer from the incompatibility defect pointed out by Mr. Birnbaum.

Mr. Birnbaum's position that the notional amounts of each asset class cannot be summed up together is also inconsistent with what Goldman's Mortgage Department did on a day-to-day basis in 2007. Mr. Sparks, the Mortgage Department head who helped design the Top Sheet, used it to measure the Department's daily position. Mortgage Department personnel and other Goldman executives also discussed the Department's being "net short"– either overall or in specific asset classes – on a daily basis.[1872]

Indeed, the phrase "net short" appears more than 3,400 times in the documents produced to the Subcommittee by Goldman.[1873] Since Mr. Birnbaum claimed that one could never really say whether Goldman was truly "net short," the Subcommittee asked him why the phrase "net short" appeared so many times in Goldman's documents. Mr. Birnbaum said that the use of the phrase "net short" was a "shorthand" that was used internally in the Mortgage Department.[1874] In fact, neither Mr. Birnbaum, Goldman, nor the Subcommittee could identify any specific document or instance from 2007 in which the weighting exercise advocated by Mr. Birnbaum in his September 2010 interview was ever used or suggested.

Aside from the Top Sheet that summed up totals across different asset classes to obtain an aggregate total, there are also many documents in which Goldman personnel described the total amounts by which Goldman was net short in respective asset classes. For example, Mr. Swenson, and later Mr. Lehman, compiled an email summary each week that described each Mortgage Department desk's net position in different asset classes. A typical format was as follows:

"Current [SPG Trading] Desk Position Summary:

- RMBS Single-As - net short 900mm 100% in single-name CDS

[1871] In general, positions were expressed in market values for all liquid assets and in "hedge equivalents" of illiquid assets, meaning the market value of a position that could be used to hedge that asset. See e.g., 3/5/2007 Mortgage Department Top Sheet, GS MBS-E-010630691 (Legend: "Market Value (MM$)(Hedge Equiv MV for CDS)"); 9/11/2007 email, GS MBS-E-010690522, attaching 9/10/2007 Mortgage Department Top Sheet, GS MBS-E-010690523 ("Market value of bonds/loans, bond equiv mkt val for synthetics.").

[1872] See e.g., 3/5/2007 email from Daniel Sparks to Tom Montag and others, GS MBS-E-010646842 ("We think the overall business is net short"); 3/8/2007 email from Daniel Sparks to Jon Winkelried and others, "Mortgage Risk," GS MBS-E-002211242 ("We are still net short"); 7/21/2007 email from Daniel Sparks to Donald Mullen and others, "Mortgages Estimate," GS MBS-E-009640287 ("There is also a large net short that we are chipping away to cover").

[1873] 1/10/2011 Concordance search of all documents produced to the Subcommittee by Goldman for the phrase "net short."

[1874] Subcommittee interview of Joshua Birnbaum (10/1/2010).

- RMBS BBB/BBB- - net short 3,000mm (80% in single-name CDS - 50% 2005 vintage
- Correlation Desk - net short $400mm of ABX 06-1 BBB and BBB-
- Mortgage Department short approx $4bb AAA ABX"[1875]

Mr. Swenson's email summaries were forwarded to Mr. Montag and other senior executives to keep them apprised of the Department's positions.[1876] While these documents did not provide an aggregate overall net short position for the Mortgage Department, they did establish net short positions in each of the various specific asset classes described, and they were apparently acceptable to and relied upon by various Goldman executives. Throughout most of 2007, these weekly reports clearly show very large net short positions in mortgage related assets.[1877]

Email correspondence among Goldman's senior executives also routinely referred to the Mortgage Department's net short positions in "billions."[1878] CFO David Viniar told the Subcommittee that a loss (or gain) in the amount of even $25 million was considered "large" and would immediately be brought to his attention.[1879] By that standard, net revenues of $2 billion from the Mortgage Department's net short positions in the third quarter of 2007 would have been considered significant and monitored by senior management, as indeed they were.

In testimony before the Subcommittee and other public statements, Goldman attempted to minimize the size of its net short position by suggesting to the Subcommittee that the short positions held by the Mortgage Department were hedges for other, unidentified long assets.[1880] Mr. Blankfein even made that argument to his colleagues in September 2007: "The short position wasn't a bet. It was a hedge."[1881] But Mr. Birnbaum contradicted that position just a few days later. On October 4, 2007, Mr. Birnbaum prepared on behalf of the SPG Trading Desk a

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[1875] 8/5/2007 email from David Lehman to Tom Montag, "Mtg Department Weekly Update," GS MBS-E-010671564.

[1876] Id.

[1877] Id.

[1878] See, e.g., 8/23/2007 email from Tom Montag to Daniel Sparks, "Current Outstanding Notional in SN ames," GS MBS-E-010621231 (Mr. Montag said, "so if I make you sell a whopping 800 out of 3 billion which is less than 30% how can anyone complain- -the position is huge and outsized."); 3/14/2007 email from Tom Montag to Lloyd Blankfein, "Cactus Delivers," GS MBS-E-009632839 ("Covered another 1.2 billion in shorts in mortgages"); 8/23/2007 email from Tom Montag to Gary Cohn and David Viniar, "Harbinger post," GS MBS-E-009739009 ("We had bought back almost 9 billion of aaa abx over last two weeks though"); 2/27/2007 email from Richard Ruzika to Tom Montag, GS MBS-E-002204942 ("I want to see us getting the short down to 4.5 bil[lion] net").

[1879] Subcommittee interview of David Viniar (4/13/2010).

[1880] See, e.g., Testimony of David Viniar, April 27, 2010, Subcommittee Hearing at 98, 99-100; 4/7/2010 Blankfein & Cohn Letter to Shareholders (quoted in 4/2010 Goldman report, "Risk Management and the Residential Mortgage Market," at 12, Hearing Exhibit 4/27-161).

[1881] 9/26/2007 email from Lloyd Blankfein, "Fortune: How Goldman Sachs Defies Gravity," GS MBS-E-009592726. Mr. Blankfein went on to explain what he meant by "hedge": "Ie, the avoidance of a bet. Which is why for a part it subtracted from var, not added to var." Mr. Blankfein did not explain the "part" in which the big short subtracted from VAR. In February and August 2007, most of Goldman's senior management expressed concern that the large net short positions added to VAR, rather than subtracted from it, and indeed, pushed the firmwide VAR to record levels.

presentation entitled, "SPG Trading – 2007," in which he advocated that SPG Trading Desk personnel should be compensated like hedge fund managers and not as ordinary participants in Goldman's traditional bonus pool system.[1882] The presentation, which Mr. Birnbaum prepared to anticipate and refute counter-arguments that might be made by Goldman senior executives, explicitly addressed and rejected the contention that the profitable net short positions managed by the SPG Trading Desk were hedges for long assets held by other desks. Mr. Birnbaum, one of the chief architects of Goldman's big short, stated:

> "By June [2007], all retained CDO and RMBS positions were identified as already hedged. ... SPG trading re-initiated shorts post BSAM [Bear Stearns Asset Management] unwind on an outright basis with no accompanying CDO or RMBS retained position longs. In other words, the shorts *were not a hedge*."[1883] (Emphasis in original).

In response to Questions for the Record from the Subcommittee, Mr. Birnbaum once again stated that SPG Trading initiated the "shorts on an outright basis with no accompanying CDO or RMBS retained position longs following the Bear Stearns Asset Management unwind in 2007, and that these positions were not a hedge."[1884]

Mr. Birnbaum's statement that "all retained CDO and RMBS positions were identified as already hedged" by June 2007 is also supported by other documents provided by Goldman's Mortgage Department. On February 28, 2007, for example, David Rosenblum, Co-Head of the CDO/CLO Origination Desk, initiated a project to ensure that all of the CDO Origination Desk's warehouse accounts were "fully hedged."[1885] As a result, the CDO Origination Desk initiated new hedges and specifically allocated others to cover all the desk's warehouse risk. Learning of these actions, Mr. Rosenblum responded: "Great. Getting pretty nailed down."[1886] In addition, in a February 12, 2007 email, Mr. Sparks reported to senior management: "Loan and residual books flat," and indicated that the Department's long positions were fully hedged with the short ABX

[1882] 10/3/2007 Goldman presentation, "SPG Trading – 2007," GS MBS-E-015654036. Mr. Swenson and Mr. Lehman reviewed and commented upon the "SPG Trading – 2007 " presentation. Mr. Birnbaum revised the presentation to make the changes Mr. Swenson and Mr. Lehman suggested. See, e.g., 10/2/2007 email from David Lehman to Joshua Birnbaum, "SPG Trading - 2007.ppt," GS MBS-E-015653681 (providing comments and suggesting text for presentation). Mr. Birnbaum replied and copied Mr. Swenson on the email chain as well: "I added your bullet and one more." Id. See also 10/4/2007 email from Joshua Birnbaum to Michael Swenson and David Lehman, "How's this?," GS MBS-E-015712249 (forwarding revised bullet point for presentation). This collaboration indicates the presentation was made on behalf of the SPG Trading Desk as a whole. Mr. Birnbaum, however, told the Subcommittee that the SPG Trading Desk ultimately did not use the presentation in connection with its proposal for 2007 compensation. See Birnbaum responses to Subcommittee QFRs at PSI_QFR_GS0509.

[1883] 10/3/2007 Goldman presentation, "SPG Trading – 2007," GS MBS-E-015654036 [emphasis in original].

[1884] See Birnbaum responses to Subcommittee QFRs at PSI_QFR_GS0509.

[1885] 2/28/2007 email from David Rosenblum to Peter Ostrem, "Pete– pls send me cob 2/28 MTM for SP CDO WH's first thing in the morning," GS MBS-E-001800707; 2/28/2007 email from David Rosenblum,"Hedges Status Report," GS MBS-E-002640538 (new ABX hedges added and other hedges allocated to ensure that CDO warehouse risk was fully hedged).

[1886] Id.

positions.[1887] In a third example, after conclusion of the CDO valuation project, all of the remaining CDO assets were transferred from the CDO Origination Desk to the SPG Trading Desk in May 2007. Even after the transfer of those long assets, the SPG Trading Desk remained short, suggesting again that the CDO assets may have already been hedged.[1888] These Goldman documents all support Mr. Birnbaum's statement that all retained CDO and RMBS positions were identified as already hedged when the SPG desk started rebuilding its net short position in June 2007.

(ii) Risk Reports

The Mortgage Department's large net short positions were also demonstrated by the periodic risk reports that recorded Goldman's key risk measure, "Value at Risk" or "VAR," throughout 2007. At a 95% confidence level, VAR represents the dollar amount a business unit, here the Mortgage Department, could expect to make or lose once every 20 trading days – or about once a month.[1889]

The Mortgage Department's VAR skyrocketed during 2007, climbing far beyond the Mortgage Department's permanent VAR limit of $35 million and hitting a record high of $113 million in mid-August 2007.[1890] In 2007, with notable exceptions discussed below, whenever the Mortgage Department's trading exceeded its risk limits, Goldman's risk managers simply assigned the department a new, higher "temporary" risk limit to accommodate the Department's trading.[1891]

At the same time, the higher VAR did signal the presence of a large net short position and functioned to limit the size of that position. Twice during 2007, in late February and again in late August, Goldman's senior executives ordered the Mortgage Department to reduce its large short positions in order to bring the firm's overall VAR measure down.[1892] The senior executives were aware of the Mortgage Department's large net short positions, in part, because those positions had contributed to increases in Goldman's firmwide or trading VAR.

[1887] 2/12/2007 email from Daniel Sparks, "Post today," GS MBS-E-002202310.

[1888] Id.; PSI Net Short Chart.

[1889] Subcommittee interview of Craig Broderick (4/9/2010). See also Philippe Jorion, "Value at Risk: The New Benchmark for Managing Financial Risk," at 20, (3d ed. 2007).

[1890] See Mortgage Department Quarterly Average VAR. (Third Quarter 2006 - $13 million; Fourth Quarter 2006 - $14 million; Second Quarter 2007 - $63 million; Third Quarter 2007 - $68 million; Fourth Quarter 2007 - $75 million). See 9/2007 Quarterly Market Risk Review, "Market Risk Management and Analysis," GS MBS-E-009590673, Hearing Exhibit 4/27-54e; see also 12/2007 Quarterly Market Risk Review, "Market Risk Management and Analysis," GS MBS-E-009586222, Hearing Exhibit 4/27-54f.

[1891] 8/9/2007 email from Joshua Birnbaum to Deeb Salem, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927202.

[1892] 2/27/2007 email from Richard Ruzika to Tom Montag and others, GS MBS-E-002204942; 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-016344758; Subcommittee interview of Joshua Birnbaum (10/1/2010).

The firm tolerated the exceptionally high levels of VAR generated by the Mortgage Department, despite the risks reflected in those high VAR levels.[1893] On the few days when the market rallied, the Mortgage Department incurred huge losses from its net short position that were immediately reported up the chain to senior management. For example, upon hearing of a $100 million loss in a single day, Mr. Montag asked: "Okay, who lost the hundy?"[1894] Mr. Viniar told the Subcommittee that he was notified of even a $25 million loss in a single day.[1895] Allowing the Mortgage Department to maintain high VAR levels meant that Goldman's large net short positions left the firm exposed to large losses, which in some instances did occur, though not as often as its VAR predicted they might.[1896]

Risk Management at Goldman. Every business unit and trading desk at Goldman had a counterpart in the firm's risk management area.[1897] Risk managers were assigned to "shadow" the relevant business unit and trading desk operations to ensure that their respective trading activities did not exceed pre-determined risk limits.[1898] Separate VAR limits were set for the firm as a whole and for each division. The division then allocated its VAR limit among each department or

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[1893] Subcommittee interview of Craig Broderick (4/9/2010).

[1894] 8/8/2007 email from Tom Montag to David Lehman and Michael Swenson, GS MBS-E-011311633.

[1895] Subcommittee interview of David Viniar (4/13/2010).

[1896] Mr. Birnbaum frequently argued that VAR, or at least Goldman's then-current model of VAR, was an inappropriate risk measure for the Mortgage Department's shorting activities. 8/9/2007 email from Joshua Birnbaum to Deeb Salem, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927200 ("These VAR numbers are ludicrous, btw. Completely overestimated for SPG trading, underestimated for other mortgage desks."). He contended that for various reasons, the Mortgage Department was not actually as short as the VAR measure reflected. See, e.g., 9/26/2007 2007 MD Reviews, Joshua Birnbaum Self-Review, GS-PSI-01956, Hearing Exhibit 4/27-55c. In arguing for a special compensation model for the SPG Trading Desk, Mr. Birnbaum pointed out that the desk never lost as much money as the firm's VAR measure predicted it would. 10/3/2007 Goldman presentation, "SPG Trading – 2007," GS MBS-E-015654036. Accordingly, Mr. Birnbaum may have been correct that the firm's VAR measure did not accurately measure risk to the firm. Id. On the other hand, since VAR rests on probability theory which is based on a "normal" distribution of profits and losses (the typical "bell curve"), the Mortgage Department may have benefitted from the extraordinary and continual one-way movement downward in the subprime mortgage markets.

One risk management expert testified before Congress: "It is well known that VaR cannot measure crisis risk. During periods of crisis the relationship between securities changes in strange and seemingly unpredictable ways. VaR, which depends critically on a set structure for volatility and correlation, cannot provide useful information in this situation. It contains no mechanism for predicting the type of crisis that might occur, and does not consider the dynamics of market crises. This is not to say that VaR has no value or is hopelessly flawed. Most of the time it will provide a reasonable measure of risk – indeed the vast majority of the time this will be the case. If one were forced to pick a single number for the risk of a portfolio in the near future, VaR would be a good choice for the job." Prepared statement of Richard Bookstaber, "The Risks of Financial Modeling: VaR and the Economic Meltdown," before the U.S. House of Representatives Committee on Science and Technology, Subcommittee on Investigations and Oversight, H.R. Hrg. 111-48 (9/10/2009), at 4.

[1897] Subcommittee interview of Craig Broderick (4/9/2010).

[1898] The Mortgage Department had other risk limits aside from VAR, including Credit Spread Widening or "CSW," which seeks to measure what would happen if credit spreads suddenly widened by large amounts (called "shocks"); "dv01," which measures the dollar amount by which a security's value would change based on a 1 basis point change in the relevant index or interest rate; and balance sheet limits, meaning the amount of Goldman's balance sheet the relevant business unit would be permitted to consume. Subcommittee interview of Craig Broderick (4/9/2010).

business area within a division. Some trading desks within a department also had assigned risk limits.

At the end of a typical trading day, Goldman's Risk Department prepared risk reports containing some or all of the risk measures used for the Mortgage Department. The Risk Department prepared daily, weekly, and quarterly risk reports, as well as reports for the Board of Directors and various management committees.[1899] Goldman's Firmwide Risk Committee ("FWRC") was co-chaired by David Viniar and its weekly meetings were often attended by Co-President Gary Cohn and CEO Lloyd Blankfein.[1900] In preparation for a meeting with regulators, Goldman senior executives noted that the Mortgage Department was discussed at every meeting of the FWRC throughout 2007.[1901] Goldman also noted that risk "[l]imits are set by the FWRC. Decisions regarding, e.g., short positions in mortgages taken by business units but with full knowledge of the 30th floor."[1902]

Goldman executives told the Subcommittee that, in general, risk limits were firm and compliance was mandatory.[1903] At the end of each day, department and divisional personnel, their respective risk managers, and other executives were provided with risk reports from which they could readily see whether a trading desk had breached its limits. In the event of a violation, the desk would be directed to curtail its activities or to take whatever steps were necessary to bring its trading within the applicable limits. Once a desk was notified of its breach of a limit, it was generally required to act immediately to comply with the existing limits.[1904]

At times, the Mortgage Department proposed various modifications or alternatives to its existing risk measures. Some of these proposals were adopted and some were not.[1905] But from

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[1899] 9/2006-12/2007 Goldman Sachs Quarterly Market Risk Review, "Market Risk Management & Analysis," Hearing Exhibits 4/27-54a-f and GS MBS-E-010674895.

[1900] 11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715). In November 2007, Goldman's Chief Risk Officer, Craig Broderick, Controller Sarah Smith, and senior members of their staffs met with the Tri-Lateral Review Group, which included representatives of the Federal Reserve Bank, the SEC, and the United Kingdom's Financial Services Authority, to discuss risk management during the financial crisis. The "Trilateral Combined Comments" are the talking points prepared by Goldman senior executives for that meeting, in order to respond to specific written questions Goldman and other firms had received from the Trilateral Review Group.

[1901] Id.

[1902] Id. The reference to the 30th floor was to the floor on which Goldman's senior executives then had their offices in Goldman's New York headquarters. Goldman also noted that "sr mgmt participated actively in all of the significant exposure management including when / how to reduce positions."11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715 at 695).

[1903] Subcommittee interview of Joshua Birnbaum (10/1/2010); Subcommittee interview of Craig Broderick (4/9/2010).

[1904] Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1905] See, e.g., 2/8/2007 email from Michael Dinias to Robert Berry, and Craig Broderick, GS MBS-E-009980807; 2/24/2007 email from Robert Berry to David Viniar, Craig Broderick and Bill McMahon, "Mortgage VaR," GS MBS-E-009778897 (recommending model parameters for VAR calculations); 4/18/2007 email from Jeremy Primer to Joshua Birnbaum, "Resolution from MRMA meeting?," GS MBS-E-012868698 (discussing further adjustment to

the perspective of the firm's most senior executives, VAR appeared to have been the predominant risk measure by which the Department's activities were judged.[1906]

VAR Levels Show Net Short. The primary factors that influence VAR are: (1) the relative size and correlation of positions, and (2) the volatility of trading.[1907] While VAR is computed by applying a complex algorithm to trading data, the VAR measure directly reflects position size and correlation, and volatility – or a combination of both factors.[1908] Changes in VAR levels over time can also provide information about the general magnitude and direction of trading positions.

In the fourth quarter of 2006, the Mortgage Department's permanent VAR limit was $20 million, of which it consumed only $13 million.[1909] Early the next year, on February 5, 2007, the Mortgage Department exceeded its limit with a VAR of $20.5 million.[1910] On February 8, 2007, a senior risk manager recommended that the Mortgage Department's permanent VAR limit be increased to $30 million to accommodate anticipated increased price volatility in the mortgage markets that year.[1911] A senior manager concurred and increased the Mortgage Department's permanent VAR limit to $35 million, which remained the Mortgage Department's "permanent" limit throughout 2007.[1912]

Almost immediately, however, the Mortgage Department breached its new limit, and its VAR continued to climb. Over the course a single quarter, the Mortgage Department's VAR jumped from $13 million at the end of 2006, to $85 million in the first quarter of 2007 – a 550%

VaR calculation); 4/23/2007 email from Robert Berry to Daniel Sparks and SPG Trading Desk, "Mortgage VaR," GS MBS-E-009708690 (adjustments to VAR calculations).

[1906] See, e.g., 8/21/2007 email from Tom Montag to Gary Cohn, GS MBS-E-016344758; 8/21/2007 email from Michael Dinias, "Trading VaR Analysis," GS MBS-E-009742070; Subcommittee interview of David Viniar (4/13/2010) and Joshua Birnbaum (10/1/2010); 2/24/2007 email from Robert Berry to David Viniar and others, "FW: Mortgage VaR," GS MBS-E-009778897.

[1907] See generally "The Risks of Financial Modeling: VaR and the Economic Meltdown," before the U.S. House of Representatives Committee on Science and Technology, Subcommittee on Investigations and Oversight, H.R. Hrg. 111-48 (9/10/2009), at 4 (Written Testimony of Richard Bookstaber); Philippe Jorion, "Value at Risk: The New Benchmark for Managing Financial Risk (3d ed. 2007) at 64.

[1908] See id. Based on these factors, VAR is generally lower if a desk has many small and non correlated (well diversified) positions that are trading at steady and predictable price levels. By contrast, VAR is higher if a desk is holding a small number of very large and highly correlated positions that are trading at volatile and unpredictable price levels. The position size/correlation and volatility factors may also operate independently. Thus, even if the desk has a large number of relatively small and non correlated positions, VAR tends to rise as the volatility of trading rises. Similarly, even if there is little volatility in trading, VAR tends to rise as the desk's position sizes become larger and increasingly correlated. The two factors also reinforce one another – large position sizes combined with high volatility tend to increase VAR dramatically.

[1909] Market Risk Management & Analysis, Quarterly Market Risk Review, December 2006, GS MBS-E-009583144, Hearing Exhibit 4/27-54; see also 2/6/2007 email from MarketRisk,"MarketRisk: Mortgage Risk Report (cob 02/06/07)," GS MBS-E-009980807 (Mortgage SPG VaR Limit 20).

[1910] 2/8/2007 email from Michael Dinias, "VaR limit for Mtg SPG," GS MBS-E-009980807.

[1911] Id.

[1912] Id.

increase. Goldman's Chief Risk Officer, Craig Broderick, told the Subcommittee that he would be concerned about any breach of a VAR limit, and would certainly investigate the doubling of a business unit's VAR, but he admittedly took no action when the Mortgage Department's VAR more than quintupled over the course of a single quarter. Mr. Broderick attributed the steep rise in VAR almost exclusively to unprecedented market volatility,[1913] although other Goldman officials stated that the VAR levels were being driven by Goldman's large net short positions.[1914]

For the most part, Goldman's risk managers ignored the Mortgage Department's VAR violations and did not demand immediate compliance with the last applicable limit, as would ordinarily be the case.[1915] With notable exceptions in late February and late August 2007, Goldman's risk managers continually assigned the Mortgage Department new "temporary" VAR limits large enough to accommodate whatever risk levels resulted from the Department's trading. Mr. Birnbaum later described this pattern as the risk area's "policy to just keep increasing ou[r] limit."[1916]

The first quarter of 2007 is illustrative of the pattern. During that quarter, the Mortgage Department's trading activities exceeded three new VAR limits in as many weeks. The Mortgage Department received its new permanent VAR limit of $35 million on February 8, 2007.[1917] Four days later, on February 12, the Department's VAR hit $49 million.[1918] On February 14, the

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[1913] Subcommittee interview of Craig Broderick (4/9/2010).

[1914] 2/27/2007 email from Richard Ruzika to Tom Montag, others, GS MBS-E-002204942; Subcommittee interview of Joshua Birnbaum (4/22/2010); Subcommittee interview of Daniel Sparks (4/15/2010); 8/9/2007 email from Joshua Birnbaum to Deeb Salem, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927202; 8/16/2007 email from Michael Dinias, "mortgage var contribution," GS MBS-E-011247689 ("Mortgage Trading has 53.8% marginal contribution to Firmwide VaR and removing the entire mortgage business reduces Firmwide VaR by $53mm (from $165mm to $112mm). ... As expected SPG Trading desk dominates this risk with 56% contribution and adds $49mm to Firmwide VaR. This is primarily driven by ABS Synthetics and Correlation book which have the bulk of the mortgage shorts."); 8/21/2007 email from Michael Dinias, "Trading VaR Analysis," GS MBS-E-009742070 (Mortgage VAR "primarily driven by mortgage shorts on the ABS Synthetics and Correlation desks."); 8/22/2007 email from Tom Montag to Lloyd Blankfein, "Trading VaR $144mm," GS MBS-E-009605812, Hearing Exhibit 4/27-36 ("we are covering a number of shorts in mortgages today and tomorrow–probably 1.5 billion worth–will reduce mortgages [VAR] hopefully to below [$]80 [million]").

[1915] Subcommittee interview of Joshua Birnbaum (10/1/2010).

[1916] 8/9/2007 email from Joshua Birnbaum to Deeb Salem, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927198. It is unclear the extent to which Goldman's regulators were aware of the Mortgage Department's VAR levels. In November 2007, Goldman met with the Tri-Lateral Review Group, which included the Federal Reserve Bank, the SEC, and the United Kingdom's Financial Services Authority, regarding its risk management during the financial crisis. Talking points prepared by Goldman personnel for that meeting stated that with respect to VAR: "Exposures were managed responsibly by the business units within agreed limits. Highs were set in Mortgages .... Benign P&L allowed for a disciplined but measured response."11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715 at 707). This description did not disclose that the Mortgage Department, for nearly the entire year, had routinely exceeded its $35 million VAR limit by significant amounts for months on end.

[1917] 2/8/2007 email from Michael Dinias, "FW: VaR limit for Mtg SPG," GS MBS-E-009980807.

[1918] 2/13/2007 email, "MarketRisk: End of Day Summary - cob 02/12/2007," GS MBS-E-009716432; see also 2/14/2007 Goldman internal email, "Increase in Mortgage VaR," GS MBS-E-010374687 ("MTG SPG Desk VaR increase from $21 mm to $48mm from cob Feb 6 to cob Feb 13, driven primarily by SPG Trading desk").

Department was assigned a new "temporary" limit of $50 million that would expire on February 20.[1919] By February 20, however, the Department's VAR was $63 million, well in excess of its temporary limit of $50 million.[1920] So the Department was assigned a new temporary limit of $60 million – a level it was already exceeding – until February 27.[1921] Instead of dropping below the new temporary limit of $60 million, the Mortgage Department's VAR continued to rise until it hit a quarter-high level of $85 million on February 23 and February 26.[1922] In response, on February 27, the Department was given yet another temporary limit of $90 million through the end of the month.[1923] But the precipitous rise in VAR apparently alarmed Goldman's Operating Committee, which ordered the Department to reduce the size of its net short position to $4.5 billion.[1924] The Department responded immediately and, by February 28, had reduced its VAR to $81 million.[1925]

The pattern created by the Mortgage Department's increasing VAR levels, and the lagged reaction of Goldman's risk managers in setting new "temporary" limits over the course of 2007 is shown in the chart on the next page.

> [SEE CHART NEXT PAGE: *Goldman Sachs Mortgage Department Value at Risk (VaR)*, prepared by Permanent Subcommittee on Investigations.]

The continual increases in the Mortgage Department's VAR also had an impact on VAR for all of Goldman's trading activities, called "Trading VAR" or "Firmwide VAR." Goldman carefully tracked the amount of its trading VAR that was attributable to the activities of each of its trading desks or units. During the first quarter of 2007, its records show that the firm's Trading VAR rose from $119 million in the prior quarter to $154 million.[1926] Goldman has stated that its Mortgage Department's activities have historically resulted in only about 2% of the firm's net revenues.[1927] At the end of 2006, the Mortgage Department's VAR of $14 million contributed only about 3% of the Firmwide Trading VAR of $119 million, which is roughly consistent with or proportionate to the 2% contribution to firmwide net revenues that Goldman has reported.[1928]

[1919] 2/14/2007 email, "MarketRisk: End of Day Summary - cob 02/13/2007," GS MBS-E-009763394 ("Mortgages VAR is over its $35mm limit. Temporary $50mm limit was granted until cob 02/20/2007.").

[1920] 2/20/2007 email, "MarketRisk: End of Day Summary - cob 02/16/2007," GS MBS-E-009724779. 2/22/2007 email, "MarketRisk: End of Day Summary - cob 02/21/2007," GS MBS-E-009762741 (Mortgages VAR on 2/20 was 63 million).

[1921] Id. ("Mortgages VAR has a temporary $60mm limit until cob 2/27/2007.").

[1922] 2/26/2007 email, "MarketRisk: End of Day Summary - cob 2/23/2007," GS MBS-E-009720057; 2/27/2007 email, "MarketRisk: End of Day Summary - cob 2/26/2007," GS MBS-E-009764685.

[1923] 2/27/2007 email, "MarketRisk: End of Day Summary - cob 2/26/2007," GS MBS-E-009764685 ("Mortgages VAR has a temporary $90mm limit until cob 03/06/07."). 2/28/2007 email, "MarketRisk" End of Day Summary - cob 2/27/2007," GS MBS-E-009762239.

[1924] 2/27/2007 email from Richard Ruzika to Tom Montag, others, GS MBS-E-002204942.

[1925] 3/1/2007 email, "MarketRisk: End of Day Summary - cob 02/28/2007," GS MBS-E-009757430.

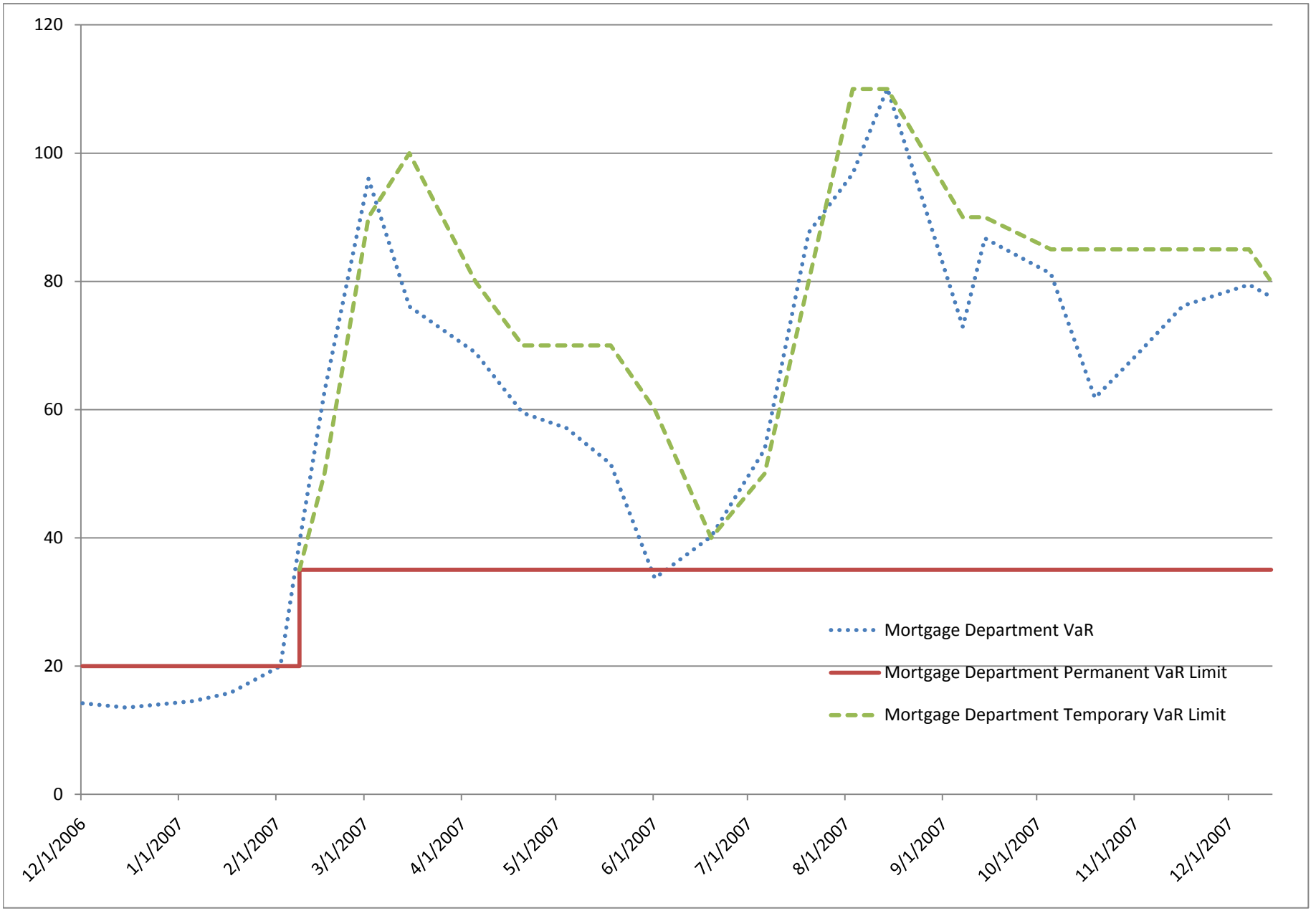
[1926] 3/2007 Goldman "Quarterly Market Risk Review, Market Risk Management & Analysis," GS MBS-E-009685934, Hearing Exhibit 4/27-54c.

[1927] 4/2010 Goldman report, "Risk Management and the Residential Mortgage Market," Hearing Exhibit 4/27-161.

[1928] 12/2006 Goldman "Quarterly Market Risk Review, Market Risk Management & Analysis," GS MBS-E-009583144, Hearing Exhibit 4/27-54b.

Goldman Sachs Mortgage Department Value at Risk (VaR)

December 2006 - December 2007 (in $ Millions)



Derived from Goldman Sachs Firmwide Risk Committee Appendices and Market Risk End of Day Summaries provided by Goldman Sachs.
Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.

At the end of the first quarter in 2007, however, the Mortgage Department's VAR of $85 million was contributing a total of 23% to the Firmwide VAR.[1929] During the rest of 2007, the Mortgage Department's percentage contribution to Firmwide VAR continued to rise until it hit an all-time high of 54% on August 14, 2007, when the Mortgage Department's VAR reached $110 million on a Firmwide VAR of $165 million.[1930]

The 54% contribution rate to firmwide VAR means that the Mortgage Department's trading alone accounted for a 54% of total firmwide risk, while all of Goldman's other trading activities combined – including all equities, commodities, foreign exchange, and interest rate instruments – accounted for the rest. Given the serious financial ramifications of such a large and highly concentrated position, the decision to allow the Mortgage Department to incur such a high level of firmwide risk would have required approval at the highest levels of firm management. Indeed, it was Goldman's Operating Committee and its Co-President, Mr. Cohn, who decided in February and August 2007, respectively, that the Mortgage Department's VAR had risen too high and had to be brought down.[1931]

Because of the net short's impact on the Mortgage Department and firmwide VAR levels, Goldman's senior executives not only knew about the "big short," but made frequent inquiries and exercised frequent control over the Mortgage Department's activities.[1932] On August 16, 2007, for example, Jon Winkelried, who served as Co-President with Mr. Cohn, asked Mr. Sparks: "Do you still feel we are being conservative with our marks .... Good time to make sure we're conservative." Mr. Sparks replied:

> "I try, but it is much harder than you think with all the things we are dealing with – completely dislocated markets with little price transparency, systems/tools that are not where they should be, focused controllers (who I think are doing a very good job in a tough market) and many cooks in the kitchen who like to micro-manage. ... But I hear your message."

Mr. Winkelried replied: "I think you should drop the micro manage theme in this environment."[1933]

[1929] 3/2007 Goldman Quarterly Risk Review, "Market Risk Management and Analysis," GS MBS-E-009685958, Hearing Exhibit 4/27-54.

[1930] 8/14/2007 Market Risk Report, Mortgage Portfolio Summary, GS MBS-E-012380294, Hearing Exhibit 4/27-35 (Mortgage Structured Products, VAR 110.1 on 8/14/07, Percentage Contribution to Firmwide VaR 53.8%).

[1931] 2/27/2007 email from Richard Ruzika to Tom Montag and Daniel Sparks, GS MBS-E-002204942; 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-016344758.

[1932] 8/16/2007 email from Jon Winkelried to Daniel Sparks, "Mort P&L Explanation," GS MBS-E-010680327-330; 7/25/2007 email from David Viniar to Gary Cohn, "Private & Confidential: FICC Financial Package 07/25/07," GS MBS-E-009861799, Hearing Exhibit 4/27-26; 2/27/2007 email from Richard Ruzika to Tom Montag, others, GS MBS-E-002204942; 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-016344758.

[1933] 8/16/2007 email from Jon Winkelried to Daniel Sparks, "Mort P&L Explanation," GS MBS-E-010680327-330.

Mr. Mullen also expressed concern that the Mortgage Department's practice of skirting the normal decisionmaking channels and communicating directly with the Co-Presidents Gary Cohn and Jon Winkelried, among other very senior officers, could create problems. When Mr. Birnbaum drafted the Mortgage Department's proposal to buy $10 billion in AAA RMBS securities, he sent it directly to Mr. Cohn and Mr. Winkelried, as well to his more immediate superiors, Mr. Mullen, Mr. Montag, and Mr. Sparks, among others. Mr. Mullen wrote to Mr. Cohn and Mr. Winkelried, the Co-Presidents of Goldman: "It would help to manage these guys if u would not answer these guys and keep bouncing them back to Tom and I." Mr. Cohn replied: "Got that and am not answering," but then added: "I do like the idea but you[r] call."[1934]

For his part, Mr. Montag was also aware that he and Mr. Mullen were taking a more active role in the management of the Mortgage Department than they normally would. Mr. Montag, for example, was Global Co-Head of Securities for the Americas, which encompassed both the FICC Division and the Equities Division, and was responsible for numerous departments. Nonetheless, he was involved in management decisions regarding the Mortgage Department on a near-daily basis in 2007. In August of that year, Mr. Lehman reported to Mr. Sparks that Mr. Montag had asked:

> "how the desk thought about him and mullen being very involved. I told him we understood the scrutiny on the business given the overall pressure on our market, large P+L [profit and loss] and risk swings, etc."[1935]

Given the scrutiny by senior executives, the fact that the Mortgage Department's VAR was permitted to reach over $113 million in mid-August 2007 – more than three times its permanent limit – suggests that senior management knew and approved of the magnitude of the risk the Department incurred. It also suggests that the net short positions the Mortgage Department took were proprietary.[1936] Goldman's senior executives would have no reason to take such large risks if they were seeking only the small spread arbitrage available from market-making activities for customers.

On February 26, 2007, the Mortgage Department's VAR reached a quarterly high of $85.4 million.[1937] On February 22, Mr. Sparks had told Messrs. Swenson, Lehman, and Birnbaum that they would have to cover $2 billion in subprime mortgage related net short positions that same

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[1934] 8/21/2007 email from Joshua Birnbaum, "Potential large subprime trade and impact on firmwide VAR," GS MBS-E-016359332, Hearing Exhibit 4/27-34

[1935] 6/28/2007 email from David Lehman to Daniel Sparks, GS MBS-E-010623720.

[1936] See 8/16/2007 email from Jon Winkelried to Daniel Sparks, "Mort P&L Explanation," GS MBS-E-010680327-330; 7/25/2007 email from David Viniar to Gary Cohn, "Private & Confidential: FICC Financial Package 07/25/07," GS MBS-E-009861799, Hearing Exhibit 4/27-26. 2/27/2007 email from Richard Ruzika to Tom Montag, others, GS MBS-E-002204942**;** 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-016344758.

[1937] 2/26/2007 Market Risk Report, Mortgage Risk Portfolio Summary, GS MBS-E-010388177.

day.[1938] On February 27, 2007, Mr. Ruzika wrote Mr. Sparks and others: "I want to see us getting the short down to 4.5 bil[lion] net."[1939] Later that day, Mr. Ruzika forwarded the "OpCom Directive" to Mr. Sparks: "Dan. Directly from the opcom we need to step up the pace of buying back single names even if it costs us some money."[1940] Mr. Birnbaum told the Subcommittee that the SPG Trading Desk's actions in February were taken to reduce the level of VAR.[1941]

On August 9, 2007, Mr. Birnbaum received a note from the Department's risk managers indicating that the Department's temporary VAR limit might not be extended, which would reverse the prior policy of continually extending temporary limits:

> "–Temporary MTG [Mortgage Department] SPG VaR limit of $110mm expired on 8/7/2007[.]
> –MTG SPG is over its permanent VaR limit of $35mm."[1942]

Mr. Birnbaum told the Subcommittee that he read the note as an indication that the temporary trading limit would not be renewed, and he was being directed to reduce his net short positions to bring VAR under the permanent limit of $35 million.[1943] On the same day, August 9, Mr. Birnbaum sent an email to the ABS Desk trader, Mr. Salem:

> "Are you getting any more heat to cut/cover risk? These VAR numbers are ludicrous, btw. Completely overestimated for SPG trading, underestimated for other mortgage desks."[1944]

Mr. Salem replied that he had "waved in ~120mm in bbb and bbb- protection in the last 2 days," which covered shorts, so he felt no heat about covering.[1945] Mr. Birnbaum said:

> "I just asked b/c I saw the note about mortgages dropping back down to a permanent limit of 35mm (which we are way over). This would mark a change of their recent policy to just keep increasing ou[r] limit. Makes me a little nervous that we may be told to do something stupid."[1946]

[1938] 2/22/2007 email from Daniel Sparks, "FW: Block size tranche protection offers for [redacted] or others," GS MBS-E-010381411.
[1939] 2/27/2007 email from Richard Ruzika to Tom Montag, Justin Gmelich, and Daniel Sparks, GS MBS-E-002204942.
[1940] Id.
[1941] Subcommittee interview of Joshua Birnbaum (10/1/2010); see also 2/22/2007 email from Mr. Ruzika to Mr. Montag and Mr. Sparks, GS MBS-E-010381967 (Mr. Ruzika: "covering the single name bbb and bbb- is prudent because it cuts vol and var the most").
[1942] 8/9/2007 email from Deeb Salem to Joshua Birnbaum, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927200.
[1943] Id.; Subcommittee interview of Joshua Birnbaum (10/1/2010).
[1944] 8/9/2007 email from Joshua Birnbaum to Deeb Salem, "MarketRisk: Mortgage Risk Report (cob 08/08/2007)," GS MBS-E-012927200.
[1945] Id.
[1946] Id.

Mr. Birnbaum continued: "I do think it is a real concern. How quickly can you work with strats to get them to revise our VAR to a more realistic number?"[1947]

Mr. Birnbaum explained to the Subcommittee that by the phrase, "be told to do something stupid," he meant being ordered by senior Goldman leadership to cover all of the desk's lucrative BBB and BBB- short positions immediately.[1948] Mr. Birnbaum and others were reluctant to cover all of SPG Trading's BBB/BBB- shorts, because they believed the ABX Index for BBB and BBB- rated RMBS securities would fall further in coming months, so covering the entire short immediately would amount to leaving significant money on the table.[1949] The Department's traders, analysts, and risk managers designed and executed specific transactions over the month of August to lower VAR, but they were unsuccessful.[1950]

For a week between August 14 and August 21, 2007, the Mortgage Department's VAR hovered around $100 million.[1951] The Department's record-high VAR contributed to a record Firmwide VAR of $167 million on August 17, 20, and 21, all of which exceeded the firmwide VAR limit of $150 million.[1952] On August 15, 2007, Goldman's Co-President Gary Cohn issued his order: "[G]et down now."[1953] In response, the Mortgage Department began selling and covering a portion of its BBB/BBB- net short position, and its VAR quickly dropped to $68 million by August 31. The Mortgage Department was allowed to keep a substantial net short in certain assets, and was granted renewed "temporary" VAR limits at levels between $80 and $110 million through the end of Goldman's fiscal year 2007.[1954] The Risk Reports recording these VAR levels throughout 2007 further demonstrate Goldman's net short position. By 2010, the Mortgage Department's permanent VAR limit had increased from $35 million to only $40 million.[1955]

[1947] Id.

[1948] Subcommittee interview of Joshua Birnbaum (10/1/2007).

[1949] Id.

[1950] 8/15/2007 email from Daniel Sparks, "Trading VaR $165mm," GS MBS-E-016344758; See, e.g., 8/15/2007 email from Michael Dinias, "Hedge Analysis cob 8/13/07," GS MBS-E-010678553 (analyzing 6 potential VAR-reducing trading scenarios featuring different proposed transactions); 8/21/2007 email from Mr. Dinias, "Trading VaR Analysis," GS MBS-E-009993267 (analyzing the VAR-reducing impact of going long in various classes of assets); 8/22/2007 email from Daniel Sparks to Tom Montag and Donald Mullen, "VAR reduction possibilities," GS MBS-E-010619824 (proposed transactions in single name CDS protection to reduce VAR).

[1951] See, e.g., 8/14/2007 Goldman Market Risk Report, GS MBS-E-010679220; 8/21/2007 email from MarketRisk,"MarketRisk: End of Day Summary - cob 8/20/07," GS MBS-E-009740158.

[1952] 8/21/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 8/20/07," GS MBS-E-009740158.

[1953] 8/15/2007 email from Gary Cohn, "Trading VaR $165mm," GS MBS-E-016344758.

[1954] See, e.g, 8/28/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 8/28/07," GS MBS-E-009716460 (Mortgages temporary VAR limit was $110 million); 9/14/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 9/13/07," GS MBS-E-009714807 (Mortgages temporary VAR limit was $90 million); 9/27/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 9/27/07," GS MBS-E-009708872 (Mortgages temporary VAR limit was $90 million); 10/3/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 10/2/07," GS MBS-E-009717721 (Mortgages temporary VAR limit was $85 million); 10/19/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 10/18/07," GS MBS-E-009724040 (Mortgages temporary VAR limit was $85 million); 12/13/2007 email from MarketRisk, "MarketRisk: End of Day Summary - cob 12/12/07," GS MBS-E-009707379 (Mortgages temporary VAR limit was $80 million).

[1955] Subcommittee interview of Craig Broderick (4/9/2010).

The dates on which Goldman senior executives ordered the Mortgage Department to reduce its VAR – on February 21 and August 21 – were within two weeks before the end of Goldman's fiscal quarters. In each case, the result was an immediate drop in VAR through the end of the quarter. In February 2007, the department's VAR dropped from $92 million to $81 million by the end of the quarter. In August 2007, the department's VAR dropped even more sharply, from a record high of over $110 million to $79.7 million by the end of the quarter.[1956] The lower Firmwide VAR figures that resulted from the Mortgage Department's VAR reductions were publicly reported in Goldman's quarterly financial reports.[1957]

(h) Profiting From the Big Short

In the third quarter of 2007, Goldman posted financial results showing that it had shorted the subprime mortgage market and profited from its net short position. After posting those third quarter financial results, Goldman continued to trumpet its success, both inside and outside the firm.

Third Quarter Financials. On September 20, 2007, Goldman announced record net revenues of $12.3 billion for its third quarter.[1958] On September 19, 2007, in a conference call with financial analysts on Goldman's third quarter results, Goldman's CFO, David Viniar, highlighted the performance of the Mortgage Department:

> "Let me also address Mortgages specifically. The mortgage sector continues to be challenged and there was a broad decline in the value of mortgage inventory during the third quarter. As a result, we took significant markdowns on our long inventory positions during the quarter, as we had in the previous two quarters. However, our risk bias in that market was to be short and that net short position was profitable."[1959]

Goldman also issued a press release about its third quarter earnings that mentioned mortgages:

> "Net revenues in mortgages were also significantly higher, despite continued deterioration in the market environment. Significant losses on non-prime loans and securities were more than offset by gains on short mortgage positions."[1960]

[1956] 9/28/2007 Goldman Market Risk Report, GS MBS-E-009926240.

[1957] See 4/3/2007 Goldman Sachs Group Inc. Form 10-Q at 79 (first quarter 2007 Average Daily VAR reported as $127 million); 10/9/2007 Goldman Sachs Group, Inc. Form 10-Q at 86 (third quarter 2007 Average Daily VAR reported as $139 million).

[1958] See 10/9/2007 Goldman Sachs Group Inc. Form 10-Q at 66. See also, e.g., "How Goldman Sachs Defies Gravity," Fortune (9/20/2007).

[1959] 9/19/2007 Goldman internal document, "Third Quarter 2007 Earnings Call Script for David Viniar," GS MBS-E-009779213, Hearing Exhibit 4/27-45.

[1960] 9/17/2009 email to Daniel Sparks, "Mortgage commentary on Q3 earnings call," GS MBS-E-009853301, Hearing Exhibit 4/27-44.

Internal Statements. In September 2007, Goldman summarized its third quarter results for its Board of Directors, highlighting the Mortgage Department's record profits: "[W]e were overall net short the mortgage market and thus had very strong results."[1961]

In early October, the Mortgage Department held an internal Global Townhall to discuss its third quarter profits in detail. In a draft of the presentation he prepared for the Townhall, Mortgage Department head Daniel Sparks reported that global mortgages generated aggregate net revenues of $741 million, a 152% increase over the same quarter in the prior year, while benefitting from a "proprietary short."[1962] Under the heading of "Performance Drivers (Net Revenues)," Mr. Sparks wrote:

> "SPG Trading: +2.04bn [up] $1.92bn vs. Q3 2006
> – The desk benefited from a proprietary short in CDO and RMBS single names
> – Additionally, we captured P&L [profit & loss] on spread widening [price declines] in various indices"[1963]

To put the SPG Trading Desk's performance in perspective, it had generated $80 million in the third quarter of 2006, a big year for mortgage related products, but in the third quarter of 2007, an exceptionally poor year for mortgage related products, Goldman's SPG Trading Desk generated $2.04 billion in net revenues – nearly 25 times more. SPG Trading's $2.04 billion in net revenues was offset by other mortgage related losses, including losses from the CDO Origination, Residential Credit, and Residential Prime Desks, but left an aggregate net profit of $741 million for the Mortgage Department as a whole – more than twice the comparable quarter net profit of $294 million in the prior year.[1964] The $2.04 billion in net revenues from the SPG Desk accounted for over 16% of Goldman's overall net revenues of $12.3 billion in the third quarter of 2007. The $741 million in net revenues for the Mortgage Department as a whole contributed about 6% of the firm's total net revenues of $12.3 billion for the third quarter, which was three times the department's historical average contribution of about 2% to net revenue.[1965]

In his draft presentation, Mr. Sparks wrote that the "desk benefited from a proprietary short in CDO and RMBS single names."[1966] In industry parlance, a "proprietary" position is one acquired with the firm's own capital, solely for the benefit of the firm and not related to customer orders or the firm's role as a market maker. In a later version of the presentation, Mr. Sparks

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[1961] 9/17/2007-9/18/2007 Goldman Sachs Board of Directors Meeting, "Financial Summary, Quarter Ended August 31, 2007," GS MBS-E-009776900, Hearing Exhibit 4/27-42.
[1962] 10/5/2007 Goldman presentation, "Global Mortgages Business Unit Townhall Q3 2007," GS MBS-E-013703463, Hearing Exhibit 4/27-47.
[1963] Id.
[1964] Id.
[1965] 4/2010 "Goldman Sachs: Risk Management and the Residential Mortgage Market," report prepared by Goldman Sachs, Hearing Exhibit 4/27-161.
[1966] 10/5/2007 Goldman presentation, "Global Mortgages Business Unit Townhall Q3 2007," GS MBS-E-013703463, Hearing Exhibit 4/27-47.

revised the line to read that the desk benefitted from "strong results from trading long correlation and net short bias."[1967] When asked why he had originally written that "the desk benefitted from a proprietary short," Mr. Sparks told the Subcommittee that the language was inaccurate.[1968]

Later in October 2007, Goldman's Chief Risk Officer, Craig Broderick, discussed the Mortgage Department's performance before an internal Goldman audience:

> "So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk – you saw in our 2nd and 3rd qtr results that we made money despite our inherently long positions. – because starting early in '07 our mortgage trading desk started putting on big short positions, mostly using the ABX index, which is a family of indices designed to replicate cash bonds. And did so in enough quantity that we were net short, and made money (substantial money in the 3rd quarter) as the subprime market weakened. (This remains our position today)."[1969]

Goldman's net short positions were also featured in the internal self-evaluations that Mortgage Department personnel were required to prepare and which they expected to be read by their supervisors. In these self-evaluations, which were completed in September 2007, two months before Goldman's fiscal year end on November 30, 2007, several Mortgage Department traders who were active in its shorting activities described the profits produced by the Department's net shorts. Mr. Birnbaum, the senior ABX trader, wrote:

> "As a co-head of ABS and SPG trading, my performance in 2007 has been my best ever by any objective measure: 1. P&L. YTD: ABS synthetics: $2.5Bln, ABS: $2.0Bln, SPG Trading: $3.0Bln, all #1 on the street by a wide margin, #2 in the world trading subprime risk (behind Paulson Partners)."[1970]

His self-evaluation showed that the SPG Trading Desk alone generated profits of $3 billion.[1971]

[1967] "Global Mortgages Business Unit Townhall Q3 2007," Final version, GS MBS-E-013668603.

[1968] Subcommittee interview of Daniel Sparks (10/4/2010). In his subsequent responses to the Subcommittee's Questions for the Record, Mr. Sparks said: "The presentation should have used the words 'net short position,' not 'proprietary position.'" Daniel L. Sparks responses to Subcommittee QFRs, PSI_QFR_GS0452 at 470 (Question 6). Mr. Sparks' response did not resolve the question of whether the position was proprietary or undertaken on behalf of customers, as a "net short position" could be either.

[1969] 10/29/2007 "Contagion and Crowded Trades," Goldman Sachs Tax Department Presentation, GS MBS-E-010018511, Hearing Exhibit 4/27-48 [emphasis in original].

[1970] Joshua Birnbaum Self-Review, Hearing Exhibit 4/27-55c. The figures cited for ABS synthetics and ABS (both cash and synthetics) are apparently both included within the total of $3 billion profit cited for the SPG Trading Desk as a whole.

[1971] Id. Mr. Birnbaum also wrote: "During this period, I would also add that the ABS team contributed significantly to the Correlation desk[']s $800+mm in YTD p&l by dissuading that desk from externalizing their shorting opportunities to the likes of Paulson Partners, even when significant risk-free p&l was available at the time." Id.

Mr. Swenson, the head of the SPG and ABS trading desks, wrote:

> "It should not be a surprise to anyone that the 2007 year is the one that I am most proud of to date. ... I ... [built] a number one franchise that was able to achieve extraordinary profits (nearly $3bb to date). ... The contributions to the $3bb of SPG Trading profits and $2bb of ABS trading p & l are spread out across various trades and strategies."[1972]

Mr. Salem, one of the ABS traders, wrote:

> "Obviously the most important aspect of my 2007 and my contribution to the firm has been the desk's P&L. Mike, Josh, and I were able to learn from our bad long position at the end of 2006 and layout the game plan to put on an enormous directional short. The results of that are obvious."[1973]

Mr. Salem went on to outline estimated profits from four specific trading strategies pursued by the ABS Desk that generated profits totaling $3.75 billion.[1974]

In these three internal documents, key Mortgage Department personnel involved in constructing the Department's net short positions describe the profits generated by those net shorts as "#1 on the street by a wide margin," "extraordinary," and "an enormous directional short" that produced $3.7 billion in profits for the firm.

Statements to Regulators. Goldman also described its short positions and the profits they produced to its regulators. In October 2007, Goldman sent a letter to the Securities and Exchange Commission answering questions about its trading activities and reporting that it had been "net short" during "most of 2007":

> "[W]e are active traders of mortgage securities and loans and . . . we may choose to take a directional view of the market . . . . For example, during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market."[1975]

[1972] Michael Swenson Self-Review, Hearing Exhibit 4/27-55b. The $2 billion profit figure attributed to ABS trading is apparently included within the $3 billion figure cited as the year-to-date profit for the SPG Trading Desk.

[1973] Salem 2007 Self-Review.

[1974] See description of Mr. Salem's single name trading strategies, above.

[1975] 10/4/2007 letter from Goldman Sachs to the SEC, GS MB S-E-009758287, Hearing Exhibit 4/27-46 [emphasis added].

In November 2007, in another letter to the SEC, Goldman explained further:

> "During most of 2007, we maintained a net short subprime position with the use of derivatives, including ABX index contracts and single name CDS which hedged [our] long cash exposure."[1976]

Also in November 2007, in talking points prepared for a meeting with the Tri-Lateral Review Group, which included the Federal Reserve Bank, the SEC, and the United Kingdom's Financial Services Authority, Goldman wrote: "[W]e were able to maintain a short throughout the year."[1977] Goldman also wrote:

> "The press and others have discussed an anticipated Q4 [2007 fourth quarter] write-down for GS. Our remaining long subprime exposure totals $695 million, inclusive of whole loans and CDO positions. However, we're net short – as we have been throughout 2007. Accordingly, we have nothing to write down."[1978]

Public Statements. Goldman also discussed its net short and related profits in public settings. In November 2007, the Bloomberg news service reported that Goldman's CEO, Lloyd Blankfein, told a public audience at a securities industry conference that Goldman was, and would continue to be, net short the subprime markets:

> "[Mr. Blankfein] said the firm is still betting that mortgage-backed assets and collateralized debt obligations will drop. ... 'Given that point of view, we continue to be net short in these markets.'"[1979]

In reaction to another November 2007 news report on how Goldman "dodged the mortgage mess,"[1980] Mr. Blankfein sent an email to his colleagues stating: "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts."[1981]

Goldman also prepared for public use a corporate statement entitled, "How Did GS Avoid the Mortgage Crisis? Our Response."[1982] The statement was prepared for Mr. Viniar's use in

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[1976] 11/7/2007 letter from Goldman Sachs to the SEC, GS MBS-E-015713460, Hearing Exhibit 4/27-50.

[1977] 11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715 at 694).

[1978] Id.

[1979] "Goldman Doesn't Plan Significant Mortgage Writedown," Bloomberg (11/13/2007); see also 11/13/2007 email to Lloyd Blankfein, GS MBS-E-009601759 (forwarding Bloomberg article regarding Mr. Blankfein's remarks at conference sponsored by Merrill Lynch & Co. in New York City on Nov. 13, 2007).

[1980] "Goldman Sachs Rakes in Profit in Credit Crisis," New York Times (11/19/2007).

[1981] 11/18/2007 email from Lloyd Blankfein, "RE: NYT," GS MBS-E-009696333, Hearing Exhibit 4/27-52. Goldman's Co-President, Gary Cohn, replied to Mr. Blankfein's message, adding, "We were just smaller in the toxic products" Id.

[1982] 11/7/2007 Goldman document, "How Did GS Avoid the Mortgage Crisis?," GS MBS-E-009713204, Hearing Exhibit 4/27-51.

responding to questions about the Mortgage Department's performance in a fourth quarter conference call with analysts. Goldman's public statement outlined the steps it took to reduce its subprime mortgage inventory and related subprime risks in late 2006 and early 2007, characterizing these "proactive" steps as part of its ordinary risk management efforts. Goldman went on to state: "[O]ne should not be led to believe that we went through this period unscathed and somehow significantly profited from a 'bet' on the downturn in mortgage markets."[1983] After noting that significant writedowns in the value of its long mortgage inventory had resulted in a "weak" second quarter for mortgages, Goldman wrote:

> "[D]uring the third quarter we were able to make money on mortgages as a result of our net short position. As a consequence, we believe that we are well-positioned to opportunistically participate in the inevitable restructuring of the mortgage market."[1984]

Despite denying earlier in its statement that it significantly profited from a "bet" against a downturn in mortgage markets, Goldman wrote that, in the third quarter of 2007, it had profited from a "net short position" on mortgages. A "net short position" is, in essence, a bet on a downturn in the relevant market, and Goldman's bet was "able to make money."

2007 Year-End Results. The SPG Trading Desk's net revenues for the full fiscal year 2007 were approximately $3.7 billion.[1985] In fiscal year 2007, Goldman's total net revenues were approximately $46 billion, and its net earnings (after tax) were approximately $11.6 billion.[1986]

At the Subcommittee hearing, Goldman's Chief Financial Officer, David Viniar, stated that the Mortgage Department's net revenue for 2007 was "less than $500 million, approximately 1 percent of Goldman Sachs's overall net revenues."[1987] He insisted that its 2007 net short position in the mortgage market "was not a large short,"[1988] and was largely offset by its long positions, omitting that, in 2007, the Mortgage Department's SPG Trading Desk generated a record $3.7 billion in net revenues for the Department as a whole from its net shorts.[1989] Those profits sustained the Mortgage Department and Goldman through the harsh financial environment of the subprime mortgage market meltdown and the global credit crisis in 2007. While much of those revenues were offset by other losses, they were a bulwark of profitability in what would otherwise have been a disastrous year for Goldman's mortgage business.

[1983] Id.
[1984] Id.
[1985] See 11/30/2007 "SPG Trading Mortgages Weekly Metrics 30-November-2007," GS MBS-E-015646485.
[1986] See Goldman Sachs Form 10-K for the fiscal year ending Nov. 30, 2007, filed on 1/28/2008, at 64; see also Goldman presentation, "Overview of Goldman Sachs," at 5, available at http://www2.goldmansachs.com/our-firm/investors/creditor-information/creditor-presentation-3-1-11.pdf.
[1987] April 27, 2010 Subcommittee Hearing at 96. See also 235, 252, 345.
[1988] Id. at 98.
[1989] 11/30/2007 "SPG Trading Mortgages Weekly Metrics 30-November-2007," GS MBS-E-015646485.

In contrast, other major Wall Street banks reported losses in the third quarter of 2007, primarily due to multi-billion-dollar writedowns in the value of their subprime mortgage related assets.[1990] Goldman had not only profited from its net shorts, but had also sold off the bulk of its subprime mortgage assets earlier and at higher prices than many other banks. After observing the losses and writedowns suffered by other Wall Street banks, Mr. Viniar wrote: "Tells you what might be happening to people without the big short."[1991]

At one point, Mr. Birnbaum also contrasted Goldman's performance with its competitors:

> "Results out of DB, Citi, UBS, Bear, Lehman etc. all bear evidence that we were far ahead of our competition in marking down positions and moving CDO risk before the market cratered and came to a standstill post-BSAM [Bear Stearns Asset Management]."[1992]

All of these explanations point to actions taken by Goldman to transfer the risks of its own subprime mortgage inventory to others, including many of its own customers, before they became fully aware of the risks entailed in the products Goldman was marketing to them.

Goldman Denials. In late 2007, Goldman spoke openly of shorting the subprime mortgage market and that its net short position was profitable. Afterward, as mortgage losses erupted into a full blown financial crisis in the United States and abroad, Goldman began to downplay and even deny the size of its short position, its proprietary nature, and the profits it generated for the firm.[1993]

Goldman had not been the only market participant to profit from a large net short position in mortgage related products. Other investors also aggressively shorted the mortgage market and profited from their short positions. A particularly large short position taken by one hedge fund – Goldman's customer, the Paulson Credit Opportunity Fund of Paulson & Co. Inc. – netted billions of dollars in what was later characterized as "the greatest trade ever."[1994] Mr. Birnbaum, however, had described Goldman's own massive net short position as the "greatest trade ever" as early as July

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[1990] In the third quarter of 2007, for example, Lehman Brothers had $700 million in loan and mortgage writedowns. 9/23/2007 email to Lloyd Blankfein and others, "Weekly Competitor, EM and Regulatory News – Week Ending 9/21/07," GS MBS-E-009653853. Morgan Stanley had $940 million in loan writedowns. Id. Bear Stearns had $250 million in loan writedowns and $450 million in mortgage writedowns. Id. Citibank had approximately $1.6 billion in mortgage writedowns and a $636 million loss in credit trading. 10/21/2007 email to Lloyd Blankfein and others, "Weekly Competitor, EM and Regulatory News – Week Ending 10/19/07," GS MBS-E-009631348. JPMorgan Chase had $1.3 billion in loan writedowns and $339 million in mortgage writedowns. Id.

[1991] 7/25/2007 email from David Viniar to Gary Cohn, "Private & Confidential: FICC Financial Package 07/25/07," GS MBS-E-009861799, Hearing Exhibit 4/27-26.

[1992] 10/3/2007 Goldman presentation, "SPG Trading – 2007," GS MBS-E-015654036.

[1993] Goldman also highlighted losses it suffered in 2008, related to its mortgage business, particularly mortgage related products associated with prime and Alt A residential loans. The Subcommittee did not investigate Goldman's use of short positions in 2008, nor its involvement with prime and Alt A loan products.

[1994] Gregory Zuckerman, The Greatest Trade Ever (2009); Michael Lewis, The Big Short (2010).

2007.[1995] Earlier in the year, Mr. Birnbaum had also described Goldman as the market leader in shorting the housing market, but by July 2007, Mr. Birnbaum conceded that Paulson was "definitely the man in this space, up 2-3 bil on this trade. We were giving him a run for his money for a while but now are a definitive #2."[1996] When preparing his case for SPG traders to be paid additional compensation for their 2007 efforts, Mr. Birnbaum again made a comparison to Paulson: "RMBS-related revenues: #1 on the street by a wide margin. #2 in the world behind Paulson Partners."[1997]

In the aftermath of the financial crisis, however, Goldman no longer claimed credit for its market-leading performance during the subprime meltdown. After many of its customers suffered major losses, and several had declared bankruptcy during the financial crisis,[1998] Goldman began to downplay the size of its short position and the impact on its profits.[1999] In particular, Goldman attempted to dispel the perception that it sold its own customers CDOs it knew were destined to fail, and then profited by betting against them, as discussed in the next section.[2000]

In April 2010, Goldman posted a statement on its website entitled, "Goldman Sachs: Risk Management and the Residential Mortgage Market."[2001] In the statement's Executive Summary, Goldman made the following assertions, among others:

> –"Goldman Sachs did not take a large directional 'bet' against the U.S. housing market, and the firm was not consistently or significantly net 'short the market' in residential mortgage-related products in 2007 and 2008, as the performance of our residential mortgage-related products business demonstrates.
>
> – Goldman Sachs did not engage in some type of massive 'bet' against our clients. The risk management of the firm's exposures and the activities of our clients dictated the firm's overall action, not any view of what might or might not happen to any security or market."[2002]

[1995] 7/20/2007 email from Joshua Birnbaum, "ABX Markets 07-02, 07-01, 06-2, 06-1: 3:00 p.m.," GS MBS-E-012962076 (Mr. Birnbaum: "greatest trade ever . . . I have a huge short . . .").

[1996] 7/12/2007 email from Joshua Birnbaum, "ABX Markets 07-1, 06-2, 06-1: 12:00 p.m.," GS MBS-E-012944742, Hearing Exhibit 4/27-146.

[1997] 10/3/2007 Goldman presentation, "SPG Trading – 2007," GS MBS-E-015654036; Birnbaum Self-Review, Hearing Exhibit 4/27-55c.

[1998] See 9/17/2007 Goldman presentation to Board of Directors, "Residential Mortgage Business, Global Impact of the Mortgage Crisis," at 2, GS MBS-E-001793840, Hearing Exhibit 4/27-41 (noting bankruptcies of Goldman clients IKB and Basis Capital). See also 8/10/2007 Goldman internal memorandum, "Summary of German Bank US Sub Prime Exposure," GS MBS-E-009994305; 11/27/2007 email from Mr. Lehman to Mr. Sparks, "ACA" (discussing "what would happen upon an ACA bankruptcy (which is the most likely scenario in our opinion)."), GS MBS-E-013746511.

[1999] See, e.g., April 27, 2010 Subcommittee Hearing, testimony of Lloyd Blankfein at 132 and David Viniar at 98.

[2000] 4/7/2010 Blankfein & Cohn, Letter to Shareholders (quoted in Hearing Exhibit 4/27-161 at 12).

[2001] 4/2010 Goldman report, "Risk Management and the Residential Mortgage Market," Hearing Exhibit 4/27-161.

[2002] Id.

On April 7, 2010, Goldman CEO Lloyd Blankfein and Co-President Gary Cohn made similar assertions in a letter to shareholders contained in Goldman's Annual Report:

> – "The firm did not generate enormous net revenues or profits by betting against residential mortgage-related products, as some have speculated; rather our relatively early risk reduction resulted in our losing less money that we otherwise would have when the residential housing market began to deteriorate rapidly ....
>
> –Although Goldman Sachs held various positions in residential mortgage-related products in 2007, our short positions were not a 'bet against our clients.' Rather, they served to offset our long positions."[2003]

At the Subcommittee hearing, Mr. Blankfein repeated the same claims. He testified:

> "Much has been said about the supposedly massive short Goldman Sachs had on the U.S. housing market. The fact is, we were not consistently or significantly net short the market in residential mortgage-related products in 2007 and 2008. Our performance in our residential market-related business confirms this. During the 2 years of the financial crisis, while profitable overall, Goldman Sachs lost approximately $1.2 billion from our activities in the residential housing market. We didn't have a massive short against the housing market and we certainly did not bet against our clients. Rather, we believe that we managed our risk as our shareholders and our regulators would expect."[2004]

Mr. Viniar, Goldman's Chief Financial Officer, testified:

> "[A]cross 2007, we were primarily, although not consistently short, and it was not a large short. ... The short positions themselves made a lot of money in 2007, but they offset long positions that lost a lot of money in 2007."[2005]

Goldman's denials of its net short positions in the subprime mortgage market, and the large profits produced by those net short positions, are directly contradicted by its own financial records and internal communications, as well as its own public statements in 2007, and are not credible.

(5) How Goldman Created and Failed to Manage Conflicts of Interest in its Securitization Activities

In the years leading up to the financial crisis, Goldman was an active trader in the mortgage market, buying and selling a variety of mortgage related assets, including RMBS, CDO, ABX, and

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[2003] 4/7/2010 Blankfein & Cohn, Letter to Shareholders (quoted in 4/2010 Goldman report, "Risk Management and the Residential Mortgage Market," at 12, Hearing Exhibit 4/27-161).
[2004] April 27, 2010 Subcommittee Hearing at 132.
[2005] Id. at 98.

CDS instruments, as described in the prior section. In addition, Goldman was one of the leaders in mortgage related securitizations, helping to originate both CDO and RMBS securities. Goldman's 2006 and 2007 securitization activities are the focus of this section.

In 2006 and 2007, Goldman originated 27 CDOs and 93 RMBS securitizations with a total value of about $100 billion.[2006] Goldman designed the structure of each securitization, including the number of tranches, how the payments would be allocated, and the projected rate of return or "coupon rate" that would be paid to investors. In some, Goldman selected the assets to be securitized; in others, it hired a portfolio selection agent or collateral manager to help select the assets and manage the portfolio. For each securitization, Goldman typically housed all of the assets to be securitized in a "warehouse" account until the transaction was ready to go to market. The assets in the warehouse accounts were then included in Goldman's balance sheet. Goldman also typically worked with one or more credit rating agencies to obtain favorable credit ratings for the proposed securities.

In addition, Goldman typically established a domestic and an offshore corporation to act as the nominal owners of the securitization's incoming cash, assets, and collateral securities; to serve as the actual issuers of the securities; and to perform certain administrative services. Goldman also established arrangements for the servicing of any underlying mortgages. In some CDOs, Goldman or its affiliate provided additional services as well, acting in such roles as the collateral securities selection agent, the collateral put provider, or the liquidation agent charged with selling impaired assets. Goldman also used its global sales force to market its securities to investors around the world, typically selling Goldman-issued CDO securities through a private placement and RMBS securities through a public offering.

In late 2006, when subprime residential mortgages began to incur higher than expected rates of delinquency, fraud, and default, and its inventory of mortgage related assets began to lose value, Goldman took a number of actions. It sold the mortgage related assets in its inventory; returned poor quality loans to the lenders from which they were purchased and demanded repayment; limited new RMBS securitizations; sold or securitized the assets in its RMBS warehouse accounts; limited new CDO securitizations to transactions already in the pipeline; and sold assets from discontinued CDOs.

Throughout this process, Goldman made a concerted effort to sell securities from the CDO and RMBS securitizations it had originated, even when those securities included or referenced poor quality assets and began losing value. Many of the CDO and RMBS securities that Goldman sold to its clients incurred substantial losses. The widespread losses caused by CDO and RMBS securities originated by investment banks are a key cause of the financial crisis that affected the global financial system in 2007 and 2008.

[2006] The 27 CDOs securitized about $28 billion in assets. See undated chart prepared for Subcommittee by Goldman Sachs, GS MBS 0000004276. The 93 RMBS securitized about $72 billion in home loans. See undated chart prepared for Subcommittee by Goldman Sachs, GS-PSI-00172.

This section of the Report examines how Goldman originated, marketed, and sold its mortgage related securities, in particular CDO securities, during late 2006 and in 2007, as the mortgage market deteriorated and as Goldman was profiting from its own net short positions. The section begins with general information about Goldman's securitization activities, followed by detailed case studies of four Goldman-originated CDOs: Hudson 1, Anderson, Timberwolf I, and Abacus 2007-AC1.

The evidence discloses troubling and sometimes abusive practices which show, first, that Goldman knowingly sold high risk, poor quality mortgage products to clients around the world, saturating financial markets with complex, financially engineered instruments that magnified risk and losses when their underlying assets began to fail. Second, it shows multiple conflicts of interest surrounding Goldman's securitization activities, including its use of CDOs to transfer billions of dollars of risk to investors, assist a favored client make a $1 billion gain at the expense of other clients, and produce its own proprietary gains at the expense of the clients to whom Goldman sold its CDO securities.

Under Goldman's sales policies and procedures, an affirmative action by Goldman personnel to sell a specific investment to a specific customer constituted a recommendation of that investment.[2007] Under federal securities law, when acting as an underwriter, placement agent, or broker-dealer recommending an investment to a customer, Goldman had an obligation to sell investments that were suitable for any investor and were not designed to fail. When acting in those roles and affirmatively soliciting clients to buy securities, Goldman also had an obligation to disclose material information that a reasonable investor would want to know, including material conflicts of interest or adverse interests in connection with its sale of a security.[2008]

In 2006 and 2007, when selling subprime CDO securities to customers, Goldman did not always disclose that the securities contained or referenced assets Goldman believed would perform poorly, and that the securities themselves were rapidly losing value. Goldman also did not disclose that the firm had built a large net short position betting that CDO and RMBS securities similar to the ones it was selling would lose value. In the case of the Hudson, Anderson, and Timberwolf CDOs, Goldman failed to disclose to potential investors that it was shorting the very securities Goldman was selling to them. In the case of the Abacus CDO, Goldman failed to disclose to potential investors that it had allowed an interested party to help select the CDO assets and act as the sole short party, with the expectation that the selected assets would lose value and that party would make money at the expense of the long investors to whom Goldman had sold the securities. Goldman created these and other conflicts of interest with its clients in connection with its CDO activities.

[2007] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0252, at 0262.

[2008] For a detailed discussion of these obligations under federal securities laws, see Section (6)(a), below.

(a) Background

To understand Goldman's securitization activities, this section provides general background about its CDO and RMBS business and how Goldman changed its securitization activities when the mortgage market began to deteriorate in late 2006.

(i) Goldman's Securitization Business

The Goldman Mortgage Department originated CDOs through two different desks within the Department. Approximately half of Goldman's CDOs were originated by its CDO Origination Desk, which assembled the assets, structured the CDOs, and worked with the Goldman sales force to market the resulting securities to a broad range of investors. The CDO Origination Desk was headed by Peter Ostrem from 2006 until May 2007, after which all remaining Goldman-originated CDOs were transferred to the Structured Product Group (SPG) Trading Desk and were overseen by David Lehman.

Goldman's other CDOs, which were part of a series issued under the name of Abacus, were originated by the Correlation Trading Desk, which was a sub-desk of the SPG Trading Desk. The Correlation Trading Desk specialized in arranging customized trades for investors and used the Abacus series of CDOs as one of its investment alternatives. The Correlation Trading Desk was headed by Jonathan Egol. The CDO Origination and Correlation Trading Desks were located on the same floor as the other SPG Trading Desks.

RMBS securitizations were handled by the Residential Whole Loan Trading Desk, headed by Kevin Gasvoda. Sub-desks within the Residential Whole Loan Trading area oversaw the purchase of residential loan pools, constructed the RMBS securitizations, and worked with the Goldman sales force to sell the resulting securities to investors.

After a desk originated a CDO or RMBS securitization and sold the Goldman-originated securities for the first time, all secondary trading of the securities was handled by the Structured Products Group's Asset-Backed Security (ABS) Desk. In mid-2007, Goldman shut down its CDO Origination Desk and directed the ABS Desk to sell all remaining Goldman-originated CDO securities, in addition to conducting the secondary trading it normally handled.

Daniel Sparks, as head of the Mortgage Department, oversaw all of Goldman's CDO and RMBS origination activities. Mr. Sparks reported at times to Jonathan Sobel, the prior department head, and Richard Ruzika, then head of Commodities Trading. He also worked with Justin Gmelich, a managing director asked to help him run the Department on a short term basis. Mr. Sparks also had frequent contact with more senior Goldman executives, including Thomas Montag, then global co-head of Securities Trading, and Donald Mullen, then head of Credit Trading. On occasion, he also received directives from Chief Financial Officer David Viniar and Co-Presidents Gary Cohn and Jon Winkelried.

(ii) Goldman's Negative Market View

As established earlier in the Report, all of Goldman's securitization activities from 2006 to 2007 took place against the backdrop of a subprime mortgage market that, in Goldman's view, was in distress and worsening.

On December 7, 2006, for example, Mr. Sparks sent this gloomy assessment to senior executive Thomas Montag:

> "Generally, originators are struggling with EPDs [early payment defaults] which require them to buy back loans and take losses – thinly capitalized firms can't take much of it. Lower margins and volumes are also causing pain. Ownit [a mortgage originator] ... closed Monday. Premiums for these originators – all of whom are for sale – are rapidly falling. ... Likely fall-out – more originators close and spreads in related sectors widen."[2009]

A week later, on December 13, 2006, Mr. Sparks repeated his negative view of the subprime mortgage market before senior Goldman executives on the Firmwide Risk Committee. The committee minutes described his report as follows:

> "Dan Sparks: Noted the stress in the subprime market; Concern around '06 originators, as two more failed last week; Concern around early payment defaults, $5BN in loans to subprime borrowers, warehouse lines to 6 subprime lenders, and $16MM in '06 residual positions and alt-a and subprime residual positions from '04-'05; Street aggressively putting back early payment defaults to originators thereby affecting the originator's business. Rumors around more failures are in the market."[2010]

On December 14, 2006, CFO David Viniar held a meeting with senior Mortgage Department executives, reviewed their mortgage related holdings, and directed them to offset the risk posed by declining values.[2011] The Mortgage Department then initiated its first multi-billion-dollar net short positions in 2007, essentially betting that subprime mortgage related assets would fall in value.

In early 2007, Mr. Sparks made increasingly dire predictions about the decline in the subprime mortgage market and issued emphatic instructions to his staff about the need to get rid of subprime loans and other assets. On February 8, 2007, for example, Mr. Sparks wrote:

[2009] See 12/7/2006 email from Daniel Sparks to Tom Montag, "Subprime Volatility," GS MBS-E-010931233.
[2010] 12/13/2006 Firmwide Risk Committee December 13 Minutes, GS MBS-E-009582963-64.
[2011] For more information about this December 14 meeting, see discussion in Section C(4)(b), above.

> "Subprime environment – bad and getting worse. Everyday is a major fight for some aspect of the business (think whack-a-mole). . . . [P]ain is broad (including investors in certain GS-issued deals)."[2012]

On February 14, 2007, Mr. Sparks wrote some notes to himself:

> "Bad week in subprime
>
> collateral performance on loans was poor – we took a write-down on second lien deals and on the scratch and dent book last week . . . .
>
> Synthetics market got hammered – around 150 [basis points] wider . . . .
>
> Originators are really in a bad spot. Thinly capitalized, highly levered, dealing with significant loan putbacks, some with retained credit risk positions, now having trouble selling loans above par when it cost them 2 points to produce.
>
> What is the next area of contagion."[2013]

That same day, February 14, 2007, Mr. Sparks exchanged emails with Goldman's Co-President Jon Winkelried about the deterioration in the subprime market:

> Mr. Winkelried: "Another downdraft?"
>
> Mr. Sparks: "Very large – it's getting messy . ... Bad news everywhere. Novastar bad earnings and 1/3 of market cap gone immediately. Wells [Fargo] laying off 300 subprime staff and home price appreciation data showed for first time lower prices on homes over year broad based."[2014]

On February 26, 2007, when Mr. Montag asked him about two CDO[2] transactions being assembled by the CDO Origination Desk, Timberwolf and Point Pleasant, Mr. Sparks expressed his concern about both:

> Mr. Montag: cdo squared–how big and how dangerous
>
> Mr. Sparks: Roughly 2bb, and they are the deals to worry about.[2015]

[2012] 2/8/2007 email from Daniel Sparks, "Post," Hearing Exhibit 4/27-7.
[2013] 2/14/2007 email from Daniel Sparks to himself, "Risk," GS MBS-E-002203268.
[2014] 2/21/2007 email exchange between Daniel Sparks and Jon Winkelried, "Mortgages today," GS MBS-E-010381094, Hearing Exhibit 4/27-10.
[2015] 2/26/2007 emails between Tom Montag and Daniel Sparks, "Questions you had asked," GS MBS-E-019164799.

On March 3, 2007, Mr. Sparks made notes after a telephone call: "Things we need to do .... Get out of everything."[2016] On March 7, 2007, Mr. Sparks again reported to Goldman's Firmwide Risk Committee on accelerating problems in the subprime mortgage market:

> "– 'Game Over' – accelerating meltdown for subprime lenders such as Fremont and New Century.
> – The Street is highly vulnerable . ... Current strategies are to 'put back' inventory and liquidate positions.
> – The Mortgage business is currently closing down every subprime exposure possible."[2017]

On March 8, 2007, Mr. Sparks emailed several senior executives, including Mr. Viniar and Mr. Cohn about "Mortgage Risk": "[W]e are trying to close everything down, but stay on the short side."[2018]

Other Mortgage Department personnel gave similarly bleak assessments of the subprime mortgage market. As early as January 2007, Jonathan Egol, head of the Correlation Trading Desk, wrote to a colleague expressing his clients' views: "The mkt is dead."[2019] In February 2007, when discussing plans to issue an Abacus CDO with a Correlation Desk Trader, Fabrice Tourre, Mr. Egol repeated that assessment as his own:

> Mr. Egol: [T]he paulson trade may already be dead (although given it is baa2 it may still have a decent shot).
>
> Mr. Tourre: Don't think the Paulson trade is dead. Supersenior pretty much done with ACA, AAAs could be placed in 2 shots, this is sufficient. Remember we make $$$ per tranche placed. ...
>
> Mr. Egol: You know I love it all I'm saying is the cdo biz is dead we don't have a lot of time left.[2020]

[2016] 3/3/2007 email from Daniel Sparks, "Call," Hearing Exhibit 4/27-14.

[2017] 3/12/2007 Goldman Firmwide Risk Committee, "March 7th FWR Minutes," GS MBS-E-00221171, Hearing Exhibit 4/27-19; see also 3/7/2007 email from Daniel Sparks to himself, "Risk Comm," GS MBS-E-002212223.

[2018] 3/8/2007 email from Daniel Sparks, "Mortgage risk," Hearing Exhibit 4/27-75.

[2019] 1/29/2007 email from Jon Egol to Fabrice Tourre, GS MBS-E-002620292. Mr. Tourre responded: "'The market is dead'??? Ouahhh, what do you mean by that? Do you have any insight I don't?" Mr. Egol replied: "LDL [let's discuss live] tomorrow." Id. Mr. Egol later wrote: "This is not my personal opinion – just a synopsis of the views of the customers we have seen today." 1/29/2007 email from Jon Egol to Daniel Sparks, GS MBS-E-003249991.

[2020] 2/11/2007 email from Jon Egol, "Index Tranche Pricing Study - 08Feb07.xls," GS MBS-E-002640951. See also 2/20/2007 email from Fabrice Tourre to Jon Egol, GS MBS-E-009332408 (Mr. Tourre: "By the way, quote from an ABS correlation trader (non-GS): "the mezz ABS CDO business is dead." Mr. Egol responded: "who." Mr. Tourre replied: "LDL." "LDL," which means "let's discuss live," is an abbreviation that appears throughout the Goldman documents produced to the Subcommittee.); 3/27/2007 email from a Goldman analyst, GS MBS-E-009685430 ("The housing slowdown has the risk now not be[ing] offsetting [sic] by stronger capital spending. Both

On March 8, 2007, in an email to senior management, Mr. Sparks listed a number of "large risks I worry about."[2021] At the top of the list was "CDO and Residential loan securitization stoppage – either via buyer strike or dramatic rating agency change." Mr. Sparks was referring to the possibility that Goldman would be unable to securitize and sell its remaining subprime mortgage related inventory by repackaging it into RMBS and CDOs for sale to customers. His concern was either that buyers would refuse to purchase such products ("buyer strike"), or that the ratings agencies might realize the poor quality and high risks associated with these products and downgrade them so they could not be sold with AAA ratings ("dramatic rating agency change"). In essence, Mr. Sparks was worried about Goldman's being left with a large inventory of unsold and unsaleable subprime mortgage related assets when the market finally collapsed.[2022]

At the same time Goldman personnel were expressing these negative views of the securitization business, the Mortgage Department was building its large net short positions in the first and third quarters of the year.

(iii) Goldman's Securitization Sell Off

In response to the December 14, 2006 meeting at which CFO David Viniar ordered the Mortgage Department to offset the risk associated with its mortgage related holdings, the Department initiated an intensive effort to sell off the subprime RMBS and CDO securities and other assets in its inventory and warehouse accounts.[2023]

AA. RMBS Sell Off

As described earlier, on the same day as the Viniar meeting, December 14, 2006, Kevin Gasvoda, head of the Mortgage Department's Residential Whole Loan Trading Desk, instructed his staff to undertake an immediate, concerted effort to sell the whole loans and RMBS securities in Goldman's inventory and warehouse accounts, focusing on RMBS securities from Goldman-originated securitizations.[2024] By February 9, 2007, the Goldman sales force reported a substantial

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growth and the market are DEAD if that's the case.") [emphasis in original].

[2021] 3/8/2007 email from Daniel Sparks, "Mortgage risk," Hearing Exhibit 4/27-75.

[2022] See also emails expressing concerns about the CDO market in particular. 6/27/2007 email from Jonathan Sobel, "Citi feedback on debt mkts," GS MBS-E-010807091 (reporting a conversation with the head of the mortgage desk at Citibank: "He is very nervous. ... Some Citi people think the CDO market is dead - a potential result of [subprime] contagion."); 8/30/2007 email from Daniel Sparks, "RAIT," GS MBS-E-010626401 ("the business model pursued by these guys (taking junior parts of the . . . capital structure and obtaining further leverage via the CDO market) is dead for the foreseeable future.").

[2023] See also Section C(4)(b) of this chapter, above.

[2024] 12/14/2007 email from Kevin Gasvoda, "Retained bonds," GS MBS-E-010935323, Hearing Exhibit 4/27-72. See also 2/8/2007 email from Kevin Gasvoda to Tom Montag, "Mortgage risk – credit residential," at 2, GS MBS-E-010372233, Hearing Exhibit 4/27-74 (seven weeks later, Mr. Gasvoda reported transferring the remaining Goldman-originated RMBS securities to the mortgage trading desk to sell: "moving retained bonds out of primary desk hands and into 2ndry desk.").

number of sales,[2025] and by the end of February, Goldman's controllers reported that Goldman's inventory of whole loans had "decreased from $11bn to $7bn" with "subprime loans decreased from $6.3bn to $1.5bn," a reduction of more than two-thirds.[2026]

In addition, during the first quarter of 2007, the Mortgage Department drastically slowed its RMBS origination business and its purchase of whole loans and RMBS securities.[2027] Those actions meant that Goldman was not only reducing its inventory, but also reducing its intake of what had previously been a constant inflow of billions of dollars in whole loans and RMBS securities purchased as part of its securitization business.

In addition to selling whole loans and RMBS securities, the Mortgage Department wrote down the value of its remaining subprime mortgage portfolio. On February 8, 2007, for example, Mr. Gasvoda recommended that certain whole loan pools and RMBS securities be marked down by $22 million.[2028] On February 9, 2007, Mr. Sparks reported a $30 million writedown on non performing loans.[2029] Mr. Ruzika responded: "Ok, you've been communicating the write down was coming. Let's go through the residual risk and make sure we get to the correct number for the quarter."[2030] Residual risk referred to the non rated equity tranches that underwriters like Goldman often retained from the RMBS securitizations they originated; those tranches were also written

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[2025] 2/9/2007 email exchange between Kevin Gasvoda and sales syndicate, "GS Syndicate RMBS Axes (INTERNAL)," GS MBS-E-010370495, Hearing Exhibit 4/27-73.

[2026] 2/23/2007 "Significant Cash Inventory Change (Q1'07 vs. Q4'06)," datasheet prepared by Goldman, GS MBS-E-010037311, Hearing Exhibit 4/27-12.

[2027] See, e.g., 3/8/2007 email from Daniel Sparks, "Mortgage risk," GS MBS-E-002206279, Hearing Exhibit 4/27-75 ("[f]or residential loans, we have not bought much lately"); 3/26/2007 Goldman presentation to Board of Directors, "Subprime Mortgage Business," GS MBS-E-005565527, Hearing Exhibit 4/27-22 (reporting that Mortgage Department is using "conservative bids" on loans); 3/14/2007 Goldman Presentation to SEC, "Subprime Mortgage Business 14-Mar-2007," at 7, GS MBS-E-010022328; 3/2/2007 email to Craig Broderick, "Audit Committee Package_Feb 21_Draft_Mortgage_Page.ppt," GS MBS-E-009986805, Hearing Exhibit 4/27-63 (we are "lowballing" bids on loans).

[2028] 2/8/2007 email from Kevin Gasvoda to Daniel Sparks,"Post," GS MBS-E-002201668, Hearing Exhibit 4/27-7 ("monthly performance analysis completed this morning on what can be securitized vs will be foreclosed tells us we should mark down around $22mm"). See also 2/2/2007 email from Daniel Sparks, "Second lien deal performance and write-down," GS MBS-E-002201050, Hearing Exhibit 4/27-92 ("Gasvoda alerted me last night that we will take a write-down to some retained positions next week as the loan performance data from a few second lien sub-prime deals just came in (comes in monthly) and it is horrible."); 2/8/2007 email from Kevin Gasvoda to Tom Montag, "Mortgage risk – credit residential," at 2, GS MBS-E-010372233, Hearing Exhibit 4/27-74. Mr. Gasvoda summarized the other write-downs as follows:

> "– 2nd lien residual – took $20-25mm write-downs over last 3 months (could lose $5-15 mm more)
> – 2nd lien retained bonds–took $18mm write-down this week (could lose $5-15 more)
> – Subperforming loan book – taking $28mm write-down this week (could lose $20-40mm more)
> What do all these areas have in common? – most HPA [housing price appreciation] sensitive sectors. They've crumbled under HPA slowdown as these are the most levered borrowers.
> What have we done to mitigate?
> – we stopped buying subprime 2nd liens in the summer of '06 and have focused on alt-a and prime."

[2029] 2/9/2007 email from Daniel Sparks, "Scratch & dent loan write down $30mm," GS MBS-E-009760380.

[2030] Id.

down in value. Those writedowns not only implemented Goldman's policy of using current market values for its assets, but also effectively reduced the size of Goldman's "long" position in subprime mortgage related assets. As Mr. Ruzika wrote to Mr. Cohn: "working with Dan to uncover exactly what else needs to be written down so that we can pnl [profit and loss] it this quarter and be clean going into next quarter."[2031]

Loan Repurchase Campaign. In addition to its sales and writedowns, the Mortgage Department intensified its efforts to identify and return defaulted or otherwise deficient loans to the originating lender from which they had been purchased in exchange for a refund of the purchase price. Altogether in 2006 and 2007, Goldman made about $475 million in repurchase claims for securitized loans, and recovered about $82 million.[2032] It also made about $40 million in repurchase claims for unsecuritized loans, and recovered about $17 million.[2033]

In the years leading up to the financial crisis, most subprime loan purchase agreements provided that if a loan experienced an early payment default (EPD), meaning the borrower failed to make a payment within three months of the loan's purchase, or if the loan breached certain representations or warranties, such as representations related to the loan's characteristics or documentation, the loan could be returned or "put back" to the seller which was then obligated to repurchase it. In late 2006, as subprime loans began to experience accelerated rates of EPDs and fraud,[2034] Wall Street firms began to intensify their efforts to return those loans for refunds. Some subprime lenders began to experience financial distress due to unprecedented waves of repurchase requests that drained their cashflows.[2035]

Although Goldman, either directly or through a third party due diligence firm, routinely conducted due diligence reviews of the mortgage loan pools it bought from lenders or third party brokers for use in its securitizations, those reviews generally examined only a sample of the loans

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[2031] 2/13/2007 email from Richard Ruzika to Gary Cohn, "Catch Up," GS MBS-E-019794071. Mr. Cohn forwarded Mr. Ruzika's report to Messrs. Blankfein and Winkelried. Id. See also 6/8/2007 email from Kevin Gasvoda, "Project Omega - Mortgages MTM of Resids," GS MBS-E-013411815 (working on potential deal to sell marked-down mortgage residuals).

[2032] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0039.

[2033] Id.

[2034] Using loan data, the U.S. mortgage industry had developed anticipated default rates, including EPDs, for different mortgage classes, such as subprime, Alt A, and prime loans. These default rates, however, were based in large part on past loan underwriting practices and loan types that bore little resemblance to the loans issued in the years leading up to the financial crisis, as explained in Chapter V of this Report. In 2006, subprime loans began to experience higher than anticipated EPD rates, and lenders were hit by unanticipated repurchase demands they could not afford to pay. The first EPD-related mortgage lender failures occurred in late 2006, and bankruptcies continued throughout 2007.

[2035] See, e.g., 3/26/2007 "Subprime Mortgage Business," Goldman presentation to Board of Directors, at 3-5, GS MBS-E-005565527 at 532, Hearing Exhibit 4/27-22 (timeline showing Ownit, a subprime lender, filed for bankruptcy on December 28, 2006, and list of subprime related businesses bankrupted, suspended, closed, sold, or put up for sale).

and did not attempt to identify and weed out all deficient mortgages.[2036] Instead, Goldman purchased loan pools with the expectation that they would incur a certain rate of defaults. In late 2006, however, like other Wall Street firms, Goldman began to see much higher than anticipated delinquency and default rates in the loan pools in its inventory and warehouse accounts, and in the subprime RMBS and CDO securitizations it originated.[2037] Defaulted loans generally could not be sold or securitized, and had to be terminated through foreclosure proceedings or sold in so-called "scratch and dent" pools that generally produced less money than the loans cost to buy. In addition, defaulted loans meant that the borrowers who took out those loans stopped making loan payments to the securitized loan pool, reducing the cashflow into the related securities. RMBS and CDO securities whose underlying assets incurred high rates of loan delinquencies and defaults experienced reduced cashflows, lost value, and sometimes failed altogether, resulting in substantial losses for investors.

In early 2007, Goldman's Mortgage Department initiated an intensive review of the loans in its inventory, warehouse accounts, and RMBS and CDO securitizations, to identify deficient loans and return them for refunds. On February 2, 2007, Mr. Sparks reported to senior Goldman executives Messrs. Viniar, Montag, and Ruzika that obtaining refunds from the loan originators would be "a battle":

> "The team is working on putting loans in the deals back to the originators (New Century, WAMU, and Fremont – all real counterparties), as there seem to be issues potentially including some fraud at origination, but resolution will take months and be contentious. ... The put backs will be a battle."[2038]

[2036] Goldman or a third party due diligence firm it hired typically examined a sample of the loans. Based on the number of problem loans found in the sample, Goldman or the due diligence firm extrapolated the total percentage of problem loans likely to be contained in the pool. This information was then factored into the price Goldman paid for the pool. Any specific loans identified in the sampling process as deficient were generally returned to the lender for repurchase, but it was rare for an investment bank to review 100% of a pool to identify all of the deficient loans and return them. Subcommittee interview of Clayton Holdings (11/9/2010).

[2037] See, e.g., 1/8/2007 email from Daniel Sparks, "Color on the Sub Prime Market," GS MBS-E-002195434 (after receiving a report on potential EPD problems, Mr. Sparks wrote: "I just can't see how any originator in the industry is worth a premium. I'm also a bit scared of accredited and new century, and I'm not sure about taking on a bunch of new exposures."); 2/8/2007 email from FICC analyst to Mr. Sparks, Mr. Gasvoda, and others, "2006 Subprime 2nds Deals Continue to Underperform," GS MBS-E-003775340, Hearing Exhibit 4/27-167d ("2006 vintage Subprime closed-end seconds (CES) issuance has continued to deteriorate. ... [N]on-GS Subprime CES deals are categorically experiencing similar negative behavior across shelves, originators, and servicers. ... Outlook: 2006 vintage ... could eventually reach 4-5+ times that of 2004/early 2005 vintages (more than double that of RA expected losses).").

[2038] 2/2/2007 email from Daniel Sparks to Messrs. Montag, Ruzika, and Viniar, GS MBS-E-002201050, Hearing Exhibit 4/27-92. See also 2/2/2007 email from Michelle Gill, "Warehouse policy," GS MBS-E-005556331 (discussing proposal to charge higher warehouse fees to mortgage originators with higher EPD and "drop-out" rates, including Fremont and New Century).

To manage its loan repurchase campaign, Goldman expanded an operations center in St. Petersburg, Florida,[2039] and made extensive use of third party due diligence firms hired to review its securitized loan pools.[2040] Goldman instructed the firms to "re-underwrite" every loan in pools of mortgages purchased from specific lenders, including New Century, Fremont, Long Beach, and later Countrywide.[2041]

By March 2007, the average EPD rate for subprime loans in Goldman's inventory had climbed from 1% of aggregate volume to 5%, a dramatic increase.[2042] On March 7, 2007, Mr. Sparks described Goldman's exposure as follows:

> "As for the big 3 originators – Accredited, New Century and Fremont, our real exposure is in the form of put-back claims. Basically, if we get nothing back we would lose around $60mm vs loans on our books (we have a reserve of $30mm) and the loans in the [CDO and RMBS] trusts could lose around $60mm (we probably suffer about 1/3 of this in ongoing exposures). ... Rumor today is that the FBI is in Accredited."[2043]

Five days later, on March 12, 2007, Mr. Sparks wrote: "The street is aggressively putting things back, like a run on the bank before there is no money left to fulfill the obligations."[2044]

One of the lenders that was an initial focus of Goldman's loan repurchase effort was New Century, a subprime lender whose loans Goldman had used in many Goldman-originated RMBS securitizations. After completing a review of one New Century loan pool, an analyst recommended "putting back 26% of the pool ... if possible."[2045] A putback rate of 26% meant that about one in

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[2039] 2/27/2007 email from Christopher Gething, "Our Expansion," GS MBS-E-010387242 (expansion of St. Petersburg office to accommodate staff for loan repurchase effort).

[2040] See, e.g. 3/2007 Goldman email chain, "RE: NC Visit," GS MBS-E-002048050 (mentioning four different third party "vendors" conducting loan reviews for the loan repurchase effort and stating: "We're off to other vendors at this point.").

[2041] See 3/9/2007 email from Kevin Gasvoda, "priorities," GS MBS-E-002211055 (listing priority mortgage originators as Accredited, Fremont, New Century, and Novastar); 3/14/2007 Goldman email, "NC Visit," GS MBS-E-002048050 (identifying New Century, Fremont and Long Beach); 6/29/2007 email from Ed Chavez, "Countrywide Investigation Review Update," GS MBS-E-002134411.

[2042] 3/2/2007 email to Craig Broderick, "Audit Committee Package_Feb 21_Draft_Page.ppt," GS MBS-E-009986805, Hearing Exhibit 4/27-63.

[2043] 3/7/2007 email from Daniel Sparks, "Originator exposures," GS MBS-E-002206279, Hearing Exhibit 4/27-75.

[2044] 3/12/2007 email from Daniel Sparks, "Subprime Opportunities," GS MBS-E-004641002. See also 4/15/2007 email, "March 2007 Counterparty Surveillance," GS MBS-E-002135667 (forwarding report to loan repurchase team, "Please find attached the March counterparty surveillance report (and boy, is it a doozy)."); 3/26/2007 "Subprime Mortgage Business," Goldman presentation to Board of Directors, at 5, GS MBS-E-005565527, Hearing Exhibit 4/27-22 (list of subprime related businesses bankrupted, suspended, closed, sold, or put up for sale).

[2045] 3/13/2007 email from Manisha Nanik, "New Century EPDs," GS MBS-E-002146861, Hearing Exhibit 4/27-77. The review of the New Century loan pool found:

> "– approx 7% of the pool has material occupancy misrepresentation where borrowers took out anywhere from 4 to 14 loans at a time and defaulted on all. ...
> – approx 20% of the pool has material compliance issues. These are mainly missing HUDs. ...
> – approx 10% of the pool is flagged as potential REO [Real Estate Owned by lender] or potential unsecured

four of the loans in the New Century pool had EPDs, were fraudulent, or otherwise breached New Century's contractual warranties. It also implied that about 25% of the expected mortgage payments might not be made to the relevant RMBS securitization. Unless the problem loans could be successfully "put back" to New Century in exchange for a refund, a fail rate of that magnitude would likely impair the performance of all of the securities dependent upon that pool of mortgages.

Goldman made a total of about $67 million in repurchase requests to New Century, which was among the five mortgage originators to whom Goldman directed the most repurchase requests in 2006 and 2007.[2046] In March 2007, however, New Century stopped paying Goldman's claims due to insufficient cash, and the loan repurchase team sought advice from Mr. Gasvoda:

> "As you know, we have an extensive re-underwrite review underway on 06 NC2 [New Century second lien loans] and also other NC loans in the 2nds deals that are in the pipeline for scrubs. Should we change course at all here given the fact NC can't pay?"[2047]

Mr. Gasvoda responded:

> "Yes .... I think priority s/b [should be] on Fremont and Long Beach on 2nd lien deals. Fremont first since they still have cash but may not for long. ... [O]n NC2 we need not halt that entirely but should pull back resources there. We should also move 06FM2 [Fremont second lien loans] up the priority list."

Goldman made a total of about $46 million in repurchase requests to Fremont, another subprime lender for whom Goldman had underwritten multiple securities and which was also among the five mortgage originators to whom Goldman made the most repurchase requests in 2006 and 2007.[2048] When Goldman personnel reviewed a loan pool purchased from Fremont, the results were even worse than for the New Century loans. Goldman concluded that "on average, about 50% of about 200 files look to be repurchase obligations."[2049] Later, Goldman came to a similar

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(if 2nd liens). ...
– approx 5% of the pool was possibly originated fraudulently based on the dd [due diligence] results. Main findings: possible ID theft, broker misrepresentations, straw buyer, and falsification of information in origination docs. ...
"approx 62% of the pool has not made any payments (4% were reversed pymts/nsf [non-sufficient funds]) ...
"approx 38% of the loans are out of [loan to value] tolerance."

[2046] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0040.

[2047] 3/14/2007 Goldman email, "NC Visit," GS-MBS-E-002048050. See also 3/21/2007 email from Daniel Sparks to Tom Montag, GS MBS-E-002207114 (noting progress in cutting down funding commitments to mortgage originators to $300 million, including closeout of all funding to New Century in exchange for loans).

[2048] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0040.

[2049] 3/14/2007 Goldman email, "NC Visit," GS-MBS-E-002048050; see also 8/10/2007 email from Michelle Gill, "Fremont - Incremental Information," GS MBS-E-009860358 (Goldman's repurchase claims against Fremont would have amounted to a 9% ownership stake in Fremont after a proposed buyout by investor group; Goldman was not the largest purchaser of Fremont loans but its repurchase claims were 3-4 times larger than the claims of the nearest counterparty).

conclusion after reviewing certain loans purchased from Countrywide, again finding that about 50% of the loans reviewed were candidates for return to the lender.[2050]

Goldman made a total of about $34 million in repurchase requests to Long Beach, a subprime lender for whom Goldman had underwritten billions of dollars in RMBS securities and which was also among the five mortgage originators to whom Goldman made the most repurchase requests in 2006 and 2007.[2051] Goldman pressed both Long Beach and its parent Washington Mutual for repayment of millions of dollars in refunds. At one point, a Goldman executive involved in the repurchase effort sent an email to the head of Washington Mutual Home Loans Division, David Schneider. After noting that Long Beach second lien loans were "performing dramatically worse" than other 2006 RMBS securities, the Goldman executive wrote: "As you can imagine, this creates extreme pressure, both economic and reputational, on both organizations."[2052]

Goldman's loan repurchase campaign recovered substantial funds from some lenders,[2053] but little or none from others.[2054] Non performing loans that were not repurchased by the lender generally remained in Goldman's inventory or the relevant securitized loan pool. Many other securitizers engaged in similar loan repurchase efforts which continued in 2011.[2055]

Poor Quality RMBS Securities. As a result of its loan repurchase and writedown efforts, the Mortgage Department was keenly aware of the poor quality of many of the loan pools in its warehouse accounts. Nevertheless, during this time period, Goldman continued securitizing many of those loans and selling the resulting RMBS securities to clients.

In March 2007, for example, Goldman securitized over $1 billion in subprime loans that it had purchased from Fremont, originating an RMBS securitization called GSAMP Trust 2007-FM2.[2056] Goldman underwrote the security in the same month that it was attempting to return

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[2050] 6/29/2007 email from Ed Chavez, "Countrywide Investigation Review Update," GS MBS-E-002134411.

[2051] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0040. The five mortgage originators to which Goldman directed the most repurchase requests were First Franklin, New Century, Fremont, Greenpoint, and Long Beach. Id.

[2052] 2/15/2007 email from Loren Morris of Goldman Sachs to David Schneider of WaMu and others, GS MBS-E-002142424, Hearing Exhibit 4/13-69b.

[2053] See, e.g., Goldman response to Subcommittee QFR at PSI_QFR_GS0040; 3/8/2007 email from Daniel Sparks to Jon Winkelried and others, "Mortgage risk," GS_MBS-E-002206279, Hearing Exhibit 4/27-75 ("Accredited ... plan to send us $21mm"); 6/25/2007 email from Deana Knox, "Option One," GS MBS-E-019645932 ("Option One has agreed to settle the entire claim, paying $2.5M (repurchase and monitor) and $3M will be rescinded.").

[2054] New Century, for example, declared bankruptcy in April 2007. In re New Century TRS Holdings, Inc., Case No. 07-10416 (KJC) (US Bankruptcy Court, District of Delaware). See also 6/7/2007 email from Loren Morris, "WFALT 05-2 Repurchase demand," GS MBS-E-002131857.

[2055] See, e.g., 1/3/2011 Bank of America press release, "Bank of America Announces Fourth-Quarter Actions," bankofamerica.com (announcing agreements to pay $3 billion to Freddie Mac and Fannie Mae to resolve residential mortgage repurchase claims related to loans originated by Countrywide).

[2056] See 2/2/2007 Goldman memorandum to the Mortgage Capital Committee, "Agenda for Monday, February 5, 2007," GS MBS-E-002201064; 2/5/2007 Mortgage Capital Committee Memorandum regarding GSAMP Trust 2007-FM2, GS MBS-E-002201055-58.

millions of dollars in deficient loans to the lender,[2057] and regulators ordered Fremont to stop issuing subprime loans.[2058] Goldman marketed and sold the RMBS securities to clients. Within seven months, by October 2007, the rating downgrades began; by August 2009, every tranche of the GSAMP securities had been downgraded to junk status.[2059]

On March 26, 2007, the Mortgage Department sought permission from Goldman's Mortgage Capital Committee to securitize and underwrite a new RMBS called GSAMP Trust 2007-HE2, which contained nearly $1 billion in subprime mortgage loans in a Goldman warehouse account, over 70% of which had been purchased from New Century.[2060] Goldman approved this securitization even though it knew at the time that New Century's subprime loans were performing poorly, many of the New Century loans in Goldman's inventory were problematic, and New Century was in financial difficulty.[2061] The securitization was approved for issuance in April 2007, the same month New Century declared bankruptcy.[2062] Goldman marketed and sold the RMBS securities to its clients. The securities first began to be downgraded in October of 2007, and all of the securities have since been downgraded to junk status.[2063]

Had Goldman not securitized the $2 billion in Fremont and New Century loans, the Mortgage Department would likely have had to liquidate the warehouse accounts containing them and either sell the loan pools or keep the high risk loans on its own books.

On April 11, 2007, a Goldman salesman forwarded to Mr. Egol a scathing letter from a customer, a Wachovia affiliate, which had purchased $10 million in RMBS securities backed by Fremont loans and underwritten by Goldman. The client wrote that it was "shocked" by the poor performance of the securities "right out of the gate," and concerned about Goldman's failure to have disclosed information about the poor quality of the underlying loans in the deal termsheet:

[2057] See discussion of Goldman's loan repurchase effort, above. In addition, in the prior month, a Goldman employee in the mortgage credit trading department sent senior Mortgage Department officials a lengthy email on the deteriorating subprime mortgage market and observed: "Subprime originators, large and small, ha[ve] exhibited a notable increase in delinquencies and defaults, however, deals backed by Fremont and Long Beach collateral have generally underperformed the most." 2/8/2007 email from Fabrice Tourre, "FW: 2006 Subprime 2nds Deals Continue to Underperform **INTERNAL ONLY**," at GS MBS-E-003775340, Hearing Exhibit 4/27-167d.

[2058] In re Fremont Investment & Loan, Docket No. FDIC-07-035b, Order to Cease and Desist (March 7, 2007).

[2059] See Standard & Poor's www.globalcreditportal.com.

[2060] 3/23/2007 Goldman memorandum to members of the Mortgage Capital Committee, "Agenda for Monday, March 26, 2007," Hearing Exhibit 4/27-79 ("GSAMP 2007-HE2 – Goldman to securitize $960 million of subprime mortgage loans purchased by Goldman Sachs from New Century (71.9%)" and other mortgage originators. "The securitization is scheduled to be completed by April 12, 2007.").

[2061] See discussion of Goldman's loan repurchase effort, above. Earlier in March, a Goldman review of a different New Century loan pool had found that 26% of the loans were deficient and ought to be returned to New Century for a refund. 3/13/2007 email from Manisha Nanik, "New Century EPDs," GS MBS-E-002146861, Hearing Exhibit 4/27-77. In addition, New Century had already informed Goldman that it had insufficient cash to pay any loan repurchase requests. 3/14/2007 Goldman email, "NC Visit," GS-MBS-E-002048050.

[2062] In re New Century TRS Holdings, Inc., Case No. 07-10416 (KJC) (US Bankruptcy Court, District of Delaware).

[2063] See Standard & Poor's www.globalcreditportal.com.

" As you know, we own $10mm of the GSAMP 06-S3 M2 bond . ... We are shocked by how poorly this bond has performed right 'out of the gate' and had asked [Goldman] to send us the attached ProSupp [Prospectus Supplement]. After having read the ProSupp and compared it to the termsheet we have several concerns:

* According to the Prosupp, approximately $2.2mm ... of loans were delinquent when they were transferred to the trust. However, there is no mention of delinquent loans anywhere in the termsheet that was sent to investors when the deal was priced.

* According to the Prosupp, approximately $3.3mm ... are re-performing loans. However, there is no mention of reperforming loans anywhere in the termsheet.

* Approx. 53.14% of the loans in the deal allow for a Prepayment Premium and that all Prepayment Premiums collected from borrowers are paid to the Class P certificateholders. None of this was disclosed in the termsheet and my concerns are two-fold: (1) The presence of Prepayment Premiums effects prepayment speeds which affects ... [the deal's performance]; (2) Prepayment Premiums are not staying inside the deal for the benefit of all investors but are being earmarked for the Class P holder (which is not mentioned in the termsheet). Note that ... $1.2mm in Prepayment Premiums has already been paid out to the Class P holder.

* ... [T]he servicer must charge off any loan that becomes 180 days delinquent, giving rise to a Realized Loss inside the deal. Currently losses are at 9.71% of the original deal balance, or approximately $48mm despite the fact that the deal is only 11 months old (note that this figure already exceeds Moody's expec[ta]tion for cumulative losses for the deal over the ENTIRE LIFE of the deal). I will also note that there are an additional $57.5mm of loans in the delinquency pipeline. This seems to indicate significant fraud at either the borrower or lender level ....

* ... [A]ny subsequent recoveries on the charged-off loans do not inure to the benefit of all investors in the deal but ONLY to the Class X1 certificateholder. This is not mentioned anywhere in the termsheet. Who owns the Class X1 notes? Is that Goldman or an affiliate? How much has been recovered so far? This is a material fact to me especially considering that loss severities are coming in at around 105% on the charged-off loans."[2064]

Reduced RMBS Business. By the end of 2007, Goldman had substantially reduced its RMBS securitization business. In November 2007, in response to a request, Goldman provided specific data to the SEC about the decrease in its inventory of subprime mortgage loans and RMBS securities. Goldman informed the SEC that the value of its subprime loan inventory had dropped from $7.8 billion on November 24, 2006, to $462 million on August 31, 2007. Over the same time period, the value of its inventory of subprime RMBS securities had dropped from $7.2 billion to

[2064] 4/11/2007 email to Jon Egol, "GSAMP 2006-S3 – Computational Materials for Wachovia (external)," GS MBS-E-003322028 [emphasis in original].

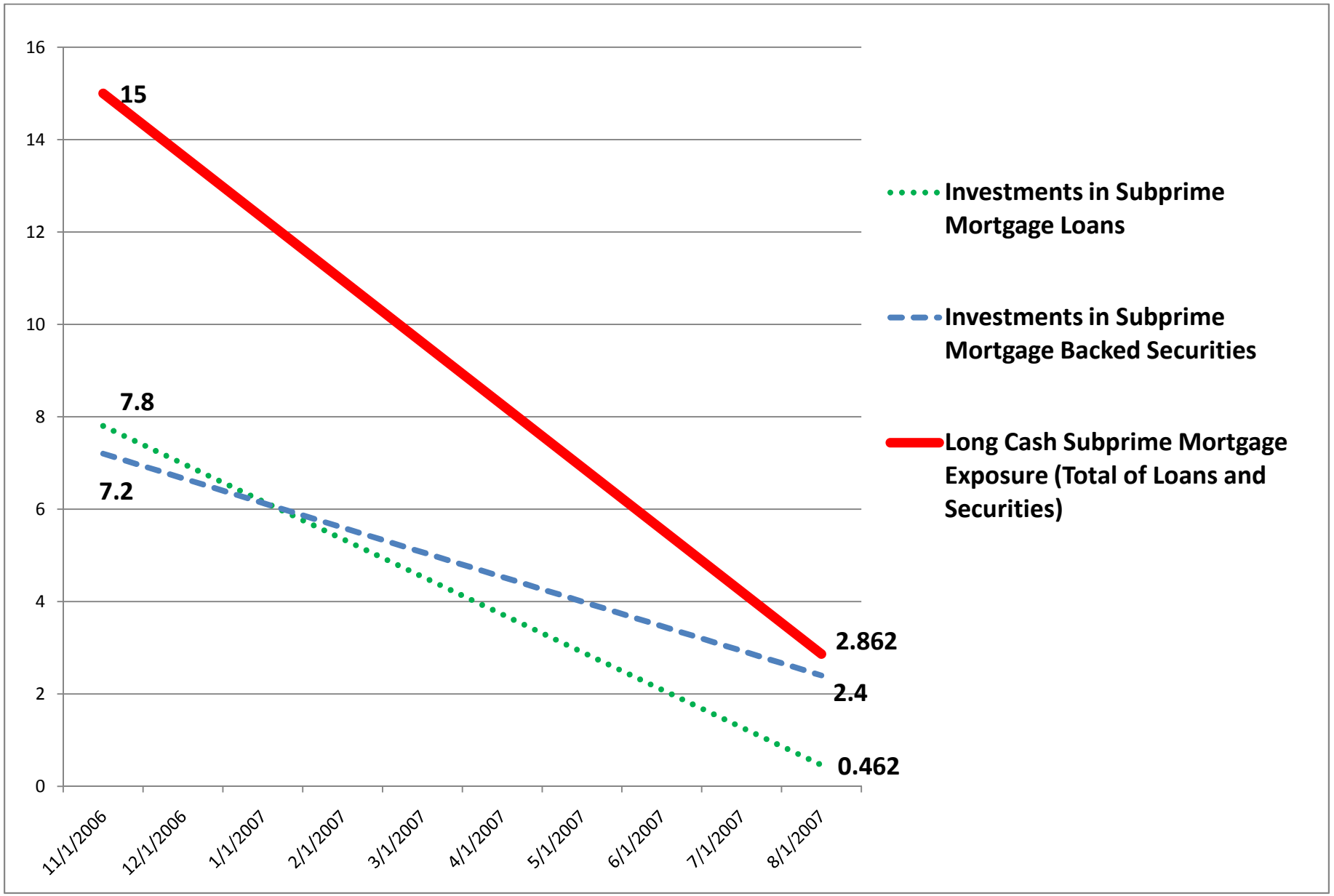
$2.4 billion, a two-thirds reduction.[2065] The graph below, which was prepared by the Subcommittee using the data provided by Goldman to the SEC, illustrates the rapid decline in Goldman's subprime holdings.[2066]

[SEE CHART NEXT PAGE: *Goldman Sachs Long Cash Subprime Mortgage Exposure*, prepared by the Permanent Subcommittee on Investigations, Hearing Exhibit 163.]

[2065] 11/7/2007 letter from Sarah Smith, Controller and Chief Accounting Officer to SEC, at 5, GS MBS-E-015713460, Hearing Exhibit 4/27-50. Goldman issued its final RMBS securitization for the year in August 2007.

[2066] 4/2010 "Goldman Sachs Long Cash Subprime Mortgage Exposure, Investments in Subprime Mortgage Loans, and Investments in Subprime Mortgage Backed Securities November 24, 2006 vs. August 21, 2007 in $ Billions," chart prepared by the Subcommittee, Hearing Exhibit 4/27-163.

Goldman Sachs Long Cash Subprime Mortgage Exposure,
Investments in Subprime Mortgage Loans, and
Investments in Subprime Mortgage Backed Securities
November 24, 2006 vs. August 31, 2007 - in $ Billions



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010.
Data from Nov. 7, 2007, letter from Goldman Sachs to the Securities and Exchange Commission, GS MBS-E-015713460, at 5 (Exhibit 50).

BB. CDO Sell Off

Goldman reduced its inventory of subprime loan pools and RMBS securities through outright sales, writedowns, and its loan repurchase campaign. It was equally aggressive in reducing its subprime CDO warehouse inventory.

In January 2007, after the CDO Origination Desk worked to sell securities from a CDO called Camber 7, Mr. Sparks wrote to Mr. Montag: "Need you to send message to peter ostrem and darryl herrick telling them what a great job they did. They structured like mad and traveled the world, and worked their tails off to make some lemonade out of some big old lemons."[2067]

In February 2007, the Mortgage Department conducted a review of the CDOs in its origination pipeline.[2068] As part of that review, Mr. Sparks cancelled four pending CDOs that had acquired some but not all of the assets needed for the CDOs to go to market.[2069] On February 25, 2007, Mr. Sparks reported to Mr. Montag and Mr. Ruzika:

> "The CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). Business also began liquidation of $820mm [redacted] warehouse – all synthetics done, cash bonds will be sold in the next few days."[2070]

The Mortgage Department rushed several remaining CDOs to market, including Anderson, Timberwolf, and Point Pleasant, which issued their securities in March and April 2007.[2071] In May and June 2007, the Mortgage Department began closing all of its remaining CDO warehouse accounts and transferring the assets to the SPG Trading Desk for sale.[2072] On June 22, 2007, Mr. Lehman reported that the ABS Desk had just sold another $50 million in RMBS securities from the CDO warehouse accounts for a profit of $1 million, and that: "[o]nly 40mm RMBS A3/A- remain in the WH [warehouse] accounts, ½ of which is Long Beach paper - continue to work."[2073]

[2067] 1/31/2007 email from Daniel Sparks to Tom Montag, "MTModel," Hearing Exhibit 4/27-91.

[2068] See, e.g., 2/25/2007 emails between Daniel Sparks and Tom Montag, "Questions you had asked," GS MBS-E-019164799.

[2069] See 2/23/2007 email from Daniel Sparks, "Mortgages today," GS MBS-E-009759477 ("We liquidated 3 CDO warehouses today and started the liquidation of another."); 2/26/2007 emails between Daniel Sparks and Tom Montag, "Questions you had asked," GS MBS-E-019164799; 2/22/2007 email from Peter Ostrem to David Rosenblum, "League Tables," GS MBS-E-001800683 ("FYI Liquidating 3 warehouses tomorrow. And Dan [Sparks] wants to liquidate Greywolf.").

[2070] 2/25/2007 emails between Daniel Sparks and Tom Montag, "Questions you had asked," GS MBS-E-019164799.

[2071] See, e.g., 3/8/2007 email from Daniel Sparks to Mr. Winkelried and others, GS MBS-E-002206279, Hearing Exhibit 4/27-75 (Mortgage Department is "rushing to get deals rated"). See also discussions of Anderson and Timberwolf CDOs, below.

[2072] See 6/1/2007 email from David Lehman, "CDO Update," GS MBS-E-001866889 (referring to "liquidated warehouses"); 5/30/2007 email from David Lehman, "ABX hedges – Buy order," GS MBS-E-011106690 (directing trading desk to unwind hedges for CDO warehouse accounts). Some of the assets were accounted for in a separate "CDO Transition book," but the sale of the assets became the responsibility of the SPG trading desk.

[2073] 6/22/2007 email from David Lehman, "Few trade posts," GS MBS-E-010848985.

Throughout 2007, Goldman sought to sell all of its remaining subprime assets from the CDO warehouse accounts as well as the new securities issued by Goldman-originated CDOs.[2074]

Aggressive Sales Efforts. On March 9, 2007, Mr. Sparks emailed a call for "help" to Goldman's top sales managers around the world to "sell our new issues – CDOs and RMBS – and to sell our other cash trading positions."[2075] In response, Mr. Sparks and key sales managers had a dialogue about "reaching the next wave of players here and abroad."[2076]

The Goldman sales manager for Europe and the Middle East suggested that Mr. Sparks focus the CDO sales efforts abroad, because the clients there were not involved in the U.S. housing market and therefore were "not feeling pain":

> "The key to success in the correlation melt-down 2 years ago was getting new clients/capital into the opportunity quickly. Saved/made us a lot of money. Lots of banks and real money clients in Europe and middle east and lots of macro hedge funds are not involved and not feeling pain. In Europe we need a summary of key opportunities/axes and I will get the team to focus on. 2-3 most important things plus sales talking points rather than laundry list."[2077]

Mr. Ostrem, head of the CDO Origination Desk, agreed with expanding Goldman's CDO sales efforts in Europe and the Middle East: "I agree with [sales manager's] comments on new clients. Middle east, french banks, macro hedge funds could and are making these deals 'work' currently."[2078] The following week, Mr. Lehman issued three new sales directives or "axes" to the Goldman sales force placing a priority on selling securities from the Anderson, Timberwolf, and Hudson CDOs:[2079]

> "As per [European/Middle East sales manager's] suggestion last Friday, below are the three main focus areas for SP CDOs/SPG Trading, including Anderson Mezzanine, Timberwolf CDO^2 and secondary CDO positions (Hudson Mezzanine and high grade BBBs)."

Goldman's New York sales office forwarded the axe sheet to the European/Middle East sales office saying: "London – this is for you."[2080]

[2074] Between the fall of 2006 and mid-2007, Goldman originated 14 CDOs, which included or referenced many assets that were from or similar to Goldman's own inventory. The Subcommittee examined seven of those CDOs, and found that 57% of the CDO assets had come from Goldman, including over $3 billion in synthetic assets in which Goldman was the short party, and therefore stood to profit from a decline in the value of the underlying assets. Goldman had unsold securities from a number of these CDOs on its books.

[2075] 3/9/2007 email exchange between Daniel Sparks and sales managers, "help," GS MBS-E-010643213, Hearing Exhibit 4/27-76.

[2076] Id.

[2077] Id.

[2078] Id.

[2079] 3/12/2007 email from David Lehman, "**Internal** Three focus axes for SP CDOs/SPG Trading," GS MBS-E-021895601.

[2080] Id.

In an additional effort to expand Goldman's sales effort, the Mortgage Department's sales syndicate provided a list of "non-traditional buyers" to the CDO and SPG Trading Desks:

> "We have pushed credit sales to identify accounts in the credit space that would follow yield into the ABS [asset-backed security] CDO market, and tried to uncover some non-traditional buyers. ... Below is a list of higher delta accounts uncovered so far; and we continue to push for leads. We are working with sales on these accounts to push our axes."[2081]

Goldman personnel worked diligently to pitch CDO securities to various clients, internal documents show. On March 30, 2007, for example, Fabrice Tourre reported to senior Mortgage Department executives about his efforts and plans to sell the CDO securities:

> "This transaction [Abacus 2007-AC1] has been showed to selected accounts for the past few weeks. Those selected accounts had previously declined participating in Anderson mezz, Point Pleasant and Timberwolfe. ... Plan would still be to ask sales people to focus on Anderson mezz, Point Pleasant and Timberwolfe, but if accounts pass on these trades, steer them towards available tranches in ABACUS 07-AC1 since we make $$$ proportionately with the notional amount of these tranches sold. Wanted to make sure everyone is comfortable with this plan."[2082]

In April 2007, the Mortgage Department issued a new directive to its sales force with a list of new and old CDO securities in its inventory that it wanted sold, including Timberwolf and Anderson as well as CDOs known as Point Pleasant and Altius.[2083] Dissatisfied with the pace of sales, Mr. Sparks suggested issuing a separate axe for each CDO and offering additional sales credits: "Why don't we go one at at a time with some ginormous credits - for example, let's double the current offering of credit for timberwolf."[2084] A sales manager responded: "We have done that with timberwolf already. Don't want to roll out any more focus axes until we get some traction there but at the same time, don't want to stop showing inventory."

"Gameplan" for CDO Valuation Project. By May 2007, CDO sales had slowed significantly. Goldman executives became concerned about the lack of sales prices to establish the

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[2081] 3/21/2007 email from syndicate, "Non-traditional Buyer Base for CDO AXES," GS MBS-E-003296460, Hearing Exhibit 4/27-78.

[2082] 3/30/2007 email from Fabrice Tourre to Daniel Sparks, David Lehman, and others, GS MBS-E-002678071, Hearing Exhibit 4/27-80.

[2083] 4/11/2007 email from syndicate, "GS Syndicate Structured Product CDO Axes (INTERNAL)," GS MBS-E-010533482, Hearing Exhibit 4/27-101. Mr. Sparks forwarded the directive to global senior sales executives with a note: "Your focus on this ax would be very helpful – we are trying to clean up deals and this is our priority."

[2084] 4/19/2007 email from Daniel Sparks to Bunty Bohra, GS MBS-E-010539324, Hearing Exhibit 4/27-102. Mr. Sparks authorized large sales credits on at least one other occasion as well – for sales to cover the Department's $9 million AAA ABX net short position in September 2007. See 9/27/2007 email from Tom Montag to Daniel Sparks, GS MBS-E-010703744 (Mr. Montag asked: "Did we really pay sixty million in gcs [gross credits] on the aaa short covering? Why so high?" Mr. Sparks responded: "It was a very big ax, but sales credits have become such a contentious point that trading team doesn't debate it anymore. The politics around sales credits had become unbelievable and were a hinderance [sic] to business." Mr. Montag replied: "so you overpay?").

value of its CDO holdings.[2085] Goldman needed accurate values, not just to establish its CDO sales prices, but also to value the CDO securities for collateral purposes and to comply with Goldman's policy of using up-to-date market values for all of its holdings. Mr. Sparks expressed concern that the value of the remaining CDO assets were rapidly declining, warning one senior executive: "We are going to have a very large mark down – multiple hundreds. Not good."[2086]

On May 11, 2007, Goldman senior executives, including Mr. Cohn and Mr. Viniar, held a lengthy meeting with Mortgage Department personnel, their risk controllers, and others to develop a "Gameplan" for a CDO valuation project.[2087] The Gameplan called for the Mortgage Department, over the course of about a week, to use three different valuation methods to price all of its remaining CDO warehouse assets and unsold securities from the Goldman-originated CDOs then being marketed to clients.[2088]

A few days later, on May 14, 2007, while the CDO valuation project was underway, Mr. Montag asked Mr. Sparks for an estimate of how much the firm would need to write down the value of its CDO assets. Mr. Sparks responded that the "base case from traders is down [$]382 [million]." He also wrote:

> "I think we should take the write-down, but market [the CDO securities] at much higher levels. I'm a little concerned we are overly negative and ahead of the market, and that we could end up leaving some money on the table."[2089]

The valuation project's results were summarized in a presentation dated Sunday, May 20, 2007, prepared for a 9:00 p.m. conference call that night with Mr. Viniar, in which Mr. Mullen, Mr. Sparks, Mr. Lehman, and others also participated.[2090] Using the three valuation methods, the

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[2085] See, e.g., 5/11/2007 email from Tom Montag to Daniel Sparks, GS MBS-E-019648100.

[2086] 5/11/2007 email from Daniel Sparks to Richard Ruzika, "You okay?," GS MBS-E-019659221.

[2087] Id. ("We had a meeting today with viniar, don [Mullen], mcmahon, my team, controllers, gary [Cohn] on the phone to walk through situation. The market has seized up so much that levels are very hard to determine for the complex products – which also are difficult to model for value due to market changes."); 5/14/2007 email from David Lehman, "Gameplan – asset model analysis," GS MBS-E-001865782 (last email in a longer email chain).

[2088] 5/14/2007 email from David Lehman, "Gameplan – asset model analysis," GS MBS-E-001865782 (last email in a longer email chain) ("Following up from this afternoon's meeting. We are going to better evaluate the CDO^2 risk using three distinct frameworks: 1) Blended scenario analysis using HPA [housing price appreciation;] ... 2) Risk neutral/correlation framework, consistent with our current synthetic ABS CDOs[;] 3) Simplistic loss assumptions on the underlyings / Market Value Coverage"); 5/14/2007 email from Elisha Weisel, "Modelling Approaches for Cash ABS CDO/CDO^2," GS MBS-E-001863618. See also 3/6/2007 email from Elisha Weisel to Daniel Sparks, "Property Derivs," GS MBS-E-010649734 (discussing lack of model or models to consistently value subprime assets).

[2089] 5/14/2007 email from Tom Montag to Daniel Sparks, GS MBS-E-019642797.

[2090] 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, and Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212). This document is identified in the relevant correspondence as "v.4," and appears to be the final version of a draft presentation prepared earlier that day, "Mortgages Department, May 2007," GS MBS-E-001863651, which bears a time and date stamp of May 20, 2007, 2:58 p.m. See also 5/20/2007 Goldman document, "Mortgage Presentation to David Viniar – Dial In Information," GS MBS-E-

presentation estimated that the loss in value and the total writedowns required for the firm's CDO assets were between $237 and $448 million.[2091] The executive summary of the presentation also expressed concern about Goldman-originated CDO securities, especially its two CDO[2] transactions, Timberwolf and Point Pleasant, since "[t]he complex structure of these positions makes them difficult to value and distribute."[2092] The presentation estimated that the market value of those CDO securities, plus the equity and super senior tranches that had been retained by Goldman, was $4.3 billion. The executive summary also estimated the market value of the remaining assets from the CDO warehouse accounts at $1.5 billion, and expressed particular concern about selling $742 million in CDO securities from non Goldman originated CDOs due to "limited liquidity and price transparency in this space." The executive summary stated that since "securitization is no longer a viable exit, the warehouse collateral will be marked to market on an individual basis."[2093]

The presentation also presented "Next Steps." It recommended that Goldman "unwind the warehouses" and use "[i]ndependent teams to continue to value" the CDO securities, equity tranches, and super senior tranches from the Goldman-originated securitizations. It also recommended that sales of the Goldman-originated CDO securities be targeted, first, at four hedge fund customers, Basis Capital, Fortress, Polygon, and Winchester Capital.[2094] The presentation also attached a list of 35 other target customers with notes regarding the status of efforts to sell them CDO securities in the past.[2095]

010787603. The final document, "Mortgages V4.ppt" was emailed to Mr. Sparks and Mr. Mullen, and also messengered to Mr. Mullen's home, at 8:31 p.m. on May 20, immediately before the scheduled call. 5/20/2007 email to Daniel Sparks and Donald Mullen, "Viniar Presentation – Updated," GS MBS-E-010971156.

Goldman also produced a similar document prepared the day before, which may have been an earlier draft of the final presentation. 5/19/2007 Goldman presentation, "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," GS MBS-E-010951926. This document is identified in the relevant correspondence as "Mortgages CDO Origination," and the file name is "Mortgages V3.ppt." This presentation was forwarded to Mr. Sparks for comment on May 19, 2007 at 12:32 a.m., and Mr. Sparks replied with comments at 5:57 p.m. Mr. Sparks forwarded the file "Mortgages V3.ppt" to himself at home on Sunday, May 20, 2007 at 8:07 a.m.

[2091] The writedowns were required, in part, because the assets in the CDO warehouses had generally been marked at cost when purchased or at a value related to the final securitized structure, called "mark-to-securitization-exit." Those valuation methods generally resulted in values well above what the assets would bring if sold individually in a declining mortgage market.

[2092] Id.

[2093] 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212). By May 2007, Goldman had ceased originating any new CDO securitizations.

[2094] Id. The four identified customers appear to be ones which the sales force felt it had the greatest likelihood of success in selling the CDO assets. Two of the customers, Basis Capital and Polygon, had already made recent purchases of Point Pleasant and Timberwolf securities, respectively, from Goldman. See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0226.

[2095] The client list drawn up pursuant to the Gameplan was a stark example of actions taken by Goldman to target specific clients for CDO sales, but different Mortgage Department desks maintained their own "target lists" that focused on specific types of products, specific transactions, and specific types of cross-selling opportunities with other Goldman departments. See, e.g., 3/1/2007 email from Michael Swenson, "names," GS MBS-E-012504595 (SPG Trading target list tiered according to likelihood of purchasing); 2/14/2007 email to Matthew Bieber, "Timberwolf I, Ltd. – Target Account List," GS MBS-E-001996121 (list of U.S. accounts "we should be directly targeting" for Timberwolf sales); 3/2/2007 email from David Lehman, "ABX/Mtg Credit Accts," GS MBS-E-

The CDO valuation project undertaken in May provided clear notice to Goldman senior management at the highest levels that its CDO assets had fallen sharply in value, and that despite their lower value, the Mortgage Department planned to aggressively market them to customers. In an earlier draft of the presentation, the Mortgage Department had also stated that it expected Goldman's CDO and CDO^2 securities "to underperform":

> "The complexity of the CDO^2 product and the poor demand for CDOs in general has made this risk difficult to sell and the desk expects it to underperform."[2096]

Mr. Sparks reviewed that draft language and made comments about other items on the same page, but did not change the phrase, "the desk expects it to underperform."[2097] The same phrase appeared

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011057632 (mortgage credit business shared with SPG Trading Desk "a fairly lengthy list of accounts that are considered to be 'key'"). In December 2006, the Correlation Trading Desk drew up a list of target customers for 2007: the "proposed top 20 correlation customer list." 12/29/2006 email from Fabrice Tourre, "Last call–any other comments on the proposed top 20 correlation customer list," GS MBS-E-002527843, Hearing Exhibit 4/27-61. Mr. Tourre issued a "last call" for comments on the list and suggested focusing on "buy-and-hold rating-base buyers" who might be more profitable for the desk than more sophisticated and demanding hedge fund customers:

> "[T]his list might be a little skewed towards sophisticated hedge funds with which we should not expect to make too much money since (a) most of the time they will be on the same side of the trade as we will, and (b) they know exactly how things work and will not let us work for too much $$$, vs. buy-and-hold rating-based buyers who we should be focused on a lot more to make incremental $$$ next year."

The proposed top 20 list identified a number of European accounts, as well as customers who had purchased asset backed security products from Goldman in the past.

The reference to "buy and hold, ratings-based buyers" was to conservative financial institutions, often insurance companies or pension funds, that tended to hold their investments indefinitely or until maturity, some of which were limited to holding investments with AAA or other investment grade credit ratings. Many of these buyers tended to rely on the AAA rating as a "seal of approval" signaling that the rated instrument offered predictable, safe returns. Many viewed the AAA rating as, in effect, all these buyers thought they needed to know about the CDO securities they were purchasing. See, e.g.,11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715 at 713) ("Investors in subprime related securities, especially higher rated bonds, have historically relied significantly on bond ratings particularly when securities are purchased by structured investing vehicles."). But as one press article explained: "CDO ratings may mislead investors because they can obscure the risk of default, especially compared with similar ratings for bonds, says Darrell Duffie, a professor of finance at Stanford Graduate School of Business in California, who's paid by Moody's to advise the company on credit risk. 'You can't compare these CDO ratings with corporate bond ratings,' Duffie says. 'These ratings mean something else – entirely.'" See 5/31/2007 email to David Lehman and others, "CDO Boom Masks Subprime Losses," GS MBS-E-001865723 at 733. The article pointed out that the lowest grade of corporate bonds rated by Moody's had a default rate of 2.2%, while the default rate for CDOs with the same rating was 24%. Id.

[2096] 5/19/2007 Goldman presentation, "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," GS MBS-E-010951926.

[2097] 5/19/2007 email from Daniel Sparks, "Mortgages CDO Origination Presentation," GS MBS-E-010973174 (Mr. Sparks: "p. 5 again 'marked to securitization exit' [re marked to model language]. . . some A and BBB were sold on the deals [re demand only for the supersenior tranche language]").

in several earlier versions of the presentation as well, but was removed from the final version sent to Mr. Viniar.[2098]

CDO Desk Shutdown. In May 2007, Goldman decided to stop issuing new CDOs, and the head of its CDO Origination Desk, Peter Ostrem, left the firm.[2099] Mr. Sparks named as his replacement David Lehman, who was a senior member of the Structured Product Group (SPG) and head of its CMBS Trading Desk, but had little experience in either underwriting or CDOs.[2100] On May 19, 2007, Mr. Lehman received an email from a former Goldman managing director who wrote: "Congratulations, but seems like you have a lot ofwork [sic] ahead of you."[2101] Mr. Lehman asked Mr. Egol: "What do u th[in]k he means by 'lot of work to do?'"[2102] Mr. Egol responded:

> "I know what he means. If you talk to people knowledgeable about cdos, you will find that external perception of GS franchise in this space is much lower than Sparks and Sobel believed. Over the last 2 years, GS [Goldman Sachs] is perceived to be a bottom quartile abs [asset-backed security] cdo underwriter and to have done several poor deals. There is a reason [the CDO desk] didn't sell much paper. The fact that [the CDO desk] was basically giving money away in these no-fee principal deals and could still only get TCW, GSC (both street wh—e managers) and some start up managers to work with GS is a stain that will take time to remove. The HG [high-grade] deals in particular are very poor. I thought the alladin deals had some potential but fortius 2 is going to be a real mess.
>
> "These are not just my views – they are from customers whose views resonate in the market. Sales people have just been too timid internally or not engaged enough with their accounts to provide accurate feedback. It pains me to say it but citi, ubs, db [Deutsche Bank], lehman and ms [Morgan Stanley] have much stronger franchises – among large dealers only ML [Merrill Lynch] is more reviled than [Goldman's] business. ...
>
> "I should add altius 3 is a doozy as well. I'll spare you the detailed list."[2103]

That May 19, 2007 email provided Mr. Lehman with additional notice of the poor quality of the CDO securities he was charged with selling.

[2098] See 5/19/2007 email from Dan Sparks to Lee Alexander, others, GS MBS-E-010973174 (attached file "Mortgages V3.ppt," GS MBS-E-010973175); and 5/20/2007 9:52 a.m. draft "Mortgages V4.ppt," GS MBS-E-010952331; compared to final version, 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, and Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212).

[2099] 5/17/2007 email from Daniel Sparks to Tom Montag, "Ostrem is resigning," GS MBS-E-019654926.

[2100] 5/11/2007 email from Daniel Sparks, "You okay?," GS MBS-E-019659221 ("I'm going to make a change in the responsibility of the business away from Ostrem to david lehman (with Swenson helping).").

[2101] 5/19/2007 email to David Lehman, "congratulations, but seems like you have a lot of work ahead of you," GS MBS-E-018921924.

[2102] Id.

[2103] 5/19/2007 email from Jon Egol to Daniel Sparks, GS MBS-E-018921924.

The CDO valuation project presentation given the next day, May 20, 2007, recommended that all assets from the CDO warehouse accounts be transferred to the SPG Trading Desk for sale. A CDO "transition book" was created to account for profits and losses from some of the assets, and the transfer took place the following week.[2104] In addition, by June 1, 2007, Goldman eliminated the CDO Origination Desk as a separate entity, and moved all of the remaining Goldman-originated CDO securities to the SPG Trading Desk, where Mr. Lehman was based.[2105] As a result, the SPG Trading Desk, which was a secondary trading desk and had little experience with the greater disclosure obligations involved with selling newly minted securities, became solely responsible for selling all Goldman-originated CDO securities.

Renewed Sales Efforts. After the transfer of the CDO assets, the SPG Trading Desk began to work with the Goldman sales force to identify potential customers and sell the CDO products. On May 24, 2007, a Goldman salesperson contacted Messrs. Sparks and Lehman regarding two potential customers interested in Timberwolf and Point Pleasant securities.[2106] With respect to one customer, the salesman wrote that it was "[n]ot experts in this space at all but [I] made them a lot of money in correlation dislocation and will do as I suggest." With respect to the second customer, the Goldman salesperson wrote that the customer had "just raised another $1bln for their ABS [asset backed security] fund and they are very short the ABX so are natural buyers of our axe."[2107]

A couple of weeks before the CDO valuation project, Goldman's Australia sales representative, George Maltezos, announced he had found a potential Australian buyer for a Goldman CDO being constructed by the Correlation Desk: "I think I found white elephant, flying pig and unicorn all at once."[2108] On the same day the project identified Basis Capital as a primary target for CDO sales, May 11, 2007, Mr. Maltezos sent Mr. Lehman an email saying he would contact the Basis principals as soon as they returned from a business trip the following day.[2109]

On May 24, 2007, the CDO sales dry spell ended, when Paramax Capital Group, a U.S. investment adviser, purchased $40 million in AA Timberwolf securities.[2110] On May 30, Mr. Lehman announced the sale of $20 million in AAA Timberwolf securities to Tokyo Star Bank in Japan.[2111]

[2104] 5/20/2007 email from David Lehman, "ABX hedges – Buy order," GS MBS-E-011106690 ("begin unwinding certain ABX hedges vs. the CDO WH [warehouse] and transition book"); 6/1/2007 email from Mr. Lehman, "CDO Update," GS MBS-E-001866889 ("liquidated warehouses and the trading books").

[2105] Subcommittee interview of David Lehman (9/27/2010).

[2106] 5/24/2007 email from Yusuf Aliredha to Mr. Sparks, Mr. Lehman, and others, "Priority Axes," GS MBS-E-001934732.

[2107] Id.

[2108] 4/27/2007 email from George Maltezos, Goldman Australia sales, to Jon Egol, "utopia," GS MBS-E-003305101.

[2109] 5/20/2007 email from George Maltezos to David Lehman, "T/wolf and Basis," GS MBS-E-001863555.

[2110] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0226.

[2111] 5/30/2007 email from David Lehman, "Timberwolf – Order from Tokyo Star Bank," GS MBS-E-001934058. Tokyo Star Bank was not on the list of "targeted" customers, but had been solicited previously by the Japan sales team pursuant to an earlier sales directive listing Timberwolf as a priority.

CDO Sales in Asia. On June 11, 2007, Mr. Lehman received a note from the Mortgage Department's sales syndicate desk asking whether the directive listing high priority CDO sales could be sent to the Japan sales office, which oversaw sales throughout Asia:

> "Know there was sensitivity w/ sending this out, but asia sales management is asking again. Do you want to consider sending more broadly for asia sales or do you want to stick with the more targeted approach?"[2112]

The Japan sales group wrote that the head of the Japan office "is saying that we need it to go more broadly to all Sales at least in Japan. Given her request twice now and her help in getting focus, think we should at least push this in Japan."[2113] Mr. Lehman responded: "Fine – let's send to all Japan sales then."[2114]

The Japan sales office responded to the new directive with several quick sales. On June 13, 2007, the Japan sales office sent out this celebratory note:

> "**We have moved over $250mm of SP CDO axes to account in Japan, Australia and Korea over the past 2+ weeks.** These are HUGE orders for the firm as they have helped reduce balance sheet risk and further exhibits the importance of the Asia franchise to the global Structured Products Group business. **Note that in line with these trades we have paid out over $14mm of gross credits** – this is clearly the top focus for us now in SP [Structured Product] CDO space. ... Call the SPG Asia desk in Tokyo for updated axes and offer levels. We hope to trade another $20mm of CDO^2 risk with a Japanese account in the coming week+. Thanks."[2115]

Mr. Lehman replied: "Thx for sending this out."[2116]

A few days later, Mr. Lehman reported to senior management that the Japan sales office had been successful in selling another $20 million in CDO securities. Mr. Lehman wrote:

> "Great job by [Japan sales] (again) on our CDO^2 axes. Tonight we will trade $20mm Point Pleasant A1s @90.7 to Tokyo Star Bank .... We hope to trade another $20mm of these bonds next week w/ this account."[2117]

[2112] 6/11/2007 email from syndicate, "GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)," GS MBS-E-001914921-24.

[2113] Id.

[2114] Id. See also "New Investors Board the Asian CDO Train," Creditflux (6/1/2007) (noting that while non bank investors had previously been barred from buying CDO assets in most Asian countries, regulators increasingly allowed life insurance companies and other financial firms to buy them within prescribed limits).

[2115] 6/13/2007 email from Goldman Sachs Japan sales, "**GS SP CDO Axes** – Asia Trade Update (INTERNAL USE ONLY)," GS MBS-E-010803888 [emphasis in original].

[2116] 6/13/2007 email from Goldman Sachs Japan sales, "**GS SP CDO Axes** – Asia Trade Update (INTERNAL USE ONLY)," GS MBS-E-011212260.

[2117] 6/18/2007 email from David Lehman, "$20mm Point Pleasant trade w/ TK Star Bank," GS MBS-E-011136832.

Mr. Lehman sent an email to the head of the Japan sales office letting him know that Goldman's senior management was aware of the sales effort: "Montag ve[r]y involved in this fyi." The Japan sales manager responded: "Yes – he made that clear when he spent almost 20 minutes on the desk with me in TKO [Tokyo] last week going through every potential lead."[2118] That same day, the Japan sales manager sent out a new email urging the trading team to bring in another $20 million from Tokyo Star Bank and promising them additional sales incentives:

> "To reward your strong effort and in hopes of the follow on 20mm order from the client on this deal, we plan on paying you a **total bonus GC payment of $40 / bond** (double our $20/bond for AAA's on our axes that are not lower mezz AAA). We look forward to additional trades from Tokyo Star Bank on our CDO axes."[2119]

During June and July, additional sales took place in Japan, Korea, Taiwan, and Australia.[2120] Goldman also made sales to customers in Europe and the Middle East.[2121]

Despite the sales in June and July, Goldman continued to have a significant inventory of unsold CDO securities. On August 15, 2007, Mr. Mullen even made a casual reference to "our cdo business which remains unsaleable."[2122] If Goldman's CDOs remained unsaleable, however, it was not for lack of trying. In August and September 2007, Goldman switched from its targeted customer approach to issuing broad directives to its entire sales force in the United States and abroad urging them to concentrate on its CDO securities. On August 17, 2007, for example, the SPG Trading Desk issued a new directive to certain salespersons asking them to place a priority on selling interests in two Timberwolf super senior tranches.[2123] These tranches were first in line to receive payments within the CDO and so had the lowest risk. Super senior CDO positions were often sold through CDS contracts, sometimes called super senior swaps, in which the customer took the long side and the CDO originator took the short side, and that's what Goldman wanted the sales force to market. But the following week, on August 23, 2007, Goldman sent a new directive to the sales force urging them to find customers willing to take the short side of the super senior tranches, so the Mortgage Department could take the long side and cover some of its shorts.[2124] When asked his opinion of the directive, the head of Japan sales office expressed skepticism about sales to Asian customers:

> "The only question in my mind is that we have not seen many accounts pushing hard to find ways to get short (typically they are long only). That being said, the reality of the current

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[2118] Id.

[2119] 6/18/2007 email from Goldman Sachs Japan sales, "Point Pleasant 07-A1 // Tokyo Star Bank (internal use only)," GS MBS-E-001920459 [emphasis in original].

[2120] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0226; 7/24/2007 email from [Taiwan], "7/23 CDO/RMBS requests from Taiwan," GS MBS-E-011198375, Hearing Exhibit 4/27-67.

[2121] Id.

[2122] 8/15/2007 email from Donald Mullen, "Post," GS MBS-E-009740784, Hearing Exhibit 4/27-32.

[2123] 8/17/2007 email from Michael Swenson, "Twolf super seniors," GS MBS-E-001927791.

[2124] 8/23/2007 email from Jon Egol, "*** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY), GS MBS-E-011310717.

> market may have finally sunk in and investors may be able to convince their boards [n]ow to put on this sort of trade."[2125]

On September 5, 2007, notwithstanding "the reality of the current market," the SPG Trading Desk issued a "Refresh of Axe Priorities" to its entire sales force.[2126] The directive placed a priority on selling Goldman's residual CDO equity tranches as well as a variety of other assets to help Goldman cover and lock in the profits from its big short. Mr. Sparks emailed senior sales executives:

> "Please let me know how these are going. I am personally going to work to do a better job making sure you understand the things we are trying to achieve as a business. In addition to this, the super-senior ABX trade [Jonathan] egol sent around and general securities financing trades are priorities for us."[2127]

Mr. Sparks forwarded this email to Mr. Cohn, who responded "Great to see."[2128] On September 6, Mr. Sparks emailed the syndicate desk about the "Refresh of Axe Priorities": "Want to get you to send out daily 1-3 priority axes for department – let's discuss."[2129]

Goldman has at times suggested that many of its CDO sales were not the result of affirmative client solicitations and recommendations made by the firm, but were in response to client requests–generally known as "reverse inquiries." In a letter to the Financial Crisis Inquiry Commission, for example, Goldman's General Counsel, Gregory Palm, made the following statement about Goldman's role as an underwriter of synthetic CDOs:

> "Goldman Sachs' CDOs containing primarily residential mortgage-related synthetic assets were initially created in response to the request of a sophisticated institutional investor that approached the firm specifically seeking that particular exposure. Reverse inquiries from clients were a common feature of this market. ... These transactions often are initiated by our clients, and when proposed by us are often in response to previously expressed

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[2125] Id. Around the same time, a Goldman managing director who ran Corporate / PWM [Private Wealth Management] Sales in Japan and sold investments to wealthy individuals, inquired: "Do you have any cdo secondary inventory." 8/21/2007 email from PWM Managing Director, GS MBS-E-010619382. He was advised by the SPG Trading Desk that Goldman was "prohibited from offering cdo paper to all pw [private wealth] clients, even [qualified institutional] pw clients. ... To change this, we would have to petition the committee that oversees such things [the Structured Investment Product Committee]." Id. Mr. Lehman added: "Spoke with Sparks about this. Given the complexity of the product, we would like to handle this on a client by client basis." Id. After receiving information that potential clients had previously purchased ABS CDOs from other firms, Mr. Lehman asked Goldman compliance: "What do we need to do on our end to get this approved." 8/28/2007 email from David Lehman, "Japan PWM Client Interest in ABS CDO (internal use only)," GS MBS-E-011090928. One of Mr. Lehman's team members in the Mortgage Department replied: "Ldl [let's discuss live]. Have info on this." Id. Mr. Lehman replied "xoxo." Id.

[2126] 9/5/2007 email from Michael Swenson, "Refresh of Axe Priorities," GS MBS-E-010684858.

[2127] Id.

[2128] Id.

[2129] 9/6/2007 email from Daniel Sparks to syndicate desk, "Refresh of Axes Priorities," GS MBS-E-010685200.

> investment interests of the client. We are responding to our clients' desires either to establish, or to increase or decrease, their exposure to a position based on their own investment views."[2130]

Mr. Palm's characterization of Goldman as playing only a passive, responsive role is at odds with the firm's documented and concerted efforts to market its CDO securities in the face of investor disinterest and falling values. Throughout 2007, Goldman issued directives to its sales force to sell specific CDO securities on a "first priority" basis. It expanded its selling efforts to "nontraditional buyers" as well as to banks, hedge funds, and other clients in Asia, Europe, and the Middle East. It offered its sales force substantial incentives, such as "ginormous" sales credits, to push the sales to clients.[2131] Under its CDO Gameplan, Goldman "targeted" four primary and 35 secondary clients for CDO sales, and celebrated selling CDO securities to several of them. The weight of this evidence demonstrates that Goldman was soliciting sales rather than responding solely to client inquiries.

CC. CDO Marks

One issue that gained intensity as the mortgage market continued its decline was Goldman's practice of selling CDO securities to customers at one price only to mark down the value substantially within days or weeks of the sale, where Goldman had an ongoing client relationship.

Goldman used a mark-to-market process to manage its risk, which required valuing its holdings on a daily basis to reflect their current market value.[2132] In practice, many of its mortgage related assets were marked on a monthly rather than daily basis, including many of its CDO securities.[2133] Nonetheless, Goldman appears to have been more active in re-marking the value of its mortgage related assets than other Wall Street firms and to have used lower marks than many of its competitors.[2134] Goldman also had a process for automatically marking down its internal value of any asset held longer than a specified period of time, in order to encourage its trading desks to sell their aged assets.[2135]

[2130] 3/1/2010 letter from Goldman Sachs to the Financial Crisis Inquiry Commission, GS-PSI-01310 at 16.

[2131] 4/19/2007 email from Daniel Sparks, "*UPDATE* GS Syndicate Structured Product CDO Axes," GS MBS-E-010539324, Hearing Exhibit 4/27-102.

[2132] Subcommittee interview of David Viniar (4/13/2010) and Craig Broderick (4/9/2010).

[2133] See, e.g., 2/2007 Goldman email chain, "FYIs," GS MBS-E-002339552 (regarding residential credit scratch & dent loan book: "Has the biz agreed with controllers about how frequently each book is to be marked? Daily? Weekly? Monthly?"; Mr. Sparks' response: "For this book I think monthly is the right way as the data comes monthly on performance. Dramatic mkt moves could change things."). CDOs were often marked monthly, as hedge fund clients generally needed month-end valuations of CDOs in their portfolios to enable them to report hedge fund Net Asset Values (NAVs) to clients. See, e.g., 6/28/2007 email from Bear Stearns, "Missing Marks (15).xls," GS MBS-E-001965860 (portfolio manager requesting month-end marks: "I need the 4 bonds marked for 5/31/07 we still need to report an NAV."); 6/19/2007 email from Lester Brafman to Jon Egol, GS MBS-E-003373736 (regarding Abacus CDO securities, Mr. Egol wrote: "We mark them monthly").

[2134] See, e.g., 2/12/2007 email from Daniel Sparks, "Post today," GS MBS-E-009763506 (New Century "claim[s] we are the only ones being harsh. C-Bass claims we are the only one margin calling. Our marks are appropriate for moves in the market. More margin calls going out today.").

[2135] Subcommittee interview of David Lehman (4/12/2010).

During 2007, Goldman's markdowns of the value of its CDO securities became a source of dispute with its customers.[2136] Some clients were negatively affected in a variety of ways when lower values were assigned to Goldman's CDO securities. Some had purchased their CDO securities through "repo" financing arrangements with Goldman; under those arrangements, a decline in the value of the CDO securities being financed required the client to post more cash margin with Goldman. In a few other instances, clients had invested in CDO securities through a CDS contract with Goldman. If the CDO securities declined in value, the CDS contracts required those clients to post more cash collateral with Goldman. In other cases, clients did not have to post additional cash collateral, they simply incurred losses from the lower values.[2137]

Lower marks also had significance for Goldman internally, since a CDO security with a marked down value might reduce the firm's profits and reduce its long position. Alternatively, if Goldman held the short side of an investment, a lower mark might increase the firm's profits, increase the value of its short position, and bring in more cash from the long parties. When the firm held a proprietary position in opposition to the position held by a client, the fact that Goldman was marking the value of its own position created a conflict of interest, since Goldman would benefit as the client lost money.

[2136] Mr. Broderick explained in his interview with the Subcommittee that because of the volatility in the subprime market, Goldman had an unusually large number of disputes with customers over marks or collateral valuation during 2007. Subcommittee interview of Craig Broderick (4/9/2010). See also 8/2/2007 email from Stacy Bash-Polley, "Marks Summary," GS MBS-E-013349723 (transmitting complaints from eight clients that Goldman's marks were far lower than those of other dealers); 2/12/2007 email from Daniel Sparks, "Post today," GS MBS-E-009763506 (New Century "claim[s] we are the only ones being harsh. C-Bass claims we are the only one margin calling."); 8/10/2007 Goldman memorandum, "Summary of German Bank US Sub Prime Exposure," GS MBS-E-009994305. This memorandum was generated by Goldman's European Investment Banking Division, FICC Sales and Credit. It highlighted losses incurred by many German banks due to markdowns in the value of U.S. subprime assets, necessitating several European Central Bank bailouts. The memorandum stated: "We understand from clients that valuation marks provided by Goldman Sachs on ABS are substantially lower than the competition's valuations. As a result, clients are irritated by the valuation difference."

Goldman's dispute with AIG FP is another example. The two companies disagreed over both the marks and the amount of collateral and margin that AIG had to post with Goldman in connection with various mortgage products. At one point in the dispute, Co-President Jon Winkelried wrote to his colleagues: "[O]ne thing we're not going to do is compromise on what we think the right marks are and our margin process." 8/2/2007 email from Jon Winkelried, "Aig collateral call," GS MBS-E-010055302. Goldman's dispute with AIG continued for over a year until the Federal Reserve, through the Maiden Lane III transaction, ultimately ensured that Goldman and its customers received 100 cents on the dollar on the bulk of their disputed claims against AIG. Subcommittee interview of David Viniar (4/13/2010). Goldman later told regulators that it had more collateral disputes than anticipated during the financial crisis. 11/13/2007 Goldman email, GS MBS-E-010023525 (attachment, 11/14/2007 "Tri-Lateral Combined Comments," GS MBS-E-010135693-715 at 695). According to Goldman documents, as late as October 30, 2007, its Mortgage Department generated approximately 66% of all derivative collateral disputes by Goldman customers. 10/30/2007 Goldman presentation, "Derivative Collateral Dispute Summary," GS MBS-E-009882064.

[2137] See, e.g., 8/10/2007 Goldman memorandum, "Summary of German Bank US Sub Prime Exposure," GS MBS-E-009994305 (highlighting losses incurred by many German banks due to markdowns in the value of U.S. subprime assets, necessitating several European Central Bank bailouts).

Gameplan Markdowns. When, on May 11, 2007, Goldman executives and the Mortgage Department decided to embark upon a CDO valuation project, Goldman's Chief Risk Officer, Craig Broderick, sent an email to his team to discuss the consequences of lower CDO values for Goldman's clients. He wrote:

> "Sparks and the Mtg [Mortgage] group are in the process of considering making significant downward adjustment to the marks on their mortgage portfolios esp[ecially] CDOs and CDO squared. This will potentially have a big P&L [profit and loss] impact on us, but also on our clients due to the marks and associated margin calls on repos, derivatives and other products. We need to survey our clients and take a shot at determining the most vulnerable clients, knock on implications, etc."[2138]

Mr. Broderick called for a client survey to identify which clients were "most vulnerable" to financial difficulty if Goldman's CDO securities were marked down in value, and they either incurred losses or were required to post more cash margin or collateral. He also wrote: "This is getting lots of 30th floor attention right now."[2139]

Some Goldman managing directors also raised the issue of selling CDO securities to clients at a price that would be marked down almost immediately. In a May 11 email to colleagues, for example, Goldman senior executive, Harvey Schwartz, wrote: "[D]on't think we can trade this with our clients andf [sic] then mark them down dramatically the next day."[2140] Later that day, in an exchange of emails with Mr. Schwartz, Mr. Montag, and Mr. Sparks, Don Mullen acknowledged Mr. Schwartz's concern "about the representations we may be making to clients as well as how we will price assets once we sell them to clients."[2141] The Goldman executives also agreed, however, not to "slow or delay" efforts to sell the CDO securities, if the sales force received "strong bids."[2142]

The May 2007 CDO valuation project resulted in lower values for many of Goldman's CDO assets. While those internal markdowns were taken at month's end, around May 25, 2007, Goldman continued to price the CDO securities it was selling at much higher levels, creating the potential for a rapid markdown after an asset was sold.[2143]

"Monster CDO Re-Mark." Six weeks later, in mid-June, the Mortgage Department learned that two Bear Stearns hedge funds with a $17 billion portfolio of subprime assets were in

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[2138] 5/11/2007 email from Craig Broderick, "CDOs - Mortgages," Hearing Exhibit 4/27-84.

[2139] Id. The reference to the "30th floor" was the floor on which Goldman's most senior executives had office space in its New York headquarters.

[2140] 5/11/2007 email from Harvey Schwartz to Daniel Sparks, Tom Montag, and others, GS MBS-E-010780864. As explained earlier, some clients were affected by Goldman's marks even after completing purchase of CDO securities, due to repo financing margin requirements, CDS collateral requirements, or other arrangements.

[2141] 5/11/2007 chain of email exchanges among Messrs. Mullen, Schwartz, Montag, and Sparks, GS-MBS-E-010780849, Hearing Exhibit 4/27-103.

[2142] Id.

[2143] See, e.g., discussion of Timberwolf CDO, below.

financial distress. The Mortgage Department immediately initiated an effort to build a new, large short position to take advantage of the expected drop in the value of subprime mortgage assets.[2144] Within two weeks, Goldman had amassed a large number of CDS contracts shorting a variety of subprime mortgage assets. By June 22, 2007, Goldman's short position reached its peak size of approximately $13.9 billion.[2145]

The Bear Stearns hedge funds failed in mid-June, subprime assets plummeted in value, and Goldman established its big short by the end of the month. After its new net short was in place, the Mortgage Department implemented a series of large markdowns in the value of its RMBS and CDO assets. The markdowns had the dual effect of increasing the value of Goldman's net short position, while reducing the value of many of its customers' holdings. Due to their financing arrangements or CDS contracts, the lower values meant that some of the affected clients also had to post more margin or cash collateral with the firm. Goldman issued broad and deep markdowns of its clients' positions at month's end in June, July and August 2007, as well as on intermittent dates in response to mass ratings downgrades of specific RMBS securities in July and August or to individual customer credit issues.

One of the markdowns took effect on July 25, 2007,[2146] which Mr. Sparks called "the CDO monster remark."[2147] In an email to Mr. Mullen, Mr. Sparks wrote: "We made massive mark adjustments this week, pushed them through because of basis and counterparty exposure."[2148] In a separate email to Mr. Montag, Mr. Sparks made clear that by "basis," he meant Basis Capital, an Australian hedge fund that had financed the purchase of Timberwolf and other CDO securities using Goldman funds and defaulted on its margin and collateral obligations. Goldman then repurchased those securities at a low price and adjusted its marks for other clients.[2149]

The CDO markdown drew an immediate negative reaction from Goldman's customers. On July 31, 2007, an internal report was sent to a dozen Goldman senior executives and Mortgage Department personnel regarding pending "mortgage derivative collateral disputes," meaning customers who were disputing the lower valuations and resulting cash margin and collateral calls.[2150] The email identified the "10 largest disputes," naming AIG Financial Products, Morgan

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[2144] See Section (3)(a), above.

[2145] 4/2010 "Goldman Sachs Mortgage Department Total Net Short Position, February - December 2007 in $ Billions (including All Synthetic and Cash Positions in Mortgage Related Products)," Hearing Exhibit 4/27-162.

[2146] See 7/25/2007 email from Arbind Jha to Kevin Kao, "Cash bonds," GS MBS-E-011128623 ("huge changes in marks today").

[2147] 7/29/2007 email from Daniel Sparks to Tom Montag, "Problem," GS MBS-E-010876595 ("[w]e probably should have taken more time to put through the CDO monster remark").

[2148] 7/29/2007 email from Daniel Sparks to Mr. Mullen, "Problem," GS MBS-E-010876565.

[2149] 7/29/2007 email from Daniel Sparks to Tom Montag, "Problem," GS MBS-E-010876595 ("we rushed it because of Basis and a desire to protect ourselves against counter-parties"). See also 7/13/2007 email from John McHugh to Michael Swenson and David Lehman, "Talking Points Needed for Gary Cohn," GS MBS-E-010853931 ("BSAM [Bear Stearns Asset Management] & other hedge fund managers (most recently Basis Capital) announced they were halting fund redemptions and/or liquidating holdings, with some likely to fail.").

[2150] See 7/31/2007 email chain between Tom Montag and Lloyd Blankfein, "Mortgage Derivative Collateral Disputes – 7/31 Update (COB 7/27 marks)," GS MBS-E-009691545.

Stanley, and Deutsche Bank, among others. It stated: "The overall derivative collateral dispute amount is now $7.0 billion."[2151] The email also noted that the total in dispute from the prior week had been $3 billion, which suggests that the July 25 markdowns had caused the amount in dispute to more than double in a week. Mr. Montag immediately forwarded the report to Mr. Blankfein: "7 billion of collateral disputes!!!"[2152]

Mr. Blankfein responded: "Make sure they prioritize weaker credits where our risk is threatening."[2153] In other words, Mr. Blankfein directed Goldman personnel to focus on disputes with clients that had the weakest credit, and might have fewer resources to pay the amounts owed to Goldman as a result of the downward marks. The same markdowns causing losses for those clients were simultaneously increasing the profitability of Goldman's net short.

Two weeks later, the Mortgage Department implemented another large markdown, this time related to Goldman's Abacus CDOs. This markdown took place on August 16, 2007, after the Correlation Trading Desk adjusted its correlation assumptions in a way that resulted in steep markdowns for Abacus CDO customers and a corresponding $94 million increase in the value of the Correlation Trading Desk's net short positions on the same CDOs.[2154] The Mortgage Department as a whole reported a $121 million profit that same day. Mr. Sparks reported to senior management: "94mm ... is from correlation adjustment in ABX (from 50 to 70%) as market observability better recently, rest is from outright shorts."[2155] Also on August 16, 2007, Mr. Egol listed the Correlation Trading Desk's Top Ten Winners and Losers due to Goldman's markdowns and calculated that "[t]he aggregate P&L in the book is $405mm (ie net markdown to customers), much of this is scattered across a bunch of cashflow CDOs."[2156]

DD. Customer Losses

Goldman's internal marks demonstrate that, at the time it sold its CDO securities, Goldman's senior management knew its sales force was selling CDO securities at inflated prices and that the CDO securities were also rapidly losing value. In addition, soon after selling the CDO securities, Goldman marked down their value, causing some customers to incur substantial losses

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[2151] Id.

[2152] Id. By late August, Goldman had instituted a system that required senior management pre-approval for large markdowns. On August 28, 2007, Mr. Lehman sent Mr. Sparks a list of "Mark changes which are greater than 5% / greater than 10%" for his approval. 8/28/2007 email from David Lehman to Daniel Sparks, GS MBS-E-010623779. Mr. Lehman asked whether he should ask Mr. Mullen for approval of the changes greater than 10%, and Mr. Sparks told him to do so. Id.

[2153] Id.

[2154] 8/16/2007 email from Daniel Sparks, "Mort P&L explanation," GS MBS-E-010680327. Since Goldman took the entire net short side in many of its Abacus CDOs, the customers' losses translated directly into gains for Goldman.

[2155] Id. The Correlation Trading Desk reported $145 million in total profits, which were then offset by losses on other mortgage desks.

[2156] 8/16/2007 email from Jon Egol to Michael Swenson, "Projected Corr Customers winners/losers from single-name mark changes," GS MBS-E-011092473, Hearing Exhibit 4/27-33.

within days or weeks of a purchase and undergo substantial margin and collateral calls that caused additional financial distress.[2157]

One Goldman salesperson expressed remorse over the impact on their customers of CDO sales followed by large markdowns within days or weeks of the client's purchase:

> "Real bad feeling across European sales about some of the trades we did with clients. The damage this has done to our franchise is significant. Aggregate loss for our clients on just ... 5 trades alone is 1bln+."[2158]

At the same time, the salesperson thought the sales force deserved a bigger share of the profits generated for the firm:

> "In addition team feels that recognition (sales credits and otherwise) they received for getting this business done was not consistent with the money it ended up making/saving the firm."[2159]

A Goldman salesperson in Taiwan sought help in explaining Goldman's markdowns to a bank whose CDO investment had been marked down from about 97 to about 45 cents on the dollar in a matter of weeks:

> "[B]ank just bought the altius deal from gs [Goldman Sachs] 5 weeks ago and the mtm [mark-to-market] dropped over 50%. We understand the liquidity is thin, but I really need some info to support this price. ... This is very important as this transaction has a lot to do with our reputation in taiwan market. I understand all deals are down and spread is trading wider now. Unless the principal is at risk now, the mtm is not supposed to drop so quickly during such short period of time."[2160]

On August 2, 2007, Stacy Bash-Polley, a Goldman senior sales executive, sent an email to Messrs. Montag, Mullen, Schwartz, and Sparks outlining eight specific instances in which clients had complained that Goldman's marks were significantly lower that those of other dealers.[2161] Her summary of client concerns included the following:

[2157] See, e.g., 5/11/2007 email from Craig Broderick, "CDOs - Mortgages," GS MBS-E-009976918, Hearing Exhibit 4/27-84; see also 8/10/2007 Goldman internal memorandum, "Summary of German Bank US Sub Prime Exposure," GS MBS-E-009994305.

[2158] 10/12/2007 email to Daniel Sparks, "US ABS SS Intermediation Trades," GS MBS-E-013706095, Hearing Exhibit 4/27-70.

[2159] Id.

[2160] 7/24/2007 email from [Taiwan], "7/23 CDO/RMBS requests from Taiwan," GS MBS-E-011198375, Hearing Exhibit 4/27-67.

[2161] 8/2/2007 email from Stacy Bash-Polley to Messrs. Montag, Mullen, Schwartz, and Sparks, "Marks Summary," GS MBS-E-013349723.

"–They have not agreed with our process and recently asked other dealers to analyze – say that we are off significantly from where other dealers are modeling this ....

–We took their mark on Fort Denison from 93.16 to 40.00[.] They admit the AAA CDO mkt is off substantially but feel that this particular bond [has objective characteristics that should make it] ... perform better than the junior AAA market as a whole. Meanwhile, we took Hudson Mezz ... AAA from 80.4 to 65. They would like our thoughts as to why Fort Den[ison] was marked down so much more. ...

–The Alt-A marks were particularly punitive. ... Our offerings are still 10-20 points higher than the marks. Look at GSAMP 2007-7. On financing, [customer] said our HC [haircuts] ... were by far the most onerous of all dealers. ...

–They bought AAA cdos .... They have communicated to sales that GS is by far an outlier and they will never be able to buy another cdo from us based on their lack of confidence in understanding how we are coming up with marks. ...

–Issues with their CDO marks. Said we were many many points behind where other dealers were marking similar positions."[2162]

Even before this email, Goldman's sales force had been vocal in its criticism of Goldman's low marks which were making their sales job more difficult. On June 21, 2007, Mr. Sparks stated in an email: "sales is making significant noise about gs notable conservatism in marking and haircuts."[2163] Mortgage Department personnel dismissed such criticisms out of hand. One managing director responded: "Would have tho[ugh]t that bsam event [failure of Bear Stearns Asset Management hedge funds] would provide reasonable explanation as to why our marking and haircuts r ok." Mr. Sparks replied: "Kind of stunning – but we are hearing it."

Goldman generally declined to offer any written explanations of its marks to clients, and rarely offered any financial accommodation or compromise regarding the marks or related collateral calls.[2164] On one occasion, when a sales representative asked about providing information about the

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[2162] Id.

[2163] 6/21/2007 email from Mr. Sparks to Lester Brafman, "Repo," GS MBS-E-010847490.

[2164] The Subcommittee did identify at least one instance of a mark change. Goldman's China sales representative contacted the ABS Desk to request an increase in a mark on an RMBS security:

> "[C]an we try our best to show 'better' indicative prices for [client]? ... [C]lient is under pressure of being questioned that they bought something looks really bad. ... [W]e showed a price of LBMLT 06 A A1 as of 95-00 . . . this is something hard for client to believe .... [W]e need them to think of GS as the best firm, and we need them to be our best client when next biz boom comes. ... We would highly appreciate if a slightly aggressive price can be showed from trading desk."

5/21/2007 email from China sales representative to Edwin Chin and others, "Mark to market prices," GS MBS-E-011068490. Mr. Chin moved the mark in question from 95 to 98, and wrote:

firm's CDO marks to a customer, Mr. Lehman wrote: "We cannot put this on paper - It concerns me they want something specifically in writing."[2165] When told that other dealers had provided the customer with marks and a written description of their CDO pricing methodologies, Mr. Lehman responded: "Our marking policy is a market price (bid and/or offer) – We do not have a written methodology for pricing and we should tell them that."[2166] In another instance, when a client asked for marks for the two prior months related to a CDO it was considering buying, Mr. Lehman wrote: "Verbal only .... Want to give them our tho[ugh]ts on market levels, not 'marks.'"[2167] In his 2007 performance self-evaluation, the head of the SPG Trading Desk, Michael Swenson, wrote:

> "I spent numerous hours on conference calls with clients discussing valuation methodologies for GS issued transactions in the subprime and second lien space .... I said 'no' to clients who demanded that GS should 'support the GSAMP' program [Goldman RMBS securities] as clients tried to gain leverage over us. Those were unpopular decisions but they saved the firm hundreds of millions of dollars."[2168]

In November 2007, Goldman analysts issued a research report to clients about the crisis in the mortgage market.[2169] Goldman predicted that the mortgage market crisis was likely to continue and would have serious implications for a significant number of financial institutions: "Write-downs and losses will continue to mount . . . . [M]anagements will need to repair some seriously damaged balance sheets."[2170] Goldman estimated that industry-wide losses reflecting markdowns in subprime mortgage CDOs would approach $150 billion, of which about $40 billion would be taken in the third and fourth quarters of 2007.[2171]

Customers who purchased CDO assets from Goldman in 2007 generally suffered substantial losses from those investments, and several went bankrupt, including IKB, a German bank, and Basis Capital, the Australian hedge fund.[2172] Goldman was not only aware of its clients' predicaments,

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> "After much discussion internally, we will improve our bid to 98-00 given the market color we have observed in the past two days. The markdown was mostly a reaction to rating agency downgrade and partly reflected the illiquidity of the position, but upon further analysis we have gotten more comfortable with the risk position and agree it should be marked at a higher price."

Id.

[2165] 8/6/2007 email from David Lehman to Japan sales, "RE: Tokyo Star," GS MBS-E-001927891.

[2166] Id.

[2167] 6/6/2007 email from David Lehman to Japan sales, "Point Pleasant Marks – request from Tokyo Star Bank," GS MBS-E-001912408-10 at 9.

[2168] 9/26/2007 Goldman Sachs 2007 Performance Review for Michael Swenson, "Reviewee's Feedback," GS-PSI-02399, Hearing Exhibit 4/27-55b.

[2169] 11/20/2007 email from Thomson IFR - ABS, "ABS: Market Tense as Goldman Predicts RMBS CDO Problems to Drag On," GS MBS-E-013782989.

[2170] Id.

[2171] Id.

[2172] See 9/17/2007 Goldman presentation to Board of Directors, "Residential Mortgage Business, Global Impact of the Mortgage Crisis," at 2, GS MBS-E-001793840, Hearing Exhibit 4/27-41 (noting bankruptcies of Goldman clients IKB and Basis Capital). See also 8/10/2007 Goldman internal memorandum, "Summary of German Bank US Sub Prime Exposure," GS MBS-E-009994305; 11/27/2007 email from David Lehman to Daniel Sparks, "ACA,"

but in some cases, Goldman purchased CDS protection or equity puts on its clients' stock, essentially betting that the stock price would fall or the company would lose value. For example, after ACA Financial Guaranty Corp., the parent company of ACA Management which acted as the collateral manager of Abacus 2007-AC1, purchased Abacus securities, Goldman purchased the short side of a CDS contract that referenced ACA Financial Guaranty. ACA Financial Guaranty encountered extreme financial distress in late 2007.[2173]

At the Subcommittee hearing, Goldman executives were asked about the four Goldman-originated CDOs highlighted in this Report, Hudson 1, Anderson, Timberwolf, and Abacus 2007-AC1.[2174] Senator John Tester noted Mr. Birnbaum's testimony that, in 2007, Goldman could "see some things happening,"[2175] and that Goldman itself was betting against the mortgage market. Senator Tester asked Mr. Sparks, in light of those developments, "how [he] got comfortable with sales," and how he "in good faith" sold the CDO securities to Goldman's customers – how he could "sell them out and collect the fees and make the dough?"[2176] Senator Tester and Mr. Sparks then had the following exchange:

> Senator Tester: Every one of these [CDOs] were – it looks like a wreck waiting to happen because they were all downgraded to junk in very short order.
>
> Mr. Sparks: Well, Senator, at the time we did those deals, we expected those deals to perform.
>
> Senator Tester: Perform in what way?
>
> Mr. Sparks: To not be downgraded–
>
> Senator Tester: Perform to go to junk, so that the shorts made out?
>
> Mr. Sparks: To not be downgraded to junk in that short a time frame. In fact, to not be downgraded to junk." ...
>
> Senator Tester: Do you feel confident that the information about each one of these [CDOs] ... was given to the investors, all of the information that was out there, and the credit rating agencies too?

GS MBS-E-013746511 (discussing "what would happen upon an ACA bankruptcy (which is the most likely scenario in our opinion).").

[2173] See 6/21/2007 email from Fabrice Tourre, "Post on ACA," GS MBS-E-002562148. See also ACA Financial Guaranty Corp. v. Goldman, Sachs & Co., Complaint (filed 1/6/2011, Sup. Ct. N.Y) at ¶ 7 (ACA now "operates as a run-off insurance company."), available at http://www.aca.com/press/pdfs/2011/20110106-GoldmanComplaint.pdf.

[2174] April 27, 2010 Subcommittee Hearing at 66.

[2175] Id.

[2176] Id.

> Mr. Sparks: Well, I generally feel that the disclosure for the new issues that Goldman Sachs brought was good."[2177]

While Mr. Sparks testified that, in 2007, the Mortgage Department expected its CDOs "to perform," a contemporaneous draft presentation that he helped prepare in May 2007 stated that the "desk expects [the CDOs] to underperform."[2178] Many other emails provide his negative views of the CDO market at the time, including emails in which Mr. Sparks described the subprime market as "bad and getting worse,"[2179] and directed Goldman's mortgage traders to "get out of everything,"[2180] and "stay on the short side."[2181] He wrote, among other things: "Game over,"[2182] "bad news everywhere," and "the business is totally dead."[2183] As Senator Tester noted, many of Mr. Sparks's dire predictions were made before three of the four CDOs discussed at the hearing were even offered to customers.[2184]

Mr. Sparks also testified that the Mortgage Department did not expect the Goldman-issued CDOs to be downgraded, but all were within a year of issuance. In April 2007, for example, six of the 20 RMBS deals that comprised the ABX Index were downgraded,[2185] and the Hudson CDO that referenced them followed soon after. Many of the RMBS securities referenced in the other three CDOs were downgraded within three months of the issuance of the last CDO in April 2007, making the downgrade of the CDOs themselves all but inevitable.[2186] For example, when Moody's and S&P announced their first mass downgrades of RMBS securities on July 10, 2007, the S&P downgrade affected 35% of the assets in Timberwolf.[2187] Ultimately, all of the CDOs discussed at the Subcommittee's hearing were downgraded to junk status. On October 26, 2007, a Goldman employee sent an email about Abacus 2007-AC1, even noting this dubious distinction:

[2177] Id. Mr. Sparks went on to say: "I mentioned we made some bad business decisions. These deals performed horribly. That is bad. ... [T]hat said, just because one person in my business unit or a few people might have had one view, I can tell you there were a lot of people in my business unit that had a very different view, and there were a lot of investors that had a very different view." Id.

[2178] See 5/19/2007 draft Goldman presentation, "Mortgages CDO Origination – Retained Positions & Warehouse Collateral, May 2007," GS MBS-E-010951926.

[2179] 2/8/2007 email from Mr. Sparks, "Post," Hearing Exhibit 4/27-7.

[2180] 3/3/2007 email from Mr. Sparks, "Call," Hearing Exhibit 4/27-14.

[2181] 3/8/2007 email from Mr. Sparks, Mortgage risk," Hearing Exhibit 4/27-75.

[2182] 3/12/2007 Goldman memorandum to Firmwide Risk Committee, "March 7th FWR Minutes," GS MBS-E-00221171, Hearing Exhibit 4/27-19.

[2183] 2/21/2007 email from Daniel Sparks to Jon Winkelried, "Mortgages today," GS MBS-E-010381094, Hearing Exhibit 4/27-10.

[2184] April 27, 2010 Subcommittee Hearing at 66. The Anderson, Timberwolf, and Abacus 2007-AC1 CDOs were issued in March and April 2007.

[2185] 4/27/2007 email from Deeb Salem to Michael Swenson, GS MBS-E-012432706 (6 of 20 deals in ABX Index put on watch or downgraded).

[2186] 7/10/2007 email to George Maltezos, "GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS," GS MBS-E-001837256; 7/10/2007 email from Goldman Sachs analyst to Goldman Sachs Japan salesman, "GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS," GS MBS-E-001990255 (updating percentage exposure from 25% to 35%).

[2187] Id.

"This deal was number 1 in the universe of CDO's that were downgraded by Moody's and S&P. 99.89% of the underlying assets were downgraded."[2188]

(b) Goldman's Conflicts of Interest

In late 2006 and 2007, Goldman's securitization business was marked, not just by its hard sell tactics, but also by multiple conflicts of interest in which Goldman's financial interests were opposed to those of its clients. The following examples illustrate the problem.

(i) Conflicts of Interest Involving RMBS Securities

In 2006 and 2007, Goldman originated 27 CDO and 93 RMBS securitizations. Beginning in December 2006, Goldman originated and aggressively marketed some of these securities at the same time that subprime and other high risk loans were defaulting at alarming rates, the subprime and CDO markets were deteriorating, and Goldman was shorting subprime mortgage assets. At times, Goldman originated and sold RMBS securities that it knew had poor quality loans that were likely to incur abnormally high rates of default. At times, Goldman went further and sold RMBS securities to customers at the same time it was shorting the securities and essentially betting that they would lose value. Two examples illustrate how Goldman constructed and sold poor quality RMBS securities and profited from the decline of the very securities it had sold to its clients.

Long Beach RMBS. The first example involves Washington Mutual Bank (WaMu) and its subprime lender, Long Beach Mortgage Corporation. WaMu, Long Beach, and Goldman had collaborated on at least $14 billion in loan sales and securitizations.[2189] In February 2006, Long Beach had a $2 billion warehouse account with Goldman, which was the largest of Goldman's warehouse accounts at that time.[2190]

Long Beach was known within the industry for originating some of the worst performing subprime mortgages in the country. As explained in Chapter III, in 2005, a surge of early payment defaults in its subprime loans required Long Beach to repurchase over $837 million of nonperforming loans from investors, as well as book a $107 million loss.[2191] Similar EPD problems affected its loans in 2006 and 2007. WaMu reviews and audits of Long Beach, as well as examinations by the Office of Thrift Supervision, repeatedly identified serious deficiencies in its lending practices, including lax underwriting standards, unacceptable loan error and exception rates, weak risk management, appraisal problems, inadequate oversight of third party brokers selling loans to the firm, and loan fraud. While these reviews were not available to the public, the performance of Long Beach paper was. Long Beach securitizations had among the worst credit losses in the

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[2188] 10/26/2007 email from Goldman salesman to Michael Swenson, "ABACUS 2007-AC1 – Marketing Points (INTERNAL ONLY) [T-Mail]," GS MBS-E-016034495.

[2189] See "List of WaMu-Goldman Loans Sales and Securitizations," Hearing Exhibit 4/13-47b.

[2190] 2/13/2006 Goldman chart, "Current Warehouse Facilities and Funded Balances," GS MBS-E-001157934.

[2191] See Chapters III and IV, above.

industry from 1999-2003; in 2005 and 2006, Long Beach securities were among the worst performing in the market.[2192]

Nevertheless, in May 2006, Goldman acted as co-lead underwriter with WaMu to securitize about $532 million in subprime second lien mortgages originated by Long Beach. Long Beach Mortgage Loan Trust 2006-A ("LBMLT 2006-A") issued approximately $495 million in RMBS securities backed by those Long Beach mortgages. The top three tranches, representing about 66% of the principal loan balance, received AAA ratings from S&P, even though the pool contained subprime second lien mortgages – loans which could recover funds in the event of a default only after the primary loan was repaid — and even though the loans were issued by one of the nation's worst performing mortgage lenders. Yet Goldman was able to use two-thirds of that extremely risky debt to issue AAA rated securities which Goldman then sold to its customers.

In less than a year, the Long Beach loans began incurring delinquencies. In February 2007, a Goldman analyst reported internally that all of Goldman's 2006 subprime second lien RMBS securities were deteriorating in performance, but "deals backed by Fremont and Long Beach collateral have generally underperformed the most."[2193] The analyst predicted "lifetime losses in the teens, and over 20% in some deals." By May 2007, the cumulative net loss on the LBMLT 2006-A mortgage pool had climbed to over 12%, eliminating most of the financial cushion protecting the investment grade securities from loss. That month, S&P downgraded six out of the seven credit ratings for the mezzanine tranches of the securitization. The Long Beach securities plummeted in value.

Goldman held some of the unsold Long Beach mezzanine securities on its books, meaning LBMLT 2006-A securities that carried credit ratings of BBB or BBB-. Goldman had also purchased the short side of a CDS contract that would pay off if those same securities lost value. On May 17, 2007, Deeb Salem, a trader on the Mortgage Department's ABS Desk, learned of additional losses in the Long Beach securitization and wrote to his supervisor Michael Swenson with the news:

> "[B]ad news … [The loss] wipes out the m6s [mezzanine tranches] and makes a wipeout of the m5 imminent. … [C]osts us about 2.5 [million dollars]. … [G]ood news ... [W]e own 10 [million dollars] protection at the m6 … [W]e make $5 [million]."[2194]

In other words, Goldman lost $2.5 million from the unsold Long Beach securities still on its books, but gained $5 million from the CDS contract shorting those same securities. Overall, Goldman profited from the decline of the same type of securities it had earlier sold to its customers.

[2192] See, e.g., 4/14/2005 OTS email, "Fitch," OTSWME05-012 0000806, Hearing Exhibit 4/13-8a.

[2193] 2/8/2007 email from Goldman analyst to Mr. Sparks, Mr. Gasvoda, and others, "2006 Subprime 2nds Deals Continue to Underperform **INTERNAL ONLY**," GS MBS-E-003775340, Hearing Exhibit 4/27-167d.

[2194] 5/17/2007 email from Deeb Salem to Michael Swenson, "FW: LBML 06A," GS MBS-E-012550973, Hearing Exhibit 4/27-65.

By May 2008, even the AAA securities in LBMLT 2006-A had been downgraded to default status. By March 2010, the securities recorded a cumulative net loss of over 66%.[2195]

Fremont RMBS. The second example involves Fremont Loan & Investment, another subprime lender notorious for issuing poor quality loans.[2196] In March 2007, Fremont reported in an 8-K filing with the SEC that the FDIC filed a cease and desist order to which the company consented. Among other matters, it order Fremont to stop "[m]arketing and extending adjustable–rate mortgage products to subprime borrowers in an unsafe and unsound manner that greatly increases the risk that borrowers will default on the loans or otherwise causes losses."[2197]

Even before the actions taken by regulators in March 2007, Goldman was aware of the poor quality of at least some of Fremont's loans. In a November 2006 exchange of emails, for example, two Goldman sales representatives were discussing trying to sell Fremont RMBS securities to a client. One salesperson forwarded to the other the client's explanation of why it did not want to buy the securities and its low opinion of Fremont's loan pools: "Fremont refused to make any forward looking statements so we really got nothing from them on the crap pools that are out there now."[2198] In March 2007, Goldman initiated a detailed review of its Fremont loan inventory to identify deficient loans that it could return to the lender for a refund. Mr. Gasvoda placed a priority on reviewing Fremont loans "since they still have cash but may not for long."[2199] One loan pool review conducted on March 14, 2007, found that "on average, about 50% of about 200 files look to be repurchase obligations," meaning that fully half of the reviewed loans should be returned to the lender.[2200] Goldman eventually made about $46 million in repurchase requests to Fremont, which was one of the top five mortgage originators from whom Goldman made repurchase requests in 2006 and 2007.[2201]

Despite these and other indications of Fremont's poor quality loans, Goldman continued to underwrite and market securities backed by Fremont loans. In an internal February 2007 memorandum to its Mortgage Capital Committee, Goldman wrote that it had a "significant relationship with Fremont," based upon past securitizations, whole loan purchases, and warehouse fees.[2202] In March 2007, at the same time it was sending millions of dollars in loan repurchase requests to Fremont, Goldman securitized over $1 billion in Fremont subprime loans in one of its

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[2195] See wamusecurities.com.

[2196] For more information about Fremont, see Chapter IV, Section D(2)(d).

[2197] 3/7/2007 Fremont General Corporation 8-K filing with the SEC.

[2198] 11/16/2006 Goldman internal email, "ACA and Freemont [sic] deal," Hearing Exhibit 4/27- 173.

[2199] 3/14/2007 Goldman email, "NC Visit," GS-MBS-E-002048050.

[2200] Id.; see also 8/10/2007 email from Michelle Gill, "Fremont - Incremental Information," GS MBS-E-009860358 (Goldman's repurchase claims against Fremont would have amounted to a 9% ownership stake in Fremont after a proposed buyout by investor group; Goldman was not the largest purchaser of Fremont loans but its repurchase claims were 3-4 times larger than the claims of the nearest counterparty).

[2201] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0040.

[2202] 2/20/2007 Goldman memorandum to Mortgage Capital Committee, "Request for renewal of the existing $1 billion ... 1-year revolving warehouse facility," GS MBS-E-001157942. Goldman wrote the Fremont produced "revenues totaling $13.38 million in 2006 of which $620,000 came in the form of warehouse usage and commitment fees."

warehouse accounts, originating GSAMP Trust 2007-FM2.[2203] At Goldman's request, Moody's and S&P rated the securities, even though analysts at both rating firms expressed concern about the quality of Fremont loans. At S&P, for example, in a January 2007 email to his supervisor, a credit ratings analyst wrote: "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?"[2204] One supervisor told him: "No, we don't treat their collateral any differently," while another wrote that, as long as the analyst had current FICO scores for the borrowers, he was "good to go."[2205] Both agencies gave AAA ratings to the top five tranches of the securitization.[2206]

Goldman marketed and sold the Fremont securities to its customers, while at the same time purchasing $15 million in CDS contracts referencing some of the Fremont securities it underwrote.[2207] Seven months later, by October 2007, the ratings downgrades had begun; by August 2009, every tranche in the GSAMP securitization had been downgraded to junk status.[2208]

In both examples involving Long Beach and Fremont RMBS securities, Goldman obtained CDS protection and essentially bet against the very securities it was selling to clients. In each case, Goldman profited from the fall in value of the same securities it sold to its clients and which caused those clients to suffer substantial losses.

(ii) Conflicts of Interest Involving Sales of CDO Securities

As with some of its RMBS securities, Goldman at times originated CDO securities using assets that it believed were of poor quality and would lose value, and sold the securities at higher prices than it believed they were worth.[2209] In addition, Goldman took steps that created multiple conflicts of interest with the clients to whom it sold the CDO securities, and placed its financial interests ahead of those of its clients. Four examples involving the Hudson 1, Anderson, Timberwolf, and Abacus 2007-AC1 CDOs illustrate the problems. Those problems include troubling and sometimes abusive practices related to how Goldman designed the CDOs and selected

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[2203] See 2/2/2007 Goldman memorandum to the Mortgage Capital Committee, "Agenda for Monday, February 5, 2007," GS MBS-E-002201064; 2/5/2007 Mortgage Capital Committee Memorandum regarding GSAMP Trust 2007-FM2, GS MBS-E-002201055 - 58.

[2204] 1/24/2007 S&P internal email, "Quick Question: Fremont," Hearing Exhibit 4/23-93b. See also 2/1/2007 S&P internal email, "Defaults cause Fremont to end ties to 8,000 brokers," Hearing Exhibit 4/23-93d (S&P analysts circulated an article about how Fremont had stopped using 8,000 brokers due to loans with some of the highest delinquency rates in the country).

[2205] 1/24/2007 S&P internal email, "RE: Quick Question: Fremont," Hearing Exhibit 4/23-93c.

[2206] 4/17/2010 S&P downgrade of GSAMP Trust 2007-FM2 containing Fremont mortgages, Hearing Exhibit 4/23-93f.

[2207] See 3/21/2007 Goldman spreadsheet, "RMBS CDS Trade History 19Jan06 - 19Mar07 v3," GS MBS-E-013648130.

[2208] See Standard & Poor's www.globalcreditportal.com.

[2209] In some cases, Goldman used assets from its own inventory or warehouse accounts, so that it could transfer assets with falling value to the CDO and the investors who purchased the CDO securities. The Subcommittee examined seven of those CDOs, and of those, 57% of the CDOs' assets were sourced from Goldman, including over $3 billion in synthetic assets in which Goldman was the short party, and therefore stood to profit from a decline in the value of the underlying assets.

their assets; marketed and sold the CDO securities; designated the value of the CDO securities pre- and post-sale; and executed its duties as liquidation agent and collateral put provider.

AA. Hudson Mezzanine Funding 2006-1

Hudson Mezzanine Funding 2006-1 (Hudson 1) was a $2 billion synthetic CDO that referenced mezzanine subprime RMBS assets[2210] and assets linked to the ABX Index.[2211] This CDO was the second in a series of three "Hudson" branded CDOs, which according to Goldman marketing materials were intended "to create a consistent, programmatic approach to invest in attractive relative value opportunities in the RMBS and structured product market."[2212] One key feature of the three Hudson CDOs was that Goldman itself, without any third party participation, selected the CDO's assets, which were supposed to remain with the CDO until they reached maturity or were deemed "credit risk assets," at which point Goldman, acting as the liquidation agent for the CDO, was responsible for selling them.[2213] In each of the Hudson CDOs, Goldman played multiple roles in its formation and administration, including selecting assets and serving as the underwriter, initial purchaser of the CDO securities, collateral put provider,[2214] senior swap counterparty, and credit protection buyer.[2215] In Hudson 1, Goldman took 100% of the short side of the CDO, and when the Hudson 1 securities declined in value, Goldman made a $1.35 billion profit at the expense of the clients to whom it had sold the Hudson 1 securities.

[2210] Mezzanine subprime RMBS assets are RMBS securities that carry a credit rating of BBB or BBB- or CDS contracts that reference those types of RMBS securities. Mezzanine RMBS assets are riskier than AAA, AA, and A rated RMBS securities, but less risky than those that carry, for example, BB, B, or CCC ratings.

[2211] The ABX Index tracks the performance of a designated basket of 20 subprime RMBS securitizations. It consists of five separate indices, each of which tracks a different subset of the RMBS basket, divided according to credit ratings. The indices that track the mezzanine RMBS securities, for example, track the 20 RMBS securities that carry BBB and BBB- credit ratings. In ABX assets, investors enter into CDS contracts in which one party takes the long side, essentially betting that the ABX indices tracking the mezzanine RMBS securities will increase in value, while the other party takes the short side, essentially betting that the indices will fall in value. Prior to establishing the Hudson CDO, Goldman had taken the long side in a number of CDS contracts linked to the ABX indices tracking mezzanine RMBS securities.

[2212] 10/2006 Goldman document, "Hudson Mezzanine Funding 2006-1, Ltd.," Hearing Exhibit 4/27-87. The first Hudson CDO, Hudson High Grade, was issued in September 2006. The second, discussed here, was Hudson Mezzanine 2006-1, issued in October 2006. The third was Hudson Mezzanine 2006-2, issued in February 2007.

[2213] Id. For more information about Goldman's role as the liquidation agent in Hudson, see Section C(5)(b)(iii)AA, below.

[2214] In synthetic CDOs, the cash proceeds from the sales of the CDO securities were used to purchase "collateral debt securities." Later, when cash was needed to make payments to a long or short party, those collateral securities were sold, and the cash was used to make the payments. In the event the collateral securities could not be sold for face (par) value, the collateral put provider paid the difference to the CDO. For more information about the role of collateral put providers, see Section C(5)(b)(iii)BB, below.

[2215] See 2/18/2008 Goldman document, "CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter," GS MBS 0000004337 at 4338. Acting as the "senior swap counterparty" meant that Goldman served as an intermediary between the Hudson CDO and the super senior investor. Acting as "credit protection buyer" meant that Goldman initially took the short side of the CDO and, in the case of Hudson 1, kept 100% of the short side during the life of the CDO.

Transferring Risk. Hudson 1 was conceived and designed by Goldman to transfer the risk associated with a large collection of ABX assets in its inventory, in which Goldman held the long side of CDS contracts referencing mezzanine subprime RMBS securities that were tracked by the ABX and that might go down in value. The objective of the CDO was to transfer the risk of unwanted financial assets off of Goldman's books. In response to questions from the Subcommittee, Goldman explained that Hudson 1 was "initiated by the firm as the most efficient method to reduce long ABX exposures."[2216] Contemporaneous notes from Goldman's Firmwide Risk Committee meetings also stated that Hudson 1 was an "exit for our long ABX risk."[2217] Goldman records show that the firm used Hudson 1 to short $1.2 billion worth of the ABX assets in the firm's inventory as well as $800 million in single name CDS contracts referencing subprime RMBS securities carrying mostly BBB or BBB- credit ratings. Hudson 1 was one of several methods Goldman used to transfer its risk associated with its subprime mortgage holdings during the fall of 2006.[2218]

Conceiving Hudson 1. In the months leading up to the creation of Hudson 1, Goldman had accumulated billions of dollars in ABX assets referencing mezzanine subprime RMBS securities.[2219] By August 2006, Goldman management had decided that this ABX trade had "run its course," and directed the Mortgage Department's ABS Desk to sell off its ABX holdings.[2220] After several weeks of effort, however, the ABS Desk was unable to find many buyers, and its ABX mezzanine assets, which were dropping in value, were losing millions of dollars for the firm.[2221]

On September 19, 2006, Jonathan Sobel and Daniel Sparks called an 8:00 a.m. meeting to discuss the ABX problem with Joshua Birnbaum, head of ABX trading, and Michael Swenson, head of both the Structured Product Group (SPG) Trading Desk and ABS Trading Desk.[2222] Mr. Swenson was unable to attend, and in a later email from Mr. Birnbaum who recounted the meeting to him, Mr. Sobel and Mr. Sparks wanted to know whether the Mortgage Department should sell all

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[2216] See Goldman response to Subcommittee QFR at PSI_QFR_GS0239.

[2217] 9/20/2006 email from Arbind Jha to Josh Birnbaum, GS MBS-E-012685289. See also 9/20/2006 Firmwide Risk Committee Minutes, GS MBS 0000004472.

[2218] See 10/24/2006 email from Jonathan Sobel to Tom Montag, Dan Sparks, and others, GS MBS-E-010919930 ("CDO should price tomorrow and is in good shape. ... We also are starting to see some short covering, which we will sell into to further reduce our risk toward your 50% goal.").

[2219] Subcommittee interview of Michael Swenson (4/16/2010). Mr. Swenson told the Subcommittee that Goldman had been long "several billion" in ABX in September 2006.

[2220] 8/9/2006 Firmwide Risk Committee Minutes, GS MBS-E-009682590; Subcommittee interview of Joshua Birnbaum (10/1/2010). Mr. Birnbaum recalled a "directive" to reduce ABX exposure in the summer of 2006.

[2221] See, e.g., 9/21/2006 email from Jonathan Sobel to Tom Montag, "ABX wider again today," GS MBS-E-009739145 ("Down about $10mm."); 9/12/2006 email from Jonathan Sobel to Michael Swenson and Daniel Sparks, "ABX," GS MBS-E-012681410 ("The last post you gave me was this morning when you thought things were 'firm'. Now I find out that we're down $6mm on the day. I understand things move, but you need to post me. Also, I want to reduce this position."); 9/9/2006 Firmwide Risk Committee Minutes, GS MBS 0000004468 ("Business continuing to reduce volatile ABX position."); 8/23/2006 Firmwide Risk Committee Minutes, GS MBS-E-009615593 ("Mortgages sold down another net 15% of their large ABX position.").

[2222] 9/19/2006 email from Jonathan Sobel to Daniel Sparks, Michael Swenson, and Josh Birnbaum, GS MBS-E-012683946.

of its ABX mezzanine holdings or "double down" the ABX holdings, which could happen only if it found a "structured place to go with the risk."[2223]

Later that day, Mr. Sparks approached Peter Ostrem, who headed the desk that originated CDOs for Goldman, and asked "if there was something [the CDO Desk] could do with ABX."[2224] Mr. Ostrem spoke with Darryl Herrick, who worked for him on the CDO Desk and who eventually became the Hudson 1 deal captain, about crafting a CDO to reduce the firm's ABX risk. The two brainstormed a structure that became the foundation of Hudson 1.[2225]

That same evening, September 19, 2006, Mr. Swenson scheduled a meeting with several traders on the ABS Desk he oversaw, Joshua Birnbaum from the ABX Desk, and Mr. Ostrem and other personnel from the CDO Origination Desk to discuss "ABX and Single-Name Opportunities."[2226] After the meeting, around 8:00 p.m., Mr. Ostrem sent his CDO team an email announcing "Hudson Mezz - new":

> "We have been asked to do a CDO of $2bln [billion] for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the AB[X] index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half of the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp [basis point] liquidation agent fees and 1-1.5pts upfront. ... Obviously important to overall SP [Structured Product] floor and Sobel and Sparks are focused on this happening."[2227]

Also that evening, Mr. Swenson emailed Mr. Sobel to inform him they were "proceeding with the CDO solution, the CDO team has 60 single-names that they will be able to begin to build a deal around."[2228]

The next day, Mr. Sobel reported to senior executives at Goldman's Firmwide Risk Committee that the CDO Desk was working on the first ever ABX CDO, which would function as an exit for the firm's long ABX position.[2229] Later that same afternoon Mr. Sobel sent an email to Goldman senior executive Thomas Montag, discussing the Mortgage Department's ABX losses and

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[2223] 9/19/2006 email from Josh Birnbaum to Michael Swenson, GS MBS-E-012683946. Mr. Sobel also informed Mr. Swenson later that day: "We need to reach a conclusion on the viability of a structured exit." 9/19/2006 email from Jonathan Sobel to Michael Swenson, GS MBS-E-012328199.

[2224] Subcommittee interview of Peter Ostrem (10/5/2010).

[2225] Id.; Subcommittee interview of Darryl Herrick (10/13/2010).

[2226] 9/19/2006 calendar invite from Michael Swenson, GS MBS-E-012328194.

[2227] 9/19/2006 email from Peter Ostrem, GS MBS-E-01818608, Hearing Exhibit 4/27-86. Goldman later told the Subcommittee that Hudson actually offset $1.39 billion in ABX assets on its books. Goldman response to Subcommittee QFR, PSI_QFR_GS0239.

[2228] 9/20/2006 email from Michael Swenson to Jonathan Sobel, GS MBS-E-012328203. See discussion of selection of 60 single names by Mr. Herrick and Mr. Salem, below.

[2229] 9/20/2006 Firmwide Risk Committee Minutes, GS MBS 0000004472; 9/20/2006 email from Arbind Jha to Josh Birnbaum, GS MBS-E-012685289.

stating: "I think most hedge funds have been right on this (i.e. they've been short). ... The synthetic CDO seems like a viable takeout here."[2230]

A Goldman risk officer, Arbind Jha, began contacting Goldman mortgage traders and CDO personnel for regular Hudson updates.[2231] In fact, the day after the ABS and CDO teams came up with the Hudson 1 concept, Mr. Jha emailed Mr. Birnbaum asking about the CDO: "Sobel this morning mentioned in the Firmwide Risk Committee meeting that we are looking at CDO exit for our long ABX risk. Wanted to get some color on this."[2232] On another occasion, Mr. Jha asked Darryl Herrick:

> "Do we really have scenario risk on $2bn [billion] not'l [notional]? $1.2bn of not'l is being sourced from ABX desk - this risk is already being captured in our risk number for SPG Trading desk. ... The remaining $0.8bn will be composed of single name CDS. Since we do not have any pre-existing long (credit), we will be going short after we price this CDO and therefore will have a risk mitigating impact on our risk. Please correct me if I am getting this wrong."[2233]

Designing Hudson 1. At the time Hudson 1 was conceived, no other investment bank had issued a CDO in which the majority of assets referenced ABX assets.[2234] Prior to that, the major credit rating agencies refused to rate any CDO with more than a 5% exposure to credit default swaps (CDS) using an ABX index as the reference obligation.[2235] CDS that used an ABX index as the reference obligation allowed the parties to the CDS to make a pure bet on the composite performance of a basket of 20 RMBS securities. Credit rating agencies were concerned that the inclusion of ABX assets in CDOs would increase market-wide correlation and make CDO performance more volatile.

In order to get around that limitation and create a CDO that the credit rating agencies would be willing to rate, Goldman took several steps. First, it decided Hudson 1 would reference the two ABX 06-1 indices and the two ABX 06-2 indices that referenced RMBS securities with BBB and BBB- ratings. Since each of those four indices tracked 20 subprime mezzanine RMBS securities, altogether they tracked 80 RMBS securities.[2236] Next, Goldman created 80 single name CDS

[2230] 9/21/2006 email from Jonathan Sobel to Tom Montag, GS MBS-E-009739145.

[2231] See, e.g., 10/16/2006 email from John Li to Darryl Herrick, "Call Arbind Jha," GS MBS-E-018209595 ("Regarding Hudson Mezz Risk issue").

[2232] 9/20/2006 email from Arbind Jha to Josh Birnbaum, GS MBS-E-012685289. When asked about this email and Hudson 1 in general, Mr. Birnbaum told the Subcommittee that he had no specific recollection of any involvement with the Hudson 1 CDO. Subcommittee interview of Joshua Birnbaum (10/1/2010).

[2233] 10/12/2006 email from Arbind Jha, "Re: Risk Issue," Hearing Exhibit 4/27-88.

[2234] 9/20/2006 Firmwide Risk Committee Minutes, GS MBS 0000004472.

[2235] See, e.g., 3/23/2007 "CDO Rating Factors: Inclusion of Tranched ABX Indices in ABS CDOs," Moody's, Document No. SF95049.

[2236] The ABX 06-1 Index and the ABX 06-2 Index each tracked a completely different set of 20 RMBS securitizations. Each Index also had its own subset of five indices tracking individual securities issued by those 20 securitizations, divided by credit rating. For example, one of the RMBS securitizations tracked by the ABX 06-2 Index was called CWL 2006-8. One of the sub-indices within the ABX 06-2 Index tracked BBB rated securities that

contracts, each of which used as its reference obligation one of the subprime mezzanine RMBS securities tracked by the ABX indices.[2237] Goldman's ABS Desk took the short position in each of those 80 contracts, while Goldman's CDO Origination Desk took the long position.[2238] By taking the short position in the 80 single name CDS contracts, the ABS Desk essentially offset its long position in the corresponding ABX contracts. Next, the CDO Origination Desk entered into a CDS contract with Hudson 1, taking the short side while the Hudson CDO assumed the long side of the 80 single name CDS contracts. The end result was that Hudson 1 took the long side and assumed the risk associated with the long position for $1.2 billion worth of CDS single name contracts referencing the RMBS securities comprised the ABX 06-1 and 06-2 BBB and BBB- indices.[2239] By transferring the long CDS position to Hudson, Goldman effectively transferred the risk associated with its ABX long assets to any investors who bought the Hudson securities.

In order to attract investors and convince them to buy the Hudson securities, Goldman decided to make use of a pricing difference between CDS contracts referencing the ABX Index versus single name RMBS securities.[2240] In 2006, at the time Hudson was being constructed, the price of CDS contracts that used an ABX index as the reference obligation was lower than the price of CDS contracts that used an individual RMBS security as its reference obligation. Because Goldman exercised complete control over the CDO and created CDS contracts referencing assets from its own inventory, Goldman also exercised complete control over the pricing of those contracts. When Goldman set up the 80 single name CDS contracts, and sold the long side of those contracts to Hudson 1, Goldman decided internally what it would charge the CDO to acquire the long side of those contracts. Goldman decided to price the contracts, not according to the cost of a single name CDS contract on the market, but instead according to the cost of a CDS contract for the long side of the relevant ABX index that day.[2241] By using this pricing method, Goldman enabled Hudson to purchase the single name CDS contracts at the lower ABX prices, which meant it could

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were issued as part of the 20 securitizations, including the M8 tranche of CWL 2006-8 which carried a BBB rating. Another of the five indices tracked the securities carrying a BBB- rating, including the M9 tranche of CWL 2006-8 which carried that credit rating. The CWL 2006-8 M8 and CWL 2006-M9 securities were just two of the 40 BBB and BBB- rated securities issued by the 20 RMBS securitizations in the ABX 06-2 Index. The ABX 06-1 Index functioned the same way; its sub-indices tracked another 40 mezzanine RMBS securities from the 20 RMBS securitizations that composed that Index.

[2237] A "single name CDS" contract uses a single security as its reference obligation, such as a specific RMBS security.

[2238] For simplicity, all 20 assets in each of the ABX baskets were given the same weighted price in Hudson 1.

[2239] See, e.g., 4/27/2007 email from Fabrice Tourre to Michael Swenson, Deeb Salem, and Edwin Chin, GS MBS-E-012432742.

[2240] Mr. Swenson described this situation in his testimony before the Subcommittee: "Throughout 2006, numerous clients wanted to sell the ABX in order to express a negative view on the U.S. residential housing market. As a result of these trades, we took on long positions. In order to hedge those positions, we began to increase our short position in single-names. By November 2006, volatility in the ABX increased, pushing prices down. Because our positions in single names did not match identically the basket of securities that comprised the ABX, the positions moved at different rates and even different directions, resulting in losses for the ABS desk." Prepared statement of Michael Swenson, April 27, 2010 Subcommittee Hearing, at 208-09.

[2241] Goldman decided to price the single name assets at one point below the median ABX trading price. See 9/21/2006 email from Darryl Herrick to Deeb Salem, Michael Swenson, Joshua Birnbaum, Peter Ostrem, and Edwin Chin, GS MBS-E-012685645.

tell investors that, by purchasing Hudson securities, they would be purchasing the single name CDS contracts at the discount price at which Hudson acquired them.[2242]

The pricing differential also benefitted Goldman's ABS Desk in two ways. First, it created a modest incentive for investors to buy Hudson securities and take the long position needed to offset Goldman's ABX risk. Second, it left Goldman with a short position in the form of CDS single name contracts, which Goldman expected to become more valuable than a short position in CDS contracts that referenced ABX indices. The ABS Desk kept both its long ABX positions and its short single name CDS positions in the same dedicated account. Over time, the short position in single name CDS did gain in value and boosted the overall value of the portfolio of assets held by the ABS Desk by more than $1 million, producing additional profits for Goldman.[2243]

In addition to the $1.2 billion in single name CDS contracts to offset Goldman's ABX risk, Mr. Herrick from the CDO Origination Desk and Deeb Salem from the ABS Desk worked together to select $800 million in additional single name CDS contracts to include in the Hudson CDO.[2244] Mr. Herrick told the Subcommittee that he gave Mr. Salem a specific set of criteria for selecting these CDS contracts, including a list of RMBS names that he wanted to be included, a list of RMBS names that he did not want to be included, and an acceptable price range for each CDS contract. Since Goldman planned to take 100% of the short side of Hudson 1, these lists were presumably used to identify RMBS contracts that Goldman expected to offset Goldman's long positions. Mr. Herrick told the Subcommittee that Mr. Salem responded with an initial list of 60 possible RMBS reference obligations, 52 of which were ultimately included in Hudson 1.[2245]

[2242] See 10/2/2006 email from Darryl Herrick to Michael Swenson, Joshua Birnbaum, Deeb Salem, Peter Ostrem, and Daniel Sparks, GS MBS-E-010913416 ("We plan to announce Hudson Mezzanine Funding tomorrow in the am for Europe, Asia and the US[.] I'm circulating around to everyone the CDO portfolio and spreads we will be showing investors and agencies, based on our agreed upon amounts and levels from last week."). Mr. Swenson responded: "Darryl we should use the 265 and 245 spread for the ABX2 and ABX1 triple-B minus spreads and 145 and 130 for triple-B ABX2 and ABX1 triple-B spreads." Id.

[2243] The gain generated by the CDS single name contracts was retained on the books of the ABS Desk, and created a favorable "basis" compared to the cost of the ABX long position held by the desk. See 4/27/2007 email from Fabrice Tourre to Michael Swenson, Deeb Salem, and Edwin Chin, GS MBS-E-012432742; Goldman response to Subcommittee QFR at PSI_QFR_GS0239. See also 9/19/2006 email from Michael Swenson to Thomas Cornacchia and Joshua Birnbaum, GS MBS-E-012684557 ("[ABX] Index to single-name basis is at the wides[t] (ie 40 bp at BBB- level). Index to cash is even more extreme at 70bp. Bids for cash deals remain strong and have barely widened."); Performance Review for Michael Swenson, GS-PSI-02396, Hearing Exhibit 4/27-55b (describing the mortgage trading desk's strategy of shorting single-name RMBS to offset long ABX positions: "[D]uring the early summer of 2006 it was clear that the market fundamentals in subprime and the highly levered nature of CDOs was going to have a very unhappy ending. The beauty of the CDO short was that it allowed for a very efficient method for capturing the value in the ABX to single-name basis from the short side.").

[2244] Subcommittee interview of Darryl Herrick (10/13/2010). See also 10/8/2006 email from Darryl Herrick to a Goldman salesperson, GS MBS-E-017502983 (discussing Hudson 1: "Omar, I realize lack of manager may be tough hurdle for them [investors]. May be helpful to let Deeb and I get on a call with the investor and discuss our asset selection criteria and I can go through asset sale criteria.").

[2245] See 9/19/2006 email from Darryl Herrick to Deeb Salem, Peter Osterm, others, GS MBS-E-011402123, with attachment GS MBS-E-011403442 (Mr. Salem wrote to Mr. Herrick: "Attached are 60 RMBS Ref Obs ... for the CDO we're discussing. On the RMBS side, we chose 30 Baa2 and 30 Baa3 CUSIPs evenly split btw 2005 and 2006 vintage. We can add a few alt-a names as well. How many of those would you like?"). When interviewed by the

According to Goldman's contemporaneous records and its responses to Subcommittee questions, 100% of the CDS contracts included in Hudson 1 were supplied by Goldman's Mortgage Department.[2246] Because Hudson 1 contained only CDS contracts, it was entirely "synthetic"; it contained no loan pools or RMBS securities that directed actual cash payments to the CDO. Instead, the only cash payments made to Hudson 1 consisted of the cash paid by investors making initial purchases of the Hudson securities and the premiums that Goldman paid into Hudson 1 as the sole short party.[2247]

Marketing Hudson. After establishing its basic characteristics and selecting the CDS assets to be included in Hudson 1, Goldman began to look for investors. A key development took place early on, when near the end of September 2006, Morgan Stanley's proprietary trading desk committed to entering into a CDS agreement with Goldman referencing the "super senior" portion of Hudson 1, meaning the CDO's lowest risk tranche that would be the first to receive payments to the CDO.[2248] Morgan Stanley agreed to take the long side of a CDS that represented $1.2 billion of the $2 billion CDO, while Goldman took the short side.[2249] As part of its agreement to invest in Hudson 1, Morgan Stanley was permitted to review the $800 million in single name CDS contracts to be included in the CDO and, in fact, vetoed the proposed inclusion of certain CDS contracts referencing commercial mortgage backed securities.[2250]

After getting the commitment from Morgan Stanley, Goldman turned its focus to selling the remaining Hudson securities. On September 27, 2007, Mr. Swenson, the SPG Trading Desk and ABS Desk head, sent an email to set up a meeting, which later became a conference call, on "Marketing Strategy for the ABX CDO Trade."[2251] The invitees included Daniel Sparks, Jon Sobel, Peter Ostrem, Darryl Herrick, and others. Mr. Herrick circulated a draft copy of the Hudson 1 termsheet and transaction overview for review in advance of the call.[2252]

Goldman's CDO marketing strategy typically involved its sales personnel sending clients a marketing booklet outlining different features of a particular CDO. Mr. Herrick drafted the marketing booklet for Hudson 1, and circulated it for review to Mr. Ostrem and other members of

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Subcommittee, Mr. Salem had no specific recollection of how assets were selected for Hudson 1 and little specific recollection about Hudson 1 as a whole. Subcommittee interview of Deeb Salem (10/6/10).

[2246] See, e.g., Goldman response to Subcommittee QFR, PSI_QFR_GS0192.

[2247] Goldman used the cash paid into Hudson 1 to purchase "collateral securities," as discussed further below.

[2248] See 10/30/2006 email from Peter Ostrem, GS MBS-E-0000057886, Hearing Exhibit 4/27-90 ("Super senior note ($1.2bln in size) was executed in the first week of the transaction and was a key driver of this deal[']s success.").

[2249] The $1.2 billion investment made by Morgan Stanley did not correspond to the CDO's $1.2 billion in CDS contracts referencing RMBS securities in the two ABX indices. Rather, Morgan Stanley was investing in the top tier of the CDO as a whole, which included CDS contracts referencing both the ABX and other RMBS securities.

[2250] Subcommittee interview of Darryl Herrick (10/13/2010). See further discussion of Morgan Stanley investment in Section C(5)(b)(iii)AA, below.

[2251] 9/27/2006 email from Michael Swenson to Crystal Young, GS MBS-E-012328848. Mr. Swenson told the Subcommittee that he had no recollection of this conference call, and that it would have been unusual for him to be involved in the marketing efforts of a CDO. Subcommittee interview of Michael Swenson (10/8/2010).

[2252] 9/28/2006 email from Darryl Herrick, GS MBS-E-014042217, with attachments GS MBS-E-014042218 and GS MBS-E-014042220.

the CDO Origination Desk including Benjamin Case and Matthew Bieber.[2253] The executive summary of the marketing booklet described Goldman's Hudson CDO program generally and Hudson 1 in particular:

> "Goldman Sachs developed the Hudson CDO program in 2006 to create a consistent, programmatic approach to invest in attractive relative value opportunities in the RMBS and structured product market[.]
>
> -We successfully launched Hudson High Grade in September. This is a continuation of the program using mezzanine Baa2/Baa3 quality RMBS[.]
>
> Hudson CDOs are non-managed and static in nature and provide term non-recourse funding where Goldman Sachs acts as Liquidation Agent on an ongoing basis. The Liquidation Agent will be responsible for efficiently selling credit risk assets ...
>
> Goldman Sachs has aligned incentives with the Hudson program by investing in a portion of equity and playing the ongoing role of Liquidation Agent."[2254]

The marketing booklet also described the Hudson 1 assets, and the selection process for those assets:

> "The portfolio composition of Hudson Mezzanine Funding 2006-1 will consist of 100% CDS on RMBS.
>
> - 60% of the RMBS will be single name CDS on all 40 obligors in ABX 2006-1 and ABX 2006-2
>
> - 40% of the RMBS will consist of single name CDS on 2005 and 2006 vintage RMBS ...
>
> Goldman Sachs' portfolio selection process:
>
> - Assets sourced from the Street. Hudson Mezzanine Funding is not a Balance Sheet CDO
> - Goldman Sachs CDO desk pre-screens and evaluates assets for portfolio suitability
> - Goldman Sachs CDO desk reviews individual assets in conjunction with respective mortgage trading desks (Subprime, Midprime, Prime, etc.) and makes decision to add or decline[.]"[2255]

[2253] 9/30/2006 email from Darryl Herrick to Peter Ostrem, Benjamin Case, and Matthew Bieber, GS MBS-E-014367160, with attachment GS MBS-E-014367161; 9/30/2006 Goldman internal email chain among Darryl Herrick, Peter Ostrem, Benjamin Case, and Matthew Bieber, GS MBS-E-017504075.

[2254] 10/2006 Hudson Mezzanine Funding 2006-1, LTD., GS MBS-E-009546963, at 966, Hearing Exhibit 4/27-87.

[2255] Id. at 966, 978.

The marketing booklet statement that "Goldman Sachs had aligned incentives with the Hudson program by investing in a portion of equity," was misleading. Goldman did, in fact, purchase approximately $6 million in Hudson equity.[2256] However, that $6 million equity investment was outweighed many times over by Goldman's $2 billion short position, which made Goldman's interest adverse to, rather than aligned with, the Hudson investors. Neither the marketing booklet nor other offering materials disclosed to investors the size or nature of Goldman's short position in Hudson 1.

The marketing booklet also stated that Hudson's assets were "sourced from the Street," and that it was "not a Balance Sheet CDO," even though all of the CDS contracts had been produced and priced internally by Goldman and $1.2 billion of the contracts offset Goldman ABX holdings. The plain meaning of the phrase, "sourced from the Street," is that the Hudson 1 assets were purchased from several broker-dealers on Wall Street.[2257] Indeed, a former Goldman salesperson who sold Hudson 1 securities to investors told the Subcommittee that he thought "sourced from the Street" referred to assets being acquired from a variety of different broker-dealers at the best prices, and was surprised to learn that all of the Hudson assets had been provided by Goldman's ABS Desk.[2258] A Hudson 1 investor told the Subcommittee that it had also interpreted the phrase "sourced from the Street" to mean assets acquired from a variety of different broker-dealers.[2259]

The Subcommittee asked several Goldman traders involved in Hudson 1 to explain their understanding of the phrase, and received inconsistent answers. Darryl Herrick, who drafted the Hudson marketing booklet, stated that "sourced from the Street" meant the assets were "sourced from a street dealer at street prices." His supervisor, CDO Managing Director Peter Ostrem, stated that "sourced from the Street" referred to the fact the underlying RMBS securities were not originated or underwritten by Goldman.[2260] Deeb Salem, a Goldman mortgage trader who selected 40% of the assets in Hudson 1, described "the Street" as simply "short hand for all broker-dealers."[2261] David Lehman, who became the head of the CDO Origination Desk after Mr. Ostrem, and Matthew Bieber, who worked for Mr. Ostrem and later Mr. Lehman, claimed that it was accurate to say the Hudson assets were "sourced from the Street," even though all the assets were acquired from the Goldman ABS Desk, because Goldman was part of "the Street."[2262]

[2256] See Goldman response to Subcommittee QFR, at PSI_QFR_GS0223.

[2257] Barron's Dictionary of Finance and Investment Terms defines "the Street" as "referring to the financial community in New York City and elsewhere. It is common to hear 'The Street likes XYZ.' This means there is a national consensus among securities analysts that XYZ's prospects are favorable."

[2258] Subcommittee interview of Andrew Davilman (9/30/2010).

[2259] Subcommittee interview of Morgan Stanley (6/24/2010).

[2260] The Subcommittee asked Mr. Ostrem whether he considered the Hudson 1 assets to be the RMBS securities or the credit default swaps referencing those securities, and Mr. Ostrem responded that the assets in the CDO were the RMBS securities which had been originated by a variety of financial institutions on Wall Street. When asked why it would be important to indicate to investors that not all the underlying RMBS securities were underwritten by Goldman, given that this information would be clear to a professional reviewing the names of the reference assets in Hudson 1, Mr. Ostrem replied that he didn't know. Subcommittee interview of Peter Ostrem (10/5/2010).

[2261] Subcommittee interview of Deeb Salem (10/6/2010).

[2262] Subcommittee interview of David Lehman (9/27/2010); Subcommittee interview of Matthew Bieber (10/21/2010).

By using the phrase, "sourced from the Street," Goldman may have misled investors into thinking that the referenced assets had been purchased from several broker-dealers and obtained at arms-length prices, rather than simply taken directly from Goldman's inventory and priced by its own personnel. Moreover, this phrase also appears to hide the fact that Goldman had an adverse interest to investors and was seeking to transfer unwanted risk from its own inventory to the clients it was soliciting. By claiming it was "not a Balance Sheet CDO," Goldman may have misled investors into believing that Goldman had little interest in the performance of the referenced assets in Hudson, rather than having selected the assets to offset risks on its own books.

In addition to the Hudson marketing booklet, in December 2006, Goldman issued an Offering Circular which it distributed to potential investors.[2263] The Offering Circular contained the statement that no independent third party had reviewed the prices at which the CDS contracts were sold to Hudson 1.[2264] In addition to lacking third party verification, no external counterparty had participated in any aspect of the CDS contracts – all of the CDS contracts had been produced, signed, and priced internally by two Goldman trading desks which exercised complete control over the Hudson CDO.

Internally, while Hudson 1 was being constructed, Goldman personnel acknowledged that they were using a novel pricing approach.[2265] At one point, Mr. Swenson sent an email to Mr. Birnbaum, raising questions about how they could explain some of the pricing decisions. Mr. Swenson wrote that he was: "concerned that the levels we put on the abx cdo for single-a and triple-bs do not compare favorably with the single-a off of a abx 1 + abx 2 trade," telling Mr. Birnbaum "[w]e need a goo[d] story as to why we think the risk is different."[2266] The prices that Goldman established for the CDS contracts that Hudson "bought" affected the value of the CDO and the Hudson 1 securities Goldman sold to investors, but the Offering Circular failed to disclose the extent to which Goldman had single-handedly controlled the pricing of 100% of the CDO's assets.

Perhaps the most serious omission from the marketing booklet and other offering materials was Goldman's failure to disclose the fact that it would be the sole short party in the entire $2 billion CDO. The Goldman materials told investors that an affiliate, Goldman Sachs International (GSI), would be the "credit protection buyer" or initial short party for the Hudson 1 CDO.[2267] It was

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[2263] 12/3/2006 Hudson Mezzanine 2006-1, LTD. Offering Circular, GS MBS-E-021821196.

[2264] Id. at 021821241.

[2265] See, e.g., 9/19/2006 email from Michael Swenson to Thomas Cornacchia and Joshua Birnbaum, GS MBS-E-012684557 ("we are going to price an innovative full capital structure $1+bb CDO deal with 60% of the risk in ABX (no one has done this before)."); 9/21/2006 email from Darryl Herrick to Deeb Salem, Michael Swenson, Joshua Birnbaum, Peter Ostrem, and Edwin Chin, GS MBS-E-012685645.

[2266] 9/27/2006 email from Michael Swenson to Joshua Birnbaum, GS MBS-E-012689798.

[2267] 12/3/2006 Hudson Mezzanine 2006-1, LTD. Offering Circular, GS MBS-E-021821196, at 021821229. This disclosure related to the master credit default swap, where Goldman Sachs International served as the credit protection buyer facing the Hudson Mezzanine 2006-1, Ltd., the legal entity that issued the Hudson 1 securities. See 12/1/2006 ISDA Master Agreement, GS MBS-E-021822056. In this role, Goldman was serving as an intermediary, and was protecting the CDO from credit risk by placing the Goldman Sachs name on the transaction and assuring investors that a single credit-worthy entity would be making all required payments to the Hudson 1 trust. Having one

common practice for underwriters to act as the initial short party in a CDO, acting as an intermediary between the CDO vehicle and broker-dealers offering competitive bids in order to short the assets referenced in the CDO.[2268] The disclosure provided by Goldman contained boiler plate language suggesting that would be the role played by GSI in the Hudson transaction. Goldman never disclosed that it had provided all of Hudson's assets internally, GSI was not acting as an intermediary, and GSI would not be passing on any portion of the short interest in Hudson to any other party, but would be keeping 100% of the short position. The Hudson disclosures failed to state that, rather than serving as an intermediary, Goldman was making a proprietary investment in the CDO which placed it in a direct, adverse position to the investors to whom it was selling the Hudson securities.

The Offering Circular contained a section entitled, "Certain Conflicts of Interest," which included a subsection entitled, "The Credit Protection Buyer and Senior Swap Counterparty," in which Goldman could have disclosed its short position. Rather than disclose that short position, however, Goldman stated in part:

> "GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts for which they have investment discretion, in securities or in other interests in the Reference Entities, in obligations of the Reference Entities or in the obligors in respect of any Reference Obligations or Collateral Securities (the "Investments"), or in credit default swaps (whether as protection buyer or seller), total return swaps or other instruments enabling credit and/or other risks to be traded that are linked to one or more Investments."[2269]

This disclosure indicates that GSI or an affiliate "may invest and/or deal" in securities or other "interests" in the assets underlying the Hudson CDO, and "may invest and/or deal" in securities that are "adverse to" the Hudson "investments." The Offering Circular, however, misrepresented Goldman's investment plans. At the time it was created in December 2006, Goldman had already determined to keep 100% of the short side of the Hudson CDO and act as the sole counterparty to the investors buying Hudson securities, thereby acquiring a $2 billion financial interest that was directly adverse to theirs.

Tracking Hudson. Once it constructed the Hudson CDO, Goldman personnel were focused on completing and selling the Hudson 1 securities as quickly as possible. At least one other CDO was pushed back to facilitate the execution of Hudson 1.[2270]

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broker-dealer intermediate between the market and a CDO vehicle was desirable to credit rating agencies in order to minimize risk in the CDO, and Goldman clearly disclosed this role to investors.

[2268] Goldman intermediated between other broker-dealers and the CDO vehicle in Anderson Mezzanine Funding 2007-1, Camber 7, Hudson Mezzanine 2006-1, Hudson Mezzanine 2006-2, and Timberwolf I, among several other CDOs. See Goldman response to Subcommittee QFR, at PSI_QFR_GS0192.

[2269] 12/3/2006 Hudson Mezzanine 2006-1, LTD. Offering Circular, GS MBS- E-021821196, at 021821251.

[2270] 10/16/2006 email exchange between Daniel Sparks and Peter Ostrem, GS MBS-E-010916991 ("Cambridge is upset that we are delaying their deal. They know that Hudson Mezz (GS prop deal) is pushing their deal back.").

Goldman senior executives closely followed Hudson's development and sale. Hudson was discussed, for example, at five different Firmwide Risk Committee meetings attended by senior Goldman executives.[2271] Mortgage Department executives also sent progress reports to the senior executives on Hudson 1. On October 25, 2006, for example, Mr. Sobel sent an email to COO Gary Cohn and CFO David Viniar alerting them to Hudson sales efforts and the pricing of its securities.[2272] During discussions over the best price at which to market the CDO's equity tranche, a senior executive emailed Peter Ostrem and others: "keep in mind the overall objective - this is not about one trade - having said that, I agree that [the proposed price] may be too low."[2273] On October 26, 2006, Mr. Jha, a Goldman risk officer, circulated a Mortgage Department Risk Report to a number of Goldman executives, including CEO Lloyd Blankfein and COO Gary Cohn, noting in the forwarding email: "Risk reduction [in the Mortgage Department] is primarily due to pricing of $2bn Hudson Mez synthetic CDO."[2274]

Selling Hudson. Once the Hudson CDO was ready for sale, the Goldman sales force had difficulty selling Hudson securities to investors due to its reliance on BBB and BBB- rated subprime RMBS securities. Allied Irish Bank (AIB), for example, apparently referred to the Hudson securities as "junk."[2275] One Goldman employee emailed the CDO team and asked:

> "[D]o we have anything talking about how great the BBB sector of RMBS is at this point in time ... a common response I am hearing on both Hudson & HGS1 is a concern about the housing market and BBB in particular? We need to arm sales with a bit more."[2276]

[2271] Firmwide Risk Committee meetings were often chaired by David Viniar and frequently attended by Lloyd Blankfein and Gary Cohn. See 9/20/2006 Firmwide Risk Committee Minutes, GS MBS 0000004472; 9/27/2006 Firmwide Risk Committee Minutes, GS MBS 0000004474; 10/4/2006 Firmwide Risk Committee Minutes, GS MBS 0000004476; 10/11/2006 Firmwide Risk Committee Minutes, GS MBS 0000004478; 11/1/2010 Firmwide Risk Committee Minutes, GS MBS 0000004484. See also 10/11/2006 email from Arbind Jha to Joshua Birnbaum, GS MBS-E-012695030 ("Sobel this morning in the firmwide risk committee mentioned that we have circled up the junior and some of the equity tranches").

[2272] 10/25/2006 email from Jonathan Sobel to David Viniar and Gary Cohn, GS MBS-E-009757821.

[2273] 10/12/2006 email from Thomas Cornacchia to Peter Ostrem and others, GS MBS-E-0000066413.

[2274] 10/26/2006 email from Arbind Jha, "MarketRisk: Mortgage Risk Report (cob 10/25/2006)," GS MBS-E-0000056041, Hearing Exhibit 4/27-89. That same day, October 26, 2006, Mr. Swenson also described the risk transfer to Goldman executive Bill McMahon when updating him on the trading desk's ABX position: "In addition to $2bb of risk that was placed into the CDO**,** we have sold to retail since 4pm yesterday $2bb of BBB- risk." 10/26/2006 email from Michael Swenson to Bill McMahon, others, GS MBS-E-0000054856.

[2275] 10/11/2006 Goldman internal email, "FW: Hudson Mezz," GS MBS-E-017502610, Hearing Exhibit 4/27-170c. (A Goldman employee asked a sales associate: "what specifically did AIB say was 'junk' about the hudson mezz deal?" The employee then forwarded the email to Mr. Herrick saying: "You may want to ask [the sales associate] about this when she's there tomorrow and Friday. ... She said 'AIB are too smart to buy this kind of junk.'").

[2276] 10/19/2006 email from Mitchell Resnick to Jonathan Egol, Darryl Herrick, and David Rosenblum, GS MBS-E-009557391. "HGS1" refers to Abacus HGS1, a CDO^2 where Goldman, as in Hudson 1, held 100% of the short interest.

Another Goldman salesman emailed Mr. Herrick on the CDO Desk, telling him:

> "The guy at Schroders looking at this deal has one main issue h[e] has to get over: He is worried about how he is going to convince his boss to invest in a pool of sub prime mortgages with probably their greatest exposures in California and Florida. He is nervous on US house prices. ... Anything else we could offer? He is not a big believer in the Moody's data and rating system. **I WANT THIS GUY THERE AND IN SIZE! Please help if you can - just three bullet points would help.**"[2277]

Mr. Herrick kept the SPG Trading Desk posted on the progress of sales. On October 11, 2006, Mr. Herrick informed the group: "This [sale] clears the team of majority the senior risk Equity and BBs we are hammering away on and hope to get traction tomorrow/Friday."[2278] Mr. Swenson responded: "you are doing an awesome job, keep it up." Mr. Swenson emailed the sales team manager: "I am extremely impressed by darryl [a]nd the rest of your team."[2279]

On October 25, 2006, Mr. Sobel sent a Hudson update to COO Gary Cohn and CFO David Viniar: "$1.6bn of the $2bn sold, with the majority of the unsold bonds being investment grade. Equity more than 85% sold."[2280]

The Goldman sales force sold most of the Hudson securities prior to the CDO's closing in December 2006, and continued its sales efforts after the closing as well. Two months after the closing, in February 2007, Goldman had $296 million in unsold Hudson securities, not including the $6 million equity investment Goldman had announced in the Hudson marketing material that it would purchase and hold. Over the following months, Goldman sold an additional $38 million worth of securities to investors, and received bids on several other securities but decided the bid prices were too low and kept the securities on its books instead.[2281] The unsold Hudson securities were split between the CDO Origination Desk and ABS Trading Desk.[2282]

Overall, Goldman sold Hudson securities to 25 investors. Morgan Stanley made the largest investment, taking $1.2 billion of the super senior portion of the CDO. Other investors included the National Australia Bank, which purchased $80 million worth of the AAA rated securities; Security

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[2277] 10/20/2006 email from Paul Carrett to Darryl Herrick, GS MBS-E-018321286 [emphasis in original].

[2278] 10/11/2006 email from Darryl Herrick to Michael Swenson, David Lehman, and Josh Birnbaum, GS MBS-E-0000030518. Mr. Swenson told the Subcommittee he had no recollection of being involved in the marketing of Hudson 1. Mr. Swenson said he did not work on CDOs and would not typically be involved in the marketing of CDOs. Subcommittee interview of Michael Swenson (10/8/2010).

[2279] 10/12/2006 email from Michael Swenson to David Rosenblum and Peter Ostrem, GS MBS-E-0000030518.

[2280] 10/25/2006 email from Jonathan Sobel to David Viniar and Gary Cohn, GS MBS-E-009757821.

[2281] Subcommittee interview of Darryl Herrick (10/13/2010).

[2282] Subcommittee interview of Darryl Herrick (10/13/2010). When asked if it was common to divide unsold securities between the CDO Desk and the ABS Desk, Mr. Herrick said unsold securities were usually split with the sponsor of a CDO. His response suggests that Goldman viewed the ABS Desk as the sponsor of Hudson 1, since it was designed to offset the risk associated with the ABS Desk's ABX assets. See also 2/28/2007 email from David Rosenblum to Peter Ostrem, GS MBS-E-001800707 ("are we still sharing 50pct of ups and downs on [Hudson].").

Benefit Mutual, which bought $10 million of the AA rated securities; and Bear Stearns, which bought $5 million of the equity tranche.

Profiting from Hudson. On October 30, 2006, after Hudson 1 was presented to investors and pre-sold most of its securities, Peter Ostrem, the head of the CDO Origination Desk, sent a celebratory email to the ABS and CDO teams with Hudson highlights. He wrote: "Goldman was the sole buyer of protection on the entire $2.0 billion of assets," meaning Goldman had kept 100% of the short position. By shorting Hudson, Goldman had transferred $1.2 billion worth of risky ABX assets Goldman wanted off its books, and shorted another $800 million in RMBS securities. Mr. Ostrem also listed these "highlights":

- "P&L [Profit and Loss] booked of $8.5mm .... Plus, ongoing P&L to GS for acting as liquidation agent equal to $2.5mm per year for the next 4 years
- Hudson Mezz went long $1.2bln of BBB/BBB- ABX from ABS trading desk at market wides 4 weeks ago
- Fastest execution of a SP [Structured Product] CDO done at Goldman (4 weeks from inception to pricing)
- Over half the Equity was sold by Andy Davilman
- ... Super senior note ($1.2bln in size) was executed in the first week of the transaction and was a key driver of this deal[']s success (covered by Nicole Martin)."[2283]

Over the next year, Goldman pocketed nearly $1.7 billion in gross revenues from Hudson 1, all of which was at the expense of the Hudson investors.[2284] As the value of the RMBS securities referenced in the ABX indices declined, Goldman, as the sole short party in Hudson, collected $1.393 billion in gains directly from the investors to whom it had sold the Hudson securities. Goldman's $1.393 billion gains were, in turn, offset internally at the firm by the ABX losses recorded on the books of its ABS Desk. Goldman made another $304 million in gains due to its short of the other $800 million in single name CDS contracts included in Hudson 1.[2285] That $304 million gain was also at the expense of the investors to whom Goldman had sold the Hudson securities.

Goldman also profited in other ways. It received substantial fees from the roles it played in underwriting and administering Hudson 1, including $31 million in underwriting fees, $3.1 million for serving as the liquidation agent, and $1 million for serving as the collateral put provider.[2286] The ABS Desk warehouse account that contained both the long ABX assets and the 80 offsetting single

[2283] 10/30/2006 email from Peter Ostrem, "Great Job on Hudson Mezz," GS MBS-E-0000057866, Hearing Exhibit 4/27-90.

[2284] Goldman told the Subcommittee that Hudson experienced a gross gain of $1.697 billion offset by a loss of $1.39 billion (rather than $1.2 billion) in ABX assets on its balance sheet. 8/4/2010 email from Goldman to the Subcommittee, PSI_QFR_GS0243.

[2285] See Goldman response to Subcommittee QFR at PSI_QFR_GS0239.

[2286] Id.

name CDS contracts reported a gain of approximately $1.2 million due to the higher value of the single name CDS compared to the ABX CDS.[2287]

Goldman also incurred some losses in connection with Hudson 1. Although Goldman sold some additional Hudson securities several months after the CDO closed, it incurred a $267 million loss from the Hudson 1 securities that it was unable to sell at the prices it wanted and instead retained in its inventory. Goldman lost another $111 million from serving as the collateral put provider for Hudson collateral securities which also lost value.[2288] Overall, however, Goldman recorded a profit from Hudson 1 of more than $1.35 billion.

In contrast to Goldman, Hudson 1 investors suffered substantial losses. In March 2007, less than three months after the issuance of the Hudson securities, when asked to analyze how a holder of Hudson securities could hedge against a drop in their value, a Goldman trader wrote: "their likelihood of getting principal back is almost zero."[2289] Six months later, the credit rating downgrades began. In September 2007, Moody's downgraded several Hudson 1 securities and followed with additional downgrades in November 2007. S&P began downgrades of Hudson 1 in December 2007, and by February 2008, had downgraded even the AAA rated securities.[2290]

Morgan Stanley, the largest Hudson investor, lost $930 million.[2291] As other investors incurred increasing losses, they sold their securities back to Goldman at rock bottom prices. In September 2007, for example, nine months after the Hudson securities were first issued, Goldman repurchased $10 million worth of Hudson securities from Greywolf Capital at a price of five cents on the dollar; in October 2007, another hedge fund sold $1 million in Hudson securities back to Goldman at a price of 2.5 cents on the dollar.[2292] In November 2008, Hudson 1 was completely liquidated by Goldman. Today, Hudson securities are worthless.

Analysis. Goldman constructed Hudson 1 as a way to transfer its ABX risk to the investors who bought Hudson securities. When marketing the Hudson securities, Goldman misled investors by claiming its investment interests were aligned with theirs, when it was the sole short party and was betting against the very securities it was recommending. Goldman also implied that Hudson's assets had been purchased from outside sources, and failed to state that it had selected the majority of the assets from its own inventory and priced the assets without any third party participation. By holding 100% of the short position at the same time it solicited clients to buy the Hudson securities, Goldman created a conflict of interest with its clients, concealed the conflict from them, and profited at their expense.

[2287] Id.
[2288] Id., at PSI_QFR_GS_0280.
[2289] 3/4/2006 email from Fabrice Tourre to George Maltezos, others, GS MBS-E-006638833.
[2290] See Goldman response to Subcommittee QFR, at PSI_QFR_GS0211.
[2291] 11/21/2008 letter from Goldman to Morgan Stanley, HUD-CDO-00005125.
[2292] See Goldman response to Subcommittee QFR, at PSI_QFR_GS0223 and PSI_QFR_GS0235.

BB. Anderson Mezzanine Funding 2007-1

In the summer of 2006, Goldman began work on Anderson Mezzanine Funding 2007-1 (Anderson), a synthetic CDO whose assets were single name CDS contracts referencing subprime RMBS securities with mezzanine credit ratings.[2293] To execute the Anderson CDO, Goldman partnered with GSC Partners ("GSC"), a New York hedge fund. Goldman personnel working on the CDO included Peter Ostrem, head of the CDO Origination Desk, and Matthew Bieber, a CDO Origination Desk employee assigned to be deal captain for the Anderson CDO.

The CDO was originally conceived as part of the Hudson series of non-managed, proprietary CDOs in which Goldman acted as the principal.[2294] But Goldman decided to enlist GSC to take part in structuring the $500 million CDO.[2295]

Partnering on Anderson. GSC Partners was founded by Alfred C. Eckert, III, a former partner and former head of private equity, distressed debt investing, and corporate finance at Goldman.[2296] Goldman had a longstanding relationship with GSC. In addition to Mr. Eckert, at least five other former Goldman Managing Directors were employed by GSC, and at least eight other former and current Managing Directors had invested in one or more of GSC's funds.[2297] In the spring of 2006, GSC circulated information through Goldman about raising money for its Elliot Bridge Fund, a "fixed income arb[itrage] fund focusing primarily on ABS using cash and synthetics, long/short strategies."[2298] When discussing the fund with other Goldman employees, Curtis Willing, the Goldman sales representative responsible for covering GSC wrote: "They are a strategic partner with the Synthetic desk and have handed us multiple CDO/CLO mandates."[2299] After being informed of the internal conversations almost a month later, Mr. Sparks informed Mr. Willing that it was a "[m]istake not to involve me from early on," telling Mr. Willing, "I've run a bunch of traps for [GSC] in the past."[2300]

[2293] "Mezzanine" CDS assets reference securities that carry a credit rating of BBB or BBB-. Mezzanine assets are riskier than AAA, AA, and A rated assets, but less risky than those that carry, for example, BB, B, or CCC ratings.

[2294] Some documents indicate the CDO was slated to be Hudson Mezzanine 2006-2. But in December 2006, Goldman delayed Anderson in favor of issuing an ABX based CDO named Hudson Mezzanine 2006-2. Several of the documents cited in this section use the terms "Hudson" or "Hudson Mezz" when in fact they refer to Anderson. None of the Goldman employees interviewed by the Subcommittee could recall the reason for changing the name of the CDO to Anderson.

[2295] 9/25/2006 Goldman memorandum to the Mortgage Capital Committee, GS MBS-E-013475756-62 (hereinafter "9/25/2006 MCC Memorandum"). The MCC Memorandum states that Goldman was approached by GSC, but may be using standard language reused in many MCC Memoranda. In an interview with the Subcommittee, Edward Steffelin, a Senior Trader at GSC, stated that Goldman approached GSC about partnering in the transaction, and the memorandum language was "probably backward." Subcommittee interview of Edward Steffelin (12/10/2010).

[2296] 9/25/2006 MCC Memorandum, GS MBS-E-013475756-62.

[2297] See Goldman response to Subcommittee QFR at PSI_QFR_GS0434. Goldman noted in its QFR response that the information used for its response had been voluntarily provided by Goldman employees.

[2298] 5/10/2006 email from Curtis Willing to David Solomon and Dan Holland, GS MBS-E-013870906-7. The Elliot Bridge Fund eventually invested in Anderson.

[2299] 4/17/2006 email from Curtis Willing to David Solomon and Dan Holland, GS MBS-E-013870906-7.

[2300] 5/14/2006 and 5/10/2006 emails from Dan Sparks to Curtis Willing, GS MBS-E-013870906-7.

GSC agreed to partner with Goldman on the Anderson CDO and to share in the associated risk, including by splitting the equity tranche and sharing the risk with Goldman that the Anderson assets would lose value while being warehoused.[2301] GSC also participated in selecting the assets for the CDO.[2302] Later on, Goldman consulted with GSC on whether to liquidate or underwrite Anderson,[2303] and allowed GSC to participate in pricing issues,[2304] while GSC at times assisted in marketing Anderson.[2305]

Goldman offered to let GSC take a short interest in the CDO by offering to "sell protection on BBBs to GSC at market for 0.75% times notional," and agreeing to "source assets via GSC," meaning GSC could propose assets for the CDO that GSC wanted to get rid of or short.[2306] GSC responded by shorting a select group of RMBS securities to hedge its risk while those assets were in the Anderson warehouse account.[2307] For instance, at one point in October 2006, GSC sought to add $56 million in assets to the Anderson CDO, while also taking a short position on $9 million of those assets, which it described as "GSC Hedge Amount."[2308]

Designing Anderson. GSC and Goldman participated together in the selection of assets for Anderson. Anderson was designed to be a synthetic CDO whose assets would consist solely of CDS contracts referencing RMBS securities whose average credit ratings would be BBB or BBB-. GSC proposed some of the referenced RMBS securities, but it is unclear how many were included in Anderson.[2309] GSC and Goldman employees interviewed by the Subcommittee had no specific

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[2301] 9/25/2006 MCC Memorandum, GS MBS-E-013475756-62.

[2302] 8/8/2006 email from Edward Steffelin to Peter Ostrem and others, "GS/GSC EB Prop deal," GS MBS-E-000904603. 8/8/2006 email from Peter Ostrem to Edward Steffelin, Joshua Bissu and others, GS MBS-E-000904603 (Mr. Ostrem writes: "Happy to source assets via GSC."). See e.g., 9/26/2006 email from Mr. Bissu to Matthew Bieber, "Names for tomorrow," GS MBS-E-014335388.

[2303] Subcommittee interview of Edward Steffelin (12/10/2010).

[2304] See 3/5/2007 emails between Matthew Bieber and Joshua Bissu, GS MBS-E-014605918.

[2305] See 3/6/2007 email from Joshua Bissu to Matthew Bieber and Peter Ostrem, GS MBS-E-014597705.

[2306] 8/8/2006 email from Edward Steffelin to Peter Ostrem and others, "GS/GSC EB Prop deal," GS MBS-E-000904603. GSC frequently executed trades with Goldman's Correlation Trading Desk, and was known to have a "long/short strategy" in which it shorted assets it considered expensive and went long assets it thought were undervalued. See 9/15/2006 email from Geoffrey Williams to Correlation Trading Desk, GS MBS-E-009471708. See e.g., 10/31/2006 email from Shelly Lin to Joshua Bissu, and Matthew Bieber, GS MBS-E-016473768.

[2307] 10/31/2006 email from Curtis Willing, GSC Trades, GSC-CDO-FCIC-0029698; 10/31/2006 email from Deeb Salem, "Re: GSC-Hudson Mezz 2," GS MBS-E-000905571. A former GSC employee interviewed by the Subcommittee also indicated that the short positions were taken on Anderson assets in an effort to hedge GSC's warehouse risk. Subcommittee interview of Edward Steffelin (12/10/2010).

[2308] 10/31/2006 email from Shelly Lin to Joshua Bissu and Matthew Bieber, GS MBS-E-016473768. See also 10/31/2006 email from Shelly Lin to Deeb Salem, Edwin Chin, and Matthew Bieber, GS MBS-E-000905571 ("GSC wants to short into the deal the amounts listed below. They'd like to trade the ones they want to hedge with your desk as well. I think they also did this with your desk a few weeks ago."). When Mr. Bieber was shown this document during his 10/21/2010 interview with the Subcommittee he stated he didn't know if GSC had shorted assets and that he didn't know what Ms. Lin meant by her statement. Subcommittee interview of Matthew Bieber (10/21/2010).

[2309] Subcommittee interview of Matthew Bieber (10/20/2010); Subcommittee interview of Edward Steffelin (12/10/2010).

recollection of the asset selection process, beyond each party selecting some RMBS securities and the other having veto rights.[2310]

Anderson's assets were purchased from 11 different broker-dealers from September 2006 to March 2007. Goldman was the source of 28 of the 61 CDS contracts in Anderson, and Goldman retained the short side. The next largest short party was Lehman Brothers which sold six CDS contracts to Anderson and retained the short side. Goldman also served as the sole credit protection buyer to the Anderson CDO, acting as the intermediary between the CDO and the various broker-dealers selling it assets.[2311]

By February 2007, the Anderson warehouse account contained $305 million out of the intended $500 million worth of single name CDS, many of which referenced mortgage pools originated by New Century, Fremont, and Countrywide, subprime lenders known within the industry for issuing poor quality loans and RMBS securities. Approximately 45% of the referenced RMBS securities contained New Century mortgages.[2312]

Falling Mortgage Market. During the same time period in which the Anderson single name CDS contracts were being accumulated, Goldman was becoming increasingly concerned about the subprime mortgage market, was reacting to bad news from the subprime lenders it did business with,[2313] and was building a large short position against the same types of BBB rated RMBS securities referenced in Anderson.[2314] By February 2007, the value of subprime RMBS securities was falling, and the Goldman CDO Origination Desk was forced to mark down the value of the long single name CDS contracts in its CDO warehouse accounts, including Anderson.

Goldman was also aware that its longtime customer, New Century, was in financial distress. On February 7, 2007, New Century announced publicly it would be restating its 2006 earnings, causing a sharp drop in the company's share price. On February 8, 2007, Goldman's Chief Credit Officer Craig Broderick sent Mr. Sparks and others a press clipping about New Century and warned:

> "[T]his is a materially adverse development. The issues involve inadequate [early payment default] provisions and marks on residuals .... [I]n a confidence sensitive industry it will be

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[2310] Id.

[2311] See Goldman response to Subcommittee QFR at PSI_QFR_GS0192.

[2312] This number was compiled using a list of referenced securities supplied by Goldman at QFR_PSI_GS0192 and registration statements available at www.sec.gov. When looking at all mortgages underlying each reference security, New Century originated 48% by value of the underlying mortgages. However, each mortgage may have a different weight in the Anderson CDO based on the size of the reference security it is held in. Therefore, the economic effect of the New Century mortgages could be greater than or less than 48%. The next largest mortgage originator by value was Countrywide at 8%.

[2313] See, e.g., 1/4/2007 Goldman presentation, "Sub-Prime Mortgage Lenders - Update," GS MBS-E-009978840-59, Hearing Exhibit 4/27-169.

[2314] See discussion of Goldman's net short position, Section C(4), above.

> ugly even if all problems have been identified. ... We have a call with the company in a few minutes (to be led by Dan Sparks)." [2315]

On some occasions, Mr. Sparks addressed negative news about New Century in the same email he discussed liquidating assets in warehouse accounts for upcoming CDOs. On March 8, 2007, for example, Mr. Sparks noted in an email to senior executives: "New Century remains a problem" due to loans experiencing early payment defaults, and informed them that the Mortgage Department had "liquidated a few deals and could liquidate a couple more."[2316]

On February 23, 2007, Mr. Sparks sent an email to senior Goldman executives estimating that Goldman had lost $72 million on the holdings in its CDO warehouse accounts, due to falling prices.[2317] He directed Mortgage Department personnel to liquidate rather than securitize the assets in certain warehouse accounts. Two days later, on February 25, 2007, Mr. Sparks informed senior executives of the possibility of liquidating Anderson:

> "[T]he CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). ... One more CDO warehouse may be liquidated this week - approximately $300mm with GSC as manager."[2318]

Three days later, David Rosenblum, head of Goldman's Collateralized Loan Obligations activities, emailed Mr. Ostrem, head of the CDO Origination Desk, stating: "Dan tells me that SP [Structured Product] CDO desk has reported -77 [million dollars] from retained debt (Hmezz 1+2, etc), and -129 [million dollars] from unrealized and realized CDO WH [warehouse] markdowns."[2319]

On February 24, 2007, a Saturday, several persons from the Mortgage Department worked to analyze the costs of unwinding and liquidating the assets collected for the Anderson CDO. Deeb Salem, a trader on the ABS Desk, estimated that unwinding Anderson would result in a $60 million loss due to the falling value of its single name CDS.[2320] On the same day, Mr. Ostrem sent his colleagues this explanation of why the losses in the CDO warehouse accounts were growing so rapidly:

> "Each warehouse is marked by either (a) MTM [mark-to-market] on each asset or (b) mark to model [MTModel] which involves taking the portfolio through the expected CDO execution and calculating Goldman's P&L [profit and loss] given current market yields on debt and equity. MTM is preferred if CDO execution is highly uncertain or portfolio is

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[2315] 2/8/2007 email from Craig Broderick to Daniel Sparks, David Viniar, others, GS MBS-E-002201486.
[2316] 3/8/2007 email from Daniel Sparks to senior executives, GS MBS-E-002206279, Hearing Exhibit 4/27-75.
[2317] 2/23/2007 email from Daniel Sparks to senior executives, GS MBS-E-009759477.
[2318] 2/25/2007 email from Daniel Sparks to Tom Montag, GS MBS-E-019164799. See also 2/23/2007 email from Daniel Sparks to senior executives, GS MBS-E-009759477 ("We liquidated 3 CDO warehouses today and started the liquidation of another. We may liquidate one more next week.").
[2319] 2/28/2007 email from David Rosenblum to Peter Ostrem, GS MBS-E-001800707.
[2320] 2/24/2007 email from Deeb Salem to Michael Swenson, Edwin Chin, and Josh Birnbaum, GS MBS-E-018936137-38.

small. Both the MTM and the MTModel take into account risk sharing arrangements with 3rd parties.

As CDO execution has become more uncertain we have moved a couple warehouses closer to their MTM which has significantly increased our losses. Also, our MTModel results have shown losses as expected liability spreads have widened significantly and the overall strength of the CDO market has waned due to fundamental credit decline in 06/07 in RMBS subprime (90+% of assets) and increased co[r]relation between ABX/TABX levels and mezz debt levels in CDOs. We expect this co[r]relation to increase volatility in our warehouse marks for the [sic] a while (this series of events have happened quickly within the last month and the co[r]relation is getting closer to 1 as global markets get more familiar with fundamentals in subprime and trading levels in ABX/TABX).

Additional losses have also resulted from the liquidation of 3 warehouses. In each case, the realized loss from the sale of assets has been higher than our MTM or MTModel. This is attributable to both volatility in subprime markets and that our competitors are closing their CDO warehouse accounts from buying our subprime or CDO positions. The buyer base has suddenly shrunk significantly. As this continues, we expect this lack of liquidity to further weaken our MTMs and feed into our losses in our remaining warehouse marks."[2321]

At about 11:00 p.m. that Saturday night, February 24, 2007, Mr. Sparks seemed to reach a decision to liquidate Anderson. He sent an email to Mr. Ostrem, Mr. Bieber, and several others stating: "I want to liquidate Anderson Monday - we should begin the discussion with gsc asap."[2322]

After Mr. Sparks relayed this decision, Mr. Ostrem and Mr. Bieber began to strategize ways to convince Mr. Sparks to reverse his decision.[2323] Messrs. Ostrem and Bieber assembled a list of likely buyers of the Anderson securities to present to Mr. Sparks, and brainstormed about other CDOs that could potentially buy Anderson securities for their asset pools.[2324] Mr. Ostrem also proposed allowing a hedge fund to short assets into the deal as an incentive to buy the Anderson securities, but Mr. Bieber thought Mr. Sparks would want to "preserve that ability for Goldman."[2325]

At some point, Mr. Sparks changed his mind and decided to go forward with underwriting the Anderson CDO. None of the Goldman personnel interviewed by the Subcommittee could recall why the final decision was made to go forward with Anderson. In one email on March 2, 2007, Jonathan Egol, head of the Goldman Correlation Trading Desk, suggested adding $195 million more in assets to Anderson, with Goldman selecting the assets internally and shorting them.[2326] Mr.

[2321] 2/24/2007 email from Peter Ostrem to colleagues, GS MBS-E-010383828-29.
[2322] 2/24/2007 email from Daniel Sparks to Peter Ostrem, others, GS MBS-E-001996601, Hearing Exhibit 4/27-95.
[2323] 2/25/2007 Goldman internal email chain, GS MBS-E-001996601, Hearing Exhibit 4/27-97.
[2324] Id.
[2325] Id.
[2326] 3/2/2007 email from Jon Egol to Daniel Sparks and others, GS MBS-E-010637566, Hearing Exhibit 4/27-97.

Sparks rejected any expansion of Anderson, responding: "we are not ramping - execute deal as is."[2327]

The Anderson CDO closed on March 20, 2007. As finally constructed, 100% of its assets were CDS contracts referencing $307 million in mezzanine subprime RMBS securities, meaning RMBS securities carrying BBB or BBB- credit ratings. About 45% of the subprime mortgages in the referenced RMBS securities were issued by New Century. Another 8% were issued by Countrywide, and almost 7% were issued by Fremont. Goldman took about 40% of the short side of the Anderson CDO. Ten other investors held the rest of the short interest in the CDO.

Selling Anderson. During March, selling Anderson securities became a top priority for Goldman. Goldman even put another deal on hold, the Abacus 2007-AC1 deal with the Paulson hedge fund, to promote Anderson. As Mr. Egol advised Goldman personnel: "Given risk priorities, subprime news and market conditions, we need to discuss side-lining [Abacus 2007-AC1] in favor of prioritizing Anderson in the short term."[2328]

On March 13, 2007, Goldman issued internal talking points for its sales force on the Anderson CDO. Among the points highlighted were:

> "Portfolio selected by GSC. Goldman is underwriting the equity and expects to hold up to 50%. ... Low fee structure[.] ... No reinvestment risk."[2329]

The talking points described Goldman as holding up to 50% of the equity tranche in the CDO – worth about $21 million, without mentioning that Goldman would also be holding 40% – about $135 million – of the short side of Anderson, placing its investment interests in direct opposition to the investors to whom it was selling Anderson securities.

The large number of poor assets referenced in Anderson raised investor questions and was an impediment to sales.[2330] One potential investor wrote to a Goldman sales representative explaining its decision not to purchase the Anderson securities:

> "We're going to pass on this deal for a number of reasons: Two bonds . . . have been downgraded or are on negative watch; Another 12 bonds in the portfolio are negatively impacted by the downgrades lower in the capital structure; 28% of the portfolio is failing

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[2327] 3/2/2007 email from Daniel Sparks to Jon Egol and others, GS MBS-E-010637566, Hearing Exhibit 4/27-97.

[2328] 3/2/2007 email from Jon Egol to colleagues, "Re: Abacus AC1," GS MBS-E-002676413, Hearing Exhibit 4/27-64.

[2329] 3/13/2007 email from Peter Ostrem to Scott Wisenbaker and Matthew Bieber, GS MBS-E-000898410, Hearing Exhibit 4/27-172.

[2330] In mid-March, Mr. Ostrem informed the GSI Risk Committee that Goldman's estimated losses on the assets in the Anderson warehouse account had reached $22.9 million. 3/16/2007 Goldman Sachs International Risk Committee memorandum, "GSI Warehousing for Structured Product CDOs," GS MBS-E-001806010-16.

> delinquency triggers; We show that a lot of these bonds will take principal hits; Not crazy about the deal structure given the quality of the portfolio."[2331]

Other investors expressed concerns that the CDO would be downgraded.[2332] Goldman did not disclose to these investors that it had almost canceled the CDO, due to its assets' falling values.

Of particular concern for investors was the concentration of New Century mortgages in Anderson.[2333] On March 13, 2007, a potential investor, Rabobank, asked Goldman sales representatives: "how did you get comfortable with all the new centu ry [sic] collateral in particular the new century serviced deals - con sidering [sic] you are holding the equity and their servicing may not be around is that concerning for you at all?"[2334] Goldman and GSC prepared a list of talking points with which to respond to the investor:

> "- Historically New Century has on average displayed much better performance in terms of delinq[uency] and default data
> - Prepayments have tended to be higher lowering the extension risk
> - Losses and REO [Real Estate Owned by a lender taking possession of a property] are historically lower than the rest of the market
> - Traditionally the structures have strong enhancement/subordination."[2335]

The talking points did not disclose that, in fact, Goldman, too, was uncomfortable with New Century mortgages. On March 8, 2007, five days before receiving the investor's inquiry, Mr. Sparks had reported to senior Goldman executives, including Co-President Gary Cohn and CFO David Viniar, that New Century mortgages "remain[ed] a problem for [early payment default]."[2336] On March 13, the same day as the investor inquiry, Goldman personnel completed a review of New Century mortgages with early payment defaults that were on Goldman's books and found fraud, "material compliance issues," and collateral problems. The review found that "62% of the pool has not made any pmts [payments]" and recommended "putting back 26% of the pool" to New Century

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[2331] 5/31/2007 email from Goldman client to Andrew Davilman, GS MBS-E-015550857-58. Andrew Davilman relayed the message to Matthew Bieber, who suggested the client might be interested in higher rated securities. Mr. Davilman responded: "I'll check, but given the portfolio I suspect he's looking for a cleaner start."

[2332] 3/16/2007 email from Russell Brocato to Scott Wisenbaker, GS MBS-E-000902498, Hearing Exhibit 4/27-172. Mr. Bieber and Mr. Ostrem were also informed by a salesperson that the client was "out on Anderson - they feel like the deal will be dow[n]graded and have interest coverage issues." Mr. Ostrem instructed the Goldman salesperson to "[f]ix the miscommunication so the probability [of sale] goes up."

[2333] 3/14/2007 email from Matthew Bieber to Scott Wisenbaker and others, GS MBS-E-000908336, Hearing Exhibit 4/27-172 ("Looking like both dcp and terwin out. New Century issues.").

[2334] 3/13/2007 email from Wendy Rosenfeld at Rabobank to Olivia Ha at Goldman, GS MBS-E-000898417, Hearing Exhibit 4/27-172.

[2335] 3/6/2007 email from Joshua Bissu to Matthew Bieber and Peter Ostrem, GS MBS-E-014597705.

[2336] 3/8/2007 email from Daniel Sparks to senior executives, GS MBS-E-002206279, Hearing Exhibit 4/27-75.

for repurchase "if possible."[2337] Goldman also did not disclose to the investor that it was shorting 40% of the Anderson CDO.

Some Goldman clients also had questions about GSC's involvement in Anderson. An Australian sales representative wanted "more color on asset selection process, especially with respect to GSC involvement."[2338] This clarification was necessary, because although GSC's role was mentioned in numerous internal Goldman documents, the official Anderson marketing materials did not mention GSC's role in asset selection.[2339] In previous drafts of the marketing materials, for example, Goldman stated that "Goldman Sachs and GSC Group co-selected the assets"; "GSC pre-screens and evaluates assets for portfolio suitability"; the CDO was "co-sponsored by Goldman and GSC Eliot Bridge Fund"; and "Goldman Sachs and GSC ha[ve] aligned incentives with Anderson Funding by investing in a portion of equity."[2340] But all of the references to GSC were removed from the final documents.[2341] Mr. Bieber told the Subcommittee that he did not recall specifically why the references to GSC were removed, but recalled GSC having an issue with disclosing its name in the offering documents.[2342] Edward Steffelin, a Senior Trader at GSC, also did not recall the specifics regarding why the references to GSC were removed, but told the Subcommittee that he felt GSC's role in the Anderson CDO did not rise to the level of "co-selecting."[2343] Mr. Steffelin said that although GSC had the ability to suggest assets and veto others, he felt that "co-selecting" implied a level of control over the portfolio that GSC didn't have.[2344]

[2337] 3/13/2007 email from Manisha Nanik to Loren Morris, "New Century EPDs," at GS MBS-E-002146861, Hearing Exhibit 4/27-77. See also 2/2/2007 email from Matthew Nichols to Kevin Gasvoda and others, GS MBS-E-005556331 ("NC is running a 10% drop rate [due diligence drop] at ~6 points / drop and 4% EPD rate at close to 20 points."); 2/8/2007 email from John Cassidy to Joseph Ozment, others, GS MBS-E-002045021 ("Given the current state of the company I am no longer comfortable with the practice of taking loans with trailing docs . . . that we need in order to conduct compliance testing.").

[2338] 3/1/2007 email from Scott Wisenbaker to Peter Ostrem and Matthew Bieber, GS MBS-E-000893661, Hearing Exhibit 4/27-172.

[2339] 2/2007 Anderson Mezzanine Funding 2007-1, Ltd. Debt Marketing Book, GS MBS-E-000855351.

[2340] 2/2007 Anderson Mezzanine Funding 2007-1, Ltd. Equity Marketing Book, GS MBS-E-000892557-598 at 560, 569.

[2341] 2/2007 Anderson Mezzanine Funding 2007-1, Ltd. Debt Marketing Book, GS MBS-E-000855351. Anderson Mezzanine Funding 2007-1, Ltd. Debt Marketing Book, GSC-CDO-FCIC-0031712 at 726. Around the time Goldman was deciding whether to underwrite Anderson, Fred Horton, head of CDOs at GSC, left the firm. While discussing whether to issue or underwrite the CDO with Matthew Bieber, Mr. Ostrem commented: "Will need disclosure on Horton. This looks bad." 2/25/2007 email from Peter Ostrem to Matthew Bieber, GS MBS-E-001996601, Hearing Exhibit 4/27-95.

[2342] Subcommittee interview of Matthew Bieber (10/21/2010).

[2343] Subcommittee interview of Edward Steffelin (12/10/2010). The marketing materials also stated that the Anderson assets were "sourced from the Street." Mr. Steffelin described this as a "weird phrase," but felt it implied "it would be open, sourced from all over." See discussion of the phrase, "sourced from the Street," in the prior section on Hudson 1.

[2344] Id. Despite GSC's not being listed as having helped select the Anderson assets, some investors appeared to be aware of its involvement, perhaps from talking to Goldman personnel. See 3/28/2007 email from Matthew Bieber to Edward Steffelin, "ACA Meeting," GS MBS-E-014419176 ("Questions on [Anderson] - but also want to do manager due diligence. They've heard the GSC team shows well - so want to meet you in person.").

Despite the poor reception by investors, Goldman continued "pushing the axe" with its sales force to sell Anderson securities.[2345] Mr. Bieber identified and monitored potential investors and attempted to sell Anderson securities to pension funds and place Anderson securities in other Goldman CDOs as collateral securities.[2346] On March 20, 2007, when Mr. Bieber reported selling $20 million in Anderson securities, his supervisor, Mr. Ostrem, responded with the single word: "Profit!"[2347] In a separate email a week later, Mr. Ostrem told Mr. Bieber he did "an excellent job pushing to closure these deals in a period of extreme difficulty."[2348]

After several months of effort, Goldman was able to sell only a third, or about $102 million of the $307 million in Anderson securities.[2349] The nine investors included Beneficial Life, Moneygram, and GSC which purchased the entire $11 million class D portion of the CDO.[2350]

Losing Money from Anderson. Due to its inability to sell two-thirds of the Anderson securities, Goldman lost money overall on the CDO. Goldman's biggest gain came from holding 40% of the short position on certain Anderson assets, which produced a $131 million gain at the direct expense of the investors to whom Goldman had sold the Anderson securities. Goldman was also paid $200,000 for serving as the liquidation agent,[2351] and collected $2 million in CDS premiums while it warehoused Anderson assets.[2352]

Despite those gains, Goldman incurred a $185 million loss from the Anderson securities it was unable to sell and had to keep on its books. It incurred another $122 million loss due to the decreased value of the securities Goldman had purchased as collateral for the CDO.

Anderson's nine investors suffered more substantial losses. Seven months after its issuance, in November 2007, Anderson securities experienced their first ratings downgrades. At that point, 27% of the assets underlying Anderson were downgraded below a B- rating.[2353] GSC then sold back to Goldman a portion of the Anderson securities it had purchased at a price of 3 cents on the dollar.[2354] Within a year, Anderson securities that were originally rated AAA had been downgraded to BB. In the end, the Anderson investors were wiped out and lost virtually their entire investments.

Analysis. Goldman constructed the Anderson CDO using CDS contracts referencing subprime RMBS securities, the majority of which were issued by subprime lenders like New

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[2345] 3/12/2007 email from Robert Black to Matthew Bieber, others, GS MBS-E-000898037.
[2346] Id.
[2347] 3/20/2007 email from Peter Ostrem to Matthew Bieber and others, GS MBS-E-000906269, Hearing Exhibit 4/27-172.
[2348] 3/27/2007 email from Peter Ostrem to Matthew Bieber, GS MBS-E-000907935, Hearing Exhibit 4/27-172.
[2349] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.
[2350] GSC paid a price of 108.21% for the securities. See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.
[2351] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.
[2352] See Goldman response to Subcommittee QFR at PSI_QFR_GS0239.
[2353] 1/3/2008 email from Shelly Lin to Mr. Sparks, GS MBS-E-021880171 (attached file, "Deal Summary," Excel Spreadsheet showing credit ratings for Anderson).
[2354] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

Century who were known for issuing poor quality loans. When potential investors asked how Goldman was able to "get comfortable" with the New Century mortgage pools referenced in Anderson, Goldman attempted to dispel concerns about the New Century loans, withheld information about its own discomfort with New Century, and withheld that it was taking 40% of the short side of the CDO, essentially betting against the very securities it was selling to its clients. Instead, Goldman instructed its sales force to tell potential investors that Goldman was buying up to 50% of the equity tranche. Goldman also did not disclose to potential investors that it had almost cancelled the CDO due to the falling value of its assets.

CC. Timberwolf I

Timberwolf I was a $1 billion hybrid CDO^2 transaction that Goldman constructed, underwrote, and sold. It contained or referenced A rated CDO securities which, in turn, referenced primarily BBB rated RMBS securities. The assets in Timberwolf were selected by Greywolf Capital Management, a registered investment adviser, with the approval of Goldman. Greywolf served as the collateral manager of the CDO.[2355] Goldman effectively served as the collateral put provider.[2356] Timberwolf was initiated in the summer of 2006, and closed in March 2007.

Partnering with Greywolf. Greywolf Capital Management was founded by a team of former employees of Goldman's fixed income trading division.[2357] It had experience in constructing and investing in CDOs. In the summer of 2006, Peter Ostrem, head of Goldman's CDO Origination Desk, approached Greg Mount, a former Goldman trader working for Greywolf, and asked if Greywolf would be interested in managing a CDO^2 transaction.[2358] Goldman and Greywolf negotiated a risk sharing agreement, and worked through the profitability of the CDO^2 under expected market conditions. Greg Mount, as well as Joseph Marconi, another former Goldman trader, obtained approval from Greywolf's Chief Investment Officer to manage the CDO.

Greywolf agreed to purchase half of the Timberwolf equity tranche, sharing that risk with Goldman.[2359] In addition, Greywolf agreed to share with Goldman the risk of the assets being purchased for the CDO falling in value before the CDO issued its securities. Greywolf also accepted the responsibility of selecting the assets with the approval of Goldman, which would then keep them in a warehouse account for the Timberwolf CDO. Greywolf agreed to provide ongoing surveillance of the performance of the assets in the CDO and liquidate any assets deemed to be impaired.

Constructing Timberwolf. In September 2006, Greywolf began identifying, purchasing, and warehousing CDO securities or single name CDS referencing CDO securities for Timberwolf.

[2355] 2/2007 Timberwolf I, Ltd. Marketing Book, GS MBS-E-000676809, Hearing Exhibit 4/27-99a.

[2356] For more information about Goldman's actions as the collateral put provider for Timberwolf, see Section (iii)(BB), below.

[2357] 2/2007 Timberwolf I, Ltd. Marketing Book, GS MBS-E-000676809, Hearing Exhibit 4/27-99a.

[2358] Subcommittee interview of Joseph Marconi (10/19/2010).

[2359] Greywolf eventually purchased the entire equity tranche in Timberwolf. See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

Before selecting an asset for inclusion in Timberwolf, Greywolf did a detailed credit analysis of the relevant CDO security, including examining its underlying mortgage portfolio, the CDO's cashflow structure, and the mortgage servicer.[2360] Once Greywolf finished its credit analysis, it submitted its choices to Goldman's CDO Origination Desk for review by Mr. Ostrem and Matthew Bieber, who was assigned to be the Goldman deal captain for Timberwolf. Goldman had the right to approve each asset going into the Timberwolf warehouse account and thus onto Goldman's warehouse balance sheet.

Once an asset was approved by both Greywolf and Goldman, it was acquired in one of two ways. In most instances, Greywolf circulated a list of the CDO securities or reference CDO securities that it was interested in buying to the broker-dealer community to get bids. To buy a single name CDS, Goldman wrote the CDS contract, taking the long side on behalf of Greywolf, while the broker-dealer who provided the best bid took the short side. The CDS contract would then be held by Goldman in the Timberwolf warehouse account until the CDO was ready to close.[2361] In some instances, after circulating a list for bids, a broker-dealer responded to Greywolf's request with a price for a single name CDS on a similar CDO security, which Greywolf analyzed and sometimes agreed to acquire.[2362]

Timberwolf's single name CDS and CDO securities were acquired from 12 different broker-dealers.[2363] Goldman was the single largest source of assets, providing 36% of the assets by value, including $15 million in single name CDS contracts naming Abacus securities.[2364] As a result, Goldman held 36% of the short interest in Timberwolf.[2365] Altogether, Timberwolf contained 56 different assets, of which 51 were single name CDS contracts referencing CDO securities and five were cash CDO securities.[2366] The 51 single name CDS contracts referenced both CDO and CDO^2 securities, and each CDO or CDO^2 security contained or referenced its own RMBS, CMBS, or CDO securities or other assets. In total, Timberwolf had over 4,500 unique underlying securities and a grand total of almost 7,000 securities.[2367] This process was further complicated by the fact that the CDO assets in Timberwolf were privately issued and often had little or no publicly available information on the underlying assets they contained.

[2360] Subcommittee interview of Joseph Marconi (10/19/2010).

[2361] In some cases, Goldman was permitted to "top-up" the deal, taking the short side on an additional $5 million in the same CDO security at the same price paid by the auction winner. Greywolf's goal was for each reference asset to be $20 million in size, but often asked for bids on only $10-15 million worth of CDS protection in order to get a better spread. Goldman would then have the option of providing the remaining $5-10 million in CDS protection at the transaction price, resulting in a total position size of $20 million on the Timberwolf balance sheet.

[2362] Joseph Marconi told the Subcommittee that well over half the assets were obtained through auctions, while just a few were negotiated. Subcommittee interview of Joseph Marconi (10/19/2010).

[2363] See Goldman response to Subcommittee QFR at PSI_QFR_GS0192.

[2364] The Abacus securities were cash assets. However, due to the synthetic nature of the Abacus CDOs, Goldman retained a short interest in $15 million in Abacus securities.

[2365] Timberwolf had about one dozen short parties of which Goldman was the largest. See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2366] A total of 84 CDS contracts produced the 51 unique reference assets. See Goldman response to Subcommittee QFR at PSI_QFR_GS0192.

[2367] 8/23/2007 email from Jay Lee to Matthew Bieber, David Lehman, and others, GS MBS-E-001927784.

By the time Greywolf and Goldman were nearing completion of the acquisition of the Timberwolf assets in the spring of 2007, Goldman was becoming increasingly concerned about the deteriorating subprime mortgage market and the falling value of the assets in its CDO warehouse accounts. In February 2007, Mr. Sparks, the Mortgage Department head, and Goldman senior executive Thomas Montag exchanged emails about the warehouse risk posed by Timberwolf and another pending CDO[2] called Point Pleasant. Mr. Montag asked Mr. Sparks: "cdo squared–how big and how dangerous?"[2368] Mr. Sparks responded: "[R]oughly 2bb [billion], and they are the deals to worry about." Mr. Sparks also told Mr. Montag that, due to falling subprime prices, the assets accumulated in the warehouse account for the $1 billion Timberwolf CDO had already incurred significant losses, those losses had eaten through all of Greywolf's portion of the warehouse risk sharing agreement, and any additional drops in value would be Goldman's exclusive obligation.[2369]

In March 2007, due to the falling values of subprime RMBS and CDO securities, Goldman decided against completing several CDOs under construction, and liquidated the assets in their warehouse accounts. Goldman decided, in contrast, to accelerate completion of Timberwolf.[2370]

Timberwolf I closed on March 27, 2007, approximately six weeks ahead of schedule.[2371] The final CDO had $1 billion in cash and synthetic assets, including $960 million in single name CDS referencing CDO securities, and $56 million in cash CDO securities.

Selling Timberwolf. Selling Timberwolf securities became a high priority for Goldman. Mr. Sparks worked with senior sales managers to review ideas, telling them: "I can't over state the importance to the business of selling these positions and new issues."[2372]

During the spring and summer of 2007, the Goldman Syndicate[2373] emailed the CDO sales force a list of "Senior CDO Axes" or sales directives on a weekly and sometimes daily basis, many of which placed a priority on selling Timberwolf securities.[2374] As early as February, the Goldman sales force developed "broader lists" of clients to target for Timberwolf sales.[2375] After exhausting

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[2368] 2/26/2007 email exchange between Tom Montag and Daniel Sparks, GS MBS-E-019164799.
[2369] 2/26/2007 email exchange between Tom Montag and Daniel Sparks, GS MBS-E-010989241.
[2370] 3/7/2007 email from Gaelyn Sharp, GS MBS-E-001800634.
[2371] 3/2007 email chain, "Timberwolf I, Ltd. Preliminary Offering Circular," GS MBS-E-001800634.
[2372] 3/9/2007 email from Daniel Sparks, "Re: Help," GS MBS-E-010643213, Hearing Exhibit 4/27-76.
[2373] According to Goldman personnel interviewed by the Subcommittee, the Syndicate coordinated sales efforts between the CDO Origination Desk and the CDO sales force.
[2374] See, e.g., 4/11/2007 Goldman internal email, "GS Syndicate Structured Product CDO Axes (INTERNAL)," Hearing Exhibit 4/27-101; 4/19/2007 Goldman internal email, Hearing Exhibit 4/27-102; 6/22/2007 Goldman internal email, Hearing Exhibit 4/27-166. These "axe sheets" contained directives for selling Goldman issued securities and other financial products, as well as congratulatory and motivational notes. Some Goldman traders had a negative view of the axe sheets. One trader wrote, for example, that he was "guessing sales people view the syndicate 'axe' email we have used in the past as a way to distribute junk that nobody was dumb enough to take first time around." 10/24/2006 Goldman internal email, GS MBS-E-009557699, Hearing Exhibit 4/27-170d.
[2375] 2/14/2007 email from Robert Black to Matthew Bieber and others, GS MBS-E-001996121.

those initial lists, Goldman sales personnel began to target "non-traditional" buyers[2376] as well as clients outside of the United States.[2377] The sales force had some early successes. On March 28, 2007, for example, the Syndicate included a note in one of the axe sheets:

> "Great job Cactus Raazi trading us out of our entire Timberwolf Single-A position – $16mm. Sales - Good job over the last two weeks moving over $66mm of risk off the axe sheet. Please stay focused on trading these axes."[2378]

As sales began to flag in April, Mr. Sparks sent emails reminding Goldman sales personnel that Timberwolf "is our priority."[2379] On one occasion, on April 19, 2007, Mr. Sparks suggested to a sales manager offering "ginormous credits" as an incentive to sell Goldman's CDO securities: "for example, let's double the current offering of credits for [T]imberwolf."[2380] Mr. Sparks was informed in response: "[W]e have done that with timberwolf already."

On March 9, 2007, Harvey Schwartz, a senior executive at Goldman Sachs, expressed concern to Mr. Sparks and others about what Goldman sales personnel were telling clients: "Seems to me ... one of our biggest issues is how we communicate our views of the market – consistently with what the desk wants to execute."[2381] Mr. Sparks responded by outlining several concerns and the need for the sales team and traders to work together.[2382] He wrote:

> "3 things to keep in mind:
> (1) The market is so volatile and dislocated that priorities and relative value situations change dramatically and constantly.
> (2) Liquidity is so light that discretion with information is very important to allow execution and avoid getting run over.
> (3) The team is working incredibly hard and is stretched."

He concluded: "Priority 1 – sell our new issues and our cash positions."

Pricing Timberwolf Securities. Despite the urgency communicated by Goldman management, Timberwolf sales slowed. By May 11, 2007, only one Timberwolf sale had taken place in the previous several weeks.[2383] Goldman personnel also knew that the value of the Timberwolf securities, and the value of their underlying assets, were falling.[2384]

[2376] 3/21/2007 email from Robert Black, "Non-tradition Buyer Base for CDO AXES," GS MBS-E-003296460, Hearing Exhibit 4/27-78.

[2377] 3/2007 Goldman internal email chain, GS MBS-E-010643213, Hearing Exhibit 4/27-76.

[2378] 3/28/2007 Goldman email from the Syndicate, GS-MBS-E-000740958, Hearing Exhibit 4/27-100.

[2379] See, e.g., 4/11/2007 email from Daniel Sparks, GS MBS-E-010533482, Hearing Exhibit 4/27-101.

[2380] 4/19/2007 email from Daniel Sparks to Bunty Bohra, GS MBS-E-010539324, Hearing Exhibit 4/27-102.

[2381] 3/8/2007 email from Harvey Schwartz, GS MBS-E-010643213, Hearing Exhibit 4/27-76.

[2382] 3/9/2007 email from Daniel Sparks, GS MBS-E-010643213, Hearing Exhibit 4/27-76.

[2383] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2384] In fact, the decline had begun within a month after Timberwolf closed in late March. 9/17/2007 email from Christopher Creed, "RE: Timberwolf," GS MBS-E-000766370, Hearing Exhibit 4/27-106 (showing price for Timberwolf securities carrying an AAA credit rating had fallen from $94 on 3/31/2007 to $87 on 4/30/2007).

On May 11, 2007, Mr. Sparks notified Goldman senior executives that marking down the value of the unsold CDO securities so that, internally, the firm understood their current market value had become a "real issue":

> "Cdo positions and market liquidity and transparency have seized. I posted senior guys that I felt there is a real issue. ... We are going to have a very large markdown – multiple hundreds. Not good."[2385]

That same evening, Mr. Lehman sent out a "Gameplan" to colleagues in the Mortgage Department announcing that Goldman was going to undertake a detailed valuation of its CDO^2 securities using three different valuation methods, and would also take "a more detailed look" at the values of the assets in the CDO warehouse accounts and in Goldman's own inventory.[2386]

Also on May 11, Chief Credit Officer Craig Broderick sent an email to his team to set up a survey of Goldman clients who might encounter financial difficulty if Goldman lowered the value of the CDO securities they had purchased.[2387] As explained earlier, some Goldman clients had purchased their CDO securities with financing supplied by Goldman that required them to post more cash margin if the financed securities lost value. Other clients had invested in the CDO securities by taking the long side of a CDS contract with Goldman and also had to post more cash collateral if the value of the CDO securities declined. All of these clients would also have to record a loss on their books due to the lowered valuations.

With respect to the CDO securities that had yet to be sold, Goldman senior executive Harvey Schwartz raised another issue related to lowering the values of the CDO securities Goldman was selling to clients: "[D]on't think we can trade this with our clients andf [sic] then mark them down dramatically the next day. ... Needs to be a discussion if that risk exists."[2388] In an email to Mr. Sparks, Mr. Montag, and Mr. Schwartz, Goldman senior executive Donald Mullen acknowledged concerns "about the representations we may be making to clients as well as how we will price assets once we sell them to clients."[2389] The executives also agreed, however, not to "slow or delay" efforts to sell Timberwolf securities if they got "strong bids."[2390]

The CDO valuation project generated many comments on how to price the firm's unsold CDO securities, including Timberwolf. One Goldman employee, who was applying Goldman's most common valuation method to Timberwolf, wrote that the price should be dramatically lower:

[2385] 5/11/2007 email from Daniel Sparks to Richard Ruzika, GS MBS-E-019659221. Mr. Sparks also noted that he had a meeting with David Viniar, Don Mullen, and Gary Cohn to discuss the issue.

[2386] 5/11/2007 email from David Lehman, GS MBS-E-003361238. For more information on this CDO valuation project, see Section C(5)(a)(iii)BB, above.

[2387] 5/11/2007 email from Craig Broderick, "CDO's - Mortgages," GS MBS-E-009976918, Hearing Exhibit 4/27-84.

[2388] 5/11/2007 email from Harvey Schwartz to Daniel Sparks, Tom Montag, and others, GS MBS-E-010780864.

[2389] 5/11/2007 email from Donald Mullen to Daniel Sparks, GS MBS-E-010780849, Hearing Exhibit 4/27-103.

[2390] Id. at GS MBS-E-010780848-49.

"Based on current single-A CDO marks, the A2 tranche of Timberwolf would have a price of 72 cents on the dollar."[2391] He also noted:

> "Based on a small sample of single-A CDOs for which we have a complete underlier marks, we believe that the risks of the RMBS underliers are frequently not fully reflected in the marks on the CDOs. If the trends in this small sample are extrapolated, the fair spread on the CDOs could even be double where they are marked now; if that were the case, the price of the A2 tranche of Timberwolf would actually be 35-41 cents on the dollar, depending on the correlation."[2392]

Several days later, in preparation for a meeting with senior executives on the valuation issue, the same Goldman employee calculated that, for the A2 tranche of Timberwolf, the "price based on CDO marks" was 66 cents on the dollar, while the "price based on RMBS marks" was 24 cents on the dollar.[2393]

Throughout the valuation process, senior management, including Co-President Gary Cohn, was kept posted on how the Mortgage Department planned to value the firm's CDO assets.[2394] On Sunday, May 20, 2007, the Mortgage Department presented its findings in a 9:00 p.m. conference call with CFO David Viniar and others.[2395] The presentation's executive summary expressed concern about valuing a range of CDO assets, including unsold securities from Goldman-originated CDOs.[2396] The presentation stated: "[T]he desk is most concerned about the CDO^2 positions, comprised of the recent Timberwolf and Point Pleasant transactions. The lack of liquidity in this space and the complexity of the product make these extremely difficult to value."[2397]

The presentation recommended unwinding and selling the assets in the CDO warehouse accounts and using "independent teams" to continue to value the unsold CDO securities from Goldman originations. It also recommended switching to a targeted sales effort for the unsold

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[2391] 5/13/2007 email from Paul Bouchard to David Lehman, Daniel Sparks, and others, GS MBS-E-003361238.

[2392] Id.

[2393] 5/20/2007 email from Paul Bouchard, "Materials for Meeting," GS MBS-E-001863725.

[2394] 5/14/2007 email from Elisha Weisel, "Modeling Approaches for Cash ABS CDO/CDO^2," GS MBS-E-001863618.

[2395] 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, and Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212).

[2396] Id. At least two drafts of the presentation also stated about Timberwolf and Point Pleasant that "the complexity of the CDO^2 product and the poor demand for CDOs in general has made this risk difficult to sell and the desk expects it to underperform." This assessment was removed from the final version provided to senior executives. See 5/19/2007 email from Dan Sparks to Lee Alexander, and others, GS MBS-E-010973174 (attached file "Mortgages V3.ppt," GS MBS-E-010973175); 5/20/2007 9:52 a.m. draft presentation, "Mortgages V4.ppt," GS MBS-E-010952331; 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, and Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (final version) (attached file, "Mortgages Department," GS MBS-E-010965212).

[2397] 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, and Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212 at 14).

CDO^2 securities, focused on four hedge fund clients: Basis Capital, Fortress, Polygon, and Winchester Capital.[2398] The Goldman sales force apparently felt those four hedge funds were the clients most likely to buy the CDO^2 securities, and two of them, Basis Capital and Polygon, did subsequently purchase Timberwolf securities.[2399] An appendix to the presentation identified another 35 clients for targeted sales efforts and provided an assessment of the CDO sales efforts for each.[2400] Several of those clients later purchased Timberwolf securities.[2401]

Despite Goldman's internal analysis that the value of the Timberwolf securities was in rapid decline, the firm did not lower the prices at which it marketed the securities to clients. In a May 14 email, Mr. Sparks explained his Timberwolf pricing strategy to Mr. Mullen and Mr. Montag:

> "I think we should take the write-down, but market at much higher levels. I'm a little concerned we are overly negative and ahead of the market, and that we could end up leaving some money on the table – but I'm not saying we shouldn't find and hit some bids."[2402]

As a result of the CDO valuation project, Goldman took substantial writedowns on the value of its CDO inventory on May 25, 2007.[2403] For example, Goldman marked down the AAA rated Timberwolf A2 securities to a value of $80.[2404] At the same time, Goldman continued to market them at inflated prices, selling Timberwolf A2 securities to clients at $87.00 on May 24, at $83.90 on May 30, and at $84.50 on June 11.[2405] On May 25, Goldman also marked the AA rated Timberwolf B securities to an internal value of $65.00. Over a month later, Goldman sold $9

[2398] Id. at 24.

[2399] Polygon had already purchased Timberwolf securities prior to the drafting of the presentation, and was apparently targeted for additional Timberwolf or Point Pleasant sales. See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235. Goldman had an existing relationship with Basis Capital. Goldman had engaged Basis Capital several months earlier as a collateral manager of a CDO Goldman was underwriting called Fort Denison. Mr. Ostrem, head of the CDO Origination Desk, apparently had a low opinion of the firm, describing the firm in an email to Mr. Bieber as "paranoid" and "not very sharp." He told Mr. Bieber that Goldman should "be nice and just sell them stuff going forward." 1/15/2007 email from Peter Ostrem to Matthew Bieber, GS MBS-E-001125549.

[2400] 5/20/2007 email from Lee Alexander to Daniel Sparks, Donald Mullen, Lester Brafman, and Michael Kaprelian, "Viniar Presentation - Updated," GS MBS-E-010965211 (attached file "Mortgages V4.ppt," "Mortgages Department, May 2007," GS MBS-E-010965212 at 31).

[2401] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2402] 5/14/2007 email from Daniel Sparks to Tom Montag and Donald Mullen, GS MBS-E-019642797.

[2403] 5/26/2007 email from Michael Swenson to others, GS MBS-E-012443166 (attached file, "ABS Sec_0525," GS MBS-E-012443167).

[2404] These prices indicate a percentage of security's face (par) value. A price of $80 would be 80% of par or 80 cents on the dollar.

[2405] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235; 6/1/2007 email from David Lehman to Daniel Sparks, GS MBS-E-001866889 (indicating Goldman sold Timberwolf securities to Tokyo Star Bank for $83.90, when Goldman's own mark was 80). Goldman took similar action with respect to its other CDO^2, Point Pleasant, marking down the internal value of its A2 securities to $82.50 on May 25, 2007, while on May 24, 2007, selling $40 million of the A2 securities to a client at a price of $91.00, a difference in market value of $3.4 million. See 5/26/2007 email from Michael Swenson to others, GS MBS-E-012443166 (attached file, "ABS Sec_0525," GS MBS-012443167).

million of those AA rated securities to Bank Hapoalim at a price of $78.25, but by then Goldman's internal valuation had fallen to $55, a difference of more than 30% of the market value.[2406]

In addition to marketing its CDOs at inflated prices compared to its internal valuations, the Mortgage Department told some clients that the mortgage market was strengthening. On May 14, 2007, for example, Edwin Chin, a trader on the Mortgage Department's ABS Desk, sent this upbeat commentary to both Goldman traders and clients:

> "Incredible as it may seem, the subprime mortgage slump is already [a] distant memory for some. It's been two months since the ABX market plunged amid worries about a housing meltdown, and already investors (and some dealers) are beginning to get 'complacent' again. Blame it on the CDO bids, but with subprime production projected down 40-60% from last year's level, appetite for spread products triumphs any risk concern in the marketplace right now. ABX Index is trading higher as dealers short cover their single name positions after a month of range-bound trading. Flows continue to weigh toward better seller of protection - longs outpace shorts by 3 to 1 as CDO demand has been robust the last two weeks. While warehouse activities might be slow, many CDOs are still looking to finish up their ramp post-closing."[2407]

Daniel Sparks responded to Edwin Chin's commentary by asking senior ABS traders, David Lehman, Mike Swenson, and Joshua Birnbaum: "Is this a head fake or does this make you bullish on all spread product?" Mr. Lehman responded: "[G]iven the sizable short interest in ABS/subprime mkt it does not surprise me that short covering is pushing spds [spreads] tighter. Not sure I would enter new longs here." Mr. Swenson responded: "I would characterize this as a great opportunity to be constructive on the market."[2408]

[2406] See 7/12/2007 "Goldman Warehouse SP CDO positions and hedges_7-12-07," GS MBS-E-001866482; See also Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235. In an interview with the Subcommittee, David Lehman explained that the bid/offer spread (the difference between the price at which a security is offered for sale ["offer price"] and the price at which a bank would buy the same security ["bid price"]) was the reason for the difference between Goldman's internal valuation of the price of the AA rated securities and price at which it sold them to Bank Hapoalim. However, in many instances during this period, it appeared as if Goldman's internal valuation price had no relationship to the bid and offer prices quoted to clients. For example, at the end of June 2007, Goldman provided Timberwolf investor Moneygram with an offer price of $86 for Timberwolf A2 securities and bid price of $83, indicating a bid/offer spread of 3 points. Meanwhile, Goldman had an internal valuation of $75 for the same securities, far different from $83 and $86 quoted to Moneygram. See Moneygram valuation, 7/5/2007 email from Goldman Sachs Operations, "MoneyGram Marks from GS as of 06/29/07," GS MBS-E-022023387; Goldman internal evaluations see "Warehouse SP CDO positions and hedges_6-29-07," GS MBS-E-010809241. See also 6/6/2007 email from Sheara Fredman, GS MBS-E-010795808 and attachment GS MBS-E-010795809. Goldman's pricing in such situations seemed consistent with the strategy articulated earlier by Mr. Sparks, the head of the Mortgage Department, that Goldman should write down the value of the assets, "but market [the CDO securities] at much higher levels," because he was concerned that Goldman was "overly negative and ahead of the market, and that [Goldman] could end up leaving some money on the table." 5/14/2007 email from Tom Montag to Daniel Sparks, GS MBS-E-019642797.

[2407] 5/14/2007 email from Edwin Chin, GS MBS-E-012553986.

[2408] Mr. Birnbaum responded directly to Mr. Swenson: "what a beautiful quote." Id.

A few weeks later, Mr. Lehman forwarded an email to Goldman executives informing them "the market feels that GS is being more aggressive than other dealers moving CDO^2 paper," and marking down clients more than their competitors.[2409] Don Mullen responded: "Does this give any one pause about our selling prices?" Mr. Swenson responded to Mr. Mullen: "[N]o pause[.] [E]veryone else is afraid to execute at these levels and they will be wishing for these prices by the end of the summer." Mr. Sparks added: "There is real market meltdown potential (although far from certain)."[2410]

Timberwolf Sales to Basis Capital. At the conclusion of the CDO valuation project, which found that Timberwolf and Goldman's other CDO securities had lost significant value, the Mortgage Department resumed its efforts to push Timberwolf sales.

On Sunday, May 20, 2007, the same day the Mortgage Department made its valuation presentation to Mr. Viniar and recommended targeting Basis Capital for CDO sales, George Maltezos, the Goldman sales representative responsible for Basis Capital, emailed Mr. Lehman saying he would contact the Basis Capital principals immediately upon their return from a business trip the following day.[2411]

Mr. Maltezos began pressing Basis Capital to buy the securities. On May 22, Mr. Maltezos urged Basis Capital to consider buying the securities before the end of the quarter:

> "I appreciate you are flat chat [busy] at the moment, but pls [please] keep in mind GS is an aggressive seller of risk for QTR [quarter] end purposes (last day of quarter is this Friday). We would certainly appreciate your support, and equally help create something where the return on invested capital for Basis is over 60%."[2412]

At the same time Mr. Maltezos was claiming that a Timberwolf investment could provide over a 60% return on invested capital, Goldman's internal marks were showing that Timberwolf was continuing to fall in value.

Basis Capital indicated that it was interested in the Timberwolf securities, but had several issues it needed to work through. First, Basis Capital indicated that Goldman would have to help it

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[2409] 6/6/2007 email from David Lehman, GS MBS-E-001936955.

[2410] 6/6/2007 email from Daniel Sparks, GS MBS-E-001922156. Mr. Lehman further responded: "thk abt this - if we establish a defined + healthy supply/demand dynamic in this product we can always create more CDO^2 at a significant profit vs current levels," meaning that since Goldman's internal marks were so much lower than the bids it was providing clients, if a client chose to buy additional securities at Goldman's bid price, Goldman could sell the securities by taking a short position on a CDS facing the client, and make money on the trade. 6/6/2007 email from David Lehman, GS MBS-E-001936955.

[2411] 5/20/2007 email from George Maltezos, Goldman Australia sales, to David Lehman, "T/wolf and Basis," GS MBS-E-001863555 ("FYI – basis are back from their 2 week business trip on Monday. My focus will go to timberwolf 100mm AAA and AA block trade with them. . . . Pls confirm you are willing to trade this at [then-current marks] and that you are not marking these bonds any wider at moment for month end May.").

[2412] 5/22/2007 email from George Maltezos to John Murphy of Basis Capital Management, JUL 000685.

find financing for the purchase price.[2413] Second, Basis Capital was concerned about the value of its existing CDO^2 investment with Goldman. On April 19, 2007, Basis Capital had purchased BBB rated Point Pleasant securities at a price of $81.72.[2414] Goldman had provided the financing for this purchase. Two weeks later, Goldman had marked down the value of the securities to $76.72, and asked Basis Capital to post additional cash collateral totaling $700,000.[2415] When Basis Capital asked how the value of the security had fallen $5 in just two weeks, Goldman responded that the price had gone back up to $81.72, and no additional cash was required.[2416]

In May and June 2007, Mr. Maltezos worked to convince Basis Capital to purchase $100 million in Timberwolf securities. At one point Basis Capital pressed for a lower sales price, but was told by Mr. Maltezos: "I don't think the trading desk shares the sentiment with regard to such spread levels [lower prices]."[2417] During the negotiations over the Timberwolf sale, on June 12, 2007, Goldman again marked down the value of the Point Pleasant securities to $75, and again asked Basis to post more cash collateral.[2418] When Basis Capital asked Mr. Maltezos to justify the lower value, Mr. Maltezos wrote:

> "[T]here has been further softening in the market since the Point Pleasant trade was put on 8 weeks ago. We have infact [sic] traded some Point Pleasant BBBs at this level in the last 2 weeks."[2419]

[2413] See. e.g., 5/30/2007 email from George Maltezos to John Murphy and Stuart Fowler, JUL 002032.

[2414] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2415] See 5/1/2007 email from Macdara Molloy to Phillipa Chen, GS MBS-E-002003102.

[2416] Id.

[2417] 5/30/2007 email from George Maltezos to John Murphy and Stuart Fowler at Basis Capital, JUL 002032. "From a pricing perspective, we have been trading Timberwolf AAA and AA bonds. 550 dm on AAAs and north of 700dm on AAs is considered too wide for Timberwolf. . . . To be constructive, however, I know the desk is entertaining block size trades at the moment from real money accounts in the US and Asia at wide levels (much wider than what they have traded before). To give you a sense, I think these represent 400-450dm and 650-700dm respectively (for size) at the widest level of such enquiries." The notation "dm" refers to "discount margin." Higher discount margins correspond to greater markdowns from par prices. See e.g. Timberwolf I, Price-DM Table 05-16-2007.xls, GS MBS-E-001810225. Basis Capital eventually accepted the 450 and 650 prices suggested by Mr. Maltezos. See 6/13/2007 email from David Lehman to Tom Montag, GS MBS-E-001914580.

[2418] 6/12/2007 email from Sahil Sachdev to George Maltezos, GS MBS-E-001912398.

[2419] 6/12/2007 email from George Maltezos, PSI-Basis_Capital_Group-03-0001. Mr. Maltezos emailed Mr. Lehman and Mr. Egol about Point Pleasant pricing, asking them "does the 75 mark reflect actual trading or overall softness in the market? I know you had indicated 70 was more like the number." 6/12/2007 email from George Maltezos to David Lehman, Jonathan Egol, and Omar Chaudhary, GS MBS-E-002002522. The Subcommittee was unable to locate Goldman's response to his question.

In fact, no such sales had taken place, and the lower value could not be justified by any sales transactions.[2420] The lower mark was instead related to Goldman's CDO valuation project in May, which had concluded that its CDO^2 securities had lost significant value.[2421]

Stuart Fowler at Basis Capital brought up the valuation issue in the context of the Timberwolf securities, and asked Mr. Maltezos: "I need to be very clear on this and are we going to see a similar problem on [T]imberwolf?"[2422] Mr. Maltezos responded: "Stuart - I assure you no foul here," and offered to set up some "1-on-1 time with the trading desk" to discuss pricing.[2423]

Mr. Sparks was closely monitoring Mr. Maltezos' ongoing effort to sell the Timberwolf securities to Basis Capital and, on June 13, 2007, sent this email to Mr. Maltezos:

> "Let me know if you need help tonight - or feel free to wake up [Mr. Lehman and Mr. Egol] in [S]pain. I'd love to tell the senior guys on 30 at risk comm[ittee] Wednesday morning that you moved 100mm [$100 million]."[2424]

In response, Mr. Maltezos coordinated a call between Basis Capital and Mr. Lehman to "clarify any and all questions you have on the marking policy of Goldman, the actual marking of Point Pleasant, and the overall trading that has been seen by the [Goldman] desk in the last 1-6 months."[2425] In that telephone call with Basis Capital, Mr. Lehman apparently corrected Mr. Maltezos' misstatement about recent Timberwolf sales, and Mr. Maltezos followed up with an email to Basis Capital:

> "[P]lease accept my sincerest apologies for the mis-information below. As David mentioned, the 75 mark on Pt Pleasant BBB was more reflective of an interpretation of softer AAA-AA rated CDO-sqd paper translating to BBB part of the curve."[2426]

Later that same day, June 13, 2007, Mr. Lehman reported that Goldman had reached agreement on $100 million in Timberwolf sales to Basis Capital. The sale consisted of the hedge fund taking the long side of a CDS contract with Goldman, referencing $50 million in AAA rated

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[2420] The most recent Point Pleasant sale had been $40 million worth of the AAA rated A2 securities, which sold on May 24, 2007, for a price of $91. The next most recent sale had been $20 million worth of the A2 securities on April 24, 2007, for a price of $91.30. See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2421] Internally, Goldman had marked down the value of the Point Pleasant securities to $50.00. The much higher bid provided to Basis appears consistent with Goldman's strategy to "market at much higher levels." Goldman consistently offered investors bid prices that were much higher than its internal marks during the months of May and June as it attempted to sell its CDO inventory. See 5/26/2007 email from Michael Swenson to others, GS MBS-E-012443166 (attached file, "ABS Sec_0525," GS MBS-012443167).

[2422] 6/12/2007 email from Stuart Fowler to George Maltezos, GS MBS-E-001912398.

[2423] Id.

[2424] 6/13/2007 email from Daniel Sparks to George Maltezos, David Lehman, and Jon Egol, GS MBS-E-002006149. The reference to the "senior guys on 30" is to Goldman's senior executives who had offices on the 30th floor of the Goldman headquarters in New York.

[2425] 6/13/2007 email from George Maltezos to Stuart Fowler and John Murphy at Basis Capital and others, GS MBS-E-001918603.

[2426] 6/13/2007 email from George Maltezos, PSI-Basis_Capital_Group-02-0001.

Timberwolf securities and $50 million in AA rated Timberwolf securities.[2427] Mr. Lehman told Mr. Montag that the CDS premiums that Basis Capital had agreed to accept implied a cash price of $84 for the AAA securities and $76 for the AA securities. Mr. Montag asked what Goldman's internal mark was for the Timberwolf AA securities, and Mr. Lehman responded: "$65."[2428]

The Timberwolf sale to Basis Capital was finalized on June 18, 2007.[2429] Goldman provided the financing. Just two weeks later, Goldman informed Basis Capital that the Timberwolf securities had lost value and required the hedge fund to post additional cash collateral.[2430] Basis Capital immediately questioned the new value and asked to see a "comparable market data point for the Timberwolf marks."[2431] In response, Mr. Lehman complained internally: "I would like to know what the precedent there is here - does GS need (outside of the client issue) to provide the below info to justify our prices???"[2432] After Goldman provided additional information, Basis Capital appeared to agree to post the additional collateral.

Eight days later, on July 12, Goldman again marked down the value of the Timberwolf securities to prices of $65 and $60, after having sold them to Basis Capital one month earlier at $84 and $76.[2433] This repricing resulted in a $37.5 million movement in the value of the securities, and required Basis Capital to post substantially more cash collateral with the firm.[2434] On July 13, 2007, Basis Capital told Goldman that one of its funds was "in real trouble."[2435] On July 16, Goldman again marked down Basis Capital's securities to prices of $55 for AAA and $45 for AA.[2436] These prices matched Goldman's internal valuations.[2437] By the end of July, Basis Capital was forced to liquidate its hedge fund.[2438] Goldman bought back the Timberwolf securities from Basis Capital on July 31, at prices of $30 and $25.[2439]

Other Timberwolf Sales. Basis Capital was only one of several clients that Goldman contacted in connection with Timberwolf. On May 24, 2007, a Goldman sales associate told Mr. Lehman and Mr. Sparks that he wanted more information to send to a European hedge fund that was "not experts in the space at all but [I] made them a lot of money in correlation dislocation and will

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[2427] 6/13/2007 email from David Lehman to Tom Montag, GS MBS-E-001914580.

[2428] Id.

[2429] Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2430] 7/4/2007 email exchange among David Lehman, George Maltezos, and others, GS MBS-E-001990127.

[2431] Id.

[2432] 7/4/2007 email from David Lehman, GS MBS-E-001990127.

[2433] 7/12/2007 email from Jon Egol, GS MBS-E-001866391. On the same day, Goldman's internal marks for the securities were even lower, at $60 for the AAA securities and $55 for the AA securities. As Basis Capital's financial situation became worse, Goldman responded by marking Basis Capital's securities to levels that were closer to Goldman's own internal evaluations.

[2434] 7/13/2007 email from David Lehman, "Re: Basis," GS MBS-E-001866391 at 93.

[2435] Id. at 91.

[2436] 7/16/2007 email from Jon Egol, "Re: Basis," GS MBS-E-010169281. Goldman also marked down Basis Capital's Point Pleasant securities to $10, from an initial purchase price of $81.72.

[2437] 7/12/2007 Goldman datasheet, "Warehouse SP CDO positions and hedges_7-12-07," GS MBS-E-001866482.

[2438] 7/24/2007 email from David Lehman to others, GS MBS-E-013449641.

[2439] 7/31/2007 letter from Goldman Sachs International to Basis Capital, "Event of Default Under ISDA Master Agreement," JUL 003958.

do as I suggest. Would like to show stuff today if possible."[2440] Mr. Lehman told the sales associate that he was available to get on the telephone with the clients, and forwarded him the Timberwolf offering circular and marketing materials.[2441]

On June 5, 2007, Goldman trader Benjamin Case emailed Mr. Lehman with a "[g]ameplan for distribution" or sales of Goldman's remaining CDO^2 securities.[2442] The plan was to target "institutional buyers that can take larger bite size than traditional CDO buyers ... for example Asian banks and insurance companies."[2443] Mr. Case also noted that Goldman was shorting "51 CDO names in the two portfolios [Timberwolf and Point Pleasant] and we have been aggressively sourcing further protection in the CDS market on names in the two portfolios recently."[2444]

In early June, Goldman targeted a Korean insurance company called Hungkuk Life for Timberwolf sales. According to a Goldman employee in the Japan sales office, Jay Lee, "the largest hurdle from the client perspective is whether or not they can get the mandate to buy something backed by synthetically sourced CDO's [sic], as they have never bought CDO^2 before."[2445] Mr. Lee was also concerned that the value of the securities would drop soon after the office sold the Timberwolf securities to the insurance company. Mr. Lee stated:

> "[T]he largest hurdle from a sales' perspective is MTM [mark to market]. It is an important client, and if the mark widens out more than 1pt immediately after selling the asset to them, sales cannot sell it. Understanding that it is a volatile asset, sales wants to know that where we sell it to the client will not be more than 1pt less than where the mark would be, provided no new market information."[2446]

It is unclear how his valuation concern was addressed. Later the same day, on June 1, Mr. Lee reported that Hungkuk Life had purchased $36 million in AAA rated Timberwolf securities. Mr. Sparks responded "good job - keep going."[2447]

Six days later, on June 7, 2007, the head of the Goldman Japan sales office, Omar Chaudhary, contacted Mr. Sparks and Mr. Lehman about a possible additional sale of Timberwolf securities to Hungkuk Life. Mr. Chaudhary wrote that the head of Goldman's Korean sales office was "pushing on our personal relationships" to make the sale and wanted to be assured he'd be paid more if he "got it done":

[2440] 5/24/2007 email from Yusuf Aliredha to Mr. Sparks, Mr. Lehman, and others, "Priority Axes," GS MBS-E-001934732.
[2441] Id.
[2442] 6/5/2007 email from Benjamin Case to David Lehman, GS MBS-E-001919861.
[2443] Id.
[2444] Id.
[2445] 6/1/2007 email from Jay Lee to David Lehman, Matthew Bieber, and others, GS MBS-E-010958182.
[2446] Id.
[2447] Id.

> "Jay and I spoke to the head of Korea Sales today. He said that he feels we can push for H[ungkuk] Life to increase their size from the 36mm of AAA's and wanted to see if we would pay more GC's [sales credits] if he got it done. Told him that if we sell ~45-50mm+ [$45-50 million more] that we would honor the 7.0% even if we trade at the 84.5 dollar px [expected price]. Trust you will support this as we are pushing on our personal relationships to get this done."[2448]

Mr. Lehman and Mr. Sparks told Mr. Chaudhary to "go for it" and "[g]et 'er done."[2449] The Korean office did get it done, and Goldman sold another $56 million in Timberwolf securities to Hungkuk Life at a price of $84.50.[2450] The sales representative was awarded the 7% sales credit.[2451] Mr. Sparks wrote to the sales office: "you boys are awesome and many people are noticing."[2452] Mr. Montag, a senior Goldman executive monitoring the Timberwolf sales, told the mortgage team it had done an "incredible job – just incredible."[2453]

On June 11, 2007, Mr. Lehman received an email from the Goldman Syndicate asking whether the CDO axe sheet, which included directives to sell Timberwolf securities, could be sent to the Japan sales office for re-distribution to sales representatives across Asia. Mr. Lehman agreed: "let's send to all Japan sales."[2454] Two days later, on June 13, 2007, the Japan sales office reported over $250 million in new sales of Goldman's CDO securities, including Timberwolf.[2455]

Mr. Montag continued to monitor the sales of Timberwolf as well as other CDO securities in Goldman's inventory and warehouse accounts. On June 22, 2007, Mr. Sparks reported to him on the completion of a number of sales of CDO and RMBS securities that Goldman had purchased from the two failed Bear Stearns hedge funds. Mr. Montag asked Mr. Sparks to provide him with a "complete rundown" on "what[']s left."[2456] Mr. Sparks responded that the "main thing left" was $300 million in Timberwolf securities. Mr. Montag responded: "boy that timeberwo[l]f was one shitty deal."[2457]

Despite Mr. Montag's assessment of Timberwolf, he continued to press for the sale of Timberwolf securities to Goldman clients. On June 25, 2007, Mr. Sparks emailed Mr. Montag and others with another update on selling Goldman's remaining CDO assets.[2458] Mr. Sparks informed the group that Goldman would probably have to lower the values of the CDO assets over the next

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[2448] 6/7/2007 email from Omar Chaudhary to Daniel Sparks, David Lehman, and Bunty Bohra, GS MBS-E-001866450, Hearing Exhibit 4/27-104.

[2449] 6/7/2007 emails from Daniel Sparks and David Lehman, GS MBS-E-001866450, Hearing Exhibit 4/27-104.

[2450] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2451] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223.

[2452] 6/10/2007 email from Daniel Sparks to Omar Chaudary and Bunty Bohra, GS MBS-E-010971809.

[2453] 6/11/2007 email from Tom Montag, GS MBS-E-001866144.

[2454] 6/11/2007 email exchange between Syndicate and David Lehman, GS MBS-E-001914921-24.

[2455] 6/13/2007 email from Japan sales office, GS MBS-E-011212260.

[2456] 6/22/2007 email exchange between Tom Montag and Daniel Sparks, "Few Trade posts," Hearing Exhibit 4/27-105.

[2457] Id.

[2458] 6/25/2007 email from Daniel Sparks to Tom Montag, and others, GS MBS-E-010952698.

few days, but that the net effect for Goldman would be positive, since its short position was larger than its long. In fact, the Mortgage Department made $42.5 million that day.[2459] Mr. Montag remained focused on Timberwolf, responding: "[h]ow are twolf sales doing?"[2460]

On July 12, 2007, another Goldman sales representative, Leor Ceder, reported selling $9 million in Timberwolf securities to Bank Hapoalim at a price of $78.25.[2461] Goldman trader Mitchell Resnick asked Mr. Lehman "to pay him well on this."[2462] Mr. Ceder was paid an 8% sales credit.[2463] That was Goldman's last Timberwolf sale, even though its Syndicate continued to list the CDO as a top sales priority for months afterward.

Goldman ultimately sold about $853 million of the $1 billion in Timberwolf securities to about 12 investors. The unsold securities, with a face value of about $150 million, remained on Goldman's books.

Limited Disclosures. Despite their aggressive sales efforts, Goldman sales personnel typically did not help potential investors analyze the Timberwolf securities and the 4,500 unique assets underlying the CDO. One Goldman employee told his colleagues: "In terms of telling customers. I prefer to give them the general idea of the trade. Then give them the excel spread sheet with our info on ref obs [reference obligations] and let them draw their own conclusions."[2464] Another Goldman employee, discussing a potential buyer of Timberwolf, warned:

> "[H]e is going to want to look at the TWOLF trade on a fundamental basis with a lot of supporting runs to back up any additional mark downs we have - telling him we are busy when it comes to month end and we can't run that analysis because we are resource-constrained will not be good enough."[2465]

[2459] 6/26/2007 email from Deeb Salem to Michael Swenson, GS MBS-E-012371112.

[2460] Id.

[2461] Goldman's internal price was then $55, 23% less. See 7/12/2007 Goldman datasheet, "Warehouse SP CDO positions and hedges_7-12-07," GS MBS-E-001866482; see Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2462] 7/6/2007 email from Mitchell Resnick to David Lehman, GS MBS-E-001866752.

[2463] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223 and PSI_QFR_GS0235.

[2464] 5/7/2007 Goldman email chain between Elisha Wiesel and others, "RE: Timeberwolf Analysis," GS MBS-E-003334218. Elisha Wiesel worked with Goldman's legal department on issues related to disseminating information to potential investors. On May 20, 2007, the same day the Mortgage Department presented the conclusions of its CDO valuation project to Mr. Viniar and others, Mr. Wiesel sent an email to Mr. Bieber underscoring concerns about its valuation process: "[G]iven how complex the data is for a CDO^2, there's little chance we'll ever get fully 'comfortable' beyond a shadow of a doubt that there's nothing materially misleading in the data cuts we provide. Is best outcome in this situation to just get a big-boy letter drafted?" 5/20/2007 email from Elisha Wiesel, GS MBS-E-001980637.

[2465] 7/16/2007 email to David Lehman, "Carlyle," GS MBS-E-011050254.

Still another Goldman employee stated with respect to Timberwolf and Point Pleasant: "The trickiest part about sharing this [pricing] analysis with custies [customers] is that it shows just how rudimentary our own understanding of these positions actually is."[2466]

Goldman also in many instances refused to provide investors with its pricing methodology or specific prices or values for the CDO securities it was selling. After its securities began to lose value, Basis Capital emailed George Maltezos, David Lehman, and others asking: "How many times do we have to request data points and scenarios by email. These were read out to us on the call and it was agreed that GS would send them through. I am getting weary of continually hearing about transparency and yet an obvious avoidance of 'putting things to paper.'"[2467]

Similarly, when Hungkuk Life requested additional information about the underlying Timberwolf assets, Goldman sent an asset report, but only after removing all of its pricing and valuing information related to those assets.[2468] In August 2007, Jay Lee from Goldman's Japan sales office told a sales associate who was seeking information about Goldman's marks for Tokyo Star Bank:

> "[U]nder no circumstances are we going to be able to provide materials specific to Timberwolf ... or even use the word 'mark' in written materials. ... Everything will be described in general terms, and if what we provide is too vague or general, the medium for further clarification must be oral, not written."[2469]

Mr. Lehman added: "[W]e should be clear that the information we are providing is not our pricing methodology but rather some tho[ugh]ts on the current market."[2470]

In an interview with the Subcommittee, Mr. Lehman defended Goldman's aggressive markdowns by noting that Goldman would buy or sell at the prices it quoted to a customer. He explained that if a client thought Goldman's mark was too low, the client could buy more of the securities from Goldman at the low price, then resell them for a profit. Since Goldman's internal valuations were much lower than the price quoted to clients, however, such sales would still produce a profit for the firm.[2471] Furthermore, as Goldman marked down the values in the summer of 2007, it began to decrease the volume of the securities it was willing to buy or sell at the prices it quoted to clients. Goldman was initially willing to buy or sell CDO securities in blocks of $10 million, but by July, it lowered the maximum size to $3 million for some securities and $1 million for others: "Given current market environment, we would like our bid for size for CDO valuations

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[2466] 5/7/2007 email from Elisha Wiesel, GS MBS-E-004735378.

[2467] 7/7/2007 email from Stuart Fowler, GS MBS-E-011183045.

[2468] 7/31/2007 email from Matthew Bieber to David Lehman, "FW: Requesting Compliance Approval," GS MBS-E-001920215.

[2469] 8/7/2007 email from Jay Lee to others, GS MBS-E-001927858.

[2470] 8/7/2007 email from David Lehman to others, GS MBS-E-001927858.

[2471] See 6/6/2007 email from David Lehman, GS MBS-E-001936955. Mr. Lehman stated: "thk abt this - if we establish a defined + healthy supply/demand dynamic in this product we can always create more CDO^2 at a significant profit vs current levels."

to be MAX $3mm for AAA to AA and $1mm for A and below. No valuations should go out with a bid for $10mm."[2472]

"A Day That Will Live In Infamy." The Timberwolf securities issued by Goldman steadily lost money from the day they were issued. Less than four months after they were issued, on July 16, 2007, Mr. Lehman instructed the Timberwolf deal captain, Mr. Bieber, to "create an 'unwind' spreadsheet ... where we can input CDS spds [spreads]/prices and liability prices so we can determine if unwinding these deals makes sense."[2473] The analysis appeared to show that it would cost Goldman $140 million to unwind Timberwolf, and the conclusion was to "Hold Off."[2474] Instead of unwinding, Goldman continued its sales push.

In September 2007, Mr. Montag asked for data tracking the drop in prices for a Goldman CDO that experienced a dramatic fall in value, such as Timberwolf.[2475] In response, a Goldman employee provided prices for the A2 tranche of the Timberwolf securities using a combination of Goldman's internal marks and the bids provided to investors, from the issuance of the CDO on March 27, 2007 through September. The data showed that, in six months, prices for Timberwolf's AAA rated A2 security had fallen from $94 per security to $15, a drop of almost 80%:

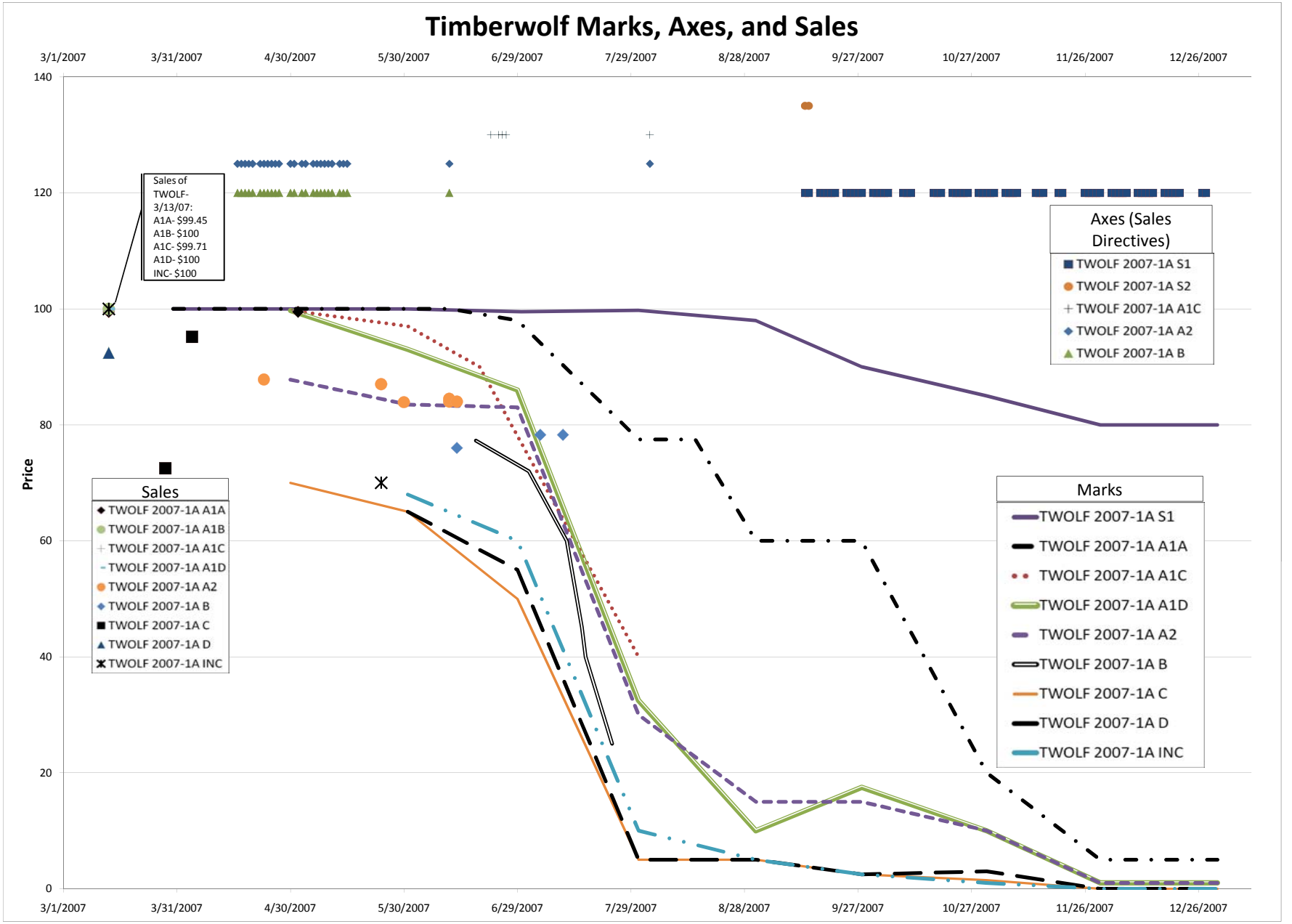
"3/31/07	94-12
4/30/07	87-25
5/31/07	83-16
6/29/07	75-00
7/31/07	30-00
8/31/07	15-00
Current	15-00."[2476]

After receiving this pricing history, Mr. Bieber, the Timberwolf deal captain, described March 27, the Timberwolf issuance date, as "a day that will live in infamy."[2477]

The chart on the next page shows how, between mid-June 2007 and early August 2007, the value of Timberwolf securities dropped precipitously, and that Goldman personnel were aware of its falling value while selling the securities to clients.

[SEE CHART NEXT PAGE: *Timberwolf Marks, Axes, and Sales*, prepared by the Permanent Subcommittee on Investigations.]

[2472] 7/11/2007 email from David Lehman, "CDO Marks," GS MBS-E-013427046 [emphasis in original].
[2473] 7/16/2007 email from David Lehman to Matthew Bieber, GS MBS-E-001913775.
[2474] See 7/17/2007 email from David Lehman to Daniel Sparks, GS MBS-E-010857643 (with attachment GS MBS-E-010857644).
[2475] 9/17/2007 email from Tom Montag, GS MBS-E-000766371, Hearing Exhibit 4/27-106.
[2476] 9/17/2007 email from Christopher Creed, GS MBS-E-000766370, Hearing Exhibit 4/27-106.
[2477] Id.



Prepared by the U.S. Senate Permanent Subcommittee on Investigations, February 2011.
Derived from Goldman Sachs document, GS MBS-E-000779366.

Goldman profited in part from Timberwolf's decline in value due to its 36% short interest in the CDO. In addition, June was the month that Goldman built its $13.9 billion big short, which meant that the decline in most mortgage related assets translated into increasing profits for Goldman.[2478]

Timberwolf experienced its first credit rating downgrades in November 2007, just eight months after the CDO closed and issued its securities. The downgrades included the AAA rated securities. In March 2008, one year after Timberwolf was issued, its AAA securities were downgraded to junk status. In June 2008, a controlling class of debt investors voted to liquidate Timberwolf, and the deal was terminated in October 2008.[2479]

Goldman's 36% short position in Timberwolf produced about $330 million in revenues at the direct expense of the clients to whom Goldman had sold the Timberwolf securities. Goldman also made $3 million in interest while the Timberwolf assets were in Goldman's warehouse account. At the same time, because Goldman was unable to sell about a third of the Timberwolf securities and had to keep the unsold securities on its books, it ended up losing $562 million from them. Goldman also lost $226 million from the decline in the value of the collateral securities securing the CDO. When offset by the profits from its Timberwolf short, Goldman ended up with a total loss of about $455 million.[2480]

Timberwolf's investors lost virtually their entire investments. Basis Capital ended up declaring bankruptcy and has filed suit against Goldman.[2481]

Analysis. Goldman constructed Timberwolf using CDO assets that began to fall in value almost as soon as the Timberwolf securities were issued, yet solicited clients to buy the securities. Timberwolf contained or referenced CDO assets with more than 4,500 unique mortgage related securities, but Goldman offered potential investors little help in understanding those securities, and targeted clients with limited or no experience in CDO investments. When marketing Timberwolf, Goldman withheld its internal marks showing the securities losing value and did not mention its short position. Senior Goldman executives knew the firm was selling poor quality assets at inflated prices. Within six months of issuance, AAA Timberwolf securities lost almost 80% of their value. Due to its short position, Goldman profited at the expense of the clients to whom it sold the Timberwolf securities, but it lost money overall because Goldman was forced to retain so many of the unsold Timberwolf securities on its books.

[2478] Performance Review for Joshua Birnbaum, GS-PSI-01972, Hearing Exhibit 4/27-55c. See also 6/26/2007 email from Deeb Salem to Michael Swenson, GS MBS-E-012371112.

[2479] See Goldman response to Subcommittee QFR at PSI_QFR_GS0030.

[2480] Id. at PSI_QFR_GS0239.

[2481] Id. at PSI_QFR_GS0030.

DD. Abacus 2007-AC1

Abacus 2007-AC1 was a $2 billion synthetic CDO whose reference obligations were BBB rated mid and subprime RMBS securities issued in 2006 and early 2007.[2482] It was a static CDO, meaning once selected, its reference obligations did not change.[2483] It was the last in a series of 16 Abacus CDOs referencing RMBS securities designed by Goldman. Goldman served as the underwriter or placement agent,[2484] the lead manager,[2485] and the protection buyer,[2486] and also acted in other roles related to the CDO.[2487] Unlike previous Abacus CDOs, Abacus 2007-AC1 used a third party to select its assets, referring to it as the portfolio selection agent.[2488]

Designing Single Tranche CDOs. Abacus CDOs were known as single tranche CDOs, a structure pioneered by Goldman through its Abacus platform.[2489] Goldman used this structure to design customized CDOs for clients interested in assuming a specific type and amount of investment risk. An Abacus CDO could be issued with a single tranche, designed in coordination with a client who could select the assets the client wished to reference, the size of the investment, and the amount of subordination or cushion before the single tranche of securities would be exposed

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[2482] See 3/23/2007 Goldman document, "Abacus 2007-AC1," at 11, GS MBS-E-002807082, Hearing Exhibit 4/27-120; Securities and Exchange Commission v. Goldman Sachs, Case No. 10-CV-3229 (S.D.N.Y.), Complaint (April 16, 2010), at 1, 6 (hereinafter "SEC Complaint against Goldman Sachs").

[2483] 4/2/2007 email from Fabrice Tourre, "ABACUS 07-AC1," GS MBS-E-002011152 (Abacus 2007-AC1 assets are "fully-identified, with no reinvestment, removals, substitutions or discretionary trading").

[2484] Goldman internal documents sometimes describe it as the underwriter for Abacus 2007-AC1, and sometimes as the placement agent. Compare 2/18/2008 Goldman document, "CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter," GS MBS 0000004337, to 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," at 2, GS MBS-E-002406025, Hearing Exhibit 4/27-118 ("Goldman is solely working as agent but retains the option to underwrite the risk as principal.").

[2485] 2/27/2007 email from Curtis Willing, "ABACUS 2007 AC1, Ltd. -- New Issue Announcement (144a/RegS)," GS MBS-E-009209654.

[2486] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," at 6, GS MBS-E-002406025, Hearing Exhibit 4/27-118 ("Goldman is acting as principal as a protection buyer . . . as well as taking other principal roles.").

[2487] Goldman's additional roles included acting as the basis swap counterparty, the basis swap calculation agent, the collateral put provider, the collateral put calculation agent, the collateral disposal agent, the credit default swap calculation agent, and the initial purchaser. 2/18/2008 Goldman document, "CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter," GS MBS 0000004337; 3/12/2007 Goldman Sachs memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118.

[2488] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118; April 27, 2010 Subcommittee Hearing at 421.

[2489] Goldman considered its Abacus platform, which commenced in 2004, to be "market-leading." 4/2/2007 email from Fabrice Tourre, "ABACUS 07-AC1," GS MBS-E-002011152; 2/27/2007 Goldman email, "ABACUS-2007-AC1 – Marketing Points (INTERNAL ONLY) [T-Mail]," GS MBS-E-008042545, Hearing Exhibit 4/27-116. See also 6/2007 Goldman document, "CDO Platform Overview," at 31, GS MBS-E-001918722 ("ABACUS is the Goldman brand name for single-tranche CLN [credit linked note] issuances referencing portfolios comprised entirely of structured products."); 4/2006 Goldman presentation "Overview of Structured Products," GS MBS-E-016067482.

to loss.[2490] Abacus also enabled investors to short a selected group of RMBS or CDO securities at the same time. Goldman used the Abacus CDOs not only to sell short positions to investors, but also to carry out its own shorts. As summarized in one Goldman Mortgage Capital Committee Memorandum, the Abacus design allowed "Goldman to short spreads in our core structured products business in large size."[2491] Between 2004 and 2007, Goldman issued 16 Abacus deals referencing RMBS securities, including Abacus 2007-AC1, which together had an aggregate value of $13 billion.[2492]

Responding to Paulson Inquiry. In mid to late 2006, Goldman was approached by the hedge fund Paulson & Co. Inc. ("Paulson"), and asked to structure a transaction that would enable the hedge fund to short multiple RMBS securities.[2493] Goldman had previously worked with Paulson and was aware that Paulson held strong negative views of the residential mortgage market and was making investments based on that view. The Goldman Mortgage Capital Committee Memorandum seeking approval of Abacus 2007-AC1, for example, stated:

> "Paulson is a macro hedge fund that has taken directional views on the subprime RMBS market for the past few months. In 2006 the Desk worked an order for Paulson to buy protection on a supersenior tranche off a portfolio similar to the Reference Portfolio selected by ACA, and the AC1 Transaction is another means for Paulson to accomplish their trading objective: buying protection in tranched format on the subprime RMBS market."[2494]

An email sent to Daniel Sparks, head of the Mortgage Department, by Fabrice Tourre, a Correlation Trading Desk employee who led the effort on the Abacus CDO for Paulson, was even more blunt:

[2490] "Subordination" is "[t]he measure of losses that must occur within a portfolio before a tranche is at risk to loss." Tranche size "[r]eflects the notional (value-at-risk) of a structured credit investment" and "is also a measure of leverage." 7/2006 Goldman presentation, "Structured Credit Investments," at 54, GS MBS-E-002055378; 4/2006 Goldman presentation, "Overview of Structured Products," GS MBS-E-016067482. Goldman contended that, in a single-tranche CDO, investors could customize the tranche risk/return profile by specifying the tranche subordination and tranche size, and that investors could create "credit enhanced" credit exposure through the use of subordination. 4/2006 Goldman presentation, "Overview of Structured Products," at 52, GS MBS-E-016067482. "Combined with tranche size, varying levels of subordination enable investors to tailor both the structural leverage and the risk/return profile of their investment." "Investors are "[n]ot limited by new issuance calendar and bond allocations," are "[n]ot limited by cash bonds in dealer inventory," can "customize[] by sector (e.g. RMBS, CMBS, ABS), rating, vintage, servicer, etc.," and can "meet various investment objectives via structure." 7/2006 Goldman presentation, "Structured Credit Investments," at 54, GS MBS-E-002055378.

[2491] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118.

[2492] Goldman trading datasheet, GS MBS 0000004276 (showing closing dates and trade details on various CDOs, including Abacus).

[2493] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118.

[2494] Id.

> "Gerstie and I are finishing up engagement letters ... for the large RMBS CDO Abacus trade that will help Paulson short senior tranches off a reference portfolio of Baa2 subprime RMBS risk selected by ACA."[2495]

These documents make it clear that Goldman knew Paulson's investment strategy was to identify a reference portfolio of assets for the Abacus CDO that Paulson believed would perform poorly or fail, so that its short position would profit at the expense of the long investors.[2496] In addition, during his Subcommittee interview, Mr. Tourre made it clear that he was aware of the Paulson investment strategy.[2497]

In response to the inquiry from Paulson, Goldman proposed structuring an Abacus CDO.[2498] Fabrice Tourre was given lead responsibility for organizing and structuring the Abacus transaction. Goldman's primary role was to act as an agent and administrator of the CDO, obtaining its profit from the fees it charged for the services rendered, rather than from any investment in the CDO itself. In effect, Goldman "rented" the Abacus platform to the Paulson hedge fund and served as Paulson's agent in carrying out the hedge fund's investment objectives. Mr. Tourre had been suggesting that Goldman employ such an approach and supported the arrangement.[2499]

Finding a Portfolio Selection Agent. According to Mr. Tourre, Paulson suggested that Goldman employ an outside portfolio selection agent for the CDO.[2500] However, Paolo Pellegrini, Paulson's Managing Director who led Paulson's selection of the reference assets for the Abacus 2007-AC1 transaction, told the SEC that it was Goldman's idea to have a portfolio selection agent.[2501] At the same time, Goldman internal communications made it clear that the objective was to select a portfolio selection agent that would comply with Paulson's suggestions for the assets to be referenced in the CDO. In an email to colleagues discussing the matter, Mr. Tourre suggested finding a manager that:

[2495] 2/7/2007 email from Fabrice Tourre, GS MBS-E-003277939, Hearing Exhibit 4/27-114.

[2496] See also 12/18/2006 email from Fabrice Tourre, "Re: Paulson," GS MBS-E-003246145 (a series of email communications regarding the Abacus 2007-AC1 CDO in which Mr. Tourre referred to the asset portfolio that Paulson was proposing for the CDO as "a weak quality portfolio.").

[2497] Subcommittee interview of Fabrice Tourre (4/24/2010). Mr. Tourre also told the SEC that he believed Paulson's selection criteria, such as interest-only mortgages and high loan-to-value ratios, were based on Paulson's view that securities meeting those criteria were "weaker from the credit quality standpoint than other obligations that did not have those characteristics." SEC deposition of Fabrice Tourre (3/3/2009), GS MBS 0000022785, at 813-14.

[2498] Subcommittee interview of Fabrice Tourre (4/24/2010).

[2499] See, e.g., 12/10/2006 email from Fabrice Tourre to David Lehman, GS MBS-E-003453843, Hearing Exhibit 4/27-142.

[2500] Subcommittee interview of Fabrice Tourre (4/24/2010); 2/21/2007 email from Fabrice Tourre to David Lehman, GS MBS-E-011359460-61, Hearing Exhibit 4/27-115.

[2501] SEC deposition of Paolo Pellegrini (12/3/2008), PSI-Paulson-04 (Pellegrini Depo)-0001, at 82-85, 175.

> "will be flexible w.r.t. [with respect to] portfolio selection (i.e. ideally we will send them a list of 200 Baa2-rated 2006-vintage RMBS bonds that fit certain criteria, and the portfolio selection agent will select 100 out of the 200 bonds)."[2502]

In the early part of January 2007, Mr. Tourre sent an email to prospective selection agents describing their anticipated role in the CDO. One of his points was the following:

> "Reference Portfolio: static, fully identified upfront, and consisting of approx 100 equally-sized mezzanine subprime RMBS names issued between Q4 [the fourth quarter of] 2005 and today. Starting portfolio would be ideally what the Transaction Sponsor shared, but there is flexibility around the names."[2503]

Goldman's internal communications also suggest that Goldman was, in fact, more interested in identifying cooperative portfolio selection agents for its own transactions, rather than locating one for the Paulson CDO. In an email chain discussing a portfolio selection agent for Abacus 2007-AC1, a Goldman employee wrote to a colleague that Mr. Tourre "suggested Faxtor was a potential portfolio selection agent [for Paulson] since they are relatively inexpensive and easy to work with." The colleague responded: "We already have a portfolio in front of Faxtor; they probably will be willing to structure a short that I believe we would want to keep for ourselves ... not sure if this is the best fit."[2504]

Jonathan Egol, chief architect of the Abacus structure and head of the Correlation Trading Desk, suggested that Goldman approach GSC Partners, a New York hedge fund that Goldman had worked with on other CDOs, including Anderson. Mr. Tourre sent an email to colleagues asking:

> "Do you think gsc is easier to work with than faxtor? They will never agree to the type of names paulson wants to use, I don't think steffelin [a senior trader at GSC] will be willing to put gsc's name at risk for small economics on a weak quality portfolio whose bonds are distributed globally."[2505]

A colleague replied:

> "There are more managers out there than just GSC / Faxtor. The way I look at it, the easiest managers to work with should be used for our own axes. Managers that are a bit more

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[2502] 12/18/2006 email from Fabrice Tourre, "Paulson," GS MBS-E-003246145; 12/20/2006 email from Fabrice Tourre, GS MBS-E-002534649.

[2503] 1/10/2007 Goldman internal email, GS MBS-E-002480520, Hearing Exhibit 4/27-108; 1/9/2007 email from Fabrice Tourre, "For ACA," GS MBS-E-002480516.

[2504] 12/18/2006 Goldman internal email, GS MBS-E-003246145-46.

[2505] Mr. Egol also suggested HBK as a possible portfolio selection agent. 12/18/2006 email from Fabrice Tourre, "Re: Paulson," GS MBS-E-003246145.

> difficult should be used for trades like Paulson given how axed Paulson seems to be (i.e. I'm betting they can give on certain terms and overall portfolio increase)."[2506]

On January 4, 2007, on behalf of Paulson, Goldman approached GSC Partners as well as two other companies to act as the portfolio selection agent for the Abacus CDO.[2507] Following a meeting among representatives of Goldman, Paulson, and GSC, Mr. Tourre sent an email to his colleagues summarizing the meeting and indicating that Paulson was also looking for a portfolio selection agent that would be willing to accept many of the reference assets it identified:

> "At the end of the meeting, the Paulson team told us that they were happy to have met GSC and assuming that (1) GSC could get comfortable with a sufficient number of obligations that Paulson is looking to buy protection on in ABACUS format, (2) GSC could get comfortable being in the market as early as end of January with a transaction under which Gsc is disclosed as Portfolio Selection Agent (without any credit risk removal rights), and (3) Paulson, Goldman, and GSC agree[] on GSC's required compensation for a transaction like this, then Paulson will want to proceed with gsc as soon as possible and be in the market as soon as possible."[2508]

Subsequently, Mr. Tourre reported to his colleagues that GSC had declined the offer to act as the Abacus portfolio selection agent due to its negative views of the assets Paulson wanted to include in the CDO:

> "As you know, a couple of weeks ago we had approached GSC to ask them to act as portfolio selection agent for that Paulson-sponsored trade, and GSC declined given their negative views on most of the credits that Paulson had selected."[2509]

Later, when Goldman began to market Abacus 2007-AC1 securities, Edward Steffelin, a senior trader at GSC, sent an email to Peter Ostrem, head of Goldman's CDO Origination Desk saying: "I do not have to say how bad it is that you guys are pushing this thing."[2510] When asked by the Subcommittee what he meant, Mr. Steffelin responded that he believed that particular Abacus CDO created "reputational risk" for GSC as the collateral manager and for the whole market.[2511]

Goldman and Paulson eventually settled on ACA Capital Management, LLC, a company with experience in selecting assets for CDOs. Goldman employees expressed the hope that ACA's

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[2506] Id. An email indicates that, in late December 2006, Mr. Tourre was contemplating several possible portfolio selection agents, including "Aladdin, DRCM, Greywolf, and . . . GSC." He also suggested Investec and TCW as possible candidates. 12/18/2006 email from Fabrice Tourre, "Re: Paulson," GS MBS-E-003246145.

[2507] See, e.g., 1/4/2007 email from Fabrice Tourre to Daniel Sparks, "Paulson post," GS MBS-E-002526707 (On January 4, 2007, Goldman "reached out [to] GSC, Greywolf and ACA today re: acting as portfolio selection agent for a Paulson-sponsored trade.").

[2508] 1/6/2007 Goldman email, GS MBS-E-003445985, Hearing Exhibit 4/27-152.

[2509] 1/29/2007 email from Fabrice Tourre, GS MBS-E-003248998, Hearing Exhibit 4/27-112.

[2510] 2/27/2007 email from Ed Steffelin to Peter Ostrem, "FW: ABACUS 2007-AC1, Ltd. -- New Issue Announcement (144a/RegS)," GS MBS-E-009209654.

[2511] Subcommittee interview of Edward Steffelin (12/10/2010).

involvement would improve the sales of the Abacus securities. In an internal memorandum seeking approval of the CDO, for example, Goldman personnel wrote: "We expect to leverage ACA's credibility and franchise to help distribute this Transaction."[2512]

Selecting Assets. During January, February, and March 2007, the Abacus reference assets were selected. The Paulson hedge fund initiated the asset selection process by providing Goldman with criteria for choosing RMBS securities for the CDO.[2513] According to Mr. Tourre, Goldman's subsequent identification of candidate assets was essentially ministerial, as Paulson's specified criteria had restricted the scope of the RMBS securities that could be proposed.[2514] For example, Paulson wanted RMBS securities that had adjustable rate mortgages, low borrower FICO scores, and mortgages in states with slowing home price appreciation, like Arizona, California, Florida, and Nevada.[2515] Paulson specifically required 2006-vintage or 2007-vintage subprime RMBS that were

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[2512] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118 (The memorandum also stated: "We expect the strong brand-name of ACA as well as our market-leading position in synthetic CDOs of structured products to result in a successful offering." "Partnering with ACA on this innovative, franchise-building transaction will enhance our leadership in the market for structured product synthetic CDOs. We expect that the role of ACA as Portfolio Selection Agent will broaden the investor base for this and future ABACUS offerings." "We intend to target suitable structured product investors who have previously participated in ACA-managed cashflow CDO transactions or who have previously participated in prior ABACUS transactions."). See also SEC Complaint against Goldman at 8. When asked to confirm that Mr. Tourre "suggested that it would be easier to market or to find sort of a counterparty to [Paulson's] short trade if there was a portfolio selection agent involved," Mr. Pellegrini responded, "Right." SEC deposition of Paolo Pellegrini (12/3/2008), PSI-Paulson-04 (Pellegrini Depo)-0001, at 113. Mr. Tourre told the Subcommittee that having an agent gives comfort to potential investors. Subcommittee interview of Fabrice Tourre (4/24/2010).

[2513] At the Subcommittee hearing, Mr. Tourre testified that Paulson produced the portfolio selection criteria. Senator Levin then asked Mr. Tourre, "And did those criteria which Paulson gave to you, were they plugged into your model? Did they generate a list of possible reference securities for that portfolio?" Mr. Tourre responded: "Yes." They "were used to actually trim down the universe of RMBS." April 27, 2010 Subcommittee Hearing at 82.

[2514] Subcommittee interview of Fabrice Tourre (4/24/2010).

[2515] Paolo Pellegrini told the SEC that Paulson's selection criteria for Abacus 2007-AC1 included RMBS with a maximum weighted average FICO score of 640 and a minimum percentage (80%) of adjustable rate mortgages. Paulson also sought a minimum portfolio size of $750 million. SEC deposition of Paolo Pellegrini (12/3/2008), PSI-Paulson-04 (Pellegrini Depo)-0001, at 140-142. Sihan Shu, an analyst working for Paulson on the Abacus 2007-AC1 reference asset selection, told the Subcommittee that Paulson's selection criteria generally included large percentages of adjustable rate mortgages; high concentrations of mortgages in areas such as California and Florida, where Paulson believed the housing bubble was greater than in other areas; and limited due diligence. Subcommittee interview of Sihan Shu (2/24/2010). See also SEC deposition of Sihan Shu (12/4/2008), PSI-Paulson-04 (Shu Depo)-0001, at 26-28. Similarly, the SEC Complaint listed Paulson's selection criteria as favoring "RMBS that included a high percentage of adjustable rate mortgages, relatively low borrower FICO scores, and a high concentration of mortgages in states like Arizona, California, Florida and Nevada that had recently experienced high rates of home price appreciation." SEC Complaint against Goldman Sachs at 9. However, Goldman's initial submission to the SEC listed Paulson's criteria as only 2006-vintage subprime RMBS rated Baa2 by Moody's. In the Matter of Abacus 2007-AC1 CDO, File No. HO-10911 (SEC), Submission on behalf of Goldman Sachs (September 10, 2009), at 11 (hereinafter "Goldman Sachs Submission"). Goldman's supplemental submission disclosed that Goldman did use additional criteria listed in draft engagement letters between Goldman and Paulson "to guide Goldman Sachs' preliminary search for potential reference securities" that complied with Paulson's criteria, which confirms what Mr. Tourre told the Subcommittee in his testimony at the April 27, 2010 Subcommittee Hearing. In the Matter of ABACUS CDO, File No. HO-10911 (SEC), Supplemental Submission on behalf of

rated BBB by S&P or Baa2 by Moody's.[2516] Goldman sent Paulson a database and spreadsheet listing the securities that met Paulson's criteria.[2517] Paulson used that database to select 123 securities, and Goldman forwarded the resulting list to ACA.[2518] Over the next two months, a series of negotiations and meetings took place to finalize selection of the reference assets and the structure of the CDO.

On March 22, 2007, ACA and Paulson agreed on the final $2 billion reference portfolio for Abacus 2007-AC1.[2519] The assets consisted of 90 Baa2 rated mid and subprime RMBS securities issued after January 1, 2006.[2520] The RMBS securities were "equally-sized," each with a $22.22 million notional value.[2521] Each asset in the final reference portfolio was approved by both Paulson and ACA. Of the final 90 RMBS securities, 49 had been initially proposed by Paulson, and 41 had been initially proposed by ACA.[2522]

Goldman Sachs (September 25, 2009), at 3, 4 (hereinafter "Goldman Supp. Submission"). A January 3, 2007 draft engagement letter listed the following portfolio selection criteria: Baa2 ratings; RMBS issued after March 1, 2006; weighted average FICO scores between 600 and 675; and at least 80% adjustable rate mortgages underlying the RMBS. 1/3/2007 draft engagement letter, PAULSON-ABACUS 0252736, at 40. See also 1/6/2007 email from Fabrice Tourre to Ed Steffelin and others, GS MBS-E-002754054 (listing criteria for the Abacus portfolio as 2006 vintage bonds underwritten after March 1, 2006; Baa2 rated bonds; average FICO score between 600 and 675; RMBS transaction size greater than $500 million; and percentage of adjustable rate mortgages greater than 80%).

[2516] 1/29/2007 email from Fabrice Tourre to Peter Ostrem and others, GS MBS-E-003248998, Hearing Exhibit 4/27-112; Goldman Sachs Submission at 12 (citing Gerst Tr. 13-14).

[2517] See 1/9/2007 email from Gail Kreitman to Laura Schwartz, GS MBS-E-007974381.

[2518] Id.

[2519] See 3/22/2007 email from Sihan Shu to Fabrice Tourre and David Gerst, GS MBS-E-003010587.

[2520] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118; 3/23/2007 Goldman presentation, "ABACUS 2007-AC1," GS MBS-E-002807082, Hearing Exhibit 4/27-120; SEC Complaint against Goldman Sachs at 11; Goldman Sachs Submission at 13.

[2521] 3/12/2007 Goldman internal memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118.

[2522] See "Abacus 2007-AC1 Reference Portfolio," chart prepared by Subcommittee. See also 1/5/2007 email from Sihan Shu to Ed Steffelin, Fabrice Tourre, and others, GS MBS-E-002483408; 1/6/2007 email from Fabrice Tourre to Ed Steffelin and others, GS MBS-E-002754054; 1/9/2007 email from Gail Kreitman to Laura Schwartz, GS MBS-E-007974381; 1/22/2007 email from Laura Schwartz to Fabrice Tourre and others, GS MBS-E-002522389; 1/22/2007 email from David Gerst to Paolo Pellegrini and Sihan Shu, GS MBS-E-002480574; 1/28/2007 email from Fabrice Tourre to Gail Kreitman and David Gerst, GS MBS-E-002444359; 1/31/2007 email from David Gerst to Laura Schwartz, GS MBS-E-002620419; 2/1/2007 email from Laura Schwartz to David Gerst, GS MBS-E-003026086; 2/2/2007 email from Paolo Pellegrini to Laura Schwartz and Sihan Shu, GS MBS-E-002483499; 2/2/2007 email from Laura Schwartz to Paolo Pellegrini and Sihan Shu, GS MBS-E-002483496; 2/5/2007 email from Paolo Pellegrini to Laura Schwartz, GS MBS-E-003062009; 2/5/2007 email from Laura Schwartz to Paolo Pellegrini and others, GS MBS-E-002856966; 2/5/2007 email from David Gerst to Paolo Pellegrini and Sihan Shu, PAULSON-ABACUS 0253248; 2/26/2007 email from Fabrice Tourre to Keith Gorman, GS MBS-E-002444961; 3/22/2007 email from Sihan Shu to Fabrice Tourre and David Gerst, GS MBS-E-003010587; 3/23/2007 Goldman document, "ABACUS 2007-AC1," GS MBS-E-002807082, Hearing Exhibit 4/27-120. Goldman asserted: "The record in this investigation is clear that the overwhelming majority of the securities were identified by ACA." Goldman Supp. Submission at 13. However, the Goldman and Paulson documents reviewed by the Subcommittee show otherwise.

Goldman characterized Paulson's participation in the asset selection process as one in which the hedge fund merely "express[ed] [its] views" about the reference portfolio,[2523] which often happens in synthetic CDO transactions.[2524] The evidence indicates, however, that Paulson did more than express its views; it played an active and determinative role in the asset selection process. Paulson established the criteria used to identify the initial list of RMBS securities, proposed a majority of the reference assets in the final portfolio, and approved 100% of the reference assets. Moreover, the "views" expressed by Paulson directly conflicted with the interests of the investors to whom Goldman was marketing the Abacus 2007-AC1 deal. Mr. Pellegrini was quite clear about Paulson's intentions in a deposition with the SEC:

> Question: Your portfolio analysis was designed in large part to identify bonds that weren't going to perform, right?
>
> Answer: Right.
>
> Question: Because you wanted to short those bonds?
>
> Answer: Right.[2525]

Goldman documents reviewed by the Subcommittee contain conflicting information on exactly who was involved in the asset selection process. Goldman's Mortgage Capital Committee Memorandum on the Abacus CDO, the key internal Goldman document describing the new CDO, stated: "The Reference portfolio has been selected and mutually agreed upon by ACA and Goldman."[2526] In an email to a colleague, however, Mr. Tourre wrote that the portfolio had been selected by "ACA/Paulson."[2527] The Abacus Marketing book identified ACA as the portfolio selection agent for the CDO, and stated that the portfolio selection agent had selected the reference assets.[2528] The Abacus Offering Memorandum stated: "The Initial Reference Portfolio will be selected by ACA Management, L.L.C."[2529]

Another email exchange, between Mr. Tourre and his colleague Mr. Egol, demonstrates the strong influence Paulson had in the selection process. IKB, a German bank that was a frequent investor in past Abacus CDOs and was considering purchasing securities issued by Abacus 2007-AC1, apparently asked to have certain RMBS securities removed from the portfolio and sent the following email to a Goldman sales representative:

[2523] Goldman Supp. Submission at 10, 13.
[2524] Id. at 10.
[2525] SEC deposition of Paolo Pellegrini (12/3/2008), PSI-Paulson-04 (Pellegrini Depo)-0001, at 175-76.
[2526] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," at 3, GS MBS-E-002406025, Hearing Exhibit 4/27-118.
[2527] 5/8/2007 email from Fabrice Tourre to Josh Birnbaum, GS MBS-E-003611826, Hearing Exhibit 4/27-123.
[2528] 3/23/2007 Goldman document, "Abacus 2007-AC1," at 11-12, GS MBS-E-002807082, Hearing Exhibit 4/27-120.
[2529] 4/26/2007 Goldman Sachs Offering Circular, "Abacus 2007-AC1, Ltd.," at 2, GS MBS-E-001918034.

> "[D]id you hear something on my request to remove Fremont and New Century serviced bonds? I would like to try to [sic] the advisory com[m]it[t]ee this week and would need consent on it."[2530]

The IKB email was forwarded to Mr. Tourre, who sent it to Mr. Egol with the following message: "Paulson will likely not agree to this unless we tell them that nobody will buy these bonds if we don't make that change."[2531] Mr. Tourre expressed concern, not about what ACA, the portfolio selection agent, might or might not agree to, but only about what the Paulson hedge fund might agree to.

Failing to Disclose Key Information. Evidence obtained by the Subcommittee indicates that Paulson's role in the Abacus asset selection process and its investment objectives for the CDO were not fully or accurately disclosed to key parties or investors at the time the CDO was being structured and sold.

Moody's, one of the credit rating agencies asked to rate the Abacus securities, was not informed of Paulson's role or investment objectives. At a Subcommittee hearing on the role of the credit rating agencies in the financial crisis, Eric Kolchinsky, a former Moody's managing director who oversaw its CDO ratings and was familiar with Abacus 2007-AC1, provided sworn testimony that he had not known of Paulson's involvement with the CDO at the time it was rated, did not know of Paulson's role in selecting the referenced assets, and believed his staff did not know either. He testified that allowing an entity that wants a CDO to "blow up" to pick its assets "changes the whole dynamic," and was information that he would have wanted to know when rating the securities:

> Senator Levin: And were you or your staff aware at the time that Moody's was working on the ABACUS rating that Paulson was shorting the assets in ABACUS and playing a role in selecting referenced assets expected to perform poorly?
>
> Mr. Kolchinsky: I did not know, and I suspect, I am fairly sure, that my staff did not know either.
>
> Senator Levin: And are these facts that you or your staff would have wanted to know before rating ABACUS?
>
> Mr. Kolchinsky: From my personal perspective, it is something that I would have wanted to know because it is more of a qualitative not a quantitative assessment if someone who intends the deal to blow up is picking the portfolio. But, yes, that is something that I would have personally wanted to know. It changes the incentives in the structure.

[2530] 3/12/2007 email from Jorg Zimmerman (IKB) to Michael Nartey, GS MBS-E-002683134.

[2531] 3/12/2007 email from Fabrice Tourre to Jonathan Egol, GS MBS-E-002648826.

> Senator Levin: Are people usually putting deals together that want the deal to succeed? Isn't that the usual assumption?
>
> Mr. Kolchinsky: That is the basic assumption, yes.
>
> Senator Levin: And if the person wanting the deal to blow up is picking the assets, that would run counter to what the usual assumption is?
>
> Mr. Kolchinsky: It just changes the whole dynamic of the structure where the person who is putting it together, choosing it, wants it to blow up.[2532]

Moody's assigned AAA ratings to two tranches of the Abacus CDO.[2533]

ACA told the Subcommittee that, throughout the asset selection process, it was not informed and remained unaware of Paulson's true investment objective, which was to identify and short a set of assets that it believed would not perform and would lose value.[2534] According to ACA, it believed that Paulson was going to be a long investor in the CDO through its purchase of the equity share that would incur the first losses in the CDO. Contemporaneous ACA documents support that position. An internal ACA Commitments Committee Memorandum on Abacus 2007-AC1 dated February 12, 2007, for example, stated: "The hedge fund is taking the 0-9% equity tranche."[2535] Ten days later, on February 23, 2007, the ACA Managing Director who worked on the Abacus transaction spoke with a Goldman representative, and took notes of the conversation which stated in part: "Paulson taking 0-10%."[2536] In April 2007, the same ACA Managing Director sent an email to the CEO and President of ACA's parent company, ACA Capital Holdings Inc., which was considering buying Abacus securities for itself. Her email stated: "We did price $192 million in total of Class A1 and A2 today to settle April 26th. Paulson took down a proportionate amount of equity (0-10% tranche)."[2537]

In addition, on January 10, 2007, a few days after ACA was first approached by Goldman about working on the Abacus CDO, Mr. Tourre sent ACA a "Transaction Summary" describing the proposed transaction. The Transaction Summary identified the Paulson hedge fund as the "Transaction Sponsor," described the "Contemplated Capital Structure" of the CDO, and indicated that the lowest tranche, "[0]%-[9]%," was "pre-committed first loss."[2538] The ACA Managing Director told the Subcommittee that the "[0]%-[9]%" tranche identified in the Transaction

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[2532] April 23, 2010 Subcommittee Hearing at 63-64.

[2533] See 3/23/2007 Goldman document, "Abacus 2007-AC1," at 14, GS MBS-E-002807082, Hearing Exhibit 4/27-120. Moody's rating of Aaa is equivalent to a AAA rating. Standard and Poor's also rated the Abacus Class A-1 notes and the Class A-2 notes as AAA.

[2534] Subcommittee interview of Laura Schwartz (ACA) (4/23/2010).

[2535] 2/12/2007 "CDO Asset 'Management' Proposal for Abacus 2007-AC1," submitted to ACA Commitments Committee, at 2, ACA-ABACUS-0000121560-66.

[2536] 2/23/2007 handwritten notes of Laura Schwartz, ACA Managing Director of CDO asset management, ACA ABACUS 00004171 at 173.

[2537] 4/10/2007 email from ACA Managing Director Laura Schwartz, ACA-ABACUS-0000006327.

[2538] 1/10/2007 email from Fabrice Tourre to Laura Schwartz, GS MBS-E-002480520, Hearing Exhibit 4/27-108.

Summary matched the general description of an equity tranche, and the wording suggested that someone had already committed to buy it.[2539] She explained that it was typical for a CDO sponsor to purchase the equity tranche, and she believed that Paulson, as the Abacus "sponsor," had committed to buy that tranche.[2540] The Abacus Marketing book also specified that the "First Loss" tranche of the CDO, of a "[+10%]" size, was "Not Offered" for sale.[2541] The ACA Managing Director declared in a statement to the SEC that she had interpreted the phrase, "Not Offered," to indicate the equity tranche had been "pre-placed" and "ha[d] already been committed to purchase by an investor and [would] not be marketed."[2542] She thought that investor was the Paulson hedge fund.

When asked about the Transaction Summary description of the lowest tranche in the Abacus CDO, Mr. Tourre told the Subcommittee that the phrase "pre-committed first loss" normally indicated that the tranche had been sold. He stated that he actually meant to communicate that the tranche had not been sold, and that portion of the Transaction Summary was poorly worded.[2543]

In his prepared statement at the Subcommittee hearing, Mr. Tourre testified that he never told ACA that the Paulson hedge fund would be a long investor in the Abacus CDO:

> "I never told ACA, the portfolio selection agent, that Paulson and Company would be an equity investor in the AC-1 transaction or would take any long position in the deal. Although I don't recall the exact words that I used, I recall informing ACA that Paulson's fund was expected to buy credit protection on some of the senior tranches in this deal. This necessarily meant that Paulson was expected to take some short position in the transaction."[2544]

In addition, Mr. Tourre testified that he informed ACA that the Paulson hedge fund was going to invest only on the short side of the transaction:

> Senator Levin: You did not disclose to ACA that Paulson was on the short side of this deal. Is that correct?
>
> Mr. Tourre: I did mention to ACA that the expectation was that Paulson was going to buy protection on senior layers of risk in the transaction.
>
> Senator Levin: That they were going to be only on the short side.

[2539] Subcommittee interview of Laura Schwartz (4/23/2010). See also Statement of Laura Schwartz, ACA ABACUS 00004406 at 408.

[2540] Id. See also 1/10/2007 email from Fabrice Tourre to Laura Schwartz, "Transaction Summary," GS MBS-E-002480520, Hearing Exhibit 4/27-108; SEC Complaint against Goldman Sachs at 14, 15; Goldman Sachs Submission at 32 (citing 1/10/2007 email from Fabrice Tourre to Laura Schwartz, "Transaction Summary," GS MBS-E-003504901).

[2541] 3/23/2007 ACA/Goldman document, "Abacus 2007-AC1," ACA-ABACUS-002807082, Hearing Exhibit 4/27-120; Statement of Laura Schwartz, ACA ABACUS 00004406 at 408.

[2542] Statement of Laura Schwartz, ACA ABACUS 00004406 at 408.

[2543] Subcommittee interview of Fabrice Tourre (4/24/2010).

[2544] April 27, 2010 Subcommittee Hearing at 44.

Mr. Tourre: Yes.[2545]

ACA has since filed a civil lawsuit against Goldman asserting that Goldman did not inform ACA that "Paulson intended to take an enormous short position" in Abacus and is seeking to recover $30 million in compensatory damages and $90 million in punitive damages for fraudulent inducement, fraudulent concealment, and unjust enrichment.[2546]

Regardless of the communications between Goldman and ACA, it is clear that the Abacus marketing material and offering documents provided by Goldman to investors contained no mention of Paulson's short position in the CDO nor the significant role it played in the selection of the CDO's reference assets. This was confirmed by Mr. Tourre at the Subcommittee hearing:

> Senator Levin: And was it reflected in the Goldman Sachs security offering to investors that Paulson had been part of the selection process? Was that represented in that document?
>
> Mr. Tourre: Paulson was not disclosed in the Abacus 07 AC-1 transaction, Mr. Chairman.
>
> Senator Levin: It was not?
>
> Mr. Tourre: No, it was not.[2547]

Still another troubling omission was Goldman's failure to advise potential Abacus investors that the firm's own economic interests were aligned with those of the Paulson hedge fund. As part of the Abacus CDO arrangement, Paulson agreed to pay Goldman a higher fee if Goldman could provide Paulson with CDS contracts containing premium payments below a certain level.[2548] The

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[2545] Id. at 86.

[2546] ACA Financial Guaranty Corp. v. Goldman Sachs & Co., Index No. 650027/2011 (N.Y. Sup.), Complaint (January 6, 2011), at 1, 23 (hereinafter "ACA Complaint against Goldman Sachs).

[2547] April 27, 2010 Subcommittee Hearing at 86.

[2548] See 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transaction sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118 ("Goldman will receive an upfront premium from Paulson for distributing risk at or within specified strike spreads." "If Goldman succeeds in placing a given Targeted Tranche inside the related Strike Spread, Goldman will receive from Paulson a fee on the notional amount of such Targeted Tranche distributed. Such fee will have a floor component (the 'Minimum Fee Rate') and an upside sharing component, under which Goldman will share with Paulson any execution delivered at levels tighter than the Strike Spreads."). See also 1/18/2007 email from Fabrice Tourre to David Lehman and others, GS MBS-E-002483446 (detailing the additional fees Goldman could earn by executing trades within the strike spread of each tranche); 3/14/2007 email from Paolo Pellegrini to Sihan Shu with "ACA ABACUS Paulson Fee Illustration" spreadsheet attached (the spreadsheet provides details of the incentive-based fees paid to Goldman, including for Goldman's pricing of spreads), PAULSON-ABACUS 0250401. Mr. Pellegrini told the SEC that Goldman and Paulson had discussions regarding Goldman's compensation, resulting in "a formula that tied their compensation to sort of kind of the spread that they sort of presented to or that they would present to us." SEC deposition of Paolo Pellegrini (12/3/2008), PSI-Paulson-04 (Pellegrini Depo)-0001, at 118-19. Mr. Tourre described the compensation agreement in an email to Mr. Sparks, writing that if Goldman could place super senior risk inside a certain spread, Paulson would pay Goldman an upfront fee and periodic fees reflecting the money Goldman saved Paulson. 9/8/2006 email from Fabrice Tourre to Dan Sparks, GS MBS-E-009516671. Mr. Tourre told the SEC that Paulson was

problem with the fee incentive offer was that, while lower premiums would result in lower costs to Paulson, it would also result in lower premium payments to the CDO, directly reducing the amount of cash available to the long investors. The Paulson-Goldman compensation arrangement, thus, created a direct conflict of interest between Goldman and the investors to whom it was selling the Abacus securities.

Selling Abacus Securities. Abacus 2007-AC1 closed, and its securities were issued on April 26, 2007. They were issued later than the securities from the Hudson, Anderson, and Timberwolf CDOs and hit the market as subprime mortgages were hitting record delinquency and default rates. Goldman sold the Abacus 2007-AC1 securities to just three investors: IKB, the German bank; ACA, the portfolio selection agent; and ACA Financial Guaranty Corp., the owner of ACA and a wholly owned subsidiary of ACA Capital Holdings Inc.[2549] IKB bought $150 million of the AAA rated Abacus securities. ACA bought about $42 million in the AAA securities for placement in another CDO it was managing. [2550] ACA Financial Guaranty Corp. was by far the largest investor, taking the long side of a $909 million CDS contract referencing the super senior portion of the CDO.[2551] Goldman took the short side of the CDS contract, which it then transferred to Paulson.[2552]

"comfortable buying protection only to the extent that the spreads they were paying were less than a certain level." SEC deposition of Fabrice Tourre (3/3/2009), GS MBS 0000022785, at 899-900.

[2549] SEC Complaint against Goldman Sachs at 18. See Credit Default Swap Insurance Policy, ACA ABACUS 00001593. ACA complaint against Goldman Sachs at 15, 16.

[2550] See Goldman trading datasheet, GS MBS 0000004276 (showing closing dates and details on various deals, including Abacus).

[2551] 5/8/2007 email exchange between Joshua Birnbaum and Fabrice Tourre, "Post on Paulson and ABACUS 07-AC1," GS MBS-E-003352815; 4/13/2007 email exchange between Fabrice Tourre and Charlie Remnant, "ABACUS 07-AC1," GS MBS-E-002485172; 5/9/2007 email to Fabrice Tourre, "ABN Amro," GS MBS-E-002461503. ABN AMRO Bank N.V. (ABN), a large European bank, intermediated the swap between Goldman and ACA Financial Guaranty Corp.

[2552] The CDS contracts were executed between Goldman Sachs International and Paulson Credit Opportunities Master II Ltd., one of the Paulson hedge funds. 4/9/2007 email from Nicholas Friedman to Fabrice Tourre and others, "Re: ABACUS 07-AC1," GS MBS-E-002449178.

Shortly before the Abacus 2007-AC1 transaction closed, Goldman agreed to take the long side of a CDS contract on the performance of a small portion of Abacus' underlying assets when Paulson wanted to increase its short position at the last minute. Although Goldman ended up retaining this long investment, it did so only because it could not find an investor who would buy it. Mr. Tourre admitted this fact in the April 27, 2010 Subcommittee Hearing.

> Senator Levin: Did Goldman intend to keep a long stake in that transaction when the deal was structured? I know it ended up with a piece. Was it intended that it end up with a piece of that deal?
> Mr. Tourre: We tried to hedge our risk by selling that piece as well, but were not successful in doing so.
> Senator Levin: So it was intended to sell that piece?
> Mr. Tourre: For prudent risk management reasons, we were trying –
> Senator Levin: Oh, I am sure for all the right reasons. But it was intended that Goldman not have any long stake on that piece. Is that correct?
> Mr. Tourre: Yes.

See also 6/5/2007 email from David Gerst to Jonathan Egol, GS MBS-E-002469912, Hearing Exhibit 4/27-126.

Within months, the high risk subprime mortgages underlying the RMBS securities referenced in the Abacus portfolio incurred steep rates of default, and the Abacus securities began to lose value. According to the SEC, by October 2007, six months after the securities were issued, 83% of the underlying assets had received a credit rating downgrade and 17% of the underlying assets had been placed on a negative credit watch.[2553] On October 26, 2007, a Goldman employee sent an email about Abacus 2007-AC1 with an assessment even more negative than that of the SEC:

> "This deal was number 1 in the universe of CDO's that were downgraded by Moody's and S&P. 99.89% of the underlying assets were downgraded."[2554]

The three long investors in Abacus 2007-AC1 together lost more than $1 billion. As the sole short investor, Paulson recorded a corresponding profit of about $1 billion.[2555]

On April 16, 2010, the SEC filed a complaint against Goldman and Mr. Tourre, alleging their actions constituted securities fraud.[2556] The SEC specifically alleged violations of Section 17(a) of the Securities Act of 1933, as well as Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934.[2557] The SEC contended that Goldman had failed to disclose to potential investors materially adverse information, that the party shorting the reference assets was the same party that had played a significant role in selecting those assets.[2558] On July 14, 2010, Goldman reached a $550 million settlement with the SEC.[2559] In connection with the settlement, Goldman acknowledged:

> "[T]he marketing materials for the ABACUS 2007-AC1 transaction contained incomplete information. In particular, it was a mistake for the Goldman marketing materials to state

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[2553] SEC Complaint against Goldman Sachs at 3.

[2554] 10/26/2007 email from Goldman salesman to Michael Swenson, "ABACUS 2007-AC1 – Marketing Points (INTERNAL ONLY) [T-Mail]," GS MBS-E-016034495.

[2555] SEC Complaint against Goldman Sachs at 3.

[2556] See SEC Complaint against Goldman Sachs.

[2557] Pursuant to 15 U.S.C. §78j(b) and 17 C.F.R. §240.10b-5, the SEC alleged that Goldman and Mr. Tourre, "in connection with the purchase or sale of securities or securities-based swap agreements, by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material facts or omissions of material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon persons." SEC Complaint against Goldman Sachs at 20-21. The SEC alleged that Goldman and Mr. Tourre "knowingly or recklessly misrepresented in the term sheet, flip book and offering memorandum for ABACUS 2007-AC1 that the reference portfolio was selected by ACA without disclosing the significant role in the portfolio selection process played by Paulson, a hedge fund with financial interests in the transaction adverse to IKB, ACA Capital and ABN. Goldman&Co and Tourre also knowingly or recklessly misled ACA into believing that Paulson invested in the equity of ABACUS 2007-AC1 and, accordingly, that Paulson's interests in the collateral section process were closely aligned with ACA's when in reality their interests were sharply conflicting." SEC Complaint against Goldman Sachs at 21. Similar charged were filed pursuant to 15 U.S.C. § 77q(a)(1), (2) and (3). See SEC Complaint against Goldman Sachs at 19.

[2558] SEC Complaint against Goldman Sachs at 2, 20, 21.

[2559] Securities and Exchange Commission v. Goldman, Sachs & Co. and Fabrice Tourre, Case No. 10-CV-3229, (S.D.N.Y.), Consent of Goldman Sachs, (July 14, 2010), at 1, 2, 10 (hereinafter "Consent of Goldman Sachs").

that the reference portfolio was 'selected by' ACA Management LLC without disclosing the role of Paulson & Co. Inc. in the portfolio selection process and that Paulson's economic interests were adverse to CDO investors."[2560]

Analysis. Goldman constructed Abacus 2007-AC1 to help a hedge fund short multiple RMBS securities. Goldman allowed the hedge fund to play a significant role in the selection of the CDO's referenced assets, while employing an outside portfolio agent to give the impression that the CDO assets were selected by a disinterested third party. Goldman failed to disclose the hedge fund's investment objective and asset selection role to a credit rating agency that assigned AAA ratings to two tranches of the Abacus securities. Goldman also failed to provide full disclosure to the long investors to whom it sold the Abacus securities. In addition, Goldman failed to disclose to the investors a compensation arrangement that provided incentives for Goldman to minimize the premium payments into the CDO. Within six months, the Abacus securities began incurring losses and ratings downgrades. Goldman watched the long investors to whom it had sold the securities lose virtually all the funds they had invested, while the hedge fund it had assisted walked away with a profit of approximately $1 billion.

(iii) Additional CDO Conflicts of Interest

In addition to creating and failing to manage conflicts of interest arising from its design and sale of CDO securities, Goldman at times allowed conflicts of interest to affect how it carried out key roles in the administration of its CDOs.[2561] Two examples, in which Goldman acted as the liquidation agent in Hudson 1 and the collateral put provider in Timberwolf, illustrate the problems. In both cases, Goldman used its administrative roles to promote and enhance its own financial interests at the expense of the clients to whom it had sold the CDO securities.

AA. Liquidation Agent in Hudson 1

In 2006 and 2007, several Goldman CDOs included provisions establishing a "liquidation agent" to sell any poorly performing assets in the CDO. This feature appeared in Hudson Mezzanine 2006-1, which is examined in this Report, as well as Hout Bay 2006-1, Hudson High

[2560] Consent of Goldman Sachs at 2. Despite this acknowledgment by Goldman as part of the settlement, when asked during the Subcommittee hearing if "a non-biased person [could] look at the facts [of Abacus 2007-AC1] as you see them and say there is a question of unethical behavior here," David Viniar, the executive vice present and chief financial officer for Goldman, stated he "didn't believe so." April 27, 2010 Subcommittee Hearing at 125.

[2561] Some of the administrative roles that Goldman filled in its CDOs, as described in its CDO agreements, included: Initial Purchaser, Synthetic Security Counterparty, Senior Swap Counterparty, Credit Protection Buyer, Liquidation Agent, Calculation Agent under U.S. Dollar Cash Flow Swap Transaction, Collateral Put Provider, CP Note Placement Agent, Portfolio CDS Counterparty, Hedge Counterparty - Cashflow Swap, Collateral Disposal Agent, Credit Default Swap Calculation Agent, Basis Swap Counterparty, and Basis Swap Calculation Agent. 2/18/2008 document prepared by Goldman Sachs, outlining the parties serving each role in Goldman underwritten CDOs, GS MBS 0000004337.

Grade 2006-1, Hudson Mezzanine 2006-2, and Anderson Mezzanine 2007-1.[2562] In each instance, Goldman served as the initial liquidation agent, although in several CDOs, it later transferred the role to a third party. In Hudson 1, Goldman's dual roles as liquidation agent and sole short party in the CDO created a direct conflict of interest between Goldman and the clients to whom it sold the Hudson securities, which Goldman exploited by placing its own financial interests ahead of those of its clients.

Designing the Liquidation Agent Role. According to Goldman, appointing a CDO liquidation agent was a "fairly novel idea" that was first implemented in the 2006 Hout Bay CDO.[2563] Peter Ostrem, then head of the CDO Origination Desk, oversaw the drafting of the liquidation agent feature.[2564] He told the Subcommittee that Goldman wanted to issue static portfolio CDOs, meaning CDOs whose assets did not change over time, but also wanted to protect investors from poorly performing assets. He explained that the liquidation agent feature was intended to be triggered by a specified event and provided the liquidation agent with "no discretion" other than to sell the poorly performing asset, which was referred to as a "Credit Risk Asset." He explained that, without such a feature, poorly performing assets would "just stay there" in a CDO, further harming investors.[2565] The CDO Origination Desk also favored the approach, because it could be performed by Goldman itself at a lower cost than retaining a traditional collateral manager.[2566]

The liquidation agent provisions established criteria for identifying "Credit Risk Assets" and removing them from the CDO. In a July 2006 memorandum to the Goldman Mortgage Capital Committee, the CDO Origination Desk described the liquidation agent role as follows:

> "As Liquidation Agent, Goldman will liquidate assets determined by the Trustee to be 'Credit Risk Assets' based on specific guidelines. Goldman will have 12 months to sell these assets. Sales will be made under a competitive bidding process, whereby we will solicit three outside bids and select the highest. Prior to executing Hout Bay 1, in which we also played the Liquidation Agent role, we spoke to multiple counterparties as to our role as Liquidation Agent. We received approval for our role in this transaction from legal and accounting. ... Finally, we spoke with outside counsel, Wilmer Cutler, about potential issues related to the Investment Advisor Act. They are of the opinion that our role of Liquidation Agent does not cause us to be deemed an Investment Advisor based on the exception to the Advisors Act for a 'limited grant of discretion.'"[2567]

[2562] 2/18/2008 Goldman presentation, "CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter," GS MBS 0000004337, at 4340; 7/19/2007 Goldman document, "GS Liquidation Agent Role in ABS CDOs," GS MBS-E-014055117.

[2563] Subcommittee interview of Darryl Herrick (10/13/2010).

[2564] Subcommittee interview of Peter Ostrem (10/5/2010).

[2565] Id. Although Mr. Ostrem helped design the liquidation agent feature, he was not employed by Goldman when its CDO assets were downgraded and triggered its liquidation agent duties.

[2566] See 7/17/2006 Goldman memorandum to the Mortgage Capital Committee, "Placing debt and equity on a static high grade structured product CDO Squared with Investec (UK) Limited," GS MBS-E-013458155.

[2567] Id.

One key issue discussed in the memorandum was whether, by assuming the role of liquidation agent, Goldman would trigger registration and disclosure obligations under the Investment Advisers Act of 1940. The CDO Origination Desk wrote:

> "We have discussed Goldman's role as Liquidation Agent internally with Tim Saunders [counsel in Goldman's legal department] and externally with outside counsel, Wilmer Cutler. One concern about that role was whether Goldman would be viewed as an Investment Advisor. We specifically crafted Goldman's role in Hout Bay 1 and in this case to eliminate both internal and external counsel's concern about Goldman being treated as an Investment Advisor. The main factors that made Tim Saunders and Wilmer Cutler comfortable that Goldman will not be treated as an Investment Advisor were:
>
> - Goldman's role is Liquidation Agent and not Collateral Manager. Goldman is engaged by the CDO to liquidate Credit Risk Assets and will receive an ongoing Liquidation Agent Fee for such services;
>
> - Goldman does not determine whether an asset is a Credit Risk Asset. Such determination is made by the CDO based on specific rules . . . ;
>
> - Goldman must liquidate such Credit Risk Assets within 12 months of such determination and the price received on such liquidation must be in the context of a three-bid process;
>
> - Goldman does not receive additional compensation and or control of the CDO for acting as a Liquidation Agent. ...
>
> We will build a provision in the deal documents to allow Goldman to resign as Liquidation Agent if appropriate notice is given and a replacement Liquidation Agent is in place."[2568]

This memorandum indicates that, from its inception, the liquidation agent function was designed as a narrow, ministerial role, in part to avoid the legal obligations applicable under federal law to investment advisers.

The memorandum also indicated that "Credit Risk Assets" would be identified through objective criteria. For example, in the CDO under review, the memorandum stated that Credit Risk Assets would be defined as "[a]ny asset that is downgraded by Moody's or S&P below Ba2" and "[a]ny asset that is defaulted."[2569]

Credit Rating Downgrades. One year later, on July 19, 2007, after Mr. Ostrem had left Goldman and Mr. Lehman had assumed responsibility for all Goldman-originated CDOs, he held a conference call with members of the CDO team and Goldman in-house legal counsel Tim Saunders,

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[2568] Id.
[2569] Id.

to discuss how to carry out Goldman's CDO liquidation agent responsibilities. The prior week, Moody's and S&P had suddenly downgraded hundreds of RMBS and CDO securities in the first of many mass downgrades. Those downgrades suddenly caused a number of assets in Goldman's CDOs to qualify as Credit Risk Assets that had to be liquidated.

In advance of the conference call, Mr. Lehman's staff prepared a two-page summary of Goldman's liquidation agent duties, the liquidation procedures specified in the CDO documents, the CDOs affected, and the assets that Goldman anticipated would be affected by the downgrades.[2570]

Four days after the conference call, on July 23, 2007, Benjamin Case, who had been assigned lead responsibility for carrying out Goldman's liquidation agent functions, circulated a draft document describing Goldman's role. It stated that Goldman's goal as liquidation agent was:

> "to attempt to maximize proceeds on the unwind of credit risk assets pursuant to the liquidation process governed by the CDO documents, rather than to liquidate at an arbitrary pre-specified time without regard to market conditions."[2571]

It identified the assets that had been classified as Credit Risk Assets and provided Goldman's "Current Strategy" for handling them:

> "– wait and continue to evaluate market conditions, rather than liquidating now.
> - upside is that continued short-covering by hedge funds anxious to monetize profits could cause minor rally (5-10 points)[.]
> - downside is that speed up of foreclosure process vs. current timeline expected by market could decrease IO value, or significant forced selling of similar names by CDO vehicles could push levels wider [lower prices]."

Hudson Liquidation Agent. Although the liquidation agent role was originally designed for use in Goldman's "high grade" CDOs, where "there is substantially less credit risk in the assets vs. a mezzanine structured product CDO portfolio," the feature was also added to some of its riskier mezzanine CDOs, including Hudson Mezzanine 2007-1 (Hudson 1).[2572] Hudson 1 was a synthetic CDO whose assets consisted entirely of CDS contracts referencing subprime RMBS or ABX assets with BBB or BBB- ratings. Goldman had selected 100% of the reference assets and held 100% of the short side of the CDO.

Hudson 1's marketing materials outlined Goldman's liquidation agent role. The Hudson marketing booklet, for example, told potential investors:

[2570] 7/19/2007 Goldman document, "GS Liquidation Agent Role in ABS CDOs," GS MBS-E-014055117.

[2571] 7/23/2007 email from Mr. Case to Mr. Bieber, "CDO Liquidation Agent Role - Draft Talking Points - INTERNAL USE ONLY," GS MBS-E-015240358.

[2572] 7/17/2006 Goldman memorandum to Mortgage Capital Committee, GS MBS-E-013458155, at 57. A "mezzanine" CDO is one in which the underlying assets carry credit ratings such as BBB or BBB-.

> "Hudson CDOs are non-managed and static in nature and provide term non-recourse funding where Goldman Sachs acts as Liquidation Agent on an ongoing basis. The Liquidation Agent will be responsible for efficiently selling credit risk assets."[2573]

The Hudson term sheet provided additional information about the liquidation agent role and the "Credit Risk Assets" that would have to be liquidated:

> "Goldman as Liquidation Agent, will liquidate any asset determined to be a 'credit risk' within 12 months of said determination. Credit Risk assets will include: any asset downgraded by Moody's or S&P below Ba3 or BB-, any asset that is defaulted or would be experiencing a credit event as defined by the PAUG [Pay As You Go] confirm. There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be 'credit risk' securities will be sold by the Liquidation Agent within one year of such determination."[2574]

> The Hudson Offering Circular repeated that information and added:

> "The Liquidation Agent will not have the right, or the obligation, to exercise any discretion with respect to the method or the price of any assignment, termination or disposition of a CDS Transaction; the sole obligation of the Liquidation Agent will be to execute such assignment or termination of a CDS Transaction in accordance with the terms of the Liquidation Agency Agreement. ... [T]he Liquidation Agent shall have no responsibility for, or liability relating to, the performance of the Issuer or any CDS Transaction, Reference Obligation, Collateral Security or Eligible Investment."[2575]

Goldman charged a 10 basis point ongoing fee for serving as the Hudson Liquidation Agent,[2576] which resulted in its being paid a total fee of approximately $3.1 million.[2577]

While Goldman was marketing Hudson in 2007, a client asked why the liquidation agent was "afforded up to 12 months to sell a credit risk asset."[2578] The Subcommittee was unable to find Goldman's contemporaneous response, but when asked the same question, Darryl Herrick, the Hudson deal captain, told the Subcommittee that there was "headline risk" associated with the downgrade of an asset, and twelve months gave Goldman "flexibility to try to get a better price later."[2579] When asked whether the "flexibility" to delay a sale violated Hudson's prohibition against discretionary trading by the liquidation agent, Mr. Herrick said that Goldman had

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[2573] 10/2006 "Hudson Mezzanine 2006-1 Flipbook," GS MBS-E-009546963, Hearing Exhibit 4/27-87.
[2574] Goldman Sachs Hudson Mezzanine Funding 2006-1, LTD Preliminary Termsheet, GS MBS-E-001557869.
[2575] 12/3/2006 Hudson Mezzanine 2006-1, LTD. Offering Circular, GS MBS-E-021821196 at 234.
[2576] 10/2006 "Hudson Mezzanine 2006-1 Flipbook," GS MBS-E-009546963, Hearing Exhibit 4/27-87.
[2577] See Goldman Sachs response to Subcommittee QFR at PSI_QFR_GS0239.
[2578] 10/6/2006 email from Michael Halevi to Olivia Ha, GS MBS-E-014338525.
[2579] Subcommittee interview of Darryl Herrick (10/13/2010).

"discretion based on a rule," and that the liquidation agent provisions had been vetted with the credit rating agencies which "probably wanted the deal to avoid forced sales."[2580]

Failure to Liquidate. In July 2007, after the credit rating agencies began the mass downgrades of RMBS securities, the first RMBS securities underlying the Hudson CDO lost their investment grade ratings, and the CDS contracts referencing those assets qualified as Credit Risk Assets requiring liquidation.[2581] Within three months, by October 15, 2007, over 28% of the Hudson assets qualified as Credit Risk Assets.[2582] As liquidation agent, Goldman should have begun issuing bids to sell the assets at the best possible price and remove them from the Hudson CDO, but it did not.

In October 2007, Goldman began to contact Hudson investors to discuss transferring its liquidation agent responsibilities to a third party. That transfer required investor consent. Benjamin Case took notes of two telephone conversations he had with a Hudson investor, National Australia Bank (NAB), discussing the issues.[2583] In the calls, Mr. Case explained why Goldman had yet to liquidate any of the Credit Risk Assets, explaining that Goldman was waiting for asset prices to improve.[2584] He also reported that Goldman was considering an amendment to the Hudson transaction that would extend the maximum liquidation period, as well as make other structural changes to the Hudson deal.[2585]

According to his notes, Mr. Case informed NAB that Goldman was seeking to transfer its liquidation role to a third party with more liquidation experience, because that change:

> "will be in the best interest of investors - the credit obligation term was originally written with the expectation that was unlikely to happen. ...
> Good for several reasons:
> 1. Large institutional assets manager will be able to access more liquidity b/c [because] they can access other broker dealers and get good pricing[.]

[2580] Id. Mr. Herrick was not employed by Goldman when its CDO assets were downgraded and triggered its liquidation agent duties.

[2581] 1/3/2008 email from Shelly Lin to Mr. Sparks, GS MBS-E-021880171 (attached file, "Deal Summary," GS MBS-E-021880172).

[2582] Id.

[2583] 10/15/2007 email from Naina Kalavar, "NAB/Hudson Mezz Update 2," GS MBS-E-015738973. Mr. Case used this email to circulate his notes of the two telephone conversations.

[2584] Id. at 2. The notes included the following: "[C]urrent distressed nature of the assets has been fully priced in and has not moved over the past 2 months - if unwound those cds would be at 80-90 points, that is % points to be paid up front to unwind swap - equiv of 20 cents to dollar in cash bond terms ... Across entire universe of loans already in liquidation - been generally se[e]n 50-60-70 % recovery rates. Rates are not coming back high enough to make the market opt[i]mistic that bonds will come back to recover princi[pal]. ... Our view that there is upside in waiting an[d] evaluating mtkt conditions before liquidating. ... We think that the shorts may get impatient – minor rallies from short covering – domino effect/momentum creates a rally b/c shorts get nervous at little rally – this provides potential upside to waiting to liquidate."

[2585] Id. at 3. Such an amendment would require investor consent.

> 2. Even keeping the deal the way it is, the decision of when in the 12 month period to liquidate could be better handled by an experienced manager[.]
> 3. Potential amendment could be made to benefit the deal by giving more flexibility to agent."[2586]

These notes indicate that, although Goldman was the architect of the Hudson CDO and selected itself to serve as liquidation agent at a fee of $3.1 million, when Goldman was called upon to execute its role, it believed the decision of when to liquidate the impaired assets "could be better handled by an experienced manager."

According to Mr. Case's notes, NAB sent Mr. Case an email asking if Goldman held any of the Hudson investments: "does GS hold any of this?" Mr. Case responded:

> "def own equity and different pieces of various tranches no [sic] exactly, but decent size and numbers of cl[a]sses on our books."[2587]

Mr. Case apparently did not disclose that, in addition to its $6 million equity tranche, Goldman also held 100% of the short position in the $2 billion CDO, and that its short investment would increase in value as the Hudson assets lost value.

According to Mr. Case's notes, NAB replied by asking Goldman to provide more specific information about Goldman's holdings in the transaction: "Could you please follow up with what Goldman holds?"[2588] When Mr. Case asked why NAB wanted that information, NAB responded: "Want to make sure you [Goldman] are making restructuring decisions for the right reasons - make sure serving the right interests." According to his notes, Mr. Case replied: "Our intended goal of liquidation agent is to serve the best interests of the CDO - that is the duty of the liquidation agent - it is a policy and process."[2589]

In November 2007, Goldman took initial steps to transfer its liquidation agent responsibilities to a third party.[2590] At that point, Goldman had yet to liquidate any of the Hudson Credit Risk Assets.[2591] The nine assets that had become Credit Risks in July had already dropped significantly in value. One asset which, on July 16, had a value of 61% of its face (par) value, had fallen by November 1 to 16% of par.[2592] Another asset that, on July 16, had a value of 43% of par, had fallen in value by November 1 to 7% of par.[2593]

[2586] 10/15/2007 email from Naina Kalavar, "NAB/Hudson Mezz Update 2," GS MBS-E-015738973.
[2587] Id. at 75.
[2588] Id. at 76.
[2589] Id.
[2590] 11/9/2007 email from Mr. Case to Mr. Lehman, GS MBS-E-021876334.
[2591] 2/29/2008 letter from Morgan Stanley to Goldman, HUD-CDO-00006877.
[2592] Reference asset OOMLT 2006-2 M8. See 1/3/2008 email from Shelly Lin to Mr. Sparks, GS MBS-E-021880171 (attached file, "Deal Summary," GS MBS-E-021880172).
[2593] Reference asset MSAC 2006-WMC2 B3. See 1/3/2008 email from Shelly Lin to Mr. Sparks, GS MBS-E-021880171 (attached file, "Deal Summary," GS MBS-E-021880172).

At the end of November, Goldman reached an agreement with Trust Company of the West (TCW), subject to investor approval, in which Goldman would assign its liquidation agent duties to TCW, and TCW would "share back" 30% of the fees with Goldman.[2594] Mr. Lehman told the Subcommittee that Goldman's decision to assign the liquidation agent rights to a third party was because liquidation was a non core business for Goldman, and TCW was better suited to liquidate the Credit Risk Assets.[2595] On December 18, 2007, while Goldman was still seeking investor approval to assign the liquidation agent role to TCW, a Goldman representative explained to an investor the firm's thinking:

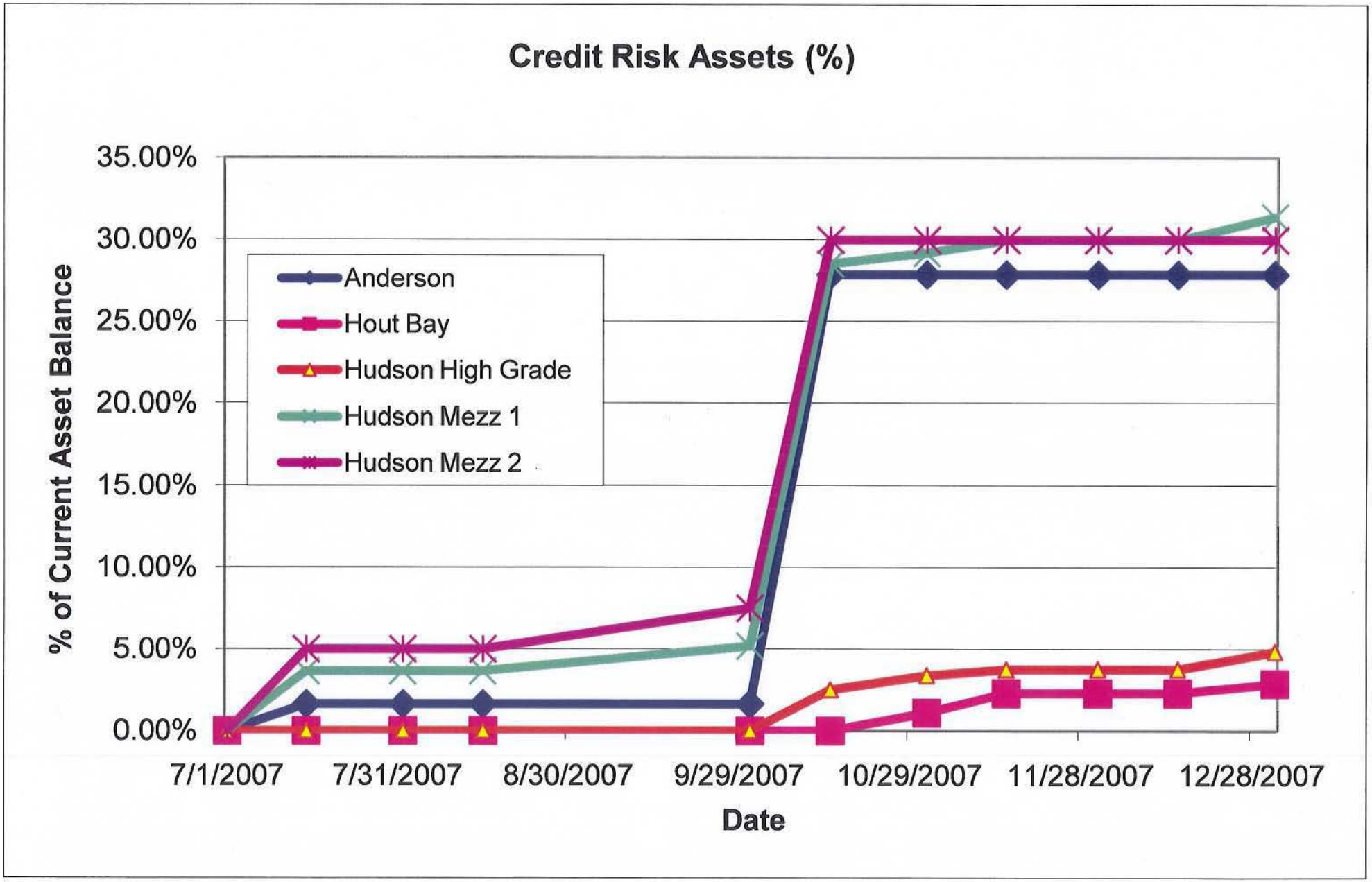
> "GS [Goldman Sachs] is soliciting consent to assign GS role as liquidation agent to TCW bec[ause] when liquidation agent role was designed, it was very 'out of the money'; now when the risk is very real, it is much more efficient to have a sophisticated collateral manager bec[ause]
> (i) TCW can access better liquidity than GS, ie get bids from the entire street
> (ii) real asset manager can pursue further amendments to the doc to make liquidation more efficient bec[ause] is not an asset [manager] under the investment act in 1940 and cannot act [sic] investment advisory services and can't act with optimal discretion."[2596]

On December 19, 2007, Morgan Stanley, the largest Hudson long investor with a $1.2 billion interest encompassing the entire super-senior tranche,[2597] was presented with a consent form to assign the liquidation agent rights to TCW.[2598] Morgan Stanley told the Subcommittee that it had declined to consent to the transfer, because the liquidation agent role was ministerial, had no discretionary authority, and could quickly and easily be accomplished by Goldman.[2599] Morgan Stanley told the Subcommittee that it instead asked Goldman to begin liquidating the $596.5 million in Credit Risk Assets immediately, some of which had been designated as Credit Risks for five months, and all of which had declined in value.[2600]

On January 3, 2008, Daniel Sparks, the Mortgage Department head, was given a spreadsheet listing the Credit Risk Assets in each of the CDOs in which Goldman was serving as the liquidation agent, including Hudson 1. The spreadsheet showed that, in Hudson, 44 assets were Credit Risks with a face value of $635 million, totaling about 30% of the asset pool.[2601]

[SEE CHART NEXT PAGE: *Credit Risk Assets*, prepared by Goldman Sachs.]

[2594] See 11/29/2007 email from Mr. Case to Mr. Sparks, Mr. Lehman, and others, GS MBS-E-021876502.
[2595] Subcommittee interview of David Lehman (9/27/2010).
[2596] 12/18/2007 email from Lira Lee to [investor], GS MBS-E-021878556.
[2597] See discussion of Hudson 1, above.
[2598] 12/19/2007 email from Mr. Case to Nicole Martin of Morgan Stanley, GS MBS-E-021876172.
[2599] Subcommittee interview of Morgan Stanley (8/6/2009).
[2600] Id.
[2601] 1/3/2008 email from Shelly Lin to Mr. Sparks, GS MBS-E-021880171 (attached file, "Deal Summary," GS MBS-E-021880172).


Credit Risk Assets (%)
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
% of Current Asset Balance
Anderson
Hout Bay
Hudson High Grade
Hudson Mezz 1
Hudson Mezz 2
7/1/2007
7/31/2007
8/30/2007
9/29/2007
10/29/2007
11/28/2007
12/28/2007
Date

The spreadsheet also showed that the weighted average values of the Hudson assets had fallen dramatically, causing losses that could have been avoided had Goldman liquidated them sooner. The weighted average values had fallen from 45% of face (par) value in July, to a low of 15% on November 1, 2007, and were about 20% of par value on January 2, 2008.[2602]

> [SEE CHART NEXT PAGE: *Weighted Average Levels*, prepared by Goldman Sachs.]

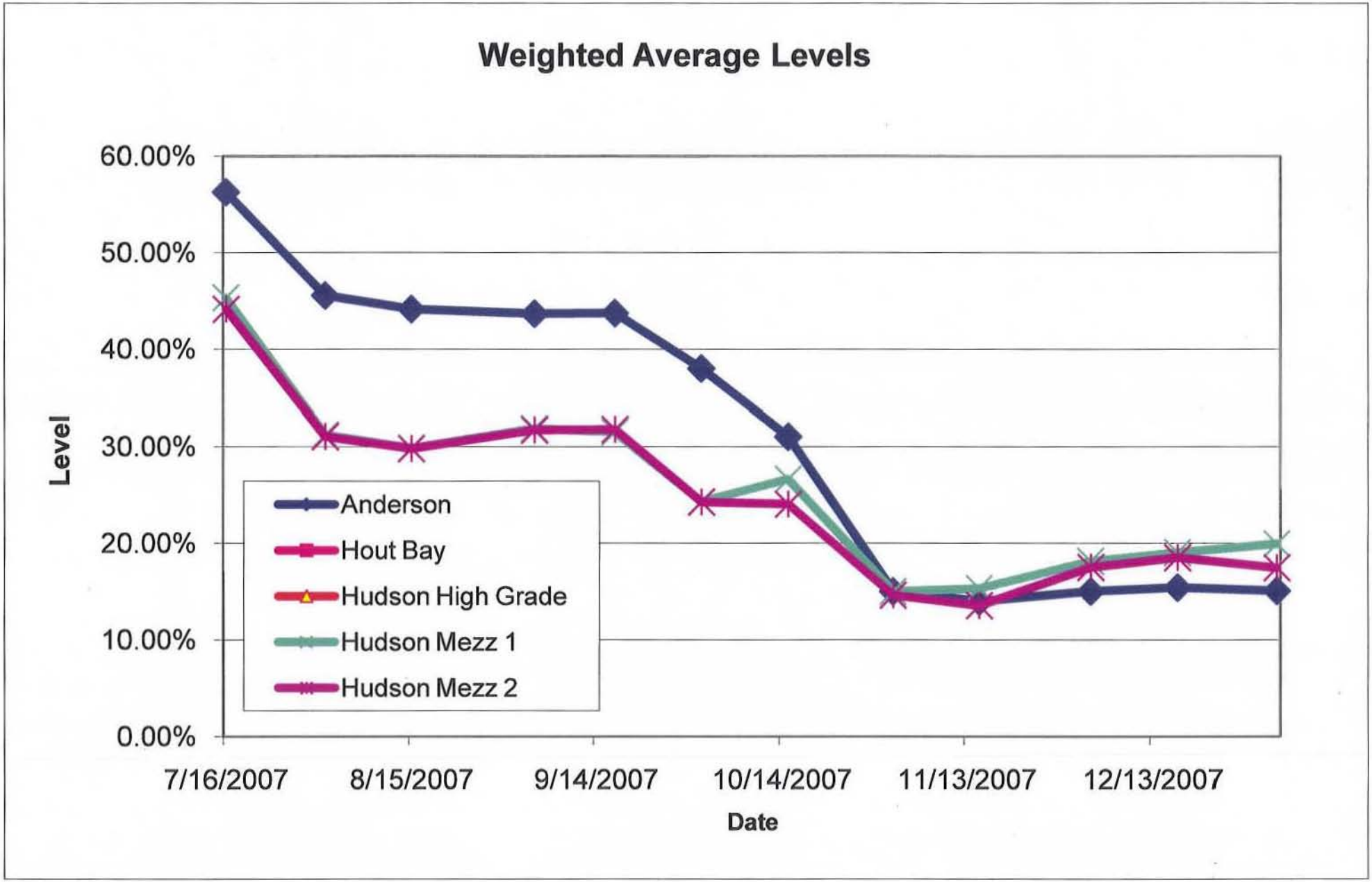
Hudson Conflict of Interest. Despite the falling values and Morgan Stanley's ongoing request to initiate liquidation of the Credit Risk Assets as set out in the Hudson 1 agreement, Goldman still did not begin liquidating.

During January and February 2008, Morgan Stanley engaged in frequent communications with Goldman personnel, including Mr. Lehman who oversaw Goldman's CDOs, and Mr. Case who oversaw the liquidation agent function, to initiate liquidation of the Hudson assets.[2603] The falling value of the Hudson assets caused sharp losses in Morgan Stanley's $1.2 billion investment, leading Morgan Stanley to press for the Credit Risk Assets to be liquidated and removed from the CDO as soon as possible. In contrast, as the Hudson assets fell in value, Goldman, as the CDO's sole short party, saw its short position become increasingly profitable. Goldman had little financial incentive to liquidate the Credit Risk Assets, because the more they fell in value, the more Goldman was able to maximize the profits from its short position in the CDO. Goldman's dual roles as liquidation agent and short party, thus, created a conflict of interest that disadvantaged the long investors in the Hudson CDO, such as Morgan Stanley.[2604]

[2602] Id.

[2603] See, e.g., 1/16/2008 email from Nicole Martin to Mr. Lehman, GS MBS-E-022164848.

[2604] Due to the extensive losses experienced by Hudson 1, by January 2008, Morgan Stanley was likely the only long investor whose investment was not completely extinguished.


Weighted Average Levels
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Level
Anderson
Hout Bay
Hudson High Grade
Hudson Mezz 1
Hudson Mezz 2
7/16/2007
8/15/2007
9/14/2007
10/14/2007
11/13/2007
12/13/2007
Date

Morgan Stanley personnel expressed increasing frustration with Goldman's failure to liquidate the Hudson Credit Risk Assets, in both internal communications and with Goldman representatives. On January 16, 2008, for example, the key trader on Morgan Stanley's Proprietary Trading Desk dealing with Hudson wrote to a colleague: "Had another call with [Goldman's] sr. trader about GS's liquidation agent role in the $1.2bn HUDSON deal. They insist they are NOT acting as a fiduciary per the docs in this deal."[2605] On February 5, he sent Mr. Lehman an email: "[P]lease call when possible - $969mm now eligible to be liquidated post S&P do[w]ngrades."[2606]

On February 6, the Morgan Stanley trader wrote to a colleague:

> "[W]ent down the road with Goldman on liquidation agent assets (now ~$1bb of eligible assets post downgrades). They told me they will 'continue to take my opinion under advisement' but provided no course of action. I broke my phone. Will talk to [Morgan Stanley legal counsel] tomorrow but don't think there is any probable way for us to force them to liquidate assets."[2607]

On February 7, the Morgan Stanley trader sent another email to Mr. Lehman:

> "Spoke with Ben [Case] re: Hudson today.
> Goes without saying I remain very frustrated by the way GS is handling the liquidation agent role. There is almost $1bb of eligible assets in that deal now, every one of which has lost value since it was downgraded.
> No good reason to wait other th[a]n to devalue our position. It's a shame .... [O]ne day I hope I get the real reason why you are doing this to me."[2608]

According to Morgan Stanley, Goldman continued to explain its seven-month delay in liquidating the Credit Risk Assets by asserting that the market would rebound during a rally to cover shorts, and it should wait to liquidate until asset prices rose. In a February 13, 2008 telephone call between Morgan Stanley and Goldman, for example, which was recorded and transcribed, Mr. Case stated:

> "So I think, as we see the short covering wave kind of continue to proceed ... it's gonna get to the point where it's in the best interest of the deal to start liquidating then. ... I know we've talked about this twelve month period ... it doesn't seem like it's gonna take till late in the twelve month process for the majority of these assets to get to that point."[2609]

Morgan Stanley asked if there was anything beyond the "technical nature of the markets," such as government intervention, to produce "any kind of real pop" that would improve the underlying

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[2605] 1/16/2008 email from John Pearce of Morgan Stanley to Michael Petrick, HUD-CDO-00004851.
[2606] 2/5/2008 email from Mr. Pearce to Mr. Lehman and Nicole Martin, HUD-CDO-00004852.
[2607] 2/6/2008 email from Mr. Pearce to Michael Petrick, HUD-CDO-00005146.
[2608] 2/7/2008 email from Mr. Pearce to Mr. Lehman, HUD-CDO-00005147.
[2609] Transcript of 2/13/2008 telephone call between Morgan Stanley and Goldman, HUD-CDO-00006894. See also 2/28/2008 email from Sue Fertel-Kramer to Mr. Case and others, GS MBS-E-021881029.

fundamentals in the mortgage market. Mr. Case responded: "The chance that it could move in that direction, at least in the next few months . . . is de minimis I'd say."[2610] During the call, Morgan Stanley's representative again urged Goldman to begin the liquidation process: "Just so you know, my opinion stays the same, I'd like to see a bid list before three o'clock today."[2611]

Morgan Stanley told the Subcommittee that the Hudson assets had been in near continuous decline, and Goldman's refusal to liquidate assets shortly after they became Credit Risk Assets allowed them to decline further, rather than limiting losses for bondholders. By February 21, 2008, Morgan Stanley had calculated that the liquidation delay had cost it $130.5 million; the next week it calculated the losses had increased to $150 million.[2612]

Morgan Stanley told Goldman that by delaying the liquidation of the Credit Risk Assets, Goldman was in violation of the terms in the Hudson 1 offering circular, in particular the provision: "The Liquidation Agent will not have the right, or the obligation, to exercise any discretion with respect to the method or the price of any assignment, termination or disposition of a ... Credit Risk Obligation."[2613] On February 29, 2008, Morgan Stanley sent Goldman a letter demanding that it immediately initiate liquidation of $1 billion in Hudson Credit Risk Assets:

> "As Liquidation Agent, [Goldman] is currently responsible for liquidating approximately $1,000,000,000 of Credit Risk Obligations. The transaction documents clearly state that [Goldman] would not exercise investment discretion in its role as Liquidation Agent. [Goldman] has not yet liquidated a single Credit Risk Obligation, notwithstanding that some date back to August of 2007. The [Goldman] employee handling the liquidation has explained this by stating that he believes the price for these obligations will increase in the future and it is better for the deal to liquidate these obligations at a later date. ...
>
> The Liquidation Agency Agreement states that "the Liquidation Agent ... **shall not provide investment advisory services to the Issuer or act as the "collateral manager" for the Pledged Assets**. ...
>
> While the Liquidation Agency Agreement provides that the Liquidation Agent must complete the process of liquidating the relevant assets within twelve months, it does not provide the Liquidation Agent with any right to delay the liquidation process based on the exercise of Investment discretion. To the contrary, the Liquidation Agency Agreement and the [Offering Circular] clearly state that no discretion or investment advisory services are ever to be provided by the Liquidation Agent."[2614]

[2610] Transcript of 2/13/2008 telephone call between Morgan Stanley and Goldman, HUD-CDO-00006894.

[2611] Id.

[2612] 2/21/2008 email from Vanessa Vanacker to Mr. Pearce, HUD-CDO-00004882. 2/29/2008 letter from Morgan Stanley to Goldman, HUD-CDO-00006877.

[2613] 12/3/2006 Hudson Mezzanine 2006-1, LTD. Offering Circular, section entitled, "Disposition of CDS Transactions by the Liquidation Agent Under Certain Circumstances," GS MBS- E-021821196 at 241. See 2/29/2008 letter from Morgan Stanley to Goldman, HUD-CDO-00006877.

[2614] 2/29/2008 letter from Morgan Stanley to Goldman, HUD-CDO-00006877 [emphasis in original].

Morgan Stanley concluded by "demanding only that [Goldman] fulfill its contractual duties as required by the Liquidation Agency Agreement and assign, terminate or otherwise dispose of the relevant CDS transaction forthwith."

On March 10, 2008, Goldman responded:

> "[Y]our letter is entirely mistaken in its suggestion that Goldman Sachs has somehow breached its obligations under the Liquidation Agency Agreement. As [Morgan Stanley's] letter recognizes, Section 2(b) of the Liquidation Agency Agreement specifically provides that Goldman, acting as Liquidation Agent, has up to twelve months in which to assign, terminate or otherwise dispose of Credit Risk Obligations assigned to it for that purpose. Obviously, establishment of a liquidation period of that duration contemplates - and, indeed, embodies Hudson's informed consent - that the Liquidation Agent will necessarily exercise judgement in determining when and how to dispose of Credit Risk Obligations assigned to it for that purpose. ...
>
> Nor does this expressly intended contractual latitude transform Goldman Sachs into a *de facto* 'investment adviser' to Hudson, as you suggest. The Agreement ... in fact categorically disclaims that Goldman Sachs or its affiliates will be providing investment advisory services or otherwise acting as an adviser or fiduciary to Hudson by virtue of its liquidation services. That disclaimer is perfectly consistent with discretion routinely accorded to securities brokers in seeking to fulfill their obligation to obtain the best execution possible for their clients without making them 'investment advisors.'"[2615]

Several days before Goldman's response letter was sent to Morgan Stanley, however, Goldman began liquidating the Credit Risk Assets in Hudson 1. On March 7, 2008, Goldman liquidated eight assets, followed by more on March 20 and 28, liquidating nearly one third of the eligible assets over the course of the month.[2616] In its role as liquidation agent, Goldman was required to solicit bids from at least three independent dealers for the Credit Risk Assets, and Morgan Stanley was given an opportunity to bid on many of the liquidated assets.[2617] Liquidation proceeded over the next two months, from April through June.[2618] On July 22, 2008, Hudson's realized losses exceeded $800 million, and Hudson 1 went into default. Hudson's remaining assets

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[2615] 3/10/2008 letter from Goldman to Morgan Stanley, HUD-CDO-00006881. The letter also states: "Morgan Stanley's lack of standing even to advance many positions that are within the exclusive province of Hudson, and the preclusive effect on Morgan Stanley's contentions of the Agreement's broad exculpation and conflict waiver provisions provide sufficient response."

[2616] See 3/27/2008 email from Morgan Stanley to Goldman, HUD-CDO-00004378. On March 24, 2008, Goldman offered to unwind the Hudson 1 trade with Morgan Stanley by paying it 9% of the face (par) value of the Hudson securities. 3/24/2008 email from Goldman to Morgan Stanley, GS MBS-E-022012805.

[2617] See, e.g., 3/27/2008 email from Morgan Stanley to Goldman, HUD-CDO-00004378. See also 3/20/2008 email from Mr. Case, GS MBS-E-021880596.

[2618] See 6/6/2008 letter from Goldman as liquidation agent, "Hudson Mezzanine Funding 2006-1, Ltd. - Certain Dispositions of Assets," HUD-CDO-00003155.

were liquidated in November 2008. Morgan Stanley's losses from its Hudson investment exceeded $930 million.[2619]

Analysis. In several of the CDOs it constructed, Goldman established a new position of liquidation agent and appointed itself to play that role for a substantial fee. In the case of Hudson 1, by taking on the role of liquidation agent at the same time it was the sole short party in the CDO, Goldman created a conflict of interest. When the Hudson 1 assets began falling in value, the long investors wanted the poorly performing assets liquidated as soon as possible; Goldman, on the other hand, benefitted financially the farther the assets fell in value since that allowed Goldman to maximize the value of its short position.

Goldman delayed liquidating the Credit Risk Assets, despite urgent requests from the largest Hudson investor, Morgan Stanley, placing its own financial interests ahead of the client to whom it had sold a $1.2 billion Hudson investment.

BB. Collateral Put Provider in Timberwolf

The second example of a conflict of interest affecting how Goldman carried out a CDO administrative function involves Goldman's role as the collateral put provider in Timberwolf I. Synthetic CDOs like Timberwolf collected cash from the long investors that purchased its securities as well as from the short parties that paid CDS premiums to the CDO. A portion of the cash collected from the long investors was placed by the CDO into a "default swap collateral account" to be used if the CDO performed poorly and payments had to be made to the short parties.[2620] At one time, many CDOs used the cash in the default swap collateral account to purchase Guaranteed Investment Contracts (GICs), which guaranteed repayment of the principal and a fixed or floating interest rate for a fixed period of time. But in the years leading up to the financial crisis, CDO issuers sought to use the cash in the default swap collateral account to make investments that generated higher returns, in order to improve financial performance, obtain better credit ratings, and attract investors. To obtain those higher returns, CDO issuers began to invest the incoming cash in "default swap collateral securities."

Goldman's synthetic CDOs generally invested in default swap collateral securities, and its CDO agreements typically set out parameters for the types of default swap collateral securities that could be purchased with investor funds, often requiring them to be high quality, low risk, liquid

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[2619] See 11/21/2008 letter from Goldman to Morgan Stanley, HUD-CDO-00005125.

[2620] The amount of assets in the default swap collateral account was required to equal the total face ("notional") value of the CDS entered into by the CDO. This arrangement provided assurance to the short parties that funds would be available if and when payments were due to them under the CDS. CDO agreements often required that the cash placed in the default swap collateral account be kept in very secure, short term, cash-like instruments such as Treasury notes or Certificates of Deposit (called "Eligible Investments") until the cash was used to acquire default swap collateral or make payments to a short party. If any credit event resulted in payments from the default swap collateral account to the short parties under the CDS contracts, the long parties might not receive all of their principal investment at the maturity of the deal.

investments.[2621] If the CDO had a collateral manager, the manager often selected the CDO's default swap collateral securities. The returns earned by the default swap collateral securities often became an important component of the CDO's income. The principal proceeds of the default swap collateral securities were typically re-invested in similar securities until the CDO matured or the proceeds were needed to make payments to short parties.

Goldman's Dual Roles. In its synthetic CDOs, Goldman often took on two roles that affected the default swap collateral securities, acting as both the CDO's primary CDS counterparty[2622] and its collateral put provider. Goldman's synthetic CDOs typically followed industry practice by making one entity the sole counterparty for all of the CDS contracts issued by the CDO. In Goldman CDOs, that party was generally Goldman Sachs International (GSI), a United Kingdom subsidiary that was wholly owned by Goldman. Typically, GSI was the sole party that entered into a CDS contract directly with the domestic and offshore companies that served as the issuers of the CDO's securities (hereinafter collectively referred to as the "Issuer").[2623] GSI then acted as an intermediary for the Issuer by entering into a corresponding CDS contract with each party seeking to take a short position in the CDO. By inserting itself into the middle of the CDS transactions, GSI put Goldman's financial standing behind the CDS contracts issued by the Issuer and improved the credit ratings assigned to and investor confidence in the CDO. If a credit event later took place, the Issuer was responsible for making payments to GSI, and GSI, whether or not it received sufficient payments from the Issuer, was responsible for making the payments owed to the short parties in the corresponding CDS contracts. Sometimes, instead of contracting with a third party, GSI kept some or all of the short positions in the CDO on behalf of Goldman itself.

By acting as the primary CDS counterparty, GSI necessarily took the short side of each CDS contract it entered into with the Issuer. Those CDS contracts typically provided that, in the event of a specified credit event that required payment to GSI, GSI could collect a specified amount of funds from the Issuer. The Issuer paid its obligations to GSI by first drawing down any available cash in the default swap collateral account. If that cash was insufficient, GSI also had the right to identify one or more of the default swap collateral securities that together had a face (par) value equal to the amount owed to GSI. Those securities could then be sold and the sale proceeds used to

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[2621] The parameters governing the type of default swap collateral securities that could be purchased with investor funds were generally outlined in the CDO agreement documents and offering memorandum. Typical criteria included: a AAA credit rating; a yield slightly greater than LIBOR; limitations on the maturation dates of the securities; and limited exposure to a single counterparty. Generally, the CDO agreement required that some of the default swap collateral be retained in Eligible Investments in order be able to fulfill any obligations or payments due in the short term. In CDOs reviewed by the Subcommittee, the default collateral securities were sometimes RMBS or CDO securities bearing AAA ratings. These securities often lost substantial value which the collateral put provider then had to absorb.

[2622] The Timberwolf Indenture agreement referred to this role as the "Synthetic Security Counterparty." See 3/27/2007 Timberwolf I, LTD. Indenture Agreement, at § 12.5(b), GS MBS-E-021825583 at 711.

[2623] Typically a shell company incorporated in a foreign jurisdiction (often the Cayman Islands) and a shell company incorporated in the United States (often Delaware) served as the "Issuer" and "Co-Issuer," respectively of the CDO. Generally, the financial institution that was underwriting the CDO, in this case Goldman, would arrange for the establishment of those entities. For simplicity, this section will refer to both companies as the "Issuer" of the CDO securities.

satisfy the amount owed to GSI under the CDS contracts.[2624] GSI would then use the cash it received from the sale proceeds to pay off the short parties in the corresponding CDS contracts. Since GSI's financial obligations under the CDS contracts were dependent in part upon the quality of the default swap collateral securities, Goldman provided in the CDO agreement that those securities could be purchased only with the prior "consent" of GSI. This arrangement enabled Goldman to exert control over the selection of the default swap collateral securities.

In addition to acting as the primary CDS counterparty in the CDOs it constructed, Goldman often acted as the CDO's default swap collateral put provider (hereinafter "collateral put provider"). The collateral put provider essentially guarantees the face (par) value of the CDO's default swap collateral securities.[2625]

Since GSI was already acting as the primary CDS counterparty, the CDO indenture agreement typically provided that, if the market value of any default collateral security selected by GSI to satisfy an amount owed to GSI fell below its face (par) value, then GSI suffered the market risk, and could not recover additional funds from the Issuer to make up for the security's loss in value. GSI was still responsible, however, for making full payments to the short parties in the corresponding CDS contracts. This arrangement functioned effectively as a "put" agreement that guaranteed the face (par) value of the default swap collateral securities, and Goldman treated the arrangement as a put agreement.

Due to the dual roles played by GSI in its CDOs, many of Goldman's CDO indenture agreements did not contain an explicit put agreement, but simply constructed GSI's CDS contracts to include the provisions that achieved the same result. For example, the Timberwolf Indenture agreement specified that the primary CDS counterparty in its CDS contract – GSI – bore the market risk associated with any default swap collateral sold to satisfy an obligation to that counterparty.[2626] In exchange for bearing the risk of not receiving the full payment owed to it from the sale of the default swap collateral securities, GSI received a discount – typically equal to 5 basis points – on the premiums GSI paid to the Issuer under the primary CDS contract. In a CDO deal of $1 billion, the premium discount would yield a "fee" of approximately $500,000.[2627] In most cases, however,

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[2624] Another option was for Goldman to take physical possession of the security.

[2625] In a typical put agreement, the put provider guarantees to pay to the put purchaser the face (par) value of a specified security upon delivery of the security, or pay to the put purchaser the difference between the security's par value and actual market price when sold. In exchange for that protection, the put purchaser typically pays a fee to the put provider. In many of the CDS contracts associated with synthetic CDOs, as described above, GSI fulfilled the role of a put provider, by absorbing any shortfall between the face (par) value and market price of any default swap collateral securities sold to pay amounts owing to the short party in the CDS contract.

[2626] See 3/27/2007 Timberwolf I, LTD. Indenture Agreement, at § 12.5(b), GS MBS-E-021825583 at 712. For accounting purposes, Goldman established a CDO Put Reserve, to account for potential losses that might result from its role as a collateral put provider in CDOs.

[2627] Any subsequent losses resulting from Goldman's role as the collateral put provider would reduce the profit resulting from that fee. In responses to Subcommittee questions for the record regarding 7 CDOs (Fort Denison, Camber 7, Timberwolf, Anderson Mezzanine, Point Pleasant, Hudson Mezzanine 2006-1, and Hudson Mezzanine 2006-2), Goldman reported that for most of the CDOs, the net profit was less than $500,000. One exception was Hudson Mezzanine 2006-1, which yielded a profit of approximately $1 million. See Goldman response to

the CDO indenture agreements did not specifically cite the connection between GSI's bearing the market risk of the default swap collateral sales and receiving a CDS premium discount. The CDO agreements simply included a reduced premium payment by GSI under the primary CDS contract with the Issuer.[2628]

Timberwolf Conflict of Interest. In the Timberwolf CDO, GSI acted as both the primary CDS counterparty and the collateral put provider. Documents provided to the Subcommittee show how these dual roles created a conflict between Goldman and the Timberwolf long investors, and how Goldman reacted by placing its interests before those of the clients to whom it had sold the Timberwolf securities.

In 2007, as the mortgage market deteriorated, the value of many types of default swap collateral securities also declined. Goldman became concerned that if the market value of the securities fell below par and a credit event occurred, those securities would provide insufficient funds to pay the amounts owed to GSI under its primary CDS contract with the Issuer. In addition, Goldman knew that the more the default swap collateral securities fell in value, the more of a shortfall Goldman would have to make up if GSI had to make payments to other short parties. Goldman wanted to maximize the value of the default swap collateral and what would be available

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Subcommittee QFR at PSI_QFR_GS0249. For another CDO, Broadwick, Goldman also projected that the premium discount would yield a profit of more than $1 million, less any costs it might have to absorb in its role as put provider. See 4/12/2006 email from Peter Ostrem to John Little and Robert Leventhal, GS MBS-E-010808964 at 66-67 ("Can we agree on how we want to treat P&L [profit and loss] on Peloton relative to the put swap? We expect P&L of over $1mm [million] for the 5bp [basis point] reduction in the CDS premiums. ... I propose we separately book the put swap at close to zero (contingent MTM risk on 2 yr AAA diversified portfolio where Goldman retains selection optionality seems low), but we are open to booking 1bp in negative put cost (i.e., -$200k)."). In some other CDOs, the projected put fee was about $500,000.

[2628] Timberwolf used this reduced premium approach, but in a few other instances, such as Hudson Mezzanine 2006-1 and Point Pleasant, Goldman received a direct fee for acting as the collateral put provider. Goldman representatives told the Subcommittee that, because the put fee was "embedded" in the CDS agreement in some of the CDOs, Goldman's operations group sometimes overlooked and failed to "book" the profit and loss associated with those put arrangements. When this oversight was discovered in 2007, Goldman identified 18 CDO put arrangements that had not been identified and accounted for in Goldman's books. See 6/28/2007 email from Carly Scales to Phil Armstrong and Steve Schultz, GS MBS-E-015192547:

- "Current Put Option Booking State: 22 Deals with the Put Option Feature
- 4 Deals that do have a Put Option Booked:
  - For these trades, Ops [the operations group] knew about the Put as there was a confirmation and a trade booked. ...
- 18 Deals that do not have a Put option Booked:
  - For these deals, there was no mention of a Put at all at the time of closing. ...
  - The Put option was embedded into the deal documents (Indenture, Offering Circular, etc – both of which are reviewed by outside counsel and GS legal as a normal course of business – but are not reviewed by Operations.)
  - For these trades, an intermediation fee was being taken on the CDS trades, but no specific Put was booked in our systems.
  - The original explanation from the desk was the intermediation fee was being taken for the risks associated with standing in between the Street and the deal with no mention of the Put."

to make all of the payments needed pursuant to Goldman's own short positions as well as any payments it would need to make to other short parties.

In the late spring of 2007, Goldman began to closely monitor the value of the default swap collateral securities in its synthetic CDOs.[2629] On June 20, 2007, Matthew Bieber, a Goldman employee on the CDO Origination Desk and the deal captain of the Timberwolf CDO, sent an email to his colleagues requesting information on CDOs that Goldman had "significant exposure to in terms of default swap collateral."[2630] Mr. Bieber identified 17 possible CDOs where the default swap collateral securities may have lost value and stated: "we need to get Dan [Sparks, the Mortgage Department head,] a list this morning."[2631] When asked about this email, Mr. Bieber told the Subcommittee that he did not recall why he had sent it or why he had to deliver the list to Mr. Sparks that same day, but he said he did recall that the decline in the value of the default swap securities was an issue.[2632] In response to the email, Goldman employees associated with the various CDOs submitted lists of the existing default swap collateral securities with their par and market values.

As the mortgage market worsened, Goldman's attention to the value of the default collateral securities increased. On July 18, 2007, the Goldman Credit Department sent an email to Mr. Bieber indicating that Goldman had large, valuable short positions in six of the CDOs it had originated, but that the department needed to monitor the value of the default swap collateral securities in each CDO to understand Goldman's "exposure" under the CDS contracts:

> "From our discussion earlier today, we were able to verify the MTM [mark to market] exposures on the below CDOs against what we have in our credit systems (they are in fact as large as we mentioned). Our next step is understanding how the collateral pools are performing in each of the deals. Would you be able to give us a summary of the current marks and default writedowns for the below deals? This would help us in monitoring the collateralization in relation to our exposure from CDS."[2633]

The next day, July 19, 2007, Mr. Bieber informed David Lehman, who then oversaw Goldman's CDOs, that the Credit Department had asked the ABS Desk in the Mortgage Department to "mark" the value of all of the default swap collateral securities in the Goldman-originated CDOs

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[2629] One reason Goldman was so concerned about the value of the default swap collateral securities was because those securities included AAA rated RMBS securities whose values were declining in line with the entire mortgage market.

[2630] 6/20/2007 email from Matthew Bieber to Goldman colleagues, GS MBS-E-001912772 ("Below are the deals I recall us having significant exposure to in terms of default swap collateral. Who is responsible for each of the deals? We need to get Dan a list this morning. If there are any missing, please let me know.").

[2631] Id. Mr. Bieber listed the following CDOs: Adirondack 1; Adirondack 2; Coolidge Funding; Broadwick; Hudson High Grade; Hudson Mezzanine 1; Hudson Mezzanine 2; Fortius I; Fortius II; Camber 7; Hout Bay; Point Pleasant; Timberwolf; Anderson Mezzanine; Altius I; Altius III; and Altius IV.

[2632] Subcommittee interview of Matthew Bieber (10/21/2010).

[2633] 7/18/2007 email from Alfa Kiflu, GS MBS-E-001866507. The six CDOs in which Goldman had large short positions were: Hudson Mezzanine 1; Timberwolf; Camber 7; Hudson Mezzanine 2; GSC ABS Funding 2006-3G; and Anderson Mezzanine.

to "get a sense of the MV [market value] supporting the deals['] obligation to pay us, if necessary."[2634]

Later that same day, another Credit Department official sent an email message to Mr. Lehman similar to the one that had been sent to Mr. Bieber:

> "We understand that you are responsible for marking the collateral in relation to the below CDOs. Is that true? If so, can you please put us on your distribution list for these. We have some sizeable in the money swap positions (i.e. cdo owes GS) and Credit needs to monitor these positions vs. collateral market value."[2635]

With respect to Timberwolf, on July 25, 2007, Fabrice Tourre, a Goldman employee on the Mortgage Department's Correlation Trading Desk, circulated an internal Goldman analysis showing that the weighted average value or "mark" of Timberwolf's default swap collateral securities had declined over 3%.[2636] During the same period, the value of Goldman's short position had increased. Mr. Tourre suggested to his colleagues that as Timberwolf's default swap collateral securities matured, the resulting cash proceeds should not be re-invested in new securities, but instead be retained as cash:

> "We need to start monitoring MtM [mark to market value] of the CDS collateral for the Wolf, given how much in the money the CDS are - right now, average bid side for the AAA cash bonds is approx 96.89 - per Mahesh analysis below. Matt/Mehesh - maybe we should look at the collateral reinvestment provisions in this deal - ideally principal proceeds on the CDS collateral should not be reinvested but I guess Greywolfe [sic] has discretion on this, right?"[2637]

In response, Mr. Bieber noted that the same situation applied to all of Goldman's CDOs; the declining value of the default swap collateral securities was increasing Goldman's exposure, and a weekly monitoring program was being set up. He also noted that it would be difficult for Goldman to oppose re-investment of the cash proceeds from maturing securities across the board:

> "CDS across all of our transactions are in the money. We've had conversations at length with credit regarding our exposure to the default swap collateral and are setting ourselves up for weekly monitoring/pricing of the default swap collateral across the cdo business.
>
> "We have discretionary approval over default swap collateral, however, it will be difficult for us to take the non-reinvestment approach."[2638]

[2634] 7/19/2007 email from Matthew Bieber to David Lehman, GS MBS-E-011178225.
[2635] 7/19/2007 email from Patrick Welch, GS MBS-E-001866507.
[2636] 7/25/2007 email from Fabrice Tourre, GS MBS-E-001989091.
[2637] Id. Greywolf Capital was the collateral manager of the Timberwolf CDO.
[2638] 7/25/2007 email from Matthew Bieber, GS MBS-E-001989091.

The next day, on July 26, 2007, the collateral manager of one of Goldman's CDOs sought approval to purchase some new default swap collateral securities. A Goldman employee responded: "We are going to pass on this bond. Given current market conditions, we'd like to keep some cash in the default swap collateral."[2639] A few days later, after receiving more requests to approve the purchase of new default swap collateral securities, Mr. Bieber asked Mr. Lehman for a meeting to discuss how to proceed:

> "Have gotten several requests today for reinvestment (Greywolf on TWOLF and TCW on DS7 [Davis Square 7]). Would like to sit down this evening to discuss how we're going to respond as this comes up."[2640]

In early August, Goldman conducted an internal analysis to assess the decrease in the return to the CDOs if the default swap collateral was kept in cash rather than re-invested in securities.[2641] As expected, that analysis showed that using the cash in the default swap collateral account to buy new securities would yield a larger return and more money for the CDO investors.[2642] But buying new securities also meant that Goldman, as the primary CDS counterparty and collateral put provider, would bear the risk if those securities later declined in market value. If the securities' market value fell below their par value, but had to be sold to make payments to the CDOs' short parties, Goldman would have to absorb any shortfall in the course of making the required payments to the short parties. Goldman's risk would be mitigated, however, if the default swap collateral was kept in cash, since cash is not subject to the same market fluctuation. The result was that Goldman benefitted more if the CDO default swap collateral was kept in cash, but the CDO investors benefitted more if the collateral was kept in securities. In short, what was best for Goldman clashed with what was best for the investors to whom Goldman had sold the Timberwolf securities.

Subsequent documents show that Goldman placed its financial interests before those of the CDO investors by taking actions to keep the CDO default swap collateral in cash, rather than securities. On August 21, 2007, Mr. Bieber sent an email to Mr. Lehman asking about what Goldman had decided regarding re-investment of the cash collateral: "Was there any further discussion over the past few days on what were going to be doing? With the 25th coming up, I suspect a bunch of managers are going to be looking to put cash to work."[2643] Mr. Lehman responded: "Nothing further - I think our gameplan remains to build cash for now." Mr. Bieber replied: "Ok. I think we should be proactive in letting managers know, then, rather than waiting for them to come to us for approval and then denying." Mr. Lehman agreed.

[2639] 7/26/2007 email from Shelly Lin, GS MBS-E-015232129.

[2640] 7/30/2007 email from Matthew Bieber to David Lehman, GS MBS-E-001867239.

[2641] See 8/6/2007 email from Connie Kang to David Lehman, GS MBS-E-001992556; 8/9/2007 email from Mahesh Ganapathy to David Lehman, Matthew Bieber, and Jonathan Egol, GS MBS-E-001930307; 8/12/2007 email from Mahesh Ganapathy to David Lehman and Matthew Bieber, GS MBS-E-001930343; 8/13/2007 email from Mahesh Ganapathy to Matthew Bieber, David Lehman, and Jonathan Egol, GS MBS-E-001930571.

[2642] In addition, since the yield of most default swap collateral securities was linked to their "face (par) value," when the same securities could be obtained at a price lower than their par value, their yield (return on investment) increased as long as they continued to meet their scheduled principal and interest payments. This was another potential benefit to the long investors which conflicted with the interest of Goldman, the short party.

[2643] 8/21/2007 email from Matthew Bieber to David Lehman, GS MBS-E-011273913.

Greywolf Objections. Over the next three or four weeks, Goldman continued to refuse to consent to the purchase of new default swap collateral securities by the collateral managers of its CDOs.[2644]

At first, Goldman delayed telling Greywolf, Timberwolf's collateral manager, what it had decided. In late August and early September, Joseph Marconi, a Greywolf executive, former Goldman employee, and key member of the Greywolf team managing Timberwolf, sent Goldman several requests to buy new default swap collateral securities, without receiving a response. On September 6, 2007, a Goldman employee on the CDO Origination Desk forwarded one of the requests to Mr. Bieber with the comment: "Guess we can't delay talking to him anymore."[2645] Mr. Bieber informed Mr. Marconi that Goldman would no longer approve the purchase of additional default swap collateral securities for Timberwolf. When informed of Goldman's decision, Mr. Marconi protested in an email to Mr. Lehman, who was Mr. Bieber's supervisor:

> "David: I would like to have a call with you to discuss the purchase of Default Swap Collateral into Timberwolf. I understand you are traveling this week. Let me know when you will have some time to talk. In response to the attached message, Matt [Bieber] told me that GS will not approve the purchase of any additional Default Swap Collateral into Timberwolf. While GS does have consent rights regarding the purchase of Default Swap Collateral, a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf. Give me a call when you can."[2646]

When asked by Subcommittee what he meant when he wrote that "a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf," Mr. Marconi explained that if Goldman wouldn't approve any new purchases as the default swap collateral securities matured, the CDO would have an increasing amount of cash on hand that would produce less income for Timberwolf than if that cash were invested in new securities.[2647]

Later on September 6, 2007, Mr. Lehman telephoned and spoke with Mr. Marconi. Neither he nor Mr. Marconi recalled exactly what was discussed, but the following day Mr. Marconi sent Mr. Lehman an email that repeated Greywolf's objections to Goldman's decision not to consent to the purchase of new default swap collateral securities:

[2644] See 9/21/2007 email from Marty Devote of Aladdin Capital Management to Benjamin Case, GS MBS-E 022138816 ("We, at the direction of Connie and Roman [Goldman employees], have not been reinvesting CDS collateral as it matures. We've brought the topic up a few times over the past few months with your team. Last I heard, you were re-evaluating the market, and would come back to us with a breakdown of acceptable replacements. As the cash balances continue to grow, I'd like to address this issue, as the amount of cash drag is beginning to become meaningful.").

[2645] 9/6/2007 email from Roman Shimonov to Matthew Bieber, GS MBS-E-000765873.

[2646] 9/6/2007 email from Joe Marconi to David Lehman, GW 107909.

[2647] Subcommittee interview of Joseph Marconi (Greywolf Capital) (10/19/2010).

> "David: As we discussed yesterday, I believe that your refusal to approve the purchase of any additional Default Swap Collateral into Timberwolf is unreasonable and inconsistent with the way the transaction structure was originally presented to us. We were told that the purpose of the approval rights was to permit GS to review specific assets and approve or disapprove specific assets based on their relative credit merits. If we thought for a second that you had the right to prohibit all new purchases indefinitely, we would have implemented the much simpler GIC [Guaranteed Investment Contract] structure that is used in most other synthetic CDOs and CDO^2 transactions and thereby locked in a fixed spread to LlBOR for the term of our transaction. Also, the Timberwolf CDS economics include an ongoing fee to GS for the put swap component of the trade; we would not have agreed to those terms if we thought you had this option. Finally, I believe that if anyone on the deal team thought you had this option, it would have been clearly disclosed in the OM [Offering Memorandum]. Especially given current market conditions, I am surprised that you are taking a position that will directly result in less cash flow being available to debt and equity investors. As I said yesterday, we recognize the impact of current market conditions and, even before I spoke with Matt, I was suggesting we collectively focus on shorter average life AAA RMBS for the deal and I specifically solicited feedback on securities where GS would be comfortable. I continue to be surprised by your response."[2648]

When asked by the Subcommittee why he sent such a strongly worded email to Goldman regarding its refusal to approve the reinvestment of Timberwolf's cash collateral, Mr. Marconi responded: "We felt strongly about this. We had an obligation to investors to do the right thing."[2649]

Mr. Marconi told the Subcommittee that Goldman had rationalized its decision by contending that it was less risky to have more cash and fewer securities. Mr. Marconi also told the Subcommittee that Greywolf felt Goldman's blanket refusal to approve the purchase of additional securities was inconsistent with the terms of the CDO, and if anyone at Greywolf had believed that Goldman possessed that authority, Greywolf would have structured the deal differently.[2650] In addition, Mr. Marconi's September 6 email pointed out that Goldman was receiving an "ongoing fee" to serve as the collateral put provider and undertake the risk of guaranteeing the par value of the default swap collateral securities. The email stated that Greywolf would not have agreed to pay that fee to Goldman if it had thought Goldman could use its approval authority to stop the purchase of all default swap collateral securities and mitigate the risk it was being paid to bear.

The exchanges between Greywolf and Goldman brought into question the proper interpretation of Section 12.5 of the Timberwolf Indenture agreement which required the CDO to purchase default swap collateral which satisfied certain criteria and which received the "consent" of and was not "objected to" by Goldman as the "Synthetic Security Counterparty."[2651] The issue was

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[2648] 9/7/2007 email from Joe Marconi to David Lehman, GW 107909.

[2649] Subcommittee interview of Joseph Marconi (Greywolf Capital) (10/19/2010).

[2650] Id.

[2651] Section 12.5(b) of the Timberwolf Indenture agreement stated: "The Synthetic Securities shall be structured as 'pay-as-you-go' credit default swaps. As part of the purchase of each Synthetic Security on or before the Closing Date, the Issuer will be required to purchase Default Swap Collateral which satisfies the Default Swap Collateral

whether that authority allowed Goldman to block the purchase of all default swap collateral securities and essentially limit the default swap collateral to cash. In a July 2007 email, Mr. Bieber wrote: "We have discretionary approval over default swap collateral, however, it will be difficult for us to take the non-reinvestment approach."[2652] But when the Subcommittee asked about the matter, Goldman's legal counsel sent a written statement indicating the Indenture agreement authorized Goldman's actions:

> "Section 12.5 of the Indenture for the Timberwolf CDO confers on the Secured Party the right to consent to the selection and reinvestment of default swap collateral. It is the position of Goldman Sachs that neither Section 12.5 of the Indenture nor any other relevant deal documents impose any obligation on the Secured Party to consent to reinvestment of default swap collateral, either on a case-by-case basis or generally."[2653]

Goldman's internal documents show that on September 7, 2007, the day after the email exchange between Mr. Marconi and Mr. Lehman, Mr. Bieber scheduled a meeting with Goldman's legal counsel and a key compliance officer to discuss the issue. His email stated:

> "Pls see email we received below - - wanted to get your take on what response (if any) we should craft. This is related to the default swap collateral account in Timberwolf used to collateralize the exposure we have to the CDO on the CDS contracts that are the assets in TWOLF."[2654]

The meeting was scheduled for 1:15 p.m. that same day,[2655] and one of the counsels requested a copy of the Offering Memorandum and "the operative documents that contain our rights/obligations with respect to the Collateral."[2656]

The Subcommittee did not locate any documents recounting exactly what was discussed at the meeting. The default swap collateral issue involved a significant number of Goldman CDOs, affected Goldman's relationships with investors and other financial firms serving as collateral managers of its CDOs, and entailed substantial financial risk for Goldman. Yet, when asked about

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Eligibility Criteria set forth in the related Synthetic Security and the inclusion of which has been consented to by the Synthetic Security Counterparty in the amount required to secure the obligations of the Issuer in accordance with the terms of the related Synthetic Security which shall be in at least an amount equal to the Aggregate Reference Obligation Notional Amount. The Synthetic Security Counterparty shall have consent rights with respect to the Default Swap Collateral and no Default Swap Collateral objected to by the Synthetic Security Counterparty may be purchased by the Issuer. Default Swap Collateral shall be credited to the Default Swap Collateral Account. The amount payable by the Issuer to the Synthetic Security Counterparty under a Synthetic Security shall not exceed the Default Swap Collateral." 3/27/2007 Timberwolf I, LTD. Indenture Agreement, GS MBS-E-021825583 at 711.

[2652] 7/25/2007 email from Matthew Bieber, GS MBS-E-001989091.

[2653] 1/7/2011 email from Goldman counsel to the Subcommittee.

[2654] 9/7/2007 email from Matthew Bieber to Tim Saunders, Susan Helfrick, and Jordan Horvath, GS MBS-E-021881077.

[2655] Id.

[2656] 9/7/2007 email from Susan Helfrick to Matthew Bieber, Tim Saunders, and Jordan Horvath, GS MBS-E-021881084.

it, the key participants said they could not recall whether the meeting took place, what was discussed at the meeting if it did take place, or what determinations were reached regarding Goldman's authority or actions. The participants who could not recall the meeting included Mr. Bieber, the Timberwolf deal captain; Tim Saunders, counsel from Goldman's legal department; Susan Helfrick, another legal counsel; and Jordan Horvath, the compliance officer. Mr. Saunders, the lead Goldman legal counsel on the matter, informed the Subcommittee that he had "no present recollection of the circumstances surrounding any disagreement between Goldman Sachs and Greywolf Capital Management LP regarding Goldman Sachs' right to consent to reinvestment of default swap collateral in Timberwolf."[2657] Mr. Bieber, the Timberwolf deal captain, told the Subcommittee that he did not recall whether Goldman developed any specific strategy limiting the type of default swap collateral securities that could be purchased for its CDOs.[2658]

However, documents obtained by the Subcommittee indicate that the meeting did take place, and Goldman did develop a strategy to respond to Greywolf's concerns. On September 7, 2007, the same day as the meeting, Mr. Lehman sent a email to Mr. Bieber stating:

> "U spoke w[ith] [Jonathan] egol? What ab[ou]t legal/compliance[?] Just make sure Dan [Sparks] is ok w[ith] it[.] Also I do th[in]k we sh[oul]d be consistent across deals . . . so if slmas and credit cards are 'ok' I th[in]k we tell our mgrs [managers] that . . . maybe 2 y[ea]rs and shorter."[2659]

Mr. Bieber responded: "Spoke with legal/compliance. Not doing anything w/o [without] discussing with dan [Sparks] first. Agree with the point on consistency."[2660]

Also on September 7, 2007, Jonathan Egol, head of the Mortgage Department's Correlation Trading Desk, sent an email to Mr. Lehman and others suggesting that Goldman identify a narrow set of very safe asset backed securities that it could propose to Greywolf as possible default swap collateral securities, such as AAA rated securities backed by credit card receivables or student

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[2657] Mr. Saunders, Ms. Helfrick, and Mr. Horvath provided signed statements to the Subcommittee to the same effect. See written statements submitted to the Subcommittee by Timothy Saunders (12/22/2010), Susan Helfrick (1/7/2011), and Jordan Horvath (1/7/2011). Although Mr. Lehman was not invited to the meeting, he told the Subcommittee that he generally recalled having discussions with his colleagues, including Goldman's legal department, about the general issue of default swap collateral, but did not recall his conversation with Mr. Marconi. He also submitted a statement to the Subcommittee saying he had no recollection of whether the meeting took place or, if a meeting was held, what was discussed or decided. Written statement of Mr. Lehman (1/26/2011). Mr. Sparks, the head of the Mortgage Department, told the Subcommittee that while he had a general knowledge of the issue regarding default swap collateral securities, he had no recollection of any meeting or decisions made. Subcommittee interview of Daniel Sparks (1/13/2011).

[2658] Subcommittee interview of Matthew Bieber (10/21/2010).

[2659] 9/7/2007 email exchange between David Lehman and Matthew Bieber, GS MBS-E-000766414. The reference to "slmas" is to asset backed securities that were issued by Sallie Mae and backed by pools of student loans.

[2660] Id.

loans.[2661] Mr. Bieber sent an email the same day indicating he supported that approach, but wanted to speak first with Mr. Sparks, head of the Mortgage Department.[2662]

Subsequent documents indicate that Goldman reversed its initial position and decided to consent to the purchase of more default swap collateral securities. However, Goldman appeared to narrow the class of asset backed securities that it would consent to be acquired as default swap collateral. On September 10, 2007, Mr. Bieber sent an email to Mr. Lehman reporting:

> "Managed to catch up with Dan [Sparks] just now. . .we're going to put together a list of SLMA floaters in our inventory to show Joe [Marconi at Greywolf]. Going over w/ Dan tomorrow before sending anything externally."[2663]

Goldman also sent a short list of commercial mortgage backed securities (CMBS) in its inventory that it would consent to be acquired for Timberwolf.[2664]

Over the next two weeks, Goldman sent a list of acceptable securities to two more collateral managers of its CDOs.[2665] On October 15, 2007, Mr. Bieber provided virtually the same list to a Goldman colleague together with a short explanation of some of the criteria used to identify the securities:

[2661] 9/7/2007 email from Jonathan Egol to Michael Swenson and David Lehman, GS MBS-E-000765854.

[2662] See 9/7/2007 email from Matthew Bieber to David Lehman, GS MBS-E-000766414 ("I need to speak with dan... we're thinking about offering some 1-3 year SLMAs.").

[2663] 9/10/2007 email from Matthew Bieber to David Lehman, GS MBS-E-000765316. "SLMA" refers to asset backed securities that were issued by Sallie Mae and backed by pools of student loans.

[2664] 9/25/2007 email from Matthew Bieber to Joe Marconi, GS MBS-E-000766338. The action taken by Goldman to stop the purchase of new default swap collateral securities was not the only instance in which it attempted to exert control over the collateral in the CDOs it constructed. In the case of the Broadwick CDO, for example, when some investors were entitled to the return of some collateral, Goldman attempted to have the CDO pay them with securities rather than cash, so that the CDO would preserve the cash in its collateral account. The Broadwick collateral manager objected and complained in an email sent to Mr. Sparks, stating in part:

> "In case I wasn't clear on the call, our three main points would be:
> 1. The aim of the collateral account was to provide LIBOR and not add additional risk to the deal.
> 2. GS said they would take market risk and clearly represented that to us and to the ratings agencies.
> 3. The only way the deal works, and the way the deal was marketed and explained to us, is that paydowns are equivalent to partial terminations. We do not believe you have any right to refuse to release excess cash that is no longer needed as collateral, and we do not believe you have the right to release bonds into the waterfall ever, and certainly not when cash exists. Perhaps the way you did these deals changed over time and you are comparing our deal to ones which you marketed or structured later/differently? I look forward to hearing from you."

11/20/2007 email from Ron Beller to Matthew Bieber, GS MBS-E-013746516.

[2665] Documents show that a list of assets was sent to Aladdin Capital Management and Trust Company of the West. See 9/24/2007 email from Benjamin Case to Marty Devote of Aladdin Capital Management, GS MBS-E 022138816; 9/20/2007 email from Matthew Bieber to Vincent Fiorillo of Trust Company of the West, GS MBS-E-022141026-27.

> "Here are the shelves we'd like to use for default swap collateral reinvestment.
> RMBS: CBASS, GSAA, GSAMP, JPMAC, WFHET
> CARDS: AMXCA, BACCT, BOIT, MBNAS, CCCIT,CHAIT, DCMT
> AUTOS: COPAR, DCMOT, FORDO, HAROT, HDMOT, NALT, USAOT
> STUDENT LOANS: ACCSS, GCOE, KSLT, NCSLT, SLMA (FFELP)
>
> In addition to the default swap collateral constraints in the docs for each transaction, also looking to securities that are (a) floating rate (b) monthly pay (c) senior-most bond in capital structure (d) avg life of less than or equal to 2 years (e) currently amortizing.
> Please let me know if you have any questions."[2666]

All of the listed securities consisted of AAA rated securities backed by residential mortgages, credit card receivables, automobile loans, or student loans, and had an expected maturity of two years or less. It appears as if Goldman was restricting the selection of default swap collateral securities to a limited list of assets that it believed were likely to maintain their par value in order to minimize its financial exposure.

After indicating it would allow these new purchases, Goldman maintained tight control over the actual purchases made by the collateral managers. A September 27, 2007 email exchange between Mr. Marconi of Greywolf and Mr. Bieber of Goldman, for example, demonstrates Goldman's intense monitoring effort:

> Mr. Marconi: "Matt: I am seeing this list from another dealer. Can I assume that I can buy any name on your approved list?" ...
> Mr. Bieber: "No-we need to give approval on a security by security basis."[2667]

When asked about these matters, both Mr. Sparks and Mr. Lehman characterized the default swap collateral securities issue as a minor issue. Mr. Lehman informed the Subcommittee that he did not recall significant debate with collateral managers on the matter.[2668] Mr. Sparks said the yield difference between keeping the collateral in cash and investing in securities was minimal and characterized the whole issue as "structured finance gymnastics."[2669] But information supplied by Goldman to the Subcommittee on seven Goldman-originated CDOs shows that, due to its duties as collateral put provider and the declining value of the CDOs' default swap collateral securities, Goldman eventually lost over $1 billion.[2670]

[2666] 10/15/2007 email from Matthew Bieber to Matthew Verrochi, GS MBS-E-015732147. The list had one more RMBS security than the lists sent to the collateral managers.

[2667] 9/27/2007 email from Joe Marconi to Matthew Bieber, GW 108645.

[2668] Written statement of David Lehman (1/26/2011).

[2669] Subcommittee interview of Daniel Sparks (1/13/2011).

[2670] The seven CDOs were Fort Denison, Camber 7, Timberwolf, Anderson Mezzanine, Point Pleasant, Hudson Mezzanine 2006-1, and Hudson Mezzanine 2006-2. Goldman lost $1.018 billion from acting as the collateral put provider for their default swap collateral securities. See Goldman response to Subcommittee QFR at PSI_QFR_GS0280.

Analysis. In its synthetic CDOs, Goldman arranged for its subsidiary, GSI, to act as both the primary CDS counterparty and the collateral put provider. Goldman also arranged for GSI to receive a fee for serving as the collateral put provider, through paying reduced premiums in connection with the CDS contracts it entered into with the CDOs. Despite this fee, Goldman took actions to evade its responsibilities as the collateral put provider, including by refusing to approve the purchase of new default swap collateral securities whose values might decline below par value. Instead, Goldman tried to force the CDOs to keep their collateral in cash. While this effort provided more protection for Goldman's financial interest as the short party, it worked to the disadvantage of the CDO investors because it produced lower returns for the CDOs than the purchase of default swap collateral securities.

When the Timberwolf collateral manager objected, Goldman backed down and allowed the purchase of a narrow range of very safe, short term asset backed securities as collateral for Timberwolf and other CDOs. Goldman's conduct in the Timberwolf CDO demonstrates how a financial institution that plays multiple roles in a CDO can develop conflicts of interest and attempt to manipulate the CDO to place its own financial interests before those of the investors to whom it sold the CDO securities.

(6) Analysis of Goldman's Conflicts of Interest

The Goldman Sachs case study identifies a number of practices that raise conflict of interest concerns. Those practices include the following.

1. **Shorting Its Own Securities.** In Hudson, Anderson, and Timberwolf, Goldman marketed CDO securities to clients, took a substantial portion of the short side of the CDO, bet the CDO would fall in value, and profited from its short position at the expense of the clients to whom it sold the securities.

2. **Failing to Disclose Key Information to Investors.** In Hudson, Anderson, and Timberwolf, Goldman represented to potential investors that its interests "were aligned" with theirs or advertised its retention of a portion of the CDO's equity tranche, without disclosing that it had an even larger short position in the CDO and held a financial interest directly adverse to the investors to whom it was selling the CDO securities.

3. **Misrepresenting Source of Assets.** In Hudson, Goldman provided 100% of the CDO assets using CDS contracts it controlled and priced, transferred $1.2 billion of risk from its own inventory to the CDO, and told investors the assets had been "sourced from the Street," when they had been supplied solely by Goldman and not priced from transactions with third parties.

4. **Failing to Disclose Client Involvement.** In Abacus, Goldman enabled a client who was shorting the CDO to help select the CDO's assets, solicited investors to buy the Abacus securities without disclosing the short party's asset selection role or investment objective, and helped the client gain a $1 billion profit at the expense of the investors to whom Goldman sold the securities.

5. **Minimizing Premiums.** In Abacus, Goldman entered into an undisclosed agreement with the sole short party to accept a fee for arranging low premium payments by the short party to the CDO, even though low premium payments meant less money for the long investors to whom Goldman had sold the Abacus securities.

6. **Selling Securities Designed to Fail.** Goldman sold Hudson and Abacus securities to clients knowing the securities were designed to fall in value and benefit the short party, which was a client in the case of Abacus and itself in the case of Hudson.

7. **Delaying Liquidation.** In Hudson, Goldman was paid a fee to serve as the liquidation agent, but delayed liquidating assets that were losing value for eight months, enhancing its financial gain as the CDO's short party at the expense of the long parties whose losses would have been staunched if the assets had been liquidated.

8. **Misrepresenting Assets.** In Anderson, when clients asked how Goldman got "comfortable" with poor quality New Century loans in the CDO, Goldman worked to dispel those concerns and failed to disclose its own discomfort with New Century loans and that it held 40% of the short side of the CDO, betting its assets would lose value.

9. **Taking Immediate Post-Sale Markdowns.** In Timberwolf, Goldman knowingly sold Timberwolf securities to clients at prices above its own book values and then, often within days or weeks of a sale, marked down the value of the sold securities, causing clients to incur quick losses and requiring some to post higher margin or cash collateral.

10. **Evading Put Obligation.** In Timberwolf, Goldman was paid a fee to serve as the collateral put provider, but refused for two months to allow the purchase of default swap collateral securities, even though they meant better returns for long investors, because Goldman did not want to assume the risk that the collateral securities might lose value.

11. **Using Poor Quality Loans in Securitizations.** Goldman provided securitization services and warehouse accounts to lenders with a history of issuing high risk, poor quality loans, and knowingly included poor quality loans in Goldman-originated RMBS and CDO securities.

12. **Concealing Its Net Short Position.** From late 2006 through most of 2007, Goldman engaged in a relentless effort to sell the CDO and RMBS securities it underwrote, without disclosing to the clients it solicited that Goldman was simultaneously shorting the subprime market and betting it would lose value.

These practices raise a wide range of ethical and legal concerns. This section examines the key issues of whether Goldman had a legal obligation to disclose to clients the existence of material adverse information, including conflicts of interest, when selling them RMBS and CDO securities; whether Goldman had material adverse interests that should have been disclosed to investors; and whether Goldman had an obligation not to recommend securities that were designed to lose value. Many of these issues hinge upon the proper treatment of financial instruments, such as credit default swaps and CDOs, which enable an investment bank to bet against the very same securities it is selling to clients.

(a) Securities Laws

To protect fair, open, and efficient markets for investors, federal securities laws impose a range of specific disclosure and fair dealing obligations on market participants, depending upon the securities activities they undertake. In the matters examined by the Subcommittee, the key roles under the securities laws include market maker, underwriter, placement agent, broker-dealer, and investment adviser.

Market Maker. A "market maker" is typically a dealer in financial instruments that stands ready to buy and sell a particular financial instrument on a regular and continuous basis at a publicly quoted price.[2671] A major responsibility of a market maker is filling orders on behalf of customers. Market markers do not solicit customers; instead they maintain buy and sell quotes in a public setting, demonstrating their readiness to either buy or sell the specified security, and customers come to them. For example, a market maker in a particular stock typically posts the prices at which it is willing to buy or sell that stock, attracting customers based on the competitiveness of its prices. This activity by market makers helps provide liquidity and efficiency in the trading market for that security.[2672] Market makers do not keep the financial instruments they buy and sell in their own investment portfolio, but instead keep them in their sales portfolio or "trading book."

Market makers have among the most narrow disclosure obligations under federal securities law, since they typically do not actively solicit clients or make investment recommendations to them. Their disclosure obligations are generally limited to providing fair and accurate information related to the execution of a particular trade.[2673] Market makers are also subject to the securities laws' prohibitions against fraud and market manipulation. In addition, they are subject to legal requirements relating to the handling of customer orders, for example using best execution efforts when placing a client's buy or sell order.[2674]

Underwriter and Placement Agent. Underwriters and placement agents have greater disclosure obligations than market makers, because in this role they are actively soliciting customers to buy new securities they have helped an issuer bring to market.

When securities are offered to the public for sale, they are typically underwritten by one or more investment banks, each of which is a broker-dealer registered with the Financial Industry Regulatory Authority (FINRA).[2675] An underwriter is typically hired by the issuer of the new securities to help the issuer register the securities with the SEC and conduct a public offering of the securities. The underwriter typically purchases the securities from the issuer, holds them on its books, conducts the public offering, and bears the financial risk until the securities are sold to the public.

[2671] Section 3(a)(38) of the Securities Exchange Act of 1934 ("The term 'market maker' means any specialist permitted to act as a dealer, any dealer acting in the capacity of block positioner, and any dealer who, with respect to a security, holds himself out (by entering quotations in an inter-dealer communications system or otherwise) as being willing to buy and sell such security for his own account on a regular or continuous basis."); see also SEC website, http://www.sec.gov/answers/mktmaker.htm; see also FINRA website, FAQs, "What Does a Market Maker Do?" http://finra.atgnow.com/finra/categoryBrowse.do.

[2672] SEC website, http://www.sec.gov/answers/mktmaker.htm.

[2673] 1/2011 "Study on Investment Advisers and Broker-Dealers," study conducted by the U.S. Securities and Exchange Commission, at 55, http://www.sec.gov/news/studies/2011/913studyfinal.pdf, (hereinafter "SEC Study on Investment Advisers and Broker-Dealers").

[2674] See Goldman response to Subcommittee QFR at PSI_QFR_GS0046.

[2675] FINRA is the largest independent self-regulatory organization for securities firms doing business in the United States. FINRA has been delegated authority by the SEC and a number of securities exchanges to regulate the broker-dealer industry. Its stated mission is "to protect America's investors by making sure the securities industry operates fairly and honestly." See FINRA website, http://www.finra.org.

Investment banks can also act as "placement agents," assisting those seeking to raise money through a private offering of securities by helping them design the securities, produce the offering materials, and market the new securities to investors. Placement agents are also registered broker-dealers. While public offerings of securities are required to be registered and filed with the SEC, private offerings are made to a limited number of investors and are exempt from SEC registration. In the securitization industry, RMBS securities are generally sold through public offerings, while CDO securities are generally sold through private placements.

Whether acting as an underwriter or placement agent, a major part of the investment bank's responsibility is to solicit customers to buy the new securities being offered. Under the securities laws, an issuer selling new securities to potential investors has an affirmative duty to disclose material information that a reasonable investor would want to know.[2676] In addition, under securities law, a broker-dealer acting as an underwriter or placement agent is liable for any material misrepresentation or omission of material fact made in connection with a solicitation or sale of securities to an investor.[2677]

The Supreme Court has held that a fact is material if there is a "substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."[2678] The SEC has provided this additional guidance:

> "'The question of materiality, it is universally agreed, is an objective one, involving the significance of an omitted or misrepresented fact to a reasonable investor.' '[T]he reaction of individual investors is not determinative of materiality, since the standard is objective, not subjective.' '[M]ateriality depends on the significance the reasonable investor would place on the withheld or misrepresented information.' Although in general materiality is primarily a factual inquiry, 'the question of materiality is to be resolved as a matter of law when the information is 'so obviously important [or

[2676] See, e.g., SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180, 201 (1963) ("Experience has shown that disclosure in such situations, while not onerous to the advisor, is needed to preserve the climate of fair dealing which is so essential to maintain public confidence in the securities industry and to preserve the economic health of the country."). See also SEC Study on Investment Advisers and Broker-Dealers at 51 [citations omitted] ("Under the so-called 'shingle' theory … a broker-dealer makes an implicit representation to those persons with whom it transacts business that it will deal fairly with them, consistent with the standards of the profession. … Actions taken by the broker-dealer that are not fair to the customer must be disclosed in order to make this implied representation of fairness not misleading.").

[2677] See Sections 11 and 12 of Securities Act of 1933. See also Rule 10b-5 of the Securities Exchange Act of 1934. See also SEC v. Capital Gains Research Bureau, Inc., 375 U.S. at 200 ("Failure to disclose material facts must be deemed fraud or deceit within its intended meaning, for, as the experience of the 1920's and 1930's amply reveals, the darkness and ignorance of commercial secrecy are the conditions upon which predatory practices best thrive."). See also Goldman response to Subcommittee QFR, at PSI_QFR_GS0046.

[2678] Basic v. Levinson, 485 U.S. 224, 231-32 (1988) (quoting TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 449 (1976)).

> unimportant] to an investor, that reasonable minds cannot differ on the question of materiality.'"[2679]

Unlike when a broker-dealer is acting as a market maker, a broker-dealer acting as an underwriter or placement agent has an obligation to disclose material information to every investor it solicits, including the existence of any material conflict of interest or adverse interest. This duty arises from two sources: the duties of an underwriter specifically, and the duties of a broker-dealer generally, when making an investment recommendation to a customer.

With respect to the duties of an underwriter, the First Circuit has observed that underwriters have a "unique position" in the securities industry:

> "[T]he relationship between the underwriter and its customer implicitly involves a favorable recommendation of the issued security. … Although the underwriter cannot be a guarantor of the soundness of any issue, he may not give it his implied stamp of approval without having a reasonable basis for concluding that the issue is sound."[2680]

With respect to a broker-dealer, the SEC has held:

> "[W]hen a securities dealer recommends a stock to a customer, it is not only obligated to avoid affirmative misstatements, but also must disclose material adverse facts to which it is aware. That includes disclosure of 'adverse interests' such as 'economic self interest' that could have influenced its recommendation."[2681]

The SEC has also stated that, if a broker intends to sell a security from its own inventory and recommends it to a customer, "the broker dealer must disclose all material facts."[2682]

To help broker-dealers understand when they are obligated to disclose to investors material information, including any material adverse interest, FINRA has further defined the term "recommendation":

[2679] In the Matter of David Henry Disraeli and Lifeplan Associates, Securities Exchange Act Rel. No. 34-2686 (December 21, 2007) at 10-11 [citations omitted].

[2680] SEC v. Tambone, 550 F.3d 106, 135 (1st Cir. 2008) [citations omitted].

[2681] In the Matter of Richmark Capital Corporation, Securities Exchange Act Rel. No. 48757 (Nov. 7, 2003) (citing Chasins v. Smith Barney & Co., Inc., 438 F.3d 1167, 1172 (2d. Cir. 1970) ("The investor… must be permitted to evaluate overlapping motivations through appropriate disclosures, especially where one motivation is economic self-interest"). See also SEC Study on Investment Advisers and Broker-Dealers at 55. In this recent study examining the disclosure obligations of broker-dealers and investment advisers, the SEC has explained: "Generally, under the anti-fraud provisions, a broker-dealer's duty to disclose material information to its customer is based upon the scope of the relationship with the customer, which is fact intensive." According to the SEC, when a broker-dealer acts as an order taker or market maker in effecting a transaction for a customer, the broker-dealer generally does not have a duty to disclose information regarding the security or the broker-dealer's economic interest. The duty to disclose this information is triggered, however, when the broker-dealer recommends a security. Id.

[2682] SEC Study on Investment Advisers and Broker-Dealers at 56, n.252.

> "[A] broad range of circumstances may cause a transaction to be considered recommended, and this determination does not depend on the classification of the transaction by a particular member as 'solicited' or 'unsolicited.' In particular a transaction will be considered to be recommended when the member or its associated person brings a specific security to the attention of the customer through any means, including, but not limited to, direct telephone communication, the delivery of promotional material through the mail, or the transmission of electronic messages."[2683]

Goldman's own compliance manual essentially incorporates this guidance and instructs Goldman personnel that a proactive effort to sell a specific investment to a specific customer constitutes a recommendation of that investment.[2684]

Once a broker-dealer, acting in the role of an underwriter or placement agent, has made an investment recommendation and triggered the duty to disclose any material adverse interest to a potential investor, it must disclose not only that the adverse interest exists, but also the "nature and extent" of the adverse interest.[2685] In addition, it is not enough to inform a customer that the underwriter or placement agent "may" have an adverse interest if, in fact, the adverse interest already exists.[2686] Further, there is no indication in any law or regulation that the obligation to disclose material adverse information is diminished or waived in relation to the level of sophistication of the potential investor.[2687]

[2683] FINRA Notice to Members 96-60.

[2684] See 2/1/2001 Goldman document, "United States Policies for the Preparation, Supervision, Distribution and Retention of Written and Electronic Communications," at 9, GS MBS 0000035799.

[2685] See ,e.g., In the Matter of Arleen Hughes, Securities Exchange Act Rel. No. 4048 (Feb. 1948) (holding a broker-dealer, who is also a registered investment adviser, violated the anti-fraud provisions of the federal securities laws by failing to at minimum disclose the "nature and extent" of its adverse interest); In the Matter of Edward D. Jones & Co., L.P., Exchange Act Rel. No. 50910 (Dec. 22, 2004) (settled order), at 21(broker-dealer consents to an order finding that disclosure to its customers was inadequate, because it failed to disclose the full nature and extent of its agreement, including "information about the source and the amount of the revenue sharing payments to [the broker-dealer] and the dimensions of the resulting potential conflicts of interest").

[2686] See, e.g., SEC v. Czuczko, Case No. CV06-4792 (USDC CD Calif.), Order Granting Plaintiff's Unopposed Motion for Summary Judgment (Dec. 5, 2007). In Czuczko, the defendant, who offered online investment advice, included a disclaimer on his website advising that officers, directors, employees and members of their families "*may*, *from time to time*, trade in these securities for their own accounts" [emphasis in original]. Id. at 8. Relying on SEC v. Blavin, 760 F.2d 706 (6th Cir. 1985), the court held such an assertion "is itself a material misstatement because the Defendant *knew* he, his father, and his business partner *did* trade in the stocks and *had a biased interest* in the recommended stocks" [emphasis in original]. Czuczko, at 8.

[2687] See FINRA Rules 2210(d)(1)(A) and 2211(a)(3) and (d)(1) (by rule all institutional sales material and correspondence may not "omit any material fact or qualification if the omission, in the light of the context of the material presented, would cause the communications to be misleading."); and FINRA Rule 2310 and IM-2310-3 (suitability obligation to institutional customers). See also Hanly v. SEC, 415 F.2d 589, 596 (2d Cir. 1969) (holding that sophistication and knowledge of a broker's customers do not warrant a less stringent standard of conduct under federal securities laws); Spatz v. Borenstein, 513 F. Supp. 571, 580 (N.D. Ill. 1981) (finding investors' experience does not mitigate a broker's duty to fully and truthfully disclose material facts, nor does the potential for investors to discover information not disclosed by a prospectus vitiate any legal liability stemming from a failure to disclose material facts); Department of Enforcement v. Kesner, FINRA Complaint No. 2005001729501 (February 26, 2010) (finding sophistication of investors does not relieve a securities representative from disclosing material facts to investors).

Suitable Investment Recommendations. In addition to requiring disclosure of material adverse information, federal securities laws and FINRA rules prohibit broker-dealers from making investment recommendations that would be unsuitable for any customer.[2688]

In a recent study, the SEC explained: "[W]hile the suitability obligation under the federal securities laws arises from the anti-fraud provisions, the SRO [Self Regulatory Organization] rules are grounded in concepts of ethics, professionalism, fair dealing, and just and equitable principles of trade.[2689] For example, FINRA Rule 2010, providing Standards of Commercial Honor and Principles of Trade, states: "A member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."[2690]

A broker-dealer violates the suitability rule if it makes a recommendation that "is unsuitable for any investor, regardless of the investor's wealth, willingness to bear risk, age or other individual characteristics."[2691] Under the applicable case law and FINRA rules, a broker-dealer is also obligated "to have an 'adequate and reasonable basis' for any security or strategy recommendation that it makes."[2692]

Suitability rules are intended to prevent abuses that contributed to the stock crash of 1929 and the Great Depression of the 1930s, when Senators investigating investment bank activities at the time wrote the following:

> "[Investors] must believe that their investment banker would not offer them the bonds unless the banker believed them to be safe. This throws a heavy responsibility upon the banker. He may and does make mistakes. There is no way that he can avoid making mistakes because he is human and because in this world, things are only relatively secure. There is no such thing as absolute security. But while the banker may make mistakes, he

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[2688] SEC Study on Investment Advisers and Broker-Dealers at 61.

[2689] Id.

[2690] FINRA Rule 2010. See also Study on Investment Advisers and Broker-Dealers at 55 (broker-dealers also have an obligation under the federal securities laws and FINRA rules to deal fairly with their customers).

[2691] F.J. Kaufman and Co., Securities Exchange Act Rel. No. 27535 at 5 (December 13, 1989).

[2692] SEC Study on Investment Advisers and Broker-Dealers at 63 [citations omitted]. The suitability rule also requires the broker to determine that the specific security recommended is appropriate based on the customer's financial situation and needs. FINRA Rule 2310. The suitability obligation clearly applies to institutional customers, FINRA IM-2310-3 (suitability obligations to institutional customers require members have a reasonable basis for recommending a particular security or strategy), but may not apply when a broker-dealer solicits another broker-dealer to buy an investment since, under FINRA Rules, the term "customer" does not include a broker or dealer. FINRA Manual, 0120 Definition. On the other hand, the term "customer" has been given a broad definition under the securities case law. See, e.g., Department of Enforcement v. Zayed, FINRA Complaint No. 2006003834901 (August 19, 2010) ("Cases interpreting the term 'customer' in the securities context have viewed the term broadly to encompass individuals or entities that have some brokerage or investment relationship with the broker-dealer. Specifically, courts have rejected the argument that an account is necessary to establish an investor's status as a customer." [citations omitted]). When the Subcommittee asked Mr. Blankfein whether he believed there was a difference between a "customer" and a "client," Mr. Blankfein said he had "never distinguished" between the two terms. Subcommittee deposition of Lloyd Blankfein (12/15/2009), Hearing Exhibit 4/27-176 [Sealed Exhibit].

must never make the mistake of offering investments to his clients which he does not believe to be good."[2693]

Investment Advisers. For investment banks that act, not just as a broker-dealer, underwriter, or placement agent, but also as an investment adviser to their customers, federal securities laws impose still a higher legal duty. When acting as an investment adviser, the law imposes a fiduciary obligation on the investment bank to act in the "best interests of its clients."[2694] A person qualifies as an "investment adviser" under the Investment Advisers Act if that person: provides advice regarding securities, is in the business of providing such advice, and provides that advice for compensation.[2695] A broker-dealer, however, is excluded from the Investment Advisers Act if the performance of its investment advisory services is "solely" incidental to its business as a broker-dealer, and the broker-dealer does not receive "special compensation" for providing those advisory services.[2696] Because Goldman appears to have acted primarily as an underwriter, placement agent, or broker-dealer in carrying out its securitization activities, this section analyzes Goldman's conduct in that context and not in the context of an investment adviser.[2697]

(b) Analysis

One key issue is whether Goldman was acting as a market maker versus an underwriter or placement agent when it recommended that its clients purchase its CDO and RMBS securities, since those roles have different disclosure and suitability obligations under the law. A second key issue is whether Goldman withheld material adverse information when recommending its securities to its clients, including the fact that it was shorting the securities it was selling. A third key issue is whether Goldman violated its obligation to make suitable investment recommendations when urging customers to purchase securities that Goldman knew were designed to lose value.

(i) Claiming Market Maker Status

Given its active role in the securitization markets, Goldman assumed a variety of roles in the development, marketing, and trade of RMBS and CDO products. At times, it acted as a market maker responding to client orders to buy and sell RMBS and CDO products. In addition, from 2006 to 2007, Goldman originated and served as an underwriter or placement agent for 27 CDOs and 86 RMBS securitizations, and sold the resulting RMBS and CDO securities to a broad range of clients around the world.

[2693] 6/16/1934 "Stock Exchange Practices," Report of the Senate Committee on Banking and Currency, S. Rep. 73-1455, at 88 (quoting "Who Buys Foreign Bonds," Foreign Affairs (1/1927)).

[2694] SEC Study on Investment Advisers and Broker-Dealers at 15-16.

[2695] Id.

[2696] Id.

[2697] The Subcommittee did not examine the extent to which Goldman was acting as an investment adviser within the meaning of the Investment Advisers Act when recommending that various customers buy its RMBS and CDO securities.

In public statements and testimony regarding the financial crisis, Goldman has often highlighted its role as a market maker and downplayed its role as an underwriter or placement agent in the securitization markets.[2698] In the April 27, 2010 Subcommittee hearing, for example, Goldman executives repeatedly highlighted the firm's role as market makers – buying and selling RMBS and CDO securities at the request of clients – while deemphasizing that the firm also originated new securities and affirmatively solicited clients to buy those new securities.

In an exchange with Senator Susan Collins, for example, executives from Goldman's Mortgage Department were asked questions about whether they were investment advisers with a fiduciary duty to their clients. While not denying this duty, they emphasized their role as market makers with more limited client obligations:[2699]

> Senator Collins: Thank you, Mr. Chairman. I would like to start my questioning by asking each of you a fundamental question. Investment advisers have a legal obligation to act in the best interests of their clients. Mr. Sparks, when you were working at Goldman, did you consider yourself to have a duty to act in the best interests of your clients?
>
> Mr. Sparks: Senator, I had a duty to act in a very straightforward way, in a very open way with my clients. Technically, with respect to investment advice, we were a market maker in that regard. But with respect to being a prudent and a responsible participant in the market, we do have a duty to do that.
>
> Senator Collins: Mr. Swenson?
>
> Mr. Swenson: I believe it is our responsibility as market makers to provide a market-level bid and offer to our clients and to serve our clients and helping them transact at levels that are fair market prices and help meet their needs.

Mr. Tourre made similar representations in his prepared testimony to the Subcommittee:

> "Between 2004 and 2007, my job was primarily to make markets for clients. I made markets by connecting clients who wished to take a long exposure to an asset – meaning they anticipated the value of the asset would rise – with clients who wished to take a short exposure to an asset – meaning they anticipated the value of the asset would fall. I

[2698] See, e.g., 3/1/2010 letter from Goldman's legal counsel to the Financial Crisis Inquiry Commission, GS-PSI-01310 (discussing Goldman Sachs' "Role as a market maker" in detail and distinguishing it, in a much shorter description, from its underwriting and placement roles). Although the letter acknowledged that Goldman acted as an underwriter and placement agent for RMBS and CDO transactions, it also suggested that those transactions were commonly designed in response to client inquiries and did not discuss efforts by the firm to solicit customers to buy the securities: "Goldman Sachs' CDOs ... were initially created in response to the request of a sophisticated institutional investor that approached the firm specifically seeking that particular exposure. Reverse inquiries from clients were a common feature of this market."

[2699] April 27, 2010 Subcommittee Hearing Transcript at 26-27.

> was an intermediary between highly sophisticated professional investors – all of which were institutions. None of my clients were individual, retail investors.[2700]

In another exchange, when Subcommittee Chairman Levin asked Goldman CEO Lloyd Blankfein about the firm's duty as an underwriter and placement agent to disclose its adverse interests when selling its CDO securities to potential investors, Mr. Blankfein responded that market makers had no such disclosure obligations:

> Senator Levin: You are betting against the very security that you are selling to that person. You don't see any problem? You don't see that you have to disclose, when you have put together a deal and you go looking for people to buy those securities, it just adds insult to injury when your people think it is a pile of junk. But the underlying injury is that you have determined that you are going to keep the opposite position from the security that you are selling to someone. You just don't see any obligation to disclose that. That is what seems to be coming through here.
>
> Mr. Blankfein: I don't believe there is a disclosure obligation, but as a market maker, I am not sure how a market would work if it was premised on the assumption that the other side of the market cared what your opinion was about the position they were taking.
>
> Senator Levin: Do they have a belief that you, at least when you are going out peddling securities, that you want that security to succeed? Don't they have that right to assume that if you are going out selling securities, that you have a belief that that is something which would be good for that client?
>
> Mr. Blankfein: I think we have to have a belief, and we do have a belief that if somebody wants an exposure to housing –
>
> Senator Levin: They don't want – you are out there selling it to them. You are out there selling these securities. This isn't someone walking in the door.
>
> Mr. Blankfein: Again, I want –
>
> Senator Levin: You are picking up the phone. You are calling all these people. You don't tell them that you think it is a piece of junk. You don't tell them that this is a security which incorporates or which in some way references a whole lot of bad stuff in your own inventory – bad lemons, they were called. ... You are out there looking around for buyers of stuff, whether it is junk or not junk, where you are betting against what you are selling. You are intending to keep the opposite side. This isn't where you are just selling something from your inventory. This is where you are betting against the very product you are selling, and you are just not troubled by it. That is the bottom line. There is no trouble in your mind –

[2700] Prepared statement of Fabrice Tourre, April 27, 2010 Subcommittee Hearing at 1.

> Mr. Blankfein: Senator, I am sorry. I can't endorse your characterization.
>
> Senator Levin: It is a question, not a characterization. I am saying, you are not troubled.
>
> Mr. Blankfein: I am not troubled by the fact that we market make as principal and that we are the opposite – when somebody sells, they sell to us, or when they buy, they buy from us.[2701]

Although Goldman representatives routinely emphasized the firm's role as a market maker, when asked directly if the firm also functioned as an underwriter or placement agent when selling the CDO securities it originated, its executives agreed that in some circumstances, the firm played that role:

> Senator Pryor: OK. But let me ask this: When you are selling a security such as a CDO, my understanding is you are not a market maker. Isn't it true that you are placement agent and as a placement agent you have a duty of full disclosure?
>
> Mr. Sparks: Senator, that is correct.[2702]

Similarly, in a written response to a Subcommittee question asking about the firm's role in relation to Anderson, Hudson 1, Timberwolf and other CDOs, Mr. Blankfein wrote: "Goldman Sachs or an affiliate served as a placement agent."[2703]

Despite this acknowledged fact, Goldman continued to claim it was a market maker with limited disclosure and client obligations. On May 1, 2010, for example, less than a week after the Subcommittee's April 27 hearing, an article entitled, "Goldman Sachs' Lloyd Blankfein Defends 'Market Maker' Firm on 'Charlie Rose' Show," described Mr. Blankfein's statements on the televised show as follows:

> "Asked by Rose whether Goldman investment advisers had ever bought securities from the firm, sold them to clients, and then bet against those same securities, Blankfein paused. And after a solid six seconds of silence, sought to explain … Goldman's role as a 'market maker.'
>
> 'We're like a machine, that lets people buy and sell what they want to buy and sell' Blankfein said. 'That's not the advisory business. That's just a facility for market making.'"[2704]

[2701] April 27, 2010 Subcommittee Hearing at 137-138.
[2702] Id. at 53.
[2703] Goldman response to Subcommittee QFR at PSI_QFR_GS0026.
[2704] "Goldman Sachs' Lloyd Blankfein Defends 'Market Maker' Firm On 'Charlie Rose Show,'" Huffington Post (5/1/2010), http://www.huffingtonpost.com/2010/05/01/goldman%1esachs%1elloyd%1eblank_n_559606.html (video of Charlie Rose interview of Lloyd Blankfein embedded).

During the interview, Mr. Blankfein compared Goldman's activity to that of the New York Stock Exchange, claiming that the firm was a market maker taking buy and sell orders from clients.[2705] At one point, Mr. Rose asked: "Has there ever been a time when Goldman's investment advisers bought securities from Goldman for a client and at the same time Goldman was simultaneously shorting it?" Mr. Blankfein responded: "I have to explain, see this is a problem. As a market maker, we are buying and selling a thousand times a minute, probably." Mr. Blankfein also stated during the interview: "If we believed it would fail, the security wouldn't work, we would not sell it."[2706]

(ii) Soliciting Clients and Recommending Investments

Under federal securities law and FINRA Rules detailed above, when a broker-dealer, acting as an underwriter or placement agent brings a specific security to the attention of a particular customer, it is considered to be recommending the security to that customer and has an obligation to disclose all material adverse information to that customer, including any adverse interest that a reasonable investor would consider material in considering the broker-dealer's recommendation. Despite Goldman's frequent efforts to characterize its CDO and RMBS sales efforts as a market making activity in response to client demand, Goldman's internal documents, emails, and interviews indicate that, from late 2006 through 2007, Goldman was not always responding to client demand, but was also aggressively soliciting customers in an attempt to sell its CDO and RMBS products.

In December 2006, for example, Goldman CFO David Viniar instructed the Mortgage Department to reduce its long position in mortgage related assets, including by selling RMBS and CDO products on its books.[2707] The Mortgage Department responded with a concerted effort to sell to clients the bulk of the RMBS and CDO products in its inventory. The Subcommittee saw no evidence that this intensive selling campaign was undertaken in response to client demand. To the contrary, the evidence shows that the sales effort was undertaken at the request of senior management, despite what was then waning investor interest in securitization products.

In December 2006, on the same day Mr. Viniar directed the Mortgage Department to reduce its long assets, Kevin Gasvoda, head of the desk that handled RMBS securities, told his staff to "move stuff out even if you have to take a small loss."[2708] In January 2007, Mr. Sparks, head of the Mortgage Department, asked a senior executive to compliment the CDO Origination Desk head and his staffer for their efforts to sell a specific CDO's securities over the prior

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[2705] Id.

[2706] April 30, 2010 Transcript of The Charlie Rose Show at 12-14. Mr. Blankfein made similar claims the following week on CNBC's "Power Lunch" during a one-on-one interview with David Faber. May 7, 2010 Transcript of Power Lunch at 4.

[2707] See, e.g., 12/14/2006 email from Daniel Sparks to Thomas Montag, "Subprime risk meeting with Viniar/McMahon Summary," GS MBS-E-009726498, Hearing Exhibit 4/27-3; Subcommittee interview of David Viniar (4/13/2010).

[2708] 12/14/2006 email from Kevin Gasvoda to his staff, "Retained bonds," GS MBS-E-010935323, Hearing Exhibit 4/27-72.

month: "They structured like mad and traveled the world, and worked their tails off to make some lemonade out of some big old lemons."[2709] In March 2007, Mr. Sparks emailed a call for "help" to Goldman's top sales managers around the world to "sell our new issues – CDOs and RMBS – and to sell our other cash trading positions."[2710] He wrote: "I can't over state the importance to the business of selling these positions and new issues. … Priority 1 – sell our new issues and cash positions."[2711] In April 2007, the Mortgage Department issued one of many sales directives to Goldman's global sales force, placing a priority on selling certain CDO securities in its inventory, including securities from Anderson, Timberwolf, Point Pleasant, and Altius CDOs, and Mr. Sparks recommended providing large sales credits for those able to complete the sales.[2712]

The documents also show that Goldman personnel worked relentlessly to identify possible clients and pitch CDO securities to them. In March 2007, for example, the Syndicate Desk contributed a list of "non-traditional buyers" that could be targeted for CDO sales, writing that "we continue to push for leads."[2713] A Goldman sales manager suggested targeting European and Middle Eastern banks and hedge funds.[2714] In New York, a Goldman sales representative recounted that the Abacus CDO security "has been showed to selected accounts for the past few weeks. Those selected accounts previously declined participating in Anderson mezz, Point Pleasant, and Timberwolf."[2715]

When CDO sales slowed in May 2007, the Mortgage Department produced a new "target" list of four primary and 35 secondary clients for CDO sales.[2716] A few days later, a Goldman salesperson reported that he planned to contact a hedge fund about Timberwolf and Point Pleasant securities, noting that the customer was "[n]ot expert[] in this space at all but [I] made them a lot of money in correlation dislocation and will do as I suggest."[2717] In Australia, a Goldman sales representative contacted an Australian hedge fund, Basis Capital, and mounted a sustained effort to sell it $100 million in Timberwolf securities, overcoming investor concerns to make the sale.[2718] In Korea, a Goldman sales representative attempting to sell $56 million in

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[2709] 1/31/2007 email from Daniel Sparks to Tom Montag, "MTModel," Hearing Exhibit 4/27-91.
[2710] 3/9/2007 email exchange between Mr. Sparks and sales managers, "help," GS MBS-E-010643213.
[2711] Id.
[2712] 4/19/2007 email from Daniel Sparks to Bunty Bohra, GS MBS-E-010539324, Hearing Exhibit 4/27-102.
[2713] 3/21/2007 email from Syndicate, "Non-traditional Buyer Base for CDO ASEX," GS MBS-E-003296460, Hearing Exhibit 4/27-78.
[2714] 3/9/2007 email exchange between Mr. Sparks and sales managers, "help," GS MBS-E-010643213, Hearing Exhibit 4/27-76.
[2715] 3/30/2007 email from Fabrice Tourre to Mr. Sparks and others, GS MBS-E-002678071.
[2716] 5/20/2007 Goldman presentation, "Mortgage Department, May 2007," GS MBS-E-010965212. See also 3/1/2007 email from Michael Swenson, "names," GS MBS-E-012504595 (SPG Trading target list tiered according to likelihood of purchasing); 2/14/2007 email to Matthew Bieber, "Timberwolf I, Ltd. – Target Account List," GS MBS-E-001996121 (list of U.S. accounts "we should be directly targeting" for Timberwolf sales); 3/2/2007 email from David Lehman, "ABX/Mtg Credit Accts," GS MBS-E-011057632 (mortgage credit business shared with SPG Trading Desk "a fairly lengthy list of accounts that are considered to be 'key'").
[2717] 5/24/2007 email from Ysuf Aliredha to Mr. Sparks and others, "Priority Axes," GS MBS-E-001934732.
[2718] See, e.g., 5/20/2007 email from George Maltezos to Mr. Lehman, "T/wolf and Basis," GS MBS-E-001863555; 5/22/2007 email from Mr. Maltezos to Basis Capital, JUL 000685.

Timberwolf securities to a Korean life insurance firm was encouraged to "Get 'er done" and "go for it" by his superiors when he informed them "we are pushing on our personal relationships to get this done."[2719]

These and other documents show that, in late 2006 and 2007, Goldman was not acting as primarily a market maker responding to client demand when it originated and sold Hudson, Anderson, Timberwolf, and Abacus securities, or when it sold other RMBS and CDO assets that senior management wanted to remove from the firm's books due to their declining values and increasing risk. Instead, Goldman was acting as an underwriter, placement agent, or broker-dealer, aggressively soliciting its clients to purchase the CDO and RMBS products that senior management wanted to eliminate from its inventory.

(iii) Failing to Disclose Material Adverse Information

Goldman's marketing and solicitation efforts to sell Hudson, Anderson, Timberwolf, and Abacus securities, along with other CDO and RMBS assets, to clients raise multiple questions about whether Goldman met its obligation to disclose material adverse information to potential investors. A related question is whether Goldman met its obligation to avoid material misrepresentations and omissions of material facts when recommending the purchase of those securities. One key issue is whether Goldman's failure to disclose its shorting activities, which would enable it to profit from a decline in the value of the very securities Goldman was recommending to its clients to purchase, qualified as an "omitted fact" that "would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available" about the security being recommended by Goldman.[2720]

Taking the Short Side of a CDO. In the four CDOs examined in this Report, Goldman took 100% of the short side of Hudson, 40% of the short side of Anderson, and 36% of the short side of Timberwolf.[2721] In each of these CDOs, Goldman also made a relatively small investment in the long side of the CDO by initially retaining all or a portion of its equity tranche, allowing Goldman to claim an "interest" in the CDO's long term success.[2722] In Abacus, Goldman did not intend to make any investment in the CDO itself, and instead enabled the client that had requested construction of the CDO and played a key role in selecting its assets to hold 100% of the short side of the CDO.

[2719] 6/7/2007 email from Omar Chaudhary to Mr. Sparks and others, GS MBS-E-001866450, Hearing Exhibit 4/27-104.

[2720] Basic v. Levinson, 485 U.S. 224, 231-32 (1988) (quoting TSC Industries v. Northway, 426 U.S. 438, 449 (1976)). Utilizing the SEC's guidance, the issue could also be framed as evaluating "the significance the reasonable investor would place on the withheld or misrepresented information."

[2721] Goldman Response to Subcommittee QFR at PSI_QFR_GS0192.

[2722] Typically, the equity tranche, which is the first to incur any losses sustained by a securitization, is retained by the originator. Equity tranches are typically not rated by the credit rating agencies and often not sold to third parties.

Goldman did not accurately or fully disclose its short interest in Hudson, Anderson, or Timberwolf to potential investors.[2723] Instead, the CDO's offering materials advised potential investors, in difficult to understand language, that a Goldman affiliate "may" adopt a financial interest or investment position adverse to the investors when, in fact, Goldman had already determined to do so. In a section entitled, "Certain Conflicts of Interest," for example, the Hudson 1 Offering Circular stated in part:

> "Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall activities of the Credit Protection Buyer, the overall underwriting, investment and other activities of the Liquidation Agent, the Senior Swap Counterparty and the Collateral Put Provider, their respective affiliates and its clients and employees and from the overall investment activity of the Initial Purchaser, including in other transactions with the Issuer. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.
>
> "The Credit Protection Buyer and Senior Swap Counterparty. GSI [Goldman Sachs International] will be the initial Credit Protection Buyer and the initial Senior Swap Counterparty. The following briefly summarizes some potential and actual conflicts of interests related to the Credit Protection Buyer and Senior Swap Counterparty, but the following isn't intended to be an exhaustive list of all such conflicts. ...
>
> "GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts for which they have investment discretion, in securities or in other interests in the Reference Entities, in obligations of the Reference Entities or in the obligors in respect of any Reference Obligations or Collateral Securities (the "Investments") or in credit default swaps (whether as protection buyer or seller) .... In addition, GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts or for accounts for which they have investment discretion, in securities (or make loans or have other rights) that are senior to, or have interests different from or adverse to, any of the Investments and may act as adviser to, may be lenders to, and may have other ongoing relationships with, the issuers or obligors of Investments and obligations of any Reference Entities."[2724]

This disclosure indicates that GSI or an affiliate "may invest and/or deal" in securities or other "interests" in the assets underlying the Hudson CDO, and "may invest and/or deal" in securities that are "adverse to" the Hudson "investments." The Offering Circular, however, misrepresented Goldman's investment plans. At the time it was created in December 2006, Goldman had already determined to keep 100% of the short side of the Hudson CDO and act as

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[2723] In Abacus, Goldman also failed to disclose the role of the hedge fund in the Abacus asset selection process. See Abacus section C(5)(b)(ii)DD, above.

[2724] 12/3/2006 Goldman Offering Circular, "Hudson Mezzanine 2006-1, LTD.," at 56, GS MBS-E-021821196. The Goldman offering circulars for Timberwolf and Anderson contain similar sections. See 3/23/2007 Goldman Offering Circular, "Timberwolf I, LTD.," GS MBS-E-021825371 at 427; 3/16/2007 Goldman Offering Circular, "Anderson Mezzanine Funding 2007-1, LTD.," GS MBS-E-000912574, at 623.

the sole counterparty to the investors buying Hudson securities, thereby acquiring a $2 billion financial interest that was directly adverse to theirs.[2725]

A federal court has held that disclosing a potential adverse interest, when a known adverse interest already exists, can constitute a material misstatement to investors.[2726] In the case of the Hudson CDO, much of the profit Goldman obtained would be generated from the losses incurred by clients that bought Hudson securities, creating an actual, undisclosed adverse interest. This construct, in which Goldman's profits depended in part upon its clients' losses, created a clear conflict of interest between Goldman and the clients to whom it was selling the Hudson securities, once Goldman had decided to become a short party in the CDO it was simultaneously marketing.

In another part of the Offering Circular, Goldman stated that GSI would serve as the sole counterparty to the CDO, but that disclosure was made in the context of a common industry practice in which the CDO originator or its designate typically took the entire short side of the transaction in the first instance and was the only party that dealt directly with the shell corporation actually issuing the CDO's securities. The CDO originator, or its designate, then acted as an intermediary between the shell corporation and the other broker-dealers buying short positions in the CDO on behalf of themselves or a customer. By placing itself in the middle of each CDS contract, the originator or its designate provided stronger financial backing for the CDS contracts being issued by the CDO and obtained more favorable credit ratings for the CDO securities. In the CDOs examined by the Subcommittee, Goldman followed industry practice by designating its affiliate, GSI, as the initial sole counterparty in the Hudson, Anderson, and Timberwolf CDOs.[2727] Customers learning of GSI's role as the initial sole counterparty in the Hudson CDO would likely have assumed that GSI planned to sell its initial short position to other parties, since that was industry practice. What Goldman failed to disclose to those customers is that it planned to hold (or already held) all or a substantial portion of the short side of the CDO as a proprietary investment adverse to the interests of the customers to whom Goldman was selling the CDO securities. Had those customers known of Goldman's substantial short investment, they would likely have understood that Goldman viewed the very CDO securities it was recommending they purchase as likely not to perform.

[2725] See, e.g., Goldman response to Subcommittee QFR at PSI_QFR_GS0192 and PSI_QFR_GS00235.

[2726] See, e.g., SEC v. Czuczko, Case No. CV06-4792 (USDC CD Calif.), Order Granting Plaintiff's Unopposed Motion for Summary Judgment (Dec. 5, 2007) (finding defendant made a material misstatement to potential investors when he disclosed that officers, directors, employees and members of their families "may" trade in the stocks recommended on his website, without disclosing that he, his father, and business partner were trading in those stocks and had an interest in them). See also In the Matter of Arleen Hughes, Securities Exchange Act Rel. No. 4048 (Feb. 1948) (holding a broker-dealer, who is also a registered investment adviser, had to disclose the "nature and extent" of its adverse interest); In the Matter of Edward D. Jones & Co., L.P., Exchange Act Rel. No. 50910 (Dec. 22, 2004) (settled order), at 21 (disclosure inadequate for failing to disclose full nature and extent of the broker-dealer's conflict of interest).

[2727] Goldman sometimes referred to this position as the "Credit Protection Buyer" or "Synthetic Security Counterparty."

Goldman's failure to disclose its short interest was further compounded when it told investors that its interests "were aligned" with those of the long investors or when it advertised its retention of a portion of the CDO's equity tranche. The Hudson marketing booklet stated: "Goldman Sachs has aligned incentives with the Hudson program by investing in a portion of equity and playing the ongoing role of Liquidation Agent."[2728] What made the statement misleading and what Goldman failed to disclose in the booklet was that its $6 million equity investment[2729] was far outweighed by its $2 billion short investment.[2730] In addition, Goldman later used its liquidation agent position to benefit its short investment at the expense of the long investors in Hudson.[2731] In Anderson, talking points prepared for the Goldman sales force advocated telling investors: "Goldman is underwriting the equity and expects to hold up to 50%."[2732] What the talking points left out was that Goldman's $21 million equity investment in Anderson was less than one sixth the size of its $135 million short position.[2733] In Timberwolf, the marketing booklet stated that Goldman was purchasing 50% of the equity tranche, and the collateral manager Greywolf was purchasing the other 50%.[2734] Again, the booklet failed to disclose that Goldman's equity investment was far outweighed by its short investment.[2735] In each CDO, Goldman withheld from investors information that it had a more significant financial interest in seeing the CDO decline in value than increase in value. In light of its short investments, Goldman's claims that its interests were aligned with, rather than adverse, to the investors to whom it was selling the CDO securities were misleading.

Shorting the Subprime Market. Goldman also failed to disclose to clients that, at the same time it was recommending investments in Goldman-originated RMBS and CDO securities, it was committing billions of dollars to short the same types of securities, as well as their underlying assets,[2736] and even some of the lenders whose mortgage pools were included or referenced in the securities.[2737] In February 2007, Goldman's net short totaled about $10 billion.[2738] In June 2007, its net short reached about $13.9 billion. A significant issue is whether this omitted information – that Goldman was heavily shorting the same types of investments it was recommending – "would have been viewed by the reasonable investor as having

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[2728] 10/2006 Hudson Mezzanine Funding 2006-1, LTD., GS MBS-E-009546963, at 966, Hearing Exhibit 4/27-87.
[2729] See Goldman response to Subcommittee QFR at PSI_QFR_GS0223.
[2730] See, e.g., 10/30/2006 email from Mr. Ostrem, "Great Job on Hudson Mezz," GS MBS-E-0000057886, Hearing Exhibit 4/27-90.
[2731] See discussion of Goldman's actions as the Hudson liquidation agent, above.
[2732] 3/13/2007 email from Mr. Ostrem to Scott Wisenbaker and Matthew Bieber, GS MBS-E-000898410, Hearing Exhibit 4/27-172.
[2733] See Goldman response to Subcommittee QFR at PSI_QFR_GS0192.
[2734] Timberwolf flipbook, GS MBS-E-000676809, Hearing Exhibit 4/27-99a.
[2735] Goldman purchased its share of the Timberwolf equity tranche in March 2007, actually held it for only two months, and then, in May, sold it to Greywolf. See also Goldman response to Subcommittee QFR at PSI_QFR_GS0226.
[2736] See, e.g., 6/5/2007 email from Benjamin Case to David Lehman, GS-MBS-E-001919861 (indicating Goldman was shorting some of the assets underlying Timberwolf using CDS contracts outside of the CDO).
[2737] See, e.g., Goldman spreadsheet produced in response to a Subcommittee QFR, at GS MBS 0000037361 (identifying lenders whose stock Goldman shorted).
[2738] See discussion of Goldman's net short positions, section C(4)(b), above.

significantly altered the 'total mix' of information made available" about the securities Goldman was recommending.[2739]

Other Adverse Information. In addition to its failure to disclose that it was shorting specific CDOs as well as the subprime mortgage market as a whole, Goldman failed to disclose other arrangements which created conflicts of interest and undisclosed financial interests that were adverse to its clients. Concerning Abacus, Goldman failed to disclose a compensation arrangement in which Goldman agreed to accept a fee for arranging low premium payments by the short party; those lower payments disadvantaged the long investors by reducing cash payments to the CDO. Concerning Hudson, Goldman failed to disclose that its dual roles as liquidation agent and sole short party meant that it could delay liquidating Hudson assets that were losing value and simultaneously increase the value of its short position; that same action increased the losses of the long investors. In Timberwolf, Goldman failed to disclose that it viewed its role as collateral put provider allowed it to refuse to consent to the purchase of default swap collateral securities and avoid any risk that the securities would decline in value – the very risk the long investors were paying Goldman a fee to assume.[2740] In each CDO, Goldman took actions that created an undisclosed conflict of interest between itself and the investors to whom it recommended and sold the CDO securities.

These types of arrangements, when undisclosed, can result in conflicts of interest that disadvantage investors. The existence, nature, and extent of such arrangements are the type of material adverse information that the securities laws were designed to ensure were accurately described and disclosed to investors.

(iv) Making Unsuitable Investment Recommendations

In addition to the disclosure issues, Goldman's efforts to sell Hudson, Anderson, Timberwolf, and Abacus securities raise a set of issues related to whether Goldman met its obligation to engage in fair dealing with its clients and avoid recommending investments that were unsuitable for any investor. The focus here is on Goldman's sale of CDO securities that were designed to lose value, either because the short party selected the assets or the assets were so poor that Goldman knew or should have known they would perform poorly or fail, yet marketed them to customers anyway.

[2739] That Goldman's own investment decisions might be material information for an investor is demonstrated by a court ruling in a famous case in the 1970s, in which Goldman, an exclusive dealer, was sued by an investor who alleged that Goldman had sold it Penn Central notes without disclosing, among other things, that Goldman had recently reduced and placed limits on its own inventory of those same notes. Alton Boxboard v. Goldman, Sachs and Company, 560 F.2d 916 (8th Cir. 1977). Although the court decided the case on another basis, the Eighth Circuit found that the materiality of the undisclosed facts alleged was a question to be decided by a trier of fact. The court took note of the testimony from two sophisticated institutional purchasers concerning Goldman's reduction of inventory in Penn Central notes. Id at n.10. One sophisticated investor "testified that this information would have been a 'red flag' to him, and had he known of Goldman Sachs' inventory decision, he would have wanted notes from another issuer." Id. The other witness "stated he would have been concerned about such information and would have conveyed it to his customers, because it indicated that Goldman, Sachs did not have confidence in ... [the] notes." Id.

[2740] Each of these matters is discussed in detail, above.

As detailed earlier, broker-dealers are required to deal fairly with their customers and observe high standards of honor in the conduct of their business.[2741] When a broker-dealer, acting as an underwriter, makes an investment recommendation to a client, it is implicit that the broker-dealer has a reasonable basis to believe that the issue is sound.[2742] A broker-dealer is also required "to have an 'adequate and reasonable basis' for any security or strategy recommendation that it makes."[2743] Broker-dealers are barred from offering investments that are unsuitable for any investor.[2744] Goldman itself, in response to a Subcommittee question, has acknowledged that broker-dealers owe a "general suitability" obligation to its institutional investors, and "[t]his suitability duty requires the broker-dealer to determine, in the first instance, that the transaction is suitable for at least some investors."[2745] Despite those requirements, the evidence gathered by the Subcommittee indicates that Goldman did not view any of the four CDOs examined in this Report as sound investments for the clients to whom it sold the securities.[2746]

Selection of Assets by Short Party. Internal documents and emails from Goldman indicate that both Abacus and Hudson were designed with the expectation they would lose value and produce a profit for the short side of the CDOs. The sole short party in Abacus was the Paulson hedge fund; the sole short party in Hudson was Goldman itself.

With respect to Abacus, Goldman knew that the Paulson hedge fund wanted to take 100% of the short side and would profit only if the CDO lost value, yet allowed the hedge fund to play a major but hidden role in selecting the CDO assets.[2747] The Goldman employee with lead responsibility for Abacus, Fabrice Tourre, called it a "weak quality portfolio."[2748] The Paulson hedge fund executive who participated in the asset selection process acknowledged he selected assets that he expected would not perform well.[2749] A Moody's executive who oversaw CDO ratings when Abacus was rated – and testified that he did not know of Paulson's role in the Abacus asset selection process – explained that "[i]t just changes the whole dynamic of the structure where the person who is putting it together, choosing it, wants it to blow up."[2750] When Goldman began to publicly market the Abacus securities, Ed Steffelin, a Senior trader at GSC who had declined Goldman's request that his firm serve as the CDO's portfolio selection agent, sent an email to Peter Ostrem, head of Goldman's CDO Origination Desk, stating: "I do not have to say how bad it is that you guys are pushing this thing."[2751] When asked by the Subcommittee what he meant by that comment, Mr. Steffelin said that he believed the Abacus

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[2741] SEC Study on Investment Advisers and Broker-Dealers at 55.
[2742] SEC v. Tambone, 550 F.3d 106, 135 (1st Cir. 2008) [citations omitted].
[2743] SEC Study on Investment Advisers and Broker-Dealers at 63 [citations omitted].
[2744] Id. at 61.
[2745] See Goldman response to Subcommittee QFR at PSI_QFR_GS0048.
[2746] See, e.g., 1/23/2007 email from Fabrice Tourre to Marine Serres, GS MBS-E-003434918, Hearing Exhibit 4/27-62 (Tourre wrote: "[S]tanding in the middle of all these complex, highly levered, exotic trades he [Mr. Tourre] created without necessarily understanding all the implications of these monstruosities [sic] !!!").
[2747] See discussion of Abacus in section C(5)(b)(ii)DD, above.
[2748] 12/18/2006 email from Fabrice Tourre, "Paulson," GS MBS-E-003246145, Hearing Exhibit 4/27-107.
[2749] SEC deposition of Paolo Pellegrini (12/3/2008). PSI-Paulson-04 (Pellegrini Depo)-0001, at 175-76.
[2750] April 23, 2010 Subcommittee Hearing Transcript at 64.
[2751] 2/27/2007 email from Ed Steffelin to Peter Ostrem, GS MBS-E-009209654.

CDO created "reputational risk" for the collateral manager industry and the whole market.[2752] When Mr. Tourre later sought to book two CDS contracts referencing the Abacus securities, a Goldman salesman wrote: "seems we might have to book these pigs."[2753]

As planned, once issued, the Abacus securities quickly lost value. In October 2007, six months after the Abacus securities were issued, the credit rating agencies downgraded them, and a Goldman salesperson noted: "This deal was number 1 in the universe of CDO's that were downgraded by Moody's and S&P. 99.89% of the underlying assets were downgraded."[2754] The three investors that bought Abacus securities together lost more than $1 billion, while the Paulson hedge fund, as the sole short party, recorded a corresponding $1 billion profit.2755 In July 2010, Goldman agreed to settle a securities fraud complaint brought by the SEC by paying a fine of $550 million and "acknowledging it was a mistake for the Goldman marketing materials to state that the reference portfolio was 'selected by' ACA Management, LLC without disclosing the role of Paulson & Co. Inc. in the portfolio selection process and that Paulson's economic interests were adverse to CDO investors."[2756]

With respect to Hudson, Goldman designed the CDO from its inception as a way to transfer the risk of loss associated with ABX assets from Goldman's inventory to the Hudson investors.[2757] Goldman documents state, for example, that Hudson was "initiated by the firm as the most efficient method to reduce long ABX exposures,"[2758] and the CDO was an "exit for our long ABX risk."[2759] Goldman created and took the short side of $2 billion in single name CDS contracts referencing RMBS securities that it wanted to short, and sold them to the Hudson CDO. The end result was that Goldman wrote 100% of the CDS contracts that made up Hudson's assets and took 100% of the short side of the CDO, which meant that Goldman would profit if the CDO fell in value. Goldman marketed the CDO without disclosing its status as the sole short party, instead telling investors that its interests were "aligned" with theirs. The Hudson securities immediately began losing value. Within a year, while the holders of the Hudson securities lost virtually their entire investments, Goldman's profits reached $1.7 billion, which it then used to offset other mortgage related losses.

In both CDOs, Goldman took actions that disguised that the transactions were designed to lose value. In Abacus, Goldman omitted mention of the Paulson hedge fund's involvement in the asset selection process and hired a well known third party portfolio agent, ACA

[2752] Subcommittee interview of Ed Steffelin (12/10/2010).
[2753] 4/15/2007 email from Cactus Raazi to Daniel Chan, "Dan: ABACUS 07-AC1," Hearing Exhibit 4/27-82.
[2754] 10/26/2007 email from Goldman salesman to Michael Swenson, "ABACUS 2007-AC1 – Marketing Points (INTERNAL ONLY) [T-Mail]," GS MBS-E-016034495.
[2755] Securities and Exchange Commission v. Goldman Sachs, Case No. 10-CV-3229 (S.D.N.Y.), Complaint (April 16, 2010).
[2756] SEC v. Goldman, Sachs & Co. and Tourre, Case No. 10-CV-3329 (BSJ) (S.D.N.Y.), Consent of Defendant Goldman, Sachs & Co (July 14, 2010).
[2757] See discussion of Hudson CDO in section C(5)(b)(ii)AA, above.
[2758] Goldman response to Subcommittee QFR at PSI_QFR_GS0249.
[2759] 9/20/2006 email from Arbind Jha to Josh Birnbaum, GS MBS-E-012685289.

Management, to "leverage ACA's credibility."[2760] In Hudson, Goldman omitted that it had written all of the CDO's CDS contracts and it referenced $1.2 billion in ABX assets in Goldman's own inventory, and instead told investors that Hudson's assets were "sourced from the Street" and Hudson was "not a Balance Sheet CDO."[2761]

Goldman marketed the Abacus and Hudson securities to clients knowing that each CDO had been designed to lose value and produce a profit for the short party. Given that information, Goldman marketed CDOs that it knew or should have known were not suitable for any investor.

Selection of Poor Quality Assets. Similar concerns apply to Goldman's origination and marketing of the Anderson and Timberwolf CDOs, which contained such poor quality assets that Goldman knew or should have known that they would perform poorly or fail. Yet Goldman recommended them to investors anyway. The issue is whether, by recommending that investors purchase the Anderson and Timberwolf securities, Goldman violated its fair dealing obligation and recommended investments that were not suitable for any investor.

With respect to Anderson, Goldman personnel knew before marketing its securities that the CDO had poor quality assets that were losing value. Nearly 45% of the referenced RMBS securities in Anderson were dependent upon loans issued by New Century, while another 7% depended upon loans issued by Fremont, two subprime lenders known, including by Goldman personnel, for issuing poor quality loans and poorly performing RMBS securities.[2762] On February 24, 2007, Goldman personnel calculated that the assets in the Anderson warehouse account had already lost $60 million in value from the time they were purchased.[2763] In response, Mr. Sparks, the Mortgage Department head, decided to cancel the CDO.[2764] Later, he changed his mind and rushed Anderson to market with only $305 million of the $500 million in assets that had been planned. Goldman was the largest short party, with 40% of the short interest in Anderson.

Anderson issued its securities on March 20, 2007. Goldman knew at the time that both New Century and Fremont were in financial distress.[2765] In addition, the week before, Goldman had conducted reviews of both a New Century and a Fremont loan pool on the firm's books, and found that 26% of the New Century loans[2766] and 50% of the Fremont loans[2767] reviewed had

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[2760] 3/12/2007 Goldman memorandum to Mortgage Capital Committee, "ABACUS Transactions sponsored by ACA," GS MBS-E-002406025, Hearing Exhibit 4/27-118.

[2761] 10/2006 Hudson Mezzanine Funding 2006-1, LTD., GS MBS-E-009546963, at 978, Hearing Exhibit 4/27-87.

[2762] See discussion of Anderson CDO in section C(5)(b)(ii)BB, above. Another 8% were dependent upon loans issued by Countrywide.

[2763] 2/24/2007 email from Deeb Salem to Michael Swenson and others, GS MBS-E-018936137.

[2764] 2/24/2007 email from Mr. Sparks to Mr. Ostrem and others, GS MBS-E-001996601, Hearing Exhibit 4/27-95.

[2765] See, e.g., 2/8/2007 email from Craig Broderick to Mr. Sparks and others, GS MBS-E-002201486 (calling New Century's announcement that it would restate its earnings "a materially adverse development"); 3/14/2007 Goldman email, "NC Visit," GS MBS-E-002048050 (stating Fremont still has cash "but not for long"); 3/13/2007 email from Mr. Ostrem to Scott Wisenbaker and Matthew Bieber, GS MBS-E-000898410, Hearing Exhibit 4/27-172 (providing talking points for selling Anderson securities to customers).

[2766] 3/13/2007 email from Manisha Nanik, "New Century EPDs," GS MBS-E-002146861, Hearing Exhibit 4/27-77.

deficiencies and should be returned to the lender for refunds. Goldman nevertheless continued to market the Anderson securities. When some potential investors expressed concerns about Anderson's underlying assets, in particular the New Century loans, Goldman tried to dispel those concerns even while harboring its own low opinion of New Century loans.[2768] Goldman managed to sell approximately $102 million in Anderson securities to nine investors who lost virtually their entire investments within a year.[2769]

With respect to Timberwolf, Goldman personnel knew that the CDO's assets had begun losing value almost from the time they were acquired.[2770] Timberwolf was a CDO^2 transaction comprised of 56 different CDO assets with over 4,500 unique underlying securities.[2771] In February 2007, Mr. Sparks told a senior Goldman executive that it was a deal "to worry about," and that its assets had already incurred such significant losses that they had exhausted the share of the warehouse risk held by Goldman's partner in the transaction.[2772] Despite that loss in value, Goldman continued with the issuance of the Timberwolf securities in March 2007. By May, a special CDO valuation project undertaken by the Mortgage Department found that the Timberwolf's assets had lost still more value.[2773] Despite its lower internal valuation, Mr. Sparks advised Goldman senior executives that his CDO pricing strategy was to "take the write-down, but market at much higher levels" to avoid "leaving some money on the table."[2774]

During the spring and summer of 2007, Goldman aggressively marketed Timberwolf securities to investors around the world, eventually selling about $853 million in Timberwolf securities to 12 investors.[2775] Goldman sold the securities at prices substantially above its internal book values for the Timberwolf securities. After making a sale, Goldman then, sometimes only days or weeks later, marked down the value of the securities it had sold, resulting in investors realizing losses and sometimes requiring the investor to post additional cash margin or collateral.[2776] In September 2007, an internal Goldman analysis found that, in just six months, Timberwolf's AAA rated securities had lost 80% of their value. One of Goldman's senior executives monitoring Timberwolf pronounced it "one shitty deal."[2777] The CDO was liquidated in October 2008, and the investors who purchased Timberwolf securities lost virtually their entire investments.

[2767] 3/14/2007 Goldman email, "NC Visit," GS MBS-E-002048050.

[2768] See, e.g., 3/6/2007 email from Joshua Bissu to Mr. Ostrem and Mr. Bieber, GS MBS-E-014597705 (talking points for Goldman personnel to respond to investor concerns about the New Century loans).

[2769] See e.g., Goldman response to Subcommittee QFR at PSI_QFR_GS0223.

[2770] See, e.g., 9/17/2007 email from Christopher Creed, "Timberwolf," GS MBS-E-000766370, Hearing Exhibit 4/27-106 (showing price for Timberwolf securities dropped from $94 on 3/31/2007 to $87 on 4/30/2007).

[2771] 8/23/2007 email from Jay Lee to Mr. Lehman and others, GS MBS-E-001927784.

[2772] 2/26/2007 email exchange between Mr. Sparks and Mr. Montag, GS MBS-E-019164799, Hearing Exhibit 4/27-71.

[2773] 5/20/2007 email from Paul Bouchard, "Materials for Meeting," GS MBS-E-001863725.

[2774] 5/14/2007 email from Mr. Sparks to Mr. Montag and Mr. Mullen, GS MBS-E-019642797.

[2775] See, e.g., Goldman response to Subcommittee QFR at PSI_QFR_GS0223.

[2776] See, e.g., example involving Basis Capital in discussion of Timberwolf in section C(5)(b)(ii)CC, above.

[2777] 6/22/2007 email from Mr. Montag to Mr. Sparks, "Few Trade Posts," GS MBS-E-010849103, Hearing Exhibit 4/27-105.

Goldman CEO Lloyd Blankfein said publicly about the firm's securities: "If we believed it would fail … the security wouldn't work, we would not sell it."[2778] But Goldman marketed the Anderson and Timberwolf securities to clients knowing that each CDO had poor quality assets that were continually losing value. It marketed them at the same time it was investing on the short side of the CDOs and the subprime mortgage market as a whole, and its Mortgage Department head was telling his staff that it was "Game Over" and time to "get out of everything."[2779] Within a year, the Anderson and Timberwolf securities were virtually worthless. Given what Goldman knew when marketing Anderson and Timberwolf, Goldman was recommending investments that were most likely not suitable for any investor.

This analysis examines Goldman's conduct in the context of the law prevailing in 2007. Since then, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 has established new conflict of interest prohibitions that would apply to this type of conduct, including Section 621 which bars any underwriter or placement agent of an asset backed security from engaging in any transaction "that would involve or result in any material conflict of interest with respect to any investor in a transaction arising out of such activity."

(7) Goldman's Proprietary Investments

When reviewing the conflict of interest issues related to Goldman's mortgage related activities in 2006 and 2007, another issue examined by the Subcommittee was the extent to which Goldman's Mortgage Department was engaged in proprietary trading.[2780]

In 2007, Goldman was not a commercial bank, and proprietary trading was not illegal. The issue that concerned the Subcommittee was the extent to which its proprietary activities may have contributed to the conflicts of interest that affected how Goldman operated.[2781] In a

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[2778] April 30, 2010 transcript of The Charlie Rose Show, at 14.

[2779] 3/12/2007 Goldman Firmwide Risk Committee, "March 7th FWR Minutes," GS MBS-E-00221171, Hearing Exhibit 4/27-19; 3/3/2007 email from Mr. Sparks, "Call," GS MBS-E-010401251, Hearing Exhibit 4/27-14.

[2780] Until its repeal in 1999, the Glass-Steagall Act prohibited banks from engaging in proprietary trading. Glass-Steagall Act, Section 16. The Act's prohibition on proprietary trading was weakened over the years and finally repealed by the Financial Services Modernization Act of 1999, P.L. 106-102 (1999). Since Goldman did not become a bank holding company until 2008, neither the Glass-Steagall prohibition nor its repeal affected its activities during the time period examined by the Subcommittee.

[2781] Financial institutions that trade for their own accounts at the same time that they conduct trades on behalf of their clients may experience conflicts of interest. See, e.g., 4/23/2010 letter from John Reed, former Chairman and CEO of Citigroup, to Senators Merkley and Levin ("When a firm is focused on market gain through proprietary trading, it too often will employ every available device to achieve those gains – including take advantages of clients and putting the firm at risk."); In re Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Exchange Act Rel. No. 34-63760, Admin. Proc. 3-14204 (Jan. 25, 2011) (settling allegations that Merrill Lynch's proprietary traders misused information about their customers' trading); 7/19/2005 speech by Annette Nazareth before the Securities Industry Association Compliance and Legal Division Member Luncheon (discussing increased potential for conflicts of interest). In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-603, restored the prohibition on proprietary trading by banks, subject to certain exceptions. See Section 619, amending the Bank Holding Company Act of 1956, to be codified at 12 U.S.C. §1851. Regulations implementing Section 619, also known as the Merkley-Levin provisions after the Senators who authored them or the Volcker Rule after former Federal Reserve Chairman Paul Volcker who championed the ban, are due by October 2011.

recently issued "Report of the Business Practices Committee," Goldman reaffirmed as its first business principle: "Our clients' interests always come first."[2782] Contrary to that statement, however, Goldman documents showed its employees repeatedly expressing concern about the firm's interests, but rarely mentioning or placing a priority on the interests of its clients. In fact, after Goldman announced record profits for its Mortgage Department in the third quarter of 2007, when many of its clients were suffering substantial losses from the mortgage investments they purchased from Goldman, Peter Kraus, co-head of the Investment Banking Division, wrote the following to Goldman CEO Lloyd Blankfein: "I met with 10+ individual prospects and clients . . . since earnings were announced. The institutions don't and I wouldn't expect them to, make any comments like ur good at making money for urself but not us. The individuals do sometimes, but while it requires the utmost humility from us in response I feel very strongly it binds clients even closer to the firm, because the alternative of take ur money to a firm who is an under performer and not the best, just isn't reasonable. Clients ultimately believe that association with the best is good for them in the long run."[2783]

The tension between Goldman's efforts to make money on behalf of itself versus on behalf of its clients raises a number of conflict of interest concerns, particularly when its efforts to profit from shorting the mortgage market or particular RMBS or CDO securities occurred simultaneously with its efforts to market mortgage related securities to its clients.

Goldman's Proprietary Activities. Until recently, when asked about the extent of the firm's proprietary activities, Goldman generally claimed that its proprietary investments contributed only approximately 10% of the firm's profits.[2784] In January 2011, however, Goldman announced in an SEC filing that it was changing the categories under which it reported income. Goldman added a new category called "Investments and Lending" to segregate the firm's proprietary investment income from the income it derived from activities undertaken on behalf of clients.[2785] Based on earnings reported in January 2011 for Goldman's full fiscal year 2010, the proprietary investment income recorded under "Investments and Lending" accounted for $7.5 billion, or about 20% of Goldman's net revenues.[2786] Goldman did not specify how it defined proprietary investments and lending for purposes of its earnings report, nor what desks

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[2782] 1/2011 "Report of the Business Standards Committee," at 1. In May 2010, at Goldman's annual shareholders' meeting, CEO Lloyd Blankfein announced the formation of a Business Standards Committee to conduct an extensive review of the firm's business standards and practices to determine the extent to which the firm was adhering to its own written "Business Principles," and to make appropriate recommendations. Id. The Committee's January 2011 report provided recommendations in the areas of Client Relationships and Responsibilities, Conflicts of Interest, Structured Products, Transparency and Disclosure, Committee Governance, and Training and Professional Development.

[2783] 9/26/2007 email to Mr. Blankfein, "Fortune: How Goldman Sachs Defies Gravity," GS MBS-E-009592726, Hearing Exhibit 4/27-135.

[2784] See, e.g., 1/21/2010, The Goldman Sachs Group Inc., 4Q 2009 Earnings Call Transcript, Q&A (David Viniar states that, in most years, proprietary trading accounts for "10% roughly plus or minus a couple of percent."), http://seekingalpha.com/article/183723-the-goldman-sachs-group-inc-q4-2009-earnings-call-transcript?part=qanda.

[2785] 1/11/2011 Goldman Form 8-K filed with the SEC (announcement of change in reporting categories). Goldman's change in its reporting categories implemented one of the recommendations outlined in Goldman's "Report of the Business Standards Committee" published in January 2011.

[2786] See 1/19/2011 Goldman press release on 2010 earnings, available at www2.goldmansachs.com.

or activities contributed to the total, how it calculated the reported amount, or why it was double the amount cited a year earlier.

To date, three Goldman units have been identified as engaging explicitly in investments on behalf of the firm. One, based in New York, is called Goldman Sachs Principal Strategies or "GSPS," which Goldman is reportedly in the process of dismantling.[2787] The second is the Global Macro Proprietary Trading Desk, which had traders in New York and London and reportedly invested in foreign exchange markets, interest rate markets, stocks, commodities and other fixed income markets.[2788] The third, according to Goldman, is the Special Situations Group or SSG, which is reportedly engaged primarily in long term investments on behalf of the firm and clients, with little short term trading or sales activities.[2789]

Proprietary Activities in the Mortgage Area. In the mortgage area, until 2005, Goldman had a dedicated proprietary investment desk in the Mortgage Department called the Principal Finance Group, often referred to as Principal Investments.[2790] According to Goldman personnel, that desk specialized in long term investments on behalf of Goldman in assets such as distressed mortgages and credit card and energy receivables, but only rarely engaged in short term trading.[2791] In 2005, Principal Investments was folded into the Special Situations Group (SSG), which was then a Goldman business unit located in Asia and not part of the Mortgage Department.[2792] After Principal Investments personnel moved to SSG, the Mortgage Department operated without a desk that was explicitly dedicated to proprietary trading during 2006 and 2007.

When asked whether the Mortgage Department engaged in proprietary activities during 2006 and 2007, Goldman executives and traders in the Mortgage Department generally resisted providing a direct answer, declined to identify any proprietary trades or investments, and declined to estimate or calculate how much of the Mortgage Department's 2007 revenues or profits were proprietary.

[2787] Subcommittee interview of David Viniar (4/13/2010). See also "More Goldman Traders to Exit for Funds," Financial Times (1/9/2011). Goldman may be eliminating the desk in response to the Dodd-Frank prohibition on proprietary trading.

[2788] See "Goldman to Shut Global Macro Trading Desk," New York Times (2/16/2011). Goldman may be eliminating this desk in response to the Dodd-Frank prohibition on proprietary trading.

[2789] Subcommittee interview of Darryl Herrick (10/13/2010). To the extent that its activities are limited to long term investments, the SSG unit would not be affected by the Dodd-Frank prohibition on proprietary trading which applies only to trading accounts used "principally for the purpose of selling in the near term (or otherwise with the intent to resell in order to profit from short-term price movements)," and does not affect long term investments. See Section 619(h)(6). Under Section 620 of the Dodd-Frank Act, banking regulators are also conducting an 18-month review of all permitted bank investment activities, both long and short term, to gauge the risk of each activity, any negative effect the activity may have on the safety and soundness of the banking entity or the U.S. financial system, and the "appropriateness" of each activity for a federally insured bank.

[2790] Subcommittee interview of Darryl Herrick (10/13/2010).

[2791] Id.

[2792] Id.

When asked about particular transactions, Goldman executives or traders often described them as examples, not of "proprietary trading," but "principal trading" in which Goldman acted as a market maker. Goldman personnel told the Subcommittee that to fulfill the firm's role as a market-maker, Goldman used its own capital to amass an inventory of assets in anticipation of customer demand, and acted as a "principal" when building that inventory. They indicated that the mortgage related assets were acquired for the purpose of accommodating existing or anticipated client buy and sell orders and not to produce proprietary profits for the firm.

At the same time, several Goldman executives and traders told the Subcommittee that all of Goldman's trading desks, including those in the Mortgage Department, were given discretion to trade some amount of the firm's capital within certain limits.[2793] Daniel Sparks told the Subcommittee: "We told [the Firmwide Risk Committee] what we wanted to do, and they told us how much we could do."[2794] Joshua Birnbaum said that the amount of proprietary trading that a desk was allowed to do depended upon certain risk limits, but could not recall a specific or typical dollar amount of any risk limit assigned to the Mortgage Department as a whole or to any of its trading desks for proprietary trading purposes.[2795] Goldman's Chief Risk Officer Craig Broderick told the Subcommittee that the firm did not distinguish between "proprietary" versus other types of risk, because the aggregate risk levels would be the same.[2796] Mr. Broderick said that the firm's proprietary trading, outside of GSPS, was "embedded" in the routine business conducted by various trading desks and was not specifically segregated as "proprietary."[2797]

Until enactment of the Dodd-Frank Act in 2010, federal securities law contained no statutory or regulatory definition of proprietary trading by banks and generally did not require firms to identify or monitor their proprietary investments.[2798] The Subcommittee investigation found that the terms "proprietary" and "prop" were commonly used in the financial services industry to describe business performed on behalf of, or for the benefit of, a financial firm itself, while the term "flow" was used to refer to market-making transactions involving, or for the benefit of, the firm's customers.[2799]

[2793] Subcommittee interviews of Mr. Sparks (4/15/2010); Mr. Birnbaum (4/22/2010); and Mr. Broderick (4/9/2010). See also 12/17/2007 email from Michael DuVally to Mr. Sparks, "WSJ Responses," GS MBS-E-013821884 ("Some traders are allowed to express their own market views using the firm's capital.").

[2794] Subcommittee interview of Daniel Sparks (4/15/2010).

[2795] Subcommittee interview of Joshua Birnbaum (4/22/2010).

[2796] Subcommittee interview of Craig Broderick (4/9/2010).

[2797] Id. Goldman's Chief Financial Officer David Viniar provided similar information in response to questions from the Financial Crisis Inquiry Commission, indicating that Goldman did not specifically "break out" its proprietary trading from its other business results. See FCIC Hearing, Testimony of David Viniar (7/2/2010), www.fcic.gov.

[2798] The Dodd-Frank Act defines "proprietary trading" as "engaging as a principal for the trading account of [a] banking entity . . . in any transaction to purchase or sell, or otherwise acquire or dispose of, any security, any derivative, any contract of sale of a commodity for future delivery, any option on any such security, derivative, or contract or any other security or financial instrument that the appropriate Federal banking agencies ... may, by rule ... determine." 12 U.S.C. § 1851(h)(4). The Act further defines "trading account" as one used for "near term" trading or for capturing profits from "short term price movements." Section 1851(h)(6). These provisions are subject to further refinement through implementing regulations.

[2799] See, e.g., description of proprietary trading in Deutsche Bank's 3/26/2008 Form 20-F filed with the SEC at 24 ("Within Corporate Banking & Securities, we conduct proprietary trading, or trading on our own account, in addition to providing products and services to customers. Most trading activity is undertaken in the normal course

A number of internal Goldman documents in 2006 and 2007, used the terms "prop" and "flow" when referring to mortgage related activities. In a 2006 email to Goldman senior executives, for example, Mr. Sparks, the Mortgage Department head, used the terms when criticizing a decision by Morgan Stanley to move its most experienced mortgage traders from its mortgage department's "franchise" desk to a dedicated proprietary desk.[2800] Mr. Sparks argued against Goldman's doing the same by claiming exposure to customer trades or "flows" made mortgage traders "more effective" in their proprietary trades:

> "Morgan Stanley is going overboard by taking most of their experienced and known traders out of the franchise. We should keep our franchise leaders in the seats and continue to allow them to take prop views – the customer flows they see make them more effective."[2801]

This email shows, not only that Mr. Sparks and other Goldman executives used the terms "prop" and "flow," but they also knew Goldman mortgage traders were handling both customer and proprietary transactions at the same time.

In November 2007, Mr. Sparks received an email from the Mortgage Department's business manager, John McHugh, indicating that proprietary trades made up a substantial portion of the Department's activities.[2802] In the email, Mr. McHugh provided Mr. Sparks with a draft of the Department's 2008 business plan which included a description of the projected business activities of the Structured Product Group – the Mortgage Department trading desk that then handled RMBS, CDO, and other mortgage related trading activities. Under the heading, "Prop vs. Flow," the draft plan stated: "Prop/flow components of SPG Trading will be roughly equal."[2803] Under another section entitled, "Assumptions/ Initiatives in ABS [Asset Backed Security] p&l [profit and loss]," the draft business plan stated:

- "Good prop opportunity capitalizing on selling pressure, selective distressed asset purchases.
- Expect prop flow split to be roughly 50/50."[2804]

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of facilitating client business. For example, to facilitate customer flow business, traders will maintain long positions (accumulating securities) and short positions (selling securities we do not yet own) in a range of securities and derivative products, reducing this exposure by hedging transactions where appropriate. While these activities give rise to market and other risk, we do not view this as proprietary trading. However, we also use our capital to exploit market opportunities, and this is what we term proprietary trading.").

[2800] 4/13/2006 email from Mr. Sparks to Messrs. Cohn, Sobel, and Mullen, "Morgan Super Traders Worry Hedge Funds," GS MBS-E-016187625.

[2801] Id. See also Glenn Bedwin, International Research Director, Thomson Financial, Trading for Investors Forum, Financial News Supplement at 14 (2004) (noting the value of "information [banks] gain from looking at the flow going through their desk").

[2802] 11/16/2007 email from John McHugh to Mr. Sparks, "FICC 2008 business plan presentation to Firm," GS MBS-E-013797964.

[2803] Id.

[2804] Id.

The draft business plan suggests that fully half the 2008 SPG and ABS activities were expected to involve proprietary investments.

When the Subcommittee asked Mr. Sparks about the "prop/flow components of SPG Trading" in the Department's 2008 draft business plan, Mr. Sparks indicated that he was not sure what his business manager meant and was unable to estimate what percentage of the SPG Trading Desk's activities was spent on proprietary trades.[2805] In a later written response to Subcommittee questions about the email, Mr. Sparks wrote: "'Prop' or 'proprietary' can mean different things to different people." He continued that Mr. McHugh's email appeared to use "prop" to refer to investments made with a longer holding period, such as months or years, while "flow" seemed to refer to investments with a shorter holding period:

> "Defined this way, both 'prop' and 'flow' trades can involve customers, although sometimes the term 'proprietary' is used to describe business that does not involve a customer. (Sometimes proprietary is used to describe any activity that involves use of a firm's own capital.)."[2806]

Goldman's Net Shorts As Proprietary Investments. Goldman's practice of embedding its proprietary trading activities within the ordinary trading conducted on its market-making mortgage trading desks, together with its unwillingness to estimate its proprietary activities, made it difficult to determine the extent of the proprietary trading that took place within the Mortgage Department from 2006 to 2007.[2807] Nonetheless, many of the transactions undertaken by the Mortgage Department from late 2006 to late 2007 appear to have been undertaken to advance the financial interests of the firm, rather than primarily to make markets for clients.

Several factors suggest that transactions undertaken to build and profit from Goldman's two large net short positions in 2007 were completed for Goldman's own benefit, rather than on behalf of its clients. First, the two net short positions – totaling $10 billion in February and $13.9 billion in June 2007 – were far larger than a financial institution would establish simply to meet anticipated client demand.[2808] Second, the magnitude of the risk attached to those short positions was also outsized. As indicated earlier, the Mortgage Department typically contributed

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[2805] Subcommittee interview of Daniel Sparks (10/3/2010).

[2806] Daniel Sparks response to Subcommittee QFR at PSI-QFR_GS0452.

[2807] The difficulties associated with distinguishing between proprietary trading and market making activities are examined in a recent study by the new Financial Stability Oversight Council (FSOC), an intra-governmental council established by the Dodd-Frank Act, comprised of ten regulators in the financial services sector, and charged with identifying risks and responding to emerging threats to U.S. financial stability. See FSOC FAQs, www.treasury.gov; 1/2011 "Study & Recommendations on Prohibitions on Proprietary Trading & Certain Relationships with Hedge Funds & Private Equity Funds" (hereinafter "FSOC Study"), at 22-44. The FSOC Study observed: "Absent robust rules and protections, banking entities may have the opportunity to migrate existing proprietary trading activities from the standalone business units that are presently recognized as 'proprietary trading" into more mainstream 'sales and trading' or other operations that engage in permitted activities." Id. See also "Proprietary Trading Goes Under Cover: Michael Lewis," Bloomberg, (10/27/2010) (quoting a bank trader who reportedly said "from here on out, if he wants to take a proprietary position ... he will argue that he bought the position because a customer wanted to sell the position, and he was providing liquidity").

[2808] These totals include Goldman's net shorts from both its mortgage trading and CDO securitization activities.

only about 2% of Goldman's total net revenues, yet in 2007, it was allowed to continually exceed its permanent Value-at-Risk (VAR) limit and incur up to 52% of firmwide risk. The Subcommittee uncovered no evidence to suggest that Goldman incurred and sustained that disproportionately high level of risk to accommodate client demands or to hedge positions taken on to accommodate clients.

A third factor indicating the net short positions were proprietary in nature was how long Goldman held onto them. For example, the Mortgage Department maintained a $9 billion ABX AAA short for six to nine months in 2007. While that short was initially used to hedge certain long positions held by various Mortgage Department desks, it was retained even after those long positions were sold off or written down. Mr. Sparks later described the ABX AAA short as "disaster insurance" in case the subprime market collapsed.[2809] The Subcommittee found no evidence indicating that the $9 billion short was maintained over such a long period of time to accommodate client demand.

A fourth factor indicating Goldman's net short positions were proprietary in nature was the Mortgage Department's affirmative effort to solicit clients to buy RMBS and CDO assets in its inventory.[2810] The Subcommittee saw no evidence that this sales activity was undertaken to accommodate client demand; to the contrary, the documents show that the Mortgage Department's sales efforts took place amid a deteriorating mortgage market and waning investor interest in mortgage related products.[2811]

Still another indicator that the Mortgage Department's net shorts were proprietary was that, when clients expressed interest in acquiring certain short positions, Goldman at times refused to accommodate their requests. For example, in June 2007, when Goldman began building its second large net short position, its Mortgage Department refused client requests to purchase the short side of CDS contracts with Goldman: "Really don't want to offer any [shorts to customers]" and "too late!"[2812] On another occasion in March 2007, a Goldman employee told Goldman's Chief Risk Officer Mr. Broderick that the Mortgage Department was no longer buying subprime assets: "Just fyi not for the memo, my understanding is that desk is no longer

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[2809] Subcommittee interview of Daniel Sparks (4/15/2010).

[2810] See, e.g., documents cited in Section C(4)(b) (sales efforts to reduce Goldman's $6 billion long position) and Section C(5)(a)(iii) (sales efforts to reduce Goldman-originated RMBS and CDO securities), above.

[2811] See, e.g., emails noting difficult sales environment. 1/31/2007 email from Mr. Sparks to Mr. Montag, "MTModel," Hearing Exhibit 4/27-91 (making "lemonade out of some big old lemons"); 3/9/2007 email from Mr. Sparks to Mr. Schwartz and others, GS MBS-E-010643213, Hearing Exhibit 4/27-76 ("team is working incredibly hard and is stretched"); 3/27/2007 email from Mr. Ostrem to Mr. Bieber, GS MBS-E-000907935, Hearing Exhibit 4/27-172 (congratulating Mr. Bieber for "an excellent job pushing to closure these deals in a period of extreme difficulty"); 6/11/2007 email from Mr. Montag, GS MBS-E-001866144 (after a sale of Timberwolf securities, telling the sales team they had done an "incredible job – just incredible").

[2812] 6/10/2007 email from Michael Swenson, "CDS on CDOs," GS MBS-E-012568089; 6/13/2007 email from sales, "CDO protection," GS MBS-E-012445931. See also 9/7/2007 Fixed Income, Currency and Commodities Annual Individual Review Book, Salem 2007 Self-Review, GS-PSI-03157 at 71 (in his self-evaluation Mr. Salem wrote that his desk sold short positions on single name CDS contracts only to customers that could provide Goldman with useful information: "We were very aggressive with pricing and only shared risk [short positions] with smart guys if they gave us insight on names to go short or go long in return.").

buying subprime. (We are low balling on bids.)."[2813] Refusing client requests and lowballing bids to avoid purchases indicate that the Goldman Mortgage Department was not acting as a market maker to accommodate client demand.

Perhaps the strongest indicator that Goldman's large net short positions were proprietary investments are the statements made by Goldman's own executives and traders. Goldman's head ABX trader, Joshua Birnbaum, described the Department's decisions in February and June to build and profit from its net short positions, not as efforts to accommodate anticipated client demand, but as investments made on behalf of the firm to produce large profits:

> "Whereas execution of strategies has clearly been a concerted team effort, I consider myself the initial or primary driver of the macro trading direction for the business. I would highlight 3 major calls here:
> 1. Dec-Feb: ... The prevailing opinion within the department was that we should just 'get close to home' and pare down our long. ... I concluded that we should not only get flat, but VERY short. ... [W]e all agreed the plan made sense. ... [W]e implemented the plan by hitting on almost [every] single name CDO protection buying opportunity in a 2-month period. Much of the plan began working by February when the market dropped 25 points and our profitable year was underway. ...
> 3. Jun-Jul: the BSAM [Bear Stearns Asset Management failure] changed everything. I felt that this mark-to-market event for CDO risk would begin a further unraveling in mortgage credit. Again, when the prevailing opinion in the department was to remain close to home, I pushed everyone on the desk to sell risk aggressively and quickly. We sold billions of index and single name risk such that when the index dropped 25pts in July, we had a blow-out p&l [profit & loss] month, making over $1Bln that month. ...
>
> We made money: a) taking large directional views, the direction of which we changed several times, b) ... betting the bad names would get much worse vs. the good ones, c) shorting CDOs, d) capturing the index to single name basis ... among other things."[2814]

[2813] 3/2/2007 email exchange between Mr. Broderick and Patrick Welch, GS MBS-E-009986805, Hearing Exhibit 4/27-63.

[2814] 9/26/2007 EMD Reviews, Joshua Birnbaum Self-Review, GS-PSI-01975, Hearing Exhibit 4/27-55c. Mr. Birnbaum's comments indicate that Goldman's proprietary activities extended to its CDO activities. As explained earlier, while Abacus 2007-AC1 was undertaken in response to a client request, Hudson 1 was conceived by the Mortgage Department as a way to transfer risk associated with poorly performing ABX assets in its inventory. Goldman supplied 100% of the CDS contracts that made up Hudson's assets, took 100% of the short side, and profited at the expense of the Hudson investors. In October 2006, Mr. Ostrem, head of the CDO Origination Desk, wrote to Mr. Sparks that a client was upset, because it knew "Hudson Mezz (GS prop deal) is pushing their deal back," clearly identifying Hudson as a "prop" or proprietary transaction. 10/16/2006 email from Mr. Ostrem to Mr. Sparks, GS MBS-E 010916991, Hearing Exhibit 4/27-59. See also 2/25/2007 email exchange between Peter Ostrem and Matthew Bieber, at GS MBS-E-001996601, Hearing Exhibit 4/27-95 (Mr. Ostrem proposed allowing a hedge fund to include assets in Anderson and then short them, but Mr. Bieber thought Mr. Sparks would want to "preserve that ability for Goldman"); 12/29/2006 email from Mr. Birnbaum to Mr. Lehman, GS MBS-E-011360438, Hearing Exhibit 4/27-5 (when discussing certain proposed CDO deals that would generate $1 to $3 billion in short positions and reference certain RMBS securities, Mr. Birnbaum stated: "On baa3 [RMBS securities with credit ratings of

In a later presentation put together to propose a new compensation arrangement for the SPG Trading Desk's trading activities, Mr. Birnbaum was unequivocal that the net shorts the desk had acquired were not hedges to offset risk, but "outright" short investments to produce profits:

> "By June, all retained CDO and RMBS positions were identified already hedged. ... SPG trading reinitiated shorts post BSAM [Bear Stearns Asset Management] unwind on an outright basis with no accompanying CDO or RMBS retained position longs. In other words, the shorts *were not a hedge.*"[2815]

In his 2007 self-evaluation, Michael Swenson, head of the Mortgage Department's SPG Trading Desk, described the net short positions undertaken by the firm in this way:

> "It should not be a surprise to anyone that the 2007 year is the one that I am most proud of to date. ... extraordinary profits (nearly $3bb [billion] to date). … I directed the ABS desk to enter into a $1.8 bb short in ABS CDOs that has realized approx. $1.0bb of p & l [profit and loss] to date. … [W]e aggressively capitalized on the franchise to enter into efficient shorts in both the RMBS and CDO space."

Mr. Swenson's description of the net short position he "directed" to be built in CDOs and the resulting $1 billion in profit makes no reference to client demands. Mr. Salem, a trader on the ABS Desk, was equally clear in his 2007 self-evaluation that the desk made a deliberate bet on the direction of the mortgage market: "Mike, Josh, and I were able to learn from our bad long position at the end of 2006 and layout the game plan to put on an enormous directional short."[2816] Each of these three Mortgage Department employees played a key role in building the firm's net short positions. Their own statements indicate that they perceived acquiring the 2007 net short positions to be for the benefit of the firm, and not to build an inventory of assets to respond to anticipated client demand.

Other internal documents also portray the net short positions as decisions made by the firm to advance its own financial interests. In an internal presentation to the Goldman Board of Directors regarding the "Subprime Mortgage Business," for example, the Mortgage Department wrote that, in the first quarter of 2007, "GS reverse[d] long market position through purchase of single name CDS and reductions of ABX."[2817] In September 2007, the Goldman Board of Directors summarized its mortgage business this way: "Although broader weakness in the mortgage markets resulted in significant losses in cash position, we were overall net short the

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BBB-], I'd say we definitely keep it for ourselves. On baa2 [RMBS securities with BB ratings], I'm open to some sharing to the extent that it keeps these customers engaged with us.").

[2815] 10/3/2007 "SPG Trading – 2007," presentation prepared by Joshua Birnbaum with input from other SPG employees, but which was not ultimately provided to senior management, GS MBS-E-015654036, at 44 [emphasis in original]. Mr. Birnbaum reaffirmed his analysis in a 2010 written response to Subcommittee questions. See Mr. Birnbaum's response to Subcommittee QFR at PSI_QFR_GS0509.

[2816] 9/7/2007 Fixed Income, Currency and Commodities Annual Individual Review Book, Salem 2007 Self-Review, GS-PSI-03157, at 71.

[2817] 3/26/2007 Presentation to Goldman Board of Directors, "Subprime Mortgage Business," GS MBS-E-005565527, Hearing Exhibit 4/27-22.

mortgage market and thus had very strong results."[2818] Talking points prepared for CFO David Viniar prior to a March 2007 earnings call with analysts stated: "The Mortgage business' revenues were primarily driven by synthetic short positions."[2819] In an October 2007 letter sent to the SEC, Goldman wrote:

> "[W]e are active traders of mortgage securities and loans and ... we may choose to take a directional view of the market .... For example, during most of 2007, we maintained a net short sub-prime position and therefore stood to benefit from declining prices in the mortgage market."[2820]

In an October 2007 internal presentation to another Goldman unit, Chief Risk Officer Craig Broderick wrote:

> "So what happened to us? ... In market risk – you saw in our 2nd and 3rd qtr results that we made money despite our inherently long cash positions. – because starting early in '07 our mortgage trading desk started putting on big short positions ... and did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened."[2821]

In a November 2007 email to his colleagues, Goldman CEO Lloyd Blankfein wrote: "Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts."[2822] None of these internal documents suggests that the Mortgage Department's net short transactions were undertaken to accommodate existing or anticipated client trades.

In January 2011, the new Financial Stability Oversight Council (FSOC) issued a study that focused, in part, on criteria that can be used to distinguish between proprietary and market making activities.[2823] Applying those recently developed criteria to the Mortgage Department's 2007 activities also supports viewing that activity as the result of proprietary rather than market making activities. For example, the Mortgage Department was building its net shorts with the expectation that they would appreciate in value rather than provide assets to facilitate customer transactions; the position created risks out of proportion to those necessary to accommodate

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[2818] 9/17/2007 Board of Directors Meeting Financial Summary, GS MBS-E-009776907, Hearing Exhibit 4/27-42.

[2819] 3/9/2007 email from Sheara Fredman to David Viniar and others, GS MBS-E-009762678, Hearing Exhibit 4/27-16. When preparing a later internal presentation, in October 2007, Dan Sparks was even more blunt: "The desk benefitted from a proprietary short position in CDO and RMBS single names." 10/5/2007 draft of "Business Unit Townhall Presentation, Q3 2007," prepared by Mr. Sparks, Hearing Exhibit 4/27-47. Mr. Sparks removed this phrase from the final version of the presentation and told the Subcommittee he had been mistaken to include it in the earlier draft.

[2820] 10/4/2007 letter from Goldman to the SEC, GS MBS-E-009758287, Hearing Exhibit 4/27-46.

[2821] 10/29/2007 presentation by Craig Broderick to the Tax Department, GS MBS-E-010018512, Hearing Exhibit 4/27-48. See also 10/5/2007 draft presentation by Mr. Sparks, for a Business Unit Townhall meeting, GS MBS-E-013703468, Hearing Exhibit 4/27-47 ("The desk benefited from a proprietary short position in CDO and RMBS single names.").

[2822] 11/18/2007 email from Mr. Blankfein, "NYT," GS MBS-E-009696333, Hearing Exhibit 4/27-52.

[2823] 1/2011 "Study & Recommendations on Prohibitions on Proprietary Trading & Certain Relationships with Hedge Funds & Private Equity Funds," at 22-44.

customer demand; the Mortgage Department actively and aggressively solicited clients to build its short positions; the Mortgage Department accumulated an unpredictable inventory profile in terms of volume and in relation to customer demand; and it had a relatively low inventory turnover with the bulk of the profits derived from inventory appreciation when Goldman covered its shorts.

Advocating More Proprietary Trading. One last set of documents shines additional light on the role of proprietary investments in the Goldman Mortgage Department in 2006 and 2007. As indicated earlier, for several years, Goldman's Mortgage Department had a proprietary trading desk, Principal Investments, that was explicitly and exclusively dedicated to engaging in transactions for the benefit of the firm. In 2005, it was moved to the SSG unit. Internal Goldman documents show that some in the Mortgage Department wanted to revive that desk, increase the amount of proprietary trading in the mortgage area, or claim a greater share of the proprietary profits created by the Mortgage Department for the firm.

In August 2006, for example, the CDO Origination Desk proposed that Goldman establish a formal proprietary trading fund or proprietary trading operation within the Mortgage Department to conduct mortgage related transactions on behalf of the firm. In an August 2006 email, Peter Ostrem, the CDO Origination Desk head, made the proposal to Mr. Sparks, the Mortgage Department head:

> "Let's do our own fund. SP [Structured Product] CDO desk. Big time. GS [Goldman Sachs] commits to hold proportion of equity outright. This could be big. ... I need real leverage. Got some structured ideas too. When can we talk strategy for an hour or so?"[2824]

Mr. Sparks responded: "Next week. In the meantime calm the blank down."[2825] Later the same day, he later wrote to Mr. Ostrem: "Not going to happen."[2826] When asked about these emails, Mr. Sparks told the Subcommittee that Goldman decided not to allow the Mortgage Department to set up its own hedge fund or explicit proprietary trading desk.[2827]

In March 2007, after a series of large trades with the Harbinger hedge fund on the ABS Desk, Deeb Salem, an ABS trader, emailed Mr. Birnbaum, Mr. Swenson, and Mr. Chin with a proposal for a proprietary CDO:

> "Am I crazy to be thinking we might want to grow the harbinger trade and do our own abs desk cdo. There'll be so much juice in it. It would blow out. We could sell supersenior and maybe some equity. Then the remaining mezz would be a cover of a couple hundred million of our cdo short. Haven't crunched the numbers, but I'm

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[2824] 8/10/2007 email from Mr. Ostrem to Mr. Sparks, "Leh CDO Fund," GS MBS-E-010898470.
[2825] Id.
[2826] 8/10/2007 email from Mr. Sparks to Mr. Ostrem, "Leh CDO Fund," GS MBS-E-010898476.
[2827] Subcommittee interview of Daniel Sparks (10/4/2010).

> guessing we'd effectively cover well north of 1000 plus own some call rights. Or we also keep the equity and own it for free.
>
> To select the portfolio, we look at the underlying rmbs deals in our cdo shorts. And replicate that as best as possible."[2828]

Mr. Birnbaum replied: "I like it."[2829] Mr. Swenson responded: "Love it we will give dan [Sparks] a heart attack."[2830] Two months later, in June 2007, Mr. Swenson wrote Mr. Salem: "Talk to me now things are developing - dan wants you to be the epicenter of the subprime universe which is not a bad position to be in."[2831] Mr. Salem replied:

> "That's fine. My number 1 concern is that it[']s traded by the right people bc [because] the opportunity is huge. It's a product that needs to be traded as a prop product. ... U need to be in charge and we need prop minded guys involved."[2832]

That same month, however, the Bear Stearns' hedge funds collapsed due to losses from their subprime holdings. In July, the mass ratings downgrades took place, and the RMBS subprime market began to shut down as well. The Subcommittee saw no evidence that the proprietary CDO proposed by Mr. Salem was carried out.

In July 2007, Mr. Birnbaum, Goldman's head ABX trader, remarked that Goldman was giving John Paulson, the head of the Paulson Partners hedge funds, "a run for his money" in shorting the mortgage market, and claimed Goldman was "No. 2" behind the Paulson hedge funds in profiting from a massive net short position.[2833] In October 2007, Mr. Birnbaum drafted a proposal that the SPG Trading Desk be compensated in accordance with a hedge fund model, rather than through Goldman's bonus pool, so the desk could obtain a portion of the proprietary profits it was generating.[2834] He discussed the proposal with other Mortgage Department personnel, but did not present it to senior management.[2835] The Mortgage Department personnel who helped build the net shorts nevertheless received substantial compensation for their 2007 efforts.[2836]

Proprietary trading was not prohibited by law in 2007, and Goldman was free to and did engage in billions of dollars in mortgage related trades for its own account. The Goldman case

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[2828] 3/3/2007 email from Mr. Salem, "Another idea . . .," GS MBS-E-012511081.
[2829] Id.
[2830] Id.
[2831] 6/7/2007 email from Mr. Swenson to Mr. Salem, "Fyi," GS MBS-E-012444245.
[2832] Id.
[2833] 7/12/2007 email from Mr. Birnbaum, GS MBS-E-012944742, Hearing Exhibit 4/27-146 ("He's definitely the man in this space, up 2-3 bil on this trade. We were giving him a run for his money for a while but now are a definitive #2.").
[2834] See slides prepared by Mr. Birnbaum, "SPG Trading – 2007," GS MBS-E-015654036 -50.
[2835] Mr. Birnbaum response to Subcommittee QFR at PSI_QFR_GS0509.
[2836] Mr. Birnbaum, for example, received $17 million in 2007. Subcommittee interview of Joshua Birnbaum (4/22/2010).

study also demonstrates how proprietary trading, when undertaken at the same time as trading on behalf of clients, can give rise to conflicts of interest between the bank's financial interests and those of its clients. The new proprietary trading and conflict of interest restrictions in the Dodd-Frank Act are designed to address and reduce these conflicts.

D. Preventing Investment Bank Abuses

Developments over the past two years offer a number of ways to address problems identified in the Goldman Sachs and Deutsche Bank case studies. The success of those alternatives will depend in large part upon how they are implemented, and the degree to which the market disruptions caused by the financial crisis convince investment banks to realign their use of structured finance products, curb their proprietary trading, and respect the interests of their clients. Success will also depend upon sensible implementation of the measures enacted into law by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

(1) New Developments

The Dodd-Frank Act contains several measures that affect investment banking practices. Three key provisions involve proprietary investments, conflicts of interest, and a new study of permitted banking activities.

Proprietary Trading Restrictions. Commercial banks, their holding companies, and affiliates, including any investment banks,[2837] are prohibited by the Dodd-Frank Act from engaging in proprietary trading, subject to certain provisions allowing them to continue to serve clients and reduce risks. [2838] The proprietary trading ban will still allow banks, for example, to continue to engage in transactions as market makers for clients, hedge their risks, and maintain very limited investments in private funds they sponsor or manage for others.[2839]

The proprietary trading provision also addresses conflicts of interest and high risk activities. It explicitly bars any proprietary trading activity that "would involve or result in a material conflict of interest … between the banking entity and its clients, customers, or counterparties," or that would result "in a material exposure by the banking entity to high-risk assets or high-risk trading strategies." [2840] Those express limitations are intended to reduce not only the risk of proprietary trading losses, but also the conflicts of interest that arise when a bank-affiliated investment bank enters into an activity that allows it to profit at the expense of its clients.

Investment banks that have no bank affiliation are not subject to the law's proprietary trading prohibition. If, however, an investment bank is designated by the newly-created

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[2837] Two of the largest U.S. investment banks, Goldman Sachs and Morgan Stanley, are currently structured as bank holding companies and so are subject to the ban on proprietary trading.
[2838] Section 619 of the Dodd-Frank Act (creating a new §13(a) in the Banking Holding Company Act of 1956).
[2839] Id. at §13(d)(1).
[2840] Id. at §13(d)(2).

Financial Stability Oversight Council as a systemically critical firm, the Dodd-Frank Act would subject its proprietary trading to additional capital requirements and quantitative limits. Those restrictions are intended to ensure large investment banks have sufficient safeguards in place when engaging in risky proprietary activities to prevent them from damaging the U.S. financial system as a whole or necessitating a taxpayer bailout if they get into financial trouble.

Private Fund Restrictions. To ensure that the proprietary trading restrictions are effective, the Dodd-Frank Act prohibits banks and their affiliates, including any investment banks, from bailing out any private fund they advise or sponsor, including an affiliated hedge fund or private equity fund.[2841] This prohibition would apply, for example, to Deutsche Bank and its affiliated hedge fund, Winchester Capital, which made a large proprietary investment in mortgage related products.[2842] These restrictions would not apply to investment banks that are not affiliated with a bank. If, however, the investment bank is designated as a systemically critical firm, it would become subject to additional capital charges to account for the risk that it may end up bailing out a private fund. The private fund provision also addresses the issue of eliminating any unfair advantage that banks may have from being able to rely on the special privileges of being a bank to implicitly guarantee a private fund, and ensures that a federally insured bank will not be put at risk if an affiliated private fund suffers losses.[2843]

Conflict of Interest Prohibitions. In 2009, one well known investment adviser described the link between proprietary trading and conflicts of interest as follows:

> "Proprietary trading by banks has become by degrees over recent years an egregious conflict of interest with their clients. Most if not all banks that prop trade now gather information from their institutional clients and exploit it. In complete contrast, 30 years ago, Goldman Sachs, for example, would never, ever have traded against its clients. How quaint that scrupulousness now seems. Indeed, from, say, 1935 to 1980, any banker who suggested such behavior would have been fired as both unprincipled and a threat to the partners' money."[2844]

The Dodd-Frank Act contains two conflict of interest prohibitions to restore the ethical bar against investment banks and other financial institutions profiting at the expense of their clients. The first is a broad prohibition that applies in any circumstances in which a firm trades for its own account, as explained above.[2845] The second, in Section 621, imposes a specific, explicit prohibition on any firm that underwrites, sponsors, or acts as a placement agent for an asset backed security, including a synthetic asset backed security, from engaging in a transaction "that would involve or result in any material conflict of interest" with an investor in that

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[2841] Id. at §13(d)(1)(G) and (I); (d)(4); and (f).
[2842] Id. See section discussing Deutsche Bank, above.
[2843] Id. See, e.g., 6/12/2010 Cambridge Winter Center report, "Test Case on the Charles," (explaining how State Street Bank bailed out the funds it managed, but then itself needed several emergency taxpayer-backed programs).
[2844] "Lesson Not Learned: On Redesigning Our Current Financial System," GMO Newsletter Special Topic, at 2 (10/2009), available at http://www.scribd.com/doc/21682547/Jeremy-Grantham.
[2845] Section 621 of the Dodd-Frank Act (creating a new § 27B(a) in the Securities Act of 1933).

security.[2846] Together, these two prohibitions, if well implemented, will protect market participants from the self-dealing that contributed to the financial crisis.

Study of Banking Activities. Section 620 of the Dodd-Frank Act directs banking regulators to review what types of banking activities are currently allowed under federal and state law, submit a report to Congress and the Financial Stability Oversight Council on those activities, and offer recommendations to restrict activities that are inappropriate or may have a negative effect on the safety and soundness of a banking entity or the U.S. financial system. This study could evaluate, for example, the use of complex structured finance products that are difficult to understand, have little or no track record on performance, and encourage investors to bet on the failure rather than the success of financial instruments.

Structured Finance Guidance. In connection with provisions in the Dodd-Frank Act related to approval of new products and standards of business conduct,[2847] the banking agencies, SEC, and CFTC may update and strengthen existing guidance on new structured finance products. In 2004, after the collapse of the Enron Corporation, the banking regulators and SEC proposed joint guidance to prevent abusive structured finance transactions. [2848] This guidance, which was not finalized until January 2007, was issued in a much weaker form.[2849] The final guidance eliminated, for example, warnings against structured finance products that facilitate deceptive accounting, circumvention of regulatory or financial reporting requirements, or tax evasion, as well as detailed guidance on the roles that should be played by a financial institution's board of directors, senior management, and legal counsel in approving new products and on the documentation they should assemble.

(2) Recommendations

To prevent investment bank abuses and protect the U.S. financial system from future financial crises, this Report makes the following recommendations.

1. **Review Structured Finance Transactions.** Federal regulators should review the RMBS, CDO, CDS, and ABX activities described in this Report to identify any violations of law and to examine ways to strengthen existing regulatory prohibitions against abusive practices involving structured finance products.

2. **Narrow Proprietary Trading Exceptions.** To ensure a meaningful ban on proprietary trading under Section 619, any exceptions to that ban, such as for market-making or risk-mitigating hedging activities, should be strictly limited in the implementing regulations to activities that serve clients or reduce risk.

[2846] Id. at § 621.
[2847] Section 717 and Title IX of the Dodd-Frank Act.
[2848] "Interagency Statement on Sound Practices Concerning Complex Structured Finance Activities," 69 Fed. Reg. 97 (5/19/2004).
[2849] "Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities," 72 Fed. Reg. 7 (1/11/2007) (issued by the Office of the Comptroller of the Currency; Office of Thrift Supervision; Federal Reserve System; Federal Deposit Insurance Corporation; and Securities and Exchange Commission).

3. **Design Strong Conflict of Interest Prohibitions.** Regulators implementing the conflict of interest prohibitions in Sections 619 and 621 should consider the types of conflicts of interest in the Goldman Sachs case study, as identified in Chapter VI(C)(6) of this Report.

4. **Study Bank Use of Structured Finance.** Regulators conducting the banking activities study under Section 620 should consider the role of federally insured banks in designing, marketing, and investing in structured finance products with risks that cannot be reliably measured and naked credit default swaps or synthetic financial instruments.

# # #

United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Tom Coburn, Ranking Minority Member

WALL STREET AND THE FINANCIAL CRISIS: Anatomy of a Financial Collapse

Majority and Minority Staff Report

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218	JPM_WM01407692	52
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378	JPM_WM03077089	87
393	JPM_WM01265462	89
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422	JPM_WM02406624	188
424	JPM_WM00652762	190
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686	JPM_WM01022322	314
691	OTSWME06-039 0000214	319
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729	OTSWMS06-007 0001020	397
776	PSI-FDIC-10-0001	399
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1083	PSI-MOODYS-RFN-000031	624

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1085	PSI-S&P-RFN-000032	630
1087	PSI-MOODYS-RFN-000019	631
1088	PSI-S&P-RFN-000002	633
1088	PSI-S&P-RFN-000008	636
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1189	PSI-S&P-RFN-000034	746
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1487	DB_PSI_00711305	2271
1488	Wachovia counsel email to PSI (11/19 & 23/2010)	2272
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GS MBS-E-001865782	1572	2951
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GS MBS-E-001866391	2433	4552
GS MBS-E-001866482	2406	4463
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GS MBS-E-001866752	2462	4595
GS MBS-E-001866889	2072	3953
GS MBS-E-001867239	2640	5329
GS MBS-E-001912398	2418	4511
GS MBS-E-001912408	2167	4123
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GS MBS-E-001914580	2417	4509
GS MBS-E-001914921	2112	4055
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GS MBS-E-001918034	2529	4813
GS MBS-E-001918603	2425	4530
GS MBS-E-001918722	1601	3218
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GS MBS-E-001919861	2442	4587
GS MBS-E-001920215	2468	4607
GS MBS-E-001920339	1770	3652
GS MBS-E-001920459	2119	4064
GS MBS-E-001922156	2410	4487
GS MBS-E-001927784	2367	4449
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GS MBS-E-001992556	2641	5330
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GS MBS-E-002002522	2419	4525
GS MBS-E-002003102	2415	4497
GS MBS-E-002006149	2424	4526
GS MBS-E-002011152	2483	4615
GS MBS-E-002045021	1588	3196
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GS MBS-E-002134411	2041	3925
GS MBS-E-002135667	2044	3929
GS MBS-E-002195434	2037	3917
GS MBS-E-002201055	2056	3944
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GS MBS-E-002620292	2019	3902
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GS MBS-E-007974381	2517	4783
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GW 108645	2667	5431
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HUD-CDO-00003155	2618	5303
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JPM_WM01022322	686	314
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Office of Thrift Supervision

FACT SHEET

1700 G Street, N.W., Washington, D.C. 20552 • Telephone (202) 906-6677 • www.ots.treas.gov

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Thursday, September 25, 2008
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CONTACT:
William Ruberry
(202) 906-6677
Cell – (202) 368-7727

OTS Fact Sheet on Washington Mutual Bank

Institution Profile

- Total assets as of June 30, 2008: $307.02 billion
- Primary executive and business segment headquarters are located in Seattle, Washington.
- Branches: 2,239 retail branch offices operating in 15 states
- 4,932 owned and branded ATMs
- Employees: 43,198 at June 30, 2008

Recent Deposit Flows

- Because of adverse events in the financial markets, material outflows began on September 15, 2008. Coupled with further rating agency downgrades of Washington Mutual Inc. (WMI, the top-tier holding company) and Washington Mutual Bank (WMB or the Bank), the Bank experienced a net deposit loss of $16.7 billion through September 24, 2008.

Other Financial Details (as of June 30, 2008)

- Total deposits: $188.3 billion
- Brokered deposits: $34.04 billion
- Total borrowings: $82.9 billion primarily comprising Federal Home Loan Bank advances of $58.4 billion and $7.8 billion of subordinated debt
- Loans held: $118.9 billion in single-family loans held for investment - this includes $52.9 billion in payment option ARMs and $16.05 billion in subprime mortgage loans
- Home Equity Lines of Credit (HELOCs): $53.4 billion
- Credit Card Receivables: $10.6 billion

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Dochow_Darrel-00076154_001

- Total loan servicing: $689.7 billion total loans serviced, including $442.7 billion in loans serviced for others and $26.3 billion of subprime mortgage loans
- Non-performing assets: $11.6 billion, including $3.23 billion payment option ARMs and $3.0 billion subprime mortgage loans

Institution History

- WMI is the top-tier savings and loan holding company and owns two banking subsidiaries, WMB and Washington Mutual Bank, fsb (WMBfsb), as well as nonbank subsidiaries.
- Since the early 1990s, WMI expanded its retail banking and lending operations organically and through a series of key acquisitions of retail banks and mortgage companies. The majority of growth resulted from acquisitions between 1996 and 2002. On October 1, 2005, the Bank entered the credit card lending business by acquiring Providian Financial Corporation. These acquisitions enabled WMB to expand across the country, build its customer base, and become the largest savings and loan association in the country.
- The Bank had four business segments: the Retail Banking Group, the Card Services Group, the Commercial Group and the Home Loans Group. WMB is a leading originator and servicer of both single- and multi-family mortgages and a major issuer of credit cards.

Recent Events

- *Changes in Business Strategy* - Beginning in late 2006 through today, WMB was proactively changing its business strategy to respond to declining housing and market conditions. Changes included tightening credit standards, eliminating purchasing and originating subprime mortgage loans, and discontinuing underwriting option ARM and stated income loans. Management reduced loans originated for sale and transferred held for sale loans to the held for investment portfolio. WMB was focusing on shrinking its balance sheet and developing a retail strategy through its branch operations.

- *Reduction of Overhead Expenses* - In December 2007, WMB announced the resizing of its Home Loans business including the elimination of approximately 2,600 employee positions, closure of approximately 190 home loan centers and sales offices, and closure of nine loan processing and call centers.

- *Maintaining Capital* - In late 2006 and 2007, WMB began to build its capital level through asset shrinkage and the sale of lower-yielding assets. In April 2008, WMI received $7.0 billion of new capital from the issuance of common stock. Since December 2007, WMI infused $6.5 billion into WMB. WMB met the well-capitalized standards through the date of receivership.

2

- *Operating Losses* - WMB recorded a net loss of $6.1 billion for the three quarters ended June 30, 2008. In the second quarter of 2008, WMB management disclosed that the Bank's credit quality had deteriorated and it might incur up to $19 billion in losses on its single-family residential mortgage portfolio. WMB increased its loan loss provisioning in response to the deteriorating housing market. Loan loss provisions increased from $1.6 billion in the fourth quarter of 2007, to $3.6 billion in the first quarter of 2008 and $6.0 billion in the second quarter of 2008.

- *Deposit Outflows* – Since July 2008, the pressure on WMB increased market conditions continued to worsen. Significant deposit outflows began on September 15, 2008. During the next eight business days, WMB deposit outflows totaled $16.7 billion, shortening the time available to augment capital, improve liquidity, or find an equity partner. Given the Bank's limited sources of funds and significant deposit outflows, it was highly likely to be unable to pay its obligations and meet its operating liquidity needs.

- *Receivership* - With insufficient liquidity to meet its obligations, WMB was in an unsafe and unsound condition to transact business. OTS placed WMB into receivership on September 25, 2008. WMB was acquired today by JPMorgan Chase. The change will have no impact on the bank's depositors or other customers. Business will proceed uninterrupted and bank branches will open on Friday morning as usual.

OTS Enforcement Actions

- October 17, 2007 – Issued a Cease and Desist Order related to deficiencies in Bank Secrecy Act/Anti-Money Laundering (BSA/AML) programs
- October 17, 2007 – Assessed Civil Money Penalties (CMPs) related to violation of flood insurance regulations
- November 14, 2007 – Initiated a formal examination of the appraisal process to assess the validity of a complaint filed by the New York Attorney General's (NYAG) Office
- February 27, 2008 – Issued overall composite ratings downgrade and received a Board resolution in response to the supervisory action
- June 30, 2008 – Issued Memorandums of Understanding to WMI and WMB
- September 19, 2008 – Issued overall composite ratings downgrade

OTS Profile
Established - 1989
Thrift institutions supervised as of June 30, 2008 - 829
Thrift industry assets supervised as of June 30, 2008 - $1.51 trillion
OTS employees - 1,055
Washington Mutual Bank assessment revenue – 12.2 percent of 2008 OTS budget

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Washington Mutual to Acquire PNC's Residential Mortgage Business

Business Wire, Oct 2, 2000

Business Editors

SEATTLE--(BUSINESS WIRE)--Oct. 2, 2000

Transaction to Make Washington Mutual Nation's Third Largest

Mortgage Originator and Fourth-Largest Servicer of Home Mortgages

In a major step that expands its home loan origination and servicing business nationally, Washington Mutual (NYSE:WM) today announced the signing of a definitive agreement to acquire the residential mortgage business of the PNC Financial Services Group for approximately $605 million in cash subject to customary closing adjustments. The acquisition further diversifies Washington Mutual's mortgage operation geographically and enhances the company's already strong position in the home loan business, making it the country's third-largest mortgage originator and fourth-largest servicer of residential mortgages, based on data for the first half of 2000.

Under the terms of the agreement, Washington Mutual will pay a premium of $212 million over the agreed-upon fair-market value of PNC's equity, which was $393 million at June 30, 2000. The purchase price represents a multiple of approximately 9.4 times the adjusted net income for the PNC Financial Services Group's residential mortgage business for the 12 months ending June 30, 2000. The mortgage servicing rights being acquired are valued at 2.27 percent of the $85 billion mortgage servicing portfolio of PNC.

As a result of the transaction, which will be accounted for as a purchase, Washington Mutual expects to record total intangible assets or "goodwill" of $249 million, which includes $37

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million of acquisition-related expenses. The vast majority of this goodwill is tax deductible. The acquisition is expected to be accretive to both cash and reported earnings per share by 2002.

With the completion of this transaction - - and the recently announced agreement to acquire Bank United of Texas - - Washington Mutual would manage a mortgage servicing portfolio of approximately $291 billion, based on June 30, 2000 data. In addition, PNC's significant fixed-rate origination capacity will complement Washington Mutual's adjustable-rate mortgage focus. Over the past three years, PNC's mortgage originations have averaged $20.0 billion. Washington Mutual generated mortgage originations totaling $39.4 billion for the 12 months ended June 30, 2000.

"In one move, we have greatly accelerated Washington Mutual's progress in achieving one of its key business initiatives: combining the strengths of a portfolio lender and mortgage banker to enhance our capacity to originate loans throughout the entire interest-rate cycle and to do so through a broad national footprint," said Kerry Killinger, Washington Mutual's chairman, president and CEO.

"PNC Mortgage is a terrific match for our company in a business that will increasingly require just this sort of scale, breadth and flexibility to deliver shareholder value in the future."

The transaction will not only complement Washington Mutual's already substantial penetration in its key markets in the West, but will offer Washington Mutual significantly broader distribution in highly attractive Midwestern and Northeastern markets. Based on originations for the first half of 2000, the combined entity would hold the No. 1 mortgage-market-share position in the states of California, Connecticut, Illinois, Massachusetts, Oregon, Pennsylvania and Washington. The combined entity would also possess a top-five-market-share position in the nation's five largest mortgage origination states: California, Florida, Illinois, New York and Texas.

PNC announced its plans to explore a potential sale of its residential mortgage business in July, citing the significant capital investment that would be needed to meet the accelerating scale requirements of the business.

"Washington Mutual provides the scale that will be required to compete effectively in the mortgage business of the future," said James E. Rohr, president and chief executive officer of The PNC Financial Services Group. "We will continue to deliver a full line of residential mortgage products to PNC's customers through an agreement with Washington Mutual, and are committed to working with them to maintain the high level of service that PNC's customers expect from us."

Killinger added that PNC's fixed-rate origination capacity should enhance Washington Mutual's ability to generate additional fee income from gain-on-sale and loan servicing activities. In addition, the transaction adds a mature correspondent business that complements Washington Mutual's retail and wholesale brokerage distribution channels. It also further broadens Washington Mutual's capabilities with the addition of a private mortgage conduit business that includes a master-servicing portfolio of approximately $36 billion.

"PNC Mortgage not only enhances our competitive position in the marketplace, it enables us to build upon an already strong foundation of scale, efficiency and premier service," Killinger concluded.

Washington Mutual said that it plans to undertake a comprehensive review of the combined operations to determine the optimal combination of sales, service and administrative resources, with resulting cost synergies ranging from $60-65 million.

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Washington Mutual

MEMORANDUM

DATE: June 1, 2004
TO: Board of Directors
FROM: Kerry Killinger
RE: Strategic Direction

INTRODUCTION

2004 marks the fifth year of the current five-year plan. In 1999, we developed a plan to increase shareholder value by growing a national consumer banking and mortgage lending franchise. Five years ago, we had just over 1,000 financial centers (predominantly located in the Pacific Northwest and California), with total deposits of $81 billion, consumer loans of $8.5 billion and annual mortgage originations of $40 billion. By the end of 2004, we will have about 1,948 financial centers, $165 billion of deposits, $40 billion of consumer loans and annual mortgage originations of approximately $224 billion.

In this five-year plan, we set out several financial targets. The most important targets included achieving an average ROE of 20% and an EPS growth rate of 13%. Secondary targets included maintaining a NPA ratio of less than 1%, maintaining a tangible common equity ratio of at least 5%, and achieving a 45% operating efficiency ratio.

Financial performance over the five-year period is expected to modestly under-perform the long-term financial targets. Prior to revisions in our 2004 Financial Plan for recent increases in interest rates, both ROE and EPS growth exceeded target. However with revisions based on a 4.75% 10-year Treasury yield in 2004 (versus 4.00% in the Plan), EPS growth over the five-year period is expected to reach 11% and ROE will average close to 20%. Over this five-year period, it is expected that the NPA ratio will have averaged 0.8%, the tangible common equity will have averaged 5.12% of assets, and the operating efficiency ratio will have averaged 52%. It should be noted that we did achieve our 45% efficiency ratio target for several quarters during the period.

Reflecting back over the past five years, there were several notable strategic successes for our retail banking group. The acquisitions of Dime Savings and Bank United helped expand our consumer banking franchise. We also had successful de novo market entries into Las Vegas, Phoenix, Atlanta, Denver, and Chicago. Our award-winning advertising drove in net customer growth of close to three million banking households. We introduced the Occasio store designs and opened nearly 500 new stores. Our brand position and name recognition grew throughout the nation.

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We were also successful in expanding our home lending franchise. The acquisitions of PNC Mortgage, Fleet Mortgage, Home Side Lending, and North American Mortgage were augmented with de novo growth. Our national market share of mortgage originations and servicing increased from about 3% in 1999 to close to 10% in the first quarter of this year. #1.5bil investment 01- 600 02 #1.3bil 03 -#1.3bil.
Finally, we expanded our multi-family lending business, becoming the national market leader, with a market share exceeding 10% in all of our West Coast markets.

On the challenge front, we experienced ongoing regulatory, compliance, and technology issues. These were primarily centered in our home lending business and were caused by rapid growth, attempts to develop cutting edge technology solutions, and a series of refinancing booms which delayed our ability to complete the acquisition integrations. We also needed to develop the capacity to manage complex MSR and pipeline hedging. And we needed to replace some management personnel and bring in several new executives to help manage a much more complex company.

Overall, shareholders did very well over this five-year period. The share price increased from $17.06 (split adjusted) on December 31, 1999 to $ 43.90 per share on May 31, 2004. This increase, combined with increasing cash dividends, provided a total compounded annual return of 28% per year versus -6% for the S&P 500 over the same period.

Our overall assessment is that shareholders and other constituencies benefited from the successful execution of this five-year plan.

NEW FIVE-YEAR PLAN

Following is a broad framework for a new five-year strategic plan. As always, we will adjust the plan for significant changes in the financial environment and new opportunities and threats that inevitably occur over a five-year period.

We believe that successful execution of this plan has the potential to create significant value for our shareholders. We also believe that the risks inherent in the plan are reasonable and can be appropriately managed.

Mission

WaMu is better positioned than any company in America to build a nationwide network of stores serving every day, average consumers with attractively priced financial services. We take care of these customer's needs for checking, savings, investments, insurance, home loans, home equity loans, credit cards and small business needs. The market is huge and we have a head start over competitors who have traditionally had difficulty effectively serving this customer base. Our keys to success are 1) focus, 2) driving world class efficiency, 3) maintaining a friendly service culture and 4) brisp execution.

Tests: 1) doing few things
2) world class efficiency
3) friendly service
4) 2 EXECUTION - quick turn times

Accordingly, our mission is to create one of the nation's leading retailers of financial services to consumers and small businesses. By providing products and services which offer great value and friendly service, by attracting and retaining the best and brightest employees in our industry, and by helping our communities prosper, we will achieve our mission and, thereby, create significant long-term value for our shareholders. We will pursue our corporate mission by adhering to our corporate values of integrity, respect, teamwork, innovation, and excellence.

Long-Term Financial Targets

Our primary financial targets for the next five years will be to achieve an average ROE of at least 18% and average EPS growth of at least 13%. We believe achievement of these targets will likely result in above-average performance and could place us in the top one-third of financial industry competitors. For a perspective, median ROE and EPS growth for the S & P Financial Index was 15% and 10%, respectively, over the past five years ('98 – '03). The preliminary 2005-2009 plan suggests average ROE and earnings per share growth meeting these targets, although 2005 is expected to be another difficult year. Both 2004 and 2005 are severely impacted by the sharply higher interest rate environment and its effect on the mortgage business.

It should be noted that purchase accounting and the creation of goodwill on the Dime acquisition reduced ROE by about 3%. This, along with our expectation of higher interest rates caused us to revise our long-term ROE target to 18%. It is also noted that long-term earnings growth is the key to creating shareholder value. As has been the pattern in the past, we anticipate a certain amount of year-to-year earnings volatility driven by changes in interest rates and other non-controllable factors. As Exhibit A illustrates, even with our forecasted 2004 results, the current five-year period's volatility is significantly lower than that of the prior five-year period.

Secondary financial targets include achieving an operating efficiency ratio of 45% by 2009, maintaining a tangible equity ratio of at least 5% and maintaining average annual net charge offs of 0.25% over the period.

In summary, despite our greatly increased size and a relatively low inflation environment, we are maintaining a robust average earnings growth target over the five-year planning period.

WaMu in 2009

Before digging into the details, let's visualize the size and scale of Washington Mutual at the end of 2009. We hope to see assets grow by at least 10% per year, reaching about $500 billion in 2009. We see this annual asset growth being funded about 50% by deposits and 50% by collateralized borrowings such as FHLB advances and repurchase agreements. We will strive to keep annual asset and deposit growth to plus or minus 5% around the 10% growth target (5% to 15% asset growth range).

We assume, as a rough approximation, that capital will be deployed 40% through cash dividends, 10% through share repurchase and 50% through retention to support balance sheet growth. Our basic plan assumes neither acquisitions nor the raising of additional capital.

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We expect our balance sheet growth to be driven by consumer loans, multi-family loans, residential non-prime, and adjustable rate mortgage loans. Because percentage growth in consumer, multi-family, and residential non-prime loans will be especially strong, we expect to slightly increase the percentage of our balance sheet made up of these higher yielding loans.

We expect to increase our financial center store system by at least 250 stores per year, reaching close to 3,100 stores by 2009. We believe that continued new store growth is critical to our ability to meet our financial targets and build long-term franchise value. We will focus our new store growth in existing markets and may open in two or three new urban markets over that five-year period. Excluding any stores we may close in non-footprint markets, our home loan center system will expand by about 25 locations annually over the next five years, and we should end 2009 with approximately 500 stores concentrated in markets where we have banking stores. We will more closely align home loan centers and financial centers in 2005 and beyond which may affect the projected growth number for home loan centers over the next five years. Combining all stores, we expect to increase our store total from 2,400 by the end of this year to about 3,600 by 2009.

As indicated with our financial targets, our goal is to increase EPS by at least 13% per year on average. Based on our five-year financial forecast, we hope to achieve absolute earnings of about $7 billion and EPS of just over $8.00 in 2009. This translates into average EPS growth of 18% over the period off of our depressed 2004 starting point.

Assuming a $40 per share stock price at year end 2004, a 40% cash dividend payout over the five-year period, and the successful attainment of our growth forecast, total shareholder return over this period could reach 19% per year if our stock sells at ten times earnings in 2009. While our business model, which will continue to include cyclical mortgage banking components, may continue to produce a below average price/earnings multiple, some expansion could occur if we bring down our cost base and demonstrate best-in-class execution over the next five years. Expansion of the price/earnings multiple to 12 would result in a 23% annual total shareholder return. We believe returns in this range will compare very favorably to the S&P 500 and most financial services companies.

In a consolidating industry, it is appropriate to continually assess if shareholder value creation is best achieved by selling for a short-term change of control premium or to continue to build long-term value as an independent company. We believe remaining an independent company is appropriate at this time because of the substantial growth opportunities we see ahead. We are especially encouraged with growth prospects for our consumer banking group. We would also note that our stock is currently trading at a price which we believe is substantially below the intrinsic value of our unique franchise. This makes it even more important to stay focused on building long-term shareholder value, diligently protecting our shareholders from inadequate unsolicited takeover proposals and maintaining our long held position of remaining an independent company.

Retail Banking Strategy

Our strategy over the next five years is to more fully penetrate our existing markets through the opening of at least 250 new retail banking stores per year and to improve the cross sales of

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products to all of our customers. We believe market demand is sufficient to support the new store growth. The states in which we operate are some of the most populated and fast growing states in the country. While we may wish to enter two or three additional markets over the next five years, our existing footprint states appear to provide plenty of growth opportunities for Washington Mutual. Attached in Exhibit B is a summary of current and projected market shares for key products and services. You will note that, given our 2.7% assumption for average growth in the bank deposit market, we need to achieve increased market share in deposits and consumer loans in order to meet our asset and deposit growth targets. By 2009, we need to increase our share of deposits from 4.5% to 5.8%, and our share of consumer loans (Home Equity 2nds) from 5.6% to 7.3% in our current and planned footprint states. We believe these growth targets are aggressive, but attainable if the overall deposit and consumer loan markets continue to grow at reasonable rates.

The summary operating tactics required to achieve our overall strategy for our Consumer Banking Group over the five-year period include the following:

- We will continue our program to open at least 250 new banking stores per year over the next five years.
- We will initially seek to drive in about $13 billion of deposit growth per year, rising to about $18 billion per year by the end of the five-year plan. We expect retail deposits will contribute about 4/5 of the deposit growth on average, with the balance coming from wholesale deposits. Deposit distribution will be primarily through the financial centers, but augmented by wholesale deposit taking, Internet, and call center sales.
- We will continue to lead with our Free Checking and Platinum accounts. Our goal is to drive in at least 750,000 net new accounts per year.
- We will continue to focus on our cross selling efforts with a goal of increasing our products and services cross sales ratio from the current 5.7 to 7.0.
- We expect consumer lending to continue to show high growth over this period, averaging at least 15% per year. The key product will be home equity loans and we expect that portfolio to grow by approximately $10 billion per year.
- We plan to aggressively promote Free Checking for small businesses throughout this period. Our recent national launch of this product has been successful and we look to add net growth in total business checking of about 240,000 accounts per year.
- We will focus our distribution of insurance and securities products through a force of licensed bank personnel. By 2009, we expect to have 1,500 licensed bank personnel selling these products, up from only 75 today.
- We intend to maintain limited distribution of insurance and securities products through Series 7 licensed financial consultants. We have not been particularly successful in leveraging this distribution force over the years and have achieved mixed financial results. However, these services are important for maintaining overall relationships with our wealthier customers.
- We are examining strategic alternatives for our mutual fund complex. Our fund complex has had good performance and grown over the past few years, but at around $20 billion of assets under management, it is a small player in the mutual fund industry. We also face management succession issues in our investment management company. Finally, we will continue to carefully monitor changing regulatory and enforcement actions in the mutual fund industry.

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- We intend to launch a WaMu credit card product in 2005. Marketing will be focused on existing WaMu customers. We will carefully manage credit and anticipate balances increasing to about $2.3 billion at the end of the five-year planning period.

Mortgage Banking

Over the past five years, we worked to create scale and a leading market position. Through a series of acquisitions, we created a very broad-based mortgage banking operation serving all channels of delivery (retail, wholesale, correspondent, Internet, call centers, affinity groups and financial centers), with a broad set of products over a wide geography. While this strategy helped us claim leading market share, it also ballooned our cost structure and limited our ability to focus on value-added activities. The inherent cyclicality and rapid shifts in market size and competition which characterize the mortgage banking business also added enormous volatility to our earnings, due to MSR management, the variability in the amount of gains on mortgage sales, and the difficulty in managing the business to match expenses with falling revenues during periods of rising interest rates.

As our 2004 and 2005 projections demonstrate, our business has embedded volatility driven by the effects of interest rate cycles on mortgage banking earnings and the inherently high volatility of some key parts of the mortgage banking business model, such as MSRs. This is in contrast to the relative stability we experience in our retail banking and commercial businesses. Although we are taking further actions to reduce volatility in our mortgage business, we have concluded that we cannot eliminate all of the volatility in our business without hurting the fundamental profitability of the company. The inescapable fact is that there is volatility in the mortgage banking business and investors need to understand that our earnings can be volatile at certain points in the cycle and that short-term volatility is not a reflection on operating performance, but an expected part of our business strategy. We intend to clearly communicate this to the investment community.

That doesn't mean we're "giving up" on reducing the volatility in the mortgage banking business by any means. We are working right now on plans to "right size" the interest rate driven variability of our mortgage banking model to find that "sweet spot" that creates the mixture of net income and volatility that delivers the highest total shareholder return to our investors over the period.

Over the next five years, we believe it is appropriate for us to narrow our focus in the mortgage area and take advantage of our unique strengths rather than trying to spread ourselves too thin. In other words, our strategy is shifting from being a national market share leader to a focused national mortgage lender emphasizing areas of strategic advantages.

We believe we have several key strategic advantages:

- Because of our balance sheet size, we can portfolio more loans than most major competitors.
- By bringing the management of the consumer banking and mortgage banking operations together and integrating parts of the organization, we have a good chance of cracking the code of cross sales to mortgage customers.

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- By focusing our retail mortgage activities in footprint states (those states where we have a retail banking franchise), we will be able to leverage the WaMu brand and marketing spend and focus on customers with a high propensity to purchase our products.
- Our retail home loans sales force is one of the most productive in the industry.
- We have a robust data base which should allow us to use customer data to improve credit decisioning and MSR prepayment management.
- We have good experience in managing non-prime residential loans.

Due to these advantages, we will refine our mortgage strategy to focus on retail mortgage origination in our footprint states. Wholesale and correspondent will be nationwide and retooled to deliver higher margin products. Instead of maximizing national market share, our goal will be to maximize *profitable* market share in footprint states. We do not have market share as a goal, but we do expect our share of market in footprint states to gradually increase from 10.8% in 2004.

- We view the retail and wholesale origination channels to be the key to building a sustainable home lending franchise. Correspondent lending, on the other hand, has little franchise value and should be utilized on an opportunistic basis to originate higher margin products or during those parts of the cycle when we want to acquire MSR assets.
- While we hope to improve the economics of mortgage servicing rights by increasing cross sales to those customers, there is little evidence to suggest that we can do this effectively in geographic areas other than where we have a retail banking presence. As such, we will focus on maximizing our servicing market share in those footprint states in which we have a retail banking presence.
- Our goal over the next five years is to increase the cross sell ratio of mortgage customers from 2.86 relationships (excluding Long Beach Mortgage & Specialty Mortgage Finance) to 3.6. Key products for sale to mortgage customers include home equity loans and checking accounts.
- We must significantly reduce the cost of originating mortgages by adopting automated underwriting and other loan fulfillment processes. Our multiple origination platforms have led to very poor efficiency. Our goal is to increase automated underwriting to 80% or more, which we expect to have a positive affect on the cost of origination. The prime residential mortgage business has very thin margins and it is essential to become a low cost originator. We have a long way to go in becoming an industry leader in efficiency.
- Our mortgage servicing portfolio is approximately $723 billion. While our servicing portfolio will probably increase gradually, we anticipate that a growing percentage of the serviced loans will be portfolio loans versus loans serviced for others. It is also critical that we become an industry leader in loan servicing efficiency. Due to maintaining two servicing systems we are currently incurring above-average servicing costs. Our goal is to decrease the cost of servicing a loan from today's $106 to $80 by 2009. Our conversion to a common servicing system in the middle of 2004 will aid in this effort and additional operational excellence initiatives will be required.
- MSR assets provide modest returns (averaging about 9-13% ROE over the cycle) and extraordinary volatility. MSRs are highly sensitive to minor changes in interest rates and technical market factors, and despite the best efforts of our Treasury team, never perfectly match up to hedge performance. The accounting for these assets exacerbates their effect on reported earnings. The result is quarterly and annual earnings volatility

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which investors (and management) find troublesome. In addition, high levels of MSR assets as a percentage of capital cause rating agency and regulatory concerns. We are actively pursuing a number of potential methods for gradually reducing our exposure to MSRs, including selling off IO tranches, decreasing core servicing fees, decreasing excess servicing fees and selling off non-strategic loan servicing (in non-footprint states). Our goal is to reduce MSR balances to a level that produces acceptable levels of quarterly and annual volatility without reducing net income excessively.

Multi-Family Lending

Our strategy is to be the nation's dominant multi-family lender. We pioneered the development of low-cost, highly efficient and standardized underwriting, processing, and servicing for small multi-family loans in select urban markets. These capabilities catapulted us into the No. 1 position in the industry. We intend to leverage our leadership position in key markets in footprint states by originating both adjustable-rate and fixed-rate multifamily products. We will generally retain adjustable rate products in our portfolio and sell the fixed-rate products to the secondary markets. We expect our strategic partnership with Fannie Mae to significantly increase the origination of adjustable rate multi-family loans over the next five years. We anticipate annual portfolio growth of about $6 billion over this period. - whole comml area

ISSUE - limits w/ Larger borrowers

Non-Prime Residential Mortgages

Our non-prime residential activities currently include originations through Long Beach Mortgage, our purchased portfolio of non-prime residential loans (SMF portfolio), and loans originated through our home loans group. Loans of this type held in our portfolio currently total approximately $60 billion. Our SMF and Long Beach activities have provided excellent risk-adjusted returns over the past several years, consistently exceeding our 20% return thresholds. However, the bulk of our non-prime loans have been originated through the home loans channel with uniform pricing and terms that did not reflect their true risk profile. opportunity for improvement

Through Long Beach Mortgage, our origination market share of non-prime residential mortgages is currently around 4%. Long Beach has focused its past distribution through the wholesale channel. Over the next five years, we will seek to carefully increase our national origination market share of non-prime mortgages. To accomplish this, we will need to develop a retail distribution to complement the existing wholesale distribution, focused primarily in our footprint states. We may also leverage the Bank's financial center system to distribute some non-prime residential mortgages.

Over time, we plan to increase the percentage of non-prime residential loans originated by Long Beach which are held in portfolio. To maximize this flexibility, we may seek to make Long Beach a subsidiary of our federal association.

We believe there is a good opportunity to expand the origination of non-prime residential first and second mortgages through both our consumer banking and home loan stores. Automated underwriting tools and risk-based pricing should help us increase the returns on non-prime loans originated through these channels. Because of the growing importance of non-prime lending, we

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are in the process of developing a comprehensive non-prime lending policy for the entire complex.

Industry Leading Efficiency

To achieve our financial targets, it is essential that we become best-in-class operators in each of our businesses. We have significant work to do to accomplish this objective. While we made good progress in improving our efficiency ratios in 2000 and 2001, the last couple of years were challenging because of mortgage banking acquisitions and a rapid escalation in corporate support activities. It is imperative that we complete those acquisition integrations and focus on bringing best-in-class efficiencies in all areas of the organization.

As a general rule, we will seek to achieve 5% productivity improvements in all areas of the organization each year over the next five years. Our overall plan is to grow our asset base and revenues by approximately 10% per year while limiting our expense growth to about 5%. While these are very ambitious goals (over the past five years the top ten banks have produced productivity gains that averaged 0.7%), our efficiency ratio is currently higher than almost all of our peer banks so we believe that there is significant opportunity for us to produce productivity gains for an extended period.

We intend to migrate the excellent work which has been done in attacking the $1 billion in cost savings into an ongoing commitment to improving productivity. We have the key tools in place with Operational Excellence and will charge the Operating Forum (group of senior leaders headed by Craig Chapman) with driving consistent oversight of productivity improvements. It is important that we establish best-in-class benchmarks for efficiency for each business unit and corporate support group and to drive efficiency improvements on a comprehensive, company-wide basis. This will be a multi-year effort of historic proportions, and will require fundamental shifts in the company's processes, organizational structure and culture. The dislocations will be severe and many of our employees will be unhappy with this shift and resistant to necessary change. We will focus on open and regular communication with our employees to help them see that this approach to productivity is necessary for the success and independence of the company and not a passing "fad."

Our long-term target is to improve the operating efficiency ratio to 45% from the current level of about 60%. As we gain traction on productivity enhancements, it is possible we can reduce the efficiency ratio even further. As an aside, the efficiency ratio is volatile because of changing revenue sources, such as margin and gains on sale. Accordingly, we will also target improving the ratio of operating expenses to average assets from today's 2.8% to 2.2% by 2009.

Diversification

We have been engaged for some time in a discussion internally and with you about the benefits and costs of further diversification of our business lines, balance sheet and income statement. The more deeply we have looked into this question, the more we have come to the conclusion that our current business model is likely to deliver higher total shareholder returns over the next five years than any more diversified model that could be reasonably achieved by our company over that period. This is a function both of our confidence that a combination of balance sheet

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growth, management focus and high productivity can drive very strong earnings for the company in its current configuration and of our conclusion that any effort at business line diversification over the next five years, whether organic or based on acquisitions, would be unlikely to materially change our risk/return profile or price/earnings multiple, given our enormous size and the predominance of mortgage-related assets on our balance sheet.

So over the next five years our watchwords will be "narrow and focused" rather than "broad and diversified." We will put all our efforts into our core businesses of retail banking for the broad middle market, including consumer and small business deposits and consumer lending, mortgage banking, with a concentration on our retail footprint and the generation of assets for our balance sheet; and the commercial group's growing multifamily, commercial real estate and non-prime mortgage lending lines.

As I mentioned earlier, this does mean that we will be willing to accept some more of the earnings volatility inherent in our mortgage-driven business model than we might experience if we were a more "fully" diversified commercial bank. On the other hand, we will not be exposed to some of the risks taken by diversified companies. One only needs to look at the financial and reputational penalties being paid by money-center banks for some of their diversified activities to see that diversification itself brings risks. Focus also means that our management team and employee base can concentrate on innovative approaches to the businesses they know best and put all their energies into the task that will have the greatest impact of all on our five-year shareholder return and our longer-term financial and competitive success —creating a best-in-class culture of productivity and efficiency.

Enterprise Risk Management

Over the past couple of years, we have greatly improved the overall measurement and management of our enterprise risk management. With the expected implementation of the Basel II requirements, effective measurement and management of enterprise risk become even more important.

For Washington Mutual, we expect our key risks to continue to center on interest rate risk and credit risk. As we balance these risks, we intend to generally take on less interest rate risk (by reducing exposure to the MSR asset) and more credit risk (with more home equity, Alt A and non-prime residential loans) over the next five years. Regarding credit risk, we are targeting a 0.25% average annual charge-off. Based on long-term historical averages and our projected change in asset mix, the worst-case and best-case charge-off ratios we could expect to encounter at any point during the five-year plan should run from a maximum of 0.60% to a minimum of 0.15%. It is noted that charge-offs in the past couple of years have averaged only 0.10% (excluding WM Finance). Our goal over the next five years is **not** to minimize credit risk but to achieve annual credit charges within the targeted range and to average 0.25%. We plan to gradually increase our risk exposure to the targeted levels. This will entail gradual increases in home equity, Alt A, non-prime residential and multi-family lending portfolios.

We will maintain appropriate loan loss reserves relative to the anticipated credit charges. Based on probable loan portfolios, we will likely maintain loan loss reserves of about three to four times expected annual charge-offs.

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Regarding interest rate risk management, we will continue to experience margin variations because of the re-pricing lag of our adjustable rate mortgage assets when interest rates change. Our targeted net interest margin over the five-year period is 3%, and we expect the range of the margin to be 2.8% to 3.2% in a normal, upwardly-sloping yield curve. A dramatic flattening of the yield curve would push the margin below 2.8%; however, the cost of reducing interest rate risk beyond this amount is prohibitively expensive and not recommended.

We also encounter significant interest rate risk with the management of MSRs. Because this asset must be continuously marked to market, it can fluctuate in value by over $1 billion in a short period of time. Much of this fluctuation can be hedged, but there is no such thing as a perfect hedge. Accordingly, the best risk mitigation strategy may be to simply limit the size of the asset. We are analyzing what MSR balance will deliver the optimal level of earnings and lower volatility; as a placeholder we believe a target for net MSR to tangible equity of 25% - 35% may be reasonable. In comparison, Wells Fargo's net MSR was equal to 25.1% of tangible equity and Countrywide's was equal to 72.9% at the end of March.

Other keys risks for the organization are reputation and operational risk. We believe the execution of the new five-year plan will reduce both of these risks from what was incurred with the rapid expansion of the past five years. By focusing on our core businesses and operating predominantly in our footprint states, we should be in an improved position to assess and manage these risks.

Technology

We will need to continue to invest heavily in technology. To achieve our desired 5% per year improvement in productivity, we will need continuous improvements in all of our key operating systems. We do not plan to develop any leading-edge technology, but will rely primarily on large, stable platforms. We expect our core banking deposit system to support our growth over the next five years.

We do anticipate making significant investments in front-end and middleware systems that will allow us to better connect all of our legacy systems at point-of-sale and other customer interaction points.

Lessons learned from the past five years are that we will insist on all acquisitions being fully integrated into the complex within a few months or deliberately left to operate separately on a permanent basis; that we will not develop any cutting-edge new technology platforms; that we will improve the documentation and change management processes for all new systems and applications; and that we will closely monitor the total capital expenditures through corporate prioritization processes.

Acquisitions and Divestitures

The financial services industry continues to go through significant consolidation. Most financial services companies have limited opportunities to grow revenues and, thus, are looking for cost savings initiatives to help fuel earnings growth. Acquisitions are an obvious way to achieve cost

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efficiencies. For Washington Mutual, we believe we can meet our financial targets without making any acquisitions as long as we achieve our annual productivity improvement targets. As such, we will review acquisitions on an opportunistic basis, but do not feel compelled to acquire.

Priorities for acquisitions include branch delivery systems (which would aid in growing our consumer bank), multi-family originators and non-prime origination businesses. At present, our relatively low price/earnings multiple makes stock-based acquisitions very challenging from a financial standpoint and large cash transactions put pressure our capital levels. We do not believe that acquisitions are required to expand our product lines as quality products can often be achieved at very attractive economies of scale through other parties. As such, we do not feel compelled to acquire credit card or insurance companies for access to these products.

Regarding divestitures, businesses which are not viewed as core currently include homebuilder finance, commercial banking and mutual fund management. In assessing these businesses, we will review return on common equity, earnings growth potential, management distraction, new capital requirements, and possible sales prices.

Key Challenges

Following are the key challenges we will face in executing our strategic plan:

Competition will be intense in all business lines. In retail banking, Wells Fargo, Wachovia, and Bank of America are expected to be keen competitors. They are all currently focused on the consumer market, have improved their operating efficiencies, and have greatly improved customer service. We do expect this competition to make it more difficult to achieve the same new customer growth that we experienced during the past five years. However, we continue to believe that our value propositions will result in achieving our growth targets.

In the mortgage banking business, top competitors are Countrywide, Wells Fargo, and, to a lesser degree, Chase, Citigroup, and Bank of America. Countrywide is arguably the strongest competitor at this time because of system stability, strong profitability, excellent risk management and aggressive growth plans. Countrywide has publicly stated its desire to increase national market share from 10% to 30% over the next five years. Rather than competing with them everywhere in the country, we believe we will be best served by focusing on our footprint states and with portfolio products which emphasize our much stronger balance sheet.

In the multi-family lending area, our primary competitors are smaller independent banks around the country. Only Citigroup and ABN AMRO-LaSalle among the larger banks have any significant share. Another potential competitor in this space over the next five years could be Countrywide, which could copy the consumer mortgage-inspired operational and credit model we use. We have a clear head start in achieving excellent efficiency in standardizing the approaches to distributing multi-family loans. We do not see another national competitor at this time impacting our growth.

~ plans $100 bil to 200 bil pretax to $2 bil to $6 bil

In the non-prime residential area, key competitors are Ameriquest, Option One, New Century, HSBC/Household, Wells Fargo, and Countrywide. GE Capital recently entered this business through an acquisition and several Wall Street firms are increasing their commitment as well.

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Another challenge concerning us is the rapid escalation in **housing prices**. Fueled by improving employment and very low interest rates, housing prices over the past 12 months have increased at unsustainably high levels. We need to carefully watch all key markets around the country, and while we are not alarmed at this point, the possibility of housing price declines is greater than normal. The most probable scenario is for a flattening in housing prices around most parts of the country, but it is possible that higher priced homes will come under pressure in certain communities.

We believe our franchise is capable of very strong asset generation, but **deposit growth** is less certain because of competitive pressures and cyclical factors causing deposits to grow and then stabilize or contract. Our five-year plan assumes 2.7% average industry deposit growth over the next five years and we intend to grow at a rate close to 10%, and therefore will need to increase our share of deposits in order to reach our plan. Even if we attain our deposit growth goals, we will have significant wholesale borrowings through the FHLB and Wall Street sources. While most of these borrowings are collateralized, it is possible that market disruptions or political pressures could impact access to borrowed funds.

Another important challenge is to maintain a **growth orientation** in a post Sarbanes-Oxley environment. Boards and management have simply become much more risk-averse in this new era. Increasing oversight by boards has led management to spend a larger percentage of their time on risk aversion rather than growth initiatives. In Washington Mutual's case, there has been a significant escalation in the resources devoted to enterprise risk management without a corresponding increase in growth initiatives. We believe it is important for the Board and management to consistently balance appropriate risk management with a focus on growing the business. We believe the pendulum has swung a little too far to the side of risk management over the last couple of years. It is important that we all focus on growth initiatives and risk taking. Above average creation of shareholder value requires significant risk taking.

Community Commitment

We will maintain our commitment to returning 2% of pretax profits back to the communities we serve through grants, sponsorships and various programs designed to support our education and affordable housing initiatives. We expect to meet or exceed the $375 billion ten-year commitment we made to support lending in low-to-moderate income neighborhoods.

Preliminary Plan for 2005

Our 2004 financial plan was built on an assumption of a 4.0%, ten-year Treasury yield. This appeared reasonable and even conservative throughout the first three months of the year when interest rates fell to as low as 3.7%. In the second quarter, ten-year interest rates jumped to 4.85% and this will have a huge impact on our 2004 results if rates remain at these levels over the balance of the year.

Higher interest rates are leading to greatly reduced gain on sales of mortgages and pressures on our margins. These tidal wave impacts are overshadowing our efforts to reduce costs and grow other sources of income. We are also facing increased hedging costs for our MSR asset (due to

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negative convexity) and unusual volatility in MSR hedge performance. Overall, it is shaping up to be one of the most difficult years in many years. We appear to be on plan in managing the things we can control. But the impact of changing interest rates could reduce 2004 earnings per share significantly below our previous target of $4.40, which assumed a 4.0% ten-year Treasury yield. Our current assessment is that earnings per share may come in closer to $3.55 if the ten-year Treasury yield remains at the 4.75% level.

We expect to enter 2005 with mixed momentum. We would expect 2005 earnings per share to increase to about $4.25 with a 4.75% ten-year Treasury yield. On the plus side, we should have excellent asset growth, low credit costs, good non-mortgage-related fee income growth and declining expenses. On the negative side, gains on mortgage loan sales will continue to be low, loan servicing income will be low (because of increased hedging costs) and the margins will still be pressured by increasing interest rates.

In line with our five-year plan, the following are the assumptions we are using in our planning process for 2005. We believe these assumptions are sound and achievable.

- Open 250 new banking stores in existing markets. No new market entries in 2005.
- Increase net checking accounts by at least 750,000.
- Increase banking fee income by 10%.
- Increase deposits by $13 billion.
- Increase consumer loan balances by $10 billion.
- Increase non-prime residential first mortgage portfolio by $3.5 billion.
- Increase multi family loan balances by $6 billion.
- Increase residential mortgage portfolio (primarily option ARMs) by $25 billion.
- Increase securities licensed bank personnel from about 75 to about 1,000.
- Increase assets under management in the WM Group of Funds from $20 billion to $25 billion.
- Open 30 new home loan centers (15 Johnson Development Centers & 15 regular HLCs) not including potential closures.
- Complete the $1 billion cost save initiative.
- Originate $223 billion of residential mortgages (including Long Beach).
- Increase the loan servicing portfolio to about $740 billion, but reduce the MSR asset by an amount sufficient to bring MSR related volatility down to more acceptable levels. Note that net MSR balances will go up in any event if interest rates rise due to mark-to-market.

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By executing these priorities, we should be able to battle the higher interest rates and a lower mortgage market and still achieve EPS growth in 2005. Not only will it likely be a difficult operating environment, but a very challenging year due to modest margin compression, reduced gain-on-mortgage sales and the increased costs to hedge the MSR asset. We will strive to reach EPS targets, which will range from around $3.57 if the ten-year Treasury yield averages 5.25% and the yield curve flattens to around $4.77 if the ten-year Treasury yield averages 4.00%.

While the environment could change dramatically with a change in interest rates, we have assumed the following in our planning:

- The mortgage origination market will contract from about $1.9 trillion in 2004 to $1.7 trillion in 2005.
- The economy will perform well, growing at an approximately 4% annual rate.
- Housing will remain solid but prices will be flat, reflecting higher interest rates and a pause after hyper growth in 2003 and 2004.
- Regulators will remain cautious, but generally supportive. We do not anticipate significant changes other than the implementation of Basel II.
- Somehow, we will get through SOX 4044 certifications.
- Accounting policies will remain relatively constant, after a busy year of adopting FAS 133 and changing the accounting for mortgage gains.
- Competition will remain fierce. Large commercial banks will stay focused on the consumer market and the mortgage industry will go through a price war until excess capacity is reduced.

Overall, 2004 and 2005 will be challenging years for WaMu. Despite our efforts to reduce cyclicality, we are still impacted significantly by interest rates and the mortgage market. We believe we are making excellent progress in improving the core franchise and operating efficiencies. But it will take an improved environment for these efficiencies to be reflected in strong earnings. It is also noted that our earnings performance in 2004 and 2005 will likely under-perform major commercial bank's earnings growth. The likely environment of higher interest rates and a strong economy are generally beneficial to commercial banks but negative to mortgage banks. Because of our above-average exposure to declining mortgage banking and little exposure to improving commercial and industrial lending, we will likely produce growth below that of the banking industry.

Being out of cycle with major commercial banks is nothing new for Washington Mutual. This is an inevitable outcome of our strategy. In prior periods, we added greatly to shareholder value by repurchasing our stock at depressed levels and re-issuing those shares through acquisitions at higher price levels. We intend to opportunistically repurchase our stock if Wall Street presents us an attractive buying opportunity.

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Human Capital

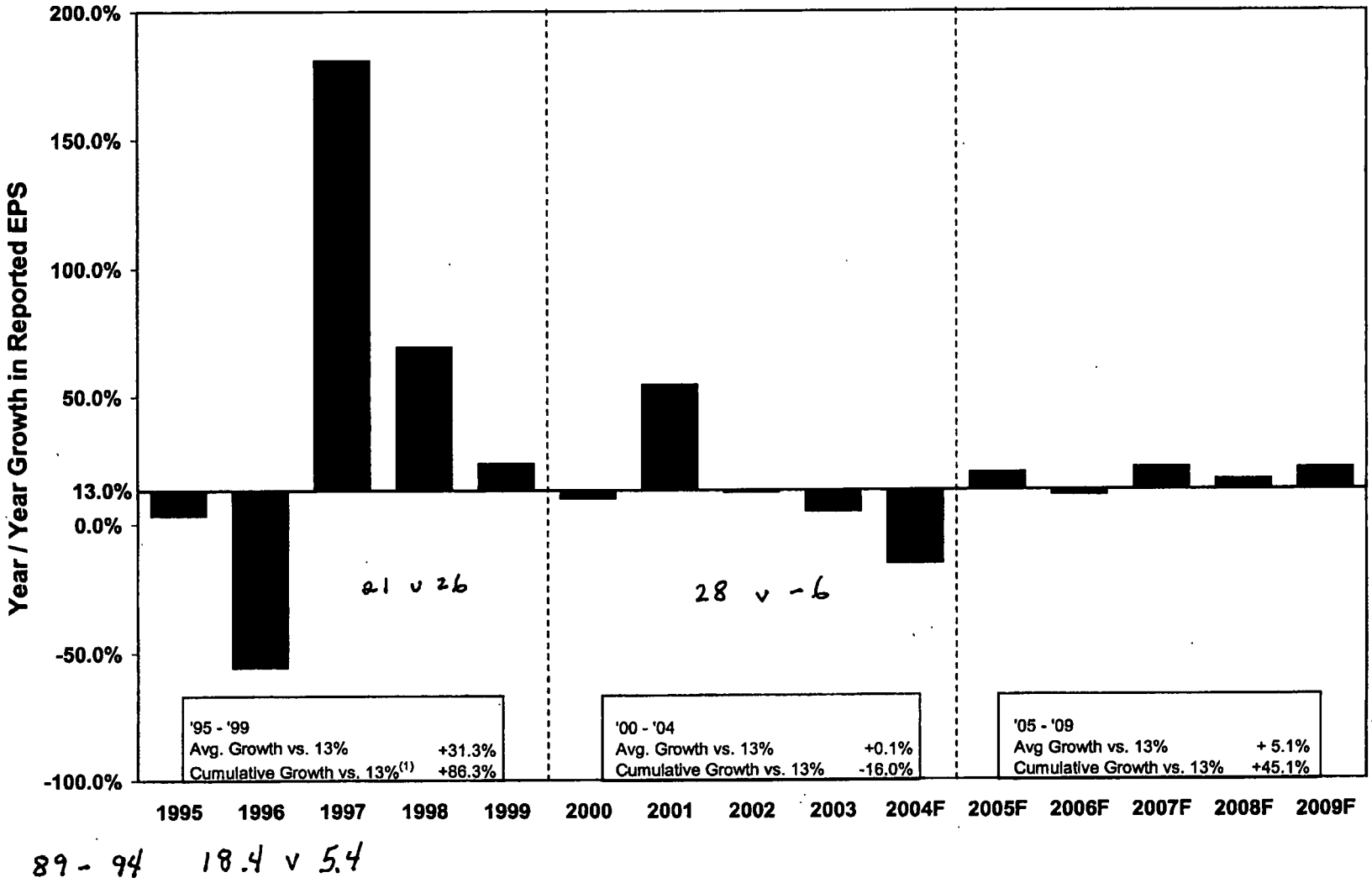
We have the deepest pool of talent in the history of the Company. While there are always opportunities to increase talent, the combination of recruiting in several key executives, plus the maturing of our talent management program, has given us good bench strength in most areas. We do have some near-term concerns with senior management retention. Increasing interest rates reduce expected earnings. Despite terrific efforts to reduce costs and expand revenues, it is possible that our pay programs will produce below-average results. Many of our senior leaders are recognized as top performers in the industry and are being heavily recruited by competitors. We need to maintain competitive pay programs and adjust the plans as appropriate to reflect changing market conditions.

It is also noted that our people have been working extraordinarily hard over a long period of time. Keeping up with rapid growth, the re-fi boom of 2001 and 2002, the 2003 and 2004 cost cutting initiatives and the various compliance requirements have left many people very tired. Add the rumors of a potential sale of the Company with the cost cutting initiatives and the inevitable outcome is more uncertainty and reduced employee morale. We need to come out of the Board strategic planning session with a clear agreement on strategy, a commitment to executing the strategy as an independent company, and a robust communications plan for both internal and external audiences.

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Exhibit A
Reported EPS Growth 1995 - 2009



89 - 94 18.4 v 5.4

(1) Cumulative Growth vs. 13% compounded annual EPS growth
(2) 2004 - 2009 is based on the WaMu Long Range Forecast

JPM_WM05385595

Office of Thrift Supervision
Department of the Treasury — *West Region*
Pacific Plaza, 2001 Junipero Serra Boulevard, Suite 650, Daly City, CA 94014-1976
P.O. Box 7165, San Francisco, CA 94120-7165 • Telephone: (650) 746-7000 • Fax: (650) 746-7001

June 30, 2004

MEMORANDUM FOR: Lawrence Carter, Examiner-in-Charge

FROM: Zalka A. Ancely, Examiner

SUBJECT: Washington Mutual Bank, FA (#08551)
Washington Mutual Bank, FSB (#11905)
Examination as of March 15, 2004

During the examination, memorandums were issued to management presenting Criticisms, Recommendations, and Observations. A summary of the asset quality (and related) memorandum's and management responses are as follows:

Joint Memo #1 - Counterparty Risk Management

- *Violation of Regulation F – Interbank Liabilities:* Criticism that a Regulation F - Interbank Liability Policy has not been annually approved by the Board of Directors as required by regulation. Also, there has been no quarterly monitoring of the capital levels of correspondent banks with significant exposures. Management **agrees** with the criticism. By July 31, 2004 a formal policy will be reviewed and approved by the Board and quarterly monitoring of substantive correspondent bank exposures will begin with 2nd quarter 2004 financial data.
- *Global Review of Counterparty Risk:* Recommendation to perform a global review of counterparty risk throughout the organization, including identifying all counterparties, determining the level of risk and the adequacy of monitoring, and determining if the function should be centralized within Counterparty Risk Credit Management. Management only **partially agrees** with the recommendation. Management agrees to centrally monitor and manage counterparty credit risk throughout the organization. A formal review to identify all substantive counterparty risk elements will be started by July 31, 2004 and a comprehensive policy established and implemented by December 31, 2004. The response is acceptable.
- *Counterparty Risk Policy:* Recommendation to amend the Counterparty Risk Policy to include quarterly report of top 25 counterparty exposures, together with a summary of management's analysis of their credit risk, and to report any material violations of approved limits. Management **agrees** with the recommendation and the policy will be updated by December 31, 2004. Appropriate risk-based reporting will be developed including updated Board disclosure by October 31, 2004.
- *Annual Review of Counterparties:* Recommendation to complete and document annual reviews of approved counterparties using a risk-based approach. Management only **partially agrees** with the recommendation in that the finding indicates there is no effective system to track and report exceptions to the annual review requirements. Management indicates that in April 2004, phase-one of the web-based credit platform was released to house all counterparty credit reviews, related entity information, credit lines, exposures, ratings, and financial information. The new platform has the functionality to track and report review exceptions. Nevertheless, the credit review process will be addressed within the full review and implementation of the revised policy by December 31, 2004. The response is acceptable.
- *Unlimited Exception to Policy Authority For the Chief Credit Risk Officer:* Recommendation to amend the policy to require that all policy exceptions above a certain threshold be reported to an appropriate committee in a

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Wall Street & The Financial Crisis
Report Footnote #154

timely manner. Management **agrees** with the recommendation and exception thresholds and required notification and reporting will be included in the revised policy by December 31, 2004.

- *Excel and Web-Based Credit Exposure Models:* Recommendation to complete the independent validation, parallel testing, and full implementation of these models by December 31, 2004. Management **agrees** with the recommendation. Validation of the credit exposure models will be done by July 31, 2004 and implementation sometime in July/August 2004.

Joint Memo #2 – Credit Scoring SUCCESS Model for Consumer Loan Product

Repeat finding in that three of the four items noted in the prior examination Joint Memo #6 had not been adequately addressed, but Internal Audit had closed the items. The repeat items pertain to inadequate vintage analysis, dual scorecard validation, and portfolio chronology log. Overall credit quality of the home equity loan products remains good, but inadequate scorecard monitoring and validation may have led to some deterioration in quality for recent volume.

- *Vintage Analysis and Dual Score Validation for the SUCCESS Scorecard:* Recommendation to follow up with additional analysis of the deterioration in the ability of the custom score to rank-order risk. Analysis should be followed up to ensure that no changes to score cuts or pricing are necessary. Management only **partially agrees** with the recommendation in that the model is in process of being redeveloped and through-the-door and approved FICO scores and CLTVs have continued to improve and portfolio performance has not shown deterioration. Management will implement an automated centralized credit scoring and portfolio-monitoring package in the Enterprise Modeling and Decision Systems organization under Corporate Credit Risk Management and enhance its vintage MIS reporting during the 2nd quarter of 2004. At the same time, management is moving aggressively forward with the redevelopment of the SUCCESS model with completion scheduled for August 2004. However, the overall targeted completion date is December 31, 2004. The response is acceptable.
- *Portfolio Chronology Log*: Recommendation to enhance the portfolio chronology log. Management **agrees** with the recommendation and set a targeted completion date of July 31, 2004.

Joint Memo #3 – Residential Real Estate Appraisal Operations

- *One-to-Four Residential Appraisal Compliance Review:* Recommendation that USPAP compliance at WAMU is an ongoing issue that needs improvement. Management **agrees** with the recommendation and provided July and August target dates for specific actions, however overall target date is April 1, 2005 (next exam timeline).
- *Standard 3 Technical Review (Report):* Recommendation to update the report used for reviewing residential appraisals to address the current sales history reporting requirements of USPAP and overall appraisal compliance with USPAP. Management only **partially agrees** with the recommendation in that an Appraisal Procedures Bulletin was communicated and distributed to all reviewers to include a three year sales history. While not currently updated, the form will be updated by July 15, 2004. The response is acceptable.
- *Appraisal Assignment/Engagement Request Form:* Recommendation that the owner's estimate of market value should be eliminated from the request form in order to prevent appraiser independence from being compromised. Management only **partially agrees** with the recommendation since it has historically had little significance for appraisers and there is seldom market foundation for the estimate. Nevertheless, target date of August 15, 2004 provided by management to make system enhancement to eliminate the estimate of value from the engagement letter. The response is acceptable.
- *Automated Valuation Model (AVM) and Taxed Assessed Value (TAV):* Observation that AVM and TAV documentation in loan files is minimal, but the information is electronically stored on the OptisValue system. Interagency working group concluded an institution must have a process to validate and test each type of AVM used and its credibility; and, validate and test the TAV process for the validity and accuracy of the results in each county in which it is used. Based on the review at this examination, what WAMU is doing is adequate, but management must continue to validate the AVM/TAV process on a regular basis to ensure the results of the

process are credible. Management **agrees** with the observation. Plans are to increase AVM audits to quarterly, AVM testing will still be yearly, and TAV audits will occur twice during 2004.

Joint Memo #4 - Commercial Real Estate Appraisal Operations

- *Quality Assurance Report:* Recommendation to ensure that quality assurance reports comply with policy review criteria and review ratings reported for appraisers and reviewers in all production offices, since not all appraisers and production offices were reviewed in the 4th quarter 2003. Management only **partially agrees** with the recommendation in that the current guidelines were not finalized until January 2004 and the Commercial Appraisal Department quality assurance group was not fully staffed in the 4th quarter of 2003. Management established a target date of September 30, 2004 to achieve the required level of reviews. The response is acceptable.
- *Appraisal Engagement Contract (Letter of Engagement):* Recommendation to revise the Appraisal Engagement Contract to include both the intended use of the appraisal and the intended users of the appraisal report. Management **agrees** with the recommendation and set a target date of June 30, 2004.
- *Complete Summary Report (CSR):* Recommendation to revise this report form to include the definition of market value, a more comprehensive scope of work section, and the certification page must include the appraiser's license number, State, and expiration date. Management **agrees** with the recommendation and set a target date of June 30, 2004.
- *Use of an Obsolete Internal Evaluation Form:* Recommendation to ensure the evaluation forms used to estimate market value for SFR interim construction loans comply with TB 55a requirements. Examiners noted isolated use of obsolete form by a single individual at NOC in Dallas. Management **agrees** with the recommendation and a corrective procedures memo was distributed during the exam with no further actions required.
- *Discounted Appraisals and the Calculation of Supervisory LTV Ratios:* Observation that there is an outstanding issue from prior examination concerning requirement to use discounted appraisals for projects involving five or more units for tracking supervisory LTV exceptions. On May 14, 2003, management had formally requested the OTS to adopt guidance to clarify the issue in connection with revolving lines of credit secured by subdivisions with five or more unsold units. Interagency appraisal working group has not provided a response and has extended the estimated completion date to September 30, 2004. **No management response was required.**
- *Multi-family Appraisal – Automating Appraisal Project:* Observation that WAMU has initiated a project to automate part of the multi-family appraisal process. Management must ensure that for federally related transactions, all appraisals shall, at a minimum, conform to USPAP requirements. Management indicated that the project is specifically designed to meet all requirements of USPAP and FIRREA. **No management response was required.**
- *Multi-family Review Sampling Proposal:* Observation that the Commercial Appraisal Department proposes to reduce the level of multi-family appraisal reviews from 100 percent to 25 percent for those prepared by internal staff appraisers in established markets with loan requests of $3 million or less and LTV's of 60 percent or less. Management requested OTS to review and comment on the proposal. OTS voiced no regulatory concern with the proposal as presented. **No management response was required.**
- *Draft – Appraisal Review Guidelines for Commercial Mortgaged-Backed Securities (CMBS) Loans:* Observation that the Commercial Appraisal Department has developed a proposed matrix for administrative, technical, field, and post closing review of appraisals for CMBS loans. Management requested OTS to review and comment on the proposal. OTS voiced no material concerns or objections to the proposed matrix. **No management response was required.**

Joint Memo #5 - Long Beach Mortgage Company Intercompany Line of Credit

- *Overline Documentation:* Recommendation that all out-of-formula situations be documented, documentation should clearly stipulate the reason for noncompliance, how/when cured, and be reported to the CPC. Management only **partially agrees** with the recommendation since overline and out-of-formula are not the same and the loan was never "overline", meaning in excess of committed line of credit. However, management does acknowledge that the loan was out-of-formula four times since the prior examination, but was cured within the

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allowed one-day cure period; therefore, additional reporting and documentation was not deemed necessary. Management agreed to document all out-of-formula situations on the borrowing base certificates and to report these to the CPC if they exceed the allowed one-day cure period. A summary of out-of-formula situations will also be included on the credit requests and annually reported to the CPC. The target date for completion is May 31, 2004. The response is acceptable.

- *Borrowing Base Certificates – Ensuring Data Accuracy:* Recommendation to implement a procedure to review collateral information provided by the Custodian to ensure the information is accurately reflected on the borrowing base certificates. On February 11, 2004 the Custodian had incorrectly included ineligible mortgages in the borrowing base and an out-of-formula situation occurred without management's knowledge. Management **agrees** with the recommendation with a targeted completion date of May 31, 2004.
- *Annual Due Diligence Review:* Recommendation to obtain and review LBMC's policies and procedures on an annual basis to augment the arms-length nature of the affiliated relationship. Management **agrees** with the recommendation and will include the most recent lending and investment policies in the underwriting files by June 30, 2004.
- *Certification of Borrowing Base Certificates:* Recommendation to ensure that all proper signatures are obtained on required documentation. The review found that required individuals do not consistently sign the borrowing base certificates. Management **agrees** with the recommendation and hard signatures by facsimile or courier will be obtained by May 17, 2004. Management will also work with the legal department to establish procedures to allow for electronic submission of borrowing base certificates.

Joint Memo #6 - Middle Market Business Lending Portfolio

- *Monitoring Lending Policy Exceptions:* Criticism that numerous credits were extended with exceptions to underwriting standards and there is no method to monitor the exceptions. Management **agrees** with the criticism. New Credit Standards are being developed and a Credit policy and Credit Standards Exception Report will be developed to track, trend, and report true exceptions. Target date is December 31, 2004.
- *Formal Goals and Objectives:* **Repeat** Recommendation to develop formal written Front-End Guidance for the middle market business lending segment of the bank. Management **agrees** with the recommendation and the targeted date for completion is September 30, 2004.
- *Loan Covenant Compliance Monitoring:* Recommendation to develop a system-wide automated system for monitoring loan covenant compliance to be used by all Commercial Banking Centers (CBCs). Management **agrees** with the recommendation with a targeted date of September 30, 2004 to determine what process or system to be utilized, and March 31, 2005 as a targeted implementation date.
- *Collateral Examination Process:* Recommendation to develop procedures for responding to collateral examination findings and how to resolve any differences should they occur. Management **agrees** with the recommendation and an e-mail will be distributed by June 30, 2004 to reiterate the process and need to follow up by the Regional Manager and Credit Administration to resolve issues.
- *Tracking Reports For Trailing Documents:* Recommendation to develop procedures to ensure all CBC's adhere to internal guidelines established for addressing and clearing exception items that remain outstanding. Management **agrees** with the recommendation and revised procedures are targeted for September 30, 2004 addressing post closing exception items to strengthen management review and ensure resolution.

Joint Memo #7 - Small Business Lending Review

Repeat finding in that management has yet to develop sound credit administration policies for this small business lending segment. Although the consolidated portfolio is quite small at $217 million outstanding and another $221 million committed but unfunded, management is projecting a six-fold increase in lending volume to $360 million in 2004.

- *SBL Lending and Credit Administration Policies and Procedures*: **Repeat** finding that is elevated to a Criticism that management has yet to develop sound credit administration procedures and underwriting policies for SBL.

SBL policies have been in flux for the last two examinations. Management **agrees** with the criticism and the targeted completion date for revised credit standards is August 31, 2004.

- *Internal Loan Grades and Corporate Credit Review:* Criticism that assigned loan grades do not accurately reflect the risk evident in the portfolio and there is a need to complete a corporate credit review for this area. Management **agrees** with the criticism and the Small Business Credit team will work with Corporate Credit to establish a methodology for assigning risk grades at origination and several outside vendors are being reviewed regarding portfolio management products to score the portfolio on a quarterly basis. A corporate credit review of the portfolio is scheduled for September 2004. Targeted completion date is December 31, 2004.
- *Management Information Systems:* Recommendation to develop reports that will fully compare the quality of newly originated loans with those originated in prior periods. Management **agrees** with the recommendation and is working to refine the existing production reports and portfolio MIS to ensure use of vintage analysis and detail of credit characteristics. Targeted completion date is September 30, 2004.
- *2004 Front End Guidance:* Recommendation to expand the front-end guidance for SBL to include how a six-fold increase in lending will be generated, business channels to be used, types of loans, staffing requirements, credit administration procedures, and monitoring tools. Management **agrees** with the recommendation and the 2005 front-end guidance will include more detail guidance regarding small business segment. Targeted completion date is March 31, 2005.
- *FDIC/DFI Loan Sample Review For Acquired SBL Portfolio:* Observation that 13 of the 15 loan files requested for review were not provided during the loan review time frame. Although a written response was not required, management responded they would enhance the communication and coordination for sending and receiving loan files. **No management response was required.**

Joint Memo #8 – Loans to "Higher-Risk Borrowers"

The current level of subprime/"higher-risk" assets approaches 200 percent of WMI's Tier 1 capital, and, except for the $20 billion limit established for Specialty Mortgage Finance, the Board of Directors have not formally approved any limits for this credit concentration. There is no comprehensive, enterprise-wide monitoring, measuring, or reporting on the level of "higher-risk" assets, nor has management adopted a definition of the characteristics of a "higher-risk borrower".

- *Definition of "higher risk":* Recommendation to specifically define "higher risk" residential and consumer borrowers for all single-family residential and consumer product types and origination sources. Management **agrees** with the recommendation and set a target date of June 30, 2004.
- *Monitoring, Measuring, and Reporting the Level of "Higher-Risk" Assets:* Recommendation to measure, monitor, and report the level of loans to "higher-risk borrowers" by business line and legal entity and to aggregate the data. Management **agrees** with the recommendation and set a target date of September 30, 2004.
- *Concentration of Credit:* Recommendation to establish limits governing exposure to "higher-risk borrowers" by product type and expressed as a percentage of capital by legal entity. Management **agrees** with the recommendation and set a target date of September 30, 2004.

Joint Memo #9 - Subprime Lending Strategy

WMI continues to increase its exposure to subprime borrowers without an enterprise-wide, clearly articulated subprime lending strategy. There is a need to develop a clear strategy document to lay the foundation for agreement on WMI's role and positioning in the marketplace as a subprime lender.

- *Subprime Lending Strategy:* Recommendation to develop a subprime lending strategy document or policy, which includes appropriate segregation for FDIC- and OTS-regulated subsidiaries. Policies, procedures and standards should be updated to reflect the subprime lending strategy. Management **agrees** with the recommendation and the strategy will be created as a recommendation to the Board of Directors with a target date of October 31, 2004.

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Joint Memo #10 - Specialty Mortgage Finance

Significant growth in the SMF purchased subprime portfolio to $15.6 billion as of February 29, 2004. Also, the concentration limit was increased from $14 billion to $20 billion during review period.

- *Reliance On Ameriquest For Loan Purchases and Loan Servicing:* Recommendation to develop and implement a policy that identifies concentration limits and expands the analysis for SMF's counterparty relationships, especially with Ameriquest. Management **agrees** the SMF business is concentrated with Ameriquest. The Counterparty Credit team will undertake a full and complete review of this relationship. This independent credit analysis will be completed by July 31, 2004. Counterparty Cried twill also work closely with SMF management to review the entire business conducted with Ameriquest. A framework will be developed to manage this concentrated relationship will be completed by September 30, 2004.
- *Management Information Reports for SMF Activities:* Observation that reports could be enhanced to ensure that strong early warning monitoring capabilities are in place to support the management and growth of the SMF portfolio, including expanded use of industry comparisons and performance metrics. Management **agrees** with the observation and an ongoing review of pool data will be implemented by June 30, 2004.

Joint Memo #11 – Long Beach Mortgage Company Management Reporting

LBMC's reporting to WMI senior management needs improvement. Numerous errors in the internal LBMC reports were disclosed by our review this examination remains problematic.

- *LBMC Report Errors:* Recommendation to implement new oversight and review procedures to ensure the accuracy of future management reports, and to resolve discrepancy in delinquency numbers noted by the examiners. Management **agrees** with the recommendation. Controls over financial and management reporting to be established and differences resolved by August 30, 2004, including resolving discrepancy in delinquent numbers noted by the examiners. Comprehensive publication of reports by September 30, 2004.

Joint Memo #12 - Home Builder Finance

As of the date of this memorandum, management had not responded to the Findings Memo.

- *HBF Inventory and Renewal Monitoring:* Recommendation to establish a timeline for completion of inventory monitoring initiative and to track project or unit renewals required beyond initial maturities. Management .....
- *Eligibility and Portfolio Diversification Standards For Borrowing Base and Unsecured Facilities:* Recommendation to establish specific borrower eligibility criteria and concentration/diversification standards for unsecured and borrowing base facilities. Management .....
- *Credit Standards/Procedures For Borrowing Base and Unsecured Facilities:* Recommendation to expand credit policies and procedures to reflect actual lending practices and identify risk tolerances. Credit policies should also include minimum acceptable underwriting standards, terms, and conditions with clear and measurable credit criteria as advocated by the Interagency Real Estate lending Guidelines. Management .....
- *WL Homes, LLC Borrowing Base Line:* Recommendation to improve underwriting and handling practices for WL Homes, LLC. Management .....

Joint Memo #15 - Credit Scoring - SUCCESS and Transitional Proprietary Models

Management has elected to develop the bank's own scoring models for residential lending in addition to the SUCCESS scorecard used in consumer lending. With the assistance of the Portfolio Defense Group, the Proprietary Model (PM), and subsequently the Transitional Proprietary Model (TPM),

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was developed. Management is currently developing PM.2, which will eventually replace TPM. This finding provides additional comments to those offered in Joint Memo #2 – Credit Scoring SUCCESS model.

- *Policy Guidelines:* Recommendation to enhance and consolidate policy guidelines into a single policy governing the credit scoring function. Specific items were recommended for the consolidated policy, including the responsibility of the Board of Directors and senior management. Management only **partially agrees** with the recommendation in that they do not believe that specific approval authority for individual credit scoring models need to be approved by the Board of Directors. Nevertheless, management agrees that a single revised policy is appropriate and set a target date of September 30, 2004. The response is acceptable.
- *SUCCESS Model Definition of a "Bad" Account:* Recommendation to use a "two-track" approach to the "bad" account definition to differentiate the use for credit scoring models (60 days) versus Basel II purposes (90 days). Management already established a "two-track" approach for time horizon; credit scoring models (24 months) versus Basel II (12 months). Management **agrees** with the recommendation and will maintain a degree of independence for performance definitions and outcome periods between credit scoring models and Basel II implementation. Target date is September 30, 2004.
- *SUCCESS Dual Score Approval Matrices:* Recommendation to revise procedures for use of dual matrix scoring systems to require documentation of how matrix grades and score cuts are determined. Management **agrees** with the recommendation and will document the process in its policy by October 30, 2004.
- *TPM Definition of a "Bad" Account:* Recommendation to use a "bad" definition of 90 days or more past due for the TPM model, rather than the current definition of "an account which becomes REO", which is extremely restrictive and impacted by the bank's practice of selling loans before they migrate to REO. Management **agrees** with the recommendation with a targeted date of June 30, 2004.
- *TPM and Loan Purpose:* Recommendation to analyze and compare the performance of the two approaches being considered (separate models or separate approval grids) for different loan purposes (refinance, cash-out refinance, and purchases) that have different risk profiles and must be treated differently. Management **agrees** with the recommendation with a target date of September 30, 2004.
- *Model Development Timetable:* Observation that implementation and development timetables appear aggressive given the redevelopment of SUCCESS, development of PM.2, and new models planned for Small Business, Multi-Family, and Credit Cards all by the 2nd quarter of 2005. Management **agrees** with the observation and will create an overall project plan by August 31, 2004.

Joint Memo #19 - Corporate Risk Oversight

Since the initiatives for the Corporate Risk Oversight areas for both the Consumer and Commercial Group have not yet been implemented, our review of the effectiveness of the proposal was limited. Our review focused on those proposals that were initiated previously for the credit review function. Copy of this memo also goes to the Finance Committee.

- *Management Response to Corporate Risk Oversight Reports:* Criticism concerning pattern of untimely management responses to corporate credit reports. Requirement that a monitoring mechanism be implemented to enable the Finance Committee to track compliance with planned reviews, management responses, and corrective actions. Management **agrees** with the criticism and immediate action included several changes to assist the business units in providing timely responses. Changes include both a short-term action plan and long-term Global issues tracking mechanism under development in the Enterprise Risk Management Group. Targeted completion date is August 30, 2004.
- *2003/2004 Review Plan Objectives:* Recommendation for the Finance Committee to approve changes to plan objectives and scope of reviews. The department did not meet the initial Review Plan objectives for 2003 and many reviews were changed from a full Comprehensive Review to a Target Review with no rating assigned despite significant issues being disclosed. Management only **partially agrees** in that quarterly changes in risk profile and the Review Plan are communicated to the Finance Committee. Nevertheless, management agrees to

enhance reporting structure to the Finance Committee and implement a process to elevate significant issues disclosed in target reviews and provide risk based rating for these issues. Targeted completion date is September 30, 2004. Response is acceptable.

- *Consumer Risk Oversight Proposal:* Recommendation to establish calendar dates when credit reviews are to be performed by the Consumer Risk Oversight group and incorporate these dates into the Review Plan for Finance Committee approval. Additionally, OTS commented that the goals and objectives for the consolidation of all QA functions and compliance testing is a significant undertaking. The transition plan and dates established for the realignment of the Consumer Risk Oversight area appear optimistic. Management **agrees** with the recommendation with a targeted implementation date of July 31, 2004. Monthly updated will be provided to the Finance Committee regarding progress with the transition plan.
- *Counterparty Risk Review:* Recommendation that a review of the counterparty risk area be conducted in 2004. Management **agrees** to conduct a review of counterparty risk with a targeted completion date of September 30, 2004.
- *Credit Review Function:* Observation that the credit review function has evolved with the formation of the Corporate Risk Oversight group and Problem Loan Review to supplement those reviews conducted at the NOC. With the corporate restructuring, corporate-wide Policy and Credit Standards should reflect the types of reviews being conducted and responsible party conducting these reviews for the corporation. **No management response was required.**

Joint Memo #20 – Third Party Originators (TPO) Performance Review Committee

WAMU acquires the majority of its home loans through mortgage brokers and correspondent lenders (Third Party Originator or TPOs). There are approximately 20,000 such TPOs and oversight of their performance is complex.

- *Scope of TPO Committee:* Recommendation to extend the scope of the TPO committee to include the Mortgage Banking Finance (MBF) lending program and incorporate information about brokers receiving credit from MBF into the Seller Tracking and Risk System (STARS). Management **agrees** with the recommendation and will evaluate the most effective approach for inclusion of this information. Targeted development date is November 30, 2004.
- *STARS - Correspondent Application Enhancement and Documentation:* Recommendation to enhance STARS-Correspondent to incorporate the reports required to support the TPO committee and to review documentation to ensure that a different person can perform the current inquiry function if necessary. Management only **partially agrees** with the recommendation due to the costs and likelihood of definitional and formatting changes in reports to support the TPO committee and determination it is more effective to generate the reports in a non-production analytics environment rather than hard coded into the application. Management agrees to sufficiently document the current inquiry process and the underlying data in STARS-Correspondent will be migrated to a non-production analytics environment by September 30, 2004. The response is acceptable.
- *STARS Post Implementation Review:* Recommendation to complete a post implementation review of STARS. Management **agrees** with the recommendation with a targeted completion date of December 31, 2004.

Joint Memo #22 - National Operations Center Recordkeeping

Transition of commercial real estate, multi-family, and commercial real estate construction servicing at the NOC is relatively complete, but considerable work still needs to be done on file documentation and inputting information in systems.

- *File Organization and Documentation:* Recommendation to organize files in a standardized fashion at the NOC and to inventory files to ensure critical credit information is contained therein. CRE, commercial construction, and HBF loan files were disorganized and lacked important credit information. Management only **partially agrees** with the finding in that they feel that the sampling of commercial construction files (three) did not

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adequately reflect the status of files. Management responded that the other files will be restacked by July 31, 2004 and a document level tracking system is planned for implementation by the 1st quarter of 2005. The response is acceptable.

- *CREAM and Filenet Loan Monitoring and Servicing Systems:* Recommendation to inventory the information contained within these systems, determine what information is needed for individual borrowers, and ensure the data is available. Information used to track and monitor borrowers on these systems is often incomplete. Management **agrees** with the recommendation with a targeted date of January 15, 2005.

Joint Memo #23 - Loan Pricing

- *Pricing of Saleable Fixed-Rate Loans:* Recommendation to reassess the loan pricing for loans originated through the correspondent and wholesale channels along with the profitability goals of these channels. Recent reports indicate that certain types of loans produced though the correspondent channel have been priced at a loss or unacceptably low profitability. Management only **partially agrees** with the recommendation in that these channels add value that is not captured in the gain on sale, such as captive reinsurance, servicing efficiencies, and reduced guarantee fees due to volumes delivered to GSEs. Management will continue to review both gain on sale and overall strategic value of these channels, and develop products that will enhance the profitability of these channels for saleable loans, such as new production compensation plan, ALT-A product, and AUS for Option ARMs, with a target date of December 30, 2004. The response is acceptable.
- *Product Lines:* Recommendation to simplify product lines and to automate much of the pricing rules now incorporated in the pricing manual. Currently the number of products approximates 190 and the pricing manual used to administer pricing for these products approximates 300 pages. Management **agrees** with the recommendation with a target date of December 31, 2004.

Joint Memo #24 - Mortgage Service Delivery

- *Customer Complaints:* Recommendation to develop a comprehensive report for customer complaints that is in one place. Management **agrees** with the recommendation and will look at technology, metrics, and the ownership of the function to continue to evolve this activity. Various interim target dates are established starting with working groups to evaluate current systems by 3rd quarter of 2004 and to begin implementation of refined process and reporting by 2nd quarter of 2005. (The response is also provided in Compliance Joint Memo #8 – Fair Lending Review).
- *Vendor Management:* Recommendation to enhance practices and processes for monitoring and assessing vendor performance, including "best practices". Management **agrees** with the recommendation and will establish a vendor management program for all of Service Delivery. Targeted completion date is December 31, 2004.
- *Default Management:* Recommendation to designate a regulatory compliance liaison for Default Management and to ensure that material strategies within Default Management are reviewed by the Regulatory Compliance Department. Management only **partially agrees** in that they feel that most of the items mentioned are already in place. Nevertheless, plans are to hire a Business Unit Compliance Officer responsible for monitoring and supporting all Service Delivery compliance operations, including Default Management. Target date to hire loan servicing Business Unit Compliance Officer is July 31, 2004. The response is acceptable.
- *MSD Regulatory Relations Department:* Recommendation to maintain a central repository of all documents pertaining to MSD and develop a comprehensive report that captures relevant internal and external audit review findings pertaining to MSD. Management **agrees** with the recommendation and will establish a central repository by July 31, 2004 and develop and implement a tracking tool by September 30, 2004. However, a corporate-wide, web-based issue control tool known as the Enterprise Risk Issue Control System (ERICS) is being developed with a target date of March 31, 2005.

Joint Memo #25 - Data Quality Initiative

- *Data Quality Pertaining to Mortgage Loans:* Recommendation to evaluate critical data information to ensure data integrity, including expanding the process to obtain current credit scores to include LSBO. Data in loan

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systems and databases appear to contain many errors and omissions; especially credit scores. Management only **partially agrees** in that there are some circumstances where the lack of credit scores is legitimate (foreign nationals, etc.), and that the process for capturing credit scores for LSBO loans has been in production for several years; therefore, expanding the credit score "refresh" is not required. However, management responded that a critical data element project for Consumer Group Lending is being re-initiated with interim step target dates of December 31, 2004 and overall completion date of October 31, 2005. The response is adequate.

OTS Memo #1 - Mortgage Banker Finance

- *Monitoring Reports on Subprime Credit Exposure:* Criticism that the ProMerit system needs to be enhanced to improve management reports related to the monitoring of subprime credit exposure. Management **agrees** with the criticism and the ProMerit system is to be upgraded by September 30, 2004.
- *MBF Policies and Procedures:* Recommendation that policies and procedures need to be enhanced concerning discussion of Early Purchase Facilities (EPF) and Flex-EPF programs and that management needs to be more proactive to ensure policies, procedures, and standards are current and reflect actual practices. Management only **partially agrees** with the recommendation because credit procedures for these programs were approved through a documented internal approval process. However, management states that the credit approval process took longer than optimally it should have; therefore, the approval process will be streamlined and staff added to the credit procedures team by June 30, 2004. Also, management states that credit procedures and portfolio management will be revised and enhanced by July 31, 2004. The response is acceptable.

OTS Memo #2 - Residential Quality Assurance

RQA reviews of newly originated loans indicated a high level of unacceptable credit quality ratings related to the number of critical errors found. Realignment of quality assurance functions that will be centralized into one group, Consumer Risk Oversight, is currently in process.

- *Update of Matrices Used by RQA and CRO to Track Findings and Corrective Actions:* Recommendation that Consumer Risk Oversight group or a third party should update matrices used to track findings and corrective actions rather than the respective channel management. Management **agrees** with the recommendation and a revised process is to be developed by June 30, 2004.
- *Outdated RQA Policies and Procedures Posted on the Intra-net:* Recommendation to update the RQA policies and procedures posted on the intra-net. Management **agrees** with the recommendation and new policies and procedures will be completed by September 30, 2004 as part of the consolidation of quality assurance functions into the Consumer Risk Oversight group.
- *Communication of Examination Findings:* Recommendation that all reports issued by the Consumer Risk Oversight group should be distributed to senior management and the Finance Committee and that the reports should be reviewed for accuracy and reflect any changes that may have been made to these reports. Management **agrees** with the recommendation and a schedule of reports with distribution lists will be developed by July 31, 2004.

OTS Memo #3 - Servicing Quality Assurance

SQA is now part of the Consumer Risk Oversight group. SQA performs monthly and quarterly reviews of compliance with investor servicing requirements for FHA and VA loans, loans serviced for government sponsored enterprises, private investors, and the owned portfolio.

- *Scope of SQA Reviews:* Recommendation that the scope of SQA reviews should be expanded to include key servicing functions not currently reviewed by SQA. Management only **partially agrees** with the recommendation in that loans serviced for GNMA are addressed in a government insured testing program.

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Nevertheless, management stated that the scope and testing programs for SQA reviews will be expanded and an early warning indicator system will be developed by March 31, 2005. The response is acceptable.

- *Washington Mutual Mortgage Securities Corporation (WMMSC):* Recommendation that the scope of SQA should be expanded to include a review of WMMSC's policies, procedures, and practices related to its responsibility for oversight and monitoring of third party servicers. Management **agrees** with the recommendation with a target date of December 31, 2004 for development and implementation of comprehensive testing programs for WMMSC, FHLB, and loans serviced by others. Additional staff is also being recruited.
- *Reporting of SQA Findings to Senior Management:* Recommendation that the timeliness of SQA reports needs improvement. Senior management executive summary reports and tracking reports issued by SQA have not been timely and have not been issued since November 2003. Management **agrees** with the recommendation and all outstanding reports and testing completed in June are to be published by July 15, 2004 and all future reports within 15 business days of completion of field testing.
- *Distribution Lists of Pertinent Reports:* Recommendation that SQA be on the distribution list for various reports that document concerns in the servicing area. Management **agrees** with the recommendation with a target date of July 31, 2004.

OTS Memo #4 – Washington Mutual Mortgage Securities Corporation (WMMSC)

WMMSC master servicing portfolio approximates $103 billion as of March 31, 2004. WMMSC performs master servicing functions for this portfolio, including overseeing and monitoring third party servicers. Internal audits disclosed continuing control deficiencies pertaining to Sporty, a network file server, that provides the operating platform for several separate applications/data bases. A Sporty second generation upgrade has been placed on hold, but a Sporty 1 G Remediation Project is currently being developed to address the internal audit issues.

- *WMMSC Policies, Procedures, and Practices:* Recommendation to amend policies to include verification of D&O liability insurance in on-site reviews of third party servicers and that blank fields on the Servicing Process Review forms should be completed. Also desk audits of third party servicers did not indicate that a depository rating/score was obtained as required by policy. Management only **partially agrees** with the recommendations with exception to a statement that "... the relevant data was obtained and reviewed, and that the data sources had simply been omitted." Instead, management indicated the statement should have correctly stated that "... the data was obtained, reviewed and is retained in the applicable files currently, however, the data sources were not listed on the review form." Nevertheless, management agreed to update the applicable policies and procedures, and the IDC rating will be verified for all new and already completed desk audits in 2004. Target completion date is August 31, 2004. The response is acceptable.
- *WMMSC Internal Controls:* Recommendation that management should continue to monitor the status, timeliness, and efficacy of corrective actions concerning internal control weaknesses still outstanding and the completion of the Sporty 1 G Remediation project. Management **agrees** with the recommendation and will continue to monitor the status, timeliness, and effectiveness of such actions with a targeted completion date of October 31, 2004.

OTS Memo #5 - SFR Loan Origination Quality

Past examinations concentrated on assessing underwriting analysis documented in loan files. Since prior examinations and internal reports have already established that underwriting concerns exist, file review was not conducted during the 2004 examination. For this examination, OTS concentrated on reviewing and assessing internal processes that may contribute to underwriting concerns.

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- *Consumer Group Goals:* Recommendation that the Consumer Group should establish and quantify goals with respect to desired asset quality and communicate the expectation to those involved in the production process. Management only **partially agrees** with the recommendation in that a target ratio of non-performing loans/total loans of less than 1 percent has already been established by Consumer Group Credit Risk Management. Nevertheless, by September 30, 2004 management will establish, quantify, and communicate a Consumer Group goal with respect to asset quality as part of the overall strategic objectives/goals. The response is acceptable.
- *Metrics Used to Monitor Performance in the Loan Fulfillment Centers:* Recommendation to track performance with sufficient detail and frequency to trace problems to specific channel and LFC and to effect the desired change in underwriting. Management **agrees** with the recommendation. Targeted completion date of July 30, 2004 for the identification of risk metrics and the establishment of risk tolerance and performance standards. Targeted completion date of September 30, 2004 for implementation of the revised performance measurement standards.
- *Incentive Compensation For Loan Fulfillment Centers:* Recommendation to enhance the incentive compensation plan for the LFCs manager position to more heavily emphasize credit quality concerns. Management **agrees** with the recommendation with various individual target dates from July 1, 2004 to January 1, 2005 pertaining to enhancing the incentive compensation plan.
- *Management Support For Loan Fulfillment Centers:* Recommendation that management should provide additional support to the LFCs to help implement policy and procedure changes, including the writing of desk procedures for each position in the LFCs and revise these desk procedures concurrently with each notice of a policy or procedural change. The timeliness and adequacy of training should also be reviewed. Management only **partially agrees** with the recommendation in that there are several techniques in place to lessen the impact of changes to both LFC management and staff, including following up large impact changes with meetings and training to ensure the changes are communicated to all applicable levels. Nevertheless, management provided a July 31, 2004 target date to, 1) continue to ensure all policies are rolled out with as much notice as possible, 2) utilize LFC team meetings to review and train on new policies and procedures, 3) continue to issue HLPAs weekly with a two week implementation window prior to effective date of changes, and 4) utilize channel management communication avenues to refresh and re-enforce communications on a monthly basis. The response is acceptable.

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		2004 Findings Memos							
		Safety and Soundness							
	No	Topic	Issued To	Issued From	Status	Level of Concern	Response Requested	Response Received	Response Accepted
WMB	1	Call Report	Jay Ledwon	Stewart/Mann	Issued 5/21	R	N	NA	NA
	2	IRR-Contravention	Lobo/Mcarthy	Rook	Issued 5/20	C	Y		
	3	Single Family	Mark Hillis	Dong	Issued 5/20	R/R/O	Y	6/4: A/A/A	6/7
Joint	1	Counter-party Risk Management	Vanasek/Boyle	LeCong/Naylor	Issued 5/13	R/C/R/R/R/R	Y	6/2: PA/A/A/PA/A/A	6/8
	2	Credit Scoring SUCCESS Model	Tim Bates	Vance/Rokich/Nuxoll	Issued 5/10	R/R	Y	5/19:PA/A	6/8
	3	Residential Appraisals	Francois Madath	Thorvig/Bernd/Burr	Issued 5/14	R/R/R/O	Y	5/25:A/PA/PA/A	6/8
	4	Commercial RE Appraisal Ops	James Calderon	Thorvig/Bernd/Burr	Issued 5/13	R/R/R/R/O/O/O/O	Y	6/3: PA/A/A/nbc	6/8
	5	LBMC LOC	David Purcell	Ancely/Brady/Burr	Issued 5/13	R/R/R/R	Y	6/10: PA/A/A/A	6/21
	6	Middle Market Portfolio	Dan Gilbert	Hoskovec/Smieszek/Burr	Issued 5/20	C/R/R/R/R	Y	6/14: A/A/A/A/A	6/15
	7	Small Business Lending	Michele Kennedy	Hoskovec/Hickok/Burr	Issued 5/14	C/C/R/R/O	Y	6/2:A/A/A/A/A	6/8
	8	"High Risk Borrowers"	James Vanasek	Brady/Ancley/Burr	Issued 5/14	R/R/R	Y	5/25: A/A/A	6/4
	9	Subprime Strategy	James Vanasek	Carter/Kroemer/Ransom	Issued 5/14	R	Y	5/25: A	6/4
	10	Specialty Mortgage Finance	Chapman/K. Johnson	Henry/Brady	Issued 5/13	O/R	Y	6/16: A/A	6/22
	11	Longbeach Mortgage B&R	Gotshcall/K. Johnson	Bisset/Brady/Burr	Issued 5/14	R	Y	6/3: A	
	12	HBF	Frank Hatteмer	Ball/Kodani/Burr	Issued 5/20	R/R/R/R	Y		
	13	MSR-follow up	Lowery/Dobrowoski	Archibald/Gershow	Issued 5/17	O/O/R/R/R	Y		
	14	MSR-Policy	Lowery/Dobrowoski	Archibald/Gershow	Issued 5/14	R/R	Y	6/8:A/A	
	15	Credit Scoring TPM	Tim Bates	Rokich/Nuxoll/Ancely	Issued 5/20	R/R/R/R/R/O	Y	6/2: PA/A/A/A/A/A	6/9
	16	IRR-MV	Steve Lobo	Diogo/Kirch/Rook	Issued 5/18	R/R	Y		
	17	IRR-NI	Lobo/McCarthy	Rook/Kirch	Issued 5/20	C/C/C/R/O	Y		
	18	Pipeline Management	Griffith/Kula/McCarthy	Miyasiro/Thorpe/Clute	Issued 5/20	R/R/R/R	Y		
	19	Corporate Risk Oversight	Melissa Martinez	Hedger/Knorr/Burr/Rudenick	Issued 5/17	C/R/R/R/O	Y	6/8: A/PA/A/A	6/8
	20	TPO Committee	Ann Tiemey	Durbin/Rudenick/Burr	Issued 5/20	R/R/R	Y	6/3: A/PA/A	6/8
	21	IA	Reid Adamson	Costagna/Ragan	Issued 5/17	R/R/R/R/O	Y	6/2: A/A/A/A/A	6/3
	22	NOC Recordkeeping	Ken Hannold	Rudenick/Burr/Kodani	Issued 5/18	R/R	Y	6/2: PA/A	6/3
	23	Pricing	Megan Davidson	Orban/Franklin/Clute/Burr	Issued 5/20	R/R	Y	6/8: PA/A	6/15
	24	Loan Servicing Ops	Dyan Beito	Sinclair/Lim/Rudenick/Burr	Issued 5/20	R/R/R/R	Y	6/8: X/A/PA/A	6/15
	25	Data Quality	Anthony Meola	Durbin/Rudenick/Burr	Issued 5/20	R	Y	6/2: PA	6/15
OTS	1	MBF	Frank Hatteмer	Santos	Issued 5/13	C/R	Y	6/8: A/PA	6/8
	2	RQA	Melissa Martinez	Melanson	Issued 5/14	R/R/R	Y	6/8: A/A/A	6/10
	3	Servicing Quality Assurance	Melissa Martinez	Sinclair/Lim	Issued 5/18	R/R/R/R	Y	6/8: PA/A/A/A	6/15
	4	WMMSC	Tammy Spriggs	Sinclair/Lim	Issued 5/18	R/R	Y	6/8: PA/A	6/15
	5	SFR Loan Origination Quality	Meola/Hillis	Durbin	Issued 5/12	R/R/R/R	Y	6/9: PA/A/A/PA	6/10

S & S Findings Memos: AQ Memos

13/14

STATUS		EXAMINER FINDING MEMOS 2004 Regulatory Examinations SAFETY & SOUNDNESS EXAMS	RESPONSIBLE MANAGER	FINDING* C	R	O	REPEAT	OTS/FDIC APPROVED
		Joint Memos						
Completed	P	Joint Memo 1 - Counter-Party Risk	Hugh Boyle	1	5			✓
Completed	P	Joint Memo 2 - SUCCESS Credit Scoring Model	Tim Bates		2		1	✓
Completed	P	Joint Memo 3 - Residential RE Appraisal Operations	Francois Madath		3	1	1	✓
Completed	P	Joint Memo 4 - Com'l RE Appraisal Operations	Jim Calderon		4	4		
Completed	P	Joint Memo 5 - LBMC LOC	Dave Purcell		4			
Completed		Joint Memo 6 - Middle Market	Dan Gilbert	1	4		1	✓
Completed		Joint Memo 7 - Small Business Lending Review	Michele Kennedy	2	2	1	1	✓
Completed		Joint Memo 8 - Loans to Higher Risk Borrowers	Jim Vanasek		3			✓
Completed		Joint Memo 9 - Subprime Strategy	Jim Vanasek		1			✓
Exec Review		Joint Memo 10 - Specialty Mortgage Finance	Keith Johnson		1	1		
Completed		Joint Memo 11 - LBMC Books & Records	Troy Goschall/Keith Johnson		1			
Exec Review	P	Joint Memo 12 - HBF	Frank Hattemer		4			
Exec Review	P	Joint Memo 13 - MSR Follow-up	Hongqing Chen/Lowery/Marc Ma		3	2		
Completed		Joint Memo 14 - MSR Policy	Rob Miles/John Dobrowolski		2			✓
Completed	P	Joint Memo 15 - SUCCESS and TPM	Tim Bates		5	1		✓
Exec Review		Joint Memo 16 - IRR NPV	Steve Lobo		1	1		
Exec Review	D,P	Joint Memo 17 - NI Sensitivity	Steve Lobo / Michelle McCarthy	3	1	1		
Exec Review	P	Joint Memo 18 - Pipeline & Warehouse	Griffith / Kula / McCarthy		4			
Completed	P	Joint Memo 19 - Corporate Risk Oversight	Melissa Martinez	1	3	1		✓
Completed	P	Joint Memo 20 - TPO Oversight	Ann Tierney		3			✓
Completed		Joint Memo 21 - Internal Audit	Reid Adamson		4	1		✓
Completed	P	Joint Memo 22 - NOC	Ken Hannold		2			✓
Exec Review	P	Joint Memo 23 - Loan Pricing	Megan Davidson		2			IN REVISION
Completed	P	Joint Memo 24 - Mortgage Service Delivery	Dyan Beito		4			
Completed	P	Joint Memo 25 - Mortgage Loan Data Quality	Tony Meola / Mark Hillis		1			✓
		OTS Memos						
Completed	P	OTS Memo 1 - Mortgage Banker Finance	Frank Hattemer	1	1			
Completed		OTS Memo 2 - Consumer Risk Oversight	Melissa Martinez		3			
Completed	P	OTS Memo 3 - Servicing QA	Melissa Martinez		4			
Completed		OTS Memo 4 - WMMSC	Tammy Spriggs		2			
Completed	P	OTS Memo 5 - SFR Loan Origination Quality	Tony Meola / Mark Hillis		4			
Completed		OTS Memo 6 - Seller Credit Administration	Debbie Andres		2			
		FDIC-DFI Memos						
Completed		FDIC-DFI Memo 1 - Call Report	Jay Ledwon		1			NA
Exec Review	P	FDIC-DFI Memo 2 - Joint Policy Statement on IRR	Steve Lobo / Michelle McCarthy	1				
Completed		FDIC-DFI Memo 3 - SFR Underwriting	Mark Hillis / Tony Meola		2	1		✓
			TOTAL S&S FINDINGS	10	88	15	4	

P.B.A.

Updated: 6/24/2004 8:24 AM
Source: Regulatory Relations

Regulatory Relations Tracking Matrix

14/14

OTSWME04-0000005370

WASHINGTON MUTUAL BANK FA/FSB
OTS# 08551 & 11905
March 15, 2004

Summary of AQ Findings Memos

Date: 6-25-04
Prepared By:
Reviewed By:
Index #: 200-13a

Washington Mutual, Inc.
Washington Mutual Bank, FA
Finance Committee
Minutes

Date & Place: January 18, 2005
Washington Mutual Tower, 15th floor Boardroom
Seattle, Washington

Attendance:

Members Present:

Margaret Osmer McQuade
Phillip D. Matthews
Michael K. Murphy, Chair
Mary E. Pugh
William G. Reed, Jr.
William D. Schulte

Members Absent: Stephen E. Frank

Also Present:

Sean Becketti
Hugh F. Boyle
Thomas W. Casey
Craig J. Chapman
William W. Green, Jr.
Mark R. Hillis
Kerry K. Killinger
Melissa R. Martinez
Joseph P. Mattey
Michelle McCarthy
Anthony T. Meola
Stephen J. Rotella
Craig E. Tall
Susan R. Taylor, Secretary
James G. Vanasek

The Finance Committee of Washington Mutual, Inc. ("WMI" or the "Company") met concurrently with the Finance Committee of Washington Mutual Bank, FA ("WMBFA") on January 18, 2005. The meeting took place at the Company's boardroom in Seattle, Washington.

Mr. Michael K. Murphy, the Committees' Chairman, called the meeting to order at 10:00 a.m.

Minutes from December 21, 2004 Meeting
Upon a motion duly made by Ms. Pugh and seconded by Ms. Osmer McQuade, the minutes from the December 21, 2004 meeting were approved.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #158

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Mr. Murphy then noted that because Mr. Frank had not yet arrived due to his attendance at the Human Resources Committee meeting, he would like the order of the items on the agenda to shift to accommodate Mr. Frank's possible attendance towards the end of the meeting. The minutes below reflect the order in which items were presented and discussed.

WMI and WMBFA Finance Committee Charters

Ms. Taylor presented suggested changes to the charters for the Committee members to consider as part of their annual review of the charters. Upon a motion duly made and seconded, the Committees agreed to recommend the proposed changes to the full Boards for adoption.

Committee Checklist

Ms. Taylor reviewed the proposed checklist with the Committee for 2005.

WMBFA Credit Standards

Mr. Green reviewed the Credit Standards that were newly adopted or modified by the Credit Policy Committee during the fourth quarter of 2004.

Corporate Credit Highlights

Mr. Green reviewed the Corporate Credit Highlights for the fourth quarter of 2004, noting trends and implications. Several of the Directors asked questions of management concerning the outlook for credit quality and the implications of possibly increasing the concentration of loans to higher risk borrowers. Mr. Vanasek reviewed some of the economic factors that underlie both current borrower behavior and current lender decision making and product offerings. He described some of the possible scenarios that might result if economic factors, such as interest rates, employment rates or the housing market, should change. In response to a question from Ms. Pugh, Mr. Hillis described the progress made by the credit group with simplifying and automating the underwriting standards and process so that exceptions will be reduced. Mr. Hillis described some of the analytics and strategies used by the credit risk management group to assess and manage credit risk, including sales of problem loans. Mr. Meola commented on the advantages of the automatic decision process. Mr. Rotella stressed the importance of relying on the right tools and analytics to maximize our opportunity in this market. Mr. Vanasek noted that the proper provisions and limits will be necessary components of a successful strategy.

Corporate Risk Oversight Highlights

Ms. Martinez reviewed the contents of the presentation entitled, "Corporate Risk Oversight Highlights December 2004." She reported that although the Continuous Comprehensive reviews are in process, no ratings are being delivered to the Committee pending further review of the rating structure. Ms. Martinez reported on some of the comprehensive testing results, noting that results in multi-family lending and home loans are good, while issues remain in Long Beach Mortgage Company and the retail channel. In response to a question from Ms. Osmer McQuade, Ms. Martinez noted that compliance at Long Beach is improving now that staff turnover has decreased although there is still a

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JPM_WM06293965

lag due to training time. Overall compliance is progressing well. Ms. Martinez reported on the status of those corporate risk oversight examination matters requiring board attention. Ms. Martinez noted that there were no material issues regarding untimely or inadequate responses to report.

Fourth Quarter Allowance for Loan and Lease Loss Analysis

Mr. Green reported on the fourth quarter allowance for loan and lease losses ("ALLL"). There were no significant changes.

Status of Prepayment Methodology Project

Mr. Becketti told the Committee that he had been hired by the Company in July of 2004 to strengthen the prepayment modeling process and to develop proprietary models to replace the vendor designed models. He described the issues raised by the OTS in findings memos, including issues related to backtesting and the comparability of prepayment performance of portfolio loans compared to loans serviced by others. He reported that the staff in the department has tripled and that progress is being made, although certain issues are still outstanding. He explained that the old tools developed by vendors reflected industry average behavior, rather than the behavior of our customers, which differs from the average partially because of varying geography, products, acquisitions and policies. He reported on the progress now being made to develop proprietary models reflecting Washington Mutual loan experience. He discussed his meetings with the OTS and the concerns raised by them. He then left the meeting.

Single Family Residential Integrated Loan Servicing Strategy and Channel Profitability

Mr. Chapman reported on the progress made to identify the profitability of making single family residential loans by channel and product. He reported that pricing is now managed by channel and that the accuracy of assessing profitability continues to improve. Some of the costs, in particular, still need to be further refined. In response to a Director's question, Mr. Meola commented that Home Loan Center managers now have information on their center's profits and losses and that those figures are impacting compensation. In response to a question from Mr. Reed, Mr. Meola and Mr. Rotella both commented on the relative profitability of the correspondent and retail channels and some of the different challenges in each channel. Mr. Chapman then left the meeting.

WMI Key Non-Bank Subsidiaries Report

Mr. Meola reported to the Committee on the Company's insurance subsidiaries and their businesses. He described the businesses as generally falling into three categories: first, the captive mortgage reinsurance business, second, the flood and force placed reinsurance business and third, the traditional agency business for life and homeowners' insurance. Mr. Meola noted that Carl Formato manages the insurance business. Internal and external audits are clean and the business is stable. Mr. Meola then left the meeting.

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WMI Common Stock Dividend

Mr. Casey asked the Committee to consider recommending a dividend payable on the Company's shares of 46 cents per share. He directed the Committee members' attention to the peer comparison in his materials, noting that the Company's dividend payout ratio is projected to return to the 45% target during the fourth quarter of 2005 given currently available information. In response to a question from Mr. Schulte, Mr. Casey noted that attention should be paid to clearly communicating and involving investors should any changes to our dividend policy be considered. Upon a motion duly made and seconded the Committee agreed to recommend approval of the proposed dividend to the full Board.

Washington Mutual Bank, FA Dividend

Mr. Casey asked the Committee to recommend to the full Board of WMBFA that a dividend of up to $250 million be paid to the holders of that company's common stock. Mr. Casey reviewed the company's available liquidity and noted that it was well capitalized. Upon a motion made by Ms. Osmer McQuade and seconded by Ms. Pugh, the Committee agreed to recommend to the full Board that the dividend be declared.

Asset Allocation Initiative – Higher Risk Lending Strategy

Mr. Vanasek presented the proposed Higher Risk Lending Strategy for the Committee's review and approval. He introduced Joseph Mattey, who has assisted with the development of the strategy. Mr. Vanasek reminded the Committee of some of the background behind the strategy being proposed, including the Board's discussions at its strategic planning retreat in 2004 regarding higher risk loans. He also noted some of the issues that were raised by the OTS and FDIC in 2004, as articulated in the 2004 Safety and Soundness Exam Joint Memos 8 and 9, including our agreement to: adopt a definition for "higher risk loans," monitor, measure and report on these loans, establish portfolio concentration limits as a percent of capital and seek the Board's approval on an overall strategy for this type of lending. Mr. Killinger arrived at this time. Mr. Vanasek then reviewed the proposed definition for what constitutes higher risk loans, referencing the materials provided to the Committee in advance of the meeting. Mr. Hillis reviewed the current and projected exposure for such loans for 2005, expressed both in total dollar terms and as a percentage of risk-based capital. In response to a question from Mr. Reed, Mr. Vanasek described some of the factors that were considered in assessing whether the projected credit risk exposure is appropriate. The net charge-off objectives and expected loss rates were then discussed. In response to a comment from Ms. Pugh, Mr. Hillis discussed tools for responding to the higher credit losses, including loan sales and pooled mortgage insurance. In response to a question from Mr. Matthews, Mr. Hillis and Mr. Mattey described the resulting credit profile forecast after adoption of the strategy. In response to a question from Ms. Pugh, Mr. Vanasek stated that the proposed capital concentration limit of 200% of total risk-based capital was self-imposed. Management and the Directors discussed the likelihood that credit losses would lag behind origination of these higher risk loans by several years. In response to a question from Ms. Pugh, Mr. Hillis noted that he would lead the newly formed Asset Allocation Committee. In response to a question from Mr. Schulte, Mr. Hillis reported that he believed we could staff the front line with people who will comply with the rules that may be established for

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originating and servicing higher risk loans, and that these people will be overseen by the credit group. Mr. Matthews asked about the incremental profit to the Company expected from adopting this strategy. Mr. Casey committed to getting that information. Mr. Casey and Mr. Vanasek discussed the differences between the strategy being proposed and the business that Long Beach is currently engaged in, noting that the new strategy contemplates retaining more of the higher risk product as opposed to selling it. Mr. Casey noted the importance of proper pricing to the success of the strategy. Mr. Hillis reviewed the next steps to launch the strategy. He committed to report any deviation from the 200% limit to the Committee. After the conclusion of the presentation the Committee continued to discuss with management the implications of adopting the strategy and management's views of the strategy, including the timing, the pricing, the tools and support available and the associated risks. Upon a motion made by Ms. Pugh, seconded by Mr. Reed, the Committee approved the Higher Risk Lending strategy as presented.

Asset and Liability Management Reports

Ms. McCarthy reviewed the contents of the ALMP Reports. She handed out replacement pages entitled "Market Value Risk Management – Core MSR Risk Management Portfolio" and "Market Value Risk Management – Pipeline/Warehouse MSR Risk Management Portfolio." She noted that the Core MSR risk was measured using the levels approved at the December meeting. The report showed volatility risk that was partly offset by basis risk. She reported that the basis risk and yield curve risk measures for the pipeline/warehouse MSR were at a warning level as of year end. The warehouse of consumer home loans exceeds the aging limit. Ms. McCarthy reported that the management of this portfolio is improving. Ms. McCarthy also reported that the total MSR asset value for the Company is approaching the limit of 50% of tangible capital. She commented that this limit has no regulatory basis and should be considered.

There being no further business, the meeting was adjourned.

Attested to by:

_____

Susan R. Taylor, Secretary

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From: Rotella, Steve <steve.rotella@wamu.net>
Sent: Sunday, October 16, 2005 4:19 PM
To: Killinger, Kerry K. <kerry.killinger@wamu.net>
Subject: Re: Plan meeting

Thanks. Still not 100%. Hope to be better for our big week. To continue our email dialogue:
-I agree on retail. Our field culture and basic model is outstanding. If we can match it with a differentiated free checking offer, stronger brand governance, great marketing, stronger leadership and a more efficient infrastructure, we will add huge value. I can see it and am beginning to feel it, and appreciate your clarity of vision, which has helped a lot. We are at a critical time. I am driving this hard, but at all key points, will bring you in for your input, guidance, and buy in. I think this is a great opportunity for WaMu and a great example of how we can partner to accelerate progress.
-I also agree that mlf is a strong performer for us and we are well positioned. We should drive this business hard, but given the size of the industry it won't be the kind of long term contributor that other businesses can be. I think Al is there on the mass version of this and from my interactions with him, will not be a limiter with some coaxing.
-on Long beach, cost is important but as a wholesaler, what we pay to the broker (80-90 bps) and our sales people (80) are the big drivers. While we can drive efficiencies in ops cost, these are dwarfed by the above. Which is why I am pushing Craig harder on referrals from HL and heq, retention, and a phone/web based retail unit. You lose the 160-170 bps of cost and will drive the highest margin business possible. I am going to begin digging in here and sorting through the low earnings and high volatility that has been evident this year.
-on HL, we will end up with a 2006 bottom line, keeping msr at 200mm (this is subject to review) above 300mm. No doubt that doesn't feel good. Several thoughts:
-we do have to keep in mind the portfolio in place and being created that results in significant earnings. This will increase as we drive heq and subprime referrals. I don't think we would get these earnings without the prime biz.
-we have defined a "box" for this business that is brutal. If we asked our friend Angelo how successul he could have been if he could only be a prime lender (no alt a, no heq, no subprime) with no portfolio to smooth earnings, not to mention a business that has not focused on realtor connections, coops in NY, or retention (our rates are very low), he would tell you in his Bronx accent "fagget about it". I guarantee you that if we pulled out everything but prime and interpolated for size differences, their returns would not look good at all. I also know they would be better than ours, almost entirely due to an inefficient production platform. We did these kind of analyses all the time at Chase which led us to run as fast as we could into home eq, alt a, subprime (our investment banking brethren stopped us from going too far here). We viewed prime as a source of scale benefits in servicing for the other areas and a conduit of higher margin product and aimed to hold our prime servicing flat to down.
I feel strongly that where we need to land is a new home loans unit that includes prime, heq, and subprime. It is a far superior model. There are huge cost saves, it will drive higher cross sell, will align production with capital markets ala Lehman and Cntrywide and smooth earnings and be more comparable to other big players. I can cite many examples of waste and inconsistency as I examine these businesses.
I feel the only question is when not if, but would like your views. The timing is complicated by my feeling that David is too new to take on all this (I think he could easily take heq, but not lbmc right now) and Craig frankly shouldn't take on more. I have questions about his long term role with us.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #197

Well enough by email. I will get some time to kick this around.
PS much as the Rome trip entices me, there is too much going on right now, so I am going to pass.

Sent from my BlackBerry Wireless Handheld
-----Original Message-----
From: Killinger, Kerry K. <kerry.killinger@wamu.net>
To: Rotella, Steve <steve.rotella@wamu.net>
Sent: Sun Oct 16 08:36:06 2005
Subject: RE: Plan meeting
Steve,
This is a good recap. Thus you can see my wrist slicing comments on Friday.
I agree with your comments with a couple of twists. The retail group has plenty of upside, but the overall returns are pretty good. It will be important for us to preserve the strengths of the model which is our culture and being a mass market retailer with little market segmentation, while we attack the cost structure. If we do this correctly, we could emerge as the best in the country.
Regarding Commercial, returns on the multi family appear pretty good and it is hard to know if those returns could be even higher if they are pushed even further towards a mass marketing approach. Al will find it hard to let loose from his commercial real estate biases of doing one off deals. So he might be a limiter. On the other hand, Chapman creates a lot of challenges himself. I am not sure where truth is on this one.
Regarding Longbeach, I think there is a good opportunity to be a low cost provider and gain significant share when the industry implodes. I agree we shouldn't make life easier for Ameriquest. Regarding our own performance, I don't have a handle on how far away fom optimal we are performing. With loans being held, then sold, with residuals moving around, etc., I don't have a sense as to how we are really doing.
On the home loans group, we may have a broken business model. I was surprised to hear David present a plan with such poor returns and then say there may be another $50 million of upside. Compared to the capital and number of employees deployed, this is our poorest performing business by far. The reason I was trying to draw out thoughts around where on a good to bad scale the operating environment will be in 2006, was to assess the viability of our current business model. It makes sense to leverage the home loans distribution channels with home equity, sub prime and alt. A. But we don't necessarily need a prime home lender to be leaders in these product areas. Using a poor analogy, Delta, American and United all had flawed business models and they tried to compete with Southwest by bolting on their own versions of discount carriers. They could never compete because some competitors didn't have to overcome a flawed core model. There appear to be two things we can do to change our model: change our MSR hedging to better mirror Countrywide. And second, to fully embrace EDE or whatever technologies we can find to radically change the costs of delivering mortgages. I am troubled that our adoption of EDE so far has not radically changed how we underwrite loans. If we can't make a shift in our business model, we might be better off exiting the prime space. As I said before, the last thing we want to be is a Countrywide wanna be.
On the card business, it is still too early to assess if the numbers are going to be o.k.
Regarding the enablers, I agree that Deb was spot on. We should find ways to give her visibility in order to show all of the enablers what can be done. Maybe she should have a role at the senior managers meeting. Regarding Vanasek, I suspect there are some significant efficiencies to be had out of several areas. My guess is that most of these are in Melissa's world and perhaps in credit if we can get behind EDE.

I hope you're feeling better. See you tomorrow.
Kerry
-----Original Message-----
From: Rotella, Steve
Sent: Sat 10/15/2005 1:57 PM
To: Killinger, Kerry K.
Subject: Plan meeting
Despite the fact that I believe we are going to get our 2006 plan in shape, I left the plan meeting with a great deal of unease. .
-retail, for all the strength of the model and our field staff, is an under earning business with mediocre productivity. You are aware of the work underway to get better leadership, improve new stores, marketing, free checking etc. This actions will help. While the leadership search proceeds, I am knee deep here and pushing for more efficiency. . Lots of upside exists and we have great strengths to build on. But as I get deeper it exposes the spotty to weak talent pool down several levels. Lots to do here.
-i was annoyed by the commercial discussion. Keith's presentation was weak and inaccurate at times. I managed a subprime business and did not feel good about the answers we got. LBMC is also under earning, which Craig now acknowledges. Understanding margins are tight, I think we have favored share without proper balance to profits and have in fact fueled price irrationality by constantly supporting ameriquest's liquidity crises. This was one of my first real exposures to keith. Besides a weak presentation it is hard to get past a feeling that this guy is "oily". His comments about not losing any LCs for 18 months makes no sense unless we are paying too much. I suspect we are. And the comments about cost to originate were inconsistent with past info. I am also confused about how Craig views his key talent. Al is being castigated for not growing fast enough, yet all his metrics are superb and Craig said his 2006 plan was done and buttoned "as usual" yet keith's was described as " a train wreck" yet Keith is his number one guy. Craig's behavior was argumentative, and nearly insubordinate at times. I have an ongoing struggle with the lack of transparency and other difficulties with Craig. I plan to begin digging into more detail on LBMC.
-Home loans needs a lot of discussion. I share your concerns. I thought David did a decent job in discussing a tough topic after 8 weeks with us. The discussion reinforced several thoughts for me; we need to continue to drive to grow our way past prime sfr being such a big part of our business and reconsider how much growth we really want in this sector, and we (you, me, maybe Tom) need to brainstorm on our business model and how we organize around it. I think our focus needs to be on organic growth of home eq, and subprime, and greater utilization of HL as we know it today to facilitate that at lower acquisition costs and greater efficiency. There is a 50-100mm opportunity on the cost side across those three businesses and strong internal growth dynamics that we are missing. These three businesses have too many similarities to remain separate over the long term. I don't want to underplay the need for a serious discussion about the strategy in prime only, which is necessary, but I think our current business model is flawed. We should get an hour so so on this.
-the support units were a mixed bag. Deb was, as usual spot on, Tom was fine. I tried to be gentle with Jim, but I think we all saw gaps and anything but a scale oriented mind set. Probably not worth too much pushing on jim here, but the new guy needs to reexamine everything. Some of those fte numbers were outsized, particularly in compliance.
Lots to talk about. See you next week.

Sent from my BlackBerry Wireless Handheld

To: Michelle McCarthy
From: Dave Griffith
RE: Sub Prime Chronology

You've asked for a chronological recap of ERM market risk involvement with Longbeach and the sub prime conduit. I'm preparing this from memory and have not taken the time to go back to find specific memos, meeting notes and power point decks. I've assumed the intent is not to document the expression of our past concerns as it is to help prepare a frank "what we did right; what we could have done better" fashion.

(you may want to strip the first section out entirely if it's not relevant)

2004: I conducted an informal but fairly intensive market risk audit of Longbeach while I was reporting jointly to David Beck and Steve Lobo, shortly before coming over to your group. We had just undergone a management change in Home Loans and Longbeach was in the commercial group. Frank(?) Johnson was the new CEO. I borrowed Harrison Luvai from HL and sent him and Paul Herbst down there for three days with a list of questions and people to interview.

The climate was very adversarial. Dennis Lau was buying sub prime whole loan packages directly into the portfolio and outside any governance or reporting. He considered himself as reporting directly to Kerry.

We found a total mess. Rate locks were issued as faxed loan files arrived from brokers. There was no pricing discipline; if a broker needed a better price, they asked for it. Systems to track commitment were non existent and tracking didn't begin until underwriting approval. They were not hedging and basically they were just being pulled along by a bull market and wide spreads.

I prepared a summary report without the inflammatory language and make a presentation to MRC which was still pretty harsh. Tom was pretty upset and it may have played a role behind the scenes in moving Dick and Dave C into the LB picture. You never know.

Sept. 2005: At least one, possibly two reorgs later. Craig Chapman was running home loans and David had moved soley to Capital Markets. You and I joked a lot about my needing a bullet proof vest.

That's because we discovered WCC had plans to begin buying loans into an Alt A conduit in two weeks. At that time we neither offered nor had approval to offer Alt A's at the bank and no corporate approval for a conduit. There were risk

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systems and plans to build the financial reporting along the way. At that point WCC considered itself outside the bank's ALMP/governance and felt that the conduit was an extension of its business.

I objected, you backed me and all heck broke loose. But the non emotional result was that we passed the first program authority for the Conduit (exclusively Alt A at that point) with a $500m limit and a fairly conservative set of reporting requirements and exclusions. One of those exclusions was "no subprime".

At the same time I prepared a detailed set of steps needed for the business to have our support for full delegated authority. There was a huge burst of interest initially and then months of no progress until the conduit began to approach its limit. As they did, they came back to revisit the path to delegated and asked for an increase to $750mm and then about three months later another to $1billion.

I supported both increases because by then we has printed and distributed our first deal (a huge milestone) and had gone through a full reconciliation audit.

Subprime came along in early 06 with all the risk systems and reporting positioned as an extension of Alt A. Using the Alt A conduit template. MRC granted program authority of $500m with many of the same conditions we had used for Alt A. This time however we carved out the right for ERM to approve one-off additional increases on a case by case basis. You effectively delegated that to me and for most of the summer it wasn't an issue.

The business began to approach the $500m limit in September a month or so after George Davie (our sp trader) joined the firm. But we were already starting to see delays in deal issuance due to problems with servicing transfers. The story line at that time was that our servicing problems were tied to the big sale to Wells and impacted by the various. But the fact was that the deal planned for August had to be delayed.

After that deal had been priced ($300m) but before it had settled I began to engage in an almost daily dialogue with George about upcoming bids. He bid on a couple of pools with my assurance that if we won, I'd grant approval since it would take the total over the limit.

After we won a couple of those, the approved one-offs took us effectively to a $750 limit. I never saw the need to go back to MRC because we always had deal in the works that would bring us back down, we had a good dialogue underway and a lot of progress on the loan tracking. It helped that if anything George was as, if not more, concerned with the back office servicing transfers as I was.

Then in late Sept or early October a $500m pool from People's Choice came up. We had just finished due diligence on a deal scheduled for October but it had not

yet traded. But we did know with reasonable certainty that the loans has been transferred correctly. Before approving that bid, I literally got Doug out of the shower at Cedarbrook to ask him bluntly if this was a compelling business opportunity. He thought it was.

So we went forward after joking with George that we were now intentionally feeding the pig to the python. If we had operational problems despite all the assurances that all was fine, we knew it would surface now. (This probably strikes a cord as I recall saying exactly that to you).

With perfect hindsight I should have asked you for permission to get on a plane to Jacksonville under the guise of learning about servicing transfers so that I could do our own dd. I thought about it but never asked figuring it was too far a field of market risk. Besides, at the same time, I was being pounded daily by Mr. Drastal saying "Cheryl has approved this".

As we know, the python spit out the pig. Our FPD problem which we had initially assigned to bad transfers and would self cure when we got the paperwork right turned out to be actual FPD's. But instead of finding that out in 60 days, it took us (and still might) 90 or more because of the continuing servicing issues. By year end we had to file an 8k (which no one has ever figured out to my knowledge) admitting that we has securitized delinquent loans.

To add insult to injury, we had a very tough time marketing the People's Choice loans because investors didn't like the name. The investors were right.

By Feb the FPD's and delinquencies were surging and the SubPrime conduit was shut down by agreement. That gave us time to bail the boat without new water pouring in. It remains effectively closed and as recently as this morning George is in no hurry to test the waters.

Unsaid in all this is why I supported full delegated authority which was granted in January. That was a philosophy change from traffic cop to facilitator which is certainly rooted in Ron's philosophy of delegation and my belief that the discipline of EC and the formal planning process should be enough. To make the business once again prove its case after the plan has been approved by the EC and the Board just doesn't seem right. After having been given top level authority to go out and build a sub prime conduit at the highest levels, it no seemed appropriate to say "well that's nice, but you've got to convince me too."

So I supported, designed and proposed the master authority tied to the plan concept.

Bottom line; biggest thing we did right was to slow them down and force proven successes before granting broader authority. We also built solid one:one dialogues which have resulted in straight talk because we're not the enemy.

Biggest mistake: not setting up tougher objective standards. We could have used the "ops risk is recognized as market risk" philosophy to have demanded objective evidence of progress and had we done so, the pain would be lower now.

From: Hillis, Mark R.
Sent: Wednesday, November 24, 2004 3:09 PM
To: Chapman, Craig J. <craig.chapman@wamu.net>
Subject: FW: LBMC Transfers of Piggiebacks from HFS to HFI!

Craig,

You know my thoughts on these high CLTV seconds. I know we are making huge improvements in LBMC, but if we are parking higher risk on the balance sheet, I'd like it to be focused on the following:

1) Sub Prime – lower LTV loans
2) Recourse/risk sharing to enable us to advance our SFR prime decisioning capabilities
3) MFL
4) Home Equity <90% CLTV

Please let me know your thoughts. I think it would be prudent for us to just sell all of these loans.

-----Original Message-----
From: Smith, Michael C.
Sent: Wednesday, November 24, 2004 11:29 AM
To: Hillis, Mark R.
Cc: Green Jr, Biff W.
Subject: LBMC Transfers of Piggiebacks from HFS to HFI!

Mark --

Just a heads-up that you may be getting some outreach from Carroll Moseley (or perhaps someone higher up in the chain) at Long Beach regarding their interest in exploring the transfer of what Carroll described as a small amount (maybe $10-20mm in UPB) of Piggieback "seconds" (our favorite toxic combo of low FICO borrower and HLTV loan) from HFS to HFI.

As Carroll described the situation, these are of such dubious credit quality that they can't possibly be sold for anything close to their "value" if we held on to them. So the proposal would be to write them down to near zero (maybe 5% of UPB?) but hold on to them (meaning an HFI classification) rather than sell them for practically nothing, and figure to earn more on the actual loans than their sale price would have fetched.

He acknowledged that they had already missed the Oct.25 deadline we'd agreed to earlier for submission of *any* request to transfer LB loans from HFS to HFI this quarter, and also pointed out that with a mega-writedown (not against the ALLL), their BV would produce nary a ripple in our reported numbers. However, I underscored that it wasn't just a question of timing, and that you had raised a number of serious issues in the LB QBR about the approvals not yet granted for this kind of a product to come into our portfolio. I urged him to reach out to you directly on these questions. (E.g., it's entirely possible we might want to make a business decision to keep a small amount of this crap on our books if it was already written down to near zero, but we would want all parties to be clear that no precedent was being set for the product as a whole, etc., etc.)

All of the above took place in an informal "back channel" phone call he placed to me in the interest of keeping clear communication channels open, but I was quite emphatic that this one would have to be considered, reviewed and decided well above my and his pay scale, as the expression goes.

Have a happy Thanksgiving (if I haven't just ruined it) MCS

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Washington Mutual
Internal Audit Department

TO:	Keith Johnson, President & Chief Operating Officer, LBMC	DATE:	09/21/2005
FROM:	Becky Odlozil, Sr. Audit Manager Randy Melby, General Auditor	PHONE:	(214)492-4380
SUBJECT:	Review of Long Beach Mortgage	LOCATION:	4397ADTX

EXECUTIVE SUMMARY

Rating.....**OPPORTUNITIES FOR IMPROVEMENT**

Long Beach Mortgage Company (LBMC) is a non-bank subsidiary of Washington Mutual Inc. specializing in underwriting sub-prime mortgage loans secured by one-to-four family residences. Loans are originated through a broker network or purchased through a correspondent network. Historically, loan production was securitized with retention of the servicing rights. However, LBMC management made a recent strategic decision to hold a portion of the loans for investment. In the first quarter 2005, this restructure of the balance sheet began with an initial transfer of $1.8 billion from *loans held for sale* to *loans held for investment.*

Internal Audit evaluated the adequacy and effectiveness of internal controls over loan origination policies and procedures, related accounting, loan origination system data integrity, wire approvals, and monitoring of the collateral custodian relationship. The securitization process, balance sheet valuation, financial reporting process and servicing process as well as certain specific lending regulations covered in separate enterprise-wide audits were not included in the scope of this audit. The migration to a new loan origination system is currently under evaluation as an ongoing system development project managed by the IT Audit group. LBMC management anticipates full implementation of the new loan origination system by September 2006.

Over the past year, significant progress has been made in establishing adequate policies, procedures and ongoing sustainable processes. LBMC currently operates in a manually intensive processing environment resulting in an increased propensity for errors. LBMC management recognized this increased risk and the potential impact on loan quality, and embedded quality assurance initiatives into their process. They also formed a quality assurance group and stabilized staffing. While the improvements in the processes should ultimately result in an effective control environment, we found these processes were not consistently followed. The Opportunities for Improvement rating is primarily attributed to the following control weaknesses:

- Policies designed to mitigate the risk of the following predatory lending practices are not always followed.
  - Origination of loans providing no net tangible benefit to the borrower - In 24 out of 27 (88%) of the refinance transactions reviewed, policies established to preclude origination of loans providing no net tangible benefit to the borrower were not followed.
  - Loan flipping – In 8 out of 10 (80%) of the non-seasoned refinance loans reviewed, there was no evidence of the required History Pro report used to assist in the determination of loan flipping.

While predatory lending laws are specific to certain states, both state and federal regulators continue to scrutinize predatory lending practices particularly in the sub-prime industry. Failure to comply with policies designed to mitigate the risk of any lending practices which could be construed as predatory

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increases the company's regulatory, reputation and credit risk.

- Underwriting guidelines established to mitigate the risk of unsound credit decisions were not always followed, and the decisioning methodology was not always fully documented. The majority of exceptions resulted from using unverified income or the unsupported exclusion of debt items in the debt-to-income calculation.
- Controls within the loan origination system can be overridden to allow employees without documented authority to approve loans. Additionally, the Risk Level Authority Matrix used by management to document and grant lending authority commensurate with employees' job levels and experience is not kept up to date.
- The loan approval forms documenting the clearing of conditions were not fully completed in 60% of the files reviewed.
- Not all LFCs require secured card entry at the facility resulting in sensitive customer information, including credit reports and loan applications, not being adequately secured at these locations.

Management self-identified some of the control weaknesses, and remediation efforts for all issues are underway. These issues are being remediated through training, reinforcement of policies, creation of job aides to assist with underwriting decisioning and documentation, and random in-house audits. By October 2005, remediation plans are scheduled to be fully implemented. Management will validate the effectiveness of the remediation plans through a series of in-house audits which we be completed in the first quarter of 2006.

BACKGROUND

Long Beach Mortgage Company (LBMC) became a non-bank subsidiary of Washington Mutual Inc. in 1999. Operating as a separate legal entity, LBMC originates, purchases, and sells subprime residential mortgage loans secured by one-to-four-family residences. LBMC's borrower base consists of individuals who can not qualify for traditional "A" credit due to their credit histories or debt-to-income ratios.

Loans are originated through a broker network (wholesale loans) of 15,000 brokers or purchased from correspondent mortgage bankers (correspondent loans). The loan broker submits the loan file to Long Beach Mortgage Loan Fulfillment Centers (LFCs) where the loan is underwritten.

Historically, LBMC did not hold the loans in its portfolio but rather securitized them and retained the servicing rights. Pools are created by the Capital Markets Group that match the requirements of the proposed securitization. While the majority of loans originated will continue to be securitized, LBMC reallocated assets on the balance sheet resulting in an initial transfer of $1.8 billion from loans held for sale to loans held for investment. This transfer was completed in the first quarter 2005 with an ultimate goal of having $3.5 billion in loans held in investment.

OBJECTIVES AND SCOPE

The objectives of this audit were to evaluate the adequacy and effectiveness of the system of internal controls over loan originations at LBMC and to determine the adequacy of and compliance with related policies and procedures and applicable laws and regulations.

The scope consisted of interviews with management and review of:

- Loan origination policies and procedures, and related accounting
- Compliance with predatory lending regulations, the Fair Housing Act, Unfair or Deceptive Acts and Practices, and the National Flood Insurance Reform Act
- Underwriting guidelines
- Loan origination system data integrity
- Monitoring of the collateral custodian relationship
- Wire approvals
- A random sample of loans selected from 1st quarter 2005 originations

A separate audit of the LBMC default servicing functions is currently in process and will be reported separately. LBMC securitizations, balance sheet valuations and financial reporting processes are audited by the Treasury and Capital Markets Internal Audit group and were not included in the scope of this audit. Specific lending regulations covered in separate enterprise-wide audits, including Equal Credit Opportunity Act, Fair Credit Reporting Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act and Truth-In-Lending, were also not included in the scope of this audit.

Thank you for the cooperation received during the audit engagement. Please call if you have any questions or comments.

cc: Steve Rotella, Craig Chapman, Jim Vanasek, Mark Hillis, Melissa Martinez, Michael Giampaolo, Amy Marcussen, Larry Breitbarth, Matt Place

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ATTACHMENT I
AUDIT ISSUES & MANAGEMENT ACTION PLANS

	AUDIT ISSUE	RISK	MANAGEMENT ACTION
1	***Predatory Lending Practices (Criticism)*** LBMC policies and procedures designed to prohibit the origination of refinance transactions for which a net tangible benefit to the borrower cannot be demonstrated are not always followed. LBMC procedures require the completion of a net tangible benefit worksheet for all refinance transactions. However, for 88% of the refinances selected for testing, the net tangible benefit worksheet was not fully completed or supported by information in the loan files. Although the net tangible benefit worksheet requires the signature of a second reviewer, no management sign off is required. Additionally, 80% of the non-seasoned refinances tested did not show evidence of the History Pro report, which is required by policy to mitigate the risk of loan flipping and predatory lending.	Refinancing loans for which a net tangible benefit to the borrower is not fully documented and supported puts the company at risk for noncompliance with state specific legislation governing predatory lending practices. Additionally, given the increased scrutiny on predatory lending by state and federal regulators, specifically in the sub-prime lending industry, the company risks reputation damage should their lending practices be construed as predatory in nature. Resulting loss of market share in an extremely competitive industry could occur and impede the company's ability to meet strategic initiatives.	Management completed additional programming which will print the net tangible benefit worksheet with each amendment to the loan and implemented a policy change to require an update of the worksheet to reflect changes to the terms of the loan. Additonally, policies regarding the use of History Pro were not clear at the time of release. Management has provided policy clarifications and training on the use of History Pro since the completion of this audit. Management will further address these policies within each LFC and provide additional training between August and October 2005. The effectiveness of the remediation efforts will be monitored through a series of in-house audits which will be completed in the first quarter of 2006.
2	***Underwriting Quality and Documentation (Criticism)*** Underwriting guidelines and policies established to mitigate the risk of unsound underwriting decisions were not always followed and the decisioning methodology was not always fully documented. We found exceptions to policy or were unable to verify compliance with policy due to missing documentation existed in minimum credit score requirements, applicant identification form, mortgage and rental credit history, consumer credit, capacity to repay, full documentation program, stated income program, verbal employment verification, age of documents, and verification of recording. A significant portion of the exceptions pertained to the debt to income calculation and were the	Failure to adhere to underwriting guidelines and policies compromises the underwriting process and could result in unsound underwriting decisions. The risks associated with unsound underwriting decisions include regulatory fines and criticisms, diminished loan quality, and reputation risk in the secondary market. Losses in the form of fines, penalties, reduced market value of the loans, and early payment default by the borrower could also result. Additionally, failure to adequately document and support the decision puts the company at risk for the appearance of non-compliance with policies and subjects the company to regulatory criticisms.	Management developed corrective action plans including system enhancements to prohibit less than the minimum credit scores, creation of job aides to assist with documenting decisioning, additional underwriter training to address the findings, and re-training on the use of established quality control checklists. On August 1, 2005, management rolled out the Underwriting Decision Summary Form which clearly documents the underwriter's decision. Additionally, all underwriters received training to reinforce guidelines regarding stated income and debt to income calculations. By October 2005, additional job aides addressing the components of the underwriting decision and along with training will be complete. The effectiveness of the remediation efforts will be

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	result of using unverified income in the calculation or excluding certain undocumented debt items from the ratio. The details of exceptions on individual loans were provided to management.		monitored through a series of in-house audits which will be completed during the first quarter of 2006.
3	***Underwriter Approval/Condition Clearing (Criticism)*** Before funding, guidelines require the loans to be reviewed and approved by the designated level of authority and conditions cleared. However, these controls are not operating effectively. Although the company established the Risk Level Authority and Condition Clearing Matrix commensurate with employees' job title and experience, the loan origination system can be overridden to allow employees without designated authority to approve loans. Additionally, we found two employees granted authority in the matrix higher than their job title and experience would warrant. According to management these two cases resulted from input errors. Additionally, the matrix was not updated regularly to reflect new employees or delete employees no longer employed by LBMC. We also found the clearing of approval conditions to not be fully documented on the Loan Approval form in a significant portion of the loans tested.	Loans that are not originated in accordance with established guidelines governing designated levels of authority and condition clearing jeopardize the soundness of the underwriting process and puts the company at risk for losses through the origination of poor quality loans, errors and omission in the loan package.	By October 2005, management will add a quality control check to validate approvers in the Risk Level Matrix. Employees with lending authority will also supplement their initials with the use of a name stamp to avoid confusion due to illegible handwriting. Additionally, management will re-train on the completion of the Loan Approval forms. The effectiveness of the remediation efforts will be monitored through a series of in-house audits which will be completed in the first quarter of 2006.
4	***Pricing (Recommendation)*** Errors were found in pricing loans in 27% of the loan files reviewed. Determination of the loan price involves manual calculations, which increases the chance of errors. These errors were not documented as pricing exceptions, and accordingly were not approved or reported as such, and resulted in loans that may not be priced commensurate with the borrower's	Pricing loans outside of the established pricing guidelines puts the company at risk for pricing that may not be reflective of the borrower's credit risk classification and may be construed as discriminatory or predatory in nature subjecting LBMC to regulatory criticisms and fines.	Management previously addressed errors in pricing by implementing a pricing tool called "Flash Quote", which eliminates some of the manual calculations inherent in pricing loans. By August 1, 2005, all underwriters received refresher training in connection with the introduction of the Underwriter Decision Summary. Emphasis was placed on the use of the correct FICO score within this tool so that

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	qualifications. Additionally, one loan contained a rate in the note which did not match the rate which was approved.		loans are priced accurately. The effectiveness of the remediation efforts will be monitored through a series of in-house audits which will be completed during the first quarter of 2006.
5	***Quality Assurance Initiatives (Recommendation)*** Although management addressed controls in the manually intensive environment by embedding quality control checks into loan processing, the pre-boarding checklists, DOCs Out and DOCs In checklists, and prefunding checklists were not always fully completed.	Failure to fully complete or fully document quality assurance checklists diminishes their effectiveness and puts the company at risk for non-compliance with regulations and underwriting guidelines, missing documentation, poorly documented underwriting decisions, the origination of poor quality loans, and could impede the efficiency of the origination loans. Regulatory criticisms, reduced gains on securitization, early payment default and a higher incidence of fraudulent and incomplete submissions could result.	By October 2005, management will provide refresher training to all functional roles within the LFCs and will monitor the effectiveness through in house audits which will be completed in the first quarter of 2006.
6	***Security of Borrower Information (Recommendation)*** Not all LFCs require secured card entry at the facility resulting in sensitive customer information, including credit reports and loan applications, not being adequately secured at these locations.	Failure to adequately secure customer information could result in misuse of the customers' personal data for fraudulent purposes and result in customer dissatisfaction, and liability on the part of LBMC should the customer incur losses. Additionally, given the increased attention from the public and media regarding consumer privacy issues, reputation damage could result should the company fail to protect sensitive customer information.	Management installed card entry at the Dallas LFC so that only authorized employees can enter the department. During nonbusiness hours, entry is limited to cleaning personnel who are bonded. Management is addressing secured entry for all LFC locations.
7	***Date Integrity - Input into LOS (Observation)*** The information in FiTech did not agree to information contained in the loan files for appraisal amounts (i.e., CVR report) in 27% of the transactions tested. Management was aware of the differences which resulted from issues with information received from the Optis Value system. The problems with the data received from Optis Value are corrected.	Failure to adequately support information input into FiTech could result in inaccurate pipeline management reporting. The pipeline reports are used for a variety of reasons including developing performance metrics, monitoring time that loans are in the pipeline in order to comply with regulations, populating the Loans-In-Process general ledger account, and inclusion of balances in the Corporate 10k reports. Inaccurate pipeline reporting could result in	Although the discrepancies resulted from data problems within the WaMu Optis Value system, management devised a form for employees to use to check the information input into FiTech. By August 2005, the use of the form will be fully implemented. The effectiveness of the remediation efforts will be monitored through a series of in-house audits which will be completed during the first quarter of 2006.

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	AUDIT ISSUE	RISK	MANAGEMENT ACTION
		poor business decisions, regulatory non-compliance and inaccurate financial reporting.	
8	***Manager Approval for Wire Requests (Observation)*** Evidence of wire request authorization by a LFC Team Manager is not specified on the Funding Template and is not always evidenced as required by policy on the "Wire Funds Information Sheet." Several instances were found where the "Wire Funds Information Sheet" was approved by a level below that of an LFC manager or for which no authorization was evidenced. Although wire logs are received twice daily from the Funding Quality Control department and LFC managers are required to review the validation of the wires to the log, no evidence of review is required or maintained.	Unapproved or misdirected disbursement of loan proceeds puts the company at risk for losses and errors in the funding process which impedes operational efficiency and could result in customer dissatisfaction .	Management feels that notification by the Funding Quality Control department for wires that cannot be sent and the related reversal of the wire in the LOS along with the the wire logs prepared twice daily and sent to the LFCs mitigates the risk of unapproved wires. However, management will clarify through additional training, the applicable documents to be reviewed and signed by the Team Manager. The effectiveness of the remediation efforts will be monitored through a series of in-house audits which will be completed in the first quarter of 2006.

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From: Carter, Lawrence D
Sent: Friday, August 13, 2004 12:53 PM
To: Finn, Michael E <finnme@office of thrift supervision.com>
Cc: Chow, Edwin L <chowel@office of thrift supervision.com>; Dyer, Nicholas J <dyernj@office of thrift supervision.com>
Subject: Craig Chapman

As you suggested, I contacted Craig Chapman yesterday to bring him up to speed on our findings and conclusions in the area of home lending. I also suggested to Craig that we talk regularly. Our next call is scheduled for 8/23 at 9 a.m. He will include Mark Hillis next time, who is the new chief credit officer over the home lending area. We will talk more about progress in moving forward in improving home lending operations. Mark has already put in place a lot of changes and should be able to provide some feedback on how those changes are taking hold.

Craig has been around the country visiting home lending and fulfillment offices. His view is that band-aids have been used to address past issues and that there is a fundamental absence of process. He indicated that Craig Davis had an approach of "mass customization," i.e., trying to make every loan they could rather than concentrating on a narrower, homogeneous product set of profitable products. Craig Chapman will be working to get more focused on a profitable product set and establish processes that can be carried out consistently across the various home loan and fulfillment centers. I advised Craig that he was on the right page and that execution of his plans should address our issues with underwriting inconsistencies and simplify the process of addressing our other issues with pricing and data integrity. Craig is well aware of channel pricing issues and risk-based pricing issues at the loan level. I reiterated to Craig the importance of addressing the need to identify and properly manage subprime lending activities head on. I told him thoroughly supporting capital allocation was critical in that we were requiring double risk weighting or more for many of our institutions who could not support lesser capital on their own. I told him we really would like to avoid dancing around the issue of using the term, "subprime," with which he wholeheartedly agreed.

Nick had received two "complaints" from competitors, on which I followed up with Craig: (1) WAMU qualifying borrowers at rates as low as 4-4.5 percent and (2) WAMU matching Countrywide's significant dropping of start (teaser) rates. Craig will follow up to see what WAMU has done in these two areas of underwriting and obtain supporting rationale as appropriate. He should be providing me a response by email.

I asked Craig whether the organizational structure would change now that he is in charge of mortgage banking, to which he responded "no." Essentially, Craig will manage the mortgage banking segment of the Consumer Group, even though Deanna still heads up that group. In other words, mortgage banking will not be moved to the Commercial Group nor, as best as I can tell, will Craig and Deanna's roles change as heads of the two main business segments.

I asked Craig about competition with Countrywide. He believes Countrywide has a very broad product set. He thinks Countrywide's service is as bad as WAMU's right now. He concedes Countrywide has better technology. Craig wants to improve WAMU's service in terms of turnaound times and become a low-cost producer of a narrower range of products. He believes WAMU would have a competitive advantage here.

In terms of losing people, Craig feels they have not really lost many individuals they did not want to lose anyway. Candidates for CFO are coming in next week. Morale is somewhat of an issue in the Loan Fulfillment Centers because that is where a lot of changes are occurring. Otherwise, he feels they are okay.

As an aside, as Nick already informed you, I am trying to set up a call for next Monday or Tuesday with Tom Casey to get his take on what BlackRock meant in their presentation as far as regulators impacting MSR valuation and hedging practices.

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From: Rotella, Steve
Sent: Wednesday, February 16, 2005 3:31:27 PM
To: Meola, Tony T.
Subject: FW: Follow-Up on Credit Expansion Discussion wwith Diane

I am beginning to have some fun with this.

-----Original Message-----
From: Hillis, Mark R.
Sent: Wednesday, February 16, 2005 10:31 AM
To: Rotella, Steve
Subject: RE: Follow-Up on Credit Expansion Discussion wwith Diane

I do not agree. The grids and the BEDE engine do the following:

1) All products are eligible for approval. Today there is a 680 min FICO requirement for 5/1 IO loans. Under the BEDE grids (which are in production today), the 5/1 IO's, 7/1's, etc can be approved down to 620 automatically by the system. All Tim is saying is that given we are using a proprietary algorithm, we can't just say to the field that all 620's will be approved automatically. It is dependent on their overall credit profile, and the internal models use LTV and mortgage credit performance and large drivers of the score – something FICO does not.
2) The LTV approvals for solid customers are well above the levels approved today.
3) We also have an approved to component in the system. If a borrower applies for x amount at y LTV, we may in fact (and over $1B/month do), provide LTV guidance and loan amount guidance that exceeds their requests.
4) The BEDE system and these rules are operating today in the LFC's. John Schleck has seen the value, and it is significant, I just don't think Tim explained this well.

I will send more concrete information across. Please let me know if you want to discuss.

-----Original Message-----
From: Rotella, Steve
Sent: Wednesday, February 16, 2005 10:19 AM
To: Hillis, Mark R.
Subject: FW: Follow-Up on Credit Expansion Discussion wwith Diane

So, sounds like there isn't much new news after all. Do you agree?

-----Original Message-----
From: Meola, Tony T.
Sent: Wednesday, February 16, 2005 6:08 AM
To: Rotella, Steve
Subject: FW: Follow-Up on Credit Expansion Discussion wwith Diane

FYI

I Didn't think we had any "good news" items I was holding back from the field unfortunately I was correct.

-----Original Message-----
From: Bates, Timothy
Sent: Tuesday, February 15, 2005 7:33 PM
To: Meola, Tony T.
Cc: Ludlow, Diane L.; Hillis, Mark R.
Subject: Follow-Up on Credit Expansion Discussion wwith Diane

Tony,

Diane asked me to email you regarding progress on the discussion and request you made earlier today to assemble some examples of enhancements surrounding credit policy that will be welcomed by sales. We're still plugging through some analysis and verifying a few things with Ops folks, but here's a general sense of what we're going to provide.

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The most significant enhancements are centered around expanded LTV and loan amount parameters based on our new underwriting grids; specifically, we will be able to auto-approve loans up to $1 mil at up to 90% LTV. Since the relief is primarily driven by the PM2 score with combinations of other factors such as Owner Occupied, Cash Out, and Number of Units, it's difficult to put a hard and fast statement out there about Fico. We have to do a little bit more analysis to provide the general Fico parameters, but we this should provide a general sense of what we're doing.

So, by tomorrow we should be able to provide a statement such as this: For loan amounts up to $1 million, and for Fico scores down to X (analysis due back tomorrow), Owner Occupied, 1 Unit and No Cash Out, we will go up to 90% LTV with an auto-approval. Also, on these same deals, we will also provide income and asset documentation relief to the borrower.

This would apply to the following products:

- 1 and 3 month Option ARM
- Flex 3 and 5
- 5/1 I/O

Do you want to provide this with a targeted implementation date or just take this to President's Club as an example of the expansion?

Hope this is what you're looking for- let me or Diane know if you have any questions or if you're looking for something different.

Tim Bates
Washington Mutual
Enterprise Modeling and Decisioning Systems
206 377 4919 voice
206 490 4427 facsimile
timothy.bates@wamu.net

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From: Feltgen, Cheryl A.
Sent: Wednesday, June 14, 2006 1:07:03 PM
To: Pollack, Wayne A.
Subject: FW: FW: HEQ

Attachments: Picture (Metafile)

From: Hillis, Mark R.
Sent: Wednesday, June 14, 2006 7:32 AM
To: Feltgen, Cheryl A.
Cc: Myhre, Jennifer; Kido, Ken; Cathcart, Ron; Corcoran, James
Subject: FW: HEQ

Cheryl,

I wanted to weigh in on a couple of the items you've identified for the Equity expansion opportunities.

On the first two bullets, you are right on. We are tracking well toward a July 80/20 implementation and it is going well. Also, you guys did a nice job on the ERMC portfolio purchase decision, and that seems to be moving along well.

Regarding the next two items, I'm assuming you are looking at sub-prime second models for Longbeach. If not, we need to sit down and have a role clarity discussion. Our team is currently focused on several HE modeling initiatives to include higher risk lending and the next generational enhancement of our existing custom algorithms. We are in the final validation stages of a tool that will be implemented in October to swap-in much more of the 580-620 population and enhance our 620-660 approval rates. In the interim, we are adjusting our decision engine rules for a July roll out to allow for 580-620 and LT 80% CLTV loans to be referred to a manual "sub-prime" underwriting team that we are putting in place. Of course I still need to run this by the CPC for final approval.

On your bullet point for the opportunity we've done a very thorough scrub of our TTD population and we see this 580-620 segment as the biggest opportunity where we aren't lending today. Clearly, there are additional market opportunities through the capital markets side that you'll exploring.

Finally, on the collateral side we have some individuals who've done some really good work on AVM validations as well as the overall cascade logic that we utilize. We expect some nice quality enhancements and cost saves as this logic is implemented this summer.

In this expense environment, we need to make sure we have everyone focused on the right things, and to avoid duplication and/or overlap if it exists. If you see this differently, then let's sit down and discuss.

Let us know how we can further help. We've got good momentum going, as evidenced by our May jump in approval rates given the March rule and policy changes that we made. We are now seeing more of a bar-bell distribution starting to occur with more lending being done down in the lower score intervals. These further changes will enhance that considerably.



From: Kido, Ken
Sent: Tue 06/13/2006 3:18 PM
To: Myhre, Jennifer; Hillis, Mark R.
Subject: FW: HEQ

-----Original Message-----
From: Schneider, David C.
Sent: Tuesday, June 13, 2006 2:36 PM
To: Rotella, Steve; Kido, Ken
Subject: Fw: HEQ
Importance: High

An update on the HE issue.

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-----Original Message-----
From: Feltgen, Cheryl A.
To: Schneider, David C.
Sent: Tue Jun 13 13:10:30 2006
Subject: FW: HEQ

David:

There are various activities that have been completed or are underway in connection with "expanding the home equity credit parameters":

* Our "80/20" program has all needed credit approvals. By the end of June, we will be able to offer a WaMu first/non-WaMu second and by the end of July, we will offer a WaMu first and a WaMu second. The later is dependent on Retail Bank systems (Visual Banker, Transact). We were able to work together to move it up in their technology queue from November to July. The program is 100% CLTV (previously only 95% was offered), $250,000 second, max combined loan amounts of $1.25 million, FICO down to 620.

* $4 billion home equity investment program approved with some delegated authority to Home Loans in the inaugural Enterprise Risk Management Committee last Friday. High CLTVs (up to 100%) and lower FICOs (down to 600) permitted with some concentration limits.

* Vijay Bhasin and team are building a subprime scorecard for EDE that will enable the greater understanding of the risk and return tradeoffs for subprime home equity

* Vijay Bhasin and team are working on the analytics necessary to identify the "sweet spot" in the FICO/LTV possible combinations for optimal risk and return. Mark Hillis has completed an analysis which I have seen which suggests the targeting of the lowest FICOs (580 to 620) in combination with the lowest CLTVs (less than 80%). Vijay's analysis will help us to confirm whether Mark's recommended approach is indeed the "sweet spot". Mark Hillis has not shared all the details of what he plans to do, but I believe he intends to present something to the Credit Policy Committee in July.

* Collateral risk is important for this product type and credit profile. Vijay will also be working on analytics to better assess collateral risk and hence identify opportunity.

We do see opportunity in continuing to expand the credit box for home equity. It is one of the elements of our effort to increase credit risk while achieving the appropriate risk-adjusted return.

Cheryl

From: Schneider, David C.
Sent: Monday, June 12, 2006 1:34 PM
To: Feltgen, Cheryl A.
Subject: FW: HEQ

From: Rotella, Steve
Sent: Monday, June 12, 2006 1:11 PM
To: Kido, Ken; Schneider, David C.
Subject: HEQ

Where are we in examining the possibility of expanding the home eq credit parameters?

From: Feltgen, Cheryl A. <cheryl.feltgen@wamu.net>
Sent: Sunday, February 5, 2006 2:54 PM
To: Joans, Michelle L. <michelle.joans@wamu.net>; Shaw, Robert H. <robert.shaw@wamu.net>
Subject: Fw: 80/20

Michelle and Bob:

See attached string of emails. Michelle, please contact Ralph Melbourne to understand exactly what is wanted to allow 80/20 in Retail and Wholesale. Then work to prepare request for approval. Bob, your help will be needed. Bob, note my comment below that I think we should raise the subject at the QBR meeting to assess the level of support we will receive from Hugh etal. Keep me advised of the progress and what you hear from various interested parties.. Thanks for your help.

Cheryl

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Meola, Tony T.
To: Schneider, David C.; Feltgen, Cheryl A.
Sent: Sun Feb 05 10:27:47 2006
Subject: Re: 80/20

Spot on, the issue is a role clarity - the consumer bank plays the role of portfolio manager as does alco and to a degree credit. There is no one decision maker in the world of heloc. We all think we "own it and thus there is no final say" that clarity would unlock this - very similiar to the underwriting debacle we sorted through. This is an endless voting process.

ATM

-----Original Message-----
From: Schneider, David C.
To: Meola, Tony T.; Feltgen, Cheryl A.
Sent: Sun Feb 05 10:23:14 2006
Subject: RE: 80/20

A few thoughts:

1. The process seems to be flawed when a product can be □tabled□ until next meeting. Why are we running the business based one meeting schedules? Also, I have no problem with credit expressing concerns about controls, etc. I do think, however, that their main job is to approve credit parameters. They should, of course, set the right expectations for control and I think it would be appropriate to request a final sign off that would allow credit to review the controls that are established by the business and ensure they are adequate.

2. I don□t understand the concerns from the retail bank. We are working with them on a number of projects and I assume this is aligned under Ralph and his team.

We need to decide soon that this will or will not be ok from a credit perspective.

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From: Meola, Tony T.
Sent: Sunday, February 05, 2006 6:06 AM
To: Feltgen, Cheryl A.; Schneider, David C.
Subject: RE: 80/20

The issue is pretty simple - we do not have an 80/20 capability at all on any jumbo product. While we did just get the capability on agency product for retailt, we process , close and deliver the product in Nexsta's name. Wholesale odesn't have it and Correspondent has not been approved yet, Hillis tabled it at the Credit committee as you know, I have kept it in the May release in spite of that . Let us deal with the system issue, we do a number of things today that our systems do not support (eg : Wholesale Equity Lending), that is a bit of a smoke screen in this history. Thanks Cheryl.

From: Feltgen, Cheryl A.
Sent: Sat 02/04/2006 9:28 PM
To: Schneider, David C.; Meola, Tony T.
Subject: RE: 80/20

David and Tony:

The whole subject of □80/20□ (and also 100% CLTV loans) is a complicated story at WaMu with a history (as Tony knows). . .the discussion of it stretches back for probably years. There has historically been some resistance from Enterprise Risk to aspects of it. Let me try to describe where we are now and what I think needs to be done to get to where I believe the two of you want to be.

On first mortgages:

We now have products with a 100% CLTV. Until late last year/early this year, the system would not support it and we finally now can support the conf FRM as a 100% CLTV. The conf Hybrid is approved and the system will be updated mid-06 to allow us to implement it. Option ARMs have a max CLTV of 95% and interest only has a max CLTV of 90%. Further, 100% CLTV opportunities, beyond what Fannie/Freddie permit, are now available in the Alt A product in the Correspondent and Retail channel, with Wholesale coming out with the implementation of Dorado.

On second mortgages:

In Correspondent, a proposal was presented at last week□s Consumer Credit Subcommittee to introduce a second that could go to 100% CLTV behind our Alt A first. The intent is to sell these loans to WCC for immediate securitization with minimal warehouse time. The vote was tabled until next month□s meeting. Further information was requested by Mark Hillis about controls and how

issues would be managed. Mark Hillis and Jennifer Myhre also wanted to do a comparison to the controls that are being built in the Retail Bank for their new stand alone equity product originated for a secondary market execution. Despite the delayed vote, implementation is still on track for May 2006. We will work to cover all the bases before the next meeting to assure approval.

Beyond Correspondent, we have no system capability to process the seconds. Possible solutions might be to outsource to Nexstar as we do now for Retail/Consumer Direct. When/if we implement Palisades (still a long time from now), it has that capability. I understand also that MLCS can be made to include that functionality, but doesn't have it today. If we wanted to make this a priority from a systems standpoint, other projects would need to be deferred to accommodate it, which could certainly be done. I don't really control that.

As we progress our thinking on the 80/20s, there may be some resistance from the Retail Bank seeing our efforts as infringing on theirs. They are working on a stand alone equity product that would be originated through correspondents. It would be sold in the secondary market. They may expand beyond that in the future. (Note: there is currently a Board Policy that prohibits the holding of first/second 100% CLTV loans). Corporate Credit Risk has some concerns given the point in the housing cycle and given the pending interagency guidance on higher risk lending. These concerns can certainly be addressed, but it is an item to be aware of.

Tony, you have asked that my team develop credit/underwriting guidelines for 80/20 loans that would be originated in the Retail and Wholesale Channels. We can do that working with Ralph Melbourne and his Product Development Team. At the moment, I don't see the development of guidelines as the constraint, but rather developing the system capabilities and making them a priority. I think it is typically Ralph and team (Krysti Kovarik) that leads that effort. We will be happy to help where we can.

We have the HL Quarterly Business Review with the Corporate Credit Risk team on Wednesday, February 15 from 3:00 to 4:30 p.m.. David is scheduled to attend with me. David, I think it would be good for us to raise the subject so that you can express your enthusiasm for the product and so that we can assess the support we will receive from Corporate Credit Risk. Tony, I had spared you from this meeting, but it might be good to have you on for at least part of the call as well, particularly to talk about this subject. As you may recall, we included it in the Front End Guidance that we reviewed with them, but really didn't have time to discuss it.

Would welcome your thoughts. Thanks.

Cheryl

From: Schneider, David C.
Sent: Friday, February 03, 2006 10:34 PM
To: Meola, Tony T.; Feltgen, Cheryl A.
Subject: RE: 80/20

What is the answer?

From: Meola, Tony T.
Sent: Thu 02/02/2006 10:48 AM
To: Feltgen, Cheryl A.
Cc: Schneider, David C.
Subject: 80/20

Cheryl,

We continue to get pressure for the 80/20 product particularly in the jumbo arena, where are we on the 80/20? To date we have said we would consider it, Long beach has it, but we have been reluctant to grant it to homeloans. There maybe some systems issues, but I think we can side step them. This was a follow up to David□s Cedarbrook meeting.

From: Schneider, David C.
Sent: Friday, November 30, 2007 4:44:33 PM
To: McMurray, John; Killinger, Kerry K.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Corcoran, James; Baker, Todd
CC: Beck, David; Berens, John; Woods, John F.
Subject: RE: Modifications

John,

Thanks for putting together this summary. I agree with your points and they are consistent with our current plans around this issue. As of this time, it is my sense that we need to be prepared to work all borrowers who are current and express a willingness to stay in their home. This will, by necessity, be a loan by loan process although we can streamline some of the activities required to execute a mod.

I also think it is clear that the economic benefit of providing modifications for these borrowers is compelling for the following reasons:

- None of these borrowers ever expected that they would have to pay at a rate greater than the start rate. In fact, for the most part they were qualified at the start rate
- We need to provide incentive to these borrowers to maintain the home - especially if the home value has declined
- When we booked these loans, we anticipated an average life of 2 years and never really anticipated the rate adjustments

All that said, we are doing the math to show breakeven points. My sense is that Mods are the best bet. In fact, this is what the investment community is saying through their support of the national efforts.

ds

From: McMurray, John
Sent: Friday, November 30, 2007 3:08 PM
To: Killinger, Kerry K.; Rotella, Steve; Cathcart, Ron; Casey, Tom; Schneider, David C.; Corcoran, James; Baker, Todd
Subject: Modifications

There have been numerous separate conversations over the past several days on modifications. These discussion have included the potentially material consequences on provisions and sale treatments. The purpose of this email is to briefly summarize the situation and advocate three recommendations.

I. **Political Reality.** The political reality of this situation is increasingly misaligned with economic and accounting realities.

A. Activist Agenda. The activists have their own agenda and have exploited this situation by out-lobbying banks and investors. In some respects, previous activist activities around expanding homeownership via more accommodating credit standards may have ironically contributed to the current situation. A common refrain I've heard from various activists is: "get 'em in, keep 'em in."

B. Existing Processes. Except for isolated (mostly subprime only) servicers, there were already robust processes for work-outs and modifications (see II.A . below). This fact was so poorly communicated by the industry that it now matters little from a political perspective.

C. Foreclosure Consequences. Another poorly communicated, or at least poorly understood, fact is that lender/investors do not benefit from a foreclosure.

II. **Economic Reality.** Modifications should be pursued to optimize the economic consequences for the affected parties (i.e. the borrower and lender/investor), whose interests are usually aligned in a default situation.

A. Existing Practice. For most, if not all, of the situations where a modification would make sense, loans were already being modified by mainstream servicers. Existing practice is to tailor the work-out or modification to the specifics of each situation thereby maximizing its chance of success.

B. No Panacea. The "one-size fits all" modifications being promoted in DC will likely be much less successful than advertised. Here are a few reasons where a modification many not be successful:

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1. The loan was for a speculative purchase. These transactions were more prevalent in this cycle even though some consumers may have camouflaged the true nature of their transaction.

2. The consumer purchased a new property and cannot sell their previous property, which they no longer occupy.

3. The consumer has negative equity and does not wish to remain in the property.

4. The consumer can't afford any payment as the result of a job loss or other actuarial event. Some of these situations can be saved with a work-out plan, but a simple rate reduction isn't one of the approaches that typically works.

C. Economic Alignment. The approach John Woods described in Wednesday's MCR is the right one. We need to have a reliable model/approach for predicting which specific modifications are likely to be economically viable. An unviable modification where the consumer eventually defaults is adverse to the interests of all parties, including the consumer, the lender and the investor (for sold portfolios).

III. **Accounting Reality.** The accounting issues relative to modifications have been raised repeatedly. So far, however, those entities which need to provide relief (e.g., FASB, SEC) have not seemed anxious to do so.

A. HFI portfolio. The provision for anything we modify is generally going to be higher than had we not modified the loan.

B. Sold Portfolio. A misstep here could have catastrophic consequences with many sold loans coming back onto the balance sheet.

IV. **Recommendations.** My recommendations are outlined below. I believe that some of these approaches may already be embodied in the initiative underway, which was commissioned by Schneider and led by Beck.

A. Viability. We should seek to do only those modifications that will be economically viable because that's what's best for the affected parties (borrower and lender/investor).

B. Company Position. Wherever we ultimately land with regard to changes in our work-out and modification strategies, we should crystallize our internal and external positions on this high visibility issue to promote understanding and avoid being outmaneuvered by those with competing agendas.

C. Accounting & Economic Consequences. We should understand the accounting and economic consequences before committing to any large-scale modification program.

Hybrid ARM Lending Survey

1. Hybrid ARMs are offered to many different types of borrowers. Of your hybrid ARM[1] offerings, what percentage (and amount) is lent to subprime borrowers? What percentage (and amount) would be considered Alt-A? For the two groups, what percentage (and amount) includes a "below-market" introductory rate? A "market rate" for this purpose might be considered the current fully indexed rate on the loan if it were reset today according to the terms of the contract.

Answer:

- Hybrid ARMs with 2-yr or 3-yr introductory rates represented approximately 66% of subprime channel origination volume in 2006, none of which were considered Alt-A. The subprime channel does not offer Alt-A products, which represent approximately 13% of February 2007 total volume, down from 15% in January 2007. Alt-A Hybrid products with introductory rate periods of three years or less represent less than 1% of total Alt-A volume in February 2007.
- All (100%) of the hybrid ARM products have introductory note rates that are below their corresponding fully-indexed rate. However, these introductory rates are closely matched with their corresponding term in the market yield curve. Thus, we do not consider an introductory rate that is tied to the market yield curve but below the fully-indexed rate to be "below market".

2. What are the borrower qualification criteria for subprime and Alt-A Hybrid ARMs? Specifically, what is the interest rate used to calculate the DTI ratio and how does this rate relate to the initial note rate, the fully indexed rate and the lifetime maximum rate? What are the maximum LTV and DTI ratios allowed? Are taxes, insurance and other housing related expenses included in underwriting subprime and Alt-A Hybrid ARMs? How do lower credit scores, higher LTV ratios, stated income and credit history affect the qualification analysis?

Answer:

- The note rate is used to calculate the qualifying monthly payment and DTI ratios. Taxes, insurance and other housing related expenses as well as other debt payments are included in the monthly payment calculations for both disposable income and DTI requirements.
- For Subprime currently up to 100% LTV/CLTV with 50% DTI is allowed for Full Doc depending on FICO score. Up to 95% LTV/CLTV is allowed with 50% DTI for Stated Doc depending on FICO score. There are higher FICO score minimum requirements for lower Credit Grades and higher CLTV. Usually higher FICO score is required for Stated Doc than Full Doc.
- For Alt-A Full Doc programs, currently up to 97% LTV / 100%CLTV with 45% DTI is allowed depending on the FICO score. For No Income Verification, No Income No Ratio, and No Income No Asset only up to 95% LTV/CLTV is allowed.

[1] In this document, Hybrid ARMs refers to hybrid adjustable rate mortgages for which the interest rate is fixed for a relatively short period such as two or three years.

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- Risk-based pricing is applied to all subprime and Alt-A Hybrid ARMs. Higher risk transactions require risk-adjusted pricing (mostly by Doc type, FICO score and CLTV). Additional risk-based pricing add-ons are applied for various layered risk such as Non-owner occupied and multiple unit housing. Risk-based pricing is reflected in the note rate and qualifying rate. Loans that are not approved using an automated underwriting system are evaluated and qualified by seasoned underwriters, who utilize all information provided by the applicant to determine qualification and reasonableness of stated income or stated assets.

3. Given your experience, what is the percentage of subprime and Alt-A hybrid ARM borrowers who (a) prepay by refinancing into loans classified as prime products (b) prepay by refinancing into another subprime or Alt-A hybrid ARM product, or (c) do not prepay. For each group, indicate whether those borrowers' credit scores improved or declined (and by how much) during the initial fixed-rate period.

Answer: With a subprime market share of less than 10%, WaMu does not have much experience with Hybrid ARM subprime borrowers refinancing with WaMu and we do not control the lender selected by mortgage brokers, who source almost all volume through our subprime channel. However, we have a program that assists subprime borrowers to receive prime products and pricing when inquiries occur. Most subprime borrowers payoff their loan prior to the expiration of the contractual term, frequently before or just after the end of the introductory fixed-rate period if a Hybrid ARM.

4. For subprime and Alt-A Hybrid ARMs originated through broker or correspondent channels, do the third party's underwriting standards vary from the guidelines you use for originating your own loans? In what ways? What is the usual compensation for third parties involved in originating subprime and Alt-A Hybrid ARMs versus subprime and Alt-A non-Hybrid ARMs? Is third party compensation influenced by the existence of a prepayment penalty on subprime and Alt-A Hybrid ARMs?

Answer:

- We currently do not have different underwriting standards for brokers. We have also tried to match the correspondent underwriting standards or what we purchase from them with our own underwriting guidelines.
-
- The YSP that brokers can earn is limited to 1% for subprime loans that do not have a 3 year prepayment penalty. Brokers negotiate rates, fees and points with the borrower, which the brokers can choose to have paid in the form of a YSP. In some cases, a prepayment fee is required in order for WAMU to recoup enough yield to cover the YSP in the event that the loan pays off early.

5. By product type, can you provide examples of Notes and any Riders, copies of Regulation Z, and RESPA disclosure statements provided to consumers when originating subprime and Alt-A Hybrid ARMs. Also, can you provide copies of any additional documentation distributed to or targeted to consumers that describes subprime and Alt-A Hybrid ARM terms. Please include sample solicitations and other marketing materials.

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Answer: See attached documentation. We have provided copies of the ARM Program Disclosures, TIL Disclosure statements and the notes used in our subprime channel. We have also attached the ARM program disclosures and notes used for our Alt A Hybrids. We will be following up with the TIL Disclosure statements for the Alt A Hybrids and sample marketing materials.

6. Given the potential for payment shock associated with subprime and Alt-A Hybrid ARMs that have "below market" introductory rates, how does the institution determine a borrower's repayment ability once the rate and payment increases (particularly for borrowers with lower credit scores, high LTV ratios or high DTI ratios)?

Answer:

- WaMu does not directly evaluate a subprime borrower's ability to repay their Hybrid ARM loan after the introductory rate and term expire. Our underwriting process is consistent for prime and subprime originations, in which future events are not considered (changes in interest rates, household income or debt, sources of income, property values or other criteria used in the underwriting process). We perform employment verification, and check the reasonableness of the income on all applicants. We also have managed the risk of borrowers by other means such as eliminating layered high risk borrowers by FICO, CLTV, loan purpose and loan documentation type. Historically, we have found these factors to be far more predictive of loan performance than projected DTI ratios.

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From: Joans, Michelle L.
Sent: Wednesday, March 1, 2006 6:56 PM
To: Gordon, Scott A. <scott.gordon@wamu.net>
Subject: Re: Tommy Ramirez

Especially wo MI!
Michelle Joans
Washington Mutual Bank, FA
Manager, Credit Policy
206-490-5552
CSQ 608

-----Original Message-----
From: Gordon, Scott A.
To: Joans, Michelle L.
Sent: Wed Mar 01 15:46:35 2006
Subject: RE: Tommy Ramirez

I'm not sure Cheryl and/or David have the authority to put these loans in the portfolio. Rick Ellson would need to agree - based on previous experience it will be a very difficult to sell him on the concept.

Scott Gordon
Home Loans Credit Product Management
415.336.6425

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-----Original Message-----
From: Joans, Michelle L.
Sent: Wednesday, March 01, 2006 3:44 PM
To: Gordon, Scott A.
Subject: Fw: Tommy Ramirez

What do you think of Cheryl's comment about no MI??? I wanted to say, no way.
Michelle Joans
Washington Mutual Bank, FA
Manager, Credit Policy
206-490-5552
CSQ 608

-----Original Message-----
From: Feltgen, Cheryl A.
To: Joans, Michelle L.
Sent: Wed Mar 01 15:37:27 2006
Subject: Re: Tommy Ramirez

Thanks, Michelle. Look forward to getting the material. You guys can send it to me in an attachment. I will synch up my laptop in my room and then take it with me to the meeting. As to partners, I think where we are headed is that we would keep this in the portfolio since it is likely unsaleable by the time we are done. I think Tommy wants us to do this without MI.

Cheryl

-----Original Message-----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #333

From: Joans, Michelle L.
To: Feltgen, Cheryl A.
Sent: Wed Mar 01 15:19:32 2006
Subject: RE: Tommy Ramirez

Should have something to you in an hour or so - I am hoping that Ernie's email provided some of the background you were seeking - Scott and Ernie are in a much better position to talk to you about the past, as there is an extensive past as you might sense from the passion in Ernie's response! (-:

I think you will find that our summarized feedback will describe where we might be able to offer more and quite frankly, where those loans are now on a system that will enable us to allow DU EA approvals.

This pilot is a jumbo inner city affordable product, combining all the features of our lending up to $650k and > 95% LTV. We agreed to allow the use of DU and at the time could not allow DU EA due to system issues. DU EA (Desktop Underwriter Expanded Approval) is virtually Alt A or A- lending.

Other influences:

Our MI partners. Only one stepped forward and recently PMI was interested. This is another area we could explore and maybe negotiate more expansive guidelines but everyone has to be clear that this is not all up to us, we have external partners to deal with.

From: Feltgen, Cheryl A.
Sent: Wed 03/01/2006 1:23 PM
To: Joans, Michelle L.
Subject: RE: Tommy Ramirez

Thanks, Michelle. I am meeting with David, Tony and Wayne in a few hours this afternoon. Send things to me so that I can read in the body of the email. I need to know what we have allowed Tommy to do in the past, the details of the pilot and most importantly what it is that we would recommend we do in the future. Can you send me again the details of the DU EA? I am not sure I really understand the implications of what you described below. Steve Rotella obviously now has a feeling that we have taken forever and not provided much to Tommy and his team. Whether that is true or not, Steve has put us in a position that we will have to offer up something. I look forward to receiving the information. Thanks.

Cheryl

-----Original Message-----
From: Joans, Michelle L.
Sent: Tuesday, February 28, 2006 8:15 PM
To: Feltgen, Cheryl A.
Subject: Re: Tommy Ramirez

I will be in early and plan to have something waiting for you. Can you provide any insight into David's comment about a broken process. We created a product eclusively for this loan consultant and what he wants is an alt a like product. Can you open attachments or do you want everything in the body of the email.

1. Ability to make fico exceptions locally - we talked about this a little bit and I am all for pushing authority to the loan level. Not sure about the request though, the example provided appears to be around the 680 for low doc, the uw can go to 660, so is this request that they can go further locally and up to 80 points below the requirement? This is an extreme exception and again brings us into alt a territory. If we decide to do this, we need to address it for the entire country from a fairlending perspective I would expect. Then, where we reqiure 680, is a 600 ever acceptable?

2. They want us to accept cash on hand. We do to a certain extent but this is really an issue for investors as assets from the borrower or the borrower's investment is a critical factor. Tomorrow I will give you the facts of the program.

3. I had sent you an outline of this program. During the last review it was determined that being able to us DU EA would bring a significant lift and we are very close to working this out. Before they got off to an alt a type product, everyone acknowledged that the loans were being approved under DU EA. We are overcoming system issues to get this done.

I have not idea what the comment about realtor broker fees is about. I will follow up with Scott and Ernie, do you have any ideas?

These loans are generally over 80% and subject to MI - a significant factor.

Michelle Joans
Washington Mutual Bank, FA
Manager, Credit Policy
206-490-5552
CSQ 608

-----Original Message-----
From: Feltgen, Cheryl A.
To: Joans, Michelle L.; Shaw, Robert H.; Mortensen, Ernie
Sent: Tue Feb 28 18:34:24 2006
Subject: Fw: Tommy Ramirez

See attached and my earlier email. I need as much of what I asked for as you can possibly put together in time for my meeting with David , Steve and Tony tomorrow. Thanks.

Cheryl

-----Original Message-----
From: Schneider, David C.
CC: Feltgen, Cheryl A.; Meola, Tony T.; Pollack, Wayne A.
Sent: Tue Feb 28 16:53:18 2006
Subject: Re: Tommy Ramirez

Having sat through the wholesale meeting and seeing this from steve, my conclusion is that there is a broken process. We have all been in place long enough to recognize that we can no longer blame the old team. Let's have the 4 of us get together tomorrow (say late afternoon at 5) to discuss. Does that time work?

-----Original Message-----
From: Rotella, Steve
To: Schneider, David C.
CC: Feltgen, Cheryl A.; Meola, Tony T.
Sent: Tue Feb 28 15:18:45 2006
Subject: Tommy Ramirez

I had a meeting with Tommy and his crew and want to express my views about the work they do and why the company is not meeting their needs and what I think we must do.

David and Cheryl, you are just getting to know these guys, but besides the volume tsunami they produce, they are intertwined in their community and have produced great quality for us. Further, they live our values and are not price conscious I met them last year and was so impressed, I suggested we use them to spawn similar operations in Hispanic communities across the US if possible using them to model, train, and certify the work. Frankly not much has happened.

We should fall all over ourselves to have a business segment that attracts minorities, is almost all Option Arms, is not price driven, delivers great quality, and is oriented to the average guy, our market.

So here I was again a year later withan expectation that they wanted the world. The usual list of demands from whiny mortgage LCs!!?? Nope, a short and I think largely reasonable list of asks that I want to quickly discuss, resolve, and move on. What frustrates me a bit, is if any group has earned some flexibility, these guys have, yet they can't seem to get the process and organization to act without getting "muscle" (read me) involved, which I don't mind.

So what do they want?

1. Flexibility to have their local underwriters go below 660 (to 600) on FICO rather than the cumbersome process of sending these off to other "senior" credit people. This seems ok to me with a good governance process and a random QA process. Again these guys are serious players and deserve flexibility.

2. The ability to count assets in the underwriting that are not in a financial institution at time of the process, but would be a contingency at closing to be in Wamu.

3. Some changes to the 97 product we rolled out that has been a flop. We set a 150mm max test and the criterea have blunted any action. Also the ability to have realtor broker fees on these.

I would like a quick discussion with you when you return on these and assuming some agreements, a call with Tommy and crew after. Thanks.

Mary, would you set up a 1/2 call with David, Cheryl, and Tony. Thx.

Sent from my BlackBerry Wireless Handheld

From: Pohlmann, Andrew P.
Sent: Tuesday, June 6, 2006 11:52 AM
To: Perry, Rich <u158466@wamu.com>
Subject: FW: Option ARM Sales Mastery Program

Who can I contact to get enrolled in the HLC manager version of this training program?

AP

-----Original Message-----
From: e-Flash
Sent: Monday, June 05, 2006 1:12 PM
Subject: Option ARM Sales Mastery Program

e-FLASH Washington Mutual

Subject: 06.05.06 - Option ARM Sales Mastery Program

To: Retail Production Sales (including Emerging Markets and Banking)
From: Steve Stein

Over the last month, you've heard the details of our refined business model from David Schneider and me. I want to thank you for attending the Production meetings in May, asking questions and working together to support this strategy.

We are beginning to focus on higher-margin products like our flagship product, the Option ARM. This is a fantastic product for almost any borrower. To help our sales force feel more comfortable with selling the Option ARM to a wide variety of borrowers, we are rolling out a comprehensive skills assessment and training initiative. The program was reviewed with all managers on my June 2 conference call.

This initiative is not about selling the Option ARM to everyone. We will always stay true to our values, and provide the right loan for every customer. This is about helping our sales force identify when the Option ARM might be a good choice for the customer, and how to explain the features and benefits of the product effectively. Through the skills assessment, training, role playing and a best-practices selling tips video, I think this Retail sales team will be unstoppable with the Option ARM.

HLC Managers will be proxy enrolled for the Talent Builder curriculum end of day June 6. This will give managers a week to get familiar with the training before Loan Consultants, Associate LCs, and Banking LCs are proxy enrolled end of day June 13.

The Option ARM is our product and we can sell it better than anyone. I have great confidence that we'll improve our Option ARM market share quickly, like the experts we are.

Thank you in advance for attending training and supporting this product.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #372

From: e-Flash <e-Flash@wamu.net>
Sent: Monday, July 3, 2006 5:47 PM
To:
Subject: 2006 Option ARM Blitz - Quarterly Incentive Campaign
Attach: Retail LC 3-Mo Production_vSFR 6-28.xls

e-FLASH Washington Mutual

Subject: 07.03.06 - 2006 Option ARM Blitz - Quarterly Incentive Campaign

To: Retail Production, including Emerging Markets
From: Steve Stein

You've seen and heard a lot recently about our refined business model and focus on higher margin products, especially Option ARMs. To further drive this focus, I'm pleased to announce the 2006 Option ARM Blitz - Quarterly Incentive Campaign. This will allow eligible Loan Consultants to earn 5 additional basis points on all Option ARM volume funded during the 3rd quarter 2006.

Summary of how it will work:

- Goal: Challenge each Retail Loan Consultant to increase individual product mix percentage funded of Option ARMs by 10 incremental percentage points (or more). Each month during the quarterly campaign – July, August, and September (the measurement months) – the Retail Loan Consultant's individual product mix percentage will be compared independently against the baseline product mix percentage.
- Participants: Tier 3 and higher Retail Loan Consultants in the Retail Loan Consultant position effective 3/1/06. (Banking Loan Consultants and Associate Loan Consultants are ineligible. Tiers 1 & 2 Retail Loan Consultants are not eligible in any given month when at Tiers 1 or 2. However, should he/she subsequently achieve Tier 3, 4, or 5 status during any campaign month, he/she will be eligible for that month.)
- Products: 1 & 3 month MTA & COFI Option ARMs
- Baseline: Loan Consultant's average product mix percentage of Option ARM volume funded during March, April, and May 2006, as queried from FDM.
- Tier achievement: Tier achievement will be determined by the monthly Tier Report produced by the Enterprise Incentive Reporting team.
- Award: 5 additional basis points (in addition to basis points awarded under the 2006 Retail Loan Consultant Incentive Plan) will be earned by eligible participants on all Option ARM volume funded for each given campaign month (July, August, September) if, during such month:
  - The Retail Loan Consultant is Tier 3 or higher, and
  - The Retail Loan Consultant achieves a minimum of 10 incremental percentage points increase in desired product mix when compared against the baseline percentage.
- Reporting: Results from a given month during the campaign will be published via eFlash by the 15th of the following month. For example, July results will be available by August 15th.

For example:

A Loan Consultant funded $2.5M in Option ARM volume for the three months of March, April, and May and had $10M in total product fundings for the same time period, as reflected in data queried from FDM. His/her baseline would be 25% ($2.5M divided by $10M). If, during the month of July, he/she achieves tier 3 or higher and his/her product mix of Option ARMs is 35% (or more) then he/she will earn an additional 5 basis points on all July Option ARM fundings. If this same Retail Loan Consultant achieves 35% (or higher) product mix of Option ARMS in August (or September), then he/she would again earn 5 bps on all Option ARMs that fund in the given month where all criteria for the payout are met.

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Report Footnote #373

Confidential Treatment Requested by JPMC

Calculation specifics:
The calculation of Option ARM product mix percentage will be based on SFR volume only (Equity products not included) for the baseline periods as well as the measurement periods. The baseline percentage for each Loan Consultant is defined in the attached list. The Option ARM product mix percentage for each of the measurement months will be calculated by Finance based on volume funded for the month as posted in FDM by the first business day of the following month (i.e./ all July fundings posted by August 1st will be July's full month's fundings for calculation purposes).

When earned, the additional 5 basis points will be paid 30 days after the measurement month's end. For example, incentive earned on July Option ARM fundings would be paid at the end of August. The incentive will be paid on a normal month-end paycheck. For Retail Loan Consultants in a partnership, the partnership will be considered to be a solo participant. If the partnership earns the additional 5 bps in any given month of the campaign, the award will be split per the applicable basis point commission split as reported in the partnership agreement. Incentive costs will be charged to the originating HLC's cost center.

This is a brief summary of the program. Full details, including all applicable conditions, will be provided in the 2006 Option ARM Blitz – Quarterly Incentive Campaign Program Document, which I encourage you to refer to.

Following is a selection of material to help kick off your efforts:

Once you click through to any given section, look for other Option ARM marketing available to you in that section.

Presentation:	PowerPoint presentation for Realtors *eMarketing Tools/Presentations 18176*
Consumer Flier:	Promote 1% start rate *Fliers/Consumer 19023*
Matrix:	Product matrix *Printed Collateral/Brochures and Fact Sheets 18060*
Brochure:	Rack-size brochure that provides in-depth descriptions of each of the four payment options and contains the Option ARM Sample Statement *Printed Collateral/Brochures and Fact Sheets 18077*
Ad:	Monthly ad targeting First Time Homebuyers *Ads/Consumer AD-080*

I'm excited about the focus of this campaign and look forward to seeing the results. Let's go out and make it happen!

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From: e-Flash <e-Flash@wamu.net>
Sent: Thursday, August 17, 2006 6:08 PM
To:
Subject: Option ARM Parameter Enhancements

e-FLASH Washington Mutual

Subject: 08.17.06 Option ARM Parameter Enhancements

To: Production and Operations - Consumer Direct, Wholesale, and Retail (including Banking and Emerging Markets)
From: Steve Stein, Arlene Hyde, and John Schleck

PURPOSE

This communication announces the following enhancements to the Option/Flex ARM Products:

- Attached properties (including condos and co-ops) are allowed to higher loan amounts.
- Certain eligibility parameters have been enhanced for low doc second homes.

OPTION/FLEX ARM PARAMETER ENHANCEMENTS

The Option/Flex ARM Enhancements described below are effective on August 21, 2006. All impacted systems will be updated as of this date.

One unit attached properties are now allowed on Option/Flex ARM loans up to $3 million. Product parameters (LTV, CLTV, FICO) will be the same for detached and attached properties for each tier as listed in the Product Parameter pages of the PPG. This change includes the following:

- 1 & 3 month MTA and COFI Option ARM and Flex 5 Option ARM products
- Full and Low Doc
- 1-unit owner-occupied properties and 1-unit second homes
- Purchase, limited cash-out refinance and cash-out refinance transactions
- All attached property types, including 1-unit co-ops

Since product parameters for Option/Flex ARM co-ops up to $3 million will now match the 1-unit product parameters for other attached properties (such as condos), separate Option/Flex ARM Co-op Product Parameter pages will no longer be published in the PPG. A note will be added to the standard Option/Flex ARM Parameter Pages as a reminder of the co-op policy.

PARAMETER ENHANCEMENTS

Option/Flex ARM product parameters have been enhanced to allow greater flexibility. The impacted parameters are Low Doc 1-unit second homes on Purchase and Limited Cash-out Refinance transactions.

Low Doc 1-unit Second Homes (Standard Parameters)

Max Loan Amount	Current LTV	New LTV	Current LTV/CLTV	New LTV/CLTV	FICO
$1.5 million	70%	75%	70%/70%	75%/75%	640
$3.0 million	65%	70%	65%/70%	70%/70%	680

NEW APPLICATIONS AND PRE-LOCKS

- The enhancements are available for all new applications and Wholesale pre-locks received on August 21, 2006.
- Expired locks that relock on August 21, 2006 will follow standard relock policy.

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PIPELINE LOANS

All pipeline loans as of August 21, 2006 may be eligible for approval under the new enhancements. Standard change request processes apply.

Questions concerning this communication should be directed to your manager. An HLPA is to follow.

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From: e-Flash <e-Flash@wamu.net>
Sent: Friday, August 18, 2006 4:47 PM
To:
Subject: Option ARM Sales Mastery Program Added to New Hire Training

e-FLASH Washington Mutual

Subject: 08.18.06 - Option ARM Sales Mastery Program Added to New Hire Training

To: Managers - Retail Production Sales (including Emerging Markets and Banking)
From: Allen Myers, Home Loans Training

In June, the Option ARM Sales Mastery Program was launched with the goal of increasing knowledge and skills of our sales force in selling the Option ARM, including explaining the product effectively and identifying when the product would be a good fit for a potential borrower.

Effective August 7, 2006 we have extended this initiative to include all new hires in Loan Originator positions by adding the Option ARM Sales Mastery Program to the following mandatory training curricula, available in Talent Builder:

- Power Pac and New Loan Consultant Retail Training Curriculum
- Banking Loan Consultant (BLC) Curriculum
- Associate Loan Consultant Program e-Learning Curriculum

New Loan Originators participating in these training curricula will complete the Option ARM Sales Mastery Program after attending the workshop component of their specific curriculum. Through skills assessment, training, role playing and a best-practices selling tips video, continuing this approach is geared to increase sales performance of the Loan Consultants.

Action Required:
As HLC Managers, you will register new Loan Consultants, Associate Loan Consultants, and Banking Loan Consultants into the appropriate new hire training curriculum referenced above. The Option ARM Sales Mastery Program is automatically included in the curriculum. A critical component to the success of this program is the role play and presentation activities. Remember, you are still responsible for administering, providing feed-back and determining ultimate qualification for each of your Loan Originators.

If you have any questions regarding training, please e-mail us at HomeLoansTraining@wamu.net, and for other training information for Home Loans, visit our website at Home Loans Training.

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Wall Street & The Financial Crisis
Report Footnote #375

Confidential Treatment Requested by JPMC

From: e-Flash <e-Flash@wamu.net>
Sent: Thursday, August 31, 2006 1:31 PM
To:
Subject: Consumer Direct Pricing Improvements

e-FLASH Washington Mutual

Subject: 08.31.06 Consumer Direct Pricing Improvements

To: Consumer Direct
From: Mary Ann Kovach

Introducing....the pricing specials for September:

The specials for September will focus on three of our higher margin products; Jumbo Fixed, Option Arm, and Nonprime Loans. These specials are in line with our direction to originate high margin products.

1) Option Arms – waive all **closing costs** with the exception of $295 appraisal deposit. Collect $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps and escrows.

2) Jumbo 15/30 Fixed – reduce the **rate** by an 1/8th (.125%)

3) Nonprime – reduce the **discount** by .50

Price Specials will be in effect from Friday, September 1st through Saturday, September 30th. Also, Price Specials are not applicable for Employee Loans.

Loan Consultants must complete a pricing exception form and have their Sales Manager approve the form for each loan where the Price Special will be used.

Reminder: All previously announced pricing specials expire on August 31, 2006.

Please contact your manager, should you have any questions.

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Report Footnote #376

From: e-Flash <e-Flash@wamu.net>
Sent: Thursday, October 12, 2006 3:12 PM
To:
Subject: Fall Kickoff Classic-Revised October Price Specials
Attach: Consumer Direct HL 4th QTR Sales Contest 09.06 v2.pdf

e-FLASH Washington Mutual

Subject: 10.12.06 Fall Kickoff Classic-Revised October Price Specials

To: Consumer Direct
From: Mary Ann Kovach

Fall Kickoff Classic

It was brought to my attention that the October Price Specials included in the Fall Kickoff Classic e-flash announcing the contest, were not consistent with the New October Price Improvements e-flash I sent out on 9/28. I apologize for any inconvenience this has caused. Please review the corrected Price Specials on page 2 of this e-flash. See your manager if you have any questions.

Welcome to the Fall Kickoff Classic Contest! Consumer Direct will be hosting the 4th Quarter Fall Kickoff Classic beginning October 1, 2006, which includes weekly contests, a quarterly contest and some great awards!

Weekly Contests

For the 13 weekly contests, the Loan Consultant from each Sales team, who accumulates the most points receives an IncentOne Gift Card with a face value of $100.00.

Option ARM applications	"Touchdown"	(7 Points)
Jumbo-fixed applications	"Field Goal"	(3 Points)
Equity applications	"Field Goal"	(3 Points)
Nonprime applications	"Field Goal"	(3 Points)

In the event of a tie, dollar units will be used to decide the winner.

4th Quarter Contest

At the end of the 4th Quarter, Grand Prize awards will be issued to the top 15 Loan Consultants, Top 3 Sales Managers and Top Site Manager based upon total funded Option ARMs, Jumbo-fixed, Equity, and Nonprime units.

Loan Consultants

Loan Consultants will be ranked based on total Option ARM, Jumbo-fixed, Equity and Nonprime units funded during the quarter.

Ranked 1-5	$1000.00 IncentOne Gift card
Ranked 6-10	$500.00 IncentOne Gift card
Ranked 11-15	$250.00 IncentOne Gift card

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Sales Managers

Sales Managers will be ranked based on average fundings for Option ARM, Jumbo-fixed, Equity and Nonprime for Loan Consultants on their teams during the quarter.

1st place $1000.00 IncentOne Gift card

2nd place $500.00 IncentOne Gift card

3rd place $250.00 IncentOne Gift card

Site Managers

Site Managers will be ranked based upon unit fundings for Option ARM, Jumbo-fixed, Equity and Nonprime within their site for the quarter and the overall winner will be awarded a $1000.00 IncentOne Gift card.

We've announced some great pricing specials for October to get you off to the right start for our Fall Kickoff Classic Contest.

1. Option Arms – we will continue to waive all closing costs and we will not be collecting the $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps and escrows.
2. Jumbo 15/30 Fixed – reduce the rate by 1/8th (.125%).
3. **Fixed Rate Loans Over $200,000 – reduce the rate by 1/8th (.125%) (ICO loans are not eligible)**

Price Specials cannot be combined.

Price Specials are not applicable to ICO, Nonprime or Employee Loans.

Go out and make your coach proud this quarter! Originate an Option ARM and score a touchdown or originate a Jumbo-fixed, Equity or Nonprime and score a field goal. Bring home a victory and you will win some great prizes!

Please contact your manager, should you have any questions.

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From: e-Flash <e-Flash@wamu.net>
Sent: Monday, November 13, 2006 6:07 PM
To:
Subject: Consumer Direct November Pricing Improvements

e-FLASH Washington Mutual

Subject: 11.13.06 Consumer Direct November Pricing Improvements

To: Consumer Direct
From: Mary Ann Kovach

We've clarified the fees that will be waived on the November Pricing Improvements Please note the changes, which are highlighted in red. The following price specials are available in November:

1. **Option ARMS – $1,000 off closing costs for loans under $300,000.**

   Option ARM loans over $300,000—Waive all fees.

   We will not be collecting the $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps, and escrows. This Price Special is not applicable to Nonprime **or Prime Texas loans.**

2. **Alt A 10/20—waive all WaMu Fees for loans under $300,000.**

   We will not be collecting the $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps, escrows and title. This Price Special is not applicable to Nonprime **or Prime Texas loans.**

   Alt A 10/20 loans over $300,000—waive all fees.

   We will not be collecting the $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps, and escrows. This Price Special is not applicable to Nonprime **or Prime Texas loans.**

3. **5/1 Jumbo I/O—waive all WaMu Fees for loans under $500,000.**

   We will not be collecting the $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps, escrows and title. This Price Special is not applicable to Nonprime **or Prime Texas loans.**

   5/1 Jumbo I/O loans over $500,000—waive all fees.

   We will not be collecting the $295 appraisal deposit at application. Customer is responsible for paying per diem interest, mortgage tax stamps, and escrows. This Price Special is not applicable to Nonprime **or Prime Texas loans.**

4. **Nonprime—** *Applies ONLY to Nonprime to Nonprime (existing LBM or SMF customers – existing Prime customers do not receive)*—**Reduce the discount by .50%.**

5. **Conventional Fixed Rate Loans Over $300,000. Reduce the rate by 1/8th (.125%). This Price Special is not applicable to Nonprime or Prime Texas loans.**

- Price Specials are not applicable on Employee Loans.

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- Price Specials will be in effect 11/1/06 – 11/30/06.
- Loan Consultants must complete a pricing exception form and have their Sales Managers approve.
- Please contact your manager, should you have any questions.

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Feb 24, 2005

TO: Executive Committee

FROM: Jim Vanasek

SUBJECT: Critical Pending Decisions

We have come to a critical point with respect to decisions about credit exposure for the balance of this year and on into '06. The recent concern about asset growth has lead to considerable discussion about options involving higher risk exposure in a variety of products to include more LBMC loan retention (over and about the $5bn already in the plan), retention of 80/20 Piggyback seconds originated through LBMC etc.

From a risk perspective we are in a classic bind. In the current environment the assets that we seem to be able to grow most readily with reasonable spreads are those assets with higher risk profiles – Option ARM's, sub-prime, interest-only, and 100% LTV. While our '05 Plan contemplated a significant increase in sub-prime assets, it did not include all the products currently up for discussion.

More importantly the Finance Committee only approved the '05 Plan based upon assurances from Credit that the contemplated exposures were reasonable and could be managed. My interpretation of the Committee's reaction was that they have healthy concern about where we might be in the economic cycle and whether it makes sense to significantly expand our higher risk exposure at this point in time.

Almost concurrent with that Finance Committee meeting, the OTS expressed concern about deterioration in credit terms in home equity lending. Our historic conservative posture with respect to home equity allowed us to deflect that discussion, but obviously any move to retain sub-prime, 100% LTV seconds would fly in the face of their concerns.

But what about our own management view of the market? Kerry and Bill have both repeatedly expressed concerns about the housing market and the possibility that we are in the latter stages of the cycle. We have seen home prices in places like Las Vegas increase 47% in one year. That being the case, the appropriate question is how much additional risk do we want to take on at this time? On the one hand, we need asset growth and the likely products to produce that growth are higher risk, and on the other, we have an instinctive caution about the super heated housing markets on both coasts where we are most heavily exposed.

This unreconciled issue lurks behind many of our conversations. Tom fears that we will not have asset growth sufficient to fully leverage the capital that we are generating. Others fear that we cannot make the plan. My credit team and I fear that we are considering expanding our risk appetite at exactly the wrong point and potentially

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walking straight into a regulatory challenge and criticism from both the Street and the Board. Said another way I fear that the timing of further expansion into higher risk lending beyond what was contemplated in the '05 Plan and most especially certain new products being considered is ill-timed given the overheated market and the risk higher interest rates. There is considerable anecdotal information suggesting that people are speculating heavily on further price increases in housing. Consumer debt levels are a national concern. A few of you have privately expressed concerns that you have about the situation but are reluctant to bring the discussion into the open.

The most immediate issues have to do with specific new high risk loan products. The more significant risk is the '06 Plan that we will have to take to the Board in June. If we meet the '05 Plan objectives for higher risk lending, we will have maxed out our current limit tied to capital. At this time we do not have an adequate feel for the regulatory reaction should we attempt to increase that limit. Sooner rather than later we risk hitting the wall with either OTS or the Board on this issue. And the issue will not limited to higher risk lending, it will be wrapped together with neg am and payment shock if my read of the regulatory environment is correct.

There are no easy answers about the situation in which we find ourselves, but I feel compelled to bring issue forward and place it on the table for discussion.

One other observation, several of you have looked at the current losses and concluded that there is no real problem at this point in time. Some have questioned the 25bps as an average target charge-off ratio, pointing out correctly that commercial banks operate at higher charge-offs levels with no problem whatsoever. From my perspective one of our advantages from the standpoint of the stability of our stock price has been our credit performance. If losses were to double to 15 bps, the institution is still very adequately reserved and by no means in jeopardy but that does not mean that the Street will not react negatively and the same is true for the bank regulators. We certainly can move to higher loss levels safely (assuming adequate margins), but the question will be how quickly and how well we have prepared our constituencies for that change. It also depends upon the timing and market conditions.

So we come down to the basic question, is this the time to expand beyond the "05 Plan and/or to expand into new categories of higher risk assets? For my part I think not. We still need to complete EDE, reduce policy exception levels, improve the pricing models, build our sub-prime collection capability, improve our modeling etc. We need to listen to our instincts about the overheated housing market and the likely outcome in our primary markets. We need to build further credibility with the regulators about the control exercised over our SFR underwriting and sub-prime underwriting particularly in LBMC.

I fully recognize the challenge that this creates particularly in '06. It means we must put on the table the possibility of slower asset growth, tighter NIM, deployment of excess capital etc.

I raise these issues not for the purpose of challenging any member of the Executive Committee, but rather to encourage healthy discussion and debate. There is no question that the Street demands growth but equally there is no question that we need to ensure that the growth is prudent.

WaMu

Enterprise Risk Management Committee
December 15, 2006
WMC 32, Boardroom 2:00 – 4:00
Phone 877-921-4307, Passcode 825867

Attendees

Voting Members:

Ron Cathcart (Chair)	Al Brooks	Tom Casey	Fay Chapman
James Corcoran	Deb Horvath	Steve Rotella	Benson Porter
Joe Saunders	David Schneider		

Non-Voting Members:

Hugh Boyle	Cheryl Feltgen	Mark Hillis	Michelle McCarthy
Richard Lewis	Randy Melby	Robert Williams	Marc Wright

Other Participants:

Tom Henning (secretary)	David Beck	Youyi Chen	Ramon Gomez
Ann Tierney	Tom Morgan	Cynthia Abercrombie	Joe Mattey
John Stewart			

Agenda

	Topic	Presenter	Objective	Time
1.	Review Prior Meeting Minutes	Tom Henning		5 Min
	• October 4, 2006		Approve	
	• October 10, 2006			
	• Outstanding Action Items		Update	
2.	Approve Policies & Standards:			
	• None			
3.	Approve Home Loans CDO Proposal	David Schneider/David Beck	Approve	30 Min
4.	Approve Enterprise Risk Management 2007 Plan	Hugh Boyle/Michelle McCarthy	Approve	30 Min
5.	Review Data Management Program Presentation to the Board	Tom Morgan	Review	10 Min
6.	Update on Compliance Review Results Reporting	Richard Lewis	Review	15 Min
7.	Corporate Credit Review Organizational Update	Cynthia Abercrombie	Review	15 Min
8.	Discuss Compliance with FFIEC Guidance on Authentication in an Internet Banking Environment	Deb Horvath	Review	10 Min

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #422

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Enterprise Risk Management Committee Minutes
October 4, 2006

The Enterprise Risk Management Committee (ERMC or Committee) for Washington Mutual, Inc. and Washington Mutual Bank met on October 4, 2006 in the Board Room of the Washington Mutual Center, Seattle, WA.

Voting Members Present:

Ron Cathcart (Chair)	Al Brooks	Tom Casey	Fay Chapman
Deb Horvath	Benson Porter	David Schneider	

Non-Voting Members Present:

Hugh Boyle	Chaomei Chen *	Mark Hillis	Richard Lewis
Michelle McCarthy	Randy Melby	Marc Wright	Robert Williams

Other Participants Present:

Karin Znamirovschi (Secretary)	Cynthia Abercrombie	Amy Alexander*
Robert Collins	Thomas Henning	Robert Shaw

* Attended by telephone

A quorum being present, Mr. Cathcart called the meeting to order at 8:04 a.m.

The June 28th meeting minutes were approved as presented, and the prior meeting action items reviewed.

Value at Risk Limit Adjustment

Ms. McCarthy reviewed with the Committee the Change to Value at Risk Limit and Annual Review and Approval of the Asset and Liability Management Policy presentation. The proposed change to the Policy adjusts the existing one quarter, two standard deviation confidence Value at Risk limit for Market Value Managed businesses (the "quarterly" limit) from the existing $700 million to $500 million. The adjustment reflects the reduction in risk exposure caused by the sale of $2.6 billon of the Mortgage Servicing Rights portfolio in July 2006. An additional related limit was also proposed of $230 million calculated based on a 10 day, 99% confidence Value at Risk (the "10 day" limit). This measurement approach is the regulatory standard and is expected to be the basis of market risk capital for these assets beginning in 2008. It is the short term intention to utilize both limits in parallel, and consider retiring the quarterly based limit in 2007.

Ms. McCarthy and the Committee further discussed the current low utilization of the limit and the rationale for the proposed new level.

The Committee voted on and recommended that the Boards of Directors' Finance Committees of Washington Mutual, Inc. and Washington Mutual Bank, and the Board of

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Enterprise Risk Management Committee Minutes
October 4, 2006

Directors of Washington Mutual Bank fsb approve the adjustment of the quarterly limit and the adoption of the 10 day limit.

Operational Risk Management Policy Annual Approval

Ms. McCarthy reviewed with the Committee the revised Operational Risk Management Policy. The Policy includes three key revisions:

- Proposes an Operational Risk Economic Capital limit of 18% of available financial resources, and further proposes requiring that the Enterprise Risk Management Committee establish a targeted level of Operational Risk Economic Capital on at least an annual basis.
- Streamlines the Operational Risk Management Committee membership and meetings and changes the name to Operational Risk Committee. The Committee will approve Operational Risk Standards and oversee implementation of the Operational Risk Framework set forth in the Policy and associated standards.
- Establishes governance over Operational Risk Economic Capital Model changes.

The Committee engaged Ms. McCarthy in a discussion of the readiness of the Company to establish an Economic Capital limit and the timing given the continuing development of the Basel II compliance program. Upon further discussion and clarification, the Committee determined that the Policy should be submitted to the Audit Committee without the proposed Economic Capital limits. The Economic Capital limits will be re-presented after further planned development of the Basel II measurement methodology.

The Committee voted on and recommended that the Boards of Directors Audit Committees of Washington Mutual, Inc. and Washington Mutual Bank, and the Board of Directors of Washington Mutual Bank fsb approve the Policy as amended to exclude the Operational Risk Economic Capital limit.

Corporate Credit Review Policy Approval

Mr. Boyle and Ms. Abercrombie presented to the Committee the Corporate Credit Review Policy. The Policy establishes an independent Corporate Credit Review function reporting to the Chief Credit Officer. The function focuses on only the credit aspects of lending versus the previously combined credit and compliance reviews performed by the former Corporate Risk Oversight Department. This function performs various testing activities to provide an independent assessment of credit risk and quality and to ensure lending and credit risk management practices are consistent with corporate business strategies and risk tolerance objectives.

Mr. Cathcart further clarified the role of the function as a back-end oversight and detective control that places responsibility for complying with lending policies and standards with the business units. This arrangement compliments the Chief Credit Officer's responsibility to set credit risk strategy. Mr. Boyle further noted that this group

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would not oversee the counterparty credit risk function which reports directly to Mr. Boyle. Counterparty credit oversight will be provided by Audit Services.

The Committee voted on and recommended that the Boards of Directors' Finance Committees of Washington Mutual, Inc. and Washington Mutual Bank, and the Board of Directors of Washington Mutual Bank fsb approve the Policy as presented.

Enterprise Fraud Management Standard Approval

Mr. Hillis presented to the Committee the Enterprise Fraud Management Standard of the Operational Risk Management Policy. The Standard sets forth the framework, delegation of authority, and oversight authority for fraud management at WaMu. The Standard was created in line with industry best practice and in response to regulatory criticism. It allows management to leverage best practices across the organization and increases management's ability to understand the nature and amount of fraud risk. The Standard assigns responsibility to the Operational Risk Committee for subsequent approvals of the Standard and monitoring compliance.

The Committee voted on and approved the Standard as presented.

Basel II Data Management Gaps and Data Governance as an Emerging Risk

Ms. McCarthy, Ms. Alexander, and Mr. Collins reviewed with the Committee the Basel II Data Governance Project presentation. Basel II requires data integrity checks as a basic element of any Basel II compliance program. Demonstrating control over the data is a requirement for receiving program certification from the regulators. Data integrity is further an overall Operational risk concern, beyond Basel II requirements.

The project created data standards, identified gaps against the standards, notified the data element owners, and initiated issue tracking and resolution. In response to the results, a permanent data integrity resource was hired to carry on the verification of data integrity controls for Basel II data and to broaden the verification of data integrity controls to reduce operational risk. Analysis of the gaps identified two root causes, examples of which were discussed: a lack of accurate system mapping, and poor control over process changes that impact downstream data users.

The Committee discussed the broader data management issues within the Company, including establishing data ownership over all data elements, and similar data management efforts that could be leveraged for best practices.

Mr. Melby discussed with the Committee the Data Governance – Emerging Risk Issue which is included in the third quarter Audit Services report to the Audit Committee. The issue notes data ownership and stewardship as an enterprise issue, and that recent audit reports have highlighted the need for enhanced data governance. Audit Services referenced a core team tasked with developing a proposal for a cross-functional Data

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Enterprise Risk Management Committee Minutes
October 4, 2006

Governance structure that leverages the existing Basel II effort. Audit Services is recommending to the Audit Committee that it receive periodic progress updates.

2007 Business Unit Risk Strategy Overviews

Ms. Znamirovschi introduced the 2007 Business Line Risk Management Overviews. The Overviews are a preliminary assessment of the elements of risk in the 2007 Plan, and a summary of the associated risk management strategies and initiatives. The Overviews will be further supplemented by a quantification of the credit risks and concentration limits for each business line in Front End Guidance which will be presented at the October 12 and 13 Monthly Business Review.

The Chief Risk Officers of each business, with Robert Shaw substituting for Cheryl Feltgen of Home Loans, presented their business line Risk Strategy Overviews, focusing on the 2007 initiatives and responded to questions from the members.

October 2006 ERM Board Report

Mr. Cathcart introduced to the Committee the ERM Board Report which will be delivered to the Board of Directors at the October 17 meeting. The members were invited to review the report and provide questions and comments to the report writers. Mr. Cathcart committed to scheduling an abbreviated Enterprise Risk Management Committee meeting to further to discuss the report and respond to members' questions prior to the Board meeting.

There being no further business to discuss, the meeting adjourned at 10:00 a.m.

Respectfully submitted:

Ronald Cathcart, Chairman

Karin Znamirovschi, Secretary

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Enterprise Risk Management Committee Minutes
October 10, 2006

A special session of the Enterprise Risk Management Committee (ERMC or Committee) for Washington Mutual, Inc. and Washington Mutual Bank met on October 10, 2006 in the Board Room of the Washington Mutual Center, Seattle, WA. The meeting was called to review the October 2006 Enterprise Risk Management Board Report prior to submission to the Board.

Voting Members Present:

Ron Cathcart (Chair)	Tom Casey	Deb Horvath	Benson Porter
Steve Rotella			

Non-Voting Members Present:

Hugh Boyle	Cheryl Feltgen	Mark Hillis	Richard Lewis *
Michelle McCarthy	Randy Melby	Marc Wright	

Other Participants Present:

Karin Znamirovschi (Secretary) Thomas Henning

* Attended by telephone

A quorum being present, Mr. Cathcart called the meeting to order at 11:05 a.m.

Enterprise Risk Management Board Report

The individual sections of the Enterprise Risk Management Report to the Board of Directors of Washington Mutual, Inc, and Washington Mutual Bank were presented and discussed. The member's questions were responded to and revisions agreed to.

There being no further business to discuss, the meeting adjourned at 12:05 a.m.

Respectfully submitted:

Ronald Cathcart, Chairman

Karin Znamirovschi, Secretary

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Enterprise Risk Management Committee
December 15, 2006
Prior Meeting Action Items

Meeting dated October 4, 2006:

Action	Responsibility	Status
Provide the Committee further analysis on the state and MSA credit concentration limits with the objective of determining whether the current limits are prudent and appropriate.	Hugh Boyle	**Completed** - Subsequent to the meeting, the Chief Enterprise Risk Officer arbitrated an agreement between the Chief Executive Officer, business line Presidents, and Chief Risk Officers. The recommended 50% and 25% state and MSA limits were subsequently presented to and approved by the Finance Committee. Further analysis will be performed during the 2007 planning cycle to determine whether the limits should be lowered.
Schedule an abbreviated Enterprise Risk Management Committee meeting for further discussion of the Enterprise Risk Management Board report.	Ron Cathcart/Karin Znamirovschi	**Completed** - A meeting was conducted on Tuesday October 10th.
Michelle McCarthy to convene a meeting with Deb Horvath, Tom Casey, and other subject matter experts from their areas to discuss data governance issues and share best practices from their remediation programs and approaches.	Michelle McCarthy	**Completed** – Meetings conducted.

Meeting dated October 10, 2006:

Action	Responsibility	Status
Schedule for a future meeting an overview presentation on the Risk Control Self Assessment Process, how it is used within each business line, and how it is linked to the SOX 404 process.	Michelle McCarthy	**Completed** – Presentation materials on this topic have been created and were presented at a CFMC offsite. We are also including these hierarchies in Finance's Enterprise Hierarchy Initiative. A presentation to ERMC is no longer required.

JPM_WM02656973

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WaMu

ABS CDO Business Proposal

ERMC Meeting Recommendation

Capital Markets Portfolio Management

December 15, 2006

JPM_WM02656974

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WaMu

Business Components for Approval

ERMC Recommendation

WaMu Capital Markets Portfolio Management is requesting approval to establish a CDO Asset Management Group. The Group will manage the issuing of cash flow arbitrage CDO securities (cash, synthetic, and hybrid), including acquiring underlying collateral assets and hedge the warehouse risks in the ramp up period, partially retain the preferred shares (equity tranche), and will manage the CDO assets. WaMu Capital Corp will expand its broker-dealer business to underwrite and distribute the CDO securities.

1. Warehouse Limit: $2 billion in aggregate cash securities with delegated authority vested with the portfolio management division; $2.5 billion with delegated authority vested with the head of Capital Markets and the HL Chief Risk Officer
2. Warehouse underlying collateral mix: 25% non-investment-grade (rated BB+ and below)
3. Warehouse financing: Internal funding through treasury. Business retained the option to use an external dealer if conditions warrant
4. Underlying collateral types: Include RMBS, HEL, CMBS, CDOs of the foregoing asset types and no more than 15% of other asset classes ("Other Assets"), which are either (a) approved and listed on the bank's ALMP, or (b) are, in the opinion of the bank's legal counsel, permissible under applicable provisions of the Home Owners Loan Act, the Federal Deposit Insurance Act and FDIC and OTS regulations, in each instance, with authority delegated to HL Chief Risk Officer, the head of Corporate Credit, the head of Capital Markets and the head of the Market Risk Management to determine the amount (not to exceed the 15% limitation in the aggregate) and specific types of Other Assets
5. Equity Retention: less than 50% of total equity value, subject to independent auditors' true sale opinion on a deal by deal basis (FIN 46R, page 24)
6. Market Risk Limit: Aggregating risk position (DV01 and VaR) into existing Capital Markets limit allowance; Portfolio Managers are to follow existing mandatory ERMC/MRC risk management and reporting processes
7. ABS CDO warehouse accumulation will not commence until a robust derivatives capability has been established

JPM_WM02656975

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WaMu

Endorsements/Clearances

The following business and functional leaders have reviewed and endorsed ERMC approval of this CDO proposal:

- **Presenters:**
  Home Loans Capital Markets - David Beck
  Home Loans Risk Management - Cheryl Feltgen

- **Endorsements/Clearances:**
  Credit - Hugh Boyle
  Market - Michelle McCarthy
  Compliance - Richard Lewis
  Legal - Carey Brennan
  Finance - Steve Fortunato
  Controller - John Woods

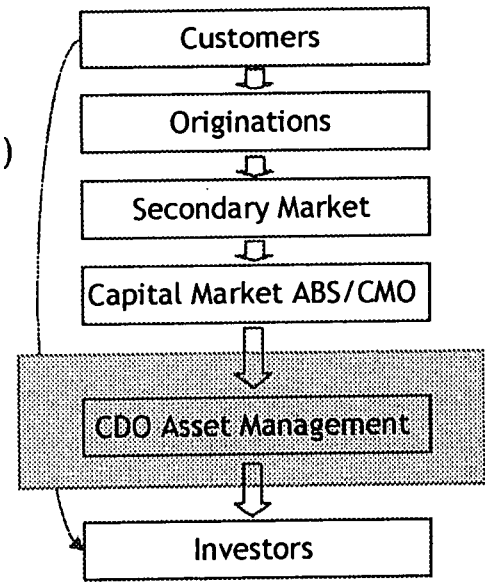
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WaMu

ABS CDO

- The efficient distribution of credit risks is a strategic imperative for WaMu. The ABS CDO business model empowers our best execution efforts by improving the pricing, liquidity, and distribution of credit structure securities
- Year to date, nearly 60% of our Long Beach ABS mezzanine securities were sold to CDO asset managers for resale to end investors
- The ABS CDO business has three distinct income streams
  - Underwriting and Distribution: 25 bps at deal closing
  - Asset Management Fee **(new business)**: 35 bps per annum (2% NPV)
  - Return on retained equity piece (1% to 2% of UPB): 20%
- The investment on ABS CDO infrastructure will enable future ALM initiatives such as reducing the tangible common equity ratio target through synthetic balance sheet securitization
- The ABS CDO business is a natural extension of our existing business that offers significant additions to our shareholder value



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WaMu

CDO Revenue

Revenue Sources

The ABS CDO business model enhances WaMu best execution efforts by improving the pricing, liquidity and distribution of credit structure securities

The ABS CDO business has four distinct income streams

- Underwriting and distribution fee — 25 bps at closing
- Asset management fee — 35 bps per annum (2% NPV)
- Return on retained equity — 20%
- Warehouse income — 100 bps

Pro Forma Projection

3- Year Pro Forma Projection

Without balance sheet deals

$ MM	Year One	Year Two	Year Three	Total
Numbers of Deals	3	4	4	11
Issuance	1,500	3,000	4,000	8,500
Retained Equity	34	68	90	191
Total Retained Equity	34	101	191	191
Under-writing Fee (Retained)	1.9	6.0	8.0	15.9
Warehouse Income	1.9	3.8	5.0	10.6
Management Fee	2.6	10.5	18.0	31.1
Retained Equity Income	3.4	13.5	29.3	46.1
Deal Cost	(4.5)	(9.0)	(12.0)	(25.5)
Total	**5.3**	**24.8**	**48.3**	**78.3**

Assumptions

Underwriting Fee	0.25%	50% retained at year one; 80% retained for years 2 and 3
Management Fee (per annum)	0.35%	Includes both senior and subordinate management fees
Deal Cost	0.30%	25 bps in underwriting / distributing fee and 5 bps other
Retained Equity	45%	25% to 49% target range, actual limitation is subject to review
Capital Allocation	100%	Subject to review by ERMC
Return on Retained Equity	20%	Typically higher return on hybrid and synthetic deals

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WaMu ABS/SF CDO Underlying Collateral & Approval Status

	Approved Or Not		Conditions and Limitations
Asset-Backed Securities			
Consumer finance-related instruments:	Yes	1	In all cases, investment is subject to ALM Policy limits.
Auto (loan or lease)	Yes		
Credit Card	Yes		ALM Policy limits include three-part test ("CIM"):
Student Loan	Yes		A. Corporate Debt Security
Manufactured Housing	Yes		B. Investment Grade
Equipment Leases	Yes		C. "Marketable"
Entertainment Royalties (as collateral)	Conditionally		
Small Business Loans	Yes		If not CIM, then "pass-through" analysis is needed: underlying
Mutual Fund Fees	Conditionally		asset must be one in which the bank can legally invest.
Health Care cash flows (as collateral)	Conditionally		In certain cases, 30 days advance notice may be required.
Home Equity Loans/Lines of Credit	Yes		
ABS NIM	Conditionally	2	Pass-through analysis will most likely be required
PIK Interest on ABS and MBS	TBD	3	Most often seen in subordinate tranches. Pass-through analysis likely required
Stripped MBS and Other RMBS derivatives	Conditionally	1	In all cases, investment is subject to ALM Policy limits.
Commercial Mortgage-Backed Securities			
Conduit	Yes	1	In all cases, investment is subject to ALM Policy limits.
Large Loan	Yes		"Pass-through" analysis is easy because bank has clear
Credit Tenant Lease	Yes		authority to invest in underlying assets, but 30 days advance notice to OTS and FDIC required if WM has control of issuer after issue of securities..
Residential Mortgage-Backed Securities			
Residential A	Yes		
Residential B&C	Yes		
CDO (Cash)			
ABS CDO (Cash)	Yes	1	In all cases, investment is subject to ALM Policy limits.
Non-mortgage CDO (Cash)	Yes		ALM Policy limits include three-part CIM test or
Trust Preferred CDO (Cash)	Yes		alternative "pass-through" analysis (see above)
CLO (Cash)	Yes		
All above CDO/CLOs but non-cash (Hybrid / Synthetic)	**TBD**		**Must show authority to hold asset (CIM, pass-through ABS or loan) or issue guarantee (not insurance) during ramp-up and investment period. Legal researching**
ABX	Yes	1	Subject to Safety and Soundness requirements & ALM or Credit Policy
Credit Linked Notes	TBD	1	Subject to Safety and Soundness requirements & ALM or Credit Policy
Credit Derivatives (Synthetic Securities / CDS, Total Rate of Return Swaps)	TBD	1	Subject to Safety and Soundness requirements & ALM or Credit Policy
Other Debt/Loans			
Investment Grade Corporate Bonds (Include REIT debt)	Yes	1	In all cases, investment is subject to ALM Policy limits.
High Yield Bonds	NO	x	
Leveraged Loans	TBD	4	Subject to Safety and Soundness requirements & ALM or Credit Policy
Variable Funding Notes	Yes	1	Subject to Safety and Soundness requirements & ALM or Credit Policy
Emerging Market Debt	Conditionally	x	In all cases, investment would be subject to ALM Policy limits.
Project Finance Debt	Conditionally		Subject to Safety and Soundness requirements & ALM or Credit Policy
New Investment			
ABS CDO Equity	**TBD**		

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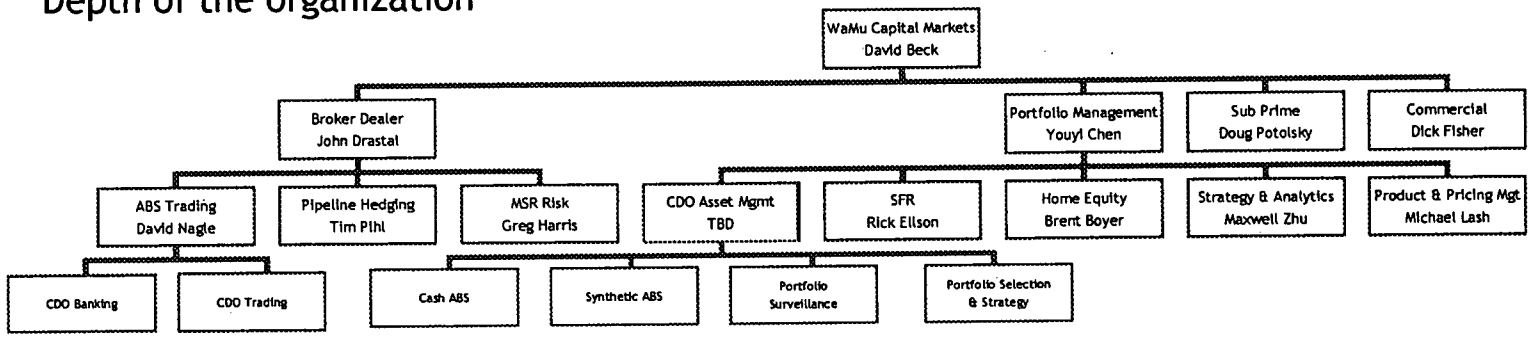
WaMu

Organizational Structure

WaMu Advantages

Breadth of product

Depth of the organization



Functional Roles

CDO Asset Manager	Internal
Research, Modeling, & Analytics	Internal
Technology Support	Internal
Finance / Valuation	Internal
Underwriting / Distribution	Int/External
Trustee Services	External
Accounting / Audit	Int/External
Legal	Int/Internal

Time line

ALCO Approval	Oct-06	✓
HL POG Initial Gateway	Nov-06	✓
HL POG Approval Gateway	Nov-06	✓
HL POG Plan Gateway	Dec-06	
ERMC Approval	Dec-06	
HR Review and Approval	Dec-06	
OTS	Dec-06	
Hiring process for CDO Managers	Dec-06	
HL POG Implementation Gateway	Jan-07	
MRC on credit derivatives	Jan-07	
VC on credit derivatives and valuation	Feb-07	
1st deal to market	Apr-07	

JPM_WM02656980

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WaMu

Organization and Infrastructure

Infrastructure	Requirements	Current Status/Plan
CDO Asset Management Business Unit	Need to recruit a CDO Asset Management team and reassign some existing portfolio management resources	Engage HR after ERMC approval
Research, Modeling, and Analytics	Need dedicated subject matter experts. Hire analysts to work with asset managers on asset surveillance and performance tracking	Current research is being performed using existing resources. Wait for ERMC approval to proceed with next steps
Legal and Compliance	Legal Department to select external counsel with extensive knowledge of CDO business development	Engaged external counsel after ALCO approval
Underwriting and Distribution	Leverage existing capabilities. Identify a wall-street partner for structuring and distributing assistance in year one	Will begin negotiations after ERMC approval and designation of a business lead
Finance and Accounting	Need dedicated accounting and valuation support	Accounting engaged in preliminary discussions. Need for dedicated valuation resources has been identified.
Market Risk and Credit Risk	Utilize the existing infrastructure and support in the pipeline and warehouse risk management area. Working to enhance trade capture and risk management systems to enable handling of synthetics ABS products such as CDS	ERMC 12/15/2006 agenda
IT Support	Need dedicated systems support and enhanced analytics. Important requirement for obtaining favorable agency rating on asset management capabilities	A dedicated resources have been identified. Will commit resources after ERMC approval

JPM_WM02656981

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WaMu

Risks and Mitigation Strategies

Risk Factors	Risk Effects	Mitigating Measures
Financial risk	Unexpected credit loss will cause the write-down of the retained equity piece. WaMu would be expected to retain less than 50% of the equity tranche. Equity tranche ~4% deal. Potential reputational risk with investors.	Third-party investors hold over 50% of the equity. Asset knowledge and expertise are competitive advantages.
Credit Risk	Exposure to the credit spreads during the ramp-up period, and very limited credit spread risk tolerance during the reinvestment period (3 to 5 years for managed CDOs).	The ramp-up period can be relatively short; approximately two months. ABX can be used to hedge and lock-in credit spreads
Market Risk	Lower rates/spreads during the investment/revolving period will reduce the equity returns. Potential mismatch in asset and liability durations	Considerable amount of risk is transferred to CDO investors. Swap can be embedded in the structure to mitigate asset and liability duration mismatch
Legal, Regulatory and Compliance Risks	CDOs differ from the traditional ABS/CMO transactions. Documentation, rating agency analysis, investor reporting, and transaction monitoring are significantly different	The market is well established. Extensive research and selection of experienced legal counsel will facilitate managing legal, regulatory and compliance risks
Operational Risk	New systems and processes will be introduced (as listed on p. 13)	HL POG Gateway in place to guide the process. The CDO Asset Management team will work within the framework of the Operational Risk Management Policy
Model and Valuation Risk	Asset valuation and modeling are complex and require strong analytical systems infrastructure and software resources	Working with leading software systems provider and partnering closely with TSG. Enhancement in research and analytics necessary for CDO also should benefit the management of other products in WaMu's portfolio
Liquidity Risk	Limited liquidity for deteriorating equity in particular	Partnership with a strong underwriter and securities broker dealer in the beginning. Expand WCC's overseas distribution capacity where strong investor demand for CDOs exists

JPM_WM02656982

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WaMu

CDO Legal, Compliance, and Regulatory Overview

Legal

CDOs are mature products with well defined and well understood documentation and execution patterns. The actual mix of legal documents such as indentures, offering memoranda, special purpose entity organizational documents, trusts, distribution agreements, listing agreements, etc. vary from deal to deal, depending on the deal's nature and scope. In the case of a new program such as WaMu's CDO business, legal will require additional lead time for drafting and negotiating documents and setting up initial arrangements, but the disclosure risks and related transaction management processes are virtually indistinguishable from those that WaMu performs well with respect to its securitizations of home mortgages, credit cards, or commercial mortgages.

For WaMu, the key legal analysis arising from the CDO project are based on the need to address banking and regulatory law because the intended business will be conducted through the thrift and its operating subsidiaries. The legal questions outlined immediately below this paragraph, and those set forth under the "Regulatory" heading further below in this document, are being managed by a legal team coordinated by Richard Careaga.

- Potential Banking Powers limitations arising from
  - Asset types
  - Asset management powers
    - Upon launch
    - Future needs as number and nature of WaMu CDOs evolves.
- Affiliate transactions
  - Address investment manager separation
    - Fiduciary role is a first time issue
    - Maintaining a demonstrable separation of investment manager

CDOs issued by special purpose vehicles (SPVs) are most commonly formed offshore to assure pass-through treatment of proceeds from CDO collateral and to avoid subjecting foreign investors to U.S. taxation. In connection with WMB's CDO program, WMB will acquire assets (e.g., RMBS, other ABS, CDS or other Authorized Assets as defined by the ALMP), - and restructure the combined cashflows into different classes of securities ranging, for example, from AAA to subordinate and non-rated classes. At this time, we expect that a subsidiary of WMI will be created to act as the Asset Manager for the CDO program, and will provide these services to WMB pursuant to a services agreement.

JPM_WM02656983

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CDO Legal, Compliance, and Regulatory Overview

Regulatory

John Robinson is working to arrange a meeting with the OTS examiners in Seattle during December 2006 to introduce the CDO concept and WaMu's plans for this new business. The goal is to give the OTS a sense of WaMu's intended direction and next steps in the development of the CDO initiative. Additionally, we intend to ask for the OTS's views on the initiative and solicit their advice regarding potential concerns or roadblocks. WaMu attendees at the OTS are meeting are expected to be limited to a small group comprised of members from Regulatory Relations and a senior representative from the business and legal. The OTS meeting is expected to touch on the following issues:

- Description of the business fit for the CDO initiative
- Authority for the business
- Explain WaMu's conclusions regarding
  - -Primary reliance on pass-through authority
  - -Plan to monitor proposed asset mix to ensure continued ability to rely on pass-through authority or alternative analysis
  - -Where the bank is taking risk and what are the corresponding controls and mitigants
- Identify FDIC-insured banks or thrifts that have taken similar steps in the creation of CDOs
  - -Be ready to compare and contrast business models and approaches
- Provide details regarding proposed underlying assets and CDO structures
- Describe internal review and governance processes
- Address capital impact on bank
  - -Cash flow model
  - -Balance sheet model
  - -Capital treatment of retained pieces

JPM_WM02656984

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WaMu

CDO Legal, Compliance, and Regulatory Overview

Compliance

CDOs are highly transparent structures. A collateral manager's ability to acquire assets for a CDO is subject to rating and limited by detailed investment criteria defined in the post-closing deal's indenture and offering documents. Trades are modeled for compliance with applicable deal parameters and indenture limitations before the trade is executed in close coordination with the deal trustee's administrative agent. The focus of these compliance checks include extensive coverage and asset-quality tests tailored to the deal's parameters set forth in the deals indenture and offering documents.

CDO trading activity and deal performance is reported monthly to investors by the trustee in highly detailed reports. Monthly performance reports cover, among other things, portfolio composition, trading activity, deal performance, a full balance sheet and an income statement describing sources and uses of cash.

CDO investors are highly sophisticated users of monthly trustee reports and review them with rigor. Rating agencies supplement deal level transparency (CDOs are generally private transactions and performance report distribution is limited to actual or potential investors) by aggregating deal information and reporting on the CDO market in general. Rating agency reports customarily provide extensive deal-, asset- and vintage-level data as well as sector comparisons.

CDO infrastructures and systems, often developed jointly with the trustee, include a compliance reporting component that enables systems-based monitoring and surveillance. This system-based access is augmented by close collaboration with the trustee who acts in a fiduciary capacity for the benefit of investors. WaMu's CDO business leaders have interviewed and held extensive discussions with leading CDO trustees. Compliance has attended many of these presentations. Compliance is highly confident that the systems used by these trustees offer compliance monitoring and surveillance tools that reflect the state of the art in the industry. Furthermore, trustees compete in the maintenance and enhancement of compliance tools and Compliance expects that WaMu will continue to benefit from these developments.

Legal has been closely involved in the development of the proposed program, identifying and resolving potential regulatory requirements or obstacles and developing expertise in credit default swaps and other derivative instruments. Legal is planning to assign two attorneys to support the program full-time during 2007 deal cycles and as needed at other times.

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Counterparty Risk in Credit Default Swaps

Counterparty Risk in Pay-As-You-Go (PAUG) CDS Transactions

The ability to meet the obligations of the notes in the CDO is dependent upon the receipt of payments from the counterparty under the credit default swap

To manage this risk exposure, the standard industry practice includes:

(1) factor in the appropriate risk of the counterparty into the pricing / valuation model

(2) include counterparty rating triggers that would require the counterparty to

  (a) collateralize potential reimbursable amounts

  (b) assign its position at its own cost to a qualified third party

  (c) obtain a qualified credit support provider once the rating of the counterparty fell below specified thresholds

(3) employ the use of an escrow account which would hold potential reimbursable payments until the end of the transaction

In addition to common industry practice, the CDO Manager will comply with all policies and standards set by Corporate Credit

Standard Practices

Short-term debt rating by Moody's of at least "P-1" or long-term senior unsecured rating by Moody's of at least "A3" and, if rated "A3" by Moody's, such rating is not on watch for downgrade, and an issuer credit rating by S&P of at least "A+"

Corporate Credit Standards (WaMu CCS 510)

Must be a WaMu approved Counterparty

Within Maximum Potential Exposure (MPE) and Notional limits

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Operations Systems

Operations Systems

Description	System	Availability
Structuring	Rating Agency Models	Dec - 06
Software for Managing & Monitoring CDOs	CDO Sentry	Jan - 07
Interest Rate Derivatives	Summit	✓
CDS	Summit	Jan - 07
CDO	Summit	Jan - 07
Accounting - External	Trustee Servicer	✓
Accounting - Internal	CDO Sentry / Intex Desktop	Jan - 07
Trade Record	Bloomberg	✓
Valuation - CMO	CDO Sentry / Intex Desktop	Jan - 07
Valuation - ABS	CDO Sentry / Intex Desktop	Jan - 07
Valuation - CDO	CDO Sentry / Intex Desktop	Jan - 07
Valuation - Residual	CDO Sentry / Intex Desktop	Jan - 07

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CDO Risk Capital Requirements

Regulatory (Basel II)

- Unrated tranches
  - 100% capital through deduction from Tier 1 and Tier 2 *or*
  - Application of Supervisory Formula Approach (SFA)
- The SFA approach is extremely data intensive but can result in a lower (than the 100% requirement implied by deduction) capital requirement for unrated tranches. The approach requires:
  - PD and LGD ratings for the instruments within the securitization structure
  - Lower and upper bounds of loss levels
  - Basel II capital for the underlying instruments, if unsecuritized and in whole-loan form
  - Granularity parameters
  - Etc.
- Externally rated tranches have capital requirements prescribed from a ratings-based approach
  - AA requires 0.64% capital
  - A requires 0.96% capital
  - A- requires 1.6% capital
  - BBB requires 4.8% capital
  - BB- requires 5.2% capital, etc.
- Regulatory risk-based capital requirements (Basel I and Basel II) recognize retained vs. sold risk positions in synthetic securitization structures. *However, regulatory leverage ratio requirements do not recognize synthetic securitization structures.*

Economic Capital

- For unrated tranches, 100% capital requirement initial assumption; this is considered a good assumption for an equity tranche
- A more precise measure is dependent on deal-specific information. For example:
  - Tranche thickness with lower and upper loss levels
  - Granularity of securitization structure (number of loans in the structure)
  - Loss correlation in underlying instruments
  - Expected loss levels for underlying instruments
- Given economic capital's definition of a 1-year loss at a 99.89% confidence level:
  - Most equity tranches will have capital levels near 100% of the tranche value
  - Application of the more advanced, data intensive approaches makes the most sense for mezzanine, unrated tranches
- For rated tranches, the ratings based approach within Basel II is a reasonable approximation
- Economic capital recognizes retained vs. sold risk positions in synthetic securitization structures.

CDO Risk Capital Requirements
John Stewart
Nov 21, 2006

100% capital deduction from tier 1 and tier 2, and 100% economic capital allocation for retained equity shares will be assumed at the start

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Appendix

Collateral

And

Model Portfolios

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CDO Collateral - Model Portfolios

CDO Collateral - Model Portfolios

ABS cash, synthetic, and hybrid CDOs vary extensively in terms of collateral mix, bond eligibility criteria, reinvestment periods, and deal constraints on the quality and composition of the underlying collateral

In an actively managed portfolio, a CDO manager must manage the collateral substitutions, subject to collateral quality tests and eligibility criteria set forth in the indenture

The following three slides demonstrate the vast array of characteristics that are used to define individual ABS CDO Model Portfolios

These portfolio characteristics are deal-dependent and are created based on

- Investor demand
- Rating agency limitations
- Prevailing market spreads

WMI will be a minority holder of the Preference Shares (equity)
WMI's risk appetite should be balanced with external investors' risk appetite and return demands

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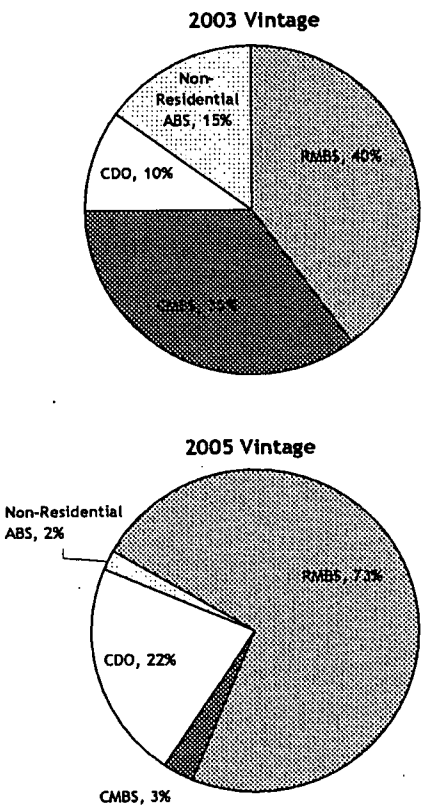
WaMu

CDO Collateral Mix

Collateral Concentration Changes

Collateral composition of ABS CDO has moved toward a higher concentration of RMBS, HE, and CDO

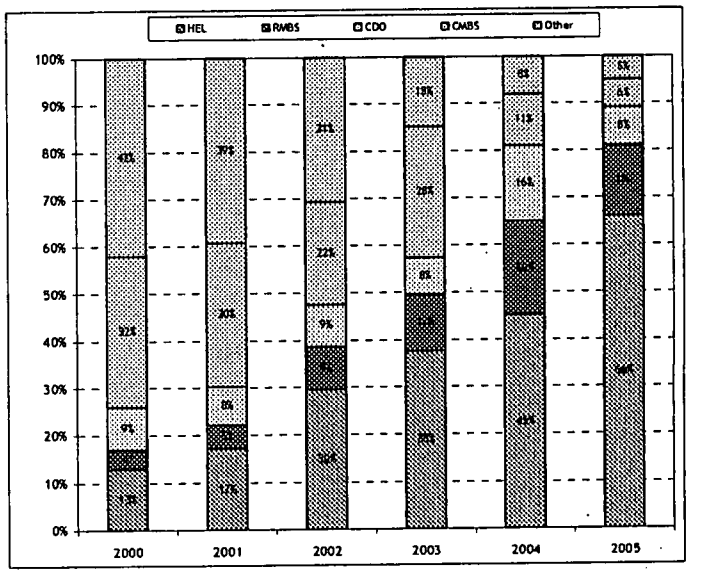
High Grade (HG) ABS CDO Collateral Distribution



Source: Citigroup

Mezzanine SF CDO Collateral Distribution

Year	HEL	RMBS	CDO	CMBS	Other
2000	13%	4%	9%	32%	42%
2001	17%	5%	8%	30%	39%
2002	30%	9%	9%	22%	31%
2003	38%	12%	8%	28%	15%
2004	45%	20%	16%	11%	8%
2005	66%	15%	8%	6%	5%



Source: Credit Suisse

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ABS CDO Asset Diversification / Correlations

Moody's Asset Correlation

For structured finance cash flow CDO transactions, Moody's Asset Correlation parameter is used instead of Moody's Diversity score to measure the diversity/concentration/correlation of collateral

The Asset Correlation is calculated based on

- Common default probability
- Common recovery rate
- Expected number of assets
- Distribution of Key Agents
  - Number of issuers/servicers
  - Percentage of concentration of issuers/servicers
- Geographic concentration of assets

A maximum level for the Asset Correlation is usually specified in the indenture as part of the collateral quality tests

The normal Asset Correlation for structured finance CDO transactions ranges from 20%-32%

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CDO Collateral Mix

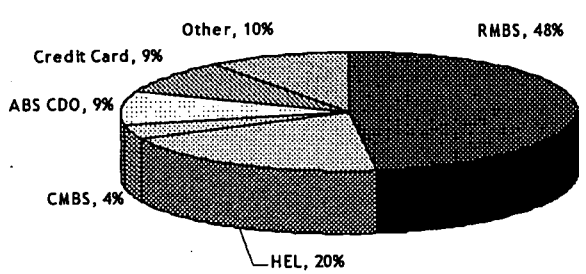
Sample Asset Portfolio - Asset Type and Rating Breakdown

Drivers of Asset Type and Rating Allocations

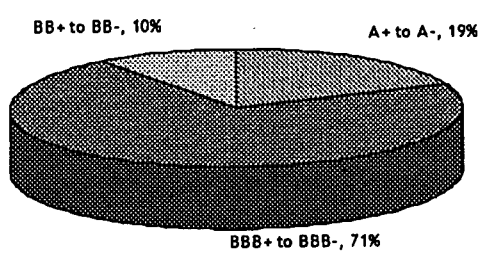
- Market supply and investor demand
- Rating agency models
- Target equity return

Asset Type	A+ to A-	BBB+ to BBB-	BB+ to BB-	Total
RMBS	8%	36%	4%	48%
HEL	2%	16%	2%	20%
CMBS	1%	2%	1%	4%
ABS CDO	3%	5%	1%	9%
Credit Card	3%	5%	1%	9%
Other	2%	7%	1%	10%
Total	19%	71%	10%	100%

Sample Portfolio Asset Allocation



Sample Portfolio Rating Allocation



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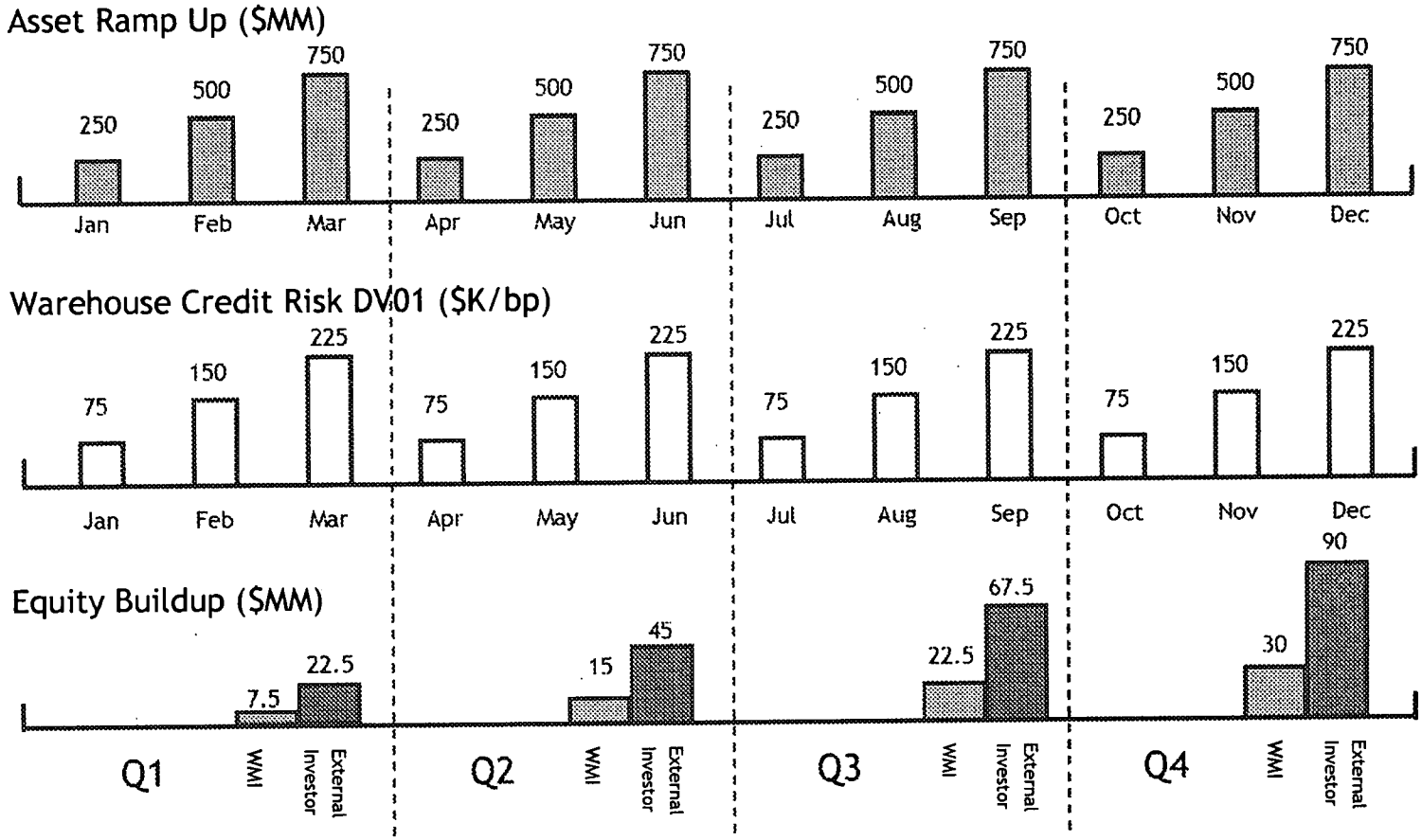
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CDO One Year Time Line

CDO Position Risk Time Line - One Year

WaMu and external investors share moderate mark-to-market risks as demonstrated below



Assumptions: $750 MM deal per quarter, 3 year spread duration, 4% equity and 25% retention rate.

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CDO Ramp-Up

Typical Terms for CDO Asset Accumulation

70-90% of the CDO assets are expected to be purchased (or committed for purchase) by the closing date. The CDO asset managers and traders within the CDO Asset Management unit will select and purchase assets based on relative value and constrained by:

- Asset "bucket" limitations as prescribed by rating agencies and investor appetite
- Aggregate asset limits imposed by ERM

Weekly reports will be produced to verify compliance with binding constraints. This will be supplemented by independent oversight.

Warehouse Limit Proposal

- $2 billion in aggregate cash securities, authority delegated to the portfolio management division; $3 billion delegated authority to the Executive of Capital Markets, the Home Loans Chief Risk Officer and the Executive of Market Risk Management
- No more than 25% non-investment grade (rated BB+ and below)

Utilization of credit derivatives and interest rate derivatives solely to mitigate in-warehouse risk

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Warehouse Funding

Typical Terms for Warehousing

During the ramp-up, the warehoused CDO assets will expose WaMu to credit and interest rate risk. The assets can be funded internally or externally via a dealer warehouse facility.

Utilizing dealer warehouse, the credit and interest rate risk can be transferred in whole or in part (see CS presentation in Appendix II). This has significant drawbacks:

- loss of carry
- less control over asset selection
- business is subject to dealer's liquidity risks

Proposal

- The warehouse will be funded (on balance sheet) by Treasury through FTP with 1-month rate and the asset risks will be hedged by the CDO Asset Management unit
- The business will retain the option to use a dealer warehouse if conditions warrant. Daily P&L reports will be provided and risk limits established as with any other market value book.

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CDO Reinvestment Period

Typical Terms for CDO Reinvestment Period

During the reinvestment period, the CDO Management Unit will reinvest funds received by the CDO issuer in excess of interest payments to security holders in additional collateral subject to eligibility criteria and limitations applicable to each CDO transaction.

- Interest Coverage and Overcollateralization tests
- Collateral quality tests
- Concentration limits as set forth in the indenture

Equity returns may be reduced if spreads during the reinvestment period are tighter than during the ramp-up and/or basis risk increases.

Proposal

- Retention of equity amount no more than FIN 46's threshold for consolidation (< 50%)
- Valuation assumptions and procedures subject to valuation committee approval

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When would FIN 46R require a collateral manager to consolidate a CDO?

FIN 46R requires a test (*primary beneficiary test*) to determine whether the collateral manager is required to consolidate a CDO

The FIN46R test is a cash flow scenario analysis to identify if the collateral manager's interest (management fees, equity securities*) absorbs the majority of the expected losses, expected residual returns or both of the CDO.

As equity securities ownership is a variable input into the FIN46R test, Portfolio Management recommends the equity securities holdings to be equal to or less than the maximum equity ownership allowed under FIN 46(R) while not consolidating the CDO.

Portfolio Management believes 20-25% equity ownership, based on similar CDO structures, would not require consolidation.**

Excerpt from D&T Securitization Accounting Manual - July 2005

"If the collateral manager has only a 20 percent holding in the unrated equity securities, it is fairly unlikely that the collateral manager's total holding represents a majority of the CDO's expected losses or expected residual returns, unless its management fees absorb a significant amount of the entity's variability."

Source

1. Deloitte Securitization Accounting - The Ins and Outs (And Some Do's and Don'ts) of FASB 140, FIN46R, IAS39 and More, July 2005

Assumes Collateral Manager does not retain mezzanine or senior securities, this is consistent with Portfolio Management recommendation for CDO security retention.

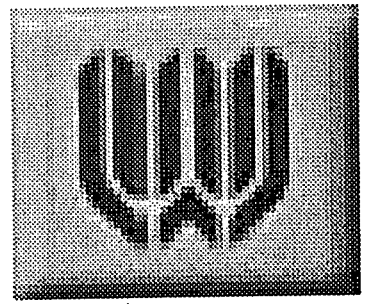
** In order to ensure compliance with FIN 46R, every CDO structure would require an independent primary beneficiary test to determine actual threshold for equity ownership to maintain off balance sheet accounting (no consolidation).

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Enterprise Risk Management: Review of 2007 Plan

Enterprise Risk Management Committee Presentation



December 15, 2006

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Overview

At the previous 2006 Board meetings, we communicated a high level Credit Risk Strategy and Bank-wide framework for risk appetite and combined this Enterprise Risk framework with our strategic efforts to remix our balance sheet.

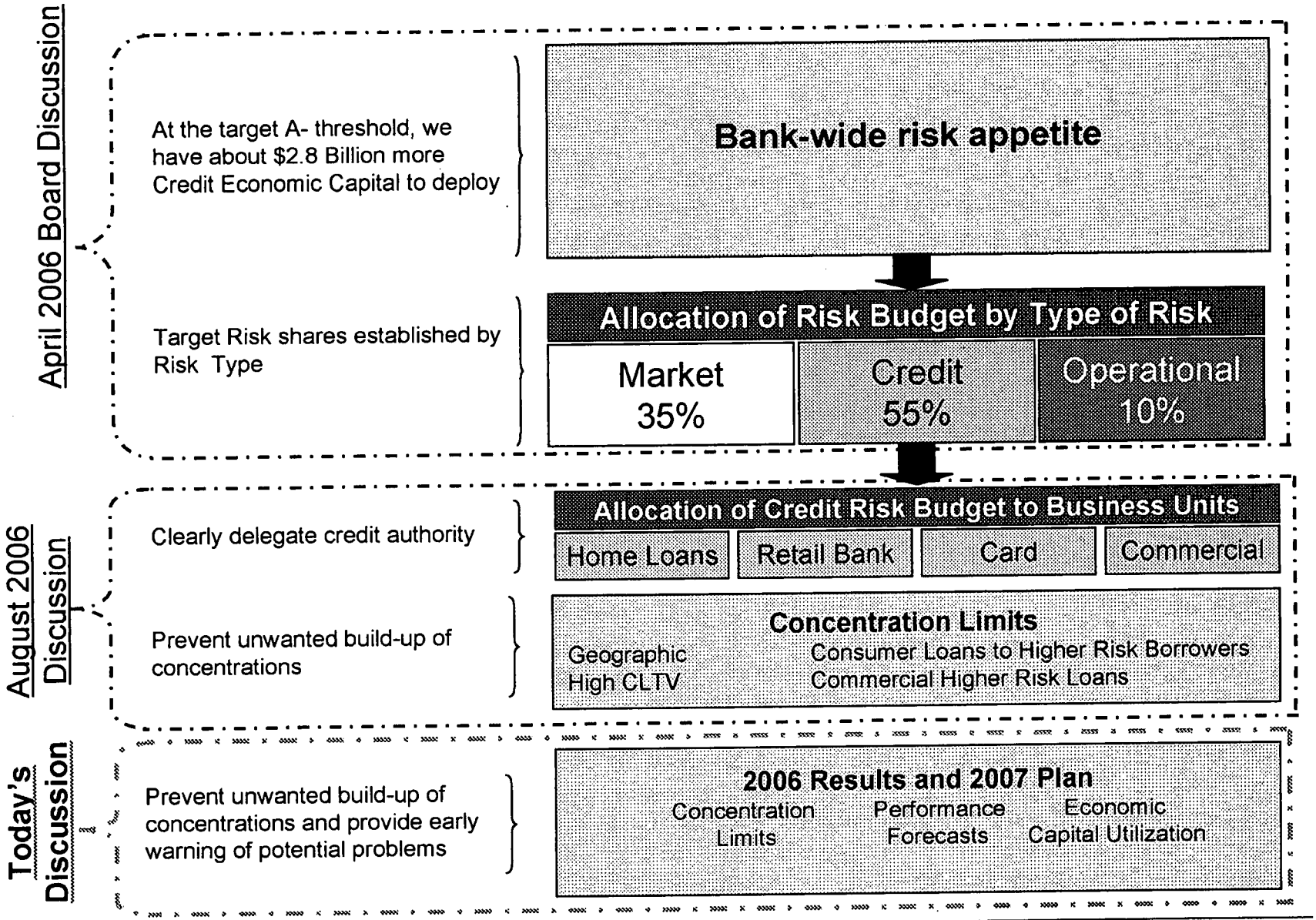
In the third quarter we worked collaboratively with the business segments and finance to establish 2007 forecasts for utilization of Economic Capital, Credit Concentrations, and Model Portfolio Composition. Limits, performance targets and triggers were established.

Today, we share 2006 results as of 11/30/06 and review the ERM implications of the 2007 plan.

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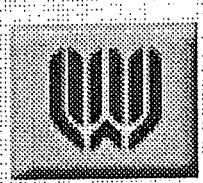
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Portfolio Risk Allocations



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Credit Risk Concentration Limits

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Credit Concentration Limits and Current Utilization

- Consistent with our strategic plan we are increasing credit risk in our 2007 business plan. These limits, and utilization there-under, will be monitored and actively managed through the Enterprise Risk Committee.

Credit Risk	Consumer Loans		Commercial Loans	
	Consumer Loans to Higher Risk Borrowers (FICO)	Consumer Loans with High Combined LTV (CLTV)	Geographic Concentrations Single State / Single MSA	Higher Risk Commercial Loans
11/06 Levels:	15.2% (Total)	6.0% ≥ 90 (w/o MI)	46.2% in a single state (CA) 20.5% in a single MSA (LA)	1.0% DSCR < 1.15 0.45% LTV > 75
2007 Plan Levels:	22.9% (Total)	7.3% ≥ 90 (w/o MI)	48.2% in a single state (CA) 21.4% in a single MSA (LA)	1.7% DSCR < 1.15 0.4% LTV > 75
Trigger: 85% of Limit or as states	21.3%	8.5% ≥ 90 (w/o MI)	48% in a single state (CA) 24% in a single MSA (LA)	1.7% DSCR < 1.15 0.9% LTV > 75
Limit:	**25% (Total)**	**10% ≥ 90 (w/o MI)**	**CA ≤ 50% No MSA > 25%**	**2% DSCR < 1.15 1% LTV > 75**

* As a percentage of total Held-For-Investment Portfolio and Credit Card on a Managed Receivable basis.

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Portfolio Performance

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Portfolio Performance

- Economic drivers are consistent with assumptions in the 2007 Business Plan.
- Provision and chargeoff expenses are expected to increase in 2007 as we return to more normalized credit conditions and implement a planned shift to a more credit-intensive asset mix.
  - Provision is expected to increase $300MM over 2006 to $1.1B
  - NPAs are expected to increase $3.0-3.5Bn
  - NPA will be ≤1% based on $350.6Bn in assets forecast for 2007
  - Charge-offs are expected to increase $145MM to $660MM

Business Unit	Provision $millions 2006 Expected	Provision $millions 2007 Forecast	NPA $millions 2006 (Nov-06)	NPA $millions 2007 Forecast	Chargeoffs $millions 2006 (Nov-06)	Chargeoffs $millions 2007 Forecast
Card (GAAP basis)	750	603	-	-	-284	-373
Commercial [1]	-79	40	112	-	-6	-6
Home Loans (LBMC, Sub-Prime/HEL Conduit, MBF)	187	272	328	-	-120	-143
Retail Bank (SFR, originated HEL/HELOC, Small Business, Consumer)	169	210	1,722	-	-106	-138
Corporate Support and Other	-177	33	-	-	0	0
Foreclosed Assets	-	-	476	-		
Total WMI	**850**	**1,158**	**2,638**	**$3-3.5B**	-518	-660

[1] Commercial - includes $4MM for CCBI; Corporate Support and other $35MM

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Credit Mix Shifts Expected in 2007

- Commercial Lending will expand higher margin lending through its Multi-Family "Proceeds" product; anticipate other credit intensive enhancements to existing products and programs. Also expect to see continuing deterioration of Debt Service Coverage due to interest rate environment and impact on Net Operating Income (NOI)
- Home Loans will continue to expand its higher margin offerings and Capital Markets instruments including:
  - Expansion of Subprime and Alternative product offerings
  - New higher margin product innovations – such as Roswell (1st lien with a HELOC that is self-restoring as 1st lien balance is paid down)
  - Introduction of higher margin Collateralized Debt Obligation (CDO) including residual retention
- Card Services does not expect significant changes in credit mix in 2007. They do expect weaker performance in early 2007, but expect it to improve over '07.
- Small Business Lending also expects its credit mix to remain fairly stable in the coming year. It is a relatively new business expecting significant growth in 2007 and correspondingly its use of credit economic capital will more than double.

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Managing the Credit Shifts

- Board limits and triggers, as well as other Credit limits (model portfolio concentration limits and performance forecasts) are monitored monthly by Business Risk Committees and further by Corporate Credit Risk Management in Quarterly Credit Reviews
- Business unit Risk Committees monitor performance to Board and other limits and manage trigger events. Trigger events are communicated to Credit and Enterprise Risk Committees and monitored for action.
- The Credit Risk Management Committee (CRMC) monitors cross-business performance, reviews and addresses business unit performance when enterprise limits are at risk.
- Enterprise Risk Management Committee (ERMC) will review and resolve cross-business issues related to concentration limit trigger events where more than one business is driving high utilization and allocation is at issue.
- Will continue build-out of sub-limits in 2007

(Note: see Appendix for business unit detail)

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Market Risk & Operational Risk

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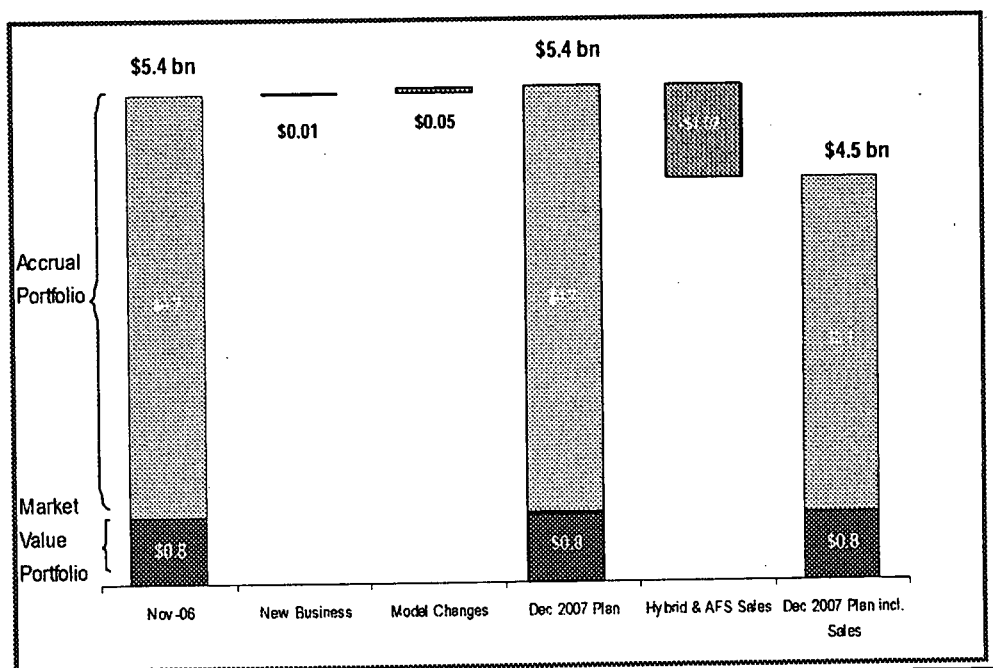
Market Risk Shifts Expected in 2007

Market Value Businesses

- Utilization of the current 10 day Value at Risk ("VaR") limit of $230 million has ranged from 25% to 50%
- The 2007 does not create large shifts in VaR; we estimate the plan would increase utilization by 4% or $10 million
- We expect VaR utilization to rise by about 14% when we introduce additional spread risk factors by mid-2007 as the sub-prime and Alt-A spread risk that is increased by the plan is more volatile
- Finally, the addition of prepayment model variability risk to our VaR calculation will increase utilization by about $17 million or 7%
- In total, utilization of the VaR limit should increase by about 25% in 2007

Accrual Businesses

- The market risk of the accrual books is not significantly changed in the plan, but is expectedly to decrease modestly
- The recent approval to sell Hybrid ARM loans and sell AFS securities should reduce market risk economic capital by over **6%** of total economic capital, moving market risk to below its target level as a percent of economic capital



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Operational Risk Shifts Expected in 2007

- By decreasing activity in traditional business such as 30 year Fixed rate mortgages, and increasing activity in items where we are still building systems and capabilities (such as the Conduit and the Collateralized Debt Obligation businesses), we would expect the plan to increase operational risk
- However, we expect Operational Risk Capital to decrease as we improve our measurement capabilities by
  - Reducing use of external data and replacing it with WaMu-specific operational risk scenarios
  - Reducing the businesses' operational risk capital utilization when their controls and capabilities improve
  - Removing expected losses from the Operational Risk Capital calculation as we are able to prove they are steady and already appear in budgets
- Netting these two effects, we expect a modest decrease in Operational Risk Capital utilization in the 2007 plan

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Economic Capital

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Economic Capital Trends

- Total deployment of economic capital as a percent of available financial resources (dominated by tangible equity) is projected to increase from 71% in Nov. 2006 to 75% in Dec. 2007*
  - Economic capital increases $14.6 to $15.8 BN
  - Available financial resources increases $20.6 to $21.2 BN*
- Key driver is a shift to higher credit risk assets within projected balance sheet growth at the same time that capital composition is tightly managed; credit risk increases from 44% to 47% of total economic capital
- Trends in total economic capital as well as economic capital composition are consistent with strategic goals
- Key drivers:
  - Credit risk: Declining Prime SFR balances, with increasing balances in higher credit risk assets including Credit Card, Small Business Lending, Commercial Real Estate, and Home Equity Loans and Lines of Credit
  - Market risk: Similar aggregate risk profile as current state; minor increase in required economic capital due to portfolio growth and inclusion of potential model risk capital; note that subprime residuals are included in credit risk for economic capital purposes
  - Operational risk: Assumed similar risk profile as current state; increasing economic capital scales with key income and expense drivers

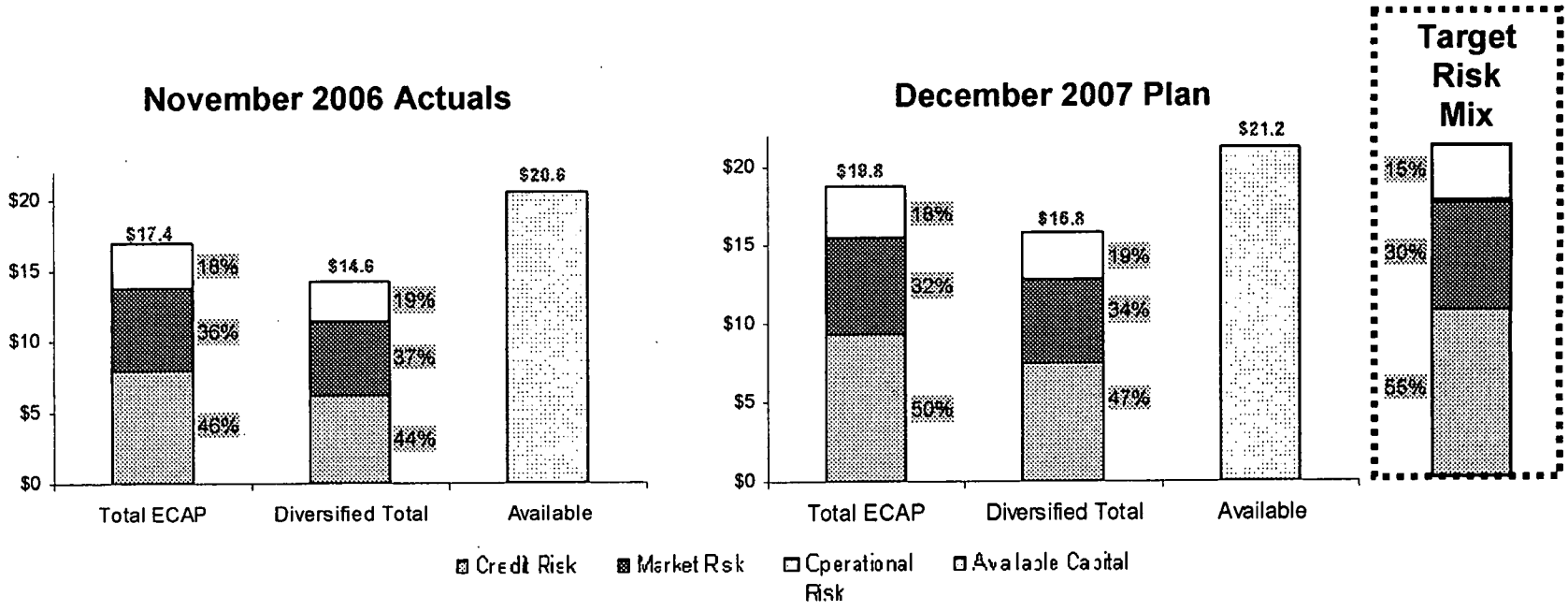
*It is noted that projections of available financial resources in Dec. 2007 including tangible equity are preliminary

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Current & Dec. 2007: Capital Required vs. Available

Economic Capital Required and Available
Nov. 2006 and Dec. 2007



Notes: 1) Available capital in 2007 is based on a rough approximation driven by balance sheet size.
2) The December 2007 Plan does not incorporate our current asset sale initiative.

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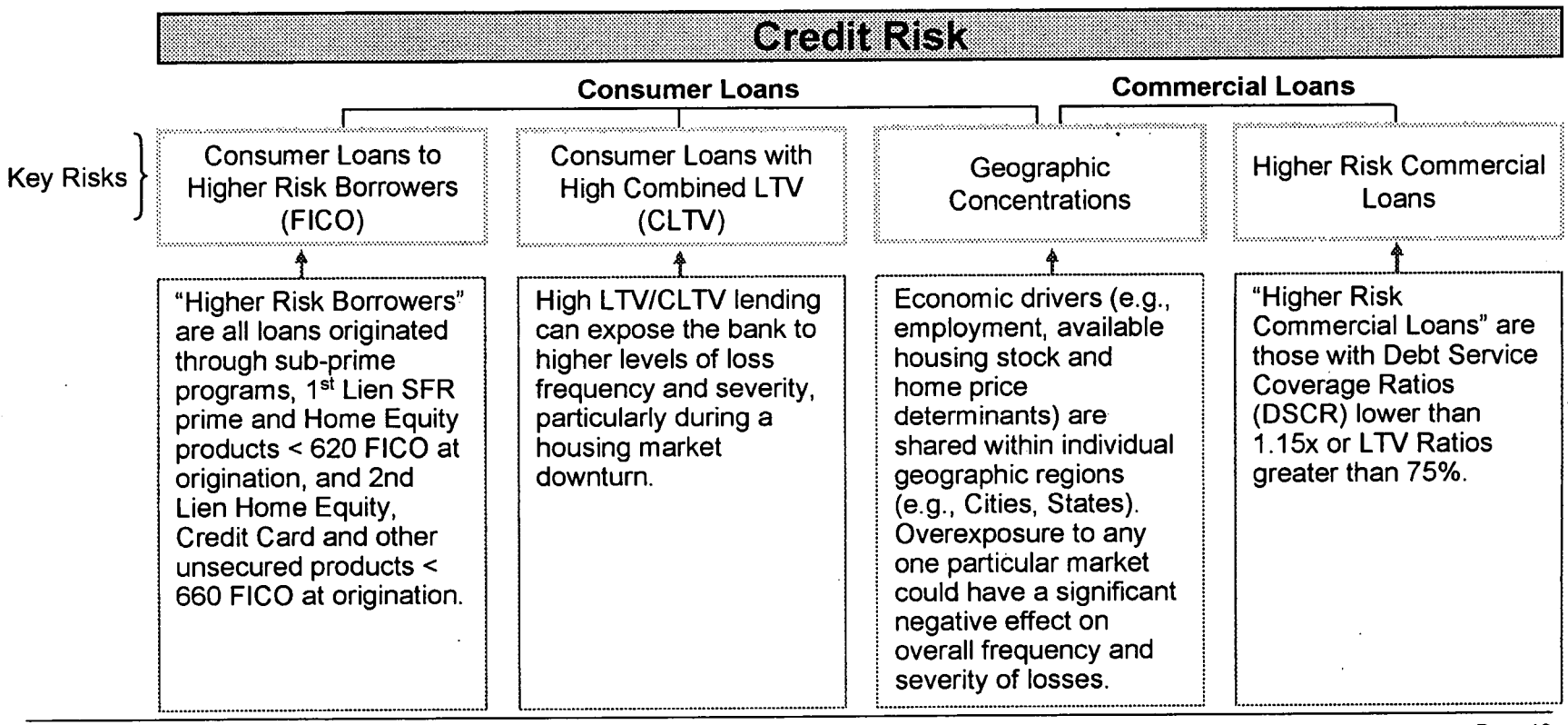
Appendix

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Key Credit Risk Concentration Limits—Conceptual Design

Concentration Limits

- Credit concentration limits reinforce and efficiently drive business unit credit risk appetite consistent with the Company's strategic plan.
- Transparent, well communicated credit concentration limits foster improved risk-vs-return planning and should be formally reviewed and ratified/changed annually consistent with the Strategic Plan.
- The credit concentration limits below are among the most important in framing credit risk appetite.



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Proposed Credit Concentration Limits and Current Utilization

Concentration Limits

- The credit concentration limits below are designed to be consistent with the Strategic Plan of enhancing our overall returns, in part, by reallocating the balance sheet towards more credit intensive assets.
- Also consistent with our Strategic Plan, the geographic concentration limits are designed to encourage diversification of our California exposure, reinforcing our nationwide franchise.

[Note: The proposed geographic concentration limits should be considered target limits and will be reviewed within the context of the 2007 business plan.]

Credit Risk

	Consumer Loans		Commercial Loans	
	Consumer Loans to Higher Risk Borrowers (FICO)	Consumer Loans with High Combined LTV (CLTV)	Geographic Concentrations	Higher Risk Commercial Loans
April 30th Levels*:	15.9% (Total)	3.4% ≥ 90 (w/o MI)	45.4% in a single state (CA) 20.9% in a single MSA (LA)	0.4% DSCR < 1.15 0.1% LTV > 75
Proposed Limit*:	**25% (Total)**	**10% ≥ 90 (w/o MI)**	**CA ≤ 50% No MSA > 25%**	**2% DSCR < 1.15 1% LTV > 75**
	Not more than 25% of the total Held-For-Investment (HFI) portfolio can be in Consumer Loans to Higher Risk Borrowers.	Overall, Loans with Combined Loan-To-Value rates of 90% or higher are limited to 10% of the total HFI portfolio unless they have Mortgage Insurance (MI). [Note: this limit is subject to the Supervisory LTV limit of 100 % of total capital]	Geographic Concentrations are limited so that no more than 50% of the total HFI portfolio is in California and no more than 25% in any single MSA.	Not more than 2% of the total HFI portfolio can be to Commercial borrowers whose Debt Service Coverage Ratio (DSCR) is lower than 1.15X or 1% to those whose LTV is above 75%.

* As a percentage of total Held-For-Investment Portfolio and Credit Card on a Managed Receivable basis.

JPM_WM02657016

Confidential Treatment Requested by JPMC

Recommendation Approved 7/18/06

Credit Risk Concentration Limits:

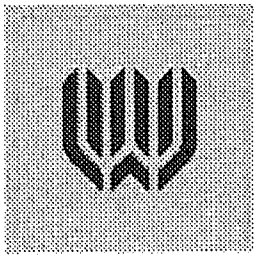
- **Consumer Loans to Higher Risk Borrowers**
  - *All loans originated through the sub-prime programs, SFR prime and 1st Lien Home Equity products < 620 FICO at origination, and 2nd Lien Home Equity, Credit Card and other unsecured products < 660 FICO at origination.*
  - *Limit of 25% of total HFI loans**
- **Consumer Loans with High Combined LTV (CLTV)*****
  - *Limit of 10% of HFI loans** at a CLTV greater than or equal to 90 unless insured.*
- **Geographic Concentration**
  - *Limit of 50% of total HFI loans** in any one state (e.g., California)*
  - *Limit of 25% of total HFI loans** in any one metropolitan area (e.g., Los Angeles)*
- **Higher Risk Commercial Loans**
  - *Limit of 2% of total HFI loans** to commercial borrowers with a Debt Service Coverage Ratio (DSCR) below 1.15X.*
  - *Limit of 1% of total HFI loans** to commercial borrowers with an LTV greater than 75%.*

**HFI loans are defined as all HFI loans in portfolio plus all additional managed credit card loans.*

***This limit on Consumer Loans with High CLTV is in addition to the existing regulatory-based limit specified in Credit Policy 408, which restricts Supervisory LTV Exception loans to at most 100% of capital.*

JPM_WM02657017

Confidential Treatment Requested by JPMC



Data Management Program

Tom Casey
Debora Horvath
Tom Morgan

December 19, 2006

JPM_WM02657018

Confidential Treatment Requested by JPMC

Data Management Problem Statement

WaMu lacks a standard, enterprise approach to data management, which has resulted in higher total cost of ownership, competing versions of the "truth" and lost opportunities for competitive decision making.

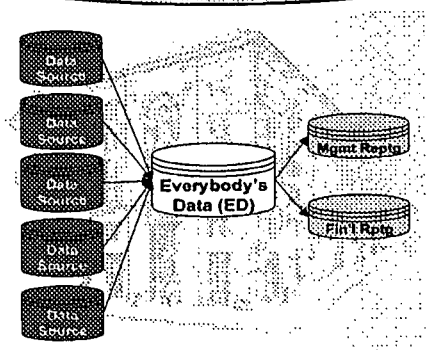
Poor Data Management Impacts Speed of Delivery, Quality, Cost, and Risk Resulting in Loss of Competitive Edge

JPM_WM02657019

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Evolution of Data Management at WaMu

Past

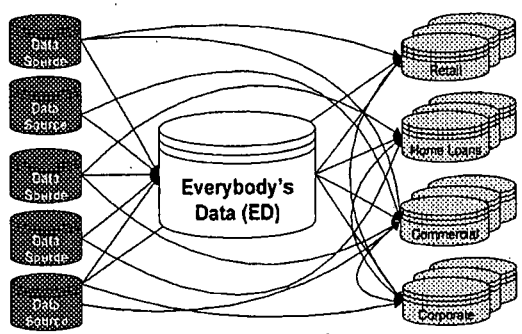


History of Data Management

- The existing data warehouse (ED) was launched within the Finance organization in the early 1990s to provide a common financial reporting framework.
- Reporting was one-dimensional since WaMu was viewed as a single segment.
- As a result of acquisitions – PNC, Fleet, Dime – WaMu's reporting environment became more complex over time with the need to support multiple segments.

Basic

Present

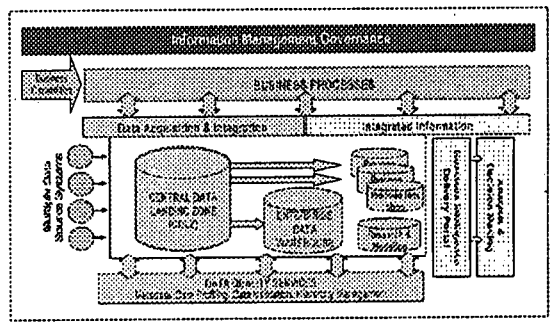


Today's Data Issues

- Through our growth, we have developed over 160 databases supporting various business segments.
- Business decisions often rely on data gathered from multiple sources.
- Users mistrust data that is not controlled within their own segments.
- There is no enterprise-wide data inventory to know what is available.
- SOX 404 compliance and accurate financial and non-financial disclosures are achieved within required timeframes but only with numerous manual reconciliations and work-arounds.

Evolved

Future State



Future State Vision

- Enable better business decisions with timely, accurate data.
- Drive consistent data definitions and controls around data usage through Enterprise Data Governance.
- Increase cross-sell revenue opportunities through a single view of customer relationships across segments.
- Drive cost savings and reduce risk with a unified data environment: clear roles, consistent tools and standards; and repeatable, scalable processes.

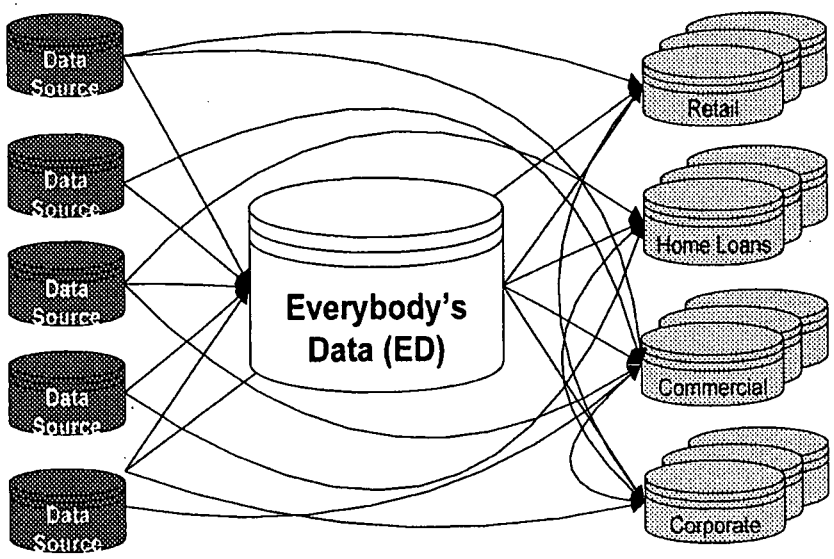
Designed

JPM_WM02657020

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Today: Current State Need for Data

Relevant Issues	
Multiple, redundant data stores	Lack of Data Governance
Manual reconciliation & validation	Complicated processes, lack of clear roles
Redundant data extracts	Difficulty in finding relevant data



Business Impact
Fragmented data ownership and accountability.
Higher risk of data inconsistency, with potential impacts to valuations and business decisions: **Actual Losses** • Incentive Overpayment of Long Beach loans that were originated but not closed: 2.5M (200K per month) over 2 years, 2005-2006 • Basis Floater: inconsistent prepayment data led to misfit of prepayment model; correction led to downward revaluation of asset $42M in 2006 **Near Misses** • $90M service fee error in 2004 • $130M MSR valuation change in 2005
Lack of enterprise insight into customer relationships, service, and profitability
Complexity of data movement increases effort and risks to enhance, retire, or add applications
Manually intensive reconciliations increase labor costs and reduce overall data quality

JPM_WM02657021

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Data Management Roadmap

Conduct Strategic Planning
Gain Executive Approval

Finalize Roadmap
Begin Program Execution

Continue Program Execution

2005

- ✓ Conduct Voice of the Customer
- ✓ Identify & Prioritize Business Drivers
- ✓ Develop Strategy for Future State
- ✓ Develop Phased Program Plan
  Gain Executive Committee Approval

2006

- ✓ Launch Data Mgmt Program
- ✓ Launch Technology Data Governance
- ✓ Partner with Business Initiatives to Drive Early Value
  - ✓ *Deposit Data Repository (Fraud)*
  - ✓ *Commercial Data Warehouse*
  - ✓ *Siebel Analytics*
- ✓ Begin Building Technical Foundation
  - ✓ *Central Data Landing Zone (CDLZ)*
  - ✓ *Metadata Program (Data Dictionary)*

Expense $ 3.8M
Capital $ 6.0M

2007 - 2008

- Launch Enterprise Data Governance
- Continue to Partner w/ Business Initiatives
  - *Synergy Program*
  - *Direct Marketing Re-Platform*
  - *Enterprise Hierarchy Initiative*
- Continue Building Technical Foundation
  - *Enterprise Data Warehouse*
  - *Data Quality Services*
- Develop Core Data Processes
- Conduct Training & Awareness

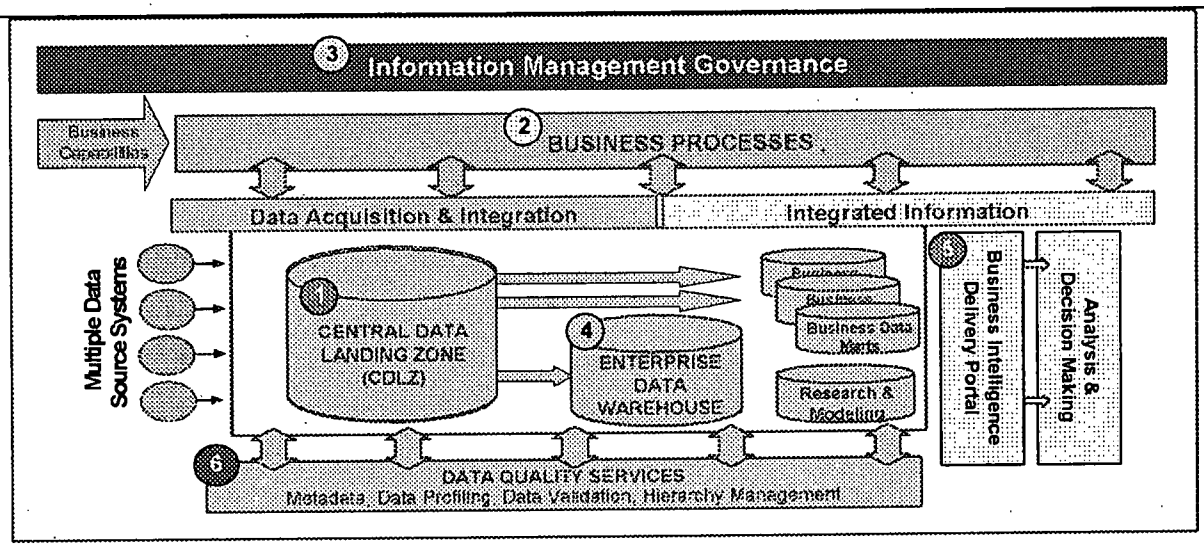
Expense $10.2M
Capital $17.3M

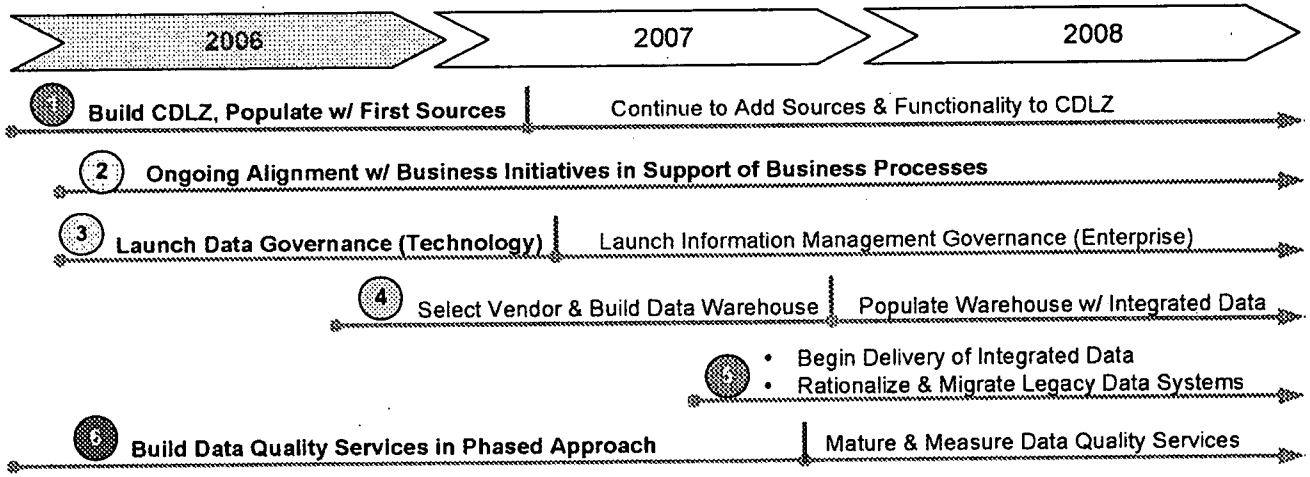
Business Priorities Drive Future State Data Management

JPM_WM02657022

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Data Management: Integrated Program View





JPM_WM02657023

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Information Management Governance

Executive Steering Committee
Tom Casey
Ron Cathcart
Fay Chapman
Deb Horvath
Steve Rotella

Information Mgmt Governance Committee
Tom Morgan – Chair
Melba Bartels – Finance
Carey Brennan - Legal
Jonathan Calvert – Marketing
Jeff Deuel - Commercial
Michele Grau-Iversen – Card Svcs
Pia Jorgensen - TSG
Michelle McCarthy – Ent Risk Mgmt
Randy Melby – Audit
Mike Reynoldson - HR
Maureen Shafer – Home Loans
Conrad Vasquez – Retail
John Woods – Finance

Tom Casey
Deb Horvath
Program Office
Program Lead - TBD
PMO Support

Data Stewardship
BUSINESS / OPERATIONS
"Process Ownership"

- Business Data Stewardship
- Business Process Stewardship

Data Architecture
BUSINESS / TSG
"Design Ownership"

- Hierarchy Mgmt & Entity Relationship

Data Custodianship
TSG
"Utility Ownership"

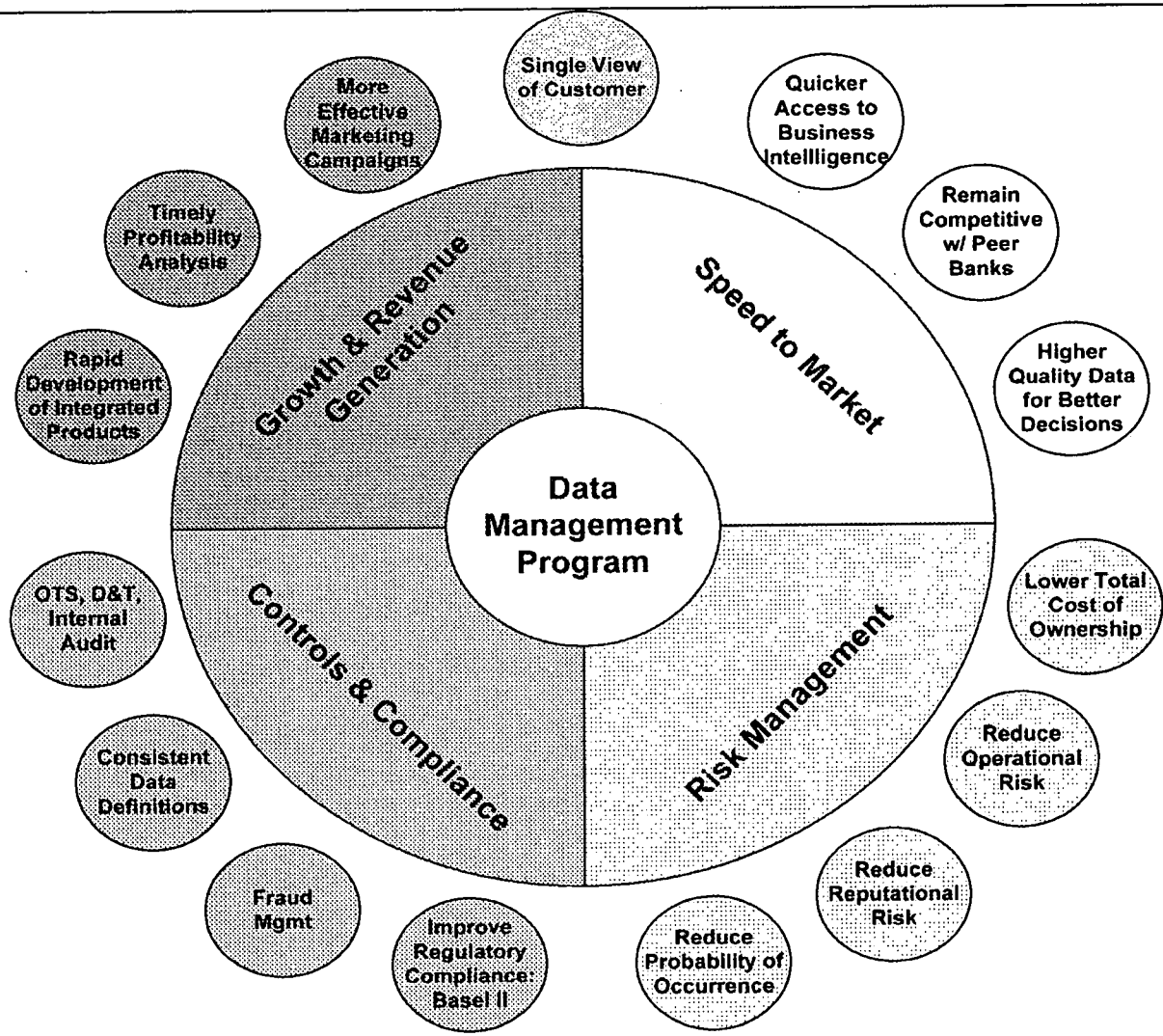
- Systems Design Flows
- Data Integrity & Security
- Standard Tools & Platforms

Requirements & Guidelines → **Based on Business Data Architecture Requirements & Guidelines**

JPM_WM02657024

Confidential Treatment Requested by JPMC

Data Management: Benefits to WaMu



JPM_WM02657025

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Next Steps & Milestones

- Launch Information Management Governance – January 2007
- Identify and Prioritize Top 50 Business Processes – February 2007
- Identify Key Data Fields Required by Top Processes – Q2-Q3
- Establish Business Line Accountability for Data Stewardship – Q2-Q3
- Continue Execution of Enterprise Data Management Initiatives – 2007
  - Select Vendor for Enterprise Data Warehouse – January 2007
  - Launch Next Phase Data Quality Services – May 2007
  - Data Warehouse in Production – June 2007

JPM_WM02657026

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Corporate Compliance Review Update to ERMC

December 15, 2006

Overview

Corporate Compliance Review (CCR) tests loan originations for Home Loans mortgages, home equity loans and lines, and Commercial loans. The full testing and reporting cycle has been completed for July through September fundings. In addition, Card Services Compliance identifies issues through various detective controls, and Retail Bank Compliance performs targeted testing of new high-risk deposit accounts. This report highlights key issues identified in the reviews that are of concern to Compliance management.

- Home Loans Mortgages: Eighteen of the 90 compliance requirements tested had error rates above tolerance levels in September. These errors span seven federal and one state regulation. Of the 18 above-tolerance issues, 6 affect only a small proportion of customers.
- Home Equity: Five of the 77 compliance requirements tested had error rates above tolerance levels in September. These errors span two federal regulations and one state regulation. Of the five above-tolerance issues, 3 affect only a small proportion of customers.
- Commercial Lending: No error rates were above tolerance in September for the Commercial Group.
- Card Services: The number of unresolved compliance issues at continues to be low. In addition, their severity and the number of customers affected do not warrant escalated attention.
- Retail Bank: Compliance testing of new high-risk deposit accounts (including Non-Resident Aliens and Small Business) for adherence to the USA PATRIOT Act Customer Identification Program did not reveal any significant findings in the most recent testing period.

Some of the above-tolerance issues show favorable error rate trends or are only marginally above tolerances, and are not considered by Compliance management to warrant ERMC attention. However, the three above-tolerance issues summarized in this report are sufficiently material or persistent to warrant ERMC awareness. Each has had persistently high error rates and involve regulatory requirements that apply to essentially all funded or nonfunded loans of the affected business units. If not corrected, they could result in regulatory criticism or other enforcement action. Remediation of each is in process, but continued focus on execution is needed to ensure that the fixes are effective.

Process Change Note: Corporate Compliance Review will be changing to a quarterly review cycle in 2007, from the current monthly cycle, with increased use of risk-targeted reviews. This change is being made to increase the cost effectiveness and risk focus of the program.

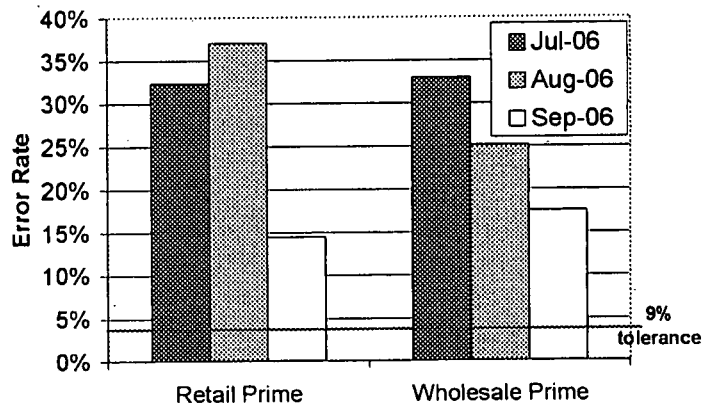
Risk Issue: Good Faith Estimate (RESPA) – Customary lender, broker, escrow, and/or title fees not disclosed correctly on GFE.

Risk to WaMu: Per VOCALS, upfront accurate fee disclosure is our Home Loans customer's primary concern. Inaccurate disclosure may cause customer dissatisfaction, increased complaints, and reputation damage. Also, there is a potential for regulatory criticism if not corrected.

Cause: Failure to follow established policies and procedures, coupled with a lack of systemic controls to drive results.

Remediation Status: Retail and Wholesale processes as well as automated controls recently have been modified to further reduce the error rates. That being the case, CCR trend reports published in early 2007 should reflect the positive impact of these system updates. Furthermore, the long-term solution is being built into the new LOS for each channel.

Home Loans - Good Faith Estimate



JPM_WM02657027

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Risk Issue: Adverse Action Notices are incomplete, inaccurate or missing (ECOA & FCRA)

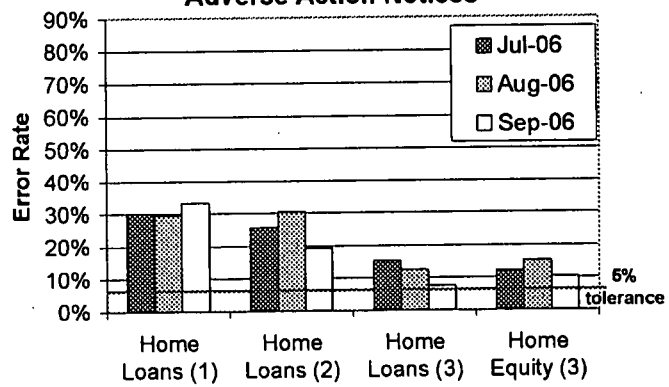
Risk to WaMu: There is a potential for regulatory criticism if not corrected. In addition, inaccurate notification to customers may result in reputation damage and an increase in customer complaints.

Cause: Underwriters not accurately completing this information on the Notice. Error rates are above tolerance in all Home Loans channels.

Remediation Status: Extensive ECOA and FCRA training conducted in all LFCs in August 2006. Underwriting has reissued policies and procedures, implemented a second review program, and conducts internal self-monitoring.

Note: Other adverse action notice requirements also have above-tolerance error rates, but affect much more limited customer populations and, thus, pose substantially less risk.

Home Loans/Home Equity - Non-Funded Adverse Action Notices



Legend

(1) Incomplete or inaccurate bureau information (FCRA)
(2) Inaccurate reasons for action taken (ECOA)
(3) Missing or inaccurate notice (ECOA)

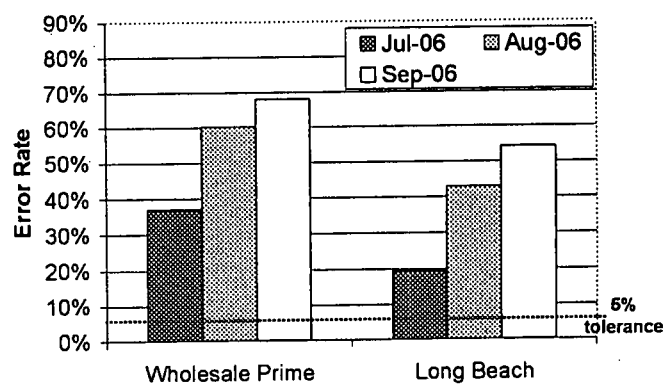
Risk Issue: FACT Act – Notice to Home Loan Applicant and Credit Score Disclosure missing or inaccurate.

Risk to WaMu: New regulatory requirement, expected to be examined by OTS in 2007. Potential regulatory criticism if not corrected.

Cause: The Wholesale vendor solution (Dorado) was attempted in June 2006, but was unsuccessful. In addition, as a separate issue, the vendor was not displaying or capturing required ("5th factor") information correctly. For LBM, errors resulted from inaccurate system programming. A vendor solution for Retail, Emerging Markets and CD was implemented successfully in February 2006, and error rates for those channels are now within tolerance.

Remediation Status: For Wholesale, all systematic programming corrections were implemented in October. For LBM in November, 50% of the system defects were resolved and the remaining 50% will be resolved with a December system fix. Additionally, these requirements are being built into the LOS for each Channel.

Home Loans - FACT Act



JPM_WM02657028

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Washington Mutual

CORPORATE COMPLIANCE REVIEW

SUMMARY TREND REPORT

July - September 2006

PAGE CONTENTS

2 Scorecard: Number of Above-Tolerance Compliance Issues by Division & Channel
3 List of Error Rates Above Tolerance, with 3-Month Trend
4 Trend in Number of Above-Tolerance Issues: Funded Loans
5 Trend in Number of Above-Tolerance Issues: Non-Funded Loans
6 Percentage of Loans Reviewed with at Least One Error

Report Date: November 2006

INTERNAL USE ONLY

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Washington Mutual

CORPORATE COMPLIANCE REVIEW

SUMMARY TREND REPORT
SCORECARD

Number of Compliance Requirements with Error Rates Above Tolerance *Based on Three Month Overall Error Rates*								
Division/Channel	Funded Review				Non Funded Review			
	High	Medium	Low	Total	High	Medium	Low	Total
Home Loans	2	8	1	11	0	8	0	8
Banking (BLCs)	6	2	5	13	0	8	0	8
Consumer Direct	0	4	1	5	0	8	1	9
Long Beach Mortgage	1	5	1	7	0	6	0	6
Retail Banking	1	6	2	9	0	8	0	8
Wholesale	1	6	2	9	0	8	0	8
Home Equity	1	1	0	2	0	3	0	3
CLPC	1	1	1	3	0	3	0	3
FC	0	3	0	3	0	3	0	3
Commercial	0	1	0	1	NA	NA	NA	NA
CRE	0	3	0	3	NA	NA	NA	NA
MFL	0	0	0	0	NA	NA	NA	NA

JPM_WM02657030

Confidential Treatment Requested by JPMC

Washington Mutual
CORPORATE COMPLIANCE REVIEW

Highlighted items are those discussed in the Corporate Compliance Review Update to ERMC

SUMMARY TREND REPORT
Errors Over Tolerance

					July			August			September			3 Month Total		
DIVISION	REVIEW TYPE	CATEGORY	EVENT DESCRIPTION	RATING	Cited	Applies	%	Cited	Applies	%	Cited	Applies	%	Cited	Applies	%
Commercial	Funded	FLOOD DISASTER PROTECTION ACT	Flood Hazard Determination not obtained prior to funding.	Medium	7	101	6.9%	5	108	4.7%	5	110	4.6%	17	317	5.4%
Home Loans	Funded	FAIR CREDIT REPORTING ACT	Notice to Home Loan Applicant and Credit Score Disclosure was missing from the file or inaccurate (Applies to approved, declined and counter-offered loans) (FACT Act)	Medium	119	742	16.0%	223	756	29.5%	266	763	34.9%	608	2261	26.9%
		HIGH COST/PREDATORY	NTB Test Insufficient Information and/or Documentation (Missing Source Documents) to determine whether benefit or no benefit	Medium	14	73	19.2%	3	72	4.2%	3	67	4.5%	20	212	9.4%
		HOMEOWNERS PROTECTION ACT (HPA)	No evidence of HPA disclosure for Fixed Rate Loan missing inaccurate or incomplete	Medium	3	21	14.3%	7	23	30.4%	2	21	9.5%	12	65	18.5%
			HPA Amortization Schedule not in file or referenced as being provided. (Fixed rate Loans).	Medium	2	20	10.0%	0	15	0.0%	1	19	5.3%	3	54	5.6%
		REGULATION X	The Submission checklist and/or evidence of required broker/builder services missing from file	Medium	1	8	12.5%	1	15	6.7%	2	13	15.4%	4	36	11.1%
			IEAD/AATB not in the file or is inaccurate.	Medium	22	312	7.1%	25	331	7.6%	31	309	10.0%	78	952	8.2%
			Customary lender/broker/title/escrow fees not disclosed on the GFE	Low	176	805	21.9%	180	808	22.3%	95	813	11.7%	451	2426	18.6%
		REGULATION Z	NORTC dates were missing or incorrect	High	10	442	2.3%	9	373	2.4%	14	466	3.0%	33	1281	2.6%
		STATE SPECIFIC	Broker Pre-App DisclosureFee Agreement not signed by broker and applicants (or written statement of no separate fee agmt). Also, broker fees disclosed on final HUD_1 not equal or less than disclosed on GFE	High	3	12	0.25	1	9	11.1%	1	13	7.7%	5	34	14.7%
			Initial 1003 not signed by broker (NY Only)	Medium	2	11	18.2%	0	9	0.0%	1	13	7.7%	3	33	9.1%
		USA PATRIOT Act	Customer Identification Program (CIP) documentation is not in the file, incomplete, inaccurate or unsigned	Medium	49	821	6.0%	44	820	5.4%	53	822	6.4%	146	2463	5.9%
	Non-Funded	FAIR CREDIT REPORTING ACT	Notice of Action Taken did not completely identify FCRA name, address or phone number when credit history was reason for adverse action	Medium	40	133	30.1%	50	170	29.4%	46	139	33.1%	136	442	30.8%
			Counteroffer reason does not properly identify reporting agency if reason is credit related	Medium	20	64	31.3%	14	39	35.9%	8	49	16.3%	42	152	27.6%
			Notice of Action Taken did not reflect the FCRA box checked when applicable	Medium	41	194	21.1%	59	209	28.2%	34	188	18.1%	134	591	22.7%
		REGULATION B	NOIA missing from file or insufficient	Medium	15	33	45.5%	27	57	47.4%	19	47	40.4%	61	137	44.5%
			Counteroffer disclosure missing inaccurate or insufficient.	Medium	56	107	52.3%	36	80	45.0%	15	82	18.3%	107	269	39.8%
			Notice of Action Taken does not accurately / consistently state reasons for action taken	Medium	78	305	25.6%	95	313	30.4%	77	402	19.2%	250	1020	24.5%
			Bank Creditor information not provided on Notice of Action Taken (Bank, LFC address, phone number)	Medium	56	327	17.1%	38	339	11.2%	36	425	8.5%	130	1091	11.9%
			Notice of Action Taken missing from the file or insufficient	Medium	101	663	15.2%	84	673	12.5%	50	663	7.5%	235	1999	11.8%
Home Equity	Funded	FLOOD DISASTER PROTECTION ACT	Flood Hazard Determination not obtained prior to funding.	Medium	579	820	70.6%	9	835	1.1%	1	618	0.2%	589	2273	25.9%
		STATE SPECIFIC	Evidence of Texas 12-day cooling off period not in file or insufficient	High	0	2	0.0%	0	1	0.0%	2	10	20.0%	2	13	15.4%
	Non-Funded	REGULATION B	Counteroffer disclosure missing inaccurate or insufficient.	Medium	12	18	66.7%	7	17	41.2%	7	19	36.8%	26	54	48.1%
			NOIA missing from file or insufficient	Medium	2	7	28.6%	1	1	100.0%	0	0	NA	3	8	37.5%
			Notice of Action Taken missing from the file or insufficient	Medium	33	272	12.1%	39	256	15.2%	23	224	10.3%	95	752	12.6%

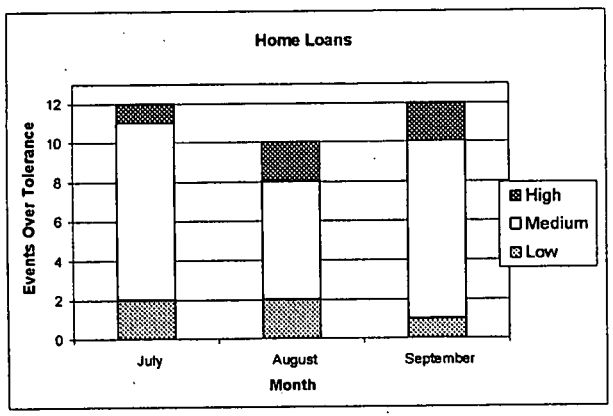
* Events displayed are based on the overall 3 month percentage over tolerance

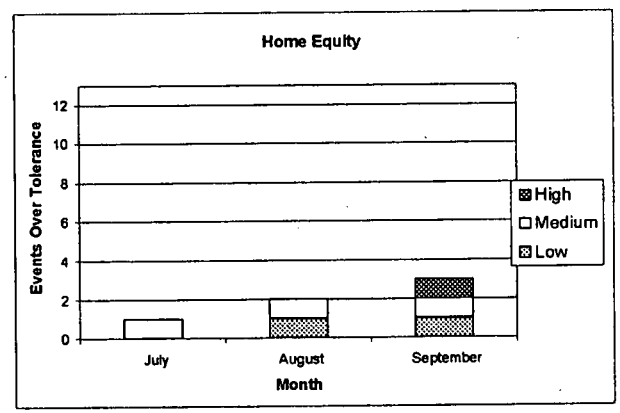
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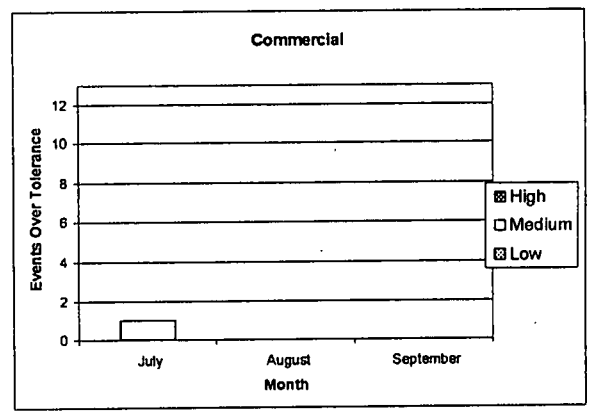
Confidential Treatment Requested by JPMC

Funded Trend Analysis- Number of Events Over Tolerance By Month																								
Division	July				August				September				October				November				December			
	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total
Home Loans	1	9	2	12	2	6	2	10	2	9	1	12												
Home Equity	0	1	0	1	0	1	1	2	1	1	1	3												
Commercial	0	1	0	1	0	0	0	0	0	0	0	0												

Will be available once reviews are completed





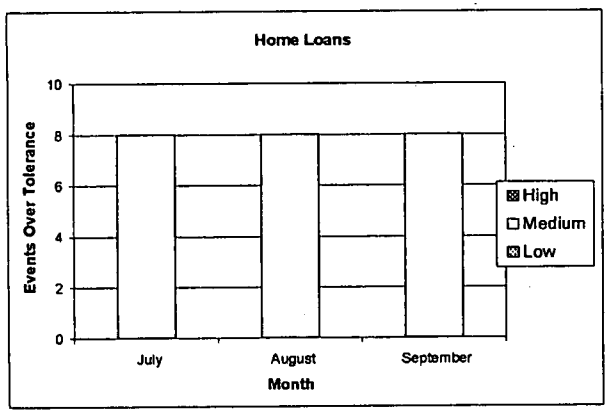


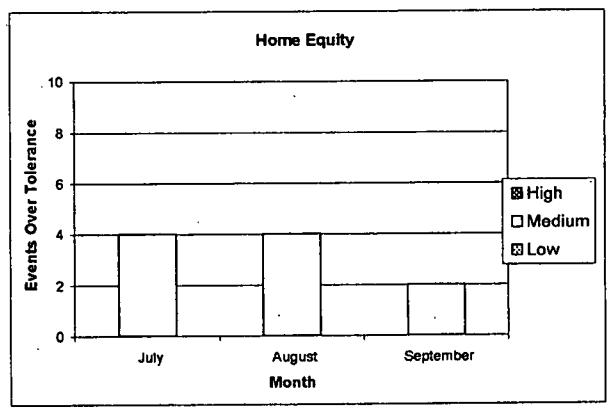
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Confidential Treatment Requested by JPMC

Non-Funded Trend Analysis- Number of Events Over Tolerance By Month																								
Division	July				August				September				October				November				December			
	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total	High	Medium	Low	Total
Home Loans	0	8	0	8	0	8	0	8	0	8	0	8												
Home Equity	0	4	0	4	0	4	0	4	0	2	0	2												

Will be available once reviews are completed





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SUMMARY TREND REPORT

CORPORATE COMPLIANCE REVIEW

Percent of Loans with Findings

Percentage of Loans with one or more Compliance Errors *Based on Three Month Overall Results*		
Division/ Channel	**Funded Review**	**Non Funded Review**
Home Loans	61%	31%
Banking (BLCs)	77%	35%
Consumer Direct	42%	33%
Long Beach Mortgage	59%	27%
Retail	54%	31%
Wholesale	81%	36%
Home Equity	37%	17%
CLPC	30%	15%
FC	41%	20%
Commercial	11%	NA
CRE	26%	NA
MFL	7%	NA

JPM_WM02657034

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Corporate Credit Review
Organizational Update

Presented to

Board of Directors' Finance Committee

of Washington Mutual Bank and Washington Mutual, Inc.

December, 2006

JPM_WM02657035

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Table of Contents

- Corporate Credit Review Role and Responsibilities
- Value Add Proposition
- Methodology and Performance Metrics
- Revised Post-Funding Testing Event Codes
- Summary

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Corporate Credit Review
Role and Responsibilities

Corporate Credit Review is responsible for providing an independent assessment of credit risk and credit quality for the Board of Directors and Senior Management to ensure that lending and credit risk management practices are consistent with corporate business strategies and risk tolerance objectives. Activities include:

- Independent credit risk reporting framework which supports the enterprise risk governance structure and the proactive identification and monitoring of credit risk and credit quality throughout the enterprise
- Analysis of credit risk trends that may adversely affect portfolio performance and credit quality
- Independent review and analysis of risk rating accuracy and timeliness, risk rating migration, and risk rating methodologies including the evaluation of the Bank's internal risk rating processes
- Tracking of credit risk issues that exceed agreed upon risk tolerance performance benchmarks. This includes tracking and testing the remediation plans established by the business to ensure resolution of the identified risk.
- Evaluation of credit risk mitigation and default management activities including Special Assets and problem loan management
- Review and evaluation of business compliance with and effectiveness of the Bank's internal policies, procedures, business strategies and risk tolerance levels, applicable laws and regulations

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Value Add Proposition

Corporate Credit Review fulfills the regulatory requirement and mandate for an independent internal asset review function and is designed to be leveraged by the business line and integrated with the various business quality assurance processes. In addition, Corporate Credit Review supports the Chief Credit Officer's governance structure by focusing on the proactive identification of emerging risk issues throughout the enterprise through the following value add orientation:

- Data and analytically driven approach
- Risk based annual review plan
- Indepth assessment and review of each business line or credit portfolio focused on key risk drivers unique to that business line or portfolio
- Partnership and collaboration with the business to create a consistent view of credit risk
- Understands, anticipates, and communicates industry trends in various portfolios
- Subject matter expertise, and knowledge base regarding credit related Regulatory developments and Basel II

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Methodology and Performance Metrics

Consistent with the strategic plan and the Bank's efforts to expand credit exposure, Corporate Credit Review is mandated in its role to ensure there is a risk based methodology and performance metrics driven approach to monitoring and measuring credit risk and adherence to the bank risk strategy. Activities are managed using a risk based annual review plan that determines review intervals and priorities. Corporate Credit Reviews primary activities include:

Targeted Reviews:

Limited in scope with a focus on specific factors that may contribute to potentially higher risk. Targeted reviews are conducted on an as needed basis where emerging risk issues have been identified, or to evaluate changes in credit related activities, and/or portfolio risk management and oversight activities. (Example: Long Beach EPD/FPD, and Commercial Group Data Integrity and Quality Issues).

Portfolio Risk Reviews:

Focused on specialized credit risk management activities on non-homogenous portfolios. These portfolios are not subject to the continuous testing process but are reviewed periodically on a quarterly, semi-annual, or annual risk-based review cycle with review ratings assigned based on a comprehensive assessment of credit risk that includes credit quality, credit risk management, portfolio oversight and compliance with regulations and internal policy. Ratings are consistent across all review types: Satisfactory, Satisfactory with Qualification, Requires Improvement, and Unsatisfactory. Portfolios included in this review type include:

- Mortgage Banker Finance
- National SBA Lending
- Community Lending and Investment
- Special Assets
- Card Services
- Large Borrower s
- Home Builder Finance
- Wind down portfolios
- Small Business Lending
- Appraisal Valuation (Consumer and Commercial)
- National Operations Center (Royal Ridge)
- Construction Lending

Post-Funding Testing Oversight:

Oversight of continuous transactional testing for all homogenous type portfolios performed by the Chief Risk Officers testing teams who provide weekly and monthly feedback to the business unit. The reviews are designed to provide immediate feedback on transactional defects and elevate systemic risk issues that may materially impact liquidity or salability of portfolio assets within 30-days of loan origination.

- Home Loans Group
- Specialty Lending
- Retail Lending Group
- Multi-Family Lending
- Commercial Mortgage Lending

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Revised Post-Funding Testing Event Codes

Working with the Chief Risk Officers, their business unit risk teams, and legal this process was repositioned. The process refinements implemented not only enhanced efficiency, but developed and established materiality thresholds and layered risk elements. Risk events were reduced from 578 events to 199 events. The Chief Risk Officers were given responsibility for the day to day execution of the testing activities.

Event Definitions	
Primary Events	These are the credit exceptions that are deemed to be material and high risk events.
Secondary Events	A sub-set of primary events which are designed to provide the business with granularity on the key risk drivers of primary events. If more than one secondary event rolls up to the same primary event it is only counted as one primary. If the secondary events have different severity levels, the higher level event rolls up to the primary.
Severity Level Definitions	
High Severity Level	Material collateral, credit, and documentation errors that directly impact loan performance, enforceability, and/or salability. This definition includes fraud and material misrepresentation. Must be immediately addressed by management with an associated action plan.
Medium Severity Level	Collateral, credit and documentation errors considered non-critical in isolation, but have the potential to cause a material impact when combined with other risk factors. These exceptions create the need to review for potential impacts to the performance of the credit and/or salability. These errors are considered noteworthy to management and when each occurs at a rate over a predetermined materiality threshold they are deemed to be material and require management's attention and the establishment of an action plan.
Materiality and Layered Risk	
Materiality Threshold	Given that even a single citing of a High event is considered material and results in an Unsatisfactory rating for the loan under review, there is no materiality threshold relating to High events. Effectively, the threshold for materiality is 0%. Each medium event is assigned a materiality threshold ranging from 2% to 5%. Medium events impact the "Satisfactory", "Satisfactory with Qualification", and/or "Requires Improvement" loan ratings if the error rate on that specific medium event is over the materiality threshold. This is based on the last reported trailing three month performance data relating to the respective channel.
Layered Risk	There are six medium severity primary events that are identified as layered risk events. In the event an individual loan is cited with any combination of three or more of these layered risk issues a high severity event is triggered. These will be used for the purpose of calculating the individual loan rating.

JPM_WM02657040

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Revised Post-Funding Testing Event Codes

Each loan that is reviewed in the post-funding testing activity is assigned one of four possible ratings: Satisfactory, Satisfactory with Qualification, Requires Improvement, or Unsatisfactory. Performance benchmarks (risk tolerance thresholds) have been set to track and report origination performance in the respective business lines.

Individual Loan Rating Definitions	
Unsatisfactory	A loan is rated "Unsatisfactory" when it is cited with one or more High events.
Requires Improvement	A loan is rated "Requires Improvement" when it is cited with two or more Medium events that are over the stated materiality threshold, but no High events.
Satisfactory with Qualification	A loan is rated "Satisfactory with Qualification" when it is cited with one Medium event that is over the stated materiality threshold, but no High events.
Satisfactory	A loan is rated "Satisfactory" when it is not cited with any High event or any Medium event that is over the stated materiality threshold.

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Summary

- Corporate Credit Review is an integral part of the Bank's enterprise risk governance structure with a focus on the independent assessment and proactive identification of credit risk issues throughout the enterprise.
- Elevation of issues to Executive Management and the Board are focused on those high and medium risk issues that may impact one of the following:
  - Liquidity and Salability of portfolio assets
  - Regulatory risk
  - Credit practices when inconsistent with established corporate business strategies and credit risk tolerance objectives
- Corporate Credit Review is a uniquely qualified group of professionals with a broad spectrum of financial services product knowledge, experience, and professional certifications including: Professional Risk Managers, Certified Risk Professionals, and OCC, OTS, FDIC and Federal Reserve Bank experience.

JPM_WM02657042

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MEMORANDUM

DATE: **December 8, 2006**

TO: **Board of Directors' Finance Committee of Washington Mutual Bank and Washington Mutual, Inc.**

FROM: **Hugh Boyle, Chief Credit Officer**
Cynthia Abercrombie, Senior Credit Risk Officer

RE: **Organizational Update**

In June 2006, Corporate Risk Oversight & Compliance became separate Organizations reporting to two separate Senior Executives, Hugh Boyle, Chief Credit Officer and Richard Lewis, Chief Compliance Officer, respectively. Both Senior Executives report to the Chief Enterprise Risk Officer.

Alignment of the newly created Corporate Credit Review function under the Chief Credit Officer preserves the independent credit risk focus of the group on a firm wide basis.

Corporate Credit Review (CCR) has responsibility for providing an independent assessment of credit risk and credit quality for the Board of Directors and Senior Management to ensure that lending and credit risk management practices are consistent with corporate business strategies and risk tolerance objectives. Corporate Credit Review is an integral part of the Bank's enterprise risk governance structure with a focus on the independent assessment and proactive identification of credit risk issues throughout the enterprise. In addition, Corporate Credit Review fulfills the regulatory requirement for an independent internal asset review function.

To ensure greater effectiveness, the day to day execution of credit risk management and asset quality is delegated to the Chief Risk Officers. Chief Risk Officers received a turn-key operation including skilled resources, a centralized post-funding testing group within their Division, and a quality control process.

Transition of Activities to Chief Risk Officers

- Completed Phase I and Phase II transition of Post funding testing and risk rating activities to the Chief Risk Officers.
    - Developed an open communication protocol with each Chief Risk Officer (CRO) group;
    - Transitioned the Post Funding Review Process (and seasoned loan review in the Commercial portfolio) to the Chief Risk Officer organization:
        - Established minimum testing criteria
        - Revised the event codes incorporating a Primary and Secondary structure as well as a multi-layered component

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- Established Materiality Thresholds that more appropriately define the risk of the event
- Developed definitions for Loan Level Ratings
- Defined the Performance Benchmarks for the Loan Level Ratings
- Provided training in three phases that included web cast presentations, job aids and detailed instructions

- Transitioned the Change Request Summary "CRS" Approval Process to the Chief Risk Officer organization;
- Transitioned ownership of Commercial risk rating development to the Chief Risk Officer organization, with Corporate Credit Review maintaining oversight;
- Transitioned ownership of the Mortgage Banker Finance risk rating development to the Home Loans Chief Risk Officer organization, with Corporate Credit Review maintaining oversight.

Roles and Responsibilities

At the direction of the Chief Enterprise Risk Officer and the Chief Credit Officer, Corporate Credit Review is responsible for providing management and the Board of Directors with an independent, objective, accurate, and timely assessment of credit risk and credit quality. This includes:

- Independent credit risk reporting framework which supports the enterprise risk governance structure and the proactive identification and monitoring of credit risk and credit quality throughout the enterprise.
- Analysis of credit risk trends that may adversely affect portfolio performance and credit quality;
- Conducting early warning activities to identify and assess potential emerging credit risk exposures in the Bank's portfolios;
- Analysis and oversight of post-funding testing results;
- Evaluation of credit quality and underlying trends;
- Evaluation of risk mitigation and default management activities including Special Assets and problem loan management;
- Independent review and analysis of risk rating accuracy and timeliness, risk rating migration, and risk rating methodologies including evaluation of the Bank's internal risk rating process;
- Development of an annual Corporate Credit Review plan, principal activities and report timeframes to focus on the evaluation and assessment of the critical risk elements of the Bank's credit related activities and emerging credit risk issues. This includes assessment of compliance with and effectiveness of the Bank's credit risk management and portfolio oversight processes, internal policies, procedures, laws and regulations;

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- Quarterly, semi-annual, or annual credit risk reviews and credit related processes that are not included in post-funding testing activities (MBF, HBF, CL&I, Special Assets, Appraisal, Large Borrower Relationships, and Card Services, etc.);
- Development and measurement of key risk performance indicators and a risk reporting framework to support governance and monitoring.
- Development and maintenance of an appropriate organizational structure including staffing levels;
- Providing the Finance Committee of the Washington Mutual Bank Board of Directors and Senior Management with objective, accurate, and timely information regarding the Company's adherence to its credit strategies and risk tolerance objectives;
- Ensuring the qualifications and training of personnel are commensurate with the requirements necessary to perform CCR activities.

Credit Review Value Add Proposition

Corporate Credit Review supports the Chief Credit Officer's governance structure by focusing on the proactive identification of emerging credit risk issues throughout the enterprise, utilizing robust metrics and meaningful analytics to identify and assist the business in mitigating portfolio credit risk for the organization. Credit risk exposure is determined relative to the business line or credit portfolio being reviewed, in addition to the entire corporation.

This oversight function is carried out through review and oversight of the post-funding testing activities performed by the Chief Risk Officers, the completion of targeted reviews of emerging credit risk issues, reviews of various credit support functions, and quarterly, semi-annual, or annual portfolio risk reviews.

The Corporate Credit Review Value Add Orientation:

- Is based upon a data and analytically driven approach
- Utilizes a risk based annual review plan
- Indepth assessment and review of each business line or credit portfolio focused on key risk drivers unique to that business line or credit portfolio
- Provides a partnership and collaboration with the business to create a consistent view of credit risk
- Is focused on fulfilling the Regulatory requirement for an independent internal asset review function
- Is designed to be leveraged by the business line and integrated with the various business quality assurance processes
- Corporate Credit Review understands, anticipates, and communicates industry trends in various portfolios
- Provides subject matter expertise, and stays abreast of credit related Regulatory developments and Basel II.

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- Corporate Credit Review professionals have worked across a broad spectrum of Financial Services products. Our team members have performed numerous Credit reviews across virtually every asset class (prime and sub prime) including:
  - Commercial Real Estate
  - Credit Cards
  - Construction Lending
  - Asset Based Lending
  - Appraisal (Consumer and Commercial)
  - Loans and Lines
  - Mortgage (Prime and Sub prime)
  - Auto
  - Timeshare
  - Small Business
  - Syndications/Participations
  - Agriculture Loans
  - Troubled Asset Disposition
  - Commercial & Industrial
  - Leasing
  - Student Lending
  - Home Equity

Professional Certifications

We encourage our Credit Risk professionals to attain specialized certifications as a way to enhance our skills and demonstrate our commitment to providing clients with the highest level of service and collaboration. Our diverse team has the following professional certifications:

- Commissioned Bank Examiner (OCC, OTS)
- Professional Risk Manager
- Certified Risk Professional
- Credit Business Analyst
- Certified Fraud Examiner
- Project Management Professional
- Certified Public Accountant
- Six Sigma Experience
- Chartered Robert Morris Associate

In addition to these certifications, a number of the team members hold advanced degrees (MA, MS, PhD, and MBA) in specialized disciplines. The breadth and depth of the Credit Risk team's experience and professional certifications, ensures that there is a robust corporate level credit review of the business.

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Methodology and Performance Metrics

Consistent with the strategic plan and the Bank's efforts to expand credit exposure, Corporate Credit Review is mandated in its role to ensure there is a risk based methodology and performance metrics driven approach to monitoring and measuring credit risk and adherence to the bank risk strategy. Corporate Credit Review activities are managed using a risk based approach determining review intervals or priorities. The review schedule is set forth in the Annual CCR Review Plan. The Plan is reviewed and approved by the Chief Credit Officer and the Chief Enterprise Risk Officer. CCR evaluates the risk profile of each credit portfolio on a quarterly basis to determine any material shifts in credit risk strategy and identify any emerging risk issues which would create the need to reprioritize or change the annual Plan. The risk assessment is based on a combination of indicators, including, but not limited to the following:

- A comparison of Front End Guidance/Quarterly Credit Risk Review objectives to actual results
- Portfolio performance/risk rating migration trends
- Credit attribute root cause analysis (post-funding testing results)
- Economic and/or product type impact on the risk profile of the portfolios
- Changes within the loan servicing organization or significant changes to investor requirements

CCR delivers on this mandate and the Annual Review Plan through the use of three primary review activities:

- **Targeted Reviews:** A Targeted Review is limited in scope with a focus on specific factors that may contribute to potentially higher risk. Targeted Reviews are conducted on an as needed basis where emerging risk issues have been identified. A targeted review focuses on specific higher risk portfolios, specific segments of portfolios, or specific processes. Targeted reviews may also be considered for areas/departments involved in credit related activities, and/or portfolio oversight, that are not directly responsible for managing assigned credit portfolios.
- **Portfolio Risk Reviews:** CCR provides quarterly, semi-annual, or annual portfolio risk reviews to the Chief Risk Officers outlining identified key risk areas. The CRO's have the opportunity to provide feedback on the review. The final report, with Business Unit and CRO response, is issued to the Head of the Business, the Chief Enterprise Risk Officer, the Chief Credit Officer, Internal Audit, and other Business Unit management as appropriate. The Chief Credit Officer, Credit Risk Management and the Chief Enterprise Risk Officer are briefed on any significant risk issues by CCR Senior Managers.

Both Targeted Reviews and Portfolio Risk Reviews are developed utilizing a documented Review Plan which includes; a specific scope and focus, risk based sampling methodology, assessment of risk rating accuracy and timeliness, policies and procedures adherence, credit quality, credit risk management assessment, and Regulatory adherence. Review ratings are assigned by CCR based on a comprehensive assessment of credit risk that includes analysis of pertinent data

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from both internal and external sources. Ratings are consistent across all review types: ***Satisfactory, Satisfactory with Qualification, Requires Improvement, and Unsatisfactory***.

- **Post-Funding Testing Oversight:** Homogenous and non-homogeneous (MFL/CML) loan portfolios are subject to post-funding testing performed by the Chief Risk Officer of each line of business.

  CCR conducts an independent assessment of the post-funding transactional loan testing completed by the Chief Risk Officer teams to ensure the integrity of the testing system and methodology, and appropriate reporting of risk errors and events. The following business Units are part of this oversight activity: Home Loans, Retail Bank, and Commercial (multifamily lending and commercial real estate). Each Channel has a separate sampling methodology focusing on a number of risk events, categorized by the following: ***credit evaluation, operational evaluation/process, and collateral.***

  Utilizing this approach, emerging risk issues surface quickly, providing the organization with meaningful and timely information through weekly loan level detail and monthly trending reports. This information and reporting assists the Chief Risk Officers and business units in developing remediation plans with assigned responsibility and target dates for completion.

Working closely with the various Chief Risk Officers we reassessed the post-funding testing events, eliminated the confusion caused by the previous low risk events, and created materiality thresholds and layered risk elements in the process. The new process elevates those high and medium risk issues that can materially impact liquidity and salability of portfolio assets. Performance metrics have been agreed to by each business unit's Chief Risk Officer and integrated into business management of these products.

Revised Post-Funding Testing Event Codes

The process refinement efforts in this area have been exhaustive taking four months to complete and implement. Working with the Chief Risk Officers:

- The previous event coding was reduced from 578 events to 199 events, 42 of which are defined as primary events.
- Post funding testing event codes were revised incorporating a Primary and Secondary event structure as well as a Layered risk component.
- Each loan that is reviewed is assigned one of four possible ratings (Satisfactory, Satisfactory with Qualification, Requires Improvement or Unsatisfactory); and performance benchmarks (risk tolerance thresholds) have been set to track and report origination performance in the respective business lines.

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Event Definitions	
Primary Events	These are the credit exceptions that are deemed to be material and high risk events.
Secondary Events	A sub-set of primary events which are designed to provide the business with granularity on the key risk drivers of primary events. If more than one secondary event rolls up to the same primary event it is only counted as one primary. If the secondary events have different severity levels, the higher level event rolls up to the primary.
Severity Level Definitions	
High Severity Level	Material collateral, credit, and documentation errors that directly impact loan performance, enforceability, and/or salability. This definition includes fraud and material misrepresentation. Must be immediately addressed by management with an associated action plan.
Medium Severity Level	Collateral, credit and documentation errors considered non-critical in isolation, but have the potential to cause a material impact when combined with other risk factors. These exceptions create the need to review for potential impacts to the performance of the credit and/or salability. These errors are considered noteworthy to management and when each occurs at a rate over a predetermined materiality threshold they are deemed to be material and require management's attention and the establishment of an action plan.
Materiality and Layered Risk	
Materiality Threshold	Given that even a single citing of a High event is considered material and results in an Unsatisfactory rating for the loan under review, there is no materiality threshold relating to High events. Effectively, the threshold for materiality is 0%. Each medium event is assigned a materiality threshold ranging from 2% to 5%. Medium events impact the "Satisfactory", "Satisfactory with Qualification", and/or "Requires Improvement" loan ratings if the error rate on that specific medium event is over the materiality threshold. This is based on the last reported trailing three month performance data relating to the respective channel.
Layered Risk	There are six medium severity primary events that are identified as layered risk events. In the event an individual loan is cited with any combination of three or more of these layered risk issues a high severity event is triggered. These will be used for the purpose of calculating the individual loan rating.

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Individual Loan Rating Definitions	
Unsatisfactory	A loan is rated "Unsatisfactory" when it is cited with one or more High events.
Requires Improvement	A loan is rated "Requires Improvement" when it is cited with two or more Medium events that are over the stated materiality threshold, but no High events.
Satisfactory with Qualification	A loan is rated "Satisfactory with Qualification" when it is cited with one Medium event that is over the stated materiality threshold, but no High events.
Satisfactory	A loan is rated "Satisfactory" when it is not cited with any High event or any Medium event that is over the stated materiality threshold.

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Debt Capacity Error Event Coding

The following is an example of the *Debt Capacity Error* primary and secondary event coding. In this example the Primary Event is shaded. All of the Secondary Events which provide further granularity on the issue are also provided. Let's focus on Secondary event code #1013905 and see how the citing of that event makes it through the system and gets reported to the business.

- When reviewing a file, the Analyst refers to the Desk Aid to view the Test Criteria and applies the test criteria to the loan. If the Analyst discovers a finding they apply the applicable Event Code to the finding.

All Debt related Event Codes

Secondary Event Codes rolling up to Primary

	A	B	C	D	E
1		EVENT TYPE	CODE	DESCRIPTION	Home Loans Test Criteria
2	1	Primary	1013900	Debt Capacity or Debt Ratio Error	Review and compare credit report and application for inconsistencies and accuracy and calculate debt to income ratio. Verify payments on the loan approval, credit report, and other documentation are taken into consideration in the Debt to Income Ratio, such as paystub or divorce decree debts. Check the accuracy of the PITI using the correct qualifying rate and escrows as indicated on final 1003. 1 and compare to final approval/AUS for inconsistencies and calculate debt to income ratio for acceptance.
3	2	Secondary	1013902	There was an error in the calculation of income, but did not result in a final debt ratio that exceeded guidelines	Recalculate income from paystubs, W2's, VOE, bank statements or tax returns and compare to underwriter's calculation/approval for accuracy. Review per tolerance of Channel being reviewed.
4	3	Secondary	1013903	There was an error in the calculation of income that resulted in a debt ratio that exceeds guidelines	Recalculate income from paystubs, W2's, VOE, bank statements or tax returns and compare to underwriter's calculation/approval for accuracy. NOTE: If does not exceed guidelines cite 1013902.
5	4	Secondary	1013904	Income was used to qualify that did not meet guidelines, and if removed would not result in a debt ratio that exceeds guidelines	Review income source documents for adherence to program parameters and/or guidelines. Confirm bonus or OT had sufficient history confirmed to use. Confirm commission, self-employed, or 2nd job time is sufficient to use income. NOTE: If income is removed, and recalculated debt ratio exceeds guidelines cite 1013905.
6	5	Secondary	1013905	Income needed to qualify did not meet guidelines and if removed results in a debt ratio that exceeds guidelines	Review income source documents for adherence to program parameters and/or guidelines. Confirm bonus or OT had sufficient history confirmed to use. Confirm commission, self-employed, or 2nd job time is sufficient to use income. If income is removed, determine if debt ratio exceeds guidelines.
7	6	Secondary	1013914	Liabilities shown on the application or elsewhere in the file were not all used in the submission to AUS	Compare liabilities on the application, credit report and for bank statements to the AUS findings. N/A for LBMC
8	7	Secondary	1013915	There was insufficient documentation for the exclusion of debts	Compare documentation, approval conditions for clarification and documentation on removal of debts from final debt to income ratio (ie: If another party pays the debt but it is not properly documented OR student loan deferment not properly documented). NOTE: If debts required to be paid off at closing, but not documented, cite 3071900.
9	8	Secondary	1013919	An error in the debt calculation was identified and when calculated correctly the debt to income exceeds bank maximum	Review and compare credit report and application for inconsistencies and/or inaccuracies and calculate debt to income ratio. Cite this event if the tolerances are exceeded
10	9	Secondary	1013920	An error in the debt calculation was identified and when calculated correctly the debt to income does not exceed bank maximum	Review and compare credit report and application for inconsistencies and/or inaccuracies and calculate debt to income ratio. Cite this event if the tolerances were not exceeded

Figure 1: Debt Capacity Error, Primary and Secondary Event Codes

- The Analyst enters the applicable Event Code into the Database.
- Once entered, the Event Code becomes eligible for the Weekly Report, which is pulled from the database.
- The Event Codes are reported to the business via the Weekly Report. See Circle A (figure 2, next page).

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Washington Mutual

SPECIALTY LFC WEEKLY FINDINGS REPORT

REPORT DISTRIBUTION DATE: 7/3/06 | LFC RESPONSE DATE: 7/10/06
REPORT DATE: 07-03-06
RELATIONSHIP MANAGER: David Wiesbrock
LFC: Stockton, Long Beach

Loan Number	Borrower Name	Date Funded	CRO Rating	SEC Rating	Process Category	Sub Category	Event Code	Event Description	Supplemental Description	Concur Yes/No	LFC RESPONSE: Field Response	LFC RESPONSE: Response Date
0698079902	SAUL MADRIGAL	12-May-06	High	4	CREDIT EVALUATION	DEBT CAPACITY	193000	Documentation found in the file did not support stated income and Risk Mitigation or Loss Detection confirmed misrep.	Misrepresentation of the borrower's stated income was confirmed by the Risk Mitigation Department. The application states borrower has been self-employed for three years, two months, however the LBMC credit report reflects employment information with Affina reported 02/06(occupation unknown) and Brake Parts Inc. since 1991 reported as recent as 01/05. Both of these jobs are reported during the same period of time the borrower has	YES	LFC CONCURS WITH FINDINGS. UNCORRECTABLE ERROR. FINDINGS WERE REVIEWED WITH THE EMPLOYEE WHO SIGNED OFF ON THE CONDITION, SLC, AND THE AUDIT PROCESS THAT SHOULD HAVE BEEN FOLLOWED. EMPLOYEE WAS COUNCELED	07/13/2006
			Medium	3	CREDIT EVALUATION	DEBT CAPACITY	1013905	Income needed to qualify did not meet guidelines and if removed results in a debt ratio that exceeds guidelines	Using the income verified on Transcripts from IRS and the stated room rent to be received the income would change from $5,564.00 per month down to $4,013.95 causing the ratios to exceed guidelines at 65.44/65.44.	YES	LFC CONCURS WITH FINDINGS. UNCORRECTABLE ERROR. FINDINGS WERE REVIEWED WITH THE EMPLOYEE WHO SIGNED OFF ON THE CONDITION, SLC, AND THE AUDIT PROCESS THAT SHOULD HAVE BEEN FOLLOWED. EMPLOYEE WAS COUNCELED	07/13/2006

A

B

Figure 2: Detail Weekly Report

- Business Concurs or does not Concur with finding and sends Responses. See Circle B in (figure 2, above).
- If the business does not concur with the Event Code decision, an arbitration process begins with the business providing a basis for their non concurrence.
- The Arbitration Process ends in one of two outcomes. Business unit provides documentation supporting non-concurrence which would remove the event from any future reporting; or, the documentation is not sufficient and the event is included in the reporting.
- The Monthly Report is sent to the CRO and the business unit officers.

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Post Funding Performance Benchmarks

The following is an example of the post funding performance benchmark scorecard from the Home Loans Credit Review Trending Report. Performance metrics have been agreed to by each business unit Chief Risk officer and integrated into business management of these products.

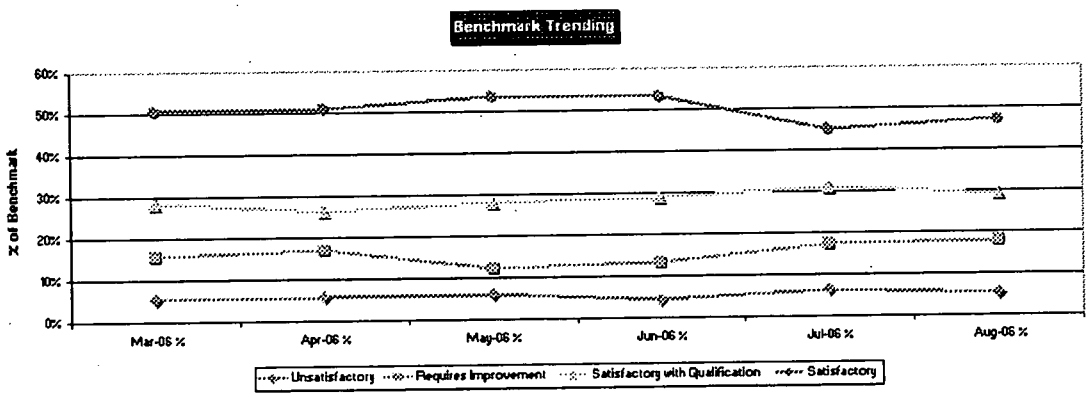
Home Loans

WaMu SCORECARD

HOME LOANS CREDIT REVIEW

HOME LOANS

	Benchmarks	Jun-06 #	Jun-06 %	Jul-06 #	Jul-06 %	Aug-06 #	Aug-06 %	Total	Total %
LOAN REVIEW RATINGS									
Unsatisfactory	</= 2.5%	40	4.4%	58	6.4%	50	5.3%	148	5.4%
Requires Improvement	</= 10%	123	13.5%	157	17.4%	168	18.0%	448	16.3%
Satisfactory with Qualification	</= 20%	265	29.0%	281	31.2%	274	29.3%	820	29.8%
Satisfactory	>/= 80%	486	53.2%	406	45.0%	443	47.4%	1335	48.5%
SAMPLE									
Sample Requirement		875		900		875		2,650	
# of Loans Reviewed		914		902		935		2,751	



- Home Loans Benchmark Trending is inclusive of post-funding performance of loans originated through the Retail Home Loans, Wholesale, Consumer Direct, and Long Beach Mortgage origination channels.
- Unsatisfactory loan ratings coming out of the prime channels (subprime issues are addressed in the Appendix) are being driven largely by documentation issues that have an adverse impact on the security instruments and appraisal issues that could impact values. Examples would include: Security instrument (Notes, Deeds of Trust) that are inaccurate or missing; and or, appraisal discrepancies relating to a property type that may not be acceptable to the Bank, or comparable sales that are not within the same market or inappropriate to support the underlying collateral in a transaction These findings have been used as a basis for providing training and counseling to the accountable staff.
- The Requires Improvement and Satisfactory with Qualification loan ratings in the prime channels are being driven largely from errors impacting the evaluation of the credit and the ultimate loan decision as well as errors relating to the accuracy of information stated on the applications. Examples would include: the lack of

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JPM_WM02657053

proper verification of income, employment, and/or other borrower assets that would provide additional strength to support the credit decision. A remediation plan is being developed.

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WaMu

Risk Rating Administration

Corporate Credit Review provides Basel II support through our Risk Rating Administration group. As WaMu's riskr ating systems evolve, the group will be responsible for ensuring that the developed Basel II risk rating systems are performing as intended and that risk ratings are timely and accurate. These activities include:

- To meet Basel II requirements, CCR is aligned to provide independent oversight due to its own independence from all in-house designers and developers (system and model designers) and raters (ratings and parameter assigners in the risk rating process).
- This effort will include a comprehensive, coordinated, and independent review process to ensure that ratings are accurate and that the rating system is performing as intended.
- In large part this oversight will entail checking and confirming the work of others and ensuring that the rating system's components work well together.

Management Activities

Other activities in which Corporate Credit Review participates include:

- Credit Risk Management Committee
- Senior Loan Committee
- Front End Guidance Meetings
- Quarterly Credit Risk Review Meetings
- Problem Loan Reporting
- Other management activities as requested

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Appendix: Annual Review Plan

Review Program Components	Review Frequency	Review Schedule															
		2006				2007											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Commercial																	
Commercial Real Estate Lending	Semi-Annual		●		●			●						●			●
Commercial Mortgage Lending	Quarterly		●					●						●			●
Multifamily Lending	Quarterly		●				●			●			●			●	
CL&I Investments/Loans	Quarterly	●		●			●			●			●			●	
Large Borrower	Quarterly		●			●			●			●			●		
Wholesale	Semi-Annual						●							●			
Portfolio Management (NOC)	Annually					●											
Special Assets	Annually		●														
Real Estate Collateral Valuation	Annually			●													
National SBA Lending	Annually						●										
Wind-Down Portfolios	Annually							●									
Home Loans																	
Mortgage Banker Finance	Quarterly	●			●			●			●			●			●
Long Beach - Originations	Quarterly		●			●			●			●			●		
Sub-Prime Conduit - Purchased Loans	Quarterly		●			●			●			●			●		
Home Loans - Originations	Quarterly		●			●			●			●			●		
National Home Builder Finance	Semi-Annual	●						●						●			
Retail Bank																	
Retail Lending - Originations	Quarterly		●			●			●			●			●		
Small Business Lending	Semi-Annual		●				●						●				
Real Estate Collateral Valuation	Annually			●													
Specialized																	
Card Services - Originations	Quarterly		●			●			●			●			●		
Automated Decisioning - EDE	Annually						●										
Clayton Management	OTS Request					●								●			

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Washington Mutual

FFIEC
Strong Authentication Update

December 2006

JPM_WM02657057

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Washington Mutual

Strong Authentication Guidance

PURPOSE

- In October 2005, the Federal Financial Institutions Examination Council (FFIEC) issued guidance for "Authentication in an Internet Banking Environment". This guidance specifically addresses the need for risk-based assessments, customer awareness, and security measures to authenticate customers accessing Internet-based services. This guidance applies to all retail and commercial customers. Although the guidance is focused on the risks and risk management techniques associated with the internet delivery channel, the principles are applicable to all forms of electronic banking activities. (1)

KEY POINTS (2)

- The agencies consider single factor authentication, as the only control mechanism, to be inadequate for high risk transactions involving access to customer information or the movement of funds to other parties.
- Financial Institutions offering Internet-based products and services to their customers should use effective methods to authenticate the identity of customers using those products and services.
- The authentication techniques employed by the financial institution should be appropriate to the risks associated with those products and services.
- Where risk assessments indicate that the use of single-factor authentication is inadequate, financial institutions should implement multi-factor authentication, layered security, or other controls reasonably calculated to mitigate those risks.

OTS DIRECTION for WaMu

The OTS has stated they expect Washington Mutual to be in *substantial* compliance with the guidance by December 2006. "Substantial" compliance for WaMu has been defined as stronger authentication measures in production for Personal Online Banking and Commercial Online Banking, and the remaining In-Scope sites having formal project plans in place by 12/2006, with a planned production implementation no later than 12/2007.

---

(1) "Electronic Banking" includes telephone banking.

(2) OTS October 12, 2005 memo, referencing FFIEC "Authentication in an Internet Banking Environment Guidance, Summary of Key Points".

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Strong Authentication Program
Executive Dashboard
12/12/2006

Washington Mutual

Program	Metric	Status	Trend *	Problem Statement	Corrective Action
Program Goals • Identify the universe of electronic banking sites impacted by the FFIEC guidance • Perform a risk assessment to determine if sites are in scope of the FFIEC Guidance • Document in scope electronic banking sites and report on compliance • Implement Program Governance Model • Initiate Strong Authentication tracking for relevant sites **Program Objectives:** • Reduced risk exposure • Program Governance and Oversight • Consolidated reporting of program to the OTS	***Scope***	G	Steady		
	Schedule	R	Problem	Currently, Personal Online Banking and Commercial Online Banking are targeted to be compliant by 1/31/2007 and 3/31/2007 respectively.	Work with the OTS to validate Personal Online Banking dates are considered adequate. Initiated a QuickValue to evaluate expediting compliance for Commercial Online Banking.
	Resource	G	Steady	Program Governance Structure needs to be formalized.	Assigned a dedicated Program Manager to facilitate reporting and tracking of Strong Authentication Program initiatives.
	Quality	G	Steady		
	Overall Health	Y	Problem	WaMu will not be in compliance with FFIEC Guidance by the 12/31/2006 date. Additionally, 10 other sites are considered within scope of the FFIEC Guidance and need to be compliance by EOY 2007.	Implemented Program Governance Model to track and report on compliance status of all 12 in-scope sites. Communicated requirements to all Lines of Business and corresponding TSG representative. Secured Executive Sponsorship and support of the Strong Authentication compliance initiatives.

Executive Summary

RESULTS	• Enterprise Strong Authentication solution selected and approved in 2005 • Personal Online Banking is on track for compliance with FFIEC Guidance by 1/31/2007 - >90% of high risk transactions coded; customer challenge Q&A in full progress. • Interim solution identified for Commercial Online Banking using tokens and internal ACE server • Inventory and Risk Assessment of in-scope sites has been completed • Strong Authentication Working Group established under the auspices of the Corporate Information Security Committee • Business and Technology representatives have been identified for each in-scope site. • Program Manager has been assigned	NEXT STEPS • Deliver OTS PERK items to include: Summary; Project Plans; Inventory; Risk Assessment; and Status Reports • Establish Architectural Lead • Schedule regular status meetings • Update the Access Management Policy to include Strong Authentication requirements for go-forward compliance • Develop status report format and frequency
WHAT'S WORKING	• Executive Sponsorship has been secured • Compliance requirements communicated • Work teams identified and mobilized	CHALLENGES • Prioritization of resources and projects to achieve compliance milestones • Consistent status reporting • Competing priorities

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In-Scope Applications

Internet Facing Application Name	Line of Business	Type of Customer	Planned Solution to provide Strong Authentication	Planned Date of Compliance
On-Line Banking (POB)	Corporate Support	Retail	RSA Adaptive	1/31/2007 – >90% of high risk transactions coded; customer challenge Q&A in full progress.
ATM Network	Retail	Retail	Multi-layer sufficient – Card and PIN authentication in place.	Completed Multi-layer sufficient – Card and PIN authentication in place.
Kana Response	Retail	Retail	RSA Adaptive solution utilized to secure access to Kana.	1/31/2007
ECC IVR	Retail	Retail	RSA Adaptive	4Q07
Commercial Online Banking	Commercial	Commercial	Partial – Tokens to be fully deployed by EOY 2006	3/31/2007. Looking at option to improve schedule
Framework	Commercial – CCB	Employee, 3rd party, Commercial	RSA Adaptive won't work for 3rd party access and a Strong Auth solution will be implemented as part of the integration project in 2007.	7/31/2007
Framework - Integrated Cash Management System	Commercial – CCB	Commercial	Strong Auth will be implemented as part of the integration project.	7/31/2007
Mortgage Banker Finance Web	Home Loans	Mortgage Warehouse funding, Commercial Type	RSA Adaptive	10/31/2007
Customer Service IVR	WMCS	Retail, Employee	RSA Adaptive	2007
wamurealrewards.com	WMCS	Retail, Employee	Hosted by Vendor (Maritz)	2007
wamucanhelp.com	WMCS	Retail	Hosted by Vendor (Online Resources)	2007
wamucards.com (OLA)	WMCS	Retail	RSA Adaptive	2007

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Talking Points: Steps Taken To Date

12/05 – 12/06

- CIS worked with WaMu Online Banking Team to identify a workable solution that could be leveraged across the enterprise – RSA Adaptive Authentication.
- CIS worked with the Commercial Online Banking team to identify a short-term solution (RSA Tokens) that could be leveraged for commercial customers only.
- CIS formed a Strong Authentication Working Group comprised of key senior business and technology managers to ensure ongoing focus during 2006 and 2007.
- CIS developed an initial inventory of sites and performed an initial risk assessment based on guidance criteria. Based on the risk assessment of 99 WaMu-owned sites, 12 sites have been identified as In-Scope for compliance to the strong authentication guidance.*
- Business/BSP's have identified a representative for each identified site who will manage the implementation of stronger authentication. A Strong Authentication Program Manager has also been assigned to oversee status and reporting to ensure plan progression and on-time compliance.
- CIS has ensured all 12 site representatives are aware of project plan deliverable dates, requirements for 07 compliance, and WaMu's enterprise solution for stronger authentication.

* "Risk assessment criteria", per Guidance is, a) type of customer (Retail, Commercial), b) allows the movement of funds, c) allows access to non-public customer information, d) ease of using communication method, and e) volume.

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Talking Points: Steps To Be Taken in the Future

1/07 – 12/07

- Deliver documents pertaining to Strong Authentication for inclusion in the Preliminary Exam Review Kit for OTS. Documents include Summary of Current Status, Project Plans, Inventory and Risk Assessment, and Status Reports to Senior Managers.
- Establish architectural lead to evaluate solution and address enterprise implementation strategy, working with site representatives to ensure consistent technical approach for compliance.
- Program Manager to maintain ongoing project statuses from site representatives to ensure satisfactory progression.
- Hold regularly scheduled meetings with the Strong Authentication Working Group to address issues and Program status.
- CIS to develop Strong Authentication Policy to ensure new or modified Internet-based sites meeting the criteria for stronger authentication are developed and delivered in compliance.
- Keep ERMC and OTS informed of Program status and direction as requested.

JPM_WM02657062

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #422

The Asset-Liability Management Committee

October 25, 2006

Agenda

The Asset-Liability Management Committee

Wednesday, October 25, 2006

WMC 33 Vashon

9AM – 11AM (PST)

	Time
1. Approve Minutes (Separate Document)	9:00 – 9:05
2. Economic Backdrop and Analytics Update	9:05 – 9:30
– 2007 Plan Overview	
3. Business Line Topics:	
– Home Loans: CDO Proposal (David Beck)	9:30 – 9:45
– Home Loans: SFR Portfolio (David Beck)	9:45 – 10:00
4. Corporate Topics:	
– AFS Portfolio Update	10:00 – 10:15
– Capital Projections	10:15 – 10:30
– Return Rates on Products – Industry Analysis	10:30 – 10:45

From: Cathcart, Ron
Sent: Wednesday, February 14, 2007 6:43:18 PM
To: Boyle, Hugh F.
Subject: RE: Initial Option Arm NPA Results

Oh dear...

From: Boyle, Hugh F.
Sent: Wednesday, February 14, 2007 2:16 PM
To: Cathcart, Ron
Subject: FW: Initial Option Arm NPA Results

Hugh F. Boyle
Credit Risk Management
Washington Mutual
Tel: 206 500 4198

This message (including any attachments) is CONFIDENTIAL and may contain SENSITIVE information. DO NOT disseminate this information to parties who do not have the authorization to view this material. If you are not the intended recipient of this information or an employee or agent responsible for delivering this message to the intended recipient(s), please do not read, disseminate, distribute or copy this information. If you have received this message in error, please contact the sender immediately. Washington Mutual reserves the right to monitor all e-mail. Electronic mail sent through the Internet is not secure.

From: Mark, James
Sent: Tuesday, February 13, 2007 4:49 PM
To: Ellson, Richard W.; Liu, Michael; Chan, Susan; Jackson, Melissa; Dooley, James; Smith, Michael C.; Coultas, Dave; Potolsky, Doug; Boyle, Hugh F.
Subject: Initial Option Arm NPA Results

Below are the initial bid results from the 1st Quarter Option Arm NPA sale. This pool was 240MM that was made almost entirely of loans 2 payments delinquent or greater. Further, 86.5% of this pool was in foreclosure status.

Clearly the initial pricing on this pool is lower than what has been experienced in the three prior Option Arm NPA pools.

Some of the major reasons mentioned by the bidding participants for the pricing deterioration were the increase of supply in the market place (1.9BB out for bid this week alone), longer foreclosure timelines given continued deterioration of housing market, and capacity concerns is some of the participant's warehouse. One participant mentioned recent litigation against a Option Arm originator (Chevy Chase) as a reason for backing off their bid (below is a link).

http://www.baltimoresun.com/business/investing/bal-bz.chevy19jan19,0,4783281.story?coll=bal-investing-headlines

From a collateral standpoint, this pool was inferior from prior pools given its delinquency profile and a large percent of loans in excess of 1MM (16.75%).

<< OLE Object: Picture (Metafile) >>

EMC was the only bidding participant that had levels that exceeded the Hold/Sell threshold (at 95%+). It was decided not to invite back another participant if their initial pricing did not exceed the Hold/Sell level.

EMC is currently unaware that they are not in a completive auction. It is imperative that continues to be the case.

Once we get EMC's final level we will assess whether it make sense to sell the entire pool to them or potentially carve out some assets that we feel are undervalued.

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If we decide not to sell any of the pool, we have communicated to them that we will reimburse them $150 per file.

James Mark
Washington Mutual
Sub-Prime Capital Markets
206-302-4186

WaMu

Audit Report
AUDIT SERVICES

Disclosure Management

December 28, 2007

Executive Committee Owner:
Tom Casey, Chief Financial Officer
Ron Cathcart, EVP - Chief Enterprise Risk Officer
Stewart Landefeld, Chief Legal Officer (Interim)
Steve Rotella, President & COO

Business Process Owner:
Nancy Barnett, Sr Mgr-HR Comm & Marketing
George Boa, Chief Risk Officer- Commercial
Chaomei Chen, Chief Risk Officer-Card Svcs
Cheryl Feltgen, Chief Risk Officer-Home Loans
Diana Graham, Chief Risk Officer - Retail Bank
Karen Horn, Sr Mgr-Internal Communications
Sophie Hume, Assistant GC-Team Lead
Elizabeth Hutchinson, Sr Mgr-Corp Media & Issues Mgm
Alan Magleby, Div Exec-Investor Relations
Pradeep Narayan, Sr Mgr-Enterprise Risk Process
Ann Shannon, Sr Mgr-Technology Comm
Glen Simecek, Group Mgr-Treasury

From:
Monica Hira, Senior Audit Manager
Erin Dunlap, Audit Director

Copy:
Melissa Ballenger, Div Exec-Corp Controller
Kristina Bennett, (Additional Report Distribution)
Alfred Brooks, President Commercial Group
James Corcoran, President-Retail Banking
Daryl David, Chief HR Officer
Barry Davis, (Additional Report Distribution)
Deloitte, LLP
Alan Elias, Sr Mgr Communications
Alan Gulick, Sr Mgr Communications
Thomas Henning, FVP - Enterprise Risk Governance
Debora Horvath, Chief Information Officer
James MacKenzie, Group Mgr-Accounting
Michelle McCarthy, Div Exec-Market Risk Mgmt
Thomas McGovern, Additional Report Distribution
Randy Melby, Div Exec-General Auditor
Adam Nelsen, (Additional Report Distribution)
Sheri Pollock, Sr Mgr Communications
A Rodriguez, Div Exec-Communications
Daysi Rojas, (Additional Report Distribution)
David Schneider, President - Home Loans
Anthony Vuoto, President WM Card Services
Maynard Wagner, (Additional Report Distribution)
Frank Whitemaine, (Additional Report Distribution)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #474

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Report Rating:
SATISFACTORY WITH QUALIFICATION

Executive Summary

The Corporate Disclosure Committee (CDC) established Disclosure Standards in September 2004. The Standards require review of all external and broad internal WaMu (the Company) communications containing material disclosure first by the business segment or corporate support group (collectively, Business Units) and subsequently by representatives of Legal and Financial Reporting ('Corporate Review')

In September 2005, Audit Services performed an audit of External and Broad Internal Disclosure at the request of the CDC. This report was rated as Opportunities for Improvement and identified issues related to lack of process ownership, disclosure training, and documentation.

The issues noted in the prior audit were enterprise-wide and the Legal Department took the lead on developing a robust process over external and broad internal communications. A project team consisting of members from Legal and Corporate Communications was formed to address the issues raised by Audit Services. The CDC approved the project team's recommendations in December 2006, which resulted in decentralization of the processes and establishing accountability at the Business Unit level.

A Communication Lead was designated within each Business Unit as a single point of contact. The Communication Lead is responsible for review and approval of external and broad internal communications, obtaining Corporate Review and approval, establishing and maintaining documented disclosure processes within their group, adhering to document retention requirements, ensuring that Business Unit managers and employees receive appropriate training, attending Regulation FD / Disclosure training and coordinating such training for others as appropriate.

Prior to transferring responsibility to the Communication Leads, the project team enrolled employees involved in preparing, approving, or presenting communications containing material disclosure in an online Disclosure Standards training course.

By taking the actions above, the project team created a sound disclosure management framework which sought to ensure that the Company's disclosures are appropriately vetted within the necessary control environment. The results of the current audit reflect meaningful improvements to disclosure processes since 2005. However, we identified opportunities to enhance the existing control environment to facilitate adherence to the Disclosure Standards and Disclosure Policy. These relate to Disclosure Standards training, obtaining approvals from the Corporate Review groups, and maintaining an Authorized Spokespersons list.

The following issues represent a medium level of risk to the Company if not addressed appropriately:

- Business Unit Communication Leads do not consistently track and monitor employees' Disclosure Standards training. There is no guideline or enforcement of a time requirement for training completion.
- Business Units did not obtain Corporate Review for some material communications sampled, resulting in one instance of erroneous disclosure to an external audience.
- There is no method for tracking Authorized Spokespersons. As a result, it is not possible to determine if all Authorized Spokespersons have attended Company-sponsored Regulation FD / Disclosure training as required by the Disclosure Policy.

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Management concurs with these findings and has developed action plans to resolve the issues listed in this report by February 29, 2008. Audit Services will complete a follow-up audit of the action plans upon remediation. A description of audit objectives and scope, and a list of issues are included in the following sections of the report.

Background

Disclosure Standards were developed to ensure that material information communicated to external audiences, or disseminated on a broad internal basis, is thoroughly and consistently reviewed. The Standards apply to all business units within the Company and are supported by the CDC.

The CDC is responsible for overseeing compliance with the disclosure control requirements of the federal securities laws, including the Sarbanes-Oxley Act. The CDC has responsibility over the Disclosure Standards. Legal is responsible for reviewing, maintaining and posting the Disclosure Standards.

Audit Objective and Scope

The audit objective was to assess the adequacy and effectiveness of the Company's Disclosure Policy and Disclosure Standards and to assess Business Unit compliance with these policies and standards. Audit Services evaluated the controls that enable accurate and appropriate disclosures, including review and approval procedures, disclosure training for employees, and oversight by the Corporate Disclosure Committee.

The audit scope included external and broad internal communications of the Company and all of its subsidiaries between April 1, 2007 and September 30, 2007 for the following Business Units:

Retail Banking and Financial Services Group, Home Loans Group, Commercial Group, Card Services Group, Corporate Legal, Corporate Communications (Internal & External), Corporate Investor Relations, Treasury/Capital Markets, Enterprise Risk Management, Technology, Marketing, Human Resources and Audit Services

The audit scope excluded the 10K, 10Q, earnings release, 8K, and miscellaneous SEC filings since these disclosures are evaluated within a separate auditable unit.

Applicable Laws and Regulations

SEC Regulation Fair Disclosure prohibits selective disclosure. Material nonpublic information about the Company cannot be provided to any select party or group, such as investors, analysts, or investment bankers, to the exclusion of others.

The SEC has suggested, but not required, that companies form disclosure committees responsible for considering the materiality of information and determining disclosure requirements on a timely basis.

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Audit Issues

The audit team and management discussed and agreed upon the action plan(s) and completion date(s) listed below. Definitions for issue ratings are included at the end of this report.

No:	Rating:	Issue Summary:	Due:	Owner:
1.0	Medium	**REPEAT ISSUE** - There is no process in place for Business Unit Communication Leads to track and monitor employees' disclosure training.	02/29/2008	N. Barnett, G. Boa, C. Chen, C. Feltgen, D. Graham, K. Horn, S. Hume, E. Hutchinson, P. Narayan, A. Shannon, G. Simecek

Audit Issue:
There is no process in place for Business Unit Communication Leads to track and monitor employees' disclosure training. In addition, there is no guideline or enforcement of a time requirement for training completion.
According to the Disclosure Standards, Communication Leads have responsibility for attending Regulation FD/Disclosure compliance training and for ensuring that managers and employees receive appropriate training. Regulation FD / Disclosure training records reflect that 38% of Communication Leads have not completed this Company-sponsored training. Additionally, approximately 47% of Level 1-6 employees as of 09/30/07 have not completed the Disclosure Standards Awareness course. For non-Level 1-6 employees identified by Communication Leads as having a regular role in material communications, 65% have not completed an online Disclosure Standards course.

Impact:
Disclosure training not obtained by impacted employees increases the risk of improper disclosure which could potentially lead to regulatory investigation or reputation damage.

Action Plan:
Action plan: The Legal Department will review the Disclosure Standards to ensure appropriate guidance regarding acceptable timeframe for completing the online education is included. To ensure each Communication Lead can more efficiently meet the Disclosure Standards requirement of completing Reg FD training, the Legal Department will develop an online Reg FD training course and proxy enroll all current Communication leads and ensure they complete the course.

Business Unit Communication Leads will monitor level 1-6 employees within their business units to ensure Disclosure Standards Awareness training completion. A training status report will be developed to allow Communication Leads to monitor training completion from Learning Central. Utilization of this training status report will be individually tracked for each business unit via separate issues in ERICS.

No:	Rating:	Issue Summary:	Due:	Owner:
2.0	Medium	**REPEAT ISSUE** - Required approvals from Legal or Financial Reporting were not obtained prior to publication.	01/31/2008	K. Horn, A. Magleby

Audit Issue:
Approval from Legal and Financial Reporting were not obtained for one communication, resulting in erroneous disclosure to an external audience. In addition, Financial Reporting approval was not obtained for two broad internal communications containing material financial disclosure.

Impact:
Lack of proper review and approval of communications prior to dissemination may result in the disclosure of erroneous or restricted information which could potentially lead to regulatory investigation or reputation damage.

Action Plan:
Approval for all communications containing material disclosure will be obtained from Legal and Financial Reporting. Business Unit Communication Leads have provided a business unit specific management action plan for obtaining appropriate approval. These specific management action plans will be individually tracked via separate issues in ERICS.

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No:	Rating:	Issue Summary:	Due:	Owner:
3.0	Medium	A method for tracking all Authorized Spokespersons does not exist.	01/31/2008	S. Hume, E. Hutchinson

Audit Issue:
A method for tracking all Authorized Spokespersons does not exist. As a result, it is not possible to determine if all Authorized Spokespersons have attended Company-sponsored Regulation FD / Disclosure training as required by the Disclosure Policy. This may result in violation of company policy.
Audit Services noted that there is no record of completion of Regulation FD / Disclosure training for one member of the Executive Committee, who is an Authorized Spokesperson as defined by the Disclosure Policy.
Impact:
Without a method for tracking Authorized Spokespersons, WaMu is unable to determine if appropriate training was provided to employees who may speak on behalf of the Company. Without training, disclosure of inappropriate or restricted information may occur which could potentially lead to regulatory investigation or reputation damage.
Action Plan:
Corporate Communications will compile an initial list of Authorized Spokespersons. Subsequently, the Legal Department will review and update the list of Authorized Spokespersons on a quarterly basis via coordination with Business Unit Communication Leads. The Legal Department will develop an online Regulation FD training module to more efficiently administer and track Regulation FD training for the Authorized Spokespersons.

No:	Rating:	Issue Summary:	Due:	Owner:
4.0	Low	**REPEAT ISSUE** - Approvals and supporting documentation for material disclosure are not consistently maintained by the Business Units.	01/31/2008	K. Horn, S. Hume, G. Simecek, E. Hutchinson, C. Chen

Audit Issue:
Approvals and supporting documentation for material disclosure are not consistently maintained by the Business Units. The Disclosure Standards require Business Units to retain Legal and Financial Reporting approval and supporting documentation for material disclosure for five years.
Of the disclosures sampled, 19% of relevant communications did not evidence approval by Legal, and 33% lacked evidence of Financial Reporting approval. Overall, 30% of communications requiring some form of Corporate Review (either Legal or Financial Reporting) lacked evidence of appropriate approval. Supporting documentation was not maintained for 11% of relevant communications.
Impact:
Failure to maintain disclosure documentation may result in the inability to support disclosures in the event of litigation, audits, or regulatory exams.
Action Plan:
Approvals and supporting documentation for material disclosure will be maintained for one year. Business Units have provided group-specific action plans to address the issue.

No:	Rating:	Issue Summary:	Due:	Owner:
5.0	Low	The Corporate Disclosure Program Statement has not been updated. There is no method to facilitate periodic review of the Disclosure Policy and Disclosure Standards by the CDC.	01/31/2008	S. Hume

Audit Issue:
The Corporate Disclosure Program Statement has not been updated since inception and does not reflect the current status of the Corporate Disclosure Committee (CDC) and Program. Furthermore, there is no method to facilitate periodic review of the Disclosure Policy and Disclosure Standards by the CDC.
Impact:
If the Corporate Disclosure Program Statement and related Policy and Standards are not current, disclosures which are not in alignment with company policy may occur.
Action Plan:
Corporate Disclosure Program Statement review and updates will be addressed by the CDC by end of January 2008. Additionally, Disclosure Policy and Disclosure Standards review will be added to the annual CDC calendar to facilitate annual review of the Policy and Standards.

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Improvement Considerations

Documentation: Regularly update and maintain key documentation such as the Disclosure Standards, Communication Lead Review Matrix, and disclosure training materials. In addition, the Disclosure Standards may be enhanced to provide users of the procedures with a clear understanding of specific roles and responsibilities.

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Definitions

Issue and report ratings are based on the auditor's judgment. In determining the report rating, the auditor will consider the following guidelines.

Report Ratings

Satisfactory	The overall system of risk management and internal control is effective and well-documented. Few minor control deficiencies exist with minimal resulting exposure. Business risk has been managed at an acceptable level. Repeat findings, if any, are not significant and non-compliance with regulatory requirements results in minimal exposure.
Satisfactory with Qualification	The overall system of risk management and internal control is generally adequate and functions effectively; however, isolated control deficiencies require management attention. While these isolated deficiencies create some exposure, business risk has been managed at an acceptable level. Repeat findings, if any, are not significant and non-compliance with regulatory requirements is isolated.
Requires Improvement	The overall system of risk management and internal control has deficiencies related to multiple business activities. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings are significant or non-compliance with regulatory requirements is substantial.
Unsatisfactory	The overall system of risk management and internal control has major weaknesses resulting in unacceptable level of risk. Exposure is considerable and immediate corrective action is essential in order to limit or avoid considerable losses, reputation damage, or financial statement errors. Repeat findings are significant or non-compliance with regulatory requirements is substantial.

Issue Rating

	High	Medium	Low
Impact	Affects the overall control environment and the achievement of relevant key business objectives	Could affect the overall control environment and the achievement of relevant business objectives if left uncorrected	Not severe enough to affect the overall control environment or the achievement of relevant business objectives
Exposure = (Impact X Probability)	Considerable exposure to financial statement errors, losses, reputation damage, fines and penalties, or loss of business	Moderate exposure to financial statement errors, losses, reputation damage, fines and penalties, or loss of business	Minimal exposure to financial statement errors, losses, reputation damage, fines and penalties, or loss of business

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From: Stack, Fergal
Sent: Tuesday, February 27, 2007 2:47:20 PM
To: Fortunato, Steve
Subject: FW: Option ARM

fyi

From: Stack, Fergal
Sent: Tuesday, February 27, 2007 9:42 AM
To: Chen, Youyi; Griffith, David
Cc: Murray, William; Strausbaugh, Rebekah; Jurgens, Rolland
Subject: RE: Option ARM

Thanks Youyi

To provide additional comments if you can incorporate
1) origination month is Jan and Feb 2007 only
2) future intent for these loans is to change as of which date? We will clearly need the specific loan characteristics to automate upfront designation.
3) the upfront designation is defined with rules in HI. We need to include the technology owner (Name?) to ensure this is done and the time required. [it may also be worth taking a look at what the current rules state and how much of that is automated upfront designation]
4) the transfer to hfs will not occur by Feb 28th, and the approvals will not be in place by Feb 28th, so this is a March issue
5) who are required approvals. Policy currently states that ALCO approval is the defining moment. Who else will be approving.
6) clear communication of what business/market circumstances have changed since Dec 31st to redesignate the loans. This needs to be detailed formalized documentation both by Business and for ultimate Approvals.
7) Valuation of these Option ARM loans...same drill as the hybirds...this is ultimately most complicated. Prior to moving the loans to HFS a formal approved Pricing Valuation framework must be in place (and based on expected sale execution).

Hope this helps tee up the issues from a Finance perspective.

From: Chen, Youyi
Sent: Tuesday, February 27, 2007 8:20 AM
To: Stack, Fergal; Griffith, David
Subject: RE: Option ARM

I am to suggest keeping one more bucket: 3-4 units. I will send a note out shortly.

Again, this is to suggest KEEPING the following (therefore sell everything else)

1. Super Jumbo of size greater or equal to 3 MM
2. Advantage 90 loans (high LTV)
3. Foreign Nationals
4. FICO less than 620 (except employee loans)
5. 3 – 4 units

From: Chen, Youyi
Sent: Tuesday, February 27, 2007 10:25 AM
To: Griffith, David
Cc: Stack, Fergal
Subject: RE: Option ARM

David,

We sell all 295+ margin and other OA and COFI, and KEEP the 4 categories going forward due mostly to non-salable reasons.

Youyi

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #477

From: Griffith, David
Sent: Tuesday, February 27, 2007 10:03 AM
To: Chen, Youyi
Cc: Stack, Fergal
Subject: RE: Option ARM

Youyi – In order to craft the approval we will need another level of precision. If the intent is to sell all of the loans in each category we should state so with an estimate of dollar amounts. Is the intent to sell all of the Advantage 90's and all of the sub 620 FICO's? If not we need to specify those where we no longer have the intent and ability to hold. ERM and HL Finance will need to monitor exactly what loans are transferred and we'll need enough detail to do so.

I noticed you dropped Employee Loans. Was that intentional?

Also, is this population exclusively Option ARMS? We are also currently directing super jumbo hybrids to portfolio.

I'll go over the NII calculation with HQ if that's ok with you. Am I right that it's $335m annualized? That's almost 10bps off of NIM.

From: Chen, Youyi
Sent: Monday, February 26, 2007 4:59 PM
To: Griffith, David
Subject: FW: Option ARM

David,

Attached is some NII analysis on the impacts. The pretax is about - $ 100 MM.

Let's talk tomorrow AM.

Youyi

<< File: Book8.xls >>

From: Chen, Youyi
Sent: Monday, February 26, 2007 6:09 PM
To: Griffith, David
Subject: FW: Option ARM

David,

We are still reconciling the numbers on the NII impacts. What are your thoughts on following criteria that we are to bring to MRC?

6. Super Jumbo of size greater than 3 MM
7. Advantage 90 loans (high LTV)
8. Foreign Nationals
9. FICO less than 620 (non-salable)

Also, please see my email to Fergal on some of the detailed background on this issue.

Regards,

Youyi

From: Chen, Youyi
Sent: Monday, February 26, 2007 6:04 PM
To: Stack, Fergal

Cc: Murray, William; Jurgens, Rolland; Strausbaugh, Rebekah; Beck, David; Fortunato, Steve
Subject: RE: Option ARM

Fergal,

We intend to stop transferring high margin 295BP+ option ARM and COFI ARM production into portfolio starting Jan 1st, 2007. As a result, we need to direct all the future rate locks of these loans from HFI to HFS. We will get a MRC vote on this decision very soon. We expect this decision to remain for the foreseeable future (i.e. Q2, and remaining of 07 will be HFS unless this strategy is revised)

The remaining HFI criteria for the option ARM and COFI ARM is expected to be as follow (under review, and subject to MRC approval)

10. Super Jumbo of size greater than 3 MM
11. Advantage 90 loans (high LTV)
12. Foreign Nationals
13. FICO less than 620 (non-salable)

As the change is happening within the quarter, and some of the loans have been directed to HFI already, we would need Steve, you and John Wood to review and sign off to let us transfer back to HFS those (mostly) high margin option ARM that are either locked or closed to HFI in Q1-07 already (about $1.3 billion and growing, as of last week).

As to what lead to the above recommendations, you are right, it's driven by combination of overall balance sheet strategy, credit out look, and current option and COFI ARM market conditions.

As you know, capital market portfolio management is regularly reviewing the balance sheet strategy with the senior management and ALCO in particular. We will always discuss with your team on new portfolio strategies.

Regards,

Youyi

From: Stack, Fergal
Sent: Monday, February 26, 2007 5:40 PM
To: Stack, Fergal; Chen, Youyi
Cc: Murray, William; Jurgens, Rolland; Strausbaugh, Rebekah
Subject: RE: Option ARM

And what are the facts and circumstances to take this action...net interest margin, credit....

Is it possible that there will be more transfers in Q2, Q3, Q4 etc..this is a sensitive accounting topic with SEC and others

Thanks

From: Stack, Fergal
Sent: Monday, February 26, 2007 2:26 PM
To: Chen, Youyi
Cc: Murray, William; Jurgens, Rolland; Strausbaugh, Rebekah
Subject: Option ARM

If we are intending to transfer from hfi to hfs can you answer following questions

1) what population are proposed being transferred...I have seen it may be only 2007 originated loans? What changed since Jan and Feb that changes the companies intent by Feb 26th.
2) what is intent on other option Arm loans (2007 originated and prior year originated)
3) what is intent for future originations of option Arms ie March and Q2 originations
4) what is likelihood of ongoing transfers for option arms

In general do you have the intent rules on what goes to HFS versus HFI under current infrastructure?

HISTORICAL PERSPECTIVE HL - UNDERWRITING

Providing a Context for Current Conditions, and Future Opportunities

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #534

Overview

Home Loans Credit and Underwriting

Credit Risk Management is driving towards a vision of increasing the organizations Net Interest Margin and an emphasis on Credit becoming a significant component of Shareholder value. As such, our organization has been focused on improving Underwriting and Origination quality and consistency to enable our ability to expand into new and more profitable market niches. Specifically, we have been supportive of both SMF and LongBeach expansion given their ability to demonstrate excellent origination, pricing and account management discipline. We have also been focused on identifying and targeting several other areas of credit expansion to include near-prime HELOC borrowers and expansion in our Multi-Family base. Credit Risk Management also supported and drove strategies to enable expansion into Alt-A and Option ARM lending for our Correspondent channel.

Our Home Loans prime organization has jeopardized our ability to enable these margin improvements through disciplined credit expansion due to the inconsistency, and poorly disciplined processes that have also eroded organizational credibility with external parties including Rating Agencies, GSEs, and our Thrift Regulators.

As mentioned, Credit and Underwriting within the Home Loans organization has been an area of noted interest by many. Internally, our Executive Leadership has been focused on improving on eliminating Regulatory criticisms, and our Risk Management team has driven hard for the application of consistency and discipline in the origination process. Further, rating agencies have been pushing for originator reviews driven by performance fluctuations as well as information gathered in prior visits. This paper provides a context for the historical conditions, key events, and management decisions that have led to our current condition, and how that may impact our ability to be successful in achieving the mission described above.

Our Home Loans channel emerged as essentially the combination of a collection of different originator's platforms, policies and cultures. As such, Credit Policy and Underwriting began as a combination of highly ineffectual, outdated and inconsistent policies and strategies. This led to the inability for our organization to establish the foundation for developing a consistent and discipline origination culture. As early as 1999 (Check the date and provide references – Bill Longbrake may know this), the OTS began raising concerns regarding the consistency, independence and quality of our Home Loans origination process. Prior to this, Washington Mutual had no Credit Risk Oversight function in place in any of its core business units with the exception of WMF. These primary concerns resulted in the hiring of the organizations first Chief Credit Risk Officer, Jim Vanasek in 1999.

With Jim's arrival, he recognized quickly that there was no Credit expertise in Home Loans and Consumer risk products. Therefore, he began the process of identifying, selecting and developing a core team of seasoned credit risk professional.

Historical Perspective

1999-2003

The new Credit Risk Team began the process of working with key business units to identify issues, concerns and opportunities for applying advance Credit Risk tools and systems. During this review, the team noted the following major weaknesses:

- No data reporting to review portfolio performance
- No forecasting of expected losses or delinquencies
- Legacy credit systems were essentially a combination of poorly implemented Third Party tools far from best proactive
- No collections workflow systems
- No adaptive control systems
- No linking of credit fundamentals, models, and expectations to strategic objectives and planning

The team began working quickly to first develop a unified data infrastructure to identify opportunities for improvement. Many such opportunities were identified early within the Retail Banking organization, and key strategies began to take place.

First, the Credit Risk team embarked on developing enhanced reporting capabilities. Second, it spearheaded the launch of a development cycle of a front-end decisioning system, proprietary models, and adaptive control systems.

Once the team was well underway in this development, the team looked toward other business units that might benefit from the investments being made in these systems. At this point in our history, the team began the process of attempting to work with the Home Loans organization to leverage these Enterprise capabilities.

Numerous attempts were made to demonstrate the benefits of the systems, and the opportunities for the Home Loans organization. At each point, the Home Loans Executive Management team rejected all such solutions, and stated that they would build all of this within the Optis application. The Optis platform was essentially two main components. Optis .1 which focused on the origination platform, embedded a series of tools that were hard coded, inflexible, and very difficult to change. Optis .2, led to significant investment write-offs as an approach to building systems around the end-to-end origination process.

Following on the path of these challenges, the Credit Risk team implemented Quarterly Business Reviews for all units to provide updates on core portfolio performances, expectations, and risk mitigating strategies.

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SECTION III

Regulatory History

Key weaknesses identified by Regulatory Bodies

Andy, please fill out this section.

SECTION IV

2003-2004

Key Events and Decisions Leading to Today's Environment

With the Optis disaster, key financial misses and tremendous Regulatory scrutiny, the core Home Loans Executive Staff was dismissed and replaced.

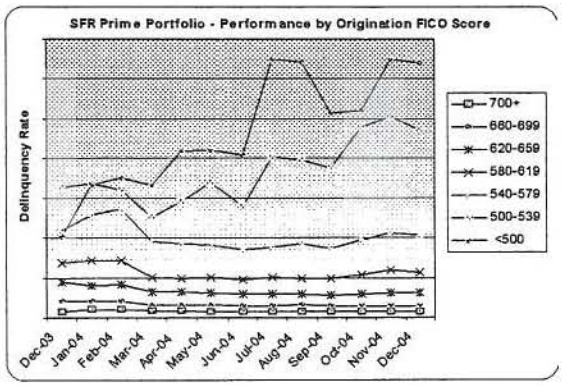
Deanna Oppenheimer was given responsibility for the Home Loans organization in addition to Retail Banking. With this appointment, Deanna and Jim began to insert members from the Corporate team directly into the Home Loans Credit operation.

Parallel to these management changes, the organization identified a mandatory $1B expense cutting exercise. These cuts were distributed amongst all areas of the corporation, but fell heavily on the Home Loans organization. On the credit front, significant cuts were mandated in

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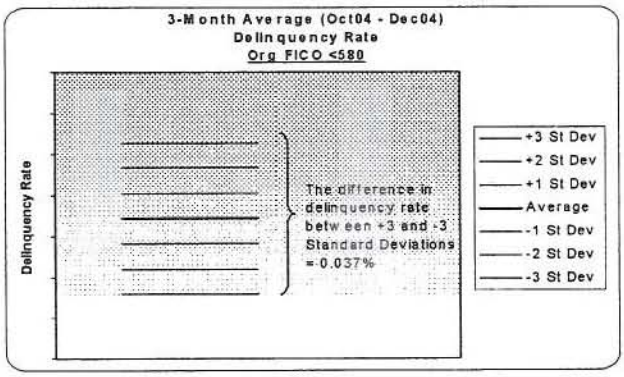
the Appraisal, Credit and Underwriting organizations. These cuts were mandated in the face of over 56 (check this Andy) core Regulatory concerns and criticisms with the Credit organization as the principle owner required to fix these challenges.

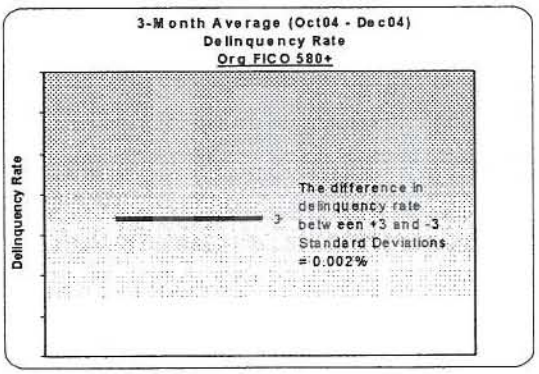
Early on, the team had noted an absolute absence of underwriting standards which began to drive up Non-Performing loans to an accelerated level. The primary driver for these poor performances was the continued underwriting and retention of loans that fell into low credit quality segments with no credit quality floors and an absence of pricing differentiation. This led to profitability challenges of sub-prime borrowers originated at prime prices without a clear financially viable exist strategy. In essence, this created a cross-subsidization of our prime borrowers as originators attempted to focus on a wide range of borrowers without being held accountable for profitability.



The graph below shows the delinquency rate of our SFR Prime portfolio over the past 13 months by origination FICO score. The lower the FICO score, the worse the performance of the loan. In fact, as of December 2004, loans originated with FICO scores less than 580 have a delinquency rate more than five times as large as those originated with FICO scores greater than 580.

Not only is overall performance worse for lower credit quality loans, but the *volatility* of performance is also much greater. The graph to the left shows *average* performance by origination FICO; in fact, the performance of some loans is much worse than average. In addition to average delinquency rate, the following two graphs show the standard deviation of performance over the past three months for loans with origination FICO score less than 580 and those with origination FICO scores greater than 580:

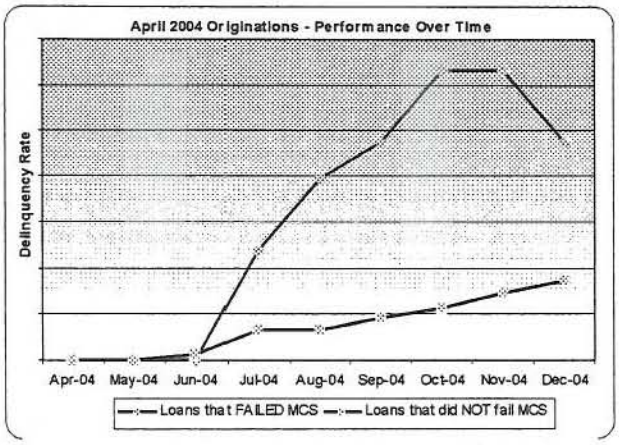




The standard deviation is a measure of the amount of variation in performance. From the graphs above, it is clear that the variability in performance is significantly higher for low credit quality loans than it is for higher credit quality loans. The difference in delinquency rate between +3 and -3 standard deviations for loans with origination FICO score less than 580 is more than 18 times as large as the difference for loans with origination FICO scores greater

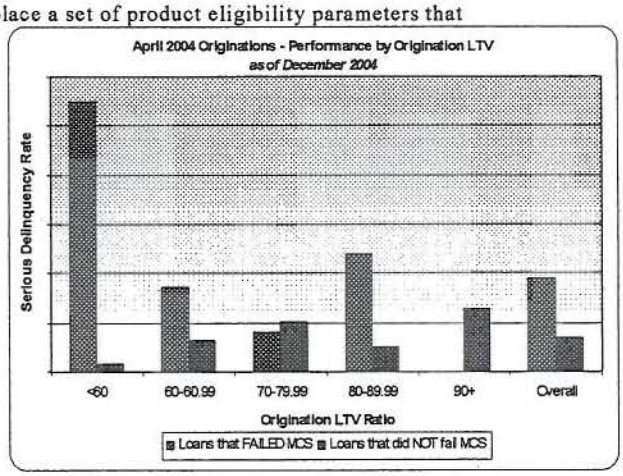
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than 580, indicating that some loans will take even more time and resources to service than the average poor credit quality loan. Lower credit quality loans contribute disproportionately to delinquencies and losses. This is one reason that the Minimum Credit Standards (MCS) were put into place. These loans also contributed greatly to the pool of NPA's that were sold over the course of the last six quarters.



The graph to the left shows the delinquency rates for loans originated in April of this year (the first month that the MCS were rolled out). Even after only nine months in our portfolio, the difference in performance between loans that failed the MCS and those that did not is clear – the loans that did not meet the MCS are contributing disproportionately to the delinquency in our portfolio. Though the performance of MCS failures improved slightly between November and December, as of December 2004, loans originated in April 2004 that failed the MCS still have a delinquency rate three times that of originations that did not fail the MCS. Additionally, as of December, loans that did not meet the MCS have a serious delinquency rate (4+ Payments Past Due) that is six times the serious delinquency rate of loans that did not fail the MCS.

Prior to the introduction of MCS, we had in place a set of product eligibility parameters that attempted to achieve levels of credit performance by limited Loan Amounts and LTVs. In 2004, the Credit team began to reverse this strategy with significant expansions in allowable loan amounts and LTVs to reduce the amount of the parameter exceptions – up to 20% at one point - while attempting to gain a small degree of control of borrower credit quality with very low hurdles for minimum credit quality. (540 Minimum FICO in most instances) Furthermore, Credit spearheaded the development and introduction of the Exception pricing tool, moving it much closer to point-of-sale for speed and accuracy as well as moving the exception pricing surcharge rate from over 60% to almost 0.

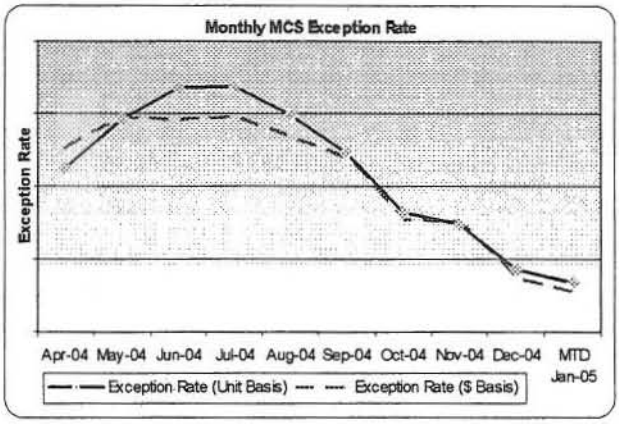


Questions have been raised regarding whether low loan to value (LTV) ratios can be considered compensating factors for applicants with FICO scores below the Minimum Credit Standards In order to address this question, we looked again to April 2004 originations. The graph to the right shows the performance of MCS exceptions and non-exceptions (originated in April) as of December 2004 by LTV ratio. Not surprisingly, the MCS failures tend to perform worse than originations that were not MCS exceptions across all origination LTV ranges. The biggest difference in performance is actually within the lowest origination LTV range (<60%), where MCS exceptions have a serious delinquency rate (4+PPD) 32 times the seriously delinquency

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rate of loans that did not fail MCS. This indicates that from a performance standpoint, lower exposure is not a compensating factor for lower credit quality.

We have made significant progress over the past few months in eliminating exceptions to the Minimum Credit Standards, as shown in the chart to the right. In fact, the percentage of MCS exception approvals and commitments has been less than 1% so far in January.



By not looking the deals that don't make sense, we will have greater consistency and efficiency, and will be able to focus more time on our core customers and enhance our product offerings in core areas.

Making these changes to our business today will create long-term, lasting benefits. Not only will we see better profitability through lower costs and predictable credit performance, but we will have more satisfied customers because we will be able to decision their loans quickly and efficiently.

As a next step on the horizon, our team began an exercise, while simultaneously slashing expenses, to implement key control mechanisms. The first of these began with the introduction of Minimum Credit Standards in (Andy provide the date, and also list other key underwriting enhancements from our document).

Credit Risk also noted many areas for loosening of credit standards. In fact, the team made several key enhancements to underwriting standards that significantly benefited the Sales Organization, and would provide Sales opportunities well in excess of the 4-5% of expected volume loss from the introduction of the standards.

Several attempts were made to enforce these standards, and loopholes continued to emerge that were exploited by the sales team. The Credit Risk team, then worked with the business to eliminate sub-prime loans from the origination process as well to reduce volatility and ensure adequate returns were realized within the portfolio.

Any attempts to enforce more disciplined underwriting approach were continuously thwarted by an aggressive, and often times abusive group of Sales employees within the organization.

In mid 2004, a leadership flip-flop occurred, putting Craig Chapman in charge of the Home Loans organization.

During several key Home Loans Executive Staff meetings, several key mandates were set:

- Achieve an 80% decisioning automation rate and corresponding reduction in underwriting personnel by 2Q '05.
- Immediately implement a version of Risk Based Pricing

This first initiative demanded a core rethinking of our origination strategy. Essentially, to meet this and other efficiency targets, the organization would require undergoing a fundamental cultural shift from one of mass customization in the Home Loans origination process, to one where products and processes were much simpler. It also required the design of key collateral and Customer segments that would not fit into the model due to the costly nature of underwriting these loan types, or the challenge in selling and securitizing product sets.

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The Credit team then worked to design a set of "In the Box" criteria, to enable the strategic goals. During these design sessions, the team also wanted to begin focusing on areas of credit expansion that made sense to again hopefully make this more palatable for the Sales Organization. (Elizabeth, insert the "In the Box" document here.) In fact, it was noted that the areas for expansion, were far more significant than the areas of proposed reduction.

Throughout the year, the Credit team attempted to provide a balance between the reduction of highly volatile assets and the need to continue to grow. (Alan, insert the application rate improvement rate).

In order to begin implementing these cultural changes, the Credit team was instructed to begin implementing the box specifically with 5/1 IO loans to allow no exceptions. We believe that this and the introduction of a very limited Risk Based Pricing initiative led to much of the noise we are hearing today. This form of Risk Based Pricing was significantly constrained by an Optis .1 change implementation restrictions. The strategy employed was essentially Capital Markets not Credit driven and only incorporate a single FICO adjustment for Low Doc loans. A more optimal Risk Based Pricing framework should incorporate much broader differentiation by credit quality and LTV to eliminate some of the pricing subsidization charges to our best Customers, and requiring higher risk borrowers to pay an appropriate rate given likely volatility and performance. Enabling this broader pricing vision will also serve us well as we focus on NIM expansion.

Towards the end of the year (Elizabeth and Alan, add the BEDE engine and rules key features and benefits here)

SECTION v

Comment [u1]: I would portray B-EDE as a start on our effort to introduce Streamlined Doc in a way that we do not get hit in Capital Markets executions or portfolio performance with the surcharges/risk of our current Low Doc program, while moving toward the 80 percent auto-decisioning rate.

Key Concerns and Opportunities

Home Loans Credit and Underwriting

Credit believes that the Sales force does not recognize the historical context, need for change, and significant credit enhancements given to the Sales team by the Credit Risk team. Clearly, our team wants nothing less than the organization to grow and prosper. We believe strongly that the Sales team is clearly one of the biggest key's to this success. However, we do not feel that leadership is providing the necessary catalyst to bring the teams together in a partnership approach to solving the organizations long-term issues.

The following bullets summarize the key concerns of the credit risk organization:

- The aggressiveness of the Sales team, and in many cases inappropriate, rude and or insulting behavior towards Underwriting staff is infectious and dangerous.
- A lack of a fundamental understanding by many Loan Consultants as to what constitutes an acceptable credit is lacking

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- The organization is at significant risk in its Option ARM and Hybrid portfolios of payment shock created by abnormally low Start, or teaser rates, and aggressively low underwriting rates. The Executive team agreed to and implemented a process for managing these concerns based upon an algorithm and process recommended by Credit. Unfortunately, the process agreed to has disintegrated into an ad-hoc decision making process without any clear rational or alternative process for the future. Credit has been open to, and has provided recommendations for, alternatives if the existing process creates too much near term turmoil. We face some additional challenges as these procedures were shared earlier with Regulators with the full commitment of Executive Management for immediate implementation. It is our contention that in the upwardly sloping rate environment and likely housing appreciation flattening, we are putting borrowers into homes that they simply cannot afford. This is not only a Washington Mutual challenge, it is likely to be an industry challenge as many borrowers will likely be unable to refinance themselves into loan structures with payment amounts near their current levels.

- We need our Sales team to partner effectively with other groups to assist in driving operational efficiencies and excellence. These disciplines will enable a much broader ability to expand credit and opportunity for the Sales team in the near, intermediate and long-run. A reversion to an undisciplined Sales culture and high degrees of underwriting "customization" will subject the organization to significant Regulatory scrutiny that may impact the ability of the organization to meet its 5-year Strategic Plan.

Most importantly however, we know that all of the change cannot occur at once thereby risking the retention of large numbers of our Sales force. However, we believe that Executive Management can quickly engage in quelling the "noise" in the Sales force by educating them on the tremendous efforts that Credit Risk has done to provide tools to enable them and the organization to succeed. Further, Executive management should be very clear about what constitutes acceptable levels of credit characteristics for the prime SFR portfolio.

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From: Schneider, David C.
Sent: Thursday, February 28, 2008 8:01 PM
To: Alexander, Elinor A. <elinor.alexander@wamu.net>
Subject: FW: 2008 Leadership Bonus
Attach: 2008 Leadership Bonus Charts Final2-21-08.xls

Please print

From: David, Daryl D.
Sent: Thursday, February 28, 2008 11:22 AM
To: Baker, Todd; Cathcart, Ron; Horvath, Debora; Rotella, Steve; Brooks, Alfred R.; Corcoran, James; Schneider, David C.; Casey, Tom; Landefeld, Stewart M.; Vuoto, Tony
Cc: Killinger, Kerry K.
Subject: 2008 Leadership Bonus
Importance: High

EC,

This week the HR Committee approved the formula and measures for the 2008 Bonus plan. I wanted to bring you up to date since we last discussed this at the EC meeting on the 19th. The key points are:

1. The changes I described for Senior Leaders down through level 8 remain as was presented. A full communication to all participants will begin roll out next week. Your HR person will be able to help you handle any questions.

2. The corporate measures and weights stay the same. There were some slight adjustments to the goal numbers in the payout grids based on our updated plan. I have attached the final grids for you to review.

3. We will be filing an 8K disclosure describing the plan to the shareholders next week. The disclosure covers the measures, weights and how the committee will determine the final rating. Please see the text below. If you have any questions, let me know.

For the 2008 Bonus Plan the Committee selected the following performance measures and relative weights:

- *The Company's 2008 net operating profit, weighted at 30%, calculated as operating profit before income taxes and excluding the effects of (i) loan loss provisions other than related to our credit card business and (ii) expenses related to foreclosed real estate assets;*
- *The Company's 2008 noninterest expense, weighted at 25%, calculated to exclude expenses related to (i) business resizing or restructuring and (ii) foreclosed real estate assets;*
- *The Company's 2008 depositor and other retail banking fees, weighted at 25%; and*
- *The Company's 2008 customer loyalty performance, weighted at 20%, based upon a proprietary rating system designed by the Company and an outside vendor.*

In evaluating Company financial performance, the Committee may adjust results to eliminate the effects of charges for discontinued operations, extraordinary items and items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment or a business or related to a change in accounting principle.

In light of the challenging business environment and the need to evaluate performance across a wide range of factors, the Committee will take a three-step approach to determine actual annual cash bonus payments. Accordingly, after the end of 2008, the Committee will exercise its discretion under the 2008 Bonus Plan to determine the final cash bonus payouts for each executive officer, including the Named Executives, by:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #572

1) *reviewing and considering performance results for the four pre-established Company performance measures noted above;*
2) *reviewing other appropriate factors and measures of Company financial performance; in particular, the Committee will subjectively evaluate Company performance in credit risk management and other strategic actions that impact overall corporate profitability; and*
3) *evaluating each executive's individual performance during 2008 to determine whether it is appropriate to adjust the executive's final bonus payout from the amount that would be payable based solely on the Committee's assessment of Company performance under steps (1) and (2) above.*

Daryl David

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WaMu

February 25, 2008

Credit Risk Overview

Report to the Board of Directors

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #625

John McMurray
Chief Credit Officer

JPM_WM02548447

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WaMu®

Background

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Credit Risk

- Credit Risk is the risk of an obligor or counterparty defaulting

- We are exposed to credit risk through various activities, including:
  - Lending
  - Investing
  - Deposit taking
  - Contracting

JPM_WM02548449

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Basic Terms of Business

- Borrower types
  - Consumer
  - Commercial
- Counterparty/Sponsor support
  - With or without recourse
  - Guaranty
- Unsecured or Secured; if secured:
  - Real property
  - Personal property
- Pricing
  - Risk-based
  - Average

JPM_WM02548450

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Why We Take Credit Risk

WaMu

Rationale for taking credit risk includes:

- ***Return***. We generally earn an expected return for retaining credit risk.
- ***Earnings***. Taking credit risk is one of the primary ways financial institutions generate earnings.
- ***Diversification***. We realize diversification benefits since this risk is not highly correlated with other risks we face (primarily interest rate risk).
- ***Prerequisite***. We cannot participate in most transactions without being exposed to some credit risk.

JPM_WM02548451

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Risk Transfer & Retention

WaMu

Loan/Transaction - Level Measures	Portfolio - Level Measures	Retained Risk Positions
· Credit Policy · Collateral Evaluation - appraisal - AVM, other · Underwriting, Rating & Scoring - AUS - traditional · Insurance - loan (e.g. PMI) - hazard (including flood) · Credit Review / QC - consumer - commercial · Surveillance - performance monitoring - re-underwriting/rating/scoring - marketing collateral to market · Line Management · Loss Mitigation & Workout	· Insurance - pool - bond · Non-recourse Sales - card - GSE - private MBS/ABS - whole loan · Risk-based Pricing · Reserves · Diversification - geographic - temporal - amplitudinal - sourcing - product - broker/counterparty/sponsor - offsetting positions & risks	· Whole Loans - HFS inventory - HFI portfolio · Rep & Warrant - general - EPD · Interest "Strips" - MSRs - spread accounts (card) - residuals (card, mortgage) · Reinsurance · Counterparty

JPM_WM02548452

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Drivers of Credit Risk

- Market Environment
  - Collateral prices (typically real estate prices)
  - Market prices (often interest rates)
  - Competitor offerings & actions
  - Macroeconomic conditions
  - Consumer & business sentiment
  - Demographics
- Collateral Characteristics / Quality
  - Value
  - Condition
  - Marketability / Liquidity
  - Type
- Borrower/Counterparty Characteristics / Quality
  - Target customer
  - "Ruthlessness" (default, prepayment, other)
  - Concentrations (loans to one borrower)
  - Credit (history, obligations)
  - Capacity (income/profitability, reserves/liquid assets, net worth/leverage)

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Drivers of Credit Risk

(continued from the previous page)

- Manufacturing Quality
  - Process
  - Adverse selection potential
  - Data integrity

See appendix for more complete list of transaction quality elements

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WaMu

Geographic Concentrations & Home Prices

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Nonresidential Credit Exposures

WaMu

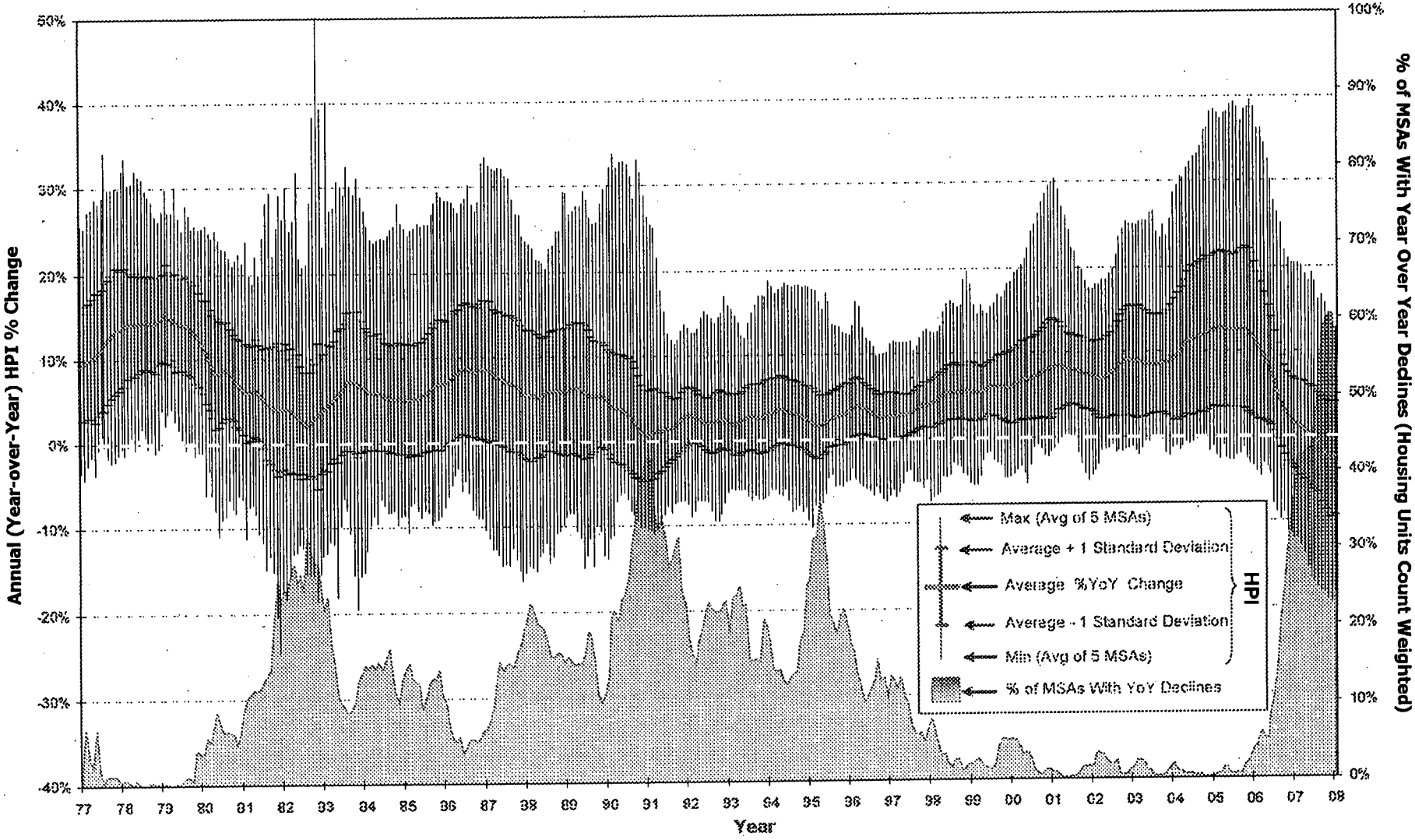
- Card
  - Losses are very sensitive to unemployment
  - Losses will be higher than recent lows, but within expectations provided that economic conditions (unemployment) remain benign
  - Securitization is a key risk
  - More pricing and line management alternatives
- Commercial RE
  - Still performing well
  - Delinquencies and losses increasing though still within expectations
  - Our MF should be less vulnerable than other Commercial RE
- Small Business
  - Balances are relatively low ($1.4B drawn, $1.4B open to buy)
  - Delinquencies and losses have been well above expected levels
  - Multiple actions underway to address adverse performance; new volume down significantly

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Housing Values - MSA Level

FARES Single Family Residence Home Price Index[1] (January 2008)



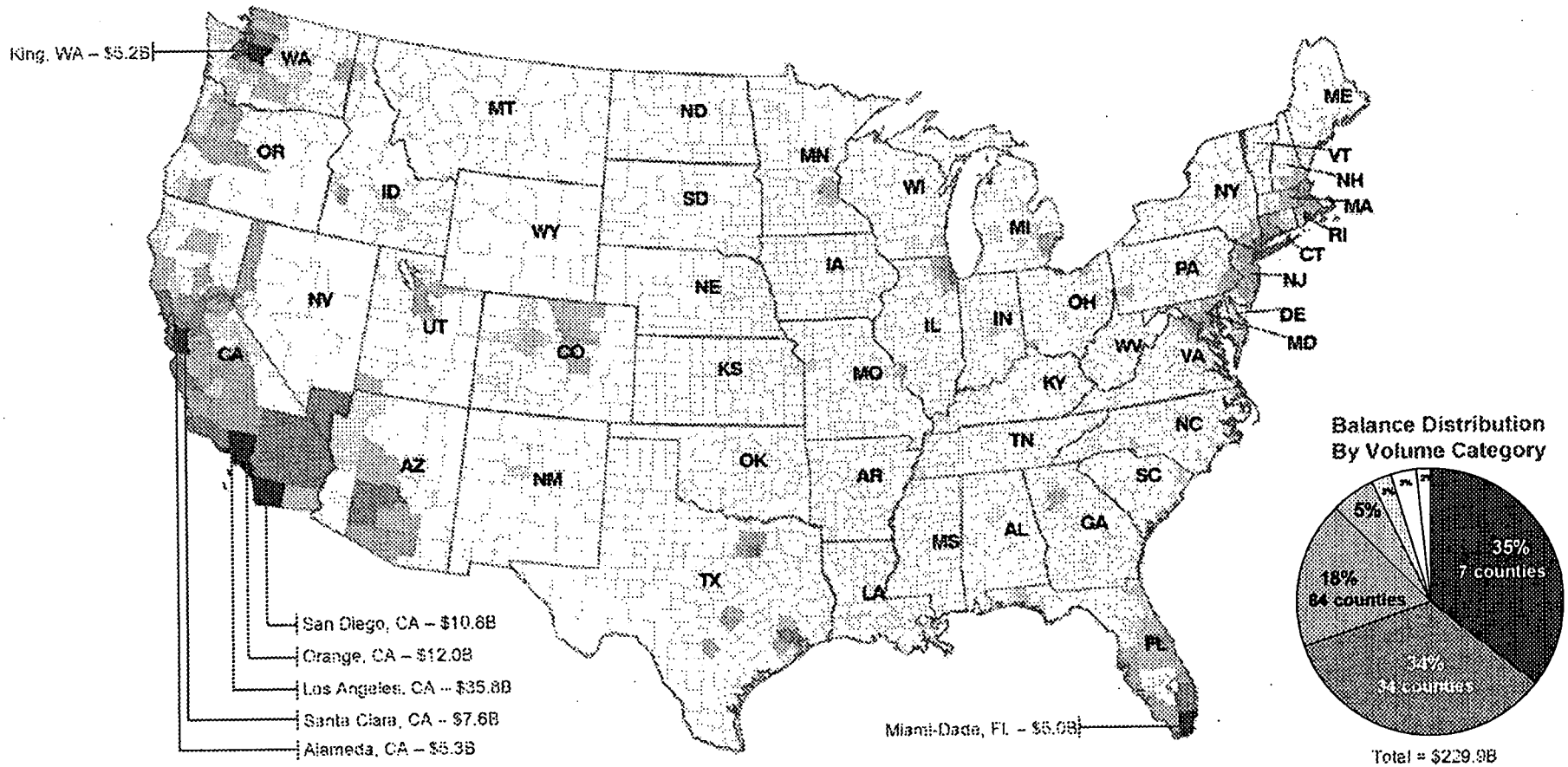
(1) Source: First American Real Estate Solutions. All statistics are weighted by MSA-level housing unit count.

JPM_WM02548457

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WaMu Real Estate Loan Exposure[(1)] by County HFI Portfolio

WaMu



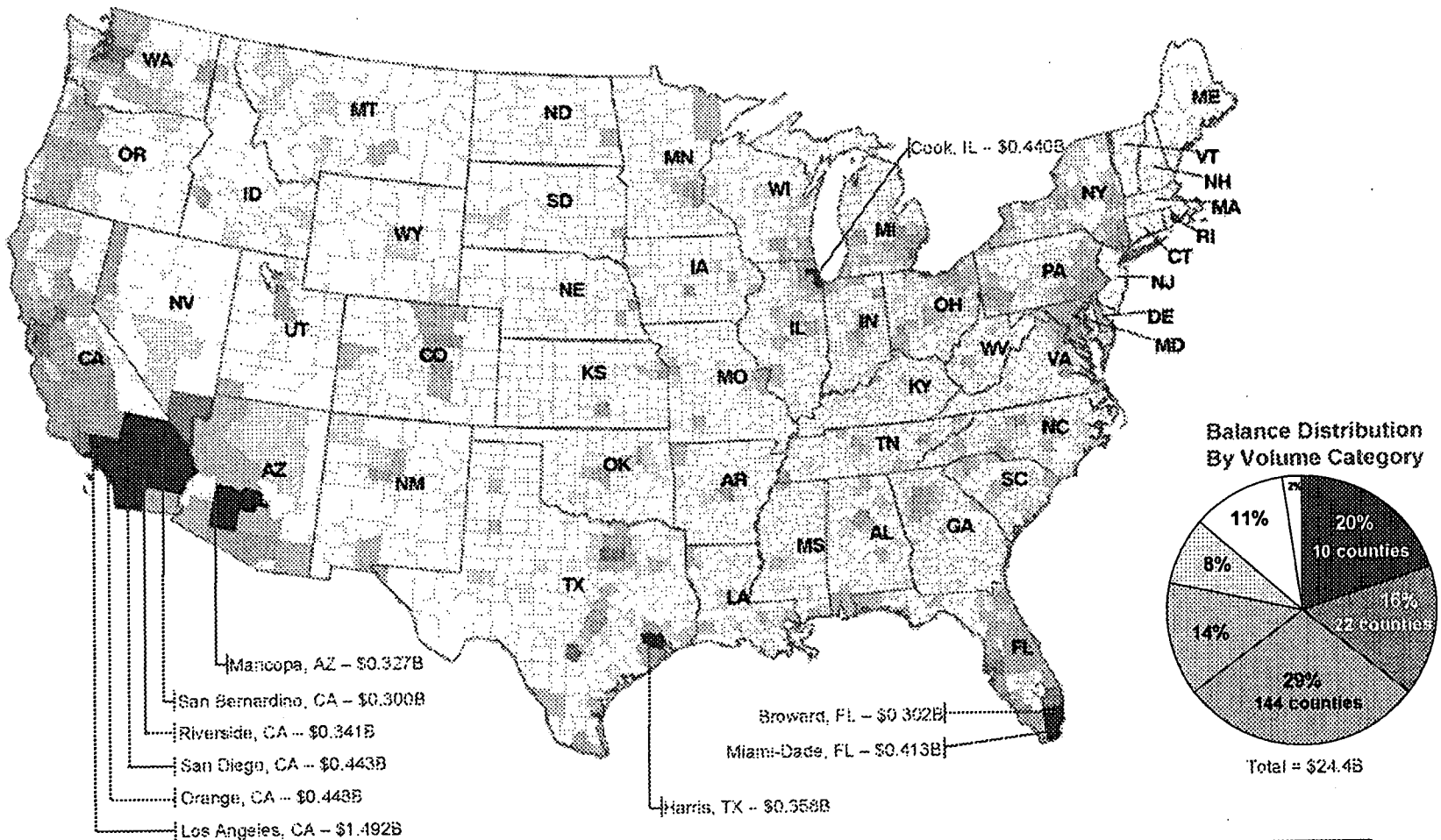
(1) Includes SFR Prime, SMC, Commercial, & Home Equity loans. Does not include Other Consumer products. Excludes accounting adjustments and loans with invalid county designations totaling $5.5 billion.

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WaMu Card Loan Exposure(1) by County HFI Portfolio

WaMu



$300MM-$1.5B | $100MM-$299MM | $25MM-$99MM | $10MM-$24MM | $5MM-$9MM | $1MM-$4MM | <$1MM

(1) Card Services on a Managed basis. Excludes accounting adjustments and loans with invalid county designations totaling $2.6 billion.

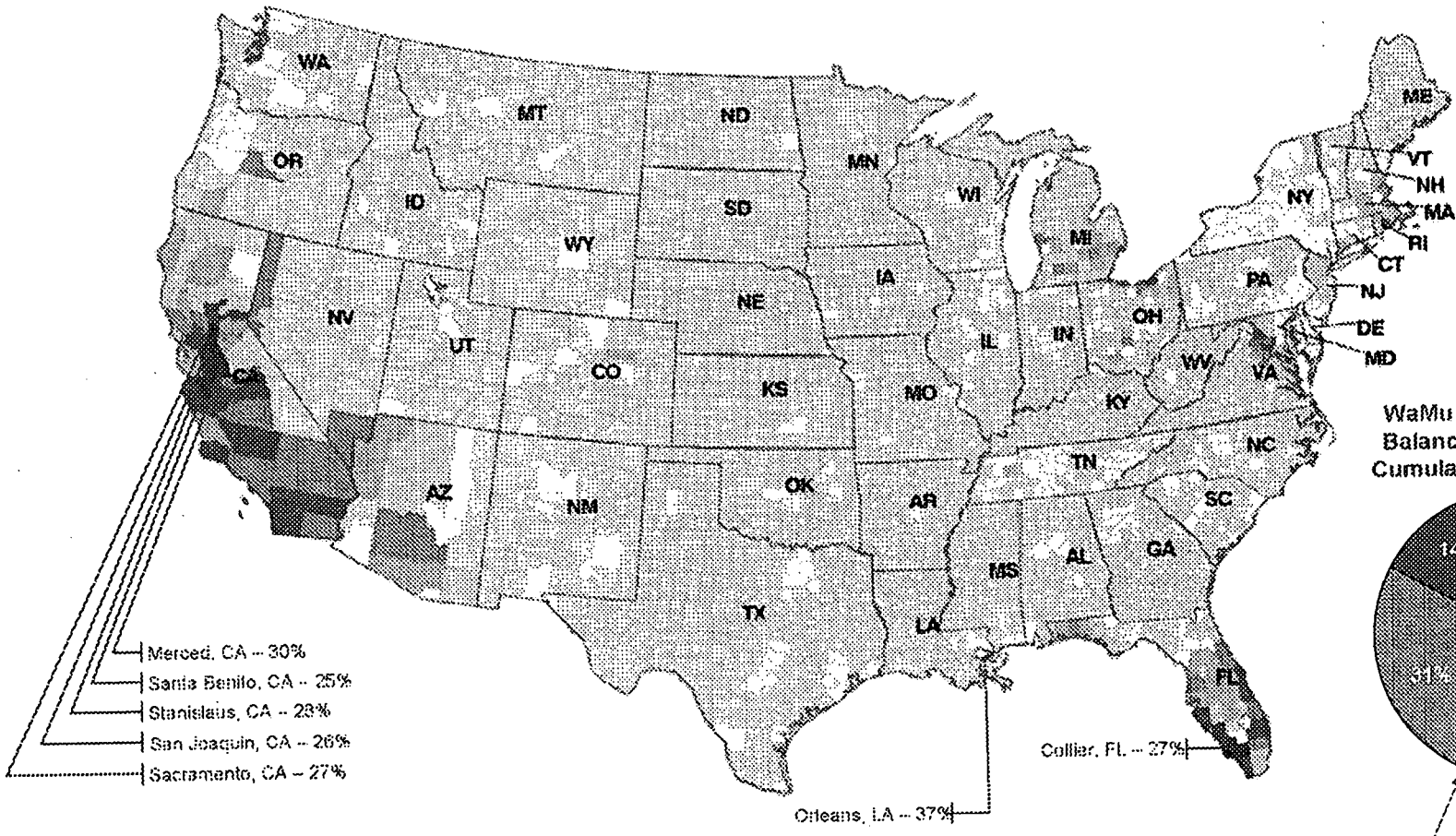
JPM_WM02548459

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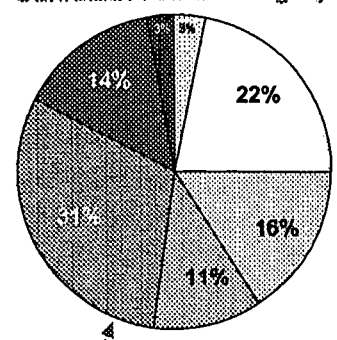
Cumulative Home Price Depreciation (Peak to Jan 08)

WaMu

FARES County-Level HPI Data



WaMu Real Estate Loan Balance Distribution by Cumulative HPD Category



Almost half of our RE portfolio is in areas where prices have already declined by more than 15%

25.1%-30.0% | 20.1%-25.0% | 15.1%-20.0% | 10.1%-15.0% | 5.1%-10.0% | ≤5.0% | - N/A

JPM_WM02548460

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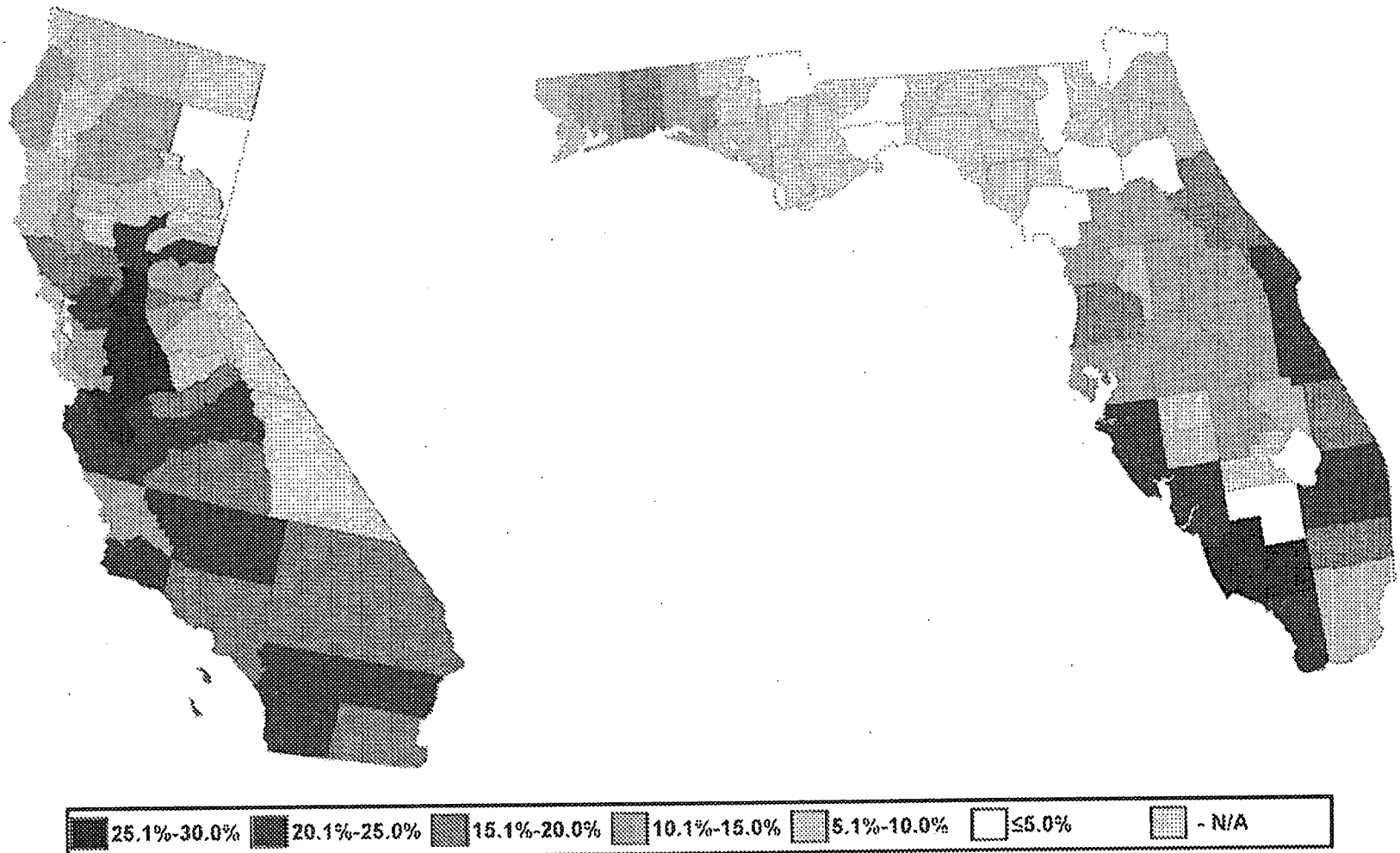
Cumulative Home Price Depreciation (Peak to Jan 08)

WaMu

FARES County-Level HPI Data

California

Florida

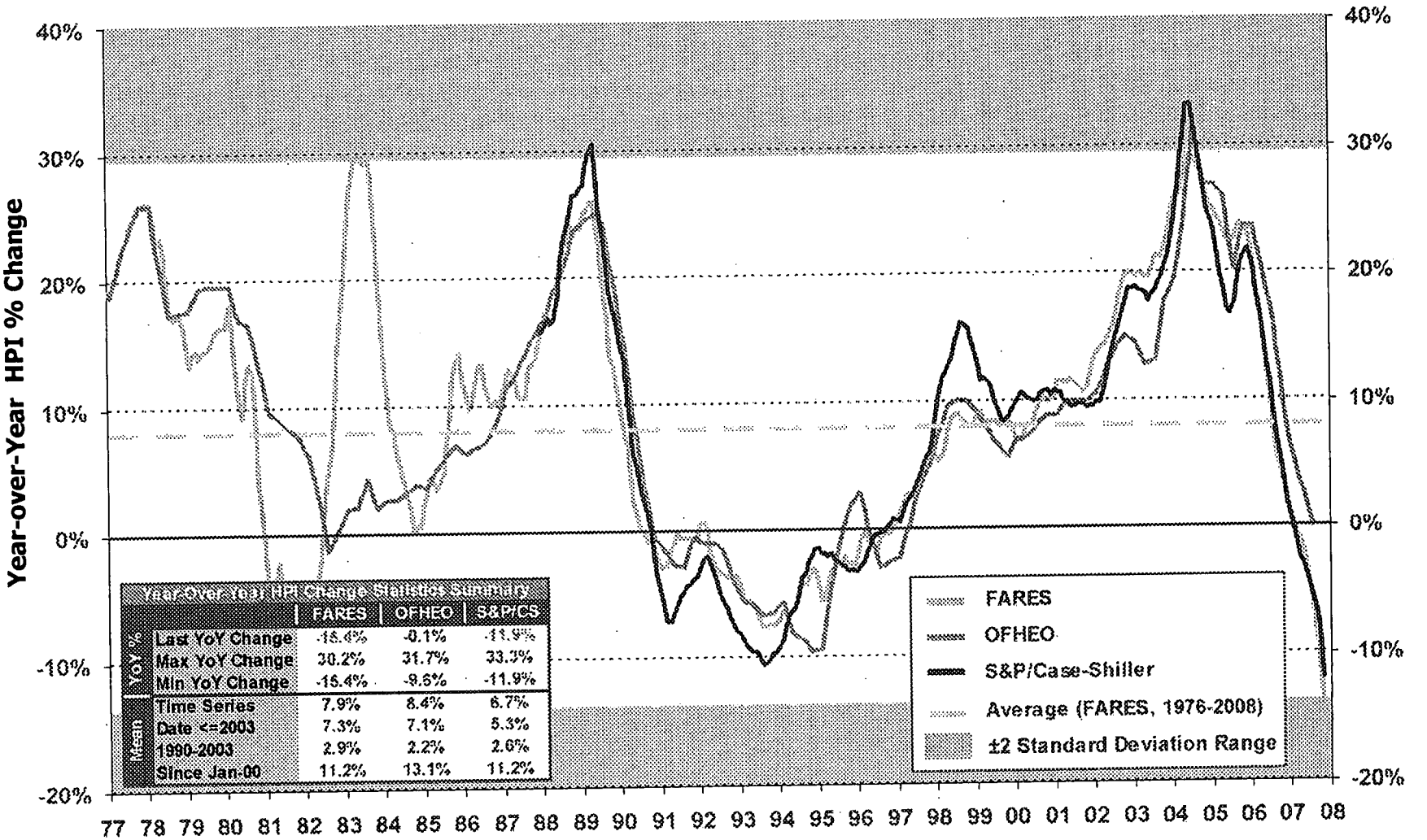


JPM_WM02548461

Confidential Treatment Requested by JPMC

MSA Examples – YoY HPI Change

Los Angeles-Long Beach-Glendale, CA



Year-Over-Year HPI Change Statistics Summary

		FARES	OFHEO	S&P/CS
YoY %	Last YoY Change	-15.4%	-8.1%	-11.9%
	Max YoY Change	30.2%	31.7%	33.3%
	Min YoY Change	-15.4%	-9.6%	-11.9%
Mean	Time Series	7.9%	8.4%	6.7%
	Date <=2003	7.3%	7.1%	5.3%
	1990-2003	2.9%	2.2%	2.6%
	Since Jan-00	11.2%	13.1%	11.2%

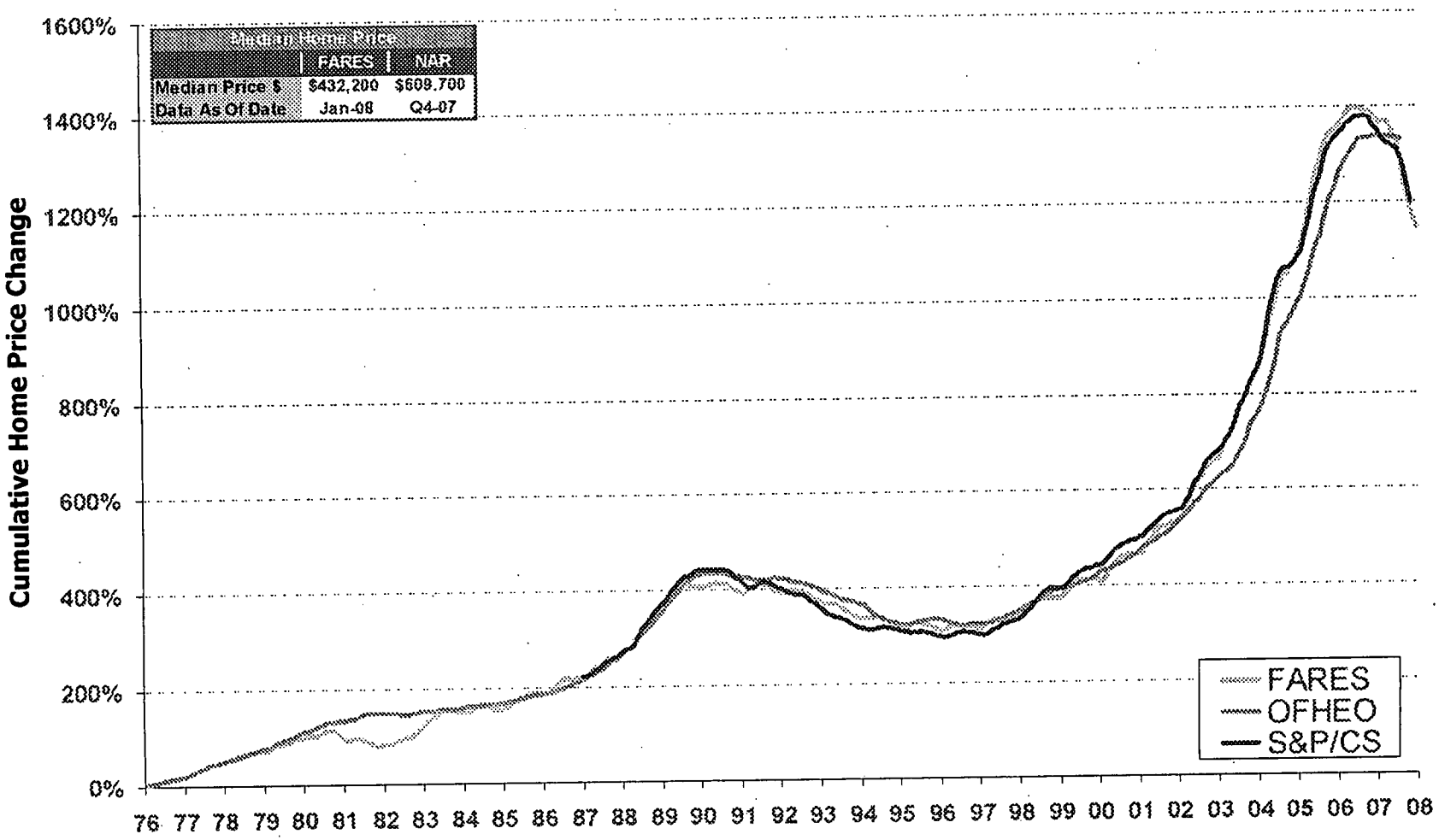
JPM_WM02548462

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MSA Examples – Cumulative Appreciation

WaMu

Los Angeles-Long Beach-Glendale, CA



JPM_WM02548463

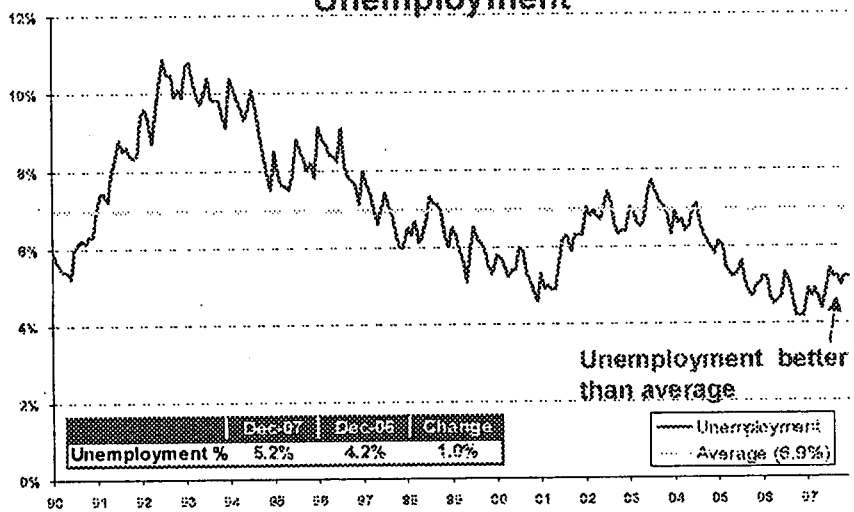
Confidential Treatment Requested by JPMC

WaMu

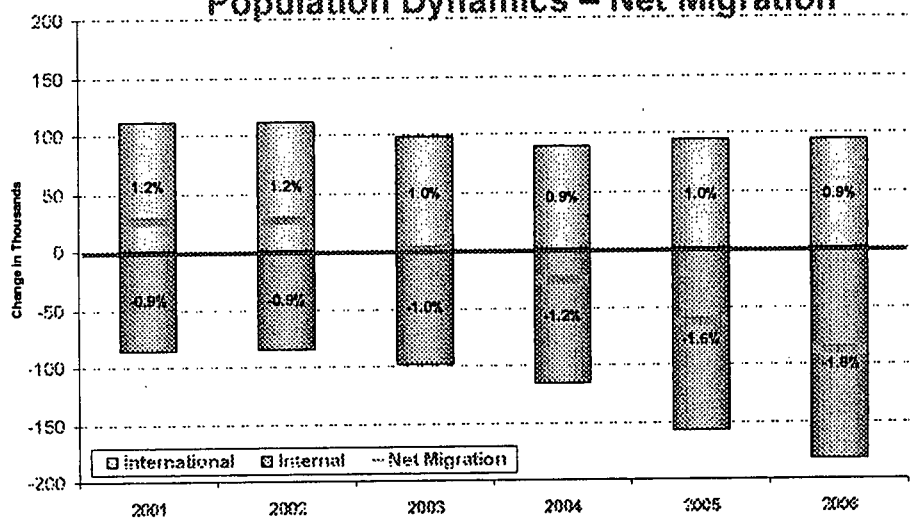
MSA Examples – Economy

Los Angeles-Long Beach-Glendale, CA

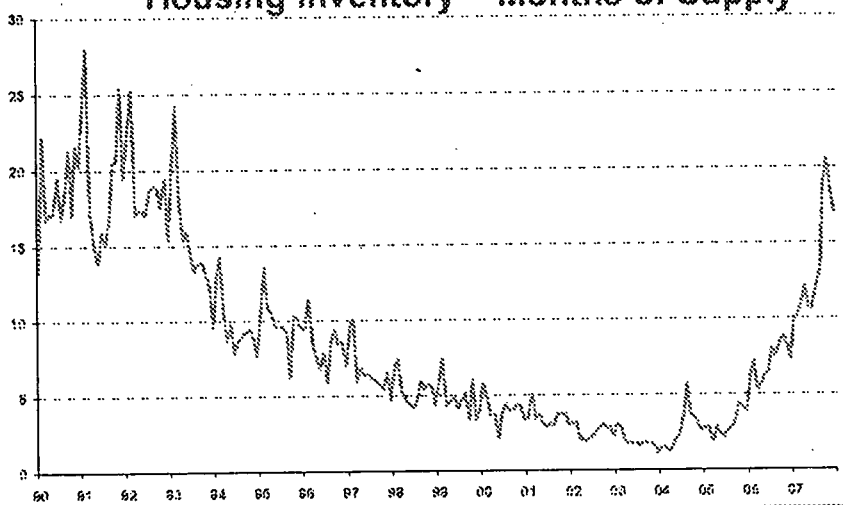
Unemployment



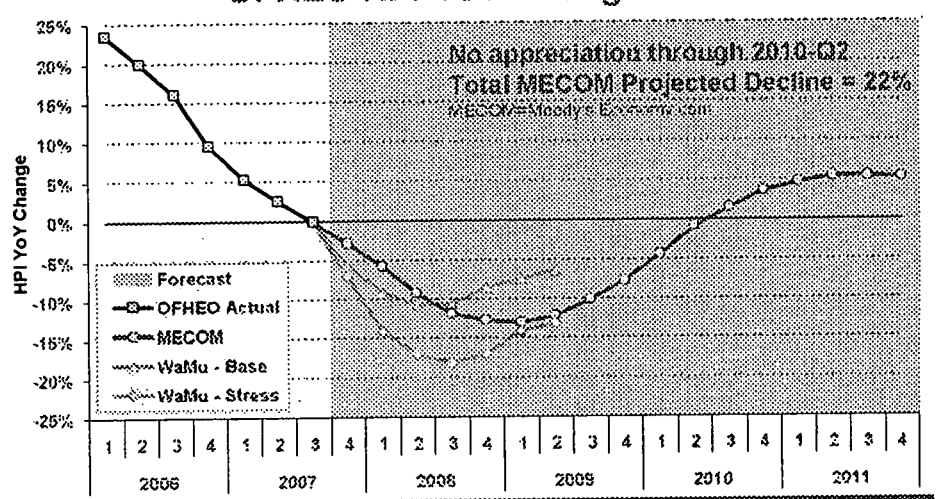
Population Dynamics – Net Migration



Housing Inventory – Months of Supply



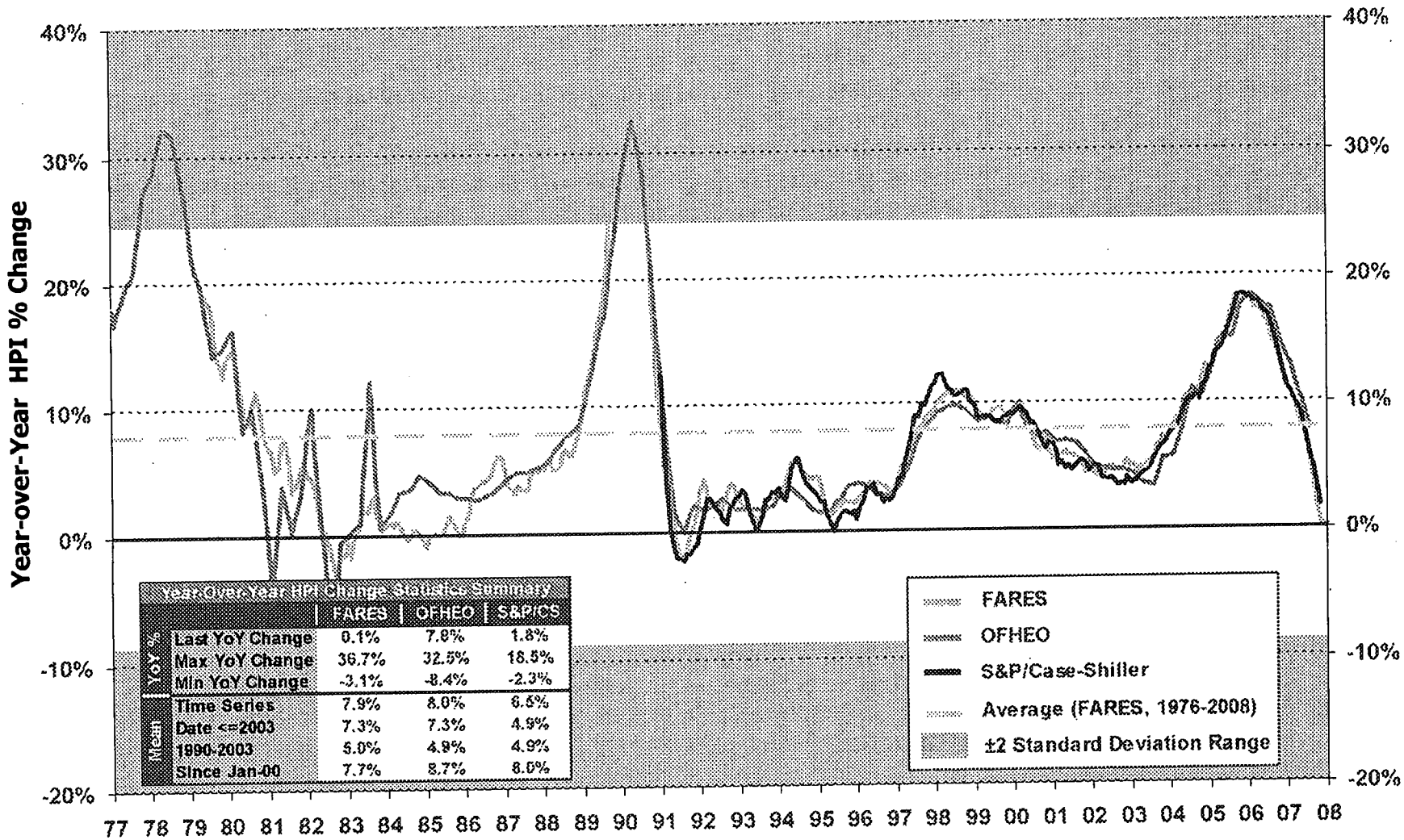
OFHEO HPI YoY Change Forecast



JPM_WM02548462

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MSA Examples – YoY HPI Change
Seattle-Bellevue-Everett, WA



Year-over-Year HPI Change Statistics Summary

		FARES	OFHEO	S&P/CS
YoY %	Last YoY Change	0.1%	7.8%	1.8%
	Max YoY Change	36.7%	32.5%	18.5%
	Min YoY Change	-3.1%	-8.4%	-2.3%
Mean	Time Series	7.9%	8.0%	6.5%
	Date <=2003	7.3%	7.3%	4.9%
	1990-2003	5.0%	4.9%	4.9%
	Since Jan-00	7.7%	8.7%	8.0%

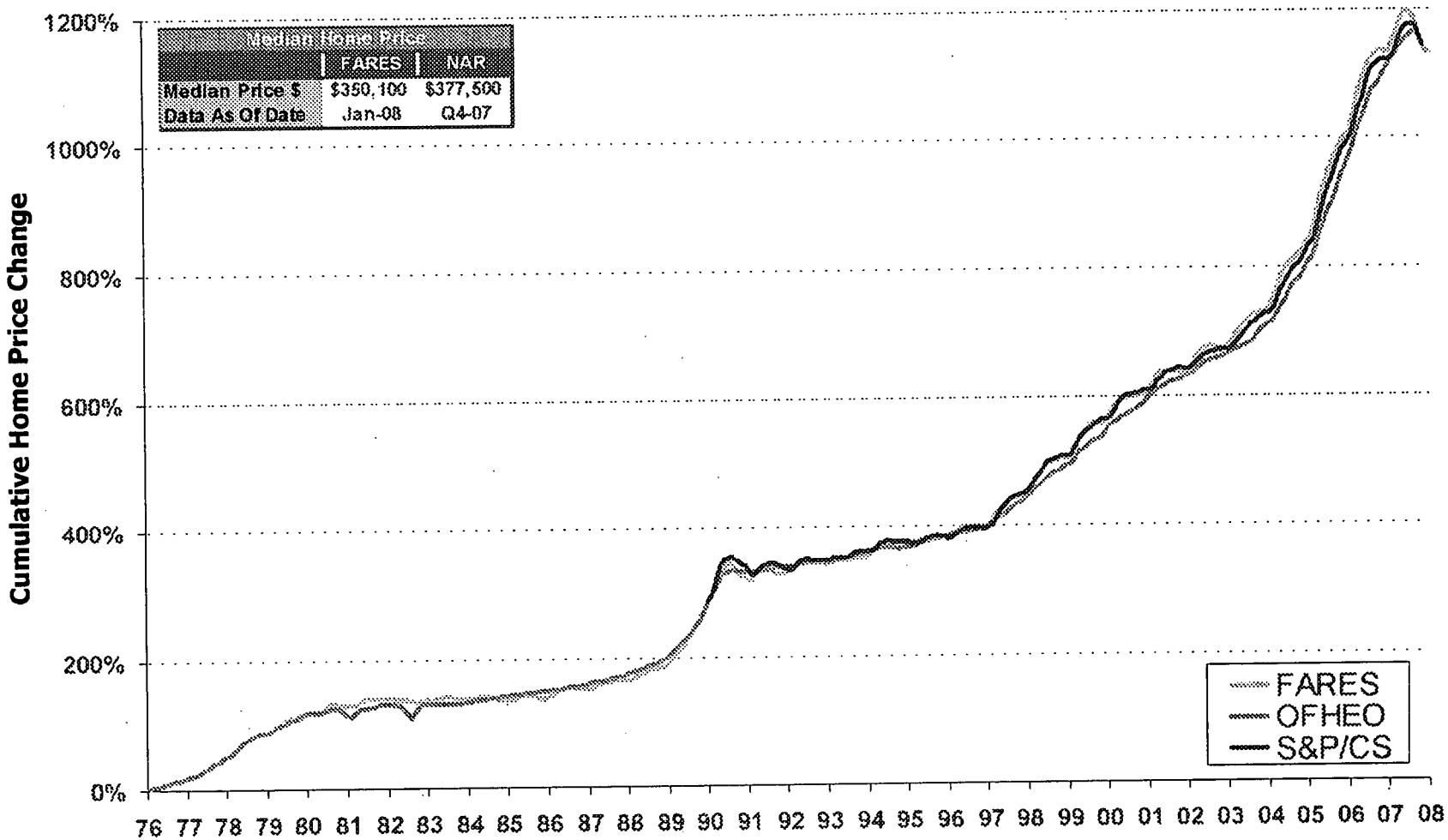
JPM_WM02548465

Confidential Treatment Requested by JPMC

MSA Examples – Cumulative Appreciation

WaMu

Seattle-Bellevue-Everett, WA



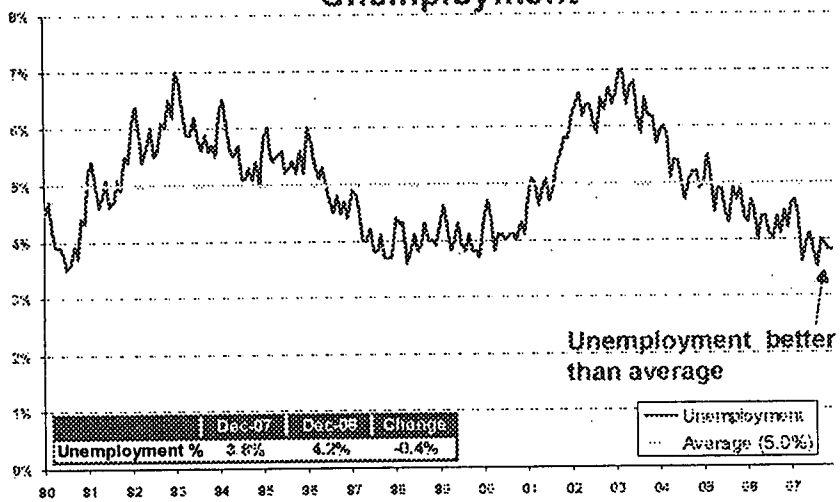
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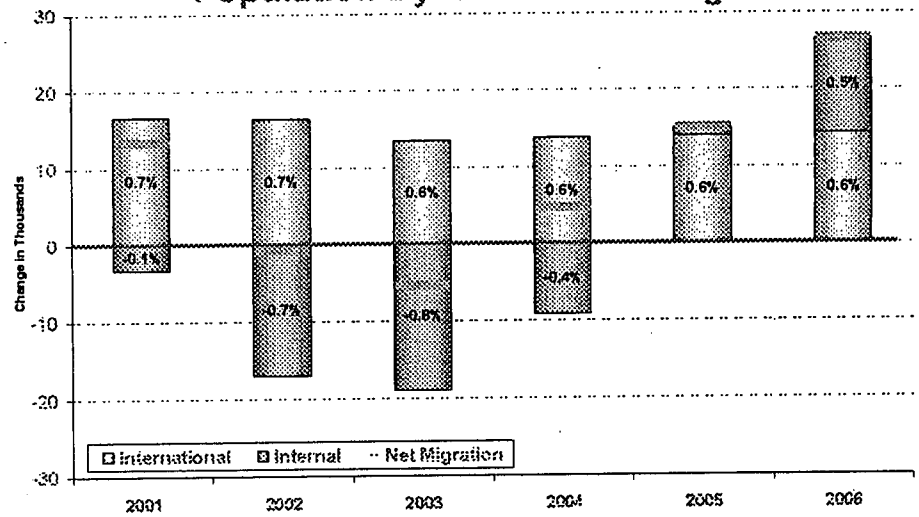
WaMu

MSA Examples – Economy
Seattle-Bellevue-Everett, WA

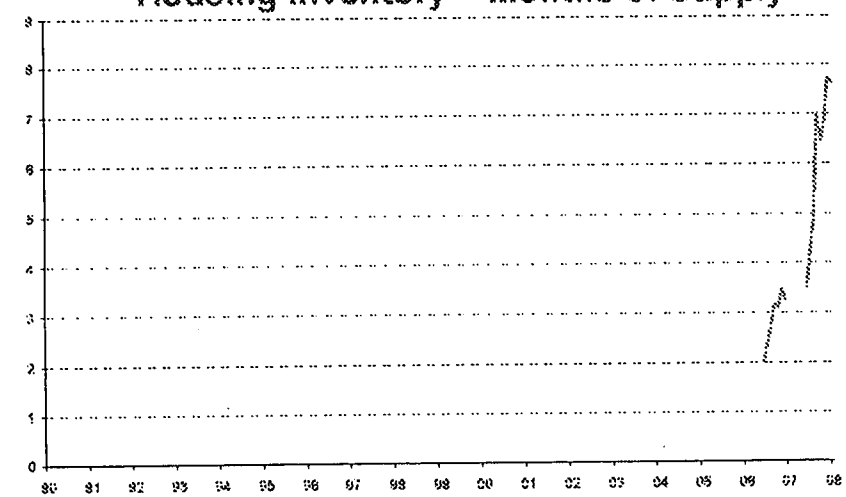
Unemployment



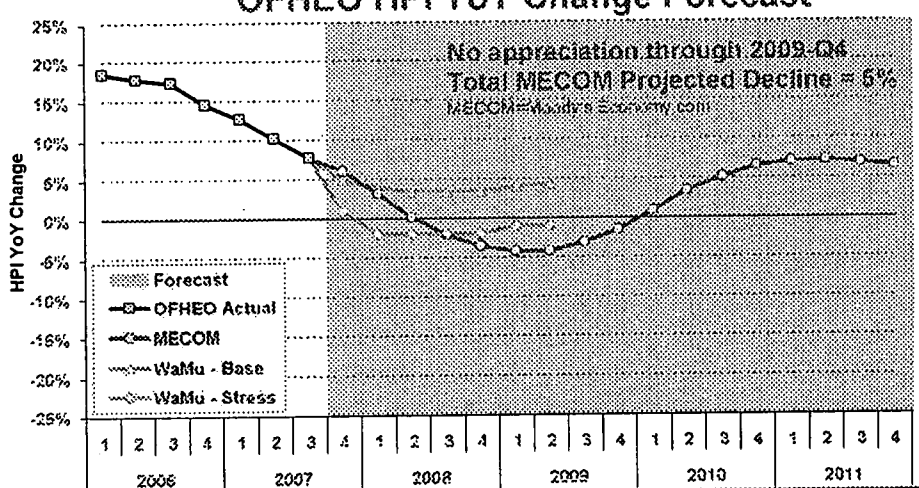
Population Dynamics – Net Migration



Housing Inventory – Months of Supply



OFHEO HPI YoY Change Forecast

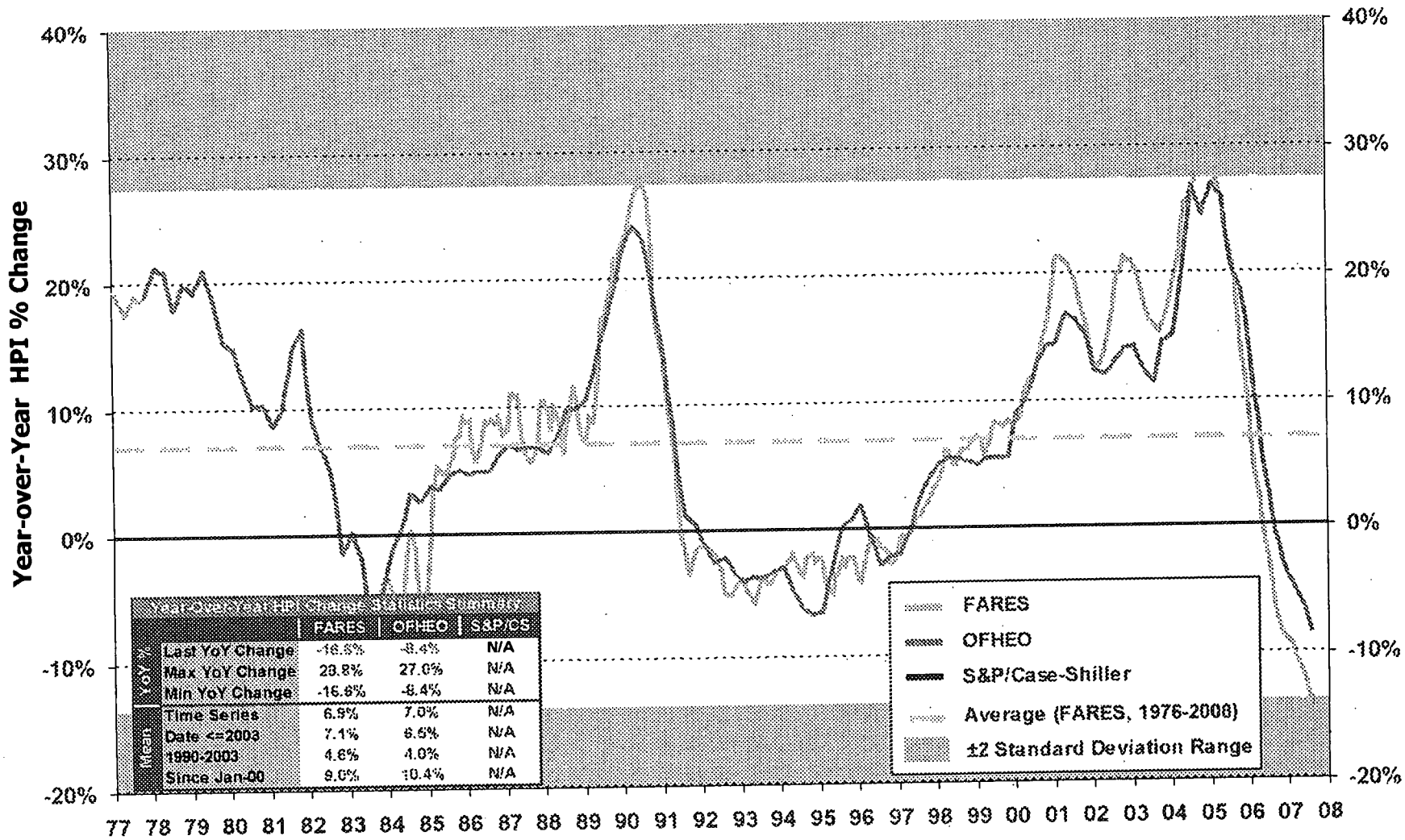


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MSA Examples – YoY HPI Change

Sacramento--Arden-Arcade--Roseville, CA



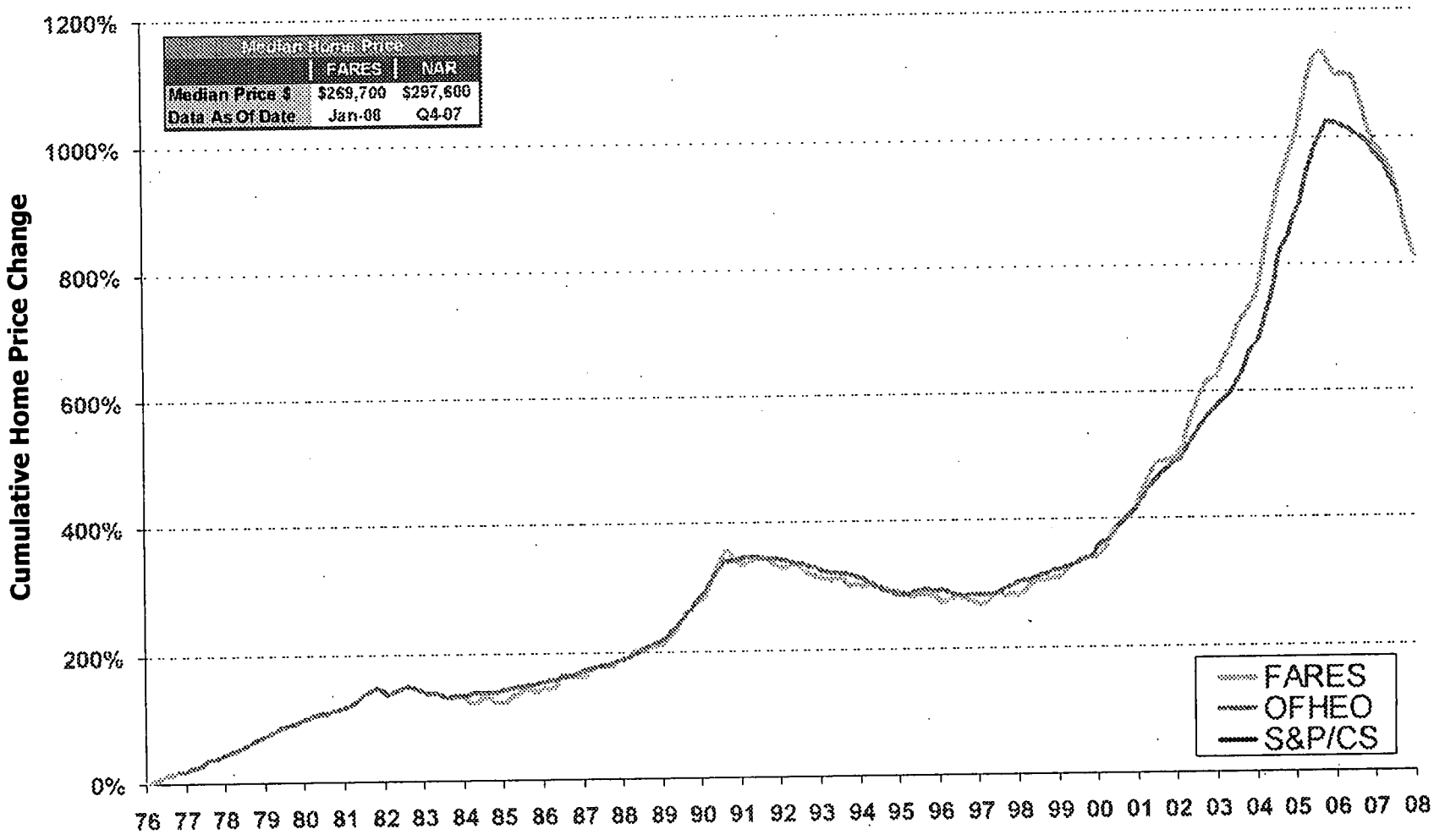
JPM_WM02548468

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MSA Examples – Cumulative Appreciation

WaMu

Sacramento--Arden-Arcade--Roseville, CA



JPM_WM02548469

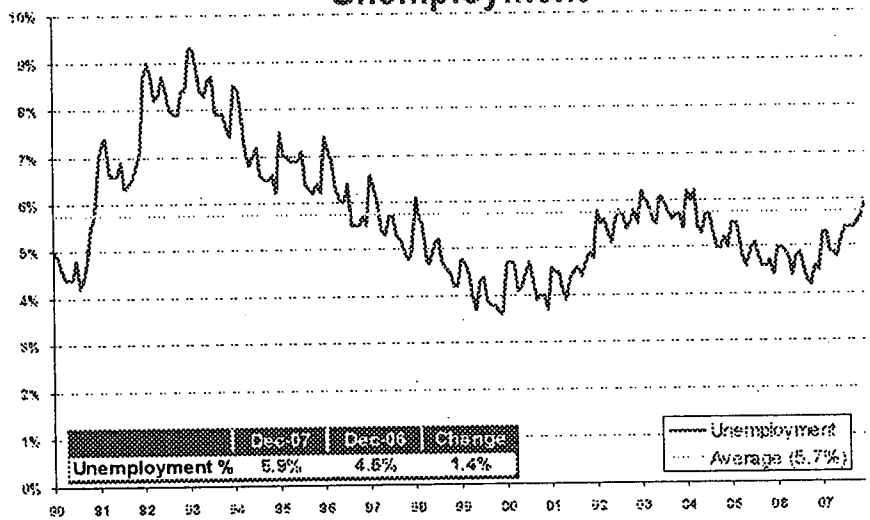
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MSA Examples – Economy

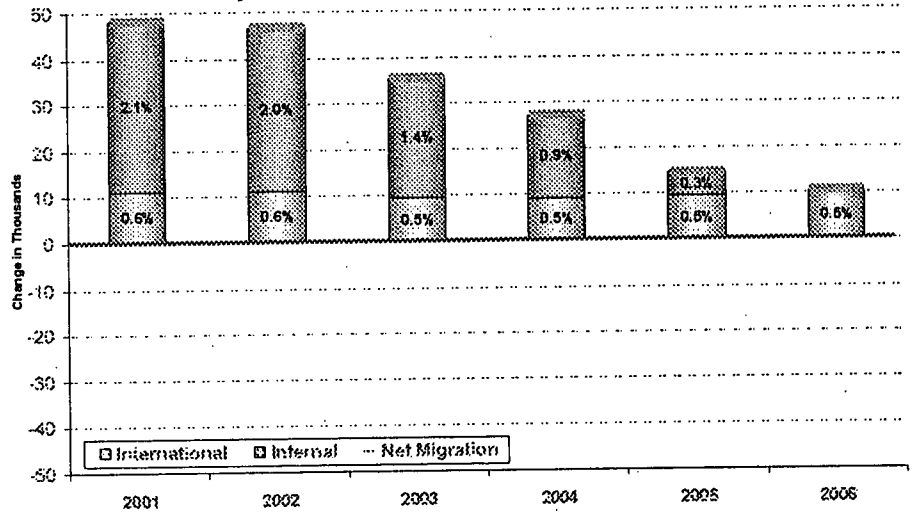
Sacramento--Arden-Arcade--Roseville, CA

WaMu

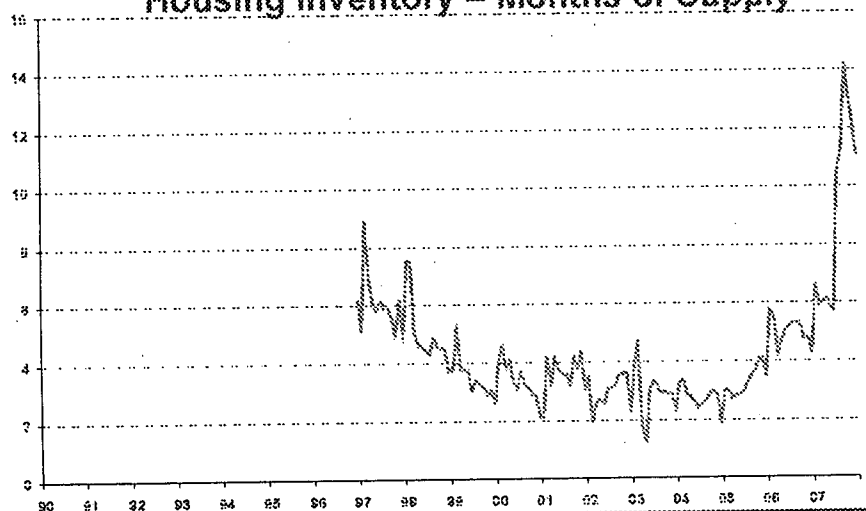
Unemployment



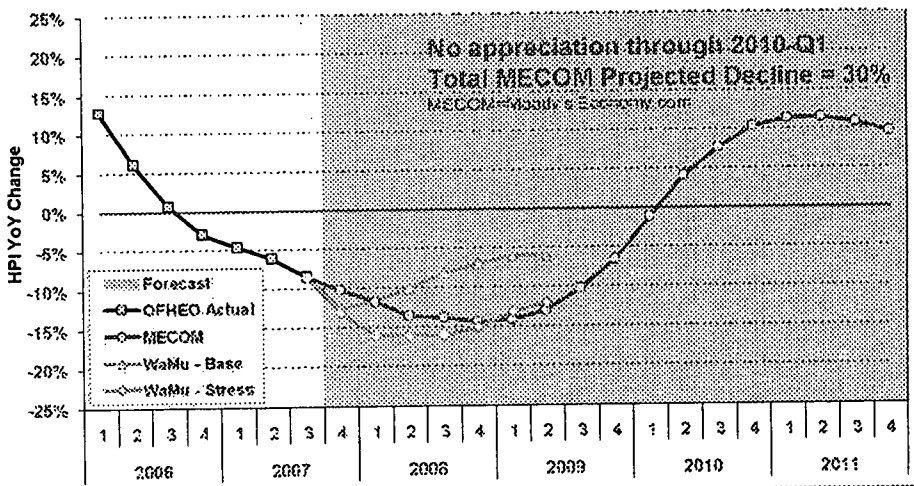
Population Dynamics – Net Migration



Housing Inventory – Months of Supply



OFHEO HPI YoY Change Forecast



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Key Prerequisites for a Peak in Mortgage-Related Losses/NCOs

WaMu

- ***Liquidity Improvement***. Financial markets begin to provide liquidity for Jumbo and otherwise non-conforming loan products. Otherwise, there will continue to be fewer potential homebuyers in major areas of the country, especially where we have high concentrations. *Current Outlook: liquidity continues to be extremely constrained.*
- ***Prepayments Rebound***. Loans typically terminate in full payoff of the loans, leaving fewer loans outstanding for subsequent potential default. Prepayments have been suppressed by weak home sales and lack of refinancing opportunities, leaving more cumulative loss potential on our books. *Current Outlook: Prepayment outlook is mixed depends upon loan type and borrower attributes.*
- ***Rate of House Price Declines Bottoms Out***. Declining home values have increased loss frequency and severity. The acceleration of loss rates are unlikely to abate until the rate of decline in home prices slows. *Current Outlook: prices continue to decline, especially where we have high concentrations.*
- ***Economy Stabilizes***. More homeowners are losing their jobs as the deflation of housing markets and disruptions in financial markets ripple through the economy. Resumed strength in employment growth and a halt to the uptrend in unemployment would be welcome signs of stabilization. *Current Outlook: recession probability has increased.*

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Federal Policy Initiatives

WaMu

Initiatives:

- Federal Reserve Actions
  - 125 bp cut in Fed funds target
  - Term Auction Facility
- Fiscal Policy Actions
  - Tax rebate for households
  - Business tax changes
- Regulatory/Other Changes
  - FHA expansion
  - Increase in GSE conforming loan limits

Expected Impact is Minimal:

- Increase in NIM
- Reduction in ARM and HELOC payment/accrual rates
- Delay in Option ARM recasts
- Reduction of ARM payment shock
- Prepayment of low credit risk loans, including those that meet the new GSE conforming limits

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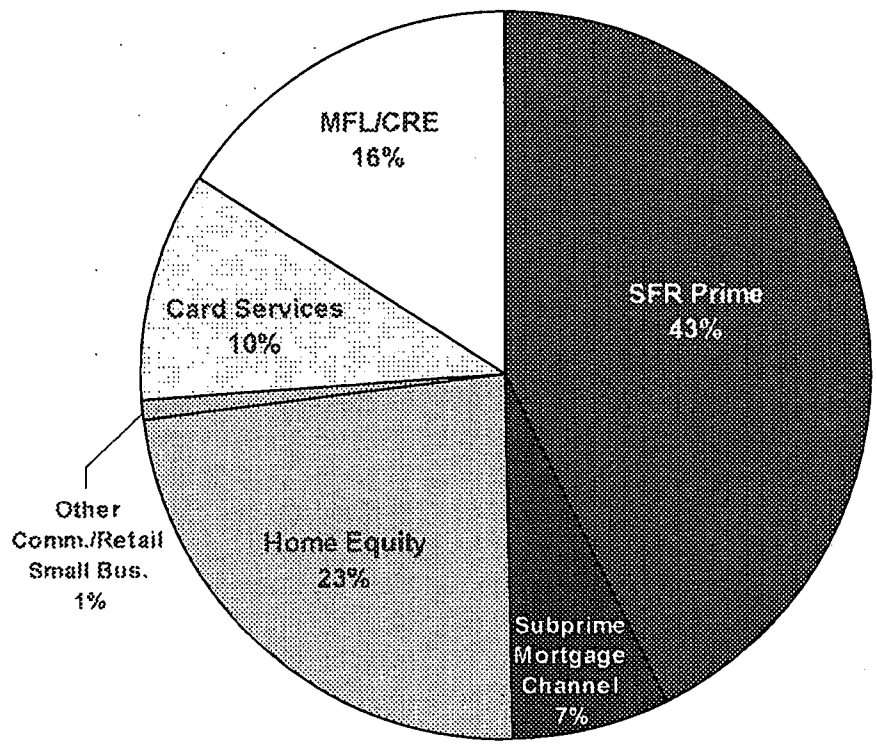
Portfolio Performance & Provision

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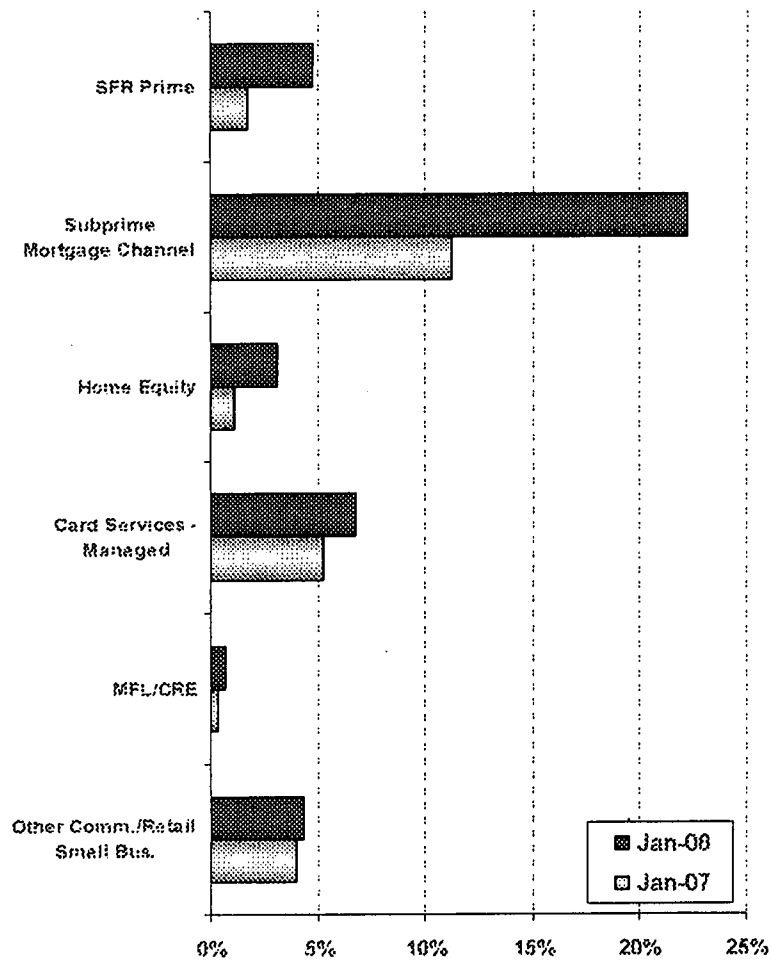
Portfolio Summary

WaMu

Composition



Total Delinquency



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Mortgage Concentration at Top 20 Banks

WaMu

Sorted by Total Mortgage Concentration; Source: FBR report dated 02-06-2008

Institution	Ticker	Market Cap	As % of Common Tangible Equity		
			Home Equity	1st Liens	Total Mortgages
Washington Mutual	WM	18,962	457%	910%	1366%
Northwest Bancorp, (MHC)	NWSB	1,400	146%	649%	795%
TCF Financial	TCB	2,788	262%	469%	732%
Webster Financial	WBS	1,810	283%	435%	718%
National City	NCC	11,398	352%	364%	716%
Citigroup Inc.	C	148,290	198%	486%	684%
Countrywide Financial	CFC	4,396	269%	398%	668%
Sovereign Bancorp, Inc.	SOV	6,292	152%	516%	668%
First Horizon	FHN	2,794	365%	217%	583%
Huntington Bancshares	HBAN	5,168	295%	270%	565%
Bank of America	BAC	199,838	148%	391%	538%
SunTrust Banks, Inc.	STI	23,807	210%	315%	524%
Wells Fargo & Company	WFC	111,045	243%	250%	493%
Regions Financial	RF	17,847	165%	246%	410%
U.S. Bancorp	USB	58,752	150%	235%	385%
PNC Financial Services	PNC	22,649	170%	200%	369%
Citizens Republic	CRBC	1,087	145%	221%	366%
M&T Bank Corporation	MTB	10,337	154%	201%	355%
Associated Banc-Corp	ASBC	3,670	164%	165%	329%
Fifth Third Bancorp	FITB	14,947	170%	148%	318%

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Environment & Concentrations Drive Portfolio Performance

WaMu

- **Adverse Environmental Conditions.** This cycle has been especially severe as a result of several unique circumstances, including:
  - Guideline Expansion: prior to the recent melt-down in the capital markets, industry guidelines expanded beyond what had existed in previous cycles.
  - Home Prices: house price patterns in recent years departed substantially from historical norms.
  - Liquidity: the continuing absence of liquidity in the primary and secondary markets is without precedent.
  - Negative Feedback Loop: many of these conditions are self-reinforcing thereby further worsening the environment
- **High Product and Geographic Concentrations.** We're heavily concentrated in several key dimensions:
  - Residential Mortgages: we're highly exposed to this asset class, which has performed very poorly in this cycle.
  - High Risk Products: within residential, we generally retained higher risk products (e.g., Option ARMs, 2nd Liens, Subprime, Low Doc), which are also particularly impacted by current primary market liquidity conditions.
  - Geography: we're heavily exposed in highly stressed markets such as California and Florida

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Other Issues Affecting Portfolio Performance

WaMu

- **Portfolio Management Choices.** Some choices have benefited and others have exacerbated our ongoing results, including:
  - + Loan Sales: we sold greater than normal proportions of 2006 and 2007 originations
  - + Guidelines: we tightened guidelines earlier than other lenders
  - + Residuals: we sold and wrote down mortgage residuals aggressively
  - – Credit Enhancements: we generally have not used credit enhancements for the retained risk portfolio
  - – Line Management: while ahead of most banks, in early stages and needs to be even more aggressive in Home Equity and Small Business

- **Manufacturing Defects.** While our guidelines were generally managed more conservatively than industry leaders, manufacturing quality was inconsistent with established standards.

- **Data Challenges.** As a result of manufacturing quality and integration issues, data quality is poor; consequences include:
  - – Measurement is less precise and the processes that depend on them are less effective
  - – Models built using the data are less reliable

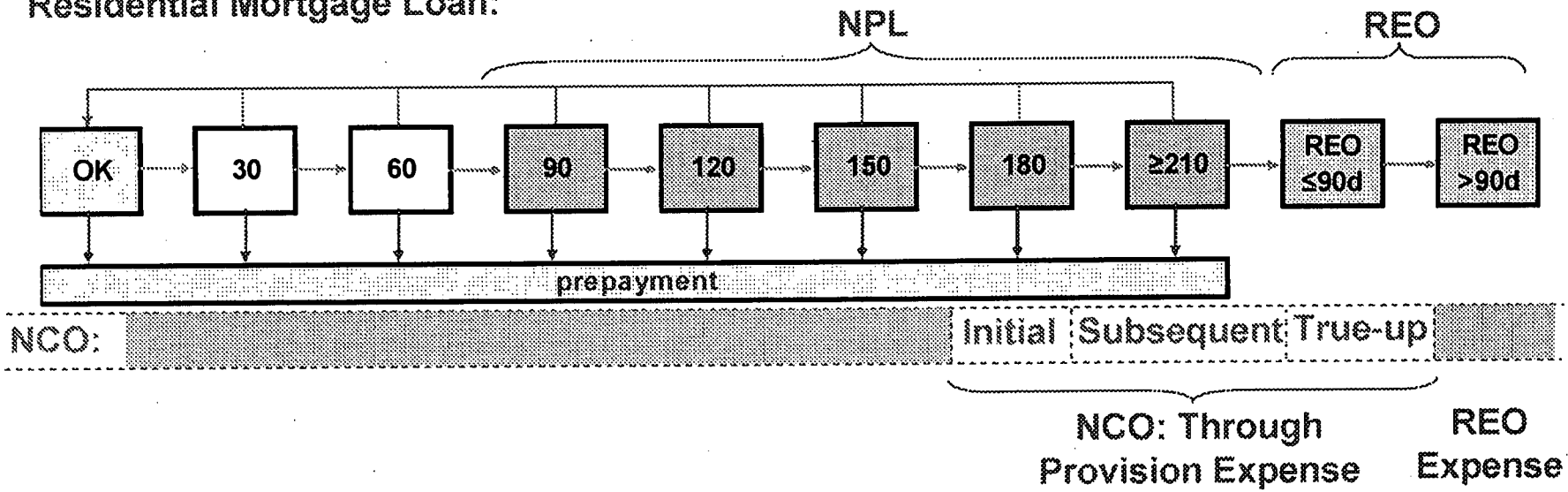
JPM_WM02548477

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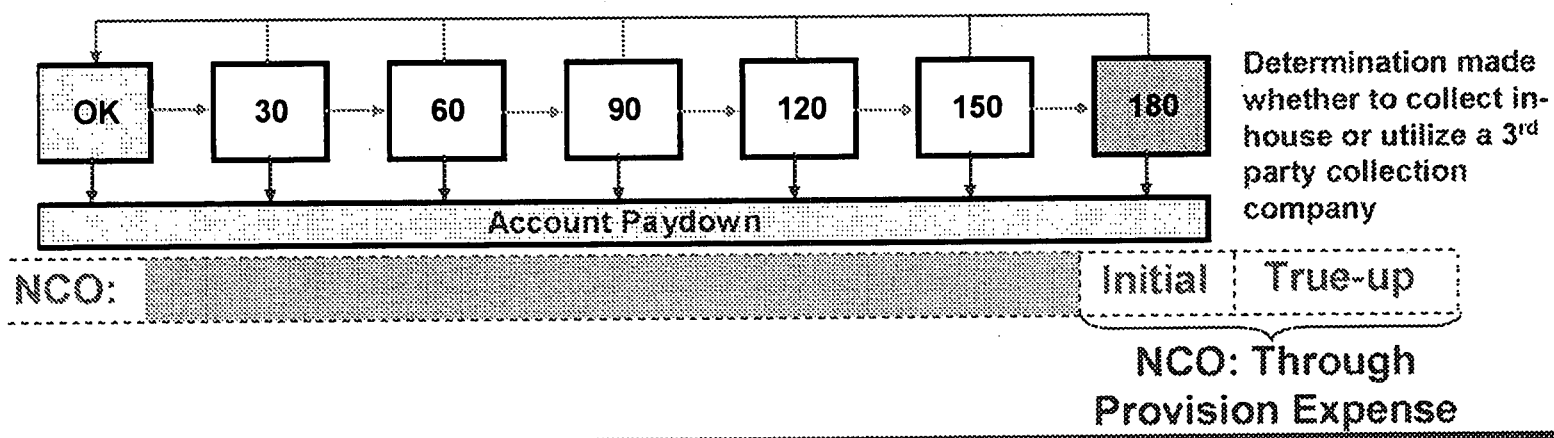
Consumer Transition Timelines

WaMu

Residential Mortgage Loan:



Credit Card:

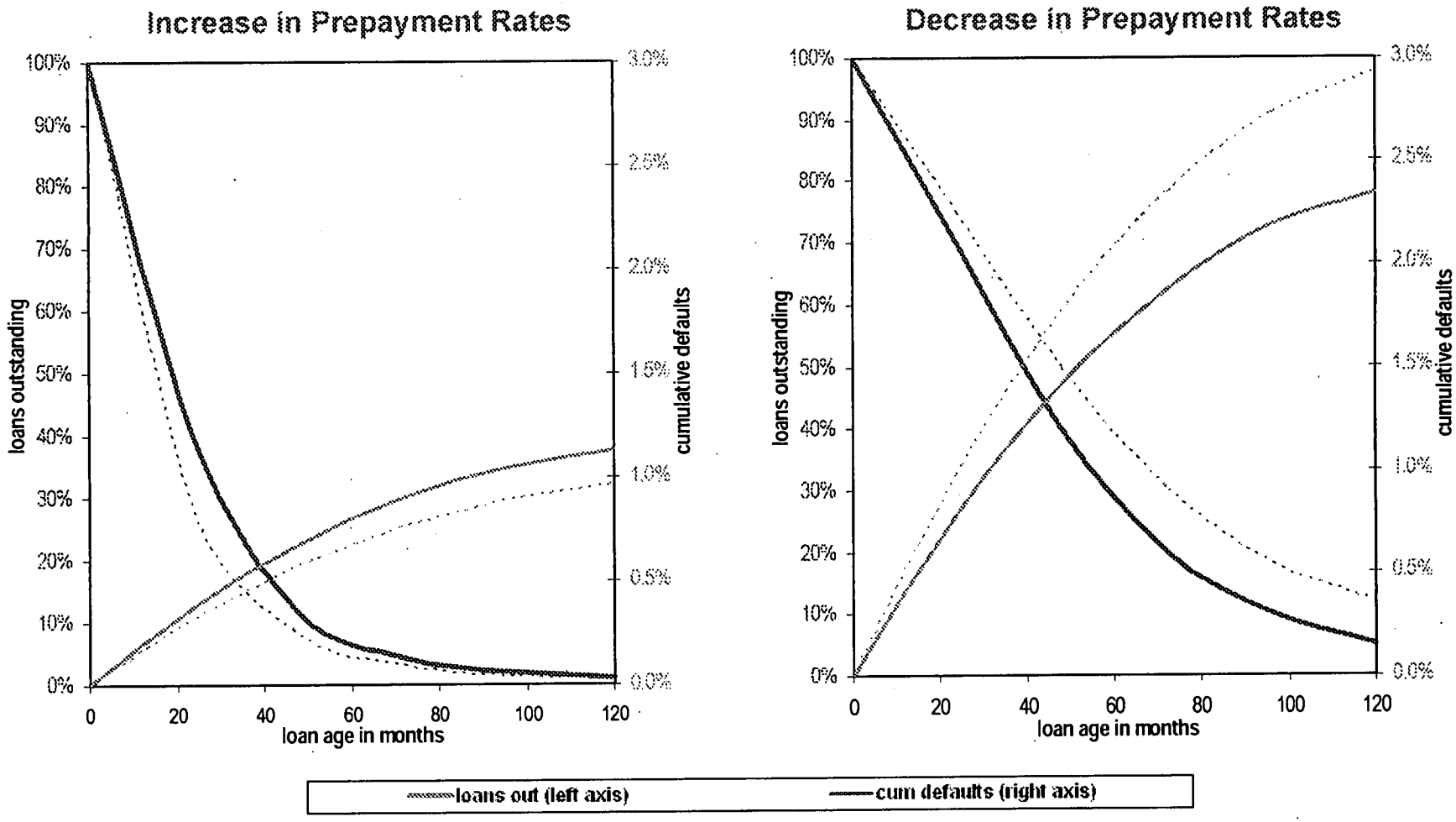


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Impact of Prepayments on Losses(1)

WaMu



(1) For illustrative purposes only. Assumes all other factors held constant. Numbers do not represent actual default or pool factor figures.

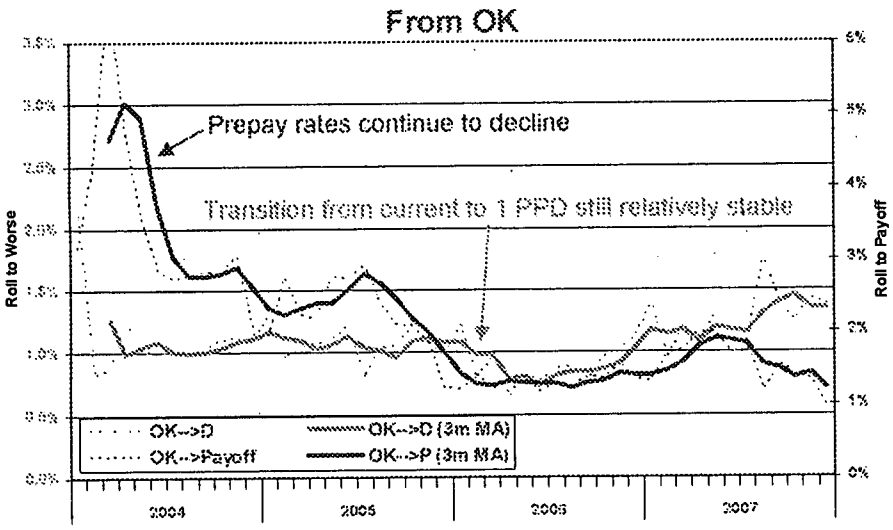
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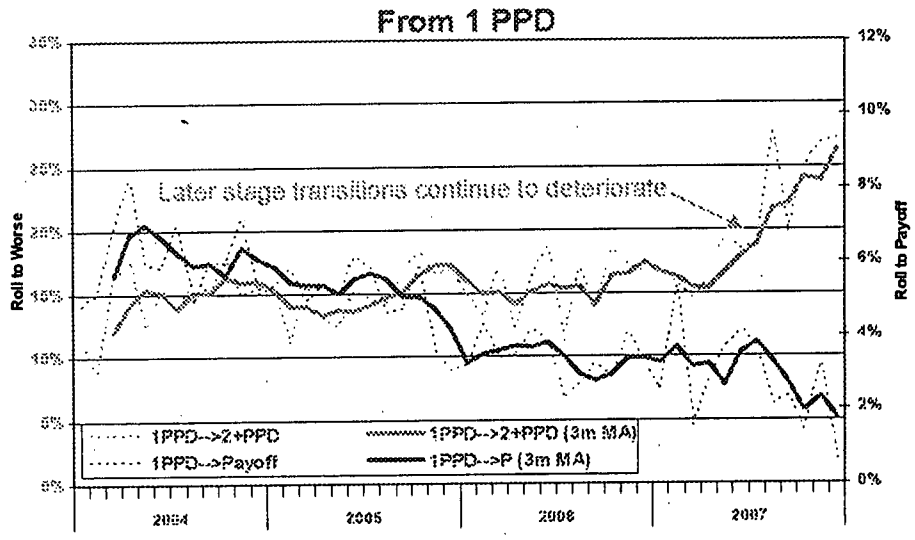
Confidential Treatment Requested by JPMC

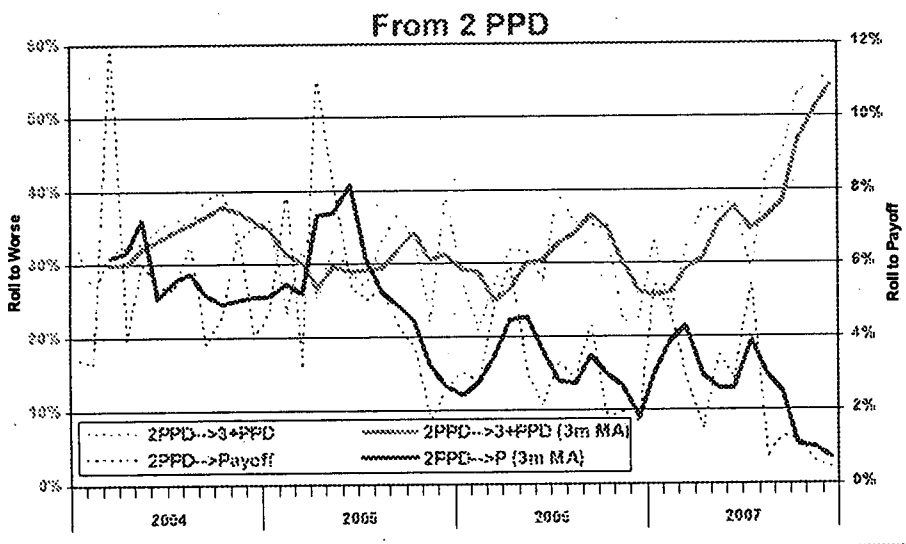
Loan Transition Time Series

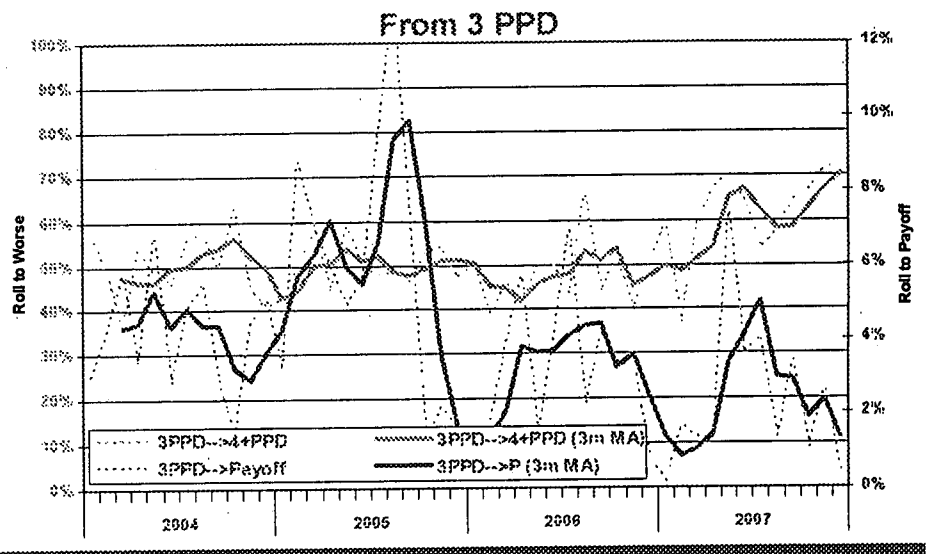
WaMu

5/1 Prime Hybrid ARM HFI Port – One Month Roll Rates









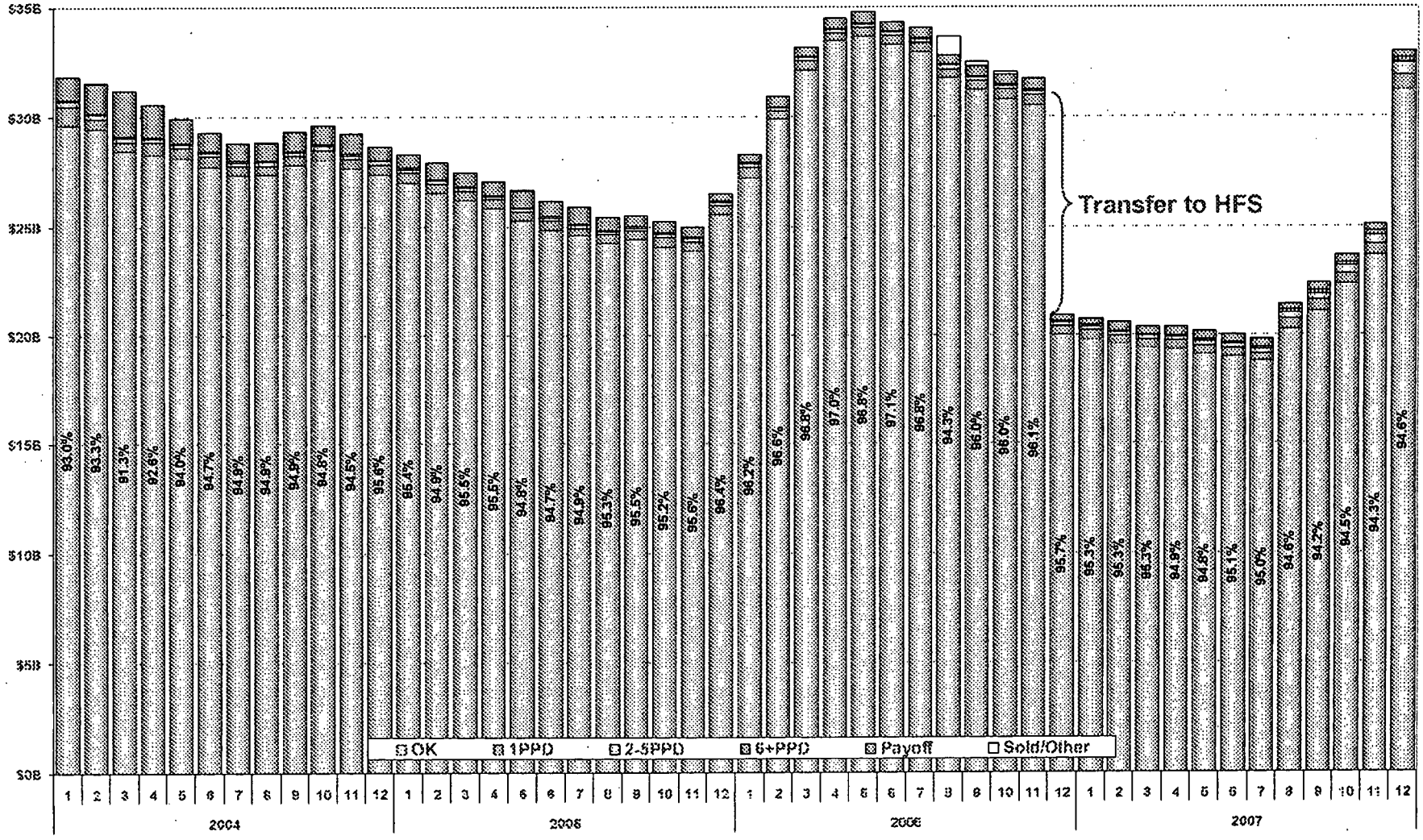
JPM_WM02548480

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Loan Transition Time Series

5/1 Prime Hybrid ARM HFI - Month Ahead Portfolio Status

WaMu

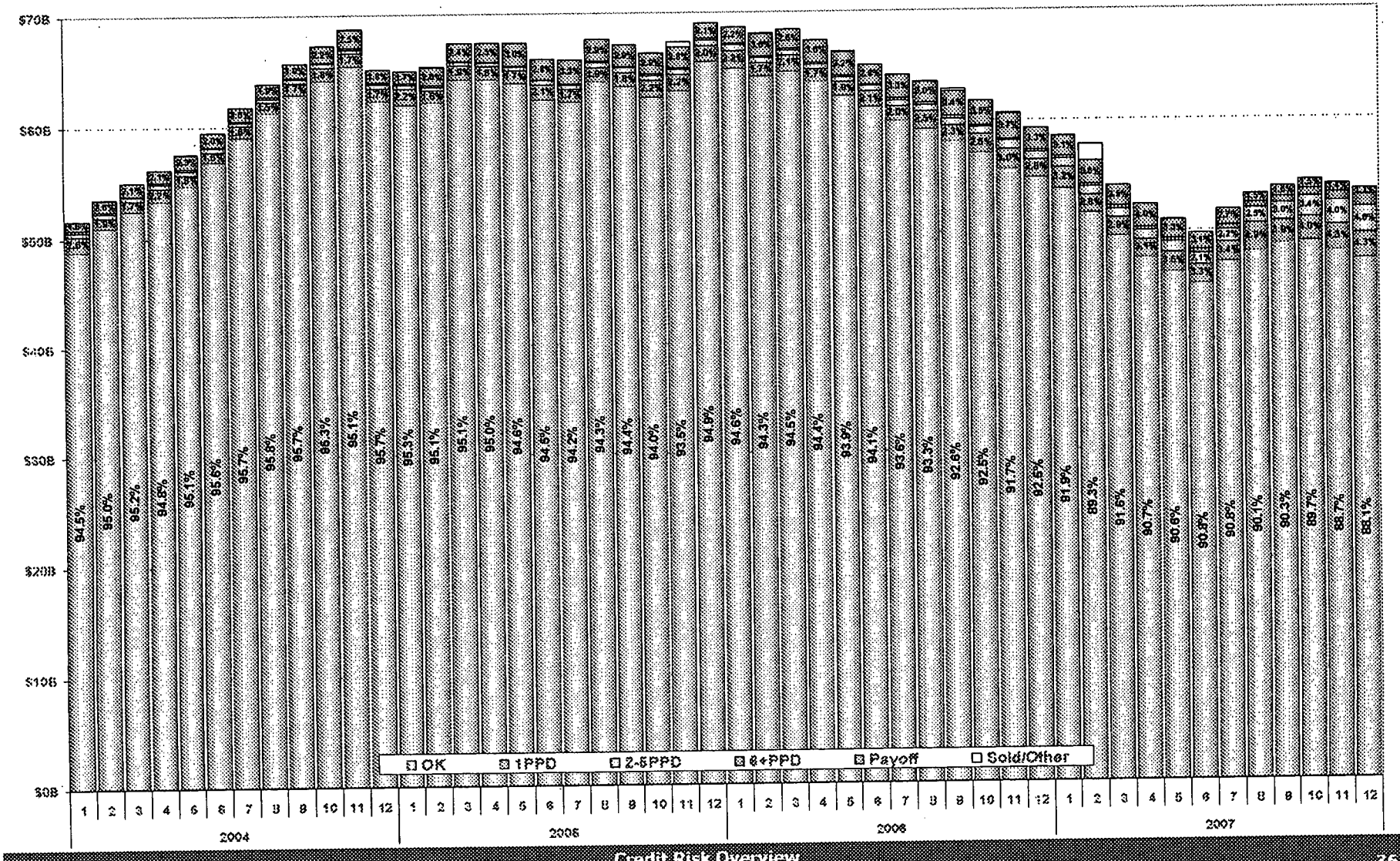


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Loan Transition Time Series

Option ARM HFI - Month Ahead Portfolio Status



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ALL, NCOs & Provision

WaMu

ALL Basics

- ***ALL***. Allowance for Loan Losses (reserve) is an estimate of incurred losses.
- ***NCOs***. Net charge-offs deplete the ALL balance.
- ***Provision***. The ALL needs to be replenished (as a result of charge-offs) and may be increased (if incurred loss expectations are higher) through the provision.
- ***Transfer***. ALL adjustment, typically as a result of loans moving from HFI to HFS (usually card).

NCO Considerations

- ***Accuracy***. Measurement of NCOs must be accurate as these are the basic building blocks for any estimate or forecast of future NCOs, provisions, and ALL requirements.
- ***Current Provision Forecast***. The primary change between the previous and the current provision forecast is an update of Home Loans' NCO forecast, which was revised from $2.9B to 4.9B.
- ***Lags***. There are a number of lags built into the NCO process and forecast, including home price indexes, property valuations for NPL loans and transition rate assumptions.
- ***Infrastructure***. As the volume of NCO activity has accelerated from a standstill to warp speeds, the infrastructure has proven to be inadequate.

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Provision Roll Forward

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	2006	2007	2008	2008 Update
Beginning ALL (Reserve)	$ 1,695	$ 1,630	$ 2,580	$ 2,571
Net Charge-offs	(510)	(1,592)	(3,830)	**(5,200) to (6,200)**
Transfer (Card Securitization)	(370)	(579)	(125)	(100) to (200)
Provision	816	3,121	7,600	10,500 to 12,500
Ending ALL (Reserve)	$ 1,630	$ 2,580	$ 6,225	$6,500 to $9,000
Coverage Ratio	3.2	1.6	1.6	1.2 to 1.5
Coverage Ratio (Q4 NCO annualized)	3.0	0.9	1.5	1.0 to 1.5
Q4 NCO	(136)	(747)	(1,033)	

	Q1 2008	Q1 2008 Update
Beginning ALL (Reserve)	$ 2,580	$ 2,571
Net Charge-offs	(917)	**(1,200) to (1,400)**
Transfer (Card Securitization)	(35)	0 to 50
Provision	1,900	2,000 to 3,500
Ending ALL (Reserve)	$ 3,528	$3,200 to $4,500
Coverage Ratio	1.0	0.6 to 1.0

Change between the previous and the current provision forecast is an update of Home Loans' NCO forecast, which was revised from $2.9B to 4.9B

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Provision Volatility

We expect actual provisions and the provision outlook to remain volatile as a result of multiple factors, including:

- Environmental uncertainties
- NCO
  - Absolute levels
  - Process changes
- ALL
  - Recalibrations
  - Potential upward adjustment of cap on Qualitative
  - Reconciliation with Home Loans
  - Introduction of new approach
- Card securitization

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S&P Levels

- Widely used external benchmarking tool
- An important instrument internally, given our data and modeling limitations
- Generates a spectrum of cumulative loss forecasts associated with different rating levels
- Recent internal and external news indicate an acceleration of the timing and increase in the level of expected cumulative losses (i.e. we may be experiencing something worse than a BB event).

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S&P Levels Output

WaMu

Portfolio	Vintage	Balance Oct '07* ($mm)	S&P LEVELS 'B' (%)	S&P LEVELS 'B' ($mm)	S&P Levels 'BB' ($mm)	S&P Levels 'BBB' ($mm)	S&P Levels 'A' ($mm)
SubPrime Mortgage		**19,643**	**9.8%**	**1,916**	**2,538**	**3,395**	**4,187**
	2004 & Earlier	4,723	2.7%	128	211	335	460
	2005	4,762	6.7%	317	459	658	858
	2006 or 2007	10,158	14.5%	1,471	1,868	2,402	2870
Home Equity		**59,015**	**3.9%**	**2,281**	**3,416**	**4,867**	**5,998**
1st Lien		15,823	0.5%	85	134	201	271
	2004 & Earlier	7,119	0.2%	14	24	38	53
	2005	2,755	0.9%	25	35	49	64
	2006 or 2007	5,949	0.8%	46	75	114	153
2nd Lien		**43,192**	5.1%	**2,195**	**3,281**	**4,666**	**5,727**
	2004 & Earlier	10,458	1.2%	121	230	393	533
	2005	9,671	5.7%	554	808	1,127	1376
	2006 or 2007	23,064	6.6%	1,520	2,244	3,146	3817
Prime Mortgage		**109,946**	**2.2%**	**2,422**	**3,551**	**5,091**	**6,651**
Option ARM		54,893	3.5%	1,918	2,761	3,908	5,053
	2004 & Earlier	17,106	1.3%	229	355	544	740
	2005	13,226	3.5%	467	696	1,007	1317
	2006 or 2007	24,560	5.0%	1,222	1,710	2,358	2997
Other		55,053	0.9%	504	790	1,183	1,598
	2004 & Earlier	23,149	0.4%	81	140	229	329
	2005	8,131	1.0%	77	128	197	271
	2006 or 2007	23,773	1.5%	345	522	756	998
Home Loans & Home Equity		**188,604**	**3.5%**	**6,619**	**9,505**	**13,352**	**16,836**

Plan to update with Jan data

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Actions Underway or to Consider

WaMu

- Temper Pervasive Themes
  - Customer Service
  - Efficiency
- Continue to implement aggressive Line Management
- Clarify Asset Strategy
- Establish and follow a Geographic Strategy
- Strengthen NCO Processes and Infrastructure
- Revamp ALL approach for residential mortgages
- Fortify Pricing Strategies

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Appendix

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Manufacturing Quality

supplement to section one (Background)

- Manufacturing Quality; Transaction elements
  - Basic transaction terms (recourse, guaranty, security)
  - Sourcing (retail, wholesale, correspondent, bulk)
  - Insurance (placement & availability of both loan and hazard)
  - Adverse selection potential
  - Equity (LTV, CLTV, lien position)
  - Collateral valuation method (appraisal, AVM, PIW)
  - Documentation (employment, income, assets)
  - Loan size
  - Loan purpose (purchase, rate refinance, cash-out refinance)
  - Property type (SFR, condo, 2-4, multifamily, office, hotel, …)
  - Occupancy (owner, second, investor)
  - Maturity & amortization type (30 vs. 15 yr, IO, negative amortization)
  - Seasoning (age of the loan and delinquency history)
  - Product type (fixed vs. ARM, Neg Am vs. IO vs. Amortizing, …)
  - Number of borrowers per loan
  - Utilization for "revolving" obligations
  - Call protection (prepayment penalties, yield maintenance)

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Credit Performance Outcomes

WaMu

(in $ Millions)

SFR Prime	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Jan-08
Outstanding Portfolio Balance	$123,179	$101,562	$95,522	$90,593	$106,003	$112,614	$112,194
Total Delinquencies	$1,449	$1,661	$1,730	$2,164	$3,086	$4,703	$5,310
Total Delinquency Rate	1.18%	1.64%	1.81%	2.39%	2.86%	4.18%	4.73%
Non Performing Loans	$603	$667	$731	$1,038	$1,496	$2,358	$2,707
Non Performing Loan Rate	0.49%	0.66%	0.77%	1.15%	1.39%	2.09%	2.41%
Net Charge-offs	$15	$20	$35	$21	$52	$100	$97
Annualized Net Charge-off Rate	0.05%	0.07%	0.14%	0.09%	0.20%	0.36%	1.03%

Subprime Mortgage Channel	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Jan-08
Outstanding Portfolio Balance	$21,245	$20,700	$20,360	$20,457	$19,996	$18,617	$18,166
Total Delinquencies	$1,883	$2,172	$2,289	$2,680	$3,495	$3,963	$4,047
Total Delinquency Rate	8.86%	10.49%	11.24%	13.10%	17.48%	21.29%	22.28%
Non Performing Loans	$1,122	$1,282	$1,503	$1,707	$2,356	$2,721	$2,789
Non Performing Loan Rate	5.28%	6.19%	7.38%	8.34%	11.78%	14.61%	15.35%
Net Charge-offs	$47	$48	$40	$92	$145	$273	$132
Annualized Net Charge-off Rate	0.91%	0.92%	0.77%	1.79%	2.85%	5.73%	8.64%

Home Equity	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Jan-08
Outstanding Portfolio Balance	$52,842	$52,382	$53,374	$55,776	$59,120	$60,966	$61,146
Total Delinquencies	$462	$589	$634	$778	$1,154	$1,708	$1,898
Total Delinquency Rate	0.87%	1.11%	1.19%	1.40%	1.95%	2.80%	3.10%
Non Performing Loans	$161	$231	$297	$378	$533	$835	$978
Non Performing Loan Rate	0.30%	0.44%	0.56%	0.68%	0.90%	1.37%	1.60%
Net Charge-offs	$6	$11	$26	$52	$101	$244	$113
Annualized Net Charge-off Rate	0.04%	0.09%	0.20%	0.38%	0.70%	1.62%	2.22%

Home Loans SFR Prime includes SFR Prime, Custom and Builder portfolios
Subprime Mortgage Channel includes Purchased SMF, Long Beach Mortgage, HEL Subprime, and HEL Purchased portfolios
Home Equity includes HEL and HELOC portfolios; excludes Other Consumer portfolio

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Credit Performance Outcomes

WaMu

(In $ Millions)

Card Services	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Jan-08
Outstanding Portfolio Balance	$21,921	$23,518	$23,628	$24,987	$26,227	$27,239	$27,047
On Balance sheet Delinquencies	$206	$289	$244	$291	$299	$379	$369
On Balance sheet Rate	2.34%	2.65%	2.57%	2.93%	3.41%	4.29%	4.51%
Managed Delinquencies	$1,212	$1,234	$1,216	$1,277	$1,503	$1,762	$1,829
Managed Rate	5.53%	5.25%	5.15%	5.11%	5.73%	6.47%	6.76%
On Balance sheet Net Charge-offs	$27	$19	$30	$34	$36	$30	$40
On Balance sheet Net Charge-off Rate	1.19%	0.79%	1.13%	1.35%	1.57%	1.35%	5.46%
Managed Net Charge-offs	$311	$331	$367	$392	$413	$464	$197
Managed Annualized Net Charge-off Rate	5.71%	5.81%	6.21%	6.40%	6.38%	6.92%	8.70%

MFL/CRE	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Jan-08
Outstanding Portfolio Balance	$33,046	$36,684	$36,031	$35,999	$39,001	$41,126	$41,552
Total Delinquencies	$123	$169	$131	$190	$280	$233	$291
Total Delinquency Rate	0.37%	0.46%	0.36%	0.53%	0.72%	0.57%	0.70%
Non Performing Loans	$58	$71	$87	$101	$151	$168	$174
Non Performing Loan Rate	0.17%	0.19%	0.24%	0.28%	0.39%	0.41%	0.42%
Net Charge-offs	$0	$0	-$1	$2	$0	$5	$1
Annualized Net Charge-off Rate	0.00%	0.00%	-0.01%	0.02%	0.00%	0.05%	0.03%

Other Comm./Retail Small Bus.	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Jan-08
Outstanding Portfolio Balance	$2,004	$1,929	$1,984	$2,005	$2,030	$2,031	$2,104
Total Delinquencies	$62	$70	$80	$84	$77	$91	$92
Total Delinquency Rate	3.11%	3.63%	4.05%	4.19%	3.79%	4.48%	4.35%
Non Performing Loans	$43	$42	$52	$50	$40	$38	$38
Non Performing Loan Rate	2.15%	2.19%	2.64%	2.50%	1.95%	1.89%	1.81%
Net Charge-offs	$5	$7	$6	$12	$16	$28	$12
Annualized Net Charge-off Rate	1.06%	1.40%	1.26%	2.46%	3.10%	5.61%	6.77%

MFL/CRE includes MFL and CRE portfolios; excludes Other Commercial/Retail Small Business

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FACT SHEET 12 - Securitizations

WaMu could not execute any new securitizations after the secondary market disruption occurred in 2007. The bank had previously securitized nonconforming mortgage loans and credit card loans. Asset securitization had been an important source of funding, and the loss of access to this market had a negative impact on the bank's liquidity.

During 2006 and 2007, WaMu sold loans and retained servicing responsibilities as well as senior and subordinated interests from securitization transactions. WaMu received servicing fees equal to a percentage of the outstanding principal balance of mortgage loans and credit card loans being serviced. Generally, WaMu also received the right to cash flows remaining after the investors in the securitization trusts have received their contractual payments.

The allocated carrying values of mortgage loans securitized and sold during the years ended December 31, 2007 and 2006 were $82.58 billion and $110.08 billion, which included loans sold with recourse of $6 million and $959 million during the same periods. The allocated carrying values of credit card loans securitized and sold were $10.65 billion and $7.11 billion during the years ended December 31, 2007 and 2006.

WaMu realized pretax gains of $484 million and $1 billion on mortgage loan securitizations during 2007 and 2006. Pretax gains realized on credit card securitizations were $533 million and $279 million during 2007 and 2006.

WaMu did not issue any new nonconforming mortgage or credit card securitizations in 2008 because of continued market illiquidity, deterioration in the financial condition of the bank, and the poor performance of WaMu's outstanding securitizations.

The table below summarizes the size of outstanding mortgage securitizations and the performance of the underlying loans as of March 31, 2008*:

Type	Number	UPB	30 pd	60 pd	90 pd	Foreclosure	REO	Total Delinquency
Subprime	46	$28.9B	6.17%	4.01%	6.11%	12.93%	8.94%	38.16%
Prime/AltA	200	$98.6B	3.01%	1.22%	1.25%	2.25%	0.84%	8.57%

*Source: March 2008 Securitization Report to the Market Risk Committee. Non-Prime delinquencies based on OTS method. Prime/Alt-A delinquencies based on MBA method.

Total delinquencies on subprime mortgage loans were extremely high, at 38.16 percent. Total delinquencies on Prime/AltA securitized loans were 8.57 percent, more than twice the industry average of 4.21 percent.

As of March 2008, there were 22 WaMu credit card securitizations outstanding with a principal balance of approximately $16.9 billion. The annualized net charge-off rate on managed credit card balances (on-balance sheet plus securitized credit card loans) as of June 30, 2008 was 10.78 percent, compared to 6.40 percent a year earlier. Managed

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credit card balances greater than 30 days past due increased from 5.11 percent to 7.11 percent over the same period.

08551
96.13

Washington Mutual

March 17, 2008

Darrel W. Dochow
Regional Director, West Region
Office of Thrift Supervision
2001 Junipero Serra Boulevard, Suite 650
Daly City, CA 94014-1976

Dear Mr. Dochow:

On behalf of the Board of Directors of Washington Mutual Bank, this letter responds to your February 27, 2008 letter advising the Board of revisions to our supervisory ratings and requesting a Board Resolution. The Board understands and shares your concerns as they are outlined in your letter. The events in the credit markets over the last eight months have been truly extraordinary, have adversely affected Washington Mutual Bank in significant ways, and require extraordinary actions on our part to ensure the continued safety and soundness of the Bank.

While we have already taken a number of important steps to manage these risks, we also recognize the need for further steps as market conditions continue to deteriorate. As you know from our discussions last week, we are currently embarked on actions that we have every reason to believe will put Washington Mutual Bank in a position to withstand the current pressures on earnings, capital and liquidity as well as foreseeable continued market deterioration. As additional assurance of the Board and management's commitment to manage these risks, the Board has unanimously adopted a Board Resolution to take appropriate action as you have requested. A certified copy of that Board Resolution is enclosed.

The Board is actively involved with and monitoring the progress of management execution of these actions. We will also continue to keep you apprised of our progress and appreciate any assistance the Office of Thrift Supervision can provide as we drive these actions towards a successful conclusion.

Sincerely,

Kerry Killinger

Kerry Killinger, Chairman

OFFICIAL FILE COPY
OTS/WEST

Enclosure

Corporate Executive Offices
1301 Second Avenue
Seattle, WA 98101

Permanent Subcommittee on Investigations
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WASHINGTON MUTUAL BANK
CERTIFICATE OF SECRETARY

I, William L. Lynch, Secretary of Washington Mutual Bank (the "Association"), a federal savings bank duly authorized and existing under the laws of the United States of America, hereby certify that, at a meeting duly called and held on March 17, 2008, the Board of Directors of the Association duly adopted the following resolutions:

RECITALS

A. The Board of Directors ("Board") of Washington Mutual Bank ("Association") received a letter from the Regional Director of the Office of Thrift Supervision ("OTS") dated February 27, 2008 ("Ratings Letter') , notifying the Board of the decision of the OTS to adjust the Association's composite rating, and ratings with respect to components of the composite rating, including Asset Quality, Earnings and Liquidity;

B. The Association's financial strength and safe and sound operation is of vital importance to the Association and its continuing success;

C. The Ratings Letter asks the Board to send to the OTS a duly certified Resolution of the Board committing to take appropriate action to ensure that weaknesses and concerns are promptly addressed;

D. At its meeting on Monday, March 17, 2008, Management presented to the Board an outline of initiatives to address the weaknesses that the Ratings Letter identified as to Asset Quality, Earnings and Liquidity.

NOW THEREFORE BE IT RESOLVED

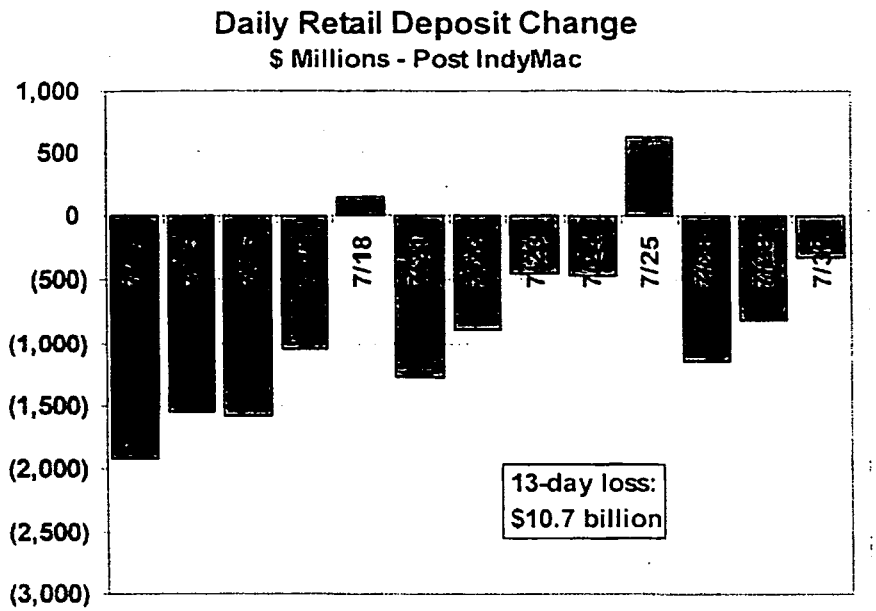
1. The Board endorses undertaking those strategic initiatives to improve Asset Quality, Earnings and Liquidity; and further commits to take appropriate further actions as required to address those weaknesses and concerns raised in the Ratings Letter; and

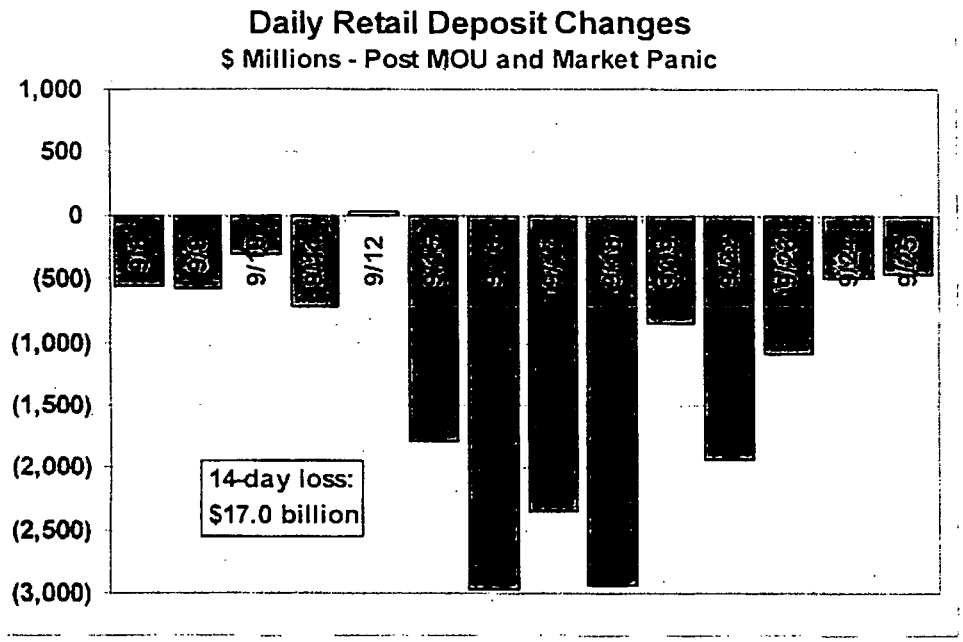
2. The Board hereby authorizes and directs management to implement and report to the Board on the implementation of its initiatives to address the concerns raised by the Ratings Letter.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 19th day of March, 2008.

William L. Lynch, Secretary

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #632

WAMU BANK
SUPERVISORY TIMELINE
(2000 / 2001 / 2002 / 2003 / 2004 / 2005 / 2006 / 2007 / 2008)

01/05/00	Transmitted Report of Examination (ROE) for 09/20/99, WMBFA ratings 2/222223 as of 09/20/99, 2/222222 as of 08/24/98, and 2/222222 as of 06/02/97. Examination was conducted concurrently with the safety and soundness examinations of WMBFA's sister banks, WMB and WMBFSB and their holding company, WM Inc. Key issue identified – Interest Rate Risk has increased as measured by both the OTS and internal model, this risk worsened to the category of 'significant risk' and a '3' rating for sensitivity to market risk has been assigned accordingly.
01/14/00	Capital Distribution (February Dividend) – WMBFA not to exceed $275 million and WMB not to exceed $65 million.
	OTS no objection letter issued - Acquisition of Alta Residential Mortgage, Inc. and its wholly owned subsidiary, ARMT, Inc. through the merger of Aristar Financial Resources, Inc. with and into Alta; merger was effective on 02/01/00.
	Approved WM to establish a new subsidiary, WMFS Insurance Services of Nevada, Inc. 01/28/00 - recd copy of FDIC approval dated 01/26/00.
01/16/00	Washington Mutual Inc. reported record earnings for the fourth quarter and full year 2000, and the company's chief executive said the Seattle-based company is looking for acquisitions and markets to expand into in 2001.
04/13/00	Capital Distribution (May Dividend) – WMBFA not to exceed $575 million and WMB not to exceed $90 million.
04/19/00	Washington Mutual Inc. reported record first-quarter net income, boosted its dividend by a penny a share and said it will buy back as many as 55 million shares of stock. The Seattle-based savings bank and financial services company earned $458.5 million, or 83 cents a share, compared with year-ago first quarter earnings of $444.1 million or 76 cents a share.
05/11/00	WAMU's wholly owned subsidiary, Marion holdings, inc., to engage in new activities: a limited liability company (LLC Op Sub) and a registered Investment Company (the "RIC Op Sub"). The new activities will be conducted through two operating subsidiaries, a limited liability company and a registered investment company. The limited liability company will invest in first mortgage residential and commercial loans, mortgage-backed securities, or ownership interests in lower-tier subsidiaries that own such assets. Approved 06/02/00.
05/16/00	OTS began field visit to WMBFA on 04/24/00, objective of the visit was to assess the status of the corrective actions promised as a result of the examinations of WMBFA and its holding company, Washington Mutual Inc. Overall, OTS concluded that management has been responsive to the issues that were raised at the prior examination.
05/18/00	Information Technology Field Visit for 04/24/00. The scope and objectives of review focused on management's corrective actions related to the findings contained in the OTS IT Report of Examination dated September 7, 1999. Management's corrective efforts on the 1999 OTS IT examination findings progressed according to plan.
05/19/00	Special Compliance Examination field visit for 04/24/00, purpose was to determine progress made in addressing outstanding issues from the prior compliance examination, to determine what changes in structure and procedures have occurred since the prior examination, to gain an understanding of the current compliance structure, and to lay the groundwork for the full-scope compliance examination that will commence in the fourth quarter of this year.

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Report Footnote #633

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WaMu Timeline

07/12/00	Capital Distribution (August Dividend) – WMBFA not to exceed $350 million and WMB not to exceed $30 million.
07/19/00	Washington Mutual Inc. reported record second-quarter earnings and raised its dividend by a penny a share. The Seattle-based company, the nation's largest savings institution and one of its largest banking companies, earned $490.8 million, or 92 cents a share, up from $452.7 million or 78 cents a share a year ago. The median of analyst estimates was 83 to 84 cents a share.
08/03/00	WMB to establish an operating subsidiary, Washington Mutual Life Insurance Company (WMLICC), to engage in insurance activities. Approved 06/14/02.
08/04/00	OTS began field visit to WMBFA on 07/17/00, objectives of the visit was to continue OTS assessment of the status of the corrective actions promised as a result of the examinations of WMB FA and its holding company, Washington Mutual Inc. (WMI). Additionally, OTS planned on following up on discussions regarding interest rate risk policy changes that we had during the April 2000 visit. WM management has addressed or continued to address identified issues.
	Information Technology Field Visit for 07/17/00. The scope and objectives of review focused on management's corrective actions related to the findings contained in the OTS IT Report of Examination dated September 7, 1999; assessed the progress of corrective actions taken by management to address those issues disclosed in the OTS IT Report of Examination and the December 6, 1999, Examination Deficiencies and Recommendations supplemental document; and assessed the status of management's follow-up actions on two transactional web sites (eCharge and WM Financial). Overall, management's corrective efforts on the 1999 OTS IT examination findings are considered satisfactory.
08/25/00	Special Examination for 07/24/00. The purpose of this special examination was to continue gathering information about operations and the structure of the organization and to plan logistics for the upcoming compliance examination. One issue that was still outstanding from the prior special examination dealt with variations in the mortgage products available from the two origination channels.
10/06/00	Approved "November Dividend" - WMBFA not to exceed $500 million, WMBFSB not to exceed $7 million, WMB not to exceed $50 million.
10/10/00	WAMU, New American Capital, Inc., and WMBFA filed application to acquire and effect mergers with Bank United Corp. and its subsidiaries, BNKU Holdings, Inc. and Bank United. Approved 01/16/01.
10/17/00	Washington Mutual, Inc. (NYSE:WM) today announced third-quarter earnings of $452.5 million or 86 cents per diluted share, versus third-quarter 1999 earnings of $470.0 million or 83 cents per share. Earnings for the first nine months of 2000 were $1.40 billion or $2.60 per diluted share versus $1.37 billion or $2.37 per diluted share for the same period in 1999.
11/07/00	Information Technology Field Visit for 10/16/00. The scope and objectives of our review focused on preplanning for the IT examination starting November 27, 2000 and management's corrective actions related to the findings contained in the OTS IT Report of Examination dated September 7, 1999. Overall, management's corrective actions on the 1999 OTS IT examination findings are considered satisfactory. Management continue to make progress according to plan.
11/17/00	Recommendation to Close Preliminary Inquiry Involving Washington Mutual Bank. In November 1999, West Enforcement & Litigation opened a preliminary inquiry into matters related to a low document mortgage-lending program used by WAMU in Florida. Two concerns – 1) possible fraud in loan applications submitted by a series of loan brokers to WAMU under the low doc program; disposition – OTS was not able to proceed because the brokers who submitted the applications were neither independent contractors of WAMU nor had sufficient contacts with the institution to bring them

WaMu Timeline

	within the category of persons participating in the conduct of WAMU's affairs. 2) West Appraiser Darryl Washington determined that a WAMU approved appraiser in Florida had submitted several flawed appraisals that went undetected in the low doc program, disposition – WAMU immediately removed the subject appraiser from approved list, and filed a compliant promptly against the appraiser with the FL BREA.
11/22/00	WMBFA filed notice that the institution intends to acquire five additional subsidiaries from PNC Bank, NA (PNC Mortgage Corp. of America, PNC Mortgage Partners Corp., PNC Mortgage Securities Corp., Fairway Drive Funding Corp., and PNC Mortgage Funding Corp.). OTS issued no objection letter dated 12/19/00.
11/29/00	Establish Three New Lower-Tier Subsidiaries In Connection With The Reorganization Of An Existing Subsidiary, FA California Aircraft Holding Corp.; New Subsidiaries: WM Aircraft Holdings, LLC; Sound Bay Leasing LLC; And Interim Series E LLC. Approved 12/19/00.
01/10/01	WM filed a CRA-related application on 10/10/00, it proposed to acquire Bank United Corp. OTS expressed no objection to the institution's request based on its CRA performance.
01/11/01	Capital Distribution (February Dividend) No Objection Letter – WMBFA intends to pay a cash dividend not to exceed $250 million and WMB intends to pay a dividend not to exceed $95 million, such dividends will be paid on or after 02/15/01.
01/16/01	Washington Mutual Announces Record Fourth-Quarter and Annual Earnings; Increased Cash Dividend.
01/18/01	Capital Distribution - Dividend on Series C and D preferred stock to be issued in connection w/bank united acquisition/tender offer -- $4.6 million.
	Nation's Largest Thrift, Washington Mutual, Selected by Fannie Mae as Delegated Underwriting and Servicing -- DUS – Lender.
01/22/01	Washington Mutual Received Regulatory Approval on Bank United Acquisition; Office of Thrift Supervision Approves Merger.
02/01/01	Washington Mutual Completed Acquisition of PNC Mortgage. On 11/22/00 HellerEhrman Attorneys notified OTS of WMBFA's intention to acquire certain subsidiaries from PNC Bank, NA. OTS issued no objection letter dated 12/19/00.
02/07/01	Washington Mutual Completed Bank United Tender Offer.
02/08/01	Bank United Shareholders Approved Merger with Washington Mutual.
02/09/01	Washington Mutual and Bank United Holding Companies Merged; Banking Subsidiaries Expected to Merge on Tuesday 02/13/01.
02/13/01	Washington Mutual Completed Merger with Bank United.
02/14/01	OTS issued No Objection Letter – WMBFA intends to pay a quarterly cash dividend not to exceed $4.6 million on its outstanding C and D preferred stock. Such dividend will be paid on or after March 30, 2001.
03/16/01	To issue up to $2 billion of sub debt notes over a period of approx 18 months. 8/30/02 - inst requesting six-month ext of time to issue sub debt as part of the bank's global note program; 10/23/02 - request granted until 4/12/03 to issue sub debt. 6/13/03 - request for waiver of certain provisions of OTS securities offering regulation; granted 7/9/03. 8/25/05 - recd ltr re: pricing supplements for WAMU global note program. 5/2/06 - recd copies of preliminary pricing supplements 4/26/06, term sheet, and pricing supplement 4/27/06 - each relating to $1 billion senior floating rate notes due 5/2/09. 8/1/08 - inst has determined that it is unlikely to issue sub debt to be included as supplemental capital under 12 CFR 563.81; application withdrawn.
	Capital Distribution - Cash dividend not to exceed $150 million; will be declared on 4/17/01 and paid on or after 5/15/01.
03/20/01	Transmitted Report of Examination (ROE) Information Technology for 11/27/00, WMBFA and

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	WMBFSB. FDIC and State of Washington participated. Rating: Satisfactory (2) – Audit, Management, Acquisition and Management, and Support and Delivery.
03/31/01	Deloitte & Touche Independent Accountant's Report on WMBFSB. No significant issues.
04/02/01	Washington Mutual to Acquire Fleet Mortgage.
04/05/01	Transmitted Report of Examination (ROE) for 11/27/00, WMBFA ratings 2/222223 as of 11/27/00, 2/222223 as of 09/20/99, and 2/222222 as of 08/24/98. Key issue identified – Interest Rate Risk remained 'Significant'.
04/11/01	No Objection Letter – WMBFA cash dividend not to exceed $150 million, will be declared on 04/17/01 and paid on or after 05/15/01.
04/12/01	OTS issued no objection letter in responds to notice filed by Jacob A. Scholl, Esquire on behalf of WMBFA advising its intent to issue up to $2 billion of subordinated notes over a period of approximately eighteen months as part of a global note program that will include offerings of certain registered and exempt debt instruments by WMBFA and WMB.
04/17/01	Washington Mutual announced record quarterly earnings of $641.0 million or $1.15 per diluted share, up 40 percent from first-quarter 2000 earnings of $458.5 million or 83 cents per diluted share. Earnings for the first quarter of 2001 include partial quarter results from the former mortgage operations of The PNC Financial Services Group, Inc. and Bank United Corp., which were acquired this year by Washington Mutual on Jan. 31 and Feb. 9, respectively.
04/20/01	WM announced that it proposes to sell up to $1 billion of Trust Preferred Income Equity Redeemable securities to qualified institutional buyers pursuant to Rule 144A.
04/26/01	WM announced the company has priced $1 billion of Trust Preferred Income Equity Redeemable Securities (PIERS), and provided the underwriter with a 30-day option to purchase up to an additional $150,000,000. WM announced the company has established a US $15,000,000,000 Global Bank Note Program (the "Program") for its two main banking subsidiaries, Washington Mutual Bank, FA (WMBFA) and Washington Mutual Bank (WMB).
05/16/01	OTS approved Fleet Mortgage Reinsurance Company acquisition. WMBFA intends to acquire four subsidiaries under a stock purchase agreement with Fleet National Bank and FleetBoston Financial Corporation. The subsidiaries to be acquired are Fleet Mortgage Corp., Fleet Securities Corp., Fleet Mortgage Insurance Agency Corp., and Norstar Mortgage Corp.
05/18/01	Capital Distribution - Qtrly dividend not to exceed $4.2 million to be paid on or after June 29, 2001.
05/24/01	WM Director's Report April 2001. Topics – WMI key highlights, management comment, financial highlights and trend analysis. WMBFA and WMB subsidiary highlights.
	OTS issued no objection letter to WM 04/30/01 letter notifying OTS of the intent of WMBFA to acquire Fleet Mortgage Corporation and its subsidiaries expected to close on 06/01/01.
05/31/01	WM provided written response to the 11/27/00 Safety and Soundness Reports of Examination of WMBFA, WMBFSB, and WMB. Examinations were conducted concurrently by OTS, FDIC, and State of Washington, Department of Financial Institutions.
06/01/01	WM announced the company has completed its acquisition of Fleet Mortgage Corp., a unit of FleetBoston Financial Corp. (NYSE:FBF).
06/15/01	Capital Distribution ("August dividend") - $675 million. No objection letter issued on 07/12/01.
06/25/01	WM announced a definitive agreement to merge with Dime Bancorp, Inc. (NYSE: DME - news) in a transaction currently valued at $5.2 billion in stock and cash.
07/17/01	WM announced record quarterly earnings of $798.2 million for the second quarter of 2001, up sharply

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	from second-quarter 2000 earnings of $490.8 million.
07/31/01	ROE Regular Compliance for 10/30/00. Compliance Rating 3 as of 10/30/00, 2 as of 07/20/98 and 2 as of 04/29/96. CRA Rating Outstanding as of 10/30/00, 07/20/98 and as of 04/29/96.
08/17/01	Capital Distribution - Proposed cash dividend: $4.2 million on its outstanding series c and series d preferred stock to be paid in September 2001.
	Report of Compliance Examination for 10/30/00. Compliance Rating 3 as of 10/30/00, 2 – as of 07/20/98, 2 – as of 04/29/96. CRA rating - Outstanding as of 10/30/00, 07/20/98 and 04/29/96. Key recommendation – A plan for implementing a Broad-approved centralized corporate compliance oversight program.
08/27/01	WMBFA to pay quarterly cash dividend not to exceed $4.2 million on its outstanding Series C and D preferred stock, will be paid in September 2001.
09/05/01	Acquisition Of Dime Bancorp, Inc. by Washington Mutual, Inc. and The Merger Of The Dime Savings Bank Of New York, FSB, into Washington Mutual Bank, FA. Comment period extended to 10/31/01. At request of Acorn, NY, in light of the disruptions caused by the Sept. 11 terrorist attack. Comments received 10/01/01 from CRC and fwd. to WAMU for response by 10/31; response recd on 10/31/01; 11/08/01 - processing suspended pending resolution of the protest issues; a formal meeting is scheduled for 11/15/01, 01/04/02 - acquisition of Dime Bancorp, Inc. by Washington Mutual, Inc. 01/07/02 - Merger of the Dime Savings Bank Of New York, Fsb, Into Washington Mutual Bank, FA.
09/06/01	Washington Mutual Home Loans and Insurance Services Group announced today it will offer a new portfolio product, the 5/1 CMT Interest Only loan.
09/14/01	Capital Distributions - November dividend $2 billion.
10/16/01	WM announced record third-quarter earnings of $832.3 million or 94 cents per diluted share. Earnings for third-quarter 2000 were $452.5 million or 57 cents per diluted share.
10/19/01	OTS WM Home Loans and Insurance Services Group: Operations and Risk Management – Pre-qualification and application date proposal. Discussed with OTS current/future control environment, proposed pre-qualification program, application date definition, and next steps.
	OTS five week field visit commenced 09/17/01, objectives were 1) to meet with senior management of various operational groups regarding current structure and status of their departments, 2) to review the status of corrective actions in response to exceptions and recommendation made at the prior examination, and 3) to prepare and present to management the pre-examination package for the upcoming full scope examination in February 2002.
10/29/01	WM Response to October 30, 2000 Compliance ROE. Key issues – Corporate Compliance Program, Fair Lending Program, Flood Disaster Protection Act, Late Payment Fees, Home Mortgage Disclosure Act, Residual Income, Minimum Loan Amounts, OPTIS Prequalification Features, Customer Referrals, Comparative File Reviews, Right of Rescission, ARM Notices, and Customer Complaints.
11/06/01	WM Compliance Update. Objective – To provide an overview of the Home Loans Group's commitment to fair lending in under-served communities.
11/08/01	New Activity - To Establish "WMHLI Transfer Interim LP" As A Subsidiary.

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	OTS performed a field visit at WMBFA during 09/17/01. Accomplished objectives were as follows -
	• Met with senior management of the various operational groups for presentations regarding the current structure and status of their departments. These meetings were significant principally because of the integration of Bank United and PNC subsequent to the conclusion of our 2000 examination. • Reviewed the status of corrective actions in response to exceptions and recommendations made at the prior examination. • Prepared and presented to management the pre-examination package for the upcoming full scope examination in February 2002.
11/16/01	Capital Distribution - $4.2 Million Dividend On Series C and D Preferred Stock.
	Acq/Merger Bif Acq - Washington Mutual Bank, FA Sale Of Its Five Branch Offices located in Midland and Stanton, TX, to Community National Bank. Approved 01/17/02.
12/06/01	OTS Update – WM Home Loans & Insurance Services Group. Topics – Acquisition Overview, Loan Servicing (WM Platform Assessment, Loan Servicing & Consumer Direct Business Integration Plan), and Operations (Bank United & PNC Mortgage, Fleet, Optis, and North American Mortgage).
12/11/01	WM signed a definitive agreement to acquire for cash the operating assets of HomeSide Lending, Inc., the U.S. mortgage unit of the National Australia Bank Limited.
12/13/01	Capital Distribution - Proposed Cash Dividend: $1,200.
12/19/01	Interagency Report Of Examination of Vital Processing Services LLC issued. Federal Reserve Board, FDIC and OCC assisted.
12/21/01	WM to issue up to $1.5 billion in sub debt to be included in WAMU's capital; sole purchaser of the debentures was Washington Mutual Inc. 03/24/03 - Inst requests that the offering period be extended until 04/22/04 and it be permitted to issue sub debt to new American Capital, Inc., as well as to Washington Mutual, Inc. 04/09/03 - request granted. Approved 04/22/02.
	WM announced receipt from the Office of Thrift Supervision (OTS) of approval of the company's acquisition of Dime Bancorp Inc. (NYSE:DME) through the merger of Dime Bancorp with and into Washington Mutual. The merger is scheduled to close on Jan. 4, 2002.
01/07/02	Washington Mutual Completed Acquisition of Dime Bancorp.
01/08/02	WM to acquire a new operating subsidiary, Stockton plaza, inc., in connection with the acquisition of certain assets of HomeSide lending, Inc. OTS issued no objection letter dated 02/05/02.
01/15/02	Washington Mutual Caps Most Profitable Year with Record Quarterly Earnings; Board Increases Cash Dividend.
01/18/02	Quarterly cash dividend not to exceed $4.2 million on its outstanding Series C and D preferred stock.
01/23/02	WM Quarterly Regulatory Meeting. Topics – Strategic Overview, Loan Serving Update, Credit Update, 2002 Business Plan, Acquisition and Integration Update (Fleet Mortgage, Dime Bancorp, Midland Region Divestiture, and HomeSide Lending), and Compliance Update.
	WM's OTS Qtrly Progress Report – Home Mortgage Disclosure Act reengineering project and progress toward implementing a corporate wide compliance program and fair lending program. Corporate Compliance Department ability to complete all targeted tasks was impacted by repercussions of 9/11 tragedy, Dime acquisition, and personnel extensive turnover.
01/24/02	OTS approved establishment of the new operation subsidiary, WMHLI Transfer Interim LP under

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	WMBFA for the sole purpose of facilitating the consolidation of assets of WM Home Loans, Inc. with and into WMBFA.
01/30/02	OTS performed a field visit at WMBFA and WMBFSB during 09/17/01 through 12/14/01. Scope and objectives were focused on management's corrective actions related to the findings contained in the OTS IT ROE dated November 27, 2000 and obtained an update on IT activities to prepare for the 2002 IT examination. Overall management's corrective actions on the 2000 OTS IT examination findings were considered satisfactory. Key issue - The inaccurate transfer of data between service providers after the PNC conversion resulted in unwarranted delinquency notices for unpaid property taxes being issued to approximately 55,000 borrowers. Inadequate vendor oversight by Washington Mutual management and inaccurate data from service providers caused the tax reporting problems. Management has taken appropriate steps to resolve the issue.
02/05/02	Corporate Technology Briefing Book to OTS. Current year business plan, description of lending business philosophy, new businesses entered, significant initiatives and projects, current status of regulatory issues, current budget and operating performance, and listing of all policies and procedures.
02/06/02	Compliance Field Visit. OTS performed a field visit at WMBFSB during 11/05/01; WM has not established a compliance management program and a fair lending program appropriate to its size complexity, and activities.
03/01/02	Washington Mutual Completed Acquisition of HomeSide Lending
03/22/02	Special Compliance Examination. OTS performed compliance field visit for WMB from 02/25/02 through 03/22/02. Reviewed progress in the implementation process of the Corporate Compliance Program as required in the Compliance Report of Examination dated October 30, 2000. OTS was not able to draw a conclusion as to the quality of the programs being developed for Compliance and Fair Lending in response to the OTS request. OTS was able to conclude the implementation process will take a longer period than management anticipated and that there will continue to be compliance weaknesses inherent with a decentralized approach.
04/01/02	CRA Performance Evaluation for 10/30/00. WMB FSB, Lending Test – Outstanding, Investment Test – High Satisfactory, Service Test – Highly Satisfactory, and WMB FA Lending Test – Outstanding, Investment Test – High Satisfactory, Service Test – Outstanding.
04/09/02	Special Compliance Examination. OTS reviewed the progress in the implementation process of the Corporate Compliance Program as required in the Compliance Report of Examination dated October 30, 2000. Field visit performed from 02/25/02 through 03/22/02.
04/16/02	Washington Mutual Announced Record Quarterly Earnings; Board of Directors Increased Cash Dividend.
	WM Compliance and Fair Lending Programs Update provided to OTS. Copies of program statements, executive summary, actions take to –date and status reports with timelines.
04/18/02	WM Quarterly Regulatory Meeting. Topics – Strategic Overview, Market Risk Strategy, Technology Solutions Strategy, Loan Serving Update, Credit Update, Acquisition and Integration Update, and Credit Risk Update.
05/17/02	Capital Distribution not to exceed $4,200,000 on preferred stock Series C and D (June 2002 dividend).
5/24/02	OTS approved the establishment by WMBFA of an operating subsidiary (Washington Mutual Life

	Insurance Company) that would be a California insurance company acting as a reinsurer for credit life and mortgage.
06/06/02	WM to issue capital distribution of $125 million in sub debt, that were originally issued by the dime savings Bank of New York, FSB.
06/14/02	Capital Distribution - payment of $1.4 billion cash dividend (August cash dividend) on the institution's outstanding common stock.
06/19/02	WM Director's Report May 2002. Topics – WMI key highlights, management comment, financial highlights and trend analysis. WMBFA and WMB subsidiary highlights.
07/16/02	Washington Mutual Announced Record Quarterly Earnings; Board of Directors Increased Cash Dividend.
08/07/02	Transmitted Report of Examination (ROE) Information Technology for 02/25/02. Federal Deposit Insurance Corporation (FDIC) and the State of Washington participated. Satisfactory Rating – Audit; Management; Acquisition and Development; and Support and Delivery.
08/08/02	Transmitted Report of Examination (ROE) for 02/25/02, WMBFA ratings 2/223223. WMBFSB ratings 2/232122. HC Rating S as of 02/25/02, S as of 11/27/00 and S as of 09/20/99. Federal Deposit Insurance Corporation (FDIC) and the Department of Financial Institutions, State of Washington (DFI) participated. WMBFA Key deficiencies and requested corrective actions included: 1) WM growth created significant challenges to management and resulted in substantial increases in a variety of risks; 2) significant number of customer errors and led to a very high level of clearing and suspense items; and 3) lack of implementation of a risk management function for the MSA commensurate with its enhanced size and complexity. WMBFSB Key deficiency was continued deterioration in asset quality; problem asset categories had worsened and asset quality was considered less than satisfactory.
08/12/02	To acquire WM mortgage Reinsurance Company and merge it with WMBFA's PMI reinsurance subsidiary, home loan reinsurance company (formerly Fleet Mortgage Reinsurance Company). Approved 09/30/02.
08/16/02	WAMU capital distribution in an amount not to exceed $4,200,000 September dividend.
08/27/02	OTS WM Risk Management & Operational Update. Topics covered – Compliance Overview; Servicing and Product Operations; Capital Markets/Risk Management; Credit Card Proposal; and WMBFSB 2Q Earnings/Portfolio Changes.
08/29/02	HomeSide acquisition -- 2 op. Subs: Sr investment and HS lending. 10/10/02 - filed an amendment -to establish HomeSide trust as an interim measure to facilitate transfer of assets/ liabilities of SR investment, Inc. And HomeSide Lending, Inc. to WMBFA; 10/23/02 - No Objection.
09/05/02	A Delaware single-member limited liability company "APB LLC Op Sub"; 10/3/02 - recd copy of FDIC's approval letter dated 10/2/02. Washington limited liability company - "APB Development LLC Op Sub"; 10/3/02 - recd copy of FDIC's approval letter dated 10/2/02. Approved 10/08/02.
09/11/02	Information Technology Field Visit Memo. Field visit performed at WMBFA from 07/15/02 through 08/23/02. Objective of review was to review the status of the North American Mortgage Company and HomeSide integration project. Overall, project management and control reports for the aforementioned was considered satisfactory.
09/12/02	Targeted Compliance Examination. Primary purpose of the examination was to review progress management has made in implementing a Corporate Compliance Program, as required in the

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	Compliance Report of Examination dated October 30, 2000, and reinforced in the OTS letter of February 6, 2002, to the Board
09/12/02	Special Compliance Examination. Primary purpose of the field visit was to establish the scope of the upcoming, targeted compliance examination.
09/13/02	Capital Distribution - quarterly cash dividend for the 4th qtr of $1.5 billion.
09/24/02	WM Director's Report August 2002. Topics – WMI key highlights, management comment, financial highlights and trend analysis. WMBFA and WMB subsidiary highlights.
10/01/02	Washington Mutual Completed Acquisition of Remaining Assets of HomeSide Lending, Inc.
10/08/02	OTS approved WMBFA established two wholly owned operating subsidiaries, Second and Union LLC .
10/15/02	Washington Mutual Announced Strong Third Quarter Earnings; Company Continues Steady Growth; Board of Directors Increases Cash Dividend.
10/17/02	WM Quarterly Regulatory Meeting. Topics – Strategic Overview, Banking and Financial Services Review, Loan Serving, Compliance Update, Market Risk, Credit Update, and 3Q02 Financial Performance.
11/15/02	Capital Distribution - cash dividend not to exceed $4.2 million on its outstanding, Series C and D preferred stock to be paid on December 2002.
12/20/02	Capital Distribution - 1st qtr dividend not to exceed $1.5 billion.
12/27/02	WM Compliance Improvement and Fair Lending Program Status Reports. WM call centers issues continued, delinquency performance acceptable, unit cost increased, reconciliations over 90 days within tolerance levels, and taxes paid prior to delinquency date were at 99.7%.
	WM Home Loans & Insurance Services Group OTS Executive Briefing. Key Issues – Longer hold time and abandonment rates in call centers, Acceptable delinquency versus all industry benchmarks, Unit cost increased as a result of several one time charges, Reconciliations over 90 days within WM's tolerance and risk levels, and Taxes paid prior to delinquency date were at 99.7%.
12/31/02	OTS West Region WAMU Risk Assessment - Overall Corporate Risk somewhere between moderate and moderately high; WMBFA risk – moderate; WMBFSB – moderate; HC – moderately high. Strategic risk – moderate; reputation risk – moderately high; credit risk – moderately low; market/IRR risk – moderately high; liquidity risk – moderately low; operational risk – moderately high; and compliance risk – moderately high.
01/14/03	Transmitted Report of Examination (ROE) for 11/12/02. OTS performed a targeted compliance examination of Washington Mutual Bank, FA and Washington Mutual Bank, FSB (Washington Mutual) from November 12, 2002, through December 19, 2002, in Seattle, WA. A primary objective of the field visit was to review progress management has made in implementing a Corporate Compliance Program, as required in the Compliance Report of Examination, dated October 30, 2000, and reinforced in the OTS letter of February 6, 2002, to the Board. OTS found the institution has made satisfactory progress in complying with the February 6, 2002, requests of OTS and has established a process for the continuing implementation of a Regulatory Compliance and Fair Lending Program (compliance program) to ensure compliance with all laws, rules, and regulations applicable to its business.
01/23/03	Washington Mutual's record quarterly EPS driven by record loan volume, strong account and deposit growth; Board of Directors increases cash dividend. Earnings for 2002 were a record $3.90 billion, or $4.05 per diluted share versus $3.11 billion, or $3.59 per diluted share in 2001.
01/23/03	Quarterly Regulators Meeting – topics covered: Strategic Overview, 4th Quarter Financial Update, 2003 Financial Plan, Credit Update, Corporate Governance, Compliance Scorecard, and Enterprise Risk

	Management.
02/05/03	WAMU 01/13/03 extended field visit memo issued. All issues from the prior examination have been satisfactorily addressed.
03/17/03	Washington Mutual Bank, OTS approved capital distribution not to exceed $1,700,000,000 (2ND QTR 2003) on 04/08/03.
04/15/03	Washington Mutual, Inc. announced record earnings of $1 billion, or $1.07 per diluted share, for the quarter ended March 31, 2003, up 8 percent on a per share basis from $956 million, or 99 cents per diluted share for the same period a year ago.
04/17/03	Quarterly Regulators Meeting – Topics covered: Strategic Overview, 1st Quarter Financial Update, Credit Risk Reports, Technology Solutions Group Update, Customer Service/Loan Servicing Update, Compliance Progress Report, and Enterprise Risk Management Report.
05/29/03	WMBFA filed an application for issuance of subordinate debt securities of up $5.0 billion over a period of approximately twenty-four months. WMBFA's application included a request that OTS waive certain regulatory requirements.
06/02/03	WAMU to issue sub debt up to $5 billion approved on 07/15/03.
06/11/203	Notice filed by Washington Mutual Bank, FA advising that it intends to acquire Washington Mutual Asset Securitization Corp. from its sister bank, Washington Mutual Bank.
06/17/03	Capital distribution of $2,000,000,000 (3rd qtr dividend).
06/27/03	Formal investigation is initiated into the apparent sale of non-public customer information to unaffiliated third parties by at least four, perhaps more, employees of the thrift. The investigation will seek to determine if more employees, in other locations, were involved. Investigation continues as of 08/2004. The formal investigation established the nature and extent of violations and appropriate enforcement actions have been taken against the culpable institution-affiliated parties involved. The investigation was authorized to be closed 04/18/08 (Action Canceled/Terminated).
07/09/03	OTS granted a wavier on Washington Mutual Bank, FA Global Note Program of certain provisions of the OTS Securities Offering Regulation.
07/11/03	Washington Mutual responded to findings relating to WM Mortgage Reinsurance Co.'s non-compliance with the condition of approval issued by OTS on May 16, 2001 for WMBFA's acquisition of Fleet Mortgage Reinsurance Company, Inc. OTS required action: 1) WM Mortgage Reinsurance Company is to immediately cease engagement in the unapproved activity; 2) Quantify the extent of the noncompliant activity, including dollar amount, and an assessment of the risk to WMBFA; 3) provide management's plan to 'undo' the reinsurance of PMI that is not permissible and the status of those plans; and 4) provide management plans to ensure compliance with the approval conditions in the future.
07/15/03	Washington Mutual, Inc. announced record earnings of $1.02 billion, or $1.10 per diluted share, for the quarter ended June 30, 2003, up 9 percent on a per share basis from $990 million, or $1.01 per diluted share for the same period a year ago.
07/15/03	WAMU provided an update to OTS on the actions that management has accomplished and continues to champion in strengthening its Regulatory and Fair Lending Compliance Management Programs at WMBFA and WMBFSB.
07/16/03	OTS approved 05/29/03 WMBFA's application, including waivers noted.
07/17/03	OTS approved WMBFA requested a waiver of Item 15 of Form 1344 relating to Issuance of subordinated debt securities by Washington Mutual Bank, FA approved by OTS on 07/16/03.
08/18/03	Capital Distribution: Not to exceed $4.2 million on its outstanding Series C and D preferred stock.
08/22/03	Transmitted Report of Examination (ROE) for 03/17/03, ratings 2/222223. Federal Deposit Insurance

	Corporation (FDIC) and the Department of Financial Institutions, State of Washington (DFI) participated. Key deficiencies and requested corrective actions included: (1) Continue to build infrastructure – data, systems, metrics, reporting, staff, organizational structure, and processes – to foster strong risk management structure and culture. Be selective in acquisitions given the potentially severe impact a major acquisition could have on already overtaxed units; (2) Focus extra attention on HLIS activities – especially single-family residential mortgage underwriting, correspondent and wholesale channel management, pipeline and warehouse management, recourse administration, and quality assurance; (3) Continue to dedicate resources to building and strengthening Enterprise Risk Management and Corporate Credit Risk Management – these functions should conduct intensive and frequent reviews of higher risk areas of concern and ensure enterprise-wide risk management standards are in place; and (4) Continue execution of ongoing compliance and risk management initiatives.
08/22/03	Transmitted Regular IT Examination for 03/17/03. Federal Deposit Insurance Corporation (FDIC) and the State of Washington participated. Satisfactory Rating – Audit; Management; Acquisition and Development; and Support and Delivery.
08/26/03	Washington Mutual, the nation's leading retailer of consumer financial services, opened a record-setting 49 retail banking de novo stores in August.
09/19/03	WAMU notified OTS on 3rd qtr anticipated earnings to be between $900 million and $1 billion. The institution has lots of people working on improvements in internal controls over mortgage pipeline and warehouse. Additionally, there is significant risk in the loan documentation at Long Beach Mortgage.
09/22/03	Capital Distribution: Not to exceed $1,500,000,000 4th qtr dividend.
09/25/03	WMBFA and New American Capital Inc., WMBFA holding company requested approval of the acquisition of Washington Mutual Bank FSB through a merger of an interim federal savings association subsidiary (WM 2003 Interim FSB) of WMBFA.
10/03/03	OTS discussed with WAMU in more depth the negative gain on sale of loans to be reported for Q3 2003, including the extent of the loss and the market and operational weaknesses contributing to the loss. Additionally, discussed in more depth WAMU's recent decision to cease securitization activity at Long Beach Mortgage Company (LBMC).
10/08/03	During the first nine months of 2003, the West Region received a total of 2,232 written complaints concerning WAMU. Majority of complaints were in the loan servicing area regarding misapplied loan payments; nonpayment of taxes or insurance from a customer's escrow account; payoff related problems; amounts of escrow collected and escrow accounting related concerns; and foreclosure notices being incorrectly received by customers.
10/08/03	Washington Mutual's (WM) Multi-Family Lending Continues Expansion Eastward. WM will open three new Multi-Family Lending offices by the end of 2003 in Boston, Miami and Washington DC.
10/21/03	Washington Mutual, Inc. announced earnings of $1.03 billion, or $1.12 per diluted share, for the quarter ended Sept. 30, 2003, up 10 percent on a per share basis from $981 million, or $1.02 per diluted share for the same period a year ago.
10/23/03	Quarterly Regulators Meeting – topics covered: Strategic Overview, Retail Consumer Strategy, Long Beach Mortgage Update, 3rd Quarter Financial Review, and Credit Update.
11/03/03	09/03 WAMU Regulatory Performance Objectives Status (WAMU Report)
	1) Improve SFR underwriting and oversight of correspondent & wholesale lending channels – Capability and resources exist; however progress has been slowed or delayed. 2) Improve pipeline and warehouse risk management practices - Capability and resources exist; however progress has been slowed or delayed. 3) Improve market risk management practices – Satisfactory progress toward resolution

	in a reasonable timeframe. 4) Continue to improve the Compliance & Fair Lending Programs - Satisfactory progress toward resolution in a reasonable timeframe. 5) Improve Long Beach Mortgage Securitization Practices – High probability that current target date will not be met; significant concern may exist; or negative events may have occurred due to lack of reduction.
11/7/03	The OTS approved an H(e)1-S application, whereby WMBFA will acquire WMBfsb. Following the acquisition, WMBFA will contribute approximately $37 billion of investment securities to WMBfsb. The corporate reorganization is being done primarily for tax savings within the Washington Mutual organization. It was anticipated that this transaction would be consummated in the first quarter of 2004.
11/13/03	Washington Mutual, Inc. (NYSE:WM) filed today its Quarterly Report on Form 10-Q with the Securities and Exchange Commission, which included the correction of an error in its accounting for certain components of Bank Owned Life Insurance (BOLI). The adjustment in accounting treatment for BOLI is not expected to have a material effect on earnings in the fourth quarter of 2003 or future periods, according to the company.
11/14/03	Capital distribution: Quarterly cash dividend of $4.2 million on its outstanding Series C and D preferred stock to be paid in December 2003.
12/19/03	Capital distribution: 1st qtr dividend not to exceed $425,000,000 approved.
12/23/03	Notice of Acquisition of Subsidiary – Washington Mutual Bank, FA (the "Association"), Stockton, California, plans to acquire an additional operating subsidiary, Aristar Management, Inc. on or after January 8, 2004.
12/9/03	OTS met with WAMU personnel to discuss findings of the recently completed field visit that commenced on 10/14/03.
12/29/03	Letter from OTS to WAMU reminding them of their obligations to provide information to the examination staff.
1/22/04	Quarterly Regulator's Meeting: discussed (1) findings from the 4th quarter 2003 field visit; (2) reorganization of the "risk management" function; (3) an update on compliance with Sarbanes Oxley; (4) review of financial statements for the 4th quarter of 2003; and, (5) credit risk.
2/1/04	Washington Mutual Bank, fsb, and its subsidiary, WMF Utah Holding Corp., became subordinate organizations of WMBFA through a reorganization (from ROE as of 3/15/04).
2/2/04	Transmitted Report of Examination for the field visit that commenced on 10/14/03 examination. The field visit was conducted concurrently with the FDIC and the State of Washington Department of Financial Institutions. The field visit focused primarily on assessing the impact of certain significant events, planning for the 2004 examination, and following up on Long Beach Mortgage Company (LBMC) securitization process issues from the 2003 examination (at the time, LBMC was a holding company affiliate of WAMU). We focused secondarily on evaluating progress on corrective actions promised in response to the 2003 examination, and on assessing the condition of the OTS-regulated entities to determine if any examination ratings needed to be changed. The examiners concluded that the institutions were basically sound, but expressed concern regarding: (1) the recent organizational realignment; (2) deteriorating earnings; and, (3) capital levels (core and risk-based capital slipped slightly below the internal targets of 5.5 and 11.0 percent, respectively, for WAMU at 9/30/03); and (4) weaknesses with the institution's servicing platform.
3/3/04	Transmitted IT Report of Examination for 10/14/03 examination. The limited IT examination work was conducted concurrently with OTS safety and soundness examiners, and personnel from the FDIC and State of Washington Department of Financial Institutions. The purpose of the on-site field visit was to

	meet with management to obtain an update on operations and technology, perform a limited review of management corrective actions to the 2003 IT Report of Examination findings, provide input to the risk assessment and supervisory strategy, and plan for the 2004 IT examination. Findings discussed in the examination report included: (1) the discontinuation of the Optis initiative (single-family servicing platform); and (2) certain outsourcing initiatives.
4/22/04	Quarterly Regulator's Meeting: discussed (1) the 1st quarter 2004 financial results; (2) update on compliance and credit; and, (3) an update on compliance with Sarbanes Oxley.
7/1/04	Examination exit meeting (examination begun 3/15/04)
7/22/04	Quarterly Regulator's Meeting: discussed (1) the Bank's proposed five-year plan --- 2005-to-2009; (2) 2nd quarter 2004 financial results; (3) update on the IT environment; (4) ERM update; and, (5) an update on the Fidelity Conversion.
9/13/04	Transmitted Report of Examination (ROE) for comprehensive 3/15/04 examination, rated 2/222223, of WAMU. Compliance was rated "2". IT was rated 2/22232. The examination was performed concurrently with examinations of Washington Mutual Bank, fsb and WMI, the insured institution's top-tier holding company. Additionally, the Federal Deposit Insurance Corporation (FDIC) and the Department of Financial Institutions, State of Washington, performed a concurrent safety and soundness examination of Washington Mutual Bank, a state-chartered, commercial bank subsidiary of WMI. Key findings and corrective actions listed among in the ROE included: (1) infrastructure weaknesses due to past rapid growth and the failure of the institution to fully integrate past acquisitions; (2) continued weaknesses in single-family loan underwriting; (3) the need to develop a high risk/subprime lending strategy for the Bank; (4) weaknesses with market risk management practices, including interest-rate risk modeling and mortgage pipeline and warehouse risk management practices; and, (5) concern regarding the consolidation of the Residential Quality Assurance unit with other functions within Enterprise Risk Management.
9/13/04	Memo closing the 3/15/04 IT Report of Examinations for Washington Mutual. The OTS IT examiners conducted concurrently the IT examinations of Washington Mutual Bank, FA and Washington Mutual Bank, fsb with the OTS safety and soundness / compliance examination report as of 3/15/04.
10/21/04	Quarterly Regulator's Meeting: discussed (1) 3rd quarter 2004 financial results; (2) TSG (Technology Solutions Group) update; and, (4) ERM update.
11/10/04	Transmitted CRA Report of Examination (ROE) as of 7/14/03. CRA was rated "Outstanding". All three tests (the Lending Test, the Investment Test, and the Service Test) were rated "Outstanding".
12/7/04	Closing meetings (12/7/04 and 12/9/04) with senior management pertaining to the field visit that commenced on October 18, 2004.
12/21/04	Mr. Stephen Rotella hired as President and Chief Operating Officer (from 3/13/06 ROE)
1/1/05	The State of Washington chartered Washington Mutual Bank was merged into Washington Mutual Bank, FA. As a result of the merger, the former state-chartered institution ceased to exist as a separate legal entity.
1/20/05	Quarterly Regulator's Meeting: discussed (1) the Bank's proposed strategy; (2) 2004 financial results and 2005 outlook; (3) update on ERM; and, (4) the Bank's retail banking strategy.
2/7/05	Transmitted Report of Examination for the field visit that commenced on 10/18/04 examination. The field visit was conducted concurrently with the FDIC. The State of Washington declined to participate given the impending merger of the state-chartered institution, Washington Mutual Bank, into WAMU. The field visit focused primarily on assessing management's progress in addressing issues noted in the

WaMu Timeline

	Matters Requiring Board Attention section of the March 15, 2004, Report of Examination. The examiners concluded that the institution had made satisfactory progress in addressing the concerns identified during the previous examination; however, the examiners identified concerns in the following areas: (1) the use of an automated valuation methodology (appraisal finding); (2) the increasing level of credit risk, without adequate oversight; (3) the lack of adequate profitability analysis (specifically Option ARMs); (4) weaknesses with Corporate Credit Risk Oversight;
2/8/05	Transmitted IT Report of Examination for 10/18/04 examination. No material concerns were identified.
2/28/05	Press release: WAMU announces new retail leadership; adds new senior manager to home loans team; Michael Amato and Ken Kido to head retail.
4/12/05	Letter from OTS to WAMU reiterating our understanding that the institution would maintain its core capital ratio above 5.5 percent.
4/21/05	WAMU advised OTS staff that the institution's past due loans would increase significantly as a result of amendments to the institution's TFR (GNMA buy-backs will be required to be reported as past due). Based on March 31, 2005 data, past due loans would increase from $1.2 billion to $2.7 billion as a result of this reclassification.
4/21/05	Quarterly Regulator's Meeting: discussed (1) the overall condition of the Bank; (2) the first quarter 2005 financial results; (3) update on the home loans group; (4) update on ERM; and, (5) an update on TSG (Technology Solutions Group).
6/1/05	Press release: WAMU drops annual fee on personal equity manager product, adds longer-term feature, making it one of the most flexible home equity and mortgage products currently available.
6/6/05	Press release: WAMU announces it will acquire Providian Financial; strategically compelling fit for both companies (three releases that day regarding proposed acquisition).
6/29/05	Examination closing meeting; Report of Examination transmitted 8/29/05
6/30/05	Press release: WAMU announces new president of its Home Loans Group (per 3/13/06 ROE, David Schneider was hired effective 8/8/05).
7/21/05	OTS examiners met with WAMU to discuss the need to resolve our concerns regarding SFR underwriting.
8/4/05	Press release: OTS deems WAMU's application to acquire Providian complete.
8/24/05	Press release: Bank regulator approves Washington Mutual's acquisition of Providian; transaction scheduled to close October 1.
8/29/05	Transmitted IT Report of Examination for 3/14/05 examination. The OTS IT examiners conducted concurrently the IT examinations of Washington Mutual Bank, FA and Washington Mutual Bank, fsb with the OTS melded safety and soundness / compliance examination report as of 3/14/05.
8/29/05	Transmitted Report of Examination (ROE) for comprehensive 3/14/05 examination, rated 2/222222. Compliance was rated "2". The examination was concurrent with examinations of Washington Mutual Bank, fsb, an operating subsidiary of the Bank, and WMI, the insured institution's top-tier holding company. The Federal Deposit Insurance Corporation (FDIC) participated as the back-up regulator. Key findings and corrective actions listed among in the ROE included: (1) the need for strong support of ERM by senior management and the Board of Directors; (2) continued weaknesses in loan underwriting; (3) concerns regarding Corporate Risk Oversight; (4) the need to enhance oversight over the Bank's "High-Risk Lending Strategy", particularly as it relates to the acquisition of Providian; (5) weaknesses with oversight of the Mortgage Banker Finance division; (6) appraisal weaknesses; (7) concern regarding compensation for loan underwriters; (8) concern that the Bank's home equity lending

	was inconsistent with Interagency Guidance relating to this type of lending; (9) weaknesses with the Bank's fair lending program; and, (10) exceptions with the Loans-to-one-borrower report.
8/31/05	Press release: Washington Mutual's focus on seamless integration of Providian; Providian shareholders approve acquisition.
10/3/05	Press release: WAMU completes acquisition of Providian Financial (effective 10/1/05).
10/20/05	Quarterly Regulator's Meeting: discussed (1) the overall condition of the Bank; (2) the third quarter 2005 financial results; (3) an update by the COO, Steve Rotella (planning regarding the acquisition of Card Services and the introduction of David Schneider); (4) update on home loans; (5) update on the Commercial Group; and, (6) an update on ERM.
10/21/05	Press release: WAMU names John F. Woods Controller.
10/27/05	Press release: WAMU hires new Chief Enterprise Risk Officer (per 3/13/06 ROE, Ronald Cathcart was hired effective 12/1/05, to replace EVP James Vanasek, who retired at the end of 2005).
12/8/05	Transmitted IT Report of Examination for 10/3/05 examination. No material concerns were identified.
12/14/05	OTS met with CEO Kerry Killinger and COO Steve Rotella to discuss the findings of the 10/3/05 field visit.
12/21/05	Press release: WAMU realigns prime and subprime residential lending under one management team; move part of ongoing efforts to serve customers better; improve operating efficiencies.
1/1/06	The Bank transferred the Mortgage Banker Finance Group and holding company affiliate LBMC from the Commercial Group to the Home Loans Group. The reorganization effectively placed all of the Bank's SFR lending operations under one group (see ROE dated 3/13/06, transmitted on 8/30/06).
1/10/06	WAMU advised the OTS that its fourth quarter earnings would be at the low end of (or below some) market analysts' expectations due to higher loss provisions at Long Beach Mortgage and mortgage servicing asset valuation adjustments....Long Beach experienced a sharp rise in early payment defaults during the fourth quarter resulting in an estimated repurchase of $600 million in whole loans that were sold into the secondary market. WAMU switched to whole loan sales, instead of securitizations, in the second half of 2005 for Long Beach and sold an estimated $13.2 billion into the secondary market. By comparison, Long Beach loan repurchases were $100 million in 2003, $30 million in 2004, and $40 million for the first 9 months of 2005 primarily on securitizations that do not have the same early payment default provision found in the whole loan sales.
1/19/06	Quarterly Regulator's Meeting: discussed (1) the overall condition of the Bank; (2) update on Card Services; (3) update on ERM; (4) financial review (4th quarter 2005); and, (5) the Bank's retail banking strategy.
2/1/06	Letter from Darrel Dochow (OTS) to WAMU confirming our agreement that WAMU "super risk weight" certain higher-risk assets.
2/2/06	Transmitted findings of 10/3/05 field visit. The FDIC did not participate. Areas reviewed during the examination included: (1) SFR underwriting; (2) appraisal weaknesses; (3) Corporate Risk Oversight; (4) Fair Lending; (5) Basel II progress, with specific emphasis of the economic capital allocation model; (6) Enterprise Risk Management; and, (7) the integration of Providian into WAMU. Overall, the examiners concluded had made progress in each of the areas reviewed, though further progress was deemed warranted.
2/15/06	Letter from John Robinson (WAMU) confirming our agreement that WAMU "super risk weight" certain higher-risk assets.

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2/15/06	Press release: WAMU consolidates home loan support offices.
2/28/06	8K filed: merger of LBMC into WAMU (from WMI) as of 3/1/06.
3/29/06	Press release: Frank Vella joins WAMU as new division head for small business banking.
4/10/06	8K filed: WAMU named James B. Corcoran Retail Banking President on April 4, 2006, effective may 15, 2006.
4/20/06	Quarterly Regulator's Meeting: discussed (1) the overall condition of the Bank; (2) the first quarter 2006 financial results; (3) economic capital update; and, (4) an update on ERM.
4/23/06	Press release: WAMU to acquire Commercial Capital Bancorp. Inc.; deal to strengthen WAMU's commercial and retail banking businesses.
5/16/06	Press release: WAMU enhances its home equity line of credit product to provide greater payment flexibility; allows consumers to make interest-only payments on a fixed-rate loan option.
6/21/06	Memo from Kerry Killinger regarding a change in the Bank's strategic direction. Points made by Kerry Killinger included: • Our Home Loans Group should complete its repositioning within the next twelve months and will be in position to profitably grow its market share of Option ARM, home equity, sub-prime and Alt-A loans. We should be able to increase our share in each of these categories to over 10%, although Alt-A will take longer because of our low starting market share. • We are refining our Home Loans business model to significantly curtail low-margin Government and conventional fixed rate originations and servicing, and significantly increasing our origination and servicing of high-margin home equity, Alt A, sub-prime and option ARMs. Action steps include merging Long Beach sub-prime and the prime business under common management, merging correspondent activities into our conduit channel, exiting Government lending, curtailing conventional fixed-rate production, expanding distribution of targeted high-margin products through all distribution channels and potentially selling MSRs related to low-margin/high-hedge cost products. • To accomplish our desire to reduce interest-rate risk and to increase credit risk, we are embarking on a gradual remixing of our balance sheet. This remixing will also have the benefit of better utilizing our economic capital. In 1995 *(2005?)*, prime single-family loans represented 36% of our balance sheet. Within three years, we expect this to decline to 26%. Making up the balance will be home equity at 19% versus 15%, sub-prime home loans at 10% versus 6%, credit card receivables at 3% versus 2%, and multi-family at 11% versus 8%.
7/19/06	Press release: WAMU to sell $140 billion in mortgage servicing and Milwaukee servicing operations to Wells Fargo.
7/25/06	Press release: WAMU to sell mutual fund subsidiary to the Principal Financial Group.
8/19/06	Press release: WAMU chairman and chief executive Kerry Killinger says the federal guidance on nontraditional mortgages will have a "limited" effect on its payment-option ARM lending program.
8/23/06	Press release : OTS approves WAMU acquisition of Commercial Capital Corp, Inc.
8/30/06	Transmitted Report of Examination (ROE) for comprehensive 3/13/06 examination, rated 2/222222. Compliance was rated "2". The examination was concurrent with examinations of Washington Mutual Bank, fsb, an operating subsidiary of the Bank, and WMI, the insured institution's top-tier holding company. The Federal Deposit Insurance Corporation (FDIC) participated. Key findings and corrective actions listed among in the ROE included: (1) concern that the number of management changes could pose short-term transition risk; (2) weaknesses with fraud management; (3) weaknesses in subprime

	underwriting at LBMC (prime underwriting was rated marginally satisfactory); (4) violations of RESPA Section 8 and Reg X, regarding reimbursement of unearned fees; (5) the need to ensure ERM's effectiveness and the adequacy of resources for this department; (6) the need to enhance monitoring of the Bank's high-risk-lending strategy; (7) the need to enhance the credit scoring model development and monitoring processes; (8) errors on the LTOB report; (9) the need to enhance monitoring reports for one-to-four lending, including the mortgage banker finance group; (10) appraisal weaknesses; and, (11) servicing weaknesses.
8/30/06	Transmitted IT Report of Examination for 3/13/06 examination (rating of 2 / 2222). No material concerns were identified.
9/29/06	Press release: Statement from David Schneider, President, Home Loans, regarding interagency guidance on nontraditional mortgages.
10/2/06	Press release: WAMU completes acquisition of Commercial Capital Bancorp.
10/6/06	OTS met with WAMU to discuss REIT preferred stock.
10/12/06	OTS met with WAMU to discuss NTMP guidance.
10/19/06	Quarterly Regulator's Meeting: discussed (1) the overall condition of the Bank; (2) the third quarter 2006 financial results; (3) economic capital update; (4) update on ERM; (5) discussion of retail banking strategy; and, (6) an update on home loans group.
10/19/06	WAMU announcement: "the federal guidance on nontraditional mortgages will have a "limited" effect on its payment-option ARM lending program.....based on preliminary analysis and initial discussions with our regulator, the Office of Thrift Supervision, while we expect some changes, the impact on the origination of the option ARM products in our Home Loans group appears limited."
	OTS examination commenced
1/8/07	Approved Dividend Quarter (Q) 1 $3 billion (B)
1/11/07	IT Limited Thrift Examination transmitted: Scope focused on management corrective action to the March 13, 2006, IT Report of Examination. Corrective action found satisfactory, and the timeline for compliance with CEO Memo 228-Interagency Guidance on Authentication in an Internet Banking Environment was on track.
1/23/07	OTS/Treasurers interim meeting
1/23/07	Approved Operating Subsidiary - Thackerey
1/30/07	Discuss Nontraditional Mortgage Guidance Action Plan
2/1/07	Quarterly Treasurers Meeting
2/1/07	Quarterly Regulators Meeting • Q4 06 net income $1.058B, improved NIM offset partially by weak performance by home loans due to subprime loan performance. • Repurchased $3B of common shares in 2006. Projected to repurchase $4.2B in 2007. • 2007 forecast net income of $3.8B • Enterprise Risk Management (ERM) – Consistent with our strategic plan we are increasing credit risk in our 2007 business plan to be monitored and actively managed through the ERM committee. Consumer loans to high risk borrowers 15.2% at 11/06 to increase to 22.9% in 2007 plan; Consumer loans with high LTV 6% at 11/06 to increase to 7.3% in the 2007 plan; • single state concentrations increased from 46.2% to 48/2% and • single MXA from 20.55 to 21.4%.

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	FDIC Supervisory Strategy – FDIC focus on Basel II, Market Risk Amendment and VAR methodology, SFR Lending and Non-traditional Mortgage Guidance, and general interest rate risk.
2/1/07	Approved March Preferred Dividend $4.2 Million (M)
2/21/07	Project Thackeray Update (see Treasurer's meeting)
2/22/07	OTS update meeting; Robinson, Dochow, Carter
3/5/07	Current Litigation Meeting
3/8/07	Exam Exit Meeting
3/15/07	OTS Basel II Schedule meeting
3/21/07	OTS Q1 2007 Exam Exit Meeting
4/17/07	St Stated Income-Reporting, Analytics and Risk Management
4/19/07	Quarterly Regulators Meeting • Q1 2007 Net income $784 million (M) • Improved margin and higher credit card income offset by subprime losses. • $273 M below projected NI for the Quarter • NIM improved 21bps driven by asset repricing and lower interest cost of deposits. • Subprime gain on sale and residual write-down deteriorated due to wider credit spreads and increased delinquencies. • Higher provision expense due to increased charge-offs on sub-prime and HE loans. • Loans HFS declined due to $17.8B hybrid sale, SFR balance decrease in line with decision to hold fewer loans in portfolio in the current flat rate environment. Credit Card on balance sheet receivables decreased due to an increase in Q1 07 securitization of $1.2 B. • Increased Cash Dividend to $0.55. • Subprime-Integrating products originated through the sub-prime channel into prime channels. • Dedicated sales force solely focused on retail bank mortgage volume. • Subprime market is experiencing massive market dislocation. • Subprime production; stated income reduced from 52% Jan 06 to 25% March 07. • Nontraditional Mortgage Guidance o Moving towards underwriting at fully indexed, fully amortized rate, including full negative amortization. o Enhancing risk management and disclosures. • Proposed Subprime Statement o Moving away from 2/28 to longer fixed term period o Implementing retention and loan modification programs • ERM top 5 Risk Issues o Housing Market Deterioration o Volatility of Credit Card Markets o Business model stress-shift from portfolio lender to gain on sale o Data Governance and integrity o Increased intensity of regulatory and legislative oversight
4/20/07	OTS/Internal Audit Investigation
4/23/07	OTS/Capital Restructuring Meeting
4/24/07	Monthly OTS Update Meeting, Dochow/Franklin

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4/24/07	Quarterly Basel II Conference Call
4/26/07	BSA/AML Weekly Status Meeting
4/26/07	Exam Update meeting-Deloitte and OTS
5/1/07	Basel II Kickoff Meeting
5/1/07	Approved Q2 Common Dividend $3 B, Preferred Dividend $4.2 M
5/9/07	BSA/AML Weekly Status Meeting
5/14/07	OTS Quarterly Treasurer's meeting (filed paper document) • Balance sheet reductions and Project Thackeray reduced Q1 funding needs o Thackeray – complex transaction with Barclay's Bank $6.25B 3 year funding complete 3/27/07 • Wholesale funding declined from $143B on 12/06 to $116B on 3/07 • $1B Senior Note issued • March covered bond issue postponed • WaMu master note trust $1.1B AAA , $150M A, with $700 M Credit Card conduit increase • Forecast Q2 funding needs remain limited o No WMI funding needs in 07, next Senior bank debt maturity forecast Q3 07 o FHLB advance pay-downs continue o WM master note trust 3yr $875N AAA, $125M BBB Credit Card Securitization to sett Mid May o Brokered Retail deposits likely to remain stable • 2007 Funding Outlook o Subordinate debt removed from forecast o $2 to $4B senior debt needs in 2007 o FHLB advances expected to decline $15 to $20B by year end • Q1 Capital Outlook o Repurchased $2.8B common stock o Exercised call option to retire $400M trust preferred o WMB upstreamed $3B excess Capital by dividenting to WMI • Q2 Forecast Capital Activity o Continue to retire inefficient trust preferred o $500M WM Preferred Funding LLC issue in May o Excess Capital available at WMB • 07 Capital Strategy o Continue optimizing Tier 1 Capital base o Limited growth makes any new capital issue "nice" but not required
5/14/07	OTS/Rotella Update meeting
5/15/07	Discuss Status of NTM Guidance and Proposed Subprime Lending Guidance
5/15/07	Long Beach Mortgage FPD/EPD Review with OTS
5/16/07	BSA/AML Weekly Status Meeting
5/17/07	OTS Exam Status update ALLL
5/24/07	Compliance Limited Examination Transmitted – Overall we found WaMu had established an effective fair lending risk monitoring and management program for residential lending. Four of 14 comparative review found that corrective action at a transaction level would be appropriate. Management's prompt response in taking corrective action for the affected borrowers is a positive step in limiting the

	institution's fair lending risk.
5/25/07	Monthly OTS Update Meeting-Dochow/Franklin
6/14/07	BSA/AML update
6/20/07	Follow up Committed Capital Term Sheet
6/20/07	OTS Exit Meeting – C-2, A-2, M-2, E-2, L-1, S-2, Compliance-2, IT-2, WMI-Satisfactory
6/20/07	Monthly OTS Update Meeting-Dochow/Franklin
7/23/07	Approved Operating Subsidiary Pike Holdings
8/1/07	Approved Common Dividend $1B in connection with elimination of North American Capital Inc. (NACI) as a holding company.
8/15/07	Approved 5 new Operating Subsidiaries including 4 foreign entities
8/16/07	Quarterly Treasurer's Meeting • Capital Forecast-see below • Debt Schedule and Forecast-see below • Funding Review o Funding Diversification ▪ FHLB advances declined from $25B to $21B ▪ Brokered CDs declined from $32B to $25B ▪ Covered Bond issue in May 2007 of $2B ▪ WaMu Master Note Trust 3yr, $875M AAA and $125M BBB. o Major Market disruption • Little or no liquidity across most asset classes • Liquidity remains limited and volatile • WaMu has adequate Liquidity o Substantial FHLB capacity-$43B o Repo and Broker CD capacity o Minimal debt maturities, $1.5B in Nov o Credit Card Asset Backed Securitizations expected to issue in Q3 o Enhanced monitoring, 12 month liquidity forecast and weekly liquidity reports • NACI Elimination Update • Pike Street Holdings Update • Q3 Capital Strategies o Remove plans for Share Repurchases in Q4 08 o Retain Capital in WMB except for that needed by WMI for common dividends
8/27/07	1/8/07 examination concluded
8/27/07	Approved Operating Subsidiary MergeCo
9/10/07	Discuss McKell vs WaMu
9/17/07	1/ 1/8/07 Report of Examination transmitted, with a composite rating of "2", camels ratings of 2,2,2,2,1,3 and compliance 3. The summary highlighted management's long term strategic plan of reducing market risk while reducing reliance on lower yielding SFR first mortgages by replacing those with higher yielding, though higher risk assets such as multifamily, credit card, and home equity loans. The strategy is being pursued more cautiously, particularly with regard to subprime lending, where there has been deterioration. The report highlighted the following Matters Requiring Board Attention (MRBA): • Continued weaknesses in subprime SFR lending which is a repeat MRBA. Board to ensure

	underwriting deficiencies are reduced to tolerance levels agreed upon in management's to Asset Quality Findings Memo 3. • A Cease and Desist Order (C&D) was issued covering the required Bank Secrecy Act (BSA)/Anti Money Laundering (AML) Corrective Actions and the Board is to ensure the requirements of the C&D are fully complied with. • Civil Money Penalties were imposed for violations of the National Flood Insurance Protection Act. Board to ensure that the management and system deficiencies that resulted in the violations are corrected and the necessary flood insurance is obtained. • Board to ensure that management implements a comprehensive compliance framework, and that the compliance management function receives appropriate support, leadership, and resources. • Continue to monitor and receive reports on the status of Enterprise Risk Management to ensure its effectiveness and that appropriate resources and support are provided to the function. ERM should provide an important check and balance on profit-oriented units and, therefore, warrants strong Board commitment and support.
9/18/07	Discuss Transland MBF
9/18/07	OTS Basel II September Kickoff meeting
9/19/07	Overview of Consumer Complaints
9/20/07	Up to marketing update
9/21/07	Monthly OTS update meeting-Dochow/Franklin
9/21/07	Discussion on new Subprime Report for OTS
9/26/07	Fair Lending Review
10/02/07	1-8-07 IT Examination Completed-Findings transmitted in the type 16 ROE of 9/18/07.
10/16/07	Score Assisted Underwriting Overview meeting
10/13/07	WaMu announces closure of its Mortgage Banker Finance, Conduit, and Correspondence Loan divisions. Residential loan origination will now be concentrated in branch system.
10/14/07	Initiated a formal examination of the appraisal process to assess the validity of a complaint filed by the New York Attorney General's (NYAG) Office. No examination report was issued on this matter.
10/17/07	Assessed $60,445.00 Civil Money Penalties (CMPs) related to violation of flood insurance regulations
10/17/07	OTS/HFI Transfer Valuation Meeting
10/17/07	Ca Card Services Fraud Overview
10/18/07	Quarterly Regulators Meeting • Q3 07 Net Income $210 M $620 M below plan • Reflects accelerated credit pressures and freeze of secondary market • Provision expense increased • $147 M valuation loss on $17 B loans transferred to HFI • $104 M permanent impairment on AFS securities • Widening spreads and credit deterioration also drove write-downs on commercial loan residuals and trading securities • MSR performance improved • Cash increased by $7B to bolster liquidity position, primarily from FHLB • Declared Cash Dividend of $0.56/Share • Residential Portfolio consists of

- $19.8B subprime portfolio in run off mode
- $58.4B Home Equity high credit quality, largely second lien,
- $106.8 SFR Prime High quality primarily option arms and hybrids

- Significant changes to guidelines in all segments
  - Tightened underwriting standards on Prime SFR, Home Equity, Subprime, and for all products.
  - Prime SFR 90% max Cumulative Loan to Value (CLTV), reduce non-full doc eligibility to loans with CLTV 80%, Fico under 680 require 65% CLTV or lower, No exceptions for borrowers with FICO below 620.
  - Home Equity max CLTV 85% in CA, FL, AZ, and NV, CLTV>65% requires Fico>680,
  - Subprime Eliminate Stated Income and Limited Doc Loans, Eliminate 2/28 and 3/27 loans, Max CLTV 90%, Eliminate Piggyback seconds
  - All Products Enhance declining market policy to include a CLTV reduction by 5% if high risk market
- Credit Risk profile of new originations stronger under new guidelines. Sept 07 originations combined with CLTV>80% = 23% vs 28% in Jan and the portfolio avg, Fico <660 =9% vs 14% in January and 22% for portfolio avg, >80%<660 = 3% in Sept vs 6% in Jan. and 7% portfolio.
- Customer outreach: Expand relationships with local agencies, dedicate 1-800 number and email box where customers can make direct contact, dedicated leadership team with $100K budget. Establish early loss mitigation department for subprime, create NPA early loss mitigation department for subprime,
- BSA/AML Enforcement Action: On 9/25/07 OTS delivered C&D draft with the final order delivered 10/15/07, with 3/31/08 deadline for full compliance.
- ERM
  - Critical Environment Elements: Home Price Appreciation (HPA) indices show dramatic drop in home price year over year change in Jan 07. Subprime Credit Default Swap index shows significant investor sentiment that subprime mortgage holders will suffer increased financial losses from these investments with decline in the index beginning mid June 2007.
  - Held For Sale (HFS) to Held for Investment Loans (HFI): The balance of HFS assets was reduced from $41.7B (4Q06) to $8.5B (3Q 07) through sales, redirection of originations, and transfers from HFS to HFI. Transfers included $14.4B SFR, $1.4B Subprime, and $1.3B Commercial.
  - Subsequent to 12/31/05, WaMu reduced its reliance on Federal Home Loan Bank (FHLB) advances in favor of finding through Covered Bonds and retail deposits. FHLB advances declined from 22% of funding sources at 12/31/05, to 7% at 6/30/07 but went back up to 17% at 9/30/07 as Commercial and Escrow Deposits declined.
  - ERM top 5 Risk Issues have changed since last Quarter
  - Q3 ERM Top 5 Risks
    - Housing Market Deterioration

	▪ Volatility of Credit Card Markets ▪ Business model stress-shift from portfolio lender to gain on sale ▪ Data Governance and integrity ▪ Increased intensity of regulatory and legislative oversight o Q4 ERM Top 5 risks ▪ Accelerated Deterioration of US Markets remains #1 ▪ #2 is now "Withdrawal of liquidity from the secondary markets ▪ #3 is now Compliance Process Deficiencies ▪ #4 is now External Fraud ▪ #5 is now Data Integrity • Overview of WMI consolidated Portfolio o Total NonPerforming Loans (NPL) portfolio has risen from less than 1% at 1/06 to 2.2% at 9/07. Portfolio charge-offs have risen from 0.15% o 0.78% in the same period. o ALLL was $1.6B at 6/30/07, $1.9B at 9/30/07
10/25/07	Quarterly Treasurers Meeting Liquidity Update; debt issuance, collateral expansion • Self-imposed liquidity requirements have been established for 1 day, 7 day, 3 month, 6 month, and 12 month periods. Excess liquidity forecast as of 9/30/07 indicated that excess liquidity for 3 month period of $14 billion was short of target of $25 billion. The shortfall is expected to be cured by on-going reallocation of collateral to increase FHLB borrowing capacity to $35 to $40 billion by yearend. • WMB's stress case scenario projects that its "Total Excess Liquidity" will range between $32 billion and $38 billion from Q4-2007 through Q4-2008. Over this time period, total assets are projected to grow from $322.8 billion at 9/30/2007 to $357.7 billion at 12/31/2008. Most of the growth is projected to be funded with an increase in FHLB advances. Total FHLB advances are projected to increase from $53.2 billion at 9/30/07 to $84.4 billion at 12/31/08. WaMu Preferred Funding and planned future capital activity • WMI successfully priced and issued $1 billion in a Preferred Funding LLC transaction in October 2007. • Planning $500 million WMI sub debt in October. The sub debt was priced last week with a 7.25% coupon and will settle next Tuesday. • Planning $500 million Cayman Preferred Funding in Nov/Dec • Planning $500 million DRD Preferred in Nov/Dec • NACI will be merged out of existence on November 1, 2007. NACI transaction eliminates $950 million of subdebt at WMB. WMB's capital will be augmented in Q4-2007 with: (1) up to $1.465 billion in Tier-1 Capital (consisting of net proceeds from: (a) $1 billion of WMB preferred stock issued, and (b) potential issuance of $500 million preferred stock, and (2) $500 million in Tier 2 capital (subordinated debt). Bagley Phase II • WaMu expects to hand deliver an application to OTS on Monday, 10/29/07 for Project Bagley Phase II. • Will move $15 billion commercial loans held in a trust from WMB to WMBfsb through a

	complex transaction. This will increase WMBfsb's QTL from 66% to approximately 88% to 92%. WMBFSB projects a common stock cash dividend of $2.6 billion in Q4-2007 to be paid to WMB in connection with the Bagley II transaction. AFS Investment Securities Portfolio • As of 10/11/2007, the market value of the securities portfolio was $25,197,000, which was $669 million less than the book value. The book yield of the portfolio of 5.64% is 33 basis points below the current market yield of 5.97%. • WMI has been changing the mix of the portfolio toward more positive convexity and long-term call instruments. • By rating, 88% of the investments are rated AAA, 6% are rated AA, 4% are rated A, and 3% are rated BBB. • Nearly 40% of the entire securities portfolio is Agency backed. • The subprime portion of the investment portfolio totals $722 million, or 2.9% of the entire investment portfolio.
10/31/07	Approved Dividend of $1 B
11/07/07	O OTS Flood Update Meeting
11/14/07	M Meeting to Discuss Appraisal Review with OTS
11/15/07	Update on BSA Roadmap
11/16/07	OTS Meeting, HL Business Update and Underwriting Changes
11/20/07	HFS to HFI Transfer Review with OTS and Deloitte
11/20/07	Repurchase Reserves Update
11/26/07	Repurchased Home Loan Valuation, $45.6 million Locom on $5.6 billion portfolio
11/27/07	Monthly Update meeting Dochow/Franklin
11/27/07	Dochow/Franklin Meeting with Rotella
11/27/07	VAR Model Update Miyashiro/Chararat
11/30/07	OTS Basel II Exit Meeting for September 12, 2007 Field Visit • Our reviews to this point have been limited to monitoring the development of the different approaches to measure risk and quantify the required capital to support this risk within the Basel II framework. • From what we've seen, by and large the models developed appear to follow industry-accepted approaches for quantifying operating and market risk and the various parameters required under the AIRB approach. • During our review, we have also shared with you some of our preliminary impressions and suggestions for improving the market risk model. • 2008 Qualification Exam to commence April 7, 2008 - Early review of HELOC/HEL and credit card models to start 2/11/08
12/4/07	Discuss Capital Projections
12/6/07	Meeting discuss adding Home Loan Servicing Transaction Data to Monitoring Environment-Johnson/Franklin/Hendriksen/Fiene/Dick Stephenson
12/14/07	OTS Monthly Update Meeting-Franklin/Dochow
12/31/07	Approved Ops Sub Unified 1st Tier Sub

WaMu Timeline

1/07/08	Target examination of Home Loans, Commercial lending, and certain aspects of operations commences.
1/17/08	OTS Senior managers, exam team and FDIC representatives attend quarterly regulators meeting with WMB Executive management.
1/24/08	WMB provided OTS a copy of the Simpson Thatcher work plan for the internal review of the NYAG appraisal allegations
	OTS met with Simpson Thatcher, the law firm conducting the internal investigation for Washington Mutual related to appraisal outsourcing by the Bank. Simpson Thatcher acknowledge that both outsource providers raised appraisal independence concerns and that their investigation identified substantive criticisms with the process including the significant input that the production force had on the composition of the WaMu preferred appraisal panel, and subsequent panels, and the inadequate supervision, monitoring and control of the process by appraisal management. Overall however, Simpson Thatcher concluded that there was no merit to the allegations contained in the NYAG complaint and that they found no systematic effort to subvert the independence of the appraisal process, no motive or intent to do so, and finally no opportunity. OTS investigation was still in process.
2/1/08	FDIC informed OTS that they would like to have an FDIC Ombudsman discuss with WMB management what happened to certain deposits of a former customer of failed bank, Columbia Savings and Loan Association. Columbia merged with Washington Mutual Bank, via American Savings Bank, back in 1991. No one at WaMu has been able to assist the customer; therefore, the Ombudsman got involved.
	WR Director instructs exam team to Assess CAMEL ratings and to make any changes necessary by 3/31/08.
2/6/08	Attended Quarterly Treasurer's meeting. Exam and Appraisal review team met with management to discuss broker/borrower provided appraisals
2/19/08	Exam team and WR Director meet to discuss suggested changes to CAMEL Ratings
2/25/08	New York Attorney General, Fannie and Freddie, and OFHEO announced new appraisal guidelines that primarily resulted from the allegation of appraisal misconduct at WMB.
2/26/08	Management agreed to discontinue stated income lending for HELOCs given the obvious deterioration in portfolio quality and because the exam team had indicated that our conclusion would be that the program be discontinued.
	Stephen I. Chazen was elected to the Board of Directors of Washington Mutual Bank (the "Bank") by the unanimous vote of the other members of the Board. The Board also appointed Mr. Chazen to the Audit, Compliance and Finance Committees of the Board.
2/27/08	WR Director issues letter downgrading WMB Composite rating to "3" and requires a Board resolution to address deteriorating conditions. Exam team met with treasury personnel to request that more conservative stress scenarios be added to existing internally derived stress scenarios.
2/28/08	CEO Killinger met with OTS Director to discuss the condition of the Bank, examination concerns, and the prospects of raising capital.
	DOJ contacts WMB in regards to the complaint against WaMu on Soldier/Sailor Relief Act. DOJ subsequently coordinates with OTS on exam procedures on this issue.
	Examiners provided a second request for documents and information related to OTS special investigation into NYAG appraisal allegations.
3/5/08	Examiners met with Home Loans management to provide their view of stated income lending in general. With WR Director's approval, examiners inform management that unless they could provide analytics that supported why remaining stated income products being offered should continue being made, our exam conclusion would indicate that this product should be discontinued.

3/6/08	WR Director and exam team briefed the DC office (and subsequently FDIC WR management) that ALLL provisions would increase significantly due to a continuing downward trend in home prices and growing delinquencies and charge offs. This also means a loss for 2008 and projected for 2009. Management engaged Lehman and Goldman to explore capital and investor options. OTS DC staff alerted FDIC DC staff which led to coordinating a deposit download request for contingency planning purposes.
3/7/08	Victor Villarreal of the FDIC DRR group arrived at the Bank to make the deposit download request for contingency planning purpose.
3/10/08	In response to communications with DC FRB counterparts, OTS DD Ward instructed WR management and WMB exam team to encourage WMB management to provide the FRB SF with any information that they might need to ensure discount window access.
	After various discussions with the WMB exam team, management issues a new policy eliminating low doc (stated income) lending in all but the GSE saleable "doc relief" loan program.
3/12/08	OTS Director and senior staff met with WMB CEO and senior staff to discuss the Bank's liquidity position, particularly uninsured and other "at risk" deposits.
3/13/08	WMB exam team updated WR and DC management on liquidity and provided the initial series of detailed liquidity monitoring reports and related data. GAO staff requested 2006 and 2007 balance sheet and income statement data for WMB, Citi and AIG in conjunction with their audit activity regarding issues relating to the development of Basel II.
	Moody's Investors Service downgraded the senior unsecured rating of Washington Mutual, Inc. to Baa3 from Baa2. Washington Mutual Bank's long term deposit rating was downgraded to Baa2 from Baa1. Washington Mutual Bank's bank financial strength rating at C- and short term rating at Prime-2 were affirmed. Moody's placed a negative outlook on all Washington Mutual (WaMu) entities.
	Fitch places WM covered bonds program on rating watch negative on downgrade of WMB to 'BBB'.
3/17/08	WMI announced that on March 14, 2008, the United States Court of Federal Claims published its written decision in the case of Anchor Savings Bank, FSB vs. The United States of America, awarding Washington Mutual Bank $382.0 million for damages, and an additional amount for taxes that will be determined by the court.
	WMB board passes resolution to address the Bank's deteriorating financial condition.
3/18/08	WR Director and exam team update DC management on results of 3/17/08 Board meeting discussion.
	COO Polakoff directs other regions to provide the WaMu exam team with examiners to perform a more detailed analysis of Liquidity, including all relevant agreements that could negatively impact liquidity.
	WMB management provides DC management with a listing of the Bank's top 30 depositors per an earlier request.
3/19/08	In light of the failure of Bear Stearns, the WMB exam team provides OTS management information on the Bank's credit exposure to Lehman, Merrill, and Morgan Stanley which approximated $250.0 million.
	OTS formally request mortgage loan servicing data as a part of our ongoing supervisory process to conduct a nationwide horizontal review. The goal is to have a detailed, current, and on-going picture of mortgage loan performance and loan modification efforts.
3/20/08	DC policy staff had a meeting via conference call to discuss proposed changes to Unfair and Deceptive Practices rules.
3/24/08	Out of region examiners begin assisting WMB exam team in doing a detailed analysis and monitoring of Liquidity, including a review of all relevant contracts and agreements that might contain triggers which could negatively impact the Bank's liquidity position.
	WR Director provided DC management the latest info on the Bank capital raising efforts based on an

	update received from WMB executive team. April 4, 2008, was scheduled for a subsequent update by WMB's board to OTS DC and WR management.
3/26/08	Exam team hold exit meeting for the Commercial Group review, no significant findings.
	Exam team request updated financial projections from management, FDIC in attendance.
3/31/08	FinCen informs OTS that our referral regarding WMB Bank Secrecy Act issues was referred to their Office of Enforcement because they determined that the imposition of civil enforcement remedies under the Bank Secrecy Act may be warranted.
	WR briefed OTS COO on the status of the examination.
4/1/08	OTS COO (Polakoff), Deputy Director (Ward), and WR Director (Dochow) met with the Board to direct them to raise capital given the increasing losses at the Bank.
4/2/08	WR Director informed onsite FDIC examiners that OTS had a telephonic discussion with WMB's Board on 4/1/08 where they heard from OTS that they needed to take action to ensure the safety and soundness of the banks and sufficiency of capital. The board authorized Rotella and Casey to start meeting with a number of large current shareholders who signed confidentiality agreements to obtain additional capital above what the private equity companies proposed. Management appeared confident that capital was available. OTS Wash DC briefed FDIC DC on 4/2/08.
4/3/08	Examiners had mid-exam update meeting with Home Loans management. Discussions included primary findings of recurring concerns regarding stated income lending in all HL portfolios and generally unsatisfactory underwriting overall.
	Examiners requested documents from the Bank to facilitate the FDIC contingency planning efforts.
4/4/08	Examiners requested a deposit download at the request to the FDIC contingency planning group.
	WR provides DC the Bank's revised liquidity stress analysis with additional stress conditions requested by WR management including: a $19 billion deposit run off among retail, custodial and commercial accounts, plus a reduction in Fed Funds capacity and 400 bp increase in the FHLB haircut. Also included was new info on several items such as clarification of what the FHLB's can do upon a "material adverse change" indicating that potential exists for a much worse event should the FHLB of SF triggers an early amortization of outstanding balances or immediate repayment upon default stemming from a material adverse change. Management reports that they are very close to signing a deal to raise additional capital approximating $4.9 billion. OTS encourages management and the Board to raise all that is possible in this transaction. Management agrees with OTS to keep JP Morgan offer open.
4/7/08	WMB announces their exiting the wholesale lending channel including the closure of related loan offices.
4/8/08	WMB announces a $7.0 billion + capital raising.
4/15/08	Annual shareholders meeting – some shareholders and employees were extremely critical of management and the Board for the condition of the bank and suggested a number of changes. Mary Pugh resigned as Finance Committee Chairman.
4/17/08	WR management and examiners attend Quarterly regulators meeting.
	Michella Alban – Home Loans Legal Officer, and Adam Ellis- Home Loans Appraisal Manager. We learned subsequently that Mr. Ellis was retained in a different capacity.
	COO Rotella informs the exam staff that 3 individuals were terminated related to the NYAG appraisal allegations: Cheryl Feltgen - Chief Credit Officer for Home Loans
4/23/08	Exam team requests an appraisal sample related to the appraisal investigation. Discussed the Bank's rights under applicable regulation to cancel HELOC lines of credit with CERO Cathcart and John Robinson, Regulatory Relations Exam team met with HL management to get more detail analysis of the root cause of mounting losses.

WaMu Timeline

4/24/08	Examiners completed detailed analysis of liquidity related instruments/contracts that could potentially negatively impact the Bank's liquidity position.
	WMB announces the termination of Cheryl Feltgen and Michella Albon from the Home Loans group.
5/5/08	FDIC provides a revised capital analysis indicating that the Bank needed an additional $5 - $7.0 billion in capital
5/8/08	Temporarily discontinued weekly liquidity reports to DC due to recent capital infusion
5/14/08	Examiners and WR management attend quarterly Treasurer's meeting.
5/15/08	Internal reorganization at WMB moves the Compliance and Regulatory Relations functions from ERM to the Legal Department.
5/16/08	Onsite examiners discontinued sending liquidity reports to DC because of the recent capital infusion but continued to monitor liquidity.
5/19/08	FDIC DRD staff informs that the download of WMB deposit data was successful.
5/21/08	Moody's Investors Service (Moody's) downgraded the rating of the Covered Bonds (approximately $6.0 billion) issued by WM Covered Bond Program (the Program) to **A2**, on review, with direction uncertain from **Aa1** under review for possible downgrade. The downgrade of the Covered Bond rating follows the recent downgrades of the long-term deposit ratings of Washington Mutual Bank (the Sponsor) to **Baa2** (stable outlook).
5/28/08	Examiners held general discussion with D&T audit manager. Exam team met with WMB attorneys to discuss internal review of alleged fraud by WMB loan consultants. MOU and ROE required an in depth investigation into the validity of the allegations and extent on any problem.
5/29/08	Onsite FDIC examiner inform OTS examiners that they are classifying all subprime loans "substandard" regardless of payment status and as such, would downgrade the Bank's asset quality component from "3" to "4".
6/2/08	WMB issues a press release indicating that, to further strengthen corporate governance and to listen to corporate shareholders, effective July 1, independent director Stephen E. Frank would assume the role of Board Chair while Kerry Killinger would continue to lead the company as Chief Executive Officer and serve as a Director. The Board also adopted a majority voting standard and made several changes to the composition and leadership of certain of its Board Committees: (1) the Board appointed Orin C. Smith, retired Starbucks CEO, to serve as Chair of the Finance Committee, (2) recently elected director David Bonderman, managing director of TPG Investors, would serve as Vice Chair of the Finance Committee, in addition to being a member of the Corporate Development committee, (3) the Board appointed Thomas C. Leppert, Dallas Mayor and former chairman and CEO of The Turner Corporation, to serve as Chair, and (4) the Board appointed Regina T. Montoya to serve as Chair of the Corporate Relations committee. She also continued in her role as a member of the Finance Committee. In addition, the company launched a search for individuals with extensive financial services and strong leadership experience to further fortify WaMu's Board of Directors as new independent directors.
	WR Director and examiners discuss WMB at high risk briefing
6/4/08	WR Director and exam team held conference call with Director Frank, Chairman of the audit committee to express our concerns and provide examination findings as well as to discuss the effectiveness of the audit committee, ERM, internal audit, and the management team.
6/9/08	Examiners notified that WMB appraisal issue would likely remain a separate investigation; as such, findings and conclusions would likely be handled separately outside of the current comprehensive examination.
	OTS approves application filed April 24, 2008, for payment of a dividend to Washington Mutual, Inc., consisting of the stock of WM Mortgage Reinsurance Company ("Captive"). WM Mortgage Reinsurance Company is considered a non-includable subsidiary of WMB for purposes of determining

	the bank's regulatory capital. As such, the distribution of Captive to WMI will have no impact upon WMB's regulatory capital.
	WMB reports that its exposure to Fannie and Freddie is limited to equity securities approximating $282.0 million with a mark to market loss approximating $49.0 million
6/10/08	OTS suspends the Basel II qualification exam given that WMB delayed their qualification efforts to be consistent with other institutions that were required to be Basel II compliant.
	Examiners became aware that Management had used approximately $1.4 billion in recent capital proceeds to pay down holding company debt. Management subsequently directed to discontinue this activity.
	Examiners held Sensitivity to Market Risk exam exit with executive responsible for this area; onsite FDIC examiner in attendance.
6/11/08	OTS DC analyst indicates that WMI stock tanking early already down 13.17% trading at $5.82 its lowest level since 1992 and inquired whether upcoming news caused a significant swing from the previous day's late rebound. WR director indicated that it was likely due to rumors about the possibility of an upcoming MOU in that both OTS and WMB were being asked for comment in this regard by the media.
	WMB issues a press release indicating "while it is the policy of Washington Mutual not to comment on speculation and market rumors, the company released the following statement to address recurring speculation about regulatory activity: "Neither our primary federal regulator, the OTS, nor any other bank regulatory agency has taken any enforcement action against WaMu that we have not previously disclosed. Further, the company is not currently in such discussions with any regulatory agency."
	OTS examiners held exit meeting with executive responsible for Enterprise Risk Management; onsite FDIC examiner in attendance.
6/12/08	Held exam exits meetings for Capital, Earnings, and Liquidity as well as for Home Loans for the executives responsible for those areas; onsite FDIC examiner in attendance.
	Management provides the examiners a draft of their new Long Range Forecast, recently approved by the Board
6/16/08	Examiners held Compliance exit meeting
6/18/08	Exam team met with COO Rotella to discuss Operation Restart, initiated in May 2008, wherein Management identified about $1.0 billion in run-rate NIE saves and [5,400+] in headcount reductions. Phase II was initiated in mid May 2008 with the majority of savings centered on Home Loans, Retail Bank, Technology, and Real Estate. WMB issued a press release on 6/19/08 regarding a number of changes intended to improve expense management, increase efficiency, and accelerate return to profitability by: (1) eliminating some positions that don't support mission critical activities, (2) eliminating positions that supported Home Loans functions that were discontinued, and (3) centralizing some support functions such as in Technology, Human Resources, and Enterprise Operations. About 1200 positions would be eliminated
6/20/08	Examiners discuss with COO Steve Rotella our concern that certain MSR hedging personnel were being terminated as a cost cutting measure, particularly since this area was recently a high risk area.
	Examiners with WR Director present discussed their examination findings with CEO Kerry Killinger, COO Steve Rotella and Acting General Counsel Stewart Landefeld today since the CEO would not be available at the formal management exit scheduled July 1, 2008. Examiners disclosed that composite would remain "3" but that Asset Quality and Management ratings were being downgraded (343432). WR Director informed WMB management that additional enforcement action was likely given the condition of the Bank.
6/23/08	Examiners met with Home Loans management to inquire about ongoing hedging of Mortgage Servicing

	Rights because we received anecdotal information that certain WMB personnel responsible for hedging were being laid off. We expressed concern that management must maintain competent personnel to continue to manage this asset. Management stated that key individuals were being maintained.
6/24/08	Exam team provided the 6/20/08 management meeting agenda to DC management along with all the examination findings memos.
6/25/08	WR Director met with CEO Killinger who agreed to infuse additional capital into WMB but indicated that the Bank was wary of creating a tax issue or rating agency discomfort. Mr. Killinger indicated that the bank would bring in approximately 400 people to clear the backlog of Alerts and SAR filings. He also asked if there was anyway to avoid a MOU given the capital infusion as well as the following actions: a plan to increase liquidity sources to $60.0 billion by June 30th versus $37.0 billion at March 31st, accelerating loan loss provision asked for by examiners, discontinuing many lending areas where underwriting was criticized by examiners, and cutting approximately $1.0 billion in expenses to accelerate return to profitability. WR Director indicated that as a "3" rated institution, enforcement action would be necessary. Mr. Killinger asked about the status of the appraisal review; to which, WR Director indicated that the review was still in process.
6/26/08	WMB applied to issue another $3 billion in sub debt under its Global Note Program over the next two years. They anticipate issuing only $2.25 billion, but applied for $3 to give them additional flexibility. WR Director opined that while some use of the global note program makes sense, the dynamics have changed sufficiently at the company so that we should require a clear indication of ability to service, representation of no adverse impact on rating agency ratings, and have their plan showing attainment of profitability and maintenance of sufficient capital under the credit cost stress scenarios
6/27/08	WMB informs WR Director that they are near a deal to sell about 45 Chicago area branches and all Chicago deposits and all Colorado deposits and branches to U S Bank. This will likely be announced with earnings on July 16. WMB had previously closed about 60 Chicago area branches and with the sale will be out of that market and Colorado in terms of retail presence. They will also close about 100 other stores in other states with the largest number in any one market being about 30 in the west Florida/Tampa area.
	WMB executives meet with OTS DC management to discuss exam findings and to discuss whether enforcement action was necessary. DC management confirmed that enforcement action was necessary.
7/1/08	Examiners conducted the formal management exit meeting to discuss all examination findings with the executive management team.
	WMB management indicated that per their discussion with Moody's, the rating agency was taking no action at this time, and confirmed that assuming earnings are finalized at the level discussed with them the previous day, they would affirm both WMB and WMI ratings and Stable outlook immediately after WMB's earnings release.
	Examiners expressed concern to WMB management about their recent buyback of holding company debt because this depletes capital although debt was repurchased at a discount.
	WR Director discusses with WMB management the need for WMI to infuse at least another $2.0 billion into the Bank.
7/3/08	Exam team asked to provide a list of provisions to be considered for inclusion in the MOU.
7/7/08	Exam team provided suggested requirements to be included in the MOU.
7/10/08	Examiners inform WMB management of conclusion that the Bank failed to comply with certain aspects of the Compliance C&D.
7/11/08	IndyMac Bank is placed in receivership
	WR updates DC on upcoming 2Q08 earnings announcement that WMB would report on July 22, 2008,

	including a higher loss expectation of $3.3 billion loss versus about $1.1 billion in the first quarter. The difference resulted from a dramatic increase in ALLL provision (approximately $3.5 billion planned amount was increased to $5.9 billion in response to examination plus a little more). Total assets are down to about $309 billion.
7/14/08	Examiners attend earnings update meeting with WMB executives
7/15/08	OTS West Region management and examiners met with Board to present examination findings and conclusions, including the decision to downgrade Capital to "4", Asset Quality to "4", and Management to "3" while maintaining a Composite "3". The FDIC indicated that they considered the Bank a borderline "3" composite. OTS also informed the Board of a pending enforcement action related to the condition of the Bank. IN addition to the significant deterioration in the Bank's financial condition, other significant findings included continuing concerns with respect to underwriting of SFR loans, particularly related to stated income lending, problems in the home loan appraisal process, continuing compliance management concerns, particularly in BSA/Anti Money Laundering concerns; and ineffective enterprise risk management function, deficiencies in ALLL and reserve methodologies, and less that satisfactory Board and management oversight.
	David Bonderman, new director at WAMU representing TPG, asked the WR Director whether TPG's arrangement can be clarified/altered on their rebuttal of control to allow the observer who joins him at board meetings to ask questions and/or participate in discussions but continue to not vote, and whether WAMU management could, if they choose, contact some of the TPG related staff/companies for advice and counsel. This would be solely at WAMU management's initiation.
	DC management requested that the examiners follow up on reports from the FDIC regarding complaints from branch customers that IndyMac official checks are being sent for collection by WaMu which could mean no access by customers to deposited funds for 8 weeks. DC also asked for clarification whether the checks were from the former FSB or the new conservatorship FSB. If from the latter, the holds would appear to be inappropriate. Clarification from WMB was requested.
7/17/08	OTS West Region receives independent complaints regarding WMB holding checks drawn on IndyMac Bank (in receivership) for eight weeks. WMB confirmed that extended holds were in effect due to the receivership. WR Director instructed WMB to honor IndyMac check in accordance with regulatory requirements for check hold procedures. WMB indicated the Bank issued new guidance to branches to comply.
7/18/08	OTS receives a letter explaining the scope of a consulting agreement whereby Mckinsey and Company would provide consulting services, the goal of the project was to build on WMB's initial transformation results achieved in Project Restart to create a go-forward environment where WMB's executives will drive performance through enhanced accountability and decision making while preserving the best elements of WMB's culture and values.
7/19/08	In response to OTS findings that WMB did not comply with terms of certain requirements of the compliance (BSA) C&D, management provided a legal response from Wilmer Hale opining that the Bank was in compliance. OTS disagreed with this response
	Management provided capital projections for WMB that accompany the LRF Income reflecting a $2 billion infusion of capital from WMI to WMB which is expected to occur before the earnings announcement scheduled for the following week.
7/21/08	WMB informed WR Director that their attempt to sell all Chicago deposits and certain offices plus all Colorado branches to US Bank was off. As negotiations neared the end, US Bank upped the anti by asking for a letter of credit given their perception of WMB as being named on a list of banks for possible take over etc. WMB thought that the requirement for a letter of credit, if made public, might cause further headline risk.

WaMu Timeline

	WMB informs WR Director that WMI infused $2.0 billion into the Bank
	Received FDIC 7/21/08 letter which contained their thoughts on conditions that should be included in any enforcement documents, which included a requirement that WMB needed an additional $5.0 billion in capital.
7/22/08	WR Director responds to FDIC 7/21/08 letter which contained their thoughts on conditions that should be included in any enforcement documents.
	Moody's Investors Service placed the ratings of WMI (senior unsecured rating of Baa3) and WMB (financial strength rating of C-, long term deposit rating of Baa2, and short term rating of Prime-2) under review for downgrade. The review follows WMB's reported $3.3 billion loss for the second quarter of 2008.
	Met with WMB regarding liquidity position given concern that upcoming earnings announcement could cause new deposit outflows on top of post IndyMac outflows. Management reported building cash reserves in anticipation with existing $8 billion cash and expected $13 billion by the end of the week. They are also increasing their collateral at the FED. They currently have $8 billion in borrowing capacity at the FED and will have $15 billion by the end of the week. They ran various deposit decrease scenarios and opined that a $25.0 billion decrease by month end would be serious. Although they have $60 billion in borrowing capacity, the FHLB is not in a position to fund more than about $4 to $5 billion a week which would leave them relying on the FED and Cash Reserves. Ability to draw down FHLB advances also limited by the ability of the FHLB's ability to place large sums of paper in the capital markets in order to fund WMB advance requests.
	WMB has $19.7 billion in what they consider susceptible uninsured deposits.
7/23/08	WR Director and exam team met with management to discuss recent earnings call and recent steps to improve liquidity.
7/24/08	Examiners met with management to discuss the post earnings announcement impact on liquidity and need to shore up deposit outflow.
	"Gimme Credit Research Brief", reports that "many of WaMu's unsecured creditors are quietly reducing their exposure to the troubled bank, increasing its relative reliance on insured deposits and FHLB borrowings". This is being evidenced in the credit default market.
	OTS DC concerned about increasing widening of spreads for credit default swaps related to WMI debt. Management opined that much of this was due to speculators in these instruments
7/25/08	FRB informed WR Director that they would be sending an examiner from their Credit monitoring department to monitor liquidity and related credit/collateral.
	WMB expresses concern about the impact on yield from maintaining higher levels of liquid assets. OTS tells management that it best to maintain excess liquidity in the short term and to take necessary steps to increase deposits to recapture funds lost. Also OTS tells management to ensure that the company implements effective media/press/investor plans as we understand that they have hired firms to advise them in that regard.
	NY Post reports inquires of WMB about whether FHLB- SF has a blanket lien on WMB assets reportedly based on sources within FHLB and WMB's "regulator".
7/28/08	FRB examiner Patrick Loncar arrived to monitor WMB's liquidity.
	WMB looking into restructuring large deposits at WMB by using both the WMB and WMBfsb charters to increase FDIC coverage
7/30/08	Examiners participate in a conference call update with DC senior management regarding exam findings, MOU, financial projections, and liquidity.
7/31/08	WMB reports first positive deposit flow post IndyMac closure.
8/1/08	OTS Director and senior OTS management, FDIC director and senior staff met with CEO Killinger and

	members of his executive team who presented WMB's long term forecast. Apparently, FDIC indicated to WMB that they put little credence in their plans
	WR Director informed by OTS DC senior management that per FDIC Chairman, FDIC has a ratings difference with OTS. WR Director indicated that per onsite FDIC examiner, the FDIC was only contemplating a ratings difference. WR FDIC director indicated that the region had not yet reached a decision but that the LIDI group was contemplating a downgrade; he also indicated that he thought the FDIC EIC has stated that the FDIC would rate the bank a "4" at the 7/15/08 board meeting; however, WR OTS director indicated that this was not the case. Based on a subsequent discussion between WR Director and WR FDIC Director, the FDIC was still pondering their CAMELS rating so a rating difference did not yet exist between OTS and FDIC.
	FDIC EIC indicated that FDIC DC senior management may have instructed WMB CEO to find a merger partner.
8/4/08	FRB credit examiner Julie Plock joins FRB examiner Patrick Loncar onsite.
	Exam team met with WR Director to discuss WMB rating and info package to be sent to DC.
	Examiners resumed the more extensive Weekly liquidity reports to DC including the most recent asset quality information available (in addition to daily liquidity reports).
8/5/08	The FRB declines WMB for the 84 day TAF borrowing facility that began that week.
8/6/08	WMB reports that FHLB SF would likely implement 400 bp across the board haircuts that would lessen liquidity availability. In addition, given the recent post IndyMac deposit runoff, the 3 and 6 month liquidity projections for the stress scenario fell below the Bank's minimum target levels.
	Discussions with FDIC EIC indicated that he was now thinking of rating Liquidity a "4" based on recent post IndyMac deposit runoff, tightening of lending policy by the FHLBSF, and per him, a call from the Fed to the FDIC Chairman expressing concern about WaMu's liquidity. He acknowledged that his position from a few weeks ago of a "3" rating for Liquidity has changed as a result of these factors. He mentioned that he may also get guidance to rate Capital a "4" and Management a "4", however, his indication seemed to be that he is already backing the "4" liquidity rating, but will go along with "4" Capital and Management ratings if that is the decision of FDIC management.
8/8/08	Executive management update by CFO, Treasurer, and CCO on loss tracking, earnings and post IndyMac deposit runoff. Management indicated that most of the runoff ($6.6B) came from uninsured accounts and approximately a third of that was from accounts over $500.0 million. Deposit losses were heavily concentrated in Southern California which was hardest hit; however, current deposit trends were stable. RD Dochow stressed the need to shore up liquidity and strongly indicated that management should pursue regaining deposits lost in the post IndyMac runoff.
	FRB examiners conclude onsite visit
8/13/08	OTS examiners met with Treasurer and his staff to register concern that the bank was not aggressively increasing liquidity via deposits and the need to bring liquidity back in line with internal targets in stress scenarios. Examiners again reiterated what they and WR Directors had indicated earlier, that management should be less concerned about the effect of excess liquidity on NIM that they should be about the potentially fatal impact that could result from future liquidity runs. Management also expressed concern regarding negative impact that higher rates could have on headline risk but agreed to be more aggressive in deposit gathering.
8/14/08	WMB provides updated LRF showing $2.0 billion capital infusion in July 2008 and no other capital raise necessary through 2010; updated earnings projections indicating return to positive earnings in 2Q09; potential $600M debt for equity swap, and TPG investors agreement term sheet.
	Management provided updated cumulative loss tracking report indicating that losses were tracking within loss projections.

WaMu Timeline

8/18/08	WR director and exam team update DC management on WMB.
	WMB completes DC's (Sharon Stark) request for option ARM data.
8/19/08	WMB provides positive and negative events that could impact capital in the near future, the impact of which, were essentially neutral.
	WR management and exam team discuss ratings and FDIC suggested ratings.
8/20/08	OTS examiners provide assessment of FDIC's capital analysis to WR Director.
	WMB reports significantly reduction is SFR loan production.
	Deposit runoff post IndyMac approximates $9.3 billion
	OTS examiners provide assessment of FDIC's capital analysis to WR Director
8/21/08	WMB management provides information on office closures related to Hurricane Fay.
	WMB reports minimal exposure to FNMA and FHLMC subsequent to the government takeover of these entities.
	WMB stressed projected earnings by $300 and $500 million per quarter but still indicate compliance with well capitalized standard through 2010
8/22/08	DC Senior management updates OCC Director on WaMu.
	WR Director discussed OTS ratings with WR FDIC management.
8/23/08	Management finally begins the 5 day deposit special that OTS had been strongly encouraging for some time.
8/26/08	WMB management and OTS and FDIC Examiners discuss most recent earnings projections.
8/27/08	Examiners have updated discussion with management on Loss Model.
	Exam team received FDIC's most recent Capital assessment from DC management.
8/28/08	Examiners provide DC and WR management with an update of most recent earnings projections.
	OTS Examiners and WR management participate in a conference call with FDIC examiners and FDIC WR management to discuss FDIC's assessment that Capital is inadequate.
9/3/08	Examiners WR management and FDIC representatives attend Quarterly Treasurer's meeting.
	Provided initial assessment of FDIC's capital analysis to DC per S. Polakoff's request
9/5/08	WR FDIC informs WR OTS that they are proceeding with problem bank memo and OTS informs FDIC that OTS will respond. Also OTS indicates that MOU and Killinger resignation will be announced on 9/8/07.
	WMB provides PERK material for 4Q08 exam work.
9/7/08	WMI/WMB MOU signed by directors, Alan Fishman approved as CEO by directors, and Kerry Killinger resigns as CEO.
	WSJ and Seattle Times reports Mr. Killinger's resignation prior to the public announcement on 9/8/08
9/8 /08	OTS Director informs Secretary Paulson, Director John Dugan, Director Sheila Bair, and Fed Govs Don Kohn and Randy Kroszner that WMB/WMI MOU was effective 9/7/08.
	OTS receives the FDIC's final memo recommending a "4" rating for WMB, the region required to respond in 3 days.
	WMB announces Alan Fishman as WMB as CEO.
	WMB ROE uploaded to system.
9/9/08	Weekly Liquidity report sent to DC.
9/10/08	During FHLB SF presentation at WR managers meeting, it was discussed whether a blanket lien on WMB's assets would give FHLB managers more assurance to continue lending to the Bank. They indicated that it would and in the following week, this was accomplished.
	WMI contributes $500M to WMB increasing pro forma capital ratios to 7.55 percent leverage and 13.19 percent risk based.

WaMu Timeline

	FRB examiner Loncar requests a copy of the MOU and we indicated he would have to go through official channels.
	Field Examiners provided WR Director with a summary of differences with the FDIC's capital analysis.
9/11/08	Today's liquidity meeting noted: •Anecdotal information from the branches today suggests that deposit withdrawals remain higher than normal; most withdrawals were in increments greater than $50,000. •Post-IndyMac plans have been reinitiated in the branches, which include: emphasis on FDIC insurance education; waiver of penalties if customers restructure deposits to increase insurance coverage (with multiple account owners, etc); waiver of penalties if customers bring back official checks at a later date and redeposit the funds; distribution of flyers outside of downtown Seattle branches advertising the current 5% CD special •An 8 month CD special at 4.25% will replace the current 5% 13 month special beginning on Saturday •The negative headlines have not directly impacted other funding sources so far •Fishman, Rotella, Casey and McMurray are meeting with S&P today. The meeting was scheduled for next week, but was rescheduled because of this week's events. •Management is considering a third quarter pre-earnings announcement next week to attempt to calm the market. They are discussing this with S&P. They expect an earnings announcement to cause Fitch to downgrade the holding company credit rating to BBB-. The bank rating is expected to stay unchanged (BBB), although the outlook will likely change to "Negative." This will be a change from prior practice by Fitch, which has generally given the bank and the HC the same credit rating.
	Moody's downgraded the long-term deposit and issuer ratings of Washington Mutual Bank to Baa3 from Baa2. The bank's financial strength rating was downgraded to D+ from C-, base line credit assessment (BCA) to Ba1 from Baa2, and short term rating to Prime-3 from Prime-2. Washington Mutual Inc.'s senior unsecured rating was downgraded to Ba2 from Baa3. The rating action concludes the review that was initiated on July 22, 2008. The outlook is negative
	Fitch made the following downgrades for WMI: (1) long-term IDR to 'BBB-' from 'BBB' and (2) short-term IDR to 'F3' from 'F2'. For WMB Fitch affirmed long-term IDR at 'BBB" but short-term IDR downgraded to 'F3' from 'F2'. The Rating Outlook is Negative.
9/12/08	OTS responds to FDIC's capital assessment.
9/15/08	WMB responds to S&P. The change in Standard & Poor's ratings for Washington Mutual announced today brings S&P's ratings in line with those announced last week by Moody's; however, it's important to note that S&P attributed its action to worsening market conditions, and not to any material change in the evaluation of Washington Mutual's financial condition. S&P's ratings for Washington Mutual Bank remain investment grade.
	Branches in the Midwest and west reported continued higher than normal activity after the market closed today because of increased press and network news coverage of Lehman, AIG, etc.
9/16/08	WMB reported increasing customer traffic in branches due to the frenzied broadcast media. The Suzi Orman segment on the Today show created increased consumer concern. She indicated that she was working with the FDIC to insure accurate information was distributed and then noted that the leading indicator of a bank failure is the stock price declining. • More customers are requesting cash withdrawals and Financial Center Managers are discussing the risk of carrying large amounts of cash and encouraging customers to either accept a cashier's check or a wire for safety. • Management working closely with the retail operations and treasury teams to insure adequate cash levels given market conditions.

WaMu Timeline

	• Reports received yesterday (Monday) noted that the FDIC Call Center and CNBC questioned whether the language employed in the Master Account Agreement application for WaMu's POD accounts clearly establishes a pay-on-death arrangement as required by FDIC deposit insurance regulations. WMI legal has spoken with the FDIC and the FDIC confirmed that it does indeed meet the requirements. We have been told that the FDIC has provided this clarification to its call centers.
	OTS updates FDIC regional management on current liquidity situation.
	West Region OTS and FDIC present the WMB rating difference to FDIC Board.
	Increasing Deposit Outflows essentially wipe out recent inflows that OTS had strongly encouraged.
9/17/08	FDIC requests WMB's consolidated tax returns.
9/18/08	OTS receives a customer complaint regarding WMB not setting up accounts properly to facilitate insurance of accounts which were discussed with management.
	WMB reports high traffic in branches and continuing branch closings and reported available liquidity at $33.3 billion.
	WMB updated DC Management on Liquidity: Funding Plans - the trajectory of deposit outflows looks like it will be IndyMac ($9.5B) + 70%, or a total outflow $16-$17B over three weeks (including what has already happened). They are borrowing $8.5B from FHLBs over the next two weeks. FHLB SF now has a blanket lien and has assured WMB that they will not have any additional cuts in capacity. WMB will also be getting $2B in proceeds from discount note maturities and sales. Repo market is shut down. Repo collateral is being shifted to SEA FHLB. • Treasury Manager thinks that liquidity at the end of the quarter will be $13B, or $3B in excess cash and $10B in FHLB capacity. • M&A - Casey, Fishman, and a rep from Goldman gave an update on M&A activity. JP Morgan is expected to complete due diligence by today or tomorrow. Citi is expected to complete due diligence tomorrow. Also one other party (missed the name) is looking into acquiring a minority interest. Goldman thinks a deal could be done by Sunday.
	OTS downgrades WMB's composite rating to "4" (343442).
9/19/08	Daily Liquidity report provided to WR and DC senior management.
	John Robinson, Regulatory Relations, request that the FDIC inform OTS of their plans to send in two DRR examiners, Ken Parker and Eric Piscini, to gather IT information.
	Liquidity projected at $29.8 billion by WMB.
	FRB will keep on primary credit with same haircuts and pricing, but prefers that WMB not bid in the Monday 28 day TAF program and instead use the Discount window. Also FRB will use $1.5 billion of the pledged collateral toward intraday transactions.
	FDIC corresponds that Advances still available from the FHLBs and the situation is not dire.
	FHLB –SF reports that their accountants, PWC requires them to follow FAS 157 fair value accounting for the collateral of problem banks and that WAMU was a problem bank. That means they look to observable sales of option arms and they found some at fire sale prices of 35 cents on the dollar that they will have to use. On that basis they are out of collateral and gave advances yesterday only because of the blanket lien. FHLB of SF told management this late last night. FHLB of SF told OTS that they might be able to lend $1 to $2 billion more if it was a bridge to getting a deal done. OTS management encouraged FHLBs to continue lending.
9/20/08	Gail Patelunas, FDIC, informs Scott Polakoff that the FDIC is sending two DRR examiners to WMB.
	Daily Liquidity report provided to WR and DC senior management.
9/22/08	Daily Liquidity report provided to WR and DC senior management.

	Darrel Dochow asked FDIC to coordinate DRR efforts through onsite OTS examiners.
	Peter Frielinger, Treasury Manager and Robert Williams, Treasurer, met with both the FRB and the FHLB SF.
	In implementing a $1.5 billion daylight overdraft limit for WMB, the FRB incorrectly posted the $2 B discount window repayment against the collected balance, not the ledger balance. And since PSR (Payments System Risk) balance monitoring uses the Collected Balance not the ledger balance, this caused all of the morning's wires to get sent to a rejection cue. Apparently some counterparties were aware of the rejections. The error has been fixed and the wire cue has been cleared out, and all of this morning's wires have been sent out.
	FDIC DRR examiners Ken Parker and Eric Piscini along with OTS IT Manager Sandy Chan met with CIO Deb Horvath to discuss access to WMB systems.
	Management reported a slowing of customer traffic in branches and a slowing of outflows to more normal levels.
	Net FRB collateral determined to be $7.4 billion.
	WMB projected ending available liquidity to be $28.0 billion; however, they estimated $9.4 in FRB availability or $2.0 billion more that estimated by the FRB. FDIC projected $20.8 billion in liquidity because they reduced the amount ($8.5 billion) reportedly available from FHLB-SF to $1.0 billion.
	Onsite examiners provided West Region ERC with an update on WMB's deteriorating liquidity situation.
9/23/08	Daily Liquidity report provided to WR and DC senior management.
	FDIC requested that OTS directs the Bank to only borrow short term advances to avoid prepayment penalties; which we communicated.
	WMI ROE Uploaded to OTS System.
	WMB Treasury personnel respond that the Bank has potential saleable assets, but none that can be sold in short order. Assets potentially include loans, CMBS, corporate and municipal bonds, as well as REIT asset currently in a Special Purpose Entity that could be dissolved under certain supervisory actions.
	Latest FRB projection indicates that WaMu liquidity would reach "0" by 10/9/08 assuming approximately $2.0 billion runoff per day.
	WaMu projects available liquidity at $23.6 billion
	Notified WMI via hand carried letter that the holding company rating was downgraded to "4", which differed from the ROE's "3" rating, based on WMI's condition at 6/30/08.
	Downgraded WMBfsb to "4" based on condition of parent.
9/24/08	Daily Liquidity report provided to WR and DC senior management.
	FDIC reports to OTS that while deposit outflows are declining they are not stabilized and that FHLB-SF is "day to day" with respect to future advances.
	S&P Lowers Washington Mutual Inc's ratings to "B-" from "BB-"; S&P affirms the "BBB-/A-3" rating on Washington Mutual Bank as the breadth of the deposit franchise , the capital position and loss reserve coverage remain adequate in light of the high level of mortgage loan asset quality pressures.
	WaMu submits a presentation on potential recapitalizations options.
	FDIC informs JP Morgan that they had won the bid for WaMu
9/25/08	Daily Liquidity report provided to WR and DC senior management. Available liquidity projected at $13.1 billion (subject to FHLB continuing to fund).
	Total deposit outflow (including commercial) from 9/8/08 to 9/24/08 is $18.7 billion.
	Net consumer noninterest and small business outflows from 7/14/08 to 9/25/08 total $19 billion.
	The FHLB of San Francisco notifies WaMu that it is near its limit on advances. WaMu believed that they had another $5 billion in capacity.

WaMu Timeline

	The FRB of San Francisco moves the bank into the secondary credit category.
	FHLB-SF limits WMB advance availability to $500.0 million.
	OTS directs WaMu to dissolve the WM preferred Funding REIT.
	At FDIC's Request, OTS examiners directed WMI management to dissolve Preferred Funding REIT (a special purpose entity), forfeit all rights to the approximately $9.0 in loan collateral, and assign the collateral loans to WMB for inclusion in the receivership transaction.
	WaMu placed into receivership; sold to JP Morgan Chase.
	JP Morgan raises $7.0 billion from private investors pursuant to the WaMu purchase.
	FDIC asks if OTS found any violations of law in connection with the Appraisal Investigation. Examiners referred them to West Region Counsel, Jim Hendriksen.
9/26/08	JP Morgan raised an additional $3.5 billon in the open market or $2.5 billion more than planned, related to the WaMu deal. Its stock increased 6.8 percent from 9/24/08 price of $40.50.
	FDIC asks if OTS removed the Board Audit and Finance Committee notebooks from the examiner library and were informed that we had not. It was determined that Regulatory Relations staff had removed them the evening of 9/25/08. They were returned upon our request.

Accepted

Washington Mutual

WMBFA, WMBfsb
March 15, 2004
Safety & Soundness Examination
OTS MEMO 5

DATE: May 12, 2004
TO: Tony Meola, EVP, Production
Mark Hillis, Deputy Chief Credit Officer
FROM: Bill Durbin, OTS
SUBJECT: SFR Loan Origination Quality
CC: Deanna Oppenheimer, President WAMU Consumer Group

BACKGROUND INFORMATION

Several of our recent examinations concluded that the Bank's single family loan underwriting was less than satisfactory due to excessive errors in the underwriting process, loan document preparation, and in associated activities. Similar findings noted in internal audits and quality control reports supported our examination conclusion. The overt causes for past underwriting concerns were many, but included: (1) A sales culture focused heavily on market share via loan production, (2) extremely high lending volumes fueled by the low interest rate environment, and (3) a less than optimal organizational structure that included multiple loan origination platforms, in part due to recent merger activity, and a variety of origination procedures that varied by origination office (i.e., loan fulfillment center (LFC)).

During our review period, management began several initiatives aimed at correcting the overt causes of underwriting deficiencies discussed above. Specifically, initiatives are underway to simplify the origination structure by reducing origination platforms from nine to two while developing a single origination model to be implemented in all LFCs. Other current initiatives to improve underwriting quality include: (1) de-emphasizing the Bank's position as the pricing leader with more emphasis on maintaining manageable capacity and originating higher quality loans, and (2) installing Credit Risk Teams in LFCs aimed at increasing the credit risk management group's influence over underwriting while reducing the influence of production management. Since these and other management initiatives are in process, we cannot yet opine on their effectiveness; however, the steps taken are considered appropriate and should eventually have a positive impact on underwriting. Given the breadth of changes being made such as:,(1) computer system changes (loan origination platforms and termination of OPTIS.2) and (2) restructuring and consolidation of the loan fulfillment centers, with its attendant relocations and staff reductions, the near term result may be an environment where other types of errors may become prevalent. As such, we encourage heightened management oversight of all ongoing initiatives and careful consideration of findings discussed in this memorandum.

Our past reviews concentrated on assessing underwriting analysis documented in loan files. Since prior examinations and internal reports have already established that underwriting concerns exist, we decided to forego some file review at this examination to instead concentrate on reviewing and improving internal processes that may contribute to underwriting concerns. The following discussions relay our findings with respect to these processes.

EXAM FINDINGS DEFINITIONS

Observation: A weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. *Observations* are made in a consultative role. They may be presented to management either verbally or in writing, but will generally not be included in the Report of Examination. Examiners will rarely request a written response during the examination. *Observations* may or may not be reviewed during subsequent examinations.

Recommendation: A secondary concern for which immediate corrective action is left to management's discretion. A *Recommendation* can become a *Criticism* in future examinations should risk exposure increase significantly or other circumstances warrant. They may be included in the Report of Examination and are generally mentioned in Exit and Board Meetings. Examiners will usually request a written response from Management during the examination. Management's actions to address *Recommendations* are reviewed at subsequent or follow-up examinations to assess any changes in risk exposure.

Criticism: A primary concern that if left uncorrected, the Agencies may consider stronger action. *Criticisms* are often summarized in the "Matters Requiring Board Attention" or "Examination Conclusion and Comments" section of the Report of Examination; warrant increased attention by Senior Management and the Board of Directors; and typically require a written response. They are subject to formal follow-up by examiners.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #648

EXAM FINDING 1	☐ Observation*	☑ Recommendation*	☐ Criticism*

Topic: Consumer Group Goals

Finding: The Consumer Group's overall goals do not expressly state a goal with respect to the desired quality of loan originations/acquisitions. We believe that this issue is of sufficient materiality, complexity, and duration that it should be clearly stated as a goal with quantified expectations of those involved in the origination process.

Action: Establish and quantify a Consumer Group goal with respect to desired asset quality and communicate this expectation to those involved in the production process.

☐ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☐ Agree ☑ Partially Agree ☐ Disagree **Enter Target Date: [9/30/04]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Management agrees it is important to have specific goals and targets for portfolio performance. Consumer Group Credit Risk Management has established a target Non-performing Loan/Total Loan ratio of less than 1% as a target performance level. Management needs to communicate this target broadly as part of the overall Consumer Group strategic objectives/goals.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Management will establish, quantify, and communicate a Consumer Group goal with respect to desired asset quality as part of the overall strategic objectives/goals.
   a. Manager Accountable: Mark Hillis, Chief Credit Officer, Consumer Group
   b. Target Date: 9/30/04

EXAM FINDING 2	☐ Observation*	☑ Recommendation*	☐ Criticism*

Topic: Metrics used to monitor performance in the loan fulfillment centers.

Finding: There are 16 measures of performance in the Home Loans Production Scorecard (11 for the Correspondent channel). Only one of these, the Optimal Performance Score, measures overall quality. (The Optimum Performance score is obtained quarterly for most LFCs but is not available for the Correspondent channel.) In addition, the measurement of Home Mortgage Disclosure Act (HMDA) performance is not measured by LFC; rather, this is measured only by loan channel. The current performance measurements do not appear to be either sufficiently detailed or sufficiently frequent to effectively monitor and promote desirable loan origination and acquisition quality.

Action: Track performance with sufficient detail and frequency to effect the desired change in underwriting. Ideally, performance measures should be provided monthly and in sufficient detail to trace problems to the specific channel, and LFC.

☐ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☑ Agree ☐ Partially Agree ☐ Disagree Enter Target Date: [9/30/04]

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

The Risk Oversight team will work with the Home Loans team, to further refine risk metrics that are used to evaluate and manage: Credit, Compliance and Data Integrity risk elements in conjunction with ongoing process refinements. Management is supportive and has requested continuous feedback to support business execution and risk management activities. The Risk Oversight Group is in process of developing testing capabilities to provide monthly feedback for all LFC's.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Identification of risk metrics will be performed in collaboration with Home Loans.
   a. Manager Accountable: Melissa Martinez, Risk Oversight & Compliance
   b. Target Date: 7/30/04

2. Establishment of risk tolerance and performance standards will be developed in collaboration with Home Loans.
   a. Manager Accountable: Melissa Martinez, Risk Oversight & Compliance
   b. Target Date: 7/30/04

3. Full implementation of revised performance measurement standards will be implemented no later than September 30, 2004.
   a. Manager Accountable: Melissa Martinez, Risk Oversight & Compliance
   b. Target Date: 9/30/04

EXAM FINDING 3 ☐ Observation* ☑ Recommendation* ☐ Criticism*

Topic: Incentive compensation for loan fulfillment centers

Background:

The incentive compensation plan with respect to managers incorporates four performance measures including: (1) productivity, (2) customer service, (3) management objectives, and (4) quality. This discussion primarily focuses on the quality measure that generally accounts for 20.0 to 40.0 percent of incentive compensation. Within the quality measure, there are four components: (1) HMDA results, (2) Optimum Performance review results [1], (3) RQA review results, and (4) percentage of unsaleable loans. The plan indicates that one or two of these components may be used in determining the quality portion of incentive compensation; however, in practice, only two measures are used: HMDA and Optimum Performance review results. Both components are currently used for each consumer direct, wholesale and retail LFC. As expressed in the plan, the program can generate the following compensation for various levels of achievement in the Optimum Performance reviews.

RPI Category	RPI Score	Minimum Incentive Award as a % of Salary	Maximum Incentive Award as a % of Salary
Unsatisfactory	Below 60%	0%	0%
Unsatisfactory	60% to 69%	1.1%	2.6%
Marginal	70% to 79%	1.3%	3.0%
Satisfactory	80% to 89%	1.5%	3.4%
Commendable	90% to 100%	1.7%	3.8%

The foregoing assumes: (1) the quality portion of the incentive compensation plan ranges from 20% of the total (the minimum incentive assumption) to 40% (the maximum incentive assumption), (2) an Optimum Performance score of 80% equates to achieving 100% of the goal, and (3) two measures are used for quality, HMDA and Optimum Performance score.

In practice, we were informed that some channels use a minimum standard of 70.0 percent for the quality portion of an incentive award, notwithstanding the provisions in the plan. One channel augments the core results with a portion of the Management Objective component of the incentive plan.

Finding: We do not believe that the current incentive compensation program for SFR loan underwriting provides effective incentive to maximize satisfactory or superior loan quality. This results in part from the fact that credit and underwriting quality does not appear to be sufficiently weighted in determining incentive compensation. In addition, the plan allows for significant tailoring by LFC management and is not consistently applied across channels and LFCs. Further, current methodology makes it difficult to trace responsibility and appropriately affect incentive compensation. These findings pertain primarily to the LFC manager position, but are generally applicable to other positions in the LFC.

The Optimum Performance or RPI score is an average of the score for three components: compliance, underwriting, and process. An LFC could perform at an unacceptable level in one component but qualify for an incentive compensation award because performance in the other components is better. (For example, one LFC scored 65 for credit but received an 82 overall and would thus have earned more than 100% of its incentive plan target for quality even though its credit quality performance was unsatisfactory.)

The HMDA quality measure is not available by LFC; instead, the incentive compensation for the LFCs is based on the performance for the entire channel. As a consequence, the LFC managers can influence, but not control, their ability to meet the incentive compensation standard for HMDA quality.

Action: Management should consider enhancing the incentive compensation plan with respect to the loan fulfillment center manager position to more heavily emphasize credit quality concerns. Our recommendations include: (1) Revising the incentive compensation plan to track quality performance using only items that can be measured at the LFC level; (2) Measuring performance based on four criteria: quality of compliance, documentation, underwriting, and data quality, including rate lock quality; (3) Working with the Consumer Risk Oversight Group to obtain performance measures in the four categories; (4) Establishing minimums in each category that reflect an acceptable level of quality, or that temporarily

[1] Optimum Performance results are also referred to internally as a Risk Performance Indicator (RPI) score. This score is determined as a result of file reviews conducted by one of the quality control functions within the Bank (separate from RQA). The score is a composite measure of file review results that assess compliance, processes, and credit quality.

EXAM FINDING 3	☐ Observation*	☑ Recommendation*	☐ Criticism*

accept a lesser level but reward progress toward an acceptable level; (5) Establishing a level and range of reward that provides a meaningful incentive to achieve excellent quality in loan origination and acquisition, and disincentives for poor quality; and (6). Centrally administering or overseeing the quality portion of the incentive compensation to ensure the objectives of the program are being met in all channels and LFCs.

In addition, review the quality aspects of the incentive compensation plans with respect to other positions affecting loan quality and, where appropriate, revise the plans to serve as an effective incentive to improve performance.

☐ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☑ Agree ☐ Partially Agree ☐ Disagree Enter Target Date: [1/01/05]

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Washington Mutual management is in agreement with the recommendations for Exam Finding 3 and will take steps as defined below to comply with actions as stated. Target implementation dates are defined below.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Identify existing credit quality performance measure(s) to be used within the LFC Incentive Plan management plan as part of the management objective component of the plan.
   a. Manager Accountable: Mark Hillis, Consumer Credit Risk Oversight
   b. Target Date: 8/31/04

2. Utilize the management objective component of LFC management plan to focus on credit quality measure (Measure as identified in corrective action #1). This will result in 6.3% of management pay linked to credit quality.
   a. Manager Accountable: John Schleck, Kim Yezbak and Arleen Scavone, LFC Sr. Leaders
   b. Target Date: 10/1/04

3. Increase incentive weight of existing quality measures for LFC management from 25% to 35%. This coupled with corrective action #2 will result in 15% of LFC management pay linked to quality.
   a. Manager Accountable: Peggy Ohlhaver, Consumer Rewards
   b. Target Date: 10/1/04

4. Risk weight the Optimum Performance or RPI components: compliance, underwriting, and process to better reflect impact of achievement.
   a. Manager Accountable: Peggy Ohlhaver, Consumer Rewards
   b. Target Date: 7/1/04

5. Working with Consumer Credit Risk Oversight, establish agreed upon achievement thresholds for existing quality measures within the LFC plan and revise incentive tables.
   a. Manager Accountable: Peggy Ohlhaver, Consumer Rewards
   b. Target Date: 10/1/04

6. Establish strategy for identifying credit quality metric accountability, tracking and incentive link for the four areas identified within the exam findings: quality of compliance, documentation, underwriting and data quality, including rate lock quality.
   a. Manager Accountable: Mark Hillis, Consumer Credit Risk Oversight & Tony Meola, Production (for rate lock quality)
   b. Target Date: 1/1/05

7. Launch study to identify drivers and accountability of quality excellence in loan origination and acquisition and determine appropriate incentive link.
   a. Manager Accountable: Peggy Ohlhaver, Consumer Rewards
   b. Target Date: 7/1/04

8. Centralize oversight of LFC quality metrics to the Consumer Credit Risk Oversight function.
   a. Manager Accountable: Mark Hillis, Consumer Credit Risk Oversight
   b. Target Date: 8/31/04

EXAM FINDING 4	☐ Observation*	☑ Recommendation*	☐ Criticism*

Topic: Management Support for the Loan Fulfillment Centers

Finding: LFCs are inundated with changes in loan origination procedures and policies, to the extent that they have difficulty complying with the changes.

Action: Management should provide additional support to the LFCs to help them implement policy and procedure changes as expected. One suggestion is to write model desk procedures for each position in the loan fulfillment centers and to revise these desk procedures concurrently with each notice of a procedural or policy change. When the LFC receives notice of a new policy or procedure, it should also receive a revised desk procedure for each affected position in the LFC. This will improve compliance with standards in the LFC and promote consistency among the LFCs, a stated management expectation. The timeliness and adequacy of training should also be reviewed.

☐ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☐ Agree ☑ Partially Agree ☐ Disagree **Enter Target Date: [7/31/04]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Partially Agree: Although we agree that there has been a large amount of changes in policies and procedures and it is difficult at times to comply/keep up with changes, we do feel that change is relative to the nature and the core of our business. In addition, there are several techniques in place to lessen the impact of changes to both LFC management and staff, including following up large impact changes with meetings and training to ensure the changes are communicated to all applicable levels.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Continue to work with Policy Administration to ensure all policies are rolled out with as much notice as possible, and channel managers will ensure that LFC management has input on policy changes as needed.
   a. Manager Accountable: Arleen Scavone, John Schleck, Kim Yezbak
   b. Target Date: 7/31/04

2. Utilize Loan Fulfillment Center management facilitate twice daily/weekly team meetings to review and train on new policies and procedures.
   a. Manager Accountable: Arleen Scavone, John Schleck, Kim Yezbak
   b. Target Date: 7/31/04

3. Continue to issue HLPAs developed by the Policy Administration group weekly (each Friday) with a two week implementation window prior to effective date of a change.
   a. Manager Accountable: Arleen Scavone, John Schleck, Kim Yezbak
   b. Target Date: 7/31/04

4. Utilize channel management communication avenues to refresh and re-enforce policy communications on a monthly basis.
   a. Manager Accountable: Arleen Scavone, John Schleck, Kim Yezbak
   b. Target Date: 7/31/04

Washington Mutual

WMB
March 15, 2004
Safety & Soundness Examination
FDIC-DFI MEMO 3

DATE: May 20, 2004
TO: Mark Hillis, Deputy Chief Credit Officer
Tony Meola, EVP, Production
FROM: Trina Dong, FDIC and Erin Burr, DFI
SUBJECT: Single Family Residential Review
CC:

BACKGROUND INFORMATION

FDIC and State examiners reviewed a sample selection of 220 loans during this examination, primarily loans originated in 2003; 75 brokered loans, 65 loans originated in house, 20 subprime/niche loans, 20 low doc, 20 custom construction, 10 residential lot loans, and 10 advantage 90/high LTV loans. **The loan file review reflected inconsistencies in underwriting and documentation practices, particularly in the brokered channel. Additionally, examiners noted that Washington Mutual's SFR portfolio has an elevated level of risk due to a significant volume of potential negative amortization loans, high delinquency and exception rates, and a substantial volume of loans with higher risk characteristics, such as low FICO scores** (see Joint Memo #8).

EXAM FINDINGS DEFINITIONS

Observation: A weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. *Observations* are made in a consultative role. They may be presented to management either verbally or in writing, but will generally not be included in the Report of Examination. Examiners will rarely request a written response during the examination. *Observations* may or may not be reviewed during subsequent examinations.

Recommendation: A secondary concern for which immediate corrective action is left to management's discretion. A *Recommendation* can become a *Criticism* in future examinations should risk exposure increase significantly or other circumstances warrant. They may be included in the Report of Examination and are generally mentioned in Exit and Board Meetings. Examiners will usually request a written response from Management during the examination. Management's actions to address *Recommendations* are reviewed at subsequent or follow-up examinations to assess any changes in risk exposure.

Criticism: A primary concern that if left uncorrected, the Agencies may consider stronger action. *Criticisms* are often summarized in the "Matters Requiring Board Attention" or "Examination Conclusion and Comments" section of the Report of Examination; warrant increased attention by Senior Management and the Board of Directors; and typically require a written response. They are subject to formal follow-up by examiners.

EXAM FINDING 1 ☐ Observation* ☑ Recommendation* ☐ Criticism*

Topic: Inconsistent Underwriting and Documentation Practices

Finding: The loan file review of WMB's portfolio revealed the following inconsistencies.

- A substantial number of loans (17 of 75 brokered loans, 9 of 65 originated in house, and 8 of 20 low doc loans) granted to borrowers with derogatory credit ratings or with higher risk characteristics were graded a "0" or "prime." The assigned credit classification is inconsistent with the bank's policy and credit grading guidelines. As a result, these loans were not accurately priced for risk as loans with 2-4 credit codes (niche loans) which are priced at a premium rate. Additionally, the inconsistency in credit grading resulted in an inaccurate level of loan loss reserve for the niche portfolio.
- The full doc loans in the brokered portfolio (21 of 75 loans reviewed) were not fully documented and did not meet the criteria for appropriate verifications. Missing employment, asset, and income verifications were noted in the review.
- FICO scores were not consistently reported on the Loan Approval Summary Sheet for a majority of the loans reviewed. The underwriting guidelines specify which score to use when multiple credit reports were obtained, but it has not been applied uniformly.
- There is often lack of support for income calculations in the underwriting analysis, especially when multiple credit applications are in the file.
- Some of the title policies for the NegAm loans have the insurance amount of 110% of the original loan

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #649

EXAM FINDING 1	☐ Observation*	☑ Recommendation*	☐ Criticism*

balance and some have 100% of the loan amount.

During the examination, management began several initiatives to enhance the credit culture and correct underwriting deficiencies through the implementation of minimum credit standards, Credit Risk Teams, and a proprietary credit scoring model (version 2). However, examiners cannot yet opine on the effectiveness of these initiatives.

Action: Develop a process and system to ensure that underwriting guidelines are consistently applied.

☐ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☑ Agree ☐ Partially Agree ☐ Disagree **Enter Target Date: [12/31/04]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Management agrees with the Recommendation. As noted above, Consumer Credit Risk Management, in collaboration with the Consumer Group Production channels, have developed and begun several initiatives to enhance credit culture and correct underwriting deficiencies. In addition, the credit class 2-4 program has been eliminated effectively Q3 '04. This coupled with Credit Risk Team (CRT) monitoring, training, and control should also add to the improvement of these processes and overall quality. Please Note: FICO score discrepancies are predominantly caused by inefficiencies in our loan origination systems which cause loans to be manually boarded and may, in some cases, result in a new credit score to be drawn which could conflict with the score used at origination and underwriting.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. MINIMUM CREDIT STANDARDS PROJECT: Consumer Credit Risk Management implemented the new Minimum Credit Standards, which supplements the existing underwriting process for loans that receive a WaMu AUS-Refer. These Standards include a FICO/LTV-CLTV Matrix that determines which underwriting path a loan will follow. Loans falling below the matrix that may present an unacceptable level of risk will be quickly passed on to a credit approver with the appropriate level of authority and experience to explore all options prior to a decision being rendered. All AUS-Referred loans, however, will be reviewed in accordance with manual underwriting credit guidelines, regardless of the FICO score. This policy is currently in effect and applies to all loan applications or loan submissions made on or after April 1, 2004.

2. CREDIT RISK TEAMS (CRTs): These teams of senior underwriters who are managed outside the fulfillment operation are being deployed in all Loan Fulfillment Centers (LFCs). Four pilot sites have been operating since May 17 and CRTs will be operational in all LFCs by July 31 and fully implemented by the end of the third quarter. These teams in addition to handling more complex and high risk transactions will also monitor the performance of all credit approvers in the centers. A new Residential Lending Authority Policy and Performance Improvement Plan will be introduced in June and all credit grantors will be re-certified by year end. **Responsible Manager: Barry Wolfgram, Consumer Credit Risk Management. Target Date: 12/31/2004**

3. PROPRIETARY CREDIT SCORING MODEL (version 2): The Enterprise Modeling and Decision Systems group is currently redeveloping the Home Loans Proprietary Model (PM2). The PM2 is expected to be significantly more robust in risk prediction than the Transitional Proprietary Model (TPM) that is currently in place and will be much more reliant on credit file information than its predecessors. The development is based on WaMu's new credit file attribute superset, which consists of approximately 490 different credit attributes in addition to the added incremental predictivity of application attributes, loan purpose, and other significant characteristics. The PM2 is scheduled to be completed in 3rd quarter 2004.

   As a result, enhanced services should be able to be offered more confidently to lower-risk borrowers, improving service and pull-through rates for more desirable risk profiles. At the higher risk end of the spectrum, more accurate identification of risky loans and associated automation to achieve "quicker no's" on these loans will assist in fewer opportunities for errors associated with manual processes. **Responsible Manager: Tim Bates, Corporate Credit Risk Management. Target Date: 9/30/2004**

EXAM FINDING 2	☐ Observation*	☑ Recommendation*	☐ Criticism*

Topic: Underwriting for Low Documentation Loans

Finding: The bank's underwriting guidelines indicate that the low doc loan program is designed to expedite processing of low risk loans. **Eight of the 20 low doc loans reviewed were to borrowers with credit scores lower than 660 who had major derogatory ratings or current past due problems listed on their credit reports. Granting loans to these borrowers would appear contrary to the low risk characteristics.** Additionally, no compensating factors were noted in the underwriting analysis when approving such loans.

Limited income or employment verification within this loan program was also noted, as verification is not required for low doc loans according to the bank's underwriting guidelines. The applicants may qualify using stated income and verify their own employment. However, such guidelines appear contradictory to the low risk criteria.

Action: Reevaluate the documentation and underwriting guidelines and establish acceptable credit quality and underwriting parameters for the low doc loan program that are consistent with the low risk characteristics.

☐ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☑ Agree ☐ Partially Agree ☐ Disagree **Enter Target Date: [12/31/04]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Management agrees with the Recommendation. In order to further drive credit quality consistency and acceptable level of risks on Low Doc transactions we will monitor their performance and reevaluate the documentation and underwriting guidelines and establish acceptable credit quality and underwriting parameters for the Low Doc Loan Program that are consistent with the low risk characteristics.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Thus far all of our analyses conclude that Low Doc loans significantly outperform Full Doc loans. This is also seen when comparing the other Low Doc qualifying criteria (CLTV, DTI, etc.). These loans are sent through our predictive models (LPRM) which show these to have lower loss expectations. Overall NPL rate from Low Doc loans with FICOs less than 660 is 1.00% compared to Full Docs with FICOs less than 660 which have a rate of 1.64%. The Credit Information and Analytics team will continue to monitor these through regular audit reports that screen for high risk Low Doc loans. The results will then be communicated to National Underwriting for review and to implement necessary corrective actions. **Responsible Manager: Alan Newstead, Consumer Credit Risk Management. Target Date: 09/30/04**

2. National Underwriting will use these reports to evaluate, control, and improve the underwriting process for Low Doc loans. Consumer Credit Policy will review and revise the applicable sections of the Conventional Underwriting Guideline, the Home Loans Online Lending Manual, and the Product and Pricing Guide to ensure all areas of evaluating the applicant are addressed. Also included in this review will be the overall credit review process, income and asset analysis, and the documenting of the risk decision. In addition, the sections regarding Verbal Verifications of Employment will be reviewed to ensure that they provide clear and concise direction when verbally verifying self employed applicants, as well as those borrowers with unusual income sources.

   Following the review and necessary revision, National Underwriting will drive the operational execution with the new Credit Risk Teams (CRTs) who will oversee and monitor the implementation of the new policy and training. **Responsible Manager: Barry Wolfgram, Consumer Credit Risk Management. Target Date: 12/31/04**

EXAM FINDING 3	☑ Observation*	☐ Recommendation*	☐ Criticism*

Topic: Risk in SFR Portfolio

Finding: **Our review, as well as that of Corporate Credit Review identified that Washington Mutual's held-for-investment SFR portfolio has an above average risk profile: higher delinquencies and exception rates, 69% of WMI's SFR portfolio has the potential to negatively amortize; and 17% of WMI's SFR portfolio, or 135% of Tier 1 Capital, reflects current FICO scores less than 620.**

WMB's SFR loans with the potential NegAm feature represent 96% of the Option ARM loans or 74% of the SFR portfolio in 2003, an increase from 88% of the Option ARM loans or 38% of the SFR portfolio in 2002. These loans increase credit risk in a rising interest rate environment due to borrowers' uncertain ability to service a higher monthly payment, a potential increase in principal balance, and potential LTV concerns. The September 2003 internal analysis concluded that NegAm loans make up a significantly larger proportion of loans in the lower FICO bands, have higher delinquencies, and higher current LTVs than the loans in the rest of the portfolio.

WMI's loans with FICO scores less than 620 totaled approximately $19 billion, or 135% of WMI's Tier 1 Capital. Loans in this category show a higher delinquency rate compared to the rest of the portfolio. Of the $19 billion, approximately $1.98 billion is currently more than 30 days past due, which represents 85% of the $2.33 billion delinquent loans for the entire SFR portfolio.

The June 2003 Credit Review Report concluded that the level of Washington Mutual's non-performing loans is considered high and the probability of improvement in overall performance is not likely. Additionally, the review identified excessive error rates in documentation.

Action: Monitor the effectiveness of management's new initiatives: the establishment of minimum credit standards, formation of Credit Risk Teams, and launching of a new proprietary credit scoring model. Measure the underwriting quality that results from the above initiatives and take corrective action if necessary to enhance the process.

☐ Repeat Finding Management Response Requested ☐ Yes ☑ No

MANAGEMENT RESPONSE	☑ Agree	☐ Partially Agree	☐ Disagree	Enter Target Date: [N/A]

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Management agrees with the Observation and is carefully monitoring the progress and effectiveness of the noted initiatives. As discussed in the Management Response for Finding 1, the establishment of Minimum Credit Standards, the formation and implementation of the Credit Risk Teams, and the launch of the new proprietary credit scoring model are currently in progress and should result in overall underwriting quality improvements.

Regarding the SFR loans with the potential NegAm feature, the Credit Information and Analytics group currently runs stress testing for NegAm and potential NegAm loans. The greatest risk to the organization is not a rising rate environment, but a declining housing price environment. The multiple stress tests that are performed, however, indicate that while the losses could be much greater than what we currently are experiencing, our loan loss reserve is adequate to cover those possible losses.

For the proportion of the total HFI population mentioned with FICOs less than 620, about $1 billion (or 5%) were originated by acquired institutions and about $3 billion (or 15%) have LTVs less than 60 percent. A small amount of the acquired is less than 60 CLTV (about $127 million). Thus, of the population:

- 4% Acquired and >60 LTV
- 14% Not Acquired and < 60 LTV
- 1% Acquired and <60 LTV

Please note that the establishment of the Minimum Credit Standards will sharply reduce the highest risk tail, in addition to assisting in the improvement of underwriting quality, as will the elimination of credit classification codes 2-4.

With regard to the section of the June Credit Review Report stating that the probability of improvement is not likely; the reference is misleading. Without the changes to the front-end, CRT implementation and active portfolio management

EXAM FINDING 3	☑ Observation*	☐ Recommendation*	☐ Criticism*

(loan sales), this would be true. There has been significant improvement in default servicing management and oversight. In early 2004, Consumer Credit Risk Management began working with the Default Servicing group to focus on improving and reducing the outstanding balance of Non-Performing Loans (NPLs). The reduction in NPLs has been principally achieved with the quarterly sale of Non-Performing and Sub-Performing loans; this is not the long-term strategy for managing NPLs. The Default Collections team has implemented a focused calling campaign on the asset portfolio. Delinquent loans are called on by the fifth business day of the month, the right party contact rate is improving, and we are seeing deeper penetration within the portfolio. Performance is monitored and measured each month with a comparison to prior year's performance. Considerable improvement has shown in the following areas with an overall reduction in delinquency:

- Cure Ratio of 4+ Payment DQ – As of April 2004 Cure Rate was 12.2% in comparison to the average cure rate of 6.3% in 2003.
- 3 – 4 Payment Roll Rates - The level of loans rolling from 3 to 4 payments delinquent was 41.4% in April 2004 in comparison to the 2003 average of 55.1%.

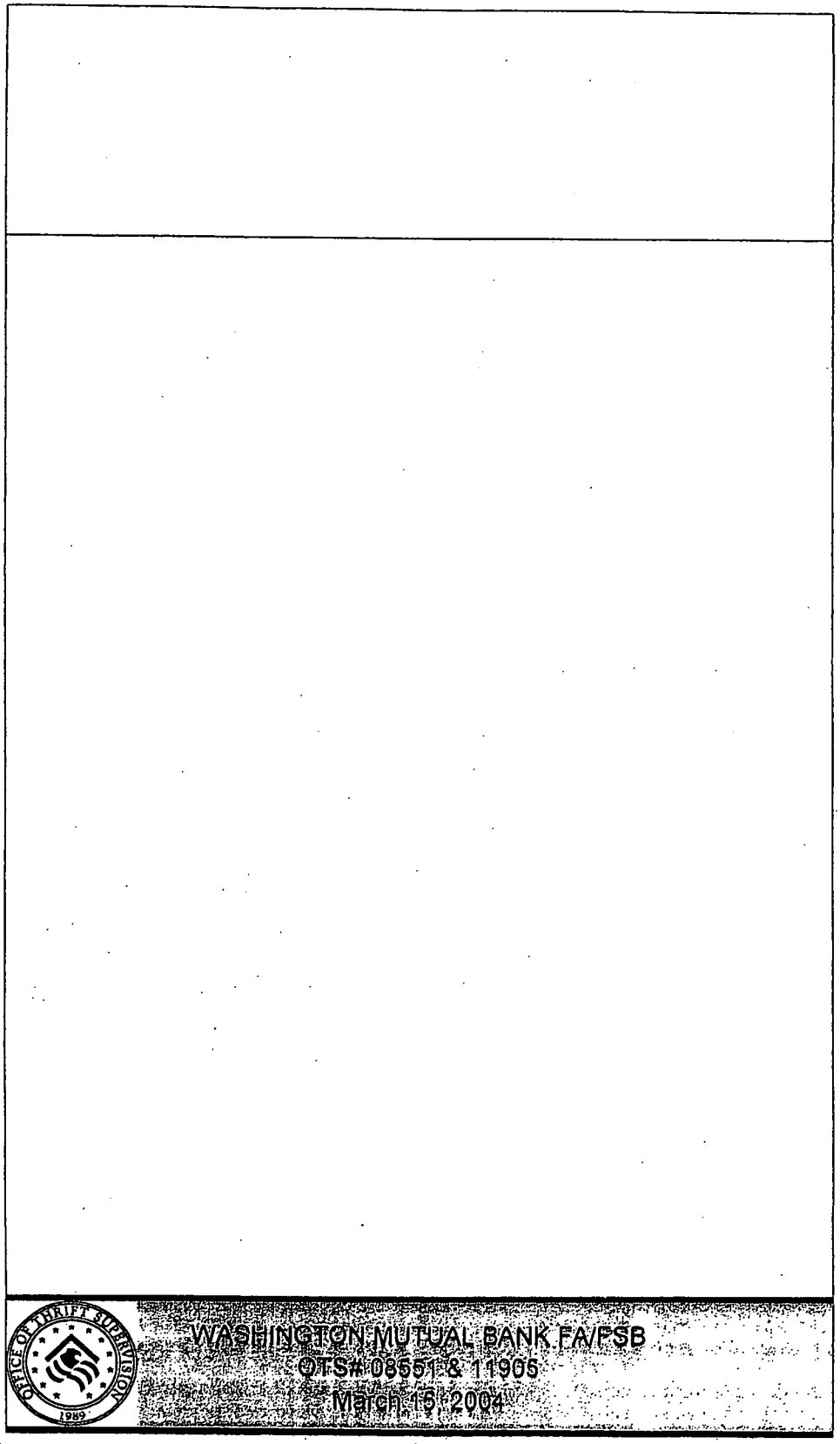
CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

As stated in Finding 1, the following are the corrective actions as they relate to Minimum Credit Standards Project, Credit Risk Teams, and proprietary credit scoring model (version 2):

1. MINIMUM CREDIT STANDARDS: This policy is currently in effect and applies to all loan applications or loan submissions made on or after April 1, 2004.

2. CREDIT RISK TEAMS: Four pilot sites have been operating since May 17 and additional expansion to more sites will take place through June 14. CRTs will be operational in all fulfillment centers by the end of July and fully implemented by the end of the third quarter. A new Residential Lending Authority Policy and Performance Improvement Plan will be introduced in June and all credit grantors will be re-certified by year end. **Responsible Manager: Barry Wolfgram, Consumer Credit Risk Management. Target Date: 12/31/2004**

3. PROPRIETARY CREDIT SCORING MODEL (version 2): The Enterprise Modeling and Decision Systems group is currently redeveloping the Home Loans Proprietary Model (PM2). **Responsible Manager: Tim Bates, Corporate Credit Risk Management. Target Date: 9/30/2004**



WASHINGTON MUTUAL BANK FA/FSB
OTS# 08551 & 11905
March 15, 2004

SFR ORIGINATION MEMOS
OTS 5, FDIC/DFI 3

Date: 5/04
Prepared By: OTS/FDIC DFI
Reviewed By:
Index #: 2024

Confidential Treatment Requested by JPMC

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #686

WaMu

This presentation was posted to BoardVantage on March 18, 2008, and replaces and supplants all prior versions.

Summary of Management's Action to Address OTS Concerns

March 11, 2008

JPM_WM01022322

Confidential Treatment Requested by JPMC

[redacted]

OTS Concerns:

- Rapidly increasing levels of Nonperforming and Classified assets.
- Potentially Insufficient ALLL

WaMu Response:

- In recent quarters, we have been provisioning at twice the rate of charge-offs and anticipate doing so as necessary to ensure an adequate ALLL. This is resulting in a significant build-up of ALLL.
- Project Olympic anticipates either strategic options or a $3 to $4 billion increase in capital during early 2Q08, resulting in capital levels sufficient to absorb expected provisioning and losses during 2008/2009.

JPM_WM01022323

Confidential Treatment Requested by JPMC

[redacted]

OTS Concerns:

- Substantial loan loss provisions caused earnings losses in 2007 and will result in continued losses in 2008.

WaMu Response:

- Continued actions to reduce expenses
- Project Olympic anticipates $3 to $4 billion increase in capital during early 2Q08. An increase in capital permits Company to remain above well-capitalized even with earning losses during 2008 and 2009.
- Expected return to profitability in 2009 with adequate provisions in place.

JPM_WM01022324

Confidential Treatment Requested by JPMC

[redacted]

OTS Concerns:

- Liquidity has become more stressed due to market disruption, deteriorating financial condition and rating agency downgrades.
- Increasing funding costs and contraction of available funding sources.

WaMu Response:

- Project Olympic anticipates $3 to $4 billion increase in capital during early 2Q08. An increase in capital will strengthen balance sheet for counterparties.
- Active management of balance sheet expected to result in modest balance sheet shrinkage in 2008/2009.
- Temporary dividend reduction until earnings and capital levels recover.
- Collateral initiatives
- Stress tests indicate continued excess liquidity even in face of 2-notch downgrade from current position.

JPM_WM01022325

Confidential Treatment Requested by JPMC

[redacted]

OTS Concerns:

- Ineffective BSA program due to internally identified weaknesses in several required program elements. OTS issued a Consent Order.
- Need a more disciplined framework for the identification and management of compliance risks.
- Ineffective monitoring processes on Commercial serviced loans resulting in properties with inadequate insurance.

WaMu Response:

- Management is executing a comprehensive program to strengthen the Bank Secrecy Act program and address the Consent Order. Board has been monitoring action plans in response to Matters Requiring Board Attention and Consent Order.
- Corporate Compliance initiated a significant effort to improve the program. On track to meet committed timeframes.
- Management implemented actions to address flood compliance issues and secured appropriate coverage for all inadequately insured loans.

JPM_WM01022326

Washington Mutual

WMBFA
March 14, 2005
Safety & Soundness Examination
OTS MEMO 4

DATE: May 20, 2005
TO: Michelle White, Appraisal and Performance Engineering
FROM: Bruce Thorvig, Regional Appraiser, OTS
SUBJECT: Residential Real Estate Appraisal Operations
CC: Mark Hillis, Chief Credit Officer
Ken Kroemer, FDIC

BACKGROUND INFORMATION

The primary focus of the review of the Residential Appraisal Department included following-up on prior examination findings, review of one-to four-family residential appraisals and evaluations, appraiser assisted automated valuation model (AAAVM), and policy and procedures. Single-family residential appraisals and evaluations have been reviewed for reasonableness of value and compliance with Uniform Standards of Professional Appraisal Practice (USPAP), Part 564 of the OTS Regulations, and the bank's written appraisal policy and procedures.

Two criticisms have been identified. The first criticism, which is a repeat finding (Exam Finding 3 in Joint Memo #3), addresses the Appraisal Assignment/Engagement Request form, which includes the owner's estimate of market value. The second criticism addresses weaknesses identified in the AAAVM process. During a meeting held on May 10, 2005, appraisal management agreed to delete the owner's estimate of market value from the Appraisal Assignment/Engagement Request form and to address the weaknesses identified in the AAAVM process.

EXAM FINDINGS DEFINITIONS

Observation: A weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. *Observations* are made in a consultative role. They may be presented to management either verbally or in writing, but will generally not be included in the Report of Examination. Examiners will rarely request a written response during the examination. *Observations* may or may not be reviewed during subsequent examinations.

Recommendation: A secondary concern requiring corrective action. A *Recommendation* can become a *Criticism* in future examinations should risk exposure increase significantly or other circumstances warrant. They may be included in the Report of Examination and mentioned in Exit and Board Meetings. Examiners will request a written response from Management during the examination. Management's actions to address *Recommendations* are reviewed at subsequent or follow-up examinations.

Criticism: A primary concern requiring corrective action. *Criticisms* are often summarized in the "Matters Requiring Board Attention" or "Examination Conclusion and Comments" section of the Report of Examination; warrant increased attention by Senior Management and the Board of Directors; and require a written response. They are subject to formal follow-up by examiners and, if left uncorrected, may result in stronger action.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #691

EXAM FINDING 1 ☐ Observation ☐ Recommendation ☑ Criticism

Topic: Appraisal Assignment/Engagement Request Form

Finding: The review of single-family appraisals and evaluations noted that numerous Appraisal Assignment/Engagement Request forms continue to provide the appraiser with the owner's estimate of market value. **The owner's estimate of market value should be eliminated from the request form in order to ensure that appraiser independence is not compromised.**

Recent guidance on this issue is included in the "Interagency Statement on Independent Appraisal and Evaluation Functions" dated March 22, 2005. The statement reaffirms, "the information provided by the regulated institution should not unduly influence the appraiser or in any way suggest the property's value." In addition, this issue is addressed in the May 16, 2005, interagency guidance on "Credit Risk Management Guidance for Home Equity Lending." The guidance on collateral evaluation management states that management should "Ensure that an expected or estimated value of the property is not communicated to an appraiser or individual performing an evaluation."

This represents a repeat finding from the prior examination. This matter was an incorrectly closed issue that had not been adequately corrected (Issue 04-SS-0011).

Action: The owner's estimate of market value should be eliminated from the Appraiser Assignment/Engagement Request form. Andy LaPlante, Regulatory & Investor Liaison, indicated at our May 10, 2005, meeting that by May 20, 2005, the owner's estimate of market value would be blocked out on the request form.

We request that Quality Assurance follow up after May 20, 2005, to ensure that Appraiser Assignment/Engagement Request forms actually sent to appraisers no longer provide the owner's estimate of value. Documentation of this follow-up should either be provided to examiners while still on-site or kept available for future examiner review.

☑ Repeat Finding Management Response Requested ☑ Yes ☐ No

MANAGEMENT RESPONSE ☑ Agree ☐ Partially Agree ☐ Disagree Enter Target Date: [N/A]

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Management agrees that this issue was incorrectly closed as it had not been adequately corrected as previously committed to. The "Owner's Estimate of Value" field was not removed from the Appraiser Assignment/Engagement request form by the time this issue was initially closed. Management was unable to implement the appropriate OptisValue updates to correct this issue during 2004 due to a mandatory OptisValue systems freeze between June and October, followed almost immediately by the annual, end of year Sarbanes-Oxley (SOX) required systems freeze.

On 5/20/05 the "Owner's Estimate of Value" field was successfully removed from the "Appraisal Assignment" form and is no longer viewable by the appraiser, therefore ensuring the appraiser independence is not compromised going forward.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. The field in question was eliminated on 5/20/05. Documentation demonstrating completion has been provided to examiners. **Responsible Manager: Michelle White, Target Date: N/A**

EXAM FINDING 2 ☐ Observation* ☐ Recommendation* ☑ Criticism*

Topic: Appraiser Assisted Automated Valuation Model (Desktop Evaluation Report)

Finding: **Our review of appraisals completed using Appraiser Assisted Automated Valuation Models (AAAVMs) or Desktop Evaluation Reports noted significant technical documentation weaknesses in the process.** The AAAVM process needs improvement to address material appraisal documentation deficiencies in order to comply with Uniform Standards of Professional Appraisal Practice (USPAP). In 2004, staff appraisers completed over 44,000 AAAVMs. None of the 18 appraisals sampled were fully USPAP compliant. Of the 11 AAAVMs that may involve value issues, WMBFA responded that 2 represented significant risk, 4 may or may not represent significant risk and the remaining 5 represented no risk.

The quality assurance review of AAAVMs was inadequate. Appraisal management agreed that quality assurance procedures did not include the review of AAAVMs. Reviews by the quality assurance group may have identified the documentation deficiencies noted during the examination.

Action: Management must review the AAAVM process and address the appraisal documentation deficiencies. The Desktop Evaluation Report form will require some modification. Staff appraisers must be provided with additional training on the appraisal development and reporting standards of USPAP. Most importantly, the AAAVM process must be monitored and the quality assurance function must be expanded to include an on-going review of Desktop Evaluation Reports.

During a May 10, 2005, meeting with appraisal management, Michelle White, Appraisal and Performance Engineering, agreed that documentation weaknesses existed and that the appraisal department will address them. Future reviews by the quality assurance teams will include AAAVMs in their review.

☐ Repeat Finding **Management Response Requested** ☑ Yes ☐ No

MANAGEMENT RESPONSE ☑ Agree ☐ Partially Agree ☐ Disagree **Enter Target Date: [3/31/06]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

After additional investigation, management concludes that while not achieving complete compliance with USPAP, none of the AAAVMs sampled posed a significant risk.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. Appraisers will be provided with additional training on the appraisal development and reporting standards of USPAP. **Responsible Manager: Michelle White**
   a. A communication will be issued to all Appraisers completing AAAVMs with instruction to include the source of the definition of market value and the correct, USPAP compliant wording regarding the use of extraordinary assumptions on all AAAVM assignments. **Target Date: 6/30/05**
   b. Develop training material content for all applicable employees on the appraisal development and reporting standards of USPAP, with special emphasis on USPAP as it applies to AAAVM. **Target Date: 7/31/05.**
   c. Rollout training through Breeze; include automated tracking of employee completion. **Target Date: 8/31/05**
   d. All applicable Appraisers will complete this new training by end of October and documentation will be compiled to demonstrate all applicable Appraisers have completed the training. **Target Date: 11/30/05**

2. Residential Appraisal Quality Assurance will be expanded to include a quarterly review of the AAAVM product. **Responsible Manager: Michelle White**
   a. Develop a checklist for the QA review of AAAVMs. **Target Date: 6/30/05**
   b. The first sample of AAAVM appraisals will be pulled for QA review in August. **Target Date: 8/31/05.**
   c. Incorporate AAAVM sampling into standard quarterly sampling query. **Target Date: 10/31/05**
   d. AAAVM sample will be analyzed following the October quarterly sampling query with the results of the QA Analysis published and issued to Appraisal Production by end of year 2005. This ongoing process will continue with a sample of AAAVMs being drawn every quarter thereafter and the results communicated to Appraisal Production within 90 days of quarter's end. **Target Date: 12/31/05**

3. The AAAVM/Desktop Evaluation form will be reviewed and revised for enhanced USPAP compliance. **Responsible Manager: Michelle White**

EXAM FINDING 2	☐ Observation*	☐ Recommendation*	☑ Criticism*

a. Revised form will require appraisers to manually add precise statements regarding 1) the source definition of market value, 2) use of extraordinary assumptions, and 3) the inclusion of thorough analysis and appraisal methods to support the final estimated appraised value within the completed AAAVM assignment (See related item #1 above). **Target Date: 6/30/05**

b. Development of business requirements for the automated form revision. **Target Date: 9/30/05**

c. Development of implementation plan with TSG. **Target Date: 01/31/06**

d. Programming, implementation, and roll out of new form to Appraisers. **Target Date: 3/31/06**

WMB
March 13, 2006
Safety & Soundness Examination
OTS MEMO 2

DATE: May 23, 2006
TO: Michelle White, Mortgage Appraisal
FROM: Bruce Thorvig, Regional Appraiser, OTS
SUBJECT: Residential Real Estate Appraisal Operations
CC: Hugh Boyle, Chief Credit Officer
Cathy Doperalski, Regulatory Relations
Steve Funaro, FDIC

BACKGROUND INFORMATION

The primary focus of the review of the Mortgage Appraisal Department (Residential Appraisal Oversight, Production and Administration) included following-up on prior examination findings, review of one-to-four-family residential appraisals and evaluations, sample review of Desktop Evaluations (Appraiser Assisted Automated Valuation Model – AAAVM), policy and procedures, and appraiser independence. Samples of single-family residential appraisals and evaluations were reviewed for reasonableness of value and compliance with Uniform Standards of Professional Appraisal Practice (USPAP), Part 564 of the OTS Appraisal Regulations, and the bank's written appraisal policy and procedures.

Appraisal Quality Assurance estimates that WMB performs approximately 60,000 AAAVM services in a typical year. WMB performs these appraisal services using a Desktop Evaluation. The Desktop Evaluation is an appraisal that, when completed by a licensed appraiser, must comply with USPAP standards and OTS appraisal regulations.

One criticism has been identified. While OTS recognizes appraisal management's ongoing improvements to the AAAVM (Desktop Evaluation) process since the prior exam, weaknesses were identified in compliance with USPAP standards and the bank's procedures for using Desktop Evaluations. The examination findings were discussed with Mortgage Appraisal management and Regulatory Relations on May 9, 2006. Appraisal management concurred with OTS findings and agreed to address the identified weaknesses.

EXAM FINDINGS DEFINITIONS

Observation: A weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. *Observations* are made in a consultative role. They may be presented to management either verbally or in writing, but will generally not be included in the Report of Examination. Examiners will rarely request a written response during the examination. *Observations* may or may not be reviewed during subsequent examinations.

Recommendation: A secondary concern requiring corrective action. A *Recommendation* can become a *Criticism* in future examinations should risk exposure increase significantly or other circumstances warrant. They may be included in the Report of Examination and mentioned in Exit and Board Meetings. Examiners will request a written response from Management during the examination. Management's actions to address *Recommendations* are reviewed at subsequent or follow-up examinations.

Criticism: A primary concern requiring corrective action. *Criticisms* are often summarized in the "Matters Requiring Board Attention" or "Examination Conclusion and Comments" section of the Report of Examination; warrant increased attention by Senior Management and the Board of Directors; and require a written response. They are subject to formal follow-up by examiners and, if left uncorrected, may result in stronger action.

EXAM FINDING 1 ☐ Observation ☐ Recommendation ☑ Criticism

Topic: Appraiser Assisted Automated Valuation Model (AAAVM) Services

Finding: Appraisal deficiencies identified included non-compliance with both USPAP standards and the bank's procedures for using Desktop Evaluations. During the prior examination, we also identified significant technical USPAP documentation issues in all Desktop Evaluations sampled.

Although our current review noted that process improvements were made to address our prior examination concerns, **the AAAVM process is still not at a satisfactory level. While value conclusions were generally within a reasonable range of value, none of the currently reviewed Desktop Evaluations**

EXAM FINDING 1 ☐ Observation ☐ Recommendation ☑ Criticism

were in full technical compliance with USPAP because the Desktop Evaluation forms were revised since the prior examination to a format that is not USPAP compliant.

We believe a fully effective internal control and appraisal quality assurance process would have prevented a noncompliant form from being disseminated to appraisers.

Our review of twenty-five Desktop Evaluations (AAAVMs) identified the following weaknesses:

(1) Inconsistencies were found in the entire sample of 25 desktop evaluations (form content deficiencies) related to identifying the type of appraisal and reporting option (a Desktop Evaluation cannot be both a "Restricted Use Appraisal Report" and a "Summary Appraisal Report"),
(2) Use of a Restricted Use Appraisal Report option for loans greater than $250,000. This report generally does not contain sufficient information to enable the intended users of the appraisal to understand the report properly or contain sufficient information and analysis to support the institution's decision to engage in the transaction,
(3) Appraisers not completing the Desktop Evaluation in compliance with the bank's Desktop Evaluation procedures (also identified by AQA),
(4) Instances of inadequate support for value conclusions or differences between a recent sale of the subject property and the appraised value, (also identified by AQA) and
(5) Four instances of the appraiser not signing the certification page in compliance with USPAP (also identified by AQA).

Action: Management must address the weakness identified and continually review the AAAVM process:

(1) The Desktop Evaluation form will require modification to ensure compliance with USPAP and to clarify which appraisal option (Summary Appraisal Report or Restricted Use Appraisal Report) is being used. Restricted Use Appraisal Reports will generally not be appropriate for a federally related transaction with a loan amount greater than $250,000.
(2) Staff appraisers must be continuously trained and counseled as to the proper use of the Desktop Evaluation to achieve reasonable value conclusions that are supported by an appraisal that complies with all USPAP standards and OTS appraisal regulations.
(3) AQA must continue to evaluate the AAAVM process during their monthly quality assurance review process. Quality Assurance must ensure that Desktop Evaluations meets all USPAP development and reporting requirements (Refer to USPAP Standards 1 and 2 for specific standards). We expect self-identification of documentation and value issues. AQA must also ensure that the appraiser feedback process is effective in reducing documentation exceptions.

We expect the AAAVM process to improve to the point that technical documentation exceptions and deficiencies are reduced to an acceptable level.

☐ Repeat Finding **Management Response Requested** ☑ Yes ☐ No

Washington Mutual

MANAGEMENT RESPONSE ☐ Agree ☒ Partially Agree ☐ Disagree **Enter Target Date: [10/31/06]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

Management agrees that the Desktop Evaluation form currently in use is not in full technical compliance with the USPAP standards for a "Restricted Use Appraisal Report" and would require modification to resolve the three (3) noted inconsistent statements within the form, should Washington Mutual choose to continue offering the AAAVM service. Management does not agree that the Restricted Use Appraisal Report is inadequate as it has been used, or do the relatively minor inconsistencies within the form indicate an ineffective internal control or quality assurance process. This is clearly evidenced by the following:

- *The staff-prepared AAAVMs adequately support the lending decisions*: The AAAVM is adequate in those limited circumstances where it was relied upon for lending decisions because reports are completed only by staff appraisers, staff appraiser files are the property of Washington Mutual, and are available for review should any additional information be necessary to support the lending decision. Washington Mutual staff appraisers have completed AAAVM training and are subject to continuous evaluation, training and performance counseling.

EXAM FINDING 1 ☐ Observation ☐ Recommendation ☑ Criticism

- *Self identification of errors*: With the exception of the form inconsistency, all deficiencies noted by the OTS in the individual Appraisal Reports had already been identified by Washington Mutual's internal quality control process. Additionally, both the Internal Quality Assurance and OTS reviews concluded that the AAAVM values were within a reasonable range.
- *Relative risk of the AAAVM product*: In 2005, the AAAVM represented 3.2 percent of all completed appraisal service orders, and is predominately used for transactions at or below $250,000 (the "de minimis"). For March 2006, 90 percent of the AAAVM orders were at or under the de minimis level. Further, the appraisal transition history for 2005 shows that approximately 43 percent of all AAAVM services required an upgrade to a traditional appraisal service in order to close the loan; therefore the AAAVM product had a limited impact on credit decisions as a whole. Given the inefficiency of the product as an alternative appraisal service, its 2006 volume has declined by 50% when compared to 2005 levels.

In the interest of efficiency, Washington Mutual has decided to discontinue the use of the AAAVM Service. It is scheduled to be discontinued, first by the Retail Banking/Consumer Lending area (which uses 99% of the total AAAVM products) in July 2006, then by the entire organization in October 2006.

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1. The use of AAAVMs will be discontinued in the Retail Banking/Consumer Lending division in July 2006. **Responsible Manager: Michelle White, Target Date: [7/31/06]**
2. As of 7/17/06, any AAAVM order to support a lending decision for a loan of $250,000 or more will be modified to an order for a 2055 (exterior inspection). **Responsible Manager: Michelle White, Target Date: [7/17/06]**
3. The AAAVM will be discontinued entirely in October, 2006. **Responsible Manager: Michelle White, Target Date: [10/31/06]**

Sent: Monday, May 22, 2006 11:06:37 PM

From: Feltgen, Cheryl A.
To: Bull, Sushuma R.
Cc:
Subject: FW: Meeting with the OTS regarding residential appraisal services at Washington Mutual

Forgive me for not copying you. Hope the meetings are going well with the vendor. When will be ready to have a definitive discussion about our internal org structure?

Cheryl

From: Feltgen, Cheryl A.
Sent: Monday, May 22, 2006 7:35 PM
To: Schneider, David C.; Cathcart, Ron
Cc: White, Michelle; Ludlow, Diane L.; Boyle, Hugh F.; Fierling, Jennifer; Domer, Jake; Zarro, Michael R.; Doperalski, Cathy L.
Subject: Meeting with the OTS regarding residential appraisal services at Washington Mutual

Michelle White and I attended a meeting last week with OTS representatives, Bruce Thorvig (appraisal expert) and Ben Franklin. Bruce had specifically requested the meeting as part of the OTS review now in process to get an update on Project Cornerstone. We provided an update on our current plan to outsource the residential appraisal function to two large national firms, First American and LSI. It was a very positive meeting. Bruce had helpful and appropriate items for us to consider as we take the next steps. He encouraged us to have a contingency backup. He inquired as to how we would select the appraisers for a given region. He emphasized that the appraisal review and quality assurance functions are critical. He encouraged us to have continuous due diligence with the vendors to be certain that they are meeting our service level agreements.

We promised to spend further time with Bruce and others as the details of our plan regarding oversight, controls and service levels are more precisely defined. Bruce's concluding remark was: "How could I not be supportive of your plans? Everyone is outsourcing." There are still many details we appropriately should review with the OTS, but I believe that we have endorsement of our direction.

Not discussed at this specific meeting, but identified during the OTS review of appraisal services, the OTS will likely issue a "criticism" for the new version of the AAAVM form which is not USPAP compliant.

Cheryl

Ms. Cheryl A. Feltgen
Senior Vice President
Chief Risk Officer, Home Loans Division
Washington Mutual
1201 Third Avenue
WMT2026

EXHIBIT
WE-07-010
99

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #700

Seattle, WA 98101
Phone: 206.377.2336
Fax: 206.490.3437
Email: cheryl.feltgen@wamu.net

Introduction

The Corporate Collateral Valuation Risk Management (CCVRM) department reviewed the structure and operating policies, standards, and guidelines of the Appraisal Business Oversight (ABO) department to identify valuation and compliance risks and familiarize themselves with changes in operations progress on updating policies and procedures. This initial review did not involve comprehensive file reviews or a detailed analysis of existing processing controls. It relied on the stated processes, procedures, and interviews with management and observable trends in appraisal activity.

The areas of concern have not been fully vetted with business line management. They will be the focus of CCVRM department follow-up on the higher risk areas.

Contents

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Based on this initial review, there are XXX areas of concern. Embedded within these areas are observations, which are offered to assist with productivity and efficiency:

- Changes in the third-party review processes increased collateral risk dramatically over the last six months.
- Appraisal standards and processes, despite full outsourcing of the function remain undefined.
- Vendor management requirements remain loosely defined
- Sales force influence over the appraisal function is unreasonable and imprudent.
- Appraisal quality reporting, remains closely held information with little in the way of action plans to improve quality or monitor adverse trends.

The primary function of the Appraisal Business Oversight Department is to provide oversight of all appraisal services processed through WaMu's Collateral Management System (CMS), OptisValue, and provided by two national appraisal management companies. Additional vendors are under consideration. Expansion to REO, Servicing appraisal needs is a natural extension of the process. This extension is under discussion.

The Appraisal Business Oversight Department took over complete appraisal operations during the third quarter of 2006, when all management, staff, and coordination functions within the Appraisal Production Department were outsourced through the Cornerstone project. The department's mission started as a "work in progress" with sales focused forces challenging prudent credit risk for control. A large number of the department's practices were not developed and tested in advance, but were created on the fly in response to complaints from loan consultants and channel managers swelled. Further, some current department processes were created or agreed to by the Vendor Management team to assure sales approval, and were not created in the best longer term interests of WaMu.

To the credit of ABO department managers, they appreciate this issue and are working define in actual department processes in writing, and to resolve any conflicts between policies and actual processes. Some of the new processes were instituted by leaders outside of the department, without a full assessment of the risks. The ABO managers will have to work diligently to unwind the damage done and re-establish appropriate controls and processes.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #703

OTSWMEN-0000000274

ABO has three primary customers and consumers represent an indirect customer these groups often have competing interests.

Sales: Timely completion of low cost appraisal services that facilities rapid credit decisions. Valuations should be reasonable and reliable. Illegitimately, Sales also desires: 1) high valuations and the delivery of values that meet its and the customers' expectations, 2) problematic property characteristics should be ignored to facilitate rapid credit decisions, and 3) appraiser selection to ensure they can influence items 1 and 2.

Underwriting : Expects reasonably credible valuations with specific property characteristics or appraisal content effectively disclosed to prevent underwriting and securitization errors, and improving product selection. Underwriting at WaMu, with the exception of sub-prime lending does not review the appraisal for concerns, unless they are triggered to do so. Effectively calling out these property concerns allows them to be addressed. Legitimately, underwriters may second guess the appraisal and require additional comparables or appraisal services to resolve poor quality appraisals. This can also occur illegitimately, if the underwriter is not qualified to conduct the evaluation.

Credit Risk: Sufficient appraisal quality controls to assure an appropriate risk of repurchase liability, loss severity, and maintenance of WaMu's positive reputation in the secondary market with its associated premium pricing. Illegitimately, credit risk could require excessive risk mitigation controls, or neglect their responsibility to safeguard the bank's capital and shareholder value. Credit risk must strike a balance of control vs. efficient high volume growth.

Consumers : Desire high valuations, but deserve reasonably credible valuations with an accurate presentation of their property's condition. This is important to prevent equity stripping, fraud activity and the decimating of neighborhood property values by illegal flipping and the high foreclosure rates associated with targeted fraud activities. The appraisal is a check against the reasonableness of the negotiated sales price and helps borrowers objectively evaluate their equity position.

You will also see certain words highlighted throughout this report (i.e. organizational chart). Clicking on the highlighted word will link you to an additional supportive document.

We have given each issue a "rating" to identify the magnitude or risk involved in each item.

Level 1 (high risk) – These issues are of the utmost of concern. They involve additional risk to the bank and provide definite indications of compromising safety and soundness.

Level 2 (medium risk) – These issues are of moderate concern, individually. They involve internal policy contradictions and possible appraiser influence issues.

Level 3 (low risk) – These are minor exceptions issues.

Level 4 (observation) – These are business suggestions.

(See full rating definitions within the appendix on page XX.)

Third Party Appraisal Risk Control Process

Current processes to mitigate the risk from third party provided appraisals deliver poor mitigation for the collateral risks entering the loan application process.

- Value cuts and rejections are weakly are clearly below historical trends.
- Contractual requirements for within state licensing of reviewers have been suppressed to meet business Service Level Agreements (SLAs) demands.
- Number of field reviews has fallen to extremely low levels to meet business turn time demands and reduce value cuts or rejections, which also impair origination rates.

This broken process may be contributing to the increasing incidence of mortgage fraud within the bank.

Appraisals from brokers represent one of the highest collateral risks the bank faces because the broker controls the ordering process and can use appraisers who only deliver the values and appraisal content they need to complete the loan request. This circumvents appraiser independence controls that are typically stronger for retail lending production at insured financial institutions.

The Third Party Originated appraisal review process seeks to strike an efficient balance between the costly alternative of 100% desk or field review on all appraisals vs. no review at all. The bank is placed at a disadvantage for obtaining the loan if it delays its approval or cuts the value on the appraisal. The broker will simply take the application elsewhere. The key is an efficient process that flags the appraisals needing more scrutiny and adjusts their values or rejects them out right, allowing the low risk appraisals to flow through for an automatic approval. An efficient system will monitor and minimize through a feedback loop:

- False positives where appraisal approval is slowed down unnecessarily do to an inaccurate risk assessment.
- False negatives where an appraisal is auto approved, but the overvaluation risk is intolerable.

Field reviews are used as the final word to confirm false positive and false negative rates. The level of field reviews, the percentage of value cuts and appraisal rejections is a mark of the health and effectiveness of the third party appraisal control practices, particularly when risk has remained at, or risen slightly from historical levels.

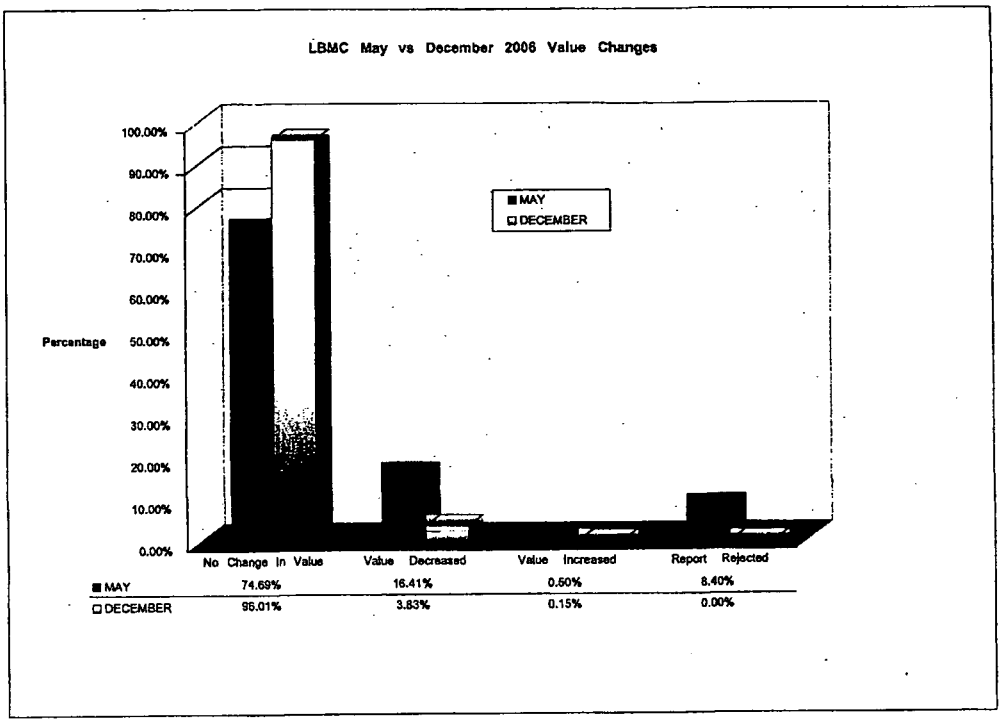
The cost of false positives is typically a lost business opportunity to originate a loan. The cost of a false negative can be increased loan repurchases from investors, fraud events, and eventually higher loss severity. The bank can also jeopardize its reputation by becoming an unwitting facilitator of mortgage fraud and the adverse impacts that practice can have on neighborhoods, typically those that are already economically disadvantaged.

Previously, false positive risk was mitigated with low cost administrative reviews performed typically by local staff appraisers who considered the risk report generated by the screening process. This allowed the false positives to be manually approved quickly increasing response time (4 hours on average). Those, which required additional scrutiny, were sent for a more in-depth review by a local appraiser. Appraisal Field Analysts could assess the risk and needs based on their local knowledge or phone calls to local peer appraisers to 1) assign a desk or field review, 2) reject the appraisal outright, or 3) conduct a review themselves to correct deficiencies depending upon what was expedient and prudent.

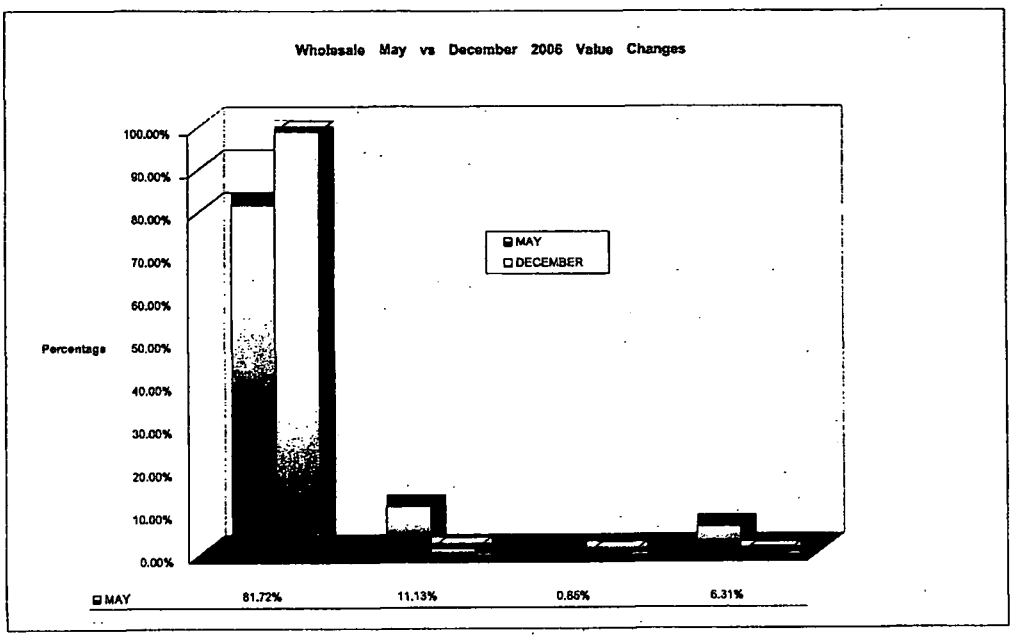
The risk presented by the new process can be seen in the dramatic shift in value cuts and rejections. Based on the emerging trends CCVRM conducted small-targeted reviews of the highest risk appraisals to ensure the fraud tools remained effective predictors of risk and assess the extent of overvaluation if any.

The charts on the following page show the trends in collateral risk mitigation efforts. The degree of mitigating value cuts and rejections has fallen considerably.

For Long Beach the sub-prime lending operation and the highest risk wholesale channel, the percent by number receiving a value cut or a rejection was 4% in December 2006 vs. 25% in May 2006 before the outsourcing.

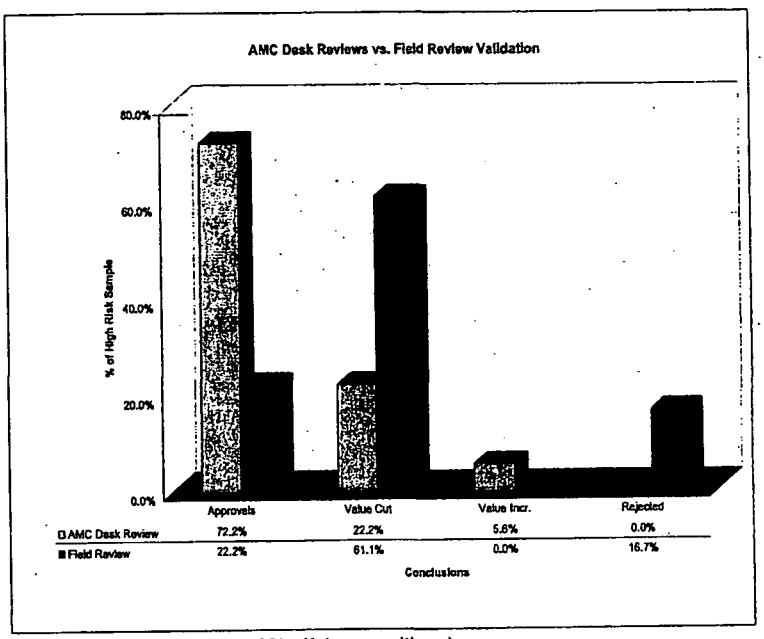


For Wholesale Prime the percentage by number receiving a value cut or rejection decision was 1% vs. 17% for the same period.



Targeted testing by CCVRM on the highest risk Long Beach appraisals showed the ineffectiveness of the out-of-state desk review process. Two small samples were drawn to investigate the disturbing trends: 1) Eighteen of the highest risk appraisals approved in October 2006 were subjected to field reviews; and 2) 37 randomly selected high risk appraisals with F Score¢â of 11-25 were reviewed by CCVRM appraisal staff.

The field review validation sample was selected to dramatize the risk. It is only reflective of the risk in the higher risk appraisals. The opposing AMC completed 10 of the new field reviews. To keep costs down CCVRM staff local to the markets completed the other eight and the sample was concentrated on the highest risk appraisals from known appraisal fraud areas. Nearly, 78% were scored highest risk by CoreLogic, a "25"; which implies a 47% chance of a 20% overvaluation. This risk level is known prior to assigning the appraisal for review.



The results are highlighted below:

- AMC Desk Review process approved or increased the value of the appraisals 78% of the time.
- Comparatively, field reviews concluded, "approved " for 22% (false positives).
- None of the desk reviews recommended rejection and 17% of field reviews did.
- Value cuts from the field reviews ranged from 12%-50% with an average decrease of 25%.

For the 37 high-risk appraisals, CCVRM reviewers concluded that 78% of the approved appraisals were unacceptable. Comparatively, all but 1 of the 37 appraisals (98%) was approved unchanged by the AMC based review processes.

Fraud rings seek the least controlled environments to operate in. The lack of effective controls will mark the bank as an easier target and escalate the fraud volumes. Regulatory guidance requires prudent assessment and management of the risks present in wholesale mortgage operations.

High-risk appraisal approval orders coming through are a relatively small portion of the population to the population of orders coming through. Those scored 7-25 represent just slightly more than 2% and 8% of requests for wholesale prime and sub-prime (LB), respectively. False positives are less common in the high-risk appraisal scores, but do occur. Case in point the 22% approved above by field reviews, above. The risk profile has remained stable between the 2nd and 4th quarter of the year yet value cuts and rejections have fallen dramatically. This risk profile can be viewed on page X of the appendix.

Issue 1 Level 1 maintenance of an effective and efficient appraisal review and approval function: Based on the lack of value cuts and rejections, the decline in field reviews and the dramatized risk being allowed through the system, a more effective process needs to be built that balances quick response with prudent controls.

Recommendation : Many different approaches to resolving the risk problem may exist. The ABO team needs to develop a product or process with the vendors to ensure reviews are effective at identifying the risk and rejecting or cutting valuations as appropriate. Success in resolving this issue should be measured by value cuts and rejections meeting or exceeding pre-outsourcing levels. Analysis should include the depth of cuts and the correlation between appraisal risk scores and results. Conclusive assessment will require periodic testing of the rates for false positives and false negatives and the appropriateness of review decisions.

The revised TPO process must address the effectiveness of reviews both desk and field. It needs to ensure appraisers with local expertise, resources are engaged to review moderate or higher risk appraisals, and that these reviews are effective. Local reviews may adversely affect turn time and business origination goals. To mitigate this impact the strategy should involve either

1) Additional risk screening tools that leverage LTV, FICO, Broker rating, an evaluation of the appropriateness of comparable sales or subject sales history;
2) Administrative style reviews from the vendors to route appraisals to desk or field review and pass along areas of concern as necessary; Or
3) A combination of both of these strategies.

The following are the sub-issues to the larger goal of an effective review and approval process for TPO appraisals.

Issue 2 Level 1 An effective risk screening and routing process is needed. A replacement service for the "administrative reviews" was not developed during the cornerstone project. Therefore, all appraisals hitting the risk trigger were routed to desk technical reviews. Out-of-state appraisers typically perform these reviews. Out-of-state appraisers lack geographic competency and local data sources to verify information in the appraisal. Out-of-state appraisers defer heavily to the subject appraiser's work having limited tools or knowledge to question the information.

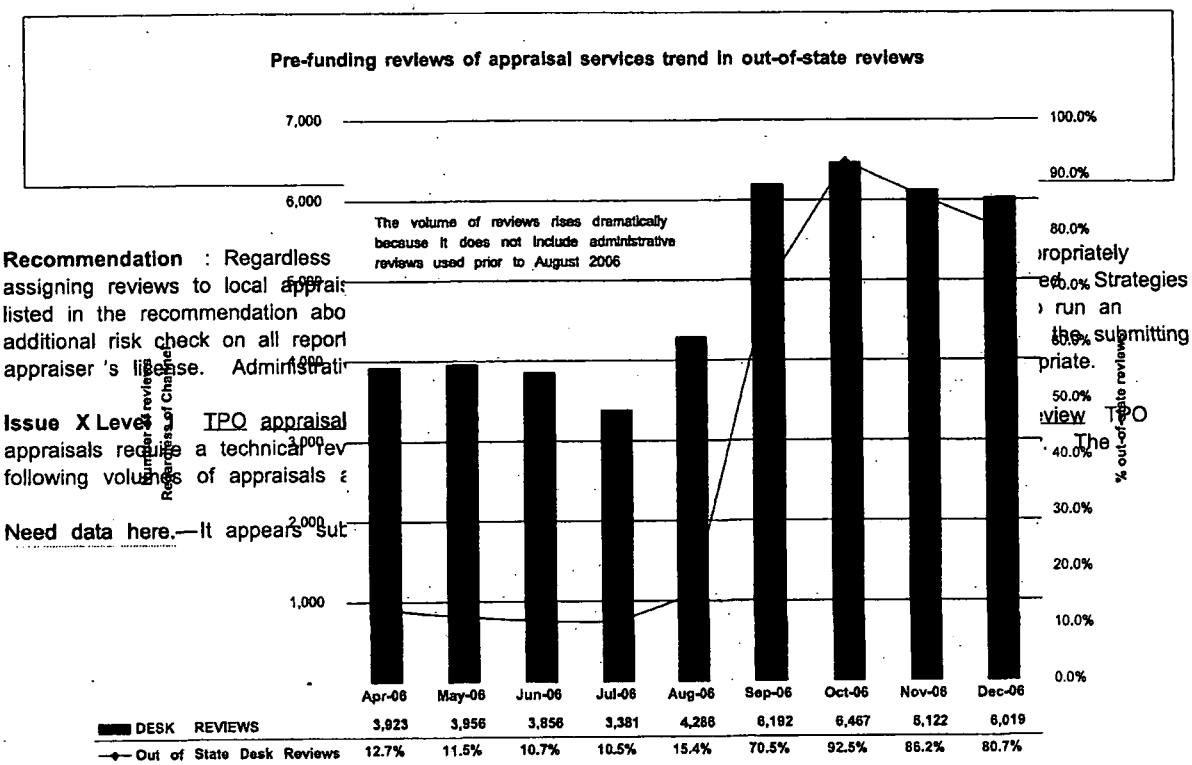
Recommendation : The administrative review service should be reconsidered as a tool to ensure proper ordering and routing of review assignments. At a minimum, transactions of moderate or high risk should receive desk or field reviews by competent appraisers with sufficient resources to question, evaluate, and re-appraise the subject property as may be necessary.

Issue 3 Level 1 Geographic Competency: ABO suspended the requirement for appraiser geographic competency to ensure business expectations for turn time could be met.

The table to the right shows the volume of out-of-state appraisers completing desk reviews. As the vendors add staff, the percentage is declining, slowly from its high of 95%.

The out-of-state reviewers make extraordinary assumptions that they can rely on the work of the subject appraiser and that they do not have the data sources or local market knowledge to question the appraiser's conclusions. This discredits the review. The dramatic rise in out-of-state reviews coincides with the drop in value cuts and rejections presented earlier. Fees for the reviews remain the standard desk review rates although their scope and effectiveness is significantly reduced. The table that follows presents the trend in out-of-state reviews for TPO and non-TPO appraisals

Standard 3 technical desk reviews are being submitted where the appraiser is not licensed in the state in which the property is located. The appraisers do not have geographic competency to produce these reviews (violation of USPAP ethics provision) and they are attempting to limit the scope of the review below that of a standard 3, thus giving the bank a false level of security.



Recommendation : Regardless ropriately assigning reviews to local apprai ed. Strategies listed in the recommendation abo run an additional risk check on all repor the submitting appraiser 's license. Administrati priate.

Issue X Level TPO appraisal view TPO appraisals require a technical rev The following volumes of appraisals a

Need data here.—It appears sut

Issue 4 Level 2 Appraisal risk information is not available to the reviewers. Currently, the appraisal risk scores and reports generated to route the appraisals for review are not passed to the appraisers evaluating the review, nor are they used to route the appraisal beyond ordering a review. To assign reviews to desk or field inspection the vendors do not run their own fraud or risk screens. The reviewers have no insight into the risk already identified by the bank.

The risk screen vendor has resisted training AMC staff in their tool and the information is not passed with the order.

Recommendation : The risk screen information should be shared with the reviewers and operational obstacles between the vendors and the risk screen providers broken down. The bank may be held accountable for knowing of the flaws, yet facilitating the lending transaction anyway. Risk screen information needs to be used proactively to reduce risk.

Issue 5 Level 2 Field reviews occur below historical rates and do not reflect the risk in the transaction. Field reviews are appropriately reserved for the highest risk transactions. For the 2nd Quarter of 2006, field reviews were applied to xx% of the TPO generated appraisals and XX% of these resulted in value cuts or appraisal rejections. For the 4th quarter, less than xx% of TPO generated appraisals receive field reviews and these xxx field reviews have cut values or rejected the appraisal x times or x%.

Appraisal Quality Assurance, or the ABO management team at large, have not adequately addressed the lack of credible results from these reviews. It appears that sales demands to reduce value cuts and rejections and to speed response time have been met at the expense of appraisal quality and collateral valuation risk.

Issue 6 Level 2 Threshold review services should be effective. While the higher risk lies in the reviews of third party appraisals, threshold reviews, similarly suffer from a lack of meaningful mitigation for the risk. High loan amount appraisals from retail or banking channels are not risk scored, but similarly require a meaningful review of the appraisal. The chart above covers reviews conducted for the retail mortgage lending channels for 1st and 2nd lien mortgages.

Recommendation : To the extent possible, the revised review process for third party appraisals should be extended to threshold reviews to make them more effective and meaningful.

According to XXXXXXX, Appraisal Business Oversight (ABO) recognizes this risk. They have been working to create alternatives for the wholesale process. The deficient process has operated since September 2006 with an average monthly flow of around 25,000 appraisal approvals. CCVRM has not reviewed the proposal. Timing of deployment or the effectiveness of the strategy is not vetted with CCVRM.

Issue 8 Level 2 / **Level 3** —Depends on results RFTs should be subject to Compliance and TPO like risk assessment : Although a small portion of the completed appraisal orders (3-4%) are reviews for transfer (RFTs), they represent appraisals from third parties, as well. They also carry additional regulatory requirements because they are appraisals performed for others. Formal instructions to vendors on how to address the added RFT compliance considerations have not been issued. RFTs required both a valuation risk assessment and a compliance assessment.

FIRREA requirements for accepting appraisals prepared for other regulated financial institutions and financial services institution include:

1. the appraiser was directly engaged by the financial service company or regulated financial institution
2. the appraiser has no direct or indirect interest in the property or transaction
3. the existing appraisal remains valid
4. the appraisal conforms to the institution's and regulatory requirements and guidelines

The regulatory commentary suggests that the engagement letter serves as evidence that the appraisal was not ordered directly. WaMu has traditionally used the listing of the client in the certification section of the appraisal to validate direct ordering. WaMu also relies upon the appraiser certifications regarding their interest in the property. Since USPAP will allow a financial interest if the appraiser discloses it, the process for accepting a transferred appraisal should include looking for a statement of interest or no interest in the appraisal. These two practices should continue to be acceptable, especially if heightened risk assessment processes are used.

For compliance purposes the bank should ensure, the RFT is not used by the sales force to directly order an appraisal.

The following are the testing results based on a random 300 Appraisal sample of completed December 2006 RFT services:

Percent with in FIRREA compliance XX%
Ineligible appraisers
Evidence of Direct ordering
Percent with no compliance concerns:

Comparatively the RFT risk profile from HistoryPro and History Pro Review is presented below along side that of Wholesale Prime and Sub-prime appraisals. [remove if not available, by time of publishing.]

	RFTs	Prime	Sub-prime
% Very high risk 11-25			
% High Risk 7-10			
% Moderately High Risk 2-6			
% No hit			
Subtotal Pecent			
Extrapolated Average Monthly volume			

Clearly the RFTs represent less risk than the direct wholesale prime or sub-prime populations, however the risk exists and a rational process to address it should be adapted along side revisions to the existing TPO review process. If an administrative review service is offered or even just a hierarchy of local desk and field reviews, it can increase the response to loan consultants and make their sales efforts more effective on good quality applications.

Recommendation : The same risk tools used for broker provided appraisal should be applied to RFTs. At a minimum, instructions to AMCs and their reviewers should include the FIRREA requirements in specific common language instructions. Periodic testing for direct ordering concerns will need to follow this minimum requirement.

1. ensure Washington Mutual is not listed as the client,
2. ensure that there is no disclosure of a financial interest direct or indirect in the subject property by the appraiser,
3. ensure that the appraisal under review is no older than policy allows (provide actual days per channel credit policy).
4. Confirm the appraisal is not completed by an appraiser on the ineligible appraiser list. (If more than 2-4 are found in sample)

Periodic targeted testing to ensure the RFT was not directly ordered by sales or fulfillment personnel should be conducted. Timing of the reviews should be driven by the risk identified at the last testing and the abnormal rise in RFT use by individual loan consultants. The compliance or FIRREA review requirements do not need to be completed by a credentialed appraiser.

Lastly, RFTs should be considered in the TPO review process and existing tools leveraged to increase the speed to approval and the effectiveness of reviews.

Appraisal standards, guidelines, and processes

Issue 8 Level 2 The residential appraisal manuals and policies have not been updated for the change in appraisal operations. With the transition from a staffed appraisal production department to a completely outsourced operation, the February 2006 Residential Appraisal Manual, located on the Residential Appraisal SharePoint , is outdated. Therefore, currently, there is not a single document defining the roles and responsibilities of ABO and the AMCs. Any procedural changes made today are distributed as "operational guidelines " and go through the same approval process as the CUG and HLPAs. According to Jill Petersen, a new procedures manual is in draft form. Effort on this revision is stalled with the anticipated revised corporate policies, standards and governance process.

Recommendation : Establish new Business Unit Standards & Guidelines to document new processes and requirements. These will facilitate discussions and development of the corporate level policies, standards, and metrics to be used to measure business line adherence to the new policy. It will provide a structure to help the ABO team resist the pressures from the business lines to curb quality standards in favor of short term loan origination gains.

The Business Unit Guidelines should include:

- Appraisal ordering process
- Process for the selection of Appraisal Management Companies and/or individual appraisers
- Validation process for selecting new vendors, due diligence procedures
- Appraiser Trainees appropriate use
- How geographic competency is assured beyond state licensing
- Guidelines regarding the service level types ordered and changes permitted after the service has been placed with a vendor
- Process for using a prior service
- Statements as to how appraisal fees are handled and monitored
- Guidelines regarding the process for value arbitrations (ROVs)
- Guidelines for reviewing appraisal services not *ordered* by WAMU (RFTs, Wholesale)
- Guidelines for evaluating Vendor performance for Service, Quality, and Process adherence
- Guidelines for appraisal quality assessment (acceptable/unacceptable definitions and examples, sub-criteria for evaluating the appraisal
- Audit process of the following vendor management functions
    - Appraiser Independence
    - Fee changes
    - Service type changes
    - Appraisal product quality
    - Multiple Appraisal Service orders
    - Appraiser competency (geographic, complexity, market value)

Page X of the Appendix contains more detailed recommendations for these areas

Vendor Expectations and Monitoring

A strong vendor oversight process requires clearly defined expectations, monitoring of those expectations and negative consequences for not meeting expectations and as appropriate positive consequences for exceeding expectations. ABO was placed at the mercy of its two vendors at the start of the outsourcing with limited leverage to establish strong, objective criteria. ABO was further embattled internally by vendor relations and strategic sourcing which failed to respect their credit risk authority or expertise in the field. ABO is recovering from the assaults on its authority, and inappropriate demands of sales. Recognizing the difficult position the new department was immediately thrust. The following issues should be addressed to regain its authority and protect the banks asset quality.

Issue 9 Level 1 Vendor quality and procedure expectations are not clearly defined after nearly 6 months of outsourcing, this is in spite of a search for a third or replacement vendor, currently underway.

Examples of minimal expectations include the following:

Quality guidelines

- Reasonable range of valuation cuts and rejections over all and by channel and risk level
- Reasonable range of appraisals submitted in a non-IA ready format.
- Expected level of unacceptable appraisals, 3%
- Expected level of individual appraisal characteristics that are unacceptable, for example:
  - inadequate subject sales price, sales history, or reconciliation, should not exceed 5-10% or
  - inadequate comparable selection or reconcilement with the appraised value should not exceed 10-20%
- Tolerance level for appraisers without geographic competency for the appraisals they complete (FNC monitoring tools needed to establish or at a minimum a list of appraisers and their geographic areas of coverage from the vendors.)
- Tolerance for manufactured homes processed as site built or modular homes
- Tolerance for failure to identify and message ineligible collateral types
- Tolerance for appraisals using trainees and to what extent they may be used.

Procedure expectations

- All appraisals should be locked from editing between appraiser and AMC as well as from AMC to WaMu.
- Ineligible appraisers should be blocked from providing work, tolerable error rate 0.25%
- No inappropriate messages should be passed to appraisers.
- Use of trainees to complete specified portions of the appraisal should be clearly documented
- Expected deviations from contracted fees 1-3% over all orders per month.
- Expected appraisal upgrades.
- Tolerable volume of duplicate appraisal orders for the same loan number and property address
- Tolerable volume for assigning appraisers specifically requested by WaMu sales or fulfillment team to the 0%
- Provision of appraisals in non-AI ready format 2-3%
- Appropriate upgrading of reviews to higher levels based on risk and complexities of the property

Other guidelines specifically associated with the revised processes, message log maintenance, adherence to escalation procedures or any other features that ABO needs to ensure the vendor follows

This high level monitoring of vendor performance is required under Thrift Bulletin 82a. How the monitoring is to be conducted is not specified, it should be effective.

Recommendation : Develop an effective vendor monitoring and management process that balances production, quality and processes.

Issue 1X Level 1 Assigning work to vendors needs to consider SLA performance, Quality, and Process compliance, not merely SLA performance. Assigning work to vendors has been based upon that vendor's SLA performance or turn time, complaints from the loan originators and requests for special arrangements have influenced which vendors are engaged and to whom they assign work. Quality has not been a ranking factor for vendors.

Recommendation : The process needs to be balanced with SLA, quality and meeting procedural expectations. It also needs to be objective, so it can have the best motivational and control power. A matrix approach may provide a good 1-2 page scorecard that can clearly show how the vendor is performing. Formal processes for considering and effecting corrective action for substandard behavior need to be established. Under the old staff and fee panel based system the appraisal department was criticized for measuring and tracking SLA performance, but failing to provide measures of quality. Reports concerning fee changes, appraisal quality and were under development prior to the outsourcing.

Issue 1X Level 1 Fee Exception Controls. OptisValue automatically prompts payment for a specific transaction as soon as the order has been completed. The payment system is automated. Work is delivered and queued for payment. Fees are set based on tables within OptisValue and these are based on the negotiated rates. However, since the outsourcing the vendors have been given the ability to raise their own fees on a transactional level.

The appraisal management companies are free to increase their fees for appraisals without any Bank staff approval. The vendor is required to place a message in the message log to inform the lending office/processing of the change in fee and reason. This provides an opportunity to stop the fee increase at the discretion of lending. It also provides notice to correct the good faith estimate GFE and prep borrower expectations. Invoices are reconciled by a group under Jill Peterson, the appraiser profile team (Teri Jackson). Legitimate reasons for fee increases include:

- Hard to reach property;
- Complex properties;
- Nonstandard addenda required.

Non-standard addenda are such items as a rent schedule, or property operating income statement. These are required for certain loan programs.

The message log/e-mail systems require expensive manual review to extract the reasons for the adjustments. No process is established to extract this information.

The vendors are not subject to set limits on fee exceptions, accptable ranges or expected results. Fee variance and monitoring reports are developed on an adhoc basis. There is no efficient data collection around the reasons for fee increases, if adverse trends with minority groups are economically disadvantaged areas emerged, the investigation of the reasons we would be highly mannual. No validation of the appropriateness of th increase or the reason for it has been noted.

Recommendation : In the short term fee variance reports should be generated by property type, adenda requirements, value ranges, location (state, county, city or zip code) to gain a sense of expected results and set expectations for the vendors. Other legitimate reasons for exceptions may exist and the list should be expanded to capture all scenarios.

Longer term, reasons for fee changes need to be coded within OptisValue to facilitate 1) post completion and payment analsys and 2) automated exception processing and approval by ABO staff for fees outside of the normal or expected ranges. ABO current staffing may not facilitate 100% review of fees changes during processing and still meet the high service levels expected for the allow prompt completion of appraisal services. If this is the case, post completion analysis must be more robust to compensate for the weaker front-end controls.

To the degree the appraisal service fee was charged to the borrower at closing and reimbursed to WaMu, any credits or fees from the vendor to compensate for errors need to be paid to the borrower. Establishing a process to ensure these payments are prompt and accurate is critical to maintaining RESPA compliance.

ABO plans to include fee audits in the Appraisal Quality assessment. Given the limited volume transactions reviewed for quality assessment, this control is an ineffective alternative to more robust post completion monitoring. Targeted testing of a sample of transactions with fee changes may provide a more meaningful result and be consistent with the weaker front end controls.

Issue 1X Level 2 Secure Submission of Appraisers' Work: When an appraisal report is submitted into OptisValue, it is currently running automated critical checks (i.e. a search for missing fields on the appraisal; incorrect form type submitted) and risk checks (business defined rules increasing the risk of the transaction). These checks are based on the ability to accurately capture the data from the submitted appraisal. Both Appraisal Management Companies are currently submitting their appraisal reports in multiple formats (i.e. AI ready vs. .pdf). This does have an adverse affect on the integrity of the data captured, therefore increasing the risk to the Bank, as pdfs go through our OCR (optical character recognition) process, which is not only an added expense for WaMu; however is not as accurate or complete as it is a manual extraction of data with limited fields extracted.

- Appraisals sent into OptisValue from the AMC are in a locked format and cannot be altered; however currently not all appraisals sent to the AMC by the individual appraiser are in a secured format. According to Jill Petersen, ABO has already identified some appraisals that appear to have been altered by the AMC rather than the signing appraiser. Appraisal industry blogs and watch groups have also identified the practice.

- AMCs are submitting their reports in multiple formats, which results in a loss of data integrity and increasing costs.

Recommendation : Require AMCs to submit their appraisal reports in AI format or in another electronic data stream that could capture and analyze all data submitted. If appraisals are provided in non AI format the vendor should be required to update the missing data with an electronic update to OptisValue at their expense. Vendors should be given a tolerance for this behavior and compliance within that tolerance monitored.

Issue 1X Level 4 AMC indemnification was a cornerstone of the outsourcing project. A process for collecting reimbursements for poor quality appraisals in loans that are repurchased and resold, processed through foreclosure and REO loss has not been developed.

Recommendation : A method for acquiring these indemnifications should be developed.

Excessive Sales Force Influence Over Appraisal Production

The prohibitions regarding undue pressure on appraisers and the appraisal management company need to be reiterated through the process to the vendors and the sales force, with violations of independence recorded, tracked and corrected through the managers overseeing those employees. Support from senior channel management, the Chief Risk Officer, and AMC management is needed to communicate a consistent and compliant message. Vendor management and strategic sourcing recommendations should receive review and approved by the Appraisal Business Oversight manager or her designee.

These forces have placed pressure on the ABO staff and they need organizational support to send a message of appropriate behavior and practices.

Issue 1X Level 1 Value shopping and duplicate order processing: Previously, when a duplicate order was placed in OptisValue, the order was halted in an exception queue that was manually researched by the appraisal staff coordination team, resulting in either a manual cancellation of the order or a manual push to process the order. This control minimized the practice of placing multiple orders in attempts to gain higher values. There are legitimate reasons for duplicate orders to be placed however, the control to objectively distinguish theses was eliminated and control over duplicate ordering was granted to lenders and loan processing personnel.

The ordering process now consists of OptisValue running an "existing appraisal" search for all new orders by both property address and loan number. If the system finds any current appraisal service previously completed, the originator/processor is prompted with a pop up message indicating a duplicate order was found including all pertinent information (service type, effective date, value, previous CVR, etc.) After reviewing the previous service, the originator receives three options that they must choose from:

"Accept Existing Order" "Cancel New Order" "Submit New Order"

If "submit new order" is chosen, the order is processed and is automatically assigned to the original AMC, if applicable. Each AMC does run a duplicate screening on their end and if they have concerns as to why a new order was placed; it is the AMC's responsibility to contact Lending with questions. No monitoring or performance indicators are established to assess the vendor's effective management of the process, they are fee to process duplicate orders and receive duplicate payment.

The appraisal order will proceed through an automated path without intervention from ABO. ABO does not police this process during production. Effectively, this allows for an unlimited number of new orders to attain a desired value.

According to Jill Petersen, it appears the number of multiple services being placed is significantly rising. The Risk Analytics Manager is currently running reporting to check the number and type of multiple services that are ordered, along with the outcome.

Recommendation : The revised controls are considerably weaker since they can be abused by the sales force. Robust monitoring is needed to identify value shopping behavior and minimize over valuation risk, particularly in a declining value environment.

1. Assuming staffing to prevent duplicate ordering is not available through the bank, the vendor's behavior must be monitored and evaluated to ensure they overcome their natural incentives to process duplicate orders. Vendor guidelines on this issue need to be established, performance needs to be monitored, and performance outside of tolerance should incur penalties.

2. The full control of ordering now provided to the lenders and loan processing personnel should be curtailed with improved business rules to disallow certain transactions that may be indicative of value shopping and force ABO approval. Examples of orders that raise the most concern include:

   - Ordering of an equal service value, for example a second 2055 exterior or second 1004w/cost interior appraisal. If both are completed two competing CVRs will be issued and there are no

controls to ensure the highest quality appraisal is used. Processors and loan consultants can use their discretion regarding which should be used, selecting the highest value or the CVR with less conditions requiring underwriter review.

- ROV requests on exterior only appraisals should normally be rejected and an order for a higher level appraisal service placed. These decisions should be automated or default to the ABO Vendor Relationship Managers.

- More than 1 completed ROV service. Although not established in policy, the ABO team would like to limit ROV services to 1. Therefore approval to proceed would be a prudent control.

- RFTs ordered after another type of appraisal service was completed. It is suspicious that the appraisal done by another lender would materialize after an internally derived service failed to meet the value expectation.

These orders should trigger closer scrutiny and require ABO approval to proceed. The person placing the order should be informed that the order has exceeded one of these limits and requires ABO approval. It should fall to a queue that is monitored and manually cancelled or pushed to the vendors as appropriate.

Monitoring of multiple orders is challenged by weak controls over the loan numbers provided manually through OptisValue please see related data stewardship concerns.

Issue 1x Level 2 /Level 3 Missed sales price / value cut revisions during processing at the vendors is not efficiently monitored. When a value comes in below sales price or a review cuts the appraised value of the subject property it is reviewed by the vendor business managers. The VBM will review the report with the appraiser and either the appraiser or the VBM will amend the value if appropriate. These activities can occur prior to submission of the final work product in OptisValue. The vendors may have tracking of these interations, but aside from notifying the loan consultant of an issue no record of the discussion is created.

As this process has developed, it is common to see within OptisValue two identical services completed by the same appraiser, one at the original value and one at a revised value. This contributes to the escalation of multiple services. The vendor business managers turn to the appraiser first for corrections, but are licensed appraisers who will issue a technical review to conclude at the purchase price if the value can be reasonably supported.

The E-flash outlining this process was issued by Rich Perry, Mgr-Channel Strategic Support - Retail Production on October 20, 2006 In addition, Sushuma Bull further clarified that the vendor hired business managers would also attempt to resolve value reductions in a similar manner in her October 20, 2006 announcement of the vendors business managers and ABO Vendor Relationship Managers. [To Donnie-pdf of Eflashs for embedding]

Appraisers are provided the sales contract and price negotiated between the two parties. Since, normally this contract is negotiated between a willing buyer and seller and are normally arms length transactions, without contrary evidence and contradictory comparable properties, it would be uncommon for the concluded appraised value to be less than the sales contract price. It can occur and appraisers must feel comfortable turning in objective, substantiated opinions.

Recommendation : To assess the appropriateness of the process and prevent excessive abuse of appraisers monitoring of results is necessary. Training on appropriate behavior and discussions by the VBMs and ABO VRMs need to be instituted to prevent undue influence upon appraisers. Concerns are mitigated by the high caliber of the ABO VRM appraisers and several of the VBMs are former WaMu staff appraisers who were well versed in appropriate and inappropriate behavior. That said training and monitoring remain important to protect WaMu 's reputation and the reliability of appraisal reviews. As Fair Lending seeks to develop a risk assessment for appraisal, monitoring of these interactions will become increasingly important.

Issue 1x Level 2 /Level 3 Sales personnel are encouraged to contact the vendors to arrange a reassignment of the appraisal to another appraiser. Several HLPA's issued at the start of the outsourcing process recommended that vendors be contacted directly concerning an appraiser reassignment. The reassignment was left to the vendors discretion. These HLPA's were 06-197, 06-249

Recommendation : Appraiser selection by sales personnel is forbidden under regulatory guidance. There are few scenarios where re-assignment is appropriate from sales personnel. 1) a reconsideration of value to isolate the initial appraiser from perceived pressure, 2) Appraiser / borrower relationships that would appear improper or invite unprofessional conflicts. Each case should be rare handling these events through WaMu appraisal business oversight would be ideal. However, if ABO staffing will not support this function vendors must be trained in the appropriate scenarios and courses of action to address these requests and provided a means to track them and report them back to ABO for corrective action with the WaMu lending personnel. The HLPA should be corrected with a broader communication concerning appropriate and inappropriate requests to AMCs and the appraisers.

Issue 1X Level 3 Special instructions passed to appraisers: During the appraisal order process, lending personnel can provide free form text comments regarding how the appraisal should be processed, special contact information, or special loan program requirements for the appraisal. This information is passed to the vendors and may be passed on to the appraisers. LSI has represented that it does not pass the comments along if they are prohibited by regulatory guidance. EAppraiseIT has not offered such screening services. Historically, appraiser pressure has been high through this method of communication, requests for a specific value, requests for a specific appraiser, or now a specific vendor. With the addition of pre-structured comments for the most common legitimate messages the use of the field and the abuse of the field have both fallen. Pressuring comments are now less than 1%.

The vendors also represent that requested appraisers are not considered when assigning the appraisal.

In depth monthly/Quarterly reviews would not be necessary if the vendors agreed to block inappropriate messages as originally planned in the outsourcing project. Then all that would be required is monitoring of the vendors and ensuring they properly screened the comments.

Recommendation : Require all vendors to monitor and block inappropriate information from the special instructions field or any other free form text that may be passed to the vendors through the order system. Conduct at least semi annual targeted testing to verify the vendor's representations. To the degree that prohibited information can be sent to the vendor and used, such as a request for a specific appraiser, semi-annual targeted testing should include verification that such a request disqualified the use of that appraiser and this fact was communicated back to the lender overstepping the bounds.

Appraisal Quality Reporting

Currently, the QA process has not changed from the way it was managed prior to the outsourcing. Per Jill Petersen, the QA process will be moved under the management of Pam Jarnigan and the procedures, roles and responsibilities will be defined by 2nd quarter 2007. The team is conducting baseline reviews on a limited volume of appraisals and is developing base line samples for wholesale, retail, and technical reviews. Expansion of their review role to cover some process expectations such as fee exceptions, special instructions, and appraisal processing have been under development.

The QA process prior to outsourcing lacked effective reporting and tracking of results, baseline sampling and trends, performance metrics, and accountability for results. It was plagued with adhoc requests and diversions which prevented it from providing a clear and trendable report on appraisal quality. In the interim, the QA team continues to audit for appraisal quality only. The outsourcing function has only increased the importance of quality assurance monitoring and reporting. QA results and monitoring is critical to meeting outsourcing requirements under Thrift Bbulletin 82a.

It is clearly a department in transition and these recommendations are intended to guide its development.

- Appraisal quality assurance reviews exceptions with the vendors, but action plans are not published or available to show proactive identification and remediation of risk.
- A formal sampling plan has not been developed that covers the most significant risk areas. Sampling and testing continue based on low volumes of appraisals and evidence of comprehensive coverage has not been provided.
- No quality reports have been issued to corporate credit and vendor efforts to improve quality are not tracked.
- Vendor expectations and ranking have not been established based on appraisal quality results.
- Additions to the ineligible appraiser list have slowed as the appraisal quality assurance team has been re-building its processes.
- Appraisal quality definitions for acceptable and unacceptable appraisals and review criteria should be formally approved by Corporate Credit Risk. This is similar to how Corporate Credit Review provides minimum standards to the Commercial Chief Risk Officer and the Commercial Business Line.
- These criterial also are not alligned with the activities of the loan review functions in the bank an effort to align these criteria

The pre-outsourcing definitions are attached in the appendix for reference on page x

Issue 1X Level 1 Currently, QA procedures specifically relating to the new business model and working with Appraisal Management companies have not yet been defined.

Recommendation: A Quality Control Plan needs to be developed, along with specific audit/review procedures, which would include the plan for onsite audits of the vendors.

Level 2 Quality Assurance reports through Jill Petersen, who has 4 relationship managers also reporting to her. While the volume of transactions these relationship managers sheppard through to completion should be low, they are the escalated transactions, presumably containing the highest collateral risk. Relationship managers are empowered to change values and complete appraisal services as needed. The quality assurance team reports to Jim Dillon and Pam Jarnigan and would have occasion to report on the adequacy of the relationship manager's work.

In addition, the ABO team is significantly vested in maintaining sufficient vendor capacity to meet business SLA requirements. This focus can create bias to create or enforce quality standards. It places the entire ABO team in a conflict of interest, one that can be overcome with established vendor quality and performance expectations and monitoring of these metrics.

Recommendation: ABO and the Chief Risk Officer should review its reporting structure and look to align the appraisal review expertise with other review function units giving them a degree of separation from appraisal production. If appraisal quality assurance is retained within ABO, it should at least report to a manager that does not oversee production.

However, currently, there are limited managerial choices for switching the reporting structure to be more independent. In addition, needed changes are being planned and executed under Jill Petersen's direction these changes may be critical to producing the reporting and transparency into appraisal quality. The conflict should be recognized and tempered with additional controls, oversight, or re-assignment of production oriented ABO personnel.

Issue 1X Level 4 Criteria for reporting is inconsistent with the Credit Risk Oversight Events (Corporate Credit Review (CCR). See a sample of criteria in the appendix on page x.

Recommendation : These should be aligned to facilitate broader publication of results and a clear understanding of the appraisal quality trends. It would help alleviate misconceptions from the other review groups and communicate efforts to improve the problems observed by the other review groups.

HERE Starts what has not yet been moved to the new headings above.

Residential Appraisal Department Overview

The primary function of the Appraisal Business Oversight Department is to provide oversight of all appraisal services processed through WaMu's Collateral Management System (CMS), OptisValue, and provided by two national appraisal management companies.

The Appraisal Business Oversight Department took over complete appraisal operations during the third quarter of 2006, when all management, staff, and coordination functions within the Appraisal Production Department were outsourced through the Cornerstone project. However, for a full understanding on the department, it is critical to appreciate that the mission of the department started as a "work in progress" and continues largely with that legacy at present. But that is meant that a large number of the departments practices weren't developed and tested in advance, but were created on the fly in response to complaints from lenders as to the issues related to the outsource plan. Further, some current department processes were created or agreed to by the Vendor Management group to assure customer approval, and were not created in the best interests of the profession.

To the credit of ABO department managers, they appreciate this issue and are working to define in writing department processes, and to resolve any conflicts between policies and actual processes. Nevertheless, this will take some time and quite a diligent effort. Consequently, the actual performance of the department cannot be compared to written policies, since so many items will have to be addressed in arrears now that leaders outside the department have already instituted them, sometimes. Any ABO analysis should therefore be considered a "work in progress," given the situation.

The ABO department includes a total of 30 employees. Based on an organization chart dated 11/01/06, the employee breakdown is as follows:

- 1 Senior Manager Appraisal Oversight
  - 1 Business Ops Analyst
- 1 Manager Appraisal Operations
  - 4 Relationship Managers
  - 2 Credit Policy Specialists
  - 2 Credit Policy Analysts
  - 1 Manager Credit Operations Strategy
    - 7 Appraiser Review Analysts
  - Manager of Credit Policy
- 1 Manager Credit Operations Strategy
  - 1 Credit Ops Strategy Analyst
  - 1 Business Data Analyst
- 1 Manager of Technology
  - 1 Credit Ops Strategy Analyst
  - 1 Credit Systems Manager
    - 1 Business Data Analyst
    - 2 Technology Analysts

1 Manager of Risk Analytics

Summary of Concerns

OLD LIST

- As stated early is this report, ABO is a group operating as a start-up unit, but from a distinct disadvantage. That is, they did not actively manage the transition process from internal staff to Vendors. This management was mainly done by the Vendor Management group, often without documentation, nor with any consideration of appraisal quality or professional requirements. The motivation of Vendor Management was solely "noise reduction" for concerns of lenders during the transition. Now, ABO is in

the process of backtracking to try to document what they had little involvement with. Unfortunately, any changes at this point would not be supported by lending since they would be viewed as hindering the speed of the process. Therefore, ABO operates in a very informal environment with few document able processes, and less oversight of the vendors.

- **Issue Level 1**
  - Correspondent lending, SMF, and the REO/Loss Mitigation department are not following the residential ordering process via OptisValue.
  - It appears the number of multiple services being placed is raising, significantly. According to Jill Petersen, Lending is really pushing on completing a new appraisal in search of a higher value vs. ordering an ROV with the AMCs.
  - Standard 3 technical desk reviews are being submitted where the appraiser is not licensed in the state in which the property is located.
  - CoreLogic 's report/recommendation is being transmitted from OptisValue to the AMC; however, the AMC is not passing this information along to their individual assigned appraiser. Therefore, CoreLogic is not fully being utilized and those high-risk transactions that indicate a field review is necessary are not taken into consideration when determining the level of review being completed.
- [illegible]
  - The current Residential Appraisal Manual is outdated and has not been updated since the outsourcing project. Therefore, there is not a single document defining the roles and responsibilities of ABO and the AMC.
  - The Quality Assurance Employees, along with the four production related Relationship Managers, are all reporting to the same individual.
  - Without specific guidelines for fee increases, the Bank is not ensuring compliance with Fair Lending issues. There is no check in place to ensure what is being requested/reason for increase is what actually matches the characteristics of the submitted appraisal.
  - Currently not all appraisals sent to the AMC by the individual appraiser are in a secured format and could potentially be altered.
  - ABO is currently not completing any upfront-added checks on reports submitted by trainees.
  - There is a lack of geographic competency in the standard 3 desk reviews being completed today. Reviews are being performed outside of the reviewer's typical service area, many of which are completed by an out-of-state appraiser, not actually licensed in that area
  - Currently, QA procedures specifically relating to the new business model and working with Appraisal Management companies have not yet been defined.
- **Issue Level 3**
  - The current ABO work structure does not align with HR guidelines stating Manager Titles should have a minimum of four direct reports. There is a very uneven balance of direct reports within their structure.
  - Although assigning of all appraisal orders is an automated process, it is based on a manually set up profile within OptisValue.
  - Lending does still have the ability to enter free form text and request a specific appraiser for a transaction, risking appraiser independence.
  - The responsibility of all fee increases and due date extensions is that of the AMC providing the service.
  - AMCs are submitting their reports in multiple formats, which results in a loss of data integrity and increasing OCR costs.
  - ABO is not auditing fees to ensure payment is correct and due to the automated payment system, we have no upfront way of preventing incorrect payments.

Review Process

INCOMPLETE, JUST MOVED PROCESS ITEMS
The Corporate Collateral Valuation Risk Management (CCVRM) department was created in early October. At that time, a team was formed within CCVRM to collaborate with ABO. The first task given to this team was to garner knowledge about the ABO division. The goal was to gather information pertaining to:

- ABO organization structure
- ABO policies and procedures
- Operational guidelines
- Appraisal process
- Review guidelines
- Quality Assurance (QA) process

In order to fulfill these tasks, we took a variety of steps including several phone meetings with ABO. We started with an initial conference call on December 11, which included Tom Westerfield, Donnie Gill, and Jill Petersen of ABO. This meeting was used to introduce the new CCVRM department, explain our roles and responsibilities, and begin to gather documentation such as the organizational charts and policies. The second meeting took place by conference call on December 15 and included the same three individuals. The goal of this meeting was to capture the remainder of the process information for the department. The last call took place on January 2 and was between Tom Westerfield and Pam Jarnigan. This meeting was scheduled to garner information around the current and planned changes in the appraisal oversight and quality assurance processes.

WMB, WMBfsb
January 8, 2007
Safety & Soundness Examination
OTS ASSET QUALITY MEMO 2

DATE: April 5, 2007
TO: David Schneider, EVP, President – Home Loans
Cheryl Feltgen, SVP, Chief Risk Officer – Home Loans
FROM: Bruce Thorvig, Regional Appraiser
Scott Shambaugh, Examiner
SUBJECT: Appraisal Operations
CC: Cathy Doperalski, FVP, Regulatory Relations
Tina Tran, Regulatory Relations

BACKGROUND INFORMATION

Office of Thrift Supervision (OTS) appraisal regulations are included in 12 CFR Part 564 – Appraisals. The regulation prescribes minimum standards for the performance of real estate appraisals in connection with federally related transactions under the jurisdiction of the OTS. Appraisals must conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP). In addition, the regulation sets forth the responsibilities of management to develop, implement and maintain appraisal policies to ensure that appraisals reflect professional competence and to facilitate the reporting of estimates of market value upon which the institution may rely on to make lending decisions. Management must develop written appraisal policies that will ensure that adequate appraisals are obtained and proper appraisal procedures are followed consistent with the requirements of part 564.

Appraisal Business Oversight (ABO) is in the process of updating the department's appraisal policy and procedures following the reorganization of the appraisal operations and the final phase of the Appraisal Outsourcing Initiative, which was completed on November 6, 2006. During the interim, ABO has continued to provide documentation to the vendors through various means, including weekly Ops Meetings, on requirements and other WaMu standards that will be incorporated into the Vendor Procedures Manual.

During the examination, twenty appraisals from LBMC and thirty-four appraisals from WaMu Home Loans were reviewed in detail for reasonableness of the value conclusions and compliance with OTS appraisal regulations, USPAP, secondary market appraisal guidelines, and the bank's internal appraisal policies and procedures. We have identified certain areas of the appraisal and review process in need of improvement. Primary appraisal issues (red flags requiring attention by the underwriter or review appraiser) included seller paid closing costs and concession, misstatements/contradictions, inadequate/incomplete explanations and support for the value conclusion, reconciliation of the sales comparison approach, and weakness in the appraisal review process. Two memorandums were provided to ABO management detailing the results or the OTS appraisal review. Findings were discussed with ABO management and regulatory relations on April 4, 2007.

EXAM FINDINGS DEFINITIONS

Observation:	A weakness identified that is not of regulatory concern, but which may improve the bank's operating effectiveness if addressed. *Observations* are made in a consultative role. They may be presented to management either verbally or in writing, but will generally not be included in the Report of Examination. Examiners will rarely request a written response during the examination. *Observations* may or may not be reviewed during subsequent examinations.
Recommendation:	A secondary concern requiring corrective action. A *Recommendation* can become a *Criticism* in future examinations should risk exposure increase significantly or other circumstances warrant. They may be included in the Report of Examination and mentioned in Exit and Board Meetings. Examiners will request a written response from Management during the examination. Management's actions to address *Recommendations* are reviewed at subsequent or follow-up examinations.
Criticism:	A primary concern requiring corrective action. *Criticisms* are often summarized in the "Matters Requiring Board Attention" or "Examination Conclusion and Comments" section of the Report of Examination; warrant increased attention by Senior Management and the Board of Directors; and require a written response. They are subject to formal follow-up by examiners and, if left uncorrected, may result in stronger action.

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EXAM FINDING 1	☐ Observation	☑ Recommendation	☐ Criticism

Topic: Updating and revision of appraisal policy and procedures

Finding: Appraisal Business Oversight has not completed updating and revising the operation's appraisal policy and procedures and on-line appraiser guidance following the reorganization of the appraisal operations and the final phase of the Appraisal Outsourcing Initiative.

Action: Policies, procedures and controls must be updated and revised to ensure that appraisals reflect professional competence and to facilitate the reporting of estimates of market value upon which the institution may rely on to make lending decisions. Management must develop written appraisal policies that will ensure that adequate appraisals are obtained and proper appraisal procedures are followed consistent with the requirements of part 564. The appraisal manual (dated 2/21/06) and other information located on the appraisal website www.wamuappraisal.com should also be updated to reflect current policy and procedures.

Management Response Requested ☑ Yes ☐ No

[redacted] WaMu

MANAGEMENT RESPONSE ☐ Agree ☐ Partially Agree ☐ Disagree **Enter Target Date: [ ]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1.
2.
3.

EXAM FINDING 2 ☐ Observation* ☑ Recommendation* ☐ Criticism*

Topic: Appraisal issues (red flags) requiring further attention by the underwriter or review appraiser

Finding: Certain areas of the appraisal and review process are in need of improvement. Primary appraisal issues (red flags requiring further attention by the underwriter or review appraiser) identified included: incomplete analysis or explanation of seller paid closing costs and concessions; misstatements/contradictions regarding property descriptions, market trends, correct selling price of the subject property, property address and taxes, and rental information; inadequate/incomplete explanations and support for the value conclusions, inadequate reconciliation of the sales comparison approach; and weakness in the appraisal review process such as: an inadequate appraisal review checklist for LBMC underwriters, vendor quality assurance not adequately identifying appraisal issues/weaknesses, not elevating an administrative review by underwriters to a higher level of review by an appraiser when appropriate, not obtaining a field review when a review required a value change, and inappropriate geographical selection of review appraisers.

Action: Complete the process of updating and revising the appraisal policy and procedures and develop controls to better ensure that the appraisal and appraisal review process are effective in identifying primary appraisal issues, inadequate/weak appraisals, and unsupported value conclusions. Also, ensure that procedures are implemented to strengthen and improve the appraisal review process of LBMC and WaMu Home Loans in identifying and preventing the noted weaknesses.

Management Response Requested ☑ Yes ☐ No

[redacted] WaMu

MANAGEMENT RESPONSE ☐ Agree ☐ Partially Agree ☐ Disagree **Enter Target Date: [ ]**

Management Response: Indicate whether you agree, partially agree, or disagree. If you agree, provide an anticipated target date for implementation.

Partially Agree: The response should clearly define that portion of the finding or recommended action disagreed with as well as the portion agreed to.

Disagree: The response should clearly define WHY there is disagreement with the finding or recommended action, and outline any mitigating circumstances or alternative course of action to be pursued.

RESPONSE (succinct response to finding / action)

CORRECTIVE ACTION (provide specific action steps planned, the assigned responsible manager, and target dates for each)

1.
2.
3.

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

THE PEOPLE OF THE STATE OF NEW YORK by ANDREW M. CUOMO, Attorney General of the State of New York,	
Plaintiff,	**COMPLAINT**
-against-	Index No.
FIRST AMERICAN CORPORATION and FIRST AMERICAN EAPPRAISEIT,	
Defendants.	

1. This action is brought by Plaintiff, the People of the State of New York, by Andrew M. Cuomo, Attorney General of the State of New York ("Attorney General"), based upon the Attorney General's authority under Article 22-A of the General Business Law, Section 63(12) of the Executive Law, and the common law of the State of New York.

2. Plaintiff, complaining of the above-named defendants, alleges upon information and belief as follows.

THE RELEVANT ENTITIES

3. First American Corporation ("First American") is, according to its 2006 annual report, "America's largest provider of business information." It earned $8.5 billion in revenues in 2006. First American operates in five primary business sectors: Title Insurance and Services, Specialty Insurance, Mortgage Information (including real estate appraisal services), Property Information, and Risk Mitigation and Business Services. It does business in New York both directly and through its subsidiaries.

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4. First American provides real estate appraisal services to savings and loans, banks, and other lending professionals through its wholly owned subsidiary, First American eAppraiseIT ("eAppraiseIT"), an appraisal management company headquartered in California and Massachusetts. eAppraiseIT conducts business and appraises real estate in the state of New York.

5. Washington Mutual, Inc. ("WaMu") is the country's largest savings and loan, with assets totaling $346 billion. In the first three quarters of 2007, WaMu originated $116 billion in residential mortgage loans. WaMu is eAppraiseIT's largest client.

PRELIMINARY STATEMENT

6. In this era of widespread mortgage loan defaults and home foreclosures, the independence and integrity of the real estate appraisers who determine the value of home loan collateral is of enormous importance. Real estate appraisals are intended to provide borrowers and lenders with an independent and accurate assessment of the value of a home. This ensures that a mortgage or home equity loan is not under-collateralized, which in turn protects borrowers from being over-extended financially and lenders and investors from loss of value in a foreclosure proceeding.

7. First American recognizes and touts the central role it plays, through its appraisal management company eAppraiseIT, in protecting homeowners, business customers, and the entire financial market. As First American explains in its 2006 Annual Report:

> Appraisals are used to establish a property's market value; therefore, inaccurate or fraudulent appraisals damage the entire market and have negative economic effects that are far reaching. First American's third-party, unbiased valuations – including insured valuations – are a resource real estate and lending professionals can turn to for accuracy that benefits not only the homeowner and lender, but our nation's

economy.

> *Value to Consumers*: Homeowners, who place a large investment in their property, can be particularly victimized by appraisal fraud. First American's warranted valuations, which are supported by our third-party perspective and backed by more than a century of integrity, virtually eliminate risk from this type of fraud.
>
> *Value to our Business Customers*: Inaccurately appraised properties that make their way into lender portfolios increase the opportunity for foreclosures. Our national services provide our mortgage lender customers with a welcomed resource for unbiased appraisals that satisfy increased regulatory concerns, help to accurately determine value, and mitigate default risk.

8. Despite these representations, First American and eAppraiseIT have abdicated their role in providing "third-party, unbiased valuations" for eAppraiseIT's largest client, WaMu. Instead, eAppraiseIT improperly allows WaMu's loan production staff to hand-pick appraisers who bring in appraisal values high enough to permit WaMu's loans to close, and improperly permits WaMu to pressure eAppraiseIT appraisers to change appraisal values that are too low to permit loans to close. eAppraiseIT compromises its independence even while publicly touting that independence, and despite myriad warnings from its senior management team about the illegal collusion inherent in the compromises it is making. Instead of preserving its independence, which would have protected consumers and business customers alike, eAppraiseIT chose to protect only itself. And senior executives at First American, though warned by eAppraiseIT's senior management of its compromised independence, nonetheless directed eAppraiseIT to continue its wrongful conduct.

9. This wrongful conduct constitutes a deceptive, fraudulent, and illegal business practice. It violates New York law as well as federal law and regulations.

JURISDICTION

10. The State of New York has an interest in the economic health and well-being of those who reside or transact business within its borders. The State also has an interest in assuring the presence of an honest marketplace in which economic activity is conducted in a competitive manner, without fraud, deception, or collusion, for the benefit of marketplace participants. The State also has an interest in upholding the rule of law generally. The conduct of First American and eAppraiseIT injured these interests.

11. Thus, the State of New York sues in its sovereign and quasi-sovereign capacities, as *parens patriae*, and pursuant to Executive Law § 63(12), General Business Law §§ 349 *et seq.* and New York common law. The State sues to redress injury to the State, and to its general economy and residents, as well as on behalf of: (1) persons who obtained mortgages, home equity loans, or refinanced their homes with WaMu and as to whose homes eAppraiseIT conducted the real estate appraisal; and (2) persons who bought WaMu loans secured by mortgages that were improperly appraised by defendants. The State seeks disgorgement, restitution, damages including costs, and equitable relief with respect to defendants' fraudulent, deceptive, and otherwise unlawful conduct.

FACTUAL ALLEGATIONS

I. The Real Estate Mortgage Industry

A. Background

12. Most people interested in purchasing or refinancing a home ("borrowers") seek a financial institution (a "lender") to lend them money on the most favorable repayment terms available. Traditionally the lender, as part of agreeing to loan the funds, wanted to ensure that the borrower was able to repay the loan and that the loan was adequately collateralized in case

the borrower defaulted. The borrower and the lender had a common interest in accurately valuing the underlying collateral because both wanted to be sure the borrower was not paying too much for the property and would be able to meet the repayment terms, or that – in the event of default and foreclosure – the property value could support the loan.

13. Today, the landscape of the mortgage industry is quite different from this traditional model. Rather than holding the mortgage loans, lenders now regularly sell these mortgages in the financial markets, either directly or to investment banks or Government Sponsored Enterprises ("GSEs"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The loans are then pooled together, securitized, and sold to the general public as mortgage backed securities. The money that the lender receives for the sale of the mortgage loans or bonds is then used to finance new mortgages, increasing the lender's profits and aiding its stock price. Today, the vast majority of mortgage loans are sold to investment banks or GSEs, leaving the original lender holding far fewer mortgages in its portfolio.

14. This reconfiguration of the way that mortgages are held has transformed the incentives in the industry. Specifically, it has the effect of making the lender less vigilant against risky loans since any risk is quickly transferred to the purchasers of the loans. Moreover, as the lender does not hold many of its loans in its portfolio, the lender's interest in ensuring the accuracy of the appraisal backing the loan is severely diminished. Even worse, because lenders' profits are determined by the quantity of loans they successfully close, and not the quality of those loans, there is an incentive for a lender to pressure appraisers to reach values that will allow the loan to close, whether or not the appraisal accurately reflects the home value.

15. Further jeopardizing the process, mortgage brokers and the lenders' loan production staff (also known as "loan origination staff") are almost always paid on commission. Thus, the income of these individuals depends on whether a loan closes and on the size of the loan. Accordingly, brokers and loan production staff have strong personal incentives to pressure appraisers to value a home at the maximum possible amount, so that loans will close and generate maximum commissions. For these reasons, mortgage brokers and lenders frequently subject real estate appraisers to intense pressure to change values in appraisal reports.

16. The investment banks and GSEs also have an interest in inflating (or at least in not questioning) the value of the pooled loans. The values of these loans serve as a basis for the value of their securities. As such, the higher the value of the loans closed, the greater the value for which the securities are sold on the secondary market.

17. Thus, the only parties under the current system who want an accurate appraisal are the borrowers and the investors in the asset-backed securities market. Neither of these parties, however, has any contact with, or control over, the appraisal process.

B. Federal and State Laws Require Appraisal Independence

18. Because of the importance of appraisals in the home lending market, state and federal statutes and regulations require that appraisals be accurate and independent. The Uniform Standards of Professional Appraisal Practice ("USPAP") are incorporated into federal and New York law. See 12 C.F.R. § 34.44; 19 NYCRR § 1106.1. USPAP requires appraisers to conduct their appraisals independently: "An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests. In appraisal practice, an appraiser must not perform as an advocate for any party or issue." USPAP

Ethics Rule (Conduct).

19. Federal law sets independence standards for appraisers involved in federally-regulated transactions. See 12 U.S.C. §§ 3331 *et seq.* The Code of Federal Regulations provides that an in-house or "staff" appraiser at a bank "must be independent of the lending, investment, and collection functions and not involved, except as an appraiser, in the federally related transaction, and have no direct or indirect interest, financial or otherwise, in the property." 12 C.F.R. § 34.45. For appraisers who are independent contractors or "fee" appraisers, the regulation states that "the appraiser shall be engaged directly by the regulated institution or its agent, and have no direct or indirect interest, financial or otherwise, in the property transaction." 12 C.F.R. § 34.45.

20. In 2005, federal regulators including the OTS [Office of Thrift Supervision] published "Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions." With regard to appraisal independence, the document provides:

> 3. *Who should be considered the loan production staff for purposes of achieving appraiser independence? Could loan production staff select an appraiser?*
>
> *Answer:* The loan production staff consists of those responsible for generating loan volume or approving loans, as well as their subordinates. This would include any employee whose compensation is based on loan volume. Employees responsible for the credit administration function or credit risk management are not considered loan production staff. **Loan production staff should not select appraisers.**
>
> * * *
>
> 5. *When selecting residential appraisers, may loan production staff use a revolving pre-approved appraiser list, provided the*

list is not under their control?

Answer: Yes, loan production staff may use a revolving, board-approved list to select a residential appraiser, provided the development and maintenance of the list is not under their control. **Staff responsible for the development and maintenance of the list should be independent of the loan production process. . . . Further, there should be periodic internal review of the appraiser selection process to ensure that appropriate procedures are being followed and that controls exist to ensure independence.** (Emphasis added).

21. New York law incorporates USPAP and requires that a State-certified or State-licensed appraiser may not accept a fee for an appraisal assignment "that is contingent upon the appraiser reporting a predetermined estimate, analysis, or opinion or is contingent upon the opinion, conclusion or valuation reached, or upon the consequences resulting from the appraisal assignment." N.Y. Exec. Law § 160-y; 19 NYCRR § 1106.1.

II. Appraisal Management Companies Create the Appearance of Appraiser Independence

22. In response to these rules and the threat of stricter federal enforcement, in Spring 2006, WaMu attempted to insulate itself by hiring two Appraisal Management Companies ("AMCs") – eAppraiseIT and its top competitor Lender's Service, Inc. ("LSI") – to oversee the appraisal process. These companies provide the appearance of a structural buffer between the banks and the appraisers that eliminates potential pressure or conflicts of interest. In theory, an AMC selects appraisers independently, serves as the appraisers' sole contact, and communicates the unbiased results to the lending institution. In this way, structurally, a lending institution would be much less able to improperly influence an appraisal.

23. eAppraiseIT publicly claims on its website that it provides just such a firewall

between lenders and appraisers, and that "customers can be assured that Uniform Standards of Professional Appraisal Practice (USPAP) and Financial Institutions Reform Recovery and Enforcement Act (FIRREA) guidelines are followed and that each appraisal is audited for compliance."

III. First American and eAppraiseIT Violate Appraiser Independence Requirements by Permitting WaMu's Loan Origination Staff To Select Appraisers Who Provide Higher Appraised Values

24. Despite their claims of independence from their lender clients, First American and eAppraiseIT violate federal and state independence requirements with regard to appraisals performed for WaMu, and in doing so deceive borrowers and investors who rely on their proclaimed independence.

25. WaMu retained eAppraiseIT in Spring 2006, after WaMu decided to close its internal appraisal office and terminate its staff appraisers. WaMu quickly became eAppraiseIT's largest client, providing nearly 30 percent of its business in New York. Over the course of the business relationship, eAppraiseIT conducted more than 260,000 appraisals for WaMu, receiving over $50 million from WaMu.

26. Initially, eAppraiseIT employed a combination of in-house staff and third-party fee appraisers, including some "preferred appraisers" identified by WaMu, to conduct appraisals of residential property for WaMu. eAppraiseIT also hired approximately 50 former WaMu employees as staff appraisers and Appraisal Business Managers ("ABMs") and – at WaMu's request – gave the ABMs the authority to override and revise the values reached by third-party appraisers. One-third of eAppraiseIT's staff appraisers are former WaMu employees, and all of the ABMs are former WaMu employees. eAppraiseIT's President advised the leadership of First

American that "we have hired and on boarded many of Wamu's regional mangers and appraisers last week. They will be instrumental in our relational and operational success with the sales force."

27. Under contractual arrangements between WaMu and eAppraiseIT, WaMu can challenge an appraiser's conclusions by requesting a "reconsideration of value" ("ROV") when WaMu disagrees with an appraised home value set forth in an appraisal report. Practically speaking, this permits WaMu to ask eAppraiseIT to reconsider and raise the value assigned to a home. Throughout the business relationship, WaMu has frequently ordered ROVs from eAppraiseIT.

28. By email dated September 29, 2006, a WaMu executive wrote to eAppraiseIT's senior executives to define the responsibilities of eAppraiseIT's ABMs as to ROVs and value disputes:

> . . . the four appraisers/reviewers would be directly involved in escalations dealing with: ROVs, Valuation issues where the purchase price and appraised value differ with no reconciliations/justifications by the appraiser, Value cuts which we continue to receive from your third party reviewers (Wholesale), **proactively making a decision to override and correct the third party appraiser's value or reviewer's value cut**, when considered appropriate and supported . . .

In this way, from the outset, WaMu sought to use eAppraiseIT to ensure that appraisals did not come in lower than WaMu wanted.

A. Summer - Fall 2006: WaMu is Dissatisfied with the Values Provided by eAppraiseIT's Independent Appraisers; First American and eAppraiseIT Try to Satisfy WaMu's Concerns

29. Almost immediately after WaMu retained eAppraiseIT to provide appraisals in early Summer 2006, WaMu's loan production staff began complaining that the appraisal values provided by eAppraiseIT's appraisers were too low. It was clear, and eAppraiseIT well understood, that WaMu's dissatisfaction was largely due to the fact that eAppraiseIT's staff and fee appraisers were not "hitting value," that is, were appraising homes at a value too low to permit loans to close.

30. For example, on August 9, 2006, eAppraiseIT's President told WaMu executives that "We need to address the ROV issue . . . . Many lenders in today's environment . . . have no ROV issue. The value is the value. I don't know if WAMU production will go for that . . . . The Wamu internal staff we are speaking with admonish us to be certain we solve the ROV issue quickly or we will all be in for some pretty rough seas."

31. A week later, on August 15, 2006, eAppraiseIT's Executive Vice President advised eAppraiseIT's President that WaMu's loan officers would often pressure WaMu's internal appraisal field managers for an "extra few thousand," or "tell[] them specifically what they needed," or would "ask for several ROVs on the same property." eAppraiseIT's Executive Vice President explained that "[h]aving loan officers ask for a few thousand dollars because it is within the range is something we do not currently do for any client. . . . It is also direct pressure on the appraiser for a higher value without any additional information."

32. Yet only a month later, on September 14, 2006, eAppraiseIT's Executive Vice President proposed a solution that appeared to capitulate to these demands for an "extra few

thousand": he wrote "it looks like our potential 'raise the value' policy by [an eAppraiseIT manager's] group might help a lot on the small value changes. . . . [W]e are studying allowing [the manager's] group a little flexibility to raise the value 5% with a cap of $50k if it is fully justified."

33. Complaints and pressure from WaMu's loan origination staff were not empty threats. On October 5, 2006, in response to "complaints from the WaMu production team – particularly in Northern California," eAppraiseIT prepared a "WaMu Improvement Implementation Plan." The plan was unsuccessful, however. By December 2006, WaMu had reassigned all of its Northern California appraisal work to LSI.

34. During this period, First American was seeking additional business from WaMu in other areas. But WaMu expressly conditioned giving any future business to First American on success with eAppraiseIT. By email dated September 27, 2006, a First American senior executive advised other senior executives at First American and eAppraiseIT about a conversation he had with the President of WaMu Mortgage about long-term business prospects. The First American executive explained that:

> [WaMu] and I discussed our long-term relationship including the money we have on deposit there and our other current business relationships. I told him we would like to expand those relationships. And in exact terms, we would like one half of their flood business, which they currently give 100% to [Corporation A] and their tax business is divided 3 ways among [3 corporations] and that we would like to take [Corporation A's] tax business.

According to the First American executive, WaMu responded as follows:

> He said that if the appraisal issues are resolved and things are working well he would welcome conversations about expanding our relationship including tax and flood.

Thus, First American knew that WaMu would provide it with new business only if the "appraisal issues" – including WaMu's complaints that eAppraiseIT's appraisers did not provide high enough values – were "resolved."

35. By December 2, 2006, eAppraiseIT noted internally that ". . . we know [WaMu is] going to complain about the excessive number of low values because the majority of orders are not going to [WaMu's] preferred appraisers."

36. On December 18, 2006, one eAppraiseIT executive told others that WaMu had advised him that its criticism was based on the fact that "values are coming in lower with EA [eAppraiseIT]" than with LSI, the competitor appraisal management company that WaMu had also retained to provide appraisals. According to this executive, WaMu maintained that "They also see more Wamu preferred appraisers doing work for LSI and they think that is why they aren't having as many value issues with them. . . . The [WaMu] managers indicated that if the loan consultants had a choice they would prefer to use LSI over eAppraiseIT because they feel they will have less problem with the values."

B. Winter 2007: First American and eAppraiseIT Agree to "Roll Over and Just Do It" and Accept WaMu's Corrupt Proven Appraiser List

37. In February 2007, WaMu directed eAppraiseIT to stop using its usual panels of staff and fee appraisers to perform WaMu appraisals. Instead, WaMu's loan origination staff demanded that eAppraiseIT use a Proven Panel of appraisers selected by the loan origination staff, who were chosen because they provided high values.

38. By email dated February 22, 2007, eAppraiseIT's President explained to senior executives at First American WaMu's motives for demanding the Proven Panel:

> We had a joint call with Wamu and LSI today. The attached document

> outlines the new appraiser assigning process. In short, we will now assign all Wamu's work to Wamu's "Proven Appraisers" . . . . We will pay their appraisers whatever they demand. **Performance ratings to retain position as a Wamu Proven Appraiser will be based on how many come in on value, negating a need for an ROV.** (Emphasis added).

39. eAppraiseIT's senior management was well aware of the threats to appraiser independence inherent in allowing WaMu's loan production staff to select the appraisers on the Proven Panel based on whether the appraiser "came in on value," and raised these concerns with First American's senior management. eAppraiseIT executives warned of their "concern regarding the proven list" and "concerns about over-valued properties."

40. These concerns were warranted. eAppraiseIT knew that WaMu's Proven Appraiser List would be composed of appraisers who had been hand-picked by the loan origination staff because they brought in high appraisal values. Indeed, when eAppraiseIT received email requests to add particular appraisers to the panel, the email chains often showed that the requests came directly from WaMu's loan origination staff. Further, a WaMu Vice President in the Appraisal Oversight group explained, in an email to eAppraiseIT about an ROV for a "low value," that "This is an example of the issue that has caused sales pushing for a 'proven appraiser' process."

41. In February 2007, eAppraiseIT simply capitulated to WaMu's demands. In an email on February 22, 2007, eAppraiseIT's President told senior executives at First American "we have agreed to roll over and just do it." He explained that "we were willing to live with the change if they would back us up with the appraisers and tell them that simply because they are rated as Gold Preferred does not mean that they can grab all the fees. They agreed." In other words, for the right price in fees, eAppraiseIT was willing to go along with the Proven Panel.

Indeed, eAppraiseIT's President suggested to WaMu

> that if this the case we should have Wamu write the introduction letters to their appraisers, set the stage and let us do our magic . . . . I assured her the noise from retail will stop . . . . She brought up the fact that Wamu knows this means little money to no money for EA and LSI and they will fix that in the near future. But for now they need to stop the noise or none of us will be around. I believe her.

42. eAppraiseIT agreed to the Proven Panel with full knowledge that WaMu's loan production staff was selecting appraisers that would "hit value" and provide higher appraisals. In an email dated March 1, 2007, eAppraiseIT's President told WaMu executives:

> Recently, we have been notified that Lending would like us to use more of their "Proven Appraisers" versus appraisers off our pre-selected appraiser panel. It seems the amount of Reconsideration of Value (ROV) requests associated with our appraisers far exceeds those initiated when a WaMu proven appraiser completes a file. Said differently, **Wamu proven appraisers bring the value in a greater majority of the time** with minimal involvement of the vendor, sales and Appraisal Oversight. **I am fine with that, of course, and will happily assign Wamu orders to Wamu proven appraisers instead of eAppraiseIT's approved panel appraiser whenever possible.** (Emphasis added).

With this email, eAppraiseIT's President "happily" agreed to compromise the company's independence and violate the laws governing appraiser independence.

43. On March 5, 2007, WaMu confirmed the primary role of its loan origination staff in picking appraisers in a follow-up email, in which it explained that the

> Proven Appraiser List is being created. This will replace the WaMu preferred list. **The initial list of names will be provided by lending** with a minimum of two appraisers per area/county. The list will then be reviewed and approved by the Appraisal Business Oversight Team and will be checked against our most recent ineligible list. Final list will be provided to VMC's [vendor management companies]. Majority of work must be assigned to the appraisers on the Proven Appraiser List on a Priority Basis. (Emphasis added).

44. eAppraiseIT knew that the "review and approval" role of WaMu's Appraisal Oversight team described above was a fig leaf, because WaMu's Appraisal Oversight team deferred to WaMu's loan production staff. For example, in March 2007, upon learning that WaMu's loan production officers were pressuring eAppraiseIT to reach a predetermined value for a particular appraisal, the Appraisal Oversight Vendor Relations Manager told eAppraiseIT to "stop coming to me for approval" and to work the issue out with the lending staff. In other words, WaMu's Appraisal Oversight group provided no oversight at all.

C. Spring 2007: First American and eAppraiseIT Knew That The Proven Appraiser List Was Illegal

45. As it became increasingly apparent to eAppraiseIT that WaMu's loan production staff was hand-picking the appraisers that eAppraiseIT was required to use based on the values the appraisers provided, eAppraiseIT began to consider the legal implications of this arrangement. eAppraiseIT's Executive Vice President analyzed the federal guidelines and regulations on appraiser independence and selection of appraisers by loan production staff, and advised eAppraiseIT's President that "Based on this, I think WAMU's new initiative is way over the line. It is even possible that the current arrangement crosses the line." In response, eAppraiseIT's President wrote: "Bingo!" and explained that since the federal government enforced appraiser independence rules variably in different regions of the United States, and that "it boils down to who has juice with whom at the regulatory level." In response, the Executive Vice President warned "it may be that the OTS [federal Office of Thrift Supervision] is OK with WAMU's current way (maybe) but the new way seems to be quite a stretch."

46. On April 4, 2007, eAppraiseIT's Executive Vice President wrote an email to senior eAppraiseIT executives regarding eAppraiseIT's legal liability for using WaMu's Proven

List. He explained that appraiser independence is initially

> the lender's responsibility since the OCC [Office of the Comptroller of the Currency]/OTS only pertain to lenders. **However, we as an AMC need to retain our independence from the lender or it will look like collusion. Imagine a simple mortgage broker saying he will give us the work if we use his "proven" appraiser. We say no. This is very similar to that except they are very big.** . . .
>
> So the push back to WAMU needs to be (assuming we want to do this some day), eAppraiseIT needs to choose the appraisers, not WAMU. Where it gets really clear that eAppraiseIT is NOT choosing is the proven idea because they always go first and MUST be selected unless there is a specific reason why not. **eAppraiseIT is clearly being directed who to select. The reasoning that there are fewer ROVs is bogus for many reasons including the most obvious – the proven appraisers bring in the values.**
>
> Fun, eh?? (Emphasis added).

47. Yet, despite this clear articulation of what eAppraiseIT should do, by one of the company's most senior executives, eAppraiseIT did not "push back." It agreed to use the WaMu Proven Appraiser Panel, acceding to WaMu's demands for complete control over the Proven Panel and the reconsideration of value process.

48. On April 17, 2007, eAppraiseIT's President wrote to senior executives at First American, describing the issues with WaMu as follows:

> In short, the issues are using their designated appraisers as mandated by the WaMu production force at 20% gross margin and bypassing our panel. **We view this as a violation of the OCC, OTS, FDIC and USPAP influencing regulation.** (Emphasis added).

49. In support of his conclusion that using the WaMu panel violated federal regulations and USPAP, eAppraiseIT's President attached to his email a memorandum to WaMu that was prepared by eAppraiseIT's Executive Vice President. At the outset of the memorandum, eAppraiseIT summarized the guidelines regarding appraiser independence,

stating:

> The various regulatory boards including OTS, OCC, FDIC and others prepared a list of frequently asked questions on Independent Appraisal and Evaluation Functions on March 21, 2005. These FAQs should be reviewed in conjunction with prior guidelines published in 1994 and 2003. I have included the 2005 FAQs at the end of this document. We assume that you are very familiar with these documents.
>
> We want to focus on appraiser independence. All three documents address and re-address this issue. In the section titled Independence of the Appraisal and Evaluation Function, the 1994 and 2003 document states, "Because the appraisal and evaluation process is an integral component of the credit underwriting process, it should be isolated from influence by the institutions's loan production process." This is reinforced in the Selecting Individuals to Perform Appraisals or Evaluations section from the 2003 document. It states that it is important to ensure that the program is safeguarded from internal influence and interference from an institution's loan production staff. Individuals independent from the loan production area should oversee the selection of appraisers and individuals providing evaluation services.

50. eAppraiseIT's memorandum then applied the appraiser independence guidelines to the WaMu Proven Panel and concluded that:

> Based on our conversations we have had with the WAMU oversight as well as the questions and answers initiated by our competitor LSI, **it is our interpretation that the loan production staff has a great deal to do with selecting appraisers. The PAL [Proven Appraiser List] has been selected by the loan production staff and the continued use of these appraisers is being monitored by the loan production staff.** For example, on the LSI question #1 "Does WAMU want to be updated transactionally on every order we can not assign to a PAL?", WAMU's answer is "Yes, we need a short sentence in the message log so that we can monitor, – AND most important - lending can see why you didn't assign to a PAL service provider. Not using a PAL appraiser will be an issue so we need to ensure we've covered our bases as to why they're not utilized." **This appears to be directly in contradiction to the interagency guidelines unless you have a different interpretation.**
>
> * * *
>
> This produces the following challenge – eAppraiseIT is operating

> under what appears to be a mandate from WAMU in utilizing PAL selected appraisers (and this selection is coming from the loan production staff). We are then asked to rep and warrant this work. We are concerned about this arrangement from a risk perspective . . . ." (Emphasis added).

51. As demonstrated by this memorandum, First American and eAppraiseIT knew that complying with the WaMu Proven Panel violated appraiser independence regulations. However, eAppraiseIT did not stop conducting appraisals for WaMu using the tainted Proven Panel. To the contrary, First American's Chief Operating Officer, who sits on First American's Compliance Committee, testified under oath that his reaction to the April 17 email and the attached memorandum was that "I don't recall anything unique about this email."

52. Again, on April 17, 2007, eAppraiseIT's Executive Vice President wrote to eAppraiseIT's President and Chief Operating Officer regarding eAppraiseIT's legal liability:

> OTS and OCC only control lenders. However, there is the legal concern about collusion. For example, let's say it is discovered that a lender (loan officer at a lender) is being collusive with an appraiser that is on OUR (WAMU) panel. That is, our reps and warrants apply. Then we are liable I would say because we have gone along with it. . .
>
> In addition, I think it will tarnish our reputation in the appraisal community because we are allowing WAMU to pick appraisers based on their loan officers. It makes us look complicit. So [it] may not be actionable legally but would hurt our reputation. So those are two bad things off the cuff. There may be more if we think about it and use creative paranoia.

53. On April 17, 2007, eAppraiseIT emailed its staff appraisers to explain why the staff appraisers had been removed from the WaMu Proven List. In these messages, eAppraiseIT's ABMs acknowledged that WaMu loan origination staff were now choosing the appraisers for their loans:

> I thought I [sic] pass on my thoughts regards the recent message that we all received for [sic] Peter last weekend. I will be glad to tell you what I know. I have been told that the lending folks at Wamu and [sic] were unhappy with the AMC's and felt they were not receiving a good level of appraisal work. They therefore decided to construct their own appraisal panel, now known as the wamu proven panel, and instructed the AMC's to utilize appraisers from this panel whenever possible. The end result is that if you are not on this proven panel it is very unlikely you will receive wamu work.

No independent appraiser could misread this message: if you want to do work for WaMu, you will have to satisfy the "lending folks at Wamu."

54. Even beyond picking the Proven Panel, WaMu's loan officers at times also directly selected specific individual appraisers on the panel to conduct their appraisals. On April 19, 2007, eAppraiseIT's Chief Operating Officer wrote in an email to eAppraiseIT's President and Executive Vice President:

> Evidently, we do get calls/emails from the WaMu Oversight Group to select a specific appraiser for an order. Now, normally, this would not be a concern since the group is separate from [WaMu] lending. However, Vicky [at eAppraiseIT] is also receiving a copy of an email from the LC [WaMu Loan Consultants] to Oversight requesting the appraiser selection – then the subsequent email from Oversight directing the assignment change."

55. By April 2007, WaMu had complete control over eAppraiseIT's appraiser panel. On April 26, 2007, eAppraiseIT's President wrote an email to senior management at First American regarding WaMu. In the email, eAppraiseIT's President discussed the Proven Panel and eAppraiseIT's reputational risk:

> Sales is the driving force behind the Proven Appraiser List (PAL) which is questionable from regulatory perspective. We are required to use these appraisers at 80/20% fee splits. This is dilutive to our P&L. Even with the implementation of such, we are still finding that we are being questioned surrounding what appraiser was assigned the order. **We feel our reputation in the industry is being tarnished by the**

implementation of the Proven List since Production selects the appraiser. (Emphasis Added).

56. Yet First American and eAppraiseIT continued to comply with WaMu's demands and agreed to use the Proven Panel selected by WaMu loan production staff.

57. On May 11, 2007, eAppraiseIT's Executive Vice President wrote to eAppraiseIT's President that "currently WAMU is controlling the appraiser panel. They are selecting the appraisers and calling them 'proven' appraisers. These appraisers are being chosen by their sales force. First American eAppraiseIT (FA eAppraiseIT) is obligated to use these appraisers." According to eAppraiseIT's Executive Vice President, WaMu was using a Proven Panel because of the "low values" from eAppraiseIT's appraisers.

D. Spring 2007: First American and eAppraiseIT Attempt to Stop Warranting WaMu's Appraisals Because They Know They Have Illegally Compromised Appraiser Independence

58. On April 26, 2007, eAppraiseIT informed WaMu that effective May 1, 2007, it would no longer "be warranting appraisals as performed by the Wamu selected Proven Appraiser List (PAL) appraiser on originations. . . . The new, verbal requirements to utilize Wamu's panelists falls outside the spirit and letter of our agreement as it relates to Warranties. . . ."

59. This was a dramatic departure from eAppraiseIT's regular practices. On its website, eAppraiseIT claims that: "All of First American eAppraiseIT's traditional appraisal products come standard with one of the industry's strongest warranties. Our warranty coverage includes foreclosure loss incurred due to fraud or gross negligence. First American eAppraiseIT's commitment to appraisal quality means our customers don't need to go through the lengthy and difficult process of filing a claim against our Errors and Omissions policy, in the event they suffer a loss due to appraisal error. Of course, the policy is there for that purpose, but

our warranty presents a much simpler way to recover losses due to appraisal fraud or gross negligence."

60. eAppraiseIT threatened to stop warranting WaMu appraisals because eAppraiseIT's management knew that it had compromised its appraiser independence by using the WaMu Proven Appraiser List. eAppraiseIT's Chief Appraiser has testified that the threat to stop warranting was based on the risks inherent with WaMu's choice of such a "limited" panel.

61. eAppraiseIT's senior managers acknowledged these risks internally to one another. As eAppraiseIT's Executive Vice President explained in an email to other members of senior management while discussing a particular reconsideration of value: "The original appraiser was a WAMU proven appraiser coming in $750,000 higher than the eAppraiseIT review appraiser. This is a good example of why we currently have stopped rep and warrants and our concerns about over-valued properties."

62. In response to the above email, eAppraiseIT's Chief Operating Officer wrote that "In addition to this example, we are also seeing what appears to be a higher incidence of Threshold Reviews [mandated for properties worth over $1 million] coming in with a lower value than the original appraisal. I think this supports our concern regarding the proven list."

63. On April 30, 3007, eAppraiseIT's President wrote to his Chief Operating Officer, regarding the warranting of appraisals from WaMu's Proven Panel:

> I have given serious thought to your suggestion on Friday regarding an addendum to section B of the contract striking our quality control efforts and warranty coverage on appraisals performed by an appraiser off the Wamu Proven Appraiser List (PAL). Would you draft something that stipulates this? Again, this new requirement violates the spirit of our agreement where we agreed to aggressively QC and warrant appraisals as performed by our own panel. **Using Loan Officer's favorite appraiser is obviously something we will not**

> **stand behind from a quality and risk perspective.** (Emphasis added).

64. Nevertheless, eAppraiseIT continued to perform appraisals for WaMu, and continued to tout its independence.

65. The New York Attorney General issued a subpoena to First American on May 5, 2007.

66. On May 15, 2007, eAppraiseIT's Chief Operating Officer in an email wrote to eAppraiseIT's President regarding WaMu's Appraisal Oversight group: "I think this proves the point that . . . Oversight continues to buckle when confronted with direct and unrelenting pressure from lending."

67. Although eAppraiseIT repeatedly told First American that WaMu's loan origination staff illegally selected and controlled its Proven Appraiser List and that, in some instances, loan officers were directly selecting specific appraisers, First American instructed eAppraiseIT to continue the business relationship with WaMu. By email dated May 17, 2007, First American's Chief Operating Officer instructed eAppraiseIT's President and Executive Vice President to continue the relationship with WaMu and to "design a model that predominantly leverages their panel but doesn't violate our independence **which is probably easier said than done but there should be a way to figure it out.**" (Emphasis added).

68. On May 29, 2007, eAppraiseIT's Executive Vice President summarized the problems in the eAppraiseIT/WaMu business relationship in a letter to a senior executive at WaMu as follows:

> In the first quarter of 2007, the sales group of WAMU began to insist they choose the appraisers mostly due to their concerns about 'low values.' eAppraiseIT encouraged WAMU to resist these pressures if

> possible. However, WAMU decided to go with what came to be called the "proven" list of appraisers recommended by sales. . . .
>
> The use of the "proven panel is challenging for eAppraiseIT in two ways: A. Financially – The proven panel is paid a minimal of 20% more than the eAppraiseIT panel. B. Risk Management – the possibility of collusion between the loan officers and appraisers is increased when eAppraiseIT does not control the selection. In addition, eAppraiseIT is concerned with any possible lender pressure or perception of lender pressure when the only way to get on the WAMU "proven" panel is through the loan officer.

69. Despite this articulation of the "possibility of collusion," nothing changed between the parties, except cosmetically, and they continued in this corrupt business relationship. On June 7, 2007, a WaMu executive directed eAppraiseIT to change the name of the Proven List for the following reasons: "Name change from "proven appraiser" and/or use of the moniker "PAL" list is discontinued, under direction of the WaMu legal department. We are utilizing a more generic term acceptable w/in regulatory guidelines and industry standards." The Proven Appraiser Panel was renamed the "WaMu Select" panel, and eAppraiseIT accepted the name change while doing nothing to solve the regulatory violations.

IV. First American and eAppraiseIT Permit WaMu's Loan Origination Staff to Remove Appraisers From the Proven Appraiser Panel and to Improperly Communicate Directly With eAppraiseIT Appraisal Business Managers

70. As discussed above, First American and eAppraiseIT permitted WaMu's loan origination staff to select a Proven Appraiser List of appraisers and to control the Proven Panel. In addition, First American and eAppraiseIT permitted WaMu's loan origination staff to remove appraisers from the Proven Panel on the grounds that such appraisers consistently valued properties lower than WaMu's desired target amount, had a high rate of reconsideration of value requests, or performed desk reviews that reduced another appraiser's value for a given property.

71. In one specific example, in or about December 2006, a particular appraiser ("Appraiser A") was approved to be an appraiser on the Proven Panel. From January 25, 2007 through May 7, 2007, Appraiser A conducted five appraisals for eAppraiseIT with respect to WaMu properties. For each appraisal, WaMu requested a reconsideration of value. In each instance, Appraiser A refused to increase the value.

72. Shortly thereafter, Appraiser A was removed from the Proven List and placed on the WaMu inactive list. He was then told by a WaMu sales assistant that he was removed from the panel because he did not increase values in response to these reconsiderations of value. This same WaMu sales assistant told Appraiser A that many appraisers who had previously been removed from WaMu's list of active appraisers for conducting fraudulent appraisals were being reinstated on WaMu's Proven List in order to help ensure that appraisals would come in at sufficiently high value to permit the loans to close.

73. On May 30, 2007, Appraiser A wrote to eAppraiseIT regarding the WaMu Proven Panel. In the email, Appraiser A wrote that: "We continued to provide this high level of service when eAppraiseIT took over as appraisal management. With no explanation or warning, I was removed from the assignment rotation in mid April of this year. I respectfully ask to be re-instated as an active preferred appraiser."

74. Following receipt of Appraiser A's email, on May 30, 2007, an eAppraiseIT Appraisal Specialist wrote to eAppraiseIT's Executive Vice President, Chief Operating Officer and Chief Appraiser:

> I was working with two good, solid long-time wonderful appraisers in NY and CT until right after the WaMu Proven Panel was formed. They were both removed very soon after for no apparent reason. **We were having value issues, however, I felt their work was very**

> **defendable and supportable, and kept copious notes on our dealings.** They have continued to keep in touch with me, in order to find out why they were removed from the panel. (Emphasis added).

75. On May 31, 2007, eAppraiseIT's Chief Appraiser replied:

> First he was on the Master List so put on WAMU Proven and then as the list went around he was REMOVED. The probability that a loan officer requested him to be removed is pretty high I think because that is what they did with the Master List; they sent it out to Lending to choose.

76. To date, Appraiser A remains off the Proven Panel.

77. Another appraiser ("Appraiser B") conducted hundreds of appraisals for WaMu loans through eAppraiseIT from January 2007 through April 2007. During this period, Appraiser B received 102 Reconsideration of Value requests.

78. On April 3, 2007, in an email Appraiser B wrote to eAppraiseIT the following:

> I WAS JUST MADE AWARE FROM ONE OF YOUR COMPETITORS (LSI) THAT I MAY BE ON A BLOCKED LIST FROM WAMU. THIS MAY HAVE SOMETHING TO DO WITH THIS APPRAISAL IN QUESTION FOR WHICH I THOUGHT WAS BEING TAKEN CARE OF AND IN PROCESS OF BEING RESOLVED. CAN SOMEONE HELP ME OUT HERE AS THIS IS IMPORTANT TO US TO KEEP THE RELATIONSHIP WITH WAMU THROUGH EAPPRAISEIT. WHAT IS GOING ON AND WHAT CAN I DO TO CLEAR THIS FILE UP????? (Capitals in original).

79. A senior appraiser employed by Appraiser B argued to eAppraiseIT that he was removed because WaMu did not like it when he reduced appraisal values after desk reviews. He wrote: "After reviewing appraisals over the past few months, many of which are fraudulent, with inflated unsupported values, it is disturbing that WaMu's focus and concern is misplaced with the review process."

80. To date, Appraiser B is still on the WaMu removed list.

81. Similarly, on April 17, 2007, a third appraiser ("Appraiser C") wrote to eAppraiseIT that:

> This is the second Wamu Appraisal quality assurance issue I have received from Wamu in the past 2 months. Both as a result of an appraisal I completed that did not come in to their predetermined value for a "valued" Wamu client. **I was pressured for 2 weeks to change both my value and the conditions of my appraisal report . . . both of which were violations of USPAP, FANNIE MAE and the Supplemental Standards I am required to observe and am bound by my license to complete.** Since that time, I have been singled out by WaMu and have been pressured on every appraisal I have completed that did not reach a pre-determined value. I feel that Wamu is in process of "blacklisting" me as an approved Wamu appraiser by going after each appraisal I complete and looking for violations." (Emphasis added).

82. Appraiser C wrote this email after having been pressured and harassed to increase values on two appraisals, after WaMu had requested ROVs and she had declined to increase the values. Shortly after her refusal to increase these values, she received two "Unacceptable Appraisal Notifications" from WaMu. After having been harassed and targeted with "unacceptable" strikes, she withdrew from WaMu's panel in order to avoid being removed against her will.

83. Senior executives at eAppraiseIT acknowledged that WaMu was targeting their appraisers. On May 23, 2007, eAppraiseIT's Chief Operating Officer wrote to eAppraiseIT's Executive Vice President that " It was disturbing to find out from [WaMu] that we receive three times the number of strike letters as LSI – and we're getting less volume. This indicates to me that they have targeted our "non-proven" appraisers – and are somewhat biased against EA in their work."

84. Further, eAppraiseIT permitted loan officers at WaMu to communicate directly

with eAppraiseIT's ABMs and Appraisal Specialists by telephone and email, to discuss appraisal values. Indeed, eAppraiseIT permitted loan officers at WaMu to pressure eAppraiseIT ABMs and Appraisal Specialists about appraisal values even after an initial appraiser has considered a value reconsideration request and refused to change the value.

85. eAppraiseIT permitted these improper practices because WaMu is a large client that demanded the right to have these contacts. And eAppraiseIT's ABMs had the authority to change a final appraisal value only because WaMu had demanded, in September, 2006, that ABMs be permitted to "proactively mak[e] a decision to override and correct the third party appraiser's value or reviewer's value cut."

86. Further, email exchanges between WaMu and eAppraiseIT show that WaMu repeatedly pushed eAppraiseIT's ABMs to increase appraised values so that loans could close. For example, in one exchange with an eAppraiseIT review appraiser, a WaMu loan officer wrote that "Basically, if we don't get at least the appraised value of $3,650,000 . . . we lose the deal." (Ellipses in original). Earlier that day, this loan officer told eAppraiseIT that "if we don't have a definitive $$ appraised value then the borrower will go to another lender with a higher appraised value of $4mm. Please . . . at least . . . keep this value at the original appraised value of $3,650,000." (Ellipses in original).

87. On May 23, 2007, eAppraiseIT's Chief Appraiser described these comments as "a clear picture of Lender Pressure on behalf of WaMu."

88. eAppraiseIT received other communications from WaMu in which WaMu attempted to influence the appraised values of specific properties. For example, on May 24, 2007, eAppraiseIT's Chief Operating Officer wrote to eAppraiseIT's President that: "We have

received in the past, and now most recently with the Sag Harbor event (which incidentally just happens to be a New York property), communications where it could be viewed that EA did experience some level of influence to increase a value beyond that which we concluded in our own analysis was not supported."

89. eAppraiseIT's internal appraisal log entries indicate that its Review Appraisers and ABMs increased property values on appraisal reports after being told by WaMu loan origination staff that such increases would help loans to close. For the period of November 2006 to May 2007, there were 8 desk reviews performed by ABMs and 1 desk review performed by the Appraisal Specialist relating to properties in New York, all of which were for WaMu. The appraised values were increased in each of the 9 desk reviews completed, as follows: from $825,000 to $850,000, $230,000 to $240,000, $415,000 to $420,000, $1,550,000 to $2,270,000, $720,000 to $730,000, $535,000 to $556,000, $580,000 to $587,000, $500,000 to $525,000.

90. This level of contact between WaMu's loan production staff and eAppraiseIT's ABMs is prohibited by USPAP's independence requirements and by state and federal law.

FIRST CAUSE OF ACTION
(Fraudulent or Illegal Business Practices – Executive Law § 63(12))

91. The acts and practices alleged herein constitute conduct proscribed by § 63(12) of the Executive Law, in that defendants engaged in repeated fraudulent or illegal acts or otherwise demonstrated persistent fraud or illegality in the carrying on, conducting on transaction or a business.

SECOND CAUSE OF ACTION
(Deceptive Acts or Practices – General Business Law § 349)

92. The acts and practices alleged herein constitute conduct proscribed by § 349 of

the General Business Law, in that defendants engaged in repeated deceptive acts or practices in the conduct of its business.

THIRD CAUSE OF ACTION
(Unjust Enrichment)

93. By engaging in the acts and conduct described above, defendants unjustly enriched themselves by receiving payment for independent, accurate, and legal appraisals, but failing to provide such appraisals.

WHEREFORE, plaintiff demands judgment against the defendants as follows:

A. Enjoining and restraining First American and eAppraiseIT, their affiliates, assignees, subsidiaries, successors and transferees, their officers, directors, partners, agents and employees, and all other persons acting or claiming to act on their behalf or in concert with them, from engaging in any conduct, conspiracy, contract, agreement, arrangement or combination, and from adopting or following any practice, plan, program, scheme, artifice or device similar to, or having a purpose and effect similar to, the conduct complained of above.

B. Directing that First American and eAppraiseIT, pursuant to Article 22-A of the General Business Law, § 63(12) of the Executive Law and the common law of the State of New York, disgorge all profits obtained, including fees collected, and pay all restitution, and damages caused, directly or indirectly by the fraudulent and deceptive acts complained of herein;

C. Directing that First American and eAppraiseIT pay plaintiff's costs, including attorneys' fees as provided by law;

D. Directing such other equitable relief as may be necessary to redress First American and eAppraiseIT's violations of New York law; and

E. Granting such other and further relief as may be just and proper.

Dated: New York, New York
November 1, 2007

ANDREW M. CUOMO
Attorney General of the State of New York
Attorney for Plaintiff
120 Broadway, 25th Floor
New York, New York 10271
(212) 416-6053

By: _____
Nicole Gueron
Deputy Chief Trial Counsel

Of Counsel:
Christopher Mulvihill
Assistant Attorney General

Chow, Edwin L

From: Dochow, Darrel W
Sent: Wednesday, November 07, 2007 11:02 AM
To: Dochow, Darrel W; Thomas, Randy W; Chomicz, Susan L; Hendriksen, James A; Franklin, Benjamin D; Johnson, Mark W
Cc: Polakoff, Scott M; Ward, Timothy T; Bowman, John E; Chow, Edwin L; Petrasic, Kevin; Quigley, Lori G; Messett, Brian C
Subject: RE: Assertion

Hello All:

Given the new news this morning, I believe that OTS needs to open up its own special investigation.

WAMU executives have talked with both Freddie and Fannie today and both GSEs have confirmed they will continue to buy loans from WAMU. The GSEs have also agreed to have a special examiner review the appraisal issue in their conversations with NYAG Cuomo. The GSEs have not seen the subpoena yet.

WAMU started their own special investigation a few days ago when this broke by the special unit under Chief Counsel Faye Chapman using some internal audit staff.

Darrel

From: Dochow, Darrel W
Sent: Wednesday, November 07, 2007 7:40 AM
To: Thomas, Randy W; Chomicz, Susan L; Hendriksen, James A; Franklin, Benjamin D; Johnson, Mark W
Cc: Polakoff, Scott M; Ward, Timothy T; Bowman, John E; Chow, Edwin L
Subject: RE: Assertion

Jim Hendriksen, Mark Johnson and Ben Franklin:

The OTS has received a similar allegation as to the one by NYAG Cuomo relating to LSI and WAMU in Arizona. I am thinking that we ask for a formal investigation by the WAMU special investigative unit of this and the NYAG allegations and have the investigation report(s) shared with us and we meet with the investigators. We simultaneously open up a special investigation so that we can interview folks directly etc if necessary. As you recall, the special investigation unit reports to the Chief Counsel and the Board, so independence is good. This is similar to how we have handled some previous situations.

Lets discuss today between meeting breaks

Darrel

From: Thomas, Randy W
Sent: Wednesday, November 07, 2007 7:09 AM
To: Dochow, Darrel W; Chomicz, Susan L
Cc: Polakoff, Scott M; Ward, Timothy T; Bowman, John E
Subject: Assertion

Darrel and Susan: Below this introduction, I have cut and pasted from 2 emails that I received yesterday as Ombudsman from an individual who asserts that he has knowledge of "massive mortgage fraud" in connection with appraisals performed on behalf of Wamu. He has consented to me using his name and passing his information on to Supervision and Enforcement. I am expecting to receive at least another email from him with additional details when he returns to his office.

I initially advised him to contact the FBI. He emailed back and said that he has been in contact with the FBI, but there seems to be no action taken and no communication back from the FBI.

I will keep you posted as I receive additional information from him.
Randy

****

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #708

From: Polakoff, Scott M
Sent: Saturday, November 17, 2007 1:22 PM
To: Reich, John M <reichjm@office of thrift supervision.com>
Subject: Re: Draft of Proposed Action Plan for Washington Mutual, eAppraiseIT, and LSI Special Examination

---

John - I'll take a good look at the plan and give you my thoughts. Also, I have learned that the next FFIEC meeting occurs at the same time as our all-managers conference. I haven't seen an agenda for the ffiec meeting yet but the timing is identical to our Gallup briefing. We have been unsuccessful in trying to move Gallup.

Would you like me to represent you at the ffiec? If not, who would you want to accompany you as I need to let the ffiec folks know.

Thanks

Scott

Scott Polakoff

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Reich, John M
To: Polakoff, Scott M
Sent: Fri Nov 16 22:27:53 2007
Subject: Fw: Draft of Proposed Action Plan for Washington Mutual, eAppraiseIT, and LSI Special Examination

Scott,

This appears to be a comprehensive (and impressive) review schedule. It doesn't appear, on the surface anyway, to leverage off of WaMu's own review. Do you think we might be totally reinventing the wheel and possibly taking too long to complete our review?

John

Sent using BlackBerry

----- Original Message -----
From: Chow, Edwin L
To: Polakoff, Scott M; Ward, Timothy T; Bowman, John E; Quigley, Lori G; Chomicz, Susan L
Cc: Reich, John M; Russell, Robert W; Dochow, Darrel W; Johnson, Mark W; Hendriksen, James A; Franklin, Benjamin D; Thorvig, Bruce L; Archibald, Robert D; Henry, David R; Shambaugh, Scott E

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #710

Sent: Fri Nov 16 19:05:26 2007
Subject: Draft of Proposed Action Plan for Washington Mutual, eAppraiseIT, and LSI Special Examination

Hello everyone,

Darrel asked that we share with you the latest draft of the proposed action plan for the WaMu special examination for your review and input.

We welcome your suggestions and any available staff resources from Washington DC and/or the other regions that may have specialized appraisal expertise. To date, the West has committed Bruce Thorvig (Examiner, MAI Appraiser, and national appraisal expert) and Scott Shambaugh (examiner and former appraiser) to this assignment under the coordination of Assistant Director Mark Johnson , WaMu EIC Ben Franklin, WaMu LPM Bob Archibald, and Regional Enforcement Counsel Jim Hendriksen (who will be in charge of the special 407m investigation and legal/enforcement work). The proposed scope of work in this draft plan is very extensive and we are still in the process of refining it, as well as estimating the additional resources and timeline that will be necessary to complete this work.

On-site work on this special examination began earlier this week at WaMu, and Jim Hendriksen has also started a review of the eAppraiseIT and LSI documents.

Let us know if you have questions or comments.

Thanks, Edwin

<<Appraisal Review Final Draft.doc>>

OTS ENFORCEMENT
Status of Formal Investigations
(as of 12/15/2008)

Name of Institution	Location	OTS #	Authorized	Prima Facie Case Memorandum	Current Status

Redacted by the
Permanent Subcommittee on Investigations

Quigley_Lori-00231631_001

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #716

Redacted by the Permanent Subcommittee on Investigations

Washington Mutual Bank	Henderson, NV	08551	11/27/2007 WE-07-010	10/03/2008	Investigation completed; examination focused on the issue of whether thrift personnel improperly exerted pressure or otherwise acted to compromise the independence or results of residential mortgage appraisals provided to the institution by third-party contract appraisal management companies; institution placed into receivership and acquired by JP Morgan Chase on 09/25/2008; draft recommendation memorandum submitted to Deputy Director and Chief Counsel Bowman on 10/03/2008 (recommendation prepared while WAMU was an open institution); meeting held with Chief Counsel Bowman to discuss memorandum; Enforcement attorney Ellett will be setting up meeting with OCC to discuss OTS investigation.

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Permanent Subcommittee on Investigations

Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
San Francisco Regional Office
25 Ecker Street Suite 2300
San Francisco, California 94105
415.546.0160

State of Washington
Department of Financial Institutions
Division of Banks
PO Box 41200
Olympia, Washington 98504-1200
360.902-8704

Board of Directors
Washington Mutual Bank
1201 Third Avenue
Seattle, Washington 98101

Subject: Joint Visitation Dated October 14, 2003

Members of the Board:

We enclose the October 14, 2003, joint visitation report of Washington Mutual Bank. FDIC Examiner Kenneth J. Kroemer and State Examiner John Ransom prepared the visitation report. The purpose of the visitation was to review management's progress towards addressing examination findings resulting from the March 17, 2003, safety and soundness and information technology Reports of Examination and to prepare for the upcoming examinations that are scheduled to begin on March 15, 2004. In addition, three issues that arose since the examination were explored and discussed with management. These issues included the unanticipated negative gain on loan sale incurred by the company's consolidated mortgage banking operation during the third quarter of 2003, the disclosure of unsatisfactory underwriting practices at affiliate Long Beach Mortgage Company, and the realignment of management and the business units.

The examiners concluded that:

- Management's progress toward addressing safety and soundness and information technology examination findings is satisfactory.
- Financial performance was marred by problems during the third quarter, but the bank's financial condition remains satisfactory.
- Issues in the mortgage banking operation impacted the quality of earnings and the effectiveness of management.
- The culture, practices, and systems at Long Beach Mortgage Company are inconsistent with the lending activity of the bank.
- The abandonment of Optis 0.2 represents a significant management/technology failure.

We understand that a major corporate reorganization is in process and plans are being or have been implemented to address mortgage banking weaknesses, practices at Long Beach Mortgage Company, and information technology strategies.

The Board is encouraged to review the visitation report, although no formal response is requested. If you have any questions, please contact Assistant Regional Director J. George Doerr or Senior Examiner Stephen P. Funaro of the FDIC at (206) 284-1112 or Program Manager Michael Abe of the State of Washington Department of Financial Institutions at (360) 902-8704.

Sincerely,

Nancy E. Hall
Regional Director
Federal Deposit Insurance Corporation

David G. Kroeger
Director of Banks
State of Washington
Department of Financial Institutions

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #719

LETTER

Report of Visitation	09576

Background

The FDIC and Washington State Department of Financial Institutions (DFI or State) visited Washington Mutual Bank (WMB) from 10/14/2003 to 12/11/2003. The visitation was conducted concurrently with representatives of the Office of Thrift Supervision (OTS). The purpose of the visitation was to perform an interim assessment of WMB's financial condition and performance, follow up on outstanding issues from the 3/17/2003 examinations, and prepare for the 3/15/2004 examination. In addition, three issues that arose since the examination were discussed with management:

- The unanticipated negative gain on loan sale incurred by Washington Mutual Inc.'s (WMI) consolidated mortgage banking operation during the third quarter of 2003;
- The disclosure of unsatisfactory underwriting practices at sub prime lending affiliate Long Beach Mortgage Company, Inc. (LBMC); and
- The resultant realignment of management and the business units.

Summary

Like WMI, WMB's financial performance during the third quarter of 2003 was marred by problems, but the bank's condition remains satisfactory. Issues in WMI's mortgage banking operation and at LBMC impacted the quality of earnings, adequacy of capital, contingent liquidity, and the effectiveness of management throughout the entire organization. A major corporate reorganization is in process that is intended to address outstanding issues.

Management's progress toward addressing Examination Findings from the 3/17/2003 examination was reviewed and found to be satisfactory.

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REPORT

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LONG BEACH MORTGAGE COMPANY
LBMC is a non-bank affiliate of WMB and WMBFA. It securitizes and sells sub prime residential loans originated through brokers.

An internal residential quality assurance (RQA) report for LBMC's first quarter 2003 sub prime lending product was issued as of 7/31/2003. It concluded that 40% (109 of 271) of loans reviewed were considered unacceptable due to one or more critical errors. This raised concerns over LBMC's ability to meet the representations and warranty's made to facilitate sales of loan securitizations, and management halted securitization activity. A separate credit review report was completed by Corporate Credit Review on 8/29/2003 that reached similar conclusions and disclosed that LBMC's credit management and portfolio oversight practices were unsatisfactory.

The inability to securitize and sell new loan production caused LBMC's warehouse to increase by approximately $1 billion per month to $5 billion at the end of November 2003. The increase was funded through borrowing lines from affiliates and other creditors. LBMC President Troy Gotshall stated that he hoped a $3 billion securitization and sale transaction could occur during January. Unless a sale transpires soon, liquidity will be strained. One element of LBMC's contingent liquidity plan includes the potential sale of warehouse loans to the insured institutions.

A review of loans in the mortgage pipeline and warehouse commenced under the direction of EVP and Senior Legal Counsel Fay Chapman to determine the extent of the problems.. Approximately 4,000 of the 13,000 loans in the warehouse had been reviewed by the end of November 2003; of these, approximately 950 were deemed saleable, 800 were deemed unsaleable (saleable as scratch and dent with a haircut), and the remainder contained deficiencies requiring remediation prior to sale.

It was reported separately that of 4,500 securitized loans eligible for foreclosure, 10% could not be foreclosed due to documentation issues.

President Gotshall stated that the problems were largely attributable to management's decision to integrate LBMC's sub prime loan origination and servicing operations into WMI's prime home lending program. This integration began in 2000 and continued through 2002. It now appears that some loans originated and securitized during that period may not have meet the representations and warranties made in the pooling and servicing agreements and therefore are contingent liabilities to LBMC since they could be put back by the investors. EVP Fay Chapman acknowledged the potential contingent liability, but stated that management has not quantified the exposure. The outstanding principal balances of loans securitized and sold during this time period totals approximately $11 billion.

Senior Vice President (SVP) John Robinson was appointed to LBMC's three member board of directors in December 2003. The other members are Chief Financial Officer Tom Casey and EVP Craig Chapman. The board met on 12/05/2003; the prior meeting was back in July. SVP Robinson acknowledged that oversight of LBMC had been inadequate. The culture, practices, and systems at LBMC are inconsistent with the lending activity of WMB, and it remains to be seen if LBMC can be effectively assimilated into WMI.

Status of Findings from Prior Examinations

Management continues to monitor examination findings and responses through a "findings matrix" which is also used as the response to the Report of Examinations. Internal Audit reviews the responses to determine if the responses are sufficient to "close" the issue. We worked jointly with the OTS to review management's progress in addressing the findings.

Management has implemented action plans to address the Examination Findings from the 3/17/2003 examination. Satisfactory progress was noted, although many action plans are still in process. Internal Audit had not yet assessed the status of all of management's responses; this should be completed in the first quarter of 2004 and will be reviewed during the 2004 examination.

2004 Safety and Soundness Examination

The 2004 examination is scheduled to commence on 3/15/2004, and the onsite planning phase will begin on 2/17/2004. Coordinating efforts are underway for the joint examination of WMB and concurrent examinations by the OTS of WMI, WMBFA, and Washington Mutual Bank, fsb. In addition, joint Information Technology and concurrent Compliance examinations will be conducted.

A joint entry request package, or PERK, was presented to the bank in December 2003. The FDIC, State, and OTS continue to work together to present a joint request package to eliminate duplications and ease the burden of data collection.

Information Technology

The visitation included an Information Technology (IT) component. WMI's IT environment includes over 200 application systems, many of which were not integrated after acquisition. Many of these systems are relatively unique to WMI and operate in diverse locations with a variety of operating systems, application systems, and disaster recovery plans.

This visitation disclosed that management has made notable progress in addressing the Examination Findings from the 2003 IT examination. However, the issues encountered in the mortgage banking operation during the third quarter had a clear IT component and demonstrated the potential impacts of the current IT environment. Management announced its decision to abandon Optis 0.2 at the end of the visitation. The abandonment of Optis 0.2 represents a significant management/technology failure. Management has a plan to address mortgage technology needs, but until the plan is implemented, IT exposure will remain high.

Visitation Findings

Visitation findings were discussed with SVP Robinson and Vice President Wedell on 12/9/03, and will be presented to executive management at the 1/22/04 Quarterly Regulators Meeting.

WMS, FA/fsb (08551/11905)
Field Visit 10/14/03

FOIC WRITEUP/LETTER DRAFTS

4

Marshall, Penny D

From: Dochow, Darrel W
Sent: Monday, February 13, 2006 8:38 AM
To: Marshall, Penny D
Subject: FW: LBMC EDP Impact

Sensitivity: Private

This has the numbers for LBMC repurchases.

-----Original Message----
From: Dochow, Darrel W
Sent: Friday, January 20, 2006 8:27 AM
To: Finn, Michael E
Cc: Carter, Lawrence D; Franklin, Benjamin D; Kuczek, Richard A
Subject: LBMC EDP Impact
Sensitivity: Private

Mike:

Attached is the one page table highlighting the financial impact of the LBMC repurchase matter. See particularly the box toward the bottom labeled "Summary". It shows that a $20 million earnings hit came from a net settlement with Bear Sterns where WAMU decided to not repurchase the loans, but let Bear Sterns keep them at a reduced price. These were primarily 2nd lien loans where the servicing had already been transferred to Bear Sterns. The second line item is a $12.8 million LOCOM adjustment from a repurchase in December. The third line is an additional reserve of $39.5 million, but actually approximately $4 million already existed, so the total additional income impact was $35.5 million, for a total $68 to $69 million actual income impact net of the approximate $4 million reserve, or $72.3 million gross. Additional reserves are expected in January when the last two whole loan sales work through their EDP recourse period.

Of the loans repurchased so far, we were told that approximately 60% have cured.

The primary reasons for the problem were as discussed at yesterday's quarterly meeting:

- Servicing lapse in not focusing on having the first payment after sale be current
- Rise in interest rates during this time period that motivated purchasers to put back all they could
- General lower quality 2005 production due to economy and lowered standards up to time of the exam
- WAMU divisions not communicating well enough between themselves on implication of whole loan sales vs securitizations

The $4.749 billion in loans on LBMC books at 12/31/05 are largely comprised of the same 2005 vintage production that was sold in the whole loan sales and are now subject to the increased repurchases. One difference, however, is that loans going into the HFI portfolio must meet the same screens as loans acquired through the Specialty Mortgage Finance channel. Thus, they tend to have somewhat better performance. Management is balancing the probability that these loans will perform worse than expected and priced for, versus the increased income they generate, (plus portfolio taint considerations) in considering whether to sale some or all of the portfolio.

Total higher risk loans (1st with FICO below 620 and 2nds, credit cards and HELOCs with FICO below 660, plus all LBMC and Specialty Mortgage Finance loans, aggregated $34.832 billion at 12/31/05 or 133% of consolidated WMI total risk based capital. Their internal limit is 200%.



WAMU scan -
IMC EDP Impact.pd

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #729

Q4 2005 EPD Financial Impacts

Long Beach Mortgage Company Q4, 2005 Repurchase Horizon

$ in millions

Investor Name	WaMu Deal Name	Lien	EPD Measurement Date	Deal UPB	Repurchase UPB	Repurchase Rate	Estimated Write-down Price (bps)	Estimated Reserve Impact
EMC - Bear Sterns				$1,531.8	$33.1	2.2%	45.02	($20.0)
Lehman High LTV	WLS LB_0510	1st	10/31/2005	$629.1	$46.7	7.4%	92.58	($3.7)
CSFB	WLS LB_0508	1st	09/30/2005		$40.6		80.46	($8.2)
CSFB	LBMLT 2005-WL2	1st	09/30/2005		$30.7		89.50	($3.8)
				$2,788.2	$71.3	2.6%	83.24	($11.9)
CSFB	WLS LB_0513	1st	12/31/2005		$10.7		93.30	($0.8)
CSFB	WL3	1st	12/31/2005		$61.4		85.00	($9.8)
				$2,233.8	$72.1	3.2%	85.20	($10.7)
Goldman Sachs	WLS LB_0512	2nd	10/31/2005	$392.8	$20.8	5.3%	66.00	($7.3)
Goldman Sachs	WLS LB_0514	2nd	11/30/2005	$250.6	$15.2	6.1%	84.00	($2.6)
Goldman Sachs	WLS LB_0515	1st	12/31/2005	$1,999.2	$125.8	6.3%	97.00	($5.0)
Lehman	WLS LB_0517	2nd	01/31/2006	$309.7	$18.8	6.1%	84.00	($3.2)
Lehman	WLS LB_0516	1st	01/31/2006	$3,100.0	$195.1	6.3%	97.00	($7.8)
	Total 2005 Estimated Impact			$13,235.3	$598.8	4.5%	84.41	($72.3)

Summary

($20.0)	12/05 Loss on sale - EMC deal
($12.8)	repurchase complete in 12/05
($39.5)	additional reserve required @12/31/05
($72.3)	Total Q4, 2005 financial impact

Note: Repurchase estimates for measurement dates later than 12/31/05, were based upon assumptions from recent repurchase activity

- Total Income Statement impact, as of 12/31/05 was approximately $69M, comprised of the following:
  - $20M loss on sale related to sale of NPA's to EMC
  - $13M mark to market on WLS LB_0510, WLS LB_0508 and WLS LB_0513, which were repurchased and in the warehouse at 12/31/05
  - $36M increase in repurchase reserve for EPD's, net of partial use of existing reserve of $4M, for remaining estimated liability as of 12/31/05.
- Total Repurchase Reserve, as of 12/31/05 consists of the following:
  - $40M reserve for EPD's
  - $16M reserve for breaches of reps and warrants

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Coordination of Expanded Supervisory Information Sharing and Special Examinations

Objectives

- Establish fundamental expectations for enhanced coordination and cooperation of supervisory efforts by the Federal banking agencies (Agencies) to ensure that the FDIC is able to fulfill its responsibilities to protect the deposit insurance funds in the most efficient and least burdensome manner possible.
- Confirm the understanding of the Agencies as to the examinations, reports, meetings, examination personnel, and other supervisory information the FDIC will have access to relating to the FDIC's responsibilities.
- Confirm the understanding of the Agencies as to the general circumstances in which the FDIC will conduct Special Examinations of insured depository institutions (IDIs) under 12 U.S.C. § 1820(b)(3).

Key Principles

- Consistent with fundamental principles of safety and soundness, the Agencies are committed to promoting the most effective and efficient bank supervision process possible, minimizing the duplication of effort, ensuring consistent regulatory conclusions or communications to IDIs, and reducing overall costs associated with bank supervision.
- The OCC, FRB and OTS are committed to providing the FDIC information on and access to IDIs that represent a heightened risk to the deposit insurance funds and selected Large IDIs. For the purposes of this document, Large IDIs are defined as selected IDIs within the OCC's Large Bank Program, selected IDIs that are part of the FRB's Large Complex Banking Organization program, and certain identified large thrifts supervised by OTS.
- To the fullest extent possible, the FDIC should continue to rely on the results of the work performed by the primary bank supervisors in assessing the condition of individual institutions.

IDIs Coordination Components

IDIs that Represent a Heightened Risk

- The FDIC is authorized to conduct "Special Examinations" of IDIs under 12 U.S.C. § 1820(b)(3) that represent a heightened risk to the deposit insurance funds when the Board of Directors of the FDIC deems such an examination necessary to determine the condition of the IDI for insurance purposes. The FDIC's Board of Directors' will delegate this responsibility to the FDIC Division of Supervision for IDIs that represent a heightened risk to the deposit insurance funds.
- On a quarterly basis, representatives of the OCC, FRB and OTS will meet with representatives of the FDIC to discuss the risk profile, current condition, and status of identified supervisory matters requiring attention of IDIs that represent a heightened risk to the deposit insurance funds.
- For purposes of this document, the following institutions will be assumed to represent a heightened risk to the deposit insurance funds under 12 U.S.C. § 1820(b)(3):

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  - IDIs with a composite rating of 3, 4 or 5; and
  - IDIs that are undercapitalized as defined under Prompt Corrective Action.
- The following principles underlie the exercise of this "Special Examination" authority:
  - All Special Examination activities will be conducted in a manner to minimize costs to the industry, regulatory burden and duplication of effort;
  - FDIC staff will meet and coordinate with the appropriate Agency prior to engaging in any Special Examination activity. The FDIC shall, to the fullest extent possible, conduct Special Examination activities concurrently with the appropriate Agency's regularly scheduled examinations; and
  - The FDIC will not prepare a separate Report of Examination, or other similar report to bank management, except where an enforcement action by the FDIC is anticipated.

All IDIs

- On an ongoing basis, the OCC, FRB and OTS will provide the FDIC with access to supervisory information, including risk assessments, supervisory plans, reports of examination and other documents related to selected IDIs. Similarly, the FDIC will provide access to the same types of supervisory information, if any, to the OCC, FRB and OTS.
- In addition to the situations falling under the Special Examination authority discussed above, the FDIC may seek participation in examinations or meetings with senior bank management of IDIs that exhibit material deteriorating conditions or other adverse developments that could result in the institution becoming troubled in the near term. In the event the staffs of the FDIC and the appropriate Agency cannot agree, the two agencies' representatives to the FFIEC Supervision Task Force will determine whether such a material deteriorating condition or adverse development exists within a given IDI. In the event the two representatives cannot agree, the Chairman of the FDIC and the principal of the relevant Agency (or the Governor that is a member of the FFIEC in the case of the FRB) will determine whether such a material deteriorating condition or adverse development exists.
- Differences in CAMELS ratings between the FDIC and the appropriate Agency will be communicated consistent with current procedures. For all ratings differences, any final decision by the FDIC to depart from the appropriate Agency's assigned rating will be made by senior management of the FDIC's Division of Supervision after discussion with and consideration of information supplied by the appropriate Agency's senior supervisory management.

Large IDIs

- On an ongoing basis, the OCC, FRB and OTS will provide the FDIC with access to supervisory personnel and information, including risk assessments, supervisory plans, reports of examination and other documents related to Large IDIs. Similarly, the FDIC will provide access to the same types of supervisory information, if any, to the OCC, FRB and OTS.
- On at least a quarterly basis, representatives of the OCC, FRB and OTS will meet with representatives of the FDIC to discuss the risk profile, current condition, and status of identified supervisory matters requiring attention of all Large IDIs.
- In addition, the FDIC will establish a dedicated examiner program with respect to the eight largest banking organizations (collectively as "Largest Banks," individually as an "Assigned Institution"). The dedicated examiner program will work within existing supervisory

programs of the appropriate Agencies so as to avoid, to the fullest extent possible, any increase in regulatory burden or duplication of effort.

- The person designated as dedicated examiner will be the FDIC's primary point of contact with Agency supervisory personnel as it relates to the supervision of the Assigned Institution. Agency supervisory personnel are expected to keep the dedicated examiner informed of all material developments in the supervision of the Assigned Institution and will invite the dedicated examiner to observe and participate in certain examination activities to ensure the FDIC has an understanding of the supervisory issues and risk management structure of the Assigned Institution.
- The FDIC will fully participate in the review and assessment of the risk of the credits within the Shared National Credit Program in Large IDIs and other depository institutions.
- When the Agencies agree that participation by the FDIC is appropriate to evaluate the risk of a particular banking activity to the deposit insurance funds, the FDIC dedicated examiner and other staff, as appropriate, should participate with the appropriate Federal banking agency in selected supervisory reviews of that activity, including meetings with bank management relating to those reviews. In the event Agencies' staff cannot agree, the respective Agencies' representatives to the FFIEC Supervision Task Force will determine whether FDIC participation is appropriate. In the event the two representatives cannot agree, the Chairman of the FDIC and the principal of the relevant Agency (or the Governor that is a member of the FFIEC in the case of the FRB) will resolve the dispute.

Washington Mutual

David C. Schneider
President,
Home Loans

March 29, 2006

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G. Street, NW
Washington, DC 20552
Attention: Docket Number 2005-56
Regs.comments@ots.treas.gov

Re: Proposed Guidance – Interagency Guidance on Nontraditional Mortgage Products
70 FR 77249 (December 29, 2005)

Dear Sir or Madam:

Washington Mutual Bank appreciates the opportunity to comment on the Interagency Guidance on Nontraditional Mortgage Products (the "Guidance") that has been proposed by the federal banking and credit union agencies (the "Agencies"). Our comments on the Guidance are based upon the experience that we have gained from providing alternative mortgage products such as our "Option ARM" for over twenty years. They are presented below in two parts. First, we provide general comments regarding the application, interpretation and possible implementation of the Guidance. These comments track the outline of the three specific areas that are the focus of the Guidance. Second, we respond to specific questions asked in the preamble to the Guidance with regard to comprehensive debt service qualification standards.

I. General Comments:

Washington Mutual Bank agrees that different mortgage products pose different risks for lenders and that lenders should have appropriate robust underwriting and risk management standards to address these different risks. Washington Mutual Bank also agrees that lenders should provide timely and clear disclosure to consumers of the terms of the mortgage products that they offer. We support the Guidance to the extent that it will advance these principles in an effective manner and without unnecessarily harming the mortgage markets.

We are concerned that some parts of the Guidance as proposed will discourage or prevent responsible lenders from continuing to offer important mortgage products that have provided consumers the substantial economic and personal benefits of homeownership.

Washington Mutual Tower
1201 Third Ave.
Seattle, WA 98101
phone 260.490.3859

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #824

Confidential Treatment Requested by JPMC

We also believe that the Agencies' concerns with respect to consumer protection would be more effectively advanced by amending Regulation Z and other regulations that apply to all mortgage lenders.

A. Overview of Guidance

Guidance Should Not Cover Home Equity Lending

The Agencies should make clear that the Guidance does not amend the recent guidance on home equity lending. Home equity lines of credit and junior lien home equity loans should be specifically excluded from the guidance.

Guidance Should Not Disfavor Alternative Mortgages

We are concerned that the Guidance's focus on interest-only ("IO") and payment option mortgage products and the use of the term "non-traditional mortgages" to describe these products reflect a concern by the Agencies that these products are more risky or less consumer friendly than other mortgage loans. Washington Mutual Bank and other institutions have been successfully offering payment option mortgages for more than 20 years through different interest-rate and economic cycles. Contrary to the Guidance's assertion, these mortgages have been tested in a "stressed environment." In fact, these mortgages have been considered more safe and sound for portfolio lenders than many fixed rate mortgages.

In addition, these mortgage products, when prudently underwritten, have provided substantial economic benefits to consumers by allowing borrowers to manage their cash flow by, e.g., using funds that might otherwise go to their mortgage payment to pay down other debt or to make other investments. Prudently underwritten alternative mortgage products have also allowed some borrowers who might otherwise have been precluded from participating in the housing market to purchase homes.

The need for lenders to develop such products and the benefit to consumers of such products were recognized by Congress in enacting the Alternative Mortgage Transaction Parity Act of 1982. In proposing the Guidance, the Agencies have not cited any past problems with these products to challenge this Congressional support for payment option or IO mortgages. While we understand the Agencies' heightened interest in these products as they take on new features and are offered by a broader array of lenders to a broader population, we are concerned that the worst-case scenarios assumed by the Agencies in the Guidance will cause examiners to discourage institutions from offering such products. To address these concerns, we recommend that the Guidance 1) not discourage lenders from offering these products; 2) refer to such products as "alternative mortgages," the term used in federal law and hereafter in this letter; and 3) not be based on theoretical worst-case scenarios.

Guidance Should Not Be Prescriptive

The Guidance appears to impose new specific mandates on federally regulated institutions offering these products, as opposed to providing general guidance to examiners and their regulated entities on how such products can be offered in a safe and sound manner. We recommend that the Guidance not prescribe certain practices and that the use of "should" in the Guidance does not mean "must," especially in the Guidance's discussion of "Recommended Practices."

Guidance Should Allow For Flexible Implementation

In addition, the statement in the Guidance calling for its consistent implementation is contrary to the notion of regulatory guidance and could mean that experienced providers of alternative mortgages would be subject to the same examination scrutiny as institutions that have not offered these products in the past. The risk with such a dictate is that valuable products offered by experienced lenders that have not posed safety and soundness problems will be taken away from the consumer. The Guidance should explicitly recognize that experienced institutions' proven safety and soundness practices are "best practices" and will not need to be changed or modified because of the Guidance.

We understand that the Agencies may have concerns that new entrants to the alternative mortgage market may not have the underwriting or portfolio and risk management expertise that experienced lenders may have. Such concerns are best addressed on an institution-specific basis as a supervisory matter, not by imposing new restrictions on all regulated entities and their affiliates as if the Guidance were a regulation. At the end of the day, the case-by-case evaluation by examiners is critical. Examiners should understand the need to apply the Guidance flexibly and with good judgment.

Guidance Does Not Cover All Lenders

The call for consistent application also is not possible given that the Guidance would apply only to federally regulated entities and their affiliates. Consumer finance companies, mortgage banks, and other state-regulated lenders and brokers not affiliated with federally regulated entities, many of which are new to offering alternative mortgages, would not be subject to the Guidance. If the Guidance unnecessarily restricts federally regulated entities from offering these products, it will place such entities at a competitive disadvantage in a very competitive mortgage marketplace. Thus, unnecessary restrictions actually do a disservice to safety and soundness.

New Types of Controls for Monitoring Third Parties Should Not Be Required

We are also concerned that the Guidance requires a lender to impose additional controls regarding its loan consultants and third party originators that are specific to alternative mortgages to ensure that the loan originators' practices are consistent with the lender's

policies and procedures. While a lender is responsible for the acts of its own employee loan consultants, it is virtually impossible for a lender to control the practices of mortgage brokers or correspondent lenders. A large lender may deal with literally thousands of mortgage brokers and hundreds of correspondent lenders each year and any single broker or correspondent may deliver only a small number of loans to the lender. Although such a lender may re-underwrite a broker originated loan and provide its own program disclosures to the broker's customer if the loan will close in the lender's name, the lender cannot effectively or economically monitor the sales practices of each of the brokers with whom it does business.

The lender is even further removed from a correspondent lender's practices. A correspondent sells a loan that it has closed in its own name and with its own funds to a lender/purchaser. In some cases, the correspondent will underwrite the loan to the lender/purchaser's guidelines and in other cases the correspondent will underwrite the loan to general investor guidelines. A lender/purchaser will confirm that the loans it purchases are acceptable to it from an underwriting perspective, but it is impossible for a lender/purchaser effectively or economically to monitor the sales practices of all of the correspondents from which it purchases loans. While lenders can provide training and materials explaining their products to mortgage brokers and correspondents, lenders should not be expected to monitor the interaction between a third party and its customer.

B. Loan Terms and Underwriting Standards

Underwriting Should Not Be Based on Future Scenarios

We agree that when a loan is underwritten, the borrower must have a demonstrated capacity to repay based upon information available at that time. Washington Mutual's Responsible Mortgage Lending Principles provide that we only make and purchase mortgage loans where the borrower has a demonstrated ability to repay. With such underwriting, a well-informed consumer is in the best position to make the decision regarding which mortgage product best suits his or her needs and to assess the risks associated with his or her situation in the future, not banks or regulators.

The Guidance, however, could be read to require lenders to forecast a borrower's capacity to repay based on information unknown about a borrower at the time of origination, such as a borrower's payment patterns, a borrower's future income, a borrower's ability to refinance the loan, and interest rate projections. Such scenario-based underwriting is not a best practice used by experienced lenders of these loans. Not only is such underwriting highly speculative, but it could unnecessarily exclude qualified borrowers. Such a practice also imposes an additional level of subjectivity to the underwriting process. Underwriting should only use information available at the present time and not be based on forecasts or possible future scenarios.

Specific Underwriting Criteria Should Not Be Prescribed

The Guidance recognizes that lenders use a number of factors in underwriting alternative mortgages. Experienced underwriters of such products use a borrower's credit score in combination with other key underwriting criteria, such as the loan's loan-to-value ratio ("LTV"), the borrower's debt-to-income ratio ("DTI"), the loan's purpose, the amount of loan documentation, and the type of loan appraisal. The Guidance should avoid prescribing specific criteria for different loans types and purposes, and would better capture industry practices and promote responsible innovations if it addressed the broader issue of borrower ability and willingness to pay (which we discuss in further detail below). In other words, the Guidance should not affect an institution's business model and pricing strategy with regard to such products as long as the products are fairly offered to consumers and are safe and sound.

C. Portfolio and Risk Management Practices

Concentration Limits Should Not Be Prescribed

We also oppose the Guidance's insistence that concentration limits be set for certain loan types, for loans with certain characteristics, and for loans acquired through third parties. We agree that concentrations should be monitored for riskier exposures and that some level of portfolio diversification is necessary. This monitoring can be done in the form of concentration triggers that result in a management response, rather than limits set down as part of board policy. These concentration triggers should be based on each institution's portfolio and business model. The goal should be risk diversification in areas where pricing may not compensate for risk in stressed scenarios. The key point is to set up controls so that portfolio concentrations are monitored.

D. Consumer Protection Issues

We agree that it is important that consumers understand the terms and features of the mortgages that they are considering. We also agree that consumers find it beneficial to have such information early in their search for the appropriate mortgage loan. Alternative mortgage loans are already subject to disclosure requirements under Regulation Z which applies to all individuals or businesses that regularly extend consumer credit that is subject to a finance charge. The Guidance calls for only regulated lenders to provide information specific to alternative mortgages that is similar but not identical to the disclosures required under Regulation Z. The different disclosure standards may very well cause more consumer confusion at the time of application rather than less. We believe that any new disclosure requirements should be addressed within the framework of the existing regulatory requirements so that consumers receive consistent disclosures from as many types of lenders as possible.

While we comply with the current legal requirements, we also want to ensure that our mortgage customers understand the features of the loan products that they are considering when they are shopping for a mortgage. To that end, we and other lenders have developed disclosures for specific types of alternative mortgage products beyond the disclosures required by law.

We support the recommendation in the Guidance encouraging lenders to "provide consumers with information at a time that will help consumers make product selection." To effectuate this goal, we recommend that the Federal Reserve Board update its *Consumer Handbook of Adjustable Rate Mortgages* ("CHARM") booklet to include a discussion of alternative mortgage products. The CHARM booklet is provided to the consumer at the time the consumer begins shopping for a mortgage loan. A revised CHARM booklet would provide some consistency in the description of the advantages and risks of alternative mortgage products that would help the consumer shop for a mortgage loan.

We are concerned that including recommended consumer practices in the Guidance, along with a discussion of laws that prohibit unfair or deceptive acts or practices, could have unintended consequences. Some people could interpret the recommendations to mean that lenders who have not been following the Guidance's practices have engaged in unlawful activities. We do not believe that this would be a correct interpretation of the law or that the Agencies intend such an interpretation. If the Agencies do include a discussion of consumer protection issues in the Guidance, then the Guidance should be explicit that failure by a lender to follow the recommended practices does not mean that the institution is engaging in unfair or deceptive acts or practices.

II. Responses to the specific questions posed by the Agencies:

Our comments in Part I above touched on many of our concerns with the Guidance. In Part II of our letter, we provide specific answers to the questions posed by the Agencies in the preamble to the Guidance.

(1a) ***Should lenders analyze each borrower's capacity to repay the loan under comprehensive debt service qualification standards that assume the borrower makes only minimum payments?***

No. As noted above, we strongly disagree with the use of any scenario-based analyses in underwriting as the result would be inconsistent underwriting standards over time. In addition, the modeled relationship among losses and certain factors may change with different scenarios. Forecasting models based on future scenarios may conflict with forecasting models based on historical performance, resulting in dissonance in the qualification and pricing determinations at the underwriting stage.

The Guidance suggests three scenarios for calculating payment behavior (of increasing conservatism). More conservative scenarios could be prudent for determining portfolio management strategies and for evaluating portfolio risk under stressed conditions (e.g., capital adequacy). However, to underwrite using a measurement of payment capacity based upon a worst-case scenario of significant negative amortization restricts credit to consumers that could realize tangible economic benefits from these more affordable loan products.

(1b) ***What are current underwriting practices and how would they change if such prescriptive guidance is adopted?***

A borrower is able to qualify for a loan based upon several determinants of the borrower's ability and willingness to pay. Factors such as credit score, LTV, and DTI are predictive of a borrower's ability to pay, with credit score and LTV factors historically being much stronger predictors than DTI. An assessment of willingness or incentives to pay based upon personal credit history and loan type is also an important factor that is considered in the underwriting process.

Industry practice for calculating DTI on nontraditional mortgage products is as follows: For IO loans, a DTI is calculated for borrowers based upon the IO loan payments at the starting interest rate (fixed for a specified time period, usually 5 years). For payment option loans, a borrower's DTI is calculated based upon the fully indexed rate assuming that payments are fully amortizing. These types of mortgages do introduce greater uncertainty about the borrower's ability to make increased monthly payments, say at the expiration of an IO period or the recast of a payment option loan. It is important to note, though, that the borrower's capacity to repay is analyzed based upon information available at origination.

For a payment option loan, the calculation of DTI based on the potential payment shock from negative amortization would be highly speculative. This would require a long-term forecast of interest rates to calculate the negative amortization resulting from a borrower making only minimum payments. While such an analysis is important for portfolio management and determining capital adequacy, it is inappropriate to use in lending decisions. Such underwriting could exclude otherwise qualified borrowers, especially if the forecasts are conservative with respect to credit risk.

It is also generally recognized that certain loan purposes do not provide strong incentives for repayment when compared to a first lien on a primary residence. Examples of loan purposes with lower repayment incentives mentioned in the Guidance include loans for non owner-occupied investor loans and simultaneous second-lien loans with high combined LTVs.

Finally, underwriting payment option mortgages with a reduced initial interest rate spread for riskier borrowers is recognized as a sound practice. This underwriting decision is made at the transaction level using policies that are part of risk-based pricing. However, such policies cannot be made uniform across institutions, as different features of a product may be used to mitigate risk.

(2a) What specific circumstances would support the use of the reduced documentation feature commonly referred to as "stated income" as being appropriate in underwriting nontraditional mortgage loans?

For "stated income" loans, other compensating factors such as a lower LTV, a high FICO score, or good liquidity are used to mitigate the risk. Advertised low-doc programs such as stated income loans provide homeownership opportunities for borrowers who might have difficulty verifying income (such as business owners or borrowers with commissioned, seasonal, or non-documented incomes). The increased risk with such loans is recognized and compensated for with other factors and possibly increased pricing.

However, low documentation does not imply increased risk in the case of "efficiency process programs" where borrowers have income or asset verification waived due to the quality of their credit, presence of sufficient cash reserves, or other compensating factors. Such recommendations are often the output of automated underwriting models that are standard in the industry, such as Desktop Underwriter (Fannie Mae), Loan Prospector (Freddie Mac) or DAX (S&P).

(2b) What other forms of reduced documentation would be appropriate in underwriting nontraditional mortgage loans and under what circumstances?

The mortgage industry offers various forms of low-doc options, such as stated income verified assets ("SIVA"), stated income stated assets ("SISA"), or no income no assets ("NINA") where no income or asset information is provide in writing or verbally. The appropriateness of such low-doc programs in conjunction with alternative mortgages would depend upon the individual circumstances of each borrower and whether the low-doc option was offered to the borrower for efficiency based upon their excellent credit standing or sought by the borrower.

(2c) Please include specific comment on whether and under what circumstances "stated income" and other forms of reduced documentation would be appropriate for subprime borrowers.

If a subprime channel were to offer reduced documentation mortgage loans, then these loans should be priced and offered according to the assessed credit risk of each borrower and transaction. Such mortgages are not necessarily inappropriate or predatory for

subprime borrowers. The offering of such loans to subprime borrowers should be recognized as risk-layering and underwritten accordingly.

(3) Should the Guidance address the consideration of future income in the qualification standards for nontraditional mortgage loans with deferred principal and, sometimes, interest payments? If so, how could this be done on a consistent basis? Also, if future events such as income growth are considered, should other potential events also be considered, such as increases in interest rates for adjustable rate mortgage products?

Future events such as projected income growth or interest rate forecasts should not be included in the underwriting or loan approval decision. As noted above, basing DTI on forecasted interest rates brings in an unnecessary level of subjectivity into the underwriting process and may disqualify otherwise qualified borrowers. Allowing for the consideration of future income, say for a new graduate that may realize a substantial increase in income versus an individual with a steady but constant income, could also open an institution to uncertain legal risk.

Instead, the projection of future income is a factor the borrower may want to consider in choosing a loan. Borrowers must decide based on their expectations of future income and other factors, such as the planned length of stay in their homes, whether a loan product is appropriate for them. If after a borrower takes an IO or payment option loan, he or she realizes that this choice provides an uncomfortable level of uncertainty in payments, then the borrower will likely have options to refinance at a fixed rate to mitigate this risk. It is a best practice for institutions to monitor payment patterns and negative amortization and to offer constructive options to borrowers as a part of active account management.

This concludes our comments on the Guidance. Again, we appreciate the Agencies providing us the opportunity to present our concerns and to provide information on how we offer alternative mortgages. If you have any questions regarding our comments, please feel free to contact me at 206-490-3859.

Sincerely,

David C. Schneider
President
Home Loans

Since maintaining a sufficient level of capital is critical for an association to maintain operations, you should appropriately weigh the importance of capital on the viability of the association when formulating the composite rating. You should also consider the association's dividend payout policy and practice. You should rate an association's capital adequacy considering all criteria cited in the UFIRS statement.

PCA Levels

In general, an association in any of the three lower-tier Prompt Corrective Action (PCA) categories warrants a 4 or 5 Capital component rating. A capital rating of 4 is appropriate if the association is undercapitalized or significantly undercapitalized but asset quality, earnings, or interest rate risk problems will not cause the association to become critically undercapitalized in the next 12 months. Also, a capital rating of 4 may be appropriate for an association that does not have sufficient capital based on its capital level compared with the risks present in its operations, even though the association may meet the minimum regulatory requirements.

An association warrants a 5 rating if it is "critically undercapitalized," or has significant asset quality problems, negative earning trends, or high interest rate risk exposure that will cause the association to become critically undercapitalized within the next 12 months.

See the Capital Chapter of this Handbook for more detailed instructions for reviewing capital adequacy.

Asset Quality

An accurate evaluation of an association's asset quality can be one of the most important products of the examination. The asset quality rating reflects the extent of credit risk associated with the loan and investment portfolios, real estate owned, other assets, and off-balance-sheet risks as well as the association's ability to manage those risks. The evaluation of an association's asset quality is dependent on the association's policies and procedures relating to loan underwriting and asset procurement, the proper monitoring and classification of assets, the nature of the risk inherent in the association's portfolios, and the adequacy of the association's valuation allowances.

When asset quality is in doubt because of excessive or inadequately controlled risk, the association's asset quality component rating should reflect this concern. In order to attain a 1 or 2 Asset Quality component rating, an association must fully control its credit risk. If an association has a high exposure to credit risk, it is not sufficient to demonstrate that the loans are profitable or that the association has not experienced significant losses in the near term. Management must demonstrate that it has identified credit risks, measured the potential exposure to loss, established systems to monitor such risk on an ongoing basis, and has taken adequate steps to limit and control those risks. Otherwise, a significant supervisory concern will exist relative to the association's asset quality.

Management

This rating reflects the capability of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial

OTSWMEF-0000032053

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #855

Review of Securitization
WAMU Examination of March 5, 2007

Scope of Review

Our review of the bank's securitization activities in 2006 (WMB, WMB-FSB, and Long Beach Mortgage Corporation) included the following (credit card securitization activity was not part of the scope of this review):

- Existing internal controls over the securitization process.
- Best execution procedures.
- Monitoring of Counterparty Risk.
- Monitoring of performance and triggers of issued securities
- Valuation of residuals retained by the bank.
- Validation of assumptions and models used in the valuation of residual pieces (Intex and WSA).
- Policies and procedures for the securitization process including cleanup call options.
- Internal Audit of the securitization processes.
- Review of Basis Floater Interest Only (BFIO) instruments retained by the bank. Review of hedging strategies will be performed under the Hedging Program (R. Miyashiro).
- Follow up on 2006 Examination Findings Memo 17.
- Certification of loan pools (GNMA) was not included in the scope of this review due to low activity in 2006.
- Loan repurchase activity, recourse on securitizations, and profitability was performed by examiner S. Bielik – refer to ***Programs*** *572.* & 575

Overall Conclusions

- For the year ended December 31, 2006, the bank securitized mortgage loans with an aggregate UPB of $110.0 billion, a $20.8 billion decline when compared to the $130.8 billion securitized in 2005. Mortgage loans sold with recourse during the same periods totaled $959 million and $2.02 billion, respectively. The bank realized pre-tax gains of $1.0 billion[1] on mortgage loans securitization; slightly higher gain than the $949 million reported in 2005.
- The level of repurchased loans was low relative to the overall volume of mortgage loan securitization. The low level of repurchases and/or losses from repurchasing activities is attributable to management's success in remitting loans repurchased from the investors to the originating mortgage broker/correspondent institution.

Prime →

[1] Source: 10-k as of March 01, 2007(page 107).

- Oversight of the securitization process is adequate. The Market Risk Committee (MRC) replaced the ASOC as the committee ultimately responsible for the oversight of the securitization area. The MRC has delegated to the Valuation Committee (VC) the responsibility of monitoring the valuation methodology used for retained interests (models and assumptions). All securitization channels report to the MRC on a monthly basis on securitization activity and any noteworthy governance/compliance, market, credit, and operational risks.
- Management implemented the recommendations made by the examiners during the prior examination and securitization reporting is currently satisfactory and consistent across the three divisions engaged in securitization of mortgage loans (WMMSC, LBMC, and Commercial Real Estate).
- The market value of WMB's consolidated holdings of residual interests totaled $2.3 billion, or 12.37 percent of WMI Tier I capital at March 31, 2007. Of this total, $383.4 million pertain to the securitization of mortgage loans and the remaining amount pertains to the securitization of credit card receivables. Noteworthy is the 44.6 percent decline in residual interests at the LBMC. The decline is attributable primarily to higher delinquencies and adjustments to prepayment and home price appreciation (HPA) assumptions used in the Intex model to derive fair market value.
- At March 31, 2007, the Basis Floater Interest Only (BFIO) portfolio had an estimated fair value of $201 million, a 60.0 percent decline over the $502 million reported at December 31, 2005. The decline is attributable to changes in market conditions as well as in the internal valuation methodology. The decline in the BFIO asset and; consequently, the bank's lower exposure to this asset is consistent with management's strategy. Management had indicated during the prior examination its willingness to reduce the bank's exposure to BFIO primarily due to the difficulty in hedging and managing this asset.
- The overall system of internal controls for the loan securitization area is generally satisfactory. Based on our review, management has implemented appropriate processes to ensure that the securitization activity complies with internal policies, procedures, and regulatory requirements.
- Policies and procedures governing this area are adequate. During the examination, management revised the Loan Purchase, Sale, and Securitization Standard to incorporate examiner recommendations pertaining to cleanup call options.
- A perceived weakness in the system of internal controls is the out-of-cycle condition of the internal audit of the Loan Purchase, Sale, and Securitization area. Audit Services indicated that the out-of-cycle condition is due to the department's modification of its annual audit process (risk approach versus cycle methodology) but that there were mitigating circumstances for the cycle override of this area. These included the satisfactory audit of this area in February of 2005, the experience level of the staff involved in this process, the absence of known issues in this area since the last audit, and the stability of the processes for this area since the last audit date.

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Overview

Washington Mutual Bank (WMB) has three divisions that engage in securitization activities: Washington Mutual Mortgage Securities Corp. (WMMSC), Long Beach Mortgage Corporation (LBMC) and the Commercial Group. The following is a synopsis of these units/divisions.

WMMSC is the division[2] responsible for the securitization of mortgage loans originated and sold into the securitization by WMB and Washington Mutual Bank, FSB (WMB-FSB). Within WMMSC there is the Conduit Unit that is charged with the purchase, typically in bulk, of subprime and Alt-A mortgage loans from brokers and correspondent entities. Furthermore, WMMSC serves as the master-servicer for the majority of the loan pools supporting the securities sold.

Long Beach Mortgage Corporation (LBMC) is the division responsible for the origination and securitization of sub-prime mortgage loans under the shelf registration of LBMC. Mortgage loans originated under the LBMC name are acquired through its broker network. Beginning in 2007, Wamu will securitize all loans originated through LBMC using the Wamu Asset Acceptance Corp. (WAAC) shelf registration. The new trusts are designated as Wamu Asset-E Certificates, Wamu Series 200X-HEX Trust. The first transaction using the new designation closed in January 2007 and used the ticker 2007-HE1. This will also be used for Wamu conduit and sub-prime conduit securitizations. The changes are a result of the consolidation of Long Beach Mortgage Corp. into WMB.

The Commercial Group securitizes commercial real estate loans originated through the bank's retail channel (no delegated underwriting). The group sells its securitizations to both private and government sponsored entities (GSE). Sales to GSE are done primarily to Fannie Mae and it involves an exchange of whole loans for MBS. Under certain programs (WamuPlus), the bank is liable for losses up to 3% of the principal balance of loans sold. On sales to private investors, the bank may retain unrated residual interests and/or portions of the B tranche.

Securitization Oversight

The Market Risk Committee (MRC) is responsible for establishing guidelines, procedures, and limitations for the securitization activities of Washington Mutual Inc. (WMI) and its subsidiaries. Additionally, the committee is responsible for ongoing transaction monitoring to ensure that securitization activities comply with established parameters. The MRC has delegated to the Valuation Committee (VC) the responsibility of monitoring the valuation methodology (models and assumptions) used for retained interests.

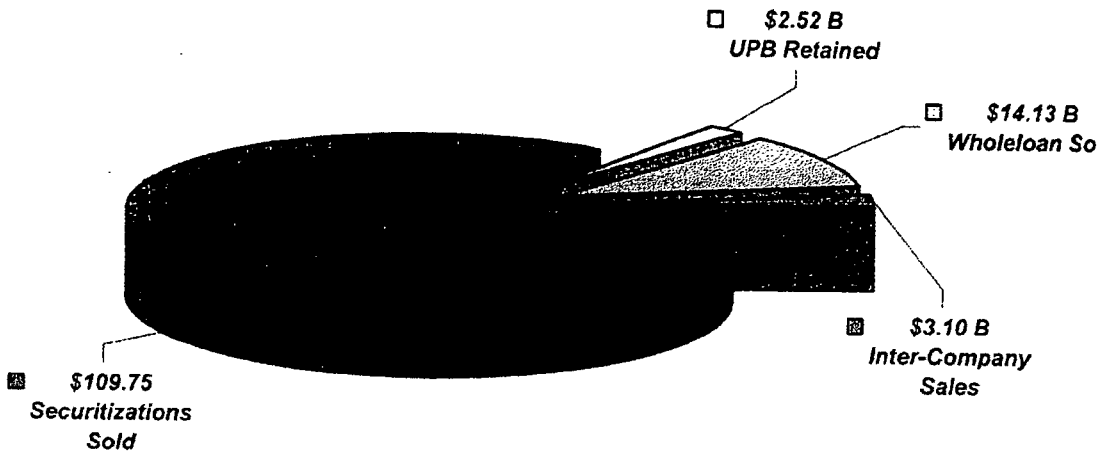
All securitization channels (prime, subprime, and commercial real estate) report to the MRC on a monthly basis on securitization activity for the prior month. Information provided include: securitization volumes, delinquency status by portfolio segment, losses, rating agency actions on outstanding issues, outstanding classes that fail loss-severity test (predicts

[2] Both WMMSC and LBMC ceased existing as separate legal entities when these WMI subsidiaries were integrated into Washington Mutual Bank (WMB).

downgrades), and outstanding repurchase demands. The channels also discuss with the committee any noteworthy governance/compliance, market, credit, and operational risks.

Mortgage Loan Lending Activity

The following graph depicts mortgage loan lending activity and securitization activity in 2006.



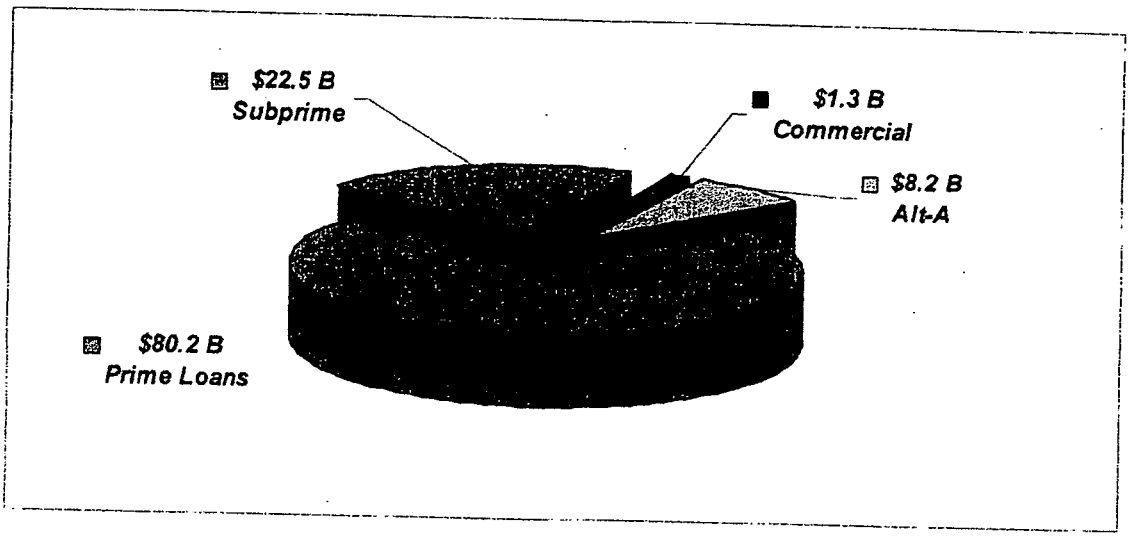
Source: PERK Response Q101-105

In 2006, WMB, WMB-FSB, and LBMC originated mortgage loans with an aggregate unpaid principal balance (UPB) of approximately $129.7 billion. As shown in the graph above, the majority of the mortgage loan production (approximately $110 billion) was securitized and sold to government sponsored entities (GSE) and private investors, whereas $3.1 billion was sold inter-company. The fair market value of the mortgage servicing receivable asset (MSR) booked associated with the retained servicing rights amounted to $2.2 billion.

Securitization Activity

For the year ended December 31, 2006, the bank securitized mortgage loans with an aggregate UPB totaling $110.0 billion, a $20.8 billion decline when compared to the $130.8 billion for 2005. Mortgage loans sold with recourse during the same periods totaled $959 million and $2.02 billion, respectively. The bank realized pre-tax gains of $1.0 billion[3] on mortgage loans securitization; slightly higher gain than the $949 million reported in 2005.

[3] Source: 10-k as of March 01, 2007(page 107).



As shown in the graph above, prime 1-4 single-family mortgage loans accounted for the majority of the securitized loans at approximately $80.2 billion, or 71.47% of total securitization in 2006. Non-traditional mortgage loans such as subprime and Alt-A represented 20.05% and 7.30% of total securitizations, respectively. Commercial real estate securitization totaled $1.3 billion, or 1.18% of total securitization volume in 2006. Of the total amount securitized, WMB retained $2.52 billion (2.24% of total securitizations), of which only $187 million were subprime loans.

The following tables provide details for prime, subprime, and commercial real estate securitizations in 2006:

	Prime				
Data	FHLMC	FNMA	GNMA	Private	Grand Total
Sum of UPB Sold	30,011,081,003	9,840,988,799	2,508,641,181	44,380,286,005	86,740,996,988
Sum of UPB Retained	1,087,811,289	-	-	590,935,664	1,678,746,953
Sum of Loans/MBS BV-Sold	29,852,208,325	9,784,424,714	2,518,348,991	44,164,750,937	86,319,732,968
Sum of Loans/MBS BV-Retained	1,086,869,595	-	-	586,458,498	1,673,328,094
Sum of Gain\(Loss)	161,852,087	38,696,417	17,691,129	346,108,126	564,345,759
Sum of Gain\(Loss) 316	11,179,825	3,605,488	-	(12,342,370)	2,442,943

WMB sold approximately 49% of the production of prime mortgage loans to government sponsored entities and the remaining 51% to private investors. WMB booked MSR with a total FMV of $1.8 billion. Gain on sale amounted to $566.8 million (does not reflect impact of hedging gains and/or losses).

In 2006, there were 128 securities reviewed by Fitch, Moody's, and S&P. Upgraded classes totaled 164, affirmed 965, ratings watch negative classes 9, and only 4 classes were downgraded. Class downgrades are generally anticipated by management as it monitors performance and conducts stress-scenario analyses to determine which classes may be in line for downgrades.

Sub-Prime					
Data	FHLMC	FNMA	GNMA	Private	Grand Total
Sum of UPB Sold				22,526,363,992	22,526,363,992
Sum of UPB Retained				-	-
Sum of Loans/MBS BV-Sold				22,447,651,221	22,447,651,221
Sum of Loans/MBS BV-Retained				186,581,539	186,581,539
Sum of Gain(Loss)				271,358,159	271,358,159
Sum of Gain(Loss) 316				11,141,373	11,141,373

Production and securitization of subprime loans totaling $22.5 billion was sold in its entirety to private investors with WMB retaining approximately $187 million in subordinated and/or residual pieces. Gain on sale amounted to $282.5 million, not taking into account the impact of hedging activities.

In the first quarter of 2007, management transferred approximately $1.7 billion of originated subprime loans in the Held for Investment (HFI) portfolio. Management indicated that due to the uncertainty in the subprime market at the time, the sales execution would have been poor. Subsequently, management sold the loans in question. The transfer of he loans into HFI received OTS approval.

In the first quarter of 2007, Fitch downgraded 23, affirmed 91 and upgraded three classes from the 21 Long Beach RMBS issues. The downgrades affected approximately $213.7 million of outstanding certificates and reflected the continued deterioration in the relationship between credit enhancement and loss expectations. The monthly losses in the downgraded issues exceed the available excess spread; thus, resulting in substantial deterioration of the Over Collateralization (OC). In the most severe examples (2001 vintage), the OC has been depleted and the subordinate certificates have incurred principal write-downs.

In 2006, there were 223 rating agency determinations for Long Beach issues/deals: 70 downgrades, 137 affirmed and 16 upgraded classes. Class downgrades are generally anticipated by management since it monitors performance and conducts stress-scenario analyses to determine which classes may be in line for downgrades.

Commercial R E					
Data	FHLMC	FNMA	GNMA	Private	Grand Total
Sum of UPB Sold		-		484,513,001	484,513,001
Sum of UPB Retained		810,309,344		26,847,300	837,156,644
Sum of Loans/MBS BV-Sold		-		496,231,582	496,231,582
Sum of Loans/MBS BV-Retained		795,370,392		17,523,207	812,893,599
Sum of Gain(Loss)				15,270,161	15,270,161
Sum of Gain(Loss) 316		-		-	-

During 2006, the bank, through its commercial real estate loan group, originated approximately $1.3 billion in commercial real estate. The loan production consisted overwhelmingly of loans secured by multi-family properties. The majority of these loans were originated by the bank's retail channel, although the bank purchased approximately $200 million from third parties. Dick

Fisher, SVP Commercial Loan Group, indicated that purchased loans were re-underwritten pursuant to Wamu's standards for these loan types.

The overall production of commercial real estate loans declined precipitously in 2006 from a $9.9 billion production in the prior year due primarily to the lack of demand in the market for the type of product that the bank was willing to originate. According to SVP Dick Fisher, Commercial Real Estate Group, management projects a $8.3 billion securitization volume of 2007: $7.0 billion in Private Label securities, $1.1 billion under the WAMU Plus program, and $200 million under the FNMA DUS program.

During 2006, no commercial real estate security was downgraded by the rating agencies. For the same period, S&P, Fitch, and Moody's upgraded 7, 15, and 13 securities, respectively.

I/O and Option ARM

In 2006, the bank originated approximately $20.1 billion in Option ARM loans, issued 18 securities and sold $11.8 billion to private investors and $5.5 billion to GSE. The bank sold the remainder loans on a whole-loan basis to both private investors and GSE. For the same period, the bank originated $20.2 billion in mortgage loans with interest-only features. Securitization of this loan type sold to private investors amounted to $9.4 billion while the remainder was sold on a whole-loan basis to private investors and GSE.

While securities may have unique features, each structure has senior and subordinate pieces. Typically, the senior structure has several levels of Class A certificates, which are AAA rated, and are supported by the subordinate Class B certificates. The latter certificates are rated AA to BBB. Additionally, each issue may have an interest-only class or interest- and principal-only components (identified as Class X). Furthermore, each securitization has a residual class identified as the R Class that is intended for cleanup calls (not traded)

Wamu occasionally retains the basis I/Os (X Class) and the subordinate B Class certificates associated with option ARM securities. The bank refers to these pieces retained as "residual interests."

Residual Interests

(Millions)	12/31/05	12/31/06	3/31/07
Reserve Accts. (CC)	$10,372	$434,442	$448,027
Credit Enhan. (CC)	$1,803,413	$1,464,511	$1,432,333
LBMC[4]	**$71,496**	**$149,155**	**$82,657**
WMMSC NIM (sub)	$0	$34,161	$36,142
Providian Master Note	$85,100	$85,419	$85,290
Credit Enhancements	**$216,404**	**$138,114**	**$215,491**
Other Reserve Accts.	$19,889	$20,657	$38,861
WMB Consolidated	**$2,135,249**	**$2,326,460**	**$2,338,799**

[4] LBMC's residual interests and NIM pieces are held in the "trading" portfolio.

The bank typically provides some form of credit enhancement when issuing securities for sale to private investors. These credit enhancements may include spread accounts, over-collateralization, interest-only strips, and retained subordinated interests. Collectively, these credit enhancements are referred to as "residual interests." Current bank policy limits residual interests to 25.0% of Tier 1 Capital. At March 31, 2007, total residual interests represented 12.37% of WMI's Tier 1 capital, well below the 25% internal policy limit.

This reviews focused on the residual interests held by the WMB and its affiliates and associated with the securitization of mortgage loans. The review of residual interests pertaining to the securitization of credit card receivables was performed separately.

As shown in the table above, the market value of WMB's consolidated holdings of residual interests totaled $2.3 billion at March 31, 2007. Of this total, only $383.4 million pertain to the securitization of mortgage loans. The remaining amount pertains to the securitization of credit card receivables. Noteworthy is the 44.6 percent decline in residual interests at the LBMC level from $149.2 million to $82.7 million. The decline is due primarily to the $88.0 million write-down on subprime residuals due to higher delinquencies, adjustments to prepayment and home price appreciation (HPA) assumptions used in the Intex model to derive fair market value.

Basis Floater Interest Only (BFIO)

BFIO is a byproduct of Option ARM securitization created by structuring the security in a way that, for a designated tranche (or tranches), WMB pays the investors 1-month LIBOR while collecting from the borrower an interest rate coupon based on MTA plus a margin. This cash flow mismatch creates significant basis risk. The BFIO is also highly susceptible to prepayment risk. Management hedging strategies to mitigate exposure to interest rates and basis risk include the buying and selling of Eurodollar futures. Management has acknowledged the difficulty in hedging this asset due the low predictability of Option ARM prepayments and the illiquidity of the basis swaps market. Refer to workpaper ***221P-63*** **through** ***221P-78*** for a more detailed discussion of BFIO.

The following table shows the changes in the BFIO portfolio in terms of Fair Value and the underlying notional unpaid principal balance (UPB):

BFIO ($MM)	Value	Change	Notional UPB	Change
12/31/2005	$502		$24,809	
12/31/2006	$238	($264)	$14,994	($9.815)
03/31/2007	$201	($37)	$13,061	($1,932)

At March 31, 2007, the BFIO had an estimated fair value of $201 million. This represents a 60.0 percent decline over the $502 million reported at December 31, 2005. During 2006, the fair value declined by $264 million, or 53.0 percent. Changes in the valuation methodology during 2006 resulted in a negative impact of $117 million, of which, $115 million was due the implementation of the new prepayment model that resulted in increased prepayment projection. The remaining $2 million impact resulted from the change in the 1-year CMT curve model based on constant spread to LIBOR.

The decline in the BFIO asset and; consequently, the lesser exposure to this asset is consistent with management's strategy. The reduction was accomplished by changing the structure of Option ARM deals to be MTA based instead of LIBOR based. During the prior examination, management indicated that the bank planned to reduce exposure BFIO due primarily to the difficulty in hedging and managing this asset.

On a quarterly basis (the first month end of each quarter), management surveys brokers for price indications on the BFIO portfolio. The Retained Interests Valuation group sends an email request to each broker that was a co-lead in the deal at issuance. Washington Mutual Capital Corp. ("WCC") was the lead broker-dealer on all deals, but since WMB owns WCC, the latter is excluded from the price indication process. Because of this fact, each deal typically only has 1 to 2 broker indications.

Brokers send back dollar price indications and management compiles and reviews the information and unreasonable changes from month to month or absolute levels discussed with the brokers. Management averages the final prices and compare on a deal by deal basis, as well as total portfolio value. The final BFIO Attribution Report is compiled and distributed daily.

Securitization Process/Internal Controls

Refer to workpaper ***221P-8*** for a discussion of the bank's internal controls surrounding securitization activities. These include compliance with Reg AB, Data Verification Process, Best Execution Analysis, Counterparty Risk, and Residual Valuation Process.

Counterparty Risk

John Morris, OTS Examiner, performed a review of counter-party risk. ~~was performed by examiner John Morris~~. Based on conversations with Mr. Morris and Wamu personnel, there are not any material concerns in this area. Monitoring of counter-party risk by management is adequate. See ***221P-29***.

Internal Audit

On April 26, 2007, the examiners met with Audit Services (AS) to discuss the 23-month out-of-cycle condition of the Loan Sales and Securitization area. The Loan Sales and Securitization area was last audited in May of 2005 and the next audit is scheduled for March 31, 2008. The three-year period between internal audits is outside the required interval under the cycling approach used by the internal audit department for units, such as the one in question, with **high-risk** ratings. Erin Dunlap, Audit Division Manager, and John Vandermeulen, Senior Audit Manager, provided the responses to the examiners' inquiry.

AS's explained the out-of-cycle status by indicating that the department had modified its annual audit process in accordance with its new audit plan cycle methodology (implemented January 1, 2007). Under the new methodology, the area in question is to be audit in March of 2008, a three-year cycle versus the 15-month interval required for high-risk areas. The AS

indicated that the new policy allows for sufficiently justified and approved cycle overrides and that, as communicated to the Audit Committee, a transition period is required to fully implement the new three-year risk based audit cycle methodology.

The AS pointed out some mitigating circumstances for the cycle override of this area including: (1) the satisfactory audit of this area in February of 2005 and the experience level of the staff involved in this process, (2) the absence of known issues in this area since the last audit, and (3) the stability of the processes for this area since the last audit date. Moreover, the AS indicated, several peripheral areas have been or are in the process of being audited and no material concerns were noted.

The examiners believe that a three-year interval between internal audits may be inappropriate given the high volume activity in the securitization area (in excess of $100 billion/year) and the high-risk nature of this operation. The need for timely audits is further accentuated by the findings of our review of the MRC minutes of December 2006 and January 2007, which seem to indicate that there were data integrity issues surrounding the creation of securitization trusts, resulting in loan repurchases from those securitization trusts. According to Tom Lehman, root causes stemmed from the relocation of the transaction management group (Project Scarlet) and the simultaneous replacement of key systems (Sporty and Conduit database). Another concern arises from the lack of internal audit review of WMMSC Master Servicing operation, which provides servicing for all the loans sold into the securitization Trusts. The untimely internal audit of this area was pointed out as a concern Fitch's report as of August 14, 2006 (see Program 576).

→ The examiner communicated these concerns to the examiner responsible for the review of the internal audit area. (John Morris)

Clean-up Call Options

Regulation 12C.F.R.567.1 establishes certain requirements for clean-up calls on securitizations in order for institutions to avoid implicit recourse treatment. In general terms, clean-up calls are recourse for regulatory purposes unless it involves 10% or less of the original pool balance and are exercisable at the option of the bank/affiliates. The fact that the bank holds the residual piece(s) does not insulate the bank from implicit recourse determination if the bank provides post-sale credit support (although it plays a role determining under which circumstances purchasing assets from a trust at greater than FMV may not constitute implicit recourse). Further, the bank must exercise the cleanup call for legitimate business reasons other than to provide credit support to third party investors (key criterion for determining implicit recourse). Non-compliance with regulatory requirements could taint other existing securitizations and the bank could be required to bring back onto its books said securitizations and; consequently, have an impact on capital requirements.

In 2006 and the early part of 2007 WaMu requested and obtained a waiver from the OTS to exercise clean-up call options on three LBMC securitization deals. The OTS cleared WaMu's request for the agency's concurrence that the exercise of those cleanup calls in a securitization under the set of established facts provided by WaMu in its letters of December

21, 2006 and February 13, 2007 and subsequent conversations. The OTS concluded that the deals in question did not constitute implicit recourse and did not trigger recourse treatment for other securitizations under the same shelf registration. This supervision policy decision was consistent with the supervisory determination by the West Region on this matter.

Subsequently, management requested from the OTS a blanket waiver for these types of transactions and the OTS agreed[5] to grant a blanket waiver if the bank would commit to revise the Loan Purchase, Sale and Securitization Standard in order for the standard to incorporate clear and precise guidance for the exercise of clean-up call options. The OTS's concurrence assumes that the economic valuations that support the fair market value calculations are economically sound that these valuations are scrutinized during the examination process to ensure that, in exercising the calls, WaMu has not provided additional credit support to third-party investors. If examiners conclude that the valuations are not economically sound or are not adequately documented and supported, the OTS may revisit this concurrence, conclude that WaMu has provided implicit recourse and require WaMu to bring the assets in outstanding securitizations back onto its balance sheets and hold risk based capital for those assets.

The examiners reviewed the language that WaMu plans to include in the Loan Purchase, Sale and Securitization Policy with regard to securitization clean-up calls. The language satisfies OTS requirements.

Profitability

In 2006, WMB's mortgage banking division incurred losses totaling $89.2 million. The poor performance derives primarily from the losses incurred by three business segments: Retail ($146.8 million), LBMC ($132.9 million), and Servicing ($106.8 million). Profitability is discussed under the Mortgage Banking: Profitability Program 572.

Reporting/Findings Memo 17

During the 2006 examination, the examiners issued a findings memo (OTS Memo 17) stating that (1) management was not reporting to oversight committees as required by policy and (2) there were inconsistencies in reporting by the three main loan groups (single-family, subprime, and commercial real estate). Our review disclosed that management has taken appropriate corrective actions. See ***221P-17***.

Policies and Procedures

The Loan Purchase, Sale, and Securitization Standard governs the securitization activities. This Standard is contained within the ALM Policy. During the examination, management revised this standard to include certain language pertaining to cleanup calls as recommended by the examiners. Overall, this Standard provides adequate guidance to the securitization process.

[5] Blanket waiver provided via letter from Darrel Dochow, DRD.

	Washington Mutual Bank Docket No.: **08551** Exam Date: **March 5, 2007**	Date: Prepared By: Reviewed By: Index #:	 2210-1

Summary of Review

JOHN M. McCOY, III, Cal. Bar No. 166244
Email: mccoyj@sec.gov
SPENCER E. BENDELL, Cal. Bar No. 181220
Email: bendells@sec.gov
LYNN M. DEAN, Cal. Bar. No. 205562
Email: deanl@sec.gov
SAM PUATHASNANON, Cal. Bar No. 198430
Email: puathasnanons@sec.gov
PARIS WYNN, Cal. Bar No. 224418
Email: wynnp@sec.gov

Attorneys for Plaintiff
Securities and Exchange Commission
Rosalind R. Tyson, Regional Director
Michele Wein Layne, Associate Regional Director
5670 Wilshire Boulevard, 11th Floor
Los Angeles, California 90036
Telephone: (323) 965-3998
Facsimile: (323) 965-3908

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CENTRAL DIST. OF CALIF.
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BY

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

ANGELO MOZILO, DAVID SAMBOL, AND ERIC SIERACKI,

Defendants.

Case No. CV09-03994 VBF AJWx

COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #884

Plaintiff Securities and Exchange Commission ("Commission") alleges as follows:

JURISDICTION AND VENUE

1. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1), 20(e) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b), 77t(d)(1), 77t(e), and 77v(a), and Sections 21(d)(1), 21(d)(2), 21(d)(3)(A), 21(e), and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d)(1), 78u(d)(2), 78u(d)(3)(A), 78u(e) & 78aa. Defendants have directly or indirectly made use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged in this complaint.

2. Venue is proper in this district pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C. § 78aa, because defendants reside and transact business within this district and certain of the transactions, acts, practices and courses of conduct constituting violations of the federal securities laws alleged in this complaint occurred within this district.

SUMMARY

3. This matter involves a disclosure fraud by the three most senior executives of Countrywide Financial Corporation, a mortgage lender formerly based in Calabasas, California, and insider trading by Countrywide's former chairman of the board and chief executive officer, Angelo Mozilo.

4. From 2005 through 2007, Mozilo, along with David Sambol, chief operating officer and president, and Eric Sieracki, chief financial officer, held Countrywide out as primarily a maker of prime quality mortgage loans, qualitatively different from competitors who engaged primarily in riskier lending. To support this false characterization, Mozilo, Sieracki, and Sambol hid from

investors that Countrywide, in an effort to increase market share, engaged in an unprecedented expansion of its underwriting guidelines from 2005 and into 2007. Specifically, Countrywide developed what was referred to as a "supermarket" strategy, where it attempted to offer any product that was offered by any competitor. By the end of 2006, Countrywide's underwriting guidelines were as wide as they had ever been, and Countrywide was writing riskier and riskier loans. Even these expansive underwriting guidelines were not sufficient to support Countrywide's desired growth, so Countrywide wrote an increasing number of loans as "exceptions" that failed to meet its already wide underwriting guidelines even though exception loans had a higher rate of default.

5. Countrywide was more dependent than many of its competitors on selling loans it originated into the secondary mortgage market, an important fact it disclosed to investors. But Mozilo expected that the deteriorating quality of the loans that Countrywide was writing, and the poor performance over time of those loans, would ultimately curtail the company's ability to sell those loans in the secondary mortgage market. Mozilo and the company's chief risk officer warned Sambol and Sieracki about the increased risk that Countrywide was assuming. Thus, each of the defendants was aware, but failed to disclose, that Countrywide's current business model was unsustainable.

6. Mozilo, Sambol, and Sieracki were responsible for Countrywide's fraudulent disclosures. From 2005 through 2007, these senior executives misled the market by falsely assuring investors that Countrywide was primarily a prime quality mortgage lender which had avoided the excesses of its competitors. Countrywide's Forms 10-K for 2005, 2006, and 2007 falsely represented that Countrywide "manage[d] credit risk through credit policy, underwriting, quality control and surveillance activities," and the 2005 and 2006 Forms 10-K falsely stated that Countrywide ensured its continuing access to the mortgage backed securities market by "consistently producing quality mortgages."

7. In fact, the credit risk that Countrywide was taking was so alarming to Mozilo that he internally issued a series of increasingly dire assessments of various Countrywide loan products and the risks to Countrywide in continuing to offer or hold those loans, while at the same time he, Sambol, and Sieracki continued to make public statements obscuring Countrywide's risk profile and attempting to differentiate it from other lenders. In one internal email, Mozilo referred to a particularly profitable subprime product as "toxic," and in another he stated that the company was "flying blind," and had "no way" to predict the performance of its heralded product, the Pay-Option ARM loan. Mozilo believed that the risk was so high and that the secondary market had so mispriced Pay-Option ARM loans that he repeatedly urged that Countrywide sell its entire portfolio of those loans. Despite their awareness of, and Mozilo's severe concerns about, the increasing risk Countrywide was undertaking, Mozilo, Sambol, and Sieracki hid these risks from the investing public.

8. Defendants misled investors by failing to disclose substantial negative information regarding Countrywide's loan products, including:

- the increasingly lax underwriting guidelines used by the company in originating loans;
- the company's pursuit of a "matching strategy" in which it matched the terms of any loan being offered in the market, even loans offered by primarily subprime originators;
- the high percentage of loans it originated that were outside its own already widened underwriting guidelines due to loans made as exceptions to guidelines;
- Countrywide's definition of "prime" loans included loans made to borrowers with FICO scores well below any industry standard definition of prime credit quality;
- the high percentage of Countrywide's subprime originations that had a loan to value ratio of 100%, for example, 62% in the second quarter of 2006; and

- Countrywide's subprime loans had significant additional risk factors, beyond the subprime credit history of the borrower, associated with increased default rates, including reduced documentation, stated income, piggyback second liens, and LTVs in excess of 95%.

Mozilo, Sambol, and Sieracki knew this negative information from numerous reports they regularly received and from emails and presentations prepared by the company's chief credit risk officer. Defendants nevertheless hid this negative information from investors.

9. During the course of this fraud, Mozilo engaged in insider trading in Countrywide's securities. Mozilo established four sales plans pursuant to Rule 10b5-1 of the Securities Exchange Act in October, November, and December 2006 while in possession of material, non-public information concerning Countrywide's increasing credit risk and the risk that the poor expected performance of Countrywide-originated loans would prevent Countrywide from continuing its business model of selling the majority of the loans it originated into the secondary mortgage market. From November 2006 through August 2007, Mozilo exercised over 5.1 million stock options and sold the underlying shares for total proceeds of over $139 million, pursuant to 10b5-1 plans adopted in late 2006 and amended in early 2007.

DEFENDANTS

10. **Angelo Mozilo**, age 70, is a resident of Thousand Oaks, California. Mozilo was a founder of Countrywide and was its chairman and chief executive officer ("CEO") from its formation in 1969 until Countrywide was acquired by Bank of America in 2008.

11. **David Sambol**, age 49, is a resident of Hidden Hills, California. He was Countrywide's president and chief operating officer ("COO") from September 2006 until its acquisition by Bank of America in 2008. Sambol was Countrywide's executive managing director, business segment operations from April 2006 until September 2006, and executive managing director and chief of mortgage banking

and capital markets from January 2004 until April 2006. Sambol was a member of the Countrywide board of directors from 2007 until July 2008. Sambol also held executive positions at certain Countrywide subsidiaries, including Countrywide Bank.

12. **Eric Sieracki**, age 52, is a resident of Lake Sherwood, California. Sieracki was Countrywide's chief financial officer ("CFO") from the first quarter of 2005 until its acquisition by Bank of America in 2008.

RELATED PARTY

13. **Countrywide Financial Corporation**, a Delaware corporation, was a mortgage lender based in Calabasas, California. During all times relevant to this complaint, its stock was registered pursuant to Section 12(b) of the Exchange Act and was listed on the New York Stock Exchange, and, until the demise of the Pacific Stock Exchange, it was listed on that Exchange as well. On July 1, 2008, Countrywide merged with Bank of America and is now a wholly owned subsidiary of Bank of America. Countrywide's remaining operations and employees have been transferred to Bank of America, and Bank of America ceased using the Countrywide name in April 2009. On July 1, 2008, the NYSE filed a Form 25 to deregister and delist Countrywide's common stock, and on July 22, 2008 Countrywide filed a Form 15 deregistering its common stock under Section 12(g) of the Exchange Act.

FACTS

14. From 2005 through 2007, in Countrywide's periodic filings with the Commission and in other public statements, Mozilo, Sambol, and Sieracki held Countrywide out as primarily a maker of prime quality mortgage loans, qualitatively different from competitors who engaged primarily in riskier lending. To support this false characterization, the proposed defendants hid from investors that Countrywide was engaged in an effort to increase market share and sustain

revenue generation through unprecedented expansions of its underwriting guidelines, taking on ever-increasing credit risk.

A. Countrywide's Business

15. Countrywide originated, sold, and serviced both prime and subprime (which Countrywide's periodic filings referred to as "nonprime") mortgage loans. By 2005, Countrywide was the largest U.S. mortgage lender in the United States, originating over $490 billion in mortgage loans in 2005, over $450 billion in 2006, and over $408 billion in 2007. Countrywide recognized pre-tax earnings of $2.4 billion and $2 billion in its loan production divisions in 2005 and 2006, respectively, and a pre-tax loss of $1.5 billion in its loan production division in 2007.

16. Countrywide pooled most of the loans it originated and sold them in secondary mortgage market transactions. Countrywide sold the pooled loans either through whole loan sales or securitization. In whole loan sales, Countrywide sold the loans to investors and recorded gains on the sales. In securitizations, Countrywide sold interests in the pooled loans, i.e., mortgage-backed securities. Countrywide's loan sales were run out of its capital markets division. In 2005, Countrywide reported $451.6 million in pre-tax earnings from capital market sales, representing 10.9% of its pre-tax earnings; in 2006, it recognized $553.5 million in pre-tax earnings from that division, representing 12.8% of its pre-tax earnings, and in 2007 it recognized a mere $14.9 million in pre-tax earnings from that division, reporting a pre-tax loss overall.

17. Historically, Countrywide's primary business had been originating prime conforming loans that were saleable to the Government Sponsored Entities ("GSEs"). In the fiscal years 2001, 2002, and 2003, Countrywide's prime conforming originations were 50%, 59.6%, and 54.2% of its total loan originations, respectively. In 2003, United States residential mortgage production reached a record level of $3.8 trillion. Countrywide experienced record earnings in that year,

with net earnings of $2.4 billion, an increase of $1.5 billion, or 182%, over 2002. In 2004, in a market where originations were declining overall, Countrywide maintained net earnings of $2.1 billion, and increased its market share from 11.4% to 12.7%.

18. Countrywide achieved this result in large part by moving away from its historical core business of prime mortgage underwriting to aggressively matching loan programs being offered by other lenders, even monoline subprime lenders. As a result, as reported in Countrywide's periodic filings and reflected in the chart below, in 2004, 2005, and 2006, Countrywide wrote more non-conforming, subprime, and home equity loans than in any prior period:

	2001	2002	2003	2004	2005	2006
Prime Conforming	50%	59.6%	54.2%	38.2%	32%	31.9%
Prime Non-Conforming	16.5%	24.5%	31.4%	38.7%	47.2%	45.2%
Home Equity	6.8%	4.6%	4.2%	8.5%	9.0%	10.2%
Nonprime (Subprime)	7.8%	3.7%	4.6%	11.0%	8.9%	8.7%
FHA/VA	18.9%	7.6%	5.6%	3.6%	2.1%	2.8%
Commercial	0.0%	0.0%	0.0%	0.0%	0.8%	1.2%

19. In 2004, Countrywide's reported production of conventional conforming loans dropped to 38.2%, its production of subprime loans had risen to 11%, its production of home equity loans had risen to 8.5%, and its production of conventional non-conforming loans had risen to 38.7%. By 2006, Countrywide had turned its prior business model on its head: a mere 31.9% of its originations were conforming, 45.2% were non-conforming, 8.7% were subprime, and 10.2% were home equity.

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B. Countrywide's Deceptive Description of Its Loans

20. Countrywide's Form 10-Ks deceptively described the types of loans upon which the Company's business depended. While Countrywide provided statistics about its originations which reported the percentage of loans in various categories, such as those noted in the table in paragraph 18, the information was misleading because its descriptions of "prime non-conforming" and "nonprime" loans in its periodic filings were insufficient to inform investors what types of loans were included in those categories. "Prime" loans were described in Countrywide's 2005, 2006, and 2007 Forms 10-K as follows:

> Prime Mortgage Loans include conventional mortgage loans, loans insured by the Federal Housing Administration ("FHA") and loans guaranteed by the Veterans Administration ("VA"). A significant portion of the conventional loans we produce qualify for inclusion in guaranteed mortgage securities backed by Fannie Mae or Freddie Mac ("conforming loans"). Some of the conventional loans we produce either have an original loan amount in excess of the Fannie Mae and Freddie Mac loan limit for single-family loans ($417,000 for 2006) or otherwise do not meet Fannie Mae or Freddie Mac guidelines. Loans that do not meet Fannie Mae or Freddie Mac guidelines are referred to as "nonconforming loans."

21. Nothing in that description informed investors that Countrywide's "prime non-conforming" category included loan products with increasing amounts of credit risk. While guidance issued by the banking regulators referenced a credit score ("FICO score") at 660 or below as being an indicator of a subprime loan, some within the banking industry drew the distinction at a score of 620 or below. Countrywide, however, did not consider **any** FICO score to be too low to be categorized within "prime." Nor did Countrywide's definition of "prime" inform

investors that its "prime non-conforming" category included so-called "Alt-A" loan products with increasing amounts of credit risk, such as (1) reduced or no documentation loans; (2) stated income loans; and (3) loans with loan to value or combined loan to value ratios of 95% and higher. Finally, it did not disclose that Pay-Option ARM loans, including reduced documentation Pay-Option ARM loans, were included in the category of prime loans. Moreover, to the extent these extremely risky loans were below the loan limits established by the government sponsored entities that purchased these loans ("GSEs"), they would have been reported by Countrywide as prime conforming loans. In 2005 and 2006, Countrywide's Pay-Option ARMs ranged between 17% and 21% of its total loan originations. It maintained the majority of these loans in the held for investment portfolio at Countrywide Bank.

22. Significantly, the Countrywide periodic filings do not define "nonprime" in any way, and Countrywide's periodic filings failed to disclose that loans in the category of subprime were not merely issued to borrowers with blemished credit, but that this category included loans with significant additional layered risk factors, such as (1) subprime piggyback seconds, also known as 80/20 loans; (2) reduced or no documentation loans; (3) stated income loans; (4) loans with loan to value or combined loan to value ratios of 95% and higher; and (5) loans made to borrowers with recent bankruptcies and late mortgage payments.

23. By increasing its origination of non-conforming and subprime loans between 2003 and 2006, Countrywide was able to originate many more loans in those years and increase its market share, even as the residential real estate market declined in the United States. As of December 31, 2003, based on its own internal estimates, Countrywide had an 11.4% share of the United States mortgage market. By September 30, 2006, it had a 15.7% share of the market. While Countrywide boasted to investors that its market share was increasing, company executives did not disclose that its market share increase came at the expense of prudent

underwriting guidelines. As a result, Countrywide's share price rose from $25.28 on December 31, 2003 to $42.45 on December 29, 2006, the last trading day of that year.

C. Countrywide's Market Strategy Caused it To Take On Increasing Credit Risk

1. Countrywide's Undisclosed Expansion of Underwriting Guidelines and the Matching Strategy

24. By the end of 2006, Countrywide's underwriting guidelines were wider and more aggressive than they had ever been. The company's aggressive guideline expansion was deliberate, and began as early as 2003. Indeed, from January 2003 until well into 2006, Countrywide's credit risk management department ("Risk Management") spent approximately 90% of its time processing requests for expansions of Countrywide's underwriting guidelines.

25. Countrywide's "matching strategy," also known as the "supermarket strategy," was a key driver of the company's aggressive expansion of underwriting guidelines. The strategy committed the company to offering any product and/or underwriting guideline available from at least one "competitor," which included subprime lenders. Thus, if Countrywide did not offer a product offered by a competitor, Countrywide's production division invoked the matching strategy to add the product to Countrywide's menu. For example, if Countrywide's minimum FICO score for a product was 600, but a competitor's minimum score was 560, the production division invoked the matching strategy to reduce the minimum required FICO score at Countrywide to 560.

26. The impact of the matching strategy was intensified by Countrywide's "no-brokering" policy, which precluded Countrywide's loan officers from referring loan applicants to other brokers and/or institutions. Prior to its implementation, loan officers could engage in a practice known as "brokering," in which the loan officer would refer those borrowers deemed too risky for Countrywide to another

lender, which in turn paid a commission to the Countrywide loan officer. The no-brokering policy increased the incentives for Countrywide's retail sales force to be aggressive in finding ways for Countrywide to underwrite a loan, regardless of whether the loan satisfied the underwriting guidelines Countrywide repeatedly touted to investors.

27. Mozilo, Sambol, and Sieracki knew that the company was taking on increased risk of defaults and delinquencies as a result of its widened underwriting guidelines and matching strategy, yet Countrywide's periodic filings concealed the unprecedented expansion of underwriting guidelines and the attendant increased credit risk.

2. Exception Loans Magnified Countrywide's Credit Risk

28. Though Countrywide proclaimed in its Forms 10-K for 2005, 2006, and 2007 that it managed credit risk through its loan underwriting, the company's increasingly wide underwriting guidelines and exceptions process materially increased Countrywide's credit risk during that time. Countrywide used an automated underwriting system known as "CLUES" to actually underwrite loans. The CLUES system applied the principles and variables set forth in the Countrywide underwriting manuals and its loan program guide. CLUES applied a device known as the "underwriting scorecard," which assessed borrower credit quality by analyzing several variables, such as FICO scores, loan to value ratios, documentation type (*e.g.*, full, reduced, stated) and debt-to-income ratios. These variables were weighted differently within the scorecard, depending upon their perceived strength in predicting credit performance. In underwriting a loan, Countrywide loan officers entered an applicant's information into CLUES, which would (1) approve the loan; (2) approve the loan with caveats; or (3) "refer" the loan to a loan officer for further consideration and/or manual underwriting.

29. The CLUES program typically did not "reject" a loan if a requirement of Countrywide's guidelines had not been met or if CLUES calculated that the loan

presented an excessive layering of risk. Instead, CLUES "referred" the loan, indicating that the loan application would have to be reviewed manually prior to approval. In these circumstances, to proceed with the loan, the loan officer would request an "exception" from the guidelines from more senior underwriters at Countrywide's structured lending desk ("SLD"). Countrywide's level of exceptions was higher than that of other mortgage lenders. The elevated number of exceptions resulted largely from Countrywide's use of exceptions as part of its matching strategy to introduce new guidelines and product changes.

30. Further, the actual underwriting of exceptions was severely compromised. According to Countrywide's official underwriting guidelines, exceptions were only proper where "compensating factors" were identified which offset the risks caused by the loan being outside of guidelines. In practice, however, **Countrywide used as "compensating factors" variables such as FICO and loan to value, which had already been assessed by CLUES in issuing a "refer" finding**. Countrywide underwriting manuals were amended to explicitly prohibit this practice in mid-2007, but this serious deficiency was in place from early 2006 through early 2007, when a large volume of obviously deficient exception loans were originated by Countrywide.

D. Countrywide's Business Model Became Unsustainable

31. As described above, Countrywide depended on its sales of mortgages into the secondary market as an important source of revenue and liquidity. As a result, Countrywide was not only directly exposed to credit risk through the mortgage-related assets on its balance sheet, but also indirectly exposed to the risk that the increasingly poor quality of its loans would prevent their continued profitable sale into the secondary mortgage market and impair Countrywide's liquidity. Rather than disclosing this increasing risk, Mozilo, Sambol, and Sieracki gave false comfort, again touting Countrywide's loan quality. For example, Countrywide stated in its 2005 Form 10-K: "We ensure our ongoing access to the

secondary mortgage market by consistently producing quality mortgages. . . . We make significant investments in personnel and technology to ensure the quality of our mortgage loan production." A virtually identical representation appears in Countrywide's 2006 Form 10-K. Accordingly, Countrywide's failure to disclose its widening underwriting guidelines and the prevalence of exceptions to those guidelines in 2005 and 2006 constituted material omissions from Countrywide's periodic reports.

E. Mozilo, Sambol, and Sieracki Were Aware of the Increased Credit Risk Created By Expanded Underwriting Guidelines and Exception Loans

32. Countrywide's increasingly wide underwriting guidelines materially increased the company's credit risk from 2004 through 2007, but this increased risk was not disclosed to investors. In 2007, as housing prices declined, Countrywide began to suffer extensive credit problems as the inherent credit risks manifested themselves.

1. The September 2004 Warning

33. The credit losses experienced by Countrywide in 2007 not only were **foreseeable** by the proposed defendants, they were in fact **foreseen** at least as early as September 2004. Risk Management warned Countrywide's senior officers that several aggressive features of Countrywide's guidelines (*e.g.*, high loan to value programs, ARM loans, interest only loans, reduced documentation loans, and loans with layered risk factors) significantly increased Countrywide's credit risk.

34. Countrywide was taking on more risk as a direct result of the lower credit quality of the loans it was originating. Countrywide's strategy of reducing risk through loan sales was being frustrated as the company produced smaller percentages of loans eligible for sale on a nonrecourse basis (e.g., FHA, VA and conforming loans), and larger percentages of loans (e.g., subprime and

nonconforming loans) where it retained credit risk in the form of residual interests. By September 2004, defendants knew the following trends:

- 66% of Countrywide's production was conforming in July 2003, but conforming originations **had fallen** to 35% by July 2004;
- 21% of Countrywide's production was nonconforming in July 2003, but non-conforming originations **had risen** to 40% by July 2004; and
- 2% of Countrywide's July 2003 production was subprime, but subprime originations **had risen** to 10% by July 2004.

35. The credit risk described in the September 2004 warning **worsened** from September 2004 to August 2007. Risk Management continuously had discussions with Countrywide's loan production division, which reported to Sambol, about the credit concerns identified in the September 2004 warning. In fact, Risk Management conducted studies to identify relationships among certain credit variables and their effect upon the probability that a loan would go into serious delinquency or default. One finding of these studies, the results of which were shared with Sambol and Sieracki, was that the less documentation associated with a loan, the higher the probability of default. Nevertheless, Countrywide continued to expand its underwriting guidelines, and to liberally make exceptions to those guidelines, through the end of 2006. These facts were never disclosed to investors.

2. Credit Risk Management Repeatedly Alerted the Defendants to Increases in Credit Risk

36. Both Sambol and Sieracki were members of the Countrywide credit risk committee. The credit risk committee had quarterly meetings. At these meetings, the members were provided with detailed presentations highlighting Countrywide's increased credit risk. For example, at an April 6, 2005 meeting of the credit risk committee attended by Sambol, McMurray reported that (1)

Countrywide non-conforming loans originated in May 2002 were twice as likely to default as loans originated in January 2000; (2) the risk of home equity lines of credit defaulting had doubled over the past year, mainly due to the prevalence of reduced documentation in those loans; and (3) Countrywide was now a leader in the subprime market in four of six categories, whereas in December 2004 Countrywide had only been a leader in two of six categories.

37. Similarly, Sieracki attended a June 28, 2005 meeting at which the chief operating officer noted that Countrywide was taking on "too much" balance sheet risk in home equity lines of credit ("HELOCs") and subprime loans, and had taken on "unacceptable risk" from non-owner occupied loans made at 95% combined loan to value ratios, which were an exception to Countrywide's then-existing underwriting guidelines. Risk Management also reported at that meeting that non-conforming loan programs accounted for 40% of Countrywide's loan originations and that subprime production had tripled, rising from 4% to 14% of total production. Finally, at that same meeting, Risk Management reported to the committee on evidence of borrowers misrepresenting their income and occupation on reduced documentation loan applications, and the increasing credit risks associated with Pay-Option ARM loans, for example, negative amortization, payment shock, and the necessity of raising the initial interest rate to reduce the speed of negative amortization on the loans.

38. Sambol and Sieracki also learned of the risks associated with the company's aggressive guideline expansion in meetings of other company committees. For example, Sieracki was a member of the asset and liability committee, and Sambol attended certain of its meetings. If a proposed guideline expansion had a modeled expected default rate in excess of 8%, the proposal had to be submitted to this committee for approval. All proposed expansions to Countrywide's subprime menu from late 2005 through 2006 presented an expected default rate in excess of 8% and required approval of that committee. In June

2005, Sambol and McMurray engaged in a lengthy email exchange regarding the impact of Countrywide's underwriting guideline expansion related to requests for subprime product expansions that had been taken up by the asset and liability committee in the first and second quarters of 2005. In that exchange, McMurray warned Sambol that "as a consequence of [Countrywide's] strategy to have the widest product line in the industry, we are clearly out on the 'frontier' in many areas." McMurray went on to note that the frontier had "high expected default rates and losses."

39. Additionally, proposals with high expected defaults or that were otherwise controversial were referred to the Countrywide responsible conduct committee for approval. Sambol was a member of this committee, which had repeatedly approved guideline expansions. For instance, in late 2006 Countrywide's production divisions proposed expanding Countrywide's guidelines to match certain guidelines offered by Bear Stearns and Lehman Brothers, programs that were known within Countrywide as "Extreme Alt-A." Risk Management was concerned about the risks associated with these guidelines, and referred the request to the responsible conduct committee. Sambol, in his capacity as a member of that committee, approved the expansion.

40. Finally, both Mozilo and Sambol were aware as early as June 2006 that a significant percentage of borrowers who were taking out stated income loans were engaged in mortgage fraud. On June 1, 2006, Mozilo advised Sambol in an email that he had become aware that the Pay-Option ARM portfolio was largely underwritten on a reduced documentation basis and that there was evidence that borrowers were lying about their income in the application process. On June 2, 2006, Sambol received an email reporting on the results of a quality control audit at Countrywide Bank that showed that **50%** of the stated income loans audited by the bank showed a variance in income from the borrowers' IRS filings of greater

than 10%. Of those, 69% had an income variance of greater than 50%. These material facts were never disclosed to investors.

3. Warnings Regarding the Matching Strategy

41. McMurray repeatedly provided explicit and ominous warnings about Countrywide's matching strategy. In a June 25, 2005 email to Sambol concerning guideline expansion and the company's growing credit risks, McMurray addressed the matching strategy and explained that "because the matching process includes comparisons to a variety of lenders, our [guidelines] will be a composite of the outer boundaries across multiple lenders[,]" and that because comparisons are only made to competitor guidelines where they are more aggressive and not used where they are less aggressive, **Countrywide's "composite guides [sic] are likely among the most aggressive in the industry."** (emphasis added.)

42. On November 2, 2006, McMurray sent an email to Countrywide's chief investment officer ("CIO"), which the CIO forwarded to Sambol, stating that the matching strategy had caused Countrywide to cede its underwriting standards to the most aggressive lenders in the market. In the email, McMurray asked: **"Do we want to effectively cede our policy and is this approach "saleable" from a risk perspective to those constituents who may worry about our risk profile?"** (emphasis added.)

43. In a November 16, 2006 email to Sambol, McMurray complained about guidelines and products being introduced in contravention of credit policy. As an example, McMurray cited the fact that Extreme Alt-A loans were being offered by the loan production divisions, even though that program had not been officially approved in the guideline review process. The proposed guidelines would have permitted 100% financing, layered with additional credit risk factors such as stated income, lower than average FICO scores, or non-owner occupied investment properties.

44. In a February 11, 2007 email to Sambol, McMurray noted that the production divisions continued to advocate for, and operated pursuant to, an approach based upon the matching strategy alone, and repeated his concern that the strategy would cause Countrywide's guidelines to be a composite of the riskiest offerings the market. Additionally, McMurray warned that, "**I doubt this approach would play well with regulators, investors, rating agencies etc.** To some, this approach might seem like **we've simply ceded our risk standards and balance sheet to whoever has the most liberal guidelines.**" (emphasis added.)

4. Warnings Regarding Guideline Expansion and Disruptions in the Secondary Market

45. By no later than 2006, Mozilo and Sambol were on notice that Countrywide's exotic loan products might not continue to be saleable into the secondary market, yet this material risk was not disclosed in Countrywide's periodic filings.

46. In September 2006 Mozilo wrote an email to Sambol warning that he believed that the Pay-Option loan was "mispriced" in the secondary market and that the pricing spread could disappear quickly if there were a negative event in the market. On February 2, 2007, Risk Management warned Sambol that guideline expansions could disrupt the secondary market for subprime mortgage backed securities ("MBS"). Later in that quarter, the MBS market for subprime loans experienced a disruption that forced Countrywide to write down loans that it had previously intended to sell into that market. Then, in August 2007, the entire market for MBS experienced a severe disruption, which effectively crippled the ability of Countrywide, as well as other mortgage lenders, to sell non-GSE securitizations into the secondary markets and contributed to Countrywide's liquidity problems.

5. **Warnings Regarding 100% (a.k.a. 80/20 loans) Financing**

47. The seriousness of Risk Management's warnings on guideline expansion and the consequences of Countrywide's failure to heed such warnings are vividly demonstrated by the company's experience with "80/20" subprime loans. An 80/20 subprime loan is a loan where a borrower with a subprime FICO score simultaneously takes out two loans to purchase a home: a first lien loan (typically 80% of the purchase price), and a second lien loan (typically 20% of the purchase price). As a result of having 100% financed the purchase, the borrower has no initial equity in the home. Pursuant to Risk Management's "Policy on High Risk Products," subprime 80/20 loans could not be originated via the exceptions process, and could only be originated if Countrywide could totally extinguish the credit risks (*e.g.*, residual interests or corporate guarantees) resulting from such loans. But the policy was ignored by the production divisions.

48. Mozilo knew of the risks Countrywide incurred by originating subprime 80/20 loans and repeatedly questioned the wisdom of continuing to offer the product. Mozilo became concerned about the loans in the first quarter of 2006, when HSBC, a purchaser of Countrywide's 80/20 loans, began to contractually force Countrywide to "buy back" certain of these loans that HSBC contended were defective. On March 28, 2006, Mozilo sent an e-mail to Sambol and others, directing them to implement a series of corrective measures to "avoid the errors of both judgment and protocol that have led to the issues that we face today caused by the buybacks mandated by HSBC." Mozilo further stated that the 100% loan-to-value (also known as 80/20) subprime product is "**the most dangerous product in existence and there can be nothing more toxic** and therefore requires that no deviation from guidelines be permitted irrespective of the circumstances."

49. Then, in an April 13, 2006 email, Mozilo informed Sambol, Sieracki, and others that there were numerous issues that they must address relating to the 100% subprime second business in light of the losses associated with the HSBC

buyback. One issue in particular that Mozilo identified was the fact that the loans had been originated "through our channels with disregard for process [and] compliance with guidelines." Mozilo went on to write that he had "**personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated** versus the pricing of those loan [sic]." Mozilo noted that, "**[i]n my conversations with Sambol he calls the 100% sub prime seconds as the 'milk' of the business. Frankly, I consider that product line to be the poison of ours**." (emphasis added.)

50. Furthermore, in an April 17, 2006 email to Sambol concerning Countrywide's subprime 80/20 loans, Mozilo fumed:

> In all my years in the business I have never seen a more toxic prduct. [sic] It's not only subordinated to the first, but the first is subprime. In addition, the FICOs are below 600, below 500 and some below 400[.] With real estate values coming down...the product will become increasingly worse. There has [sic] to be major changes in this program, including substantial increases in the minimum FICO. . . . Whether you consider the business milk or not, I am prepared to go without milk irrespective of the consequences to our production.

51. Echoing Mozilo's criticisms of the 80/20 product, in April 2006 Risk Management recommended increasing the minimum FICO score on the product by 20 points. Sambol, then still the head of the production divisions, opposed this recommendation, and noted that such an increase would make Countrywide uncompetitive with subprime lenders such as New Century, Option One, and Argent.

52. On December 7, 2006, Mozilo circulated a memorandum drafted for him by McMurray to the board of directors and all Countrywide managing

directors, including Sambol and Sieracki. In the memorandum, Mozilo made the following observations, among others:

- Countrywide had expanded its subprime underwriting guidelines in every conceivable area, lowering minimum FICOs, raising maximum loan size and LTV, and making interest only, stated income, and piggyback second loans available to subprime borrowers;

- Countrywide expected that subprime loans originated in 2006 (the "2006 Vintage") would be the worst performing on record, driven by wider guidelines and the worsening economic environment, which included rising interest rates and declining home values;

- the percentage of 60- and 90-day delinquencies in the 2006 Vintage (at 8.11% and 4.03% respectively), exceeded the percentages from each of the previous six years, and the company expected these percentages to rise; and

- 62% of Countrywide's subprime originations in the second quarter of 2006 had a loan to value ratio of 100%.

53. In April 2006, Mozilo wrote that no premium, no matter how high, could justify underwriting a loan for a borrower whose FICO score was below 600. Yet Countrywide failed to disclose to investors the serious deficiencies in its underwriting of these "toxic" loans.

6. Warnings Regarding Exception Loans

54. Mozilo, Sambol, and Sieracki were aware of significant lapses in Countrywide's underwriting processes and the resulting risk to Countrywide. On May 22, 2005, McMurray warned Sambol of the likelihood of significantly higher default rates in loans made on an exception basis: "[t]he main issue is to make sure everyone's aware that we will see higher default rates." McMurray explained that

"exceptions are generally done at terms more aggressive than our guidelines," and continued that **"[g]iven the expansion in guidelines and the growing likelihood that the real estate market will cool, this seems like an appropriate juncture to revisit our approach to exceptions."** (emphasis added.) McMurray also warned that increased defaults would cause repurchase and indemnification requests to rise and the performance of Countrywide-issued MBS to deteriorate.

55. The poor quality of the loans originated through the exception process became even more obvious in the first quarter of 2007. In fact, in materials distributed at a March 12, 2007 meeting of the credit risk committee attended by Sambol and Sieracki, Risk Management reported that nearly 12% of the loans reviewed by Countrywide in an internal quality control process were rated "severely unsatisfactory" or "high risk." The causes for such a rating included findings that such loans had debt-to-income, loan to value, or FICO scores outside of Countrywide's already wide underwriting guidelines. By the second quarter of 2007, Risk Management began to report a serious deterioration in the performance of exception loans.

56. In a December 13, 2007 memo that was sent to Mozilo in his capacity as Countrywide's chairman of the board, Countrywide's enterprise risk assessment officer noted that:

> Countrywide had reviewed limited samples of first- and second-trust-deed mortgages originated by Countrywide Bank during the fourth quarter of 2006 and the first quarter of 2007 in order to get a sense of the quality of file documentation and underwriting practices, and to assess compliance with internal policies and procedures. The review resulted in . . . the finding that **borrower repayment capacity was not adequately assessed by the bank during the underwriting process** for home

equity loans. More specifically, **debt-to-income (DTI) ratios did not consider the impact of principal [negative] amortization or an increase in interest.** (emphasis added)

57. These material deficiencies in Countrywide's underwriting were never disclosed to investors in Countrywide's Forms 10-Q or 10-K for 2005 through 2007.

F. Pay-Option Arms and the Discrepancy Between the Internal and External Portrayals of Credit Risk

1. The External Story

58. Countrywide began originating Pay-Option ARM loans in 2004; by the second quarter of 2005 21% of Countrywide's loan production was Pay-Option ARMS. Pay-Option ARMs allowed borrowers to choose between four payment options: (1) a minimum payment which was insufficient to cover accruing interest; (2) an interest-only payment; (3) a fully amortizing payment with a 30 year pay-off; and (4) a fully amortizing payment with a 20 year pay-off. If the minimum payment was selected, then the accruing interest would be added to the loan's principal balance, a phenomenon known as negative amortization. Countrywide's Pay-Option ARM loans typically allowed for negative amortization until the principal balance reached 115% of the original loan balance, at which time the payment would reset to the amount necessary to repay principal and interest in the term remaining on the loan. This resulted in a much higher monthly payment and "payment shock" to many borrowers. Even if the borrower never reached the 115% threshold, the loan would typically reset after five years to a fully amortizing payment. Because Countrywide began to offer Pay-Option loans in 2004, Countrywide's first wave of automatic resets were scheduled to occur in 2009. Unlike many other loans that Countrywide originated, most of the Pay-Option loans were held for investment by Countrywide Bank.

59. Countrywide publicly heralded Pay-Option loans as a safe product offering. For instance, in its 2006 Form 10-K, Countrywide proclaimed that it had "prudently underwritten" its Pay-Option ARMs. On May 31, 2006, Mozilo gave a speech in which he stated, "Pay-Option loans represent the best whole loan type available for portfolio investment from an overall risk and return perspective," that, "[t]he performance profile of this product is well understood because of its twenty year history, which includes stress tests in difficult environments[,]" and that Countrywide "actively manages credit risk through prudent program guidelines...and sound underwriting."

2. The Internal View

60. Contrary to such public statements extolling the virtues of the Pay-Option ARM product, Mozilo, along with several of Countrywide's senior executives, had concluded that the product's risks to the company were severe, and they were scrambling to identify ways to mitigate them. Sambol and Sieracki were aware of these concerns.

a. Negative Amortization and Payment Shock

61. In June 2005, Risk Management warned senior executives, including Sieracki, that action was needed to address the increasing pace of negative amortization and the potential for payment shock associated with Pay-Option ARMs. Specifically, in a June 28, 2005 meeting of the credit risk committee, which was attended by Sieracki, Risk Management recommended that the rate used to calculate the minimum payment on Pay-Option ARMs ("start rate") be raised to reduce negative amortization and the severity of payment shock. Risk Management explained that while the start rate remained constant at 1%, short term rates (upon which borrowers' fully amortizing payments were based) had risen steadily, thereby increasing the pace of negative amortization and the severity of the resulting payment shock.

62. At a June 22, 2006 credit risk committee meeting, attended by Sambol and Sieracki, Risk Management noted that the median time to reset on the pay option loans was getting shorter as negative amortization was accruing at a faster than expected pace.

b. Mozilo's Pointed Concerns About Pay-Option ARMs

63. On April 4, 2006, Mozilo received an e-mail regarding Pay-Option loans which informed him that "72% of [Pay-Option] customers chose Minimum Payment selection in February 06, up from 60% in August 05." In response to this information Mozilo sent an email to Sambol that reflected how well he understood the negative ramifications of the information for Countrywide: "Since over 70% have opted to make the lower payment it appears that **it is just a matter of time that we will be faced with much higher resets and therefore much higher delinquencies.**"

64. About six weeks later, on May 18, 2006, Mozilo sent another e-mail to Sambol and Sieracki again sounding the alarm about the Pay-Option portfolio. Stating that "the Bank faces potential unexpected losses because higher [interest] rates will cause the loans to reset much earlier than anticipated and as a result causing mortgagors to default due to the substantial increase in their payments," Mozilo directed the management team to reduce "balance sheet risk" by refinancing Pay-Options into interest-only loans and improving consumer education about the consequences of resets. Mozilo concluded his e-mail by stating that "there is much more that we can do to manage risk much more carefully during this period of uncertainty both as to the rate environment and untested behavior of payoptions." The very next day, May 19, 2006, Mozilo wrote another email to Sambol and Sieracki, noting that Pay-Options loans presented a long term problem "unless [interest] rates are reduced dramatically from this level and there are no indications, absent another terrorist attack, that this will happen."

c. **Mozilo's Concerns Mount**

65. Mozilo received more dire news regarding the Pay-Option loan portfolio in June 2006. On June 1, 2006, **one day** after he gave a speech publicly praising Pay-Option ARMs, Mozilo sent an email to Sambol and other executives, in which he expressed concern that the majority of the Pay-Option ARM loans were originated based upon stated income, and that there was evidence of borrowers misrepresenting their income. Mozilo viewed stated income as a factor that increased credit risk and the risk of default. In his email, Mozilo reiterated his concern that in an environment of rising interest rates, resets were going to occur much sooner than scheduled, and because at least 20% of the Pay-Option borrowers had FICO scores less than 700, **borrowers "are going to experience a payment shock which is going to be difficult if not impossible for them to manage."** Mozilo concluded that the company needed to act quickly to address these issues because "[w]e know or can reliably predict what's going to happen in the next couple of years." Mozilo directed Countrywide Bank to (1) stop accumulating loans with FICO scores below 680 unless the loan-to-value ratio was 75% or lower, (2) assess the risks that the Bank faced on loans with FICO scores below 700 and determine if they could be sold out of the Bank and replaced with higher quality loans, and (3) take a careful look at the reserves and "begin to assume the worst."

66. On July 10, 2006, Mozilo received an internal monthly report, called a "flash report," that tracked the delinquencies in the Pay-Option portfolio, as well as the percentage of borrowers electing to make the minimum payment and the amount of accumulated negative amortization on each loan. Mozilo learned that from September 2005 through June 2006, the percentage of Pay-Option borrowers choosing to make the minimum payment had nearly doubled, from 37% to 71%. Mozilo believed that these statistics were significant enough that he requested that the company include a letter in bold type with every new Pay-Option loan to

inform borrowers of the dangers of negative amortization and to encourage full payment.

67. About a month later, on August 16, 2006, Mozilo received an e-mail from a fellow member of Countrywide's board of directors, asking whether the company anticipated any significant problems with the Pay-Option portfolio. Mozilo responded by reiterating the ongoing concerns he had shared with senior management earlier in 2006. By this point in time, over 75% of the Pay-Options borrowers were opting for the minimum payment, which, along with rising interest rates, continued to accelerate negative amortization. Mozilo explained that, as a result, the loans would reset much faster than the borrowers expected with accompanying payment shock. The only solution, Mozilo wrote, was to refinance the loans before reset, but this would be difficult in light of decreasing home values and rising interest rates. Mozilo wrote that only "unlikely" events, such as a dramatic rise in home values or a dramatic drop in interest rates, would alleviate future payment shock.

d. Internally, Mozilo Urges Selling the Pay-Option Portfolio

68. Mozilo met with Sambol the morning of September 25, 2006 to discuss the Pay-Option ARM loan portfolio. The next day Mozilo sent an e-mail to Sambol and Sieracki expressing even greater concern about the portfolio. In that e-mail, Mozilo wrote:

> **[w]e have no way, with any reasonable certainty, to assess the real risk of holding these loans on our balance sheet.** The only history we can look to is that of World Savings however their portfolio was fundamentally different than ours in that their focus was equity and our focus is fico. In my judgement, as a long time lender, I would always trade off fico

> for equity. The bottom line is that **we are flying blind** on how these loans will perform in a stressed environment of higher unemployment, reduced values and slowing home sales. (emphasis added)

69. In his September 26, 2006 email Mozilo further stated that "**pay options are currently mispriced in the secondary market, and that spread could disappear quickly** if there is an foreseen [sic] headline event such as another lender getting into deep trouble with this product or because of negative investor occurance [sic]." (emphasis added.) He urged that the "timing [wa]s right" to sell Countrywide Bank's portfolio of loans. To mitigate these anticipated losses, Mozilo proposed that the Bank "sell all newly originated pay options and begin rolling off the bank balance sheet, in an orderly manner, pay options currently in their port[folio]."

70. McMurray responded to Mozilo's September 26, 2006 email, agreeing that Countrywide "should be shedding rather than adding Pay Option risk to the portfolio." In the fall of 2006, Countrywide's CIO went further, and recommended to Mozilo, Sambol, Sieracki, and others that all Pay-Option ARMs be sold from Countrywide Bank because Countrywide was not receiving sufficient compensation on these loans to offset the risk of retaining them on its balance sheet.

71. Mozilo never became comfortable with the risk presented by the Pay-Option loan. Indeed, on January 29, 2007, Mozilo wrote an email in which he instructed the president of Countrywide Bank to "to explore with KPMG the potential of selling out (one time transaction because of the tarred reputation of Payoptions) the bulk to the Payoptions on the Bank's balance sheet and replace them with HELOCS." Then, on November 3, 2007, Mozilo instructed the president of the Bank and Sambol that he did not "want any more Pay Options originated for the Bank. I also question whether we should touch this product

going forward because of **our inability to properly underwrite these** combined with the fact that these loans are inherently unsound unless they are full doc, no more than 75% LTV and no piggys" (emphasis added). Finally, on November 4, 2007, Mozilo advised the president of the Bank and Sambol that "[p]ay options have hurt the company and the Bank badly. . . . World Savings culture permits them to make these loans in a sound manner and our culture does not . . . . fico scores are no indication of how these loans will perform."

72. Despite the repeated warnings of Mozilo, McMurray, and the CIO, the Pay-Option ARMs were never sold, and the clearly identified risks to Countrywide were not disclosed to investors. Mozilo recognized as early as August 2006 that Pay-Option ARM loans were one of the "only products left with margins [profit]."

G. Mozilo, Sambol, and Sieracki Were Responsible for Countrywide's Periodic Filings

73. Mozilo, Sambol, and Sieracki each bore responsibility for Countrywide's periodic filings. In April 2004, Countrywide promulgated a set of written "Disclosure Controls and Procedures ("Disclosure Guidelines")" which established the procedures governing the preparation of the company's periodic reports. The Disclosure Guidelines were revised in December 2005 and again in September 2006. The Disclosure Guidelines established a disclosure committee at Countrywide, which Sieracki joined at least as early as December 2005. The Disclosure Guidelines required Countrywide "to disclose on a timely basis any information that would be expected to affect the investment decision of a reasonable investor or to alter the market price of the Company's securities." Countrywide's financial reporting staff was required to:

> seek input from and discuss with the Divisional Officers information pertaining to the past and current performance and prospects for their business unit, known trends and uncertainties related to the business

unit, [and] significant risks and contingencies that may affect the business unit. . .

The Disclosure Guidelines also required that Countrywide's accounting division, among others, assist the officers involved in the preparation of the company's periodic reports in gaining a reasonable understanding of the applicable rules and regulations, including the disclosure requirements set forth in Regulation S-K and the relevant SEC staff guidance and interpretive materials.

74. The preparation of the periodic reports at Countrywide began with a review of the pertinent report from the prior period. The senior vice president for financial reporting circulated to the head of each Countrywide division (1) a memorandum setting forth Countrywide's disclosure obligations and (2) a template ("MD&A Questionnaire") that contained questions concerning the applicable officer's division and that portion of the prior period's filing that concerned the officer's division.

75. Starting in the first quarter of 2006, the MD&A Questionnaire for credit risk management was sent to McMurray and solicited information pertaining to a number of topics related to credit risk, including (1) changes in the management of credit risks, (2) environmental risks and uncertainties, (3) deterioration in loan quality and (4) changes in underwriting guidelines.

76. After circulating the draft MD&A Questionnaires to the divisions, the financial reporting group compiled them and generated the first draft of the periodic report, which was reviewed and edited by the chief accounting officer and the deputy CFO. The revised draft then went to the legal department and the senior managing directors responsible for signing sub-certifications, as well as Sieracki, Sambol, and Mozilo.

77. From the certifiers and the senior officers, the draft went to the board of directors. When all of the certifications had been compiled, Sieracki and Mozilo were notified and they signed Sarbanes-Oxley certifications. Sieracki also signed

all of the Forms 10-Q and 10-K starting in the first quarter of 2005 and throughout 2007. Sambol signed the Forms 10-Q for the third quarter of 2006 and all of the quarters in 2007, as well as the Form 10-K for the year ended 2007. Mozilo signed the Forms 10-K for the years ended 2005, 2006, and 2007.

H. Sambol and Sieracki Refused Suggestions to Disclose Countrywide's Increased Credit Risk

78. Sambol and Sieracki actively participated in decisions to exclude disclosures regarding Countrywide's widened underwriting guidelines in the periodic filings. Throughout 2006, McMurray unsuccessfully lobbied to the financial reporting department that Countrywide disclose more information about its increasing credit risk, but these disclosures were not made.

79. In January 2007, McMurray sent an email to Sieracki, which he subsequently incorporated by reference in his MD&A questionnaire, explaining that Countrywide's delinquencies would increase in the future due to a weakening real estate market and what McMurray characterized as credit guidelines that were "wider than they have ever been." On January 29, 2007 McMurray provided Sambol and others with an outline of where credit items impacted Countrywide's balance sheet. McMurray then forwarded the email to the financial reporting staff, and specifically requested that a version of the outline be included in the 2006 Form 10-K. The information was not included in the 2006 Form 10-K.

80. In August 2007, McMurray exchanged a series of emails with the managing director of financial reporting suggesting revisions to the Form 10-Q for the second quarter of 2007. McMurray again specifically asked financial reporting to include information regarding widened underwriting guidelines in the prospective trends section of the Form 10-Q for the second quarter of 2007. In response, the managing director of financial reporting wrote back to McMurray, stating that he did not make McMurray's changes because he "**expect[ed] those**

changes to be trumped by certain reviewers." One of those reviewers was Sambol.

81. When McMurray's request that Countrywide disclose its widened underwriting guidelines was not included in the draft filing, he sent a "qualified" certification to the company's Sarbanes-Oxley officer, along with an email articulating his concerns. That email was forwarded to the deputy CFO, who then spoke with McMurray about his concerns. She took his suggestions to Sieracki and Sambol, who directed her not to include them in the Form 10-Q.

82. Despite McMurray's repeated requests, Countrywide never made any disclosures in its Forms 10-Q or 10-K for 2005, 2006, or 2007 about the unprecedented expansion of its underwriting guidelines.

I. Mozilo, Sambol, and Sieracki Made Affirmative Misrepresentations to Investors

83. As set forth in detail above, Mozilo, Sambol, and Sieracki were all aware that Countrywide had increasingly widened its underwriting guidelines year after year from 2004 through 2006, and that Countrywide Bank's held for investment portfolio included loans that were underwritten based on reduced documentation, with loan to value ratios above 95%, and with subprime FICO scores. Despite that knowledge, Mozilo, Sambol, and Sieracki failed to include these material facts in Countrywide's Forms 10-K and 10-Q for 2005, 2006, and 2007. Indeed, Mozilo, Sieracki, and Sambol each made public statements from 2005 through 2007 that were intended to mislead investors about the increasingly aggressive underwriting at Countrywide and the financial consequences of those widened underwriting guidelines.

1. Misrepresentations in Countrywide's Periodic Reports

84. From 2005 through 2007, all of the proposed defendants participated in preparing Countrywide's periodic reports. These documents contained misrepresentations as follows:

85. First, Countrywide's Forms 10-K for 2005, 2006, and 2007 stated that Countrywide "manage[d] credit risk through credit policy, underwriting, quality control and surveillance activities" and touted the Company's "proprietary underwriting systems . . . that improve the consistency of underwriting standards, assess collateral adequacy and help to prevent fraud." These statements were false, because defendants knew that a significant portion of Countrywide's loans were being made as exceptions to Countrywide's already extremely broad underwriting guidelines.

86. Second, Countrywide stated in its 2005 Form 10-K: "We ensure our ongoing access to the secondary mortgage market by consistently producing quality mortgages. . . . We make significant investments in personnel and technology to ensure the quality of our mortgage loan production." A virtually identical representation appears in Countrywide's 2006 Form 10-K. These statements were false, because, as set forth in detail above, Mozilo, Sambol, and Sieracki were aware that Countrywide was originating increasing percentages of poor quality loans that did not comply with Countrywide's underwriting guidelines.

87. Third, the descriptions of "prime non-conforming" and "subprime" loans in Countrywide's Forms 10-K were misleading because they failed to disclose what types of loans were included in those categories. The definition of "prime" loans in Countrywide's 2005, 2006, and 2007 Forms 10-K was:

> Prime Mortgage Loans include conventional mortgage loans, loans insured by the Federal Housing Administration ("FHA") and loans guaranteed by the Veterans Administration ("VA"). A significant portion of the conventional loans we produce qualify for inclusion in guaranteed mortgage securities backed by Fannie Mae or Freddie Mac ("conforming loans"). Some of the conventional loans we produce either have an original loan

amount in excess of the Fannie Mae and Freddie Mac loan limit for single-family loans ($417,000 for 2006) or otherwise do not meet Fannie Mae or Freddie Mac guidelines. Loans that do not meet Fannie Mae or Freddie Mac guidelines are referred to as "nonconforming loans.

88. Nothing in that definition informed investors that Countrywide included in its prime category loans with FICO scores below 620. Nor did the definition inform investors that the "prime non-conforming" category included loan products with increasing amounts of credit risk, such as (1) reduced and/or no documentation loans; (2) stated income loans; or (3) loans with loan to value or combined loan to value ratios of 95% and higher. Finally, it did not disclose that Countrywide's riskiest loan product, the Pay-Option ARM, was classified as a "prime loan," and to the extent that the loan amount was below the loan limits established by the GSEs, would have been reported in Countrywide's Forms 10-K as a prime conforming loan. Significantly, in 2005 and 2006, Countrywide's Pay-Option ARMs ranged between 17% and 21% of its total loan originations, the majority of which were held for investment at Countrywide Bank.

89. Fourth, the Countrywide periodic filings noted that Countrywide originated "non-prime" loans, but failed to disclose that these loans were not merely issued to borrowers with blemished credit, but also included significant additional risk factors, such as (1) subprime piggyback seconds, also known as 80/20 loans; (2) reduced documentation loans; (3) stated income loans; (4) loans with loan to value or combined loan to value ratios of 95% and higher; or (5) loans made to borrowers with recent bankruptcies and late mortgage payments.

90. Finally, Countrywide's 2006 Form 10-K contained the misrepresentation that "[w]e believe we have prudently underwritten" Pay-Option ARM loans -- despite Mozilo's resounding internal alarms regarding these loans

and his and Sambol's knowledge that a significant percentage of borrowers were misstating their incomes on stated income loans.

2. Mozilo and Sambol Made Additional Affirmative Misstatements to Investors

91. Mozilo and Sambol made affirmative misleading public statements in addition to those in the periodic filings that were designed to falsely reassure investors about the nature and quality of Countrywide's underwriting.

92. Mozilo repeatedly emphasized Countrywide's underwriting quality in public statements from 2005 through 2007. For example, in an April 26, 2005 earnings call, Mozilo falsely stated that Countrywide's Pay-Option portfolio at the bank was "all high FICO." In that same call, in response to a question about whether the company had changed its underwriting practices, Mozilo stated, "We don't see any change in our protocol relative to the quality of loans that we're originating."

93. In the July 26, 2005 earnings call, Mozilo claimed that he was "not aware of any change of substance in [Countrywide's] underwriting policies" and that Countrywide had not "taken any steps to reduce the quality of its underwriting regimen." In that same call, Mozilo touted the high quality of Countrywide's Pay-Option ARM loans by stating that "[t]his product has a FICO score exceeding 700. . . . the people that Countrywide is accepting under this program . . . are of much higher quality. . . that [sic] you may be seeing . . . for some other lender." On January 31, 2006, Mozilo stated in an earnings call "It is important to note that [Countrywide's] loan quality remains extremely high."

94. On April 27, 2006, Mozilo stated in an earnings call that Countrywide's "pay option loan quality remains extremely high" and that Countrywide's "origination activities [we]re such that, the consumer is underwritten at the fully adjusted rate of the mortgage and is capable of making a higher payment, should that be required, when they reach their reset period."

These statements were false when made, because on April 4, 2006, Mozilo wrote of the bank's pay-option portfolio, "[s]ince over 70% [of borrowers] have opted to make the lower payment it appears that **it is just a matter of time that we will be faced with much higher resets and therefore much higher delinquencies.**"

95. Then, on May 31, 2006, at the Sanford C. Bernstein Strategic Decisions Conference, Mozilo addressed investors and analysts and made additional false statements that directly contradicted the statements he was making internally within Countrywide. Specifically addressing Pay-Option loans, Mozilo told the audience that despite recent scrutiny of Pay-Option loans, "Countrywide views the product as a sound investment for our Bank and a sound financial management tool for consumers." At the May 31 conference, Mozilo added that the "performance profile of this product is well-understood because of its 20-year history, which includes 'stress tests' in difficult environments."

96. Mozilo's statements at the Sanford Bernstein Conference were false, because at the time that he made them he had just written to Sambol and Sieracki in a May 19, 2006 email that **Pay-Option loans would continue to present a long-term problem "unless rates are reduced dramatically from this level and there are no indications, absent another terrorist attack, that this will happen.**" Moreover, on June 1, 2006, Mozilo advised Sambol in an email that he knew that the Pay-Option portfolio was largely underwritten on a reduced documentation basis, and believed there was evidence that borrowers were lying about their income in the application process. Mozilo concluded: (1) in an environment of rising interest rates, borrowers would reach the 115% negative amortization cap sooner than they expected; (2) **borrowers would suffer payment shock because of the substantially higher payments upon reset, particularly those with FICO scores below 700 who "are going to experience a payment shock which is going to be difficult if not impossible for them to manage"; and (3) "we know or can reliably predict what's going to happen in the next couple**

of years" so the company must act quickly to address these issues. In addition, Mozilo failed to disclose that by the time he made the statement about the 20-year history of pay-options, the history that he was referring to, that of World Savings, no longer provided him any comfort about the future performance of the portfolio.

97. At a Fixed Income Investor Forum on September 13, 2006, Mozilo upheld Countrywide as a "role model to others in terms of responsible lending." He went on to remark that "[t]o help protect our bond holder customers, we engage in prudent underwriting guidelines" with respect to Pay-Option loans. These statements were false when made because:

- On July 10, 2006, after reviewing data on an internal flash report, Mozilo learned that, from September 2005 through June 2006, the percentage of Pay-Option borrowers choosing to make the minimum payment had nearly doubled, from 37% to 71%. This was the key metric by which Mozilo measured the performance of the Pay-Option portfolio;

- On August 16, 2006 Mozilo received an e-mail asking whether the company anticipated any significant problems with the Pay-Option portfolio. Mozilo responded that rising interest rates would cause the loans to reset much faster than the borrowers expected with accompanying payment shock. The only solution, Mozilo wrote, was to refinance the loans before reset, but this would be difficult, in light of decreasing home values and rising interest rates. Only unlikely events, such as a dramatic rise in home values or a dramatic drop in interest rates, would alleviate future payment shock; and

- On September 26, 2006 Mozilo advised Sambol and Sieracki in an email that "[w]e have no way, with any reasonable certainty, to assess the real risk of holding [Pay-Option] loans on our balance sheet. The only history we can look to is that of World Savings however their portfolio was fundamentally different than ours in that their focus was equity and our focus is fico. In my judgement, [sic] as a long time lender, I would always trade off fico for equity. The bottom line is that **we are flying blind** on how these loans will perform in a stressed environment of higher unemployment, reduced values and slowing home sales." (emphasis added)

98. In the January 30, 2007 earnings conference call, Mozilo attempted to distinguish Countrywide from other lenders by stating "we backed away from the subprime area because of our concern over credit quality." On March 13, 2007, in an interview with Maria Bartiromo on CNBC, Mozilo said that it would be a "mistake" to compare monoline subprime lenders to Countrywide. He then went on to state that the subprime market disruption in the first quarter of 2007 would "be great for Countrywide at the end of the day because all of the irrational competitors will be gone."

99. Sambol also made misleading statements that were designed to reassure investors. For example, at a May 24, 2005 investor day presentation, Sambol reassured analysts that Countrywide addressed the higher credit risk associated with adjustable rate mortgage programs by requiring different underwriting criteria such as "higher credit scores or lower loan to value ratios." At the September 13, 2006 Fixed Income Investor Forum, Sambol downplayed Countrywide's participation in originating subprime loans by falsely stating that Countrywide had been "on the sidelines" of the risky subprime market.

100. The statements in Countrywide's periodic filings and statements by its chief executives were materially false when made, because Mozilo and Sambol were well aware that Countrywide had increasingly widened its underwriting guidelines year over year from 2004 through 2006, and Countrywide's loan quality had deteriorated as a result.

J. Countrywide's Collapse

101. In the first quarter of 2007, subprime 80/20s experienced high levels of defaults and delinquencies, which caused severe disruptions in the secondary market for subprime loans. On January 31, 2007, two members of Countrywide's Risk Management participated in the annual meeting of the American Securitization Forum ("ASF"), which was attended by sophisticated investors who purchased mortgage backed securities in the secondary market. They reported

back in a February 2, 2007 email, which was forwarded to Sambol, and noted that, "[t]he obvious big topic of concern was 2006 vintage performance, both prime and nonprime. **All recognize that 80/20's (and the layered risk on top of them) are definitely the main culprit** and are concerned that the rating agencies sized it wrong. All want to know when we are pulling back guidelines...and why we haven't already." (emphasis added.) They went on to note that, **"[i]nvestors believed that 100% financing and layered risk is the driver."** (emphasis added.)

102. One of the Countrywide employees attending the conference observed that higher than expected losses on 80/20 loans caused investors to fear increasingly high losses and the possibility that their investments, which, in many cases, had received AAA ratings, would be downgraded. The secondary market for 80/20 loans essentially evaporated after the conference. In 2007, as a result of the increasingly risky loans that it had been underwriting, Countrywide began to report extensive credit problems. In May 2007, Countrywide disclosed in its Form 10-Q for the first quarter of 2007 that its consolidated net earnings for the quarter were $434 million, a 37% **decrease** from net earnings in the first quarter of 2006. Countrywide indicated that its first quarter results had been negatively impacted by higher delinquencies related to its subprime lending, which had caused the company to (1) take a write down of $217.8 million due to its inability to sell certain of its subprime loans into the secondary market; (2) reduce the estimated value of its retained servicing rights by $429.6 million; and (3) increase its allowance for loan losses on loans held for investment by $95.9 million.

103. Then, on August 9, 2007, Countrywide disclosed in its Form 10-Q for the second quarter of 2007 that its consolidated net earnings for the quarter were $485 million, a 33% net decrease from the second quarter of 2006. Countrywide attributed the decline to credit-related costs, specifically, a $417.2 million impairment loss on its retained interests, including $388.1 million related to home

equity loans, and a $231 million increase in its allowance for loan losses. On July 24, 2007, in the earnings release teleconference, Countrywide disclosed for the first time that its definition of "prime" loans included loans made to borrowers with FICO scores as low as 500, and that 80% of its portfolio of Pay-Option loans held for investment were underwritten based upon reduced documentation. After the disclosures regarding its credit risk on July 24, 2007, Countrywide's share price dropped from the previous day's close of $34.06 to $30.50 on July 24, an 11% decline.

104. Concurrent with its rising credit losses, Countrywide experienced a liquidity crisis in August 2007. Revenues from Countrywide's capital markets loan sales and securitizations had dropped from $553.5 million in pre-tax earnings in 2006 to $14.9 million in 2007, and Countrywide found itself unable to access the short term credit markets by issuing commercial paper. As a result, on August 16, 2007, Countrywide announced that it had drawn down its entire $11.5 billion credit facility to supplement its cash position. Following that announcement, the ratings agencies downgraded Countrywide's securities, and Countrywide's stock declined from $21.29 per share to $18.95, another approximately 11% decline.

105. On August 23, 2007, Countrywide announced that Bank of America had invested $2 billion in Countrywide in exchange for non-voting preferred securities.

106. On October 26, 2007, Countrywide reported a quarterly loss of $1.2 billion. The company's Form 10-Q, filed on November 9, 2007, disclosed that Countrywide had taken a $1 billion impairment loss on its loans held for sale and mortgage backed securities, and had taken $1.9 billion in credit charges related to its allowance for loan losses and its provision for representations and warranties on loans it had securitized and sold. In the October earnings call, Mozilo nevertheless assured investors that the company would return to profitability in the fourth quarter of 2007 - a representation that caused Countrywide's share price to rise from its

previous day's close of $13.07 to $17.30 after the call, despite its poor performance in that quarter.

107. Thereafter, Countrywide's share price continued to trend downward, driven in part by bankruptcy rumors, until it closed at $8.94 on December 31, 2007. Then, on January 8, 2008, Countrywide's shares dropped 28%, from $7.64 to $5.47, again on rumors that the company intended to file for bankruptcy. On January 11, 2008, prior to reporting its year-end 2007 results, Countrywide announced that it was being acquired by Bank of America in an all stock transaction estimated to have an approximate value of $4 billion.

108. On March 29, 2008, in its Form 10-K for the year ended December 31, 2007, Countrywide disclosed that the contraction of the secondary market for its loans had increased its financing needs because it was required to hold loans for longer periods pending sale and certain loans had become unmarketable and had to be held for investment. In response to these funding needs, Countrywide disclosed that it had: (1) speeded integration of mortgage banking activities into Countrywide Bank to reduce its dependency on the secondary markets; (2) taken a $2 billion infusion from Bank of America in exchange for shares of preferred stock; (3) drawn down an $11.5 billion credit line to maintain liquidity; and (4) revised its product offerings and underwriting guidelines, such that the majority of its loan production was again eligible for sale to the government sponsored entities.

K. Stock Sales of Mozilo and Sambol

109. Both Mozilo and Sambol realized profits on sales of Countrywide stock in 2005, 2006, and 2007, through stock sales pursuant to various 10b5-1 plans. From May 9, 2005, when the Form 10-Q for the first quarter of 2005 was filed, through the end of 2007, Mozilo exercised stock options and sold the underlying shares for total proceeds of at least $260 million, and Sambol exercised stock options and sold the underlying shares for total proceeds of at least $40 million.

L. Mozilo, Sambol, and Sieracki Participated in Several Offerings of Countrywide Securities While the Misleading Periodic Reports Were Outstanding

110. On February 9, 2006, Countrywide filed a registration statement on Form S-3ASR that registered a then indeterminate amount of common stock, preferred stock, stock purchase contracts, stock purchase units, and debt securities of Countrywide. Thereafter, Countrywide filed 180 prospectus supplements identifying the securities it was offering for sale, including a Post-Effective Amendment to that Form S-3ASR dated October 30, 2006. On November 16, 2007, Countrywide filed a registration statement on Form S-3ASR that registered $2 billion worth of Series A Floating Rate Convertible Senior Debentures and $2 billion worth of Series B Floating Rate Convertible Senior Debentures. Sieracki, Sambol and Mozilo signed all of these offerings, each of which incorporated one of the false Form 10-Ks by reference.

M. Insider Trading By Mozilo

111. Mozilo also engaged in insider trading in Countrywide securities. Mozilo established four sales plans pursuant to Rule 10b5-1 of the Exchange Act in October, November, and December 2006 while in possession of material, non-public information concerning the operations and financial condition of Countrywide.

C. Countrywide's Insider Trading Policy

112. During the relevant period, Countrywide had an insider trading policy in effect, dated as of June 24, 2005, which prohibited trading in Countrywide securities on the basis of material non-public information. The policy included a section entitled "Material Information" that stated:

> 3.2 Material Information
>
> U.S. federal securities laws prohibit transactions while aware of material nonpublic information. "Material" information means information relating to the

company with publicly traded securities, which, if publicly disseminated, would likely affect the market price of any of its securities, or which would likely be considered important by a reasonable investor in determining whether to buy, sell, or hold such securities.

In addition, the policy included a section regarding 10b5-1 sales plans that stated:

> 4.3 10b5-1 Trading Arrangements
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> A. Section 10b5-1 of the Exchange Act creates an exception to the prohibition against trading while in the possession of material nonpublic information. In order to take advantage of the exception set forth in Section 10b5-1 of the Exchange Act, Directors and Executives Officers must enter into a 10b5-1 Trading Plan; provided that such Trading Plan:
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> i. specifies the amount of shares to be purchased or sold and the price at which and the date on which the shares are to be purchased or sold; or
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> ii. includes a written formula or algorithm, or computer program, for determining the amount of shares to be purchased or sold and the price at which and the date on which the shares are to be purchased or sold; or
>
> iii. does not permit the individual to exercise any subsequent influence over how, when or whether to effect purchases or sales; provided, in addition, that any other person who, pursuant to the contract, instruction, or plan, did exercise such influence must not be aware of the material nonpublic information when doing so; and
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> iv. was acknowledged by Countrywide in writing and pre-cleared by the Office of the Chief Legal Officer.

113. Mozilo knew about and understood the Countrywide insider trading policy. In addition, prior to the execution of each 10b5-1 sales plan, Countrywide's legal department was required to review and approve the sales plan

and Mozilo was required to orally represent to Countrywide's general counsel that he was not in possession of material non-public information.

2. **Mozilo Established His 2006 10b5-1 Sales Plans While In Possession of Material, Nonpublic Information**

114. As set forth in section E. above, in 2006, Mozilo possessed material non-public information regarding the characteristics and performance of Pay-Option ARM loans as well as increasing credit risks associated with this product. None of this information was disclosed to the public prior to the establishment of Mozilo's sales plans in October, November, and December 2006.

115. As set forth in section F. above, in 2006, Mozilo learned of red flags concerning Countrywide's expanded underwriting guidelines and concluded that certain of Countrywide's mortgage loans would have a future detrimental financial impact on the company. In response to this information, beginning in early 2006, Mozilo raised his concerns with other members of senior management and instructed them to take action to mitigate risks associated with lower quality loans.

116. While in possession of this material, non-public information, Mozilo established four different Rule 10b5-1 plans.

117. On October 27, 2006, Mozilo established a sales plan that directed his broker to exercise 3,989,588 stock options and sell the underlying shares on specific days set forth in the plan beginning on November 1, 2006 and ending no later than October 5, 2007 (the "October 2006 Plan").

118. Mozilo gave final approval to create the October 2006 Plan during a meeting with his financial advisor on September 25, 2006, one day before sending an e-mail to Sambol and Sieracki, as described in paragraphs 68 and 69 above, that stated among other things, that "**we are flying blind on how these loans will perform in a stressed environment of higher unemployment, reduced values and slowing home sales.**" (emphasis added).

119. Also on October 27, 2006, Mozilo established a sales plan in the name of the Mozilo Family Foundation, a charitable organization that he chaired, that directed the broker to sell 91,999 shares of Countrywide stock held by the Foundation: 23,000 shares to be sold on November 1, 6, and 16, 2006 and 22,999 shares to be sold on November 21, 2006 (the "Foundation Plan").

120. On November 13, 2006, Mozilo established a sales plan for the Mozilo Living Trust, a revocable trust created for the benefit of his family, that directed the broker to sell 100,000 shares of Countrywide stock in lots of 25,000 shares on November 16, 21, 29, and December 4, 2006 (the "Trust Plan").

121. On December 12, 2006, Mozilo established a sales plan that directed his broker to exercise 1,389,580 stock options and sell the underlying shares on specific days set forth in the plan beginning on January 5, 2007 and ending no later than December 14, 2007 (the "December 2006 Plan").

122. Mozilo executed the December 2006 Sales Plan five days after he circulated a memorandum, described in paragraph 52 above, to all managing directors and the board of directors that analyzed subprime mortgages.

123. On February 2, 2007, Mozilo amended the December 2006 Plan ("February Amendment") by directing the exercise of an additional 2,467,777 stock options and selling the underlying shares on the schedule already set forth in the December 2006 Plan.

124. From November 2006 through October 2007, Mozilo exercised over five million stock options and sold the underlying shares pursuant to the four sales plans, realizing gains of over $139 million.

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FIRST CLAIM FOR RELIEF

FRAUD IN THE OFFER OR SALE OF SECURITIES

Violations of Section 17(a) of the Securities Act

(Against All Defendants)

125. The Commission realleges and incorporates by reference ¶¶ 1 through 124 above.

126. Defendants, and each of them, by engaging in the conduct described above, directly or indirectly, in the offer or sale of securities by the use of means or instruments of transportation or communication in interstate commerce or by the use of the mails:

a. with scienter, employed devices, schemes, or artifices to defraud;

b. obtained money or property by means of untrue statements of a material fact or by omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

c. engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

127. By engaging in the conduct described above, Defendants violated, and unless restrained and enjoined will continue to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

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SECOND CLAIM FOR RELIEF

FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES

Violations and Aiding and Abetting Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder

(Against All Defendants)

128. The Commission realleges and incorporates by reference ¶¶ 1 through 124 above.

129. Defendants, and each of them, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

a. employed devices, schemes, or artifices to defraud;

b. made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or

c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

130. By engaging in the conduct described above, Defendants violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

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THIRD CLAIM FOR RELIEF

VIOLATIONS OF COMMISSION PERIODIC REPORTING REQUIREMENTS

Aiding and Abetting Violations of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder

(Against All Defendants)

131. The Commission realleges and incorporates by reference ¶¶ 1 through 124 above.

132. Countrywide violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder, by filing with the Commission annual reports on Form 10-K for fiscal years 2005, 2006, and 2007 and quarterly reports on Form 10-Q for each quarter in 2005, 2006, and 2007 that were materially false and failed to include material information necessary to make the required statements, in light of the circumstances under which they were made, not misleading.

133. Mozilo, Sambol, and Sieracki knowingly provided substantial assistance to Countrywide in its violation of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder in connection with Countrywide's annual reports for fiscal years 2005, 2006, and 2007 and its quarterly reports for each quarter in 2005, 2006, and 2007.

134. By engaging in the conduct described above and pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Mozilo, Sambol, and Sieracki aided and abetted Countrywide's violations, and unless restrained and enjoined will continue to aid and abet violations, of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder.

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FOURTH CLAIM FOR RELIEF

CERTIFICATION VIOLATIONS

Violations of Rule 13a-14 of the Exchange Act

(Against Defendants Mozilo and Sieracki)

135. The Commission realleges and incorporates by reference ¶¶ 1 through 124 above.

136. Mozilo and Sieracki violated Rule 13a-14 by signing the certifications included with Countrywide fiscal year 2005, 2006, and 2007 Forms 10-K, certifying, among other things, that the forms fully complied with the requirements of the Exchange Act and fairly presented, in all material respects, the financial condition and results of operations of the company, when, in fact, the reports contained untrue statements of material fact and omitted material information necessary to make the reports not misleading.

137. By engaging in the conduct described above, defendants Mozilo and Sieracki violated Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14. Unless restrained and enjoined, defendants Mozilo and Sieracki will continue to violate Rule 13a-14, 17 C.F.R. § 240.13a-14.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

I.

Issue findings of fact and conclusions of law that the defendants committed the alleged violations.

II.

Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendant Mozilo and his agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, from violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act,

and Rules 10b-5 and 13a-14 thereunder, and from aiding and abetting violations of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder.

III.

Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendant Sambol and his agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, from violating Section 17(a) of the Securities Act, and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, and from aiding and abetting violations of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder.

IV.

Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendant Sieracki and his agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, from violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rules 10b-5 and 13a-14 thereunder, and from aiding and abetting violations of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder.

V.

Enter an order, pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), prohibiting defendants Mozilo, Sambol, and Sieracki from acting as officers or directors of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

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VI.

Order defendants Mozilo and Sambol to disgorge all ill-gotten gains from their illegal conduct, together with prejudgment interest thereon.

VII.

Order defendants Mozilo, Sambol, and Sieracki to pay civil penalties under Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

VIII.

Order defendant Mozilo to pay a civil penalty under Section 21A(a) of the Exchange Act, 15 U.S.C. § 78u-1(a).

IX.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

X.

Grant such other and further relief as this Court may determine to be just and necessary.

DATED: June 4, 2009

Lynn M. Dean

JOHN M. McCOY, III
SPENCER E. BENDELL
LYNN M. DEAN
SAM PUATHASNANON
PARIS WYNN
Attorneys for Plaintiff
Securities and Exchange Commission

DEMAND FOR JURY TRIAL

Plaintiff hereby demands trial by jury.

DATED: June 4, 2009

Lynn M. Dean

JOHN M. McCOY, III
SPENCER E. BENDELL
LYNN M. DEAN
SAM PUATHASNANON
PARIS WYNN
Attorneys for Plaintiff
Securities and Exchange Commission

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

SHEILA C. BAIR
CHAIRMAN

September 17, 2010

Honorable Carl Levin
Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed please find a signed copy of a revised and much-strengthened memorandum of understanding among the FDIC and other bank regulators which will greatly enhance our ability to continually access and monitor information related to our risks as deposit insurer. I believe this is a very strong agreement and one which we accomplished due in no small part to the work of your Subcommittee in identifying weaknesses in the supervisory processes leading up to the failure of Washington Mutual. I appreciate and applaud your leadership and support for a strengthened MOU.

Best Regards,

Sheila C. Bair

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #947

PSI-FDIC-13-000001

Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

Office of the Comptroller of the Currency

Office of Thrift Supervision

Interagency Memorandum of Understanding on Special Examinations

This Memorandum of Understanding ("MOU"), dated as of July 14, 2010, is made and entered into by and among The Federal Deposit Insurance Corporation ("FDIC" or the "Corporation"), the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("FRB"), and the Office of Thrift Supervision ("OTS") (the OCC, FRB and OTS collectively, the "Agencies;" and separately, the "PFR") This MOU concerns the implementation of Section 10(b)(3) of the Federal Deposit Insurance Act that provides that examiners appointed by the Board of Directors of the Corporation "shall have power, on behalf of the Corporation, to make any special examination of any insured depository institution whenever the Board of Directors determines a special examination of any such depository institution is necessary to determine the condition of such depository institution for insurance purposes."

I. Objectives

The Objectives of this MOU are to:

(1) Facilitate the FDIC's implementation of its special examination authority under Section 10(b)(3) of the Federal Deposit Insurance Act ("FDI Act");

(2) Establish arrangements for coordination and cooperation between the Agencies and the FDIC, consistent with the respective authorities of each.

(3) Avoid unnecessary duplication of effort; and

(4) Facilitate the ability of the FDIC and each of the Agencies to effectively and efficiently carry out their respective responsibilities.

II. IDI Coverage

Under this MOU, Special Examinations may be made by the FDIC with respect to the insured depository institutions ("IDIs") defined in this Part II of this MOU ("Covered IDIs"):

(1) IDIs with composite PFR ratings of "3", "4" or "5", and IDIs that are undercapitalized under Prompt Corrective Action standards ("Problem IDIs").

(2) IDIs that have a heightened risk to the Deposit Insurance Funds defined as follows: (a) CAMELS 1- or 2-rated institutions that fall under FDIC's large bank deposit insurance pricing method if their initial assessment rate ("IAR") is in the top 66 percent of the IAR range;[1] and (b) small institutions that are CAMELS 2-rated and the FDIC's Statistical CAMELS off-site Rating ("SCOR") indicates their probability of downgrade is 50 percent or greater or their rank according to the FDIC's Growth Monitoring System ("GMS") is in the 98 percentile. ("Heightened Insurance Risk IDIs"). For the purposes of this section II(2), "Large Institutions" are IDIs with assets of $10 billion or more, and "Small Institutions" are IDIs with assets of less than $10 billion. The FDIC will provide the PFR access to SCOR and GMS.[2]

(3) Large, complex IDIs, consisting of (a) mandatory Basel II "Advanced Approach" institutions as may be determined from time to time, and (b) IDI subsidiaries of any non-bank financial company or large interconnected bank holding company that are subject to heightened prudential standards recommended by the Council under Section 115(a)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 as may be agreed upon from time to time by the FDIC and the relevant PFR.("Large IDIs").

(4) IDIs that are affiliated with entities that have had greater than $5 billion of borrowings under the FDIC TLGP program ("TLGP-IDIs").

III. Guidelines for the Conduct of Special Examinations

(1) In making Special Examinations, the FDIC's focus will be on gathering and evaluating information obtained by the FDIC from the Agencies, State banking regulators, IDIs, and other sources that is necessary for insurance purposes, namely information to determine the risk that is presented to the Deposit Insurance Fund (DIF), price deposit insurance, assess the probability of default, estimate any potential loss to the DIF, develop contingent resolution plans, and such other matters that are necessary for deposit insurance purposes.

(2) In making Special Examinations, the FDIC shall use the reports of examination made by the PFR and any appropriate State regulator, other information available from the PFR and State regulator, and information provided by other Federal or State agencies to the fullest extent possible, without limiting the authority of the FDIC referenced in section III(4) to make Special Examinations of IDIs both covered and uncovered by this MOU. The FDIC will notify the PFR before the FDIC obtains any information directly

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[1] The IAR range contemplated under this MOU is 10 basis points to 50 basis points. Under this formula an IDI is a Covered IDI for two calendar quarters following the last calendar quarter in which the IDI was a Covered IDI as determined under section II(2)(a) above. Should the FDIC modify the IAR range in the future the Agencies and FDIC will jointly confirm that the top percentage of the IAR range stated in section II(2) remains appropriate.

[2] The FDIC will provided advanced notice of any modifications of the SCOR and GMS models affecting the thresholds in section II(3) and confirm that the thresholds remain appropriate.

from an IDI, explaining why additional information beyond what is currently available from the PFR is needed.

(3) At Large IDIs and TLGP-IDIs, the FDIC will establish a continuous on-site full-time Staff presence with the number of staffers depending on the size of the IDIs. To meet its staffing needs, it is the intention of the FDIC to assign up to no more than (a) five full-time on-site staffers at IDIs with U.S holding companies that have total assets of $750 billion or more, and (b) three full time on-site staffers for Large, Complex IDIs with U.S. holding companies that have total assets of less than $750 billion. Additional full-time on-site staffing shall be subject to mutual agreement between the FDIC and the PFR. The FDIC also may determine, based on particular events or specific circumstances, that required information is not available from the PFR, and that it is necessary to be on-site to gather such information, and that additional staff is temporarily needed on-site in order to obtain such information.

(4) The Agencies recognize that the FDIC Board of Directors has the authority under Section 10(b)(3) of the FDI Act to direct the making of Special Examinations in situations covered and not covered by this MOU.

IV. Coordination and Information Sharing

(1) FDIC will, to the fullest extent possible, without limiting the authority of the FDIC referenced in section III(4) to make Special Examinations of IDIs both covered and uncovered by this MOU, conduct special examinations of any covered IDI in accordance with this MOU, provide the PFR with reasonable prior notice of any proposed Special Examination activities, coordinate its work with the relevant PFR, and avoid unnecessary duplication of activities. The FDIC will notify the relevant PFR prior to conducting a Special Examination under Section 10(b)(3) of the FDI Act of a covered or uncovered IDI outside of the provisions of this MOU explaining the reasons for such a Special Examination. In the case of such a Special Examination, the FDIC and the PFR will use their best efforts to coordinate, cooperate, share and use information in accordance with Section IV of this MOU.

(2) One FDIC on-site examiner will be identified as the point of contact for the PFR. ("FDIC Contact")

(3) One PFR on-site examiner will be identified as the point of contact for the FDIC. ("PFR Contact")

(4) The FDIC will inform the PFR Contact on an on-going basis of the FDIC's special examination planning and scoping activities, as well as any significant changes thereto, and will provide reasonable prior notice to the PFR Contact of any unscheduled special examinations of the IDI and of meetings with the Board of Directors and board committees of the IDI. The FDIC Contact and the PFR Contact may also agree on other types of meetings for which notice would be provided. The FDIC will also provide the PFR on an ongoing basis, through the PFR Contact, with access to results of FDIC Special Examinations, including material deposit insurance related issues and risk assessments, and other FDIC Special Examination information prepared by the FDIC.

(5) The PFR will inform the FDIC Contact on an on-going basis of the PFR's examination planning and scoping activities, as well as any significant changes thereto, and will provide reasonable prior notice to the FDIC Contact of any unscheduled special examinations of the IDI and of meetings with the Board of Directors and board committees of the IDI. The PFR Contact and the FDIC Contact may also agree on other types of meetings for which notice would be provided. The PFR will also provide the FDIC on an ongoing basis, through the FDIC Contact, with access to supervisory information prepared by the PFR, including risk assessments, supervisory plans, and reports of examination prepared by the PFR.

(6) The FDIC Contact may request to participate in examinations and meetings with IDI personnel conducted by the PFR. The PFR Contact and FDIC Contact shall consult regarding such requests. In the event the PFR declines the request, the FDIC Contact shall provide reasonable prior notice to the PFR Contact before proceeding separately to conduct any Special Examination activities or meetings.

(7) The PFR Contact may request to participate in examinations and meetings with IDI personnel conducted by the FDIC. The FDIC Contact and the PFR Contact shall consult regarding such requests.

(8) On an on-going basis, no less frequently than quarterly, representatives of the FDIC will meet with appropriate representatives of the PFR to discuss the risk profile, current condition, identified supervisory matters, and material deposit insurance related issues and risk assessments with respect to Covered Institutions. On a quarterly basis, FDIC will share lists of all IDIs meeting the criteria specified in II(1)-II(4), above.

V. CAMELS Rating Differences

Differences in CAMELS ratings between the FDIC and the appropriate PFR will be communicated by the FDIC Contact to the PFR Contact in writing, including an explanation of the basis for the FDIC's position. In the event those officials are unable to resolve the ratings disagreement, the matter shall be referred to the Director of the FDIC Division of Supervision and Consumer Protection (the "Director") (or other officer of the Corporation designated by the Chairman of the FDIC) and the appropriate senior-most supervision official of the PFR for resolution. Any decision by the FDIC to depart from the appropriate PFR's assigned rating will be made by the Director of the FDIC Division of Supervision and Consumer Protection (or other officer of the Corporation designated by the Chairman of the FDIC) after consultation with the Chairman of the FDIC.

Federal Deposit Insurance Corporation

BY: _____

Office of the Comptroller of the Currency

BY: _____

Board of Governors of the Federal Reserve System

BY: _____

Office of Thrift Supervision

BY: _____

TESTIMONY OF VICKIE A. TILLMAN,
EXECUTIVE VICE PRESIDENT,
STANDARD & POOR'S CREDIT MARKET SERVICES,
BEFORE THE SUBCOMMITTEE ON CAPITAL MARKETS,
INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES
UNITED STATES HOUSE OF REPRESENTATIVES

SEPTEMBER 27, 2007

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #962

Mr. Chairman, Members of the Subcommittee, good afternoon. I am Vickie A. Tillman, Executive Vice President of Standard & Poor's ("S&P") Credit Market Services, and head of Ratings Services, our nationally recognized statistical rating organization ("NRSRO"). I appreciate the opportunity to appear before you today. I especially appreciate your invitation because I believe it is important to clarify the role of rating agencies such as S&P in the financial markets, the rigor S&P applies in fulfilling that role, and our overall record of delivering unbiased opinions on creditworthiness. To that end, I also welcome the opportunity to address some questions that have been raised about how we have served the market in the midst of unprecedented conditions in the subprime mortgage market and the credit crunch and pressure on the economy that have followed.

I want to assure you at the start of my testimony that we have learned hard lessons from the recent difficulties in the subprime mortgage area. While we fully agree with Secretary Paulson's observation last week that "the subprime mortgage market improved access to credit and homeownership for millions of Americans," it appears that abuses may have occurred in the origination process. We support Congress' efforts to investigate those abuses and to prevent their recurrence. For our part, we are taking steps to ensure that our ratings — and the assumptions that underlie them — are analytically sound in light of shifting circumstances. As I am sure you know, and as my testimony will set forth in some detail, S&P began downgrading some of its ratings in this area towards the end of last year and had warned of deterioration in the subprime sector long before that. Nonetheless, we are fully aware that, for all our reliance on our analysis of historically rooted data that sometimes went as far back as the Great Depression, some of that data has proved no longer to be as useful or

reliable as it has historically been. Additionally, the collapse of the housing market itself has been both more severe and more precipitous than we had anticipated. As I will describe in more detail later, we have taken a number of steps in response to enhance our analytics and process and continue to look for ways in which to do still more.

Our reputation and our track record are the core of our business, and when they come into question, we listen and learn. We take our work seriously, very seriously, and at no time in our history more than now, as I speak to you.

In my testimony I would like to address four broad topics:

- First, the nature of S&P's ratings and their role in the capital markets;
- Second, S&P's approach to rating residential mortgage-backed securities ("RMBS"), including mortgage securities backed by subprime mortgage loans;
- Third, a number of the questions that have been raised in the press and elsewhere related to ratings, including:
    - Questions as to whether payment of fees by issuers presents a conflict of interest that could compromise analytical independence;
    - Questions as to whether S&P is somehow involved in "structuring" RMBS and other structured finance transactions;
    - Questions about the appropriateness of our ratings because securities backed by subprime collateral sometimes receive 'AAA' ratings; and
    - Questions about whether S&P has acted too slowly in responding to the deterioration of the subprime mortgage market.

- Fourth, steps we have taken in light of the Credit Rating Agency Reform Act passed by this body in 2006.

Ratings and Their Role In The Capital Markets

I would like to begin today by discussing the nature of our credit ratings, as it appears from numerous press reports that this matter is sometimes misunderstood. At their core, S&P's credit ratings represent our opinion of the likelihood that a particular obligor or financial obligation will timely repay owed principal and interest. Put another way, we assess the likelihood, and in some situations the consequences, of default — nothing more or less.

When we issue a rating on a particular security we are expressing our view that the security shares similar credit characteristics to those securities that have, in the past, represented a particular range of credit risk. A bond that we rate as 'BBB' has received the lowest of our so-called "investment grade" ratings; one rated 'BB' has received the highest non-investment grade rating. "Investment grade" securities are those securities that certain regulated investors may legally purchase. On S&P's ratings scale, such securities are those rated at the 'BBB' level or higher. Since we began rating RMBS in the late 1970's, only 1.09% of those securities rated by us 'BBB' have ever defaulted. For 'BBs' this number is 2.11%. Thus, when we rate securities, we are *not* saying that they are "guaranteed" to repay but the opposite: that some of them *will* likely default. Even our highest rating — 'AAA' — is not a guarantee or promise of performance. 'AAAs' do default and have defaulted, although rarely.

Another misconception about ratings relates to their purpose and use. Ratings speak to one topic and one topic only — credit risk. As we have repeatedly made clear in public statements, including statements to the SEC, testimony before Congress, and innumerable press releases, ratings do *not* speak to the likely market performance of a security. Thus, ratings clearly do not address:

- Whether investors should "buy", "sell" or "hold" rated securities;
- Whether any particular rated securities are suitable investments for a particular investor or group of investors;
- Whether the expected return of a particular investment is adequate compensation for the risk;
- Whether a rated security is in line with the investor's risk appetite;
- Whether the price of the security is appropriate or even commensurate with its credit risk; or
- Whether factors other than credit risk should influence that market price, and to what extent.

I want to be clear. Ratings matter; as the individual who oversees S&P's ratings business I would be the last person to suggest to you that they do not. But in the current climate, it is especially important to bear in mind just what it is we do and that other developments also affect market perceptions and behavior. The current credit crunch is very real, but we certainly have not witnessed widespread defaults of mortgage-backed securities. This dynamic and its relationship to the nature of ratings was recently recognized by one of Europe's top regulators, Mr. Eddy Wymeersch, Chairman of the Committee of European Securities Regulators and also Chairman of Belgium's Banking and Financial Commission. According to Mr. Wymeersch:

> "[t]he press and general opinion is saying it's the fault of the credit rating agencies . . . Sorry, the ratings are just about the probability of default. Nothing more. Now we have a liquidity crisis and not a solvency crisis."

Though they may move more slowly than market prices, ratings are not designed to be static. Our view of an RMBS transaction evolves as facts and circumstances develop, often in ways that are difficult to foresee. We issue ratings and, as new information becomes available with the passage of time, we either affirm those ratings — *i.e.*, leave them unchanged — upgrade them, downgrade them, or put them on CreditWatch, which is a warning to the market that the rating is subject to change after a pending review. To make such decisions, we perform surveillance on our ratings. I will discuss our surveillance process in greater detail a little later on, but the three important points here are:

- That we have a team and process in place whose responsibility it is to monitor developments and bring about ratings changes to reflect those developments as appropriate;
- Changes in RMBS ratings are not based on speculation or market sentiment; and
- Such changes are often based upon events which were not predictable.

To cite only a few recent examples on this last point, the level of early payment default trends in recent subprime loans is unprecedented; so is the fact that, while individuals who purchased homes have generally paid their mortgages before paying off their credit cards, that now appears no longer to be true to the extent it once was; so is the reality that, while individuals who live in homes they purchase historically repay the mortgages on these homes more regularly than those who live elsewhere, that long-standing pattern now appears of questionable validity in a striking number of cases. These are ahistorical behavioral

modes, ones of particular import at a time of a substantial fall in real estate prices, and ones that, together with other factors, required downgrading some RMBS ratings even though no substantial amount of pool losses have occurred.

I said earlier that we have made repeated statements about the nature and role of ratings. To the extent those efforts have failed to communicate sufficiently clearly about that topic, we view this hearing, and this process overall, as an opportunity to begin to rectify that. We recognize that we bear primary responsibility for getting the message out. We are making, and will continue to make, every effort to do so.

S&P's Rating of Securities Backed By Mortgage Loans, Including Subprime Loans

Our ratings of residential mortgage-backed securities, particularly RMBS backed by pools containing subprime mortgage assets, have recently received a significant amount of attention. S&P has been rating RMBS for thirty years and has developed industry-leading processes and models for evaluating the creditworthiness of these transactions. As a result, S&P has an excellent track record of assessing RMBS credit quality. For example, S&P's cumulative U.S. RMBS default rate by original rating class (through September 15, 2007) is as follows:

Initial Rating	% of Default
AAA	0.04
AA	0.24
A	0.33
BBB	1.09
BB	2.11
B	3.34

Default statistics are the critical measure of ratings analytics because, as I explained earlier, at their core ratings speak to the likelihood of timely repayment, not other market factors, such as supply and demand, that may go into the pricing of securities. Moreover, these default numbers for our RMBS ratings are lower, in some cases materially lower, than the long-term default rates for similar ratings issued on corporate bonds.

While evaluating the credit characteristics of the underlying mortgage pool is part of our RMBS ratings process, S&P does not rate the underlying mortgage loans made to homeowners or evaluate whether making those loans was a good idea in the first place. Originators make loans and verify information provided by borrowers. They also appraise homes and make underwriting decisions. In turn, issuers and arrangers of mortgage-backed securities bundle those loans and perform due diligence. They similarly set transaction structures, identify potential buyers for the securities, and underwrite those securities. For the system to function properly, S&P relies, as it must, on these participants to fulfill their roles and obligations to verify and validate information before they pass it on to others, including S&P. Our role in the process is reaching an opinion as to how much cash we believe the underlying loans are likely to generate towards paying off the securities eventually issued by the pool. That is the relevant issue for assessing the creditworthiness of those securities.

As a practical matter, S&P's analysis of an RMBS transaction breaks down into the following categories:

The LEVELS® Model The first step in our analysis is evaluating the overall creditworthiness of a pool of mortgage loans by conducting loan level analysis using our Loan Evaluation and Estimate of Loss System (LEVELS®) Model. This model is built on, and

reflects, our analytical assumptions and criteria. S&P's criteria do not dictate the terms of the mortgage loans; those terms are set by the originator in the underwriting process. S&P collects up to seventy different types of inputs, including, but not limited to: the amount of equity a borrower has in the home; the loan type; the extent of income verification; whether the borrower occupies the home; and the purpose of the loan. This analysis allows us to quantify multiple risk factors, or the layered risk, and allows us to assess the increased default probability that is associated with each factor. Based on the individual loan characteristics, the LEVELS® model calculates probabilities of default and loss realized upon default. The assumptions and analysis embedded in the LEVELS® model are under regular review and are updated as appropriate to reflect our current thinking about rating residential mortgages.

As part of our commitment to transparency, S&P makes its LEVELS® model available to investors who wish to license it. The vast majority of those involved in issuing RMBS have access to LEVELS® and use it regularly. We also publicly announce any changes to our LEVELS® model in a timely manner. In other words, our basic criteria is out there every day, subject to criticism and comment.

The SPIRE® Model Another important aspect of our rating process is assessing the availability of cash flow, which comes from the monthly payments generated by the mortgage loans, to timely pay principal and interest. To do this, we use our Standard & Poor's Interest Rate Evaluator (SPIRE®) Model. The model uses the S&P mortgage default and loss assumptions (generated by the LEVELS® model) as well as interest rate assumptions. Like the LEVELS® model, our SPIRE® model reflects our analysis and assumptions and is regularly reviewed and updated as warranted.

Also like our LEVELS® model, our SPIRE® model is publicly available, used extensively by market participants, and subject to market comment and review every day.

Review of Originator and Servicer Operational Procedures S&P also reviews the practices, polices, and procedures of the originators and servicers primarily to gain comfort with the ongoing orderly performance of the transaction. For an originator, the topics we review include, but are not limited to: loan production practices; loan underwriting; and quality control practices and findings. S&P may adjust its credit support calculation based on the underwriting employed at origination.

Review of Legal Documents S&P also reviews, with the assistance of internal and external counsel, the legal documents of the securities to be issued, and, where appropriate, opinions of third-party counsel that address transfer of the assets and insolvency of the transferor, as well as security interest and other legal or structural issues. S&P reviews the underlying documentation in order to understand the payment and servicing structure of the transaction.

Credit Enhancement Any description of our ratings of RMBS would be incomplete without discussing the critical concept of credit enhancement. Credit enhancement is the protection (*i.e.*, additional assets or funds) needed to cover losses in deteriorating economic conditions, sometimes referred to as "stress". Sufficient credit enhancement allows securities backed by a pool of subprime collateral to receive what might otherwise be considered high ratings. One form of credit enhancement, although there are several, would occur if the pool has more in collateral than it issues in securities, thereby creating a cushion in the pool. We refer to this form of credit enhancement as

"overcollaterization," and it is a key component in our ratings analysis. It provides protection against defaults in the underlying securities. That is, if the pool ends up experiencing losses, it should still generate enough cash from which to pay the holders of the securities. I will discuss credit enhancement in more detail later in my testimony.

The Rating Committee After reviewing the relevant information about a transaction, including information related to credit enhancement, the lead analyst then takes the transaction to a rating committee. As with all S&P ratings, structured finance ratings are assigned by committee. Committees are comprised of S&P personnel who bring to bear particular credit experience and/or structured finance expertise relevant to the rating. The qualitative judgments of committee members at all stages of the process are an integral part of the rating process as they provide for consideration of asset and transaction specific factors, as well as changes in the market and environment. Personnel responsible for fee negotiations and other business-related activities are not permitted to vote in ratings committees and vice versa.

Notification and Dissemination Once a rating is determined by the rating committee, S&P notifies the issuer and disseminates the rating to the public for free by, among other ways, posting it on our Web site, www.standardandpoors.com. Along with the rating, we frequently publish a short narrative rationale authored by the lead analyst. The purpose of this rationale is to inform the public of the basis for S&P's analysis and enhance transparency to the marketplace.

Surveillance After a rating has been issued, S&P monitors or "surveils" the rating to review developments that could alter the original rating. The surveillance process seeks to

identify those issues that should be reviewed for either an upgrade or a downgrade because of asset pool performance that may differ from original assumptions. The surveillance function also monitors the credit quality of entities that may be supporting parties to the transaction, such as liquidity providers. Analysts review performance data periodically during the course of the transaction, and as appropriate present that analysis to a rating committee for review of whether to take a rating action. The rating committee then decides whether the rating change is warranted. For changes to public ratings, a press release is normally disseminated.

S&P's Commitment to Constant Improvement

While our ratings process is the product of three decades of analytical experience and excellence, we are always looking for ways to enhance that process and our analytics. This is a hallmark S&P principle and is especially true when, as with recent subprime loans, developments indicate that historically-rooted behavioral patterns that have served as solid foundations for analysis may lack their prior value.

By now there is no doubt that subprime loans made from late 2005 through at least early 2007 are behaving very differently from loans in prior periods, even when the loans share the same basic credit characteristics. For example, for years a primary indicator of a borrower's credit has been so-called FICO credit scores. FICO scores are provided by another independent market participant and are an industry standard. In recent loans, we are seeing borrowers with high FICO scores behaving in a manner consistent with how materially lower FICO borrowers have historically behaved. Similarly, as I observed earlier, there are a number of other ahistorical anomalies that make more problematic applying a number of historically-rooted assumptions about the behavior of borrowers. At the same time, these

behaviorial shifts appear *not* to be occurring in loans generated in 2004 and most of 2005, which include many of the same type of subprime characteristics present in the more recent loans. We are still gathering data to analyze the causes for these inconsistent market dynamics.

In response to these developments, and as part of our constant commitment to enhancing our analytical processes, S&P has already initiated a number of steps:

- We have significantly heightened the stress levels at which we rate and surveil transactions to account for deteriorating performance as evidenced by data we have received. We have also increased the frequency of our review of rated transactions;
- We are modifying (and will soon be releasing) our LEVELS® model to incorporate these new stress levels and other changes recently made to our ratings assumptions, as announced in our July 10, 2007 press release;
- We recently acquired IMAKE consulting and ABSXchange. These services have long provided data, analytics and modeling software to the structured finance community and we feel they will further enhance our in-depth surveillance process;
- We have also undertaken a survey of originators and their practices, particularly with respect to issues of data integrity. We are in the process of compiling the results of this survey and will publish those results when finalized; and

- We have hired a Chief Compliance Officer to augment our internal control procedures.

In addition to these steps, we continue to look at areas in which we can further enhance our analysis and processes. Some of the areas include:

- Our policies and procedures to protect against conflicts of interest;
- The quantity and quality of data available to us; and
- Modification of our analytics to reflect changing credit behaviors.

S&P's Response To Various Questions

Some have raised questions about ratings and the ratings process in recent months in light of the turmoil in the subprime mortgage market. As I have previously said, we are well aware that certain historically-rooted assumptions we made in determining which RMBS ratings to issue do not, in retrospect, appear to have remained as relevant as they previously have been. Whether that is because of factors unique to the period immediately prior to and after 2006 or whether we must change those assumptions on a long-term basis is a subject of robust and continuing examination and re-examination at S&P.

At the same time, some of the questions recently put to S&P reflect a fundamental misunderstanding of what ratings are or are based on inaccurate or, in some cases, incomplete information. Let me now address those questions.

The "Issuer Pays" Model Does Not Compromise the Independence and Objectivity of Our Ratings

A number of commentators have asked whether payment of fees by issuers and/or their representatives presents a conflict of interest that compromises the independence and objectivity of ratings. Skeptics question whether, in pursuit of fees, S&P and other major

rating agencies may give higher ratings than they otherwise would. Not only is this not true at S&P, but this line of questioning ignores the significant benefits of the "issuer pays" model to the market.

S&P currently makes all of its public ratings available to the market free of charge in real time. When a rating is assigned or changed, the announcement is made on our Web sites — www.sandp.com and www.ratingsdirect.com — and a press release is provided to news outlets and other media. Today there are approximately 9 million current and historical ratings available on RatingsDirect. In addition, as many as 1.3 million active ratings are available for free on www.sandp.com. The benefits to the market are obvious: any and all interested market participants can access the same information at the same time. It creates a level playing field and a common basis for analyzing risk. It also leads to higher quality ratings as our analysis is subject to market scrutiny and reaction every day from every corner of the capital markets.

This type of free, public disclosure and transparency is only possible under the "issuer pays" model. Developing and maintaining models and hiring experienced and skilled analytical talent is costly. Without payment by issuers, those costs would have to be covered by subscription fees, an approach with several insurmountable problems. A subscription model would severely limit the transparency and broad (and free) dissemination of ratings, as access would necessarily be expensive and exclusive to subscribers. Not only would this result in less, not more, information in the market, but it would also take away an important check on ratings quality — the constant scrutiny of a broad market. Moreover, because subscription fees would necessarily be significant (given the breadth of our ratings coverage

and the depth of our analysis), many investors, including the vast majority of individual investors, simply would not be able to afford access to ratings information. The likely result would be one of two equally harmful outcomes: either (i) these investors would have no meaningful access to ratings information; or (ii) a ratings black market would develop in which S&P's intellectual property — its ratings analysis — would be misused or resold in a manner all too consistent with the pervasive misuse of other intellectual property and with the same destructive impact.

As noted, some have questioned whether the "issuer pays" model has led S&P and others to issue higher, or less rigorously analyzed, ratings so as to garner more business. First and foremost, there is no evidence — none at all — to support this contention with respect to S&P. This is not surprising since it would be clearly against S&P's self-interest as well as its cornerstone principles.

Indeed, what evidence there is on the subject shows the opposite.

1. Consider, for instance, the performance of our RMBS ratings. As reflected in the chart below, in every year from 1994 through 2006, upgrades of U.S. RMBS ratings significantly outpaced downgrades by multiple factors — about 7:1 on average. The ratio was even higher from 2001-2006. That is to say, after S&P initially provided its ratings in this area, actual performance of the rated transactions led to upgrades far more often than downgrades as time passed.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
% of Ratings Upgraded	6.81	2.54	1.38	2.54	2.20	2.78	10.08	10.21	9.24	12.82	10.74	7.91	3.79
% of Ratings Downgraded	2.21	1.70	1.18	1.25	1.28	0.54	1.93	1.05	0.98	0.85	0.45	0.64	1.04

If, as some claim, S&P deliberately issued high ratings to please those who paid for them, one would expect that the initial (allegedly inflated) ratings would require downward adjustment to reflect actual performance. Similarly, one would expect default rates on our RMBS ratings to be higher — indeed, materially higher — than the statistics I cited earlier. But, over the years, the opposite has emphatically been the case.

2. Similarly, if S&P put revenue ahead of analytical rigor, we would not refuse to rate, as we have, transactions that do not meet our criteria. A recent highly publicized example occurred in Canada where significant amounts of asset-backed commercial paper became illiquid. The paper had not met S&P's minimum criteria and so we did not rate it. These are not the actions of an agency that would rate every deal that reaches our door.

3. The primacy of our reputation has been recognized by independent sources. A report prepared by two Federal Reserve Board economists found "no evidence" that rating agencies acted in the interest of issuers due to a conflict of interest. After detailed study, the report concluded that "rating agencies appear to be relatively responsive to reputation concerns and so protect the interests of investors." *See* Daniel M. Covitz & Paul Harrison, *Testing Conflicts of Interest at Bond Ratings Agencies with Market Anticipation: Evidence that Reputation Incentives Dominate* (Dec. 2003) at

http://www.federalreserve.gov/pubs/feds/2003/200368/200368pap.pdf.

The real question is not whether there are potential conflicts of interest in the "issuer pays" model, but whether they can be effectively managed by S&P and other credit rating agencies. Mr. Erik Sirri, director of the SEC's Division of Market Regulations, recently testified at a congressional hearing that the conflicts raised by this long-standing business model are indeed manageable. As Mr. Sirri testified:

> "Typically, [rating agencies] are paid by the underwriter or the issuer. That presents a conflict. But we believe that conflict is manageable. Credit rating agencies should have polices and procedures in place, and they should adhere to those policies and procedures when they evaluate deals."

S&P maintains rigorous policies and procedures designed to ensure the integrity of our analytical processes. For example, analysts are not compensated based upon the amount of revenue they generate. Nor are analysts involved in negotiating fees. Similarly, individuals responsible for our commercial relationships with issuers are not allowed to vote at rating committees. These policies, and others, have helped ensure our long-standing track record of excellence. As previously noted, our track record speaks for itself. Moreover, the Credit Rating Agency Reform Act of 2006, and the SEC's implementing regulations, give greater assurance that those policies will be enforced.

S&P Does Not "Structure" Transactions

Similar misunderstandings have led some to question whether rating agencies "structure" transactions, thereby threatening ratings independence. These questions are particularly troubling as they give false and negative impressions about a practice that benefits the markets — the open dialogue between issuers and ratings agencies.

It is true that our analysts talk to issuers of RMBS transactions as part of the ratings process, as they have traditionally had discussions with corporate issuers with respect to rating their non-structured securities. This dialogue provides benefits to the marketplace. Critical to our ability to rate transactions is a robust understanding of those transactions. Reading documents and reviewing the results of modeling are important, of course, but so is communication with the people responsible for the transaction itself. Through dialogue with issuers and their representatives our analysts gain greater insight into transactions to be rated, including any modifications to those transactions that may occur as the process goes forward. This dialogue promotes transparency into our ratings process, a virtue we believe in, and one that regulators have consistently espoused.

Nor does the dialogue amount to "structuring" by S&P, even in cases where the discussion is about the effect different structures may have on ratings. S&P does not tell issuers what they should or should not do. Our role is reactive. Using our models with set publicly available criteria, issuers provide us with information and we respond with our considered view of the ratings implications. In the process, and as part of our commitment to transparency, we also may discuss the reasoning behind our analysis. Those who question this practice ignore that the ratings process is not and should not be a guessing game. Without informed discussion, issuers would be proposing structure upon structure until they stumbled upon the structure that best matches with their goals. That certainly would not make the markets more transparent and efficient.

Nor should anyone view as suspicious the fact that some issuers structure transactions so as to achieve a specific rating result. Indeed, a variety of potential structures could merit a

particular result. Our role is to come to a view as to the structures presented, but not to choose among them. Again, we do not compromise our criteria to meet a particular issuer's goals. As noted, we make criteria publicly available. If we were not applying our criteria to particular transactions, it would be readily apparent to the market and would immediately diminish the credibility — and thus the value — of our ratings business.

Credit Enhancement — How Securities Backed By Subprime Mortgages Can Receive, and Merit, Investment Grade Ratings

A potentially incomplete understanding of the ratings process has also led to questions about how a pool of subprime mortgage loans can support securities with investment grade, even 'AAA' ratings. The answer lies in the concept of credit enhancement.

As discussed earlier, credit enhancement — additional assets or funds — affords protection against losses in deteriorating conditions. When an issuer comes to us with a pool of subprime loans to be used as collateral for an RMBS transaction, S&P is well aware, of course, that all of this collateral is not likely to perform from a default perspective like 'AAA' securities. Nonetheless, the pool of collateral loans *will* yield *some* amount of cash, even under the most stressful of economic circumstances.

A key component of our analysis is looking at the pool of collateral to determine how much credit enhancement — extra collateral, for example — would be needed to support a particular rating on the securities to be backed by that collateral. To do this, we analyze the expected performance of the collateral in stressful economic conditions. To determine the amount of credit enhancement that could support an 'AAA' rating, we use our most stressful economic scenario, including economic conditions from the Great Depression. The stress

scenarios are then adjusted for each rating category. Thus, if our analysis of a particular collateral pool's expected performance indicates that the pool would need 30% credit enhancement to support an 'AAA' rating, the issuer would have to have 30% additional collateral above and beyond the value of the securities issued in order for the securities issued by the pool to have enough credit enhancement for an 'AAA' rating. To put it in more concrete terms, if the pool was comprised of, for example, $1.3 million in collateral, it could only issue $1 million in 'AAA' rated securities in this scenario. This way, if the collateral performs poorly — and thirty percent in losses is very poor performance — there will still be sufficient collateral to cover losses incurred upon loan defaults. This credit enhancement figure would, of course, be lower for ratings other than 'AAA', as those ratings address the likelihood of repayment in less stressful economic environments. For example, the issuer might be able to issue $1.2 million in 'BBB' rated securities backed by the same collateral pool. Thus, it is not the case that through securitization, poor credit assets magically become solid investments. Rather, it is because, in our example, a pool has $1.3 million in collateral to support $1 million in securities that it may receive an entirely appropriate 'AAA' rating on those securities.

S&P Has Been Warning the Market, and Taking Action, in Response to Deterioration in the Subprime Market Since Early 2006

Others have questioned whether S&P has acted quickly enough in response to the deteriorating subprime market. Again, we believe these questions result from an incomplete understanding of the facts. S&P has spoken out — and taken action — early and often on subprime issues.

For some time S&P has been through our publications repeatedly and consistently informing the market of its concerns about the deteriorating credit quality of RMBS transactions. For example:

- In a January 19, 2006 article entitled *U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening*, we said: "Standard & Poor's expects that some of the factors that drove growth in 2005 will begin to soften in 2006 . . . . Furthermore, Standard & Poor's believes that there are increasing risks that may contribute to deteriorating credit quality in U.S. RMBS transactions; it is probable that these risks will be triggered in 2006."

- On May 15, 2006, in an article entitled *A More Stressful Test Of A Housing Market Decline On U.S. RMBS*, we reported on the results of our follow-up analysis to our September 2005 housing-bubble simulation. We stated: "[t]he earlier simulation had concluded that most investment-grade RMBS would weather a housing downturn without suffering a credit-rating downgrade, while speculative-grade RMBS might not fare so well . . . . In the updated simulation . . . [S&P used] more stressful macroeconomic assumptions [which] lead to some downgrades in lower-rated investment-grade bonds."

- On July 10, 2006, in an article entitled *Sector Report Card: The Heat Is On For Subprime Mortgages*, we noted that downgrades of subprime RMBS ratings were outpacing upgrades due to "collateral and transaction performance." The article also identifies "mortgage delinquencies" as a "potential hot button," and notes that such delinquencies "may become a greater concern for lenders and servicers."

- On July 17, 2006, we noted a 38% increase in downgrades in U.S. RMBS, a significant number of which came from the subprime market. *Structured Finance Global Ratings Roundup Quarterly: Second-Quarter 2006 Performance Trends.*

- On Oct. 16, 2006, in our *Ratings Roundup: Third-Quarter 2006 Global Structured Finance Performance Trends*, we reported a 15% decline in upgrades for U.S. RMBS while the number of downgrades more than tripled compared to the same period in 2005. We also noted that the quarter's ratings actions among RMBS transactions had set a record for the most performance-related downgrades.

- Then on December 8, 2006, in an article entitled *Credit Trends: 2007 Global Credit Strategy: Asset Class Outlook*, we informed the market of our view that "[c]redit quality in the RMBS sub-prime market has been under scrutiny this year. Standard & Poor's RMBS surveillance group sees the environment ahead as portending greater downgrade potential along with lower upgrade potential." We also stated that "the jump in third-quarter downgrade activity for the sub-prime market raises some risk flags for this segment; with 87 third-quarter downgrades adding to the 46 downgrades of the second quarter and 34 in the first."

- On January 16, 2007, in an article entitled *Ratings Roundup: Fourth-Quarter 2006 Global Structured Finance Performance Trends*, we stated: "Rating activity among subprime transactions has started to shift to being predominantly negative from being predominantly positive. . . . We expect this trend in subprime rating performance to continue during 2007."

- Ten days later on January 26, 2007, in our *Transition Study: U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006*, we reported that for 2006 "[d]owngrades overwhelmed upgrades for subprime mortgage collateral" and that we expected "losses and, therefore, negative rating actions to continue increasing during the next few months relative to previous years."

- Our statements to the market continued throughout the first half of 2007. On March 22, 2007, in an article entitled *A Comparison Of 2000 and 2006 Subprime RMBS Vintages Sheds Light On Expected Performance*, we stated: "[w]hile subprime mortgages issued in 2000 have the distinction of being the worst-performing residential loans in recent memory, a good deal of speculation in the marketplace suggests that the 2006 vintage will soon take over this unenviable position."

- In an April 27, 2007 article entitled *Special Report: Subprime Lending: Measuring the Impact*, we stated: "The consequences of the U.S. housing market's excesses, a topic of speculation for the past couple of years, finally have begun to surface. . . . Recent-vintage loans continue to pay the price for loosened underwriting standards and risk-layering in a declining home price appreciation market, as shown by early payment defaults and rising delinquencies."

- Then on June 26, 2007, in an article entitled *Performance of U.S. RMBS Alt-A Loans Continues To Deteriorate*, we reported: "The most disconcerting trend is how quickly the performance of these delinquent borrowers has deteriorated. We continue to see migration from 60-plus-day to 90-plus-day delinquencies within the 2006 vintage, suggesting that homeowners who experience early delinquencies are finding it increasingly difficult to refinance or work out problems, as opposed to being able to 'cure' falling behind on payments."

None of these warnings were hidden by S&P and I will gladly provide the Subcommittee with these documents. In addition to these warnings, we also took action in response to subprime deterioration. For example:

- On June 1, 2006, almost sixteen months ago, we tightened our criteria through changes in our LEVELS® model targeted to increase the credit enhancement requirements for pools with subprime loans. In announcing these changes to the market, we specifically identified subprime loans, such as "[l]oans with simultaneous second liens (especially those with very low FICO scores)", as loans "much more likely to default than non-second-lien loans with similar FICO scores."

- Then in February 2007, we took the unprecedented step of placing on CreditWatch negative (and ultimately downgrading) transactions that had closed as recently as 2006. As we informed the market in the accompanying release: "Many of the 2006 transactions may be showing weakness because of origination issues, such as aggressive residential mortgage loan underwriting, first-time home-buyer programs, piggyback second-lien mortgages, speculative borrowing for investor properties, and the concentration of affordability loans." In a February 16, 2007 Los Angeles Times article, S&P's announcement was described as "'a watershed event' because it means S&P is now actively considering downgrading bonds within their first year." *See S&P to Speed Mortgage Warnings*, Los Angeles Times, Feb. 16, 2007.

- We continued taking downward action through the Spring. In May we announced that "Standard & Poor's Ratings Services took 103 rating actions affecting 103 classes of residential mortgage-backed securities (RMBS) transactions backed by subprime, closed-end second-lien, and Alt-A loan collateral originated in 2005 and 2006; we lowered 92 ratings . . . and placed 103 ratings on CreditWatch negative . . . . These rating actions were due to collateral performance." We also noted that "[m]ost of the transactions affected by CreditWatch placements (and no downgrades) have not experienced significant losses. The placement of our ratings on CreditWatch when a transaction has not experienced significant losses represents a new methodology derived from our normal surveillance practice."

- On June 22, 2007, we announced further ratings actions in an article entitled *133 Subordinate Second-Lien, Subprime Ratings From 2006, 2005-Vintage RMBS On Watch Neg, Cut.* We explained that "[t]he downgrades and CreditWatch placements reflect early signs of poor performance of the collateral backing these transactions."

- Then in July of this year, we again took action in response to increasingly bad performance data, including loss levels that continued to exceed historical precedents and our initial expectations. Specifically:

- We increased the severity of the surveillance assumptions we use to evaluate the ongoing creditworthiness for RMBS transactions issued during the fourth quarter of 2005 through the fourth quarter of 2006 and downgraded those classes that did not pass our heightened stress test scenario within given time frames.

- In addition, we modified our approach for ratings on senior classes in transactions in which subordinate classes have been downgraded.

- We also announced that, with respect to transactions closing after July 10, 2007, we would implement changes that would result in greater levels of credit protection for rated transactions and would increase our review of lenders' fraud-detection capabilities.

No one can see the future. The point of these articles and actions, however, is to highlight our reaction to increasing subprime deterioration — looking, as we always do, to historical or paradigm-shifting behaviors to help analyze long-term performance. Consistent with our commitment to transparency we repeatedly informed the market of our view that the credit quality of subprime loans was deteriorating and putting negative pressure on RMBS backed by those loans. And, consistent with our commitment to analytical rigor, we revised our models, took action when we believed action was appropriate, and continue to look for ways to make our analytics as strong as they can be.

Impact of The Credit Rating Agency Reform Act of 2006

Earlier this year, the Credit Rating Agency Reform Act of 2006 took effect. As a result, over the past few months, S&P has been actively engaged in the process of implementing the requirements of the Commission's new Rules regulating NRSROs under the Act.

On June 25, 2007 we filed our application to register as an NRSRO. The application includes, among other things, our procedures and methodologies for determining ratings;

credit ratings performance measurement statistics; and information related to our ratings analysts and the largest users of our credit ratings. In addition, the application includes a description of our policies for preventing the misuse of material, non-public information and addressing and managing potential conflicts of interest. We also hired a Chief Compliance Officer who is responsible for administering and overseeing these policies and procedures and ensuring compliance with applicable securities laws.

Additionally, S&P has continued its ongoing efforts to develop and streamline internal record-keeping policies and procedures in order both to ensure the integrity of the ratings process and to satisfy Commission requirements that records be available for inspection. We recently received a notice of examination from the Commission seeking the production of a substantial amount of documents that may relate to the issue of the potential conflict of interest discussed above. We are in the process of complying with this notice.

S&P supported final passage of the Credit Rating Agency Reform Act and remains committed to that Act's stated goal of improving ratings quality for the protection of investors and fostering oversight, transparency and competition in the credit rating industry. Given that we are relatively early in the process of seeing this new law fully implemented, we would respectfully urge you to allow the Commission to proceed with its task of enforcing the provisions of the new law and the regulations so recently adopted before Congress proposes any further actions.

Conclusion

I thank you for the opportunity to participate in this hearing. Over the past several decades, S&P's consistent approach has been to evolve our analytics, criteria, and review

processes when appropriate, and you can expect that same approach in light of new consumer credit behaviors in all markets, including residential mortgages. Let me also assure you again of our commitment to analytical excellence and our desire to continue to work with the Subcommittee as it explores developments effecting the subprime market. I would be happy to answer any questions you may have.

From: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Sent: Tuesday, August 29, 2006 2:12 PM
To: PAOLO.PELLEGRINI <paolo.pellegrini@paulsonco.com>; NLOBACCARO <nlobaccaro@gweiss.com>; EKOSNIK <ekosnik@hginvestors.com>; MARC <MARC@JANAPARTNERS.COM>; RICHARD BARRERA (GLENVIEW CAPITAL MAN) <RBARRERA2@BBOTG>; PAOLO PELLEGRINI (PAULSON & CO. INC.) <PPELLEGRINI3@BBOTG>; DAVID MACKNIGHT (MASON CAPITAL MANAGE) <DMACKNIGHT@BBOTG>; ALAN FOURNIER (PENNANT CAPITAL) <AFOURNIER@BBOTG>; MICHAEL PENDY (DUQUESNE CAPITAL MAN) <GMPENDY@BBOTG>; NICK LOBACCARO (GEORGE WEISS ASSOCIA) <NLOBA@BBOTG>; EDWARD KOSNIK (HUNTER GLOBAL INVEST) <EKOSNIK@BBOTG>; JEREMY COON (PASSPORT MANAGEMENT,) <JMCPASSPORT@BBOTG>; JAMES DIDDEN (GSO CAPITAL PARTNERS) <JDIDDEN2@BBOTG>; GREGORY PAPPAJOHN (VARA CAPITAL LLC) <GPAPPAJOHN4@BBOTG>; BRADLEY WICKENS (SPINNAKER CAPITAL LT) <BWICKENS1@BBOTG>; MICHELLE BORRE (OPPENHEIMERFUNDS, IN) <MBORRE1@BBOTG>; CEMIL URGANCI (ASHMORE GROUP LIMITE) <CURGANCI1@BBOTG>; PAUL TWITCHELL (WHITEBOX ADVISORS, L) <PTWITCH@BBOTG>; SHAILESH VASUNDHRA (DEEPHAVEN CAPITAL MA) <SVASUND@BBOTG>; ANTHONY BOZZA (SAB CAPITAL MANAGEME) <ABOZZA@BBOTG>; BRAD ROSENBERG (PAULSON & CO. INC.) <BSROSENBERG@BBOTG>; TYLER DUNCAN (WAYZATA INVESTMENT P) <TJDUNCAN@BBOTG>; STEVE ROTH (GLG PARTNERS LP) <WOODY2@BBOTG>; DAVID GERSZEWSKI (AUTONOMY CAPITAL RES) <DAVIDG@BBOTG>; LEV MIKHEEV (MOORE EUROPE CAPITAL) <LVMIKHEEV@BBOTG>; STEFAN TSONEV (UBS LIMITED) <TSONEVS@BBOTG>; WYATT WACHTEL (YORK CAPITAL MANAGEM) <WJWACHTEL@BBOTG>; RENE HO (MORGAN (J.P.)) <RENEHO@BBOTG>; JOHN GISBORNE (TORONTO DOMINION BAN) <JGISBORNE@BBOTG>; MATTHEW J KEEGAN (OSPRAIE MANAGEMENT L) <MAKEEGAN@BBOTG>; PHILIP GUTFLEISH (ELM RIDGE VALUE ADVI) <PGUTFLEISH2@BBOTG>; JEFF MOSKOWITZ (MORGAN STANLEY) <JMOSK@BBOTG>; KENNETH COE (TALEK INVESTMENTS LL) <KCOE1@BBOTG>; MATTHEW BASS (GSO CAPITAL PARTNERS) <MBASS1@BBOTG>; ROPER STRYPE (RUBICON FUND MANAGEM) <RSTRYPE1@BBOTG>; ROBERT NEMETH (ELM RIDGE VALUE ADVI) <RNEMETH1@BBOTG>; MARC LEHMANN (JANA PARTNERS LLC.) <MARCLEHMANN@BBOTG>; JEREMY SCHIFFMAN (TPG-AXON CAPITAL MAN) <JSCHIFFMAN@BBOTG>; JORIS HOEDEMAEKERS (OASIS CAPITAL (UK) L) <JORIS1@BBOTG>; NEIL JOSHI (DEEPHAVEN CAPITAL MA) <NJOSHI@BBOTG>; DANIEL DONOVAN (GDG) <DDONOVAN5@BBOTG>; RAGHU RAGHAVENDRA (MOORE EUROPE CAPITAL) <RAGHAVENDRA@BBOTG>; CHAD KLINGHOFFER (GLENVIEW CAPITAL MAN) <CKLINGHOFFER@BBOTG>; JOSH ADAM (GLG INC.) <JOSHADAM@BBOTG>; JEREMY SIMON (TPG-AXON CAPITAL MAN) <JSIMONTPG@BBOTG>; BRIAN VAHEY (KING STREET CAPITAL) <BVAHEY@BBOTG>; DEAN CARLSON (SUSQUEHANNA INVESTME) <DCARL@BBOTG>; JEAN FAU (DARBY CAPITAL IRELAN) <JFAU@BBOTG>; VARUN GOSAIN (CONSTELLATION CAPITA) <VGOSAIN1@BBOTG>; MAULIN SHAH (POLYGON INVESTMENT P) <MAULIN_SHAH@BBOTG>; HARRY MAMAYSKY (OLD LANE, LP) <H MAMAYSKY@BBOTG>
Subject: Fwd: Two Jim Grant articles on CDOs
Attach: 15664357.htm

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #963

Message Sent: 08/29/2006 09:12:02
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: paolo.pellegrini@paulsonco.com|PAOLO.PELLEGRINI|||
To: nlobaccaro@gweiss.com|NLOBACCARO|||
To: ekosnik@hginvestors.com|EKOSNIK|||
To: MARC@JANAPARTNERS.COM|MARC|||
To: RBARRERA2@BBOTG|RICHARD BARRERA|GLENVIEW CAPITAL MAN||
To: PPELLEGRINI3@BBOTG|PAOLO PELLEGRINI|PAULSON & CO. INC.||
To: DMACKNIGHT@BBOTG|DAVID MACKNIGHT|MASON CAPITAL MANAGE||
To: AFOURNIER@BBOTG|ALAN FOURNIER|PENNANT CAPITAL||
To: GMPENDY@BBOTG|MICHAEL PENDY|DUQUESNE CAPITAL MAN||
To: NLOBA@BBOTG|NICK LOBACCARO|GEORGE WEISS ASSOCIA||
To: EKOSNIK@BBOTG|EDWARD KOSNIK|HUNTER GLOBAL INVEST||
To: JMCPASSPORT@BBOTG|JEREMY COON|PASSPORT MANAGEMENT,||
To: JDIDDEN2@BBOTG|JAMES DIDDEN|GSO CAPITAL PARTNERS||
To: GPAPPAJOHN4@BBOTG|GREGORY PAPPAJOHN|VARA CAPITAL LLC||
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT||
To: MBORRE1@BBOTG|MICHELLE BORRE|OPPENHEIMERFUNDS, IN||
To: CURGANCI1@BBOTG|CEMIL URGANCI|ASHMORE GROUP LIMITE||
To: PTWITCH@BBOTG|PAUL TWITCHELL|WHITEBOX ADVISORS, L||
To: SVASUND@BBOTG|SHAILESH VASUNDHRA|DEEPHAVEN CAPITAL MA||
To: ABOZZA@BBOTG|ANTHONY BOZZA|SAB CAPITAL MANAGEME||
To: BSROSENBERG@BBOTG|BRAD ROSENBERG|PAULSON & CO. INC.||
To: TJDUNCAN@BBOTG|TYLER DUNCAN|WAYZATA INVESTMENT P||
To: WOODY2@BBOTG|STEVE ROTH|GLG PARTNERS LP||
To: DAVIDG@BBOTG|DAVID GERSZEWSKI|AUTONOMY CAPITAL RES||
To: LVMIKHEEV@BBOTG|LEV MIKHEEV|MOORE EUROPE CAPITAL||
To: TSONEVS@BBOTG|STEFAN TSONEV|UBS LIMITED||
To: WJWACHTEL@BBOTG|WYATT WACHTEL|YORK CAPITAL MANAGEM||
To: RENEHO@BBOTG|RENE HO|MORGAN (J.P.)||
To: JGISBORNE@BBOTG|JOHN GISBORNE|TORONTO DOMINION BAN||
To: MAKEEGAN@BBOTG|MATTHEW J KEEGAN|OSPRAIE MANAGEMENT L||
To: PGUTFLEISH2@BBOTG|PHILIP GUTFLEISH|ELM RIDGE VALUE ADVI||
To: JMOSK@BBOTG|JEFF MOSKOWITZ|MORGAN STANLEY||
To: KCOE1@BBOTG|KENNETH COE|TALEK INVESTMENTS LL||
To: MBASS1@BBOTG|MATTHEW BASS|GSO CAPITAL PARTNERS||
To: RSTRYPE1@BBOTG|ROPER STRYPE|RUBICON FUND MANAGEM||
To: RNEMETH1@BBOTG|ROBERT NEMETH|ELM RIDGE VALUE ADVI||
To: MARCLEHMANN@BBOTG|MARC LEHMANN|JANA PARTNERS LLC.||
To: JSCHIFFMAN@BBOTG|JEREMY SCHIFFMAN|TPG-AXON CAPITAL MAN||
To: JORIS1@BBOTG|JORIS HOEDEMAEKERS|OASIS CAPITAL (UK) L||
To: NJOSHI@BBOTG|NEIL JOSHI|DEEPHAVEN CAPITAL MA||
To: DDONOVAN5@BBOTG|DANIEL DONOVAN|GDG||
To: RAGHAVENDRA@BBOTG|RAGHU RAGHAVENDRA|MOORE EUROPE CAPITAL||
To: CKLINGHOFFER@BBOTG|CHAD KLINGHOFFER|GLENVIEW CAPITAL MAN||
To: JOSHADAM@BBOTG|JOSH ADAM|GLG INC.||
To: JSIMONTPG@BBOTG|JEREMY SIMON|TPG-AXON CAPITAL MAN||
To: BVAHEY@BBOTG|BRIAN VAHEY|KING STREET CAPITAL||
To: DCARL@BBOTG|DEAN CARLSON|SUSQUEHANNA INVESTME||
To: JFAU@BBOTG|JEAN FAU|DARBY CAPITAL IRELAN||
To: VGOSAIN1@BBOTG|VARUN GOSAIN|CONSTELLATION CAPITA||
To: MAULIN_SHAH@BBOTG|MAULIN SHAH|POLYGON INVESTMENT P||
To: H.MAMAYSKY@BBOTG|HARRY MAMAYSKY|OLD LANE, LP||

----- Original Message -----

From: Greg Lippmann <greg.lippmann@db.com>

At: 8/28 17:32:17

Structured Complacency

Credit markets are sanguine. Structured credit is proliferating. Could the first fact be related to the second?

Yes, we say. There?s no end of explanation for the mysterious willingness of bond buyers and bank-loan investors to accept persistently modest returns over riskless government yields. Liquidity has been superabundant, hedge-fund assets are on the prowl, yield thirst goes unslaked?all these causes are put forward. We are about to suggest another explanation for the bewildering complacency of lenders. Spreads are tight in part because of the growing number of collateralized debt obligations (CDOs). What these entities share is a strong propensity to buy and a low propensity to sell. A new fact commands the attention of lenders and borrowers: Financial engineering is displacing credit analysis.

Definitions are in order. A CDO is a debt-acquisition enterprise. It raises money from investors. It acquires assets with the proceeds?bonds, bank loans, mortgages, asset-backed securities, etc. It can buy floating-rate assets or fixed-, senior claims or subordinated. In 2005, no less than $250 billion of CDOs came into the world, 59% more than in analysis, we venture the following capsule distinction: financial engineering is the science of structuring cash flows; credit analysis is the art of getting paid.

The liabilities side of a CDO balance sheet is what gives the structure its distinctive investment personality. The liabilities are layered. Field-strip a typical $100 million CDO and you find, first, a large swath of ?senior? liabilities, say $70 million worth, rated triple-A; a $20 million ?junior? slice rated single- or double-A; a $3 million mezzanine piece rated triple-B; and $7 million of unrated equity.

The top-rated assets are not inherently triple-A. Their strength derives rather from the vulnerability of the assets underneath. The equity tranche is most exposed; to it goes the first loss. When it has borne all it can bear (i.e., $7 million), the next loss goes to the

mezzanine tranche and the next to the junior slice. Only after all of these levees are breached--$30 million worth?do losses cut into the value of the senior segment.

The various segments are priced according to their risk, with the senior-most yielding a few dozen basis points over Libor and the equity segment returning 1,000 basis points over (or more). The cost to create such a structure runs to about 1.5% of the balance-sheet footings. Included are legal, rating and origination expenses. Annual management fees may run to 50 basis points. Although some CDOs are ?static??the assets with which they are seeded are the ones they keep?some latitude for the managers is increasingly the norm.

Our ?typical? CDO is known as a ?cash? CDO. It is not to be confused with a ?synthetic? CDO. Like the cash variety, a synthetic CDO raises money from investors. Then it sells credit protection to other investors, in the shape of credit default swaps (CDS). The cash CDO earns income from the securities it holds. The synthetic CDO earns income from the premium it writes.

In a few short years, these derivative structures have marginalized the vast corporate bond market. Companies still issue public debt, but Wall Street is trading less and less of it. The charm of the old corporate arena?with its generously separated bids and offers and its personable, richly compensated sales people?proved its undoing. The advent of price transparency through the TRACE reporting system bathed the marketplace in sunlight. Blinking, the salespeople watched quotations tighten and commission income dwindle.

?Banks that trade corporate bonds have been required to report transactions to TRACE since 2002,? Bloomberg noted in a May 9 report on the historic shift from cash transactions to derivative ones (?Derivatives Make Nich Carraway, Corporate Bond Traders Obsolete,? is the headline). ?The system now provides prices and the amount of bonds exchanged in each trade on 29,000 securities with in 15 minutes of a deal, according to NASD. With the data available, there?s little need for guidance from

analysts or salespeople.?

Observe, please, the analytical leap implied in the final three words of the quotation: ?analysts or salespeople.? Why should price transparency make analysts obsolete? Hypothesis No. 1: Because, in an efficient market, a security?s price is the unfailing measure of its value. Hypothesis No. 2: Because, on Wall Street, the analysts are paid out of the big fat commission pot. We lean toward No. 2.

Credit risk is ever present. Where it resides is the timely question. Once upon a time, before ?disintermediation,? the risk of default or nonpayment lay with the banks. It was the banks? business to know more about their borrowers than anyone else. Come the junk-bond revolution, the risk migrated out of the banks and into the securities markets. Now comes the derivatives boom. Who are the keepers of the flame of credit analysis in 2006?

We?re not sure?and neither is the International Monetary Fund. ?[R]ating agencies have played a significant role in the acceptance of new products by investors, with the analysis and rating of structured products heavily reliant on sophisticated quantitative modeling,? says IMF?s 2006 Global Financial Stability Report (see Chapter 2, ?The Influence of Credit Derivative and Structured Credit Markets on Financial Stability?). ?Not surprisingly. The development of structured credit markets has coincided with the increasing involvement of people with advanced financial engineering skills required to measure and manage these often complex risks. In fact, for many market participants, the application of such skills may have become more important than fundamental credit analysis.? This provocative thought is developed in a one-sentence footnote, as follows: ?Discussions with market participants raised questions as to whether the increased focus on ?structuring? skills, relative to ?credit? analysis, may itself present a concern.?

Emphatically, the rating agencies are on the job. Since a CDO without a triple-A-rated senior tranche would be unmarketable, their imprimatur is indispensable. For Moody?s Corp., the sole publicly traded rating business, derivatives are the wave of the future?and of the

present, besides. In the first quarter, structured finance generated revenues of $176 million, nearly double the contribution of old0line corporate debt ratings.

Colleague Ian McCulley was unable to elicit from any agency just what this booming business entails. But he did catch up with a junior analyst at one ratings shop, who described his work in monitoring as many as 20 CDOs a day. (Both the analyst?s name and his employer?s are being withheld to protect the innocent.) ?Basically,? says our source, ?I go through what they buy and sell each month. And I go through all of their ratios. And I check to see if they have synthetics,? e.g., credit default swaps. It?s all in an Excel model. The CDOs he checks are actively managed. Interestingly, some of them invest in the tranches of other CDOs, and they are called ?CDO squared.? It?s no easy matter to rate these exotica, even with the help of a complex model developed for the purpose by Moody?s. Our admittedly green contact says he doubts that many people really understand what these structures own, how their assets are correlated or what might happen to them in the liquidation portion of a credit cycle.

A skeptical friend of ours applauds the bank-loan-holding CDOs. Michael Lewitt, president of Harch Capital Management, Boca Raton, Fla., is the manager of 150 bank loans (which constitute a collateralized loan obligation, or CLO, a species of CDO). He contends that the loan structures do work?and Lewitt, in his professional capacity, is a hard man to please. Yes, he readily acknowledges, credit spreads are too tight, but ?even if a loan defaults, you still get recoveries of 95 cents on the dollar, or even over par, so you are OK.? Lewitt is here referring to senior loans. Beware, he says, the second-lien kind, which are really ?just bonds, and that?s where you will have some real capital impairment.?

Our investigation leads usto the same conclusion, though most lenders and borrowers are wondering less about capital impairment than about what took them so long to see the beauty of junior bank claims. Among these merits is the east of early call (at the borrower?s behest and

with fewer of the costs and restrictions typically associated with calling a corporate bond) and the fact that they pay a floating, not a fixed, rate of interest. Their issuance is soaring. According to Steven Miller, manageing director of S&P?s Leveraged Commentary and Data Group, $16 billion of second-lien paper came to market in 2005, 35%more than in 2004. And while junk-bond issuance last year totaled $75 billion, less will be sold this year. ?Furthermore,? colleague McCulley observes, ?second liens are tailor-made for the current state of the financial world; hedge funds absorb 37% and CLOs 48% of second lien issuance nowadays. Libbey Inc., the Toledo, Ohio, glassmaker profiled in the April 21 issue of Grant?s, is among the companies that has recently forsaken the junk market for the second-lien market; it expects to tap it any day.?

What?s there to be afraid of? a practitioner we know rhetorically asks: ?For a deal that has locked in its liability costs for in the market that would bring back credit spreads to more natural levels.?

Be careful what you wish for, we say. The financial engineers are up in the driver?s seat of credit, a fact that ought to worry everyone except distressed investors. ?[F]or some mezzanine structured credit products,? the aforementioned IMF paper speculates, ?zero recovery rates are much more likely than on similarly rated corporate bonds, yet the resulting default probabilities and expected losses are mapped into traditional corporate bond ratings that tend to be in the 40%-60% range.?

No default epidemic is imminent, our friend Lewitt asserts. Yet, he points out, something is bound to interrupt the present idyll. Something ?systemic? is his nomination. ?These hedge funds are not a sign of health and this equity day trading is not a sign of health. And having a credit market priced on a non-credit basis?meaning priced off quantitative and arbitrage bases and not on credit fundamentals?is not a healthy thing.?

Credit markets ought to be priced on the basis of credit, of course?and, one day, most assuredly, they will be again.

English Majors? Revenge

Collateralized debt obligations are only baffling most of the time. Gibberish, the technical literature may be, but a determined reader can make out the occasional familiar English word or phrase. One such word is ?assumption.? It turns out to be of critical importance to understanding how these complex structures are designed, priced and sold.

Now begins another voyage of discovery. The destination: The land of the CDOs. The missions: Understanding. We write on behalf of all who stand suspicious but mute before the mathematical guardians of this $1 trillion market. Do you, Mr. or Ms. Former English Major, suspect that there is a fly in the derivatives ointment but are afraid to express a doubt in the company of quants? We are going to arm you with the facts.

By way of background, the housing market is only as strong as the mortgage market. And the mortgage market, these days, is only as strong as the CDOs into which are packed hundreds of billions of dollars of housing-related debt (prime and subprime, ?cap corridor bonds,? Alt-A-pass-through hybrids and others you may not want to ask about just now). And the CDOs are only as viable as their equity base.

In previous issues, Grant?s has described these securities and the risks that unsuspecting investors may run in holding them. This time out, the focus is on the junior-most portion of the CDO liability structure, i.e., the equity tranche. It?s the equity that bears the first loss or, if all goes according to plan, earns the highest return. You can?t sell a CDO without some sliver of equity?and sliver is the word. High-grade deals are leveraged at 100:1 on up. Buyers of this derivatives dynamite are said to include hedge funds as well as institutions in Japan, South Korea and Southeast Asia.

In March, Moody?s performed the signal public service of compiling actual returns on equity portions of 66 ?terminated? CDOs (i.e., entities that, for one reason or another, had reached the end of their useful lives). It found that returns ranged from a negative 82% to a positive 99% and that the median return was very close to zero. The

Moody?s analysts were not dogmatic, however, because they could not be sure what investors had paid for the securities they were examining: ?Unfortunately, the pricingof equity is the result of a highly private, sometimes complex negotiation.? In a follow-up study of the equity tranches of 10 terminated structured-finance CDOs, Moody?s last month found that returns had ranged from a negative 59.1% to a positive 70.1%, with the average at a negative 8.4%.

A curious layman will now begin to appreciate the significance of the word ?assumptions? in the context of expected CDO returns (especially when pricing is as transparent as a curtain of lead). With enough of the right kind of assumptions, the equity-tranche buyer can sleep the sleep of the confidently misinformed.

But such self-delusion will be a little harder to achieve since publication of a July 26 report by Deutsche Bank entitled, ?High Grade ABS CDOs? (in which ABS stands for ?asset-backed securities?). The analysis calls into question the premises on which such derivatives are built and sold. ?Modeling assumptions that simplify actual cash flows are commonplace in the world of structured finance,? the authors note. ?However, while these adjustments are unlikely to significantly impact the debt, they can have significant consequences on equity returns?especially within a structure that is leveraged 100 to 200 times.?

And what might these dubious assumptions be? Asset and liability cash-flow mismatch, is one. Something having to do with a five- to seven-day ?trustee period? at the time of issuance is another, and ?risk mismatch in 2004 CDOs? is a third. A fourth involves the universal impulse to reach for yield: ?In the current relatively tight spread environment,? the report says, ?collateral managers have increasingly turned to higher yielding alternative prime mortgage products to add additional yield to the CDO portfolio.?

These are, or have been, the best of times for housing, the Deutsche Bank authors observe. Drawing comfort from past performance, investors have come to regard ?the structures and the various modeling assumptions that are embedded within them? with unwarranted confidence.

Especially is confidence unwarranted at a time of elevated leverage.

?I don?t want to suggest that anything malicious and underhanded is going on here,? Anthony Thompson, managing director and head of U.S. asset-backed security and CDO research for Deutsche Bank, tells colleague Dan Gertner. ?I think the reality is that a lot of the CDO architecture and technology was created 10 to 15 years ago when spreads were wider, leverage was lower and where you didn?t have to be so meticulous with your assumptions.? Buyers of these equity pieces are not necessarily the world?s most sophisticated modelers of structured finance securities, Thompson adds. ?I would make the point that mortgages are complicated still to most of the world. Mortgages levered 200 times are even more complicated.?

By tweaking some standard assumptions to make them conform with the 2006 marketplace, the Deutsche Bank study adjusts an ?idealized? expected return of 19% to a more realistic 10.2% return. Note well, however, as the authors add, that CDOs are built on many assumptions. They acknowledge that they examined ?but a few pieces of the complex CDO puzzle.?

Come the next bear market in mortgage debt, many more assumptions will certainly come in for reappraisal. Knowing only this much, the detached and calculating English major might well be able to sweep up astonishing bargains.

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Examination Report for
Moody's Investor Services, Inc.
("Moody's")

1. Introduction

On August 31, 2007, the Staff in the Commission's Office of Compliance Inspections and Examinations ("OCIE"), Division of Trading and Markets ("Trading & Markets") and Office of Economic Analysis ("OEA") (collectively "the Staff") initiated an examination of Moody's, and two other credit rating agencies. The focus of the examinations was Moody's activities in rating subprime residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDOs") linked to subprime RMBS.[1] Specifically, key areas of review included:

- the NRSROs' ratings policies, procedures, and practices, including gaining an understanding of ratings models, assumptions, criteria and protocols;
- the adequacy of the disclosure of the ratings process and methodologies used by the NRSROs;
- whether the NRSROs complied with their ratings policies and procedures for initial ratings and ongoing surveillance;
- the efficacy of the NRSROs' conflict of interest procedures; and
- whether ratings were unduly influenced by conflicts of interest related to the NRSROs' role in bringing issues to market and the compensation they receive from issuers and underwriters.

The examinations also included a review of whether there were any errors in ratings issued as a result of flaws in ratings models used as a result of a press report indicating errors in one firm's model.[2] Initial observations as a result of this aspect of the examinations are included in this report.

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1 Beginning in 2007, delinquency and foreclosure rates for subprime mortgage loans in the United States dramatically increased, creating turmoil in the markets for RMBS backed by such loans and CDOs linked to such loans. As the performance of these securities continued to deteriorate, the three NRSROs most active in rating these instruments downgraded a significant number of their ratings. The NRSROs' performance in rating these structured finance products raised questions about the accuracy of their credit ratings generally as well as the integrity of the ratings process as a whole.

2 See Sam Jones, Gillian Tett, and Paul J. Davies, *Moody's Error Gave Top Ratings to Debt Products*, Financial Times, May 20, 2008, at 1.

The examination review period generally covered January 2004 through the present. The firms under examination became subject to the provisions of the Credit Rating Agency Reform Act of 2006 (the "Rating Agency Act"), which amended the Securities Exchange Act of 1934 ("Exchange Act"), and the Commission's rules when they registered with the Commission as NRSROs in September 2007. Although Moody's was not subject to legal obligations applicable to NRSRO during most of the review period, the Staff nonetheless sought to make relevant factual findings and observations with respect to the activities of Moody's in rating subprime RMBS and CDOs during the period, as well as to identify possible areas for improvement in their practices going forward.

Over 50 Commission Staff participated in the examinations of Moody's, and two other credit rating agencies. The examinations included extensive on-site interviews with the rating agencies' staff, including senior and mid-level managers, initial ratings analysts and surveillance analysts, internal compliance personnel and auditors, personnel responsible for building, maintaining and upgrading the ratings models and methods used in the ratings process, and other relevant rating agency staff.

In addition, the Staff reviewed a large quantity of the rating agencies' internal records, including the written policies, procedures and other such documents related to initial ratings, the ongoing surveillance of ratings, and the management of conflicts of interest, and the public disclosures of the procedures and methodologies for determining credit ratings. The Staff also reviewed deal files for subprime RMBS and CDO ratings, internal audit reports and records, and other internal records, including a large quantity of email communications records (the rating agencies' produced over two million emails and instant messages that were sorted, analyzed and reviewed using software filtering tools). Finally, the Staff reviewed the rating agencies' public disclosures, filings with the Commission and other public documents.

2. The Ratings Process

The Rating Agency Act expressly states that the Commission has no authority to regulate the "the substance of the credit ratings or the procedures and methodologies" by which any NRSRO determines credit ratings.[3] As part of this examination, however, the Staff necessarily sought to develop an understanding of the quantitative analysis used to rate the RMBS and CDOs that have been subject to such dramatic and widespread change.

Moody's rates RMBS and CDO transactions by first assessing the underlying collateral and then assessing the deal structure. For RMBS collateral assessment, Moody's uses the Moody's Mortgage Metrics Model ("M3") to quantitatively arrive at initial loss coverage numbers.[4] Moody's then looks at qualitative factors, such as the originator and servicer,

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[3] 15 U.S.C. 78o-7(c)(2).

[4] Presently, Moody's evaluates over 50 different characteristics of each loan in a pool, through its M3 model, examples of which are: credit bureau scores, which is an indicator of a borrower's past credit performance; loan-to-value ratio, which reflects the amount of equity borrowers have in

and makes adjustments to the initial loss coverage numbers to arrive at the final loss coverage numbers.[5] For CDOs, Moody's uses its proprietary CDOROM model for projecting expected loss. For cash flow CDOs, the results of the CDOROM model runs are processed by Moodys' proprietary CDOEdge model in order to assess the portfolio.[6] In this second stage, Moody's arrives at an estimate of credit enhancement for excess spread through models which project cash flows for the proposed capital structure. Results from the collateral and cash flow models are reviewed through the rating committee approval process before a final rating is issued.

M3 was not available to rate subprime securities until December 2006. Prior to that date, Moody's used a system of "benchmarking" to rate subprime RMBS wherein a subprime mortgage pool currently being evaluated was compared to several subprime pools previously rated by Moody's.[7] This process resulted in an initial rating number after which several "hits" or adjustments could be applied, depending on the pools characteristics, to arrive at the final loss coverage numbers.[8]

As part of the ratings process during this period, Moody's will on occasion revise its ratings methodology. Many of the changes Moody's made were incremental and did not affect the overall rating. Moody's transitioned incremental changes over a short period of time. If a deal was in-house and had been priced, the old methodology would apply, and the deal would be rated under the former methodology. When a change to the methodology would affect a rating, Moody's generally published a Request for Comment notifying the market of the potential change and indicating that it would implement the change at a later date.

3. Increase in Number and Complexity of RMBS and CDO Deals

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their homes; how fully buyers have documented their income and assets; whether the property will be owner occupied; and, whether the loan is for purchase or refinance.

5 Moody's review of the originator, servicer, and master servicer is a significant element of Moody's rating process as each can greatly influence loss levels depending on their relative strength or weakness. The originator or servicer can increase or decrease loss levels separately by up to a total of 20%.

6 For synthetic CDOs, Moody's analysts employ the CDOROM model, a simulation tool designed to determine the expected loss for each tranche. The CDOROM model runs a minimum of one million Monte Carlo simulations using the potential asset pools allowed under a CDO's covenants. For cash CDOs, the CDOROM model is generally employed to generate expected loss figures for potential collateral pools, which are then run through the firm's CDOEdge model, which applies a correlated binomial method (incorporating default correlation assumptions) to a proposed deal structure in order to generate projected payment waterfalls, in order to generate cash flow models for various scenarios.

7 The subprime pools had either the same originator or a comparable originator.

8 For example, if a bucket in a pool had a high percentage of interest only loans a hit would be applied to the expected loss number for that bucket.

From 2002 to 2006, the volume of structured finance deals rated by Moody's increased substantially, as did the revenues Moody's received from rating those deals. The structured products Moody's was asked to evaluate became increasingly complex, with many employing derivatives such as credit default swaps to replicate the performance of mortgage backed securities. Further, the loans made to retail borrowers being securitized evolved from 30-year fixed rate instruments to newer products such as second lien and adjustable rate mortgages. The increasing number and complexity of deals may have compromised various aspects of Moody's ratings operations for structured finance, as discussed in greater detail below.

a. Revenue, Deal, and Staffing Levels

From 2002 to 2006 the volume of RMBS deals rated by Moody's increased by 137%, and the number of CDO deals rated by Moody's increased by 700%. Correspondingly, the revenue Moody's derived from RMBS deals increased from $61.8 million in 2002 to $168.9 million in 2006 and CDO revenue increased from $11.7 million in 2003[9] to $91.2 million in 2006.

For the RMBS group, contemporaneous staffing increases appear roughly in line with volume increases (Moody's increased RMBS staff by 114% as volume increased by 137%).[10] For CDOs, however, Moody's staffing increases do not appear to have kept pace with volume increases (Moody's increased CDO staff by 24% as volume increased by 700%).[11]

b. Impact on the Ratings Process

The Staff believes that the deal and staffing levels during the review period may have impacted various aspects of the ratings process. For instance, several CDO memoranda reviewed by the Staff indicate that ratings were issued notwithstanding one or more unresolved issues. For example, the rating committee memorandum for the Costa Bella CDO, Ltd. deal stated that for one issue involving the collateral manager, "We didn't ha [sic] time to discuss this in detail at the committee, so they dropped the issue for this deal due to timing. We will need to revisit in the future."[12] Another potentially unresolved issue was described as "poorly addressed – needs to be checked in the next deal"[13] and "WARR- don't ask ☺)".[14]

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9 Moody's was unable to produce CDO revenue for 2002 due to a transition of accounting systems.

10 In 2002 RMBS lead analysts were responsible for monitoring their rated transactions. See MIS-OCIE-RMBS-28799. The tabulation of Moody's RMBS personnel for 2002 does not include the Group Managing Director or Senior Managing Director and the tabulation for 2006 does not include the Group Managing Director.

11 In 2002, CDO lead analysts were responsible for monitoring their rated transactions. Senior Associates, of which there were nine, provided monitoring support.

12 See MIS-OCIE-RMBS-26801.

13 Id.

The Staff believes that the increase in the number and complexity of deals may have impacted Moody's subprime RMBS and CDO ratings operations, as is discussed in more detail below.

The Staff recommends that Moody's periodically evaluate if it has sufficient staff and resources to manage its volume of business and meet its obligations under the Rating Agency Act.

Moody's Response: Moody's agrees with the Staff's recommendation and will periodically evaluate staffing levels.

4. Disclosure of the Rating Process

The requirements of the Rating Agency Act specifically address the importance of disclosure. An NRSRO is required to disclose publicly the procedures and methodologies it uses in determining credit ratings.[15] Form NRSRO requires that this disclosure be a general description; but sufficiently detailed to provide users of credit ratings with an understanding of the processes employed in determining credit ratings, including among other things, the quantitative and qualitative models and metrics used to determine credit ratings. Moody's explained to the Staff that, prior to being registered as an NRSRO, it disclosed its ratings process during the review period. It appears, however, that certain significant aspects of the rating processes and the methodologies used to rate RMBS and CDOs were not always disclosed, or were not fully disclosed, as summarized below.

New or revised rating methodologies and policies that are deemed material are often first approved internally and then published as a Request for Comment from the market before being implemented.[16] In the RMBS group incremental changes to the ratings methodology or process are approved through RMBS chair meetings. Moody's states that it uses press releases and web postings to publicly disclose modifications to its rating methodologies and related practices, procedures and processes.[17] However, Moody's does not consolidate its methodologies for rating subprime RMBS or CDO transactions in one location.

As such, the Staff had difficulty locating the disclosure of certain aspects of Moody's ratings process. Moreover, Moody's does not publish (or publish before implementation) all incremental changes to its methodology. For example, the Staff found emails where

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14 "WARR" stands for weighted average rate of return. See MIS-OCIE-RMBS-26798.

15 Section 4(a)(1)(B)(ii) of the Exchange Act.

16 Moody's Report on the Code of Professional Conduct, April 2006.

17 Moody's Code of Professional Conduct, June 2005.

Moody's made changes to assumptions before the market was notified of the changes.[18] Additionally, the Staff found emails evidencing Moody's analysts utilizing an unpublished model to assess data.[19]

The Staff recommends that Moody's conduct a review of its current disclosures of its processes and methodologies for rating RMBS and CDOs to assess whether it is fully disclosing its ratings methodologies and meeting the requirements of the Rating Agency Act and Form NRSRO. Further, the Staff recommends that Moody's review whether its policies governing the timing of disclosure of a significant change to a process or methodology are reasonably designed to comply with these requirements.

Moody's Response: Moody's generally agrees with the Staff's recommendations and is currently taking steps to improve disclosure of the ratings process, including the drafting of unified methodologies.

5. Written Policies and Procedures for Rating RMBS and CDOs

As of September 2007, NRSROs are subject to a requirement to make and retain certain internal documents relating to its business, including procedures and methodologies used to determine credit ratings.[20] Prior to this, Moody's ratings policies are described in its Code of Professional Conduct, Report on the Code of Professional Conduct, Analyst Handbook – Rating Practices and Procedures, and Moody's Best Practices for the Conduct of Moody's Structured Finance Rating Committees. While these documents, taken as a whole, provide a general guideline for an analyst to follow when rating structured finance products, they were not specific to any type of structured finance product, such as RMBS or CDOs.

The Staff recommends that Moody's conduct a review to determine whether its written policies and procedures used to determine credit ratings for RMBS and CDOs are fully documented in accordance with the requirements of Commission Rule 17g-2.

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18 Email chain ending with email from Ariel Weil, Associate Vice President/Analyst, Term RMBS, Moody's, to Kelly Slicklein, Associate Director, Investor Services Group, Moody's (Nov. 29, 2007, 20:08 GMT). See also email chain ending with email from Yuri Yoshizawa, Group Managing Director, US Derivatives, Moody's, to Yvonne Fu, Team Managing Director, US Derivatives, Moody's (Apr. 24, 2007, 18:50 GMT). See also email from Ariel Weil, Associate Vice President/Analyst, Term RMBS, Moody's, to Mark DiRienz, Team Managing Director, Term ABS, Moody's (Feb. 7, 2007, 20:54 GMT). See also email form Karen Ramallo, Associate Analyst, Term RMBS, Moody's, to Odile Grisard Boucher, Associate Analyst, Term RMBS, Moody's (Nov. 15, 2006, 19:10 GMT).

19 Email chain ending with email from Karen Ramallo-Rodriguez, Associate Analyst, Term RMBS, Moody's, to Denise Person, Vice President/Senior Criteria Officer, Term RMBS, Moody's (Sept. 24, 2007, 18:26 GMT). Moody's states that it does not publish all criteria changes, particularly those they consider incremental or non-material.

20 Rule 17g-2 under The Exchange Act. 17 CFR 240.17g-2.

Moody's Response: Moody's generally agrees with the Staff's recommendation and will conduct a review to ensure that its policies and procedures are properly documented in accordance with the Commission's rules.

As a result of a May 20, 2008, Financial Times article detailing a coding error in the model Moody's utilized to rate constant proportion debt obligations ("CPDOs")[21] the Staff expanded the scope of its exam to review Moody's policies and procedures for addressing the discovery of errors in its models and methodologies.[22] The Staff found that while Moody's does have policies and procedures that emphasize the importance of providing accurate ratings with integrity, it does not have policies and procedures that provide guidance on the process that should be followed when errors are discovered in its models, methodologies, or other aspects of the ratings process.

The Staff recommends that Moody's develop policies and procedures to address the detection of errors with its models, methodologies, or other aspects of the ratings process. The Staff also recommends that Moody's develop policies and procedures for the reporting of discovered errors in its models, methodologies, or other aspects of the ratings process.

Moody's Response: Moody's responded that it has instituted numerous remedial measures to address this issue, including implementing new policies and procedures, and establishing a taskforce to initiate a thorough review of all existing structured finance models.

6. Integrity and Accuracy of the Information Provided to Moody's

There is no requirement under the federal securities laws that an NRSRO verify the information contained in RMBS loan portfolios presented to it for rating. Additionally, NRSROs are not required to insist that issuers perform due diligence, and they are not required to obtain reports concerning the level of due diligence performed by issuers.

The Staff notes that pursuant to its policies, procedures, and public pronouncements, Moody's did not engage in any due diligence or otherwise seek to verify the accuracy and quality of the loan data underlying the RMBS pools it rated during the review period. In fact, the Code of Ethics for Moody's clearly states that Moody's is under no obligation to perform, and does not perform, due diligence.[23] Moreover, it states that the assignment of a rating is not a guarantee of the accuracy, completeness, or timeliness of the

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21 CPDOs are a type of credit derivative sold to investors looking for long term exposure to credit risk on a highly rated note. Investors buy notes issued by a special purpose vehicle ("SPV").

22 The Staff also noted potential conflicts of interest with respect to this issue. These are addressed more fully below.

23 See Moody's Code of Conduct, p 7, dated June 2005 and updated October 2007 (stating Moody's has no obligation to perform, and does not perform, due diligence with respect to the accuracy o f the information it receives or obtains in connection with the rating process).

information relied on in connection with the rating.[24] Moody's solely performed loss and cash flow analyses on the data presented to it. Moody's generally did not verify the integrity and accuracy of such information as, in Moody's view, due diligence duties belonged to the other parties in the process. Moody's also did not seek representations from sponsors that due diligence was performed.

Moody's has taken, or announced, measures designed to improve the integrity and accuracy of the loan data they receive on underlying RMBS pools:

- Moody's announced that it was considering enhancements to its RMBS securitizations that would include the engagement by issuers of independent third parties to randomly sample, for due diligence, the greater of 10% or 200 loans for all subprime transactions.

- In addition, in an agreement with the New York State Attorney General, Moody's agreed to develop and publicly disclose due diligence criteria to be performed by underwriters on all mortgages comprising RMBS, and to review those results prior to issuing ratings.[25]

7. Documentation of Significant Steps and Participants in the Rating Process

a. Documentation of Significant Steps in the Ratings Process

An NRSRO is required to retain internal records, including non-public information and workpapers, used to form the basis of a credit rating it issued (Exchange Act Rule 17g-2(b)(2)). Prior to implementation of this requirement, Moody's policy was to retain records related to the credit analysis and rating process for certain time periods as identified in its record retention schedule.[26]

The Staff reviewed 50 RMBS and 51 CDO deals to determine if Moody's followed the policies and procedures for rating RMBS and CDOs and its file maintenance and recordkeeping policy. Moody's policies and procedures call for a rating committee memorandum and addendum to be produced for each transaction rated by Moody's. The information required in the rating committee memorandum and addendum includes the date the rating committee convened; the names of the rating committee attendees; the name of the committee chair; the type of rating action and type of instrument under consideration; the rating recommendation and rationale; the rating committee outcome and vote tally; quantitative analysis, and supporting materials.[27]

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24 Id.

25 http://www.oag.state.ny.us/press/2008/june/june5a_08.html

26 Moody's record retention policy did not apply to procedural or methodological policies governing the credit ratings process as a whole. MIS-OCIE-RMBS-28424-28483.

27 See Moody's Best Practices for the Conduct of Moody's Structured Finance Rating Committees, at 5 (May 2006). See MIS-OCIE-RMBS-312, 397, 430. In May of 2006 Moody's added the

For RMBS transactions, most of the ratings memoranda and addenda contained the minimum required information under Moody's policy. However, the Staff found that the level of detail provided as to how the committee arrived at its rating levels was inconsistent.[28] Often boxes on the addendum were checked without explanation despite fields requiring explanation, contained an inadequate explanation, or in some cases were not checked at all.[29]

The level of documentation of Moody's CDO ratings process varied widely across the deals reviewed by the Staff. Only 15 included all of the four basic required pieces of documentation: a rating committee memorandum, a rating committee addendum, a monitoring committee memorandum, and a monitoring committee addendum. For 16 of the deals reviewed, no monitoring documentation was produced.[30] Additionally, the rating committee memoranda featured significant variation in the topics covered and amount of information presented. For instance, over half of the rating committee memoranda included a section on the collateral manager, however, the level of detail provided in this section varied greatly.[31] Almost all of the rating committee memoranda included a modeling assumptions section, however, the level of detail provided varied greatly. While a small number of memoranda had detailed discussions of the collateral manager, the majority of memoranda including this section either contained a very brief summary or essentially included the section only as a placeholder (i.e., the section included the name of the collateral manager followed by blank fields for items such as "location," "contact," "key personnel," etc.). The majority of the ratings committee memoranda also included an "Issues" section. The level of detail in this section also varied greatly, ranging from detailed listings of rating committee concerns and issuer/underwriter responses to short lists without any indication of resolutions. To the extent that they were provided to the Staff, the surveillance and monitoring memoranda,

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requirement that the committee chair be identified in all memoranda as well as the committee outcome. Compare MIS-OCIE-RMBS-312, with MIS-OCIE-RMBS-397, and 430.

28 For instance, one initial rating committee memorandum contained only three sentences that merely state a base description of the loan pool and there is no way to discern how the rating committee arrived at its results, GSAMP 2006-S1, MIS-OCIE-RMBS-28730; others did not discuss the rating rationale in sufficient detail. See e.g. Long Beach Mortgage Loan Trust 2006-2, MIS-OCIE-RMBS-28621-28625.

29 For example, the "Key variable(s) voted upon" sections of the addenda were often left blank or contained a generic term like "ratings."

30 These numbers are based on the Staff's review of the documentation provided by Moody's. Approximately three months after the delivery of the majority of the requested transaction materials, Moody's provided an index that confirmed the Staff's findings as to the extent of documentation. See MIS-OCIE-RMBS-32168-32171.

31 While a small number of memoranda had detailed discussions of the collateral manager, the majority of memoranda including this section either contained a very brief summary or essentially included the section only as a placeholder (i.e., the section included the name of the collateral manager followed by blank fields for items such as "location," "contact," "key personnel," etc.).

like the rating committee memoranda, also varied in the amount of information provided, with sections of some memoranda essentially serving as placeholders. Finally, many of the rating committee or monitoring memoranda did not contain a narrative discussing the ratings committee decision or underlying rationale.[32]

The Staff's findings with respect to deal files it reviewed are corroborated by other internal discussion by Moody's. For example, the Derivatives Group was aware that "delinquencies on adherence to the document retention policy had increased" and sent out an email to the Derivatives Group noting this issue.[33] Moody's, however, has subsequently stated that it is in the process of implementing automated committee memorandum and other document retention procedures which will address these issues.

Ultimately, the Staff found that Moody's failed to retain or document certain significant steps in the rating process, which made it difficult for the Staff to assess compliance with its rating policies and procedures, and to identify the factors that were considered in developing a particular rating. This lack of documentation would similarly make it difficult for the Moody's internal compliance staff or internal audit staff to assess compliance with the firm's policies and procedures.

b. Documentation of Participants in the Ratings Process

An NRSRO is also required to make and retain records of the identity of any credit analyst that participated in determining the rating and any person that approved the rating before it was issued (Exchange Act Rule 17g-2). This requirement is intended to assist the Commission in monitoring whether the NRSRO is following its procedures and methodologies for determining credit ratings and whether the NRSRO is complying with procedures designed to prevent the misuse of material nonpublic information by identifying the persons with the best information as to how the credit rating was determined. Prior to this, Moody's policy required that the rating committee attendees and rating rationale be a part of the rating committee memorandum.[34]

For the subprime RMBS and CDO transactions reviewed by the Staff, the Staff found that, at times, in both the initial ratings memoranda and addenda the vote tally was incomplete with either a generic "agreed with levels" type comment in the field for "Key variable(s) voted on" accompanying the vote tally or no indication of the vote tally at

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32 In many cases, the sole documentation of the decision-making process is in the addenda section labeled "RC Outcome," with checkboxes for "RC Recommendation accepted" and "RC Outcome differed from Recommendation." In several cases where the latter box was checked, no explanatory narrative was provided.

33 Email from Gus Harris, Senior Managing Director, New Products Group, Moody's, to 'SFG/Derivatives – US' listserv, Moody's (May 18, 2007, 22:16 GMT).

34 See Moody's Best Practices for the Conduct of Moody's Structured Finance Rating Committees, at 5 (May 2006). See MIS-OCIE-RMBS-312, 397, 430.

all.[35] The Staff also found that like the initial rating committee memoranda, the majority of surveillance memoranda failed to record the voting results.

The Staff recommends that Moody's conduct a review of its current policies and practices for documenting the credit rating process to review whether they are reasonably designed to ensure compliance with Rule 17g-2 and to address weaknesses in the policies or in adherence to existing policies that result in gaps in recording the voting in the credit rating process.

Moody's Response: Moody's generally agrees with the Staff's recommendation and will continue to monitor to ensure compliance with its recordkeeping requirements.

8. Surveillance Practices

Under the Rating Agency Act, an NRSRO is required to disclose publicly the procedures and methodologies it uses in determining credit ratings. In addition, Section 4(d) of the Rating Agency Act states that an NRSRO must maintain adequate financial and managerial resources to produce credit ratings with integrity.

Moody's does not have written policies and procedures for the surveillance of subprime RMBS and CDO bonds, although it publishes criteria that describe the methodologies under which such bonds are monitored.[36] For both RMBS and CDO Moody's uses automated surveillance tools that on a monthly basis flag for review securities whose performance indicates that their current credit rating may not be consistent with the current estimated expected loss.[37] Aside from its monthly outlier screening, Moody's also regularly performs ratings sweeps by issuer and/or origination year, where Moody's looks at each outstanding deal individually.

Once a rated instrument is selected based on the automated surveillance tools, a Moody's surveillance analyst will further investigate the status of the transaction and present findings to a ratings committee. If the rating committee believes that a rating may need to be adjusted, then the securities are placed on review for a potential downgrade or upgrade.[38]

It appears that Moody's regularly performed RMBS and CDO surveillance during the exam time period. However, while Moody's publishes criteria that describe its

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35 See e.g. Long Beach Mortgage Loan Trust 2006-2, MIS-OCIE-RMBS-28621-28631.

36 From 2003-2007, Moody's released three comprehensive publications that detail how Moody's monitors RMBS transactions.

37 For RMBS the surveillance process is based on a review of collateral performance, for CDO it is based on the ratings of the individual assets comprising the collateral pool.

38 For CDO Moody's follows a very similar process; however, surveillance analyst analyze different metrics.

methodology for the surveillance of RMBS and CDO bonds, Moody's does not have internal written procedures documenting the steps staff should undertake for surveillance of RMBS and CDO bonds.

The Staff recommends that Moody's develop RMBS and CDO surveillance policies and procedures. The Staff also recommends that Moody's conduct a review to determine if adequate resources are devoted to surveillance of outstanding RMBS and CDO ratings.

Moody's Response: Moody's agrees with the Staff's recommendations and informed the Staff that it is implementing, or has implemented, global procedural and structural changes that address the Staff's recommendations. Among these policies and changes is the building out of its compliance function to facilitate surveillance policy development.

9. Management of Conflicts of Interest

a. "Issuer Pay Model"/Fee Discussions

Moody's uses the "issuer pays" model, in which the sponsor or other entity that issues the security is also seeking the rating. Under Exchange Act Rule 17g-5(b)(1), it is a conflict of interest for an NRSRO being paid by issuers or underwriters to determine credit ratings with respect to securities they issue or underwrite. Section 15E(h) of the Exchange Act requires an NRSRO to establish, maintain, and enforce policies and procedures reasonably designed to address and manage conflicts of interest. Such policies and procedures are intended to maintain the integrity of the NRSRO's judgment. Avoiding a conflict of interest prevents an NRSRO from being influenced to issue a more favorable credit rating in order to obtain or retain business of the issuer or underwriter.[39]

In order to manage this conflict of interest, in October of 2007 Moody's established a policy to restrict analysts and their immediate managers from participating in fee discussion with issuers.[40] Moody's has also organized its rating group as a separate organization within a larger company.[41] However, Moody's does not actively monitor employees' compliance with the prohibition against analysts from participating in fee discussions.

The Staff found multiple communications that indicate that analysts are aware of the firm's fee schedules, and actual (negotiated) fees. There does not appear to be any internal effort to shield analysts from emails and other communications that discuss fees and revenue from individual issuers. In some instances, analysts discuss fees for a rating. For instance, one analyst wrote to his manager "in the past it took us 2 – 3 months to rate one [a type of deal], so I assume fees should be much higher than for typical

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39 See Release No. 34-55857 and Exchange Act Rule 17g-5.

40 Moody's Code of Professional Conduct (October 2007).

41 In 2007, Moody's Corporation effected a separation at the corporate level between its credit rating business, Moody's, and its non-ratings product and service business, Moody's Analytics.

reperforming deal."[42] Another analyst wrote to his manager asking about whether the firm would be charging a fee for a particular service, and what the fee schedule would be.[43] In addition, there were indications that analysts were involved in fee discussions with employees of the firm's billing department.[44] The Staff is concerned that analysts could be influenced in their ratings by their awareness of the amount of fees charged to issuers.

b. Business considerations in the Ratings Process

As a result of a May 20, 2008, Financial Times article detailing a coding error in the model Moody's utilized to rate CPDOs, Moody's began a review by outside counsel surrounding the issue. As a result of that investigation, Moody's reported to the Staff that a European CPDO rating/surveillance committee had knowledge that Moody's had issued ratings on certain CPDO securities in 2006 using a model that contained a coding error.[45] The coding error resulted in most of those securities receiving a rating several notches higher than if the model had not contained the coding error. In January of 2007, a CPDO committee first became aware that the ratings were several notches higher than they should have been. Despite this fact, the committee agreed to continue to maintain the higher unwarranted ratings for several months until the securities were eventually downgraded for performance reasons. Members of the committee, all analysts or analytical managers, considered the rating agency's reputation when deciding not to downgrade the securities and make the coding error public.

Moody's recently informed the Staff that as a result of these findings, it has implemented, or plans to implement several global procedural and structural changes that address the issues identified. The Staff is still reviewing the facts related to the CPDO ratings.

The Staff recommends that Moody's continue to review its practices, policies and procedures to further mitigate and manage the "issuer pays" conflict of interest. In particular, the Staff recommended that Moody's consider steps that would insulate or prevent the possibility that considerations of market share and other business interests could influence ratings or ratings criteria.

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42 Email from Gulmira Karaguisiyeva, Analyst, Term RMBS, Moody's, to David Teicher, Team Managing Director, Term RMBS, Moody's (May 9, 2007, 13:46 GMT).

43 Email from Zhiqin (James) Huang, Analyst, Term RMBS, Moody's, to Mark DiRienz, Team Managing Director, Term ABS, Moody's (May 7, 2006, 13:38 GMT).

44 Email from Gulmira Karaguisiyeva, Analyst, Term RMBS, Moody's, to Joy Mayo, Manager, Middle Office, Moody's (Aug. 23, 2007, 23:10 GMT).

45 The Staff met with Moody's and outside counsel conducting the investigation on June 27, 2008, to discuss the CPDO coding error and the progress of the investigation. Moody's represented that the investigation into this matter will be completed in mid-July 2008.

Moody's Response: Moody's agrees with the Staff's recommendation and will continue to review its practices and procedures to further mitigate and manage the "issuer pays" conflict of interest.

c. Analyst Compensation

Moody's has a policy that generally provides that an analyst may not be compensated or evaluated based upon the amount of revenue that the rating agency derives from issuers or issues that the analyst rates or with which the analyst regularly interacts.[46] While Moody's does not compensate its analysts based on the deals they rate or the ratings provided, like all employees, the amount of an analyst's bonus is tied to the overall success of the company.

d. Securities Transactions by Employees

Moody's has adopted a policy to prohibit employees and their immediate family members from owning any security that is subject to a credit rating of a team on which such employees are members to guard against potential insider trading.[47] Furthermore, Moody's has implemented procedures to monitor employees' ownership of securities of issuers or obligors rated by groups within the company with whom an employee is not affiliated.[48] Managers are required to review all trades of Moody's employees that report directly to them and raise all potential conflicts of interest or violations with the Legal department or Ratings Compliance department.[49] The Staff found Moody's employee securities transaction program to be adequate.

The Staff has recommended that Moody's conduct a review of its policies and procedures for managing the securities ownership conflict of interest to determine whether they are reasonably designed to ensure that its employees' personal trading is appropriate and does not violate Rule 17g-5.

Moody's Response: Moody's agrees with the Staff's recommendation and will continue to review its policies and procedures for securities trading and ownership to ensure compliance with Rule 17g-5.

10. Internal Audit

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[46] See Section 2.11 of the Moody's Code of Professional Conduct.

[47] See Moody's Revised Securities Trading Policy and Reporting Procedures (November 2005).

[48] Moody's employees must report all the securities holdings of the employee and/or members of his/her immediate family, upon initiation of employment and periodically thereafter, as well as records of securities transactions that the employee and immediate family members engage in. An employee's compliance with the transaction reporting requirement can be achieved by ensuring that his/her employer receives duplicate copes of brokerage statements and trade confirmations.

[49] Section 3 of Appendix A to the Revised Securities Trading Policy and Reporting Procedures (November 2005).

Historically, Moody's employed an outside firm, KPMG, to perform its audits. In addition, at least since 2006, Moody's has performed internal audits to evaluate ratings group's compliance with its best practices, its electronic storage requirements, securities trading restrictions, and the Moody's Code of Conduct.[50] The auditors evaluate the adequacy of implementation of internal controls designed to address these areas. The auditors perform a risk assessment to determine where to perform their audits based upon a number of factors, including the type of debt and geographic location of the group within Moody's responsible for rating an issue. For example, RMBS securities in Europe may be audited in one year, in the U.S. in the next, and in Asia in the year after that, meaning that a specific group in a particular geographic area is audited once every three years.

During the period reviewed by the Staff, Moody's conducted three internal audits related to the RMBS and CDO rating process.[51] The internal audit reviews discovered, among other things, certain non-compliance with document retention policies, over-reliance upon individuals for technological expertise to test software, and lack of adherence to the rating committee guidelines (inquiries about committee member conflicts, no documentation of majority vote, lack of rating committee memo, missing rating letter, empty electronic document management system ["EDMS"] folder, two models not filed on EDMS or CDO Edge, and a lack of documented re-prioritization of deal monitoring). In the Staff's opinion, the most significant finding arising out of the internal audit performed in 2006 for the U.S. Derivatives Team in Structured Finance revealed that derivative models are not formally reviewed and/or validated by management before they are posted for general use. For one deal, the analyst used a banker's proprietary model, without any form of review of the model to determine whether it was reliable or consistent with Moody's methodology. The auditors recommended that management implement a review process to periodically assess the integrity of the models used in support of the rating. Moody's was unable to demonstrate evidence of its management's follow-up on the recommendations of the auditors. The Staff believes that Moody's should be able to provide records of such follow-up as part of an examination of the internal audit record.

The Staff recommends that Moody's review whether its internal audit functions, particularly in the RMBS and CDO ratings areas, are adequate, and whether it provides for proper management follow-up.

Moody's Response: Moody's agrees with the Staff's recommendation and will review the adequacy of its internal audit functions and will develop procedures that address management follow-up.

11. Conclusion

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50 Moody's provided no records of any audits performed prior to 2006.

51 See 2006 U.S. Derivatives Monitoring Internal Audits; 2006 U.S. RMBS Internal Audit; and 2006 U.S. Derivatives Team Structured Finance Internal Audit.

The Staff intends to send a deficiency letter to Moody's outlining its findings and recommendations. The Staff will request that Moody's provide a written response within 30 days outlining any remedial action planned or already taken to address the findings and recommendations in the letter. Moody's will be asked to include in its response a timetable for implementing the proposed remedial action. The letter will also request that Moody's send OCIE a written confirmation in 12 months detailing the status of implementation of each remedial action.

SULLIVAN & CROMWELL LLP

TELEPHONE: 1-212-558-4000
FACSIMILE: 1-212-558-3588
WWW.SULLCROM.COM

125 Broad Street
New York, NY 10004-2498

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FOIA CONFIDENTIAL TREATMENT REQUESTED BY MOODY'S INVESTORS SERVICE

March 11, 2008

By Federal Express

Matthew Daugherty,
Office of Compliance Inspections and Examinations,
United States Securities and Exchange Commission,
100 F Street, N.E.,
Washington, D.C. 20549.

Re: Moody's Investors Service

Dear Mr. Daugherty:

I write on behalf of Moody's Investors Service ("Moody's") in response to the Staff's letter to Raymond W. McDaniel dated February 20, 2008. Moody's understands that the Staff's requests are being made pursuant to the Staff's authority under the Credit Rating Agency Reform Act of 2006. Enclosed is a CD-ROM, bearing bates number MIS-OCIE-RMBS 0028537, containing a spreadsheet comprised of twelve worksheets that respond to Requests 1, 2, and 4-9. The name of each worksheet indicates the Request to which it responds. The information contained in the spreadsheet was compiled by Moody's employees for the purpose of responding to this request. Moody's is preparing a response to a portion of Requests 8 and 9 relating to RMBS rating and surveillance personnel, and Request 10.

For its response to Request 3, Moody's refers the Staff to Moody's Form 10-K for the fiscal years 2004 through 2007 at pages 79, 74, 63, and 76 respectively. Moody's Form 10-K reports revenue by business unit for a three year period, including Structured Finance, Corporate Finance, Financial institutions and Sovereign Risk, and Public Finance.

Moody's is producing these documents in compliance with the Credit Rating Agency Reform Act of 2006 and applicable rules promulgated thereunder. Under 15 U.S.C. § 78o-7(m)(1), Moody's production of these documents "does not constitute a waiver of, or otherwise diminish, any right, privilege, or defense" that Moody's "may

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otherwise have under any provision of State or Federal law, including any rule, regulation, or order thereunder."

The enclosed documents contain confidential and proprietary commercial and financial information concerning Moody's and its affiliates, as well as confidential information concerning the clients and employees of Moody's. Accordingly, Moody's hereby requests, pursuant to Rule 83 of the SEC's Rules on Information and Requests, 17 C.F.R. § 200.83, and for reasons of business confidentiality and personal privacy, that the enclosed documents, and this letter, not be disclosed in response to any request made under the Freedom of Information Act, 5 U.S.C. § 552 (1994) ("FOIA"). The foregoing request also applies to any transcripts, notes, memoranda, tapes or other materials of any sort that are made by, or at the request of, the SEC and incorporate, refer or relate to any of the matters contained in the enclosed documents or this letter.

If the enclosed documents or this letter become the subject of a FOIA request, please call the undersigned at (212) 558-3269 and we will provide further information in support of Moody's request for confidential treatment. Although we make this request in the name of Moody's, we do not intend to waive the right of any client or employee of Moody's separately to request such confidential treatment. We also request that at the conclusion of this investigation, all copies be returned to me at the above address.

Very truly yours,

Stephen Ehrenberg

(Enclosure)

cc: Freedom of Information Act Officer
(United States Securities and Exchange Commission)
(without enclosures)

Annual Gross Revenue - RMBS Ratings

Year	Gross Revenue
FY02*	$ 61,801,000
FY03	$ 75,964,289
FY04	$ 109,121,344
FY05	$ 167,509,541
FY06	$ 168,916,978
FY07	$ 114,381,512

* 2002 Gross Revenue includes revenue from Servicer Quality Ratings ("SQR") which is not likely to exceed 2003 SQR revenue of $643,356.

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Annual Gross Revenue - ABS CDO Ratings*

Year	Gross Revenue
FY02**	$ -
FY03	$ 11,730,234
FY04	$ 22,210,695
FY05	$ 40,332,909
FY06	$ 91,285,905
FY07	$ 94,666,014

* Revenue figures provided are for CDOs containing Asset Backed Securities, which may include RMBS.
** Revenue figures are not readily available for 2002 due to transition of accounting systems.

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Number of RMBS Rated 2002-2007

Month	RMBS Rated
Jan-02	33
Feb-02	36
Mar-02	60
Apr-02	43
May-02	37
Jun-02	57
Jul-02	40
Aug-02	42
Sep-02	63
Oct-02	45
Nov-02	39
Dec-02	49
Jan-03	41
Feb-03	50
Mar-03	57
Apr-03	62
May-03	60
Jun-03	63
Jul-03	51
Aug-03	64
Sep-03	70
Oct-03	67
Nov-03	61
Dec-03	77
Jan-04	50
Feb-04	66
Mar-04	94
Apr-04	79
May-04	82
Jun-04	106
Jul-04	80
Aug-04	99
Sep-04	103
Oct-04	82
Nov-04	85
Dec-04	104
Jan-05	72
Feb-05	76
Mar-05	101
Apr-05	87
May-05	109
Jun-05	112
Jul-05	87
Aug-05	120
Sep-05	128
Oct-05	93
Nov-05	112
Dec-05	128
Jan-06	79

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Feb-06	110
Mar-06	124
Apr-06	99
May-06	107
Jun-06	144
Jul-06	82
Aug-06	97
Sep-06	134
Oct-06	96
Nov-06	102
Dec-06	115
Jan-07	82
Feb-07	108
Mar-07	121
Apr-07	88
May-07	96
Jun-07	98
Jul-07	52
Aug-07	27
Sep-07	21
Oct-07	24
Nov-07	11
Dec-07	16

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Number of ABS CDOs Rated 2002-2007*

Month	CDOs Rated
Jan-02	0
Feb-02	4
Mar-02	4
Apr-02	2
May-02	7
Jun-02	6
Jul-02	1
Aug-02	2
Sep-02	3
Oct-02	4
Nov-02	4
Dec-02	8
Jan-03	2
Feb-03	3
Mar-03	3
Apr-03	2
May-03	7
Jun-03	3
Jul-03	9
Aug-03	7
Sep-03	3
Oct-03	6
Nov-03	7
Dec-03	5
Jan-04	3
Feb-04	4
Mar-04	9
Apr-04	7
May-04	5
Jun-04	4
Jul-04	6
Aug-04	6
Sep-04	4
Oct-04	13
Nov-04	12
Dec-04	16
Jan-05	5
Feb-05	2
Mar-05	11
Apr-05	16
May-05	9
Jun-05	14
Jul-05	21
Aug-05	12
Sep-05	6
Oct-05	8
Nov-05	14
Dec-05	23
Jan-06	13

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Feb-06	5
Mar-06	21
Apr-06	11
May-06	34
Jun-06	29
Jul-06	33
Aug-06	28
Sep-06	35
Oct-06	54
Nov-06	39
Dec-06	58
Jan-07	20
Feb-07	34
Mar-07	73
Apr-07	39
May-07	34
Jun-07	35
Jul-07	24
Aug-07	13
Sep-07	2
Oct-07	5
Nov-07	3
Dec-07	0

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* Figures provided are for CDOs containing Asset Backed Securities, which may include RMBS.

Derivatives Rating and Surveillance Analysts 2007

Employee Name	Job Title	Primary Responsibility*
Ang,Kai C	Associate Analyst	Ratings
Araya,Rodrigo	Senior Vice President	Ratings
Beauchesne,Herve-Pierre	AVP-Analyst	Ratings
Bharwani,Pooja	VP-Senior Analyst	Ratings
Brennan,James	VP-Senior Analyst	Ratings
Bunja,Rudolph	Senior Vice President	Ratings
Burger,David	VP-Senior Analyst	Ratings
Cai,Gong	Senior Associate	Surveillance
Chan,Caroline	Senior Associate	Surveillance
Chen,Alena	Associate Analyst	Ratings
Chen,Karie	Analyst	Surveillance
Choi,Eun J	Senior Vice President	Ratings
Crousillat,Cesar	VP-Sr Credit Officer	Ratings
Espinoza,Oswald	Senior Associate	Surveillance
Fan,Hui	Associate Analyst	Ratings
Forster,Yehudah	VP-Senior Analyst	Ratings
Fratantaro,Annette C	Senior Associate	Surveillance
Fu,Yvonne F	Team Managing Director	Ratings
Gollins,Karen E	Associate Analyst	Surveillance
Gottesman,Craig J	Senior Associate	Surveillance
Green,Claudia N	VP-Senior Analyst	Ratings
Grossmann,Philip S	Senior Associate	Surveillance
Hallenbeck,Peter W	AVP-Analyst	Ratings
Ham,David	VP-Sr Credit Officer	Ratings
Harrington,William J	Senior Vice President	Ratings
Hart,Joy N	Associate Analyst	Ratings
Hu,Jian	SVP-Issuer Relations	Ratings
Jiang,Ivan X	VP-Senior Analyst	Ratings
Kaltsas,Dimitri	Associate Analyst	Surveillance
Kharnak,Elina	VP-Senior Analyst	Ratings
Kim,Jun P	AVP-Analyst	Ratings
Koller,Ainat	Senior Associate	Surveillance
Kolmanovskaya,Elina	VP-Senior Analyst	Ratings
Kumar,Harsh	Associate Analyst	Ratings
Lai,Shan	Associate Analyst	Surveillance
Lama,Sange	Senior Associate	Surveillance
Lasseron,Arnaud H	VP-Senior Analyst	Ratings
Leibholz,Maria	VP-Sr Credit Officer	Ratings
Li,Carissa H	Associate Analyst	Ratings
Li,Connie H	Senior Associate	Surveillance
Lioce,Stephen G	VP-Sr Credit Officer	Ratings
Mahdavi,Yasmine	AVP-Analyst	Ratings
May,William	Team Managing Director	Ratings
Miagkova,Maria V	VP-Senior Analyst	Ratings
Mogunov,Leonid	VP-Senior Analyst	Ratings
Nazarian,Danielle	Senior Vice President	Ratings
Nikulin,Evgeny	Analyst	Ratings
Olson,Ruth E	VP-Senior Analyst	Ratings
Ouzidane,Rachid	Analyst	Surveillance

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Park,John	Senior Vice President	Surveillance
Paroda,Prashant	AVP-Analyst	Ratings
Patel,Rahil	Senior Associate	Surveillance
Polansky,Jonathan	Team Managing Director	Surveillance
Putney,Abraham B	AVP-Analyst	Ratings
Remeza,Algis	VP-Sr Credit Officer	Ratings
Sam,Shiou Lin	Associate Analyst	Ratings
Sava,Suzanna	AVP-Analyst	Ratings
Schoellig,Gregory	Statistical Analyst	Surveillance
Sethi,Shana	Associate Analyst	Surveillance
Shrestha,Abiskar	Associate Analyst	Surveillance
Sieczkowski,Christopher R	Associate Analyst	Surveillance
Sieler,Julien	AVP-Analyst	Ratings
Sun,Yu	VP-Senior Analyst	Ratings
Tepper,Evan	Analyst	Surveillance
Torres,Ramon O	VP-Sr Credit Officer	Ratings
Tzianetopoulou,Theodora	Associate Analyst	Ratings
Veliev,Oktay	Associate Analyst	Ratings
Veluri,Sindhu M	Associate Analyst	Ratings
Wang,Fei Fern	AVP-Analyst	Ratings
Wang,Qi	Analyst	Surveillance
Wyszomierski,Teresa	VP-Sr Credit Officer	Ratings
Xu,Min	AVP-Analyst	Ratings
Yerynovska,Oksana	VP-Senior Analyst	Ratings
Yoshizawa,Clara	Group Managing Director	Ratings
Yu,Wai-Yin A	AVP-Analyst	Ratings
Zhang,Hongfei	Senior Associate	Surveillance
Zhu,Qian	AVP-Analyst	Ratings

* This list includes all analysts assigned to the U.S. Derivatives Group. Analysts are not dedicated to rating or monitoring ABS CDOs in particular. Analyst responsibilities have been temporarily shifted to rating or surveillance as needs arise.

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RMBS Rating and Surveillance Analysts 2007

Employee Name	Job Title	Primary Responsibility
Agarwal,Navneet	VP-Senior Analyst	Surveillance
Bains,Karandeep S	Associate Analyst	Surveillance
Bekiroglu,Arif K	Analyst	Ratings
Bergman,Aron	Analyst	Surveillance
Bessermann,Gregory Elie	Analyst	Surveillance
Branton,Mark K	Senior Associate	Surveillance
Chang,Kai-Ling	Associate Analyst	Ratings
Chatterjee,Debashish	VP-Senior Analyst	Ratings
Dang,JingJing	Associate Analyst	Surveillance
De Gaetano Polverosi,Maria	AVP-Analyst	Surveillance
Drucker,Michael P	AVP-Analyst	Ratings
Fabrikant,Bruce D	Senior Vice President	Ratings
Fellows,Eric	VP-Sr Credit Officer	Ratings
Fried,Ilana J	Senior Associate	Surveillance
Fustar,Stephanie E	Analyst	Ratings
Gemson,Gregory	AVP-Analyst	Ratings
Genis,Peter	Associate Analyst	Ratings
Grisard Boucher,Odile	Analyst	Surveillance
Hannoun-Costa,Ola	Senior Associate	Surveillance
Huang,Zhiqin	Analyst	Ratings
Joseph,Jayesh	Associate Analyst	Surveillance
Kanef,Michael	Group Managing Director	
Karaguishiyeva,Gulmira N	Analyst	Ratings
Kelbaugh,Kathryn E	VP-Senior Analyst	Ratings
Kornfeld,Warren	Team Managing Director	Ratings
Kothari,Deepika	AVP-Analyst	Ratings
Liu,Qingyu	Analyst	Ratings
Lynn,Alexandra	Associate Analyst	Ratings
Markowitz,Murray R	VP-Senior Analyst	Ratings
Peng,Rui-Dan	AVP-Analyst	Ratings
Ramallo,Karen A	Analyst	Surveillance
Riggi,Marjan	VP-Sr Credit Officer	Ratings
Rocco,Joseph	Associate Analyst	Surveillance
Sanchez,Alda Fiorella	Associate Analyst	Surveillance
Shrivastava,Amita	Analyst	Ratings
Singhania,Gaurav	Analyst	Ratings
Swanson,Todd	Analyst	Ratings
Teicher,David L	Team Managing Director	Ratings
Tobey,Amelia	VP-Senior Analyst	Surveillance
Weil,Ariel	AVP-Analyst	Ratings
Zhang,Yi	VP-Senior Analyst	Ratings

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&POOR'S

Mari Maloney
Chief Compliance Officer
Ratings Services
Global Regulatory Affairs

55 Water Street
New York, NY 10004-0003
212.438.7219 Tel
212.438.5673 Fax
mari_maloney@sandp.com

March 14, 2008

Via E-Mail and Federal Express

Matthew Daugherty
Office of Compliance Inspections and Examinations
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-8041

Dear Mr. Daugherty,

I write in response to Mr. Meehan's letter of February 20, 2008 to provide the information requested therein in connection with your office's ongoing examination of Standard & Poor's (S&P). The text of those questions is reproduced below, along with our responses. Per our discussions, and consistent with our prior submissions in this examination, the following information reflects our information for U.S. ratings. The data has been provided as it is maintained in the ordinary course, where possible, and, where not, it has been derived from S&P's records.

1. The annual total gross revenue for providing credit ratings on RMBS transactions for the period 2002-2007.

Table 1
U.S. RMBS - Gross Rating Revenues
($ thousands)

	2002	2003	2004	2005	2006	2007
Initial Rating[1]	55,147	90,606	128,073	158,598	176,995	127,726
Surveillance[2]	1,938	8,081	8,982	10,350	13,757	10,175
Total Revenue	57,085	98,687	137,055	168,948	190,752	137,901

1 Gross amount billed for new ratings of RMBS.
2 Gross amount billed for surveillance of ratings of RMBS after their first year of issuance. These figures include surveillance of pre-2002 ratings. From 2003 forward, this amount includes pre-paid surveillance fees for subsequent years.

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2. The annual total gross revenue for providing credit ratings on RMBS CDO transactions for the period 2002-2007.

Table 2
U.S. CDOs of RMBS - Gross Rating Revenues
($ thousands)

	2002	2003	2004	2005	2006	2007
Initial Rating[3]	9,296	12,621	24,829	41,008	88,934	74,231
Surveillance[4]	888	2,095	3,520	6,444	9,864	16,427
Total Revenue	10,184	14,716	28,349	47,452	98,798	90,658

3. The annual total gross revenue for providing credit ratings on all transactions for the period 2002-2007.

Table 3
U.S. Ratings and U.S. Structured Finance Ratings
Annual Net Revenues Earned and Reported[5]
($ thousands)

	2002	2003	2004	2005	2006	2007
Structured Finance	183,955	237,958	311,773	410,322	614,960	561,400
All Ratings[6]	516,856	640,871	742,108	884,257	1,121,678	1,157,043

3 Gross amount billed for new ratings of CDOs that are generally backed by RMBS collateral.
4 Gross amount billed for surveillance of ratings of CDOs of RMBS after their first year of issuance. These figures include surveillance of pre-2002 ratings. From 2003 forward, this amount includes pre-paid surveillance fees for subsequent years.
5 Represents net revenue (including surveillance) reported on an earned basis.
6 Represents U.S. ratings services included in the NRSRO.

4. The total numbe[illegible]MBS transactions for which S&P p[illegible]d a credit rating for each month during the period 2002-2007.

Table 4
Number of U.S. RMBS Transactions Rated

	2002	2003	2004	2005	2006	2007
January	48	56	69	93	96	106
February	43	71	86	106	146	147
March	66	86	123	115	168	149
April	56	84	99	103	116	128
May	53	78	106	129	131	141
June	60	89	140	144	180	131
July	47	79	106	98	98	67
August	57	96	116	143	110	53
September	87	115	141	165	175	44
October	58	88	126	120	149	53
November	60	90	99	149	130	24
December	78	108	133	181	140	22

5. The total number of RMBS CDO transactions for which S&P provided a credit rating for each month during the period 2002-2007.

Table 5
Number of U.S. CDO of RMBS Transactions Rated

	2002	2003	2004	2005	2006	2007
January	0	2	1	6	14	16
February	4	3	4	2	5	23
March	2	1	5	18	23	67
April	0	1	8	11	14	40
May	3	5	4	8	36	36
June	7	2	4	11	24	31
July	1	6	6	14	32	24
August	1	4	4	12	26	16
September	2	1	3	6	29	10
October	3	4	14	11	42	7
November	3	5	7	19	33	6
December	8	6	19	21	65	0

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6. The total number of RMBS transactions under surveillance by S&P at the end of each month during the period 2002-2007.

Table 6
Number of RMBS Transactions Under Surveillance

	2002	2003	2004	2005	2006	2007
January	3,707	4,050	4,291	4,688	5,673	6,710
February	3,736	4,102	4,355	4,730	5,796	6,847
March	3,791	4,167	4,245	4,799	5,915	6,961
April	3,839	4,216	4,203	4,806	6,025	7,064
May	3,850	4,093	4,272	4,920	6,125	7,142
June	3,851	4,146	4,280	4,980	6,212	7,254
July	3,845	4,172	4,314	5,058	6,273	7,285
August	3,877	4,224	4,367	5,167	6,268	7,286
September	3,930	4,119	4,418	5,263	6,411	7,328
October	3,954	4,182	4,519	5,368	6,487	7,367
November	3,969	4,240	4,549	5,422	6,587	7,314
December	4,021	4,327	4,646	5,588	6,647	7,317

7. The total number of RMBS CDO transactions under surveillance by S&P at the end of each month during the period 2002-2007.

Table 7
Number of CDO of RMBS Transactions Under Surveillance

	2002	2003	2004	2005	2006	2007
January	37	71	110	191	326	661
February	38	75	113	192	332	672
March	43	75	119	209	351	725
April	43	76	125	221	365	765
May	45	79	128	230	398	813
June	51	84	133	236	419	844
July	53	86	139	249	452	864
August	55	94	143	263	477	887
September	56	95	146	270	498	902
October	60	99	155	282	529	913
November	62	103	164	290	569	918
December	70	108	183	315	641	921

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8. Total number of personnel, identified by name and title, assigned to providing initial credit ratings of RMBS and RMBS CDO transactions at year end for the period 2002-2007.

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2007	
RMBS Analysts	
Name	**Title**
Ahn (Liu), Laura	Associate Director
Albergo, Leslie	Senior Director
Alizadeh, Rasool	Rating Analyst
Arne, Errol	Director
Barash, Henry	Rating Specialist
Barnes, Susan	Managing Director
Bartl, Timothy	Research Assistant
Beauchamp, Kyle	Associate Director
Bergeland, Regina	Associate Director
Bergey, Kent	Associate Director
Bergman, Matthew	Associate
Bliss, Brendan	Senior Research Assistant
Boardman, Jeremy	Senior Research Assistant
Bruzese, Frank	Senior Research Assistant
Cao, Becky Hui	Director
Christensen, Peter	Rating Analyst
Conon, Jonathan	Rating Analyst
Consul, Manish	Associate
Deasy, Christopher	Director
Dougherty, Michael	Associate
Epstein, Ken	Associate Director
Fitter, Jenine	Director
Ghose, Ryan	Senior Research Assistant
Gleeson, Michael	Associate Director
Glehan, David	Director
Goldenberg, Mark	Director
Graham, Peter	Rating Analyst
Grow, Brian	Senior Director
Grundy, James	Associate
Guinyard, Anthony	Associate

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Name	Title
Hahn, Song	Associate
Hall, Daniel	Rating Specialist
Hansen, Justin	Director
Hierl, Jonathan	Senior Research Assistant
Hinman, Carissa	Rating Analyst
Hopkins, Amanda	Rating Specialist
Huang, Peng	Research Assistant
Johnson, Kimberly	Associate
Kahan, Jack	Rating Analyst
Kennedy, Martin	Senior Director
Kim, Jong Wan	Associate
Kimmel, George	Director
Koniowka, Gregory	Associate Director
Kostiw, Karen	Director
Kramer, Andrew	Research Assistant
Kumar, Rohit	Associate Director
Larkin, Daniel	Rating Analyst
Lim, Kwang Yi	Associate Director
Listner, Michael	Associate Director
Losice, Abraham S.	Managing Director
Lukacsko, Eric	Director
Mahdavian, Sharif	Director
Manasseh, Rani	Rating Analyst
Mason, Scott	Senior Director
McDermott, Gail	Managing Director
Morrison(Clements), Julia	Associate
Neary, Rebecca	Associate
Niemy, Todd	Director
Osterweil, Terry	Senior Director
Parker, Samuel	Director
Perelmuter, Monica	Director
Polizzotto, John	Director
Reiss, Nancy	Senior research Assistant
Ren, Chuye	Associate
Rossman, Ann	Associate
Samuels, Amy	Associate Director
Sang, John	Rating Analyst
Schneider, Jeremy	Associate
Shaikh, Waqas	Director
Sharma, Sudhir	Associate
Siber, Matthew	Senior Research Assistant
Skuthan, Natalia	Associate
Smith, Kevin	Research Assistant
Solar, Mona	Director
Steers, Bridget	Associate Director
Stock, Michael	Senior Director
Tegan, Daniel	Associate
Tencer, Steven	Director
Tillen, Bonnie	Managing Director

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Name	Title
Tillis, Lisa	Associate
Uppuluri, Sai	Director
Valente, Michael	Associate Director
VanKirk, Spencer	Senior Research Assistant
Vonderhorst, Brian	Senior Director
Wang, David	Associate Director
Wang, Elaine	Research Assistant
Warrack, Thomas	Managing Director
Watson, Jeff	Director
Weller, Brian	Rating Specialist
Wray, Michael	Rating Analyst
Yioupis, Leonidas	Associate
Zimmerman, Allen	Associate
Criteria	
Name	**Title**
Gillis, Thomas	Managing Director
Parisi, Frank	Managing Director
Additional Resources From Structured Finance	
Name	**Title**
Anagnostos, Helen	Associate Director
Maciaszek, Matthew	Associate Director
McGinnis, Peter	Director
Long, Russell	Managing Director
Fazio, Angelo	Senior Director
Legal	
Name	**Title**
Abrams, Natalie	Associate General Counsel
Byrnes, Bernard C.	Assistant General Counsel
Coleman, Maureen N.	Associate General Counsel.
Dawson, Petrina R.	Sr. Managing Director & General Counsel
IT Group	
Name	**Title**
Blaivas, Victoria	Senior Consultant
Garg, Anoop	Senior Consultant
Gimpelevich, Svetlana	Analyst-Systems/Sr
Hager, Aaron	Analyst-Systems/Sr
Karkhanova, Lyudmila	Mgr- Systems
Momin, Naushad M	Mgr- Systems
Rassadzin, Ilia A	Analyst-Systems/Sr
Saftoiu, Elena	Senior Director-Application Development
Ungureanu, Victoria	Analyst-Systems/Sr

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2007	
CDO Analysts	
Name	**Title**
Albulescu, Henry	Managing Director
Bentham, Milbert	Director
Berrouet, Louis-Daniel	Associate
Billick, Nicole	Associate Director
Bruslanova, Natalia	Director
Bryan, Andrea	Managing Director
Carelus, Jean-Baptiste	Director
Chang, Jenny	Associate
Chay, Kyu	Director
Cheng, Loming (Lois)	Rating Specialist
Cheng, Kenneth	Director
Chery, Sulexan	Senior Research Assistant
Chinn, Vanessa	Rating Analyst
Chiriani, Robert Jr.	Senior Director
Cho, Jai Ho	Director
Cilento, Jenna	Research Assistant
Compton, Adrian	Associate Director
Cuddy, Daniel	Research Assistant
DeDiego Arozamena, Alfredo	Senior Director
Dennis, Alex	Research Assistant
Detweiler, John	Director
Fink, Gwen	Associate
Galgano, Philip	Managing Director
Gatmaitan, Joshua	Associate Director
Ghetti, Belinda	Senior Director
Guarnuccio, Keith	Senior Director
Halprin, James	Senior Director
Harris, John	Director
Hennessey, Julia John	Research Assistant
Hom, Carol	Associate Director
Hu, Bujiang	Director
Jordan, Pat	Managing Director
Kalinauskus, Paul	Associate
Kambeseles, Peter	Managing Director
Kato, Clara Akiko	Associate
Kaur, Manjeet	Senior Director
Khakee, Nik	Managing Director

Name	Title
Kim, Jeong	Director
Kurtas, Erozan	Associate Director
Lam, Jonathan (Chifai)	Director
Lee, David	Rating Analyst
Leong, William	Associate
Llanos, Michael	Rating Analyst
Loken, Andrew	Rating Specialist
Long, Russell	Managing Director
MacDonald, Benjamin	Associate
Maciaszek, Matthew	Associate Director
Martin, John Trevor	Research Assistant
McCarthy, John	Director
McCutcheon, Erin	Associate
Mejia-Barros, Griselda	Rating Analyst
Meng, Jerry	Director
Meyer, R. Christopher	Director
Mooney, Shannon	Rating Specialist
Moy, Edward	Director
Neilson, Francesca	Director
Newman, Debroah	Associate
Nicholson, Boris	Senior Research Assistant
Nolan, Katarzyna	Associate Director
O'Brien, John	Director
O'Keefe, Brian	Managing Director
Omer, Farooq	Director
Parchment, James	Associate Director
Pedvis, Andrew	Senior Director
Radziul, Robert	Senior Director
Richards, Tara	Rating Specialist
Sachse, Sarah	Rating Specialist
Scaturro, Peter	Research Assistant
Schiller, Ross	Associate Director
Sehnert, M. Scott	Director
Sprinkle, Lauren	Rating Analyst
Sriram, Jag	Associate Director
Tagliaferro, John	Research Assistant
Tang, Ming	Associate Director
Tesher, David	Managing Director
Trant, Brian	Rating Analyst
Upton, Daniel	Research Assistant
Volpe, Ryan	Research Assistant
Widernik, Anna	Director
Wolf, Zackary	Associate Director
Wong, Eileen	Associate Director
Wong, Elwyn	Managing Director
Yagoda, Brian	Associate
Yang, Julia (Tingli)	Associate Director
Zhao, Bruce	Associate Director

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Criteria	
Name	**Title**
Gillis, Thomas	Managing Director
Quantitative Group	
Name	**Title**
Bassignani, William C	Managing Director - Proj Execution
Morokoff, William J	Managing Director - Quant
Polizu, Cristina	Managing Director - COE
Sargsyan, Eduard	Director - COE
Watson, Robert	Director - COE Quant
Legal	
Name	**Title**
Coleman, Maureen N	Associate General Counsel
Dawson, Petrina R	Sr. Managing Director & General Counsel
Kirschner, Rhonda G	Assistant General Counsel
Manzi, Rosaleen M	Managing Director and Assoc. General Counsel
Silverberg, Michael	Assistant General Counsel

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2007	
RMBS Surveillance	
Name	**Title**
Avant-Koger, Paula	Rating Analyst

[11] Supported data collection efforts for surveillance.

Name	Title
Boccanfuso, Francesca	Research Assistant
Bruzzese, Peter	Associate Director
Chin, Jimmy	Associate - COE Data
Davey, Scott	Associate Director
Elder, James	Associate
Giudici, Andrew	Director
Graffeo, Michael	Rating Analyst
Hyun, Catherine	Associate
Joyce, Kristy Marie	Research Assistant
Keenan, Matthew	Associate
Mahabir, Lal	Director
Pollsen, Robert	Director
Rao, Asha	Senior Research Assistant
Rivera, Jessica	Rating Specialist
Rivera, John	Associate Director
Romero, Cesar	Associate
Rozek, Aleksandra	Associate
Sawyer, Ola	Associate
Schuk, John	Associate
Warner, Ernestine	Senior Director
Young, Steven	Research Assistant
Criteria	
Name	**Title**
Gillis, Thomas	Managing Director
RMBS New Issue[12]	
Name	**Title**
Bartl, Timothy	Research Assistant
Bliss, Brendan	Senior Research Assistant
Ghose, Ryan	Senior Research Assistant
Graham, Peter	Senior Research Assistant
Hinman, Carissa	Rating Analyst
Huarg, Peng	Research Assistant
Kramer, Andrew	Research Assistant
Smith, Kevin	Research Assistant
Wang, Elaine	Research Assistant
SF Information Tech	
Name	**Title**
Aptekar, Yeugene	Developer - Applications
Blaivas, Victoria	Senior Consultant
Saftoiu, Elena	Senior Director-Application Development
Data[13]	
Name	**Title**
Dunn, James	Associate - COE Data
Houston, Gail	Manager

12 Additional resources from this group assisted with RMBS Surveillance during peak periods.

13 In addition to the personnel listed above, 8 people employed by an affiliate assisted in data management efforts for RMBS surveillance in 2007.

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Name	Title
Li, Eric	Temp - Assistant
Lopez, Yasmin	Data Manager
Thornton, James	Manager

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2007	
CDO Surveillance Group	
Name	**Title**
Anderberg, Stephen	Senior Director
Cullen, Brian	Rating Analyst
Davis, Christopher	Associate
Gutierrez-Pagaduan, Heidi	Senior Research Assistant
Hu, Daniel	Senior Research Assistant
Joy, Sampson	Rating Analyst
Kobylinski, James	Associate Director
Lewison, Martin	Associate Director
Maglia, Anthony	Associate (Program)
Miraj, Nikhil	Associate (Program)

[21] In addition to the personnel listed above, 39 people employed by an affiliate assisted in data management efforts for CDO surveillance in 2006.

Name	Title
Mistry, Samir	Associate (Program)
Muthukrishan, Ramki	Director
Rajan, K.P.	Associate Director
Scanlin, Kate	Associate Director
Shah, Niyati	Rating Analyst
Stewart, Ian	Rating Analyst
Subramanian, Jay	Associate
Walsh, Tim	Associate
Zhang, Jennifer	Associate
CDO Group	
Name	**Title**
Chay, Kyu	Director
Compton, Adrian	Associate Director
Kalinauskas, Paul	Associate
Kato, Akiko	Associate
Loken, Andrew	Rating Specialist
Mooney, Shannon	Rating Specialist
Song, Helena	Associate Director
Sprinkle, Lauren	Rating Analyst
Trant, Bo	Rating Analyst
DeDiego Arozamena, Alfredo	Senior Director
Ghetti, Belinda	Senior Director
Guarnuccio, Keith	Senior Director
Hu, Bujiang	Senior Director
Radziul, Robert	Senior Director
Criteria	
Name	**Title**
Gillis, Thomas	Managing Director
Data[22]	
Name	**Title**
Damiano, Salvatore S	Assoc Director-COE Data
Jarvis, Arnold	Research Analyst
Laino, Bobby	Research Analyst
Notarstefano, Robert	Director-COE Data
Serrano, Julio A	VP-COE Data
Proj. Mgmt.	
Name	**Title**
Adams, Latoya S	Analyst-Business Sr COE
Liu Myers, Alice T	Assoc Director-COE Strgy & Pmo
Tomlinson, Sandra L	VP-COE Strgy & Pmo
Quantitative Group	
Name	**Title**
Sargsyan, Eduard	Director-COE

[22] In addition to the personnel listed above, 67 people employed by an affiliate assisted in data management efforts for CDO surveillance in 2007.

SF Information Tech	
Name	**Title**
Balagurusamy, Srinivasan	Analyst-Systems/Sr
Blaivas, Victoria	Senior Consultant
Chen, John I	Senior Director-Application Development
Kostiw, Jeff	Senior Director, Structured Fin Tech
Moloksher, Nikolay	Senior Consultant
Momin, Inayat	Director-Application Development
Qian, Guoliang	Senior Consultant
Saftoiu, Elena	Senior Director-Application Development
Subramanyam, Tirunelveli K	Developer-Application Lead
Thangaraj, Solomon	Director-Application Development
Vega, Juan C	Senior Director-Structured Fin App

10. All current written policies and procedures, and any supporting documentation of reviews, audits or surveillance related to Rule 17g-5(c)(1), prohibiting an NRSRO from issuing a credit rating where the person soliciting the credit rating was the source of 10% or more of the total revenue of the NRSRO during the most recently ended fiscal year.

Rule 17g-5(c)(1) became effective as of June 18, 2007. As of December 31, 2006, the then-most recently ended fiscal year, no issuer was the source of more than 2.68% of the total revenue for the NRSRO. As of December 31, 2007, no issuer was the source of more than 2.74% of the total revenue for the NRSRO. Because there is no issuer that even approaches the threshold set forth in the rule, no written policies are currently in place. At the conclusion of this fiscal year, this issue will be revisited and appropriate written policies and/or procedures will be adopted if necessary.

* * *

Standard & Poor's requests confidential treatment of all information and/or documents that S&P provides to the Securities and Exchange Commission (the "SEC") in connection with this examination, including this letter and all of the information submitted herewith. This confidential treatment request is made under the SEC's confidential treatment procedures (17 C.F.R. § 200.83), under the Freedom of Information Act (5 U.S.C. § 552), and for reasons of privacy and business confidentiality, among others.

S&P expects this confidential treatment request to cover all information and/or documents that S&P may provide to the SEC in connection with the examination, as well as any subsequent requests that the SEC or any employee of the SEC (or any other government agency) may make in connection with the examination, together with any memoranda, notes, transcripts or other writings of any sort whatsoever that are made by, or at the request of, any employee of the SEC (or any other government agency) that incorporate, include or relate to any such information or documents (collectively, the "Confidential Information").

In accordance with 17 C.F.R. §200.83 and other applicable laws and regulations, S&P requests that all such Confidential Information be kept in a non-public file and that only members of the SEC or its staff have access to it. Should the SEC receive any request for the Confidential Information, under FOIA or otherwise, S&P requests that the undersigned immediately be notified of such request, and be furnished with a copy of all written materials pertaining to such request (including, but not limited to, the request and any agency determination relating thereto).

S&P expects to be given an opportunity to submit written substantiation for the request for confidential treatment, if such substantiation is deemed necessary, as provided for in 17 C.F.R. §200.83(d). S&P further expects that, if the preliminary decision of the SEC is that confidential treatment is not warranted, in whole or in part, it will be given ten (10) calendar days from the date of the preliminary decision to submit supplemental arguments in support of the confidential treatment request, as provided for in 17 C.F.R. §200.83(e) (1). In addition, S&P expects that it will be given ten (10) calendar days from the date of the SEC's final decision to release all or part of the Confidential Information to enable S&P to pursue any remedies that may be available to it, as provided for in 17 C.F.R. §200.83(e)(1). For either a preliminary decision or final decision, S&P requests that you telephone the undersigned and send the decision by facsimile rather than relying upon the United States mail for the required notice.

In producing the enclosed information, S&P does not intend to waive any objections to the scope of the examination nor in any way to waive any applicable privileges or protections, including, but not limited to, those arising under the attorney-client privilege, the attorney work-product doctrine, the self-evaluative privilege, and any privileges and protections that may apply under the First Amendment of the United States Constitution or any similar state-law protections and privileges.

Sincerely,

/s/ Mari B. Maloney

Mari B. Maloney

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55 Water Street
New York, NY 10041
877-727-8647 Tel
212-438-5153 Fax

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U.S. STRUCTURED RATINGS FEE SCHEDULE

RESIDENTIAL MORTGAGE-BACKED FINANCINGS AND RESIDENTIAL SERVICER EVALUATIONS

OVERVIEW

This fee schedule applies to both insured and uninsured Residential Mortgage-Backed Financings issued by corporations and financial institutions domiciled in the United States and collateralized by mortgages on U.S. properties as well as ranking for Residential Mortgage Loan Servicers. Separate fee schedules are available for the following types of structured financings:

- Asset Backed Obligations
- Commercial Mortgage-Backed Financings
- Real Estate Companies
- Collateralized Debt Obligations

Please note that in the case of unique structures or securitizations involving new issuers and new product types, Standard & Poor's reserves the right to quote a fee for the analytical work performed. In addition, legal fees are charged for special research associated with such new issuers, products or structures are in addition to Standard & Poor's fees and will be billed separately.

Standard & Poor's performs an independent and objective analysis. The rating, which results from the analytical process may or may not be consistent with the expectations of the issuer. The fee for services is not contingent upon the issuer's acceptance of the assigned rating.

FEE QUOTATIONS

If you have any questions about this fee schedule or require additional information, please contact:

General Fee Inquiries	Ratings Fee Services	(877) 727-8647
Susan Barnes	Managing Director	(212) 438-2579
Thomas Warrack	Managing Director	(212) 438-2634
Brian Vonderhorst	Director	(212) 438-8457
Leslie Albergo	Director	(212) 438-2381
Peter D'Erchia	Managing Director, Global Practice Leader, Surveillance	(212) 438-2438

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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FEE SCHEDULES

RESIDENTIAL MORTGAGE-BACKED FINANCINGS

Initial Rating Fee

The initial rating fee is based on the collateral and structure, i.e. senior/subordinated pass-throughs or excess spread and subordination structures. The fees below apply to public issues and private placements with pool balances below $1 billion.

	Basic Fee	Minimum Fee	Maximum Fee
Pass-Throughs:			
First-Lien Prime Jumbo & Alt. A Senior/Sub. Structure	3.0 basis points	$ 40,000	$ 100,000
First-Lien Prime Jumbo & Alt. A Sr./Sub., Excess Spread Structure	3.25 basis points	$ 40,000	$135,000
First-Lien Subprime	3.25 basis points	$ 40,000	$135,000
2nd-Lien: CES, HELOC, High CLTV	3.25 basis points	$ 40,000	$135,000
Agency CMOs	3.0 basis points	$25,000	$85,000

Deals with Multiple Credit Supported Structures will be charged a surcharge of $25,000, per additional structure.

Other:			
Reverse Mortgages	4.0 basis points	$ 75,000	$ 135,000
Tax Liens	4.0 basis points	$ 75,000	$ 135,000
Servicer Advances	4.0 basis points	$ 75,000	$ 135,000
Construction Loans	4.0 basis points	$75,000	$135,000
Scratch -n- Dent –			
Re-performing	4.0 basis points	$ 75,000	$135,000
Document Deficient	4.0 basis points	$ 75,000	$135,000
Outside of the Guidelines	3.25 basis points	$ 50,000	$135,000
Non-Performing	4.0 basis points	$ 75,000	$135,000
Net Interest Margin (NIM)	One S&P Rated U/L	$ 60,000	
Net Interest Margin (NIM)	One S&P Non-Rated U/L	$100,000	

Large Balance Transactions:

First-Lien Prime Jumbo & Alt. A Senior/Sub. Structure

$1.0 billion ≤ rated amount < $1.5 billion	$108,000 cap
$1.5 billion ≤ rated amount < $2.0 billion	$123,000 cap
$2.0 billion ≤ rated amount < $2.5 billion	$148,000 cap
$2.5 billion ≤ rated amount < $3.0 billion	$158,000 cap
$3.0 billion ≤ rated amount < $3.5 billion	$173,000 cap
$3.5 billion ≤ rated amount < $4.0 billion	$183,000 cap
$4.0 billion ≤ rated amount < $4.5 billion	$198,000 cap
$4.5 billion ≤ rated amount < $5.0 billion	$223,000 cap

$5 billion ≤ rated amount -- $248,000 cap

First & Second- Lien, Jumbo, ALT A & Subprime structures requiring Excess Spread analysis.

$1.0 billion ≤ rated amount < $1.5 billion	$143,000 cap
$1.5 billion ≤ rated amount < $2.0 billion	$148,000 cap
$2.0 billion ≤ rated amount < $2.5 billion	$158,000 cap
$2.5 billion ≤ rated amount < $3.0 billion	$163,000 cap
$3.0 billion ≤ rated amount < $3.5 billion	$178,000 cap
$3.5 billion ≤ rated amount < $4.0 billion	$183,000 cap
$4.0 billion ≤ rated amount < $4.5 billion	$198,000 cap
$4.5 billion ≤ rated amount < $5.0 billion	$223,000 cap

$5 billion ≤ rated amount -- $248,000 cap

Complex Net Interest Margin (NIM) Transaction

Seasoned Collateral

Fees to rate NIMS supported by seasoned transactions:

Generally a fee of $10,000 to $15,000 per S&P rated underlying deal or $20,000 to $30,000 per S&P non-rated deal is charged, plus a fee of $75,000 for the new NIMS rating.

NIMS with Multiple U/L Deals

In additional to the standard fee of $60,000 for one underlying deal, deals with multiple underlying deals will be billed as follows:

The 2nd and 3rd deal will be billed at an additional $25,000 per deal.
The 4th and 5th deal will be billed at an additional $15,000 per deal.
Deals with greater than 5 underlying deals will be determined on a case-by-case basis.

NIMS with Multiple Rated Classes
For the standard $60,000 NIM fee, S&P will rate deals with up to 2 different rating categories. For deals with 3 or more rating categories S&P will charge an additional $10,000 fee per additional rating category.

SECONDARY MARKET RATING FEES

Wrapped Transactions

The fee to analyze the insurance capital charge for wrapping an existing Standard & Poor's rated certificate is $2,500. In the case of tranches or transactions that have not previously been rated by Standard & Poor's, a fee of three (3.0) basis points is charged for analyzing capital charge requirements, with a minimum fee of $15,000.

Subordinated Class Ratings

In the case where subordinated classes are rated subsequent to the initial rating of the senior classes, an additional fee is assessed. Fees generally are in the range of three (3.0) basis points with minimums dependent on size and timing of transactions.

Re-REMIC Transactions

Currently, Re-REMICs consist of three distinct types of transactions each with a different structure, rating methodology and fees.

(1) Traditional Re-REMICs involve the rating on a pool of outstanding Standard & Poor's rated single-family mortgage certificates all of which have the same rating. The fees for traditional Re-REMICs are three (3.0) basis points on the total dollar amount of certificates issued with a minimum fee of $25,000 and a maximum fee of $150,000 with a break-up charge equal to 50% of the fee.

(2) Re-REMICS consisting of certificates that are non-rated by Standard & Poor's or are a mix of ratings (i.e. "AAA", "AA", or "A" etc) can only be rated by the RMBS group based on a current collateral tape with current (no more than 90 days old) FICO scores. Fees for this type of Re-REMIC are three (3.0) basis points on the total collateral analyzed with a minimum fee of $50,000 and a maximum fee of $250,000 for pools of $2.0 billion or less with a break-up charge equal to 50% of the fee. Fees for larger transactions are determined on a case-by-case basis.

(3) Re-REMICS or mixed certificates similar to (2) above that do not have current tapes available must be submitted to Standard & Poor's CDO group for rating.

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RMBS SURVEILLANCE FEES:

Standard & Poor's surveillance fees for all transactions, including those that utilize bond insurance, and except for U.S. Reverse Mortgages, Tax Lien Transaction and other types of transactions listed below, are charged at the time of the initial rating based on the term of the collateral. The schedules are presented below.

Up front Surveillance Fee Schedule:

Less than or equal to 15-year term (1 loan group):	$ 6,000
Greater than 15-year term (1 loan group):	$ 8,000
Multiple Loan Groups (regardless of term):	$10,000
NIMS	$ 4,000

Annual Surveillance Fee Schedule:

U.S. Reverse Mortgages	$2,500
Tax Lien Transactions	$2,500

Fees for the surveillance of the following types of transactions are negotiated on a case-by-case basis. These include:

- Advance Backed Notes
- Construction Loan Backed Notes
- Mortgage Risk Transfers
- Re-REMICs (underlying transactions not previously rated by S&P)

Amendment Fees:

A fee is charged for the review of certain types of amendments or changes to existing transactions. Generally, the fee ranges from $ $1,500 to $10,000, but is not limited to these amounts. The following is an example of such changes and the related fee:

Replacement of existing deal participants with successors such as the trustee, servicer, depository institution, liquidity provider, credit support provider, etc.	$1,500
Changes to definitions or clauses	$2,500
Substitution of form of credit support, changing to newly assessed credit support amount or minor changes or corrections needed to obtain intended structure.	$5,000
Restructuring of security	$10,000

Generally the fee is applied per deal. The fee is negotiable for a series of transactions where the amendment or change is the same.

RMBS SERVICER EVALUATIONS

Standard & Poor's Residential Servicer Evaluation provides a comprehensive assessment of a firm's operational capabilities as a residential servicer. Standard & Poor's requires a periodic review and ranking of servicers. A servicer must be included in Standard & Poor's Select Servicer List in order to participate in a Standard & Poor's rated transaction. In order to do so a servicer must achieve a minimal ranking of Average with a Stable outlook. The initial fee for this evaluation is $35,000 to $45,000 plus reimbursement of actual travel expenses incurred, plus printing expenses if copies of the report are requested.

An evaluation assessment fee $35,000 to $45,000 (plus any applicable printing expenses if copies of the report are requested) will be charged annually thereafter on each anniversary of the initial evaluation.

Proprietary and Confidential. This Fee Schedule is for your internal use only and should not be disseminated to anyone other than officers, directors and employees of your Company on a need to know basis.

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New York, NY 10041
877-727-8647 Tel
212-438-5153 Fax

U.S. STRUCTURED RATINGS FEE SCHEDULE

COLLATERALIZED DEBT OBLIGATIONS

Amended 3/7/07

OVERVIEW

This fee schedule applies to both insured and uninsured Collateralized Debt Obligations rated in the United States. Separate fee schedules are available for the following types of structured financings:

- Asset Backed Obligations
- Residential Mortgage-Backed Financings
- Commercial Mortgage-Backed Financings
- Real Estate Companies
- New Assets

Please note that in the case of unique structures or securitizations involving new issuers and new product types, Standard & Poor's reserves the right to quote a fee for the analytical work performed. In addition, legal fees are charged for special research associated with such new issuers, products or structures are in addition to Standard & Poor's fees and will be billed separately.

Standard & Poor's performs an independent and objective analysis. The rating that results from the analytical process may or may not be consistent with the expectations of the issuer or arranger. The fee for services is not contingent upon the issuer's or arranger's acceptance of the assigned rating.

PRIMARY CONTACTS

Patrice Jordan	Managing Director	Global Practice Leader, Global CDOs	(212) 438-2501
David Tesher	Managing Director	Cash Flow and Market Value CDOs	(212) 438-2618
Andrea Bryan	Managing Director	Synthetic CDOs	(212) 438-2409
Nik Khakee	Director	Operating Companies and SIVs	(212) 438-2473
Peter Kambeseles	Managing Director	Client Value Manager	(212) 438-1168
Elwyn Wong	Managing Director	Client Value Manager	(212) 438-2460
Peter D'Erchia	Managing Director	Global Practice Leader, Surveillance	(212) 438-2438

If you have any questions about this fee schedule or require additional information, please contact the Client Value Managers.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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CASH FLOWS CDOs

Initial Rating Fee

The initial rating fee for CBO/CLOs is 3.5 basis points of the Commercial Paper issuance plus basis points for each term issuance based on the principal amount rated. Costs for direct expenses and legal review (external legal fees will be up to $25,000) will be charged in addition to the rating fee. Minimum and maximum fees are as follows:

Basic Fee	3.5 basis points of the CP issuance plus 7 basis points of the term notes
Minimum Fee	$ 150,000
Maximum Fee	$ 500,000

A surcharge may be imposed on "first time" deals and deals that are unusual/new from a criteria perspective. Additional analysis for credit estimates, credit estimate surveillance, correlation analysis, etc., will be charged separately and are not included in the above fees.

Standard & Poor's reserves the right to charge a fee upon commencing each phase of the rating process. The three major phases are as follows:

Phase I	Preliminary review of the structure, manager and credit.
Phase II	Structural, cash flow, credit and legal review. Convene ratings committee. On-site sponsor/manager review.
Phase III	Final structural, cash flow, credit and legal review. Decision made on transaction ratings.

Annual Surveillance Fee

Standard & Poor's charges an annual surveillance fee of $35,000 to $50,000 annually or an up-front fee representing the present value of such fee.

Amendment Fees

A fee will be charged for amendments that require significant review of documentation, cash flow or collateral analysis.

Cancellation/Break-up Fee

Standard & Poor's charges a minimum break-up fee of $25,000. Additional fees will be assessed based on the interim fee for each phase detailed above. Each phase may be assessed at 33% of the overall transaction fee.

COMMERCIAL REAL ESTATE CDOs and ReREMICS (EXCLUDING SYNTHETIC CDOs)

Initial Rating Fee

The initial rating fees for Commercial Real Estate CDOs (excluding Synthetic CDOs) and ReREMICs is 7 – 10 basis points for each issuance based on the total ramped-up pool balance.

Basic Fee	7 – 10 basis points
Minimum Fee	$ 250,000
Maximum Fee	$1,750,000

In addition to the initial rating fee, costs for determining credit assessments for real estate collateral not possessing a Standard & Poor's credit rating or credit estimate will be charged and vary depending on collateral complexity.

Costs for legal review (external legal fees) will be charged in addition to the rating fee and vary depending on deal complexity.

A surcharge may be imposed on "first time" deals and deals that are unusual/new from a criteria perspective. Additional analysis for credit estimates, credit estimate surveillance, correlation analysis, etc., will be charged separately and are not included in the above fees.

Standard & Poor's reserves the right to charge a fee upon commencing each phase of the rating process. The three major phases are as follows:

Phase I	Preliminary review of the structure, manager and credit.
Phase II	Structural, cash flow, credit and legal review. Convene ratings committee. On-site sponsor/manager review.
Phase III	Final structural, cash flow, credit and legal review. Decision made on transaction ratings.

Annual Surveillance Fee

Standard & Poor's charges and annual surveillance fee of $20,000 - $50,000 annually or an up-front fee representing the present value of such fee.

Cancellation/Break-up Fee

Standard & Poor's charges a minimum break-up fee of $25,000, plus any work performed on credit estimates. Additional fees will be assessed based on the interim fee for each phase detailed above. Each phase may be assessed at 33% of the overall transaction fee.

Amendment Fees

A fee will be charged for amendments that require significant review of documentation, cash flow or collateral analysis.

CMBS SERVICER EVALUATIONS

Standard & Poor's Commercial Servicer Evaluation provides an objective assessment of a firm's operational capabilities as a commercial servicer. Standard & Poor's requires a periodic review and ranking of servicers. A servicer must be included in Standard & Poor's Select Servicer List in order to participate in Standard & Poor's rated transaction. In order to do so a servicer must achieve a minimal ranking of Average with a Stable outlook. The initial fee for this evaluation is $35,000 -$55,000 plus reimbursement of actual travel expenses incurred, plus printing expenses if copies of the report are requested.

An evaluation assessment fee of $35,000 - $55,000 (plus any applicable printing expenses if copies of the report are requested) will be charged annually thereafter on each anniversary of the initial evaluation.

COMMERCIAL REAL ESTATE CDO ASSET MANAGER EVALUATION

Standard & Poor's Commercial Real Estate CDO Asset Manager Evaluation provides an objective assessment of a CDO asset manager's operational capabilities as a commercial asset manager for select commercial real estate CDOs. A Commercial Real Estate CDO Asset Manager must be qualified in order to participate in a Standard & Poor's rated transaction.

The initial fee for this evaluation is $10,000, plus reimbursement of actual travel expenses incurred. An evaluation assessment fee of $10,000 will be charged annually thereafter on each anniversary of the initial evaluation.

SYNTHETIC CDOs

Initial Rating Fee

The initial rating fee for each issuance of Synthetic CDOs depends on the following factors, among other; rated volume, type of collateral, liability rating and tenor, portfolio turnover, etc. Costs for direct expenses and legal review will be charged in addition to the rating fee. Minimum and maximum fees are as follows:

Minimum Fee	$ 30,000
Maximum Fee	$750,000

A surcharge may be imposed on "first time" deals and deals that are unusual/new from a criteria perspective. Additional requirements such as credit estimates, credit estimate surveillance, correlation analysis, etc., will be charged separately, and are not included in the above fees.

Standard & Poor's reserves the right to charge a fee upon completion of each phase of the rating process. The three major phases are as follows:

Phase I	Preliminary review of the structure, manager and credit.
Phase II	Structural, cash flow, credit and legal review. Convene ratings committee. On-site sponsor/manager review.
Phase III	Final structural, cash flow, credit and legal review. Decision made on transaction ratings.

Annual Surveillance Fee

For static pools, Standard & Poor's charges an annual surveillance fee of up to $15,000, or an up-front fee representing the present value of such fee. For managed pools, Standard & Poor's charges an annual surveillance fee that ranges from $10,000 to $50,000, or an up-front fee representing the present value of such fee.

Amendment Fees

A fee will be charged for amendments that require significant review of documentation, cash flow or collateral analysis.

Cancellation/Break-up Fee

Standard & Poor's charges a minimum break-up fee of $25,000. Additional fees will be assessed based on the interim fee for each phase detailed above. Each phase may be assessed at 33% of the overall transaction fee.

PROGRAM SET-UP FEE FOR MULTI-ISSUANCE VEHICLES

A Program Set-Up fee of $50,000 will be charged at the time of set-up for new synthetic vehicles.

Amendment Fees

A fee will be charged for amendments and collateral additions/removals that require significant review of documentation and/or collateral analysis.

MARKET VALUE CDOs

Initial Rating Fee

The initial rating fee for Market Value CDOs is 7 - 8 basis points for each issuance based on the total issuance amount. Costs for direct expenses and legal review (external legal fees will be $25,000) will be charged in addition to the rating fee. Minimum and maximum fees are as follows:

Basic Fee	7 - 8 basis points
Minimum Fee	$150,000
Maximum Fee	$500,000

A surcharge may be imposed on "first time" deals and deals that are unusual/new from a criteria perspective. Additional requirements such as credit estimates and credit estimate surveillance, correlation analysis, recovery analysis, etc., will be charged separately, and are not included in the above fees.

Standard & Poor's reserves the right to charge a fee upon completion of each phase of the rating process. The three major phases are as follows:

Phase I	Preliminary review of the structure, manager and credit.
Phase II	Structural, cash flow, credit and legal review. Convene ratings committee. On-site sponsor/manager review.
Phase III	Final structural, cash flow, credit and legal review. Decision made on transaction ratings.

Annual Surveillance Fee

Standard & Poor's will assess an annual surveillance fee of $35,000 or an up-front fee representing the present value of such fee. Standard & Poor's reserves the right to negotiate significantly higher fees for certain structures.

Amendment Fees

A fee will be charged for amendments that require significant review of documentation, cash flow or collateral analysis.

Cancellation/Break-up Fee

Standard & Poor's charges a minimum break-up fee of $25,000. Additional fees will be assessed based on the interim fee for each phase detailed above. Each phase may be assessed at 33% of the overall transaction fee.

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Permanent Subcommittee on Investigations

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DATE: 04/27/2007
TIME: 18:44:24 GMT
AUTHOR: Yoshizawa, Yuri
RECEIPIENT: Kimon, Noel
CC: Harris, Gus
SUBJECT: TMD Comp

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Noel,

I've attached a comparison of US Derivatives TMD comp (with each other and with [redacted]). After the planned increase for Rudy, the difference in Base/Target compensation between [redacted] and [redacted] shrinks from $42k to $20k. That said, including the equity that they received for this past year, the difference is really $139k.

In the spreadsheet, I have a proposal that I've already discussed with Gus, for a slight ($15k) increase to total comp for [redacted] that will increase the gap between him and [redacted] but only to the point where there is still a gap between him and [redacted], which we believe is appropriate. Gus and I spoke with [redacted] earlier this week regarding the transition of HG ABS CDOs to [redacted] and regarding our expectations of what he needs to work on (i.e., efficiency, delegation of responsibilities and knowledge transfer to team leaders, interaction with bankers, flexibility, etc.). We would propose that if we agree to give him the increase, that we wait for a few months to see whether he shows improveme

Current

Name	Title	Base as of 4/26/2007	Target as of 4/26/2007	Total Comp 4/26/2007	[redacted]	Base as of 07/1/2007	Target as of 7/1/2007	Total Comp 7/1/2007	[redacted]	2007 Equity - Total Grant Value	Total Comp including 2007 Equity	[redacted]
[redacted]	SVP	235,597	107,641	343,238		255,000	109,794	**364,794**		192,259	**557,052**	
[redacted]	TMD	265,000	120,000	385,000		265,000	120,000	**385,000**		310,834	**695,834**	
[redacted]	TMD	286,140	131,250	417,390		286,140	131,250	**417,390**		396,747	**814,137**	
[redacted]	TMD	291,200	131,250	422,450		291,200	131,250	**422,450**		430,766	**853,216**	
[redacted]	TMD	305,550	155,800	461,350		305,550	155,800	**461,350**		476,125	**937,475**	

Proposal

Name	Title		Base	Target	Total Comp	[redacted]	2007 Equity - Total Grant Value	Total Comp including 2007 Equity	[redacted]
[redacted]	SVP		255,000	109,794	**364,794**		192,259	**557,052**	
[redacted]	TMD		275,000	125,000	400,000		310,834	**710,834**	
[redacted]	TMD		290,000	131,250	**421,250**		396,747	**817,997**	
[redacted]	TMD		291,200	131,250	**422,450**		430,766	**853,216**	
[redacted]	TMD		305,550	155,800	**461,350**		476,125	**937,475**	

Additional Funds: ###### 5,000.00 ######

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Report Footnote #1004

STANDARD
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Standard & Poor's Global Compensation Guidelines 2007/2008

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Wall Street & The Financial Crisis
Report Footnote #1004

S&P Senior Analytical Incentive Plan ("SAIP") for Ratings Analytical Personnel

SAIP Objectives:

- Attract, motivate and retain superior analytical talent.
- Encourage individual and collective performance towards the achievement of specific, measurable goals.
- Provide appropriate compensation levels to maintain the highest standards of analytical quality.

Eligibility is limited to:
Senior credit rating analytical staff in Structured Finance, C&G and the Quants: Managing Directors, Directors, Associate Directors, Associates, Associate General Counsels and Assistant General Counsels of Standard & Poor's Ratings Services, provided they are employed as such by September 30th.

SAIP Global Guidelines for Performance Year 2007 (as a % of the employee's base salary as of December 31st)

Level	Breakthrough	Exceptional	Target	Requires Improvement
A24	0% to 120%	0% to 90%	0% to 60%	0%
A23	0% to 110%	0% to 83%	0% to 55%	
A22	0% to 100%	0% to 75%	0% to 50%	
A21	0% to 70%	0% to 55%	0% to 35%	
A20	0% to 60%	0% to 45%	0% to 30%	

The guidelines are broad to provide flexibility for managers to ensure that incentive payouts appropriately reflect distinctions in employee performance and contribution to business unit, department and company success.

Overall, Breakthrough performers are expected to earn at least 1/3 more than Exceptional Performers, and Exceptional Performers are expected to earn at least 1/3 more than Target Performers.

Employees who receive an overall PMP rating of Requires Improvement are not eligible to receive an incentive payout for that performance year.

Any exception requests must be submitted to the S&P Compensation Council by the global unit head during the first week of February. Requests for adjustments post-process will not be accepted.

All payout recommendations require the approval of the S&P Compensation Council and by McGraw-Hill senior management.

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Wall Street & The Financial Crisis
Report Footnote #1004

Long-Term Stock Incentives: Executives

Recommend Values: Managers are to recommend 2008 long-term incentive awards in terms of US-dollar values. On the April 1st award date, McGraw-Hill's Executive Compensation specialists will convert the dollars to stock option grants and RPS/PSU Awards based on the stock price, option fair value, and on the mix of equity vehicles at each grade level.

- Rounding: Recommendations should be made in increments of US$1,000.
- Currency Rates: Recommended LTI amounts made in US$ will be converted to local currency in SPECS to facilitate Total Direct Compensation comparisons.

Fair Value: The McGraw-Hill Controller's Office will utilize an option valuation model to determine the "Fair Value" of a stock option on the grant date. The option exercise price, and the RPS/PSU award date value, will be the closing fair market value on the award date.

2008 LONG-TERM INCENTIVE GUIDELINES BY PERFORMANCE RATING

- ***Awards for Grade Level 23 through 27 will be delivered as 25% options and 75% RPS/PSU.***
- Compensation Decision Makers are to make recommendations in terms of values; McGraw-Hill Executive Compensation will calculate the conversion on the award date.

Grade Level	Target Achievement	Exceptional Achievement	Breakthrough Achievement
24	up to $75,000	up to $105,000	up to $135,000
23	up to $55,000	up to $77,000	up to $100,000

SEC_OCIE_CRA_005355
S&P-SEC 067740

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Wall Street & The Financial Crisis
Report Footnote #1004

Standard & Poor's Ratings Services

S&P US
2008 Base Salary Ranges
Ratings Services Analytical Positions Only

Job Title	Grade Level	Minimum	Midpoint	Maximum
Managing Director	A24	$154,500	$225,800	$297,300
Sr Director	A23	$133,700	$199,100	$264,500
Director	A22	$113,000	$172,300	$231,800
Associate Director	A21	$95,100	$136,800	$178,500
Associate	A20	$71,200	$106,900	$142,700

The salary ranges above are to be referenced for analytical positions in Ratings Services only (i.e., Structured Finance and C&G). If your positions are not covered by the salary ranges for Ratings Services roles please reference your merit increase budget, each employee's relative performance, and local market insights.

SEC_OCIE_CRA_005362
S&P-SEC 067747

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1011

PAULSON & CO. INC.

"The Subprime Mortgage / Credit Crisis"

John Paulson
President

Investment Management

1251 Avenue of the Americas
50th Floor
New York, NY 10020
Phone: (212) 956-2221 Fax: (212) 977-9505

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January 25, 2010

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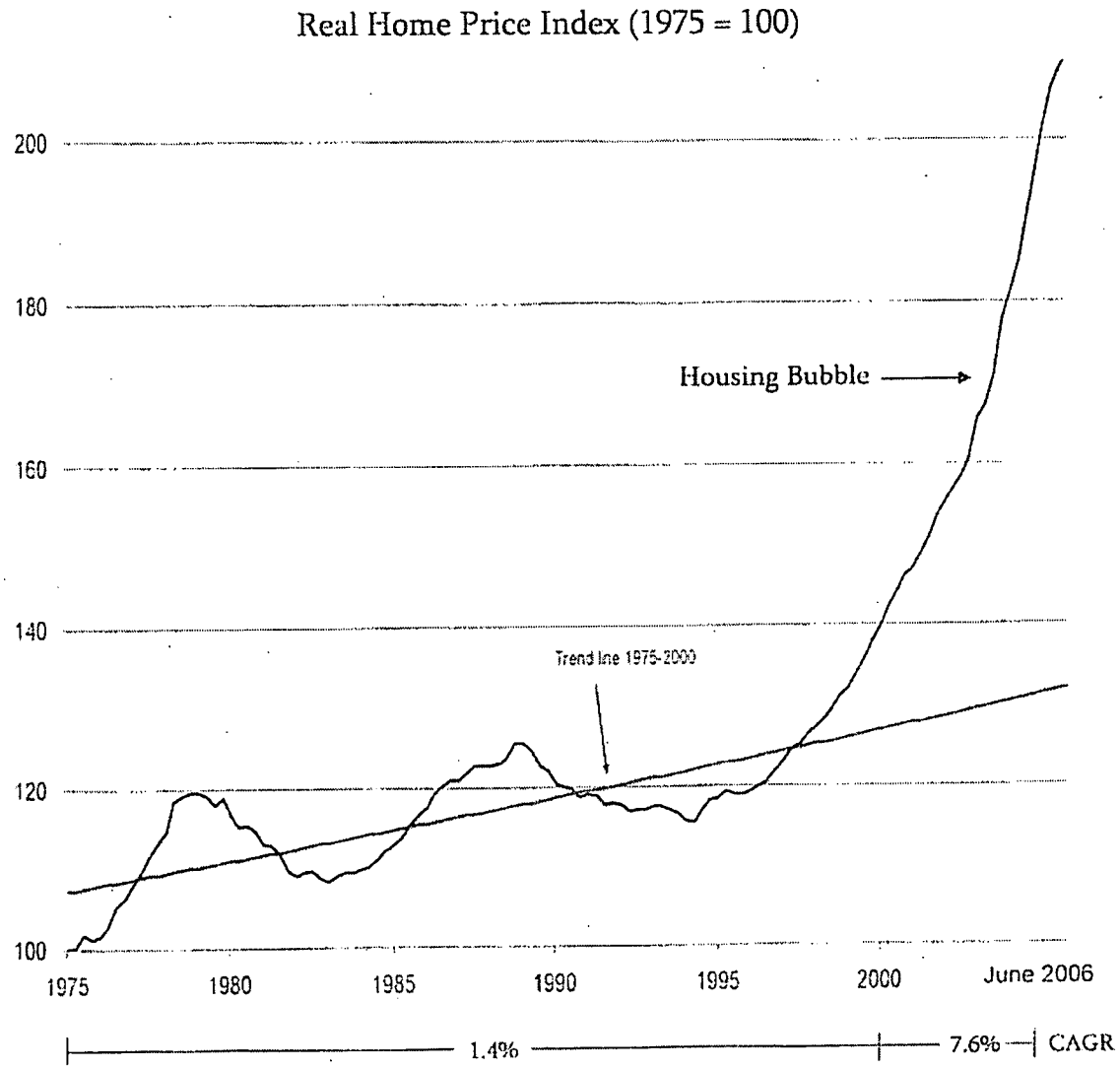
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An investment in a hedge fund is speculative and involves a high degree of risk, which each investor must carefully consider. An investor in hedge funds could lose all or a substantial amount of his or her investment. Returns generated from an investment in a hedge fund may not adequately compensate investors for the business and financial risks assumed. While hedge funds are subject to market risks common to other types of investments, including market volatility, hedge funds employ certain trading techniques, such as the use of leveraging and other speculative investment practices that may increase the risk of investment loss. Products may involve above-average risk. Risks associated with hedge fund investments include, but are not limited to, the fact that hedge funds can be highly illiquid; they are not required to provide periodic pricing or valuation information to investors; they may involve complex tax structures and delays in distributing important tax information; they are not subject to the same regulatory requirements as mutual funds; they often charge higher fees and the high fees may offset the funds' trading profits; they may have a limited operating history; they can have performance that is volatile; they may have a fund manager who has total trading authority over the fund and the use of a single adviser applying generally similar trading programs could mean a lack of diversification, and consequentially, higher risk; they may not have a secondary market for an investor's interest in the fund and none may be expected to develop; they may have restrictions on transferring interests in the fund; and may effect a substantial portion of their trades on foreign exchanges.

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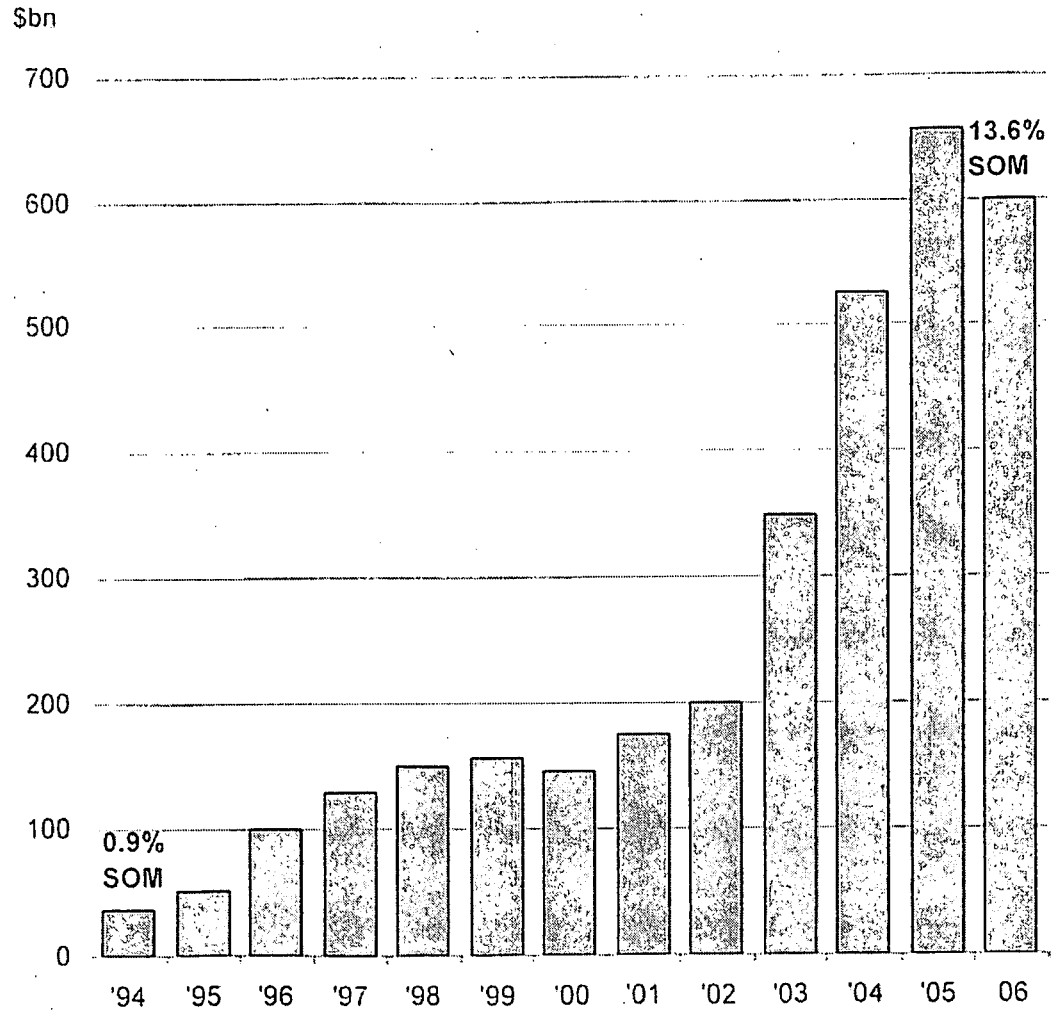
ESTIMATION OF HOUSING BUBBLE: Comparison of Recent Appreciation vs. Historical Trends



Source: Office of Federal Housing Enterprise Oversight, Bureau of Economic Analysis

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MORTGAGE SUBPRIME ORIGINATION



Source: Lehman Brothers

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60 DAY+DELINQUENCY AND FORECLOSURE

	2006	2007	% Change YoY
January	5.6%	9.4%	68.6%
February	5.8%	9.9%	71.9%
March	5.8%	10.4%	79.0%
April	5.6%	10.7%	91.3%
May	5.9%	11.3%	92.0%
June	5.8%	12.2%	109.7%
July	6.0%	13.4%	121.7%
August	6.5%	14.8%	127.4%
September	6.8%	16.3%	139.3%
October	7.4%	18.1%	145.3%
November	8.0%	19.9%	150.5%
December	**8.6%**	**22.0%**	**155.2%**

Source: LoanPerformance

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Fact Sheet for Three Examples of Failed AAA Ratings

	Vertical ABS CDO 2007-1	Fremont (GSAMP Trust 2007-FM2)	Delphinus CDO 2007-1, Ltd.
Type	Hybrid CDO	RMBS	Hybrid CDO
Size	$1.5 billion	$1 billion	$1.6 billion
Underwriter	UBS	Goldman Sachs	Mizuho
Initial Rating Date; S&P	4/10/2007	02/28/2007	08/02/2007
Moody's	4/26/2007	03/08/2007	07/31/2007
# AAA tranches	3	5	7
First downgrade; S&P	11/14/2007	10/17/2007	12/21/2007
Moody's	10/25/2007	12/04/2007	11/07/2007
First downgrade AAA; S&P	11/14/2007	08/20/2008	12/21/2007
Moody's	10/25/2007	10/23/2008	01/18/2008
Current rating of AAA; S&P	Withdrawn	4 out of 5: CCC	Withdrawn
Moody's	Withdrawn	4 out 5: Caa3 and below	Withdrawn

Source: Prepared by the Subcommittee based on information from S&P and Moody's websites, February 22, 2011. The sizes are all approximations.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1034

Permanent Subcommittee on Investigations Footnote Exhibits - Page 0596
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From: Gutierrez, Michael
Sent: Sunday, October 01, 2006 12:04 PM
To: Mackey, Robert
Subject: RE: REO DATA

I agree

-----Original Message-----
From: Mackey, Robert
Sent: Saturday, September 30, 2006 2:10 PM
To: Gutierrez, Michael
Subject: RE: REO DATA

may I also recommend that if we bring Anne on board we could have her do some of this important data collecting and analysis for us while we get her up to speed.

-----Original Message-----
From: Gutierrez, Michael
Sent: Saturday, September 30, 2006 2:07 PM
To: Mackey, Robert; Koch, Richard; Highland, Edward; Frie, Steven
Subject: RE: REO DATA

Good questions all of which we should discuss further

-----Original Message-----
From: Mackey, Robert
Sent: Saturday, September 30, 2006 11:06 AM
To: Gutierrez, Michael; Koch, Richard; Highland, Edward; Frie, Steven
Subject: RE: REO DATA

The numbers are alarming, yet very consistent (gross, net, and loss severity). Is there a way we could dig a little deeper into several of the clients responses to determine liquidation costs, REO, handling costs etc. to "back into" potential *overzealousness* on the front end? Should the loss severity percentage become more important in our analysis?

-----Original Message-----
From: Gutierrez, Michael
Sent: Friday, September 29, 2006 4:48 PM
To: Koch, Richard; Highland, Edward; Frie, Steven; Mackey, Robert
Subject: RE: REO DATA

You hit it right on the head - Ernestine told me that broken down to loan level what she is seeing in losses is as bad as high 40s -low 50s % I'd love to be able to publish a commentary with this data but maybe too much of a powder keg

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1042

I'm still at a loss over what to talk about at the RMBS Hot Pockets in October

-----Original Message-----
From: Koch, Richard
Sent: Friday, September 29, 2006 3:50 PM
To: Highland, Edward; Gutierrez, Michael; Frie, Steven; Mackey, Robert
Subject: RE: REO DATA

No, I think it is telling us that underwriting fraud; appraisal fraud and the general appetite for new product among originators is resulting in loans being made that shouldn't be made.

Hey Mike, if Spitzer could prove coercion this could be a RICO offense!

-----Original Message-----
From: Highland, Edward
Sent: Friday, September 29, 2006 2:40 PM
To: Gutierrez, Michael; Frie, Steven; Koch, Richard; Mackey, Robert
Subject: RE: REO DATA

Is this telling us the foreclosure expense, winterizing, etc. is running at 40%?

Edward B. Highland, Jr.
Director
Standard and Poor's
55 Water Street
42nd Floor
New York, NY 10041-0003

Tel 212-438-1287
Fax 212-438-2662

Edward_Highland@sandp.com
www.stardardandpoors.com

-----Original Message-----
From: Gutierrez, Michael
Sent: Friday, September 29, 2006 12:20 PM
To: Frie, Steven; Koch, Richard; Mackey, Robert; Highland, Edward
Subject: FW: REO DATA

Gents:

Take a look at these stats - I find them most interesting!!

-----Original Message-----
From: Moskowitz, Gregg
Sent: Friday, September 29, 2006 10:52 AM
To: Gutierrez, Michael
Subject: REO DATA

<< File: lossseverity.xls >>

Gregg Moskowitz
Senior Research Assistant, Structured Finance Ratings
Standard & Poor's
55 Water Street (42nd Floor)
New York, NY 10041-0003
☎ **(212)438-1838**
🖷 **(212)438-2662**
Gregg_Moskowitz@standardandpoors.com

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From: Pollsen, Robert
Sent: Tuesday, February 14, 2006 11:13 AM
To: Agbabiaka, Taoheed; Avant-Koger, Paula; Clarke, Lisa; Davey, Scott; Giudici, Andrew; Graffeo, Michael; Joyce, Kristymarie; Liu, Shawn; Mahabir, Lal; Rao, Asha; Recentes, Darwin; Rivera, Jessica; Rivera, John; Rocha, Martha; Warner, Ernestine; Young, Steven 2/13/2006; Albergo, Leslie; Kostiw, Karen; Mcdermott, Gail; Osterweil, Terry; Stock, Michael; Warrack, Thomas

Subject: U.S. HOUSING MARKET - Looming "reset problem" - article in Barron's 2/13/2006...

Coming Home to Roost By JONATHAN R. LAING (from ***Barron's*** 2/13/2006)
THE RED-HOT U.S. HOUSING MARKET MAY be fast approaching its date with destiny. Indeed, inside the mortgage trade, much anxiety is being focused on a *looming "reset problem." Over the next two years, monthly payments on an estimated $600 billion of mortgages to borrowers with checkered or no credit histories -- the "sub-prime" market -- may zoom as much as 50% higher, as the two-year teaser rates on hybrid adjustable-rate loans expire and interest payments hit their fully indexed levels.*
In the past, such resets caused little disruption. For one thing, the sub-prime market was strikingly smaller. Only $97 billion of such mortgages were originated in 1996, compared with a mammoth $628 billion last year and $540 billion in 2004, according to the trade publication Inside B&C Lending. Sub-prime loans outstanding now account for more than 10% of the total U.S. mortgage debt of $8.4 trillion.
Moreover, the reset triggers on sub-prime mortgages have dramatically shortened, with the loosening in underwriting standards. ***During the past two years, "affordability" products, as the industry has dubbed them, have migrated from prime to sub-prime borrowers***. Sub-prime borrowers used a variety of products, including:
Hybrid ARMs, with low teaser rates in the early years.
"IO Mortgages," which, in their early years, charge interest only and require no repayment or amortization of principal.
"Stated Income" or **"No Doc" Loans**, requiring no verification of a borrower's income.
Option ARMs, which give borrowers the option of making smaller than normally required monthly payments, with the unpaid portion being added to principal.
Piggy-Back Mortgages, in which the borrower received a first mortgage of, say, 80% of a home's value, plus a credit line to cover his down payment on a new home.
Surging property values in much of the country in the past four years helped bail out many sub-prime borrowers, letting them refinance their loans as painful resets loomed. Many borrowers not only refinanced old debt at attractive teaser rates, but also sucked additional equity out of their homes with cash-out refinancings, to pay off higher-rate credit-card debt. Meanwhile, delinquency rates and credit losses remained artificially low. A tapped-out borrower always could sell his home into a soaring real-estate market to pay off his mortgage debt and regroup.

But now *the refi window may be closing for the sub-prime crowd*. The Fed's hikes in short-term interest rates have pushed up fully indexed ARM rates. At the same time, evidence is mounting that home-price appreciation is slowing or, in a few areas, reversing. And the secondary market

in mortgage-backed securities, which provides some 90% of the liquidity in the sub-prime market, is starting to balk at the easy lending practices in this sector.

Various doomsday scenarios are being posited. A New York hedge-fund manager heavily playing the short side of sub-prime mortgage securities foresees a coming spiral in delinquencies, foreclosures and credit losses from tapped-out sub-prime borrowers facing monthly payments they can't meet. A deadly feedback loop impends in which forced home sales will diminish collateral values, which, in turn, will foster yet more delinquencies and forced sales. Before the crisis runs its course, the deflationary contagion will infect all manner of homes, from high-end to starters, says this bear.

To be sure, this prediction is both apocalyptic and self-serving. Market shifts usually tend to unfold slowly enough to let players adjust. "I just don't see any coming collapse in the sub-prime market as long as the U.S. economy and job growth stays strong and interest-rate increases remain subdued," insists Doug Duncan, chief economist of the Mortgage Bankers Association in Washington. Echoes Guy Cecala, publisher of Inside B&C Lending: "People have been crying wolf about the looming sub-prime reset crisis for two years and nothing has happened. Lending standards are now being tightened up, so I expect we'll muddle through."

Perhaps so. But significant sticker shock impends for sub-prime borrowers. Say they are paying a fixed teaser rate of 7% (typical of what the 2004 and 2005 cohort of sub-prime borrowers had to pay while borrowers with good credit got fixed rates of 5%). Come reset, typical contracts call for a floating rate of 600 basis points, or six full percentage points over the six-month London interbank offered rate, a money-market benchmark. Six-month LIBOR has risen to around 4.7%, which means that *the borrower would face more than a 50% jump in mortgage interest expense to 10.7%*, subject to certain temporary caps on the permissible jump in interest rates.

The shock will be even greater for the sub-prime borrowers who are facing not only a jump from a fixed to a floating rate, but also the burden of amortizing principal after two years of interest-only payments. And for many, the interest- rate reset and IO expiration will occur on the same day -- a reflection of the "risk layering" prevalent in the sub-prime market over the past two years.

Of course, if sub-prime borrowers have enough untapped equity in their homes, they will be able to refinance their loans on somewhat similar terms -- the new teaser rates have risen to only 7.5% -- and roll the dice for another two years.

But Glenn Costello of Fitch Ratings estimates that at least a quarter of all sub-prime borrowers facing resets may have precious little equity left, even with the huge surge in home prices in the past two years. Many piggy-backed loans to borrow the down payment on their homes, in addition to taking on a conventional mortgage. "For some borrowers, there will just be no loan-to-value gap left," Costello contends.

In recent months, mortgage underwriting standards have indeed begun to tighten, mostly at the instigation of the secondary market, where the bulk of all sub-prime mortgages trade as securities. Investors seem to have lost much of their zest for IOs and hybrid ARMs. Risk layering

is also being discouraged. Reset periods are also being extended out to five years to avoid future refinance jam-ups like what now looms in the next two years.

Even more ominous for the sub-prime borrowers with more than $600 billion or mortgages resetting in the next two years would be new standards for "nontraditional" mortgage products that have been jointly proposed by a number of federal regulators (the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC, the Office of Thrift Supervision and the National Credit Union Administration).

The regulators want lenders to qualify borrowers, based on the full payments they will incur once teaser rates expire or full principal amortization on the loans begin. The prevailing practice in the sub-prime industry, however, considers only initial monthly payment levels.

Deutsche Bank Securities analyst Eugene Xu illustrates the impact such standards, if eventually implemented, would have on sub-prime borrowers hitting the refi window.

A household making $60,000 a year, with a total debt-to-income ratio of 40%, currently could qualify for a $288,000 hybrid ARM, paying a fixed interest-only rate of 7.5% for the first two years, followed by 28 years of floating rates. But if the underwriting standard were based on the current fully indexed 10.7% rate, the applicant would qualify for a loan of just $192,000.

These days, many sub-prime lenders are offering 40-year fixed-rate mortgages to reduce monthly payments. But even under this scenario, our hypothetical borrower would be able to obtain only a $234,000 loan at the prevailing sub-prime rate of 9% , says Xu. "The implication of all this is that many sub-prime borrowers who took out loans in recent years may not be able to refinance unless their income increases or interest rates drop significantly," he observes dryly. In other words, the American Dream of home ownership could turn into a Roach Motel nightmare.

Of course, the proposed standards are likely to be watered down. And if U.S. home prices keep rising smartly, the refinance crisis in the sub-prime market could be largely avoided. Industry economists from Freddie Mac to the National Association of Realtors all think that a 5% to 7% rise in housing prices is easily doable this year, if not the double-digit surge of 2005.

SOME SIGNS OF PRICE WEAKNESS are already apparent. Inventories of unsold homes are building in areas that led the recent price boom, such as Southern California and the East Coast. In many areas, affordability indexes (which measure the ability of a family with the median income for that area to buy a home selling at the median price there) are at two-decade lows. Sales of used or "existing" homes have sunk for three consecutive months, according to the National Association of Realtors, even though that trade group's national figures showed that home prices in December were an extraordinary 12.7% above the year-earlier level.

Richard DeKaser, senior vice president and chief economist of Cleveland-based National City (ticker: NCC), has more than an academic interest in what's happening in housing. National City is not only a top-10 originator and servicer of prime mortgages, but it also owns a major sub-prime lending concern, First Franklin. These days, his attention is riveted on National City's quarterly survey "Home Prices in America." As of 2005's third quarter, the latest period for

which data are available, it showed 38% of the U.S. housing market at an "extreme" overvaluation level of 30% or higher. The champ, or chump: Naples, Fla., where National City believes homes are 84% overvalued.

Experience in the 299 metropolitan areas covered in the survey shows that such levels of overvaluation are typically followed by price declines of about 15% that take an average of three years to unfold. If systemic and not merely localized, he asserts, any correction this time around could have nasty side-effects: "Individuals will suffer a wealth decline and spend less freely. Lenders will suffer elevated loans losses and credit conditions will tighten. Mortgage-backed securities will lose value and consumer confidence and home building will decline."

The survey's models and methodology are more sophisticated than many such valuation studies. Home-price-to-local-income ratios are only one element examined. The survey also makes adjustments for such factors as population density (in- or out-migration from an area can have a big impact of home prices), mortgage rates, relative income levels (rich folks will allocate more of their income to luxury homes as real income rises). The study also uses a local adjustment factor for home-price-to-income ratios. For example, Santa Barbara, Calif., and Honolulu always boast higher ratios than other metro areas, presumably because of such pluses as their stunning climes.

One ray of hope: The level of overvaluation is so high and has been for so long that DeKaser is beginning to doubt his models' current relevance and predictive value. "I worry that the massive secular shift from fixed-rate loans to ARMs and the greater purchasing power that homebuyers consequently have may have skewed our findings some," he says.

Another positive: Delinquency and foreclosure rates in the sub-prime market certainly evidence few signs of stress. According to Loan Performance, a San Francisco statistical service, just 2.43% of homes bought with sub-prime loans were in foreclosure in November. That was materially lower than the 4.38% reported three years earlier. Serious sub-prime delinquencies had likewise fallen over the three years through November, to 5.3% from 8.16%.

But these figures ignore several important realities. First, nearly all the $1 trillion in outstanding sub-prime loans were made in the past two years, to buy homes or refinance older debt. Such loans typically must age a year or more before repayment problems crop up.

Likewise, the low interest rates and looser lending standards available in the past two years have afforded all but the most busted-out sub-prime borrowers the ability to refinance on easy terms.

Of course, the huge levitation in home prices in 2004 and 2005 also did wonders for default and delinquency levels. Borrowers who couldn't afford their monthly payments were able to resolve their debt problems by merely selling their homes, sometimes even booking a profit in the process. This was especially true in overheated markets like California, which accounts for about 30% of sub-prime mortgage debt.

Deutsche Bank's Eugene Xu looked at mortgage-loss severity rates provided by Loan Performance on a range of loans between prime and sub-prime loans that defaulted over the past

three years. All had first liens on the underlying properties and had original loan-to-value ratios of 75% to 85%. They were of superior quality, in other words, to many of the sub-prime mortgages outstanding today.

What he found was revelatory. In areas with moderate home-price gains over the past five years, such as Jackson, Tenn., Memphis and Indianapolis, which had compound price appreciation of less than 4%, loan-loss severity clocked in at more than 35% of the outstanding balance.

In contrast, areas such as Santa Barbara and San Diego, which saw huge annual price growth of over 16.4%, showed minimal loan losses of under 3%. "Sure other factors enter into loss severities such as closing costs and loan size, but previous price appreciation is the primary determinant," he asserts. "Thus, loss severities in key, overheated markets like California and New York could skyrocket by eight-to-10 fold even if home prices growth just moderates markedly rather goes negative."

Modern-day sub-prime lending burst onto the scene only in the mid-'Nineties, pushed by upstart lenders enticed by wide margins and fat fee income. Industry growth surged until a liquidity crisis erupted in 1998 in the U.S. credit markets, following the Russian ruble crisis and the collapse of the Long Term Capital Management hedge fund. Dozens of sub-prime lenders were driven out of business and hideous loan performance made road kill of outfits like the Money Store.

But the industry has roared back, riding the tidal wave of home-price appreciation that sub-prime loans have, in turn, helped foster. In recent years, a number of blue-chip companies such as Citigroup (C), General Electric (GE), Wells Fargo (WFC), H&R Block (HRB), Countrywide Financial (CFC) and HSBC (HBC) have muscled into the industry, mostly by buying existing players and letting them operate independently.

The sub-prime lending crowd has been rocked by more than its share of scandals since the turn of the millennium. Just last month, privately held Ameriquest settled with 49 states for $325 million. Among other things, it had been charged with systematically abusing customers by steering them into higher-cost loans and leaning on appraisers to inflate home appraisals so it could make larger loans.

Shortly after they're originated, nearly all sub-prime loans are packaged into securitizations and sold to public investors. As result, sub-prime offers the best of all worlds in most credit environments. Borrowers assume the bulk of the interest- rate risk by taking out ARMs and can be a source of fat fee income. Meantime, all or most of the credit risk on the loans is shifted to the investors in securitizations.

Obviously, any smash-up in the sub-prime market would hurt lenders. Some such as New Century Financial (NEW) are set up as real-estate investment trusts and, as such, retain some of their securitizations and those of other players. Origination volume is also likely to drop, which would hurt lenders with costly infrastructures that can't be downsized easily in the face of lower volumes. Still, most of the major sub-prime lenders are small cogs in much larger corporate structures. And industry giant Ameriquest is privately held.

In a bad market, most of the blood would spilled in the lower-ranking tranches of sub-prime mortgage-backed securities, bonds rated triple-B minus and below. That's because the overcollateralization and excess interest margin (the difference between the interest thrown off by the pool and the interest promised the holders of the different tranches in the securitization) afford only about 7% to 8% loss protection to triple-B holders.

Any shortfall in interest payments and mortgage-principal loss above that level would eat away at their returns. In these securitizations, interest and principal payments cascade down from the higher to lower tranches. Priority of losses moves in the opposite direction from residual tranches and double-B bonds upward.

The aforementioned New York hedge-fund manager is busily shorting triple-B and triple-B-minus tranches in sub-prime securitizations by buying credit protection on them in the credit-default-swap market. The fund is also short various collateralized debt obligations, an estimated $50 billion or so invested mostly in the junior tranches of sub-prime securitizations. "These CDOs...could get completely wiped," the manager says. The cascade on interest and principal repayments from the securitizations above them might slow to a trickle.

The liquidity of the sub-prime market depends on continued purchases by CDOs of the randier tranches of sub-prime securitizations. Should this funding dry up, the sector's financing structure could seize up. And that would spell big trouble not only for sub-prime borrowers, but for the entire U.S. housing market...and economy.

Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0605
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From: Seeking Alpha [account@seekingalpha.com]
Sent: Sunday, March 25, 2007 2:50 PM
To: james_grundy@sandp.com
Subject: Asset Manager Sy Jacob's Subprime Longs and Shorts

Asset Manager Sy Jacob's Subprime Longs and Shorts

Judy Weil submits: Annotated article summary from this weekend's Barron's. Receive all our Barron's summaries by **signing up here**:

Slow-Motion Train Wreck Picks Up Speed by Sandra Ward

Summary: Barron's interviews Sy Jacobs, founder and investment manager of Jacobs Asset Management, whose annual returns have averaged 16.4% since the fund's inception in 1995. Jacobs predicted the subprime breakdown in 2005, and cautions that subprime problems are not contained, and will strike all credit classes. His longs and shorts:

- NovaStar Financial (NFI) and New Century Financial (NEWC.PK) -- he's still short. Jacobs expects Fremont General (FMT) to be flayed by regulators due to its lax standards and incompetence.
- Bankrate (RATE) -- short. Its client base of mortgage brokers and backers are rapidly disappearing.
- Credit-rating agencies like Moody's (MCO) and McGraw-Hill (MHP) [owner of Standard & Poor] have high collateralized debt obligations, residential mortgage-backed securities and subprime holdings that account for 30-40% of their operating profits. Congress could come down hard on agencies who should have been more vigilant.
- He's long on financials that are sensitive to short-term interest rates but not to credit, because he believes the Fed will start cutting rates as the housing crisis deepens. One example: Annaly Capital Management (NLY).
- Residential mortgage REIT Anworth Mortgage (ANH) should rise from $9 to $16 as funding costs shrink while ARM assets rise.
- Opteum (OPX) -- ALT-A fears have made this stock oversold. Book value is $7.85/share, while shares are at $4.50. Citibank (C) took a 7.5% stake for 150% of book at year-end 2006.
- Origen Financial (ORGN) -- the only remaining player in manufactured-housing finance. With the end of the housing boom and a possible decline in home ownership, manufactured housing should benefit.

Related Links: Seeking Alpha's Housing Bubble and Real Estate Market Tracker * It's Time To Regulate the Subprime Loan Business * Subprime Mortgage Bust Could Create Ad Trouble for Google

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- Read more **articles** by Judy Weil

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Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0607
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DATE: 03/26/2007
TIME: 14:34:26 GMT
AUTHOR: Brennan, James
RECEIPIENT: Patrick Brennan
CC:
SUBJECT: RE: barron's article; deacon, not sure if you saw this but this guy talks about short on moody's and s&p

Lovely, with the UNC loss yesterday and this crap below, the only thing that could make me feel better is a massive round of layoffs in the Lehman investment banking division.

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Patrick Brennan [mailto:patrick@boyarvalue.com]
Sent: Monday, March 26, 2007 10:09 AM
To: Brennan, James
Subject: barron's article; deacon, not sure if you saw this but this guy talks about short on moody's and s&p

Slow-Motion Train Wreck Picks Up Speed

Interview With Sy Jacobs, Founder and Investment Manager, Jacobs Asset Management

By SANDRA WARD

PEOPLE WHO READ OUR FOURTH OF JULY 2005 interview with Sy Jacobs would hardly be surprised by the current meltdown in the subprime loan market. And it should come as no surprise that Jacobs, with a 23-year history of covering the financial markets, predicted the debacle. He has also shined as the principal of the $222 million Jacobs Asset Management in Manhattan, which includes a $45 million private-equity fund. Last year, his market-neutral financial fund gained 16.8% after fees, compared with 13.8% for the S&P 500. Since the fund's start nearly 12 years ago, it has returned 16.4%, on average, versus 11% for the S&P. He sees the debacle deepening, but spies opportunities, as well, in the adversity.

Barron's: Nearly two years ago, you saw the day of reckoning coming for subprime mortgage lenders.

Jacobs: When we spoke in 2005, I was worried about what was brewing in subprime, given the loosening in underwriting standards and the extension of credit to those with little equity and the

inability to pay the loans back unless housing prices continued to rise. I'm surprised how long it has taken to unravel, but it has. Michael Farrell at Annaly Capital Management has been calling it the slow-motion train wreck, and the fact that it went on for another year or two since we spoke only makes it worse because the credit markets accepted more and more risk and got thinner and thinner margins while the party was still going on. The events of the past two weeks would tell you that the train wreck is accelerating and is turning into a contagion. Subprime will bring down mortgage lending, housing and, in turn, the economy and the market.

Some insist the problems in the subprime market are manageable.

The problems in subprime are not self-contained. It is a pinprick to a larger problem, and it needs to be looked at that way. The notion that subprime home-equity lending is somehow ring-fenced because it is only 12% of total mortgage loans outstanding and won't affect the rest of the mortgage and housing market is absurd. First of all, subprime lending was over 20% of 2006's volume. That tells you it was growing rapidly as a percentage of the mortgage business when it hit the wall.

DOW JONES REPRINTS

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Sy Jacobs

It also tells you that the subprime borrower was increasingly the marginal buyer of housing and tilted the supply and demand of housing that resulted in such big increases in home prices until late last year.

How will the problems spread?

Mostly through housing. This year is going to be much worse than 2006 for mortgage and housing credit, and 2006 already laid the mortgage industry low. Nearly $700 billion of

mortgages reset this year and nearly half of that is subprime. Remember 2004, when our esteemed former Federal Reserve chairman, Alan Greenspan, was exhorting us to take out adjustable-rate mortgages, the federal-funds rate was only 1% and had nowhere to go but up? Prime refinancing volume peaked in 2004, and the most popular loan product at that time was a 3/1 adjustable-rate mortgage, three years fixed and adjustable every year after that. Those are resetting this year after 17 quarter-point increases in the fed-funds rate. The subprime home-equity market peaked in 2005, and the most popular product from that year was a two-year-fixed, 28-year-floating mortgage. It resets this year, and now credit spreads are widening, Freddie Mac [ticker: FRE] is going to stop buying as much subprime, as are the capital markets in general, and a lot of capacity is exiting through bankruptcy courts.

The remaining players left standing are raising credit standards and cutting loan products and raising coupons on the products they continue to make. Housing hasn't bottomed, and it is just getting going to the downside.

How bad is the credit crunch?

It is spilling into the secondary market in the sense that credit spreads in the secondary market have widened in the past few weeks. We're seeing a reversal in the appetite for risk that we've seen for the past several years. Credit will get more expensive across asset classes, and that's another way in which the subprime contagion will spread.

Are you hanging on to your subprime shorts, or have you moved on?

In subprime, the decline has been vicious already, and we are starting to look elsewhere for that kind of juicy downside. NovaStar Financial [NFI] is down from 39 to 6 since we last spoke, and we are still short. We are still short some others, and I think New Century Financial [NEW] is very likely going to zero. Another that has more downside is Fremont General [FMT], which we've been short for two to three years already. Fremont is a little more complicated, but if you read the cease-and-desist order that the regulators issued to them two weeks ago, and which started its stock crashing, it is hard to see how they don't eventually seize the bank. They as much as call Fremont's management incompetent and order them to stop doing business in subprime. Their losses from the loans they've made -- and they made $31 billion last year -- are going to be huge. Another part of their business is condo and construction lending, and the regulators criticized them for lax controls in this area and inadequate reserves, as well. By the time they take proper reserves on those loans and because of the losses they'll experience getting out of subprime, we see them as capital-deficient. Given the criticism of management by the regulators in this cease-and- desist order and the probable desire to make an example of someone, I don't see the regulators being lenient with them, and I don't see how they will avoid getting seized and wiping out equity holders.

Some of these names have been bouncing back on capital infusions. Does that throw a wrench into your thinking at all?

No. People are bottom-fishing.

Where else do you see opportunities from the fallout in subprime?

We are still short Bankrate [RATE]. We were painfully early on Bankrate, judging from the fact the stock went from 20 at the time we spoke two years ago to 39 now. But we actually think our original thesis is unfolding now and see Bankrate as a play on mortgage velocity, which is

coming down. Organic growth has all but stopped, as you can see from the deceleration of their page-view growth, but they have made some acquisitions. They've surprised on the upside with earnings expectations because they raised prices aggressively for advertising on their site with Internet banner ads and click-throughs. We think the price increases on ad rates are unsustainable. Their customers are mortgage brokers and mortgage bankers. These mortgage bankers and brokers will go out of business in droves in 2007. You could see big revenue disappointments at Bankrate, which won't go over well with the stock trading at 30 times 2007 estimates.

Slow-Motion Train Wreck Picks Up Speed -- Part II

Interview -- Part I <http://online.barrons.com/article/SB117469260899347441.html?mod=article-outset-box>1

Where else do you see trouble brewing?

A secondary way we've found to play the demise of subprime and its fallout is by shorting the credit-rating agencies: Moody's [MCO] and McGraw-Hill [MHP], which owns Standard & Poor's. Standard & Poor's is 44% of McGraw-Hill's revenue and 76% of their operating profits. By our calculations, Standard & Poor's is over 100% of McGraw-Hill's profit growth because the rest of their businesses haven't been growing. Moody's and Standard & Poor's have been major beneficiaries of the wild growth in the structured-finance business such as CDOs [collateralized debt obligations] and RMBS [residential mortgage-backed securities] and subprime. The bulls would say that only 7% of their business is subprime. But when you add CDOs and RMBS and subprime together, all of which we think is driven by the home-equity business, the number jumps to roughly 20% of the rating agencies' revenue.

Revenues per deal on these three segments -- CDO, RMBS and subprime -- are three to four times that of the rating agencies' lower-growth and lower-margin corporate-finance business, which is rating corporate bond offerings. The areas we are focused on are contributing more like 30% to 40% of operating profits at Moody's and Standard & Poor's, and most of the growth in earnings. Subprime issuance is going to shrink dramatically this year, and a big chunk of CDO volume is backed by subprime assets, and so the rating agencies' entire structured-finance operations should see a big drop in growth this year, especially in their high-margin areas, and that's underappreciated by the stock market.

In light of the fact that Moody's is trading at 25 times estimates of 14% earnings growth and McGraw-Hill is trading at 22 times estimates of 16% earnings growth, and we see both missing their estimates this year and possibly showing little if any earnings growth, those multiples could get hurt badly. Besides the earnings risk, there is great regulatory and legislative risk here. When Barney Frank and

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DATE: 10/19/2006
TIME: 13:37:00
AUTHOR: Ben Katzburg
RECEIPIENT: Grant Bailey, Vadim Verkhoglyad
CC:
SUBJECT:

More Home Loans Go Sour --- Though New Data Show Rising Delinquencies, Lenders Continue to Loosen Mortgage Standards

By Ruth Simon
1155 words
19 October 2006

The Wall Street Journal
D1
English
(Copyright (c) 2006, Dow Jones & Company, Inc.)

MORTGAGE lenders are making it easier to get loans even as the housing market cools -- and as the number of borrowers struggling to make their payments continues to rise, new studies show.

In the latest sign that a cooling housing market and weaker credit standards are beginning to take their toll on borrowers and lenders, the number of past-due mortgages continued to rise in the three months ended Sept. 30, according to data from Equifax Inc. and Moody's Economy.com Inc.

The increase is particularly notable because bad loans normally climb when the economy weakens and job losses rise, leaving more borrowers unable to make their monthly payments. By contrast, the latest increase appears to be more closely tied to looser lending standards, borrowers tapping their equity and slowing home-price growth.

"We're seeing rises in delinquencies and loan losses that are unrelated to what's going on in the job market," says Mark Zandi, chief economist of Moody's Economy.com. "It's very unusual."

Some 2.33% of mortgages were delinquent at the end of the third quarter, the highest level since 2003, according to Equifax and Moody's Economy.com. Among the areas that saw the biggest jump in the delinquency rate since the end of last year were Stockton and Merced, Calif., and Las Vegas-Paradise, Nev. Delinquency rates were highest in McAllen-Edinburg-Mission, Texas; Brownsville-Harlingen, Texas; and Detroit-Livonia-Dearborn, Mich.

A separate report released yesterday by the federal Office of the Comptroller of the Currency found that lenders continued to ease credit standards over the past year.

To be sure, mortgage delinquencies have been at low levels in recent years, and the recent uptick only brings them closer to historical averages. The seasonally adjusted mortgage-delinquency rate reached its most-recent peak of 2.53% in the first quarter of 2002, according to Equifax and Moody's Economy.com.

The latest news comes amid increasing concerns that lenders have been loosening their standards in an effort to boost loan volume as refinancings and home purchases wane. In a speech to the American Bankers Association this week, Comptroller of the Currency John Dugan noted that bank regulators have seen a "significant easing" of mortgage lending standards this year, even though banks normally tighten standards when the housing market cools. "We don't want to see the lending decisions bankers make today result in excessive foreclosures -- and reduced affordable housing credit -- tomorrow," he said.

The Comptroller's report found that competitive pressures are driving many banks to further loosen their credit standards. More than one-third of the lenders relaxed their standards for home-equity loans in the 12 months ended this March, according to bank examiners, while less than 5% tightened their

standards.
Over the same period, 26% eased their mortgage-lending standards, most often by increasing the use of nontraditional mortgage products. These include loans that allow borrowers to pay interest and no principal in the early years or make a minimum payment that can lead to a rising loan balance. Yesterday, regulators released a booklet designed to help consumers understand these exotic mortgage products.
"We have reason to believe that the amount of easing we saw back in March is continuing," says Kathryn Dick, deputy comptroller for credit and market risk at the OCC. Federal bank regulators have been stepping up their scrutiny of residential mortgage lending by large banks, she says, with a particular focus on banks that lend heavily in cooling housing markets.
There are signs that some lenders are beginning to pull back. Last week, New Century Financial Corp. said it would begin tightening lending guidelines for adjustable-rate mortgages sold to "at-risk"

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DATE: 09/06/2006
TIME: 20:40:46
AUTHOR: Markowitz, Murray
RECEIPIENT: Moody's - SFG/Mortgage Pass Through
CC:
SUBJECT: Article re: NegAms & Origination Practices

For your reference, this Barron's piece from last weekend is a predecessor/sort-of companion piece to much-traveled Jesse Eisinger piece from last Wednesday's WSJ:
==========
Monday, August 21, 2006

The No-Money-Down Disaster
By LON WITTER

A HOUSING CRISIS APPROACHES: According to the Commerce Department's estimates, the national median price of new homes has dropped almost 3% since January. New-home inventories hit a record in April and are only slightly off those all-time highs. Existing-home inventories are 39% higher than they were just one year ago. Meanwhile, sales are down more than 10%.

Although the stocks of new-home builders are down substantially, the stock market and many analysts are ignoring other implications of the housing news. In the latest Barron's Big Money Poll of institutional investors, not a single money manager ranked problems in the housing market among the factors likely to lead to a sharp selloff in stocks in the next 12 months (see "Headed for Dow 12,0001," May 1, 2006). Most experts still predict a 2%-6% rise in housing prices for the year.

These experts and analysts are basing their predictions on a possible increase in wages, inflation and GDP growth. They are overlooking the fact that by any rational valuation there has been no support for the run-up in housing prices since 2001, when the wealth of the middle class was battered by a bear market. Since then, inflation has been low, and wages practically stagnant. Housing prices, on the other hand, are through the roof.

Extrapolating housing prices from their current level based on wages and inflation is like saying a $100 Internet stock with no cash flow and negative earnings will rise as long as it is able to narrow the loss. The analysis ignores the fact that the stock never should have been trading at $100 in the first place.

By any traditional valuation, housing prices at the end of 2005 were 30% to 50% too high. Others have pointed this out, but few have had the nerve to state the obvious: Even if wages and GDP grow, the national median price of housing will probably fall by close to 30% in the next three years. That's simple reversion to the mean.

A careful look at the reasons for the rise in housing will give a good indication of the impact this drop will have on the stock market. They include, in chronological order: The collapse of the Internet bubble, which chased hot money out of the stock market; rock-bottom interest rates; 50 years of economic history that suggested housing never goes down, and creative financing.

The first three factors might not be enough to cause a crash, except that together they led to the fourth factor. Irresponsible financing causes bubbles. It causes individuals to buy houses they can't afford. It causes speculation to run wild by lowering the bar to entry. Finally, it leads individuals who bought houses years ago at reasonable prices into the speculative borrowing trap. The home-equity credit line has supported American consumer spending, but at a steep price: Families that tapped into their home equity with creative loans are now in the same trap as those who bought homes they couldn't afford at the top of the market.

The cost and risk of adjustable-rate financing can be devastating. Consider a typical $250,000 three-year adjustable-rate mortgage with a 2% rate-hike cap. If the monthly payment now is $1,123, after the first adjustment, the monthly payment is $1,419. After the second adjustment, the monthly payment is $1,748, a $625-per-month increase. That's $7,500 more per year just to maintain the same mortgage. If you think high gas prices are biting the consumer, consider the cost of mortgage adjustments.

Some more numbers:

• 32.6% of new mortgages and home-equity loans in 2005 were interest only, up from 0.6% in 2000

- 43% of first-time home buyers in 2005 put no money down
- 15.2% of 2005 buyers owe at least 10% more than their home is worth
- 10% of all home owners with mortgages have no equity in their homes
- $2.7 trillion dollars in loans will adjust to higher rates in 2006 and 2007.

These numbers sound preposterous, but the reasoning behind them is worse. Lenders have encouraged people to use the appreciation in value of their houses as collateral for an unaffordable loan, an idea similar to the junk bonds being pushed in the late 1980s. The concept was to use the company you were taking over

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DATE: 03/19/2000
TIME: 18:52:38
AUTHOR: Gerst, Catherine
RECEIPIENT: Clarkson, Brian
CC:
SUBJECT: TR: my departure

Just so you know.

-----Message d'origine-----
De: Gerst, Catherine
Date: dimanche 19 mars 2000 19:51
À: Perry, Debra (Moody's)
Objet: my departure
Critère de diffusion: Confidentiel

Dear Debra,

as per your suggestion I sent you this morning a series of e-mails illustrating some of the daily difficulties I may have experienced as the manager of the Paris Office. However those were just small examples, and I believe it is important to give you the big picture.

The big picture is as follows. I'm leaving Moody's because I am incomfortable with:
the lack of a strategy I can clearly understand, other than maximize the market share and the gross margin with insufficient ressources;
the lack of definition of the local MDs role: does Moody's want executants of policies decided in London or NY (which is fine, but then the MDs should not be neither responsible neither accountable for any result or replication of those strategies), or MDs participating to the strategy and decision process and having a certain degree of autonomy (and would therefore be legitimately responsable in their markets)? I several times raised this issue because I needed to understand what the company was expecting from me. But I could never get an answer.
the structural lack of ressources in any place of Moody's, that renders the daily life extremely difficult;
the lack of an adequate chain of decisions, that makes any move extremely long and painful, and generally results in losses of any kind (it took 1 year to implement the RoR policy, 9 months to put in place a new product -the custodian rating-, 8 months to obtain an authorization to sign a contract for Cades, resulting in th loss of a big and recurrent amount of monney for Moody's, etc....). I consider Moody's can not afford such delays in an extremely rapidly moving world, where competition goes much quicker.
the lack of transparency in the decision process, particularly from a budget standpoint.
the lack of real integration

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1056

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From: Warrack, Thomas
Sent: Saturday, May 07, 2005 8:44 AM
To: Deasy, Chris; Osterweil, Terry; Barnes, Susan
Cc: Vonderhorst, Brian; Solar, Mona; Stock, Michael
Subject: RE: 2005-S2

Chris thanks very much for quick analysis.
Mona as Terry states, this certainly highlights issues with our multiples.
Thanks, Tom

-----Original Message-----
From: Deasy, Chris
Sent: Friday, May 06, 2005 4:18 PM
To: Osterweil, Terry; Warrack, Thomas; Barnes, Susan
Cc: Vonderhorst, Brian; Solar, Mona; Stock, Michael
Subject: RE: 2005-S2

If there are any objections, please let me know by 10:30 Monday morning or I will approve the structure.

-----Original Message-----
From: Osterweil, Terry
Sent: Friday, May 06, 2005 3:56 PM
To: Deasy, Chris; Warrack, Thomas; Barnes, Susan
Cc: Vonderhorst, Brian; Solar, Mona; Stock, Michael
Subject: RE: 2005-S2

Considering that the shortfalls that occur when we use 8.25 and the associated multiples are not outrageous and that when we use 8.01 and the same multiples it works, I would recommend approving their structure.

P.S. Using a higher multiple with a lower "B" and getting a worse structure (because the other levels are higher) is ridiculous. And ridiculous is my tempered word. This shows that we are not truly assessing the risks correctly.

-----Original Message-----
From: Deasy, Chris
Sent: Friday, May 06, 2005 3:14 PM
To: Osterweil, Terry; Warrack, Thomas; Barnes, Susan
Cc: Vonderhorst, Brian; Solar, Mona
Subject: RE: 2005-S2

If I use 8.00 this is what I get (keep in mind that 8.00 moves us to a new column on the multiples sheet and due to the way the multiples sheet works we are actually worse off than we were at 8.25):

Rating	OC %	Int shortfall	Prn shortfall	Def Crv

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1080

AAA	-0.14%	424,437	258,546	PASS
AA	-2.37%	7,077,245	4,309,949	PASS
A	-2.36%	6,999,251	4,284,821	PASS
BBB	-1.66%	5,132,060	3,017,173	PASS
BBB-	-1.10%	3,586,782	2,005,871	PASS
BB	1.08%	-	-	PASS

If I only go down to 8.01 to keep us in the same column on the multiples sheet, it passes:

Rating	OC %	Int shortfall	Prn shortfall	Def Crv
AAA	0.15%	-	-	PASS
AA	0.29%	-	-	PASS
A	0.48%	-	-	PASS
BBB	0.37%	-	-	PASS
BBB-	0.41%	-	-	PASS
BB	1.58%	-	-	PASS

So, a 'B' number somewhere between 8.01 and 8.25 works. Please let me know what you want me to tell Nomura.

-----Original Message-----
From: Deasy, Chris
Sent: Friday, May 06, 2005 2:58 PM
To: Osterweil, Terry; Warrack, Thomas; Barnes, Susan
Cc: Vonderhorst, Brian; Solar, Mona
Subject: RE: 2005-S2

using 8.25 we get the following shortfalls with their proposed structure:

Rating	OC %	Int shortfall	Prn shortfall	Def Crv
AAA	0.08%	-	-	PASS
AA	-0.04%	112,683	77,761	PASS
A	-0.35%	985,728	643,587	PASS
BBB	-0.30%	883,464	549,812	PASS
BBB-	-0.27%	845,359	487,518	PASS
BB	1.20%	-	-	PASS

-----Original Message-----
From: Osterweil, Terry
Sent: Friday, May 06, 2005 2:16 PM
To: Warrack, Thomas; Barnes, Susan
Cc: Vonderhorst, Brian; Deasy, Chris; Solar, Mona
Subject: RE: 2005-S2

I would approve the structure they are proposing. This structure is basically taking <1.00% from the "BB" class and 1.00% from the "AA" class and putting that in the

"AAA" instead. There will be more excess now with lower class rates. If we want to satisfy our curiosity, why don't we go down 75 bps. on the single "B", use the same multiples to get the other rating levels, and see if the proposed structure works or is at least close.

Does Mike have any initial results from his groups analysis to possibly justify an interim approval on this deal prior to a new second lien methodology being approved.

-----Original Message-----
From: Warrack, Thomas
Sent: Friday, May 06, 2005 1:52 PM
To: Barnes, Susan; Osterweil, Terry
Cc: Vonderhorst, Brian; Deasy, Chris; Solar, Mona
Subject: FW: 2005-S2

Terry & Susan,

Rob, makes some good points below and clearly would like to have us on the deal but the difference is still significant.
At a minimum since he claims the numbers got 76 bp better in the LEVELS model we could have gone down a bit further.

Do you want this deal to be re-reviewed or are we going to live with not rating it?

Thanks, Tom

-----Original Message-----
From: Gartner, Robert [mailto:rgartner@us.nomura.com]
Sent: Friday, May 06, 2005 1:21 PM
To: Warrack, Thomas
Subject: 2005-S2

Good afternoon Tom. We have been trying to work with Chris Deasy to get to a structure which works for us but without much success. Mona called me about a week ago and told me that, while S&P is working on it, the new model will not be ready for this deal. The S2 is a significantly better collateral pool than the S1 and I do not feel we are getting proper credit for it under the current approach.

	S1	S2
FICO	681	690
CLTV	96.4	95.8
Stated/stated	11.7%	5.1%
No Doc	7.4%	8.2%
Investor	14.3%	14.9%
3&4 family	10.7%	6.8%
<620 FICO	6.1%	5.4%
621-640 FICO	13.8%	8.5%

Using the existing S&P levels model, the single B loss coverage improved by 0.76% between S1 and S2. By Nomura's model, it improved by 1.10%. The levels we received from Chris improved by just 0.50%. The loss coverages are shown below.

	S1	S2
AAA	40.50	38.25
AA	29.25	27.75
A	23.25	21.75
BBB	17.75	16.75
BBB-	16.00	15.25
BB	12.50	11.90
B	9.00	8.50

Below is another set of data we provided to Chris as well. As I mentioned in our discussions, I have been focusing on reducing layered risk. Not only does the S2 have a lower percentage of risky loans but the layered risk has been significantly lowered in those loans as well. As you can see in the table below, the S2 loans, in every risk category, have higher FICO, lower CLTV and less common risk factors.

		FICO	CLTV	>95	<640	Stated/stated	No Doc	3&4 family	Investor
Investor	S1	707	93.8	25.7	3.3	17.5	8.5	37.2	100.0
	S2	715	91.0	3.0	3.2	8.0	7.0	21.1	100.0
2-4 family	S1	696	95.0	41.7	8.9	18.0	8.4	55.0	36.5
	S2	702	94.4	32.7	6.4	10.1	6.1	40.9	30.8
Stated/stated	S1	687	94.6	43.7	9.4	100.0	0.0	14.3	21.5
	S2	699	93.8	36.0	3.6	100.0	0.0	8.9	23.5
NINA	S1	709	93.5	31.8	0.0	0.0	100.0	12.6	16.7
	S2	719	92.5	32.2	3.2	0.0	100.0	5.3	12.6

Unfortunately, the structure which has been approved by S&P is significantly worse than the ones approved by Moody's and Fitch. I have provided the approved S&P and Moody's/Fitch structures below.

	S&P	Moody's/Fitch
AAA	70.00	79.25
AA	13.10	6.50
A	6.60	5.50
BBB	4.70	5.25
BBB-	1.30	1.25
BB	4.30	2.25
OC target	2.65	2.95

The 2.95 target was from Fitch (Moody's approved 2.65). Our analyst here seemed confident Fitch would do 2.65 as well but we haven't asked yet. Fitch did not rate our initial deal but Moody's did. Their levels have clearly improved dramatically from the first deal.

The difference in economics to Nomura is between 3/8 and 1/2 point so it is a significant amount. It is difficult for me to justify to my management why I would include S&P if it means that much to our bottom line. Based on levels we have seen, we asked Chris if S&P could approve the following structure. It would only gain back about 40% of the difference in economics but would allow me to convince my management that we are supposed to keep S&P on the deal. Based on my calculations, this improvement would require less than 0.50 improvement in the base case loss coverage. Chris has told me this structure is not possible.

AAA	72.10
AA	12.00
A	6.50
BBB	4.60
BBB-	1.30
BB	3.50
OC Target	2.65

My desire is to keep S&P on all of my deals. I would rather not drop S&P from the upcoming deal, particularly if it ends up being for only a single deal until the new model is in place. Can you please review the approval process on this deal? If you are comfortable that the approved structure is the best S&P can do at this time, I will live by that decision. Thanks for your time and effort. I look forward to speaking with you soon.

Rob

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Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0621
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DATE: 04/13/2007
TIME: 15:45:45 GMT
AUTHOR: Karaguishiyeva, Gulmira
RECEIPIENT: Grisard Boucher, Odile; Agarwal, Navneet; Weil, Ariel;
CC: Ramallo, Karen; Milano,Christopher
SUBJECT: RE: Call for tomorrow and Loan Level 1st Lien Data

New Century has an Alt-A platform but we never seen their ALt-A CES

60/20 is for subprime CES.

My recomendation would be to apply new Joe's approach and hit 15% for NC. We use 15% originator factor for NC.

Gulmira Karaguishiyeva, CFA
Structured Finance
Moody's Investors Service
Harborside Financial Plaza 5, Suite 2400
Jersey City, NJ 07311-3988
Ph: 201-395-6354
Fax: 212-298-6329

-----Original Message-----
From: Grisard Boucher, Odile
Sent: Friday, April 13, 2007 10:26 AM
To: Agarwal, Navneet
Cc: Karaguishiyeva, Gulmira; Ramallo, Karen; Milano, Christopher
Subject: FW: Call for tomorrow and Loan Level 1st Lien Data

FYI, follow-up on committee last night. We are running the pool per Joe's instructions and also based on the first lien information we received late last night. If New Century collateral is in effect prime, should we drop the levels of 60/20 on that subpool?

We should receive information on EPD later today.

-----Original Message-----
From: DellaValle.Patrick [mailto:Patrick.DellaValle@SunTrust.com]
Sent: Thursday, April 12, 2007 9:04 PM
To: Grisard Boucher, Odile; Ramallo, Karen; Teicher, David
Cc: Scalzetti.David; Brian Haklisch
Subject: Call for tomorrow and Loan Level 1st Lien Data

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1081

Odile and David,

Attached please find loan level 1st lien Information.

SunTrust is disconcerted by the dramatic increase in Moody's loss coverage levels given initial indications and the positive feedback received from you, Karen, and David after the STICS presentation. These levels indicate that this program has not received credit for the collateral selection and due diligence process. Our entire team is extremely concerned, and we would like to set up a call first thing tomorrow morning with you as well as David to discuss the situation. Each of the other agencies reduced their initial levels, and the material divergence between Moody's levels and the other agencies seems unreasonable and unwarranted given our superior collateral and minimal tail risk. Attached also please find the levels from S&P. We would like to discuss the bond sizes for our structure on tomorrow's call along with the following topics:

1. Ratings on other Second Lien Transaction of weaker collateral

2. Wealth of Data provided

3. MBIA attachment of A.

4. Enhanced level of diligence

5. 44% remaining EPD

6. SunTrust making all reps and warrants

7. New Century collateral is from their Home123 channel: Prime

8. Significant less barbelled pool compared to market

Please let me as soon as soon as you can coordinate your colleagues' schedules, as we would like to discuss these issues as early as possible.

Thank You,

Patrick

Patrick DellaValle

SunTrust Capital Markets

303 Peachtree Street, MC 3950

Atlanta, GA 30309

404.813.0013 [office]

404.813.0000 [fax]

Patrick.DellaValle@suntrust.com <mailto:tPatrick.DellaValle@suntrust.com>

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Footnote Exhibits - Page 0624
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DATE: 02/20/2007
TIME: 23:22:23 GMT
AUTHOR: DiRienz, Mark
RECEIPIENT: Robert.B.Miller
CC:
SUBJECT: Re: Thanks for your help

Hi Bob. Sorry I missed you - I did not want to bother you on your cel during your dinner meeting. I spoke to Osmin earlier and confirmed that Jason is looking into some adjustments to his methodology that should be a benefit to you folks. I would expect that he has spoken to his counterpart on your side by now with his progress. I think he is going to committee it tomorrow morning.

-----Original Message-----
From: Robert.B.Miller@chase.com <Robert.B.Miller@chase.com>
To: DiRienz, Mark
CC: raj.m.kothari@jpmchase.com <raj.m.kothari@jpmchase.com>
Sent: Tue Feb 20 16:58:45 2007
Subject: Thanks for your help

Appreciate your help with the Chase seasoned collateral dilemma. Like i said, normally wouldn't bother you, but the optics here are difficult. There's going to be a three notch difference when we print the deal if it goes out as is. I'm already having agita about the investor calls I'm going to get.

If you get a chance to call back tonite, please call the desk at 212-834-2050 and ask for me or Raj. Just in case, my cell is 845-641-1313 - but I have an event this evening and may have a tough time taking calls.

Bob Miller
Home Equity Trading
212-834-2428

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Footnote Exhibits - Page 0625
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DATE: 05/23/2007
TIME: 09:40:36
AUTHOR: Lasseron, Arnaud
RECEIPIENT: Fu, Yvonne
CC: Chen, Karie; Kolchinsky, Eric
SUBJECT: Re: Lancer II: (partial) feefback from committee

On the 1st point note though that they have 3 other deals under way (incl one closing Friday) that they are cloning on this deal so will be hard to resist on the other ones if we give up on this one. Given that, pls confirm.

-----Original Message-----
From: Fu, Yvonne
To: Lasseron, Arnaud
CC: Chen, Karie; Kolchinsky, Eric
Sent: Wed May 23 09:31:36 2007
Subject: Re: Lancer II: (partial) feefback from committee

Arnaud, both Bill's articles only address IR and currency swaps. I agree that what the committee was asking is reasonable, but given the other modeling related issues and the time line for closing, I propose we let them go with the CDS Cp criteria for this deal.

Karie, on the modeling side, what is the difference between current and covenant levels? If they are passing with 1.5x and current level, the most we should as is for them to move the covenant levels closer to current levels.

I might be able to get out for a few mins if you need me to be on the call. Thanks.

-----Original Message-----
From: Lasseron, Arnaud
CC: Chen, Karie; Kolchinsky, Eric; Fu, Yvonne
Sent: Tue May 22 22:35:24 2007
Subject: Re: Lancer II: (partial) feefback from committee

Eric and Yvonne:

Before you reply to Vab's email below, just to clarify, the committee has asked that the downgrade trigger rating levels in his CDS Schedule comply with Bill Harrington's paper dated 2002 and Vab is opposing to us that he doesn't need to b/c, according to him, such paper was superseded by Bill Harrington's paper dated May 2006. Our understanding and what we have replied to him is that the May 2006 paper applies to hedges such as interest rate, currency or cash flow swaps not to CDS but he doesn't agree. Pls let us know should we be wrong. Thanks.

-----Original Message-----
From: Vaibhav-V.Kumar@ubs.com <Vaibhav-V.Kumar@ubs.com>
To: Lasseron, Arnaud
CC: Chen, Karie; Kolchinsky, Eric; Fu, Yvonne; Lirenn.Tsai@ubs.com <Lirenn.Tsai@ubs.com>; Phillip.Azzollini@srz.com <Phillip.Azzollini@srz.com>; rvillani@tpw.com <rvillani@tpw.com>; Leahy, Jim
Sent: Tue May 22 22:14:48 2007
Subject: RE: Lancer II: (partial) feefback from committee

this makes no sense - we comply with your criteria published in May 2006

bottom of the page it says

As such, it will supplant Moody's current framework, as contained in "Swaps in

European Term Securitisations", May 21, 2002 and "Moody's Approach for Rating

Thresholds of Hedge Counterparties in CDO Transactions", October 23, 2002.

Yvonne / Eric - you need to discuss this ASAP with our external counsel (Rob @ Thatcher), deal counsel (Phil @ SRZ), and Lirenn if Moodys is going to make us comply with criteria from 2002 for this transaction when you have published criteria from 2006 that supplants this.

We are closing a transaction on Thursday and need to print a final OM.

From: Lasseron, Arnaud [mailto:Arnaud.Lasseron@moodys.com]
Sent: Tuesday, May 22, 2007 10:07 PM
To: Kumar, Vaibhav-V
Cc: Chen, Karie
Subject: Re: Lancer II: (partial) feefback from committee

It's not ok. The rating levels in the schedule need to comply with the published criteria that we emailed to you. This is a comment from the committee.

-----Original Message-----
From: Vaibhav-V.Kumar@ubs.com <Vaibhav-V.Kumar@ubs.com>
To: Lasseron, Arnaud
CC: Chen, Karie
Sent: Tue May 22 21:44:47 2007
Subject: RE: Lancer II: (partial) feefback from committee

please call me 212-713-4972 re: this issue or tell me if you are ok with the below. We are waiting on these to print our OM tonight

---

From: Kumar, Vaibhav-V
Sent: Tuesday, May 22, 2007 9:43 PM
To: 'Lasseron, Arnaud'
Cc: 'Chen, Karie'
Subject: RE: Lancer II: (partial) feefback from committee

here's Moodys paper from 2006

page 13 is the table

"Second Trigger" - Baa1 or below

The language as is complies with your criteria

From: Kumar, Vaibhav-V
Sent: Tuesday, May 22, 2007 9:40 PM
To: Lasseron, Arnaud
Cc: Chen, Karie
Subject: RE: Lancer II: (partial) feefback from committee

this is from 2002 - this can't be the latest criteria?

From: Lasseron, Arnaud [mailto:Arnaud.Lasseron@moodys.com]
Sent: Tuesday, May 22, 2007 9:36 PM
To: Kumar, Vaibhav-V
Cc: Chen, Karie
Subject: RE: Lancer II: (partial) feefback from committee

What question is your answer below trying to reply to? If it is replying to our request that the schedule "is drafted so that actions need to be taken when failing the above ratings" and should be changed to when reaching the ratings, our comment still stands. Please see attached paper summarizing our criteria thereon.

-----Original Message-----
From: Vaibhav-V.Kumar@ubs.com [mailto:Vaibhav-V.Kumar@ubs.com]
Sent: Tuesday, May 22, 2007 6:55 PM
To: Lasseron, Arnaud
Cc: Chen, Karie
Subject: RE: Lancer II: (partial) feefback from committee

updated Schedule attached which should take care of this

CDS, page 21 of the Schedule:
- the second level says P2 or A3, it should be "AND".
- we will send you our published paper, so far it is drafted so that actions need to be taken when failing the above ratings. Whereas it should be when they reach these ratings.

IF UBS DOESN'T HAVE THE REQUIRED RATINGS AND DOES NOT TAKE ONE OF THE REQUIRED ACTIONS, IT IS A DOWNGRADE EVENT, WHICH IS AN ATE.

- as discussed, please make sure to add "and not on watch for downgrade" next to the Aa3 rating in the 1st level.
- as discussed, please make sure to delete "any other action that satisfy the RAC".
- ATE: as discussed with Yvonne last week, pls remove "or such other action as shall satisfy the RAC".

From: Lasseron, Arnaud [mailto:Arnaud.Lasseron@moodys.com]
Sent: Tuesday, May 22, 2007 4:36 PM
To: Kumar, Vaibhav-V
Cc: Chen, Karie
Subject: Lancer II: (partial) feefback from committee

Vab:

Please find below partial feedback from the committee:

- Deep Discount securities:
. The committee is fine with the definition you sent over, except that you need to specify that there should be no upfront payments under the unhedged Long CDS for the Matrix to be used, if there were any upfront payments under the unhedged Long CDS, one must look directly to the FMV of the Reference Obligation.

. The committee re-confirmed that the A1-A3 column must be conformed to our criteria (and the deal you copied it from): 3.00%, 3.00% and 2.00%.

- please add language in the Indenture to the effect that whenever there is a public rating from Moody's required, it has to address the full amount of principal and interest promise.

- Securities managed by the CM, your request for 2.5%, FOR THIS DEAL, the committee is fine with this provided that any reinvestment with optional redemption proceeds must comply with the 2% limitation (and of course the 6 months). Please revise the definition to specify accordingly.

- VFN: the eligible investments that are used in the Class A1S Prepayment Account must mature overnight as the need for the VFN cash related to the CDS payments is not tied to the distribution date as in the Indenture. Please revise the VFN, particularly section 2.7(c) and (e) accordingly.

- VFN:
As per our prior comments dated 5/2/07, "reimbursements must go back to the source (i.e., if PP was used then reimbursements must go back to PP and not Interest Proceeds)." The committee confirms that Phil's answer is not addressing their concern which is the Interest Shortfall Reimbursements.

- TRS: we are still discussing and we'll get back to you later on the below:
"-under the Schedule for the TRS, make sure default under TRS does not subordinate payments to the CDO under TRS
-are there downgrade triggers and replacement requirements for MLI (TRS Counterparty)?
-if MLI defaults/CDS terminates, MLI will still be on the hook and this shall not be an Additional Termination Event (ATE)."

CDS, page 21 of the Schedule:
- the second level says P2 or A3, it should be "AND".
- we will send you our published paper, so far it is drafted so that actions need to be taken when failing the above ratings. Whereas it should be when they reach these ratings.

- as discussed, please make sure to add "and not on watch for downgrade" next to the Aa3 rating in the 1st level.
- as discussed, please make sure to delete "any other action that satisfy the RAC".
- ATE: as discussed with Yvonne last week, pls remove "or such other action as shall satisfy the RAC".

Cash Flow Swap documents:
- in what circumstances can the CPTY walk away?
- we're continuing to review the blacklines you sent yesterday.

Indenture:
- use of the Ramp-Up Par Amount for purposes of calculating compliance with the EC: committee is fine with this provided that you specify in the document that this is only for reporting purposes and not when determining compliance when reinvesting proceeds of an Optional Redemption (which should use current par).

We'll get back to you on a couple of other points once the committee has reached a decision.

Note that in addition to the above, we will continue to review the revised drafts of the documents that we haven't yet commented on and therefore may have further comments.

When sending the next draft of the Indenture, could you make it cumulative against the 4/19/07 draft please.

Thanks.

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Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0630
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From: Arne, Errol
Sent: Thursday, February 23, 2006 9:43 AM
To: Kennedy, Martin; Mason, Scott; Osterweil, Terry
Cc: ResidentialPools; Mahdavian, Sharif; Uppuluri, Sai; Cao, Becky; Alizadeh, Rasool
Subject: Request for prioritization

Gentlemen,

Bear Stearns is currently closing three deals this month which has 40 year mortgages (negam) which will have a 30 year bond maturity. On all 3 deals they have already sent us cashflows last week for us to review (as Spire is not ready for this pertaining to negam). There was some discrepancy in that they were giving some more credit to recoveries than we would like to see. After a conference call with Becky Cao and Jeff Maggard and Jenn Schneider it was agreed that for the deals this month we were OK and they would address this issue for deals going forward.

(the deals are SAMI 2006-AR1-me; SAMI 2006-AR2-Sharif; and GP 2006-AR1-Sai).

Bear, and I know they are very late in the process, have sent over the final collateral tapes for each deal so that we can 'confirm' original levels we gave out. They are waiting for us to get back to them and they will turn over cashflows 'in an hour'. My question to you is can we move this up the priority flag pole as they will need to send over these flows and we need to sign-off by tomorrow.

If the analyst is running the levels and they see that the levels are not going to change, does this need to go to committee or can they take it to a chair, even off committee hours, so that we may let Bear know the levels are confirmed and they can get started on sending over flows for our review. If levels have changed- different story- needs to be taken back to committee but the analyst assigned should contact me (on any of the deals) so that this way I can give Bear a heads up that levels will be changing. Thanks.

Please advise as the timetable is very short. Thanks again.

Errol

Errol Arne
Standard & Poor's
55 Water Street
New York, NY 10041
Phone: (212) 438-2089
Fax: (212) 438-2661
Errol_Arne@standardandpoors.com

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DATE: 06/28/2007
TIME: 17:43:16 GMT
AUTHOR: Bharwani, Pooja
RECEIPIENT: Li, Frank; Kolchinsky, Eric; Fu, Yvonne
CC: Awasthi, Maneesh; Hersch, Jessica
SUBJECT: RE: CV4 - Post Reinvestment

Frank,

This is an issue we feel strongly about and it is a published Moody's criteria.

We are making an exception for this deal only. As we understand the manager will covenant to the Class B Effective Date level - 1%. Going forward this has to be effective date level.

I would urge you to let your colleagues know as well since we will not be in a position to give in on this issue in future deals.

Regards,
Pooja

-----Original Message-----
From: Li, Frank [mailto:frank.li@citi.com]
Sent: Thursday, June 28, 2007 12:27 PM
To: Bharwani, Pooja; Kolchinsky, Eric; Fu, Yvonne
Cc: Awasthi, Maneesh ; Hersch, Jessica
Subject: RE: CV4 - Post Reinvestment

I just spoke to Yvonne. She will check with you and Eric to see if the latest proposal is acceptable to you. That's Effective Date Level - 1%.

Please let us know. Thanks.

-----Original Message-----
From: Bharwani, Pooja [mailto:Pooja.Bharwani@moodys.com]
Sent: Thursday, June 28, 2007 12:21 PM
To: Li, Frank [CMB-GFICC]; Kolchinsky, Eric; Fu, Yvonne; Natcharian, Matthew; Kraez, Kathleen
Cc: Awasthi, Maneesh [CMB-GFICC]; Hersch, Jessica [CMB-GFICC]
Subject: RE: CV4 - Post Reinvestment

Will dial-in in 5 minutes.

Pooja Bharwani
VP-Senior Analyst
Moody's Investors Service | 99 Church Street | New York, NY 10007
Tel: 212 553 7135 | Fax: 212 298 6462
pooja.bharwani@moodys.com

-----Original Message-----
From: Li, Frank [mailto:frank.li@citi.com]
Sent: Thursday, June 28, 2007 12:16 PM
To: Bharwani, Pooja; Kolchinsky, Eric; Fu, Yvonne; Natcharian, Matthew; Kraez, Kathleen

Cc: Awasthi, Maneesh ; Hersch, Jessica
Subject: RE: CV4 - Post Reinvestment

Conference Dial-in Numbers
Toll free: 1-866-548-4717
Toll: 1-719-785-9434
Participant Passcode: 654061

Please call in now. Both Citi and Babson are available now to talk about this.

-----Original Message-----
From: Bharwani, Pooja [mailto:Pooja.Bharwani@moodys.com]
Sent: Thursday, June 28, 2007 12:13 PM
To: Li, Frank [CMB-GFICC]; Kolchinsky, Eric; Fu, Yvonne
Cc: Awasthi, Maneesh [CMB-GFICC]
Subject: RE: CV4 - Post Reinvestment

Can we get a dial-in?

Thanks.

-----Original Message-----
From: Li, Frank [mailto:frank.li@citi.com]
Sent: Thursday, June 28, 2007 11:56 AM
To: Kolchinsky, Eric; Bharwani, Pooja; Fu, Yvonne
Cc: Li, Frank ; Awasthi, Maneesh
Subject: CV4 - Post Reinvestment

Eric, Pooja,

I went back to Babson and effective date level is still totally unacceptable to them as they don't understand the rationale behind the criteria. We have run the model and showed you the results that are passing. Please give a call to Matt at Babson directly to discuss this:

Matt: mnatcharian@babsoncapital.com
Tel: 413-226-1672.

You can call me and I can loop Matt in. As we are printing Offering Circular shortly, your immediate attention is greatly appreciated.

Thank you.

Frank Li, CFA
Global Structured Credit Products
Citigroup Global Capital Markets, Inc.
390 Greenwich Street, 4th Floor
New York, NY 10013
Tel: (212) 723-6173
Fax: (646) 291-5391
frank.li@citigroup.com

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Permanent Subcommittee on Investigations
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From: Meyer, Chris
Sent: Sunday, April 23, 2006 6:52 PM
To: Williams, Geoffrey; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Geoff,

This language is actually one of the areas that we felt failed to meet our counterparty criteria. For example, setting aside the amount being posted, the rating trigger is not even remotely correct and it only pertains to CDO Reference Obligations. I understand from my colleagues that they are unaware of this type of language (i.e., taking into account market pricing) being approved. This is especially surprising given that Belinda, a Team Leader regarding criteria as it relates to Synthetic CDOs, probably should have been involved in the approval of languge that would result in a deviation from our core criteria.

Chris

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun 4/23/2006 6:23 PM
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

See 10.3(f) of the Indenture of this transaction. This was negotiated with S&P in connection with our last transaction, ABACUS 2006-8.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]
Sent: Sunday, April 23, 2006 6:18 PM
To: Williams, Geoffrey; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Geoff,

I'm unaware of market related information ever being used to determine the amount that should be posted in connection with Writedowns of any kind. Given that Belinda, Keith Guarnuccio and I are highly involved with issues relating to PAYGOs, we'd be most interested in knowing where we've approved this type of language -- since this would be a significant departure from our current criteria. As you point out, it is a conservative position for S&P to take, but it is one we've taken with all Dealers. Since time is of the essence, this may be another issue that we table for 2006-12, but would have to be addressed in future trades.

Regards,
Chris

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1088

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun 4/23/2006 3:25 PM
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris -- we're happy to build in the appropriate 1 year / 3 year CDO language that you describe in your first point below. However, we are not going to be able to accommodate your second request. We drafted this language in the spirit of the clause that we recently incorporated (and had approved by both you and Moody's) into our cds confirm which governs the amount that must be posted given an implied writedown of a CDO reference obligation. The premise is that market information is very relevant in determining whether or not a reference obligation that has sustained writedowns is expected to write back up and I do not see why this methodology is relevant only in determining the amount that should be posted under the cds.

I would add that this scenario is very different from an optional redemption as you point out below since the optional redemption is at Goldman's option and a stated maturity is not. We therefore cannot settle for the most conservative alternative as I believe you are suggesting.

David -- can you please point Chris to language he is looking for on his third point?

Let us know if you have any questions. Thanks. Geoff.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]
Sent: Saturday, April 22, 2006 6:03 PM
To: Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin; Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

David,

I've had an opportunity to review the proposed language this afternoon.

1. Clause (b) -- the one calendar year "cure period" is only applicable to non-CDO Reference Obligations in this case, the RMBS and CMBS Reference Obligations). For CDO Reference Obligations, our criteria is that we'll deem a Reference Obligation, which has experienced a Writedown, to be "defaulted" (a) after one year if the Reference Obligation is undercollateralized by more than 25% and (b) after three years if the Reference Obligation is undercollateralized by 25% or less.

2. Clause (A) -- I'm a little confused. I thought the proposal put forth on Wednesday was that to the extent there was any Writedown which (per our tests) hadn't been deemed permanent, then Goldman would reimburse the full amount of the Writedown. The current formula suggests Goldman may pay an amount less that the full amount of the Writedown. I was expecting to see language similar to the Optional Redemption Reimbursement Amount, which addresses the exact same concern in the context of when Notes are optionally redeemed.

If you can direct me to the specific location in the Schedules of the Basis Swap and Put that contain the identical language to Part 1.3(v) of the CDS Schedule, I would appreciate it.

Chris

-----Original Message-----
From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Fri 4/21/2006 9:30 AM
To: Meyer, Chris
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin
Subject: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris,

Below is our proposed language to determine how much Goldman has to pay the Issuer if a writedown occurred shortly before maturity of the Notes.

On the Stated Maturity for any Series of Notes, if (i) any such Series of Notes maturing on such date has an ICE Currency Adjusted Aggregate Outstanding Amount Differential greater than zero and (ii) an ICE Reference Obligation Notional Amount Differential is greater than zero with respect to one or more Reference Obligations (a) that remain in the Reference Portfolio at such time of determination, (b) with respect to which the ICE Reference Obligation Notional Amount Differential was equal to zero on the day that was one calendar year prior to such Stated Maturity, (c) that, at the time of such Stated Maturity, has an Actual Rating above (1) if rated by Moody's, "Ca" (2) if rated by S&P, "CC" or (3) if rated by Fitch, "CC" and (d) with respect to which no Credit Event (other than a Writedown) has occurred at any time on or prior to such Stated Maturity, Goldman will pay to Counterparty an amount, if greater than zero, equal to the lesser of (A) the aggregate of the difference, determined for each such Reference Obligation, of (i) the ICE Reference Obligation Notional Amount Differential of such Reference Obligation and (ii) if greater than zero, the ICE Reference Obligation Notional Amount of such Reference Obligation less the related Current Dollar Price and (B) the ICE Currency Adjusted Aggregate Outstanding Amount Differential of each Series of Notes for which the Stated Maturity is such date.

Also, please note that Section 7.10 of the Indenture (issuing ordinary shares) and the Basis Swap and Put Schedules (regarding Bankruptcy) address your concerns as previously drafted. Let me know if you need me to point you to the appropriate provisions.

Thanks,

David

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Permanent Subcommittee on Investigations
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From: O'Brien, John
Sent: Wednesday, May 03, 2006 9:01 AM
To: Rashid, Malik
Subject: RE: Broadwick Funding.

Sure. Call me when you're free.

John

-----Original Message-----
From: Rashid, Malik
Sent: Tuesday, May 02, 2006 9:32 PM
To: O'Brien, John
Subject: RE: Broadwick Funding.

John,

Let's re-group on this tomorrow at a time that suits you; I realize that the closing date is coming soon. I apologize for not being able to partake in the call today; issues cropped up in nearly every transaction I'm currently staffed on.

Malik

-----Original Message-----
From: Meyer, Chris
Sent: Monday, May 01, 2006 9:08 PM
To: O'Brien, John
Cc: Rashid, Malik
Subject: RE: Broadwick Funding.

John,

I'm not sure what they are talking about in terms of the modeling based solution, but I'm not sure how you can model the counterparty risk with respect to Writedown Reimbursement Amounts. In addition, you can tell them that if the are referring to ABACUS 2006-12, which closed lastThursday, that is the last trade that will not be required to post Writedowns (unless they can demonstrate conclusively that our concern is otherwise dealt with in the structure). It was a known flaw not only in that particular ABACUS trade, but in pretty much all ABACUS trades (which between the three of us were all rated by the same person...who neglected to catch other important criteria issues...or ignored them after being told to correct them by Team Leaders and business managers). The ABS desk at Goldman has already been told that the all of the de-linking criteria would need to be addressed in future ABACUS trades, and this includes posting of Writedown Amounts.

In terms of the CSA and opinion language, they do have a point...if we indeed have RAC. Nevertheless, I always copy and past the description of the opinion from the counterparty criteria

article and ask why they can't include the language. It's very generic and doesn't ask them to speak to any details.

It looks like swap termination payments to the swap counterparty are netted senior out of the Synthetic Security Counterparty Account. Is this the case?

I'm not sure if this helps. At this point, I'm not thinking all that clearly.

Regards,
Chris

-----Original Message-----
From: O'Brien, John
Sent: Mon 5/1/2006 5:55 PM
To: Meyer, Chris
Cc: Rashid, Malik
Subject: FW: Broadwick Funding.

Chris - Would really appreciate any/all guidance on this you can offer. Trying to wrap this up as soon as possible.

Thanks,
John

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 5:23 PM
To: Rashid, Malik
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Malik thanks for the feedback -

1. GS has not agreed to this hold back provision in any of our previous transactions (including the ABACUS deal that just closed last week) - and we cannot agree to it in this deal. We'd discussed the modeling based solution with respect to this counterparty risk back on April 13th - and it was ultimately communicated to us the following week there would be no changes in this transaction on this point.

2. I agreed with your long term rating comment (BBB+) as well as the 10 day delivery of the opinion. I thought this was reflected in the document - but I assure you it will be so in the next deal.

3. In terms of timeliness - the CDO holds the collateral and as soon as there is a termination and the appropriate termination payments have been made - the lien that the synthetic security counterparty has on the collateral is released to the trustee. this is outlined in section 12.2 of the indenture. Is there specific language you'd like to see here? if so, I'd be happy to review and try and incorporate, where appropriate.

4. Given that the CSA is will be subject to RAC, S&P will have ability to refview the opinion and to the extent it is not satisfactory, act accordingly. We cannot agree to specifically enumerate the carve outs at this time, due to the fact that there may be changes in case law, market practice, etc. that would have an impact on the opinion between now and the time when any opinion would be required.

From: Rashid, Malik [mailto:malik_rashid@standardandpoors.com]
Sent: Monday, May 01, 2006 4:53 PM
To: Bieber, Matthew G.
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt,

I realize that GS abd the CDO group have differences in opinion over certain provisions, but I understand from conversations on Friday and today that the group reiterates their view. Below are our comments from our review of the revised CDS documents circulated on 4/21. This reflects the latest feedback from the CDO group related to the downgrade/posting provisions for this specific transaction, and you'll find that these are repetitive from our last set of comments on the CDS.

Malik

---------->

1. To de-link GS's counterparty risk with respect to reimbursements, Writedown amounts need to be posted for one year as long as its rating is below AA- or A-1+. This posting for one year should remain and should not be extinguished if the swap terminates early as a result of GS being the defaulting/affected party. Writedowns can be considered permanent after the expiration of one year.

2. On p.5 of the Schedule:

- the second level rating trigger should be A-2 or BBB+, not BBB-.

- It looks like GS is choosing to remain in the swap by posting when its rating falls below the second level rating trigger. The opinion with respect to the collateral should be delivered within 10 days, not 30.

- Re: my earlier comment on the opinion addressing the timeliness issue - because this is a situation where Party A's credit rating is low, there is greater concern over the CDO's ability to avoid loss arising from exposure to Party A credit risk. While the CSA does speak to Party B's rights as Secured Party, we need more comfort that the CDO terminate the CDS (when the need arises) and liquidate the collateral to make itself whole in a timely manner without undue delay.

- Also on the opinion, we are not certain as to what "customary and usual assumptions, carveouts, and exceptions" mean. Our concern is whether such language limits the opinion's scope. We're trying to de-link GS's credit risk so it can choose to remain in the CDS regardless of what its rating is, so we'd like to make sure that the opinion's description today does not limit its scope.

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 3:14 PM
To: O'Brien, John
Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

ok. the sooner the better. just a reminder - we cannot agree to holding write downs in the deal for a year or any short term rating triggers.

From: O'Brien, John [mailto:john_o'brien@standardandpoors.com]
Sent: Monday, May 01, 2006 2:58 PM
To: Bieber, Matthew G.
Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt - Malik will be sending you comments to the last draft of the swap later today.

Regards,
John O'Brien

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 9:48 AM
To: O'Brien, John; Kim, Jeong-A
Cc: Mangalgiri, Vickram S.; Mishra, Deva R.
Subject: Broadwick Funding.

John and Jeong-A

Hope the weekend and vacation was enjoyable. As discussed last week, I'd like to finalize all outstanding points on Broadwick Funding by the end of the day this Wednesday. To that end, would you please let me know when its most convenient for you to discuss any remaining comments you have to the documents over the next day or so? Additionally, it appears we'll be slightly increasing the size of the S Note in the transaction by approx. $1.5mm. Look forward to hearing from you.

Best Regards,
Matt

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DATE: 05/20/2007
TIME: 15:15:39 GMT
AUTHOR: Kolchinsky, Eric
RECEIPIENT: Fu, Yvonne; Yoshizawa, Yuri
CC:
SUBJECT: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Ok, but I'm not sure this will solve the communication problem. In the UBS case, the analysts were informed about the look through by the new deal staffing email and Yuri's email, below (in addition to the numerous discussions in sterring comm).

Unfortunately, our analysts are owerwhelmed and I'm concerned that the communication to the bankers will "2x and one notch" without any of the subtelties which we ascribe to the approach. I still get routinely asked for which tranches do we use the sequential life...

Thank you
Eric

-----Original Message-----
From: Fu, Yvonne
To: Kolchinsky, Eric; Yoshizawa, Yuri
Sent: Wed May 23 08:08:53 2007
Subject: RE: Paper on inter-CDO correlations - update from ABS Steering Committee

I think it should still be mentioned in the internal communication to give analysts better guidance. The current practtice is quite varied as the analysts do not seem to know what to do even in the cases for which you have communicated with the banks,i.e. UBS. I will send a revised one to both of you.

-----Original Message-----
From: Kolchinsky, Eric
Sent: Wednesday, May 23, 2007 7:56 AM
To: Yoshizawa, Yuri; Fu, Yvonne
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Yuri/Yvonne

In that case, should we exclude any mention of the one notch rule from the general communication? Instead, we should give comm chairs the discretion to apply the rule as they see fit. In this way, there is less of a chance of it getting back to the bankers as a "general rule". They are more likely to know it as something that only applies, as a concession, on the deal that they are working on.

Thank you very much
Eric

-----Original Message-----
From: Yoshizawa, Yuri
To: Kolchinsky, Eric; Fu, Yvonne
Sent: Tue May 22 23:02:49 2007
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

We need to find a way of positioning the 1 notch as our way of "grandfathering"

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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-----Original Message-----
From: Kolchinsky, Eric
To: Fu, Yvonne; Yoshizawa, Yuri
Sent: Tue May 22 23:00:12 2007
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Yvonne

Looks good generally, two comments however.

1. The one notch rule. I understand the impetus, but it may be problematic in the long term. I think that any stress levels that we implement now will be percieved by the market as being close to the final. They have been asking for certainty in their ability to ramp and structure deals.

If we give a one notch leeway with 2x now and end up with 2x in the long term without the extra room -- I think that bankers will be upset. Instead of dealing with the problem now, we will have to deal with it when we implement the final methodology. I think that we would be better off doing 2.5x with one notch now and go to 2x without. That way we can at least give them a trade-off.

2. We should be clear that the 2x should apply to the underlying vs the MAC.

3. Could you add that this should apply to cdo buckets in abs cdos as well?

Thank you very much
Eric

-----Original Message-----
From: Fu, Yvonne
To: Kolchinsky, Eric; Yoshizawa, Yuri
Sent: Tue May 22 22:16:56 2007
Subject: Fw: Paper on inter-CDO correlations - update from ABS Steering Committee

I am planing on sending this to the group. Please let me know if you are ok with it - don't worry about spelling errors as I will do a spell check before sending!

DRAFT

2007 Operating Plan

Public Finance, Global Structured Finance and Investor Services

Brian Clarkson

February 20, 2007



Moody's Investors Service

1:19 AM

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1113

2006 Overview

- 2006 was a record year in Global SFG & PFG (including ISG and KIS) with combined revenues of $1,036.4B
  - Global SFG revenues were $860.4MM exceeding prior year by 25% and budget by 18%
  - PFG revenues were $112.5MM a drop from prior year by 4% but exceeding budget by 2%
  - Global ISG Products & Research exceeded prior year by 12% and was flat compared to budget
- Contribution margin for the group was 83%, equal to prior year and exceeding budget of 80%
- Issuance exceeded our expectations in almost all sectors especially in US RMBS (HE), Global CDOs, US CMBS and EMEA Securitisation
- New ratings products introduced in the market are estimated to have generated $78.6MM in revenues
- Our non-ratings new products generated $7.4MM of revenues
- For 2007, we are forecasting **13%** revenue growth (12% Pre-FX)



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2007 Operating Plan

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Challenges for 2007 - Downside

- Interest rate increases in the US
- Price pressure, particularly in AFG, PFG, synthetic CDO's, and in emerging markets as more and more deals become commoditized. Additional pressure from issuers such as JP Morgan, Morgan Stanley, CSFB, Deutsche Bank
- Managing customers' expectations and demand for real-time data in external PFG products (QRate, MFRA
- Competitive issues (ex. Rating inflation, successful rating shopping, notching below investment grade for mono-line insured deals, etc.)
- Managing customers' expectations and demand for real-time data
- Greater than expected decline in RMBS issuance due to expansion of GSE activity, declining home values which may limit refinancing activity, and issuer consolidation
- Increased "rating shopping" by market participants
- Past and future issuer consolidations
- Financial stability of the "Big 3" automakers may reduce issuance
- ABCP programs from the same sponsor are combined into larger programs capping fees
- Credit stress or greater than anticipated issuance decline in US RMBS or US corporate loan sectors leads to decreased US CDO issuance or greater issuance of synthetic transactions
- Leveraged loan issuance declines significantly reducing supply of assets for EMEA CDOs
- Higher than expected rating transition in Home Equity and RMBS
- Technology constrains growth of new ratings and non-ratings products and does not keep pace with business growth, resourcing, business lines

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Operating Risks

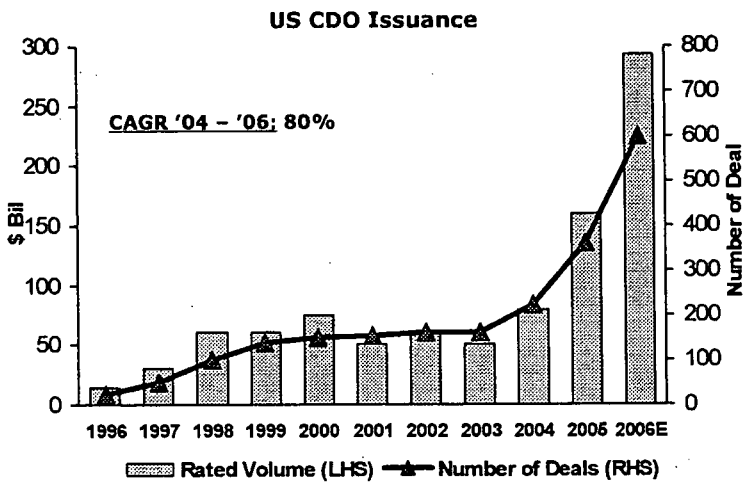
- Under resourced growth in new and existing businesses
- Intermediary Rating Shopping
- Market Pricing Pressure and Issuer Consolidation
- Turnover and Retention
- Credit Quality Shifts/Monitoring Challenges
- Competition
- Technology limitations



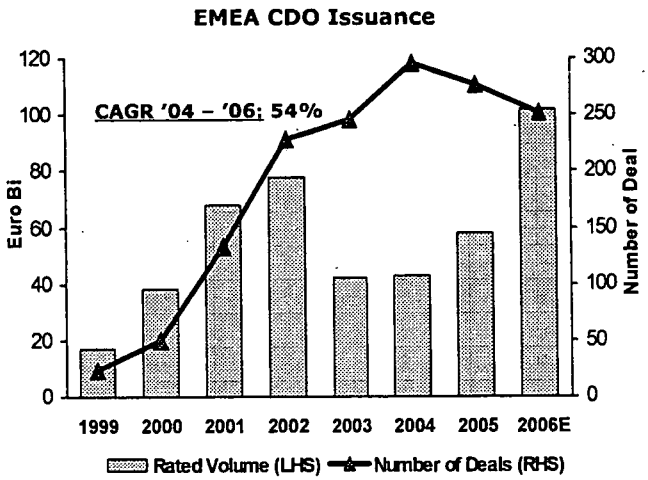
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CDO Issuance Volumes for 2006 Continued to be Strong both in the US and Globally



Source: Moody's. Represents volume rated by Moody's alone. Excludes CRE CDOs



Source: Moody's. Represents all volume rated by Moody's and other publicly rated deals.

- Strong historical performance by CLOs and record issuance of RMBS and Home Equity into Resecuritization CDOs were the main drivers of the growth in these two leading CDO sectors
- Issuance driven by demand for and development of new types of structures in the market, increased liquidity and the application of the CDO technology to new asset classes
- Moody's has kept its market coverage in the mid- to high-90's

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2007 Outlook for Global Derivatives Market

- Moody's is well-positioned to capture global CDO issuance business and we expect momentum to continue into 2007
- The continued need of investors, issuers, intermediaries, and regulators to mitigate and transfer risk will fuel expansion; and create new investment products
- Credit derivatives growth will moderate, but remain robust.
  - Market outlook for US CDOs range from 10% to 26% growth in 2007
  - Market outlook for Cash EMEA CDOs is for 25% growth in 2007
- The market's rapid growth does suggest the possibility of a correction.
  - A correction would slow growth more than anticipated, and for a longer period. However, increasing liquidity and innovation should support longer term growth.

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Potential Risks to the Derivatives Business

- Ability to attract and **retain** skilled analytical resources to support volume and innovation is increasingly difficult given competitive pressures in the market. Derivative analysts are contacted frequently by the market
- Downturn in housing market could effect growth for Resecuritization CDOs, which currently represent approx. 55% of the U.S. CDO business. Downturn in corporate credit quality would also have an impact on CLO, the second largest CDO business
- Increased scrutiny by press and regulators as spotlight is focused on the global CDO market. Underperformance of underlying securities and resulting underperformance of CDOs would have a material negative impact
- As transactions become increasingly complex, Moody's is faced with the challenge of keeping its technology current to meet demands of the business (e.g., computing capacity, speed, other tools



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FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Division of Insurance and Research

June 4, 2007

TO: Stephen P. Funaro, Dedicated Examiner

CC: Paul H. Kupiec, Associate Director, DIR
John H. Corston, Associate Director, DSC

FROM: Daniel A. Nuxoll, DIR

SUBJECT: ALLL Modeling at Washington Mutual

Summary

Washington Mutual does not currently have data that permit to track charge-offs back to individual loans.

Consequently, Washington Mutual uses the Loan Performance Risk Model to establish reserves for its single family housing loans. The model was developed by a vendor on data for mortgages that were part of private-label securitizations, and Washington Mutual has calibrated the model to reflect its own experience. The calibrations for the various portfolios are based on very limited data usually the portfolio at a single date. These exercises attempt to produce forecasts of key aspects of portfolio performance at horizons from 18 to 36 months. Recently, Washington Mutual decided to set reserves sufficient to cover losses that occur within the next 36 months.

Despite the calibration, the model does not fit some aspects of the data. Probably the most significant problem is that the model estimates prepayment rates for option ARMs that are much too high. The dataset used to develop the model does not include any significant data on option ARMs, so there is reason to believe that the model might not adequately measure the risk of option ARMs. These mortgages constitute over half of the prime mortgage portfolio held for investment.

Details

Overview

Washington Mutual (Wamu) uses different methods for reserving for different parts of their portfolio. I focused on the single family mortgage models which are adaptations of the Loan Performance Risk Model (LPRM). Wamu uses the prime version of that model for its prime portfolios (single family mortgages, home equity loans, and home equity lines of credit) and the subprime version for Long Beach Mortgage Company (LBCM) and the Specialty Mortgage Finance (SMF). These models are designated by the bank[1] as Tier 1 models because

[1] Throughout this memo, the institution is referred to as bank, although all data refers to the parent of the two thrifts.

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Report Footnote #1119

they are used for portions of the portfolio that were responsible for more than $50 million of reserves. There are two additional Tier 1 models—credit cards and multifamily housing loans.

As shown in Table 1, the Tier 1 models account for over $200 billion (95%) of the balances in the held for investment portfolio and almost $1.2 billion (92%) of the reserves. The mortgage models for single family mortgages account for over $170 billion (78%) of the portfolio and $700 million (55%) of the reserves.

Table 1

Portfolio	Balance $billion	Reserve $million
Single Family Residential	97.3	199
Specialty Mortgage Finance	14.2	196
Long Beach Mortgage Company	4.1	84
Home Equity Loans	21.3	106
Home Equity Lines of Credit	33.2	126
Multifamily Lending	29.8	84
Credit Cards	9.4	399
Other	10.2	107
Total	219.5	1,301

Source: Calculated from the March 2007 ALLL/Provision Recommendation and Q1 2007 Summary, Exhibits 1 and 2.[2]

In addition to the numbers for these model-driven (allocated) reserves, the bank also holds an additional (unallocated) reserve of 14% of the allocated reserves. Unallocated reserves are driven by a scorecard of macroeconomic factors. For example, one factor in the scorecard is the "Market/Industry/Financial Services Sector Conditions." These are identified as being a moderate concern mostly because of decelerating pace of house price appreciation. According to the scorecard, if this factor is a moderate concern, the bank holds an additional 5% unallocated reserves. Other factors in the scorecard account for another 9%.

These numbers are for the consolidated entity. The vast majority of the reserves are held by the two insured entities, but this memo focuses on the consolidated entity because the most detailed reporting is available on this level.

General Methodology for the Mortgage Portfolio

Wamu does not have a good clean database of charge-offs. A validation study of LPRM observed,

[2] The numbers in exhibits 1 and 2 of this memo do not agree with the text of the memo, although they agree with the other exhibits in the memo.

> However, the available data does not include separate measurement of actual losses on such static pools; net charge-off historical data is available only in more aggregate form, with commingling of losses from pools outstanding at the beginning of any given period with losses from loans subsequently acquired into the portfolio.
>
> Furthermore, portfolio management activities for SFR and SMF loans have changed substantially over the last several years... Since the end of 2002, SFR loans that have entered non-performing loan (NPL) status have been reviewed for possible sale, and about $1-1/2 billion were sold. These NPL sales have markedly transformed the timing and magnitude of actual net charge-offs in the period from their initiation to now. Given management plans for less NPL sales activity in the future, a structural change in charge-off patterns is anticipated.[3]

The validation study noted that these complications prevented the bank from computing a clean database to validate the LPRM. The same considerations would clearly prevent the bank from developing its own charge-off model based on the internal data.

Portfolio Defense, a consulting company hired by Wamu to evaluate its methodology recommended,

> Ultimately, if more extensive and better quality Bank mortgage account-level loss data becomes available, we would recommend considering a migration from an LPRM-based process to an internally developed process, using Bank data. At the least, such an approach could be tested and the results compared.[4]

The use of LPRM to set reserves must be interpreted in the light of these data limitations.

The bank recognizes that LPRM data might not be representative of its current mortgage portfolio, so the bank has calibrated LPRM to its own internal data. That calibration is discussed more extensively after the more general discussion of the model. After the model has been calibrated, the model is validated again. Wamu staff has also assured us that the bank tracks the performance of the model; we requested a copy of the regular tracking report but have not received it yet.

Calibration, validation, and performance tracking are all complicated by the issue of the relevant horizon. The bank has commissioned studies by Portfolio Management Associates, a consulting firm, that examine the timing of losses. I received copies of the studies on home equity and subprime lending.

These studies explicitly recognize that "impairment events" such as the loss of a job or a medical problem might not be observable to the bank. These events eventually are discovered, often when the loans become delinquent. In order to analyze the timing of losses, the studies examined all loans that became were sold out of REO and their status prior to entering REO.[5] There are multiple observations of the loan's status prior to the loss, so each observation is weighted by the number of total observations for each loan. There is also a problem of

---

[3] "Validation of LPRM for SFR and SMF," April 2005. Two bullets have been combined in this quotation.
[4] Portfolio Defense, "Review of ALLL Estimation Methodology and LPRM Calibration Process," January 2006.
[5] The studies on home equity and subprime use slightly different definitions of the final loss confirmation. The subprime study uses the date of sale out of REO, and the home equity study uses the date that property entered REO which typically four months before the sale of the property.

truncation because newer loans have not had sufficient time to suffer losses. Consequently, the two studies consider older vintages and give more credence to the oldest vintage.

Based on these studies, Wamu has decided to use a 36-month horizon for both types of loans. The data suggest that over 90% of the losses in the home equity portfolio occur within that horizon, and almost 90% of the losses in the subprime horizon occur within that horizon.[6] The studies show that the timing of losses differs significantly by delinquency status; there is some variability for different products and vintages, but that is relatively small compared to the variability by delinquency status. Wamu decided that using different horizons based on delinquency status would introduce "operational complexity that would increase operational risk."[7]

Wamu currently uses a four-year horizon for the SFR (prime mortgage) portfolio, a one-year horizon for cards, and a three-year horizon for subprime mortgages, home equity loans, and multifamily housing loans.

Loan Performance Risk Model

There are four versions of the LPRM: prime, subprime, alt-A, and seconds. The LPRM was developed on data from securitizations of mortgages originated by a wide variety of lenders. Over 90% of the data for each of the four models are for mortgages originated between 1997 and 2003. Two components of the LPRM are relevant to the Wamu ALLL process. One component is the transition component and the second is the loss given default component.

The Transition Component

The transition component uses a Monte Carlo simulation of interest rates and house price appreciation to estimate the possible outcomes for a portfolio of mortgages within a specific horizon. The model estimates the delinquency status of the mortgage (current, 30 days past due, 60 days past due, 90 days past due as well as whether the mortgage has been paid off (prepaid), foreclosed or gone to REO. The model also considers the possibility that the house has been short sold or sold out of REO. It does not consider partial prepayments. Each of these possible statuses is a function of the current status, so the model essentially estimates a roll-rate matrix which reports the probability that a mortgage with a specific status will migrate to another status.

The model was built using data on mortgages that were part of private-label securitizations.[8] The prime version of the model has been built on a dataset of approximately 1.1 million mortgages, while the subprime version uses data from approximately 3 million mortgages. Over the 90% of the mortgages used for both models were originated between 1997 and 2003.

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[6] The timing difference discussed in the previous note means the studies are not completely comparable.

[7] The same phrase is used in "Use of a 3 Year LoSWss Horizon for Subprime ALLL: Recommended Response to Results of the Loss Materialization Timing Study," August 2006, and "Loss Horizon for Home Equity ALLL: Recommended Response to Results of the Loss Materialization Timing Study," February 2007.

[8] Private-label securitizations are those not done by Fannie Mae or Freddie Mac.

The model uses loan level data and includes most variables that are widely used in the mortgage industry, including original loan-to-value, FICO score, documentation type, and occupancy status.

Several variables are noteworthy. LPS uses only the FICO score at origination. Wamu follows LPS and does not use a refreshed FICO score.

LPS does update estimates of loan to value using the housing price appreciation index from OFHEO. The model assumes that the future changes in house price appreciation are uncorrelated with past changes, so it assumes that large increases in house prices are equally likely to be followed by above average increase in prices as a below average increase in house prices.[9] This means that sustained periods of above average house appreciation are improbable. In fact, these periods are clearly evident in the OFHEO data.[10]

Wamu apparently recognizes this problem and has augmented the LPS model by using a mixture model of house price appreciation. The bank has estimated a logit model for sustained downturns in the housing market. (Staff was not sure, but they thought that the model specified a severe downturn as a 15% decline in prices in a two-year period.) The model is run on the CBSA/MSA level and the key variables are unemployment rates relative to the long run average, changes in payroll employment, and past house price acceleration. The model has two different means—one for a period of normal behavior in house prices and the other for the severe declines.

It should also be noted that most of the sample is from 1997 and later. Virtually none of the data is drawn from an episode of severe house price depreciation. Even introductory statistics textbooks caution against drawing conclusions about possibilities that are outside the data. A model based on data from a relatively benign period in the housing market cannot produce reliable inferences about the effects of a housing price collapse.

LPS also includes a payment shock variable which equals the percentage increase in payments. Less than 25% of the loans used to construct the model were adjustable rate mortgages (ARMs), and some of those were hybrid ARMs. However, few, if any, were option ARMs. For hybrid ARMs, payments are determined by a fixed interest rate for an initial period ranging from two to seven years. After the initial period, interest rates are adjustable, and payment shocks can approach 30%. In contrast, option ARMs generally have a minimum payment that is insufficient not only to repay principle but also insufficient to pay all the interest. At the recast date, payments must cover both, and payments can escalate much more than 100%.[11] Consequently, the model was developed on data that did not include payment shocks as large as those that could be faced by option ARM borrowers.

The same issue discussed above with respect to house price appreciation also affects the estimation of the effects of payment shock. The model cannot reliably estimate the effects of 100% payment shocks based on data in which virtually none of shocks exceed 30%.[12]

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[9] The model uses a five-factor model of house price appreciation to capture correlations across regions. Each area has its own mean, and changes in the five factors are assumed to be i.i.d.

[10] The autocorrelation in the index for the national index is 0.64; the autocorrelation in the California data exceeds 0.80. LPS staff stated that the next version of LPRM will deal with this issue.

[11] These loans typically include caps on payment increases that spread the payment shocks out.

[12] This definition of payment shock is not documented; but LPS staff confirmed this definition during the course of a phone meeting conducted for another examination. During that conversation, LPS staff also confirmed that the

The Loss Given Default Component

There are two versions of the LPRM loss given default (severity) component—one is an accounting model and the other is a statistical model. Wamu is using the statistical model but is not considering interest lost because of delays in recoveries. The model estimates severity as a function of a number of variables including original combined loan to value, loan characteristics, and original FICO. The model updates the estimated collateral value based on the simulated house price index. The model includes idiosyncratic movements in house prices so it does not assume that prices move in lockstep with regional indices.

Calibration and Validation

The LPRM is calibrated for different mortgage portfolios. Most of the work has been done on the transition component of the model, but some work has been on the severity component. At this point, there is a separate calibration for Option ARMs, for prime mortgages that are not Option ARMs, for home equity loans (HELs) originated by the bank, purchased home equity loans, home equity lines of credit (HELOCs), and for LBCM 1st liens and SMF 1st liens.

Table 2 reports the studies on LPRM that were available. Most of these studies reported the results for the loans held for investment as of a specific date over a defined horizon. The table reports that most the horizons in these studies were shorter than the horizons which are used for reserving purposes which are either 36 or 48 months. Wamu has only recently adopted these horizons used for reserving, and the bank should consider redoing its calibration and validation studies for these longer horizons.

The studies on the single family residential portfolio use data from 1999, occasionally presenting results from 2003 as well. The bank uses data from this period because this is the latest period for which there is data with 24 months of performance history. After 2001, the bank began a program of actively selling non-performing loans, so the timing and magnitude of losses were considerably different than they were for earlier periods. That program has been modified, and the bank believes that the performance of the 1999 sample is more comparable to that of the present portfolio.

Table 2

Portfolio	Study	Sample	Horizon
Single Family Residential	Phase 1 Calibration	January 1999*	24 months
Single Family Residential	Phase 1 Validation	January 1999 January 2003	24 months
Option ARMs (SFR)	Phase 2 Calibration	January 1999	24 months
Other Mortgages (SFR)	Phase 2 Calibration	January 1999	24 months
Specialty Mortgage Finance	Phase 1 Calibration	January 2003	24 months
Specialty Mortgage Finance	Phase 2 Calibration	January 2003	36 months

development data included virtually no option ARMs or payment shocks in excess of 100%. They also agreed that inferences about the model did not produce reliable estimates of the effects of very large payment shocks.

Long Beach Mortgage Company	Phase 2 Calibration	January 2003**	36 months
Home Equity Loans	Validation	November 2003	18 months
Home Equity Lines of Credit	Validation	November 2003	18 months

* The document refers to calibrations done on January 2003 data, although no results are reported.
** Securitized loans

The Transition Component

The LPRM has a number of "dials" that can be set to match the forecasts to the actual data. The calibration documents generally compare the calibrated to the uncalibrated version of the model, and there are some clear differences. For example, the phase 2 calibration study on prime mortgages reports that the roll rate from current to 30 days past due is decreased for all prime loans. That study reports that calibration reduces the roll-rate from current to 30 days past due from 1.12% to 0.52%.[13]

These documents are vague about the procedures used to set these dials, although they state that the dials were set to improve measures of goodness of fit. The studies consider the differences between the forecasted and the actual values of:

1. the sum of the percentages of loans resolved by sales out of foreclosure or REO
2. the sum of the percentages of loans that 90 or more days delinquent, loans that are in foreclosure or REO, and loans that have been resolved by sales out of foreclosure or REO (90+ day or worse).

The studies seem to concentrate most heavily on the squared value of the second criteria, although the studies discuss almost the entire roll rate matrix.

The studies include results based on a Monte Carlo simulation of these time series of house prices and interest rates. However, the model was consistently evaluated with the forecasts based on the actual historical values of house price appreciation and interest rates. This approach produces forecast errors result that do not result from unexpected changes in economic conditions, but rather from the strengths or weaknesses of the model.

The studies revealed a number of anomalies that were not eliminated by calibration. First, in all the studies, loans that were delinquent were much more likely to be 90+ days delinquent at the end of horizon than forecast. For example, in the phase 1 calibration study for single family mortgages, the LPRM forecasted that 0.6% of the loans that were past due 30 days in January 1999 would be 90+ days delinquent two years later; the actual number is 2.5%. Almost all the actual rates are at least twice as large as the forecasted rates. However, because delinquent loans are a small part of the portfolio (the forecasts are dominated by the current part of the portfolio), the aggregate forecasts of the percentage of loans that will be 90+ days delinquent are fairly accurate.

Second, the first calibration study of the prime mortgage portfolio showed that the LPRM forecasts of prepayments are much larger than the actual prepayments. According to the LPRM, over 52% of the current loans would have prepaid within two years, but in fact, only 31%

[13] The roll-rates reported in this paragraph are for 24 months, so the rate represents the percentage of mortgages that are current that will become 30 days past due in 24 months. This is not the usual roll-rate which uses a one-month horizon.

prepaid. The errors for delinquent loans were similar. The second calibration study located the problem in the option ARM portion of the portfolio. According to the LPRM, 66% of the option ARMs that were current should have prepaid within two years, but only 32% did. In contrast, LPRM forecasted that about 30% of the other prime mortgages that were current would prepay within two years, and 35% did. Again, the errors for delinquent loans were similar. The prepayment rates in other portfolios do not match exactly, but they are much more accurate than that for the option ARM mortgages. Again, these exercises compare calibrated models to actual data.

One can only conjecture about the reasons for the large difference between actual and forecasted prepayments for option ARMs. As discussed above, the data used to develop the LPRM contains virtually no option ARMs so the estimates of option ARM behavior are not statistically reliable. This might be a concern if the borrowers for option ARMs differ from the borrowers for other loans. If people choose to use an option ARM because they face severe financial constraints, then these borrowers could be more risky. FICO scores, CLTV values, and the other conventional measures used by the LPRM might reflect some of that difference, but there is no reason to believe that these data capture all the differences.

The differences between the forecasted and actual prepayments might indicate that the borrowers who utilize this particular type of loan are less able to refinance than those that choose other loans. Possibly, they cannot afford the payments that would be required if they were to refinance to another loan.

There is some other evidence on whether option ARM borrowers are more financially constrained. First, option ARMs were marketed as "affordability product." Wamu's own website states a number of reasons that borrowers should consider an option ARM; two of the first three are "To minimize your house payment to pay off other debt" and "To maximize your buying power." Second, the percentage of loans that negatively amortize is high and has been increasing. The rate has steadily increased from 69.7% of the eligible loans in March 2006 to 83.9% in March 2007.

In addition, phase 2 of the calibration for prime loans provided some evidence. As part of that exercise, Wamu reported the results of using the option ARM calibration and the calibration for other loans on the same data which happened to be the non-option ARM portfolio. The calibration for Option ARMs estimated 1.20% would become 90+ days past due or worse, while the calibration for other loans forecasted 0.80%. (The actual percentage was 0.81%.) The difference suggests that for this portfolio, the estimated rate of 90+ days past due or worse would be 40 b.p. higher if the loans were option ARMs.

Again, this explanation is conjectural, but there is some evidence consistent with it.

The evidence does suggest that Wamu should be cautious about using the model to evaluate the risks of option ARMs. Moreover, the evidence suggests that these loans are relatively risky.

As of March 2007, Wamu had $57 billion of option ARMs in a $95 billion portfolio of held for investment prime mortgages.

The validation exercises also compared the accuracy of the model by segmentation. The bank considered loans going to REO and segmented four different variables: initial delinquency status, initial FICO score, estimated combined LTV, and initial loan age. As a result of this exercise, the bank did not identify any issues. There are differences, but it is difficult to assess

the significance of these differences. For example, over 8% of the loans that were 25 months or older eventually went into REO, but the model estimates that less than 7% would have gone into REO.

The Loss Given Default Component

In general, the calibration and validation exercises offer little detail about the actual severity numbers, so the adequacy of the loss given default component of the model is difficult to assess. The Phase 2 calibration study for prime loans does include a chart that compares actual losses to forecast losses for about 3500 loans. The Phase 2 calibration study for subprime loans shows that the model generally produces forecasted severities that are higher than those actually observed. The LPRM estimated severities do not depend heavily on the horizon, but the actual severities are increasing with time. The validation study for HELs and HELOCs does not show a consistent relationship between the historical data and the LPRM forecasts. The forecasts for HEL 1st and HELOC 2nd liens are higher than the actual severities, while LPRM generally forecasted lower losses given default than were actually realized for HEL 2nd and HELOC 1st liens. These differences can be large; for example, the projected severity at 18 months for 1st lien HELs is 35%, but the actual loss given default is 13%.

On the whole, the various studies do not suggest that the bank believes there is any urgency to recalibrate the severity component. The studies were done on sales out of REO, so they omit the other available methods of collecting on foreclosed loans. In addition, for some of these portfolios, there is very little data—the validation exercise for 1st lien HELs based its severity estimates on only 13 observations.

Documentation Used in this Memorandum

This list includes only that documentation that provided the information in this memorandum. It does not include background information or other documents.

Meeting

Meeting with a Washington Mutual team led by Joe Mattey, Chief Risk Officer , Washington Mutual Home Loans, May 9, 2007

Validation and Calibration Documents

Calibration of LPRM v3.1 for SFR and SMF, April 2005
Validation of LPRM v3.1 for SFR and SMF, April 2005
Validation of LPRM v3.1 for HEL and HELOC Loan Portfolios, after July 2005
Phase II Calibration of LPRM for Prime Portfolios, after April 2006
Calibration of LPRM for Subprime Portfolios, after April 2006

Other Documents

Use of a 3 Year Loss Horizon for Subprime ALLL: Recommended Response to Results of the Loss Materialization Timing Study, August 2006

Loss Horizon for Home Equity ALLL: Recommended Response to Results Loss Materialization Timing Study, February 2007
Negative Amortization Snapshot: March 2007
Credit Risk Review: March 2007
Untitled charts showing balance, loss factors, and net charge-offs

Consultant Documents

Review of ALLL Estimation Methodology and LPRM Calibration Process—Portfolio Defense, January 2006
Loss Materialization Timing Study Final Report [for subprime mortgages]—Portfolio Management Associates, August 2006
Home Equity Loss Materialization Timing Study Final Report—Portfolio Management Associates, February 2007

Loan Performance Documents

Risk Model 3.1.5 Technical Document, August 2005

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

STEVEN R. ROSS
202.887.4343/fax: 202.887.4288
sross@akingump.com

February 24, 2011

VIA HAND DELIVERY
The Honorable Carl Levin
Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
199 Russell Senate Office Building
Washington, DC 20510

Re: Moody's Investors Service: Response to Follow-Up Questions

Dear Chairman Levin:

On behalf of our client, Moody's Investors Service ("Moody's"), we respectfully submit this letter in response to the Committee's recent follow-up questions.

In response to the Committee's question about certain RMBS transactions, from April 2007 through the first week of July 2007, Moody's rated 284 deals containing the following number of RMBS tranches:

	Tranches	Deals
April 2007	1,386	88
May 2007	1,511	96
June 2007	1,379	98
July 1, 2007 – July 6, 2007	29	2

In addition, your staff asked to be further informed regarding Moody's acquisition of underlying loan data that was used to create its model. Moody's obtained data for the purpose of model development through the operation of a consortium, rather than by purchase. Moody's was developing a unique version of its Moody's Mortgage Metrics model for use with respect to the subprime market ("M3 Subprime"). For the purpose of obtaining loan level data to use in M3 Subprime, Moody's, during 2006, formed a consortium of a number of banks and mortgage institutions. The participating institutions, which included the most active participants in the market, agreed to and did, submit to Moody's loan level data concerning mortgages they had originated. Throughout 2006 Moody's received data from the participating institutions.

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Moody's utilized a number of these data collections in the development of M3 Subprime, which Moody's began to use as an input to the rating process in late 2006.

The acquisition of these databases was in addition to the data obtained on a regular basis by Moody's for the purposes of RMBS surveillance (which included loan level performance data).

As we described in our February 17, 2011 response, models are tools sometimes used in the process of analyzing credit risk, but Moody's ratings reflect the collective opinion of a rating committee as to the relative creditworthiness of the issuer or obligation.

The information provided today is confidential and proprietary in nature, and therefore we ask that it be kept confidential by the Committee and its staff. We also ask that the Committee staff provide us with notice and an opportunity to be heard before the Committee discloses any non-public information from this letter to third parties. Please let us know if you have any questions.

Sincerely,

Steven R. Ross
Counsel for Moody's Investors Service

cc: The Honorable Tom Coburn, Ranking Minority Member

Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0666
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DATE: 11/13/2000
TIME: 16:03:32 GMT
AUTHOR: Siegel, Jay
RECEIPIENT: Clarkson, Brian
CC:
SUBJECT: RE: MIC analytic software + Investment in analytics

Just got back today, here are some initial thoughts, I might want to follow-up in a few days when I've slept on it.

As you know, I don't think we need to spend a lot of $ or resources to improve the model from an analytic perspective; but I'd need to defer to people more in the loop (looks like you're that person) on whether the marketing component mandates some announcement of model and data improvement.

1. I think the 3 key issues on the "A" market are credibility of analytics (with the threshold for credibility being a lot lower than the need to out-do the MIs' and GSEs' models and certainly lower than the need to improve on FICO as a borrower quality tool (I assume you heard that this was one of the original objectives, right? else I can fill you in)), transparency, and either ease of use (if we share the model with the outside) or prompt and intelligent response (if we continue to have a reason to run the pools ourselves). I don't think these objectives require a huge expenditure if properly staffed and managed.

2. We need to decide again a key issue -- whether pools that are the same to our model will get different credit support levels based on subjective analysis of originators. If yes, this is another reason not to try to further refine the modelling - it would all wash out in the subjective adjustment. If no, we ought to share the model with the bankers and originators and reassign staff to other product types.

3. Make sure you talk to Noel and maybe Fons about the decision to buy the data; I was invited to the original meeting so that the powers that be (at the time) could understand the data originally used. I felt that the arguments for buying the data and re-inventing the model were not persuasive, and left that meeting believing that Noel and Jerry F. felt the same way. The most convincing argument for buying the data was that it would be a cornerstone for marketing, that S&P touted the size of their database as a competitive advantage and that this was why they had the market share advantage. HOWEVER:

a. Your market participant intelligence seems much better than what I believe was just anecdotal presumption for S&P's market share.

b. There are at least a dozen players out there (Fannie& Freddie, the large originators, the seven large Mortgage Insurers) who will always be able to outspend and "out-data" us, our ability to create a market-necessary model is very limited. Our sole advantage is our objectivity (hence the FHLBs use S&P's system and not the originators').

c. The data in question likely does not reflect a major stress situation (in contrast to what we had the last time), not sure that our Aaa levels would be much helped by slicing and dicing the performance of mortgages during a real estate boom.

4. The issue of whether people leave committees understanding the rating conclusions and being able to defend them is an issue you and I discussed in the past; your criticism is on point.

-----Original Message-----
From: Clarkson, Brian
Sent: Friday, November 03, 2000 9:46 AM
To: Zhai, David; Stesney, Linda
Cc: Gupta, Pramila; Silver, Andrew; Bankole, Ed; Kanef, Michael; Kirnon, Noel; Adler, Michelle; Eisbruck, Jay; O'Connor, Michael; Siegel, Jay (MOODY'S)
Subject: RE: MIC analytic software + Investment in analytics

I have a wild thought also -- lets not even consider BUYING anymore data, programs, software or companies until we figure out what we have and what we intend to do with what we have. From what I have heard and read so far we have approaches (MBS, Tranching and Spread) few use or understand (let alone being able to explain it to the outside) and new data that we are unable to use. We want more data when most of the time we rate MBS deals using arbitrary rule of thumb?!! (i.e. earthquake coverage and hard floors made up by one person). And from what I have heard from market participants during the last few weeks the reason(s) we are not viewed as a player in the MBS market have little to do with anything set forth below. The reason the competition spends more is because they have a larger revenue base to absorb the expense. I suggest we spend less time asking for more data and software

(I have not seen anything that sets forth the gains in revenue from such spending -- it is easy to ask for $$ -- much harder to justify it against competing projects) and more time figuring out how to utilize what we have by way of good analysis, a solid approach to this market a proper staffing model. I look forward to hearing all of your thoughts on how to resolve the issues in this market.

-----Original Message-----
From: Zhai, David
Sent: Wednesday, November 01, 2000 3:10 PM
To: Stesney, Linda
Cc: Gupta, Pramila; Silver, Andrew; Adelson, Mark; Bankole, Ed; Kanef, Michael; Kirnon, Noel; Clarkson, Brian; Adler, Michelle
Subject: MIC analytic software + Investment in analytics

(1) MIC Software

There is a software called LPS by MIC selling for about $70,000 per year. We considered the option to buy it a few months back. This again was the money issue that Noel/Mark decided not to buy the piece prior to the spin-off. Therefore we only bought the raw data just for the re-modeling purpose.

In addition, The current functionality of the software is not as comprehensive as we desire, e.g., a black/closed box with no flexibility in getting loan-level statistics. Customization of it will cost us more money. In fact, even MIC's sales manager did not recommend that we buy the software because she thinks it was still premature.

I think the should add some value to our rating process if money is not an issue anymore. It will help our regular research, i.e., comparing pool performances. In addition, maybe we should consider INTEX software platform as well since it will boost ou

AKIN GUMP
STRAUSS HAUER & FELD L.L.P
Attorneys at Law

STEVEN R. ROSS
202 887.4343/fax: 202.887.4288
sross@akingump.com

February 17, 2011

VIA HAND DELIVERY
The Honorable Carl Levin
Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
199 Russell Senate Office Building
Washington, DC 20510

Re: Moody's Investors Service: Response to Follow-Up Question

Dear Chairman Levin:

On behalf of our client, Moody's Investors Service ("Moody's"), we respectfully submit this letter in response to the Committee's recent follow-up question about Moody's use of models. Specifically, your staff asked to be informed how underlying loan data has been used with respect to models.

Over the years, Moody's has developed a number of quantitative models which may be used as one of several inputs in the rating process for a wide variety of structured finance products. It is important to emphasize that Moody's credit ratings themselves are not derived solely from application of a mathematical process, or a "model." Models are tools sometimes used in the process of analyzing credit risk, but the credit rating process always involves much more, including the exercise of independent judgment by the members of the rating committee. Each rating reflects the collective opinion of a rating committee, and not the opinion of an individual analyst, as to the relative creditworthiness of the issuer or obligation.

Moody's ratings take into account qualitative as well as quantitative factors and are intended to reflect the exercise of the rating committee members' judgment about the expected creditworthiness of an obligation or entity. One quantitative factor considered by rating committee members includes historical, both recent and longer-term, performance of similar assets. Models, based on historic performance of the same or similar asset class, are one such input. The predicted impact of newer asset formulations and more recent market performance are elements that are brought to bear in the individual and collective exercise of judgment by the members of a rating committee.

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Wall Street & The Financial Crisis
Report Footnote #1125

With respect to previously-rated RMBS, Moody's generally receives, as part of the surveillance process, updated loan performance statistics on a monthly basis for the collateral pools of the transactions it has rated. As loan performance reflected by the monthly surveillance data began to deteriorate, Moody's sought to include an awareness of that information in the ratings process for newly-issued structured finance products. For example, the lead analyst for a particular transaction is often invited to participate in surveillance rating committees for that transaction to provide added perspective on the deal, and to gain an understanding of developing performance trends. This coordination between the surveillance and original rating functions facilitates a broad internal understanding and the best possible use of the most relevant performance data.

In addition, the actual recalibration of a statistical model requires a significant quantum of data. In constructing and estimating a model, a large amount of data representing a significant time period is assembled, cleaned and prepared. Loan performance information from new loan product types may be taken into consideration once there is sufficient history available that meets all necessary requirements, including the quality and breadth of the data. Until such time as reliable performance data becomes available and can be incorporated into a quantitative model, Moody's rating committees account for new loan product types through analyst judgment about the likely impact of such products on a given loan pool. This is but one of the reasons that rating committees utilize the output from a model as only one of many factors to consider when exercising their judgment. Rating committee members were aware of what was being seen in the data collected as part of the surveillance process and could incorporate that knowledge in the committees' considerations.

The information provided today is confidential and proprietary in nature, and therefore we ask that it be kept confidential by the Committee and its staff. We also ask that the Committee staff provide us with notice and an opportunity to be heard before the Committee discloses any non-public information from this letter to third parties. Please let us know if you have any questions.

Sincerely,

Steven R. Ross
Counsel for Moody's Investors Service

cc: The Honorable Tom Coburn, Ranking Minority Member

CAHILL GORDON & REINDEL LLP
EIGHTY PINE STREET
NEW YORK, NY 10005-1702

FLOYD ABRAMS
L. HOWARD ADAMS
ROBERT A. ALESSI
HELENE R. BANKS
LANDIS C. BEST
SUSAN BUCKLEY
KEVIN J. BURKE
JAMES J. CLARK
BENJAMIN J. COHEN
CHRISTOPHER T. COX
STUART G. DOWNING
ADAM M. DWORKIN
RICHARD E. FARLEY
PATRICIA FARREN
JOAN MURTAGH FRANKEL
JONATHAN J. FRANKEL
BART FRIEDMAN
CIRO A. GAMBONI
WILLIAM B. GANNETT
CHARLES A. GILMAN
STEPHEN A. GREENE
ROBERT M. HALLMAN
WILLIAM M. HARTNETT
CRAIG M. HOROWITZ
DOUGLAS S. HOROWITZ
DAVID G. JANUSZEWSKI
ELAI KATZ
THOMAS J. KAVALER
DAVID N. KELLEY
CHÉRIE R. KISER*
EDWARD P. KRUGMAN
JOEL KURTZBERG
ALIZA R. LEVINE
JOEL H. LEVITIN
GEOFFREY E. LIEBMANN
MICHAEL MACRIS

TELEPHONE: (212) 701-3000
FACSIMILE: (212) 269-5420

1990 K STREET, N.W.
WASHINGTON, DC 20006-1181
(202) 862-8900
FAX: (202) 862-8958

AUGUSTINE HOUSE
6A AUSTIN FRIARS
LONDON, ENGLAND EC2N 2HA
(011) 44.20.7920.9800
FAX: (011) 44.20.7920.9825

WRITER'S DIRECT NUMBER

(212) 701-3693

ANN S. MAKICH
JONATHAN I. MARK
BRIAN T. MARKLEY
GERARD M. MEISTRELL
MICHAEL E. MICHETTI
WILLIAM J. MILLER
ATHY A. MOBILIA
NOAH B. NEWITZ
MICHAEL J. OHLER
KENNETH W. ORCE
DAVID R. OWEN
JOHN PAPACHRISTOS
LUIS R. PENALVER
DEAN RINGEL
JAMES ROBINSON
THORN ROSENTHAL
TAMMY L. ROY
JONATHAN A. SCHAFFZIN
JOHN SCHUSTER
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COREY WRIGHT
DANIEL J. ZUBKOFF
ADAM ZUROFSKY

*ADMITTED IN DC ONLY

February 10, 2011

Re: Standard & Poor's

Dear Laura:

I write regarding your request for a summary of the data that Standard & Poor's purchased in connection with the development of its RMBS collateral model (known as LEVELS). I understand that the Subcommittee is preparing a final memorandum following up on the Chairman's April 23, 2010 memorandum to the members of the Subcommittee, and that you are seeking to verify information concerning the data that S&P purchased regarding RMBS collateral.

S&P purchased loan-level performance data with regard to residential mortgage loans on an ongoing basis for use in developing its criteria with regard to rated RMBS securities, and specifically with regard to S&P's expected performance of the loans backing such securities. As requested, a summary of the times such data was purchased follows:

Year Purchased	Approximate Number of Loans	Summary of Loan Characteristics
2000	166,000	Primarily first lien, fixed rate, prime.
2002	643,000	Expanded to include ARM loans and hybrid loans.
2003	269,000	Conforming residential mortgages in connection with developing criteria for use with pools of conforming loans.

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Wall Street & The Financial Crisis
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Year Purchased	Approximate Number of Loans	Summary of Loan Characteristics
2005	2.9 million	First and second lien loans, including prime, subprime, Alt-A, High LTV and HELOC loans.

These data sets were not direct inputs into the LEVELS model at any time, but rather were the subject of research and analysis toward the development of S&P criteria. As Scott Mason described during his interview by your Staff, the criteria development process involves more than the quantitative analysis of historical data. S&P reviews that data and applies the judgment and experience of its analysts to form opinions about possible future performance, taking into account the specific characteristics of the loans under review. S&P also purchased other data sets for different purposes, including data from millions of loans for development of criteria regarding housing prices.

Accordingly, it is not accurate to say, as the April 23, 2010 memorandum does on pages 7 and 10, that "S&P's models did not contain adequate data" for various types of subprime mortgages. Indeed, S&P's models do not "contain" historical data at all, but instead incorporate and apply S&P's *criteria*, and that criteria was not driven by any particular data set of historical loan information.

The data sets purchased by S&P over this time period were the subject of an ongoing research effort toward the development of an econometric equation for predicting potential mortgage defaults, but the results of those efforts were deemed to be insufficiently reliable to be incorporated into S&P's models. For example, an equation that was developed, in 2004, from the data set of 643,000 loans resulted in *lower* predicted defaults for ARM and hybrid loans than for fixed-rate loans – i.e., the equation predicted that such loans were less risky than fixed-rate loans – a result that was considered counter-intuitive and unreliable.

In its decision not to adopt such an equation as part of its criteria, S&P chose *not* to do precisely what the April 23, 2010 memorandum says it did: it chose *not* to incorporate in its models an equation driven directly and solely by historical data, because S&P did not believe that the equation adequately predicted how certain types of mortgages, such as adjustable rate and hybrid mortgages might perform.

The testimony that the Subcommittee received from S&P's former employee Frank Raiter is inaccurate and unreliable on this subject. Mr. Raiter testified that a version of the LEVELS model was introduced in 2002 or 2003 "based on approximately 650,000" loans. We believe Mr. Raiter is referring to the 2002 data set identified above, but no equation derived using that data set was ever implemented in the LEVELS model for the reasons described above.

Delivery of the 2.9 million data set for analysis did not occur until after Mr. Raiter retired from S&P and he had no involvement in, or access to, that data or any analysis of it. Although an econometric equation of the type considered in 2004 was never deemed appropriate for S&P criteria, S&P continued its concerted efforts to analyze that data, both by employing ex-

ternal consultants and dedicating resources within Standard & Poor's to analyze the data for criteria development.

While it is true, as S&P has said previously, that some loan data – such as borrower FICO scores – has turned out recently to be less predictive of defaults than it had been historically, the analysis of historical data was only one of many factors that S&P took into account in developing opinions about future performance. More fundamentally, the extent and impact of the housing market collapse in 2007 was more severe and precipitous than S&P, like so many others, anticipated.

Sincerely,



S. Penny Windle

Laura E. Stuber, Esq.
Counsel
Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, DC 20510

BY E-MAIL

STANDARD &POOR'S

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1131

Standard & Poor's LEVELS®

Scott Mason
Standard & Poor's

February 2010

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What Does LEVELS Do?

- LEVELS analyzes a loan, or pool of loans
- Provides an assessment of Foreclosure Frequency, Loss Severity, and Credit Enhancement

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1.

STANDARD &POOR'S

Foreclosure Frequency – Key Drivers

- Loan-to-Value (LTV)
- Occupancy Status
- Property Type
- Loan Purpose
- Loan Balance
- Loan Type
- FICO Score
- Documentation

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Loss Severity – Key Drivers

- Loan-to-Value (LTV)
- Assumed Market Value Declines (MVD)
- Housing Volatility Index
- House Price Index
- Foreclosure Timelines

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Credit Enhancement

Foreclosure frequency x loss severity = loss coverage

Foreclosure Frequency	=	The ratio of loans in a pool expected to default
Original Home Value less Market Value Decline	=	Market Price
Loan Balance less Market Price	=	Market Loss
Market Loss + Foreclosure Costs	=	Total Loss ($ amount)
Loss Severity %	=	Total Loss / Loan Balance

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STANDARD &POOR'S

LEVELS – Criteria Updates

- S&P is committed to continually updating the methodology and assumptions upon which its RMBS ratings are based.
- Since 2001, S&P has updated its LEVELS model 18 times.

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STANDARD &POOR'S

LEVELS 5.4.2 – March 27, 2001

- Incorporated updated or new rating criteria for simultaneous second lien mortgages, hybrid adjustable-rate mortgage loans and subprime loans
- Included an updated version of Standard & Poor's Economic Index, adjusting for projected real estate price fluctuations

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STANDARD &POOR'S

LEVELS 5.4.2(a) – July 10, 2001

- Updated base case foreclosure frequency based upon a review of a sampling of loans

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STANDARD &POOR'S

LEVELS 5.5 – April 3, 2002

- **Included criteria revisions and several model performance enhancements, including the new Standard & Poor's House-Price Volatility Index**

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STANDARD &POOR'S

LEVELS 5.6 – December 1, 2003

- **Updated data requirements to include:**
  - Asset verification
  - Appraisal types
  - Automated Valuation Model use and type
  - Self-employed borrower
  - NextGen FICO
  - Indicate High Cost or Covered Loan
  - Manufactured Housing Property type field added
- **Housing Volatility Index Updated**
- **New Manufactured Housing assumptions built into the model**

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STANDARD &POOR'S

LEVELS 5.6 Continued

- **Revised Loss Severity Model with benchmarks for:**
  - Time to initiate foreclosure
  - Time to foreclose
  - Bankruptcy delays
  - Eviction delays
  - Preservation costs
  - Legal costs
  - Amounts escrowed for taxes and insurance
  - Brokerage cost; and
  - Appraisal and lien search

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STANDARD &POOR'S

LEVELS 5.6(a) – September 1, 2004

- **Instituted new foreclosure frequency multiples**
  - Foreclosure frequency multiple calculation was refined

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STANDARD &POOR'S

LEVELS 5.6(b) – February 1, 2005

- Updated foreclosure frequency and loss severity assumptions for ARM loans
- Updated foreclosure frequency assumptions for interest-only loans

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STANDARD &POOR'S

LEVELS 5.6(c) – August 1, 2005

- Incorporated Option ARM (Negative Amortization) assumptions
- New adjustments to loss coverage for small pools
- Adjusted LTV's of loans to account for curtailments to non-seasoned loans

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STANDARD &POOR'S

LEVELS 5.6(d) – March 1, 2006

- Incorporated a discount to the amount of home price appreciation indicated by the Housing Price Index
- For Option ARM loans that have experienced negative amortization, the original balance of the loan will be used to calculate adjusted LTV

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STANDARD &POOR'S

LEVELS 5.7 – July 1, 2006

- Adjusted foreclosure frequency on first lien loans with simultaneous second liens, based on loan level analysis
- Increased the base case foreclosure frequency for loans with a high probability of default due to increased risk layering
- Adjusted foreclosure frequency multiples
- Updated Housing Volatility Index assumptions

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STANDARD &POOR'S

LEVELS 6.0 – June 1, 2007

- Incorporated into LEVELS the ability to analyze Closed End Second lien loans and loans with Combined Loan to Value ratio (CLTV) up to 100
- CLTV used for foreclosure frequency calculation rather than LTV
- For a first lien loan with a simultaneous second lien, CLTV is used to calculate foreclosure frequency

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STANDARD &POOR'S

LEVELS 6.1 – November 12, 2007

- **Reduced reliance on FICO score as a predictor of default**
- **Increased foreclosure frequency assumptions for the following:**
  - two-year hybrid ARMS
  - low FICO and High CLTV purchase money loans
  - stated income and no income documentation loans
- **Updated Housing Volatility Index adjustments**

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STANDARD &POOR'S

LEVELS 6.2 – January 9, 2008

- Loans coded with unknown appraisal type assessed a 100% loss severity
- Adjusted the primary mortgage insurer ratings affecting loss severity:
  - **10 = Mortgage Guaranty Insurance Corp. (MGIC) from AA downgrade to AA-**
  - **16 = MGIC Indemnity from AA downgrade to AA-**
  - **19 = Triad Guaranty Insurance Co. from AA downgrade to AA-**

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STANDARD &POOR'S

LEVELS 6.3 – March 14, 2008

- Increased functionality with respect to home equity line of credit (HELOC) loans
- Adjustments to delinquency assumptions
- Updated loss severity assumptions based on certain state foreclosure timeline extensions
- Updated data regarding the rating levels of mortgage insurers
- Updated Housing Price Index

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STANDARD &POOR'S

LEVELS 6.4.3 – July 14, 2008

- Adjusted the loan-level probability of default assumptions for certain loan types, including short-term hybrid adjustable-rate mortgage loans, interest-only mortgage loans, and mortgage loans that allow for negative amortization
- Updated Housing Price Index
- Revised the Housing Volatility Index
- Adjusted the impact of loan-to-value ratios and combined loan-to-value ratios on credit enhancement
- Revised loan-level adjustments for credit enhancement from the inclusion of primary mortgage insurance

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STANDARD &POOR'S

LEVELS 6.5 – December 2, 2008

- Updated loan-level adjustments for primary mortgage insurance
- Updated corporate credit ratings for various primary mortgage insurers
- Updated foreclosure frequency adjustments for all document type codes
- New loss severity adjustments for loans to which an automated valuation model is the primary appraisal type
- Updated Housing Price Index
- New reports summarizing the originator and due diligence fields
- Added four fields relating to third-party due diligence

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STANDARD &POOR'S

LEVELS 6.6 – March 31, 2009

- Added VantageScore as an acceptable borrower credit scoring model
- New documentation type code, "P," which indicates that employment was verified verbally, and income was verified by IRS transcripts through the use of IRS Form 4506T
- Updated foreclosure frequency adjustments for "C" and "V" documentation type codes
- Updated Housing Price Index
- Updated counterparty credit ratings for various primary mortgage insurers

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STANDARD &POOR'S

LEVELS 7.0 – September 17, 2009

- **Revised credit enhancement adjustment factors to assess the risk in pools of mortgage loans based on loan and borrower characteristics relative to the archetypical pool**
- **Updated data requirements, including:**
  - Added required fields to analyze the flow of funds in a transaction structure
  - Updated to reflect the current corporate credit ratings of mortgage insurance companies
  - Added a requirement that the total debt-to-income ratio be provided for each loan

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STANDARD &POOR'S

LEVELS 7.1 – February 11, 2010

- Revised 25 of S&P's state-specific assumptions with respect to timelines for foreclosing on a mortgage loan
- Updated Housing Price Index
- Updated counterparty credit ratings and capital adequacy ratios for affected primary mortgage insurers

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STANDARD &POOR'S

Examination Report for Standard and Poor's Ratings Services, Inc. ("S&P")

1. Introduction

On August 31, 2007, the Staff in the Commission's Office of Compliance Inspections and Examinations ("OCIE"), Division of Trading and Markets ("Trading & Markets") and Office of Economic Analysis ("OEA") (collectively "the Staff") initiated an examination of S&P, and two other credit rating agencies. The focus of the examinations was S&P's activities in rating subprime residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDOs") linked to subprime RMBS.[1] Specifically, key areas of review included:

- the NRSROs' ratings policies, procedures, and practices, including gaining an understanding of ratings models, assumptions, criteria and protocols;
- the adequacy of the disclosure of the ratings process and methodologies used by the NRSROs;
- whether the NRSROs complied with their ratings policies and procedures for initial ratings and ongoing surveillance;
- the efficacy of the NRSROs' conflict of interest policies and procedures; and
- whether ratings were unduly influenced by conflicts of interest related to the NRSROs' role in bringing issues to market and the compensation they received from issuers and underwriters.

The examinations also included a review of whether there were any errors in ratings issued as a result of flaws in ratings models used in response to a press report indicating errors in one firm's model.[2] Initial observations as a result of this aspect of the examinations are included in this report.

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1 Beginning in 2007, delinquency and foreclosure rates for subprime mortgage loans in the United States dramatically increased, creating turmoil in the markets for RMBS backed by such loans and CDOs linked to such loans (collectively "subprime RMBS and CDOs"). As the performance of these securities continued to deteriorate, the three NRSROs most active in rating these instruments downgraded a significant number of their ratings. The NRSROs' performance in rating these structured finance products raised questions about the accuracy of their credit ratings generally as well as the integrity of the ratings process as a whole.

2 See Sam Jones, Gillian Tett, and Paul J. Davies, *Moody's Error Gave Top Ratings to Debt Products*, Financial Times, May 20, 2008, at 1.

The examination review period generally covered January 2004 through 2007. The firms under examination became subject to the provisions of the Credit Rating Agency Reform Act of 2006 (the "Rating Agency Act"), which amended the Securities Exchange Act of 1934 ("Exchange Act"), and the Commission's rules when they registered with the Commission as NRSROs in September 2007. Although S&P was not subject to legal obligations applicable to NRSRO during most of the review period, the Staff nonetheless sought to make relevant factual findings and observations with respect to the activities of S&P in rating subprime RMBS and CDOs during the period, as well as to identify possible areas for improvement in their practices going forward.

Over 50 Commission Staff participated in the examinations of S&P, and two other NRSROs. The examinations included extensive on-site interviews with the rating agencies' staff, including senior and mid-level managers, initial ratings analysts and surveillance analysts, internal compliance personnel and auditors, personnel responsible for building, maintaining and upgrading the ratings models and methods used in the ratings process, and other relevant rating agency staff.

In addition, the Staff reviewed a large quantity of the NRSROs' internal records, including the written policies, procedures and other such documents related to initial ratings, the ongoing surveillance of ratings, and the management of conflicts of interest, and the public disclosures of the procedures and methodologies for determining credit ratings. The Staff also reviewed deal files for subprime RMBS and CDO ratings, internal audit reports and records, and other internal records, including a large quantity of email communications records (the NRSROs produced over two million emails and instant messages that were sorted, analyzed and reviewed using software filtering tools). Finally, the Staff reviewed the NRSROs' public disclosures, filings with the Commission, and other public documents.

2. The Ratings Process

The Rating Agency Act expressly states that the Commission has no authority to regulate the "the substance of the credit ratings or the procedures and methodologies" by which any NRSRO determines credit ratings.[3] As part of these examinations, however, the Staff necessarily sought to develop an understanding of the quantitative analysis used to rate the RMBS and CDOs that have been subject to such dramatic and widespread change.

S&P rates RMBS and CDO transactions by first assessing the underlying collateral and then assessing the deal structure. For RMBS, S&P utilizes its Loan Evaluation and Estimate of Loss System ("LEVELS") model as the basis for the foreclosure frequency and loss severity analyses of a deal's underlying collateral.[4] S&P evaluates cash flows in

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[3] 15 U.S.C. 78o-7(c)(2).

[4] S&P developed the assumptions for the LEVELS model during the 1970's and 1980's, using empirical observations of mortgage default rate data going back at least as far as the Great Depression, which represented the "worst case scenario." As of March 14, 2008, LEVELS, included a total of 77 possible factors, 38 of which are required, related to the loans that are loaded

the Standard & Poor's Interest Rate Evaluator ("SPIRE") model. S&P uses its CDO Evaluator to estimate the gross level of defaults in proposed CDO asset pools.[5] When analyzing cash flow for CDOs, after the CDO Evaluator process, S&P runs a cash flow analysis in a proprietary cash flow model called Genesis.[6] Results from the collateral and cash flow models are subjected to the committee approval process before a final rating is issued.

S&P also used spreadsheets and other models outside LEVELS to rate non-routine loans until they could be incorporated into the RMBS model. For instance, as the market for non-first lien mortgages grew in the late 1990's and early 2000's, S&P developed more simplified spreadsheet-based models to accommodate the rating of pools of such loans until S&P was able to incorporate such modeling into the LEVELS in late 2007.[7]

3. Increase in Number and Complexity of RMBS and CDO deals

From 2002 to 2006, the volume of structured finance deals rated by S&P increased substantially, as did the revenues S&P received from rating those deals. The structured products that S&P rated became increasingly complex, with many employing derivatives such as credit default swaps to replicate the performance of mortgage backed securities. Further, the loans made to retail borrowers being securitized evolved from 30-year fixed rate instruments to newer products such as second lien and adjustable rate mortgages. The increasing number and complexity of deals may have compromised various aspects of S&P's ratings operations for structured finance, as discussed in greater detail below.

a. Revenue, Deal, and Staffing Levels

From 2002 to 2006, the volume of RMBS deals rated by S&P increased by 130%, and the number of CDO deals rated by S&P increased by over 900%.[8] Correspondingly, the revenue S&P derived from RMBS deals increased from $57 million in 2002 to $190.7

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into LEVELS. Loan level information in the tape that is analyzed by LEVELS includes the type of property securing the mortgage, whether the property is occupied, the level of documentation presented by the borrower, the type and term of the loan, and the ratio of the amount of the loan to the value of the residence.

5 CDO Evaluator is made publicly available.

6 The Genesis model is not publicly available. S&P, however, discloses the inputs and criteria used in this cash flow model. For a synthetic CDO there is no need for a cash flow model as payments from the credit default swap exactly equal what is due on liabilities and there is no additional risk aside from credit risk, which is modeled in Evaluator.

7 Representation by Frank Parisi, former Director, Structured Finance, S&P on May 27, 2008 teleconference with Commission Staff.

8 See Letter from Mari B. Maloney, Chief Compliance Officer, Ratings Services, Global Regulatory Affairs, S&P to Matthew Daugherty, Senior Special Counsel, OCIE, SEC (Mar.14, 2008). RMBS deals increased from 713 to 1,639 during that time. CDO deals increased from 34 to 343 during that time.

million in 2006 and CDO revenue increased from $10.1 million in 2002 to $98.7 million in 2006.

For the RMBS group, contemporaneous staffing increases appear roughly in line with volume increases (S&P increased RMBS staff by 168% as volume increased by 130%).[9] For CDOs, however, S&P's staffing increases do not appear to have kept pace with volume increases (S&P increased CDO staff by 119% as volume increased by over 900%).[10]

b. Impact on Ratings Process

The Staff believes that the deal and staffing levels during the review period may have impacted various aspects of the ratings process. For instance, an instant message exchange between the primary analyst on a CDO deal and a member of the deal's rating committee revealed the following:

- Shah: "btw - that deal is ridiculous"
- Mooney: "I know right…model def does not capture half of the…" "risk"
- Shah: "we should not be rating it"
- Mooney: "we rate every deal" "it could be structured by cows and we would rate it"
- Shah: "but there's a lot of risk associated with it - I personally don't feel comfy signing off as a committee member."[11]

In another example, an S&P Associate Director in the Global CDO Group writes to a Director in the Global CDO Group that "Rating Agencies continue to create and [sic] even bigger monster – the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters.;o)"[12]

The Staff also identified internal communications in structured finance groups other than RMBS and CDO that indicated various staffing issues during the review period. For instance, in one email the Managing Director of Global Real Estate Finance states that "[o]ur staffing issues, of course, make it difficult to deliver the value that justifies our

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9 RMBS staff increased from 31 to 83 during the time period.

10 CDO analytical staff increased from 36 to 79 between 2002 and 2006. S&P has indicated that the support from the Synthetic ABS group and quantitative group are particularly important for CDOs. If the Synthetic ABS group's staff is included in the number, the increase is from 36 to 88 (144%). If the quantitative group's staff is also included, the increase is from 36 to 99 (175%).

11 Instant message exchange between Shannon Mooney, Rating Analyst, Quantitative Support, Global CDO Group, S&P, and Rahul Dilip Shah, Associate, Analytical Pool, Global CDO Group, S&P (Apr. 5, 2007, 3:56 PM). Ellipses both in original and added.

12 Email from Chris Meyer, Director, Analytical Pool, Global CDO Group, S&P, to Belinda Ghetti, Director, Global CDO Group, S&P (Dec. 15, 2006, 8:31 PM).

fees"[13] and states in another email that "[t]ensions are high. Just too much work, not enough people, pressure from company, quite a bit of turnover and no coordination of the non-deal "stuff" they want us and our staff to do."[14] Similarly, an email from an Analytical Coordinator in the ABS Group states that [w]e ran our staffing model assuming the analysts are working 60 hours a week and we are short on resources. . . . The analysts on average are working longer than this and we are burning them out. We have had a couple of resignations and expect more. It has come to my attention in the last couple of days that we have a number of staff members that are experiencing health issues."[15]

The Staff believes that the increase in the number and complexity of deals may have further impacted S&P's structured finance ratings operations, as is discussed in more detail below.

The Staff recommends that S&P periodically evaluate if it has sufficient staff and resources to manage its volume of business and meet its obligations under the Rating Agency Act.

S&P's Response:

In its response,[16] S&P stated that it believes its staff increases between 2002 and 2006 were appropriate. S&P noted that it does not have a discrete pool of analysts who rate CDOs of RMBS deals. The staffing levels of CDO analysts noted in its March 14, 2008 letter, therefore, represent analytical staff that worked on any type of CDO, not just CDOs of RMBS. Moreover, it notes that the number of all CDO transactions increased more modestly between 2002 and 2006 than the number of RMBS-related CDOs. In making the case that staffing levels for CDOs were appropriate, S&P notes that including support from members of the Synthetic ABS Group and the additional quantitative support group, which are both important contributors to the CDO rating process decreases the ratio of deals to staff. However, S&P notes that, even without including such supporting staff, it believes that the ratio of deals per analyst that it had in the CDO Group in 2006, was an appropriate level.

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13 Email from Gale Scott, Managing Director, Global Real Estate Finance, S&P, to David Klein, Vice President of Finance, Structured Finance Group, S&P (Apr. 27, 2007, 1:13 PM).

14 Email from Gale Scott, Managing Director, Global Real Estate Finance, S&P, to Diane Cory, External Consultant, Structured Finance Group, S&P (May 3, 2006, 10:20 AM).

15 Email from Gail Mcdermott, Analytical Coordinator, ABS Group, S&P, to Abe Losice, Managing Director, RMBS Group, S&P (Dec. 3, 2004, 11:10 AM).

16 See Letter from Vickie A. Tillman, Executive Vice President, Ratings Services, S&P to A. Duer Meehan, OCIE, SEC (June 27, 2008).

S&P stated that it will take prompt steps to conduct a review of structured finance staffing levels and will continue to reevaluate its staffing levels to ensure that they are appropriate and in compliance with the Rating Agency Act.

4. Disclosure of the Ratings Process

The new requirements of the Rating Agency Act specifically address the importance of disclosure. An NRSRO is required to disclose publicly the procedures and methodologies it uses in determining credit ratings.[17] Form NRSRO requires that this disclosure be a general description but sufficiently detailed to provide users of credit ratings with an understanding of the processes employed in determining credit ratings, including, among other things, the quantitative and qualitative models and metrics used to determine credit ratings. S&P explained to the Staff that, prior to being registered as an NRSRO, it disclosed its ratings process during the review period. It appears, however, that certain significant aspects of the rating processes and the methodologies used to rate RMBS and CDOs were not always disclosed, or were not fully disclosed, as summarized below.

For RMBS and CDOs, if a material rating change is approved, S&P's policy is that its terms are communicated both internally and publicly.[18] When new criteria, or changes to existing criteria, are implemented, S&P may apply such changes prior to publication, depending on the circumstances.[19] In its review, the Staff observed a number of occasions where S&P implemented changes to its RMBS ratings criteria outside its SPIRE and LEVELS models without promptly publishing such changes.[20] In published documents, S&P states that when it assigns ratings to structured finance securities, it uses a general framework and established guidelines, as well as various quantitative techniques and models to enhance the rating committee's qualitative opinions. S&P states that these qualitative opinions are an integral part of its rating process.[21] Based on review of produced documents, it does not appear that S&P specifically disclosed which

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17 Section 4(a)(1)(B)(ii) of the Exchange Act.

18 See "Ratings Services, Criteria Process Guidelines," (Mar. 21, 2008) provided under cover of letter from Mari Maloney, Chief Compliance Officer, S&P, to Matthew Daugherty, Senior Special Counsel, OCIE, SEC (June 12, 2008). The guidelines, which contain a publication date of March 21, 2008, are a recently revised and updated version of S&P's criteria process.

19 Id. The guidelines do not provide guidance for such circumstances.

20 See RMBS Criteria Alert #64, dated March 24, 2004, RMBS Internal Analyst Alert #112, dated June 25, 2007, RMBS Criteria Alert, dated October 19, 2006, respectively. Examples include decreasing foreclosure frequency assumptions for pools of first lien 100% LTV loans made to borrowers with minimum FICO scores of 700, increasing AAA loss coverage by 1 basis point for every 1% of a mortgage pool with "non-standard" mortgage insurance, and increasing its foreclosure frequency assumptions for loans that came to S&P on the tape already more than 30 days delinquent.

21 See Principles-Based Rating Methodology for Global Structured Finance Securities," dated May 29, 2007.

out-of-model adjustments a ratings committee may use in determining the ratings for CDOs, or how much weight the rating committee gave to such factors.[22]

The Staff found several communications by S&P employees to outside parties related to the application of unpublished criteria, such as "not all our criteria is published. [F]or example, we have no published criteria on hybrid deals, which doesn't mean that we have no criteria"[23] and "[a]s I pointed out, there is [sic] many pieces of criteria that has [sic] not yet been published. Does that mean it is not criteria? No."[24] Another email states, "[O]ur published criteria as it currently stands is a bit too unwieldy and all over the map in terms of being current or comprehensive. It might be too much of a stretch to say that we're complying with it because our SF [structured finance] rating approach is inherently flexible and subjective, while much of our written criteria is detailed and prescriptive. Doing a complete inventory of our criteria and documenting all of the areas where it is out of date or inaccurate would appear to be a huge job - that would require far more man-hours than writing the principles-based articles."[25]

S&P indicated to the Staff that, as a general practice, it did not adjust an RMBS collateral or cash flow analysis based upon factors that were not incorporated into its LEVELS or SPIRE models.[26] However, the Staff observed instances in its deal files that demonstrated adjustments from its models. For example, one RMBS deal was characterized by two tranches that failed one of the cash flow stress tests, but was nonetheless given the rating under which the tranches failed.[27] In another deal, the margins/coupons in seven of the tranches are different than the structure run in SPIRE.[28] In addition, the Staff observed instances where S&P implemented changes to its ratings criteria which were not incorporated into its LEVELS or SPIRE models.[29]

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22 Qualitative factors which influence the rating committee's decision may result in changes to the structure of the deal or additions and/or modifications to covenants in the deal documents in order to mitigate risks which concern the ratings committee.

23 Email from Anna Widernik, Director, Analytical Pool, Global CDO Group, S&P, to Scott Farrell, Marathon Fund/Issuer (Aug. 31, 2006, 12:04 PM).

24 Email from Jean-Baptiste Carelus, Director, Global CDO Group, S&P, to Brian Rance, Freshfields Bruckhaus Deringer LLP/External Issuer Attorney (Dec. 15, 2006, 12:08 PM).

25 Email from Calvin Wong, Chief Criteria Officer, Structured Finance Surveillance Group, S&P, to Tom Gillis, Managing Director, Research and Criteria, S&P (Mar. 14, 2007, 6:45 PM).

26 Representation by Scott Mason, Director, RMBS Group, S&P, to SEC Staff on December 12, 2007.

27 The SPIRE output indicated "minor int SF ok, per TO." MLMI 2006-RM5. Staff from S&P indicated that the structure was allowed to pass because the interest shortfalls at the two tranches were *de minimis*. Representation by Scott Mason, RMBS Director on June 20, 2008.

28 See HASCO-2006-WMC1.

29 Examples include decreasing the LEVELS foreclosure frequency assumptions for pools of first lien 100% loan-to-value loans made to borrowers with minimum FICO scores of 700, and

The Staff recommends that S&P conduct a review of its current disclosures of its processes and methodologies for rating subprime RMBS and CDOs to assess whether it is fully disclosing its ratings methodologies, and is meeting the requirements of the Rating Agency Act and Form NRSRO. Further, the Staff recommends that S&P review whether its policies governing the timing of disclosure of a significant change to a process or methodology are reasonably designed to comply with these requirements.

S&P's Response:

S&P emphasized the transparency of its rating process by noting, among other things, that it "generally announces" all material changes to its criteria through formal publication. S&P has noted, that although it has developed unpublished criteria in the past, that it has recently formalized policies and procedures related to the publication of criteria. S&P further stated that it consistently publicly discloses the limits of its models. S&P further notes that rating committees are not limited to considering the results of the model outputs in arriving at a rating, because, among other things, S&P's rating models, including SPIRE, do not always consider all of S&P's rating criteria. S&P further noted that it does not, as a matter of routine, memorialize its decisions to adjust model outputs.

S&P stated that it will take prompt steps to conduct the review of the policies and procedures regarding disclosure of the RMBS and CDO rating process, and noted that it had already taken significant steps to enhance its criteria publication process.

5. Written Policies and Procedures for Rating RMBS and CDOs

a. General Policies and Procedures

As of September 2007, NRSROs became subject to a requirement to make and retain certain internal documents relating to its business, including procedures and methodologies used to determine credit ratings.[30] S&P has a public document known as the "U.S. Residential Subprime Mortgage Criteria," which pre-dates this requirement and serves as a guide to its subprime RMBS analytical process. With respect to CDOs, S&P published a "Global Cash Flow and Synthetic CDO Criteria" on March 21, 2002.[31] This document outlines the numerous components of the CDO cash flow and synthetic CDO ratings process including S&P's review of the CDO manager, the analysis of the

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increasing LEVELS AAA loss coverage by one basis point for every 1% of a mortgage pool with "non-standard" mortgage insurance. See RMBS Criteria Alert #64, dated March 24, 2004, and RMBS Criteria Alert dated October 19, 2006, respectively.

30 Exchange Act Rule 17g-2. 17 CFR 240.17g-2.

31 See S&P-SEC-002944. This document also is available on the S&P website.

transaction structure; the quantitative models used, and the surveillance process. This document was updated in 2004 and 2006.[32]

However, the Staff observed that S&P had a number of undocumented policies and procedures for rating RMBS and CDOs.[33] The Staff also observed that S&P's ratings policies and procedures that did exist were scattered among numerous documents, rather than in one consolidated location or document.[34] The non-standard nature of S&P's structured finance procedures, publication and disclosure policies over the review period may have impacted its compliance with the ratings process. For instance, in a communication related to upcoming NRSRO registration, the Chief Criteria Officer in the Structured Finance Surveillance Group at S&P states:

> "[O]ur published criteria as it currently stands is a bit too unwieldy and all over the map in terms of being current or comprehensive. It might be too much of a stretch to say that we're complying with it because our SF [structured finance] rating approach is inherently flexible and subjective, while much of our written criteria is detailed and prescriptive. Doing a complete inventory of our criteria and documenting all of the areas where it is out of date or inaccurate would appear to be a huge job - that would require far more man-hours than writing the principles-based articles."[35]

The Staff recommends that S&P conduct a review to assess whether its written policies and procedures used to determine credit ratings for RMBS and CDOs are fully documented in accordance with the requirements of Exchange Act Rule 17g-2.

S&P's Response:

S&P responded that it does not believe that it can or should prescribe fixed analytical steps that the analysts should follow for all structures that S&P might rate, because such rules could oversimplify the rating process and ignore the uniqueness of each deal. S&P notes that it has adopted several measures[36] to ensure consistency of criteria application

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32 See S&P-SEC-002864. S&P also publishes an "Introduction to CDOs and Standard & Poor's Global CDO Ratings." See S&P-SEC-003369. S&P also has published a "Global Synthetic Securities Criteria." See S&P-SEC-002736.

33 For instance ,S&P did not address the use of outside models, including the use of alternatives to the RMBS cash flow model, SPIRE, and the CDO cash flow model, Genesis.

34 See e.g. S&P Role of Rating Committee Chairperson (June 26, 2007), S&P Analytic Documentation Policy (June 26, 2007), and S&P Global Rating Services' Rating Decision-Making Standards Policy (April 3, 2007).

35 Email from Calvin Wong, Chief Criteria Officer, Structured Finance Surveillance Group, S&P, to Tom Gillis, Managing Director, Research and Criteria, S&P (Mar. 14, 2007, 6:45 PM).

36 These measures include encouraging analysts to engage in ongoing dialogue with their peers and supervisors, hiring experienced analysts, using "project leads" (senior analysts) on each deal, and providing internal guidance on how to apply new ratings approaches.

at the deal level, and does not believe that its approach prevents analysts from consistently applying its criteria.

While S&P does not agree with the Staff's findings on this point, S&P stated that will take prompt steps to review its policies and procedures to ensure that it has appropriately detailed policies and procedures to follow throughout the deal rating process.

b. Policies and Procedures Regarding Technical Errors

As a result of recent attention in the financial press regarding a rating agency's application of flawed rating models to constant proportion debt obligation ("CPDO")[37] deals, the Staff expanded the scope of its exams to review any assignments of erroneous ratings by S&P for any RMBS, CDO and CPDO ratings issued since 2004, as well as S&P's policies for dealing with the discovery of errors in the models and methodologies. In response, S&P indicated that a beta version of its CPDO Evaluator model contained a coding error that was discovered by surveillance in late 2007, which led the model to use a higher discount factor in assessing certain incoming and outgoing cash flows. According to S&P, the error was immediately corrected.[38] Following detection of the error, S&P reviewed the five CPDO transactions in which the beta version was used to make a public rating, and determined that none of the resulting differences in interest rates and discount factors between the erroneous model and corrected model merited a rating action. S&P identified its ratings and criteria committee processes, its transparency, and its surveillance process as "policies and practices" that further the goal of identifying errors.[39]

The staff recommends that S&P review its procedures to identify, correct and rectify errors in its ratings models and methodologies.

S&P's Response:

S&P noted that it already has begun the process of addressing the issue of policies and procedures to detect and disclose errors in the rating process by developing an internal review process for assessing model quality. The process will assess whether S&P's current models remain suitable for their intended use, and will consider all relevant aspects of the models under review.

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37 CPDOs are a type of credit derivative sold to investors looking for long term exposure to credit risk on a highly rated note. Investors buy notes issued by a special purpose vehicle ("SPV").

38 See Letter from Vickie A. Tillman, Executive Vice President, Ratings Services, S&P to A. Duer Meehan, Associate Director, OCIE, SEC (June 12, 2008).

39 Id.

6. Integrity and Accuracy of the Information Provided to S&P

There is no requirement under the federal securities laws that an NRSRO verify the information contained in RMBS loan portfolios presented to it for rating. Additionally, NRSROs are not required to insist that issuers perform "due diligence," and they are not required to obtain reports concerning the level of due diligence performed by issuers.

The Staff notes that pursuant to its policies, procedures, and public pronouncements, S&P did not engage in any due diligence or otherwise seek to verify the accuracy and quality of the loan data underlying the RMBS pools it rated during the review period. In fact, S&P's Code of Ethics clearly states it is under no obligation to perform, and does not perform, due diligence. Moreover, it states that the assignment of a rating is not a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating. S&P solely performed loss and cash flow analyses on the data presented to it; S&P generally did not verify the integrity and accuracy of such information as, in S&P's view, due diligence duties belonged to the other parties in the process. S&P also did not seek representations from sponsors that due diligence was performed.

S&P's Response to Staff's Observations:

S&P noted that Staff correctly observed that it does not undertake any duty of due diligence with respect to data submitted to it in the ratings process, relying instead upon issuers to provide accurate and complete information. S&P has committed, however, to enhance its process of collecting more information about originators' and issuers' processes to assess the accuracy and integrity of their data. Furthermore, S&P has taken, or announced, measures designed to improve the integrity and accuracy of the loan data it receives on underlying RMBS pools:

- S&P announced that it was considering enhancements to its RMBS securitizations that would include the engagement by issuers of independent third parties to randomly sample, for due diligence, the greater of 10% or 200 loans for all subprime transactions.

- In addition, in an agreement with the New York State Attorney General, S&P agreed to develop and publicly disclose due diligence criteria to be performed by underwriters on all mortgages comprising RMBS, and to review those results prior to issuing ratings.[40]

[40] http://www.oag.state.ny.us/press/2008/june/june5a_08.html

7. Documentation of Significant Steps and Participants in the Rating Process

a. Documentation of Significant Steps in the Ratings Process

As of September 2007, NRSROs are required to retain internal records, including non-public information and workpapers, used to form the basis of credit ratings it issues (Exchange Act Rule 17g-2(b)(2)). Prior to its registration as an NRSRO, S&P recordkeeping policies required that RMBS analysts maintain the essential documents related to a deal in the deal file.[41] The Staff reviewed 52 RMBS deals to determine if S&P followed the policies and procedures in the U.S. Residential Subprime Mortgage Criteria, its file maintenance and recordkeeping policy and other related polices. The Staff found that LEVELS output was missing from 14 deal files,[42] and SPIRE output was missing from nine deal files.[43] In addition, the Staff noted that 11 of the SPIRE outputs contained a different number of tranches, as well as different ratings and coupons than the corresponding information in the CORE form and ratings letter in apparent violation of S&P's record retention policy.[44] S&P also did not consistently document the rationale behind the application of adjustments made to the model output.[45]

With respect to CDOs, S&P required the maintenance of records related to the rating of all synthetic and cash flow CDO transactions, as mandated by S&P's CDO Filing Procedures.[46] Such documents are to be maintained in a file referred to by S&P as the

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41 See S&P Analytic Documentation Policy, dated June 26, 2007. See also Memorandum to RMBS Group from Support Staff, Re: Blue Files, dated November 2004 ("Blue File Memo"). Among the records that must be contained in the blue file are the rating letter and corresponding write up, the prospectus supplement, the prospectus supplement checklist, and the final LEVELS reports and cash flow reports (SPIRE).

42 See IXIS Real Estate Cap 2006-HE5, SASCO 2007-MLN1, ACE 2006-SL1, SABR-2006-WM2, Argent 2006-W5, Long Beach 2006-3, MASTR ABS 2006-FRE2, ACE 2006-FM2, Carrington 2007-RFC1, J.P. Morgan Mortgage Acquisition 2006-RM1, SABR-2006-NC2, SABR 2006-FR2, Soundview 2007-WMC1, Option One Mortgage 2006-2.

43 See MS ABS 2006-NC4, SABR-2006-FR3, SASCO 2007-MLN1, ACE 2006-SL1, GSAMP 2006-S2, Carrington 2007-RFC1, Terwin Mortgage 2006-6, SASCO 2006-ARSI, CWABS 2006-SPS1.

44 See SABR 2006-NC1, Long Beach Mortgage Loan Trust 2006-9, Carrington 2006-NC5, Soundview Home Loan 2007-WMC1, Option One Mortgage 2006-2, Citigroup Mortgage Loan Trust, C-BASS 2007-SL1, SABR 2006-NC1, ARSI 2006-M3, ACE 2006-FM2, Soundview 2007-WMC1.

45 For example, in approximately a third of the deals that the Staff reviewed, the tranche sizes that passed the cash flow stress test in SPIRE were different from the size of the tranches that were ultimately rated, as reflected in the CORE form and signed ratings letter. S&P explained that as long as the ratios between consecutive tranches (*e.g.* between the AAA & AA+ tranches, and between the AA+ and AA tranches, etc.) were consistent between the two forms, the SPIRE stress test would be valid regardless of the absolute size of the tranches. This policy was neither documented as a policy nor in deal files as a rationale for why the sizes were different.

46 See S&P-SEC-003421. The Staff notes that S&P adopted and/or updated its policies and procedures in June 2007 to comply with the Commission's new rules and regulations implementing provisions of the Credit Rating Agency Reform Act of 2006. One of these policies

"Short File."[47] The "Short File" for every rated CDO deal must contain a CORE form which includes a summary of the deal and contact information for deal participants. The CORE form must contain the signatures of the analyst and manager on the first page of the form. This file must also contain the Rating Asset Methodology Presentation ("RAMP"), which is a presentation prepared by the analyst for the rating committee.

The Staff reviewed the documents within 50 CDO "Short Files." Overall, the file contents and disclosures were in accordance with S&P's stated policies and procedures. However, the Staff noted some inconsistencies with respect to the actual review of the CDO manager for particular deals, given that in S&P's view the "collateral manager plays a paramount role in the [CDO] transaction's performance."[48] In addition, many of the RAMPs contained issues that were brought to the rating committees' attention with no documentation as to whether the issues were addressed, or if there was any resolution of the issues to the satisfaction of the analyst or the rating committee.[49] Some of the RAMPs contained summaries of the deal tranches which did not match the CORE form or the final rating letter.[50] In addition, some RAMPs appear to contain issues that went unresolved because of timing constraints or that were deferred to be resolved in future transactions.[51]

Ultimately, the Staff found that S&P failed to retain or document certain significant steps in the rating process, which made it difficult for the Staff to assess compliance with its rating policies and procedures, and to identify the factors that were considered in developing a particular rating. This lack of documentation would similarly make it difficult for S&P's internal compliance staff or internal audit staff to assess compliance with the firm's policies and procedures.

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and procedures was the "Analytic Documentation Policy", which now requires the names of the rating committee attendees and identification of the voting members.

47 Signed Rating Agreement; Signed Rating Letter; Ramps, CORE Form; Working Group List; Offering Circular or Memorandum (if any); and Confirm/Credit Swap Document (for synthetic trades, without OMs).

48 See "An Introduction to CDOs and Standard & Poor's Global CDO Ratings," dated June 8, 2007. S&P publishes reports on CDO managers and the performance of the CDOs it rates (known as CDO Manager Focus, CDO Manager Magnifier, and the European CDO Manager Briefing). The Staff noted that the depth and timing of the review of a manager associated with a deal appeared to vary greatly among deals.

49 See GSC ABS CDO 2006-4u; Independence VII CDO; Point Pleasant Funding 2007-1; Toro ABS CDO II; Magnolia Finance Series 2006-5B; ACA Aquarius 2006-1.

50 See Carina CDO; C-Bass CBO XIX; Cetus ABS CDO 2006-1; Delphinius CDO 2007-1.

51 See Duke Funding X; C-Bass CBO XIX.

b. Documentation of Participants in the Ratings Process

An NRSRO is also required to make and retain records of the identity of any credit analyst that participated in determining the rating and any person that approved the rating before it was issued (Exchange Act Rule 17g-2). This requirement is intended to assist the Commission in monitoring whether the NRSRO is following its procedures and methodologies for determining credit ratings and whether the NRSRO is complying with procedures designed to prevent the misuse of material nonpublic information by identifying the persons with the best information as to how the credit rating was determined.[52]

Prior to its registration as an NRSRO, S&P required the rating analyst and committee chair to sign the CORE Form, which documents, among other things, the rating committee members.[53] In its review of 52 RMBS deal files, the Staff discovered that 13 of the CORE forms retained in the deal files lacked the chair's identity,[54] and six of the CORE forms lacked the signatures of at least one of the non-chair committee members.[55]

For CDO transactions, the Staff observed five files that lacked proper documentation on the Committee/Authorizations section of billing form,[56] two files lacking a complete and accurate record of committee attendees on the front of the billing form when compared to the Required Committee Attendee Information page on the same form,[57] and five files manifested problems regarding the accuracy of the dates of ratings committees and notifications.[58]

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52 See Securities Exchange Act Release No. 55857, 72 FR 33564 (June 18, 2007) (S7-04-07).

53 See Blue File Memo, see also Roles and Responsibilities Policy Statement on commercial activities, dated June 26, 2007. Following the adoption of Regulation NRSRO, S&P required the names of all rating committee attendees and identification of the voting members to be recorded as well.

54 See SASCO 2007 MLN1, GSAMP Trust 2006-S2, SAIL 2006-1, SAIL Trust 2006-1, SABR 2006-WM2, MASTR ABS Trust 2006-FRE2, ACE Securities Corp Home Equity 2006-FM2, Carrington Mortgage Loan Trust 2007-FRC1, SASCO 2006-ARS1, CWABS Asset Backed Certificates Trust 2006-SPS1, SG Mortgage Securities Trust 2006-FRE2, IXIS Real Estate Capital Trust 2006-HE3, IXIS Real Estate Capital Trust 2007-HE1, Citigroup Mortgage Loan Trust 2006-HE3.

55 See ACE Securities Corp, Home Equity Loan Trust, 2006-NC2, GSAMP Trust 2006-S2, ACE Securities Corp. Home Equity Loan Trust, 2006-FM2, Carrington Mortgage Loan Trust 2007-RFC1, SG Mortgage Securities Trust 2006-FRE2, IXIS Real Estate Capital Trust 2007-HE1.

56 Norma CDO (no analyst signature); NovaStar ABS CBO (manager signature undated);, Duke Funding X (no chairperson listed on front of CORE form); Bayberry Funding Ltd. (person notified and committee attendees blank on front of CORE form); Jupiter High Grade CDO VII (manager signature undated).

57 GSC ABS CDO 2006-1c, Bayberry Funding Ltd.

58 Bering CDO I (committee date blank), Norma CDO (person notified blank); Jupiter High Grade CDO VII (committee date listed as 7/31/07 and notification date listed as 7/27/07); Ridgeway Court Funding II (committee date 4/13/07, sale date 6/28/07 on CORE Form. The RAMP was dated 4/13/07 but the capital structure on RAMP differs from the final ratings on the CORE form);

The Staff recommends that S&P conduct a review of its current policies and practices for documenting the credit rating process and the identities of RMBS and CDO ratings analysts and committee members to review whether they are reasonably designed to ensure compliance with Exchange Act Rule 17g-2 and to address weaknesses in the policies or in adherence to existing policies that result in gaps in documentation of significant steps and participants in the credit rating process.

S&P's Response:

S&P responded that it had polices and procedures in place to retain key analytical documents before registering as an NRSRO, and has enhanced additional policies and procedures to allow for a more thorough documentation and retention policy after registration, including its new Analytic Documentation Policy, released in June of 2007.

S&P stated that it would take prompt steps to review its documentation policies and procedures. S&P noted that it was working to establish a robust compliance program to monitor adherence to the requirements, including the enhancement of its ratings document repository, and that it has recently sought to enhance employee training in this area.

8. Surveillance Practices

Under the Rating Agency Act, S&P is required to disclose publicly the procedures and methodologies it uses in determining credit ratings. In addition, Section 4(d) of the Rating Agency Act states that a registered NRSRO must maintain adequate financial and managerial resources to produce credit ratings with integrity.

Generally speaking, for any particular RMBS or CDO transaction, the surveillance process consists of monitoring collateral performance through exception reports, periodic reports and event driven reviews, analyst recommendations, and committee determinations and publications.[59] The exception reporting process seeks to identify those transactions for which performance appears to be sufficiently out of line with initial expectations as to merit further analysis. S&P also conducts periodic reviews of RMBS and CDO transactions on a recurring basis regardless of whether the performance of those transactions has triggered an exception review.[60] Additionally, when outside events

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Costa Bella CDO (Notification date on CORE form 9/28/06 but committee meeting was dated 10/24/06. There was a note in the RAMP that the committee was reconvened 11/14/06 because the structure changed, but was not reflected in the CORE form).

[59] As a general matter, upgrades are considered when the projected credit support percentage for a tranche is at least a minimum multiple (generally about two times) of the original credit support percentage required for a class which received a higher rating. In contrast, downgrades are considered when the projected credit support percentage for a class is below the original credit support percentage required for its current rating category.

[60] See letter from Mari B. Maloney, Chief Regulatory Officer, S&P, to Matt Daugherty, Senior Special Counsel, OCIE, SEC (Mar. 31, 2008).

precipitate the review of a class of deals, the surveillance group conducts an event-driven review. Once a transaction has been identified for further review, the analyst conducts an analysis of the transaction to evaluate the adequacy of available credit support and presents findings to the committee for a possible ratings change.

The Staff requested various types of documentation relating to S&P's RMBS and CDO surveillance process, including copies of monthly periodic reports, exception reports, exception parameters, and guidelines governing communications between surveillance and ratings staff for the period between January 2005 and December 2007.[61] S&P stated it could not provide this type of documentation, explaining that no record of such reports existed because they were created and analyzed electronically, and that no such guidelines governing communications between surveillance and rating staff existed.[62] The Staff also noted internal communications by the surveillance staff which seem to indicate that S&P staff was aware of this data retention issue as far back as June 15, 2007.[63] As such, the Staff could not assess the information being generated by S&P's Surveillance Group during the review period.

Furthermore, in its review of internal S&P documents, the Staff found numerous statements related to surveillance procedures, resources and findings. For example, an S&P internal email from a Managing Director in the Structured Finance Surveillance Group noted:

> "I think the history has been to only re-review a deal under new assumptions/criteria when the deal is flagged for some performance reason. . . . The two major reasons . . . (i) lack of sufficient personnel resources and (ii) not having the same models/information available for surveillance to relook [sic] at an existing deal with the new assumptions (i.e. no cash flow models for a number of assets)."[64]

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61 See Letter from A. Duer Meehan, Associate Director, OCIE, SEC, to Mari B. Maloney, Chief Compliance Officer, Ratings Services, Global Regulatory Affairs, S&P (Apr. 28, 2008).

62 See Letter from Mari B. Maloney, Chief Compliance Officer, Ratings Services, Global Regulatory Affairs, S&P, to Matthew Daugherty, Senior Special Counsel, OCIE, SEC (May 5, 2008).

63 "If I were the S.E.C. I would ask why can [sic] you go back and run the report for each of the months using the same assumptions? In theory we should be able to do this." Email chain ending in email from Ernestine Warner, Director, RMBS Surveillance Group, S&P, to Andrew Giudici, Director, RMBS Surveillance Group, S&P (June 15, 2007, 9:05 AM).

64 Email from Roy Chun, Managing Director, Structured Finance Surveillance Group, S&P, to Tom Gillis, Managing Director, Research and Criteria, S&P (July 11, 2005, 8:09 PM). A similar email from the Director of the RMBS Surveillance Group noted similar issues: "He asked me to begin discussing taking rating actions earlier on the poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now." "I am seeing evidence that I really need to add to the staff to keep up with what is going on with sub prime and mortgage performance in general, NOW." Email chain ending with email from Ernestine Warner, Director, RMBS Surveillance Group, S&P, to Peter D'Erchia, Global Practice Leader, Structured Finance Surveillance Group, S&P (Feb. 3, 2007, 12:02 PM).

The Staff is concerned about whether the "lack of sufficient personnel resources" drives surveillance policy.

The Staff also noted an email from the Director of the RMBS Surveillance Group which notes that S&P was concerned with reducing the number of exceptions in its reports which may indicate that the surveillance criteria used during part of the review period was inadequate:

> "I agree the percentages [of monthly surveillance alerts for May 2007] are too high. I was thinking that we would record the monthly change in exceptions. I think we changed the exception report process last month. . . . I believe there are less exceptions on this report."[65]

The Staff recommends that S&P conduct a review to determine if adequate resources are devoted to surveillance of outstanding RMBS and CDO ratings. This review should include, for example, whether S&P maintains adequate staffing and has adequate expertise dedicated to performing ongoing surveillance. The Staff also recommends that S&P ensure all its appropriate surveillance records are retained.

S&P's Response:

S&P responded that it understood Staff's findings to be based in part on the unavailability of S&P's historic monthly surveillance reports due to the fact it was not S&P's practice to print or electronically save these reports. It also stated that, following the recent deterioration in the U.S. housing market and performance of subprime loans, S&P had come to rely less on exception reports as a monitoring tools, and instead used vintage reviews of all transactions issued during the time period within a collateral group. The exception reports, therefore, would have flagged deals that were already subject to vintage reviews. Therefore, the adjustments to the exception report tool that were done in conjunction with the broad vintage-based reviews did not have the effect of decreasing the overall number of deals S&P was examining. S&P also noted that the RMBS surveillance group is kept up-to-date about new criteria and assumptions being applied to the initial rating of RMBS deals, but that such changes do not always implicate earlier vintage transactions, and therefore application of the new criteria may be inappropriate.

S&P stated that, although it disagrees with the Staff's findings on this point, it will nonetheless take prompt steps to conduct a review of its surveillance process and consider whether it maintains adequate staffing and expertise for its ongoing surveillance needs. S&P stated that it has already undertaken a number of steps to improve the effectiveness and speed of the surveillance process, including increasing resources, and ensuring separation between new rating and rating surveillance functions.

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[65] Email chain ending in email from Ernestine Warner, Director, RMBS Surveillance Group, S&P, to Andrew Giudici, Director, RMBS Surveillance Group, S&P (June 15, 2007, 9:05 AM).

9. Management of Conflicts of Interest

a. "Issuer Pay Model"/Fee Discussions

S&P uses the "issuer pays" model, in which the sponsor or other entity that issues the security is also seeking the rating. Under Exchange Act Rule 17g-5(b)(1), it is a conflict of interest for an NRSRO being paid by issuers or underwriters to determine credit ratings with respect to securities they issue or underwrite. Section 15E(h) of the Exchange Act requires an NRSRO to establish, maintain, and enforce policies and procedures reasonably designed to address and manage conflicts of interest. Such policies and procedures are intended to maintain the integrity of the NRSRO's judgment. Avoiding a conflict of interest prevents an NRSRO from being influenced to issue a more favorable credit rating in order to obtain or retain business of the issuer or underwriter.[66]

To manage this conflict of interest, S&P has established policies to restrict analysts and their immediate managers from participating in fee discussion with issuers.[67] S&P has established a policy that is designed, among other things, to prevent the flow of information about issuers, including sources of fee revenue among its numerous affiliates. S&P requires that ratings analysts must reach their analytic opinions independently from equity analysts and independent from any commercial relationship between S&P and any third party.[68] S&P also prohibits those that negotiate fees for an issuer to vote on a credit rating committee for that issuer and prohibits those that vote on a credit ratings committee for an issuer from being involved in negotiating fees for that issuer. S&P's policy also addresses several areas of potential conflict arising from the sales process, providing that S&P Ratings' employees may not jointly sell or call on ratings customers with other S&P employees or otherwise engage in cross-selling activity. However, S&P explicitly permits an analyst's manager to participate in internal discussions regarding which considerations are appropriate for determining a fee for a particular rated entity.[69]

Despite S&P's policies addressing the issue of fees, the Staff found multiple communications that indicate that analysts are at the very least aware of the firm's fee schedules, and actual (negotiated) fees.[70] There does not appear to be any internal effort

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66 See Securities Exchange Act Release No. 55857, 72 FR 33564 (June 18, 2007) (S7-04-07). And Exchange Act Rule 17g-5.

67 See S&P's Roles and Responsibility Statement.

68 S&P Analytical Firewalls Policy (November 2005).

69 See Guideline No. 5 to S&P's Roles and Responsibility Policy Statement. (June 2007).

70 In one instance a Managing Director and Client Value Manager in the RMBS group, distributed a negotiated fee schedule, a large percentage of the recipients were analysts. Email from Thomas Warrack, Managing Director and Client Value Manager, RMBS Group, S&P, to May Abraham, Associate Director, RMBS Group, S&P (Dec. 29, 2005, 5:29 PM). In another instance, an analyst is copied on an email communication to an issuer containing a letter confirming the fees for a transaction. Email from Mabel Rodriguez, Research Analyst, S&P Segment Operations Client Services, to Robert Perret, Wachovia, copying James Grundy, Associate Analyst, RMBS Group,

to shield analysts from emails and other communications that discuss fees and revenue from individual issuers.[71] In some instances, analysts discuss fees for a rating. For instance, a production manager in the RMBS group writes to several analysts: ". . . if you have not done so please send me any updates to fees on your transactions for this month. It is your responsibility to look at the deal list and see what your deals are currently listed at."[72] The Staff is concerned that analysts could be influenced when determining their ratings by the amount of fees paid by an issuer to S&P.

b. Revenue and Market Share

While the Staff did not identify any instances in which it appears a fee influenced the rating decision for a particular deal, the Staff identified a number of emails suggesting that S&P's development of ratings criteria did not always arise from the objective process described above. In fact, several emails indicate that across various areas in structured finance, the criteria development or amendment process was initiated by a concern about S&P's market share relative to other rating agencies, or a reaction to losing deals to other rating agencies. In most of these instances, it appears that S&P staff responsible for obtaining ratings business would notify other S&P employees, including those responsible for criteria development, about business concerns he or she had related to the criteria:

> "I am trying to ascertain whether we can determine at this point if we will suffer any loss of business because of our decision and if so, how much?" "Essentially, Joanne, Rosario and I ended up agreeing with your recommendations but the CDO team didn't agree with you because they believed it would negatively impact business."[73]

For instance, in one email chain related to Commercial Mortgage Backed Securities, after noting a change in a competitor's methodology an S&P employee states: "[w]e are

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S&P (Mar. 27, 2007, 4:02 PM). See also Email from Monica Perelmuter, Director, Subprime NIMs, RMBS Group, S&P, to Julia Clements, Associate Director, RMBS Group, S&P (Dec. 19, 2005, 1:08 PM).

71 An email communication from a Managing Director and Client Value Manager to at least one analyst, requests that the recipient(s) "Please confirm status codes as soon as possible on the below mentioned deals. Additionally, any fees that are blank should be filled in. All issuer/bankers should be called for confirmation." In the same email chain, this request is reinforced by a Managing Director who states "It is imperative that deals are labeled as to Flow or Pending, etc as accurately and timely as possible. These codes along with the fee and closing date, drive our weekly revenue projections . . ." Email chain ending with email from Thomas Warrack, Managing Director and Client Value Manager, RMBS Group, S&P, to Leslie Abergo, Director and Client Value Manager, RMBS Group, S&P (Aug. 24, 2005, 3:53 PM).

72 Email from John Polizzotto, Production Manager, RMBS Group, S&P, to Laura Ahn, Associate Director, RMBS Group, S&P (Jan. 31, 2007, 9:33 AM).

73 Email chain ending with email from Tom Gillis, Managing Director, Research and Criteria, S&P, to Gale Scott, Managing Director, Global Real Estate Finance, S&P (Nov. 9, 2004, 12:11PM).

meeting with your group this week to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals."[74] In another email, following a discussion of a competitor's market share related to Net Interest Margin ("NIM") ratings, an S&P employee states "Relying on prepayment penalties and/or cap proceeds is more difficult to estimate and project, but those would be the assumptions that would have to be revisited to recapture market share from Fitch."[75] In another example, following a discussion of losing a bank rating, an S&P employee states "I had a discussion with the team leaders here and we think that the only way to compete is to have a paradigm shift in thinking, especially with the interest rate risk."[76]

The Staff recommends that S&P continue to review its practices, policies and procedures with respect to mitigating and managing the "issuer pays" conflict of interest. In particular, the Staff recommended that S&P consider steps that would insulate or prevent the possibility that considerations of market share and other business interests could influence ratings or ratings criteria.

S&P's Response:

S&P responded that its Analytic Firewalls policy strictly prohibits rating analysts discussing or negotiating fees with an issuer, but that analysts are not prohibited from knowing the amount of rating fees for a particular issuer or discussing such fees internally.[77] S&P also notes that while certain staff with a business interest may question the basis for a particular criterion out of competitive concern, the potential loss of business was not part of the consideration by analytical staff of whether to actually change models or methodologies. Moreover, S&P stated that its fees for certain asset types are determined by a mathematical formula, and that rating analysts have no discretion as to the amount or application of the fee.

S&P stated that it would take prompt steps to consider steps that would further insulate analysts from fee information. S&P noted that it has already undertaken steps to identify and mitigate potential conflicts, including the establishment of the Office of the Ombudsman, who will have oversight power and authority to escalate conflict of interest concerns to the McGraw-Hill's CEO, board of director or audit committee. S&P also noted that it has initiated an analyst rotation program and framework for "look back"

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74 Email from Gale Scott, Managing Director, Global Real Estate Finance, S&P, to Richard Gugliada, Global Practice Leader, Global CDO Group, S&P (Aug. 17, 2004, 6:14 PM).

75 Email from Monica Perelmuter, Director, RMBS Group, S&P, to Chris Deasy, Director, Asset-Backed Commercial Paper Group, S&P (Sept. 25, 2006, 6:50 PM).

76 Email from Yu-Tsung Chang, Executive Managing Director, Head of Ratings Services in Asia/Pacific, S&P, to Joanne Rose, Executive Managing Director, Structured Finance, S&P (May 25, 2004, 12:08PM).

77 The Staff notes that while analysts are not prohibited from discussing fees internally, they are indeed prohibited from discussing internally what factors would be appropriate to consider when determining an appropriate fee to assess for a particular rating.

reviews to ensure the integrity of prior ratings when an analyst leaves S&P to work for a firm with whom the analyst had significant contact before he or she departed.

c. Analyst Compensation

S&P has a policy that generally provides that an analyst may not be compensated or evaluated based upon the amount of revenue that S&P derives from issuers or issues that the analyst rates or with which the analyst regularly interacts.[78] While S&P does not compensate its analysts based on the deals it rates or the ratings provided, like all employees, the amount of an analyst's bonus is tied to the overall success of S&P.

S&P established annual Global Compensation Guidelines between 2005 and 2008. In those guidelines, S&P describes three basic forms of compensation: base salary, short-term cash incentives, and long-term cash incentives. The base salary guidelines describe concepts such as merit increases and promotion, both of which are exclusively tied to an employee's performance. The merit increases come out of a manager's merit increase pool, the source of which is not described in S&P's policies. An employee's base salary also may be adjusted to address an inequity or to maintain a competitive position compared to the external marketplace, cost-of-living, and the organization's financial results.

S&P also awards short-term cash incentives. Managers within a business unit have the responsibility to differentiate the rewards based upon performance. Therefore, a high performer in a profitable division is likely to earn more incentives than a high performer in an unprofitable business. S&P also awards long-term cash incentives, in the form of employee stock options. There is little guidance about appropriate awarding of these options, except that they are generally reserved for senior level employees and S&P provides a certain maximum amount of options that should be awarded in a given year.

d. Securities Transactions by Employees

Exchange Act Rule 17g-5 prescribes that NRSROs must maintain and enforce policies and procedures to manage the conflict of employees owning securities of rated issuers or obligors and prohibits analysts or other persons involved in the approval of credit ratings from owning securities of the entity subject to the analyst's credit rating.[79] S&P has adopted a policy to prohibit its analytical employees and their immediate family members from buying or selling any security of an issuer within the employee's primary area of analytical responsibility or that is rated by the employee's team. S&P imposes an additional restriction on structured finance analysts from buying or selling any security of an issuer related to entities rated by the structured finance group that have been identified as providing market sensitive information.[80] S&P also has adopted a policy that prohibits

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78 See Section 2.11 of the S&P Ratings Services Code of Conduct (June 2007).

79 See Exchange Act Rule 17g-5(b)(6) and Rule 17g-5(c)(2).

80 See Section IV(F)(2) of Appendix 1 to the S&P Code of Ethics (February 2007).

an analytical employee from profiting from the sale of a security within 35 days of its purchase.[81]

S&P's Personal Security Trading System ("PSTS"), checks all S&P Ratings employees' requested transactions against a list of prohibited securities before forwarding the requested transaction on to a compliance examiner and business reviewer for final approval before an employee's transaction is "cleared" by S&P to be executed. S&P also uses its "Accu-rate" system to determine whether an analyst preparing to participate in a rating process is prohibited from doing so by reason of his or her ownership of a particular security. Moreover, S&P maintains relationships with a group of select broker-dealers that automatically report the securities transactions of employees to S&P.[82] If an employee holds an account with a broker-dealer that does not automatically report transactions to S&P, an employee is under the duty to self-report his or her transactions to S&P within ten days of the transaction.[83]

During the course of its examination, the Staff reviewed the emails and trading history of an S&P employee whose trading activity appears to present possible violations restricted security and short term trading restrictions. In this case, an analyst engaged in short-term trading on a number of occasions in his reported brokerage account. When the analyst learned of the new short-term trading policy, he stated his intention in an email to "quietly" move his money from his reported brokerage account, to a brokerage that did not participate in S&P's automatic reporting program, in order to engage in short term trading.[84]

Separately another S&P Analyst purchased shares of common stock of two investment banks who regularly participate in RMBS transactions.[85] The investment banks are not technically "issuers" of the RMBS transactions, nor are they included in the group of securities identified by the RMBS global practice leader as presenting a conflict. However, the Staff is nonetheless concerned that the trades may have violated the intent behind the policy restricting analysts' activity in "issuers" that their group rates because of the close association between the investment banks and a number of S&P-rated special purpose vehicles created for the purpose of issuing structure finance products.

The Staff recommends that S&P conduct a review of its policies and procedures for managing the securities ownership conflict of interest to determine whether such policies

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81 See Section IV(G) of Appendix 1 to the S&P Code of Ethics (February 2007). This short-term trading restriction went into effect on March 1, 2007.

82 See Section IV(C)(1) of Appendix 1 to the S&P Code of Ethics (February 2007).

83 See Section IV(C)(2) of Appendix 1 to the S&P Code of Ethics (February 2007).

84 Email from James Grundy, Associate Analyst, RMBS Group, S&P, to Alain Pelanne, Associate Director, Corporate & Government, Consumer Retail Healthcare, S&P (Mar. 5, 2007, 10:38 AM).

85 See Peter G. Graham trade confirmations from E*Trade showing that Graham bought C on July 26, 2007 and bought JPM on Jan. 24, 2008.

and procedures are reasonably designed to ensure that its employees' personal trading is appropriate and does not violate Exchange Act Rule 17g-5.

S&P's Response:

With respect to the issue of an employee's opening an undisclosed brokerage account for the purpose of engaging in short-term trading, S&P noted that the employee, James Grundy, did not disclose to S&P an account in a brokerage that Grundy identified in the relevant email to S&P. Subsequent examination of Staff confirmed that Grundy, in fact, opened an account at the non-participating brokerage. S&P acknowledged that, to the extent that such an account was opened, failure to report such account to S&P would have violated S&P's policies. In response to the issue raised by Staff regarding another employee's trading of a restricted issuer, S&P noted that the two common stocks noted, C and JPM, were not on the restricted list applicable to the employee, and therefore not in violation of S&P's policy.

S&P stated that it would take prompt steps to address any issues uncovered with respect the S&P's trading policy to the extent possible.

10. Internal Audit Program

The McGraw-Hill Companies, Inc. currently performs corporate-wide internal audits, including audits of the credit rating process.[86] S&P did not produce any examples of such audits, despite the Staff's request to see all audits of RMBS or CDO ratings services conducted between January 1, 2003 and November 30, 2007.[87]

Between 2003 and 2005, a member of its Global Regulatory Affairs Department performed file review of the structured finance group's ratings. S&P provided the Staff with copies of the review of the structured finance group's ratings and surveillance files conducted during that time period. The audit records demonstrate that the reviews were limited to evaluating the completeness of the ratings and surveillance files. S&P produced no audits performed in 2006 and 2007.

S&P's review of ratings and surveillance files was limited to a single page of factors, which did not vary between ratings and surveillance.[88] The factors were accompanied by a space to check "yes" or "no," with hand-written notes on the face of the checklist providing the only documentation of rationale behind a finding. S&P audit records

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86 S&P is a division of the McGraw-Hill Companies, Inc.

87 S&P represented to the Staff that it is in the process of developing and augmenting the S&P Compliance Department, as well as its internal audit program.

88 The factors reviewed included documents related to the key processes within the ratings and surveillance process, including analytical documents (*i.e.* LEVELS, CORE and SPIRE, etc.), the ratings/surveillance committee and appeal process, issuer notification of action, and rating dissemination.

revealed only four examples of the file reviewer's notifying management of the findings of the reviews and provided no examples of management's response to the reviews.[89]

The Staff recommends that S&P review whether its internal audit functions, particularly in the RMBS and CDO ratings areas, are adequate, and whether they provide for proper management's follow-up.

S&P's Response:

S&P noted that it had no formal internal audit program prior to its registration as an NRSRO, but that S&P did conduct periodic file reviews where it employed the checklist approach described by Staff. S&P noted that it has recently taken steps to provide greater and more in-depth oversight and monitoring, leading to a program that produces both formal audit findings and recommendations.

S&P also stated that it would take further steps to review the adequacy of its internal audit program. S&P stated that it is working to expand and formalize its compliance and monitoring program and working on procedures for monitoring adherence to its requirements. Among these procedures are: an email monitoring program, creation and implementation of a compliance monitoring database, in-person, onsite, internal reviews of policy compliance, and coordination with the internal audit department of McGraw-Hill. S&P also noted that it recently hired experienced staff to address these issues. S&P has also committed to re-evaluate and formalize S&P's oversight function, in a number of ways including, the engagement of an external firm to review S&P's compliance processes, the establishment of a board to handle all new Ratings' policies and procedures, and separating the quality and criteria governance responsibilities into two separate functions.

11. Conclusion

The Staff intends to send a deficiency letter to S&P outlining its findings and recommendations. The Staff will request that S&P provide a written response within 30 days outlining any remedial action planned or already taken to address the findings and recommendations in the letter. S&P will be asked to include in its response a timetable for implementing the proposed remedial action. The letter will also request that S&P send OCIE a written confirmation in 12 months detailing the status of implementation of each remedial action.

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[89] Memorandum from Tonya Tullch, Compliance Officer, S&P to Tom Gillis, Managing Director, Research and Criteria, S&P (October 28, 2004), Memorandum from Tonya Tullch, Compliance Officer, S&P to Tom Gillis, Managing Director, Research and Criteria, S&P (January 22, 2003), Memorandum from Tonya Tullch, Compliance Officer, S&P to Tom Gillis, Managing Director, Research and Criteria, S&P (March 13, 2003), Memorandum from Tonya Tullch, Compliance Officer, S&P to Tom Gillis, Managing Director, Research and Criteria, S&P (May 9, 2003).

From: Mazataud, Paul
Sent: Tuesday, June 20, 2006 9:18 PM (GMT)
To: Kirnon, Noel <Noel.Kirnon@moodys.com>
Cc: Le Henaff, Anne <Anne.LeHenaff@moodys.com>; Levington, Gareth <Gareth.Levington@moodys.com>
Subject: My discussion with Pascale Viala (CIFG)

I had lunch with Pascale today.

Most of our discussion was about Cash CLOs. She said she has recently heard a lot of negative feedback on Moody's from several managers and bankers. She mentioned four points

1. **Shadow ratings**. Managers are not happy with Moody's shadow ratings. She said that this was their most important point. Unfortunately it is really hard to interpret this comment as she had never heard of the switch from MKMV to the new dedicated team. Consequently, I do not know if the criticisms were against the MKMV process or against the new process. Some of their comments seemed related to MKMV ("managers like to talk to persons who understand corporate credits").

2. **Resources**: Moody's does not have enough resources to rate CLOs. Moody's is too slow. Moody's does not understand that the time it takes to launch a CLOs is getting shorter and shorter. Moody's cannot cope with this more recent pace. (Note that this comment is consistent with what Uddjaval Desai from JP Morgan told us).

3. **Documentation review:** Moody's "requires" many more "structural features" than its competitors (Note that this comment is consistent with what John Convery from DB told us). I told her that all these "requirements" are described in public reports and are well accepted in the US market. She agrees with it but she says that it does not mean that European managers accept them.

4. **Managers are tired of large "grids".** They would rather prefer a model based test like what S&P and Fitch do. Pascale disagrees with these managers. As a wrapper, she hates that the credit quality of what she wraps is linked to a black box. Also, she hates the fact that the black box can change from time to time.

Because of these four points, she says that several managers are considering doing deals without Moody's. Mizuho (Harvest IV) is one of them. She encourages us to make sure that we pay a visit to large European CLO managers (note that we recently paid a visit to Mizuho).

A few other things she said:

a. The market does not like Moody's for CDO of ABS either because of our lower ratings on CMBS assets

b. She thinks that the European CRE CDO market will be big and worth investing in. However, she does not expect any deal to be launched before 2007.

c. She does not believe in the development of the project finance CDO market because of the low supply.

d. She considers that the synthetic market is quasi dead.

e. She recently recruited a senior person from S&P London (this lady will start at CIFG in early July).

f. She recommends that we hire senior persons of S&P and Fitch to address our resource problem. She sent me an email with three names she specifically recommends (two from S&P and one from Fitch).

I'll give you a call to propose an action plan.

Thanks,

Paul

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1151

From: Vonderhorst, Brian
Sent: Friday, January 19, 2007 9:38 AM
To: Warrack, Thomas; Barnes, Susan
Subject: FW: Panel questions

here are the proposed questions for the rating agency panel...2 moderators remember...

-----Original Message-----
From: Yalamanchili, Kishore [mailto:Kishore.Yalamanchili@blackrock.com]
Sent: Tuesday, January 16, 2007 6:24 PM
To: Glenn.Costello@fitchratings.com; Ross, Justin; mnelson@dbrs.com; scott_mason@sandp.com; Kornfeld, Warren; Vonderhorst, Brian
Cc: jross@americansecuritization.com
Subject: Panel questions

Here are the questions for our panel. I am sending them again as some of you might have not received all of them. We will have a followup call on Thursday morning.

Thanks

Josh's questions

1) What new model enhancements are being worked on?
2) What is work is being done to improve the transparency of the rating process for HELOCs and Fixed Rate 2nds
3) What adjustments outside of the models are being made to Loss Coverage Levels, (ie Adjustments for Reserves, Mtg History, Time Since Foreclosure and BK)
4) What is the Outlook/Consequence to deals where the Originator/Seller has gone Bankrupt. What Originator adjustments are being made to levels.
5) What is the approach to rating transactions with LPMI as a form of credit enhancement. What claims denial assumptions are made?

Kishore's questions

We have seen rapid weakness in collateral performance in 2006 in the home equity sector. In the past we witnessed similar detoriation in some auto pools soon after issuance. There were also cases of originator/servicer problems that finally culminated in them filing for bankruptcy. What are the steps you are taking to detect adverse changes in collateral , issuer or servicer either before deals are issued or on an ongoing basis after issuance?

As an investor, I believe that deal triggers are highly favorable to issuers/residual holders. We have seen cases where collateral pool may be performing poorly, yet the subordinate classes and residual holders received cash flows due to ineffective triggers. Some of you have put forward interesting proposals to address this. Going forward, how are you addressing this critical issue?

Frequently when talking to rating analysts regarding new issues, the analyst mentions the agency model's output without any explanation for some of the things we noticed in the deal. These items might actually merit a discussion as to how the agency accounted for them in the ratings process. What steps are you taking to better communicate and comfort investors about your rating process? In other wards, how do we break the "black box" that determines enhancement levels?

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Report Footnote #1152

Declining home prices, EPDs, originator/issuers filing for bankruptcy or up for sale are some of the important trends in ABS sectors. How are you addressing these in your rating process in 2007? Are there other trends that investors should be aware of? Are there any significant changes in credit enhancement levels due to these trends?

We occasionally see deals put on credit watch and taken off watch list. Is there a method to these seemingly arbitrary actions? What are your policies regarding ratings changes, in particular, how often do you revise them? what are the triggers for revisions?

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Footnote Exhibits - Page 0726
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DATE: 07/16/2007
TIME: 18:02:02
AUTHOR: Snailer, Joseph
RECEIPIENT: Liu, Qingyu (Maggie); Wang, Jinyang; Arora, Rakesh
CC: Agarwal, Navneet
SUBJECT: RE: Notching Status

Thanks for asking - wouldn't want you all to do a bunch of work and have to re-do it.

-----Original Message-----
From: Liu, Qingyu (Maggie)
Sent: Monday, July 16, 2007 6:02 PM
To: Snailer, Joseph; Wang, Jinyang; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

I see. Thanks for the clarification.

-----Original Message-----
From: Snailer, Joseph
Sent: Monday, July 16, 2007 6:00 PM
To: Liu, Qingyu (Maggie); Wang, Jinyang; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

The ratings you are generating should reflect what we would have rated the deals when they were issued knowing what we knew then and using the methology in effect then (ie, using the OC model we built then). Let me know if you have any questions.

-----Original Message-----
From: Liu, Qingyu (Maggie)
Sent: Monday, July 16, 2007 5:18 PM
To: Wang, Jinyang; Snailer, Joseph; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

All,

I have a question when I am running the OC model especially models from the first half of 2006. Some deals in the first half of 2006 we already downgraded within last week or last month. If we were to rate the bonds using the OC model we built then, the bond probably would be a Ba level. However, given today's market condition, the bond we rated Ba then we already downgraded to B or Caa last week. Shall we still provide rating for those bond we did not rate then using the old methodology and the old loss coverage number?

Thanks,
Maggie

-----Original Message-----
From: Wang, Jinyang
Sent: Monday, July 16, 2007 10:18 AM
To: Snailer, Joseph; Arora, Rakesh
Cc: Liu, Qingyu (Maggie)
Subject: RE: Notching Status

Joe:

Maggie and her team have completed 21 deals from second half of 2006.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1159

There are 47 deals from the first half of 2006 which they will complete by next Wednesday. 5 deals from Jan 2006 was completed during the previous study.

-Zoë

-----Original Message-----
From: Snailer, Joseph
Sent: Monday, July 16, 2007 9:30 AM
To: Wang, Jinyang; Arora, Rakesh
Subject: Notching Status

Could you let me know where we stand on the OC model runs? The weekly task force meeting is tomorrow and I would like to update them.

Thanks.

From: Kirnon, Noel
Sent: Friday, June 1, 2007 1:50 PM (GMT)
To: Mirenda, Anthony (Tony) <Anthony.Mirenda@moodys.com>; Piels, Daniel <Daniel.Piels@moodys.com>; Duca, James <James.Duca@moodys.com>
Cc: Mazataud, Paul <Paul.Mazataud@moodys.com>; Adler, Michael <Michael.Adler@moodys.com>
Subject: RE: Financial Times inquiry on transparency of assumptions

Tighter spreads on recent deals also belie Paul's assertion. See below.

CMBS Market Tone Improves; Bond Spreads Tighten
Thursday, May 31, 2007
Commercial Real Estate Direct Staff Report
The CMBS market, after suffering nearly three straight months of spread widening, is starting to perk up substantially. Last Thursday, a $3.2 billion transaction, Banc of America Commercial Mortgage Trust, 2007-2, saw its 30 percent subordination AAA bonds price at 30 basis points over swaps. That was a 1 bp tightening from the deal immediately preceding it, Morgan Stanley Capital I Trust Inc., 2007-IQ14.

The market's tone has continued to improve since then. Spreads on the secondary market tightened even more, with long AAA spreads at 25.5-33 bp, down from 27.5-35 bp a week earlier. And lower in credit, the tightening has been even more pronounced, with BBB bonds quoted at spreads of 175-195 bp over swaps, compared with 185-195 bp a week earlier.

Meanwhile, two new conduits were on the cusp of being priced, the $2.9 billion ML-CFC Commercial Mortgage Trust, 2007-7, and the $3.3 billion JPMorgan Chase Commercial Mortgage Trust, 2007-CIBC19. And both were seeing tight levels. Their super-senior AAA bonds were being shopped at 29-30 bp over swaps, while their BBB bonds were offered at 160-165 bp over swaps. That compares with a spread of 195 bp over swaps for the BBB bonds from Wachovia Commercial Mortgage Trust, 2007-C31, which priced on May 11.

The tightening was attributed to three key factors: investors might have decided they had overreacted in pushing spreads as wide as they did over the past few weeks; lenders have finally started to tighten their lending standards, and Moody's Investors Service last week reassured the market that it would not downgrade deals that were recently priced unless they had credit issues.

-----Original Message-----
From: Mirenda, Anthony (Tony)
Sent: Friday, June 01, 2007 9:44 AM
To: Piels, Daniel; Duca, James; Kirnon, Noel
Cc: Mazataud, Paul; Adler, Michael
Subject: RE: Financial Times inquiry on transparency of assumptions

Noel, Jim,

While I have not been closely involved in this story, it seems clear from Dan's note that Paul Davies does not fully understand or is not convinced of our position. I understand that we have a solid story to tell here, if so it could be a good opportunity and time well spent to walk him through our messages and reinforce our arguments.

tony

-----Original Message-----
From: Piels, Daniel
Sent: Friday, June 01, 2007 7:33 AM
To: Duca, James; Kirnon, Noel
Cc: Mazataud, Paul; Adler, Michael; Mirenda, Anthony (Tony)

Subject: FW: Financial Times inquiry on transparency of assumptions
Importance: High

Good Morning Jim and Noel,

Jim, by way of introduction, my name's Dan Piels and I handle SFG media relations in Europe. Paul Mazataud spent 20 minutes this morning speaking with Paul Davies, Financial Times Structured Finance reporter, providing guidance closely in line with what Noel and Brian outlined below.

Paul Davies has a copy of the CMBS Conduit Subordination Adjustment report and would like to discuss it further with you, Jim. While Davies acknowledged our arguments, he expressed scepticism that given the magnitude of the changes, they would not lead to more important adjustments of expected loss that would in turn lead to potential downgrades. Please advise as to your interest and availability to speak with him - his deadline is today and he's hoping to write an article this afternoon (London time). He's free after 9:30 AM New York time. Davies' tone this morning was friendly but critical. I look forward to hearing from you and would be happy to arrange a conference call.

Regards,

Dan

Daniel Piels
Rating Communications
Moody's Investors Service
daniel.piels@moodys.com
O: +44 20 7772 8727
M: +44 7920 801 833

-----Original Message-----
From: Clarkson, Brian
Sent: 25 May 2007 16:21
To: Kirnon, Noel; Scholz, Detlef; Drevon, Frederic; Weill, Nicolas; Duca, James
Cc: Piels, Daniel; Mazataud, Paul
Subject: Re: Financial Times inquiry on transparency of assumptions

The only thing I would add is the frequency of monitoring and that when any deal nears the lower end of our expected loss assumption we would

Alert the market by putting the transactions on review for possible downgrade.

-----Original Message-----
From: Kirnon, Noel
To: Scholz, Detlef; Drevon, Frederic; Clarkson, Brian; Weill, Nicolas; Duca, James
CC: Piels, Daniel; Mazataud, Paul
Sent: Fri May 25 11:12:26 2007
Subject: RE: Financial Times inquiry on transparency of assumptions

I guess that the stock answer would be that we do assess the impact of model adjustments and credit enhancement adjustments on the inventory of outstanding deals. Every rating we assign has a range of expected losses. Typically new issuances are close to the middle of that range. We do not downgrade until expected losses fall outside that range.

In assigning new ratings we are always reevaluating the assumptions that we make when assigning ratings. When there is a market shift, we want to evaluate that shift and incorporate that evaluation into our ratings as soon as possible. Gradual shifts typically would not result in adjustments to recently assigned ratings.

-----Original Message-----
From: Scholz, Detlef
Sent: Friday, May 25, 2007 10:53 AM
To: Kirnon, Noel; Drevon, Frederic; Clarkson, Brian; Weill, Nicolas; Duca, James
Cc: Piels, Daniel; Mazataud, Paul
Subject: FW: Financial Times inquiry on transparency of assumptions

Heads-up/note on further question that the FT (Paul Davis) are pursuing: Why don't we reassess all outstanding bonds when we announce to change our model assumptions for future transaction? He is focussing on US CMBS's recent changes, but this question applies across the board. May I suggest to work on a joint response as this question will come up on Thursday?

-----Original Message-----
From: Piels, Daniel
Sent: 25 May 2007 16:28
To: Kolter, Daniel; Palimeri, Ifigenia; Philipp, Tad
Cc: Scholz, Detlef; Adler, Michael
Subject: Financial Times inquiry on transparency of assumptions

Please see below an email from Paul Davies, the FT structured finance reporter. Are we in a position to provide clarity on the transparency of assumptions? Is he referring to the report we put out in the US about phasing in an increase to CMBS conduit subordination? Please advise.

-----Original Message-----
From: Paul.J.Davies@FT.com [mailto:Paul.J.Davies@FT.com]
Sent: 25 May 2007 15:15
To: Piels, Daniel
Subject: Re: Breakfast meeting next week w/Brian Clarkson of Moody's

Of course, please invite him. I've never actually met him myself so would be good. I also want to talk either then or at another time, but soon, about transparency of not just methodology but also assumptions. The hook is the recent changes to CMBS in the US which mean that future ratings are not directly comparable to older ratings, while other ratings do not get re-assessed under new assumptions... This is a broad characteristic of the evolution of structured finance ratings I think and there are many other examples, so the questions are really about how and why in such situations the new standards are not applied retrospectively...

I am thinking of writing a piece about this and will be talking to other agencies also. Oh and by the way, I'll be stuck doing DIY all weekend!

Best regards

Paul J Davies
Capital Markets Reporter

Financial Times

0207 873 4838
Paul.J.Davies@ft.com

"Piels, Daniel" <

<Daniel.Piels@moo dys.com> To: <Paul.J.Davies@FT.com><

cc:

Subject: Breakfast meeting next week w/Brian Clarkson of Moody's

25/05/2007 12:41

Hi Paul,

Got any plans for the long weekend? Sadly, I'm not going anywhere.

Just to let you know, Paul Mazataud and Neal Shah, co-head of EMEA RMBS team will also be joining us on Thursday at 1 Lombard Street, as you indicated you wanted to talk about UK subprime.

I was also wondering if you would object to me inviting to the breakfast John Plender, the FT Insight columnist. He wrote a column this week about a stretched credit cycle that caught our attention. Is this amenable? If not, we're happy to arrange something separate with John. Please advise.

Regards,

Dan

Daniel Piels
Rating Communications
Moody's Investors Service
daniel.piels@moodys.com
O: +44 20 7772 8727
M: +44 7920 801 833

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From: Momin, Inayat
Sent: Tuesday, July 12, 2005 2:03 PM
To: Jordan, Pat
Cc: Vega, Juan; Gillis, Tom; Gilkes, Kai; Cantor, David; Tesher, David; Carrier, Henry; Anderberg, Stephen
Subject: RE: Delay in Evaluator 3.0 incorporation in EOD/CDOi platform

Pat,

Thanks of the updates.
It would take 2 to 3 weeks for one fulltime resource to replace E2.4.3 with E3.0

Inayat

-----Original Message-----
From: Jordan, Pat
Sent: Tuesday, July 12, 2005 12:16 PM
To: Momin, Inayat
Cc: Vega, Juan; Gillis, Tom; Gilkes, Kai; Cantor, David; Tesher, David; Carrier, Henry; Anderberg, Stephen
Subject: RE: Delay in Evaluator 3.0 incorporation in EOD/CDOi platform

Inayat,

Thank you for the comparison reports. At this point we are not ready to proceed with E3, nor do we know when we will be. So please continue under the

the assumption that E2.4.3 will be the version available on the CDOi platform. Our goal is to determine what changes we want to make to the Beta E3, test the impact and decide if/when to proceed with a roll-out, but I'll be surprised if that all happens any sooner than September, and could take longer.

How long and how many resources will it take to replace E2.4.3 once we have decided on E3?

Pat

-----Original Message-----
From: Carrier, Henry
Sent: Tuesday, July 12, 2005 10:11 AM
To: Momin, Inayat
Cc: Vega, Juan; Gillis, Tom; Gilkes, Kai; Jordan, Pat; Cantor, David
Subject: RE: Delay in Evaluator 3.0 incorporation in EOD/CDOi platform

Inayat,

The decision to go to Evaluator 3.0 in EOD/CDOi platform is an analytical matter. Pat Jordan will make the final decision. Until further notice, assume that we are going with the older version.

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Wall Street & The Financial Crisis
Report Footnote #1167

Henry

-----Original Message-----
From: Momin, Inayat
Sent: Tuesday, July 12, 2005 10:05 AM
To: Carrier, Henry; Cantor, David
Cc: Vega, Juan
Subject: RE: Delay in Evaluator 3.0 incorporation in EOD/CDOi platform

Henry/ David:

Per your suggestion, a comparison report has been provided two weeks ago.
We would like to have a feedback on this, so that we can plan our work about switching to the v3.0 engine.
Please let us know if any decision has been made regarding switching to v3.0

Thanks,
Inayat

-----Original Message-----
From: Momin, Inayat
Sent: Tuesday, June 28, 2005 12:54 PM
To: Carrier, Henry; Cantor, David; Chen, John; Tomlinson, Sandra; Murray, Tom; Scanlin, Kate; Anderberg, Stephen; D'Erchia, Peter; Galli, Stephen; Gillis, Tom; Watson, Bob; Vega, Juan; Sargsyan, Eduard; Drexler, Michael; Jordan, Pat; Mydeen, Shaik

Subject: RE: Delay in Evaluator 3.0 incorporation in EOD/CDOi platform

All:

Here are the comparison reports. Please let us know when EOD should be switched to CDO Evaluator v3.0

Last 3 months historical numbers for the approved deals:
ROC numbers => \\nycsvr04\Group_Sfdb\EOD-ROC\ROC-Report\27-JUN-2005\ROC-HIST-Comp-2-5-2-Vs-3-0.xls
SDR numbers => \\nycsvr04\Group_Sfdb\EOD-ROC\ROC-Report\27-JUN-2005\SDR-HIST-Comp-2-5-2-Vs-3-0.xls

Current numbers for the approved deals using ratings as of June-24-2005:
ROC numbers => \\nycsvr04\Group_Sfdb\EOD-ROC\ROC-Report\27-JUN-2005\ROC-DAILY-Comp-2-5-2-Vs-3-0.xls
SDR numbers => \\nycsvr04\Group_Sfdb\EOD-

~~ROC\ROC-Report\27-JUN-2005\SDR-DAILY-Comp-2-5-2-~~
Vs-3-0.xls

Thanks,
Inayat

-----Original Message-----
From: Carrier, Henry
Sent: Tuesday, June 21, 2005 5:55 PM
To: Jordan, Pat
Cc: Cantor, David; Chen, John; Tomlinson, Sandra; Murray, Tom; Scanlin, Kate; Anderberg, Stephen; D'Erchia, Peter; Galli, Stephen; Gillis, Tom; Watson, Bob; Momin, Inayat; Vega, Juan; Sargsyan, Eduard; Drexler, Michael

Subject: Delay in Evaluator 3.0 incorporation in EOD/CDOi platform

Pat,

Please forward this e-mail as appropriate.

As we discussed, I have asked Inayat Momin to delay the incorporation of Evaluator 3.0 (E-3) in the EOD/CDOi platform until you give us the ok. We will continue to use version 2.4. My understanding is that we need to address the impact of new default and correlation tables on existing ratings before we release E-3.

Inayat has offered to run previously approved deals for CDOi (about 150 US Cash deals, w/ bonds or loan portfolios) under both e2.4 and e3.0. This should help you assess the impact of the changes. He will run the two analyses for the latest 3 months. The noise form any data issue should be negligible.

Note that when we do decide to incorporate E3 in the platform, we will need time to reprocess all the deals and their reports. This may delay the launch. Further all deals and all their reports will show the results from E3.

Henry

Henry J. Carrier
Managing Director, Strategic Operations

Structured Ratings
Standard & Poor's Credit Market Services
55 Water Street
41st Floor
New York, NY 10041
Direct: 212-438-6635
Fax:: 212-438-0086
Main: 212-438-2000
henry_carrier@standardandpoors.com

Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0737
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From: Tesher, David
Sent: Monday, May 22, 2006 10:26 AM
To: Kambeseles, Peter
Subject: FW: Draft #2: E3 Surveillance Policy for Cash CDOs

What do you think before I send this out ...

-----Original Message-----
From: Anderberg, Stephen
Sent: Friday, May 19, 2006 5:24 PM
To: Jordan, Pat; Tesher, David; Inglis, Perry; Collingridge, Simon
Subject: Draft #2: E3 Surveillance Policy for Cash CDOs

Pat and David,

I've made changes to reflect our discussion this afternoon - let me know if I've failed to capture anything properly. I'll be in the all-day VCDS training session on Monday, Tuesday and Wednesday but will can stop by in the evening if you have any concerns.

Perry and Simon,

FYI, I'm forwarding this at Pat's request. Also, I apologize for stating the obvious but this needs to kept from Paul's eyes

Thanks!

Steve

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Prior to Transition Date (in preparation for final implementation of E3 for cash CDOs):

- A large majority of the pre- E3 cash flow CDOs will be run through E3 in batch processes to see how the ratings look within the new model
- In the US, the Primary side will handle batch runs for 2005 & 2006 deals; CDO Surveillance will produce batch runs for deals originated 2000 through 2004
- Ratings falling ***more than*** 3 notches +/- from the current tranche rating in the batch process will be reviewed in detail for any modeling, data, performance or other issues
- If any transactions are found to be passing/failing E3 by more than 3 notches due to performance reasons they will be handled through the regular surveillance

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process to see if the ratings are stable under current criteria (i.e., if they pass E2.4.3 using current cash flow assumptions the ratings will remain unchanged)

- If any transactions are found to be passing/failing E3 by more than 3 notches due to a model gap between E2.4.3 and E3, they will be reviewed by a special E3 committee, including representatives from the surveillance, primary CDO ratings and criteria groups.
- The special committee will review the "model gap" deals by looking at the results of cash flow analysis generated under both E2.4.3 and E3 as well as looking at other factors - structure, collateral, management, etc. - to determine whether or not an action will be required in connection with the E3 rollout
- Transactions failing E3 purely due to the change in modeling assumptions - i.e., not due to any structural, management or collateral weaknesses - will not have ratings adjusted by the special committee

For the synthetic CDOs, the pre-E3 transactions were run through E3 Low immediately before the release of the model to see if they fell within the "tolerance band" established for the pre-E3 deals under the new model. The 3 notch gap discussed above is the equivalent "tolerance band" for the cash flow deals.

Surveillance Policy for Cash flow CDOs Post Final E3 release (i.e., following the transition date and transition date steps taken above):

- Transactions rated under E2.4.3 will be monitored and placed on CreditWatch based solely on E2.4.3, and GROC will be generated for these deals under E2.4.3 for both surveillance and publishing purposes
- Cash flow runs for E2.4.3 deals will be generated, reviewed and taken to committee if (and only if) a transaction fails GROC under E2.4.3; the committees for these transactions will review cash flow runs generated under both models (E2.4.3 and E3.x). This is the only point in the surveillance process for which E3.x cash flow analysis will be generated for transactions rated with E2.4.3. The results from E2.4.3 will be used to arrive at the committee's rating decision, while the E3.x results will be reviewed on an ongoing basis to monitor the gap in results produced by the two models
- Although it is contemplated that transactions rated using E2.4.3 will continue to be monitored using E2.4.3 following the transition date, Standard & Poor's reserves the right to surveill its rated transactions using the appropriate model for its credit opinion, the performance of the transactions, or for any other reason
- Transactions rated under E3 will be monitored and surveilled using E3, and GROC will be generated for these deals under E3 for both surveillance and publishing purposes
- Transactions rated prior to the final transition date using E3 SDRs and E2.4.3 BEDRs will be monitored and surveilled using E3 SDRs and E2.4.3 BEDRs, and GROC will be generated for these deals using E3 SDRs and E2.4.3 BEDRs for both surveillance and publishing purposes

Thanks,

Steve

Stephen Anderberg
Director, Structured Finance Ratings
stephen_anderberg@standardandpoors.com

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041-0003
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(212) 438-2664 fax

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From: Parisi, Frank
Sent: Monday, March 12, 2007 10:13 AM
To: Griep, Cliff; Gillis, Tom; Barnes, Susan; Warner, Ernestine
Subject: RE: Comments on sub prime article

Cliff,

Thanks for your comments and thoughts. Clearly some are editorial and some relate to our criteria and policies; the former can be quickly addressed. To one of your specific points, Tom and I have been looking at the performance of the 2005 vintage as well, and it looks like that too may need to be addressed as you've suggested.

Thanks, Frank

> -----Original Message-----
> From: Griep, Cliff
> Sent: Monday, March 12, 2007 9:53 AM
> To: Gillis, Tom; Parisi, Frank; Barnes, Susan; Warner, Ernestine
> Subject: Comments on sub prime article
>
> We should lead with our projections for performance and the
> consequent ratings impact.
>
> I believe david wyss mentioned an actual decline in nominal
> home prices nationally has already occured. The article
> should incorporate.
>
> The statement of 2006 vintage being only 50 percent more
> risky than 2000 vintage mat understate the risk. We must
> cover the changes in product type, the interest rate risk in
> more detail, and the dramatuc increase in limited income
> documentation. Do we have any measure on historic performance
> of no doc lending in sub prime? Should we say more about the
> performance impact of confirmed seconds, or ltv?
>
> It would be helpful to compare market context. We currently
> have meaningful bankruptcies of sub prime lenders, large
> losses reported by some banks, the regulators forcing tighter
> underwriting standards, etc. This is all different than 2000.
>
> Hasn't loan purpose been more risky as well. Do we track
> speculative activity, for investment and second home on a
> macro level, and what is it telling us about comparisons?
>
> Can we size the payment shock exposure relative to payment or
> capacity?
>
> Our loss estimates are within the context of our criteria.
> Are we completely satisfied that our criteria captures all
> the relevant risk? Should we defend our criteria more explicity?
>
> Why did the criteria change made in mid 2006 not impact any
> outstanding transactions at the time we changed it,
> especially given the magnitude of the change we are

> highlighting in the article? Should we apply the new criteria
> now, given what we now know? If we did, what would be the impact?
>
> Why are we focused only on the 2006 vintage? Are we
> suggesting 2005 will not have issues?
>
> What are the a, aa, and aaa, levels of credit support for the
> first half 06 vintage? Should we mention these?
>
> I don't think the readers will understand what we mean when
> we say a single b scenario, or a bb scenario. We should explain this.
>
> We seem to disparage market views by using the terms
> "rhetoric" and "hype". We should simply state our views
> authoritatively without characterizing others.
>
> Several of the comparisons on the first page require
> clarification. I.e. Serious delinwquency in 06 vintage is
> compared to delinquency in 2000 vintage.
>
> We cite imprudent underwriting standards as a reason for the
> concern about 2006 vintage. What is our view of underwriting
> standards and how does this view impact our view and analysis?
>
> Given the overall projections, should we be taking more
> aggressive rating actions on bbb and speculative grade traunches?
>
> Were the criteria adjusted between 2000 and 2006 and are
> these criteria changes relevant? Should they be covered?
>
> Should we review our no doc lending criteria or are we
> satisfied it adequately captures the risk?
>
> Should we comment in greater detail on the changes in product
> mix between 2000 and 2005 and 6?
>
> Should we comment on the overall impact on servicing expected
> from the current developments, given new century, etc.
>
> Sent from my GoodLink synchronized handheld (www.good.com)
>

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DATE: 05/15/2007
TIME: 17:16:08
AUTHOR: Dronov, Alexey (CALYON)
RECEIPIENT: May, William
CC:
SUBJECT: RE: Stratford CLO

Bill - the timing for Stratford has been pushed back one month, so we will be pricing the deal in june. Should we still use the old methodology?

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas
New York, NY 10019
212-261-7497 (Office)
617-448-2074 (Mobile)
alexey.dronov@us.calyon.com

From: May, William [mailto:William.May@moodys.com]
Sent: Wednesday, April 11, 2007 6:45 PM
To: Dronov, Alexey (CALYON)
Subject: RE: Stratford CLO

Alex,
Go ahead and use the old methodology.
Regards,
Bill

-----Original Message-----
From: Dronov, Alexey (CALYON) [mailto:Alexey.Dronov@us.calyon.com]
Sent: Wednesday, April 11, 2007 4:14 PM
To: May, William
Subject: RE: Stratford CLO

Bill,

We intend to price the Stratford deal in May but closing will be in June. Should we use the old methodology or the new one? I talked to Danielle Nazarian and Rudy Bunja about some of the LCDS features of the deal and they thought it would make sense to use the old methodology, but suggested that I double check with you. Thanks.

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas
New York, NY 10019
212-261-7497 (Phone)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1175

617-448-2074 (Mobile)
alexey.dronov@us.calyon.com

From: May, William [mailto:William.May@moodys.com]
Sent: Thursday, April 05, 2007 3:15 PM
To: Dronov, Alexey (CALYON)
Cc: Dupont-Madinier, Cyprien (CALYON)
Subject: RE: Stratford CLO

Alexey,
Your analysts are:
Quant: Elina.kolmanovskaya@moodys....com <mailto:Elina.kolmanovskaya@moodys.com>. # is 553-7852.
Legal: mark.froeba@moodys.com <mailto:mark.froeba@moodys.com>. # is 553-4149.
Regards,
Bill

-----Original Message-----
From: Dronov, Alexey (CALYON) [mailto:Alexey.Dronov@us.calyon.com]
Sent: Monday, April 02, 2007 7:15 PM
To: May, William
Cc: Dupont-Madinier, Cyprien (CALYON)
Subject: Stratford CLO

Bill,

We are working on a 700M-1B CLO for Highland Asset Management. The deal is a standard CLO except that potentially the entire collateral pool can consist of LCDS. The AAA tranche will be a revolver like the A-2 tranche in the duane street deals I structured at Morgan Stanley. The manager will have the ability to block portions of the revolver to invest in LCDS on an unfunded basis, also like in the duane street deals. The timing for the deal is as follows:

pricing - beg of may
closing - end of may

Please let us know who will be working on the deal on your end.

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas
New York, NY 10019
212-261-7497 (Phone)
617-448-2074 (Mobile)
alexey.dronov@us.calyon.com

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From: Mcdermott, Gail
Sent: Thursday, December 09, 2004 6:07 AM
To: Jordan, Pat
Subject: FW: Staffing and Allocation

Per my voice mail this is the e-mail I was referring too.

Gail

-----Original Message-----
From: Mcdermott, Gail
Sent: Friday, December 03, 2004 11:10 AM
To: Losice, Abe; Jordan, Pat
Subject: RE: Staffing and Allocation

Thanks Abe, would ABCP needs be met by the changes stated in the chart below?

Pat and Abe,
The below allocation chart results either in a status quo of resources or a net reduction of staff to RMBS (see reasoning below). I am trying to put my hat on not only for ABS/RMBS but for the department and be helpful but feel that it is necessary to re-iterate that there is a shortage in resources in RMBS. If I did not convey this to each of you I would be doing a disservice to each of you and the department. As an update, December is going to be our busiest month ever in RMBS. I am also concerned that there is a perception that we have been getting all the work done up until now and therefore can continue to do so.

We ran our Staffing model assuming the analysts are working 60 hours a week and we are short resources. We could talk about the assumptions and make modifications but the results would be similar. The analysts on average are working longer than this and we are burning them out. We have had a couple of resignations and expect more. It has come to my attention in the last couple of days that we have a number of staff members that are experiencing health issues.

This shortage in staffing assumes that the only projects we work on next year are SPIRE and LEVELS maintenance. In reality there are other operational items that come up (NIKU, Documentum, Criteria Encyclopedia and CORE redesign) in addition to the exhaustive criteria list which has over 45 issues that need or should be addressed to keep us positioned at the forefront of the marketplace

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most notably Predatory Lending issues, cashflow criteria, Commercial criteria, etc. that do take up time.

I have also thought about our discussion with Joanne in terms of focusing on are top tier clients which is approximately 80% of our revenue. This would result in a reduction (+ or -) of $25 mil. dollars. If this is possible we would have to lay the ground work in terms of managing expectations since we are asked on a weekly basis (sometimes daily) from finance what are revenue estimate is.

My reasoning for stating that the chart results in a net reduction are as follows:

1. As Abe mentioned, some of the changes are on paper only. For example increasing Kanika, Monica and Justin's allocation would not result in productivity gains since they are working more hours in RMBS than their current allocation reflects;

2. We received authorization yesterday to hire replacements for Linda (AD) and Guy (Assoc.). We may downgrade the AD req. to an Associate req. depending on the pool of candidates. It will take a couple of years to get these replacements to be as productive as Linda and Guy.

3. Brian Grow will be leaving next year for Australia which will be a loss of 1FTE. Brian is one of our top ADs.
4. Mark Levin currently allocated 50% to RMBS posted for the commercial openings.
5. Increases of Smith, Devone, Goldenberg, from 50% to 100% and adding Rocha (if possible) will not fill the above voids.

I would like to make the following recommendations:

1 Consider asking if there are any existing reqs. in the department that have not been filled that could be allocated to ABS/RMBS.

2. Gail and Abe discussing further with Brian O'Keefe if there are any Directors currently available in CDOs to be allocated elsewhere (50%).

3. Discussing further whether there are any members of staff not being fully utilized.
4. Requesting adds to staff if #1 and #2 are not feasible.
5. Abe and I make a recommendation to Pat J. on the bullet points related to CDOs, surveillance and where to start the replacements/(new hires?) based on answers to #1-4.

Thank you for you attention to this matter.

Gail

-----Original Message-----
From: Losice, Abe
Sent: Friday, December 03, 2004 12:01 AM
To: Mcdermott, Gail; Jordan, Pat
Subject: Staffing and Allocation

Gail and Pat,

We have not yet reviewed the results of last week's meeting regarding staffing and allocation. Here are a list of issues that actions have been taken or questions are left open:

- Pat, you have reported to Peter that we will not currently allocate to CMBS Surveillance.
- I delivered to Kim the resumes of the applicants for the CMBS positions (Digney, Levin, Zuliani, and Homa).
- I reported to Diane Audino that we are not circulating the Associate posting for LASF and we will not allocate for it from ABS/ RMBS.
- We had discussed adding to the analytical pool currently. Resignations of Wu and Maurice in addition to transfer of Wrede could give rise to replacement reqs. How many are we authorized for? Are we adding above these 2 or 3 in recognition of having hired a small Associate class of '04? Would we hire directly for RMBS or would we hire for LOC, Synthetics, and Surveillance? How much has been shared with Debbie O'Connor's group?
- Stephanie Payne has declined. Only 2 of the '04 summer associates have agreed to join (Matt and Steve). In addition to only one hire from summer '03 (Nicole Billick) points to a lot of work for recruitment with low results. It will be a good test for us to go into the market at this time, away from on-campus recruitment at our targeted schools, and see if we can find comparable or at least acceptable candidates.
- There were discussions about Ravi Myneni and others, such as Chui Ng, in CDO. They could be immediately useful helping on ABCP.
- We talked about maintaining pool allocation to CDO of at least 2 FTE. Are we trying for that level for surveillance?

- I have started some notes for allocation of analysts. Some are just cosmetic changes to reflect reality. Some are ideas that have to be explored for feasibility. It is for review and discussion. It doesn't really reflect it, but it is meant to lead to flexibility in support of RMBS and ABCP.

<< File: Alloc_notes.doc >>
Thanks,

Abe

Abe Losice
Managing Director
Structured Finance
Standard & Poor's
55 Water Street, 40th Floor
New York, NY 10041

Phone: (212) 438-7326
Fax: (212) 438-2649
abe_losice@sandp.com

Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0750
Document originally produced in unformatted text, reformatted (including exclusion of metadata) for readability by the Subcommittee. Original document retained in Subcommittee files.

From: Diane Cory [ddcory@earthlink.net]
Sent: Wednesday, May 03, 2006 9:27 AM
To: Scott, Gale
Subject: RE: Change in scheduling/Coaching sessions/Other stuff

Importance: High

Gale,

Let's order "Coaching for Performance" by John Whitmore and "The Inner Game of Work" by Timothy Gallwey. Thanks!

Diane

>Diane,
>
>Which books should I order? I will do it now.
>
>Gale C. Scott
>Managing Director
>Global Real Estate Finance
>Standard & Poor's Rating Services
>55 Water Street, 41st Floor
>New York, New York 10041
>
>ph: (212) 438-2601
>fax: (212) 438-2659
>gale_scott@standardandpoors.com
>
>
>-----Original Message-----
>From: Scott, Gale
>Sent: Tuesday, May 02, 2006 8:12 PM
>To: 'Diane Cory'
>Subject: RE: Change in scheduling/Coaching sessions/Other stuff
>Importance: High
>
>
>Hi Diane,
>
>Thank you so much for contacting me about this. Swamped is a
>serious understatement. We spend most of our time keeping each
>other and our staff calm. Tensions are high. Just too much work,
>not enough people, pressure from company, quite a bit of turnover
>and no coordination of the non-deal "stuff" they want us and our
>staff to do.....enough said.
>
>Of course you should go ahead and accommodate surveillance. Using
>part of the VCDS session to introduce some basics is a brilliant
>idea (Diane, what's wrong with us...why didn't we think of this).
>Then we can have more in depth training later in the summer as you
>suggest.

>I am available this Thursday from 12 noon to 3:00pm and then any
>time after 4:30pm for a call. Does anywhere in this timeframe work
>for both of you?
>
>Gale C. Scott
>Managing Director
>Global Real Estate Finance
>Standard & Poor's Rating Services
>55 Water Street, 41st Floor
>New York, New York 10041
>
>ph: (212) 438-2601
>fax: (212) 438-2659
>gale_scott@standardandpoors.com
>
>
>-----Original Message-----
>From: Diane Cory [mailto:ddcory@earthlink.net]
>Sent: Tuesday, May 02, 2006 5:18 PM
>To: Scott, Gale
>Subject: Change in scheduling/Coaching sessions/Other stuff
>Importance: High
>
>
>Dear Gale,
>
>Since I haven't heard from you regarding the coaching I am thinking
>you are totally swamped...and some things have changed since I sent
>you the proposal for the coaching sessions for the MD coaches.
>
>Daniel and I have been asked to facilitate a session for Global
>Surveillance on Thursday and Friday, June 1-2. We would like to
>accommodate them, if possible.
>
>Daniel is wondering if we might design part of the upcoming VCDS
>session in May to focus on coaching and take the group through some
>of the basics...would that help accomplish several things at once?
>(If you want to do this, we need to have you order the coaching books
>right away.) Then you and I can look at our schedules again and come
>up with a planning time and a two-day and a one-day session perhaps
>beginning at the end of August.
>
>Where's your thinking? Daniel and I are home most of this week and
>are happy to schedule a phone call with you.
>
>Hope you and your family are well. I have lots to share...
>
>Warm regards,
>Diane
>--
>Diane Cory
>
>Phone: (603) 642-6729
>Fax: (603) 642-6479
>

>U.S.A.
>
>----------
>
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>----------

--
Diane Cory

Phone: (603) 642-6729
Fax: (603) 642-6479

U.S.A.

Permanent Subcommittee on Investigations
Document originally produced in unformatted text; reformatted (including exclusion of metadata) for readability by the Subcommittee. Original document retained in Subcommittee files.

From: Jordan, Pat
Sent: Tuesday, October 31, 2006 12:28 PM
To: Rose, Joanne; Veneable, Dawanna; Boyd, Sheila
Cc: Klein, David
Subject: A CDO Director resignation

Importance: High

Unfortunately, one of our excellent and market experienced Directors, Todd Jaeger, resigned Friday afternoon to join RBC Greenwich Capital.

"Stupid money", was being thrown at him by many many (I am not exaggerating) market participants, and he took RBC's offer b/c he knows the guyswho run the CDO group and is comfortable working for them. We have been aware of Todd's frustration with having to do high deal volume (10 in his pipeline regularly) on top of the things, such as developing our hybrid criteria, but b/c of our staffing shortage have been able to make only slow progress in reassigning more junior work.

While I realize that our revenues and client service numbers don't indicate any ill affects from our severe understaffing situation, I am more concerned than ever that we are on a downward spiral of morale, analytical leadership/ quality and client service. Anything that can be done to receive immediate approval for the recently requested adds to staff as well as Todd's replacement is needed asap. At the risk of stating the obvious, Todd, and Winnie Fong last month, are not sticking around for S&P bonuses. Reliable rumor has it that Todd was offered $500k for now to March (end of their comp year). And then given an indication to expect at least $800k for the next full comp year. I'm very much aware that we can't come close to matching this, but we must both continue to make market adjustments, and try to build a bench through hiring.

The market for anyone with CDO experience is so hot, that even our most junior staff are quickly (within 12-18 months) valuable to the market. We expect more resignations.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1191

Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0754
Document originally produced in unformatted text; reformatted
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DATE: 07/09/2007
TIME: 12:04:56
AUTHOR: Jim Badenhausen
RECEIPIENT: Yoshizawa, Yuri
CC: Kimon, Noel; Clarkson, Brian; McDaniel, Raymond; Westlake, Lisa; Harris, Gus; Subprime Working Group - Craig Brown; Subprime Working Group - Michael Gross
SUBJECT: FW: CDO Surviellance Note 7_071.doc

Dear Yuri -

Thanks for sharing this draft of the CDO surveillance piece you're planning to publish later this week. We took a look at it over the weekend, and think there is alot of good information here. We did had a few reactions to the document - from an outsider's perspective - that we wanted to share with you as you continue to refine this in the days ahead.

- We thought it might be useful, at the outset, to provide an easily digestable overview of what you look at as part of your CDO surveillance - including the performance of underlying assets, the CDO structural features and the asset manager's decisions. This would be especially useful for the press and other less sophisticated audiences, although perhaps it could even be a helpful reminder for more sophisticated investors. Fitch has a slide like this, which you may have already seen, in the sub-prime/CDO presentation posted on their website (see the attached deck), and we've pasted the relevant slide below for easy reference.

- Presumably one of the most important parts of this document, given the current market environment, is the discussion of the factors that could lead to an upgrade/downgrade. And, as outsiders who aren't as familiar with CDOs and the surveillance process itself, we had a little trouble understanding the chart you've included here. We thought this section might benefit from a little more "user-friendly" context and explanation, to the extent possible, as it could help the press and other key constituencies understand the key drivers you look at in monitoring these securities.

- We also were wondering if it might be worthwhile to talk specifically about the surveillance of CDOs backed by RMBS's, given the scrutiny that they are under right now. For instance, in the attached deck posted on their website (and in the slide pasted below), S&P talks about their "integrated process for CDO and RMBS surveillance" and mentions that "prior to the release of RMBS rating actions we are fully aware of the exposures within our rated CDO transactions, and have made at least a preliminary assessment of any potential CDO rating impact." That could be a good message to put out into the marketplace, if Moody's CDO surveillance process works in a similar way.

- In the section about your CDO surveillance infrastructure, we were struck by the data point about the 26 professionals who are dedicated to monitoring CDO ratings. While

this is, no doubt, a strong team, we wanted to at least raise the question about whether the company's critics could twist that number - e.g., by comparing it to the 13,000+ CDOs you're monitoring - and once again question if you have adequate resources to do your job effectively. Given that potential risk, we thought you might consider removing any specific reference to the number of people on the CDO surveillance team.

- There is quite a bit of talk here about Moody's "automated" surveillance systems, and they are obviously an important part of the surveillance process. But this also could be misconstrued by critics to make it sound like your surveillance system is on "autopilot." We were wondering if there is more you could say about the rigorous analysis that your analysts - and the ratings committees - do in this process.

- There are also several parts of this paper that make the CDO surveillance/monitoring process sound potentially slower than it no doubt is (e.g., "the ultimate decision to upgrade/downgrade is subject to additional analysis over a period of a few weeks to a few months"). Again, we are concerned that statements like this could be taken out of context by your critics and twisted to sound like evidence of a slow, ineffective monitoring process. Perhaps some of these turns of phrase could be reworked with those external audiences in mind.

Hope these thoughts are helpful. Let us know if you have any questions or would like to discuss this further.

Thanks.

- Jim, Michael and Craig

EXCERPT FROM FITCH PRESENTATION on SUB-PRIME/CDO'S (SLIDE 54)

CDO Surveillance Framework

Three Pillars of CDO Performance

§ Performance of Underlying Assets

- Primary CDO performance driver is the performance of the underlying assets
- Successful CDO surveillance must be able to measure and monitor performance changes
  - CDO Structural Features
- CDO structural features vary deal-by-deal
- Features may impact rating actions on specific CDO tranches
- Features may impact severity of rating actions on CDO tranches
  - Asset Manager's Decisions
- Asset Manager incentive or focus may change throughout the life of a CDO
- Successful CDO Surveillance must work with Asset Managers to:
  - Understand manager's view on asset selection
  - Understand manager's view of asset performance and trading strategy
  - Assess manager's ability to adjust to current market conditions

EXCERPT FROM S&P PRESENTATION on SUB-PRIME/CDO'S (SLIDE 26)

S&P Has an Integrated Process for CDO and RMBS Surveillance

. Standard & Poor's has an integrated surveillance process to ensure the ratings on our rated RMBS bonds and CDO transactions reflect our most current credit view

. CDO Surveillance is informed of RMBS Surveillance's current credit opinion and outlook for rated transactions

. RMBS Surveillance is aware of RMBS exposure within Standard & Poor's rated CDO transactions

. Prior to the release of RMBS rating actions we are fully aware of the exposures within our rated CDO transactions, and have made at least a preliminary assessment of any potential CDO rating impact

---

From: Yoshizawa, Yuri [mailto:Yuri.Yoshizawa@moodys.com]
Sent: Friday, July 06, 2007 5:47 PM
To: Kirnon, Noel
Cc: Clarkson, Brian; McDaniel, Raymond; Westlake, Lisa; Harris, Gus; Badenhausen, Jim
Subject: FW: CDO Surviellance Note 7_071.doc

FYI - This is a draft of the CDO surveillance piece that we'll be publishing next week and discussing as one part of the CDO portion of the teleconference. Along with finalizing this piece, we'll be working on the teleconference slides over the weekend and during the first couple of days of next week.

-----Original Message-----
From: Yoshizawa, Yuri
Sent: Friday, July 06, 2007 5:08 PM
To: 'Jeremy Gluck'; Polansky, Jonathan
Cc: Harris, Gus; Park, John
Subject: RE: CDO Surviellance Note 7_071.doc

My comments to the updated document.

Thanks.

> -----Original Message-----
> **From:** Jeremy Gluck [mailto:jandjgluck@sbcglobal.net]
> **Sent:** Thursday, July 05, 2007 2:03 PM
> **To:** Polansky, Jonathan
> **Cc:** Harris, Gus; Yoshizawa, Yuri; Park, John
> **Subject:** Re: CDO Surviellance Note 7_071.doc
>
> Sorry, looks like I sent the wrong version--there really is a conclusion in the attachment.
>
> ----- Original Message ----
> From: "Polansky, Jonathan" <Jonathan.Polansky@moodys.com>
> To: Jeremy Gluck <jandjgluck@sbcglobal.net>
> Sent: Thursday, July 5, 2007 10:31:57 AM
> Subject: RE: CDO Surviellance Note 7_071.doc

Jerry,

Were you going to write the conclusion or were you thinking that we'd take care of it? I'm new at this so i'm not sure what you've done in the past. (also wanted to make sure that you sent back you're final version because this one still had the notes of a conclusion from gus and not a conclusion). Thanks.

Jon

-----Original Message-----
From: Jeremy Gluck [mailto:jandjgluck@sbcglobal.net]
Sent: Thursday, July 05, 2007 1:17 PM
To: Polansky, Jonathan
Cc: Harris, Gus; Park, John; Yoshizawa, Yuri
Subject: Re: CDO Surviellance Note 7_071.doc

Thanks for everyone's quick comments. I've attached an updated draft. Let me know if you'd like me to make further changes.

Regards,
Jerry

----- Original Message ----
From: "Polansky, Jonathan" <Jonathan.Polansky@moodys.com>
To: Jeremy Gluck <jandjgluck@sbcglobal.net>
Cc: "Harris, Gus" <Gus.Harris@moodys.com>; "Park, John" <John.Park@moodys.com>; "Yoshizawa, Yuri" <Yuri.Yoshizawa@moodys.com>
Sent: Wednesday, July 4, 2007 10:54:34 AM
Subject: RE: CDO Surviellance Note 7_071.doc

Jerry,

My comments are attached (should incorporate John's and Gus' comments -John pls verify - I added the #s from Carie and Chris. Also, the original deal score explainatory paper is attached for reference - you'll see Gus' suggestion. Thanks.

Jon <<CDO Surviellance Note 7_07jp.doc>> <<Mdsr.pdf>>

-----Original Message-----
From: Harris, Gus
Sent: Wednesday, July 04, 2007 12:36 PM
To: 'Jeremy Gluck'
Cc: Park, John; Polansky, Jonathan; Yoshizawa, Yuri
Subject: CDO Surviellance Note 7_071.doc

<< File: CDO Surviellance Note 7_071.doc >>

My comments are attached. Thanks Jerry

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Footnote Exhibits - Page 0760

2007 Performance Management Process (PMP)

Review Period: 2007

General Information

Employee Information

Last Name	First Name	Middle
D'ERCHIA	PETER	J

Title	Department	Location
MD-BUSINESS DEVELOPMENT	CORPORATE & GOV'T RATINGS	NEW YORK, NY

Manager Information

Manager Name	Title
MONTRONE, WILLIAM L	MD-RATINGS C&G US PUBLIC FIN

Overview

Section I -Goals

Goal

Goal	CDO Initiative

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Summary Section

Overall Comments

Employee Comments

This may be the first time in my 26 year career with S&P
that I have commented on a supervisor's performance
evaluation. I do not agree with Joanne's overall evaluation of my 2007 performance.
In my mid-year review for 2007, Joanne states: "Peter is
on track for a good performance year." My 2007 performance goals were being met through the first half
of the year, as Joanne acknowledged, and after the mid-
year, I continued to meet them.
Joanne's negative comments in this year-end review,
such as I was "notably absent from many discussions"
and that Joanne did not "feel [my] leadership", are the
result of a disagreement she and I had over the subprime debt deterioration. In early July 2007, I strongly disagreed with Joanne about subprime debt deterioration. My professional assessment on that matter appears to have clouded her objectivity about my
year-end performance.

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Even more offensive -- and flatly wrong -- is the statement that I am not working for a good outcome for
S&P. That is all I am working towards and have been for
26 years. It is hard to respond to such comments, which

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I think reflect Joanne's personal feelings arising from our
disagreement over subprime debt deterioration, not professional assessment.
I do not accept the comment that I was not actively engaged with direct reports or the broader department.
My direct report evaluations have been stellar; turnover
in my group is less that 1% over the last three years;
and I have exceeded my revenue budget the last seven
years. Such comments, and others like it, suggest to me
that this year-end appraisal, in contrast to the mid-year
appraisal, has more to do with our differences over subprime deterioration than an objective assessment of
my overall 2007 performance.

Mid-Year Review Date/Comments

Peter is on track for a good performance year. He should continue to
try to work with the other members of the SFLT to continue to improve
our surveillence functions.

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Second Level Manager Comments

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Signatures

Employee:	PETER D'ERCHIA	Date	02/08/2008
Manager:	VICKIE TILLMAN	Date	02/08/2008
Second Level Manager:	VICKIE TILLMAN	Date	01/25/2008

Permanent Subcommittee on Investigations
Footnote Exhibits - Page 0765
Document originally produced in unformatted text; reformatted (including exclusion of metadata) for readability by the Subcommittee. Original document retained in Subcommittee files.

DATE: 10/12/2007
TIME: 21:44:41 GMT
AUTHOR: Hu, Jian
RECEIPIENT: Carrafiello, Crystal; Steckert, Marianne; Yoshizawa, Yuri; Kolchinsky, Eric; Trefflich, Kara; Adler, Michael; Trier, Nathan; Fu, Yvonne; Cantor, Richard; Kanef, Michael; Teicher, David; Thomas, Julia; Adler, Michelle; Weill, Nicolas; Polansky, Jonathan; Robinson, Claire; Kornfeld, Warren; Leshko, Courtney; Jonas, Gregory; Liberman, Jessica; Harris, Gus; Park, John; Kirnon, Noel; Hemmerling, Brett; Osborne, Timothy; Mirenda, Anthony (Tony); Laserson, Fran; Huber, Linda
CC:
SUBJECT: RE: Fitch's teleconference presentation and questions from their Q&A

After S&P, Fitch is now also blaming fraud for the impact on RMBS rating, at least partially.

Fitch CEO says fraudulent lending practices may have contributed to problems with ratings

<javascript:void(0);>

594 words

12 October 2007

9:09:58 PM GMT

Associated Press Newswires </tools/sourceDetails.aspx?srcs=APRS>

English

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Credit rating agencies, which guide investors about the risks of bonds, have come under scrutiny for giving their blessing to mortgage-backed securities that have since plummeted in value. Now, Congress, several states and the Securities and Exchange Commission are probing the agencies.

Stephen Joynt, chief executive of No. 3 player Fitch Ratings, said in a recent interview that the blame may lie with fraudulent lending practices, not his industry.

AP: Companies and other bond issuers pay you to rate their securities. One senator compared this to paying a movie critic for a review.

Joynt: For a long time it's been acknowledged that there's a potential for a conflict of interest in the business model that has issuers pay rating agencies.

Would you support changes to the system of being paid by the issuers?

I think it would be very difficult to change or transition away from that today. The reason (for) the original model to have the issuers pay was ... they wanted rating agencies to be capable of paying higher salaries for a more competent staff. I think that's still probably an important need.

Has the SEC been in contact with you?

We had a pretty extensive meeting with them several weeks ago. I think maybe 10 or 15 representatives came up and sat for maybe a four-hour meeting. We gave them a good update on our process of rating mortgage-backed securities, which is what they were interested in.

Your industry's taken heat for awarding high ratings to bond offerings backed by mortgages sold to people with poor credit. How did you determine your ratings?

We would have based it primarily on the best indicators like FICO scores. It turns out that (homeowners' credit scores) may not be the best indicators of the performance on this batch of **subprime** securities. It also may be true that some of the underlying information on some of the loans may have contributed to that performance, possibly by being fraudulent. Some have suggested that the incidence of fraud in the processing of more recent **subprime** mortgages, especially in the last year and a half, may have been far more extensive than we had seen in the past.

Did you make the right calls with the information you had?

We've recently gone back and reviewed all of the mortgage-backed securities for **subprime** that we rated in 2006 that people are questioning most, and we've reaffirmed all of our triple-A ratings just in the last several weeks. We've made some changes in double-A and single-A. There's certainly been deterioration in that.

It's not the first time rating agencies have grabbed headlines. In the days of the Enron scandal, the industry was also accused of missing the boat.

I wouldn't say that finding these particular two headlines and linking them is the way I would present our reputation or image in the market.

Is your industry being made a scapegoat?

Is there something we could have done different or better? We should focus on our primary job. That's our lead job, as contrasted with spending a lot of time and energy to put in place responses to the people who are offering critiques.

Did you do a better job than your competitors?

I can think of specific instances where we declined to rate certain things that the others did. Maybe they can think of the same instances for us.

7

Regards,

Jian Hu
Structured Finance - CDOs/Derivatives
Moody's Investors Service
Tel: 212.553.7855

-----Original Message-----
From: Hu, Jian
Sent: Wednesday, October 10, 2007 12:58 PM
To: Carrafiello, Crystal; Steckert, Marianne; Yoshizawa, Yuri; Kolchinsky, Eric; Trefflich, Kara; Adler, Michael; Trier, Nathan; Fu, Yvonne; Cantor, Richard; Kanef, Michael; Teicher, David; Thomas, Julia; Adler, Michelle; Weill, Nicolas; Polansky, Jonathan; Robinson, Claire; Kornfeld, Warren; Leshko, Courtney; Jonas, Gregory; Liberman, Jessica; Harris, Gus; Park, John; Kirnon, Noel; Hemmerling, Brett; Osborne, Timothy; Mirenda, Anthony (Tony); Laserson, Fran; Huber, Linda
Subject: RE: Fitch's teleconference presentation and questions from their Q&A

Also, CreditFlux sent out an alert on a S&P conference yesterday:

S&P says it underestimated extent of fraud in subprime industry

News Digest, 9 October 2007

At a conference today, S&P said it underestimated the extent of fraud in the subprime industry. The agency's chief economist David Wyss said the US subprime housing crisis will not reach its peak until 2009. He said the extent of fraud in the subprime industry increased sharply in 2006. He added that US economic growth will lag at 2% in 2007 and 2008, down from 2.9% in 2006. Due to the subprime crisis, he said the US would contribute only 9% of world growth in 2007

Regards,

Jian Hu
Structured Finance - CDOs/Derivatives
Moody's Investors Service
Tel: 212.553.7855

-----Original Message-----
From: Carrafiello, Crystal
Sent: Wednesday, October 10, 2007 12:45 PM
To: Steckert, Marianne; Yoshizawa, Yuri; Kolchinsky, Eric; Trefflich, Kara; Adler, Michael; Trier, Nathan; Fu, Yvonne; Cantor, Richard; Kanef, Michael; Teicher, David; Thomas, Julia; Adler, Michelle; Weill, Nicolas; Polansky, Jonathan; Robinson, Claire; Kornfeld, Warren; Leshko, Courtney; Jonas, Gregory; Liberman, Jessica; Harris, Gus; Park, John; Kirnon, Noel; Hemmerling, Brett; Osborne, Timothy; Hu, Jian; Mirenda, Anthony (Tony); Laserson, Fran; Huber, Linda
Subject: Fitch's teleconference presentation and questions from their Q&A

A little intelligence from Fitch's recent teleconference that may assist in your preparation.

Slides from their presentation attached.

<< File: Fitch Slides.pdf >>
Some key points:

- A whole section is devoted to closed-end seconds, which they were just getting around to.
- They noted that they have chosen to take aggressive action to give the best estimate as to where they think the ratings are going, rather than engage in more mild, but serial downgrades, which does not serve the market
- They confirmed 100% of first-lien backed AAAs
- If I am interpreting the transition matrix on slide 17 correctly, about 11% of triple-B's downgraded went to single B and less than 2% to triple-C.
- They do not appear to have left any rating classes under review
- They indicated they will do another full review of the 2006 vintage in 6 months.
- They noted that they are likewise currently reviewing 1st half '07 deals.
- They focused solely on the RMBS and did not provide projections of likely CDO rating impact.

- There was some discussion of how they look at home price appreciation and other statistics on a state-by-state basis and that next month they will be upgrading their model to take in differences by the top 50 US metropolitan markets.

Questions asked during the Q&A

- What is the rationale for reviewing the '07 transactions so soon after rating them?
- How can you square your assumptions on underlying home price appreciation with that reflected in the performance of the ABX?
- The 2005 vintage is just facing resets and we are already seeing significant deterioration in terms of delinquencies. What are your expectations on initial 90-day delinquencies and what type of roll-rates are you using from there?
- The availability of credit has changed substantially, impacting the ability to refinance. How have you adjusted your models to reflect this?
- The market's perception is that ratings continue to lag. Can you provide us confidence that, as you have stated, this is not just one in a "stair-step" approach to rating revisions?
- How do you see the performance of first liens without a second lien to first liens with a second lien?
- Where do you think we stand in terms of the ARM resets for RMBS?
- Do you believe that there is a high percentage of fraudulent loans, particularly among the second liens, and that after they are removed, the rest of the pool will perform better?
- Apparently another rating agency has said that they may have to take additional actions as the result of lower-than-expected levels of loan modifications. Does Fitch share that concern?
- Has your model factored in the impact of a recession and or are we likely to be on a similar call 6 months from now hearing "who knew we were going to have a recession?" How resilient would the triple-B's and below-investment-grade ratings be relative to the triple-A's?
- Is Fitch taking more actions because it is rating worse deals?
- How do the rating actions flow through to the mezzanine CDOs and is the way that you are looking at these loss projections different from the views of the CDO team?
- What is your thinking on the impact of foreclosure processing? Is the deluge problematic in terms of timelines and loss severities?
- How are you stress-testing the capacity of the servicers in your rating methodology for them?

Goldman Sachs Expected Profit from RMBS Securitizations

June 2005 - August 2007

Expected Settlement Date	Deal Size [Approximate]	Securitization	Certification	Expected Profit [Approximate]
June 29, 2005	970,327,831	GSAMP Trust 2006-NC2	Mortage Pass Through Certificates, Series 2006-NC2	3,000,000
December 29, 2005	752,357,110	GSAMP Trust 2005-HE6	Mortage Pass Through Certificates, Series 2005-HE6	1,000,000
February 17, 2006	936,138,197	GSAMP Trust 2006-HE1	Mortage Pass Through Certificates, Series 2006-HE1	1,000,000
February 23, 2006	972,554,859	FFMLT Trust 2006-FF3	Mortage Pass Through Certificates, Series 2006-FF3	2,000,000
March 29, 2006	809,746,321	GSAMP Trust 2006-HE2	Mortage Pass Through Certificates, Series 2006-HE2	2,000,000
March 30, 2006	1,509,335,061	GSAMP Trust 2006-FF4	Mortage Pass Through Certificates, Series 2006-FF4	8,000,000
April 27, 2006	486,629,500	GSAMP Trust 2006-S3	Mortage Pass Through Certificates, Series 2006-S3	2,000,000
April 28, 2006	60,030,000	GSMSC Pass-Through Trust 2006-2R	Pass-Through Certificates, Series 2006-2R	6,000,000
April 28, 2006	949,194,951	GSAMP Trust 2006-FM1	Mortage Pass Through Certificates, Series 2006-FM1	8,000,000
May 16, 2006	359,326,855	FFMLT Trust 2006-FF6	Mortage Pass Through Certificates, Series 2006-FF6	1,000,000
May 26, 2006	1,573,244,000	GSAMP Trust 2006-HE3	Mortage Pass Through Certificates, Series 2006-HE3	5,000,000
May 30, 2006	1,175,955,655	Wells Fargo Home Equity Asset-Backed Securities 2006-1 Trust	Home Equity Asset-Backed Certificates, Series 2006-1	1,000,000
June 9, 2006	651,018,182	GSAMP Trust 2006-S4	Mortage Pass Through Certificates, Series 2006-S4	6,000,000
June 30, 2006	992,270,000	GSAMP Trust 2006 HE-4	Mortage Pass Through Certificates, Series 2006-HE4	3,000,000
July 13, 2006	345,085,606	GSAMP Trust 2006-S5	Mortage Pass Through Certificates, Series 2006-S5	8,000,000
August 25, 2006	1,016,102,000	GSAMP Trust 2006-HE5	Mortage Pass Through Certificates, Series 2006-HE5	2,000,000
September 27, 2006	1,001,909,809	GSAMP Trust 2006-FM2	Mortage Pass Through Certificates, Series 2006-FM2	1,000,000
September 28, 2006	2,082,713,112	GSAMP Trust 2006-FF-13	Mortage Pass Through Certificates, Series 2006 FF-13	2,000,000
October 13, 2006	338,821,000	GSAMP Trust 2006-S6	Mortage Pass Through Certificates, Series 2006-S6	4,000,000
October 30, 2006	874,191,130	GSAMP Trust 2006-HE7	Mortage Pass Through Certificates, Series 2006-HE7	2,000,000
December 20, 2006	[Group I: 67,124,073] + [Group II: 337,355,439] = 404,479,512	GSAMP Trust 2006-S7	Mortage Pass Through Certificates, Series 2006-S7	7,000,000
December 20, 2006	751,921,900	GSAMP Trust 2006-FM3	Mortage Pass Through Certificates, Series 2006-FM3	1,500,000
December 27, 2006	1,028,228,000	GSAMP Trust 2006-HE8	Mortage Pass Through Certificates, Series 2006-HE8	2,000,000
January 25, 2007	720,760,000	GSAMP Trust 2007-FM1	Mortage Pass Through Certificates, Series 2007-FM1	1,000,000
January 31, 2007	292,722,704	GSAMP Trust 2007-H1	Mortage Pass Through Certificates, Series 2007-HE1	400,000
February 20, 2007	1,858,511,000	GSAMP Trust 2007-NC1	Mortage Pass Through Certificates, Series 2007-NC1	2,000,000
February 22, 2007	642,014,000	GSAMP Trust 2007-HE1	Mortage Pass Through Certificates, Series 2007-HE1	1,000,000
February 22, 2007	648,356,000	GSAMP Trust 2007-HE1	Mortage Pass Through Certificates, Series 2007-HE1	700,000
February 22, 2007	1,007,881,000	GSAMP Trust 2007-FM2	Mortage Pass Through Certificates, Series 2007-FM2	1,250,000
February 28, 2007	306,179,642	GSAMP Trust 2007-S1	Mortage Pass Through Certificates, Series 2007-S1	6,000,000
April 12, 2007	953,546,000	GSAMP Trust 2007-HE2	Mortage Pass Through Certificates, Series 2007-HE2	250,000
April 17, 2007	144,439,000	GSR 2007-HEL1	Mortage Pass Through Certificates, Series 2007-1	500,000
April 26, 2007	419,650,346	FFMLT 2007-FFB-SS	Mortage Pass Through Certificates, Series 2007-FFB-SS	3,000,000
August 30, 2007	700,500,000	GSAMP Trust 2007-HSBS	Mortage Pass Through Certificates, Series 2007-HSBC	15,000,000

Total Deal Value: $27,736,140,283

Total Profit Value: $109,600,000

Smallest Profit: $250,000

Largest Profit: $15,000,000

Average Profit: $3,131,428

Source: Goldman Sachs documents

Prepared by U.S. Senate Permanent Subcommittee on Investigations, February 2011

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1238

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1258

Net Revenues from ABS Products Backed by U.S. Residential Mortgages*

Business Unit	28-Feb-07	31-Mar-07	2007	2008	Total 2007-2008
ABS Secondary Trading	211,590,808	200,727,927	869,653,630	486,916,368	1,356,569,998
ABS Correlation Trading	60,566,887	77,304,095	308,550,000	95,848,354	404,398,354
CDO Primary Issue	(18,327,179)	(18,312,631)	(791,915,674)	(225,658,251)	(1,017,573,925)
ABS CDO Legacy†	-	-	-	(132,517,231)	(132,517,231)
RMBS	116,956,270	181,334,847	(459,859,880)	(2,994,238,224)	(3,454,098,104)
Special Products Group -- Asset Finance	614,876	476,984	7,493,385	(409,585,890)	(402,092,505)
Special Products Group -- Risk Trading	(18,317)	(9,539,371)	(119,881,710)	6,301,943	(113,579,767)
Winchester Capital	42,770,439	29,938,219	(609,538,301)	(489,032,940)	(1,098,571,241)
Total	432,480,963	480,242,701	(795,498,550)	(3,661,965,871)	(4,457,464,421)

* The information set forth herein does not reflect net revenues for CDO Secondary Trading. These data are not readily available because the trading book files used to derive the requested information combine CDO and CLO Secondary Trading, without providing separate breakouts for these assets.

† "ABS CDO Legacy" is a London-based Deutsche Bank account which purchased positions from CDO Primary Issue in September 2007.

STRUCTURED FINANCE Special Report

2008 U.S. CDO Outlook and 2007 Review:

Issuance Down in 2007 Triggered by Subprime Mortgages Meltdown; Lower Overall Issuance Expected in 2008

AUTHOR:

Jian Hu
Senior Vice President
(212) 553-7855
Jian.Hu@moodys.com

CO-AUTHOR:[1]

Suzanna Sava
Assistant Vice President - Analyst
(212) 553-1621
Suzanna.Sava@moodys.com

CONTACTS:

Yuri Yoshizawa
Group Managing Director
(212) 553-1939
Yuri.Yoshizawa@moodys.com

Yvonne Fu
Team Managing Director
(212) 553-7732
Yvonne.Fu@moodys.com

William May
Team Managing Director
(212) 553-3868
William.May@moodys.com

WEBSITE:
www.moodys.com

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1. SUMMARY

2008 OUTLOOK

To increase transparency on the macroeconomic and financial framework that underpins its risk assessments, Moody's has published a baseline outlook for the global economy, as well as three potential economic risk scenarios. These economic scenarios are intended to help Moody's analysts formulate the outlooks for their specific markets using a consistent set of assumptions that envisage various stressed economic and financial conditions.

The baseline outlook is inspired by major international organizations' economic outlooks. For 2008-2009, we assume robust yet more moderate global growth. However, it is also expected that there will be increased differentiation across geographies - specifically, a moderate downturn in the U.S. (and to a much lesser extent other mature market economies) and continued fast growth in emerging economies. This baseline outlook is affected by an unusually large degree of uncertainty, mostly related to the impact of credit tightening.

1 Jeremy Gluck contributed to this report as a research consultant. Suzanna Sava contributed data to this report.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1264

Moody's industry outlook for the mortgage sector in the U.S. is negative. Further declines in home prices combined with weaker economic fundamentals and credit tightening will continue to increase residential mortgage related delinquencies and losses for most of 2008.[2]

Moody's and other market participants currently project double-digit peak-to-trough home price declines, which are expected to contribute to further deterioration in the performance of subprime and Alt-A mortgage pools. As detailed in its updated loss projections for 2006 subprime loans, Moody's views on 2006 vintage subprime pools have become more bearish in recent months, with various stress scenarios resulting in a range of average projected losses, from 12% up to 24% depending on the scenario.[3] It is expected that during the coming year deteriorating performance will continue to affect the ratings of many subprime RMBS originated in 2006 and early 2007, which will in turn affect a significant portion of the structured finance CDO sector.

A major question mark for 2008 is a recovery in investors' confidence. A recovery is unlikely until the effects of the subprime crisis have been fully measured, especially the effects on financial institutions. The turn in the credit cycle and the projected increase in corporate default rates may also start affecting the performance of corporate issuers and therefore heighten investors' caution in CDOs backed by corporate credits.[4]

In addition to performance considerations, investor demand will also be driven by the market's capacity to respond to an increased desire for information transparency in terms of underlying collateral and structural risks, so that investors can focus on deep fundamental analysis and apply sound judgment. Lessons have also been learned through the crisis with respect to the robustness of certain structures exposed to large market-value or correlation risks.

In terms of new issuance, we expect minimal SF CDO issuance in 2008. Cash-flow CLO issuance will be increasingly active during the year, but a lot will be dependent on the conditions in the primary leveraged loan market and the arbitrage opportunity of structuring CLOs. We expect synthetic corporate CDO issuance to slow down substantially in 2008.

In terms of rating performance, we expect to see significantly negative rating activity on SF CDOs during 2008 given Moody's higher loss projections on subprime mortgages. In addition, continued concerns about the credit markets, rising default rates and an overhang from the supply pipeline are likely to keep the leveraged loan market in a state of volatility at least during the first half of 2008. Currently, we do not expect this volatility pressure to be sufficient to induce significant downgrades of CLO liabilities thanks to prudent modeling assumptions and numerous structural enhancements. The projected increase in the U.S. corporate default rate is also partly captured in the ratings of the corporate loans that back CLOs. Additionally, loan default rates have historically been lower than bond default rates and Moody's projected loan default rate is also lower than the projected corporate default rate.[5]

More generally, given that we believe the deterioration in corporate credit quality is likely to continue, the performance of synthetic arbitrage corporate CDO portfolios is expected to weaken. The reduction of risk linked to CDO maturity shortening should, nevertheless, continue to partially offset this trend. The performance of investment-grade CDO deals with significant exposures to financials and housing-related credits will also be tested.

2007 REVIEW

The Collateralized Debt Obligation (CDO) market in the U.S. was very active in terms of issuance throughout the first half of 2007. That was before the subprime market crisis and general credit turmoil of

2 Beyond the general macroeconomic outlook, Moody's will additionally present its Outlook for the general credit fundamentals of the major structured finance sectors as well as various CDO sub-sectors. The Outlooks are intended to cover a period of 12 to 18 months and will be updated periodically on an as-needed basis. Moody's currently assigns five categories of collateral performance Outlook: Positive, Positive/Stable, Stable, Stable/Negative, and Negative. For example, a Stable/Negative collateral performance outlook indicates that the asset class is not expected to perform as well over the next year as it is performing currently.
3 See "Moody's Updates Loss Projections for 2006 Subprime Loans," Moody's Structured Finance Special Report, January 2008.
4 See "Monthly Default Report - January 2008," Moody's Global Credit Research, February 12, 2008.
5 See Moody's Special Comment, "Syndicated Bank Loans: 2007 Default Review and 2008 Outlook," January 2008.

the second half. In terms of performance and structural challenges, 2007 proved momentous, probably the most important year thus far in the history of CDOs.[6]

The most significant development in 2007 was certainly the U.S. subprime mortgage fallout. A confluence of factors has led to unprecedented deterioration in the subprime mortgage market. Important factors include the extended period of global excess liquidity that preceded it, the loose underwriting and lending standards during the peak of the subprime market boom in 2006, and the dramatic slowdown in the U.S. housing market.

Those U.S. Structured Finance CDOs (SF CDOs) that were exposed to significantly deteriorated subprime RMBS assets experienced significant downgrade activity by year-end.[7] Uncertainty about the future performance of CDO assets and the complexity of CDO structures exacerbated illiquidity in the CDO market and heightened investors' caution toward structured finance products. As a result, we have seen a severe liquidity squeeze and drop in market value across virtually all structured asset classes, resulting in a significant amount of rating actions toward market-value structures.

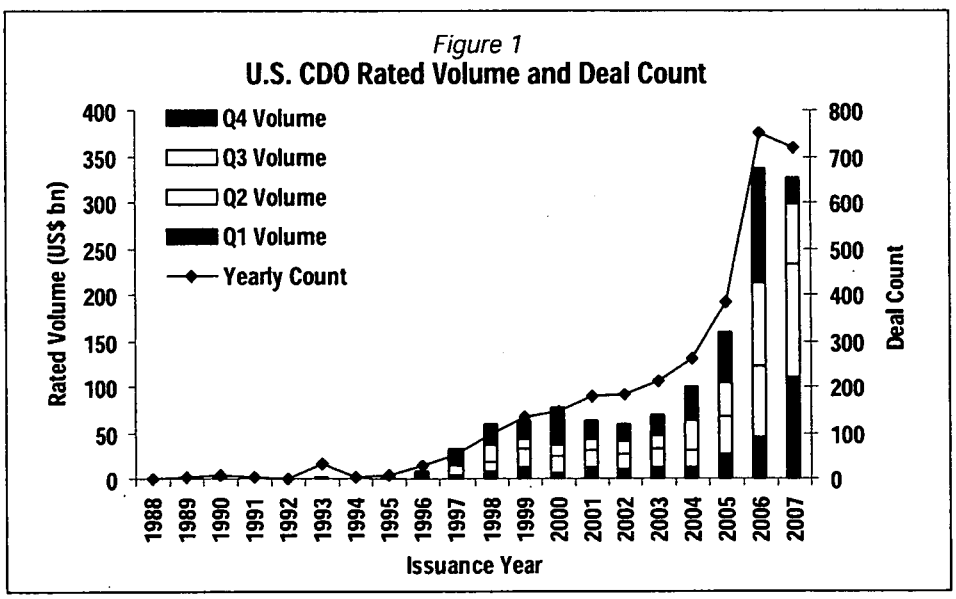
In the U.S. leveraged loan market, activity set new records in the first half of the year as reflected in issuance amounts, leverage multiples, covenant restrictions and pricing levels.[8] The introduction of the LCDX in May 2007 was another significant development in the leveraged loan market. However, the underlying attractive conditions in the market driving these trends evaporated over the summer, and speculative-grade debt issuance, including leveraged loans, dropped precipitously after July. There was concurrently a significant increase in the collateralized loan obligation (CLO) risk premium, and, after several years of vigorous growth, the leveraged loan CLO market experienced a slowdown in issuance.

2. U.S. CDO ISSUANCE FELL FOR THE FIRST TIME SINCE 2002

U.S. CDO issuance, whether measured by number of transactions or the dollar volume of liabilities, fell in 2007 (*Figure 1*). This decline in rated volume was the first since 2002, while the CDO transaction count had not fallen since 1994. But the apparently modest slowing of annual issuance activity belies the sharp change in the market environment that occurred around the middle of 2007. For example, though annual CDO issuance (dollar volume of liabilities) declined by just 3.2%, 2007 H2 volume was fully 56.3% below that of 2006 H2.

Figure 1

U.S. CDO Rated Volume and Deal Count



6 For 2007 review and 2008 outlook of EMEA CDOs, see "2007 Review & 2008 Outlook - EMEA Collateralised Debt Obligations: Strong First Half in 2007 Diluted by Global Credit Crisis; Lower Issuance Expected in 2008 Reflecting Continued Market Disruptions," February 4, 2008.

7 See "U.S. Subprime RMBS 2005-2007 Vintage Rating Actions: January 2008," February 2008, and "Structured Finance CDO Rating Surveillance Report: December 2007," January 2008.

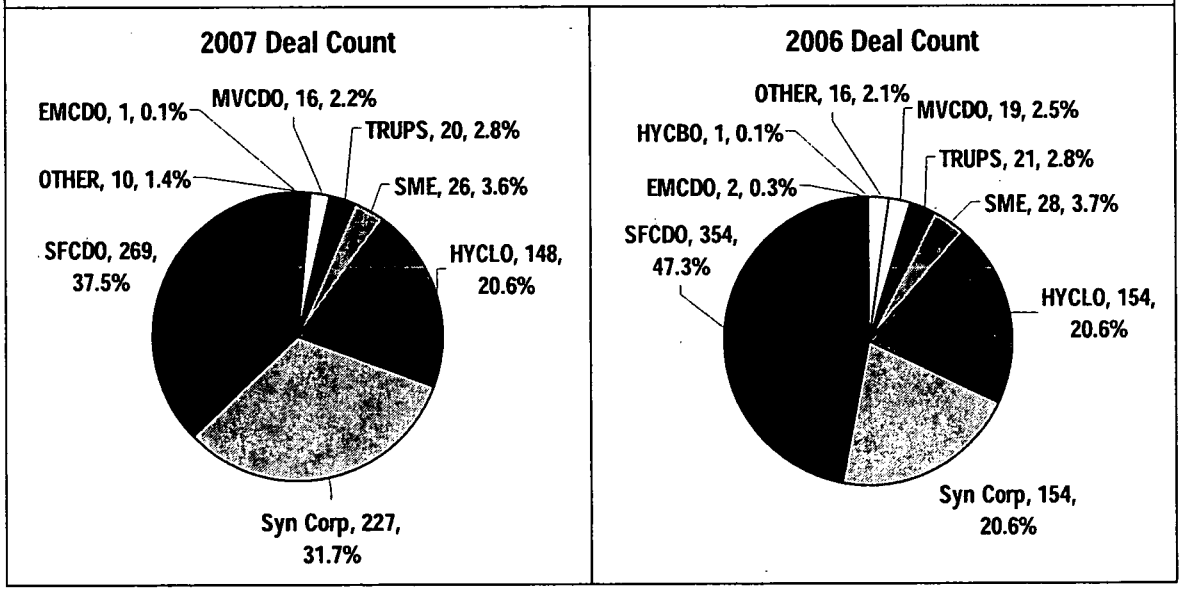
8 See "2007 U.S. Cash-Flow CLO Review and 2008 Outlook," February 2008.

3. WHILE SLIGHTLY DOWN IN VOLUME, SF CDOS AND CLOS CONTINUED TO DOMINATE U.S. CDO ISSUANCE IN 2007

By CDO type, the composition in 2007 was not very different from the previous year (*Figures 2 and 3*). Structured Finance (SF) CDOs, synthetic corporate CDOs and CLOs (including HY CLOs and SME CLOs) again accounted for the vast majority of U.S. transactions in 2007 (about 90% by both transaction count and dollar volume of rated issuance). The most substantial change was that the proportion of SF CDOs within the overall CDO sector dropped both by transaction count and rated volume. Meanwhile, the share of CLOs remained largely unchanged (by deal count) or slightly higher (by dollar volume) compared to 2006, whereas the share of synthetic corporate CDO transactions rose sharply. In addition, the shares of Market-Value and TRUPS CDOs were largely similar (by deal count) between 2007 and 2006.[9]

Specifically, Moody's rated 269 SF CDO transactions totaling approximately US$159.8 billion in 2007, down more than 20% from the 354 SF CDO transactions totaling roughly US$200.6 billion rated in 2006. Moody's also rated 174 CLO transactions (including SME CLOs) totaling US$91.2 billion in 2007, compared to 182 transactions totaling US$87.2 billion rated in 2006. Additionally, *Figure 3* demonstrates that despite a decline in the number of CLOs in 2007, there was an increase in rated CLO volume, thanks to a few very large (multi-billion dollar) CLO deals rated during the year.[10]

Figure 2
Number of U.S. CDO Deals by Deal Type[11]



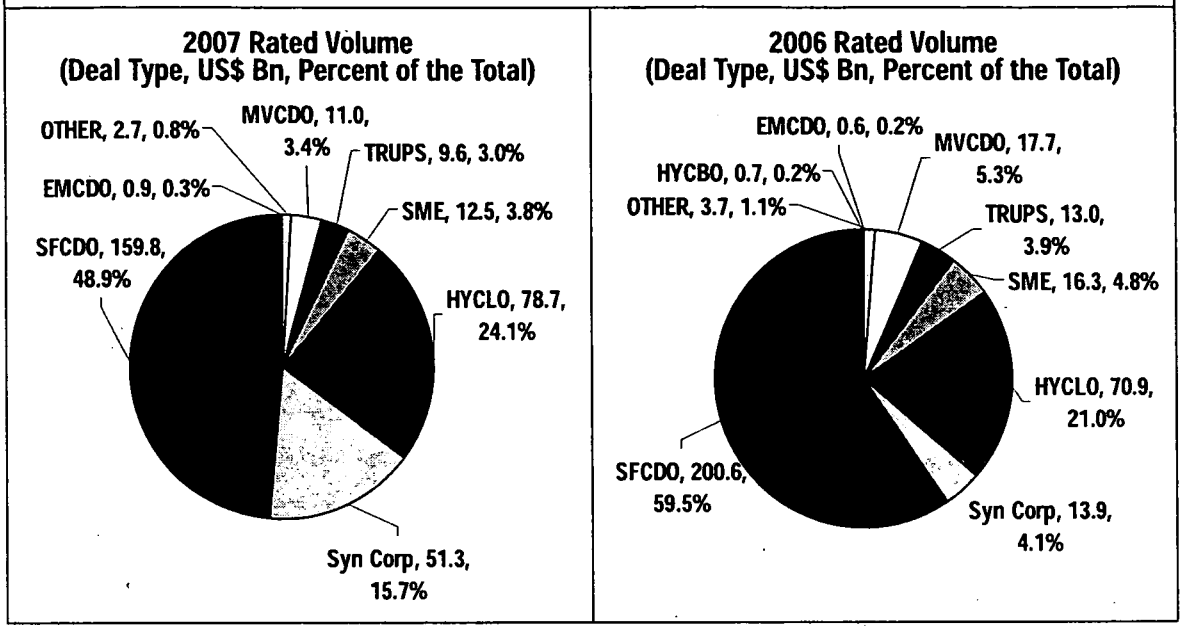
9 Rated synthetic CDO volumes can be misleading because transaction sponsors may choose to sell single tranches, or the entire capital structure of the transactions. In particular, the selling or retention of supersenior tranches greatly affects volume figures. The synthetic CDO transaction count rose by 32 percent.

10 See Moody's Special Comment, "U.S. CLOs 2007 Review and 2008 Outlook," February 2008.

11 Deal type notation: "EMCDO" stands for emerging-market CDO, "HYCBO" stands for high-yield collateralized bond obligations (CBO), "HYCLO" stands for high-yield collateralized loan obligations (CLO), "MVCDO" stands for market-value CDO, "SME" stands for small-medium enterprise loan CLOs, "SF CDO" stands for structured-finance CDO, "TRUPS" stands for CDO backed by trust preferred securities, "Syn Corp" stands for synthetic corporate CDO. The "OTHER" category includes collateralized fund obligation (CFO), ith-to-default, CDO backed by distressed debt, and catastrophic (CAT) bonds. In addition, Credit Derivative Product Companies (CDPC) are not included in the data sample of this report. Please see "2007 U.S. Credit Derivative Product Companies Review and 2008 Outlook," Moody's Structured Finance Special Report, March 2008.

Figure 3

Rated Volume of U.S. CDOs by Deal Type



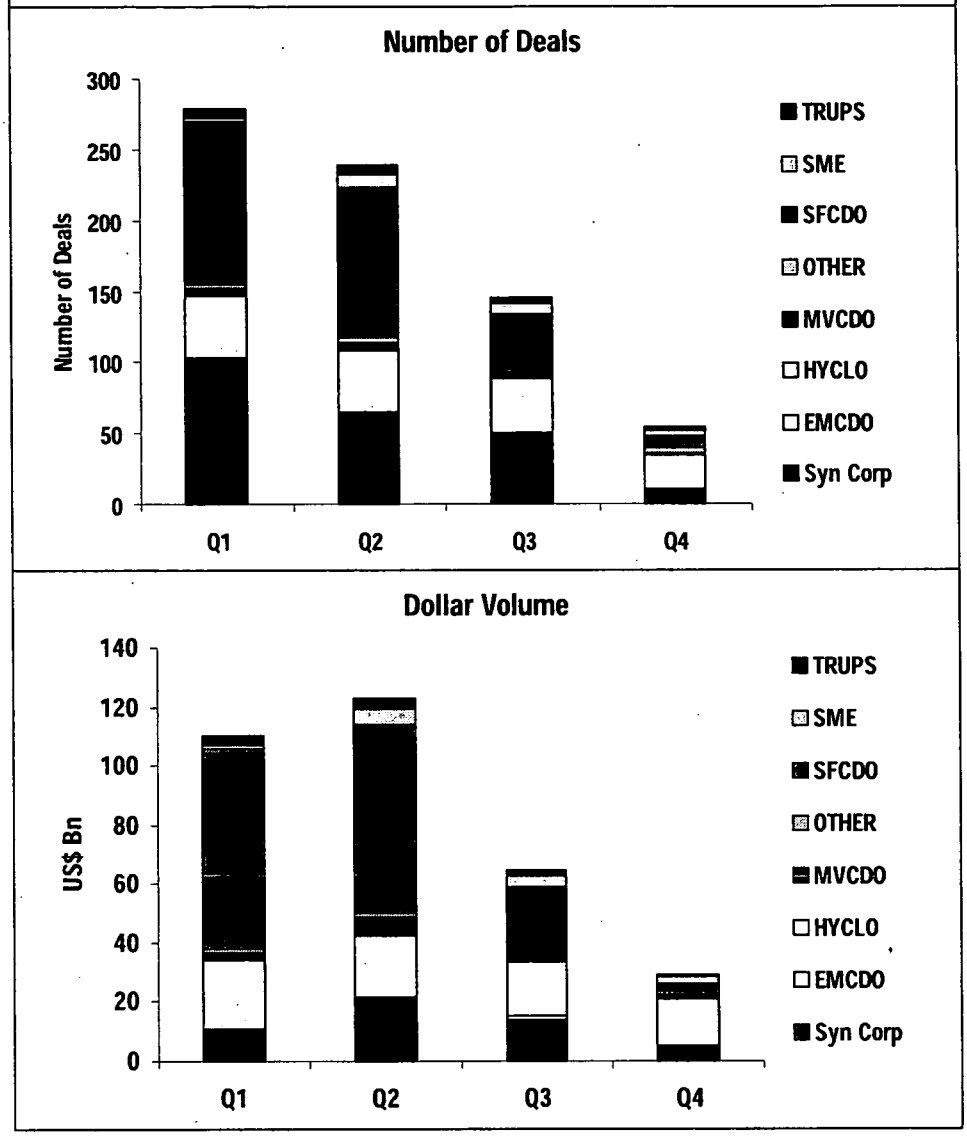
4. STRONG FIRST AND SECOND QUARTERS OFFSET DECLINES IN THE THIRD AND FOURTH QUARTERS OF 2007

The year 2007 saw a sea change for the CDO market. Moody's rated more than 100 SF CDO transactions in each of the first two quarters, but the number fell sharply to 40 in the third quarter and to just eight in the fourth quarter as the sheer speed and magnitude of the subprime mortgage fallout significantly weakened investors' confidence. In fact, the overall CDO market nearly seized up by the fourth quarter, during which Moody's rated just over 50 deals totaling US$28.9 billion, compared to 250 deals totaling US$124.2 billion in the fourth quarter of 2006. *Figure 4* depicts the drop in rated deals by quarter in 2007.

As a result, SF CDOs accounted for 56.8% of U.S. CDO issuance (by dollar volume) during 2007 H1, but only for 29.5% in 2007 H2. Though CLO volume was also adversely affected by the credit crisis, the strong historical performance of CLOs and lack of a direct connection to the mortgage markets kept issuance from contracting as sharply as that of SF CDOs. A consequence was a substantial increase in the share of CLOs within U.S. CDO issuance-from approximately 21.8% in 07H1 to 43.2% by 07H2 (and 62.9% in the fourth quarter) by dollar volume.

Figure 4

Number and Dollar Volume of U.S. CDO Deals Rated in 2007



5. UNPRECEDENTED SF CDO DOWNGRADES IN 2007 SHATTER HISTORICAL RECORD

As a result of the subprime mortgage crisis and its severe impact on the ratings of RMBS/HEL tranches purchased by SF CDOs (including CDOs of CDOs) and other CDOs, the scope and degree of CDO downgrades in 2007 was unprecedented (*Figure 5*). Moody's took a record 1,655 downgrade actions (including multiple rating actions on the same tranche during the year), roughly ten times the number of downgrade actions in 2006 and twice as many as in 2002, which had been the most volatile year for CDOs before 2007.

The magnitude of the downgrades was also large by historical standards. On average, tranches that were downgraded during 2007 had their ratings lowered by roughly seven notches, compared to a pre-2007 norm of around three or four notches. Interested readers can find more detailed statistics of SF CDO rating actions in the Moody's monthly publication, "Structured Finance CDO Rating Surveillance Brief."[12]

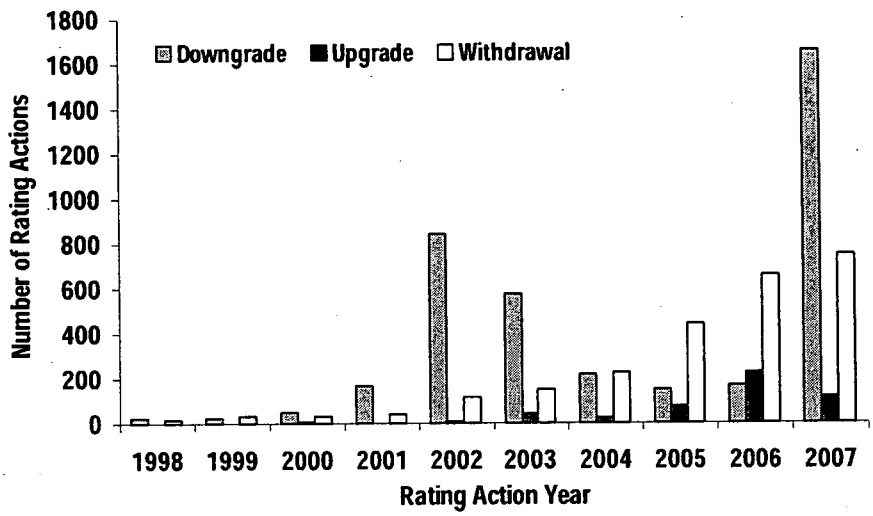
12 See for example, "Structured Finance CDO Rating Surveillance Brief: December 2007," January 17, 2008.

As difficult as the structured credit environment was in 2007, corporate credit performance was only modestly affected by the turmoil in the housing market during the year. The absolute number of CDO upgrade actions declined in 2007 vis-à-vis 2006 as concerns grew on the potential spill-over effect of the subprime mortgage crisis on the broad economy and the corporate sector (*Figure 5*). In addition to the subprime stress that dramatically affected SF CDOs, potential upgrades were limited by a declining number of older, deleveraging high-yield CBOs/CLOs.

While the absolute number of withdrawals increased in 2007, the figure relative to beginning-of-year outstanding ratings declined in comparison to 2006. As noted below, some withdrawals (of Market-Value CDOs) were associated with negative credit developments. The number of CLO withdrawals also declined, partly because the incentive to refinance older CLOs diminished as credit spreads widened in mid-2007.

Figure 5

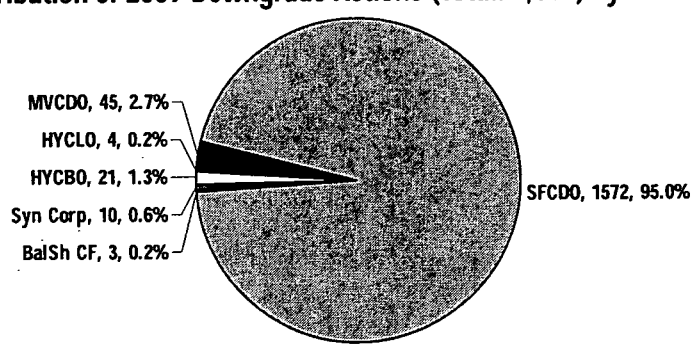
Number of U.S. CDO Rating Actions (Downgrades, Upgrades, and Withdrawals)



The vast majority (about 95%) of the downgrade actions in 2007 occurred with respect to SF CDOs (*Figure 6*).[13] Consistent with the development of the subprime mortgage problem, the downgrades were focused on the CDOs that purchased RMBS/HEL collateral from the 2006-2007 vintages (or that purchased other CDOs with such exposures). CDOs backed by earlier vintage subprime RMBS assets were not materially affected.

Figure 6

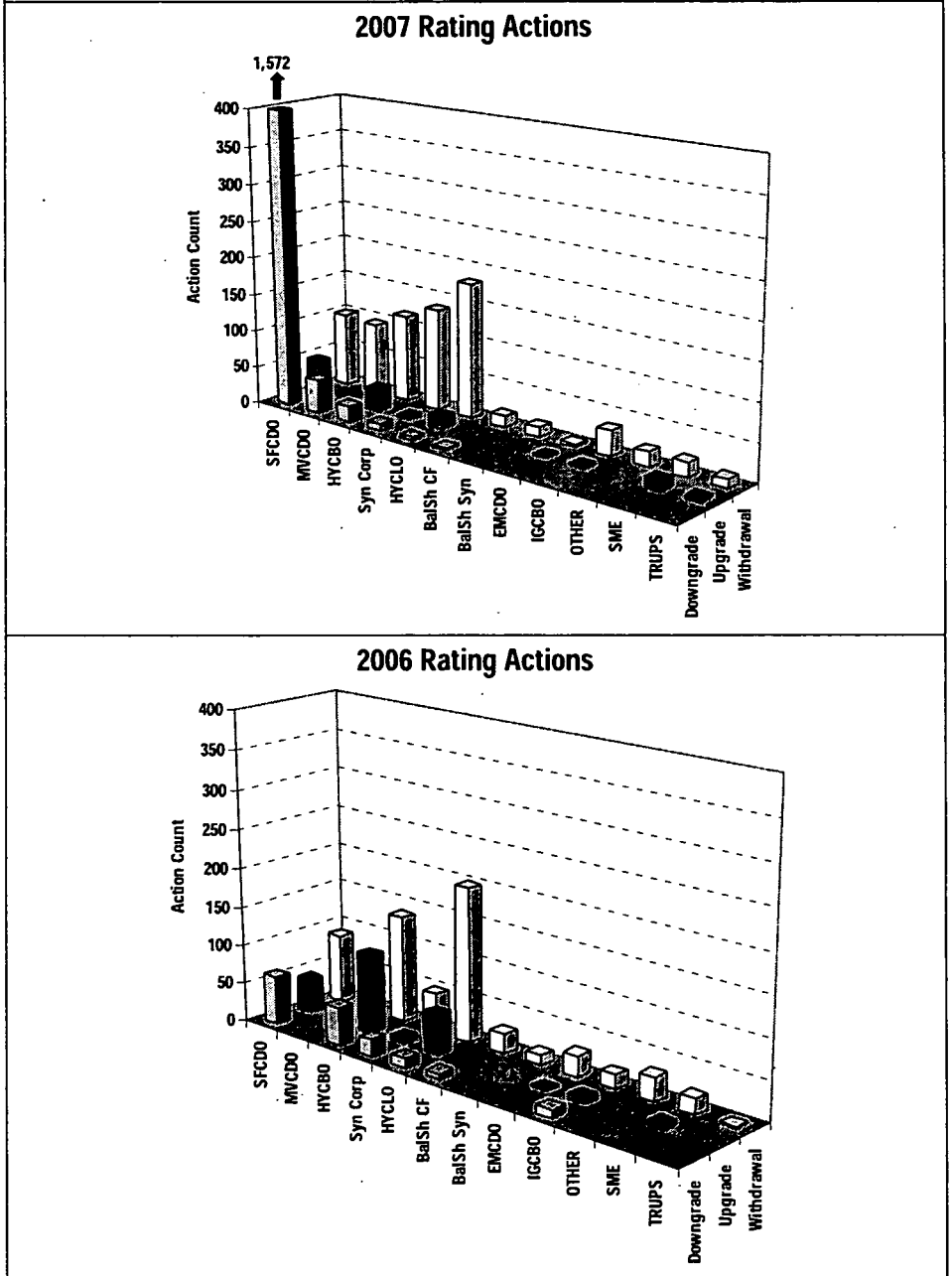
Distribution of 2007 Downgrade Actions (Total: 1,655) by Deal Type



13 Multiple actions on the same tranche are counted separately. While the figures may be slightly different, our commentaries remain unchanged if the count and percentage are based on distinct tranches, which are used to compute rating action statistics in a monthly Special Report "Structured Finance CDO Ratings Surveillance Brief". In addition, Moody's will soon release its annual credit migration study for CDOs in a separate Special Report.

Though small in absolute number, a significant proportion of Market-Value (MV) CDO tranches-roughly 15% of the total outstanding at the beginning of July--were also downgraded. These transactions also came under stress during the credit/liquidity crisis in the second half of 2007. Those MV CDOs that held RMBS collateral were, of course, most sharply affected. The transactions were forced to at least partially liquidate assets in order to maintain required overcollateralization ratios in the highly illiquid environment of 2007 H2. The sales occurred at the same time that other entities, such as Structured Investment Vehicles ("SIV"), were liquidating similar instruments, putting further downward pressure on liquidation proceeds. Eighty-six tranches from five MV CDOs were completely liquidated during the year, contributing to an unusually large number of withdrawn ratings for these transactions (*Figures 7 and 8*).[14]

Figure 7
Number of U.S. CDO Rating Actions by Deal Type



14 Catastrophic risk (CAT) bonds in the "OTHER" category have become increasingly popular among investors due to the uncorrelated nature between natural catastrophic events and credit market cycles. Moody's rated eleven CAT bond transactions in 2006 and seven in 2007, compared to seven rated transactions in 2004 and three transactions in 2005. We expect CAT bond issuance to remain healthy in 2008.

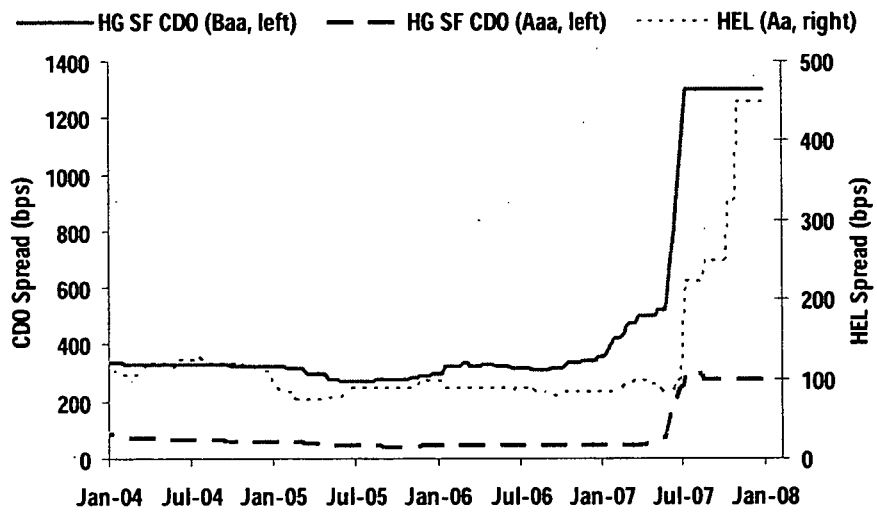
6. OVERALL U.S. FINANCIAL MARKET CONDITIONS REMAIN DIFFICULT HEADING INTO 2008

There is little expectation that CDO performance will quickly turn around in 2008. The difficult market conditions that prevailed during the second half of 2007 remain. While credit spreads have widened in general, the increases have been particularly sharp for CDO liabilities (*Figures 8-10*). The most notable jump has been in the spreads for SF CDO liabilities, which have more than tripled at the Baa level and increased more than five times at the Aaa level during the last year. Of course, spreads on the underlying HEL securities that have backed many of these transactions have also jumped (from 85 bps to 450 bps for Aa HEL securities), but not to the point where expected returns can foster significant market demand for SF CDO liabilities.[15]

Spreads for other CDO liabilities, such as those issued by CLOs and synthetic CDOs were significantly impacted by the spill-over effect of the subprime market crisis and increased sharply as well. On a relative basis, most of these increases were similar to those for SF CDO obligations while the spreads of the underlying corporate assets did not increase as much. For example, Aaa CLO spreads jumped from 24 bps to 95 bps from the beginning to the end of last year, whereas single-B leveraged loan spreads rose from roughly 270 bps to 350 bps during the same period.[16] In some cases, the relative increases in spreads such as those for Aaa-rated synthetic corporate CDO liabilities were even larger (leaped by more than six times) than for SF CDO liabilities.[17]

Figure 8

Spreads of High-Grade SF CDO Liabilities Compared with Spreads of HEL (Subprime RMBS) Securities in 2007

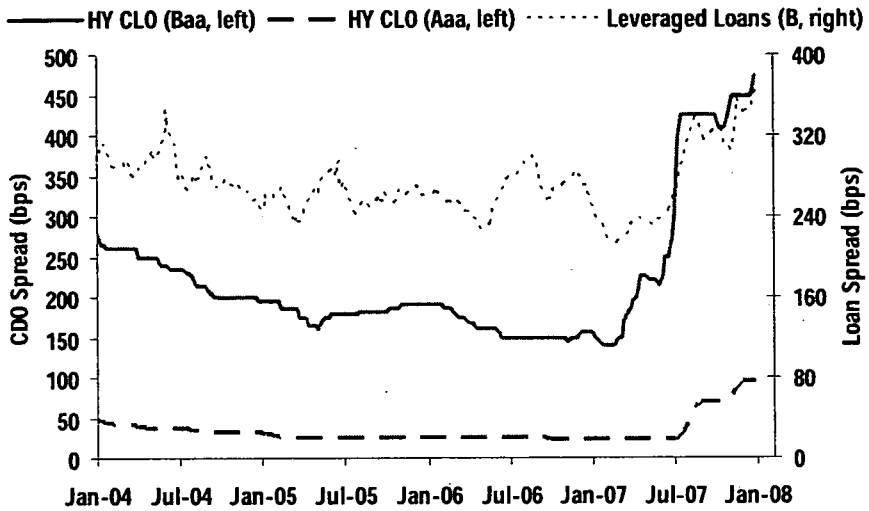


Source: JP Morgan

15 In the absence of a significant number of new SF CDO transactions, these liability spreads are best viewed as indicative, rather than well-defined averages.
16 The average rating of a CLO portfolio is in the single-B range.
17 The spreads on CDO liabilities have continued to rise in the first two months of 2008. As of February 22, 2008, the indicative spread of senior Aaa HG SF CDOs stood above 500 bps, whereas the spread of Aaa U.S. CLOs was about 185 bps.

Figure 9

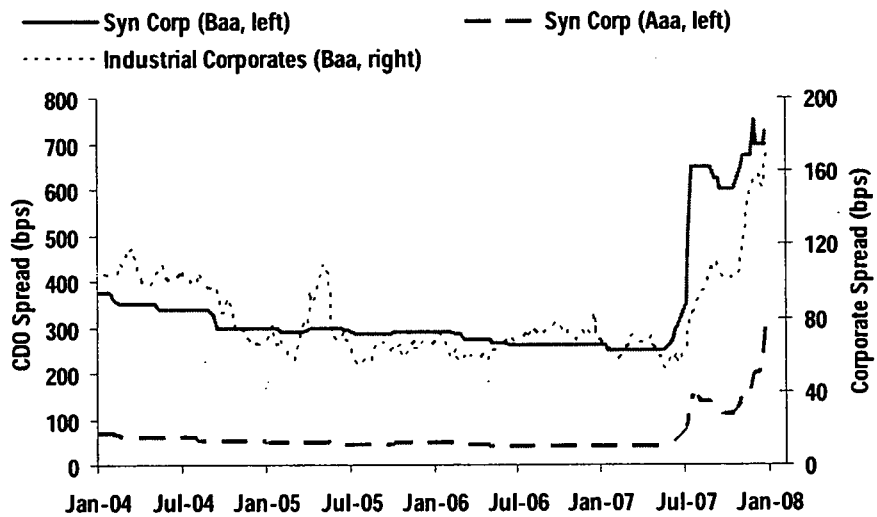
Spreads of U.S. CLO Liabilities Compared with Spreads of U.S. Leveraged Loans in 2007



Source: JP Morgan

Figure 10

Spreads of Synthetic Corporate CDO Liabilities Compared with Spreads of Industrial Corporates in 2007

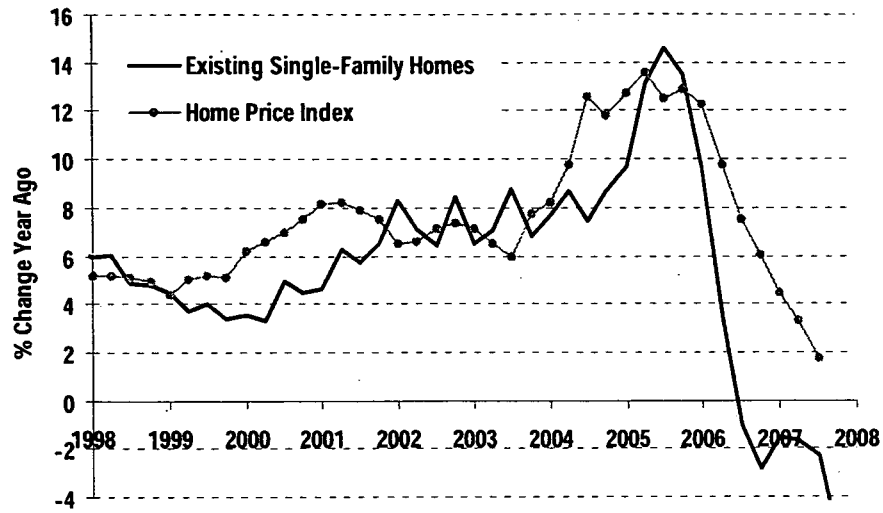


Source: JP Morgan

The real economy has already slowed and some analysts believe the U.S. has already entered a recession. In particular, both home sales and home prices have deteriorated to an extent not seen in decades (*Figure 11*). Delinquency rates for 2006 and 2007 mortgage loans continue to significantly exceed those of earlier cohorts (*Figure 12*).

Figure 11

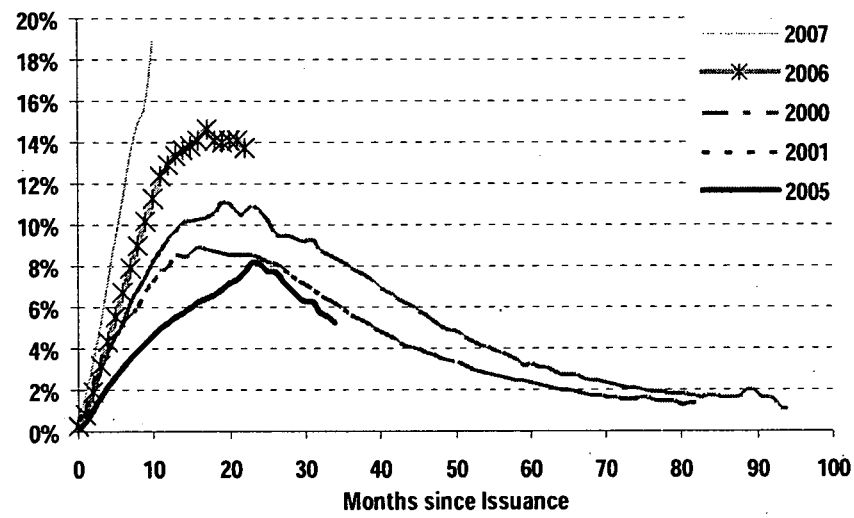
U.S Housing Market Condition Continues to Deteriorate



Sources: NAR (median sales price for existing single family homes), OFHEO (home price index)

Figure 12

2006/2007-Vintage Subprime Mortgage Delinquency Rates Continue Rising



Source: Moody's Investors Service

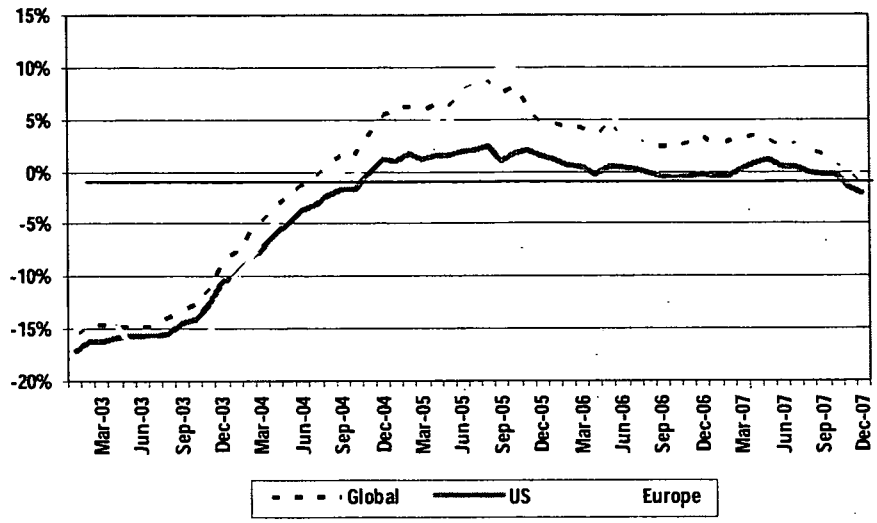
The slumping housing sector, its spill-over into financial markets and the slowing of the U.S. general economy have begun to have an adverse impact on Moody's corporate ratings. *Figure 13* shows that the 12-month trailing ratings drift (the difference between upgrades and downgrades relative to outstanding ratings) turned negative in the latter part of 2007.

Moody's anticipates a sharp rise in U.S. defaults during 2008 in comparison with recent years (*Figure 14*). Moody's baseline forecast is for an increase in the trailing 12-month speculative-grade default rate from just 0.9% in 2007 to 5.3%, a level slightly above the historical average of 4.7%, by the end of 2008.[18] Moody's pessimistic case contemplates default rates similar to the double-digit peaks that occurred during the 1991-1992 and 2001-2002 periods.

18 Moody's expects that the speculative-grade U.S. loan default rate will increase to approximately 3.0% from its current 0.1% by the end of 2008. See Moody's Special Comment, "Syndicated Bank Loans: 2007 Default Review and 2008 Outlook," January 2008.

Figure 13

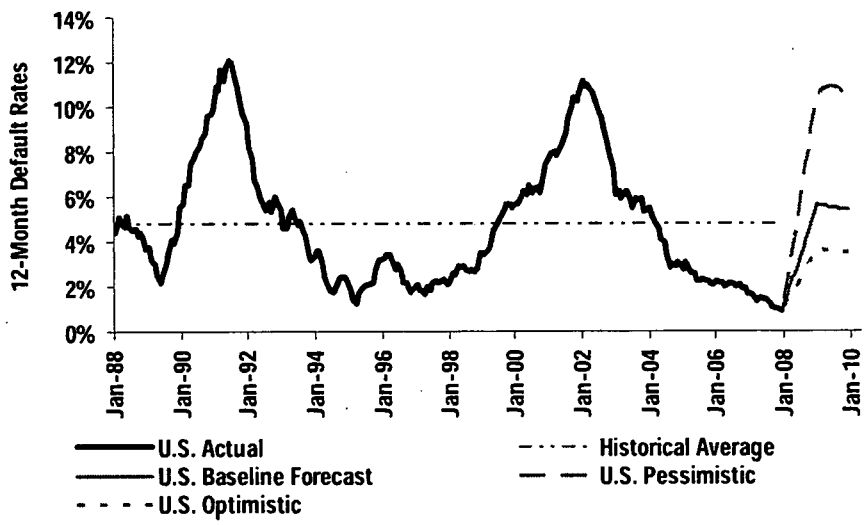
Corporate Credit Quality (Trailing 12-Month Rating Drift) Has Trended Lower



Source: Moody's Investors Service. Rating drift=(issuer upgrades-issuer downgrades)/Rated Issuers

Figure 14

12-Month U.S. Speculative-Grade Default Rate Is Expected to Rise to the Historical Average Level



Source: Moody's Investors Service

7. GENERALLY SLOWER ISSUANCE AND MORE NEGATIVE RATING ACTIVITY ARE EXPECTED IN 2008

ISSUANCE ACTIVITY OUTLOOK

The difficult market and real-sector conditions that are likely to prevail during 2008 will continue to pressure both CDO activity and performance. We anticipate declining activity across all CDO types with the sharpest downturn naturally in the SF CDO sector. The heightened asset price volatility in the current environment will also reduce the demand for market-value structures. Even sectors that have exhibited

strong historical performance, such as CLOs and TRUPS CDOs, will slow in 2008.[19] We expect the bulk of issuance activity in 2008 to revolve around cash-flow CLOs and synthetic corporate CDOs.

If the credit environment improves somewhat in the latter part of the year, there may be pick-up in volume at that time. Also, the deterioration in capital experienced by a number of financial institutions as a result of mortgage-related losses could foster more balance-sheet CDOs. In addition, SME CLO balance-sheet transactions may rebound quicker than arbitrage CLOs as these balance sheet transactions are issued primarily as a source of funding rather than as a result of asset/liability arbitrage.

RATING PERFORMANCE OUTLOOK

CDO performance in general will continue to suffer in 2008, especially within the SF CDO subsector. Moody's has revised upward its subprime RMBS loss projections and has warned that even highly-rated RMBS tranches may be downgraded by several notches.[20] Such downgrades would put significant downward pressure on the ratings of SF CDOs. As a result, our 2008 outlook for the SF CDO collateral performance is negative with significant rating implications on SF CDO securities.

Though the projected increase in the U.S. corporate default rate is partly reflected in the ratings of the corporate instruments that back CLOs and synthetic corporate CDOs, the likelihood of continued negative ratings drift may pressure these CDOs' liability ratings. Still, we do not expect this pressure to be sufficient to induce significant downgrades of CLOs and corporate CDO liabilities. Indeed, existing corporate transactions with the ability to trade could benefit from wider spreads on collateral. Consequently, our 2008 outlook for CLO and synthetic corporate CDO collateral performance is stable/negative with limited rating implications.[21]

The rating outlook for MV CDOs backed by structured instruments continues to be negative in view of ongoing liquidity deterioration in the credit market. Market prices remain weak as a variety of institutions attempt to unload structured instruments, especially RMBS and CDOs with direct or indirect exposure to subprime mortgage assets. In addition, the heightened price volatility of leveraged loans has put pressure on MV CLOs. Therefore, we assign a stable/negative outlook for the MV CDO collateral performance with limited rating implications.

19 For the 2007 Review and 2008 Outlook of TRUPS CDOs, please see "The U.S. Trust Preferred CDO Sector Review and 2008 Outlook," March 2008.
20 See "Moody's updates loss projections for 2006 subprime RMBS," Moody's Announcement, January 31, 2008."
21 A stable/negative collateral performance outlook indicates that the asset class is not expected to perform as well over the next year as it is performing currently.

RELATED RESEARCH

1. "Structured Finance CDO Ratings Surveillance Brief, January 2008," Moody's Structured Finance Special Report, February 2008.
2. "Structured Finance CDO Ratings Surveillance Brief, December 2007," Moody's Structured Finance Special Report, January 17, 2008.
3. "2007 U.S. CLO Review and 2008 Outlook," Moody's Structured Finance Special Report, February 2008. (Forthcoming)
4. "The U.S. Trust Preferred CDO Sector Review and 2008 Outlook," Moody's Structured Finance Special Report, March 2008. (Forthcoming)
5. "2007 U.S. Credit Derivative Product Companies Review and 2008 Outlook," Moody's Structured Finance Special Report, March 2008. (Forthcoming)
6. "2007 Review & 2008 Outlook - EMEA Collateralised Debt Obligations: Strong First Half in 2007 Diluted by Global Credit Crisis; Lower Issuance Expected in 2008 Reflecting Continued Market Disruptions," Moody's International Structured Finance Special Report, February 4, 2008.
7. "Understanding the Consequences of ABS CDO Events of Default Triggered by Loss of Overcollateralization," Moody's Structured Finance Special Report, January 7, 2008.
8. "Impact of Subprime Downgrades on OC-Linked Events of Default in CDOs," Moody's Structured Finance Special Report, November 1, 2007.
9. "U.S. Subprime RMBS 2005-2007 Vintage Rating Actions: January 2008," Moody's Structured Finance Special Report, February 1, 2008.
10. "U.S. Alt-A RMBS 2005-2007 Vintage Rating Actions Update: January 2008," Moody's Structured Finance Special Report, February 1, 2008.
11. "Moody's Updates Loss Projections for 2006 Subprime Loans," Moody's Structured Finance Special Report, January 30, 2008.
12. "Syndicated Bank Loans: 2007 Default Review and 2008 Outlook," Moody's Special Comment, January 2008.

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Dr. Ackermann	Dr. Börsig	Dr. von Heydebreck	Lamberti

Securitization Credit Report

Reason for Presentation: New

CDO

KWG 13: No | KWG 15: No

Borrower (full legal name incl. legal address and domicile country)	Gemstone CDO VII Ltd. ("Gemstone VII") Elizabethan Sq. George Town, Grand Cayman, Cayman Islands
Funding Beneficiary: (If other than borrower)	N/A
Asset Manager	HBK Investment LP ("HBK", "Company") 300 Crescent Ct., Suite 700, Dallas, TX
Sponsor	HBK Investment LP ("HBK", "Company") 300 Crescent Ct., Suite 700, Dallas, TX

Servicer Group:	HBK		Servicer Group ID:	
Paragon Org ID	6909412	Batch Code	67	SIC: 6733
DB Business Entity	CDO group	DB Booking Entity		DBAG NY/Cayman

Classification	Pass	Authority	SCO
LLP:	0	Date:	12/20/06

CA Review Date (new/previous)	3/07	n/a
Rating Rev. date (new/previous)	3/07	n/a

Asset Category	CDO: Structured Finance
Asset pool considered granular	yes
Weakest external rating of underlying assets	Ba2
Remaining average life of assets (yrs)	6.0

	LGD	DB FPD	S&P	Moody's
All Facilities	2	iBBB+		
Servicer Rating		iBBB-		
Counterparty PD rating :		iBBB+		

x Securitisation hierarchy | Other hierarchy see "ownership" for details

Borrower's majority owner / stake: N/A

Transaction Type	Warehouse Line	Holding Period	Select	Maturity Date	3/07

Description:

1) **New:** US$1.078billion 4-month warehouse facility issued by DBAG Cayman to the Borrower to purchase a portfolio of primarily (85%-90%) RMBS securities. According to Exposure Management, 75-day VAR for the entire portfolio (considered as 100% cash assets) is 12%. Any warehoused collateral above $500m of this 1.078b total transaction size will be hedged with a 50% hedge ratio, with ABX.HE Baa2/Baa3. Total notional of cash and synthetic assets is capped at 1.078b. **Maturity**: 31 March 2007.

2) **New:** US$ 78 mm margin line (12% PFE) for up to $650m notional Pay-As-You-Go ("PAUG") Credit Default Swaps ("CDS"), referencing ABS securities. CDO (protection seller) will pay credit protection payments and DB London will pay CDS premiums. During the ramp-up period, any physical settlement amounts subsequent to credit events payable by the CDO will be settled by drawing under the RCL. After the closing of the CDO, the 23% PFE will be 4.3x collateralized by segregated note proceeds and/or liquidity equal to 100% of the CDS notional. **Maturity**: legal maturity of 40 years (3 year CDO revolving period plus maximum 37 year CDS tenor) and an expected maturity of ~8 years.

3) **New:** US$[200,000] futures clearing limit to hedge fixed rate assets in the portfolio. **Maturity**: 31 March 2007

4) **New:** US$4.5 mm margin lines (4.5% PFE) for repurchase obligation under which Borrower can borrow and short up to $100 mm notional treasuries and agencies securities. **Maturity**: 31 March 2007

Currency: EUR mn ($1 = €0.80)	Cash	Guarantee	Margin	Whole Loans	Total	Thereof committed	*Previous Total*
Tenor ≤ 1 year	€ 862.4		3.7		**€ 866.1**	862.4	*0*
1 < T ≤ 5 years							
5 < T ≤ 7 years							
7 < T ≤ 10 years							
Tenor > 10 years			62.4		**€ 62.4**	0	
Aggregate (By Type)	**€ 862.4**		**66.1**		**€ 928.5**	**862.4**	*0*
Previous Aggregate	*0*		*0.0*		*0.0*		
Utilisation	0		0.0		0.0		

Securitisation Limits to Servicer Group	€ 979.1
Direct Credit Limits to Servicer Group	€ 100.4

Settlement Limits

KWG13 Total

Variance from Credit Policy: none

Ownership / Shareholders / Management: The borrower is a Cayman Islands special purpose entity with a US co-issuer. Ordinary shares of the borrower are owned by the co-issuer and the ordinary shares of the co-issuer are held by a charity. At closing, the borrower will issue multiple tranches of CDO notes, distributed via a capital markets offering underwritten by DB, HBK will bear the first loss risk (up to 7.5% of the transaction size). The CDO will be backed by the collateral purchased during the warehouse period. HBK, the collateral manager of the CDO, is an investment management firm set up in October 1991 with approximately $11.0 billion in equity capital under management.

RAROC / Earnings: DB is expected to generate $[6.79] million in underwriting fees, in addition to an interest spread on the RCL (The CDO will be paying L+30 as warehouse interest). DB Fee is calculated based on sum of i) 0.75% x 350mm and ii) 0.65% of any excess investment grade notes over 350mm.

Key Figures – Portfolio Parameters	Expected	Limit
Portfolio Rating	Baa3/Ba1	Baa3/Ba1
Moody's Weighted Average Rating Factor	645	665
Moody's Correlation Factor	22.76%	24.26%
Weighted Average Life	5.0 years	6.0 years
Weighted Average Coupon (fixed collateral)	5.33%	5.18%
Weighted Average Spread (floating collateral)	2.13%	1.75%
% of below investment grades (MDY/S&P)	31.5% / 20.7%	
Synthetic security	55%	65%

Collateral Description

Lines are secured by a diversified pool of primarily RMBS securities carrying weighted average portfolio rating of Baa3/Ba1.
The lowest expected rating on underlying collateral at acquisition is BB/Ba2 (max 30%).
Guarantor: Up to $[80.9]mm joint & several recourse to:
- HBK Investments LP
- HBK Master Fund L.P. and

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1266

			- HBK Fixed Income Ltd

Recommendation:

We recommend approval to issue the US$1.078b RCL by DBAG Cayman to the Borrower to facilitate the execution, ramp-up, and placement of the structured finance cash flow CDO. HBK bears the credit risk on the underlying portfolio during the term of the RCL, to the extent of [$80.9m]. Under the terms of the Risk Sharing Agreement, HBK will reimburse the Borrower for any losses resulting from the sale of any portfolio assets (adjusted for mark-to-market gains or losses on the associated hedges) up to $[80.9]m. The warehouse net carry will not be paid to HBK until closing and will be used to offset any losses resulting from the sale of any portfolio.

The RCL will be repaid through the CDO note proceeds upon transaction close. Recommendation is based on

(i) DB's ability to terminate the ramp-up, if necessary,
(ii) DB will be closely monitoring the ramp-up process
(iii) experienced investment manager performing asset selection,
(iv) this is HBK's 8th CDO, their 5th with DB
(v) DB's right of refusal on assets/hedges prior to inclusion in warehouse,
(vi) The CDO group will be hedging any ramp-up over 500m with a 50% hedge ratio short of ABX BBB or BBB- indices, and
(vii) commitment by HBK to reimburse DB for any losses up to $[80.9]m at the time of collateral liquidation. DB shall earn LIBOR+0.30% on the warehouse loan during the warehouse period and structuring/placement fees of approximately $6.79million.

Risks/Mitigants:

Business Risk: The closing of the CDO could be impaired for reasons including:

1) Adverse Market conditions, such as market disruption or spread widening. This risk is mitigated by

(i) DB's right to terminate ramp-up upon adverse change in market conditions or to terminate the engagement letter at any time with ten days' notice.
(ii) high likelihood of CDO transaction completion given HBK commitment to purchase 100% of the Class E and Equity,
(iii) ability to net DB fee income to off-set Senior Note spread widening and maintain Subordinated Interests returns sufficient to close transaction. Based on sensitivity analysis, the spread on the Notes could widen approx 50 bps on average before the equity returns are no longer marketable.

2) Deterioration of the ramped-up assets preventing the portfolio to meet the rating agencies eligibility guidelines. Performance risk is limited considering

(i) the requirement that at least 70% of assets be rated Baa3 or greater, (174m of the ramp up so far is rated Ba1 or Ba2 by Moody's. This constitutes 17.4% of the transaction size, or about 24% of the current ramp-up).
(ii) relative short term warehouse facility and low rating migration risk of ABS,
(iii) none of the non-investment grade securities have been downgraded and all are of recent vintage, and
(iv) DB's veto right to refuse assets/hedges prior to inclusion in warehouse.

Downside scenario: Should the CDO fail to close, or is downsized, HBK will direct the sale of assets in the ramp-up portfolio and will bear first-loss risk in the losses incurred upon such sale up to $80.9m. In addition, all the carry on the collateral during ramp-up will be used to cover any losses should the CDO fails to close and HBK fails to reimburse the Borrower. The net carry is paid to HBK only at CDO Closing after all the losses, if any, have been paid. The net carry is expected be approx $[2]m. Note that the carry is not available to cover spread widening on the notes. Exposure Risk Management has calculated maximum unwind exposure amount of approximately $[120] mn ([12]%PFE) on the $1 bn warehouse if the transaction fails to close, i.e. 1.5x the recourse we have on HBK.

Financial/Hedging risk: DB is currently, or will be after closing of the CDO, a swap counterparty under the following facilities:

- Long CDS ($650mn notional), as DB can ramp-up up to 65% of synthetic ABS (i.e. CDO sells protection to DB);
- Repurchase Obligations to hedge the fixed rate assets. Fixed rate assets will be limited to 5% of the Transaction. During the warehouse period, exposure to fixed rate assets will be hedged using a combination of eurodollar futures, and shorted Agency securities. After the CDO closing, DB will not need enter into an interest rate swap with the CDO because the notional of the fixed rate assets approximately equal the size of the equity tranche.

Periodic payments under the cash waterfall are senior to AAA/Aaa rated Notes. To the extent that DB is not the sole defaulting or the sole affected party, termination payments in case of an Event of Default or a Termination Event (under the ISDA Master) will be paid to DB at least pari passu with interest on AA/Aa2 rated Notes and senior to principal on AAA/Aaa rated Notes. No Supplemental Indenture which adversely affects the rights and obligations of the CDS Counterparty will be effective without the prior consent of such counterparty.

Downgrade provisions linked to DBSI's rating possibly requiring action after a DBSI downgrade were approved by Treasury (see exhibit). Allowed mitigating actions are to either (i) deliver collateral, (ii) obtain a suitable guarantee, or (iii) assign the respective swap to a suitable 3rd party.

Operational / Management Risk: This is HBK's eighth CDO backed by structured product collateral. HBK is a qualified investment manager/sponsor, with a strong track record in fixed income management. HBK has $11.0 billion in equity capital under management. Since its inception in 1991, HBK Fund generated a compounded annual return of 14.55%, net of all fees and expenses. This is a revolving CDO, there is a 0.30% senior management fee, similar to Gemstone CDO II, IV and V. HBK's earlier CDOs are performing as expected, and the Portfolio Manager's experience in managing similar deals successfully is indicative of expected in-line performance of Gemstone CDO V.

CRM assessment:

Strengths:

- Short ramp-up period of 4 months, that limit risks of spread widening on the CDO liabilities and rating migration on the assets.
- Standard structure of the warehouse facility, for a HBK, a repeat CDO Manager (eighth CDO).
- HBK guarantee up to $80.9 mm (vs $120 mm PFE), collateralized by the carry on the underlying assets (approx $2 mn).
- HBK is committed to buy the Equity and BB tranche of the CDO, resulting in high likelihood of the CDO closing as well as strong incentives to select good assets.

Weaknesses:

- Concentration on RMBS assets (85%/90%), of which Subprime borrowers represent (48%).
- Relatively large bucket for non investment-grade ABS (30%). However, it includes only ABS originally rated to such level (no downgraded ABS).
- The new CDO will be the eighth transaction originated by HBK, but one of the first structured with a revolving period.
- Large bucket for long synthetic securities up to 100%. Recovery risk is mitigated by the "pay-as-you-go" structure.

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- Breakage costs for both the Credit default and interest rate swaps are pari passu with the AA interest and senior to the AAA principal payments.

While large (i.e. $1bn), the warehouse facility is relatively standard for an ABS CDO with a large bucket for non-inv't grade bonds. Business is hedging all exposure over $500m with a 50% hedge ratio short of ABX BBB or BBB- indices. Netting of underwriting fees and reduction in equity returns protects against an average 50 bps spread widening, which is a significant cushion considering that the CDO is scheduled to price during the first quarter 2007.

No credit is given to the HBK recourse, given the hedge funds nature of the counterparty.

Batch Strategy: Exposure is consistent with the securitization batch strategy.

Signatures:

Abhayad Kamat **Global CDO Group /** **Vice President**	**Sourav Sen** **Global CDO Group /** **Associate**	**André-Louis Clémot** **CRM-SEC / Director**	

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I. Transaction Description / Facility Description

Gemstone CDO VII has engaged HBK to manage a $1.078b revolving cash flow CDO securitization of a portfolio of primarily RMBS assets (the "Target Portfolio") with reinvestments in investment grade assets only. For HBK, the purpose of the transaction is to leverage its ABS portfolio rather than to do an arbitrage transaction.

Warehouse Facility:

HBK as agent for the Borrower pursuant to a Interim Collateral Management Agreement will purchase the Target Portfolio during the warehousing period. DB-issued RCL will finance the Borrower's purchase of the Target Portfolio during the ramp-up period prior to closing. Every bond purchased into the warehouse facility will be subject to HBK's credit process and DB will have the right of refusal on the assets and accompanying hedges prior to inclusion in the warehouse. The Borrower will pay DB Cayman's LIBOR funding costs plus 0.30% on the portfolio during the warehouse period.

Estimated Transaction Timing	
Ramp-up at pricing:	80%
Pricing:	February 2007
Closing:	3-4 weeks after pricing

The proceeds of the CDO notes must be sufficient to repay the full amount of the RCL and interest thereon to DB. In the event of a failure to close the CDO, HBK will direct the sale of the Target Portfolio to pay down the RCL. Under the warehouse terms, HBK will get all the gains and will bear up to $80.9m of the losses experienced on liquidation of the warehoused collateral. However, all the carry on the collateral will be put in reserve during the ramp-up to cover any losses should the CDO fails to close.

HBK and Gemstone CDO VII will enter into covenants that are standard for this type of transaction, including that HBK and Gemstone CDO VII will prepare CDO offering documents containing all required and appropriate disclosures. Also, DBSI has the right not to proceed with the offering or the financing of the securities if there is any material adverse change in

(i) the business operations or financial condition of HBK, or
(ii) a material portion of the warehoused collateral, or
(iii) for any other reason, subject to ten days' notice to HBK

CDO Exit:

Upon closing, Gemstone CDO VII will issue CDO notes representing an undivided interest in the assets. The expected CDO capital structure is shown in Exhibit C. HBK will purchase 100% of the Class E (Ba1/BB+) and the Equity; the Equity is expected to be around 7.5% of total deal size. Indicative equity price is [59.6]% and we expect no discount for BB as of now. No minimum IRR is guaranteed on the equity.

The CDO is structured as a revolving "cash flow" CDO with a 3 yr reinvestment period with reinvestments only in IG assets. Gemstone CDO VII will be subject to OC tests (based on par value of assets) and interest coverage tests (based on current interest).

DB, as the lead manager, will be responsible for placing the investment grade notes (triple-A to triple-B). Given the earlier success with HBK's deals, DB is confident that the Notes will be placed. The Class E and Equity has already been committed to by HBK, the Manager, and this alignment of interest with the investors will help in the marketing process.

Marketing:

This is the eighth structured product CDO on which HBK Investments is the collateral manager, an established manager in the CDO market. HBK and DB are looking to get in and out of the deal quickly within the next months. Gemstone VII being practically similar to, but larger in scale than, Gemstone V, we anticipate a very efficient transaction.

The transaction marketing materials, portfolio disclosure, breakeven default analysis and other transaction information is expected to be made available well within the time frame and investor meetings and conference calls will be arranged as needed.

The Class A Notes will be rated Aaa/AAA by Moody's and S&P and will be marketed to traditional CDO Class A Note buyers, including CP conduits, banks, high grade CDOs and insurance companies. The Class B, C and D Notes will be offered to existing ABS and CDO investors globally. Please note that Class E and Equity have been committed by HBK.

Given experienced manager, quick ramp-up, BB and equity commitment by manager, we are confident that all of the Notes will be fully subscribed.

LIBOR Swaps:

No interest rate swap is expected on the transaction since the exposure to the fixed rate assets will be approximately the same as the equity tranche thickness.

Credit default Swaps:

The CDO will sell protection to DB. The Credit events under the Pay-as-you-go CDS will be standard conditions:

(a) Failure to Pay Principal (by the scheduled termination date or final amortization date of the Reference Obligation);
(b) Writedown (any form of writedown (except implied writedowns)/applied loss/forgiveness/principal deficiency resulting in a reduction in the outstanding principal amount of the reference obligation or a reduction of the current interest payable on the reference obligation);
(c) Distressed Ratings Downgrade (Caa2 or below by Moody's or CCC or below by S&P or Fitch); and

If there is a VFN, the amount of synthetic CDS that exceeds the VFN will be invested in GIC or similar instrument earning approximately LIBOR-[0.06]%.

ISDA Credit Terms:

The swap counterparty will be a secured party under the indenture of CDO. Credit terms under the ISDA schedule are expected to be as follows:

(a) cross default will not apply to either party. However, Event of Default under the indenture is an ATE (see below).

(b) Bankruptcy definition (section 5(a)(vii)) is amended with respect to the CDO so that it will be a termination event if the CDO becomes unable to pay principal or interest on the Notes of the Controlling Class.

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(c) Additional Termination Events are:
- (i) Redemption of all the CDO Notes,
- (ii) Event of Default under Indenture (after CDO closing),
- (iii) Cancellation Date or Event of Default under Credit Agreement (prior to CDO closing),
- (iv) Amendment of Indenture or Credit Agreement without DB consent,
- (v) Termination of Transaction pursuant to Indenture (applies only to the affected transaction)

(d) Change of manager is not a termination event, as it is governed by the indenture.

The swap will be subject to downgrade provisions requiring DBNY to deliver collateral upon a downgrade (as approved by Treasury).

II. DB Relationship:

DB client since 1992, HBK is important to Global Markets. Over time, DB has become one of HBK's largest trading counterparties. Apart from DB, they maintain prime brokerage accounts at other investment banks. As placement agent for the Gemstone CDO VII transaction, DB will generate $[6.8] million in placement fees in connection therewith. HBK is likely to repeat the issuance of this type of transaction in the future and DB should have a chance to benefit from additional structuring, placement and underwriting assignments.

III. Expected Collateral Description / Assessment:

The Portfolio will consist of a diversified pool of primarily investment grade asset backed securities. The collateral will comprise predominantly of floating rate assets. Anticipated pool composition is as follows. Assets are sourced from market or other HBK Funds. Assets are acquired subject to DB approval of asset as well as price of acquisition.

Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	
RMBS Midprime	2.83%				1.41%		0.77%	4.61%	1.74%	16.34%	5.38%	5.99%	39.07%
RMBS Subprime					0.82%			1.19%	3.70%	23.29%	7.81%	10.88%	47.70%
RMBS Prime												1.41%	1.41%
CDO			4.71%										4.71%
CMBS Conduit						2.36%	0.92%	0.16%					3.44%
Student Loans						1.88%	1.79%						3.67%
													0.00%
													0.00%
									5.45%	39.63%	13.19%	18.28%	100.00%

S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	
RMBS Midprime	2.83%				1.41%	4.54%	3.90%	5.31%	8.36%	9.79%	2.94%		39.07%
RMBS Subprime					0.82%	0.47%		5.90%	11.19%	11.51%	8.00%	9.80%	47.70%
RMBS Prime										1.41%			1.41%
CDO			4.71%										4.71%
CMBS Conduit						2.36%	0.92%		0.16%				3.44%
Student Loans						3.67%							3.67%
													0.00%
													0.00%
									19.71%	22.71%	10.94%	9.80%	100.00%

The portfolio will be mostly comprised of real estate related securities (~93% including CMBS). The remaining will be comprised of consumer ABS and CDOs. No Corporate CDOs are anticipated. There will be no IOs or NIMs in the transaction. This portfolio will be revolving.

Due to the concentration in real estate assets, the portfolio will have relatively large exposure on mortgage servicers. Expected servicer concentrations are as follows:

15% or more allowance for [2]
7.5% to 15% allowance for [5]
less than 7.5% remaining

The servicer stratification is expected to be like that in Gemstone V: most servicers are expected to be at 7.5% or less, each, with the exception within their respective limits.

IV. Sponsor / Servicer Description and Assessment:

HBK will act as the collateral manager of the CDO. HBK is an investment management firm set up in October 1991 with approximately $11.0billion in equity capital under management. HBK employees over 260 individuals in five offices around the world. Their main office is in Dallas, Texas, and they maintain subsidiary offices in New York, London, Hong Kong and Tokyo. From inception through September, 2006, HBK Fund generated a compounded annual return of 14.55%, net of all fees and expenses.

Performance of the 4 CDO previously underwritten by DB:

Sandstone CDO

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	2.87%	2.90%	2.78%	F
Weighted Average Coupon	5.27%	5.31%	5.85%	P
Diversity Score	11.0	11.9	11.5	P
Moody's WARF	470	446	426	P

* Note: Sandstone closed June 2004

Gemstone CDO II

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	2.12%	2.16%	2.18%	P
Weighted Average Coupon	5.44%	5.55%	5.56%	P

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Moody's WARF	664	646	646	P

* Note: Gemstone CDO II closed May 2005

Gemstone CDO IV

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	1.81%	1.88%	1.85%	P
Weighted Average Coupon	5.21%	5.31%	5.27%	P
Moody's WARF	659	646	647	P

* Note: Gemstone CDO IV closed January 2006

Gemstone CDO V

Collateral Quality Tests	Test Level	At Closing	As of 9/29/06*	P/F
Weighted Average Spread	1.80%	1.90%	1.90%	P
Weighted Average Coupon	4.82%	5.02%	5.00%	P
Moody's WARF	626	609	609	P

* Note: Gemstone CDO V closed May 2006

V. Sensitivity Analysis:

Exposure Management has analyzed a potential exposure to loss on the inventory of bonds should the transaction fail to close as [12]% of the Target Portfolio This PFE is conservative and about [1.5]x higher than the guarantee provided by HBK.

Spread widening on the CDO Notes (without assuming spread widening on the underlying collateral) of up to 50 bps can be absorbed by:

- The $[6.8] million upfront fee due to DB as placement and structuring agent
- The L + 0.30% spread on the ramped-up portfolio, which may generate approximately $[0.4] mn of additional revenue over an average of half the warehouse period of 4 months
- A reduction of the expected return on equity from about [45]% down to [30]%, before HBK may lose its incentive to do the transaction.

Assuming an Equity price of [59.8]%, the following is the IRR table. The BB+ price is assumed for modeling purposes to be [100.0]%

	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Equity	47.9%	46.8%	45.5%	44.2%	42.9%	41.0%	38.3%	35.1%	31.4%

Gemstone VII CDO

Capital Structure		Size	Avg life	Base Spread	B/E Spread	Changes
Class A-1	AAA	$699.98	5.30	0.250%	0.42%	0.17%
Class A-2	AAA	$107.86	7.00	0.430%	0.73%	0.30%
Class B	AA	$69.03	7.30	0.600%	1.02%	0.42%
Class C	A	$48.54	7.30	1.600%	2.71%	1.11%
Class D	BBB	$64.71	7.30	3.750%	6.36%	2.61%
Class E	BB+	$23.73	8.00	6.500%	11.02%	4.52%
Equity	NR	$38.83	8.00	45.000%	30.00%	-15.00%
Total / Avg [1]	A-	$ 1,052.66	6.0	0.73%	1.23%	0.506%
Structuring Fees	0.65%	$6.786		Cushion [2]	$24.23	($0.00)
Ramp-up carry	0.30%	$0.41	0.33	Break-Even Multiplier [3]		1.70x

(1) Implied rating of the facility is the WARF of the CDO liabilities (using "B-" for unrated equity).

(2) Arbitrage Cushion = structuring fees + ramp-up carry + PV of reduction in ROE

(3) Stress factor applied to the spread of each tranche of the capital structure, resulting in a $0 cushion.

VI. Summary / Conclusion:

Approval of ramp-up facility is recommended on the basis of the short-term financing, the diversity of the portfolio, the large portion of investment grade quality of the collaterals, and the relatively good acceptance of the investment manager by the market (eighth CDO).

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EXHIBITS
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A Risk Score Sheet
B Term Sheet
C Expected Capital Structure
D Collateral Manager Information
E Exposure Management Report
F Treasury Approval for Downgrade Collateralization
G Highly Confident Memo

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EXHIBIT A: Risk Score Sheet

CDO Score Sheet - Version 4.3 - May, 15th, 2004

Credit Officer:	Andre Clemot		Note for data input: Fill/Select these fields.
Date:	20-Dec-06		These fields are calculated
Borrower: Name & Country	Gemstone VII	Cayman Islands	
Funding Beneficiary / SPV: Name & Country			
Type(s) of Facility:	warehouse facility		
Asset Type:	Diversified ABS		
CDO Type:	Cash Flow		
CDO Purpose:	Arbitrage		
Purpose of Financing	Financing		
Initial size & currency of asset portfolio:	mn 1,000 USD	Applicable Initial WAL:	6.00 yrs
Initial size of exposure & currency/ PFE for derivatives	mn 1,000 USD		
Trustee / Custodian : Name & Country	Deutsche Bank Trust	United States	

Results

PD Rating	iBBB+
PD %	0.14%
LGD Rating	2
LGD %	10%
EL%	0.01%

PD Rating

	very good/ excellent	satisfactory	higher risk/ still acceptable	unknown/ n/a poor	
A Portfolio Manager Risk					
1 Name, Country & Rating (internal or external)	HBK Investment LP			United States	iBBB-
2 Total Assets under management		x			
3 Experience in specific asset class (number of CDOs managed)		x			
4 Performance of existing transactions	x				
5 Quality of management, systems, reputation		x			
B Asset Portfolio Risk					
6 Maturity of managed assets (WAL)		x			
7 Quality of underlying assets (WARF)	BB+				
8 Diversity & Granularity of asset pool - Concentration Risk		x			
9 Recovery Performance of asset class			x		
10 For Ramp-up facilities: Time to CDO closure		x			
C Structural Risks and Risk Mitigants					BBB+
11 Loss / Default coverage provided by credit enhancement					
12 Is legal structure of Funding Beneficiary bankruptcy remote?	Yes				
13 Overall documentation standards	x				
14 Hedging of Interest and F/X Risks	x				
15 Revolving Structure	Static				
16 Eligibility Criteria / Investment Guidelines	Tight				
17 Effectiveness of Performance Triggers, Tests, Covenants		x			

Comments:
Please provide any comments regarding PD section here!

Calculated PD Rating	iBBB+
Outvoting: If use explanation in "comments" box.	
Final PD Rating	iBBB+

LGD Rating

	very good/ excellent	satisfactory	higher risk/ still acceptable	unknown/ n/a poor	
D Structural Considerations					
18 Effect of Termination Triggers / Maturity of Financing		x			
19 Secondary market for asset pool			x		
20 Loss / Default coverage provided by credit enhancement (PD)				Rating range equivalent of:	BBB+
21 Documentation (Legal) & Structural Risk (PD)					
E Third Party Support					
22 Name, Country, Internal Rating (of supporting entity)					
23 Volume of third party support	mn	USD			

Please provide a 1, 2, 3, 4, 5 grade indicating the expected Loss Given Default (LGD) of the transaction.

LGD Rating :	2

Comments:
Please provide any comments regarding LGD section here!

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EXHIBIT B
Portfolio Terms

EXPECTED PORTFOLIO TERMS

Key Figures –	Expected	Limit
% min Investment Grade	72% / 87%	70%
Moody's Weighted Average Rating Factor	662	682
Min Moody's Correlation Factor	22.76%	24.26%
Weighted Average Life	4.6 years	5.0 years
Weighted Average Coupon (fixed collateral)	5.33%	5.18%
Weighted Average Spread (floating collateral)	2.28%	2.13%
% min RMBS / CMBS	90%	85%
Discretionary Sales	n/a	20%
% max Fixed rate assets	6.1%	10%

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EXHIBIT C

Expected Capital Structure

Summary Details of Expected Capital Structure

Class	Rating (Mdy's/S&P)	Tranche Size ($)	Tranche Size (%)	Average Life to Call (yrs)	Spread	Legal Final
Class A-1 (unfunded)	AAA/Aaa	699,975,705	64.90%	5.3	L + 0.2500% / L + 0.3200%	February 2047
Class A-2	AAA/Aaa	107,854,500	10.00%	7.0	L + 0.430%	February 2047
Class B	AA/Aa2	69,026,880	6.40%	7.3	L + 0.600%	February 2047
Class C	A/A2	48,534,525	4.50%	7.3	L + 1.600%	February 2047
Class D	BBB/Baa2	64,712,700	6.00%	7.3	L + 3.750%	February 2047
Class E	BB+/Ba1	23,727,990	2.20%	8.0	L + 6.500%	February 2047
Equity		64,712,700	6.00%			February 2047
Total		1,078,545,000	100.00%			

PORTFOLIO CHARACTERISTICS	Required		Required
Weighted Average Fixed Coupon (min)	5.18%	Weighted Average Life (max)	6.0 years
Weighted Average Floating Spread (min)	2.13%	% of Fixed rate assets (max)	10.0%
Weighted Average Moody's Rating (max)	Baa3/Ba1		
Weighted Average S&P Rating (max)	BBB-/BB+		

ONGOING FEES AND EXPENSES	
Senior Management Fee	0.30%

DATES AND TIMING	
Revolving Period	3 years

Preliminary and subject to change

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Exhibit D

Collateral Manger Information

Overview

- HBK Investments L.P. ("HBK") is an investment management firm founded in October 1991 with equity capital under management of approximately $11 billion. HBK's structured finance team manages $5.6 billion in structured finance securities, including $3.6 billion of structured product CDOs, as of June 5, 2006[1]
- HBK's main office is in Dallas, Texas, with branch and subsidiary offices in New York, London, Hong Kong and Tokyo
- HBK employs 275 individuals in its five offices globally
- HBK's senior management team has been working together since 1994
- The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices
  - pursuing arbitrage opportunities from price disparities between related securities
  - "multi-strategy" approach with a sub-categorization of either "market neutral" or "absolute return"
- From inception through September, 2006, HBK generated a compounded annual return of 14.55%, net of all fees and expenses and assuming reinvestment of all distributions[1][2]
  - positive returns for every consecutive 12-month period in its history
- HBK currently manages seven ABS CDOs
  - CDOs as a term financing source, not as a fee-generation arbitrage vehicle
  - performance snapshots of prior CDOs are provided in Section 2
  - all junior tranches of Sandstone CDO, HBK's first ABS CDO, are currently on upgrade watch by Standard & Poor's & Moody's

(1) Source: HBK
(2) Past performance is not indicative of future performance.

Business Units

HBK Investments L.P.

Credit: Corporate, Non-Corporate

- *Structured Products* – ABS, CMBS, RMBS, CDOs, structured notes and others
- *Emerging Markets* – fixed income and equity securities issued in countries other than G7 nations
  - sovereign and private issuers
- *Developed Markets – U.S. and International*
  - credit driven investments in developed markets
  - corporate securities
  - IG, HY, par and distressed bank debt, trade claims
  - equity derivatives
  - seek best risk-reward opportunity within capital structure
- *Private Placements* – equity linked privately negotiated investments in U.S. and non-U.S. companies

Volatility, Quantitative and Other

- *Convertible Arbitrage* – US and International
  - publicly traded equity derivatives in US, Japan, Europe and Asia
  - convertible bonds, convertible preferred stock, warrants or options
- *Volatility* – volatility relationships amongst options on equities and equity indices
- *Quantitative Strategies*
  - purchase and sale of stocks, related index products and exchange traded products to take advantage of short-term and long-term statistical phenomena
  - involves a highly diversified portfolio that is intended to control market exposure and exposure to variety of other factors
- Insurance – insurance related investments

Equity, Event or Spread Driven, Relative Value

- Risk arbitrage, merger/acquisition and other event driven strategies in different markets, including U.S., Europe and Asia
- Securities of companies involved in significant transactions – mergers, acquisitions, divestitures, tender offers, spin-offs and other similar corporate events
- Price disparity between multiple share classes or positions in the capital structure
- Relative value investments in two companies in same industry

Developed Markets Fixed Income Investments

- Government bonds, Agencies, MBS, ABS
- Fixed income securities primarily in G-7 nations
- Isolate mispricings that occur in various fixed income markets
- Hedge foreign exchange and interest rate exposure

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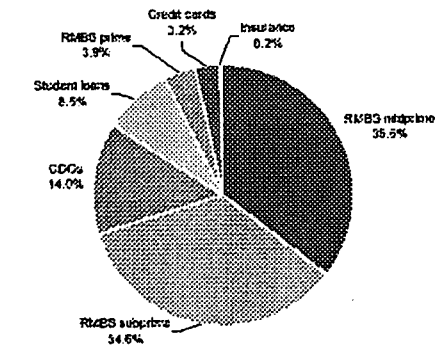
Structured Products Group

- HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages
  - the group is responsible for managing the structured products portfolio, including RMBS and ABS, a component in HBK's overall strategy since 2002
- HBK's business model focuses on deriving returns from buy and hold income revenue instead of short-term trading
- HBK's investment model utilizes proprietary default, prepay, and severity loan level models to make investments in the residential market
- CDO program provides long-term committed financing to HBK
- HBK has retained 100% of the equity from CDO transactions resulting in strong alignment of interests between HBK and investors

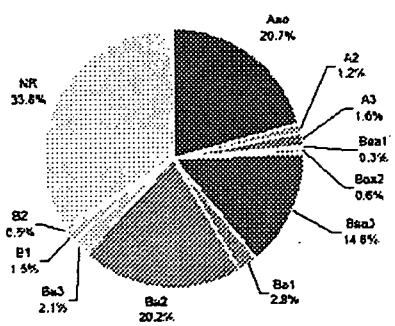
Structured Products Portfolio

- RMBS / ABS have been a component in HBK's overall strategy since 2002. HBK manages a structured products portfolio of approximately $5.0 billion, including $3.6 billion of structured product CDOs[1]
- HBK follows a buy-and-hold strategy for its ABS investments; HBK hedges the interest rate exposure and retains the credit exposure of its ABS portfolio
- Currently, there are only three downgrades[2] in HBK's ABS portfolio

Asset Type



Rating[3]



(1) As of November 1, 2006.
(2) Of the assets currently in the portfolio, not including assets that have paid down.
(3) A portion of the "NR" assets includes residuals.
Source: HBK

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Exhibit E
Exposure Management Report

Weilong Li/NewYork/DBNA/DeuBa
12/08/2006 08:35 PM

To
Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas
cc
Raquel Ajona/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Sajjad Cheema/NewYork/DBNA/DeuBa@DBAmericas, Tradelog NY/db/dbcom@DBAmericas
Subject
Re: G7 - PFEs

Hi Chehao,

Given the current BBB/BBB- spread widening environment, housing price downward trend, and increase in defaults and delinqencies, we calculated 2.5 month VAR of the warehouse facility as 12% (this is a bit more conservative compared to 10% for earlier deals)

based on the following assumptions:

1. The pricing of the warehouse occurs at least monthly, and the liquidation period is 45 days. If the price of the portfolio drops below par, DB would trigger the liquidation.

2. For BBB/BBB- rated RMBS, we assumed 200 bps move of credit spread over this period.

3. We also included default losses over this period which is around 1.5%.

The PFE is 23% for the PAUG CDS reached around year 3. DB is exposed to credit spread widening of the ABS securities. We have stressed BBB- spread to 900 bps level and BBB to 450 bps level.

The PFE for the interest rate swap is 1.2 MM reached in year 2. DB is exposed to rate decrease.

Please let me know if you have any questions.

Regards,

William

Weilong (William) Li
Exposure Management
Deutsche Bank AG.
60 Wall Street
New York, NY 10005

212-250-7998
weilong.li@db.com

Chehao Lu/NewYork/DBNA/DeuBa
12/05/2006 06:49 PM

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To
Weilong Li/NewYork/DBNA/DeuBa@DBAmericas, Raquel Ajona/db/dbcom@DBAmericas
cc
sourav.sen@db.com
Subject
G7 - PFEs

William/Raquel,

please see below for the revised CA,

[attachment "Gemstone VII CA 12.05.06 (Increase).doc" deleted by Weilong Li/NewYork/DBNA/DeuBa]

Beginning Date	Ending Date	Swap Notional
2/18/2007	5/18/2007	35,250,000
5/18/2007	8/18/2007	35,250,000
8/18/2007	11/18/2007	35,250,000
11/18/2007	2/18/2008	35,250,000
2/18/2008	5/18/2008	35,250,000
5/18/2008	8/18/2008	35,250,000
8/18/2008	11/18/2008	35,250,000
11/18/2008	2/18/2009	35,250,000
2/18/2009	5/18/2009	33,210,744
5/18/2009	8/18/2009	32,628,099
8/18/2009	11/18/2009	32,482,438
11/18/2009	2/18/2010	21,120,868
2/18/2010	5/18/2010	11,798,554
5/18/2010	8/18/2010	8,011,364
8/18/2010	11/18/2010	2,621,901
11/18/2010	2/18/2011	0

thanks,
Che

Che Lu
Global CDO Group
Deutsche Bank Securities Inc.
212-250-7801

Weilong Li/NewYork/DBNA/DeuBa
10/23/2006 06:08 PM

To: Andre-Louis Clemot/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas
cc: Raquel Ajona/db/dbcom@DBAmericas, Tradelog NY/db/dbcom@DBAmericas
Subject: Re: Fw: Gemstone CDO VII - Credit Application[1]

Hi Andre-Louis,

The 2.5 month VAR of the warehouse facility is 10% based on the following assumptions:

1. The pricing of the warehouse occurs at least monthly, and the liquidation period is 45 days. If the price of the portfolio drops below par, DB would trigger the liquidation.

2. For BBB rated RMBS, we assumed 150 bps to 200 bps move of credit spread over this period.

3. We also included default losses over this period which is around 1.5%.

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The PFE of PAUG credit swap is around 21% reached around year 3. DB is exposed to credit deterioration of the underlyings.

For the repurchase margin line, it is 4.5% if the securities are all 30 year treasuries, and 4% for the rest of the treasuries and agencies.

Please let me know if you have any questions.

Regards,

William

Weilong (William) Li
Exposure Management
Deutsche Bank AG.
60 Wall Street
New York, NY 10005

212-250-7998
weilong.li@db.com

---

(1) -

Notes:///85256B8700617DBC/38D46BF5E8F08834852564B500129B2C/5905974E264849E985257210006E7320

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Exhibit F

Treasury Approval of Downgrade Collateralization

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DB_PSI_00237670

EXHIBIT G
Highly Confident Memo

To Credit Risk Management, NY
From Global CDO Group
Subject **Gemstone CDO VII – Structured Product CDO**
Date December 20, 2006

This memorandum outlines our views on the availability of the capital markets for HBK Investments L.P.'s ("HBK") eighth structured product CDO, Gemstone CDO VII ("Gemstone CDO VII"), to finance the proposed $1.1 billion ABS/CMBS/RMBS warehouse facility (the "Facility") through the term CDO market.

The Facility will be used to purchase a portfolio of RMBS and ABS. The Target Portfolio will be selected by HBK subject to rating agency limitations and other constraints, such as collateral quality tests limiting asset concentration by asset class, by servicer ratings, by credit ratings and by geographic domicile.

The Global CDO Group successfully executed four HBK CDOs in the past. Sandstone CDO closed in 2004, Gemstone CDO II closed in May 2005, Gemstone IV closed in January 2006 and Gemstone V closed in May 2006.

HBK is an experienced structured product collateral manager, currently managing seven ABS CDOs and can successfully issue another ABS CDO transaction in the course of the coming months.

We are highly confident that the Facility will be taken out through the term CDO capital markets within the next 3-4 months. This is supported by the following:

- The successful execution of Sandstone CDO in 2004, Gemstone CDO II (closed in May 2005), Gemstone CDO IV (closed in January 2006) and Gemstone CDO V (closed in May 2006). HBK has also executed Gemstone CDO I, III and VI with Lehman.
- Deutsche Bank will get a commitment from HBK for 100% of the Class E and Equity issued by Gemstone CDO VII.
- The CDO's characteristics and investment guidelines are expected to be almost identical to HBK's recently-structured product CDO transaction that closed in May 2006 and was underwritten by DB.
- Transaction is a core source of financing for HBK's business, and HBK, as an investment manager, is committed to the transactions as evidenced by HBK's purchase of 100% of Equity in its past DB-underwritten CDOs – Sandstone CDO, Gemstone CDO II, Gemstone CDO IV and Gemstone CDO V.
- Ability to use some or all of the Deutsche Bank fee income to offset Senior Note spread widening and maintain Subordinated Interests returns sufficient to close transaction

DBSI will act as Structuring Agent and Lead Manager for Gemstone CDO VII and plans to bring it to market in March 2007.

Michael Herzig
Managing Director
Global CDO Group

Michael Lamont
Managing Director
Global CDO Group

V5.1.

Securitization Credit Report

Date: dd/mm/yy

Dr. Ackermann	Dr. Banziger	Di Iorio	Dr. v. Heydebreck	Lamberti

CDO Report	CDO Scorecard	Waterfall Positioning	Review

Borrower (full legal name incl. legal address and domicile country)	Gemstone CDO VII Ltd. ("Gemstone VII") Elizabethan Sq. George Town, Grand Cayman, Cayman Islands
Funding Beneficiary	n/a
select	
select	
Servicer Group:	HBK
Paragon Org ID: 6909412	Batch Code: 67 SIC: 6733
DB Business: CDO	DB Booking Entity: DB London
x Standalone Risk	Part of a different Group Report
Borrower's majority owner / stake:	n/a

KWG 13	No	KWG 15	No
FED:	Pass	Authority	C2
SEC:	Performing	LLP:	None

Asset Category	CDO: Structured Finance
	Asset Pool considered to be GRANULAR
Weakest ext. rating of underlying assets	BB-
Remaining average life of assets (yrs)	< 5-7 years

CA Review Date (new/previous)	3/09	3/07
Rating Rev. date (new/previous)	3/08	3/07
Counterparty PD rating :	iAAA	

	Product Type	DB Facility iPD	Previous iPD	S&P	Moody's	Fitch
<Facility a>	Margin	iAAA	(iBBB+)	NR	NR	NR
<Facility b>	select	select	select	select	select	select
Servicer Ratings (internal PD / external)		iBBB-	(iBBB-)	NR	NR	NR

Deal/portfolio description (for margin: also state notional amount if alternative form of liquidity for ABCP):

Holding Period: N.A. **Maturity Date**: dd/mm/yy

1) **Increase / Review:** US$ 150 (prev. $78 mm) margin line (23% PFE) for up to $650m notional Pay-As-You-Go ("PAUG") Credit Default Swaps ("CDS"), referencing ABS securities. CDO (protection seller) will pay credit protection payments and DB London will pay CDS premiums. The 23% PFE is 4.3x collateralized by a GIC account equal to 100% of the CDS notional. Maturity: legal maturity of 38 years (2 year CDO revolving period) and an expected maturity of ~7 years.

2) **Cancel:** US$1.078billion 4-month warehouse facility issued by DBAG Cayman to the Borrower to purchase a portfolio of primarily (85%-90%) RMBS securities. According to Exposure Management, 75-day VAR for the entire portfolio (considered as 100% cash assets) is 12%. Any warehoused collateral above $500m of this 1.078b total transaction size will be hedged with a 50% hedge ratio, with ABX.HE Baa2/Baa3. Total notional of cash and synthetic assets is capped at 1.078b. Maturity: 31 March 2007.

3) **Cancel:** US$(200,000) futures clearing limit to hedge fixed rate assets in the portfolio. Maturity: 31 March 2007

4) **Cancel:** US$4.5 mm margin lines (4.5% PFE) for repurchase obligation under which Borrower can borrow and short up to $100 mm notional treasuries and agencies securities. Maturity: 31 March 2007

Currency: EUR mn ($1 = €0.80)	Cash	Guarantee	Margin	Whole Loans	Total	Thereof committed	Syndication Reduction Target	Net Risk after Syndication
Tenor ≤ 1 year								
1 < T ≤ 5 years								
5 < T ≤ 7 years								
7 < T ≤ 10 years			120.0		120.0	0.0	0	120.0
Tenor > 10 years			120.0		€ 120.0	0.0	0	120.0
Aggregate (By Type)	0.0		120.0		*928.5*			
Previous Aggregate	*862.4*		*66.1*		0.0			
Utilisation	0		0.0					

Securitisation Limits to Servicer Group	€ 200
Direct Credit Limits to Servicer Group	€ 100.4

Settlement Limits | KWG13 Total

Variance from Credit Policy: none

Ownership / Shareholders / Management: The borrower is a Cayman Islands special purpose entity with a US co-issuer. Ordinary shares of the borrower are owned by the co-issuer and the ordinary shares of the co-issuer are held by a charity. At closing, the borrower will issue multiple tranches of CDO notes, distributed via a capital markets offering underwritten by DB, HBK will bear the first loss risk (up to 7.5% of the transaction size). The CDO will be backed by the collateral purchased during the warehouse period. HBK, the collateral manager of the CDO, is an investment management firm set up in October 1991 with approximately $11.0 billion in equity capital under management.

RAROC / Earnings: DB generated $4.7 million in underwriting fees, in addition to an interest spread on the RCL (The CDO will be paying L+30 as warehouse interest).

Key Figures – Portfolio Parameters	Expected	Limit	Collateral Description
Portfolio Rating	Baa3/Ba1	Baa3/Ba1	Lines are secured by a diversified pool of primarily RMBS

DBSI_00237689

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MTSS000011

Moody's Weighted Average Rating Factor	647	686	securities carrying weighted average portfolio rating of Baa3/Ba1.
Moody's Correlation Factor	21.55%	23.06%	
Weighted Average Life	4.0 years	5.0 years	The lowest expected rating on underlying collateral at acquisition is BB/Ba2 (max 30%).
Weighted Average Coupon (fixed collateral)*	5.38%	5.25%	
Weighted Average Spread (floating collateral)*	2.44%	2.20%	
% of below investment grades (MDY/S&P)	25.5%/8.6%		Guarantor:
Synthetic security	57%	65%	
*subject to Coupon/Spread covenant vectors			

Risks/Mitigants:

Business Risk: The portfolio is concentrated on RMBS obligations, with 67.6%, 20.2% and 1.9% of the RMBS exposure represented by 2005, 2006 and 2007 vintages, respectively, which results in significant vintage risk. The current mix of the RMBS types are 53.0% Midprime, 35.3% Subprime and 1.4% Prime assets, totalling 89.6% RMBS (no limits on Subprime %). (RMBS accounts for ~90.0% of the initial collateral portfolio).

The initial % of below investment grade assets is 26.1%. The underlying RMBS collateral in the CDO may include up to 0% of IO obligations and up to 0% of Option ARMs/Neg Am, which are particularly exposed to reset risk. Collateralized debt obligations in this transaction will be limited to 10%.

Unsold tranche status
All unsold tranches have been taken back by HBK except for the Class A-1B($400mm). Currently, we are working with Reda to see if they will be interested to take the tranche.
The plan for distribution, if Reda decides not to take the tranche, will be a senior sequential repack. The Class A-1B will be broken into two tranches. DB will take the senior part (Class A-1B(I) $200mm) and HBK will take the bottom part (Class A-1B(II) $200mm). Once the repack is setup, then DB will try to syndicate the Class A-1B(I)

Repo to HBK
For now, HBK holds the $200mm of the Class A-1B through DB repo financing. The repo will be rolled on a weekly basis until Reda makes its final decision.

Financial/Hedging risk: The CDO can have up to 65.0% of synthetic asset. DB is currently buying protection from the CDO on a notional of $625.5 mm of credit default swaps (up to $650 mm). CDO Notes proceeds in an amount equal to the notional of the CDS were deposited in a segregated account and invested in a GIC with GE Funding Capital Market Services. Upon an credit event, proceeds from the segregated account will be applied directly to the payment of the settlement amount. Since the CDO uses the fixed cap version of the PAUG, the Available Funds Cap risk for the CDO is limited compared to cash RMBS exposures (the protection seller assumes the cap risk by netting the interest shortfall due to the protection buyer against and up to the CDS premium).

Operational / Management Risk: This is HBK's eighth CDO backed by structured product collateral. HBK is a qualified investment manager/sponsor, with a strong track record in fixed income management. HBK has $11.0 billion in equity capital under management. Since its inception in 1991, HBK Fund generated a compounded annual return of 14.55%, net of all fees and expenses. This is a revolving CDO, there is a 0.30% senior management fee, similar to Gemstone CDO II, IV and V. HBK's earlier CDOs are performing as expected, and the Portfolio Manager's experience in managing similar deals successfully is indicative of expected in-line performance of Gemstone CDO V.

CRM assessment:

Strengths:
- Exposure to the CDO is collateralized
- Experienced CDO Manager that invested in the equity tranche

Weaknesses:
- Concentration to the 2005 and 2006 vintage of the US RMBS market
- Large bucket for BB securities
- Large bucket for synthetic securities up to 65%.

Rating and LGD of the counterparty are upgraded to reflect the seniority of the post-closing positions in the CDO.

Batch Strategy: Exposure is consistent with the securitization batch strategy.

Signatures:

~~Abhayad Kamat~~
~~Global CDO Group /~~
~~Vice President~~
KONSTANTIN KULEV
VICE PRESIDENT

André-Louis Clémot
CRM-SEC / Director

CDO Score Sheet Version 4.4, Dec, 22nd, 2006

Credit Officer:	Andre Clermt			Note for data input: Fill/Select these fields
Date:	29-Mar-07			These fields are calculated
Borrower: Name & Country	Gemstone VII	Cayman Islands		
Funding Beneficiary / SPV: Name & Country				
Type(s) of Facility:	Margin			
Asset Type:	Diversified ABS			
CDO Type:	Other			
CDO Purpose:	Arbitrage			
Purpose of Financing	credit default swaps			
Seniority	Super-Senior (Senior to AAA)			
Initial size & currency of asset portfolio:	mn 650 USD		Applicable initial WAL:	6.00 yrs
Initial size of exposure & currency/ PFE for derivatives	mn 150 USD			
Trustee / Custodian : Name & Country	Deutsche Bank Trust	United States		

Results

PD Rating	iAAA
PD %	0.01%
LGD Rating	1
LGD %	5%
EL%	0.00%

PD Rating

	very good/ excellent	satisfactory	higher risk/ still acceptable	unknown/ n/a poor	
A Portfolio Manager Risk					
1 Name, Country & Rating (internal or external)	HBK Investments LP			United States	IBBB-
2 Total Assets under management		x			
3 Experience in specific asset class (number of CDOs managed)		x			
4 Performance of existing transactions	x				
5 Quality of management, systems, reputation		x			
B Asset Portfolio Risk					
6 Maturity of managed assets (WAL)		x			
7 Quality of underlying assets (WARF)	BB+				
8 Diversity & Granularity of asset pool - Concentration Risk		x			
9 Recovery Performance of asset class			x		
10 For Ramp-up facilities: Time to CDO closure					<< Please make a choice
C Structural Risks and Risk Mitigants					
11 Loss / Default coverage provided by credit enhancement					AAA
12 Modelling Approach	Waterfall: Reference to Moody's and S&P				
13 Rating Agency Methodology					
14 Is legal structure of Funding Beneficiary bankruptcy remote?	Yes				
15 Overall documentation standards	x				
16 Hedging of Interest and F/X Risks	x				
17 Revolving Structure	Static				
18 Eligibility Criteria / Investment Guidelines	Tight				
19 Effectiveness of Performance Triggers, Tests, Covenants		x			

Comments:
Please provide any comments regarding PD section here!

Calculated PD Rating	iAAA
Overriding: if used, explanation in "Comments" section is required	
Final PD Rating	iAAA

LGD Rating

	very good/ excellent	satisfactory	higher risk/ still acceptable	unknown/ n/a poor	
D Structural Considerations					
20 Effect of Termination Triggers / Maturity of Financing		x			
21 Secondary market for asset pool			x		
22 Loss / Default coverage provided by credit enhancement (PD)				Rating range equivalent of:	AAA
23 Documentation (Legal) & Structural Risk (PD)					
E Third Party Support					
24 Name, Country, Internal Rating (of supporting entity)					
25 Volume of third party support	mn	USD			

Please provide a 1, 2, 3, 4, 5 grade indicating the expected Loss Given Default (LGD) of the transaction.

LGD Rating :	1

Comments:
Please provide any comments regarding LGD section here! :

GEMSTONE CDO VII CDO LTD. (the "Issuer")
CLOSING MEMORANDUM

TO:	Brian Guerra	Tel: 212.474.7370	Fax: 212.468.5246
	Bruce Vanmeter	Tel: 212.250.2515	Fax: 212.469.2966
	Jason Lowry	Tel: 212.588.5165	Fax: 212.446.1959
	Eric Martel	Tel: 214.758.6368	Fax: 214.979.8368
	Kevin Jenks	Tel: 212.588.7895	Fax: 212.446.1959
	Marco Lukesch	Tel: 212.588.5112	Fax: 212.446.1959
	Rachel Wish	Tel: 212.588.7889	Fax: 212.446.1959
	Peter Luebke	Tel: 212.250.6099	Fax: 212.468.5246
	Stephen T Hessler	Tel: 714.247.6294	Fax: 714.247.6475
	Susan Anderson	Tel: 714.247.6411	Fax: 714.247.6269
CC:	Richard R Kim	Tel: 212.250.3553	Fax: 732.578.2890
FROM:	Abhayad Kamat	Tel: 212.250.0526	Fax: 732.578.2890
	Sourav Sen	Tel: 212.250.0871	Fax: 732.578.2890
	Che Lu	Tel: 212.250.7801	Fax: 732.578.2890

CLOSING DATE: **March 15, 2007**

CLOSING LOCATION: Allen & Overy LLP
1221 Avenue of the Americas, 21st Floor
New York, NY 10020
(646) 344-6544 phone

TRANSACTION: Gemstone CDO VII Ltd.
CLIENT: HBK Investments L.P.
COLLATERAL: Structured Product Collateralized Debt Obligation

ISSUE:	$244,000,000	3m LIBOR + 0.21%	Class A-1a Floating Rate Notes
	$400,000,000	3m LIBOR + 0.35%	Class A-1b Floating Rate Notes
	$159,000,000	3m LIBOR + 0.47%	Class A-2 Floating Rate Notes
	$96,900,000	3m LIBOR + 0.68%	Class B Floating Rate Notes
	$68,300,000	3m LIBOR + 2.25%	Class C Floating Rate Deferrable Interest Notes
	$55,100,000	3m LIBOR + 4.75%	Class D Floating Rate Deferrable Interest Notes
	$18,700,000	3m LIBOR + 6.25%	Class E Floating Rate Deferrable Interest Notes
	$59,500,000	N/A	Preference Shares
TOTAL:	$1,101,500,000		

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DBSI_00133536
DB_PSI_00133536

REG S: Issuer: GEMSTONE CDO VII LTD / GEMSTONE CDO VII CORP

CUSIP	ISIN	Issue Description	Maturity
G37903AA2	USG37903AA26	Class A-1a Floating Rate Notes	12 December 2045
G37903AG9	USG37903AG95	Class A-1b Floating Rate Notes	12 December 2045
G37903AB0	USG37903AB09	Class A-2 Floating Rate Notes	12 December 2045
G37903AC8	USG37903AC81	Class B Floating Rate Notes	12 December 2045
G37903AD6	USG37903AD64	Class C Floating Rate Deferrable Interest Notes	12 December 2045
G37903AE4	USG37903AE48	Class D Floating Rate Deferrable Interest Notes	12 December 2045
G37903AF1	USG37903AF13	Class E Floating Rate Deferrable Interest Notes	12 December 2045

144A: Issuer: GEMSTONE CDO VII LTD / GEMSTONE CDO VII CORP

CUSIP	ISIN	Issue Description	Maturity
36868VAA4	US36868VAA44	Class A-1a Floating Rate Notes	12 December 2045
36868VAG1	US36868VAG14	Class A-1b Floating Rate Notes	12 December 2045
36868VAB2	US36868VAB27	Class A-2 Floating Rate Notes	12 December 2045
36868VAC0	US36868VAC00	Class B Floating Rate Notes	12 December 2045
36868VAD8	US36868VAD82	Class C Floating Rate Deferrable Interest Notes	12 December 2045
36868VAE6	US36868VAE65	Class D Floating Rate Deferrable Interest Notes	12 December 2045
36868VAF3	US36868VAF31	Class E Floating Rate Deferrable Interest Notes	12 December 2045

SOURCES OF FUNDS

Calculation of Issuance Proceeds

	Notional Amount	Issuance Price	Issuance Proceeds
Class A-1a	$244,000,000	100.0000000%	$244,000,000
Class A-1b	$400,000,000	100.0000000%	$400,000,000
Class A-2	$159,000,000	100.0000000%	$159,000,000
Class B	$96,900,000	100.0000000%	$96,900,000
Class C	$68,300,000	100.0000000%	$68,300,000
Class D	$55,100,000	100.0000000%	$55,100,000
Class E	$18,700,000	100.0000000%	$18,700,000
Preference Shares	$59,500,000	53.0617068%	$31,571,716
TOTAL:	$1,101,500,000		$1,073,571,716

DETAIL OF WIRE REMITTANCES ON CLOSING DATE

I. Detail of Wire initiated by HBK

HBK Wire 1: to Trustee

- **Purchase of the Pref Shares**

Pref Shares Price	$ 31,571,715.55
minus Warehouse Carry and Hedge Gains	$ (6,402,985.19)
Total	$ 25,168,730.36

Wire Sender: HBK Master Fund LP
Payable to: Deutsche Bank Securities Inc.
In the Amount of: **$25,168,730.36** .....(A)

Wire Instructions: Deutsche Bank Trust Co America
ABA# [redacted]
Bene Name: NYLTD Funds Control – Stars West
Bene Acct # [redacted]
Ref: GEMSTONE VII CDO [redacted]
Attn: Susan Anderson

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Deutsche Bank

Note Proceeds to DB

Note Par	$1,042,000,000.00
MINUS: Discount	$ (3,390,856.80)
MINUS: DB underwriting fee	$ (4,792,792.70)
	$ 1,033,816,350.50

II. Detail of Wires initiated by Deutsche Bank Securities Inc.

DBSI Wire 1: to DBAG Cayman

- **To pay off net outstanding warehouse loan and unpaid interest:**

Wire Sender: Deutsche Bank Securities Inc.
Payable to: Deutsche Bank AG Cayman Islands Branch
In the Amount of: **$432,763,967.21**

Wire Instructions: Deutsche Bank Trust Company Americas, NY
ABA# [redacted]
Acct Name: FFC DB Loan Operations
Acct # [redacted]
Acct Name: Gemstone CDO VII

[redacted] = Redacted by the Permanent Subcommittee on Investigations

DBSI Wire 2: to Trustee

- **Remaining Portion of Proceeds from Sale of Notes MINUS outstanding warehouse loan and unpaid interest**

Wire Sender: Deutsche Bank Securities Inc.
Payable to: GEMSTONE CDO VII CDO LTD.
In the Amount of: **$ 601,052,383.29** .....**(B)**

Wire Instructions: Deutsche Bank Trust Co America
ABA# [redacted]
Bene Name: NYLTD Funds Control – Stars West
Bene Acct # [redacted]
Ref: GEMSTONE VII CDO [redacted]
Attn: Susan Anderson

CDO CLOSING CAN BE COMPLETED AFTER REMITTANCE OF ABOVE WIRES

Deutsche Bank

Trustee Details

Cash Account with CDO Trustee $19,143,328.79 .....(C)

Total Amount Received by the Trustee

Wire from HBK (A)	$25,168,730.36
Wire from DBSI (B)	$ 601,052,383.29
Cash Account with CDO Trustee (C)	$19,143,328.79
Total Amount Available with Trustee	**$645,364,442.44**

Transfers initiated by Trustee

Deposit to Synthetic Security Collateral Account (please wire to GE Funding Capital Market)	$614,827,780.20
Deposit to Uninvested Proceeds and Expense Account	$30,536,662.24

Deposit to Uninvested Proceeds and Expense Account	Details
Expense Account	$1,856,662.24
Uninvested Proceeds for settling trades	$28,680,000.00

Trustee Wire: to GE Funding Capital Market

- **Initial Deposit of $614,827,780.20 to the Initial Investment Agreement (GIC)**

Wire Sender: Deutsche Bank Trust Co America
Payable to: GE Funding Capital Market
In the Amount of: **$614,827,780.20**

Wire Instructions: TO: Deutsche Bank Trust Company Americas
New York, New York
ABA NUMBER: [redacted]
FOR GE CAPITAL CORP.
ACCOUNT NUMBER: [redacted]
REFERENCE: GE FUNDING CMS [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Note:
At Closing, the Aggregate Principal Balance of all Pledged Collateral Debt Securities *plus* the cash in the Synthetic Security Collateral Account should be equal to at least $1,100,000,000.

Deutsche Bank

Approved by:
Name: Richard Kim
Director
Deutsche Bank Securities Inc.

Approved by:
Name: Abhayad Kamat
Vice President
Deutsche Bank Securities Inc.

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Acacia 4 CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	4/8/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Redwood Wells Fargo Bank, National Association Walkers SPV Limited The Corporation Trust Company n/a Moody's Standard and Poor's E&Y US: Freshfields Bruckhaus Deringer LLP, Cayman: Walkers Freshfields Bruckhaus Deringer LLP US Fed. Tax: Chapman and Cutler, US: Tobin & Tobin Hunton & Williams to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Moody's Standard and Poor's	310,000,000
Acacia 6 CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty	11/9/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Redwood Wells Fargo Bank, National Association Walkers SPV Limited Corporation Service Company n/a Standard and Poor's E&Y US: Freshfields Bruckhaus Deringer LLP, Cayman: Walkers Freshfields Bruckhaus Deringer LLP US Fed. Tax: Chapman and Cutler, US: Tobin & Tobin Hunton & Williams to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Standard and Poor's	300,000,000

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ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Acacia 7 CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty	3/10/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Redwood Wells Fargo Bank, National Association Walkers SPV Limited Corporation Service Company n/a Moody's Standard and Poor's E&Y US: Freshfields Bruckhaus Deringer LLP; Cayman: Walkers Freshfields Bruckhaus Deringer LLP US Fed. Tax: Chapman and Cutler, US: Tobin & Tobin Kennedy Covington to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Moody's Standard and Poor's	300,000,000
Barramundi CDO I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Senior Loan Provider	12/12/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	CBASS The Bank of New York Maples Finance Limited n/a Deutsche Bank AG, London Moody's Standard and Poor's Deloitte & Touche US: Hunton & Williams, Cayman: Maples and Calder Skadden, Arps, Slate, Meagher & Flom Hunton & Williams Locke Liddell & Sapp Hunton & Williams	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Hunton & Williams Moody's Standard and Poor's	800,000,000
Blue Edge ABS CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Senior Loan Provider Trustee	12/7/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel	Principal Capital Global Investors Deutsche Bank Trust Company Maples Finance Limited Donald J. Puglisi (State ID: 5107952) n/a Moody's Standard and Poor's E&Y US: Cadwalader Wickersham & Taft, Cayman: Maples & Calder Cadwalader Wickersham & Taft	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Cadwalader Wickersham & Taft Moody's Standard and Poor's	1,284,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Mayer Brown Rowe & Maw Seward & Kissel Cadwalader Wickersham & Taft				
Bluegrass ABS CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Cayman SPV Administrator	4/14/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Invesco Wells Fargo Bank, National Association Deutsche Bank (Cayman) CT Corporation n/a Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Walkers Orrick Herrington & Sutcliffe Clifford Chance US Kennedy Covington Orrick Herrington & Sutcliffe	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Carina CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Senior Loan Provider Cayman SPV Administrator Delaware SPV Administrator	11/1/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	State Street Global Advisors The Bank of New York Deutsche Bank (Cayman) Deutsche International Corporate Services (Delaware) FSA Capital Management Services Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Turner & Roulstone Allen & Overy Goodwin Procter Gardere Wynne Sewell Allen & Overy	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	1,500,000,000
CBASS CBO XIII	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	3/17/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants	CBASS JP Morgan Chase Bank Maples Finance Limited The Corporation Trust Company n/a Standard and Poor's Deloitte & Touche		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Hunton & Williams Standard and Poor's	493,250,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(f) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	US: Hunton & Williams, Cayman: Maples and Calder Schulte Roth & Zabel Hunton & Williams Locke Liddell & Sapp Hunton & Williams				
Commodore CDO IV	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	8/19/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Fischer Francis Investors Bank & Trust Company Deutsche Bank (Cayman) CT Corporation n/a Moody's Standard and Poor's PWC US: Orrick Herrington & Sutcliffe, Cayman: Walkers Orrick Herrington & Sutcliffe Dechert Nixon Peabody Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Dalton CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider	6/28/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Dynamic Credit Partners Wilmington Trust Company Walkers SPV Limited Puglisi & Associates Rabobank Moody's Standard and Poor's Deloitte & Touche US: Allen & Overy, Cayman: Walkers Allen & Overy Orrick Herrington & Sutcliffe n/a Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies.	Deloitte & Touche Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Delta II	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Trustee	7/15/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Whalton Deutsche Trustee Company Limited Deutsche International Corporate Services (Ireland) Limited n/a n/a Moody's Standard and Poor's Irish Law: Matheson Ormsby Prentice England: Ashurst, US: McKee Nelson Speechly Bircham Ashurst to be identified		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	 to be identified Moody's Standard and Poor's	153,000,000
Diogenes CDO I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Senior Loan Provider Delaware SPV Administrator	11/4/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	State Street Global Advisors JP Morgan Chase Bank Maples Finance Limited Deutsche International Corporate Services (Delaware) XL Asset Funding Company Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Goodwin Procter Gardere Wynne Sewell Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Diogenes CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Senior Loan Provider	6/29/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel	State Street Global Advisors JP Morgan Chase Bank Maples Finance Limited Deutsche International Corporate Services (Delaware) Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy; Cayman: Maples and Calder	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	600,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Delaware SPV Administrator		Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Allen & Overy Goodwin Procter Gardere Wynne Sewell Allen & Overy				
Diogenes III	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider	8/3/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	State Street Global Advisors The Bank of New York Maples Finance Limited Puglisi & Associates Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Goodwin Procter Gardere Wynne Sewell Allen & Overy	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	808,000,000
Dutch Hill Funding I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Cayman SPV Administrator	12/22/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	TCW JP Morgan Chase Bank Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4063035, @ Corporation Trust Center) n/a Moody's Standard and Poor's Deloitte & Touche US: Linklaters, Cayman: Walkers Orrick Herrington & Sutcliffe Linklaters Gardere Wynne Sewell to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche to be identified Moody's Standard and Poor's	400,000,000
Dutch Hill Funding II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty	6/2/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants	TCW LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4336910, @ Corporation Trust Center) n/a Moody's Standard and Poor's E&Y	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Linklaters Moody's Standard and Poor's	399,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Cayman SPV Administrator		Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	US: Linklaters, Cayman: Walkers Allen & Overy Linklaters Kennedy Covington Linklaters				
G Square Finance 2006-2	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Senior Loan Provider	11/30/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Wharton Asset Management HSBC Trustee Walkers SPV Limited n/a n/a Moody's Standard and Poor's n/a Cayman: Walkers England: Ashurst, US: McKee Nelson Speechly Bircham Ashurst Ashurst	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	n/a Ashurst Moody's Standard and Poor's	1,014,000,000
Gemstone CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty Trustee Cayman SPV Administrator	5/3/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company n/a Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Cadwalader Wickersham & Taft Seward & Kissel Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	400,000,000
Gemstone CDO IV	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty	1/20/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company XL Asset Funding Company Moody's Standard and Poor's	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	600,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Trustee Cayman SPV Administrator		Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Cadwalader Wickersham & Taft Seward & Kissel Orrick Herrington & Sutcliffe				
Gemstone CDO V	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Trustee Cayman SPV Administrator	5/18/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company XL Asset Funding Company Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Cadwalader Wickersham & Taft Seward & Kissel Allen & Overy	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	676,000,000
Gemstone CDO VII	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Trustee Cayman SPV Administrator	3/15/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 070220501) General Electric Capital Corporation Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Cadwalader Wickersham & Taft Seward & Kissel to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Moody's Standard and Poor's	1,101,500,000
GMAC-RFC ABS CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	6/30/2004	Collateral Manager Trustee Cayman SPV Administrator	GMAC-RFC Wells Fargo Bank, National Association Maples Finance Limited	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies:	Deloitte & Touche Orrick Herrington & Sutcliffe Standard and Poor's	300,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Interest Rate Derivative Counterparty		Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	The Corporation Trust Company n/a Standard and Poor's Deloitte & Touche US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Sidley Austin Brown & Wood Orrick Herrington & Sutcliffe Kennedy Covington Orrick Herrington & Sutcliffe				
Halcyon Securitized Products	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Senior Loan Provider Cayman SPV Administrator	10/19/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Halcyon Securitized Products Investors LP The Bank of New York Deutsche Bank (Cayman) The Corporation Trust Company n/a Moody's Standard and Poor's Deloitte & Touche US: Skadden Arps Slate Meagher & Flom, Cayman: Turner & Roulstone Skadden Arps Slate Meagher & Flom Seward & Kissel Gardere Wynne Sewell Skadden Arps Slate Meagher & Flom	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Skadden Arps Slate Meagher & Flom Moody's Standard and Poor's	400,000,000
Halcyon Securitized Products	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	5/17/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Halcyon Securitized Products Investors LP The Bank of New York Deutsche Bank (Cayman) The Corporation Trust Company FSA Capital Management Services Moody's Standard and Poor's E&Y US: Skadden Arps Slate Meagher & Flom, Cayman: Turner & Roulstone Skadden Arps Slate Meagher & Flom Seward & Kissel Gardere Wynne Sewell Skadden Arps Slate Meagher & Flom	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Skadden Arps Slate Meagher & Flom Moody's Standard and Poor's	500,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Hamilton Gardens	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Senior Loan Provider Delaware SPV Administrator	9/21/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Rabobank International JP Morgan Chase Bank Maples Finance Limited Deutsche International Corporate Services (Delaware) Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Schulte Roth & Zabel Gardere Wynne Sewell Schulte Roth & Zabel	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Schulte Roth & Zabel Moody's Standard and Poor's	500,000,000
Hamilton Gardens II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider	8/15/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Rabobank The Bank of New York Maples Finance Limited Puglisi & Associates Rabobank Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Maples and Calder Allen & Overy Schulte Roth & Zabel Gardere Wynne Sewell Schulte Roth & Zabel	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Schulte Roth & Zabel Moody's Standard and Poor's	400,000,000
Held 2006-1*	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Trustee	10/19/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel	Static Deutsche Trustee Company Limited Deutsche International Corporate Services (Ireland) Limited n/a n/a Moody's Standard and Poor's Irish Law: Matheson Ormsby Prentice Linklaters n/a Linklaters		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	 to be identified Moody's Standard and Poor's	2,200,000,000

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Counsel Providing 10b-5 Opinion	to be identified				

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Los Robles	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Trustee Cayman SPV Administrator	8/10/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Western Asset Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4399801) Rabobank Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Turner & Roulstone McKee Nelson Ropes & Gray Seward & Kissel to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y to be identified Moody's Standard and Poor's	750,000,000
Matrix 2007-1**		1/22/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Faxtor Securities	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies		1,000,000,000
Mount Skylight	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Senior Loan Provider Trustee Cayman SPV Administrator Delaware SPV Administrator	5/24/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	TIAA Deutsche Bank Trust Company Deutsche Bank (Cayman) Deutsche International Corporate Services (Delaware) n/a Moody's Standard and Poor's E&Y US: Allen & Overy, Cayman: Walkers Allen & Overy Mayer Brown Rowe & Maw Seward & Kissel Allen & Overy	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Allen & Overy Moody's Standard and Poor's	1,000,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
Palisades CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Cayman SPV Administrator	7/15/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Western Asset Wells Fargo Bank, National Association Deutsche Bank (Cayman) CT Corporation n/a Moody's Standard and Poor's PWC US: Orrick Herrington & Sutcliffe, Cayman: Walkers Orrick Herrington & Sutcliffe Ropes & Gray Kennedy Covington to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC to be identified Moody's Standard and Poor's	600,000,000
Pine Mountain CDO I	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Senior Loan Provider Trustee Cayman SPV Administrator	11/8/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Smith Breeden Associates Deutsche Bank Trust Company Deutsche Bank (Cayman) CT Corporation FSA Capital Management Services Moody's Standard and Poor's PWC US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Paul Weiss Rifkind Wharton & Garrison Seward & Kissel Paul Weiss Rifkind Wharton & Garrison	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Paul Weiss Rifkind Wharton & Garrison Moody's Standard and Poor's	400,000,000
Pine Mountain CDO II	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Trustee	11/16/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel	Smith Breeden Associates Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4237556) FSA Capital Management Services Moody's Standard and Poor's PWC US: McKee Nelson, Cayman: Maples and Calder	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Paul Weiss Rifkind Wharton & Garrison Moody's Standard and Poor's	502,500,000

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Cayman SPV Administrator		Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	McKee Nelson Paul Weiss Rifkind Wharton & Garrison Seward & Kissel Paul Weiss Rifkind Wharton & Garrison				
Pine Mountain CDO III	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Senior Loan Provider Trustee Cayman SPV Administrator	7/11/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Smith Breeden Associates Deutsche Bank Trust Company Deutsche Bank (Cayman) Donald J. Puglisi (State ID: 4389585) FSA Capital Management Services Moody's Standard and Poor's PWC US: McKee Nelson, Cayman: Maples and Calder McKee Nelson Paul Weiss Rifkind Wharton & Garrison Seward & Kissel Paul Weiss Rifkind Wharton & Garrison	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	PWC Paul Weiss Rifkind Wharton & Garrison Moody's Standard and Poor's	500,000,000
Sandstone CDO	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Interest Rate Derivative Counterparty Senior Loan Provider Trustee Cayman SPV Administrator	6/4/2004	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	HBK Investments LP Deutsche Bank Trust Company Deutsche Bank (Cayman) The Corporation Trust Company n/a Moody's Standard and Poor's E&Y US: Orrick Herrington & Sutcliffe, Cayman: Maples and Calder Orrick Herrington & Sutcliffe Cadwalader Wickersham & Taft Seward & Kissel Orrick Herrington & Sutcliffe	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Orrick Herrington & Sutcliffe Moody's Standard and Poor's	307,400,000
Sharps CDO I	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal)	12/15/2006	Collateral Manager Trustee Cayman SPV Administrator	Static Deutsche Bank Trust Company Maples Finance Limited		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Standard and Poor's	350,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Trustee		Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	The Corporation Trust Company n/a Standard and Poor's E&Y US: McKee Nelson, Cayman: Maples and Calder McKee Nelson n/a Seward & Kissel McKee Nelson				
Sharps CDO II	Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty	6/28/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static The Bank of New York Maples Finance Limited The Corporation Trust Company FSA Capital Management Services Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Maples and Calder McKee Nelson n/a Dorsey & Whitney McKee Nelson	– Credit Approval for Warehouse – Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000
STACK 2005-1	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Asset Swap Counterparty Trustee	3/24/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	TCW Deutsche Trustee Company Limited Maples Finance Limited n/a n/a Standard and Poor's E&Y US: Linklaters, Cayman: Maples and Calder, English Law: Linklaters Linklaters Linklaters Linklaters Linklaters		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y Linklaters Standard and Poor's	1,000,000,000
Static Residential 2005-A	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty	6/28/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator	Static LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Asset Swap Counterparty Senior Loan Provider Cayman SPV Administrator		GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	n/a Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson				
Static Residential 2005-B	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	10/27/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi FSA Capital Management Services Moody's Standard and Poor's. E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000
Static Residential 2005-C	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	1/20/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Donald J. Puglisi FSA Capital Management Services Moody's Standard and Poor's. E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	500,000,000
Static Residential 2006-A	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty	4/12/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies	Static LaSalle Bank National Association Deutsche Bank (Cayman) Puglisi & Associates FSA Capital Management Services Moody's Standard and Poor's		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000

ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
	Senior Loan Provider		Accountants	E&Y				
	Cayman SPV Administrator		Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson				
Static Residential 2006-B	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	8/22/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Puglisi & Associates FSA Capital Management Services, XL Asset Funding Company Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	1,000,000,000
Static Residential 2006-C	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Senior Loan Provider Cayman SPV Administrator	12/19/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static LaSalle Bank National Association Deutsche Bank (Cayman) Puglisi & Associates Ambac Moody's Standard and Poor's E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Kaye Scholer McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Moody's Standard and Poor's	750,000,000

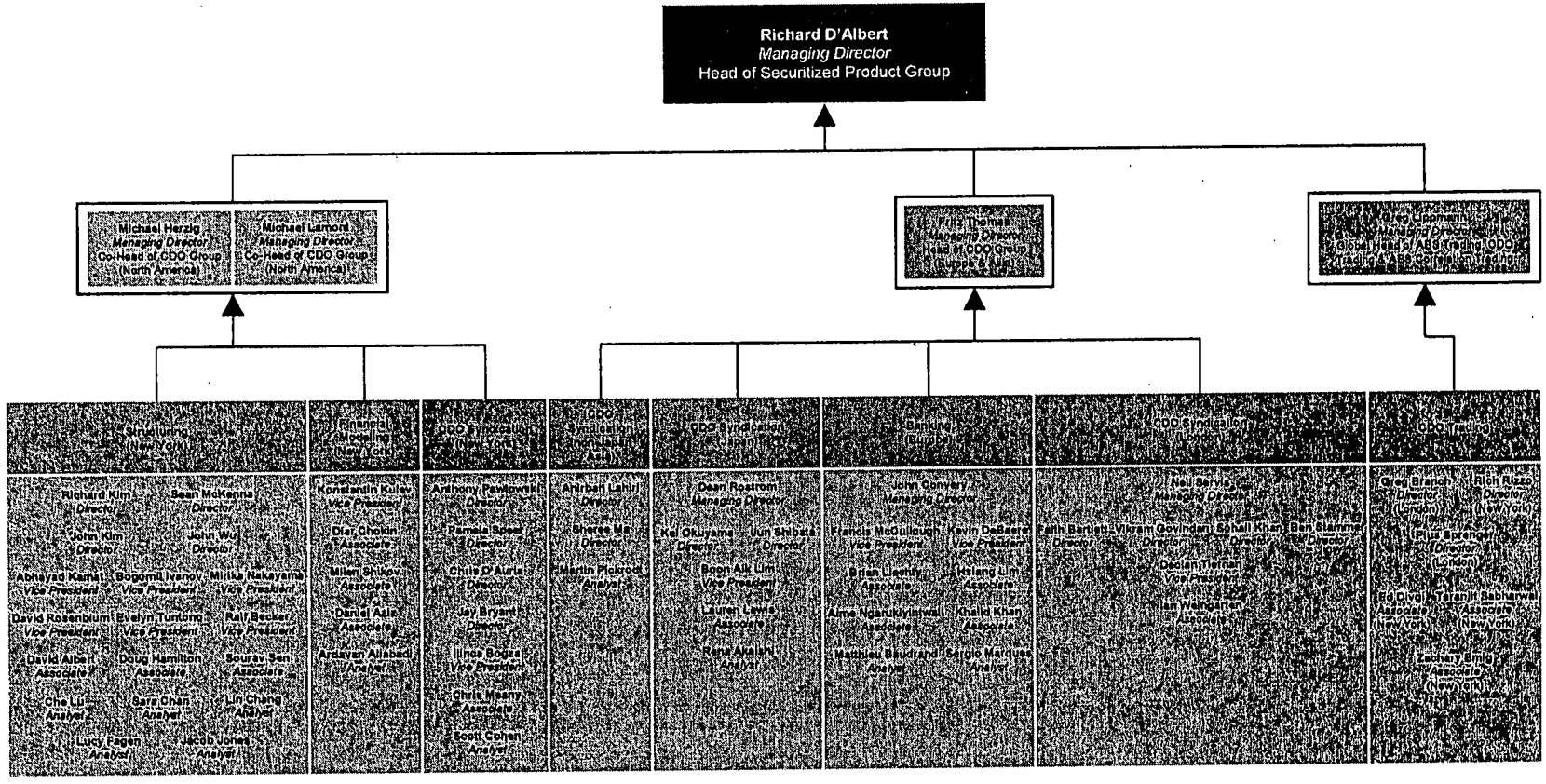
ABS CDOs Issued by DBSI (between 2004 and 2008)

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
SYRAH 2004-10	Underwriter / Placement Agent / Structuring Agent Credit Default Swap Counterparty Interest Rate Derivative Counterparty Asset Swap Counterparty Delaware SPV Administrator	1/12/2005	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	Static Wells Fargo Bank, National Association Walker House Deutsche International Corporate Services (Delaware) n/a Standard and Poor's E&Y US: McKee Nelson, Cayman: Walkers McKee Nelson n/a Nixon Peabody McKee Nelson		Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	E&Y McKee Nelson Standard and Poor's	600,000,000
Tourmaline III	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Interest Rate Derivative Counterparty Senior Loan Provider	4/5/2007	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel Trustee Counsel Counsel Providing 10b-5 Opinion	BlackRock Wells Fargo Bank, National Association Maples Finance Limited The Corporation Trust Company Deutsche Bank AG, London Moody's Standard and Poor's Deloitte & Touche US: Skadden Arps Slate Meagher & Flom; Cayman: Maples & Calder Allen & Overy Skadden Arps Slate Meagher & Flom Kennedy Covington to be identified	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche to be identified Moody's Standard and Poor's	1,500,000,000
Zais Investment Grade VIII	Warehouse Lender Underwriter / Placement Agent / Structuring Agent Trading Counterparty (selling assets to the deal) Credit Default Swap Counterparty Asset Swap Counterparty Senior Loan Provider Cayman SPV Administrator	3/23/2006	Collateral Manager Trustee Cayman SPV Administrator Delaware SPV Administrator GIC Provider Rating Agencies Accountants Issuer / Co-Issuer Counsel Initial Purchaser Counsel Collateral Manager Counsel	Zais Group JP Morgan Chase Bank Deutsche Bank (Cayman) The Corporation Trust Company n/a Moody's Standard and Poor's Deloitte & Touche US: Skadden Arps Slate Meagher & Flom, Cayman: Ogier Skadden Arps Slate Meagher & Flom Seward & Kissel	-- Credit Approval for Warehouse -- Warehouse Approval/Veto Rights Held by Trading Desk	Accountants (portfolio/modeling comfort letter) Counsels (10b-5 opinions) Rating Agencies	Deloitte & Touche Skadden Arps Slate Meagher & Flom Moody's Standard and Poor's	450,000,000

Deal Name	Deutsche Bank Role	Closing Date	Other Parties to the Transaction (Roles)	Other Parties to the Transaction (Names)	(d) Deutsche Bank In-House Due Diligence	(e) Third Parties Retained to Perform Due Diligence (Roles)	(e) Third Parties Retained to Perform Due Diligence (Names)	(f) Principal Balance of CDO Bonds Issued
			Trustee Counsel Counsel Providing 10b-5 Opinion	Gardere Wynne Sewell Skadden Arps Slate Meagher & Flom				

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1270

Deutsche Bank Global CDO Group
(as of September 2006)



Confidential Treatment Requested by Deutsche Bank

DB_PSI_C00000001

Greg Lippmann@DBAMERICAS To: Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc:
Subject: Re:

07/14/2006 04:06 PM

I run secondary trades for all abs globally so not the structuring and purchasing of raw whole loans. But all trading post securitization in us and europe and all other types of abs-- credit cards autos etc etc. I also run all cdo trading -- abs backed, corporate, hy and emerging market. Also bespoke abs spoke aka "abs correlation". Lastly I am head of risk management for all new issue cdos so am involved in underwriting, structuring , marketing and hedging our wharehouse risk for new issuue cdos. Total reports roughly 15 in us and 10 in london. That enough?

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 03:23 PM
To: Greg Lippmann
Subject: Re:

actually so i can explain who you are properly to him, you are the head of the trading desk of all abs subprime product as well
as secondary cdo's? or how do you describe your job. also, how involved are you in structuring cdo's of subprime:
jordan said you do that on your desk for bespoke pools but it's done on another desk for generic subprime?

sorry to be so annoying but i'd rather describe you accurrately than make something up.

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 03:18 PM Subject Re:

Sure. Should be in at 7

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 02:55 PM
To: Greg Lippmann
Subject: Re:

no--no worries! i left a voice message for him on his cell and haven't heard back. i'd imagine it's monday's business.....maybe
we can call him very early monday, as he will be in london? let me know what works with you

Greg Lippmann/NewYork/DBNA/DeuBa

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1271

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 02:53 PM SubjectRe:

I remember now, sorry. Bit foggy from the trip. Cell iis 917.601.1916

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 02:42 PM
To: Greg Lippmann
Subject: Re:

he's a senior pm and works closely w/louis bacon.....some of the trades that mansfield's guys executed were from him, others were from other pm's
internally at moore. he's sort of changed roles a bit recently to working more on big picture strategic themes rather than trading more tactically;
and is working with louis a lot more than he used to.....

mansfield covers the execution desk.....

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 02:37 PM SubjectRe:

Is he the guy who has done the index trade ie mansfields guuys?

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 02:34 PM
To: Greg Lippmann
Subject: Re:

he's from moore.
Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
07/14/2006 02:20 PM SubjectRe:

Yes. Where is he from again?

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 07/14/2006 11:39 AM
To: Greg Lippmann

greg: can we jump on a call w/richard monday morning?



rokurita@bbotg To: greglip@bbotg
cc:
Subject:

02/24/2006
08:33 AM

Message Sent: 02/24/2006 08:33:21
From: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

gsc =

ACE 2005-HE5 M8 130 128 120 =

CSFB 2004-FRE1 B2 126 PASS !! pass =

HEAT 2005-9 M8 131 130 128 =

LBMLT 2004-3 M8 123 126 (THIS BOND BLOWS)pass(i disagree) =

POPLR 2004-4 B1 pass PASS pass =

Reply: =

Reply: =



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1274

From: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Sent: Wednesday, May 11, 2005 4:29 PM
To: ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>
Subject:

Message Sent: 05/11/2005 12:29:26
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663

alliance is looking to buy protection on 25-50mm baa2 hels. in addition, i have a bunch of hedge funds that are axed. all the real money flows are buying protection. we should get short.
Reply:
TRY HARD NOT TO SELL PROT TO ALLIANCE PLEASE...
Reply:
they are only going to us b/c we recommended the trade.
Reply:
GREAT

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1274

To: Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc: jordan.milman@db.com, michael.lamont@db.com, sean.mckenna@db.com
Subject: Re: ACA ABS CDO Portfolio

Greg Lippmann@DBAMERICAS

04/05/2006 05:17 PM

yikes didnt see that...half of these are crap and rest are ok...crap -- heat pchlt sail tmts

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS

04/05/2006 04:17 PM

To greg.lippmann@db.com, jordan.milman@db.com
cc michael.lamont@db.com, sean.mckenna@db.com
Subject ACA ABS CDO Portfolio

FYI
~15-17% Ba in the pool. What is your opinion of these credits?

----- Forwarded by Richard R Kim/NewYork/DBNA/DeuBa on 04/05/2006 03:14 PM -----

"Spilberg, Gregory" <gspilber@tiaa-cref.org>

04/05/2006 02:13 PM

To Richard R Kim/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject ACA Portfolio

Attached is the ACA portfolio as requested. Please note that this portfolio information is confidential and by accepting the portfolio Deutsche Bank also agrees to keep the attached information confidential.

****
This message, including any attachments, contains confidential information intended for a specific individual and purpose, and is protected by law. If you are not the intended recipient, please contact sender immediately by reply e-mail and destroy all copies. You are hereby notified that any disclosure, copying, or distribution of this message, or the taking of any action based on it, is strictly prohibited.
TIAA-CREF
**********[attachment "Current Portfolio for Investors 3-29-06.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1275

Greg Lippmann

06/26/2006 08:57 AM

To: BRADLEY.SCHWARTZ@jpmorgan.com@DEUBAINT
cc: Andrew G Isaacs/NewYork/DBNA/DeuBa@DBAmericas, David Ludlow/NewYork/DBNA/DeuBa@DBAmericas, "derek kaufman" <derek.kaufman@jpmorgan.com>, Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA
Subject: Re: Fw: JP Prop - Update

that should work...

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
BRADLEY.SCHWARTZ@jpmorgan.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

BRADLEY.SCHWARTZ@jpmorgan.com

06/26/2006 08:50 AM

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc: Andrew G Isaacs/NewYork/DBNA/DeuBa@DBAmericas, David Ludlow/NewYork/DBNA/DeuBa@DBAmericas, "derek kaufman" <derek.kaufman@jpmorgan.com>, Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA
Subject: Re: Fw: JP Prop - Update

Thx for the feedback. To the extent we can, I would like to substitute the 3 "good" names for the following

PCHLT 2005 -1 B2 (Baa2/BBB+)
JPMAC 2005-FRE1 M9 (Baa3/BBB-)
CWL 2005 BC5 M8 (Baa2/BBB+).

Bradley Schwartz
Managing Director
Proprietary Positioning and Principal Investments
270 Park Avenue
New York, New York 10017

212-834-5144

Greg Lippmann <greg.lippmann@db.com>

06/23/2006 03:57 PM

To: "derek kaufman" <derek.kaufman@jpmorgan.com>

cc:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1276

Andrew G Isaacs
<andrew.g.isaacs@db.com>,
"BRADLEY.SCHWARTZ"
<BRADLEY.SCHWARTZ@jpmorgan.com>,
David Ludlow <david.ludlow@db.com>,
Pius Sprenger
<pius.sprenger@db.com>

Subject

Re: Fw: JP Prop - Update

This is a good pool for you because it has a fair number of weak names but not so many that investors should balk (I wouldn't add more of these) and also has only a few names that are very good. The vast majority are average. In terms of optimizing, I guess you could get away with adding some more countrywide names which we think are mediocre (not all investors agree however), perhaps another Centex or People's Choice and reduce or remove the First Franklin, CBASS or POPLR names.

Weak names:

AABST 04-5 B2
AABST 05-3 B2
BAYV 05-C B2
INABS 05-C M8
PPSI 05-WHQ2 M8
PPSI 05-WHQ4 M8
SAIL 05-HE2 M8

The names above will give some investors concerns because they are weak, but since these are all Baa2 we should be ok. This might be smarter than putting in Baa3 off these pool and risking some investors passing.

Mediocre Names
CWL 05- 6 B
CXHE 05-C B2
ECR 05-3 M8
HEAT 05-3 B2
HEAT 05-5 M7
HEAT 05-8 B1
LBMLT 05-WL3 M9
PCHLT 05-4 M9

Good names
CBASS 05-CB2 B3
OOMLT 05-3 M8
POPLR 05-B M6

Also there is quite a lot of WMC paper. WMC trades well so should be easy to include in the pool, but the deals have among the highest concentrations of California loans.

------Original Message------

From: derek kaufman
To: Greg Lippmann
Cc: Andrew Isaacs
Cc: BRADLEY.SCHWARTZ
Cc: David Ludlow
Cc: Pius Sprenger
Sent: Jun 23, 2006 2:42 PM
Subject: Re: Fw: JP Prop - Update

Thanks. I'm very pleased we're getting so close.

Derek

|---------+---------------------------->
	Greg Lippmann
	<greg.lippmann@db
	.com>
	06/23/2006 02:40
	PM
---------+---------------------------->
>---
---|

|
|
| To: "derek.kaufman" <derek.kaufman@jpmorgan.com>
|
| cc: Andrew G Isaacs <andrew.g.isaacs@db.com>,
"BRADLEY.SCHWARTZ" <BRADLEY.SCHWARTZ@jpmorgan.com>, David Ludlow |
| <david.ludlow@db.com>, Pius Sprenger <pius.sprenger@db.com>
|
| Subject: Re: Fw: JP Prop - Update
|
>---
---|

2.5,2 and 1.5 enjoy yours as well.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

derek.kaufman@jpmorgan.com

06/23/2006 02:09 PM

[redacted] = Redacted by the Permanent Subcommittee on Investigations

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc
Andrew G Isaacs/NewYork/DBNA/DeuBa@DBAmericas, "BRADLEY.SCHWARTZ" <BRADLEY.SCHWARTZ@jpmorgan.com>, David Ludlow/NewYork/DBNA/DeuBa@DBAmericas, Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA

Subject
Re: Fw: JP Prop - Update

Thanks very much -- do you have a rough sense of the overall delta of the A, AA and AAA tranches to the underlying names using these assu
---
Sent from my BlackBerry Handheld.

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To: "Borre, Michelle" <mborre@oppenheimerfunds.com>@DEUBAINT
cc:
Greg Lippmann Subject: Re: new list

08/04/2006
05:55 PM

i am in ny monday and london office wednesday and would be happy to discuss either day...quick thoughts: we can do 50 names (you already knew that secret) that said we wouldnt want quite so many sail (and you would b/c you want it to be more concentrated) so to start I would say max the sail out at 8-10 names and you have 12 so you would need to eliminate 2 of them. (note sail is among the widest spreads so these will likely be 350 area on baa3, another reason to include a lot of them or none of them)....you can certainly build a portfolio by picking only bad names and you have largely done that as Rasc ahl is considered bad as is freemont (bsabs fr, fhlt, jpmac fre, sabr fr, nheli fm deals) ace, arsi and lbmlt. NCHET is a middle tier name and bsabs and svhe (greenwich) are dealer rent a sheves so also lower middle tier.

also the 50 names, needs to be 50 separate securitizations wherease you have among your 50 deals many deals with two tranches....thus in looking at your list, you should start with a plan to use all baa3 (like you did last time) all baa2 or a mix...I would agree that the last time when you did all baa3 is probably the best route.

so from your 75, we are down to 46 separate securitizations.

remove 2 sail say sail 05-1 and 05-2 because they are the earliest and may have a bit more home price appreciation

we are now at 44 names

i would also eliminate deals that are already in your first trade so that you don't doubly lose if those underperform:

ace 05-he2 and 3, (also these are both a little older) I would replace both aces with two other ace say 05-he6 and he7 and add 06-he1 and 06-he2 too....since the ace name is not good and you want to be closer to your big sail position.

so now we are 46 nam es if you swap the 2 older ace for the 4 i mentioned here

similarly, you already have all three fhlt bonds i would roll up in these to 05-c, d, e

back to 46....

you have nchet 05-3 and 05-4, i would replace with nchet 06-2 (and keep 05-b,c,d and 06-1) and also add msac 06-nc1 b3 giving you 6 new century bonds

still at 46.

pchlt 05-2 also in the first deal so I'd remove it. In addition, its the only pchlt you have so better to add another nchet, ace etc...

down to 45

sabr you already have 05-fr2,3,4 so I would pair the 05-fr5 with the other freemonts you have like fhlt, jpmac etc....and maybe add in sabr 06-fr1

down to 43

looking at the sail, in additon to sail 05-1 and 2 which i removed for being old, 5,6 and 7 are all duplicates so I would add back in sail 06-3 and 06-4...again sail is among the very worst names and will trade really wide but we are building a wide pool....i think having 7 sails is enough but if you do the swaps I suggest you are at 9 sails and

down to 42 total names

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looking at the remainder from the top of the list down

arsi is a pretty weak name so I would add arsi 06-w1 and w5 to your 2,3 and 4

brings you back to 45 names (i think)

I would keep all the bsabs

i would remove the gsamp because it is a bit orphaned as the lone goldman sachs rent a shelf

down to 44

leave the jpmac as its freemont and will fit nicely with the fhlt (and other shelves to come)

Long beach is a weak name but you have only picked one relatively older one so I would remove it and either put in no long beach or use 06-1,2 and 3.

Lets assume none for the moment.

down to 43

I would add to the mabs 05-he1, the he2 and he3 deals

back up to 45

keep the nheli 05-fm b/c it fits with the other freemonts

i think the rasc ah deals are good to include and i would put in the ahl1 and ahl2 to join the ahl3 that you picked

brings you to 47

at this point we have

4 ace (probably enough could maybe add 1 more ace 06-he3)
5 arsi good amount
5 bsabs good amounts (this counts the bsabs fr in freemont)
8 fhlt (between fhlt, sabr,bsab jp and nheli)
3 mabs (could maybe add one or two here)
6 nchet (good number)
3 rasc ahl probably ok could maybe add another 1 or 2
9 sail (good number)
2 svhe (could add a few)

so I would suggest finding 3 more bonds that you find appealing I would look for in more or less this order

mabs
svhe
rasc
ace

which should be doable

Greg H. Lippmann

Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

"Borre, Michelle" <mborre@oppenheimerfunds.com>

08/04/2006 02:56 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject new list

Hi Greg- i took a quick pass at a new list- i want to get it down to 50. i can refine it further- but before i do are there any of these you would throw out? any thoughts on it? thx

have a good weekend. are you around to discuss pricing next week? i am in monday and wednesday...

Michelle

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[attachment "2005-2006 Collateral Info MB.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

LAW OFFICES
WILLIAMS & CONNOLLY LLP
725 TWELFTH STREET, N.W.
WASHINGTON, D. C. 20005-5901
(202) 434-5000
FAX (202) 434-5029

KEVIN M. DOWNEY
(202) 434-5460
kdowney@wc.com

EDWARD BENNETT WILLIAMS (1920-1988)
PAUL R. CONNOLLY (1922-1978)

March 21, 2011

By Electronic Mail

David H. Katz, Esq.
Counsel
Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, DC 20510

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

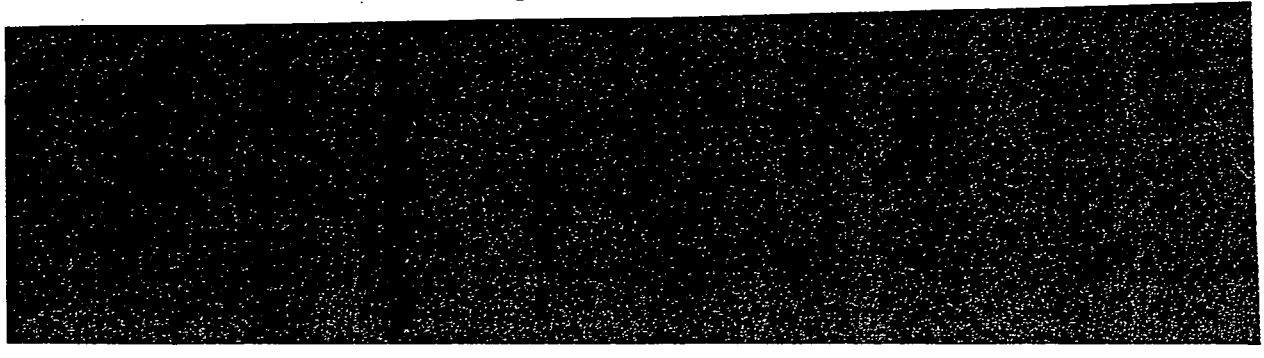
Re: Deutsche Bank

Dear Mr. Katz:

On behalf of Deutsche Bank, this is to provide information in response to requests made recently by the Subcommittee through you, including those reiterated in your March 16 email to me.

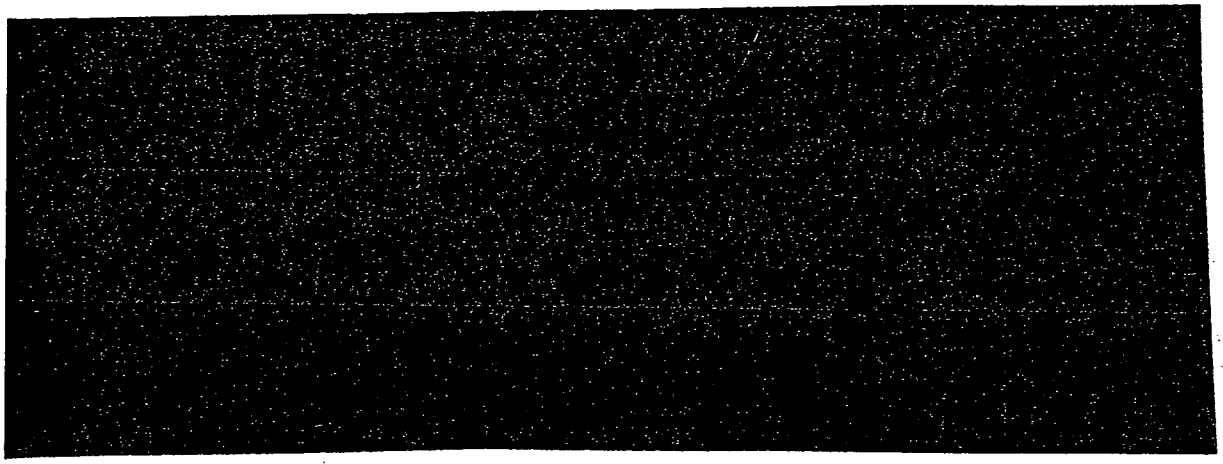
Follow-Up Production Related to Notional Spreadsheet

After DB's production on March 2, you inquired about the long position of DB's RMBS book. I told you that the numbers reflected in our chart did not reflect non-mortgage assets used to hedge mortgage assets, which assets had the effect of reducing the size of the long position. We agreed that DB would prepare a chart including such non-mortgage assets in its RMBS calculation for 12/31/07. A chart doing so is attached. The footnote to the chart is also important in understanding the notional position of the RMBS book at the time.



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Wall Street & The Financial Crisis
Report Footnote #1278

[redacted] = Redacted by the Permanent Subcommittee on Investigations



CDO and RMBS Fees

You had asked for more detail concerning the fees paid to DB for CDO and RMBS underwritings in 2006 and 2007.

For CDO transactions, the structuring and placement fees to which DBSI was entitled pursuant to letters of engagement for CDO transactions it arranged in 2006 and 2007 were generally within the range of .5% and 2.0% of the notional value of total issuance, although the fees that DBSI actually charged were sometimes discounted from these rates.

For RMBS transactions, DB's underwriting fees/underwriters compensation varied depending on the Bank's role in the offering.

For third-party RMBS offerings in which Deutsche Bank Securities Inc. ("DBSI") acted solely as the lead or co-lead manager, DBSI was typically compensated either (1) through a negotiated fee that ranged between 15 and 25 basis points (.15 and .25% of the notional value of the issuance) or (2) through the spread between the certificate price paid to the issuer and the price at which the certificates were sold to investors.

For example, in connection with the underwriting of POPLR 2006-D, the underwriting agreement provided that DBSI would purchase the publicly-offered bonds at a .25% discount off of the public offering price. The publicly-offered bonds had an aggregate principal amount of $347,766,000 and were priced at par in the initial distribution. DBSI underwrote 50% of these bonds while RBS Greenwich Capital underwrote the other 50%. DBSI's underwriting fees earned in connection with POPLR 2006-D would have been approximately $434,707. This is calculated by multiplying the portion of the principal amount purchased and resold by DBSI ($173,883,000) by the underwriting discount (.0025).

For Deutsche Bank's own shelf offerings (e.g. the ACE and DBALT offerings), DBSI did not earn a traditional underwriting fee. Instead, the Bank sought to profit through (1) the sale of servicing rights in connection with securitizations, (2) interest payments made to DBSP while the loans were owned by DBSP prior to securitization, and (3) investment earnings on the certificates retained by DBSI in its inventory.

I believe that this addresses the questions that we have recently discussed.

Please let me know if you are seeking anything additional or if you would like to discuss the above.

Very truly yours,

Kevin Downey

Enclosures

Senate Permanent Subcommittee On Investigations
RMBS Notionals, Including Non-Mortgage Hedges

RMBS	12/31/2007
Cash Bonds	
Gross Assets	166,108,401,773
Gross Liabilities	(25,776,021)
Net	**166,082,625,753**
Synthetics	
Gross Assets	57,124,947,630
Gross Liabilities	(117,851,884,240)
Net	**(60,726,936,610)**
Other	
NonMortgage hedges	(28,345,699,904)
Net	**(28,345,699,904)**
Grand Net	**77,009,989,238** [*/]

[*/] Certain RMBS products have significant large notional values and minimal market values (for example, interest only bonds). If the market value of these RMBS products, rather than the notional value, were used in this calculation, the Grand Net as of December 31, 2007 would be approximately $24 billion, rather than the much larger number reflected here.

LAW OFFICES
WILLIAMS & CONNOLLY LLP
725 TWELFTH STREET, N.W.
WASHINGTON, D. C. 20005-5901
(202) 434-5000
FAX (202) 434-5029

EDWARD BENNETT WILLIAMS (1920-1988)
PAUL R. CONNOLLY (1922-1978)

KEVIN M. DOWNEY
(202) 434-5460
kdowney@wc.com

March 2, 2011

David H. Katz, Esq.
Counsel
Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, DC 20510

Re: Deutsche Bank

Dear Mr. Katz:

On behalf of Deutsche Bank, this provides information in response to the requests contained in your February 2, 2011 and February 23, 2011 emails to me.

First, in response to your February 2 email, attached is a spreadsheet showing the notional net position of various DB business units in mortgage assets as of various dates in 2007. These are the same dates and same business units whose net revenues were shown in our prior production of information. DB's Finance Department calculated the positions in mortgage assets only for these business units specifically in response to your request. (As you know, the units have other non-mortgage assets).

Second, below find responses to the questions posed in your February 23 email regarding ACE Securities Corp.:

- **Describe DB's ownership interest in or control of ACE including but not limited to whether ACE is a subsidiary, affiliate or other related entity.**

Deutsche Bank has no ownership interest in ACE Securities Corp. ("ACE"). All of the shares of capital stock of ACE are held by Altamont Holdings Corp., a Delaware corporation. Deutsche Bank Securities, Inc. ("DBSI"), however, is an administrative agent for ACE and in that role has authority to act on behalf of ACE in connection with offerings of asset-backed securities, including RMBS offerings.

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- **DB's role in the creation or formation of ACE.**

Although no one involved in the formation of ACE is still employed by Deutsche Bank, our current understanding is that in 1998, Deutsche Bank hired the AMACAR Group, LLC ("AMACAR") to assist in the creation of ACE to act as a registrant and depositor in connection with RMBS offerings sponsored and/or underwritten by Deutsche Bank.

- **DB's financial relationship with ACE, including any compensation received by either entity and the amount(s) received.**

DBSI pays an annual management fee to AMACAR, which serves as the manager of ACE. Between 1998 and 2006, DBSI paid AMACAR an annual management fee of $10,000. Since 2006, DBSI has paid AMACAR an annual management fee of $20,000. Beyond the annual management fee, in its role as a depositor and issuing entity in connection with RMBS offerings, ACE purchased mortgages from DB Structured Products, Inc. ("DBSP") and sold RMBS certificates to DBSI as described more fully below.

- **Describe generally ACE's role and responsibilities as a depositor and issuing entity in connection with any RMBS deal underwritten by DB.**

ACE participated in many RMBS offerings as a depositor and issuer and acted as the registrant in connection with the shelf registration statements pursuant to which the securities were registered for public sale. ACE is a special purpose corporation incorporated in the State of Delaware on June 3, 1998. ACE's principal executive offices are located at 6525 Morrison Boulevard, Suite 318, Charlotte, North Carolina 28211.

As depositor and issuer, ACE participated in the formation of the RMBS offerings as follows. Generally, pursuant to the various mortgage loan purchase agreements between DBSP and ACE, loans were sold by DBSP to ACE. In connection with this sale, DBSP, ACE and the relevant trustees and servicers entered into a pooling and servicing agreement by which a common law trust was created. ACE would then "deposit" the mortgages loans into the trust and the trust would in turn issue RMBS securities to ACE. ACE would then sell those certificates to DBSI. ACE would then use the proceeds of the sale of the certificates to DBSI to pay for the mortgages acquired from DBSP. DBSI, as underwriter, would then sell the certificates to investors or retain them in its inventory depending on market conditions and demand.

Although in practical terms ACE performed the functions of an issuer, ACE was not technically the legal entity that issued the RMBS securities. Instead, the securities were issued by separate

common law trusts that were created for each offering. The trusts were created by ACE (as noted above), together with DBSP, and the relevant trustees and servicers, pursuant to pooling and servicing agreements for each offering. For example, the ACE 2006-SL2 Trust is a common law trust formed under the laws of the State of New York pursuant to the pooling and servicing agreement for ACE 2006-SL2, dated March 1, 2006. The pooling and servicing agreement constituted the "governing instrument" under the laws of the State of New York.

- **In 2007 were any DB employees also employed by ACE? If yes, please provide the number.**

No. ACE did not employ any Deutsche Bank employees in 2007.

- **In 2006 – 2007 did ACE act as a depositor exclusively for DB RMBS deals?**

In most instances, between 2006 and 2007, ACE acted as the depositor for subprime RMBS offerings sponsored by DBSP and underwritten by DBSI. In a few instance, however, ACE acted as the depositor for RMBS offerings that were underwritten by DBSI but sponsored by firms that were not affiliated with Deutsche Bank.

- **In 2006 – 2007 did ACE act as an issuing entity exclusively for DB RMBS deals?**

Please see the answer above. ACE's activities as an issuer were identical to its activities as a depositor.

Please do not hesitate to contact me with any questions.

Very truly yours,

Kevin Downey

Attachment

Greg Lippmann

To: michael.lamont@db.com, richard.dalbert@db.com
cc:
Subject: Winchester Capital: Potential Barramundi Purchase: Lochsong Synthetic CDO

08/23/2006
06:49 PM

i was going to reject this because it seems to be a pig cdo position dump 60^ but then i noticed winchester is the portfolio selector.....any idea ???

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---- Forwarded by Greg Lippmann/NewYork/DBNA/DeuBa on 08/23/2006 06:49 PM ----

"Emilio, Grace \(C-BASS\)" <Grace.Emilio@C-BASS.COM>

08/23/2006 06:46 PM

To: Bruce VanMeter/NewYork/DBNA/DeuBa@DBAmericas, "Deturo, Mac \(C-BASS\)" <Mac.Deturo@C-BASS.COM>, Doug Hamilton/db/dbcom@DBAmericas, "Emilio, Grace \(C-BASS\)" <Grace.Emilio@C-BASS.COM>, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Lalantika Padmanabhan/NewYork/DBNA/DeuBa@DBAmericas, Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas, Mike Li/db/dbcom@DBAmericas, "Pecache , Janice \(C-BASS\)" <Janice.Pecache@C-BASS.COM>, Peter Luebke/NewYork/DBNA/DeuBa@DBAmericas, Phillip Dominguez/db/dbcom@DBAmericas, "Pyne, Rob \(C-BASS\)" <Rob.Pyne@C-BASS.COM>, Rachel Wish/NewYork/DBNA/DeuBa@DBAmericas, "Rickert, Andy \(C-BASS\)" <Andy.Rickert@C-BASS.COM>, Sean McKenna/NewYork/DBNA/DeuBa@DBAmericas, "Silver, Erik \(C-BASS\)" <Erik.Silver@C-BASS.COM>, Stephen T Hessler/NewYork/DBNA/DeuBa@DBAmericas, Tasneem Selim/NewYork/DBNA/DeuBa@DBAmericas

cc:

Subject: Potential Barramundi Purchase: Lochsong Synthetic CDO

Please see attached marketing materials for Lochsong Synthetic CDO and let us know your thoughts for potential inclusion into the Barramundi warehouse.

We have an IOI (subject to credit) on $24MM of the Class C notes rated A2/A by Moody's and S&P. Price talk is currently at +130 and WAL of the bond is 6.2 years. The deal is scheduled to price the middle to end of next week (8/30 - 9/1).

Some deal specifics:
1. The deal is a static one - 97% of the referenced obligations have been identified thus far. It is anticipated that the remaining 3% will be identified within the next week before closing. The attached spreadsheet is a collateral list.
2. 100% of the collateral is synthetic - with 60% of the securities referencing CDO obligations and the remaining 40% referencing RMBS obligations
3. All ratings on the underlying referenced obligations have an explicit Moody's and/or S&P rating of at least A3/A-.
4. Waterfall is a modified sequential pay that allows the class C's to receive principal

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on day 1.
5. Credit Events include:
a. Failure to pay principal
b. Writedown
c. Distressed ratings downgrade
d. Failure to pay interest (pertaining to the CDO portion of the portfolio)
6. Winchester Capital Principal Finance will serve as asset selector for the transaction and will be responsible for asset selection and surveillance of the portfolio.
7. Winchester is expected to take down 50% of the equity and Goldman is expected to take down the remainder.

Any additional questions, comments or concerns feel free to give a call. Thanks in advance.

Grace Emilio
C-BASS, LLC
Capital Markets Group
212.850.5061 Ph
212.850.7760 Fa
grace.emilio@c-bass.com

- -

This e-mail (including any attachments) may contain information that is private, confidential, or protected by attorney-client or other privilege. If you received this e-mail in error, please delete it from your system without copying it and notify sender by reply e-mail, so that our records can be corrected.

Lochsong1.pdf	**Type:** application/octet-stream **Name:** Lochsong1.pdf
Lochsong2.pdf	**Type:** application/octet-stream **Name:** Lochsong2.pdf
Lochsong Collateral 2.xls	**Type:** application/vnd.ms-excel **Name:** Lochsong Collateral 2.xls



greglip@bbotg To: bwickens1@bbotg
cc:
Subject:

08/30/2006
11:52 AM

Message Sent: 08/30/2006 11:52:55
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |

where would you price CBASS 05-CB2 Baa3

its got good CE and has paid down/delvered alot but its not performing well and i think it trades pretty expensive
Reply:
CBASS IS A T OP 3 NAME SO U R RIGHT THEY TRADE TIGHT....I ALSO AGREE SOME OF THEM SEEM TO BE PERFORMING LIKE CRAP AND THEY HAVE HAD A FEW DOWNGRADES ON THEIR 02-04 PAPER...THAT SAID I CAN PRO BABLY SHORT THIS NAME TO SOME CDO FOOL THUS ILL OFFER U PROTECTI ON AT 205....



OrgSmtpMsg.eml



greglip@bbotg To: bwickens1@bbotg
cc:
Subject:

09/01/2006
12:06 PM

Message Sent: 09/01/2006 12:06:01
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |

can you price MBAS 2006-FRE1 M9 thanks
Reply:
THIS BOND HAS POOL ENHANCEMENT AND THUS ONLY .7% CREDIT ENHANCEM
ETN....THIS KIND OF STUFF RARELY TRADES IN SYNTHETIC MARKET AND
WILL BE TOUGH FOR US TO COVER I.E. SHORT TO A CDO FOOL. THAT SAI
D IF U GAVE US AN ORDER AT 260 WE WOULD TAKE IT AND TRY TO DUPE
SOMEONE. FOR YOU, I'LL MAKE THIS BOND 235-290 B/C OF THE LACK OF
LIQUIDITY IN POOL DEALS RATHER THAN A TIGHTER MARKET LIKE USUAL

AS A POINT OF REFERENCE WE WOULD DO MABS 06-FRE2 M9 AT 245



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1281



bwickens1@bbotg To: greglip@bbotg
cc:
09/01/2006 12:04 PM Subject:

Message Sent: 09/01/2006 12:04:59
From: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

can you price MBAS 2006-FRE1 M9 thanks
Reply:
CRAP BOND...U R GOOD..
Reply:
maybe too crap to short



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1282

Melissa Goldsmith

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc:
Subject: Re:

09/21/2006
01:12 PM

gotcha. call me when you have a second.
Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa

To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject Re:

09/21/2006 12:57 PM

Right

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 09/21/2006 12:50 PM
To: Greg Lippmann
Subject: Re:

"we shorted" meaning we're short the credit as well?

Greg Lippmann/NewYork/DBNA/DeuBa

Greg Lippmann/NewYork/DBNA/DeuBa

To Melissa Goldsmith/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject Re:

09/21/2006 12:49 PM

MSHEL 2006-1 B3 230 crap we shorted
FFML 2006-FF10 M9 245 ffml was top tier, fast becoming mid tier
GSAMP 2006-HE3 M9 265 this bond sukks but we are short 20MM
FFML 2006-FF1 M9 235 see above
GSAMP 2006-HE1 B1 240 better than other gsamo but tighter
ACE 2006-NC1 M9 248 ace is generally horrible and new century I mid tier.

Looks like you were well taken care of. Which I am happy about.

Sent from my BlackBerry Handheld.

Melissa Goldsmith

From: Melissa Goldsmith
Sent: 09/21/2006 12:46 PM
To: Greg Lippmann

MSHEL 2006-1 B3 230

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1283

FFML 2006-FF10 M9 245
GSAMP 2006-HE3 M9 265
FFML 2006-FF1 M9 235
GSAMP 2006-HE1 B1 240
ACE 2006-NC1 M9 248

Axel Kunde@DBEMEA
10/02/2006 04:57 PM

To: Sean Whelan/db/dbcom@DBAmericas
cc: Pius Sprenger/DMGGM/DMG UK/DeuBa@DBEMEA, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: Fw: King Street

Sean,

here is what we would like to propose:

King Street shorts the whole portfolio they have chosen at the protection offer level to us. They also buy the 25-35% AAA and the 35-100% Super Senior at current market levels, we underwrite all the other tranches between 3% and 25%, and King Street takes the 0-3% Equity which gets all residual cash flows. The economics in this trade are the same as in a publicly marketed full capital structure CDO whereas in fact King Street is doing their own private deal with us. There are a couple of things to note about full cap structure deals though:

1) It is almost impossible to place BBB risk and below without a manager, and even single-A is challenging
2) The portfolio which KingStreet selected with high concentrations in LBMLT, HEAT, INABS, AMSI/ARSI, RAMP/RASC, and CWL would be impossible to sell to the public
3) The structuring/placement fees on full cap deals are 1-1.5% of the portfolio notional, ratings are about 0.5% of notional, and there are administrative costs for the trustee
4) The ratings of the notes are supported by IC/OC triggers which divert cash flows away from the equity, and which we do not have in our trades.

So there is no way King Street could place the 3-25% risk on their portfolio in the market. However, we are willing to take the risk down, and in addition with a much simpler structure without IC/OC: We offer 15 bps on the 35-100, 45 bps on the 25-35, and we underwrite the 3-25 at the average portfolio spread. In return KingStreet pays us one year's protection premium on the portfolio notional upfront, i.e. roughly 2.5%. Part of this upfront payment covers our loss from underwriting the mezzanine tranches below market levels. The rest is for taking down the risk on an unsalable deal plus as a substitute for structuring/placement fees which KingStreet would have to pay on any other deal.

The economics of the trade for KingStreet are simple: Assuming an average portfolio spread of 250 bps, they pay us 2.5% upfront and 3% for the equity. At this spread the equity will return roughly 60% , i.e. 1.8% of portfolio notional p.a. Put differently: If all credits survive for the first 3 years King Street will have recovered their initial upfront payment plus the equity notional - the rest is upside. If reference credits were to default before year three the equity would nonetheless get all the XS income of the portfolio. But King Street would also receive protection payments from us for the defaulted credits. In addition, if spreads on Home Equity BBBs were to widen out King Street could sell protection on the single-name portfolio, thereby locking in a positive carry for the lifetime of the trade while still benefitting from the mezz protection they bought from us.

I think that's a very efficient way of executing a structured short on the Home Equity market, with very limited downside if nothing defaults (average portfolio spread on 22% of cap structure plus 2.5% upfront). Please let me know what they say.

Kind regards,

Axel.

Axel Kunde
Deutsche Bank AG, London
ABS Correlation Trading

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1283

Tel.: +44 207 545 7800
Mobile: +44 7795 122 235

----- Forwarded by Axel Kunde/DMGGM/DMG UK/DeuBa on 02/10/2006 18:04 -----

Sean Whelan/db/dbcom@DBAMERICAS
27/09/2006 19:52
To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc "Axel Kunde" <axel.kunde@db.com>, "Pius Sprenger" <pius.sprenger@db.com>
SubjectRe: King Street

they want to short the market and are willing to pay the freight. in the correlation trade they are long idiosyncratic risk. they also ran breakevens- which they feel are high- 2 events virtually knock out the equity- for every subsequent event their max benefit is 1.8 mm. crude- but they would need 7 events to break even. (yes- this ignores spread widening on the remainder.)- they think a more efficient short is a bespoke trade. their ideal short would be the belly of the capital structure. when we last spoke about it, we told them the equity and the AAA were the parts we found difficult to place. they are willing to buy the equity and even the AAA's t get an efficient short of the belly-

Greg Lippmann/NewYork/DBNA/DeuBa
09/27/2006 02:31 PM
To Sean Whelan/db/dbcom@DBAmericas, "Pius Sprenger" <pius.sprenger@db.com>, "Axel Kunde" <axel.kunde@db.com>
cc
SubjectRe: King Street

Whjat does thaty mean? Will they massively overshort vs 6x coupon??

Sent from my BlackBerry Handheld.

From: Sean Whelan
Sent: 09/27/2006 11:02 AM
To: Greg Lippmann
Subject: Re: King Street

Greg- I was not accurate- do not want to do a fully placed deal . they want to short the entire delta- thanks-

Greg Lippmann/NewYork/DBNA/DeuBa
09/27/2006 10:57 AM
To Sean Whelan/db/dbcom@DBAmericas, Axel Kunde/DMGGM/DMG UK/DeuBa, Pius Sprenger/DMGGM/DMG UK/DeuBa
cc
SubjectRe: King Street

Which is it ? Magnetar is fully placed and talk to lamont. If they want to do our trade but short entire delta we can price that too.

Sent from my BlackBerry Handheld.

From: Sean Whelan

Sent: 09/27/2006 10:51 AM
To: Greg Lippmann; Axel Kunde; Pius Sprenger
Subject: King Street

Spoke with King Street this morning. rather than do the carry neutral correlation trade, the would like to pursue a bespoke or Magnatar type trade. They want more leverage and are willing to hold the equity in a 375mm type transaction, and short the rest of the capital structure . the 75 names we have can be used, or we can add if need be-thanks-Sean

Greg Lippmann

To: "Craig Carlozzi" <craig@mastcapllc.com>@DEUBAINT
cc: "Chris Madison" <chris@mastcapllc.com>
Subject: Re: subprime CDS

10/20/2006
06:36 PM

levels are basically unchanged: see comments below

FMIC 06-2 M8 - 135, Fieldstone likely to go bk or be bought by the street within 6 months so headline risk could make it a good short. Very low gross wac of 6.18 could lead to payment shock. 45% IO. Bond was shorted to us by an ABS Hedge Fund in full competiton at 135 on October 18.

ACCR 06-1 M8 - 130. One of the top / most respected names. The 2006 vintage seems to be worse / more similar to other shelves than prior ones (see recent new stories on LEND) and thus it is trading closer to other names than the 2005 cohort does. We shorted this very bond a bit above 100 over in competiton to a CDO manager on October 19 and thus can make this one a bit tighter. Moderately high FICO with low LTV and low California. On the other hand, 34% have second mortgages, only 57% Full Doc and 8% investor property.

LBMLT 06-5 M9 - 375. Long Beach is one of the weakest name in the market. We shorted this bond to a CDO in the mid-300s on october 13. Deal was done in late June before S & P changed their criteria on July 1. Lots of 40 year mortgages as evidenced by the 409 WAM. (360 being 30 year) Less than half the loans have full documentation and 10% are investor properties. This is a real pig.

LBMLT 06-2 M9 350. See above on Long Beach. This one is already performing poorly with substantial delinquencies. Further the FICO is less than the 06-5 and there are fewer full doc loans. This seems a better short than the 06-5. Only reasons I can think for my guys showing you a tighter level is that we are very short this one and that the June 06 deals have a taint that earlier months dont due to the theory that late June deals were crammed with bad stuff in order to beat the S & P revisions.

RASC 06-EMX2 M8 145. This was shorted to us at 145 on Sep 29. If anything the market is a bit wider since then. These trade somewhat tight because they have extremely low California percentages and decently high (64%) of full doc loans. 10% of the loans are second liens so that could make this a good short.

FFML 06-FF13 M9 270. A CDO got long this risk in competition at 240 on October 10 so this is a good level i.e. roughly 1 point bid /ask. The CDOs like First Franklin because of the high FICO scores, but I like shorting them becuase of the low enhancement, very high % of silent seconds and in this case large number of 40 year mortgages (421 WAM) especially coupled with the 30% IO, a 40 year mortgage is a another way of saying an IO in my view.

SAST 06-1 B2 200. No trading in this name recently. SAXON is one of the weakest originators/servicers. Loans don't look too bad though. On the other hand, 371 WAM is a bit high and 603 FICO is quite low.

CWL 06-BC3 M9 350. No trading in this name recently. Countrywide is a mid-tier issuer. Not much to say here other than low FICO. Some of the others might be more appealing.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

"Craig Carlozzi" <craig@mastcapllc.com>

10/20/2006 02:44 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc "Chris Madison" <chris@mastcapllc.com>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1284

Subject subprime CDS

Greg,

Here are the tranches that Chris and I find the most attractive. We'd appreciate any thoughts you may have...

Thanks for your help,
Craig

Tranches:

FMIC 2006-2 M8 135, fieldstone likely to go bk or be bought by the street within 6 months so this could be a good short.

ACCR 2006-1 M8

LBMLT 2006-5 M9

LBMLT 2006-2 M9

RASC 2006-EMX2 M8

FFML 2006-FF13 M9

SAST 2006-1 B2

CWL 2006-BC3 M9

Craig Carlozzi, CFA
Senior Analyst/Partner
MAST Capital Management LLC



GREGLIP@bloomberg.net Tomlee@contrariancapital.com
cc
12/04/2006 10:06 AM bcc
SubjectRE:

=====Begin Message=====
Message#: 122868
Message Sent: 12/04/2006 10:06:17
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: mlee@contrariancapital.com| | | |
Subject: RE:

sure....this afternoon...u have picked some crap right away so u have figured it out
----- Original Message -----
From: Mark Lee <mlee@contrariancapital.com>
At: 12/04 10:00:21

That's great. We assumed that we were going to pick some that didn't make sense. If you want you can call me today and I will tell you how we are looking at this and why it is taking us some time.

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Monday, December 04, 2006 9:59 AM
To: Mark Lee
Subject: Re:

lets work through amin the oomlt 06-2 is one of the worst deals ever so not sure that is going to be a good one to match up on...will be bac k on these.
----- Original Message -----
From: Mark Lee <mlee@contrariancapital.com>
At: 12/04 9:56:48

Could you give us quotes on the BBB- bond on the following deals?
Bear BSABS 06-HE8
Bear BSABS 06-HE7
Option One OOMLT 06-2
Ameriquest AMSI 06-R1

Also, I sent you our DB coverage last week. Where should we start for ISDA?

Mark Lee.
Portfolio Manager
Contrarian Capital
411 West Putnam
Suite 225
Greenwich CT 06830

P: (203) 862-8203
F: (203) 629-1977

This has been prepared solely for informational purposes. It is not an

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Wall Street & The Financial Crisis
Report Footnote #1285

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/08/2006 11:49 AM

Topfaulkner@psamllc.com
cc
bcc
Subjectother bonds

just traded these

ACCR 2006-1 M8 160
SAST 2006-2 B2 190
CWL 2006-BC2 M8 225
FMIC 2006-3 M8 180

Just offered these:

Deal	8-Dec
ABSHE 2006-HE5	300.00
ACE 2006-OP1	300.00
AMSI 2006-R2	450.00
ARSI 2006-W1	550.00
FFML 2006-FF8	325.00
FHLT 2006-2	435.00
GSAMP 2006-HE3	400.00
GSAMP 2006-NC2	525.00
HEAT 2006-7	460.00
JPMAC 2006-WMC1	325.00
LBMLT 2006-WL1	310.00
MSAC 2006-HE5	385.00
RASC 2006-KS3	460.00

your bonds

gsamp 06-nc2 m8 this is an absolute pig...see the m9 above will offer the m8 at 375
bsabs 05-he12 m7 225
rasc 05-ks8 m8 pass t his is a bad deal and we are already long it

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]
greg.lippmann@db.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1286



GREGLIP@bloomberg.net ToJORIS1@bloomberg.net
cc
03/01/2007 05:42 AM bcc
Subject

=====Begin Message=====
Message#: 118415
Message Sent: 03/01/2007 05:42:30
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JORIS1@bloomberg.net|JORIS HOEDEMAEKERS|OASIS CAPITAL (UK) L|
|
Subject:

JORIS-SORRY YOUR LIST GOT BURIED UNDER THE TO DO LIST HERE U GO:
ABSHE 2006-HE1 M7 500 CRAP
DEAL
ACE 2005-RM2 M9
475
ACE 2006-HE2 M7 550 DEAL IS A PIG !
BSABS 2006-HE3 M7
650
MLMI 2006-HE1 B1A
325
SAST 2005-2 B2
300
SAST 2005-3 B2
300
=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1287

From: BRADLEY WICKENS (SPINNAKER CAPITAL LT) <BWICKENS1@BBOTG>
Sent: Thursday, June 8, 2006 1:26 PM
To: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Subject:

Message Sent: 06/08/2006 09:26:11
From: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

what going on in housing, with these hawkish sounds and grwoth concerns should be playing straight into our hands
Reply:
nothing....stuff is flat b/c the cdo machine has not slowed but i am fieleding 2-4 new guys a day that are kicking the tires so we probably dont go tighter...i remain convinced that the trade will work and trying not to be too frustrated that it is not hap peneing as soon as we would like given the moves in other market s....
Reply:
honestly, i was always concerned about the CDO machine, which is whi i stayed out at first. i think you can put this on in september

From: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Sent: Tuesday, August 29, 2006 5:25 PM
To: BRADLEY WICKENS (SPINNAKER CAPITAL LT) <BWICKENS1@BBOTG>
Subject:

Message Sent: 08/29/2006 12:25:20
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BWICKENS1@BBOTG|BRADLEY WICKENS|SPINNAKER CAPITAL LT| |

The JPMAC -05-FRE1 has very good step down CE lvls, maybe not

such no brainer short at 210

Reply:

WE MISSED THAT....

Reply:

its a minefield this market, CS has exactly the same view as

you, one day the music will stop.

Reply:

IT WILL..I DONT CARE WHAT SOME TRAINED SEAL BULL MARKET RESEARCH

PERSON SAYS THIS STUFF HAS A REAL CHANCE OF MASSIVELY BLOWING UP

AND ON MY SONS LIFE I HAVE BEEN SHORT 800MM TO 2.2BB CONTINUOSL

Y SINCE BEFORE I STARTED SPEAKING WITH U...THESE PEOPLE (AND ME

TOO I GUESS) HAVE NEVER SEEN A BEAR MARKET SO THEY CANT IMAGINE

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

03/04/2007 10:04 AM

To "Harvey Allon" <Hallon@Braddockfinancial.com>
cc
bcc
Subject Re: A new take

Indeed. Speak when you land, safe comfortable flight.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Harvey Allon" [Hallon@Braddockfinancial.com]
Sent: 03/04/2007 08:04 AM MST
To: Greg Lippmann
Subject: RE: A new take

Heading to airport. My issue with hpa is that it doesn't have much to do with the hpa in the locations where the subprime loans are concentrated. The stories from new construction areas for example are nightmares. -20% hpa is not uncommon.

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Sunday, March 04, 2007 7:58 AM
To: Harvey Allon
Subject: Re: A new take

I remain firm in my belief that these are blowing up whether people like it or now and that hpa is far less relevant for subprime than these bulls think. Can't blame them because if this blows up lots of people lose their jobs so they must denyv in hope that that will help prevent the collapse. At this price I'm nearly just as short as I've ever been.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Harvey Allon" [Hallon@Braddockfinancial.com]
Sent: 03/04/2007 07:55 AM MST
To: Greg Lippmann
Subject: RE: A new take

I see a problem with Glenn's theory in the first few sentences. "The problem with the early defaults is bad underwriting." No shit Sherlock!

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1293

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Sunday, March 04, 2007 7:46 AM
To: Harvey Allon
Subject: Re: A new take

Did not, thanks. Working out sitter / time / venue for tomight now. Be back. Will read this now and be back soon.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Harvey Allon" [Hallon@Braddockfinancial.com]
Sent: 03/04/2007 07:44 AM MST
To: Greg Lippmann
Subject: FW: A new take

Didn't know if you got this.

From: Dave Myers
Sent: Friday, March 02, 2007 10:30 AM
To: Kevin Ahern; Harvey Allon
Subject: A new take
Importance: High

From: Wachovia Structured Products Research [mailto:WBSP.Research@wachovia.com]
Sent: Thursday, March 01, 2007 5:14 PM
To: undisclosed-recipients
Subject: Glenn Schultz: U.S. Housing Outlook Update
Importance: High

U.S. Housing Outlook Update
First-Quarter 2007 Update

Executive Summary

On Nov. 14, 2006 we published our *Housing Outlook* and predicted that home price appreciation would be 3.0%-5.0%

over the next 3-5 years. Our forecast has not changed.

The Office of Housing Enterprise and Oversight (OFHEO) home price index released on March 1, 2007, follows the releases of both the existing home sales median price, a poor indicator of home prices, and the S&P Case-Shiller home price index, arguably one of the better indicators of home prices. The OFHEO home price statistics were released against the backdrop of increased market volatility and concern surrounding the subprime borrower or, more accurately, concern regarding subprime underwriting criteria. The housing bears will have to wait another day for their route; an event that will, in our opinion, never happen. Rather, we suggest that investors focus more on the fundamentals, namely low unemployment, strong personal income growth, the supply of housing and the quality of underwriting.

In this update, we examine recent home price statistics as well as the fundamentals that we believe provide a strong foundation to the U.S. housing market. In addition, we reiterate our belief that a homeowner will not default simply because home prices did not appreciate or modestly declined. Rather, as we stated in December 2006, the recent spate of delinquency and early default are a result of poor underwriting.

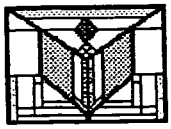
<<US_Housing_Outlook_Update_030107.pdf>>

Glenn M. Schultz, CFA
glenn.schultz@wachovia.com
(704) 383-4758

Erin K. Walsh
erin.walsh@wachovia.com
(704) 715-7404

Shane Whitworth, CFA
shane.whitworth@wachovia.com
(704) 715-7936

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Michael George/NewYork/DBNA/DeuBa@DBAMERICAS

06/23/2007 07:37 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@D
cc
bcc
Subject Re: Bear: Will Provide $3.2B To Its Hig

Question is who else sells.....the Europeans will just bury in their portfolios.....most of them are no where near as transparent as say Abbey was. Ralph's porfolio going to be a huge overhang on market.....why buy new issue when you can just to knock on the Bear HFs door and McGarrigal will have something for you !!!
Michael R George
Managing Director
Deutsche Bank
60 Wall Street
New York, NY 10013
+1-212-250-6819
+1-917-459-3207
Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 06/23/2007 06:59 AM EDT
To: Michael George/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT
Subject: Re: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Yup this is the beginning of phase 2 (the bulls still can't see it), sales by the longs and how do you think the foreign banks will feel when they see that the true mark for what they have is.....this could be the end of the cdo biz. I want to print 100% of verticals monday list. Please be involved.

Sent from my BlackBerry Handheld.

From: Michael George
Sent: 06/23/2007 04:12 AM EDT
To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT
Subject: Re: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Reading the Bear CFO's statement to the press.....
'The market for CDOs will stabilise and then they'll resume asset sales"

How they expect this to happen with Ralphie Fund overhanging the market beats me....there's the 3.2bn from Bear...plus Citi's repo positions plus Bracaps.....market will continue to go down until prices reach a level attractive enuff to attract new capital.
Michael R George
Managing Director
Deutsche Bank
60 Wall Street
New York, NY 10013
+1-212-250-6819
+1-917-459-3207
Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 06/22/2007 11:24 PM EDT
To: Michael George
Subject: Fw: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1293

Sent from my BlackBerry Handheld.

From: Ted Meyer
Sent: 06/22/2007 05:30 PM EDT
To: Alan Cloete; Alex Crossman; Barry Bausano; Greg Lippmann; Joseph Randazzo; Matt Connolly; Michele Allison; Patrick McKenna; Philip Weingord; Renee Calabro; Richard Walker; Robert Khuzami
Subject: Bear: Will Provide $3.2B To Its High-Grade Hedge Fund

Bear: Will Provide $3.2B To Its High-Grade Hedge Fund
(Dow Jones 06/22 14:06:56)

NEW YORK (Dow Jones)--Bear Stearns Chief Financial Officer Sam Molinaro said Friday that the bank's financial condition remains strong, as it seeks to raise $3.2 billion to shore up its troubled hedge funds business.

In a conference call, Bear Steans' Molinaro said that the bank's financial condition remains strong and its has "ample liquidity" for the $3.2 billion loan extended to one of its troubled hedge funds. The bank is seeking to facilitate an orderly deleveraging of its hedge funds, which have experienced significant liquidity problems over the last few weeks.

While valuations have clearly been pressured over the past couple of weeks, he said Bear Stearns has more than adequate collateral to cover its liabilities.

But Molinaro pointed out that exact figures are difficult to gauge, given the "fluidity" of current market conditions.

Bear confirmed the financing Friday as the fund's managers struggled to settle their debts to a group of Wall Street lenders, including Deutsche Bank AG (DB), Merrill Lynch & Co. (MER) and Lehman Brothers Holdings Inc. (LEH).

Earlier this week, creditor Merrill Lynch was the first among creditors to seize collateral - much of it mortgage-backed debt - from Bear's internal hedge funds, the High Grade Strategies Fund and its High Grade Credit Strategies Enhanced Leverage Fund. Merrill held an auction of $100 million of seized assets Thursday.

Bear's intervention appears to have nipped further such action in the bud. Molinaro said Friday that "all of the threats of liquidations have been pulled while we're negotiating with counterparties." Earlier this week, creditors were circulating lists of assets for sale in an attempt to curb their exposure. Merrill went ahead and sold a fraction of its $850 million up for sale while Lehman Brothers put $400 million on the block Thursday, according to a source.

Nevertheless, he conceded that values of the collateral in two troubled hedge funds have been "beaten down" in the past couple of weeks.

"Some assets are being sold to dealers," Molinaro said, adding "the situation is fluid."

The deleveraging may take several months to complete, in a gradual process to avoid overburdening the market.

Bear is hoping that market conditions will stabilize in the meantime. It will take "several months to wind down the asset levels," he said.

Responding to a question about the covenants involved in the Bear Stearns loan, Molinaro said "we haven't completely drilled down on this issue" and that it will "take several months to work this out."

The executive said he didn't envisage any impact on Bear Stearns' reputation from the troubles of its hedge fund business.

Asked about the timeline of the deterioration, Molinaro said the funds recorded their first negative performance in March, after 40 quarters of profit.

The redemption requests started to arrive in April, and the pressure

intensified from there. "I believe we closed the fund to redemptions in May," said Molinaro.

The losses multiplied as the values of the portfolios sank. The inability to satisfy margin calls triggered more declines, he said, describing the event as a "vicious circle."

--

Bear Puts Up $3.2B & Seeks To Explain Funds Slow-Motion Crash
(Dow Jones 06/22 17:20:31)

By Emily Barrett

NEW YORK (Dow Jones)--Bear Stearns Cos (BSC) stepped into the melee surrounding its troubled hedge funds business Friday with some urgent finances, and an attempt to explain how the slow-motion subprime landslide engulfed some of its most leveraged investments.

The damage control comes days after it emerged that two Bear hedge funds - the High Grade Structured Credit Fund and High Grade Structured Credit Enhanced Leverage Fund - were foundering on bad investments in the subprime mortgage market.

Wall Street banks were circling and Merrill Lynch (MER) was first to swoop, seizing around $1 billion in debt to auction in a fire sale.

In a conference call Friday, Sam Molinaro, Bear's chief financial officer, first sought to reassure investors of the bank's financial strength, observing that the investment bank can easily cover the $3.2 billion it plans to inject into one of the two troubled hedge funds - the High-Grade Fund. He also pointed out that the bank's mortgage business is in good health, and that Bear had no "material" lending exposure to the funds in the first place.

Bear Faces Criticism As Investors Mull Deal

Not all stock market observers are persuaded. Punk Ziegel analyst Richard Bove says Bear's loan is a poor use of investor funds. Shareholders are "faced with the fact that the company may be lending money at below the rate" it earns on capital invested into the fund, he said, noting that "there is no good way" to determine the value of the fund's assets.

"It is also important to understand that $3.2 billion, if this is the right number, is 24.8% of Bear Stearns common equity," Bove says. "This is no small bet."

That view was reflected in late trade. Shares in Bear Stearns closed down 1.4% at $143.75 on a day when broad concerns about the deterioration in securities tied to subprime mortgages pushed down the financial services sector and the main market indexes.

Only An Episode In Subprime Drama

It's becoming clear that Friday's action is only an episode in the drama that began back in March, and is far from over.

Back in February, as delinquencies mounted among subprime borrowers, and mortgage lenders started to fail, the securities that ultimately bundle these risky loans began to suffer. This had a knock-on effect on the riskiest layer of the debt structures held by investors such as the two hedge funds.

Molinaro conceded that the funds' investments recorded their first negative returns back in March. The first redemption requests from lenders came in April. Declining values triggered margin calls among lenders, which then created a "vicious circle," the executive explained.

"I believe we closed the fund to redemptions in May," he said.

Molinaro warned that the value of the funds' assets had taken a blow in recent weeks, and it may take months for the total debts to be unwound.

Investors Friday were hazarding predictions of their own, asking who might be next with an uncomfortable call to investors.

"It's not over," said Michael Cheah, portfolio manager at AIG SunAmerica

Asset Management in Jersey City, N.J.

"We have seen how an extremely experienced group of people in the mortgage-backed world could lose so much money," he said. "I would be shocked if they were the only ones."

Define "Orderly Deleveraging"

Bear is relying heavily on what it describes as an "orderly deleveraging" to clear the decks at the two funds - particularly the Enhanced Fund, whose fate remains unclear. Any sudden dumping of the riskiest assets on an already fragile market could send their value - the funds' collateral - into a nosedive.

The bank can most likely count on buyers in time, however. A senior merger arbitrage trader at a large New York hedge fund said he believed Bear would recover its loan in full "unless, of course, no one bids for these CDOs and the price plummets."

"But I think someone will buy them - the world has not changed that much," he said.

CDOs refer to collateralized debt obligations, complex structured products based on pools of assets - in this case, loans to borrowers with poor credit histories.

The bank's hopes for a tidy resolution met with bemusement from some market participants Friday. "Orderly is a pretty subjective term," said Derrick Wulf of Dwight Asset Management.

"More orderly than a fire sale? Sure," he said.

The bank has restored calm on this level - the threatened fire sales haven't materialized. Merrill went ahead and sold a fraction of the $850 million in collateral it reclaimed, while Lehman Brothers (LEH) put $400 million on the block Thursday, according to a source. Cantor Fitzgerald was said to have also sold $400 million.

Bear's intervention appears to have nipped such action in the bud. Molinaro said Friday that "all of the threats of liquidations have been pulled while we're negotiating with counterparties."

Ted Meyer
Director, Head of Media Relations - Americas
Deutsche Bank
60 Wall St., 21st floor
ph: 212-250-7253
mo: 917-670-2192
ted.meyer@db.com

Greg Lippmann
To: ed.divgi@db.com
cc:
Subject: pFw: materials

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Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

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Greg Lippmann
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here is the bear case for the product

here is a way to do it with little to no negative carry

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

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Wall Street & The Financial Crisis
Report Footnote #1301

Shorting Home Equity Mezzanine Tranches

A strategy to cash in on a slowing housing market

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Summary

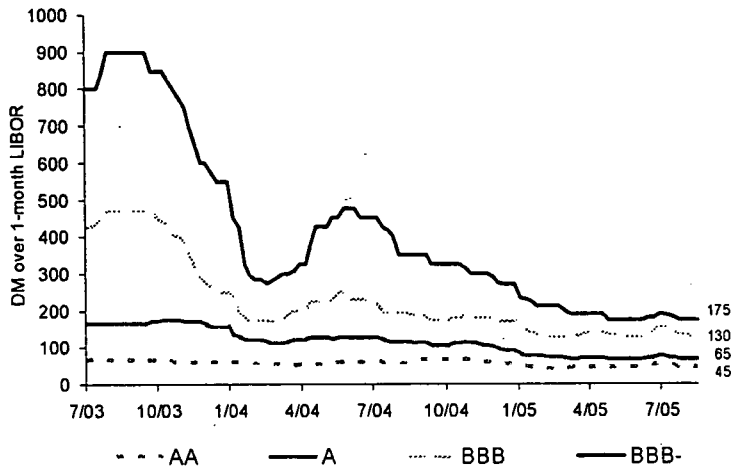
- Investor expresses a bearish view on the subprime US RMBS market (or the US Consumer or US Home Prices) by shorting (or buying protection on) a selected basket of mezzanine Home Equity ABS credits
- We believe this product is the most efficient way to express these views; more efficient than shorting stocks of homebuilders, REITs, the S&P 500, etc. We are interested in hearing of other ideas
- Since Nov 2004, spreads for Baa3 assets have compressed from 350DM to 175DM and for Baa2 assets from 200DM to 130DM, but if anything, risk of a housing bubble / defaults has only increased with the continued proliferation of alternative mortgage products such as IOs, silent seconds and option ARMs. These products have become increasingly popular as home price increases continue to outstrip wage growth
- Though each deal has certain idiosyncrasies that on the margin make one deal better or worse, from a default perspective, the risk in the asset class remains a macroeconomic risk – e.g. all pools have thousands of loans and are geographically dispersed with similar credit scoring models and underwriting procedures across issuers with defaults ultimately driven by 3 things: home prices, interest rates (payment shocks and ability to refinance/move) and unemployment
- Historical data show that losses in subprime mortgage collateral are strongly negatively correlated with home price appreciation, both in default frequency and severity. In a scenario where home prices grow significantly slower than what has been seen in the past few years, especially in high growth states such as California and Florida, one may expect losses to be substantially higher than what has been experienced in the recent past. The result could be more dramatic should prices actually decline
- Rating agencies' rating models for subprime mortgage lending criteria and bond subordination levels are based largely on performance experience that has mostly accumulated since the mid-1990s, when the nation's housing market has been booming
- In a flat housing market, most subprime RMBS rated BBB- or BBB may come under severe stress. Dramatic spread widening, downgrades or even loss of principal and interest could result

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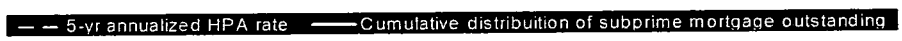
Spreads for BBB & BBB- home equity tranches have tightened since summer 2003



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Over 50% of outstanding subprime mortgages are located in the MSAs with double digit 5-year average of annual home price growth rates



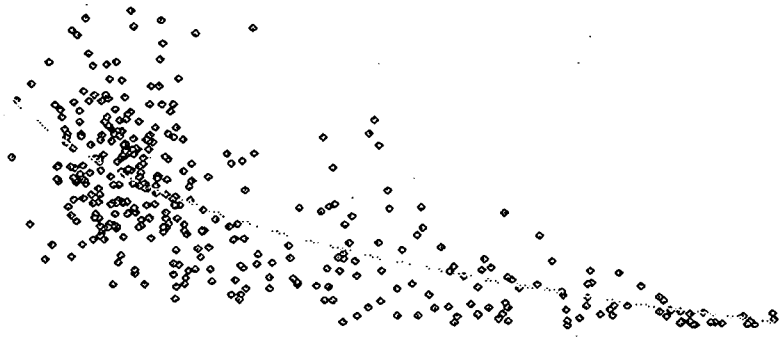
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There is a strong negative correlation between home price appreciation and loss severity



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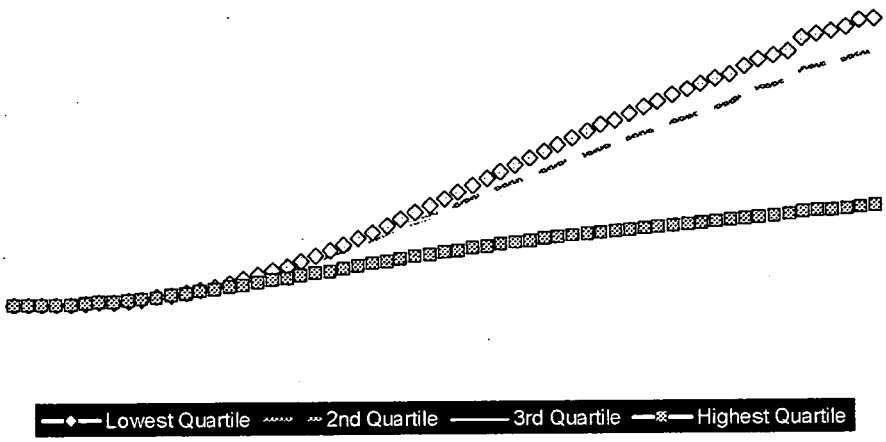
Loss severity ratios have been strongly negatively correlated with home price appreciation rates

- In the chart on the previous page
  - Defaults are defined as loans exiting pools when being more than 90 days in delinquency, in foreclosure or in REO
  - Only loans belong to pools where losses are reported by LoanPerformance are included but zero severity liquidations are also included
  - For each individual loans, if loss amount exceeds the outstanding balance, actual loss amount will be used (i.e. loss severity ratios above 100% are allowed.)

- Most MSAs with loss severity ratios above 60% are smaller ones with relatively few samples, such as Elmira, NY (75%), Terre Haute, IN (74%) Cumberland, MD-WV (73%) and LIMA,OH (72%). Larger MSAs with high loss severity ratios include Pittsburgh, PA (59%). Dayton, OH (56%), Indianapolis, IN (52%) and Cleveland-Elyria-Mentor, OH (49%)
- Some larger MSAs with high home price appreciation rates had very low loss severity ratios. These include Los Angeles (1%), Riverside-San Bernardino-Ontario, CA (2%), Nassau-Suffolk, NY (3%) and Fort Lauderdale-Pompano Beach-Deerfield Beach, FL (3%)

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Defaults of subprime mortgages are also strongly negatively correlated with home price growth rates



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High HPA rates played major roles in good performance of subprime mortgages in past few years

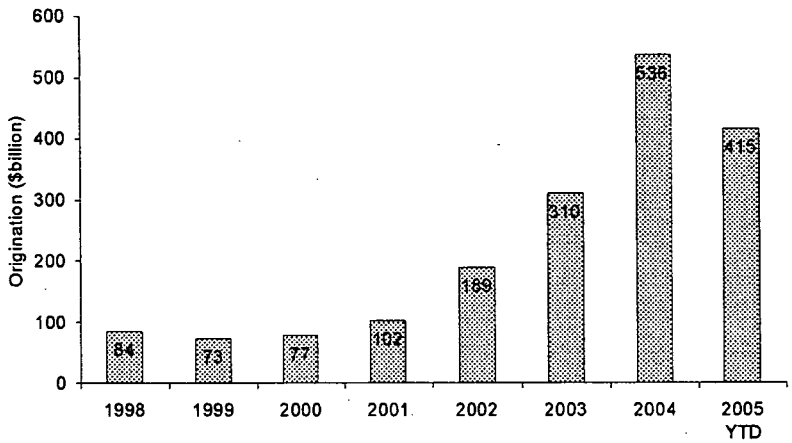
As shown above

- Mortgages located in the quartile of MSAs with lowest home price growth have been three times as likely to default as those in the quartile of MSAs with highest home price growth
- Generally, MSAs with double-digit home price appreciation rates have been experiencing loss severity ratios less than 20%, many such MSAs had loss severity ratios less than 10%
- At the same time, MSAs with home price growth rates below 5%, on average, had loss severity ratios around 40%
- A majority of mortgages originated in the past few years are in areas with double-digit home price appreciation rates
- If home price appreciation rates slow-down to 5% p.a. for MSAs currently having double-digit rates, losses (both defaults and severity ratios) may increase substantially in these MSAs

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HEL ABS sector has been experiencing fast growth in recent years



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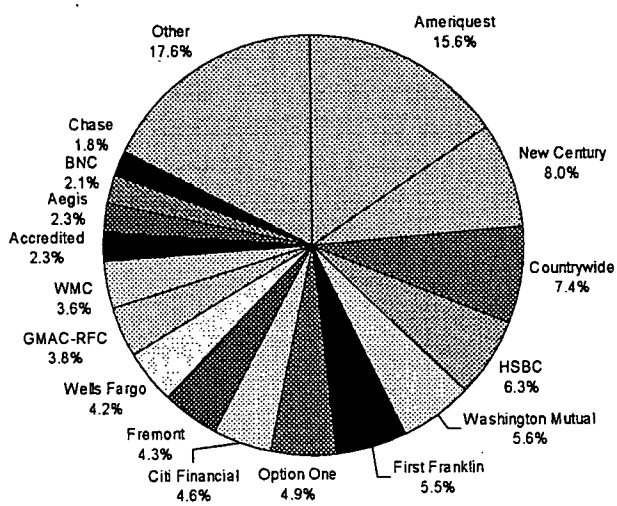
Most top issuers are not regulated banks

Top 10 originator-issuer in 2004

Rank	Name	2004 Volume
1	Ameriquest / Argent	55.126
2	Countrywide	40.602
3	Lehman Brothers	27.336
4	GMAC-RFC	25.988
5	New Century	22.306
6	First Franklin	19.522
7	CSFB	18.152
8	Option One	17.528
9	Fremont	15.294
10	Washington Mutual	13.928

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Top subprime mortgage lenders in 2004

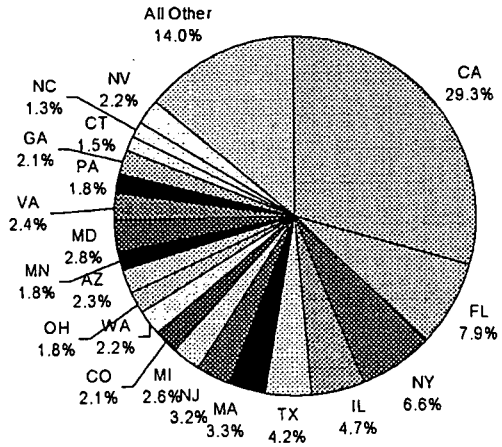


Source: Inside Mortgage Finance Publications

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Subprime mortgages originated in 2004 by state



Source: Loan Performance

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Loan characteristics from major issuers' recent deals

Issuer	ARM %	Type	Loan Size ($)	WA FICO	FICO <560	WA CLTV	CLTV >80	IO	Piggy-back	Super States[a]	Low/No Doc	Invest
Ameriquest	82.1%	ARM	169,788	600	28.2	78.0	46.9	1.3	0.9	34.3	29.6	3.7
		Fixed	166,490	679	4.2	76.1	43.0	0.9	1.1	34.3	16.4	4.7
Argent	78.3%	ARM	187,054	603	25.3	85.3	66.4	0.0	10.2	43.6	50.7	8.6
		Fixed	168,356	632	10.6	78.2	44.4	0.0	5.3	53.2	26.1	5.3
Countrywide	81.6%	ARM	189,860	607	22.4	84.1	54.5	34.8	18.5	45.4	39.3	2.1
		Fixed	174,620	607	20.4	75.4	34.0	9.5	7.1	49.7	29.0	2.2
First Franklin	89.2%	ARM	206,112	654	2.9	91.7	76.5	52.8	16.9	43.9	29.7	1.8
		Fixed	140,583	652	3.8	89.6	71.3	6.4	4.0	23.8	37.9	0.6
Fremont	88.6%	ARM	225,543	616	19.4	84.5	63.8	21.7	41.0	43.9	35.8	7.9
		Fixed	217,161	629	10.8	76.9	40.7	0.0	12.1	38.7	29.8	6.6
Long Beach	91.3%	ARM	210,158	634	12.1	91.1	77.2	28.4	53.9	53.3	37.6	6.9
		Fixed	144,849	657	5.3	81.0	43.1	0.0	25.0	36.8	37.9	21.0
New Century	86.4%	ARM	206,019	622	17.5	86.0	67.8	22.4	25.5	52.3	53.2	9.3
		Fixed	155,331	628	11.8	76.5	38.6	0.0	8.1	46.2	35.6	6.8
Option One	69.8%	ARM	177,223	605	25.6	79.9	44.3	7.2	9.7	33.3	39.3	7.0
		Fixed	155,631	631	10.8	78.2	40.4	1.0	5.2	25.4	29.5	6.3
Park Place	80.6%	ARM	178,112	606	28.5	85.5	67.4	0.9	13.1	41.4	52.9	10.3
		Fixed	168,769	633	14.6	78.0	41.9	0.2	4.9	53.9	27.9	7.3
WMC	88.9%	ARM	248,523	636	10.9	83.9	45.4	30.1	14.6	66.6	52.0	5.1
		Fixed	188,502	641	7.4	78.4	39.5	0.0	4.5	50.2	41.2	7.6

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Typical home equity deals from major issuers

		Ameriquest	Long Beach	New Century	RASC
		2005-R1	2005-1	2005-1	2005-KS1
Collateral	ARM %	81.36%	92.49%	81.57%	88.89%
	Average Balance	$173,130	$201,277	$187,239	$145,161
	WAC	7.65%	7.07%	7.06%	7.16%
	WA CLTV	78.96%	90.00%	84.47%	83.42%
	WA 1st Lien LTV	78.83%	80.51%	80.54%	80.53%
	Piggyback	0.98%	49.96%	20.62%	16.12%
	% CLTV >80	58.69%	84.12%	72.64%	73.82%
	WA DTI	41.28%	40.68%	40.62%	NA
	% DTI >40	65.35%	63.86%	61.16%	NA
	Owner Occ.	94.72%	91.25%	91.76%	94.38%
	% CA	18.47%	40.92%	37.92%	15.20%
	Avg. FICO	619	631	623	609
	IO%	0.00%	21.62%	16.97%	7.66%
Subordination	AAA	18.50%	19.80%	19.60%	19.50%
	AA	13.15%	12.40%	13.60%	12.75%
	A	7.75%	7.65%	8.15%	7.60%
	A-	6.75%	6.45%	7.05%	6.10%
	BBB+	5.20%	5.45%	5.55%	4.75%
	BBB	4.30%	4.45%	4.40%	3.55%
	BBB-	3.10%	3.45%	3.20%	2.55%

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Where do 2004 and 2005 vintage Baa3 tranches stand compared with performance of past vintages?

Historical Cumulative Net Loss Rate

as of May 2005

Vintage	ARM	Fixed Rate
2004	0.04%	0.06%
2003	0.41%	0.41%
2002	1.18%	1.40%
2001	2.69%	3.38%
2000	4.76%	5.27%
1999	5.33%	5.73%
1998	6.36%	5.63%

Average Baa3 First-Dollar Loss Rate

(Life-time cumulative net loss rate at which the Baa3 tranche starts to incur osses)

Vintage	FDL Rate
2004	7.76%
2005	7.35%

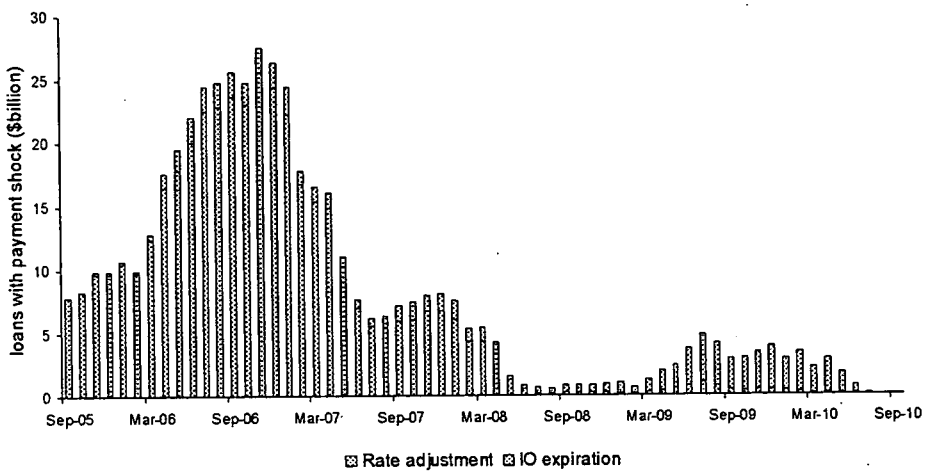
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Nearly $440 billion subprime mortgages will be experience payment shocks in the next 3 years



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U.S. Residential Mortgage

Single family mortgages

- mortgages on single family (detached) houses
- not included: condos, town houses, co-ops, buildings with more than 1 units, commercial properties, etc.

2-4 family mortgages

- mortgages on residential buildings with 2 to 4 family units

Multi-family mortgages

- usually considered as commercial mortgages

Other residential mortgages

- condos, town houses, co-ops, etc.

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The US Residential MBS Market

Agency mortgages are mortgages that are in Ginnie Mae, Fannie Mae and Freddie Mac programs.

Typical Fannie Mae / Freddie Mac requirements

- balance limit: $359,650 for 2005 (single family house)
- loan priority: must be first-lien
- debt-to-income ratio limit:
  - 28% for mortgage debt
  - 33% for total debt
- cash-out not above 75% LTV (if refinance)
- loan-to-value ratio limit: 95%
- credit history: FICO score at least 720

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Residential Mortgages (continued)

- Conventional loans: fixed rate loans in Fannie Mae and Freddie Mac programs
- GNMA loans are not available to the general public
- Jumbo mortgage: a prime loan with a balance higher than the agency limit.
- Prime mortgages: mortgages that are either agency mortgages or jumbo mortgages.

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Profile of traditional home equity product

- Low balance
- Second or third lien
- Credit score above 680
- Usually a refinancing to take out cash
- 15-year maturity (or shorter)
- Combined loan-to-value (CLTV) ratio less than 100
- Include home equity lines of credit (securitized separately)

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Subprime (a.k.a. B&C) mortgages

- Often a first lien mortgage
- May be purchase, cash out, etc.
- May be used for cash-out purposes or debt consolidation
- Typical LTV around 80, may reach 100
- Often have piggy-back second lien loans
- Includes FHA Title 1 loans and other home improvement loan products

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Products that may be riskier than traditional home equity/subprime mortgages have become popular

Because of the continued faster pace in home price appreciation compared with wage growth, lenders have developed a number of products to enable borrowers to qualify for mortgage payments and/or to pay minimal down-payment

- IO mortgages
  - Loan only pays interest in the IO period (usually 2 to 5 years)
  - At the expiration of the IO period, loan converts to fully amortizing loans
  - Payment shock at the expiration of the IO period may cause defaults to surge
- Silent second mortgages
  - A simultaneous pair of first and second lien loans are made at the origination (usually 80% LTV for the first lien and 10 to 20% LTV for the second lien)
  - Borrower pays little or no down-payment
  - Only the first lien mortgage shows up in a securitization and LTV appear to only be 80%. But the borrower's tendency to default is much high than a true 80% first lien mortgage.
- Option ARMs
  - Allow borrower to pay exceedingly low initial minimum payments
  - Indexed on moving Treasury average (MTA), LIBOR or COFI-11
  - Likely to have negative amortization
  - Recast of schedule at 5th anniversary may potentially cause significant payment shocks
- Stated-income mortgage loans
  - Income of the borrowers is not substantiated by the documentation, nor is it verified
  - Borrowers may inflate income to get loan approved
- 40-year mortgages
  - Lengthened amortization schedule to make monthly payment smaller
- High debt-to-income ratio loans
  - DTI for these loans may reach beyond 50%, leaving little for the borrower to pay other expenses

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Subprime mortgagors

- Demographically, this borrower is "middle America"
- Financially, this borrower
  - Has mismanaged his finances (past delinquencies, foreclosures or bankruptcies, low credit score)
  - Used excessive leverage (high DTI and/or LTV)
  - Is cash-strapped (large amount of cash-out refi.)
- While "riskier" than prime and jumbo borrowers, subprime borrowers
  - Are not directly impacted by stock market gyrations
  - Live in homes that are more liquid, less volatile

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The channel of mortgage lending

- There are three major channels of lending mortgages
  - Retail – Loans are originated in branches of the lender. The lender controls most aspects of underwriting, including credit checking, income verification, appraiser selection, appraisal quality control, etc. The originator is more likely to have local market knowledge
  - Whole-sale – Loans are originated by brokers who have regular business relationships with the lender. The lender may have an approval process in accepting a broker to its network and may monitor the performance of a broker's origination. The lender controls some aspects of the underwriting process but relies on the broker to do others.
  - Correspondence – Loans are originated by non-affiliated brokers according to the lenders underwriting matrix. The lender is likely to re-underwrite the loan in most aspects.

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Income documentation and verification

- Full documentation, full verification
  - Last 2 years' W2s
  - Last 2 months' pay stubs
  - Letter from employer (verified by call)
  - Last 2 years' income tax returns (self-employed only)
  - Last 2 months' bank statements (verified by call)
- Partially (limited, light) documentation
  - Some of the documentations are deficient but usually one of income or employment proofs is available
- No income (stated income), no verification
  - Nothing is available

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Appraisal process: the V in LTV

- Most used form of appraisals
  - Full appraisal (1004 appraisal)
  - Drive-by appraisal (2055 appraisal)
  - Broker price opinion (BPO)
  - Automated valuation model (AVM)
- Appraisers are paid on the case load, not value of the property
- Most of appraisers' business come from lenders
- Many lenders also employ in-house appraisers to control the quality of appraisals
- Even for purchase loans, an appraisal is needed to mitigate the risk of fraud

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Business models of subprime lenders

- Balance sheet lending
  - Pure lending on the company's own book is very rare for major lenders
- Whole-loan sales
  - Newer lenders mostly rely on whole-loan sales to dispose loans
  - Established lenders often engage in whole-loan sales when they see opportunities
  - Whole-loans sold will most likely be securitized by the buyer
- Securitization
  - Securitization are used for many purposes, the most common among them
    - Lower cost of funding
    - Raise leverage
    - Release regulatory capital
    - Managing risk

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What do credit ratings really mean?

- Most common approach by rating agencies
  - Establish a set of base case assumptions
    - Default (foreclosure) frequency
    - Loss severity ratio
    - Prepayments
    - Interest rate scenario
  - Establish AAA class stress assumptions
    - Default frequency for AAA, depend on the type of loans, may be 4 to 10 times of the base case
    - Moody's uses simulations to decide AAA credit enhancement (bonds should have no losses in 99.5% or more of the simulated cases)
    - Committee decisions are mostly involved in deciding the C/E

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What factors are used in deciding assumptions?

- Factors used in determining the base case assumptions include:
  - Borrower characteristics (income, credit history, etc)
  - Loan characteristics (LTV ratio, term, property type, purpose, occupancy, MI, etc)
  - Pool characteristics (concentration, etc)
  - Originator and servicer practices and loan programs
  - Macro and local economic consideration (employment, real estate market, etc.)

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Moody's typical loss severity assumption

Rating Level	Loss severity percent
Aaa	60.0%
Aa	55.0%
A	50.0%
Baa	45.0%
Ba	42.5%
B	40.0%

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DBSI_PSI_EMAIL00502923

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Other issues rating agencies consider

- Mortgage insurance
  - The presence of MI will reduce loss severity
  - Rating agencies generally assume that the servicer won't be able to collect 100% of claims. A "haircut" is made to the mortgage insurance
  - Haircut is made according to the rating

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Over-collateralization: the most basic credit enhancement

- A deal is over-collateralized when
  - The balance of the pool is larger than the aggregate balance of the bonds
  - Collection proceeds are first used to pay bonds' interest and principal
- Most mortgage ABS deals use some form of over-collateralization to enhance the credit for
  - Bondholder
  - Insurer
- The exceptions are
  - Whole-loan deals issued by GSEs
  - Some deals with issuer-guaranteed classes
- OC can be viewed as a special tranche that is the first loss piece for the deal

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DBSI_PSI_EMAIL00502925

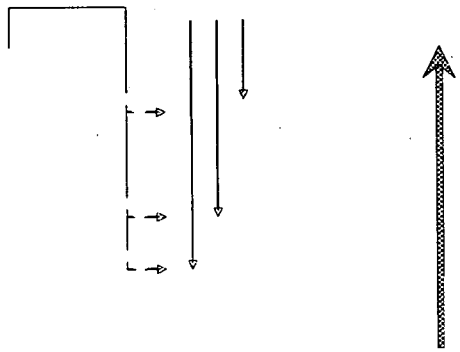
Strictly private & confidential

Subordinate bonds act as cushion against losses

- In a senior-sub structure, in each period, senior bonds have the priority in
  - Interest payments
  - Principal payments
- Sub bonds' interest payment may or may not have priority versus senior bonds' principal payments

Strictly private & confidential

Typical home equity ABS structure: sequential with cross-over, OC turbo and step-down



- In the first few years, principal are paid sequentially among senior, mezzanine and subordinate tranches
- OC can be built up from the initial level by using excess spreads to pay down principal of bonds
- After the cross-over date, mezzanine and subordinate bonds start to receive principal simultaneously with senior bonds (provide no trigger event occurs)
- After the step-down date, part of OC is released (provided no trigger event occurs)
- An optional redemption (clean-up) call allows the servicer to call the deal when the collateral pool is below 10% of the original size.

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Deals with multiple collateral groups: Y-structure

- A deal may have more than one group of collateral, each supporting its own sets of bonds
- Lower classes (or O/C) may receive cash from entire pool
- This structure enables the better performing group to aid the worse performing one
- Triggers are more complicated

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Available funds cap: definition

- Maximum net WAC caps the coupon paid to bondholders
- Net WAC is gross WAC minus
  - Servicing fee
  - Trustee fee
  - Insurance premium (if any)
  - IO payment (if any)
- Designed to prevent bonds from defaulting because interest mismatch (as opposed to collateral performance)
- Capped-out amount is carried forward and may be recouped in the next month

Greg Lippmann

To: "Richard Axilrod" <richard.axilrod@moorecap.com>
cc:
Subject: Re: Daily Update

08/26/2006
01:06 PM

Hear what you are saying and in a normal market your logic would be inarguable, but the demand for this crap is virtually entirely technically driiven, all cdos. And each person at the cdo table thinks someone else is the fool - cdo equity, ostensibly only two buyers one mutual funds in australia, hard to call them smart money, and one hedge fund in chicago, magnetar; who is actually putting on a bearish correlation trade; bbb sold mostly ponzi-like to other cdos with limited distribution in europe and asia (we sold our first BBB in thailand this week) again hard to call that smart money. Aa and Junior AAA sold mostly to high grade cdos and to a certain extent european and asian banks and lastly the senior AAA, this may ultimately break the cdo market. In 05 for a time, we sold EVERY SINGLE one to AIG. They stepped out of the market in march of 06 after speaking with me and our research people (and I don't doubt other dealers). Since then it has been more hit and miss for us. Sometimes we sell to European banks but often (and for the last 3 deals) we are forced to put it into our commerical paper conduit at 26 over. A correlation model would value this significantly wider. Why have we done this? It is not without reluctance and we are looking for ways to get out of this risk, but for now the view has been, we like the fees and the league table credit (and dammit we have a budget to make) and as the cp is a non mtm vehicle we can take some of this without caring that we are being picked off. That, at least at DB is nearing its end and from the guy at a delaer prop desk who we pitched yesterday on taking it, seems to be happening at other shops. He approached us in may with less than thrilling terms and we told him to pound sand. We asked him yesterday and he said we "were the tenth dealer to ask him in the last two weeks". As this piece is 65% of the cap strucutre, a move of 10 bps on this would take 1.3% out of the equity return. But the bigger question than spread is capacity for us to take this risk. If this crap all blows this 'super senior' could easily be worth. 60 cents on the dollar if not 10.

Another potential pin for the bubble would be a signifcant shift in enhancement levels either for cdos or home eq abs which could come due to continued housing news causing pr pressure on the agencies.

All that said, I do hear what you are saying and it is possible your view would/will be proven correct should the fundamentals of housing and abs trading continue to diverge.

On the other hand in regards to our/my view, I am encouraged that in spite of the virility of the cdo bid, there are numerous examples of bonds blowing up -- amsi 03-8 mv6 at 66, lbmlt 03-3 m4 at 30 oomlt 04-1, one bid 90 that tried to fade and us and 3 others at 85 (note option one is a top 5 name in abs) the tripling of serious delinq in sabr 05-op1 to over 6.5% since feb even though the avg mortgage age is now only 21 months ie hasn't reset yet, ace 06-fm1 m9 trading in a 275-325 market as more or less a new issue. What I'm saying is that there is plenty of fundamental evidence that bonds are blowing up even as the new issue and index market are remaining buoyant.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Richard Axilrod" [richard.axilrod@moorecap.com]
Sent: 08/26/2006 11:41 AM
To: Greg Lippmann
Subject: RE: Daily Update

between now and december all measures of housing inflation go negative. if this thing doesn't work by year end it isn't

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1307

going to

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Friday, August 25, 2006 06:20 PM
To: Richard Axilrod
Subject: Re: Daily Update

Single Names Recap

Slow but not inert. 200MM in CDO ramp ups probably less than 100MM traded. There were 2 OWIC of hedge funds getting short. 50 MM of good Baa3 bonds, which traded between 190 and 220. Another of weaker 2006 names. These traded as wide as 325 and as tight as 260. We traded about 100MM all in private non comp situations except we did the 325 on the crappy 06 bond.

Index
Fairly active day for us with over 300MM in volume. There was some selling on the H and R Block / Option One News, but there were a few CDO rampups that were pre-hedged by buying the index (to protect the spread arb they buy the index now and if spreads tighten they have a profit on the index to replenish the lost arb from tighter spreads and if they widen the CDO arb is better offsetting the loss on the index trade) and as a result the index rallied 4-5bps.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Greg Lippmann/NewYork/DBNA/DeuBa

08/24/2006 07:41 PM

To "Richard Axilrod" <richard.axilrod@moorecap.com>
cc
Subject Re: Daily Update Link

Daily Update
Single Names
Among the busiest days in the year with 6 official CDOs ramping up and numerous ones privately looking for collateral. We showed bids to 10 different CDOs and traded with 7 of them, total volume roughly 100MM . Continued tiering evident with the tightest names holding firm or tightening (a few seemed to widen 5 bps though in Baa2) with certain other weaker names actually widening out even with the robust volume. BBB- was in general stronger than BBB. There were also hedge funds looking to get short and we sold protection on 135MM to 3 accounts.

Similar to yesterday, another weak bond came out – OOMLT 04-2 M6 for which we bid 85 for and think traded around 90. Interestingly, Option One is considered among the very best names and the 04 collateral, due to robust home price appreciation, a fantastic vintage.

Tomorrow there are two CDOs ramping up but we'd expect the day to be relatively quiet.

Index

Yesterdays gap higher held as the market rallied roughly another basis point. Today was not quite as active as yesterday.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

Greg Lippmann/NewYork/DBNA/DeuBa

To "Richard Axilrod" <richard.axilrod@moorecap.com>

cc

08/24/2006 07:52 AM

Subject Re: Daily Update Link

Single Names

thursday preview
6 cdos looking for a total of 650MM today, if current trends persist, less than 325MM will actually trade. This is the first day this week with robust cdo demand. The beast is clearly not dead.

wednesday review:
only one cdo attempted to ramp today. we trade one bond with them, a sast in the low/mid 200s. We traded another 50MM with a few CDOs off market. We did not do any trades with the one large shorter who was in comp, but we had two of our guys come in to add to their trades for a total of 75MM. Also to show that this stuff can and does blow up, AMSI 03-8 MV6 was on a list from a CDO manager. We were the high bid at $66 but they did not sell as the investors in the CDO certainly don't realize the market on the bond and selling it would not only alert them, but also would cause some CDO triggers to fail shutting the equity off from cashflows.

Index
Wednesday
trememdous volume in the morning but flows were balanced and the market was largely unchanged...in the afternoon one large buyer came in lifting and the market rallied substantially, though two way flows were strong in the afternoon the market held it's gains and closed 5-6 tighter. We traded nearly 1BB on the day.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Greg Lippmann/NewYork/DBNA/DeuBa

To "Richard Axilrod" <richard.axilrod@moorecap.com>

cc

08/23/2006 11:00 AM

Subject Re: Daily Update Link

8/22 Recap
Single Names

Monday
Extremely slow with virtually zero CDO activitiy. We did see one dealer prop desk do a large offer wanted (i.e. they bought protection / got short risk). We did a handlful of private trades both sides.

Tuesday
We did two large off market trades with CDOs, one for 80MM and the other for 200MM. In a similar manner we had 80MM shorted (protection bought) to us two hedge funds, making us 200MM shorter on the day.

Thus far wednesday sees only one CDO publicly looking for 50MM while one hedge fund is looking to short 120MM in comp. Note there are also about 200MM of cash bonds for sale today some of which are CDO looking to extend duration by selling seasoned bonds and buying new issues .

Index

Monday - Very slow, dealers still seem to be pushing the market lower. BBB- about 2 bps wider
Tuesday- Volume continues to be largely dealer to dealer. Traded lower in the morning but rallied a bit in the afternoon. Closed roughly flat. We are starting to see retail interest in trades between the two series or between different ratings.

Greg Lippmann/NewYork/DBNA/DeuBa

08/18/2006 05:27 PM

To "Richard Axilrod" <richard.axilrod@moorecap.com>

cc

Subject Re: Daily Update

8/18 cds recap
BWICs slow day just a few cdos attempting to ramp about 200MM wed bet less than 100MM traded 0that way. One hf attemped to short 150MM on owic. We taded some stuff in comp on boths side and also did a bunch of trades out of comp with cdo guys and hfs. Traded with two new equity hedge funds who I had pitched last week, each shorted us about 50MM mix of baa2 and baa3. Shorts to us were Baa2 from 110-155 and baa3 from 215-255.

Our total volume about 200MM.

ABX Flows:
**Mkt weaker by abt 2bps in BBB-s.
**Mkt was pushed lower by one dealer selling in size in the street.
** We did see retail buying around the 100-06/07 area in the BBB-.
**We saw some hedgies (whole loan traders, ARM traders) sell the index to hedge
---
Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Richard Axilrod" [richard.axilrod@moorecap.com]

Sent: 08/17/2006 07:41 PM
To: Greg Lippmann
Subject: RE: Daily Update

i don't get the first snetence. the initials make no sense to me, but i would infer that the creators of cdos are buying protection?? are they always long the equity part?

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, August 17, 2006 07:16 PM
To: Greg Lippmann
Cc: Richard Axilrod
Subject: Re: Daily Update

Richard,
8/17
Single Names
In publicly announced BWIC and OWIC we saw for the first time in memory more people looking to short CDS than to go long. The publicly announced attempted volume of CDO rampup was roughly 350MM, while on the short side it was 300MM (less volume but more people). On BWIC, very few Baa2 traded as the arb really doesnt work. In Baa3 the range was 185 to 225 depending on the name; again very few traded. We'd estimate less than half and perhaps less than 100MM of the 350MM traded. On the OWIC side the names selected were among the worst names in the market and we think little traded with many names being offered at 500 or wider. Off bid lists we worked with both CDO managers and hedge funds to do trades in specific names that fit our or their axes. Net net we got shorter by about 100MM evenly split between BBB and BBB- with a total volume of trades this way of roughly 300MM.

Index
Flows were verly light. Morning the market widened a bit and in the afternoon there was a small rally. On the day index 2 was unchanged as was BBB- of index 1. BBB of index 1 was down 1/32.

I may take tomorrow off but will be available on blackberry and cell phone but may not write an end of day summary. I will continue it next week.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]

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Greg Lippmann/NewYork/DBNA/DeuBa

08/16/2006 06:13 PM

To richard.axilrod@moorecap.com
cc
Subject Daily Update

Single Names:
Today there was 5 cdos ramping looking to get 500MM of collateral. Top tier names seem to have stopped trading as the

arb for them no longer works. Less than 50 % of the lists traded, thus we would guess in the absence of orders the street got shorter by 200MM via bid lists (we were shorted about 250MM from 3 hedge funds and privately shorted about 100MM to 3 cdos not on bid lists and also traded some bonds on the lists net probably we are a bit longer, really less short and still more than 1BB). Nearly the entirety of the volume was in mid tier names which tended to trade from 100 to 126 for Baa2 and 200-242 for Baa3. Anecdotaly, we continue to see the weakest names trading wider while the best ones stay flat or tighten in a bit with the mid tier ones a bit messier.

Here is a list of names we sent to one hedge fund who traded 10MM of the 6 highligted ones with us at the included levels.

[attachment "diverse basket august 15.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

Index:

Over the last week the BBB and BBB- are wider by about 10 and 20 bps respectively from the tights. Similar to the rally which seemed to us to be on very small volume and driven by dealers covering their single name shorts into CDOs by lifting street offers, the decline in index prices has been on limited volume. There has been some hedge fund selling of the index but its been more limited than it had been the last few weeks, potentially an ominous sign should their interest become piqued aney. Thus the main driver behind the decline has been a lack of dealer sponshorship indicating perhaps that dealers are comfortable with the current state of the positions. We did see larger movement spost the housing numbers of the last two days than we had seen after previously similar negative economic numbers. We did see a few fast money accounts come in to cover a bit at the days lows.

abx 2

	market	spread	day change
BBB	100-7 / 13	127/121	-4/32
BBB-	100-5 / 11	237 /232	-10/32

abx 1

BBB 100-23 / 29 132/126 -2/32
BBB- 101-5/11 231/225 - 6/32

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917)[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>
Sent: Thursday, May 12, 2005 7:08 PM
To: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Subject:

Message Sent: 05/12/2005 15:08:14
From: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

look. i know you think that i am an idiot and do not know how to trade in a bear market. i do not overestiamte the illiquidity in the market. i provide liquidity to investors b/c we have to support the larger franchise. i understand how the markets move. i got smoked in mmt and you seem to think that that i ahve not learned from my mistakes. we have to make money. customer happiness is a secondary goal but we cannot lose sight of the trading desks other role of supporting new issue and the customer frnachise. if we get hit, i will hit back bids to cut my losses. i am not a stubborn mule. here are the generic levels of wher we bid cash: a3 +80/75, baa1 +130/125 baa2 +140/135 baa3 +200/190

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1308



GREGLIP@bloomberg.net ToWBrown@Braddockfinancial.com
cc
02/01/2007 04:09 PM bcc
SubjectRE: FW: Spread Widening Commentary Part 2

=====Begin Message=====
Message#: 7592
Message Sent: 02/01/2007 16:09:32
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: WBrown@Braddockfinancial.com| | | |
Subject: RE: FW: Spread Widening Commentary Part 2

there are very few abs people on this loop as i dont want to scare the buyers of abs / cdo managers...i only send this to harvey b/c he is a personal friend...please please do not foward these emails outside of your firm...i do not want to be blamed by the new issue people for destroying their business...we will trade on 75 names..
----- Original Message -----
From: Wyck Brown <WBrown@Braddockfinancial.com>
At: 2/01 16:06:33

I'd definitely like to get your commentary...no complaining.

Brandon's last name is "Jundt" and I've cc'd him on this.

Bloomberg is probably best for both of us.

I'll get some names over as soon as I can. How many of the 125 names do you ultimately narrow it down to?

Harvey definitely listens to you and I don't know of anyone in this market whose opinion he values more highly. I think he likes to hear why I like any trades I do for Galena Street (I have to justify my paycheck), even if he already believes it is a good trade.

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Thursday, February 01, 2007 1:58 PM
To: Wyck Brown
Subject: Re: FW: Spread Widening Commentary Part 2

good seeing you too.do u really want to be on my loop of negative news ?? only
if you promise not to complain about how many negative stories i send out which
are inconsistent with your worldview. if you still do, what is brandons last
name / email and do u guys prefer on bloomb erg or email ? we can send you the
net pnl of a trade that someone else did...i think if you pick 125 names i
promise that i will give you my view on the ones that work best that also fit my
book....as for harvey i am confident that if i tell harvey it is a great trade,
he believes me, no?
----- Original Message -----
From: Wyck Brown <WBrown@Braddockfinancial.com>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1309

At: 2/01 15:52:21

Greg, it was good to see you at ASF..I'd like to get the earlier publication you mention here and would very much appreciate it if you could add Brandon and my names to your commentary emails.

Brandon and I are putting together a list of names for the correlation trade. Can you show me an example, in terms of marks and profitability of what the trade would have looked like if we had put it on last September and kept it on till today? It will help me discuss the idea with Harvey in terms of $'s and cents.

Any suggestions you might have regarding that particular trade before we actually put it on, I'd appreciate discussing with you.

Thx.

-wyck

-----Original Message-----
From: harveyb@bloomberg.net [mailto:harveyb@bloomberg.net]
Sent: Thursday, February 01, 2007 1:36 PM
To: Wyck Brown
Subject: Fwd: Spread Widening Commentary Part 2

1
---- Original Msg from: GREG LIPPMANN, DEUTSCHE BANK SECURI At: 2/01 12:52:15

Here are some of my additional thoughts on the continued widening of the basis
between the abx and the single names.
Recently, I wrote in detail about this. If you don't have that and/or would like me to resend, please let me know. Here are some additional thoughts on this topic. As this basis continues to widen it is being driven by three things, fewer accounts looking to speculate in the indexes
from the long side given the price action (while at the same time, single
name cds demand to sell protection has not ebbed as the new issue cdo market remains robust) and it would seem increased dealer shorts for a trade or to hedge various wharehouses (cdos, residuals, whole loan pipelines etc). Most importantly perhaps though is the abs trading desk realization and unwillingness to take on an unpleasant single name / index
cds basis. As dealers buy protection on single name abs from cdos, typically they sell protection on the index. As most credits of the hundreds of mezz abs deals done in late 05/06 can be more or less 'mapped'
to specific index credits, we can assume for illustrative purposes that the only single names that exist are these 20. Let's say a dealer wants to
be flat abs risk and they have just sold protection to a hedge fund on the
06-2 BBB-, they will attempt to buy protection on each of the index constituents from cdos. 06-2 (06-1 and 07-1 are similar) is composed of 5
very tight credits that are in constant demand from cdos, 10 reasonable credits and 5 credits that are virtually shunned by cdo managers. Thus

the
dealer will find that he is unable to buy protection on these widest
names
and will need to be long risk or flat risk but relative to the
composition
of the index, be short risk on relatively good names and long risk on
the
weak ones. As the basis between the worst 5 credits and the rest of the
market has continued to widen, dealers have become increasingly
reluctant
to sell protection on the index because it is tantamount to selling
protection on names for which they would not eagerly offer single name
cds
protection.

Does this mean that investors should buy protection on the index. In a
word, no. Buying protection on the index does get an investor 20%
exposure
to weak names that they would have difficulty shorting in the single
name
market, but the cost to this is two-fold: 1 - they also implicitly are
buying protection on the 20% of the market that trades tightest and on
which they might avoid buying protection. And, given the aforementioned
dealer reluctance to sell protection on the index, the basis between
where
we would offer protection on all the single names in the index compared
to
the index level has widened as well. Thus one can buy protection on
single
names tighter than buying it in the index and pay less total carry while
retaining the substantial cheapest to deliver optionality of the single
names. We think an even better way to play this is to avoid the 5 best
and
worst names and one can get the trade done at an even tighter level to
the
index. Ignoring only the 5 widest bring the index/single spread to well
over 100bps.

This is because when we say you can buy protection on all 20 names x bps
tighter than the index, we are really saying you can buy protection on
each single name at a different level such that the average is an
attractive level compared to the index. Reading between the lines, we
are
making some bonds much tighter than the index and others much much
wider.
Further the bid ask on the widest ones, given our relative inability to
place them in cdos may be 100 or more bps. Thus if one was quoted say a
700-900 market in a bond, one might never consider trading that name,
but
in essence by buying protection on the index instead of a group of
reasonable single names, that is what one is doing.

A final thought on the index vs single name. As the index market has
undergone substantial price declines, while cdo volumes have remained
high, the liquidity in the abx has dripped dramatically compared to the
single name market. At best screen markets are generally half point and
in
many cases are a point, this is roughly the same as the single name
market
for most credits. Further while the index market levels work for
10-25MM,
we have recently seen markets move 1/2 to 1 pt on very small volume.
In single names, we are comfortable showing levels on say 20 single name

credits where our quotes work for 5-20MM per name and 250MM total block trade (we have done even larger trades).

In sum, the widening in the single name market has been less than the more heralded move in the index and a convergence of this basis could occur while at the same time we remain convinced of the long run relative
attractiveness of being long single name protection over index protection
and the potential for excess returns from picking a more sensible basket of names than the highly divergent composition in the indexes.

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=====End Message=====

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Shorting Home Equity Mezzanine Tranches

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1314

A strategy to cash in on a slowing housing market

February 2007

Deutsche Bank Securities Inc, a subsidiary of Deutsche Bank AG, conducts investment banking and securities activities in the United States

Deutsche Bank

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Summary

- Investor expresses a bearish view on the subprime US RMBS market (or the US Consumer or US Home Prices) by shorting (or buying protection on) selected Home Equity ABS credits
- We believe this product is the most efficient way to express these views; more efficient than shorting stocks of homebuilders, REITs, the S&P 500, etc. We are interested in hearing of other ideas
- Since 2003, spreads for Baa3 and Baa2 have compressed. But if anything, risk of a housing bubble / defaults has only increased with the continued proliferation of alternative mortgage products such as IOs, silent seconds, stated-income loans and option ARMs. These products have become quite popular as home price increases until very recently outstripped wage growth. The percentage of subprime mortgages originated that were IO mortgages grew from virtually zero in 2002 to around 30% in 2005 and 2006. The percentage of subprime mortgages originated that were stated-income mortgages grew from around 25% in 2000 and 2001 to over 40% in 2005 and 2006. Mortgages with 40 or even 50-year terms were recently introduced, and have quickly become popular in subprime lending.
- After a brief widening near the end of 2005, spreads for Baa2 and Baa3 home equity bonds tightened for most of the first half of 2006, reflecting strong demand from CDOs. Demand from CDOs is a result of worldwide excess capital chasing yieldy products. Such demand, may prove elusive in an adverse market environment. Spread tightening lost its momentum in April, as the CDO's arbitrage has been squeezed. In fact, spreads gradually widened out from May to August. As the housing data has become increasingly bearish, this widening trend accelerated in September with Baa3 spreads nearly 100 bp wider than the April tights. After a brief rebound in October, spreads resumed widening again in November and December.

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Summary (continued)

- It is increasingly evident that the housing boom in the past 10 years has come to its end. The Market Index from the National Association of Home Builders showed a steep decline in recent months to a level that hasn't been seen since 1991, when the nation was experiencing a housing recession. Other indicators such as housing starts and building permits have also seen steep declines in recent months. New and existing home sales indices from the National Association of Realtors, which had experienced virtually incessant rises in recent years, also have lost their momentum and have even dropped in recent months.
- Though each deal has certain idiosyncrasies that on the margin make one deal better or worse, from a default perspective, the risk in the asset class remains a macroeconomic risk – e.g. all pools have thousands of loans and are geographically dispersed with similar credit scoring models and underwriting procedures across issuers with defaults ultimately driven by 3 things: home prices, interest rates (payment shocks and ability to refinance/move) and unemployment
- Historical data show that losses in subprime mortgage collateral are strongly negatively correlated with home price appreciation, both in default frequency and severity. In a scenario where home prices grow significantly slower than what has been seen in the past few years, especially in high growth states such as California and Florida, one may expect losses to be substantially higher than what has been experienced in the recent past. The result could be more dramatic should prices actually decline
- Rating agencies' rating models for subprime mortgage lending criteria and bond subordination levels are based largely on performance experience that has mostly accumulated since the mid-1990s, when the nation's housing market has been booming
- In a flat housing market, most subprime RMBS rated BBB- or BBB may come under severe stress. Dramatic spread widening, downgrades or even loss of principal and interest could result. Already there have been a few 2005 and 2006 deals either downgraded or placed on downgrade watch. Previously, rating actions on structured products within two years of their issuance were virtually unheard of.

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The downside and upside of shorting subprime mortgage mezzanine bonds

- In a scenario where subprime mortgages perform well
  - Prepayments are likely to be fast.
  - Very little extension risk
  - If the underlying Baa3 bonds has an weighted average life of 2 to 4 years and the premium is 250 bp, the protection buyer may lose 5 to10% (2.5% x 2 to 4) of initial notional amount.
- A reasonable worst case scenario would be somewhat slow prepayments, but no defaults in the underlying bond. In that case the protection buyer may lose 15% of the notional balance or 6 years of protection payments.
- In a scenario where losses for subprime mortgages rise to above 9%
  - Protection buyers are expected to have a profit of 50% to 100% of the initial notional balance, less the protection premium paid. Higher losses are needed for Baa2 shorts to reach these profits.
- In the meantime, if the spreads for mezzanine bonds widen
  - Protection buyers may choose to unwind the position with a profit
  - The price sensitivity against spread change for a typical at-the-money CDS is about $40,000 per basis points spread widening per $100 million dollar notional.
- The long-run payoff is arguably somewhere between 6 and 10 to 1. The odds against a default may be much less.

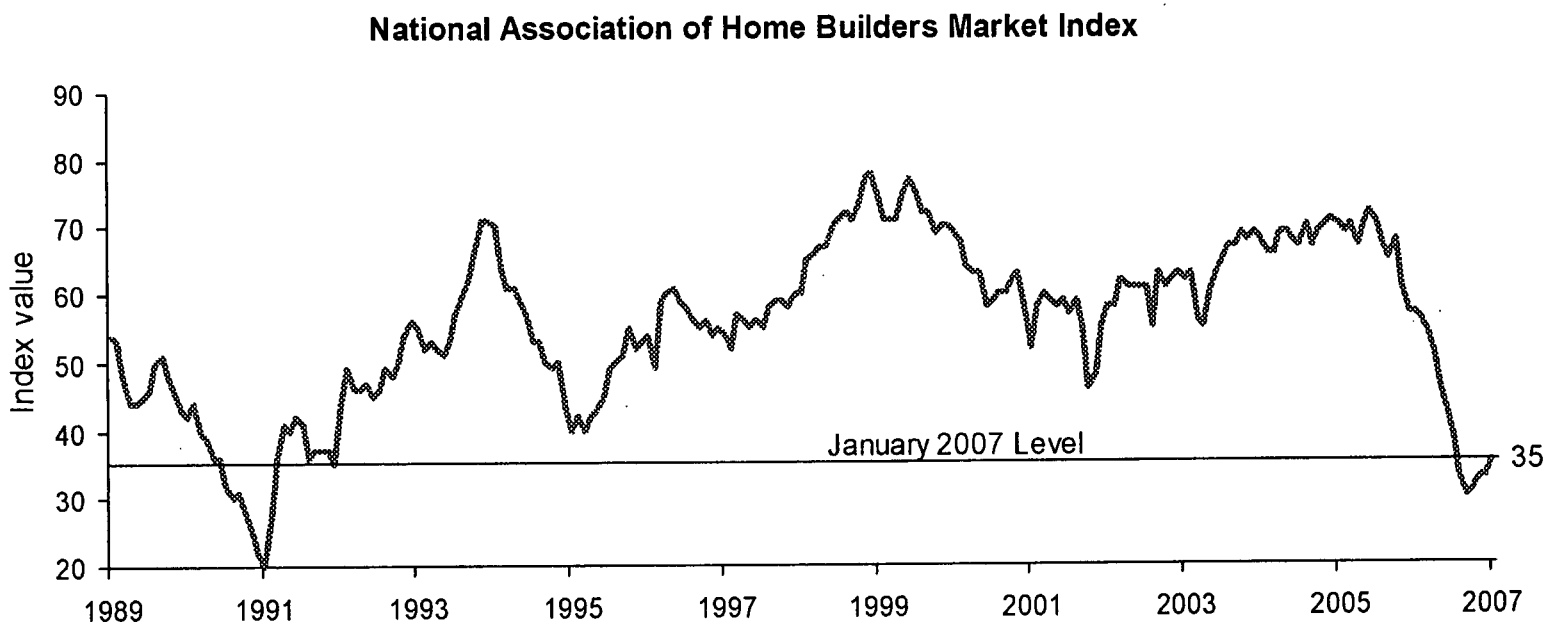
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The National Association of Home Builders Market Index has dropped to a level unseen since early 1991



Source: National Association of Home Builders

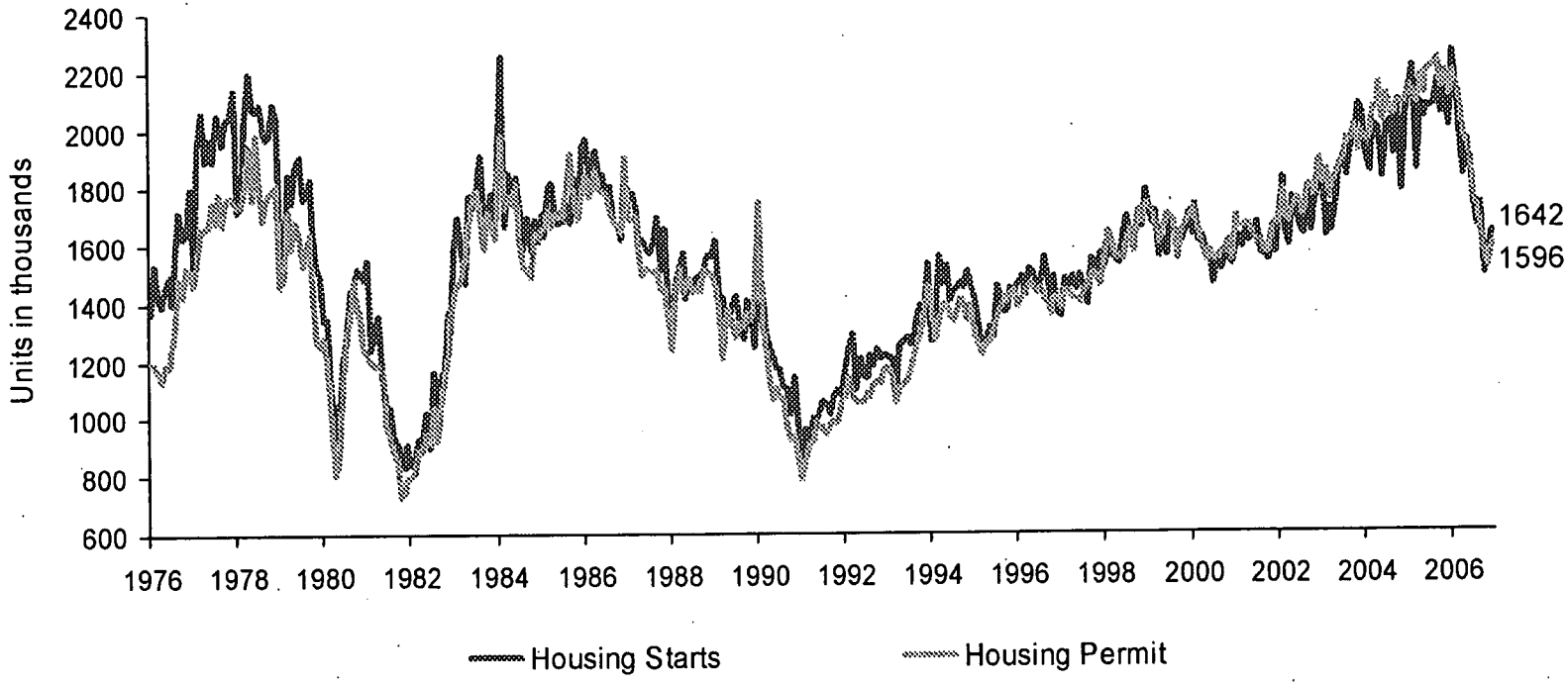
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Both housing starts and building permits indexes have seen declines in recent months not experienced since 1990



Source: US Department of Commerce

Data as of end of December 2006

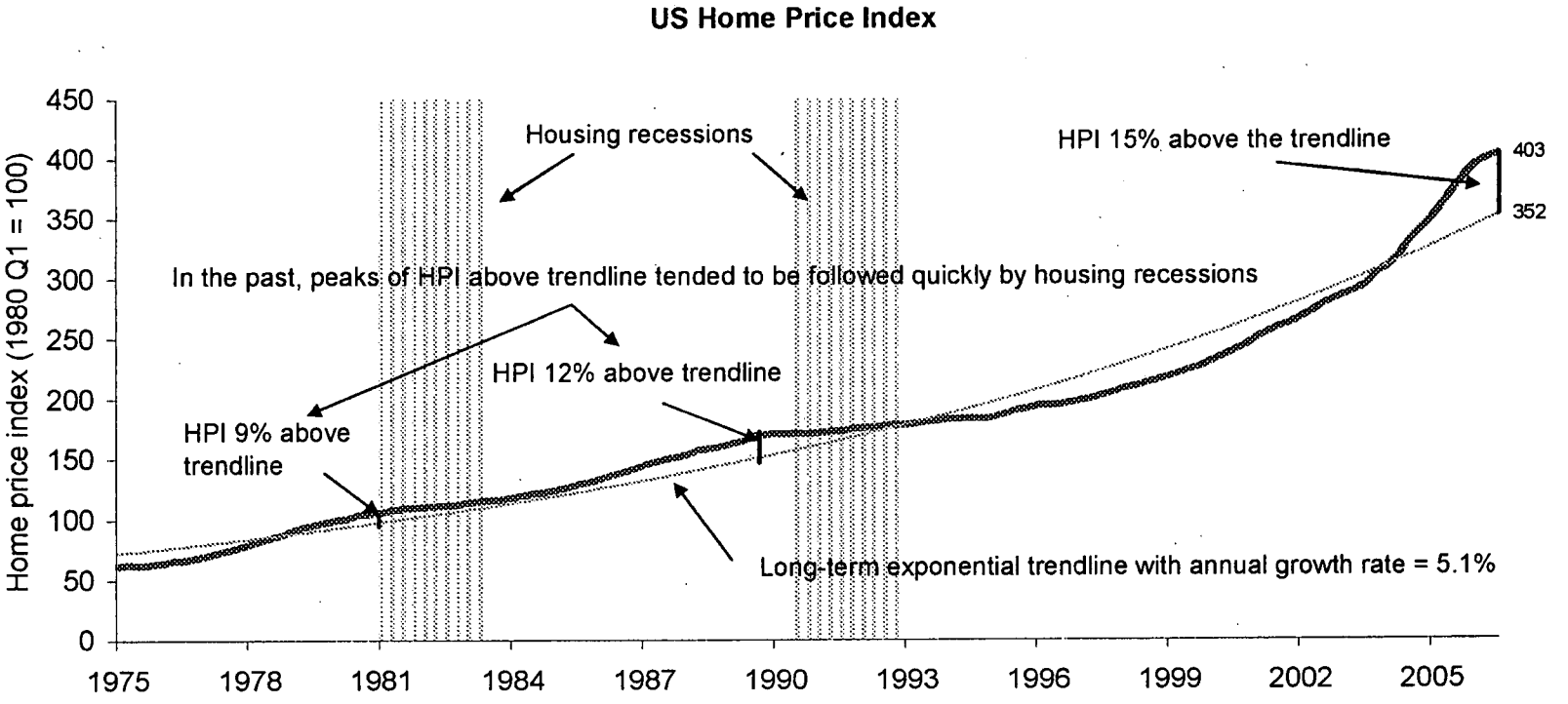
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US Home price index in recent years has been above the long-term trend line



Source: Office of Federal Housing Enterprise Oversight, Deutsche Bank

Data as of end of Third Quarter 2006

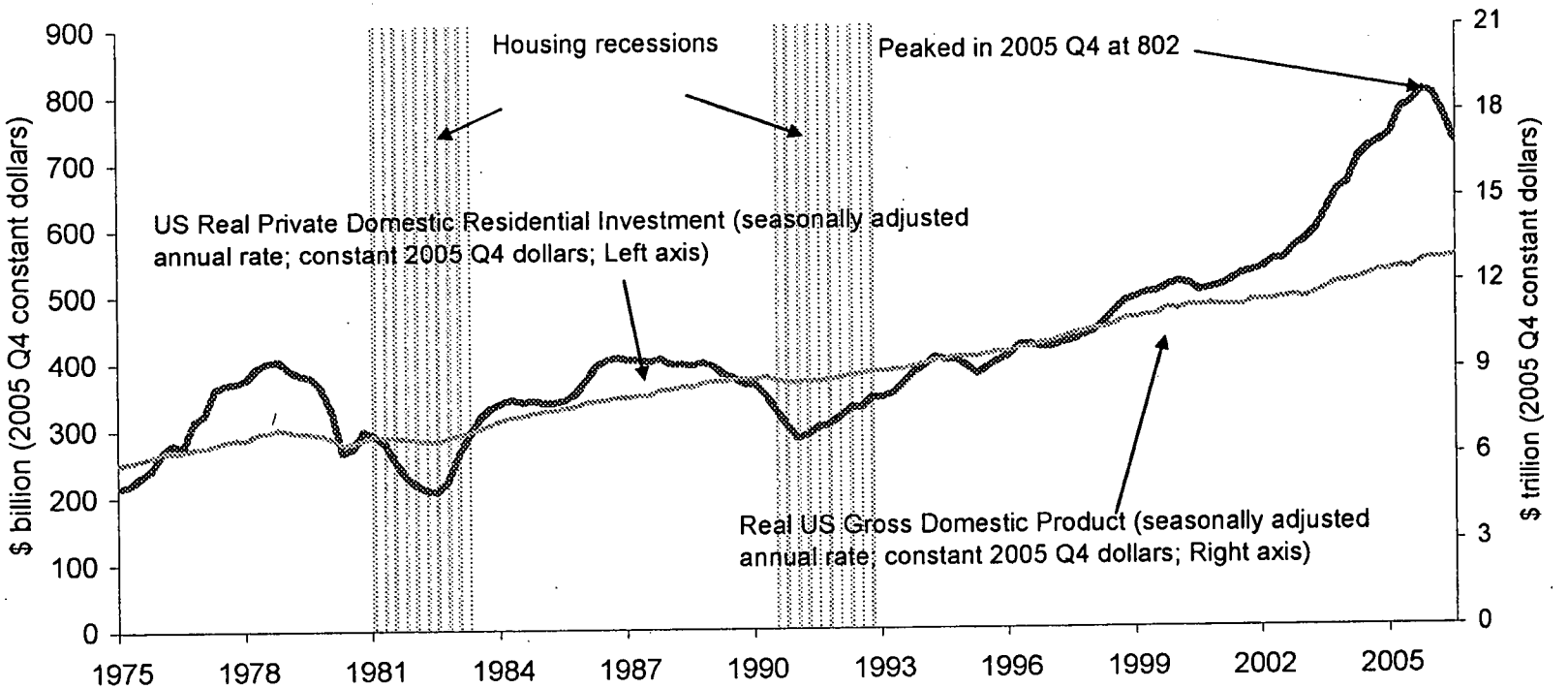
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Investment poured into the residential market has dramatically increased during the last decade



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Deutsche Bank

Data as of end of Third Quarter 2006

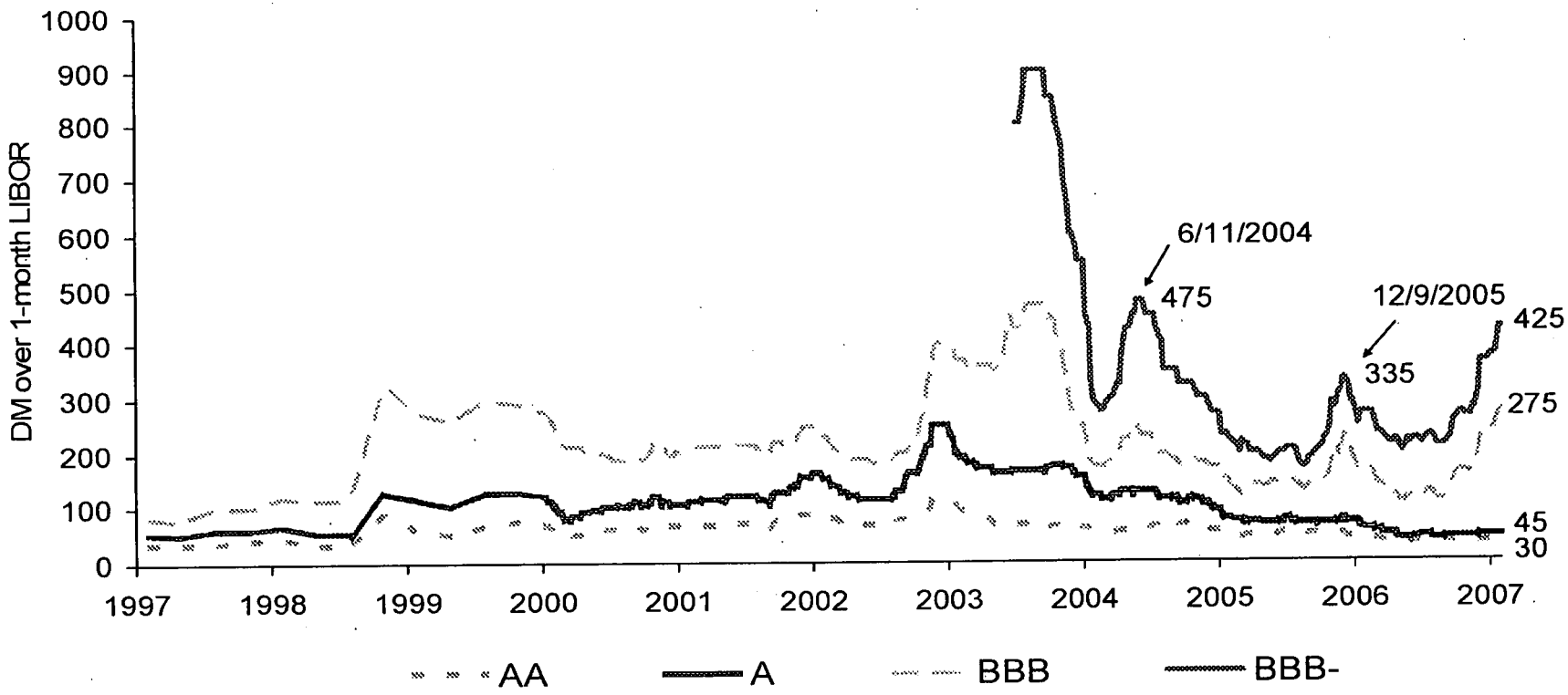
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Generic new issue spreads for BBB & BBB- home equity tranches have tightened since summer 2003, but have widened somewhat in 4th quarter 2006



Note: Issuance of BBB- bonds was not common before 2003

Data as of February 2, 2007

Source: Deutsche Bank

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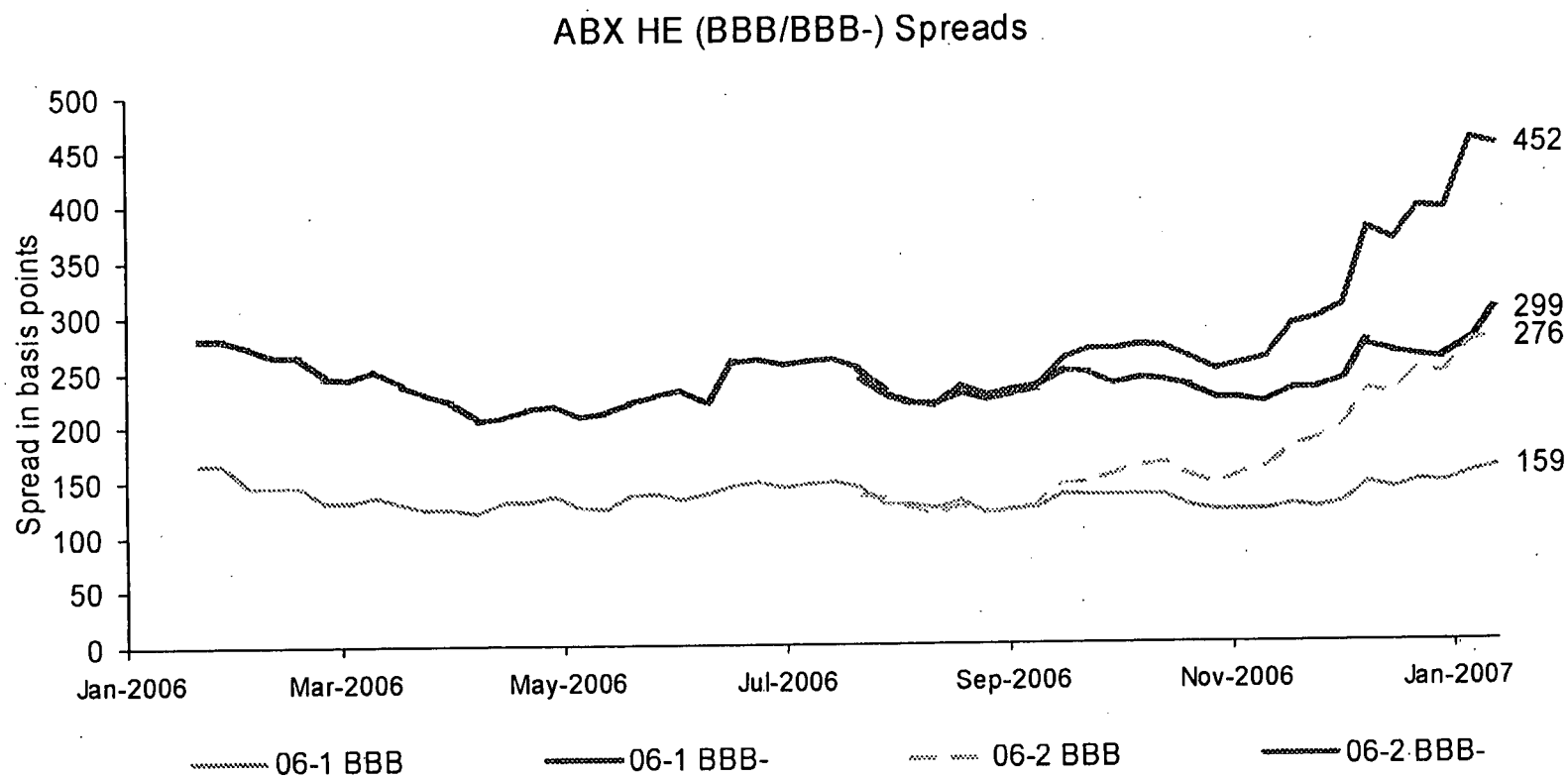
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ABX.HE BBB and BBB- indexes have widened in the face of deteriorating fundamentals, more than generic spreads



Note: Issuance of BBB- bonds was not common before 2003

Data as of January 12, 2007

Source: Deutsche Bank

Deutsche Bank

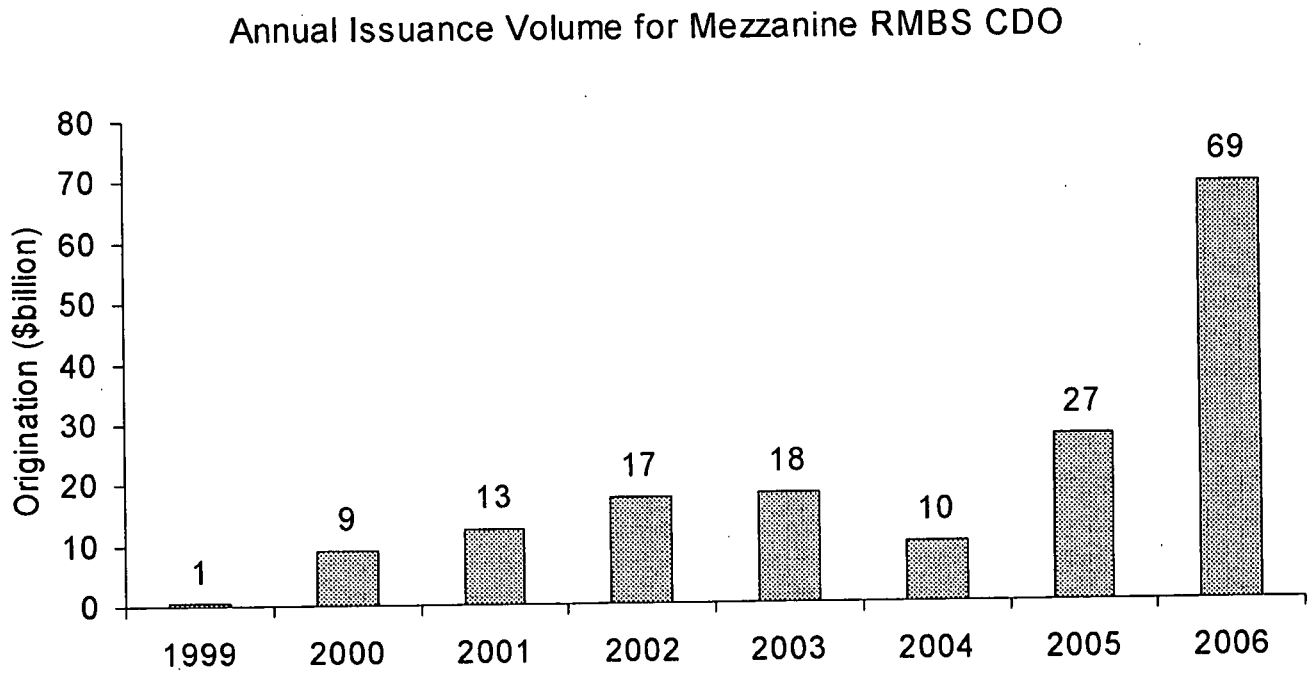
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Hyperactivity in mezz CDO issuance kept mezzanine subprime mortgage spreads tight in most part of 2006



Source: MCM structured Finance Watch, Deutsche Bank

Data as of the end of 2006.

Issuance volume includes cash, hybrid and synthetic mezzanine RMBS CDO.

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Typical ABS and CDO deal structures

ABS Collateral Pool	
Mortgage Loan #	5000
Average Loan Size	200,000
CLTV	85%
California Loan	30%
FICO	620
Interest Only	20%

ABS Capital Structure		
Tranche	**Thickness**	**Support**
AAA	80%	20%
AA	5%	15%
A	6%	9%
BBB+	2%	7%
BBB	1%	6%
BBB-	1%	5%
BB	1%	4%
O/C (Equity)	4%	0%

CDO Collateral Pool	
ABS bonds (mostly BBB or BBB-, 5-10% BB)	100 specific credits

CDO Capital Structure		
Tranche	**Thickness**	**Support**
AAA	80%	20%
AA	10%	10%
BBB	5%	5%
O/C (Equity)	5%	0%

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Historically, lifetime losses in subprime mortgages reached over 6%, even with the strong housing market

	Historical Cumulative Net Loss Rate as of December 2006								Initial % of Pool
Vintage	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	
ARM									ARM
2006							0.00%	0.02%	76.1%
2005			0.00%	0.01%	0.02%	0.04%	0.10%	0.18%	79.7%
2004	0.01%	0.02%	0.05%	0.10%	0.17%	0.27%	0.39%	0.53%	72.7%
2003	0.24%	0.34%	0.45%	0.56%	0.68%	0.81%	0.90%	0.98%	62.2%
2002	0.89%	1.05%	1.21%	1.39%	1.50%	1.67%	1.79%	1.82%	63.9%
2001	2.36%	2.55%	2.73%	3.14%	3.17%	3.34%	3.50%	3.63%	58.9%
2000	3.99%	4.35%	4.78%	5.17%	5.59%	5.77%	5.96%	6.13%	63.1%
1999	5.26%	5.45%	5.59%	5.74%	6.11%	6.41%	6.55%	6.59%	50.9%
1998	5.72%	6.27%	6.51%	6.63%	6.72%	6.78%	6.88%*	6.88%*	51.9%
Fixed Rate									Fixed
2006							0.00%	0.00%	23.9%
2005			0.00%	0.00%	0.01%	0.02%	0.06%	0.10%	20.3%
2004	0.02%	0.04%	0.07%	0.10%	0.14%	0.24%	0.39%	0.56%	27.3%
2003	0.25%	0.34%	0.44%	0.55%	0.65%	0.75%	0.87%	0.97%	37.8%
2002	1.11%	1.28%	1.46%	1.71%	1.86%	2.06%	2.22%	2.34%	36.1%
2001	2.89%	3.18%	3.42%	3.68%	3.87%	3.92%	4.11%	4.15%*	41.1%
2000	4.77%	4.89%	5.22%	5.43%	5.78%	5.91%	6.19%	6.52%	36.9%
1999	5.05%	5.35%	5.56%	5.64%	6.03%	6.09%	6.25%*	6.27%	49.1%
1998	5.56%	5.59%	5.68%	6.13%	6.33%*	6.48%*	6.58%*	6.63*%	48.1%

** Re-estimated by Deutsche Bank to adjust for the effect due to optional calls on certain deals*

Source Moody's, LoanPerformance, Deutsche Bank

Cumulative loss data published by Moody's in December 2006

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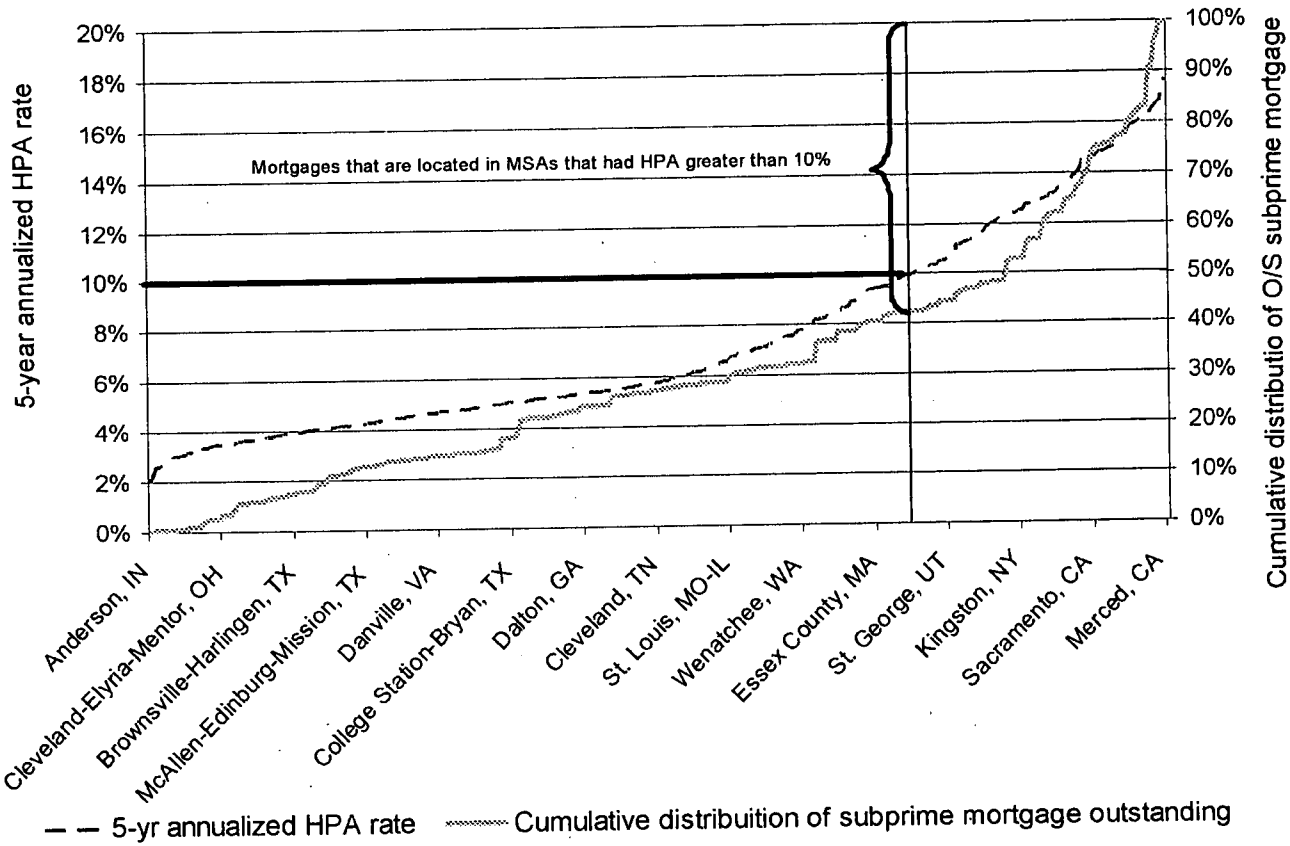
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Nearly 60% of outstanding subprime mortgages are located in the MSAs with double digit 6-year average of annual home price growth rates



Source: LoanPerformance, OFHEO, Deutsche Bank

HPA data as of the end of Third Quarter 2006, mortgage data as of December 2006

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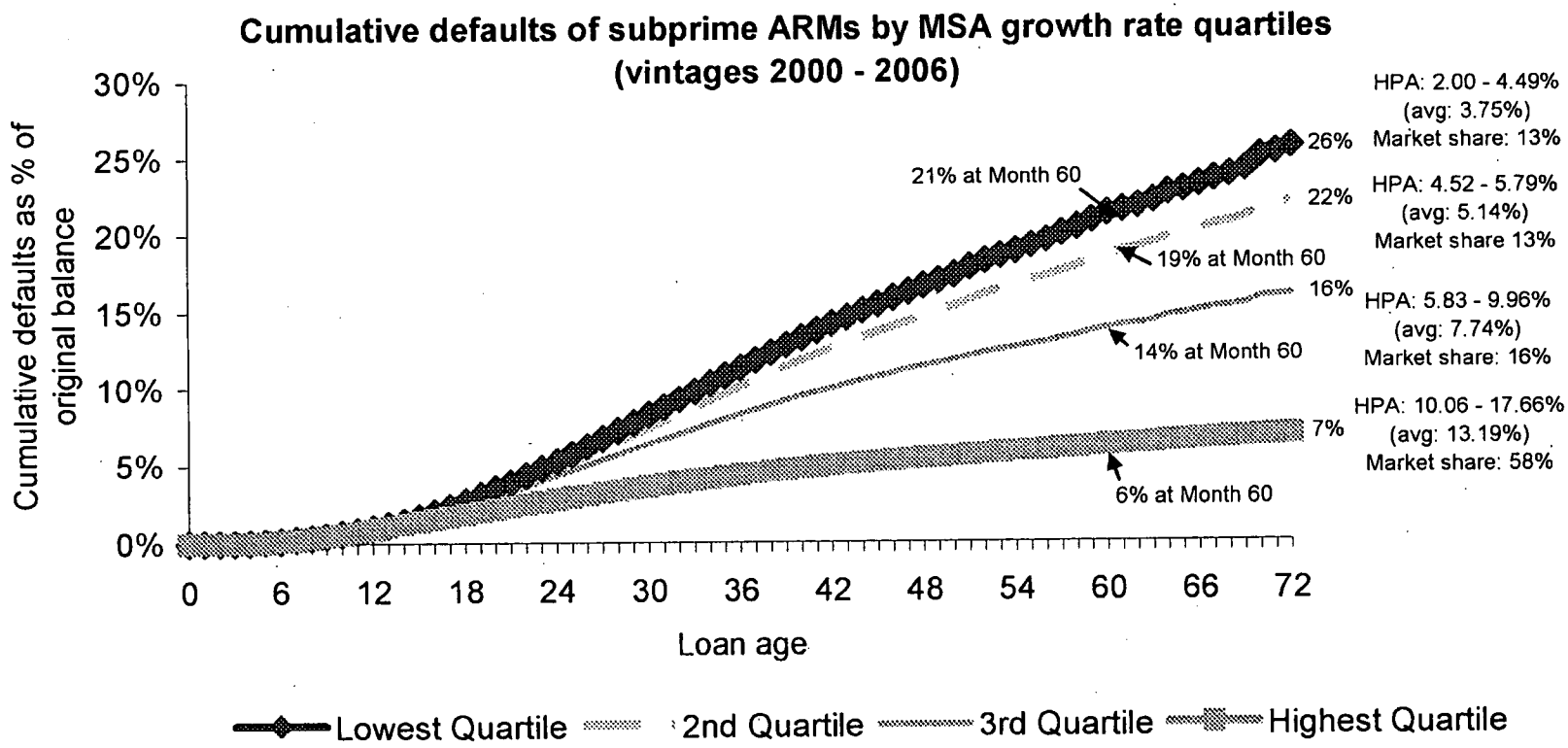
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Defaults of subprime mortgages are also strongly negatively correlated with home price growth rates



Source: LoanPerformance, OFHEO, Deutsche Bank

HPA data as of end of the third quarter 2006, mortgage data as of December 2006

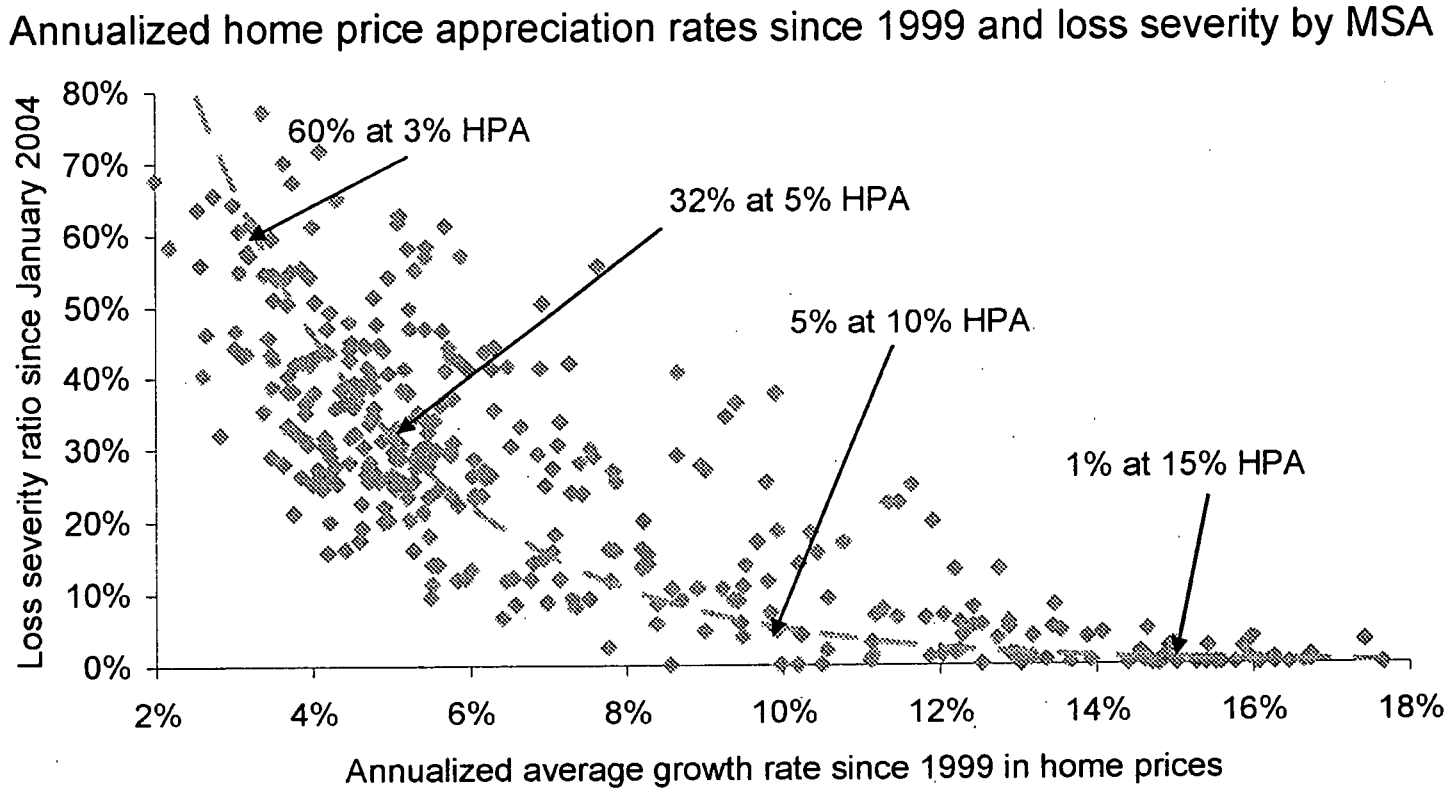
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There is a strong negative correlation between home price appreciation and loss severity



HPA data as of end of third quarter 2006, mortgage data as of October 2006

Note: See the next page for more details

Source: LoanPerformance, OFHEO, Deutsche Bank

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Loss severity ratios have been strongly negatively correlated with home price appreciation rates

- In the chart on the previous page
  - Defaults are defined as loans exiting pools when being more than 90 days in delinquency, in foreclosure or in REO
  - Only loans belonging to pools where losses are reported by LoanPerformance are included but zero severity liquidations are also included
  - For each individual loan, if the loss amount exceeds the outstanding balance, actual loss amount will be used (i.e. loss severity ratios above 100% are allowed.)
- Larger MSAs with high loss severity ratios include Youngstown, OH-PA (70%), Fort Wayne, IN (64%), Pittsburgh (62%), Dayton, OH (61%), Cleveland (59%) and Indianapolis (55%). All had mediocre home price appreciation in the last 5 years.
- Some larger MSAs with high home price appreciation rates had very low loss severity ratios. These include Los Angeles (0%), Riverside-San Bernardino, CA (0%), Sacramento (0%), Fort Lauderdale (0%), Miami (1%), San Francisco (1%), Las Vegas (1%) and Washington, DC (1%)
- The loss severity ratios in the chart were calculated using first-lien subprime mortgages Originated between January 2000 and December 2004, with initial balance not exceeding $300,000, original LTV between 75 and 85 and defaulted between January 2004 and December 2006. Loss severity ratios for defaults before 2003 were generally higher.

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High HPA rates played major roles in good performance of subprime mortgages in past few years

As shown above

- Mortgages located in the quartile of MSAs with lowest home price growth have been three to five times as likely to default as those in the quartile of MSAs with highest home price growth
- Generally, MSAs with double-digit home price appreciation rates have been experiencing loss severity ratios less than 20%, many such MSAs had loss severity ratios less than 10%. **The average loss severity ratio for loans located in areas with growth rate over 12% was 2%. By contrast, the average loss severity ratio for loans located in areas with growth rate between 2 and 6% was 35%, a 17-fold increase in loss severity.**
- A majority of mortgages by balance originated in the past few years are in areas with double-digit home price appreciation rates
- If home price appreciation rates slow-down to 4% p.a. for MSAs currently having double-digit rates, losses (both defaults and severity ratios) may increase substantially in these MSAs

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Average jobless rates by states from 2001 to 2005 varied between 3 to 7%

Quartiles of 5-Year Average Unemployment Rate (2001-2005)

Lowest Quartile					Second Quartile					Third Quartile					Highest Quartile				
State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %	State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %	State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %	State	Jobless rate	5-year HPA (CAGR)	6-year cumul. defaults	2005 Orig %
ND	3.37%	6.91%	12.62%	0.1%	ME	4.52%	10.09%	9.28%	0.4%	RI	5.06%	14.17%	5.66%	0.5%	KY	5.76%	4.55%	25.42%	0.7%
SD	3.54%	5.58%	18.01%	0.1%	CT	4.58%	10.26%	9.98%	1.2%	IN	5.07%	3.19%	28.67%	1.6%	TX	5.88%	4.17%	25.99%	5.8%
HI	3.64%	16.13%	5.10%	0.5%	OK	4.68%	4.85%	27.24%	0.7%	KS	5.14%	4.41%	19.71%	0.5%	NC	5.89%	5.13%	25.24%	1.8%
NE	3.71%	3.98%	21.18%	0.3%	GA	4.74%	5.06%	25.04%	3.0%	AZ	5.23%	14.49%	9.49%	4.0%	LA	6.10%	6.64%	22.43%	0.7%
VA	3.72%	12.89%	8.40%	2.5%	FL	4.79%	16.28%	11.05%	10.3%	AR	5.25%	5.76%	22.92%	0.4%	IL	6.11%	7.38%	15.28%	5.0%
VT	3.78%	10.66%	10.27%	0.1%	ID	4.80%	9.20%	20.21%	0.4%	CO	5.26%	4.34%	19.30%	1.9%	CA	6.12%	16.21%	4.56%	18.7%
NH	3.98%	10.00%	6.95%	0.4%	AL	4.95%	5.42%	22.60%	0.8%	MO	5.28%	5.92%	20.66%	1.8%	SC	6.31%	5.63%	28.74%	0.9%
DE	3.98%	11.29%	12.62%	0.3%	MA	4.96%	9.44%	7.46%	2.0%	PA	5.29%	9.24%	19.01%	2.5%	MI	6.46%	3.53%	20.19%	3.5%
WY	3.98%	9.25%	11.70%	0.1%	NV	4.96%	15.41%	7.81%	2.0%	TN	5.34%	5.07%	26.10%	1.7%	WA	6.54%	9.89%	16.39%	2.3%
IA	4.18%	4.33%	21.93%	0.5%	WI	5.01%	6.34%	17.08%	1.4%	NM	5.46%	8.49%	21.18%	0.4%	MS	6.58%	5.00%	29.69%	0.5%
MD	4.29%	15.18%	8.52%	3.3%	UT	5.01%	5.93%	25.20%	0.9%	WV	5.47%	6.14%	21.27%	0.1%	DC	6.80%	17.08%	10.07%	0.2%
MT	4.34%	9.28%	16.55%	0.1%	NJ	5.05%	13.09%	11.64%	2.9%	NY	5.66%	11.55%	12.02%	3.9%	AK	7.02%	8.88%	12.30%	0.1%
MN	4.36%	7.95%	12.89%	1.7%						OH	5.70%	3.44%	27.87%	3.0%	OR	7.12%	10.37%	17.98%	1.2%

Source: US Department of Labor, Office of Federal Housing Enterprise Oversight, LoanPerformance and Deutsche Bank

Job data as of the end of 2005, HPA data as of end of second quarter, Default data as of end of August

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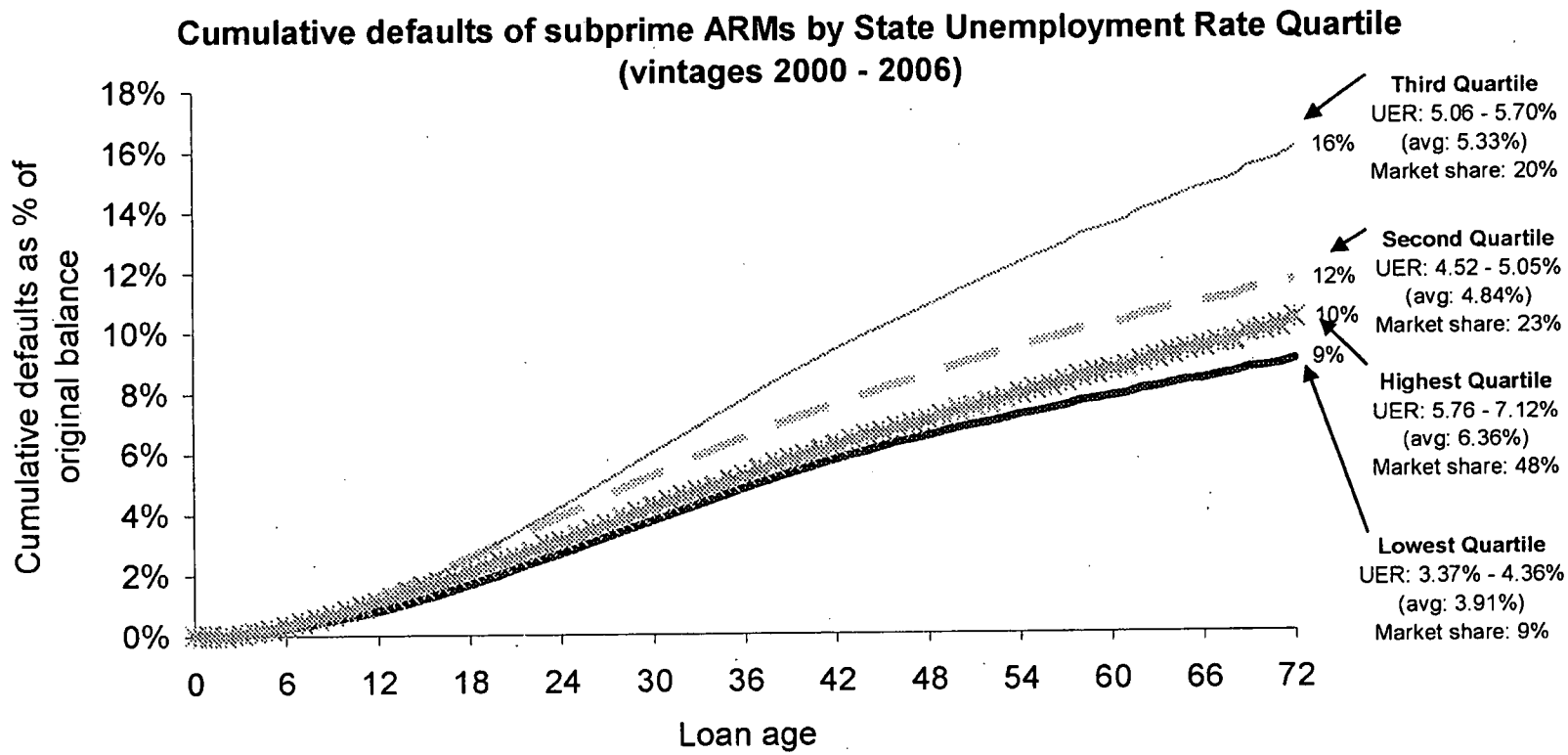
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The quartile of states with highest unemployment rates have not been the one with highest default rates



Source: LoanPerformance, OFHEO, Deutsche Bank

Data as of December 2006

Deutsche Bank

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Though jobless rates had an impact on subprime mortgage defaults, the pattern has not been nearly as clear as that of home price growth rates

As shown on the last page

- The quartile of the states with highest unemployment rates from 2001 to 2005, which includes California, has had fairly low cumulative default rates, compared with other quartiles
- This shows that, at least in the last six years, the job market has not been the most influential factor of subprime mortgage credit performance, good or bad
- The low defaults in the quartile of states with highest unemployment rates have largely been the result of California's strong housing market, which, despite a below average job market, has produced one of the lowest cumulative default rates

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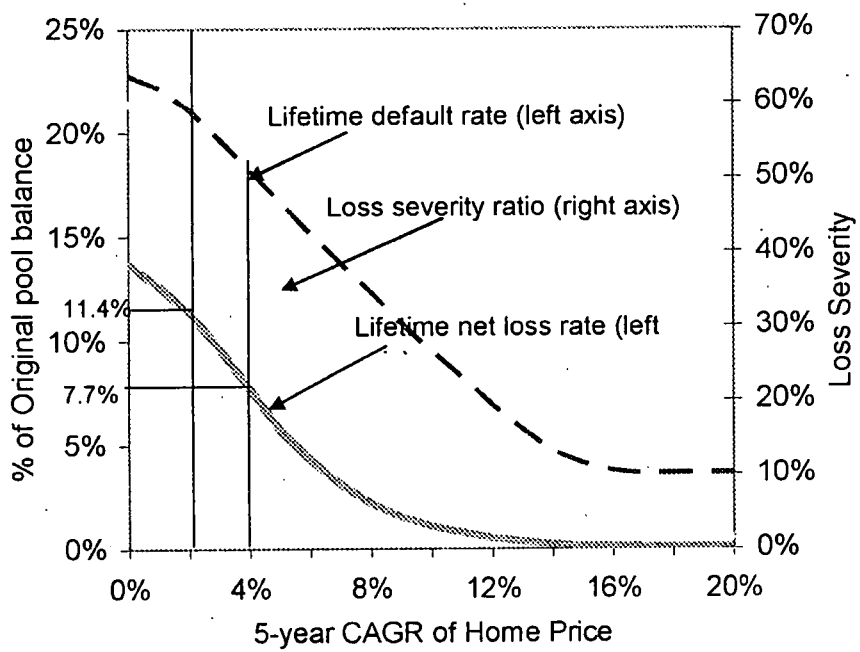
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Lifetime net losses of subprime mortgage pools can potentially go to high teens if home prices flatten

Projected defaults, severity & net losses for typical subprime pools



- Given the strong historical correlation between home price appreciation and lifetime default rates, as well as that between home price appreciation and loss severity ratios, we can roughly project the relationship between home price appreciation and lifetime net loss rates
- The lifetime net loss rate is defined as the dollar amount of losses of mortgages in the pool net of recovery divided by the original pool balance. Therefore the lifetime net loss rate equals the lifetime default rate times the loss severity ratio
- As can be seen from the chart on the left, at 4% home price appreciation, we expect the net loss rate to be close to 10%, enough to wipe out most BBB-bonds. At 0%, net loss rates is expected to be in high teens, enough to wipe out almost all BBB bonds.
- The basic characteristics assumed in the model shown on the left are
  - FICO: 630
  - CLTV: 85
  - Full doc %: 60%
  - Unemployment rate: 5%
  - Balance: $200,000

Source: Deutsche Bank

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How high can subprime mortgage losses go?
Experience of Guardian S&L's securitizations

	Deal Name	Issue Date	Original Deal Size	Cumulative
1988	GSL 1988-01	Jun 88	88,599,160	1.38%
	GSL 1988-02	Aug 88	77,707,894	1.71%
	GSL 1988-03	Sep 88	70,558,507	3.83%
	GSL 1988-04	Oct 88	59,420,630	4.18%
	GSL 1988-05	Nov 88	62,365,902	4.29%
	GSL 1988-06	Dec 88	54,300,924	4.79%
	Weighted average			**3.15%**
1989	GSL 1989-01	Jan 89	63,536,170	4.56%
	GSL 1989-02	Feb 89	55,133,511	4.34%
	GSL 1989-03	Apr 89	129,304,085	4.46%
	GSL 1989-04	May 89	73,352,390	7.60%
	GSL 1989-05	Jun 89	66,110,704	6.00%
	GSL 1989-06	Jul 89	64,015,663	7.74%
	GSL 1989-07	Jul 89	64,012,175	9.48%
	GSL 1989-08	Aug 89	36,764,495	4.62%
	GSL 1989-09	Sep 89	71,197,617	10.14%
	GSL 1989-10	Oct 89	99,948,138	9.29%
	GSL 1989-11	Nov 89	100,031,457	10.78%
	GSL 1989-12	Dec 89	76,193,370	11.40%
	Weighted average			**7.70%**
1990	GSL 1990-01	Jan 90	106,434,749	13.29%
	GSL 1990-02	Feb 90	70,050,087	14.15%
	GSL 1990-03	Mar 90	85,734,389	15.20%
	GSL 1990-04	Apr 90	135,263,315	17.30%
	GSL 1990-05	May 90	113,828,957	16.52%
	GSL 1990-06	Jul 90	164,111,691	16.36%
	GSL 1990-07	Jul 90	125,697,495	18.88%
	GSL 1990-08	Sep 90	145,658,584	19.34%
	Weighted average			**16.69%**
1991	GSL 1991-01	Feb 91	184,575,305	18.48%
	GSL 1991-02	Mar 91	136,658,468	17.36%
	Weighted average			**18.01%**

Source: Moody's

Data as of August 2006

Deutsche Bank

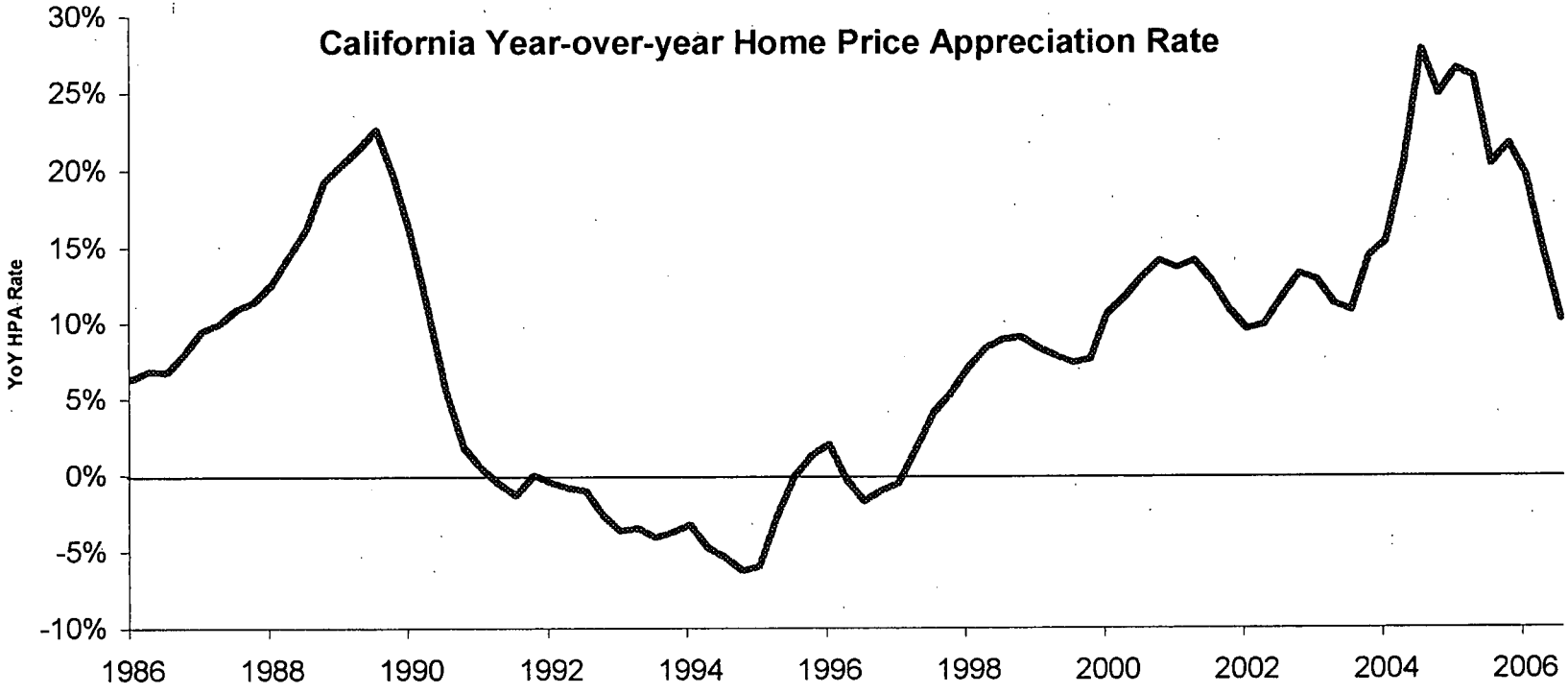
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Is California housing market repeating itself?



Source: OFHEO, Deutsche Bank

Data as of end of Third Quarter 2006

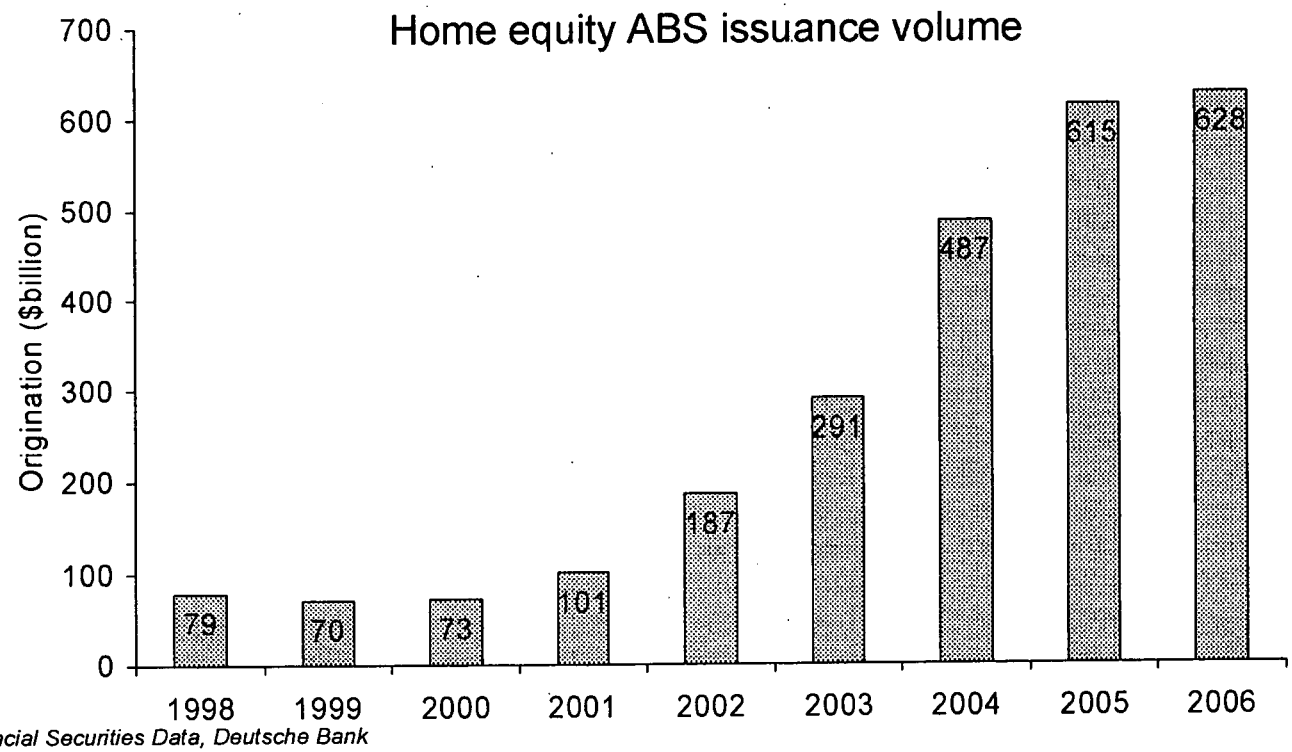
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HEL ABS sector has been experiencing fast growth in recent years



Sources: Thompson Financial Securities Data, Deutsche Bank

** Data as of end of December 2006. ** Projected by Deutsche Bank*

Note: Thompson Financial Securities Data changed its criteria of home equity ABS in January 2006. The new criteria excludes certain deals with relatively high FICO scores. It also no longer include overseas mortgages securitized in the US as home equity ABS, as it used to do. As a result, issuance figures shown here are generally lower than what may have been previously shown.

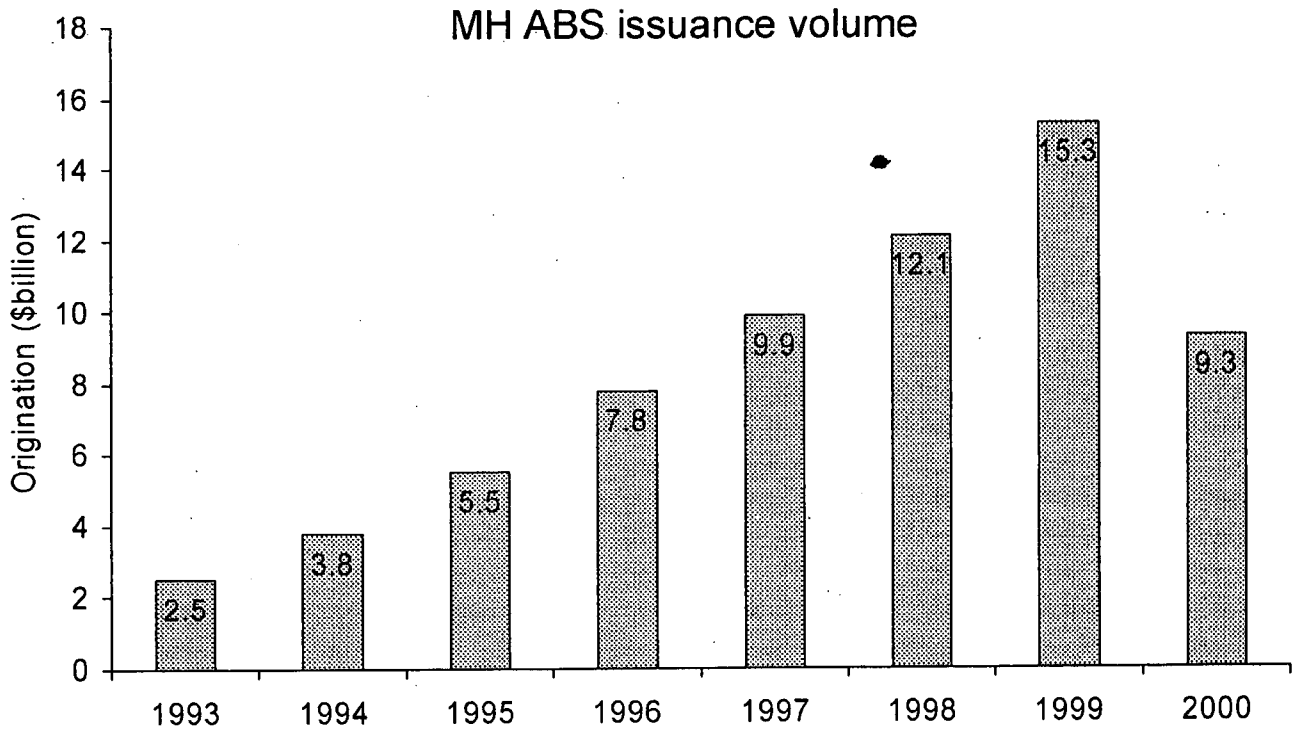
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Deja-vu? MH had a similarly rapid (albeit milder) growth pattern



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What happened to MH bonds issued in 1998 through 2000 originally BBB rated?

As of October 2006

	1998-vintage	1999-vintage	2000-vintage
Originally rated Baa2/Baa3 (or BBB+/BBB/BBB-)			
Completely written off (i.e., zero recovery)	40%	88%	100%
Partially written off (more losses to come)	50%	12%	
Not yet hit by writedowns, but downgraded to below Caa or lower	10%		
Total	100%	100%	100%
Originally rated A2 (or A+/A/A-)			
Completely written off (i.e., zero recovery)	0%	50%	85%
Partially written off (more losses to come)	78%	38%	15%
Not yet hit by writedowns, but downgraded to below Caa or lower	22%	13%	
Total	100%	100%	100%

(1) Data reflect all deals from major issuers such as Bank of America, Bombardier, DFCS, GreenPoint, Green Tree (Conseco). IndyMac, Merit and Oakwood. Vanderbilt deals are excluded because the company has been buying out defaulted loans.

(2) We use Moody's rating when available; when Moody's ratings are not available, we use S&P's

Source: Moody's, S&P, Deutsche Bank

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Most top issuers are not regulated banks

Top 10 originator-issuer in 2005			
Rank	**Name**	**2005 Volume ($ million)**	**Market share**
1	**Countrywide (CWL / CWHEL / CPT)**	63,142	10.3%
2	Ameriquest (AMSI / ARSI / PPSI)	52,098	8.5%
3	Lehman Brothers (SAIL / LMT / LXS SASC)	43,871	7.1%
4	GMAC-RFC (RASC / RAMP / RAAC / RFMS2)	31,823	5.2%
5	New Century (NCHET)	31,208	5.1%
6	Option One (OOMLT)	24,730	4.0%
7	CSFB (HEAT / ABSHE / HEMT)	24,322	4.0%
8	WMC (GEWMC)	19,225	3.1%
9	Fremont (FHLT)	18,792	3.1%
10	Bear Stearns (BSABS)	17,161	2.8%

Companies in boldface fonts are regulated banks or affiliated with regulated banks.

Sources: Thomson Financial Data Servoce. Deutsche Bank

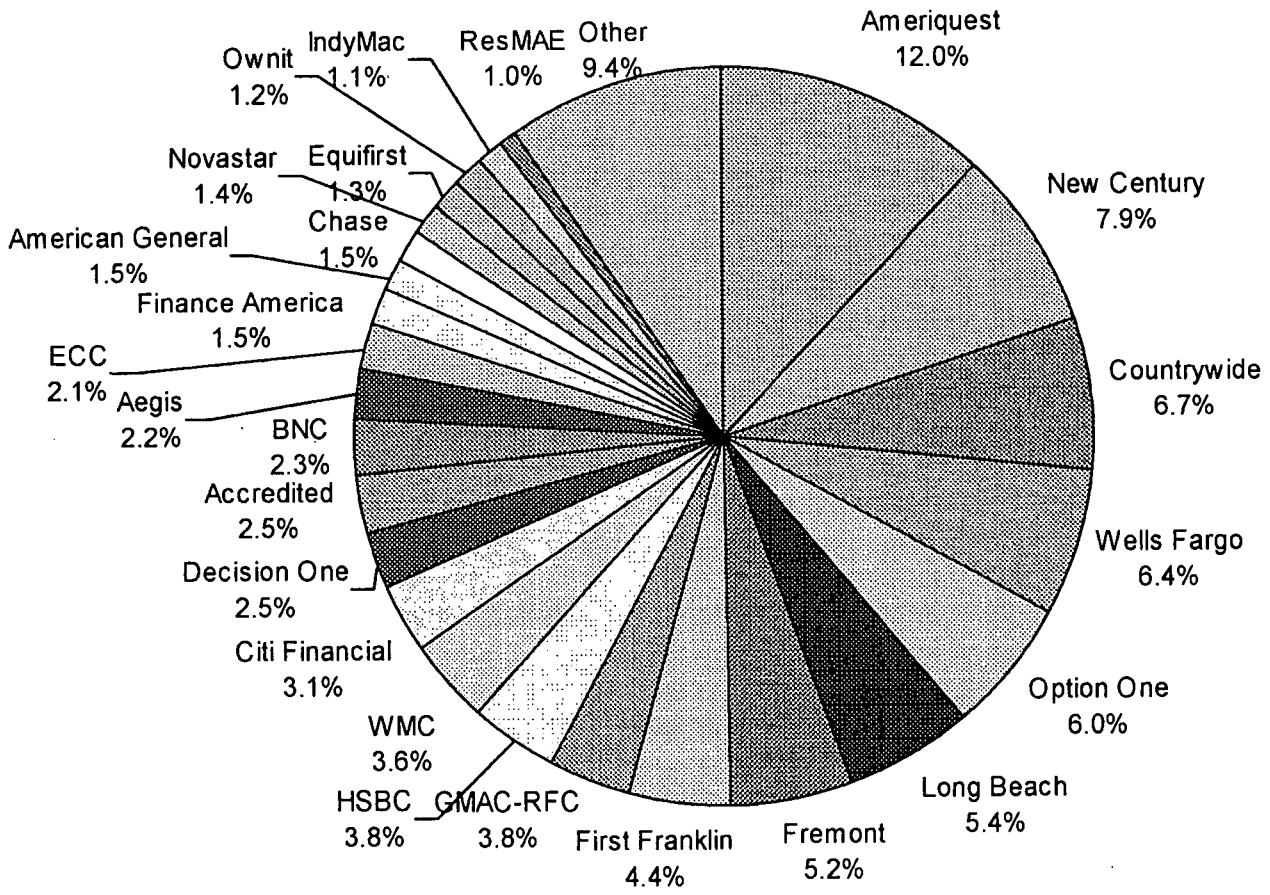
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Top subprime mortgage lenders in 2005



Source: Inside Mortgage Finance Publications, Deutsche Bank

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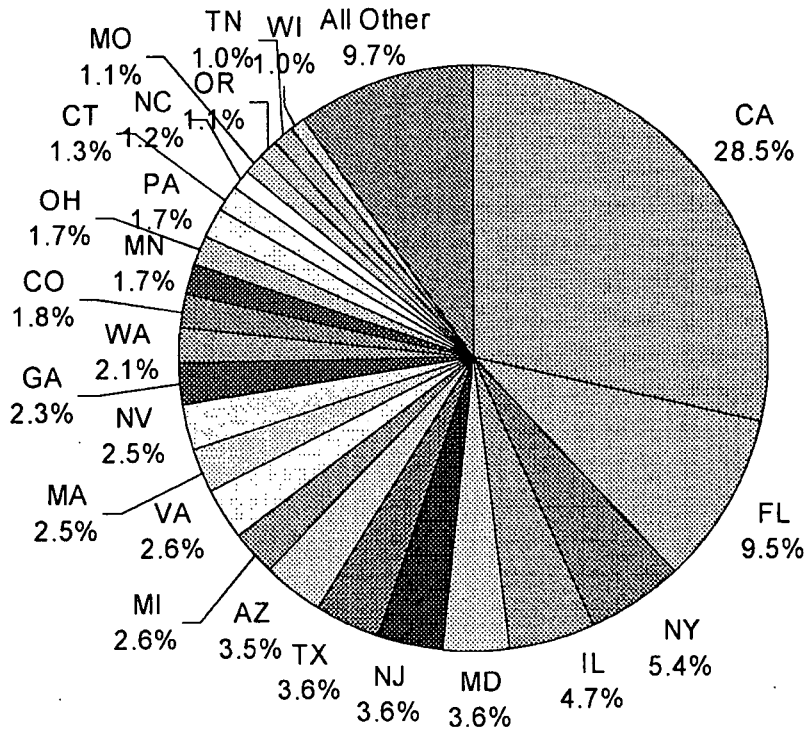
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Subprime mortgages originated in 2005 by state



Source: Loan Performance

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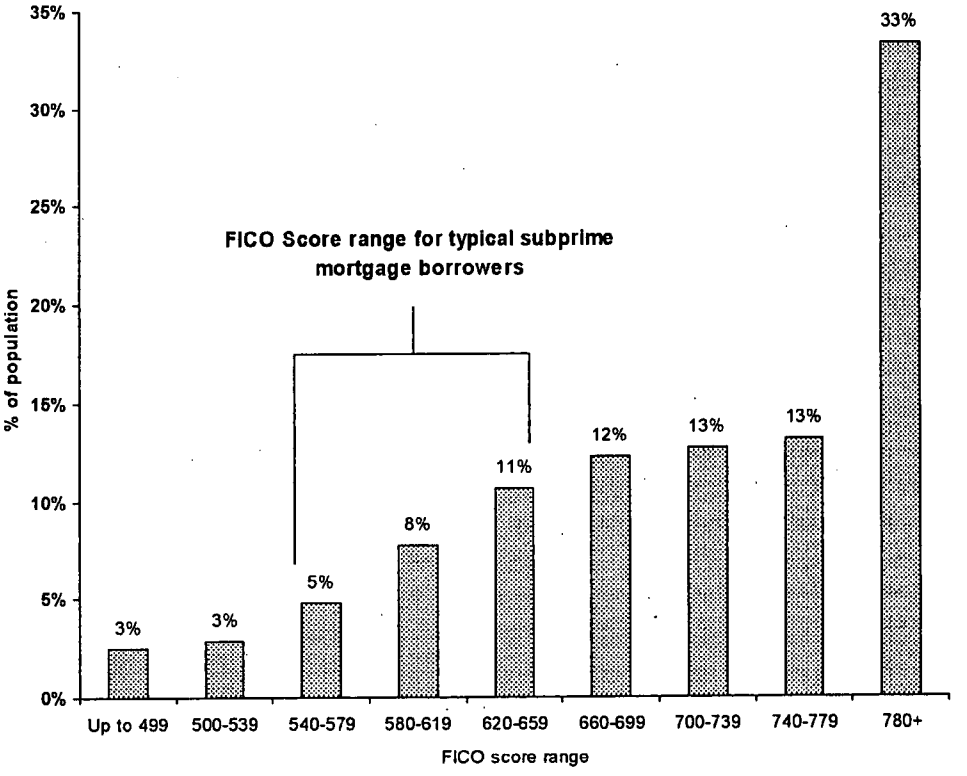
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Subprime mortgage borrower base relative to general US population

- Subprime mortgage sector typically lends to borrowers better than the bottom 5% of US consumers but worse than the top 71%.
- Said another way the subprime mortgage universe 'attaches' at about 5% of US consumers and 'detaches' at roughly 29%. 5% and Below are not deemed suitable for traditional home equity ABS deals.
- About 71% of US consumers have better credit and are eligible for better financing terms from either Fannie Mae or Freddie Mac, or prime mortgage lenders.
- Although subprime mortgage borrowers are not exactly consumers with the worst credit, they form the top 81% of the bottom 29% of US consumers.
- FICO scores of the majority of subprime mortgage borrowers are below 650.

How do people score in the US?



Source: Fair Isaac Corporation

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How Fair Isaac views the risk of borrowers with various FICO scores

FICO Bucket	Share in 2005 subprime deals *	Fair Isaac risk rate **
Up to 499	0.12%	83%
500 - 549	11.67%	70%
550 - 599	22.89%	51%
600 - 649	33.69%	31%
650 - 699	22.44%	14%
700 - 749	7.61%	5%
750 - 799	2.44%	2%
800 and higher	0.13%	1%

* Based on LoanPerformance database. Alt-B deals are excluded.

** As defined by Fair Isaac, the percentage of borrowers in the cohort that will either default, file for bankruptcy, or become 90 days delinquent on at least one credit account in the next two years in a normal economic environment

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Loans in recent vintage home equity deals are more risky with higher silent seconds, CLTV and IO, lower full doc and bigger payment shocks

Loan characteristics for subprime ARMs issued in 2004 through 2006

	2004				2005				2006		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
WA FICO	611	617	618	616	618	622	623	625	627	624	620
WA LTV	82	82	82	81	81	79	81	81	81	81	84
WA CLTV	84	85	86	86	86	86	88	86	86	86	89
Silent seconds	12%	15%	24%	25%	27%	30%	34%	32%	24%	27%	27%
Interest-only	8%	11%	17%	19%	24%	29%	30%	30%	25%	16%	8%
40-year mortgage	0%	0%	0%	0%	0%	0%	4%	7%	17%	29%	36%
Full Doc	60%	61%	61%	58%	57%	57%	57%	55%	53%	55%	53%
Average loan size	172,791	178,595	182,621	188,126	193,661	194,398	203,971	209,096	212,335	214,478	217,741
CA %	33.4%	34.4%	34.5%	34.6%	34.3%	31.9%	32.1%	30.6%	31.4%	27.7%	26.6%
Initial WAC	7.31%	7.00%	7.11%	7.23%	7.12%	7.16%	7.14%	7.25%	7.69%	8.13%	8.34%
WA Margin	6.08%	5.82%	5.87%	5.90%	6.01%	5.88%	5.82%	5.84%	5.83%	6.04%	5.87%
6-Month LIBOR at issuance	1.18%	1.54%	1.97%	2.48%	2.45%	3.05%	3.50%	3.97%	4.39%	4.91%	5.40%
Fully indexed rate at issuance	7.26%	7.36%	7.84%	8.38%	8.46%	8.93%	9.32%	9.81%	10.21%	10.93%	11.26%
Difference between start rate and fully indexed rate at issuance	-0.05%	0.36%	0.73%	1.15%	1.34%	1.77%	2.18%	2.56%	2.52%	2.80%	2.92%

Source: Moody's, LoanPerformance, Deutsche Bank

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Example: Borrower's debt-to-income ratio may grow dramatically after resets in a typical subprime loan

Mortgage maturity	360	months
Loan size	$200,000	
Teaser rate	7.50%	
Teaser period	24	months
IO period	60	months
Reset frequency	6	months
Initial DTI	40%	
Mortgage DTI	35%	
Current LIBOR	5.59%	
Initial periodic cap	3%	
Subsequent periodic cap	1.5%	
Margin	6%	
Assumed annual income growth	4%	
Growth rate of other debts	20%	

	Mortgage coupon	Monthly Payment	Payment shock	Mortgage DTI	Total DTI	Annual Income	Monthly payment for non-mortgage debts
At origination	7.50%	$1,250.00	N/A	35.0%	40.0%	$42,857.14	$178.57
After first reset	10.50%	$1,750.00	$500.00	45.3%	52.0%	$46,354.29	$257.14
After the second reset	11.59%	$1,932.33	$182.33	49.1%	56.2%	$47,272.28	$281.69
After expiration of IO	11.59%	$2,046.70	$114.37	47.1%	57.3%	$52,142.27	$444.34

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What does the payment shock mean to the borrower in the example?

- Borrower's mortgage debt-to-income ratio alone, which is assumed at 35% at the loan origination, will grow more than 10 points to 46% after the initial reset and to nearly 50% at the second reset.
- With a moderate growth assumption for the borrower's other debts, the borrower's total debt-to-income ratio can grow to nearly 60% at the expiration of the IO term.
- In order for the borrower to have the same (mortgage) debt-to-income ratio at the second reset (when the rate becomes fully indexed), the income needs to grow more than 19% annually.
- If home prices stop appreciating, the borrower, with LTV virtually unchanged in the existing loan and likely larger credit card and other debts incurred in the meantime, may find it difficult to refinance into another affordable loan.
- **According to a subprime mortgage servicer who has the top servicer rating from all rating agencies, in the past, about 50% of the borrowers who did not refi at the payment reset would default eventually.**

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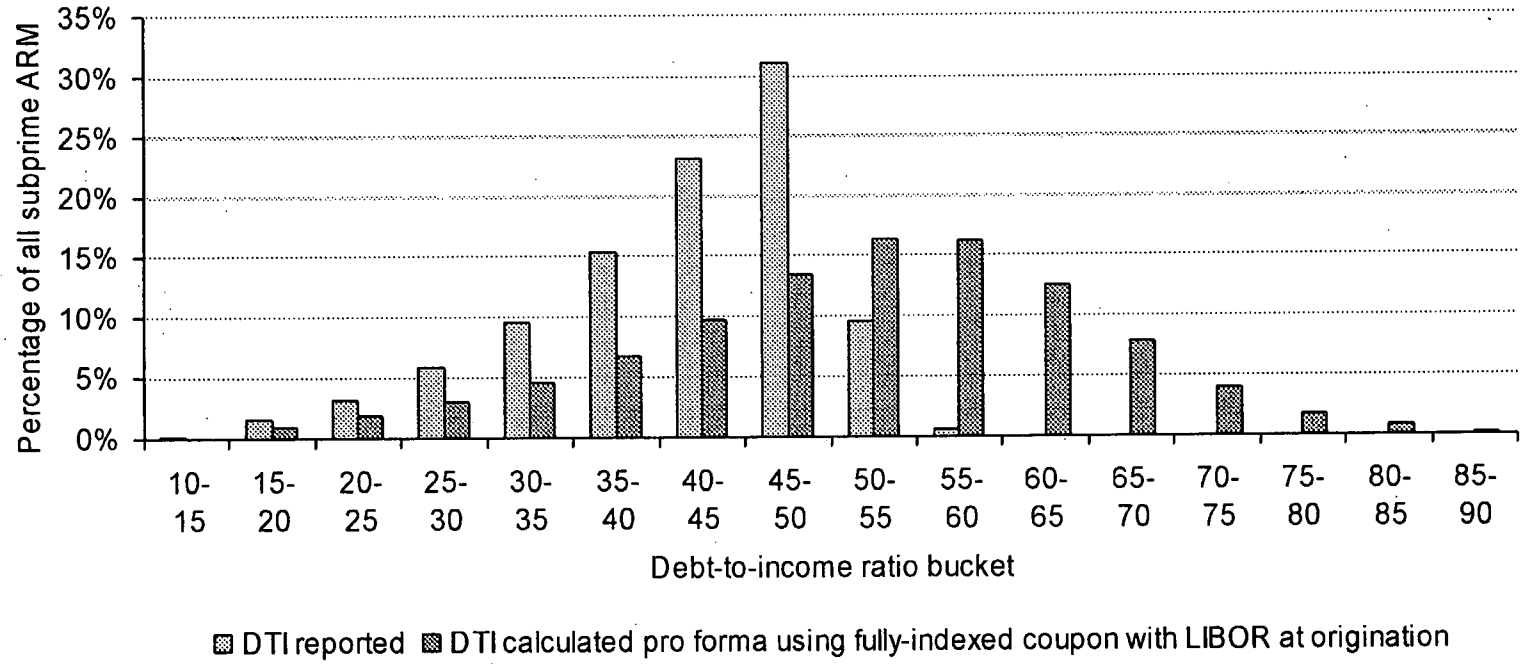
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Debt-to-income ratios for subprime mortgage borrower would become dramatically higher if calculated using payments with fully-indexed coupons

Distribution of subprime ARM originated in 2005 and 2006 by DTI



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Loan characteristics from major issuers' recent deals[a]

Issuer	ARM %	Type	Loan Size ($)	WA FICO	FICO <560	WA CLTV	CLTV >80	IO	40-Year	Piggy-back	Super States[b]	Low/No Doc	Invest
Ameriquest	84.5%	ARM	209,680	652	2.3	91.6	75.2	51.3	15.4	43.6	58.0	42.2	3.4
		Fixed	144,031	646	5.7	83.5	52.7	13.2	9.6	13.6	40.5	27.8	3.3
Argent	87.7%	ARM	175,276	599	28.1	80.4	52.0	13.6	8.2	11.2	59.8	34.7	3.5
		Fixed	130,561	648	7.7	81.4	58.0	16.1	3.4	4.9	54.4	27.9	5.3
Countrywide	85.0%	ARM	224,679	617	19.7	88.0	72.4	21.5	11.4	33.0	69.6	47.8	9.6
		Fixed	149,125	624	15.9	81.0	53.5	5.8	7.7	8.5	58.3	23.7	5.9
First Franklin	66.9%	ARM	196,964	614	17.0	86.7	66.6	35.4	9.6	34.9	64.1	43.4	4.4
		Fixed	179,582	613	16.8	78.1	44.3	12.8	9.4	9.0	65.0	26.6	2.5
Fremont	89.0%	ARM	256,136	621	16.7	86.2	54.1	16.0	24.7	32.8	76.2	45.4	7.1
		Fixed	92,852	643	5.3	90.8	74.3	0.0	5.2	14.5	77.2	36.5	4.7
Long Beach	86.5%	ARM	233,398	634	10.2	91.5	77.7	8.9	50.4	56.2	70.0	56.5	11.4
		Fixed	106,838	643	5.4	87.0	62.7	0.0	15.4	18.2	62.5	37.9	6.5
New Century	80.3%	ARM	223,667	622	15.7	84.5	57.1	29.3	28.5	18.8	72.4	50.1	9.7
		Fixed	135,655	634	10.0	81.8	52.0	2.0	9.8	6.4	65.0	31.6	6.3
Option One	81.3%	ARM	224,695	613	17.5	86.4	62.8	20.4	22.5	31.6	64.9	45.3	8.1
		Fixed	126,584	634	7.8	83.2	54.8	4.2	12.4	15.4	65.8	35.7	5.1
RASC	79.7%	ARM	171,893	617	10.8	87.5	70.5	17.1	9.8	29.6	46.1	37.0	4.7
		Fixed	99,759	626	8.5	82.7	58.4	2.5	6.6	10.5	41.6	27.1	4.6
WMC	82.7%	ARM	265,670	639	9.3	82.9	34.8	18.7	53.4	11.8	80.2	60.1	4.2
		Fixed	91,806	649	2.9	90.2	70.7	0.0	14.0	1.3	76.1	55.4	3.3

Source: LoanPerformance, Deutsche Bank

a. Deals issued in 2006.

b. Super states are states whose home price index increased more than 10% YoY since the second quarter of 2001. These include AZ, CA, CT, DC, DE, FL, HI, MD, ME, NJ, NV, NY,OR, RI, VA and VT

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Typical 2005-vintage home equity deals from major issuers

		Long Beach 2005-2		First Franklin 2005-FF6		New Century 2005-4		RASC 2005-KS11	
Collateral	ARM %	94.0%		89.8%		42.5%		62.7%	
	Average Balance	$193,360		$223,787		$205,009		$151,066	
	WAC	7.41%		6.69%		7.21%		7.51%	
	WA CLTV	90%		90%		87%		85%	
	WA 1st Lien LTV	83%		83%		81%		81%	
	Piggyback	39.6%		36.9%		29.0%		18.9%	
	% CLTV >80	78.2%		78.0%		69.0%		63.5%	
	WA DTI	NA		44.50%		41.00%		NA	
	% DTI >40	NA		70.80%		62.60%		NA	
	Owner Occ.	81.8%		97.2%		89.7%		93.6%	
	% CA	33.9%		41.6%		39.4%		9.1%	
	Avg. FICO	636		647		626		614	
	IO%	24.6%		63.2%		39.3%		10.9%	
Subordination (Class %)	Aaa	26.35%	(73.65%)	20.20%	(79.80%)	22.90%	(77.10%)	20.60%	(79.40%)
	Aa2	14.10%	(12.25%)	12.80%	(7.40%)	15.80%	(7.10%)	13.75%	(6.85%)
	A2	9.70%	(4.40%)	7.85%	(4.95%)	10.20%	(5.60%)	8.30%	(5.45%)
	A3	8.50%	(1.20%)	6.45%	(1.40%)	8.65%	(1.55%)	6.80%	(1.50%)
	Baa1	6.80%	(1.70%)	5.30%	(1.15%)	7.05%	(1.60%)	5.25%	(1.55%)
	Baa2	5.70%	(1.10%)	4.20%	(1.10%)	5.95%	(1.10%)	4.05%	(1.20%)
	Baa3	4.50%	(1.20%)	3.40%	(0.80%)	4.85%	(1.10%)	2.95%	(1.10%)
	Ba1	3.20%	(1.30%)	2.40%	(1.00%)				

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Typical 2006-vintage home equity deals from major issuers

		Long Beach 2006-WL1		Soundview 2006-OPT3		Morgan Stanley 2006-NC1		RASC 2006-KS4	
Collateral	ARM %	90.0%		84.9%		77.7%		86.5%	
	Average Balance	$207,619		$192,957		$202,198		$145,305	
	WAC	7.45%		8.58%		7.33%		8.43%	
	WA CLTV	92%		100%		81%		87%	
	WA 1st Lien LTV	80%		80%		80%		82%	
	Piggyback	57.5%		94.3%		NA		25.2%	
	% CLTV >80	80.0%		99.3%		45.1%		69.2%	
	WA DTI	NA		42.23%		40.69%		NA	
	% DTI >40	NA		64.84%		60.75%		NA	
	Owner Occ.	91.6%		94.1%		91.7%		94.1%	
	% CA	45.0%		22.1%		38.7%		10.9%	
	Avg. FICO	NA		602		620		623	
	IO%	7.2%		9.5%		26.2%		15.7%	
Subordination (Class %)	Aaa	23.35%	(76.65%)	23.70%	(76.30%)	21.10%	(78.90%)	22.00%	(78.00%)
	Aa2	16.40%	(6.95%)	15.45%	(8.25%)	14.55%	(6.55%)	14.65%	(7.35%)
	A2	10.90%	(5.50%)	9.95%	(5.50%)	9.50%	(5.05%)	9.05%	(5.60%)
	A3	9.40%	(1.50%)	8.30%	(1.65%)	8.05%	(1.45%)	7.40%	(1.65%)
	Baa1	8.00%	(1.40%)	6.70%	(1.60%)	6.65%	(1.40%)	5.90%	(1.50%)
	Baa2	6.75%	(1.25%)	5.35%	(1.35%)	5.40%	(1.25%)	4.50%	(1.40%)
	Baa3	5.75%	(1.00%)	4.25%	(1.10%)	4.35%	(1.05%)	3.50%	(1.00%)
	Ba1	4.70%	(1.05%)	3.45%	(0.80%)			2.80%	(0.70%)

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How do Baa2 and Baa3 tranches in a typical 2005-vintage subprime mortgage deal fare?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2		
70%	12.11%	13.66%
80%	10.81%	12.36%
90%	9.82%	11.34%
100%	9.06%	10.55%
110%	8.46%	9.91%
120%	7.97%	9.39%
130%	7.57%	8.96%
For Baa3		
70%	10.06%	12.11%
80%	8.84%	10.72%
90%	7.93%	9.82%
100%	7.22%	9.06%
110%	6.66%	8.46%
120%	6.22%	7.97%
130%	5.86%	7.57%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Option One 2005-4 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.85%), Baa2 (5.35%) and Baa1 (6.55%). **All step-down or step-up triggers in the deal structure are assumed activated for conservatism. If the triggers are not activated, the break points may be substantially lower.**

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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How do Baa2 and Baa3 tranches in a typical 2005-vintage subprime mortgage deal fare (continued)?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will have 30% principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2			
70%	12.11%	12.58%	13.66%
80%	10.81%	11.28%	12.36%
90%	9.82%	10.28%	11.34%
100%	9.06%	9.51%	10.55%
110%	8.46%	6.17%	9.91%
120%	4.24%	5.17%	9.39%
130%	3.13%	5.19%	9.39%
For Baa3			
70%	10.06%	10.67%	12.11%
80%	8.84%	9.42%	10.81%
90%	7.07%	7.56%	9.82%
100%	5.70%	6.42%	9.06%
110%	4.52%	5.27%	8.46%
120%	3.39%	4.50%	8.98%
130%	2.54%	4.43%	9.64%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Option One 2005-4 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.85%), Baa2 (5.35%) and Baa1 (6.55%). **In this scenario, all step-down or step-up triggers in the deal structure are allowed to pass or fail based on the prepayment and default assumptions (and a 0% delinquency rate). This results in lower breakpoints than the initial enhancements under rapid prepayment scenarios because the subordination begins to pay down or be released *before* losses have hit the deal at the three year stepdown date.**

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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How do Baa2 and Baa3 tranches in a typical 2006-vintage subprime mortgage deal fare?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2		
70%	14.57%	15.37%
80%	12.05%	12.89%
90%	10.38%	11.23%
100%	9.16%	10.01%
110%	8.19%	9.04%
120%	7.42%	8.27%
130%	6.80%	7.64%
For Baa3		
70%	13.28%	14.57%
80%	10.49%	12.05%
90%	8.92%	10.38%
100%	7.73%	9.16%
110%	6.80%	8.19%
120%	6.06%	7.42%
130%	5.47%	6.80%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Citigroup Mortgage Loan Trust 2006-NC1 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.70%), Baa2 (4.80%) and Baa1 (5.50%). **All step-down or step-up triggers in the deal structure are assumed activated for conservatism. If the triggers are not activated, the break points may be substantially lower.**

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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How do Baa2 and Baa3 tranches in a typical 2006-vintage subprime mortgage deal fare (continued)?

% for base case prepayment	Lifetime net cumulative losses when the tranche will be hit by principal writedown	Lifetime net cumulative losses when the tranche will have 30% principal writedown	Lifetime net cumulative losses when the tranche will be wiped out
For Baa2			
70%	14.57%	14.81%	15.37%
80%	12.05%	12.30%	12.89%
90%	10.38%	10.64%	11.23%
100%	9.16%	9.42%	10.01%
110%	5.70%	6.11%	9.04%
120%	4.23%	4.59%	7.70%
130%	3.14%	4.67%	7.43%
For Baa3			
70%	13.28%	13.68%	14.57%
80%	10.49%	10.94%	12.05%
90%	8.92%	9.35%	10.38%
100%	6.31%	6.89%	9.16%
110%	4.87%	5.49%	7.58%
120%	3.64%	4.20%	7.25%
130%	2.67%	4.51%	7.74%

Note: We used multiples of the prepayment and losses assumptions outlined in the prior pages and the forward LIBOR curves as of November 16, 2006. We chose Citigroup Mortgage Loan Trust 2006-NC1 as our model transaction which has somewhat typical initial credit enhancement levels for Baa3 (3.70%), Baa2 (4.80%) and Baa1 (5.50%). **In this scenario, all step-down or step-up triggers in the deal structure are allowed to pass or fail based on the prepayment and default assumptions, (and a 0% delinquency rate). This results in lower breakpoints than the initial enhancements under rapid prepayment scenarios because the subordination begins to pay down or be released *before* losses have hit the deal at the three year stepdown date.**.

As shown, faster prepayments usually cause bonds to "break" at lower loss levels, since there is less excess spread.

Conversely, bonds "break" at higher loss levels under slow prepayments. However, under such a scenario, more borrowers will pay fully indexed rates longer (usually this is a sign that fewer borrowers are able to refinance). Therefore, the cumulative losses out of a pool could be higher.

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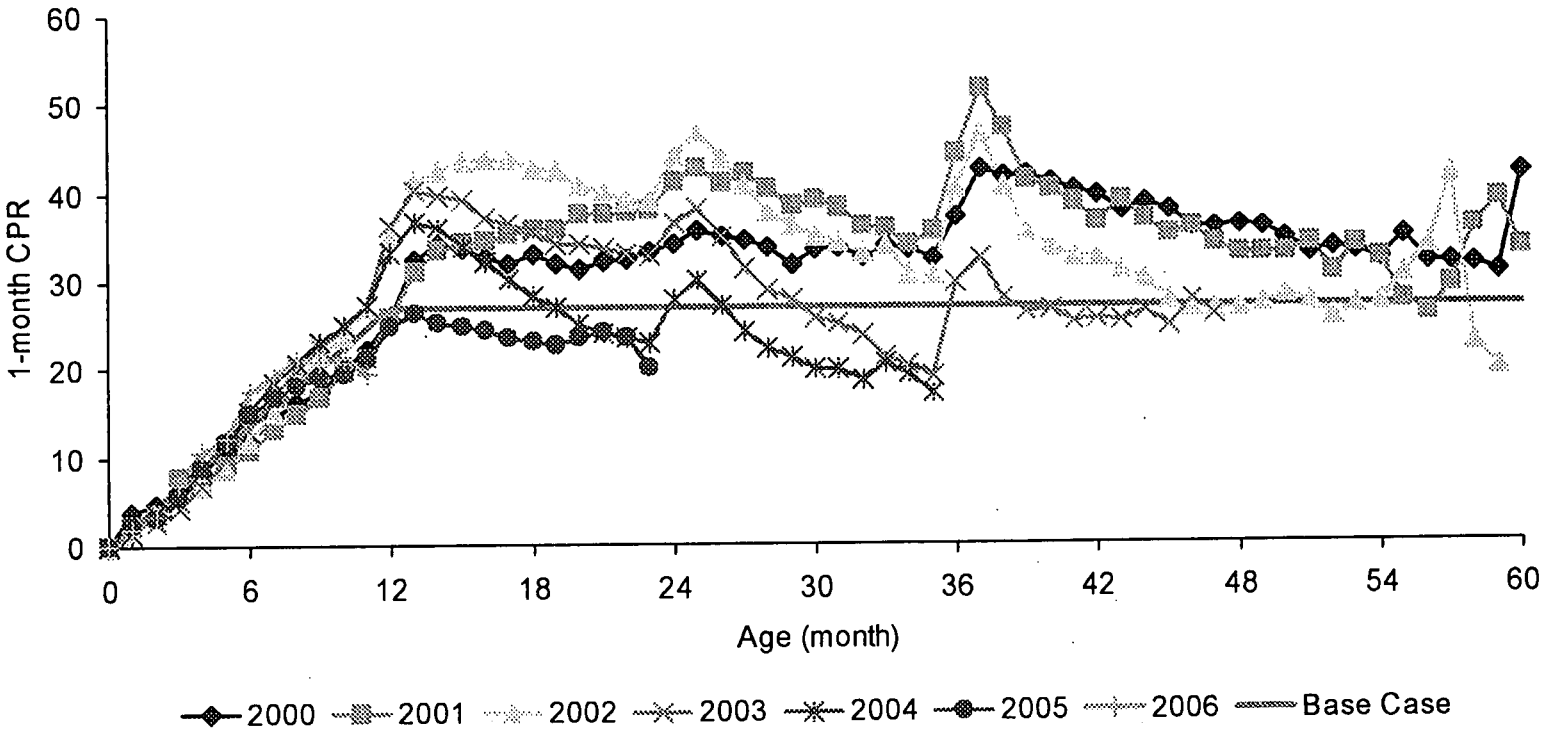
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We assume base case prepayment assumption using historical prepayment data – fixed rate mortgages

Fixed rate historical prepayments and base case assumption



Source: Loan Performance, Deutsche Bank

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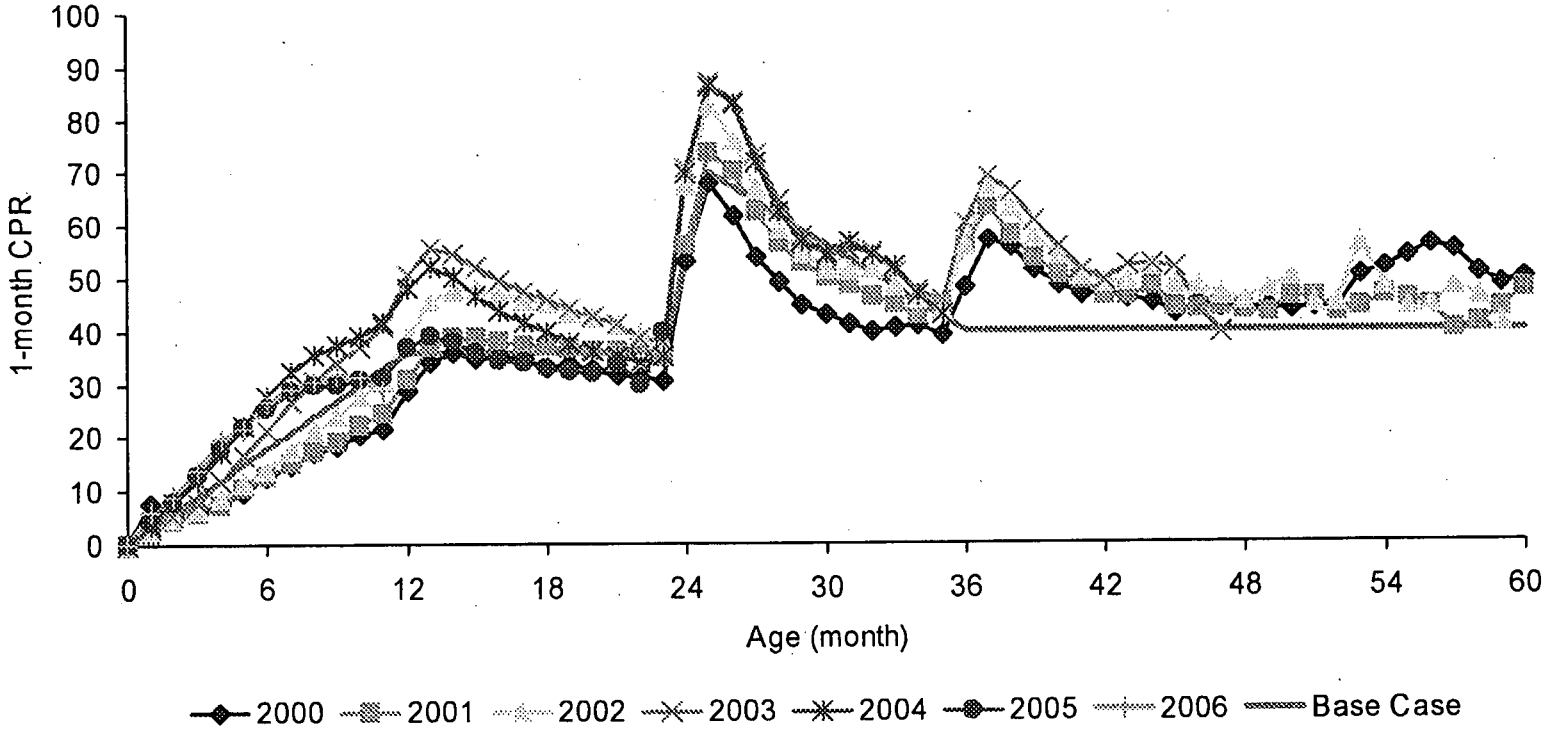
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We assume base case prepayment assumption using historical prepayment data – ARMs

ARM historical prepayments and base case assumption



Source: Loan Performance, Deutsche Bank

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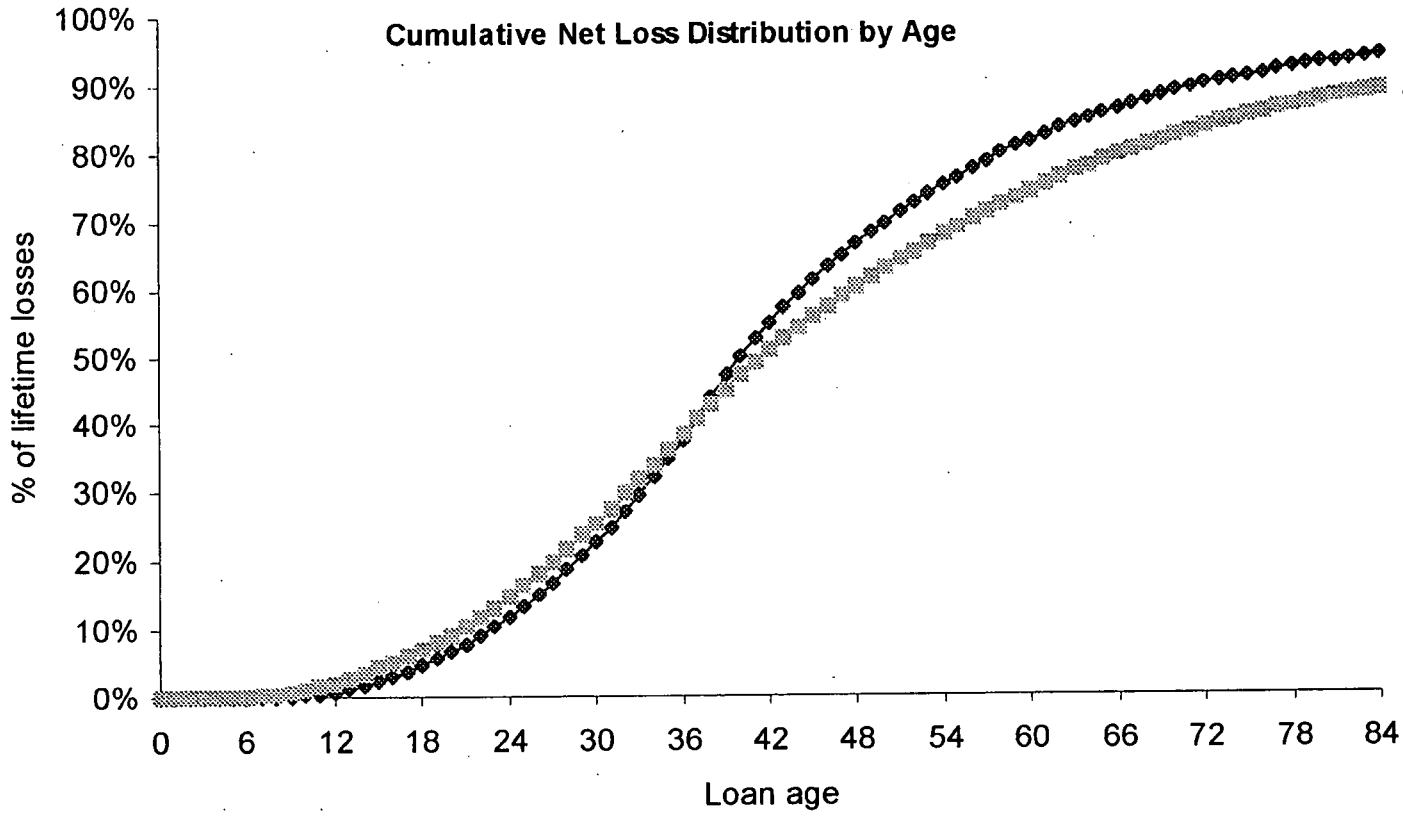
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Most of losses in collateral happen between year 2 and year 4, especially after rate-adjustment induced payment shocks



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All numbers [illegible] portfolio. Actual numbers will be different and [illegible] selected.

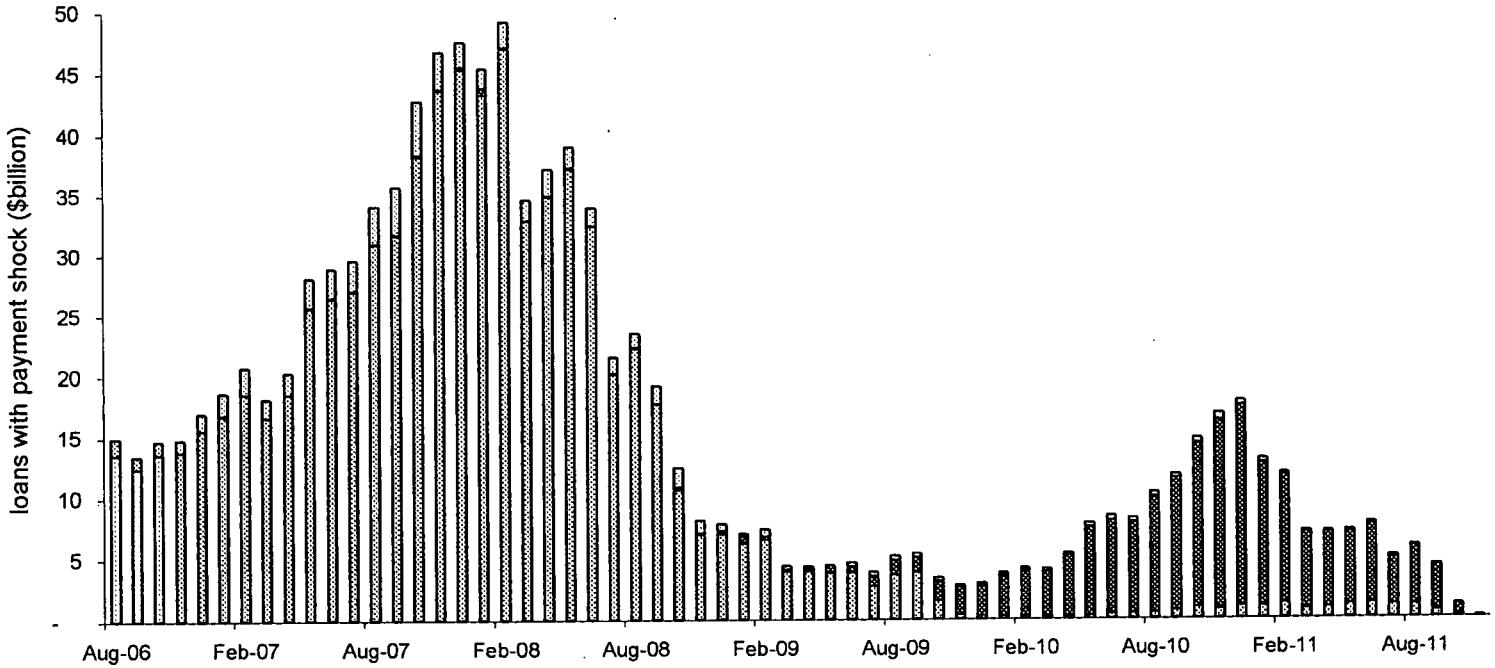
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Nearly $783 billion subprime mortgages will experience payment shocks in the next 3 years

Estimated amount of current outstanding subprime mortgages with future payment shocks



Note: Securitized subprime mortgages only

Data as of October 2006

Sources: LoanPerformance, Deutsche Bank

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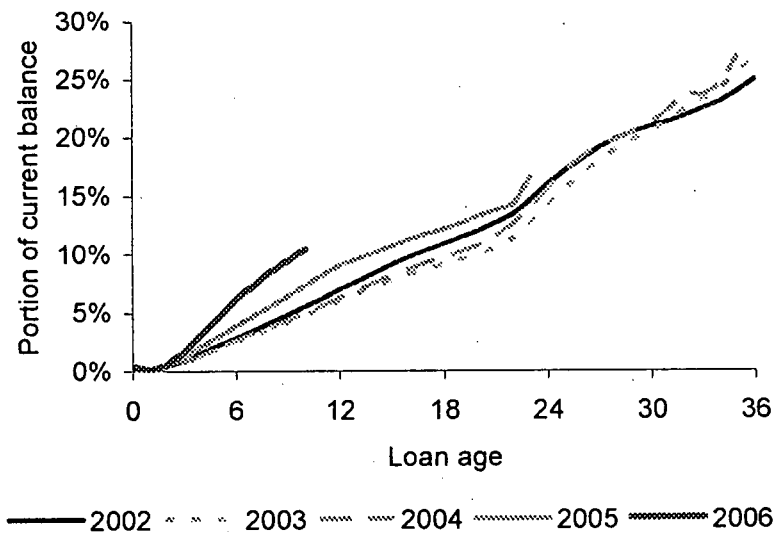
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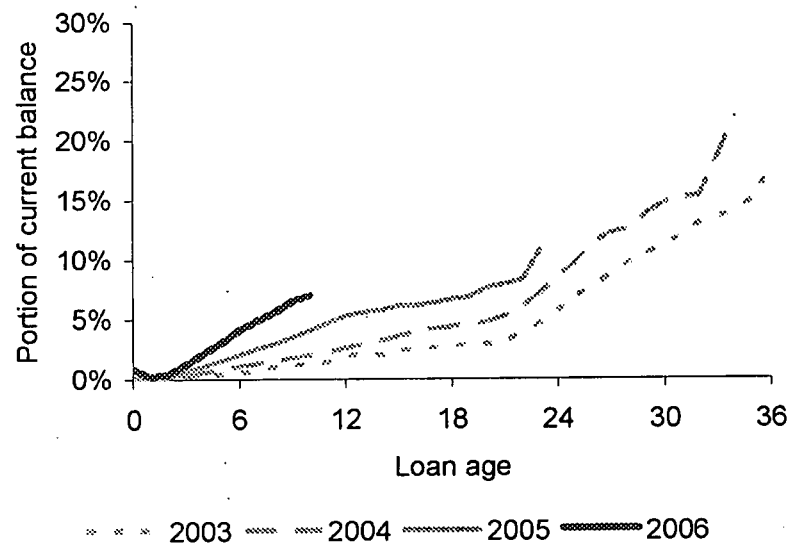
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The 2005 and 2006-vintages have underperformed their predecessors

Serious Delinquency Rate for Non-IO ARM



Serious Delinquency Rate for IO ARM



Note: There was virtually no subprime IO lending before 2003.

Data as of October 2006

Source: Loan Performance, Deutsche Bank

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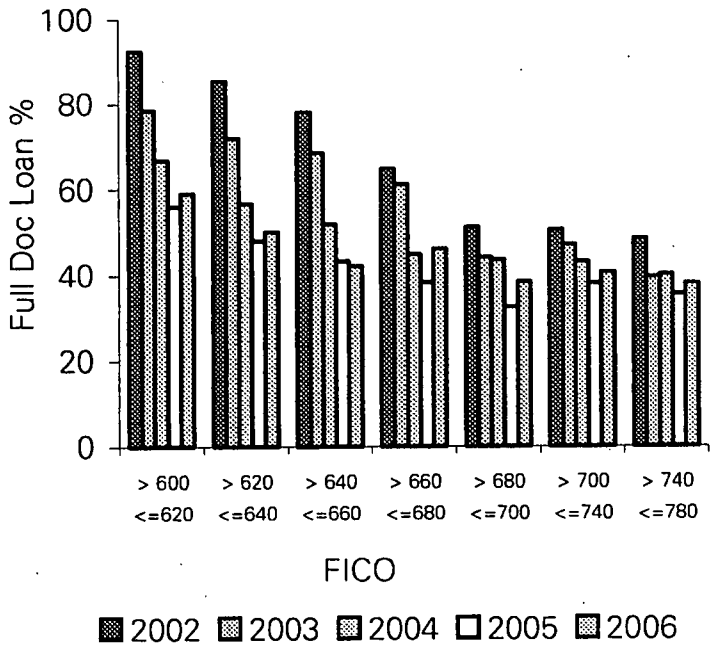
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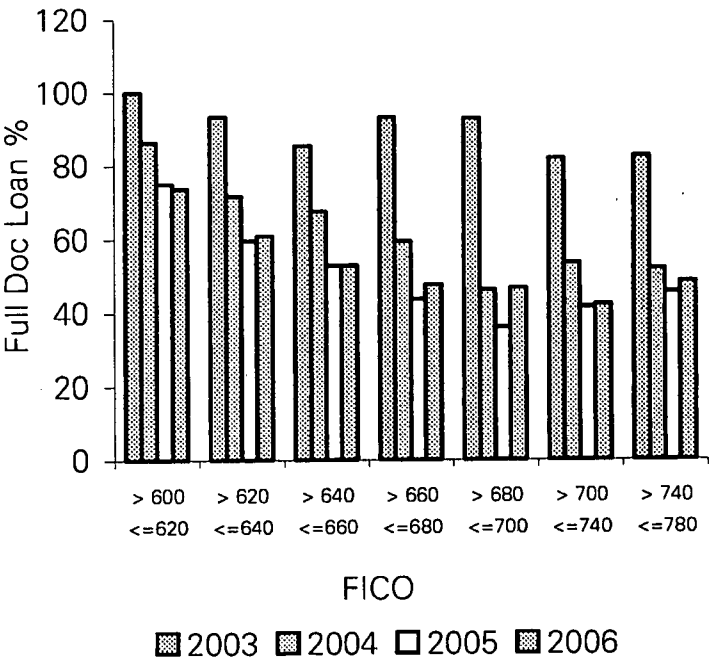
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The 2005-vintage was most risk-layered

Non-IO ARM with CLTV 90-95 & DTI 40-45



IO ARM with CLTV 90-95 & DTI 40-45



Sources: LoanPerformance, Deutsche Bank

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Pay-as-you-go (PAUG) structure: the market's answer to challenges posed to ABS CDS

- The physical delivery and credit event-settlement are not required
  - Unlike corporate CDS, ABS CDS does not require physical delivery of the underlying bond from the protection buyer (who has effectively sold the underlying bond short). This helps to greatly neutralize the risk of a short squeeze.
  - Nor is cash settlement at the credit event mandatory. This would avoid either party from been trapped with artificially high or low quotes.
- The cashflow of the PAUG ABS CDS is dictated by the underlying bonds distribution cashflow, outstanding balance, and interest shortfalls or principal writedown, if any.
  - The underlying bond's balance, interest shortfall and principal writedown are calculated using rules set at the issuance. (See Appendix for typical bond payment structure.)
  - If the underlying bond is paid down, the notional amount for the CDS will decline accordingly.
  - If there is an interest shortfall in the underlying bond resulted from the available funds cap, premium payment for CDS will be reduced accordingly, subject to the ceiling of the premium size.
  - If there is an interest shortfall due to credit loss or there is a principal writedown, the protection seller will pay the protection buyer accordingly

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Deutsche Bank's counterparty will have stable counterparty risk while enjoy flexibility of assigning the contract to another broker-dealer

- A protection buyer will always have DB as the counterparty if the contract is initially made with DB
  - DB may hedge its position, but will never assign the contract to any third party
  - If the CDO is DB's counterparty, it is required to be fully funded in a separate offshore SPV
- However, the protection buyer can offload the position by
  - Unwind the contract with DB
  - Physically deliver the bond
  - Assign the contract to another broker dealer (effectively covering the short)

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Appendix:

The underlying securities: subprime RMBS

Deutsche Bank Securities Inc, a subsidiary of Deutsche Bank AG, conducts investment banking and securities activities in the United States

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U.S. Residential Mortgage

Single family mortgages

- mortgages on single family (detached) houses
- not included: condos, town houses, co-ops, buildings with more than 1 units, commercial properties, etc.

2-4 family mortgages

- mortgages on residential buildings with 2 to 4 family units

Multi-family mortgages

- usually considered as commercial mortgages

Other residential mortgages

- condos, town houses, co-ops, etc.

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The US Residential MBS Market

Agency mortgages are mortgages that are in Ginnie Mae, Fannie Mae and Freddie Mac programs.

Typical Fannie Mae / Freddie Mac requirements

- balance limit: $359,650 for 2005 (single family house)
- loan priority: must be first-lien
- debt-to-income ratio limit:
  - 28% for mortgage debt
  - 33% for total debt
- cash-out not above 75% LTV (if refinance)
- loan-to-value ratio limit: 95%
- credit history: FICO score at least 720

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Residential Mortgages (continued)

- Conventional loans: fixed rate loans in Fannie Mae and Freddie Mac programs
- GNMA loans are not available to the general public
- Jumbo mortgage: a prime loan with a balance higher than the agency limit.
- Prime mortgages: mortgages that are either agency mortgages or jumbo mortgages.

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Profile of traditional home equity product

- Low balance
- Second or third lien
- Credit score above 680
- Usually a refinancing to take out cash
- 15-year maturity (or shorter)
- Combined loan-to-value (CLTV) ratio less than 100
- Include home equity lines of credit (securitized separately)

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Subprime (a.k.a. B&C) mortgages

- Often a first lien mortgage
- May be purchase, cash out, etc.
- May be used for cash-out purposes or debt consolidation
- Typical LTV around 80, may reach 100
- Often have piggy-back second lien loans
- Includes FHA Title 1 loans and other home improvement loan products

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Products that may be riskier than traditional home equity/subprime mortgages have become popular

Because of the continued faster pace in home price appreciation compared with wage growth, lenders have developed a number of products to enable borrowers to qualify for mortgage payments and/or to pay minimal down-payment

- IO mortgages
  - Loan only pays interest in the IO period (usually 2 to 5 years)
  - At the expiration of the IO period, loan converts to fully amortizing loans
  - Payment shock at the expiration of the IO period may cause defaults to surge
- Silent second mortgages
  - A simultaneous pair of first and second lien loans are made at the origination (usually 80% LTV for the first lien and 10 to 20% LTV for the second lien)
  - Borrower pays little or no down-payment
  - Only the first lien mortgage shows up in a securitization and LTV appear to only be 80%. But the borrower's tendency to default is much high than a true 80% first lien mortgage.
- Option ARMs
  - Allow borrower to pay exceedingly low initial minimum payments
  - Indexed on moving Treasury average (MTA), LIBOR or COFI-11
  - Likely to have negative amortization
  - Recast of schedule at 5th anniversary may potentially cause significant payment shocks
- Stated-income mortgage loans
  - Income of the borrowers is not substantiated by the documentation, nor is it verified
  - Borrowers may inflate income to get loan approved
- 40-year mortgages
  - Lengthened amortization schedule to make monthly payment smaller
- High debt-to-income ratio loans
  - DTI for these loans may reach beyond 50%, leaving little for the borrower to pay other expenses

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Subprime mortgagors

- Demographically, this borrower is "middle America"
- Financially, this borrower
  - Has mismanaged his finances (past delinquencies, foreclosures or bankruptcies, low credit score)
  - Used excessive leverage (high DTI and/or LTV)
  - Is cash-strapped (large amount of cash-out refi.)
- While "riskier" than prime and jumbo borrowers, subprime borrowers
  - Are not directly impacted by stock market gyrations
  - Live in homes that are more liquid, less volatile

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The channel of mortgage lending

- There are three major channels of lending mortgages
  - Retail – Loans are originated in branches of the lender. The lender controls most aspects of underwriting, including credit checking, income verification, appraiser selection, appraisal quality control, etc. The originator is more likely to have local market knowledge
  - Whole-sale – Loans are originated by brokers who have regular business relationships with the lender. The lender may have an approval process in accepting a broker to its network and may monitor the performance of a broker's origination. The lender controls some aspects of the underwriting process but relies on the broker to do others.
  - Correspondence – Loans are originated by non-affiliated brokers according to the lenders underwriting matrix. The lender is likely to re-underwrite the loan in most aspects.

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Income documentation and verification

- Full documentation, full verification
  - Last 2 years' W2s
  - Last 2 months' pay stubs
  - Letter from employer (verified by call)
  - Last 2 years' income tax returns (self-employed only)
  - Last 2 months' bank statements (verified by call)
- Partially (limited, light) documentation
  - Some of the documentations are deficient but usually one of income or employment proofs is available
- No income (stated income), no verification
  - Nothing is available

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Appraisal process: the V in LTV

- Most used form of appraisals
  - Full appraisal (1004 appraisal)
  - Drive-by appraisal (2055 appraisal)
  - Broker price opinion (BPO)
  - Automated valuation model (AVM)
- Appraisers are paid on the case load, not value of the property
- Most of appraisers' business come from lenders
- Many lenders also employ in-house appraisers to control the quality of appraisals
- Even for purchase loans, an appraisal is needed to mitigate the risk of fraud

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Business models of subprime lenders

- Balance sheet lending
  - Pure lending on the company's own book is very rare for major lenders
- Whole-loan sales
  - Newer lenders mostly rely on whole-loan sales to dispose loans
  - Established lenders often engage in whole-loan sales when they see opportunities
  - Whole-loans sold will most likely be securitized by the buyer
- Securitization
  - Securitization are used for many purposes, the most common among them
    - Lower cost of funding
    - Raise leverage
    - Release regulatory capital
    - Managing risk

All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

DBSI_PSI_EMAIL01988836

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What do credit ratings really mean?

- Most common approach by rating agencies
  - Establish a set of base case assumptions
    - Default (foreclosure) frequency
    - Loss severity ratio
    - Prepayments
    - Interest rate scenario
  - Establish AAA class stress assumptions
    - Default frequency for AAA, depend on the type of loans, may be 4 to 10 times of the base case
    - Moody's uses simulations to decide AAA credit enhancement (bonds should have no losses in 99.5% or more of the simulated cases)
    - Committee decisions are mostly involved in deciding the C/E

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DBSI_PSI_EMAIL01988837

Confidential Treatment Requested by DBSI

What factors are used in deciding assumptions?

- Factors used in determining the base case assumptions include:
  - Borrower characteristics (income, credit history, etc)
  - Loan characteristics (LTV ratio, term, property type, purpose, occupancy, MI, etc)
  - Pool characteristics (concentration, etc)
  - Originator and servicer practices and loan programs
  - Macro and local economic consideration (employment, real estate market, etc.)

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DBSI_PSI_EMAIL01988838

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Moody's typical loss severity assumption on the underlying loans

Rating Level	Loss severity percent
Aaa	60.0%
Aa	55.0%
A	50.0%
Baa	45.0%
Ba	42.5%
B	40.0%

Source: Moody's Investor Service

All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

DBSI_PSI_EMAIL01988839

Confidential Treatment Requested by DBSI

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Other issues rating agencies consider

- Mortgage insurance
  - The presence of MI will reduce loss severity
  - Rating agencies generally assume that the servicer won't be able to collect 100% of claims. A "haircut" is made to the mortgage insurance
  - Haircut is made according to the rating

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DBSI_PSI_EMAIL01988840

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Over-collateralization: the most basic credit enhancement

- A deal is over-collateralized when
  - The balance of the pool is larger than the aggregate balance of the bonds
  - Collection proceeds are first used to pay bonds' interest and principal
- Most mortgage ABS deals use some form of over-collateralization to enhance the credit for
  - Bondholder
  - Insurer
- The exceptions are
  - Whole-loan deals issued by GSEs
  - Some deals with issuer-guaranteed classes
- OC can be viewed as a special tranche that is the first loss piece for the deal

All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

DBSI_PSI_EMAIL01988841

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Subordinate bonds act as cushion against losses

- In a senior-sub structure, in each period, senior bonds have the priority in
  - Interest payments
  - Principal payments
- Sub bonds' interest payment may or may not have priority versus senior bonds' principal payments

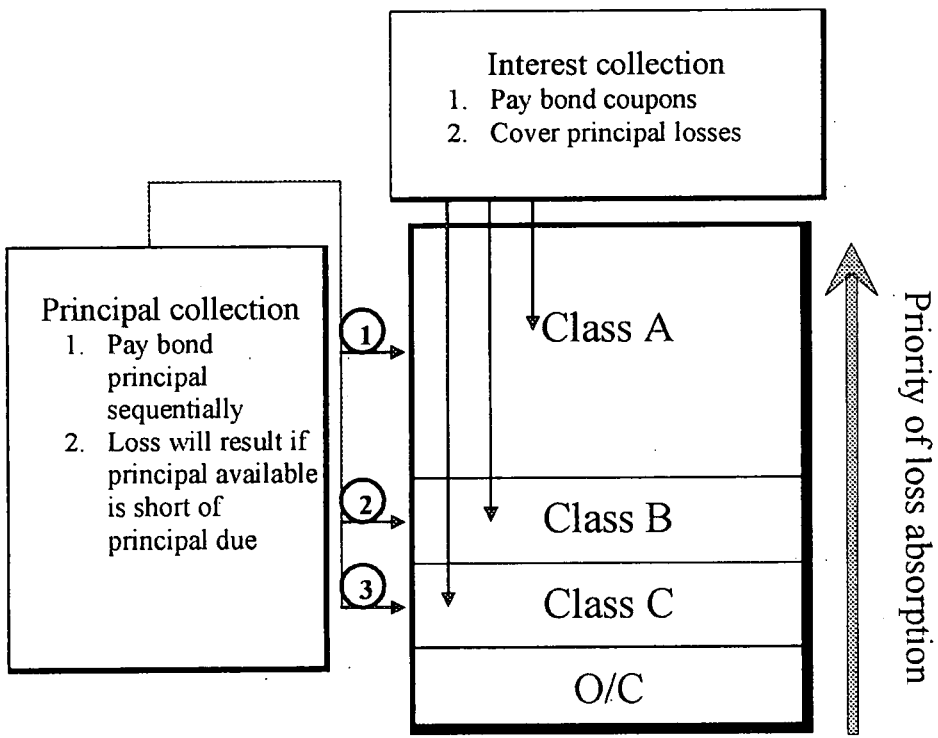
All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

DBSI_PSI_EMAIL01988842

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Typical home equity ABS structure: sequential with cross-over, OC turbo and step-down



- In the first few years, principal are paid sequentially among senior, mezzanine and subordinate tranches
- OC can be built up from the initial level by using excess spreads to pay down principal of bonds
- After the cross-over date, mezzanine and subordinate bonds start to receive principal simultaneously with senior bonds (provide no trigger event occurs)
- After the step-down date, part of OC is released (provided no trigger event occurs)
- An optional redemption (clean-up) call allows the servicer to call the deal when the collateral pool is below 10% of the original size.

All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

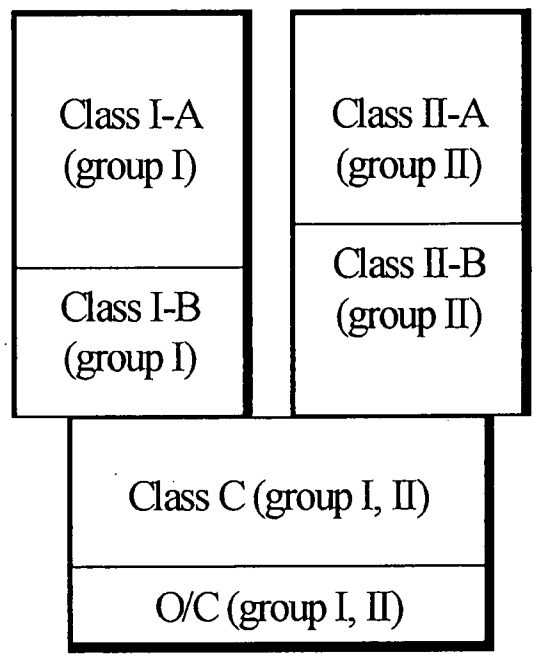
DBSI_PSI_EMAIL01988843

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Deals with multiple collateral groups: Y-structure

- A deal may have more than one group of collateral, each supporting its own sets of bonds
- Lower classes (or O/C) may receive cash from entire pool
- This structure enables the better performing group to aid the worse performing one
- Triggers are more complicated



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DBSI_PSI_EMAIL01988844

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Available funds cap: definition

- Maximum net WAC caps the coupon paid to bondholders
- Net WAC is gross WAC minus
  - Servicing fee
  - Trustee fee
  - Insurance premium (if any)
  - IO payment (if any)
- Designed to prevent bonds from defaulting because interest mismatch (as opposed to collateral performance)
- Capped-out amount is carried forward and may be recouped in the next month

All numbers shown in this presentation are indicative and are based on a sample portfolio. Actual numbers will be different and will depend on the actual portfolios selected.

DBSI_PSI_EMAIL01988845

Rajeev Misra/DMGGM/DMG UK/DeuBa@DBEMEA

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICA:
cc
bcc

02/24/2007 05:31 AM

Subject Re: Home Equity Risk

Thanks. Excellent summary.

Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 02/23/2007 08:58 PM
To: Anshu Jain
Cc: Rajeev Misra; Richard DAlbert; Alex Crossman; Mark Ferron; Jonathan Wills
Subject: Home Equity Risk

As per our conversation yesterday, here is an update of our Home Equity Exposure.

Trading Desk
Net Short

	BBB	BBB-	Total
2004	754MM	443MM	1.2BB
2005	1067MM	413MM	1.5BB
2006	1077MM	521MM	1.6BB
2007	34.5MM	83.5MM	0.17MM
Total	2.86BB	1.50BB	4.36BB

Recent changes:
Wednesday: short 3BB
Wednesday to Thursday increase: shorter by 800MM
Thurday to Friday: shorter by 300MM
Friday shorter by 500MM (we will offer this to CDO group)

CDO New Issue
Warehouses:
Total Notional 3.4BB
2.4BBHome Equity. Estimated Hedge Ratio 100%
200MM Prime Estimated Hege Ratio 20%
80MM CMBS Estimated Hedge Ratio 10%
600MM ABS CDOs 200%
73MM Other CDOs 20%

Internal Hedges within CDO Warehouse:
265MM ABS
134MM CDO (2X hedge ratio)

525MM delta of ABS Hedge

We have lowered (but not eliminated) the hedge ratio for deals in which we are confident of exectution for example Blackrock is roughly 1.2BB of the total exposure.

Target Hedge Net of internal Shorts 1.7BB in total
Actual Hedges1.2BB (480MM left to do):
2BB Super Senior with roughly 33 delta - 600MM
40MM Single Name CDS
550MM ABX
We will do 480MM more Single Name CDS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1316

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Recent Trades
2/22 100MM 06-1 BBB- 86.5
2/22 400MM 06-2 BBB 76.625
2/23 100MM 06-2 BBB- 66.00

CDO Unsold Inventory Mix of Managed and Unmanaged Target Hedge 280MM Actual Hedge 280MM
AA/A 35MM hedge ratio 2.25X
BBB 50MM hedge ratio 3.25X
BB 17MM hedge ratio 4.25X

Mortgage Wharehouse Lines
Roughly 2.5BB of Subprime. Callable in 45 days varying haricuts, in some cases to highly rated counterparties (1.6BB of total). We think the 200MM hedge that was put on in the last month is sufficient.

Current Markets
07-1 BBB 73-16 – 77-00 (1080/965)
07-1 BBB- 67-28 - 69-00 (1500/1450)
06-2 BBB 75-00 - 78-24 (1025/900)
06-2 BBB- 69-00 - 70-16 (1425/1375)
06-1 BBB 87-00 - 89-24 (690/575)
06-1 BBB- 84-00 - 87-00 (950/825)

Estimated basis between single names in index and index 4 pts. Note 06-1 consists of 20 credits issued in 2nd half 2005, 06-2 first half 06, 07-1 second half 06.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---
Sent from my BlackBerry Handheld.



jmilman@bbotg 11/08/2005 04:05 PM

To: greglip@bbotg
cc:
Subject: Fwd: Re: Fwd: DB ABS CDS COMMMENTARY: CDO OH BABY! 11/08/05

Message Sent: 11/08/2005 16:05:56
From: JMILMAN@BBOTG|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

---- Original Msg from: IVELIN DOROVSKI, DEUTSCHE BANK AG At: 11/ 8 16:05=

thanks. you guys are remarking the cds accordingly, right?
----- Original Message -----
From: JORDAN MILMAN, DEUTSCHE BANK SECURI
At: 11/ 8 13:45

---- Original Msg from: ROCKY KURITA, DEUTSCHE BANK SECURI At: 11/ 8 8:0=
8
"CDO Oh Baby" by Vanilla Ice

Yo vip let's kick it!
C D O oh baby, C D O oh baby
All right, stop, collaborate and listen
Spreads are wide with a technical invasion
Home Eq Subs were trading so tightly
Until Hedge Funds Bot Protection daily and nightly
Will they stop? Yo I don't know

Turn up the Arb and let's go
To the extreme Macro Funds do damage like a vandal
Now, BBBs are trading with a new handle
Print, even if the housing bubble looms
There are never ends to real estate booms
If there is a problem, yo, we'll solve it

Check out the spreads while my structurer revolves it
C D O oh baby, C D O oh baby

ABS CDS Commentary 11/8/05
We continued to see wide prints in the CDS HEQ as Credit Long Dealers
=

continue to hedge/cover secondary cash positions, whole loan packages, CD=
O
equity, and synthetic longs. Baa2 HEQ CDS are printing north of +200 and =
Baa3
HEQ CDS are printing north of +325. When tabulating the total BWIC for

protection(Sellers of protection, which includes CDOs and Hedge Funds
unwinding), there will be over $1bln of credit risk that will leave the s=
treet
this week with focus on the Baa2/Baa3 part of the capital structure. We =
expect
spreads to stabilize or even tighten as a result. If spreads continue to =

widen,
it will show the depth of the short in the market and the staying power o=
f the
Hedge Fund and Dealer Bid for protection. To put the amount of risk that =
needs
to be digested in a different way, $1bln in Baa2 and Baa3 HEQ risk would =
be the

equivalent of over $20bln of cash new issue tranmsactions if the BBB stac=
k is 5%
of the capital structure. If the dealer communtity can short that risk a=
nd keep
begging for more, it would indicate the following:
A. Dealers have been on the wrong side of this spread move in much bigger=
size
than initially estimated.
B. There are much more hedge funds than we thought buying credit protecti=
on in
HEQ.

C. The technicals are overwhelming. Fundamentals are meaningless until sp=
reads
move significantly wider. Real money accounts did not participate at Baa3=

spreads of +375 last year.
D. The Hedge Funds are winning the battle against the CDOs
E. The market is going wider.

Other trends/observations:
-Single A/Baa1 HEQ CDS Spreads are leaking wider driven by Dealers that h=
ave

been lifted out of Baa2 and Baa3 protection by Hedge Funds. They seem to =
be
scrambling to buy anything to cover their risk. If spreads continue to wi=
den on
technicals, the credit curve will continue to steepen as Hedge Funds will=

continue to focus on buying protection on the more levered parts of the c=
ap
structure.
-We are seeing some Hedge Funds unwindind a small % of their short but th=
e

staying power and the discipline of the Hedge Fund community to leave in =
the
money trades on has been surprising. Many Hedge Funds believe that Baa3 H=
EQ can
take a principal loss.
-Rumors are that CDO Equity and Mez are struggling to get done.
-There are no less than 20 CDO transactions ramping up but spreads still =
widen.
Dealers are taking on tremendous warehouse risk amidst the tremendous vol=
atility

and spread widening. If the debt widens, dealers could be left holding a=
bag of
subprime HEQ risk just like they will be left holding keys to homes that=

default.

Recommendations:
-For investors long protection, take some chips off the table, particular=
ly in
Baa3 HEQ.
-Buy protection on BBB cards. Next shoe to drop?

-Sell protection on Baa2 and Buy Protection on Baa1 HEQ. The credit curve=
has
steepened dramatically over the past week.
-Buy protection on MEZ tranches of ABS CDO transactions. Sell protection =
on
single names or take down CDO Equity.
-Sell protection up the cap structure in virtually all asset classes. We =
view
these trades as funding trades more so than credit trades.

Deutsche Bank ABS CDS Axes 11/08/05

Deutsche Bank Securities Inc. has prepared this report based on
information it believes to be accurate but does not guarantee
its accuracy or completeness. ALL OFFERINGS ARE SUBJECT.
Please contact the desk at x7730.

HEQ GENERIC MARKETS.
CALL DESK FOR TERMSHEET DETAILS
NOTION BOND AVGL RATING BID/OFFER
10.000 HEQ 5.00 Aaa +13/+23
10.000 HEQ 5.00 Aa1 +27/+47
10.000 HEQ 5.00 Aa2 +29/+49
10.000 HEQ 5.00 Aa3 +33/+53
10.000 HEQ 5.00 A1 +57/+77
10.000 HEQ 5.00 A2 +62/+82
10.000 HEQ 5.00 A3 +67/+87

10.000 HEQ 5.00 Baa1 +155/+195
10.000 HEQ 5.00 Baa2 +200/+210
10.000 HEQ 5.00 Baa3 +300/+350

10.000 HEQ 5.00 Ba1 +700/+850
HEQ ISSUER SPECIFIC MARKETS.
TO ASSIGN A TRADE, PROVIDE COUPON & COUNTERPARTY, THEN WE WILL GIVE LEVEL=
S.
Use "RMBSPAUG.PDF" termsheet.
NOTION ISSUER AVGL RATING BID/OFFER

10.000 ABFC 5.00 Baa2 +200/+230
10.000 ABSHE 5.00 Baa2 +200/+230
10.000 ACCR 5.00 Baa2 +210/+240
10.000 ACE 5.00 Baa2 +200/+230
10.000 AMSI 5.00 Baa2 +210/+240
10.000 BSABS 5.00 Baa2 +210/+240
10.000 CBASS 5.00 Baa2 +190/+220

10.000 CWL 5.00 Baa2 +208/+238
10.000 CXHE 5.00 Baa2 +210/+240

10.000 ECR 5.00 Baa2 +215/+245
10.000 FFML 5.00 Baa2 +200/+230
10.000 FHLT 5.00 Baa2 +205/+235
10.000 GSAMP 5.00 Baa2 +200/+230
10.000 HEAT 5.00 Baa2 +200/+230
10.000 INABS 5.00 Baa2 +210/+240
10.000 LBMLT 5.00 Baa2 +200/+230
10.000 MABS 5.00 Baa2 +195/+235
10.000 MLMI 5.00 Baa2 +200/+230
10.000 MSAC 5.00 Baa2 +195/+230
10.000 NCHET 5.00 Baa2 +215/+245
10.000 NHEL 5.00 Baa2 +210/+240
10.000 OOMLT 5.00 Baa2 +195/+235

10.000 PCHLT 5.00 Baa2 +210/+240

10.000 PPSI 5.00 Baa2 +210/+240
10.000 RAMP 5.00 Baa2 +200/+230
10.000 RASC 5.00 Baa2 +200/+230
10.000 SABR 5.00 Baa2 +200/+230
10.000 SAIL 5.00 Baa2 +210/+240
10.000 SAST 5.00 Baa2 +205/+240
10.000 SVHE 5.00 Baa2 +200/+230
10.000 WFHET 5.00 Baa2 +190/+220
10.000 WMC 5.00 Baa2 +190/+220
NOTION ISSUER AVGL RATING BID/OFFER
10.000 ABFC 5.00 Baa3 +305/+345
10.000 ABSHE 5.00 Baa3 +305/+345
10.000 ACCR 5.00 Baa3 +315/+345
10.000 ACE 5.00 Baa3 +295/+350

10.000 AMSI 5.00 Baa3 +320/+355
10.000 BSABS 5.00 Baa3 +310/+340
10.000 CBASS 5.00 Baa3 +285/+335
10.000 CWL 5.00 Baa3 +300/+330
10.000 CXHE 5.00 Baa3 +305/+345
10.000 ECR 5.00 Baa3 +325/+365
10.000 FFML 5.00 Baa3 +290/+330
10.000 FHLT 5.00 Baa3 +305/+345
10.000 GSAMP 5.00 Baa3 +290/+350
10.000 HEAT 5.00 Baa3 +310/+350
10.000 INABS 5.00 Baa3 +320/+355

10.000 LBMLT 5.00 Baa3 +310/+350
10.000 MABS 5.00 Baa3 +300/+350
10.000 MLMI 5.00 Baa3 +305/+345
10.000 MSAC 5.00 Baa3 +300/+350

10.000 NCHET 5.00 Baa3 +325/+365
10.000 NHEL 5.00 Baa3 +320/+355
10.000 OOMLT 5.00 Baa3 +305/+345
10.000 PCHLT 5.00 Baa3 +320/+355
10.000 PPSI 5.00 Baa3 +305/+345
10.000 RAMP 5.00 Baa3 +300/+350
10.000 RASC 5.00 Baa3 +305/+345
10.000 SABR 5.00 Baa3 +310/+340
10.000 SAIL 5.00 Baa3 +320/+360
10.000 SAST 5.00 Baa3 +310/+350
10.000 SVHE 5.00 Baa3 +310/+350
10.000 WFHET 5.00 Baa3 +280/+330
10.000 WMC 5.00 Baa3 +290/+340


110805cds@2005-11-8-8.0.31.271249.xls


110805cds@2005-11-8-8.0.35.801977.pdf


OrgSmtpMsg.eml


rmbspaug@2005-10-21-7.58.29.713363.pdf



greglip@bbotg To: jmilman@bbotg
cc:
Subject: Re: DEEP SUB CASH HOMEQ BWIC TOMORROW AT 2PM

08/01/2006
01:46 PM

Message Sent: 08/01/2006 14:46:11
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JMILMAN@BBOTG|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663

who has all this crap and let me know which ones to look at looks like a =
lot of
crappy deals....
----- Original Message -----
From: JORDAN MILMAN, DEUTSCHE BANK SECURI
At: 8/01 14:44:53

Deal Tranche Notional CUSIP MDY/S&P/F
AABST 05-5 B6 13.2000 00764MHR1 NR / BB+ / BB crap
AABST 05-5 B7 15.0000 00764MHS9 NR / BB / NR crap
ABSHE 05-HE3 M11 5.0000 04541GRE4 Ba2/ BB / BB
ABSHE 05-HE5 M11 4.7770 04541GST0 Ba2/ BB+ / BB+
ACE 05-HE5 B3 15.0890 004421RS4 NR / BB / NR crap
FHLT 05-D B3 7.2480 35729PMS6 NR / BBB-/ NR crap
FHLT 05-D B4 9.8350 35729PMT4 NR / BB+ / NR crap
LBMLT 04-4 B 9.9740 542514JF2 NR / BB+ / NR carp
LBMLT 04-4 M12 7.5000 542514JE5 NR / BBB-/ NR crap
LBMLT 05-WL1 B1 8.0000 542514LS1 Ba2/ BB+ / BB crap
LBMLT 05-WL1 M10 8.4850 542514LW2 Ba1/ BB+ / BBB- crap
MMLT 05-1 B2 5.0250 59001FCK5 NR / BB / NR crap
PPSI 04-WWF1 M11 5.0000 70069FEA1 Ba1/ BB+ / BB+ crap

OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1325



GREGLIP@bloomberg.net Tochris@mastcapllc.com
cc
01/05/2007 01:52 PM bcc
SubjectRE: mroe bang for the bucl

=====Begin Message=====
Message#: 140546
Message Sent: 01/05/2007 13:52:10
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: chris@mastcapllc.com| | | |
Subject: RE: mroe bang for the bucl

LEAGUE TABLE, FEES, NEVER HAS ONE BLOWN UP YET..BUT ONE REASON THIS STUFF IS WIDENING IS I THINK DEALER HEDGING WHAREHOUSES WITH INDEX
----- Original Message -----
From: Chris Madison <chris@mastcapllc.com>
At: 1/05 13:37:12

That's crazy!!! Why aren't the dealers pulling the plug on the new CDO's....hasn't this widening scared the crap out of them that the counterparties will blow-up?

CBM

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Friday, January 05, 2007 1:35 PM
To: Chris Madison
Subject: RE: mroe bang for the bucl

WALL STREET FIRMS DURING RAMP UP..100% LEVERAGE...NO MTM ITS ALL DEALER RISK
----- Original Message -----
From: Chris Madison <chris@mastcapllc.com>
At: 1/05 13:33:04

Dumb question....who provides the leverage for the CDO dopes that are levering up just the BBB and BBB- tranches? How much leverage are they getting? And are there any mark-to-market tests that threaten the solvency of the products?

CBM

-----Original Message-----
From: greglip@bloomberg.net [mailto:greglip@bloomberg.net]
Sent: Friday, January 05, 2007 11:37 AM
To: Chris Madison
Subject: mroe bang for the bucl

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a

material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

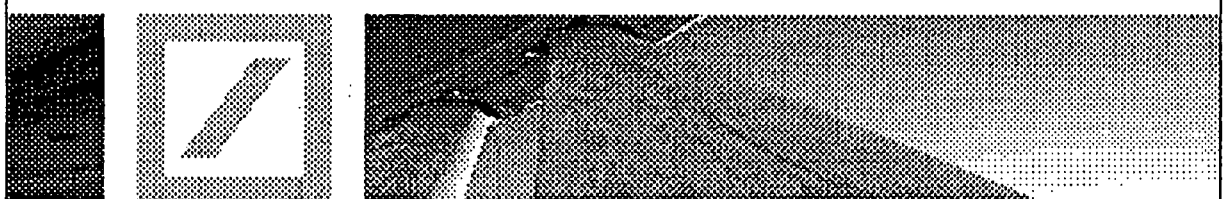
This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1327

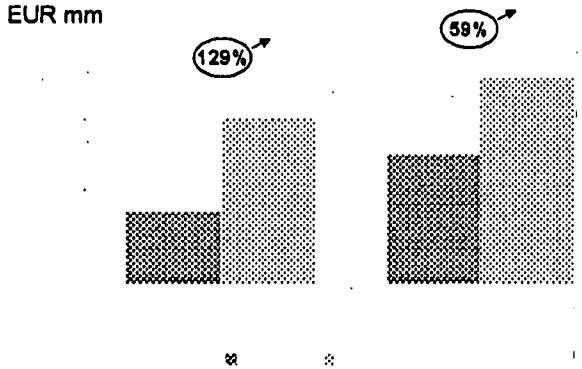
CDO Primary Update Progress Report

October 2006



A Passion to Perform. Deutsche Bank

CDO Primary Revenue Forecast and League Tables



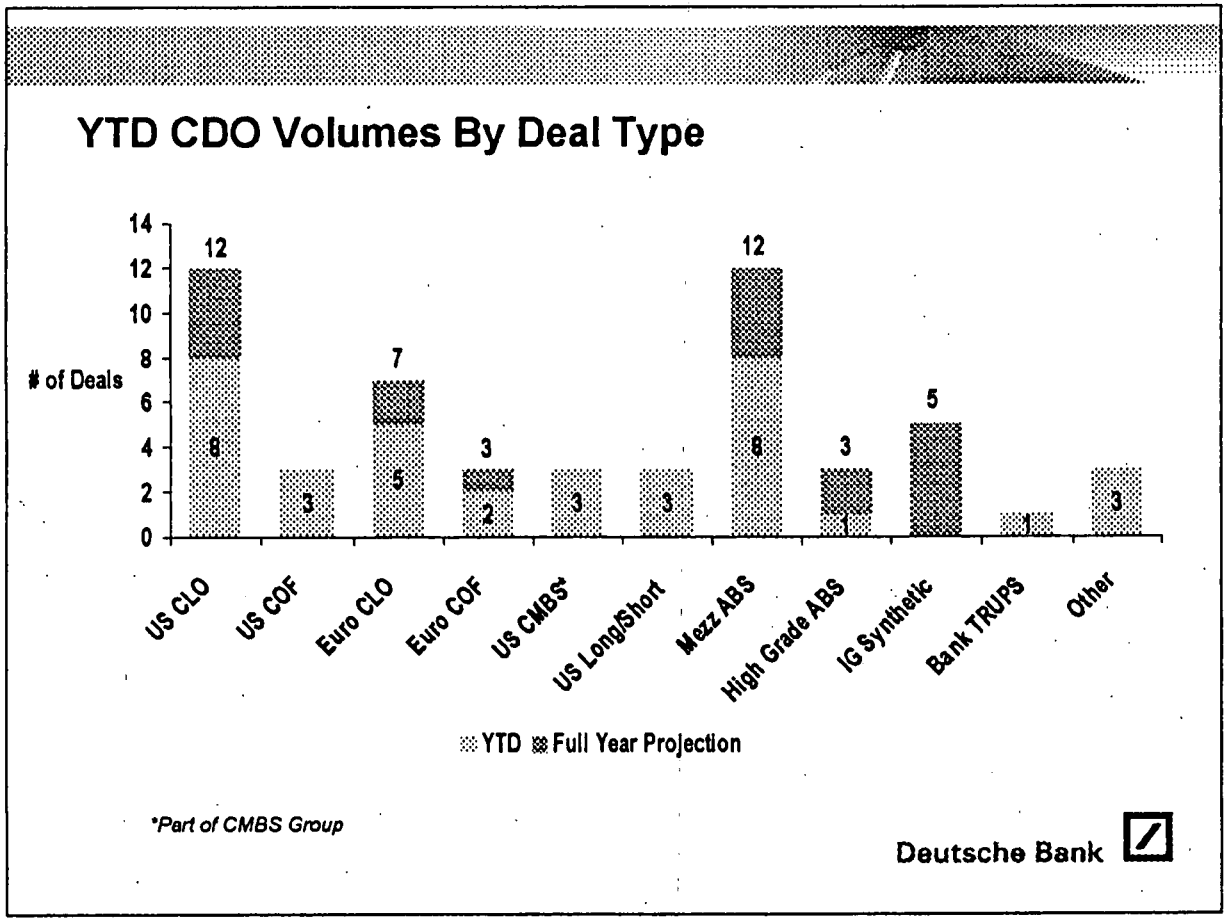
Bookrunner - Global CDO's
1 Oct 06

Rank	Lead Manager	Amount ($MM)	# Deals	Share (%)
1	Merrill Lynch	37,534.00	55	12.6
2	Citigroup	28,170.00	48	9.5
3	Deutsche Bank	20,805.90	38	7.0
4	Bank of America	17,358.70	42	5.8
5	Bear Stearns	16,672.80	32	5.6
6	Wachovia	15,393.90	37	5.2
7	Morgan Stanley	14,719.60	64	5.0
8	bis	14,660.10	21	4.9
9	JPM	14,246.60	44	4.8
10	CS	14,015.70	22	4.7
	Total Eligible Issuance	296,914.80	628	

Commentary

- Ramped up volume in 2006, expected to close 50 deals by year end
- Pipeline for Q1 and Q2 2007 building
- Good diversity of product
  - Credit Opportunity Funds and long/short, relative value structures show best growth potential
  - CLO's (US and Europe) remain strong
- More deals done as hybrid/synthetic
  - Start – CDS of ABS
  - Long/Short – ABS/Credit
  - HYSTAR – HY CDS

Deutsche Bank


YTD CDO Volumes By Deal Type
of Deals
14
12
10
8
6
4
2
0
12
8
3
7
5
3
2
3
3
12
8
3
1
5
1
3
US CLO
US COF
Euro CLO
Euro COF
US CMBS*
US Long/Short
Mezz ABS
High Grade ABS
IG Synthetic
Bank TRUPS
Other
YTD
Full Year Projection
*Part of CMBS Group
Deutsche Bank

Current and Forward Pipeline By Transaction Type

Deal Name	Deal Type	Expected Size	Tranches To Be Offered	Expected Pricing
		7000		
		2200		
		4800		
		200		

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Current and Forward Pipeline By Transaction Type (con't)

Deal Name	Deal Type	Expected Size	Tranches To Be Offered	Expected Pricing
		1100		
		300		
		5350		
		1300		
		2000		
		1600		

Deutsche Bank

Top 20 CDO Salespeople By Region

Global

Top 20 Salespeople

Rank	Sales	PCs
1	Jaggi, Harsh	[redacted]
2	Steenberg, Mads	
3	Palmer, Anthony	
4	Freeland, Trevor	
5	Frellich, Michael	
6	George, Michael	
7	Dhawan, Piya	
8	Gaudry, Alain	
9	Muschalik, Andre	
10	Newell, Casey	
11	Browne y, Paul	
12	Creswell, Robin	
13	Oyagi, Takashi	
14	Rogers, Brian	
15	Ruhle, Stephanie	
16	Karabelas, John	
17	Kim, Christine	
18	Stevens, Todd	
19	Shohet, Victor	
20	Oswell, Rupert	
		124,923,101

PC's by deal

Deal Type	Deal	Total PCs
Credit Oppo	McDonnell Loan Oppo	[redacted]
ABS CDO	55gA Carina CDO	
US CLO	McDonnell Gannet Peak	
EUR CLO	Avoca CLO V	
EUR CLO	Carlyle Group CELF II	
ABS CDO	Start 06-A	
US CLO	Guggenheim Sands Point	
CSO	BGI Cameron III	
US CLO	WR Huff 1776 CLO	
US CLO	Fraser Sullivan CLO	
Rel Val CDO	Rabobank Hamilton Gdns	

North America

Rank	Sales	PCs
1	Jaggi, Harsh	[redacted]
2	Palmer, Anthony	
3	Freeland, Trevor	
4	Steenberg, Mads	
5	George, Michael	
6	Newell, Casey	
7	Dhawan, Piya	
8	Browne y, Paul	
9	Oyagi, Takashi	
10	Rogers, Brian	
11	Ruhle, Stephanie	
12	Karabelas, John	
13	Creswell, Robin	
14	Gaudry, Alain	
15	Kim, Christine	
16	Frellich, Michael	
17	Allard, Rob	
18	Nathoo, Jamil	
19	Blake, Peter	
20	Zaarmond, Maarten	
		98,261,431

PC's by deal

Deal Type	Deal	Total PCs
Credit Oppo	McDonnell Loan Oppo	[redacted]
ABS CDO	55gA Carina CDO	
US CLO	McDonnell Gannet Peak	
ABS CDO	Start 06-A	
US CLO	Guggenheim Sands Point	
US CLO	WR Huff 1776 CLO	
US CLO	Fraser Sullivan CLO	
Rel Val CDO	Rabobank Hamilton Gdns	
ABS CDO	START 06-B	
Rel Val CDO	55gA Dragons 2	
US CLO	Aladdin Landmark VIII	

Europe

Rank	Sales	PCs
1	Frellich, Mike	[redacted]
2	Steenberg, Mads	
3	Muschalik, Andre	
4	Gaudry, Alain	
5	Jaggi, Harsh	
6	Oswell, Rupert	
7	Herbasch, Christopher	
8	Dias, Francisco	
9	Dhawan, Piya	
10	Schmitz, Max	
11	Stevens, Todd	
12	Shohet, Victor	
13	Thathadri, Ram	
14	Bauermeister, Dieter	
15	Abdulaal, Nabeel	
16	Okuyama, Kei	
17	Creswell, Robin	
18	Kim, Christine	
19	Cendoya-Delcroix, Ana	
20	Mecormick, Jonathan	
		43,119,753

PC's by deal

Deal Type	Deal	Total PCs
EUR CLO	Avoca CLO V	[redacted]
EUR CLO	Carlyle Group CELF III	
CSO	BGI Cameron III	
EUR CLO	Oaklill ECP	
EUR CLO	INVESCO Theseus	
Credit Oppo	Carlyle Group CECP	
Credit Oppo	ICG EuroCredit Tap	
CSO	AIG CPPI	
Synth CLO	Wincap Moorgate II	
CSO	BGI Cameron II	
ABS CDO	Prytania Danube	

Deutsche Bank

From: Krishnamurthy, Ananth [ananth@3ainvestors.com]
Sent: Thursday, February 08, 2007 4:05 PM
To: Paolo Pellegrini
Subject: RE: Nice meeting you ...

I am back from the underground.

Crazy volatility, huh?

I know we are incredibly slow given the quick movements in the market.

I have been "intensely" looking at manager selection on this.

I want to confirm something with respect to Paulson's capabilities based on my conversations with you. The attached email is probably helpful as a context point.

Paulson projects defaults and loan performance at a LOAN LEVEL, using your default model incorporating (a) HPA forecasts for the individual loan's geography based on metropolitan area forecasts (using your own sources); and (b) using loan characteristics (all the typical variables from Loan Performance).

Then you aggregate across all the loans to create pool cash flows.

Then you run this through the ABS cash-flow engine (ie: intex).

What makes this hard is that there is no off-the-shelf way to do this and you had to write the code and the plumbing/interfaces.

This allows you for example to compare forecasts for two pools without using a higher level of aggregation. And allows you to compare tranches off two different deals to examine sensitivity to for example specific variables at a loan level.

-----Original Message-----
From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Sunday, January 14, 2007 4:23 PM
To: ananth@3ainvestors.com
Subject: RE: Nice meeting you ...

Ananth-

The probability of writedown of BBB (not just BBB-) RMBS bonds is bond-specific, although some key inputs are common.

The most important common input is home price appreciation (HPA) nationally, regionally and at the "metropolitan area" level. HPA drives individual loan prepayments, defaults and losses. Another common input is interest rates. Interest rates may affect home price appreciation and consequently, though indirectly, prepayments, defaults and losses. If interest rates result in positive HPA, they may also affect prepayments directly (refinance incentive) and default and losses indirectly (prepaid loans don't default). If interest rates do not result in positive HPA, their direct effect on prepayments and indirect effect on defaults and losses is less important (it is very difficult for subprime borrowers to refinance if their property has not appreciated).

Bond-specific inputs fall into two categories: collateral characteristics; and deal structure.

The most relevant collateral characteristics at origination are FICO, combined loan-to-value ratio (including simultaneous second-lien loans), level of documentation and geographic location (back to HPA). For seasoned collateral, performance after origination, in terms of prepayments, delinquencies, defaults and losses, provides additional insight.

The most relevant deal characteristics are overcollateralization, excess spread, step-down triggers and interest rate exposure. We focus primarily on overcollateralization and the so-called delinquency trigger. Excess spread (including the effect of unhedged interest rate
exposure) is more important for residual holders than for debt holders, given the timing of realization of losses. Also because of the timing of realization of losses, the cumulative loss trigger (the other step-down
trigger) is usually inconsequential.

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We evaluate the prospects for home price appreciation with the help of our board of advisors. Not only do we believe that home prices are overvalued on most measures, but we also believe that the Federal Reserve will have to manage interest rates in order to restrain households' continuing equity extraction from their homes at the current unsustainable rate ($400 billion annualized as of the most recent quarterly reading). Even though subprime borrowers are suffering from excessive leverage and debt-service burden, mainstream borrowers still have enormous leverage capacity, predicated on arguably overvalued real estate holdings. Increasing leverage drives consumption and the trade deficit and leaves the dollar and U.S. long-term rates at the mercy of foreign investors' willingness to recycle export receipts into U.S.
financial assets, a very unstable arrangement.

It is true that the market is not pricing the subprime RMBS wipeout scenario. In my opinion this situation is due to the fact that rating agencies, CDO managers and underwriters have all the incentives to keep the game going, while "real-money" investors have neither the analytical tools nor the institutional framework to take action before the losses that one could anticipate based the "news" available everywhere are actually realized.

If you want to discuss specific analyses of bond expected losses, we could set up a conference call for the week of the 22nd. I will be in Wyoming but I can do early calls before I go skiing.

Please let me know.

Paolo

-----Original Message-----
From: Krishnamurthy, Ananth [mailto:ananth@3ainvestors.com]
Sent: Friday, January 12, 2007 3:17 PM
To: Paolo Pellegrini
Subject: Re: Nice meeting you ...

We can do that. The core focus is what the logical underpinning - very granularly - is for a wipeout of the BBB-. In some sense it doesn't take much. But how plausible is it. Clearly the market is not pricing this scenario. It is looking for serial downgrades and pricing to next event, ie: just spread widening. Why does this disconnect exist?
Jacob, for example, would say - "the news is everywhere, why isn't this priced in already?"

-----Original Message-----
From: "Paolo Pellegrini" <Paolo.Pellegrini@paulsonco.com>
Date: Fri, 12 Jan 2007 15:11:39
To:<ananth@3ainvestors.com>
Subject: RE: Nice meeting you ...

I am out that week and back in the office on the 31st. Please let me know if you want to meet after the 31st. Thanks.

-----Original Message-----
From: Krishnamurthy, Ananth [mailto:ananth@3ainvestors.com]
Sent: Friday, January 12, 2007 3:08 PM
To: Paolo Pellegrini
Subject: Re: Nice meeting you ...

Hi - thx for getting back to me. I am keen to hear your thoughts on this. However, I am travelling next week. Can I circle up with you week of 22nd?

-----Original Message-----
From: "Paolo Pellegrini" <Paolo.Pellegrini@paulsonco.com>
Date: Fri, 12 Jan 2007 13:15:21
To:<ananth@3ainvestors.com>
Subject: RE: Nice meeting you ...

Ananth-

Sorry for the delay responding to you. I am available next week. We have our advisory board meeting on Tue pm and I will be in a better position to address your home price question after that. If you have anything specific that you want me to ask

of our board please let me know.
Otherwise, please suggest times that work for you on Thu (excl. 10-11 am0 or Fri.

Regards.

----Original Message----
From: Krishnamurthy, Ananth [mailto:ananth@3ainvestors.com]
Sent: Tuesday, January 09, 2007 4:12 PM
To: Paolo Pellegrini
Subject: RE: Nice meeting you ...

Hi - have read all the stuff.
I know market has moved nicely in your favor.
Kudos!

Would still be interested in continuing conversation.

My core focus in talking with you will be on your homeprice deterioration thesis. Seems like the market is not pricing in a washout of BBB-s. Worst quartile of the index still has a 500bps average spread. If it were pricing in a wipeout, it would be trading 30c on the dollar.

Let me know when you have some time to speak.

Thanks

Ananth

----Original Message----
From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Wednesday, December 20, 2006 7:22 AM
To: ananth@3ainvestors.com
Subject: Nice meeting you ...

Ananth-

I wish I had learned of your background and relationship with Jacob earlier in our conversation -- I would have been a little more specific in my remarks.

Redacted by the
Permanent Subcommittee on Investigations

With respect to Andy's comments that Intex makes modeling errors, I would note that he cites his experience working on busted manufactured housing deals five years back as the basis for his assessment. I think that Intex has come a long way in terms of quality control. Besides, as John was saying, in this market we can make good trading decisions with our existing analytics. However, we will hire more people with relevant experience including somebody who could focus on reverse engineering the Intex models as such effort becomes more relevant.

We have a very good relationship with Intex and have urged them to allow hosting of their data by 1010data and made some progress. Aside from being a cash flow engine, Intex is really a database partly overlapping with LoanPerformance, partly additive to LP with respect to loan prepayment terms including penalties. In the context of analyzing seasoned deals, of which we do not do much now but will in the future, cross-checking monthly data between LP and Intex will be valuable.

As for our research infrastructure, I am very happy with the choices we have made. I mentioned that we get loan data from LoanPerformance, historical and projected home price data from FISERV/Economy.com and deal data from Intex. Two decisions, however, put us ahead of the pack.
The first such decision was to host LP and FISERV on 1010data. The second was to forgo integration of the LoanPerformance RiskModel into our analytical platform and to develop instead our proprietary, and extremely parsimonious, prepayment, default and severity model. The use of 1010data enabled the second decision because it made possible to analyze historical data easily, quickly and with minimal initial setup time. Had we gone with LP RiskModel we would be stuck with a white elephant in the middle of a very deep river. Even with Andrew Davidson's more compact model, it will be a stretch to find a processing platform that can deliver meningful results in a reasonable timeframe (I guess

10+ parallel processors on PolyPaths).

I am sure John explained our various strategies, including reverse inquiry sponsorship of bespoke CDOs, both fully-capitalized and synthetically tranched. You might be interested in learning more.

Please say hello to Jacob and call me if you want to talk further.

Best regards.

Paolo M. Pellegrini
Vice President
Paulson & Co. Inc.
590 Madison Avenue, 29th Floor
New York, NY 10022
Phone: (212) 956-4129 (direct)
(212) 956-2221 (main)
(212) 977-9505 (fax)

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Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS

06/14/2007 09:22 AM

ToGreg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
ccmichael.herzig@db.com
bcc
SubjectKleros 8

This along with our remaining held inventory if we can't sell away we repack into a CDO^2 balance sheet dump later this summer
Worst case we hold it but it is probably the lesser of two evils (the greater evil being our held START position)
Same thing on the Libertas bond

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

06/14/2007 09:20 AM

To Richard R Kim/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc michael.herzig@db.com
Subject Re: Kleros 8(Document link: Richard R Kim)

ok and then what to you do with theirs?

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1337

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/04/2006 12:58 PM

ToKent
Baum/SanFrancisco/DBNA/DeuBa@DBAmericas
cc
bcc
SubjectRe: Losers

the abs are all in cdos...who owns the cdos, aaa (sliced of bbb abs) insurance company and german and asian banks....aa, european and asian banks and high grade cdos (can you say ponzi scheme) bbb more of the same and mezz cdos (every mezz cdo has 5-15% other mezz cdos) equity hedge funds and insurance companies in asia

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Kent
Baum/SanFrancisco/DBNA/DeuBa

12/04/2006 12:41
PM

To

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1339

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Re: Losers(Document link: Greg
Lippmann)

Greg: So who in the public market owns all of these ABS securities that beginning to lose value?
Kent

Kent T. Baum
Client Advisor
Managing Director
Deutsche Bank Alex. Brown
A division of Deutsche Bank Securities Inc.
101 California Street, Ste. 4600
San Francisco, CA 94111
kent.baum@db.com
Tel: 415-617-2806
Fax: 415-617-4270
Toll Free: 1-800-334-2640, Ext. 2806



GREGLIP@bloomberg.net ToWITTFAB.LNDB@bloomberg.net
cc
02/27/2007 06:56 AM bcc
SubjectRe: Fwd: WSJ C1: Subprime Game's Reckoning DayRisky Lendding

=====Begin Message=====
Message#: 104008
Message Sent: 02/27/2007 06:56:53
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: WITTFAB.LNDB@bloomberg.net|FABRIZIO WITTENBURG|DEUTSCHE BANK AG, LO|1726|644694
Subject: Re: Fwd: WSJ C1: Subprime Game's Reckoning DayRisky Lendding

the other side is all cdos..so it is the cdo investors who r on the other side who buys cdos: aaa - reinsurance, ws conduits, european and asian banks, aa - high grade cdos, europoean and asian banks and insurers..some us insurers, bbb - ohter mezz abs cdos (i.e. ponzi scheme), european banks and insurers, equity some us hedge funds, asian insurance companies, australian and japanese retail investors through mutual funds
----- Original Message -----
From: FABRIZIO WITTENBURG, DEUTSCHE BANK AG, LO
At: 2/27 6:41:43

greg, have been sharing your update yday with the european and asian desks here....they're v interested....my question is, who is on the other side of the trade -- you mentioned reinsurance companies (bermuda, european?) and hedge funds (fixed income, macro?)....is much of the risk at banks (commerical/investment bank?)....great work! fabrizio

----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 2/27 11:37:45

----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 2/27 6:37:36

http://online.wsj.com/article_print/SB117254449192920225.html

"Subprime Game's Reckoning Day
Risky Lending Fallout
Threatens to Spread;
Uncertain ARM Strength
By KAREN RICHARDSON and GREGORY ZUCKERMAN
February 27, 2007; Page C1

The worst may be yet to come for mortgage lenders. And that could add to investor nervousness.

Shares of companies that specialize in lending to riskier borrowers or offer unconventional loans have tumbled because of concerns over how rapidly these mortgages are going sour.

If these so-called subprime borrowers continue to have problems paying their debts, the lenders that target them likely will have to boost how much money they set aside for bad loans, cutting into their bottom lines. That could mean

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even lower stock prices.

There also is a concern that if the real-estate market remains cool, some borrowers with better credit histories might also begin struggling to make payments on certain popular, but unorthodox, mortgages. These types of loans allow borrowers to skip monthly payments, carry low short-term teaser rates or don't require detailed financial documentation. If that happens, companies such as BankUnited Financial Corp. and Countrywide Financial Corp. could suffer.

When a company keeps its reserve low, it makes its earnings look better because it continues to increase its assets from loans it originates and sells off. That holds down expenses.

But when a company beefs up those reserves and the change hits its earnings, that can impair its ability to borrow the short-term funds needed to write new mortgages. Lenders need to set aside reserves to cover any possible losses when borrowers fail to make payments.

Subprime-mortgage lenders generally sell most of their loans to investors, but many keep some loans as investments. These portfolios have grown as the number of new mortgages has risen.

New Century Financial Corp. and NovaStar Financial Inc. hold billions of dollars of loans for investment. While they have been increasing their loan-loss provisions, delinquencies have been coming faster than anticipated.

NovaStar's reserves were 1.05% of its $2.1 billion in loans held for investment in the fourth quarter, up from 0.75% in the third quarter, but still ranked among the lowest in the industry, according to Zach Gast, an analyst at the Center for Financial Research and Analysis. New Century's ratio was 1.4% as of the third quarter. CFRA doesn't assign ratings on stocks.

Scott Hartman, chief executive of NovaStar, says the lender made a "substantial increase to our loan-loss reserve" in the past quarter, and that about half of those loans "tend to be of higher quality and generally performing very well."

New Century, which has said it will restate earnings for the first three quarters of 2006 to correct accounting errors regarding repurchased loans, declined to comment.

Subprime-mortgage lenders are likely to start reporting significant shortfalls in their loss reserves "as soon as the next several quarters," predicts David Honold, an analyst at Turner Investment Partners, which manages $23 billion and has avoided shares of subprime lenders. That is partly because some of the lenders could place into their investment-loan portfolio some poorly performing mortgages that they have bought back under terms of their sale agreement. That would require them to boost loan-loss reserves.

Subprime lenders already have seen their shares tumble -- NovaStar is off 50% and New Century is down 12% in the past 10 days -- and they could fall further if their credit-lines dry up because of poor loan-loss provisioning. NovaStar shares are trading at about 12 times estimated per-share earnings, but that valuation is likely to change as analysts adjust their projections to account for the company's steep fourth-quarter loss and poor earnings outlook. New Century shares also are trading at about 12 times estimated earnings for 2007.

Some investors urge caution about lenders that cater to borrowers with better credit but focus on mortgages that may suffer if weakness in housing continues, such as option adjustable-rate mortgages, or ARMs. These loans give borrowers multiple payment options, including a minimum payment that might not cover all of the monthly interest cost. The remainder of the interest payment is tacked onto the outstanding balance, causing it to rise.

About 59% of BankUnited's approximately $11.5 billion loan portfolio is made up of these loans and the bank is making more of them as it expands.

Countrywide has been cutting back on pay-option mortgages, funding just $2.7 billion in January out of a total $37 billion in new mortgages. Still, it has "significant exposure" to these risky loans, CFRA's Mr. Gast says. Countrywide declined to comment.

BankUnited acknowledges that borrowers are paying less of their monthly interest payments as interest rates have moved higher, and about 50% of the bank's loans have been made to residents of Florida, a weak real-estate market. And since BankUnited keeps about 70% of these loans in its own portfolio, if the borrowers run into problems it could hurt the company's earnings.

BankUnited shares, which fell 83 cents, or 3.2%, to $25.06 in 4 p.m. composite trading yesterday on the Nasdaq Stock Market, are trading at almost nine times its expected per-share earnings over the next year.

Under accounting rules, BankUnited counts the unpaid interest payments as revenue, however. So if a borrower pays the contractual minimum of $500 a month, rather than the $1,000 interest-only amount, the bank can count the remaining $500 as revenue. That is because it is assumed it will be repaid down the road. This revenue is a rising slice of its earnings, according to an analysis by Keefe, Bruyette & Woods.

Humberto Lopez, BankUnited's chief financial officer, says the bank focuses on borrowers with high credit scores who generally put down at least 20% of the purchase price on a home. "Our borrowers have the financial wherewithal, and they've earned the right to have options of payments," Mr. Lopez says. "We haven't seen any weakness in their ability to pay."
"

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=====End Message=====



"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>

To Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: Fwd: how is the cdo machine doing these days? can u sti

Sent by:
greglip@bloomberg.net

02/20/2007 01:33 PM

thanks for the update...going to get a lot bumpier very soon....lets get the finkel deal out the door...
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/20 13:30:22

Good color I am out w a fever back tomorrow

After reflection I think the biggest issue for dealers are the cdo2. For the giant magnetar rmbs cdo deals the situation isn't great, but the aa/aaa/ss probably clear at a level, and the dealer can play games w the SS -- sell junior piece, keep 60-top, mark not observable, dealer takes down bbb and a, sticks equity to hedge fund like magnetar at equity floor, maybe loses 5-15 after fees. The bbb/a cdo2 backed by mid/late 2006 vintage are the lose your job problem I think, not sure how any deals will clear. And for hi grade abs cdos. ML did 26bln of hi grade last year, 25-35% cdo mostly aa some a. Say conservatively they have 10bln in ramp up so 3 bln of a/aa cdo, if the mkt starts to price their hi grade like cdo2 in addition to their cdo2 ramping of bbb/a (1bln?2bln? ramped) they will have an even worse problem. Same problem at citi--I think they are relatively ok on mezz abs risk but not on cdo2.

Calyon pulled out of ralph choffee mezz deal, won't do SS, we were next in line, ralph now coming to us. Calyon are rumored to have 12bln of risk on their lines At the same time cifg and mbia still writing tickets (mbia did a magnetar type deal last week, structural change to) get them in was oc test in principal waterfall not interest waterfall.
Sent from my Blackberry Wireless

Mr. Michael Lamont
Managing Director
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor
New York, NY, USA
Telephone: +1(212)250-8708
Mobile: +1 917-[redacted]
E-Mail: michael.lamont@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: "GREG LIPPMANN, DEUTSCHE BANK SECURI" [greglip@bloomberg.net]
Sent: 02/20/2007 01:04 PM
To: undisclosed-recipients:;
Subject: Fwd: how is the cdo machine doing these days? can u still plac

---
Sent From Bloomberg Mobile MSG

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1341

---- Original Message ----
From: DAVID HOMAN, MOORE CAPITAL MANAGE
At: 2/20/2007 11:20

how is the cdo machine doing these days? can u still place cdo paper? are they still ramping in this environment?
Reply:
GETTING SLOWER BUT NOT DEAD YET...2-5 RAMPING A DAY INSTEAD OF 10-15...HEARING OF MANY INVESTORS IN ASIA ESPECALLY SHUTTING DOW N POST HSBC NEWS BUT THE WINDOW IS NOT COMPLETELY SHUT YET (THEY MAY BE DEALS THAT WERE LARGELY RAMPED THAT R JUST FINISHING..)
Reply:
i hear rumors that ML, BS, GS, C have asked CDOs less than 50% ramped to basically stop ramping. Have you heard anything along these lines? What are the implications for mkt if this is true?

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Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/21/2007 09:08 PM

To Michael Lamont/NewYork/DBNA/DeuBa, michael.herzig@db.com, anthony.pawlowski@db.com, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT
cc
bcc
Subject Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

double digit PCs for BBBs?
i guess my original offer of 300 on single-As and 600 on triple-Bs is too low... what can we offer?

i would like these guys to push Asia sales on this..., but also as Ilinca said, the question arises why weren't they working on this thus far? the feedback they gave Ilinca is that all warehouses are shut down...

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 09:00 PM -----

Sheree Ma/db/dbcom@DBAPAC

02/21/2007 08:59 PM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1342

Confidential Treatment Requested by Deutsche Bank

cc

Anirban Lahiri/SP/DBAsia/DeuBa@DBAPAC, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA, Ryan Lee/db/dbcom@DBAPAC

Subject

Re: Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **(Document link: Abhayad Kamat)

Hi,

Any special PC arrangements for these bonds pls?? Coz we are also pushing sales on Wharton BBB which is at similar pricing (flex available) and paying double digits PC....

Thanks
Sheree

Sheree Ma
Deutsche Bank AG

Hong Kong: +852 2203 8521
Mobile: +[redacted]
Email: sheree.ma@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/21/2007 04:17
PM

To

Anirban Lahiri/SP/DBAsia/DeuBa@DBAPAC, Sheree
Ma/db/dbcom@DBAPAC

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

here's the mktg book. thanks.

[attachment "Gemstone VII Debt Book 02.08.07 FINAL.pdf" deleted by Sheree Ma/db/dbcom]

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 11:15 AM -----

Abhayad
Kamat/NewYork/DBNA/DeuBa

02/21/2007 11:13
AM

To

Anirban Lahiri/SP/DBAsia/DeuBa, Sheree
Ma

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

Guys,
we need help on selling the As and BBBs in the Gemstone CDO 7 transaction -- we have nearly 50% unsold on both tranches in the transaction. We have widened talk to 265 on the As and to 500 on the BBBs - see Ilinca's email below.

- i am also fwding you the latest HBK mktg book.
- any help from you on the As, BBBs and senior AAAs would be appreciated.
- on the senior AAAs, we are flexible to work with accounts at different subordination points and spread targets.

Here is a quick summary of the transaction and manager:
- this is HBK's eight CDO
- 2 year short revolving period -- can revolve in investment grade assets only
- 27% below IG bucket (BBs) but amortizations on this bucket are used to pay down notes -- no reinvestment in below IG bucket
- HBK retains entire BB and Equity, similar to what they have done in all their prior deals. HBK views their CDOs as financing trades, where they retain the equity and use the CDO to get levered returns.
- the 27% BB bucket is standard in their deals -- these are very similar to the C-BASS deals in the market...
- HBK's loan level analysis of RMBS pools is highly regarded in the market. HBK helps structure ~55% of the underlying RMBS in this transaction and retains the residual piece on those also.

- this CDO has pure sequential structure with OC and IC tests -- as opposed to most deals in the market which have pro-rata structure
- the BBB tranche has a turbo mechanic that helps it to pay down faster.

Are there any accounts that might be interested in this, given the good manager name, good alignment of interest with investors, sequential paydown structure, OC/IC tests, BBB turbo and wider price talk? any help appreciated.

thanks,
Abhayad

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

= Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 10:39 AM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI"
<ibogza@bloomberg.net>

Sent by:
ibogza@bloomberg.net

To

undisclosed-
recipients:;

02/20/2007 03:17
PM

cc

Subject

** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

IMPORTANT NOTICE

Attached please find an electronic copy of the Offering Circular (the **"Offering Circular"**), dated March 15, 2007 relating to the offering of certain notes (the **"Notes"**) of GEMSTONE CDO VII LTD. (the **"Issuer"**) and GEMSTONE CDO VII CORP. (the **"Co-Issuer"** and together with the Issuer, the **"Issuers"**).

The Offering Circular is highly confidential and does not constitute an offer to any person, other than the recipient, or to the public generally to subscribe for or otherwise acquire any of the securities described therein.

Distribution of this electronic transmission of the Offering Circular to any person other than (a) the person receiving this electronic transmission from Deutsche Bank Securities Inc. as Initial Purchaser on behalf of the Issuers, and (b) any person retained to advise the person receiving this electronic transmission with respect to the offering contemplated by the Offering Circular (each, an **"Authorized Recipient"**) is unauthorized. Any photocopying, disclosure or alteration of the contents of the Offering Circular, and any forwarding of a copy of the Offering Circular or any portion thereof by electronic mail or any other means to any person other than an Authorized Recipient, is prohibited. By accepting delivery of this Offering Circular, each recipient hereof agrees to the foregoing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1343

Gemstone CDO VII Ltd.
Gemstone CDO VII Corp.
U.S.$244,000,000 Class A-1a Floating Rate Notes Due December 2045
U.S.$400,000,000 Class A-1b Floating Rate Notes Due December 2045
U.S.$159,000,000 Class A-2 Floating Rate Notes Due December 2045
U.S.$96,900,000 Class B Floating Rate Notes Due December 2045
U.S.$68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045
U.S.$55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045
U.S.$18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045
U.S.$59,500,000 Preference Shares
Secured by a Portfolio of Asset-Backed Securities

Gemstone CDO VII Ltd., an exempted company with limited liability incorporated under the laws of the Cayman Islands (the **"Issuer"**), and Gemstone CDO VII Corp., a Delaware corporation (the **"Co-Issuer"** and, together with the Issuer, the **"Issuers"**), will issue U.S.$244,000,000 Class A-1a Floating Rate Notes Due December 2045 (the **"Class A-1a Notes"**), U.S.$400,000,000 Class A-1b Floating Rate Notes Due December 2045 (the **"Class A-1b Notes"** and, together with the Class A-1a Notes, the **"Class A-1 Notes"**), U.S.$159,000,000 Class A-2 Floating Rate Notes Due December 2045 (the **"Class A-2 Notes"**) and, together with the Class A-1 Notes, the **"Class A Notes"**), U.S.$96,900,000 Class B Floating Rate Notes Due December 2045 (the **"Class B Notes"**), U.S.$68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class C Notes"**), U.S.$55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class D Notes"**) and U.S.$18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class E Notes"** and, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the **"Notes"**). The Notes will be issued and secured pursuant to an Indenture dated as of March 15, 2007 (the **"Indenture"**), among the Issuer, the Co-Issuer and Deutsche Bank Trust Company Americas, as trustee (the **"Trustee"**). The Collateral securing the Notes will be managed by HBK Investments L.P. (together with its affiliated subadvisors, the **"Collateral Manager"**). (*continued on next page*)

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. (**"Moody's"**) and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (**"Standard & Poor's"** and, together with Moody's, the **"Rating Agencies"**), that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The Preference Shares will not be rated.

This document constitutes a prospectus under the Prospectus Directive. The **"Prospectus Directive"** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading.

Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. There can be no assurance that such admission will be granted. No application will be made to list the Notes on any other stock exchange.

Investing in the Notes involves risks. See "Risk Factors" starting on page 26.

THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES AND THE PREFERENCE SHARES. THE NOTES AND THE PREFERENCE SHARES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, THE COLLATERAL MANAGER, DEUTSCHE BANK SECURITIES INC. (**"DBSI"** OR THE **"INITIAL PURCHASER"**), ANY OF ITS AFFILIATES OR ANY OTHER PERSON OR ENTITY.

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), UNDER APPLICABLE STATE SECURITIES LAWS OR UNDER THE LAWS OF ANY OTHER JURISDICTION. NEITHER THE ISSUER NOR THE CO-ISSUER IS OR WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**), IN RELIANCE UPON THE EXCLUSION PROVIDED BY SECTION 3(c)(7) THEREOF. THE NOTES AND PREFERENCE SHARES ARE BEING OFFERED (A) IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (i) PROVIDED BY SECTION 4(2) THEREOF TO A LIMITED NUMBER OF INSTITUTIONAL ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) or (7) UNDER THE SECURITIES ACT, OR (ii) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**) TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A), AND (B) OUTSIDE THE UNITED STATES TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**) AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE LAWS. THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS EXCEPT TO QUALIFIED PURCHASERS (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT AND THE RULES THEREUNDER). EACH PURCHASER OF NOTES OR PREFERENCE SHARES WILL BE DEEMED TO HAVE MADE OR WILL BE REQUIRED TO MAKE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS AS SET FORTH UNDER "TRANSFER RESTRICTIONS." A TRANSFER OF NOTES OR PREFERENCE SHARES (OR ANY INTEREST THEREIN) IS SUBJECT TO CERTAIN RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. SEE "TRANSFER RESTRICTIONS."

The Notes are offered by the Initial Purchaser at varying prices determined in each case at the time of sale, subject to prior sale, when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Notes will be delivered on or about March 15, 2007 (the **"Closing Date"**) through the facilities of The Depository Trust Company (**"DTC"**), Euroclear Bank S.A./N.V., and Clearstream Banking, *société anonyme*, against payment therefor in immediately available funds. The Preference Shares will be initially placed by the Issuer to a single investor. It is a condition to the issuance of each of the Notes and the Preference Shares that all of the Notes and the Preference Shares be issued concurrently.

DEUTSCHE BANK SECURITIES INC.

The date of this Offering Circular is March 15, 2007

(cover continued)

Concurrently with the issuance of the Notes, the Issuer will issue 59,500 Preference Shares pursuant to the Memorandum and Articles of Association of the Issuer (the **"Issuer Charter"**) and in accordance with a Preference Share Paying Agency Agreement dated as of March 15, 2007 (the **"Preference Share Paying Agency Agreement"**), among the Issuer, Deutsche Bank Trust Company Americas, acting through an affiliate or agent outside the United States as preference share paying agent and preference share transfer agent (in such capacities, the **"Preference Share Paying Agent"** and the **"Preference Share Transfer Agent"**) and Deutsche Bank (Cayman) Limited as the share registrar (in such capacity, the **"Share Registrar"**).

Interest on the Notes will be payable in U.S. dollars in arrears on each Payment Date. Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. Distributions on the Preference Shares will be paid to the extent funds are available in accordance with the Priority of Payments. See "Description of the Notes—Interest," "—Principal" and "—Priority of Payments." The principal of the Notes is payable on each Distribution Date and is required to be paid by their applicable Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal."

The Notes are subject to redemption under the circumstances described under "Description of the Notes—Mandatory Redemption," "—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."

The Notes and Preference Shares offered by the Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will be represented by one or more global notes (**"Restricted Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). The Notes offered by the Issuers outside the United States will be offered in reliance upon Regulation S under the Securities Act and initially will be represented by one or more temporary global notes (**"Temporary Regulation S Global Notes"**), that will be exchangeable for one or more permanent global notes (**"Permanent Regulation S Global Notes"** and, together with the Temporary Regulation S Global Notes, the **"Regulation S Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee), initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear system (**"Euroclear"**), and/or Clearstream Banking, *société anonyme* (**"Clearstream"**). Until and including the 40th day after the later of the commencement of the offering and the Closing Date (one year later with respect to the Preference Shares) (the **"Distribution Compliance Period"**), beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. Except in the limited circumstances described herein, certificated notes will not be issued in exchange for beneficial interests in a global note. See "Description of the Notes—Form, Denomination, Registration and Transfer." Preference Shares offered in the United States (**"Rule 144A Preference Shares"**) will be issued in definitive, fully registered form registered in the name of the beneficial owner thereof.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLANDS SECURITIES LAWS. FOR PURPOSES OF THIS PARAGRAPH, THE TERMS "TAX", "TAX TREATMENT", "TAX STRUCTURE", AND "TAX BENEFIT" ARE DEFINED UNDER TREASURY REGULATION § 1.6011-4(c).

In this Offering Circular, references to **"U.S. Dollars"**," **USD**," **"Dollars"** and **"U.S.$"** are to United States dollars.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PURCHASERS

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT, RULE 144A OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "DESCRIPTION OF THE NOTES—FORM, DENOMINATION, REGISTRATION AND TRANSFER" AND "TRANSFER RESTRICTIONS" A TRANSFER OF SECURITIES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF A SECURITIES (1) EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE (OR THE PREFERENCE SHARE PAYING AGENCY AGREEMENT WITH RESPECT TO THE PREFERENCE SHARES) AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. THE SECURITIES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS."

NEITHER THE ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT BY REASON OF THE EXEMPTION FROM REGISTRATION CONTAINED IN SECTION 3(c)(7) THEREOF. EACH ORIGINAL PURCHASER OF AN INTEREST IN THE SECURITIES AND EACH SUBSEQUENT TRANSFEREE OF AN INTEREST THEREIN THAT IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) WILL BE DEEMED TO HAVE (OR WITH RESPECT TO THE PREFERENCE SHARES, ACTUALLY HAVE) REPRESENTED AND AGREED THAT IT IS A QUALIFIED PURCHASER AND ALSO WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS SET FORTH IN "TRANSFER RESTRICTIONS" HEREIN. NO TRANSFER OF SECURITIES THAT WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE

ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT WILL BE PERMITTED. THE PURCHASER OF ANY SECURITY AGREES THAT SUCH SECURITY IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (B) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S, IN EACH SUCH CASE IN COMPLIANCE WITH THE INDENTURE AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. ANY TRANSFER OF A RESTRICTED DEFINITIVE NOTE OR A REGULATION S DEFINITIVE NOTE MAY BE EFFECTED ONLY ON THE NOTE REGISTER MAINTAINED BY THE NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF A PREFERENCE SHARE MAY BE EFFECTED ONLY ON THE PREFERENCE SHARE REGISTER MAINTAINED BY THE PREFERENCE SHARE REGISTRAR PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. ANY TRANSFER OF AN INTEREST IN A RESTRICTED GLOBAL NOTE OR A REGULATION S GLOBAL NOTE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM). ANY TRANSFER OF AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM).

EACH ORIGINAL PURCHASER AND TRANSFEREE OF A NOTE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**"ERISA"**) THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **"CODE"**) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE; OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH ORIGINAL PURCHASER AND TRANSFEREE OF A PREFERENCE SHARE WILL REPRESENT AND WARRANT THAT IT IS NOT (I) AN ERISA PLAN; (II) A BENEFIT PLAN INVESTOR; (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN OR; OR (IV) UNLESS NONE OF ITS ASSETS COULD BE DEEMED TO INCLUDE "PLAN ASSETS" SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ANY OTHER BENEFIT PLAN INVESTOR.

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR

OTHER REGULATORY AUTHORITY, AND NONE OF THE FOREGOING AUTHORITIES HAS CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Offering Circular has been prepared by the Issuers solely for use in connection with the offering described herein of the Notes and the Preference Shares (the "**Offering**") and for listing purposes. The Issuers accept responsibility for the information contained in this document (except as provided below). To the best knowledge and belief of the Issuers, the information contained in this document (except in respect of the information appearing in the Section (i) "The Collateral Manager" as to which the Collateral Manager accepts sole responsibility, (ii) "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" as to which the Initial Investment Agreement Provider accepts sole responsibility, (iii) "Deutsche Bank Aktiengesellschaft" as to which the First Synthetic Security Counterparty accepts sole responsibility and (iv) "Plan of Distribution" as to which the Initial Purchaser accept sole responsibility), is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuers accept responsibility accordingly. The Issuers disclaim any obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of their affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein other than the information appearing in the section "Deutsche Bank Aktiengesellschaft", for which it accepts sole responsibility. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "The Collateral Manager", for which it accepts sole responsibility. Neither the Initial Investment Agreement Provider nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider", for which it accepts sole responsibility. To the best knowledge and belief of the First Synthetic Security Counterparty, the information contained in the section "Deutsche Bank Aktiengesellschaft" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Collateral Manager, the information contained in the section "The Collateral Manager" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Initial Investment Agreement Provider, the information contained in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" is in accordance with the facts and does not omit anything likely to affect the import of such information. Nothing contained in this Offering Circular is or should be relied upon as a promise or representation as to future results or events. The Trustee has not participated in the preparation of this Offering Circular and assumes no responsibility for its contents.

All of the statements in this Offering Circular with respect to the business of the Issuers, and any financial projections or other forecasts, are based on information furnished by the Issuers. See "Forward Looking Statements." None of the Initial Purchaser, the Collateral Manager and their respective affiliates assumes any responsibility for the performance of any obligations of either of the Issuers or any other persons described in this Offering Circular (except that the Collateral Manager is responsible for the performance of its obligations under the Management Agreement) or for the due execution, validity or enforceability of the Notes, instruments or documents delivered in connection with the Notes or for the value or validity of any collateral or security interests pledged in connection therewith.

This Offering Circular contains summaries of certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which will be made available to offerees upon request. Requests and inquiries regarding this Offering Circular or such documents should be directed to DBSI Inc., 60 Wall Street, New York, New York 10005, Attention: Global Markets/CDO Group. Copies of such documents may also be obtained free of charge from the Irish Paying Agent.

The Issuers will make available to any offeree of the Notes, prior to the issuance thereof, the opportunity to ask questions of and to receive answers from the Issuers or a person acting on their behalf concerning the terms and conditions of the Offering, the Issuers or any other relevant matters and to obtain any additional information to the extent the Issuers possess such information or can obtain it without unreasonable expense. The information referred to in this paragraph will also be obtainable at the office of the Irish Paying Agent.

Each Original Purchaser of a Note or Preference Share (or interest therein) offered and sold in the United States will be required (or in certain circumstances deemed) to represent to the Initial Purchaser offering any Note to it that such Original Purchaser (a)(i) is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) (an **"Institutional Accredited Investor"**), or (ii) is a qualified institutional buyer as defined in Rule 144A (**"Qualified Institutional Buyer"**) and (b) is acquiring the Notes or Preference Shares for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). Each Original Purchaser of the Notes and Preference Shares will also be required to acknowledge or be deemed to acknowledge that the Notes and Preference Shares have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (a) (i) to a person whom the seller reasonably believes is both a Qualified Purchaser (as defined below) and a Qualified Institutional Buyer purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from registration provided by Rule 144A under the Securities Act or (ii) to a non U.S. Person in an offshore transaction in accordance with Rule 904 of Regulation S, (b) in compliance with the certification (if any) and other requirements specified in the Indenture (or Preference Share Paying Agency Agreement, as applicable) and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Each Original Purchaser of a Note that is a U.S. resident (within the meaning of the Investment Company Act) will be required to represent or be deemed to represent that it or the account for which it is purchasing such Notes is a Qualified Purchaser. A **"Qualified Purchaser"** is (i) a "qualified purchaser" within the meaning of the Investment Company Act and the rules thereunder, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act, or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer.

The Initial Purchaser currently does not intend to make a market in any Class of Notes or the Preference Shares, and the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any Class of Notes or the Preference Shares will develop, or if a secondary market does develop, that it will provide the holders of such Class of Notes or Preference Shares with liquidity of investment or that it will continue for the life of such Class of Notes or Preference Shares.

THIS OFFERING CIRCULAR IS FOR INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO BE RELIED UPON ALONE AS THE BASIS FOR AN INVESTMENT DECISION. IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION

OF THE ISSUERS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED AND MUST NOT RELY UPON INFORMATION PROVIDED BY OR STATEMENTS MADE BY THE INITIAL PURCHASER, THE COLLATERAL MANAGER OR ANY OF THEIR AFFILIATES. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE NOTES FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE ISSUERS, THE COLLATERAL MANAGER, THE INTEREST RATE SWAP COUNTERPARTY (IF ANY), THE SYNTHETIC SECURITY COUNTERPARTY, THE OFFSETTING TRANSACTION COUNTERPARTY, THE INITIAL INVESTMENT AGREEMENT PROVIDER, THE INITIAL PURCHASER AND ITS AFFILIATES MAKES ANY REPRESENTATION TO ANY OFFEREE OR PURCHASER OF NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS OR THE PROPER CLASSIFICATION OF SUCH AN INVESTMENT THEREUNDER. THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR ITS AFFILIATES. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, (A) ANY SECURITIES OTHER THAN THE NOTES OR PREFERENCE SHARES OR (B) ANY NOTE OR PREFERENCE SHARE IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFERING OF THE NOTES AND/OR PREFERENCE SHARES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY THE ISSUERS AND THE INITIAL PURCHASER TO INFORM THEMSELVES ABOUT, AND TO OBSERVE, ANY SUCH RESTRICTIONS. IN PARTICULAR, THERE ARE RESTRICTIONS ON THE DISTRIBUTION OF THIS OFFERING CIRCULAR, AND THE OFFER AND SALE OF NOTES AND PREFERENCE SHARES, IN THE UNITED STATES OF AMERICA, THE UNITED KINGDOM AND THE CAYMAN ISLANDS. SEE "PLAN OF DISTRIBUTION." NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUERS OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE AS OF WHICH SUCH INFORMATION IS GIVEN HEREIN. THE ISSUERS AND THE INITIAL PURCHASER RESERVES THE RIGHT, FOR ANY REASON, TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, TO ALLOT TO ANY OFFEREE LESS THAN THE FULL AMOUNT OF NOTES SOUGHT BY SUCH OFFEREE OR TO SELL LESS THAN THE AGGREGATE STATED PRINCIPAL AMOUNT OF ANY CLASS OF NOTES.

THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFER OR SALE OF NOTES AND PREFERENCE SHARES MAY BE RESTRICTED BY LAW IN CERTAIN JURISDICTIONS. NONE OF THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER REPRESENTS THAT THIS DOCUMENT MAY BE LAWFULLY DISTRIBUTED, OR THAT ANY NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE

THEREUNDER, OR ASSUME ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, NO ACTION HAS BEEN TAKEN BY THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER WHICH WOULD PERMIT A PUBLIC OFFERING OF ANY NOTES OR DISTRIBUTION OF THIS DOCUMENT IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, NO NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS OFFERING CIRCULAR NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR OR ANY NOTES COME MUST INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH RESTRICTIONS.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE INITIAL PURCHASER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLANDS SECURITIES LAWS.

THIS DOCUMENT IS CONSIDERED AN ADVERTISEMENT FOR PURPOSES OF APPLICABLE MEASURES IMPLEMENTING E.U. DIRECTIVE 2003/71/EC. A PROSPECTUS PREPARED PURSUANT TO THE PROSPECTUS DIRECTIVE WILL BE PUBLISHED, WHICH CAN BE OBTAINED FROM THE ISSUER AND THE IRISH PAYING AGENT. SEE "LISTING AND GENERAL INFORMATION".

NOTICE TO FLORIDA RESIDENTS

THE NOTES AND PREFERENCE SHARES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT (THE **"FLORIDA ACT"**) AND HAVE NOT BEEN REGISTERED UNDER THE FLORIDA ACT IN THE STATE OF FLORIDA. FLORIDA RESIDENTS WHO ARE NOT INSTITUTIONAL INVESTORS DESCRIBED IN SECTION 517.061(7) OF THE FLORIDA ACT HAVE THE RIGHT TO VOID THEIR PURCHASES OF THE NOTES AND PREFERENCE SHARES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

NOTICE TO CONNECTICUT RESIDENTS

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN REGISTERED UNDER THE CONNECTICUT SECURITIES LAW. THE NOTES AND PREFERENCE SHARES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND SALE.

NOTICE TO GEORGIA RESIDENTS

THE NOTES AND PREFERENCE SHARES HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH (13) OF CODE SECTION 10-5-9 OF THE GEORGIA SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

NOTICE TO RESIDENTS OF AUSTRALIA

NO PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT IN RELATION TO THE NOTES AND PREFERENCE SHARES HAS BEEN LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR THE AUSTRALIAN STOCK EXCHANGE LIMITED. ACCORDINGLY, A PERSON MAY NOT (A) MAKE, OFFER OR INVITE APPLICATIONS FOR THE ISSUE, SALE OR PURCHASE OF THE NOTES AND PREFERENCE SHARES WITHIN, TO OR FROM AUSTRALIA (INCLUDING AN OFFER OR INVITATION WHICH IS RECEIVED BY A PERSON IN AUSTRALIA) OR (B) DISTRIBUTE OR PUBLISH THIS OFFERING CIRCULAR OR ANY OTHER PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT RELATING TO THE SECURITIES IN AUSTRALIA, UNLESS (I) THE MINIMUM AGGREGATE CONSIDERATION PAYABLE BY EACH OFFEREE IS THE U.S. DOLLAR EQUIVALENT OF AT LEAST A$500,000 (DISREGARDING MONEYS LENT BY THE OFFEROR OR ITS ASSOCIATES) OR THE OFFER OTHERWISE DOES NOT REQUIRE DISCLOSURE TO INVESTORS IN ACCORDANCE WITH PART 6D.2 OF THE CORPORATIONS ACT 2001 (CWLTH) OF AUSTRALIA, AND (II) SUCH ACTION COMPLIES WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE TO RESIDENTS OF AUSTRIA

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS UNDER THE AUSTRIAN CAPITAL MARKETS ACT OR THE AUSTRIAN INVESTMENT FUNDS ACT. THIS OFFERING CIRCULAR HAS NOT BEEN EXAMINED BY A PROSPECTUS AUDITOR AND NO PROSPECTUS ON THE PRIVATE PLACEMENT OF THE NOTES AND PREFERENCE SHARES HAS BEEN PUBLISHED OR WILL BE PUBLISHED IN AUSTRIA. THE NOTES AND PREFERENCE SHARES ARE OFFERED IN AUSTRIA ONLY TO A RESTRICTED AND SELECTED NUMBER OF PROFESSIONAL AND SOPHISTICATED INDIVIDUAL INVESTORS, AND NO PUBLIC OFFERING OF THE NOTES AND PREFERENCE SHARES IN AUSTRIA IS BEING MADE OR IS INTENDED TO BE MADE. THE NOTES AND PREFERENCE SHARES CAN ONLY BE ACQUIRED FOR A COMMITMENT EXCEEDING ATS600,000 OR ITS EQUIVALENT VALUE IN ANY FOREIGN CURRENCY. THE INTERESTS ISSUED BY THE ISSUERS ARE NOT OFFERED IN AUSTRIA, AND THE ISSUERS ARE NOT AND WILL NOT BE REGISTERED AS A FOREIGN INVESTMENT FUND IN AUSTRIA.

NOTICE TO RESIDENTS OF BAHRAIN

NO PUBLIC OFFER OF THE NOTES AND PREFERENCE SHARES WILL BE MADE IN BAHRAIN AND NO APPROVALS HAVE BEEN SOUGHT FROM ANY GOVERNMENTAL AUTHORITY OF OR IN BAHRAIN. NONE OF THE CO-ISSUERS, THE COLLATERAL MANAGER AND THE INITIAL PURCHASER IS PERMITTED TO MAKE ANY INVITATION TO THE PUBLIC IN THE STATE OF BAHRAIN TO SUBSCRIBE FOR THE NOTES AND PREFERENCE SHARES AND THIS OFFERING CIRCULAR MAY NOT BE ISSUED, PASSED TO, OR MADE AVAILABLE TO MEMBERS OF THE PUBLIC IN BAHRAIN GENERALLY.

NOTICE TO RESIDENTS OF BELGIUM

THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN OR FROM BELGIUM AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, OTHER THAN TO PERSONS OR ENTITIES MENTIONED IN ARTICLE 3 OF THE ROYAL DECREE OF JANUARY 9, 1991 RELATING TO THE PUBLIC CHARACTERISTIC OF OPERATIONS CALLING FOR SAVINGS AND ON THE ASSIMILATION OF CERTAIN OPERATIONS TO A PUBLIC OFFER (BELGIAN OFFICIAL JOURNAL OF JANUARY 12, 1991). THEREFORE, THE NOTES AND PREFERENCE SHARES ARE EXCLUSIVELY DESIGNED FOR CREDIT INSTITUTIONS, STOCK EXCHANGE COMPANIES, COLLECTIVE INVESTMENT FUNDS, COMPANIES OR INSTITUTIONS, INSURANCE COMPANIES AND/OR PENSION FUNDS ACTING FOR THEIR OWN ACCOUNT ONLY.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

NO INVITATION TO SUBSCRIBE FOR ANY NOTES AND PREFERENCE SHARES MAY BE MADE TO THE PUBLIC IN THE CAYMAN ISLANDS.

NOTICE TO RESIDENTS OF DENMARK

EACH OF THE ISSUERS AND THE INITIAL PURCHASER HAS AGREED THAT IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER, SELL OR DELIVER ANY NOTES AND PREFERENCE SHARES IN THE KINGDOM OF DENMARK, DIRECTLY OR INDIRECTLY, BY WAY OF PUBLIC OFFER, UNLESS SUCH OFFER, SALE OR DELIVERY IS, OR WAS, IN COMPLIANCE WITH THE DANISH ACT NO. 1072 OF DECEMBER 20, 1995 ON SECURITIES TRADING, CHAPTER 12 ON PROSPECTUSES ON FIRST PUBLIC OFFER OF CERTAIN EXECUTIVE SECURITIES AND ANY EXECUTIVE ORDERS ISSUED PURSUANT THERETO.

NOTICE TO RESIDENTS OF FINLAND

THIS OFFERING CIRCULAR HAS BEEN PREPARED FOR PRIVATE INFORMATION PURPOSES OF INTERESTED INVESTORS ONLY. IT MAY NOT BE USED FOR AND SHALL NOT BE DEEMED A PUBLIC OFFERING OF THE NOTES AND PREFERENCE SHARES. THE RAHOITUSTARKASTUS HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE NOTES AND PREFERENCE SHARES; ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD IN FINLAND OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY FINNISH LAW. THIS OFFERING CIRCULAR IS STRICTLY FOR PRIVATE USE BY ITS HOLDER AND MAY NOT BE PASSED ON TO THIRD PARTIES.

NOTICE TO RESIDENTS OF FRANCE

THIS OFFERING CIRCULAR IS FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR PERSONS OR INSTITUTIONS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER OR AN INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY OFFERED SECURITIES AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

AS LONG AS THE PROSPECTUS DIRECTIVE IS NOT IMPLEMENTED IN FRANCE, THE FOLLOWING FRENCH SELLING RESTRICTIONS WILL APPLY: EACH OF THE INITIAL PURCHASER HAS REPRESENTED AND AGREED, AND EACH FUTURE DEALER WILL BE REQUIRED TO REPRESENT AND AGREE ,THAT IN CONNECTION WITH THEIR INITIAL DISTRIBUTION IT HAS NOT OFFERED OR SOLD OR CAUSED TO BE OFFERED OR SOLD AND WILL NOT OFFER OR SELL OR CAUSED TO BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, ANY OFFERED SECURITIES BY WAY OF A PUBLIC OFFERING IN THE REPUBLIC OF FRANCE (AN APPEL PUBLIC À L'ÉPARGNE AS DEFINED IN ARTICLE L.411-1 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER (THE "FRENCH CODE")) AND THAT OFFERS AND SALES OF THE OFFERED SECURITIES WILL BE MADE IN THE REPUBLIC OF FRANCE IN ACCORDANCE WITH THE ARTICLE L.411-1 AND FOLLOWING OF THE FRENCH CODE AND DECREE NO.98.880 DATED 1ST OCTOBER, 1998 RELATING TO OFFERS TO QUALIFIED INVESTORS.

NOTICE TO RESIDENTS OF GERMANY

THE NOTES AND PREFERENCE SHARES MAY ONLY BE ACQUIRED IN ACCORDANCE WITH THE GERMAN WERTPAPIERPROSPEKTGESETZ (**"SECURITIES PROSPECTUS ACT"**) AND THE INVESTMENTGESETZ (**"INVESTMENT ACT"**). THE SECURITIES ARE NOT REGISTERED OR AUTHORIZED FOR DISTRIBUTION UNDER THE INVESTMENT ACT AND MAY NOT BE, AND ARE NOT BEING OFFERED OR ADVERTISED PUBLICLY OR OFFERED SIMILARLY UNDER THE INVESTMENT ACT OR THE SECURITIES PROSPECTUS ACT. THEREFORE, THIS OFFER IS ONLY BEING MADE TO RECIPIENTS TO WHOM THIS DOCUMENT IS PERSONALLY ADDRESSED AND DOES NOT CONSTITUTE AN OFFER OR ADVERTISEMENT TO THE PUBLIC. THE SECURITIES CAN ONLY BE ACQUIRED FOR A MINIMUM PURCHASE PRICE OF AT LEAST € 50,000 (EXCLUDING COMMISSIONS AND OTHER FEES) PER PERSON. ALL PROSPECTIVE INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. NONE OF THE ISSUER, THE TRUSTEE, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES GIVES ANY TAX ADVICE.

NOTICE TO RESIDENTS OF HONG KONG

NO PERSON MAY OFFER OR SELL ANY NOTE IN HONG KONG BY MEANS OF THIS OFFERING CIRCULAR OR ANY OTHER DOCUMENT OTHERWISE THAN TO PERSONS WHOSE ORDINARY BUSINESS IT IS TO BUY OR SELL SHARES OR DEBENTURES (WHETHER AS PRINCIPAL OR AGENT) OR IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE COMPANIES ORDINANCE (CHAPTER 32 OF THE LAWS OF HONG KONG). UNLESS IT IS A PERSON WHO IS PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG, NO PERSON MAY IN HONG KONG ISSUE, OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, THIS OFFERING CIRCULAR OR ANY OTHER ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE NOTES AND PREFERENCE SHARES OTHER THAN (I) IN RESPECT OF NOTES OR PREFERENCE SHARES TO BE DISPOSED OF TO PERSONS OUTSIDE HONG KONG OR ONLY TO PERSONS WHOSE BUSINESS INVOLVES THE ACQUISITION, DISPOSAL OR HOLDING OF SECURITIES, WHETHER AS PRINCIPAL OR AGENT, OR (II) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN INVITATION TO THE PUBLIC WITHIN THE MEANING OF THE PROTECTION OF INVESTORS ORDINANCE (CHAPTER 335 OF THE LAWS OF HONG KONG).

NOTICE TO RESIDENTS OF ITALY

THIS OFFERING CIRCULAR MAY NOT BE DISTRIBUTED TO MEMBERS OF THE PUBLIC IN ITALY. THE ITALIAN COMMISSIONE NAZIONALE PER LA SOCIETA E LA BORSA HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE NOTES OR PREFERENCE SHARES. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD IN ITALY OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY ITALIAN LAW.

NOTICE TO RESIDENTS OF JAPAN

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN. NEITHER THE NOTES, THE PREFERENCE SHARES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE ACCOUNT OF ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR SALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SECURITIES AND EXCHANGE LAW AND ANY OTHER APPLICABLE LAW, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

NOTICE TO RESIDENTS OF KOREA

NONE OF THE ISSUER, THE CO-ISSUER AND THE INITIAL PURCHASER IS MAKING ANY REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE QUALIFICATION OF THE RECIPIENTS OF THIS OFFERING CIRCULAR FOR THE PURPOSE OF INVESTING IN THE NOTES OR PREFERENCE SHARES UNDER THE LAWS OF KOREA, INCLUDING AND WITHOUT LIMITATION THE FOREIGN EXCHANGE MANAGEMENT LAW AND REGULATIONS THEREUNDER. THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF KOREA AND NONE OF THE NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO APPLICABLE LAWS AND REGULATIONS OF KOREA.

NOTICE TO RESIDENTS OF THE NETHERLANDS

THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED, WHETHER DIRECTLY OR INDIRECTLY, TO ANY INDIVIDUAL OR LEGAL ENTITY IN THE NETHERLANDS OTHER THAN TO INDIVIDUALS WHO, OR LEGAL ENTITIES WHICH, IN THE COURSE OF THEIR OCCUPATION OR BUSINESS, DEAL OR INVEST IN SECURITIES (AS SET OUT IN SECTION 1 OF THE REGULATION OF 9 OCTOBER 1990 IN IMPLEMENTATION OF SECTION 14 OF THE ACT ON THE SUPERVISION OF INVESTMENT INSTITUTIONS).

NOTICE TO RESIDENTS OF NORWAY

EACH OF THE ISSUERS AND THE INITIAL PURCHASER REPRESENTS AND AGREES THAT IT WILL COMPLY WITH CHAPTER 5 OF THE NORWEGIAN ACT NO. 79 OF JUNE 19, 1997 ON SECURITIES TRADING (SECURITIES TRADING ACT) AND EACH OF THE ISSUERS AND THE INITIAL PURCHASER ADDITIONALLY REPRESENT AND AGREE THAT THEY HAVE NOT, DIRECTLY OR INDIRECTLY, OFFERED OR SOLD AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER OR SELL IN THE KINGDOM OF NORWAY OR TO INVESTORS IN THE NORWEGIAN SECURITIES

MARKET ANY NOTES OR PREFERENCE SHARES OTHER THAN TO PERSONS WHO ARE REGISTERED WITH THE OSLO STOCK EXCHANGE AS PROFESSIONAL INVESTORS.

NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING CIRCULAR WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP. 50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH TAKES NO RESPONSIBILITY FOR ITS CONTENTS, BUT HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED NOR MAY THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE NOTES OR PREFERENCE SHARES BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

NOTICE TO RESIDENTS OF SPAIN

THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE COMISION NACIONAL DEL MERCADO DE VALORES OF SPAIN AND MAY NOT BE DISTRIBUTED IN SPAIN IN CONNECTION WITH THE OFFERING AND SALE OF THE NOTES OR PREFERENCE SHARES WITHOUT COMPLYING WITH ALL LEGAL AND REGULATORY REQUIREMENTS IN RELATION THERETO.

NOTICE TO RESIDENTS OF SWEDEN

THIS OFFERING CIRCULAR IS FOR THE RECIPIENT ONLY AND MAY NOT IN ANY WAY BE FORWARDED TO ANY OTHER PERSON OR TO THE PUBLIC IN SWEDEN. THE OFFERING OF THE NOTES AND PREFERENCE SHARES IS INTENDED TO BE A PRIVATE PLACEMENT, AND A MINIMUM INVESTMENT OF SEK 300,000 IN THE NOTES OR PREFERENCE SHARES IS REQUIRED.

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THE ISSUER HAS NOT BEEN AUTHORIZED BY THE SWISS FEDERAL BANKING COMMISSION AS A FOREIGN INVESTMENT FUND UNDER ARTICLE 45 OF THE SWISS FEDERAL LAW ON INVESTMENT FUNDS OF 18 MARCH 1994. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR DISTRIBUTED ON A PROFESSIONAL BASIS IN OR FROM SWITZERLAND, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE NOTES OR PREFERENCE SHARES MAY BE DISTRIBUTED IN

CONNECTION WITH ANY SUCH OFFERING OR DISTRIBUTION. THE NOTES AND PREFERENCE SHARES MAY, HOWEVER, BE OFFERED AND THIS OFFERING CIRCULAR MAY BE DISTRIBUTED IN SWITZERLAND ON A PROFESSIONAL BASIS TO A LIMITED NUMBER OF PROFESSIONAL INVESTORS IN CIRCUMSTANCES SUCH THAT THERE IS NO PUBLIC OFFER.

NOTICE TO RESIDENTS OF TAIWAN AND CHINA

THE OFFER OF THE NOTES AND PREFERENCE SHARES HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR WITH THE RELEVANT REGULATORY AUTHORITIES IN THE REPUBLIC OF CHINA PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS AND MAY NOT BE OFFERED OR SOLD WITHIN TAIWAN OR THE REPUBLIC OF CHINA THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE LAW OF TAIWAN OR WITHIN THE MEANING OF RELEVANT SECURITIES LAWS AND REGULATIONS IN THE REPUBLIC OF CHINA THAT REQUIRE A REGISTRATION OR APPROVAL OF THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR THE RELEVANT SECURITIES REGULATORY AUTHORITIES IN CHINA.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS DOCUMENT IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT OF 2000 (**"FSMA"**) (FINANCIAL PROMOTION) ORDER 2005 (THE **"ORDER"**) OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2) (A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **"RELEVANT PERSONS"**). THE SECURITIES ARE AVAILABLE ONLY TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with the sale of the Notes and Preference Shares, each of the Issuers will be required to furnish, upon request of a holder of a Note or Preference Share, to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request such Co-Issuer is not a reporting company subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the **"Exchange Act"**), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. Such information may be obtained from the Trustee or the Irish Paying Agent. It is not contemplated that either of the Issuers will be such a reporting company or so exempt.

FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material. Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Underlying Assets among asset categories, the timing and frequency of defaults, writedowns, principal shortfalls and interest shortfalls on the Underlying Assets, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets (particularly prior to the investment of all Uninvested Proceeds), defaults under Underlying Assets and the effectiveness of any Interest Rate Swap Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or its affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or its affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

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Confidential Treatment Requested

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SUMMARY OF TERMS

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular. An index of defined terms appears at the back of this Offering Circular.

Securities Offered.....	U.S.$244,000,000 aggregate principal amount Class A-1a Floating Rate Notes Due December 2045 (the **"Class A-1a Notes"**).
	U.S.$400,000,000 aggregate principal amount Class A-1b Floating Rate Notes Due December 2045 (the **"Class A-1bNotes"** and, together with the Class A-1a Notes, the **"Class A-1 Notes"**).
	U.S.$159,000,000 aggregate principal amount Class A-2 Floating Rate Notes Due December 2045 (the **"Class A-2 Notes"**) and, together with the Class A-1 Notes, the **"Class A Notes"**).
	U.S.$96,900,000 aggregate principal amount Class B Floating Rate Notes Due December 2045 (the **"Class B Notes"**).
	U.S.$68,300,000 aggregate principal amount Class C Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class C Notes"**).
	U.S.$55,100,000 aggregate principal amount Class D Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class D Notes"**).
	U.S.$18,700,000 aggregate principal amount Class E Floating Rate Deferrable Interest Notes Due December 2045 (the **"Class E Notes**, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the **"Notes"**).
Preference Shares.....	Concurrently with the issuance of the Notes, the Issuer will issue 59,500 Preference Shares, par value U.S.$0.01 per share, issued at a liquidation preference of U.S.$1,000 per share (the **"Preference Shares"**). It is expected that the Collateral Manager will purchase all of the Preference Shares and the Collateral Manager may purchase some or all of the Class E Notes.
Status of the Notes.....	Each of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes are herein referred to as a **"Class"** of Notes. The entire principal amount of each Class of Notes and all of the Preference Shares will be issued on the Closing Date.
	The Notes will be issued and secured pursuant to the

Indenture. The Synthetic Security Counterparty will be an express third party beneficiary of the Indenture. See "Description of the Notes—Status and Security" and "—The Indenture." The Notes will be limited-recourse debt obligations of the Issuers secured solely by a pledge of the Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, the Collateral Manager, the Trustee, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty and any Interest Rate Swap Counterparty (collectively, the **"Secured Parties"**). See "Description of the Notes—Status and Security."

The relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1a Notes, *second*, Class A-1b Notes, *third*, Class A-2 Notes, *fourth*, Class B Notes, *fifth*, Class C Notes, *sixth*, Class D Notes and *seventh*, Class E Notes, with (a) each Class of Notes in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1a Notes) in such list being **"Subordinate"** to the Class of Notes that precedes such Class of Notes in such list. The Notes are Senior to the Preference Shares.

No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full, except as described under "—Principal Repayment of the Notes". See also "Description of the Notes—Priority of Payments."

However:

(a) on any Distribution Date occurring on or before the Distribution Date in March 2010 (with the period from the Closing Date to such Distribution Date referred to herein as the **"Priority Distribution Period"**), Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** (the **"Class D Priority Redemption Amount"**) to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after

	the March 2010 Distribution Date, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full; (b) on any Distribution Date occurring on or after the Distribution Date in June 2015 (if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before such Distribution Date) (the **"Accelerated Amortization Date"**), Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes, in each case until such Class has been paid in full; and (c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."
The Issuers.....	Gemstone CDO VII Ltd. (the **"Issuer"**) is an exempted company with limited liability incorporated under the Companies Law (2004 Revision) of the Cayman Islands pursuant to its Memorandum and Articles of Association (the **"Issuer Charter"**) and is in good standing under the laws of the Cayman Islands. The Indenture and Issuer Charter will provide that the activities of the Issuer are limited to: (a) acquiring, holding, pledging and selling Underlying Assets, Offsetting Transactions and Eligible Investments; (b) entering into and performing its obligations under the Indenture, any Interest Rate Swap Agreement, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Note Purchase Agreement, the subscription agreement with respect to the private placement of the Preference Shares (the **"Subscription Agreement"**) and the

	Preference Share Paying Agency Agreement; (c) issuing, redeeming and selling the Notes and the Preference Shares, and issuing the Ordinary Shares; (d) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties; (e) owning the Co-Issuer; and (f) other activities incidental to the foregoing. The Issuer will not have any material assets other than the Underlying Assets, Eligible Investments, any Interest Rate Swap Agreement and rights under certain other agreements entered into as described herein. Gemstone CDO VII Corp., a Delaware corporation (the **"Co-Issuer"** and, together with the Issuer, the **"Issuers"**), was incorporated for the sole purpose of co-issuing the Notes. The entire authorized share capital of the Co-Issuer is owned by the Issuer. The Co-Issuer will not have any assets (other than the proceeds of its common shares, being U.S.$250) and will not pledge any assets to secure any Class of Notes. The Co-Issuer will not have any interest in the Underlying Assets held by the Issuer.
Collateral Manager	HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors, the **"Collateral Manager"**) with headquarters in Dallas, Texas, will manage the Collateral under a Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. Pursuant to the Management Agreement and in accordance with the Indenture, the Collateral Manager has selected and will manage the Collateral and will exercise rights and remedies associated with the Underlying Assets based on the restrictions set forth in the Indenture and on the Collateral Manager's research, credit analysis and judgment. The Collateral Manager will also monitor any Interest Rate Swap Agreement and may also act as the Auction Agent in connection with an Auction Call Redemption. Also, the Collateral Manager may direct the Disposition of the Underlying Assets in the case of an Optional Redemption, a Clean-up Call or a Tax Redemption. For a summary of the provisions of the Management Agreement and certain other information

	concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Management Agreement."
Use of Proceeds	The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be at least U.S.$1,070,000,000. On the Closing Date, the Issuer will receive at least U.S.$1,060,000,000 as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. The net proceeds from the issuance and the sale of the Notes and the Preference Shares will be used by the Issuer to purchase on the Closing Date a diversified portfolio of interests in asset-backed securities (**"Asset-Backed Securities"**) and Synthetic Securities (together with the Asset-Backed Securities, the **"Underlying Assets"**) having the characteristics described herein. Following the Closing Date, the Issuer may also enter into Offsetting Transactions (including the payment of any initial amounts upon the entry into an Offsetting Transaction) and to fund certain accounts established under the Indenture. See "Security for the Notes—Underlying Assets." For the avoidance of doubt, the Underlying Assets and Synthetic Securities shall not include any Offset Transaction or Offsetting Transaction. On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio will consist of Underlying Assets (acquired or committed to be acquired) having an aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of at least U.S.$1,100,000,000. In the event that there are any remaining uninvested net proceeds on the Determination Date preceding the September 2007 Distribution Date, they will be applied in the manner described herein under "Description of the Notes—Certain Definitions—Principal Proceeds," "Description of the Notes—Priority of Payments—Principal Proceeds" and "Security for the Notes—The Accounts—Uninvested Proceeds Account."
Security for the Notes	Pursuant to the Indenture, the Notes, together with the Issuer's obligations to the Interest Rate Swap Counterparty under any Interest Rate Swap Agreement, the Synthetic Security Counterparty under the Synthetic Securities, the Initial Investment Agreement Provider under the Initial Investment

	Agreement, the Trustee under the Indenture and the Collateral Manager under the Management Agreement, will be secured by: (a) the Underlying Assets and Equity Securities and the Offset Transactions and the Offsetting Transactions; (b) the rights of the Issuer under any Interest Rate Swap Agreement; (c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Issuer Account, the Disposition Proceeds Account, the Synthetic Security Collateral Account and the Interest Rate Swap Counterparty Collateral Account (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts; (d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreement and the Administration Agreement; and (e) all proceeds of the foregoing (collectively, the **"Collateral"**). In the event of any realization on the Collateral, proceeds will be allocated to the payment of each Class of Notes in accordance with the respective priorities established by the Priority of Payments. The Collateral will not include the Excepted Property.
Acquisition of the Underlying Assets	On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio, which will consist of Underlying Assets having an Aggregate Principal/Notional Balance (including principal collections on Asset-Backed Securities deposited in the Uninvested Proceeds Account on the Closing Date) of at least U.S.$1,100,000,000 and will be pledged to the Trustee under the Indenture. The Underlying Assets so acquired by the Issuer will, on the Closing Date, have the characteristics described herein under "Security for the Notes— Underlying Assets". After the Closing Date, following the Disposition of Underlying Assets in accordance with and subject to the conditions herein, the Issuer, at the direction of the Collateral Manager, may apply

	the Disposition Proceeds in respect of such Dispositions to purchase additional Asset-Backed Securities or to enter into additional Synthetic Securities. During the Reinvestment Period, the Issuer, at the direction of the Collateral Manager and subject to the limitations described in "Disposition of the Underlying Assets," may trade Underlying Assets on a discretionary basis. After the Reinvestment Period, the Issuer will not be able to acquire Underlying Assets on a discretionary basis. Both during and after the Reinvestment Period, the Collateral Manager may, on behalf of the Issuer, Dispose of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities as described under "Disposition of the Underlying Assets" and may reinvest the Disposition Proceeds of such Dispositions in additional Underlying Assets. During and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* the proceeds resulting from an Offsetting Transaction will be constrained by the same conditions applicable to Disposition Proceeds received in respect of Dispositions of Underlying Assets.
Disposition of the Underlying Assets.....	At any time, the Collateral Manager may, on behalf of the Issuer, Dispose of any Defaulted Assets, Equity Securities or Underlying Assets subject to withholding or other similar taxes and acquire additional Underlying Assets; *provided* that such Dispositions and acquisitions are subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets." The Collateral Manager may also Dispose, on behalf of the Issuer, of Credit-Risk Assets, Credit-Improved Assets or other Underlying Assets and acquire additional Underlying Assets, subject to the conditions indicated below. *Credit-Risk Assets.* The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that: (A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection

Account to be applied in accordance with the Priority of Payments; provided that such Disposition Proceeds may not be reinvested, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within 90 days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*,

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Risk Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Risk Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Risk Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no later than the date that is three years after the end of the Reinvestment Period and

(iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after

giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Credit-Improved Assets. The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless, in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; provided that (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within 60 days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally,*

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating,

respectively, of the Credit-Improved Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Improved Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Improved Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Improved Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no later than the date that is three years after the end of the Reinvestment Period and

(iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Discretionary Trading. At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may Dispose of (and acquire if applicable), any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within 60 days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed 20% of the Net Outstanding Underlying Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-

Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

The Disposition Proceeds of an Asset-Backed Security will be deposited in the Disposition Proceeds Account and, subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets," will be available to be reinvested in other Underlying Assets within 60 days following such Disposition or 90 days following such Disposition in the case of Credit-Risk Assets. Following such 60 or 90 day period, if not earlier transferred to the Principal Collection Account at the direction of the Collateral Manager, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments.

For the avoidance of doubt, any certification that the Collateral Manager is required to make "in writing" to the Trustee in respect of a Disposition may be made in an email to the Trustee.

"Reinvestment Period" means the period from the Closing Date until the first to occur of (i) the Payment Date immediately following the date that the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Assets, general market conditions and other factors, the Collateral Manager (in its sole discretion) has determined on behalf of the Issuer that investments in additional Underlying Assets within the foreseeable future would either be impractical or not beneficial, (ii) an Event of Default or (iii) the day after the Payment Date occurring in March 2009; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date

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	occurring in March 2009. Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests. See "Security for the Notes—Disposition of Underlying Assets."
Interest Rate Swap Agreement	Following the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an interest rate swap in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional interest rate swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**). The **"Initial Interest Rate Swap Counterparty"** is expected to be Deutsche Bank AG or one of its affiliates. Any Interest Rate Swap Agreement will provide that the Issuer will pay to the Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three month LIBOR for the related calculation period. See "Security for the Notes—The Interest Rate Swap Agreement."
Synthetic Securities	On the Closing Date, the Issuer will have entered into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security will relate to a Reference Obligation whereby the Issuer will sell credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which will be separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. The form of Confirmation for Reference Obligations that are RMBS Securities is attached hereto as **Schedule G**. The form of Confirmation for Reference

Obligations that are ABX Tranche Securities is attached hereto as **Schedule H**. The form of Confirmation for Reference Obligations that are CMBS Securities is attached hereto as **Schedule I**. The form of Confirmation for Reference Obligations that are CDO Securities is attached hereto as **Schedule J**. The 2003 ISDA Credit Derivatives Definitions, as published by ISDA (the **"Credit Derivatives Definitions"**) will apply to, and be incorporated by reference into, each Synthetic Security. Any Synthetic Security documented under any of the forms of confirmation attached hereto as **Schedule G**, **Schedule H**, **Schedule I** and **Schedule J** is a **"Form-Approved Synthetic Security"** The Issuer may not enter into any Synthetic Security that is not a Form-Approved Synthetic Security unless the Rating Agency Condition is satisfied and, the Issuer may not enter into any Synthetic Security that is not a "pay as you go" swap unless the Issuer, or the Collateral Manager on behalf of the Issuer, requests and receives the recovery rate and rating applicable to such Synthetic Security from Standard & Poor's. For the avoidance of doubt, Offset Transactions and Offsetting Transactions will not be deemed to be Synthetic Securities.

Each Synthetic Security exposes the Issuer to the credit risk of a Reference Obligation. Each **"Reference Obligation,"** as of the related trade date, will be an Asset-Backed Security that satisfies the Eligibility Criteria.

During the Reinvestment Period, and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and (ii) enter into new Synthetic Securities with other synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) made pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and

the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule G** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or (z) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

The Synthetic Security Counterparty has the right in the event of an assignment of a Synthetic Security to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders.

For a further description of the Synthetic Securities see "Security for the Notes— Underlying Assets Synthetic Securities" herein.

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Offsetting Transactions	On or after the Closing Date, the Issuer may enter into a series of credit default swaps (each an **"Offsetting Transaction"**) with one or more counterparties (each, an **"Offsetting Transaction Counterparty"**) required in order to hedge all or part of its credit exposure (determined as set out below) to one or more obligors under Synthetic Securities. The Offsetting Transaction Counterparty must be the same entity as the Synthetic Security Counterparty under the Synthetic Security being hedged. In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will not be considered a Synthetic Security (the notional amount of such Synthetic Security so offset, the **"Offset Transaction"**). Offsetting Transactions must be Form-Approved Synthetic Securities. Each Offsetting Transaction will relate to a Reference Obligation whereby the Issuer purchases credit protection from the related Offsetting Transaction Counterparty on such Reference Obligation. An Offsetting Transaction shall hedge all or part of the Issuer's credit exposure if, in the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction hedges the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction relates to the same Reference Obligation and provides for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security. Following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will be required to terminate. An Offsetting Transaction may be terminated without termination of the related Offset Transaction only if (i) any termination payments due from the Issuer in respect of such termination will be paid from Principal Proceeds, (ii) such termination (and therefore the reconversion of the relevant Offset Transaction into a Synthetic Security) complies with all conditions applicable to the acquisition of an Underlying Asset and (iii) there are funds in the Principal Collection Account to adequately collateralize the Synthetic Security that the relevant Offset Transaction reconverts to as a result of the termination of the Offsetting Transaction.

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	The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Offset Transaction and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty, which shall be made from Principal Proceeds. The difference between the Fixed Amount received with respect to an Offset Transaction and the Fixed Amount paid on the Offsetting Transaction shall be considered Principal Proceeds. Offsetting Transactions shall be limited to an aggregate notional amount equal to 20% of the Net Outstanding Underlying Asset Balance as of the Closing Date.
Initial Investment Agreement	Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments (as defined herein) and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and GE Funding Capital Market Services, Inc., as investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of at least $614,000,000 are expected to be invested as the Investment. Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest at a *per annum* floating rate equal to three-month LIBOR minus 0.035% on the amounts invested thereunder. Interest on the Investment will accrue until the date the Initial Investment Agreement terminates or is terminated in accordance with its terms over each Interest Period and will be payable on the Business Day immediately prior to the Distribution Dates. On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures. Immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein. The obligations of the Initial Investment Agreement Provider under the Initial Investment Agreement will be insured by a guarantee of General Electric Capital Corporation (the **"Guarantee "** and

	together with the Initial Investment Agreement, the **"GIC"**) to the extent specified therein. See "Security for the Notes—The Initial Investment Agreement", "Security for the Notes—The Initial Investment Agreement—The Initial Investment Agreement Provider".
Interest Payments on the Notes.....	The Class A-1a Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.21%. The Class A-1b Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.35%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.47%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.68%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 2.25%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 4.75%. The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 6.25%. The Preference Shares will receive any Excess Interest in accordance with the Priority of Payments. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest on the Notes will accrue from the Closing Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein; provided that Interest in respect of the Distribution Date falling in June 2007 (the **"First Distribution Date"**) will be paid on a period of 89 days. See "Description of the Notes—Interest." Any interest on the Class C Notes, Class D Notes or Class E Notes that is not paid when due by operation of the Priority of Payments will be deferred (**"Deferred Interest"**, or as applicable, **"Class C Deferred Interest"**, **"Class D Deferred Interest"** or **"Class E Deferred Interest"**). Interest will accrue on any deferred interest. Failure to make payment in respect of interest on the Class C Notes, Class D Notes or Class E Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture as long as a more Senior Class of Notes remains outstanding.

	Upon the payment of Class C Deferred Interest, Class D Deferred Interest or Class E Deferred Interest, the deferred interest amount with respect to the Class C Notes, Class D Notes or the Class E Notes, as the case may be, will be reduced by the amount of such payment. Additionally, as long as any Class of Notes is outstanding if a Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date relating to a Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied (or until each such Class of Notes is paid in full). See "Description of the Notes—Priority of Payments."
Maturity; Average Life; Duration.....	The stated maturity of the Notes is the December 12, 2045 Distribution Date (with respect to each Class of Notes, the "**Stated Maturity**"). Each Class of Notes will mature at the applicable Stated Maturity unless redeemed or repaid before the Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the "**Final Maturity Date**". The average life of each Class of Notes may be less than the number of years until its Stated Maturity. See "Maturity and Prepayment Considerations," "Risk Factors—Projections, Forecasts and Estimates" and "—Average Life of the Notes and Prepayment Considerations."
Principal Repayment of the Notes.....	Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes and, to the extent that there are Excess Principal Proceeds, to pay a dividend on the Preference Shares. In addition, (a) if a Coverage Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority in sufficient amounts to satisfy each Coverage Test (or until each such Class of Notes is paid in full), (b) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds

	will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, and (c) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on each Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes in each case until such Class has been paid in full, (d) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test, in each case, to the extent of funds available for such purposes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments," "—Principal," "—Mandatory Redemption" and "—The Coverage Tests." The Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor at the times and under the circumstances described in "Description of the Notes—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."
Mandatory Redemption.....	The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will, on any Distribution Date, be subject to mandatory redemption from Interest

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	Proceeds in the event that any Coverage Test is not satisfied on that Determination Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts in accordance with the Priority of Payments) to repay the principal of each Class of Notes. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described below under "Description of the Notes—Priority of Payments" and "—Mandatory Redemption."
Optional Redemption	Subject to certain conditions described herein, on any Distribution Date on or after the March 2010 Distribution Date, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares at the applicable Redemption Price therefor. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such an Optional Redemption and (ii) such Disposition Proceeds are at least equal to the Redemption Amount. See "Description of the Notes—Optional Redemption".
Auction Call Redemption of the Notes.....	If the Notes have not been redeemed in full on or prior to the Distribution Date occurring in June 2013 (the **"First Auction Call Date"**), and the Preference Shareholders have not directed an Optional Redemption, then an auction of the Underlying Assets will be conducted by the Auction Agent on behalf of the Issuer and, *provided* that certain conditions described herein are satisfied, the Underlying Assets will be sold and the Notes will be redeemable (an **"Auction Call Redemption"**), in whole but not in part and at the applicable Redemption Price, from the Disposition Proceeds of all Collateral including any Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account); *provided* that funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** equals (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate

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	amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If such conditions are not satisfied and the Underlying Assets are not Disposed of prior to such Distribution Date, the Auction Agent will conduct an auction on a semi-annual basis prior to each subsequent Distribution Date (each, a **"Subsequent Auction Call Date,"** and, together with the First Auction Call Date, each, an **"Auction Date"**) until the Notes are redeemed in full. An auction conducted in connection with an Auction Call Redemption (an **"Auction"**) shall be carried out in accordance with the auction procedures set forth in Schedule A attached hereto (the **"Auction Procedures"**). See "Description of the Notes—Auction Call Redemption." Pursuant to the Management Agreement, the Issuer may designate the Collateral Manager as the Auction Agent (in such capacity, the **"Auction Agent"**) in connection with the sale of the Collateral in connection with any Auction Call Redemption; *provided* that if the Collateral Manager or any of its Affiliates is a bidder on the Collateral, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction shall be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent. In no event, however, will the Initial Purchaser have any obligation to act as Auction Agent with respect to the Collateral. If an Auction Call Redemption is not successfully completed on any Auction Date, the Auction Agent shall conduct an Auction on each Subsequent Auction Call Date in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully. See "Schedule A—Auction Call Redemption—Auction Procedures."
Clean-Up Call Redemption	At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price, on any Distribution Date selected by the Collateral Manager which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to 10.00% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account). See "Description of the Notes—Clean-Up Call Redemption."
Tax Redemption of the Notes.....	The Issuer may redeem the Notes (such redemption, a **"Tax**

	Redemption"), in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders or, so long as the Class A-1 Notes are Outstanding, of the Controlling Class; *provided that*, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investment credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are at least equal to the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption."
Manner of Distribution	The Initial Purchaser is offering the Notes for sale to investors (**"Original Purchasers"**), subject to prior sale when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions: (a) in the United States who are (i) Institutional Accredited Investors in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act, or (ii) Qualified Institutional Buyers in reliance on the exemption from registration provided by Rule 144A and (b) outside the United States to persons that are not U.S. Persons in offshore transactions in reliance on Regulation S and in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Notes offered for sale to a U.S. resident (within the meaning of the Investment Company Act) will be offered only to Qualified Purchasers. See "Plan of Distribution" and "Transfer Restrictions."
Ratings	It is a condition to the issuance of the Notes that Moody's and Standard & Poor's assign the following ratings to the Notes:

Class	Moody's	S&P
Class A-1a Notes	Aaa	AAA
Class A-1b Notes	Aaa	AAA
Class A-2 Notes	Aaa	AAA
Class B Notes	at least Aa2	at least AA

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	Class C Notes	at least A2	at least A
	Class D Notes	at least Baa2	at least BBB
	Class E Notes	at least Ba1	at least BB+

The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, Class D Notes and Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, Class D Notes and Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

Minimum Denominations..... The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000, and in integral multiples of U.S.$1,000 in excess thereof.

Form, Registration and Transfer of the Notes ..... The Notes offered in reliance upon Regulation S (**"Regulation S Notes"**) initially will be represented by one or more Temporary Regulation S Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee) initially for the accounts of Euroclear, and/or Clearstream.

On the 40th day after which all of the Notes of any Class have been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons, in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note.

Interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream). Until and including the 40th day after the later of the commencement of the offering

and the closing of the offering of the Notes (the **"Distribution Compliance Period"**), interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

The Notes offered in the United States (**"Restricted Notes"**) will be represented by one or more Restricted Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

The Regulation S Global Notes and the Restricted Global Notes are collectively referred to herein as **"Global Notes."** Under certain limited circumstances described herein, definitive registered Notes may be issued in exchange for Global Notes.

No Note (or any interest therein) may be transferred to a transferee acquiring such Note in the form of an interest in a Global Note except (a) to a transferee whom the seller reasonably believes is (i) a Qualified Institutional Buyer that is a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction in accordance with Regulation S, (b) in compliance with the certification (if any) and other requirements set forth in the Indenture, and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions."

The Preference Shares being offered by the Issuer in the United States in reliance upon an exemption from the registration requirements of the Securities Act (**"Rule 144A Preference Shares"**) will be represented by certificates in fully registered, definitive form registered in the name of the legal and beneficial owner thereof (or a nominee acting on behalf of the disclosed legal and beneficial owner thereof).

The Preference Shares offered by the Issuer outside the United States will be offered in reliance upon Regulation S under the Securities Act and initially will be represented by one or more temporary global share certificates (**"Temporary Regulation S Global Preference Shares"**), that will be exchangeable for one or more permanent global Preference Shares (**"Permanent Regulation S Global Preference Shares"** and, together with the Temporary Regulation S Global Preference Shares, the **"Regulation S Global Preference Shares"**) in fully registered form, deposited with and registered in the name of, DTC (or its nominee), initially for the accounts of Euroclear, and/or Clearstream. Until one year after the later of the commencement of the offering and the Closing Date (the

	"Distribution Compliance Period"), beneficial interests in a Regulation S Global Preference Share may be held only through Euroclear or Clearstream. Under certain limited circumstances described herein, definitive registered share certificates may be issued in exchange for Regulation S Preference Shares. The Preference Shares are being offered, and may only be transferred, in minimum lots of 200 shares. The Rule 144A Preference Shares and the Regulation S Global Preference Shares will be subject to certain restrictions on sale and transferability.
Listing.....	Application will be made to the Irish Financial Services Regulatory Authority as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. See "Listing and General Information." No application will be made to list the Notes on any other exchange.
Listing Agent and Irish Paying Agent.....	RSM Robson Rhodes LLP.
Governing Law.....	The Notes, the Indenture, the Subscription Agreement, the Collateral Administration Agreement, the Management Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.
Tax Matters.....	See "Tax Considerations."
Benefit Plan Investors.....	See "ERISA Considerations."

RISK FACTORS

An investment in the Notes or Preference Shares involves certain risks. Prospective investors should carefully consider the following factors, in addition to the matters set forth elsewhere in this Offering Circular, prior to investing in the Notes or Preference Shares.

Risks Relating to the Notes

Investor Suitability. An investment in the Notes or Preference Shares will not be appropriate for all investors. Structured investment products, like the Notes and Preference Shares, are complex instruments, and may involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. Any investor interested in purchasing Notes or Preference Shares should conduct its own investigation and analysis of the product and consult its own professional advisers as to the risks involved in making such a purchase.

Limited Liquidity. There is currently no market for the Notes or Preference Shares. The Initial Purchaser currently does not intend to make a market in Notes or Preference Shares, and the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue market-making at any time. There can be no assurance that a secondary market for any of the Notes or Preference Shares will develop, or, if a secondary market does develop, that it will provide the holders of such Notes or Preference Shares with liquidity of investment or that it will continue for the life of the Notes or Preference Shares. In addition, the Notes and Preference Shares are subject to transfer restrictions and can only be transferred to certain transferees as described under "Transfer Restrictions." Consequently, an investor in the Notes or Preference Shares must be prepared to hold its Notes or Preference Shares for an indefinite period of time or until their Stated Maturity.

Limited-Recourse Obligations. The Notes and Preference Shares are limited-recourse obligations of the Issuer and the Co-Issuer. The Notes and Preference Shares are payable solely from the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Administrator, the Rating Agencies, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty, the Share Trustee, the Collateral Manager, the Initial Purchaser, its Affiliates or any other person or entity will be obligated to make payments on the Notes or Preference Shares. Consequently, the holders of the Notes (the **"Noteholders"**) must rely solely on amounts received in respect of the Underlying Assets and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class. The ability of the Issuers to make payments in respect of any Class of Notes or the Preference Shares will be constrained by the terms of the Notes of Classes more Senior to such Notes or Preference Shares and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Issuers to pay such deficiencies will be extinguished.

Limited Source of Funds to pay Expenses of the Issuer. The funds available to the Issuer to pay its expenses on any Distribution Date are limited to the Fee Cap Amount *plus* an amount up to U.S.$ 250,000 *per annum plus* any Interest Proceeds remaining after the payments described in clauses (1) through (18) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, in some cases, a portion of the Principal Proceeds remaining after the payments described in clauses (1) through

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(13) under "Description of the Notes—Priority of Payments—Principal Proceeds." In the event that such funds are not sufficient to pay the expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired, and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect the interests of the Issuer or pay the expenses of legal proceedings against persons which the Issuer has indemnified.

Subordination of each Class of Subordinate Notes. No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full, except:

(a) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) on any Distribution Date occurring on or after the Accelerated Amortization Date and if any Class of Notes is outstanding, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments in respect of the Preference Shares are Subordinated to payments in respect of the Notes. Payments on the Preference Shares will be made only if either Excess Interest or Excess Principal Proceeds remain after making payments on the Notes in accordance with the Priority of Payments. No payment of interest on the Preference Shares will be made until all accrued interest due and payable on the Notes has been paid in full. Under certain circumstances described above under "-*Subordination of each Class of Subordinate Notes*" Interest Proceeds that would otherwise be payable to the Preference Shareholders will instead be applied to the reduction of the Outstanding Notes.

If an Event of Default occurs, so long as any Notes are outstanding, the holders of the most Senior Class of Notes then outstanding will be entitled to determine the remedies to be exercised under the Indenture. So long as a more Senior Class of Notes remains outstanding, failure to make payments in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes, as the case may be, on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any such unpaid interest will instead become Deferred Interest. In the event of any

realization on the Collateral, proceeds will be allocated to the Notes and payment of other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments." Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other Classes of Notes. To the extent that any losses are suffered by any of the holders of any Notes or Preference Shares, such losses will be borne, *first*, by the holders of the Preference Shares (the "**Preference Shareholders**"), *second*, by the holders of the Class E Notes, *third*, by the holders of the Class D Notes, *fourth*, by the holders of the Class C Notes, *fifth*, by the holders of the Class B Notes, *sixth*, by the holders of the Class A-2 Notes, *seventh*, by the holders of the Class A-1b Notes and *eighth*, by the holders of the Class A-1a Notes.

Volatility of the Subordinate Notes and the Preference Shares. The Subordinate Notes and the Preference Shares represent leveraged investments in the underlying Collateral. Therefore, it is expected that changes in the value of the Subordinate Notes and Preference Shares will be greater than the change in the value of the Underlying Assets, which themselves are subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the Issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the Issuer's opportunities for gain and risk of loss.

Priority Distribution Period; Accelerated Amortization. On any Distribution Date occurring (a)(i) on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, or

(b) on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes, in each case until such Class has been paid in full. By reason of such application of Interest Proceeds, the Class E Notes may be repaid in full prior to the full repayment of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes. See "Description of the Notes—Priority of Payments—Interest Proceeds."

Investment Company Act. The Issuers have not registered with the United States Securities and Exchange Commission (the "**SEC**") as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States or any state thereof (a) whose investors resident in the United States are solely "qualified purchasers" or "knowledgeable employees" (within the meaning given to such terms in the Investment Company Act and the regulations of the SEC thereunder) with respect to the Issuer or certain transferees thereof identified in Rule 3c-6 under the Investment Company Act and (b) which do not make a public offering of their securities in the United States. U.S. counsel for the Issuers will opine, in connection with the sale of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes by the Initial Purchaser and the Preference Shares by

the Issuer that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes or Preference Shares are sold by the Initial Purchaser or the Issuer, as the case may be, in accordance with the terms of the Note Purchase Agreement or, in the case of the Preference Shares and the Class E Notes, the Subscription Agreement). No opinion or no-action position has been requested of the SEC.

To rely on Section 3(c)(7) of the Investment Company Act, the Issuers must have a "reasonable belief" that all purchasers of the Notes and the Preference Shares (including the Initial Purchaser and subsequent transferees) are Qualified Purchasers. Given that transfers of beneficial interests in the Notes will generally be effected only through DTC and its participants and indirect participants without delivery of written transferee certifications to the Issuers, the Issuers will establish the existence of such a reasonable belief by means of the deemed representations, warranties and agreements described under "Transfer Restrictions," the agreements of the Initial Purchaser referred to under "Plan of Distribution" and the procedures described below. Although the SEC has stated that it is possible for an issuer of securities to satisfy the reasonable belief standard referred to above by establishing procedures to provide a means by which such issuer can make a reasonable determination as to status of its securityholders as Qualified Purchasers, the SEC has not approved, and has stated that it will not approve, any particular set of procedures including the procedures described herein. Accordingly, there can be no assurance that the Issuers will have satisfied the reasonable belief standard referred to above.

If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (a) the SEC could apply to a district court to enjoin the violation; (b) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (c) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than nonenforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

Each purchaser of a Restricted Note or an interest therein will be deemed to represent and agree at the time of purchase that the purchaser (a) is a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor), (b) is a Qualified Purchaser, (c) (i) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer and (ii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan, and (d) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (m) a non-U.S. Person in a transfer

for an interest in a Regulation S Note, or (n) both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (x) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Restricted Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Restricted Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (y) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

Mandatory Redemption. If a Coverage Test is not satisfied on a Determination Date, Interest Proceeds, to the extent funds are available in accordance with the Priority of Payments and to the extent necessary to restore the Coverage Test to certain minimum required levels, will be used to repay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority on the immediately succeeding Distribution Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts) to repay the principal of each Class of Notes sequentially in direct order of seniority. Any of these events could result in an elimination, deferral or reduction in the interest payments or principal repayments made to the Noteholders or Preference Shareholders, which could adversely impact the returns of the holders of the Notes or Preference Shares. See "Description of the Notes—Principal,"—Mandatory Redemption" and "—Priority of Payments."

Optional Redemption. The Notes may be redeemed, in whole and not in part, pursuant to an Optional Redemption on any Distribution Date on or after the March 2010 Distribution Date at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares, *provided* that no such Optional Redemption may be effected unless the Redemption Amount is paid in full on the date of such redemption in accordance with the Priority of Payments. See "Description of the Notes—Optional Redemption".

Interests of the holder of the Preference Shares in determining whether to elect to require an Optional Redemption of the Notes may be different from the interests of the holders of the Notes in such respect. The holders of the Notes may not be able to invest the proceeds of the redemption of their Notes in one or more comparable investments providing a return equal to or greater than the return such holders of the Notes expected to obtain from their investment in the Notes.

Auction Call Redemption. On the First Auction Call Date and on each subsequent Auction Date (unless previously redeemed or the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares have directed an Optional Redemption), the Notes shall be redeemable, in whole but not in part, pursuant to an Auction Call Redemption effected from (a) the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), at the applicable Redemption Price; *provided* that no Auction Call Redemption shall be completed except in accordance with the Auction Procedures and unless funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. See "Description of the Notes—Auction Call Redemption" and "Schedule A—Auction Call Redemption—Auction Procedures."

Clean-Up Call Redemption. At the direction of the Collateral Manager, the Notes will be subject to redemption in whole but not in part, at their Redemption Price on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to 10.00% of the original

aggregate outstanding principal amount of the Notes as of the Closing Date; *provided* that any such redemption is subject to certain conditions described below under "Description of the Notes—Clean-Up Call Redemption."

Tax Redemption. The Issuer may redeem the Notes, in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders or, so long as the Class A-1 Notes are Outstanding, of the Controlling Class; provided that, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption." A Tax Redemption, if effected, may reduce amounts that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares and, under certain circumstances, the Noteholders, which could adversely impact the returns of the Preference Shareholders and, under those circumstances, the Noteholders.

Accelerated Maturity Date. If an Event of Default occurs and is continuing and the conditions to liquidating the Collateral set forth herein are satisfied, the Trustee will use commercially reasonable efforts to liquidate the Collateral, including the termination or novation of the Synthetic Securities, and terminate any Interest Rate Swap Agreement and any Investment Agreement as per the terms thereof and, on the second Business Day (the "**Accelerated Maturity Date**") following the Business Day on which the Trustee determines, or the Issuer (or the Collateral Manager on its behalf) notifies the Trustee, that such liquidation and such termination is completed, apply the proceeds thereof in accordance with the Priority of Payments described under "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds." See "Description of the Notes—The Indenture."

An Accelerated Maturity Date may occur (i) if there are insufficient proceeds to make any distribution on the Preference Shares or, (ii) if the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of Notes voting as a separate Class so direct, even if there are insufficient funds to pay the Redemption Price of each Class of Notes in full, *provided* that, so long as one or more Affiliates of the Collateral Manager is the holder of at least 66 2/3% in aggregate outstanding principal amount of the Class E Notes, such an Accelerated Maturity Date will require, effectively, the consent of one or more Affiliates of the Collateral Manager or (iii) (for so long as any Class A-1 Note remains Outstanding) with respect to an Event of Default under paragraph (a), (b) or (h) of the definition thereof if the holders of at least 66 2/3% in aggregate outstanding principal amount of the Controlling Class so directs.

Termination of Interest Rate Swap Agreement and Liquidation of Collateral Upon Redemption. Any Interest Rate Swap Agreement will terminate upon a Clean Up Call Redemption, Optional Redemption, Tax Redemption or Auction Call Redemption and on the Accelerated Maturity Date, which may require the Issuer to make a termination payment to any Interest Rate Swap Counterparty. Any such termination payment would reduce the proceeds available to be distributed on the Notes. Furthermore, if the Issuer enters into an Interest Rate Swap Agreement, in the event that on any date the Net Outstanding Underlying Asset Balance is less than the Notional Amount of the Interest Rate Swap

Transaction, the Notional Amount of the Interest Rate Swap Transaction will be reduced such that the Notional Amount is equal to the Net Outstanding Underlying Asset Balance. The Issuer may owe a termination payment to the Interest Rate Swap Counterparty in connection with any Interest Rate Swap Termination. Any such payment would reduce the proceeds available to be distributed on the Notes. In addition, a Clean-Up Call Redemption, an Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Accelerated Maturity Date may require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Underlying Assets sold. Moreover, the Collateral Manager may be required, in order to Dispose of all the Underlying Assets, to aggregate Underlying Assets in a block transaction, thereby possibly resulting in a lower realized value for the Underlying Assets sold.

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the day after the Payment Date occurring in March 2009, the Reinvestment Period may terminate prior to such date (i) if the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Underlying Assets, general market conditions and other factors, the Collateral Manager (in the Collateral Manager's sole discretion), acting on behalf of the Issuer has determined that investments in additional Assets within the foreseeable future would either be impractical or not beneficial or (ii) upon an Event of Default; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date occurring in March 2009.

If the Reinvestment Period terminates prior to the day after the Distribution Date occurring in March 2009, such early termination may affect the expected average lives of the Notes described under "*Maturity, Prepayment and Yield Considerations*".

Disposition of Underlying Assets by the Collateral Manager Under Certain Circumstances. Under the Indenture, during certain periods, the Collateral Manager has the right, but not the obligation, to Dispose of Underlying Assets that are Credit-Risk Assets, Defaulted Securities or Withholding Securities, subject to satisfaction of the conditions described herein. In addition, during the Reinvestment Period and subject to the satisfaction of certain conditions, the Collateral Manager may Dispose of and acquire other Underlying Assets on a discretionary basis. Such Disposition of Underlying Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. On the other hand, circumstances may exist under which it is in the best interests of the Issuer to Dispose of Underlying Assets, but the Collateral Manager does not, or is not permitted to, exercise the right to purchase such assets.

Interest Rate Risk. The Notes bear interest at a rate based on three-month LIBOR as determined on the relevant LIBOR Determination Date. The Asset-Backed Securities will include obligations that bear interest at fixed rates or are subject to interest rate caps and the Synthetic Securities will pay fixed amounts. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on such Notes and the fixed rate at which interest accrues on the fixed rate Underlying Assets and any limitation on floating rate created on Asset-Backed Securities by related interest rate caps. In addition, any payments of principal of or interest on the Underlying Assets received during a Due Period will be reinvested in Eligible Investments maturing not later than the next Distribution Date. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes. With a view to mitigating a portion of such interest rate mismatch, the Issuer may after the Closing Date and subject to satisfaction of the Rating Condition, enter into an

Interest Rate Swap Agreement. However, there can be no assurance that the Underlying Assets and Eligible Investments, together with such transactions under any Interest Rate Swap Agreement, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. Moreover, the benefits of such transactions under an Interest Rate Swap Agreement may not be achieved in the event of the early termination of the Interest Rate Swap Agreement, including termination upon the failure of the Issuer or the related Interest Rate Swap Counterparty to perform its obligations thereunder. See "Security for the Notes—The Interest Rate Swap Agreement."

Pursuant to the Indenture, the Issuer may (i) enter into an Interest Rate Swap Agreement or (ii) enter into an additional Interest Rate Swap Agreement only with the consent of the Collateral Manager and (a) the satisfaction of the Rating Condition and (b) with respect to any additional Interest Rate Swap Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement. If an Interest Rate Swap Agreement terminates it may be difficult or impossible for the Issuer to enter into a replacement Interest Rate Swap Agreement and sufficient Interest Proceeds may not be available to pay interest when due on one or more Classes of Notes. If interest is not paid on the most Senior Class of Notes then outstanding, an Event of Default under the Indenture may occur. In limited circumstances specified in the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty may have the unilateral right to reduce the notional amount of such Interest Rate Swap Agreement, in which event the Issuer could be required to pay a termination payment to the Interest Rate Swap Counterparty.

Average Life of the Notes and Prepayment Considerations. The average life of each Class of Notes is expected to be shorter than the number of years until the Stated Maturity. See "Maturity and Prepayment Considerations."

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Underlying Assets, the characteristics of the Underlying Assets, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Underlying Assets and any dividends or other distributions received in respect of Equity Securities and the occurrence of the Auction Call Redemption. See "Maturity and Prepayment Considerations," "Security for the Notes" and "Description of the Notes—Auction Call Redemption."

Withholding on the Notes; No Gross-Up. The Issuer expects that payments of principal and interest in respect of the Notes by the Issuer will ordinarily not be subject to any withholding tax in the Cayman Islands or the United States. See "Tax Considerations." In the event that withholding or deduction of any taxes from payments of principal or interest in respect of the Notes or any distribution in respect of the Preference Shares is required by law in any jurisdiction, neither of the Issuers shall be under any obligation to make any additional payments to the holders of any Notes or Preference Shares in respect of such withholding or deduction.

As a condition to the payment of principal of and interest on any Notes without U.S. federal back-up withholding, the Issuers may require the delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(30) of the Code or the applicable Internal Revenue Service Form W-8 BEN (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code).

Additional Taxes. The Issuer expects that payments received on the Underlying Assets, Eligible Investments and any Interest Rate Swap Agreement generally will not be subject to withholding or other taxes imposed by the United States. Payments on the Underlying Assets and Eligible Investments and

under any Interest Rate Swap Agreement, however, might become subject to U.S. or other tax due to a change in law or other causes. Payments with respect to Equity Securities likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and dividends and return of capital in respect of the Preference Shares. Upon the occurrence, solely as a result of Cayman Islands law, of any such events set forth in the preceding sentence, the Issuer will use its best endeavors to procure (i) the substitution of a company incorporated in another jurisdiction in which the relevant tax does not apply or (ii) the establishment of a branch office in another jurisdiction in which the relevant tax does not apply from which it will continue to carry out its functions under the Notes, subject in each case to the prior receipt by the Issuer and the Trustee of written confirmation from each Rating Agency that the rating of the Notes will not be adversely affected by such substitution or change of jurisdiction. As soon as practicable after such investigation, the Issuer will send written notice to the Trustee as to whether either of such actions will be taken by the Issuer. No assurance can be made that any such actions by the Issuer will eliminate any such withholding taxes or tax on the Issuer's net income.

Risks Relating to the Collateral

Nature of the Collateral. The Underlying Assets are subject to credit, liquidity, interest rate, market operations, fraud, structural, legal and other risks. In addition, during the Reinvestment Period, a significant portion of the Underlying Assets may be amortized or Disposed of after the Closing Date and replaced with new Underlying Assets and accordingly the financial performance of the Issuer may be affected by the price and availability of the Underlying Assets to be acquired. The amount and nature of the Collateral securing the Notes have been established to withstand certain assumed deficiencies in payment occasioned by defaults, writedowns, principal shortfalls and interest shortfalls in respect of the Underlying Assets. See "Ratings of the Notes". If any deficiencies arise, however, payment of the Notes and Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Underlying Asset securing the Notes and the Issuer (upon the advice of the Collateral Manager) Disposes of such Underlying Asset, it is not likely that the proceeds of such Disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Underlying Asset. To the extent that a credit event occurs with respect to any Reference Obligation underlying any Synthetic Security securing the Notes, the Synthetic Security Counterparty will have an option to deliver to the Issuer such Reference Obligation against the payment by the Issuer of the Physical Settlement Amount (as defined in the related Confirmation). If the Issuer subsequently Disposes of such Reference Obligation, it is not likely that the proceeds thereof will be equal to the amount of principal and interest owing to the Issuer in respect of such Reference Obligation. In addition, if the Issuer is obligated to make a Floating Payment under a Synthetic Security, such Floating Payment would result in a reduction of the Principal/Notional Balance of such Synthetic Security, and, therefore, reduce the amounts payable by the Synthetic Security Counterparty, and reduce the amount of Interest Proceeds available to pay the Notes and Preference Shares. Any Floating Payment would reduce the Collateral that is available to pay the principal of the Notes and Preference Shares, and would expose the Issuer to reinvestment risk.

The market value of the Underlying Assets generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Assets or, with respect to Synthetic Securities, of the obligors on or issuers of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

If an Underlying Asset becomes an Equity Security, Credit-Risk Asset, Defaulted Asset or Withholding Security, the Collateral Manager may or may not elect to Dispose of the affected asset.

Confidential Treatment Requested

There can be no assurance as to the timing of the Collateral Manager's purchase of the affected asset, or as to the rates of recovery on such affected asset. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes and Preference Shares.

Although the Issuer is permitted to invest in Asset-Backed Securities and Synthetic Securities, the Issuer may find that, as a practical matter, these investment opportunities are not available to it for a variety of reasons such as the limitations imposed by the Eligibility Criteria and the Collateral Quality Tests. At any time there may be a limited universe of investments that would satisfy the Eligibility Criteria and the Collateral Quality Tests given the other investments in the Issuer's portfolio. As a result, the Issuer may at times find it difficult to acquire suitable investments. See "Security for the Notes".

The ability of the Issuer to Dispose of Underlying Assets prior to maturity is subject to certain restrictions under the Indenture. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, the acquisition and the Disposition of Underlying Assets could result in losses to the Issuer, which losses could affect the timing and amount of payments in respect of the Notes or Preference Shares or result in the reduction in or withdrawal of the rating on any or all of the Notes by one or more of the Rating Agencies.

Asset-Backed Securities. The Underlying Assets will consist of Asset-Backed Securities, which may include, without limitation, CMBS Securities, RMBS Securities, Automobile Securities, Small Business Loan Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed Securities. **"Asset-Backed Securities"** are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. See "Security for the Notes—Underlying Assets—Asset-Backed Securities".

Holders of Asset-Backed Securities bear various risks, including interest rate risks, market risks, credit risks, liquidity risks, operations risks, structural risks and legal risks. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the relative seniority or subordination of the class of Asset-Backed Security held by the investor, the process by which principal and interest payments are allocated to investors, how credit losses affect the issuing vehicle and the return to investors, whether collateral represents a static or revolving pool of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors. See "Security for the Notes—Underlying Assets—Asset-Backed Securities" below.

Liquidity risk can arise from an increase in perceived credit risk, as occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity.

For these cases, the securitization transaction may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of the loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its function, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or Affiliates), the assets of the Issuer could be treated as never having been truly sold by the originator to the Issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the Issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Residential ABS Securities. Most of the Underlying Assets will consist of Residential ABS Securities. Residential ABS Securities represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. See "Maturity, Prepayment and Yield Considerations". Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults, writedowns, principal shortfalls, interest shortfalls and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located (including local property values), the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

The risk of losses on residential mortgage loans is particularly relevant now. While there is always a risk of defaults or delinquencies in payment, recently losses on residential mortgage loans have been increasing and may continue to increase in the future. The losses have been most significant in respect of subprime mortgage loans but all classes of loans are affected.

A number of factors are contributing to the increase in losses. Residential property values that increased for many years are now declining or static in many states. Static or declining property values are expected to result in higher losses on mortgage loans when compared to an environment in which property values are increasing. Losses may be particularly high with respect to mortgage loans on properties that are not the borrower's primary residence, including second homes, investment properties and any loans where the property value is less than the remaining amount of the mortgage loan. Declining property values also exacerbate the losses due to a failure to apply adequate standards to potential borrowers. Failures to properly screen borrowers may include failures to do adequate due diligence on a borrower (including employment and income history) or the relevant property (including valuation) or failures to follow predatory lending and other borrower-protection statutes. Increases in interest rates may also contribute to higher rates of loss. Increases in interest rates require borrowers under adjustable rate mortgage loans to pay higher monthly payments. Higher monthly payments make it more likely that borrowers will be unable or unwilling to make payments on their loans.

The increase in delinquencies and defaults has contributed to a declining market for mortgage loans. The declining market has, in turn, seriously impacted mortgage originators and servicers. In addition to losses due to delinquencies and defaults, mortgage originators and servicers face losses due to claims for repurchase under provisions in many mortgages that require repurchase due to a breach of a representation or and warranty regarding the relevant mortgage loan. The financial difficulties of servicers in particular are likely to result in losses in respect of securities backed by residential mortgage loans. Servicers of such securities are typically required to make advances of payment for delinquent loans. If the servicer is in financial difficulties, however, the servicer may not be able to provide such advances. In extreme cases, if a servicer is in bankruptcy or other insolvency proceedings it may not be required to make such advances. In addition, the servicer's obligation to make such advances may be limited due to the credit quality of the borrower under the relevant mortgage loans.

Residential mortgage loans may be subject to various Federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions.

At any one time, the portfolio of Residential ABS Securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, the related mortgaged properties may have a more limited market than those securing average-sized residential mortgage loans.

Each underlying residential mortgage loan in an issue of Residential ABS Securities may have a balloon payment due at its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans because the ability of the borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of Residential ABS Securities may experience losses.

Commercial Mortgage-Backed Securities. Asset-Backed Securities include Commercial Mortgage-Backed Securities. Commercial Mortgage-Backed Securities are securities backed by obligations (including participation interests in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. Commercial Mortgage-Backed Securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-

related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally are non-recourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. In some cases, the properties securing commercial mortgage loans may be subject to additional debt that may affect the related borrower's ability to refinance the loan and/or result in reduced cash flow and deferred maintenance. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential mortgage lending since it typically involves larger loans to a single borrower or related borrowers than residential mortgage lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of Commercial Mortgage-Backed Securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments: declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; acts of war; acts of terrorism; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of Commercial Mortgage-Backed Securities servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation.

Commercial Mortgage-Backed Securities may pay fixed or floating rates of interest. Fixed rate Commercial Mortgage-Backed Securities, like all fixed-income securities, generally decline in value as

interest rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, this inverse relationship may not be as marked in the case of Commercial Mortgage-Backed Securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made.

Mortgage loans underlying a Commercial Mortgage-Backed Securities issue may lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Synthetic Securities. A portion of the Underlying Assets may consist of Synthetic Securities, the Reference Obligations of which are Asset-Backed Securities (primarily, Residential ABS Securities, CMBS Securities, ABX Tranche Securities and CDO Securities). Investments in such types of assets through the acquisition of Synthetic Securities present risks in addition to those resulting from direct acquisition of such Underlying Assets. With respect to Synthetic Securities, the Issuer will have a contractual relationship only with the counterparty of such Synthetic Security, and not the Reference Obligor on the Reference Obligation. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor with the terms of either the Reference Obligation or any rights of set-off against the Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation.

Illiquidity of the Underlying Assets. Some of the Underlying Assets purchased by the Issuer will have no, or only a limited, trading market. The market for Synthetic Securities may be less liquid than the market for certain other types of financial assets. The Issuer's investment in illiquid Underlying Assets may restrict its ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities. Illiquid Underlying Assets may trade at a discount from comparable, more liquid investments. In addition, the Issuer may invest in privately placed Underlying Assets that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed Underlying Assets are transferable, the prices realized from their sale could be less than those originally paid by the Issuer or less than what may be considered the fair value of such securities.

Exposure to Credit Risks - the Reference Obligations and the Synthetic Securities Counterparties. The obligation of the Issuer to make payments to each Synthetic Security Counterparty relating to the Synthetic Securities creates exposure to the credit risk of the Reference Obligations related to such Synthetic Securities. The funds available to make payments in respect of principal on the Notes and Preference Shares is dependent upon whether and to what extent payments are due and payable by the Issuer to a Synthetic Security Counterparty relating to the Synthetic Securities. Any settlement payments and termination payments payable by the Issuer (net of termination payments payable by a Synthetic Security Counterparty) due and owing to a Synthetic Security Counterparty will reduce the amount available to pay the obligations of the Issuer to the Noteholders and Preference Shareholders in inverse order of Seniority. Accordingly, the holders of the Preference Shares and then the Noteholders may lose all or a portion of their investment. The Issuer will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In addition, in the event of the insolvency of the First Synthetic Security Counterparty or any other Synthetic Security Counterparty, the Issuer will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As

a result, concentrations of Synthetic Securities entered into with any one counterparty will subject the Notes and Preference Shares to an additional degree of risk with respect to defaults by or the insolvency of such counterparty as well as by the Reference Obligor. One or more Affiliates of the Initial Purchaser may act as counterparty with respect to all or a portion of the Synthetic Securities, which relationship may create certain conflicts of interest. See "—Conflicts of Interest Involving the Initial Purchaser" below.

Additionally, while the Issuer expects that the returns on a Synthetic Security will generally reflect those of the related Reference Obligation, as a result of the terms of the Synthetic Security and the assumption of the credit risk of the Synthetic Security Counterparty, a Synthetic Security may have a different expected return, a different (and potentially greater) probability of default and expected loss characteristics following a default, and a different expected recovery following default. Additionally, when compared to the related Reference Obligation, the terms of a Synthetic Security may provide for different maturities, payment dates, interest rates, interest rate references, credit exposures, or other credit or non-credit related characteristics. Upon maturity, default, acceleration or any other termination (including a put or call) other than pursuant to a credit event (as defined therein) of the Synthetic Security, the terms of the Synthetic Security may permit or require the issuer of such Synthetic Security to satisfy its obligations under the Synthetic Security by delivering to the Issuer securities other than the Reference Obligation or an amount different than the then current market value of the Reference Obligation.

If the Issuer is obligated to make a Floating Amount Payment under a Synthetic Security, such Floating Amount Payment may result in a reduction of the Principal/Notional Balance of such Synthetic Security, and therefore reduce the amounts payable by a Synthetic Security Counterparty and the amount of Interest Proceeds available to pay the Notes and Preference Shares. In addition, any Floating Amount Payment related to writedowns or failure to pay principal will reduce the Aggregate Principal/Notional Balance of Synthetic Securities that are available to pay the principal of the Notes and Preference Shares.

The ability of the Issuer to meet its obligations under the Notes will be dependent on the Issuer's receipt of payments from the Synthetic Security Counterparty pursuant to the Synthetic Securities. Consequently, in addition to relying on the creditworthiness of the reference obligors, the Issuer will also be relying upon the creditworthiness of the Synthetic Security Counterparty to perform its obligations under the Synthetic Securities.

Offsetting Transactions. As described herein, the Issuer may enter into certain Offsetting Transactions intended to hedge the Issuer's credit exposure in relation to certain Synthetic Securities. Such Offsetting Transactions are subject to certain risks including those described above in respect of Synthetic Securities. There can be no guarantee or assurance that any such Offsetting Transactions will effectively hedge all or any of the Issuer's exposure under the applicable Synthetic Security.

Limited Information with Respect to the Reference Obligations. Synthetic Security Counterparties are not required to hold any Reference Obligation. The Issuer will not have any right to obtain from the issuer of the Reference Obligations, any related trustee, fiscal agent, collateral manager or custodian information on the Reference Obligations or information regarding any obligation of any Reference Obligation. Synthetic Security Counterparties will have no obligation to keep the Issuer, the Trustee, the Collateral Manager, the Noteholders or the Preference Shareholders informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event or an obligation to make Floating Amount Payments.

No Legal or Beneficial Interest in Reference Obligations. Under the Synthetic Securities, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty and not with the issuer or obligor of any Reference Obligation. Consequently, the Synthetic Securities do not constitute an

acquisition or other acquisition or assignment of any interest in any Reference Obligation. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off or recourse against the Reference Obligor, nor have any voting or other consensual rights of ownership with respect to the Reference Obligation and will not have the benefit of the remedies that would normally be available to the holder of such Reference Obligation. The Issuer and the Trustee, therefore, will have rights solely against the related Synthetic Security Counterparty in accordance with the Synthetic Securities. In addition, neither a Synthetic Security Counterparty nor its affiliates will be (or deemed to be acting as) the agent or trustee of the Issuer, the Noteholders or the Preference Shareholders in connection with the exercise of, or the failure to exercise, any of the rights or powers of a Synthetic Security Counterparty and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. Each Synthetic Security Counterparty and its affiliates (i) may deal in any Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if a Synthetic Security Counterparty and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Preference Shareholders or the Noteholders.

Legal Risk relating to the Synthetic Securities. Initially the Synthetic Securities will be structured as "Pay As You Go" credit default swaps. "Pay As You Go" credit default swaps are a type of credit default swap that has been developed recently to reference, and incorporate certain terms of the unique structures of, Asset-Backed Securities. On November 10, 2006, the International Swaps and Derivatives Association, Inc. (**"ISDA"**) published its revised form of confirmation and a Standard Terms Supplement for a "Pay As You Go" transaction on a mortgage-backed security (the **"MBS Pay As You Go Form"**). On January 19, 2006 CDS IndexCo LLC published its form of confirmation for a "Pay As You Go" transaction on the ABX Index the **"ABX Pay As You Go Form"**). On June 7, 2006 ISDA published its form of confirmation for a "Pay As You Go" transaction on a collateralized debt obligation (the **"CDO Pay As You Go Form"** and, together with the MBS Pay As You Go Form and the ABX Pay As You Go Form, the **"Pay As You Go Forms"**). It is expected that the Synthetic Securities to which the Issuer will be a party will be based on modified versions of the Pay As You Go Forms. See *"Security for the Notes"* herein. While ISDA and CDS IndexCo LLC have published the Pay As You Go Forms and ISDA has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the Pay As You Go Forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that such forms will be substantially similar to the form Confirmations. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the Pay As You Go Forms, each of the Synthetic Security confirmations to which the Issuer is from time to time a party may differ from the future market standard. Any difference between the Pay As You Go Forms and the forms used for the Synthetic Securities may have a negative impact on the liquidity and market value of such Synthetic Securities. In particular, the ABX Pay As You Go Form is only beginning to be used by market participants and many participants, including the Rating Agencies, are uncertain what terms are appropriate. Synthetic Securities based on the ABX Pay As You Go Form may be less liquid than those based on other Pay As You Go Forms.

There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer or investors in the Notes or Preference Shares. Amendments or supplements to the "Pay-As-You-Go" credit default swap forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will not apply to the Synthetic Securities executed prior to such amendment or supplement unless the

Issuer and the related Synthetic Security Counterparty agree to amend the Synthetic Securities to incorporate such amendments or supplements, and the Rating Condition is satisfied. For so long as any Class A-1 Notes remain Outstanding, the Issuer is required to provide prior notice of any such agreed amendment or supplement to the Controlling Class. In addition, the Issuer and the Synthetic Security Counterparty may enter into additional Synthetic Securities that incorporate such amendments and supplements as long as the Rating Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the related Synthetic Security Counterparty, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or investors in the Notes or Preference Shares or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer or investors in the Notes or Preference Shares.

Synthetic Security Collateral Account and the Reliance on the Credit Worthiness of Eligible Investments held therein. The Synthetic Securities may require the Issuer to secure its obligations with respect to each such Synthetic Security. As directed by the Collateral Manager in writing, cash on deposit in the Synthetic Security Collateral Account on behalf of each Synthetic Security Counterparty will be invested in Eligible Investments. Amounts on deposit in the Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any amounts owed by the Issuer to each Synthetic Security Counterparty on the date any such amounts are due. Any Excess Collateral Account Amount will be withdrawn from the Synthetic Security Collateral Account and deposited to the Disposition Proceeds Account; *provided* that to the extent that any such withdrawal from the Synthetic Security Collateral Account would require a withdrawal from any Investment Agreement, such withdrawal may only be made in accordance with the terms of such Investment Agreement. Any income on Eligible Investments contained in the Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in the Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes or Preference Shares and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to such Synthetic Security Collateral Account shall be considered an asset of the Issuer. The Issuer will bear the risk of any losses with respect to the Eligible Investments held in the Synthetic Security Collateral Account. Therefore, with respect to each Synthetic Security, the Issuer bears the risk of the Reference Obligation, the related Synthetic Security Counterparty and the credit and market risks relating to the Eligible Investments including credit risk with respect to any Investment Agreement that secure the Issuer's obligations with respect to such Synthetic Security.

Reliance on Creditworthiness of Investment Agreements. The amounts on deposit in the Synthetic Security Collateral Account are expected to be invested in Eligible Investments consisting initially of the Initial Investment Agreement and, accordingly, the Issuer will be exposed to the creditworthiness of the Initial Investment Agreement Provider and its guarantor. The insolvency of the Initial Investment Agreement Provider or a default by such parties under the Initial Investment Agreement, respectively, would adversely affect the ability of the Issuer to pay principal and interest when due under the Notes and distributions in respect of the Preference Shares and could result in a downgrade of the ratings on the Notes.

If an Investment Agreement is terminated as a result of an event of default or an uncured ratings downgrade condition as specified therein, the Issuer may enter into one or more replacement investment

agreements (each a **"Replacement Investment Agreement"**), and accordingly, the Issuer will be exposed to the creditworthiness of the related Replacement Investment Agreement provider (each a **"Replacement Investment Agreement Provider"**). See "Description of the Initial Investment Agreement—The Initial Investment Agreement".

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value and, therefore, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the Asset-Backed Securities and Reference Obligations will be used by the Collateral Manager only as a preliminary indicator of investment quality. Investments in non-investment grade and comparable unrated obligations will be more dependent on the Collateral Manager's credit analysis than would be the case with investments in investment-grade debt obligations.

International Investing. A limited portion of the Underlying Assets may consist of obligations of issuers organized under the law of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands or the Netherlands Antilles. Moreover, collateral securing Asset-Backed Securities may consist of obligations of issuers or borrowers organized under the laws of various jurisdictions other than the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks may include: (a) less publicly available information; (b) varying levels of governmental regulation and supervision; and (c) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries than there is in the United States. For example, there may be no comparable provisions under certain foreign laws with respect to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Issuer are uninvested and no return is earned thereon. The inability of the Issuer to make intended Underlying Assets acquisitions due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to Dispose of an Underlying Asset due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Underlying Asset or, if the Issuer has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling foreign securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, foreign financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of the Issuer, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the Issuer's investments in such foreign countries. The economies of

individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Other Considerations

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchaser and its affiliates may result in certain conflicts of interest.

Conflicts of Interest Involving the Collateral Manager. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates. The Collateral Manager and its Affiliates may invest or invest for the account of others in debt obligations that would be appropriate as security for the Notes and have no duty in making such investments or to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may have economic interests in, or other relationships with, issuers in whose obligations or securities the Issuer may invest. In particular, a substantial portion of the Underlying Assets acquired by the Issuer from the Initial Purchaser were sold to the Initial Purchaser from portfolios of securities held by one or more of the Collateral Manager and its Affiliates. In addition, the Collateral Manager or its Affiliates may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of the Collateral Manager or its Affiliates serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its Affiliates may in their discretion (except as provided below under "Security for the Notes—Dispositions of Underlying Assets") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Issuer and the Collateral Manager's and its Affiliates' other accounts.

The Collateral Manager also serves as a manager of one or more other companies organized to invest in Asset-Backed Securities. The Collateral Manager and its Affiliates may pursue its own interests as an owner of other securities issued by an issuer of Underlying Assets, without considering the effect of its actions or omissions on the Issuer. In addition, the Collateral Manager may act as the Auction Agent in an Auction Call Redemption of the Notes or may resign as Auction Agent and bid on any Underlying Assets that are sold pursuant to an Auction Call Redemption.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may purchase some or all of the Class E Notes on the Closing Date. Pursuant to the Management Agreement, the Collateral Manager, in its capacity as holder of, or an advisor to the holder of Class E Notes and Preference Shares may, in such capacity, act in a manner which it determines to be in the best interests of a holder of Class E Notes and/or Preference Shares, without regard to the effect on the interests of other Noteholders. In addition, the Collateral Manager and its Affiliates may at times own any other Class of Notes. A portion of the purchase price of Notes and the Preference Shares to be acquired by the Collateral Manager or its Affiliates may be financed by the Initial Purchaser. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Notes or Preference Shares beneficially owned by the Collateral Manager or any Affiliate thereof or by an account or fund for which

the Collateral Manager or an Affiliate thereof acts as the investment adviser (with discretionary authority) (**"Collateral Manager Securities"**) with respect to any vote or consent on any assignment or termination of the Management Agreement (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote the Notes and Preference Shares held by them with respect to all other matters. For purposes hereof, **"Affiliate"** means, with respect to any person, (a) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such person, (b) any other person who is a director, officer, employee, managing member or general partner of (i) such person or (ii) any such other person described in clause (a) above, or (c) with respect to the Collateral Manager, any account or fund for which the Collateral Manager or any of the foregoing acts as investment advisor with discretionary authority. For the purposes of the foregoing definition, control of a person shall mean the power, direct or indirect, (x) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. The ownership of some or all of the Class E Notes and all of the Preference Shares by one or more Affiliates of the Collateral Manager may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes.

Conflicts of Interest Involving the Initial Purchaser. Certain of the Asset-Backed Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which DBSI as the Initial Purchaser or an Affiliate of DBSI has acted as underwriter, agent, placement agent or dealer or for which an Affiliate of DBSI has acted as lender or provided other administrative, commercial or investment banking services. In addition, if not the Auction Agent, the Initial Purchaser may bid on the Underlying Assets at any time the Issuer Disposes of an Underlying Asset. In addition, an Affiliate of the Initial Purchaser will be the First Synthetic Security Counterparty and may be Offsetting Transaction Counterparty. Also, as described under "Use of Proceeds", the Issuer, DBSI and Deutsche Bank AG Cayman Islands Branch (the **"Warehouse Lender"**), an Affiliate of DBSI, have entered into a credit agreement (the **"Warehouse Credit Agreement"**), pursuant to which the Warehouse Lender has financed the acquisition of certain Asset-Backed Securities and the payment of certain transaction-related fees and expenses prior to the Closing Date. On the Closing Date, the net proceeds from the sale of the Notes and the Preference Shares will be used by the Issuer to repay in full all amounts owing by the Issuer to the Warehouse Lender relating to the Warehouse Credit Agreement, and such revolving credit facility, along with the lien on the Asset-Backed Securities, the Offsetting Transactions and the Synthetic Securities securing it, will be terminated. See "Use of Proceeds".

Conflicts of Interest involving the Synthetic Security Counterparties and the Offsetting Transaction Counterparty. The First Synthetic Security Counterparty is an Affiliate of the Initial Purchaser and the Offsetting Transaction Counterparty may be an Affiliate of the Initial Purchaser. Each Synthetic Security Counterparty or Offsetting Transaction Counterparty may take actions under the related Synthetic Securities or Offsetting Transactions or otherwise that may be inconsistent with or adverse to the interests of the Noteholders. Synthetic Security Counterparties will not be obligated to take any action to minimize losses with respect to any Reference Obligation. In addition, each Synthetic Security Counterparty or Offsetting Transaction Counterparty has the right in the event of an assignment of a Synthetic Security (or Offsetting Transaction, as applicable) to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. See "Security for the Notes—Underlying Assets—Synthetic Securities—Assignment".

Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may deal in any obligations or other securities of any Reference Obligor (including, but not limited to, any Reference Obligations), may enter into other credit derivatives involving entities that may include the Reference Obligors or their affiliates or sponsors (including credit derivatives to hedge its obligations under the Synthetic Securities or Offsetting Transactions), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, any Reference Obligor, any affiliate or sponsor of any Reference Obligor or any other person or other entity having obligations relating to any Reference Obligor or affiliate or sponsor of such Reference Obligor, and may act with respect to such business in the same manner as if the related Synthetic Securities and/or Offsetting Transactions did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligations (including, without limitation, any action which might constitute or give rise to a Credit Event), or on the position of the Issuer, the Noteholders or any other party to the transaction described herein or otherwise. Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may, whether by reason of the types of relationships described herein or otherwise, on the date hereof or at any time hereafter, be in possession of information in relation to any Reference Obligation, Reference Obligor or any of such Reference Obligor's sponsors or affiliates, that is or may be material in the context of the related Synthetic Securities or Offsetting Transactions and the other transaction documents and that may or may not be publicly available or known to the other parties to the transaction documents and which information each Synthetic Security Counterparty, each Offsetting Transaction Counterparty or their affiliates may be prohibited from using for the benefit of the Issuer. The Synthetic Securities, Offsetting Transactions and the other transaction documents do not create any obligation on the part of the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) and its affiliates to disclose to any other such party any such information (whether or not confidential). In addition, with respect to the deletion or addition of Reference Obligations in connection with any trading activity undertaken by the Collateral Manager on behalf of the Issuer, the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) is not obligated to agree to any such deletion or addition of a Reference Obligation and may make its decision whether to agree to any such deletion or addition on the basis of its own best interests and without regard to the interests of the Issuer or the Noteholders.

Money Laundering Prevention. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "**USA PATRIOT Act**"), effective as of October 26, 2001, requires that financial institutions, a term that includes banks, broker-dealers and investment companies, establish and maintain compliance programs to guard against money laundering activities. The USA PATRIOT Act requires the Secretary of the U.S. Treasury (**"Treasury"**) to prescribe regulations in connection with anti-money laundering policies of financial institutions. The Federal Reserve Board, the Treasury and the SEC are currently studying what types of investment vehicles should be required to adopt anti-money laundering procedures, and it is unclear at this time whether such procedures will apply to pooled investment vehicles such as the Issuer. It is possible that there could be promulgated legislation or regulations that would require the Issuer or the Initial Purchaser or other service providers to the Issuer, in connection with the establishment of anti-money laundering procedures, to share information with governmental authorities with respect to investors in the Notes and Preference Shares. Such legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Notes and Preference Shares or interests therein. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Notes and Preference Shares and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by Financial Crimes Enforcement Network and/or the SEC. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of Notes, Preference Shares or interests therein and the subscription monies relating thereto may be refused. In connection with the establishment of anti-money

laundering procedures, the Issuer may implement additional restrictions on the transfer of Notes or Preference Shares.

Purchase of Underlying Assets. The Issuer will acquire Underlying Assets from a warehouse facility (the **"Warehouse Facility"**) provided by an affiliate of DBSI, which provides for the purchase of Asset-Backed Securities at the direction of the Collateral Manager on behalf of the Issuer prior to the Closing Date. In addition, a substantial portion of the Underlying Assets purchased by the Issuer are securities from portfolios of Asset-Backed Securities held, directly or indirectly, by the Collateral Manager or one or more Affiliates of, or investment funds managed by, the Collateral Manager.

Some of the Underlying Assets subject to the Warehouse Facility may have been originally acquired by DBSI or one of its Affiliates in connection with its underwriting or placement thereof upon issuance thereof or from the Collateral Manager or one of its Affiliates. The Warehouse Facility requires the Issuer to purchase Asset-Backed Securities eligible for inclusion in the Collateral on the Closing Date at a price equal to the price paid when DBSI or its Affiliate acquired such Asset-Backed Securities pursuant to the Warehouse Facility, plus accrued interest thereon, and net of any hedging gains or losses. As a result, the Issuer bears the risk of depreciation in the value of an Asset-Backed Security purchased under the Warehouse Facility. The Issuer will purchase, and DBSI and its Affiliates under the Warehouse Facility will sell, Asset-Backed Securities only to the extent that the Collateral Manager determines that such purchases are consistent with the restrictions contained in the Indenture.

If any such seller were to become the subject of a case or proceeding under the United States Bankruptcy Code or another applicable insolvency law, the trustee in bankruptcy could assert that Asset-Backed Securities acquired from such seller are property of such seller's insolvency estate. Property that such seller has pledged or assigned, or in which such seller has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of such seller's estate. Property that such seller has sold or absolutely assigned and transferred to another party, however, is not property of such seller's estate. The Issuer does not expect that the purchase by the Issuer of Asset-Backed Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Asset-Backed Securities to the Issuer).

Relation to Prior Investment Results. The prior investment results of the Collateral Manager and the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Underlying Assets among asset categories, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets, defaults under Underlying Assets and the effectiveness of any Interest Rate Swap

Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or its affiliates or any other person or entity of the results that will actually be achieved by the Issuer. None of the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser, its affiliates or any other person has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 1761 East St. Andrew Place, Santa Ana, California 92705, or to RSM Robson Rhodes LLP (the **"Irish Paying Agent"**), at RSM House, Herbert Street, Dublin 2, Ireland.

Status and Security

The Notes will be limited-recourse debt obligations of the Issuers. The relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1a Notes, *second*, Class A-1b Notes, *third*, Class A-2 Notes, *fourth*, Class B Notes, *fifth*, Class C Notes, *sixth*, Class D Notes and *seventh*, Class E Notes, with (a) each Class of Notes (other than the Class E Notes) in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1a Notes) in such list being **"Subordinate"** to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full in accordance with the Priority of Payments. Certain Principal Proceeds, to the extent available, will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes.

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture, the Notes, any Interest Rate Swap Agreement, the Synthetic Security Agreement, the Investment Agreement and the Management Agreement.

Payments of principal of and interest on the Notes will be made solely from the proceeds of the Collateral, in accordance with the priorities described under "—Priority of Payments" herein. If the amounts received in respect of the Collateral (net of certain expenses) are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Issuers to pay any such deficiency will be extinguished.

Interest

The Class A-1a Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.21%.

The Class A-1b Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.35%.

The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.47%.

The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 0.68%.

The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 2.25%.

The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 4.75%.

The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* 6.25%.

Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest will accrue on the aggregate outstanding principal amount of each Class of Notes

(determined as of the first day of each Interest Period and after giving effect to any redemption or other payment of principal occurring on such day) from the Closing Date. Interest accruing for any Interest Period will accrue for the period from and including the first day of such Interest Period to and including the last day of such Interest Period.

Accrued and unpaid interest will be payable in U.S. Dollars quarterly in arrears on the 12th day of each March, June, September and December commencing on June 12, 2007 (each such date, together with the Accelerated Maturity Date, a **"Distribution Date"**); *provided* that (i) the final scheduled Distribution Date shall be, with respect to each Class of Notes, the December 2045 Distribution Date, and (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

In the event that any Distribution Date falls on a date that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the nominal Distribution Date, and any interest accrued for the period from or after such nominal date to the next succeeding Business Day shall not be payable on such Business Day but shall be payable on the next following Distribution Date.

As long as the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes are outstanding, if either Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied (or until each such Class of Notes is paid in full). See "—Priority of Payments."

Any interest on the Class C Notes, the Class D Notes and the Class E Notes that is not paid to such Class when due will be deferred (such interest being referred to herein as **"Deferred Interest"**; Deferred Interest in the case of the Class C Notes being referred to herein as **"Class C Deferred Interest"**, Deferred Interest in the case of the Class D Notes being referred to herein as **"Class D Deferred Interest"** and Deferred Interest in the case of the Class E Notes being referred to herein as **"Class E Deferred Interest"**); *provided* that no accrued interest on a Class of Notes shall become Deferred Interest unless a more Senior Class of Notes is then outstanding. Interest will accrue on the aggregate outstanding deferred amount at the rates of interest applicable to that Class of Notes. Upon the payment of Deferred Interest, the aggregate outstanding deferred amount with respect to the related Class of Notes will be reduced by the amount of such payment. So long as any more Senior Class of Notes remains outstanding, failure to make payment in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes on any Distribution Date by reason of Priority of Payments will not constitute an Event of Default under the Indenture.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid. **"Defaulted Interest"** means any interest due and payable in respect of any Class A Note or any Class B Note or, if no Class A Notes or Class B Notes are outstanding, any Class C Note (other than Class C Deferred Interest), if no Class C Notes are outstanding, any Class D Notes (other than Class D Deferred Interest) or, if no Class D Notes are outstanding, any Class E Note (other than Class E Deferred Interest) that is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity. Defaulted Interest will not include Deferred Interest.

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"Interest Period" means (a) with respect to the June 2007 Distribution Date (the **"First Distribution Date"**) the period from, and including, the Closing Date to and excluding the First Distribution Date, and (b) with respect to each Distribution Date thereafter, the period from, and including, the immediately preceding Distribution Date and ending on, but excluding, such Distribution Date.

Calculation of LIBOR. With respect to each Interest Period, LIBOR for purposes of calculating the interest rate for the Notes for such Interest Period will be determined by the Trustee, as calculation agent (the **"Calculation Agent"**) in accordance with the following provisions:

(a) LIBOR for any Interest Period shall equal the offered rate, as determined by the Calculation Agent, for Dollar deposits of the Designated Maturity which appears on Reuters Page "LIBOR01" (or such other page as may replace such Reuters Page "LIBOR01"for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. **"LIBOR Determination Date"** means, with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(b) If, on any LIBOR Determination Date, such rate does not appear on Reuters Page "LIBOR01" (or such other page as may replace such Reuters Page "LIBOR01" for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for Dollar deposits of three months (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

(c) In respect of any Interest Period having a designated maturity other than three months, LIBOR shall be determined through the use of straight-line interpolation by reference to two rates calculated in accordance with clauses (a) and (b) above, one of which shall be determined as if the maturity of the Dollar deposits referred to therein were the period of time for which rates are available next shorter than the Interest Period and the other of which shall be determined as if the maturity were the period of time for which rates are available next longer than the Interest Period; *provided* that, if an Interest Period is less than or equal to seven days, then LIBOR shall be determined by reference to a rate calculated in accordance with clauses (a) and (b) above as if the maturity of the Dollar deposits referred to therein were a period of time equal to seven days.

(d) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (a) and (b) above, LIBOR with respect to such

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Interest Period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

(e) If the Calculation Agent is required but is unable to determine a rate in accordance with any of the procedures described in clauses (a), (b) or (d) above, LIBOR with respect to such Interest Period will be calculated on the last day of such Interest Period and shall be the arithmetic mean of the Base Rate for each day during such Interest Period.

For purposes of clauses (a), (c), (d) and (e) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point. For the purposes of clause (b) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one thirty-second of a percentage point.

As used in the calculation of LIBOR above and elsewhere in this Offering Circular:

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its base rate, prime rate, reference rate or similar rate for Dollar loans. Changes in the Base Rate will take effect simultaneously with each change in the underlying rate.

"Base Rate Reference Bank" means Deutsche Bank Trust Company Americas, or if such bank ceases to exist or is not quoting a base rate, prime rate reference rate or similar rate for Dollar loans, such other major money center commercial bank in New York City, as selected by the Calculation Agent after consultation with the Collateral Manager.

"Designated Maturity" means, with respect to any Class of Notes for each Interest Period, three months; *provided that*, with respect to the First Distribution Date, the Designated Maturity shall be 89 days.

"LIBOR Business Day" means a day on which commercial banks and foreign exchange markets settle payments in Dollars in New York and London.

"London Banking Day" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

"Reference Banks" means four major banks in the London interbank market, selected by the Calculation Agent after consultation with the Collateral Manager.

"Reference Dealers" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent after consultation with the Collateral Manager.

For so long as any Note remains outstanding, the Issuers will at all times maintain an agent appointed to calculate LIBOR in respect of each Interest Period. As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (London time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for each Class of Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each U.S.$1,000 in principal amount of each Class of Notes (in each case rounded to the nearest cent, with half a cent being rounded upward) on the related Distribution Date and will communicate such rates and amounts and the related Distribution Date to the

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Issuers, the Trustee, each Paying Agent, Euroclear, Clearstream, DTC and (for so long as any Class of Notes is listed on the Irish Stock Exchange) the Irish Stock Exchange.

The Calculation Agent may be removed by the Issuers at any time. If the Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, the Issuers will promptly appoint as a replacement Calculation Agent a leading bank that is engaged in transactions in Dollar deposits in the international Eurodollar market and which does not control and is not controlled by or under common control with either of the Issuers or any affiliate thereof. The Calculation Agent may not resign its duties without a successor having been duly appointed. The determination of the interest rate for each Class of Notes for each Interest Period by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

The Stated Maturity of each Class of Notes is the December 2045 Distribution Date. Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior to the Stated Maturity. However, the Notes may be paid in full prior to their Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the "**Final Maturity Date**". See "Risk Factors—Average Life of the Notes and Prepayment Considerations" and "Maturity and Prepayment Considerations." Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with the Final Maturity Date) will be made by the Trustee on a *pro rata* basis on each Distribution Date among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment.

Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full.

However:

(a) on each Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after March 2010, 15.00% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2

Notes, *sixth*, the principal of the Class A-1b Notes and *seventh*, the principal of the Class A-1a Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered fifteen days prior to the applicable Distribution Date (the **"Record Date"**). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar-denominated account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a **"Paying Agent"**) on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a Dollar-denominated check drawn on a bank in the United States mailed to the address of the holder of such Note as it appears on the Note Register at the close of business on the Record Date for such payment. Final payments in respect of principal of the Notes will be made against surrender of such Notes at the office of the Paying Agent.

If any payment on the Notes is due on a day that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the date for payment. **"Business Day"** means any day other than Saturday, Sunday or a day on which banking institutions are authorized or obligated by law, regulation or executive order to close in New York City, London or the city of the designated corporate trust office of the Trustee or, in the case of the final payment of principal of a Note or distribution of Excess Principal Proceeds with respect to a Preference Share, in the place of presentation of such Note or Preference Share. To the extent action is required of the Issuer that has not been delegated to the Trustee, the Collateral Manager or any agent of the Issuer located outside of the Cayman Islands, the Cayman Islands shall be considered in determining "Business Day" for purposes of determining when such Issuer action is required. To the extent action is required of the Irish Paying Agent, Ireland shall be considered in determining "Business Day" for purposes of determining when such Irish Paying Agent action is required.

For so long as the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will maintain a listing agent and a Paying Agent with an office in Ireland.

Except as otherwise required by applicable law, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Issuer upon request by the Issuer therefor, and the holder of such Note shall thereafter, as an unsecured general creditor, look to the Issuers for payment of such amounts and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease. The Trustee or the Paying Agent, before being required to make any such release of payment may, but shall not be required to, adopt and employ, at the expense of the Issuers, any reasonable means of notification of such release of payment, including mailing notice of such release to holders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of each such holder.

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Priority of Payments

With respect to any Distribution Date, collections received on the Collateral during each Due Period will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds," respectively (collectively, the **"Priority of Payments"**). **"Due Period"** means, with respect to any Distribution Date, the period commencing immediately following the fifth Business Day prior to the preceding Distribution Date (or on the Closing Date, in the case of the Due Period relating to the First Distribution Date) and ending on the fifth Business Day prior to such Distribution Date (or, in the case of the Due Period that is applicable to the Distribution Date relating to the Stated Maturity of the Notes, such Due Period shall end on the day preceding the Stated Maturity).

Interest Proceeds. On each Distribution Date, Interest Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of taxes, government fees and registered office fees owed by the Issuers, if any;

(2) up to a maximum amount on any Distribution Date equal to the Fee Cap Amount *plus* an amount up to U.S.$ 250,000 *per annum*, (a) *first*, in the following order of priority, to the payment to the Trustee, the Preference Share Paying Agent, the Collateral Administrator and the Administrator of accrued and unpaid fees owing to them under the Indenture; (b) *second*, to the payment of other accrued and unpaid administrative expenses (including indemnities) incurred by or on behalf of the Issuers (including any administrative expenses payable to the Collateral Manager, but excluding the Management Fee and the Auction Agent Fee, if applicable), *provided* that administrative expenses payable to Deutsche Bank Trust Company Americas (in all of its capacities) shall be paid prior to administrative expenses payable to any other party under this clause (2), administrative expenses payable to the Administrator shall be paid prior to administrative expenses payable to any party other than Deutsche Bank Trust Company Americas under this clause (2), and that administrative expenses payable to parties other than the Trustee and Administrator shall be paid *pro rata*; and (c) *third*, prior to the date on which amounts on deposit in the Expense Account are transferred to the Payment Account (in connection with the sale or disposition of substantially all of the Issuer's assets) for application as Interest Proceeds, for deposit in the Expense Account an amount equal to the lesser of (x) an amount sufficient to cause the balance of all Eligible Investments and cash in the Expense Account, immediately after such deposit, to equal U.S.$ 250,000, and (y) the amount by which the Fee Cap Amount exceeds the sums paid under clauses (a) and (b);

(3) to the payment, *pro rata*, of any amount scheduled to be paid (i) to the relevant Interest Rate Swap Counterparty pursuant to any Interest Rate Swap Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Interest Rate Swap Agreement other than amounts payable by reason of an event of default or termination event as to which an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement is the "defaulting party" or sole "affected party", (ii) to the relevant Synthetic Security Counterparty pursuant to any Synthetic Security or Offset Transaction, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Synthetic Security or Offset Transaction other than amounts payable by reason of an event of default or termination event as to which the Synthetic Security Counterparty under the

Synthetic Security or Offset Transaction is the "defaulting party" or sole "affected party" and (iii) to the Offsetting Transaction Counterparty pursuant to any Offsetting Transactions together with termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Offsetting Transaction other than amounts payable by reason of an event of default or termination event as to which an Offsetting Transaction Counterparty is the "defaulting party" or the sole "affected party;"

(4) to the payment to the Collateral Manager of the accrued and unpaid Management Fee;

(5) *first* to the payment of accrued and unpaid interest on the Class A-1a Notes (including Defaulted Interest and any interest thereon), *second* to the payment of accrued and unpaid interest on the Class A-1b Notes (including Defaulted Interest and any interest thereon) and *third*, to the payment of accrued and unpaid interest on the Class A-2 Notes (including Defaulted Interest and any interest thereon);

(6) to the payment of accrued and unpaid interest on the Class B Notes (including Defaulted Interest and any interest thereon);

(7) if either Class A/B Coverage Test is not satisfied on the related Determination Date and if any Class A Note or Class B Note remains outstanding, to the payment of principal of, *first*, the Class A-1a Notes, *second*, the Class A-1b Notes, *third*, the Class A-2 Notes and *fourth*, the Class B Notes, in each case, to the extent necessary to cause each Class A/B Coverage Test to be satisfied or until such Class of Notes is redeemed in full;

(8) to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon and interest on Class C Deferred Interest, if any, but excluding any Class C Deferred Interest);

(9) if either Class C Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note or Class C Note remains outstanding, to the payment of principal of, *first*, the Class A-1a Notes, *second*, the Class A-1b Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes and *fifth*, the Class C Notes, in each case, to the extent necessary to cause each of the Class C Coverage Tests to be satisfied or until such Class of Notes is redeemed in full;

(10) to the payment of Class C Deferred Interest, if any;

(11) to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon and interest on Class D Deferred Interest, if any, but excluding any Class D Deferred Interest);

(12) if either Class D Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding, to the payment of principal of, *first*, the Class A-1a Notes, *second*, the Class A-1b Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, *fifth*, the Class C Notes and *sixth*, the Class D Notes, in each case, to the extent necessary to cause each of the Class D Coverage Tests to be satisfied or until such Class of Notes is redeemed in full;

(13) to the payment of Class D Deferred Interest, if any;

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(14) to the payment of accrued and unpaid interest on the Class E Notes (including Defaulted Interest and interest thereon and interest on Class E Deferred Interest, if any, but excluding any Class E Deferred Interest);

(15) to the payment of Class E Deferred Interest, if any;

(16) if the Class E Diversion Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding, to the payment of principal of the Class E Notes, in each case, to the extent necessary to cause the Class E Diversion Test to be satisfied or until such Class of Notes is redeemed in full;

(17) (i) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, to the payment of principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule F** to this Offering Circular until 10.00% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after the March 2010 Distribution Date to the payment of principal of the Class D Notes until the Class D Notes are paid in full in an amount equal to 15.00% of the Interest Proceeds that would otherwise be paid on such Distribution Date under clause (21) below but for the application of this clause (17);

(18) to the payment, *pro rata*, of any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Interest Rate Swap Agreement, the Synthetic Securities, the Offset Transactions or the Offsetting Transactions by reason of an event of default or termination event as to which the Interest Rate Swap Counterparty under such Interest Rate Swap Agreement or the Synthetic Security Counterparty under the Synthetic Securities or the Offset Transactions or the Offsetting Transaction Counterparty under the Offsetting Transactions is the "defaulting party" or the sole "affected party";

(19) to the payment of all other accrued and unpaid administrative expenses of the Issuers (including any accrued and unpaid fees and expenses owing to the Trustee, the Note Registrar, the Preference Share Paying Agent, the Collateral Manager (other than the Management Fee), the Auction Agent, the Share Registrar and the Administrator under the Indenture, the Management Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement) not paid in full pursuant to and in the order stated in clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(20) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, *first*, to the payment of principal of the Class E Notes until the Class E Notes have been paid in full, *second* to the payment of principal of the Class D Notes until the Class D Notes have been paid in full, *third*, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, *fourth*, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full, *fifth*, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full, *sixth*, to the payment of principal of the Class A-1b Notes until the Class A-1b Notes have been paid in full and *seventh*, to the payment of principal of the Class A-1a Notes until the Class A-1a Notes have been paid in full; and

(21) the remainder ("**Excess Interest**"), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the holders of the Preference Shares as a distribution by way of dividend thereon.

Principal Proceeds. On each Distribution Date, Principal Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of the amounts referred to in clauses (1) through (6) under "—Interest Proceeds" in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "— Interest Proceeds" and clause (1) above) and remains in compliance (after giving effect to the payments in this clause (2)), to the payment of accrued and unpaid interest on the Class C Notes, but only to the extent not paid in full in clause (8) under "—Interest Proceeds";

(3) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "— Interest Proceeds" and clauses (1) and (2) above) and remains in compliance (after giving effect to the payments in this clause (3)), to the payment of accrued and unpaid interest on the Class D Notes, but only to the extent not paid in full in clause (11) under "— Interest Proceeds";

(4) during the Reinvestment Period, Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests as more fully described herein and only if all Coverage Tests are satisfied and will be satisfied following such investment and the level of each Coverage Test will be at least equal to its level prior to such investment;

(5) *first,* to the payment of principal of the Class A-1a Notes until the Class A-1a Notes have been paid in full and *second,* to the payment of principal of the Class A-1b Notes until the Class A-1b Notes have been paid in full;

(6) to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full;

(7) to the payment of principal of the Class B Notes, until the Class B Notes have been paid in full;

(8) to the payment of amounts referred to in clause (8) and then clause (10) under "— Interest Proceeds," but only to the extent not paid in full thereunder or under clause (2) above;

(9) to the payment of principal of the Class C Notes until the Class C Notes have been paid in full;

(10) to the payment of amounts referred to in clauses (11) and (13) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (3) above;

(11) to the payment of principal of the Class D Notes until the Class D Notes have been paid in full;

(12) to the payment of amounts referred to in clauses (14) and (15) under "—Interest Proceeds," but only to the extent not paid in full thereunder;

(13) to the payment of principal of the Class E Notes until the Class E Notes have been paid in full;

(14) to the payment of amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority, but only to the extent not paid in full thereunder; and

(15) with respect to the remainder (**"Excess Principal Proceeds"**), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the Preference Shareholders as a dividend on the Preference Shares or (on any date upon which the Preference Shares are redeemed) as payment by way of redemption of the Preference Shares as provided in the Issuer Charter.

Notwithstanding any of the foregoing provisions, on the Final Maturity Date, the Interest Proceeds, the Principal Proceeds and any funds in the Expense Account will be distributed in the following order of priority: (i) to make payments of the amounts referred to in clauses (1) through (4) under "—Interest Proceeds" in the same order of priority specified therein; (ii) to make payments on the Notes in the following order: *first*, to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-1a Notes, then to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-1b Notes and then to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-2 Notes, *second*, to the payment of the aggregate principal amount of the Class A-1a Notes, then to the payment of the aggregate principal amount of the Class A-1b Notes and then to the payment of the aggregate principal amount of the Class A-2 Notes, *third*, to the payment of the accrued and unpaid interest (including Defaulted Interest and any interest thereon) on the Class B Notes and then to the payment of the aggregate principal amount of the Class B Notes, *fourth*, to the payment of the accrued and unpaid interest (including any Class C Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class C Notes and then to the payment of the aggregate principal amount of the Class C Notes, *fifth*, to the payment of the accrued and unpaid interest (including any Class D Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class D Notes and then to the payment of the aggregate principal amount of the Class D Notes, and *sixth*, to the payment of the accrued and unpaid interest (including any Class E Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class E Notes and then to the payment of the aggregate principal amount of the Class E Notes, until each class is paid in full; (iii) to make payments of the amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority specified therein and (iv) the remainder to make dividend or redemption payments, as applicable, to the Preference Shareholders.

In the event that Excess Interest or Excess Principal Proceeds cannot be distributed to the Preference Shareholders due to restrictions on such distributions under the laws of the Cayman Islands, the Issuer will notify the Preference Share Paying Agent and all such amounts will be held in the

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Preference Share Payment Account until the First Distribution Date or (in the case of any payment otherwise due on a redemption date of the Preference Shares) the first Business Day on which the Issuer notifies the Preference Share Paying Agent that such distribution can be made to the Preference Shareholders (subject to the availability of such amounts under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral).

Except as otherwise expressly provided in the Priority of Payments, if, on any Distribution Date, the amount available in the Payment Account from amounts received in the related Due Period is insufficient to make the full amount of the disbursements required by any paragraph in this section to different Persons, the Trustee will make the disbursements called for by such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent funds are available therefor.

On or prior to the latest Stated Maturity of the Notes, a redemption of the Preference Shares, a Mandatory Redemption, a Tax Redemption, a Clean-Up Call Redemption or an Auction Call Redemption, the Issuer (or the Collateral Manager acting pursuant to the Management Agreement on behalf of the Issuer) will Dispose of all of the Underlying Assets and all Eligible Investments and sell or liquidate all other Collateral; and, after the payment (in the order of priorities set forth above) of all (a) fees, (b) expenses (including any amount owing by the Issuer under any Interest Rate Swap Agreement), (c) interest (including any Defaulted Interest and interest on Defaulted Interest and any Deferred Interest and interest on Deferred Interest) on and principal of the Notes and (d) Excess Interest in respect of the Preference Shares, all remaining proceeds from such sales and liquidations and all available cash will be paid to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for (subject to the restrictions on distributions under the laws of the Cayman Islands) payment to the Preference Shareholders as a distribution by way of redemption, whereupon all of the Notes and Preference Shares will be cancelled. The Issuer will be entitled to retain for its own account the 250 shares of common stock it holds in the Co-Issuer, the US$250 representing its share capital and U.S.$250 representing a profit fee to the Issuer, together with any interest accrued thereon.

"Accelerated Amortization Date" means, if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the June 2015 Distribution Date, such date.

"Aggregate Principal/Notional Balance" means, (i) when used with respect to one or more Underlying Assets, the sum of the Principal/Notional Balances of such Underlying Assets on the date of determination, and (ii) with respect to Eligible Investments, the aggregate Balance of such Eligible Investments.

"Applicable Recovery Rate" means, with respect to any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) on any Measurement Date, an amount equal to the lower of (a) the percentage for such Underlying Asset set forth in the Moody's Recovery Rate Matrix attached as **Schedule E** hereto in (i) the applicable table therein, (ii) the row in such table opposite the applicable percentage of the underlying capital structure and (iii) the column in such table below the Moody's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset, or (b) the percentage for such Underlying Asset set forth in the Standard & Poor's Recovery Matrix attached as **Schedule D** hereto in (i) the applicable table, (ii) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (iii)(x) for purposes of determining the Standard & Poor's Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (y) for purposes of determining the Calculation Amount, the column in such table below the current rating of the most senior

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Class of Notes outstanding; *provided however*, that the Applicable Recovery Rate with respect to ABX Tranche Securities shall be as assigned by the Rating Agencies.

"Bankruptcy Event" means with respect to any entity: (a) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) winding up, liquidation, reorganization or other relief in respect of such entity or its debts, or of a substantial part of its assets, under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days; or an order or decree approving or ordering any of the foregoing shall be entered; or (b) such entity shall (i) voluntarily commence any proceeding or file any petition seeking winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (a) of this definition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, or (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing.

"Calculation Amount" means, with respect to any Defaulted Asset, at any time, the lesser of (i) the fair market value of such Defaulted Asset as determined by the Collateral Manager and (ii) the amount obtained by *multiplying* the Applicable Recovery Rate *by* the Principal/Notional Balance of such Defaulted Asset; *provided, however*, that (i) with respect to a Deferred Interest PIK Bond, the related Principal/Notional Balance of such bond shall not include the aggregate amount of any unpaid and deferred interest thereon and (ii) with respect to any Defaulted Asset that has been a Defaulted Asset for three or more years, the Calculation Amount shall be zero.

"Cap / Corridor Security" means any Floating Rate Security with respect to which either (i) the interest rate applicable in respect of such security is limited to a specified capped level or (ii) the interest rate applicable in respect of such security is limited to a level within specified maximum and minimum levels.

"Convertible Bond" means a bond, debenture or other fixed income security which may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

"Defaulted Asset" means any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) or any other security included in the Collateral:

(a) as to which (i) the issuer thereof has failed to make a scheduled payment of principal or interest without giving effect to any grace period or waiver; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset or (ii) pursuant to its Underlying Instruments, there has occurred any default or event of default which entitles the holders thereof, with notice or passage of time or both, to accelerate the maturity (whether by mandatory prepayment, mandatory redemption or otherwise) of all or a portion of the outstanding principal amount of such security, unless (A) in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such security has resumed current payments of interest in cash (*provided* that no restructuring has been effected) or

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(B) in the case of any other default or event of default, such default or event of default is no longer continuing;

(b) that ranks *pari passu* with or subordinate to any other material indebtedness for borrowed money owed by the issuer of such Underlying Asset (for purposes hereof, **"Other Indebtedness"**) if such issuer had defaulted in the payment of principal or interest with respect to such Other Indebtedness; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset; *provided, further*, that in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such Other Indebtedness has resumed current payments of interest (including all accrued interest) in cash (whether or not any waiver or restructuring has been effected), *provided* that a security shall be considered a Defaulted Asset pursuant to this clause (b) only if either (i) such default or event of default results in the assignment of a rating of "CC" or lower or "D" or "SD" by Standard & Poor's or "Ca" or "C" by Moody's, or (ii) the Collateral Manager, based upon due inquiry in accordance with the practices and procedures followed by investment managers of recognized standing, has obtained knowledge of such default or event of default and any characterization by the Collateral Manager of such security other than as a "Defaulted Asset" fails to satisfy the Rating Condition;

(c) as to which a Bankruptcy Event has occurred and is continuing with respect to an entity that is: (i) with respect to securities issued by an issuer directly, the special purpose entity that is the issuer of such securities, or (ii) with respect to securities issued by trusts to which an entity deposits assets, either (A) the special purpose entity that is the depositor to the trust that issues such securities, or (B) the trust that issues such securities;

(d) that is rated (i) "CC" or lower or "D" or "SD" by Standard & Poor's or a rating withdrawn by Standard & Poor's, or (ii) "Ca" or "C" by Moody's;

(e) that is a Deferred Interest PIK Bond; or

(f) which is a Synthetic Security with respect to which the relevant Synthetic Security Counterparty has defaulted in the performance of its payment obligations under such Synthetic Security.

"Deferred Interest PIK Bond" means a PIK Bond with respect to which payment of interest either in whole or in part has been deferred in an amount equal to (a) if such PIK Bond has a Moody's Rating of at least "Baa3", the amount of interest payable in respect of the lesser of (x) two payment periods and (y) a period of one year; or (b) if such PIK Bond has a Moody's Rating of below "Baa3", the amount of interest payable in respect of the lesser of (x) one payment period and (y) a period of six months, but only until such time as payment of interest on such PIK Bond has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the relevant Underlying Instruments.

"Determination Date" means the last day of a Due Period.

"Discount Underlying Asset" means (*provided that* with respect to any Synthetic Security, the "acquisition price" shall be deemed to be the market value of such Reference Obligation determined in accordance with Moody's methodology, as certified by the Collateral Manager):

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(i) any Underlying Asset (other than a Defaulted Asset) that is a Floating Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than 92% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds 95% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days,

(ii) any Underlying Asset (other than a Defaulted Asset) that is a Fixed Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than 85% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds 90% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days and

(iii) any Underlying Asset (other than a Defaulted Asset) that has a Moody's Rating below "Aa3" acquired by the Issuer after the Closing Date for an acquisition price of less than 75% of the Principal/Notional Balance of such Underlying Asset; *provided* that such Underlying Asset shall cease to be a Discount Underlying Asset at such time as the market value of such Underlying Asset equals or exceeds 85% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days;

provided that no Underlying Asset purchased prior to the Closing Date shall be deemed to be a Discount Underlying Asset.

"Eligible Country" means a Group I Country or a Group II Country, Austria, Denmark or a country that is an Eligible SPV Jurisdiction, provided that, at the time of such acquisition of any Asset, such country has a foreign currency credit rating of at least "AA" by Standard & Poor's and "Aa2" from Moody's.

"Eligible SPV Jurisdiction" means the Bahamas, the British Virgin Islands, the Cayman Islands, Bermuda, Luxembourg, the Netherlands Antilles, the Channel Islands, Jersey, Guernsey or (subject to satisfaction of the Rating Agency Condition) any similar jurisdiction, provided that the related obligor or issuer is a special purpose entity.

"Excepted Property" means (a) the Preference Share Payment Account and all of the funds and other property from time to time deposited in or credited to the Preference Share Payment Account and the proceeds thereof, (b) the 250 shares of common stock of the Co-Issuer, par value U.S.$1.00 per share, owned by the Issuer, (c) U.S.$250 representing the paid share capital on the ordinary shares of the Issuer, and (d) U.S.$250 representing a profit fee to the Issuer, together with any interest accruing thereon, and the trust account in which such monies are held.

"Fee Cap Amount" means, on any Distribution Date, 0.02% of the Quarterly Asset Amount *per annum* subject to an annual minimum of $60,000.

"Floating Rate Security" means (i) any Asset-Backed Security that is expressly stated to bear interest based upon a floating rate index and (ii) any Synthetic Security or Offset Transaction so designated by the Collateral Manager at the time of purchase.

"FICO Score" means the credit score developed by Fair Isaac & Co and provided by Experian (a subsidiary of GUS plc), Trans Union LLC or Equifax Inc.

"Fixed Rate Security" means any Asset-Backed Security other than a Floating Rate Security.

"Group I Countries" means Australia, Canada, the Netherlands and the United Kingdom.

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"**Group II Countries**" means Germany, Ireland, New Zealand, Sweden and Switzerland.

"**Interest Only Security**" means an Asset-Backed Security that does not provide for the repayment of a stated principal amount in one or more installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes.

"**Interest Proceeds**" means, with respect to any Due Period:

(1) the sum (without duplication) of

(a) all payments of interest and other income on the Underlying Assets (other than Defaulted Securities) received in cash during such Due Period;

(b) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Eligible Investments in the Collection Accounts received in cash by the Issuer during such Due Period and all payments of principal, including repayments, on Eligible Investments purchased with amounts from the Interest Collection Account received by the Issuer during such Due Period;

(c) all amendment and waiver fees, all late payment fees, and all other fees and commissions received in cash by the Issuer during such Due Period in connection with such Underlying Assets and Eligible Investments (other than fees and commissions received in respect of Defaulted Securities and Written Down Securities and yield maintenance payments included in Principal Proceeds pursuant to clause (c) and clause (j) of the definition thereof);

(d) all payments of interest received in respect of a Defaulted Asset in excess of an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

(e) all accrued interest received in cash by the Issuer in connection with the sale or liquidation of any Underlying Asset other than accrued interest purchased with Principal Proceeds;

(f) all payments received pursuant to any Interest Rate Swap Agreement (excluding any payments received by the Issuer by reason of an event of default or termination event) *less* any deferred premium payments, if any, payable by the Issuer under such Interest Rate Swap Agreement with respect to such Due Period;

(g) any amounts received from each Synthetic Security Counterparty relating to each Synthetic Security with respect to such Due Period (including any Fixed Amounts and Interest Shortfall Reimbursement Payment Amounts (as defined in **Schedule G** in the case of Reference Obligations that are RMBS Securities, **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, **Schedule I** in the case of Reference Obligations that are CMBS Securities or **Schedule J** in the case of Reference Obligations that are CDO Securities) but excluding, for the avoidance of doubt, any premium relating to the following Due Period), other than Writedown Reimbursement Payment Amounts, Principal Shortfall Reimbursement Payment Amounts (each as defined in **Schedule G** in the case of Reference Obligations that are RMBS Securities,

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Schedule H in the case of Reference Obligations that are ABX Tranche Securities, **Schedule I** in the case of Reference Obligations that are CMBS Securities or **Schedule J** in the case of Reference Obligations that are CDO Securities), any upfront payment or any termination payment received with respect to early termination of a Synthetic Security (including proceeds from liquidation of any collateral posted by the Synthetic Security Counterparty to secure its obligations under the Synthetic Securities);

(h) all earnings on Eligible Investments on deposit in the Synthetic Security Collateral Account that are transferred to the Interest Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(i) all Earnings (as defined in the related Investment Agreement) received by the Issuer and payable under the Investment Agreement on or before the related Distribution Date; and

(j) all amounts on deposit in the Expense Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts—Expense Account"; *provided* that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof or (ii) the Excepted Property;

minus

(2) any Interest Shortfall Amounts paid by the Issuer to each Synthetic Security Counterparty.

"Inverse Floating Security" means any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index.

"Issue" means an Underlying Asset or Synthetic Security consisting of or referencing a single Asset-Backed Security, identified by its (i) series and class, and (ii) CUSIP number or other identifying number. For the avoidance of doubt, Underlying Assets or Synthetic Securities consisting of or referencing two Asset-Backed Securities issued by the same issuer and issued in the same series, but in separate classes or tranches, shall be deemed to be separate Issues.

"Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 50% of all Preference Shareholders' Voting Percentages at such time.

"Margin Stock" means "Margin stock" as defined under Regulations T, U and X issued by the Board of Governors of the Federal Reserve System.

"Measurement Date" means any of the following: (a) any date after the Closing Date on which an Underlying Asset becomes a Defaulted Asset, (b) each Determination Date, (c) the last Business Day of any calendar month (other than the month prior to which there is a Determination Date), and (d) with reasonable notice to the Issuer and the Trustee, any other Business Day that any Rating Agency requests be a "Measurement Date"; *provided* that, if any such date would otherwise fall on a day that is not a Business Day, the relevant Measurement Date will be the next succeeding day that is a Business Day.

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"Negative Amortization Security" means an Asset-Backed Security whose underlying portfolio consists of at least 25% of mortgages with a negative amortization feature.

"Net Outstanding Underlying Asset Balance" means, as of any Measurement Date, an amount equal to (a) the sum of (i) the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets, (ii) the Aggregate Principal/Notional Balance of all Principal Proceeds and Uninvested Proceeds held as cash, all Disposition Proceeds on deposit in the Disposition Proceeds Account and Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds, and (iii) for each Defaulted Asset, the Calculation Amount with respect to such Defaulted Asset *minus* (b) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are either (i) Defaulted Securities or (ii) Equity Securities; *provided* that solely for the purpose of calculating the Net Outstanding Underlying Asset Balance in connection with the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Diversion Test the Net Outstanding Underlying Asset Balance shall be calculated by applying whichever of the following clauses (i), (ii) and (iii) would result in the lowest calculated "Net Outstanding Underlying Asset Balance": (i) the Moody's Haircut Value, (ii) the Standard & Poor's Haircut Value and (iii) with respect to a Discount Underlying Asset, the original acquisition price of such Discount Underlying Asset.

For the purposes of this definition of "Net Outstanding Underlying Asset Balance", the following terms shall have the meanings set forth below:

"Moody's Haircut Value" shall have the following meaning for any Underlying Asset that has a Moody's Rating of below "Baa3", and no meaning for any Underlying Asset with a Moody's Rating of "Baa3" or higher (for the purpose of all clauses of the definition of Moody's Haircut Value, any reference to a Moody's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to the Moody's Rating of the related Reference Obligation):

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets) that have a Moody's Rating of "Ba1", "Ba2" or "Ba3" exceeds 25.5% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets) that have a Moody's Rating of "B1", "B2" or "B3" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets) have a Moody's Rating of below "B3" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds, then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 50% of the actual

Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of Moody's Limit 1 and Moody's Limit 2 may be up to 5 percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of Moody's Limit 1 and Moody's Limit 2 is not more than 30.5%.

"Standard & Poor's Haircut Value" shall have the following meaning set forth in clauses (a) and (b) below for any Underlying Asset that has a Standard & Poor's Rating of below "BBB-", and no meaning for any Underlying Asset that has a Standard & Poor's Rating of "BBB-" or higher. For the purpose of all clauses of the definition of Standard & Poor's Haircut Value, any reference to a Standard & Poor's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to a Standard & Poor's Rating of the related Reference Obligation:

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets) that have a Standard & Poor's Rating of "BB+", "BB" or "BB-" exceeds 8.6% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets) that have a Standard & Poor's Rating of "B+", "B" or "B-" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets) have a Standard & Poor's Rating of below "B-" exceeds 0% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 3"**), then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 70% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of S&P Limit 1, S&P Limit 2 and S&P Limit 3 may be up to 5 percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of S&P Limit 1, S&P Limit 2, and S&P Limit 3 is not more than 13.6%.

"Net Scheduled Periodic Offsetting Transaction Payment" means in respect of an Offset Transaction that comprises: the long component of an Offset Transaction and the related Offsetting Transaction, the difference between premium payments due to the Issuer from the Synthetic Security Counterparty and the Scheduled Periodic Offsetting Transaction Payments due to the Offsetting Transaction Counterparty from the Issuer pursuant to the terms of the Offsetting Transaction.

"PIK Bond" means any Underlying Asset that pursuant to the terms of the related Underlying Instruments (a) permits the payment of interest thereon (with respect to such payments due on or after the date on which the security is purchased by the Issuer) to be deferred or capitalized as additional principal thereof or (b) issues identical (except principal and term) securities in place of payments of interest in cash.

"Principal/Notional Balance" means as of any date of determination, with respect to any Asset-Backed Security, the outstanding principal balance of such Asset-Backed Security (excluding any capitalized interest and any negative amortization amounts), and, with respect to each Synthetic Security or a related Reference Obligation, in each case, the Reference Obligation Notional Amount (as defined in the Confirmation) of such Synthetic Security. For the avoidance of doubt, (i) the Reference Obligation Notional Amount shall be a part of the "Principal/Notional Balance" and (ii) no Offset Transactions will be included in the calculation of "Principal/Notional Balance".

"Principal Only Security" means any Asset-Backed Security that does not provide for the payment of rated interest in periodic installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes or provides that all payments of interest will be deferred until the final maturity date thereof.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of:

(a) all payments of principal on the Underlying Assets and Eligible Investments (excluding any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) received in cash by the Issuer during such Due Period including prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, recoveries on Defaulted Securities and Written Down Securities (other than Uninvested Proceeds and payments of principal of Eligible Investments acquired with Interest Proceeds), including the proceeds of a sale of any Equity Security, the proceeds received from any special purpose subsidiary of the Issuer holding an Equity Security, and any amounts received as a result of optional redemptions, exchange offers or tender offers for any Equity Security received in cash by the Issuer during such Due Period but excluding any accreted portion of a discount from the face amount of an Eligible Investment;

(b) all payments of principal of Eligible Investments purchased with amounts from the Principal Collection Account received in cash by the Issuer during such Due Period;

(c) all amendment, waiver, late payment fees, restructuring and other fees and commissions, collected during the related Due Period in respect of Defaulted Securities and Written Down Securities;

(d) all payments of interest received in respect of Defaulted Securities up to an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

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(e) any Writedown Reimbursement Payment Amount,

(f) any proceeds to the Issuer resulting from the termination and liquidation of an Interest Rate Swap Agreement, to the extent such proceeds exceed the cost of entering into a replacement Interest Rate Swap Agreement or additional Interest Rate Swap Agreements in accordance with the requirements set forth in the Indenture;

(g) any Principal Shortfall Reimbursement Payment Amount,

(h) upfront payment or any termination payments received with respect to early termination of a Synthetic Security received from the related Synthetic Security Counterparty;

(i) all amounts transferred from the Synthetic Security Collateral Account to the Principal Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(j) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums;

(k) all payments of interest received to the extent that they represent accrued interest purchased with Principal Proceeds;

(l) all yield maintenance payments received in cash by the Issuer during such Due Period;

(m) any proceeds from the issuance and sale of the Notes and Preference Shares that are not applied to the acquisition of Underlying Assets prior to the Determination Date preceding the September 2007 Distribution Date, including amounts on deposit in the Uninvested Proceeds Account, and not deposited into the Expense Account on the Closing Date;

(n) any proceeds from the liquidation of Underlying Assets received in cash by the Issuer (excluding (1) all accrued interest received in cash by the Issuer and (2) the Disposition Proceeds);

(o) any Disposition Proceeds on deposit in the Disposition Proceeds Account or Principal Collection Account;

(p) any payment of capitalized interest on any Underlying Assets;

(q) any payment of accrued interest paid for with principal proceeds;

(r) any Net Scheduled Periodic Offsetting Transaction Payments received by the Issuer with respect to Offset Transactions; and

(s) all other payments received in connection with the Underlying Assets and Eligible Investments that are not included in Interest Proceeds; *provided*, that in no event shall Principal Proceeds include the Excepted Property.

minus

the sum, of (a) any initial payments made by the Issuer upon its entry into a Offsetting Transaction and (b) any termination payments payable by the Issuer in respect of the termination of an Offsetting Transaction where the related Offset Transaction is not terminated.

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"Pure Private Asset-Backed Security" means any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act.

"Qualifying Foreign Obligor" means a corporation, partnership, trust or other entity organized or incorporated under the laws of an Eligible Country.

"Quarterly Asset Amount" means, with respect to any Distribution Date, the Net Outstanding Underlying Asset Balance on the first day of the related Due Period.

"Rating Condition" means, with respect to any action taken or to be taken or any determination made or to be made under the Indenture, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer, the Trustee and the Collateral Manager prior to such action or determination that such action or determination will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any shadow, private or confidential rating) of any Class of Notes.

"Scheduled Periodic Offsetting Transaction Payment" means, with respect any Offsetting Transaction, the fixed amounts scheduled to be paid by the Offsetting Transaction Counterparty to the Issuer under such Offsetting Transaction, but excluding any termination payment in respect of such Offsetting Transaction.

"Servicer" means, with respect to any issue of Asset-Backed Securities, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for managing, servicing, monitoring and otherwise administering the cash flows from which payments to investors in such Asset-Backed Securities are made.

"Special-Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 66 2/3% of all Preference Shareholders' Voting Percentages at such time.

"Step Down Bond" means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by reference to the spread (in the case of a floating rate Step Down Bond) or coupon (in the case of a fixed rate Step Down Bond) of a Step Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step Down Bond on or after such date.

"Step Up Bond" means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Up Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by reference to the spread (in the case of a floating Step Up Bond) or coupon (in the case of a fixed rate Step Up Bond) of a Step Up Bond, the spread or coupon on any date shall be deemed to be the spread or coupon stated to be payable in cash or in effect on such date.

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"Underlying Instruments" means the indenture or other agreement pursuant to which an Underlying Asset, Eligible Investment or Equity Security has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Underlying Asset, Eligible Investment or Equity Security or of which holders of such Underlying Asset, Eligible Investment or Equity Security are the beneficiaries.

"Uninvested Proceeds" means, at any time on or prior to the Determination Date prior to the September 2007 Distribution Date, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and Preference Shares and any principal collections on the Underlying Assets received on or prior to the Closing Date, to the extent such proceeds have not theretofore been invested in Underlying Assets or deposited in the Expense Account.

"Voting Percentage" of a Preference Shareholder at any time means the ratio (expressed as a percentage) of such Preference Shareholder's Preference Shares outstanding to the aggregate outstanding Preference Shares of all Preference Shareholders at such time.

"Written Down Security" means, as of any date of determination, any Underlying Asset that is part of an issue as to which the aggregate par amount of the entire class and all other securities secured by the same pool of collateral that rank senior in priority of payment to such class exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such issue (excluding defaulted collateral).

The Coverage Tests

The Coverage Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay interest on and dividends in respect of Classes of Notes Subordinate to such Class and the Preference Shares and certain other expenses. The **"Coverage Tests"** include the Class A/B Coverage Tests, the Class C Coverage Tests and the Class D Coverage Tests.

In the event that either Class A/B Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class C Notes, the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes and *second*, the Class B Notes, to the extent necessary to cause each Class A/B Coverage Test to be satisfied.

In the event that any Class C Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes and *third*, the Class C Notes, to the extent necessary to cause each Class C Coverage Test to be satisfied.

In the event that any Class D Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes, *third*, the Class C Notes and *fourth*, the Class D Notes, to the extent necessary to cause each Class D Coverage Test to be satisfied.

The **"Class A/B Coverage Tests"** will consist of the Class A/B Overcollateralization Test and the Class A/B Interest Coverage Test. The **"Class C Coverage Tests"** will consist of the Class C

Overcollateralization Test and the Class C Interest Coverage Test. The **"Class D Coverage Tests"** will consist of the Class D Overcollateralization Test and the Class D Interest Coverage Test.

The Overcollateralization Tests

The Class A/B Overcollateralization Test:

The **"Class A/B Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes.

The **"Class A/B Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than 117.37%.

The Class C Overcollateralization Test:

The **"Class C Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes, *plus* any outstanding Class C Deferred Interest.

The **"Class C Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Overcollateralization Ratio on such Measurement Date is equal to or greater than 109.99%.

The Class D Overcollateralization Test:

The **"Class D Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate principal amount of the Class D Notes, *plus* any outstanding Class C Deferred Interest and *plus* any outstanding Class D Deferred Interest.

The **"Class D Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Overcollateralization Ratio on such Measurement Date is equal to or greater than 104.86%.

The Class E Diversion Test

The Class E Diversion Test determines whether Interest Proceeds may be applied, in accordance with the Priority of Payments, to make payments that are subordinate to payments on the Class E Notes. If the Class E Diversion Test is not passing on a Measurement Date then on the immediately following Distribution Date, Interest Proceeds, to the extent available in accordance with the Priority of Payments, will be applied to make principal payments on the Class E Notes.

The **"Class E Diversion Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such

Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate outstanding principal amount of the Class D Notes *plus* the aggregate outstanding principal amount of the Class E Notes, *plus* any outstanding Class C Deferred Interest *plus* any outstanding Class D Deferred Interest and *plus* any outstanding Class E Deferred Interest.

The **"Class E Diversion Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding if the Class E Diversion Ratio on such Measurement Date is equal to or greater than 103.56%.

The Class A-1 OC Ratio

The Class A-1 OC Ratio will be used only to determine whether an Event of Default has occurred under the Notes due to the decline in the Class A-1 OC Ratio below 100%.

"Class A-1 OC Ratio" means the number, expressed as a percentage, calculated by dividing (a) the Net Outstanding Underlying Asset Balance by (b) the Aggregate Outstanding Amount of the Class A-1 Notes.

The Interest Coverage Tests

The Interest Coverage Ratio with respect to the Class A Notes and Class B Notes (the **"Class A/B Interest Coverage Ratio"**), the Class C Notes (the **"Class C Interest Coverage Ratio"**) and the Class D Notes (the **"Class D Interest Coverage Ratio"**) as of any Measurement Date will be calculated by *dividing*:

(a) (i) the sum of (A) the scheduled interest payments due (regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (1) the Underlying Assets and (2) any Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds), (B) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds and (C) any earnings on Eligible Investments in the Synthetic Security Collateral Account, constituting Interest Proceeds and received after the end of the related Collection Period and immediately prior to the related Payment Date and (D) any amounts scheduled to be paid to the Issuer by an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement on the Distribution Date relating to such Due Period, *minus* (ii) the sum of the Interest Proceeds scheduled to be paid pursuant to clauses (1) through (4) of the Interest Proceeds Priority of Payments on the immediately succeeding Distribution Date; *by*

(b) an amount equal to (i) in the case of the Class A/B Interest Coverage Ratio, the scheduled interest on the Class A Notes and Class B Notes (including Defaulted Interest thereon and accrued interest on such Defaulted Interest, if any) payable on the immediately succeeding Distribution Date, (ii) in the case of the Class C Interest Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes and Class C Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred Interest, if any, but excluding any Class C Deferred Interest) payable on the immediately succeeding Distribution Date or (iii) in the case of the Class D Interest Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes, Class C Notes and Class D Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred

Interest and interest on Class D Deferred Interest, if any, but excluding any Class C Deferred Interest and Class D Deferred Interest) payable on the immediately succeeding Distribution Date (or, if such Measurement Date coincides with a Distribution Date, on such Distribution Date).

For the purpose of determining compliance with any Interest Coverage Test, there will be excluded all scheduled payments of interest on or principal of Defaulted Securities and any payment, including any amount payable to the Issuer by an Interest Rate Swap Counterparty, that will not be made in cash or received when due, as determined by the Collateral Manager in its reasonable business judgment. For purposes of calculating any Interest Coverage Ratio, (i) the expected interest income on floating rate Underlying Assets and Eligible Investments and under any Interest Rate Swap Agreement and the expected interest payable on the Notes will be calculated using the interest rates applicable thereto on the applicable Measurement Date and (ii) accrued original issue discount on Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid.

The **"Class A/B Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Interest Coverage Ratio as of such Measurement Date is equal to or greater than 107.00%; *provided*, that the Class A/B Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class C Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Interest Coverage Ratio as of such Measurement Date is equal to or greater than 103.00%; *provided*, that the Class C Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class D Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Interest Coverage Ratio as of such Measurement Date is equal to or greater than 100.00%; *provided*, that the Class D Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

Mandatory Redemption

In the event that any of the Overcollateralization Tests (not including, for the avoidance of doubt, the Class E Diversion Test) or the Interest Coverage Tests applicable to a Class of Notes is not satisfied on a Determination Date related to any Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to that Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, to the extent necessary to cause each Coverage Test to be satisfied.

In addition, each Class of Notes will be subject to mandatory redemption from Principal Proceeds available after payment of certain other amounts in accordance with the Priority of Payments on each Distribution Date. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described above under "—Priority of Payments."

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Optional Redemption

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date, *provided* that no such Optional Redemption may be effected prior to the March 2010 Distribution Date. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such an Optional Redemption and (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are at least equal to the Redemption Amount.

Any Optional Redemption is subject to (i) the sale of the Collateral (other than the cash and Eligible Investments referred to in clause (b) of this sentence) arranged by the Collateral Manager, on the proposed Redemption Date, for a sale price in cash at least equal to (a) the Redemption Amount *minus* (b) the balance of the cash and Eligible Investments in the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) and (ii) the receipt by the Trustee from the Collateral Manager of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (i). Upon receipt by the Trustee of the certification referred to in the preceding sentence, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Trustee shall deposit such payment into the Collection Accounts. The Collateral Manager or an Affiliate thereof may be the purchaser of the Collateral in accordance with the procedures set forth in the Management Agreement.

Auction Call Redemption

In accordance with the procedures set forth in **Schedule A** to this Offering Circular (the **"Auction Procedures"**), the Auction Agent shall, at the expense of the Issuer, conduct an auction (an **"Auction"**) of the Underlying Assets if, prior to the Distribution Date occurring in June 2013, the Notes have not been redeemed in full and the holders of the Preference Shares have not directed an Optional Redemption of the Notes. The Auction will be conducted not later than seven Business Days prior to (a) the Distribution Date occurring in June 2013 (the **"First Auction Call Date"**) and (b) if the Notes are not redeemed in full on such Distribution Date, each subsequent Distribution Date occurring on or closest to any six-month anniversary of the First Auction Call Date (each, a **"Subsequent Auction Call Date"** and, together with the First Auction Call Date, each an **"Auction Date"**), until the Notes have been redeemed in full. Any of the Collateral Manager (if it is not the Auction Agent), the Initial Purchaser, the Preference Shareholder or the Trustee or any of their respective affiliates may, but will not be required to, bid at the Auction.

The Notes will be redeemable at the applicable Redemption Price and Preference Shares will be redeemable at a price equal to not less than the Minimum Preference Share Redemption Amount. The Notes and Preference Shares will be redeemable from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account); *provided* that funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** shall equal (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate amount of all cash

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distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If an Auction Call Redemption is not completed on any Auction Date, the Auction Agent shall carry out an Auction in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully (the "**Auction Call Redemption Date**").

Pursuant to the Management Agreement, the Issuer has designated the Collateral Manager (in such capacity, the "**Auction Agent**") as the Issuer's agent in connection with the sale of the Collateral in connection with any Auction Call Redemption or if the Collateral Manager indicates its desire to bid on the Underlying Assets, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction may be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent.

The Issuer shall Dispose of and transfer the Underlying Assets to the highest bidder identified by the Auction Agent (or to the highest bidder for each subpool) at the Auction and the Trustee shall release the Collateral from the lien of the Indenture, as long as:

(a) the Auction has been conducted in accordance with the Auction Procedures, as evidenced by a certification of the Auction Agent;

(b) the Auction Agent has received bids for the Underlying Assets (or for each of the related subpools) from at least two prospective purchasers (including the winning bidder) identified on a list of Qualified Bidders provided by the Auction Agent to the Trustee in accordance with the Indenture; provided that each Qualified Bidder for the Synthetic Securities shall have been approved by the relevant Synthetic Security Counterparty; provided, further, that if the Auction Agent has not received bids for one or more Synthetic Securities, the requirements of this clause may be satisfied by determining required payments from or to the Issuer relating to the termination of such Synthetic Securities and including such aggregate amount in the calculation of the Redemption Amount;

(c) the Auction Agent certifies that the highest bids would result in the Disposition of the Underlying Assets (or the related subpools) for a purchase price (paid in cash) that, together with the balance of all Eligible Investments (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and cash held by the Issuer (other than Eligible Investments and cash in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), will be at least equal to the sum of (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount; and

(d) the highest bidder (or the highest bidder for each subpool) enters into a written agreement with the Issuer (which the Issuer will execute if the conditions set forth above and in the Indenture are satisfied (such execution to constitute certification by the Issuer that such conditions have been satisfied)) that obligates the highest bidder (or the highest bidder for each subpool) to acquire all of the Underlying Assets (or the relevant subpool) and provides for payment in full (in cash) of the price for any Underlying Asset that is not a Synthetic Security and any amount due to the Issuer as a result of the assignment of the Synthetic Securities to the Trustee on or prior to the sixth Business Day following the relevant Auction Date.

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Provided that all of the conditions set forth in clauses (a) through (d) of the preceding paragraph have been met, the Issuer will Dispose of and transfer the Underlying Assets (or the related subpool), without representation, warranty or recourse, to such highest bidder identified by the Auction Agent (or the highest bidder for each subpool, as the case may be) in accordance with and upon completion of the Auction Procedures. The Issuer will deposit the purchase price for the Underlying Assets in the Collection Accounts and, on the Distribution Date immediately following the relevant Auction Date, (i) pay the Redemption Amount and (ii) make a payment to the Preference Share Paying Agent (that shall not be less than the Minimum Preference Share Redemption Amount) for distribution to the holder of the Preference Shares in an amount equal to the remainder of such Disposition Proceeds and cash in the Collection Accounts (such redemption, the **"Auction Call Redemption"**). Notwithstanding the foregoing, the holders of 100% of the aggregate outstanding principal amount of a Class of Notes may elect, in connection with any Auction Call Redemption, to receive less than 100% of the Redemption Price that would otherwise be payable to holders of such Class (and the Redemption Price shall be reduced by such amount).

If any of the foregoing conditions is not met with respect to any Auction or if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price before the sixth Business Day following the relevant Auction Date, (a) the Auction Call Redemption will not occur on the Distribution Date following the relevant Auction Date, (b) the Auction Agent will notify the Trustee and the Trustee will give notice of the withdrawal, (c) subject to clause (d) below, the Trustee on behalf of the Issuer will decline to consummate such sale and the Auction Agent will not solicit any further bids or otherwise negotiate any further Disposition of Underlying Assets in relation to such Auction and (d) unless the Notes are redeemed in full prior to the next succeeding Auction Date, the Auction Agent will conduct another Auction on the next succeeding Auction Date.

The Notes may not be redeemed pursuant to an Auction Call Redemption unless, at least four Business Days before the scheduled Redemption Date, the Collateral Manager shall have furnished to the Trustee and any Interest Rate Swap Counterparty evidence, in form satisfactory to the Trustee, that the Issuer has entered into a binding agreement or agreements with (or guaranteed by) a financial institution or institutions (whose long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating from each Rating Agency at least equal to the highest rating of the Notes then outstanding or whose short-term unsecured debt obligations have a credit rating of at least "A-1" by Standard & Poor's and (if rated by Fitch) at least "F1" by Fitch and provided that in case such financial institution is the Collateral Manager no credit rating is required) to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, in immediately available funds, all or part of the Underlying Assets at a sale price (including in such price an amount equal to any accrued interest) which, together with the balance of the cash and Eligible Investments in the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), is at least equal to (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount.

Clean-Up Call Redemption

At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price on any Distribution Date which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to 10.00% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including the Eligible

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Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account) and all Offsetting Transactions.

Any Clean-Up Call Redemption is subject to (a) the purchase of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) by the Collateral Manager or any of its Affiliates from the Issuer, on the scheduled Redemption Date, for a purchase price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of the cash and Eligible Investments in the Accounts (other than that in the Synthetic Security Issuer Account, but including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and (b) the receipt by the Trustee, prior to such purchase, of the Collateral Manager's certification that the sum so received satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Trustee and the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the Collateral Manager or any of its Affiliates upon payment in immediately available funds of the purchase price. The Trustee shall deposit such payment into the Collection Accounts and apply the funds therein in accordance with the Priority of Payments on such Redemption Date.

Tax Redemption

The Notes will be redeemable (such redemption, a **"Tax Redemption"**), in whole but not in part, by the Issuer at the direction of a Majority-in-Interest of Preference Shareholders or, so long as the Class A-1 Notes are Outstanding, of the Controlling Class; *provided that*, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account). No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such Tax Redemption, (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied.

A **"Tax Event"** will occur, whether or not as a result of any change in law or interpretation, if (a) any obligor is required to deduct or withhold from any payment under any Underlying Asset to the Issuer for or on account of any tax for whatever reason, whether or not as a result of any change in law or interpretation, and such obligor is not required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred, (b) the Issuer or an Interest Rate Swap Counterparty is required to deduct or withhold from any payment under any Interest Rate Swap Agreement for or on account of any tax and the Issuer is obligated to pay gross-up amounts to the relevant Interest Rate Swap Counterparty, or the relevant Interest Rate Swap Counterparty is not obligated to pay the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred or (c) any net income, profits or similar tax is imposed on the Issuer. The **"Tax Materiality Condition"** will be satisfied during any 12-month period if any combination of Tax Events results, in aggregate, in a payment, charge or tax burden to the Issuer in excess of U.S.$1,000,000.

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Any Tax Redemption is subject to (a) the Disposition of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) arranged by the Collateral Manager, on the scheduled Redemption Date, for a sale price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of Eligible Investments and cash in the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account), and (b) the receipt by the Trustee of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Collateral Manager or an Affiliate of the Collateral Manager may purchase the Collateral. The Trustee shall deposit such payment into the Collection Accounts.

Redemption Price and Redemption Amount

The amount payable in connection with an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption of any Note will be an amount equal to (a) the aggregate outstanding principal amount of such Note being redeemed, *plus* (b) the accrued and unpaid interest thereon (including Defaulted Interest and Deferred Interest and interest thereon, if any) (the **"Redemption Price"**).

"Redemption Amount" means, with respect to an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, an amount equal to the sum of (i) the Redemption Price in respect of all Notes and (ii) all unpaid administrative expenses (including indemnities) and fees then due and payable of the Issuers, including any termination payments payable by the Issuer under any Interest Rate Swap Agreement and the Synthetic Securities, the Management Fee due to the Collateral Manager and, with respect to an Auction Call Redemption, fees and expenses of the Auction Agent.

Redemption Procedures

Notice of any Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption will be given by first-class mail, postage prepaid, mailed not less than ten days and not more than 30 days prior to the date scheduled for redemption (with respect to such Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, the **"Redemption Date"**), to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Note Register or, in the case of the Preference Shares, the register of Preference Shares maintained under the Preference Share Paying Agency Agreement (the **"Share Register"**), any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and to each Rating Agency. The Trustee will also give notice thereof to the Company Announcements Office of the Irish Stock Exchange. Notes must be surrendered at the offices of a Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (a) an undertaking to surrender such Note thereafter and (b) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Issuers or the Trustee.

Any notice of redemption may be withdrawn by the Issuer up to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and the Collateral Manager; *provided* that such notice is effective only if the Disposition Proceeds and the Collateral Manager certificates (if any) required to be delivered to the Trustee with respect to an Auction Call Redemption,

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Optional Redemption, Tax Redemption or Clean-Up Call Redemption have not been delivered to the Trustee by such date in form satisfactory to the Trustee. Notice of any such withdrawal shall be given by the Trustee to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Share Register.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Form, Denomination, Registration and Transfer

General

(1) The Notes which will be offered by the Initial Purchaser to persons that are not U.S. Persons and outside the United States will initially be represented by one or more Temporary Regulation S Global Notes in definitive, fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee, initially for the accounts of Euroclear and Clearstream. On the 40th day after which all of the Notes of any Class have been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note. During the Distribution Compliance Period, beneficial interests in a Regulation S Global Note may be held only through Euroclear and Clearstream. By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (x) to a non-U.S. Person in an offshore transaction in accordance with Regulation S, or (y) to a person who takes delivery in the form of a Restricted Note. Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

(2) The Notes which will be offered by the Initial Purchaser in reliance upon an exemption from the registration requirements of the Securities Act (a) under Section 4(2) of the Securities Act or (b) pursuant to Rule 144A will be represented by one or more Restricted Global Notes in fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. By acquisition of a beneficial interest in a Restricted Note, any purchaser thereof will be deemed to represent that it is a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (a) to a Qualified Institutional Buyer that is a Qualified Purchaser, or (b) to a non-U.S. Person in an offshore transaction in accordance with Regulation S. Restricted Notes may not be transferred to non-U.S. Persons except in the form of a Regulation S Note. Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

(3) The Notes are subject to the restrictions on transfer set forth herein under "Transfer Restrictions."

(4) Owners of beneficial interests in Regulation S Global Notes and Restricted Global Notes will be entitled or required, as the case may be, under certain limited circumstances described below, to

receive physical delivery of certificated Notes (either a **"Restricted Definitive Note"** or a **"Regulation S Definitive Note"** and collectively, **"Definitive Notes"**) in fully registered, definitive form. No owner of an interest in a Regulation S Global Note will be entitled to receive a Definitive Note (a) until after the expiration of the Distribution Compliance Period and (b) unless (i) for a person other than a distributor (as defined in Regulation S), such person provides certification that the Definitive Note will be owned by a person that is not a U.S. Person (as defined in Regulation S) or (ii) for a person that is a U.S. Person, such person provides certification that any interest in such Definitive Note was purchased in a transaction that did not require registration under the Securities Act and that such person is a Qualified Purchaser. The Notes are not issuable in bearer form.

(5) Pursuant to the Indenture, the Trustee has been appointed and will serve as the registrar of the Notes (the **"Note Registrar"**) and will provide for the registration of the Notes and the registration of transfers of Notes in the register maintained by it (the **"Note Register"**). The Trustee has been appointed as a transfer agent with respect to the Notes (in such capacity, a **"Transfer Agent"**).

(6) The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000 and in integral multiples of U.S.$1,000 in excess thereof.

Global Notes

(1) So long as the depositary for a Global Note, or its nominee, is the registered holder of such Global Note, such depositary or such nominee, as the case may be, will be considered the absolute owner or holder of such Regulation S Note or Restricted Note, as the case may be, represented by such Global Note for all purposes under the Indenture and the Notes and members of, or participants in, the depositary (the **"Participants"**), as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream and account holders and participants therein), will have no rights under the Indenture or under a Note. Owners of beneficial interests in a Global Note will not be considered to be the owners or holders of any Note under the Indenture or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depositary and (in the case of a Regulation S Global Note) Euroclear or Clearstream (in addition to those under the Indenture), in each case to the extent applicable (the **"Applicable Procedures"**).

(2) Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the Distribution Compliance Period (but not earlier), investors may also hold such interests other than through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

(3) Payments of the principal of, and interest on, an individual Global Note registered in the name of a depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the Global Note. None of the Issuer, the Trustee, the Note Registrar or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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(4) With respect to the Global Notes, the Issuer expects that the depositary for any Global Note or its nominee, upon receipt of any payment of principal of or interest on such Global Note, will credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of the depositary or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Global Note held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

Definitive Notes

Interests in a Regulation S Note or a Restricted Note represented by a Global Note will be exchangeable or transferable, as the case may be, for a Regulation S Note or a Restricted Note, respectively, that is a Definitive Note if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Note, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global Note is required by law to take physical delivery of securities in definitive form, (d) any Regulation S Global Note becomes immediately due and payable following an Event of Default under the Indenture, (e) DTC, Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday), (f) DTC, Euroclear or Clearstream announces an intention permanently to cease business and no alternative clearance system satisfactory to the Issuer is available, (g) as a result of any amendment to, or change in, the laws or regulations of the Cayman Islands or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form or (h) the Issuer so elects by notice to the holders of the Notes, and DTC, Euroclear and/or Clearstream, as the case may be, do not object. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Notes bearing an appropriate legend (a **"Legend"**) regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Notes bearing a Legend, or upon specific request for removal of a Legend on a Note, the Issuers shall deliver through the Trustee or any Paying Agent to the holder and the transferee, as applicable, one or more Definitive Notes in certificated form corresponding to the principal amount of Definitive Notes surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Global Notes

(1) Transfer of a Regulation S Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Restricted Note (or any interest therein) may be made before or after the end of the Distribution Compliance Period, in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, acquiring such Notes (or any interest therein) for its own account and to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the

registration requirements of the Securities Act provided by Rule 144A and a Qualified Purchaser, and (b) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction and from the transferee in the form provided for in the Indenture. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Restricted Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S.

(2) Transfer of a Restricted Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Regulation S Note will be made only in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that such transfer is being made to a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Regulation S Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the transferee is a Qualified Institutional Buyer and a Qualified Purchaser.

(3) Transfers between Participants in DTC will be effected in the ordinary way in accordance with the Applicable Procedures and will be settled in immediately available funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

(4) Notes in the form of Definitive Notes may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Notes at the office of the Note Registrar or any Transfer Agent with a transfer certificate in the form provided in the Indenture. In addition, if the Definitive Notes being exchanged or transferred contain a Legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such Legend may be required. With respect to any transfer of a portion of a Definitive Note, the transferor will be entitled to receive, at any aforesaid office, a new Definitive Note representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Notes issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the applicable Transfer Agent.

(5) For so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will have a paying agent for such Notes in Ireland and payments on and transfers or exchanges of interests in such Notes may be effected through the Irish Paying Agent. If the Irish Paying Agent is replaced at any time during such period, notice of the

appointment of any replacement will be given to the Company Announcements Office of the Irish Stock Exchange.

(6) No service charge will be made for exchange or registration of transfer of any Note but the Trustee may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail.

(7) Definitive Notes issued upon any exchange or registration of transfer of Notes will be valid obligations of the Issuers, evidencing the same debt, and entitled to the same benefits, as the Definitive Notes surrendered upon exchange or registration of transfer.

(8) The Trustee will effect transfers of Global Notes and, along with the Transfer Agents, will effect exchanges and transfers of Definitive Notes. In addition, the Note Registrar will keep in the Note Register records of the ownership, exchange and transfer of any Note in definitive form.

(9) The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, any transfer of beneficial interests in a Note represented by a Global Note to such persons may require that such interests in a Global Note be exchanged for Definitive Notes. Because DTC can only act on behalf of Participants, which in turn act on behalf of indirect Participants and certain banks, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interest in a Global Note be exchanged for Definitive Notes. Interests in a Global Note will be exchangeable for Definitive Notes only as described above.

(10) Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Note in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the depositaries of Euroclear or Clearstream, respectively.

(11) Because of time zone differences, cash received in Euroclear or Clearstream as a result of sales of interests in a Regulation S Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

(12) DTC has advised the Issuers that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described above) only at the direction of one or more Participants to whose account the DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the Global Notes for Definitive Notes, legended as appropriate, which it will distribute to its Participants.

(13) DTC has advised the Issuers as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

(14) Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Co-Issuer and the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

(15) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, or any similar laws or regulations to the extent they are applicable to the Issuer, and each holder of Securities will be required to comply with such transfer restrictions.

Preference Shares

The Preference Shares will be issued in fully registered, definitive form, registered in the name of the legal owner thereof (or a nominee acting on behalf of the disclosed legal owner thereof). No Preference Share may be transferred except in accordance with the terms set forth in the Issuer Charter and the Preference Share Paying Agency Agreement.

No Gross-Up

All payments made by the Issuer under the Notes will be made without any deduction or withholding for or on the account of any tax unless such deduction or withholding is required by applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will not be obligated to pay any additional amounts in respect of such withholding or deduction.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default

An "**Event of Default**" is defined in the Indenture as:

(a) a default on any Distribution Date in the payment of any interest accrued during the Interest Period immediately preceding such Distribution Date (i) on any Class A Note or Class B Note, (ii) if there are no Class A Notes or Class B Notes outstanding, on any

Class C Note, (iii) if there are no Class A Notes, Class B Notes or Class C Notes outstanding, on any Class D Note or (iv) if there are no Class A Notes, Class B Notes, Class C Notes, or Class D Notes outstanding, on any Class E Note, when the same becomes due and payable, in each case which default continues for a period of three Business Days (or, in the case of a failure to make such payment resulting, as certified in writing by the Trustee, solely from an administrative error or omission by the Trustee, the Administrator, any Paying Agent or the Note Registrar, seven days);

(b) a default in the payment of principal of any Note at its Stated Maturity or Redemption Date or, in the case of a failure to make such payment resulting solely from an administrative error or omission by the Administrator, the Trustee, any Paying Agent or the Note Registrar which continues for a period of seven days;

(c) the failure on any Distribution Date to disburse amounts (other than a default in payment described in clause (a) or (b) above) available in the Interest Collection Account or Principal Collection Account in accordance with the order of priority set forth above under "—Priority of Payments", which failure continues for a period of two Business Days or, in the case of a failure resulting solely from an administrative error or omission by the Trustee, the Administrator, any Paying Agent or the Note Registrar, which failure continues for a period of seven days;

(d) either of the Issuers becomes an investment company required to be registered under the Investment Company Act;

(e) a default in the performance, or breach, of any other covenant or other agreement (other than any covenant to meet the Collateral Quality Tests or the Coverage Tests) of the Issuer or the Co-Issuer under the Indenture or any representation or warranty of the Issuer or the Co-Issuer made in the Indenture or in any certificate or other writing delivered pursuant thereto or in connection therewith proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days (or, if such default or breach has an adverse effect on the validity, perfection or priority of the security interest granted under the Indenture, 15 days) after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after notice thereof to the Issuer and the Collateral Manager by the Trustee or to the Issuer, the Collateral Manager and the Trustee by the holders of at least 50% in aggregate outstanding principal amount of Notes of the Controlling Class;

(f) certain events of bankruptcy, insolvency, receivership or reorganization of either of the Issuers (as set forth in the Indenture);

(g) one or more final judgments being rendered against either of the Issuers that exceed, in the aggregate, U.S.$1,000,000 (or such lesser amount as each Rating Agency may specify) and which remain unstayed, undischarged and unsatisfied for 30 days after such judgment(s) becomes nonappealable, unless adequate funds have been reserved or set aside for the payment thereof; or

(h) the Class A-1 OC Ratio falls below 100%.

If either of the Issuers obtains knowledge, or has reason to believe, that an Event of Default has occurred and is continuing, such Co-Issuer is obligated to promptly notify the Trustee, the Preference Share Paying Agent, the Collateral Manager, the Noteholders, any Interest Rate Swap Counterparty, the

Synthetic Security Counterparty, the Initial Investment Agreement Provider, the other of the Issuers and each Rating Agency of such Event of Default in writing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (f) under "Events of Default" above), the Trustee (at the direction of the holders of a majority in aggregate outstanding principal amount of the Controlling Class) by notice to the Issuers, or holders of a majority in aggregate outstanding principal amount of the Controlling Class by notice to the Issuers and the Trustee, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Event of Default described in clause (f) above under "Events of Default" occurs, such an acceleration will occur automatically and without any further action. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (a) or clause (b) above under "Events of Default" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of at least a majority in aggregate outstanding principal amount of Notes of the Controlling Class. The **"Controlling Class"** will be the Class A-1b Notes or, if there are no Class A-1b Notes outstanding, the Class A-1a Notes or, if there are no Class A-1a Notes or Class A-1b Notes outstanding, the Class A-2 Notes or, if there are no Class A-1a Notes, Class A-1b Notes or Class A-2 Notes outstanding, the Class B Notes or, if there are no Class A-1b Notes, Class A-1a notes, Class A-2 notes or Class B Notes outstanding, the Class C Notes or, if there are no Class A-1b Notes, Class A-1a notes, Class A-2 notes, Class B Notes or Class C Notes outstanding, the Class D Notes or, if there are no Class A-1b Notes, Class A-1a notes, Class A-2 notes, Class B Notes, Class C Notes or Class D Notes outstanding, the Class E Notes.

If an Event of Default occurs and is continuing when any Note is outstanding, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "—Priority of Payments" unless:

(a) the Trustee, or an independent investment banking firm of national reputation selected by the Trustee at the expense of the Issuer, determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes and certain administrative expenses (including any amounts due to the Collateral Manager and any Interest Rate Swap Counterparty) in accordance with the Priority of Payments and the holders of a majority in aggregate outstanding principal amount of the Controlling Class agree with such determination;

(b) the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of the Notes voting as a separate Class (and (i) any Interest Rate Swap Counterparty, unless no early termination payment would be owing by the Issuer to the relevant Interest Rate Swap Counterparty or it will be paid in full all amounts owing to it by the Issuer and (ii) the Synthetic Security Counterparty, unless no payment would be owing by the Issuer to the Synthetic Security Counterparty or it will be paid in full all amounts owing to it by the Issuer) direct, subject to the provisions of the Indenture, the sale of the Collateral; or

(c) with respect to an Event of Default pursuant to paragraph (a), (b) or (h) of the definition of Event of Default the Holders of at least sixty-six and two-thirds percent (66 ⅔) of the Aggregate Outstanding Amount of the Controlling Class, so long as any Class A-1 Notes remain Outstanding, direct the sale and liquidation of the Collateral.

If an Event of Default occurs and is continuing and condition (a), condition (b) or condition (c) above is satisfied, the Trustee will liquidate the Collateral, including the termination or novation of the

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Synthetic Securities, and terminate any Interest Rate Swap Agreement and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee notifies the Issuer, the Collateral Manager and each Rating Agency that such liquidation and such termination is completed, apply the proceeds thereof, net of reasonable costs of collection and enforcement, in accordance with the Priority of Payments described above under "Priority of Payments—Interest Proceeds" and "Priority of Payments—Principal Proceeds." The Accelerated Maturity Date will be treated as a Distribution Date.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings for any remedy available to the Trustee, *provided* that (a) such direction will not conflict with any rule of law or the Indenture; (b) the Trustee may take any other action not inconsistent with such direction (and the Trustee need not take any action whether pursuant to direction from the Controlling Class or otherwise that it determines might involve it in liability unless it has received indemnity against such liability as set forth in (c)); (c) the Trustee has been provided with indemnity satisfactory to it; and (d) any direction to undertake a sale of the Collateral may be made only as described in the preceding paragraph.

Pursuant to the Indenture, as security for the payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer, the Issuer will grant the Trustee a lien on the Collateral, which lien is senior to the lien of the Secured Parties. The Trustee's lien will be exercisable by the Trustee only if the Notes have been declared due and payable following an Event of Default and such acceleration has not been rescinded or annulled.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request of any holders of any of the Notes, unless such holders have offered to the Trustee reasonable security or indemnity.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class, acting together with each Synthetic Security Counterparty, may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences, except a default in the payment of the principal of any Note or in the payment of interest (including any Deferred Interest, Defaulted Interest or interest thereon) on the Class A Notes or, after the Class A Notes have been paid in full, the Class B Notes or, after the Class B Notes have been paid in full, the Class C Notes, after the Class C Notes have been paid in full, the Class D Notes, or after the Class D Notes are paid in full, the Class E Notes; or in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby or arising as a result of an Event of Default described in clause (d) above under "Events of Default." Notwithstanding any such grant of a waiver, an Interest Rate Swap Counterparty may rescind such waiver by notice to the Trustee, the Collateral Manager, each Synthetic Security Counterparty and the holders of the Controlling Class of Notes (given within five Business Days after receipt of notice of such waiver) if the relevant Interest Rate Swap Counterparty delivers a certification to the effect that such waiver will have a material and adverse effect on such Interest Rate Swap Counterparty.

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (a) such holder previously has given to the Trustee written notice of an Event of Default, (b) except in certain cases of a default in the payment of principal or interest, the holders of at least 50% in aggregate outstanding principal amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the Trustee reasonable indemnity, (c) the Trustee has for 30 days failed to institute any such proceeding

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and (d) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the holders of a majority in aggregate outstanding principal amount of the Notes of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes or requisite percentage in interest of Preference Shareholders have given any direction, notice or consent, (a) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding and (b) in relation to any assignment or termination of the Management Agreement (including the exercise of any right to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Collateral Manager Securities shall be disregarded and deemed not to be outstanding. Collateral Manager Securities shall be disregarded and deemed not to be outstanding for purposes of determining whether holders of the requisite percentage in interest of Preference Shares have approved certain acquisitions of Underlying Assets from the Collateral Manager or its Affiliates. The Collateral Manager and its Affiliates will be entitled to vote Notes and Preference Shares held by them with respect to all matters other than those described in the foregoing clause (b) (including the selection of or consent to a successor collateral manager that is not an Affiliate of the existing Collateral Manager). The term **"Collateral Manager"** for purposes of this paragraph includes any successor or successors to HBK Investments L.P. and any of HBK Investments L.P.'s affiliated subadvisors.

Notices

Notices to the Noteholders will be given by first-class mail, postage prepaid, to the registered Noteholders at their addresses appearing in the Note Register. In addition, for so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, notices will also be given to the Company Announcements Office of the Irish Stock Exchange.

Modification of the Indenture

With the consent of (a) the holders of not less than a majority of each Class materially and adversely affected thereby and all of the Preference Shareholders if materially and adversely affected thereby, (b) the consent of any Interest Rate Swap Counterparty adversely affected thereby, (c) the consent of the Synthetic Security Counterparty adversely affected thereby, and (c) the consent of the Initial Investment Agreement Provider adversely affected thereby, the Trustee and Issuers may enter into one or more indentures to add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the Noteholders of such Class, the Preference Shareholders, any Interest Rate Swap Counterparty, Synthetic Security Counterparty or the Initial Investment Agreement Provider, as the case may be, under the Indenture. Unless notified by holders of a majority in aggregate outstanding principal amount of any Class of Notes, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider that such Class of Notes or the Preference Shares, as the case may be, will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be adversely affected, the Trustee may, consistent with the written advice of counsel, determine whether or not such Class of Notes or the Preference Shares would be materially and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by such change (after giving 15 Business Days' notice of such change to the holders of such Class of Notes, the Preference Shareholders, any Interest Rate Swap Counterparty and the Initial Investment Agreement Provider). Such determination shall be

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conclusive and binding on all present and future Noteholders, the Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding Note of each Class affected thereby and each Preference Shareholder if the Preference Shares are affected by the supplemental indenture if such supplemental indenture:

(a) changes the Stated Maturity of any Note or the scheduled redemption date of the Preference Shares or the due date of any installment of interest on any Note or distribution of Excess Interest in respect of a Preference Share, reduces the principal amount of any Note or the rate of interest thereon, or the redemption price with respect to any Note or Preference Share, changes the earliest date on which the Issuer may redeem any Note or Preference Share or the amount of Excess Interest or Excess Principal Proceeds payable in respect of a Preference Share, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest on the Notes or the payment of Excess Interest and Excess Principal Proceeds in respect of the Preference Shares, changes any place where, or the coin or currency in which, any Note or any Preference Share, or the principal thereof or interest thereon or any Excess Interest or Excess Principal Proceeds in respect thereof, respectively, is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or the scheduled redemption date of the Preference Shares (or, in the case of redemption, on or after the applicable redemption date);

(b) reduces the percentage in aggregate outstanding principal amount of holders of Notes of each Class or the percentage of Preference Shares whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with applicable provisions of the Indenture or certain defaults thereunder or their consequences;

(c) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby;

(d) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral or terminates such lien on any property at any time subject thereto or deprives the holder of any Note of the security afforded by the lien created by the Indenture;

(e) reduces the percentage of the aggregate outstanding principal amount of holders of Notes of each Class whose consent is required to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture;

(f) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of outstanding Notes (or percentage of Preference Shares) whose holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note or Preference Share affected thereby;

(g) modifies the definition of the term "**Outstanding**," the Priority of Payments or the subordination provisions of the Indenture;

(h) changes the permitted minimum denominations of any Class of Notes or the minimum number of Preference Shares; or

(i) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Note or the calculation of the amount of Excess Interest or Excess Principal Proceeds with respect to the Preference Shares on any Distribution Date or the right of the Noteholders or the Preference Shareholders to the benefit of any provisions for the redemption of such Notes or Preference Shares contained in the Indenture;

provided that no such supplemental indenture shall modify the rights of the Preference Shareholders without the written consent of each Preference Shareholder. At any time that any Class of Notes is rated by any Rating Agency, the Trustee shall not enter into any such supplemental indenture if, as a result of such supplemental indenture, the Rating Condition would not be satisfied with respect to such supplemental indenture, unless each holder of Notes of each Class whose rating will be reduced or withdrawn has consented to such supplemental indenture and each such Noteholder was notified prior to or at the time of its consent that a reduction or withdrawal of Standard & Poor's ratings was likely to occur.

The Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of the holders of any Notes or Preference Shares or any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider in order to, among other things:

(a) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes or to change the name of the Issuer or the Co-Issuer;

(b) add to the covenants of the Issuers or the Trustee for the benefit of the holders of all of the Notes and Preference Shares or to surrender any right or power conferred upon the Issuers;

(c) convey, transfer, assign, mortgage or pledge any property to or with the Trustee;

(d) evidence and provide for the acceptance of appointment under the Indenture by a successor trustee, collateral manager, listing agent, calculation agent, custodian, securities intermediary, note registrar, paying agent and/or collateral administrator and the compensation thereof and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(e) correct or amplify the description of any property at any time subject to the lien created by the Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property;

(f) make administrative and other non-material changes as the Issuer deems appropriate;

(g) obtain ratings on one or more Classes of Notes from any rating agency;

(h) with the prior written consent of the Collateral Manager, modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or to enable the Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(i) with the prior written consent of the Collateral Manager, correct any inconsistency, defect or ambiguity in the Indenture;

(j) with the prior written consent of the Collateral Manager, modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act, or other similar applicable laws or regulations to enable the Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(k) avoid the imposition of tax on the net income of the Issuer (or to reduce the amount of such tax payable by the Issuer) or of withholding tax on any payment to the Issuer, or prevent the Noteholders, the Preference Shareholders or the Trustee from being subject to withholding or other taxes, fees or assessments, or prevent the Issuer from being treated as engaged in a United States trade or business for U.S. federal income tax purposes or otherwise subject to U.S. federal, state, local or foreign income or franchise tax on a net income tax basis, or avoid the Issuer being required to register as an investment company under the Investment Company Act (or to reflect any change permitted by the Indenture to avoid the occurrence of a Tax Event or the existence of a Tax Materiality Condition); provided that such action will not cause the Noteholders to be adversely affected to any material extent by any change to the timing, character or source of the income from the Note;

(l) with the prior written consent of the Collateral Manager, to avoid the consolidation of the Issuer with the Collateral Manager on the financial statements of the Collateral Manager;

(m) accommodate the issuance of any Class of Notes as definitive notes;

(n) if 100% of the Preference Shareholders request in writing to the Issuer and the Trustee, accommodate the issuance of additional Preference Shares with terms identical to those of the existing Preference Shares;

(o) if the Collateral Manager consents, modify the Auction Procedures; and

(p) correct any manifest error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuers describing in reasonable detail such error and the modification necessary to correct such error;

provided that, in each such case, such supplemental indenture would not materially and adversely affect any holder of Notes or any Preference Shareholder or adversely affect any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider. Unless notified by holders of a majority in aggregate outstanding principal amount of Notes of any Class, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic

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Security Counterparty or the Initial Investment Agreement Provider that such Class or the Preference Shareholders will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be adversely affected, the Trustee may rely upon an opinion of counsel as to whether the interests of any Noteholder or Preference Shareholder would be materially and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by any such supplemental indenture (after giving ten days' notice of such change to each Noteholder, Preference Shareholder, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider). The Trustee may not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition would not be satisfied; unless (i) each holder of Notes of each Class with respect to which the Rating Condition would not be satisfied consents to such supplemental indenture and (ii) each such Noteholder was notified prior to or at the time of its consent that a reduction or withdrawal of Standard & Poor's ratings was likely to occur.

Notwithstanding any of the foregoing, the Trustee may not enter into any supplemental indenture without the prior written consent of the Collateral Manager, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider, if such supplemental indenture adversely affects such party (as determined by such party in its reasonable judgment) in any respect or changes the rights or obligations of such party in any respect.

Modification of Certain Other Documents

Prior to entering into any amendment or other modification of, or consenting to or directing any assignment or termination of the Management Agreement or any Interest Rate Swap Agreement, the Issuer is required by the Indenture to obtain the written confirmation of each Rating Agency that the Rating Condition is satisfied with respect to such amendment, modification, assignment or termination. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Controlling Class of Notes (for so long as any Class A-1 Notes remain Outstanding) and the Trustee with written notice of such waiver. The Indenture also provides that the Issuer may not amend or modify, or consent to or direct any assignment or termination of the Administration Agreement without the prior written consent of a Special-Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty and the Synthetic Security Counterparty (if such Interest Rate Swap Counterparty or Synthetic Security Counterparty would be adversely affected thereby). The Synthetic Security Counterparty will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Indenture, neither of the Issuers may consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or entity.

Petitions for Bankruptcy

The Indenture provides that the Noteholders agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuer or the Co-Issuer before one year (or, if longer, the applicable preference period then in effect, including any period established pursuant to the laws of the Cayman Islands) and one day have elapsed since the payment in full of all Notes.

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Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, within certain limitations (including the obligation to pay principal and interest, including Deferred Interest, Defaulted Interest and interest on Defaulted Interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Notes, the Indenture, any Interest Rate Swap Agreement (including all relevant termination payments), the Administration Agreement, the Preference Share Paying Agency Agreement and the Management Agreement.

Trustee

Deutsche Bank Trust Company Americas will be the Trustee under the Indenture. The Issuers, the Collateral Manager and their respective affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee is solely the obligation of the Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. The Trustee may resign at any time by giving written notice of such resignation to the Preference Share Paying Agent, the Issuers, the Noteholders, the Collateral Manager and each Rating Agency. The Trustee may be removed by 66 2/3% in aggregate outstanding principal amount of the Notes (voting together as a single Class) or, at any time when an Event of Default shall have occurred and be continuing or when a successor Trustee has been appointed pursuant to the Indenture, by a majority in aggregate outstanding principal amount of the Controlling Class. No resignation or removal of the Trustee will become effective until the acceptance of the appointment of a successor Trustee. In the Indenture, the Trustee will agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year, or if longer, the applicable preference period then in effect including any period established pursuant to the laws of the Cayman Islands, and one day after the payment in full of all of the Notes.

Characterization of the Notes

The Issuer will treat the Notes as indebtedness of the Issuer for U.S. federal, state and local income tax purposes. The Indenture will provide that each holder, by accepting a Note, agrees not to take any action inconsistent with such treatment unless required by law.

Governing Law

The Notes, the Indenture, the Subscription Agreement, the Management Agreement, the Collateral Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.

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Reports

The Issuer will deliver, or cause to be delivered, a monthly report (the **"Monthly Report"**), except for the months when it prepares the Note Valuation Report described below, containing certain information regarding, among other things, the characteristics and performance of the Underlying Assets included in the Collateral. The Issuer will deliver, or cause to be delivered, as of each Determination Date, a report (the **"Note Valuation Report"**), containing certain information regarding, among other things, the aggregate principal amount of, and payments of interest on or principal of, the Notes and the information with respect to the Underlying Assets normally included in the Monthly Report. In connection with the Monthly Report, the Issuer also shall provide, or cause to be provided, certain monitoring information to each Rating Agency as set forth in the Indenture. The Note Valuation Report will be delivered no later than 2 Business Days prior to the relevant Distribution Date.

Collateral Administrator

On or before the Closing Date, the Issuer shall enter into a collateral administration agreement (the **"Collateral Administration Agreement"**) among the Issuer, the Collateral Manager and Deutsche Bank Trust Company Americas, as collateral administrator (in such capacity, the **"Collateral Administrator"**), pursuant to which the Collateral Administrator will assist the Issuer in certain data collection and compellation functions with respect to the Underlying Assets.

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CERTAIN TERMS OF THE PREFERENCE SHARES

The following summary describes certain terms and conditions applicable to the Preference Shares. This summary, together with other portions of this Offering Circular summarizing terms and conditions applicable to the Preference Shares, does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture, the Issuer Charter and the Preference Share Paying Agency Agreement.

General

The Issuer is hereby offering 59,500 of its Preference Shares, par value U.S. $0.01 per share and a liquidation preference of $1,000 per share (the **"Preference Shares"**). The Preference Shares will be fully paid and non-assessable upon completion of such offering.

The net proceeds from the issuance of the Preference Shares, together with the net proceeds from the issuance of the Notes, will be used by the Issuer to purchase Underlying Assets and other Eligible Investments, all of which will be included in the Collateral and, pursuant to the Indenture, will be pledged by the Issuer to secure the Notes.

Even though each Preference Share has been assigned a liquidation preference of $1,000 per share, there is no assurance that, in the context of a liquidation of the Issuer, there will be sufficient funds to pay $1,000 per share to each holder of the Preference Shares.

Under the terms of the Preference Share Paying Agency Agreement, Deutsche Bank Trust Company Americas, acting through an affiliate or agent located outside the United States, will be the initial paying agent for the Preference Shares (in such capacity, the "Paying Agent"). The Issuer may not appoint a Paying Agent that does not have offices located outside the United States or does not use an affiliate or agent located outside the United States. Payments of dividends on the Preference Shares will be made from funds available in the Collection Accounts and released to the Paying Agent by the Trustee under the Indenture. All interest and principal payments on the Underlying Assets will be deposited directly into the Collection Accounts and, together with any reinvestment income thereon, will be available, subject to the Priority of Payments described in the Note Offering Circular, for the payment of certain of the Issuer's expenses (including the payment of the Management Fee to the Collateral Manager) and the payment of amounts payable with respect to the Notes, and then for the payment of amounts payable with respect to the Preference Shares. See "Description of the Notes—Priority of Payments" in the Note Offering Circular.

Payments on the Preference Shares will be made pursuant to certain procedures established by the Paying Agent under the Preference Share Paying Agency Agreement; provided that any final payment will be made upon presentation and surrender of the share certificates at the office of the Paying Agent. Payments on Rule 144A Preference Shares may be made in the United States by a United States dollar check drawn by the Paying Agent on a United States dollar account maintained by the Paying Agent or, at the request of any Preference Shareholder, by wire transfer from such account. In the case of Regulation S Global Preference Shares, payments will be made (i) by United States dollar check, by the Paying Agent mailing the same from an address located outside the United States, or (ii) at the request of any Preference Shareholder, by wire transfer from the account of the Paying Agent, acting though its affiliate or agent located outside of the United States, to a United States dollar account maintained by such Preference Shareholder at a bank outside of the United States.

Status of the Preference Shares

The Preference Shares are equity in the Issuer and are not secured by the Collateral securing the Notes. As such, the Preference Shareholders will, on a winding up of the Issuer, rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Issuer, including, without limitation, the Noteholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Initial Investment Agreement Provider and any judgment creditors.

Payments in respect of the Preference Shares are subject to certain requirements imposed by Cayman Islands law. Any amounts paid by the Preference Share Paying Agent as distributions by way of dividend on the Preference Shares will be payable only if the Issuer has sufficient distributable profits and/or share premium. In addition, such distributions and the payment of Excess Principal Proceeds upon redemption of the Preference Shares will be payable only to the extent that the Issuer is and remains solvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed solvent if it is able to pay its debts as they come due.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the Preference Shareholders will be retained in the Preference Share Payment Account until, in the case of any payment by way of dividend which would otherwise be payable other than on a redemption date of the Preference Shares, the next succeeding Distribution Date, or, in the case of any payment which would otherwise be payable on a redemption date of the Preference Shares, the next succeeding Business Day, in each case on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts on deposit in the Preference Share Payment Account will not be available to pay amounts due to the Noteholders, the Trustee, the Collateral Manager, the Administrator, any Interest Rate Swap Counterparty or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, amounts on deposit in the Preference Share Payment Account may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral.

Rights of Consent of the Preference Shareholders

Set forth below is a summary of certain matters with respect to which the consent of the Preference Shareholders is required or in respect of which the Preference Shareholders may give directions. This summary is not meant to be an exhaustive list.

Optional Redemption of the Notes: On any Distribution Date on or after the March 2010 Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of the holders of at least sixty-six and two thirds percent (66 2/3%) of the Preference Shares, as described under "Description of the Notes—Optional Redemption."

Tax Redemption of the Notes: On any Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of a Majority-in-Interest of the Preference Shareholders; provided that, the Controlling Class may only direct a Tax Redemption in the event that, as a result of the relevant Tax Event, on a previous Payment Date one or more of the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes or Class B Notes did not receive the amount that it otherwise would have received under the Priority of Payments in the absence of such Tax Event as described under "Description of the Notes—Tax Redemption."

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The Management Agreement: For a description of certain of the rights of the Preference Shareholders in relation to the removal of the Collateral Manager and the appointment of a successor Collateral Manager, see "The Management Agreement."

The Indenture: The Issuer is not permitted to enter into a supplemental indenture without the consent of the Preference Shareholders, if materially and adversely affected thereby.

Auction Call Redemption of the Preference Shares

The Preference Shares will be subject to redemption pursuant to an Auction Call Redemption occurring on or after the First Auction Call Date under the circumstances described under "Description of the Notes—Auction Call Redemption."

Distributions

On each Distribution Date beginning with the First Distribution Date and ending on the Final Redemption Date, the Paying Agent, on behalf of the Preference Shareholders, will be entitled to receive from the Trustee (for payment to the Preference Shareholders as a dividend or, on the Final Redemption Date, to redeem the Preference Shares pursuant to the Preference Share Paying Agency Agreement and in accordance with the Issuer Charter) all Excess Interest and all Excess Principal Proceeds and other funds received during the most recently ended Collection Period and remaining after payment by the Trustee on such date of all payments that take priority over payments to the Paying Agent (for the benefit of the Preference Shareholders) under the Indenture. Such Excess Interest and Excess Principal Proceeds are referred to herein collectively as **"Excess Cash Flows"**.

Failure to satisfy any of the Coverage Tests described under "Description of the Notes" in the Note Offering Circular may result in temporary or permanent diversion of all or a portion of amounts otherwise payable to the Paying Agent as Excess Interest and, therefore, of any amount payable on the Preference Shares. In addition, on any Distribution Date occurring after the March 2010 Distribution Date, an amount equal to 15% of the Excess Interest that would otherwise be distributed to Preference Shareholders on the related Distribution Date (after the payment of certain other amounts thereto) will be used instead to repay principal of the Class D Notes until the Class D Notes are paid in full. Preference Shareholders are entitled to share ratably in all assets remaining after payment of all liabilities of the Issuer, including the Notes.

Dividends

Pursuant to a Preference Share Paying Agency Agreement, to be dated as of the Closing Date (the **"Preference Share Paying Agency Agreement"**), between the Issuer and Deutsche Bank Trust Company Americas, acting through an affiliate or agent outside the United States (the **"Paying Agent"**), on each Distribution Date, the Preference Shares will be entitled to receive dividends in an amount equal to all Excess Cash Flows received by the Paying Agent on such Distribution Date, without requiring any declaration of such dividends by the Issuer's board of directors.

The Issuer Charter and resolutions passed by the Issuer's board of directors will provide for the payment of dividends on the Preference Shares, without requiring any declaration by the board of directors, on each Distribution Date, other than the Final Redemption Date, in an amount equal to the amount of all Excess Cash Flows paid to the Paying Agent by the Trustee on such Distribution Date pursuant to the Indenture.

Such dividends, if any, will be paid on each Distribution Date, other than the Final Redemption Date, to the Preference Shareholders in whose names the Preference Shares are registered at the close

of business fifteen days prior to the applicable Distribution Date (the **"Record Date"**). All dividend payments will be made pro rata according to the number of Preference Shares held by such Preference Shareholders.

The payment of such dividends will be subject to the Issuer having sufficient distributable profits or "share premium" (being the difference between the aggregate liquidation preference of the Preference Shares and the aggregate par value of the Preference Shares) out of which to pay such amounts and, in the case of a payment from share premium, the Issuer being able to pay its debts as they fall due in the ordinary course of its business.

Governing Law

The Preference Share Paying Agency Agreement and the Subscription Agreement will be governed by the law of the State of New York. The Issuer Charter and the Preference Shares will be governed by the law of the Cayman Islands.

Notices

Notices to the Preference Shareholders will be in writing, and will be mailed, first-class postage prepaid or overnight delivery, or sent via facsimile or e-mail by the Paying Agent, acting through its affiliate or agent located outside the United Stated, from outside the United States to each of the registered holders as reflected in the Preference Share Register.

Form, Minimum Lots, Registration and Transfer

General

The Preference Shares will be subject to certain restrictions on transfer set forth therein and in the Issuer Charter and may bear a legend regarding such restrictions.

Preference Shares initially offered in the U.S. in reliance upon an exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof (i) to a limited number of Institutional Accredited Investors (within the meaning of rule 501(a)(1), (2), (3) or (7) under the Securities Act) or (ii) to "Qualified Institutional Buyers", as defined in Rule 144A under the Securities Act (**"Rule 144A Preference Shares"**) will be represented by certificates in fully registered definitive form registered in the name of the legal and beneficial owner thereof.

Preference Shares that will be sold to non-U.S. Persons in "offshore transactions" in reliance upon Regulation S under the Securities Act will initially be represented by one or more temporary global share certificates (**"Temporary Regulation S Global Preference Shares"**), that will be exchangeable for one or more permanent global Preference Shares (**"Permanent Regulation S Global Preference Shares"** and, together with the Temporary Regulation S Global Preference Shares, the **"Regulation S Global Preference Shares"**) in fully registered form, deposited with and registered in the name of, The Depository Trust Company (**"DTC"**) (or its nominee), initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear system (**"Euroclear"**), and/or Clearstream Banking, société anonyme (**"Clearstream"**). During the Distribution Compliance Period, beneficial interests in a Regulation S Global Preference Share may only be held through Euroclear or Clearstream. By acquisition of a beneficial interest in a Regulation S Global Preference Share, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Rule 144A Preference Share. Beneficial interests in each Regulation S

Global Preference Share will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

Owners of beneficial interests in Regulation S Global Preference Shares will be entitled or required under certain limited circumstances described below, to receive physical delivery of share certificates representing certificated Preference Shares (**"Definitive Preference Shares"**) in fully registered, definitive form. No owner of an interest in a Regulation S Global Preference Share will be entitled to receive a Definitive Preference Share (A) until after the expiration of the Distribution Compliance Period and (B) unless for a person other than a distributor (as defined in Regulation S), such person provides certification that the Definitive Preference Share is beneficially owned by a person that is not a U.S. Person (as defined in Regulation S).

So long as DTC, or its nominee, is the registered holder of the Regulation S Global Preference Shares, DTC or such nominee, as the case may be, will be considered the absolute owner or holder of such Regulation S Global Preference Shares represented by global share certificates for all purposes under the Issuer Charter and the Regulation S Global Preference Shares and members of, or participants in, DTC (the "Participants") as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream and account holders and participants therein) will have no rights under the Issuer Charter or under a Regulation S Global Preference Share. Owners of beneficial interests in a Regulation S Global Preference Share will not be considered to be the owners or holders of any Preference Shares under the Issuer Charter or the Preference Shares. In addition, no beneficial owner of an interest in a Regulation S Global Preference Share will be able to exchange or transfer that interest, except in accordance with the applicable procedures of DTC and Euroclear or Clearstream (in addition to those under the Preference Share Paying Agency Agreement), in each case to the extent applicable (the "Applicable Procedures").

Investors may hold their interests in a Regulation S Global Preference Share directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the Distribution Compliance Period (but not earlier), investors may also hold such interests other than through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in Regulation S Global Preference Shares on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Global Preference Shares in customers' securities accounts in the depositaries' names on the books of DTC.

Distributions on a Regulation S Global Preference Share registered in the name of DTC or its nominee will be made to DTC or its nominee as the registered owner of the Regulation S Global Preference Share. None of the Issuer or the Preference Share Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Regulation S Global Preference Shares or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

With respect to the Regulation S Global Preference Shares, the Issuer expects that DTC or its nominee, upon receipt of any distribution on such Regulation S Global Preference Share, will immediately credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the number of such Regulation S Global Preference Share as shown on the records of DTC or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Regulation S Global Preference Share held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

Deutsche Bank Trust Company Americas, acting through an affiliate or agent located outside the United States, has been appointed a transfer agent with respect to the Preference Shares (the **"Preference Share Transfer Agent"**).

The Preference Shares are subject to the restrictions on transfer set forth in this Offering Circular under "Transfer Restrictions".

The Preference Shares are being offered, and may only be transferred, in minimum lots of 200 shares.

The Preference Shares are not issuable in bearer form.

Pursuant to the Preference Share Paying Agency Agreement, Maples Finance Limited (on behalf of the Issuer) has been appointed and will serve as the registrar with respect to the Preference Shares (in such capacity, the "Preference Share Registrar") and will provide for the registration of Preference Shares and the registration of transfers of Preference Shares in the register maintained by it (the "Preference Share Register"). Written instruments of transfer are available at the office of the Preference Share Registrar.

The Issuer is authorized to issue 59,500Preference Shares par value U.S.$0.01 per share.

Definitive Preference Shares

Interests in a Regulation S Global Preference Share represented by a global share certificate will be exchangeable or transferable, as the case may be, for a Regulation S Global Preference Share that is in certificated form (a "Definitive Preference Share") if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Preference Share, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Regulation S Global Preference Share is required by law to take physical delivery of securities in definitive form or (d) the transferee is otherwise unable to pledge its interest in a Regulation S Global Preference Share. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause such Definitive Preference Shares bearing an appropriate legend (a "Legend") regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of such Regulation S Global Preference Shares bearing a Legend, or upon specific request for removal of a Legend on a Regulation S Global Preference Share certificate, the Issuer shall cause to be delivered through the Preference Share Transfer Agent to the holder and the transferee, as applicable, one or more Definitive Preference Shares corresponding to the number of Preference Shares surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer or the Preference Share Registrar that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act.

Transfer and Exchange

Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share to a transferee who takes delivery of such interest through a Rule 144A Preference Share will be made only in accordance with the Applicable Procedures and upon receipt by the Preference Share Registrar of written certifications from (i) the transferor of the beneficial interest in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, purchasing for its own account,

to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (ii) the transferee in the form provided for in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee is (a) a Qualified Institutional Buyer and (b) either a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act).

Transfers by a holder of a beneficial interest in a Regulation S Global Preference Share to a transferee who takes delivery of such interest through a Regulation S Global Preference Share will be made only to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S and only in accordance with the Applicable Procedures, without the provision of any written certification. If such transfer occurs after the end of the Distribution Compliance Period and is not made in an offshore transaction in accordance with Rule 904 of Regulation S, such transfer may be made only upon receipt by the Preference Share Registrar of written certification from the transferee to the effect that the transferee is (a) a Qualified Institutional Buyer and (b) either a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act).

Transfers by a holder of a Rule 144A Preference Share to a transferee who takes delivery of such interest through an interest in a Regulation S Global Preference Share will be made only upon receipt by the Preference Share Registrar of written certifications from (i) the transferor in the form provided in the Preference Share Paying Agency Agreement to the effect that such transfer is being made in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S and (ii) the transferee to the effect that the transferee is not a U.S. Person, purchasing for its own account and not for the account or benefit of a U.S. Person.

Exchanges or transfers by a holder of a Definitive Preference Share to a transferee who takes delivery of such Note through a Regulation S Global Preference Share will be made no later than 60 days after the receipt by the Preference Share Registrar or Transfer Agent, as the case may be, of the Definitive Preference Shares to be so exchanged or transferred only in accordance with the Applicable Procedures, and, if applicable, upon receipt by the Preference Share Registrar of a written certification from the transferor in the form provided in the Preference Share Paying Agency Agreement.

Transfers by a holder of a Rule 144A Preference Share to a transferee who takes delivery of a Rule 144A Preference Share will be made only upon receipt by the Preference Share Transfer Agent or the Preference Share Registrar of written certifications from (i) the transferor in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from Securities Act registration provided by Rule 144A, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (ii) the transferee in the form provided for in the Preference Share Paying Agency Agreement to the effect that, among other things, the transferee is (a) a Qualified Institutional Buyer and (b) either a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act).

Transfers between Participants in DTC will be effected in the ordinary way in accordance with the Applicable Procedures and will be settled in immediately available funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Definitive Preference Shares and Rule 144A Preference Shares may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Preference Shares or Rule 144A Preference Shares, as the case may be, at the office of the Preference Share Registrar or the Preference Share Transfer Agent with a written instrument of transfer as provided in the Preference Share Paying Agency Agreement. In addition, if the Definitive Preference Shares being exchanged or transferred contain a Legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such Legend, may be required. With respect to any transfer of a portion of Definitive Preference Shares or Rule 144A Preference Shares, the transferor will be entitled to receive, at any aforesaid office, new Definitive Preference Shares or Rule 144A Preference Shares, as the case may be, representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Preference Shares and Rule 144A Preference Shares issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Preference Share Transfer Agent.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, any transfer of beneficial interests in Regulation S Global Preference Shares to such persons may require that such interests in Regulation S Global Preference Shares be exchanged for Definitive Preference Shares. Because DTC can only act on behalf of Participants, which in turn act on behalf of indirect Participants and certain banks, the ability of a person having a beneficial interest in Regulation S Global Preference Shares to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interest in a Regulation S Global Preference Shares be exchanged for Definitive Preference Shares. Interests in a Regulation S Global Preference Share will be exchangeable for Definitive Preference Shares only as described above.

Subject to compliance with the transfer restrictions applicable to the Preference Shares described above and under "Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S Global Preference Shares in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the depositaries of Clearstream or Euroclear.

Because of time zone differences, cash received in Euroclear or Clearstream as a result of sales of interests in Regulation S Global Preference Shares by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Preference Shares (including, without limitation, the presentation of Preference Shares for exchange as described above) only at the direction of one or more Participants to whose account with DTC interests in the Regulation S Global Preference Shares are credited and only in respect of the number of Preference Shares as to which such Participant or Participants has or have given such direction.

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in a Regulation S Global Preference Share among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee and the Paying Agent will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If, notwithstanding the foregoing restrictions, the Issuer determines that any beneficial owner of Rule 144A Preference Shares (A) is a U.S. Person (within the meaning of Regulation S under the Securities Act) and (B) is not a Qualified Purchaser, then the Issuer may require, by notice to such Holder, that such Holder sell all of its right, title and interest to such Rule 144A Preference Shares to a person that is both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Preference Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Shares to be transferred in a commercially reasonable sale (conducted by the Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Preference Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is both a Qualified Institutional Buyer and a Qualified Purchaser and (b) pending such transfer, no further payments will be made in respect of the Preference Shares held by such beneficial owner.

In addition, no Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "Controlling Party"), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (e) as otherwise permitted by applicable U.S. Federal banking law and regulations. See "Transfer Restrictions".

No service charge will be made for exchange or registration of transfer of any Preference Shares but the Preference Share Registrar and/or the Preference Share Transfer Agent may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail.

All Preference Shares issued upon any exchange or registration of transfer are entitled to the same benefits as the Preference Shares surrendered upon exchange or registration of transfer.

The Preference Share Registrar will effect exchanges and transfers of Preference Shares. In addition, the Preference Share Registrar will keep in the Preference Share Register records of the ownership, exchange and transfer of the Preference Shares.

No Gross-Up

All distributions of dividends and return of capital on the Preference Shares will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will instruct the Paying Agent to make such deduction or withholding and will pay any such withholding taxes in the country of origin, but will not be obligated to pay any additional amounts in respect of such withholding or deduction.

Prescription

Payments in respect of the Preference Shares will cease to be due if not paid to the holder due to insufficient instructions for a period of ten years from the Relevant Date therefore. "Relevant Date" means the date on which the final payment in respect of the Preference Shares first becomes due, except that if the full amount of the moneys payable has not been duly received by the Paying Agent on or prior to such due date, it means the date on which such moneys have been so received.

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USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be at least U.S.$1,070,000,000. On the Closing Date, the Issuer will receive at least U.S.$1,060,000,000 as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. Such net proceeds from the issuance and sale of the Notes and the Preference Shares will be used by the Issuer to purchase a diversified portfolio of interests in Underlying Assets having the characteristics described herein under "Security for the Notes—Underlying Assets" and to fund certain accounts established under the Indenture. A list of all Underlying Assets included in the portfolio on the Closing Date will be provided to all investors by the Initial Purchaser.

On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio, along with funds on deposit in the Uninvested Proceeds Account, will consist of Underlying Assets (acquired or committed to be acquired) having an Aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of at least U.S.$1,100,000,000. Pending investment in Underlying Assets, the Uninvested Proceeds, if any, will be deposited into the Uninvested Proceeds Account and invested in Eligible Investments. In the event that there are any remaining Uninvested Proceeds on the Determination Date preceding the September 2007 Distribution Date, they will be transferred to the Payment Account and treated as Principal Proceeds on the September 2007 Distribution Date and distributed in accordance with the Priority of Payments.

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RATING OF THE NOTES

It is a condition to the issuance of the Notes that the Class A-1a Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-1b Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of, the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, the Class D Notes and the Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, the Class D Notes and the Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

MATURITY AND PREPAYMENT CONSIDERATIONS

The Stated Maturity of each Class of Notes is the December 2045 Distribution Date. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes may be less than the number of years until the Stated Maturity. Based on the portfolio of Underlying Assets that the Collateral Manager expects the Issuer to purchase no later than the Determination Date preceding the September 2007 Distribution Date, and assuming (a) no Underlying Assets default, and (b) prepayment of any Underlying Assets during any month occurs at a rate equal to an average rate of prepayment specified by the Collateral Manager, redemption will occur and the average life of each Class of Notes from the Closing Date will be as follows:

	Average Life in Years assuming an Auction Call Redemption occurring
Class A-1a Notes	2.1
Class A-1b Notes	3.1
Class A-2 Notes	4.9
Class B Notes	5.8
Class C Notes	6.4
Class D Notes	5.9
Class E Notes	6.5

Such average lives of the Notes are presented for illustrative purposes only. The assumptions used to calculate the average lives of the Notes are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Underlying Assets and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, defaults, recoveries, sales, prepayments or optional redemptions to which the Underlying Assets may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives set forth above, and consequently the actual average lives of the Notes will differ, and may differ materially, from those set forth above. In addition, the assumptions set forth above do not necessarily reflect historical performance and defaults for Asset-Backed Securities and the Issuer makes no representation or warranty that such assumptions are appropriate or reasonable. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and, accordingly, their own evaluation of the merits and risks of an investment in the Notes. See "Risk Factors—Projections, Forecasts and Estimates."

Average life refers to the average number of years that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor.

The average lives of the Notes will be determined by the amount and frequency of principal payments. The actual average lives of the Notes will also be affected by the financial condition of the obligors of the Underlying Assets and the characteristics of such obligations, including the existence and frequency of exercise of any optional or mandatory redemption or prepayment features, the prevailing level of interest rates, the redemption price and the actual default rate and the actual level of recoveries on any Defaulted Securities. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes.

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SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of:

(a) the Underlying Assets and Equity Securities (if any) and the Offset Transactions and the Offsetting Transactions;

(b) the rights of the Issuer under any Interest Rate Swap Agreement;

(c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Collateral Account, the Interest Rate Swap Counterparty Collateral Account, the Disposition Proceeds Account and the Synthetic Security Issuer Account (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts;

(d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreement, the Collateral Administration Agreement and the Administration Agreement; and

(e) all proceeds of the foregoing (collectively, the **"Collateral"**). The Collateral will not include the Excepted Property.

Underlying Assets—Asset-Backed Securities

An **"Asset-Backed Security"** includes any Dollar-denominated asset-backed security or any security that represents a direct or indirect interest in such an asset-backed security that, at the time of acquisition (or commitment for acquisition) by the Issuer, is not a Prohibited Asset or a Defaulted Asset and which satisfies each of the following conditions:

(a) it provides for a fixed amount payable in cash no later than its stated maturity;

(b) the Underlying Instruments with respect to such Asset-Backed Security do not prohibit it from being purchased by the Issuer and pledged to the Trustee;

(c) it is not denominated or payable in, or convertible into an obligation or security denominated or payable in, a currency other than Dollars;

(d) it does not require the Issuer to make future advances or payments to the obligor or issuer;

(e) it has a Standard & Poor's Rating (excluding those with a rating from Standard & Poor's which includes the subscript "p", "pi", "q", "r" or "t") and a Moody's Rating (with respect to the full amount of principal and interest promised);

(f) it is not "margin stock" and does not provide for conversion into "margin stock";

(g) it is not subject to an Offer;

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(h) it (or, if it is a certificate of beneficial interest in an entity that is treated as a grantor trust or a partnership and not as a REMIC or FASIT for U.S. federal income tax purposes, each of the debt instruments or securities held by such entity) is described in at least one of the following four clauses:

(i) it is a Public Security that was issued in a firm commitment underwriting for which neither the Collateral Manager nor an Affiliate thereof served as underwriter;

(ii) it was not purchased by the Issuer (A) directly or indirectly from its issuer, (B) pursuant to a legally binding agreement made before the issuance of the obligation or security or (C) from the Collateral Manager or any of its Affiliates unless such entity (1) regularly acquires securities of the same type for its own account, (2) could have held the obligation or security for its own account consistent with its investment policies, (3) did not identify the obligation or security as intended for sale to the Issuer or the Collateral Manager within 30 days of its issuance and (4) held the obligation or security for at least 30 days;

(iii) it is a Private Security and

(A) it was originally issued pursuant to an offering circular, private placement memorandum or similar offering document;

(B) the Issuer, the Collateral Manager and the Affiliates of the Collateral Manager did not at original issuance acquire 20% or more of the aggregate principal amount of all classes of securities offered by the issuer of the Asset-Backed Security in the offering and any related offering; provided in each case that any acquisition by an Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such acquisition; and

(C) the Issuer, the Collateral Manager and any Affiliate of the Collateral Manager did not participate in negotiating or structuring the terms of the Asset-Backed Security, except (1) to the extent such participation consisted of an election by the Issuer, the Collateral Manager or an Affiliate of the Collateral Manager to tranche the subordinate classes of securities of an issue in the form of one of the structuring options offered by the issuer of the securities or (2) for the purposes of (i) commenting on offering documents to an unrelated underwriter or placement agent where the ability to comment on such documents was generally available to investors or (ii) due diligence of the kind customarily performed by investors in securities, or (3) to the extent the Collateral Manager or any Affiliate of the Collateral Manager, either directly or indirectly through a conduit issuer, was the issuer of the Asset-Backed Security; provided that any participation in negotiating or structuring by any Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such participation; or

(iv) it is either (A) the sole material obligation of a repackaging vehicle formed and operated exclusively to hold a single Asset-Backed Security described in at least one of clauses (h)(i), (h)(ii) or (h)(iii), which vehicle may also hold a derivative financial instrument or guarantee designed solely to offset one or more terms of such Asset-Backed Security or (B) a security issued by a repackaging vehicle that holds one or more Asset-Backed Securities described in at least one of clauses (h)(i), (h)(ii), (h)(iii), or (h)(iv)(A) and which is treated as a REMIC, FASIT, grantor trust, or partnership for U.S. federal income tax purposes, and is formed by the Collateral Manager or one of its Affiliates;

(i) if interest income on an Asset-Backed Security is considered U.S.-source income for U.S. federal income tax purposes, it is in registered form for U.S. federal income tax purposes and it (and if it is a certificate of interest in a trust that is treated as a grantor trust and not as a REMIC or FASIT for U.S. federal income tax purposes, each of the obligations or securities held by such trust) was issued after July 18, 1984; provided that, if it is a certificate of beneficial interest in an entity that is treated as a partnership for U.S. federal income tax purposes, each of the obligations or securities held by such entity is in registered form for U.S. Federal income tax purposes and was issued after July 18, 1984 (a "**Registered**" obligation or security);

(j) either (i) the Issuer meets the certification and other requirements to receive payments with respect to the Asset-Backed Security free of U.S. and foreign withholding tax, (ii) the issuer thereof is required to make additional payments sufficient on an after-tax basis to cover any U.S. and foreign withholding tax imposed on payments made to the Issuer with respect thereto (including any tax on the additional payments described in this paragraph) or (iii) the issuer thereof has obtained or expects to obtain in the ordinary course and not more than six weeks following the issuance thereof an exemption from withholding tax for the entire period during which the Notes and the Preference Shares will be outstanding; provided that, for purposes of this clause (h), a determination that an Asset-Backed Security is eligible for exemption from U.S. withholding tax under Section 871(h) or Section 881(c) of the Code may be based on advice of Allen & Overy LLP or an opinion of counsel that the Asset-Backed Security will or should be treated as debt for U.S. federal income tax purposes;

(k) (i) the Asset-Backed Security is the obligation of a single issuer incorporated as a corporation under the state or federal laws of the United States, that is not a U.S. real property holding company; (ii) the Issuer has been advised by Allen & Overy LLP or has received an opinion of counsel that owning the Asset-Backed Security will not subject the Issuer to U.S. federal income tax on a net income basis or cause the Issuer to be treated as engaged in a trade or business within the United States; (iii) the Issuer has received an opinion of counsel that the Asset-Backed Security will be treated as debt for U.S. federal income tax purposes; (iv) the Issuer has received an opinion of counsel that for U.S. federal income tax purposes (A) the issuer of the Asset-Backed Security is a grantor trust and (B) all the assets of the trust are regular interests in a REMIC or FASIT or interest rate floors, caps, swaps or other notional principal contracts (within the meaning of applicable Treasury Regulations), the payments under which are determined solely by reference to interest rates, or (v) the Alternative Debt Test is satisfied, provided that, for purposes of clauses (f), (g), (h) and this clause (i), (1) an opinion of counsel that the issuer of an Asset-Backed Security will be treated as a REMIC or FASIT for U.S. federal income tax purposes shall be treated as an opinion of counsel that the Asset-Backed

Security will be treated as debt for U.S. federal income tax purposes (unless the Asset-Backed Security is the residual interest in the REMIC or the ownership interest in the FASIT), (2) if there has been no change in the terms of an Asset-Backed Security prior to its acquisition, the Issuer shall be treated as having received an opinion that it will or should be treated as debt if the Issuer either has obtained a tax opinion to that effect rendered at the issuance of such Asset-Backed Security or has received offering documents pursuant to which such Asset-Backed Security was offered that include a tax opinion to such effect or state that an opinion of counsel to such effect has been rendered, and (3) if there has been no change in any of the organizational documents of an entity issuing an Asset-Backed Security since its issuance, the Issuer shall be treated as having received an opinion that such entity will be treated as a corporation, partnership, grantor trust, REMIC or FASIT (as the case may be) for U.S. federal income tax purposes if the Issuer either has obtained a tax opinion to that effect rendered at the time of the issuance of the Asset-Backed Security or has obtained offering documents that include an opinion of counsel to such effect or state that an opinion of counsel to such effect has been rendered;

(l) it is not a swap transaction or other derivative financial instrument referencing a debt instrument;

(m) acquisition of the Asset-Backed Security will not cause the Issuer to register, or be required to register, under the Investment Company Act;

(n) it is not convertible into one or more Equity Securities;

(o) it is not currently deferring interest;

(p) it is not a Written Down Security;

(q) it is expected to have an outstanding Principal/Notional Balance of less than U.S.$1,000 as of the Stated Maturity of the Notes, assuming a constant prepayment rate since the date of purchase equal to the lesser of (a) 5.0% per annum and (b) the constant prepayment rate reasonably expected by the Collateral Manager as of the date of purchase, or, if constant prepayment rate is not applicable, the slowest prepayment scenario as described in the prospectus relating to such Asset-Backed Security; and

(r) it will be pledged to the Trustee under the Indenture.

An **"A/B Exchange"** is an exchange of one security (the **"A Security"**) for another security (the **"B Security"**) of the same issuer or issuers which B Security shall have substantially identical terms to the A Security except that one or more restrictions applicable to the A Security are inapplicable to the B Security.

The **"Alternative Debt Test"** is satisfied with respect to a security if, on the date the Issuer acquires such security, each of the following is satisfied:

(a) such security is in the form of a note or other debt instrument and is treated as debt for corporate law purposes in the jurisdiction of the issuer of such security;

(b) the documents pursuant to which such security was offered, if any, do not require that any holder thereof treat such security other than as debt for tax purposes;

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(c) such security bears interest at a fixed rate per annum or at a rate based upon a customary floating rate index plus or minus a spread and does not provide for any interest based on any other factor, such as the issuer's profits or cash flow;

(d) such security had a fixed term at original issuance not in excess of 35 years;

(e) such security provides for a fixed principal amount (leaving no amount outstanding) payable no later than its stated maturity; and

(f) such security is rated at least "BB" by Fitch, at least "BB" by Standard & Poor's or at least "Ba2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, as to ultimate payment of principal and interest; provided that, in the case of a security in the form of a beneficial interest in an entity that is treated (as evidenced by an opinion of counsel or a reference to an opinion of counsel in documents pursuant to which such security was offered) as a grantor trust or a partnership for U.S. federal income tax purposes and not as an association taxable as a corporation, any of the conditions specified in clauses (a), (b), (c), (d) and (e) may be satisfied by reference to each asset held by such entity rather than by reference to such beneficial ownership interests.

"**Collateral Manager Group**" means the Collateral Manager and any directly or indirectly controlled subsidiary of the Collateral Manager.

An "**Offer**" means, with respect to any security, (i) any offer by the issuer of such security or by any other person made to all of the holders of such security to purchase or otherwise acquire such security (other than pursuant to any redemption in accordance with the terms of its Underlying Instruments) or to convert or exchange such security into or for cash, securities or any other type of consideration or (ii) any solicitation by the issuer of such security or any other person to amend, modify or waive any provision of such security or any of its Underlying Instruments.

A "**Private Security**" is any security that is not a Public Security, including, without limitation, any of the following:

(a) any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act;

(b) any security (other than a Public Security or a security described by clause (c) below) that is eligible for resale under Rule 144A under the Securities Act; or

(c) any security that is not a Public Security but that (i) is eligible for resale by the Issuer under Rule 144A under the Securities Act and (ii) with respect to which the Issuer, either by itself or together with other holders of such securities, has the right to require the issuer thereof (or such issuer is otherwise obligated or is penalized if such item is not so registered), within one year from any date of determination, to register under the Securities Act the public resale of such security or to effect an A/B Exchange; provided that clause (ii) does not apply to Asset-Backed Securities.

A "**Prohibited Asset**" is any of the following: (a) any asset the ownership of which would cause the Issuer to be subject to income tax on a net income basis in any jurisdiction, or (b) any asset the gain from the Disposition of which will be subject to U.S. federal income or withholding tax under Section 897 or Section 1445 of the Code and Treasury Regulations promulgated thereunder; *provided, however*, that the Issuer shall set up a special purpose subsidiary (which shall be a corporation for U.S. tax purposes) to

receive and hold an Equity Security, unless it has consulted with its tax counsel and has been advised that the Issuer can hold the Equity Security directly without causing the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes.

A **"Public Security"** is any of the following: any security (a) the public resale of which by the Issuer either has been registered under the Securities Act or is exempt from such registration pursuant to Section 4(1) or Rule 144(k) under the Securities Act, (b) issued or guaranteed by Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation or (c) issued by an issuer organized outside of the United States and registered in the jurisdiction where the issuer is organized.

Asset-Backed Securities

The Underlying Assets will consist of Asset-Backed Securities, which may include CMBS Securities, RMBS Securities, Automobile Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities, Small Business Loan Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed Securities. Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities.

Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders, or trusts or entities formed by such institutions to issue Asset-Backed Securities. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Accordingly, Asset-Backed Securities generally include one or more credit enhancements that are designed to raise the overall credit quality of the security above that of the underlying collateral. Another important type of Asset-Backed Security is commercial paper issued by special-purpose entities. Asset-backed commercial paper is usually backed by trade receivables, though such conduits may also fund commercial and industrial loans. Banks are typically more active as issuers of these instruments than as investors in them.

An Asset-Backed Security is created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the Asset-Backed Securities. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a grantor trust or, in the case of an asset-backed commercial paper program, a special-purpose entity. The sponsor or originator of the collateral usually establishes the issuer. Interests in the trust, which embody the right to certain cash flows arising from the underlying assets, are then sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security has a servicer (often the originator of the collateral) that is responsible for collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for passing them along to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the borrower accounts in the pool.

The structure of an Asset-Backed Security and the terms of the investors' interests in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Often Asset-Backed Securities are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two

classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cash flows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cash flows from the underlying pool of assets must first satisfy the requirements of the senior class. Only after these requirements have been met will the cash flows be directed to service the subordinated class.

Asset-Backed Securities also use various forms of credit enhancements to transform the risk-return profile of underlying collateral, including third-party credit enhancements, recourse provisions, overcollateralization and various covenants. Third-party credit enhancements include standby letters of credit, collateral, mortgage insurance or pool insurance, or surety bonds from third parties. Recourse provisions are guarantees that require the originator to cover any losses up to a contractually agreed-upon amount. One type of recourse provision, usually seen in securities backed by credit card receivables, is the "spread account." This account is actually an escrow account whose funds are derived from a portion of the spread between the interest earned on the assets in the underlying pool of collateral and the lower interest paid on securities issued by the trust. The amounts that accumulate in this escrow account are used to cover credit losses in the underlying asset pool, up to several multiples of historical losses on the particular assets collateralizing the securities. Overcollateralization is another form of credit enhancement that covers a predetermined amount of potential credit losses. It occurs when the value of the underlying assets exceeds the face value of the securities. A similar form of credit enhancement is the cash-collateral account, which is established when a third party deposits cash into a pledged account. The use of cash-collateral accounts, which are considered by enhancers to be loans, grew as the number of highly rated banks and other credit enhancers declined in the early 1990s. Cash-collateral accounts provide credit protection to investors of a securitization by eliminating "event risk," or the risk that the credit enhancer will have its credit rating downgraded or that it will not be able to fulfill its financial obligation to absorb losses. An investment banking firm or other organization generally serves as an underwriter for Asset-Backed Securities. In addition, a credit-rating agency often will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows and other attributes of the securities. Before assigning a rating to the issue, the rating agency will also assess the extent of loss protection provided to investors by the credit enhancements associated with the issue.

Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and down-streamed to investors, how credit losses affect the trust and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the trust or conduit or to the investors. Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer may play more than one role in the securitization process. An issuer can simultaneously serve as originator of loans, servicer, administrator of the trust, underwriter, provider of liquidity and credit enhancer. Issuers typically receive a fee for each element of the transaction they undertake. The multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

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There are many different varieties of Asset-Backed Securities, often customized to the terms and characteristics of the underlying collateral. The most common types are securities collateralized by mortgages and revolving credit-card receivables, but instruments backed by home equity loans, other second mortgages and automobile-finance receivables are also common.

Securities backed by closed-end installment loans are typically the least complex form of asset-backed instruments. Collateral for these Asset-Backed Securities typically includes leases, student loans and automobile loans. The loans that form the pool of collateral for the Asset-Backed Securities may have varying contractual maturities and may or may not represent a heterogeneous pool of borrowers. Unlike a mortgage pass-through instrument, the trustee does not need to take physical possession of any account documents to perfect a security interest in the receivables under the Uniform Commercial Code. The repayment stream on installment loans is fairly predictable, since it is primarily determined by a contractual amortization schedule. Early repayment on these instruments can occur for a number of reasons, with most tied to the disposition of the underlying collateral (for example, in the case of Asset-Backed Securities backed by automobile loans, the sale of the vehicles). Interest is typically passed through to security holders at a fixed rate that is slightly below the weighted average coupon of the loan pool, allowing for servicing and other expenses as well as credit losses.

Unlike closed-end installment loans, revolving credit receivables involve greater uncertainty about future cash flows. Therefore, Asset-Backed Securities structures using this type of collateral must be more complex to afford investors more comfort in predicting their repayment. Accounts included in the securitization pool may have balances that grow or decline over the life of the Asset-Backed Securities. Accordingly, at maturity of the Asset-Backed Securities, any remaining balances revert to the originator. During the term of the Asset-Backed Securities, the originator may be required to sell additional accounts to the pool to maintain a minimum dollar amount of collateral if accountholders pay down their balances at greater than predetermined rates. Credit card securitizations are the most prevalent form of revolving credit Asset-Backed Securities, although home equity lines of credit are a growing source of Asset-Backed Securities collateral. Credit card securitizations are typically structured to incorporate two phases in the life cycle of the collateral: an initial phase during which the principal amount of the securities remains constant and an amortization phase during which investors are paid off. A specific period of time is assigned to each phase. Typically, a specific pool of accounts is identified in the securitization documents, and these specifications may include not only the initial pool of loans but a portfolio from which new accounts may be contributed. The dominant vehicle for issuing securities backed by credit cards is a master trust structure with a "spread account," which is funded up to a predetermined amount through "excess yield"—that is, interest and fee income *less* credit losses, servicing and other fees. With credit card receivables, the income from the pool of loans—even after credit losses—is generally much higher than the return paid to investors. After the spread account accumulates to its predetermined level, the excess yield reverts to the issuer. Under GAAP, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield.

A number of banks have used a structure—a "special-purpose entity"—that is designed to acquire trade receivables and commercial loans from high-quality (often investment-grade) obligors and to fund those loans by issuing (asset-backed) commercial paper that is to be repaid from the cash flow of the receivables. Capital is contributed to the special-purpose entity by the originating bank that, together with the high quality of the underlying borrowers, is sufficient to allow the special-purpose entity to receive a high credit rating. The net result is that the special-purpose entity's cost of funding can be at or below

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that of the originating bank itself. The special-purpose entity is "owned" by individuals who are not formally affiliated with the bank, although the degree of separation is typically minimal. These securitization programs enable banks to arrange short-term financing support for their customers without having to extend credit directly. This structure provides borrowers with an alternative source of funding and allows banks to earn fee income for managing the programs. As the asset-backed commercial paper structure has developed, it has been used to finance a variety of underlying loans—in some cases, loans purchased from other firms rather than originated by the bank itself—and as a "remote origination" vehicle from which loans can be made directly. Like other securitization techniques, this structure allows banks to meet their customers' credit needs while incurring lower capital requirements and a smaller balance sheet than if it made the loans directly.

Issuers obtain a number of advantages from securitizing assets, including improving their capital ratios and return on assets, monetizing gains in loan value, generating fee income by providing services to the securitization conduit, closing a potential source of interest-rate risk and increasing institutional liquidity by providing access to a new source of funds. Investors are attracted by the high credit quality of Asset-Backed Securities, as well as their attractive returns.

Asset-Backed Securities carry coupons that can be fixed or floating. Pricing is typically designed to mirror the coupon characteristics of the loans being securitized. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized loans.

Credit risk arises from (a) losses due to defaults by the borrowers in the underlying collateral, (b) the issuer's or servicer's failure to perform and (c) fraud. These elements can blur together as, for example, in the case of a servicer who does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Asset-Backed Securities are rated by major rating agencies. Market risk arises from the cash-flow characteristics of the security, which for many Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest-rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk, like that which occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity. For these cases, the securitization transaction may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

The Underlying Assets are divided into different **"Specified Types "**. The Specified Types are set forth below.

"ABX Tranche Security" means Underlying Assets that are issued by a special purpose issuer as part of an ABX.HE index administered and marketed by Markit Group Limited. The rating of any ABX Tranche Security will be deemed to be the rating associated with the relevant reference index.

"Automobile Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from installment sale loans made to finance the purchase of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (4) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"Car Rental Fleet Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from leases and subleases of vehicles to car rental systems and their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"CDO Securities" means securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the cash flow from a portfolio of Synthetic Securities, Underlying Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, bank loan securities, domestic corporate debt securities, high-grade asset-backed securities and trust preferred securities or any combination of the foregoing, generally having the following characteristics: (1) the securities have varying contractual maturities; (2) the securities are obligations of a relatively limited number of obligors or issuers and accordingly represent a relatively undiversified pool of obligor credit risk; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional securities.

"CMBS Securities" means Underlying Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from (a) a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties or (b) the leasing of such properties to corporate tenants. They generally have the following characteristics: (a) the commercial mortgage loans have varying contractual maturities; (b) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof; (c) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (d) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans

depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"Commercial ABS Securities" means Equipment Lease Securities and Small Business Loan Securities; and any other type of Underlying Securities that becomes a Specified Type after the Closing Date, subject to Noteholder consent, as described below and is designated as "Commercial ABS Securities" in connection therewith.

"Consumer ABS Securities" means Automobile Securities, Car Rental Fleet Securities, Consumer Loan Securities, Credit Card Securities and Student Loan Securities; and any other type of Underlying Securities that becomes a Specified Type after the Closing Date, subject to Noteholder consent, as described below and is designated as "Consumer ABS Securities" in connection therewith.

"Consumer Loan Securities" means Underlying Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from balances outstanding under revolving consumer loan accounts, generally having the following characteristics: (1) the accounts have standardized payment terms; (2) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"Credit Card Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics: (1) the accounts have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; and (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"Emerging Market " means a country that is in Latin America, Asia, Africa, Eastern Europe or the Caribbean or in a country the Dollar denominated obligations of which are rated lower than "Aa2" by Moody's or "AA" by Standard & Poor's;

"Equipment Lease Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Assets) on the cash flow from leases and subleases of equipment to commercial and industrial customers, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage.

"Mid-Prime Securities" means Residential Securities that have a FICO Score above 625 and below 700.

"Non-Subprime Home Equity Loan Underlying Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Residential A Mortgage-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit to non-subprime borrowers secured by residential real estate (single or two-or-four-family properties) the proceeds of which loans or lines of credit are not generally used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously used for such purchase or construction), generally having the following characteristics: (1) the balances have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates and general economic matters; and (4) the loan or line of credit may be secured by residential real estate with a market value (determined on the date of origination of such loan or line of credit) that is less or more than the original proceeds of such loan or line of credit.

"Prime Securities" means Residential Securities that have a FICO Score equal to or above 700.

"Residential A Mortgage-Backed Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Underlying Securities) that entitle their holders to receive payments that depend primarily on the cash flow from prime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Residential B/C Mortgage-Backed Securities" means Underlying Assets (other than Residential A Mortgage-Backed Securities and Non-Subprime Home Equity Loan Underlying Securities) that entitle their holders to receive payments that depend primarily on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

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"Residential Securities" or **"RMBS Securities"** means Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Underlying Securities.

"Small Business Loan Securities" means Underlying Securities (other than Franchise Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from general purpose corporate loans made to small business concerns, including but not limited to those (a) made pursuant to Section 7(a) of the United States Small Business Act, as amended, and (b) partially guaranteed by the United States Small Business Administration. Small Business Loan Securities generally have the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of a relatively limited number of borrowers and accordingly represent an undiversified pool of obligor credit risk; and (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium. For the purpose of this definition, **"Franchise Securities"** means Underlying Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil, gasoline, restaurant or food services and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

"Student Loan Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Securities) on the cash flow from loans made to students (or their parents) to finance educational needs, generally having the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

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"Sub-Prime Securities" means Residential Securities that have a FICO Score equal to or below 625.

Underlying Assets—Synthetic Securities

The following is a description of the Synthetic Securities. The terms used in this Section "—Synthetic Securities" but not otherwise defined in this Offering Circular have the meanings set forth in the form of Confirmation attached hereto as **Schedule G** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, in the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities. The terms of any additional Synthetic Security may vary substantially from the terms described below and in the Confirmation. Any Synthetic Security documented under any of the forms of confirmation attached hereto as **Schedule G**, **Schedule H**, **Schedule I** and **Schedule J** is a **"Form-Approved Synthetic Security"** The Issuer may not enter into any Synthetic Security that is not a Form-Approved Synthetic Security unless the Rating Agency Condition is satisfied and, the Issuer may not enter into any Synthetic Security that is not a "pay as you go" swap unless the Issuer, or the Collateral Manager on behalf of the Issuer, requests and receives the recovery rate and rating applicable to such Synthetic Security from Standard & Poor's. For the avoidance of doubt, Offset Transactions and Offsetting Transactions will not be deemed to be Synthetic Securities. Any material change to the terms of an additional Confirmation will be required to satisfy the Rating Condition.

Prior to the Closing Date, the Issuer will have entered into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security relates to a Reference Obligation whereby the Issuer sells credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which is separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. Terms used in this section and not defined herein or in the Confirmations attached hereto as (i) **Schedule G** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation, (ii) attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, (iii) in the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or (iv) in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities will have the meanings specified in the 2003 ISDA Credit Derivatives Definitions as published by ISDA (the **"Credit Derivatives Definitions"**).

For the avoidance of doubt the Synthetic Securities will exclude any Offsetting Transactions and any Synthetic Security that constitutes a component of the Offset Transactions shall cease to be a Synthetic Security from and including the time the relevant Offsetting Transaction is effective.

"Reference Obligation" means any Asset-Backed Security that, as of the related trade date, satisfies the Eligibility Criteria.

"Reference Obligor" means the obligor on a Reference Obligation.

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Following the Closing Date and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and/or (ii) enter into new Synthetic Securities with different synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty *minus* the Aggregate Principal/Notional Balance of all Offset Transactions with respect to Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule G** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are CMBS Securities or (z) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

Each Synthetic Security Counterparty has the right in the event of an assignment of the relevant Synthetic Security to reject any replacement for the Issuer. In deciding whether to accept or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. If as of any Determination Date, the amount on deposit in the Synthetic Security Collateral Account exceeds the Required Synthetic Security Collateral Amount, such excess amount will be deposited into the Principal Collection Account and deemed to be Principal Proceeds. Under each Synthetic Security, on each Fixed Rate Payer Payment Date, the relevant Synthetic Security Counterparty will be obligated to pay the Fixed Amounts to the Issuer. The First Synthetic Security Counterparty will pay the Fixed Amount to the Issuer as determined by Deutsche Bank AG as calculation agent (together with its permitted successors and assigns in such capacity, the **"Synthetic Security Calculation Agent"**).

In addition, on each Fixed Rate Payer Payment Date, the relevant Synthetic Security Counterparty will be obligated to pay the Additional Fixed Amount, if due, to the Issuer. The Additional Fixed Amount is comprised of Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and Principal Shortfall Reimbursement Payment Amounts.

Under each Synthetic Security, on each Floating Rate Payer Payment Date, the Issuer will be obligated to pay the applicable Floating Amounts to the related Synthetic Security Counterparty.

Each Synthetic Security Counterparty may, at its option, at any time following the occurrence of a Credit Event under a Confirmation with respect to a RMBS Security, CMBS Security or CDO Security, physically deliver all or a portion of the underlying Reference Obligation to the Issuer (any such delivered Reference Obligation or portion thereof, a **"Delivered Obligation"**) with an Exercise Amount not to

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exceed the Notional Amount of the related Synthetic Security. Upon such physical delivery of any Reference Obligation or portion thereof, the Issuer will be obligated to pay to the related Synthetic Security Counterparty an amount in cash equal to the Physical Settlement Amount. Any such Delivered Obligation will be credited to a securities account maintained with the Trustee subject to the lien of the Indenture. Upon delivery, any Delivered Obligation will be deemed to be an Underlying Asset and will have the same effect on the Eligibility Criteria as the related Synthetic Security prior to the delivery and with a Principal/Notional Balance equal to its outstanding Principal/Notional Balance. **"Notional Amount"** of any Synthetic Security will equal the "Reference Obligation Notional Amount" as defined in such Synthetic Security.

Allocation Procedures. With respect to the Synthetic Securities and Offsetting Transactions, and before any disbursements are made pursuant to "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds" (i) Floating Payments and other amounts due under any Synthetic Security, (ii) Physical Settlement Amounts, (iii) Principal Payment Amounts, (iv) payments of Additional Fixed Amounts, (v) termination amounts and (vi) Offsetting Transactions will be allocated in accordance with the **"Allocation Procedures"** described below and such amounts will not be applied through the Priority of Payments unless specifically set forth below:

(i) Floating Payments and other amounts due under the Synthetic Securities. If on any Business Day, Floating Payments or any other amounts are due and payable by the Issuer in accordance with the provisions of any Synthetic Security, other than Interest Shortfall Amounts and any termination payments with respect to an early termination or an event of default (the **"Synthetic Security Payment Amount"**), the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Payment Amount; and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Payment Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Payment Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Synthetic Security Payment Amount.

(ii) Physical Settlement Amount. If on any Business Day, the Physical Settlement Amount for any Delivered Obligation is due and payable by the Issuer to the relevant Synthetic Security Counterparty pursuant to the terms of the related Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

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(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Physical Settlement Amount; and

(B) if the amount withdrawn under (A) above is less than the Physical Settlement Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Physical Settlement Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Physical Settlement Amount.

(iii) Principal Payment Amount. If on any Business Day, there is a Principal Payment Amount with respect to any Reference Obligation under a Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, subject to the procedures set forth in the Indenture, withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement), an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account (including the amount that the Issuer can withdraw from the Investment Agreement) and (2) the Principal Payment Amount, and such withdrawn amounts will be deemed to be Principal Proceeds and credited to the Principal Collection Account.

(iv) Payments of Additional Fixed Amounts. If on any Business Day, the Issuer receives Additional Fixed Amounts, the Issuer shall allocate (i) any Interest Shortfall Reimbursement Payment Amount, into the Interest Collection Account as Interest Proceeds and (ii) any Writedown Reimbursement Payment Amount, any Principal Shortfall Reimbursement Payment Amount into the Synthetic Security Collateral Account.

(v) Termination or Novation of a Synthetic Security. If on any Business Day, (A)(x) there is an early termination of a Synthetic Security resulting from a termination event or an event of default pursuant to the terms of the related Synthetic Security, and (y) the Issuer is the Defaulting Party or sole Affected Party (as such term is defined in the related Synthetic Security) and (z) as a result of the termination of the Synthetic Security, a termination payment is due to the Synthetic Security Counterparty or (B) the Issuer novates a Synthetic Security and a payment is due to the replacement synthetic swap counterparty (such amount, the "**Synthetic Security Termination/Novation Payment (Issuer)**") the Trustee shall, on behalf of the Issuer, and pursuant to written instruction of the Collateral Manager, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the

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amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Termination/Novation Payment (Issuer); and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Termination/Novation Payment (Issuer), withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Termination/Novation Payment (Issuer) less the amounts withdrawn pursuant to clause (A).

The Trustee, on behalf of the Issuer, shall pay from such proceeds any amounts due to the Synthetic Security Counterparty of the related Synthetic Security (other than with respect to a termination event or event of default where the Synthetic Security Counterparty is the Defaulting Party or Affected Party (as such term is defined in the Synthetic Security)).

(vi) Payment of amounts due under the Offsetting Transactions. Any termination payments due to the Offsetting Transaction Counterparty in connection with the Disposition of an Offsetting Transaction will be made from the termination payment received by the Issuer in respect of the Disposition of the related Offset Transaction (if both the Offset Transaction and related Offsetting Transaction are terminated) or from Principal Proceeds (if only the Offsetting Transaction is terminated). If an Offsetting Transaction and the related Offset Transaction are terminated at the same time, any payments received by the Issuer in connection with the Disposition of an Offsetting Transaction will be netted against payments paid by the Issuer in connection with the related Disposition of the corresponding Offset Transaction.

Floating Payments Payable by the Issuer. With respect to each Synthetic Security executed substantially in the form as shown in **Schedule G**, **Schedule H**, **Schedule I** or in **Schedule J**, the Issuer shall pay to the Synthetic Security Counterparty on each Floating Rate Payer Payment Date the **"Floating Payment"** applicable to such Synthetic Security as calculated by the Synthetic Security Calculation Agent and confirmed by the Trustee, which shall equal the related Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount, as applicable.

"Writedown Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Writedown on such date, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Amount" which means, with respect to a Failure to Pay Principal, the greater of (i) zero; and (ii) the product of (a) the Expected Principal Amount minus the Actual Principal Amount, (b) the Applicable Percentage and (c) the Reference Price. If the Principal Shortfall Amount would not be greater than the Notional Amount immediately prior to the occurrence of a Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Notional Amount at such time.

"Interest Shortfall Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the greater of (a) zero and (b) the product of (i) the Expected Interest Amount minus the Actual Interest Amount and (ii) the Applicable Percentage; *provided* that the Interest Shortfall Amount shall be subject to a "Fixed Cap" or other similar provision such that the Interest Shortfall Amount payable

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with respect to an interest period shall be limited to the Fixed Amount payable by the relevant Synthetic Security Counterparty.

"Expected Interest Amount" means, with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a Principal/Notional Balance of the Reference Obligation equal to the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation. Except as provided in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

"Actual Interest Amount" means, with respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under Reference Obligation including, without limitation, any deferred interest, defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments; *provided, however*, that in the case of the first Reference Obligation Calculation Period, such Reference Obligation Calculation Period shall commence on and include the Effective Date of such Synthetic Security.

"Floating Rate Payer Payment Date" has the meaning specified in the related Synthetic Security, but will generally mean the first Fixed Rate Payer Payment Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the Synthetic Security Counterparty and the Issuer or the Synthetic Security Counterparty to the Issuer that the related Floating Amount is due.

Additional Fixed Amounts Payable by the Synthetic Security Counterparty. With respect to each Synthetic Security executed in the form as shown in **Schedule G**, in the form as shown in **Schedule H**, in the form as shown in **Schedule I** or in the form as shown in **Schedule J**, in addition to the Fixed Amounts, the Synthetic Security Counterparty shall pay to the Issuer **"Additional Fixed Amounts"** consisting of:

(a) the payment of an Actual Interest Amount that is greater than the Expected Interest Amount multiplied by the Applicable Percentage subject to the Fixed Cap (such reimbursement amount the **"Interest Shortfall Reimbursement Payment Amount"**);

(b) the Writedown Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic Security Counterparty of the existence of a Writedown Reimbursement (such reimbursement amount, the **"Writedown Reimbursement Payment Amount"**); *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns; and

(c) the Principal Shortfall Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic

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Security Counterparty of the existence of a Principal Shortfall Reimbursement (such reimbursement amount, the **"Principal Shortfall Reimbursement Payment Amount"**); *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the Aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal.

"Writedown Reimbursement" means, with respect to any day, the occurrence of either (a) a payment in respect of the Reference Obligation in reduction of any prior Writedowns or (b) (i) an increase in the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns or (ii) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation).

"Writedown Reimbursement Amount" means, with respect to any day the product of (a) the sum of all Writedown Reimbursements on that day (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Principal Shortfall Reimbursement, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement" means, with respect to any Reference Obligation Payment Date, the payment of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

Credit Events. **"Credit Event"** means, solely with respect to Reference Obligations that are RMBS Securities, with respect to any Reference Obligation, the occurrence of a:

(i) **"Failure to Pay Principal"**, means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid;

(ii) **"Writedown"**, means the occurrence at any time on or after the Effective Date of: (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; or (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount;

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(iii) **"Distressed Ratings Downgrade"**, which means that the Reference Obligation, on any date of determination:

(a) if publicly rated by Moody's,

(i) is downgraded to "Caa2" or below by Moody's or

(ii) has the rating assigned to it by Moody's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three (3) calendar months of such withdrawal; or

(b) if publicly rated by Standard & Poor's,

(i) is downgraded to "CCC" or below by Standard & Poor's or

(ii) has the rating assigned to it by Standard & Poor's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three (3) calendar months of such withdrawal; or

(c) if publicly rated by Fitch Ratings Inc. (**"Fitch"**),

(i) is downgraded to "CCC" or below by Fitch or

(ii) has the rating assigned to it by Fitch withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, however, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three (3) calendar months of such withdrawal.

"Credit Event" means, solely with respect to Reference Obligations that are CMBS Securities, with respect to any Reference Obligation, the occurrence of a Failure to Pay Principal or a Writedown.

"Credit Event" means, solely with respect to Reference Obligations that are CDO Securities, with respect to any Reference Obligation, the occurrence of a Failure to Pay Principal, a Writedown, a Distressed Ratings Downgrade or a Failure to Pay Interest.

"Failure to Pay Interest" means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

Downgrade of the Synthetic Security Counterparties. If a Synthetic Security Counterparty or its guarantor fails to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, such Synthetic Security Counterparty may be required to post collateral, obtain a guaranty from a guarantor with the required rating, or assign its rights and obligations under each related Synthetic Security to a replacement synthetic security counterparty satisfying the ratings requirements specified by each of the Rating Agencies for the synthetic security counterparty and, if the Synthetic Security Counterparty does not, within thirty (30) days of such failure (or where the Synthetic Security Counterparty fails to maintain certain lower rating levels described in the Schedule to the ISDA Master Agreement, it does not, within 10 days of such failure) take such action, the Issuer will be permitted to terminate each such Synthetic Security.

If and to the extent that the Synthetic Security Counterparty posts collateral to secure its obligations under the related Synthetic Security due to failure to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, the Trustee shall establish a Synthetic Security Issuer Account. The Trustee shall credit to the Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty. Except for investment earnings, the Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in the related Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law.

Governing Law. Each Synthetic Security will state that it will be governed by, and will be construed in accordance with, the laws of the State of New York without regard to any conflicts of laws principle. Each of the Issuer and the Synthetic Security Counterparty will be required to submit to the jurisdiction of the New York courts in connection with each Synthetic Security, and the Issuer is expected to appoint CT Corporation System to accept service of process on its behalf.

Investments in Synthetic Securities present risks in addition to those associated with other types of Underlying Assets. See "Risk Factors—Nature of the Underlying Assets" and "—Synthetic Securities".

Offsetting Transactions

General. The Issuer may from time to time, enter into credit default swaps with one or more Offsetting Transaction Counterparties, to the extent required in order to hedge all or part of its credit exposure (determined as set out below) to one or more obligors under Synthetic Securities (each such transaction, as **"Offsetting Transaction"**). The Offsetting Transaction Counterparty in respect of an Offsetting Transaction must be the same entity as the Synthetic Security Counterparty under the Synthetic Security being hedged. In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will no longer be considered a Synthetic Security (the notional amount of such Synthetic Security so offset, the **"Offset Transaction"**).

The notional amount of an Offsetting Transaction may not exceed the notional amount of the respective Synthetic Security. The purpose of the Offset Transaction is to hedge all or part of the Issuer's credit exposure. In the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction must hedge the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction must relate to the same Reference Obligation and provide for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security (other than premium payable).

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Following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will be required to terminate. An Offsetting Transaction may be terminated without termination of the related Offset Transaction only if (i) any termination payments due from the Issuer in respect of such termination will be paid from Principal Proceeds, (ii) such termination (and therefore the reconversion of the relevant Offset Transaction into a Synthetic Security) complies with all conditions applicable to the acquisition of an Underlying Asset and (iii) there are funds in the Principal Collection Account to adequately collateralize the Synthetic Security that the relevant Offset Transaction reconverts to as a result of the termination of the Offsetting Transaction.

The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Offset Transaction and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty. Any initial payments made by the Issuer to the Offsetting Transaction Counterparty in connection with the entry into an Offsetting Transaction shall be made from Principal Proceeds. The difference between the Fixed Amount received with respect to an Offset Transaction and the Fixed Amount paid on the Offsetting Transaction shall be considered Principal Proceeds. Offsetting Transactions shall be limited to an aggregate notional amount equal to 20% of the Net Outstanding Underlying Asset Balance as of the Closing Date. For the avoidance of doubt, if there are not sufficient funds available in the Principal Collection Account for the Issuer to make any initial payment required to be paid by the Issuer in connection with its entry into an Offsetting Transaction, the Issuer may not enter into such Offsetting Transaction.

An Offsetting Transaction may only hedge a component in the related Offset Transaction that prior to such offset was a Synthetic Security. For the avoidance of doubt hedging an Offset Transaction with additional Offsetting Transactions is not allowed.

Any payments received by the Issuer under an Offsetting Transaction that is a component of an Offset Transaction will be netted against payments paid by the Issuer under the opposite component. An Offsetting Transaction must be immediately Disposed if the related Offset Transaction is Disposed.

The acquisition of any Offsetting Transaction will be subject to the Rating Agency Condition except where such Offsetting Transaction is a Form-Approved Synthetic Security. The fixed amount payable under any Offsetting Transaction entered into by the Issuer will be paid on an ongoing basis from Interest Proceeds. The amounts released from the Synthetic Security Collateral Account by virtue of the entry of the Issuer into any Offsetting Transaction will be constrained by the same conditions applicable to Disposition Proceeds received in respect of Dispositions of Underlying Assets.

Upon the occurrence of a Credit Event under an Offsetting Synthetic Transaction, the Physical Settlement Amount or any cash settlement amount receivable by the Issuer will be paid into the Principal Collection Account, except to the extent that such amounts are offset against any amount payable by the Issuer.

Notwithstanding anything to the contrary herein:

(1) Offset Transactions and the related Offsetting Transactions will not be considered Assets for purposes of the Collateral Quality Tests; and

(2) for the purposes of the Eligibility Criteria, neither the Offset Transactions nor the Offsetting Transactions will be considered.

Governing Law. Each Offsetting Transaction will state that it will be governed by, and will be construed in accordance with, the laws of the State of New York without regard to any conflicts of laws principle. Each of the Issuer and the Offsetting Transaction Counterparty will be required to submit to the jurisdiction of the New York courts in connection with each Offsetting Transaction, and the Issuer is expected to appoint CT Corporation System to accept service of process on its behalf.

The Collateral Quality Tests

The Collateral Quality Tests will be used to establish that the characteristics of the Issuer's portfolio on the Closing Date satisfy certain threshold levels and, following the Closing Date, to determine whether trading of the Underlying Assets is permitted. The **"Collateral Quality Tests"** are the Standard & Poor's Minimum Weighted Average Recovery Rate Test, the Moody's Asset Correlation Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Moody's Weighted Average Rating Factor Test, the Weighted Average Coupon Test and the Weighted Average Spread Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required on the Closing Date and on each Measurement Date. For purposes of the Weighted Average Coupon Test and Weighted Average Spread Test, a Synthetic Security will be included as an Underlying Asset having the characteristics of the Synthetic Security and not of the related Reference Obligation. A failure by the Issuer to satisfy a Collateral Quality Test will not result in an Event of Default under the Indenture.

Ratings of Underlying Assets. The **"Standard & Poor's Rating"** of any Underlying Asset will be determined as described on **Schedule B** hereto. The **"Moody's Rating"** of any Underlying Asset will be determined as described on **Schedule C** hereto.

Standard & Poor's Minimum Weighted Average Recovery Rate Test. The **"Standard & Poor's Minimum Weighted Average Recovery Rate Test"** will be satisfied on the Closing Date or any Measurement Date if the Standard & Poor's Weighted Average Recovery Rate is greater than or equal to

(a) with respect to the Class A-1a Notes, 30.96%,

(b) with respect to the Class A-1b Notes, 30.96%,

(c) with respect to the Class A-2 Notes, 30.96%,

(d) with respect to the Class B Notes, 35.77%,

(e) with respect to the Class C Notes, 41.74%,

(f) with respect to the Class D Notes, 48.62% and

(g) with respect to the Class E Notes, 55.74%.

The **"Standard & Poor's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset by its Standard & Poor's Applicable Recovery Rate, *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place. The "Standard & Poor's Applicable Recovery Rate" means, with respect to any Underlying Asset, an amount equal to the percentage for such Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) set forth in the Standard & Poor's Recovery Matrix attached as **Schedule D** in (a) the applicable table, (b) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (c)(i) for

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purposes of determining the Standard & Poor's Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (ii) for purposes of determining the Calculation Amount, the column in such table below the current rating of the most senior Class of Notes outstanding.

Standard & Poor's CDO Evaluator. The **"Standard & Poor's CDO Evaluator"** means the dynamic, analytical computer model developed by Standard & Poor's and used to estimate default risk of Underlying Assets and provided to the Collateral Manager and the Trustee on or before the Closing Date, as it may be modified by Standard & Poor's from time to time and provided to the Collateral Manager and the Trustee following the Closing Date.

Moody's Asset Correlation Test. The **"Moody's Asset Correlation Test"** means a test which will be satisfied as of the Closing Date or any Measurement Date if the Moody's Correlation Factor is equal to or less than 23.06%; *provided* that a single-obligation Synthetic Security will be included as an Asset-Backed Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty). For the purpose of this test, the number of assets is 80.

"Moody's CDOROM™ Model" means the licensed Moody's CDOROMTM model in the form provided from time to time by Moody's as updated by Moody's as notified to the Collateral Manager.

"Moody's Correlation Factor" means the result labeled "Correlation" of the Moody's CDOROM™ Model calculation.

Moody's Minimum Weighted Average Recovery Rate Test. The **"Moody's Minimum Weighted Average Recovery Rate Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Recovery Rate is greater than or equal to 24.20%.

The **"Moody's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset (excluding any Defaulted Asset) by its applicable recovery rate (determined for purposes of this definition in accordance with **Schedule E**), *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place.

Moody's Weighted Average Rating Factor Test. The **"Moody's Weighted Average Rating Factor Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Rating Factor of the Underlying Assets is equal to a numerical value of not more than 665.

The **"Moody's Weighted Average Rating Factor"** is the number determined by *dividing:*

(a) the summation of the series of products obtained for any Underlying Asset that is not a Defaulted Asset, by *multiplying* (i) the Principal/Notional Balance of each such Underlying Asset by (ii) its respective Moody's Rating Factor, by

(b) the sum of the Aggregate Principal/Notional Balance of all Underlying Assets that are not Defaulted Securities.

Weighted Average Coupon Test. The **"Weighted Average Coupon Test"** will be satisfied on the Closing Date or any Measurement Date if the Weighted Average Coupon is greater than or equal to the percentage specified in the table below with respect to such date.

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From	To	WAC
June 2007 Distribution Date	September 2007 Distribution Date	5.25%
December 2007 Distribution Date	September 2008 Distribution Date	5.25%
December 2008 Distribution Date	September 2009 Distribution Date	5.25%
December 2009 Distribution Date	September 2010 Distribution Date	5.25%
December 2010 Distribution Date	September 2011 Distribution Date	5.25%
December 2011 Distribution Date	September 2012 Distribution Date	5.25%
December 2012 Distribution Date	September 2013 Distribution Date	5.25%
December 2013 Distribution Date	September 2014 Distribution Date	5.25%
December 2014 Distribution Date	September 2015 Distribution Date	5.25%
December 2015 Distribution Date	September 2016 Distribution Date	5.10%
December 2016 Distribution Date	September 2017 Distribution Date	5.10%
December 2017 Distribution Date	September 2018 Distribution Date	5.10%
December 2018 Distribution Date	September 2019 Distribution Date	5.10%
December 2019 Distribution Date	Thereafter	5.10%

The **"Weighted Average Coupon"** is the number (rounded up to the next 0.01%) obtained by (i) summing the products obtained by *multiplying* (A) the current interest rate on each Underlying Asset that is a Fixed Rate Security (excluding all Defaulted Securities and Written Down Securities) by (B) the Principal/Notional Balance of each such Underlying Asset and (ii) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities (excluding all Defaulted Securities and Written Down Securities).

Weighted Average Spread Test. The **"Weighted Average Spread Test"** will be satisfied as of the Closing Date or any Measurement Date if the Weighted Average Spread is greater than or equal to the percentage specified in the table below with respect to such date.

From	To	WAS
June 2007 Distribution Date	September 2007 Distribution Date	2.20%
December 2007 Distribution Date	September 2008 Distribution Date	2.18%
December 2008 Distribution Date	September 2009 Distribution Date	2.17%
December 2009 Distribution Date	September 2010 Distribution Date	1.95%
December 2010 Distribution Date	September 2011 Distribution Date	1.80%

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From	To	WAS
December 2011 Distribution Date	September 2012 Distribution Date	1.57%
December 2012 Distribution Date	September 2013 Distribution Date	1.33%
December 2013 Distribution Date	September 2014 Distribution Date	1.26%
December 2014 Distribution Date	September 2015 Distribution Date	1.15%
December 2015 Distribution Date	September 2016 Distribution Date	1.00%
December 2016 Distribution Date	September 2017 Distribution Date	1.00%
December 2017 Distribution Date	September 2018 Distribution Date	0.90%
December 2018 Distribution Date	September 2019 Distribution Date	0.85%
December 2019 Distribution Date	Thereafter	0.80%

The **"Weighted Average Spread"** is the number (rounded up to the next 0.01%) obtained by (a) summing the products obtained by *multiplying* (i) the spread above the floating rate index at which interest accrues on each Underlying Asset that is a Floating Rate Security or the Fixed Amount applicable to a Synthetic Security (in each case, other than a Defaulted Asset or Written Down Security) as of such date by (ii) the Principal/Notional Balance of such Underlying Asset as of such date, and (b) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Floating Rate Securities (excluding all Defaulted Securities and Written Down Securities).

Weighted Average Life Test. The **"Weighted Average Life Test"** will be satisfied as of the Closing Date or any Measurement Date during any period set forth below if the Weighted Average Life of all Underlying Assets as of such Measurement Date is less than or equal to the number of years set forth in the table below.

On any Measurement Date during the Reinvestment Period	5.0 years
Thereafter	3.0 years

"Weighted Average Life" means, on any Measurement Date with respect to any Underlying Asset, the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each Underlying Asset (excluding Defaulted Assets) by (b) the Principal/Notional Balance of such Underlying Assets and (ii) dividing such sum by the Aggregate Principal/Notional Balance at such time of all Underlying Assets. For the purpose of this definition, with respect to the Synthetic Securities, calculations will be made with respect to related Reference Obligation.

"Average Life" means on any Measurement Date with respect to any Underlying Asset (provided that, with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive distribution of principal of such Underlying Asset (other than a Defaulted Asset) (assuming that (A) no collateral defaults or is sold, (B) prepayment of any Underlying Asset during any month occurs (a) at the rate of prepayment assumed at the time of issuance of such Underlying Asset or

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(b) at the prospectus pricing curve or other similar rate as determined by the Collateral Manager in its reasonable business judgment and (C) any clean-up call, auction call or similar redemption of the Underlying Asset occurs in accordance with its terms), and (b) the respective amounts of principal of such distributions by (ii) the sum of all successive distributions of principal on such Underlying Asset (other than a Defaulted Asset).

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Disposition

Underlying Assets may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Underlying Assets. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing and subject to the conditions set forth in paragraphs (1) through (5) in the section "*Disposition of Underlying Assets*" below, the Collateral Manager may Dispose of any (i) Defaulted Asset, (ii) Equity Security, (iii) Credit-Risk Asset, (iv) Credit Improved Asset, (v) other Underlying Assets Disposed of pursuant to paragraph (4) below and (vi) any Underlying Asset that is subject to withholding as described below.

"**Disposition**" means one of the following:

(i) in the case of any Asset-Backed Security, Equity Security, Defaulted Asset, Written Down Security or Eligible Investment, the sale thereof by the Collateral Manager, acting on behalf of the Issuer;

(ii) in the case of any Synthetic Security, the termination or novation thereof by agreement between the parties thereto; or

(iii) in respect of any Underlying Asset, the entry by the Issuer into an Offsetting Transaction in respect of such Underlying Asset.

References to "Dispose" and "Disposed" will be construed accordingly.

"**Disposition Proceeds**" means:

(i) in the case of any Asset-Backed Security, Equity Security, Eligible Investment, Defaulted Asset or Written Down Security, the net proceeds of sale by agreement between the parties thereto, the amounts received by the Issuer from the applicable counterparty, excluding any amounts included in such proceeds that represent accrued and unpaid interest save to the extent that such amounts are designated as Principal Proceeds by the Collateral Manager, acting on behalf of the Issuer, in connection with such sale; or

(ii) in the case of any Synthetic Security that is terminated or novated by agreement between the parties thereto:

(a) solely for the purposes of applying paragraphs (1) through (5) in the section "Disposition of Assets" below, an amount equal to the Principal/Notional Balance thereof, *plus* or *minus* any mark-to-market amounts payable or received by the Issuer upon such termination or novation; and

(b) in all other cases, any mark-to-market amounts payable or received by the Issuer upon such termination or novation.

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Disposition of Underlying Assets

Defaulted Assets and Equity Securities

(1) Subject to the provisions of the immediately following sentence, the Collateral Manager on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Defaulted Asset or an Equity Security; it being agreed in the Indenture, however, that notwithstanding any of the foregoing, (A) the Issuer will be obligated to complete the Disposition of any Defaulted Asset (i) within three years of the date on which it was so determined to be a Defaulted Asset or (ii) if applicable, within three years of such later date on which such Defaulted Asset may first be Disposed of in accordance with its terms or under applicable law; (B) the Issuer will be obligated to complete the Disposition of any Equity Security received in exchange for a Defaulted Asset (i) within one year of the date on which the related Underlying Asset was so determined to be a Defaulted Asset or (ii) if applicable, within one year of such later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law; and (C) the Issuer will be obligated to complete the Disposition of any other kind of Equity Security (i) within five Business Days of the Issuer's receipt thereof or (ii) if applicable, within five Business Days of any later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law. The Disposition Proceeds in respect of the Disposition of a Defaulted Asset may not be reinvested in Underlying Assets unless (i) each Coverage Test is passing, (ii) each Collateral Quality Test is passing, (iii) 100% of the amount of such Disposition Proceeds are reinvested and (iv) such Disposition Proceeds are reinvested during the Reinvestment Period.

Credit-Risk Assets

(2) The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* such Disposition Proceeds may not be reinvested, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within 90 days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of

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and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*,

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Risk Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Risk Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Risk Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no later than the date that is three years after the end of the Reinvestment Period and

(iv) (A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Credit-Improved Assets

(3) The Collateral Manager, on behalf of the Issuer, may Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless,

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in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within 60 days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

provided however that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally*,

(i) the Collateral Quality Tests are in compliance,

(ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating, respectively, of the Credit-Improved Asset to be Disposed,

(iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be less than or equal to the weighted average life of the Credit-Improved Asset proposed to be Disposed; provided however, the Issuer may Dispose of a Credit-Improved Asset with a weighted average life less than the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition if (A) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed, (B) the Aggregate Principal/Notional Balance of all Credit-Improved Assets Disposed pursuant to this proviso does not exceed 25% of the Aggregate Principal Notional Balance of all Underlying Assets as of the Closing Date and (C) the date of such Disposition is no

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later than the date that is three years after the end of the Reinvestment Period and

(iv) (A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to 107.62%.

Discretionary Trading

(4) At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may Dispose of (and acquire if applicable) any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within 60 days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed 20% of the Net Outstanding Underlying Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests, Coverage Tests and Eligibility Criteria, if failing, will be maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

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Underlying Assets Subject to Withholding

(5) Notwithstanding any of the limitations prescribed by the preceding paragraphs, if no Event of Default has occurred and is continuing, the Collateral Manager, on behalf of the Issuer, may, at any time, Dispose of any Underlying Asset (regardless of whether such Underlying Asset is or can be characterized as, or determined to be, a Defaulted Asset, an Equity Security, a Credit-Risk Asset or a Credit Improved Asset) if the Collateral Manager shall certify in writing to the Trustee that, based upon an opinion of counsel addressed to the Issuer and the Collateral Manager, the Collateral Manager, acting on behalf of the Issuer, has determined, that such Underlying Asset is, or may become, subject to withholding or other similar taxes.

In addition, during and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* each Offsetting Transaction will be any Offsetting Transaction will be constrained by the same conditions applicable to Dispositions of Underlying Assets.

Any Disposition of an Underlying Asset will be conducted on an "arm's length basis" for fair market value and in accordance with the requirements of the Management Agreement, and, if effected with the Issuer, the Trustee, a Designated Party or any Affiliate of any of the foregoing, will be effected in a secondary market transaction on terms at least as favorable to the Noteholders as would be the case if such person were not so affiliated; *provided* that, after the Closing Date, the Collateral Manager on behalf of the Issuer shall not direct the Trustee to acquire directly any Asset-Backed Security or a Synthetic Security for inclusion in the Collateral from any account or portfolio for which the Collateral Manager serves as investment advisor or direct the Trustee to Dispose of directly any Underlying Asset to any account or portfolio for which the Collateral Manager serves as investment advisor unless such acquisition or Disposition complies with all material requirements of any applicable laws. The Trustee will have no responsibility to oversee or ensure compliance with the above conditions by the other parties. Any Disposition Proceeds arising out of the Disposition of an Asset-Backed Security that are deposited in the Disposition Proceeds Account to be reinvested in other Underlying Assets within 60 days following such Disposition or 90 days following such Disposition in the case of Credit-Risk Assets. Following such 60 or 90 day period, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments. For the avoidance of doubt, any certification that the Collateral Manager is required to make "in writing" to the Trustee in respect of a Disposition may be made in an email to the Trustee.

During the Reinvestment Period, Principal Proceeds may be reinvested in additional Asset-Backed Securities or additional Synthetic Securities, or used to purchase Eligible Investments, in each case in accordance with the reinvestment criteria set forth under "*—Eligibility Criteria*".

In addition, during the Reinvestment Period, the Collateral Manager may direct the Trustee to apply, by transferring such amount or portion thereof from the Synthetic Collateral Account to the Principal Collection Subaccount, on any Distribution Date to pay the amounts set forth in clauses (1) through (3) under the Principal Proceeds Priority of Payments, to the extent such amounts are not paid with Principal Proceeds listed in clauses (1) through (11) and (14) of the definition thereof and/or on any date as directed by the Issuer to acquire additional Asset-Backed Securities or additional Synthetic Securities, in each case, in accordance with the reinvestment criteria set forth under "*The Accounts—Synthetic Collateral Accounts*" (unless, at the sole and absolute discretion of the Collateral Manager, such amount is to be treated as Principal Proceeds and applied in accordance with the Priority of Payments for Principal Proceeds).

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Certain Definitions

"Aggregate Attributable Amount" means, with respect to any specified Asset-Backed Security and issuers incorporated or organized under the laws of any specified jurisdiction or jurisdictions, (i) the Aggregate Principal/Notional Balance of such Asset-Backed Security multiplied by (ii) the aggregate par amount of collateral securing such Asset-Backed Security issued by issuers so organized divided by (iii) the aggregate par amount of all collateral securing such Asset-Backed Security.

"Average Life" means on any Measurement Date on or after the Closing Date with respect to any Underlying Asset (*provided*, that with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Underlying Asset (other than a Defaulted Asset) (assuming that (A) no collateral defaults or is sold except those that have already defaulted or been sold, (B) prepayment of any Underlying Asset during any month occurs (x) with respect to an Underlying Asset issued no more than six months prior to such Measurement Date, at the rate of prepayment assumed at the time of issuance of such Underlying Asset and (y) with respect to an Underlying Asset issued more than six months prior to such Measurement Date, at the average rate of prepayment observed over the six months immediately preceding such Measurement Date based on available transaction reporting data (and if such data is unavailable, at the assumed constant prepayment rate or prepayment curve set out in the offering document for such Underlying Asset, as determined by the Collateral Manager in its reasonable business judgment), (C) any clean up call, auction call or similar redemption (but not optional redemption) of the Underlying Asset occurs in accordance with the terms of the relevant Underlying Asset and (D) no optional redemption occurs), and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Underlying Asset (other than a Defaulted Asset).

"Credit-Improved Asset" means any Asset-Backed Security or Synthetic Security (in which case such determination will be made with respect to the related Reference Obligation) (excluding in each case the long component of any Offset Transaction) that is in compliance with at least one of the following criteria (the **"Credit-Improved Criteria"**):

(a) during any period which is not a Restricted Trading Period, the Collateral Manager, acting on behalf of the Issuer, has determined in a commercially reasonable manner (which determination may not be called into question as a result of subsequent events) that: (i) the issuer of such Asset-Backed Security or the issuer of the Reference Obligation related to such Synthetic Security, as applicable, in the commercially reasonable judgment of the Collateral Manager, acting on behalf of the Issuer, has shown improved financial results; (ii) the transferor, originator, obligor of or insurer of such Asset-Backed Security or of the Reference Obligation related to such Synthetic Security, as applicable, since the date on which such Asset-Backed Security or Synthetic Security was purchased or entered into, as applicable, by the Issuer has raised significant equity capital or has raised other capital that has improved the liquidity or credit standing of such transferor, originator, obligor or insurer; (iii) in the case of an Asset-Backed Security, there has occurred a significant improvement in the underlying pool of assets or an increase in the level of subordination; or (iv) such Asset-Backed Security or the Reference Obligation related to such Synthetic Security, as applicable, has decreased its spread over the interest rate on the applicable U.S. Treasury Benchmark by an amount exceeding 0.50% for fixed rate assets or by an amount exceeding 0.25% over the relevant rate index for floating rate assets or has increased in price to 102% or more of its original purchase price paid by the Issuer due primarily to credit related reasons as determined by the Collateral Manager, acting on behalf of the Issuer, in each case, since it was acquired by the Issuer; or

(b) (i) the Collateral Manager, acting on behalf of the Issuer, believes, in the Collateral Manager's commercially reasonable judgement (which belief may not be called into question as a result of subsequent events) that the Underlying Asset or such related Reference Obligation, as applicable, has substantially improved in credit quality and (ii) such Underlying Asset or such related Reference Obligation, as applicable, has been upgraded or put on a watch list for possible upgrade by one or more rating sub-categories by one or more Rating Agencies since the date on which it was acquired or entered into by the Issuer.

"Credit-Risk Asset" means any Underlying Asset with respect to which:

(a) during any period which is not a Restricted Trading Period, its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset or in the reasonable business judgment of the Collateral Manager (which judgments shall be based on information reasonably available to the Collateral Manager at the time, including reasonable projections), has a significant risk of declining in credit quality or, over time, becoming a Defaulted Asset or if it is deferring interest or is a Written Down Security; or

(b) during any period which is a Restricted Trading Period, (A) in the reasonable business judgment of the Collateral Manager (which judgments shall be based on information reasonably available to the Collateral Manager at the time, including reasonable projections), has a significant risk of declining in credit quality or, over time, becoming a Defaulted Asset and (B) (i) its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset, (ii) has experienced an increase in credit spread over the applicable U.S. Treasury Benchmark, the applicable swap benchmark or the applicable LIBOR by (x) 0.40% or more if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was greater than 1.50% or (y) 0.20% if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was less than or equal to 1.50%, or (iii) it is deferring interest or is a Written Down Security.

"Equity Security" means any equity security which is acquired by the Issuer as a result of the exercise or conversion of an Underlying Asset, in conjunction with the purchase of an Underlying Asset or in exchange for a Defaulted Asset and which does not entitle the holder thereof to receive periodic payments of interest and one or more installments of principal.

"Initial Rating" means (i) with respect to the Class A-1a Notes, Class A-1b Notes and the Class A-2 Notes, "Aaa" by Moody's and "AAA" by Standard & Poor's, (ii) with respect to the Class B Notes, "Aa2" by Moody's and "AA" by Standard & Poor's, (iii) with respect to the Class C Notes, "A2" by Moody's and "A" by Standard & Poor's; (iv) with respect to the Class D Notes, "Baa2" by Moody's and "BBB" by Standard & Poor's, and (v) with respect to the Class E Notes, "Ba1" by Moody's and "BB+" by Standard & Poor's.

"Investment Grade" means a security with a Moody's Rating of at least "Baa3" by Moody's and a Standard & Poor's Rating of at least "BBB-".

"Restricted Trading Period" means each day during which (a) the Moody's rating of the Class A Notes or Class B Notes is one or more subcategories below its Initial Rating, or (b) the Moody's rating of the Class C Notes, the Class D Notes or the Class E Notes is two or more sub-categories below its Initial Rating; unless the holders of a majority in aggregate outstanding principal amount of the Controlling

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Class has directed the Issuer to waive the Restricted Trading Period (which waiver may be rescinded by the Controlling Class at any time that such rating requirement is not satisfied).

An Underlying Asset will be a **"Withholding Security"** if the related trustee or paying agent informs the Issuer, Trustee or Collateral Manager that it intends to withhold, or actually does withhold from payment on such Underlying Asset, amounts in respect of withholding taxes.

"writing" or **"written"** shall include electronic mail.

Notwithstanding anything to the contrary set forth in this section "—Disposition of Underlying Assets," the Issuer will have the right to effect any transaction that has been consented to by holders of Notes evidencing 100% of the aggregate outstanding principal amount of each Class of Notes and by each Preference Shareholder and of which each Rating Agency has been notified.

Eligibility Criteria

During the Reinvestment Period, the Issuer may Dispose of and acquire additional Underlying Assets; *provided* that, after giving effect to such investment, (i) each of the Collateral Quality Tests is satisfied or, if a Collateral Quality Test is not satisfied, the degree of compliance with such Collateral Quality Test would be maintained or improved and (ii) the criteria set forth below (the **"Eligibility Criteria"**) are complied with or, if the Eligibility Criteria will not be complied with, the degree of compliance with the Eligibility Criteria will be maintained or improved. Unless otherwise stated in this section or unless the context clearly otherwise requires, in respect of the Synthetic Securities, (x) any rating criteria and any criteria relating to its status as a "Specified Type" described in this section in respect of such Synthetic Securities will be deemed to relate to the related Reference Obligations, and any quantitative criteria and limits so described will be deemed to apply to the Principal/Notional Balance of the relevant Synthetic Securities and (y) all references to "rated" or "rating" by Standard & Poor's or Fitch in this section, unless otherwise specified or unless the context otherwise requires, shall refer to the long-term, unsecured debt rating assigned by Standard & Poor's or Fitch, as applicable.

With respect to any acquisitions or Disposition of multiple Underlying Assets, that are effected either contemporaneously or no later than 30 days from each other in accordance with the provisions described herein, the Collateral Manager may, in its sole discretion, direct that two or more of such acquisitions or Dispositions of multiple Underlying Assets be treated as a **"Combined Trade"** and, following such designation by the Collateral Manager, compliance with the Collateral Quality Tests and Eligibility Criteria will be measured by determining the aggregate effect of such Combined Trade on the Issuer's level of compliance with the applicable Collateral Quality Tests and Eligibility Criteria rather than considering the effect of each acquisition or Disposition of the related Underlying Assets individually.

The Issuer may also, at the direction of the Collateral Manager, enter into a trading plan (a) pursuant to which the Collateral Manager believes all trades contemplated thereby will be entered into within 20 Business Days, (b) specifying certain (i) amounts received or expected to be received as Principal Proceeds in connection with a Trading Plan, (ii) Underlying Assets related to such Principal Proceeds and (iii) Underlying Assets acquired or intended to be acquired as a result of such Trading Plan, and (c) for which the Collateral Manager believes such plan can be executed according to its terms. Any trading plan satisfying the requirements of clauses (a)-(c), a **"Trading Plan"**. The time period for such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. With respect to any series of trades in which the Issuer commits to purchase, sell or purchase and sell multiple Underlying Assets pursuant to a Trading Plan, compliance with the Eligibility Criteria and the Collateral Quality Tests may, at the option of the Collateral Manager, be measured by determining the aggregate effect of such Trading Plan on the Issuer's level of compliance with the Eligibility Criteria and

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the Collateral Quality Tests rather than considering the effect of each purchase and sale of such Underlying Assets individually. The Issuer (or the Collateral Manager on its behalf) may enter into a Trading Plan only if (1) there are no other Trading Plans being implemented at such time and that the Collateral Quality Tests and Eligibility Criteria with respect to all previously implemented Trading Plans were in compliance as at the scheduled completion date of such Trading Plans, (2) as evidenced by an officer's certificate of the Collateral Manager (which may be delivered in an email), acting on behalf of the Issuer, delivered to the Trustee on or prior to the earliest event specified in the related Trading Plan, the Eligibility Criteria and the Collateral Quality Tests are expected to be in compliance as of the scheduled completion date of the related Trading Plan, (3) the Aggregate Principal/Notional Balance of all Underlying Assets that are to be Disposed of pursuant to such Trading Plan may not exceed 5% of the Portfolio Balance (each measured as of the earliest trade date) and (4) Standard & Poor's has received a prior written notice of such Trading Plan from the Collateral Manager, acting on behalf of the Issuer. If at any time any Trading Plan that was previously implemented resulted in the deterioration in the Issuer's level of compliance with any of the Eligibility Criteria and the Collateral Quality Tests, other than due to (x) a failure of the Synthetic Security Counterparty or issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or obligor/issuer for reasons beyond the control of the Issuer or any other terms that were agreed with the Issuer at or prior to the commencement of such Trading Plan or (y) an error or omission of an administrative or operational nature made by any bank, broker-dealer, clearing corporation or other similar financial intermediary holding funds, securities or other property directly or indirectly for the account of the Issuer, notice will be provided to Standard & Poor's and the Issuer will be prohibited from entering into any additional Trading Plans until the Issuer's level of compliance is restored to its prior level. The time period for each such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. The Collateral Manager, acting on behalf of the Issuer, may only specify one Trading Plan per trade date. The Eligibility Criteria will be as follows:

Standard & Poor's or Moody's Rating	1.	The Aggregate Principal/Notional Balance of the acquired Underlying Assets with a Moody's Rating or a Standard & Poor's Rating of below "Baa3" or "BBB-", respectively, shall not exceed 26.1% of the Net Outstanding Underlying Asset Balance as of the Closing Date; provided that any such Underlying Assets shall be RMBS Securities.
Dollar denominated	2.	Such security is Dollar denominated and is not convertible into, or payable in, any other currency.
Single Issue	3.	With respect to the particular Issue being acquired, the Aggregate Principal/Notional Balance of such Issue does not exceed:
		(a) 2.5% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Baa3" or higher or a Standard & Poor's Rating of "BBB-" or higher; *provided however* that with respect to up to five such Issues, the Aggregate Principal/Notional Balance of each such Issue may be up to 3.0% of the Net Outstanding Underlying Asset Balance;
		(b) 1.25% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Ba1" or less and a Standard & Poor's Rating of "BB+" or less; *provided however* that with respect to up to five such Issues, the

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Aggregate Principal/Notional Balance of each such Issue may be up to 1.5% of the Net Outstanding Underlying Asset Balance.

Single Servicer

4. With respect to the Servicer of the Underlying Asset being acquired, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed 7.50% of the Net Outstanding Underlying Asset Balance; provided, however, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed:

(a) 20.0% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "Aa3" or at least "SQ1-" by Moody's, or (ii) at least "AA-" or at least "Strong" by Standard & Poor's or (iii) at least "AA-" or at least "S-1" by Fitch; and

(b) 12.5% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "A3" or at least "SQ2-" by Moody's, or (ii) at least "A-" or at least "Above Average" by Standard & Poor's or (iii) at least "A-" or at least "S-2" by Fitch;

provided that Wells Fargo or its Affiliates may constitute up to 20.0%, Select Portfolio Servicing or its Affiliates may constitute up to 15.0% and Washington Mutual or its Affiliates may constitute up to 15.0%, of the Aggregate Principal/Notional Balance of all Underlying Assets; *provided further* that, regardless of clauses (a), (b) and the first proviso above, two single servicers (other than servicers with a servicer rating of "Weak" by Standard & Poor's) may each constitute up to 15.0% of the Net Outstanding Underlying Asset Balance.

Backed by Obligations of Non-U.S. Obligors

5. The Aggregate Attributable Amount of all Underlying Assets related to obligors organized or incorporated outside the United States does not exceed 5% of the Net Outstanding Underlying Asset Balance; *provided* that for purposes of this paragraph, "obligors" shall mean the obligors on the underlying receivables; *provided further* that the Aggregate Attributable Amount of all Underlying Assets related to

(a) Qualifying Foreign Obligors (including those obligors organized or incorporated in the United Kingdom or Canada) does not exceed 5% of the Net Outstanding Underlying Asset Balance; and

(b) obligors (including obligors organized or incorporated in Emerging Markets) organized or incorporated outside the United States, the United Kingdom and Canada (other than Qualifying Foreign Obligors) does not exceed 0.0% of the Net Outstanding Underlying Asset Balance.

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Consumer ABS Securities

6. The Aggregate Principal/Notional Balance of all Underlying Assets constituting Consumer ABS Securities does not exceed 15% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:

   (a) Automobile Securities does not exceed 7.5% of the Net Outstanding Underlying Asset Balance;

   (b) Car Rental Fleet Securities does not exceed 1.5% of the Net Outstanding Underlying Asset Balance;

   (c) Consumer Loan Securities does not exceed 1.5% of the Net Outstanding Underlying Asset Balance;

   (d) Credit Card Securities does not exceed 7.5% of the Net Outstanding Underlying Asset Balance; and

   (e) Student Loan Securities does not exceed 7.5% of the Net Outstanding Underlying Asset Balance.

Commercial ABS Securities

7. The Aggregate Principal/Notional Balance of all Underlying Assets constituting Commercial ABS Securities does not exceed 5% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:

   (a) Equipment Lease Securities does not exceed 5% of the Net Outstanding Underlying Asset Balance;

   (b) Small Business Loan Securities does not exceed 0% of the Net Outstanding Underlying Asset Balance; and

   (c) Franchise Securities does not exceed 0% of the Net Outstanding Underlying Asset Balance.

CMBS Securities

8. The Aggregate Principal/Notional Balance of all Underlying Assets that are CMBS Securities shall not exceed 10%, of the Net Outstanding Underlying Asset Balance.

CDO Securities

9. The Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities shall not exceed 10% of the Net Outstanding Underlying Asset Balance; *provided that*

   (a) no CDO Security shall have a Moody's Rating below "Baa3" or a Standard & Poor's Rating below "BBB-" and

   (b) the Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities managed by the Collateral Manager shall not exceed 0% of the Net Outstanding Underlying Asset Balance.

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Synthetic Securities	10.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Synthetic Securities that are Investment Grade shall not exceed 65% of the Net Outstanding Underlying Asset Balance.
Fixed Rate Securities	11.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities shall not exceed 6.0% of the Net Outstanding Underlying Asset Balance.
Pure Private Asset-Backed Securities	12.	If such Underlying Asset is a Pure Private Asset-Backed Security, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed 5.0% of the Net Outstanding Underlying Asset Balance.
Prime Securities	13.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Prime Securities shall not exceed 15%, of the Net Outstanding Underlying Asset Balance.
ABX Tranche Securities	14.	The Aggregate Principal/Notional Balance of all Underlying Assets that are ABX Tranche Securities shall not exceed 5%, of the Net Outstanding Underlying Asset Balance; provided however, that the Aggregate Principal/Notional Balance of all Underlying Assets that are ABX Tranche Securities of the same tranche shall not exceed 2%, of the Net Outstanding Underlying Asset Balance.
Negative Amortization Securities	15.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Negative Amortization Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Interest-Only Securities	16.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Interest-Only Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Principal-Only Securities	17.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Principal-Only Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Inverse Floating Securities	18.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Inverse Floating Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Cap/Corridor Securities	19.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Cap/Corridor Securities shall not exceed 0%, of the Net Outstanding Underlying Asset Balance.
Offsetting Transactions	20.	The aggregate notional amount of all Offsetting Transactions shall not exceed 20% of the Net Outstanding Underlying Asset Balance as of the Closing Date.
Maturity	21.	The legal final maturity of such Underlying Asset is no later than the Stated Maturity; *provided* that up to 10% of the Aggregate Principal/Notional Balance of the Underlying Assets may have a legal final maturity after the Stated Maturity but in no event shall (A) the legal final maturity of any Underlying Asset occur later than five years after the Stated Maturity of the Notes or (B) the expected maturity of any Underlying Asset occur later than the Stated Maturity of the Notes.

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PIK Bonds	22.	The Aggregate Principal/Notional Balance of all Underlying Assets that are PIK Bonds shall not exceed 10% of the Net Outstanding Underlying Asset Balance.
Periodic interest Payments	23.	The Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than quarterly shall not exceed 5% of the Net Outstanding Underlying Asset Balance and the Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than semi-annually shall not exceed 0% of the Net Outstanding Underlying Asset Balance.
Other Eligibility Criteria	24.	Such Underlying Asset is not a Convertible Bond and does not provide for the mandatory conversion or exchange into equity capital at any time.
	25.	Such Underlying Asset is permitted by its terms to be held by, among others, the Issuer or other non U.S. Persons and, if applicable, assigned, participated or otherwise transferred to the Issuer.
	26.	Such Underlying Asset is not an obligation or a Underlying Asset the rating of which from Standard & Poor's includes the subscript "p", "pi", "q", "r" or "t".
	27.	Such Underlying Asset (a) is not a Underlying Asset issued by an issuer located in a country that imposes foreign exchange controls that effectively limit the availability or use of Dollars to make when due the scheduled payments of principal of and interest on such security; (b) does not provide for conversion into Margin Stock; and (c) is not a financing by a debtor in possession in any insolvency proceeding.
	28.	Such Underlying Asset does not have a coupon or other payment that is subject to withholding tax, in each case, unless the issuer of the security is required to make "gross up payments" for the total amount of withholding on an after tax basis.
	29.	The acquisition of such Underlying Asset will not cause the Issuer to be subject to entity level taxation.
	30.	If such Underlying Asset is a Step Up Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed 5.0% of the Net Outstanding Underlying Asset Balance. If such Underlying Asset is a Step Down Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed 5.0% of the Net Outstanding Underlying Asset Balance.
	31.	Such Underlying Asset is not a security that is not eligible under its Underlying Instruments to be purchased by the Issuer and granted to the Trustee.
	32.	Such Underlying Asset is not a floating rate security whose interest rate is inversely related to an interest rate index.

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33. Such Underlying Asset is included in one of the Specified Types; provided that no new Specified Type shall be defined after the Closing Date without the consent of the holders of a majority of the Outstanding Aggregate Amount of each Class of Notes.

34. Such Underlying Asset has a Moody's Rating of "Ba2" or higher and a Standard & Poor's Rating of "BB" or higher.

The Initial Investment Agreement

The information appearing under "Security for the Notes—The Initial Investment Agreement" with respect to the Initial Investment Agreement Provider has been derived from a description thereof provided by the Initial Investment Agreement Provider. The Initial Investment Agreement Provider has reviewed such information, but such information has not been independently verified by the Co-Issuers, the Collateral Manager, the Initial Purchaser, any Interest Rate Swap Counterparty or the Synthetic Security Counterparty.

Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and, together with any Replacement Investment Agreement, the **"Investment Agreement"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and GE Funding Capital Market Services, Inc., as investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of at least $614,000,000 are expected to be invested as Investments.

Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest until the Initial Investment Agreement is terminated or terminates by its terms at a floating rate *per annum* equal to three-month LIBOR *minus* 0.035% on the amounts invested thereunder. Interest on the Investment will accrue over each Interest Period and will be payable immediately prior to the Distribution Dates, commencing in June 2007.

On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures.

Immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein.

The Trustee, subject to the Indenture, will upon the occurrence of an event of default under the Initial Investment Agreement, take actions to enforce the rights of the Issuer under the Initial Investment Agreement and to obtain payment to the Trustee of all amounts due thereunder to the extent required or directed to do so in accordance with the Indenture.

In the event that the financial strength ratings of the guarantor or any replacement guarantor are downgraded below certain thresholds specified in the Initial Investment Agreement, the Initial Investment Agreement Provider is required to perform one or more of the following actions: (i) post collateral, (ii) transfer the Initial Investment Agreement to an entity approved by the Collateral Manager and satisfying the rating requirements (as specified in the Initial Investment Agreement) or (iii) obtain the guarantee of a

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replacement guarantor that satisfies the required financial strength ratings. If within ten Business Days of a ratings event, the Initial Investment Agreement Provider does not remedy the situation by satisfying the relevant requirements of one or more of clause (i), (ii) or (iii) above, then following demand by the Trustee within 30 Business Days of the Initial Investment Agreement Provider's notice of such ratings event, the Initial Investment Agreement Provider will pay the entire balance of the Investment, together with all accrued, unpaid interest and any make-whole amount to the Trustee. Upon any such payment in full, the Initial Investment Agreement shall terminate.

Events of default under the Initial Investment Agreement include a failure by the Initial Investment Agreement Provider to make any payment when due pursuant to the Initial Investment Agreement, certain bankruptcy and insolvency events with respect to the Initial Investment Agreement Provider, a failure by the Initial Investment Agreement Provider to perform, in any material respect, any of its other obligations under the Initial Investment Agreement which continues for at least ten Business Days after receipt of notice thereof. The Issuer is required to provide Standard & Poor's and Moody's notice of the termination of the Initial Investment Agreement following any Event of Default under the Initial Investment Agreement.

Upon the occurrence of an event of default under the Initial Investment Agreement, the Trustee, the Issuer and the Collateral Manager will have the right to declare the entire balance of the Investment and all accrued and unpaid interest to be due and payable immediately and to withdraw such entire balance and unpaid interest. If, as a result of the occurrence of an event of default, the entire balance of the Investment and all unpaid interest are so withdrawn by the Trustee, the Initial Investment Agreement will be terminated on the date of such withdrawal. If an event of default occurs under the Initial Investment Agreement and the Initial Investment Agreement is terminated, any amounts withdrawn by the Issuer in connection therewith may be reinvested in Eligible Investments.

If there is a withdrawal of the funds, then a breakage fee may be payable and the gross amount of interest or principal due may be paid net of the breakage fee.

The Initial Investment Agreement Provider. The Initial Investment Agreement is being provided by GE Funding Capital Market Services, Inc. or the "**Initial Investment Agreement Provider**"). Except for the information contained under this subheading, the Initial Investment Agreement Provider has not been involved in the preparation of, and does not accept responsibility for this Offering Circular.

Proceeds held in the Synthetic Security Collateral Account will be invested by the Trustee in the Initial Investment Agreement with GE Funding Capital Market Services, Inc., New York, New York ("**GEFCMS**"). The payment obligations of GEFCMS under its Investment Agreements are unconditionally guaranteed pursuant to an Amended and Restated Guarantee, dated as of March 16, 2004 (the "**Guarantee**"), of General Electric Capital Corporation ("**GECC**"). GECC is rated "AAA" by Standard & Poor's and "Aaa" by Moody's. Neither the Investment Agreement nor the Guarantee guarantees or otherwise provides for payment of amounts due on the Notes in the event of nonpayment by the Issuer. Holders of the Notes must rely solely upon the Notes for payment of principal and interest thereon. Holders of the Notes shall have no recourse, and shall have no right to assert a claim of any nature whatsoever, against or GECC (or any entity that provides to GECC credit enhancement or the benefit of a liquidity facility) or under the Investment Agreement or the Guarantee. Copies of the Investment Agreement and the Guarantee are on file with the Trustee.

GECC is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "**Commission**"). Such reports and other information can be inspected and copied at the Office of the Commission in Washington, D.C.

The Interest Rate Swap Agreement

After the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an interest rate swap entered into in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**) with Deutsche Bank AG or one of its Affiliates (together with its successors, the **"Initial Interest Rate Swap Counterparty"**. The Initial Interest Rate Swap Counterparty and any additional interest rate swap counterparties, each an **"Interest Rate Swap Counterparty"**). Any Interest Rate Swap Agreement will provide that the Issuer will pay to the relevant Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three-month LIBOR for the related calculation period. The Interest Rate Swap Counterparty will satisfy the ratings requirements specified by each of the Rating Agencies for the Interest Rate Swap Counterparty.

Any Interest Rate Swap Agreement will provide that, for each Distribution Date prior to the termination of such Interest Rate Swap Agreement, the Interest Rate Swap Counterparty will pay to the Issuer a quarterly floating amount equal to the product of:

- the three-month LIBOR rate for the relevant quarterly calculation period;
- the specified hedge notional amount for the relevant quarterly calculation period; and
- the quotient of the actual number of days in that period *divided* by 360.

In exchange for the floating amounts due from the Interest Rate Swap Counterparty, and subject to the payment netting provisions of the Interest Rate Swap Agreement, the Issuer will pay to the Interest Rate Swap Counterparty, for each Distribution Date prior to the termination of the Interest Rate Swap Agreement, a quarterly fixed amount equal to the product of:

- fixed swap rate for the relevant quarterly calculation period;
- the specified swap notional amount for the relevant quarterly calculation period; and
- the quotient of 30 over 360, calculated quarterly, adjusted.

Pursuant to the Priority of Payments, scheduled payments required to be made by the Issuer under the Interest Rate Swap Agreement, together with any termination payments payable by the Issuer other than by reason of an event of default with respect to the Interest Rate Swap Counterparty or termination event where the Interest Rate Swap Counterparty is the "defaulting party" or the sole "affected party," will be payable pursuant to clause (3) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, if Interest Proceeds are insufficient to pay such amounts in full, from Principal Proceeds pursuant to clause (1) under "Description of the Notes—Priority of Payments—Principal Proceeds." The Interest Rate Swap Agreement will be governed by New York law.

If the Interest Rate Swap Counterparty or its guarantor fails to maintain certain rating levels described in the Indenture and the Interest Rate Swap Agreement, such Interest Rate Swap Counterparty may be required to post collateral or assign its rights and obligations under the Interest Rate Swap Agreement to a replacement Interest Rate Swap Counterparty and, if the Interest Rate Swap Counterparty does not take such action as required under the Interest Rate Swap Agreement, the Issuer

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will be permitted to terminate the Interest Rate Swap Agreement. See "Risk Factors—Interest Rate Risk" for a discussion of certain considerations with respect to the Interest Rate Swap Agreement.

The Collateral Manager will have a limited role in connection with decisions relating to the Interest Rate Swap Agreement. Pursuant to the Indenture, the Issuer may not reduce the notional amount under the Interest Rate Swap Agreement. However, on any date (each such date, a **"Collateral Imbalance Date"**) on which the Net Outstanding Underlying Asset Balance is less than the notional amount of the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty to the Interest Rate Swap Agreement will designate an early termination date with respect to the portion of the notional amount of each hedging transaction so affected; *provided, however*, that the Rating Condition must be satisfied with respect to any such early termination date. In addition, the Issuer may enter into a replacement Interest Rate Swap Agreement upon termination of an Interest Rate Swap Agreement or enter into additional Interest Rate Swap Agreements with the advice of the Collateral Manager only (a) if the Rating Condition is satisfied and (b) with respect to any additional Interest Rate Swap Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement.

The Interest Rate Swap Counterparty may terminate the Interest Rate Swap Agreement with the Issuer in limited circumstances whether or not the Notes have been paid in full prior to such termination, including in the event of (a) a failure by the Issuer to make, when due, any payment under the Interest Rate Swap Agreement within the applicable grace period; (b) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer; (c) a change in law making it illegal for either the Issuer or the Interest Rate Swap Counterparty to be a party to, or perform an obligation under, the Interest Rate Swap Agreement; (d) an Event of Default under the Indenture followed by a liquidation of Collateral on the Accelerated Maturity Date; and (e) the occurrence of a Clean-up Call Redemption, Optional Redemption, Tax Redemption, or Auction Call Redemption. With respect to such terminations, any amounts payable upon the termination of the Interest Rate Swap Agreement will be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by ISDA. In addition, the Issuer will not agree, without satisfaction of the Rating Condition solely with respect to Standard & Poor's, to any amendment, modification, or waiver of any provision of the Interest Rate Swap Agreement.

The obligations of the Issuer under the Interest Rate Swap Agreement are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments.

The Accounts

Collection Accounts

All distributions on the Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets, to the extent such distributions or proceeds constitute Interest Proceeds and any amounts payable to the Issuer by any Interest Rate Swap Counterparty under the Interest Rate Swap Agreement (other than amounts received by the Issuer by reason of an event of default or termination event thereunder) will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the **"Interest Collection Account"**). All distributions on the Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets to the extent such distributions or proceeds constitute Principal Proceeds (unless simultaneously reinvested in Eligible Investments) will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the **"Principal Collection Account"** and, together with the Interest Collection Account, the **"Collection Accounts"**). Amounts on credited to the Principal Collection Account shall be applied in accordance with the Priority of Payments. The Collection Accounts shall be maintained for the benefit of the Noteholders and amounts on deposit therein will be available, together with reinvestment

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earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments."

Amounts received in the Collection Accounts during a Due Period will be invested in Eligible Investments (as described below) with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless used as otherwise permitted under the Indenture.

"Eligible Investments" include any Dollar-denominated investment that is not a Prohibited Asset and is one or more of the following (and may include investments for which the Trustee and/or its affiliates provides services):

(a) cash;

(b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch Ratings ("**Fitch**") (if rated by Fitch) in the case of long-term debt obligations, or "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) in the case of commercial paper and short-term debt obligations; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch);

(d) unleveraged repurchase obligations (if treated as debt for tax purposes by the issuer) with respect to (i) any security described in clause (b) above or (ii) any other Registered security issued or guaranteed by an agency or instrumentality of the United States (in each case without regard to the stated maturity of such security), in either case entered into with a U.S. Federal or state depository institution or trust company (acting as principal) described in clause (c) above or entered into with a corporation (acting as principal) whose long-term rating at the time of such investment or contractual commitment providing for such investment is not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch) or whose short-term credit rating at the time of such

investment or contractual commitment providing for such investment is "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) at the time of such investment or contractual commitment providing for such investment; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch);

(e) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating at the time of such investment or contractual commitment providing for such investment of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch);

(f) commercial paper or other short-term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment or contractual commitment providing for such investment a credit rating of "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch); provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch);

(g) reinvestment agreements issued by any bank (if treated as a deposit by such bank), or a Registered reinvestment agreement issued by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof (if treated as debt for tax purposes by the issuer), in each case, that has a credit rating of not less than "P-1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch); provided that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AAA" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch) and satisfy the Rating Agency Condition in respect of Standard & Poor's;

(h) any money market fund or similar investment vehicle having at the time of investment therein the highest credit rating assigned by each of the Rating Agencies; provided that (i) such fund or vehicle is formed outside the United States and is not engaged in a United States trade or business, (ii) no income to be received from such fund or vehicle is or will be subject to deduction or withholding for or on account of any withholding or

similar tax, and (iii) the ownership of an interest in such fund or vehicle will not subject the Issuer to net income tax in any jurisdiction;

(i) any guaranteed investment contract, asset swap, funding agreement, investment agreement or other similar agreement from, or a note or a certificate backed by any guaranteed investment contract, funding agreement, investment agreement or other similar agreement from, a bank, insurance company or other corporation or entity and has a long-term unsecured obligation rating of at least "AAA" by Standard & Poor's and at least "Aaa" by Moody's and satisfy the Rating Agency Condition in respect of Standard & Poor's; and

(j) any other security the acquisition of which satisfies the Rating Condition and the ownership of which will not subject the Issuer to income tax on a net income basis for U.S. federal income tax purposes;

and, in each case (other than clause (a) or (i) or (j)), with a stated maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date immediately following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (i) any security that does not provide for the repayment of a stated fixed amount of principal in one or more installments, any interest-only security, any security purchased at a price in excess of 100% of the par value thereof or any security whose repayment is subject to substantial non-credit related risk as determined in the reasonable business judgment of the Collateral Manager, (ii) any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* a spread, (iii) any security subject to withholding tax in any jurisdiction or (iv) any security that is subject to an Offer and has not been called for redemption. Notwithstanding the foregoing, Eligible Investments will not include PIK Bonds, CMBS Securities, RMBS Securities, margin stock, securities that do not provide for the periodic payment of interest or which are zero coupon bonds and any security with a rating from Standard & Poor's which includes the subscript "p," "pi," "q," "r" or "t". The Trustee or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Trustee's economic self-interest for (x) serving as investment advisor, administrator, shareholder, servicing agent, custodian or sub-custodian with respect to certain of the Eligible Investments, (y) using Affiliates to effect transactions in certain Eligible Investments and (z) effecting transactions in certain Eligible Investments; *provided, however*, that such compensation shall not be an amount that is reimbursable or payable by the Issuer or otherwise pursuant to the Indenture. For the avoidance of doubt, an Eligible Investment is not an Underlying Asset.

Payment Account

On or prior to the Business Day prior to each Distribution Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Payment Account"**) for the benefit of the Secured Parties all funds in the Collection Accounts (other than amounts received after the end of the Due Period with respect to such Distribution Date) required for payments to Noteholders and payments of fees and expenses in accordance with the priority described under "Description of the Notes—Priority of Payments." In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the September 2007 Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the September 2007 Distribution Date and distributed in accordance with the Priority of Payments.

Expense Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Issuers (including, without limitation, the legal fees and expenses of counsel to the Issuers, the Initial Purchaser and the Collateral Manager) and the expenses of offering the Notes, at least U.S.$ 250,000 from the proceeds of the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Expense Account"**). All funds on deposit in the Expense Account will be invested in Eligible Investments at the direction of the Collateral Manager. Amounts standing to the credit of the Expense Account may be used to pay administrative expenses (including indemnities) and organization fees of the Issuers on any day other than a Distribution Date (other than fees of the Trustee, but including other amounts payable by the Issuer to the Collateral Manager under the Management Agreement or the Indenture). Amounts credited to the Expense Account will be (a) applied on or prior to the Determination Date preceding the First Distribution Date to pay amounts due in connection with the offering of the Notes and Preference Shares and (b) on the First Distribution Date, to the extent that the balance of the Expense Account exceeds U.S.$ 250,000 on the related Determination Date, transferred to the Payment Account and applied as Interest Proceeds. After the Closing Date, additional amounts may be credited to the Expense Account on any Distribution Date as described under "Description of the Notes—Priority of Payments."

Uninvested Proceeds Account

On the Closing Date, the Trustee will deposit the net proceeds (if any) from the issuance and sale of the Notes and Preference Shares *plus* any principal collections on the Underlying Assets received on or prior to the Closing Date that, on the Closing Date, are not invested in Underlying Assets, not deposited in the Collection Accounts and not deposited in the Expense Account into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Uninvested Proceeds Account"**). At the direction of the Collateral Manager, amounts (if any) standing to the credit of the Uninvested Proceeds Account will be used to acquire Underlying Assets and Eligible Investments, which Eligible Investments shall be in overnight deposits. Investment earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds on the September 2007 Distribution Date. In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the September 2007 Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the September 2007 Distribution Date and distributed in accordance with the Priority of Payments. For the avoidance of doubt, such amounts shall not be transferred to the Interest Collection Account or the Payment Account, as applicable, until the Determination Date preceding the September 2007 Distribution Date, prior to such date, such amounts shall be available to purchase Underlying Assets or Eligible Investments at the direction of the Collateral Manager.

Disposition Proceeds Account

All Disposition Proceeds will be deposited into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Disposition Proceeds Account"**) and (i) either used to purchase one or more Underlying Assets within 60 or 90 days from the date of deposit into the Disposition Proceeds Account; or (ii) after 60 or 90 days from the date of deposit into the Disposition Proceeds Account, if not used to purchase Underlying Assets, transferred to the Principal Collection Account and designated as Principal Proceeds and on the following Distribution Date distributed in accordance with the Priority of Payments. In no event shall Disposition Proceeds be designated as Interest Proceeds. Amounts on deposit in the Disposition Proceeds Account will be invested in Eligible Investments at the direction of the Collateral Manager.

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Preference Share Payment Account

On each Distribution Date, the Trustee, in accordance with the Priority of Payments, will transfer to the Preference Share Paying Agent the amounts (if any) for deposit to a segregated account (the **"Preference Share Payment Account"**) established and maintained by the Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement. The Preference Share Payment Account and any sums standing to the credit thereof shall not form part of the Collateral.

Synthetic Security Collateral Account

The Trustee will establish a segregated trust account (the **"Synthetic Security Collateral Account"**), that will be maintained by the Trustee as entitlement holder in respect of each Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the Synthetic Securities and the Indenture. As directed by the Collateral Manager, the Trustee will, on the Closing Date, deposit into the relevant Synthetic Security Collateral Account all cash and Eligible Investments that are required to secure the obligations of the Issuer in accordance with the terms of the Synthetic Securities and the Offsetting Transactions. The Synthetic Security Collateral Account shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $200,000,000.

As directed by the Collateral Manager in writing, cash on deposit in any Synthetic Security Collateral Account will be invested in Eligible Investments. Interest payments on Eligible Investments credited to any Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any periodic amounts owed by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty on the date any such amounts are due, but only up to the amount of any excess over the Required Synthetic Security Collateral Amount. After application of any such amounts, any remaining interest payments then contained in the related Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in any Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to the Synthetic Security Collateral Account shall be considered an asset of the Issuer.

In the event a Synthetic Security or Offsetting Transaction is terminated prior to its scheduled maturity, the Collateral Manager on behalf of the Issuer shall cause such portion of the collateral in the related Synthetic Security Collateral Account that (subject to the Allocation Procedures) is available for making partial or full termination payment owed, if any, to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty to be delivered to such Synthetic Security Counterparty or Offsetting Transaction Counterparty, and the remaining collateral for such terminated Synthetic Security or Offsetting Transaction in the related Synthetic Security Collateral Account (to the extent not required to be pledged to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty) shall be released from the lien of the related Synthetic Security Counterparty and the Offsetting Transaction Counterparty and granted to the Trustee free of such lien. Any cash received upon the maturity or liquidation of any such collateral in the related Synthetic Security Collateral Account released from the lien of the relevant Synthetic Security Counterparty and the Offsetting Transaction Counterparty shall be credited to the Disposition Proceeds Account or deemed to be Principal Proceeds and credited to the Principal Collection Account.

Confidential Treatment Requested

Upon the occurrence of a "credit event" under a Synthetic Security, at the direction of the Collateral Manager, the related collateral in the related Synthetic Security Collateral Account will be delivered to the related Synthetic Security Counterparty, to the extent required, upon delivery of a Delivered Obligation. In the event a "credit event" has occurred and the Issuer is required to liquidate such collateral in the related Synthetic Security Collateral Account and deliver cash to the relevant Synthetic Security Counterparty, the Issuer will bear any market risk on the liquidation of the collateral in such Synthetic Security Collateral Account.

Amounts contained in any Synthetic Security Collateral Account shall be withdrawn by the Trustee and applied toward the payment of any amounts payable by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty in accordance with the terms of the Indenture and the related Synthetic Security or Offsetting Transaction, as directed by the Collateral Manager in writing. Any Excess Collateral Account Amount shall be withdrawn from any Synthetic Security Collateral Account and deposited in the Principal Collection Account or Disposition Proceeds Account for application in accordance with the terms of the Indenture; *provided* that to the extent that any such withdrawal from such Synthetic Security Collateral Account would require a withdrawal from the Initial Investment Agreement, such withdrawal may only be made in accordance with the terms of the Initial Investment Agreement. **"Excess Collateral Account Amount"** means the excess of (i) the related Synthetic Security Collateral Amount over (ii) the sum of (A) the related Required Synthetic Security Collateral Amount and (B) the absolute value of the net loss on the relevant Offset Transactions.

Interest Rate Swap Counterparty Collateral Accounts

If and to the extent that any Interest Rate Swap Agreement requires a Interest Rate Swap Counterparty to secure its obligations with respect to such Interest Rate Swap Agreement, the Trustee will establish a segregated trust account, held in the name of the Trustee (each such account, a **"Interest Rate Swap Counterparty Collateral Account"**). The Trustee shall deposit into each Interest Rate Swap Counterparty Collateral Account all amounts that are required to secure the obligations of the Interest Rate Swap Counterparty in accordance with the terms of such Interest Rate Swap Agreement. Except for investment earnings, a Interest Rate Swap Counterparty shall not have any legal, equitable or beneficial interest in any Interest Rate Swap Counterparty Collateral Account other than in accordance with the Indenture, the applicable Interest Rate Swap Agreement and applicable law. The Interest Rate Swap Counterparty Collateral Accounts shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $200,000,000.

As directed by the Collateral Manager in writing and in accordance with the applicable Interest Rate Swap Agreement, cash on deposit in a Interest Rate Swap Counterparty Collateral Account on behalf of the Issuer shall be invested in Eligible Investments. Income received on amounts on deposit in the Interest Rate Swap Counterparty Collateral Account may be withdrawn from such account and paid to the related Interest Rate Swap Counterparty in accordance with the applicable Interest Rate Swap Agreement.

Cash and Eligible Investments on deposit in each Interest Rate Swap Counterparty Collateral Account will not be included in the Collateral and will not be available to make payments under the Notes other than as required under the related Interest Rate Swap Agreement. Amounts contained in any Interest Rate Swap Counterparty Collateral Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Interest Rate Swap Agreement that relates to such Interest Rate Swap Counterparty Collateral Account shall be so considered an asset of the Issuer.

Confidential Treatment Requested

With respect to any obligation by the Interest Rate Swap Counterparty for payment under any Interest Rate Swap Agreement, amounts contained in the related Interest Rate Swap Counterparty Collateral Account shall, as directed by the Collateral Manager in writing, be withdrawn by the Trustee and applied to the payment of such obligation payable by the related Interest Rate Swap Counterparty to the Issuer. Any excess amounts held in a Interest Rate Swap Counterparty Collateral Account after payment of all amounts owing from the related Interest Rate Swap Counterparty to the Issuer shall be withdrawn from such Interest Rate Swap Counterparty Collateral Account and paid to the related Interest Rate Swap Counterparty in accordance with the applicable Interest Rate Swap Agreement.

Synthetic Security Issuer Accounts

If and to the extent that any Synthetic Security requires a Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee will establish a segregated trust account, held in the name of the Trustee (each such account, a **"Synthetic Security Issuer Account"**). The Trustee shall deposit into each Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty in accordance with the terms of such Synthetic Security. Except for investment earnings, a Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in any Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law. The Synthetic Security Issuer Accounts shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $200,000,000.

As directed by the Collateral Manager in writing and in accordance with the applicable Synthetic Security, cash on deposit in a Synthetic Security Issuer Account on behalf of the Issuer shall be invested in Eligible Investments. Income received on amounts on deposit in the Synthetic Security Issuer Account may be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Cash and Eligible Investments on deposit in each Synthetic Security Issuer Account will not be included in the Collateral and will not be available to make payments under the Notes other than as required under the related Synthetic Security. Amounts contained in any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Security or Synthetic Securities that relate to such Synthetic Security Issuer Account shall be so considered an asset of the Issuer.

With respect to any obligation by the Synthetic Security Counterparty for payment under any Synthetic Security, amounts contained in the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager in writing, be withdrawn by the Trustee and applied to the payment of such obligation payable by the related Synthetic Security Counterparty to the Issuer. Any excess amounts held in a Synthetic Security Issuer Account after payment of all amounts owing from the related Synthetic Security Counterparty to the Issuer shall be withdrawn from such Synthetic Security Issuer Account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Confidential Treatment Requested

THE ISSUERS

General

The Issuer was incorporated as an exempted company with limited liability and registered on October 20, 2006 in the Cayman Islands with registered number DB-176033, is in good standing under the laws of the Cayman Islands and has an indefinite existence. The Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. The registered office of the Issuer is at the offices of Deutsche Bank (Cayman) Limited, P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands. The Issuer's telephone number is +1(345) 949-8244. The Issuer has no prior operating experience other than in connection with the acquisition of certain Underlying Assets prior to the issuance of the Notes and the Preference Shares and the engagement of the Collateral Manager and the entering into of arrangements with respect thereto, and the Issuer will not have any substantial assets other than the Collateral pledged to secure, among other things, the Notes and the Issuer's obligations to the Trustee, the Collateral Manager, any Interest Rate Swap Counterparty, the Offsetting Transaction Counterparty and the Synthetic Security Counterparty. Clause 3 of the Issuer Charter sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes. As at the Closing Date, the entire authorized shares of the Issuer will consist of (a) 250 ordinary shares, par value U.S.$1.00 each (all of which will be issued and held in trust for charitable purposes by Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands (in such capacity, the **"Share Trustee"**), under the terms of a declaration of trust) and (b) 59,500 Preference Shares, par value U.S.$0.01, all of which will be issued at a liquidation preference of U.S.$1,000 each.

The Co-Issuer was incorporated on February 23, 2007 under the law of the State of Delaware with an organizational number 070220501 and its registered office is c/o Donald Puglisi, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The sole director and officer of the Co-Issuer is Donald Puglisi, and he may be contacted at the principal office of the Co-Issuer listed on the last page of this Offering Circular. The Co-Issuer's telephone number is +1(302) 738-6680. The Co-Issuer has no prior operating experience. The Co-Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. It will not have any assets (other than its U.S.$1,000 of share capital owned by the Issuer) and will not pledge any assets to secure the Notes. The third clause of the Co-Issuer's certificate of incorporation sets out the objects of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the Notes. The Co-Issuer will not have any interest in the Underlying Assets or other assets held by the Issuer.

The Notes are obligations only of the Issuers, and none of the Notes are obligations of the Trustee, the Share Trustee, the Administrator, the Collateral Manager, the Initial Purchaser or its affiliates or any directors or officers of the Issuers.

Deutsche Bank (Cayman) Limited will act as the administrator (in such capacity, the **"Administrator"**) and the Share Registrar of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the **"Administration Agreement"**), the Administrator will perform various management functions on behalf of the Issuer, including the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates provided for in the Administration Agreement and will be reimbursed for expenses and the Issuer will provide certain indemnities to the Administrator in connection with its performance of such services.

Confidential Treatment Requested

The Administrator will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are Alan Corkish, David Dyer, Simon Wetherell and Tim Fitzgerald, each of whom is a director or officer and an employee of the Administrator and each of whose offices are at P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands. The Administration Agreement may be terminated by the Issuer or the Administrator upon 14 days' notice following the occurrence of certain events. In addition, the Administration Agreement may be terminated upon three months' notice (subject to the appointment of a replacement administrator).

The Administrator's principal office is at P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands.

Capitalization and Indebtedness of the Issuer and the Co-Issuer

The initial capitalization and indebtedness of the Issuer as of the Closing Date, after giving effect to the issuance of the Notes, the Preference Shares and the ordinary shares of the Issuer but before deducting expenses of the offering of the Notes and of the placement of the Preference Shares and organizational expenses of the Issuers, is expected to be as follows:

Class A-1a Notes	U.S.$244,000,000
Class A-1b Notes	U.S.$400,000,000
Class A-2 Notes	U.S.$159,000,000
Class B Notes	U.S.$96,900,000
Class C Notes	U.S.$68,300,000
Class D Notes	U.S.$55,100,000
Class E Notes	U.S.$18,700,000
Total Debt	U.S.$1,042,000,000
Ordinary Shares	250
Preference Shares	U.S.$59,500,000
Total Equity	U.S.$59,500,250
Total Capitalization	U.S.$1,101,500,250

As of the Closing Date and after giving effect to the issuance of the Preference Shares, the issued share capital of the Issuer will be 250 ordinary shares, par value U.S.$1.00 per share, and 59,500 Preference Shares, par value U.S.$0.01 per share and with a liquidation preference of U.S.$1,000 per share.

The Issuer will not have any material assets other than the Collateral.

The Co-Issuer will be capitalized only to the extent of its U.S.$250 of share capital, will have no assets other than its share capital and will have no debt other than as Co-Issuer of the Notes. As of the Closing Date and after giving effect to the issuance of the Co-Issuer's shares, the authorized and issued share capital of the Co-Issuer will be 250 shares of common stock, par value U.S.$1.00 per share.

Business

The Indenture and the Issuer Charter provide that the activities of the Issuer are limited to (a) investment and reinvestment in Underlying Assets and Eligible Investments, (b) the entering into, and the performance of its obligations under, the Indenture, any Interest Rate Swap Agreement, the Offset Transactions, the Offsetting Transactions, the Synthetic Securities, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Note Purchase Agreement, the Subscription Agreement and the Preference Share Paying Agency Agreement, (c) the issuance and sale of the Notes and Preference Shares, (d) the pledge of the Collateral as security for its obligations in respect of the Notes and its obligations to the other Secured Parties, (e) ownership of the Co-Issuer and (f) other activities incidental to the foregoing. The Issuer has no employees and no subsidiaries other than the Co-Issuer. The Co-Issuer will not undertake any business other than the issuance of the Notes.

The Issuer is not required by Cayman Islands law, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee, on an annual basis, with a certificate reviewing the activities of the Issuer and of the Issuer's performance during the preceding year and stating that, to the best of the certifying officer's knowledge, the Issuer has fulfilled all of its obligations under the Indenture or, if there has been a default, specifying such default, the nature and status thereof and any actions undertaken to remedy such default.

THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Collateral Manager and has not been independently verified by the Issuers or the Initial Purchaser. Neither the Issuers nor the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. Accordingly, the Collateral Manager assumes sole responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). The Collateral Manager will, pursuant to the terms of the Management Agreement, select, monitor and provide the Issuer with certain information relating to, the portfolio of Underlying Assets, may act as the Auction Agent, direct the Disposition certain Underlying Assets, including any Credit Risk Asset, Credit Improved Asset, Defaulted Asset, Withholding Security or Equity Security, or instruct the Trustee with respect to the purchase of Underlying Assets and investment in Eligible Investments as further set forth herein.

Additionally, during the Reinvestment Period, the Collateral Manager is permitted to Dispose of any Underlying Asset that is Investment Grade other than an Equity Security, Credit Risk Asset, Defaulted Asset, Withholding Security or Credit-Improved Asset; provided that, for any given calendar year, the aggregate principal balance of any such Underlying Assets Disposed of does not exceed 20% of the aggregate principal balance of all Underlying Assets.

All acquisitions and Dispositions of Eligible Investments and Underlying Assets, and all Dispositions of Equity Securities, by the Collateral Manager on behalf of the Issuer shall be conducted in compliance with all applicable laws. The Collateral Manager shall cause any acquisition or Disposition of any Underlying Asset or Eligible Investment, and the sale of any Equity Security, to be conducted on an arm's-length basis or as provided in the Indenture with respect to a redemption of the Notes and/or Preference Shares.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may acquire some or all of the Class E Notes on the Closing Date. In addition, the Management Agreement will provide that the Collateral Manager shall notify the Trustee or the Preference Share Paying Agent, as applicable, upon the sale or transfer by the Collateral Manager of any Preference Shares to a person that is not an Affiliate of the Collateral Manager, and the Trustee shall deliver notice of such transfer to the holders of the Notes (to the extent such Notes remain outstanding). The Collateral Manager and its Affiliates may at times own Notes. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Collateral Manager Securities with respect to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement), or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote the Notes and Preference Shares held by them with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest."

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HBK Investments L.P.

HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors and their respective successors, **"HBK"**), will act as Collateral Manager to the Issuer (in such capacity, the **"Collateral Manager"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. The headquarters of HBK are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201.

HBK was founded in 1991. HBK is managed by thirteen managing directors and has offices in Dallas, New York, London, Hong Kong and Tokyo. HBK is an investment management firm that, as of December 31, 2006, had approximately $12 billion in capital under management.

From time to time, HBK has responded to various requests for information from governmental and regulatory bodies, including routine inspections and examinations, as well as enforcement inquiries and investigations. HBK has provided information to the SEC related to private investments in public equity and similar transactions and related trading activity. These transactions represent a small portion of HBK's overall business and are unrelated to its activities as Collateral Manager. HBK is listed, along with several other entities, in an SEC formal order of investigation related to these matters, and relevant personnel of HBK have given testimony. HBK believes the investigation is focused on insider trading issues related to trading before the public announcement of certain transactions and is one of many such investigations or inquiries directed toward numerous market participants, including brokerage firms, other intermediaries and investors. Based on interactions to date with the SEC staff and the limited scope of HBK's activities in this area, HBK does not believe the investigation will result in a material effect on HBK or have any financial effect on the Issuer or any of the private investment funds that HBK manages.

Biographies

Set forth below is information regarding certain persons who are currently employed by the Collateral Manager, although such persons may not necessarily continue to be so employed during the entire term of the Management Agreement and/or may not continue to perform services for the Collateral Manager under the Management Agreement.

Jamiel Akhtar, Managing Director

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. He received an A.B. degree cum laude in Economics in 1993 from Harvard College.

Kevin Jenks, Senior Portfolio Manager

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank

Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts.

Jason Lowry, Assistant Trader/Analyst

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and surveillance. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics from Carnegie Mellon in 2001.

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco's primary responsibilities include surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the college.

Kimberlee K. Rozman, Associate General Counsel

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990.

Gayla Utley, Director of Operations

Ms. Utley has been associated with HBK since 1996 and is responsible for global trading operations. Ms. Utley graduated from Texas A&M University in 1996 with a B.S. in Accounting.

Qi Wang

Ms. Wang has been associated with HBK since 1998 and is primarily responsible for the US fixed income arbitrage book. From 1996 to 1998, she worked on the US government sales desk at Lehman Brothers. She graduated magna cum laude from Yale University in 1995 with degrees in molecular biophysics & biochemistry and economics.

Brett Orr, CFA

Mr. Orr has been with HBK since 1997 and is responsible for financing all of HBK's government, asset backed and mortgage backed securities. He graduated with honors in 1997 from Abilene Christian University with a B.S. in Financial Management.

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. Jim's primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS research at Citigroup. Mr. Wang graduated from Brandeis University with a Ph.D. in physics in 1996.

THE MANAGEMENT AGREEMENT

The following summary describes certain provisions of the Management Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Management Agreement.

As compensation for the performance of its obligations as Collateral Manager under the Management Agreement, the Collateral Manager will receive a fee (the **"Management Fee"**), to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Management Fee will accrue from the Closing Date at a rate of 0.30% *per annum* on the Quarterly Asset Amount, payable in arrears on each Distribution Date. In addition, if the Collateral Manager acts as Auction Agent, as compensation for the performance of its obligations as Auction Agent under the Management Agreement, the Collateral Manager will receive fees (the **"Auction Agent Fees"**) as described in the succeeding sentence, to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Auction Agent Fee will be (a) U.S.$35,000 on the first Auction Date; (b) if the Auction Call Redemption is not successful on the First Auction Call Date, U.S.$25,000 on the Distribution Date immediately following the First Auction Call Date; and (c) U.S.$15,000 on each Auction Date thereafter, if any. Any Management Fee or Auction Agent Fee accrued prior to the resignation or removal of the Collateral Manager will continue to be payable to the Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal.

To the extent not paid on any Distribution Date when due, any accrued Management Fee or Auction Agent Fee will be deferred and will be payable on the next subsequent Distribution Date on which funds are available for the payment thereof in accordance with the Priority of Payments. Any unpaid Management Fee or Auction Agent Fee that is deferred due to the operation of the Priority of Payments will not accrue interest.

The Collateral Manager will be responsible for its own ordinary expenses and costs incurred in the course of performing its obligations under the Management Agreement; *provided* that the Collateral Manager shall not be liable for the payment of any extraordinary expenses and costs or for the payment of expenses and costs of (a) legal advisers, accountants, consultants and other professionals retained by the Issuer or by the Collateral Manager on behalf of the Issuer in connection with certain services to be provided by the Collateral Manager as specified in the Management Agreement and (b) reasonable travel expenses undertaken in connection with effecting or directing Disposition of Underlying Assets and Eligible Investments, negotiating with issuers of Underlying Assets as to proposed modifications or waivers, taking action or advising the Trustee with respect to the Issuer's exercise of any rights or remedies in connection with the Underlying Assets and Eligible Investments, including in connection with an offer or default, participating in committees or other groups formed by creditors of an issuer of Underlying Assets. Such expenses will be paid by the Issuer.

The Collateral Manager will not be liable to the Issuers, the Trustee, the Noteholders, any Interest Rate Swap Counterparty or any of their respective affiliates, partners, shareholders, officers, directors, employees, consultants, agents, accountants and attorneys for any losses, damages, claims, liabilities, costs or expenses (including attorney's fees and expenses) incurred as a result of the actions taken or omitted or recommended by or on behalf of the Collateral Manager under the Management Agreement or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties and obligations thereunder. The Collateral Manager and its Affiliates and each of their respective partners, shareholders, members, officers, directors, managers, employees, consultants, agents, accountants and attorneys will be entitled to indemnification by the Issuer under

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certain circumstances (as specified in the Management Agreement), which will be paid in accordance with the Priority of Payments.

The Collateral Manager may not assign its rights or responsibilities under the Management Agreement without the consent of the Issuer and the holders of a majority in aggregate principal amount of Notes of the Controlling Class and upon satisfaction of the Rating Condition, except that pursuant to the Management Agreement the Collateral Manager may assign all of its rights and responsibilities thereunder (without thereby being relieved of any of its duties or obligations) to an Affiliate without the consent of the Issuer, the Trustee but, so long as any Class A-1 Notes remain outstanding, subject to the consent of the Controlling Class. In addition, the Collateral Manager may, pursuant to the Management Agreement, enter into arrangements pursuant to which its Affiliates or third parties may perform certain services on behalf of the Collateral Manager, but such arrangements shall not relieve the Collateral Manager from any of its duties or obligations thereunder.

The Collateral Manager may resign upon 60 days' prior written notice to the Issuer and the Trustee, *provided* that (a) no such resignation shall be effective unless a Replacement Manager is appointed as described below and (b) the Collateral Manager shall have the right to resign immediately if, due to a change in applicable law or regulation, the performance by the Collateral Manager of its duties under the Indenture or the Management Agreement would be a violation of such law or regulation.

The Management Agreement provides that the Collateral Manager may at any time be removed for "cause" (as defined in the Management Agreement) upon 15 Business Days' prior written notice by the Issuer, which will effect such removal at the direction of holders of at least 66 2/3% in aggregate outstanding principal amount of the holders of the Controlling Class (voting as a separate class) and the holders of at least 66 2/3% of Preference Shares. In determining whether a specified percentage of holders of Notes or Preference Shares has directed any such removal as described above or given any objection to a successor Collateral Manager as described below, Collateral Manager Securities will be excluded.

For purposes of the Management Agreement, "**cause**" means any of the following events:

(a) the Collateral Manager willfully breaches, or takes any action that it knows violates, any provision of the Management Agreement or any term of the Indenture applicable to it or causes an Event of Default under the Indenture (not including a willful breach or knowing violation that results from a good faith dispute on alternative courses of action or interpretation of instructions);

(b) the Collateral Manager breaches in any material respect any provision, including a representation or warranty, of the Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 30 days after written notice of such failure is received by the Collateral Manager unless, if such failure is remediable, the Collateral Manager has taken action that the Collateral Manager in good faith believes will remedy, and that does in fact remedy, such failure within 90 days after written notice of such failure is received by the Collateral Manager;

(c) the Collateral Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or takes advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian,

receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property or (v) is adjudicated as insolvent or is to be liquidated;

(d) the Class A-1 OC Ratio falls below 100%;

(e) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Management Agreement; or

(f) the indictment of the Collateral Manager or any of the Collateral Manager's senior portfolio management staff who have direct supervisory responsibility for the management of the Collateral, and who continue to have involvement with the Collateral Manager's performance under the Management Agreement for a period of 30 days following such indictment for a criminal felony offense materially related to the Collateral Manager's investment advisory business relating to collateralized debt obligation transactions.

No removal, termination or resignation of the Collateral Manager or termination of the Management Agreement shall be effective unless (a) a successor Collateral Manager (the **"Replacement Manager"**) has agreed in writing to assume all of the Collateral Manager's duties and obligations, including its duties and responsibilities as the Auction Agent, (b) the Replacement Manager is not objected to by holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such vote any Collateral Manager Securities) within 30 days after notice and (c) the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager; *provided, however*, that at any time when an Event of Default shall have occurred and be continuing under the Indenture and the Collateral Manager shall have resigned or been removed under the circumstances set forth above, the holders of a Majority of the Notes of the Controlling Class may appoint a successor Collateral Manager (if the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager).

In addition, no removal or resignation of the Collateral Manager while any Note or Preference Share is outstanding will be effective until the appointment by the Issuer of a Replacement Manager that is an established institution which (a) is legally qualified and has the capacity to act as Collateral Manager under the Management Agreement as successor to the Collateral Manager in the assumption of all of the responsibilities, duties and obligations of the Collateral Manager under the Management Agreement and under the applicable terms of the Indenture, including its duties and responsibilities as the Auction Agent, and (b) will not cause the Issuer or the pool of Collateral to become required to register as an investment company under the provisions of the Investment Company Act. The Indenture provides that if holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such votes the Collateral Manager Securities if the proposed Replacement Manager is an Affiliate of the Collateral Manager) object to a proposed Replacement Manager within 30 days after such notice (the **"First Period"**), the Trustee shall notify the holders of the Notes and Preference Shares that such Replacement Manager has been rejected. Such notice shall state that a Majority-in-Interest of Preference Shareholders may nominate a successor Collateral Manager within 60 days after the termination of the First Period (the **"Second Period"**) and specify a date (not more than 20 days after the end of the First Period), time and place for a meeting (which meeting may be held telephonically) at which the Preference Shareholders may nominate (if necessary, by a majority vote of the Preference Shareholders present at such meeting) not more than two proposed successor Collateral Managers (which proposed successor Collateral Managers shall meet the requirements of a Replacement Manager specified in the Management Agreement). The Trustee shall notify each Preference Shareholder and Noteholder of the successor Collateral Managers proposed at such meeting and request that each Preference Shareholder and Noteholder, by notice given to the

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Trustee not later than 20 days after such meeting, select a successor Collateral Manager (if there are two proposed successor Collateral Managers) or approve such proposed Collateral Manager (if only one successor Collateral Manager is proposed). If such a successor Collateral Manager is objected to by a Majority-in-Interest of Preference Shareholders or by the Holders of 66 2/3% in aggregate principal amount of any Class of Notes, the Trustee shall notify each Holder of a Preference Share of the failure to appoint a successor Collateral Manager and specify a date (prior to the end of the Second Period), time and place for a meeting (which meeting may be held telephonically) at which a Majority-In-Interest of the Preference Shareholders present (so long as holders of at least 66 2/3% of the Preference Shares are represented at such meeting) may appoint a successor Collateral Manager. The Collateral Manager Securities shall be excluded from the determination of whether 66 2/3% in aggregate principal amount of any Class of Notes or a Majority-in-Interest of Preference Shareholders for appointing or approving (or objecting to) a successor Collateral Manager has been obtained, except that for purposes of appointing or approving a successor Collateral Manager that is not an Affiliate of the Collateral Manager, the Notes and Preference Shares which are Collateral Manager Securities shall be included in determining whether the Noteholders and Preference Shareholders have selected or approved (or objected to) such successor Collateral Manager. In the event that a successor to the Collateral Manager is not appointed within 90 days after its resignation or removal, the Issuer or the Collateral Manager may petition a court to appoint a successor, without obtaining the approval of the Holders of the Notes and the Preference Shares.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the Management Agreement (a) upon the occurrence of an Event of Default until such time, if any, as such Event of Default is cured or waived, (b) upon the termination of the Collateral Manager in accordance with the Management Agreement or (c) upon a material default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuer under the Indenture or in any certificate or writing delivered pursuant thereto or made in connection therewith which proves to be incorrect in any material respect when made if (i) holders of at least 50% in aggregate outstanding principal amount of the Notes of any Class, Preference Shareholders whose aggregate Voting Percentages are at least 50% of all Preference Shareholders' Voting Percentages or any Interest Rate Swap Counterparty gives notice of such default or breach to the Trustee and the Collateral Manager or (ii) the Collateral Manager, Issuer or Co-Issuer has actual knowledge of such default or breach, and in either case, such default or breach (if remediable) continues for a period of 30 days.

In certain circumstances, the interests of the Issuer and/or the holders of the Notes with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager and its Affiliates. See "Risk Factors—Certain Conflicts of Interest."

DEUTSCHE BANK AKTIENGESELLSCHAFT

Incorporation, Registered Office and Objectives

Deutsche Bank Aktiengesellschaft (**"Deutsche Bank"** or the **"Bank"**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real-estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the **"Deutsche Bank Group"**).

The objects of Deutsche Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. The Bank may realise these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, the Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of the Bank, in particular: to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude company-transfer agreements.

Deutsche Bank AG, London Branch

"Deutsche Bank AG London" is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorized person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions.

Share Capital

As of 30 September 2006, Deutsche Bank's issued share capital amounted to Euro 1,334,735,508.48 consisting of 521,381,058 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the New York Stock Exchange. The Management Board has decided to pursue delisting on certain stock exchanges other than Germany and New York in order to benefit from the integration of financial markets. In respect of the stock exchanges Amsterdam, Brussels, London, Luxembourg, Paris, Vienna, Zurich and Tokyo, this decision has completely been implemented.

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Capitalisation and Indebtedness of Deutsche Bank Group

As of 30 September 2006, Deutsche Bank Group's capitalisation and indebtedness (unaudited) on the basis of United States Generally Accepted Accounting Principles (**"U.S. GAAP"**) was as follows:

	As of
	30 September 2006
	(in Euro million)
Noninterest-bearing deposits	26,992
Interest-bearing deposits	348,703
Total deposits	375,695
Bonds and other fixed-income securities	92,042
Equity shares and other variable-yield securities	45,048
Negative market values from derivative financial instruments	93,786
Total trading liabilities	230,876
Central bank funds purchased and securities sold under repurchase agreements	192,739
Securities loaned	12,876
Other short-term borrowings	29,485
Other liabilities	93,631
Long-term debt	126,788
Obligation to purchase common shares	3,406
Total liabilities	**1,065,496**
Common shares, no par value, nominal value of Euro 2.56 Issued: Sep 30, 2006: 521.4 million shares; Dec 31, 2005: 554.5 million shares	1,335
Additional paid-in capital	14,009
Retained earnings	23,233
Common shares in treasury, at cost	
Sep 30, 2006: 24.5 million shares; Dec 31, 2005: 49.0 million shares	(2,205)
Equity classified as obligation to purchase common shares	(3,406)
Accumulated other comprehensive income (loss)	
Deferred tax on unrealized net gains on securities available for sale relating to 1999 and 2000 tax rate changes in Germany	(2,165)
Unrealized net gains on securities available for sale, net of applicable tax and other	2,169
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax	(38)
Minimum pension liability, net of tax	(8)
Foreign currency translation, net of tax	(1,874)
Total accumulated other comprehensive loss	**(1,916)**
Total shareholders' equity	**31,050**
Total liabilities and shareholders' equity	**1,096,546**

There has been no material change in Deutsche Bank Group's capitalisation and indebtedness since 30 September 2006.

Management

In accordance with German law, Deutsche Bank has both a **Supervisory Board** *(Aufsichtsrat)* and a **Management Board** *(Vorstand).* These Boards are separate; no individual may be a member of both. The Supervisory Board appoints the members of the Management Board and supervises the activities of this Board. The Management Board represents Deutsche Bank and is responsible for its management of its affairs.

The **Management Board** consists of

Dr. Josef Ackermann	Chairman of the Management Board (Chief Executive Officer)
Dr. Hugo Banziger	Chief Risk Officer (CRO)
Anthony Di Iorio	Chief Financial Officer (CFO)
Dr. Tessen von Heydebreck	Chief Administrative Officer (CAO)
Hermann-Josef Lamberti	Chief Operating Officer (COO)

The **Supervisory Board** consists of the following 20 members:

Dr. Clemens Boersig	Chairman Frankfurt am Main
Heidrun Förster*	Deputy Chairperson Deutsche Bank Privat- und Geschäftskunden AG Berlin
Dr. Karl-Gerhard Eick	Deputy Chairman of the Board of Managing Directors of Deutsche Telekom AG Cologne
Ulrich Hartmann	Chairman of the Supervisory Board of E.ON AG Düsseldorf
Gerd Herzberg*	Vice President of ver.di Vereinte Dienstleistungsgewerkschaft Berlin
Sabine Horn*	Deutsche Bank AG Frankfurt am Main
Rolf Hunck*	Deutsche Bank AG Hamburg
Sir Peter Job	London
Prof. Dr. Henning Kagermann	Chairman and CEO of SAP AG Walldorf/Baden

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Ulrich Kaufmann*	Deutsche Bank AG Düsseldorf
Peter Kazmierczak*	Deutsche Bank AG Essen
Maurice Lévy	Chairman and Chief Executive Officer, Publicis Groupe S.A. Paris
Henriette Mark*	Deutsche Bank AG Munich
Dr. jur. Dr.-Ing. E.h. Heinrich von Pierer	Chairman of the Supervisory Board of Siemens AG Erlangen
Gabriele Platscher*	Deutsche Bank Privat- und Geschäftskunden AG Braunschweig
Karin Ruck*	Deutsche Bank AG Bad Soden am Taunus
Prof. Dr. Theo Siegert	Managing Director of the Haen Carstanjen & Söhne Düsseldorf
Tilman Todenhöfer	Managing Partner of Robert Bosch Industrietreuhand KG Stuttgart
Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber	Chairman of the Supervisory Board of Deutsche Lufthansa AG Hamburg
Leo Wunderlich*	Deutsche Bank AG Mannheim

* Elected by the staff in Germany.

The members of the Management Board accept membership on the Supervisory Boards of other corporations within the limits prescribed by law.

The business address of each member of the Management Board and of the Supervisory Board of Deutsche Bank is Taunusanlage 12, 60325 Frankfurt am Main, Germany.

Financial Year

The financial year of Deutsche Bank is the calendar year.

Auditors

The independent auditors of Deutsche Bank are KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG"**), Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany. KPMG audited Deutsche Bank's non-consolidated financial statements for the years

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ended 31 December 2003, 2004 and 2005, which were prepared in accordance with the German Commercial Code (**"HGB"**). In accordance with § 292a HGB HGB in the version effective until 9 December 2004 in connection with Article 2 of the Accounting Law Reform Act (Bilanzrechtsreformgesetz –BilReG) and Article 57 of the Introductory Act for the German Commercial Code (EGHGB), the consolidated financial statements for the years ended 31 December 2003, 2004 and 2005 were prepared in accordance with United States Generally Accepted Accounting Principles (**"U.S. GAAP"**) and audited by KPMG. In each case an unqualified auditor's certificate has been provided.

Litigation

Other than set out herein Deutsche Bank is not, or during the last two financial years has not been involved (whether as defendant or otherwise) in, nor does it have knowledge of any threat of any legal, arbitration, administrative or other proceedings the result of which may have, in the event of an adverse determination, a significant effect on its financial condition presented in this offering document.

IPO Allocation Litigation

Deutsche Bank Securities Inc. (**"DBSI"**), our U.S. broker-dealer subsidiary and its predecessor firms, along with numerous other securities firms, have been named as defendants in over 80 putative class action lawsuits pending in the United States District Court for the Southern District of New York. These lawsuits allege violations of securities and antitrust laws in connection with the allocation of shares in a large number of initial public offerings (**"IPOs"**) by issuers, officers and directors of issuers, and underwriters of those securities. DBSI is named in these suits as an underwriter. The securities cases allege material misstatements and omissions in registration statements and prospectuses for the IPOs and market manipulation with respect to aftermarket trading in the IPO securities. Among the allegations are that the underwriters tied the receipt of allocations of IPO shares to required aftermarket purchases by customers and to the payment of undisclosed compensation to the underwriters in the form of commissions on securities trades, and that the underwriters caused misleading analyst reports to be issued. The antitrust claims allege an illegal conspiracy to affect the stock price based on similar allegations that the underwriters required aftermarket purchases and undisclosed commissions in exchange for allocation of IPO stocks. In the securities cases, the motions to dismiss the complaints of DBSI and others were denied on February 13, 2003. Plaintiffs' motion to certify six "test" cases as class actions in the securities cases was granted on October 13, 2004. On December 5, 2006 the Court of Appeals for the Second Circuit vacated the decision and held that the six cases could not be certified as class actions. In the putative antitrust class action, the defendants' motion to dismiss the complaint was granted on November 3, 2003. On September 28, 2005, the Court of Appeals for the Second Circuit vacated the ruling and remanded the case to the lower court for consideration of alternate grounds for dismissal. On December 7, 2006, the U.S. Supreme Court agreed to hear defendants´ appeal of the Second Circuit ruling.

Enron Litigation

Deutsche Bank AG and certain of its affiliates are collectively involved in a number of lawsuits arising out of their banking relationship with Enron Corp., its subsidiaries and certain Enron-related entities (**"Enron"**). These lawsuits include a class action brought on behalf of shareholders of Enron, captioned *Newby v. Enron Corp.* which purported to allege claims against, among others, Deutsche Bank AG and certain of its affiliates under federal securities laws. On June 5, 2006, the Court dismissed all of the claims in the *Newby* action against Deutsche Bank AG and its affiliates. On June 21, 2006, Lead Plaintiff in *Newby* filed a motion requesting the Court to reconsider the dismissal of Deutsche Bank AG and its affiliates from *Newby*. On February 8, 2007, the Court denied Lead Plaintiff's motion for reconsideration.

Also, an adversary proceeding has been brought by Enron in the bankruptcy court against, among others, Deutsche Bank AG and certain of its affiliates. In this proceeding, Enron seeks damages from the Deutsche Bank entities under various common law theories, seeks to avoid certain transfers to the

Deutsche Bank entities as preferential or fraudulent, and seeks to subordinate certain of the claims made by the Deutsche Bank entities in the Enron bankruptcy.

In addition to *Newby* and the adversary proceeding described above, there are individual actions brought in various courts by Enron investors and creditors alleging federal and state law claims against Deutsche Bank AG and certain of its affiliates.

WorldCom Litigation

Deutsche Bank AG and DBSI were defendants in more than 40 actions filed in federal and state courts arising out of alleged material misstatements and omissions in the financial statements of WorldCom Inc. DBSI was a member of the syndicate that underwrote WorldCom's May 2000 and May 2001 bond offerings, which are among the bond offerings at issue in the actions. Deutsche Bank AG, London branch was a member of the syndicate that underwrote the sterling and euro tranches of the May 2001 bond offering. Plaintiffs were alleged purchasers of these and other WorldCom debt securities. The defendants in the various actions included certain WorldCom directors and officers, WorldCom's auditor and members of the underwriting syndicates for the debt offerings. Plaintiffs alleged that the offering documents contained material misstatements and/or omissions regarding WorldCom's financial condition. The claims against DBSI and Deutsche Bank AG were made under federal and state statutes (including securities laws), and under various common law doctrines. The largest of the actions against Deutsche Bank AG and DBSI was a class action litigation in the U.S. District Court in the Southern District of New York, in which the class plaintiffs are the holders of a significant majority of the bonds at issue. On March 10, 2005, Deutsche Bank AG and DBSI reached a settlement agreement, subject to court approval, resolving the class action claims asserted against them, for a payment of approximately U.S.$325 million. The settlement of the class action claims did not resolve the individual actions brought by investors who chose to opt out of the federal class action. The financial effects of the class action settlement are reflected in our 2004 consolidated financial statements. All of the individual actions have been resolved.

Tax-Related *Products*

Deutsche Bank AG, along with certain affiliates, and current and former employees (collectively referred to as **"Deutsche Bank"**), have collectively been named as defendants in a number of legal proceedings brought by customers in various tax-oriented transactions. Deutsche Bank provided financial products and services to these customers, who were advised by various accounting, legal and financial advisory professionals. The customers claimed tax benefits as a result of these transactions, and the United States Internal Revenue Service has rejected those claims. In these legal proceedings, the customers allege that, together with Deutsche Bank, the professional advisors improperly misled the customers into believing that the claimed tax benefits would be upheld by the Internal Revenue Service. The legal proceedings are pending in numerous state and federal courts and in arbitration, and claims against Deutsche Bank are alleged under both U.S. state and federal law. Many of the claims against Deutsche Bank are asserted by individual customers, while others are asserted on behalf of a putative customer class. No litigation class has been certified as against Deutsche Bank. Approximately 54 legal proceedings have been resolved and dismissed with prejudice as against Deutsche Bank. Approximately 30 other legal proceedings remain pending as against Deutsche Bank and are currently at various pre-trial stages, including discovery.

The United States Department of Justice (**"DOJ"**) is also conducting a criminal investigation of tax-oriented transactions that were executed from approximately 1997 through 2001. In connection with that investigation, DOJ has sought various documents and other information from Deutsche Bank and has been investigating the actions of various individuals and entities, including Deutsche Bank, in such transactions. In the latter half of 2005, DOJ brought criminal charges against numerous individuals based on their participation in certain tax-oriented transactions while employed by entities other than Deutsche Bank. In the latter half of 2005, DOJ also entered into a Deferred Prosecution Agreement with an accounting firm (the **"Accounting Firm"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Accounting Firm based on its participation in certain tax-oriented transactions

provided that the Accounting Firm satisfied the terms of the Deferred Prosecution Agreement. On February 14, 2006, DOJ announced that it had entered into a Deferred Prosecution Agreement with a financial institution (the **"Financial Institution"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Financial Institution based on its role in providing financial products and services in connection with certain tax-oriented transactions provided that the Financial Institution satisfied the terms of the Deferred Prosecution Agreement. Deutsche Bank provided similar financial products and services in certain tax-oriented transactions that are the same or similar to the tax oriented transactions that are the subject of the above-referenced criminal charges. Deutsche Bank also provided financial products and services in additional tax-oriented transactions as well. DOJ's criminal investigation is on-going.

In the Matter of KPMG LLP Certain Auditor Independence Issues

On November 20, 2003, the SEC requested Deutsche Bank to produce certain documents in connection with an ongoing investigation of certain auditor independence issues relating to KPMG LLP. Deutsche Bank is cooperating with the SEC in its inquiry. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG DTG"**), a KPMG LLP affiliate, is Deutsche Bank's auditor. Aspects of this investigation appear to involve certain tax-oriented transactions among those at issue in the tax-related litigation described above, where Deutsche Bank provided financial products and services and a KPMG LLP affiliate advised the investors. During all relevant periods, including the present, KPMG DTG has confirmed to Deutsche Bank that KPMG DTG was and is "independent" from Deutsche Bank under applicable accounting and SEC regulations.

Kirch Litigation

In May 2002, Dr. Leo Kirch personally and as an assignee initiated legal action against Dr Breuer and Deutsche Bank AG alleging that a statement made by Dr. Breuer (then the Spokesman of Deutsche Bank's Management Board) in an interview with Bloomberg television on February 4, 2002 regarding the Kirch Group was in breach of laws and financially damaging to Kirch. On January 24, 2006 the German Federal Supreme Court sustained the action for the declaratory judgment only in respect of the claims assigned by the PrintBeteiligungs GmbH. Such action does not require a proof of any loss caused by the statement made in the interview. PrintBeteiligungs GmbH is the only company of the Kirch Group which was a borrower of Deutsche Bank. Claims by Kirch personally and by the group holding company, TaurusHolding GmbH & Co. KG, were dismissed. To be awarded a judgment for damages against Deutsche Bank AG, Dr. Kirch would have to file a new lawsuit; in such proceedings he would have to prove that the statement caused financial damages to PrintBeteiligungs GmbH and the amount thereof. Deutsche Bank received a letter claiming damage in the amount of Euro 1.4 billion plus interest. In this letter the causality in respect of basis and scope of damage was not substantiated.

In 2003 Dr. Kirch instituted legal action in the Supreme Court of the State of New York in which he seeks the award of compensatory and punitive damages based upon Dr. Breuer's interview. Upon introduction of additional plaintiffs and defendants and referral to the U.S. District Court for the Southern District of New York, the case was dismissed on September 24, 2004. The plaintiffs appealed this decision. On June 5, 2006, the U.S. Court of Appeals for the Second Circuit partly confirmed the dismissal of the claims and otherwise remanded the case to the court of first instance to decide for the remaining claims the issues of forum non conveniens or res judicata. Thereafter the U.S. District Court for the Southern District of New York dismissed the case on the basis of forum non conveniens. The dismissal has become res judicata.

On December 31, 2005 the KGL Pool GmbH filed a lawsuit against Deutsche Bank and Dr. Breuer. The lawsuit is based on alleged claims assigned from various subsidiaries of the former Kirch Group. The KGL Pool GmbH is also a plaintiff in the above mentioned case in the USA and seeks a declaratory judgment to the effect that Deutsche Bank AG and Dr. Breuer are jointly and severally liable for damages as a result of the interview statement and the behaviour of Deutsche Bank in respect of several subsidiaries of the Kirch Group. Deutsche Bank received a letter claiming damage in the amount of Euro 2 billion plus interest. In this letter the causality in respect of basis and scope of damage was not substantiated.

Philipp Holzmann AG

Philipp Holzmann AG (**"Holzmann"**) is a major German construction firm which filed for insolvency in March 2002. Deutsche Bank had been a major creditor bank and holder of an equity interest of Holzmann for many decades, and, from April 1997 until April 2000, a former member of Deutsche Bank AG's Management Board was the Chairman of its Supervisory Board. When Holzmann had become insolvent at the end of 1999, a consortium of banks led by Deutsche Bank participated in late 1999 and early 2000 in a restructuring of Holzmann that included the banks' extension of a credit facility, participation in a capital increase and exchange of debt into convertible bonds. The restructuring package amounted to about Euro 1.6 billion in which Deutsche Bank participated with Euro 547 million. In March 2002, Holzmann and several of its subsidiaries, including in particular imbau Industrielles Bauen GmbH (**"imbau"**), filed for insolvency. As a result of this insolvency, the administrators for Holzmann and for imbau and a group of bondholders have informed Deutsche Bank they are asserting claims against it because of its role as lender to the Holzmann group prior to and after the restructuring and as leader of the consortium of banks which supported the restructuring. The purported claims include claims that amounts repaid to the banks constituted voidable preferences that should be returned to the insolvent entities and claims of lender liability resulting from the banks' support for an allegedly infeasible restructuring. Although Deutsche Bank is in ongoing discussions, several parties filed lawsuits against it.

The administrator for imbau filed a lawsuit against Deutsche Bank in August 2004 alleging that payments (including interest) of Euro 77 million. received by Deutsche Bank in respect of a loan extended to imbau until 1998 and in connection with a real estate transaction that was part of the restructuring constituted voidable preferences that should be returned to the insolvent entity. Several bondholders filed a lawsuit against Deutsche Bank in December 2005 seeking damages of Euro 53 million because of its allegedly unlawful support of Holzmann's 1999/2000 restructuring. Additionally, Gebema N.V. filed a lawsuit in 2000 seeking compensation for alleged damages of Euro 187 million against Deutsche Bank alleging deficiencies in the offering documents based on which Gebema N.V. had invested in equity and convertible bonds of Holzmann in 1998.

Parmalat Litigation

Following the bankruptcy of the Italian company Parmalat, the Special Administrator of Parmalat, Mr. Enrico Bondi, is suing Deutsche Bank for damages totaling Euro 2.2 billion for facilitating the insolvency offense of delaying the filing of a petition in insolvency allegedly committed by Parmalat's former management and supervisory board. There are two separate complaints and they allege that by managing and/or underwriting the issuance of Parmalat bonds in 2003 and entering into certain derivative transactions, Deutsche Bank assisted Parmalat by providing liquidity in order to enable Parmalat to meet its short term liabilities/obligations. It is alleged that Deutsche Bank knowingly helped Parmalat to continue its business for several months until December 2003, despite being aware of the true financial situation of the company. Parmalat reserves the right to increase the amount of damages sought. The damages currently requested are, it is claimed, equal to the loss creditors of Parmalat incurred in the second half of 2003.

Also in connection with the Parmalat insolvency, Mr. Bondi has already brought two claw-back actions for a total of Euro 177 million against Deutsche Bank SpA.

General

Due to the nature of its business, Deutsche Bank and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in Germany and in a number of jurisdictions outside Germany, including the United States, arising in the ordinary course of its businesses. In accordance with applicable accounting requirements, Deutsche Bank Group provides for potential losses that may arise out of contingencies, including contingencies in respect of such matters, when the potential losses are probable and estimable. Contingencies in respect of legal matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Significant judgment is required in assessing probability and making estimates in respect of contingencies, and Deutsche Bank's final liabilities may ultimately be

materially different. The total liability of the Group recorded in respect of litigation, arbitration and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case, its experience and the experience of others in similar cases, and the opinions and views of legal counsel. Predicting the outcome of litigation matters is inherently difficult, particularly in cases in which claimants seek substantial or indeterminate damages. Although the final resolution of any such matters could have a material effect on the Group's consolidated operating results for a particular reporting period, the Group believes that it should not materially affect its consolidated financial position. In respect of each of the matters specifically described above, each of which consists of a number of claims, it is the Group's belief that the reasonably possible losses relating to such claim in excess of its provisions are either not material or not estimable.

Recent Developments and Outlook

On 1 February 2006 the Supervisory Board of Deutsche Bank extended the appointments of Management Board members Dr. Josef Ackermann and Dr. Tessen von Heydebreck until the general meeting following their 62nd birthdays. Dr. Ackermann's contract will therefore run until the end of the Annual General Meeting in 2010; Dr. von Heydebreck's until the end of the Annual General Meeting in 2007.

With immediate effect the Supervisory Board has also appointed Dr. Ackermann as Chairman of the Management Board (Chief Executive Officer). Henceforth the Management Board of Deutsche Bank will be headed by a chairman who is appointed by the Supervisory Board. Deutsche Bank is thus conforming to national and international practice in the appointment of its Management Board.

On 2 February 2006, Deutsche Bank published the preliminary and unaudited key figures for the fourth quarter and the full year 2005 for its consolidated group.

On 9 March 2006, Deutsche Bank announced that some of the previously published preliminary and unaudited key figures were adjusted as a result of subsequent events after 2 February 2006. Deutsche Bank also stated that the adjusted amounts will be reflected in Deutsche Bank's 2005 Annual Report.

On 23 March 2006, Deutsche Bank published its 2005 Annual Report.

On 1 June 2006, the Annual General Meeting of Deutsche Bank decided that a dividend of EUR 2.50 per share shall be paid for the 2005 financial year. This is an increase of 47 per cent compared with the previous year, when a dividend of EUR 1.70 per share was paid.

On 1 November 2006, Deutsche Bank published its interim report for the third quarter 2006. Deutsche Bank reported income before income taxes of EUR 1.8 billion, and net income of EUR 1.2 billion, for the third quarter 2006. Reported pre-tax return on average active equity was 27%. Per the bank's target definition, which excludes restructuring charges and substantial gains on sale of industrial holdings, pre-tax return on average active equity was 26%, equal to the prior year quarter, while diluted earnings per share for the quarter were EUR 2.45, compared to EUR 1.89 in the prior year quarter.

For the first nine months of 2006, income before income taxes was EUR 6.3 billion. Reported pre-tax return on average active equity was 32%. Pre-tax return on average active equity, per target definition, was also 32%, compared to 28% in the first nine months of 2005. Net income was EUR 4.2 billion, up 37% versus the prior year period. Diluted earnings per share for the first nine months were EUR 8.11, compared to EUR 5.95 in the prior year period.

The publication of the preliminary results for the financial year 2006 is scheduled for 1 February 2007.

Confidential Treatment Requested

Changes to the Supervisory Board and Management Board

On 2 April 2006, at an extraordinary meeting of the Supervisory Board of Deutsche Bank, Dr Rolf-E. Breuer, Chairman of the Supervisory Board, declared his resignation from the Board, effective 3 May 2006. Dr Breuer said he was stepping down from the Supervisory Board to relieve Deutsche Bank of further discussion regarding him personally following a decision by the German Supreme Court on 24 January 2006. The Supervisory Board accepted Dr Breuer's decision with regret but expressed its respect for his action and thanked him for his valuable work as Chairman and as a long time member of the Management Board, including as Spokesman of the Management Board. Dr Breuer will continue to represent Deutsche Bank in a number of select capacities.

After careful consideration, the Supervisory Board, in agreement with Dr Clemens Boersig, formerly Deutsche Bank's Chief Financial Officer, came to the conclusion that Dr Boersig should move to the Supervisory Board and become its Chairman. As a result, Dr Boersig stepped down from the bank's Management Board at the close of business on 3 May 2006. Dr Boersig had been appointed as a member of the Deutsche Bank Supervisory Board by the Frankfurt Local Court and had been elected as Chairman of the Supervisory Board, effective 4 May 2006. On 1 June 2006, Dr Boersig has been elected to the Supervisory Board by the Annual General Meeting of Deutsche Bank and has been elected as Chairman of the Supervisory Board. The Supervisory Board is convinced that the Chair of the Supervisory Board can only be transferred to someone who, through personal and senior managerial experience, is familiar with the complex nature of a bank with global operations.

In addition, the Supervisory Board has appointed Anthony Di Iorio and Dr Hugo Banziger as new members of the Management Board, effective 4 May 2006. Di Iorio, formerly Group Controller, has assumed the position of Chief Financial Officer while Dr Banziger, formerly Chief Risk Officer for Credit and Operational Risk, has become Chief Risk Officer.

Share buyback program

At the Annual General Meeting on 1 June 2006, Deutsche Bank's shareholders renewed the authorization to buy back up to 10 per cent of shares issued, replacing last year's Annual General Meeting authorization. As a result, the Management Board decided to conclude the current program and to continue share buybacks under the scope of the new buyback program with immediate effect.

Within the concluded share buyback program, which was launched in the third quarter 2005, a total of 35,846,000 shares, or 6.5 per cent of the share capital as at the last Annual General Meeting, had been repurchased at an average price of EUR 87.00, for a total consideration of EUR 3.12 billion. The current inventory in own shares within the buyback program amounts to 18.9 million shares, or 3.6 per cent of shares issued. This inventory is a result of the 33 million shares held at the time of the Annual General Meeting in 2005 plus the repurchases of the concluded program. Thereof, 40 million shares were cancelled in February 2006 and roughly 10 million shares were used to hedge share awards.

Under the new program Deutsche Bank may buy back up to 10 per cent of shares issued, i.e. up to 51,913,234 shares, by 31 October 2007. Deutsche Bank reserves the right to suspend the program in favor of strategic growth initiatives.

The buybacks will again be executed systematically by direct purchases of shares in the spot market and potentially through the use of derivatives. Deutsche Bank intends to use the repurchased shares not only to further reduce its share capital but also to support potential future equity-based compensation programs. The bank also reserves the option to use the repurchased shares for other purposes in accordance with the authorization granted at the Annual General Meeting.

All transactions will be managed in such a way that Deutsche Bank's core capital ratio will not fall below the target range of eight to nine percent. The bank will regularly publish information on the progress of the buyback program.

Confidential Treatment Requested

Other

In February 2003, the Düsseldorf Prosecutor filed charges against Dr. Ackermann and other former members of the Supervisory Board, members of the Management Board and one manager of Mannesmann AG at the Düsseldorf District Court (*Landgericht Düsseldorf*). The complaint alleges a breach of trust in connection with payments to former members of the Management Board and other managers of Mannesmann AG following the takeover of Mannesmann by Vodafone in spring 2000. On 22 July 2004 the Düsseldorf District Court acquitted every defendant of such charges. The Düsseldorf Prosecutor filed a notice of appeal to the Federal Supreme Court (*Bundesgerichtshof*). On 21 December 2005 the Federal Supreme Court ordered a retrial at the Düsseldorf District Court. On 29 November 2006 the Düsseldorf District Court agreed to discontinue the court proceedings and ordered the defendants to make non-penal payments. No findings of guilt result from this decision.

TAX CONSIDERATIONS

United States Tax Considerations

General

To ensure compliance with Internal Revenue Service Circular 230, investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Offering Circular is not intended or written to be used, and cannot be used, by investors for the purpose of avoiding penalties that may be imposed on them under the Code; (b) such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes by purchasers that acquire their Notes in the initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings, and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the **"IRS"**) with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor, nor does it address the United States federal income tax considerations applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), financial institutions, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities, currencies or notional principal contracts, persons that own (or are deemed to own) 10% or more of the voting shares (or interests treated as equity) of the Issuer, partnerships, pass-through entities or persons who hold the Notes through partnerships or pass-through entities, S corporations, estates and trusts, investors that hold their Notes as part of a hedge, straddle, synthetic security or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences, or the indirect effects on investors of equity interests in either a U.S. Holder (as defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold their Notes as "capital assets" within the meaning of Section 1221 of the Code. Investors should consult their own tax advisors to determine the United States federal, state, local, and other tax consequences of the purchase, ownership, and disposition of the Notes.

As used herein, **"U.S. Holder"** or means a beneficial holder of a Note that is an individual citizen or resident of the United States for United States federal income tax purposes, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust for which a court within the United States is able to exercise primary supervision over its administration and for which one or more United States persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. **"Non-U.S. Holder"** means any holder (or beneficial holder) of a Note that is not a U.S. Holder. If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult their own tax advisors.

U.S. Federal Income Tax Consequences to the Issuer

Upon the issuance of the Notes, Allen & Overy LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Collateral Manager, although the matter is not free from doubt, the Issuer will not be engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a U.S. trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a trade or business, among other consequences, the Issuer would be subject to net income taxation in the United States (as well as the branch profits tax) on its income. The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes.

The Issuer intends to acquire the Underlying Assets, the interest on which, and any gain from the Disposition thereof, is expected not to be subject to United States federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Underlying Assets and, thus, there can be no absolute assurance that in every case, payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur United States withholding tax on interest received from a related United States person.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that will be subject to United States withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer shall be under no obligation to make any additional payments to any holder in respect of such withholding or deduction.

Notwithstanding the foregoing, any commitment fee, facility fee and similar fee that the Issuer earns may be subject to a 30% withholding tax and any lending fees received under a securities lending agreement may also be subject to withholding tax.

Classification of the Notes

The Issuer has agreed and, by its acceptance of a Note, each Noteholder will be deemed to have agreed, to treat each of the Notes as debt of the Issuer for United States federal income tax purposes, unless required by law. Upon the issuance of the Notes, Allen & Overy LLP will deliver an opinion generally to the effect that assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Initial Purchaser, the Notes, when issued, will be characterized as debt of the Issuer for United States federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS, and there can be no assurance that the IRS will not seek to characterize any Class of Notes as other than indebtedness. Except as provided under "—Alternative Characterization of the Notes," below, the balance of this discussion assumes that the Notes will be characterized as debt of the Issuer for United States federal income tax purposes unless required by law.

For United States federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

Payments of Interest on the Notes.

Generally, stated interest on a Note that is considered "unconditionally payable" (as described below) will be ordinary income taxable to a U.S. Holder when received or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. Such interest income will be treated as foreign source income for foreign tax credit purposes. If the "stated redemption price at maturity" (**"SRPM"**) of a Note exceeds the "issue price" of such Note by more than a "de minimis amount," then the excess of SRPM over the issue price may constitute original issue discount (**"OID"**). The SRPM of a debt instrument is generally the sum of all payments provided by the debt instrument other than "qualified stated interest" payments. The issue price is the first price at which a substantial amount of a debt instrument is sold to the public. The de minimis amount is any amount less than one-fourth of one percent of a debt instrument's SRPM multiplied by the number of complete years to maturity. Qualified stated interest is generally interest paid on a debt instrument that is unconditionally payable at least annually at a single fixed rate.

The Treasury Regulations provide that, for purposes of determining whether a debt instrument is issued with OID, stated interest must be included in the SRPM of the debt instrument if such interest is not "unconditionally payable." Interest is considered "unconditionally payable" if reasonable legal remedies exist to compel timely payment or terms and conditions of the debt instrument make the likelihood of late payment (other than late payment that occurs within a reasonable grace period) or non-payment (ignoring the possibility of non-payment due to default, insolvency or similar circumstances) a remote contingency. The Issuer intends, pursuant to its interpretation of the foregoing rules, to take the position that payments of interest on the Class A-1a Notes, Class A-1b Notes, Class A-2 Notes and Class B Notes are considered unconditionally payable, and thus not included in the SRPM of such Class A-1a Notes, Class A-1b Notes, Class A-2 Notes and Class B Notes and should be treated as "qualified stated interest". Because the interest payments on the Class C Notes, Class D Notes and Class E Notes are subject to deferral (and the possibility of such deferral may not be remote within the meaning of the Treasury Regulations), the Issuer intends to take the position that all interest (including interest on accrued but unpaid interest) payable on the Class C Notes, Class D Notes and Class E Notes should be included in the SRPM and should be treated as issued with OID. However, because there is no authority addressing when the likelihood of a contingency such as the deferral of interest should be considered not "remote", there can be no assurance the IRS will agree with this position.

The U.S. federal income tax treatment of the Class C Notes, the Class D Notes and the Class E Notes under the OID rules is uncertain. If the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, the Issuer intends not to calculate OID under the PAC Method referred to below, and instead to take the position that the amount of OID that accrued on such Class C Notes, Class D Notes and Class E Notes in each accrual period is equal to the amount of interest (including any Deferred Interest with respect to the Class C Notes, the Class D Notes and the Class E Notes) that accrues on such Class C Notes, Class D Notes and Class E Notes during such period. Unless the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, in including stated interest in the SRPM of the Class C Notes, the Class D Notes and the Class E Notes, the Issuer intends, absent definitive guidance, to treat the Class C Notes, the Class D Notes and the Class E Notes as subject to an income accrual method analogous to the methods applicable to debt instruments having payments that are contingent as to amount but not as to time and debt instruments whose payments are subject to acceleration (prescribed by section 1272(a)(6) of the Code) using an assumption as to the expected prepayments on the Class C Notes, the Class D Notes and the Class E Notes (the **"PAC Method"**). As such, accruals of any such additional OID will generally be based upon the weighted average life of such Class C Notes, Class D Notes and Class E Notes rather than the stated maturity. Prospective investors should consult their own tax advisors

regarding the application of the OID rules to the Class C Notes, the Class D Notes and the Class E Notes and the tax characterization and treatment of payments on such Notes.

Sale, Exchange or Retirement of the Notes.

A U.S. Holder's tax basis in a Note will generally equal its cost, plus any accrued OID, reduced by the amount of any payments received by the U.S. Holder with respect to a Note that are not qualified stated interest payments as described above. A U.S. Holder will generally recognize gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realized and the tax basis of the Note. That gain or loss will be a capital gain or loss and generally will be treated as from sources within the United States. Prospective investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers that are individuals, trusts or estates and that held a Senior Debt Note for more than one year) and capital losses (the deductibility of which is subject to limitations).

If any Class of Notes were considered "contingent payment debt instruments" (**"CPDIs"**) within the meaning of Treasury Regulation section 1.1275-4, then, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Although the Issuer does not intend to treat the Notes as CPDIs, prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

Alternative Characterization of the Notes

Notwithstanding tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Notes. It is possible, for example, that the IRS may contend that a Class of the Notes should be treated as equity interests (or as part-debt, part-equity) in the Issuer. Such a recharacterization might result in materially adverse tax consequences to U.S. Holders.

If U.S. Holders of a Class of Notes were treated as owning equity interests in the Issuer, interest payments would be treated as dividends (to the extent of current and accumulated earnings). Further, while not certain, interest on the Notes might accrue (as dividends) prior to payment in a manner akin to the accrual of OID. No dividends received deduction would apply to any of those dividends.

Further, the Issuer is a passive foreign investment company, or PFIC. If U.S. Holders were treated as owning equity interests in the Issuer, U.S. Holders generally will be considered United States shareholders in a PFIC. Under the rules relating to PFICs, a United States shareholder of a PFIC that receives an "excess distribution" must allocate the excess distribution ratably to each day in the taxpayer's holding period for such equity, and must pay a deemed deferred tax amount with respect to each prior year in the taxpayer's holding period. The total excess distribution for any taxable year is the excess of (a) the total distributions for the year over (b) 125 percent of the average amount received in respect of such stock by the taxpayer during the three preceding years (or, if shorter, the U.S. Holder's holding period for such equity). In addition, any gain on the disposition of such equity in a PFIC would be treated as though it were an excess distribution. The deferred tax amount is equal to the sum of (a) the aggregate increases in taxes (computed at the maximum marginal rate) for each year in the taxpayer's holding period before the current year that would result from allocating the excess distributions back over the taxpayer's holding period ratably and (b) interest on those increases.

In order to avoid the application of the PFIC rules, each U.S. Holder should consider making (and consult with its tax advisors regarding the effectiveness and usefulness of making) a qualified electing fund election (the **"QEF election"**) provided in Section 1295 of the Code on a "protective" basis (although

such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held a Note. In lieu of the PFIC rules discussed above, a U.S. Holder that makes a valid QEF election with respect to a Note that is recharacterized as an equity interest in the Issuer will, in very general terms, be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income as ordinary income and long-term capital gain, respectively, for each taxable year and pay tax thereon (even if the amount of that income is not the same as the interest payment, if any, made or OID, if any accruing, on the Note during that period). In general, however, payments of interest on the Note that reflect income on which the U.S. Holder has already paid taxes under the QEF election, will not be further taxable to the U.S. Holder. While there can be no assurance that the IRS would respect the following allocation, the Issuer intends to allocate such ordinary income and net capital gains in a manner designed to cause any Class of Notes that is recharacterized as equity in the Issuer to have approximately the same amount of income as would have accrued on that Class had it been respected as debt.

In the event that any Class of Notes is recharacterized as voting equity in the Issuer and certain other conditions are met, the Issuer may be classified as a controlled foreign corporation (a **"CFC"**) with respect to U.S. Holders that own at least 10% of the Issuer's voting equity. In such event, Noteholders would, in general, be taxed in a similar manner as if they had made the QEF election described above (although some income that would otherwise be capital, may be ordinary).

Information Reporting Requirements

Under United States federal income tax law and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. These reporting requirements apply to both taxable and tax-exempt U.S. Holders. Penalties for failure to file certain of these information returns are severe. Purchasers of the Notes should consult with their own tax advisors regarding the necessity of filing information returns.

If requested by the Issuer, each holder will be required to provide the Issuer with the name and status of each beneficial owner of a Note that is a U.S. Holder.

Non-U.S. Holders

Assuming that (i) the Notes are treated as debt of a non-United States corporation or (ii) if the Notes are treated as equity in a non-United States corporation, that such corporation is not engaged in a U.S. trade or business, a Non-U.S. Holder of a Note that has no connection with the United States and is not related, directly or indirectly, with the Issuer or the holders of the Issuer's equity or the Preferred Shares, will not be subject to U.S. withholding tax on interest payments. Non-U.S. Holders may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the Notes (including OID, if any) and proceeds of the sale, exchange, redemption or other disposition of the Notes to U.S. Holders. The Issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number (typically by providing a completed and executed IRS Form W-9), to certify that such U.S. Holder is not subject to backup withholding, or to otherwise

comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability, *provided* that the required information is timely furnished to the IRS. Prospective investors in the Notes should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

IRS Disclosure Reporting Requirements

Recently promulgated U.S. Treasury Regulations (the **"Disclosure Regulations"**) meant to require the reporting of certain tax shelter transactions (**"Reportable Transactions"**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations it may be possible that certain transactions with respect to the Notes may be characterized as Reportable Transactions requiring a holder to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Note that results in a loss that exceeds certain thresholds and other specified conditions are met. Prospective investors in the Notes should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Statement).

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A NOTEHOLDER'S PARTICULAR SITUATION. PROSPECTIVE INVESTORS IN THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

(a) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(b) the Holder of any Note (or the legal personal representative of such Holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and obtained an undertaking from the Governor In Cabinet of the Cayman Islands substantially in the following form:

"The Tax Concessions Law
(1999 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Gemstone CDO VII Ltd. (the **"Company"**):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the 31st day of October, 2006.

Governor in Cabinet"

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (**"ERISA"**), imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA (**"ERISA Plans"**) and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans which are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entity, or of a governmental or church plan which is subject to fiduciary standards similar to those of ERISA (**"Plan Fiduciary"**), who proposes to cause such a plan or entity to purchase Notes should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Notes is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Notes, a Plan Fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and/or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**), prohibit certain transactions involving the assets of ERISA Plans or plans described in Section 4975(e)(1) and subject to Section 4975 of the Code (together with ERISA Plans, **"Plans"**) and certain persons (referred to as **"parties in interest"** in ERISA and as "disqualified persons" in Section 4975 of the Code) (collectively, "Parties in Interest") having certain relationships to such Plans and entities. A Party in Interest who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, the Initial Purchaser and the Collateral Manager, as a result of their own activities or because of the activities of an Affiliate, may be considered a Party in Interest with respect to Plans. Accordingly, prohibited transactions (within the meaning of Section 406 of ERISA and Section 4975 of the Code) may arise if Notes are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the obligors on the Underlying Assets or any of their respective Affiliates is a Party in Interest. In addition, if a Party in Interest with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party in Interest with respect to a Plan which owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction.

Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan Fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are U.S. Department of Labor (**"DOL"**) PTE 96-23, regarding investments by certain "in-house asset managers"; PTE 95-60, regarding investments by insurance company general accounts; PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; and PTE 84-14, regarding transactions effected by "qualified professional asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Notes were to constitute or result in a non-exempt prohibited transaction, the purchase might have to be rescinded.

In addition, recently enacted legislation (the **"Pension Protection Act of 2006"**) provides a statutory exemption for prohibited transactions between a plan and a Person that is a party in interest (other than a fiduciary or an affiliate that, directly or indirectly, has or exercises discretionary authority or control or renders investment advice with respect to the assets involved in the transaction) solely by reason of providing services to the plan, *provided* that there is adequate consideration for the transaction. Prospective investors should consult with their advisors regarding the application of this statutory exemption. Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code.

The DOL, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and Section 4975 of the Code, has issued a regulation (the **"Plan Asset Regulation"**) which, under specified circumstances, requires Plan fiduciaries, and entities with certain specified relationships to a Plan, to "look through" investment vehicles (such as the Issuer) and treat as an "asset" of the Plan each underlying investment made by such investment vehicle. The Plan Asset Regulation provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant, then the "look-through" rule will not apply to such entity. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation, as modified by Section 3(42) of ERISA, to include (i) any employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, (ii) any plan described in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, and (iii) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice to the entity for a fee (such as the Collateral Manager) or any Affiliates of such persons (any such person, a **"Controlling Person"**)) is held by Benefit Plan Investors (the **"25% Threshold"**).

There is little pertinent authority in this area and securities may change character from debt to equity over time due to changing circumstances. Fiduciaries of Plans considering the purchase of Notes should consult their counsel in this regard. However, it is not anticipated that the Class A Notes, the Class B Notes or the Class C Notes will constitute "equity interests" in the Issuers. Based primarily on the unconditional obligation of the Issuers to pay interest and to repay principal by a fixed maturity date and the creditors' remedies available to holders of the Class D Notes and the Class E Notes, it is anticipated that the Class D Notes and the Class E Notes will not constitute "equity interests" in the Issuers, despite their subordinated position in the capital structure of the Issuers. No measures will be taken to restrict investment in the Class D Notes or the Class E Notes by Benefit Plan Investors.

The sale of any Note to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, the Collateral Manager or any of their Affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for a Plan generally or any particular Plan.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT A PLAN, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, *e.g.*, where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the U.S. Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Notes with assets of its general account as a wholly owned subsidiary thereof should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c 1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

Tax penalty avoidance

The summary of ERISA considerations contained herein was written to support the promotion and marketing of the Notes, and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any U.S. federal tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

PLAN OF DISTRIBUTION

The Issuers and the Initial Purchaser will enter into a Note Purchase Agreement (the **"Note Purchase Agreement"**) relating to the offering and sale of the Notes. In the Note Purchase Agreement, the Issuers have agreed to sell to the Initial Purchaser, and the Initial Purchaser will agree to purchase, the entire principal amount of the Notes. The Notes purchased by the Initial Purchaser, if any, will be privately placed with eligible investors by the Initial Purchaser. The obligations of the Initial Purchaser under the Note Purchase Agreement are subject to the satisfaction of certain conditions in the Note Purchase Agreement. The Issuer will pay all fees and expenses in connection with this offering as set forth in the Note Purchase Agreement. Pursuant to the Note Purchase Agreement, the Issuers will agree to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments it may be required to make in respect thereof.

The Issuer and HBK Investments L.P., as Administrator on behalf of HBK CDO Trust (the **"Original Purchaser"**) will enter into a Subscription Agreement (the **"Subscription Agreement"**) relating to the offering and sale of the Preference Shares. In the Subscription Agreement, the Issuer will agree to sell to the Original Purchaser, and the Original Purchaser will agree to purchase, all of the Preference Shares. The obligations of the Original Purchaser under the Subscription Agreement is subject to the satisfaction of certain conditions in the Subscription Agreement.

The Issuers have been advised by the Initial Purchaser that the Initial Purchaser proposes to sell the Notes (i) to Qualified Purchasers who are also (a) Qualified Institutional Buyers pursuant to Rule 144A or (b) Institutional Accredited Investors pursuant to Section 4(2), and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Buyers of the Notes may be required to make certain representations with respect to their ability to invest in the Notes.

The Notes are offered subject to prior sale, to withdrawal, cancellation or modification of the offer without notice, to the right of the Initial Purchaser to reject any order in whole or in part for any reason and to certain other conditions.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S or pursuant to the exemptions from the registration requirements under the Securities Act provided by Rule 144A.

(1) In the Note Purchase Agreement, the Initial Purchaser will represent and agree that it has offered or sold Notes and will offer or sell Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the completion of the distribution of the Notes, only in accordance with Rule 903 of Regulation S or Rule 144A or any other available exemption from the Registration requirements of the Securities Act. Accordingly, the Initial Purchaser will represent and agree that neither it, its affiliates (if any) nor any persons acting on their behalf have engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes, and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Note Purchase Agreement the Initial Purchaser will agree that (i) it will not solicit offers for, or offer or sell, any of the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any

manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (ii) it will solicit offers for the Notes only from, and will offer the Notes only to, persons that (A) it reasonably believes to be, in the case of offers inside the United States or to U.S. Persons, Qualified Institutional Buyers or Institutional Accredited Investors, who are also Qualified Purchasers or (B) in the case of offers outside the United States, are non-U.S. Persons; and (iii) with respect to offers and sales of the Notes outside the United States that it will not offer, sell or deliver any of the Notes in any jurisdiction outside the United States except under circumstances that will result in compliance with the applicable laws thereof.

United Kingdom

Pursuant to the Purchase Agreement, the Initial Purchaser will represent and agree that:

(1) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or Dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**"FSMA"**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Cayman Islands

The Initial Purchaser has represented and agreed that it has not made and will not make any invitation to any member of the public in the Cayman Islands to subscribe for any of the Notes (or the Preference Shares).

General

The Issuers and the Collateral Manager extend to each prospective investor the opportunity to ask questions of, and receive answers from, the Issuers and the Collateral Manager concerning the Notes and the terms and conditions of this Offering and to obtain any additional information it may consider necessary in making an informed investment decision and any information necessary in order to verify the accuracy of the information set forth herein, to the extent the Issuers, or the Collateral Manager possesses the same. Requests for such additional information can be directed to Gemstone CDO VII Ltd., c/o Deutsche Bank (Cayman) Limited, P.O. Box 1984, Grand Cayman KY1-1104, Cayman Islands; Gemstone CDO VII Corp., c/o Puglisi & Associates, 850 Library Avenue Suite 204, Newark, Delaware 19711; and HBK Investments L.P., 300 Crescent Court Suite 700, Dallas, Texas 75201, Attention: Fixed Income Division.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession, circulation or distribution of this Offering Circular or any other offering material relating to the Issuer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

The Notes are newly issued securities for which there currently is no market. The Initial Purchaser has advised the Issuer that the Initial Purchaser presently does not intend to make a market in the Notes.

Certain of the Underlying Assets may have been originally underwritten, originated or placed by the Initial Purchaser or its affiliates. In addition, the Initial Purchaser and its affiliates may have in the past and may in the future perform investment banking services, commercial banking services or other services for issuers of the Underlying Assets.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes or Preference Shares.

Transfer Restrictions Applicable to the Notes

Investor Representations on Original Purchase. Each Original Purchaser of Notes from the Initial Purchaser will be deemed to acknowledge, represent to and agree with the Issuers and the Initial Purchaser as follows:

(1) *No Governmental Approval.* The purchaser understands that the Notes have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* If required by the Indenture, the purchaser will, prior to any sale, pledge or other transfer by it of any Note (or any interest therein), obtain from the transferee and deliver to the Issuers, the Trustee and the Note Registrar a duly executed transfer certificate addressed to each of the Issuers, the Trustee and the Note Registrar in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuers, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions set forth in the Indenture and described herein.

(3) *Minimum Denominations; Form of Notes.* The purchaser agrees that no Note (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable required minimum denomination set forth in the Indenture and described herein.

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Notes have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Notes will bear a legend stating that such Notes have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Notes described herein. The purchaser understands that the Issuers have no obligation to register any of the Notes under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture).

(5) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, (a) it is a Qualified Institutional Buyer or, in respect of certain Original Purchasers, an Institutional Accredited Investor, and (b) is acquiring the Notes for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Notes in the form of a Regulation S Note, (a) it is not a U.S. Person (as defined in Rule 902(k)

under the Securities Act), (b) it is purchasing such Notes for its own account and not for the account or benefit of a U.S. Person and (c) it understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Note may be held only through Euroclear or Clearstream.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information.* The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in the Notes, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of the Initial Purchaser, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in the Notes is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuers and the Notes as it has deemed necessary to make its own independent decision to purchase Notes, including the opportunity, at a reasonable time prior to its purchase of Notes, to ask questions and receive answers concerning the Issuers and the terms and conditions of the offering of the Notes.

(7) *Certain Resale Limitations; Rule 144A.* No Note (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Note except (i) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note except (i) to a transferee that is a non-U.S. Person acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (iii) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for Notes and that no assurance can be given as to the liquidity of any trading market for Notes and that it is unlikely that a trading market for any of the Notes will develop. The purchaser further understands that, although the Initial Purchaser may from time to time make a market in Notes, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, it may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold Notes for an indefinite period of time or until their maturity. The purchaser further understands that the Notes are limited-recourse obligations of the Issuers, payable solely from the Collateral in accordance with the Priority of Payments.

(9) *Investment Company Act.* The purchaser either (a) is not a U.S. resident (within the meaning of the Investment Company Act) or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of a Note (or any interest therein) may be made (m) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act), is a Qualified Purchaser or (n) if such transfer would have the effect of requiring either of the Issuers to register as an investment company under the Investment Company Act. If the purchaser is a U.S. resident that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an **"excepted investment company"**): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 (**"pre-amendment beneficial owners"**); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

Each purchaser of a Restricted Note or an interest therein will be deemed to represent at the time of purchase that the purchaser is (a) a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and (b) a Qualified Purchaser.

(10) *Certifications Related to Tax Withholding.* The Purchaser understands that the Issuer may require certification acceptable to it (a) to permit the Issuer to make payments to it without, or at a reduced rate of, withholding or (b) to enable the Issuer to qualify for a reduced rate of withholding in any jurisdiction from or through which the Issuer receives payments on its assets. The Purchaser agrees to provide any such certification that is requested by the Issuer.

(11) *Tax Treatment.* The Purchaser agrees by its acquisition of the Note or Notes that for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, it will treat the Notes as indebtedness of Issuer acknowledges that the Issuer will be treated as a corporation and that the Preference Shares will be treated as equity in the Issuer, and agrees to take no action inconsistent with such treatment, unless required by law.

(12) *ERISA.* In the case of each purchaser of a Note either that (i) it is not, and is not acting on behalf of, an employee benefit plan within the meaning of Section 3(3) of ERISA that is subject to Title I of ERISA, a plan within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, a governmental or church plan which is subject to any Federal, state or local law that is similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code or an entity which is deemed to hold the assets of any such plan pursuant to 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA, or otherwise or (ii) its purchase and ownership of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, a non-exempt violation of any similar U.S. Federal, state or local law).

(13) *Limitations on Flow-Through Status.* In the case of a purchaser that is a U.S. resident (within the meaning of the Investment Company Act), the purchaser represents that,

unless the purchaser is a Qualifying Investment Vehicle, (a) if the purchaser would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser's investment in the Notes and Preference Shares does not exceed 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) no person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was not organized or reorganized for the specific purpose of acquiring Notes or Preference Shares; and (d) no additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Notes or Preference Shares (any such transferee in (a), (b), (c) or (d) above being herein referred to as a **"Flow-Through Investment Vehicle"**). For this purpose, a **"Qualifying Investment Vehicle"** is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Issuers, as the case may be, and the Trustee and the Note Registrar (in the case of the Notes) or the Preference Shares Transfer Agent (in the case of the Preference Shares) each of the representations set forth herein and in the Indenture and the Preference Share Paying Agency Agreement required to be made upon transfer of any of the relevant Class of Notes or Preference Shares (with modifications to such representations satisfactory to the Issuer, the Co-Issuer, the Trustee, the Note Registrar and the Preference Share Transfer Agent (as applicable) to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preference Shares. If the purchaser is a Flow-Through Investment Vehicle, the purchaser represents and warrants that either (x) none of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) or (y) some or all of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser. If the purchaser is a Flow-Through Investment Vehicle, the purchaser also represents and warrants that it has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Notes or Preference Shares).

(14) *Certain Transfers Void.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, the purchaser agrees that (a) any sale, pledge or other transfer of a Note (or any interest therein) made in violation of the transfer restrictions contained in Indenture and described herein, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Co-Issuer, the Trustee or the Note Registrar will be void and of no force or effect and (b) none of the Issuer, the Co-Issuer, the Trustee and the Note Registrar has any obligation to recognize any sale, pledge or other transfer of a Note (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer

(or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (i) a non-U.S. Person in a transfer for an interest in a Regulation S Note, or (ii) both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (y) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (z) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

(15) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuers, the Initial Purchaser and the Trustee will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection with its purchase of Notes are no longer accurate, the purchaser will promptly notify the Issuers, the Initial Purchaser and the Trustee.

(16) *Cayman Islands.* The purchaser is not a member of the public in the Cayman Islands.

(17) *USA PATRIOT Act.* To the extent applicable to the Issuers, the Issuers may impose additional transfer restrictions to comply with the USA PATRIOT Act and other similar laws or regulations, and each beneficial owner of a Note is deemed to have agreed to comply with such transfer restrictions. The Issuers shall notify the Trustee, the Note Registrar and the Share Registrar of any such restrictions.

(18) *Legend for Notes.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Regulation S Global Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE AND WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY

APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO EITHER OF THE ISSUERS (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) OTHER THAN IN THE CASE OF A TRANSFEREE WHO ACQUIRES AN INTEREST IN A REGULATION S GLOBAL NOTE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD IN AN OFFSHORE TRANSACTION EFFECTED IN ACCORDANCE WITH RULE 904 OF REGULATION S, SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT AND IS (A) A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT A PLAN, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD AT ANY TIME BY A U.S. PERSON WHO IS NOT A QUALIFIED PURCHASER. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A RESTRICTED NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A RESTRICTED GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Restricted Global Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), OR THE SECURITIES LAWS OF

ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER (A) IT IS NOT A PLAN, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH

PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A REGULATION S NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A REGULATION S GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THIS NOTE OR THE INDENTURE, EITHER OF THE ISSUERS DETERMINES THAT ANY HOLDER OF THIS RESTRICTED NOTE OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH A QUALIFIED INSTITUTIONAL BUYER (OR, IN RESPECT OF CERTAIN ORIGINAL PURCHASERS, AN INSTITUTIONAL ACCREDITED INVESTOR) AND A QUALIFIED PURCHASER, THE ISSUERS SHALL REQUIRE, BY NOTICE TO SUCH HOLDER, AS THE CASE MAY BE, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS NOTE (OR INTEREST HEREIN) TO A PERSON THAT IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE ITS INTEREST IN THIS NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE WITH THE CONSENT OF THE COLLATERAL MANAGER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS NOTE, AND THE INTEREST IN THIS NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.

Investor Representations on Resale. Except as provided in the remainder of this paragraph, each transferee of a Note will be required to deliver to the Issuers, the Trustee and the Note Registrar a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the Transferee is a Qualified Institutional Buyer that is also a Qualified Purchaser.

Pursuant to such transferee certificate, (a) the transferee will acknowledge, represent to and agree with the Issuers, the Trustee and the Note Registrar as to the matters set forth in each of paragraphs (1) through (18) above (other than paragraphs (5), (6) and (8) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) further represents to and agrees with the Issuers, the Trustee and the Note Registrar as follows:

(1) In the case of a transferee who takes delivery of Restricted Notes, it (a) is a U.S. Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser; (b) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee; (c) is aware that the sale to it is being made in reliance on Rule 144A; and (d) is acquiring such Notes for its own account. In the case of a transferee who takes delivery of Regulation S Notes, it (u) is a non-U.S. Person acquiring such Notes in an offshore transaction in accordance with Rule 904 of Regulation S, (v) is acquiring such Notes for its own account, (w) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes while it is in the United States or any of its territories or possessions, (x) understands that such Notes are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (y) understands that such Notes may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction, and (z) understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Global Note may only be held through Euroclear or Clearstream.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Issuers, the Trustee and the Note Registrar for the purpose of determining its eligibility to purchase Notes. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Notes.

Transfer Restrictions Applicable to the Preference Shares

Investor Representations on Original Purchase. The Original Purchaser of Preference Shares will be required to acknowledge, represent to and agree with the Issuer as follows:

(1) *No Governmental Approval.* The purchaser understands that the Preference Shares have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* If required by the Preference Share Paying Agency Agreement, the purchaser will, prior to any sale, pledge or other transfer by it of any Preference Shares (or any interest therein), obtain from the transferee and deliver to the Issuer and the Preference Share Registrar a duly executed transferee certificate addressed to each of the Administrator or the Issuer in the form of the relevant exhibit attached to the Preference Share Paying Agency Agreement and such other certificates and other information as the Issuer or the Preference Share Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in this Offering Circular and the Preference Share Paying Agency Agreement.

(3) *Minimum Lots and Original Capital Contributions; Form of Preference Shares.* The purchaser agrees that no Preference Shares (or any interest therein) may be sold, pledged or otherwise transferred unless such transfer is done in minimum lots of 200

shares. In addition, the purchaser understands that Rule 144A Preference Shares will be issued in fully registered, definitive form and will be transferable only by delivery of the certificates representing such Preference Shares.

(4) *Securities Law Limitations on Resale*. The purchaser understands that the Preference Shares have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) promulgated under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Preference Shares will bear a legend stating that such Preference Shares have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Preference Shares described herein. The purchaser understands that the Issuer has no obligation to register any of the Preference Shares under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Preference Share Paying Agency Agreement).

(5) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent*. In the case of a purchaser who takes delivery of Rule 144A Preference Shares, it is (a) a Qualified Institutional Buyer or, in respect of certain Original Purchasers, an Institutional Accredited Investor, and (b) is acquiring the Preference Shares for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Regulation S Global Preference Shares, (a) it is not a U.S. Person (as defined in Rule 902(k) under the Securities Act), (b) it is purchasing such Preference Shares for its own account and not for the account or benefit of a U.S. Person and (c) it understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Global Preference Share may only be held through Euroclear or Clearstream.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information*. The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in Preference Shares, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of the Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in Preference Shares is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuer, the Preference Shares as it has deemed necessary to make its own independent decision to purchase Preference Shares, including the opportunity, at a reasonable time prior to its purchase of Preference Shares, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Preference Shares.

(7) *Certain Resale Limitations; Rule 144A*. No Preference Shares (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring Rule 144A Preference Shares except (a)(i) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice

is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Global Preference Share except (i) to a transferee that is a non-U.S. Person acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) to a transferee (other than any transferee who acquires an interest in a Regulation S Global Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) unless such transferee is a Qualified Purchaser, (iii) to a transferee (other than any transferee who acquires an interest in a Regulation S Global Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) or a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for Preference Shares and that no assurance can be given as to the liquidity of any trading market for Preference Shares and that it is unlikely that a trading market for any of the Preference Shares will develop. Accordingly, the purchaser must be prepared to hold Preference Shares for an indefinite period of time or until their maturity.

(9) *Investment Company Act.* The purchaser either (a) is not a U.S. resident (within the meaning of the Investment Company Act) or (b) is a Qualified Purchaser. The purchaser agrees that no sale, pledge or other transfer of Preference Shares (or any interest therein) may be made (a) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act), is a Qualified Purchaser or (b) if such transfer would have the effect of requiring the Issuer or the Collateral to register as an investment company under the Investment Company Act. If the purchaser is a U.S. resident that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "excepted investment company"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("pre-amendment beneficial owners"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(10) *Certifications Related to Tax Withholding.* The purchaser understands that the Issuer may require certification acceptable to it (a) to permit the Issuer to make payments to it

without, or at a reduced rate of, withholding or (b) to enable the Issuer to qualify for a reduced rate of withholding in any jurisdiction from or through which the Issuer receives payments on its assets. The purchaser agrees to provide any such certification that is requested by the Issuer.

(11) *Tax Treatment.* The purchaser agrees by acquisition of Preference Shares that it acknowledges that the Issuer will be treated as a corporation and that the Preference Shares will be treated as equity in the Issuer, and agrees to take no action inconsistent with such treatment, unless required by law.

(12) *ERISA.* No Preference Share may be purchased or transferred to, on behalf of or using the assets of (i) an employee benefit plan subject to Title I of ERISA or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**) (each such plan, an **"ERISA Plan"**); (ii) a collective investment fund, separate account or other entity whose underlying assets are treated as **"Plan Assets"** of an ERISA Plan under U.S. Department of Labor Regulation Section 2510.3-101 (a **"Benefit Plan Investor"**); (iii) a person acting on behalf of an ERISA Plan or; or (iv) unless none of its assets could be deemed to include "Plan Assets" subject to Title I of ERISA or Section 4975 of the Code, any other Benefit Plan Investor.

(13) *Limitations on Flow-Through Status.* The purchaser represents that, unless the purchaser is a Qualifying Investment Vehicle, (a) if the purchaser would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser's investment in the Preference Shares does not exceed 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) no person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was not organized or reorganized for the specific purpose of acquiring Preference Shares; and (d) no additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Preference Shares (any such entity in (a), (b), (c) or (d) above being herein referred to as a **"Flow-Through Investment Vehicle"**). For this purpose, a "Qualifying Investment Vehicle" is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer and the Preference Share Registrar each of the representations set forth herein and in the Preference Share Paying Agency Agreement required to be made upon transfer of any Preference Shares. If the purchaser is a Flow-Through Investment Vehicle, the purchaser represents and warrants that either (a) none of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) or (b) some or all of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser. If the purchaser is a Flow-Through Investment Vehicle, the purchaser also represents and warrants that it has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Preference Shares).

(14) *Limitation on Sales of Preference Shares to Reg Y Institutions.* No Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a **"Controlling Party"**), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (e) as otherwise permitted by applicable U.S. Federal banking law and regulations.

(15) *Certain Transfers Void.* In the case of a purchaser who takes delivery of Preference Shares in the form of a Rule 144A Preference Share, the purchaser agrees that (a) any sale, pledge or other transfer of a Preference Share (or any interest therein) made in violation of the transfer restrictions contained in Preference Share Agency Agreement and described herein, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Co-Issuer, the Trustee or the Note Registrar will be void and of no force or effect and (b) none of the Issuer, the Co-Issuer, the Trustee and the Note Registrar has any obligation to recognize any sale, pledge or other transfer of a Preference Share (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Preference Share Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Rule 144A Preference Share (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Rule 144A Preference Share (or interest therein) to a person that is (i) a non-U.S. Person in a transfer for an interest in a Regulation S Global Preference Share, or (ii) both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (y) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Preference Share (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Preference Share Agency Agreement and (z) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

(16) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer and the Trustee will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection

with its purchase of Preference Shares are no longer accurate, the purchaser will promptly notify the Issuer and the Trustee.

(17) *Cayman Islands.* The purchaser is not a member of the public in the Cayman Islands.

(18) *USA PATRIOT Act.* To the extent applicable to the Issuer, the Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act and other similar laws or regulations, and each beneficial owner of a Preference Share is deemed to have agreed to comply with such transfer restrictions. The Issuer shall notify the Trustee, the Note Registrar and the Share Registrar of any such restrictions.

(19) *Legend for Preference Shares.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preference Shares:

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN. ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES

MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **"CODE"**) (EACH SUCH PLAN, AN **"ERISA PLAN"**); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS **"PLAN ASSETS"** OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 (A **"BENEFIT PLAN INVESTOR"**); (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN OR; OR (IV) UNLESS NONE OF ITS ASSETS COULD BE DEEMED TO INCLUDE "PLAN ASSETS" SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ANY OTHER BENEFIT PLAN INVESTOR.

Investor Representations on Original Purchase. Except as provided in the next succeeding sentence, each transferee of Preference Shares will be required to deliver to the Issuer and the Preference Share Registrar a duly executed transferee certificate in the form of the relevant exhibit attached to the Preference Share Paying Agency Agreement and such other certificates and other information as the Issuer may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in Regulation S Global Preference Shares may transfer such interest in the form of a beneficial interest in such Regulation S Global Preference Shares without the provision of written certification, provided that (1) such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected through Euroclear or Clearstream in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures and (2) any transfer not effected in an offshore transaction in accordance with Rule 904 of Regulation S may be made only upon provision to the Preference Share Registrar of written certification from the transferee and transferor in the form provided for in the Preference Share Paying Agency Agreement.

Pursuant to such transferee certificate, (a) the transferee will acknowledge, represent to and agree with the Issuer as to the matters set forth in each of paragraphs (1) through (19) above (other than paragraphs (5), (6) and (8) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) further represents to and agrees with the Issuer as follows:

(1) In the case of a transferee who takes delivery of Rule 144A Preference Share, it (i) is both (x) a Qualified Institutional Buyer and (y) a Qualified Purchaser; (ii) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee, (v) is aware that the sale to it is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act; and (vi) is acquiring such Preference Shares for its own account; provided that a transferee of Preference Shares (or interest therein) acquiring pursuant to a transfer made in accordance with exemption from the registration requirements of the Securities Act other than Rule 144A

(subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) need not make any of the foregoing representations relating to Rule 144A. In the case of a transferee who takes delivery of Regulation S Global Preference Shares, it (i) is acquiring such Regulation S Global Preference Shares in an offshore transaction in accordance with Rule 904 of Regulation S, (ii) is acquiring such Regulation S Global Preference Shares for its own account, (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Regulation S Global Preference Shares while it is in the United States or any of its territories or possessions, (iv) understands that such Regulation S Global Preference Shares are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (v) understands that such Regulation S Global Preference Shares may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction and (vi) understands that prior to the end of the Distribution Compliance Period, interests in Regulation S Global Preference Shares may only be held through Euroclear or Clearstream. In addition, each Preference Shareholder must provide the Issuer and the Preference Share Registrar an executed certificate in the appropriate form attached to the Preference Share Paying Agency Agreement, if so required by the Preference Share Paying Agency Agreement.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Issuer and the Preference Share Transfer Agent for the purpose of determining its eligibility to purchase Preference Shares. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or its eligibility for an exception under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Preference Shares.

LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. Copies of this Offering Circular, the Issuer Charter, the Preference Share Paying Agency Agreement, the Management Agreement, the Note Purchase Agreement, the Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Certificate of Incorporation and By-laws of the Co-Issuer and the Indenture will be available for inspection at the registered office of the Issuer and at the office of the Irish Paying Agent, where electronic copies thereof may be obtained, free of charge, upon request for the life of this document.

2. Copies of the Issuer Charter, the Certificate of Incorporation and By-laws of the Co-Issuer, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes and the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes, the Indenture and the Management Agreement may be obtained free of charge upon request within 30 days of the date of this Offering Circular at the office of the Trustee on behalf of the Issuer.

3. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

4. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

5. The issuance of the Notes will be authorized by the Board of Directors of the Issuer by resolutions passed on or before the Closing Date. The issuance of the Notes will be authorized by the Board of Directors of the Co-Issuer by resolutions to be passed on or before the Closing Date. Since incorporation, neither the Issuer nor the Co-Issuer has commenced trading or established any accounts, except as disclosed herein or accounts used to hold amounts received with respect to share capital and fees. It is estimated that the fees payable in respect of the listing of the Notes on the Irish Stock Exchange will be approximately $7,500 consisting of Irish Stock Exchange listing fees, listing agent sponsor fees and fees to be annually paid to the Irish Paying Agent.

6. The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by the Global Notes have been accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers (ISIN) for the Notes represented by Regulation S Global Notes and Restricted Global Notes are as indicated on the following page.

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	Regulation S Common Codes	Regulation S CUSIP Numbers	Regulation S ISIN Numbers	Restricted Common Codes	Restricted CUSIP Numbers	Restricted ISIN Numbers
Class A-1a Notes	029237204	G37903AA2	USG37903AA26	029236828	36868VAA4	US36868VAA44
Class A-1b Notes	029237298	G37903AG9	USG37903AG95	029237247	36868VAG1	US36868VAG14
Class A-2 Notes	029237344	G37903AB0	USG37903AB09	029237328	36868VAB2	US36868VAB27
Class B Notes	029237387	G37903AC8	USG37903AC81	029237379	36868VAC0	US36868VAC00
Class C Notes	029237409	G37903AD6	USG37903AD64	029237395	36868VAD8	US36868VAD82
Class D Notes	029237522	G37903AE4	USG37903AE48	029237484	36868VAE6	US36868VAE65
Class E Notes	029237786	G37903AF1	USG37903AF13	029237654	36868VAF3	US36868VAF31

LEGAL MATTERS

Certain legal matters with respect to the Notes and New York law will be passed upon for the Issuer by Allen & Overy LLP. Allen & Overy LLP will also act as counsel to the Initial Purchaser. Cadwalader, Wickersham & Taft LLP will act as counsel to the Collateral Manager. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder.

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SCHEDULE A

AUCTION CALL REDEMPTION – AUCTION PROCEDURES

The following sets forth the auction procedures (the "**Auction Procedures**") to be followed in connection with a sale effected pursuant to the Indenture.

I. Pre-Auction Process

- The Auction Agent will initiate the Auction Procedures at least 24 Business Days prior to each Auction Date by:
  - with the assistance of the Collateral Manager, preparing a list containing the names of the Issuer and guarantor (if any), the par amount and the CUSIP number (if any) with respect to each Underlying Asset and such other information as shall be notified to the Auction Agent by the Collateral Manager;
  - with the assistance of the Collateral Manager, preparing a list of the constituents of each subpool which shall be based upon the Collateral Manager's good faith determination of the composition of subpools that will maximize Disposition Proceeds; *provided* that the maximum number of subpools shall be eight; and
  - directing the Trustee to send the lists prepared pursuant to clauses (i) and (ii) above to the Qualified Bidders identified on the then-current Qualified Bidder List (the "**Listed Bidders**") and requesting bids on the Auction Date.
- The general solicitation package which the Auction Agent shall deliver to the Listed Bidders will include: (i) a form of a purchase agreement (which shall, among other things, provide that (A) upon satisfaction of all conditions precedent therein, the purchaser is irrevocably obligated to acquire, and the Issuer is irrevocably obligated to Dispose of, the Underlying Assets (or relevant subpool, as the case may be) on the date and on the terms and conditions set forth therein and (B) if the subpools are to be sold to more than one bidder, the consummation of the purchase of each subpool must occur simultaneously and the closing of each purchase is conditional on the closing of each of the other purchases); (ii) the minimum purchase price; (iii) a formal bidsheet (which shall permit the relevant bidder to bid for all of the Underlying Assets, any subpool or separately for each of the subpools) including a representation from the bidder that it is eligible to acquire all of the Underlying Assets; (iv) a detailed timetable; and (v) copies of all transfer documents (including transfer certificates and subscription agreements which a bidder must execute pursuant to the Underlying Instruments and a list of the requirements which the bidder must satisfy under the Underlying Instruments (i.e., Qualified Institutional Buyer, Qualified Purchaser, etc.)).
- The Auction Agent shall send solicitation packages to all Listed Bidders at least 15 Business Days before the Auction Date. No later than 10 Business Days before the Auction Date, Listed Bidders may submit written due diligence questions relating to the legal documentation and other information contained in the general solicitation package (including comments on the draft purchase agreement to be used in connection with the Auction (the "**Auction Purchase Agreement**")) to the Collateral Manager;

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provided that the Collateral Manager shall only be obligated to answer questions relating to the Collateral to the extent that it is able to do so by reference to information which it is required to provide under the Management Agreement. The Collateral Manager shall be solely responsible for (i) responding to all relevant questions and/or comments submitted to it in accordance with the foregoing and (ii) distributing the questions, answers and revised final Auction Purchase Agreement to all Listed Bidders at least five Business Days prior to the Auction Date.

II. **Auction Process**

- If it is not the Auction Agent, the Collateral Manager or its Affiliates will be allowed to bid in the Auction if it deems appropriate, but will not be required to do so.

- On the Auction Date, all bids will be due by facsimile to the offices of the Auction Agent by 11:00 a.m., New York City time, with the winning bidder to be notified by 2:00 p.m., New York City time. All bids from Listed Bidders will be due on the bid sheet contained in the solicitation package. Each bid shall be for the purchase and delivery to one purchaser of (i) all (but not less than all) of the Underlying Assets or (ii) all (but not less than all) of the Underlying Assets that constitute the components of one or more subpools.

- If the Auction Agent receives fewer than two bids from Listed Bidders to purchase all of the Underlying Assets or to purchase each subpool, the Auction Agent shall decline to consummate the sale.

- Subject to clause (c), the Auction Agent shall identify as the winning bidder the bid or bids that result in the Highest Auction Price (in excess of the minimum purchase price) from one or more Listed Bidders.

- Upon notification to the winning bidder(s), the winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) will be required to deliver to the Auction Agent a signed counterpart of the Auction Purchase Agreement no later than 4:00 p.m. New York City time on the Auction Date. The winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) shall be required to pay the full purchase price in cash prior to the sixth Business Day following the relevant Auction Date, at which time all monies will be transferred into the Collection Account. If payment in full of the purchase price is not made when due (or, if the subpools are to be sold to more than one bidder, if any bidder fails to make payment of the purchase price when due), the Trustee on behalf of the Issuer shall decline to consummate the sale of each subpool and shall give notice (in accordance with the Indenture) that the Auction Call Redemption will not occur.

- **"Highest Auction Price"** means, with respect to an Auction Call Redemption, the greater of (a) the highest price bid by any Listed Bidder for all of the Underlying Assets and (b) the sum of the highest prices bid by one or more Listed Bidders for each subpool. In each case, the price bid by a Listed Bidder shall be the Dollar amount which the Auction Agent certifies to the Trustee based on the Auction Agent's review of the bids, which certification shall be binding and conclusive.

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- **"Qualified Bidder"** means (a) a Person whose unsecured debt obligations have been assigned, or whose obligations under the bid letter and resulting purchase agreement will be guaranteed by a Person whose unsecured debt obligations have been assigned, a rating equivalent to the highest rating on the Notes or an unsecured short-term rating of "A-1+" by Standard & Poor's and "F-1" by Fitch, (b) a Person who the Auction Agent believes to be an active purchaser of Asset-Backed Securities with the financial resources available to it to pay the purchase price of the Underlying Assets in a timely fashion, or (c) the Collateral Manager or any of its Affiliates; *provided* that with respect to the Synthetic Securities entered into with the First Synthetic Security Counterparty, the Issuer may, upon reasonable notice to the First Synthetic Security Counterparty, transfer to an Eligible Counterparty, as such term is defined in the schedule to the Master Agreement, or to any other counterparty, in regard to which the First Synthetic Security Counterparty will have the right to approve or disapprove of any novation of such Synthetic Security by the Issuer.

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SCHEDULE B

STANDARD & POOR'S RATING

The Standard & Poor's Rating of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

(i) if such Underlying Asset is rated either publicly or privately (with appropriate consents) by Standard & Poor's, the Standard & Poor's Rating shall be such rating, or, if such Underlying Asset is not rated by Standard & Poor's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Standard & Poor's perform a credit estimate in respect of such Underlying Asset, the Standard & Poor's rating shall be the rating so assigned by Standard & Poor's, *provided* that pending receipt from Standard & Poor's of such rating, such Underlying Asset shall have a Standard & Poor's Rating of "CCC-" if the Collateral Manager believes that such estimate will be at least "CCC-"; and

(ii) with respect to any other Underlying Asset, as set forth below.

Part 1 - Standard & Poor's Ratings

Asset classes are eligible for notching if they are not first loss tranches or combination securities. If the security is publicly rated by two agencies, notch down as shown below based on the lowest rating. If the security is publicly rated only by one agency, then notch down what is shown below *plus* one more notch. The Aggregate Principal/Notional Balance of Underlying Assets the Standard & Poor's Rating of which is based on a Fitch rating or a Moody's rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Standard & Poor's or assigned Standard & Poor's rating estimates.

	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
1. CONSUMER ABS	-1	-2	-2	-3
Automobile Loan Receivable Securities				
Automobile Lease Receivable Securities				
Car Rental Receivables Securities				
Credit Card Securities				
Healthcare Securities				
Student Loan Securities				

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	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
2. COMMERCIAL ABS	-1	-2	-2	-3
Cargo Securities				
Equipment Lease Securities				
Aircraft Leasing Securities				
Small Business Loan Securities				
Restaurant and Food Services Securities				
3. Non-RE-REMIC RMBS	-1	-2	-2	-3
Manufactured Housing Loan Securities				
4. Non-RE-REMIC CMBS	-1	-2	-2	-3
CMBS – Conduit				
CMBS - Credit Tenant Lease				
CMBS – Large Loan				
CMBS – Single Borrower				
CMBS – Single Property				
5. CBO/CLO CASHFLOW SECURITIES	-1	-2	-2	-3
Cash Flow CBO – at least 80% High Yield Corporate				
Cash Flow CBO – at least 80% Investment Grade Corporate				
Cash Flow CLO – at least 80% High Yield Corporate				
Cash Flow CLO – at least 80% Investment Grade Corporate				
6. REITs	-1	-2	-2	-3
REIT – Multifamily & Mobile Home Park				
REIT – Retail				
REIT – Hospitality				
REIT – Office				
REIT – Industrial				
REIT – Healthcare				
REIT – Warehouse				
REIT – Self Storage				
REIT – Mixed Use				

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	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
7. SPECIALTY STRUCTURED	-3	-4	-3	-4
Stadium Financings				
Project Finance				
Future flows				
8. RESIDENTIAL MORTGAGES	-1	-2	-2	-3
Residential "A"				
Residential "B/C"				
Home equity loans				
9. REAL ESTATE OPERATING COMPANIES	-1	-2	-2	-3

Part 2 - Standard & Poor's Asset Backed Categories

Each of the following categories of asset backed security shall constitute a separate asset backed class. Securities not included in any of these categories shall be assigned by Standard & Poor's.

Structured Finance Sectors

1. ABS Consumer
2. ABS Commercial
3. CDOs
4. CMBS Diversified – Conduit and CTL
5. CMBS – Large Loan, Single Borrower and Single Property
6. REITs
7. RMBS A
8. RMBS B&C, HELs, HELOCs and Tax Lien
9. Manufactured Housing
10. Project Finance
11. U.S. Agency – Explicitly Guaranteed
12. Monoline/FER Guaranteed
13. Non-FER Company Guaranteed
14. FFELP Student Loan (Over 70% FFELP)

Part 3 - Standard & Poor's Asset Classes Not Eligible to be Notched

The following asset classes are not eligible to be notched. Credit estimates must be performed.

Asset Type

1. Non-U.S. Structured Finance Securities
2. Guaranteed Securities
3. CDOs of Structured Finance and Real Estate Securities

4. CBOs of CDOs
5. CLOs of Distressed Debt
6. Mutual Fund Fee Securities
7. Catastrophe Bonds
8. First Loss Tranches of any securitization
9. Synthetics
10. Synthetic CBOs
11. Combination Securities
12. Re-REMICs
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Structured Settlement Obligations
16. Any asset class not listed on Part 1 above

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SCHEDULE C

MOODY'S RATING AND MOODY'S WEIGHTED AVERAGE RATING

The **"Weighted Average Rating"** on any Measurement Date is the number determined by dividing (i) the sum of the series of products obtained for Underlying Assets (other than Underlying Asset which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities) by multiplying the Principal/Notional Balance on such Measurement Date of each such Underlying Asset by its respective Moody's Rating Factor on such Measurement Date by (ii) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are not Underlying Assets which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities.

The **"Moody's Rating Factor"** relating to any Underlying Asset is the number set forth in the table below opposite the Moody's Rating of such Underlying Asset:

Moody's Rating	Moody's Rating Factor
Aaa	1
Aa1	10
Aa2	20
Aa3	40
A1	70
A2	120
A3	180
Baa1	260
Baa2	360
Baa3	610
Ba1	940
Ba2	1,350
Ba3	1,766
B1	2,220
B2	2,720
B3	3,490
Caa1	4,770
Caa2	6,500
Caa3	8,070
Ca or lower	10,000

The **"Moody's Rating"** of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

with respect to any Asset-Backed Security, for determining the Moody's Rating as of any date of determination:

(i) if such Asset-Backed Security is publicly rated by Moody's, the Moody's Rating shall be such rating, or, if such Underlying Asset is not publicly rated by Moody's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Moody's assign a rating to such Underlying Asset, the Moody's Rating shall be the rating so assigned by Moody's;

(ii) if such Asset-Backed Security is not publicly rated by Moody's, then the Moody's Rating of such Asset-Backed Security may be determined using any one of the methods below:

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(A) with respect to any ABS type Residential Security not publicly rated by Moody's, if such ABS type Residential Security is publicly rated by Standard & Poor's, then the Moody's Rating thereof will be (1) one subcategory below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AAA"; (2) two rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "AAA" but above "BB+" and (3) three rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "BBB-"; and

(B) with respect to any other type of Asset-Backed Securities, pursuant to any method specified by Moody's;

provided that

(V) the rating of either Rating Agency used to determine the Moody's Rating pursuant to any of clauses (i) or (ii) above shall be a public, non-exclusive rating (but not a rating estimate) that addresses the obligation of the obligor to pay principal of and interest on the relevant Underlying Asset in full and is monitored on an ongoing basis by the relevant Rating Agency,

(W) the Aggregate Principal/Notional Balance of Underlying Assets the Moody's Rating of which is based on a Standard & Poor's Rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Moody's or assigned Moody's rating estimates,

(X) the ratings of no more than 10% of the Aggregate Principal/Notional Balance of all Underlying Assets may be assigned rating factors derived via notching from single-rated instruments,

(Y) with respect to any one Rating Agency, the single-rated notched bucket may be no larger than 7.5% of the Aggregate Principal/Notional Balance of all Underlying Assets and

(Z) if an Underlying Asset

(A) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be two rating subcategories above the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's unless rated "Aa1", in which case only one subcategory above; and

(B) is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be (i) one rating subcategory below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated "Aaa" by Moody's or (ii) two rating subcategories below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's; and

provided further that, with respect to notched ratings on certain asset classes, the Moody's Rating shall be determined in conjunction with the notching conventions set forth below.

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Standard & Poor's

The following notching conventions are appropriate for Standard & Poor's-only rated tranches. (The figures represent the number of notches to be subtracted from the Standard & Poor's rating. For example, a "1" applied to an Standard & Poor's rating of BBB implies a Moody's rating of Baa3.)

ASSET CLASS	AAA to AA-	A+ to BBB-	Below BBB-
Auto loan	1	2	3
Car Rental Fleet	1	2	3
CDO Domestic Corporate Debt	No notching permitted	No notching permitted	No notching permitted
CDO Structured Product	No notching permitted	No notching permitted	No notching permitted
Consumer Asset-Backed	1	2	3
Credit Card	1	2	3
Equipment Lease	1	2	3
Manufactured Housing	1	2	3
Small Business Loan	1	2	3
Student Loan	1	2	3

Residential Mortgage Related (note that rating category groups differ here from above)	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential A and Residential B&C)	1	2	3

Fitch

The following notching conventions are with respect to Fitch:

Residential Mortgage Related	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	4
Alt-A or mixed pools	1	3	5
HEL (including Residential A and Residential B&C)	No notching	No notching	No notching

For dual-rated Jumbo A or Alt-A transactions, take the lower of the two ratings on the security, apply the appropriate single-rated notching guideline from above, then go up by 1/2 notch. For dual-rated HEL (including Residential A and Residential B&C) transactions, apply the Standard & Poor's-only rated tranche notching guidelines as set forth above.

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CMBS

The following CMBS notching conventions are with respect to S&P and Fitch:

Commercial Mortgage Backed Securities		
ASSET CLASS	**Tranche Rated by Fitch and S&P; no tranche in deal rated by Moody's**	**Tranche Rated by Fitch and/or S&P; at least one other tranche in deal rated by Moody's**
Conduit*	2 notches from lower of Fitch/S&P	1.5** notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	No notching permitted	

* For this purpose, conduits are defined as fixed rate, sequential pay, multi-borrower transactions having a Herfindahl score of 40 or higher at the loan level with all collateral (conduit loans, A notes, large loans, CTLs and any other real estate collateral) factored in.

** A 1.5 notch haircut implies, for example, that if the S&P/Fitch rating were BBB, then the Moody's rating factor would be halfway between the Baa3 and the Ba1 rating factors.

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SCHEDULE D

STANDARD & POOR'S RECOVERY MATRIX

A. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

B. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is not the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	85.0%
AA+, AA, AA-	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
A+, A, A-	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
BBB+, BBB, BBB-	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
BB+, BB, BB-	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
B+, B, B-	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
CCC+, CCC, CCC-	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

C. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is a CMBS Security:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
BB+, BB, BB-	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%

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Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
B+, B, B-	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
CCC+, CCC, CCC-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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SCHEDULE E

MOODY'S RECOVERY RATE MATRIX

The recovery rate with respect to a Synthetic Security will be calculated using the related Reference Obligation.

ABS Type Diversified ABS Securities[1]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	70%	60%	50%	40%
<=70%, >10%	75%	70%	60%	50%	40%	30%
<=10%	70%	65%	55%	45%	35%	25%

ABS Type Diversified Residential Securities[4]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >10%	75%	70%	55%	45%	35%	25%
<=10%, >5%	65%	55%	45%	40%	30%	20%
<=5%, >2%	55%	45%	40%	35%	25%	15%
<=2%	45%	35%	30%	25%	15%	10%

ABS Type Undiversified ABS Securities[5]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >10%	75%	70%	55%	45%	35%	25%
<=10%, >5%	65%	55%	45%	35%	25%	15%
<=5%, >2%	55%	45%	35%	30%	20%	10%
<=2%	45%	35%	25%	20%	10%	5%

ABS Type Low-Diversity CDO Securities[6]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	80%	75%	60%	50%	45%	30%
<=70%, >10%	70%	60%	55%	45%	35%	25%
<=10%, >5%	60%	50%	45%	35%	25%	15%
<=5%, >2%	50%	40%	35%	30%	20%	10%
<=2%	30%	25%	20%	15%	7%	4%

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ABS Type High-Diversity CDO Securities[7]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >10%	75%	70%	60%	50%	40%	25%
<=10%, >5%	65%	55%	50%	40%	30%	20%
<=5%, >2%	55%	45%	40%	35%	25%	10%
<=2%	45%	35%	30%	25%	10%	5%

(1) **"ABS Type Diversified ABS Securities"** refer to Automobile Securities, Car Rental Fleet Securities, Credit Card Securities and Student Loan Securities.

(2) Initial par amount of tranche to which such Underlying Asset relates divided by initial par amount of total securities issued by such Underlying Asset issuer.

(3) The recovery rate for Underlying Assets with a Moody's Rating of Caa1, Caa2 or Caa3 is assumed to be 10%.

(4) **"ABS Type Diversified Residential Securities"** refer to Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities, Non-Subprime Home Equity Loan Asset-Backed Securities and Manufactured Housing Securities.

(5) **"ABS Type Undiversified ABS Securities"** refer to Equipment Lease Securities, Small Business Loan Securities and CMBS Securities.

(6) **"ABS Type Low-Diversity CDO Securities"** refer to any CDO Securities that are not High-Diversity Securities.

(7) **"ABS Type High-Diversity CDO Securities"** refer to any CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of commercial and industrial bank loans, other asset-backed securities or corporate debt securities (or any combination of the foregoing) that are obligations of obligors or issuers that represent a relatively diversified pool of obligor credit risk having a Moody's Asset Correlation Factor lower than 20% or a Moody's diversity score higher than 15. The **"Moody's Asset Correlation Factor"** is a single number determined in accordance with the asset correlation methodology provided from time to time by Moody's and listed in the latest Monthly Report or indenture of such CDO Security.

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SCHEDULE F

CLASS D PRIORITY REDEMPTION AMOUNT

The Class D Priority Redemption Amount on each Distribution Date during the Priority Distribution Period will be as follows:

Distribution Date	Class D Priority Redemption Amount
June 2007	$459,167
September 2007	$459,167
December 2007	$459,167
March 2008	$459,167
June 2008	$459,167
September 2008	$459,167
December 2008	$459,167
March 2009	$459,167
June 2009	$459,167
September 2009	$459,167
December 2009	$459,167
March 2010	$459,167

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SCHEDULE G

FORM OF CONFIRMATION FOR RMBS SECURITIES

Deutsche Bank AG

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No: [ ]

From: Deutsche Bank AG, acting through its London Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (RMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its London Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	[ ]
Effective Date:	[ ]
Floating Rate Payer:	[ ] (the "Seller").

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Fixed Rate Payer:	[ ] (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ] Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum
Fixed Rate Payer Payment Dates:	Not CMBS Convention

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Fixed Amount:	Fixed Amount definition for underlying with no payment delay
Additional Credit Event:	Distressed Ratings Downgrade
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Not Applicable
Step-up provisions:	Applicable

If Interest Shortfall Cap is applicable, then specify:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Applicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

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Implied Writedown Amounts are not applicable to this Transaction. Without limiting the foregoing, for the purpose of any calculations required under this Confirmation (including the CDS on MBS Terms), the following terms shall all be deemed to be equal to zero: "Aggregate Implied Writedown Amount", "Current Period Implied Writedown Amount", "Implied Writedown Amount", "Implied Writedown Percentage", "Implied Writedown Reimbursement Amount", or "Previous Period Implied Writedown Amount".

The definition of "Writedown" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"'Writedown' means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation; or

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount, provided that (A) Party A shall not give notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, and (B) if, notwithstanding the preceding sub-clause (A), Party A gives notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, then, as soon as practicable after Party A and Party B become aware of such occurrence, Party A and Party B shall refund to each other all payments, and reverse all other calculations and/or determinations, that occurred in connection with or resulting from Party A giving notice of such

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	Floating Amount Event or Credit Event." For the avoidance of doubt, no payment in connection with clause (iii) of the definition of "Writedown" (as defined in the CDS on MBS Terms and not as amended herein) shall be due or payable hereunder and the CDS on MBS Terms shall be read accordingly.

Office, Notice and Account Details:

The Office of Party A for this Transaction is:	London
The Office of Party B for this Transaction is:	George Town, Grand Cayman, Cayman Islands
Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:	
Party A:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Party B:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By: _____

Name:
Title:

By: _____

Name:
Title:

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Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., as its Investment Manager

By: _____

Name:
Title:

By: _____

Name:
Title:

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ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. General Terms:

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

[1] The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "**Confirmation**") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

[2] Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference

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Entity.[3]

Initial Face Amount:	As shown in the relevant Confirmation.
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be: (i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount; (ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date; provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero. For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

	portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.
Initial Payment:	As shown in the relevant Confirmation.

2. Fixed Payments:

Fixed Rate Payer:	Buyer
Fixed Rate:	As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.
Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
Fixed Rate Payer Payment Dates:	In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable. If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date. If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no payment delay" or "Fixed Amount definition for underlying with payment delay". If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate;

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(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments: Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate

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Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.

Additional Fixed Payment Event: The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.

Additional Fixed Amount: With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of:

(a) the Writedown Reimbursement Payment Amount (if any);

(b) the Principal Shortfall Reimbursement Payment Amount (if any); and

(c) the Interest Shortfall Reimbursement Payment Amount (if any).

For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer: Seller

Floating Rate Payer Payment Dates: In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.

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Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of

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Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events: The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly):

Failure to Pay Principal

Writedown

Additional Credit Event (as shown in the relevant Confirmation).

Obligation: Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount: In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

Interest Shortfall Cap: As shown in the relevant Confirmation.

Interest Shortfall Cap Amount: As set out in the Interest Shortfall Cap Annex.

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Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
WAC Cap Interest Provision:	As shown in the relevant Confirmation. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at any future time.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions. The Expected Interest Amount shall be determined: (x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

Interest Shortfall: With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount; minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

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(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate

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Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.

Optional Step-up Early Termination:

No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction.

If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply.

No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method: Physical Settlement

Terms Relating to Physical Settlement:

Physical Settlement Period: Five Business Days

Deliverable Obligations: Exclude Accrued Interest

Deliverable Obligations: Deliverable Obligation Category: Reference Obligation Only

Physical Settlement Amount: An amount equal to:

(a) the product of the Exercise Amount and the Reference Price; minus

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(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

[5] This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

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"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

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"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be, or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated,

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distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

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For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking pari passu in priority with the Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

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"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

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(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and (c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.
Interest Shortfall Compounding:	As shown in the relevant Confirmation.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall

Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of

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the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount: The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

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(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate

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Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

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Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:
[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:
[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]: ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

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3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:
Transferee: [ ]
Remaining Party: [ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

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.....
(Name of Remaining Party)

By: .....
Name:
Title:
Date:

.....
(Name of Transferor)

By: .....
Name:
Title:
Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

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Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i)" after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply.

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SCHEDULE H

FORM OF CONFIRMATION FOR ABX TRANCHE SECURITIES

Deutsche Bank AG

DATE: [Date]

TO: Gemstone CDO VII Ltd.
Facsimile No: [number]

FROM: Deutsche Bank AG, acting through its London Branch

SUBJECT: ABX [specify series, tranche and version, if any] Transaction

REF NO: [ ]

The purpose of this communication (this "Confirmation") is to set forth the terms and conditions of the Master Transaction (as defined in the ABX Standard Terms (as defined below)) relating to residential mortgage-backed security reference obligations entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its London Branch ("Party A"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"), and the ABX Transactions Standard Terms Supplement, as published by CDS IndexCo LLC on January 19, 2006 (the "ABX Standard Terms"), are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the ABX Standard Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the ABX Standard Terms and the Credit Derivatives Definitions, the ABX Standard Terms will govern.

This Confirmation supplements, forms a part of and is subject to the 1992 ISDA Master Agreement (Multicurrency - Cross Border) and the Schedule thereto, dated as of [____], as amended and supplemented from time to time (the "Master Agreement"), between Party A and Party B. All provisions contained in, or incorporated by reference in, the Master Agreement shall govern this Confirmation except as expressly modified below.

The terms of the Master Transaction to which this Confirmation relates are as follows:

Index:	ABX [specify series, tranche, and version, if any]
Annex Date:	[launch date of Index]
Trade Date:	[ ]
Effective Date:	[Trade Date]
Scheduled Termination Date:	[the latest Legal Final Maturity Date of any Reference Obligation in the Relevant Annex]
Floating Rate Payer:	[ ] (the "Seller")
Fixed Rate Payer:	[ ] (the "Buyer")
Aggregate Floating Rate Payer Calculation Amount:	[ ]
Fixed Rate:	[ ]% per annum [specify the fixed rate for the Index published by the Index Publisher as of the launch date]

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Initial Payment Payer:	[Buyer][Seller]
Initial Payment Amount:	[ ]
Additional Terms (if any):	Implied Writedown Amounts are not applicable to this Transaction. Without limiting the foregoing, for the purpose of any calculations required under this Confirmation, the following terms shall all be deemed to be equal to zero: "Aggregate Implied Writedown Amount", "Current Period Implied Writedown Amount", "Implied Writedown Amount", "Implied Writedown Percentage", "Implied Writedown Reimbursement Amount", or "Previous Period Implied Writedown Amount". The definition of "Writedown" in the ABX Standard Terms shall be deleted and replaced in its entirety with the following: "'Writedown' means the occurrence at any time on or after the Effective Date of: (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation; or (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount, provided that (A) Party A shall not give notice of a Floating Amount Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, and (B) if, notwithstanding the preceding sub-clause (A), Party A gives notice of a Floating Amount Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, then, as soon as practicable after Party A and Party B become aware of such occurrence, Party A and Party B shall refund to each other all payments, and reverse all other calculations and/or determinations, that occurred in connection with or resulting from Party A giving notice of such Floating Amount Event."

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For the avoidance of doubt, no payment in connection with clause (iii) of the definition of "Writedown" (as defined in the ABX Standard Terms and not as amended herein) shall be due or payable hereunder and the ABX Standard Terms shall be read accordingly.

The definition of "Additional Fixed Payments" in the ABX Standard Terms shall be deleted and replaced in its entirety with the following:

"Following the occurrence of an Additional Fixed Payment Event in respect of a Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice (an "Additional Fixed Payment Amount Notice") by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date of such Reference Obligation (or, if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than following an Event of Default or Termination Event with respect to which the Seller is the Defaulting Party or sole Affected Party, the day that is one calendar year after such Early Termination Date.

Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay an Additional Fixed Amount unless the earliest day on which the related Additional Fixed Payment Date can be designated in accordance with the provision hereof occurs on or following the Effective Date."

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The definition of "Additional Fixed Payment Event" in the ABX Standard Terms shall be deleted and replaced in its entirety with the following:

"The occurrence on or after the Annex Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement (or, if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than following an Event of Default or Termination Event with respect to which the Seller is the Defaulting Party or sole Affected Party, the day that is one calendar year after such Early Termination Date)."

Notice and Account Details:

Party A's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Party B's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Account Details of Party A:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]
Account Details of Party B:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]

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Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us at the contact information listed above.

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

ABX TRANSACTIONS
STANDARD TERMS SUPPLEMENT
(published on January 19, 2006)[1]

This ABX Transactions Standard Terms Supplement (the "ABX Standard Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these ABX Standard Terms, these ABX Standard Terms will govern.

The parties agree that, by entering into a transaction governed by these ABX Standard Terms (a "Master Transaction"), they have entered into a separate Credit Derivative Transaction (each, a "Component Transaction") in respect of each Reference Obligation listed in the Relevant Annex (as defined below). Upon entering into a confirmation or other document (including in electronic form) (a "Confirmation") for a Master Transaction incorporating these ABX Standard Terms, the parties thereto shall be deemed to have entered into a Confirmation in respect of each such Component Transaction with respect to the related Reference Obligation listed in the Relevant Annex. Subject to paragraph 7 below and except as otherwise expressly provided herein or in the relevant Confirmation, each Component Transaction constitutes an independent Transaction for purposes of the Master Agreement (as specified in the relevant Confirmation).

References in these ABX Standard Terms to a Reference Obligation and the terms relating thereto shall be to the terms of such Reference Obligation set out in the applicable Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

The terms of each Component Transaction to which these ABX Standard Terms relate are as follows:

1. General Terms:

Index:	As shown in the relevant Confirmation.
Index Sponsor:	CDS IndexCo LLC
Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	As shown in the relevant Confirmation.
Component Transaction Scheduled Termination Date:	With respect to a Component Transaction, the Legal Final Maturity Date for the applicable Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	With respect to a Component Transaction, the last to occur of:

[1] The definitions and provisions of this ABX Transactions Standard Terms Supplement may be incorporated into a Confirmation (as defined herein) by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ABX Transactions Standard Terms Supplement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

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	(a) the fifth Business Day following the Effective Maturity Date in respect of the relevant Reference Obligation; (b) the last Floating Rate Payer Payment Date in respect of such Reference Obligation; and (c) the last Additional Fixed Amount Payment Date in respect of such Reference Obligation.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Aggregate Floating Rate Payer Calculation Amount:	As shown in the relevant Confirmation.
Calculation Agent:	If both parties are licensees of the Index, Seller. If only one party is a licensee of the Index, such party.
Calculation Agent City:	New York.
Business Day:	New York and London.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these ABX Standard Terms that falls on a day that is not a Business Day).
Reference Entity:	With respect to a Component Transaction, the applicable Reference Entity contained in the Index and listed in the Relevant Annex, and any entity that succeeds to the obligations of such Reference Entity under the related Reference Obligation. Section 2.2 of the Credit Derivatives Definitions shall not apply.
Reference Obligation:	With respect to a Component Transaction, the Reference Obligation specified in the Index and set out opposite the applicable Reference Entity in the Relevant Annex. Section 2.30 of the Credit Derivatives Definitions shall not apply. The Reference Obligation is used herein solely to make certain calculations hereunder and there is no requirement that Buyer or Seller own the Reference Obligation.

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Relevant Annex:	The list of Reference Entities and Reference Obligations for the relevant Index with the relevant Annex Date, as published by the Index Publisher (which can be accessed currently at http://www.markit.com). "Index Publisher" means Markit Group Limited (or its successor) or any replacement therefor appointed by the Index Sponsor for purposes of officially publishing the relevant Index.
Applicable Percentage:	On any day, with respect to a Reference Obligation, a percentage equal to A divided by B. "A" means, with respect to a Reference Obligation, the product of the Initial Face Amount and the Initial Factor. "B" means, with respect to a Reference Obligation, the product of the Original Principal Amount and the Initial Factor. (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as such Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of such Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	The Aggregate Floating Rate Payer Calculation Amount divided by the number of Reference Obligations in the Relevant Annex.
Initial Factor:	With respect to a Reference Obligation, the applicable factor published by the Index Publisher as of the Annex Date.
Reference Obligation Notional Amount:	With respect to a Reference Obligation, on the Annex Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Annex Date, the Reference Obligation Notional Amount with respect to a Reference Obligation will be: (i) decreased on each day on which a Principal Payment is made with respect to the Reference Obligation by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs with respect to the Reference Obligation by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs with respect to the Reference Obligation by the relevant Writedown Amount; and

(iv) increased on each day on which a Writedown Reimbursement occurs with respect to the Reference Obligation by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement";

provided that if the relevant Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

Initial Payment: If an Initial Payment Payer and an Initial Payment Amount are specified in the relevant Confirmation, then on the date that is five Business Days following the Trade Date, and with respect to the Master Transaction and all related Component Transactions in the aggregate, the Initial Payment Payer shall pay to the other party the Initial Payment Amount. For the avoidance of doubt, the Initial Payment will not be made separately in respect of each Component Transaction.

Initial Payment Payer: As shown in the relevant Confirmation.

Initial Payment Amount: As shown in the relevant Confirmation.

2. **Fixed Payments:**

Fixed Rate: As shown in the relevant Confirmation.

Fixed Rate Payer Period End Date: The first day of each related Reference Obligation Calculation Period.

Fixed Rate Payer Calculation Period: Each period from and including one Fixed Rate Payer Period End Date to but excluding the next following Fixed Rate Payer Period End Date, except that (a) the initial Fixed Rate Payer Calculation Period will commence on, and include, the later of the Annex Date and the Fixed Rate Payer Period End Date falling on or immediately prior to the Trade Date and (b) the Final Fixed Rate Payer Calculation Period will end on, but include, the last day of the last Reference Obligation Calculation Period immediately prior to the final Fixed Rate Payer Payment Date.

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Fixed Rate Payer Payment Dates:	With respect to a Component Transaction, each day falling five Business Days after a Reference Obligation Payment Date for the Reference Obligation; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date of the Reference Obligation.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date for a Component Transaction, an amount equal to the product of: (a) the relevant Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the relevant Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay Fixed Amounts for any Fixed Rate Payer Payment Date occurring prior to the Effective Date.
Additional Fixed Amount Payment Dates:	With respect to a Reference Obligation: (a) Each relevant Fixed Rate Payer Payment Date; and (b) in relation to each relevant Additional Fixed Payment Event occurring after the second Business Day prior to the last relevant Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.
Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of a Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date for such Reference Obligation falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date for such Reference

Obligation, five Business Days) after the delivery of a notice (an "Additional Fixed Payment Amount Notice") by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date of such Reference Obligation. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay an Additional Fixed Amount unless the earliest day on which the related Additional Fixed Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date.

Additional Fixed Payment Event: The occurrence on or after the Annex Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement in respect of a Reference Obligation.

Additional Fixed Amount: With respect to each Additional Fixed Amount Payment Date in respect of a Reference Obligation, an amount equal to the sum of:

(a) the relevant Writedown Reimbursement Payment Amount (if any);

(b) the relevant Principal Shortfall Reimbursement Payment Amount (if any); and

(c) the relevant Interest Shortfall Reimbursement Payment Amount (if any).

3. Floating Payments:

Floating Rate Payer Payment Dates: In relation to a Floating Amount Event with respect to a Reference Obligation, the first relevant Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date of such Reference Obligation, the fifth Business Day) after delivery of a notice (a "Floating Payment Notice") by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.

Floating Payments: If a Floating Amount Event occurs with respect to a Reference Obligation, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. Notwithstanding anything to the contrary herein, Seller shall not be obligated to pay a

Floating Amount unless the earliest day on which the related Floating Rate Payer Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date. For the avoidance of doubt, the Conditions to Settlement under the Credit Derivatives Definitions shall not apply.

Floating Amount Event: A Writedown, a Failure to Pay Principal or an Interest Shortfall.

Floating Amount: With respect to each Floating Rate Payer Payment Date in respect of a Reference Obligation, an amount equal to the sum of:

(a) the relevant Writedown Amount (if any);

(b) the relevant Principal Shortfall Amount (if any); and

(c) the relevant Interest Shortfall Payment Amount (if any).

4. Interest Shortfall

Interest Shortfall Payment Amount: In respect of an Interest Shortfall with respect to a Reference Obligation, the relevant Interest Shortfall Amount; provided that if the relevant Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

Interest Shortfall Cap Amount: As set out in the Interest Shortfall Cap Annex.

Actual Interest Amount: With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, payment by or on behalf of the Issuer of an amount in respect of interest due under such Reference Obligation (including, without limitation, any deferred interest or defaulted interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.

Expected Interest Amount: With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of such Reference Obligation equal to (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the

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Underlying Instruments) that are attributable to such Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) for such Reference Obligation and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount in respect of a Reference Obligation shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on such Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the relevant Underlying Instruments).

Interest Shortfall:

With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the relevant Reference Policy, if applicable.

Interest Shortfall Amount:

With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date in respect of such Reference Obligation, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period with respect to such Reference Obligation; over

(y) the number of days in the first Reference Obligation Calculation Period with respect to such Reference Obligation.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date for a Reference Obligation, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of such Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	The amount determined pursuant to the Interest Shortfall Cap Annex.

5. **Additional Provisions:**

(a) Calculation Agent and Buyer and Seller Determinations

The Calculation Agent shall be responsible for determining and calculating, for each Reference Obligation, (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on composite data compiled and published by the Index Publisher from applicable Servicer Reports ("Composite Data") or, if such Composite Data is not available, from applicable Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent, Buyer or Seller may rely on calculations or determinations published by the Index Publisher in making such determinations and calculations. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations.

(b) Adjustment of Calculation Agent Determinations

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports or the Index Publisher corrects any previously published Composite Data (or other relevant calculation or determination published by the Index Publisher), and such corrections impact calculations or determinations pursuant to a Component

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Transaction, the calculations or determinations relevant to such Component Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations or determinations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made on the second Fixed Rate Payer Payment Date following the day on which such notification by the Calculation Agent is effective.

(c) Initial Payment Date Following Annex Date

Notwithstanding anything to the contrary herein, with respect to any Component Transactions, any amount that would otherwise be payable hereunder on the first Fixed Rate Payer Payment Date following the Annex Date will be deemed to be payable instead on the second Fixed Rate Payer Payment Date following the Annex Date (together with any other amounts payable on such date).

6. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Section 9.1(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to each Reference Entity and the Insurer in respect of the relevant Reference Policy, if applicable.

(b) For the purposes of each Component Transaction, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the relevant Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.

"Aggregate Implied Writedown Amount" means, with respect to a Reference Obligation, the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance backing the payment obligations on such Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recent Composite Data or from the most recent

Servicer Report for such Reference Obligation available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Effective Maturity Date" means, with respect to a Reference Obligation, the earlier of (a) the Component Transaction Scheduled Termination Date and (b) the Final Amortization Date.

"Expected Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of such Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to such Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means, with respect to a Reference Obligation, (i) a failure by the relevant Reference Entity (or any Insurer thereof) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by such Reference Entity (or any Insurer thereof) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means, with respect to a Reference Obligation, the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets backing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Implied Writedown Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means, with respect to a Reference Obligation, (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount for the Reference Obligation over the Current Period Implied Writedown Amount for the Reference Obligation, in each case in respect of the Reference Obligation Calculation Period to

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which such Reference Obligation Payment Date relates, and (ii) in any other case, zero; provided that the aggregate of all Implied Writedown Reimbursement Amounts for a Reference Obligation at any time shall not exceed the product of the Pari Passu Amount for the Reference Obligation and the Implied Writedown Percentage for the Reference Obligation.

"Insurer" means, with respect to a Reference Obligation, the insurer of such Reference Obligation specified in the Relevant Annex.

"Issuer" means, with respect to a Reference Obligation, the issuer of such Reference Obligation specified in the Relevant Annex.

"Legal Final Maturity Date" means, with respect to a Reference Obligation, the date set out in the Relevant Annex for such Reference Obligation (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of such Reference Obligation), provided that if the legal final maturity date of such Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Original Principal Amount" means, with respect to a Reference Obligation, the amount specified as such in the Relevant Annex.

"Outstanding Principal Amount" means, with respect to a Reference Obligation as of any date of determination, the outstanding principal balance of such Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of such Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of such Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition).

"Pari Passu Amount" means, with respect to a Reference Obligation as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the relevant Reference Entity backed by the relevant Underlying Assets and ranking *pari passu* in priority with such Reference Obligation.

"Previous Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period for such Reference Obligation.

"Principal Payment" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of such Reference Obligation in respect of principal (scheduled or unscheduled) in respect of such Reference Obligation other than a payment in respect of principal representing capitalized interest,

excluding, for the avoidance of doubt, any relevant Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, with respect to a Reference Obligation, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the relevant Actual Principal Amount; and

(B) the Applicable Percentage;

If the Principal Shortfall Amount in respect of a Reference Obligation would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then such Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to a Reference Obligation on any day, the payment by or on behalf of the relevant Issuer of an amount in respect of such Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any relevant Principal Shortfall Reimbursement on such day and (ii) the relevant Applicable Percentage.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, made on the related Reference Obligation Payment Date), provided that the aggregate of all such Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts (determined without regard to the Effective Date) in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Reference Obligation Calculation Period" means, with respect to a Reference Obligation and each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the relevant Underlying Instruments.

"Reference Obligation Coupon" means, with respect to a Reference Obligation, the periodic interest rate applied in relation to each related Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the relevant Underlying Instruments as at the Annex Date, without regard to any subsequent amendment.

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"Reference Obligation Payment Date" means, with respect to a Reference Obligation, (i) each scheduled distribution date for such Reference Obligation occurring on or after the Annex Date and on or prior to the Component Transaction Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of such Reference Obligation.

"Reference Policy" means, with respect to a Reference Obligation, the reference policy for such Reference Obligation specified in the Relevant Annex.

"Senior Amount" means, with respect to a Reference Obligation as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity backed by the Underlying Assets and ranking senior in priority to such Reference Obligation.

"Servicer" means, with respect to a Reference Obligation, any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means, with respect to a Reference Obligation, periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Underlying Assets" means, with respect to a Reference Obligation, the assets backing the Reference Obligation for the benefit of the holders of such Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of such Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means, with respect to a Reference Obligation, the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means, with respect to a Reference Obligation, the occurrence at any time on or after the Annex Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to such Reference Obligation resulting in a reduction or subordination of the current interest payable on such Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of such Reference Obligation, an Implied Writedown Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any Writedown with respect to such Reference Obligation on such day and (ii) the Applicable Percentage.

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"Writedown Reimbursement" means, with respect to a Reference Obligation on any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of such Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of such Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to such Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of such Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to a Reference Obligation on any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements with respect to such Reference Obligation on that day; and

(ii) the Applicable Percentage;

"Writedown Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, on the related Reference Obligation Payment Date or date of determination of an Implied Writedown Reimbursement Amount, as the case may be), provided that the aggregate of all such Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts with respect to such Reference Obligation (determined without regard to the Effective Date) in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

7. Transfer and Termination of Component Transactions

Without prejudice to Section 7 of the Master Agreement specified in the relevant Confirmation, the Component Transactions (or any part thereof) to which these ABX Standard Terms relate may only be transferred (by way of assignment, novation or otherwise) or terminated prior to the Component Transaction Scheduled Termination Date thereof (other than in accordance with the terms hereof) together with an equal part (by Initial Face Amount) of each other Component Transaction forming part of the Master Transaction of which it forms a part.

8. Disclaimers

(a) ABX™ is a service mark of the Index Sponsor and has been licensed for use in connection with the Master Transaction.

(b) The Index referenced herein is the property of the Index Sponsor and has been licensed for use in connection with the transaction hereunder. Each party acknowledges and agrees that the transaction hereunder is not sponsored, endorsed, or promoted by the Index Sponsor or any members of the Index Sponsor (the Index Sponsor, together with its members, the "Index

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Parties"). The Index Parties make no representation whatsoever, whether express or implied, and hereby expressly disclaim all warranties (including, without limitation, those of merchantability or fitness for a particular purpose or use), with respect to the Index or any data included therein or relating thereto, and in particular disclaim any warranty either as to the quality, accuracy and/or completeness of the Index or any data included therein, the results obtained from the use of the Index and/or the composition of the Index at any particular time on any particular date or otherwise and/or the creditworthiness of any entity, or the likelihood of the occurrence of a Floating Amount Event with respect to an obligation, in the Index at any particular time on any particular date or otherwise. The Index Parties shall not be liable (whether in negligence or otherwise) to the parties or any other person for any error in the Index, and the Index Parties are under no obligation to advise the parties or any person of any error therein. The Index Parties make no representation whatsoever, whether express or implied, as to the advisability of entering into the transaction hereunder, the ability of the Index to track relevant markets' performances, or otherwise relating to the Index or any transaction or product with respect thereto, or of assuming any risks in connection therewith. The Index Parties have no obligation to take the needs of any party into consideration in determining, composing or calculating the Index. Neither party to this transaction, nor any Index Party, shall have any liability to any party for any act or failure to act by the Index Parties in connection with the determination, adjustment, calculation or maintenance of the Index. Although the Calculation Agent will obtain information concerning the Index from sources it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express or implied) is made, and no responsibility is accepted by either party, its Affiliates or the Calculation Agent, as to the accuracy, completeness or timeliness of information concerning the Index. Each party acknowledges that the other party or one of its affiliates may be, or may be affiliated with, an Index Party and, as such, may be able to affect or influence the determination, adjustment or maintenance of the Index. For purposes of Sections 9.1(b)(iii) and (iv) of the Credit Derivatives Definitions, references to "each party" therein shall be deemed to include each Index Party.

(c) Without limitation of Section 9.1(b)(iv) of the Credit Derivatives Definitions (as modified above), each party acknowledges that the other party or its Affiliates or the Calculation Agent may act from time to time as an originator, sponsor, servicer, administrator, trustee, underwriter or market maker, or otherwise act in a capacity as a result of which such party or its Affiliates may be in possession of information in relation to one or more Reference Obligations or Reference Entities contained in the Index which may be material in the context of one or more Component Transactions and that may or may not be publicly available or known to the other party. No furnishing by a party or its Affiliates or the Calculation Agent of any notice, report, or other information with respect to any Reference Obligation or any Reference Entity ("Reference Obligation Information") shall prejudice the foregoing provision or Section 9.1(b)(iv) of the Credit Derivatives Definitions, constitute a representation or warranty as to the correctness or completeness of such Reference Obligation Information, give rise to any duty to supplement, update or revise the Reference Obligation Information so provided, or otherwise result in such party or the Calculation Agent having any responsibility for the content of such Reference Obligation Information.

Interest Shortfall Cap Annex

Interest Shortfall Cap Amount:

The Interest Shortfall Cap Amount in respect of an Interest Shortfall for a Reference Obligation shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.

Interest Shortfall Reimbursement Payment Amount:

The first Additional Fixed Amount Payment Date for a Reference Obligation, zero, and with respect to any subsequent Additional Fixed Amount Payment Date for such Reference Obligation and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement for such Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date for such Reference Obligation);

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date for such Reference Obligation would exceed the Interest Shortfall Reimbursement Amount in respect of the

related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date for such Reference Obligation immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date for such Reference Obligation.

Cumulative Interest Shortfall Payment Amount: With respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate

Payer Payment Date; and

(B) the product of.

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) the relevant Cumulative Interest Shortfall Payment Compounding Factor;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Cumulative Interest Shortfall Payment Compounding Factor:

With respect to any Fixed Rate Payer Calculation Period in respect of a Reference Obligation, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate in respect of such Reference Obligation plus (B) the relevant Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period in respect of a Reference Obligation, the relevant Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the relevant Effective Maturity Date to and including the relevant Termination Date.

Rate Source: USD-LIBOR-BBA

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SCHEDULE I
FORM OF CONFIRMATION FOR CMBS SECURITIES

Deutsche Bank AG

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No:[ ]

From: Deutsche Bank AG, acting through its New York Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (CMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its New York Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007 as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: [ ]

Effective Date: [ ]

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Floating Rate Payer:	[ ] (the "Seller").
Fixed Rate Payer:	[ ] (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ] Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum

Fixed Rate Payer Payment Dates:	CMBS Convention
Fixed Amount:	Fixed Amount definition for underlying with payment delay
Additional Credit Event:	No Additional Credit Event
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Applicable
Step-up provisions:	Not Applicable

If Interest Shortfall Cap is applicable, then specify:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Inapplicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable

Additional Terms:

The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

Implied Writedown Amounts are not applicable to this Transaction. Without limiting the foregoing, for the purpose of any calculations required under this Confirmation (including the CDS on MBS

Terms), the following terms shall all be deemed to be equal to zero: "Aggregate Implied Writedown Amount", "Current Period Implied Writedown Amount", "Implied Writedown Amount", "Implied Writedown Percentage", "Implied Writedown Reimbursement Amount", or "Previous Period Implied Writedown Amount".

The definition of "Writedown" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"'Writedown' means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation; or

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount, provided that (A) Party A shall not give notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, and (B) if, notwithstanding the preceding sub-clause (A), Party A gives notice of a Floating Amount Event or Credit Event with respect to the portion of a Writedown resulting from forgiveness referred to in this subclause (ii) that was caused by the vote of Party A if Party A was the holder of 100% of such Reference Obligation, then, as soon as practicable after Party A and Party B become aware of such occurrence, Party A and Party B shall refund to each other all payments, and reverse all other calculations and/or determinations, that occurred in connection with or resulting from Party A giving notice of such Floating Amount Event or Credit Event."

For the avoidance of doubt, no payment in connection with clause (iii) of the definition of "Writedown" (as defined in the CDS on MBS

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Terms and not as amended herein) shall be due or payable hereunder and the CDS on MBS Terms shall be read accordingly.

Office, Notice and Account Details:

The Office of Party A for this Transaction is: New York

The Office of Party B for this Transaction is: George Town, Grand Cayman, Cayman Islands

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:

Party A:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Party B:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS NEW YORK BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

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ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. General Terms:

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

1 The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "**Confirmation**") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

2 Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference

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Entity.[3]

Initial Face Amount:	As shown in the relevant Confirmation.
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be: (i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount; (ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date; provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero. For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

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		portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.
	Initial Payment:	As shown in the relevant Confirmation.
2.	**Fixed Payments:**	
	Fixed Rate Payer:	Buyer
	Fixed Rate:	As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.
	Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
	Fixed Rate Payer Payment Dates:	In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable. If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date. If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
	Fixed Amount:	In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no payment delay" or "Fixed Amount definition for underlying with payment delay". If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments: Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after

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the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.

Additional Fixed Payment Event: The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.

Additional Fixed Amount: With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of:

(a) the Writedown Reimbursement Payment Amount (if any);

(b) the Principal Shortfall Reimbursement Payment Amount (if any); and

(c) the Interest Shortfall Reimbursement Payment Amount (if any).

For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer: Seller

Floating Rate Payer Payment Dates: In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth

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Business Day following the Effective Maturity Date.

Floating Payments: If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.

Floating Amount Event: A Writedown, a Failure to Pay Principal or an Interest Shortfall.

Floating Amount: With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of:

(a) the relevant Writedown Amount (if any);

(b) the relevant Principal Shortfall Amount (if any); and

(c) the relevant Interest Shortfall Payment Amount (if any).

For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

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Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

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"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events:	The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly): Failure to Pay Principal Writedown Additional Credit Event (as shown in the relevant Confirmation).
Obligation:	Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
WAC Cap Interest Provision:	As shown in the relevant Confirmation. For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at

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any future time.

Expected Interest Amount: With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to:

(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus

(b) the Aggregate Implied Writedown Amount (if any)

and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined:

(x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

Interest Shortfall: With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement: With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.

Interest Shortfall Reimbursement Amount: With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

Interest Shortfall Reimbursement Payment Amount: If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount

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determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.
Optional Step-up Early Termination:	No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction. If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply. No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and

payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method: Physical Settlement

Terms Relating to Physical Settlement:

Physical Settlement Period: Five Business Days

Deliverable Obligations: Exclude Accrued Interest

Deliverable Obligations: Deliverable Obligation Category: Reference Obligation Only

Physical Settlement Amount: An amount equal to:

(a) the product of the Exercise Amount and the Reference Price; minus

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the

Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9, Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v)

5 This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

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is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding

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principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be, or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference

Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction,

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excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day

after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

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"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis:	As shown in the relevant Confirmation.
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount

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equal to the product of:

(a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs;

(b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and

(c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.

Interest Shortfall Compounding:

As shown in the relevant Confirmation.

Interest Shortfall Reimbursement Payment Amount:

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such

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Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such

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Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer

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Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately

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after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective

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Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

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Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:
[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:

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[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]:	ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:

Transferee:	[	]
Remaining Party:	[	]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the

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Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

.....
(Name of Remaining Party)

By: .....
Name:
Title:
Date:

.....
(Name of Transferor)

By: .....
Name:
Title:
Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

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Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i)" after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply.

SCHEDULE J

FORM OF CONFIRMATION FOR CDO SECURITIES

Deutsche Bank AG

Date:

To:

Attention:

Fax No.:

Our Reference:

RE: Credit Derivative Transaction on Collateralized Debt Obligation Security with Pay-As-You-Go or Physical Settlement (Dealer Form—adjusted for Gemstone CDO VII Ltd.)

Dear Sir/Madam:

The purpose of this letter (the **"Confirmation"**) is to confirm the terms and conditions of the Credit Derivative Transaction relating to a collateralized debt obligation security reference obligation entered into between Deutsche Bank AG, acting through its London Branch (**"Party A"**) and Gemstone CDO VII Ltd. (**"Party B"**) on the Trade Date specified below (the **"Transaction"**). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the **"Credit Derivatives Definitions"**), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions and this Confirmation, this Confirmation shall govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of June 27, 2006, as amended and supplemented from time to time (the **"Agreement"**), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

References in this Confirmation to the "Reference Obligation" shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

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The terms of the Transaction to which this Confirmation relates are as follows:

1. General Terms:

Trade Date:	[●]
Effective Date:	[●]
Scheduled Termination Date:	Subject to paragraph 5, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	[●] (the **"Seller"**).
Fixed Rate Payer:	[●] (the **"Buyer"**).
Calculation Agent:	Party A
Calculation Agent City:	New York
Business Day:	New York and London
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in this Confirmation that falls on a day that is not a Business Day).
Reference Entity:	[●]
Reference Obligation:	The obligation identified as follows: Issuer: The Reference Entity Insurer: [●] CUSIP/ISIN: [●] Bloomberg ID: [●] Legal final maturity date: [●] Original Principal Amount: [●] Initial Factor: [●] Coupon: [●]

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	Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	Not Applicable
Reference Price:	100%
Applicable Percentage:	On any day, a percentage equal to A *divided* by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) *divided* by the Current Factor on such day *multiplied* by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	[●]
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage. Following the Effective Date, the Reference Obligation Notional Amount will be: (i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount; (ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount *minus* the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest during the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to deferral or capitalization of interest during the Term of this Transaction.

Initial Payment: [Not applicable]

[On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]

2. **Fixed Payments:**

Fixed Rate Payer: Buyer

Fixed Rate: [●]% *per annum*; subject to adjustment in accordance with paragraph 5 below.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

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Fixed Rate Payer Payment Dates:	Each day falling five Business Days after a Reference Obligation Payment Date; *provided* that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of: (a) the Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; *divided* by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period *divided* by 360.
Additional Fixed Amount Payment Dates:	(a) Each Fixed Rate Payer Payment Date; and (b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

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Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date; provided, however that if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than in respect of a Termination Event or Event of Default where the Seller is the Defaulting Party or sole Affected Party, the day that is (x) one calendar year after such Early Termination Date if the Reference Obligation is undercollateralized by more than 25% on such Early Termination Date, or (y) three calendar years after such Early Termination Date if the Reference Obligation is not undercollateralized by more than 25% on such Early Termination Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement (or, if this Transaction is terminated as a result of the occurrence of an Early Termination Date (as defined in the Agreement) other than in respect of a Termination Event or Event of Default where the Seller is the Defaulting Party or sole Affected Party, the day that is (x) one calendar year after such Early Termination Date if the Reference Obligation is undercollateralized by more than 25% on such Early Termination Date, or (y) three calendar years after such Early Termination Date if the Reference Obligation is not undercollateralized by more than 25% on such Early Termination Date.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any);

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(b) the Principal Shortfall Reimbursement Payment Amount (if any); and

(c) the Interest Shortfall Reimbursement Payment Amount (if any).

For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Implied Writedown:	Not Applicable
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and

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(c) the relevant Interest Shortfall Payment Amount (if any).

For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

Conditions to Settlement:

Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Conditions to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement and, in relation to the Failure to Pay Interest Credit Event, the Additional Condition to Settlement specified below.

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Additional Condition to Settlement for Failure to Pay Interest:	In addition to the Conditions to Settlement above, in respect of the Failure to Pay Interest Credit Event, if the Reference Obligation is PIK-able, it shall be a Condition to Settlement that a period of at least 360 calendar days has elapsed since the occurrence of the Credit Event without the relevant Interest Shortfall having been reimbursed in full. For the avoidance of doubt, if it is not explicitly made clear in the Servicer Report whether or not, or to what extent, a particular Interest Shortfall has been reimbursed but the Calculation Agent determines that such Interest Shortfall has been reimbursed by a certain amount on the basis of information in such Servicer Report, then the relevant Interest Shortfall reimbursement shall be calculated by the Calculation Agent on the basis of such information.
Additional agreements relating to Physical Settlement:	The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions: (a) the Conditions to Settlement may be satisfied on more than one occasion; (b) multiple Physical Settlement Amounts may be payable by Seller; (c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage; (d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and (e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the Effective Maturity Date.

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		Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".
	Credit Events:	The following Credit Events shall apply to this Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly): Failure to Pay Principal Writedown Failure to Pay Interest Payment Requirement: USD 10,000 Distressed Ratings Downgrade The definition of "Payment Requirement" in Section 4.8(d) of the Credit Derivatives Definitions shall be amended so that the words "Failure to Pay" are deleted and replaced by the words "Failure to Pay Interest".
	Obligation:	Reference Obligation Only
4.	**Interest Shortfall:**	
	Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
	Interest Shortfall Cap:	Applicable
	Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
	Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the Term of this Transaction but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

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Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation; *minus* (b) the Aggregate Implied Writedown Amount (if any), and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates; (ii) any prepayment penalties or yield maintenance provisions; and (iii) the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments).
Interest Shortfall:	With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount. For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.
Interest Shortfall Amount:	With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

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(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above *multiplied* by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	With respect to an Additional Fixed Amount Payment Date, (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the Interest Shortfall Cap Annex; provided, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that Interest Shortfall Compounding is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by Seller in respect of Interest Shortfalls occurring prior to such Additional Fixed Amount Payment Date.

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5. Settlement Terms:

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category:
	Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

(a) the product of the Exercise Amount and the Reference Price; *minus*

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" *minus* the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage,

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

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	then the Physical Settlement Amount shall be deemed to be equal to such product.
Delayed Payment:	With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the receipt of such Servicer Report.
Escrow:	Applicable
Non-delivery by Buyer or occurrence of the Effective Maturity Date:	If Buyer has delivered a Notice of Physical Settlement and: (a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or (b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement; then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in this Confirmation to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

6. **Additional Provisions:**

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the **"Notifying Party"**) shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

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(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to this Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

7. **Offices:**

The Office of Seller for this Transaction is George Town, Grand Cayman, Cayman Islands.

The Office of Buyer for this Transaction is London.

8. **Notice and Account Details:**

Telephone, Telex and/or
Facsimile Numbers and
Contact Details for Notices:

Party A: Deutsche Bank AG, London
Winchester House
1 Great Winchester Street
London EC2N 2DB
Attention:
Telephone: +1 212 250 7730

Party B: Gemstone CDO VII Ltd.
[]
Attention: []
Facsimile: []

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With a copy to:

HBK Investments, L.P.
[]

Attention: []
Facsimile: []

Account Details:

Account Details of Party A: []
Swift BIC Code: []
Account No: []
Fed ABA No: []
CHIPS ABA No: []
CHIPS UID No: []
Favour []

Account Details of Party B: []
Account No: []
Fed ABA No: []
Benef Name: []
Benef Address: []
FC: []
OBI: []

9. Additional Definitions and Amendments to the Credit Derivatives Definitions:

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of this Transaction only, the following terms have the meanings given below:

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"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts *minus* the aggregate of all Implied Writedown Reimbursement Amounts, *provided* that if Implied Writedown is not applicable, the Aggregate Implied Writedown Amount shall be deemed to be zero.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; *provided* that if the factor is not specified in the most recent Servicer Report or such specified factor includes deferred or capitalized interest relating to the Term of this Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the product of (I) the Pari Passu Amount plus the Senior Amount and (II) an amount equal to one *minus* the Overcollateralization Ratio.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not

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reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC") or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization of interest in respect of the Reference Obligation occurred during the Term of this Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purposes of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement *divided* by an amount equal to (i) the Initial Face Amount *minus* (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, *minus* (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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"Failure to Pay Interest" means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount *divided* by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the product of the Pari Passu Amount and the Implied Writedown Percentage.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), *provided* that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

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(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Overcollateralization Ratio" means, in respect of a Reference Obligation Calculation Period:

(i) if the most recent Servicer Report sets out a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations on the Reference Obligation (subject to certain adjustments as described in the Underlying Instruments) to (B) the Pari Passu Amount plus the Senior Amount, then such ratio; or

(ii) if the ratio cannot be determined under (i) but the most recent Servicer Report for one or more senior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the senior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation to (B) the sum of the Pari Passu Amount plus the Senior Amount with respect to such Reference Obligation; or

(iii) if the ratio cannot be determined under (ii) but the most recent Servicer Report for one or more junior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the junior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation (including the Reference Obligation) and (B) the sum of the Pari Passu Amount plus the Senior Amount with respect to such Reference Obligation; or

(iv) if the ratio cannot be determined under (iii), then a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations under the Reference Obligation to (B) the Pari Passu Amount plus the Senior Amount.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"PIK-able" means, in relation to a Reference Obligation, that the Underlying Instruments include provisions that provide for capitalization or deferral of interest on such Reference Obligation.

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"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount *minus* the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Effective Date.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Related Obligation" means, in relation to the Reference Obligation, an obligation of the Reference Entity that is also secured by the Underlying Assets but ranks senior or junior to the Reference Obligation in priority of payment. In relation to a Related Obligation, the terms "Servicer", "Servicer Report" and "Underlying Instruments" shall have the meanings set out in this Confirmation but with references in the definitions of those terms to "Reference Obligation" being deemed, solely for this purpose, to be references to the Related Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports in relation to the Reference Obligation pursuant to the Underlying Instruments.

"Servicer Report" means a periodic statement or report regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

10. Representations

Each party will be deemed to represent to the other party on the date on which it enters into the Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for the Transaction):

(a) *Non-Reliance*

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It is acting for its own account, and it has made its own independent decisions to enter into the Transaction and as to whether the Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into the Transaction; it being understood that information and explanations related to the terms and conditions of the Transaction shall not be considered investment advice or a recommendation to enter into the Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of the Transaction.

(b) *Assessment and Understanding*

It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of the Transaction. It is also capable of assuming, and assumes, the risks of the Transaction.

(c) *Status of Parties*

The other party is not acting as a fiduciary for, or an adviser to it in respect of the Transaction.

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile to:

Attention:	New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com

Deutsche Bank AG, acting through its London Branch is acting as principal in the Transaction. The time of transaction will be supplied on request. The time of exercise will be supplied on request. Details of arrangements with introducing brokers are available on request.

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This message will be the only form of Confirmation dispatched by us. Please execute and return it to us by facsimile immediately. If you wish to exchange hard copy forms of this Confirmation, please contact us.

Yours faithfully,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By: _____

Name: _____
Title: Authorized Signatory

By: _____

Name: _____
Title: Authorized Signatory

Confirmed as of the date first written above:

Gemstone CDO VIII Ltd.

By: _____

Name: _____

Title: _____

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Interest Shortfall Cap Annex

If Interest Shortfall Cap is applicable, then the following provisions will apply:

Interest Shortfall Cap Basis:	Variable Cap
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and (c) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360.
Interest Shortfall Compounding:	Applicable
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is applicable, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of: (a) zero; and (b) the amount equal to: (i) the product of: (A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and (B) either:

(1) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is not applicable, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount:

With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is applicable, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation

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Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, *zero*; or

(B) if Interest Shortfall Compounding is not applicable, 0; *minus*

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

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(AA) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is not applicable, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); *minus*

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor:

With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

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(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: USD-LIBOR-BBA

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SCHEDULE K

INDEX OF DEFINED TERMS

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PRINCIPAL OFFICES OF THE ISSUERS

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited
P.O. Box 1984
Grand Cayman KY1-1104
Cayman Islands

Gemstone CDO VII Corp.
c/o Puglisi & Associates
850 Library Avenue
Suite 204
Newark, Delaware 19711

TRUSTEE, PRINCIPAL PAYING AGENT AND NOTE REGISTRAR

Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

TRANSFER AGENT

Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

LISTING AGENT AND IRISH PAYING AGENT

RSM Robson Rhodes LLP
RSM House, Herbert Street
Dublin 2, Ireland

COLLATERAL MANAGER

HBK Investments L.P.
300 Crescent Court Suite 700
Dallas, Texas 75201

LEGAL ADVISORS

To the Issuers

As to U.S. Law
Allen & Overy LLP
1221 Avenue of the Americas
New York, New York 10020

To the Initial Purchaser

Allen & Overy LLP
1221 Avenue of the Americas
New York, New York 10020

To the Issuer

As to Cayman Islands Law
Maples and Calder
P.O. Box 309GT, Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

To the Collateral Manager

Cadwalader, Wickersham & Taft LLP
One World Financial Center
New York, New York 10281

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Gemstone CDO VII, Ltd.

Debt Investor Presentation

February 8, 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1345

GEM7-00001687

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Section 1

Executive Summary

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Opportunity Overview

Transaction Schedule

Pricing:	end-Feb
Closing:	mid-Mar
Non-call period ends:	3 yrs
Reinvestment period ends:	2 yrs
Auction calls begin:	6.25 yrs
Reverse turbo begins:	8.25 yrs
Legal final date:	40 yrs

- $1.1 billion partially static mezzanine ABS CDO to be managed by HBK Investments L.P. and its affiliated subsidiaries ("HBK")
  - Predominantly RMBS (~88.6%) with smaller allocations to ABS CDOs (~4.5%), CMBS (~3.3%) and Student Loans (~3.5%)
  - Static [26.1]% non-investment grade assets (minimum rating of Ba2/BB) – only RMBS assets
  - Pure sequential pay-down structure and with coverage tests
  - Optional call after year 3; auction call after year 6.25
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII
- De-levering, partially static structure
  - 2-year limited reinvestment period – only investment-grade asset amortizations can be reinvested
  - Reinvestments can be only be in assets rated Baa3/BBB- or better (investment grade)
  - Static below-investment-grade ("BIG") bucket – principal proceeds on BIG assets are used to amortize the capital structure sequentially
- Credit-risk, Credit-improved and Discretionary (up to 20% per annum) trading allowed
- Flexibility to purchase cash and synthetic assets; max 65% synthetic bucket for pay-as-you-go CDS (RMBS and CDOs)
- Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest (otherwise payable to Equity)

(1) Source: HBK.

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Investment Considerations

HBK is one of the premier investment management firms in the industry

- **Experienced CDO Manager with a strong alignment of economic interest with investors**
  - Gemstone VII will be HBK's eighth ABS CDO. HBK has successfully brought to market 7 ABS CDOs totaling $3.6 billion aggregate issuance
  - HBK is an investment management firm founded in 1991 with equity capital under management of approximately $12 billion(1). HBK's structured finance team manages $5.0 billion in structured finance securities including $3.6 billion of structured product CDOs, as of November 30th, 2006(1)
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII

HBK's CDO Program is a key component of the investment and funding strategy of its structured product division

- HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan-level analysis, due diligence, and in-house surveillance. HBK is seen as not as a trader but as a vigilant investor that maximizes value through intensive analysis and surveillance
- Structured products exhibit relatively stable performance and low default history
  - Favorable Default and Rating History – structured products have exhibited historically low incidence of default and as structures delever these assets become candidates for credit outperformance
  - Good Relative Value – structured products have historically priced and continue to price wider than similarly rated corporates due to liquidity and complexity premium that can be arbitraged through buy-and-hold cash flow CDO structure

(1) Source: HBK.

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Section 2

Gemstone CDO VII, Ltd.

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Transaction Overview

Pure sequential pay-down structure and with coverage tests

- **$1.1 billion partially static mezzanine ABS CDO**
  - Target portfolio comprised of [88.6]% RMBS, [4.5]% ABS CDOs, [3.3]% CMBS and [3.5]% Student Loans
  - Static [26.1]% non-investment grade bucket comprised of RMBS assets only rated at least Ba2/BB
- **Delevering sequential structure with coverage tests**
  - Amortizations on assets rated below Baa3/BBB- are used to delever structure and pay down notes
  - Amortizations on investment grade assets can be reinvested for 2 years into investment grade assets only
  - Coverage tests trap and divert excess interest to pay down notes and build overcollateralization

Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest

Indicative Capital Structure

Class	Rating (MDY's/S&P)	Size ($)	Size (%)	Subord (%)	Avg Life[1]	Legal Final
A-1[2]	Aaa/AAA	[716,000,000]	[65.0]%	[35.0]%	[3.2] Years	40 years
A-2	Aaa/AAA	[87,000,000]	[7.9]%	[27.1]%	[5.3] Years	40 years
B	Aa2/AA	[96,900,000]	[8.8]%	[18.3]%	[6.0] Years	40 years
C	A2/A	[68,300,000]	[6.2]%	[12.1]%	[6.3] Years	40 years
D	Baa2/BBB	[55,100,000]	[5.0]%	[7.1]%	[5.7] Years	40 years
E	Ba1/BB+	[18,700,000]	[1.7]%	[5.4]%	[6.3] Years	40 years
Preference Shares[3]	NR	[59,500,000]	[5.4]%			40 years
Total		**1,101,500,000**	**100.0%**			

(1) Average Life of tranches calculated to 6.25 year Auction Call (20% of collateral expected to remain outstanding).
(2) Class A-1 may be split into multiple tranches based on investor preference.
(3) 100% of Preference Shares retained by the Collateral Manager and not offered.

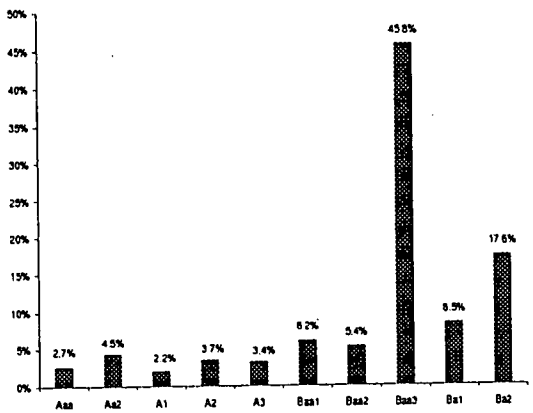
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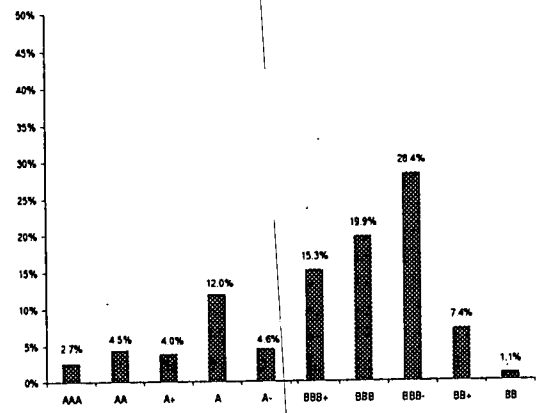
Portfolio Composition

Portfolio Composition

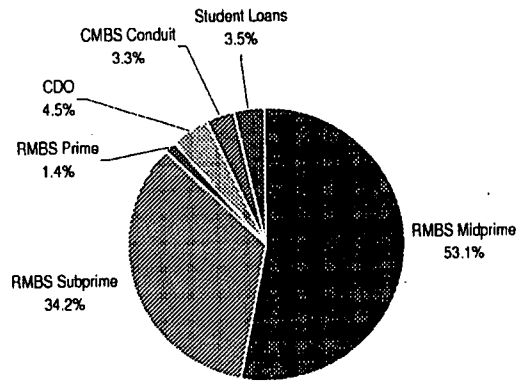
Moody's Rating Composition(1)



S&P Rating Composition



Asset Type Composition



Initial Asset Type vs Moody's Rating(1)

	Total	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2
RMBS Midprime	53.1%	2.7%				1.4%		0.7%	4.5%	4.5%	22.4%	5.2%	11.6%
RMBS Subprime	34.2%					0.8%			1.1%	0.9%	23.4%	3.3%	4.7%
RMBS Prime	1.4%												1.4%
CDO	4.5%			4.5%									
CMBS Conduit	3.3%						1.9%	0.9%	0.6%				
Student Loans	3.5%						1.8%	1.7%					
Total	100.0%	2.7%	0.0%	4.5%	0.0%	2.2%	3.7%	3.4%	6.2%	5.4%	45.8%	8.5%	17.6%

(1) Assets not explicitly rated by Moody's (approximately 6.2%) are notched in accordance with Moody's notching convention.

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Transaction Highlights

$1.1 billion mezzanine RMBS CDO

100% of equity retained by HBK (or its affiliates)

Ramp-up	▪ The portfolio is expected to be 100% ramped at closing
Management Fee	▪ Senior Management Fee: 30 bps per annum ▪ Subordinate Management Fee: none
Limited Reinvestment Period	▪ 2 year Limited Reinvestment Period for investment grade assets only ▪ Static non-investment grade bucket – these amortizations are used to pay down structure
Triple-B Turbo	▪ During the first 3 years after closing (11 periods), 10% of the Class D (Baa2/BBB) Notes ($[500,909] per period) will be paid down with excess interest proceeds; after the first 3 years, 15% of the excess interest proceeds will be paid to Class D
BB Diversion Test	▪ Excess interest proceeds (otherwise payable to Equity) will pay down Class E (Ba1/BB+) if the Class E Interest Diversion Test fails until it is brought back into compliance
Manager Trading	▪ Credit Risk, Credit Improved and Defaulted Assets pursuant to the Indenture ▪ 20% Discretionary trading
Optional Call	▪ 3 years
Auction Call	▪ Auction call after 6.25 years, and if unsuccessful, on a semi-annual basis thereafter
Permanent Reverse Turbo after 8.25 years	▪ If auction calls are unsuccessful for two years, equity will not be paid any excess interest proceeds; instead such monies shall be used to pay down outstanding Notes in a reverse order of seniority (Class E, followed by Class D, Class C, Class B, Class A-2, and finally, Class A-1)
Synthetic Assets	▪ Up to 65% of the portfolio may consist of "pay-as-you-go" credit default swaps on RMBS or CDO reference obligations, replicating cash position in the underlying - Fixed Cap will apply to RMBS PAUG CDS - Variable Cap (and no implied Writedowns) will apply to CDO PAUG CDS - The transaction may feature a GIC to invest the cash that collateralizes the PAUG assets

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Transaction Highlights (continued)

Key Collateral Characteristics

	Closing Portfolio	Limit
Floating Rate Assets	[94.1]%	[94.0]% min
Fixed Rate Assets	[5.9]%	[6.0]% max
Synthetic Assets	[56.7]%	[65.0]% max
Moody's WARF	[645] (Baa3/Ba1)	[665] (Baa3/Ba1) max
Moody's Correlation Factor	[21.6]%	[23.1]% max
Moody's Weighted Average Recovery Rate	[25.7]%	[24.2]% min
Weighted Average Spread	[2.36]%	Spread vector covenant
Weighted Average Coupon	[5.36]%	Coupon vector covenant

Coverage Tests

	Overcollateralization			Interest Coverage		
	At Closing	Test	Cushion	At Closing[1]	Test	Cushion
Class A/B OC Test	[122.37]%	[117.37]%	[5.00]%	[140.10]%	[107.00]%	[33.10]%
Class C OC Test	[113.74]%	[109.99]%	[3.75]%	[127.91]%	[103.00]%	[24.91]%
Class D OC Test	[107.61]%	[104.86]%	[2.75]%	[117.13]%	[100.00]%	[17.13]%
Class E Diversion Test	[105.68]%	[103.56]%	[2.12]%			

(1) Interest Coverage at Closing are estimates.

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Eligibility Criteria

Eligibility Criteria (Concentration Limits)	
Ratings Concentration Limits	Max [26.1]% rated below Baa3/BBB- (RMBS only).
Specified Type (Asset Type) Limits	Max [100]% Home Equity, Residential A, and Residential B/C in aggregate Max [10]% CMBS in aggregate Max [10]% CDO in aggregate; all CDOs must be rated Baa3/BBB- or above Max [5]% ABX tranches in aggregate Other Asset Types subject to additional limitations
Servicer Limits	The aggregate principal balance of all assets serviced by the same Servicer should not exceed [7.5]%, except that the aggregate principal balance may be up to: – [20]% if the Servicer is rated at least Aa3 or SQ1 by Moody's – [10]% if the Servier is rated below Aa3 and below SQ1 Moody's (2 exceptions may be up to [15]% each) or, the aggregate principal balance may be up to: – [15]% if rated at least AA- or Strong by S&P – [10]% if rated at least A- or Above Average by S&P
Issue (Security/CUSIP-level) Limits	Max [2.5]% Baa3/BBB- or higher (5 exceptions up to [3.0]%) Max [1.25]% for Ba1/BB+ or below (5 exception up to [1.5]%)
Synthetic Security Limits	Max [65]% Synthetic Securities
Fixed Rate Assets	Max [6.0]%

Collateral Haircuts for Class A/B, C and D Overcollateralization Tests

	Initial Level	Allowed Cushion[1]	Haircuts for collaterals over the threshold (Initial + Cushion)
Moody's Ba1/Ba2/Ba3 rated collateral	[26.1]%	[5]%[2]	[10]%
Moody's B1/B2/B3 rated collateral	[0]%		[20]%
Moody's Below B3 rated collateral	[0]%		[50]%
S&P BB+/BB/BB- rated collateral	[8.4]%	[5]%[2]	[10]%
S&P B+/B/B- rated collateral	[0]%		[20]%
S&P Below B- rated collateral	[0]%		[30]%

References to ratings are to Moody's and S&P ratings, as applicable. For a complete description of haircuts, please refer to the Offering Circular.

(1) Allowed Cushion is in addition to the Initial Level of collateral.

(2) Allowed Cushion may be up to [5]% shared between the three major rating categories listed above as long as the total threshold amount is no more than [31.1]% (26.1% + 5.0%) for Moody's and no more than [13.4]% (8.4% + 5.0%) for S&P across all three major rating categories.

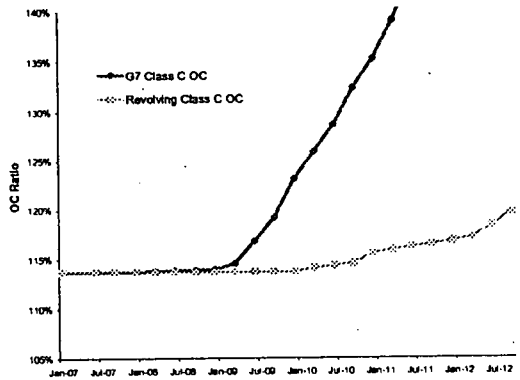
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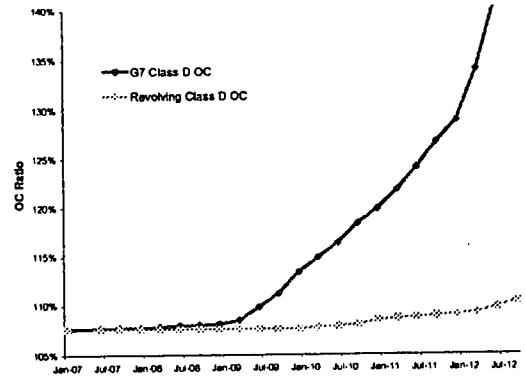
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Investment Rationale

Class C/D Expected OC Levels

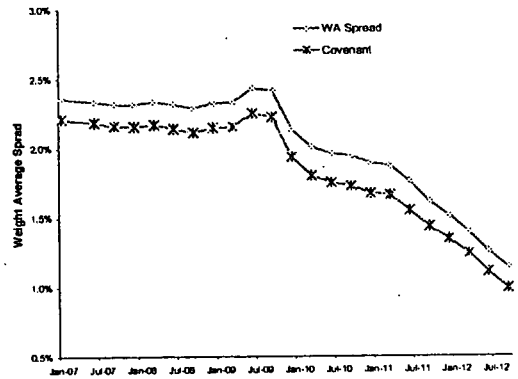
- **Faster OC Buildup** – Compared with a traditional 3-year reinvestment period structure, Gemstone CDO VII builds OC quicker due to the partially static structure, short 2-year reinvestment period and the triple-B turbo feature.





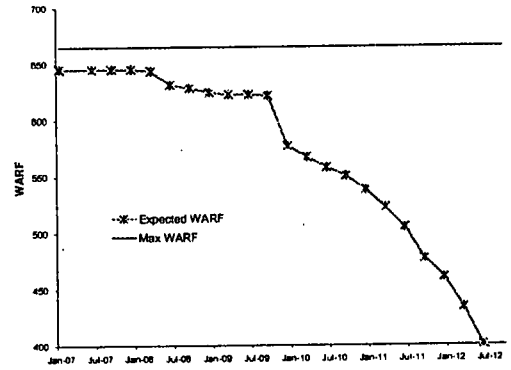
Weighted Average Spread Vector

- **Spread Curve Vector**(1) – WAS is expected to decrease over time due to static amortizing BB RMBS assets which have higher spreads. This issue is addressed in Gemstone VII by modeling the WAS as a spread vector that declines over time.



Expected WARF

- **Improved Credit Quality Over Time**(2) – As the BB RMBS assets amortize, investment grade assets will remain, resulting in an overall credit improvement



(1) IG Floating reinvestments are assumed to be in assets with 3.5 year bullet maturity and spread of 230 bps.
(2) IG asset amortizations are assumed to be reinvested in assets that have a WARF equal to the initial WARF of the relevant IG bucket.

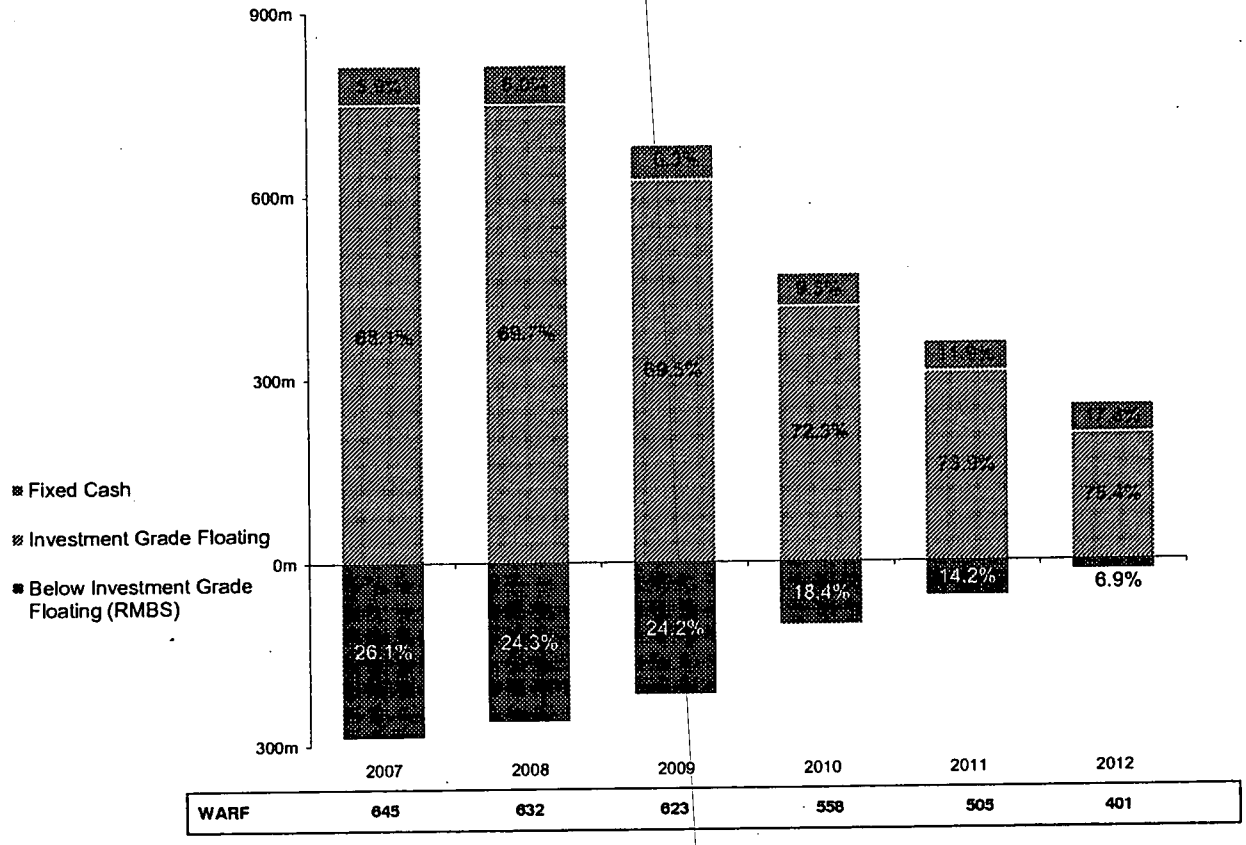
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Investment Rationale

Asset Portfolio Amortization

- The credit quality of the portfolio is expected to naturally improve over time due to the static BB bucket and the reinvested investment-grade assets
- The Gemstone VII structure has higher subordination because it does not take credit from rating agencies for the natural WARF improvement and is also conservatively sized to take into account that portfolio spread (WAS) will decline over time



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Breakeven Analysis

Breakevens – to Maturity[1][2][3]

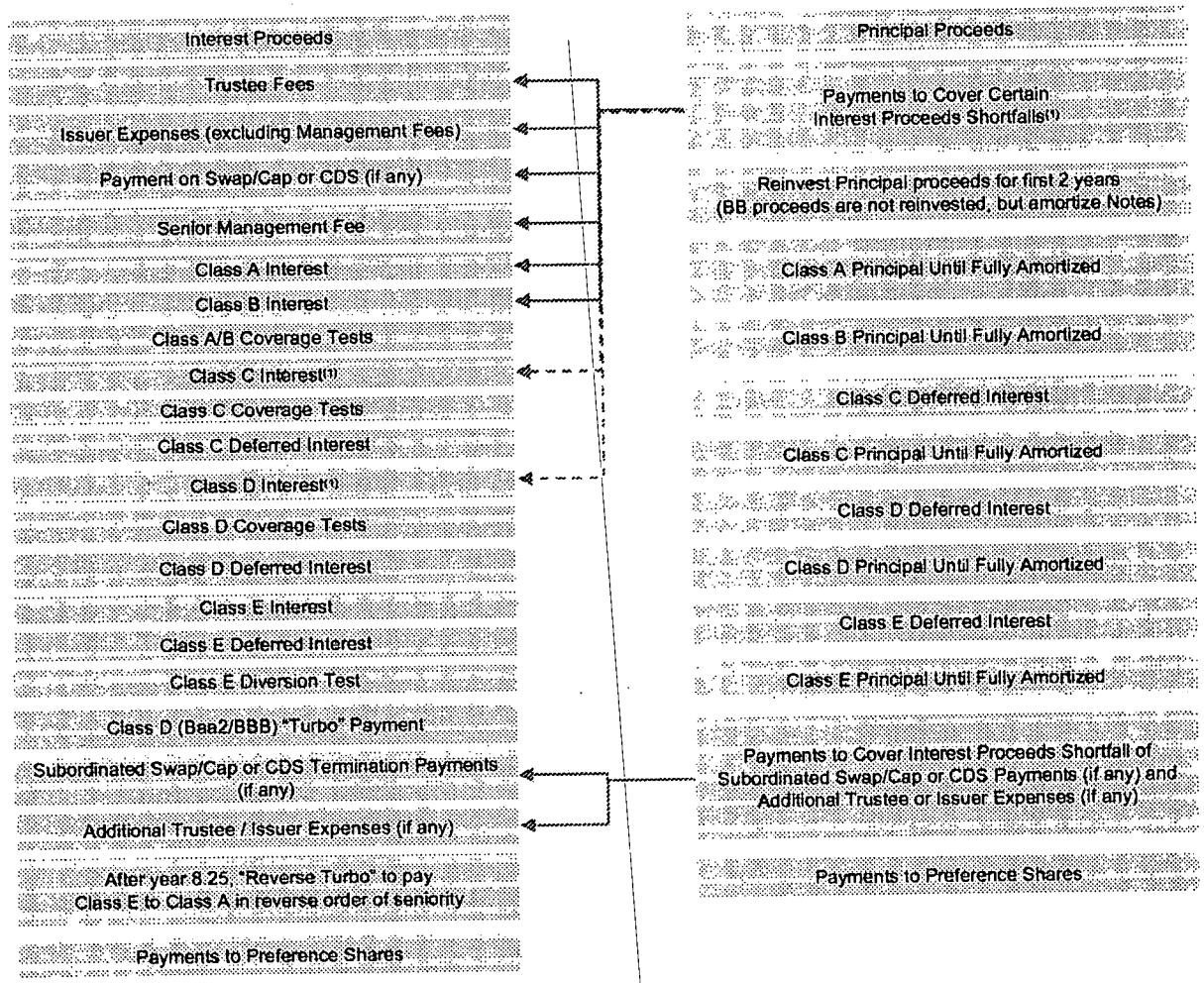
	To PIK		To Break in Yield		To Return of Investment	
	CDR	Cumulative	CDR	Cumulative	CDR	Cumulative
Class A-1	[29.1]%	[69.7]%	[29.1]%	[69.7]%	[49.4]%	[83.1]%
Class A-2	[21.2]%	[57.8]%	[21.2]%	[57.8]%	[24.7]%	[63.4]%
Class B	[15.1]%	[47.0]%	[15.1]%	[47.0]%	[17.9]%	[51.8]%
Class C	[7.7]%	[28.8]%	[9.3]%	[32.6]%	[11.4]%	[38.7]%
Class D	[4.0]%	[15.9]%	[4.0]%	[15.9]%	[6.9]%	[26.3]%
Class E	[1.0]%	[4.2]%	[2.7]%	[11.0]%	[4.2]%	[16.9]%

(1) Note breakeven analysis assumes: (i) forward LIBOR curve, (ii) base case collateral cash flows, (iii) constant annual defaults occur from the closing date and at the beginning of each collection period with 50% instantaneous recovery, (iv) principal and interest proceeds on cash assets are assumed to be reinvested short term and accrue interest at 3m LIBOR – 0.20%.
(2) 30bps senior collateral management fee; senior ongoing deal expenses: US$250,000 p/a + 0.04% p/a.
(3) To maturity assuming no calls.

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Priority of Payments



(1) Dotted lines signify that Class C & D Interest paid from Principal Proceeds contingent upon maintaining OC Levels in compliance.

GEM7-00001702

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Section 3

Collateral Manager Overview – HBK Investments L.P.

GEM7-00001703

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Overview

- HBK Investments L.P. together with its affiliated subadvisors ("HBK") is an investment management firm founded in October 1991 with equity capital under management of approximately $12 billion. HBK's structured finance team manages $5.0 billion in structured finance securities, including $3.6 billion of structured product CDOs, as of November 30, 2006[1]
- HBK's main office is in Dallas, Texas, with affiliated subadvisory offices in New York, London, Hong Kong and Tokyo
- HBK employs approximately 300 individuals in its five offices globally
- HBK's senior management team has been working together since 1994
- The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices
  - "multi-strategy" approach with a sub-categorization of either "market neutral" or "absolute return"
- From inception through November, 2006, HBK generated a compounded annual return of 14.61%, net of all fees and expenses and assuming reinvestment of all distributions[1][2]
  - positive returns for every consecutive 12-month period in its history
- HBK currently manages seven ABS CDOs
  - CDOs as a term-financing source, not as a fee-generation arbitrage vehicle
  - performance snapshots of prior CDOs are provided in Section 4
  - all junior tranches of Sandstone CDO, HBK's first ABS CDO, have been upgraded a full rating by S&P and are currently on upgrade watch by Moody's

(1) Source: HBK.
(2) Past performance is not indicative of future performance.

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Tab A

Organization and Management

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Investment Structure

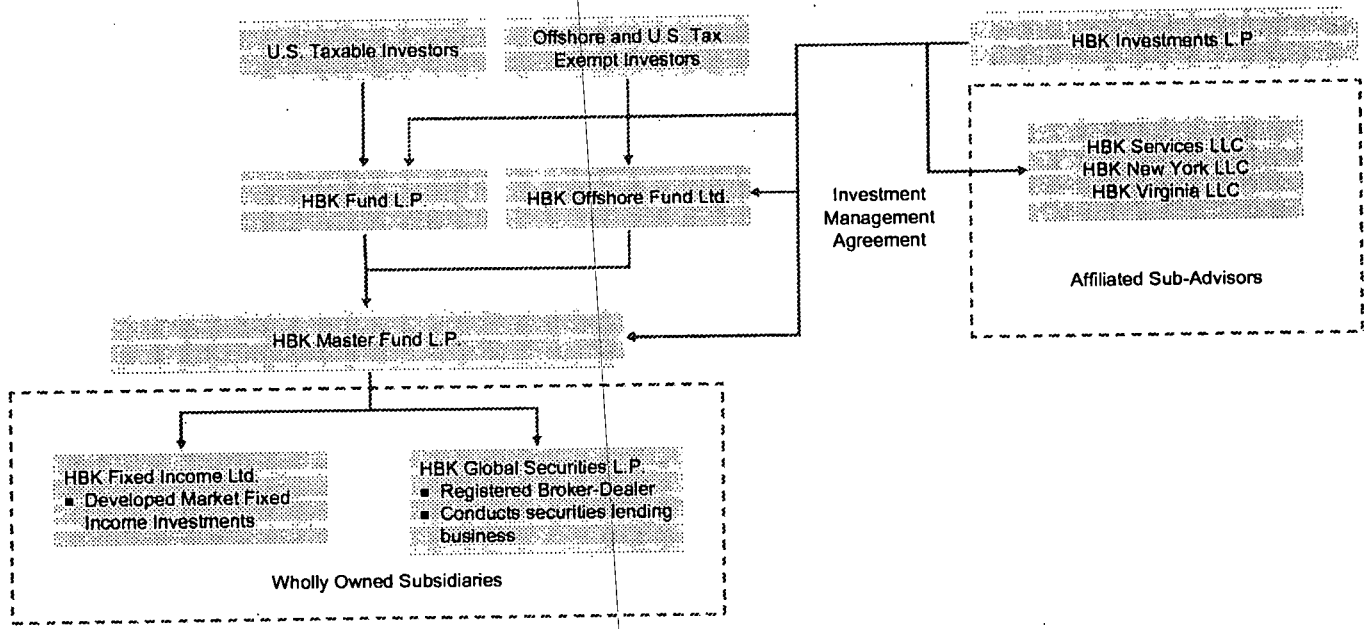
- Funds from HBK's investors are invested through one of two feeder funds:
  - HBK Fund L.P. is structured to accommodate qualifying U.S. taxable investors
  - HBK Offshore Fund Ltd. is structured to accommodate U.S. tax exempt investors and non-U.S. investors
- These two funds have combined most of their assets into a single master pool called HBK Master Fund L.P.
- HBK organizes its portfolio positions into a number of business units, each with a different investment strategy
- For analysis and reporting, the business units are aggregated into four main investment groups:
  - Credit: Corporate; Non-Corporate
  - Equity: Event or Spread Driven; Relative Value
  - Volatility, Quantitative and Other
  - Developed Markets Fixed Income
- Investments in U.S. structured products fall under both Credit (Non-Corporate) and Developed Markets Fixed Income depending on the credit rating of the asset in question

GEM7-00001706

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Legal Structure

- HBK Investments L.P. (a Delaware limited partnership) its affiliated subadvisors manage two funds: HBK Fund L.P. (a Delaware limited partnership) and, HBK Offshore Fund Ltd. (a Cayman Islands limited company) and each of which has invested most of its capital in HBK Master Fund L.P. (a Cayman Islands limited partnership)



Source: HBK

GEM7-00001707

Confidential Treatment Requested

Business Units

HBK

Credit: Corporate; Non-Corporate

- ***Structured Products*** – ABS, CMBS, RMBS, CDOs, structured notes and others
- ***Emerging Markets*** – fixed income and equity securities issued in countries outside the G7 nations
  - sovereign and private issuers
- ***Corporate Credit– U.S. and International***
  - credit-driven investments in developed market, corporate securities
  - Investment grade and high yield, par and distressed bank debt, trade claims, equity derivatives
  - seek best risk-reward opportunity within capital structure
- ***Private Placements*** – equity-linked privately negotiated investments in U.S. and non-U.S. companies

Volatility, Quantitative and Other

- ***Convertible Arbitrage*** – US and International publicly traded equity derivatives in US, Japan, Europe and Asia
  - convertible bonds, convertible preferred stock, warrants or options
- ***Volatility*** – volatility relationships among options on equities and equity indices
- ***Quantitative Strategies***
  - purchase and sale of stocks, related index products and exchange-traded products to take advantage of short-term and long-term statistical phenomena
  - highly diversified portfolio intended to control market exposure and exposure to a variety of other factors
- ***Insurance*** – insurance and insurance-related investments

Equity: Event or Spread Driven; Relative Value

- Risk arbitrage and other event-driven strategies in different markets, including U.S., Europe and Asia
- Investments involving price disparities between multiple share classes or positions in the capital structure
- Relative value – market neutral investing in the equity or equity derivatives of companies deemed to be fundamentally over or under valued.

Developed Markets Fixed Income Investments

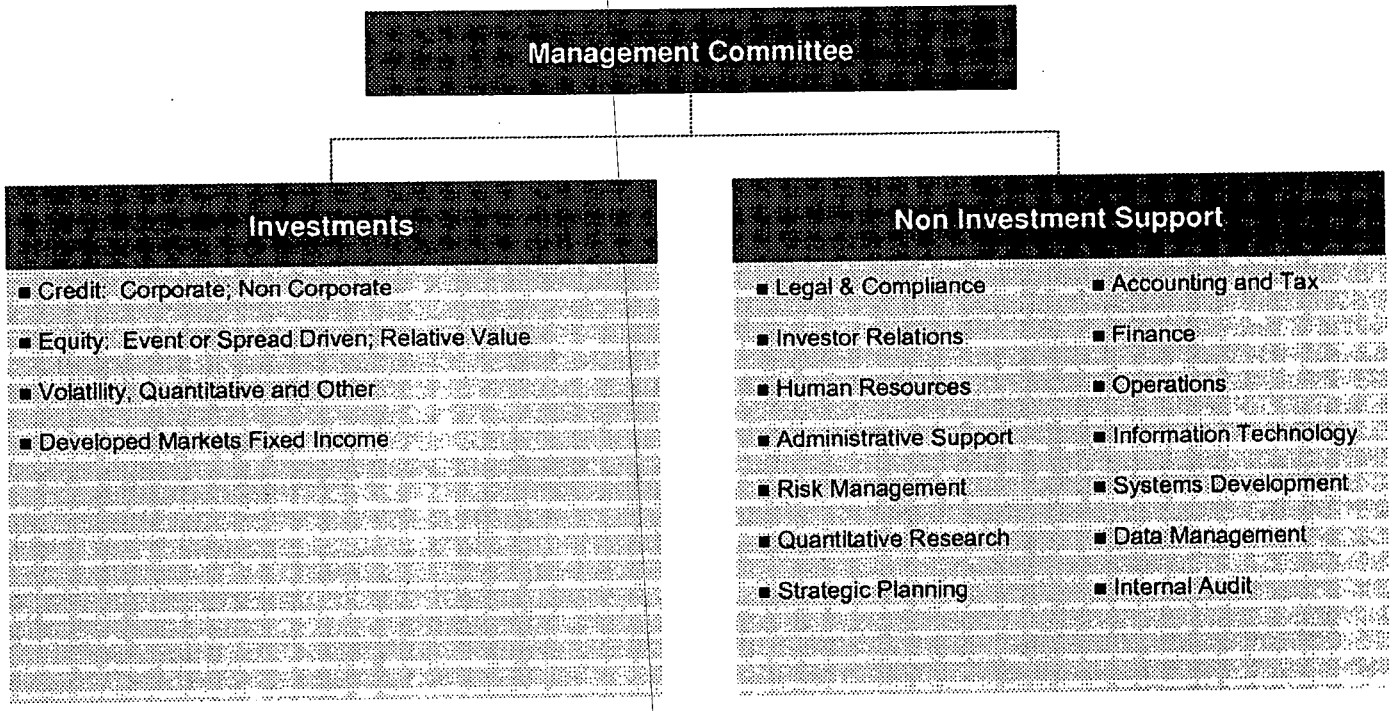
- Government bonds, Agencies, MBS, ABS
- Fixed income securities primarily in G-7 nations
- Investments intended to isolate mispricings across various fixed income markets

GEM7-00001708

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Corporate Structure

- Supporting the investment unit is the back office, comprised of 14 support functions
- HBK employs over 300 individuals in its five offices globally



GEM7-00001709

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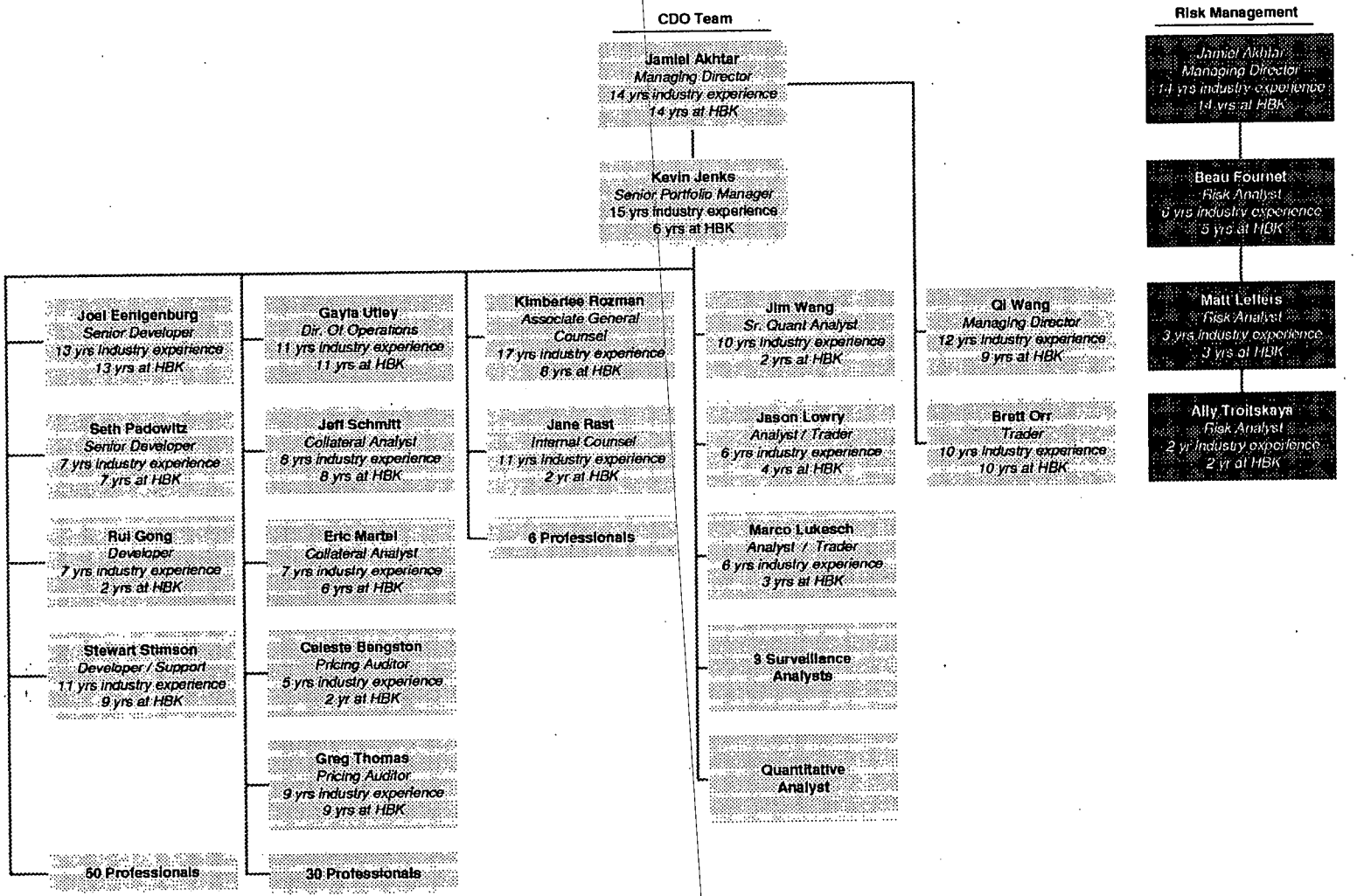
Structured Products Group

- HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages
  - the group is responsible for managing the structured products portfolio, including RMBS and ABS, a component in HBK's overall strategy since 2002
- HBK's business model focuses on deriving returns from buy and hold income revenue instead of short-term trading
- HBK's investment model utilizes proprietary default, prepay, and severity loan level models to make investments in the residential market
- CDO program provides long-term committed financing to HBK
- HBK has retained 100% of the equity from CDO transactions resulting in strong alignment of interests between HBK and investors

GEM7-00001710

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Structured Finance Team



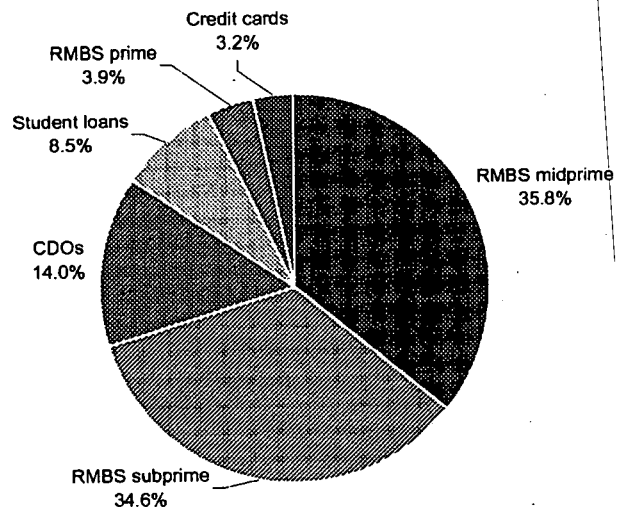
GEM7-00001711

Confidential Treatment Requested

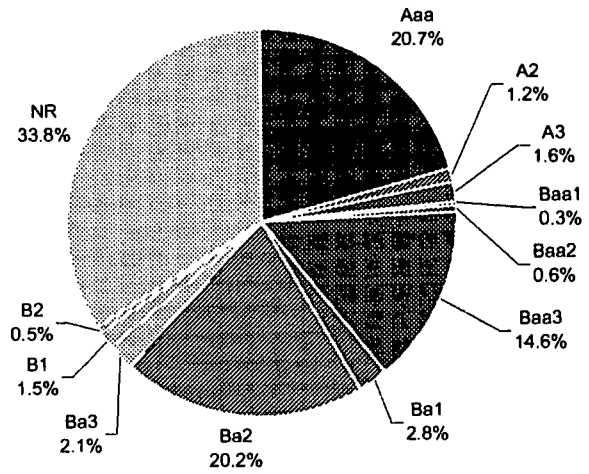
Structured Products Portfolio

- RMBS / ABS have been a component in HBK's overall strategy since 2002. HBK manages a structured products portfolio of approximately $5.0 billion, including $3.6 billion of structured product CDOs(1)
- HBK follows a buy-and-hold strategy for its ABS investments; HBK hedges the interest rate exposure and retains the credit exposure of its ABS portfolio
- Currently, there are only three downgrades(2) in HBK's ABS portfolio

Asset Type



Rating(3)



(1) As of November 2006.
(2) Excluding one other downgraded asset that paid down to par.
(3) A portion of the "NR" assets includes residuals.

Source: HBK

GEM7-00001712

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Tab B

Investment Process

GEM7-00001713

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Overview of Structured Products Investment Strategy

HBK Investment Strategy

Multi-Strategy Absolute Return Philosophy

Credit: Corporate Investments; Non-Corporate Investments	Equity: Event or Spread Driven Investments; Relative Value Investments	Volatility, Quantitative and Other Investments	Developed Markets Fixed Income Investments

Allocations made to structured products

US Structured Product Investments

Overweight US Residential Sector

- Higher rates have reduced ABS issuance – higher relative value and inherent spread pick-up compared to other fixed income markets due to complexity of structures and liquidity premium

Bias Portfolio In Favor of Liquid Asset Classes within Structured Products

- Avoid "unproven" off-the-run asset classes and favor established liquid asset classes
- High granularity of underlying collateral supports actuarial security-level analysis
- Generate portfolio alpha by exploiting technical market inefficiencies through buy-and-hold strategy and not through price-volatility trades

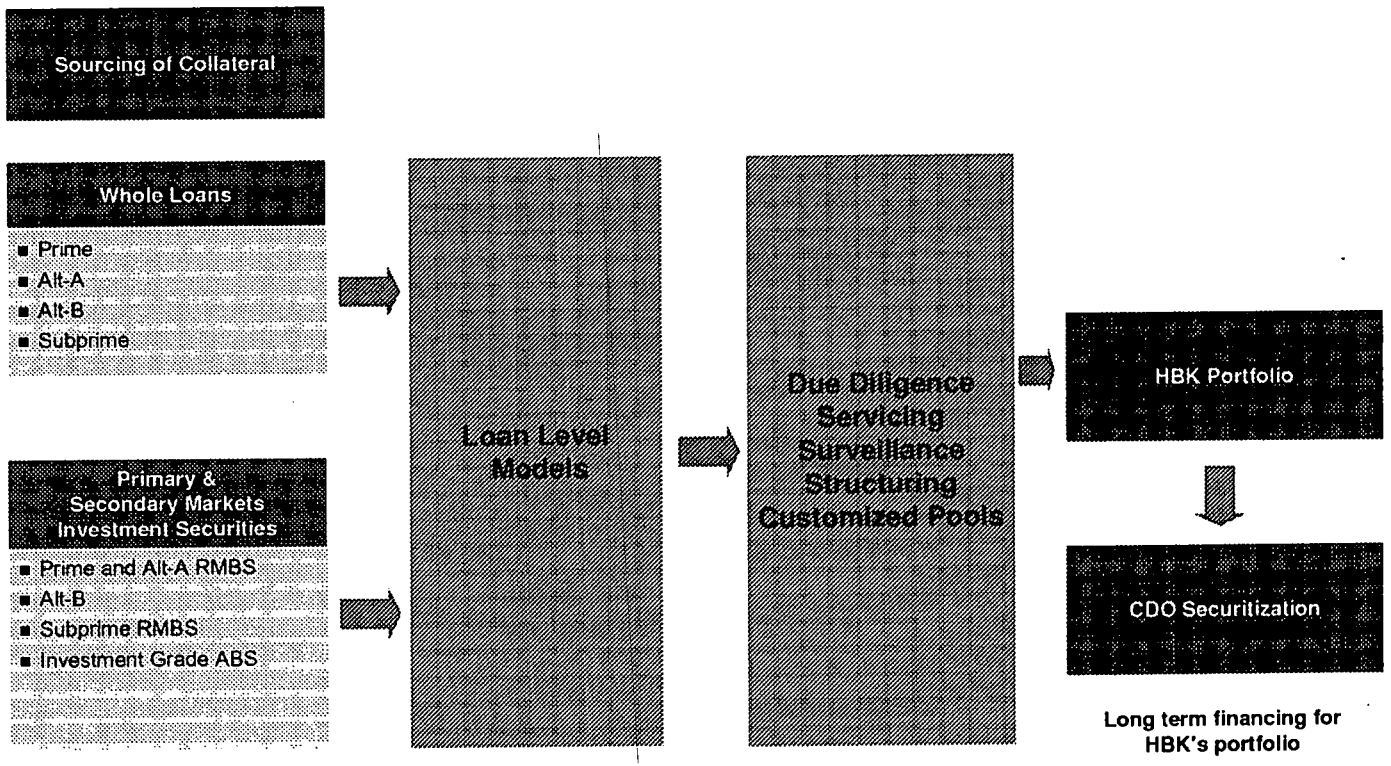
Target Triple-B / Double-B Credit Profile

- Triple-B / Double-B residential assets present best relative value compared to other sectors in structured product market and the broader markets
- Make opportunistic purchases of non-investment grade residential assets where there is clear track record and/or good data transparency
- Emphasize stability of credit and credit ratings

GEM7-00001714

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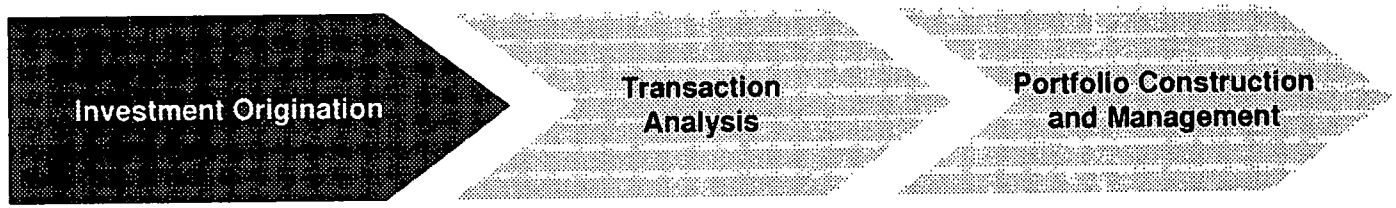
Investment Model



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Security Selection and Portfolio Management



■ **Dealers**

- maintain and manage dealer relationships in order to source high quality opportunities for the portfolio
- focus on new issue market
- consider secondary purchases under appropriate circumstances
- purchase loans directly from originators

■ **Originators**

- analyze originators for underwriting consistency and monitor changes to competitive landscape

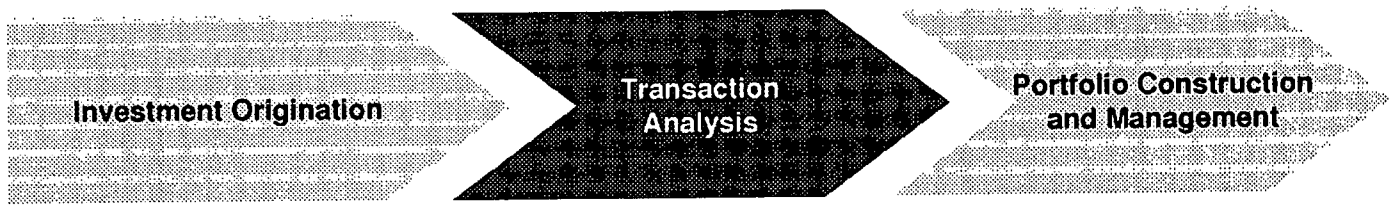
■ **Servicers**

- review financial condition of servicer
- historical performance
- ease of transferring servicing
- delinquency curing strategies
- loss mitigation

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Security Selection and Portfolio Management (continued)



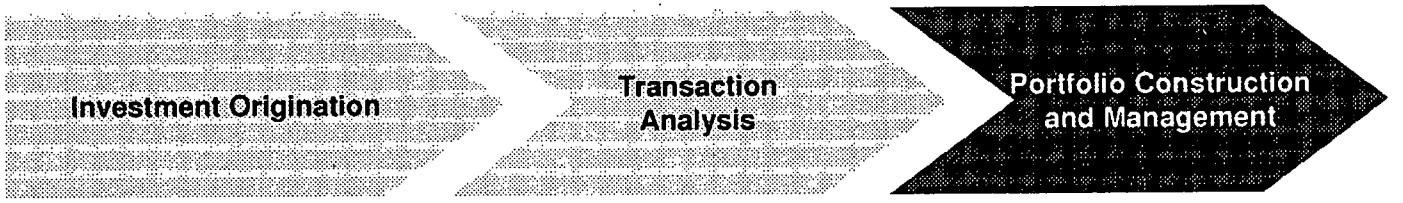
- **Collateral Analysis**
  - conduct due diligence of underlying loan collateral to formulate investment assumptions
  - loan level models:
    - delinquency and default forecast
    - loss severity
    - collateral prepayment forecast
  - FICO stratifications, loan to value ratios, historical data, and static vintage performance are among the factors included in the analysis

- **Waterfall Analysis**
  - determine priority of cash flows available to the investment
    - seniority
    - lock-outs
    - loss / delinquency triggers
    - static vs. revolving pools
  - use cash flow models to analyze investment performance assuming multiples of expected default, varying interest rate paths, loss severity and payment rates
  - assess sufficiency of credit enhancement

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Security Selection and Portfolio Management (continued)



■ **Portfolio Construction**

- to mitigate potential impact of any one investment decision on the portfolio, create diversity within portfolio across:
  - transactions
  - originators
  - servicers
  - underwriters
- position portfolio with top issuers and tier one credits

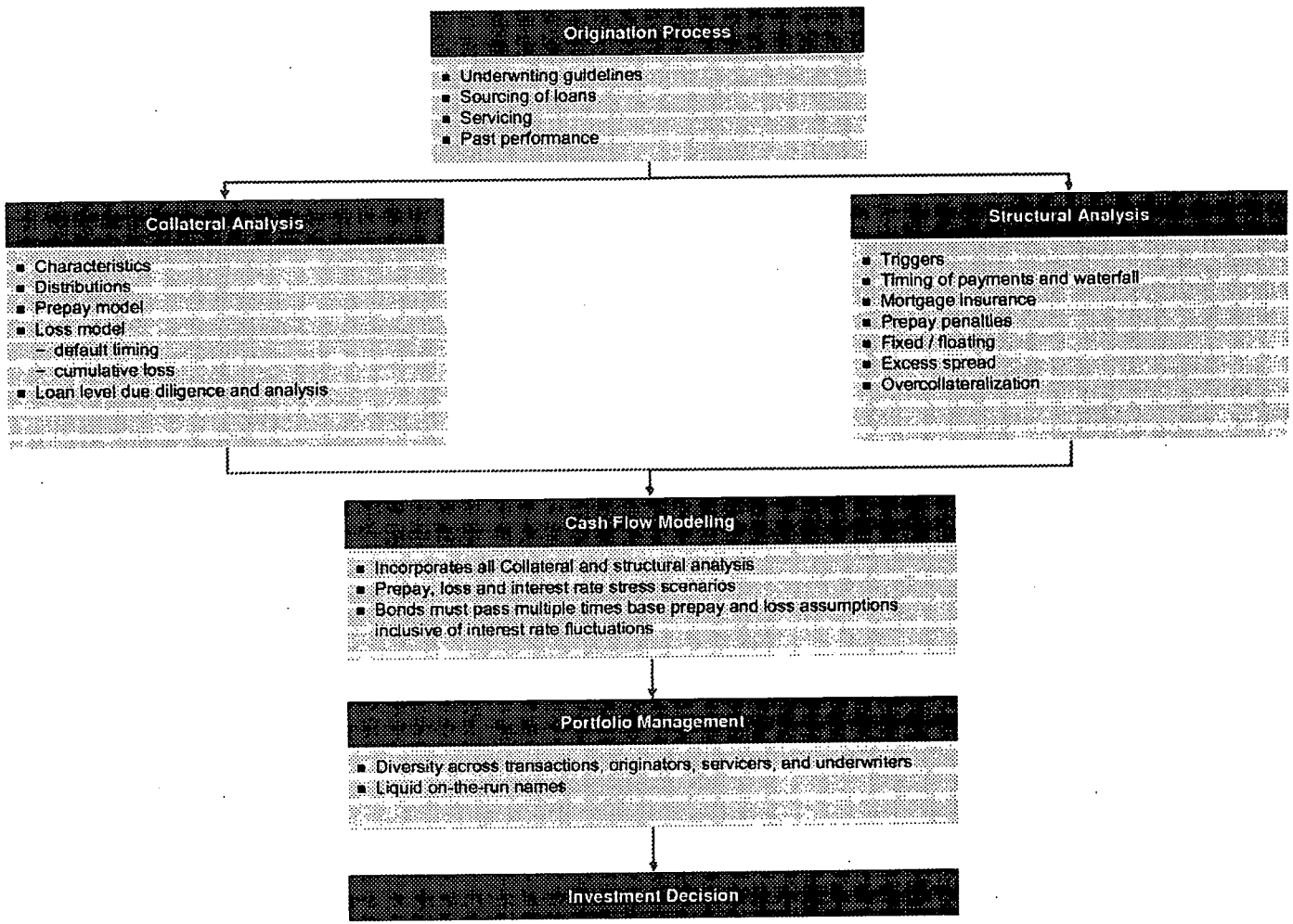
■ **Portfolio Management**

- perform regular surveillance of collateral performance using remittance reports, Intex, Loan Performance, and loan level data from servicers
- maintain ongoing dialogue with originators and servicers
- aggressively pursue exit strategies when investments significantly underperform compared to initial expectations – especially in cases where fraud or servicer "going concern" may be a factor
- collateral performance is monitored and measured to original and subsequent default and loss assumptions

GEM7-00001718

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HBK Investment Approach



Source: HBK

GEM7-00001719

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Ongoing Surveillance and Monitoring

■ HBK's upgrade to downgrade ratio is 23:3

- HBK's credit files contain the relevant documentation and analysis performed at the time of asset purchase including, where available: offering documents, marketing material, rating agency reports, collateral stratifications, loan-level information and performance, servicer reports, and sensitivity analysis (movements in interest curves, prepayments, defaults)
- Transaction performance is tracked monthly via trustee surveillance reports and ongoing loan-level information to monitor and analyze parameters such as collateral yields, delinquency and default trends, recoveries, prepayments, and available credit enhancement
- Updated stress analysis performed on underperforming transactions to review adequacy of credit enhancement under various probabilistic scenarios to analyze potential losses and make a sell or hold decision
- News monitoring for headline risk (related to originators and servicers) including changes in senior unsecured ratings or stock prices
- On-site servicer due-diligence on an ongoing basis and when required on a per deal basis on below-investment-grade securities
- Systems used for monitoring include: Intex, Bloomberg, iCDO, YieldBook, ABSNet, RiskSpan, Loan Performance and HBK's proprietary loan-level loss, default and prepayment models

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Ongoing Surveillance – Step 1

- Asset level credit and prepayment performance data is collected monthly from remittance reports and flagged for certain performance statistics

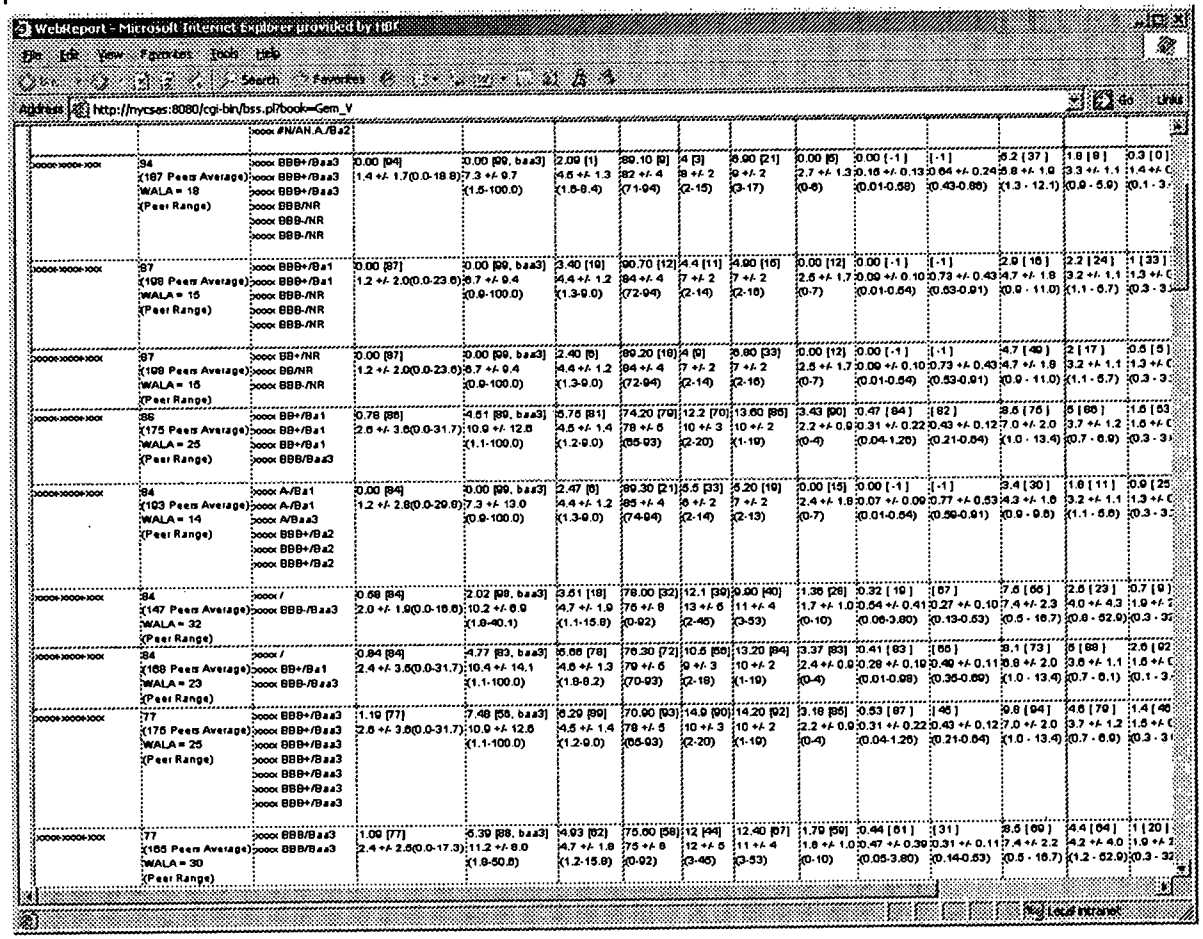
Reviewed?	Pool Factor	30 days	60+ days	(FC+REO)	curr loss	XS spd(ex-Loss/trbo)	Credit Support	(FC+REO)/(XS+CrSup)	(FC+REO)/(CrSup)	(XS spd - Curr loss)	(OC act-OC tgt)/OC tgt	Loss Triggers hit/close	Delinq Trigger hit/close
	0.16	2.66	12.66	0.27	1.8	0.00%	13.06%	0.02	0.02	-2.64	-20.23%		Yes
	0.16	2.66	12.66	0.27	1.8	0.00%	44.62%	0.01	0.01	-2.64	-20.23%		Yes
	0.26	0.65	10.8	0.23	0.04	2.11%	15.20%	0.36	0.41	1.16	0.00%		
	0.30	1.76	1.2	3.93	0.66	0.00%	10.54%	0.37	0.37	-0.44	0.00%	no	no
	0.30	1.76	1.2	3.93	0.66	0.00%	13.38%	0.29	0.29	-0.44	0.00%	no	no
	0.16	0.66	0.14	0.09	0.06	0.00%	10.72%	0.01	0.01	0.47	0.00%	no	no
	0.19	0.05	4.25	1.14	0.9	0.00%	43.78%	0.16	0.16	-2.85	-0.75%	no	no
	0.44	2.1	3.86	5.55	0.27	1.26%	7.70%	0.49	0.57	0.84	0.00%	no	no
	0.26	2.21	3.36	5.44	0.42	0.00%	4.63%	1.73	1.82	-1.94	0.00%	no	no
	0.23	1.4	2.02	3.1	0.27	0.00%	4.91%	1.73	1.71	-1.84	-0.89%	no	no
	0.23	1.66	2.7	3.89	0.64	0.00%	0.19%	1.42	1.42	-2.66	-1.63%	no	no
	0.19	2.56	2.79	5.69	0.41	10.34%	5.26%	0.52	1.53	6.90	0.00%	no	no
	0.26	0.67	1.01	2.34	0.36	0.00%	16.46%	0.13	0.13	-1.69	0.00%	no	no
	0.26	0.7	0.67	3.66	0.29	0.00%	9.64%	0.37	0.37	-0.69	0.00%	no	no
	0.50	0.34	0.47	1.02	0.15	0.00%	5.04%	0.19	0.20	-0.45	0.00%	no	no
	0.50	0.34	0.47	1.02	0.15	0.00%	6.56%	0.15	0.16	-0.45	0.00%	no	no
	0.50	0.34	0.47	1.02	0.15	0.00%	2.02%	0.45	0.50	-0.45	0.00%	no	no
	0.13	6.43	12.48	10.09	1.24	0.00%	3.79%	2.73	2.73	-2.84	-1.50%	no	no
	0.11	1.99	2.12	10.66	1.1	2.33%	13.00%	0.66	0.77	1.62	0.00%	no	no
	0.27	2.6	4.73	3.16	0.37	0.00%	6.36%	0.35	0.36	-0.48	0.00%	no	no
	0.13	5.1	3.62	7.89	1.24	0.00%	17.69%	0.45	0.45	-4.36	0.00%	no	no
	0.20	0.78	1.44	5.57	0.47	0.00%	11.25%	0.61	0.61	-1.89	-1.89%	no	no
	0.26	1.41	2.52	5.6	0.42	0.00%	4.67%	1.26	1.20	-1.69	-0.66%	no	no
	0.33	3.08	1.51	6.3	0.33	1.27%	6.69%	0.77	0.91	0.79	0.00%	no	no
	0.14	2.51	2.63	11.69	0.4	2.50%	30.94%	0.30	0.32	1.10	0.00%	no	no
	0.14	2.51	2.63	11.69	0.4	2.50%	26.75%	0.37	0.40	1.10	0.00%	no	no
	0.14	2.51	2.63	11.69	0.4	2.50%	46.72%	0.24	0.25	1.10	0.00%	no	no
	0.14	2.51	2.63	11.59	0.4	2.50%	19.77%	0.52	0.59	1.10	0.00%	no	no
	0.16	2.12	1.91	8.74	0.4	32.73%	3.00%	0.24	2.65	32.37	0.00%	no	no
	0.19	1.64	1.41	8.7	0.46	11.74%	6.45%	0.33	0.79	10.51	135.81%	no	no
	0.16	2.04	2.07	8.66	0.36	52.41%	31.06%	0.11	0.29	50.63	0.00%	no	no
	0.16	3.11	3.42	7.25	0.26	2.14%	6.00%	0.71	0.91	2.14	0.00%	no	no
	0.12	3.7	6.55	8.19	0.66	2.49%	13.00%	0.54	0.65	1.81	0.00%	no	no
	0.23	2.63	0.69	11.19	0.96	0.00%	9.90%	1.45	1.40	-3.84	-4.46%	no	no
	0.22	1.1	2.43	17.45	1.4	0.00%	7.40%	2.39	2.39	-6.46	-10.16%	no	no
	0.22	1.51	1.94	8.83	0.25	1.23%	4.51%	1.02	1.29	0.45	0.00%	no	no
	0.22	1.51	1.94	8.83	0.25	1.23%	18.04%	0.30	0.32	0.45	0.00%	no	no
	0.15	2.55	0.76	9.1	0.36	0.00%	3.29%	1.99	2.45	-3.13	0.00%	no	no
	0.35	4.84	1.66	8.09	0.3	2.06%	6.45%	0.74	1.02	0.84	0.00%	no	no
	0.26	5.7	2.4	2.69	0.66	1.82%	14.73%	0.48	0.54	0.21	0.00%	no	no
	0.21	7.56	5.16	12.65	5.56	0.00%	13.60%	0.94	0.94	-5.43	-4.13%	no	no

GEM7-00001721

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Ongoing Surveillance – Step 1 (continued)

- Bonds are compared monthly to the entire market on a number of different factors based on loan level performance

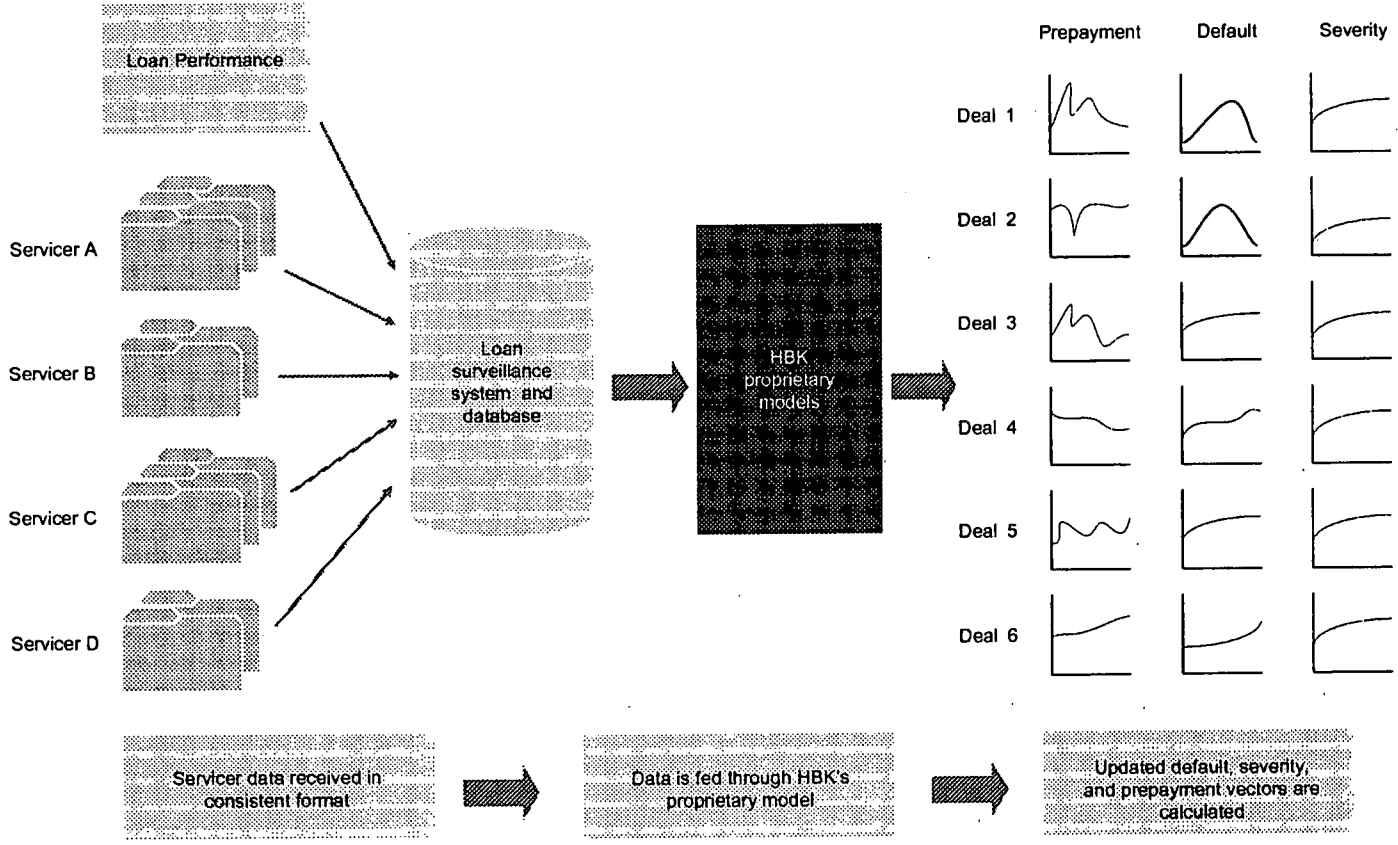


GEM7-00001722

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Ongoing Surveillance – Step 2

- Updated loan level information is received monthly from servicers and Loan Performance



GEM7-00001723

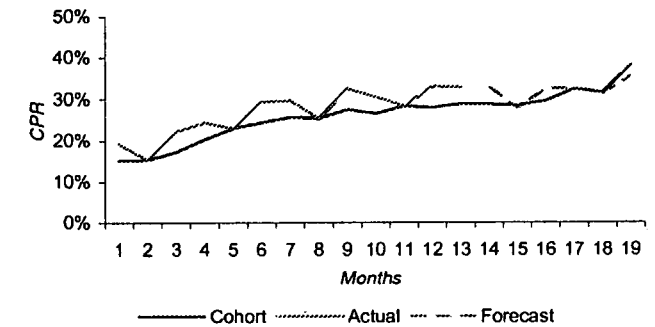
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Ongoing Surveillance – Step 3

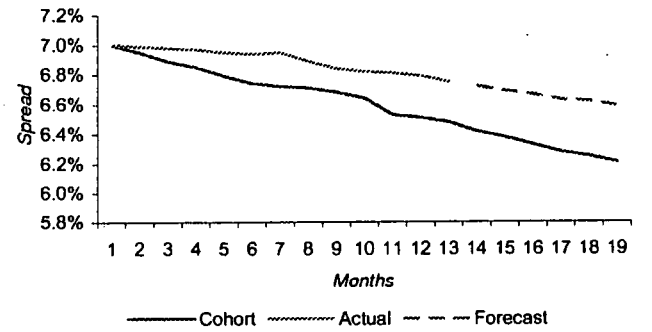
- Asset and loan data are cross-checked and compared to initial assumptions and to cohort group to identify performance deviation

Deal Performance vs. Cohort and Forecast

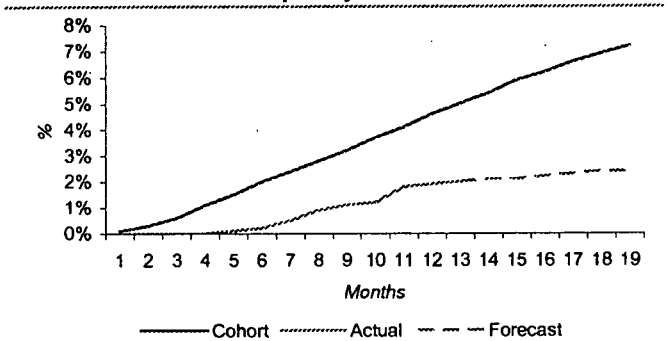
1 Month CPR Performance



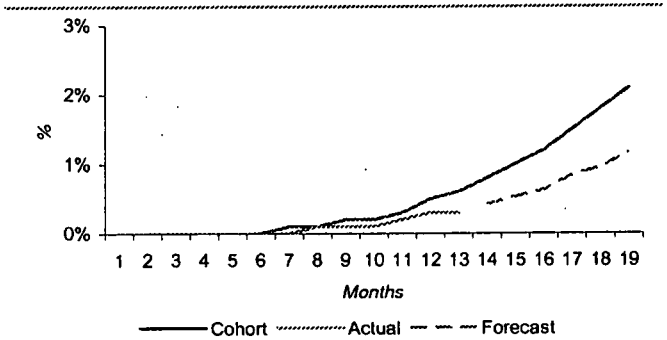
Excess Spread



60 + Delinquency Performance



Cumulative Loss Performance



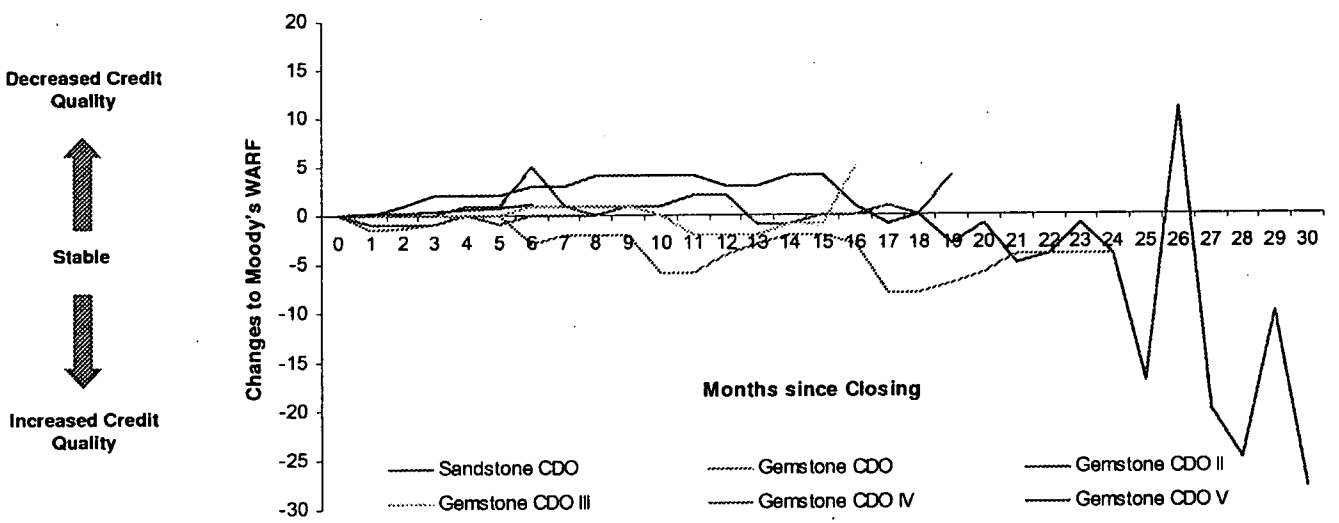
GEM7-00001724

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Rating Stability in HBK's ABS CDOs

- The quality of the underlying collateral of HBK's previous ABS CDOs is reflected in a stable or improved Moody's WARF since inception

Moody's WARF Change Since Closing



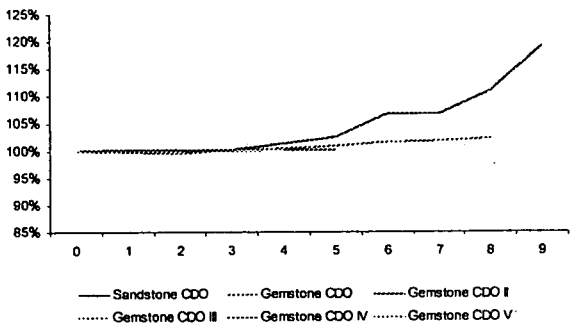
Note: Sufficient data points for Gemstone CDO VI are not yet available to chart historical performance.
Source: HBK and Trustee Reports, as of December 2006 reports.

GEM7-00001725

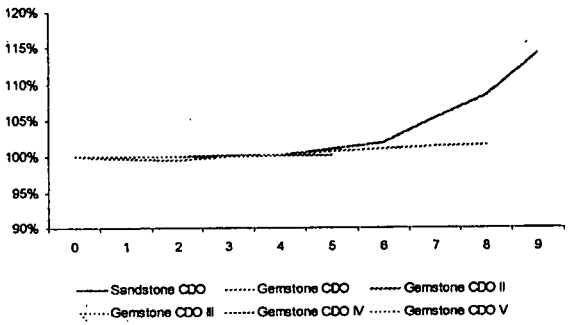
Confidential Treatment Requested

Improving Coverage Ratios in HBK's ABS CDOs(1)

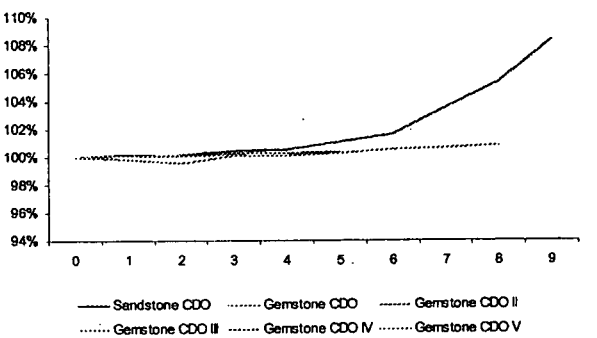
Class A/B OC Level



Class C OC Level(2)



CLASS D OC Level(3)



(1) Graphs depict actual overcollateralization ("OC") ratios over time for each of Sandstone CDO and Gemstone CDO through Gemstone CDO V. Each transaction's historical OC ratio calculated using information from each transaction's respective trustee reports was indexed to 100% by dividing each transaction's historical OC ratio by the respective transaction's original OC ratio. Gemstone VI is not included as it was recently closed and sufficient data is not available.
(2) Gemstone II Class C/D OC data points are graphed as Class C OC levels for consistency.
(3) Gemstone II Class E OC data points are graphed as Class D OC levels for consistency.

Source: HBK and Trustee Reports, as of December 2006 reports.

GEM7-00001726

Confidential Treatment Requested

Tab C

HBK Analytic Systems

GEM7-00001727

Confidential Treatment Requested

HBK Analytics

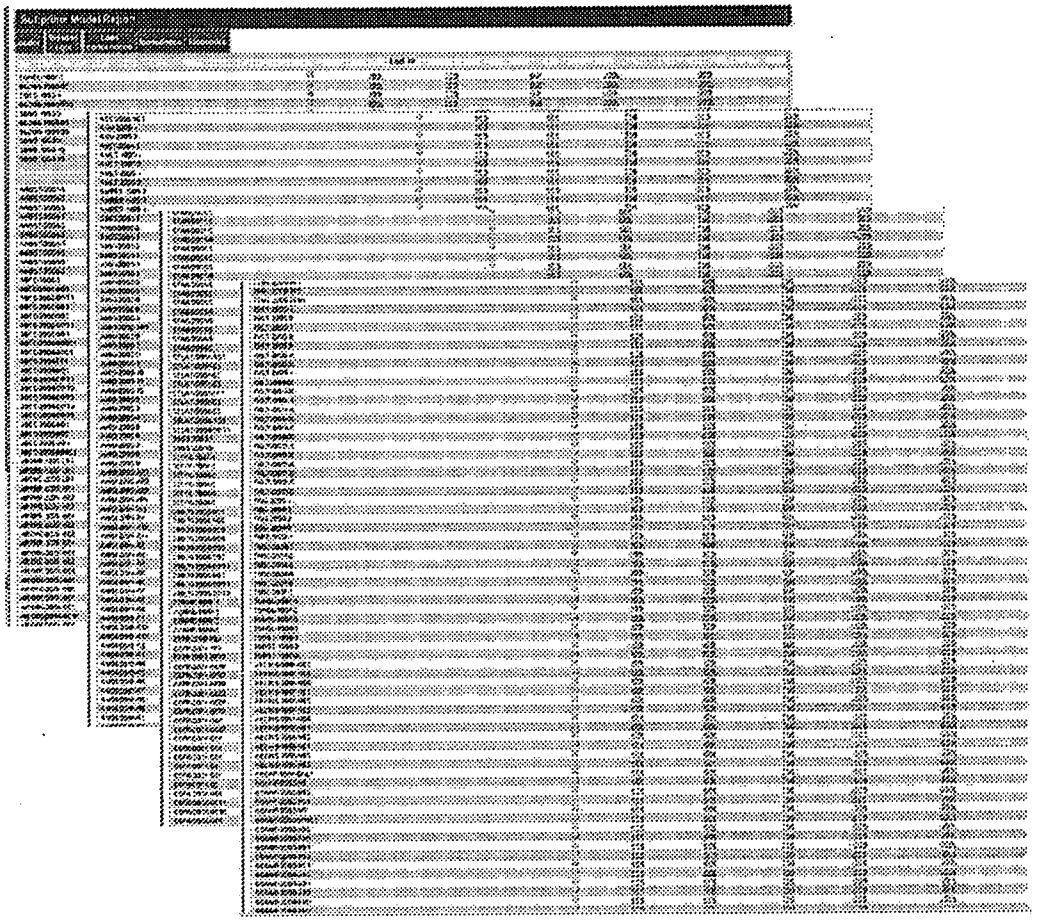
- HBK's proprietary Default/Prepay and Severity MSA-level model allows for predictive power of future deal performance
- Because all whole loan packages and every primary deal issued in the market is analyzed, in addition to our loan level surveillance systems, HBK is able to pick up on trends before they adversely impact the CDO
- Due to size and trading volume, HBK works with dealers and originators to customize pools by kicking out problem loans
- As a significant buyer of residuals, HBK also purchases much of the capital structure of those particular RMBS names
  - CDO buyers' interests are closely aligned with HBK's interests as HBK has considerable exposure to the same or lower rated bonds in our CDOs
- HBK now has the ability to monitor the portfolio performance through a Blackberry globally

GEM7-00001728

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Proprietary Systems

- HBK analyzes every bond in the market, providing for a vast range of data as well as meaningful comparison both on an absolute and a relative basis
- From this data, trends can be observed early regarding the bonds themselves as well as the general economy and the implications on future issuance

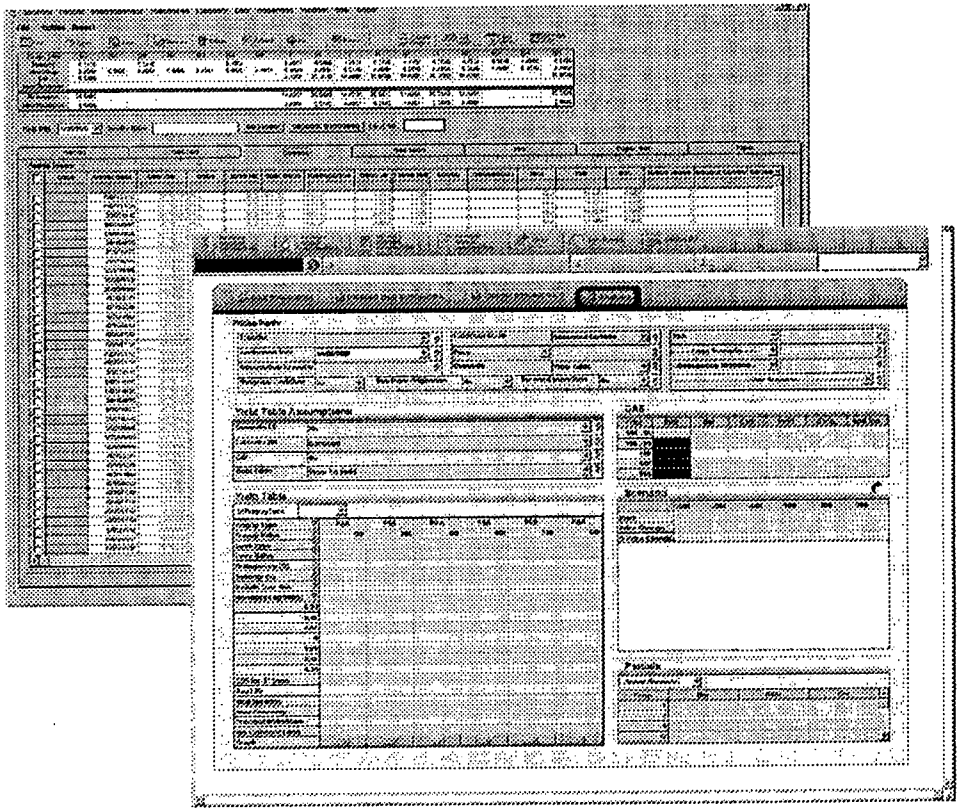


GEM7-00001729

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Proprietary Cashflow Systems

- Based on existing loan and economic data, HBK's models generate multiple scenarios based on HPA, interest rates, unemployment as well as other factors
- These scenarios are fed through our proprietary cash flow engine to calculate loss coverage multiples and likely total return over the life of the security

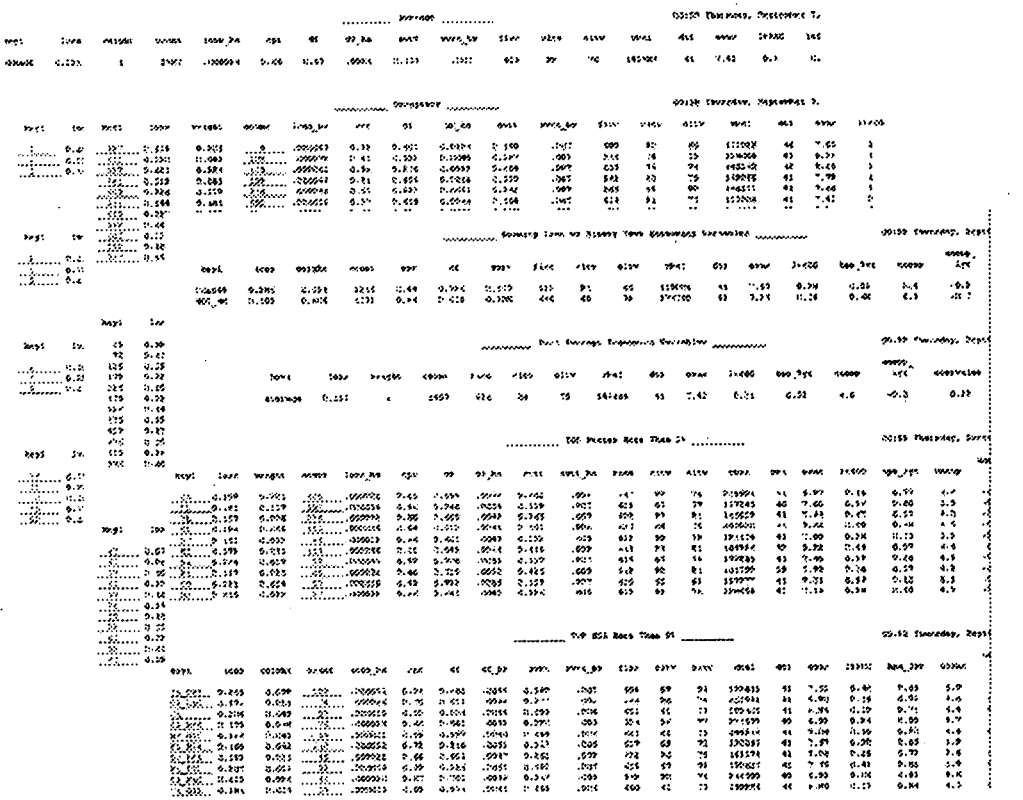


GEM7-00001730

Confidential Treatment Requested

Proprietary Credit Analysis Systems

- For each bond, HBK's system generates a report, providing the stratification of the deal's collateral as well as highlighting potential problems
- Users can literally drill down to the loan level via a mouse click
- Reports are also available providing greater detail on specific collateral characteristics such as state or FICO

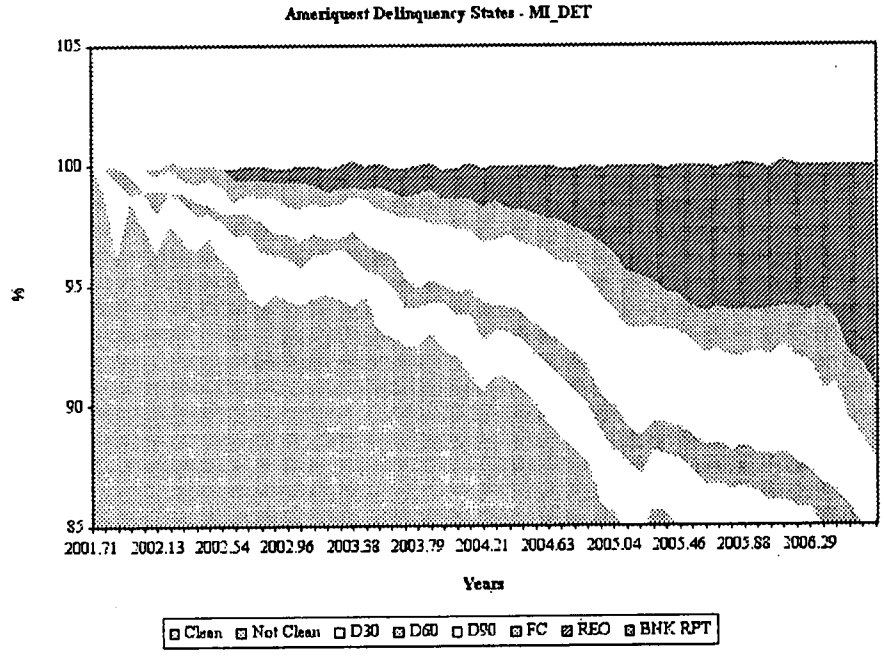


GEM7-00001731

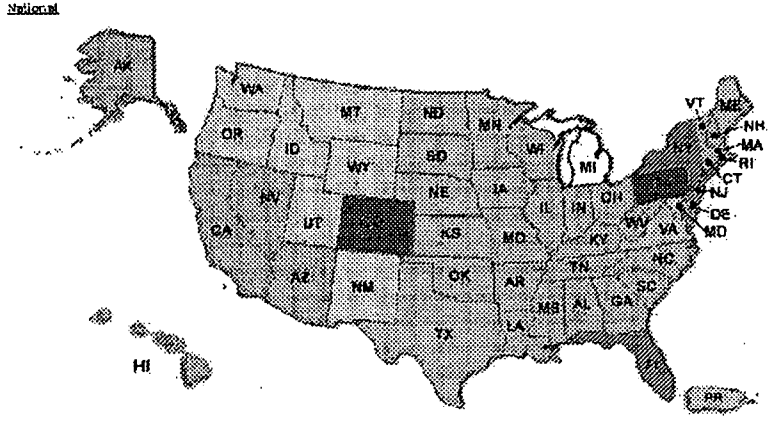
Confidential Treatment Requested

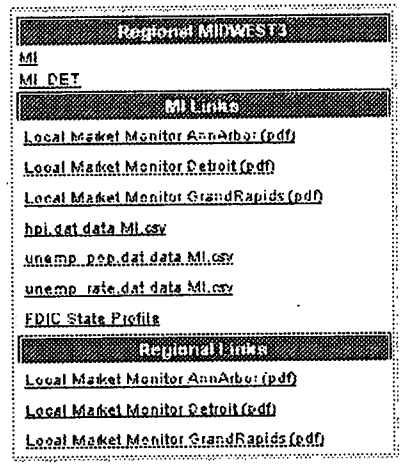
Market Data

- HBK maintains extensive databases of current market data, both proprietary and from public sources such as broker-dealer's research and research from government agencies
- All are utilized to gain better insight into the market and to further streamline proprietary models



Housing Research on HPA by state & MSA





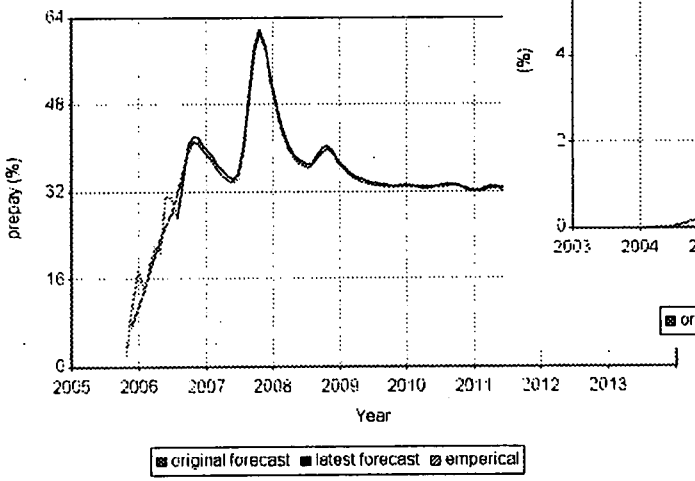
GEM7-00001732

Confidential Treatment Requested

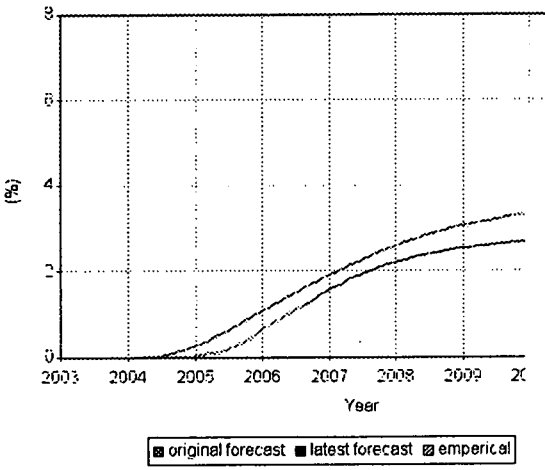
Future Developments

- HBK is continuously looking to improve our existing models and methodology
- HBK maintains constant dialogue with other market leaders such as broker-dealers, originators, servicers, and the rating agencies to better improve our models
- HBK spent months developing and streamlining a new system to allow for faster analysis and additional stresses on collateral
- HBK continuously compares our predictions to market empirical evidence to verify and improve our models

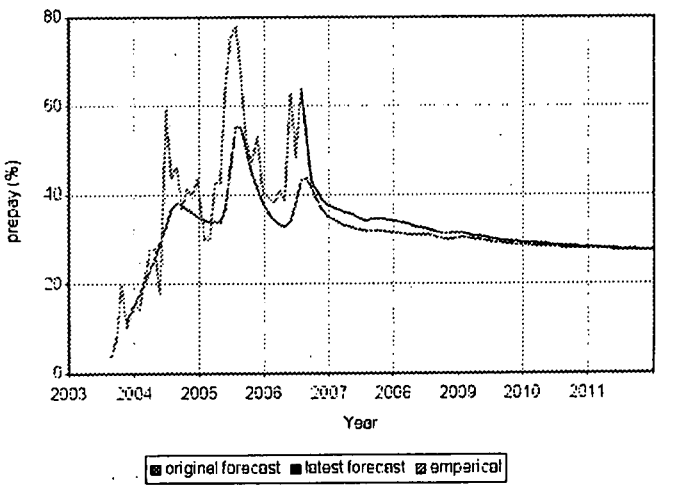
Prepayments



Cumulative Losses



Prepayments



GEM7-00001733

Confidential Treatment Requested

Tab D

Biographies of Structured Products CDO Team

GEM7-00001734

Confidential Treatment Requested

Biographies

Jamiel Akhtar

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. Mr. Akhtar is also responsible for HBK's Risk Management Group. He received an A.B. degree cum laude in Economics in 1993 from Harvard College

Kevin Jenks

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts

Jason Lowry

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and structural analysis. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics and Mathematics with University and Departmental Honors from Carnegie Mellon in 2001

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco oversees surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the College and was elected Phi Beta Kappa

GEM7-00001735

Confidential Treatment Requested

Biographies (continued)

Kimberlee Rozman

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal and compliance matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990

Gayla Mathis

Mrs. Mathis has been associated with HBK since 1996 and is responsible for global trading operations. Mrs. Mathis graduated from Texas A&M University in 1996 with a B.S. in Accounting

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. His primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS Research at Citigroup. Mr. Wang graduated from Brandeis University with Ph.D. in physics in 1996

GEM7-00001736

Confidential Treatment Requested

Section 4

Performance of HBK's Prior CDOs

GEM7-00001737

Confidential Treatment Requested

Sandstone CDO

Sandstone CDO[1] (closed in June 2004)

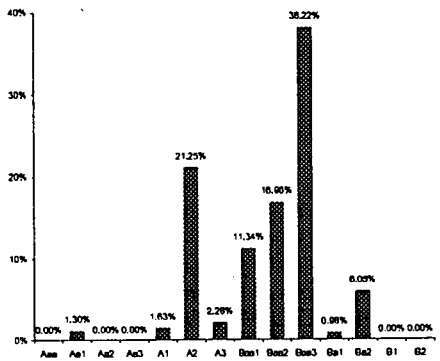
As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	15.2	n/a	n/a
Moody's WARF	418	n/a	n/a
Moody's WA Recovery Rate	32.7%	n/a	n/a
Min WA Spread	2.82%	n/a	n/a
Min WA Coupon	5.90%	n/a	n/a

There are currently 3 downgrades and no defaults in the portfolio

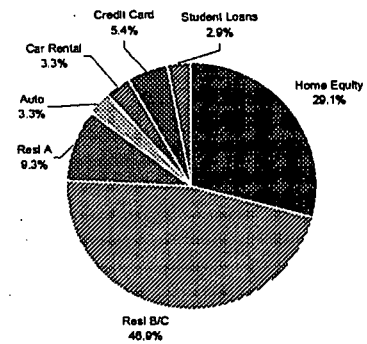
- AMSI 2003-8 MV6 was downgraded from Baa3 to Ba3 by Moody's, BBB- to BB- by S&P, BBB- to BB- by Fitch, currently has a factor of .31717.
- FFML 2003-FFH2 M6 was downgraded from BB to B by S&P, currently has a factor of .34836
- LBMLT 2003-1 M3 was downgraded from BBB to BB+ by Fitch, currently has a factor of .48116

*Static deal, tests do not apply after Closing

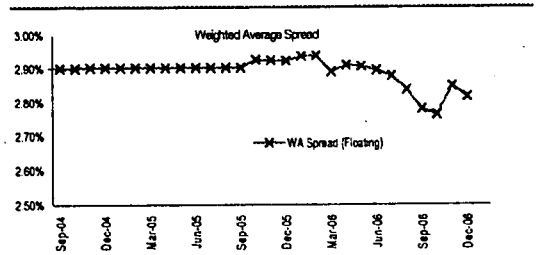
Rating Stratification[2]



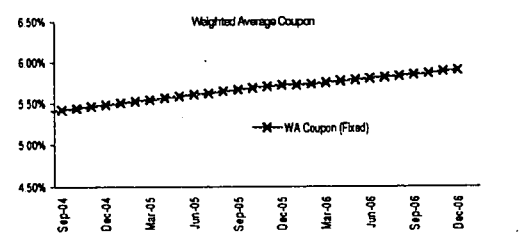
Industry Stratification[2]



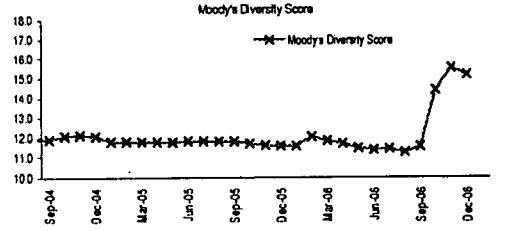
WA Spread



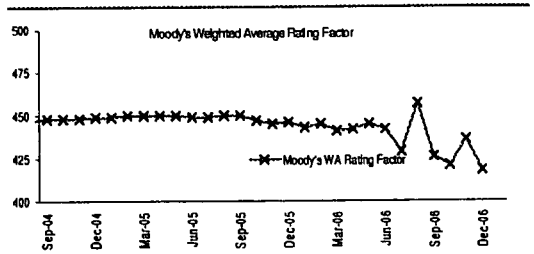
WA Coupon



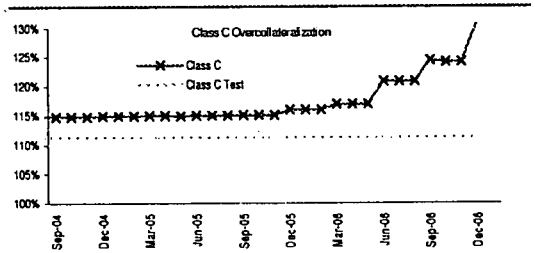
Moody's Diversity



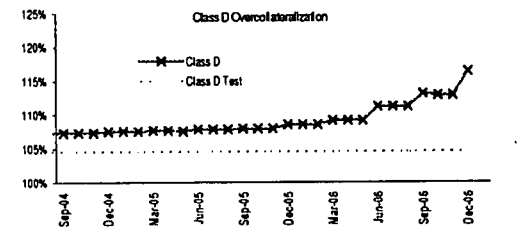
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



Deutsche Bank

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

GEM7-00001738

Confidential Treatment Requested

Gemstone CDO

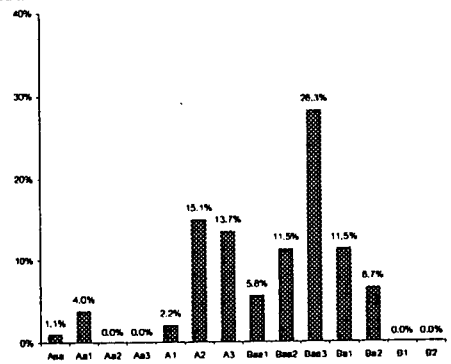
Gemstone CDO(1) (closed in December 2004)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	12.3	n/a	n/a
Moody's WARF	469	n/a	n/a
Moody's WA Recovery Rate	32.9%	n/a	n/a
Min WA Spread	2.20%	n/a	n/a
Min WA Coupon	5.48%	n/a	n/a

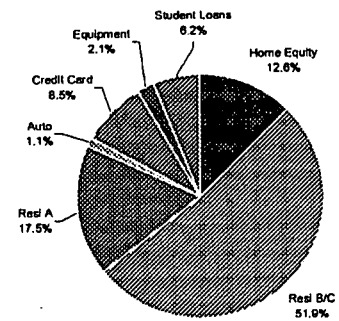
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

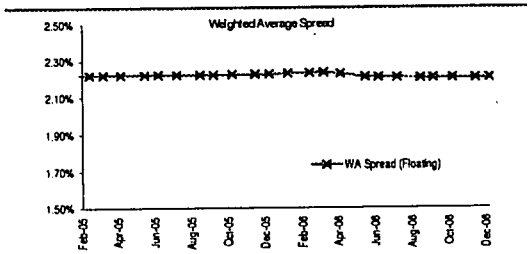
Rating Stratification(2)



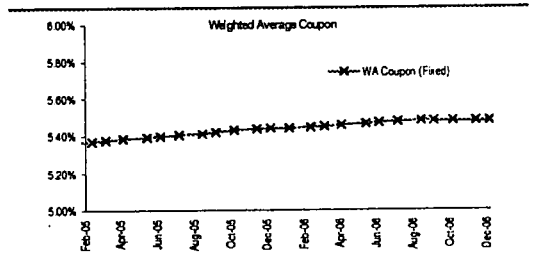
Industry Stratification(2)



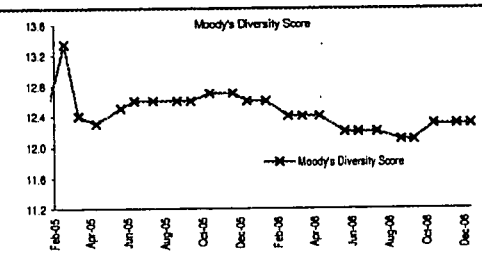
WA Spread



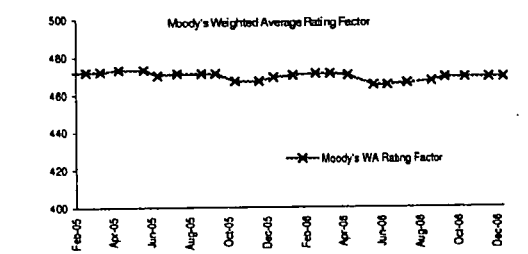
WA Coupon



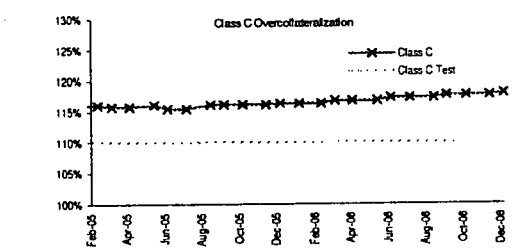
Moody's Diversity



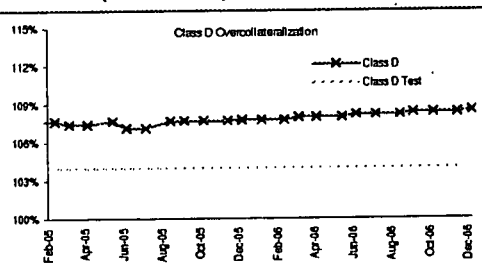
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating stratification shows Moody's indenture rating and includes notched assets.

GEM7-00001739

Confidential Treatment Requested

Gemstone CDO II

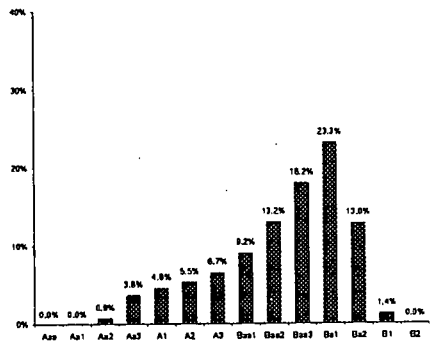
Gemstone CDO II[1] (closed in May 2005)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	11	n/a	n/a
Moody's WARF	650	n/a	n/a
Moody's WA Recovery Rate	27.6%	n/a	n/a
Min WA Spread	2.19%	n/a	n/a
Min WA Coupon	5.56%	n/a	n/a

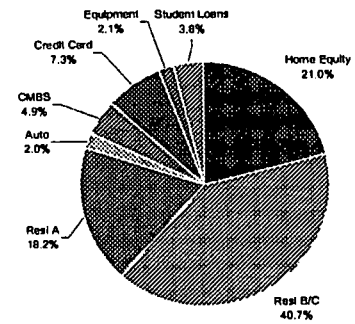
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

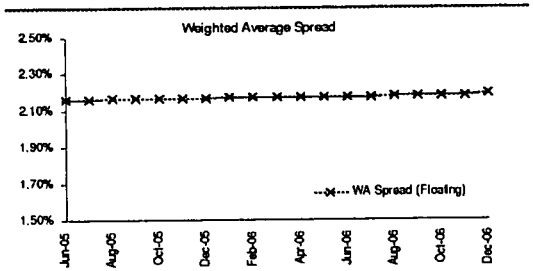
Rating Stratification[2]



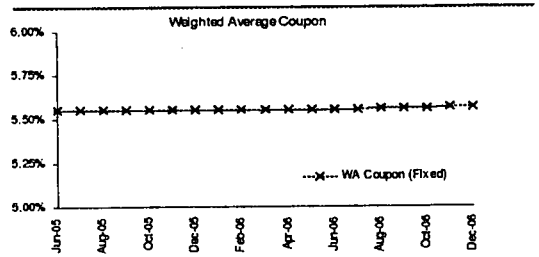
Industry Stratification[2]



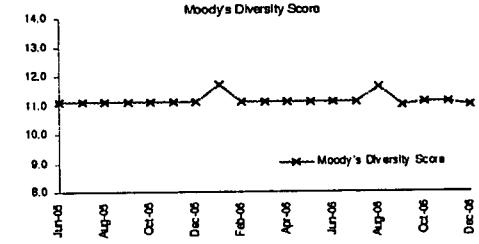
WA Spread



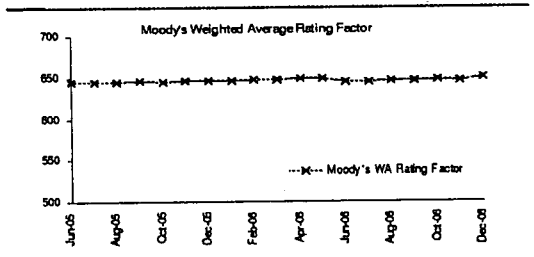
WA Coupon



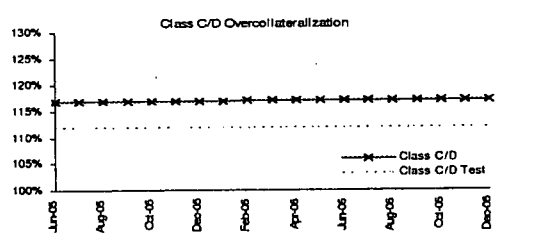
Moody's Diversity



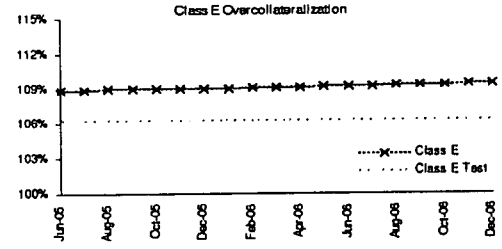
Moody's WARF



Class C/D (A2/A3/A/A-) Overcollateralization



Class E (Baa2/BBB) Overcollateralization



Deutsche Bank

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating stratification shows Moody's indenture rating and includes notched assets.

GEM7-00001740

Confidential Treatment Requested

Gemstone CDO III

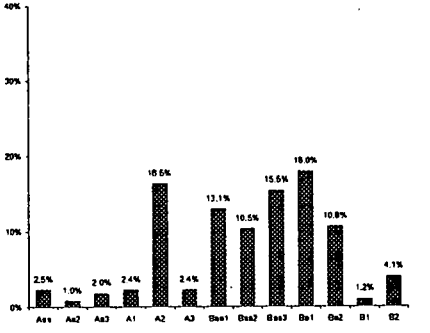
Gemstone CDO III[1] (closed in July 2005)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	16.5%	n/a	n/a
Moody's WARF	652	n/a	n/a
Moody's WA Recovery Rate	28.1%	n/a	n/a
Min WA Spread	1.86%	n/a	n/a
Min WA Coupon	5.50%	n/a	n/a

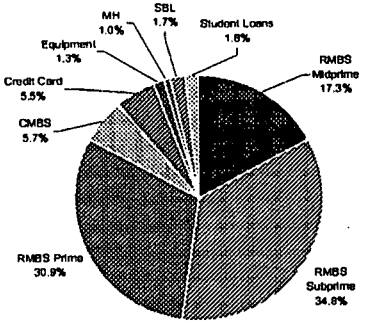
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

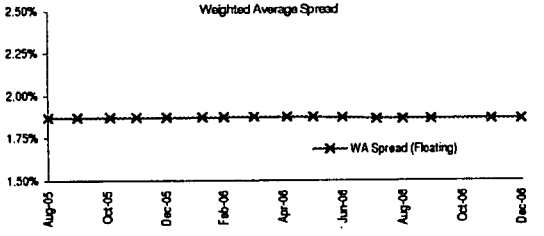
Rating Stratification[2]



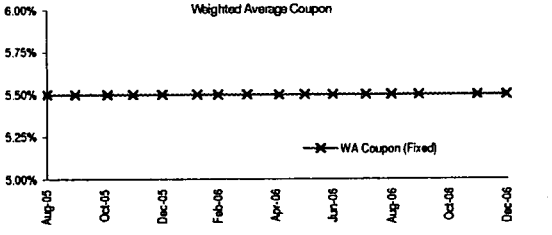
Industry Stratification[2]



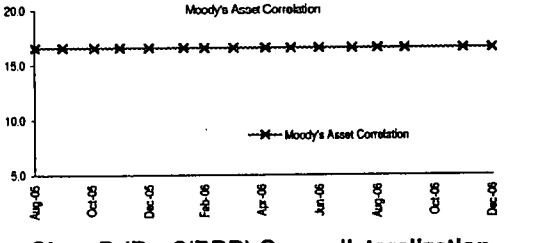
WA Spread



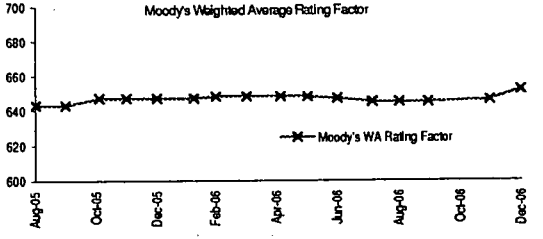
WA Coupon



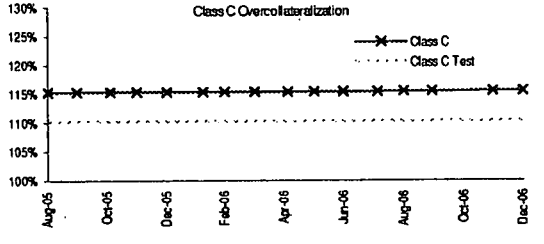
Moody's Correlation



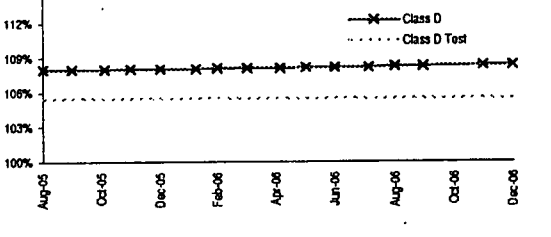
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

GEM7-00001741

Confidential Treatment Requested

Gemstone CDO IV

Gemstone CDO IV[1] (closed in January 2006)

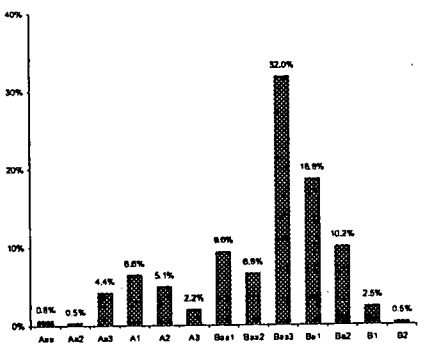
As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	18.3%	n/a	n/a
Moody's WARF	646	n/a	n/a
Moody's WA Recovery Rate	27.7%	n/a	n/a
Min WA Spread	1.86%	n/a	n/a
Min WA Coupon	5.27%	n/a	n/a

There is currently one downgrade and no defaults in the portfolio

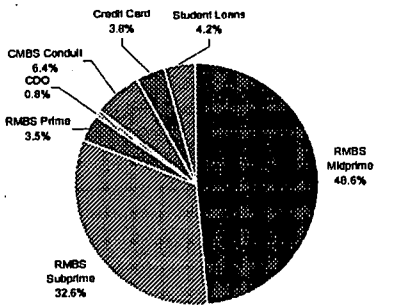
- AMSI 2003-8 MV6 was downgraded from Baa3 to Ba3 by Moody's, BBB- to BB- by S&P, BBB- to BB- by Fitch, currently has a factor of .31717

*Static deal, tests do not apply after Closing

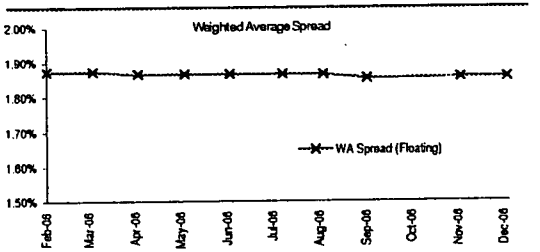
Rating Stratification[2]



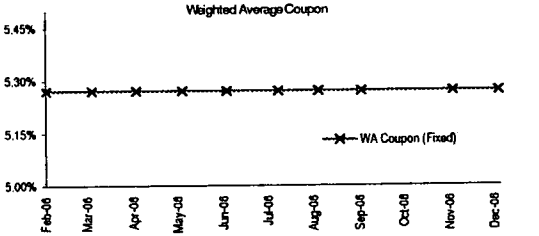
Industry Stratification[2]



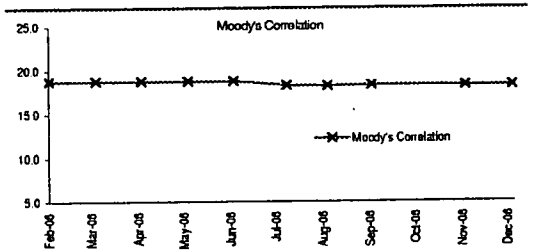
WA Spread



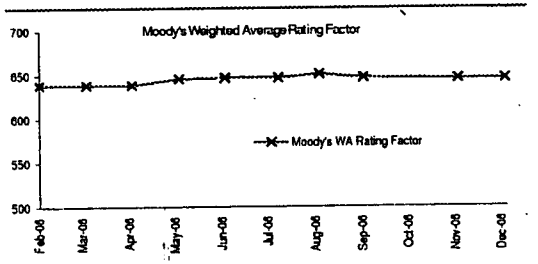
WA Coupon



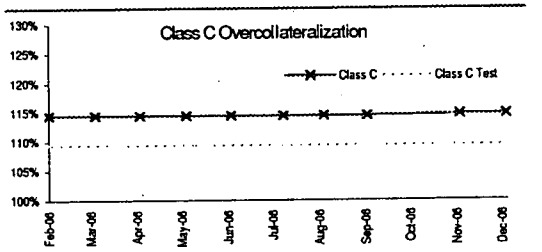
Moody's Correlation



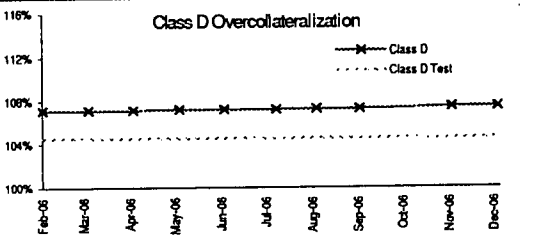
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

GEM7-00001742

Confidential Treatment Requested

Gemstone CDO V

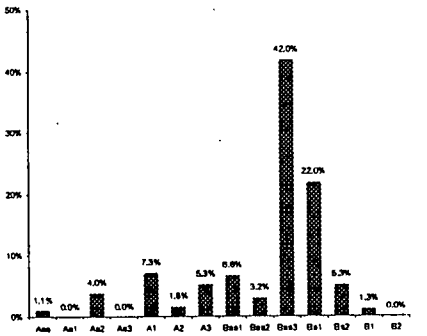
Gemstone CDO[1] (closed in May 2006)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	17.5%	n/a	n/a
Moody's WARF	610.6	n/a	n/a
Moody's WA Recovery Rate	26.7%	n/a	n/a
Min WA Spread	1.90%	n/a	n/a
Min WA Coupon	5.00%	n/a	n/a

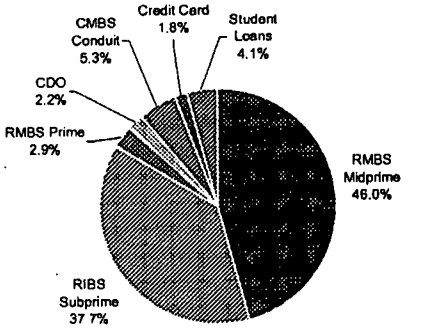
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

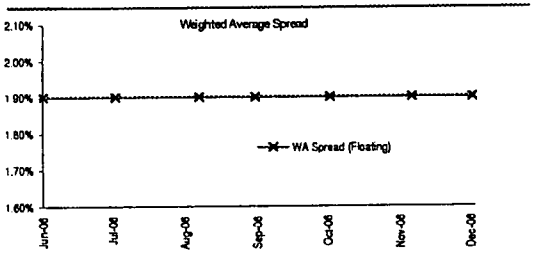
Rating Stratification[2]



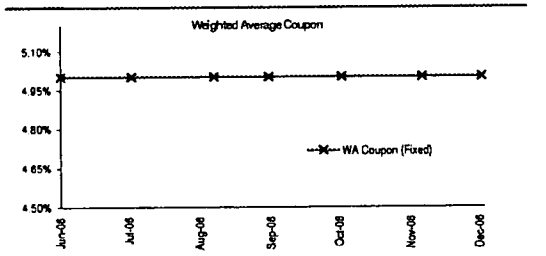
Industry Stratification[2]



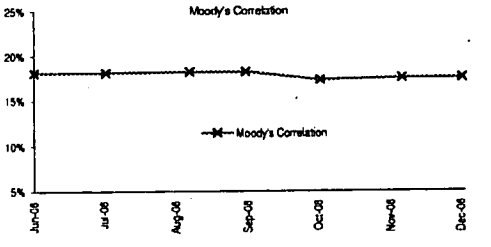
WA Spread



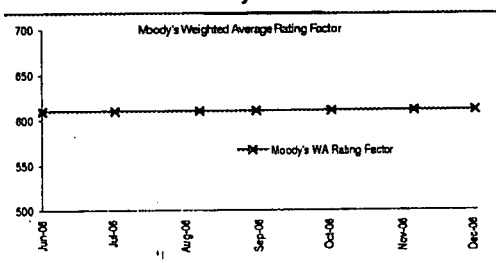
WA Coupon



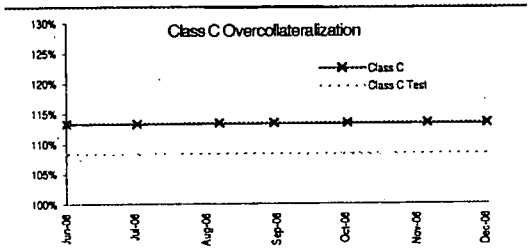
Moody's Correlation



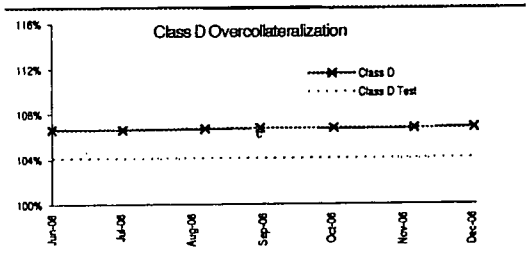
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

GEM7-00001743

Confidential Treatment Requested

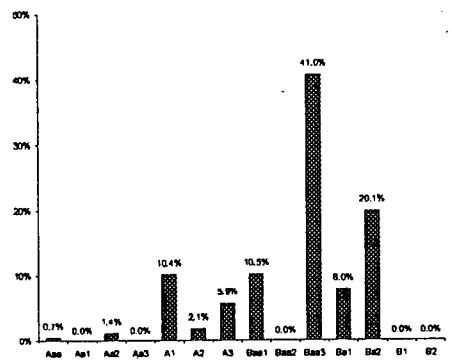
Gemstone CDO VI

Gemstone CDO VI[1] (closed in September 2006)

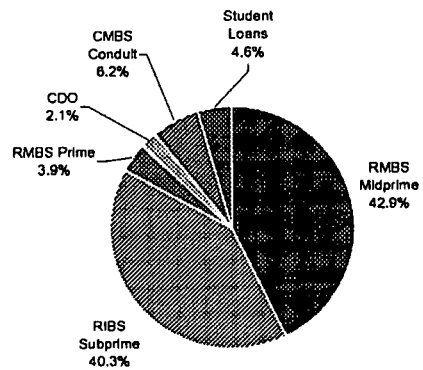
As of 12/31/06	Current	Test	Pass/Fail
Moody's Correlation	18.6%	19.5%	Pass
Moody's WARF	644	650	Pass
Moody's WA Recovery Rate	24.90%	23.5%	Pass
Min WA Spread	1.88%	1.80%	Pass
Min WA Coupon	5.68%	4.90%	Pass
Class C (A2/A) OC	113.38%	108.36%	Pass
Class D (Baa2/BBB) OC	107.25%	104.75%	Pass

There have been no downgrades or defaults in portfolio

Rating Stratification[2]



Industry Stratification[2]



- Recently closed CDO: Sufficient data points are not yet available to chart historical performance

GEM7-00001744

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

Confidential Treatment Requested

Appendix I

Risk Factors

GEM7-00001745

Confidential Treatment Requested

Risk Factors

Lack of Liquidity and Restrictions on Transfer	The Notes should be viewed as a long-term investment and not as an investment to be traded. There can be no assurance that there will be any secondary market for the Notes. Furthermore, any trading of the Notes will be subject to certain transfer restrictions.
Potential for Interruption and Deferral of Cash Flow	If certain Coverage Tests are not met (e.g. due to Collateral Debt Security defaults), then cash flow that otherwise would have been available to pay interest on the subordinate Notes and distributions to the Preference Shares would instead be used to redeem Class A Notes and, after the Class A Notes are paid in full, to redeem the Class B Notes and, after the Class B Notes are paid in full, to redeem the Class C Notes and, after the Class C Notes are paid in full, to redeem the Class D Notes until the tests again are satisfied. This could result in the early redemption of the Class A Notes, Class B Notes, Class C Notes and Class D Notes.
Limited Recourse Obligations	The Issuer will have no assets other than the Collateral Debt Securities and the Interest Rate Swap Agreement and Investment Agreements. Payments on the Notes and distributions on the Preference Shares will be payable solely from the cash flow of the assets of the Issuer. None of the Placement Agent (Deutsche Bank Securities Inc.), the Collateral Manager or any of their respective affiliates will have any obligation to make payments of principal or interest or other distributions on any of the securities issued by the Issuer.
Subordination	The payment of interest on each class of Notes is subordinated to the payment in full of the interest due and payable on any more senior class of Notes and certain other amounts, and application of Interest Proceeds to make payments on the Preference Shares is subordinated to the payment in full of the interest due and payable on each class of Notes and certain other amounts. Subject to certain limited exceptions, the payment of principal of each class of Notes is subordinated to payment in full of interest on and principal of any more senior class of Notes and all other amounts payable to the Issuer, and the application of Principal Proceeds to make payments on the Preference Shares is subordinated to the payment in full of interest on and principal of each class of Notes payable to the Issuer and all other amounts.
Asset/Liability Mismatch Risk	The floating rate nature of the Notes financing of the Issuer and the fixed rate nature of certain of the Collateral Debt Securities could produce a fixed/floating interest rate mismatch between the assets and the liabilities of the Issuer. Therefore, an increase in the level of LIBOR may adversely impact the returns on the Notes. The Issuer will enter into interest rate swaps which should reduce the asset/liability mismatch and therefore lower the return sensitivity of the Notes to changes in the absolute level of interest rates. Any mismatch would adversely affect returns on the Notes.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

GEM7-00001746

Confidential Treatment Requested

Risk Factors (continued)

Risk of the Collateral Debt Securities	The Collateral Debt Securities are subject to substantial credit, liquidity and interest rate risk. The synthetic securities, the interest rate swap and the Investment Agreement are subject to counterparty risk.
Maturity and Prepayment Considerations	The Stated Maturity of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will be the Distribution Date in [ ]. However, due to, among other things, the Clean-Up Call Redemption and the performance of the Collateral Debt Securities, the average life of the Notes is expected to be significantly shorter than the Stated Maturity for such class of Notes.
Structured Finance Obligations and Synthetic Securities	The Collateral Debt Securities may consist of structured finance securities and synthetic securities for which the reference obligations are structured finance securities. The market for these securities is generally less liquid than for other types of securities, which may prevent the Collateral Manager from taking advantage of changes in market conditions for the resale of the structured finance securities and synthetic securities. The Issuer may also be subject to the credit risk of the counterparty on any synthetic securities, which will be in addition to the credit risk associated with the reference obligation and the synthetic security itself.
Tax and ERISA Considerations	Special tax and ERISA considerations may apply to certain types of investors. Prospective investors are urged to consult with their own tax and ERISA advisors to determine the tax and ERISA implications of this investment, and to review the tax-related and ERISA-related provisions in the final Offering Memorandum and the Indenture.
Conflicts of Interest	Various potential and actual conflicts of interest may arise from the overall investment activity of the Collateral Manager and its respective affiliates. Among other things, the Collateral Manager may invest for the accounts of others in securities that would be appropriate for the Issuer and in securities that are senior to or subordinate to securities of the same issuers as those owned by the Issuer. Also, since the Collateral Manager, its affiliates, or its clients may own all or part of a Class of the Notes or the Preference Shares, various actual and potential conflicts may exist as a result of the Collateral Manager taking action on its behalf, on behalf of its affiliates or its asset management clients and on behalf of the Holders of the Notes or the Preference Shares.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

GEM7-00001747

Document originally produced in excel format; reformatted/margins modified for readability and printing purposes by the Subcommittee. Original document retained in the Subcommittee files.

Portfolio Manager

Index	Ticker	Original Face	S&P Final Rating	Moody's Final Rating	Synthetic / Cash	Specified Type	Issue Date	Servicer / Manager	Originator	Counterparty	Trade Date
1	LBMLT 2006-5 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	6/15/2006	Washington Mutual	Long Beach	JPM	10/24/2006
2	LBMLT 2006-5 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	6/15/2006	Washington Mutual	Long Beach	BCAP	10/24/2006
3	JPMAC 2006-HE1 M9	15,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	2/28/2006	Chase		GS	10/24/2006
4	SABR 2006-OP1 B3	15,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/26/2006	Option One	Option One	DB	12/12/2006
5	SABR 2006-OP1 B3	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/26/2006	Option One	Option One	GS	10/24/2006
6	SABR 2006-OP1 B3	10,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/26/2006	Option One	Option One	BCAP	10/24/2006
7	MSAC 2006-NC1 B3	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/27/2006	HomEq	New Century	ML	10/24/2006
8	MSAC 2006-NC1 B3	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	1/27/2006	HomEq	New Century	BCAP	10/24/2006
9	CWL 2006-4 B	15,000,000	BBB	Baa3	Synthetic	RMBS Subprime	3/17/2006	Countrywide	Countrywide	UBS	10/24/2006
10	CWL 2006-4 B	5,000,000	BBB	Baa3	Synthetic	RMBS Subprime	3/17/2006	Countrywide	Countrywide	BCAP	10/24/2006
11	MLMI 2005-HE1 B3	15,000,000	A-	Ba1	Synthetic	RMBS Midprime	4/21/2005	Wilshire	Accredited Home Lenders	UBS	10/24/2006
12	ARSI 2005-W2 M9	15,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	9/27/2005	Ameriquest	Argent	GS	10/31/2006
13	FHLT 2005-C M9	5,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	7/14/2005	Fremont	Fremont	DB	10/31/2006
14	NHEL 2006-3 M8	5,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	6/29/2006	NovaStar	Novastar	MS	11/3/2006
15	LBMLT 2006-1 M7	10,000,000	A	Baa1	Synthetic	RMBS Midprime	2/7/2006	Washington Mutual	Long Beach	DB	11/2/2006
16	JPMAC 2006-FRE1 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	1/27/2006	Chase	Fremont	MS	11/10/2006
17	JPMAC 2006-FRE1 M9	5,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	1/27/2006	Chase	Fremont	DB	11/10/2006
18	HEAT 2006-7 B1	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	10/3/2006	SPS	Encore Credit Corp 24.1%, Ownit Mortgage Solutions 24.0%, Lime Financial Services 20.4%	DB	11/13/2006
19	HEAT 2006-7 B1	5,000,000	BBB	Baa3	Synthetic	RMBS Midprime	10/3/2006	SPS	Encore Credit Corp 24.1%, Ownit Mortgage Solutions 24.0%, Lime Financial Services 20.4%	DB	11/29/2006
20	GSAMP 2006-NC2 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Ocwen	New Century	JPM	11/13/2006
21	HEAT 2006-5 B1	15,000,000	BBB	Baa3	Synthetic	RMBS Midprime	6/25/2006	SPS	Equifirst 15.5%, Encore 13.7%	CITI	11/15/2006
22	LBMLT 2005-3 M8	15,000,000	BBB	Baa2	Synthetic	RMBS Midprime	9/7/2005	Washington Mutual	Long Beach	DB	10/24/2006
23	LBMLT 2006-1 M7	10,000,000	A	Baa1	Synthetic	RMBS Midprime	2/7/2006	Washington Mutual	Long Beach	CITI	11/2/2006
24	MABS 2006-NC1 M9	15,000,000	BBB	Baa3	Synthetic	RMBS Subprime	2/24/2006	Wells Fargo	New Century	DB	11/28/2006
25	MLMI 2006-AHL1 B3	20,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	6/29/2006	Wilshire	ML MortgageInvestors, AHL	DB	12/6/2006
26	MSAC 2006-HE5 B3	20,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/30/2006	Countrywide	New Century 62.56%, Decision One 31.84%, WMC 5.56%	DB	12/6/2006
27	SABR 2005-FR4 B3	20,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	9/29/2005	Countrywide	Fremont	DB	12/6/2006
28	RASC 2006-KS3 M9	20,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	3/29/2006	HomeComings	45.55% EMC*, 19% Peoples Choice*, 13.18% HomeComings	BCAP	12/8/2006
29	RASC 2006-KS3 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	3/29/2006	HomeComings	45.55% EMC*, 19% Peoples Choice*, 13.18% HomeComings	DB	12/8/2006
30	BNLI 2006-1A B	15,000,000	AA	Aa2	Synthetic	CDO	3/30/2006	Babcock & Brown		CITI	12/18/2006
31	WADS 2006-1A B	15,000,000	AA	Aa2	Synthetic	CDO	9/28/2006	Hartford Investment		CITI	12/18/2006
32	GSAMP 2006-NC2 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Ocwen	New Century	DB	12/8/2006
33	LBMLT 2004-2 M7	10,000,000	BBB-	Baa3	Synthetic	RMBS Midprime	5/4/2004	Washington Mutual	Long Beach	DB	12/14/2006
34	ACE 2006-NC1 M9	10,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	1/30/2006	Saxon	New Century	CITI	12/19/2006
35	CMLTI 2006-NC1 M9	15,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Wells Fargo	New Century	CITI	12/19/2006
36	CMLTI 2006-NC1 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Wells Fargo	New Century	JPM	12/19/2006
37	SURF 2006-AB1 B3	15,000,000	A-	Baa3	Synthetic	RMBS Midprime	2/23/2006	Wilshire	SURF Program	GS	12/19/2006
38	MSC 2006-HE2 B3	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	4/28/2006	Wells Fargo	WMC 72.84%, Decision One 27.16%	BOA	12/19/2006

Index	Ticker	Original Face	S&P Final Rating	Moody's Final Rating	Synthetic / Cash	Specified Type	Issue Date	Servicer / Manager	Originator	Counterparty	Trade Date
39	MSC 2006-HE2 B3	15,000,000	BBB	Baa3	Synthetic	RMBS Midprime	4/28/2006	Wells Fargo	WMC 72.84%, Decision One 27.16%	GS	12/19/2006
40	OOMLT 2006-1 M9	10,000,000	A	Baa3	Synthetic	RMBS Midprime	2/3/2006	Option One	Option One	DB	12/19/2006
41	OOMLT 2006-1 M9	10,000,000	A	Baa3	Synthetic	RMBS Midprime	2/3/2006	Option One	Option One	DB	12/19/2006
42	JPMAC 2006-NC1 M9	15,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	4/27/2006	Chase	New Century	JPM	12/19/2006
43	GSAMP 2006-NC2 M9	10,000,000	BBB-	Baa3	Synthetic	RMBS Subprime	6/29/2006	Ocwen	New Century	GS	12/21/2006
44	GSAMP 2006-FM2 M9	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	9/29/2006	Fremont	Fremont	GS	12/21/2006
45	LBMLT 2006-5 M9	5,000,000	BBB+	Baa3	Synthetic	RMBS Midprime	6/15/2006	Washington Mutual	Long Beach	GS	12/21/2006
46	MABS 2006-NC1 M9	10,000,000	BBB	Baa3	Synthetic	RMBS Subprime	2/24/2006	Wells Fargo	New Century	GS	12/21/2006
47	WFHET 2006-1 M9	25,000,000	BBB+	Baa3	Synthetic	RMBS Subprime	5/30/2006	Wells Fargo	Wells Fargo	GS	12/21/2006
48	SURF 2006-AB1 B2	10,000,000	A+	Baa2	Synthetic	RMBS Midprime	2/23/2006	Wilshire	SURF Program	ML	1/4/2007
49	FFML 2006-FF1 M8	10,000,000	A	Baa2	Synthetic	RMBS Midprime	1/27/2006	National City	First Franklin	DB	1/4/2007
50	OOMLT 2006-1 M8	10,000,000	A+	Baa2	Synthetic	RMBS Midprime	2/3/2006	Option One	Option One	ML	1/4/2007
51	MSAC 2006-NC1 B2	10,000,000	BBB+	Baa2	Synthetic	RMBS Subprime	1/27/2006	HomEq	New Century	UBS	1/4/2007
52	HASC 2006-OPT2 M8	5,000,000	BBB+	Baa2	Synthetic	RMBS Midprime	2/28/2006	Option One	Option One	Barclays	1/4/2007
53	MABS 2005-NC2 M9	10,000,000	A	Baa3	Synthetic	RMBS Midprime	11/29/2005	Ocwen		GS	1/17/2007
54	HEAT 2006-5 B1	10,000,000	BBB	Baa3	Synthetic	RMBS Midprime	6/25/2006	SPS	Equifirst 15.5%, Encore 13.7%	GS	1/17/2007
55	FFML 2006-FF13 M9	10,600,000	BBB+	Baa3	Synthetic	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities		3/15/2007
56	SLMA 2006-B C	20,000,000	A	A2	Cash	Student Loans	6/8/2006	Sallie Mae		DB	10/30/2006
57	NCSLT 2006-3 C	8,000,000	A	A3	Cash	Student Loans	9/28/2006	Pennsylvania Higher Education		DB	10/30/2006
58	TMTS 2006-6 1A2	15,000,000	AAA	Aaa	Cash	RMBS Midprime	6/1/2006	SLS	Terwin Securitization	DB	10/30/2006
59	TMTS 2006-8 1A2	15,000,000	AAA	Aaa	Cash	RMBS Midprime	8/1/2006	SLS	Terwin Securitization	DB	10/30/2006
60	HEAT 2006-7 M7	4,125,000	A-	Baa1	Cash	RMBS Midprime	10/3/2006	SPS	Ownit Mortgage Solutions 24.0%,	DB	10/30/2006
61	SURF 2006-AB3 B1	2,550,000	BBB+	Baa1	Cash	RMBS Midprime	9/26/2006	Wilshire	SURF Program	DB	10/30/2006
62	HEAT 2006-7 B1	4,125,000	BBB	Baa3	Cash	RMBS Midprime	10/3/2006	SPS	Ownit Mortgage Solutions 24.0%,	DB	10/30/2006
63	SURF 2006-AB3 B3	4,250,000	BBB-	Baa3	Cash	RMBS Midprime	9/26/2006	Wilshire	SURF Program	DB	10/30/2006
64	FHLT 2005-A M9	1,006,000	BBB-	Baa3	Cash	RMBS Subprime	2/22/2005	Fremont	Fremont	DB	10/30/2006
65	FFML 2006-FF13 B1	11,668,000	BBB	Ba1	Cash	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities	DB	10/30/2006
66	GSAMP 2006-FM2 B1	6,131,000	BBB-	Ba1	Cash	RMBS Midprime	9/1/2006	Fremont	Fremont	DB	10/30/2006
67	SVHE 2006-EQ1 M10	6,746,000	BB+	Ba1	Cash	RMBS Midprime	9/15/2006	Saxon	EFC Holdings Corp	DB	10/30/2006
68	LBMLT 2005-1 B1	3,000,000	BB+	Ba1	Cash	RMBS Midprime	1/6/2005	Washington Mutual	Long Beach	DB	10/30/2006
69	DBALT 2006-AR4 M8	6,142,000	BBB-	Ba2	Cash	RMBS Prime	9/29/2006	Countrywide	DBALT / Countrywide apx 50%	DB	10/30/2006
70	AMSI 2005-R1 M9	5,000,000	BB	Ba1	Cash	RMBS Subprime	2/23/2005	Ameriquest	Ameriquest	HBK	11/17/2006
71	FFML 2006-FF13 B2	10,000,000	BBB-	Ba2	Cash	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities	HBK	11/17/2006
72	FFML 2005-FF2 B5	2,397,000	BB+	Ba2	Cash	RMBS Midprime	4/28/2005	National City	First Franklin	HBK	11/17/2006
73	FFML 2006-FF3 B2	2,915,000	BBB	Ba2	Cash	RMBS Midprime	2/23/2006	National City	First Franklin	HBK	11/17/2006
74	FFML 2006-FF4 B2	2,000,000	BBB	Ba1	Cash	RMBS Midprime	3/30/2006	National City	First Franklin	DB	10/31/2006
75	FFML 2005-FF8 B5	8,000,000	BBB-	Ba2	Cash	RMBS Midprime	9/29/2005	National City	First Franklin	HBK	12/11/2006
76	WFHET 2005-3 M11	8,759,000	BBB+	Ba2	Cash	RMBS Midprime	11/29/2005	Wells Fargo	Wells Fargo	HBK	12/11/2006
77	WFHET 2006-1 M11	4,000,000	BB+	Ba2	Cash	RMBS Subprime	5/30/2006	Wells Fargo	Wells Fargo	HBK	12/11/2006
78	AMSI 2005-R1 M10	4,000,000	BB	Ba2	Cash	RMBS Subprime	2/23/2005	Ameriquest	Ameriquest	HBK	12/18/2006
79	FHLT 2005-D B2	3,000,000	BBB	Ba2	Cash	RMBS Midprime	11/18/2005	Fremont	Fremont	HBK	12/18/2006
80	GSAMP 2006-FM1 B4	3,000,000	BB+	Ba2	Cash	RMBS Subprime	4/27/2006	Wells Fargo	Fremont	HBK	12/18/2006
81	GSAMP 2006-FM2 B2	10,217,000	BB+	Ba2	Cash	RMBS Midprime	9/1/2006	Fremont	Fremont	HBK	12/18/2006
82	HEAT 2005-9 B3	4,500,000	BBB	Ba2	Cash	RMBS Subprime	12/1/2005	SPS	n/a	HBK	12/18/2006
83	HEAT 2005-8 B3	7,500,000	BBB-	Ba2	Cash	RMBS Midprime	11/1/2005	SPS	People's Choice 19.0%,	HBK	12/18/2006
84	GSAMP 2006-NC2 B2	8,815,000	BB+	Ba2	Cash	RMBS Subprime	6/29/2006	Ocwen	New Century	HBK	12/18/2006
85	FFML 2006-FF13 B2	6,216,000	BBB-	Ba2	Cash	RMBS Midprime	9/28/2006	National City	GS Mortgage Securities	HBK	1/9/2007

Index	Ticker	Original Face	S&P Final Rating	Moody's Final Rating	Synthetic / Cash	Specified Type	Issue Date	Servicer / Manager	Originator	Counterparty	Trade Date
86	FFML 2004-FFC B4	3,000,000	BB	Ba2	Cash	RMBS Midprime	12/28/2004	Wilshire	First Franklin	HBK	1/9/2007
87	HEAT 2006-3 B3	14,000,000	BBB-	Ba2	Cash	RMBS Midprime	3/30/2006	SPS	Decicion One 15.7%,	HBK	1/9/2007
88	HEAT 2006-5 B3	2,500,000	BBB-	Ba2	Cash	RMBS Midprime	6/25/2006	SPS	Equifirst 15.5%, Encore 13.7%	HBK	1/16/2007
89	HEAT 2006-7 B3	11,000,000	BB+	Ba2	Cash	RMBS Midprime	10/3/2006	SPS	Ownit Mortgage Solutions 24.0%,	HBK	1/16/2007
90	ARSI 2005-W2 M12	14,000,000	BBB-	Ba2	Cash	RMBS Subprime	9/27/2005	Ameriquest	Argent	HBK	1/16/2007
91	AMSI 2005-R9 M9	5,000,000	BBB-	Ba2	Cash	RMBS Midprime	10/27/2005	Ameriquest	Ameriquest	HBK	1/16/2007
92	HEAT 2005-8 B4	11,250,000	BBB-	Ba2	Cash	RMBS Midprime	11/1/2005	SPS	People's Choice 19.0%,	HBK	1/16/2007
93	ARSI 2005-W3 M12	8,000,000	BBB-	Ba2	Cash	RMBS Subprime	10/28/2005	Ameriquest	Argent	HBK	1/16/2007
94	FFML 2005-FF8 B5	7,945,000	BBB-	Ba2	Cash	RMBS Midprime	9/29/2005	National City	First Franklin	HBK	1/17/2007
95	LBMLT 2004-4 M12	6,500,000	BBB-	Ba2	Cash	RMBS Midprime	9/8/2004	Washington Mutual		HBK	1/22/2007
96	JPMAC 2006-CH1 M9	1,200,000	BBB-	Baa3	Cash	RMBS Subprime	11/14/2006	Chase	JP Morgan	JPM	10/26/2006
97	JPMAC 2006-CH1 M10	2,898,000	BB+	Ba1	Cash	RMBS Subprime	11/14/2006	Chase	JP Morgan	JPM	10/26/2006
98	BAYC 2006-4A B1	1,700,000	BBB	Baa1	Cash	CMBS Conduit	10/30/2006	M & T MORTGAGE CORP.		ML	10/24/2006
99	ABSHE 2006-HE1 M7	5,000,000	A	Baa1	Cash	RMBS Subprime	2/6/2006	SPS	Option One	ML	11/6/2006
100	HEAT 2005-8 M7	7,250,000	A-	Baa1	Cash	RMBS Midprime	11/1/2005	SPS	People's Choice 19.0%,	ML	11/14/2006
101	SGMS 2006-OPT2 M4	4,000,000	A+	A1	Cash	RMBS Subprime	12/14/2006	Wells Fargo	Option One	SOCGEN	11/16/2006
102	SGMS 2006-OPT2 M7	1,650,000	BBB+	Baa1	Cash	RMBS Subprime	12/14/2006	Wells Fargo	Option One	SOCGEN	11/16/2006
103	MSAC 2006-HE8 M4	9,000,000	A+	A1	Cash	RMBS Midprime	11/29/2006	Countrywide	Decision One 26.83%,	MS	11/16/2006
104	BACM 2006-6 D	6,000,000	A	A2	Cash	CMBS Conduit	11/1/2006	Bank of America		BOFA	11/20/2006
105	BACM 2006-6 E	5,777,000	A-	A3	Cash	CMBS Conduit	11/1/2006	Bank of America		BOFA	11/20/2006
106	DBALT 2006-AR6 M10	8,820,000	BBB-	Ba2	Cash	RMBS Prime	12/15/2006	GMAC	Deutsche Securities	DB	11/30/2006
107	NCSLT 2006-4 C	11,000,000	A	A3	Cash	Student Loans	12/7/2006	Pennsylvania Higher Education		GS	11/29/2006
108	RAMP 2005-RS7 B	4,500,000	BB+	Ba1	Cash	RMBS Subprime	8/5/2005	GMAC	GMAC	GS	11/13/2006
109	FHLT 2006-E M7	16,043,000	BBB+	Baa1	Cash	RMBS Midprime	12/6/2006	Fremont	Fremont	GS	11/16/2006
110	JPMAC 2006-CH2 MV4	6,000,000	A+	A1	Cash	RMBS Midprime	12/14/2006	Chase	JP Morgan	JPM	11/21/2006
111	OMTS 2006-OT1 M3	8,190,000	A	A3	Cash	RMBS Midprime	12/8/2006	SLS	Terwin Securitization	CALYON	12/1/2006
112	TMTS 2006-17HE M4	3,488,000	BBB+	Baa3	Cash	RMBS Midprime	12/15/2006	SLS	Terwin Securitization	TERWIN	12/7/2006
113	FFML 2005-FF1 B4	2,549,000	BBB-	Ba1	Cash	RMBS Midprime	2/24/2005	Saxon	First Franklin	DB	12/7/2006
114	SABR 2005-OP1 B4	5,500,000	BB+	Ba1	Cash	RMBS Subprime	3/24/2005	Option One	Option One	DB	12/7/2006
115	AMSI 2005-R11 M10	5,000,000	BBB-	Ba2	Cash	RMBS Subprime	12/20/2005	Ameriquest	Ameriquest	DB	12/12/2006
116	JPMCC 2006-LDP9 D	2,500,000	A	A2	Cash	CMBS Conduit	12/1/2006	Midland Loan Services, Wachovia, Capmark		JPM	12/15/2006
117	JPMCC 2006-LDP9 E	4,000,000	A-	A3	Cash	CMBS Conduit	12/1/2006	Midland Loan Services, Wachovia, Capmark		JPM	12/15/2006
118	RAMC 2006-4 M4	4,687,000	A+	A1	Cash	RMBS Subprime	12/1/2006	Ocwen	Renassiance	RBS	12/1/2006
119	RAMC 2006-4 M7	6,000,000	BBB+	Baa1	Cash	RMBS Subprime	12/1/2006	Ocwen	Renassiance	RBS	12/1/2006
120	ACE 2006-HE1 M10	10,000,000	BBB	Ba1	Cash	RMBS Midprime	2/28/2006	Wells Fargo	Fremont 75.75%, Ownit 10.82%	DB	12/19/2006
121	BSABS 2007-HE1 2M10	7,391,000	BB+	Baa3	Cash	RMBS Subprime	1/30/2007	EMC		BS	1/23/2007
122	BAYC 2007-1 B1	4,500,000	BBB	Baa1	Cash	CMBS Conduit	2/2/2007	M & T MORTGAGE CORP.		CITI	1/25/2007
123	ACE 2006-NC1 M10	1,500,000	BBB	Ba1	Cash	RMBS Midprime	1/30/2006	Saxon		GS	2/7/2007
124	HEAT 2005-8 B2	1,000,000	BBB+	Ba1	Cash	RMBS Midprime	11/1/2005	SPS		GS	2/7/2007
125	GSAMP 2007-NC1 B1	12,500,000	BB+	Ba1	Cash	RMBS Subprime	2/20/2007	Avelo	New Century	GS	2/7/2007
126	GCCFC 2007-GG9 F	3,500,000	A	A2	Cash	CMBS Conduit	3/1/2007	LNR Partners		Greenwich	2/21/2007
127	EULER 2007-1A B	15,000,000	AA	Aa2	Cash	CDO	3/27/2007	Babcock & Brown		ML	2/22/2007
128	JPMCC 2007-CB18 D	3,000,000	A	A2	Cash	CMBS Conduit	3/7/2007	Midland Loan Services, Wachovia, Capmark		JPM	2/23/2007
129	AMSI 2005-R11 M10	3,500,000	BBB-	Ba2	Cash	RMBS Subprime	12/20/2005	Ameriquest	Ameriquest		3/15/2007

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Gemstone CDO VII, Ltd.

Debt Investor Presentation

January 2007

Deutsche Bank Securities Inc., a subsidiary of Deutsche Bank AG, conducts investment banking and securities activities in the United States.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1348

A Passion to Perform.

Deutsche Bank

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THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "1933 ACT") OR THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED OR ANY STATE OR FOREIGN SECURITIES LAWS, AND WILL BE OFFERED AND SOLD ONLY TO (1) "QUALIFIED PURCHASERS" WITHIN THE MEANING OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT OF 1940 WHO ARE EITHER "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE 1933 ACT) OR INSTITUTIONAL "ACCREDITED INVESTORS" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE 1933 ACT) OR (2) NON-U.S. PERSONS WHO PURCHASE OUTSIDE THE UNITED STATES PURSUANT TO REGULATION S UNDER THE 1933 ACT.

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Section 1

Executive Summary

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Opportunity Overview

Transaction Schedule

Pricing:	mid-Feb
Closing:	mid-Mar
Non-call period ends:	2 yrs
Reinvestment period ends:	3 yrs
Auction calls begin:	7.75 yrs
Reverse turbo begins:	9.75 yrs
Legal final date:	40 yrs

- $1.1 billion partially static mezzanine ABS CDO to be managed by HBK Investments L.P. and its affiliated subsidiaries ("HBK")
  - Predominantly RMBS (~88.6%) with smaller allocations to ABS CDOs (~4.5)%, Student Loans (~3.5)% and CMBS (~3.3)%
  - Static [27.9]% non-investment grade asset bucket (minimum rating of Ba2/BB) -- only RMBS assets
  - Pure sequential pay-down structure and with coverage tests
  - Optional call after year 2; auction call after year 7.75
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII
- De-levering, partially static structure
  - 3-year limited reinvestment period – only investment-grade asset amortizations can be reinvested
  - Reinvestments can be only be in assets rated Baa3/BBB- or better (investment grade)
  - Static below-investment-grade ("BIG") bucket – principal proceeds on BIG assets are used to amortize the capital structure sequentially
- 15% Credit-impaired double-B substitution bucket during the first 3 years (details on page 7)
  - Credit-impaired double-B assets can be replaced with non-impaired assets with equal or better rating and equal or higher par value
- Credit-risk, Credit-improved and Discretionary (up to 20% per annum) trading permitted on IG assets
- Flexibility to purchase cash and synthetic assets; max 65% synthetic bucket for pay-as-you-go CDS (RMBS and CDOs)
- Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest (otherwise payable to Equity)

(1) Source: HBK.

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Investment Considerations

HBK is one of the premier investment management firms in the industry

- **Experienced CDO Manager with a strong alignment of economic interest with investors**
  - Gemstone VII will be HBK's eighth ABS CDO. HBK has successfully brought to market 7 ABS CDOs totaling $3.6 billion aggregate issuance
  - HBK is an investment management firm founded in 1991 with equity capital under management of approximately $12 billion(1). HBK's structured finance team manages $5.0 billion in structured finance securities including $3.6 billion of structured product CDOs, as of November 30th, 2006(1)
  - As with all its prior CDOs, HBK will purchase 100% of the Equity in Gemstone CDO VII

HBK's CDO Program is a key component of the investment and funding strategy of its structured product division

- HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan-level analysis, due diligence, and in-house surveillance. HBK is seen as not as a trader but as a vigilant investor that maximizes value through intensive analysis and surveillance
- Structured products exhibit relatively stable performance and low default history
  - Favorable Default and Rating History – structured products have exhibited historically low incidence of default and as structures delever these assets become candidates for credit outperformance
  - Good Relative Value – structured products have historically priced and continue to price wider than similarly rated corporates due to liquidity and complexity premium that can be arbitraged through buy-and-hold cash flow CDO structure

(1) Source: HBK.

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Section 2

Gemstone CDO VII, Ltd.

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Transaction Overview

Pure sequential pay-down structure and with coverage tests

- **$1.1 billion partially static mezzanine ABS CDO**
  - Target portfolio comprised of [88.6]% RMBS, [4.5]% ABS CDOs, [3.3]% CMBS and [3.5]% Student Loans
  - Static [27.9]% non-investment grade bucket comprised of RMBS assets only rated at least Ba2/BB
- **Delevering sequential structure with coverage tests**
  - Amortizations on assets rated below Baa3/BBB- are used to delever structure and pay down notes
  - Amortizations on investment grade assets can be reinvested for 3 years into investment grade assets only
  - Coverage tests trap and divert excess interest to pay down notes and build overcollateralization
- **Credit-impaired Double-B Substitution Bucket**
  - During first 3 years, HBK can substitute up to 15% credit impaired double-B RMBS assets into non-impaired RMBS assets with equal or better rating
  - Principal Balance of new assets should be equal or greater than that of the replaced assets

Triple-B turbo amortizes Class D (Baa2/BBB) using excess interest

Indicative Capital Structure

Class	Rating (MDY's/S&P)	Size ($)	Size (%)	Subord (%)	Avg Life[1]	Legal Final
A[2]	Aaa/AAA	[793,100,000]	[72.0]%	[28.0]%	[5.6] Years	40 years
B	Aa2/AA	[96,900,000]	[8.8]%	[19.2]%	[7.7] Years	40 years
C	A2/A	[71,600,000]	[6.5]%	[12.7]%	[7.8] Years	40 years
D	Baa2/BBB	[57,300,000]	[5.2]%	[7.5]%	[6.1] Years	40 years
E	Ba1/BB+	[18,700,000]	[1.7]%	[5.8]%	[7.8] Years	40 years
Preference Shares[3]	NR	[63,900,000]	[5.8]%			40 years
Total		**1,101,500,000**	**100.0%**			

(1) Average Life of tranches calculated to 7.75 year Auction Call (20% of collateral expected to remain outstanding).
(2) Class A may be split into additional tranches based on investor preference.
(3) 100% of Preference Shares retained by the Collateral Manager and not offered.

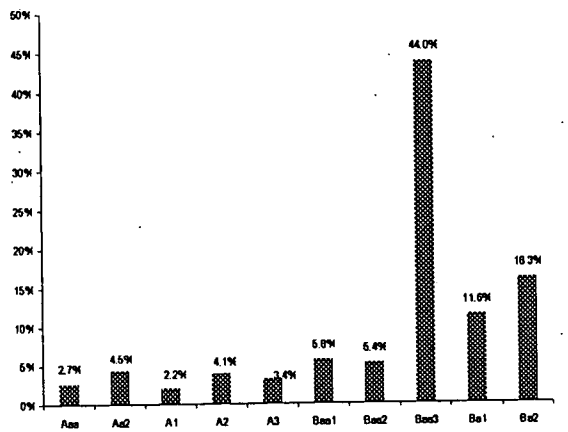
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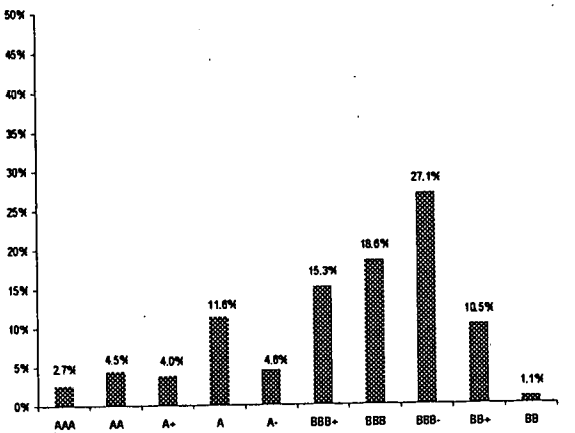
Portfolio Composition

Portfolio Composition

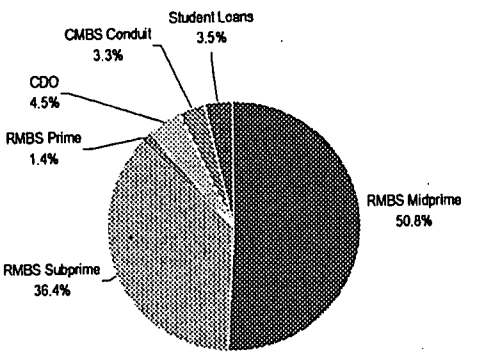
Moody's Rating Composition(1)



S&P Rating Composition



Asset Type Composition



Initial Asset Type vs Moody's Rating(1)

	Total	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2
RMBS Midprime	50.8%	2.7%				1.4%		0.7%	4.5%	4.5%	20.6%	6.5%	9.8%
RMBS Subprime	36.4%					0.8%			1.1%	0.9%	23.4%	5.1%	5.1%
RMBS Prime	1.4%			4.5%									1.4%
CDO	4.5%												
CMBS Conduit	3.3%						2.3%	0.9%	0.2%				
Student Loans	3.5%						1.8%	1.7%					
Total	100.0%	2.7%	0.0%	4.5%	0.0%	2.2%	4.1%	3.4%	5.8%	5.4%	44.0%	11.6%	16.3%

(1) Assets not explicitly rated by Moody's (approximately 4.8%) are notched in accordance with Moody's notching convention.

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Transaction Highlights

$1.1 billion mezzanine RMBS CDO

100% of equity retained by HBK (or its affiliates)

Ramp-up	« The portfolio is expected to be 100% ramped at closing
Management Fee	« Senior Management Fee: 30 bps per annum « Subordinate Management Fee: none
Limited Reinvestment Period	« 3 year Limited Reinvestment Period for investment grade assets only « Static non-investment grade bucket – these amortizations are used to pay down structure
Triple-B Turbo	« During the first 3 years after closing, 20% of the Class D (Baa2/BBB) Notes will be paid down with excess interest proceeds; after the first 3 years, 20% of the excess interest proceeds will be paid to Class D
BB Diversion Test	« Excess interest proceeds (otherwise payable to Equity) will pay down Class E (Ba1/BB+) if the Class E Interest Diversion Test fails until it is brought back into compliance
Manager Trading	« Max 15% Credit-impaired Double-B Substitution into equal or better rated assets « Credit Risk, Credit Improved and Defaulted Assets pursuant to the Indenture « 20% Discretionary trading on investment-grade assets
Optional Call	« 2 years
Auction Call	« Auction call after 7.75 years, and if unsuccessful, on a semi-annual basis thereafter
Permanent Reverse Turbo after 9.75 years	« If auction calls are unsuccessful for two years, equity will not be paid any excess interest proceeds; instead such monies shall be used to pay down outstanding Notes in a reverse order of seniority (Class E, followed by Class D, Class C, Class B, Class A-2, and finally, Class A-1)
Synthetic Assets	« Up to 65% of the portfolio may consist of "pay-as-you-go" credit default swaps on RMBS or CDO reference obligations, replicating cash position in the underlying - Fixed Cap will apply to RMBS PAUG CDS - Variable Cap (and no implied Writedowns) will apply to CDO PAUG CDS - The transaction may feature a GIC to invest the cash that collateralizes the PAUG assets

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Transaction Highlights (continued)

Key Collateral Characteristics

	Closing Portfolio	Limit
Floating Rate Assets	[94.1]%	[94.0]% min
Fixed Rate Assets	[5.9]%	[6.0]% max
Synthetic Assets	[54.9]%	[65.0]% max
Moody's WARF	[645] (Baa3/Ba1)	[674] (Baa3/Ba1) max
Moody's Correlation Factor	[21.5]%	[22.6]% max
Moody's Weighted Average Recovery Rate	[25.5]%	[24.0]% min
Weighted Average Spread	[2.34]%	Spread vector covenant
Weighted Average Coupon	[5.36]%	Coupon vector covenant

Coverage Tests

	Overcollateralization			Interest Coverage		
	At Closing	Test	Cushion	At Closing[1]	Test	Cushion
Class A/B OC Test	[123.74]%	[118.74]%	[5.00]%	[142.13]%	[107.00]%	[35.13]%
Class C OC Test	[114.53]%	[110.78]%	[3.75]%	[129.25]%	[103.00]%	[26.25]%
Class D OC Test	[108.09]%	[105.34]%	[2.75]%	[118.44]%	[100.00]%	[18.44]%
Class E Diversion Test	[106.14]%	[104.02]%	[2.12]%			

(1) Interest Coverage at Closing are estimates.

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Eligibility Criteria

Eligibility Criteria (Concentration Limits)	
Ratings Concentration Limits	Max [27.9]% rated below Baa3/BBB- (RMBS only)
Specified Type (Asset Type) Limits	Max [100]% Home Equity, Residential A, and Residential B/C in aggregate Max [10]% CMBS in aggregate Max [10]% CDO in aggregate; all CDOs must be rated Baa3/BBB- or above Other Asset Types subject to additional limitations
Servicer Limits	The aggregate principal balance of all assets serviced by the same Servicer should not exceed [7.5]%, except that the aggregate principal balance may be up to: – [20]% if the Servicer is rated at least Aa3 or SQ1 by Moody's – [10]% if the Servier is rated below Aa3 and below SQ1 Moody's (2 exceptions may be up to [15]% each) or, the aggregate principal balance may be up to: – [15]% if rated at least AA- or Strong by S&P – [10]% if rated at least A- or Above Average by S&P
Issue (Security/CUSIP-level) Limits	Max [2.5]% Baa3/BBB- or higher (5 exceptions up to [3.0]%) Max [1.25]% for Ba1/BB+ or below (5 exception up to [1.5]%)
Synthetic Security Limits	Max [65]% Synthetic Securities
Fixed Rate Assets	Max [6.0]%

Collateral Haircuts for Class A/B, C and D Overcollateralization Tests

	Initial Level	Allowed Cushion[1]	Haircuts for collaterals over the threshold (Initial + Cushion)
Moody's Ba1/Ba2/Ba3 rated collateral	[27.9]%	[5]%[2]	[10]%
Moody's B1/B2/B3 rated collateral	[0]%		[20]%
Moody's Below B3 rated collateral	[0]%		[50]%
S&P BB+/BB/BB- rated collateral	[12.6]%	[5]%[2]	[10]%
S&P B+/B/B- rated collateral	[0]%		[20]%
S&P Below B- rated collateral	[0]%		[30]%

References to ratings are to Moody's and S&P ratings, as applicable. For a complete description of haircuts, please refer to the Offering Circular

(1) Allowed Cushion is in addition to the Initial Level of collateral.

(2) Allowed Cushion may be up to [5]% shared between the three major rating categories listed above as long as the total threshold amount is no more than [32.9]% (27.9% + 5.0%) for Moody's and no more than [17.6]% (12.6% + 5.0%) for S&P across all three major rating categories.

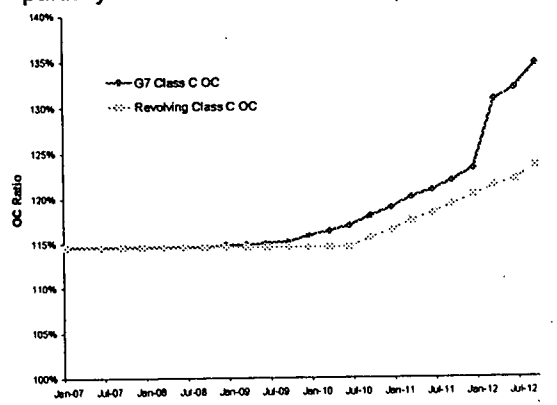
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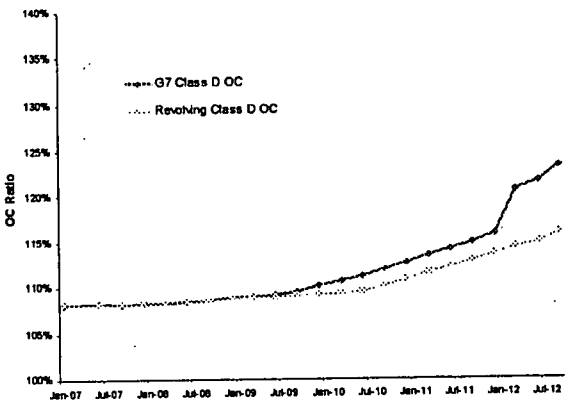
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Investment Rationale

Class C/D Expected OC Levels

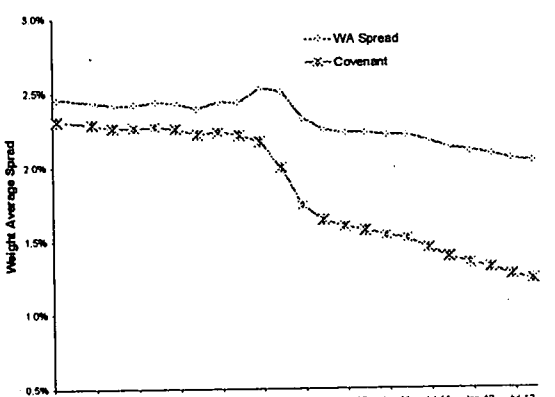
- **Faster OC Buildup** – Compared with a traditional revolving structure, Gemstone CDO VII builds OC quicker due to the partially static structure and the triple-B turbo feature





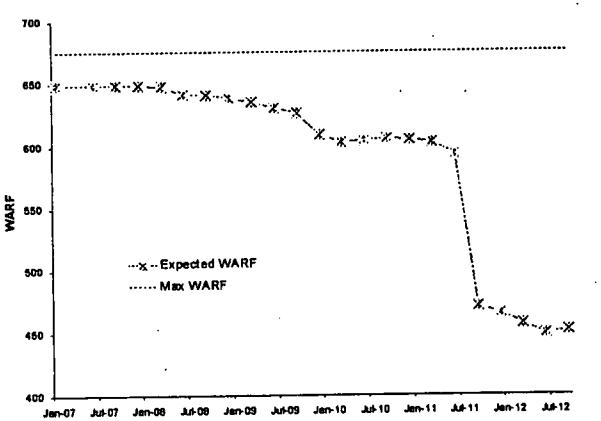
Weighted Average Spread Vector

- **Spread Curve Vector**[1] – WAS is expected to decrease over time due to static amortizing BB RMBS assets which have higher spreads. This issue is addressed in Gemstone VII by modeling the WAS as a spread vector that declines over time.



Expected WARF

- **Improved Credit Quality Over Time**[2] – As the BB RMBS assets amortize, investment grade assets will remain, resulting in an overall credit improvement



(1) IG Floating reinvestments are assumed to be in assets with 4 year bullet maturity and spread of 230 bps.
(2) IG asset amortizations are assumed to be reinvested in assets that have a WARF equal to the initial WARF of the relevant IG bucket.

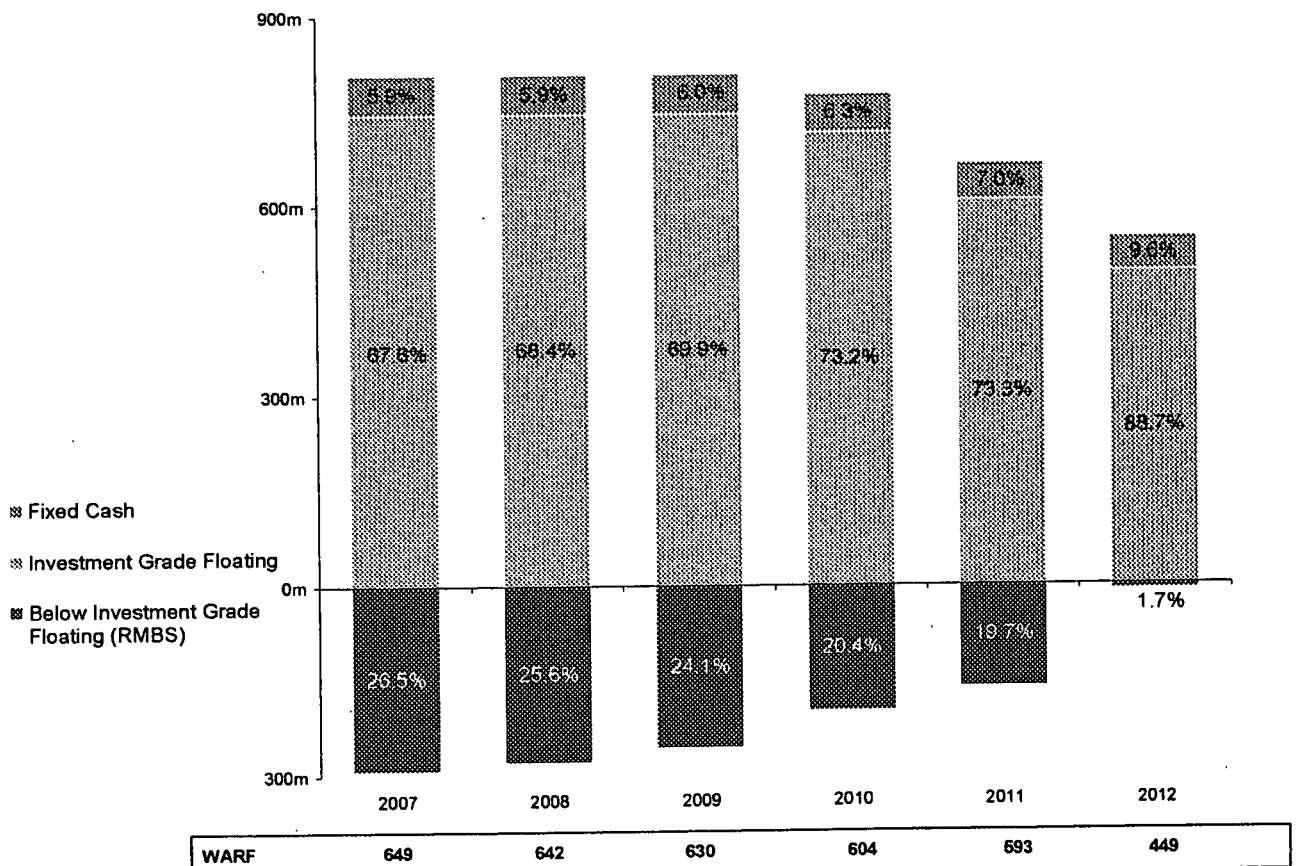
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Investment Rationale

Asset Portfolio Amortization

- The credit quality of the portfolio is expected to naturally improve over time due to the static BB bucket and the reinvested investment-grade assets
- The Gemstone VII structure has higher subordination because it does not take credit from rating agencies for the natural WARF improvement and is also conservatively sized to take into account that portfolio spread (WAS) will decline over time



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Breakeven Analysis

Breakevens – to Maturity[1][2][3]

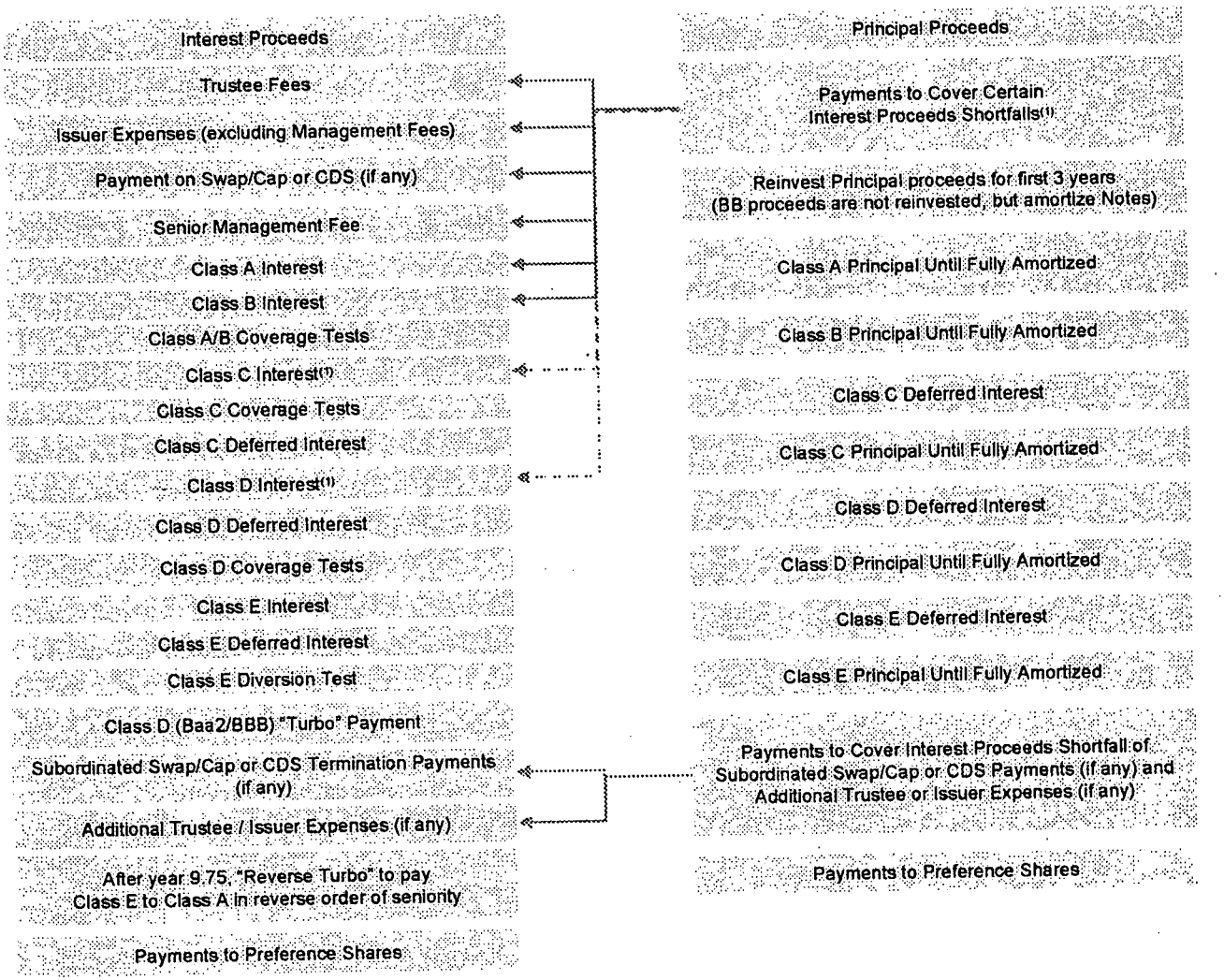
	To PIK		To Break in Yield		To Return of Investment	
	CDR	Cumulative	CDR	Cumulative	CDR	Cumulative
Class A	[24.1]%	[60.1]%	[24.1]%	[60.1]%	[42.2]%	[76.1]%
Class B	[17.3]%	[48.4]%	[17.3]%	[48.4]%	[20.0]%	[53.5]%
Class C	[9.6]%	[32.3]%	[10.2]%	[34.2]%	[12.8]%	[40.1]%
Class D	[3.5]%	[20.2]%	[4.6]%	[25.7]%	[7.8]%	[27.5]%
Class E	[1.4]%	[8.6]%	[3.7]%	[21.4]%	[4.4]%	[24.6]%

(1) Note breakeven analysis assumes: (i) forward LIBOR curve, (ii) base case collateral cash flows, (iii) constant annual defaults occur from the closing date and at the beginning of each collection period with 50% instantaneous recovery, (iv) principal and interest proceeds on cash assets are assumed to be reinvested short term and accrue interest at 3m LIBOR – 0.20%.
(2) 30bps senior collateral management fee; senior ongoing deal expenses: US$250,000 p/a + 0.04% p/a.
(3) To maturity assuming no calls.

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Priority of Payments



(1) Dotted lines signify that Class C & D Interest paid from Principal Proceeds contingent upon maintaining OC Levels in compliance.

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Section 3

Collateral Manager Overview – HBK Investments L.P.

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Overview

- HBK Investments L.P. together with its affiliated subadvisors ("HBK") is an investment management firm founded in October 1991 with equity capital under management of approximately $12 billion. HBK's structured finance team manages $5.0 billion in structured finance securities, including $3.6 billion of structured product CDOs, as of November 30, 2006(1)
- HBK's main office is in Dallas, Texas, with affiliated subadvisory offices in New York, London, Hong Kong and Tokyo
- HBK employs approximately 300 individuals in its five offices globally
- HBK's senior management team has been working together since 1994
- The firm strives to provide superior risk-adjusted rates of return with relatively low volatility and relatively low correlation to most major market indices
  - "multi-strategy" approach with a sub-categorization of either "market neutral" or "absolute return"
- From inception through November, 2006, HBK generated a compounded annual return of 12.34%, net of all fees and expenses and assuming reinvestment of all distributions(1)(2)
  - positive returns for every consecutive 12-month period in its history
- HBK currently manages seven ABS CDOs
  - CDOs as a term-financing source, not as a fee-generation arbitrage vehicle
  - performance snapshots of prior CDOs are provided in Section 4
  - all junior tranches of Sandstone CDO, HBK's first ABS CDO, have been upgraded a full rating by S&P and are currently on upgrade watch by Moody's

(1) Source: HBK.
(2) Past performance is not indicative of future performance.

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Tab A

Organization and Management

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Investment Structure

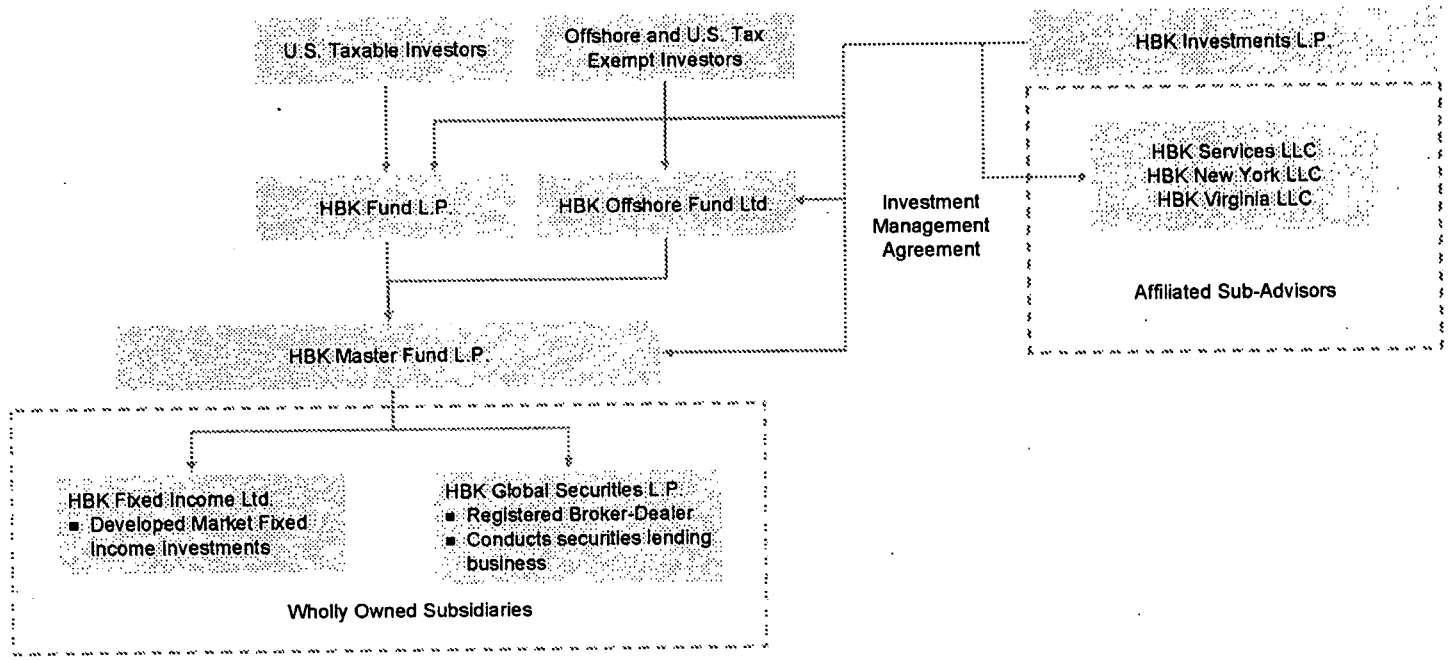
- Funds from HBK's investors are invested through one of two feeder funds:
  - HBK Fund L.P. is structured to accommodate qualifying U.S. taxable investors
  - HBK Offshore Fund Ltd. is structured to accommodate U.S. tax exempt investors and non-U.S. investors
- These two funds have combined most of their assets into a single master pool called HBK Master Fund L.P.
- HBK organizes its portfolio positions into a number of business units, each with a different investment strategy
- For analysis and reporting, the business units are aggregated into four main investment groups:
  - Credit: Corporate; Non-Corporate
  - Equity: Event or Spread Driven; Relative Value
  - Volatility, Quantitative and Other
  - Developed Markets Fixed Income
- Investments in U.S. structured products fall under both Credit (Non-Corporate) and Developed Markets Fixed Income depending on the credit rating of the asset in question

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Legal Structure

- HBK Investments L.P. (a Delaware limited partnership) its affiliated subadvisors manage two funds: HBK Fund L.P. (a Delaware limited partnership) and, HBK Offshore Fund Ltd. (a Cayman Islands limited company) and each of which has invested most of its capital in HBK Master Fund L.P. (a Cayman Islands limited partnership)



Source: HBK

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Business Units

HBK

Credit: Corporate; Non-Corporate

- ***Structured Products*** – ABS, CMBS, RMBS, CDOs, structured notes and others
- ***Emerging Markets*** – fixed income and equity securities issued in countries outside the G7 nations
  - sovereign and private issuers
- ***Corporate Credit– U.S. and International***
  - credit-driven investments in developed market, corporate securities
  - Investment grade and high yield, par and distressed bank debt, trade claims, equity derivatives
  - seek best risk-reward opportunity within capital structure
- ***Private Placements*** – equity-linked privately negotiated investments in U.S. and non-U.S. companies

Volatility, Quantitative and Other

- ***Convertible Arbitrage*** – US and International
  - publicly traded equity derivatives in US, Japan, Europe and Asia
  - convertible bonds, convertible preferred stock, warrants or options
- ***Volatility*** – volatility relationships among options on equities and equity indices
- ***Quantitative Strategies***
  - purchase and sale of stocks, related index products and exchange-traded products to take advantage of short-term and long-term statistical phenomena
  - highly diversified portfolio intended to control market exposure and exposure to a variety of other factors
- ***Insurance*** – insurance and insurance-related investments

Equity: Event or Spread Driven; Relative Value

- Risk arbitrage and other event-driven strategies in different markets, including U.S., Europe and Asia
- Investments involving price disparities between multiple share classes or positions in the capital structure
- Relative value – market neutral investing in the equity or equity derivatives of companies deemed to be fundamentally over or under valued

Developed Markets Fixed Income Investments

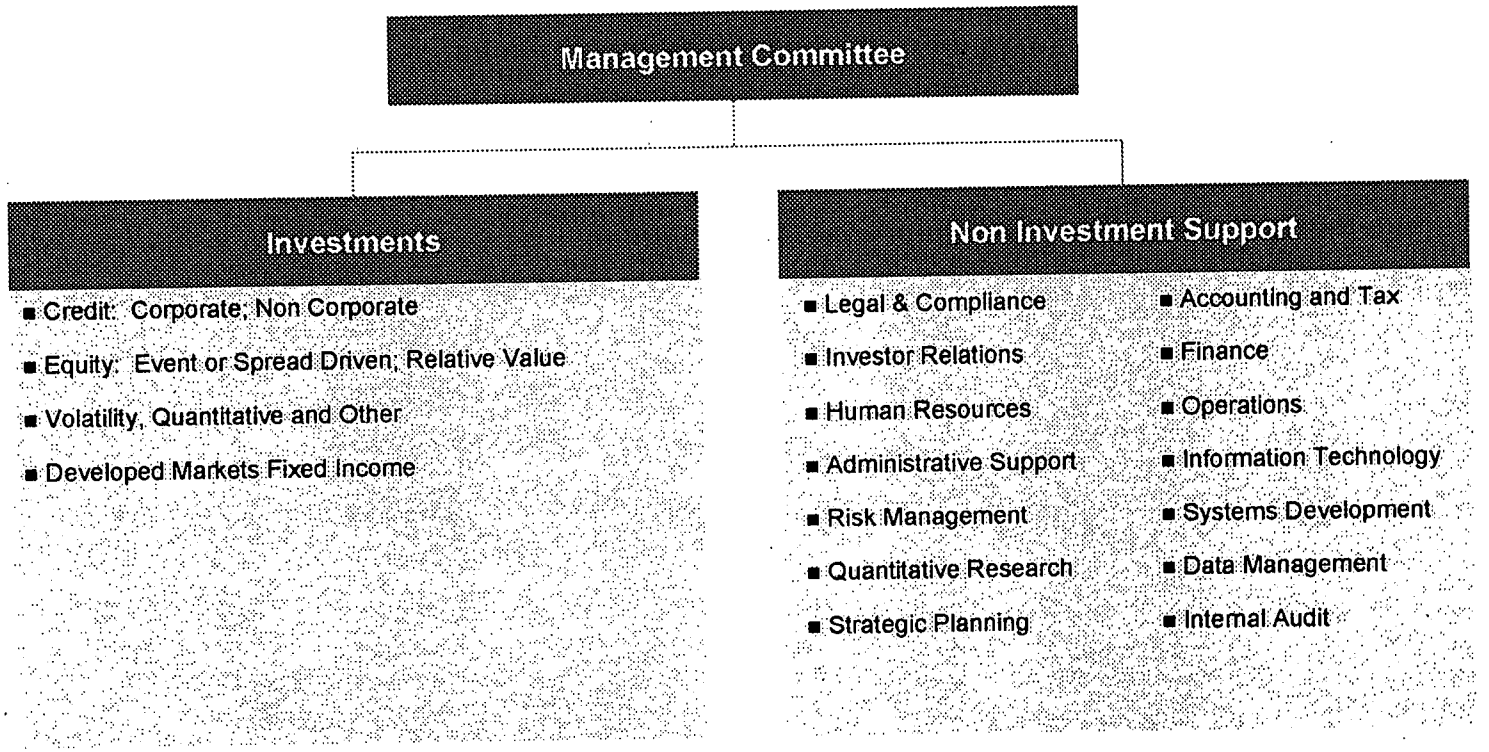
- Government bonds, Agencies, MBS, ABS
- Fixed income securities primarily in G-7 nations
- Investments intended to isolate mispricings across various fixed income markets

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Corporate Structure

- Supporting the investment unit is the back office, comprised of 14 support functions
- HBK employs over 300 individuals in its five offices globally



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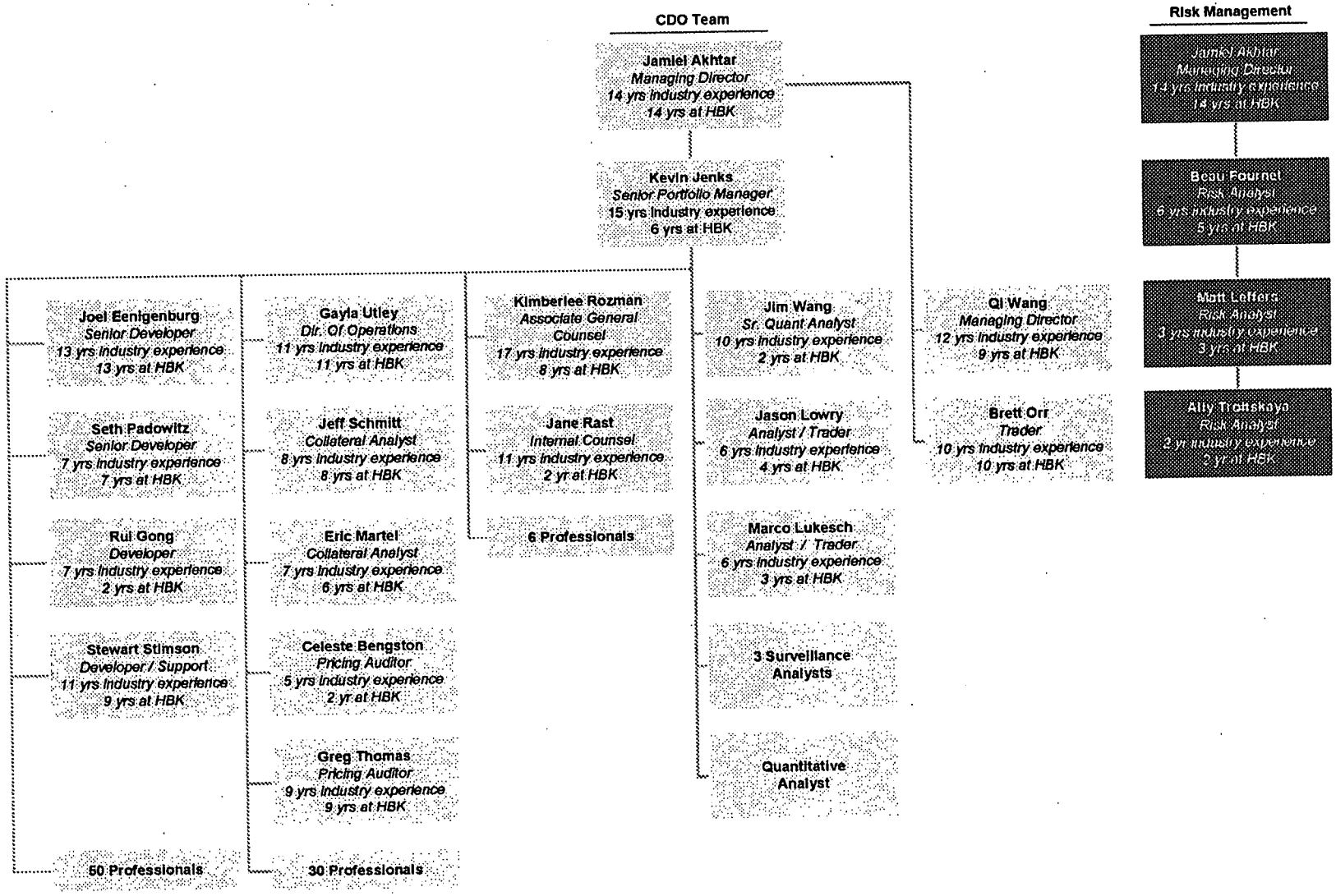
Structured Products Group

- HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages
  - the group is responsible for managing the structured products portfolio, including RMBS and ABS, a component in HBK's overall strategy since 2002
- HBK's business model focuses on deriving returns from buy and hold income revenue instead of short-term trading
- HBK's investment model utilizes proprietary default, prepay, and severity loan level models to make investments in the residential market
- CDO program provides long-term committed financing to HBK
- HBK has retained 100% of the equity from CDO transactions resulting in strong alignment of interests between HBK and investors

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Structured Finance Team



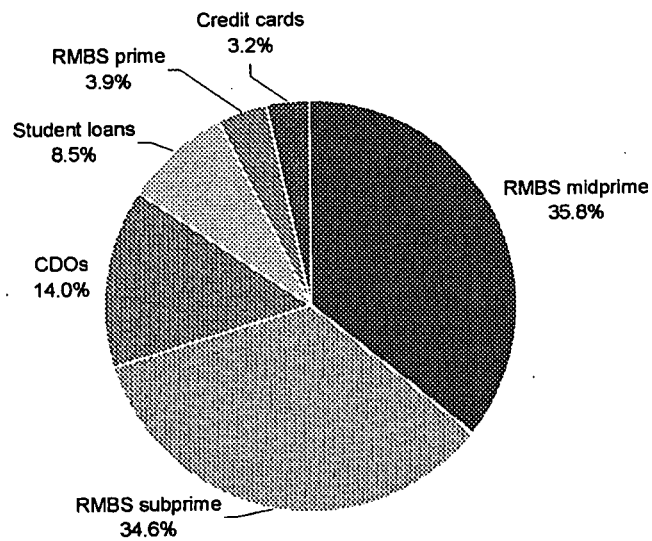
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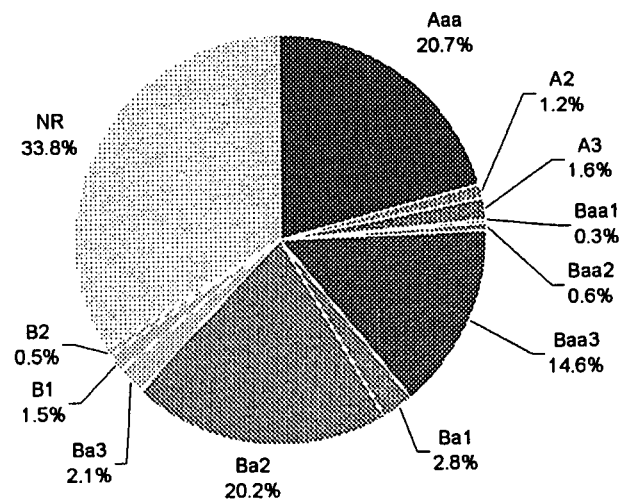
Structured Products Portfolio

- RMBS / ABS have been a component in HBK's overall strategy since 2002. HBK manages a structured products portfolio of approximately $5.0 billion, including $3.6 billion of structured product CDOs(1)
- HBK follows a buy-and-hold strategy for its ABS investments; HBK hedges the interest rate exposure and retains the credit exposure of its ABS portfolio
- Currently, there are only three downgrades(2) in HBK's ABS portfolio

Asset Type



Rating(3)



(1) As of November 1, 2006.
(2) Excluding one other downgraded asset that paid down to par.
(3) A portion of the "NR" assets includes residuals.

Source: HBK

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Tab B

Investment Process

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Overview of Structured Products Investment Strategy

HBK Investment Strategy

Multi-Strategy Absolute Return Philosophy

Credit: Corporate Investments; Non-Corporate Investments	Equity: Event or Spread Driven Investments; Relative Value Investments	Volatility, Quantitative and Other Investments	Developed Markets Fixed Income Investments

Allocations made to structured products

US Structured Product Investments

Overweight US Residential Sector
- Higher rates have reduced ABS issuance
  - higher relative value and inherent spread pick-up compared to other fixed income markets due to complexity of structures and liquidity premium

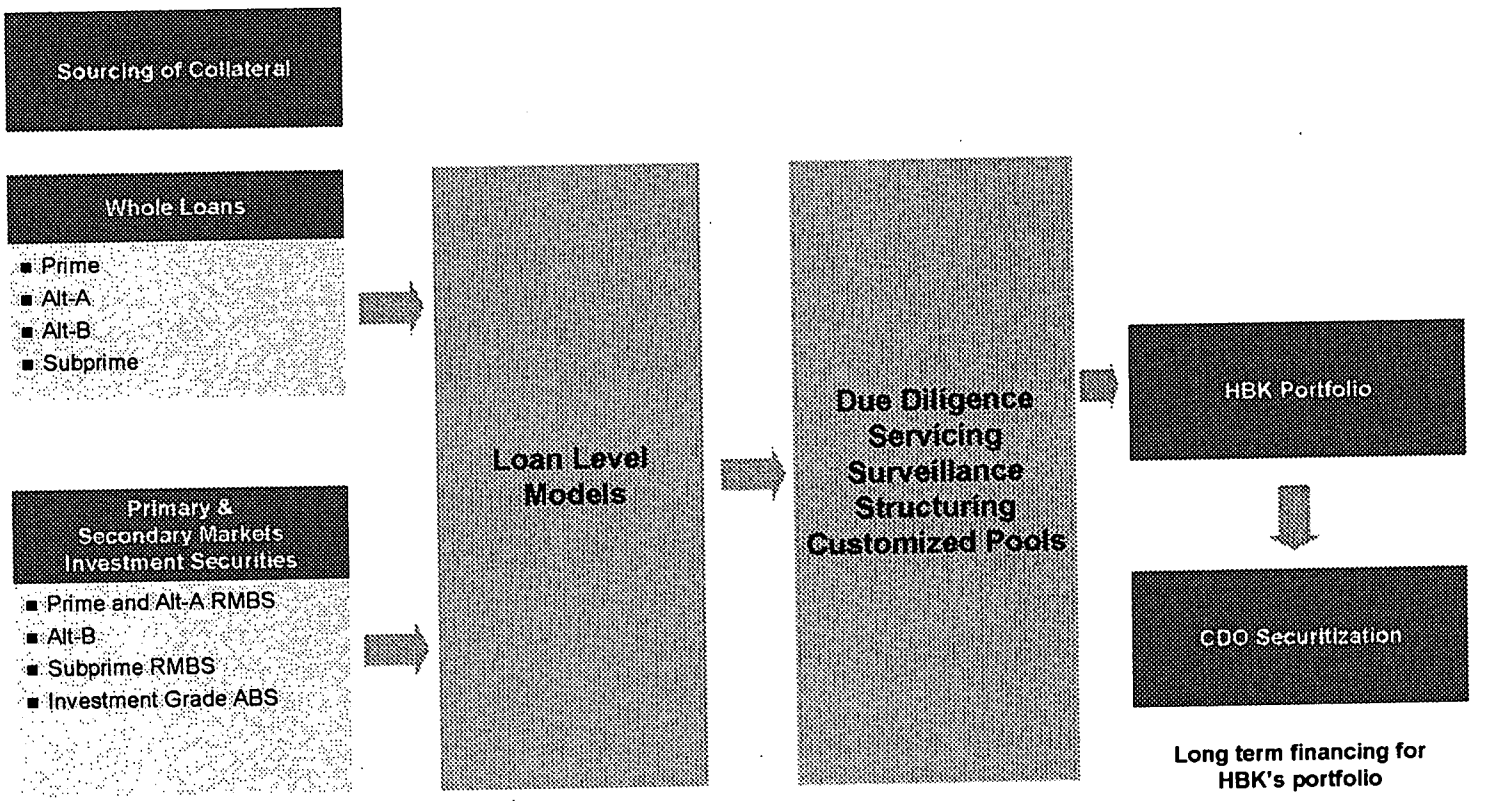
Bias Portfolio in Favor of Liquid Asset Classes within Structured Products
- Avoid "unproven" off-the-run asset classes and favor established liquid asset classes
- High granularity of underlying collateral supports actuarial security-level analysis
- Generate portfolio alpha by exploiting technical market inefficiencies through buy-and-hold strategy and not through price-volatility trades

Target Triple-B / Double-B Credit Profile
- Triple-B / Double-B residential assets present best relative value compared to other sectors in structured product market and the broader markets
- Make opportunistic purchases of non-investment grade residential assets where there is clear track record and/or good data transparency
- Emphasize stability of credit and credit ratings

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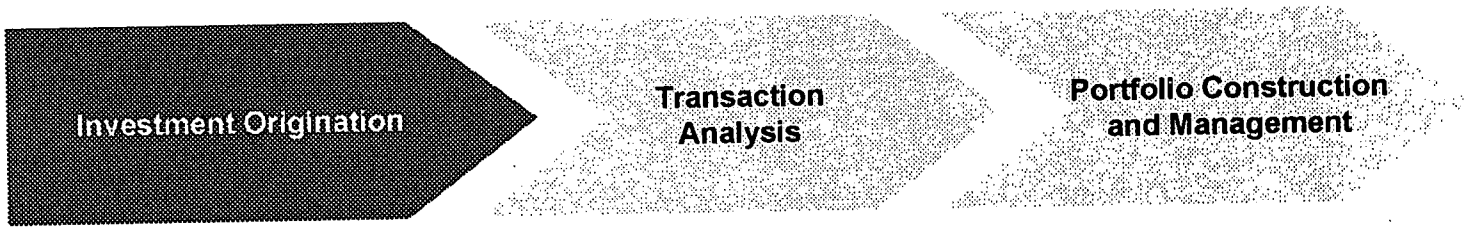
Investment Model



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Security Selection and Portfolio Management



■ **Dealers**

- maintain and manage dealer relationships in order to source high quality opportunities for the portfolio
- focus on new issue market
- consider secondary purchases under appropriate circumstances
- purchase loans directly from originators

■ **Originators**

- analyze originators for underwriting consistency and monitor changes to competitive landscape

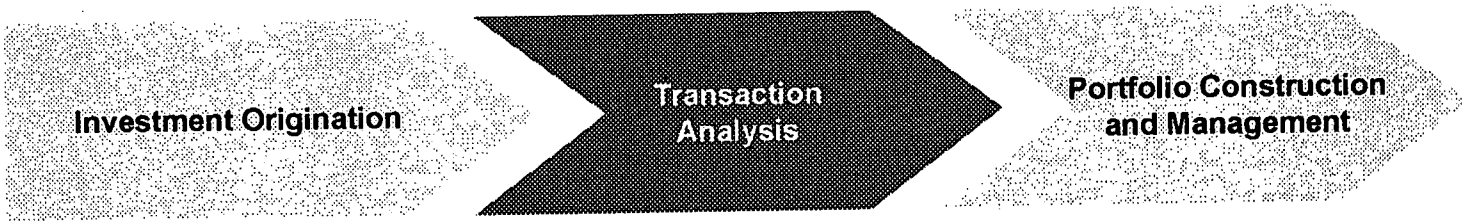
■ **Servicers**

- review financial condition of servicer
  - historical performance
  - ease of transferring servicing
  - delinquency curing strategies
  - loss mitigation

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Security Selection and Portfolio Management (continued)



■ **Collateral Analysis**

- conduct due diligence of underlying loan collateral to formulate investment assumptions
- loan level models:
  - delinquency and default forecast
  - loss severity
  - collateral prepayment forecast
- FICO stratifications, loan to value ratios, historical data, and static vintage performance are among the factors included in the analysis

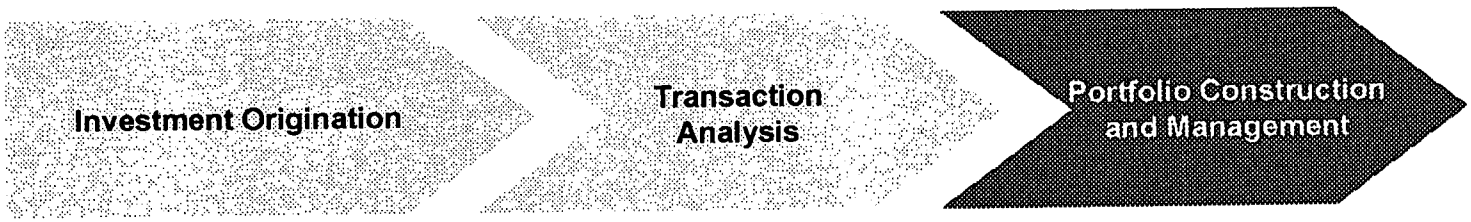
■ **Waterfall Analysis**

- determine priority of cash flows available to the investment
  - seniority
  - lock-outs
  - loss / delinquency triggers
  - static vs. revolving pools
- use cash flow models to analyze investment performance assuming multiples of expected default, varying interest rate paths, loss severity and payment rates
- assess sufficiency of credit enhancement

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Security Selection and Portfolio Management (continued)



■ **Portfolio Construction**

- to mitigate potential impact of any one investment decision on the portfolio, create diversity within portfolio across:
  - transactions
  - originators
  - servicers
  - underwriters
- position portfolio with top issuers and tier one credits

■ **Portfolio Management**

- perform regular surveillance of collateral performance using remittance reports, Intex, Loan Performance, and loan level data from servicers
- maintain ongoing dialogue with originators and servicers
- aggressively pursue exit strategies when investments significantly underperform compared to initial expectations – especially in cases where fraud or servicer "going concern" may be a factor
- collateral performance is monitored and measured to original and subsequent default and loss assumptions

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HBK Investment Approach

Origination Process
- Underwriting guidelines
- Sourcing of loans
- Servicing
- Past performance

Collateral Analysis
- Characteristics
- Distributions
- Prepay model
- Loss model
  - default timing
  - cumulative loss
- Loan level due diligence and analysis

Structural Analysis
- Triggers
- Timing of payments and waterfall
- Mortgage insurance
- Prepay penalties
- Fixed / floating
- Excess spread
- Overcollateralization

Cash Flow Modeling
- Incorporates all Collateral and structural analysis
- Prepay, loss and interest rate stress scenarios
- Bonds must pass multiple times base prepay and loss assumptions inclusive of interest rate fluctuations

Portfolio Management
- Diversity across transactions, originators, servicers, and underwriters
- Liquid on-the-run names

Investment Decision

Source: HBK

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Ongoing Surveillance and Monitoring

■ HBK's upgrade to downgrade ratio is 23:3

- HBK's credit files contain the relevant documentation and analysis performed at the time of asset purchase including, where available: offering documents, marketing material, rating agency reports, collateral stratifications, loan-level information and performance, servicer reports, and sensitivity analysis (movements in interest curves, prepayments, defaults)
- Transaction performance is tracked monthly via trustee surveillance reports and ongoing loan-level information to monitor and analyze parameters such as collateral yields, delinquency and default trends, recoveries, prepayments, and available credit enhancement
- Updated stress analysis performed on underperforming transactions to review adequacy of credit enhancement under various probabilistic scenarios to analyze potential losses and make a sell or hold decision
- News monitoring for headline risk (related to originators and servicers) including changes in senior unsecured ratings or stock prices
- On-site servicer due-diligence on an ongoing basis and when required on a per deal basis on below-investment-grade securities
- Systems used for monitoring include: Intex, Bloomberg, iCDO, YieldBook, ABSNet, RiskSpan, Loan Performance and HBK's proprietary loan-level loss, default and prepayment models

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Ongoing Surveillance – Step 1

- Asset level credit and prepayment performance data is collected monthly from remittance reports and flagged for certain performance statistics

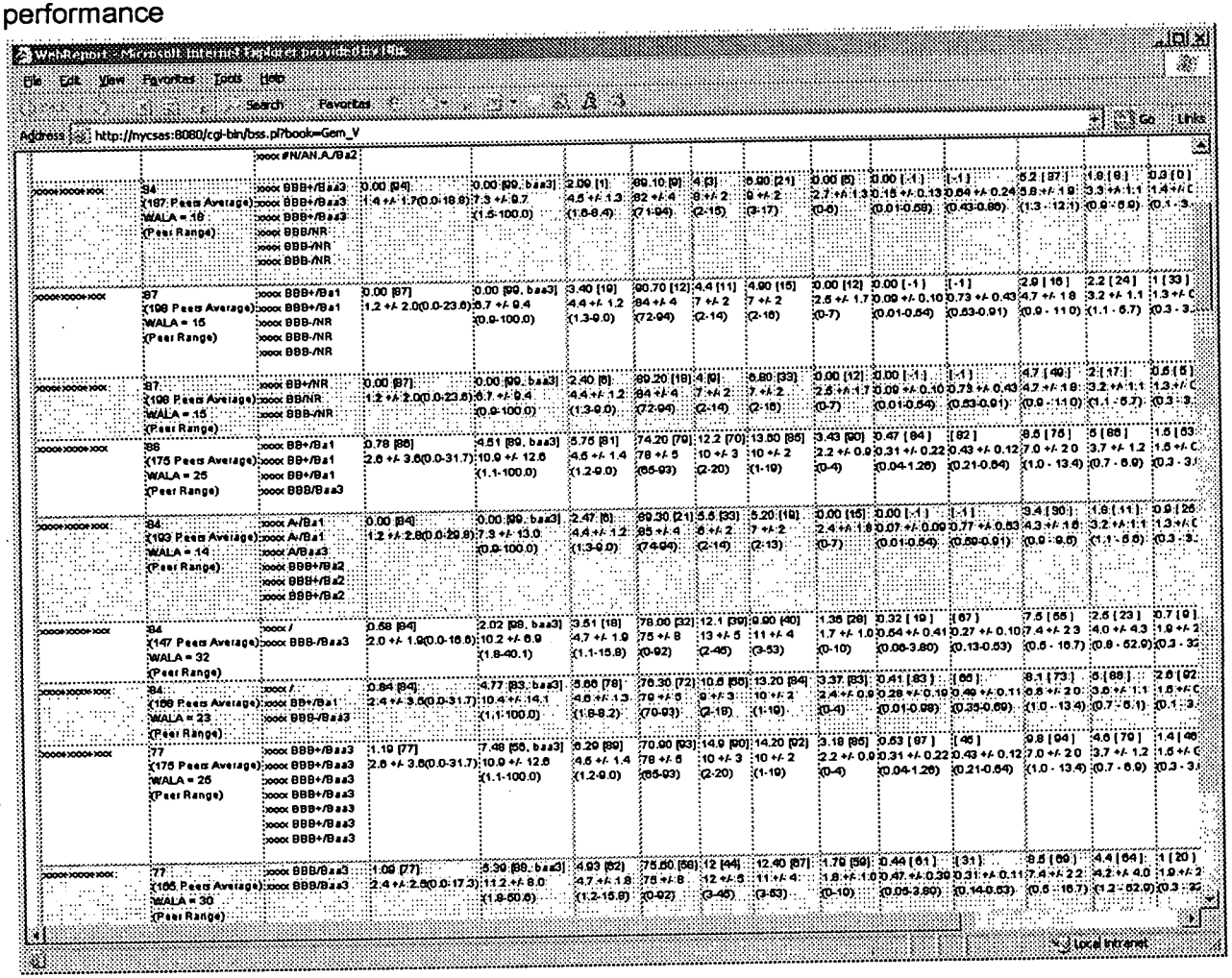
Reviewed?	Pool Factor	30 days	60+ days	(FC+REO)	cumm loss	XS spd(ex-Loss/trbo)	Credit Support	(FC+REO)/(XS+CrSup)	(FC+REO)/(CrSup)	(XS spd - Curr loss)	(OC_act-OC_tgt)/OC_tgt	Loss Triggers hit/close	Delinq Trigger hit/close
	0.16	2.69	12.02	0.27	1.8	0.00%	13.06%	0.02	0.02	2.84	-51.71%		Yes
	0.16	2.69	12.02	0.27	1.8	0.00%	44.82%	0.01	0.01	2.84	-50.22%		
	0.26	6.55	10.6	9.55	0.54	2.11%	15.20%	0.36	0.41	1.16	0.00%		
	0.30	1.76	1.2	3.99	0.55	0.00%	10.54%	0.37	0.37	0.44	0.00%	no	no
	0.30	1.76	1.2	3.99	0.55	0.00%	13.39%	0.29	0.29	0.44	0.00%	no	no
	0.16	0.86	0.14	0.09	0.08	0.00%	10.72%	0.01	0.01	0.48			
	0.19	6.05	4.25	7.14	0.9	0.00%	43.78%	0.16	0.16	2.69	-0.75%	no	no
	0.44	2.1	3.95	4.59	0.27	1.26%	7.70%	0.49	0.57	0.99	0.00%	no	no
add	0.25	2.21	3.35	8.44	0.42	0.26%	4.63%	1.73	1.82	1.24	0.00%	no	no
2	0.23	1.4	2.02	8.4	0.27	0.00%	4.91%	1.71	1.71	1.09	-0.59%	no	no
x	0.23	1.66	2.7	7.36	0.54	0.00%	5.19%	1.43	1.42	3.89	-1.83%	no	no
	0.19	2.58	2.79	8.09	0.41	10.34%	5.26%	0.52	1.53	8.90	0.00%	no	no
	0.26	0.67	1.01	2.34	0.58	0.00%	18.45%	0.13	0.13	-1.69	0.00%	no	no
	0.26	0.7	0.67	3.56	0.29	0.00%	9.64%	0.37	0.37	-0.69			
	0.50	0.34	0.47	1.02	0.15	0.29%	5.04%	0.19	0.20	-0.45	0.00%	no	no
	0.50	0.34	0.47	1.02	0.15	0.29%	6.55%	0.15	0.16	-0.45	0.00%	no	no
	0.50	0.34	0.47	1.02	0.15	0.29%	2.02%	0.45	0.50	-0.45	0.00%	no	no
x	0.13	6.43	12.43	10.33	1.04	0.00%	3.78%	2.73	2.73	2.59	-1.50%	no	no
	0.11	1.99	2.12	10.05	1.1	2.33%	13.00%	0.66	0.77	1.52	0.00%	no	no
	0.27	2.8	4.73	3.18	0.37	0.70%	8.36%	0.35	0.38	0.46	0.00%	no	no
	0.13	5.1	3.62	7.97	1.39	0.00%	17.59%	0.45	0.45	4.39	0.00%	no	no
	0.20	0.79	1.44	8.97	0.47	0.00%	11.29%	0.61	0.61	1.19	-1.89%	no	no
	0.26	1.41	2.62	5.8	0.42	0.00%	4.67%	1.39	1.20	1.65	-0.65%	no	no
	0.33	3.09	1.61	6.3	0.33	1.27%	6.99%	0.77	0.91	0.79	0.00%	no	no
	0.14	2.51	2.83	11.59	0.4	2.50%	35.94%	0.30	0.32	1.10	0.00%	no	no
	0.14	2.51	2.83	11.59	0.4	2.50%	28.75%	0.37	0.40	1.10	0.00%	no	no
	0.14	2.51	2.83	11.59	0.4	2.50%	46.72%	0.24	0.25	1.10	0.00%	no	no
	0.14	2.51	2.83	11.59	0.4	2.50%	19.77%	0.52	0.55	1.10	0.00%	no	no
	0.19	2.12	1.91	8.74	0.4	32.73%	3.60%	0.24	2.43	32.37	0.00%	no	no
	0.19	1.54	1.41	6.7	0.48	11.74%	8.49%	0.33	0.79	10.31	135.81%	no	no
	0.16	2.04	2.07	8.66	0.36	52.41%	31.06%	0.11	0.29	50.63	0.00%	no	no
	0.16	3.11	3.42	7.25	0.28	2.14%	8.00%	0.71	0.81	2.14	0.00%	no	no
	0.12	3.7	8.55	8.39	0.85	2.49%	13.00%	0.54	0.86	1.81	0.00%	no	no
2	0.23	2.63	0.89	13.89	0.96	0.00%	9.90%	1.48	1.40	4.58	-4.48%	no	no
add	0.22	1.1	2.43	11.39	1.8	0.00%	7.40%	2.36	2.36	6.98	-16.16%	no	no
	0.22	1.51	1.94	6.69	0.25	1.23%	4.51%	1.02	1.29	0.49	0.00%	no	no
	0.22	1.51	1.94	6.69	0.25	1.23%	18.04%	0.30	0.32	0.49	0.00%	no	no
x	0.15	2.55	0.78	8.1	0.35	0.98%	3.20%	1.96	2.48	0.14	0.00%	no	no
	0.35	4.84	1.68	6.59	0.3	2.09%	5.45%	0.74	1.02	0.84	0.00%	no	no
	0.29	5.7	2.4	7.85	0.66	1.82%	14.75%	0.48	0.54	0.41	0.00%	no	no
	0.21	7.58	5.16	12.69	2.56	0.00%	13.50%	0.94	0.94	5.49	-4.13%	no	no

DBSI_PSI_EMAIL01980034

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Ongoing Surveillance – Step 1 (continued)

- Bonds are compared monthly to the entire market on a number of different factors based on loan level performance

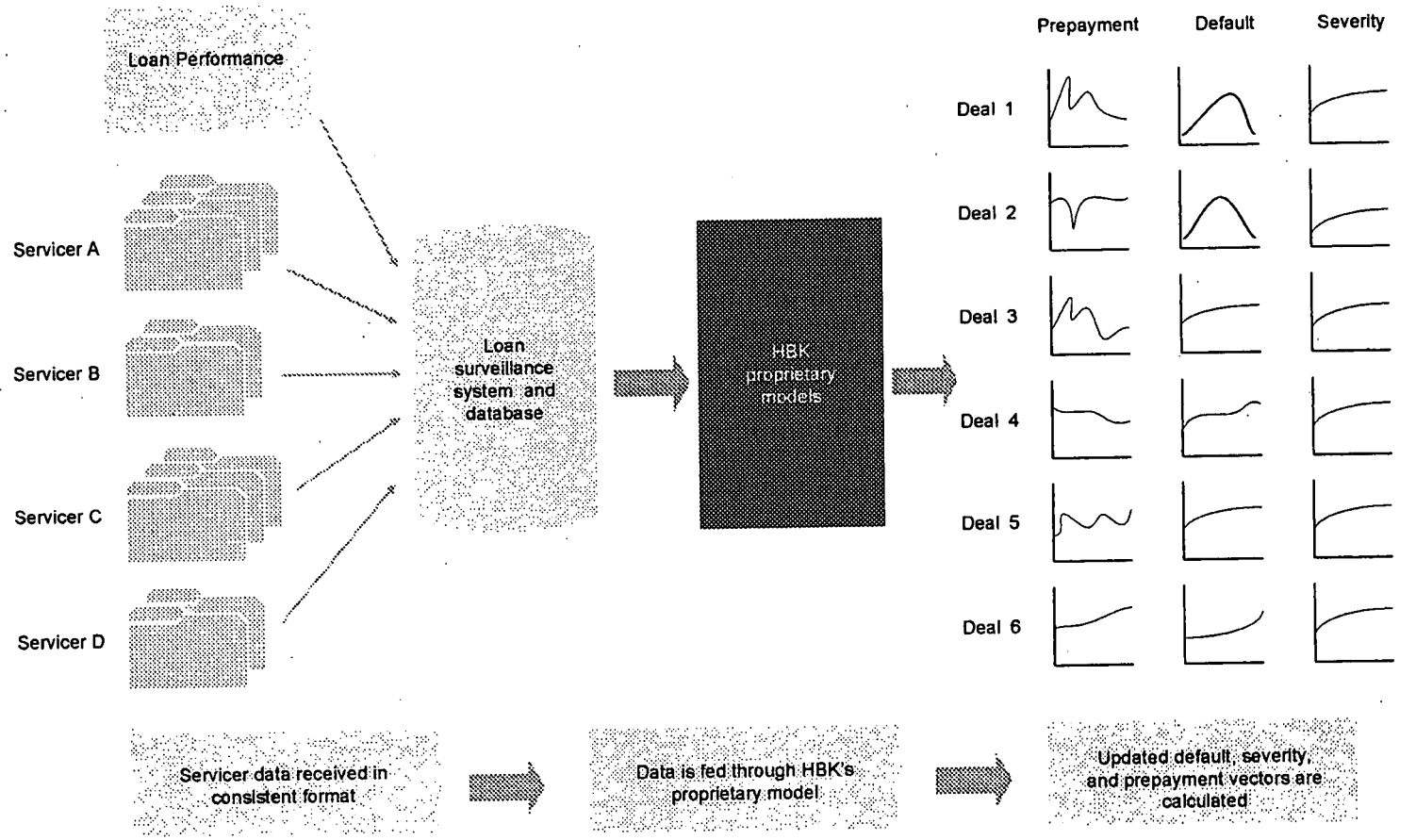


DBSI_PSI_EMAIL01980035

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Ongoing Surveillance – Step 2

- Updated loan level information is received monthly from servicers and Loan Performance



DBSI_PSI_EMAIL01980036

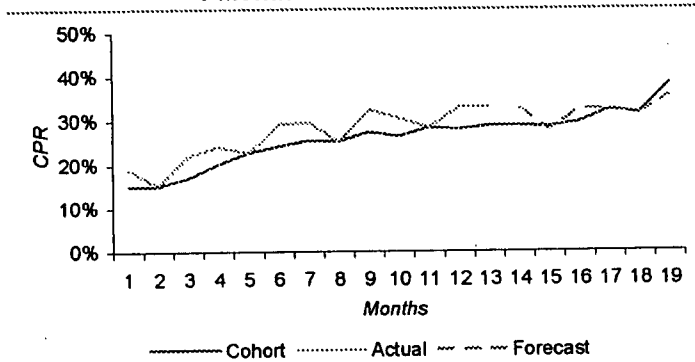
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Ongoing Surveillance – Step 3

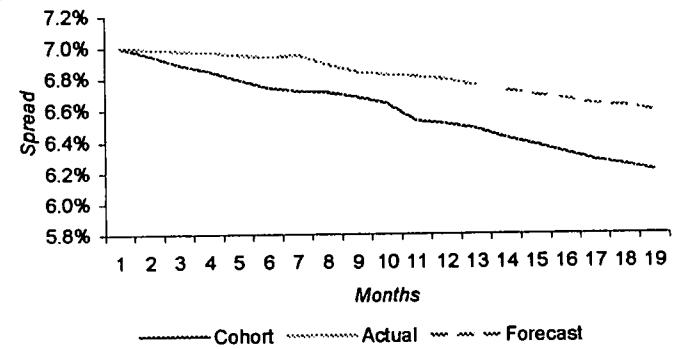
- Asset and loan data are cross-checked and compared to initial assumptions and to cohort group to identify performance deviation

Deal Performance vs. Cohort and Forecast

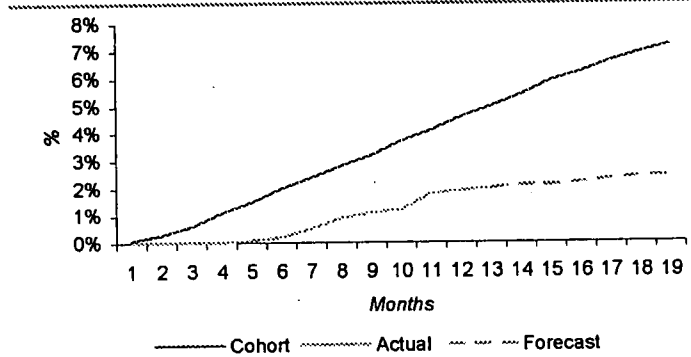
1 Month CPR Performance



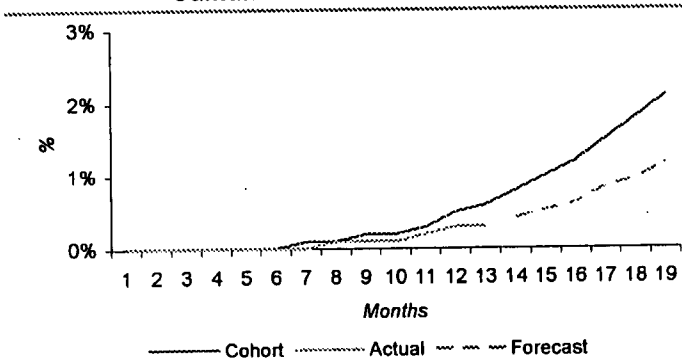
Excess Spread



60 + Delinquency Performance



Cumulative Loss Performance



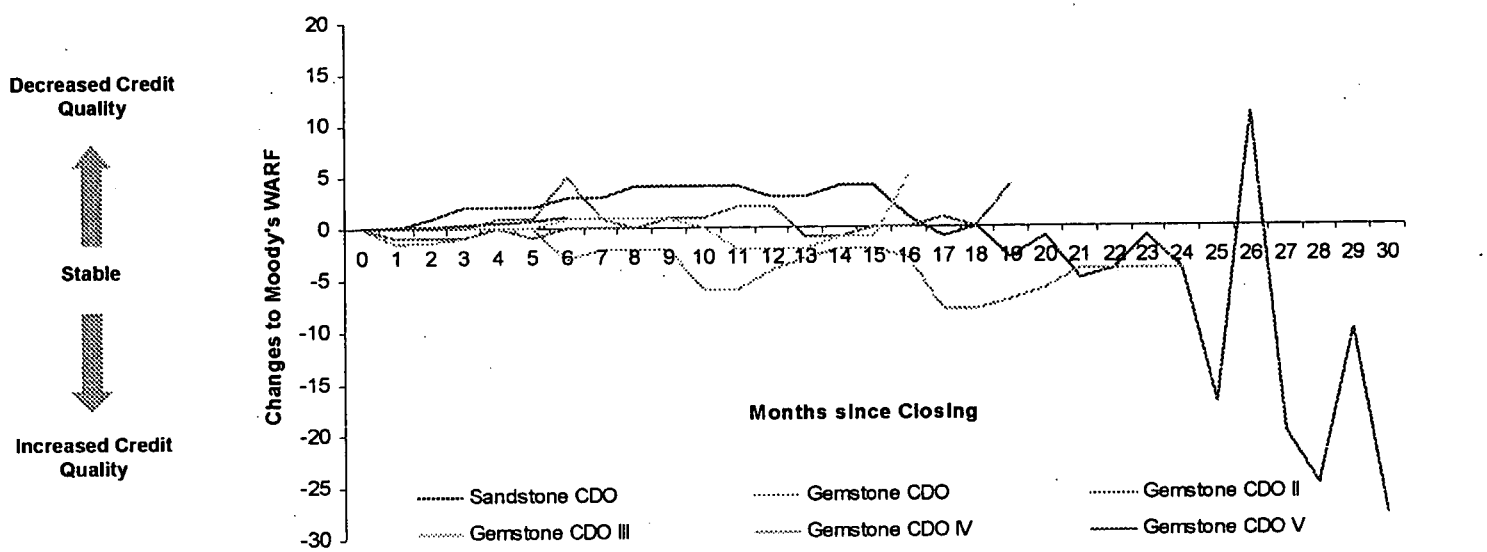
DBSI_PSI_EMAIL01980037

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Rating Stability in HBK's ABS CDOs

- The quality of the underlying collateral of HBK's previous ABS CDOs is reflected in a stable or improved Moody's WARF since inception

Moody's WARF Change Since Closing



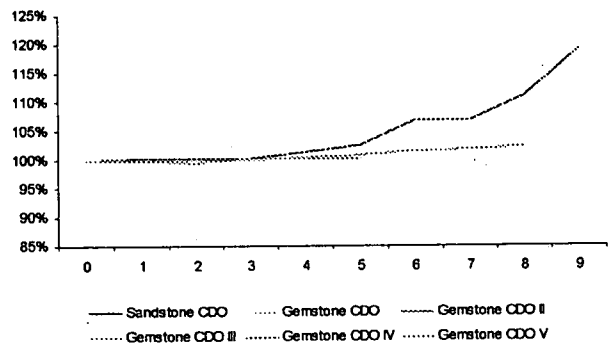
Note: Sufficient data points for Gemstone CDO VI are not yet available to chart historical performance.
Source: HBK and Trustee Reports, as of December 2006 reports.

DBSI_PSI_EMAIL01980038

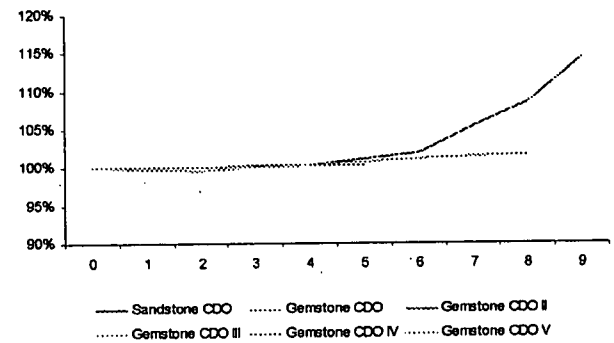
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Improving Coverage Ratios in HBK's ABS CDOs(1)

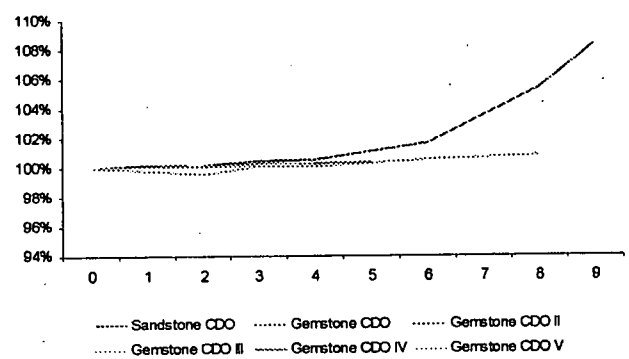
Class A/B OC Level



Class C OC Level(2)



CLASS D OC Level(3)



(1) Graphs depict actual overcollateralization ("OC") ratios over time for each of Sandstone CDO and Gemstone CDO through Gemstone CDO V. Each transaction's historical OC ratio calculated using information from each transaction's respective trustee reports was indexed to 100% by dividing each transaction's historical OC ratio by the respective transaction's original OC ratio. Gemstone VI is not included as it was recently closed and sufficient data is not available.
(2) Gemstone II Class C/D OC data points are graphed as Class C OC levels for consistency.
(3) Gemstone II Class E OC data points are graphed as Class D OC levels for consistency.

Source: HBK and Trustee Reports, as of December 2006 reports.

DBSI_PSI_EMAIL01980039

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Tab C

HBK Analytic Systems

DBSI_PSI_EMAIL01980040

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HBK Analytics

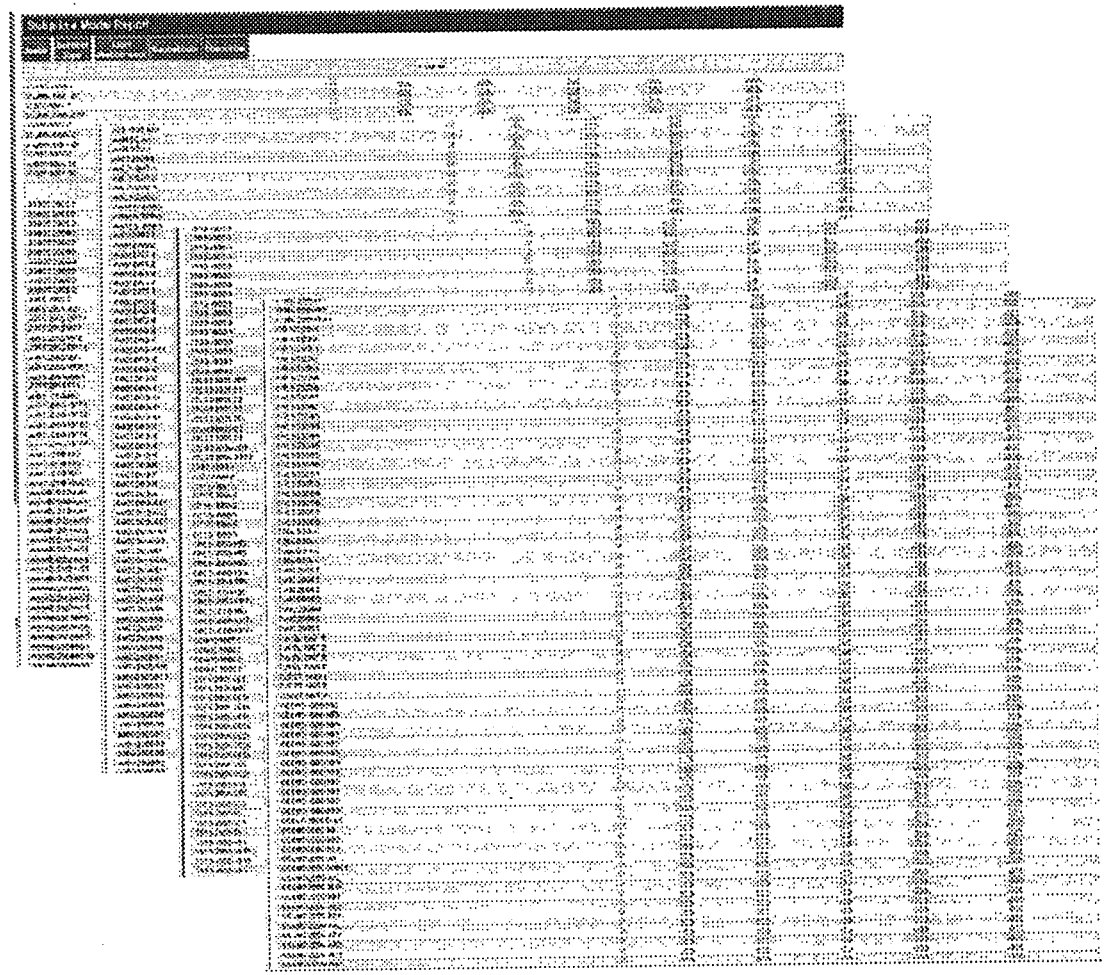
- HBK's proprietary Default/Prepay and Severity MSA-level model allows for predictive power of future deal performance
- Because all whole loan packages and every primary deal issued in the market is analyzed, in addition to our loan level surveillance systems, HBK is able to pick up on trends before they adversely impact the CDO
- Due to size and trading volume, HBK works with dealers and originators to customize pools by kicking out problem loans
- As a significant buyer of residuals, HBK also purchases much of the capital structure of those particular RMBS names
  - CDO buyers' interests are closely aligned with HBK's interests as HBK has considerable exposure to the same or lower rated bonds in our CDOs
- HBK now has the ability to monitor the portfolio performance through a Blackberry globally

DBSI_PSI_EMAIL01980041

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Proprietary Systems

- HBK analyzes every bond in the market, providing for a vast range of data as well as meaningful comparison both on an absolute and a relative basis
- From this data, trends can be observed early regarding the bonds themselves as well as the general economy and the implications on future issuance

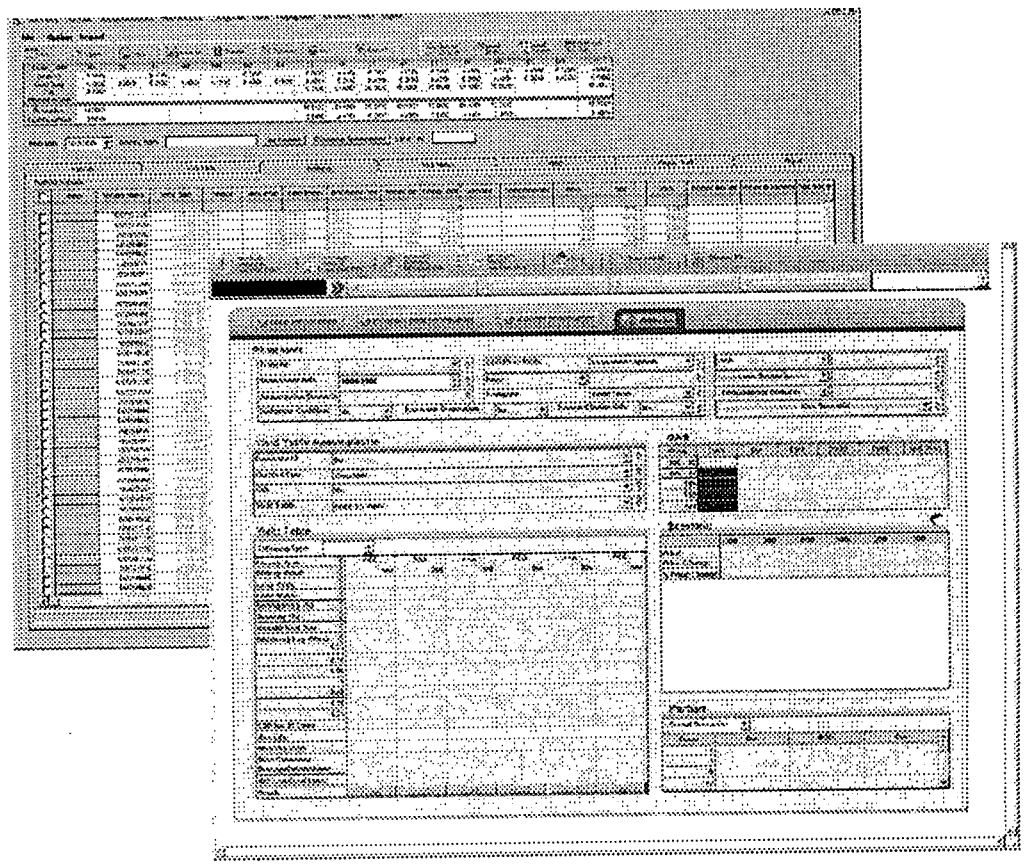


DBSI_PSI_EMAIL01980042

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Proprietary Cashflow Systems

- Based on existing loan and economic data, HBK's models generate multiple scenarios based on HPA, interest rates, unemployment as well as other factors
- These scenarios are fed through our proprietary cash flow engine to calculate loss coverage multiples and likely total return over the life of the security

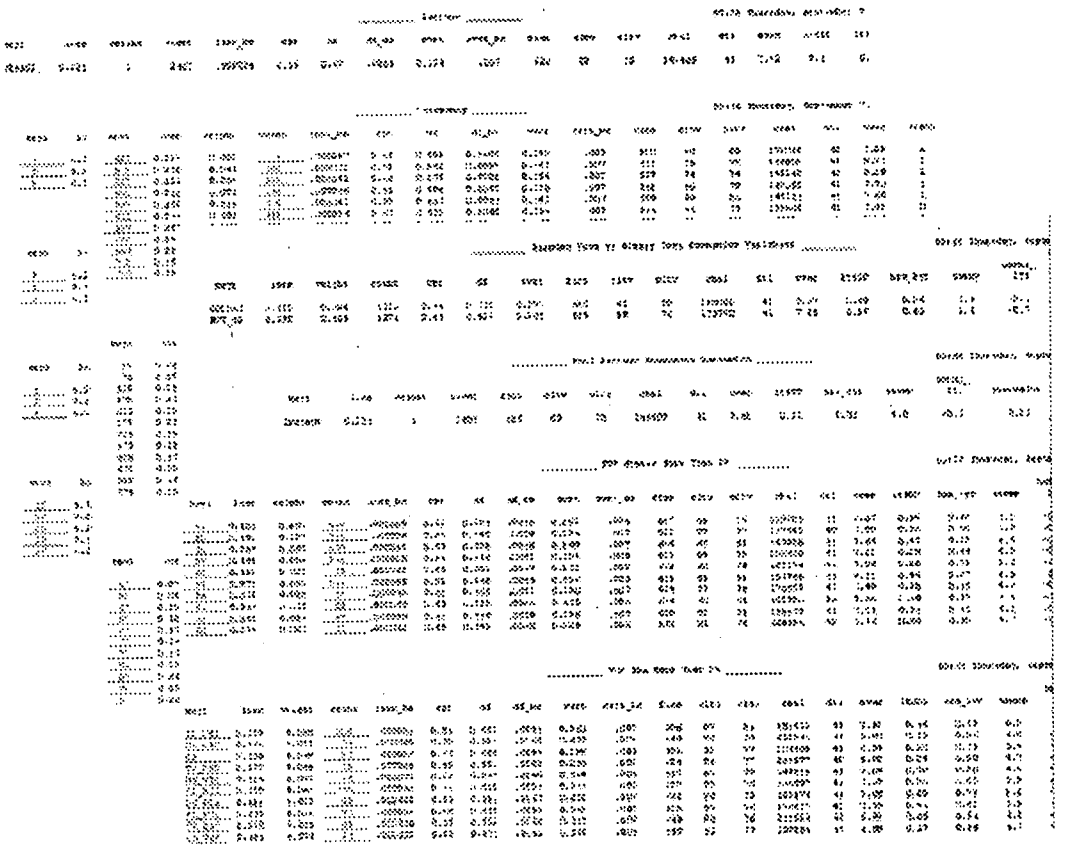


DBSI_PSI_EMAIL01980043

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Proprietary Credit Analysis Systems

- For each bond, HBK's system generates a report, providing the stratification of the deal's collateral as well as highlighting potential problems
- Users can literally drill down to the loan level via a mouse click
- Reports are also available providing greater detail on specific collateral characteristics such as state or FICO

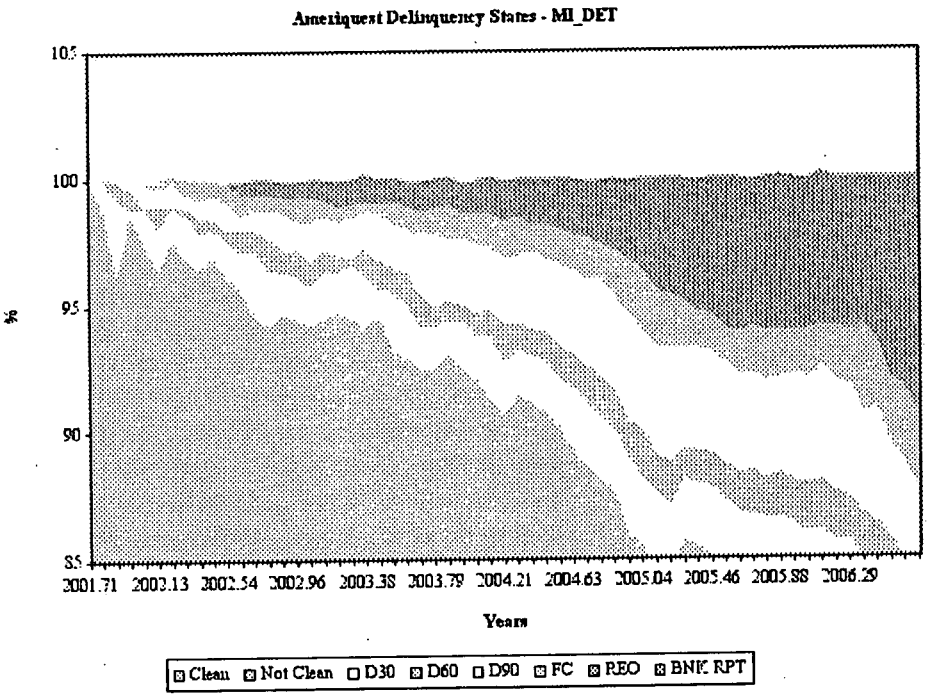


DBSI_PSI_EMAIL01980044

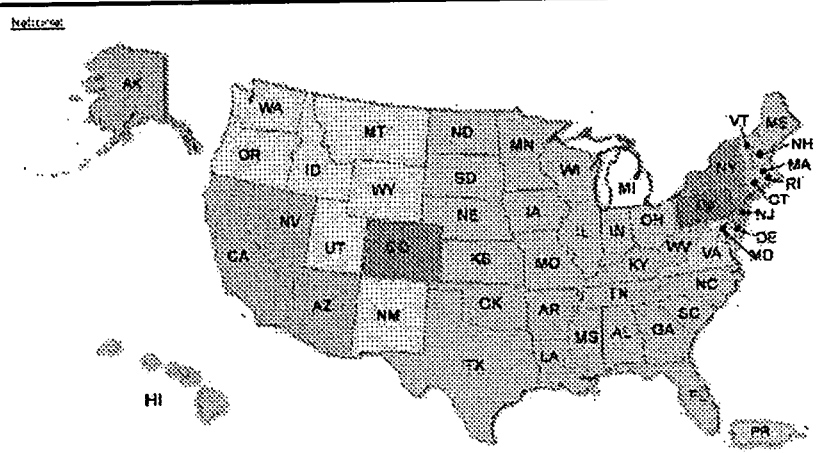
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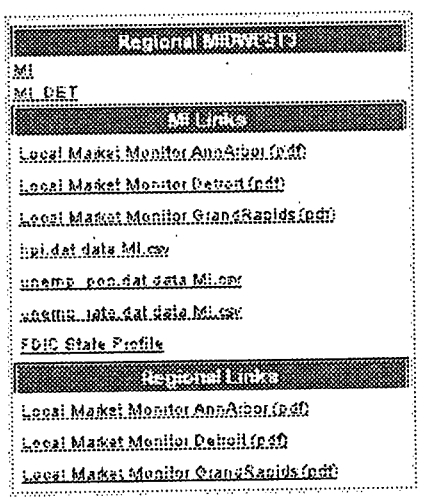
Market Data

- HBK maintains extensive databases of current market data, both proprietary and from public sources such as broker-dealer's research and research from government agencies
- All are utilized to gain better insight into the market and to further streamline proprietary models



Housing Research on HPA by state & MSA





Deutsche Bank

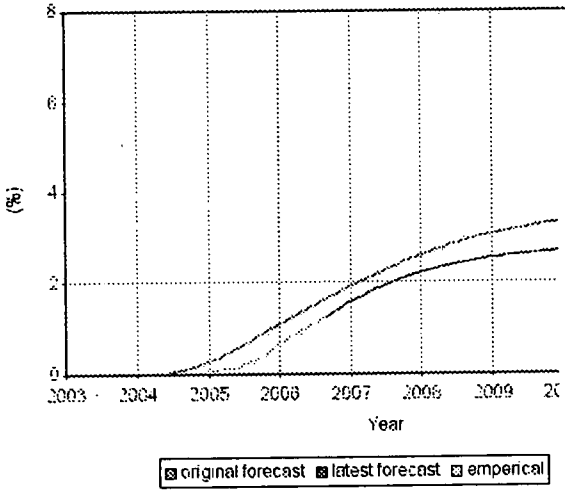
DBSI_PSI_EMAIL01980045

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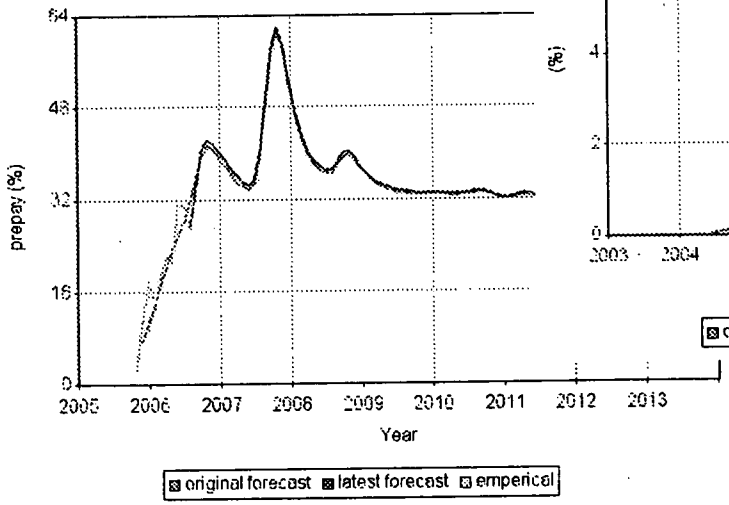
Future Developments

- HBK is continuously looking to improve our existing models and methodology
- HBK maintains constant dialogue with other market leaders such as broker-dealers, originators, servicers, and the rating agencies to better improve our models
- HBK spent months developing and streamlining a new system to allow for faster analysis and additional stresses on collateral
- HBK continuously compares our predictions to market empirical evidence to verify and improve our models

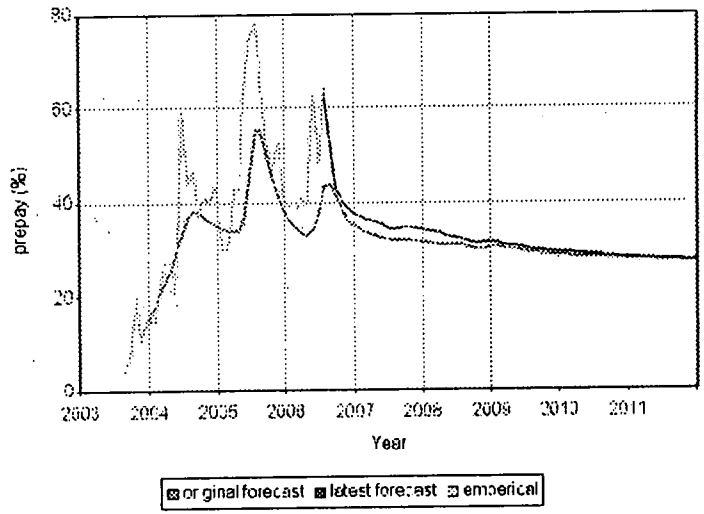
Cumulative Losses



Prepayments



Prepayments



DBSI_PSI_EMAIL01980046

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Tab D

Biographies of Structured Products CDO Team

DBSI_PSI_EMAIL01980047

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Biographies

Jamiel Akhtar

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. Mr. Akhtar is also responsible for HBK's Risk Management Group. He received an A.B. degree cum laude in Economics in 1993 from Harvard College

Kevin Jenks

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts

Jason Lowry

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and structural analysis. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics and Mathematics with University and Departmental Honors from Carnegie Mellon in 2001

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco oversees surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the College and was elected Phi Beta Kappa

DBSI_PSI_EMAIL01980048

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Biographies (continued)

Kimberlee Rozman

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal and compliance matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990

Gayla Mathis

Mrs. Mathis has been associated with HBK since 1996 and is responsible for global trading operations. Mrs. Mathis graduated from Texas A&M University in 1996 with a B.S. in Accounting

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. His primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS Research at Citigroup. Mr. Wang graduated from Brandeis University with Ph.D. in physics in 1996

DBSI_PSI_EMAIL01980049

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Section 4

Performance of HBK's Prior CDOs

DBSI_PSI_EMAIL01980050

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Sandstone CDO

Sandstone CDO[1] (closed in June 2004)

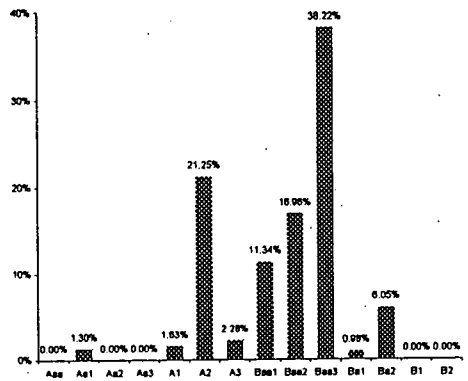
As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	15.2	n/a	n/a
Moody's WARF	418	n/a	n/a
Moody's WA Recovery Rate	32.7%	n/a	n/a
Min WA Spread	2.82%	n/a	n/a
Min WA Coupon	5.90%	n/a	n/a

There are currently 3 downgrades and no defaults in the portfolio

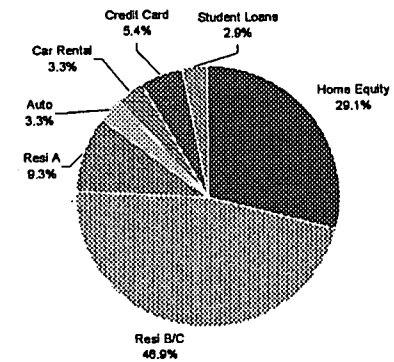
- AMSI 2003-8 MV6 was downgraded from Baa3 to Ba3 by Moody's, BBB- to BB- by S&P, BBB- to BB- by Fitch, currently has a factor of .31717.
- FFML 2003-FFH2 M6 was downgraded from BB to B by S&P, currently has a factor of .34836
- LBMLT 2003-1 M3 was downgraded from BBB to BB+ by Fitch, currently has a factor of .48116

*Static deal, tests do not apply after Closing

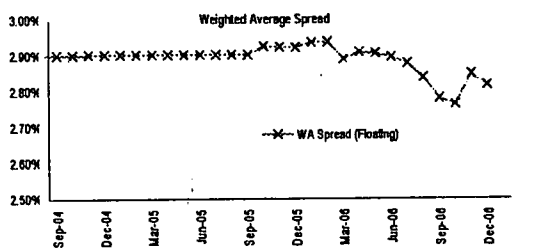
Rating Stratification[2]



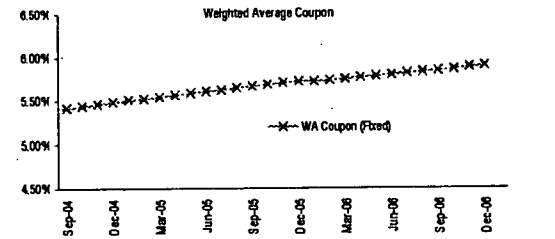
Industry Stratification[2]



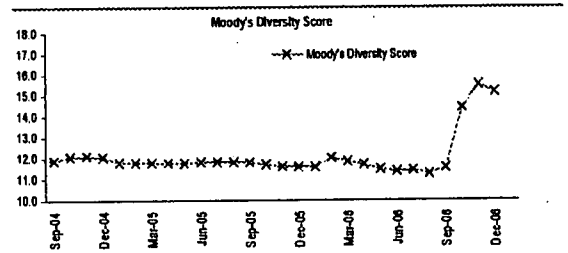
WA Spread



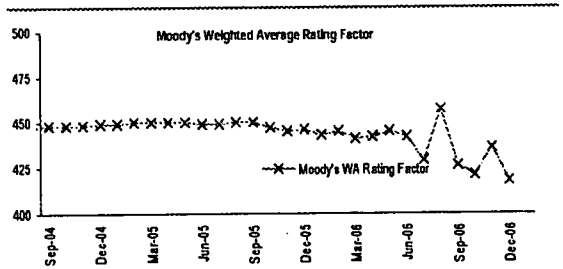
WA Coupon



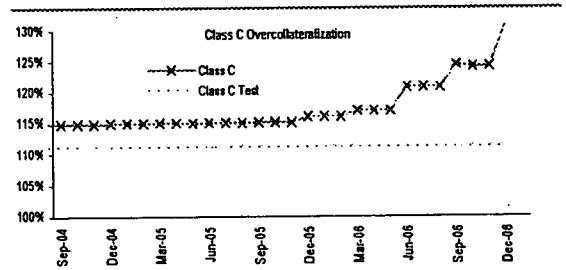
Moody's Diversity



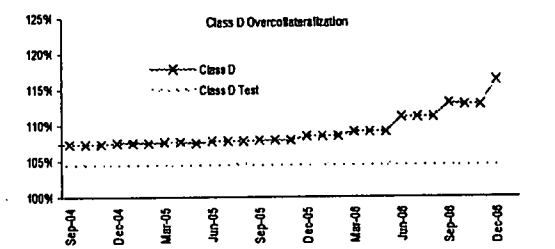
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



Deutsche Bank

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980051

Confidential Treatment Requested by DBSI

Gemstone CDO

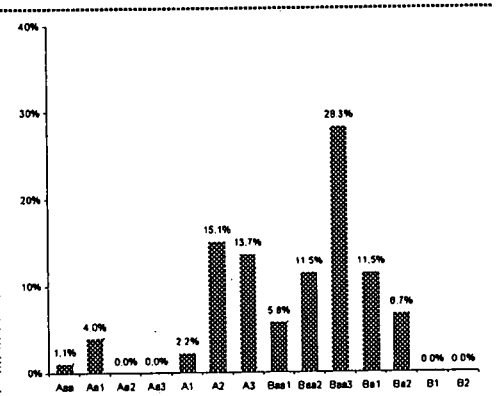
Gemstone CDO(1) (closed in December 2004)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	12.3	n/a	n/a
Moody's WARF	469	n/a	n/a
Moody's WA Recovery Rate	32.9%	n/a	n/a
Min WA Spread	2.20%	n/a	n/a
Min WA Coupon	5.48%	n/a	n/a

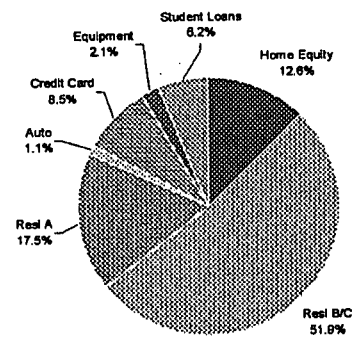
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

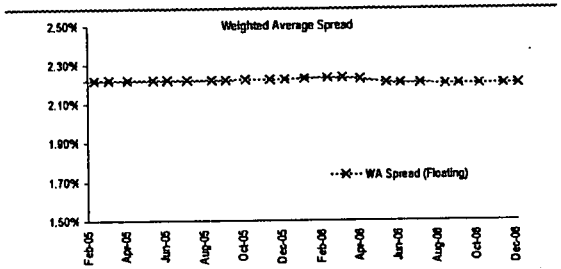
Rating Stratification(2)



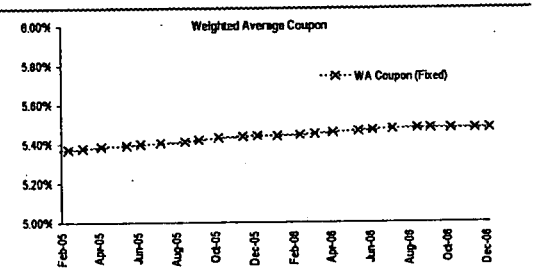
Industry Stratification(2)



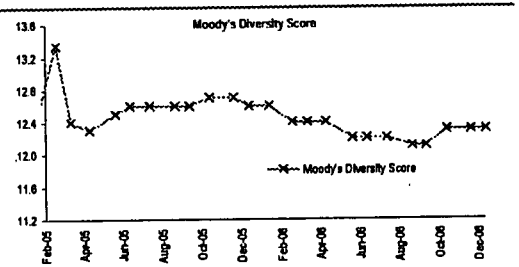
WA Spread



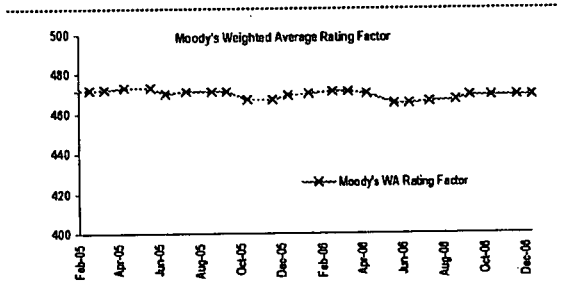
WA Coupon



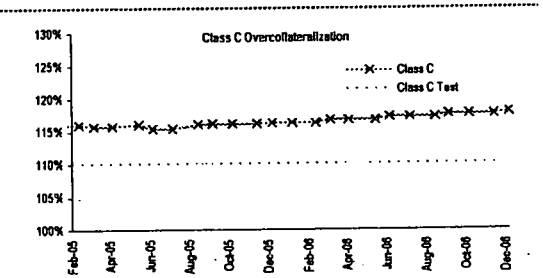
Moody's Diversity



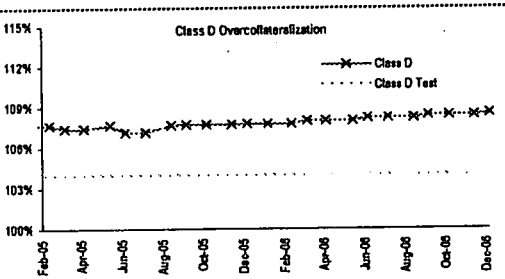
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



Deutsche Bank

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980052

Confidential Treatment Requested by DBSI

Gemstone CDO II

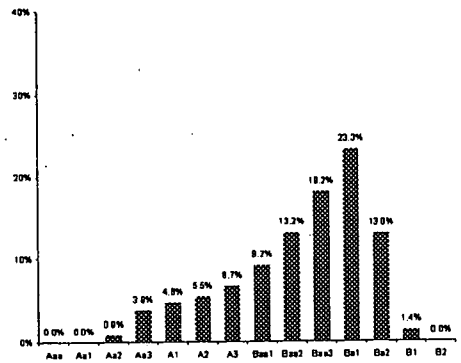
Gemstone CDO II[1] (closed in May 2005)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Diversity	11	n/a	n/a
Moody's WARF	650	n/a	n/a
Moody's WA Recovery Rate	27.6%	n/a	n/a
Min WA Spread	2.19%	n/a	n/a
Min WA Coupon	5.56%	n/a	n/a

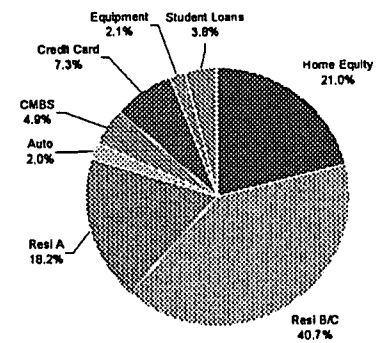
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

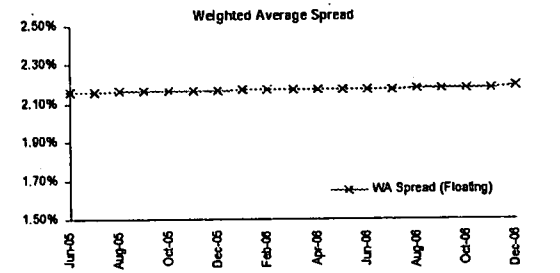
Rating Stratification[2]



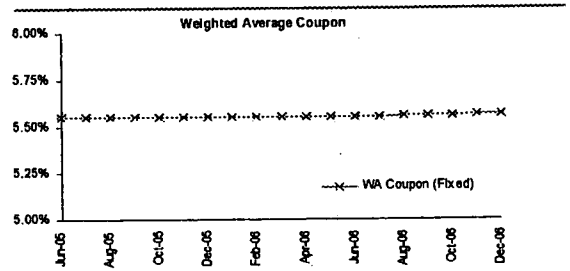
Industry Stratification[2]



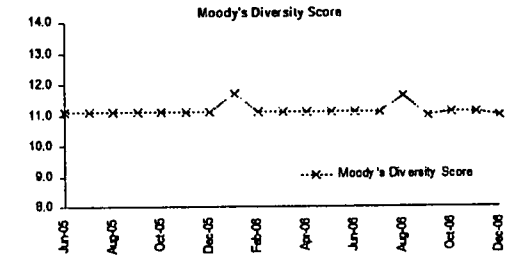
WA Spread



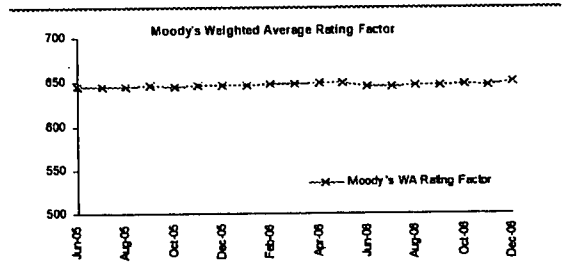
WA Coupon



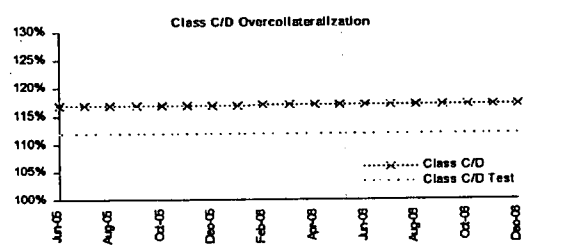
Moody's Diversity



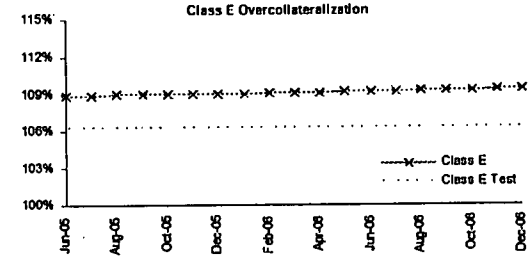
Moody's WARF



Class C/D (A2/A3/A/A-) Overcollateralization



Class E (Baa2/BBB) Overcollateralization



Deutsche Bank

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980053

Confidential Treatment Requested by DBSI

Gemstone CDO III

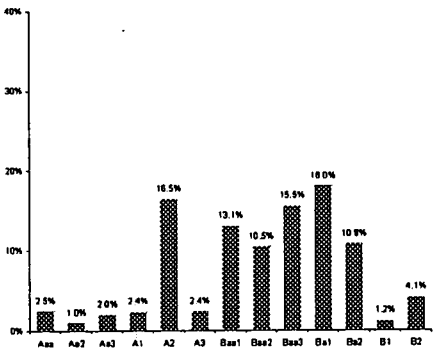
Gemstone CDO III[1] (closed in July 2005)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	16.5%	n/a	n/a
Moody's WARF	652	n/a	n/a
Moody's WA Recovery Rate	28.1%	n/a	n/a
Min WA Spread	1.86%	n/a	n/a
Min WA Coupon	5.50%	n/a	n/a

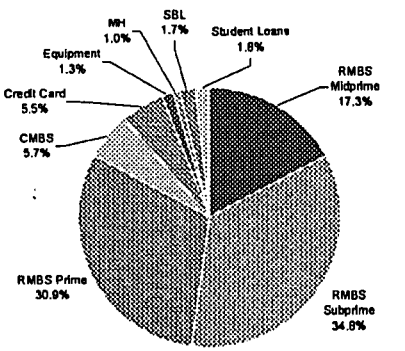
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

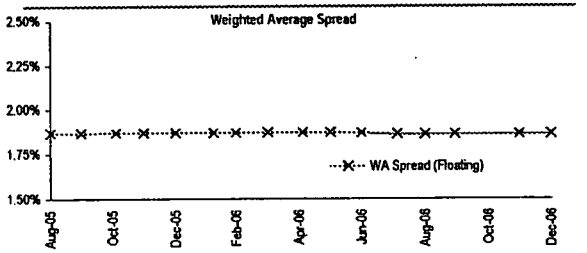
Rating Stratification[2]



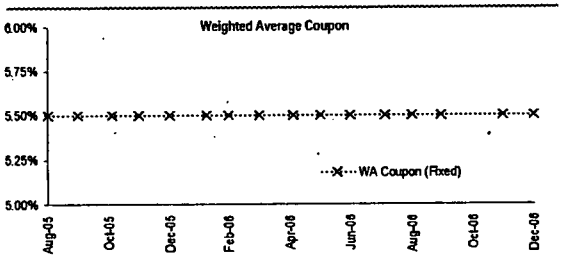
Industry Stratification[2]



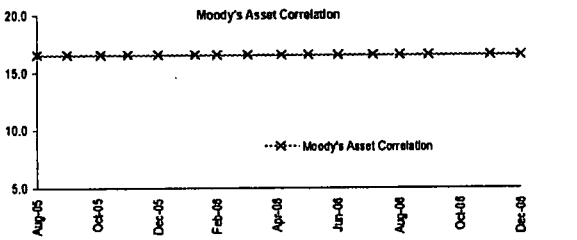
WA Spread



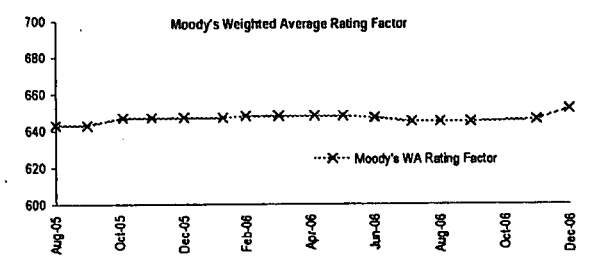
WA Coupon



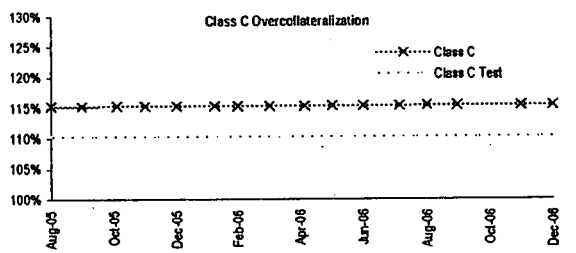
Moody's Correlation



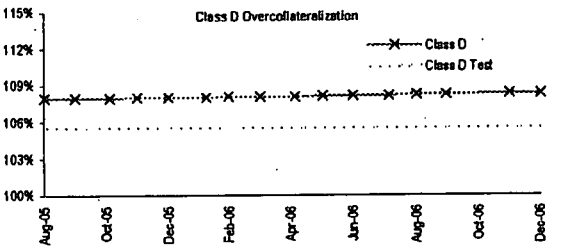
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980054

Confidential Treatment Requested by DBSI

Gemstone CDO IV

Gemstone CDO IV[1] (closed in January 2006)

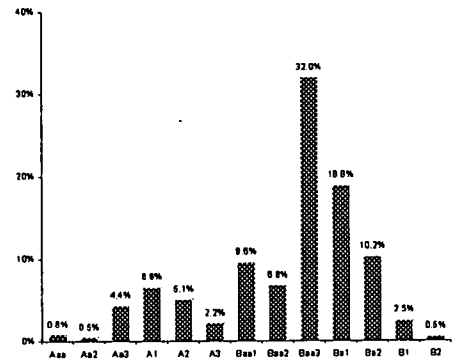
As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	18.3%	n/a	n/a
Moody's WARF	646	n/a	n/a
Moody's WA Recovery Rate	27.7%	n/a	n/a
Min WA Spread	1.86%	n/a	n/a
Min WA Coupon	5.27%	n/a	n/a

There is currently one downgrade and no defaults in the portfolio.

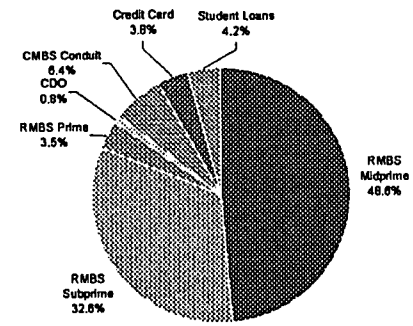
- AMSI 2003-8 MV6 was downgraded from Baa3 to Ba3 by Moody's, BBB- to BB- by S&P, BBB- to BB- by Fitch, currently has a factor of .31717

*Static deal, tests do not apply after Closing

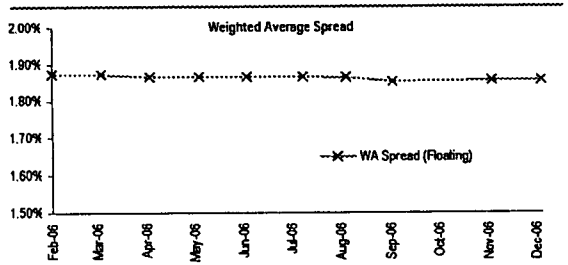
Rating Stratification[2]



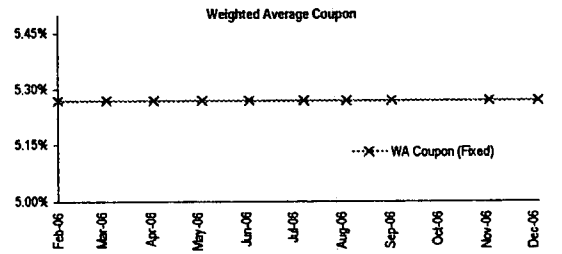
Industry Stratification[2]



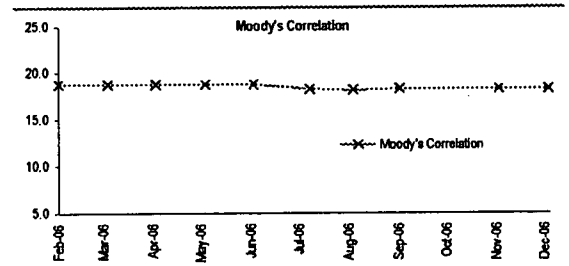
WA Spread



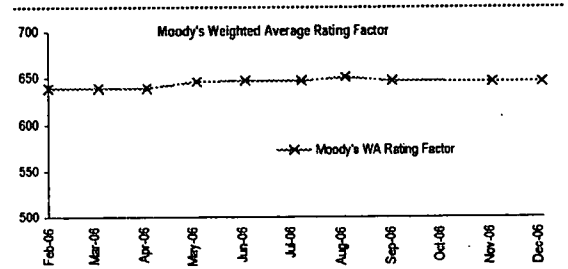
WA Coupon



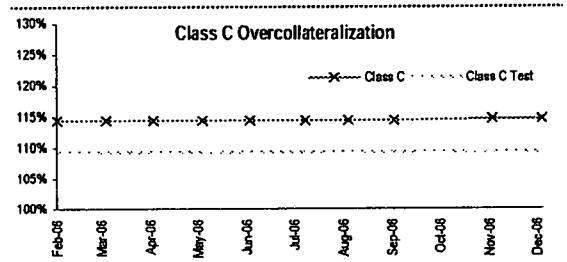
Moody's Correlation



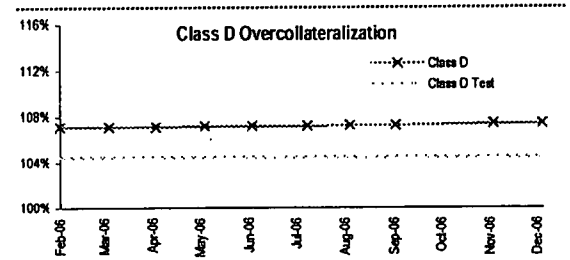
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



Deutsche Bank

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980055

Confidential Treatment Requested by DBSI

Gemstone CDO V

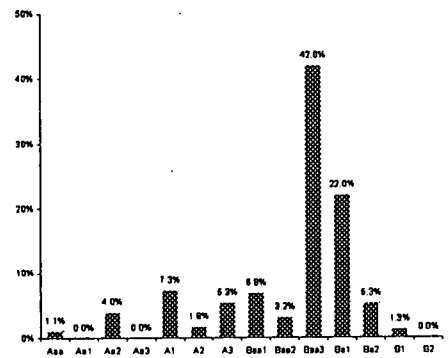
Gemstone CDO[1] (closed in May 2006)

As of 12/31/06	Current	Test	Pass/Fail*
Moody's Correlation	17.5%	n/a	n/a
Moody's WARF	610.6	n/a	n/a
Moody's WA Recovery Rate	26.7%	n/a	n/a
Min WA Spread	1.90%	n/a	n/a
Min WA Coupon	5.00%	n/a	n/a

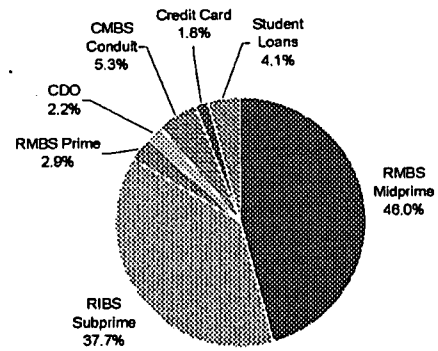
There are currently no downgrades or defaults in portfolio

*Static deal, tests do not apply after Closing

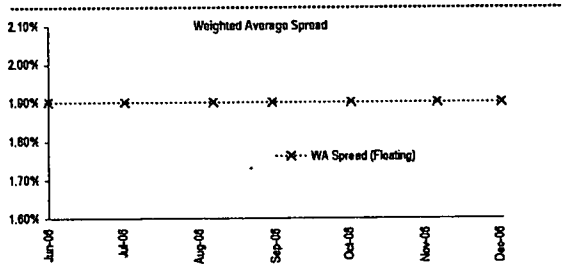
Rating Stratification[2]



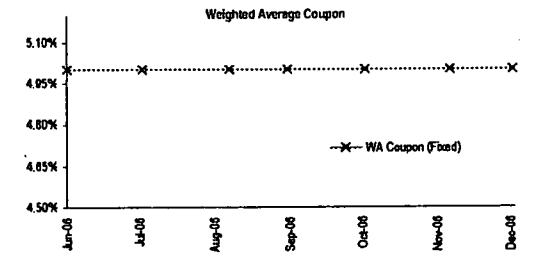
Industry Stratification[2]



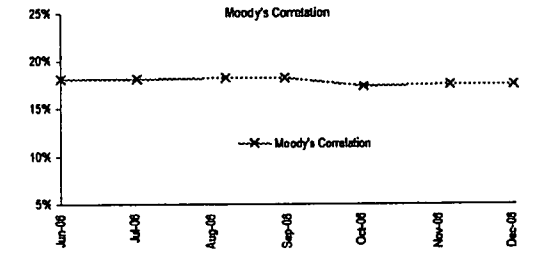
WA Spread



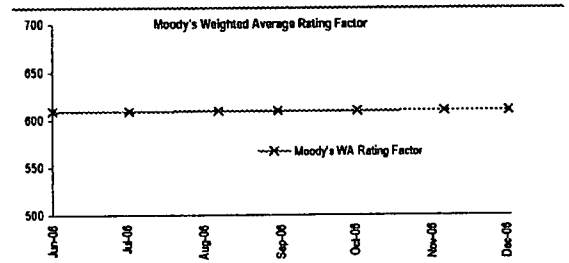
WA Coupon



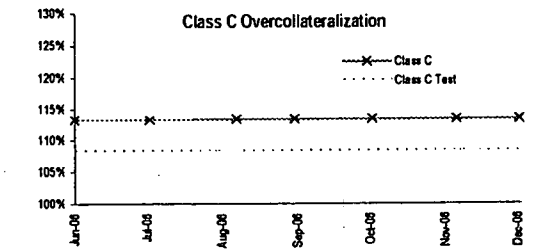
Moody's Correlation



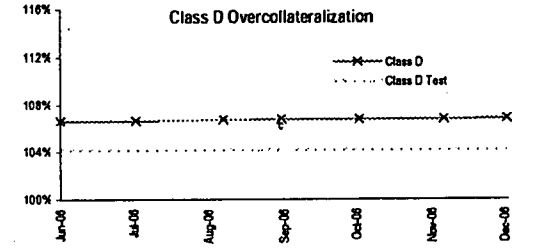
Moody's WARF



Class C (A2/A) Overcollateralization



Class D (Baa2/BBB) Overcollateralization



(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980056

Confidential Treatment Requested by DBSI

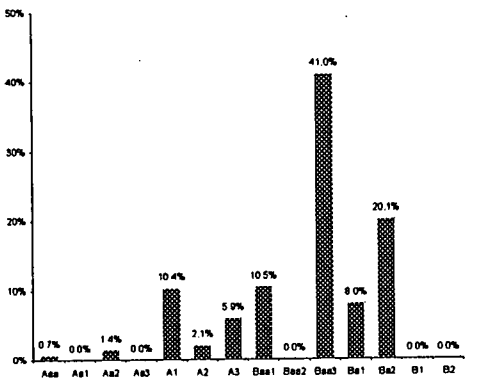
Gemstone CDO VI

Gemstone CDO VI[1] (closed in September 2006)

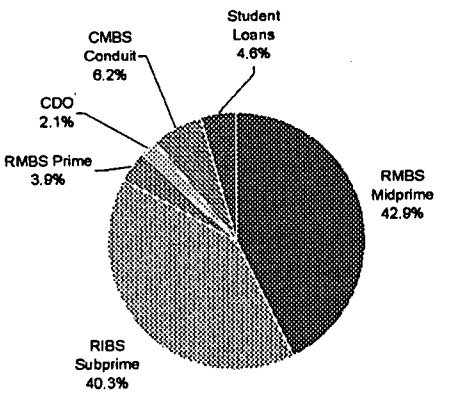
As of 12/31/06	Current	Test	Pass/Fail
Moody's Correlation	18.6%	19.5%	Pass
Moody's WARF	644	650	Pass
Moody's WA Recovery Rate	24.90%	23.5%	Pass
Min WA Spread	1.88%	1.80%	Pass
Min WA Coupon	5.68%	4.90%	Pass
Class C (A2/A) OC	113.38%	108.36%	Pass
Class D (Baa2/BBB) OC	107.25%	104.75%	Pass

There have been no downgrades or defaults in portfolio

Rating Stratification[2]



Industry Stratification[2]



- Recently closed CDO: Sufficient data points are not yet available to chart historical performance

(1) Source: Trustee Reports.
(2) As of Closing Date. Rating Stratification shows Moody's indenture rating and includes notched assets.

DBSI_PSI_EMAIL01980057

Confidential Treatment Requested by DBSI

Appendix I

Risk Factors

DBSI_PSI_EMAIL01980058

Confidential Treatment Requested by DBSI

Risk Factors

Lack of Liquidity and Restrictions on Transfer	The Notes should be viewed as a long-term investment and not as an investment to be traded. There can be no assurance that there will be any secondary market for the Notes. Furthermore, any trading of the Notes will be subject to certain transfer restrictions.
Potential for Interruption and Deferral of Cash Flow	If certain Coverage Tests are not met (e.g. due to Collateral Debt Security defaults), then cash flow that otherwise would have been available to pay interest on the subordinate Notes and distributions to the Preference Shares would instead be used to redeem Class A Notes and, after the Class A Notes are paid in full, to redeem the Class B Notes and, after the Class B Notes are paid in full, to redeem the Class C Notes and, after the Class C Notes are paid in full, to redeem the Class D Notes until the tests again are satisfied. This could result in the early redemption of the Class A Notes, Class B Notes, Class C Notes and Class D Notes.
Limited Recourse Obligations	The Issuer will have no assets other than the Collateral Debt Securities and the Interest Rate Swap Agreement and Investment Agreements. Payments on the Notes and distributions on the Preference Shares will be payable solely from the cash flow of the assets of the Issuer. None of the Placement Agent (Deutsche Bank Securities Inc.), the Collateral Manager or any of their respective affiliates will have any obligation to make payments of principal or interest or other distributions on any of the securities issued by the Issuer.
Subordination	The payment of interest on each class of Notes is subordinated to the payment in full of the interest due and payable on any more senior class of Notes and certain other amounts, and application of Interest Proceeds to make payments on the Preference Shares is subordinated to the payment in full of the interest due and payable on each class of Notes and certain other amounts. Subject to certain limited exceptions, the payment of principal of each class of Notes is subordinated to payment in full of interest on and principal of any more senior class of Notes and all other amounts payable to the Issuer, and the application of Principal Proceeds to make payments on the Preference Shares is subordinated to the payment in full of interest on and principal of each class of Notes payable to the Issuer and all other amounts.
Asset/Liability Mismatch Risk	The floating rate nature of the Notes financing of the Issuer and the fixed rate nature of certain of the Collateral Debt Securities could produce a fixed/floating interest rate mismatch between the assets and the liabilities of the Issuer. Therefore, an increase in the level of LIBOR may adversely impact the returns on the Notes. The Issuer will enter into interest rate swaps which should reduce the asset/liability mismatch and therefore lower the return sensitivity of the Notes to changes in the absolute level of interest rates. Any mismatch would adversely affect returns on the Notes.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

DBSI_PSI_EMAIL01980059

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Risk Factors (continued)

Risk of the Collateral Debt Securities	The Collateral Debt Securities are subject to substantial credit, liquidity and interest rate risk. The synthetic securities, the interest rate swap and the Investment Agreement are subject to counterparty risk.
Maturity and Prepayment Considerations	The Stated Maturity of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will be the Distribution Date in [ ]. However, due to, among other things, the Clean-Up Call Redemption and the performance of the Collateral Debt Securities, the average life of the Notes is expected to be significantly shorter than the Stated Maturity for such class of Notes.
Structured Finance Obligations and Synthetic Securities	The Collateral Debt Securities may consist of structured finance securities and synthetic securities for which the reference obligations are structured finance securities. The market for these securities is generally less liquid than for other types of securities, which may prevent the Collateral Manager from taking advantage of changes in market conditions for the resale of the structured finance securities and synthetic securities. The Issuer may also be subject to the credit risk of the counterparty on any synthetic securities, which will be in addition to the credit risk associated with the reference obligation and the synthetic security itself.
Tax and ERISA Considerations	Special tax and ERISA considerations may apply to certain types of investors. Prospective investors are urged to consult with their own tax and ERISA advisors to determine the tax and ERISA implications of this investment, and to review the tax-related and ERISA-related provisions in the final Offering Memorandum and the Indenture.
Conflicts of Interest	Various potential and actual conflicts of interest may arise from the overall investment activity of the Collateral Manager and its respective affiliates. Among other things, the Collateral Manager may invest for the accounts of others in securities that would be appropriate for the Issuer and in securities that are senior to or subordinate to securities of the same issuers as those owned by the Issuer. Also, since the Collateral Manager, its affiliates, or its clients may own all or part of a Class of the Notes or the Preference Shares, various actual and potential conflicts may exist as a result of the Collateral Manager taking action on its behalf, on behalf of its affiliates or its asset management clients and on behalf of the Holders of the Notes or the Preference Shares.

Please refer to the Offering Circular for a complete list of Risk Factors and detailed descriptions.

DBSI_PSI_EMAIL01980060

From: Chehao Lu
Sent: Wednesday, July 11, 2007 10:45:56 AM
To: Marco Lukesch; Rachel Wish
Subject: G7 - mgmt fee

actually, mgmt fee is calculated based on 30/360

Section 1.1 Definitions.

"Management Fee" means the fee which will accrue from the Closing Date at a rate per annum of 0.30% on the Quarterly Asset Amount, payable to the Collateral Manager in arrears on each Distribution Date, as compensation for the performance of its obligations as Collateral Manager under the Management Agreement. Any Management Fee accrued prior to the resignation or removal of the Collateral Manager will continue to be payable to the Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal. This payment will be made to the extent of the funds available for such purpose in accordance with the Priority of Payments.

Section 1.2 Assumptions as to Underlying Assets, Etc.

(f) Any reference in the definition of "Management Fee" in Section 1.1 to an amount calculated with respect to a period at a per annum rate shall be computed on the basis of a 360 day year of twelve 30-day months.

Che Lu
Global CDO Group
Deutsche Bank Securities Inc.
212-250-7801

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1351

From: Eric Martel
Sent: Tuesday, September 11, 2007 05:26:11 PM
To: Jamiel Akhtar; Accounting - Mgmt Co
CC: FixedIncome
Subject: FW: Gemstone CDO VII Ltd - 09/12/2007 - Payment Date Reports - Draft #1

Attachments: Gemstone VII Note Val 2007-09-12 v1.pdf; Gemstone VII Compliance 2007-09-05 v1.pdf; Gemstone VII Build_Asset 2007-09-05 v1.csv

Gemstone 7 distribution for Wednesday 9/12 = $711,420.60

Collateral Management Fee = $826,067.88

---Original Message----
From: Susan N Anderson [mailto:susan.n.anderson@db.com]
Sent: Tuesday, September 11, 2007 12:51 AM
To: shannon.obrian@ey.com; paul.penland@ey.com; Rachel Wish
Cc: Kevin Jenks; Jason Lowry; Marco Lukesch; Jeff Schmitt; Eric Martel; Ashley Bonilla; FixedIncome; Patrick Carvell
Subject: Gemstone CDO VII Ltd - 09/12/2007 - Payment Date Reports - Draft #1

Attached is the 1st draft of the Note Valuation Report and Compliance Report (and accompanying data file) in connection with next week's payment date scheduled for Wednesday, 09/12/2007 (Finally!). Please review and advise me of any changes, corrections or modifications you see may be needed.

Please forward updated WAL info asap, if changes are needed.

(See attached file: Gemstone VII Note Val 2007-09-12 v1.pdf)(See attached file: Gemstone VII Compliance 2007-09-05 v1.pdf)(See attached file: Gemstone VII Build_Asset 2007-09-05 v1.csv)

I can't apologize enough for the delay in getting these reports out to all of you for review and comment. There were several reasons (namely systems problems and outages, disaster recovery testing over the weekend, and model problems), but no excuse. Every effort will be made to ensure this type of delay does not recur on future payment date reporting. I really appreciate your patience and know you will promptly review these reports.

As reports are already past due to investors (technically due 2 business days prior to the Distribution Date), we need to have these reports finalized asap on Tuesday, especially the Waterfall, I/C and O/C tests.

Thank you . . .

Susan Anderson

CDO Business Unit
Trust & Securities Services
Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, CA 92705-4934
Voice: (714) 247-6411
Fax: (714) 656-2585
Email: susan.n.anderson@db.com

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1351

WILMERHALE

Reginald J. Brown

+1 202 663 6430 (t)
+1 202 663 6363 (f)
reginald.brown@wilmerhale.com

August 20, 2010

By Courier Delivery

Hon. Carl Levin, Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Hon. Tom Coburn, Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Levin and Ranking Member Coburn:

Today HBK Capital Management ("HBK") is submitting to the Permanent Subcommittee on Investigations ("PSI") a set of documents responsive to the PSI's request dated August 2, 2010. These documents have been bates labeled GEM7-00000001 through GEM7-00001830. We hope that these documents, as well as the information we are providing in this letter after consultation with HBK, will assist the PSI in understanding the Gemstone VII CDO's structure and operations as well as HBK's role as collateral manager. If the PSI still has questions after reviewing the information below and the documents submitted today, we would be happy to arrange a teleconference with an HBK representative and counsel. We have also set aside September 10 to provide an in-person briefing for the staff, if necessary.

As you may know, HBK Capital Management manages a global, multi-strategy hedge fund business. At the time of the Gemstone VII offering in March 2007, HBK managed only two funds—HBK Fund L.P. and HBK Offshore Fund Ltd. These two funds have identical investment objectives and are operated in a "master-feeder" structure, under which they invest most of their assets in a single master fund—HBK Master Fund L.P. (the "Master Fund"). A substantial majority of HBK's investments are held directly in the Master Fund, although various other entities have been established from time to time for specific investments.

HBK organizes its portfolio into "business units." In early 2007, HBK had 21 business units across a range of strategies, including credit, equities, volatility, sovereign debt and private placements. The "Structured Credit" business unit invested in mortgages and mortgage-related

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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securities and derivatives, including asset backed securities (ABS), CDOs, and related index products. Approximately 10% of the capital managed by HBK was deployed in the Structured Credit business unit at its peak in 2007.

One of the investment strategies pursued by HBK's Structured Credit business unit was to invest in mortgage-related securities through CDOs such as the Gemstone VII CDO. This CDO was structured in a typical fashion, as follows:

- On October 24, 2006, HBK and Deutsche Bank entered into a "warehouse" arrangement, evidenced by a Risk Sharing Agreement and other documents, under which the CDO entity was formed and began to acquire the pool of ABS (and derivatives on ABS) that would eventually serve as the collateral for the various tranches of notes to be issued by the CDO. The collateral purchased under this warehouse arrangement was selected by HBK and subject to Deutsche Bank's right of approval. The warehouse documents originally contemplated a total collateral pool of $750 million, which was increased to $1.1 billion in late December 2006.

- At the closing, the warehouse financing was replaced with financing through the issuance, by the CDO, of seven tranches of notes with an aggregate face value of $1.04 billion, along with the residual equity interest in the CDO that was sold to HBK (the "Residual Interest").

- Pursuant to the Risk Sharing Agreement, if the closing had not occurred, the warehouse would have been liquidated. Under this agreement, HBK would have been responsible for any losses up to a maximum of $82.5 million (increased from $56.25 million when the size of the warehouse was increased), and Deutsche Bank would have borne any losses exceeding HBK's maximum.

- Deutsche Bank Securities Inc. was the "Initial Purchaser" in the transaction. In this capacity, it purchased all of the notes issued by the CDO at the closing and then re-sold most of the notes to sophisticated investors (including HBK) in a private placement.

- HBK served as "collateral manager" of the CDO pursuant to a Collateral Management Agreement between HBK and the CDO.

- Payments received by the CDO from the collateral were used by the CDO to make interest and principal payments on the various tranches of notes issued by the CDO, in accordance with an agreed "waterfall." The Residual Interest owned by HBK was at the very bottom of the waterfall.

HBK participated in the Gemstone VII CDO with the objective of obtaining long exposure to the CDO's collateral, on a leveraged basis, through ownership of the Residual Interest. HBK also invested an additional $300+ million in the CDO by purchasing CDO notes at the closing. HBK never had a short position in any securities issued by the Gemstone VII CDO. Information showing HBK's positions in the Gemstone VII securities over time is attached as Exhibit A (GEM7-00000001 through GEM7-00000002).

In addition to purchasing notes and the Residual Interest issued by the CDO, HBK took additional long exposure to the CDO's collateral outside of the CDO by buying (or selling protection on) the same underlying assets and on other bonds issued by the same ABS issuers. Information showing HBK's positions in the underlying collateral over time is attached as Exhibit B (GEM7-00000003 through GEM7-00000007).

As a result of the investments reflected in Exhibits B and C, following the Gemstone VII closing HBK had approximately $350 million of long exposure to the CDO itself through securities issued by the CDO and over $800 million of additional long exposure to the same underlying collateral outside of the CDO. Consequently, HBK had every incentive to select attractive collateral for the CDO and to manage the CDO so as to maximize the value of that collateral. Information showing HBK's aggregate exposure to the Gemstone VII securities and the underlying collateral over time is attached as Exhibit C (GEM7-00000008).

Primarily as a result of the unanticipated and unprecedented decline in housing prices later in 2007, HBK lost over $700 million in its Structured Credit business unit during 2007. Outside of the Structured Credit business unit, HBK had no short positions in mortgage-related securities (including mortgages, ABS, CDOs, indexes and similar instruments). Information showing HBK's profits and losses in its Structured Credit business unit, by month, is attached as Exhibit D (GEM7-00000009 through GEM7-00000010).

In addition to the documents described above, today's production includes the following:

- Two organizational charts reflecting HBK's management company and fund entities in March 2007 (the closing of the Gemstone VII CDO) (GEM7-00000011 through GEM7-00000013). The chart of fund entities includes all entities that held positions in the firm's

Structured Credit business unit at that time. Also attached is a list of all of the other HBK entities existing in early 2007, all of which were direct or indirect subsidiaries of either HBK Fund L.P. or HBK Master Fund L.P. (and none of which held any positions in the Structured Credit business unit).

- A summary organizational chart showing HBK's management reporting structure as of January 5, 2007, followed by a more detailed chart for the Credit group, which included the Structured Credit business unit (GEM7-00000014 through GEM7-00000015). Substantially all of HBK's U.S. employees, and all employees in the Structured Credit business unit, were employed by HBK Investments L.P., which was HBK's primary investment management company with offices in Dallas and New York. (A small number of U.S. employees were employed by HBK Global Securities L.P., an indirect wholly-owned subsidiary of HBK Master Fund L.P., and non-U.S. employees were employed by the subsidiaries of HBK Investments L.P. identified on the chart of management company entities.)

- Deal documents governing the warehouse arrangement between HBK and Deutsche Bank related to the Gemstone VII CDO (GEM7-00000016 through GEM7-00000176).

- A complete set of closing documents for the Gemstone VII CDO (GEM7-00000177 through GEM7-00001747).

- Documents related to two repurchase agreement transactions between HBK and Deutsche Bank related to the Gemstone VII CDO (GEM7-00001748 through GEM7-00001830).

Both of these repo transactions were executed pursuant to a standard Master Repurchase Agreement between HBK Master Fund L.P. and Deutsche Bank Securities Inc. (GEM7-00001748 through GEM7-00001772). Pursuant to this agreement, Deutsche Bank provides financing for securities in HBK's portfolio by buying such securities against HBK's obligation to repurchase them. The effect of such a repurchase agreement is identical to a secured loan (i.e., a loan from Deutsche Bank to HBK secured by a pledge of the securities), and repurchase agreements are treated as secured loans for purposes of GAAP. Each transaction has a stated term, generally one week or one month, after which the transaction is closed and may (if the parties agree) be re-opened (or "rolled") to start a new secured loan. If the market value of the pledged securities falls, then the loan is essentially repaid by the same amount (through HBK's repurchase obligation), so that the securities continue to provide sufficient collateral for the outstanding loan balance.

All of the financing provided under HBK's Master Repurchase Agreement with Deutsche Bank, including the two transactions related to Gemstone VII, was provided on a full recourse basis, with HBK bearing all risk of loss associated with the securities being financed.

The two repo transactions related to Gemstone VII were as follows:

- The first transaction was initiated on March 26, 2007, to finance the $200 million (face) of A1B2 bonds that HBK purchased at the closing of the Gemstone VII CDO. (To facilitate this transaction, these bonds were first sold internally from HBK CDO Trust, which originally purchased them, to HBK Master Fund L.P., which had the necessary Master Repurchase Agreement with Deutsche Bank.) This repo transaction was closed and re-opened ("rolled") periodically until October 25, 2007, when it was closed permanently. Through this standard process, HBK repaid (with interest) all of the money borrowed from Deutsche Bank in this transaction.

- The second transaction was initiated on August 30, 2007, to finance the $50 million (face) of A1B1 bonds that HBK purchased on August 24, 2007. This transaction was rolled periodically until March 25, 2008, when it was closed permanently. Through this standard process, HBK repaid (with interest) all of the money borrowed from Deutsche Bank in this transaction.

Attached (GEM7-00001773 through GEM7-00001830) are the following documents related to these two transactions: (i) statements from HBK's accounting system reflecting the initial purchase of each of these securities, (ii) email "trade tickets" exchanged between HBK and Deutsche Bank to open, roll and close the repo transactions, and (iii) statements from HBK's accounting system reflecting each repo transaction.

HBK may amend or supplement this production as appropriate based on continuing discussions with your staff and our further review of these issues.

* * * * *

HBK respectfully requests that its produced documents be maintained confidentially under Rule 16 of the PSI's Rules of Procedure and not be released publicly without a majority vote of the PSI. HBK further asks that the PSI staff provide the undersigned with notice and an opportunity to be heard in the event the PSI determines that it will disclose any information from

this production or letter to a third party. Such treatment would be consistent with the respect for privileged and confidential information that the Subcommittee has shown in the past.

Please feel free to contact us at (202) 663-6430 should you have any questions.

Sincerely,

Reginald J. Brown

Laura Moranchek Hussain

Enclosures

cc: Jon Mosle
Henry Klehm III

Assets Purchased by Gemstone VII CDO during Warehouse Period

Cash Bonds CUSIP	Instrument	Description	Trade Date	Settle Date	Quantity	Price	Total Settle Cash	Broker	Cash/CDS
07325BAK4	BAYC2006_4A_B1	BAYVIEW COMMERCIAL ASSET TRUST BAYC 2006-4A B1	10/24/06	10/30/06	1,700,000	100.000000	(1,700,000.00)	ML	Cash
46629TAQ3	JPMAC2006_CH1_M10	JPMAC2006_CH1_M10	10/26/06	11/14/06	2,898,000	90.353400	(2,618,441.53)	JPM	Cash
46629TAP5	JPMAC2006_CH1_M9	JPMAC2006_CH1_M9	10/26/06	11/14/06	1,200,000	100.000000	(1,200,000.00)	JPM	Cash
25150PAL3	DBALT2006_AR4_M8	DBALT 2006-AR4 M8	11/3/06	11/08/06	6,142,000	86.765625	(5,347,236.52)	DB-WH	Cash
30247DAU5	FFML2006_FF13_B1	First Franklin Mtg Loan Asset Backed Certificate 2006-FF13 B1	11/3/06	11/08/06	11,668,000	90.796875	(10,629,680.08)	DB-WH	Cash
35729PHU7	FHLT2005_A_M9	FHLT2005_A_M9	11/3/06	11/08/06	1,006,000	99.4453125	(1,003,283.60)	DB-WH	Cash
36245DAU4	GSAMP2006_FM2_B1	GSAMP2006_FM2_B1	11/3/06	11/08/06	6,131,000	90.05859375	(5,540,147.90)	DB-WH	Cash
43709NAQ6	HEAT2006_7_B1	HEAT 2006-7 B1	11/3/06	11/08/06	4,125,000	99.625	(4,121,116.35)	DB-WH	Cash
43709NAN3	HEAT2006_7_M7	HEAT 2006-7 M7	11/3/06	11/08/06	4,125,000	100	(4,134,788.43)	DB-WH	Cash
542514KJ2	LBMLT2005_1_B1	Long Beach Mortgage Loan Trust (HEL) 2005-1 B1	11/3/06	11/08/06	3,000,000	94.53125	(2,845,935.83)	DB-WH	Cash
63543VAH8	NCSLT2006_3_C	NCSLT 2006-3 C	11/3/06	11/08/06	8,000,000	100	(8,053,018.92)	DB-WH	Cash
78443CCW2	SLMA2006_B_C	SLM Student Loan Trust 2006-B C	11/3/06	11/08/06	20,000,000	100	(20,173,700.00)	DB-WH	Cash
84751XAL6	SURF2006_AB3_B1	SURF 2006-AB3 B1	11/3/06	11/08/06	2,550,000	100	(2,556,075.20)	DB-WH	Cash
84751XAN2	SURF2006_AB3_B3	SURF 2006-AB3 B3	11/3/06	11/08/06	4,250,000	99.6332	(4,246,271.75)	DB-WH	Cash
83612JAP9	SVHE2006_EQ1_M10	SVHE2006_EQ1_M10	11/3/06	11/08/06	6,746,000	88.0859375	(5,861,507.19)	DB-WH	Cash
8815812U7	TMTS2006_6SL_A2	TMTS2006_6SL_A2	11/3/06	11/09/06	15,000,000	98.234375	(14,750,989.58)	DB-WH	Cash
88156UAB6	TMTS2006_8_1A2	TMTS2006_8_1A2	11/3/06	11/09/06	15,000,000	98.515625	(14,794,010.42)	DB-WH	Cash
04541GVS8	ABSHE2006_HE1_M7	ABSHE 2006-HE1 M7	11/06/06	11/09/06	5,000,000	100.484375	(5,038,010.42)	ML	Cash
362334GK4	FFML2006_FF4_B2	First Franklin Mtg Loan Asset Backed Certificate 2006-4	11/6/06	11/09/06	2,000,000	91.1484375	(1,829,277.08)	DB-WH	Cash
76112BXF2	RAMP2005_RS7_B	RAMP 2005-RS7 B	11/13/06	11/16/06	4,500,000	92.234375	(4,173,426.88)	Goldman	Cash
437084QF8	HEAT2005_8_M7	HEAT 2005-8 M7	11/14/06	11/17/06	7,250,000	100.468750	(7,313,814.10)	ML	Cash
35729NAL9	FHLT2006_E_M7	FHLT 2006-E M7	11/16/06	12/06/06	16,043,000	100.000000	(16,043,000.00)	Goldman	Cash
61750SAK6	MSAC2006_HE8_M4	MORGAN STANLEY CAPITAL INC MSAC 2006-HE8 M4	11/16/06	11/29/06	9,000,000	100.000000	(9,000,000.00)	MS	Cash
78420MAK5	SGMS2006_OPT2_M4	SG MORTGAGE SECURITIES TRUST SGMS 2006-OPT2 M4	11/16/06	12/14/06	4,000,000	100.000000	(4,000,000.00)	SocGen	Cash
78420MAN9	SGMS2006_OPT2_M7	SGMS 2006-OPT2 M7	11/16/06	12/14/06	1,650,000	100.000000	(1,650,000.00)	SocGen	Cash
03072SYG4	AMSI2005_R1_M9	AMSI 2005-R1 M9	11/17/06	11/22/06	5,000,000	92.37500000	(4,650,133.33)	DB-WH	Cash
36242DQ97	FFML2005_FF2_B5	First Franklin Mtg Loan Asset Backed Certificate 2005-FF2 B5	11/17/06	11/22/06	2,397,000	90.66796875	(2,187,890.30)	DB-WH	Cash
30247DAV3	FFML2006_FF13_B2	First Franklin Mtg Loan Asset Backed Certificate 2006-FF13 B2	11/17/06	11/22/06	10,000,000	84.42187500	(8,503,038.89)	DB-WH	Cash
362334BK9	FFML2006_FF3_B2	First Franklin Mtg Loan Asset Backed Certificate 2006-3	11/17/06	11/22/06	2,915,000	87.52734375	(2,568,584.94)	DB-WH	Cash
05950VAP5	BACM2006_6_D	BANC OF AMERICA COMMERCIAL MORTGAGE INC. 2006-6 D	11/20/06	11/29/06	6,000,000	100.505564	(6,056,233.84)	BOA	Cash
05950VAR1	BACM2006_6_E	BANC OF AMERICA COMMERCIAL MOR 2006-6 E	11/20/06	11/29/06	5,777,000	100.506293	(5,831,495.97)	BOA	Cash
46629QBA3	JPMAC2006_CH2_MV4	JP MORGAN MORTGAGE ACQUISITION JPMAC 2006-CH2 MV4	11/21/06	12/14/06	6,000,000	100.000000	(6,000,000.00)	JPM	Cash
88156EAH9	TMTS2006_17HE_M4	TMTS 2006-17HE M4	11/28/06	12/15/06	3,488,000	93.350000	(3,258,048.00)	Calyon	Cash
25150RAT2	DBALT2006_AR6_M10	DBALT 2006-AR6 M10	11/29/06	12/29/06	8,820,000	84.687500	(7,495,505.50)	DB	Cash
63543WAG6	NCSLT2006_4_C	NCSLT 2006-4 C	11/29/06	12/07/06	11,000,000	100.000000	(11,000,000.00)	Goldman	Cash
88156AAD6	OMTS2006_OT1_M3	OMTS 2006-OT1 M3	12/01/06	12/08/06	8,190,000	99.441500	(8,144,258.85)	Calyon	Cash
75970HAN0	RAMC2006_4_M4	RENAISSANCE HOME EQUITY LOAN T RAMC 2006-4 M4	12/01/06	12/28/06	4,687,000	100.000000	(4,707,395.46)	Greenwich	Cash
75970HAR1	RAMC2006_4_M7	RENAISSANCE HOME EQUITY LOAN T RAMC 2006-4 M7	12/01/06	12/28/06	6,000,000	100.000000	(6,029,457.00)	Greenwich	Cash
32027NQS3	FFML2005_FF1_B4	First Franklin Mtg Loan Asset Backed Certificate 2005-1 B4	12/07/06	12/12/06	2,549,000	98.2187500000	(2,512,963.51)	DB	Cash
81375WCZ7	SABR2005_OP1_B4	Securitized Asset Backed Receivables 2005-OP1	12/07/06	12/12/06	5,500,000	97.5781250000	(5,387,009.08)	DB	Cash
362341RF8	FFML2005_FF8_B5	First Franklin Mtg Loan Asset Backed Certificate 2005-FF8 B5	12/11/06	12/14/06	10,000,000	86.06640625	(8,638,253.26)	DB-WH	Cash
9497ENAL7	WFHET2005_3_M11	Wells Fargo Home Equity Trust 2005-3	12/11/06	12/14/06	8,759,000	86.53125000	(7,611,617.23)	DB-WH	Cash
9497EUAT4	WFHET2006_1_M11	WFHET2006_1_M11	12/11/06	12/14/06	4,000,000	87.46875000	(3,513,521.11)	DB-WH	Cash
03072SW27	AMSI2005_R11_M10	AMSI2005_R11_M10	12/12/06	12/15/06	5,000,000	88.3750000000	(4,438,300.00)	DB	Cash
46629PAJ7	JPMCC2006_LDP9_D	JP MORGAN CHASE COMMERCIAL MORTGAGE SEC CORP 2006-LDP9 D	12/15/06	12/21/06	8,000,000	100.4939300000	(8,064,221.07)	JPM	Cash
46630AAA6	JPMCC2006_LDP9_E	JP MORGAN CHASE COMMERCIAL MOR 2006-LDP9 E	12/15/06	12/21/06	4,000,000	100.4890500000	(4,032,426.44)	JPM	Cash
03072SYH2	AMSI2005_R1_M10	AMSI 2005-R1 M10	12/18/06	12/21/06	4,000,000	92.4687500000	(3,720,270.00)	DB-WH	Cash
35729PMR8	FHLT2005_D_B2	Fremont 2005-D B2	12/18/06	12/21/06	3,000,000	85.7187500000	(2,586,702.50)	DB-WH	Cash
362334PW8	GSAMP2006_FM1_B4	GSAMP2006_FM1_B4	12/18/06	12/21/06	3,000,000	82.6992188000	(2,496,616.56)	DB-WH	Cash
36245DAV2	GSAMP2006_FM2_B2	GSAMP2006_FM2_B2	12/18/06	12/21/06	10,217,000	80.1171875000	(8,238,637.66)	DB-WH	Cash
362463AR2	GSAMP2006_NC2_B2	GSAMP2006_NC2_B2	12/18/06	12/21/06	8,815,000	84.6914063000	(7,511,502.99)	DB-WH	Cash
437084QK5	HEAT2005_8_B3	HEAT 2005-8 B3	12/18/06	12/21/06	7,500,000	86.8437500000	(6,554,881.25)	DB-WH	Cash
437084RJ7	HEAT2005_9_B3	HEAT 2005-9 B3	12/18/06	12/21/06	4,500,000	85.4848438000	(3,869,377.97)	DB-WH	Cash
004421XA8	ACE2006_HE1_M10	ACE 2006-HE1 M10	12/19/06	12/22/06	10,000,000	73.5000000000	(7,407,777.78)	DB	Cash
32027NQB0	FFML2004_FFC_B4	First Franklin Mtg Loan Asset Backed Certificate 2004-FFC B4	1/9/07	01/12/07	3,000,000	94.9492187500	(2,860,589.06)	DB-WH	Cash
30247DAV3	FFML2006_FF13_B2	First Franklin Mtg Loan Asset Backed Certificate 2006-FF13 B2	1/9/07	01/12/07	11,216,000	83.4921875000	(9,403,103.94)	DB-WH	Cash
437084VC7	HEAT2006_3_B3	HEAT 2006-3 B3	1/9/07	01/12/07	14,000,000	79.7421875000	(11,215,472.92)	DB-WH	Cash
03072SR31	AMSI2005_R9_M9	AMSI2005_R9_M9	1/16/07	01/19/07	5,000,000	85.1718750000	(4,284,760.42)	DB-WH	Cash
040104NQ0	ARSI2005_W2_M12	Argent Securities Inc. 2005-W2 M12	1/16/07	01/19/07	14,000,000	85.5664062500	(12,052,563.55)	DB-WH	Cash
040104PP0	ARSI2005_W3_M12	Argent Securities Inc. 2005-W3 M12	1/16/07	01/19/07	8,000,000	83.0898437500	(6,689,054.17)	DB-WH	Cash
437084QL3	HEAT2005_8_B4	HEAT 2005-8 B4	1/16/07	01/19/07	11,250,000	84.4101562500	(9,558,767.56)	DB-WH	Cash
437096AT7	HEAT2006_5_B3	HEAT 2006-5 B3	1/16/07	01/19/07	2,500,000	81.2187500000	(2,043,552.08)	DB-WH	Cash
43709NAS2	HEAT2006_7_B3	HEAT 2006-7 B3	1/16/07	01/19/07	11,000,000	77.1210937500	(8,540,666.98)	DB-WH	Cash
362341RF8	FFML2005_FF8_B5	First Franklin Mtg Loan Asset Backed Certificate 2005-FF8 B5	1/22/07	01/25/07	7,945,000	86.0664062500	(8,837,975.98)	DB-WH	Cash
07389UBK4	BSABS2007_HE1_2M10	BSABS 2007-HE1 2M10	01/23/07	01/30/07	7,391,000	84.9555500000	(6,279,084.70)	BS	Cash
07325MAJ3	BAYC2007_1_B1	BAYVIEW COMMERCIAL ASSET TRUST BAYC 2007-1 B1	01/25/07	02/02/07	4,500,000	100.0000000000	(4,500,000.00)	CITI	Cash

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Assets Purchased by Gemstone VII CDO during Warehouse Period

542514JE5	LBMLT2004_4_M12	LBMLT2004-4 M12	1/26/07	01/31/07	6,500,000	93.6601562500	(6,095,559.81)	DB-WH	Cash	
004421VD2	ACE2006_NC1_M10	ACE SECURITIES CORP. 2006-NC1 M10	02/07/07	02/12/07	1,500,000	89.6875000000	(1,351,552.50)	GS	Cash	
3622MGAT5	GSAMP2007_NC1_B1	GSAMP2007_NC1_B1	02/07/07	02/20/07	12,500,000	80.0000000000	(10,000,000.00)	GS	Cash	
437084QJ8	HEAT2005_6_B2	HEAT 2005-6 B2	02/07/07	02/12/07	1,000,000	87.3750000000	(877,910.00)	GS	Cash	
20173QAN1	GCCFC2007_GG9_F	GREENWICH CAPITAL COMMERCIAL FUNDING COR 2007-GG9 F	02/21/07	03/08/07	3,500,000	100.4970000000	(3,521,228.57)	Greenwich	Cash	
298259AG7	EULER2007_1A_B	EULER 2007-1A B	02/22/07	03/27/07	15,000,000	100.0000000000	(15,000,000.00)	ML	Cash	
46629YAM1	JPMCC2007_CB18_D	JP MORGAN CHASE COMMERCIAL MORTGAGE SEC 2007-CB18 D	02/23/07	03/07/07	3,000,000	100.4924700000	(3,017,635.81)	JPM	Cash	

RATE HEDGES

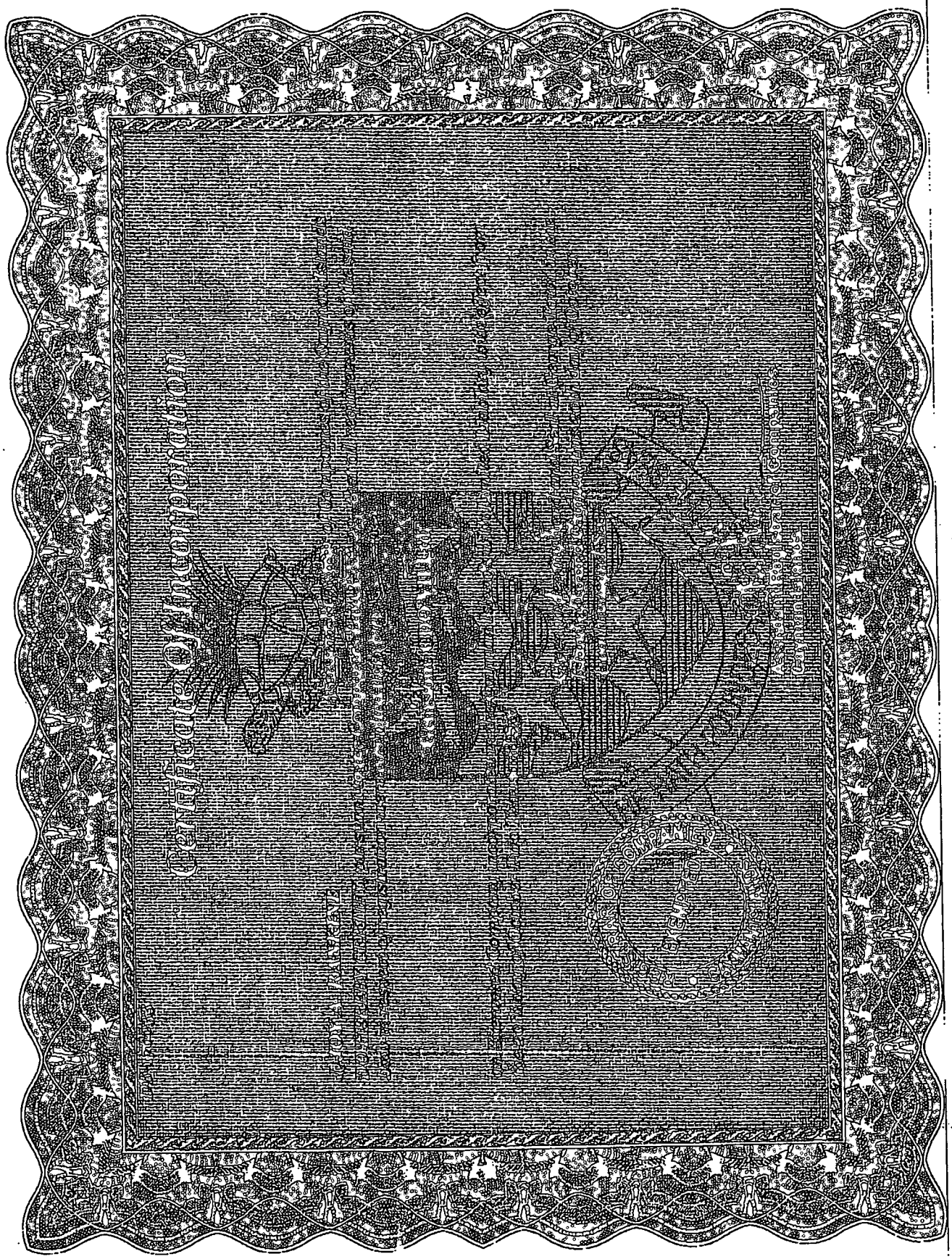
CUSIP	Instrument	Description	Trade Date	Settle Date	Quantity	Price	Total Settle Cash	Fixed Bond	
3137EAAC3	FHLMC5.125%04/08	FEDERAL HOME LN MTG CORP 5.125% 04/18/2008	11/7/06	11/09/06	(15,700,000)	100.0280000000	15,751,332.46	TMTS2006_6SL_A2	
3137EAAE9	FHLMC5.25%05/09	FEDERAL HOME LN MTG CORP 5.25% 05/21/2009	11/7/06	11/09/06	(11,800,000)	100.6280000000	12,156,320.67	TMTS2006_6SL_A2	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	11/20/06	11/21/06	(11,350,000)	101.5130000000	11,583,125.85	BACM2006_6_D / BACM2006_6_E	
3137EAAF6	FHLMC5.25%07/11	FEDERAL HOME LN MTG CORP 5.25% 07/18/2011	12/01/06	12/04/06	(11,700,000)	102.5290000000	12,227,943.00	RAMC2006_4_M4 / RAMC2006_4_M7	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	12/15/06	12/18/06	(11,600,000)	101.6850000000	11,902,800.28	JPMCC2006_LDP9_D / JPMCC2006_LDP9_E	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	02/21/07	02/22/07	(3,500,000)	100.7680000000	3,591,158.04	GCCFC2007_GG9_F	
3137EAAJ8	FHLMC5.125%10/16	FREDDIE MAC 5.125% 10/18/2016	02/23/07	02/26/07	(3,000,000)	100.8807800000	3,083,225.48	JPMCC2007_CIBC18_D	

CDS

Underlyer CUSIP	Underlyer Instrument	Underlyer Description	Trade Date	Effective Date	Notional	Rate/ Spread		Broker	Cash/CDS
126670XD5	CWL2006_4_B	COUNTRYWIDE ASSET-BACKED CERTI CWL 2006-4 B	10/24/06	10/27/06	15,000,000	2.23000		UBS	CDS
126670XD5	CWL2006_4_B	COUNTRYWIDE ASSET-BACKED CERTI CWL 2006-4 B	10/24/06	10/27/06	5,000,000	2.23000		BARCLAYS	CDS
46626LGQ7	JPMAC2006_HE1_M9	JPMAC 2006-HE1 M9	10/24/06	10/27/06	15,000,000	1.97000		GS	CDS
542514PE8	LBMLT2005_3_M8	LBMLT 2005-3 M8	10/24/06	10/27/06	15,000,000	3.00000		DB	CDS
54251PAP2	LBMLT2006_5_M9	LBMLT 2006-5 M9	10/24/06	10/27/06	10,000,000	2.52000		JPM	CDS
54251PAP2	LBMLT2006_5_M9	LBMLT 2006-5 M9	10/24/06	10/27/06	10,000,000	2.55000		BARCLAYS	CDS
59020UVB8	MLMI2005_HE1_B3	MERRILL LYNCH MORTGAGE INVESTO 2005-HE1 B3	10/24/06	10/27/06	15,000,000	2.22000		UBS	CDS
61744CYK6	MSAC2006_NC1_B3	MSAC 2006-NC1 B3	10/24/06	10/27/06	5,000,000	2.09000		ML	CDS
61744CYK6	MSAC2006_NC1_B3	MSAC 2006-NC1 B3	10/24/06	10/27/06	5,000,000	1.97000		BARCLAYS	CDS
81375WJP2	SABR2006_OP1_B3	SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST 2006-OP1 B3	10/24/06	10/27/06	5,000,000	1.97000		GS	CDS
81375WJP2	SABR2006_OP1_B3	SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST 2006-OP1 B3	10/24/06	10/27/06	10,000,000	1.99000		BARCLAYS	CDS
040104NM9	ARSI2005_W2_M9	Argent Securities Inc. 2005-W2 M9	10/31/06	11/03/06	15,000,000	2.75000		GS	CDS
35729PKZ2	FHLT2005_C_M9	Fremont 2005-C M9	10/31/06	11/07/06	5,000,000	2.45000		DB	CDS
542514RU0	LBMLT2006_1_M7	LBMLT 2006-1 M7	11/02/06	11/07/06	10,000,000	0.67000		CITI	CDS
542514RU0	LBMLT2006_1_M7	LBMLT 2006-1 M7	11/02/06	11/07/06	10,000,000	0.94000		DB	CDS
66988WAN8	NHEL2006_3_M8	NHEL 2006-3 M8	11/03/06	11/08/06	5,000,000	2.24000		MS	CDS
46626LFW5	JPMAC2006_FRE1_M9	JP MORGAN MORTGAGE ACQUISITION CORP 2006-FRE1 M9	11/10/06	11/15/06	10,000,000	2.22000		MS	CDS
46626LFW5	JPMAC2006_FRE1_M9	JP MORGAN MORTGAGE ACQUISITION CORP 2006-FRE1 M9	11/10/06	11/15/06	5,000,000	2.25000		DB	CDS
362463AP6	GSAMP2006_NC2_M9	GSAMP2006_NC2_M9	11/13/06	11/16/06	10,000,000	2.77000		JPM	CDS
43709NAQ6	HEAT2006_7_B1	HEAT 2006-7 B1	11/13/06	11/16/06	10,000,000	3.00000		DB	CDS
437096AR1	HEAT2006_5_B1	HEAT 2006-5 B1	11/15/06	11/20/06	15,000,000	2.92000		CITI	CDS
57643LNQ5	MABS2006_NC1_M9	Master Asset Backed Securities Trust 2006-NC1 M9	11/28/06	12/01/06	15,000,000	3.00000		DB	CDS
43709NAQ6	HEAT2006_7_B1	HEAT 2006-7 B1	11/29/06	12/04/06	5,000,000	3.30000		DB	CDS
590210AP5	MLMI2006_AHL1_B3	MLMI 2006-AHL1 B3	12/06/06	12/11/06	20,000,000	3.25000		DB	CDS
81749NAP2	MSAC2006_HE5_B3	MSAC2006_HE5_B3	12/06/06	12/11/06	20,000,000	3.25000		DB	CDS
81375WFN1	SABR2005_FR4_B3	Securitized Asset Backed Receivables 2005-FR4 B3	12/06/06	12/11/06	20,000,000	3.25000		DB	CDS
362463AP6	GSAMP2006_NC2_M9	GSAMP2006_NC2_M9	12/08/06	12/13/06	10,000,000	3.75000		DB	CDS
76113ABU4	RASC2006_KS3_M9	RESIDENTIAL ASSET SECURITIES CORPORATION 2006-KS3 M9	12/08/06	12/13/06	20,000,000	3.82000		BARCLAYS	CDS
76113ABU4	RASC2006_KS3_M9	RESIDENTIAL ASSET SECURITIES CORPORATION 2006-KS3 M9	12/08/06	12/13/06	10,000,000	3.85000		DB	CDS
81375WJP2	SABR2006_OP1_B3	SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST 2006-OP1 B3	12/12/06	12/15/06	15,000,000	2.25000		DB	CDS
542514GD0	LBMLT2004_2_M7	Long Beach Mortgage Loan Trust (HEL) 2004-2 M7	12/14/06	12/19/06	10,000,000	1.97000		LEHMAN	CDS
085558AG9	BNLI2006_1A_B	BNLI 2006-1A B	12/18/06	12/21/06	15,000,000	0.48000		CITI	CDS
930313AD3	WADS2006_1A_B	WADS 2006-1A B	12/18/06	12/21/06	15,000,000	0.43000		CITI	CDS
004421VC4	ACE2006_NC1_M9	ACE SECURITIES CORP. 2006-NC1 M9	12/19/06	12/22/06	10,000,000	2.39000		CITI	CDS
172983AP3	CMLTI2006_NC1_M9	CMLTI 2006-NC1 M9	12/19/06	12/22/06	15,000,000	3.72000		CITI	CDS
172983AP3	CMLTI2006_NC1_M9	CMLTI 2006-NC1 M9	12/19/06	12/22/06	10,000,000	3.72000		JPM	CDS
46626LJZ4	JPMAC2006_NC1_M9	JPMAC 2006-NC1 M9	12/19/06	12/22/06	15,000,000	3.47000		JPM	CDS
617451FE4	MSAC2006_HE2_B3	MSAC 2006-HE2 B3	12/19/06	12/22/06	10,000,000	3.78000		BOA	CDS
617451FE4	MSAC2006_HE2_B3	MSAC 2006-HE2 B3	12/19/06	12/22/06	15,000,000	3.79000		GS	CDS
68389FKZ8	OOMLT2006_1_M9	OOMLT2006_1_M9	12/19/06	12/22/06	10,000,000	3.55000		DB	CDS
68389FKZ8	OOMLT2006_1_M9	OOMLT2006_1_M9	12/19/06	12/22/06	10,000,000	3.55000		DB	CDS
84751PLF4	SURF2006_AB1_B3	SURF2006_AB1_B3	12/19/06	12/22/06	15,000,000	2.62000		GS	CDS
36245DAP5	GSAMP2006_FM2_M9	GSAMP2006_FM2_M9	12/21/06	12/28/06	10,000,000	4.02000		GS	CDS
362463AP6	GSAMP2006_NC2_M9b	GSAMP 2006-NC2 M9	12/21/06	12/28/06	10,000,000	3.67000		GS	CDS
54251PAP2	LBMLT2006_5_M9	LBMLT 2006-5 M9	12/21/06	12/28/06	5,000,000	3.42000		GS	CDS
57643LNQ5	MABS2006_NC1_M9	Master Asset Backed Securities Trust 2006-NC1 M9	12/21/06	12/28/06	10,000,000	4.27000		GS	CDS
9497EUAR8	WFHET2006_1_M9	WFHET2006_1_M9	12/21/06	12/28/06	25,000,000	2.32000		GS	CDS
32027NYY1	FFML2006_FF1_M8	FFML 2006-FF1 M8	1/4/2007	1/9/2007	10,000,000	0.90000		DB	CDS

Assets Purchased by Gemstone VII CDO during Warehouse Period

40430HEH7	HASC2006_OPT2_M8	HSI ASSET SECURITIZATION CORPO HASC 2006-OPT2 M8	1/4/2007	1/9/2007	5,000,000	0.92000		Barclays	CDS
61744CYJ9	MSAC2006_NC1_B2	MSAC 2006-NC1 B2	1/4/2007	1/9/2007	10,000,000	1.12000		UBS	CDS
68389FKY9	OOMLT2006_1_M8	OOMLT 2006-1 M8	1/4/2007	1/9/2007	10,000,000	2.07000		ML	CDS
84751PLE7	SURF2006_AB1_B2	SURF 2006-AB1 B2	1/4/2007	1/9/2007	10,000,000	1.68000		ML	CDS
437096AR1	HEAT2006_5_B1	HEAT 2006-5 B1	1/17/2007	1/22/2007	10,000,000	3.72000		GS	CDS
57643LMY9	MABS2005_NC2_M9	MASTR ASSET BACKED SECURITIES TRUST 2005-NC2 M9	1/17/2007	1/22/2007	10,000,000	2.67000		GS	CDS



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CONFIDENTIAL - PRODUCED TO M&T PURSUAN

THE COMPANIES LAW (2004 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

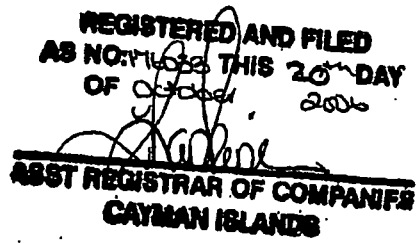
MEMORANDUM AND ARTICLES

OF

ASSOCIATION

OF

Gemstone CDO VII Ltd.



THE COMPANIES LAW (2004 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

Gemstone CDO VII Ltd.

1 The name of the Company is **Gemstone CDO VII Ltd.**

2 The registered office of the Company shall be at the offices of Deutsche Bank (Cayman) Limited, P.O. Box 1984GT, Elizabethan Square, George Town, Grand Cayman, Cayman Islands or at such other place as the Directors may from time to time decide.

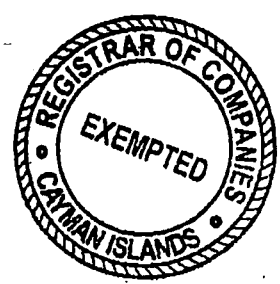
3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law (2004 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands.

4 The liability of each Member is limited to the amount from time to time unpaid on such Member's shares.

5 The share capital of the Company is US$50,000.00 divided into 50,000 shares of a par value of US$1.00 each.

6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

7 Capitalised terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.



WE, the subscriber to this Memorandum of Association, wish to be formed into a company pursuant to this Memorandum of Association, and we agree to take the number of shares shown opposite our name.

DATED this 20th day of October, 2006.

SIGNATURE and ADDRESS OF SUBSCRIBER	NUMBER OF SHARES TAKEN
M&C Corporate Services Limited of PO Box 309GT, Ugland House South Church Street, George Town, Grand Cayman, Cayman Islands acting by: Anna Propper John Dykstra Allison Smith	One

Witness to the above signatures

I, Joy A. Rankine, Asst. Registrar of Companies in and for the Cayman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Memorandum of Association of this Company duly incorporated on 20th day of October, 2006.

Asst. REGISTRAR OF COMPANIES

REGISTRAR OF COMPANIES • EXEMPTED • CAYMAN ISLANDS

1 02 73 65 62 54
GRAND CAYMAN CAYMAN ISLANDS 20.10.06
CAYMAN ISLANDS
GOVERNMENT STAMP DUTY
PB01003
$002.00

REGISTERED AND FILED
AS NO: 116536 THIS 25 DAY
OF October 2006
ASST REGISTRAR OF COMPANIES
CAYMAN ISLANDS

THE COMPANIES LAW (2004 REVISION)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

Gemstone CDO VII Ltd.

INTERPRETATION

1 In these Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

"Articles"	means these articles of association of the Company.
"Auditor"	means the person for the time being performing the duties of auditor of the Company (if any).
"Company"	means the above named company.
"Directors"	means the directors for the time being of the Company.
"Dividend"	includes an interim dividend.
"Electronic Record"	has the same meaning as in the Electronic Transactions Law (2003 Revision).
"Member"	has the same meaning as in the Statute.
"Memorandum"	means the memorandum of association of the Company.
"Ordinary Resolution"	means a resolution passed by a simple majority of the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.
"Register of Members"	means the register maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate Register of Members.
"Registered Office"	means the registered office for the time being of the Company.
"Seal"	means the common seal of the Company and includes every duplicate seal.

REGISTRAR OF COMPANIES
EXEMPTED
CAYMAN ISLANDS

"Share" and "Shares"	means a share or shares in the Company and includes a fraction of a share.
"Special Resolution"	has the same meaning as in the Statute, and includes a unanimous written resolution.
"Statute"	means the Companies Law (2004 Revision) of the Cayman Islands.

2 In the Articles:

2.1 words importing the singular number include the plural number and vice-versa;

2.2 words importing the masculine gender include the feminine gender;

2.3 words importing persons include corporations;

2.4 "written" and "in writing" include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;

2.5 references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time;

2.6 any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;

2.7 headings are inserted for reference only and shall be ignored in construing these Articles; and

2.8 in these Articles Section 8 of the Electronic Transactions Law (2003 Revision) shall not apply.

COMMENCEMENT OF BUSINESS

3 The business of the Company may be commenced as soon after incorporation as the Directors shall see fit.

4 The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company, including the expenses of registration.

ISSUE OF SHARES

5 Subject to the provisions, if any, in the Memorandum (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper.

6 The Company shall not issue Shares to bearer.

REGISTER OF MEMBERS

7 The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

8 For the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any Dividend, or in order to make a determination of Members for any other proper purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not in any case exceed forty days. If the Register of Members shall be closed for the purpose of determining Members entitled to notice of, or to vote at, a meeting of Members the Register of Members shall be closed for at least ten days immediately preceding the meeting.

9 In lieu of, or apart from, closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or in order to make a determination of Members for any other proper purpose.

10 If the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a Dividend, the date on which notice of the meeting is sent or the date on which the resolution of the Directors declaring such Dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

CERTIFICATES FOR SHARES

11 A Member shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorised by the Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and subject to these Articles no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

12 The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

13 If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may

prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.

TRANSFER OF SHARES

14 Shares are transferable subject to the consent of the Directors who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason. If the Directors refuse to register a transfer they shall notify the transferee within two months of such refusal.

15 The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members.

REDEMPTION AND REPURCHASE OF SHARES

16 Subject to the provisions of the Statute the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. The redemption of such Shares shall be effected in such manner as the Company may, by Special Resolution, determine before the issue of the Shares.

17 Subject to the provisions of the Statute, the Company may purchase its own Shares (including any redeemable Shares) provided that the Members shall have approved the manner of purchase by Ordinary Resolution.

18 The Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

VARIATION OF RIGHTS OF SHARES

19 If at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-quarters of the issued Shares of that class, or with the sanction of a Special Resolution passed at a general meeting of the holders of the Shares of that class.

20 The provisions of these Articles relating to general meetings shall apply to every class meeting of the holders of one class of Shares except that the necessary quorum shall be one person holding or representing by proxy at least one-third of the issued Shares of the class and that any holder of Shares of the class present in person or by proxy may demand a poll.

21 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking pari passu therewith.

COMMISSION ON SALE OF SHARES

22 The Company may, in so far as the Statute permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe whether absolutely or conditionally for any Shares of the Company. Such commissions may be satisfied by the

payment of cash and/or the issue of fully or partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

NON-RECOGNITION OF TRUSTS

23 The Company shall not be bound by or compelled to recognise in any way (even when notified) any equitable, contingent, future or partial interest in any Share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the registered holder.

LIEN ON SHARES

24 The Company shall have a first and paramount lien on all Shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such Share shall operate as a waiver of the Company's lien thereon. The Company's lien on a Share shall also extend to any amount payable in respect of that Share.

25 The Company may sell, in such manner as the Directors think fit, any Shares on which the Company has a lien, if a sum in respect of which the lien exists is presently payable, and is not paid within fourteen clear days after notice has been given to the holder of the Shares, or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the Shares may be sold.

26 To give effect to any such sale the Directors may authorise any person to execute an instrument of transfer of the Shares sold to, or in accordance with the directions of, the purchaser. The purchaser or his nominee shall be registered as the holder of the Shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the Shares be affected by any irregularity or invalidity in the sale or the exercise of the Company's power of sale under these Articles.

27 The net proceeds of such sale after payment of costs, shall be applied in payment of such part of the amount in respect of which the lien exists as is presently payable and any residue shall (subject to a like lien for sums not presently payable as existed upon the Shares before the sale) be paid to the person entitled to the Shares at the date of the sale.

CALL ON SHARES

28 Subject to the terms of the allotment the Directors may from time to time make calls upon the Members in respect of any monies unpaid on their Shares (whether in respect of par value or premium), and each Member shall (subject to receiving at least fourteen days notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on the Shares. A call may be revoked or postponed as the Directors may determine. A call may be required to be paid by instalments. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

29 A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.

30 The joint holders of a Share shall be jointly and severally liable to pay all calls in respect thereof.

31 If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until it is paid at such rate as the Directors may determine, but the Directors may waive payment of the interest wholly or in part.

32 An amount payable in respect of a Share on allotment or at any fixed date, whether on account of the par value of the Share or premium or otherwise, shall be deemed to be a call and if it is not paid all the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call.

33 The Directors may issue Shares with different terms as to the amount and times of payment of calls, or the interest to be paid.

34 The Directors may, if they think fit, receive an amount from any Member willing to advance all or any part of the monies uncalled and unpaid upon any Shares held by him, and may (until the amount would otherwise become payable) pay interest at such rate as may be agreed upon between the Directors and the Member paying such amount in advance.

35 No such amount paid in advance of calls shall entitle the Member paying such amount to any portion of a Dividend declared in respect of any period prior to the date upon which such amount would, but for such payment, become payable.

FORFEITURE OF SHARES

36 If a call remains unpaid after it has become due and payable the Directors may give to the person from whom it is due not less than fourteen clear days notice requiring payment of the amount unpaid together with any interest, which may have accrued. The notice shall specify where payment is to be made and shall state that if the notice is not complied with the Shares in respect of which the call was made will be liable to be forfeited.

37 If the notice is not complied with any Share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all Dividends or other monies declared payable in respect of the forfeited Share and not paid before the forfeiture.

38 A forfeited Share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the Directors think fit. Where for the purposes of its disposal a forfeited Share is to be transferred to any person the Directors may authorise some person to execute an instrument of transfer of the Share in favour of that person.

39 A person any of whose Shares have been forfeited shall cease to be a Member in respect of them and shall surrender to the Company for cancellation the certificate for the Shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of those Shares together with

interest, but his liability shall cease if and when the Company shall have received payment in full of all monies due and payable by him in respect of those Shares.

40 A certificate in writing under the hand of one Director or officer of the Company that a Share has been forfeited on a specified date shall be conclusive evidence of the fact as against all persons claiming to be entitled to the Share. The certificate shall (subject to the execution of an instrument of transfer) constitute a good title to the Share and the person to whom the Share is disposed of shall not be bound to see to the application of the purchase money, if any, nor shall his title to the Share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the Share.

41 The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the par value of the Share or by way of premium as if it had been payable by virtue of a call duly made and notified.

TRANSMISSION OF SHARES

42 If a Member dies the survivor or survivors where he was a joint holder, and his legal personal representatives where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest. The estate of a deceased Member is not thereby released from any liability in respect of any Share, which had been jointly held by him.

43 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Directors, elect either to become the holder of the Share or to have some person nominated by him as the transferee. If he elects to become the holder he shall give notice to the Company to that effect, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by that Member before his death or bankruptcy, as the case may be.

44 If the person so becoming entitled shall elect to be registered himself as holder he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.

45 A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of the holder (or in any other case than by transfer) shall be entitled to the same Dividends and other advantages to which he would be entitled if he were the registered holder of the Share. However, he shall not, before being registered as a Member in respect of the Share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to transfer the Share. If the notice is not complied with within ninety days the Directors may thereafter withhold payment of all Dividends, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

AMENDMENTS OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND ALTERATION OF CAPITAL

46 The Company may by Ordinary Resolution:

46.1 increase the share capital by such sum as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;

46.2 consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;

46.3 by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value; and

46.4 cancel any Shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

47 All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of the Articles with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share capital.

48 Subject to the provisions of the Statute and the provisions of these Articles as regards the matters to be dealt with by Ordinary Resolution, the Company may by Special Resolution:

48.1 change its name;

48.2 alter or add to these Articles;

48.3 alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and

48.4 reduce its share capital and any capital redemption reserve fund.

REGISTERED OFFICE

49 Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office.

GENERAL MEETINGS

50 All general meetings other than annual general meetings shall be called extraordinary general meetings.

51 The Company shall, if required by the Statute, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the Registered Office on the second Wednesday in December of each year at ten o'clock in the morning. At these meetings the report of the Directors (if any) shall be presented.

52 The Company may hold an annual general meeting, but shall not (unless required by Statute) be obliged to hold an annual general meeting.

53 The Directors may call general meetings, and they shall on a Members requisition forthwith proceed to convene an extraordinary general meeting of the Company.

54 A Members requisition is a requisition of Members of the Company holding at the date of deposit of the requisition not less than ten per cent. in par value of the capital of the Company which as at that date carries the right of voting at general meetings of the Company.

55 The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.

56 If the Directors do not within twenty-one days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the said twenty-one days.

57 A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

58 At least five days' notice shall be given of any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:

58.1 in the case of an annual general meeting, by all the Members (or their proxies) entitled to attend and vote thereat; and

58.2 in the case of an extraordinary general meeting, by a majority in number of the Members (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. in par value of the Shares giving that right.

59 The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings of that meeting.

PROCEEDINGS AT GENERAL MEETINGS

60 No business shall be transacted at any general meeting unless a quorum is present. Two Members being individuals present in person or by proxy or if a corporation or other non-natural person by its duly authorised representative shall be a quorum unless the Company has only one Member entitled to vote at such general meeting in which case the quorum shall be that one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by a duly authorised representative.

61 A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

62 A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by all Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.

63 If a quorum is not present within half an hour from the time appointed for the meeting or if during such a meeting a quorum ceases to be present, the meeting, if convened upon the requisition of Members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place or to such other day, time or such other place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting the Members present shall be a quorum.

64 The chairman, if any, of the board of Directors shall preside as chairman at every general meeting of the Company, or if there is no such chairman, or if he shall not be present within fifteen minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.

65 If no Director is willing to act as chairman or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the Members present shall choose one of their number to be chairman of the meeting.

66 The chairman may, with the consent of a meeting at which a quorum is present, (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice.

67 A resolution put to the vote of the meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands, the chairman demands a poll, or any other Member or Members collectively present in person or by proxy and holding at least ten per cent. in par value of the Shares giving a right to attend and vote at the meeting demand a poll.

68 Unless a poll is duly demanded a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost or not carried by a particular majority, an entry to that effect in the minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

69 The demand for a poll may be withdrawn.

70 Except on a poll demanded on the election of a chairman or on a question of adjournment, a poll shall be taken as the chairman directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.

71 A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the general meeting directs, and any business other than that upon which a poll has been demanded or is contingent thereon may proceed pending the taking of the poll.

72 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall be entitled to a second or casting vote.

VOTES OF MEMBERS

73 Subject to any rights or restrictions attached to any Shares, on a show of hands every Member who (being an individual) is present in person or by proxy or, if a corporation or other non-natural person is present by its duly authorised representative or proxy, shall have one vote and on a poll every Member shall have one vote for every Share of which he is the holder.

74 In the case of joint holders of record the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.

75 A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

76 No person shall be entitled to vote at any general meeting or at any separate meeting of the holders of a class of Shares unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.

77 No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.

78 On a poll or on a show of hands votes may be cast either personally or by proxy. A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote on a show of hands.

79 A Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy

appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting.

PROXIES

80 The instrument appointing a proxy shall be in writing, be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation under the hand of an officer or attorney duly authorised for that purpose. A proxy need not be a Member of the Company.

81 The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company:

81.1 not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or

81.2 in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or

81.3 where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded be delivered at the meeting at which the poll was demanded to the chairman or to the secretary or to any director;

provided that the Directors may in the notice convening the meeting, or in an instrument of proxy sent out by the Company, direct that the instrument appointing a proxy may be deposited (no later than the time for holding the meeting or adjourned meeting) at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company. The chairman may in any event at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.

82 The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.

83 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

CORPORATE MEMBERS

84 Any corporation or other non-natural person which is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its

representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member.

SHARES THAT MAY NOT BE VOTED

85 Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

DIRECTORS

86 There shall be a board of Directors consisting of not less than one person (exclusive of alternate Directors) provided however that the Company may from time to time by Ordinary Resolution increase or reduce the limits in the number of Directors. The first Directors of the Company shall be determined in writing by, or appointed by a resolution of, the subscribers.

POWERS OF DIRECTORS

87 Subject to the provisions of the Statute, the Memorandum and the Articles and to any directions given by Special Resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.

88 All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine by resolution.

89 The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

90 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

APPOINTMENT AND REMOVAL OF DIRECTORS

91 The Company may by Ordinary Resolution appoint any person to be a Director or may by Ordinary Resolution remove any Director.

92 The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors.

VACATION OF OFFICE OF DIRECTOR

93 The office of a Director shall be vacated if:

93.1 he gives notice in writing to the Company that he resigns the office of Director; or

93.2 if he absents himself (without being represented by proxy or an alternate Director appointed by him) from three consecutive meetings of the board of Directors without special leave of absence from the Directors, and they pass a resolution that he has by reason of such absence vacated office; or

93.3 if he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally; or

93.4 if he is found to be or becomes of unsound mind; or

93.5 if all the other Directors of the Company (being not less than two in number) resolve that he should be removed as a Director..

PROCEEDINGS OF DIRECTORS

94 The quorum for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be two if there are two or more Directors, and shall be one if there is only one Director. A person who holds office as an alternate Director shall, if his appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if his appointor is not present, count twice towards the quorum.

95 Subject to the provisions of the Articles, the Directors may regulate their proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a second or casting vote. A Director who is also an alternate Director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

96 A person may participate in a meeting of the Directors or committee of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the chairman is at the start of the meeting.

97 A resolution in writing (in one or more counterparts) signed by all the Directors or all the members of a committee of Directors (an alternate Director being entitled to sign such a resolution on behalf of his appointor) shall be as valid and effectual as if it had been passed at a meeting of the Directors, or committee of Directors as the case may be, duly convened and held.

98 A Director or alternate Director may, or other officer of the Company on the requisition of a Director or alternate Director shall, call a meeting of the Directors by at least two days' notice in writing to every Director and alternate Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors (or their alternates) either at, before or after the meeting is held.

99 The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.

100 The Directors may elect a chairman of their board and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.

101 All acts done by any meeting of the Directors or of a committee of Directors (including any person acting as an alternate Director) shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or alternate Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director or alternate Director as the case may be.

102 A Director but not an alternate Director may be represented at any meetings of the board of Directors by a proxy appointed in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

PRESUMPTION OF ASSENT

103 A Director of the Company who is present at a meeting of the board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

DIRECTORS' INTERESTS

104 A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

105 A Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.

106 A Director or alternate Director of the Company may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

107 No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser

or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or transaction by reason of such Director holding office or of the fiduciary relation thereby established. A Director (or his alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction in which he is interested provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

108 A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

MINUTES

109 The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of Directors including the names of the Directors or alternate Directors present at each meeting.

DELEGATION OF DIRECTORS' POWERS

110 The Directors may delegate any of their powers to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers as they consider desirable to be exercised by him provided that an alternate Director may not act as managing director and the appointment of a managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee of Directors shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

111 The Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees or local boards. Any such appointment may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of any such committee, local board or agency shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

112 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the

delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.

113 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.

114 The Directors may appoint such officers as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer may be removed by resolution of the Directors or Members.

ALTERNATE DIRECTORS

115 Any Director (other than an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.

116 An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in his absence.

117 An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.

118 Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.

119 An alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

NO MINIMUM SHAREHOLDING

120 The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director is not required to hold Shares.

REMUNERATION OF DIRECTORS

121 The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid all travelling,

hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.

122 The Directors may by resolution approve additional remuneration to any Director for any services other than his ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

SEAL

123 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer or other person appointed by the Directors for the purpose.

124 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.

125 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

DVIIIDENDS, DISTRIBUTIONS AND RESERVE

126 Subject to the Statute and this Article, the Directors may declare Dividends and distributions on Shares in issue and authorise payment of the Dividends or distributions out of the funds of the Company lawfully available therefor. No Dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.

127 Except as otherwise provided by the rights attached to Shares, all Dividends shall be declared and paid according to the par value of the Shares that a Member holds. If any Share is issued on terms providing that it shall rank for Dividend as from a particular date, that Share shall rank for Dividend accordingly.

128 The Directors may deduct from any Dividend or distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.

129 The Directors may declare that any Dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and fix the value for distribution of such specific

assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.

130 Any Dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any Dividends, bonuses, or other monies payable in respect of the Share held by them as joint holders.

131 No Dividend or distribution shall bear interest against the Company.

132 Any Dividend which cannot be paid to a Member and/or which remains unclaimed after six months from the date of declaration of such Dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend shall remain as a debt due to the Member. Any Dividend which remains unclaimed after a period of six years from the date of declaration of such Dividend shall be forfeited and shall revert to the Company.

CAPITALISATION

133 The Directors may capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of Dividend and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power to the Directors to make such provisions as they think fit for the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

BOOKS OF ACCOUNT

134 The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

135 The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.

136 The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

AUDIT

137 The Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors, and may fix his or their remuneration.

138 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.

139 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

NOTICES

140 Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by courier, post, cable, telex, fax or e-mail to him or to his address as shown in the Register of Members (or where the notice is given by e-mail by sending it to the e-mail address provided by such Member). Any notice, if posted from one country to another, is to be sent airmail.

141 Where a notice is sent by courier, service of the notice shall be deemed to be effected by delivery of the notice to a courier company, and shall be deemed to have been received on the third day (not including Saturdays or Sundays or public holidays) following the day on which the notice was delivered to the courier. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and shall be deemed to have been received on the fifth day (not including Saturdays or Sundays or public holidays) following the day on which the notice was posted. Where a notice is sent by cable, telex or fax, service of the notice shall be deemed to be effected by properly addressing and sending such notice and shall be deemed to have been received on the same day that it was transmitted. Where a notice is given by e-mail service shall be deemed to be effected by transmitting the e-mail to the e-mail address provided by the intended recipient and shall be deemed to

have been received on the same day that it was sent, and it shall not be necessary for the receipt of the e-mail to be acknowledged by the recipient.

142 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

143 Notice of every general meeting shall be given in any manner hereinbefore authorised to every person shown as a Member in the Register of Members on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member of record where the Member of record but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

WINDING UP

144 If the Company shall be wound up, and the assets available for distribution amongst the Members shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them. If in a winding up the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise. This Article is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

145 If the Company shall be wound up the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

INDEMNITY

146 Every Director, agent or officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him as a result of any act or failure to act in carrying out his functions other than such liability (if any) that he may incur by his own

wilful neglect or default. No such Director, agent or officer shall be liable to the Company for any loss or damage in carrying out his functions unless that liability arises through the wilful neglect or default of such Director, agent or officer.

FINANCIAL YEAR

147 Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

TRANSFER BY WAY OF CONTINUATION

148 If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

DATED this 20th day of October, 2006.

M&C Corporate Services Limited
of PO Box 309GT, Ugland House
South Church Street, George Town,
Grand Cayman, Cayman Islands
acting by:

Anna Propper

John Dykstra

Allison Smith

Witness to the above signatures

I, Joy A. Rankine, Asst. Registrar of Companies in and for the Cayman Islands DO HEREBY CERTIFY that this is a true and correct copy of the Articles of Association of this Company duly incorporated on 20th day of October, 2006.

Asst. REGISTRAR OF COMPANIES

REGISTRAR OF COMPANIES • EXEMPTED • CAYMAN ISLANDS •

EXECUTION COPY

GEMSTONE CDO VII LTD.
Issuer

DEUTSCHE BANK TRUST COMPANY AMERICAS
Preference Share Paying Agent and Transfer Agent

and

DEUTSCHE BANK (CAYMAN) LIMITED
Share Registrar

PREFERENCE SHARE PAYING AGENCY AGREEMENT

(Relating to the Issuer's Preference Shares)

Dated as of March 15, 2007

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1358

GEM7-00001089

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PREFERENCE SHARE PAYING AGENCY AGREEMENT, dated as of March 15, 2007 (this "**Agreement**"), among GEMSTONE CDO VII LTD., a limited liability company incorporated under the laws of the Cayman Islands (together with its permitted successors and assigns, the "**Issuer**"), DEUTSCHE BANK TRUST COMPANY AMERICAS, a national banking association, as the Paying Agent hereunder (in such capacity, together with its permitted successors and assigns, the "**Paying Agent**") and as the Transfer Agent hereunder (in such capacity, together with its permitted successors and assigns, the "**Transfer Agent**"), and DEUTSCHE BANK (CAYMAN) LIMITED, a licensed trust company incorporated in the Cayman Islands, as the share registrar (the "**Share Registrar**" and, together with the Paying Agent and the Transfer Agent, the "**Agents**").

PRELIMINARY STATEMENT

The Issuer may, pursuant to an Indenture dated as of the date hereof (the "**Indenture**"), among the Issuer, GEMSTONE CDO VII CORP., a Delaware corporation, as the Co-Issuer (the "**Co-Issuer**" and, together with the Issuer, the "**Co-Issuers**") and DEUTSCHE BANK TRUST COMPANY AMERICAS, as the Trustee thereunder (the "**Trustee**"), issue up to (i) $244,000,000 Class A-1a Floating Rate Notes due December 2045, $400,000,000 Class A-1b Floating Rate Notes due December 2045, $159,000,000 Class A-2 Floating Rate Notes due December 2045, $96,900,000 Class B Floating Rate Notes due December 2045, $68,300,000 Class C Floating Rate Deferrable Interest Notes due December 2045, $55,100,000 Class D Floating Rate Deferrable Interest Notes due December 2045 and $18,700,000 Class E Floating Rate Deferrable Interest Notes due December 2045 (collectively, the "**Notes**").

As authorized by the Issuer and permitted under the terms of the Indenture, the Issuer may issue up to 59,500 Preference Shares having a par value of $0.01 per share and a liquidation preference of $1,000 per share (the "**Preference Shares**"), the dividends and other distributions on which are payable in accordance with the Memorandum and Articles of Association of the Issuer, certain resolutions passed by the board of directors of the Issuer prior to the issue of the Preference Shares (the "**Resolutions**") and this Agreement (this Agreement, the Memorandum and Articles of Association and the Resolutions together, the "**Preference Share Documents**"). The Issuer has entered into this Agreement to provide for the payment of such dividends and other distributions on the Preference Shares.

Section 1. Definitions.

Except as otherwise specified herein or as the context may otherwise require, the following terms shall have the respective meanings set forth below for all purposes of this Agreement, and the definitions of such terms are equally applicable both to the singular and plural forms of such terms, and to the masculine, feminine and neuter genders of such terms. All other defined terms used herein and not defined herein shall have the meanings specified in the Indenture.

"Administration Agreement": the Administration Agreement, dated the date hereof, as amended from time to time, between the Issuer and the Administrator.

"Administrator": Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands, as Administrator under the Administration Agreement and any of its successors and assigns.

"Agents": The meaning set forth in the preamble of this Agreement.

"Applicable Procedures": The meaning set forth in Section 8(c).

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"Articles": The Articles of Association of the Issuer.

"Authorized Representative": Any officer, director, employee, or agent of the Issuer authorized to give instructions and notices on behalf of the Issuer pursuant to Section 3 hereof.

"Business Day": any day that is a "Business Day" as defined in the Indenture, and that is not a day on which commercial banking institutions in the city in which the Paying Agent or the Transfer Agent is located and Cayman Islands and New York are authorized or obligated by law or executive order to be closed.

"Clearance System": The meaning set forth in Section 8(c).

"Depositary": Depository Trust Company, a New York corporation.

"Disqualified Transferee": The meaning set forth in Section 8(h).

"Distributable Profits": With respect to any Distribution Date, the amounts (other than Share Premium) available to pay dividends and any final distributions on the Preference Shares in accordance with Article Eleven of the Indenture and Cayman Islands law on such Distribution Date, as determined by the Issuer.

"Distribution Compliance Period": The period of time ending on the expiration of one year beginning on the later of the Closing Date or on the day on which the offer of the Preference Shares is completed.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended.

"Excess Cash Flows": Excess Interest, Excess Principal Proceeds and the funds disbursed on the Final Maturity Date by the Trustee to the Paying Agent (for the benefit of the Preference Shareholders) pursuant to clause (iv) of Section 11.1(b) of the Indenture.

"Excess Interest": With respect to any Distribution Date beginning with the June 2007 Distribution Date, other than the Redemption Date, the funds disbursed on such Distribution Date by the Trustee to the Paying Agent (for the benefit of the Preference Shareholders) pursuant to clause 21 of Section 11.1(a)(i) of the Indenture.

"Excess Principal Proceeds": With respect to any Distribution Date beginning with the June 2007 Distribution Date, other than the Redemption Date, the funds disbursed on such Distribution Date by the Trustee to the Paying Agent (for the benefit of the Preference Shareholders) pursuant to clause 14 of Section 11.1(a)(ii) of the Indenture.

"Holder" or "Preference Shareholder": The registered holder of any Preference Share as set forth in the Share Register maintained by the Share Registrar. Notwithstanding any notice to the contrary, none of the Issuer, the Paying Agent or the Transfer Agent shall have any obligation to recognize or deal with any Person claiming an interest in the Preference Shares other than such registered holders.

"Indenture": The meaning set forth in the Preliminary Statement hereof.

"Investor Certificate": A letter substantially in the form of **Exhibit B** attached hereto, duly completed as appropriate.

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"Original Purchaser": HBK CDO Trust.

"Paying Agent": Deutsche Bank Trust Company Americas, as the Paying Agent hereunder.

"Preference Share Redemption Price": The price paid to redeem the Preference Shares which is a percentage of the Aggregate Outstanding Amount thereof equal to a fraction the numerator of which is the Available Redemption Amount remaining after giving effect to redemption of the Notes and payment of all fees and expenses of the Issuer in accordance with Section 11.1 of the Indenture and the denominator of which is the Aggregate Outstanding Amount of the Preference Shares to be redeemed.

"Qualified Purchaser": (i) A "qualified purchaser" as defined in the Investment Company Act, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer.

"Redemption Date": The latest date of the "Stated Maturity" and Scheduled Preference Share Redemption Date, as such terms are defined in the Indenture.

"Regulation S Global Preference Shares": The meaning set forth in Section 8(a).

"Regulation S Transferor Certificate": A certificate substantially in the form of **Exhibit D** attached hereto, duly completed as appropriate.

"Responsible Officer": With respect to the Paying Agent or the Transfer Agent, as applicable, any officer within the corporate trust department (or any successor group of the Paying Agent or the Transfer Agent, as applicable) including any vice president, director, managing director, associate, assistant vice president, assistant secretary, or any other officer or assistant officer of the Paying Agent or the Transfer Agent, as applicable, customarily performing functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred within the Corporate Trust Office because of his or her knowledge of, familiarity with the particular subject and having direct responsibility for the administration of this Agreement, and with respect to the Share Registrar, any officer of the Administrator from time to time.

"Restricted Preference Share": The meaning set forth in Section 8(b)(ii).

"Rule 144A Transferor Certificate": A certificate substantially in the form of **Exhibit C** attached hereto, duly completed as appropriate.

"Share Certificate": With respect to any of the Preference Shares, the physical certificate evidencing such Preference Shares, which shall be substantially in the form of **Exhibit A-1 or A-2** attached hereto.

"Share Premium": As of any Distribution Date or the Redemption Date or any other redemption date, an amount equal to (a) the excess of (i) the aggregate proceeds to the Issuer of the offering of Preference Shares by the Issuer, but without taking into account any fees and expenses of the Issuer relating to such offering *over* (ii) the aggregate par value of all Preference Shares issued by the Issuer *minus* (b) the aggregate of any reductions made to such amount on account of distributions previously made from such account to the Holders of Preference Shares by or on behalf of the Issuer prior to such Distribution Date or Redemption Date or any other redemption date, as applicable, or as otherwise

defined under the laws of the Cayman Islands from time to time in effect, in each case determined by the Issuer.

"Share Register": The meaning set forth in Section 8(a).

"Share Registrar": The meaning set forth in Section 8(a).

"Share Registrar Office": means the principal office of the Share Registrar or such other address as the Share Registrar may designate from time to time by notice to the Paying Agent, the Collateral Manager and the Issuer. The initial Share Registrar Office shall be at P.O. Box 1984 Grand Cayman KY1-1104, Cayman Islands.

"Share Surplus": With respect to any Distribution Date or the Redemption Date or any other redemption date, the sum of the Share Premium and the Distributable Profits for the related Due Period.

"Transfer Agent": Deutsche Bank Trust Company Americas, as the Transfer Agent hereunder.

"Trust Termination Date": The date on which the obligations of the Issuer are terminated as set forth in Section 4.1 of the Indenture.

"U.S. Person": The meaning attributed to such term by Regulation S under the Securities Act.

Section 2. Appointment of Agents.

(a) The Issuer hereby appoints Deutsche Bank Trust Company Americas, to act as the Paying Agent for the Preference Shares upon the terms, and subject to the conditions, set forth herein and in the Articles; provided that all payments with respect to the Preference Shares shall be made by the Paying Agent or an affiliate or agent of such Paying Agent from a location outside the United States. The Issuer may at any time and from time to time vary or terminate the appointment of the Paying Agent or appoint one or more additional Paying Agents; *provided* that at no time may the Issuer appoint a Paying Agent that does not have offices located outside the United States or does not use an affiliate or agent located outside the United States. The Issuer will give prompt written notice to the Trustee of the appointment or termination of the Paying Agent and of the location and any change in the location of the Paying Agent's office or agency. The Paying Agent shall promptly provide notice to the Holders of any such change or variation of which it receives notices.

(b) The Issuer hereby further appoints Deutsche Bank Trust Company Americas, as the Transfer Agent for the Preference Shares upon the terms, and subject to the conditions, set forth herein. The Issuer may at any time and from time to time vary or terminate the appointment of the Transfer Agent or appoint one or more additional Transfer Agents; *provided* that at no time may the Issuer appoint a Transfer Agent that does not have offices located outside the United States or does not use an affiliate or agent located outside the United States. The Issuer will give prompt written notice to the Trustee of the appointment or termination of the Transfer Agent and of the location and any change in the location of the Transfer Agent's office or agency. The Transfer Agent shall promptly provide notice to the Holders of any such change or variation of which it receives notices.

(c) The Issuer hereby further appoints Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands, as the Share Registrar for the Preference Shares upon

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the terms, and subject to the conditions, set forth herein. The Issuer may at any time and from time to time vary or terminate the appointment of the Share Registrar. The Issuer will give prompt written notice to the Trustee of the appointment or termination of the Share Registrar and of the location and any change in the location of the Share Registrar Office. The Share Registrar shall promptly provide notice to the Holders of any such change or variation of which it receives notices.

Section 3. Authorized Representatives.

From time to time the Issuer will furnish the Agents with a signature list certifying the incumbency and specimen signatures of the Authorized Representatives. The Agents shall be entitled to conclusively rely on the last such certificate delivered to it for the purposes of determining the identity of Authorized Representatives.

Section 4. Payment of Dividends

(a) On each Distribution Date beginning with the June 2007 Distribution Date, other than the Redemption Date, the Holders of the Preference Shares shall (subject to Section 4(c)) be entitled to receive dividends on the Preference Shares in an amount equal to the amount of Excess Cash Flows for such Distribution Date.

The Paying Agent, on behalf of the Issuer, shall promptly give notice of the amount of all Excess Cash Flows distributed hereunder for the relevant Distribution Date to the Holders of the Preference Shares in accordance with Section 12 and to the Issuer, to the Initial Purchaser and to the Collateral Manager. The Paying Agent shall also make such information available to the Preference Shareholders at the offices of the Paying Agent.

(b) Subject to section 4(c), dividends, if any, will be paid on each Distribution Date other than the Redemption Date to the Persons in whose names the Preference Shares are registered at the close of business on the Record Date for such Distribution Date. Dividends on the Preference Shares shall be paid by the Paying Agent *pro rata* in the proportion that the number of Preference Shares held by a Holder bears to the total number of Preference Shares.

(c) Notwithstanding anything in this Agreement to the contrary, distributions of Excess Cash Flows by way of dividends to the Holders of the Preference Shares on any Distribution Date (other than the Redemption Date) out of amounts on deposit in the Preference Share Payment Account (i) shall be subject to the Issuer being solvent under Cayman Islands law (defined as the Issuer being able to pay its debts as they become due in the ordinary course of business) immediately prior to, and after giving effect to, such payment as determined by the Issuer or the Collateral Manager acting on behalf of the Issuer and (ii) shall be made only to the extent the Issuer has sufficient Share Surplus out of which to make such payment as determined by the Issuer or the Collateral Manager acting on behalf of the Issuer. If the Issuer or the Collateral Manager acting on behalf of the Issuer determines that the conditions set forth in either clause (i) or clause (ii) above are not satisfied with respect to any portion of the Excess Cash Flows payable on such Distribution Date, the Issuer or the Collateral Manager acting on behalf of the Issuer shall instruct the Paying Agent in writing on or before one Business Day prior to such Distribution Date that such portion should not be paid, and the Paying Agent shall not pay the same, to the Holders of the Preference Shares until the first succeeding Distribution Date, or (in the case of any payments which would otherwise be payable on any Redemption Date) until the first succeeding Business Day, upon which the Issuer notifies the Paying Agent in writing that each such condition is satisfied, and the amounts so retained in the Preference Share Payment Account will be held therein until such amounts are paid, subject to the availability of such funds under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral. To the extent available, distributions shall be made first

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out of Distributable Profits for the current Due Period, then out of Distributable Profits in excess of dividends for the prior Due Periods and then out of Share Premium.

Section 5. Procedures for Payment of Dividends and Redemption Price; Persons Deemed Owners; Withholding.

(a) All payments of dividends on the Preference Shares and the payment of the Preference Share Redemption Price for the Preference Shares will be made in U.S. Dollars, and, in the case of a redemption of the Preference Shares, will be made only upon the surrender of the certificates representing the Preference Shares at the office of the Paying Agent or the office of its agent as specified in a notice to the Holders delivered in accordance with the terms of Section 12 hereof. All of such payments shall be made by U.S. Dollar check drawn by the Paying Agent or, at the option of the relevant Holder, by wire transfer in accordance with this Section 5 (and subject to usual and necessary banking procedures regarding U.S. Dollar denominated accounts), subject in all cases to any tax, fiscal or other laws or regulations applicable in the place of payment. Any Holder desiring to receive a wire-transfer payment shall deliver a written request therefor to the Paying Agent setting forth the numbers of the Preference Shares held by it and for which it desires to receive payment by wire transfer and specifying the banking institution and account number (with any other appropriate information necessary to enable the Paying Agent to transmit such payment and to assure proper credit to such Holder's account) to which such payments are to be transferred and in the absence of any such request, payments shall be made by U.S. Dollar check. A record of each payment made will be maintained by or on behalf of the Paying Agent in accordance with its customary procedures, and such record shall be *prima facie* evidence that the payment in question has been made. The Issuer and the Paying Agent shall be fully protected in relying upon any such request in making payments on the Preference Shares, and any payment transmitted in accordance with such request shall be deemed to have been made upon transmission thereof to the banking institution identified in such request.

(b) Payments with respect to the Preference Shares held by persons to whom the transfers were made in reliance on Rule 144A under the Securities Act may be made, whether pursuant to presentation of a certificate representing the Preference Shares or the making of any other demand for payment, in the United States and (i) if by U.S. Dollar check, by being drawn on a U.S. Dollar account maintained by the Paying Agent or (ii) if by wire transfer, from a U.S. Dollar account maintained by the Paying Agent. Payments with respect to the Preference Shares held by persons to whom the transfers were made in reliance on Regulation S under the Securities Act may be made, whether pursuant to presentation of a certificate representing the Preference Shares or the making of any other demand for payment, (i) if by U.S. Dollar check, by being drawn on a U.S. Dollar account maintained by the Paying Agent and the Paying Agent mailing the same from an address outside the United States or (ii) if by wire transfer, from a U.S. Dollar account maintained by the Paying Agent or an affiliate or agent outside the United States to an account maintained by the Preference Shareholder at a bank outside of the United States.

(c) In the case where the Trust Termination Date or Redemption Date shall not be a Business Day, then payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Trust Termination Date or Redemption Date, as the case may be.

(d) If any amount received by the Issuer is reduced by reason of any amounts being withheld from (i) payments to the Issuer on any of the Collateral Debt Securities included in the Collateral or (ii) payments on the Notes or the Preference Shares, the Issuer shall not be obligated to pay any additional amounts to cause the Holders of the Preference Shares to receive the amount that would have been payable to them had no such withholding been required or made. The Paying Agent shall give

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prompt notice of any such withholding to each Preference Shareholder of which it has actual knowledge. As a condition to the payment of capital and dividends on any Preference Share without the imposition of United States withholding tax, the Issuer shall require that certification acceptable to it be furnished to the Issuer and the Paying Agent in order to enable the Issuer and the Paying Agent to determine their duties and liabilities with respect to any taxes or other charges that they may be required to deduct or withhold from payments in respect of such Preference Share under any present or future law or regulation of the United States or any present or future law or regulation of any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation.

(e) The Issuer and the Agents may deem and treat the registered Holder of any Preference Share as the absolute owner of such Preference Share, notwithstanding any notation of ownership or other writing on any certificate representing such Preference Share, for the purpose of receiving dividends and the Preference Share Redemption Price thereof and for all other purposes, and neither the Issuer nor the Agents shall be affected by any notice to the contrary. All such payments so made to such Holder or upon such Holder's order shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for the monies payable upon any such Preference Share.

Section 6. Redemption.

(a) On the Redemption Date, the Preference Shares shall (subject to Section 4(d)) be redeemed in whole at the Preference Share Redemption Price.

(b) All redemption payments shall be made *pro rata* in the proportion that the number of Preference Shares held by a Holder bears to the total number of Preference Shares.

(c) Notwithstanding anything in this Agreement to the contrary, distributions of the Preference Share Redemption Price by way of redemption of the Preference Shares shall be subject to the Issuer being solvent under Cayman Islands law (defined as the Issuer being able to pay its debts as they become due in the ordinary course of business) immediately prior to, and after giving effect to, such payment as determined by the Issuer or the Collateral Manager acting on behalf of the Issuer. For purposes of this subsection (d), a determination as to whether the Issuer is solvent on a Redemption Date shall be made by the Issuer or the Collateral Manager acting on behalf of the Issuer (A) after giving effect to any payments to be made on such Redemption Date and (B) in light of the fact that the other obligations of the Issuer to Noteholders, the other secured parties and persons subject to the Priority of Payments are limited in recourse to the Collateral, and not to (i) amounts in the Preference Share Payment Account or investment earnings of amounts therein, (ii) any other amounts released from the Collateral in accordance with the Indenture and held by or on behalf of the Issuer for the benefit of the Holders of the Preference Shares or (iii) amounts on deposit in the Issuer's bank account in the Cayman Islands, and that after the assets in the Collateral are exhausted, such parties will have no further claim against the Issuer. If the Issuer or the Collateral Manager acting on behalf of the Issuer determines that such condition is not satisfied on a Redemption Date with respect to any portion of the Preference Share Redemption Price, the Issuer shall instruct the Paying Agent in writing that such portion should not be paid, and the Paying Agent shall not pay the same, to the Holders of the Preference Shares until the first succeeding Business Day upon which the Issuer notifies the Paying Agent in writing that each such condition is satisfied, and the amounts so retained in the Preference Share Payment Account will be held therein until such amounts are paid, subject to the availability of such funds under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral.

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Section 7. Accountings; Reports by Issuer; Information to Holders.

(a) On or prior to each Distribution Date (including the Redemption Date), the Issuer or the Paying Agent, on behalf of the Issuer, shall render an accounting, determined as of the fifth Business Day preceding such Distribution Date and delivered to the Paying Agent, the Collateral Manager and the Initial Purchaser. The Issuer or the Paying Agent, on behalf of the Issuer, shall render such accounting by reference to the accounting delivered by the Issuer pursuant to Section 10.8 of the Indenture. Such accounting shall contain the following information (stated in aggregate):

(i) the amount of Excess Cash Flows to be received by the Paying Agent from the Trustee on the related Distribution Date;

(ii) the amounts payable as dividends on the Preference Shares on such Distribution Date; and

(iii) if such accounting relates to the Redemption Date, the Preference Share Redemption Price payable with respect to the Preference Shares on such Distribution Date.

(b) On or prior to each Distribution Date, the Paying Agent shall provide the Holders of the Preference Shares with a copy of the Note Valuation Report prepared for delivery pursuant to Section 10.8(b) of the Indenture (to the extent requested by each Preference Shareholder), together with the report prepared by the Issuer or the Paying Agent, on behalf of the Issuer, pursuant to Section 7(a) hereof.

Section 8. Share Register; Registration, Transfer, Exchange; Persons Deemed Owners.

(a) The Issuer shall cause to be kept a register (the "**Share Register**") in which, subject to such reasonable regulations as it may prescribe and to the Companies Law (2004 Revision) of the Cayman Islands, the Issuer shall provide for the registration of the Preference Shares (and any other share capital of the Issuer) and the registration of transfers of the Preference Shares (and any other share capital of the Issuer). The Administrator is hereby irrevocably appointed by the Issuer to act as the "**Share Registrar**" for the purpose of registering the Preference Shares (and any other share capital of the Issuer) and all transfers of the Preference Shares (and any other share capital of the Issuer) as herein provided (it being hereby acknowledged that nothing contained herein shall limit, bar or restrict the ability or the right of the Administrator to appoint agents or to delegate duties from time to time). A duplicate copy of the Share Register shall be maintained outside the Cayman Islands by the Transfer Agent.

Preference Shares offered in the United States in reliance on Rule 144A under the Securities Act shall be represented by certificates in fully registered definitive form registered in the name of the legal and beneficial owner thereof and substantially in the form of, and with the applicable legends set forth in, **Exhibit A-1** attached hereto.

Preference Shares sold outside the United States to non-U.S. Persons in reliance on Regulation S shall be represented by one or more global share certificates, in definitive, fully registered form and substantially in the form of, and with the applicable legends set forth in, **Exhibit A-2** attached hereto, (the "**Regulation S Global Preference Shares**") deposited with a custodian for, and registered in the name of, the Depositary (or its nominee) on behalf of Euroclear Bank S.A./N.V., as operator of Euroclear, or Clearstream. Until the end of the Distribution Compliance Period, beneficial interests in such preference shares may be held only through Euroclear or Clearstream. After the Distribution

Compliance Period, beneficial interests in such Preference Shares may also be held other than through Euroclear or Clearstream via the Depositary's other direct and indirect participants, but still registered in the name of the Depositary (or its nominee). Euroclear or Clearstream will credit the Regulation S Global Preference Share to the respective accounts designated by the owners of such Preference Share at Euroclear or Clearstream. The registered owner of the relevant Regulation S Global Preference Share shall be the only person entitled to receive payments in respect of the Preference Shares represented by a Regulation S Global Preference Share, and the Issuer will be discharged by payment to, or to the order of, the registered owner of such Regulation S Global Preference Share in respect of each amount so paid. No person other than the registered owner of the relevant Regulation S Global Preference Share shall have any claim against the Issuer in respect of any payment due on that Regulation S Global Preference Share.

Owners of beneficial interests in Preference Shares sold outside the United States to non-U.S. Persons in reliance on Regulation S will be entitled or required under certain limited circumstances to receive physical delivery of certificated Preference Shares in fully registered, definitive form.

Every certificate representing a Preference Share presented or surrendered for registration of transfer or exchange shall (if so required by the Issuer, the Transfer Agent or the Share Registrar) be presented or surrendered at the Share Registrar Office or the office of the Transfer Agent and be accompanied by a written instrument of transfer in form satisfactory to the Issuer (including, as applicable, a Rule 144A Transferor Certificate or a Regulation S Transferor Certificate), the Transfer Agent and the Share Registrar duly executed by the Holder thereof or its attorney-in-fact duly authorized in writing. In addition, if the certificates being exchanged or transferred contain a legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such legend, may be required. The Transfer Agent shall promptly notify the Share Registrar and the Paying Agent of any transfer or exchange and provide each of them with copies of the relevant certificate and written instrument of transfer and any other relevant documentation received in conjunction with such transfer or exchange. Following a proper request for transfer or exchange, the Transfer Agent shall promptly instruct the Share Registrar in writing to make the relevant entries in the Share Register (and the Share Registrar shall be entitled to rely on the accuracy and completeness of such instructions received by it from the Transfer Agent). With respect to any transfer of a portion of the Preference Shares represented by such certificate, the transferor will be entitled to receive, at any aforesaid office, new certificates representing the principal amount retained by the transferor after giving effect to such transfer. New certificates issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Transfer Agent.

The Share Registrar shall (upon receipt of the relevant information) cause to be entered in the Share Register and the Transfer Agent shall cause to be entered in its duplicate Share Register the following particulars: (i) the name and address of each Holder of Preference Shares, a statement of the number of Preference Shares held by him and the amount paid or agreed to be considered as paid on such preference shares; (ii) the date on which each person was entered on the Share Register as a Holder of Preference Shares; and (iii) the date on which any person ceased to be a Holder of Preference Shares.

No service charge shall be made to a Holder for any registration of transfer or exchange of any Preference Shares, but the Share Registrar and/or the Transfer Agent may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Preference Shares and expenses of delivery (if any) not made by regular mail.

(b) No Preference Shares may be sold or transferred (including, without limitation, by pledge or hypothecation) unless such sale or transfer (i) is in minimum lots of 200 shares and integral multiples of 1 share in excess thereof and after giving effect to any sale or transfer, the transferor thereof

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shall have retained an aggregate number of Preference Shares that is either (a) equal to zero or (b) equal to or greater than the minimum lot of 200 shares and integral multiples of 1 share in excess thereof and (ii) is exempt from the registration requirements of the Securities Act and is exempt from registration under applicable state securities laws. No purported transfer of any interest in any Preference Share or any portion thereof that is not made in accordance with this Section 8 shall be given effect by or be binding upon the Transfer Agent, the Share Registrar or the Issuer, and any such purported transfer shall be null and void *ab initio* and vest in the transferee no rights against the Transfer Agent, the Share Registrar or the Issuer.

A Preference Shareholder may transfer a Preference Share or its beneficial interest in a Preference Share only in accordance with the following provisions:

(i) The Holder of a Preference Share sold to an initial Holder who is a non-U.S. Person pursuant to Regulation S under the Securities Act may transfer such Preference Share in accordance with the Applicable Procedures only to (1) a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S or (2) to a person who agrees to receive a Restricted Preference Share (as such term is defined in paragraph (ii) below) and who certifies that it is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and agrees to resell such Preference Share only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration under the Securities Act and agrees not to engage in hedging transactions with regard to such securities unless in compliance with the Securities Act.

(ii) A Holder of a Preference Share (a "**Restricted Preference Share**") that was sold to an initial Holder who is a U.S. Person may at any time transfer its interest in such Preference Share only to (A) a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S or (B) a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, in transactions not requiring registration under the Securities Act and, in each case, in accordance with the certifications requirements required herein.

(iii) The Transfer Agent shall require, prior to any such transfer of a Preference Share, receipt by the Transfer Agent and the Issuer of (A) an Investor Certificate from such Preference Shareholder's transferee and (B) as applicable, a Regulation S Transferor Certificate or a Rule 144A Transferor Certificate from such Holder, in each case certifying to the foregoing and the other matters covered by the forms of such certificates prescribed by this Agreement. Upon receipt of the Investor Certificate and the relevant Transferor Certificate, and the surrender to the Transfer Agent of the Share Certificate to be so transferred, the Transfer Agent shall cancel such Share Certificate, and the Issuer shall execute and provide to the Transfer Agent, and the Transfer Agent shall deliver, a Share Certificate representing the Preference Shares intended to be transferred to such transferee (and, in the event of a partial transfer, the Issuer shall execute and provide to the Transfer Agent, and the Transfer Agent shall deliver, a Share Certificate representing the remaining balance to the transferring Holder) in accordance with Section 8(a).

(iv) Notwithstanding the foregoing, where the transfers of the Preference Shares are by way of transfers of beneficial interests in the Regulation S Global Preference Shares, such transfers may be made by book-entry transfer of beneficial interests in the Regulation S Global Preference Shares (and if within the Distribution Compliance Period, within Euroclear or Clearstream, to non-U.S. Persons in accordance with Regulation S) in accordance with the Applicable Procedures without the provision of any certification. Each subsequent transferee

shall be deemed to have made the applicable representations set forth in the form of the Investor Certificate.

The Investor Certificate and any Rule 144A Transferor Certificate or Regulation S Transferor Certificate furnished, as required, pursuant to this Section 8(b) may be relied on conclusively by the Share Registrar and Transfer Agent in determining whether the provisions of this Section 8(b) have been complied with. None of the Issuer, the Transfer Agent, the Share Registrar or any other Person shall be required to register the Preference Shares under the Securities Act or any state securities laws.

(c) The applicable procedures (collectively, "**Applicable Procedures**") utilized or imposed from time to time by the Depositary, Euroclear or Clearstream (collectively, the "**Clearance System**") shall be applicable to the Regulation S Global Preference Shares insofar as and to the extent beneficial interests in such Regulation S Global Preference Shares are held by the agent members of or participants in the applicable Clearance System. Account holders or agent members of or participants in the applicable Clearance System shall have no rights under this Agreement with respect to such Regulation S Global Preference Shares, and the Depositary as registered Holder of the Regulation S Global Preference Shares may be treated by the Issuer or the Agents as the owner of such Regulation S Global Preference Shares for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Agents from giving effect to any written certification, proxy or other authorization furnished by the applicable Clearance System or impair, as among the applicable Clearance System and its agent members or participants, the operation of customary practices governing the exercise of the rights of a Holder of any Regulation S Global Preference Shares. Requests or directions from, or votes of the applicable Clearance System with respect to any matter shall not be deemed inconsistent if made with respect to (or in separate proportions corresponding to) different beneficial owners. None of the Agents shall have any duty to monitor, maintain records concerning (or determine compliance with any of the restrictions on transfer set forth herein with respect to) owners of beneficial interest in the Regulation S Global Preference Shares. None of the Agents shall have any liability for the accuracy, completeness or validity of the records of the applicable Clearance System, or any actions or omissions of the applicable Clearance System (or of the agent members of or participants in the applicable Clearance System).

(d) No Preference Share may be purchased or transferred to, on behalf of or using the assets of (i) an employee benefit plan subject to Title I of ERISA or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") (each such plan, an "ERISA Plan"); (ii) a collective investment fund, separate account or other entity whose underlying assets are treated as "Plan Assets" of an ERISA Plan under U.S. Department of Labor regulation Section 2510.3-101, as modified by section 3(42) of ERISA (a "**Benefit Plan Investor**"); or (iii) a person acting on behalf of an ERISA Plan.

By its purchase of the Preference Shares, each purchaser and transferee will be required to represent and warrant to and agree with the Issuer, the Collateral Manager and the Agents that (A) its purchase and holding of such Preference Shares will satisfy the ERISA requirements described above and (B) it will not assign or transfer such Preference Shares unless the proposed assignee or transferee delivers a letter to the Issuer evidencing its agreement to the foregoing ERISA representations and covenants with respect to its purchase, holding and transfer of such Preference Shares.

(e) No Preference Share shall be sold or transferred (including, without limitation, by pledge or hypothecation) to a U.S. resident (within the meaning of the Investment Company Act) unless such purchaser or transferee is a Qualified Purchaser. The Transfer Agent and the Share Registrar may rely on the statement in any Investor Certificate, and shall be entitled to rely on the continuing accuracy thereof from time to time (unless and until a Responsible Officer is otherwise notified in writing by the signatory thereto or by the Issuer) in determining whether the provisions of this Section 8(e) have

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been complied with. Notwithstanding anything to the contrary in this Agreement, no transfer of a Preference Share may be made if the Transfer Agent has written notice or actual knowledge that such transfer would require registration of the Issuer or the Co-Issuer under the Investment Company Act (subject, with respect to the Transfer Agent's duties, to Section 8(f) below).

(f) At any time when the Issuer is not subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, upon the request of any Preference Shareholder, the Issuer shall promptly furnish, and shall cause the Collateral Manager to promptly furnish, to such Preference Shareholder or to a prospective purchaser of any Preference Share designated by such Preference Shareholder, as the case may be, the information which the Issuer determines to be required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act ("**Rule 144A Information**") in order to permit compliance by such Preference Shareholder with Rule 144A in connection with the resale of such Preference Share by such Preference Shareholder. Upon written request by the Issuer, the Transfer Agent shall cooperate with the Issuer in mailing or otherwise distributing (at the Issuer's expense) to such Preference Shareholders or prospective purchasers, at and pursuant to the Issuer's written direction, any Rule 144A Information prepared and provided by the Issuer, *provided* that the Transfer Agent shall be entitled to affix thereto or enclose therewith such disclaimers as the Transfer Agent shall deem reasonably appropriate, at its discretion (such as, for example, a disclaimer that such Rule 144A Information was assembled by the Issuer, and not by the Transfer Agent, that the Transfer Agent has not reviewed or verified the accuracy thereof, and that it makes no representation as to the sufficiency of such information under Rule 144A or for any other purpose).

(g) The Transfer Agent and the Share Registrar shall not be responsible for ascertaining whether any transfer of the Preference Shares complies with, or otherwise for monitoring or determining compliance with, the requirements or terms of the Securities Act, applicable state securities laws, ERISA, the Code or the Investment Company Act; except that if a certificate is specifically required by the terms of this Section 8 to be provided to the Transfer Agent by a transferee of the Preference Shares, a transferor of the Preference Shares, or the Issuer, the Transfer Agent shall be under a duty to receive and examine the same to determine whether it conforms substantially on its face to the applicable requirements of this Section 8.

(h) If a Responsible Officer of the Transfer Agent has actual knowledge that (i) a transfer or attempted or purported transfer of any of the Preference Shares or any interest therein was consummated in compliance with the provisions of this Section 8 on the basis of a materially incorrect certification from the transferor or purported transferee that has not been cured within a reasonable period of time after notice thereof, (ii) a transferee failed to deliver within a reasonable period of time (including any applicable period provided to cure such failure to deliver) to the Transfer Agent any certificate required to be delivered hereunder, or (iii) the Holder of any Preference Share or interest therein is in material breach of any representation or agreement set forth in any certificate or any deemed representation or agreement of such Holder, then the Transfer Agent or the Share Registrar nor the Paying Agent will not register such attempted or purported transfer, and, if a transfer has been registered, such transfer shall be absolutely null and void *ab initio* and shall vest no rights in the purported transferee (such purported transferee, a "**Disqualified Transferee**"), and the last preceding Holder of such Preference Share that was not a Disqualified Transferee shall be restored to all rights as a Holder thereof retroactively to the date of transfer of such Preference Share by such Holder.

(i) If, notwithstanding the restrictions on transfer contained herein and/or in the Articles, the Issuer determines that any beneficial owner of Preference Shares offered in the United States in reliance on Rule 144A under the Securities Act (A) is a U.S. Person and (B) is not both (i)(a) a Qualified Institutional Buyer within the meaning of Rule 144A under the Securities Act or (b), in respect of the Original Purchaser, an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2),

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(3) or (7) and (ii) a Qualified Purchaser, then the Issuer may require, by notice to such Holder, that such Holder sell all of its right, title and interest to such Preference Shares to a Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by an investment banker selected by the Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is both (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser and (ii) pending such transfer, no further payments will be made in respect of such Preference Shares held by such beneficial owner.

Section 9. Liability.

None of the Agents or directors, officers, employees or agents of any of them shall be liable for any act or omission hereunder except in the case of criminal conduct, fraud, gross negligence, bad faith, or willful misconduct of the applicable Agent, as the case may be, in violation of its duties under this Agreement. The duties and obligations of the Agents and the employees or agents shall be determined solely by the express provisions of this Agreement, and they shall not be liable except for the performance of such duties and obligations as are specifically set forth herein, and no implied covenants or obligations shall be read into this Agreement against them. The Agents may consult with counsel and shall be fully protected in any action reasonably taken or omitted to be taken in good faith, in reliance upon and in accordance with the advice of such counsel. In particular, neither the Issuer nor the Agents will have any responsibility or liability for the performance by the Depositary, Clearstream or Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

In the absence of criminal conduct, fraud, gross negligence and willful misconduct on its part, each of the Agents may rely conclusively and shall be fully protected in acting or refraining from acting on any notice, certificate or other document furnished to it hereunder and reasonably believed by it in good faith to be genuine. No Agent shall be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or powers conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed hereunder, or omitted to be taken by it by reason of the lack of direction or instruction required hereby for such action. The Agents shall in no event be liable for the application or misapplication of funds by any other Person, or for the acts or omissions of any other Person. The Paying Agent and the Transfer Agent shall not be bound to make any investigation into the facts or matters stated in any certificate, report or other document; *provided* that, if the form thereof is prescribed by this Agreement, the Paying Agent and the Transfer Agent, as the case may be, shall examine the same to determine whether it conforms on its face to the requirements hereof. Each of the Agents may exercise or carry out any of its duties under this Agreement either directly or indirectly through agents, nominees, custodians or attorneys, and none of the Agents shall be responsible for any acts or omissions on the part of any such agent, nominee, custodian or attorney appointed with due care; *provided* that no such delegation to any agent, nominee, custodian or attorney shall relieve such Agent of any of its duties or responsibilities under this Agreement. To the extent permitted by applicable law, no Agent shall be required to give any bond or surety in the execution of its duties. No Agent shall be deemed to have knowledge or notice of any matter unless actually known to an officer of the relevant Agent, as applicable, or unless the Paying Agent or the Transfer Agent, as applicable, has received written notice thereof from the Issuer, the Collateral Manager, the Trustee, or the Holder of a Preference Share.

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In the absence of criminal conduct, fraud, gross negligence, bad faith and willful misconduct on the part of any Agent, such Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to such Agent which conform on their face to the requirements of this Agreement.

None of the Agents shall be liable for any error of judgment made in good faith by an officer or officers of such Agent, unless it shall be conclusively determined by a court of competent jurisdiction that the Agent was grossly negligent or acted with criminal conduct, fraud, bad faith or willful misconduct in ascertaining the pertinent facts.

None of the provisions of this Agreement shall require any Agent to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it; unless such risk or liability relates to the performance of its ordinary services hereunder.

Whenever in the administration of the provisions of this Agreement an Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action to be taken hereunder, such Agent (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of criminal conduct, fraud, gross negligence, bad faith and willful misconduct on the part of such Agent, rely on a certificate signed by an officer of the Issuer and delivered to such Agent and such certificate, in the absence of criminal conduct, fraud, gross negligence, bad faith and willful misconduct on the part of the Agent, shall be full warrant to such Agent for any action taken, suffered or omitted by it under the provisions of this Agreement upon the faith thereof.

Section 10. Indemnification.

The Issuer agrees to indemnify and hold harmless the Agents, and their respective directors, officers, employees, and agents from and against any and all liabilities, costs and expenses (including reasonable legal fees and expenses) directly or indirectly relating to or arising out of or in connection with its or their performance under this Agreement, except to the extent that they are caused by the criminal conduct, fraud, gross negligence, bad faith, or willful misconduct of the applicable Agent, as the case may be. The foregoing indemnity includes, but is not limited to, any action taken or omitted in good faith within the scope of this Agreement upon telephone, telecopier or other electronically transmitted instructions, if authorized herein, received from or reasonably believed by the applicable Agent, as the case may be, acting in good faith, to have been given by, an Authorized Representative. This indemnity shall survive the resignation or removal of any Agents and the satisfaction or termination of this Agreement.

Section 11. Compensation of the Agents.

(a) Pursuant to, and at the times and to the extent contemplated by the Indenture, the Trustee shall forward to the Paying Agent and the Transfer Agent compensation at such amounts and/or rates as shall be agreed between the Issuer and, as applicable, the Paying Agent and the Transfer Agent in writing and from time to time shall reimburse the Paying Agent and the Transfer Agent for their respective reasonable out-of-pocket expenses (including reasonable legal fees and expenses), disbursements, and advances incurred or made in accordance with any provisions of this Agreement, except any such expense, disbursement, or advance that may be attributable to its gross negligence, bad faith or willful misconduct. The obligations of the Trustee to the Paying Agent and the Transfer Agent pursuant to the Indenture and this Section shall survive the resignation or removal of the Trustee and the satisfaction or termination of this Agreement. Notwithstanding any provision of this Agreement to the

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contrary, to the extent any amounts owing to the Paying Agent and Transfer Agent from time to time pursuant to this Section 11 remain unpaid, the Paying Agent and the Transfer Agent shall be entitled to pay to itself, for application to such unpaid amounts, any funds held or received by it at any time or times under or pursuant to this Agreement prior to making payment of amounts otherwise required under this Agreement to be made to the Preference Shareholders (or any other Persons).

(b) Pursuant to, and at the times and to the extent contemplated by the Indenture, the Trustee shall forward to the Share Registrar compensation at such amounts and/or rates as shall be agreed between the Issuer and the Share Registrar in writing.

Section 12. Notices.

(a) All communications by or on behalf of the Issuer relating to the transfer, exchange, or payment of a Preference Share or any interest therein shall be directed to the Paying Agent, the Transfer Agent and the Share Registrar at its address set forth in subsection (c) hereof.

(b) The Paying Agent shall promptly notify the Preference Shareholders of the occurrence of an Event of Default under the Indenture of which it receives written notice from the Trustee.

Where this Agreement provides for notice to Preference Shareholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if such notice is in writing and mailed, first-class postage prepaid or overnight delivery, or sent via facsimile or e-mail to each Preference Shareholder affected by such event, at such Preference Shareholder's address as it appears on the Share Register, in the case of (a) or (b) not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. All such notices shall be mailed or transmitted from outside the United States.

Neither the failure to mail or transmit such notice, nor any defect in any notice so mailed or transmitted, to any particular Preference Shareholder shall affect the sufficiency of such notice with respect to other Preference Shareholders. Any notice that is given in the manner herein provided shall be presumed to have been duly given whether or not actually received by such Preference Shareholder. Any notice to Preference Shareholders provided for in this Agreement will be deemed to have been given on the date of mailing or transmission.

Where this Agreement provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Preference Shareholders shall be filed with the Paying Agent but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In the event that, by reason of the suspension of the regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Preference Shareholders when such notice is required to be given pursuant to any provision of this Agreement, then any manner of giving such notice as shall be satisfactory to the Paying Agent shall be deemed to be a sufficient giving of such notice.

(c) Notices and other communications hereunder shall (except to the extent otherwise expressly provided) be in writing and shall be addressed as follows, or to such other addresses as the parties hereto shall specify from time to time:

(i) if to the Issuer:

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(ii) if to the Share Registrar:

Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(iii) if to the Paying Agent or to the Transfer Agent:

Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705
Attn: CDO Business Unit - Gemstone VI
Telephone: (714) 247-6000
Telefax: (714) 247-6483

(iv) if to the Collateral Manager:

HBK Investments L.P.
300 Crescent Court Suite 700
Dallas, Texas 75201
Attention: Legal Department
Telephone: (214) 758-1207
Telefax: (214) 758-6107

Section 13. Resignation or Removal of Agent and Appointment of Successor Agent; Merger, Conversion and Consolidation.

(a) The Issuer agrees, for the benefit of the Holders of the Preference Shares, that there shall at all times be a Paying Agent, a Transfer Agent and a Share Registrar hereunder which shall be a company authorized to engage in the activities set forth in this Agreement, subject to supervision or examination by governmental authorities, until all the Preference Shares shall have been redeemed; *provided* that (i) the Paying Agent, the Transfer Agent or the Share Registrar shall act through an affiliate or agent located outside the United States, except to the extent otherwise expressly provided in, or permitted by, this Agreement; (ii) neither the Paying Agent nor the Transfer Agent nor the Share Registrar will be regarded as acting through an office in the United States by reason of engaging the

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Trustee or the Collateral Manager for consultation, advice, information or recommendations regarding, or utilizing the services of the Trustee to review, or to prepare and provide drafts of, or otherwise to perform ministerial or advisory services concerning, any notices, reports, and other documents to be rendered, maintained or reviewed by the Paying Agent, the Transfer Agent or the Share Registrar under the terms of this Agreement (including without limitation shareholder accounting and reports), and concerning any other duties or services to be performed by the Paying Agent, the Transfer Agent or the Share Registrar under the terms of this Agreement (including without limitation matters pertaining to the transfer, exchange and replacement of Preference Shares, calculation, allocation, distribution and withholding of payments), and (iii) notwithstanding the preceding *proviso*, the following shall, if and to the extent required by this Agreement to be performed by the Paying Agent, the Transfer Agent or the Share Registrar, be performed or carried out by the Paying Agent, the Transfer Agent or the Share Registrar and not by the Trustee acting for the Paying Agent, the Transfer Agent or the Share Registrar: (A) communicating (including the furnishing of financial reports) with Preference Shareholders concerning the Preference Shares or the Issuer, (B) communicating with the general public concerning the Preference Shares or the Issuer, (C) effecting any exchange of Preference Shares (except that the Paying Agent shall be permitted to consult with the Trustee and call upon the Trustee to review and advise with respect to the form of Preference Shares and compliance with the requirements for transfer, including review of required transfer documentation), (D) accepting subscriptions of Preference Shareholders, (E) maintaining principal corporate records or books of account of the Issuer, (F) auditing books of account of the Issuer, (G) disbursing payments to Preference Shareholders of the Issuer or other payments relating to the Issuer, (H) publishing or furnishing the offering and the Preference Share Redemption Price of Preference Shares, (I) conducting meetings of Preference Shareholders, or (J) effecting, mailing or publishing notice of the redemption of the Preference Shares, receiving presentment of such Preference Shares therefor or disbursing payments of the Preference Share Redemption Price to Preference Shareholders in connection therewith, or making registration or exchanges of the Preference Shares (*provided further* that nothing in this proviso shall be construed as implying that the Paying Agent, the Transfer Agent or the Share Registrar has any such duties set forth in (A) through (J)).

(b) Each Agent may at any time resign as such agent by giving written notice to the Issuer, the Collateral Manager and the Preference Shareholders of such intention on its part, specifying the date on which its desired resignation shall become effective; *provided* that such date shall be not less than 45 days after the giving of such notice by the Paying Agent, the Transfer Agent or the Share Registrar to the Issuer. The Paying Agent, the Transfer Agent or the Share Registrar may be removed at any time by the Issuer or by a Majority-in-Interest of Preference Shareholders by the filing with it of an instrument in writing signed by an Authorized Representative of the Issuer acting on behalf of the Issuer or at the direction of a Majority-in-Interest of Preference Shareholders and specifying such removal and the date, which shall be at least 45 days after the date of such written notice, upon which it is intended to become effective. Any such resignation or removal shall take effect on the date of the appointment by the Issuer, acting on its own behalf or at the direction of a Majority-in-Interest of Preference Shareholders, of a successor paying agent or transfer agent and the acceptance of such appointment by such successor paying agent or transfer agent that qualifies as such under clause (a) of this Section. In the event of resignation by the Paying Agent, the Transfer Agent or the Share Registrar, if a successor agent has not been appointed by the Issuer within 90 days after the giving of notice by or to the Paying Agent, the Transfer Agent or the Share Registrar, the Paying Agent, the Transfer Agent or the Share Registrar, as applicable, may, at the expense of the Issuer, petition any court of competent jurisdiction for appointment of a successor Paying Agent, the Transfer Agent or the Share Registrar *provided* that it shall be qualified under clause (a) of this Section. Upon any such resignation or removal and upon payment of all monies due and payable to the Paying Agent or Transfer Agent, the Paying Agent or the Transfer Agent or the Share Registrar shall transfer to the successor Paying Agent, the Transfer Agent or the Share Registrar (or, if none shall have been appointed, to the Issuer) all monies held by the Paying Agent or the Transfer Agent on behalf of the Issuer in respect of any Preference Shares and all books and records related to

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Preference Shares maintained by the Paying Agent, the Transfer Agent or the Share Registrar, including a copy of the Share Register.

(c) Any corporation or bank into which any Agent hereunder may be merged or converted, or any corporation or bank with which such Agent may be consolidated, or any corporation or bank resulting from any merger, conversion or consolidation to which such Agent shall be a party, or any corporation or bank to which such Agent shall sell or otherwise transfer all or substantially all of the assets and business of such Agent, *provided* that it shall be qualified under clause (a) of this Section, shall be the successor Agent, as applicable, under this Agreement, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

(d) The successor Agent, as applicable, shall give prompt notice of the resignation and removal of the Paying Agent, the Transfer Agent or the Share Registrar, as applicable, and the appointment of a successor Agent, as applicable, by notifying the Holders of the Preference Shares in accordance with Section 12 hereof. Each notice shall include the name of the successor Agent and the address of the office from which this Agreement shall be administered.

Section 14. Benefit of Agreement.

This Agreement is solely for the benefit of the parties hereto, the Holders of the Preference Shares and their respective successors and assigns, and nothing herein, express or implied, shall give to any other Persons any benefits or any legal or equitable right, remedy or claim under or by virtue of this Agreement. No party hereto may assign any of its rights or obligations hereunder except with the prior written consent of all the parties hereto.

Section 15. Preference Shares Held by the Agents; Other Business Relations.

Each Agent, in its individual or other capacity, may become the owner or pledgee of the Preference Shares with the same rights it would have if it were not acting as paying agent, transfer agent or share registrar, as applicable, hereunder. Each Agent may conduct other business with the Issuer from time to time (including but not limited to its appointment and service as Principal Paying Agent under the Indenture in the case of Deutsche Bank Trust Company Americas and as Administrator in the case of Deutsche Bank (Cayman) Limited.)

Section 16. Amendment.

This Agreement may not be amended by any party hereto except in writing executed by each party hereto (with the prior written approval of the holders of a Majority-in-Interest of Preference Shareholders). The Issuer shall provide prompt written notice to the Rating Agency if this Agreement shall be amended or otherwise modified.

Section 17. Governing Law and Submission to Jurisdiction.

This Agreement is to be delivered and performed in, and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of New York. The Issuer hereby agree that any judicial proceedings instituted by any of the Paying Agent, the Transfer Agent and/or the Share Registrar in relation to any matter arising under this Agreement or the Preference Shares may be brought in any court having subject matter jurisdiction in the State of New York (including, without limitation, federal courts located in the State of New York); irrevocably accepts generally and unconditionally the jurisdiction of such courts, acknowledge their competence and irrevocably agree to be bound by any judgment rendered in such proceeding; and irrevocably designates

and appoints CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011 as the agent of the Issuer to receive on its behalf service of all process brought against the Issuer with respect to any such proceeding in any such court in the State of New York, such service being hereby acknowledged by the Issuer to be effective and binding on it in every respect. If for any reason such agent shall cease to be available to act as such, then the Issuer shall designate a new agent in the City of New York. Any party serving such process on such process agent shall also send a copy of such process to the Issuer at its registered address, but the failure to do so shall not affect the validity of service on the process agent. Nothing contained herein shall in any way inhibit the ability of any of the Paying Agent, the Transfer Agent and/or the Share Registrar to serve process in any other manner or bring actions or proceedings in such other jurisdictions and in such manner as may be permitted by applicable law.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 18. Counterparts.

This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, and each such counterpart, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. Delivery of an executed signature page hereto by facsimile or other electronic means shall be equally effective as delivery of an original signature page.

Section 19. Exhibits.

The exhibits to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement.

Section 20. No Petition.

The Paying Agent, the Transfer Agent and the Share Registrar, by entering into this Agreement, each hereby covenant and agree that it will not at any time institute against the Issuer or the Co-Issuer, or voluntarily join in any institution against the Issuer or the Co-Issuer of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law of any jurisdiction within or without the United States in connection with any obligations relating to the Preference Shares or this Agreement for a period of one-year and one-day or, if longer, the preference period then in effect following the Trust Termination Date; *provided, however*, nothing herein shall prohibit the filing of proofs of claim in connection with any such proceeding. The parties hereto agree that they will not amend, modify or waive the provisions of this Section 20 without the prior consent of the Rating Agencies.

Section 21. Prescription.

Dividends and the Preference Share Redemption Price payable with respect to the Preference Shares will cease to be payable by the Issuer if such non payment is due to insufficient instructions (or in the case of the Preference Share Redemption Price, if the share certificates with respect to the Preference Shares are not presented for payment also) within ten years from the Relevant Date therefor. **"Relevant Date"** means the date on which the final payment in respect of the Preference Shares first becomes due, except that if the full amount of the monies payable has not been duly received by the Paying Agent on or prior to such due date, it means the date on which such monies have been so received.

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Section 22. Identification of Preference Shareholders.

On demand of the Issuer, a Holder of a Preference Share will notify the Issuer and the Paying Agent whether or not the Preference Share is held by a U.S. Person and the name and status of the Holder as an individual, partnership, corporation, or other entity and such other information the Issuer shall reasonably request for purposes of tax reporting of the Issuer or other Preference Shareholders.

Section 23. QEF Election.

(a) If required to prevent the withholding and imposition of United States income tax, the Issuer shall deliver or cause to be delivered a United States Internal Revenue Service Form W-8 to each withholding agent related to an Collateral Debt Security and each issuer of an Eligible Investment included in the Collateral at the time such Collateral Debt Security or Eligible Investment is purchased by the Issuer and annually thereafter and as otherwise required by applicable U.S Treasury Regulations.

(b) The Issuer will take all actions necessary in order to permit any holder of equity in the Issuer, or any Holder of a Preference Share, or any holder of a Note that is or may be characterized as an equity interest in the Issuer for U.S. federal income tax purposes to make a "qualified electing fund" election for U.S. federal income tax purposes, including causing any such Person to be provided annually a timely and complete "PFIC Annual Statement" as described in U.S. Treasury Regulation Section 1.1295-1(g) or any successor thereto, as well as supplying any additional information which such Person may reasonably request and which is in the possession of the Issuer.

Section 24. Performance of Functions Outside the United States.

The Paying Agent shall perform its functions through an agent or affiliate outside the United States.

Section 25. Survival of Provisions.

Notwithstanding the satisfaction and discharge of this Agreement, the rights and obligations of the Issuer, the Paying Agent, the Share Registrar and the Preference Shareholders under Sections 13, 20, 22, 23 and 26 shall otherwise survive termination of the rights of the parties hereunder.

Section 26. Limited Recourse

Notwithstanding any other provision of this Agreement, the Paying Agent, the Share Registrar and the Transfer Agent acknowledge that the obligations of the Issuer under this Agreement will be nonrecourse obligations of the Issuer payable solely from the Collateral in accordance with the Priority of Payments. Neither the Issuer nor its Affiliates, nor any of its respective agents, partners, beneficiaries, officers, directors, employees or successors or assigns shall be personally liable for any amounts payable, or performance due, under this Agreement. Following realization of the Collateral and its application in accordance with the Indenture, any outstanding obligations of the Issuer hereunder shall be extinguished and shall not thereafter revive. The parties hereto agree that they will not amend, modify or waive the provisions of this Section 26 without the prior consent of the Rating Agencies.

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IN WITNESS WHEREOF, the parties hereto have executed this Preference Share Paying Agency Agreement as of the day and year first above written.

GEMSTONE CDO VII LTD.

By: _____
Name: Alan Corkish
Title: Director

DEUTSCHE BANK TRUST COMPANY AMERICAS,
not in its individual capacity but solely as Paying Agent and Transfer Agent

By: _____
Name:
Title:

By: _____
Name:
Title:

DEUTSCHE BANK (CAYMAN) LIMITED,
as Share Registrar

By: _____
Name: GWEN PINEAU / KESCENE BORDEN
Title: Authorised Signatories

IN WITNESS WHEREOF, the parties hereto have executed this Preference Share Paying Agency Agreement as of the day and year first above written.

GEMSTONE CDO VII LTD.

By: _____
Name:
Title:

DEUTSCHE BANK TRUST COMPANY AMERICAS,
not in its individual capacity but solely as Paying Agent and Transfer Agent

By: _____
Name:
Title: Susan Anderson
Assistant Vice President

By: _____
Name: Kathleen Gannaway
Title: Assistant Vice President

DEUTSCHE BANK (CAYMAN) LIMITED,
as Share Registrar

By: _____
Name:
Title:

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Exhibit A-1

FORM OF SHARE CERTIFICATE

GEMSTONE CDO VII LTD.

Number	Preference Shares	CUSIP
-[ ]-	-[ ]-	[ ]

Incorporated under the laws of the Cayman Islands
US $845.00 Capital divided into 250 Ordinary Shares
of a nominal par value of US $1.00 per share and
59,500 Preference Shares of a par value of US $0.01 per share

THIS IS TO CERTIFY THAT

-[]-

is the registered holder of

-[ ] Preference Shares-

in the above-named Company subject to the Memorandum and Articles of Association thereof.

ISSUED BY the said Company on this March 15, 2007.

EXECUTED on behalf of the said Company by:

ATTORNEY _____

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THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO BELOW AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO BELOW AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE TRANSFER AGENT NOR THE SHARE REGISTRAR NOR PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, DATED AS OF MARCH 15, 2007, MADE AMONG THE ISSUER, THE PAYING AGENT AND TRANSFER AGENT, AND THE SHARE REGISTRAR (THE "**PREFERENCE SHARE PAYING AGENCY AGREEMENT**"). ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH SUCH PLAN, AN "ERISA PLAN"); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS "PLAN ASSETS" OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 (A "BENEFIT PLAN INVESTOR"); OR (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN AS MODIFIED BY SECTION 3(42) OF ERISA.

Exhibit A-2

FORM OF REGULATION S GLOBAL SHARE CERTIFICATE

GEMSTONE CDO VII LTD.

Number	Preference Shares	ISIN
-[ ]-	-[ ]-	[ ]

Incorporated under the laws of the Cayman Islands
US $845.00 Capital divided into 250 Ordinary Shares
of a nominal par value of US $1.00 per share and
59,500 Preference Shares of a par value of US $0.01 per share

THIS IS TO CERTIFY THAT

- CEDE & CO. -

is the registered holder of

- [ ] Preference Shares -

in the above-named Company subject to the Memorandum and Articles of Association thereof.

ISSUED BY the said Company on this March 15, 2007.

EXECUTED on behalf of the said Company by:

DIRECTOR _____

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO BELOW AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO BELOW AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE TRANSFER AGENT NOR THE SHARE REGISTRAR NOR THE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, DATED AS OF MARCH 15, 2007, MADE AMONG THE ISSUER, THE PAYING AGENT AND TRANSFER AGENT AND THE SHARE REGISTRAR (THE "**PREFERENCE SHARE PAYING AGENCY AGREEMENT**"). ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF

THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE"CODE") (EACH SUCH PLAN, AN "ERISA PLAN"); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS "PLAN ASSETS" OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 (A "BENEFIT PLAN INVESTOR"); (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN OR; OR (IV) UNLESS NONE OF ITS ASSETS COULD BE DEEMED TO INCLUDE "PLAN ASSETS" SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ANY OTHER BENEFIT PLAN INVESTOR.

Exhibit B

INVESTOR LETTER FOR PREFERENCE SHARES

March 15, 2007

(1) Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

(2) Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(3) [Deutsche Bank Securities Inc.
60 Wall Street, New York
New York 10005
Attention: Global Markets/CDO Group]

Re: Gemstone CDO VII Ltd. Preference Shares

Ladies and Gentlemen:

The undersigned proposes to purchase the Preference Shares identified below issued by Gemstone CDO VII Ltd. (the "**Issuer**"), pursuant to its articles of incorporation (the "**Articles**"), certain resolutions of its board of directors passed prior to the issue of the Preference Shares (the "**Resolutions**") and the Preference Share Paying Agency Agreement, to be dated as of March 15, 2007 (together the "**Preference Share Documents**"), between the Issuer, Deutsche Bank Trust Company Americas, as Paying Agent (the "**Paying Agent**"), and Deutsche Bank (Cayman) Limited, as Share Registrar (the "**Share Registrar**"). Capitalized terms used in this letter which are not defined herein bear the same meanings as in the Preference Share Paying Agency Agreement. In connection with our proposed purchase of such Preference Shares we acknowledge, represent, agree and confirm that:

(1) The Preference Shares have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular and any representation to the contrary is a criminal offense.

(2) If required by the Preference Share Documents, we will, prior to any sale, pledge or other transfer by us of any Preference Shares (or any interest therein), obtain from the transferee and deliver to the Issuer and the Share Registrar a duly executed transferee certificate addressed to each of the Administrator or the Issuer in the form of the relevant exhibit attached to the Preference Share Paying Agency Agreement and such other certificates and other information

Confidential Treatment Requested GEM7-00001119

as the Issuer or the Share Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions contained in the Preference Share Documents.

(3) No Preference Shares (or any interest therein) may be sold, pledged or otherwise transferred unless such transfer is done in minimum lots of 200 shares and integral multiples of 1 share in excess thereof. In addition, Preference Shares sold to an initial Holder in reliance on Regulation 144A under the Securities Act ("**Rule 144A Preference Shares**") will be issued in fully registered, definitive form and will be transferable only by delivery of the certificates representing such Preference Shares and a duly executed instrument of transfer signed by the transferor.

(4) The Preference Shares have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) promulgated under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. We understand that the Issuer has no obligation to register any of the Preference Shares under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Preference Share Paying Agency Agreement).

*(5) We (a) are a Qualified Institutional Buyer acquiring the Preference Shares for our own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A) or (b) (i) are not a U.S. Person (as defined in Regulation S) and are purchasing such Preference Shares for our own account and not for the account or benefit of a U.S. Person and (ii) understand that prior to the end of the Distribution Compliance Period, interests in a Preference Share sold to an initial Holder who is a non-U.S. Person pursuant to Regulation S under the Securities Act ("**Regulation S Preference Share**") may only be held through Euroclear or Clearstream.

*(6) We (a) have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of our prospective investment in Preference Shares, (b) are financially able to bear such risk, (c) in making such investment are not relying on the advice or recommendations of the Initial Purchaser, the Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) have determined that an investment in Preference Shares is suitable and appropriate for us. We have received, and have had an adequate opportunity to review the contents of, the Offering Circular dated March 13, 2007 related to the Preference Shares. We have had access to such financial and other information concerning the Issuer, the Preference Shares as we have deemed necessary to make our own independent decision to purchase Preference Shares, including the opportunity, at a reasonable time prior to our purchase of Preference Shares, to ask questions and receive answers concerning the Issuer and the terms and conditions of the offering of the Preference Shares.

(7) No Preference Shares (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring Rule 144A Preference Shares except to a transferee whom the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) (a "**Qualified Institutional Buyer**"), to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made

pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), (ii) to a transferee that is a Qualified Purchaser or is not a U.S. resident (within the meaning of the Investment Company Act), (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification and other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Preference Share except (i) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) to a transferee (other than any transferee who acquires an interest in a Regulation S Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) unless such transferee is a Qualified Purchaser, (iii) to a transferee (other than any transferee who acquires an interest in a Regulation S Preference Share after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S) that is not a U.S. resident (within the meaning of the Investment Company Act) or a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the other requirements set forth in the Issuer Charter and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

*(8) There is no market for Preference Shares and that no assurance can be given as to the liquidity of any trading market for Preference Shares and that it is unlikely that a trading market for any of the Preference Shares will develop. We further understand that, although the Initial Purchaser may from time to time make a market in Preference Shares, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, may discontinue the same at any time. Accordingly, we are prepared to hold Preference Shares for an indefinite period of time or until their maturity.

(9) We either (a) are not a U.S. resident (within the meaning of the Investment Company Act) or (b) are a Qualified Purchaser. No sale, pledge or other transfer of Preference Shares (or any interest therein) may be made (a) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act) (other than any transferee who acquires an interest in Regulation S Preference Shares after the end of the Distribution Compliance Period in an offshore transaction in accordance with Rule 904 of Regulation S), is a Qualified Purchaser or (b) if such transfer would have the effect of requiring the Issuer or the Collateral to register as an investment company under the Investment Company Act. If we are a U.S. resident, being an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "**excepted investment company**"): (x) all of the beneficial owners of outstanding securities (other than short-term paper) issued by us (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("**pre-amendment beneficial owners**"); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities issued by us, have consented to our treatment as a Qualified Purchaser in accordance with the Investment Company Act.

The Preference Share Documents provide that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of Rule 144A Preference Shares (A) is a U.S. Person (within the meaning of Regulation S under the Securities

Act) and (B) is not both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, then the Issuer may require, by notice to such Holder, that such Holder sell all of its right, title and interest to such Rule 144A Preference Shares to a Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (i) upon direction from the Collateral Manager or the Issuer, the Share Registrar, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by an investment banker selected by the Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to the Share Registrar, the Issuer and the Collateral Manager, in connection with such transfer, that such person is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser and (b) pending such transfer, no further payments will be made in respect of such Preference Shares held by such beneficial owner.

(10) No Preference Share may be purchased or transferred to, on behalf of or using the assets of (i) an employee benefit plan subject to Title I of ERISA or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the"Code") (each such plan, an "ERISA Plan"); (ii) a collective investment fund, separate account or other entity whose underlying assets are treated as "Plan Assets" of an ERISA Plan under U.S. Department of Labor Regulation Section 2510.3-101 as modified by Section 3(42) of ERISA (a "Benefit Plan Investor"); or (iii) a person acting on behalf of an ERISA Plan.

(11) We represent that, unless we are a Qualifying Investment Vehicle (as defined below), (a) if we would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of our investment in the Preference Shares does not exceed 40% of our total assets (determined on a consolidated basis with our subsidiaries); (b) no person owning any equity or similar interest in us has the ability to control our investment decisions or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by us; (c) we were not organized or reorganized for the specific purpose of acquiring Preference Shares; and (d) no additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in us for the purpose of enabling us to purchase Preference Shares (any such entity in (a), (b), (c) or (d) above being herein referred to as a "**Flow-Through Investment Vehicle**"). For this purpose, a "**Qualifying Investment Vehicle**" is an entity (i) as to which all of the beneficial owners of any securities issued by an entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer and the Share Registrar each of the representations set forth herein and in the Preference Share Paying Agency Agreement required to be made upon transfer of any Preference Shares. If we are a Flow-Through Investment Vehicle, we represent and warrant that either (a) none of the beneficial owners of our securities are U.S. residents (within the meaning of the Investment Company Act) or (b) some or all of the beneficial owners of our securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to us that it is a Qualified Purchaser. If we are a Flow-Through Investment Vehicle, we also represent and warrant that we have only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Preference Shares).

(12) No Reg Y Institution may transfer any Preference Shares held by it to any person other than (a) a person or group of persons under common control that controls the Issuer without reference to any Preference Shares transferred to such person or group by such Reg Y Institution (a "**Controlling Party**"), (b) a person or persons designated by a Controlling Party, (c) in a widespread public distribution as part of a public offering, (d) in amounts such that, after giving effect thereto, no single transferee and its affiliates will hold more than 2% of the aggregate number of Preference Shares (including all options, warrants and similar rights exercisable or convertible into Preference Shares) or (e) as otherwise permitted by applicable U.S. Federal banking law and regulations.

(13) We are not a member of the public in the Cayman Islands.

(14) A legend in substantially the following form will be placed on each certificate representing any Preference Shares:

> THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE ISSUER CHARTER REFERRED TO HEREIN AND THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO BELOW AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). NO TRANSFER OF THE PREFERENCE SHARES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE TRANSFER AGENT NOR THE SHARE REGISTRAR NOR THE PAYING AGENT WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT OR (III) A COMPANY BENEFICIALLY OWNED EXCLUSIVELY BY ONE OR MORE "QUALIFIED PURCHASERS" AND/OR "KNOWLEDGEABLE EMPLOYEES" WITH RESPECT TO THE ISSUER, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING THE ISSUER OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT WHICH IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER

THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE ISSUER CHARTER) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, DATED AS OF MARCH 15, 2007, MADE AMONG THE ISSUER, THE PAYING AGENT AND TRANSFER AGENT AND THE SHARE REGISTRAR (THE "**PREFERENCE SHARE PAYING AGENCY AGREEMENT**"). ACCORDINGLY, AN INVESTOR IN THIS PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NO PREFERENCE SHARE MAY BE PURCHASED OR TRANSFERRED TO, ON BEHALF OF OR USING THE ASSETS OF (I) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF ERISA OR A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") (EACH SUCH PLAN, AN "ERISA PLAN"); (II) A COLLECTIVE INVESTMENT FUND, SEPARATE ACCOUNT OR OTHER ENTITY WHOSE UNDERLYING ASSETS ARE TREATED AS "PLAN ASSETS" OF AN ERISA PLAN UNDER U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA (A "BENEFIT PLAN INVESTOR"); OR (III) A PERSON ACTING ON BEHALF OF AN ERISA PLAN.

(15) Our Taxpayer Identification Number is _____.

(16) We hereby certify that we [check one] ____are ____are not an Affiliate (as defined in the Indenture) or nominee of the Paying Agent, the Issuer, the Co-Issuer or a nominee of an Affiliate of any of them. We [check one] ____are ____are not an Affiliate of the Collateral Manager.

[(17) We agree not to engage in hedging transactions with regard to the Preference Shares unless we are thereby in compliance with the Securities Act.]

(18) We agree to provide the Paying Agent in writing with any additional registration, payment and delivery information as the Trustee may reasonably request.

Very truly yours,

_____
(Name of Investor)

By:_____
Name:
Title:

PREFERENCE SHARES TO BE PURCHASED

__/ U.S.$_____ aggregate principal amount of Preference Shares

** Note: the paragraphs (5), (6) and (8) are to be deleted for all purchasers other than the initial*

purchaser. Paragraphs (7) to (14) are to be renumbered as the new paragraphs (5) to (11) accordingly with the following added as the new paragraphs (12) and (13):-

"(12) In the case where we are a transferee taking delivery of Rule 144A Preference Shares, we (i) are both (x) a Qualified Institutional Buyer and (y) a Qualified Purchaser; (ii) are not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless we own and invest on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer; (iii) are not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan; (iv) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee, (v) are aware that the sale to us is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act; and (vi) are acquiring such Preference Shares for our own account; *provided* that if we are a transferee of Preference Shares (or interest therein) acquiring pursuant to a transfer made in accordance with exemption from the registration requirements of the Securities Act other than Rule 144A (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act), we need not make any of the foregoing representations relating to Rule 144A. In the case where we are a transferee taking delivery of Regulation S Preference Shares, we (i) are acquiring such Regulation S Preference Shares in an offshore transaction in accordance with Rule 904 of Regulation S, (ii) are acquiring such Regulation S Preference Shares for our own account, (iii) are not acquiring, and have not entered into any discussions regarding our acquisition of, such Regulation S Preference Shares while we are in the United States or any of its territories or possessions, (iv) understand that such Regulation S Preference Shares are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (v) understand that such Regulation S Preference Shares may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction and (vi) understand that prior to the end of the Distribution Compliance Period, interests in Regulation S Preference Shares may only be held through Euroclear or Clearstream. In addition, we enclose or will, prior to the transfer of the Preference Shares to us, deliver to you, with a copy to the Share Registrar, an executed certificate in the appropriate form attached to the Preference Share Paying Agency Agreement, if so required by the Preference Share Paying Agency Agreement.

(13) We acknowledge that the foregoing acknowledgements, representations and agreements will be relied upon by you and the Transfer Agent for the purpose of determining our eligibility to purchase Preference Shares. We agree to provide, if requested, any additional information that may be required to substantiate our status as a Qualified Institutional Buyer or our eligibility for an exception under the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine our eligibility to purchase Preference Shares.",

and the paragraphs (15) to [(18)] renumbered as the new paragraphs (14) to [(17)] accordingly.

Exhibit C

FORM OF RULE 144A TRANSFEROR CERTIFICATE

[__], 2007

(1) Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

(2) Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(3) [Deutsche Bank Securities Inc.
60 Wall Street, New York
New York 10005
Attention: Global Markets/CDO Group]

Re: Gemstone CDO VII Ltd. Preference Shares

Ladies and Gentlemen:

Reference is hereby made to the Preference Share Paying Agency Agreement, dated as of March 15, 2007, as amended and supplemented from time to time (the "**Preference Share Paying Agency Agreement**") among Gemstone CDO VII Ltd. (the "**Issuer**"), Deutsche Bank Trust Company Americas, as paying agent and transfer agent, and Deutsche Bank (Cayman) Limited, as Share Registrar. Capitalized terms used but not defined herein shall have the meanings given to them in the Preference Share Paying Agency Agreement.

This letter relates to _____ Preference Shares (the "**Preference Shares**") of the Issuer which are registered in the name of [insert name of transferor] (the "**Transferor**"). The Transferor has requested a transfer of such Preference Shares for Preference Shares registered in the name of [insert name of transferee].

In connection with such request, and in respect of such Preference Shares, the Transferor does hereby certify that such Preference Shares are being transferred in accordance with (i) the transfer restrictions set forth in Section 8 of the Preference Share Paying Agency Agreement and the Preference Shares and (ii) Rule 144A under the Securities Act to a transferee that the Transferor reasonably believes is purchasing the Preference Shares for its own account or an account with respect to which the transferee exercises sole investment discretion and the transferee and any such account is a "qualified institutional buyer" within the meaning of Rule 144A, and such transferee is aware that the sale, pledge or other transfer to it is being made in reliance upon Rule 144A, and (iii) any applicable securities laws of any state of the United States or any other jurisdiction.

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[Insert Name of Transferor]

By_____
Name:
Title:

Dated: _____

Exhibit D

FORM OF REGULATION S TRANSFEROR CERTIFICATE

[__], 2007

(1) Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

(2) Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited,
P.O. Box 1984
Grand Cayman KY1-1104,
Cayman Islands
Facsimile: (345) 949 8244
Telephone: (345) 949 5223
Attention: Directors

(3) [Deutsche Bank Securities Inc.
60 Wall Street, New York
New York 10005
Attention: Global Markets/CDO Group]

Re: GEMSTONE CDO VII Ltd. Preference Shares

Ladies and Gentlemen:

Reference is hereby made to the Preference Share Paying Agency Agreement, dated as of March 15, 2007 (the "**Preference Share Paying Agency Agreement**"), among Gemstone CDO VII Ltd. (the "**Issuer**"), Deutsche Bank Trust Company Americas, as paying agent and transfer agent, and Deutsche Bank (Cayman) Limited, as Share Registrar. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Preference Share Paying Agency Agreement. Other terms shall have the meanings assigned to them in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

This letter relates to _____ Preference Shares (the "**Preference Shares**") of the Issuer which are held in the registered name of [insert name of transferor] (the "**Transferor**"). The Transferor has requested a transfer of such Preference Shares for Preference Shares registered in the name of [insert name of transferee].

In connection with such request and in respect of such Preference Shares, the Transferor does hereby certify that such transfer has been effected in accordance with the transfer restrictions set forth in Section 8 of the Preference Share Paying Agency Agreement and the Preference Shares and pursuant to and in accordance with Regulation S under the Securities Act, and accordingly the Transferor does hereby certify that:

(1) the offer of the Preference Shares was not made to a person in the United States;

[(2) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States;]*

[(2) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;]*

*Insert one of these provisions.

(3) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable; and

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

[Insert Name of Transferor]

By_____
Name:
Title:

Dated: _____

An extra section break has been inserted above this paragraph. Do not delete this section break if you plan to add text after the Table of Contents/Authorities. Deleting this break will cause Table of Contents/Authorities headers and footers to appear on any pages following the Table of Contents/Authorities.

15 March, 2007

DEUTSCHE BANK (CAYMAN) LIMITED

and

GEMSTONE CDO VII LTD.

AMENDED AND RESTATED

ADMINISTRATION AGREEMENT

MAPLES and CALDER

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1359

GEM7-00001223

THIS AMENDED AND RESTATED ADMINISTRATION AGREEMENT is made this 15th day of March, 2007.

BETWEEN:

(1) **GEMSTONE CDO VII LTD.**, a company incorporated in the Cayman Islands, the registered office of which is at PO Box 1984, George Town, Grand Cayman KY1-1104, Cayman Islands (the "**Company**"); and

(2) **DEUTSCHE BANK (CAYMAN) LIMITED,** the principal office of which is at PO Box 1984, George Town, Grand Cayman KY1-1104, Cayman Islands (the "**Administrator**").

WHEREAS:

(A) The Company and the Administrator executed an Administration Agreement on 20 October, 2006 (the "**Original Administration Agreement**") and intend to amend and restate that agreement in its entirety by replacing it with this amended and restated Administration Agreement (as amended and restated, the "**Administration Agreement**").

(B) The Company has been established for the purpose of (i) issuing Notes (the "**Notes**") in accordance with the terms and conditions thereof (the "**Conditions**") as constituted by the Indenture (the "**Indenture**") to be entered into by the Company, Gemstone CDO VII Corp. and Deutsche Bank Trust Company Americas as trustee (in such capacity, the "**Notes Trustee**") and as securities intermediary, (ii) issuing preference shares (the "**Preference Shares**") on or about the date hereof in accordance with a preference share paying agency agreement among the Company, Deutsche Bank Trust Company Americas as preference share paying agent (in such capacity, the "**Preference Share Paying Agent**") and as transfer agent and Deutsche Bank (Cayman) Limited as share registrar (the "**Preference Share Paying Agency Agreement**"), (iii) purchasing a diversified portfolio of securities and other assets and (iv) entering into ancillary documents and arrangements in respect thereof including any warehousing arrangements prior to the issue of the Notes and Preference Shares (the "**Business**").

(B) The Company has requested the Administrator to provide in the Cayman Islands certain management, administrative and related services which the Administrator has agreed to do subject to the terms and conditions hereinafter appearing.

(C) Terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Indenture and/or the Preference Share Paying Agency Agreement.

IT IS AGREED as follows:

1 APPOINTMENT OF ADMINISTRATOR

The Company hereby retains the Administrator and the Administrator agrees to provide such services as are hereinafter set forth for the period from the date the directors of the Company were appointed pursuant to sub-clause 2.4 below to the date on which the Company is dissolved or the date on which this Agreement is terminated in accordance with Clause 7, if earlier.

2 SERVICES TO BE PROVIDED

The Administrator hereby agrees to perform and provide the services necessary and appropriate to the management of the Business in and from within the Cayman Islands as follows:

2.1 to provide signatories on the Company's bank accounts from among the Administrator's employees;

2.2 to prepare and maintain such books and records in the Cayman Islands as may be required in the normal course of the Business and as may be agreed between the parties and in order to comply with any laws or regulations of the Cayman Islands and in such form and manner as may be agreed upon from time to time;

2.3 to deal with correspondence relating to the Business;

2.4 to provide the services of two or more directors of the Company in the Cayman Islands;

2.5 to provide a company secretary if required;

2.6 to provide registered office facilities to the company on the Administrator's standard terms and conditions in effect from time to time;

2.7 to make available non-exclusive telephone, facsimile and postal address or post office box facilities and within its premises such non-exclusive space as may be necessary for the purposes of the Business and in particular but without limitation facilities for meetings of the directors from time to time;

2.8 not to undertake actions inconsistent with the terms of the Memorandum and Articles of Association of the Company, the Indenture, the Preference Share Paying Agency Agreement and all other agreements to which the Company is a party and copies of which have been provided to the Administrator and, without prejudice to the foregoing, not to enter into, on behalf of the Company, any commitments, loans or obligations or charge, mortgage, pledge, encumber or otherwise restrict or dispose of the Company's property or assets other than as contemplated by the Business and generally not to take any action regarding the Business inconsistent with the Conditions , the Indenture and the Preference Share Paying Agency Agreement;

2.9 to keep confidential all documents, materials and other information relating to the Business and not to disclose any of the aforesaid without the prior consent of the Company unless it is necessary to protect the interests of the Administrator or pursuant to an order of any court or authority with jurisdiction over the Administrator or the Company or as contemplated by the Conditions, the Indenture or any other document relating or ancillary to the issue of the Notes;

2.10 to perform all services and take all actions in connection with this agreement in or from within the Cayman Islands; and

2.11 to act as share registrar as defined in and pursuant to the Preference Share Paying Agency Agreement, in which such capacity the Administrator shall:

2.11.1 maintain the Register of Members of the Company (the **"Register"**) in accordance with Cayman Islands law and the articles of association of the Company (the **"Articles"**) and the Preference Share Paying Agency Agreement;

2.11.2 receive requests from holders of the Company's shares, forwarded by the transfer agent appointed by the Company pursuant to the Preference Share Paying Agency Agreement or from the Notes Trustee for transfers of shares of the Company, including Preference Shares, and deal therewith in accordance with the provisions of the Articles and the resolutions of the directors of the Company and the Preference Share Paying Agency Agreement;

2.11.3 in relation to such requests for transfers of shares, subject to receipt of the relevant share certificates, duly completed forms of transfer in a form acceptable to the Administrator, the Administrator will register such transfer by making the necessary entries on the Register, and will prepare new certificates for such shares, cancel any old certificates for the shares and forward new share certificates to the transfer agent or directly to the shareholders on behalf of the Company;

2.11.4 at any time during business hours, permit any duly appointed agent or representative of the Company and any person entitled to inspect pursuant to the Preference Share Paying Agency Agreement, at the expense of the Company, to inspect the Register or other documents or records kept by and in the possession of the Administrator and give such agent or representative during business hours all information, explanations and assistance as such agent or representative may reasonably require;

2.11.5 safeguard the Register and documents in connection therewith and enter on such Register all original issues or allotments of shares and all transfers, redemptions and repurchases of such shares, all in accordance with the provisions of the Articles and the resolutions passed by the Company and

prepare all such lists of shareholders of the Company as may be required by the directors;

2.11.6 send as promptly as reasonably possible to all shareholders copies of all notices received from the Preference Share Paying Agent or the Notes Trustee for forwarding to the shareholders;

2.11.7 upon request at any reasonable time, provide to the Notes Trustee, the Preference Share Paying Agent, the Company and any other agent of the Company or person entitled thereto under any contract entered into with the Company a current list of Preference Shareholders as reflected in the Register; and

2.11.8 not be required to investigate or determine whether any holder or transferee is entitled to hold any shares under any applicable securities or other laws or otherwise satisfies any particular requirements imposed under the Articles or any other document (other than as required in sub-clause 2.11.3).

3 FEES

3.1 The Company shall pay the Administrator an initial documentation fee of US$4,000.

3.2 The Company shall pay the Administrator a base fee of US$7,000 per annum (prorated for part years but subject to a minimum of 50% of such amount) payable on the date hereof and annually thereafter in advance on 1st January in each year. The base fee may be increased by the Administrator as set out in sub-clauses 3.5 and 3.6.

3.3 To provide the registered office of the Company in the Cayman Islands, the Company shall pay the Administrator a base fee of US$1,000 per annum (prorated for part years but subject to a minimum of 50% of such amount) payable on the date hereof and annually thereafter in advance on 1st January in each year. The base fee may be increased by the Administrator as set out in sub-clauses 3.5 and 3.6.

3.4 The Company shall pay to the Administrator to act as the Company's share registrar an annual fee of US$2,000 (prorated for part years but subject to a minimum of 50% of such amount) payable on the date hereof and annually thereafter in advance on 1st January in each year. The annual fee may be increased by the Administrator as set out in sub-clauses 3.5 and 3.6.

3.5 The fees set forth in sub-clauses 3.2, 3.3 and 3.4 above shall apply for a period of five (5) years from the date hereof. The amount payable in each succeeding period of five (5) years shall be as agreed by the parties or, failing such agreement by the end of the preceding period, shall be the amount determined by the Administrator after applying the aggregate percentage change in the consumer price index of the Cayman Islands over the preceding period to the amount payable in respect of that period and rounding up to the nearest whole multiple of US$100.

3.6 Where the Company is required to consider or engage in further activities, litigation or other exceptional matters, additional fees will be subject to further negotiation at the relevant time and in the absence of contrary agreement additional fees will be charged by the Administrator at its hourly rates from time to time in effect.

3.7 The Company shall also pay or reimburse the Administrator for its out-of-pocket expenses for photocopying, fax, telephone, postage and other communications charges and registered office and Registry fees and other such expenses properly incurred by the Administrator on behalf of the Company.

3.8 At the request of the Company, the Administrator shall arrange for the preparation of annual balance sheets and profit and loss accounts and, for this service, will charge an additional fee based upon the time engaged by the appropriate officers of the Administrator and any external accountants or other persons engaged by the Administrator for such purpose at their respective hourly rates from time to time in effect or as otherwise agreed.

3.9 The Company shall pay the Administrator a fee of US$5,600 on account within 30 days of the date hereof against the Administrator's costs in acting as liquidator for the purposes of winding up the Company voluntarily. If the foregoing fee is not so paid and the Administrator subsequently acts as liquidator or the cost of the time spent by the appropriate officers of the Administrator in relation to the liquidation at their then current hourly rates exceeds such amount, the then current fees of the Administrator for so acting shall be payable by the Company due credit being given for any fee paid on account.

4 LIABILITY OF ADMINISTRATOR AND INDEMNITY

4.1 The Administrator shall not be liable for any damage, loss, costs or expenses whatsoever to or of the Company at any time from any cause whatsoever unless caused by the Administrator's own fraud or wilful default.

4.2 The Company agrees to indemnify and hold harmless the Administrator, its successors and assigns and their respective directors and officers and employees present and future, the directors, officers provided pursuant to sub-clause 2.1 and, where these are companies, their respective directors, officers and employees present and future (collectively, the "**Indemnified Persons**") and each of them, as the case may be, against any liability, action, proceedings, claim, demand, costs, damages or expenses whatsoever which they or any of them may incur or be subject to in consequence of this Agreement or as a result of the performance of the functions and services provided for hereunder except as a result of fraud or wilful default of any of the Indemnified Persons and this indemnity shall expressly inure to the benefit of any such person existing or future.

4.3 The Administrator and the directors and officers provided pursuant to Clause 2 shall not be required to take any legal action on behalf of the Company unless fully indemnified to their satisfaction.

4.4 The provisions of this Clause 4 shall continue to apply notwithstanding the termination of this Agreement.

5 NO COMMERCIAL ADVICE

For the avoidance of doubt the Company agrees that the Administrator is not responsible for the commercial structuring of the Business or for the rendering of investment, commercial, accounting, legal or any other advice whatsoever to the Company or any other person.

6 NO PARTNERSHIP AND NO EMPLOYMENT RELATIONSHIP

6.1 Nothing herein contained shall constitute a partnership between the parties hereto.

6.2 The directors, officers, employees or agents of the Administrator referred to in sub-clause 2.1 shall not be deemed to be employees of the Company or entitled to any remuneration or other benefits from the Company.

6.3 The Administrator shall be entitled to provide services of a like nature to those provided under this Agreement to any other person, firm or corporation.

7 TERMINATION OF AGREEMENT

7.1 The appointment of the Administrator hereunder shall continue until one of the parties gives notice in writing to the other party hereto terminating this Agreement in accordance with sub-clauses 7.2 or 7.3 below. Provided that, termination of the appointment of the Administrator as Share Registrar shall be in accordance with the Preference Share Paying Agency Agreement.

7.2 Either party may terminate this Agreement by giving at least fourteen (14) days notice in writing to the other party with a copy to any applicable rating agencies at any time within twelve months of the happening of any of the following events:

7.2.1 if the other party goes into liquidation or is dissolved (except as a voluntary liquidation or dissolution for the purposes of reconstruction or amalgamation upon terms previously approved in writing by the party otherwise entitled to serve notice) or commits any other act of bankruptcy under applicable laws; or

7.2.2 if the other party commits any breach of its obligations under this Agreement and (if such breach shall be capable of remedy) fails within thirty (30) days of notice served on it requiring it so to do to make good such breach.

7.3 Either party may terminate this Agreement at any time by giving at least three (3) months' notice in writing to the other party with a copy to any applicable rating agencies.

7.4 Upon termination of this Agreement, the Administrator shall, at the expense of the Company or its liquidator, as the case may be, deliver to the Company, or as it shall direct, all books of account, records, registers, correspondence, documents and all assets relating to the affairs of or belonging to the Company and in the possession of or under the control of the Administrator and shall take all necessary steps to vest in the Company or any new administrator or liquidator, as the case may be, any assets previously held in the name of or to the order of the Administrator on behalf of the Company.

7.5 The Company shall notify each applicable rating agency (if any) rating the Notes and the Notes Trustee (for so long as any of the Notes or Preference Shares are rated by a rating agency):

7.5.1 of any notice given or received pursuant to sub-clause 7.2 or 7.3; or

7.5.2 any amendment or termination to this Agreement.

8 LIMITED RECOURSE

Notwithstanding any provision in this Agreement to the contrary, the rights of recourse of the Administrator against the Company shall be limited to the remaining amounts from time to time available and comprising the assets of the Company (other than the ordinary share capital and the transaction fee charged by the Company) having satisfied or provided for all other prior ranking liabilities of the Company. Accordingly, the Administrator shall have no claim or recourse against the Company in respect of any amount which is or remains unsatisfied after the application of the funds comprising such assets of the Company and/or representing the proceeds of realisation thereof and any remaining obligation to pay any further unsatisfied amounts shall be extinguished. This Clause shall survive termination of this Agreement for any reason whatsoever.

9 NON-PETITION

The Administrator agrees that its rights against the Company under this Agreement are limited to the extent that it will not take any action or proceedings against the Company to recover any amounts due and payable by the Company to it under this Agreement except as expressly permitted by the provisions of this Agreement. The Administrator further agrees that it will not in its capacity as Administrator petition a court for, or take any other action or commence any proceedings for, the liquidation or winding-up of the Company or any other bankruptcy or insolvency proceedings with respect to the Company under the laws at any applicable jurisdiction now or hereafter in effect until one year and one day or, if longer, the preference period then in effect after the later to occur of repayment of all outstanding Notes (if any) or other satisfaction or extinguishment of all liability with respect thereto. This Clause shall survive termination of this Agreement for any reason whatsoever.

10 NOTICES

Notices to be given hereunder shall be delivered by hand or mailed to the address of the relevant party set out herein and where mailed shall be deemed to be duly given on the fifth day after the date of mailing. In the case of notice to the Company, a copy shall also be delivered by hand or mailed to:

Maples and Calder
PO Box 309GT, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands
Attn: Dale Crowley

11 LAW AND JURISDICTION

This Agreement shall be governed by and construed in accordance with the laws of the Cayman Islands and the parties hereby submit to the non-exclusive jurisdiction of the Cayman Islands courts.

IN WITNESS WHEREOF the parties hereto have caused this document to be executed on the day and year first before written.

SIGNED for and on behalf of)
GEMSTONE CDO VII LTD.)
by:)
)
in the presence of:)
)
)

Director

Witness

SIGNED for and on behalf of)
DEUTSCHE BANK)
(CAYMAN) LIMITED)
by:)
)
)
)
)
)
in the presence of:)
)
)

Authorised Signatory

Authorised Signatory

Witness

Exhibit A
HBK's Exposure to Gemstone VII Notes

Attached is a listing of all of the securities issued by Gemstone VII, along with all of HBK's positions in those securities. This data is presented monthly from September 30, 2006 through December 31, 2007. In the first chart, positions are shown at their face amount (par). In the second chart, HBK's positions at the end of each month are shown at the prices paid by HBK for the positions, except that HBK's exposure under the warehouse arrangement is shown at HBK's maximum loss amount.

HBK's Exposure to Gemstone VII Notes

Face Amount Purchased by HBK

Gemstone 7 Notes	Aggregate Face Amount Issued	9/30/2006 Face Amount	10/31/2006 Face Amount	11/30/2006 Face Amount	12/31/2006 Face Amount	1/31/2007 Face Amount	2/28/2007 Face Amount	3/31/2007 Face Amount	4/30/2007 Face Amount	5/31/2007 Face Amount	6/30/2007 Face Amount	7/31/2007 Face Amount	8/31/2007 Face Amount	9/30/2007 Face Amount	10/31/2007 Face Amount	11/30/2007 Face Amount	12/31/2007 Face Amount
GEMST 2007-7A A1A	244,000,000	-	-	-	-	-	-	-	-	-	-	-	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
GEMST 2007-7A A1B1	200,000,000	-	-	-	-	-	-	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000
GEMST 2007-7A A1B2	200,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMST 2007-7A A2	159,000,000	-	-	-	-	-	-	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000	31,900,000
GEMST 2007-7A B	98,900,000	-	-	-	-	-	-	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000	38,300,000
GEMST 2007-7A C	68,300,000	-	-	-	-	-	-	36,100,000	36,100,000	36,100,000	36,100,000	36,100,000	36,100,000	36,100,000	36,100,000	36,100,000	36,100,000
GEMST 2007-7A D	55,100,000	-	-	-	-	-	-	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000
GEMST 2007-7A E	18,700,000	-	-	-	-	-	-	59,500,000	59,500,000	59,500,000	59,500,000	59,500,000	59,500,000	59,500,000	59,500,000	59,500,000	59,500,000
GEMSTONE 7 Pref Shares	59,500,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMSTONE 7 Warehouse	N/A	-	56,250,000	56,250,000	82,500,000	82,500,000	82,500,000	-	-	-	-	-	-	-	-	-	-
Total		-	56,250,000	56,250,000	82,500,000	82,500,000	82,500,000	384,500,000	384,500,000	384,500,000	384,500,000	384,500,000	434,500,000	434,500,000	434,500,000	434,500,000	434,500,000

Amount Purchased by HBK, at Cost

Gemstone 7 Notes	9/30/2006 Purchase Price	10/31/2006 Purchase Price	11/30/2006 Purchase Price	12/31/2006 Purchase Price	1/31/2007 Purchase Price	2/28/2007 Purchase Price	3/31/2007 Purchase Price	4/30/2007 Purchase Price	5/31/2007 Purchase Price	6/30/2007 Purchase Price	7/31/2007 Purchase Price	8/31/2007 Purchase Price	9/30/2007 Purchase Price	10/31/2007 Purchase Price	11/30/2007 Purchase Price	12/31/2007 Purchase Price
GEMST 2007-7A A1A	-	-	-	-	-	-	-	-	-	-	-	44,000,000	44,000,000	44,000,000	44,000,000	44,000,000
GEMST 2007-7A A1B1	-	-	-	-	-	-	199,546,707	199,546,707	199,546,707	199,546,707	199,546,707	199,546,707	199,546,707	199,546,707	199,546,707	199,546,707
GEMST 2007-7A A1B2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMST 2007-7A A2	-	-	-	-	-	-	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701	31,777,701
GEMST 2007-7A B	-	-	-	-	-	-	37,684,588	37,684,588	37,684,588	37,684,588	37,684,588	37,684,588	37,684,588	37,684,588	37,684,588	37,684,588
GEMST 2007-7A C	-	-	-	-	-	-	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347	35,082,347
GEMST 2007-7A D	-	-	-	-	-	-	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000	18,700,000
GEMST 2007-7A E	-	-	-	-	-	-	31,571,715	31,571,715	31,571,715	31,571,715	31,571,715	31,571,715	31,571,715	31,571,715	31,571,715	31,571,715
GEMSTONE 7 Pref Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GEMSTONE 7 Warehouse	-	56,250,000	56,250,000	82,500,000	82,500,000	82,500,000	-	-	-	-	-	-	-	-	-	-
Total	-	56,250,000	56,250,000	82,500,000	82,500,000	82,500,000	384,383,058	384,383,058	384,383,058	384,383,058	384,383,058	399,383,058	399,383,058	399,383,058	399,383,058	399,383,058

Confidential Treatment Requested

Exhibit B
HBK's Exposure to Gemstone VII Collateral

Attached is a listing of the collateral held by Gemstone VII, along with all of HBK's direct positions (outside of the CDO) in those same bonds and in other bonds issued by or dependent on the same ABS issuers.

For example, the Gemstone VII collateral included the M9 tranche of the "AMSI2005_R9" ABS issuance, which is labeled "AMSI2005_R9_M9" on the attached chart. On September 30, 2006, HBK also held (outside of the CDO) $4.1 million of this same tranche of ABS, as well as $8.9 million of the M10 tranche and $5.5 million of the M11 tranche. In addition, HBK held two tranches of a "NIM" security (AQNIM2006_RN9) that was created out of the equity of the AMSI2005_R9 issuance. Accordingly, HBK had direct exposure (outside of the Gemstone VII CDO) to over $26 million of securities issued by or dependent on this one ABS issuer.

The attached data is presented monthly from September 30, 2006 through December 31, 2007. HBK's positions are shown using the following values: (a) for positions held at September 30, 2006, the market value on such date, and (b) for positions purchased thereafter, the purchase price paid by HBK. (The value reflected for some residual ABS positions is very small. These positions are essentially out-of-the-money call options that are embedded in a tranche of ABS bonds.)

HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
ABSHE2006_HE1_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ACE2006_HE1_M10	Cash		-	-	-	-	-	-	-	-	-	3,177,889	3,177,889	3,177,889	3,177,889	3,177,889	3,177,889	3,177,889
ACE2006_NC1_M10	Cash	ACE2006_NC1_M10	-	-	-	-	-	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554	8,722,554
ACE2006_NC1_M9	CDS	ACE2006_NC1_M9cdsA	-	-	-	-	-	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108	17,445,108
		ACE2006_NC1_M9cdsB	-	-	-	-	-	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585	17,526,585
		ACE2006_NC1_M9cdsC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AMSI2005_R1_M10	Cash	AMSI2005_R1_M10	3,653,786	3,653,786	3,653,786	-	-	-	-	-	-	-	-	-	-	-	-	-
AMSI2005_R1_M9	Cash	ARSI2005_W2_M9cdsA	15,000,000	-	-	-	-	-	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220	1,249,220
AMSI2005_R11_M10	Cash	AMSI2005_R11_M10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AMSI2005_R9_M9	Cash	AMSI2005_R9_M9	4,139,063	4,139,063	4,139,063	4,139,063	-	-	-	-	-	-	-	-	-	-	-	-
		AMSI2005_R9_M10	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923	8,896,923
		AMSI2005_R9_M11	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248	5,452,248
		AQNIM2005_RN9_RESID	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000	5,250,000
		AQNIM2005_RN9_B	2,516,211	2,516,211	2,516,211	2,516,211	2,516,211	2,516,211	2,516,211	2,516,211	-	-	-	-	-	-	-	-
AMIT2006_1_M3	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2005_W2_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2005_W2_M12	Cash	ARSI2005_W2_M12	11,420,640	11,420,640	11,420,640	11,420,640	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2005_W3_M12	Cash	ARSI2005_W3_M12	6,363,494	6,363,494	6,363,494	6,363,494	-	-	-	-	-	-	-	-	-	-	-	-
ARSI2006_W1_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BACM2006_6_D	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BACM2006_6_E	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	401,710	717,458	717,458
BAYC2006_4A_B1	Cash	BAYC2006_4A_B1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BAYC2007_1_B1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BNLI2006_1A_B	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BSABS2007_HE1_2M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CMLTI2006_NC1_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CMLTI2006_NC1_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWL2006_4_B	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWL2006_4_Ba	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWL_2007_BC1_M5	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DBALT2006_AR4_M8	Cash	DBALT2006_AR4_M8	5,311,870	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SHARP2006_AR4N_RESID	-	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997	11,239,997
		SHARP2006_AR4_N3	-	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700	923,700
DBALT2006_AR6_M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EULER2007_1A_B	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2004_FFC_B4	Cash	FFML2004_FFC_B4	2,884,688	2,884,688	2,884,688	2,884,688	-	-	-	-	-	-	-	-	-	-	-	-
		FFML2004_FFC_OC_RESID	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124	12,730,124
		FFML2004_FFC_P_RESID	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201
FFML2005_FF1_B4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2005_FF2_B5	Cash	FFML2005_FF2_B5	2,139,884	2,139,884	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2004_FF7_M5	Cash	FFML2004_FF7_M5	-	-	-	-	-	-	-	-	-	-	-	-	-	1,157,314	1,157,314	1,157,314
FFML2005_FF8_B5	Cash	FFML2005_FF8_B5	15,207,036	15,207,036	15,207,036	6,732,789	-	-	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000	1,615,000
		FFML2005_FF8_C	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
		FFML2005_FF8N_N2	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	4,209,975	-	-	-	-	-	-	-	-
FFML2006_FF1_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2006_FF13_B1	Cash	FFML2006_FF13_B1	10,575,082	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FFML2006_FF13_B2	Cash	FFML2006_FF13_B2	17,954,040	17,954,040	9,491,540	9,491,540	-	-	3,729,688	3,729,688	3,729,688	3,729,688	3,729,688	3,729,688	3,729,688	3,729,688	3,729,688	3,729,688
FFML2006_FF13_M9	CDS	FFML2006_FF13_M9cdsA	-	-	-	-	-	-	-	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000	7,795,000
		FFML2006_FF13_C	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
		FFNT2006_FF13N_N3	-	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051	10,057,051
		FFNT2006_FF13N_RESID	-	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427	18,795,427
FFML2006_FF3_B2	Cash	FFML2006_FF3_B2	2,526,030	2,526,030	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		FFML2006_FF3_C	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
		FFNT2006_FF3_N2	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580	6,313,580
		FFNT2006_FF3_NIM_RESID	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750	13,214,750
FFML2006_FF4_B2	Cash	FFML2006_FF4_B2	1,818,910	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		FFML2006_FF4_B1cdsA	-	-	-	-	-	-	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000	18,355,000
		FFML2006_FF4_B1cdsB	-	-	-	-	-	-	-	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	7,950,000	(7,950,000)
		FFML2006_FF4_C	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
		FFNT2006_FF4N_N3	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368	7,791,368
		FFNT2006_FF4N_RES	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000	12,292,000
FHLT2005_A_M9	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FHLT2005_C_M9	CDS	FHLT2005_C_M9cdsA	5,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FHLT2005_D_B2	Cash		2,517,188	2,517,188	2,517,188	-	-	-	-	-	-	-	-	-	-	-	-	-
FHLT2006_E_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Confidential Treatment Requested

HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
GCCFC2007_GG9_F	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_FM1_B4	Cash		2,523,750	2,523,750	2,523,750	-	-	-	-	-	-	-	-	-	-	-	-	-
		GSAMP2006_FM1_C	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		GSAMP2006_FM1N_N3	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336	5,263,336
		GSAMP2006_FM1N_N_RESID	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750	2,851,750
			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_FM2_B1	Cash		-	8,479,088	8,479,088	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_FM2_B2	Cash		-	-	-	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
GSAMP2006_FM2_M9	CDS	GSAMP2006_FM2_M9cdsA	-	-	-	-	-	-	-	49	49	49	49	49	49	49	49	49
		GSAMP2006_FM2_C_RESID	-	49	49	49	49	49	49	-	-	-	-	-	-	-	-	-
		GSAMP2006_FM2N_N3	-	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483	5,292,483
		GSAMP2006_FM2N_RESID	-	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875	1,814,875
			7,309,454	7,309,454	7,309,454	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_NC2_B2	Cash		-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
GSAMP2006_NC2_M9	CDS	GSAMP2006_NC2_M9cdsA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_NC2_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GSAMP2006_NC2_M9b	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		GSAMP2006_NC2_C_RESID	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
		GSAMP2006_NC2N_N3	4,414,274	4,414,274	4,414,274	4,414,274	573,914	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751	3,283,751
		GSAMP2006_NC2N_RESID	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057	12,141,057
			-	-	-	-	-	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829	15,077,829
GSAMP2007_NC1_B1	Cash	GSAMP2007_NC1_B1	-	-	-	-	-	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)	(14,577,968)
		GSAMP2007_NC1_M8cdsA	-	-	-	-	-	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427	17,165,427
		GSAMP2007_NC1_B2	-	-	-	-	-	49	49	49	-	-	-	-	-	-	-	-
		GSAMP2007_NC1_P_RESID	-	-	-	-	-	38,171,011	38,171,011	38,171,011	-	-	-	-	-	-	-	-
		GSAMP2007_NC1_X_RESID	-	-	-	-	-	-	-	-	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717	11,188,717
		GSAMP2007_NC1_NIM_RESID	-	-	-	-	-	-	-	-	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262	1,637,262
		GSAMP2007_NC1_N2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HASC2006_OPT2_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HASC2006_OPT3_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HASC2006_OPT3_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_8_B2	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_8_B3	Cash	HEAT2005_8_B3	6,414,844	6,414,844	6,414,844	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_8_B4	Cash	HEAT2005_8_B4	9,363,092	9,363,092	9,363,092	9,363,092	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_8_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2005_8_B5	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066	8,628,066
			3,776,484	3,776,484	3,776,484	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2005_9_B3	Cash	HEAT2005_9_B3	-	-	-	-	-	18,117,086	18,117,086	18,117,086	18,117,086	18,117,086	13,814,278	13,814,278	13,814,278	13,814,278	13,814,278	13,814,278
		HEAT2005_9_B1cdsA	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008	1,690,008
		HEAT2005_9_NIMC	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500	4,607,500
		HEAT2005_9_NIMRESID	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130	2,176,130
		HEAT2005_9_B5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_1_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_3_B3	Cash	HEAT2006_3_B3	11,576,250	11,576,250	11,576,250	11,576,250	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
		HEAT2006_3_B1cdsA	-	-	-	-	-	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320	4,860,320
		HEAT2006_3_B1cdsB	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_5_B1	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_5_B1a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_5_B3	Cash	HEAT2006_5_B3	2,114,063	2,114,063	2,114,063	2,114,063	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824	6,692,824
		HEAT2006_5_NIM_RESID	6,692,824	6,692,824	6,692,824	6,692,824	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580	1,771,580
		HEAT2006_5_NIMC	1,771,580	1,771,580	1,771,580	1,771,580	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_7_B1	4,125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_7_B1	Cash		-	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
HEAT2006_7_B1	CDS		-	-	-	-	-	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200
HEAT2006_7_B1a	CDS	HEAT2006_7_B1cdsA	-	-	-	-	-	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742	8,668,742
		HEAT2006_7_B1cdsB	-	-	-	-	-	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200	8,727,200
		HEAT2006_7_B1cdsC	-	-	-	-	-	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750	8,806,750
		HEAT2006_7_B1cdsD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_7_B1cdsE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_7_B3	Cash	HEAT2006_7_B3	8,865,615	-	8,896,250	8,896,250	-	-	-	-	-	-	-	-	-	-	-	-
HEAT2006_7_M7	Cash	HEAT2006_7_M7	4,125,000	-	-	-	-	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836	14,848,836
		HEAT2006_7_M8cdsA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_7_P_RESID	50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_7_X_RESID	50,428,217	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		HEAT2006_7_NIM_RESID	-	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415	9,174,415
		HEAT2006_7_NIMB	-	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352	4,256,352
			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_CH1_M10	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_CH1_M9	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_CH2_MV4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_FRE1_M9	CDS	JPMAC2006_FRE1_M9cdsA	-	-	-	-	-	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180	17,477,180

Confidential Treatment Requested

HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
JPMAC2006_FRE1_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		JPMAC2006_FRE1_M11	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341	2,533,341
		JPMAC2006_FRE1_M8cdsA	-	-	-	-	-	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005	14,853,005
JPMAC2006_HE1_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMAC2006_NC1_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMCC2006_LDP9_D	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMCC2006_LDP9_E	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
JPMCC2007_CB18_D	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2004_2_M7	CDS	LBMLT2004_2_M7cdsA	(10,000,000)	(10,000,000)	(10,000,000)	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2004_4_M12	Cash	LBMLT2004_4_M12	11,375,000	5,915,000	5,915,000	5,915,000	-	-	-	-	-	-	-	-	-	-	-	-
		LBMLT2004_4_B	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693	15,657,693
LBMLT2005_1_B1		LBMLT2005_1_B1	2,883,845	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		LBMLT2005_1_M9cdsB	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972	9,967,972
LBMLT2005_3_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_1_M7	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_1_M7a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_5_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_5_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LBMLT2006_5_M9b	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
MABS2006_NC1_M9	CDS	MABS2006_NC1_M9cdsA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MABS2006_NC1_M9a	CDS		5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564	5,848,564
		MNIM2006_CI15_N3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MABS2005_NC2_M9	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MLMI2005_HE1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MLMI2006_AHL1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MLMI2006_HE1_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_HE2_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_HE2_B3a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	406,080	406,080	406,080
MSAC2006_HE2_M2	Cash	MSAC2006_HE2_M2	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)
MSAC2006_HE5_B3	CDS	MSAC2006_HE5_B3cdsA	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	(9,960,000)	-	-	-	-
		MSAC2006_HE5_B3cdsB	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	(4,980,000)	-	-	-	-
		MSAC2006_HE5_B3cdsC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_HE8_M4			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_NC1_B2	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_NC1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSAC2006_NC1_B3a	CDS		8,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NCSLT2006_3_C	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NCSLT2006_4_C	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NHEL2006_3_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OMTS2006_OT1_M3	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OOML T2006_1_M8	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OOML T2006_1_M9	CDS	OOML T2006_1_M9cdsA	-	-	-	-	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
OOML T2006_1_M9a	CDS	OOML T2006_1_M9cdsB	-	-	-	-	-	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418
		OOML T2006_1_M9cdsC	-	-	-	-	-	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093	9,356,093
		OOML T2006_1_M9cdsD	-	-	-	-	-	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418	9,335,418
RAMC2006_4_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RAMC2006_4_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RAMP2005_RS7_B	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2005_KS11_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2005_KS11_M4a	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_EMX2_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_EMX2_M5	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_KS2_M4	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RASC2006_KS3_M9	CDS	RASC2006_KS3_M8cdsA	-	-	-	-	-	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260	12,780,260
RASC2006_KS3_M9a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SBFT2006_KS3N_Resid	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000	15,711,000
		SBFT2006_KS3N_N3	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000	7,735,000
		RASC2005_KS11_M9cdsB	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)	(9,822,522)
SABR2005_FR4_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2005_OP1_B4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2006_OP1_B3	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2006_OP1_B3a	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SABR2006_OP1_B3b	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SGMS2006_OPT2_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Confidential Treatment Requested

HBK's Exposure to Gemstone VII Collateral

Bonds held by Gemstone VII as collateral	Cash or CDS	Other bonds from same ABS issuers owned directly by HBK	9/30/2006 HBK Position	10/31/2006 HBK Position	11/30/2006 HBK Position	12/31/2006 HBK Position	1/31/2007 HBK Position	2/28/2007 HBK Position	3/31/2007 HBK Position	4/30/2007 HBK Position	5/31/2007 HBK Position	6/30/2007 HBK Position	7/31/2007 HBK Position	8/31/2007 HBK Position	9/30/2007 HBK Position	10/31/2007 HBK Position	11/30/2007 HBK Position	12/31/2007 HBK Position
SGMS2006_OPT2_M7	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SLMA2006_B_C	Cash	SLMA2006_B_C	19,990,625	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SURF2006_AB1_B2	CDS		-	-	-	-	-	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000	4,751,000
SURF2006_AB1_B3	CDS	SURF2006_AB1_B3cdsA	-	-	-	-	-	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600	9,601,600
		SURF2006_AB1_B3cdsB	-	-	-	-	-	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400	9,402,400
		SURF2006_AB1_B3cdsC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SURF2006_AB1_NIM_RESID	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125	8,842,125
SURF2006_AB3_B1	Cash	SURF2006_AB3_B1	2,550,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SURF2006_AB3_B3	Cash	SURF2006_AB3_B3	4,250,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		SURF2006_AB3_C_RESID	14,108,112	14,108,112	14,108,112	14,108,112	14,108,112	14,108,112	14,108,112	-	-	-	-	-	-	-	-	-
		SURF2006_AB3_P_RESID	4,720,000	4,720,000	4,720,000	4,720,000	4,720,000	4,720,000	4,720,000	-	-	-	-	-	-	-	-	-
		SURF2006_AB3N_Resid	-	-	-	-	-	-	-	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085	10,092,085
SVHE2006_EQ1_M10	Cash	SVHE2006_EQ1_M10	5,978,643	-	-	-	-	-	-	-	-	-	-	-	-	-	170,000	170,000
TMTS2006_17HE_M4	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		TMTS2006_17HE_N	-	-	-	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000	12,800,000
		TMTS2006_17HE_RESID	-	-	-	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249	3,152,249
TMTS2006_6SL_A2	Cash	TMTS2006_6SL_A2	32,517,844	32,517,844	17,826,047	17,826,047	17,826,047	17,826,047	17,826,047	-	-	-	-	-	-	-	-	-
TMTS2006_8_1A2	Cash	TMTS2006_8_1A2	124,541,890	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	109,801,461	67,545,562	67,545,562	67,545,562
WADS2006_1A_B	CDS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
WFHET2005_3_M11	Cash	WFHET2005_3_M11	7,552,040	7,552,040	7,552,040	-	-	-	-	-	-	-	-	-	-	-	-	-
WFHET2006_1_M11	Cash	WFHET2006_1_M11	3,532,500	3,532,500	3,532,500	-	-	-	-	-	-	-	-	-	-	-	-	-
WFHET2006_1_M9	CDS	WFHET2006_1_M9cdsA	-	-	-	-	-	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625	44,539,625
		GSAMP2006_WF1N_RESID	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998	5,916,998
		GSAMP2006_WF1N_N3	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149	4,767,149
Total			820,296,328	521,226,679	502,302,718	544,021,585	491,284,357	807,710,923	832,659,830	821,842,756	789,771,489	782,949,377	778,646,569	778,646,569	741,370,671	743,335,775	743,821,523	727,921,523

Exhibit C
Summary of HBK's Exposure to Gemstone VII Notes and Collateral

The chart below shows HBK's aggregate exposure to the Gemstone VII collateral, reflecting the sum of (a) exposure to the Gemstone VII notes and Residual Interest (from Exhibit A) and (b) exposure to the Gemstone VII collateral and other bonds issued by the same ABS issuers (from Exhibit B), at the end of each month from September 2006 through December 2007. Exposure is shown using the same values reflected on Exhibit A (second chart) and Exhibit B.

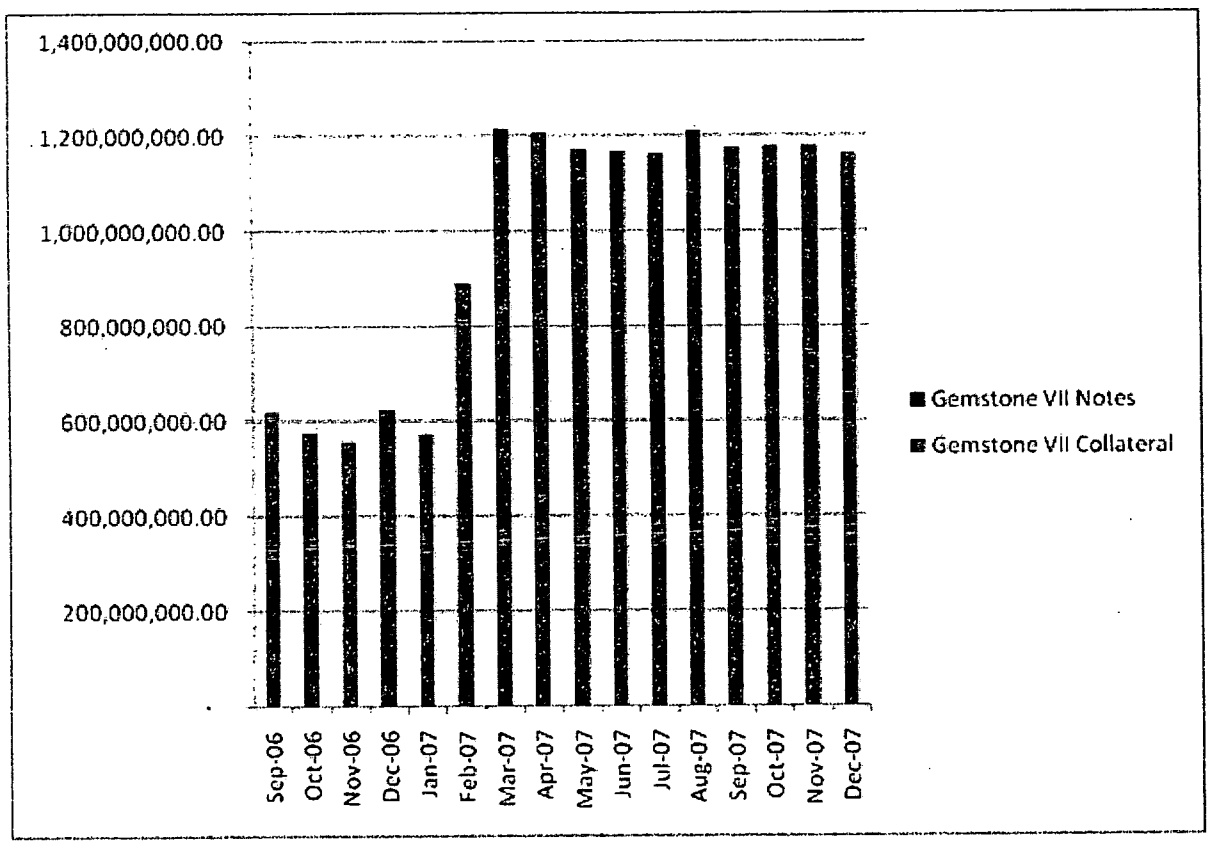


Exhibit D
Monthly Profits and Losses for HBK's Structured Credit Business Unit

Attached is a chart showing the profits and losses of HBK's Structured Credit business unit on a monthly basis during 2007.

Substantially all of HBK's mortgage-related positions (including mortgages, ABS, CDOs and related index products and derivatives) were held in HBK's Structured Credit business unit. A relatively small amount of long positions in such assets were held in the firm's Treasury and Developed Markets Fixed Income units, but no short positions in such assets were held outside of Structured Credit.

Total Profit (Loss)
Structured Credit Business Unit
2007

Month	Total Profit (Loss)
Jan	8,162,946.09
Feb	336,665.66
Mar	(50,140,483.30)
Apr	(31,599,011.20)
May	(8,066,517.86)
Jun	(11,855,742.33)
Jul	(66,082,039.71)
Aug	(38,509,888.97)
Sep	(90,157,337.75)
Oct	(74,630,874.25)
Nov	(111,989,924.67)
Dec	(262,705,765.48)
Grand Total for 2007	**(737,237,973.77)**

From: Jordan Milman
Sent: Tuesday, January 9, 2007 04:18:33 PM
To: Jason Lowry
CC: Greg Lippmann; Kevin Jenks
Subject: Re: Corrected Final Approval Request

approved contingent upon first pay defaults getting bought back on the 2 heat bonds

"Jason Lowry" <JLowry@hbk.com>

01/09/2007 11:44 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas

cc "Kevin Jenks" <kjenks@hbk.com>

Subject Corrected Final Approval Request

This is the last BB list for approval. Could you take a look?

	Notional (000s)		spread	speed	price	
437096AT7	2500	HEAT 2006-5 B3 Mtge	BBB-	Ba2	1050	100ppc
81.218750000						
43709NAS2	11000	HEAT 2006-7 B3 Mtge	BB+	Ba2	1050	100ppc
77.121093750						
040104NQ0	14000	ARSI 2005-W2 M12 Mtge	BBB-	NR	910	35cpr 85.566406250

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1373

From: Greg Lippmann
Sent: Monday, December 11, 2006 05:37:58 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

We want to work together. Can we compromide, call it 1 pt on those bonds and I'm koi on the rest. I think that is fairt.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/11/2006 04:19 PM
To: Greg Lippmann
Subject: RE: List we want to move to cdo

One goes for the other. I need to rethink things as we go forward. Not personal This is where good paper is trading and our month end marks prove it. You can't compare to the crap in the market now. Just look at the aggressive levels on cash bid lists.

From: Greg Lippmann
Sent: Monday, December 11, 2006 3:47 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

I appreciate allk you've done and want to continue the non comp. I've tried to work with you and don't think my 'ask' is that onerous.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/11/2006 02:56 PM
To: Greg Lippmann
Subject: RE: List we want to move to cdo

Greg, I have been trying to work with you. Doing trades just with you and not on bid lists. But we play in the higher quality part of the market, I really expected you to approve the list as is. We still have several hundred million of bonds to do in cds form to do. The bonds that I create have more OC are better collateral and better names. They always trade at the tighter end of the market. None are on downgrade watch and are seasoned. and I really don't understand your incentive to be doing this. We can start doing bid lists.

Kevin

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:37 PM
To: Kevin Jenks
Subject: RE: List we want to move to cdo

we have seen the flht 05-d bbb- trade wide....please work with me on this...i am trying to work with you

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1373

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 04:20 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject RE: List we want to move to cdo

Greg, Fremont overall is really not trading badly just the ones on downgrade watch. Also from the bb list color which I am sure you have seen. Good BB's are trading well. Also we have the majority of the bonds in here that are 05 vintage which is trading very well. So I don't want to lower them by 2 pts. and even yesterdays bb list traded great with the significant widening of baa3 cds

---

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:00 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

Ok approved but would like to lower these 2 pts each given recent press on fhlt and the significant widening in the baa3 cds. Is that cool?

35729PMR8■■■■■■■ 3,000.000 ■■■■ FHLT 2005-D B2 Mtge■■■■
■■■■■■■ 775■■■■■ 35c ■■ ■■■■■■■ 86.71875
362334PW8■■■■■■■ 3,000.000 ■■■■ GSAMP 06-FM1 B4 Mtge■■■
900■■■■■ 35c ■■ ■■■■■■■ 83.69921875
36245DAV2■■■■■■■ 10,217.000 ■■■ GSAMP 06-FM2 B2 Mtge■■■
900■■■■■ 100ppc ■■■■■■■ 81.1171875

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:31 PM
To: Greg Lippmann
Subject: List we want to move to cdo

Please approve

			spread	speed	price	
03072SYH2	4,000.000	AMSI 2005-R1 M10 Mtge	800	35c		92.46875
35729PMR8	3,000.000	FHLT 2005-D B2 Mtge	775	35c		86.71875
362334PW8	3,000.000	GSAMP 06-FM1 B4 Mtge	900	35c		83.69921875
36245DAV2	10,217.000	GSAMP 06-FM2 B2 Mtge	900	100ppc		81.1171875
437084RJ7	4,500.000	HEAT 2005-9 B3 Mtge	850	100ppc		85.46484375
437084QK5	7,500.000	HEAT 2005-8 B3 Mtge	850	100ppc		86.84375
362463AR2	8,815.000	GSAMP 06-NC2 B2 Mtge	800	100ppc		84.69140625

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October 25, 2006

Jamiel Akhtar
Managing Director
HBK Investments L.P.
300 Crescent Court Suite 700
Dallas, Texas 75201

Dear Mr. Akhtar:

This letter agreement (this "**Agreement**") confirms the understanding and agreement among (i) Deutsche Bank Securities Inc. (together with its affiliates, "**DBSI**"), (ii) HBK Investments L.P. (the "**Company**"), (iii) HBK Master Fund L.P. and HBK Fixed Income Ltd. (collectively, the "**HBK Funds**", and together with the Company, the "**HBK Entities**"), and (iv) Gemstone CDO VII Ltd., an exempted company formed with limited liability in the Cayman Islands (the "**Issuer**") with respect to the proposed collateralized debt obligation transaction described below:

1. Description of the Transaction

The parties hereto agree, subject to the terms and conditions set forth in this Agreement, that DBSI shall act as structuring agent, sole lead placement agent and sole bookrunner with respect to the following:

(a) the acquisition of structured product securities (the "**Underlying Assets**") and certain swaps, caps, floors or other derivative instruments related thereto (the "**Swaps**" and, together with the Underlying Assets, the "**Collateral**") purchased by the Issuer;

(b) the appointment of the Company as the sole investment manager to the Issuer with respect to the Collateral (in such capacity, the "**Collateral Manager**"), pursuant to a management agreement to be entered into between the Issuer and the Collateral Manager (the "**Management Agreement**"); and

(c) the offering of (i) multiple classes of notes rated investment grade or higher (the "**Investment Grade Notes**") and (ii) one or more classes of notes rated below investment grade (the "**Below Investment Grade Notes**", and together with the Investment Grade Notes, the "**Notes**") and preferred equity (the "**Preferred Equity**" and, together with the Notes, the "**Securities**") to be issued, in each case, by the Issuer, with services provided by DBSI as outlined in paragraph 2 of this Agreement ((a) through (c), collectively, the "**Transaction**").

It is anticipated that the Securities will have an approximate aggregate initial principal and notional balance of up to $750 million (the initial principal and notional balance of the Transaction is the "**Transaction Size**").

2. DBSI's Services

In connection with the Transaction, the parties hereto agree that DBSI shall provide, and, where relevant, the Company will assist DBSI in providing, services including, but not limited to, the following:

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

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Report Footnote #1375

GEM7-00000071

(a) advising the Issuer and the Company on selection and acquisition of the Underlying Assets;

(b) structuring the Transaction, including evaluation of the effect of various structural alternatives and the potential economic and market impact of such alternatives;

(c) assisting the Issuer and the Company in managing the Transaction process;

(d) advising the Issuer and the Company on the scope of due diligence for the Underlying Assets;

(e) obtaining credit ratings on the Notes from at least two rating agencies (each, a "**Rating Agency**"), which shall consist of at least Standard & Poor's Ratings Services and one of Moody's Investors Service, Inc. and Fitch, Inc.;

(f) assist the Issuer and the Company in obtaining a financial guaranty insurance policy, if applicable, from one of Ambac Assurance Corporation, CIFG Group, Financial Security Assurance Inc., MBIA Insurance Corporation, XL Capital or any other firm mutually agreed by DBSI and the Company (each, a "**Bond Insurer**");

(g) assisting the Issuer and the Company in evaluating and retaining third party Transaction participants, including any trustees, SPV administrators, all Transaction counsel, printer, accountants and such other parties and Transaction services that may be desired;

(h) developing necessary modeling and collateral tracking tools for the Transaction, with all such materials to be shared with the Company;

(i) assisting the Issuer, the Company and their counsel in coordinating efforts to achieve timely and efficient documentation and closing of the Transaction;

(j) assisting in the preparation of any offering or information memorandum, or other offering document, in respect of the Securities, including any amendments or supplements thereto (collectively, the "**Offering Documents**") and, in the preparation of supplemental marketing materials, including any confidential information memorandum, a roadshow presentation, cash flow analyses and other summary information in connection with the Transaction (the "**Marketing Materials**"); other than, in either instance, the preparation of any Company Materials, which shall be the responsibility of the Company;

(k) acting as sole lead placement agent and sole bookrunner for an offering of the Securities that is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2), Rule 144A and/or Regulation S, where applicable;

(l) subject to internal credit approval, provide a facility to the Issuer to allow the Issuer to purchase Underlying Assets prior to the closing date of the Transaction and allow the Issuer to continue to hold such collateral after the closing date, in each case on terms acceptable to both the Company and DBSI, with certain risks included in such facility

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apportioned between DBSI and the Company, or an affiliate of the Company, on terms to be set forth in the Risk Sharing Agreement to be entered into by the Issuer, the Company or its affiliate, and DBSI;

(m) assisting the Issuer and the Company in designing a hedging strategy if such strategy is deemed necessary or appropriate by the Issuer and the Company in connection with the Transaction and, if acceptable to the Rating Agencies, the Company, DBSI and the Issuer, providing or arranging to provide such hedges; and

(n) if applicable and subject to credit and management approval by DBSI and Deutsche Bank AG London, providing a facility to the Company, or an affiliate of the Company, to allow the Company or such affiliate to purchase 100% of the triple-B rated Notes on the closing date of the Transaction (the terms of such facility are summarized in **Exhibit A**).

3. The Responsibilities of the Issuer and the Company

In connection with DBSI's services as described in paragraph 2, the Issuer and the Company agree, subject to the terms and conditions set forth in this Agreement, as follows:

(a) with respect to the offering of any Securities in connection with this Agreement, the Company shall cause the Issuer to designate DBSI as the lead placement agent and sole bookrunner with respect to the Securities subject to negotiation and execution of appropriate agreements. DBSI will, as the book-running manager, manage the placement process related to the sale of the Securities, with authority to allocate Securities (other than the Securities referenced in clause (b) below) in DBSI's discretion, after consultation with the Company, taking into account the timing of firm orders on each class of Securities;

(b) the Company, or an HBK Entity (as defined herein) or an affiliate thereof, shall purchase on the Closing Date all of the Below Investment Grade Notes and all of the Preferred Equity (such purchasing entity, the "**Securities Purchaser**" and such securities, the "**Subscribed Securities**"); *provided* that DBSI may, with the Company's consent, purchase and place all or a portion of the Preferred Equity. In addition, on or prior to the pricing of the transaction, DBSI will set the coupon on the triple-B rated Notes (in good faith and in its own discretion) within 50 basis points of market indication levels of discount margin ("**DM**") at the time of issuance with an assumption that such Notes will be issued at par. HBK will have the right of first refusal to purchase the notes if the triple-B rated Notes are issued at a DM of 3.25% or higher;

(c) with respect to the purchase of the Subscribed Securities, the Securities Purchaser, represents and warrants that:

(i) it is a "Qualified Institutional Buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and is purchasing the Subscribed Securities for its own account and not with a view to distribution,

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(ii) it is a "Qualified Purchaser" as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940 as amended, and

(iii) for the entire time it owns, directly or indirectly, Subscribed Securities, it will not be (i) an employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")), whether or not it is subject to the provisions of Title I of ERISA, (ii) a plan described in Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended, or (iii) an entity whose underlying assets include plan assets by reason of a plan's investment in the entity or otherwise under ERISA;

(d) the Company covenants to execute, or an HBK Entity (as defined herein) or an affiliate thereof shall execute, prior to the Closing Date a customary subscription agreement in relation to the purchase of the Subscribed Securities;

(e) the Company and the Issuer shall prepare, or otherwise cause to be prepared, Offering Documents relating to the Securities containing all required and appropriate disclosures;

(f) on the Closing Date, the Company shall furnish to DBSI (i) a 10b-5 letter in regard to the Company Materials and (ii) other corporate and enforceability opinions of counsel for the Company with respect to the Company's activities, each of which will be dated the Closing Date and in form and substance mutually agreeable (subject to customary provisions) to the Company and DBSI;

(g) with respect to any placement of Securities, the HBK Entities will cooperate fully with DBSI and provide such information and take such actions (including all sales and marketing assistance) as may be reasonably requested by DBSI to effect the issuance and sale of the Securities (including but not limited to telephonic and personal attendance of Company representatives at presentations to investors and the registration or qualification of the Securities in mutually agreed-upon jurisdictions). The Company shall make available to DBSI all information that is directly related to the Transaction concerning the business, assets, operations, financial condition and prospects of the Company that DBSI reasonably requests in connection with the performance of its obligations and the preparation of the Offering Documents and Marketing Materials (the "**Company Materials**"). All such information shall be complete and accurate and not misleading. The Company shall continue to advise DBSI regarding any material developments or matters relating to the Company that occur during the term of DBSI's engagement hereunder; and notwithstanding anything to the contrary contained herein or any oral representations or assurances previously or subsequently made by the parties, DBSI's obligation to place any Securities or to provide any financing for the Underlying Assets to be acquired in anticipation of the closing of the Transaction or for the Subscribed Securities from and after the Closing Date is subject to the execution by the Issuer, the Company and/or DBSI, where applicable, of a final, definitive placement agent agreement, a final, definitive subscription agreement, financing agreements, warehousing agreements and indemnification agreements, as the case may be, containing customary representations, warranties, covenants, indemnification provisions and closing conditions,

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and the satisfaction of each of such conditions, as well as the absence of any events set forth therein which would permit DBSI to terminate such agreement, and also to the satisfaction of each of the following conditions:

(i) the satisfactory completion by DBSI of its due diligence investigation of the Company and the Underlying Assets; and

(ii) there not having occurred (x) any material adverse change or any development involving a prospective material adverse change in the business, operations, or condition (financial or otherwise) of the Company, whether or not arising in the ordinary course of business, or (y) any material adverse change in the Underlying Assets, in each case, which would, in the reasonable judgment of DBSI, make it inadvisable or impracticable to proceed with any offering or financing of the Securities.

4. Compensation

(a) As compensation for the services rendered by DBSI hereunder, the Issuer shall pay from the proceeds of the Transaction on the Closing Date a structuring and placement fee equal to the sum of (i) the product of (a) 0.75% and (b) the aggregate principal balance of Investment Grade Notes issued by the Issuer (the "**Initial Note Balance**") up to $350 million, (ii) the product of (a) 0.65% and (b) the Initial Note Balance in excess of $350 million and (iii) the product of (a) 4.00% and (b) the amount of Preferred Equity purchased and placed by DBSI (the "**Structuring and Placement Fee**").

(b) The parties hereto anticipate that on the Closing Date the Issuer and the Company shall enter into the final Management Agreement whereby the Issuer shall agree to pay the Company a fee equal to 0.30% *per annum* (the "**Collateral Management Fee**"), calculated based on the aggregate principal balance of Underlying Assets as of the first day of the related collection period and payable on each payment date prior to the senior most class of Notes, in accordance with the priority of distributions set forth in the Indenture.

The parties hereto acknowledge that the management fee in the final Management Agreement may differ from the above, with the consent of the Company, in order to result in a marketable transaction for the Securities and such amended management fee shall supersede the above set forth Collateral Management Fee.

5. Matters Relating to DBSI

In connection with any offering of Securities, each of the Issuer and the Company acknowledges that DBSI is engaged in securities trading and brokerage activities, as well as the provision of investment banking and financial advisory services. In the ordinary course of trading and brokerage activities, DBSI and its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities of entities that may be involved in the Transaction contemplated hereby. DBSI recognizes its responsibility for compliance with federal securities laws in connection with such activities.

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

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Each of the Issuer and the Company acknowledges and agrees that DBSI is not, and does not hold itself out to be, an advisor as to legal, tax, accounting or regulatory matters in any jurisdiction. The Issuer and the Company shall consult with their own advisors concerning such matters and shall be responsible for making their own independent investigation and appraisal of the risks, benefits and suitability of the transactions contemplated by this Agreement, and DBSI shall have no responsibility or liability to the Issuer or the Company with respect thereto.

6. Exclusivity

The Company hereby agrees that prior to the earlier to occur of (i) the Closing Date and (ii) the termination of this Agreement in accordance with paragraph 13 below, none of the Company, any of its subsidiaries or any fund controlled by the Company or any such subsidiary will, without the prior written consent of DBSI, market at the same time as the transactions contemplated herein, any collateralized debt obligation transactions the underlying collateral of which consists primarily of asset-backed securities or mortgage-backed securities, including in synthetic form (a "**Similar Transaction**"); *provided* that (i) the Company may market a Similar Transaction at any time if DBSI (or its successor, if any) is no longer pursuing or structuring collateralized debt obligations (any of the foregoing, a "**DBSI Exit**") and (ii) the Company may enter into a transaction to warehouse collateral for a Similar Transaction so long as the marketing for such Similar Transaction does not begin before the Closing Date of the Transaction.

7. Transaction Expenses

The Issuer will pay when due but no later than the Closing Date any costs (all fees, expenses and any sales, use or similar taxes, collectively the "Costs") due in connection with the Transaction, including such fees and expenses incurred by all counsel to the Transaction (such fees and expenses to include any disbursements), accountants, trustees, paying agents, listing agents, securities intermediaries, hedge counterparties, the Company (limited to out-of-pocket expenses), the Collateral Manager, DBSI (limited to out-of-pocket expenses), printer, SPV administrators, each Rating Agency, and such other transaction parties approved by both the Company and DBSI. In the event that the Transaction does not close, all Costs shall be borne equally by the Company and DBSI, *provided* that each of the Company and DBSI will pay their respective out-of-pocket expenses. However, if the Transaction does not close due to any DBSI Breach (other than, where relevant, if the Company has failed to assist in the provision of those services or has otherwise frustrated DBSI's ability to perform such services) or any DBSI Exit, then all Costs will be borne by DBSI. If the offering of Notes cannot be completed due to (x) the inability or refusal of the Company without cause to purchase any Subscribed Securities it has committed to purchase pursuant to the terms of the subscription agreement relating thereto or (y) a breach by the Company of its obligations under the Interim Collateral Management Agreement or any other document to be executed prior to the Closing Date in connection with the Transaction, then all Costs shall be borne by the Company. "**DBSI Breach**" shall mean gross negligence, willful misconduct, fraud, criminal conduct, or material breach of DBSI's obligations under this Agreement.

8. Indemnification between the Issuer and DBSI

The Issuer shall:

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

Confidential Treatment Requested

(a) indemnify DBSI and each other Indemnified Person (as hereinafter defined) and hold it harmless against any and all losses, claims, damages or liabilities to which DBSI or such other Indemnified Person may become subject (i) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the Offering Documents or in any other written or oral communication provided by or on behalf of the Issuer to any actual or prospective purchaser of the Securities or arising out of or based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (except information describing DBSI that is provided by DBSI specifically for use in the Offering Documents (the "**DBSI Information**")) or (ii) arising in any manner out of or in connection with the services or matters which are the subject of this Agreement, including, without limitation, the offer and sale of the Securities; *provided*, that the Issuer shall not be liable under clause (ii) to an Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined that such loss, claim, damage or liability resulted directly from the gross negligence or willful misconduct of such Indemnified Person in the performance of its services hereunder; and

(b) reimburse DBSI and each other Indemnified Person promptly upon demand for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with the rendering of services by DBSI hereunder; *provided*, that in the event a final judicial determination is made to the effect specified in subparagraph (a) above, each Indemnified Person will remit to the Issuer any amounts reimbursed to it under this subparagraph (b).

The Issuer agrees that the indemnification and reimbursement commitments set forth above shall apply if the Company, the Issuer or DBSI is a formal party to any such lawsuits, claims or other proceedings, and that such commitments shall extend upon the terms set forth in this paragraph to any controlling person, affiliate, director, officer, employee or agent of DBSI (each, with DBSI, an "**Indemnified Person**"). The Issuer further agrees that, without DBSI's prior written consent, which consent shall not be unreasonably withheld, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all Indemnified Persons. The Issuer shall not be liable under this Agreement on account of any settlement entered into by any Indemnified Person unless the terms thereof have been approved in writing by the Issuer (which approval shall not be unreasonably withheld).

If indemnification is to be sought hereunder by an Indemnified Person, then such Indemnified Person shall promptly notify the Issuer of the commencement of any action or proceeding in respect thereof; *provided*, that the failure so to notify the Issuer shall not relieve the Issuer from any liability that it may have to such Indemnified Person pursuant to this paragraph except to the extent the Issuer has been prejudiced in any material respect by such failure or from any liability that it may have to such Indemnified Person other than pursuant to this paragraph. Notwithstanding the above, following such notification, the Issuer may elect in writing to assume and shall have the right to control the defense of

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such action or proceeding, and, upon such election, it shall not be liable for any legal costs subsequently incurred by such Indemnified Person (other than reasonable costs of investigation and providing evidence) in connection therewith, unless: (i) the Indemnified Person reasonably determines that there may be legal defenses available to it which are different from or in addition to those available to the Issuer; (ii) the Issuer has failed to provide counsel reasonably satisfactory to such Indemnified Person in a timely manner; or (iii) counsel which has been provided by the Issuer reasonably determines that its representation of such Indemnified Person would present it with a conflict of interest. In connection with any one action or proceeding, the Issuer shall not be responsible for the fees and expenses of more than one separate law firm in any one jurisdiction for all Indemnified Persons.

The Issuer and DBSI agree that if any indemnification or reimbursement sought pursuant to this paragraph 8 is judicially determined to be unavailable for a reason other than the gross negligence or willful misconduct of the Indemnified Person, then, whether or not DBSI is the Indemnified Person, the Issuer and DBSI shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable: (i) in such proportion as is appropriate to reflect the relative benefits to the Issuer on the one hand, and DBSI on the other hand, in connection with the transactions to which such indemnification or reimbursement relates; or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the Issuer on the one hand, and DBSI on the other hand, as well as any other equitable considerations; *provided*, that in no event shall the amount to be contributed by DBSI pursuant to this paragraph, paragraph 9 and paragraph 10 exceed the amount of the fees actually received by DBSI hereunder.

9. Indemnification between the HBK Funds and DBSI

The HBK Funds shall:

(a) indemnify DBSI and each other Indemnified Person (as defined above) and hold it harmless against any and all losses, claims, damages or liabilities to which DBSI or such other Indemnified Person may become subject (i) arising out of or based upon (x) any untrue statement or alleged untrue statement of a material fact contained in any information regarding the Company provided by the Company (including, among other things, the Company Materials) specifically for use in the Offering Documents or any Marketing Materials or (y) any other information provided by the Company specifically for use in any written materials given to any actual or prospective purchaser of the Securities or arising out of or based upon, in the case of the information described in (x) or (y) above (such information, the **"Offering Materials"**), the omission or alleged omission to state in the Offering Materials a material fact related to the Company required to be stated in the Offering Materials or necessary in order to make the statements in the Offering Materials, in the light of the circumstances under which they were made, not misleading, or (ii) arising out of or in connection with a Collateral Manager Breach (as defined in the Interim Collateral Management Agreement); *provided, however,* that the HBK Funds shall not be liable to an Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful

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misconduct, or fraud of such Indemnified Person in the performance of its services hereunder, and

(b) reimburse DBSI and each other Indemnified Person promptly upon demand for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with a claim pursuant to subparagraph (a) above; *provided, however*, that the HBK Funds shall not be liable to an Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful misconduct, or fraud of such Indemnified Person in the performance of its services hereunder.

The HBK Funds agree that the indemnification and reimbursement commitments set forth above shall apply if either the Company, the Issuer or DBSI is a formal party to any such lawsuits, claims or other proceedings, and that such commitments shall extend upon the terms set forth in this paragraph to any Indemnified Person. The HBK Funds further agree that, without DBSI's prior written consent, which consent shall not be unreasonably withheld, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all Indemnified Persons. The HBK Funds shall not be liable under this Agreement on account of any settlement entered into by any Indemnified Person unless the terms thereof have been approved in writing by the HBK Funds (which approval shall not be unreasonably withheld).

If indemnification is to be sought hereunder by an Indemnified Person, then such Indemnified Person shall promptly notify the HBK Funds of the commencement of any action or proceeding in respect thereof; *provided*, that the failure so to notify the HBK Funds shall not relieve the HBK Funds from any liability that it may have to such Indemnified Person pursuant to this paragraph except to the extent the HBK Funds have been prejudiced in any material respect by such failure or from any liability that it may have to such Indemnified Person other than pursuant to this paragraph. Notwithstanding the above, following such notification, the HBK Funds may elect in writing to assume and shall have the right to control the defense of such action or proceeding, and, upon such election, it shall not be liable for any legal costs subsequently incurred by such Indemnified Person (other than reasonable costs of investigation and providing evidence) in connection therewith, unless: (i) the Indemnified Person reasonably determines that there may be legal defenses available to it which are different from or in addition to those available to the HBK Funds; (ii) the HBK Funds have failed to provide counsel reasonably satisfactory to such Indemnified Person in a timely manner; or (iii) counsel which has been provided by the HBK Funds reasonably determines that its representation of such Indemnified Person would present it with a conflict of interest. In connection with any one action or proceeding, the HBK Funds shall not be responsible for the fees and expenses of more than one separate law firm in any one jurisdiction for all Indemnified Persons.

The HBK Funds and DBSI agree that if any indemnification or reimbursement sought pursuant to paragraph 8, paragraph 10 and this paragraph 9 is judicially determined to be unavailable for a reason

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other than the gross negligence or willful misconduct or fraud of the Indemnified Person, then, whether or not DBSI is the Indemnified Person, the HBK Funds and DBSI shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable: (i) in such proportion as is appropriate to reflect the relative benefits to the HBK Funds on the one hand, and DBSI on the other hand, in connection with the transactions to which such indemnification or reimbursement relates; or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the HBK Funds on the one hand, and DBSI on the other hand, as well as any other equitable considerations; *provided*, that in no event shall the amount to be contributed by DBSI pursuant to paragraph 8, paragraph 10 and this paragraph 9 exceed the amount of the fees actually received by DBSI hereunder. HBK Fund's aggregate liability with respect to contributions sought pursuant to paragraph 10 and this paragraph 9 shall not exceed an amount equal to (1) the greater of (i) 1.2% of the Transaction Size, subject to a minimum of $6,000,000 or (ii) the aggregate gross amount of all Collateral Management Fees paid to the Company under the Management Agreement from the Closing Date to the date of such contribution (such fees not to include income paid to any HBK Entity or an affiliate thereof, as a result of its holding of any Securities) *minus* (2) the aggregate amount of all contributions, liabilities or damages previously paid by the HBK Funds hereunder.

10. Indemnification between DBSI and the Company

DBSI shall:

(a) indemnify the Company and each controlling person affiliate, director, officer, manager, employee or agent of the Company (each, with the Company, "**a HBK Indemnified Person**") and hold it harmless against any and all losses, claims, damages or liabilities to which the Company or such other HBK Indemnified Person may become subject arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the DBSI Information specifically for use in the Offering Documents or based upon the omission or alleged omission to state in the DBSI Information a material fact required to be stated therein or necessary in order to make the statements in the DBSI Information, in the light of the circumstances under which they were made, not misleading; *provided, however,* that DBSI shall not be liable to an HBK Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful misconduct, or fraud of such HBK Indemnified Person in the performance of its services hereunder; and

(b) reimburse the Company and each other HBK Indemnified Person promptly upon demand for any legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with a claim pursuant to subparagraph (a) above; *provided, however,* that DBSI shall not be liable to an HBK Indemnified Person under this paragraph in respect of any loss, claim, damage, liability or expense to the extent that it is finally judicially determined (or in arbitration) that such

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loss, claim, damage, liability or expense, resulted directly from the gross negligence, willful misconduct, or fraud of such HBK Indemnified Person in the performance of its services hereunder.

DBSI agrees that the indemnification and reimbursement commitments set forth above shall apply if either the Company, the Issuer or DBSI is a formal party to any such lawsuits, claims or other proceedings, and that such commitments shall extend upon the terms set forth in this paragraph to any HBK Indemnified Person. DBSI further agrees that, without the Company's prior written consent, which consent shall not be unreasonably withheld, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all HBK Indemnified Persons. DBSI shall not be liable under this Agreement on account of any settlement entered into by any HBK Indemnified Person unless the terms thereof have been approved in writing by DBSI (which approval shall not be unreasonably withheld).

If indemnification is to be sought hereunder by a HBK Indemnified Person, then such Indemnified Person shall promptly notify DBSI of the commencement of any action or proceeding in respect thereof; *provided*, that the failure so to notify DBSI shall not relieve DBSI from any liability that it may have to such HBK Indemnified Person pursuant to this paragraph except to the extent DBSI has been prejudiced in any material respect by such failure or from any liability that it may have to such Indemnified Person other than pursuant to this paragraph. Notwithstanding the above, following such notification, DBSI may elect in writing to assume and shall have the right to control the defense of such action or proceeding, and, upon such election, it shall not be liable for any legal costs subsequently incurred by such HBK Indemnified Person (other than reasonable costs of investigation and providing evidence) in connection therewith, unless: (i) the HBK Indemnified Person reasonably determines that there may be legal defenses available to it which are different from or in addition to those available to DBSI; (ii) DBSI has failed to provide counsel reasonably satisfactory to such Indemnified Person in a timely manner; or (iii) counsel which has been provided by DBSI reasonably determines that its representation of such HBK Indemnified Person would present it with a conflict of interest. In connection with any one action or proceeding, DBSI shall not be responsible for the fees and expenses of more than one separate law firm in any one jurisdiction for all HBK Indemnified Persons.

The Company and DBSI agree that if any indemnification or reimbursement sought pursuant to this paragraph 10 is judicially determined to be unavailable for a reason other than the gross negligence or willful misconduct of the HBK Indemnified Person, then, whether or not the Company is the HBK Indemnified Person, the HBK Funds and DBSI shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable: (i) in such proportion as is appropriate to reflect the relative benefits to the Company on the one hand, and DBSI on the other hand, in connection with the transactions to which such indemnification or reimbursement relates; or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the Company on the one hand, and DBSI on the other hand, as well as any other equitable considerations. Notwithstanding the foregoing, in no event shall DBSI's liability pursuant to the contribution provisions of this Agreement exceed the aggregate amount of fees actually received by DBSI under this Agreement. HBK Fund's aggregate liability with respect to contributions sought pursuant paragraph 9 and this paragraph shall not exceed an amount equal to (1) the greater of (i) 1.2% of

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the Transaction Size, subject to a minimum of $6,000,000 or (ii) the aggregate gross amount of all Collateral Management Fees paid to the Company under the Management Agreement from the Closing Date to the date of such contribution (such fees not to include income paid to any HBK Entity or an affiliate thereof, as a result of its holding of any Securities) *minus* (2) the aggregate amount of all contributions, liabilities or damages previously paid by the HBK Funds hereunder.

11. Confidentiality

Except as contemplated by the terms hereof or as required by applicable law or pursuant to an order entered or subpoena issued by a court of competent jurisdiction, DBSI shall keep confidential all non-public information provided to it by the Company, and shall not disclose such information to any third party, other than such of its employees and advisors as DBSI determines to have a need to know. DBSI shall not use any such non-public information provided to it by the Company except in providing the services contemplated herein.

Except as required by applicable law, or pursuant to an order entered or subpoena issued by a court of competent jurisdiction, any materials and analysis to be provided by DBSI under this Agreement, including the content and results of presentations to and discussions with the Rating Agencies, shall not be disclosed publicly or made available to third parties without the prior written approval of DBSI and the Company, and accordingly such materials and analysis shall not be relied upon by any person or entity other than the Company.

Except as required by applicable law, or pursuant to an order entered or subpoena issued by a court of competent jurisdiction or the Transaction documents, the Company agrees not to disclose to any third party (other than its advisors in connection with this Transaction) the names of any purchasers or prospective purchasers of the Securities and any financial analysis, presentation materials, draft or final legal documents or other information prepared by DBSI or by legal counsel to DBSI without the prior written approval of DBSI.

Notwithstanding the foregoing, the Company may disclose any information referred to in the preceding two paragraphs (i) to the Company's officers, directors, partners, affiliates, employees, agents, consultants and advisors as the Company determines to have a need to know, (ii) that was already in the Company's possession prior to receipt from DBSI, (iii) that is obtained by the Company from a third party who is not otherwise known by the Company to be prohibited from transmitting the information to the Company by a confidentiality agreement, (iv) that is or becomes publicly available other than as a result of disclosure by the Company, or (v) that is independently developed by the Company.

Notwithstanding any other provision in this Agreement, in connection with Treasury Regulation Section 1.6011-4 of the Internal Revenue Code of 1986, as amended, the Company, the Issuer and DBSI hereby agree that each party (and each employee, representative, or other agent of such party) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the Transaction and all materials of any kind (including opinions or other tax analyses) that are provided to such party relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

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12. Advertising

The Company agrees that DBSI has the right following the closing of the Transaction to place advertisements in financial and other newspapers and journals at its own expense describing its services to the Company hereunder; *provided* that DBSI will submit a copy of any such advertisements to the Company for its prior approval.

13. Termination; Survivability

The term of DBSI's engagement hereunder shall extend from the date hereof until the earlier to occur of (a) the three month anniversary of this Agreement or (b) termination by the Company, or otherwise, of the credit agreement between Deutsche Bank AG, Cayman Islands Branch and the Issuer; *provided* that upon mutual agreement by the Company and DBSI the engagement may be extended for a period of 60 days (the "**Term**"). Subject to the provisions of paragraphs 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, which shall survive any termination or expiration of this Agreement, either party may terminate the engagement hereunder at any time by giving the other party at least 10 days prior written notice. If the Company provides notice of its termination of this Agreement to DBSI during the Term or if the credit agreement is terminated, then, if the Company closes a Similar Transaction before the earlier to occur of (a) the date which is 3 months after the effective date of the termination notice from the Company or the date of termination of the credit agreement, as applicable, and (b) the twelve month anniversary of the date of this Agreement, then the Company shall pay DBSI, upon the closing of such Similar Transaction, fees equal to the minimum fees that DBSI would have received had it closed the Transaction, assuming the same tranching and notional transaction size as the Similar Transaction; *provided* that the Company shall not be required to pay such fees if this Agreement is terminated or if the Transaction otherwise fails to close as a result of any DBSI Breach or DBSI Exit.

14. Other Parties

The Company and DBSI each represent to the other that there is no other person or entity that is entitled to a finder's fee or any type of brokerage commission in connection with the Transactions contemplated by this Agreement as a result of any agreement or understanding with it. At DBSI's option, some or all of its services hereunder may be performed by, and some or all of its fees may be paid to, an affiliate or affiliates of DBSI and the term "DBSI" as used in this Agreement shall include such affiliate or affiliates wherever appropriate.

15. Scope of Agreement

Nothing in this Agreement, expressed or implied, is intended to confer or does confer on any person or entity other than the parties hereto or their respective successors and assigns, and to the extent expressly set forth herein, the Indemnified Persons, any rights or remedies under or by reason of this Agreement or as a result of the services to be rendered by DBSI hereunder. The Company further agrees that neither DBSI nor any of its controlling persons, affiliates, directors, officers, employees or agents shall have any liability to the Company for any losses, claims, damages, liabilities or expenses arising out of or relating to this Agreement or the services rendered or to be rendered by DBSI hereunder, unless it is finally judicially determined that such losses, claims, damages, liabilities or expenses directly resulted from the gross negligence, willful misconduct or fraud of DBSI.

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16. Enforceability

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

17. Choice of Law; Waiver of Trial by Jury

This Agreement may not be amended or modified except in writing signed by each of the parties. This Agreement shall be construed in accordance with, and this Agreement and all matters arising out of or relating in any way whatsoever to this Agreement (whether in contract, tort or otherwise) shall be governed by, the laws of the State of New York without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law). Any right to trial by jury with respect to any lawsuit, claim or other proceeding arising out of or relating to this Agreement or the services to be rendered by DBSI hereunder is expressly and irrevocably waived.

18. No Fiduciary Relationship

The Company further acknowledges and agrees that:

(i) DBSI has been engaged solely to act as structurer and placement agent in connection with the Transaction and that no fiduciary, advisory or agency relationship between the Issuer or the Company, on the one hand, and DBSI, on the other hand, has been created in respect of any of the transactions contemplated by this Agreement, irrespective of whether DBSI has advised or is advising the Issuer or the Company on other matters;

(ii) the pricing of the Securities will be established following discussions and arms-length negotiations with DBSI, and the Company is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated by this Agreement;

(iii) it has been advised that DBSI and its affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company and that DBSI has no obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship; and

(iv) It waives, to the fullest extent permitted by law, any claims it may have against DBSI for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that DBSI shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including stockholders, employees or creditors of the Company.

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19. Limited Recourse

The obligations of the Issuer hereunder are limited recourse obligations payable solely from the Collateral and following realization of such Collateral, any claims of the parties hereto shall be extinguished. No recourse shall be had against any officer, director, employee, shareholder or incorporator of the Issuer or their respective successors or assigns for any amounts payable under the obligations of the Issuer hereunder. It is understood that the foregoing provisions shall not (a) prevent recourse to the Collateral for the sums due or to become due under any instrument or agreement which is part of the Collateral or (b) constitute a waiver, release or discharge of any obligations of the Issuer hereunder until such Collateral has been realized, whereupon any outstanding indebtedness or obligation shall be extinguished and hereafter shall not revive. It is further understood that the foregoing provisions shall not limit the right of any person to name the Issuer as a party or defendant in any action or suit or in the exercise of any other remedy pursuant to the obligations of the Issuer hereunder, so long as no judgment in the nature of a deficiency judgment or seeking personal liability shall be asked for or (if obtained) enforced against any such person or entity. This Section shall survive termination of this Agreement.

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

If the foregoing correctly sets forth the understanding and agreement among DBSI, the Company and the Issuer, please so indicate in the space provided for that purpose below, whereupon this letter shall constitute a binding agreement as of the date first above written.

DEUTSCHE BANK SECURITIES INC.

By: _____
Name: Michael Lamont
Title: Managing Director

By: _____
Name: RICHARD R. KIM
Title: DIRECTOR

AGREED:

HBK INVESTMENTS L.P.

KKR

By: _____
Name: J. Baker Gentry, Jr.
Title: Authorized Signatory

HBK MASTER FUND L.P.

KKR

By: _____
Name: J. Baker Gentry Jr.
Title: Authorized Signatory

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HBK FIXED INCOME LTD.

By: _____
Name:
Title:

GEMSTONE CDO VII LTD.

By: _____
Name: Alan Corkish
Title: Director

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HBK FIXED INCOME LTD.

By: _____
Name:
Title: J. Baker Gentry, Jr.
Authorized Signatory

GEMSTONE CDO VII LTD.

By: _____
Name:
Title:

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

EXHIBIT A

Borrower	An affiliate of HBK Investments L.P.("**HBK**"); provided that such affiliate's obligations shall be guaranteed by an HBK Entity
Collateral	Triple-B rated Notes issued by GEMSTONE CDO VII Ltd.
Facility Provider	Deutsche Bank AG London ("**DB London**")
Facility Term	Initial term of 18 months, extendable for additional six months at the option of DB London and such extension is agreed to in writing by the Company.
Interest Rates	LIBOR + 0.45% for triple-B Rated(1) Notes
Advance Rates	75% for triple-B Rated Notes
Funded Amount	Advance Rates applied to lesser of (1) mark-to-market value of the purchased securities and (2) the purchase price of the purchased securities.
Conditions	Agreement by the Company to, *inter alia*, standard financial representations, warrantees and covenants consistent with the existing facilities provided by DBSI.

(1) "Rated" means rated by both Rating Agencies as to principal and market interest for the rating level described.

This letter does not constitute an offer to underwrite or sell securities. This letter does not present all of the terms, conditions, covenants, representations, warranties and other provisions which will be contained in the definitive legal documentation for the transaction described hereby. Those matters that are not covered or made clear in this letter are subject to mutual agreement of the parties. Any transaction will be subject to, among other things, satisfactory due diligence, final credit approval, documents, filings and opinions acceptable to counsel and the execution of mutually acceptable definitive documentation.

EXECUTION COPY

RISK SHARING AGREEMENT

OCTOBER 24, 2006

Among

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH

DEUTSCHE BANK SECURITIES INC.

And

GEMSTONE CDO VII LTD.

And

HBK MASTER FUND L.P.

And

HBK FIXED INCOME LTD.

And

HBK INVESTMENTS L.P.

ALLEN & OVERY

Allen & Overy LLP

40713-00080 NY:1595961.4

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1376

RISK SHARING AGREEMENT (the **Agreement**) dated as of October 24, 2006

AMONG

(1) **DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH** (the **Bank**),

(2) **GEMSTONE CDO VII LTD.**, an exempted company incorporated with limited liability under the laws of the Cayman Islands (the **Issuer**),

(3) **DEUTSCHE BANK SECURITIES INC.** (**DBSI**) and HBK Master Fund L.P. (**HBK Master**) and,

(4) **HBK FIXED INCOME LTD.** (**HBK Fixed Income** and, together with HBK Master, the **HBK Entities**) and

(5) **HBK INVESTMENTS L.P.** (**HBK Investments**).

PRELIMINARY STATEMENT

(A) It is expected that, on or before the 120th day after the date of the Credit Agreement (the **CDO Closing Date**), (i) pursuant to an Indenture (the **Indenture**) among the Issuer, Gemstone CDO VII Corp., a corporation to be formed under the laws of Delaware, (the **Co-Issuer**) and a trustee, the Issuer and the Co-Issuer intend to issue one or more Classes of secured notes (the **CDO Notes**) and (ii) pursuant to the Issuer's Articles of Association and the Issuer's corporate resolutions and the Preference Share Paying Agency Agreement, to be dated as of the CDO Closing Date between the Issuer and a paying agent, the Issuer will issue Preference Shares (the **Preference Shares**).

(B) It is expected that on the CDO Closing Date the Aggregate Principal Amount of the CDO Notes together with the aggregate issue price of the Preference Shares will equal up to U.S. $750,000,000.

(C) Pursuant to a Credit Agreement dated as of the date hereof (the **Credit Agreement**), by and among the Issuer, DBSI and the Bank, the Bank will make available to the Issuer certain loans (collectively, the **Loans**), the proceeds of which will be used by the Issuer to acquire certain Underlying Assets in advance of the closing of the CDO Transaction and the issuance of the CDO Notes and the Preference Shares.

(D) Each Underlying Asset and all Eligible Investments will be selected by HBK Investments LP, with the approval of DBSI, pursuant to the Interim Collateral Management Agreement, dated as of the date hereof (the **Interim Collateral Management Agreement**), between the Issuer and HBK Investments L.P. (the **Collateral Manager**).

(E) It is expected that, at the closing of the CDO Transaction, the proceeds from the issuance of the CDO Notes and the Preference Shares will be used to repay in full all amounts owing by the Issuer to the Bank under the Credit Agreement.

(F) Capitalized terms that are used but not defined herein have the respective meanings specified in the Credit Agreement and, if not defined in the Credit Agreement, in the Interim Collateral Management Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. MANDATORY LIQUIDATION EVENT

If a Mandatory Liquidation Event occurs, the Bank and the Issuer shall cause all of the Collateral Debt Securities to be sold and liquidated and all of the Long CDS Transactions and interest rate agreements to be terminated or assigned pursuant to this Section 1, the Credit Agreement and the Pledge Agreement.

2. GAINS AND LOSSES

In connection with the risk associated with the Issuer's purchase of Underlying Assets in the manner contemplated by the Credit Agreement, if any of the Underlying Assets are liquidated, terminated or assigned, as applicable, subject to the terms of the Pledge Agreement, the Bank, the HBK Entities, DBSI and the Issuer agree as follows:

(a) On the fifth Business Day after the liquidation of any Underlying Asset purchased by the Issuer,

(i) the HBK Entities shall pay to the Issuer, an amount equal to any Loss that results from such liquidation and any Negative Portfolio Net Carry; *provided* that the aggregate amounts paid by the HBK Entities to the Issuer pursuant to this subsection 2(a)(i) shall not exceed 7.5% of the Commitment (net of the aggregate amounts paid by the Issuer to the HBK Entities pursuant to subsection 2(a)(ii) and (iii)) (the **HBK Aggregate Liability**),

(ii) the Issuer shall pay, an amount equal to any Gain that results from such liquidation, *first*, in reduction of any Loss realized on any Underlying Asset (prior to and without duplication with any amounts paid by the HBK Entities in respect of such Loss hereunder), and *second*, to the HBK Entities, *pro rata* per such HBK Entities as advised by the HBK Entities, and

(iii) The Issuer shall pay, an amount equal to any Positive Net Carry, *first*, in reduction of any Loss realized on any Underlying Asset (prior to and without duplication with any amounts paid by the HBK Entities in respect of such Loss hereunder), and *second*, to the HBK Entities, pro rata per such HBK Entities as advised by the HBK Entities.

(b) On the CDO Closing Date, the Issuer shall pay, an amount equal to the Portfolio Net Carry, *first*, in reduction of any Loss realized on any Underlying Asset (prior to and without duplication with any amounts paid by the HBK Entities in respect of such Loss hereunder), and, *second*, to the HBK Entities, *pro rata* per such HBK Entities as advised by the HBK Entities.

(c) The HBK Entities shall be jointly and severally liable for all obligations under this Agreement.

(d) **Definitions.**

(i) **Loss** means, with respect to the sale of any Collateral Debt Security or the termination or assignment of any Long CDS Transaction, as applicable, the amount by which,

(A) the sum of (I) the amount of proceeds paid by the Issuer in connection with the purchase of such Collateral Debt Security *less* the sum of (a) any accrued interest received which accrued prior to purchase, and (b) the amount of any upfront or similar fees received by the Issuer in connection with the original purchase or funding of such Collateral Debt Security, (II) Hedging Costs, (III) any interest, premium or breakage fees that are due to the Bank in connection with the related Loan, and (IV) the Removal Loss with respect to such Long CDS Transaction *exceeds*

(B) the sum of (I) the amount of proceeds received by the Issuer in connection with the sale of such Collateral Debt Security pursuant to Section 1, net of any reasonable amounts expended by the Issuer in connection with the assignment or other sale of such Collateral Debt Security *less* the portion of the sale price attributable to accrued interest which accrued before the assignment or sale, (II) the aggregate amount of all distributions of principal received or receivable by the Issuer in respect of such Underlying Asset from the issuer thereof in respect of any record date occurring during the Carry Period for such Underlying Asset and (III) the Removal Gain with respect to such Long CDS Transaction; *provided* that Loss shall not include any losses due to DBSI's gross negligence, willful misconduct, fraud, criminal conduct or a material breach of DBSI's obligations under the Loan Documents (any of the foregoing, a **DB Breach**).

(ii) **Gain** means, with respect to the sale of any Collateral Debt Security or the termination or assignment of any Long CDS Transaction, as applicable, the amount by which,

(A) the sum of (I) the amount of proceeds received by the Issuer in connection with the sale of such Collateral Debt Security pursuant to Section 1, net of any reasonable amounts expended by the Issuer in connection with the assignment or other sale of such Collateral Debt Security *less* the portion of the sale price attributable to accrued interest which accrued before the assignment or sale, (II) the aggregate amount of all distributions of principal received or receivable by the Issuer in respect of such Collateral Debt Security from the issuer thereof in respect of any record date occurring during the Carry Period for such Collateral Debt Security, (III) the Removal Gain with respect to such Long CDS Transaction *exceeds*

(B) the sum of (I) the amount of proceeds paid by the Issuer in connection with the purchase of such Collateral Debt Security less the sum of (a) any accrued interest received which accrued prior to purchase, and (b) the amount of any upfront or similar fees received by the Issuer in connection with the original purchase or funding of such Collateral Debt Security, (II) the Hedging Costs, (III) any interest, premium or breakage fees that are due to the Bank in connection with the related Loan and (IV) the Removal Loss with respect to such Long CDS Transaction. Notwithstanding anything herein to the contrary, Gain on the liquidation of Underlying Assets shall not be distributed until the earlier of (a) the CDO Closing Date and (b) the date that all of the Underlying Assets have been sold, terminated or assigned, as applicable.

(iii) **Hedging Cost** means, with respect to a Collateral Debt Security, fees incurred by the Issuer in connection with any related Hedge Agreement, which amount shall be increased by any loss recognized with respect to such Hedge Agreement or reduced by any gain recognized with respect to such Hedge Agreement. To the extent that gains on a Hedge Agreement exceed the costs of the Hedge Agreement, the Hedging Cost shall be zero and the excess of the gain over the cost of such Hedge Agreement shall be treated as proceeds received by the Issuer in respect of the Collateral Debt Security.

(iv) **Carry Period** means, with respect to any Collateral Debt Security or Long CDS Transaction, the period commencing on (and including) the settlement date on which the Issuer purchases such Collateral Debt Security or the effective date of such Long CDS Transaction hereunder and ending on (and excluding) the earlier of (i) the date of the sale of the Collateral Debt Security or the termination or assignment of the Long CDS Transaction and (ii) the CDO Closing Date.

(v) **Net Carry** means, with respect to any Underlying Asset, (A) the aggregate amount of interest or Fixed Amount that accrues on such Underlying Asset during the Carry Period at such Underlying Asset's interest rate or Fixed Rate, as applicable, *minus* (B) if the Purchase Price Percentage is greater than 100%, (1) the Purchase Price Percentage in respect of such Underlying Asset *minus* 100% *multiplied by* (2) the aggregate amount of all distributions of principal received by the Issuer in respect of such Underlying Asset on or prior to such date of determination, *plus* (C) if the Purchase Price Percentage is less than 100%, (1) 100% *minus* the Purchase Price Percentage in respect of such Underlying Asset *multiplied by* (2) the aggregate amount of all distributions of principal received by the Issuer in respect of such Underlying Asset on or prior to such date of determination, minus (D) the aggregate amount of interest due and payable under the Loan with respect to such Underlying Asset, *minus* (E) with respect to an Underlying Asset bearing a fixed rate of interest, the carrying cost in connection with hedging transactions with respect to such fixed rate Underlying Asset for the period that each hedging transaction remains outstanding arising from any expense premium payment of interest or accrual of interest due as a result of each hedging transaction; *provided* that mark-to-market gains and losses (I) on liquidated Underlying Assets and (II) upon termination of the interest rate hedging transactions shall not be included in the calculation of Net Carry. Notwithstanding anything herein to the contrary, Net Carry shall not

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be distributed until the earlier of (i) the CDO Closing Date and (ii) the date that all of the Underlying Assets have been sold, terminated or assigned.

(vi) If the Net Carry is a positive number, then such amount is a **Positive Net Carry**, and if the Net Carry is a negative number, then such amount is a **Negative Net Carry**. **Positive Portfolio Net Carry** means the net positive sum, if any, of the Net Carry for each Underlying Asset. **Negative Portfolio Net Carry** means the net negative sum, if any, of the Net Carry for each Underlying Asset.

(vii) **Purchase Price Percentage** means, with respect to any (A) Collateral Debt Security as of any date of determination, a percentage equal to (i) the purchase price (total dollar amount paid) thereof divided by (ii) the outstanding principal balance of such Collateral Debt Security as of the date of purchase hereunder by the Issuer and (B) Long CDS Transaction as of any determination date, a percentage equal to (X) if an Upfront Payment was made by the Issuer to the related CDS Counterparty, the sum of (a) 100% and (b) the amount of the upfront payment made (in dollars) divided by the outstanding notional balance related to such Long CDS Transaction as of the date of entering into such Long CDS Transaction hereunder by the Issuer, (Y) if an Upfront Payment was made to the Issuer by the related CDS Counterparty, the excess of (a) 100% over (b) the amount of the upfront payment made (in dollars) divided by the outstanding notional balance related to such Long CDS Transaction as of the date of entering into the Long CDS Transaction hereunder by the Issuer, of (Z) if no Upfront Payment was made by either party, 100%.

(viii) **Removal Loss** means, with respect to the transfer or assignment of a Long CDS Transaction, the amount if positive, calculated by the Calculation Agent equal to the sum of (A) Aggregate Issuer Payments plus (B) the Negative Assignment Amount less (C) the Aggregate Synthetic Security Counterparty Payments, *less* (D) the Positive Assignment Amount.

(ix) **Removal Gain** means, with respect to the transfer or assignment of a Long CDS Transaction, the amount if positive, calculated by the Calculation Agent equal to the sum of (A) the Aggregate Synthetic Security Counterparty Payments *plus* (B) the Positive Assignment Amount *less* (C) Aggregate Issuer Payments *less* (D) Negative Assignment Amount.

(x) With respect to the definition of Removal Gain and Removal Loss:

Aggregate Issuer Payments means with respect to a Long CDS Transaction, the aggregate amount of payments made by the Issuer to the Synthetic Security Counterparty including any Early Termination Amount paid by the Issuer.

Aggregate Synthetic Security Counterparty Payments means with respect to a Long CDS Transaction, the aggregate amount of payments made by the Synthetic Security Counterparty to the Issuer including any Early Termination Amount paid by the Synthetic Security Counterparty but excluding any Fixed Payments.

Assignment Amount means with respect to an assignment or novation by the Issuer of a Long CDS Transaction to a replacement counterparty, the amount of

payment due with respect to such assignment or novation but for the avoidance of doubt shall not include any Early Termination Amount. If the Assignment Amount is due to the Issuer, such amount is a **Positive Assignment Amount** and if a payment is due to the replacement counterparty such amount is a **Negative Assignment Amount**.

Early Termination Amount shall mean, with respect to the Long CDS Transactions, the amount payable pursuant to Section 6(e)(ii)(2) of the Master Agreement relating to such Long CDS Transaction but for the avoidance of doubt shall not include any Assignment Amount.

3. **ADDITIONAL AGREEMENTS**

It is further agreed that:

(a) Each of the Collateral Manager and DBSI shall use its best efforts to cause the CDO Transaction, to be completed on or prior to the 120th day after the date of the Credit Agreement;

(b) Notwithstanding anything to the contrary contained in the Credit Agreement or the Interim Collateral Management Agreement, neither the Issuer nor the Collateral Manager shall purchase or sell any Collateral Debt Security or enter into or terminate or assign any Long CDS Transaction unless DBSI shall have consented to such purchase or sale or entering into or termination or assignment, as applicable;

(c) Notwithstanding anything to the contrary contained in the Credit Agreement or the Interim Collateral Management Agreement, neither the Collateral Manager nor the HBK Entities shall permit (i) the Credit Agreement to be amended to change any of the portfolio covenants of the Issuer set forth in Section 5 of the Credit Agreement or (ii) the Interim Collateral Management Agreement to be amended to change the portfolio covenants of the Collateral Manager set forth in Section 4 of the Interim Collateral Management Agreement, without the prior written consent of DBSI and the Bank;

(d) Any Losses in excess of the HBK Aggregate Liability or any losses due to a DB Breach shall be borne solely by DBSI; and

(e) The Bank, the Issuer and DBSI hereby covenant and agree that they shall not amend the Credit Agreement without the written consent of the collateral Manager.

4. **CONDITIONS PRECEDENT**

Each of the HBK Entities' obligations hereunder shall be subject to the satisfaction of the following conditions precedent: (a) the Credit Agreement and (b) the Interim Collateral Management Agreement shall, each, have been executed and delivered by the parties thereto.

5. **GOVERNING LAW**

THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND THIS AGREEMENT AND ALL MATTERS ARISING OUT OF OR RELATING IN ANY WAY WHATSOEVER (WHETHER IN CONTRACT, TORT OR OTHERWISE) TO THIS

AGREEMENT SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS CONFLICT OF LAWS PROVISIONS (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

6. JURISDICTION

Each of the parties hereto hereby irrevocably submits to the non-exclusive jurisdiction of any New York State or United States federal court sitting in the City and County of New York over any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby and irrevocably waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such proceeding.

7. TERMINATION

This Agreement will automatically terminate and be of no further force or effect (A) upon the closing of the CDO Transaction and the issuance of the CDO Notes and the Preference Shares or (B) on the fifth day following the final liquidation of all assets held under the Credit Agreement pursuant to paragraph 2.

8. NON-PETITION

The parties hereto, by entering into this Agreement, hereby covenant and agree that they will not at any time institute against the Issuer, or voluntarily join in any institution against the Issuer of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law of any jurisdiction within or without the United States in connection with any obligations owing to it for a period of one-year (or the then applicable preference period) and one-day following the Maturity Date. This Section shall survive termination of this Agreement.

9. LIMITED RECOURSE

The obligations of the Issuer hereunder are limited recourse obligations payable solely from the Collateral and following realization of such Collateral, any claims of the parties hereto shall be extinguished. No recourse shall be had against any officer, director, employee, shareholder or incorporator of the Issuer or their respective successors or assigns for any amounts payable under the obligations of the Issuer hereunder. It is understood that the foregoing provisions shall not (a) prevent recourse to the Collateral for the sums due or to become due under any instrument or agreement which is part of the Collateral or (b) constitute a waiver, release or discharge of any obligations of the Issuer hereunder until such Collateral has been realized, whereupon any outstanding indebtedness or obligation shall be extinguished and thereafter shall not revive. It is further understood that the foregoing provisions shall not limit the right of any person to name the Issuer as a party or defendant in any action or suit or in the exercise of any other remedy pursuant to the obligations of the Issuer hereunder, so long as no judgment in the nature of a deficiency judgment or seeking personal liability shall be asked for or (if obtained) enforced against any such person or entity. This Section shall survive termination of this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Risk Sharing Agreement has been entered into as of the date set forth above.

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH

By: _____
Name: DAVID ROSENBLUM
Title: Vice President

By: _____
Name: Sean McKeung
Title: Director

DEUTSCHE BANK SECURITIES INC.

By: _____
Name: KONSTANTIN FULEV
Title: VICE PRESIDENT

By: _____
Name: RICHARD R. KIM
Title: DIRECTOR

GEMSTONE CDO VII LTD.

By: _____
Name: Alan Corkish
Title: Director

HBK MASTER FUND L.P.

By: _____
Name:
Title:

HBK FIXED INCOME LTD.

By: _____
Name:
Title:

HBK INVESTMENTS L.P.

By: _____
Name:
Title:

[Signature Page to the Risk Sharing Agreement]

40713-00080 NY:1585961.4

IN WITNESS WHEREOF, this Risk Sharing Agreement has been entered into as of the date set forth above.

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH

By: _____
Name:
Title:

By: _____
Name:
Title:

DEUTSCHE BANK SECURITIES INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

GEMSTONE CDO VII LTD.

By: _____
Name:
Title:

HBK MASTER FUND L.P.

By: _____
Name: J. Baker Gentry, Jr.
Title: Authorized Signatory

HBK FIXED INCOME LTD.

By: _____
Name: J. Baker Gentry, Jr.
Title: Authorized Signatory

HBK INVESTMENTS L.P.

By: _____
Name: J. Baker Gentry, Jr.
Title: Authorized Signatory

[Signature Page to the Risk Sharing Agreement]

From: Kevin Jenks
Sent: Friday, January 5, 2007 12:28:33 PM
To: Abhayad Kamat
Subject: RE: Gemstone CDO 7 - concentration limits

1. OK
2 I think 3 is fine
3 would like this to 1.25 at least
4 no lets leave it in

---Original Message---
From: Abhayad Kamat
Sent: Thursday, January 04, 2007 7:27 PM
To: Kevin Jenks; Marco Lukesch; Rachel Wish
Cc: Sourav Sen; Chehao Lu
Subject: Gemstone CDO 7 - concentration limits

Kevin,
this is what we are thinking of in terms of concentration limits for the revolving deal. let me know what you think. thanks.

1.
Issue concentration limit: 2.5% (5 exceptions up to 3%)

2.
We will try not to have issuer concentration limits but if investors ask, it will be as follows:
- Issuer concentration: 2.5% (4 exceptions upto 3% and 1 additional exception upto 4%)
- or HBK to decide if ok to reduce the GSAMP 2006-NC2 to at or below 3%

3.
Issue concentration limits for assets rated below Baa3: 1.0% (with 2 exceptions upto 1.40%) MLMI 2005-HE1 B3 1.36%
FFML 2006-FF13 B1 1.06%
- any chance we can reduce this to below 1.0%?

4.
MLMI 2005-HE1 B3 on negative watch -- do you want to move this out of the portfolio -- investors might question/resist

Note: this does not include non-ramped assets, so you would need to keep these in compliance for ramping remaining assets.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1379



"Kevin Jenks" <kjenks@hbk.com>

12/11/2006 02:56 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject RE: List we want to move to cdo

Greg, I have been trying to work with you. Doing trades just with you and not on bid lists. But we play in the higher quality part of the market, I really expected you to approve the list as is. We still have several hundred million of bonds to do in cds form to do. The bonds that I create have more OC are better collateral and better names. They always trade at the tighter end of the market. None are on downgrade watch and are seasoned. and I really don't understand your incentive to be doing this. We can start doing bid lists.

Kevin

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:37 PM
To: Kevin Jenks
Subject: RE: List we want to move to cdo

we have seen the flht 05-d bbb- trade wide....please work with me on this...i am trying to work with you

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 04:20 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject RE: List we want to move to cdo

Greg, Fremont overall is really not trading badly just the ones on downgrade watch. Also from the bb list color which I am sure you have seen. Good BB's are trading well. Also we have the majority of the bonds in here that are 05 vintage which is trading very well. So I don't want to lower them by 2 pts. and even yesterdays bb list traded great with the significant widening of baa3 cds

---

From: Greg Lippmann
Sent: Friday, December 08, 2006 4:00 PM
To: Kevin Jenks
Subject: Re: List we want to move to cdo

Ok approved but would like to lower these 2 pts each given recent press on fhlt and the

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Report Footnote #1380

significant widening in the baa3 cds. Is that cool?

35729PMR8??????? 3,000.000 ???? FHLT 2005-D B2 Mtge???? ??????? 775????? 35c ?? ???????
86.71875
362334PW8??????? 3,000.000 ???? GSAMP 06-FM1 B4 Mtge??? 900????? 35c ?? ???????
83.69921875
36245DAV2??????? 10,217.000 ??? GSAMP 06-FM2 B2 Mtge??? 900????? 100ppc ???????
81.1171875

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:31 PM
To: Greg Lippmann
Subject: List we want to move to cdo

Please approve

			spread	speed	price
03072SYH2	4,000.000	AMSI 2005-R1 M10 Mtge	800	35c	92.46875
35729PMR8	3,000.000	FHLT 2005-D B2 Mtge	775	35c	86.71875
362334PW8	3,000.000	GSAMP 06-FM1 B4 Mtge	900	35c	83.69921875
36245DAV2	10,217.000	GSAMP 06-FM2 B2 Mtge	900	100ppc	81.1171875
437084RJ7	4,500.000	HEAT 2005-9 B3 Mtge	850	100ppc	85.46484375
437084QK5	7,500.000	HEAT 2005-8 B3 Mtge	850	100ppc	86.84375
362463AR2	8,815.000	GSAMP 06-NC2 B2 Mtge	800	100ppc	84.69140625

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WILMERHALE

Reginald J. Brown

+1 202 663 6439 (t)
+1 202 663 6363 (f)
reginald.brown@wilmerhale.com

October 12, 2010

By Courier Delivery

Hon. Carl Levin, Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Hon. Tom Coburn, Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
SR-199 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Levin and Ranking Member Coburn:

Today HBK Capital Management ("HBK") is submitting to the Permanent Subcommittee on Investigations ("PSI") a further set of documents in response to the PSI's requests. These documents have been bates labeled GEM7-00006353 through GEM7-00008037, and are being provided electronically on the enclosed CD. A limited amount of potentially privileged information or proprietary or sensitive information that is not related to Gemstone VII has been withheld or redacted. HBK may amend or supplement this production as appropriate based on continuing discussions with your staff and our further review of these issues.

The documents labeled GEM7-00006353 through GEM7-00008029 contain additional custodian emails of Marco Lukesch, Jason Lowry, Jamiel Akhtar, and Kevin Jenks, and supplements our production of September 22, 2010. The documents labeled GEM7-00008030 through GEM7-00008037 provide information regarding the analytic tools that HBK used to evaluate assets that were considered for inclusion in the Gemstone VII CDO. To assist the staff in understanding these tools and how they operated, we also provide the information below.

HBK used a statistically driven mortgage behavior model to help make trading decisions and select assets for inclusion in the Gemstone VII CDO. Three separate database tools were utilized in this process. First, HBK licensed a commercial database called *LP Database*, which contained detailed information and performance history for millions of non-agency mortgages. HBK used this database for three purposes: (i) to obtain data on loan performance history that could be used to develop and calibrate HBK's proprietary model, (ii) to obtain loan performance

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Report Footnote #1383

information which could then be inputted into HBK's proprietary model, and (iii) to provide information that could be used as a tool to monitor mortgage bond performance. The *LP Database* was a robust dataset comprising close to 80% of the market, back to the 1996 vintage.

Utilizing the data acquired from the *LP Database*, HBK then developed a proprietary system called the *Loss Model* that forecasted the likelihood of default, prepayment, delinquency, or timely payment for an individual mortgage monthly over a ten-year time horizon. The *Loss Model* made these forecasts based on a series of 50 loan characteristics, including whether the mortgage was a first or second lien mortgage, the type of mortgage (*e.g.*, fixed or ARM), its geographic location, FICO score, loan-to-value ratio, and level of documentation, and projections of home price appreciation and unemployment rates.

Finally, HBK merged the information from the *Loss Model* into a *Bond Evaluation Engine*, which was based on software licensed from Intex Solutions. The *Bond Evaluation Engine* provided information that assisted HBK traders in pricing mortgage bonds and evaluating how the bonds might perform under certain stresses. The purpose of this tool was to assist HBK in predicting how the cash flows and losses from the individual mortgages within a given RMBS bond would be pushed through the liability waterfall of the bond. This portion of the analysis focused on the structure and enhancements of the RMBS and how those structures would contribute to bond performance.

The entire universe of RMBS was inputted into the model every month, with new issues being entered as soon as information became available. This allowed HBK's traders to run a particular RMBS through the model at any time, using a user interface on HBK's internal web site. In addition to the real-time web-based interface, a trader could also generate results from the model by sending an email to a particular email address, which would generate an automated response containing model results. We have included an exemplar email request and automated response at GEM7-00008035 through GEM7-00008037. Lastly, we have also included (at GEM7-00008030 through GEM7-00008034) a presentation for investors that was created in December 2006, which was intended to describe and summarize this process by walking through a case study in the analysis of a particular bond.

* * * * *

HBK respectfully requests that its produced documents be maintained confidentially under Rule 16 of the PSI's Rules of Procedure and not be released publicly without a majority vote of the PSI. HBK further asks that the PSI staff provide the undersigned with notice and an

opportunity to be heard in the event the PSI determines that it will disclose any information from this production or letter to a third party. Such treatment would be consistent with the respect for privileged and confidential information that the Subcommittee has shown in the past.

Please feel free to contact us at (202) 663-6430 should you have any questions.

Sincerely,

/s/ Reginald J. Brown

Reginald J. Brown

Laura Moranchek Hussain

Enclosures

cc: Jon Mosle
Henry Klehm III

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/08/2006 04:00 PM

To "Jashin Patel" <jashin.patel@db.com>, "Rocky Kurita" <hiroki.kurita@db.com>
cc
bcc
Subject Fw: Warehouse Approval Request

Another trade with jenks.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:40 PM
To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: Re: Warehouse Approval Request

Yes.

----- Original Message -----
From: Greg Lippmann
To: Kevin Jenks
Sent: Fri Dec 08 14:38:52 2006
Subject: Re: Warehouse Approval Request

Done this is in addition to the rasc, yes?

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Kevin Jenks" [kjenks@hbk.com]
Sent: 12/08/2006 03:29 PM
To: Greg Lippmann
Subject: RE: Warehouse Approval Request

ok then gsamp 069-nc2 m9 at 375 for you at 10m

From: Greg Lippmann
Sent: Friday, December 08, 2006 3:21 PM
To: Kevin Jenks
Subject: RE: Warehouse Approval Request

165 bid for that one...show me something interesting maybe gsamp 06-nc2 m8 275 or m9 375 or some more rasc ks or a heat etc...

Greg H. Lippmann
Managing Director

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1386

Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 02:48 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
RE: Warehouse Approval Request

I would not do that to you so I can't do it to Barclays. Here is another bond

55275BAP2 MABS 06-NC2 M9 Baa2 BBB-

From: Greg Lippmann
Sent: Friday, December 08, 2006 2:34 PM
To: Kevin Jenks
Subject: RE: Warehouse Approval Request

i dont doubt anythin you are saying about the confusion but I would really like to do the m9 with you. We have been trumped in a similar way by other dealers so I would ask you to do the same to barclays here or show me an equivalent bond that we can buy protection at same level

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Kevin Jenks" <kjenks@hbk.com>

12/08/2006 02:21 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
RE: Warehouse Approval Request

That was the confusion, larry told us that rocky did not want to bid because of the level on the M8's. which we only found out after we already did the M9' that is was all bull. The M8 was on a owic, an account with one of our salespeople. So she put in the bid and said we were the best bid on the M8's. After several hours the account did not care there as we had been lead to believe so we killed it. Though we had already traded the M9's. So of course I would have liked to do the trade with you, but as I have said we have already done it. We have many more coming.

Also aside from the cdo, we are doing an entire new index cds strategy that we are being given more risk tolerances for.

From: Greg Lippmann
Sent: Friday, December 08, 2006 2:15 PM
To: Jason Lowry
Cc: Abhayad Kamat; ABS; Chehao Lu; FixedIncome; Hiroki Kurita; Jordan Milman; Lucy Fagan; Mike Li; Rachel Wish; Sourav Sen
Subject: RE: Warehouse Approval Request

no that qwas on the Baa2...we would like to book this trade...I think the confusion was due to kevin telling rocky that he was seeing 300 on the baa2....please do this trade with us

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Jason Lowry" <JLowry@hbk.com>

12/08/2006 02:10 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, "ABS" <ABS@hbk.com>, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, "FixedIncome" <FixedIncome@hbk.com>, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Mike Li/db/dbcom@DBAmericas, "Rachel Wish" <RWish@hbk.com>, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas
Subject
RE: Warehouse Approval Request

Rocky told Larry that he would prefer to pass.

From: Greg Lippmann
Sent: Friday, December 08, 2006 2:09 PM
To: Jason Lowry
Cc: Abhayad Kamat; ABS; Chehao Lu; FixedIncome; Hiroki Kurita; Jordan Milman; Lucy Fagan; Mike Li; Rachel Wish; Sourav Sen
Subject: Re: Warehouse Approval Request

we would like this trade for ourselves, we are a BUYER of protection on the bbb- at 365. We were NOT a buyer of Baa2 at 300.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com
"Jason Lowry" <JLowry@hbk.com>

12/08/2006 01:16 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Sourav

Sen/NewYork/DBNA/DeuBa@DBAmericas, "Rachel Wish" <RWish@hbk.com>, "FixedIncome" <FixedIncome@hbk.com>, Mike Li/db/dbcom@DBAmericas, "ABS" <ABS@hbk.com>
cc

Subject
Warehouse Approval Request

Can you approve 15mm of RASC 06-KS3 M9 at 365 with Barclays for the CDO warehouse?

This e-mail may contain confidential and/or privileged information. If you are not the intended recipient (or have received this e-mail in error) please notify the sender immediately and destroy this e-mail. Any unauthorized copying, disclosure or distribution of the material in this e-mail is strictly forbidden.

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unauthorized copying, disclosure or distribution of the material in this e-mail is strictly forbidden.



GREGLIP@bloomberg.net ToJMILMAN@bloomberg.net
cc
02/23/2007 03:53 PM bcc
SubjectRe: gemstone AAs

=====Begin Message=====
Message#: 2768
Message Sent: 02/23/2007 15:53:30
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: gemstone AAs

fine...
----- Original Message -----
From: JORDAN MILMAN, DEUTSCHE BANK SECURI
At: 2/23 15:34:40

we have so many jv's floating around i'd really like to avoid that. Then we get in to a whole thing about our levels which will be horrible on these. I'd rather just have ilinca show hbk, he loves bonds like this

=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1386

IMPORTANT NOTICE

Attached please find an electronic copy of the Preliminary Offering Circular (the **"Offering Circular"**), dated February 14, 2007 relating to the offering of certain notes (the **"Notes"**) of GEMSTONE CDO VII LTD. (the **"Issuer"**) and GEMSTONE CDO VII CORP. (the **"Co-Issuer"** and together with the Issuer, the **"Issuers"**).

The Preliminary Offering Circular is highly confidential and does not constitute an offer to any person, other than the recipient, or to the public generally to subscribe for or otherwise acquire any of the securities described therein.

Distribution of this electronic transmission of the Preliminary Offering Circular to any person other than (a) the person receiving this electronic transmission from Deutsche Bank Securities Inc. as Initial Purchaser on behalf of the Issuers, and (b) any person retained to advise the person receiving this electronic transmission with respect to the offering contemplated by the Preliminary Offering Circular (each, an **"Authorized Recipient"**) is unauthorized. Any photocopying, disclosure or alteration of the contents of the Preliminary Offering Circular, and any forwarding of a copy of the Preliminary Offering Circular or any portion thereof by electronic mail or any other means to any person other than an Authorized Recipient, is prohibited. By accepting delivery of this Preliminary Offering Circular, each recipient hereof agrees to the foregoing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1393

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The information in this Preliminary Offering Circular is not complete and may be changed. This Preliminary Offering Circular is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion dated February 14, 2007

Gemstone CDO VII Ltd.
Gemstone CDO VII Corp.
U.S.$[ ] Class A-1 Floating Rate Notes Due []
U.S.$[ ] Class A-2 Floating Rate Notes Due []
U.S.$[ ] Class B Floating Rate Notes Due []
U.S.$[ ] Class C Floating Rate Deferrable Interest Notes Due []
U.S.$[ ] Class D Floating Rate Deferrable Interest Notes Due []
U.S.$[ ] Class E Floating Rate Deferrable Interest Notes Due []
U.S.$[ ] Preference Shares

Secured by a Portfolio of Asset-Backed Securities

Gemstone CDO VII Ltd., an exempted company with limited liability incorporated under the laws of the Cayman Islands (the **"Issuer"**), and Gemstone CDO VII Corp., a Delaware corporation (the **"Co-Issuer"** and, together with the Issuer, the **"Issuers"**), will issue U.S.$[ ] Class A-1 Floating Rate Notes Due [] (the **"Class A-1 Notes"**), U.S.$[ ] Class A-2 Floating Rate Notes Due [] (the **"Class A-2 Notes"**) and, together with the Class A-1 Notes, the **"Class A Notes"**), U.S.$[ ] Class B Floating Rate Notes Due [] (the **"Class B Notes"**), U.S.$[ ] Class C Floating Rate Deferrable Interest Notes Due [] (the **"Class C Notes"**), U.S.$[ ] Class D Floating Rate Deferrable Interest Notes Due [] (the **"Class D Notes"**) and U.S.$[ ] Class E Floating Rate Deferrable Interest Notes Due [] (the **"Class E Notes"** and, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the **"Notes"**). The Notes will be issued and secured pursuant to an Indenture dated as of March [ ], 2007 (the **"Indenture"**), among the Issuer, the Co-Issuer and Deutsche Bank Trust Company Americas, as trustee (the **"Trustee"**). The Collateral securing the Notes will be managed by HBK Investments L.P. (together with its affiliated subadvisors, the **"Collateral Manager"**). (*continued on next page*)

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's Investors Service, Inc. (**"Moody's"**) and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (**"Standard & Poor's"** and, together with Moody's, the **"Rating Agencies"**), that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The Preference Shares will not be rated.

This document constitutes a prospectus under the Prospectus Directive. The **"Prospectus Directive"** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading.

Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. There can be no assurance that such admission will be granted. No application will be made to list the Notes on any other stock exchange.

Investing in the Notes involves risks. See "Risk Factors" starting on page 24.

THE PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES AND THE PREFERENCE SHARES. THE NOTES AND THE PREFERENCE SHARES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE TRUSTEE, THE COLLATERAL MANAGER, DEUTSCHE BANK SECURITIES INC. (**"DBSI"** OR THE **"INITIAL PURCHASER"**), ANY OF ITS AFFILIATES OR ANY OTHER PERSON OR ENTITY.

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), UNDER APPLICABLE STATE SECURITIES LAWS OR UNDER THE LAWS OF ANY OTHER JURISDICTION. NEITHER THE ISSUER NOR THE CO-ISSUER IS OR WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**), IN RELIANCE UPON THE EXCLUSION PROVIDED BY SECTION 3(c)(7) THEREOF. THE NOTES AND PREFERENCE SHARES ARE BEING OFFERED (A) IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (i) PROVIDED BY SECTION 4(2) THEREOF TO A LIMITED NUMBER OF INSTITUTIONAL ACCREDITED INVESTORS WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) or (7) UNDER THE SECURITIES ACT, OR (ii) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**) TO "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A), AND (B) OUTSIDE THE UNITED STATES TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**) AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE LAWS. THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS EXCEPT TO QUALIFIED PURCHASERS (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT AND THE RULES THEREUNDER). EACH PURCHASER OF NOTES OR PREFERENCE SHARES WILL BE DEEMED TO HAVE MADE OR WILL BE REQUIRED TO MAKE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS AS SET FORTH UNDER "TRANSFER RESTRICTIONS." A TRANSFER OF NOTES OR PREFERENCE SHARES (OR ANY INTEREST THEREIN) IS SUBJECT TO CERTAIN RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. SEE "TRANSFER RESTRICTIONS."

The Notes are offered by the Initial Purchaser at varying prices determined in each case at the time of sale, subject to prior sale, when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions. The Initial Purchaser reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Notes will be delivered on or about March [ ], 2007 (the **"Closing Date"**) through the facilities of The Depository Trust Company (**"DTC"**), Euroclear Bank S.A./N.V., and Clearstream Banking, *société anonyme*, against payment therefor in immediately available funds. It is a condition to the issuance of each of the Notes and the Preference Shares that all of the Notes and the Preference Shares be issued concurrently.

DEUTSCHE BANK SECURITIES INC.

The date of this Offering Circular is February [], 2007

(cover continued)

Concurrently with the issuance of the Notes, the Issuer will issue [] Preference Shares pursuant to the Memorandum and Articles of Association of the Issuer (the **"Issuer Charter"**) and in accordance with a Preference Share Paying Agency Agreement dated as of March [ ], 2007 (the **"Preference Share Paying Agency Agreement"**), among the Issuer, Deutsche Bank Trust Company Americas, acting through an affiliate or agent outside the United States as preference share paying agent and preference share transfer agent (in such capacities, the **"Preference Share Paying Agent"** and the **"Preference Share Transfer Agent"**) and Maples Finance Limited as the share registrar (in such capacity, the **"Share Registrar"**).

Interest on the Notes will be payable in U.S. dollars in arrears on each Payment Date. Payments of principal of and interest on the Notes on any Distribution Date will be made if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. Distributions on the Preference Shares will be paid to the extent funds are available in accordance with the Priority of Payments. See "Description of the Notes—Interest," "—Principal" and "—Priority of Payments." The principal of the Notes is payable on each Distribution Date and is required to be paid by their applicable Stated Maturity, unless redeemed or repaid prior thereto. See "Description of the Notes—Principal."

The Notes are subject to redemption under the circumstances described under "Description of the Notes—Mandatory Redemption," "—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."

The Notes offered by the Issuers in the United States will be offered in reliance on an exemption from the registration requirements of the Securities Act and will be represented by one or more global notes (**"Restricted Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). The Notes offered by the Issuers outside the United States will be offered in reliance upon Regulation S under the Securities Act and initially will be represented by one or more temporary global notes (**"Temporary Regulation S Global Notes"**), that will be exchangeable for one or more permanent global notes (**"Permanent Regulation S Global Notes"** and, together with the Temporary Regulation S Global Notes, the **"Regulation S Global Notes"**) in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee), initially for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear system (**"Euroclear"**), and/or Clearstream Banking, *société anonyme* (**"Clearstream"**). Until and including the 40th day after the later of the commencement of the offering and the Closing Date (the **"Distribution Compliance Period"**), beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. Except in the limited circumstances described herein, certificated notes will not be issued in exchange for beneficial interests in a global note. See "Description of the Notes—Form, Denomination, Registration and Transfer."

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLAND'S SECURITIES LAWS. FOR PURPOSES OF THIS PARAGRAPH, THE TERMS "TAX", "TAX TREATMENT", "TAX STRUCTURE", AND "TAX BENEFIT" ARE DEFINED UNDER TREASURY REGULATION § 1.6011-4(c).

In this Offering Circular, references to **"U.S. Dollars"**," **USD**," **"Dollars"** and **"U.S.$"** are to United States dollars.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PURCHASERS

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE. THE NOTES ARE TO BE PURCHASED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED BY AN INVESTOR DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT, RULE 144A OR ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "DESCRIPTION OF THE NOTES—FORM, DENOMINATION, REGISTRATION AND TRANSFER." A TRANSFER OF NOTES IS SUBJECT TO THE RESTRICTIONS DESCRIBED HEREIN, INCLUDING THAT NO SALE, PLEDGE, TRANSFER OR EXCHANGE MAY BE MADE OF A NOTE (1) EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO AN EXEMPTION FROM REGISTRATION AS DESCRIBED HEREIN, (2) EXCEPT IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SET FORTH IN THE INDENTURE AND (3) IN A DENOMINATION LESS THAN THE REQUIRED MINIMUM DENOMINATION. THE NOTES ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER. SEE "TRANSFER RESTRICTIONS."

NEITHER THE ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT BY REASON OF THE EXEMPTION FROM REGISTRATION CONTAINED IN SECTION 3(c)(7) THEREOF. EACH ORIGINAL PURCHASER OF AN INTEREST IN THE NOTES AND EACH SUBSEQUENT TRANSFEREE OF AN INTEREST THEREIN THAT IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS A QUALIFIED PURCHASER AND ALSO WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS SET FORTH IN "TRANSFER RESTRICTIONS" HEREIN. NO TRANSFER OF NOTES THAT WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT WILL BE PERMITTED. THE PURCHASER OF ANY NOTE AGREES THAT SUCH NOTE IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO A PERSON

WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (B) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S, IN EACH SUCH CASE IN COMPLIANCE WITH THE INDENTURE AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. ANY TRANSFER OF A RESTRICTED DEFINITIVE NOTE OR A REGULATION S DEFINITIVE NOTE MAY BE EFFECTED ONLY ON THE NOTE REGISTER MAINTAINED BY THE NOTE REGISTRAR PURSUANT TO THE INDENTURE. ANY TRANSFER OF AN INTEREST IN A RESTRICTED GLOBAL NOTE OR A REGULATION S GLOBAL NOTE WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS DIRECT AND INDIRECT PARTICIPANTS (INCLUDING, IN THE CASE OF REGULATION S GLOBAL NOTES, EUROCLEAR AND CLEARSTREAM).

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN SECTION 4975(e)(1) OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, AND NONE OF THE FOREGOING AUTHORITIES HAS CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Offering Circular has been prepared by the Issuers solely for use in connection with the offering described herein of the Notes and the Preference Shares (the "**Offering**") and for listing purposes. The Issuers accept responsibility for the information contained in this document (except as provided below). To the best knowledge and belief of the Issuers, the information contained in this document (except in respect of the information appearing in the Section (i) "The Collateral Manager" as to which the Collateral Manager accepts sole responsibility, (ii) "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" as to which the Initial Investment Agreement Provider accepts sole responsibility, (iii) "Deutsche Bank Aktiengesellschaft" as to which the First Synthetic Security Counterparty accepts sole responsibility and (iv) "Plan of Distribution" as to which the Initial Purchaser accept sole responsibility), is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuers accept responsibility accordingly. The Issuers disclaim any

obligation to update such information and do not intend to do so. Neither the Initial Purchaser nor any of their affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy or completeness of the information contained herein other than the information appearing in the section "Deutsche Bank Aktiengesellschaft", for which it accepts sole responsibility. Neither the Collateral Manager nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "The Collateral Manager", for which it accepts sole responsibility. Neither the Initial Investment Agreement Provider nor any of its affiliates makes any representation or warranty as to, has independently verified or assumes any responsibility for, the accuracy and completeness of the information contained herein other than the information appearing in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider", for which it accepts sole responsibility. To the best knowledge and belief of the First Synthetic Security Counterparty, the information contained in the section "Deutsche Bank Aktiengesellschaft" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Collateral Manager, the information contained in the section "The Collateral Manager" is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best knowledge and belief of the Initial Investment Agreement Provider, the information contained in the section "Description of the Initial Investment Agreement—The Initial Investment Agreement Provider" is in accordance with the facts and does not omit anything likely to affect the import of such information. Nothing contained in this Offering Circular is or should be relied upon as a promise or representation as to future results or events. The Trustee has not participated in the preparation of this Offering Circular and assumes no responsibility for its contents.

All of the statements in this Offering Circular with respect to the business of the Issuers, and any financial projections or other forecasts, are based on information furnished by the Issuers. See "Forward Looking Statements." None of the Initial Purchaser, the Collateral Manager and their respective affiliates assumes any responsibility for the performance of any obligations of either of the Issuers or any other persons described in this Offering Circular (except that the Collateral Manager is responsible for the performance of its obligations under the Management Agreement) or for the due execution, validity or enforceability of the Notes, instruments or documents delivered in connection with the Notes or for the value or validity of any collateral or security interests pledged in connection therewith.

This Offering Circular contains summaries of certain documents. The summaries do not purport to be complete and are qualified in their entirety by reference to such documents, copies of which will be made available to offerees upon request. Requests and inquiries regarding this Offering Circular or such documents should be directed to DBSI Inc., 60 Wall Street, New York, New York 10005, Attention: Global Markets/CDO Group. Copies of such documents may also be obtained free of charge from the Irish Paying Agent.

The Issuers will make available to any offeree of the Notes, prior to the issuance thereof, the opportunity to ask questions of and to receive answers from the Issuers or a person acting on their behalf concerning the terms and conditions of the Offering, the Issuers or any other relevant matters and to obtain any additional information to the extent the Issuers possess such information or can obtain it without unreasonable expense. The information referred to in this paragraph will also be obtainable at the office of the Irish Paying Agent.

Each Original Purchaser of a Note or Preference Share (or interest therein) offered and sold in the United States will be required (or in certain circumstances deemed) to represent to the Initial Purchaser offering any Note to it that such Original Purchaser (a)(i) is an institutional "accredited investor" within the

meaning of Rule 501(a)(1), (2), (3) or (7) (an **"Institutional Accredited Investor"**), or (ii) is a qualified institutional buyer as defined in Rule 144A (**"Qualified Institutional Buyer"**) and (b) is acquiring the Notes or Preference Shares for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). Each Original Purchaser of the Notes and Preference Shares will also be required to acknowledge or be deemed to acknowledge that the Notes and Preference Shares have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (a) (i) to a person whom the seller reasonably believes is both a Qualified Purchaser (as defined below) and a Qualified Institutional Buyer purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from registration provided by Rule 144A under the Securities Act or (ii) to a non U.S. Person in an offshore transaction in accordance with Rule 904 of Regulation S, (b) in compliance with the certification (if any) and other requirements specified in the Indenture (or Preference Share Paying Agency Agreement, as applicable) and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. Each Original Purchaser of a Note that is a U.S. resident (within the meaning of the Investment Company Act) will be required to represent or be deemed to represent that it or the account for which it is purchasing such Notes is a Qualified Purchaser. A **"Qualified Purchaser"** is (i) a "qualified purchaser" within the meaning of the Investment Company Act and the rules thereunder, (ii) a "knowledgeable employee" with respect to the Issuer within the meaning of Rule 3c-5 under the Investment Company Act, or (iii) a company beneficially owned exclusively by one or more "qualified purchasers" and/or "knowledgeable employees" with respect to the Issuer.

The Initial Purchaser currently does not intend to make a market in any Class of Notes or the Preference Shares, and the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any Class of Notes or the Preference Shares will develop, or if a secondary market does develop, that it will provide the holders of such Class of Notes or Preference Shares with liquidity of investment or that it will continue for the life of such Class of Notes or Preference Shares.

THIS OFFERING CIRCULAR IS FOR INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO BE RELIED UPON ALONE AS THE BASIS FOR AN INVESTMENT DECISION. IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUERS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED AND MUST NOT RELY UPON INFORMATION PROVIDED BY OR STATEMENTS MADE BY THE INITIAL PURCHASER, THE COLLATERAL MANAGER OR ANY OF THEIR AFFILIATES. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE NOTES FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE ISSUERS, THE COLLATERAL MANAGER, THE INTEREST RATE SWAP COUNTERPARTY (IF ANY), THE SYNTHETIC SECURITY COUNTERPARTY, THE OFFSETTING TRANSACTION COUNTERPARTY, THE INITIAL INVESTMENT AGREEMENT PROVIDER, THE INITIAL PURCHASER AND ITS AFFILIATES MAKES ANY REPRESENTATION TO ANY OFFEREE OR PURCHASER OF NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS OR THE PROPER CLASSIFICATION OF SUCH AN INVESTMENT THEREUNDER. THE CONTENTS OF THIS OFFERING CIRCULAR ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER, THE CO-ISSUER, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR ITS AFFILIATES. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, (A) ANY SECURITIES OTHER THAN THE NOTES OR PREFERENCE SHARES OR (B) ANY NOTE OR PREFERENCE SHARE IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFERING OF THE NOTES AND/OR PREFERENCE SHARES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY THE ISSUERS AND THE INITIAL PURCHASER TO INFORM THEMSELVES ABOUT, AND TO OBSERVE, ANY SUCH RESTRICTIONS. IN PARTICULAR, THERE ARE RESTRICTIONS ON THE DISTRIBUTION OF THIS OFFERING CIRCULAR, AND THE OFFER AND SALE OF NOTES AND PREFERENCE SHARES, IN THE UNITED STATES OF AMERICA, THE UNITED KINGDOM AND THE CAYMAN ISLANDS. SEE "PLAN OF DISTRIBUTION." NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUERS OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE AS OF WHICH SUCH INFORMATION IS GIVEN HEREIN. THE ISSUERS AND THE INITIAL PURCHASER RESERVES THE RIGHT, FOR ANY REASON, TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, TO ALLOT TO ANY OFFEREE LESS THAN THE FULL AMOUNT OF NOTES SOUGHT BY SUCH OFFEREE OR TO SELL LESS THAN THE AGGREGATE STATED PRINCIPAL AMOUNT OF ANY CLASS OF NOTES.

THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFER OR SALE OF NOTES AND PREFERENCE SHARES MAY BE RESTRICTED BY LAW IN CERTAIN JURISDICTIONS. NONE OF THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER REPRESENTS THAT THIS DOCUMENT MAY BE LAWFULLY DISTRIBUTED, OR THAT ANY NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, OR ASSUME ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, NO ACTION HAS BEEN TAKEN BY THE ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER WHICH WOULD PERMIT A PUBLIC OFFERING OF ANY NOTES OR DISTRIBUTION OF THIS DOCUMENT IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, NO NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS OFFERING CIRCULAR NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR OR ANY NOTES COME MUST INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH RESTRICTIONS.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, THE ISSUER, THE INITIAL PURCHASER, THE COLLATERAL MANAGER AND EACH RECIPIENT HEREOF AGREE THAT EACH OF THEM AND EACH OF THEIR EMPLOYEES, REPRESENTATIVES, AND

OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE, EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH U.S. FEDERAL, STATE, OR CAYMAN ISLAND'S SECURITIES LAWS.

THIS DOCUMENT IS CONSIDERED AN ADVERTISEMENT FOR PURPOSES OF APPLICABLE MEASURES IMPLEMENTING E.U. DIRECTIVE 2003/71/EC. A PROSPECTUS PREPARED PURSUANT TO THE PROSPECTUS DIRECTIVE WILL BE PUBLISHED, WHICH CAN BE OBTAINED FROM THE ISSUER AND THE IRISH PAYING AGENT. SEE "LISTING AND GENERAL INFORMATION".

NOTICE TO FLORIDA RESIDENTS

THE NOTES AND PREFERENCE SHARES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT (THE **"FLORIDA ACT"**) AND HAVE NOT BEEN REGISTERED UNDER THE FLORIDA ACT IN THE STATE OF FLORIDA. FLORIDA RESIDENTS WHO ARE NOT INSTITUTIONAL INVESTORS DESCRIBED IN SECTION 517.061(7) OF THE FLORIDA ACT HAVE THE RIGHT TO VOID THEIR PURCHASES OF THE NOTES AND PREFERENCE SHARES WITHOUT PENALTY WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION.

NOTICE TO CONNECTICUT RESIDENTS

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN REGISTERED UNDER THE CONNECTICUT SECURITIES LAW. THE NOTES AND PREFERENCE SHARES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND SALE.

NOTICE TO GEORGIA RESIDENTS

THE NOTES AND PREFERENCE SHARES HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH (13) OF CODE SECTION 10-5-9 OF THE GEORGIA SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

NOTICE TO RESIDENTS OF AUSTRALIA

NO PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT IN RELATION TO THE NOTES AND PREFERENCE SHARES HAS BEEN LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR THE AUSTRALIAN STOCK EXCHANGE LIMITED. ACCORDINGLY, A PERSON MAY NOT (A) MAKE, OFFER OR INVITE

APPLICATIONS FOR THE ISSUE, SALE OR PURCHASE OF THE NOTES AND PREFERENCE SHARES WITHIN, TO OR FROM AUSTRALIA (INCLUDING AN OFFER OR INVITATION WHICH IS RECEIVED BY A PERSON IN AUSTRALIA) OR (B) DISTRIBUTE OR PUBLISH THIS OFFERING CIRCULAR OR ANY OTHER PROSPECTUS, DISCLOSURE DOCUMENT, OFFERING MATERIAL OR ADVERTISEMENT RELATING TO THE SECURITIES IN AUSTRALIA, UNLESS (I) THE MINIMUM AGGREGATE CONSIDERATION PAYABLE BY EACH OFFEREE IS THE U.S. DOLLAR EQUIVALENT OF AT LEAST A$500,000 (DISREGARDING MONEYS LENT BY THE OFFEROR OR ITS ASSOCIATES) OR THE OFFER OTHERWISE DOES NOT REQUIRE DISCLOSURE TO INVESTORS IN ACCORDANCE WITH PART 6D.2 OF THE CORPORATIONS ACT 2001 (CWLTH) OF AUSTRALIA, AND (II) SUCH ACTION COMPLIES WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE TO RESIDENTS OF AUSTRIA

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS UNDER THE AUSTRIAN CAPITAL MARKETS ACT OR THE AUSTRIAN INVESTMENT FUNDS ACT. THIS OFFERING CIRCULAR HAS NOT BEEN EXAMINED BY A PROSPECTUS AUDITOR AND NO PROSPECTUS ON THE PRIVATE PLACEMENT OF THE NOTES AND PREFERENCE SHARES HAS BEEN PUBLISHED OR WILL BE PUBLISHED IN AUSTRIA. THE NOTES AND PREFERENCE SHARES ARE OFFERED IN AUSTRIA ONLY TO A RESTRICTED AND SELECTED NUMBER OF PROFESSIONAL AND SOPHISTICATED INDIVIDUAL INVESTORS, AND NO PUBLIC OFFERING OF THE NOTES AND PREFERENCE SHARES IN AUSTRIA IS BEING MADE OR IS INTENDED TO BE MADE. THE NOTES AND PREFERENCE SHARES CAN ONLY BE ACQUIRED FOR A COMMITMENT EXCEEDING ATS600,000 OR ITS EQUIVALENT VALUE IN ANY FOREIGN CURRENCY. THE INTERESTS ISSUED BY THE ISSUERS ARE NOT OFFERED IN AUSTRIA, AND THE ISSUERS ARE NOT AND WILL NOT BE REGISTERED AS A FOREIGN INVESTMENT FUND IN AUSTRIA.

NOTICE TO RESIDENTS OF BAHRAIN

NO PUBLIC OFFER OF THE NOTES AND PREFERENCE SHARES WILL BE MADE IN BAHRAIN AND NO APPROVALS HAVE BEEN SOUGHT FROM ANY GOVERNMENTAL AUTHORITY OF OR IN BAHRAIN. NONE OF THE CO-ISSUERS, THE COLLATERAL MANAGER AND THE INITIAL PURCHASER IS PERMITTED TO MAKE ANY INVITATION TO THE PUBLIC IN THE STATE OF BAHRAIN TO SUBSCRIBE FOR THE NOTES AND PREFERENCE SHARES AND THIS OFFERING CIRCULAR MAY NOT BE ISSUED, PASSED TO, OR MADE AVAILABLE TO MEMBERS OF THE PUBLIC IN BAHRAIN GENERALLY.

NOTICE TO RESIDENTS OF BELGIUM

THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN OR FROM BELGIUM AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, OTHER THAN TO PERSONS OR ENTITIES MENTIONED IN ARTICLE 3 OF THE ROYAL DECREE OF JANUARY 9, 1991 RELATING TO THE PUBLIC CHARACTERISTIC OF OPERATIONS CALLING FOR SAVINGS AND ON THE ASSIMILATION OF CERTAIN OPERATIONS TO A PUBLIC OFFER (BELGIAN OFFICIAL JOURNAL OF JANUARY 12, 1991). THEREFORE, THE NOTES AND PREFERENCE SHARES ARE EXCLUSIVELY DESIGNED FOR CREDIT INSTITUTIONS, STOCK EXCHANGE COMPANIES, COLLECTIVE INVESTMENT FUNDS, COMPANIES OR INSTITUTIONS, INSURANCE COMPANIES AND/OR PENSION FUNDS ACTING FOR THEIR OWN ACCOUNT ONLY.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

NO INVITATION TO SUBSCRIBE FOR ANY NOTES AND PREFERENCE SHARES MAY BE MADE TO THE PUBLIC IN THE CAYMAN ISLANDS.

NOTICE TO RESIDENTS OF DENMARK

EACH OF THE ISSUERS AND THE INITIAL PURCHASER HAS AGREED THAT IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER, SELL OR DELIVER ANY NOTES AND PREFERENCE SHARES IN THE KINGDOM OF DENMARK, DIRECTLY OR INDIRECTLY, BY WAY OF PUBLIC OFFER, UNLESS SUCH OFFER, SALE OR DELIVERY IS, OR WAS, IN COMPLIANCE WITH THE DANISH ACT NO. 1072 OF DECEMBER 20, 1995 ON SECURITIES TRADING, CHAPTER 12 ON PROSPECTUSES ON FIRST PUBLIC OFFER OF CERTAIN EXECUTIVE SECURITIES AND ANY EXECUTIVE ORDERS ISSUED PURSUANT THERETO.

NOTICE TO RESIDENTS OF FINLAND

THIS OFFERING CIRCULAR HAS BEEN PREPARED FOR PRIVATE INFORMATION PURPOSES OF INTERESTED INVESTORS ONLY. IT MAY NOT BE USED FOR AND SHALL NOT BE DEEMED A PUBLIC OFFERING OF THE NOTES AND PREFERENCE SHARES. THE RAHOITUSTARKASTUS HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE NOTES AND PREFERENCE SHARES; ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD IN FINLAND OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY FINNISH LAW. THIS OFFERING CIRCULAR IS STRICTLY FOR PRIVATE USE BY ITS HOLDER AND MAY NOT BE PASSED ON TO THIRD PARTIES.

NOTICE TO RESIDENTS OF FRANCE

THIS OFFERING CIRCULAR IS FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR PERSONS OR INSTITUTIONS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER OR AN INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY OFFERED SECURITIES AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

AS LONG AS THE PROSPECTUS DIRECTIVE IS NOT IMPLEMENTED IN FRANCE, THE FOLLOWING FRENCH SELLING RESTRICTIONS WILL APPLY: EACH OF THE INITIAL PURCHASER HAS REPRESENTED AND AGREED, AND EACH FUTURE DEALER WILL BE REQUIRED TO REPRESENT AND AGREE ,THAT IN CONNECTION WITH THEIR INITIAL DISTRIBUTION IT HAS NOT OFFERED OR SOLD OR CAUSED TO BE OFFERED OR SOLD AND WILL NOT OFFER OR SELL OR CAUSED TO BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, ANY OFFERED SECURITIES BY WAY OF A PUBLIC OFFERING IN THE REPUBLIC OF FRANCE (AN APPEL PUBLIC À L'ÉPARGNE AS DEFINED IN ARTICLE L.411-1 OF THE FRENCH CODE MONÉTAIRE ET FINANCIER (THE "FRENCH CODE")) AND THAT OFFERS AND SALES OF THE OFFERED SECURITIES WILL BE MADE IN THE REPUBLIC OF FRANCE IN ACCORDANCE WITH THE ARTICLE L.411-1 AND FOLLOWING OF THE FRENCH CODE AND DECREE NO.98.880 DATED 1ST OCTOBER, 1998 RELATING TO OFFERS TO QUALIFIED INVESTORS.

NOTICE TO RESIDENTS OF GERMANY

THE NOTES AND PREFERENCE SHARES MAY ONLY BE ACQUIRED IN ACCORDANCE WITH THE GERMAN WERTPAPIERPROSPEKTGESETZ (**"SECURITIES PROSPECTUS ACT"**) AND THE INVESTMENTGESETZ (**"INVESTMENT ACT"**). THE SECURITIES ARE NOT REGISTERED OR AUTHORIZED FOR DISTRIBUTION UNDER THE INVESTMENT ACT AND MAY NOT BE, AND ARE NOT BEING OFFERED OR ADVERTISED PUBLICLY OR OFFERED SIMILARLY UNDER THE INVESTMENT ACT OR THE SECURITIES PROSPECTUS ACT. THEREFORE, THIS OFFER IS ONLY BEING MADE TO RECIPIENTS TO WHOM THIS DOCUMENT IS PERSONALLY ADDRESSED AND DOES NOT CONSTITUTE AN OFFER OR ADVERTISEMENT TO THE PUBLIC. THE SECURITIES CAN ONLY BE ACQUIRED FOR A MINIMUM PURCHASE PRICE OF AT LEAST € 50,000 (EXCLUDING COMMISSIONS AND OTHER FEES) PER PERSON. ALL PROSPECTIVE INVESTORS ARE URGED TO SEEK INDEPENDENT TAX ADVICE. NONE OF THE ISSUER, THE TRUSTEE, THE COLLATERAL MANAGER, THE INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES GIVES ANY TAX ADVICE.

NOTICE TO RESIDENTS OF HONG KONG

NO PERSON MAY OFFER OR SELL ANY NOTE IN HONG KONG BY MEANS OF THIS OFFERING CIRCULAR OR ANY OTHER DOCUMENT OTHERWISE THAN TO PERSONS WHOSE ORDINARY BUSINESS IT IS TO BUY OR SELL SHARES OR DEBENTURES (WHETHER AS PRINCIPAL OR AGENT) OR IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE COMPANIES ORDINANCE (CHAPTER 32 OF THE LAWS OF HONG KONG). UNLESS IT IS A PERSON WHO IS PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG, NO PERSON MAY IN HONG KONG ISSUE, OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, THIS OFFERING CIRCULAR OR ANY OTHER ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE NOTES AND PREFERENCE SHARES OTHER THAN (I) IN RESPECT OF NOTES OR PREFERENCE SHARES TO BE DISPOSED OF TO PERSONS OUTSIDE HONG KONG OR ONLY TO PERSONS WHOSE BUSINESS INVOLVES THE ACQUISITION, DISPOSAL OR HOLDING OF SECURITIES, WHETHER AS PRINCIPAL OR AGENT, OR (II) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN INVITATION TO THE PUBLIC WITHIN THE MEANING OF THE PROTECTION OF INVESTORS ORDINANCE (CHAPTER 335 OF THE LAWS OF HONG KONG).

NOTICE TO RESIDENTS OF ITALY

THIS OFFERING CIRCULAR MAY NOT BE DISTRIBUTED TO MEMBERS OF THE PUBLIC IN ITALY. THE ITALIAN COMMISSIONE NAZIONALE PER LA SOCIETA E LA BORSA HAS NOT AUTHORIZED ANY OFFERING OF THE SUBSCRIPTION OF THE NOTES OR PREFERENCE SHARES. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR SOLD IN ITALY OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY ITALIAN LAW.

NOTICE TO RESIDENTS OF JAPAN

THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN. NEITHER THE NOTES, THE

PREFERENCE SHARES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO OR FOR THE ACCOUNT OF ANY RESIDENT OF JAPAN (WHICH TERM AS USED HEREIN MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN), OR TO OTHERS FOR RE-OFFERING OR SALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SECURITIES AND EXCHANGE LAW AND ANY OTHER APPLICABLE LAW, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

NOTICE TO RESIDENTS OF KOREA

NONE OF THE ISSUER, THE CO-ISSUER AND THE INITIAL PURCHASER IS MAKING ANY REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE QUALIFICATION OF THE RECIPIENTS OF THIS OFFERING CIRCULAR FOR THE PURPOSE OF INVESTING IN THE NOTES OR PREFERENCE SHARES UNDER THE LAWS OF KOREA, INCLUDING AND WITHOUT LIMITATION THE FOREIGN EXCHANGE MANAGEMENT LAW AND REGULATIONS THEREUNDER. THE NOTES AND PREFERENCE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF KOREA AND NONE OF THE NOTES OR PREFERENCE SHARES MAY BE OFFERED OR SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO APPLICABLE LAWS AND REGULATIONS OF KOREA.

NOTICE TO RESIDENTS OF THE NETHERLANDS

THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED, WHETHER DIRECTLY OR INDIRECTLY, TO ANY INDIVIDUAL OR LEGAL ENTITY IN THE NETHERLANDS OTHER THAN TO INDIVIDUALS WHO, OR LEGAL ENTITIES WHICH, IN THE COURSE OF THEIR OCCUPATION OR BUSINESS, DEAL OR INVEST IN SECURITIES (AS SET OUT IN SECTION 1 OF THE REGULATION OF 9 OCTOBER 1990 IN IMPLEMENTATION OF SECTION 14 OF THE ACT ON THE SUPERVISION OF INVESTMENT INSTITUTIONS).

NOTICE TO RESIDENTS OF NORWAY

EACH OF THE ISSUERS AND THE INITIAL PURCHASER REPRESENTS AND AGREES THAT IT WILL COMPLY WITH CHAPTER 5 OF THE NORWEGIAN ACT NO. 79 OF JUNE 19, 1997 ON SECURITIES TRADING (SECURITIES TRADING ACT) AND EACH OF THE ISSUERS AND THE INITIAL PURCHASER ADDITIONALLY REPRESENT AND AGREE THAT THEY HAVE NOT, DIRECTLY OR INDIRECTLY, OFFERED OR SOLD AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER OR SELL IN THE KINGDOM OF NORWAY OR TO INVESTORS IN THE NORWEGIAN SECURITIES MARKET ANY NOTES OR PREFERENCE SHARES OTHER THAN TO PERSONS WHO ARE REGISTERED WITH THE OSLO STOCK EXCHANGE AS PROFESSIONAL INVESTORS.

NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING CIRCULAR WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP. 50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH TAKES NO RESPONSIBILITY FOR ITS CONTENTS, BUT HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED NOR MAY THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE NOTES OR PREFERENCE SHARES BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

NOTICE TO RESIDENTS OF SPAIN

THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE COMISION NACIONAL DEL MERCADO DE VALORES OF SPAIN AND MAY NOT BE DISTRIBUTED IN SPAIN IN CONNECTION WITH THE OFFERING AND SALE OF THE NOTES OR PREFERENCE SHARES WITHOUT COMPLYING WITH ALL LEGAL AND REGULATORY REQUIREMENTS IN RELATION THERETO.

NOTICE TO RESIDENTS OF SWEDEN

THIS OFFERING CIRCULAR IS FOR THE RECIPIENT ONLY AND MAY NOT IN ANY WAY BE FORWARDED TO ANY OTHER PERSON OR TO THE PUBLIC IN SWEDEN. THE OFFERING OF THE NOTES AND PREFERENCE SHARES IS INTENDED TO BE A PRIVATE PLACEMENT, AND A MINIMUM INVESTMENT OF SEK 300,000 IN THE NOTES OR PREFERENCE SHARES IS REQUIRED.

NOTICE TO RESIDENTS OF SWITZERLAND

THE ISSUER HAS NOT BEEN AUTHORIZED BY THE SWISS FEDERAL BANKING COMMISSION AS A FOREIGN INVESTMENT FUND UNDER ARTICLE 45 OF THE SWISS FEDERAL LAW ON INVESTMENT FUNDS OF 18 MARCH 1994. ACCORDINGLY, THE NOTES AND PREFERENCE SHARES MAY NOT BE OFFERED OR DISTRIBUTED ON A PROFESSIONAL BASIS IN OR FROM SWITZERLAND, AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE NOTES OR PREFERENCE SHARES MAY BE DISTRIBUTED IN CONNECTION WITH ANY SUCH OFFERING OR DISTRIBUTION. THE NOTES AND PREFERENCE SHARES MAY, HOWEVER, BE OFFERED AND THIS OFFERING CIRCULAR MAY BE DISTRIBUTED IN SWITZERLAND ON A PROFESSIONAL BASIS TO A LIMITED NUMBER OF PROFESSIONAL INVESTORS IN CIRCUMSTANCES SUCH THAT THERE IS NO PUBLIC OFFER.

NOTICE TO RESIDENTS OF TAIWAN AND CHINA

THE OFFER OF THE NOTES AND PREFERENCE SHARES HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR WITH THE RELEVANT REGULATORY AUTHORITIES IN THE REPUBLIC OF CHINA PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS AND MAY NOT BE OFFERED OR SOLD WITHIN TAIWAN OR THE REPUBLIC OF CHINA THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE LAW OF TAIWAN OR WITHIN THE MEANING OF RELEVANT SECURITIES LAWS AND REGULATIONS IN THE REPUBLIC OF CHINA THAT REQUIRE A REGISTRATION OR APPROVAL OF THE SECURITIES AND FUTURES COMMISSION OF TAIWAN OR THE RELEVANT SECURITIES REGULATORY AUTHORITIES IN CHINA.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS DOCUMENT IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT OF 2000 ("**FSMA**") (FINANCIAL PROMOTION) ORDER 2005 (THE "**ORDER**") OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2) (A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THE SECURITIES ARE AVAILABLE ONLY TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with the sale of the Notes and Preference Shares, each of the Issuers will be required to furnish, upon request of a holder of a Note or Preference Share, to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request such Co-Issuer is not a reporting company subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. Such information may be obtained from the Trustee or the Irish Paying Agent. It is not contemplated that either of the Issuers will be such a reporting company or so exempt.

FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Underlying Assets among asset categories from those identified on **Schedule A** hereto, the timing and frequency of defaults, writedowns, principal shortfalls and interest shortfalls on the Underlying Assets, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets (particularly prior to the investment of all Uninvested Proceeds), defaults under Underlying Assets and the effectiveness of any Interest Rate Swap Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or its affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or its affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

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SUMMARY OF TERMS

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular. An index of defined terms appears at the back of this Offering Circular.

Securities Offered ..... U.S.$[ ] aggregate principal amount Class A-1 Floating Rate Notes Due [] (the **"Class A-1 Notes"**).

U.S.$[ ] aggregate principal amount Class A-2 Floating Rate Notes Due [] (the **"Class A-2 Notes"**) and, together with the Class A-1 Notes, the **"Class A Notes"**).

U.S.$[ ] aggregate principal amount Class B Floating Rate Notes Due [] (the **"Class B Notes"**).

U.S.$[ ] aggregate principal amount Class C Floating Rate Deferrable Interest Notes Due [] (the **"Class C Notes"**).

U.S.$[ ] aggregate principal amount Class D Floating Rate Deferrable Interest Notes Due [] (the **"Class D Notes"**).

U.S.$[ ] aggregate principal amount Class E Floating Rate Deferrable Interest Notes Due [] (the **"Class E Notes**, together with the Class A Notes, Class B Notes, Class C Notes and Class D Notes, the **"Notes"**).

Preference Shares..... Concurrently with the issuance of the Notes, the Issuer will issue [] Preference Shares, par value U.S.$0.01 per share, issued at a liquidation preference of U.S.$[1,000] per share (the **"Preference Shares"**). It is expected that the Collateral Manager will purchase all of the Preference Shares and the Collateral Manager may purchase some or all of the Class E Notes.

Status of the Notes ..... Each of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes are herein referred to as a **"Class"** of Notes. The entire principal amount of each Class of Notes and all of the Preference Shares will be issued on the Closing Date.

The Notes will be issued and secured pursuant to the Indenture. The Synthetic Security Counterparty will be an express third party beneficiary of the Indenture. See "Description of the Notes—Status and Security" and "—The Indenture." The Notes will be limited-recourse debt obligations of the Issuers secured solely by a pledge of the Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, the Collateral Manager, the Trustee, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty and any

Interest Rate Swap Counterparty (collectively, the **"Secured Parties"**). See "Description of the Notes—Status and Security."

The relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes and *sixth*, Class E Notes, with (a) each Class of Notes in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes) in such list being **"Subordinate"** to the Class of Notes that precedes such Class of Notes in such list. The Notes are Senior to the Preference Shares.

No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full, except as described under "—Principal Repayment of the Notes". See also "Description of the Notes—Priority of Payments."

However:

(a) on any Distribution Date occurring on or before the Distribution Date in [] (with the period from the Closing Date to such Distribution Date referred to herein as the **"Priority Distribution Period"**), Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after the [] Distribution Date, []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) on any Distribution Date occurring on or after the Distribution Date in [] (if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before such Distribution Date) (the **"Accelerated**

Amortization Date"), Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test.

See "Description of the Notes—Priority of Payments."

The Issuers ..... Gemstone CDO VII Ltd. (the "**Issuer**") is an exempted company with limited liability incorporated under the Companies Law (2004 Revision) of the Cayman Islands pursuant to its Memorandum and Articles of Association (the "**Issuer Charter**") and is in good standing under the laws of the Cayman Islands. The Indenture and Issuer Charter will provide that the activities of the Issuer are limited to:

(a) acquiring, holding, pledging and selling Underlying Assets, Offsetting Transactions and Eligible Investments;

(b) entering into and performing its obligations under the Indenture, any Interest Rate Swap Agreement, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Note Purchase Agreement, the subscription agreements with respect to the private placement of the Class E Notes and the Preference Shares (the "**Subscription Agreements**") and the Preference Share Paying Agency Agreement;

(c) issuing, redeeming and selling the Notes and the Preference Shares, and issuing the Ordinary Shares;

(d) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties;

(e) owning the Co-Issuer; and

(f) other activities incidental to the foregoing.

	The Issuer will not have any material assets other than the Underlying Assets, Eligible Investments, any Interest Rate Swap Agreement and rights under certain other agreements entered into as described herein. Gemstone CDO VII Corp., a Delaware corporation (the **"Co-Issuer"** and, together with the Issuer, the **"Issuers"**), was incorporated for the sole purpose of co-issuing the Notes. The entire authorized share capital of the Co-Issuer is owned by the Issuer. The Co-Issuer will not have any assets (other than the proceeds of its common shares, being U.S.$[250]) and will not pledge any assets to secure any Class of Notes. The Co-Issuer will not have any interest in the Underlying Assets held by the Issuer.
Collateral Manager.....	HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors, the **"Collateral Manager"**) with headquarters in Dallas, Texas, will manage the Collateral under a Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. Pursuant to the Management Agreement and in accordance with the Indenture, the Collateral Manager has selected and will manage the Collateral and will exercise rights and remedies associated with the Underlying Assets based on the restrictions set forth in the Indenture and on the Collateral Manager's research, credit analysis and judgment. The Collateral Manager will also monitor any Interest Rate Swap Agreement and may also act as the Auction Agent in connection with an Auction Call Redemption. Also, the Collateral Manager may direct the Disposition of the Underlying Assets in the case of an Optional Redemption, a Clean-up Call or a Tax Redemption. For a summary of the provisions of the Management Agreement and certain other information concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "The Collateral Manager" and "The Management Agreement."
Use of Proceeds.....	The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be approximately U.S.$[ ]. On the Closing Date, the Issuer will receive approximately U.S.$[ ] as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and

	structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. The net proceeds from the issuance and the sale of the Notes and the Preference Shares will be used by the Issuer to purchase on the Closing Date a diversified portfolio of interests in asset-backed securities (**"Asset-Backed Securities"**) and Synthetic Securities (together with the Asset-Backed Securities, the **"Underlying Assets"**) having the characteristics described herein, to enter into Offsetting Transactions (including the payment of any initial amounts upon the entry into an Offsetting Transaction) and to fund certain accounts established under the Indenture. See "Security for the Notes—Underlying Assets" and "—Closing Date Portfolio." On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio will consist of Underlying Assets (acquired or committed to be acquired) having an aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of approximately U.S.$[ ]. In the event that there are any remaining uninvested net proceeds on the Determination Date preceding the [] 2007 Distribution Date (the **"First Distribution Date"**), they will be applied in the manner described herein under "Description of the Notes—Certain Definitions—Principal Proceeds," "Description of the Notes—Priority of Payments—Principal Proceeds" and "Security for the Notes—The Accounts—Uninvested Proceeds Account."
Security for the Notes.....	Pursuant to the Indenture, the Notes, together with the Issuer's obligations to the Interest Rate Swap Counterparty under any Interest Rate Swap Agreement, the Synthetic Security Counterparty under the Synthetic Securities, the Initial Investment Agreement Provider under the Initial Investment Agreement, the Trustee under the Indenture and the Collateral Manager under the Management Agreement, will be secured by: (a) the Underlying Assets and Equity Securities and the Offset Transactions and the Offsetting Transactions; (b) the rights of the Issuer under any Interest Rate Swap Agreement; (c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Issuer

	Account, the Disposition Proceeds Account, the Synthetic Security Collateral Account [and the Interest Rate Swap Counterparty Collateral Account] (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts; (d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreements and the Administration Agreement; and (e) all proceeds of the foregoing (collectively, the **"Collateral"**). In the event of any realization on the Collateral, proceeds will be allocated to the payment of each Class of Notes in accordance with the respective priorities established by the Priority of Payments. The Collateral will not include the Excepted Property.
Acquisition of the Underlying Assets.....	On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio, which will consist of Underlying Assets having an Aggregate Principal/Notional Balance (including principal collections on Asset-Backed Securities deposited in the Uninvested Proceeds Account on the Closing Date) of approximately U.S.$[ ] and will be pledged to the Trustee under the Indenture. The Underlying Assets so acquired by the Issuer will, on the Closing Date, have the characteristics described herein under "Security for the Notes— Underlying Assets" and "—Closing Date Portfolio." After the Closing Date, following the Disposition of Underlying Assets in accordance with and subject to the conditions herein, the Issuer, at the direction of the Collateral Manager, may apply the Disposition Proceeds in respect of such Dispositions to purchase additional Asset-Backed Securities or to enter into additional Synthetic Securities. During the Reinvestment Period, the Issuer, at the direction of the Collateral Manager and subject to the limitations described in "Disposition of the Underlying Assets," may trade Underlying Assets on a discretionary basis. After the Reinvestment Period, the Issuer will not be able to acquire Underlying Assets on a discretionary basis. Both during and after the Reinvestment Period, the Collateral Manager may direct the Issuer to Dispose of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities as described under "Disposition of the Underlying Assets" and may be required to reinvest the Disposition Proceeds of such

	Dispositions in additional Underlying Assets. During and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* any Offsetting Transaction will be treated as a Disposition of the related Underlying Asset, meaning that Offsetting Transactions deemed to be discretionary and not in connection with the Disposition of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities shall only occur during the Reinvestment Period.
Disposition of the Underlying Assets.....	At any time, the Collateral Manager may direct the Issuer to Dispose of any Defaulted Assets, Equity Securities or Underlying Assets subject to withholding or other similar taxes and acquire additional Underlying Assets; *provided* that such Dispositions and acquisitions are subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets." The Collateral Manager may also direct the Issuer to Dispose of Credit-Risk Assets, Credit-Improved Assets or other Underlying Assets and acquire additional Underlying Assets, subject to the conditions indicated below. *Credit-Risk Assets.* The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that: (A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; provided that such Disposition Proceeds may not be reinvested, or (B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within [180] days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together

with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*, (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Credit-Improved Assets. The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless, in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; provided that (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within [180] days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally,* (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating, respectively, of the Credit-Improved Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Discretionary Trading. At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of (and acquire if applicable), and the Trustee shall Dispose of (and acquire, if applicable) in the manner so directed by the Collateral Manager, acting on behalf of the Issuer, in writing, any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within [180] days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the

Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed [20]% of the Net Outstanding Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

The Disposition Proceeds of an Asset-Backed Security will be deposited in the Disposition Proceeds Account and, subject to the restrictions described in "Security for the Notes—Disposition of Underlying Assets," will be available to be reinvested in other Underlying Assets within [180] days following such Disposition. Following such [180] day period, if not earlier transferred to the Principal Collection Account at the direction of the Collateral Manager, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments.

"Reinvestment Period" means the period from the Closing Date until the first to occur of (i) the Payment Date immediately following the date that the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Assets, general market conditions and other factors, the Collateral Manager (in its sole discretion) has determined on behalf of the Issuer that investments in additional Underlying Assets within the foreseeable future would either be impractical or not beneficial, (ii) an Event of Default or (iii) the day after the Payment Date occurring in []; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral

	Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date occurring in [].
	Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests.
	See "Security for the Notes—Disposition of Underlying Assets."
Interest Rate Swap Agreement.....	Following the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an ISDA Master Agreement pursuant to which the Issuer will enter into an interest rate swap in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional interest rate swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**). Any Interest Rate Swap Agreement will provide that the Issuer will pay to the Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three month LIBOR for the related calculation period. See "Security for the Notes—The Interest Rate Swap Agreement."
Synthetic Securities.....	On the Closing Date, the Issuer will enter into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security will relate to a Reference Obligation whereby the Issuer will sell credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which will be separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. The form of Confirmation for Reference Obligations that are RMBS Securities is attached

hereto as **Schedule H**. The form of Confirmation for Reference Obligations that are ABX Tranche Securities is attached hereto as **Schedule I**. The form of Confirmation for Reference Obligations that are CMBS Securities is attached hereto as **Schedule J**. The form of Confirmation for Reference Obligations that are CDO Securities is attached hereto as **Schedule K**. The 2003 ISDA Credit Derivatives Definitions, as published by ISDA (the **"Credit Derivatives Definitions"**) will apply to, and be incorporated by reference into, each Synthetic Security.

Each Synthetic Security exposes the Issuer to the credit risk of a Reference Obligation. Each **"Reference Obligation,"** as of the related trade date, will be an Asset-Backed Security that satisfies the Eligibility Criteria.

During the Reinvestment Period, and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and (ii) enter into new Synthetic Securities with other synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) made pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or (z)

the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

The Synthetic Security Counterparty has the right in the event of an assignment of a Synthetic Security to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders.

For a further description of the Synthetic Securities see "Security for the Notes— Underlying Assets Synthetic Securities" herein.

Offsetting Transactions.....	On or after the Closing Date, the Issuer may enter into a series of credit default swaps (each an **"Offsetting Transaction"**) with one or more counterparties (each, an **"Offsetting Transaction Counterparty"**) required in order to hedge all or part of its credit exposure (determined as set out below) to obligors under Synthetic Securities. In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will not be considered a Synthetic Security (the amount of such Synthetic Security so offset, the **"Offset Transaction"**). Offsetting Transactions must be entered into under one of the forms of confirmation attached as **Schedule H**, **Schedule I**, **Schedule J** or **Schedule K** hereto, each when so used for an Offsetting Transaction a **"Form Approved Short Synthetic Confirmation"**. Each Offsetting Transaction will relate to a Reference Obligation whereby the Issuer purchases credit protection from the related Offsetting Transaction Counterparty on such Reference Obligation. An Offsetting Transaction shall hedge all or part of the Issuer's credit exposure if, in the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction hedges the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction relates to the same Reference Obligation and provides for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security. [Each Offsetting Transaction and Offset Transaction will include cross-default provisions providing that, in the case of an Offsetting Transaction, following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will terminate and that, in the case of an Offset Transaction, following an event of default or termination event with respect to an Offsetting Transaction, the related Offset Transaction will terminate.] The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Synthetic Security and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty.
Initial Investment Agreement.....	Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments (as defined herein) and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and [ ], as

	investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of about $[ ] are expected to be invested as the Investment. Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest at a *per annum* floating rate equal to three-month LIBOR minus []% on the amounts invested thereunder. Interest on the Investment will accrue until the date the Initial Investment Agreement terminates or is terminated in accordance with its terms over each Interest Period and will be payable on the Business Day immediately prior to the Distribution Dates. On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures. On or immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein. The obligations of the Initial Investment Agreement Provider under the Initial Investment Agreement will be insured by a financial guarantee policy (the **"Policy"** and together with the Initial Investment Agreement, the **"GIC"**) to the extent specified therein. See "Security for the Notes—The Initial Investment Agreement", "Security for the Notes—The Initial Investment Agreement—The Initial Investment Agreement Provider".
Interest Payments on the Notes	The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%. The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%. The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%. The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%. The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

	The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%. The Preference Shares will receive any Excess Interest in accordance with the Priority of Payments. Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest on the Notes will accrue from the Closing Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein; provided that Interest in respect of the First Distribution Date will be paid on a period of [] days. See "Description of the Notes—Interest." Any interest on the Class C Notes, Class D Notes or Class E Notes that is not paid when due by operation of the Priority of Payments will be deferred (**"Deferred Interest"**, or as applicable, **"Class C Deferred Interest"**, **"Class D Deferred Interest"** or **"Class E Deferred Interest"**). Interest will accrue on any deferred interest. Failure to make payment in respect of interest on the Class C Notes, Class D Notes or Class E Notes on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture as long as a more Senior Class of Notes remains outstanding. Upon the payment of Class C Deferred Interest, Class D Deferred Interest or Class E Deferred Interest, the deferred interest amount with respect to the Class C Notes, Class D Notes or the Class E Notes, as the case may be, will be reduced by the amount of such payment. Additionally, as long as any Class of Notes is outstanding if a Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date relating to a Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied. See "Description of the Notes—Priority of Payments."
Maturity; Average Life; Duration	The stated maturity of the Notes is the [] Distribution Date (with respect to each Class of Notes, the **"Stated Maturity"**). Each Class of Notes will mature at the applicable Stated Maturity unless redeemed or repaid before the Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate

	principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the **"Final Maturity Date"**. The average life of each Class of Notes may be less than the number of years until its Stated Maturity. See "Maturity and Prepayment Considerations," "Risk Factors—Projections, Forecasts and Estimates" and "—Average Life of the Notes and Prepayment Considerations."
Principal Repayment of the Notes	Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes and, to the extent that there are Excess Principal Proceeds, to pay a dividend on the Preference Shares. In addition, (a) if a Coverage Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority in sufficient amounts to satisfy each Coverage Test, (b) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, and (c) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on each Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the

	Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full, (d) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test, in each case, to the extent of funds available for such purposes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments," "—Principal," "—Mandatory Redemption" and "—The Coverage Tests." The Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor at the times and under the circumstances described in "Description of the Notes—Auction Call Redemption," "—Optional Redemption", "—Clean-Up Call Redemption" and "—Tax Redemption."
Mandatory Redemption	The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will, on any Distribution Date, be subject to mandatory redemption from Interest Proceeds in the event that any Coverage Test is not satisfied on that Determination Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts in accordance with the Priority of Payments) to repay the principal of each Class of Notes. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described below under "Description of the Notes—Priority of Payments" and "—Mandatory Redemption."
Optional Redemption	Subject to certain conditions described herein, on any Distribution Date on or after the [] Distribution Date, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares at the applicable Redemption Price therefor. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in [the Interest Rate Swap Counterparty Collateral Account and] the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in

	part, to make such an Optional Redemption and (ii) such Disposition Proceeds are at least equal to the Redemption Amount. See "Description of the Notes—Optional Redemption".
Auction Call Redemption of the Notes	If the Notes have not been redeemed in full on or prior to the Distribution Date occurring in [] (the **"First Auction Call Date"**), and the Preference Shareholders have not directed an Optional Redemption, then an auction of the Underlying Assets will be conducted by the Auction Agent on behalf of the Issuer and, *provided* that certain conditions described herein are satisfied, the Underlying Assets will be sold and the Notes will be redeemable (an **"Auction Call Redemption"**), in whole but not in part and at the applicable Redemption Price, from the Disposition Proceeds of all Collateral including any Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account); *provided* that funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** equals (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If such conditions are not satisfied and the Underlying Assets are not Disposed of prior to such Distribution Date, the Auction Agent will conduct an auction on a semi-annual basis prior to each subsequent Distribution Date (each, a **"Subsequent Auction Call Date,"** and, together with the First Auction Call Date, each, an **"Auction Date"**) until the Notes are redeemed in full. An auction conducted in connection with an Auction Call Redemption (an **"Auction"**) shall be carried out in accordance with the auction procedures set forth in Schedule B attached hereto (the **"Auction Procedures"**). See "Description of the Notes—Auction Call Redemption." Pursuant to the Management Agreement, the Issuer may designate the Collateral Manager as the Auction Agent (in such capacity, the **"Auction Agent"**) in connection with the sale of the Collateral in connection with any Auction Call Redemption; *provided* that if the Collateral Manager or any of its Affiliates is a bidder on the Collateral, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction shall be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent. In no event, however, will the Initial Purchaser have any obligation

	to act as Auction Agent with respect to the Collateral. If an Auction Call Redemption is not successfully completed on any Auction Date, the Auction Agent shall conduct an Auction on each Subsequent Auction Call Date in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully. See "Schedule B—Auction Call Redemption—Auction Procedures."
Clean-Up Call Redemption	At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price, on any Distribution Date selected by the Collateral Manager which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to []% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account). See "Description of the Notes—Clean-Up Call Redemption."
Tax Redemption of the Notes	The Issuer may redeem the Notes (such redemption, a **"Tax Redemption"**), in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investment credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account) on such Distribution Date. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are at least equal to the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption."
Manner of Distribution	The Initial Purchaser is offering the Notes for sale to investors (**"Original Purchasers"**), subject to prior sale when, as and if issued, the approval of certain legal matters by counsel and the satisfaction of certain other conditions: (a) in the United States who are (i) Institutional Accredited Investors in reliance upon an exemption from registration provided by Section 4(2) of the Securities Act, or (ii) Qualified Institutional Buyers in reliance on the exemption from registration provided by Rule 144A and (b) outside the United States to persons that are not U.S. Persons in offshore transactions in reliance on Regulation S and in accordance with any applicable securities laws of any state of

	the United States and any other relevant jurisdiction. Notes offered for sale to a U.S. resident (within the meaning of the Investment Company Act) will be offered only to Qualified Purchasers. See "Plan of Distribution" and "Transfer Restrictions."
Ratings	It is a condition to the issuance of the Notes that Moody's and Standard & Poor's assign the following ratings to the Notes:

Class	Moody's	S&P
Class A-1 Notes	Aaa	AAA
Class A-2 Notes	Aaa	AAA
Class B Notes	at least Aa2	at least AA
Class C Notes	at least A2	at least A
Class D Notes	at least Baa2	at least BBB
Class E Notes	at least Ba1	at least BB+

The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, Class D Notes and Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, Class D Notes and Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision at any time.

Minimum Denominations	The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000, and in integral multiples of U.S.$1,000 in excess thereof.
Form, Registration and Transfer of the Notes	The Notes offered in reliance upon Regulation S (**"Regulation S Notes"**) initially will be represented by one or more Temporary Regulation S Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee) initially for the accounts of Euroclear, and/or Clearstream.
	On the 40th day after which all of the Notes of any Class have

	been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons, in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note. Interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream). Until and including the 40th day after the later of the commencement of the offering and the closing of the offering of the Notes (the **"Distribution Compliance Period"**), interests in a Regulation S Global Note may be held only through Euroclear or Clearstream. The Notes offered in the United States (**"Restricted Notes"**) will be represented by one or more Restricted Global Notes in fully registered form without interest coupons attached, deposited with, and registered in the name of, DTC (or its nominee). Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Regulation S Global Notes and the Restricted Global Notes are collectively referred to herein as **"Global Notes."** Under certain limited circumstances described herein, definitive registered Notes may be issued in exchange for Global Notes. No Note (or any interest therein) may be transferred to a transferee acquiring such Note in the form of an interest in a Global Note except (a) to a transferee whom the seller reasonably believes is (i) a Qualified Institutional Buyer that is a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction in accordance with Regulation S, (b) in compliance with the certification (if any) and other requirements set forth in the Indenture, and (c) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction. See "Description of the Notes—Form, Denomination, Registration and Transfer" and "Transfer Restrictions."
Listing.....	Application will be made to the Irish Financial Services Regulatory Authority as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange to admit the Notes to the Official List and trading on its regulated market. Such approval will relate only to Notes which are to be admitted to trading on

	the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. See "Listing and General Information." No application will be made to list the Notes on any other exchange.
Listing Agent and Irish Paying Agent	RSM Robson Rhodes LLP.
Governing Law	The Notes, the Indenture, the Subscription Agreements, the Collateral Administration Agreement, the Management Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.
Tax Matters	See "Tax Considerations."
Benefit Plan Investors	See "ERISA Considerations."

RISK FACTORS

An investment in the Notes or Preference Shares involves certain risks. Prospective investors should carefully consider the following factors, in addition to the matters set forth elsewhere in this Offering Circular, prior to investing in the Notes or Preference Shares.

Risks Relating to the Notes

Investor Suitability. An investment in the Notes or Preference Shares will not be appropriate for all investors. Structured investment products, like the Notes and Preference Shares, are complex instruments, and may involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. Any investor interested in purchasing Notes or Preference Shares should conduct its own investigation and analysis of the product and consult its own professional advisers as to the risks involved in making such a purchase.

Limited Liquidity. There is currently no market for the Notes or Preference Shares. The Initial Purchaser currently does not intend to make a market in Notes or Preference Shares, and the Initial Purchaser is under no obligation to do so. In the event that the Initial Purchaser commences any market-making, it may discontinue market-making at any time. There can be no assurance that a secondary market for any of the Notes or Preference Shares will develop, or, if a secondary market does develop, that it will provide the holders of such Notes or Preference Shares with liquidity of investment or that it will continue for the life of the Notes or Preference Shares. In addition, the Notes and Preference Shares are subject to transfer restrictions and can only be transferred to certain transferees as described under "Transfer Restrictions." Consequently, an investor in the Notes or Preference Shares must be prepared to hold its Notes or Preference Shares for an indefinite period of time or until their Stated Maturity.

Limited-Recourse Obligations. The Notes and Preference Shares are limited-recourse obligations of the Issuer and the Co-Issuer. The Notes and Preference Shares are payable solely from the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Administrator, the Rating Agencies, the Synthetic Security Counterparty, the Offsetting Transaction Counterparty, the Share Trustee, the Collateral Manager, the Initial Purchaser, its Affiliates or any other person or entity will be obligated to make payments on the Notes or Preference Shares. Consequently, the holders of the Notes (the **"Noteholders"**) must rely solely on amounts received in respect of the Underlying Assets and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the Underlying Assets and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class. The ability of the Issuers to make payments in respect of any Class of Notes or the Preference Shares will be constrained by the terms of the Notes of Classes more Senior to such Notes or Preference Shares and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Issuers to pay such deficiencies will be extinguished.

Limited Source of Funds to pay Expenses of the Issuer. The funds available to the Issuer to pay its expenses on any Distribution Date are limited to the Fee Cap Amount *plus* an amount up to U.S.$ [ ] *per annum plus* any Interest Proceeds remaining after the payments described in clauses (1) through ([18]) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, in some cases, a portion of the Principal Proceeds remaining after the payments described in clauses (1) through ([12])

under "Description of the Notes—Priority of Payments—Principal Proceeds." In the event that such funds are not sufficient to pay the expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired, and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect the interests of the Issuer or pay the expenses of legal proceedings against persons which the Issuer has indemnified.

Subordination of each Class of Subordinate Notes. No payment of interest on any Class of Notes will be made until all accrued interest due and payable on the Notes of each Class that is Senior to such Class has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full, except:

(a) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) on any Distribution Date occurring on or after the Accelerated Amortization Date and if any Class of Notes is outstanding, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments in respect of the Preference Shares are Subordinated to payments in respect of the Notes. Payments on the Preference Shares will be made only if either Excess Interest or Excess Principal Proceeds remain after making payments on the Notes in accordance with the Priority of Payments.

If an Event of Default occurs, so long as any Notes are outstanding, the holders of the most Senior Class of Notes then outstanding will be entitled to determine the remedies to be exercised under the Indenture. So long as a more Senior Class of Notes remains outstanding, failure to make payments in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes, as the case may be, on any Distribution Date by reason of the Priority of Payments will not constitute an Event of Default under the Indenture. Any such unpaid interest will instead become Deferred Interest. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and payment of other amounts in accordance with the Priority of Payments prior to any distribution to the Preference Shareholders. See "Description of the Notes—The Indenture" and "—Priority of Payments." Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be

adverse to the interest of the holders of the other Classes of Notes. To the extent that any losses are suffered by any of the holders of any Notes or Preference Shares, such losses will be borne, *first*, by the holders of the Preference Shares (the **"Preference Shareholders"**), *second*, by the holders of the Class E Notes, *third*, by the holders of the Class D Notes, *fourth*, by the holders of the Class C Notes, *fifth*, by the holders of the Class B Notes, *sixth*, by the holders of the Class A-2 Notes and seventh, by the holders of the Class A-1 Notes.

Volatility of the Class D and Class E Notes. The Class D and Class E Notes represent leveraged investments in the underlying Collateral. Therefore, it is expected that changes in the value of the Class D and Class E Notes will be greater than the change in the value of the Underlying Assets, which themselves are subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the Issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the Issuer's opportunities for gain and risk of loss.

Priority Distribution Period; Accelerated Amortization. On any Distribution Date occurring (a)(i) on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full, or

(b) on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full. By reason of such application of Interest Proceeds, the Class E Notes may be repaid in full prior to the full repayment of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes. See "Description of the Notes—Priority of Payments—Interest Proceeds."

Investment Company Act. The Issuers have not registered with the United States Securities and Exchange Commission (the **"SEC"**) as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States or any state thereof (a) whose investors resident in the United States are solely "qualified purchasers" or "knowledgeable employees" (within the meaning given to such terms in the Investment Company Act and the regulations of the SEC thereunder) with respect to the Issuer or certain transferees thereof identified in Rule 3c-6 under the Investment Company Act and (b) which do not make a public offering of their securities in the United States. U.S. counsel for the Issuers will opine, in connection with the sale of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes by the Initial Purchaser and the Preference Shares by the Issuer that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes or Preference Shares are sold by the Initial Purchaser or the Issuer, as the case may be, in accordance with the terms of the Note Purchase Agreement or, in the case of the Preference

Shares and the Class E Notes, the Subscription Agreements). No opinion or no-action position has been requested of the SEC.

To rely on Section 3(c)(7) of the Investment Company Act, the Issuers must have a "reasonable belief" that all purchasers of the Notes and the Preference Shares (including the Initial Purchaser and subsequent transferees) are Qualified Purchasers. Given that transfers of beneficial interests in the Notes will generally be effected only through DTC and its participants and indirect participants without delivery of written transferee certifications to the Issuers, the Issuers will establish the existence of such a reasonable belief by means of the deemed representations, warranties and agreements described under "Transfer Restrictions," the agreements of the Initial Purchaser referred to under "Plan of Distribution" and the procedures described below. Although the SEC has stated that it is possible for an issuer of securities to satisfy the reasonable belief standard referred to above by establishing procedures to provide a means by which such issuer can make a reasonable determination as to status of its securityholders as Qualified Purchasers, the SEC has not approved, and has stated that it will not approve, any particular set of procedures including the procedures described herein. Accordingly, there can be no assurance that the Issuers will have satisfied the reasonable belief standard referred to above.

If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (a) the SEC could apply to a district court to enjoin the violation; (b) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (c) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than nonenforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

Each purchaser of a Restricted Note or an interest therein will be deemed to represent and agree at the time of purchase that the purchaser (a) is a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor), (b) is a Qualified Purchaser, (c) (i) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer and (ii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan, and (d) will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (m) a non-U.S. Person in a transfer for an interest in a Regulation S Note, or (n) both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (x) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer,

shall cause such beneficial owner's interest in such Restricted Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Restricted Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (y) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

Mandatory Redemption. If a Coverage Test is not satisfied on a Determination Date, Interest Proceeds, to the extent funds are available in accordance with the Priority of Payments and to the extent necessary to restore the Coverage Test to certain minimum required levels, will be used to repay principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, sequentially in order of seniority on the immediately succeeding Distribution Date. In addition, certain Principal Proceeds, to the extent available, will be applied on each Distribution Date (after payment of certain other amounts) to repay the principal of each Class of Notes sequentially in direct order of seniority. Any of these events could result in an elimination, deferral or reduction in the interest payments or principal repayments made to the Noteholders or Preference Shareholders, which could adversely impact the returns of the holders of the Notes or Preference Shares. See "Description of the Notes—Principal,"—Mandatory Redemption" and "—Priority of Payments."

Optional Redemption. The Notes may be redeemed, in whole and not in part, pursuant to an Optional Redemption on any Distribution Date on or after the [] Distribution Date at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares, *provided* that no such Optional Redemption may be effected unless the Redemption Amount is paid in full on the date of such redemption in accordance with the Priority of Payments. See "Description of the Notes—Optional Redemption".

Interests of the holder of the Preference Shares in determining whether to elect to require an Optional Redemption of the Notes may be different from the interests of the holders of the Notes in such respect. The holders of the Notes may not be able to invest the proceeds of the redemption of their Notes in one or more comparable investments providing a return equal to or greater than the return such holders of the Notes expected to obtain from their investment in the Notes.

Auction Call Redemption. On the First Auction Call Date and on each subsequent Auction Date (unless previously redeemed or the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shares have directed an Optional Redemption), the Notes shall be redeemable, in whole but not in part, pursuant to an Auction Call Redemption effected from (a) the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), at the applicable Redemption Price; *provided* that no Auction Call Redemption shall be completed except in accordance with the Auction Procedures and unless funds under clauses (a) and (b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. See "Description of the Notes—Auction Call Redemption" and "Schedule B—Auction Call Redemption—Auction Procedures."

Clean-Up Call Redemption. At the direction of the Collateral Manager, the Notes will be subject to redemption in whole but not in part, at their Redemption Price on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to []% of the original aggregate outstanding principal amount of the Notes as of the Closing Date; *provided* that any such redemption is subject to certain conditions described below under "Description of the Notes—Clean-Up Call Redemption."

Tax Redemption. The Issuer may redeem the Notes, in whole but not in part, at the direction of the Majority-in-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account) on such Distribution Date, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such a Tax Redemption, (ii) such Disposition Proceeds are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied. See "Description of the Notes—Tax Redemption." A Tax Redemption, if effected, may reduce amounts that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares and, under certain circumstances, the Noteholders, which could adversely impact the returns of the Preference Shareholders and, under those circumstances, the Noteholders.

Accelerated Maturity Date. If an Event of Default occurs and is continuing and the conditions to liquidating the Collateral set forth herein are satisfied, the Trustee will use commercially reasonable efforts to liquidate the Collateral, including the termination or novation of the Synthetic Securities, and terminate any Interest Rate Swap Agreement and any Investment Agreement as per the terms thereof and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee determines, or the Issuer (or the Collateral Manager on its behalf) notifies the Trustee, that such liquidation and such termination is completed, apply the proceeds thereof in accordance with the Priority of Payments described under "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds." See "Description of the Notes—The Indenture."

An Accelerated Maturity Date may occur even if there are insufficient proceeds to make any distribution on the Preference Shares or, if the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of Notes voting as a separate Class so direct, even if there are insufficient funds to pay the Redemption Price of each Class of Notes in full, *provided* that, so long as one or more Affiliates of the Collateral Manager is the holder of at least 66 2/3% in aggregate outstanding principal amount of the Class E Notes, such an Accelerated Maturity Date will require, effectively, the consent of one or more Affiliates of the Collateral Manager.

Termination of Interest Rate Swap Agreement and Liquidation of Collateral Upon Redemption. Any Interest Rate Swap Agreement will terminate upon a Clean Up Call Redemption, Optional Redemption, Tax Redemption or Auction Call Redemption and on the Accelerated Maturity Date, which may require the Issuer to make a termination payment to any Interest Rate Swap Counterparty. Any such termination payment would reduce the proceeds available to be distributed on the Notes. Furthermore, if the Issuer enters into an Interest Rate Swap Agreement, in the event that on any date the Net Outstanding Underlying Asset Balance is less than the Notional Amount of the Interest Rate Swap Transaction, the Notional Amount of the Interest Rate Swap Transaction will be reduced such that the Notional Amount is equal to the Net Outstanding Underlying Asset Balance. The Issuer may owe a termination payment to the Interest Rate Swap Counterparty in connection with any Interest Rate Swap Termination. Any such payment would reduce the proceeds available to be distributed on the Notes. In addition, a Clean-Up Call Redemption, an Optional Redemption, a Tax Redemption, an Auction Call Redemption or the occurrence of an Accelerated Maturity Date may require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Underlying Assets sold. Moreover, the Collateral Manager may be required, in order to Dispose of all the Underlying Assets, to aggregate Underlying Assets in a block transaction, thereby possibly resulting in a lower realized value for the Underlying Assets sold.

Early Termination of the Reinvestment Period. Although the Reinvestment Period is expected to terminate on the day after the Payment Date occurring in [], the Reinvestment Period may terminate prior to such date (i) if the Collateral Manager, acting on behalf of the Issuer, notifies the Trustee and the other designated parties that, in light of the composition of the Underlying Assets, general market conditions and other factors, the Collateral Manager (in the Collateral Manager's sole discretion), acting on behalf of the Issuer has determined that investments in additional Assets within the foreseeable future would either be impractical or not beneficial or (ii) upon an Event of Default; *provided that* if the Collateral Manager had previously terminated the Reinvestment Period, the Collateral Manager may (in its sole discretion) reinstate the Reinvestment Period if the notice of reinstatement is delivered prior to the Determination Date for the Distribution Date occurring in [].

If the Reinvestment Period terminates prior to the day after the Distribution Date occurring in [], such early termination may affect the expected average lives of the Notes described under "*Maturity, Prepayment and Yield Considerations*".

Disposition of Underlying Assets by the Collateral Manager Under Certain Circumstances. Under the Indenture, during certain periods, the Collateral Manager has the right, but not the obligation, to Dispose of Underlying Assets that are Credit-Risk Assets, Defaulted Securities or Withholding Securities, subject to satisfaction of the conditions described herein. In addition, during the Reinvestment Period and subject to the satisfaction of certain conditions, the Collateral Manager may Dispose of and acquire other Underlying Assets on a discretionary basis. Such Disposition of Underlying Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. On the other hand, circumstances may exist under which it is in the best interests of the Issuer to Dispose of Underlying Assets, but the Collateral Manager does not, or is not permitted to, exercise the right to purchase such assets.

Interest Rate Risk. The Notes bear interest at a rate based on three-month LIBOR as determined on the relevant LIBOR Determination Date. The Asset-Backed Securities will include obligations that bear interest at fixed rates or are subject to interest rate caps and the Synthetic Securities will pay fixed amounts. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on such Notes and the fixed rate at which interest accrues on the fixed rate Underlying Assets and any limitation on floating rate created on Asset-Backed Securities by related interest rate caps. In addition, any payments of principal of or interest on the Underlying Assets received during a Due Period will be reinvested in Eligible Investments maturing not later than the next Distribution Date. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes. With a view to mitigating a portion of such interest rate mismatch, the Issuer may after the Closing Date and subject to satisfaction of the Rating Condition, enter into an Interest Rate Swap Agreement. Any Interest Rate Swap Agreement will expire after the [] Distribution Date. However, there can be no assurance that the Underlying Assets and Eligible Investments, together with such transactions under any Interest Rate Swap Agreement, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. Moreover, the benefits of such transactions under an Interest Rate Swap Agreement may not be achieved in the event of the early termination of the Interest Rate Swap Agreement, including termination upon the failure of the Issuer or the related Interest Rate Swap Counterparty to perform its obligations thereunder. See "Security for the Notes—The Interest Rate Swap Agreement."

Pursuant to the Indenture, the Issuer may (i) enter into an Interest Rate Swap Agreement or (ii) enter into an additional Interest Rate Swap Agreement only with the consent of the Collateral Manager and (a) the satisfaction of the Rating Condition and (b) with respect to any additional Interest Rate Swap

Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement. If an Interest Rate Swap Agreement terminates it may be difficult or impossible for the Issuer to enter into a replacement Interest Rate Swap Agreement and sufficient Interest Proceeds may not be available to pay interest when due on one or more Classes of Notes. If interest is not paid on the most Senior Class of Notes then outstanding, an Event of Default under the Indenture may occur. In limited circumstances specified in the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty may have the unilateral right to reduce the notional amount of such Interest Rate Swap Agreement, in which event the Issuer could be required to pay a termination payment to the Interest Rate Swap Counterparty.

Average Life of the Notes and Prepayment Considerations. The average life of each Class of Notes is expected to be shorter than the number of years until the Stated Maturity. See "Maturity and Prepayment Considerations."

The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Underlying Assets, the characteristics of the Underlying Assets, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Underlying Assets and any dividends or other distributions received in respect of Equity Securities and the occurrence of the Auction Call Redemption. See "Maturity and Prepayment Considerations," "Security for the Notes" and "Description of the Notes—Auction Call Redemption."

Withholding on the Notes; No Gross-Up. The Issuer expects that payments of principal and interest in respect of the Notes by the Issuer will ordinarily not be subject to any withholding tax in the Cayman Islands or the United States. See "Tax Considerations." In the event that withholding or deduction of any taxes from payments of principal or interest in respect of the Notes or any distribution in respect of the Preference Shares is required by law in any jurisdiction, neither of the Issuers shall be under any obligation to make any additional payments to the holders of any Notes or Preference Shares in respect of such withholding or deduction.

As a condition to the payment of principal of and interest on any Notes without U.S. federal back-up withholding, the Issuers may require the delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of Section 7701(a)(30) of the Code or the applicable Internal Revenue Service Form W-8 BEN (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code).

Additional Taxes. The Issuer expects that payments received on the Underlying Assets, Eligible Investments and any Interest Rate Swap Agreement generally will not be subject to withholding or other taxes imposed by the United States. Payments on the Underlying Assets and Eligible Investments and under any Interest Rate Swap Agreement, however, might become subject to U.S. or other tax due to a change in law or other causes. Payments with respect to Equity Securities likely will be subject to withholding taxes imposed by the United States or other countries from which such payments are sourced. The imposition of unanticipated withholding taxes or tax on the Issuer's net income could materially impair the Issuer's ability to pay principal of and interest on the Notes and dividends and return of capital in respect of the Preference Shares. Upon the occurrence, solely as a result of Cayman Islands law, of any such events set forth in the preceding sentence, the Issuer will use its best endeavors to procure (i) the substitution of a company incorporated in another jurisdiction in which the relevant tax does not apply or (ii) the establishment of a branch office in another jurisdiction in which the relevant tax does not apply from which it will continue to carry out its functions under the Notes, subject in each case

to the prior receipt by the Issuer and the Trustee of written confirmation from each Rating Agency that the rating of the Notes will not be adversely affected by such substitution or change of jurisdiction. As soon as practicable after such investigation, the Issuer will send written notice to the Trustee as to whether either of such actions will be taken by the Issuer. No assurance can be made that any such actions by the Issuer will eliminate any such withholding taxes or tax on the Issuer's net income.

Risks Relating to the Collateral

Nature of the Collateral. The Underlying Assets are subject to credit, liquidity, interest rate, market operations, fraud, structural, legal and other risks. In addition, during the Reinvestment Period, a significant portion of the Underlying Assets may be amortized or Disposed of after the Closing Date and replaced with new Underlying Assets and accordingly the financial performance of the Issuer may be affected by the price and availability of the Underlying Assets to be acquired. The amount and nature of the Collateral securing the Notes have been established to withstand certain assumed deficiencies in payment occasioned by defaults, writedowns, principal shortfalls and interest shortfalls in respect of the Underlying Assets. See "Ratings of the Notes". If any deficiencies arise, however, payment of the Notes and Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Underlying Asset securing the Notes and the Issuer (upon the advice of the Collateral Manager) Disposes of such Underlying Asset, it is not likely that the proceeds of such Disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Underlying Asset. To the extent that a credit event occurs with respect to any Reference Obligation underlying any Synthetic Security securing the Notes, the Synthetic Security Counterparty will have an option to deliver to the Issuer such Reference Obligation against the payment by the Issuer of the Physical Settlement Amount (as defined in the related Confirmation). If the Issuer subsequently Disposes of such Reference Obligation, it is not likely that the proceeds thereof will be equal to the amount of principal and interest owing to the Issuer in respect of such Reference Obligation. In addition, if the Issuer is obligated to make a Floating Payment under a Synthetic Security, such Floating Payment would result in a reduction of the Principal/Notional Balance of such Synthetic Security, and, therefore, reduce the amounts payable by the Synthetic Security Counterparty, and reduce the amount of Interest Proceeds available to pay the Notes and Preference Shares. Any Floating Payment would reduce the Collateral that is available to pay the principal of the Notes and Preference Shares, and would expose the Issuer to reinvestment risk.

The market value of the Underlying Assets generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Assets or, with respect to Synthetic Securities, of the obligors on or issuers of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

If an Underlying Asset becomes an Equity Security, Credit-Risk Asset, Defaulted Asset or Withholding Security, the Collateral Manager may or may not elect to Dispose of the affected asset. There can be no assurance as to the timing of the Collateral Manager's purchase of the affected asset, or as to the rates of recovery on such affected asset. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes and Preference Shares.

Although the Issuer is permitted to invest in Asset-Backed Securities and Synthetic Securities, the Issuer may find that, as a practical matter, these investment opportunities are not available to it for a variety of reasons such as the limitations imposed by the Eligibility Criteria and the Collateral Quality Tests. At any time there may be a limited universe of investments that would satisfy the Eligibility Criteria and the Collateral Quality Tests given the other investments in the Issuer's portfolio. As a result, the Issuer may at times find it difficult to acquire suitable investments. See "Security for the Notes".

The ability of the Issuer to Dispose of Underlying Assets prior to maturity is subject to certain restrictions under the Indenture. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, the acquisition and the Disposition of Underlying Assets could result in losses to the Issuer, which losses could affect the timing and amount of payments in respect of the Notes or Preference Shares or result in the reduction in or withdrawal of the rating on any or all of the Notes by one or more of the Rating Agencies.

Asset-Backed Securities. The Underlying Assets will consist of Asset-Backed Securities, which may include, without limitation, CMBS Securities, RMBS Securities, Automobile Securities, Small Business Loan Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed Securities. **"Asset-Backed Securities"** are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. See "Security for the Notes—Underlying Assets—Asset-Backed Securities".

Holders of Asset-Backed Securities bear various risks, including interest rate risks, market risks, credit risks, liquidity risks, operations risks, structural risks and legal risks. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the relative seniority or subordination of the class of Asset-Backed Security held by the investor, the process by which principal and interest payments are allocated to investors, how credit losses affect the issuing vehicle and the return to investors, whether collateral represents a static or revolving pool of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors. See "Security for the Notes—Underlying Assets—Asset-Backed Securities" below.

Liquidity risk can arise from an increase in perceived credit risk, as occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity. For these cases, the securitization transaction may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of the loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its function, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or

losses may occur. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or Affiliates), the assets of the Issuer could be treated as never having been truly sold by the originator to the Issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the Issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Residential ABS Securities. Most of the Underlying Assets will consist of Residential ABS Securities. Residential ABS Securities represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. See "Maturity, Prepayment and Yield Considerations". Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults, writedowns, principal shortfalls, interest shortfalls and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located (including local property values), the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Residential mortgage loans may be subject to various Federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions.

At any one time, the portfolio of Residential ABS Securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, the related mortgaged properties may have a more limited market than those securing average-sized residential mortgage loans.

Each underlying residential mortgage loan in an Issue of Residential ABS Securities may have a balloon payment due at its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans because the ability of the borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of Residential ABS Securities may experience losses.

Commercial Mortgage-Backed Securities. Asset-Backed Securities include Commercial Mortgage-Backed Securities. Commercial Mortgage-Backed Securities are securities backed by

obligations (including participation interests in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. Commercial Mortgage-Backed Securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally are non-recourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. In some cases, the properties securing commercial mortgage loans may be subject to additional debt that may affect the related borrower's ability to refinance the loan and/or result in reduced cash flow and deferred maintenance. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential mortgage lending since it typically involves larger loans to a single borrower or related borrowers than residential mortgage lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of Commercial Mortgage-Backed Securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments: declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; acts of war; acts of terrorism; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative

to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of Commercial Mortgage-Backed Securities servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation.

Commercial Mortgage-Backed Securities may pay fixed or floating rates of interest. Fixed rate Commercial Mortgage-Backed Securities, like all fixed-income securities, generally decline in value as interest rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, this inverse relationship may not be as marked in the case of Commercial Mortgage-Backed Securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made.

Mortgage loans underlying a Commercial Mortgage-Backed Securities issue may lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Synthetic Securities. A portion of the Underlying Assets may consist of Synthetic Securities, the Reference Obligations of which are Asset-Backed Securities (primarily, Residential ABS Securities). Investments in such types of assets through the acquisition of Synthetic Securities present risks in addition to those resulting from direct acquisition of such Underlying Assets. With respect to Synthetic Securities, the Issuer will have a contractual relationship only with the counterparty of such Synthetic Security, and not the Reference Obligor on the Reference Obligation. The Issuer generally will have no right directly to enforce compliance by the Reference Obligor with the terms of either the Reference Obligation or any rights of set-off against the Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the Reference Obligation.

Illiquidity of the Underlying Assets. Some of the Underlying Assets purchased by the Issuer will have no, or only a limited, trading market. The market for Synthetic Securities may be less liquid than the market for certain other types of financial assets. The Issuer's investment in illiquid Underlying Assets may restrict its ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities. Illiquid Underlying Assets may trade at a discount from comparable, more liquid investments. In addition, the Issuer may invest in privately placed Underlying Assets that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed Underlying Assets are transferable, the prices realized from their sale could be less than those originally paid by the Issuer or less than what may be considered the fair value of such securities.

Exposure to Credit Risks - the Reference Obligations and the Synthetic Securities Counterparties. The obligation of the Issuer to make payments to each Synthetic Security Counterparty relating to the Synthetic Securities creates exposure to the credit risk of the Reference Obligations related to such Synthetic Securities. The funds available to make payments in respect of principal on the Notes and Preference Shares is dependent upon whether and to what extent payments are due and payable by the Issuer to a Synthetic Security Counterparty relating to the Synthetic Securities. Any settlement payments and termination payments payable by the Issuer (net of termination payments payable by a Synthetic Security Counterparty) due and owing to a Synthetic Security Counterparty will reduce the amount available to pay the obligations of the Issuer to the Noteholders and Preference Shareholdes in inverse order of Seniority. Accordingly, the holders of the Preference Shares and then the Noteholders may lose all or a portion of their investment. The Issuer will not directly benefit from any collateral

supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

In addition, in the event of the insolvency of the First Synthetic Security Counterparty or any other Synthetic Security Counterparty, the Issuer will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities entered into with any one counterparty will subject the Notes and Preference Shares to an additional degree of risk with respect to defaults by or the insolvency of such counterparty as well as by the Reference Obligor. One or more Affiliates of the Initial Purchaser may act as counterparty with respect to all or a portion of the Synthetic Securities, which relationship may create certain conflicts of interest. See "—Conflicts of Interest Involving the Initial Purchaser" below.

Additionally, while the Issuer expects that the returns on a Synthetic Security will generally reflect those of the related Reference Obligation, as a result of the terms of the Synthetic Security and the assumption of the credit risk of the Synthetic Security Counterparty, a Synthetic Security may have a different expected return, a different (and potentially greater) probability of default and expected loss characteristics following a default, and a different expected recovery following default. Additionally, when compared to the related Reference Obligation, the terms of a Synthetic Security may provide for different maturities, payment dates, interest rates, interest rate references, credit exposures, or other credit or non-credit related characteristics. Upon maturity, default, acceleration or any other termination (including a put or call) other than pursuant to a credit event (as defined therein) of the Synthetic Security, the terms of the Synthetic Security may permit or require the issuer of such Synthetic Security to satisfy its obligations under the Synthetic Security by delivering to the Issuer securities other than the Reference Obligation or an amount different than the then current market value of the Reference Obligation.

If the Issuer is obligated to make a Floating Amount Payment under a Synthetic Security, such Floating Amount Payment may result in a reduction of the Principal/Notional Balance of such Synthetic Security, and therefore reduce the amounts payable by a Synthetic Security Counterparty and the amount of Interest Proceeds available to pay the Notes and Preference Shares. In addition, any Floating Amount Payment related to writedowns or failure to pay principal will reduce the Aggregate Principal/Notional Balance of Synthetic Securities that are available to pay the principal of the Notes and Preference Shares.

The ability of the Issuer to meet its obligations under the Notes will be dependent on the Issuer's receipt of payments from the Synthetic Security Counterparty pursuant to the Synthetic Securities. Consequently, in addition to relying on the creditworthiness of the reference obligors, the Issuer will also be relying upon the creditworthiness of the Synthetic Security Counterparty to perform its obligations under the Synthetic Securities.

Offsetting Transactions. As described herein, the Issuer may enter into certain Offsetting Transactions intended to hedge the Issuer's credit exposure in relation to certain Synthetic Securities. Such Offsetting Transactions are subject to certain risks including those described above in respect of Synthetic Securities. There can be no guarantee or assurance that any such Offsetting Transactions will effectively hedge all or any of the Issuer's exposure under the applicable Synthetic Security.

Limited Information with Respect to the Reference Obligations. Synthetic Security Counterparties are not required to hold any Reference Obligation. The Issuer will not have any right to obtain from the issuer of the Reference Obligations, any related trustee, fiscal agent, collateral manager or custodian information on the Reference Obligations or information regarding any obligation of any Reference Obligation. Synthetic Security Counterparties will have no obligation to keep the Issuer, the Trustee, the

Collateral Manager, the Noteholders or the Preference Shareholders informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event or an obligation to make Floating Amount Payments.

No Legal or Beneficial Interest in Reference Obligations. Under the Synthetic Securities, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty and not with the issuer or obligor of any Reference Obligation. Consequently, the Synthetic Securities do not constitute an acquisition or other acquisition or assignment of any interest in any Reference Obligation. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off or recourse against the Reference Obligor, nor have any voting or other consensual rights of ownership with respect to the Reference Obligation and will not have the benefit of the remedies that would normally be available to the holder of such Reference Obligation. The Issuer and the Trustee, therefore, will have rights solely against the related Synthetic Security Counterparty in accordance with the Synthetic Securities. In addition, neither a Synthetic Security Counterparty nor its affiliates will be (or deemed to be acting as) the agent or trustee of the Issuer, the Noteholders or the Preference Shareholders in connection with the exercise of, or the failure to exercise, any of the rights or powers of a Synthetic Security Counterparty and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. Each Synthetic Security Counterparty and its affiliates (i) may deal in any Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if a Synthetic Security Counterparty and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Preference Shareholders or the Noteholders.

Legal Risk relating to the Synthetic Securities. Initially the Synthetic Securities will be structured as "Pay As You Go" credit default swaps. "Pay As You Go" credit default swaps are a type of credit default swap that has been developed recently to reference, and incorporate certain terms of the unique structures of, Asset-Backed Securities. On November 10, 2006, the International Swaps and Derivatives Association, Inc. (**"ISDA"**) published its revised form of confirmation and a Standard Terms Supplement for a "Pay As You Go" transaction on a mortgage-backed security (the **"MBS Pay As You Go Form"**). On June 7, 2006 ISDA published its form of confirmation for a "Pay As You Go" transaction on a collateralized debt obligation (the **"CDO Pay As You Go Form"** and, together with the MBS Pay As You Go Form, the **"Pay As You Go Forms"**). It is expected that the Synthetic Securities to which the Issuer will be a party will be based on modified versions of the Pay As You Go Forms. See "*Security for the Notes*" herein. While ISDA has published the Pay As You Go Forms and has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the Pay As You Go Forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that such forms will be substantially similar to the form Confirmations. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the Pay As You Go Forms, each of the Synthetic Security confirmations to which the Issuer is from time to time a party may differ from the future market standard. Any difference between the Pay As You Go Forms and the forms used for the Synthetic Securities may have a negative impact on the liquidity and market value of such Synthetic Securities.

There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer or investors in the Notes or Preference Shares. Amendments or supplements to the "Pay-As-You-Go" credit default swap

forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will not apply to the Synthetic Securities executed prior to such amendment or supplement unless the Issuer and the related Synthetic Security Counterparty agree to amend the Synthetic Securities to incorporate such amendments or supplements, and the Rating Condition is satisfied. In addition, the Issuer and the Synthetic Security Counterparty may enter into additional Synthetic Securities that incorporate such amendments and supplements as long as the Rating Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the related Synthetic Security Counterparty, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or investors in the Notes or Preference Shares or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer or investors in the Notes or Preference Shares.

Synthetic Security Collateral Account and the Reliance on the Credit Worthiness of Eligible Investments held therein. The Synthetic Securities may require the Issuer to secure its obligations with respect to each such Synthetic Security. As directed by the Collateral Manager in writing, cash on deposit in the Synthetic Security Collateral Account on behalf of each Synthetic Security Counterparty will be invested in Eligible Investments. Amounts on deposit in the Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any amounts owed by the Issuer to each Synthetic Security Counterparty on the date any such amounts are due. Any Excess Collateral Account Amount will be withdrawn from the Synthetic Security Collateral Account and deposited to the Disposition Proceeds Account; *provided* that to the extent that any such withdrawal from the Synthetic Security Collateral Account would require a withdrawal from any Investment Agreement, such withdrawal may only be made in accordance with the terms of such Investment Agreement. Any income on Eligible Investments contained in the Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in the Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes or Preference Shares and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to such Synthetic Security Collateral Account shall be considered an asset of the Issuer. The Issuer will bear the risk of any losses with respect to the Eligible Investments held in the Synthetic Security Collateral Account. Therefore, with respect to each Synthetic Security, the Issuer bears the risk of the Reference Obligation, the related Synthetic Security Counterparty and the credit and market risks relating to the Eligible Investments including credit risk with respect to any Investment Agreement that secure the Issuer's obligations with respect to such Synthetic Security.

Reliance on Creditworthiness of Investment Agreements. The amounts on deposit in the Synthetic Security Collateral Account are expected to be invested in Eligible Investments consisting initially of the Initial Investment Agreement and, accordingly, the Issuer will be exposed to the creditworthiness of the Initial Investment Agreement Provider. The insolvency of the Initial Investment Agreement Provider or a default by such parties under the Initial Investment Agreement, respectively, would adversely affect the ability of the Issuer to pay principal and interest when due under the Notes and distributions in respect of the Preference Shares and could result in a downgrade of the ratings on the Notes.

If an Investment Agreement is terminated as a result of an event of default or an uncured ratings downgrade condition as specified therein, the Issuer may enter into one or more replacement investment

agreements (each a **"Replacement Investment Agreement"**), and accordingly, the Issuer will be exposed to the creditworthiness of the related Replacement Investment Agreement provider (each a **"Replacement Investment Agreement Provider"**). See "Description of the Initial Investment Agreement—The Initial Investment Agreement".

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value and, therefore, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the Asset-Backed Securities and Reference Obligations will be used by the Collateral Manager only as a preliminary indicator of investment quality. Investments in non-investment grade and comparable unrated obligations will be more dependent on the Collateral Manager's credit analysis than would be the case with investments in investment-grade debt obligations.

International Investing. A limited portion of the Underlying Assets may consist of obligations of issuers organized under the law of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands or the Netherlands Antilles. Moreover, collateral securing Asset-Backed Securities may consist of obligations of issuers or borrowers organized under the laws of various jurisdictions other than the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks may include: (a) less publicly available information; (b) varying levels of governmental regulation and supervision; and (c) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries than there is in the United States. For example, there may be no comparable provisions under certain foreign laws with respect to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Issuer are uninvested and no return is earned thereon. The inability of the Issuer to make intended Underlying Assets acquisitions due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to Dispose of an Underlying Asset due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Underlying Asset or, if the Issuer has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling foreign securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, foreign financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of the Issuer, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the Issuer's investments in such foreign countries. The economies of

individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Other Considerations

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchaser and its affiliates may result in certain conflicts of interest.

Conflicts of Interest Involving the Collateral Manager. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates. The Collateral Manager and its Affiliates may invest or invest for the account of others in debt obligations that would be appropriate as security for the Notes and have no duty in making such investments or to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may have economic interests in, or other relationships with, issuers in whose obligations or securities the Issuer may invest. In particular, a substantial portion of the Underlying Assets acquired by the Issuer from the Initial Purchaser were sold to the Initial Purchaser from portfolios of securities held by one or more of the Collateral Manager and its Affiliates. In addition, the Collateral Manager or its Affiliates may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of the Collateral Manager or its Affiliates serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its Affiliates may in their discretion (except as provided below under "Security for the Notes—Dispositions of Underlying Assets") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the officers and employees may have conflicts in allocating their time and services among the Issuer and the Collateral Manager's and its Affiliates' other accounts.

The Collateral Manager also serves as a manager of one or more other companies organized to invest in Asset-Backed Securities. The Collateral Manager and its Affiliates may pursue its own interests as an owner of other securities issued by an issuer of Underlying Assets, without considering the effect of its actions or omissions on the Issuer. In addition, the Collateral Manager may act as the Auction Agent in an Auction Call Redemption of the Notes or may resign as Auction Agent and bid on any Underlying Assets that are sold pursuant to an Auction Call Redemption.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may purchase some or all of the Class E Notes on the Closing Date. Pursuant to the Management Agreement, the Collateral Manager, in its capacity as holder of, or an advisor to the holder of Class E Notes and Preference Shares may, in such capacity, act in a manner which it determines to be in the best interests of a holder of Class E Notes and/or Preference Shares, without regard to the effect on the interests of other Noteholders. In addition, the Collateral Manager and its Affiliates may at times own any other Class of Notes. A portion of the purchase price of Notes and the Preference Shares to be acquired by the Collateral Manager or its Affiliates may be financed by the Initial Purchaser. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Notes or Preference Shares beneficially owned by the Collateral Manager or any Affiliate thereof or by an account or fund for which

the Collateral Manager or an Affiliate thereof acts as the investment adviser (with discretionary authority) (**"Collateral Manager Securities"**) with respect to any vote or consent on any assignment or termination of the Management Agreement (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote the Notes and Preference Shares held by them with respect to all other matters. For purposes hereof, **"Affiliate"** means, with respect to any person, (a) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such person, (b) any other person who is a director, officer, employee, managing member or general partner of (i) such person or (ii) any such other person described in clause (a) above, or (c) with respect to the Collateral Manager, any account or fund for which the Collateral Manager or any of the foregoing acts as investment advisor with discretionary authority. For the purposes of the foregoing definition, control of a person shall mean the power, direct or indirect, (x) to vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. The ownership of some or all of the Class E Notes and all of the Preference Shares by one or more Affiliates of the Collateral Manager may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes.

Conflicts of Interest Involving the Initial Purchaser. Certain of the Asset-Backed Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which DBSI as the Initial Purchaser or an Affiliate of DBSI has acted as underwriter, agent, placement agent or dealer or for which an Affiliate of DBSI has acted as lender or provided other administrative, commercial or investment banking services. In addition, if not the Auction Agent, the Initial Purchaser may bid on the Underlying Assets at any time the Issuer Disposes of an Underlying Asset. In addition, an Affiliate of the Initial Purchaser will be the First Synthetic Security Counterparty and may be Offsetting Transaction Counterparty. Also, as described under "Use of Proceeds", the Issuer, DBSI and Deutsche Bank AG Cayman Islands Branch (the **"Warehouse Lender"**), an Affiliate of DBSI, have entered into a credit agreement (the **"Warehouse Credit Agreement"**), pursuant to which the Warehouse Lender has financed the acquisition of certain Asset-Backed Securities and the payment of certain transaction-related fees and expenses prior to the Closing Date. On the Closing Date, the net proceeds from the sale of the Notes and the Preference Shares will be used by the Issuer to repay in full all amounts owing by the Issuer to the Warehouse Lender relating to the Warehouse Credit Agreement, and such revolving credit facility, along with the lien on the Asset-Backed Securities, the Offsetting Transactions and the Synthetic Securities securing it, will be terminated. See "Use of Proceeds".

Conflicts of Interest involving the Synthetic Security Counterparties and the Offsetting Transaction Counterparty. The First Synthetic Security Counterparty is an Affiliate of the Initial Purchaser and the Offsetting Transaction Counterparty may be an Affiliate of the Initial Purchaser. Each Synthetic Security Counterparty or Offsetting Transaction Counterparty may take actions under the related Synthetic Securities or Offsetting Transactions or otherwise that may be inconsistent with or adverse to the interests of the Noteholders. Synthetic Security Counterparties will not be obligated to take any action to minimize losses with respect to any Reference Obligation. In addition, each Synthetic Security Counterparty or Offsetting Transaction Counterparty has the right in the event of an assignment of a Synthetic Security (or Offsetting Transaction, as applicable) to reject any replacement for the Issuer, such right not to be unreasonably exercised. In deciding whether to approve or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. See "Security for the Notes—Underlying Assets—Synthetic Securities—Assignment".

Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may deal in any obligations or other securities of any Reference Obligor (including, but not limited to, any Reference Obligations), may enter into other credit derivatives involving entities that may include the Reference Obligors or their affiliates or sponsors (including credit derivatives to hedge its obligations under the Synthetic Securities or Offsetting Transactions), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, any Reference Obligor, any affiliate or sponsor of any Reference Obligor or any other person or other entity having obligations relating to any Reference Obligor or affiliate or sponsor of such Reference Obligor, and may act with respect to such business in the same manner as if the related Synthetic Securities and/or Offsetting Transactions did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligations (including, without limitation, any action which might constitute or give rise to a Credit Event), or on the position of the Issuer, the Noteholders or any other party to the transaction described herein or otherwise. Each Synthetic Security Counterparty, each Offsetting Transaction Counterparty and each of their affiliates may, whether by reason of the types of relationships described herein or otherwise, on the date hereof or at any time hereafter, be in possession of information in relation to any Reference Obligation, Reference Obligor or any of such Reference Obligor's sponsors or affiliates, that is or may be material in the context of the related Synthetic Securities or Offsetting Transactions and the other transaction documents and that may or may not be publicly available or known to the other parties to the transaction documents and which information each Synthetic Security Counterparty, each Offsetting Transaction Counterparty or their affiliates may be prohibited from using for the benefit of the Issuer. The Synthetic Securities, Offsetting Transactions and the other transaction documents do not create any obligation on the part of the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) and its affiliates to disclose to any other such party any such information (whether or not confidential). In addition, with respect to the deletion or addition of Reference Obligations in connection with any trading activity undertaken by the Collateral Manager on behalf of the Issuer, the related Synthetic Security Counterparty (or Offsetting Transaction Counterparty) is not obligated to agree to any such deletion or addition of a Reference Obligation and may make its decision whether to agree to any such deletion or addition on the basis of its own best interests and without regard to the interests of the Issuer or the Noteholders.

Money Laundering Prevention. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the **"USA PATRIOT Act"**), effective as of October 26, 2001, requires that financial institutions, a term that includes banks, broker-dealers and investment companies, establish and maintain compliance programs to guard against money laundering activities. The USA PATRIOT Act requires the Secretary of the U.S. Treasury (**"Treasury"**) to prescribe regulations in connection with anti-money laundering policies of financial institutions. The Federal Reserve Board, the Treasury and the SEC are currently studying what types of investment vehicles should be required to adopt anti-money laundering procedures, and it is unclear at this time whether such procedures will apply to pooled investment vehicles such as the Issuer. It is possible that there could be promulgated legislation or regulations that would require the Issuer or the Initial Purchaser or other service providers to the Issuer, in connection with the establishment of anti-money laundering procedures, to share information with governmental authorities with respect to investors in the Notes and Preference Shares. Such legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Notes and Preference Shares or interests therein. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Notes and Preference Shares and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by Financial Crimes Enforcement Network and/or the SEC. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of Notes, Preference Shares or interests therein and the subscription monies relating thereto may be refused. In connection with the establishment of anti-money

laundering procedures, the Issuer may implement additional restrictions on the transfer of Notes or Preference Shares.

Purchase of Underlying Assets. The Issuer will acquire Underlying Assets from a warehouse facility (the **"Warehouse Facility"**) provided by an affiliate of DBSI, which provides for the purchase of Asset-Backed Securities at the direction of the Collateral Manager on behalf of the Issuer prior to the Closing Date. In addition, a substantial portion of the Underlying Assets purchased by the Issuer are securities from portfolios of Asset-Backed Securities held, directly or indirectly, by the Collateral Manager or one or more Affiliates of, or investment funds managed by, the Collateral Manager.

Some of the Underlying Assets subject to the Warehouse Facility may have been originally acquired by DBSI or one of its Affiliates in connection with its underwriting or placement thereof upon issuance thereof or from the Collateral Manager or one of its Affiliates. The Warehouse Facility requires the Issuer to purchase Asset-Backed Securities eligible for inclusion in the Collateral on the Closing Date at a price equal to the price paid when DBSI or its Affiliate acquired such Asset-Backed Securities pursuant to the Warehouse Facility, plus accrued interest thereon, and net of any hedging gains or losses. As a result, the Issuer bears the risk of depreciation in the value of an Asset-Backed Security purchased under the Warehouse Facility. The Issuer will purchase, and DBSI and its Affiliates under the Warehouse Facility will sell, Asset-Backed Securities only to the extent that the Collateral Manager determines that such purchases are consistent with the restrictions contained in the Indenture.

If any such seller were to become the subject of a case or proceeding under the United States Bankruptcy Code or another applicable insolvency law, the trustee in bankruptcy could assert that Asset-Backed Securities acquired from such seller are property of such seller's insolvency estate. Property that such seller has pledged or assigned, or in which such seller has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of such seller's estate. Property that such seller has sold or absolutely assigned and transferred to another party, however, is not property of such seller's estate. The Issuer does not expect that the purchase by the Issuer of Asset-Backed Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Asset-Backed Securities to the Issuer).

Relation to Prior Investment Results. The prior investment results of the Collateral Manager and the persons associated with the Collateral Manager or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Collateral Manager considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, differences in the actual allocation of the Underlying Assets among asset categories from those identified on **Schedule A**, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Underlying Assets, defaults under Underlying Assets and the effectiveness of any

Interest Rate Swap Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser or its affiliates or any other person or entity of the results that will actually be achieved by the Issuer. None of the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchaser, its affiliates or any other person has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 1761 East St. Andrew Place, Santa Ana, California 92705, or to RSM Robson Rhodes LLP (the **"Irish Paying Agent"**), at RSM House, Herbert Street, Dublin 2, Ireland.

Status and Security

The Notes will be limited-recourse debt obligations of the Issuers. The relative order of seniority of payment of each Class of Notes is as follows: *first*, Class A-1 Notes, *second*, Class A-2 Notes, *third*, Class B Notes, *fourth*, Class C Notes, *fifth*, Class D Notes and *sixth*, Class E Notes, with (a) each Class of Notes (other than the Class E Notes) in such list being **"Senior"** to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes) in such list being **"Subordinate"** to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full in accordance with the Priority of Payments. Certain Principal Proceeds, to the extent available, will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes.

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture, the Notes, any Interest Rate Swap Agreement, the Synthetic Security Agreement, the Investment Agreement and the Management Agreement.

Payments of principal of and interest on the Notes will be made solely from the proceeds of the Collateral, in accordance with the priorities described under "—Priority of Payments" herein. If the amounts received in respect of the Collateral (net of certain expenses) are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Issuers to pay any such deficiency will be extinguished.

Interest

The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class A-2 Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class B Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class C Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class D Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

The Class E Notes will bear interest at a floating rate *per annum* equal to LIBOR *plus* [ ]%.

Interest on the Notes will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest will accrue on the aggregate outstanding principal amount of each Class of Notes (determined as of the first day of each Interest Period and after giving effect to any redemption or other payment of principal occurring on such day) from the Closing Date. Interest accruing for any Interest

Period will accrue for the period from and including the first day of such Interest Period to and including the last day of such Interest Period.

Accrued and unpaid interest will be payable in U.S. Dollars quarterly in arrears on the [ ] day of each [],[],[]and [] commencing on [], 2007 (each such date, together with the Accelerated Maturity Date, a **"Distribution Date"**); *provided* that (i) the final scheduled Distribution Date shall be, with respect to each Class of Notes, the [] Distribution Date, and (ii) if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

In the event that any Distribution Date falls on a date that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the nominal Distribution Date, and any interest accrued for the period from or after such nominal date to the next succeeding Business Day shall not be payable on such Business Day but shall be payable on the next following Distribution Date.

As long as the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes are outstanding, if either Coverage Test applicable to such Class of Notes is not satisfied on any Determination Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to such Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, until each applicable Coverage Test is satisfied. See "—Priority of Payments."

Any interest on the Class C Notes, the Class D Notes and the Class E Notes that is not paid to such Class when due will be deferred (such interest being referred to herein as **"Deferred Interest"**; Deferred Interest in the case of the Class C Notes being referred to herein as **"Class C Deferred Interest"**, Deferred Interest in the case of the Class D Notes being referred to herein as **"Class D Deferred Interest"** and Deferred Interest in the case of the Class E Notes being referred to herein as **"Class E Deferred Interest"**); *provided* that no accrued interest on a Class of Notes shall become Deferred Interest unless a more Senior Class of Notes is then outstanding. Interest will accrue on the aggregate outstanding deferred amount at the rates of interest applicable to that Class of Notes. Upon the payment of Deferred Interest, the aggregate outstanding deferred amount with respect to the related Class of Notes will be reduced by the amount of such payment. So long as any more Senior Class of Notes remains outstanding, failure to make payment in respect of interest on the Class C Notes, the Class D Notes or the Class E Notes on any Distribution Date by reason of Priority of Payments will not constitute an Event of Default under the Indenture.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid. **"Defaulted Interest"** means any interest due and payable in respect of any Class A Note or any Class B Note or, if no Class A Notes or Class B Notes are outstanding, any Class C Note (other than Class C Deferred Interest), if no Class C Notes are outstanding, any Class D Notes (other than Class D Deferred Interest) or, if no Class D Notes are outstanding, any Class E Note (other than Class E Deferred Interest) that is not punctually paid or duly provided for on the applicable Distribution Date or at Stated Maturity. Defaulted Interest will not include Deferred Interest.

"Interest Period" means (a) with respect to the [] Distribution Date (the **"First Distribution Date"**) the period from, and including, the Closing Date to and excluding the First Distribution Date, and (b) with respect to each Distribution Date thereafter, the period from, and including, the immediately preceding Distribution Date and ending on, but excluding, such Distribution Date.

Calculation of LIBOR. With respect to each Interest Period, LIBOR for purposes of calculating the interest rate for the Notes for such Interest Period will be determined by the Trustee, as calculation agent (the **"Calculation Agent"**) in accordance with the following provisions:

(a) LIBOR for any Interest Period shall equal the offered rate, as determined by the Calculation Agent, for Dollar deposits of the Designated Maturity which appears on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. **"LIBOR Determination Date"** means, with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(b) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750 (or such other page as may replace such Telerate Page 3750 for the purpose of displaying comparable rates), as reported by Bloomberg Financial Markets Commodities News, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for Dollar deposits of three months (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period shall commence on a day that is not a LIBOR Business Day, for a term of three months commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

(c) In respect of any Interest Period having a designated maturity other than three months, LIBOR shall be determined through the use of straight-line interpolation by reference to two rates calculated in accordance with clauses (a) and (b) above, one of which shall be determined as if the maturity of the Dollar deposits referred to therein were the period of time for which rates are available next shorter than the Interest Period and the other of which shall be determined as if the maturity were the period of time for which rates are available next longer than the Interest Period; *provided* that, if an Interest Period is less than or equal to seven days, then LIBOR shall be determined by reference to a rate calculated in accordance with clauses (a) and (b) above as if the maturity of the Dollar deposits referred to therein were a period of time equal to seven days.

(d) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (a) and (b) above, LIBOR with respect to such Interest Period shall be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

(e) If the Calculation Agent is required but is unable to determine a rate in accordance with any of the procedures described in clauses (a), (b) or (d) above, LIBOR with respect to such Interest Period will be calculated on the last day of such Interest Period and shall be the arithmetic mean of the Base Rate for each day during such Interest Period.

For purposes of clauses (a), (c), (d) and (e) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point. For the purposes of clause (b) above, all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one thirty-second of a percentage point.

As used in the calculation of LIBOR above and elsewhere in this Offering Circular:

"Base Rate" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its base rate, prime rate, reference rate or similar rate for Dollar loans. Changes in the Base Rate will take effect simultaneously with each change in the underlying rate.

"Base Rate Reference Bank" means Deutsche Bank Trust Company Americas, or if such bank ceases to exist or is not quoting a base rate, prime rate reference rate or similar rate for Dollar loans, such other major money center commercial bank in New York City, as selected by the Calculation Agent after consultation with the Collateral Manager.

"Designated Maturity" means, with respect to any Class of Notes for each Interest Period, three months; *provided that*, with respect to the First Distribution Date, the Designated Maturity shall be [] days.

"LIBOR Business Day" means a day on which commercial banks and foreign exchange markets settle payments in Dollars in New York and London.

"London Banking Day" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

"Reference Banks" means four major banks in the London interbank market, selected by the Calculation Agent after consultation with the Collateral Manager.

"Reference Dealers" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent after consultation with the Collateral Manager.

For so long as any Note remains outstanding, the Issuers will at all times maintain an agent appointed to calculate LIBOR in respect of each Interest Period. As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (London time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for each Class of Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each U.S.$1,000 in principal amount of each Class of Notes (in each case rounded to the nearest cent, with half a cent being rounded upward) on the related Distribution Date and will communicate such rates and amounts and the related Distribution Date to the Issuers, the Trustee, each Paying Agent, Euroclear, Clearstream, DTC and (for so long as any Class of Notes is listed on the Irish Stock Exchange) the Irish Stock Exchange.

The Calculation Agent may be removed by the Issuers at any time. If the Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, the Issuers will promptly appoint as a replacement Calculation Agent a leading bank that is engaged in transactions in Dollar deposits in the international Eurodollar market and which does not control and is not controlled by or under common

control with either of the Issuers or any affiliate thereof. The Calculation Agent may not resign its duties without a successor having been duly appointed. The determination of the interest rate for each Class of Notes for each Interest Period by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

The Stated Maturity of each Class of Notes is the [] Distribution Date. Each Class of Notes will mature at the Stated Maturity unless redeemed or repaid prior to the Stated Maturity. However, the Notes may be paid in full prior to their Stated Maturity. With respect to each Class of Notes, the earlier of the Stated Maturity and the Distribution Date on which the aggregate principal amount of such Class of Notes is paid in full, including a Redemption Date or an Accelerated Maturity Date, is referred to herein as the **"Final Maturity Date"**. See "Risk Factors—Average Life of the Notes and Prepayment Considerations" and "Maturity and Prepayment Considerations." Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with the Final Maturity Date) will be made by the Trustee on a *pro rata* basis on each Distribution Date among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment.

Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes. No payment of principal of any Class of Notes will be made until all principal of, and all accrued interest due and payable on, the Notes of each Class that is Senior to such Class have been paid in full.

However:

(a) on each Distribution Date occurring on or before the last day of the Priority Distribution Period, Interest Proceeds will be applied, in an amount available for such purpose, if any, on the relevant Distribution Date, to pay principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and on any Distribution Date occurring after [], []% of the Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the holders of the Preference Shares will be applied to pay principal of the Class D Notes until the Class D Notes are paid in full;

(b) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay, *first*, the principal of the Class E Notes, *second*, the principal of the Class D Notes, *third*, the principal of the Class C Notes, *fourth*, the principal of the Class B Notes, *fifth*, the principal of the Class A-2 Notes and *sixth*, the principal of the Class A-1 Notes, in each case until such Class has been paid in full; and

(c) if the Class E Diversion Test is not satisfied on a Determination Date, Interest Proceeds will be applied on the immediately succeeding Distribution Date to pay principal of the Class E Notes in sufficient amounts to satisfy the Class E Diversion Test. See "Description of the Notes—Priority of Payments."

Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered fifteen days prior to the applicable Distribution Date (the **"Record Date"**). Payments on each Note will be payable by wire transfer in immediately available funds to a Dollar-denominated account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a **"Paying Agent"**) on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a Dollar-denominated check drawn on a bank in the United States mailed to the address of the holder of such Note as it appears on the Note Register at the close of business on the Record Date for such payment. Final payments in respect of principal of the Notes will be made against surrender of such Notes at the office of the Paying Agent.

If any payment on the Notes is due on a day that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the date for payment. **"Business Day"** means any day other than Saturday, Sunday or a day on which banking institutions are authorized or obligated by law, regulation or executive order to close in New York City, London or the city of the designated corporate trust office of the Trustee or, in the case of the final payment of principal of a Note or distribution of Excess Principal Proceeds with respect to a Preference Share, in the place of presentation of such Note or Preference Share. To the extent action is required of the Issuer that has not been delegated to the Trustee, the Collateral Manager or any agent of the Issuer located outside of the Cayman Islands, the Cayman Islands shall be considered in determining "Business Day" for purposes of determining when such Issuer action is required. To the extent action is required of the Irish Paying Agent, Ireland shall be considered in determining "Business Day" for purposes of determining when such Irish Paying Agent action is required.

For so long as the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will maintain a listing agent and a Paying Agent with an office in Ireland.

Except as otherwise required by applicable law, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Issuer upon request by the Issuer therefor, and the holder of such Note shall thereafter, as an unsecured general creditor, look to the Issuers for payment of such amounts and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease. The Trustee or the Paying Agent, before being required to make any such release of payment may, but shall not be required to, adopt and employ, at the expense of the Issuers, any reasonable means of notification of such release of payment, including mailing notice of such release to holders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of each such holder.

Priority of Payments

With respect to any Distribution Date, collections received on the Collateral during each Due Period in respect of the Collateral will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under "—Interest Proceeds" and "—Principal Proceeds," respectively (collectively, the **"Priority of Payments"**). **"Due Period"** means, with respect to any Distribution Date, the period commencing immediately following the fifth Business Day prior to the preceding Distribution Date (or on the Closing Date, in the case of the Due Period relating to the First Distribution Date) and ending on the fifth Business Day prior to such Distribution Date (or, in the case of the Due Period that is

applicable to the Distribution Date relating to the Stated Maturity of the Notes, such Due Period shall end on the day preceding the Stated Maturity).

Interest Proceeds. On each Distribution Date, Interest Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of taxes, government fees and registered office fees owed by the Issuers, if any;

(2) up to a maximum amount on any Distribution Date equal to the Fee Cap Amount *plus* an amount up to U.S.$ [ ] *per annum*, (a) *first*, in the following order of priority, to the payment to the Trustee, the Preference Share Paying Agent, the Collateral Administrator and the Administrator of accrued and unpaid fees owing to them under the Indenture; (b) *second*, to the payment of other accrued and unpaid administrative expenses (including indemnities) incurred by or on behalf of the Issuers (including any administrative expenses payable to the Collateral Manager, but excluding the Management Fee and the Auction Agent Fee, if applicable), *provided* that administrative expenses payable to Deutsche Bank Trust Company Americas (in all of its capacities) shall be paid prior to administrative expenses payable to any other party under this clause (2), administrative expenses payable to the Administrator shall be paid prior to administrative expenses payable to any party other than Deutsche Bank Trust Company Americas under this clause (2), and that administrative expenses payable to parties other than the Trustee and Administrator shall be paid *pro rata*; and (c) *third*, prior to the date on which amounts on deposit in the Expense Account are transferred to the Payment Account (in connection with the sale or disposition of substantially all of the Issuer's assets) for application as Interest Proceeds, for deposit in the Expense Account an amount equal to the lesser of (x) an amount sufficient to cause the balance of all Eligible Investments and cash in the Expense Account, immediately after such deposit, to equal U.S.$ [ ], and (y) the amount by which the Fee Cap Amount exceeds the sums paid under clauses (a) and (b);

(3) to the payment, *pro rata*, of any amount scheduled to be paid (i) to the relevant Interest Rate Swap Counterparty pursuant to any Interest Rate Swap Agreement, together with termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Interest Rate Swap Agreement and the Synthetic Securities other than amounts payable by reason of an event of default or termination event as to which an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement or the Synthetic Security Counterparty under the Synthetic Securities is the "defaulting party" or the sole "affected party" and (ii) to the Offsetting Transaction Counterparty pursuant to any Offsetting Transactions together with termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any such Offsetting Transaction other than amounts payable by reason of an event of default or termination event as to which an Offsetting Transaction Counterparty is the "defaulting party" or the sole "affected party;"

(4) to the payment to the Collateral Manager of the accrued and unpaid Management Fee;

(5) *first* to the payment of accrued and unpaid interest on the Class A-1 Notes (including Defaulted Interest and any interest thereon) and *second*, to the payment of accrued and unpaid interest on the Class A-2 Notes (including Defaulted Interest and any interest thereon);

(6) to the payment of accrued and unpaid interest on the Class B Notes (including Defaulted Interest and any interest thereon);

(7) if either Class A/B Coverage Test is not satisfied on the related Determination Date and if any Class A Note or Class B Note remains outstanding, to the payment of principal of, first, the Class A-1 Notes, second, the Class A-2 Notes and third, the Class B Notes, to the extent necessary to cause each Class A/B Coverage Test to be satisfied;

(8) to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon and interest on Class C Deferred Interest, if any, but excluding any Class C Deferred Interest);

(9) if either Class C Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note or Class C Note remains outstanding, to the payment of principal of, first, the Class A-1 Notes, second, the Class A-2 Notes, third, the Class B Notes and fourth, the Class C Notes, to the extent necessary to cause each of the Class C Coverage Tests to be satisfied;

(10) to the payment of Class C Deferred Interest, if any;

(11) to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon and interest on Class D Deferred Interest, if any, but excluding any Class D Deferred Interest);

(12) if either Class D Coverage Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding, to the payment of principal of, first, the Class A-1 Notes, second, the Class A-2 Notes, third, the Class B Notes, fourth, the Class C Notes and fifth, the Class D Notes, to the extent necessary to cause each of the Class D Coverage Tests to be satisfied;

(13) to the payment of Class D Deferred Interest, if any;

(14) to the payment of accrued and unpaid interest on the Class E Notes (including Defaulted Interest and interest thereon and interest on Class E Deferred Interest, if any, but excluding any Class E Deferred Interest);

(15) to the payment of Class E Deferred Interest, if any;

(16) if the Class E Diversion Test is not satisfied on the related Determination Date and if any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding, to the payment of principal of the Class E Notes, to the extent necessary to cause the Class E Diversion Test to be satisfied;

(17) (i) on any Distribution Date occurring on or before the last day of the Priority Distribution Period, to the payment of principal of the Class D Notes in an amount up to the Class D Priority Redemption Amount for such Distribution Date as set forth in **Schedule G** to this Offering Circular until []% of the aggregate principal amount of the Class D Notes as of the Closing Date is redeemed; and (ii) on any Distribution Date occurring after the [] Distribution Date to the payment of principal of the Class D Notes until the Class D Notes are paid in full in an amount equal to []% of the Interest Proceeds that would otherwise be paid on such Distribution Date under clause (21) below but for the application of this clause (17);

(18) to the payment, *pro rata*, of any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Interest Rate Swap Agreement, the Synthetic Securities or the Offsetting Transactions by reason of an event of default or termination event as to which an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement or the Synthetic Security Counterparty under the Synthetic Securities or the Offsetting Transaction Counterparty under the Offsetting Transactions is the "defaulting party" or the sole "affected party";

(19) to the payment of all other accrued and unpaid administrative expenses of the Issuers (including any accrued and unpaid fees and expenses owing to the Trustee, the Note Registrar, the Preference Share Paying Agent, the Collateral Manager (other than the Management Fee), the Auction Agent, the Share Registrar and the Administrator under the Indenture, the Management Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement) not paid in full pursuant to and in the order stated in clause (2) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(20) if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the Accelerated Amortization Date, on any Distribution Date occurring on or after the Accelerated Amortization Date, first, to the payment of principal of the Class E Notes until the Class E Notes have been paid in full, second to the payment of principal of the Class D Notes until the Class D Notes have been paid in full, third, to the payment of principal of the Class C Notes until the Class C Notes have been paid in full, fourth, to the payment of principal of the Class B Notes until the Class B Notes have been paid in full, fifth, to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full; and sixth, to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full; and

(21) the remainder (**"Excess Interest"**), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the holders of the Preference Shares as a distribution by way of dividend thereon.

Principal Proceeds. On each Distribution Date, Principal Proceeds with respect to the related Due Period will be distributed in the order of priority set forth below:

(1) to the payment of the amounts referred to in clauses (1) through (6) under "—Interest Proceeds" in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "— Interest Proceeds" and clause (1) above) and remains in compliance (after giving effect to the payments in this clause (2)), to the payment of accrued and unpaid interest on the Class C Notes, but only to the extent not paid in full in clause (8) under "—Interest Proceeds";

(3) (i) so long as each of the Overcollateralization Tests is in compliance (after application of payments under all clauses under "—Interest Proceeds" and clauses (1) and (2) above) and remains in compliance (after giving effect to the payments in this clause (3)), to the payment of accrued and unpaid interest on the Class D Notes, but only to the extent not paid in full in clause (11) under "— Interest Proceeds"; and (ii) during the Reinvestment

Period, Principal Proceeds from the Disposition of, or principal payments on, Underlying Assets that are Investment Grade may at the Collateral Manager's sole discretion (exercised on behalf of the Issuer) be deposited into (x) the Collection Account for investment on a later date in additional Underlying Assets that are Investment Grade, or (y) the Synthetic Collateral Account to be invested in Eligible Investments, in each case, in accordance with the Eligibility Criteria and the Collateral Quality Tests as more fully described herein;

(4) to the payment of principal of the Class A-1 Notes until the Class A-1 Notes have been paid in full;

(5) to the payment of principal of the Class A-2 Notes until the Class A-2 Notes have been paid in full;

(6) to the payment of principal of the Class B Notes, until the Class B Notes have been paid in full;

(7) to the payment of amounts referred to in clause (8) and then clause (9) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (2) above;

(8) to the payment of principal of the Class C Notes until the Class C Notes have been paid in full;

(9) to the payment of amounts referred to in clauses (11) and (12) under "—Interest Proceeds," but only to the extent not paid in full thereunder or under clause (3) above;

(10) to the payment of principal of the Class D Notes until the Class D Notes have been paid in full;

(11) to the payment of amounts referred to in clauses (14) and (15) under "—Interest Proceeds," but only to the extent not paid in full thereunder;

(12) to the payment of principal of the Class E Notes until the Class E Notes have been paid in full;

(13) to the payment of amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority, but only to the extent not paid in full thereunder; and

(14) with respect to the remainder (**"Excess Principal Proceeds"**), to be released from the lien of the Indenture and paid (upon standing order of the Issuer) to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for payment to the Preference Shareholders as a dividend on the Preference Shares or (on any date upon which the Preference Shares are redeemed) as payment by way of redemption of the Preference Shares as provided in the Issuer Charter.

Notwithstanding any of the foregoing provisions, on the Final Maturity Date, the Interest Proceeds, the Principal Proceeds and any funds in the Expense Account will be distributed in the following order of priority: (i) to make payments of the amounts referred to in clauses (1) through (4) under "—Interest Proceeds" in the same order of priority specified therein; (ii) to make payments on the Notes in the following order: *first*, to the payment of the accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-1 Notes, and then to the payment of the

accrued and unpaid interest (including any Defaulted Interest and any interest thereon) on the Class A-2 Notes, *second*, to the payment of the aggregate principal amount of the Class A-1 Notes and then to the payment of the aggregate principal amount of the Class A-2 Notes, *third*, to the payment of the accrued and unpaid interest (including Defaulted Interest and any interest thereon) on the Class B Notes and then to the payment of the aggregate principal amount of the Class B Notes, *fourth*, to the payment of the accrued and unpaid interest (including any Class C Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class C Notes and then to the payment of the aggregate principal amount of the Class C Notes, *fifth*, to the payment of the accrued and unpaid interest (including any Class D Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class D Notes and then to the payment of the aggregate principal amount of the Class D Notes, and *sixth*, to the payment of the accrued and unpaid interest (including any Class E Deferred Interest and any interest thereon, and any Defaulted Interest and any interest thereon) on the Class E Notes and then to the payment of the aggregate principal amount of the Class E Notes, until each class is paid in full; (iii) to make payments of the amounts referred to in clauses (18) and (19) under "—Interest Proceeds" in the same order of priority specified therein and (iv) the remainder to make dividend or redemption payments, as applicable, to the Preference Shareholders.

In the event that Excess Interest or Excess Principal Proceeds cannot be distributed to the Preference Shareholders due to restrictions on such distributions under the laws of the Cayman Islands, the Issuer will notify the Preference Share Paying Agent and all such amounts will be held in the Preference Share Payment Account until the First Distribution Date or (in the case of any payment otherwise due on a redemption date of the Preference Shares) the first Business Day on which the Issuer notifies the Preference Share Paying Agent that such distribution can be made to the Preference Shareholders (subject to the availability of such amounts under Cayman Islands law to pay any liability of the Issuer not limited in recourse to the Collateral).

Except as otherwise expressly provided in the Priority of Payments, if, on any Distribution Date, the amount available in the Payment Account from amounts received in the related Due Period is insufficient to make the full amount of the disbursements required by any paragraph in this section to different Persons, the Trustee will make the disbursements called for by such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent funds are available therefor.

On or prior to the latest Stated Maturity of the Notes, a redemption of the Preference Shares, a Mandatory Redemption, a Tax Redemption, a Clean-Up Call Redemption or an Auction Call Redemption, the Issuer (or the Collateral Manager acting pursuant to the Management Agreement on behalf of the Issuer) will Dispose of all of the Underlying Assets and all Eligible Investments and sell or liquidate all other Collateral; and, after the payment (in the order of priorities set forth above) of all (a) fees, (b) expenses (including any amount owing by the Issuer under any Interest Rate Swap Agreement), (c) interest (including any Defaulted Interest and interest on Defaulted Interest and any Deferred Interest and interest on Deferred Interest) on and principal of the Notes and (d) Excess Interest in respect of the Preference Shares, all remaining proceeds from such sales and liquidations and all available cash will be paid to the Preference Share Paying Agent for deposit into the Preference Share Payment Account for (subject to the restrictions on distributions under the laws of the Cayman Islands) payment to the Preference Shareholders as a distribution by way of redemption, whereupon all of the Notes and Preference Shares will be cancelled. The Issuer will be entitled to retain for its own account the [250] shares of common stock it holds in the Co-Issuer, the US$[250] representing its share capital and U.S.$[250] representing a profit fee to the Issuer, together with any interest accrued thereon.

"Accelerated Amortization Date" means, if no Optional Redemption, Auction Call Redemption, Clean-Up Call Redemption or Tax Redemption has been successfully completed before the [] Distribution Date, such date.

"Aggregate Principal/Notional Balance" means, (i) when used with respect to one or more Underlying Assets, the sum of the Principal/Notional Balances of such Underlying Assets on the date of determination, and (ii) with respect to Eligible Investments, the aggregate Balance of such Eligible Investments.

"Applicable Recovery Rate" means, with respect to any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) on any Measurement Date, an amount equal to the lower of (a) the percentage for such Underlying Asset set forth in the Moody's Recovery Rate Matrix attached as **Schedule F** hereto in (i) the applicable table therein, (ii) the row in such table opposite the applicable percentage of the underlying capital structure and (iii) the column in such table below the Moody's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset, or (b) the percentage for such Underlying Asset set forth in the Standard & Poor's Recovery Matrix attached as **Schedule E** hereto in (i) the applicable table, (ii) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (iii)(x) for purposes of determining the Standard & Poor's Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (y) for purposes of determining the Calculation Amount, the column in such table below the current rating of the most senior Class of Notes outstanding.

"Bankruptcy Event" means with respect to any entity: (a) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) winding up, liquidation, reorganization or other relief in respect of such entity or its debts, or of a substantial part of its assets, under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days; or an order or decree approving or ordering any of the foregoing shall be entered; or (b) such entity shall (i) voluntarily commence any proceeding or file any petition seeking winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (a) of this definition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such entity or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, or (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing.

"Calculation Amount" means, with respect to any Defaulted Asset at any time, the lesser of (a) the fair market value of such Defaulted Asset as determined by the Collateral Manager and (b) the amount obtained by *multiplying* the Applicable Recovery Rate *by* the Principal/Notional Balance of such Defaulted Asset.

"Convertible Bond" means a bond, debenture or other fixed income security which may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

"Defaulted Asset" means any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) or any other security included in the Collateral:

(a) as to which (i) the issuer thereof has failed to make a scheduled payment of principal or interest without giving effect to any grace period or waiver; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset or (ii) pursuant to its Underlying Instruments, there has occurred any default or event of default which entitles the holders thereof, with notice or passage of time or both, to accelerate the maturity (whether by mandatory prepayment, mandatory redemption or otherwise) of all or a portion of the outstanding principal amount of such security, unless (A) in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such security has resumed current payments of interest in cash (*provided* that no restructuring has been effected) or (B) in the case of any other default or event of default, such default or event of default is no longer continuing;

(b) that ranks *pari passu* with or subordinate to any other material indebtedness for borrowed money owed by the issuer of such Underlying Asset (for purposes hereof, "**Other Indebtedness**") if such issuer had defaulted in the payment of principal or interest with respect to such Other Indebtedness; *provided* that a payment default of up to three (3) Business Days with respect to which the Collateral Manager certifies in writing to the Trustee, in its reasonable judgment, is due to non-credit and non-fraud related reasons shall not cause an Underlying Asset to be classified as a Defaulted Asset; *provided, further*, that in the case of a default or event of default consisting of a failure of the obligor on such security to make required interest payments, such Other Indebtedness has resumed current payments of interest (including all accrued interest) in cash (whether or not any waiver or restructuring has been effected), *provided* that a security shall be considered a Defaulted Asset pursuant to this clause (b) only if either (i) such default or event of default results in the assignment of a rating of "CC" or lower or "D" or "SD" by Standard & Poor's or "Ca" or "C" by Moody's, or (ii) the Collateral Manager, based upon due inquiry in accordance with the practices and procedures followed by investment managers of recognized standing, has obtained knowledge of such default or event of default and any characterization by the Collateral Manager of such security other than as a "Defaulted Asset" fails to satisfy the Rating Condition;

(c) as to which a Bankruptcy Event has occurred and is continuing with respect to an entity that is: (i) with respect to securities issued by an issuer directly, the special purpose entity that is the issuer of such securities, or (ii) with respect to securities issued by trusts to which an entity deposits assets, either (A) the special purpose entity that is the depositor to the trust that issues such securities, or (B) the trust that issues such securities;

(d) that is rated (i) "CC" or lower or "D" or "SD" by Standard & Poor's or a rating withdrawn by Standard & Poor's, or (ii) "Ca" or "C" by Moody's;

(e) in respect of any Underlying Asset that is a PIK Bond, of which there has been a failure to pay interest (i) in a cumulative amount equal or exceeding the interest due during one payment period (if such Underlying Asset is rated (or privately rated for purposes of the issuance of the Underlying Asset) below "Baa3" by Moody's) or (ii) for two consecutive payment periods even if by its terms it provides for the deferral and capitalization of interest thereon, but only until such time as payment of interest on such Underlying Asset

has resumed and all deferred interest has been paid in accordance with the terms of the related Underlying Instrument; or

(f) which is a Synthetic Security with respect to which the relevant Synthetic Security Counterparty has defaulted in the performance of its payment obligations under such Synthetic Security.

"Deferred Interest PIK Bond" means a PIK Bond with respect to which payment of interest either in whole or in part has been deferred in an amount equal to (a) if such PIK Bond has a Moody's Rating of at least "Baa3", the amount of interest payable in respect of the lesser of (x) two payment periods and (y) a period of one year; or (b) if such PIK Bond has a Moody's Rating of below "Baa3", the amount of interest payable in respect of the lesser of (x) one payment period and (y) a period of six months, but only until such time as payment of interest on such PIK Bond has resumed and all capitalized and deferred interest has been paid in accordance with the terms of the relevant Underlying Instruments.

"Determination Date" means the last day of a Due Period.

"Discount Underlying Asset" means

(i) any Underlying Asset (other than a Defaulted Asset or a Deferred Interest PIK Bond) that is a Floating Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than [92]% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds [95]% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days,

(ii) any Underlying Asset (other than a Defaulted Asset or a Deferred Interest PIK Bond) that is a Fixed Rate Security and has a Moody's Rating of "Aa3" or higher acquired by the Issuer after the Closing Date for an acquisition price of less than [85]% of the Principal/Notional Balance of such Underlying Asset, unless the market value for such Underlying Asset equals or exceeds [90]% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days and

(iii) any Underlying Asset (other than a Defaulted Asset or a Deferred Interest PIK Bond) that has a Moody's Rating below "Aa3" acquired by the Issuer after the Closing Date for an acquisition price of less than [75]% of the Principal/Notional Balance of such Underlying Asset; *provided* that such Underlying Asset shall cease to be a Discount Underlying Asset at such time as the market value of such Underlying Asset equals or exceeds [85]% of the Principal/Notional Balance of such Underlying Asset (as certified by the Collateral Manager to the Trustee) for 60 consecutive days.

"Eligible Country" means a Group I Country or a Group II Country, Austria, Denmark or a country that is an Eligible SPV Jurisdiction, provided that, at the time of such acquisition of any Asset, such country has a foreign currency credit rating of at least "AA" by Standard & Poor's and "Aa2" from Moody's.

"Eligible SPV Jurisdiction" means the Bahamas, the British Virgin Islands, the Cayman Islands, Bermuda, Luxembourg, the Netherlands Antilles, the Channel Islands, Jersey, Guernsey or (subject to satisfaction of the Rating Agency Condition) any similar jurisdiction, provided that the related obligor or issuer is a special purpose entity.

"Excepted Property" means (a) the Preference Share Payment Account and all of the funds and other property from time to time deposited in or credited to the Preference Share Payment Account and

the proceeds thereof, (b) the [250] shares of common stock of the Co-Issuer, par value U.S.$1.00 per share, owned by the Issuer, (c) U.S.$[250] representing the paid share capital on the ordinary shares of the Issuer, and (d) U.S.$[250] representing a profit fee to the Issuer, together with any interest accruing thereon, and the trust account in which such monies are held.

"Fee Cap Amount" means, on any Distribution Date, []% of the Quarterly Asset Amount *per annum* subject to an annual minimum of $[].

"Floating Rate Security" means (i) any Asset-Backed Security that is expressly stated to bear interest based upon a floating rate index and (ii) any Synthetic Security or Offset Transaction so designated by the Collateral Manager at the time of purchase.

"Fixed Rate Security" means any Asset-Backed Security other than a Floating Rate Security.

"Group I Countries" means Australia, Canada, the Netherlands and the United Kingdom.

"Group II Countries" means Germany, Ireland, New Zealand, Sweden and Switzerland.

"Interest Only Security" means an Asset-Backed Security that does not provide for the repayment of a stated principal amount in one or more installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes.

"Interest Proceeds" means, with respect to any Due Period:

(1) the sum (without duplication) of

(a) all payments of interest and other income on the Underlying Assets and Delivered Obligations (other than Defaulted Securities) received in cash during such Due Period;

(b) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Eligible Investments in the Collection Accounts received in cash by the Issuer during such Due Period and all payments of principal, including repayments, on Eligible Investments purchased with amounts from the Interest Collection Account received by the Issuer during such Due Period;

(c) all amendment and waiver fees, all late payment fees, and all other fees and commissions received in cash by the Issuer during such Due Period in connection with such Underlying Assets and Eligible Investments (other than fees and commissions received in respect of Defaulted Securities and Written Down Securities and yield maintenance payments included in Principal Proceeds pursuant to clause (c) and clause (j) of the definition thereof);

(d) all payments of interest received in respect of a Defaulted Asset in excess of an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

(e) all accrued interest received in cash by the Issuer in connection with the sale or liquidation of any Underlying Asset other than accrued interest purchased with Principal Proceeds;

(f) all payments received pursuant to any Interest Rate Swap Agreement (excluding any payments received by the Issuer by reason of an event of default or termination event) *less* any deferred premium payments, if any, payable by the Issuer under such Interest Rate Swap Agreement with respect to such Due Period;

(g) (i) any amounts received from each Synthetic Security Counterparty relating to each Synthetic Security with respect to such Due Period (including any Fixed Amounts and Interest Shortfall Reimbursement Payment Amounts (as defined in **Schedule H** in the case of Reference Obligations that are RMBS Securities, **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, **Schedule J** in the case of Reference Obligations that are CMBS Securities or **Schedule K** in the case of Reference Obligations that are CDO Securities) but excluding, for the avoidance of doubt, any premium relating to the following Due Period), other than Writedown Reimbursement Payment Amounts, Principal Shortfall Reimbursement Payment Amounts (each as defined in **Schedule H** in the case of Reference Obligations that are RMBS Securities, **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, **Schedule J** in the case of Reference Obligations that are CMBS Securities or **Schedule K** in the case of Reference Obligations that are CDO Securities), any upfront payment or any termination payment received with respect to early termination of a Synthetic Security (including proceeds from liquidation of any collateral posted by the Synthetic Security Counterparty to secure its obligations under the Synthetic Securities); (ii), without duplication, any Net Scheduled Periodic Offsetting Transaction Payments received by the Issuer with respect to Offset Transactions;

(h) all earnings on Eligible Investments on deposit in the Synthetic Security Collateral Account that are transferred to the Interest Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(i) all Earnings (as defined in the related Investment Agreement) received by the Issuer and payable under the Investment Agreement on or before the related Distribution Date; and

(j) all amounts on deposit in the Expense Account that are transferred to the Payment Account for application as Interest Proceeds as described below under "Security for the Notes—The Accounts—Expense Account"; *provided* that Interest Proceeds shall in no event include (i) any payment or proceeds specifically defined as "Principal Proceeds" in the definition thereof or (ii) the Excepted Property;

minus

(2) the sum of (i) any Interest Shortfall Amounts paid by the Issuer to each Synthetic Security Counterparty and (ii) any initial payments made by the Issuer to the Offsetting Transaction Counterparty in connection with the entry into an Offsetting Transaction.

"Issue" means an Underlying Asset or Synthetic Security consisting of or referencing a single Asset-Backed Security, identified by its (i) series and class, and (ii) CUSIP number or other identifying

number. For the avoidance of doubt, Underlying Assets or Synthetic Securities consisting of or referencing two Asset-Backed Securities issued by the same issuer and issued in the same series, but in separate classes or tranches, shall be deemed to be separate Issues.

"Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 50% of all Preference Shareholders' Voting Percentages at such time.

"Margin Stock" means "Margin stock" as defined under Regulations T, U and X issued by the Board of Governors of the Federal Reserve System.

"Measurement Date" means any of the following: (a) any date after the Closing Date on which an Underlying Asset becomes a Defaulted Asset, (b) each Determination Date, (c) the last Business Day of any calendar month (other than the month prior to which there is a Determination Date), and (d) with reasonable notice to the Issuer and the Trustee, any other Business Day that any Rating Agency requests be a "Measurement Date"; *provided* that, if any such date would otherwise fall on a day that is not a Business Day, the relevant Measurement Date will be the next succeeding day that is a Business Day.

"Negative Amortization Security" means an Asset-Backed Security whose underlying portfolio consists of at least [25]% of mortgages with a negative amortization feature.

"Net Outstanding Underlying Asset Balance" means, as of any Measurement Date, an amount equal to (a) the sum of (i) the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets, (ii) the Aggregate Principal/Notional Balance of all Principal Proceeds and Uninvested Proceeds held as cash, all Disposition Proceeds on deposit in the Disposition Proceeds Account and Eligible Investments purchased with Principal Proceeds or Uninvested Proceeds, and (iii) for each Defaulted Asset, the Calculation Amount with respect to such Defaulted Asset *minus* (b) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are either (i) Defaulted Securities or (ii) Equity Securities; *provided* that solely for the purpose of calculating the Net Outstanding Underlying Asset Balance in connection with the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Diversion Test the Net Outstanding Underlying Asset Balance shall be deemed to equal the lesser of the Moody's Haircut Value and the Standard & Poor's Haircut Value, as determined as set forth below:

For the purposes of this definition of "Net Outstanding Underlying Asset Balance", the following terms shall have the meanings set forth below:

"Moody's Haircut Value" shall have the following meaning for any Underlying Asset that has a Moody's Rating of below "Baa3", and no meaning for any Underlying Asset with a Moody's Rating of "Baa3" or higher (for the purpose of all clauses of the definition of Moody's Haircut Value, any reference to a Moody's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to the Moody's Rating of the related Reference Obligation):

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Moody's Rating of "Ba1", "Ba2" or "Ba3" exceeds []% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess

shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Moody's Rating of "B1", "B2" or "B3" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"Moody's Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) have a Moody's Rating of below "B3" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds, then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 50% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of Moody's Limit 1 and Moody's Limit 2 may be up to [5] percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of Moody's Limit 1 and Moody's Limit 2 is not more than []%.

"Standard & Poor's Haircut Value" shall have the following meaning set forth in clauses (a) and (b) below for any Underlying Asset that has a Standard & Poor's Rating of below "BBB-", and no meaning for any Underlying Asset that has a Standard & Poor's Rating of "BBB-" or higher. For the purpose of all clauses of the definition of Standard & Poor's Haircut Value, any reference to a Standard & Poor's Rating of an Underlying Asset shall, with respect to a Synthetic Security, mean a reference to a Standard & Poor's Rating of the related Reference Obligation:

(a) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (a)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Standard & Poor's Rating of "BB+", "BB" or "BB-" exceeds []% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 1"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 90% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (a));

(b) if on any date the Aggregate Principal/Notional Balance (determined without regard to this clause (b)) of all Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) that have a Standard & Poor's Rating of "B+", "B" or "B-" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 2"**), then the Aggregate Principal/Notional Balance of the Underlying Assets constituting such excess shall be deemed to equal 80% of the actual Aggregate Principal/Notional

Balance of such Underlying Assets (determined without regard to this clause (b)); and

(c) if such Underlying Assets (other than Defaulted Assets and Deferred Interest PIK Bonds) have a Standard & Poor's Rating of below "B-" exceeds [0]% of the Aggregate Principal/Notional Balance of all Underlying Assets and Principal Proceeds (**"S&P Limit 3"**), then the Aggregate Principal/Notional Balance of such Underlying Assets shall be deemed to equal 70% of the actual Aggregate Principal/Notional Balance of such Underlying Assets (determined without regard to this clause (c));

provided that the reductions contemplated by clauses (a), (b) and (c) immediately above shall be without duplication; *provided further* that each of S&P Limit 1, S&P Limit 2 and S&P Limit 3 may be up to [5] percentage points larger than set out above (as determined by the Trustee in a manner maximizing the Net Outstanding Underlying Asset Balance as of the date of determination) so long as the aggregate of S&P Limit 1, S&P Limit 2, and S&P Limit 3 is not more than []%.

Solely for purposes of the calculation of the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Diversion Test (and without duplication of any reduction under clauses (a) and (b) of the definition of Net Outstanding Underlying Asset Balance), the Principal/Notional Balance of any Discount Underlying Asset acquired after the Closing Date shall be the original acquisition price of such Discount Underlying Asset.

"Net Scheduled Periodic Offsetting Transaction Payment" means in respect of an Offset Transaction that comprises: the long component of an Offset Transaction and the related Offsetting Transaction, the difference between premium payments due to the Issuer from the Synthetic Security Counterparty and the Scheduled Periodic Offsetting Transaction Payments due to the Offsetting Transaction Counterparty from the Issuer pursuant to the terms of the Offsetting Transaction.

"PIK Bond" means any Underlying Asset that pursuant to the terms of the related Underlying Instruments (a) permits the payment of interest thereon (with respect to such payments due on or after the date on which the security is purchased by the Issuer) to be deferred and capitalized as additional principal thereof or (b) issues identical (except principal and term) securities in place of payments of interest in cash.

"Principal/Notional Balance" means as of any date of determination, with respect to any Asset-Backed Security, the outstanding principal balance of such Asset-Backed Security (excluding any capitalized interest and any negative amortization amounts), and, with respect to each Synthetic Security or a related Reference Obligation, in each case, the Reference Obligation Notional Amount (as defined in the Confirmation) of such Synthetic Security.

"Principal Only Security" means any Asset-Backed Security that does not provide for the payment of rated interest in periodic installments on or prior to the date three Business Days prior to the Stated Maturity of the Notes or provides that all payments of interest will be deferred until the final maturity date thereof.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of:

(a) all payments of principal on the Underlying Assets and Eligible Investments (excluding any amount representing the accreted portion of a discount from the face amount of an

Eligible Investment) received in cash by the Issuer during such Due Period including prepayments or mandatory sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers, recoveries on Defaulted Securities and Written Down Securities (other than Uninvested Proceeds and payments of principal of Eligible Investments acquired with Interest Proceeds), including the proceeds of a sale of any Equity Security, the proceeds received from any special purpose subsidiary of the Issuer holding an Equity Security, and any amounts received as a result of optional redemptions, exchange offers or tender offers for any Equity Security received in cash by the Issuer during such Due Period but excluding any accreted portion of a discount from the face amount of an Eligible Investment;

(b) all payments of principal of Eligible Investments purchased with amounts from the Principal Collection Account received in cash by the Issuer during such Due Period;

(c) all amendment, waiver, late payment fees, restructuring and other fees and commissions, collected during the related Due Period in respect of Defaulted Securities and Written Down Securities;

(d) all payments of interest received in respect of Defaulted Securities up to an amount equal to the Principal/Notional Balance of such security at the time it became a Defaulted Asset;

(e) any Writedown Reimbursement Amount,

(f) any proceeds to the Issuer resulting from the termination and liquidation of an Interest Rate Swap Agreement, to the extent such proceeds exceed the cost of entering into a replacement Interest Rate Swap Agreement or additional Interest Rate Swap Agreements in accordance with the requirements set forth in the Indenture;

(g) any Principal Shortfall Reimbursement Amount,

(h) upfront payment or any termination payments received with respect to early termination of a Synthetic Security received from the related Synthetic Security Counterparty;

(i) all amounts transferred from the Synthetic Security Collateral Account to the Principal Collection Account as described below under "Security for the Notes—The Accounts—Synthetic Security Collateral Account";

(j) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums;

(k) all payments of interest received to the extent that they represent accrued interest purchased with Principal Proceeds;

(l) all yield maintenance payments received in cash by the Issuer during such Due Period;

(m) any proceeds from the issuance and sale of the Notes and Preference Shares that are not applied to the acquisition of Underlying Assets prior to the Determination Date preceding the First Distribution Date, including amounts on deposit in the Uninvested Proceeds Account, and not deposited into the Expense Account on the Closing Date;

(n) any proceeds from the liquidation of Underlying Assets received in cash by the Issuer (excluding (1) all accrued interest received in cash by the Issuer and (2) the Disposition Proceeds);

(o) any Disposition Proceeds on deposit in the Disposition Proceeds Account or Principal Collection Account;

(p) any payment of capitalized interest on any Underlying Assets;

(q) any payment of accrued interest paid for with principal proceeds; and

(r) all other payments received in connection with the Underlying Assets and Eligible Investments that are not included in Interest Proceeds; *provided*, that in no event shall Principal Proceeds include the Excepted Property.

"Pure Private Asset-Backed Security" means any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act.

"Qualifying Foreign Obligor" means a corporation, partnership, trust or other entity organized or incorporated under the laws of an Eligible Country.

"Quarterly Asset Amount" means, with respect to any Distribution Date, the Net Outstanding Underlying Asset Balance on the first day of the related Due Period.

"Rating Condition" means, with respect to any action taken or to be taken or any determination made or to be made under the Indenture, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer, the Trustee and the Collateral Manager prior to such action or determination that such action or determination will not result in the withdrawal, reduction or other adverse action with respect to any then-current rating (including any shadow, private or confidential rating) of any Class of Notes.

"Scheduled Periodic Offsetting Transaction Payment" means, with respect any Offsetting Transaction, the fixed amounts scheduled to be paid by the Offsetting Transaction Counterparty to the Issuer under such Offsetting Transaction, but excluding any termination payment in respect of such Offsetting Transaction.

"Servicer" means, with respect to any issue of Asset-Backed Securities, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for managing, servicing, monitoring and otherwise administering the cash flows from which payments to investors in such Asset-Backed Securities are made.

"Special-Majority-in-Interest of Preference Shareholders" means, at any time, Preference Shareholders whose aggregate Voting Percentages at such time exceed 66 2/3% of all Preference Shareholders' Voting Percentages at such time.

"Step Down Bond" means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by

reference to the spread (in the case of a floating rate Step Down Bond) or coupon (in the case of a fixed rate Step Down Bond) of a Step Down Bond, the spread or coupon on any date shall be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step Down Bond on or after such date.

"Step Up Bond" means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the *per annum* interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step Up Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer. In calculating the Weighted Average Spread and the Weighted Average Coupon by reference to the spread (in the case of a floating Step Up Bond) or coupon (in the case of a fixed rate Step Up Bond) of a Step Up Bond, the spread or coupon on any date shall be deemed to be the spread or coupon stated to be payable in cash or in effect on such date.

"Underlying Instruments" means the indenture or other agreement pursuant to which an Underlying Asset, Eligible Investment or Equity Security has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Underlying Asset, Eligible Investment or Equity Security or of which holders of such Underlying Asset, Eligible Investment or Equity Security are the beneficiaries.

"Uninvested Proceeds" means, at any time on or prior to the Determination Date prior to the First Distribution Date, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Notes and Preference Shares and any principal collections on the Underlying Assets received on or prior to the Closing Date, to the extent such proceeds have not theretofore been invested in Underlying Assets or deposited in the Expense Account.

"Voting Percentage" of a Preference Shareholder at any time means the ratio (expressed as a percentage) of such Preference Shareholder's Preference Shares outstanding to the aggregate outstanding Preference Shares of all Preference Shareholders at such time.

"Written Down Security" means, as of any date of determination, any Underlying Asset that is part of an issue as to which the aggregate par amount of the entire class and all other securities secured by the same pool of collateral that rank senior in priority of payment to such class exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such issue (excluding defaulted collateral).

The Coverage Tests

The Coverage Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay interest on and dividends in respect of Classes of Notes Subordinate to such Class and the Preference Shares and certain other expenses. The **"Coverage Tests"** include the Class A/B Coverage Tests, the Class C Coverage Tests and the Class D Coverage Tests.

In the event that either Class A/B Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class C Notes, the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes and *second*, the Class B Notes, to the extent necessary to cause each Class A/B Coverage Test to be satisfied.

In the event that any Class C Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class D Notes and the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes and *third*, the Class C Notes, to the extent necessary to cause each Class C Coverage Test to be satisfied.

In the event that any Class D Coverage Test is not satisfied on any Distribution Date, funds that would otherwise be used to pay interest on the Class E Notes and dividends on the Preference Shares and certain other expenses must instead be used to pay principal of, *first*, the Class A Notes, *second*, the Class B Notes, *third*, the Class C Notes and *fourth*, the Class D Notes, to the extent necessary to cause each Class D Coverage Test to be satisfied.

The **"Class A/B Coverage Tests"** will consist of the Class A/B Overcollateralization Test and the Class A/B Interest Coverage Test. The **"Class C Coverage Tests"** will consist of the Class C Overcollateralization Test and the Class C Interest Coverage Test. The **"Class D Coverage Tests"** will consist of the Class D Overcollateralization Test and the Class D Interest Coverage Test.

The Overcollateralization Tests

The Class A/B Overcollateralization Test:

The **"Class A/B Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes.

The **"Class A/B Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Overcollateralization Ratio on such Measurement Date is equal to or greater than []%.

The Class C Overcollateralization Test:

The **"Class C Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes, *plus* any outstanding Class C Deferred Interest.

The **"Class C Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Overcollateralization Ratio on such Measurement Date is equal to or greater than []%.

The Class D Overcollateralization Test:

The **"Class D Overcollateralization Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate principal amount of the Class D Notes, *plus* any outstanding Class C Deferred Interest and *plus* any outstanding Class D Deferred Interest.

The **"Class D Overcollateralization Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Overcollateralization Ratio on such Measurement Date is equal to or greater than []%.

The Class E Diversion Test

The Class E Diversion Test determines whether Interest Proceeds may be applied, in accordance with the Priority of Payments, to make payments that are subordinate to payments on the Class E Notes. If the Class E Diversion Test is not passing on a Measurement Date then on the immediately following Distribution Date, Interest Proceeds, to the extent available in accordance with the Priority of Payments, will be applied to make principal payments on the Class E Notes.

The **"Class E Diversion Ratio"** is, as of any Measurement Date, the number (expressed as a percentage) calculated by *dividing* (a) the Net Outstanding Underlying Asset Balance on such Measurement Date *by* (b) the aggregate outstanding principal amount of the Class A Notes *plus* the aggregate outstanding principal amount of the Class B Notes *plus* the aggregate outstanding principal amount of the Class C Notes *plus* the aggregate principal amount of the Class D Notes *plus* the aggregate principal amount of the Class E Notes, *plus* any outstanding Class C Deferred Interest *plus* any outstanding Class D Deferred Interest and *plus* any outstanding Class E Deferred Interest.

The **"Class E Diversion Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note, Class D Note or Class E Note remains outstanding if the Class E Diversion Ratio on such Measurement Date is equal to or greater than []%.

The Interest Coverage Tests

The Interest Coverage Ratio with respect to the Class A Notes and Class B Notes (the **"Class A/B Interest Coverage Ratio"**), the Class C Notes (the **"Class C Interest Coverage Ratio"**) and the Class D Notes (the **"Class D Interest Coverage Ratio"**) as of any Measurement Date will be calculated by *dividing*:

(a) (i) the sum of (A) the scheduled interest payments due (regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (1) the Underlying Assets and (2) any Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds), (B) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds and (C) any earnings on Eligible Investments in the Synthetic Security Collateral Account, constituting Interest Proceeds and received after the end of the related Collection Period and immediately prior to the related Payment Date, (D) any amounts scheduled to be paid to the Issuer by an Interest Rate Swap Counterparty under an Interest Rate Swap Agreement on the Distribution Date relating to such Due Period, and (E) any Net Scheduled Periodic Offsetting Transaction Payments payable to the Issuer *minus* (ii) the sum of the Interest Proceeds scheduled to be paid pursuant to clauses (1) through (4) of the Interest Proceeds Priority of Payments on the immediately succeeding Distribution Date; *by*

(b) an amount equal to (i) in the case of the Class A/B Interest Coverage Ratio, the scheduled interest on the Class A Notes and Class B Notes (including Defaulted Interest thereon and accrued interest on such Defaulted Interest, if any) payable on the immediately succeeding Distribution Date, (ii) in the case of the Class C Interest

Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes and Class C Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred Interest, if any, but excluding any Class C Deferred Interest) payable on the immediately succeeding Distribution Date or (iii) in the case of the Class D Interest Coverage Ratio, the scheduled interest on the Class A Notes, Class B Notes, Class C Notes and Class D Notes (including Defaulted Interest and interest thereon, interest on Class C Deferred Interest and interest on Class D Deferred Interest, if any, but excluding any Class C Deferred Interest and Class D Deferred Interest) payable on the immediately succeeding Distribution Date (or, if such Measurement Date coincides with a Distribution Date, on such Distribution Date).

For the purpose of determining compliance with any Interest Coverage Test, there will be excluded all scheduled payments of interest on or principal of Defaulted Securities and any payment, including any amount payable to the Issuer by an Interest Rate Swap Counterparty, that will not be made in cash or received when due, as determined by the Collateral Manager in its reasonable business judgment. For purposes of calculating any Interest Coverage Ratio, (i) the expected interest income on floating rate Underlying Assets and Eligible Investments and under any Interest Rate Swap Agreement and the expected interest payable on the Notes will be calculated using the interest rates applicable thereto on the applicable Measurement Date and (ii) accrued original issue discount on Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid.

The **"Class A/B Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note or Class B Note remains outstanding if the Class A/B Interest Coverage Ratio as of such Measurement Date is equal to or greater than []%; *provided*, that the Class A/B Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class C Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note or Class C Note remains outstanding if the Class C Interest Coverage Ratio as of such Measurement Date is equal to or greater than []%; *provided*, that the Class C Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

The **"Class D Interest Coverage Test"** will be satisfied on the Closing Date or a Measurement Date on which any Class A Note, Class B Note, Class C Note or Class D Note remains outstanding if the Class D Interest Coverage Ratio as of such Measurement Date is equal to or greater than []%; *provided*, that the Class D Interest Coverage Test will be deemed to be satisfied on the First Distribution Date.

Mandatory Redemption

In the event that any of the Overcollateralization Tests (not including, for the avoidance of doubt, the Class E Diversion Test) or the Interest Coverage Tests applicable to a Class of Notes is not satisfied on a Determination Date related to any Distribution Date, then Interest Proceeds that would otherwise be used to make payments in respect of interest on any Class of Notes Subordinate to that Class will be used instead to redeem, *first*, each Class (if any) of Notes Senior to such Class of Notes (sequentially in direct order of seniority) and, *second*, such Class of Notes, to the extent necessary to cause each Coverage Test to be satisfied.

In addition, each Class of Notes will be subject to mandatory redemption from Principal Proceeds available after payment of certain other amounts in accordance with the Priority of Payments on each Distribution Date. Any such redemption from Interest Proceeds or Principal Proceeds will be applied to

each outstanding Class of Notes sequentially in direct order of seniority and will otherwise be effected as described above under "—Priority of Payments."

Optional Redemption

Subject to certain conditions described herein, the Issuer may redeem the Notes (such redemption, an **"Optional Redemption"**), in whole but not in part, at the direction of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date, *provided* that no such Optional Redemption may be effected prior to the [] Distribution Date. Any such Optional Redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Interest Rate Swap Counterparty Collateral Account and the Synthetic Security Issuer Account) on such Distribution Date. No Optional Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such an Optional Redemption and (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are at least equal to the Redemption Amount.

Any Optional Redemption is subject to (i) the sale of the Collateral (other than the cash and Eligible Investments referred to in clause (b) of this sentence) arranged by the Collateral Manager, on the proposed Redemption Date, for a sale price in cash at least equal to (a) the Redemption Amount *minus* (b) the balance of the cash and Eligible Investments in the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account) and (ii) the receipt by the Trustee from the Collateral Manager of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (i). Upon receipt by the Trustee of the certification referred to in the preceding sentence, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Trustee shall deposit such payment into the Collection Accounts. The Collateral Manager or an Affiliate thereof may be the purchaser of the Collateral in accordance with the procedures set forth in the Management Agreement.

Auction Call Redemption

In accordance with the procedures set forth in **Schedule B** to this Offering Circular (the **"Auction Procedures"**), the Auction Agent shall, at the expense of the Issuer, conduct an auction (an **"Auction"**) of the Underlying Assets if, on or prior to the Distribution Date occurring in [], the Notes have not been redeemed in full and the holders of the Preference Shares have not directed an Optional Redemption of the Notes. The Auction will be conducted not later than seven Business Days prior to (a) the Distribution Date occurring in [] (the **"First Auction Call Date"**) and (b) if the Notes are not redeemed in full on such Distribution Date, each subsequent Distribution Date occurring on or closest to any six-month anniversary of the First Auction Call Date (each, a **"Subsequent Auction Call Date"** and, together with the First Auction Call Date, each an **"Auction Date"**), until the Notes have been redeemed in full. Any of the Collateral Manager (if it is not the Auction Agent), the Initial Purchaser, the Preference Shareholder or the Trustee or any of their respective affiliates may, but will not be required to, bid at the Auction.

The Notes will be redeemable at the applicable Redemption Price and Preference Shares will be redeemable at a price equal to not less than the Minimum Preference Share Redemption Amount. The Notes and Preference Shares will be redeemable from the Disposition Proceeds of all Collateral including Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account); *provided* that funds under clauses (a) and

(b) are sufficient to pay in full (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount. The **"Minimum Preference Share Redemption Amount"** shall equal (i) the aggregate liquidation preference of the Preference Shares *minus* (ii) the aggregate amount of all cash distributions on the Preference Shares (whether in respect of dividends or redemption payments) made to the Preference Share Paying Agent for distribution to the Preference Shareholders prior to the relevant Auction Date. If an Auction Call Redemption is not completed on any Auction Date, the Auction Agent shall carry out an Auction in accordance with the Auction Procedures on each subsequent Auction Date until an Auction Call Redemption is completed successfully (the **"Auction Call Redemption Date"**).

Pursuant to the Management Agreement, the Issuer has designated the Collateral Manager (in such capacity, the **"Auction Agent"**) as the Issuer's agent in connection with the sale of the Collateral in connection with any Auction Call Redemption or if the Collateral Manager indicates its desire to bid on the Underlying Assets, the Collateral Manager shall resign as Auction Agent and the Auction Agent for that Auction may be the Initial Purchaser, an Affiliate of the Initial Purchaser or another unaffiliated third party as successor Auction Agent.

The Issuer shall Dispose of and transfer the Underlying Assets to the highest bidder identified by the Auction Agent (or to the highest bidder for each subpool) at the Auction and the Trustee shall release the Collateral from the lien of the Indenture, as long as:

(a) the Auction has been conducted in accordance with the Auction Procedures, as evidenced by a certification of the Auction Agent;

(b) the Auction Agent has received bids for the Underlying Assets (or for each of the related subpools) from at least two prospective purchasers (including the winning bidder) identified on a list of Qualified Bidders provided by the Auction Agent to the Trustee in accordance with the Indenture; provided that each Qualified Bidder for the Synthetic Securities shall have been approved by the relevant Synthetic Security Counterparty; provided, further, that if the Auction Agent has not received bids for one or more Synthetic Securities, the requirements of this clause may be satisfied by determining required payments from or to the Issuer relating to the termination of such Synthetic Securities and including such aggregate amount in the calculation of the Redemption Amount;

(c) the Auction Agent certifies that the highest bids would result in the Disposition of the Underlying Assets (or the related subpools) for a purchase price (paid in cash) that, together with the balance of all Eligible Investments (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and cash held by the Issuer (other than Eligible Investments and cash in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), will be at least equal to the sum of (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount; and

(d) the highest bidder (or the highest bidder for each subpool) enters into a written agreement with the Issuer (which the Issuer will execute if the conditions set forth above and in the Indenture are satisfied (such execution to constitute certification by the Issuer that such conditions have been satisfied)) that obligates the highest bidder (or the highest bidder for each subpool) to acquire all of the Underlying Assets (or the relevant subpool) and provides for payment in full (in cash) of the price for any Underlying Asset that is not a Synthetic Security and any amount due to the Issuer as a result of the assignment of

the Synthetic Securities to the Trustee on or prior to the sixth Business Day following the relevant Auction Date.

Provided that all of the conditions set forth in clauses (a) through (d) of the preceding paragraph have been met, the Issuer will Dispose of and transfer the Underlying Assets (or the related subpool), without representation, warranty or recourse, to such highest bidder identified by the Auction Agent (or the highest bidder for each subpool, as the case may be) in accordance with and upon completion of the Auction Procedures. The Issuer will deposit the purchase price for the Underlying Assets in the Collection Accounts and, on the Distribution Date immediately following the relevant Auction Date, (i) pay the Redemption Amount and (ii) make a payment to the Preference Share Paying Agent (that shall not be less than the Minimum Preference Share Redemption Amount) for distribution to the holder of the Preference Shares in an amount equal to the remainder of such Disposition Proceeds and cash in the Collection Accounts (such redemption, the **"Auction Call Redemption"**). Notwithstanding the foregoing, the holders of 100% of the aggregate outstanding principal amount of a Class of Notes may elect, in connection with any Auction Call Redemption, to receive less than 100% of the Redemption Price that would otherwise be payable to holders of such Class (and the Redemption Price shall be reduced by such amount).

If any of the foregoing conditions is not met with respect to any Auction or if the highest bidder (or the highest bidder for any subpool, as the case may be) fails to pay the purchase price before the sixth Business Day following the relevant Auction Date, (a) the Auction Call Redemption will not occur on the Distribution Date following the relevant Auction Date, (b) the Auction Agent will notify the Trustee and the Trustee will give notice of the withdrawal, (c) subject to clause (d) below, the Trustee on behalf of the Issuer will decline to consummate such sale and the Auction Agent will not solicit any further bids or otherwise negotiate any further Disposition of Underlying Assets in relation to such Auction and (d) unless the Notes are redeemed in full prior to the next succeeding Auction Date, the Auction Agent will conduct another Auction on the next succeeding Auction Date.

The Notes may not be redeemed pursuant to an Auction Call Redemption unless, at least four Business Days before the scheduled Redemption Date, the Collateral Manager shall have furnished to the Trustee and any Interest Rate Swap Counterparty evidence, in form satisfactory to the Trustee, that the Issuer has entered into a binding agreement or agreements with (or guaranteed by) a financial institution or institutions (whose long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating from each Rating Agency at least equal to the highest rating of the Notes then outstanding or whose short-term unsecured debt obligations have a credit rating of at least "A-1" by Standard & Poor's and (if rated by Fitch) at least "F1" by Fitch and provided that in case such financial institution is the Collateral Manager no credit rating is required) to sell, not later than the Business Day immediately preceding the scheduled Redemption Date, in immediately available funds, all or part of the Underlying Assets at a sale price (including in such price an amount equal to any accrued interest) which, together with the balance of the cash and Eligible Investments in the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), is at least equal to (i) the Redemption Amount and (ii) the Minimum Preference Share Redemption Amount.

Clean-Up Call Redemption

At the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer, in whole but not in part (a **"Clean-Up Call Redemption"**), at the applicable Redemption Price on any Distribution Date which occurs on or after the Distribution Date on which the aggregate outstanding principal amount of the Notes is less than or equal to []% of the original aggregate outstanding principal amount of the Notes as of the Closing Date. Any such redemption may only be effected on a Distribution

Date and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the Synthetic Security Issuer Account) and all Offsetting Transactions.

Any Clean-Up Call Redemption is subject to (a) the purchase of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) by the Collateral Manager or any of its Affiliates from the Issuer, on the scheduled Redemption Date, for a purchase price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of the cash and Eligible Investments in the Accounts (other than that in the Synthetic Security Issuer Account, but including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) and (b) the receipt by the Trustee, prior to such purchase, of the Collateral Manager's certification that the sum so received satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Trustee and the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the Collateral Manager or any of its Affiliates upon payment in immediately available funds of the purchase price. The Trustee shall deposit such payment into the Collection Accounts and apply the funds therein in accordance with the Priority of Payments on such Redemption Date.

Tax Redemption

The Notes will be redeemable (such redemption, a **"Tax Redemption"**), in whole but not in part, by the Issuer at the direction of a Majority-in-Interest of Preference Shareholders. Any such redemption may only be effected on a Distribution Date at the applicable Redemption Price and only from the Disposition Proceeds of all Collateral including the Eligible Investments credited to the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account). No Tax Redemption may be effected, however, unless (i) all such Disposition Proceeds are used, in whole or in part, to make such Tax Redemption, (ii) such Disposition Proceeds (including the payment in full to the Issuer of all amounts that can be withdrawn under the Investment Agreement) are sufficient to pay in full the Redemption Amount, (iii) a Tax Event shall have occurred and (iv) the Tax Materiality Condition is satisfied.

A **"Tax Event"** will occur, whether or not as a result of any change in law or interpretation, if (a) any obligor is required to deduct or withhold from any payment under any Underlying Asset to the Issuer for or on account of any tax for whatever reason, whether or not as a result of any change in law or interpretation, and such obligor is not required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred, (b) the Issuer or an Interest Rate Swap Counterparty is required to deduct or withhold from any payment under any Interest Rate Swap Agreement for or on account of any tax and the Issuer is obligated to pay gross-up amounts to the relevant Interest Rate Swap Counterparty, or the relevant Interest Rate Swap Counterparty is not obligated to pay the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred or (c) any net income, profits or similar tax is imposed on the Issuer. The **"Tax Materiality Condition"** will be satisfied during any 12-month period if any combination of Tax Events results, in aggregate, in a payment, charge or tax burden to the Issuer in excess of U.S.$1,000,000.

Any Tax Redemption is subject to (a) the Disposition of the Collateral (other than the cash and Eligible Investments referred to in clause (ii) below) arranged by the Collateral Manager, on the scheduled Redemption Date, for a sale price in cash at least equal to (i) the Redemption Amount *minus* (ii) the balance of Eligible Investments and cash in the Accounts (other than that in the [Interest Rate Swap Counterparty Collateral Account and the] Synthetic Security Issuer Account), and (b) the receipt by

the Trustee of certification from the Collateral Manager that the sum so received from the purchaser satisfies clause (a). Upon receipt by the Trustee of the Collateral Manager's certification, the Issuer shall take all actions necessary to sell, assign and transfer the Collateral to the prospective purchaser upon payment in immediately available funds of the sum referred to above and the Trustee shall release the Collateral from the lien of the Indenture. The Collateral Manager or an Affiliate of the Collateral Manager may purchase the Collateral. The Trustee shall deposit such payment into the Collection Accounts.

Redemption Price and Redemption Amount

The amount payable in connection with an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption of any Note will be an amount equal to (a) the aggregate outstanding principal amount of such Note being redeemed, *plus* (b) the accrued and unpaid interest thereon (including Defaulted Interest and Deferred Interest and interest thereon, if any) (the **"Redemption Price"**).

"Redemption Amount" means, with respect to an Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, an amount equal to the sum of (i) the Redemption Price in respect of all Notes and (ii) all unpaid administrative expenses (including indemnities) and fees then due and payable of the Issuers, including any termination payments payable by the Issuer under any Interest Rate Swap Agreement and the Synthetic Securities, the Management Fee due to the Collateral Manager and, with respect to an Auction Call Redemption, fees and expenses of the Auction Agent.

Redemption Procedures

Notice of any Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption will be given by first-class mail, postage prepaid, mailed not less than ten days and not more than 30 days prior to the date scheduled for redemption (with respect to such Auction Call Redemption, Optional Redemption, Clean-Up Call Redemption or Tax Redemption, the **"Redemption Date"**), to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Note Register or, in the case of the Preference Shares, the register of Preference Shares maintained under the Preference Share Paying Agency Agreement (the **"Share Register"**), any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and to each Rating Agency. The Trustee will also give notice thereof to the Company Announcements Office of the Irish Stock Exchange. Notes must be surrendered at the offices of a Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (a) an undertaking to surrender such Note thereafter and (b) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Issuers or the Trustee.

Any notice of redemption may be withdrawn by the Issuer up to the fifth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, any Interest Rate Swap Counterparty, each Synthetic Security Counterparty, the Initial Investment Agreement Provider and the Collateral Manager; *provided* that such notice is effective only if the Disposition Proceeds and the Collateral Manager certificates (if any) required to be delivered to the Trustee with respect to an Auction Call Redemption, Optional Redemption, Tax Redemption or Clean-Up Call Redemption have not been delivered to the Trustee by such date in form satisfactory to the Trustee. Notice of any such withdrawal shall be given by the Trustee to DTC, to the registered holders of the Regulation S Global Notes by delivery of the relevant notice to Euroclear and Clearstream for communication by them to entitled accountholders and to each holder of Preference Shares at such holder's address in the Share Register.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Form, Denomination, Registration and Transfer

General

(1) The Notes which will be offered by the Initial Purchaser to persons that are not U.S. Persons and outside the United States will initially be represented by one or more Temporary Regulation S Global Notes in definitive, fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee, initially for the accounts of Euroclear and Clearstream. On the 40th day after which all of the Notes of any Class have been sold to investors other than the Initial Purchaser or its Affiliates, and subject to the receipt by the Trustee of a certificate in the form provided by the Indenture from the person holding such interest, a beneficial interest in a Class of Temporary Regulation S Global Notes may be exchanged for an interest in a Permanent Regulation S Global Note of such Class in fully registered form without coupons in an amount equal to the aggregate principal amount of such interest in the Temporary Regulation S Global Note. During the Distribution Compliance Period, beneficial interests in a Regulation S Global Note may be held only through Euroclear and Clearstream. By acquisition of a beneficial interest in a Regulation S Global Note, any purchaser thereof will be deemed to represent that it is not a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (x) to a non-U.S. Person in an offshore transaction in accordance with Regulation S, or (y) to a person who takes delivery in the form of a Restricted Note. Beneficial interests in each Regulation S Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

(2) The Notes which will be offered by the Initial Purchaser in reliance upon an exemption from the registration requirements of the Securities Act (a) under Section 4(2) of the Securities Act or (b) pursuant to Rule 144A will be represented by one or more Restricted Global Notes in fully registered form, without interest coupons attached, deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. By acquisition of a beneficial interest in a Restricted Note, any purchaser thereof will be deemed to represent that it is a U.S. Person and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest only (a) to a Qualified Institutional Buyer that is a Qualified Purchaser, or (b) to a non-U.S. Person in an offshore transaction in accordance with Regulation S. Restricted Notes may not be transferred to non-U.S. Persons except in the form of a Regulation S Note. Interests in Restricted Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

(3) The Notes are subject to the restrictions on transfer set forth herein under "Transfer Restrictions."

(4) Owners of beneficial interests in Regulation S Global Notes and Restricted Global Notes will be entitled or required, as the case may be, under certain limited circumstances described below, to receive physical delivery of certificated Notes (either a **"Restricted Definitive Note"** or a **"Regulation S Definitive Note"** and collectively, **"Definitive Notes"**) in fully registered, definitive form. No owner of an interest in a Regulation S Global Note will be entitled to receive a Definitive Note (a) until after the expiration of the Distribution Compliance Period and (b) unless (i) for a person other than a distributor (as defined in Regulation S), such person provides certification that the Definitive Note will be owned by a person that is not a U.S. Person (as defined in Regulation S) or (ii) for a person that is a U.S. Person,

such person provides certification that any interest in such Definitive Note was purchased in a transaction that did not require registration under the Securities Act and that such person is a Qualified Purchaser. The Notes are not issuable in bearer form.

(5) Pursuant to the Indenture, the Trustee has been appointed and will serve as the registrar of the Notes (the **"Note Registrar"**) and will provide for the registration of the Notes and the registration of transfers of Notes in the register maintained by it (the **"Note Register"**). The Trustee has been appointed as a transfer agent with respect to the Notes (in such capacity, a **"Transfer Agent"**).

(6) The Notes (or interests therein) will be issuable in minimum denominations of U.S.$500,000 and in integral multiples of U.S.$1,000 in excess thereof.

Global Notes

(1) So long as the depositary for a Global Note, or its nominee, is the registered holder of such Global Note, such depositary or such nominee, as the case may be, will be considered the absolute owner or holder of such Regulation S Note or Restricted Note, as the case may be, represented by such Global Note for all purposes under the Indenture and the Notes and members of, or participants in, the depositary (the **"Participants"**), as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream and account holders and participants therein), will have no rights under the Indenture or under a Note. Owners of beneficial interests in a Global Note will not be considered to be the owners or holders of any Note under the Indenture or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depositary and (in the case of a Regulation S Global Note) Euroclear or Clearstream (in addition to those under the Indenture), in each case to the extent applicable (the **"Applicable Procedures"**).

(2) Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the Distribution Compliance Period (but not earlier), investors may also hold such interests other than through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

(3) Payments of the principal of, and interest on, an individual Global Note registered in the name of a depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the Global Note. None of the Issuer, the Trustee, the Note Registrar or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(4) With respect to the Global Notes, the Issuer expects that the depositary for any Global Note or its nominee, upon receipt of any payment of principal of or interest on such Global Note, will credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of the depositary or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Global Note held through such Participants will be governed by standing instructions and customary

practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

Definitive Notes

Interests in a Regulation S Note or a Restricted Note represented by a Global Note will be exchangeable or transferable, as the case may be, for a Regulation S Note or a Restricted Note, respectively, that is a Definitive Note if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Note, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global Note is required by law to take physical delivery of securities in definitive form, (d) any Regulation S Global Note becomes immediately due and payable following an Event of Default under the Indenture, (e) DTC, Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday), (f) DTC, Euroclear or Clearstream announces an intention permanently to cease business and no alternative clearance system satisfactory to the Issuer is available, (g) as a result of any amendment to, or change in, the laws or regulations of the Cayman Islands or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form or (h) the Issuer so elects by notice to the holders of the Notes, and DTC, Euroclear and/or Clearstream, as the case may be, do not object. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Notes bearing an appropriate legend (a **"Legend"**) regarding restrictions on transfer to be delivered. Upon the transfer, exchange or replacement of Definitive Notes bearing a Legend, or upon specific request for removal of a Legend on a Note, the Issuers shall deliver through the Trustee or any Paying Agent to the holder and the transferee, as applicable, one or more Definitive Notes in certificated form corresponding to the principal amount of Definitive Notes surrendered for transfer, exchange or replacement that bear such Legend, or will refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein is required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Notes will be exchangeable or transferable for interests in other Definitive Notes as described below.

Transfer and Exchange of Global Notes

(1) Transfer of a Regulation S Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Restricted Note (or any interest therein) may be made before or after the end of the Distribution Compliance Period, in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that, among other things, such transfer is being made (a) to a person whom the transferor reasonably believes is a Qualified Institutional Buyer, acquiring such Notes (or any interest therein) for its own account and to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and a Qualified Purchaser, and (b) in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction and from the transferee in the form provided for in the Indenture. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Restricted Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the

case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S.

(2) Transfer of a Restricted Note (or any interest therein) to a transferee who takes delivery of such Note (or interest therein) in the form of a Regulation S Note will be made only in accordance with the Applicable Procedures (in the case of Global Notes) and upon receipt by the Trustee, the Issuers and the Note Registrar of a transfer certificate in the form provided in the Indenture to the effect that such transfer is being made to a non-U.S. Person in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S. An exchange or transfer of a Note represented by a Definitive Note to a transferee who takes delivery of such Note in the form of a Regulation S Global Note may be made after the receipt by the Note Registrar or Transfer Agent, as the case may be, of the Definitive Notes to be so exchanged or transferred and upon receipt by the Trustee and the Issuers of a transfer certificate in the form provided in the Indenture.

An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the transferee is a Qualified Institutional Buyer and a Qualified Purchaser.

(3) Transfers between Participants in DTC will be effected in the ordinary way in accordance with the Applicable Procedures and will be settled in immediately available funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

(4) Notes in the form of Definitive Notes may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Notes at the office of the Note Registrar or any Transfer Agent with a transfer certificate in the form provided in the Indenture. In addition, if the Definitive Notes being exchanged or transferred contain a Legend, additional certifications to the effect that such exchange or transfer is in compliance with the restrictions contained in such Legend may be required. With respect to any transfer of a portion of a Definitive Note, the transferor will be entitled to receive, at any aforesaid office, a new Definitive Note representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Notes issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the applicable Transfer Agent.

(5) For so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, the Issuers will have a paying agent for such Notes in Ireland and payments on and transfers or exchanges of interests in such Notes may be effected through the Irish Paying Agent. If the Irish Paying Agent is replaced at any time during such period, notice of the appointment of any replacement will be given to the Company Announcements Office of the Irish Stock Exchange.

(6) No service charge will be made for exchange or registration of transfer of any Note but the Trustee may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith and expenses of delivery (if any) not made by regular mail.

(7) Definitive Notes issued upon any exchange or registration of transfer of Notes will be valid obligations of the Issuers, evidencing the same debt, and entitled to the same benefits, as the Definitive Notes surrendered upon exchange or registration of transfer.

(8) The Trustee will effect transfers of Global Notes and, along with the Transfer Agents, will effect exchanges and transfers of Definitive Notes. In addition, the Note Registrar will keep in the Note Register records of the ownership, exchange and transfer of any Note in definitive form.

(9) The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, any transfer of beneficial interests in a Note represented by a Global Note to such persons may require that such interests in a Global Note be exchanged for Definitive Notes. Because DTC can only act on behalf of Participants, which in turn act on behalf of indirect Participants and certain banks, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interest in a Global Note be exchanged for Definitive Notes. Interests in a Global Note will be exchangeable for Definitive Notes only as described above.

(10) Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Note in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the depositaries of Euroclear or Clearstream, respectively.

(11) Because of time zone differences, cash received in Euroclear or Clearstream as a result of sales of interests in a Regulation S Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

(12) DTC has advised the Issuers that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described above) only at the direction of one or more Participants to whose account the DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the Global Notes for Definitive Notes, legended as appropriate, which it will distribute to its Participants.

(13) DTC has advised the Issuers as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of

certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

(14) Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Co-Issuer and the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective Participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

(15) The Issuer may impose additional transfer restrictions to comply with the USA PATRIOT Act, or any similar laws or regulations to the extent they are applicable to the Issuer, and each holder of Securities will be required to comply with such transfer restrictions.

Preference Shares

The Preference Shares will be issued in fully registered, definitive form, registered in the name of the legal owner thereof (or a nominee acting on behalf of the disclosed legal owner thereof). No Preference Share may be transferred except in accordance with the terms set forth in the Issuer Charter and the Preference Share Paying Agency Agreement.

No Gross-Up

All payments made by the Issuer under the Notes will be made without any deduction or withholding for or on the account of any tax unless such deduction or withholding is required by applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will not be obligated to pay any additional amounts in respect of such withholding or deduction.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default

An **"Event of Default"** is defined in the Indenture as:

(a) a default on any Distribution Date in the payment of any interest accrued during the Interest Period immediately preceding such Distribution Date (i) on any Class A Note or Class B Note, (ii) if there are no Class A Notes or Class B Notes outstanding, on any Class C Note, (iii) if there are no Class A Notes, Class B Notes or Class C Notes outstanding, on any Class D Note or (iv) if there are no Class A Notes, Class B Notes, Class C Notes, or Class D Notes outstanding, on any Class E Note, when the same becomes due and payable, in each case which default continues for a period of three Business Days (or, in the case of a failure to make such payment resulting, as certified in writing by the Trustee, solely from an administrative error or omission by the Trustee, the Administrator, any Paying Agent or the Note Registrar, seven days);

(b) a default in the payment of principal of any Note at its Stated Maturity or Redemption Date or, in the case of a failure to make such payment resulting solely from an administrative error or omission by the Administrator, the Trustee, any Paying Agent or the Note Registrar which continues for a period of seven days;

(c) the failure on any Distribution Date to disburse amounts (other than a default in payment described in clause (a) or (b) above) available in the Interest Collection Account or Principal Collection Account in accordance with the order of priority set forth above under "—Priority of Payments", which failure continues for a period of two Business Days or, in the case of a failure resulting solely from an administrative error or omission by the Trustee, the Administrator, any Paying Agent or the Note Registrar, which failure continues for a period of seven days;

(d) either of the Issuers becomes an investment company required to be registered under the Investment Company Act;

(e) a default in the performance, or breach, of any other covenant or other agreement (other than any covenant to meet the Collateral Quality Tests or the Coverage Tests) of the Issuer or the Co-Issuer under the Indenture or any representation or warranty of the Issuer or the Co-Issuer made in the Indenture or in any certificate or other writing delivered pursuant thereto or in connection therewith proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days (or, if such default or breach has an adverse effect on the validity, perfection or priority of the security interest granted under the Indenture, 15 days) after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after notice thereof to the Issuer and the Collateral Manager by the Trustee or to the Issuer, the Collateral Manager and the Trustee by the holders of at least 50% in aggregate outstanding principal amount of Notes of the Controlling Class;

(f) certain events of bankruptcy, insolvency, receivership or reorganization of either of the Issuers (as set forth in the Indenture); or

(g) one or more final judgments being rendered against either of the Issuers that exceed, in the aggregate, U.S.$1,000,000 (or such lesser amount as each Rating Agency may specify) and which remain unstayed, undischarged and unsatisfied for 30 days after such judgment(s) becomes nonappealable, unless adequate funds have been reserved or set aside for the payment thereof.

If either of the Issuers obtains knowledge, or has reason to believe, that an Event of Default has occurred and is continuing, such Co-Issuer is obligated to promptly notify the Trustee, the Preference Share Paying Agent, the Collateral Manager, the Noteholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Initial Investment Agreement Provider, the other of the Issuers and each Rating Agency of such Event of Default in writing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (f) under "Events of Default" above), the Trustee (at the direction of the holders of a majority in aggregate outstanding principal amount of the Controlling Class) by notice to the Issuers, or holders of a majority in aggregate outstanding principal amount of the Controlling Class by notice to the Issuers and the Trustee, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Event of Default described in clause (f) above under "Events of Default" occurs, such an acceleration will occur automatically and without any further action. Notwithstanding the foregoing, if

the sole Event of Default is an Event of Default described in clause (a) or clause (b) above under "Events of Default" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of at least a majority in aggregate outstanding principal amount of Notes of the Controlling Class. The **"Controlling Class"** will be the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes outstanding, the Class C Notes or, if there are no Class A Notes, Class B Notes or Class C Notes outstanding, the Class D Notes or, if there are no Class A Notes, Class B Notes, Class C Notes or Class D Notes outstanding, the Class E Notes.

If an Event of Default occurs and is continuing when any Note is outstanding, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "—Priority of Payments" unless:

(a) the Trustee, or an independent investment banking firm of national reputation selected by the Trustee at the expense of the Issuer, determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes and certain administrative expenses (including any amounts due to the Collateral Manager and any Interest Rate Swap Counterparty) in accordance with the Priority of Payments and the holders of a majority in aggregate outstanding principal amount of the Controlling Class agree with such determination; or

(b) the holders of at least 66 2/3% in aggregate outstanding principal amount of each Class of the Notes voting as a separate Class (and (i) any Interest Rate Swap Counterparty, unless no early termination payment would be owing by the Issuer to the relevant Interest Rate Swap Counterparty or it will be paid in full all amounts owing to it by the Issuer and (ii) the Synthetic Security Counterparty, unless no payment would be owing by the Issuer to the Synthetic Security Counterparty or it will be paid in full all amounts owing to it by the Issuer) direct, subject to the provisions of the Indenture, the sale of the Collateral.

If an Event of Default occurs and is continuing and either condition (a) or condition (b) above is satisfied, the Trustee will liquidate the Collateral, including the termination or novation of the Synthetic Securities, and terminate any Interest Rate Swap Agreement and, on the second Business Day (the **"Accelerated Maturity Date"**) following the Business Day on which the Trustee notifies the Issuer, the Collateral Manager and each Rating Agency that such liquidation and such termination is completed, apply the proceeds thereof, net of reasonable costs of collection and enforcement, in accordance with the Priority of Payments described above under "Priority of Payments—Interest Proceeds" and "Priority of Payments—Principal Proceeds." The Accelerated Maturity Date will be treated as a Distribution Date.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings for any remedy available to the Trustee, *provided* that (a) such direction will not conflict with any rule of law or the Indenture; (b) the Trustee may take any other action not inconsistent with such direction (and the Trustee need not take any action whether pursuant to direction from the Controlling Class or otherwise that it determines might involve it in liability unless it has received indemnity against such liability as set forth in (c)); (c) the Trustee has been provided with indemnity satisfactory to it; and (d) any direction to undertake a sale of the Collateral may be made only as described in the preceding paragraph.

Pursuant to the Indenture, as security for the payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the

Issuer, the Issuer will grant the Trustee a lien on the Collateral, which lien is senior to the lien of the Secured Parties. The Trustee's lien will be exercisable by the Trustee only if the Notes have been declared due and payable following an Event of Default and such acceleration has not been rescinded or annulled.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request of any holders of any of the Notes, unless such holders have offered to the Trustee reasonable security or indemnity.

The holders of a majority in aggregate outstanding principal amount of Notes of the Controlling Class, acting together with each Synthetic Security Counterparty, may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences, except a default in the payment of the principal of any Note or in the payment of interest (including any Deferred Interest, Defaulted Interest or interest thereon) on the Class A Notes or, after the Class A Notes have been paid in full, the Class B Notes or, after the Class B Notes have been paid in full, the Class C Notes, after the Class C Notes have been paid in full, the Class D Notes, or after the Class D Notes are paid in full, the Class E Notes, or in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby or arising as a result of an Event of Default described in clause (d) above under "Events of Default." Notwithstanding any such grant of a waiver, an Interest Rate Swap Counterparty may rescind such waiver by notice to the Trustee, the Collateral Manager, each Synthetic Security Counterparty and the holders of the Controlling Class of Notes (given within five Business Days after receipt of notice of such waiver) if the relevant Interest Rate Swap Counterparty delivers a certification to the effect that such waiver will have a material and adverse effect on such Interest Rate Swap Counterparty.

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (a) such holder previously has given to the Trustee written notice of an Event of Default, (b) except in certain cases of a default in the payment of principal or interest, the holders of at least 50% in aggregate outstanding principal amount of the Notes of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders have offered the Trustee reasonable indemnity, (c) the Trustee has for 30 days failed to institute any such proceeding and (d) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the holders of a majority in aggregate outstanding principal amount of the Notes of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes or requisite percentage in interest of Preference Shareholders have given any direction, notice or consent, (a) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding and (b) in relation to any assignment or termination of the Management Agreement (including the exercise of any right to remove the Collateral Manager or terminate the Management Agreement) or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Collateral Manager Securities shall be disregarded and deemed not to be outstanding. Collateral Manager Securities shall be disregarded and deemed not to be outstanding for purposes of determining whether holders of the requisite percentage in interest of Preference Shares have approved certain acquisitions of Underlying Assets from the Collateral Manager or its Affiliates. The Collateral Manager and its Affiliates will be entitled to vote Notes and Preference Shares held by them with respect to all matters other than those described in the foregoing clause (b) (including the selection of or consent to a successor collateral manager that is not an Affiliate of the

existing Collateral Manager). The term **"Collateral Manager"** for purposes of this paragraph includes any successor or successors to HBK Investments L.P. and any of HBK Investments L.P.'s affiliated subadvisors.

Notices

Notices to the Noteholders will be given by first-class mail, postage prepaid, to the registered Noteholders at their addresses appearing in the Note Register. In addition, for so long as any of the Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, notices will also be given to the Company Announcements Office of the Irish Stock Exchange.

Modification of the Indenture

With the consent of (a) the holders of not less than a majority of each Class materially and adversely affected thereby and all of the Preference Shareholders if materially and adversely affected thereby, (b) the consent of any Interest Rate Swap Counterparty adversely affected thereby, (c) the consent of the Synthetic Security Counterparty adversely affected thereby, and (c) the consent of the Initial Investment Agreement Provider adversely affected thereby, the Trustee and Issuers may enter into one or more indentures to add any provisions to, or change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the Noteholders of such Class, the Preference Shareholders, any Interest Rate Swap Counterparty, Synthetic Security Counterparty or the Initial Investment Agreement Provider, as the case may be, under the Indenture. Unless notified by holders of a majority in aggregate outstanding principal amount of any Class of Notes, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider that such Class of Notes or the Preference Shares, as the case may be, will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be adversely affected, the Trustee may, consistent with the written advice of counsel, determine whether or not such Class of Notes or the Preference Shares would be materially and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by such change (after giving 15 Business Days' notice of such change to the holders of such Class of Notes, the Preference Shareholders, any Interest Rate Swap Counterparty and the Initial Investment Agreement Provider). Such determination shall be conclusive and binding on all present and future Noteholders, the Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding Note of each Class affected thereby and each Preference Shareholder if the Preference Shares are affected by the supplemental indenture if such supplemental indenture:

(a) changes the Stated Maturity of any Note or the scheduled redemption date of the Preference Shares or the due date of any installment of interest on any Note or distribution of Excess Interest in respect of a Preference Share, reduces the principal amount of any Note or the rate of interest thereon, or the redemption price with respect to any Note or Preference Share, changes the earliest date on which the Issuer may redeem any Note or Preference Share or the amount of Excess Interest or Excess Principal Proceeds payable in respect of a Preference Share, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of

principal of or interest on the Notes or the payment of Excess Interest and Excess Principal Proceeds in respect of the Preference Shares, changes any place where, or the coin or currency in which, any Note or any Preference Share, or the principal thereof or interest thereon or any Excess Interest or Excess Principal Proceeds in respect thereof, respectively, is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or the scheduled redemption date of the Preference Shares (or, in the case of redemption, on or after the applicable redemption date);

(b) reduces the percentage in aggregate outstanding principal amount of holders of Notes of each Class or the percentage of Preference Shares whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with applicable provisions of the Indenture or certain defaults thereunder or their consequences;

(c) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby;

(d) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral or terminates such lien on any property at any time subject thereto or deprives the holder of any Note of the security afforded by the lien created by the Indenture;

(e) reduces the percentage of the aggregate outstanding principal amount of holders of Notes of each Class whose consent is required to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture;

(f) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of Noteholders except to increase the percentage of outstanding Notes (or percentage of Preference Shares) whose holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note or Preference Share affected thereby;

(g) modifies the definition of the term **"Outstanding,"** the Priority of Payments or the subordination provisions of the Indenture;

(h) changes the permitted minimum denominations of any Class of Notes or the minimum number of Preference Shares; or

(i) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Note or the calculation of the amount of Excess Interest or Excess Principal Proceeds with respect to the Preference Shares on any Distribution Date or the right of the Noteholders or the Preference Shareholders to the benefit of any provisions for the redemption of such Notes or Preference Shares contained in the Indenture;

provided that no such supplemental indenture shall modify the rights of the Preference Shareholders without the written consent of each Preference Shareholder. At any time that any Class of Notes is rated by any Rating Agency, the Trustee shall not enter into any such supplemental indenture if, as a result of

such supplemental indenture, the Rating Condition would not be satisfied with respect to such supplemental indenture, unless each holder of Notes of each Class whose rating will be reduced or withdrawn has consented to such supplemental indenture.

The Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of the holders of any Notes or Preference Shares, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider in order to, among other things:

(a) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes or to change the name of the Issuer or the Co-Issuer;

(b) add to the covenants of the Issuers or the Trustee for the benefit of the holders of all of the Notes and Preference Shares or to surrender any right or power conferred upon the Issuers;

(c) convey, transfer, assign, mortgage or pledge any property to or with the Trustee;

(d) evidence and provide for the acceptance of appointment under the Indenture by a successor trustee, collateral manager, listing agent, calculation agent, custodian, securities intermediary, note registrar, paying agent and/or collateral administrator and the compensation thereof and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(e) correct or amplify the description of any property at any time subject to the lien created by the Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property;

(f) make administrative and other non-material changes as the Issuer deems appropriate;

(g) obtain ratings on one or more Classes of Notes from any rating agency;

(h) with the prior written consent of the Collateral Manager, modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or to enable the Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(i) with the prior written consent of the Collateral Manager, correct any inconsistency, defect or ambiguity in the Indenture;

(j) with the prior written consent of the Collateral Manager, modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or in accordance with the USA PATRIOT Act, or other similar applicable laws or regulations to enable the Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the

Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(k) avoid the imposition of tax on the net income of the Issuer (or to reduce the amount of such tax payable by the Issuer) or of withholding tax on any payment to the Issuer, or prevent the Noteholders, the Preference Shareholders or the Trustee from being subject to withholding or other taxes, fees or assessments, or prevent the Issuer from being treated as engaged in a United States trade or business for U.S. federal income tax purposes or otherwise subject to U.S. federal, state, local or foreign income or franchise tax on a net income tax basis, or avoid the Issuer being required to register as an investment company under the Investment Company Act (or to reflect any change permitted by the Indenture to avoid the occurrence of a Tax Event or the existence of a Tax Materiality Condition); provided that such action will not cause the Noteholders to be adversely affected to any material extent by any change to the timing, character or source of the income from the Note;

(l) with the prior written consent of the Collateral Manager, to avoid the consolidation of the Issuer with the Collateral Manager on the financial statements of the Collateral Manager;

(m) accommodate the issuance of any Class of Notes as definitive notes;

(n) if 100% of the Preference Shareholders request in writing to the Issuer and the Trustee, accommodate the issuance of additional Preference Shares with terms identical to those of the existing Preference Shares;

(o) if the Collateral Manager consents, modify the Auction Procedures; or

(p) correct any manifest error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuers describing in reasonable detail such error and the modification necessary to correct such error;

provided that, in each such case, such supplemental indenture would not materially and adversely affect any holder of Notes or any Preference Shareholder or adversely affect any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider. Unless notified by holders of a majority in aggregate outstanding principal amount of Notes of any Class, a Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty or the Initial Investment Agreement Provider that such Class or the Preference Shareholders will be materially and adversely affected, or any Interest Rate Swap Counterparty will be adversely affected, or the Synthetic Security Counterparty will be adversely affected, or the Initial Investment Agreement Provider will be adversely affected, the Trustee may rely upon an opinion of counsel as to whether the interests of any Noteholder or Preference Shareholder would be materially and adversely affected, or any Interest Rate Swap Counterparty would be adversely affected, or the Synthetic Security Counterparty would be adversely affected, or the Initial Investment Agreement Provider would be adversely affected, by any such supplemental indenture (after giving ten days' notice of such change to each Noteholder, Preference Shareholder, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Initial Investment Agreement Provider). The Trustee may not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition would not be satisfied; *provided* that the Trustee may, with the consent of each holder of Notes of each Class with respect to which the Rating Condition would not be satisfied, enter into any such supplemental indenture notwithstanding any such reduction or withdrawal of the ratings of such Class of Notes.

Notwithstanding any of the foregoing, the Trustee may not enter into any supplemental indenture without the prior written consent of the Collateral Manager, if such supplemental indenture adversely affects the Collateral Manager (as determined by the Collateral Manager in its reasonable judgment) in any respect or changes the rights or obligations of the Collateral Manager in any respect.

Modification of Certain Other Documents

Prior to entering into any amendment or other modification of, or consenting to or directing any assignment or termination of the Management Agreement or any Interest Rate Swap Agreement, the Issuer is required by the Indenture to obtain the written confirmation of each Rating Agency that the Rating Condition is satisfied with respect to such amendment, modification, assignment or termination. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Collateral Manager, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty and the Trustee with written notice of such waiver. The Indenture also provides that the Issuer may not amend or modify, or consent to or direct any assignment or termination of the Administration Agreement without the prior written consent of a Special-Majority-in-Interest of Preference Shareholders, any Interest Rate Swap Counterparty and the Synthetic Security Counterparty (if such Interest Rate Swap Counterparty or Synthetic Security Counterparty would be adversely affected thereby). The Synthetic Security Counterparty will be an express third party beneficiary of the Indenture.

Consolidation, Merger or Transfer of Assets

Except under the limited circumstances set forth in the Indenture, neither of the Issuers may consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or entity.

Petitions for Bankruptcy

The Indenture provides that the Noteholders agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuer or the Co-Issuer before one year (or, if longer, the applicable preference period then in effect, including any period established pursuant to the laws of the Cayman Islands) and one day have elapsed since the payment in full of all Notes.

Satisfaction and Discharge of Indenture

The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, within certain limitations (including the obligation to pay principal and interest, including Deferred Interest, Defaulted Interest and interest on Defaulted Interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Notes, the Indenture, any Interest Rate Swap Agreement (including all relevant termination payments), the Administration Agreement, the Preference Share Paying Agency Agreement and the Management Agreement.

Trustee

Deutsche Bank Trust Company Americas will be the Trustee under the Indenture. The Issuers, the Collateral Manager and their respective affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee is solely the obligation of the Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in certain Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense

incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. The Trustee may resign at any time by giving written notice of such resignation to the Preference Share Paying Agent, the Issuers, the Noteholders, the Collateral Manager and each Rating Agency. The Trustee may be removed by 66 2/3% in aggregate outstanding principal amount of the Notes (voting together as a single Class) or, at any time when an Event of Default shall have occurred and be continuing or when a successor Trustee has been appointed pursuant to the Indenture, by a majority in aggregate outstanding principal amount of the Controlling Class. No resignation or removal of the Trustee will become effective until the acceptance of the appointment of a successor Trustee. In the Indenture, the Trustee will agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year, or if longer, the applicable preference period then in effect including any period established pursuant to the laws of the Cayman Islands, and one day after the payment in full of all of the Notes.

Characterization of the Notes

The Issuer will treat the Notes as indebtedness of the Issuer for U.S. federal, state and local income tax purposes. The Indenture will provide that each holder, by accepting a Note, agrees not to take any action inconsistent with such treatment unless required by law.

Governing Law

The Notes, the Indenture, the Subscription Agreements, the Management Agreement, the Collateral Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Preference Share Paying Agency Agreement and the Note Purchase Agreement will be governed by the law of the State of New York. The Issuer Charter, the Preference Shares and the Administration Agreement will be governed by the law of the Cayman Islands.

Reports

The Issuer will deliver, or cause to be delivered, a monthly report (the **"Monthly Report"**), except for the months when it prepares the Note Valuation Report described below, containing certain information regarding, among other things, the characteristics and performance of the Underlying Assets included in the Collateral. The Issuer will deliver, or cause to be delivered, as of each Determination Date, a report (the **"Note Valuation Report"**), containing certain information regarding, among other things, the aggregate principal amount of, and payments of interest on or principal of, the Notes and the information with respect to the Underlying Assets normally included in the Monthly Report. In connection with the Monthly Report, the Issuer also shall provide, or cause to be provided, certain monitoring information to each Rating Agency as set forth in the Indenture. The Note Valuation Report will be delivered no later than 2 Business Days prior to the relevant Distribution Date.

Collateral Administrator

On or before the Closing Date, the Issuer shall enter into a collateral administration agreement (the **"Collateral Administration Agreement"**) among the Issuer, the Collateral Manager and Deutsche Bank Trust Company Americas, as collateral administrator (in such capacity, the **"Collateral**

Administrator"), pursuant to which the Collateral Administrator will assist the issuer in certain data collection and compellation functions with respect to the Underlying Assets.

CERTAIN TERMS OF THE PREFERENCE SHARES

The following summary describes certain terms and conditions applicable to the Preference Shares. This summary, together with other portions of this Offering Circular summarizing terms and conditions applicable to the Preference Shares, does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture, the Issuer Charter and the Preference Share Paying Agency Agreement.

Status of the Preference Shares

The Preference Shares are equity in the Issuer and are not secured by the Collateral securing the Notes. As such, the Preference Shareholders will, on a winding up of the Issuer, rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Issuer, including, without limitation, the Noteholders, any Interest Rate Swap Counterparty, the Synthetic Security Counterparty, the Initial Investment Agreement Provider and any judgment creditors.

Payments in respect of the Preference Shares are subject to certain requirements imposed by Cayman Islands law. Any amounts paid by the Preference Share Paying Agent as distributions by way of dividend on the Preference Shares will be payable only if the Issuer has sufficient distributable profits and/or share premium. In addition, such distributions and the payment of Excess Principal Proceeds upon redemption of the Preference Shares will be payable only to the extent that the Issuer is and remains solvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed solvent if it is able to pay its debts as they come due.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the Preference Shareholders will be retained in the Preference Share Payment Account until, in the case of any payment by way of dividend which would otherwise be payable other than on a redemption date of the Preference Shares, the next succeeding Distribution Date, or, in the case of any payment which would otherwise be payable on a redemption date of the Preference Shares, the next succeeding Business Day, in each case on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts on deposit in the Preference Share Payment Account will not be available to pay amounts due to the Noteholders, the Trustee, the Collateral Manager, the Administrator, any Interest Rate Swap Counterparty or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, amounts on deposit in the Preference Share Payment Account may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral.

Rights of Consent of the Preference Shareholders

Set forth below is a summary of certain matters with respect to which the consent of the Preference Shareholders is required or in respect of which the Preference Shareholders may give directions. This summary is not meant to be an exhaustive list.

Optional Redemption of the Notes: On any Distribution Date on or after the [] Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of the holders of at least sixty-six and two thirds percent (66 2/3%) of the Preference Shares, as described under "Description of the Notes—Optional Redemption."

Tax Redemption of the Notes: On any Distribution Date, the Notes may, subject to satisfaction of certain conditions described herein, be redeemed (in whole but not in part) at the direction of a

Majority-in-Interest of the Preference Shareholders, as described under "Description of the Notes—Tax Redemption."

The Management Agreement: For a description of certain of the rights of the Preference Shareholders in relation to the removal of the Collateral Manager and the appointment of a successor Collateral Manager, see "The Management Agreement."

The Indenture: The Issuer is not permitted to enter into a supplemental indenture without the consent of the Preference Shareholders, if materially and adversely affected thereby.

Auction Call Redemption of the Preference Shares

The Preference Shares will be subject to redemption pursuant to an Auction Call Redemption occurring on or after the First Auction Call Date under the circumstances described under "Description of the Notes—Auction Call Redemption."

Governing Law

The Preference Share Paying Agency Agreement and the Subscription Agreements will be governed by the law of the State of New York. The Issuer Charter and the Preference Shares will be governed by the law of the Cayman Islands.

USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Notes and the Preference Shares will be approximately U.S.$[ ]. On the Closing Date, the Issuer will receive approximately U.S.$[ ] as the net proceeds from the issuance and sale of the Notes and the Preference Shares. The net proceeds from the issuance and sale of the Notes and the Preference Shares are the gross proceeds net of the payment of the placement and structuring fees related to the placement of the Notes and Preference Shares, the payment of other closing expenses and an initial deposit into the Expense Account. Such net proceeds from the issuance and sale of the Notes and the Preference Shares will be used by the Issuer to purchase a diversified portfolio of interests in Underlying Assets having the characteristics described herein under "Security for the Notes—Underlying Assets" and "—Closing Date Portfolio" and to fund certain accounts established under the Indenture.

On the Closing Date, the Issuer will have acquired (or committed to acquire for settlement in accordance with customary settlement procedures in the relevant markets) the entire portfolio. As of the Closing Date, the portfolio, along with funds on deposit in the Uninvested Proceeds Account, will consist of Underlying Assets (acquired or committed to be acquired) having an Aggregate Principal/Notional Balance (including principal collections on such Underlying Assets deposited in the Uninvested Proceeds Account on the Closing Date) of approximately U.S.$[ ]. Pending investment in Underlying Assets, the Uninvested Proceeds, if any, will be deposited into the Uninvested Proceeds Account and invested in Eligible Investments. In the event that there are any remaining Uninvested Proceeds on the Determination Date preceding the First Distribution Date, they will be transferred to the Payment Account and treated as Principal Proceeds on the First Distribution Date and distributed in accordance with the Priority of Payments.

RATING OF THE NOTES

It is a condition to the issuance of the Notes that the Class A-1 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by Standard & Poor's, that the Class B Notes be rated at least "Aa2" by Moody's and "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and "A" by Standard & Poor's, that the Class D Notes be rated at least "Baa2" by Moody's and "BBB" by Standard & Poor's and that the Class E Notes be rated at least "Ba1" by Moody's and "BB+" by Standard & Poor's. The ratings assigned to the Class A Notes and the Class B Notes by Standard & Poor's address the timely payment of interest on, and the ultimate payment of the principal of, the Class A Notes and the Class B Notes. The ratings assigned to the Class C Notes, the Class D Notes and the Class E Notes by Standard & Poor's address the ultimate payment of principal of, and the ultimate payment of interest on, the Class C Notes, the Class D Notes and the Class E Notes. The ratings assigned to the Notes by Moody's address the ultimate cash receipt of all required payments as provided by the governing documents, and are based on the expected loss to the Noteholders of each Class relative to the promise of receiving the present value of such payments. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

MATURITY AND PREPAYMENT CONSIDERATIONS

The Stated Maturity of each Class of Notes is the [] Distribution Date. The Notes will mature at their Stated Maturity unless redeemed or repaid prior thereto. However, the average lives of the Notes may be less than the number of years until the Stated Maturity. Based on the portfolio of Underlying Assets that the Collateral Manager expects the Issuer to purchase no later than the Determination Date preceding the First Distribution Date, and assuming (a) no Underlying Assets default, and (b) prepayment of any Underlying Assets during any month occurs at a rate equal to an average rate of prepayment specified by the Collateral Manager, redemption will occur and the average life of each Class of Notes from the Closing Date will be as follows:

Class	Average Life in Years assuming an Auction Call Redemption occurring in []
Class A-1 Notes	[]
Class A-2 Notes	[]
Class B Notes	[]
Class C Notes	[]
Class D Notes	[]
Class E Notes	[]

Such average lives of the Notes are presented for illustrative purposes only. Although the Collateral Manager prepared the list in **Schedule A** identifying the portfolio of Underlying Assets that the Issuer will purchase on the Closing Date (or that the Issuer has committed on or prior to the Closing Date to purchase thereafter for settlement in accordance with customary settlement procedures in the relevant markets), the assumptions used to calculate the average lives of the Notes are necessarily arbitrary, do not necessarily reflect historical experience with respect to securities similar to the Underlying Assets and do not constitute a prediction with respect to the rates or timing of receipts of Interest Proceeds or Principal Proceeds, defaults, recoveries, sales, prepayments or optional redemptions to which the Underlying Assets may be subject. Actual experience as to these matters will differ, and may differ materially, from that assumed in calculating the illustrative average lives set forth above, and consequently the actual average lives of the Notes will differ, and may differ materially, from those set forth above. In addition, the assumptions set forth above do not necessarily reflect historical performance and defaults for Asset-Backed Securities and the Issuer makes no representation or warranty that such assumptions are appropriate or reasonable. Accordingly, prospective investors should make their own determinations of the expected weighted average lives and maturity of the Notes and, accordingly, their own evaluation of the merits and risks of an investment in the Notes. See "Risk Factors—Projections, Forecasts and Estimates."

Average life refers to the average number of years that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor.

The average lives of the Notes will be determined by the amount and frequency of principal payments. The actual average lives of the Notes will also be affected by the financial condition of the obligors of the Underlying Assets and the characteristics of such obligations, including the existence and

frequency of exercise of any optional or mandatory redemption or prepayment features, the prevailing level of interest rates, the redemption price and the actual default rate and the actual level of recoveries on any Defaulted Securities. The rate of future defaults and the amount and timing of any cash realization from Defaulted Securities also will affect the average lives of the Notes.

SECURITY FOR THE NOTES

General

The Collateral securing the Notes will consist of:

(a) the Underlying Assets and Equity Securities (if any) and the Offset Transactions and the Offsetting Transactions;

(b) the rights of the Issuer under any Interest Rate Swap Agreement;

(c) amounts on deposit in the Payment Account, the Interest Collection Account, the Principal Collection Account, the Expense Account, the Uninvested Proceeds Account, the Synthetic Security Collateral Account, the Disposition Proceeds Account and the Synthetic Security Issuer Account (collectively, the **"Accounts"**) and Eligible Investments purchased with funds on deposit in such accounts;

(d) the rights of the Issuer under the Management Agreement, the Note Purchase Agreement, the Subscription Agreements, the Collateral Administration Agreement and the Administration Agreement; and

(e) all proceeds of the foregoing (collectively, the **"Collateral"**). The Collateral will not include the Excepted Property.

Underlying Assets—Asset-Backed Securities

An **"Asset-Backed Security"** includes any Dollar-denominated asset-backed security or any security that represents a direct or indirect interest in such an asset-backed security that, at the time of acquisition (or commitment for acquisition) by the Issuer on the Closing Date, is not a Prohibited Asset or a Defaulted Asset and which satisfies each of the following conditions:

(a) it provides for a fixed amount payable in cash no later than its stated maturity;

(b) the Underlying Instruments with respect to such Asset-Backed Security do not prohibit it from being purchased by the Issuer and pledged to the Trustee;

(c) it is not denominated or payable in, or convertible into an obligation or security denominated or payable in, a currency other than Dollars;

(d) it does not require the Issuer to make future advances or payments to the obligor or issuer;

(e) it has a Standard & Poor's Rating (excluding those with a rating from Standard & Poor's which includes the subscript "p", "pi", "q", "r" or "t") and a Moody's Rating;

(f) it is not "margin stock" and does not provide for conversion into "margin stock";

(g) it is not subject to an Offer;

(h) it (or, if it is a certificate of beneficial interest in an entity that is treated as a grantor trust or a partnership and not as a REMIC or FASIT for U.S. federal income tax purposes,

each of the debt instruments or securities held by such entity) is described in at least one of the following four clauses:

(i) it is a Public Security that was issued in a firm commitment underwriting for which neither the Collateral Manager nor an Affiliate thereof served as underwriter;

(ii) it was not purchased by the Issuer (A) directly or indirectly from its issuer, (B) pursuant to a legally binding agreement made before the issuance of the obligation or security or (C) from the Collateral Manager or any of its Affiliates unless such entity (1) regularly acquires securities of the same type for its own account, (2) could have held the obligation or security for its own account consistent with its investment policies, (3) did not identify the obligation or security as intended for sale to the Issuer or the Collateral Manager within 30 days of its issuance and (4) held the obligation or security for at least 30 days;

(iii) it is a Private Security and

(A) it was originally issued pursuant to an offering circular, private placement memorandum or similar offering document;

(B) the Issuer, the Collateral Manager and the Affiliates of the Collateral Manager did not at original issuance acquire [20]% or more of the aggregate principal amount of all classes of securities offered by the issuer of the Asset-Backed Security in the offering and any related offering; provided in each case that any acquisition by an Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such acquisition; and

(C) the Issuer, the Collateral Manager and any Affiliate of the Collateral Manager did not participate in negotiating or structuring the terms of the Asset-Backed Security, except (1) to the extent such participation consisted of an election by the Issuer, the Collateral Manager or an Affiliate of the Collateral Manager to tranche the subordinate classes of securities of an issue in the form of one of the structuring options offered by the issuer of the securities or (2) for the purposes of (i) commenting on offering documents to an unrelated underwriter or placement agent where the ability to comment on such documents was generally available to investors or (ii) due diligence of the kind customarily performed by investors in securities, or (3) to the extent the Collateral Manager or any Affiliate of the Collateral Manager, either directly or indirectly through a conduit issuer, was the issuer of the Asset-Backed Security; provided that any participation in negotiating or structuring by any Affiliate of the Collateral Manager that is not a member of the Collateral Manager Group shall be included only if the Collateral Manager or any of its employees or agents knew or had reason to know of such participation; or

(iv) it is either (A) the sole material obligation of a repackaging vehicle formed and operated exclusively to hold a single Asset-Backed Security described in at least

one of clauses (h)(i), (h)(ii) or (h)(iii), which vehicle may also hold a derivative financial instrument or guarantee designed solely to offset one or more terms of such Asset-Backed Security or (B) a security issued by a repackaging vehicle that holds one or more Asset-Backed Securities described in at least one of clauses (h)(i), (h)(ii), (h)(iii), or (h)(iv)(A) and which is treated as a REMIC, FASIT, grantor trust, or partnership for U.S. federal income tax purposes, and is formed by the Collateral Manager or one of its Affiliates;

(i) if interest income on an Asset-Backed Security is considered U.S.-source income for U.S. federal income tax purposes, it is in registered form for U.S. federal income tax purposes and it (and if it is a certificate of interest in a trust that is treated as a grantor trust and not as a REMIC or FASIT for U.S. federal income tax purposes, each of the obligations or securities held by such trust) was issued after July 18, 1984; provided that, if it is a certificate of beneficial interest in an entity that is treated as a partnership for U.S. federal income tax purposes, each of the obligations or securities held by such entity is in registered form for U.S. Federal income tax purposes and was issued after July 18, 1984 (a **"Registered"** obligation or security);

(j) either (i) the Issuer meets the certification and other requirements to receive payments with respect to the Asset-Backed Security free of U.S. and foreign withholding tax, (ii) the issuer thereof is required to make additional payments sufficient on an after-tax basis to cover any U.S. and foreign withholding tax imposed on payments made to the Issuer with respect thereto (including any tax on the additional payments described in this paragraph) or (iii) the issuer thereof has obtained or expects to obtain in the ordinary course and not more than six weeks following the issuance thereof an exemption from withholding tax for the entire period during which the Notes and the Preference Shares will be outstanding; provided that, for purposes of this clause (h), a determination that an Asset-Backed Security is eligible for exemption from U.S. withholding tax under Section 871(h) or Section 881(c) of the Code may be based on advice of Allen & Overy LLP or an opinion of counsel that the Asset-Backed Security will or should be treated as debt for U.S. federal income tax purposes;

(k) (i) the Asset-Backed Security is the obligation of a single issuer incorporated as a corporation under the state or federal laws of the United States, that is not a U.S. real property holding company; (ii) the Issuer has been advised by Allen & Overy LLP or has received an opinion of counsel that owning the Asset-Backed Security will not subject the Issuer to U.S. federal income tax on a net income basis or cause the Issuer to be treated as engaged in a trade or business within the United States; (iii) the Issuer has received an opinion of counsel that the Asset-Backed Security will be treated as debt for U.S. federal income tax purposes; (iv) the Issuer has received an opinion of counsel that for U.S. federal income tax purposes (A) the issuer of the Asset-Backed Security is a grantor trust and (B) all the assets of the trust are regular interests in a REMIC or FASIT or interest rate floors, caps, swaps or other notional principal contracts (within the meaning of applicable Treasury Regulations), the payments under which are determined solely by reference to interest rates, or (v) the Alternative Debt Test is satisfied, provided that, for purposes of clauses (f), (g), (h) and this clause (i), (1) an opinion of counsel that the issuer of an Asset-Backed Security will be treated as a REMIC or FASIT for U.S. federal income tax purposes shall be treated as an opinion of counsel that the Asset-Backed Security will be treated as debt for U.S. federal income tax purposes (unless the Asset-Backed Security is the residual interest in the REMIC or the ownership interest in the

FASIT), (2) if there has been no change in the terms of an Asset-Backed Security prior to its acquisition, the Issuer shall be treated as having received an opinion that it will or should be treated as debt if the Issuer either has obtained a tax opinion to that effect rendered at the issuance of such Asset-Backed Security or has received offering documents pursuant to which such Asset-Backed Security was offered that include a tax opinion to such effect or state that an opinion of counsel to such effect has been rendered, and (3) if there has been no change in any of the organizational documents of an entity issuing an Asset-Backed Security since its issuance, the Issuer shall be treated as having received an opinion that such entity will be treated as a corporation, partnership, grantor trust, REMIC or FASIT (as the case may be) for U.S. federal income tax purposes if the Issuer either has obtained a tax opinion to that effect rendered at the time of the issuance of the Asset-Backed Security or has obtained offering documents that include an opinion of counsel to such effect or state that an opinion of counsel to such effect has been rendered;

(l) it is not a swap transaction or other derivative financial instrument referencing a debt instrument;

(m) acquisition of the Asset-Backed Security will not cause the Issuer to register, or be required to register, under the Investment Company Act;

(n) it is not convertible into one or more Equity Securities;

(o) it is not currently deferring interest or a Written Down Security;

(p) it is expected to have an outstanding Principal/Notional Balance of less than U.S.$1,000 as of the Stated Maturity of the Notes, assuming a constant prepayment rate since the date of purchase equal to the lesser of (a) 5.0% per annum and (b) the constant prepayment rate reasonably expected by the Collateral Manager as of the date of purchase, or, if constant prepayment rate is not applicable, the slowest prepayment scenario as described in the prospectus relating to such Asset-Backed Security; and

(q) it will be pledged to the Trustee under the Indenture.

An **"A/B Exchange"** is an exchange of one security (the **"A Security"**) for another security (the **"B Security"**) of the same issuer or issuers which B Security shall have substantially identical terms to the A Security except that one or more restrictions applicable to the A Security are inapplicable to the B Security.

The **"Alternative Debt Test"** is satisfied with respect to a security if, on the date the Issuer acquires such security, each of the following is satisfied:

(a) such security is in the form of a note or other debt instrument and is treated as debt for corporate law purposes in the jurisdiction of the issuer of such security;

(b) the documents pursuant to which such security was offered, if any, do not require that any holder thereof treat such security other than as debt for tax purposes;

(c) such security bears interest at a fixed rate per annum or at a rate based upon a customary floating rate index plus or minus a spread and does not provide for any interest based on any other factor, such as the issuer's profits or cash flow;

(d) such security had a fixed term at original issuance not in excess of 35 years;

(e) such security provides for a fixed principal amount (leaving no amount outstanding) payable no later than its stated maturity; and

(f) such security is rated at least "BBB " by Fitch, at least "BBB " by Standard & Poor's or at least "Baa3" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, as to ultimate payment of principal and interest; provided that, in the case of a security in the form of a beneficial interest in an entity that is treated (as evidenced by an opinion of counsel or a reference to an opinion of counsel in documents pursuant to which such security was offered) as a grantor trust or a partnership for U.S. federal income tax purposes and not as an association taxable as a corporation, any of the conditions specified in clauses (a), (b), (c), (d) and (e) may be satisfied by reference to each asset held by such entity rather than by reference to such beneficial ownership interests.

"Collateral Manager Group" means the Collateral Manager and any directly or indirectly controlled subsidiary of the Collateral Manager.

An **"Offer"** means, with respect to any security, (i) any offer by the issuer of such security or by any other person made to all of the holders of such security to purchase or otherwise acquire such security (other than pursuant to any redemption in accordance with the terms of its Underlying Instruments) or to convert or exchange such security into or for cash, securities or any other type of consideration or (ii) any solicitation by the issuer of such security or any other person to amend, modify or waive any provision of such security or any of its Underlying Instruments.

A **"Private Security"** is any security that is not a Public Security, including, without limitation, any of the following:

(a) any security that was not (i) issued pursuant to an effective registration statement under the Securities Act or (ii) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act;

(b) any security (other than a Public Security or a security described by clause (c) below) that is eligible for resale under Rule 144A under the Securities Act; or

(c) any security that is not a Public Security but that (i) is eligible for resale by the Issuer under Rule 144A under the Securities Act and (ii) with respect to which the Issuer, either by itself or together with other holders of such securities, has the right to require the issuer thereof (or such issuer is otherwise obligated or is penalized if such item is not so registered), within one year from any date of determination, to register under the Securities Act the public resale of such security or to effect an A/B Exchange; provided that clause (ii) does not apply to Asset-Backed Securities.

A **"Prohibited Asset"** is any of the following: (a) any asset the ownership of which would cause the Issuer to be subject to income tax on a net income basis in any jurisdiction, or (b) any asset the gain from the Disposition of which will be subject to U.S. federal income or withholding tax under Section 897 or Section 1445 of the Code and Treasury Regulations promulgated thereunder; *provided, however*, that the Issuer shall set up a special purpose subsidiary (which shall be a corporation for U.S. tax purposes) to receive and hold an Equity Security, unless it has consulted with its tax counsel and has been advised

that the Issuer can hold the Equity Security directly without causing the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes.

A **"Public Security"** is any of the following: any security (a) the public resale of which by the Issuer either has been registered under the Securities Act or is exempt from such registration pursuant to Section 4(1) or Rule 144(k) under the Securities Act, (b) issued or guaranteed by Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation or (c) issued by an issuer organized outside of the United States and registered in the jurisdiction where the issuer is organized.

Asset-Backed Securities

The Underlying Assets will consist of Asset-Backed Securities, which may include CMBS Securities, RMBS Securities, Automobile Securities, Car Rental Fleet Securities, CDO Securities, Credit Card Securities, Equipment Lease Securities, Small Business Loan Securities and Student Loan Securities, or Synthetic Securities with Reference Obligations as Asset-Backed Securities. Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities.

Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders, or trusts or entities formed by such institutions to issue Asset-Backed Securities. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Accordingly, Asset-Backed Securities generally include one or more credit enhancements that are designed to raise the overall credit quality of the security above that of the underlying collateral. Another important type of Asset-Backed Security is commercial paper issued by special-purpose entities. Asset-backed commercial paper is usually backed by trade receivables, though such conduits may also fund commercial and industrial loans. Banks are typically more active as issuers of these instruments than as investors in them.

An Asset-Backed Security is created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the Asset-Backed Securities. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a grantor trust or, in the case of an asset-backed commercial paper program, a special-purpose entity. The sponsor or originator of the collateral usually establishes the issuer. Interests in the trust, which embody the right to certain cash flows arising from the underlying assets, are then sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security has a servicer (often the originator of the collateral) that is responsible for collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for passing them along to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the borrower accounts in the pool.

The structure of an Asset-Backed Security and the terms of the investors' interests in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Often Asset-Backed Securities are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cash

flows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cash flows from the underlying pool of assets must first satisfy the requirements of the senior class. Only after these requirements have been met will the cash flows be directed to service the subordinated class.

Asset-Backed Securities also use various forms of credit enhancements to transform the risk-return profile of underlying collateral, including third-party credit enhancements, recourse provisions, overcollateralization and various covenants. Third-party credit enhancements include standby letters of credit, collateral, mortgage insurance or pool insurance, or surety bonds from third parties. Recourse provisions are guarantees that require the originator to cover any losses up to a contractually agreed-upon amount. One type of recourse provision, usually seen in securities backed by credit card receivables, is the "spread account." This account is actually an escrow account whose funds are derived from a portion of the spread between the interest earned on the assets in the underlying pool of collateral and the lower interest paid on securities issued by the trust. The amounts that accumulate in this escrow account are used to cover credit losses in the underlying asset pool, up to several multiples of historical losses on the particular assets collateralizing the securities. Overcollateralization is another form of credit enhancement that covers a predetermined amount of potential credit losses. It occurs when the value of the underlying assets exceeds the face value of the securities. A similar form of credit enhancement is the cash-collateral account, which is established when a third party deposits cash into a pledged account. The use of cash-collateral accounts, which are considered by enhancers to be loans, grew as the number of highly rated banks and other credit enhancers declined in the early 1990s. Cash-collateral accounts provide credit protection to investors of a securitization by eliminating "event risk," or the risk that the credit enhancer will have its credit rating downgraded or that it will not be able to fulfill its financial obligation to absorb losses. An investment banking firm or other organization generally serves as an underwriter for Asset-Backed Securities. In addition, a credit-rating agency often will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows and other attributes of the securities. Before assigning a rating to the issue, the rating agency will also assess the extent of loss protection provided to investors by the credit enhancements associated with the issue.

Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and down-streamed to investors, how credit losses affect the trust and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the trust or conduit or to the investors. Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the underlying pool of loans when credit losses rise. A bank or other issuer may play more than one role in the securitization process. An issuer can simultaneously serve as originator of loans, servicer, administrator of the trust, underwriter, provider of liquidity and credit enhancer. Issuers typically receive a fee for each element of the transaction they undertake. The multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

There are many different varieties of Asset-Backed Securities, often customized to the terms and characteristics of the underlying collateral. The most common types are securities collateralized by

mortgages and revolving credit-card receivables, but instruments backed by home equity loans, other second mortgages and automobile-finance receivables are also common.

Securities backed by closed-end installment loans are typically the least complex form of asset-backed instruments. Collateral for these Asset-Backed Securities typically includes leases, student loans and automobile loans. The loans that form the pool of collateral for the Asset-Backed Securities may have varying contractual maturities and may or may not represent a heterogeneous pool of borrowers. Unlike a mortgage pass-through instrument, the trustee does not need to take physical possession of any account documents to perfect a security interest in the receivables under the Uniform Commercial Code. The repayment stream on installment loans is fairly predictable, since it is primarily determined by a contractual amortization schedule. Early repayment on these instruments can occur for a number of reasons, with most tied to the disposition of the underlying collateral (for example, in the case of Asset-Backed Securities backed by automobile loans, the sale of the vehicles). Interest is typically passed through to security holders at a fixed rate that is slightly below the weighted average coupon of the loan pool, allowing for servicing and other expenses as well as credit losses.

Unlike closed-end installment loans, revolving credit receivables involve greater uncertainty about future cash flows. Therefore, Asset-Backed Securities structures using this type of collateral must be more complex to afford investors more comfort in predicting their repayment. Accounts included in the securitization pool may have balances that grow or decline over the life of the Asset-Backed Securities. Accordingly, at maturity of the Asset-Backed Securities, any remaining balances revert to the originator. During the term of the Asset-Backed Securities, the originator may be required to sell additional accounts to the pool to maintain a minimum dollar amount of collateral if accountholders pay down their balances at greater than predetermined rates. Credit card securitizations are the most prevalent form of revolving credit Asset-Backed Securities, although home equity lines of credit are a growing source of Asset-Backed Securities collateral. Credit card securitizations are typically structured to incorporate two phases in the life cycle of the collateral: an initial phase during which the principal amount of the securities remains constant and an amortization phase during which investors are paid off. A specific period of time is assigned to each phase. Typically, a specific pool of accounts is identified in the securitization documents, and these specifications may include not only the initial pool of loans but a portfolio from which new accounts may be contributed. The dominant vehicle for issuing securities backed by credit cards is a master trust structure with a "spread account," which is funded up to a predetermined amount through "excess yield"—that is, interest and fee income *less* credit losses, servicing and other fees. With credit card receivables, the income from the pool of loans—even after credit losses—is generally much higher than the return paid to investors. After the spread account accumulates to its predetermined level, the excess yield reverts to the issuer. Under GAAP, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield.

A number of banks have used a structure—a "special-purpose entity"—that is designed to acquire trade receivables and commercial loans from high-quality (often investment-grade) obligors and to fund those loans by issuing (asset-backed) commercial paper that is to be repaid from the cash flow of the receivables. Capital is contributed to the special-purpose entity by the originating bank that, together with the high quality of the underlying borrowers, is sufficient to allow the special-purpose entity to receive a high credit rating. The net result is that the special-purpose entity's cost of funding can be at or below that of the originating bank itself. The special-purpose entity is "owned" by individuals who are not formally affiliated with the bank, although the degree of separation is typically minimal. These

securitization programs enable banks to arrange short-term financing support for their customers without having to extend credit directly. This structure provides borrowers with an alternative source of funding and allows banks to earn fee income for managing the programs. As the asset-backed commercial paper structure has developed, it has been used to finance a variety of underlying loans—in some cases, loans purchased from other firms rather than originated by the bank itself—and as a "remote origination" vehicle from which loans can be made directly. Like other securitization techniques, this structure allows banks to meet their customers' credit needs while incurring lower capital requirements and a smaller balance sheet than if it made the loans directly.

Issuers obtain a number of advantages from securitizing assets, including improving their capital ratios and return on assets, monetizing gains in loan value, generating fee income by providing services to the securitization conduit, closing a potential source of interest-rate risk and increasing institutional liquidity by providing access to a new source of funds. Investors are attracted by the high credit quality of Asset-Backed Securities, as well as their attractive returns.

Asset-Backed Securities carry coupons that can be fixed or floating. Pricing is typically designed to mirror the coupon characteristics of the loans being securitized. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized loans.

Credit risk arises from (a) losses due to defaults by the borrowers in the underlying collateral, (b) the issuer's or servicer's failure to perform and (c) fraud. These elements can blur together as, for example, in the case of a servicer who does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Asset-Backed Securities are rated by major rating agencies. Market risk arises from the cash-flow characteristics of the security, which for many Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest-rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk, like that which occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity. For these cases, the securitization transaction may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special-purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

A list of all Underlying Assets to be acquired by the Issuer on the Closing Date is set forth in **Schedule A** attached hereto. The Underlying Assets are divided into different **"Specified Types "**. The Specified Types are set forth below.

"ABX Tranche Security" means Underlying Assets that are issued by a special purpose issuer as part of an ABX.HE index administered and marketed by Markit Group Limited.

"Automobile Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from installment sale loans made to finance the purchase of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (4) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"Car Rental Fleet Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from leases and subleases of vehicles to car rental systems and their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"CDO Securities" means securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the cash flow from a portfolio of Synthetic Securities, Asset-Backed Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, bank loan securities, domestic corporate debt securities, high-grade asset-backed securities and trust preferred securities or any combination of the foregoing, generally having the following characteristics: (1) the securities have varying contractual maturities; (2) the securities are obligations of a relatively limited number of obligors or issuers and accordingly represent a relatively undiversified pool of obligor credit risk; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional securities.

"CMBS Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (a) a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties or (b) the leasing of such properties to corporate tenants. They generally have the following characteristics: (a) the commercial mortgage loans have varying contractual maturities; (b) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof; (c) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (d) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans

depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"Commercial ABS Securities" means Equipment Lease Securities and Small Business Loan Securities; and any other type of Asset-Backed Securities that becomes a Specified Type after the Closing Date as described below and is designated as "Commercial ABS Securities" in connection therewith.

"Consumer ABS Securities" means Automobile Securities, Car Rental Fleet Securities, Consumer Loan Securities, Credit Card Securities and Student Loan Securities; and any other type of Asset-Backed Securities that becomes a Specified Type after the Closing Date as described below and is designated as "Consumer ABS Securities" in connection therewith.

"Consumer Loan Securities" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances outstanding under revolving consumer loan accounts, generally having the following characteristics: (1) the accounts have standardized payment terms; (2) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"Credit Card Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics: (1) the accounts have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; and (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"Emerging Market " means a country that is in Latin America, Asia, Africa, Eastern Europe or the Caribbean or in a country the Dollar denominated obligations of which are rated lower than "Aa2" by Moody's or "AA" by Standard & Poor's;

"Equipment Lease Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Underlying Assets) on the cash flow from leases and subleases of equipment to commercial and industrial customers, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage.

"FICO Score" means the credit score developed by Fair Isaac & Co and provided by Experian (a subsidiary of GUS plc), Trans Union LLC or Equifax Inc.

"High LTV RMBS Security" means a Residential B/C Mortgage-Backed Security that depends primarily on the cash flow from subprime residential mortgage loans with loan-to-value ratios of greater than 80%.

"Mid-Prime Securities" means Residential Securities that have a FICO Score above 625 and below 700.

"Non-Subprime Home Equity Loan Asset-Backed Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Residential A Mortgage-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from balances (including revolving balances) outstanding under loans or lines of credit to non-subprime borrowers secured by residential real estate (single or two-or-four-family properties) the proceeds of which loans or lines of credit are not generally used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously used for such purchase or construction), generally having the following characteristics: (1) the balances have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates and general economic matters; and (4) the loan or line of credit may be secured by residential real estate with a market value (determined on the date of origination of such loan or line of credit) that is less or more than the original proceeds of such loan or line of credit.

"Prime Securities" means Residential Securities that have a FICO Score equal to or above 700.

"Residential A Mortgage-Backed Securities" means Underlying Assets (other than Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Asset-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from prime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Residential B/C Mortgage-Backed Securities" means Underlying Assets (other than Residential A Mortgage-Backed Securities and Non-Subprime Home Equity Loan Asset-Backed Securities) that entitle their holders to receive payments that depend primarily on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or two-to-four-family properties) the proceeds of which were used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment

schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"Residential Securities" or **"RMBS Securities"** means Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities and Non-Subprime Home Equity Loan Asset-Backed Securities.

"Small Business Loan Securities" means Asset-Backed Securities (other than Franchise Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from general purpose corporate loans made to small business concerns, including but not limited to those (a) made pursuant to Section 7(a) of the United States Small Business Act, as amended, and (b) partially guaranteed by the United States Small Business Administration. Small Business Loan Securities generally have the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of a relatively limited number of borrowers and accordingly represent an undiversified pool of obligor credit risk; and (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium. For the purpose of this definition, **"Franchise Securities"** means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil, gasoline, restaurant or food services and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

"Student Loan Securities" means Underlying Assets that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from loans made to students (or their parents) to finance educational needs, generally having the following characteristics:

(1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

"Sub-Prime Securities" means Residential Securities that have a FICO Score equal to or below 625.

Underlying Assets—Synthetic Securities

The following is a description of the Synthetic Securities. The terms used in this Section "—Synthetic Securities" but not otherwise defined in this Offering Circular have the meanings set forth in the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or in the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities. The terms of any additional Synthetic Security may vary substantially from the terms described below and in the Confirmation. Any material change to the terms of an additional Confirmation will be required to satisfy the Rating Condition.

Prior to the Closing Date, the Issuer entered into a series of credit default swaps (each a **"Synthetic Security"**) with Deutsche Bank AG (in such role, the **"First Synthetic Security Counterparty"**). Each Synthetic Security relates to a Reference Obligation whereby the Issuer sells credit protection to the related Synthetic Security Counterparty on such Reference Obligation. Each Synthetic Security will be entered into pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the schedule thereto (the **"Master Agreement"**), between the Issuer and a Synthetic Security Counterparty, and a separate confirmation of transaction (a **"Confirmation"**) evidencing the Synthetic Security thereunder. Each Confirmation may evidence several different transactions, each of which is separate and distinct from all others documented under such Confirmation and relates to an individual Reference Obligation that is an Asset-Backed Security. Terms used in this section and not defined herein or in the Confirmations attached hereto as (i) **Schedule H** in the case of Reference Obligations that are RMBS Securities, in the form of Confirmation, (ii) attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, (iii) in the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or (iv) in the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities will have the meanings specified in the 2003 ISDA Credit Derivatives Definitions as published by ISDA (the **"Credit Derivatives Definitions"**).

For the avoidance of doubt the Synthetic Securities will exclude any Offsetting Transactions and any Synthetic Security that constitutes a component of the Offset Transactions shall cease to be a Synthetic Security from and including the time the relevant Offsetting Transaction is effective.

"Reference Obligation" means any Asset-Backed Security that, as of the related trade date, satisfies the Eligibility Criteria.

"Reference Obligor" means the obligor on a Reference Obligation.

On or before the [] Distribution Date and only in accordance with the Eligibility Criteria, the Issuer may (i) enter into additional Synthetic Securities with the First Synthetic Security Counterparty and/or (ii) enter into new Synthetic Securities with different synthetic security counterparties (together with the First Synthetic Security Counterparty, the **"Synthetic Security Counterparties"**) made pursuant to a separate Master Agreement and Confirmation; *provided* that after giving effect to any such transaction, the Synthetic Security Collateral Amount equals or exceeds the Required Synthetic Security Collateral Amount. The **"Synthetic Security Collateral Amount"** equals on any date of determination, the amount on deposit in the related Synthetic Security Collateral Account, if any (including the Aggregate Principal/Notional Balance of the Eligible Investments on deposit in such account, but excluding all earnings on such Eligible Investments). The **"Required Synthetic Security Collateral Amount"** equals, with respect to each Synthetic Security Counterparty, on any date of determination, the Aggregate Principal/Notional Balance of all Synthetic Securities entered into with such Synthetic Security Counterparty *minus* the Aggregate Principal/Notional Balance of all Offset Transactions with respect to Synthetic Securities entered into with such Synthetic Security Counterparty. Each Master Agreement entered into with a Synthetic Security Counterparty shall be substantially identical to the Master Agreement entered into between the Issuer and the First Synthetic Security Counterparty prior to closing or, if not substantially identical, shall be approved by the First Synthetic Security Counterparty and each Rating Agency. Each Confirmation entered into with a Synthetic Security Counterparty shall be substantially similar to (w) the form of Confirmation attached hereto as **Schedule H** in the case of Reference Obligations that are RMBS Securities, (x) the form of Confirmation attached hereto as **Schedule I** in the case of Reference Obligations that are ABX Tranche Securities, (y) the form of Confirmation attached hereto as **Schedule J** in the case of Reference Obligations that are CMBS Securities or (z) the form of Confirmation attached hereto as **Schedule K** in the case of Reference Obligations that are CDO Securities or, if not substantially similar, shall be approved by each other Synthetic Security Counterparty and each Rating Agency.

Each Synthetic Security Counterparty has the right in the event of an assignment of the relevant Synthetic Security to reject any replacement for the Issuer. In deciding whether to accept or reject a replacement for the Issuer, the Synthetic Security Counterparty does not have to consider the interests of the Issuer or the Noteholders. If as of any Determination Date, the amount on deposit in the Synthetic Security Collateral Account exceeds the Required Synthetic Security Collateral Amount, such excess amount will be deposited into the Principal Collection Account and deemed to be Principal Proceeds. Under each Synthetic Security, on each Fixed Rate Payer Payment Date, the related Synthetic Security Counterparty will be obligated to pay the Fixed Amounts to the Issuer. The First Synthetic Security Counterparty will pay the Fixed Amount to the Issuer as determined by Deutsche Bank AG as calculation agent (together with its permitted successors and assigns in such capacity, the **"Synthetic Security Calculation Agent"**).

In addition, on each Fixed Rate Payer Payment Date, the related Synthetic Security Counterparty will be obligated to pay the Additional Fixed Amount, if due, to the Issuer. The Additional Fixed Amount is comprised of Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and Principal Shortfall Reimbursement Payment Amounts.

Under each Synthetic Security, on each Floating Rate Payer Payment Date, the Issuer will be obligated to pay the applicable Floating Amounts to the related Synthetic Security Counterparty.

Each Synthetic Security Counterparty may, at its option, at any time following the occurrence of a Credit Event, physically deliver all or a portion of the underlying Reference Obligation to the Issuer (any such delivered Reference Obligation or portion thereof, a **"Delivered Obligation"**) with an Exercise Amount not to exceed the Notional Amount of the related Synthetic Security. Upon such physical delivery

of any Reference Obligation or portion thereof, the Issuer will be obligated to pay to the related Synthetic Security Counterparty an amount in cash equal to the Physical Settlement Amount. Any such Delivered Obligation will be credited to a securities account maintained with the Trustee subject to the lien of the Indenture. Upon delivery, any Delivered Obligation will be deemed to be an Underlying Asset and will have the same effect on the Eligibility Criteria as the related Synthetic Security prior to the delivery and with a Principal/Notional Balance equal to its outstanding Principal/Notional Balance. **"Notional Amount"** of any Synthetic Security will equal the "Reference Obligation Notional Amount" as defined in such Synthetic Security.

Allocation Procedures. With respect to the Synthetic Securities and Offsetting Transactions, and before any disbursements are made pursuant to "Description of the Notes—Priority of Payments—Interest Proceeds" and "—Principal Proceeds" (i) Floating Payments and other amounts due under any Synthetic Security, (ii) Physical Settlement Amounts, (iii) Principal Payment Amounts, (iv) payments of Additional Fixed Amounts, (v) termination amounts and (vi) Offsetting Transactions will be allocated in accordance with the **"Allocation Procedures"** described below and such amounts will not be applied through the Priority of Payments unless specifically set forth below:

(i) Floating Payments and other amounts due under the Synthetic Securities. If on any Business Day, Floating Payments or any other amounts are due and payable by the Issuer in accordance with the provisions of any Synthetic Security, other than Interest Shortfall Amounts and any termination payments with respect to an early termination or an event of default (the **"Synthetic Security Payment Amount"**), the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Payment Amount; and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Payment Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Payment Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Synthetic Security Payment Amount.

(ii) Physical Settlement Amount. If on any Business Day, the Physical Settlement Amount for any Delivered Obligation is due and payable by the Issuer to the relevant Synthetic Security Counterparty pursuant to the terms of the related Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Issuer or Collateral Manager acting on its behalf, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount

from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Physical Settlement Amount; and

(B) if the amount withdrawn under (A) above is less than the Physical Settlement Amount, withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Physical Settlement Amount less the amounts withdrawn pursuant to clause (A) above.

The Trustee, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, shall pay such proceeds to the relevant Synthetic Security Counterparty in an amount equal to the Physical Settlement Amount.

(iii) Principal Payment Amount. If on any Business Day, there is a Principal Payment Amount with respect to any Reference Obligation under a Synthetic Security, the Trustee shall, on behalf of the Issuer, and pursuant to instruction of the Collateral Manager, subject to the procedures set forth in the Indenture, withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement), an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account (including the amount that the Issuer can withdraw from the Investment Agreement) and (2) the Principal Payment Amount, and such withdrawn amounts will be deemed to be Principal Proceeds and credited to the Principal Collection Account.

(iv) Payments of Additional Fixed Amounts. If on any Business Day, the Issuer receives Additional Fixed Amounts, the Issuer shall allocate (i) any Interest Shortfall Reimbursement Payment Amount, into the Interest Collection Account as Interest Proceeds and (ii) any Writedown Reimbursement Payment Amount and any Principal Shortfall Reimbursement Payment Amount into the Synthetic Security Collateral Account.

(v) Termination or Novation of a Synthetic Security. If on any Business Day, (A)(x) there is an early termination of a Synthetic Security resulting from a termination event or an event of default pursuant to the terms of the related Synthetic Security, and (y) the Issuer is the Defaulting Party or sole Affected Party (as such term is defined in the related Synthetic Security) and (z) as a result of the termination of the Synthetic Security, a termination payment is due to the Synthetic Security Counterparty or (B) the Issuer novates a Synthetic Security and a payment is due to the replacement synthetic swap counterparty (such amount, the **"Synthetic Security Termination/Novation Payment (Issuer)"**) the Trustee shall, on behalf of the Issuer, and pursuant to written instruction of the Collateral Manager, subject to the procedures set forth in the Indenture:

(A) withdraw from the Synthetic Security Collateral Account (including, at the Collateral Manager's discretion, by withdrawing the necessary amount from the Investment Agreement) an amount equal to the lesser of (1) the amount credited to the Synthetic Security Collateral Account and (2) the Synthetic Security Termination/Novation Payment (Issuer); and

(B) if the amount withdrawn under (A) above is less than the Synthetic Security Termination/Novation Payment (Issuer), withdraw from the Principal Collection Account an amount equal to the lesser of (1) the amount credited to the Principal Collection Account and (2) the Synthetic Security Termination/Novation Payment (Issuer) less the amounts withdrawn pursuant to clause (A).

(vi) Payment of amounts due under the Offsetting Transactions. Any payments due to the Offsetting Transaction Counterparty in connection with the Disposition of an Offsetting Transaction will be made from (i) the amount received by the Issuer in respect of the Disposition of the related Synthetic Security (for the avoidance of doubt, no Disposition of Offsetting Transactions may occur unless the Issuer procures a corresponding Disposition of the respective Synthetic Security), (ii) (a) from the Synthetic Security Collateral Account and (b) from Principal Proceeds, provided that after the application of (a) and (b) the Overcollateralization Ratios remain at or above their levels as of the Effective Date and (iii) from Interest Proceeds. If the aggregate of (i), (ii) and (iii) above is less than the amount that would be payable to the Offsetting Transaction Counterparty in connection with the Disposition of an Offsetting Transaction, then such Disposition (together with the Disposition of the corresponding amount of the related Synthetic Security) shall only be effected in respect of a proportion of the relevant Offset Transaction such that the aggregate of (i), (ii) and (iii) is greater than or equal to the amount that would be payable to the Offsetting Transaction Counterparty in connection with such Disposition.

The Trustee, on behalf of the Issuer, shall pay from such proceeds any amounts due to the Synthetic Security Counterparty of the related Synthetic Security (other than with respect to a termination event or event of default where the Synthetic Security Counterparty is the Defaulting Party or Affected Party (as such term is defined in the Synthetic Security)).

Floating Payments Payable by the Issuer. With respect to each Synthetic Security executed substantially in the form as shown in **Schedule H**, **Schedule I**, **Schedule J** or in **Schedule K**, the Issuer shall pay to the Synthetic Security Counterparty on each Floating Rate Payer Payment Date the **"Floating Payment"** applicable to such Synthetic Security as calculated by the Synthetic Security Calculation Agent and confirmed by the Trustee, which shall equal the related Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount, as applicable.

"Writedown Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Writedown on such date, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Amount" which means, with respect to a Failure to Pay Principal, the greater of (i) zero; and (ii) the product of (a) the Expected Principal Amount minus the Actual Principal Amount, (b) the Applicable Percentage and (c) the Reference Price. If the Principal Shortfall Amount would not be greater than the Notional Amount immediately prior to the occurrence of a Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Notional Amount at such time.

"Interest Shortfall Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the greater of (a) zero and (b) the product of (i) the Expected Interest Amount minus the

Actual Interest Amount and (ii) the Applicable Percentage; *provided* that the Interest Shortfall Amount shall be subject to a "Fixed Cap" or other similar provision such that the Interest Shortfall Amount payable with respect to an interest period shall be limited to the Fixed Amount payable by the relevant Synthetic Security Counterparty.

"Expected Interest Amount" means, with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a Principal/Notional Balance of the Reference Obligation equal to the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation. Except as provided in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

"Actual Interest Amount" means, with respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under Reference Obligation including, without limitation, any deferred interest, defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments; *provided, however*, that in the case of the first Reference Obligation Calculation Period, such Reference Obligation Calculation Period shall commence on and include the Effective Date of such Synthetic Security.

"Floating Rate Payer Payment Date" has the meaning specified in the related Synthetic Security, but will generally mean the first Fixed Rate Payer Payment Date falling at least two Business Days after delivery of a notice by the Calculation Agent to the Synthetic Security Counterparty and the Issuer or the Synthetic Security Counterparty to the Issuer that the related Floating Amount is due.

Additional Fixed Amounts Payable by the Synthetic Security Counterparty. With respect to each Synthetic Security executed in the form as shown in **Schedule H**, in the form as shown in **Schedule I**, in the form as shown in **Schedule J** or in the form as shown in **Schedule K**, in addition to the Fixed Amounts, the Synthetic Security Counterparty shall pay to the Issuer "Additional Fixed Amounts" consisting of:

(a) the payment of an Actual Interest Amount that is greater than the Expected Interest Amount multiplied by the Applicable Percentage subject to the Fixed Cap (such reimbursement amount the **"Interest Shortfall Reimbursement Payment Amount"**);

(b) the Writedown Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic Security Counterparty of the existence of a Writedown Reimbursement (such reimbursement amount, the **"Writedown Reimbursement Payment Amount"**); *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns; and

(c) the Principal Shortfall Reimbursement Amount specified by the Synthetic Security Calculation Agent in its notice to the parties or the Issuer in its notice to the Synthetic Security Counterparty of the existence of a Principal Shortfall Reimbursement (such reimbursement amount, the **"Principal Shortfall Reimbursement Payment Amount"**); *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the Aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal.

"Writedown Reimbursement" means, with respect to any day, the occurrence of either (a) a payment in respect of the Reference Obligation in reduction of any prior Writedowns or (b) (i) an increase in the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns or (ii) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation).

"Writedown Reimbursement Amount" means, with respect to any day the product of (a) the sum of all Writedown Reimbursements on that day (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement Amount" means, with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Principal Shortfall Reimbursement, (b) the Applicable Percentage and (c) the Reference Price.

"Principal Shortfall Reimbursement" means, with respect to any Reference Obligation Payment Date, the payment of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

Credit Events. **"Credit Event"** means, solely with respect to Reference Obligations that are RMBS Securities, with respect to any Reference Obligation, the occurrence of a:

(i) **"Failure to Pay Principal"**, means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid;

(ii) **"Writedown"**, means the occurrence at any time on or after the Effective Date of: (i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; or (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount;

(iii) **"Distressed Ratings Downgrade"**, which means that the Reference Obligation, on any date of determination:

(a) if publicly rated by Moody's,

(i) is downgraded to "Caa2" or below by Moody's or

(ii) has the rating assigned to it by Moody's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three (3) calendar months of such withdrawal; or

(b) if publicly rated by Standard & Poor's,

(i) is downgraded to "CCC" or below by Standard & Poor's or

(ii) has the rating assigned to it by Standard & Poor's withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three (3) calendar months of such withdrawal; or

(c) if publicly rated by Fitch Ratings Inc. (**"Fitch"**),

(i) is downgraded to "CCC" or below by Fitch or

(ii) has the rating assigned to it by Fitch withdrawn and, in each case, not reinstated within five (5) Business Days of such downgrade or withdrawal; *provided*, however, if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three (3) calendar months of such withdrawal.

Downgrade of the Synthetic Security Counterparties. If a Synthetic Security Counterparty or its guarantor fails to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, such Synthetic Security Counterparty may be required to post collateral, obtain a guaranty from a guarantor with the required rating, or assign its rights and obligations under each related Synthetic Security to a replacement synthetic security counterparty satisfying the ratings requirements specified by each of the Rating Agencies for the synthetic security counterparty and, if the Synthetic Security Counterparty does not, within thirty (30) days of such failure (or where the Synthetic Security

Counterparty fails to maintain certain lower rating levels described in the Schedule to the ISDA Master Agreement, it does not, within 10 days of such failure) take such action, the Issuer will be permitted to terminate each such Synthetic Security.

If and to the extent that the Synthetic Security Counterparty posts collateral to secure its obligations under the related Synthetic Security due to failure to maintain certain rating levels described in the Schedule to the ISDA Master Agreement, the Trustee shall establish a Synthetic Security Issuer Account. The Trustee shall credit to the Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty. Except for investment earnings, the Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in the related Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law.

Governing Law. Each Synthetic Security will state that it will be governed by, and will be construed in accordance with, the laws of the State of New York without regard to any conflicts of laws principle. Each of the Issuer and the Synthetic Security Counterparty will be required to submit to the jurisdiction of the New York courts in connection with each Synthetic Security, and the Issuer is expected to appoint CT Corporation System to accept service of process on its behalf.

Investments in Synthetic Securities present risks in addition to those associated with other types of Underlying Assets. See "Risk Factors—Nature of the Underlying Assets" and "—Synthetic Securities".

Offsetting Transactions

The Issuer may from time to time, subject to compliance with the Collateral Quality Tests, enter into credit default swaps with one or more Offsetting Transaction Counterparties, to the extent required in order to hedge all or part of its credit exposure (determined as set out below) to obligors under Synthetic Securities (each such transaction, as **"Offsetting Transaction"**). In the event that any such Offsetting Transaction is entered into in respect of all or part of a Synthetic Security, such Synthetic Security (or part thereof) will no longer be considered a Synthetic Security (the amount of such Synthetic Security so offset, the **"Offset Transaction"**).

An Offsetting Transaction shall hedge all or part of the Issuer's credit exposure if, in the reasonable judgment of the Collateral Manager acting on behalf of the Issuer, such Offsetting Transaction hedges the Issuer's risk of loss (in whole or in part) with respect to the relevant Synthetic Security and the Offsetting Transaction relates to the same Reference Obligation and provides for all obligations thereunder to have substantially the same characteristics as obligations specified in such Synthetic Security (other than premium payable).

[Each Offsetting Transaction and Offset Transaction will include cross-default provisions providing that, in the case of an Offsetting Transaction, following an event of default or termination event with respect to an Offset Transaction, the related Offsetting Transaction will terminate and that, in the case of an Offset Transaction, following an event of default or termination event with respect to an Offsetting Transaction, the related Offset Transaction will terminate.]

The fixed amounts payable with respect to an Offsetting Transaction must be less than or equal to the fixed amounts payable with respect to the related Synthetic Security and in certain circumstances the Issuer may be required to make an upfront payment to the Offsetting Transaction Counterparty.

An Offsetting Transaction may only hedge a component in the related Offset Transaction that prior to such offset was a Synthetic Security. For the avoidance of doubt hedging an Offset Transaction with additional Offsetting Transactions is not allowed.

An Offsetting Transaction may only be Disposed if the long component of the related Offset Transaction is simultaneously Disposed. An Offsetting Transaction must be immediately Disposed if the related Offset Transaction is Disposed.

Any payments received by the Issuer under an Offsetting Transaction that is a component of an Offset Transaction will be netted against payments paid by the Issuer under the opposite component.

The acquisition of any Offsetting Transaction will be subject to the Rating Agency Condition except where such Offsetting Transaction is a Form Approved Short Synthetic Confirmation. The fixed amount payable under any Offsetting Transaction acquired by the Issuer will be paid on an ongoing basis from Interest Proceeds; provided that the acquisition of such Offsetting Transaction will be subject to compliance with the Weighted Average Spread Test or, if the Weighted Average Spread Test is not in compliance prior to such acquisition, would result in the Weighted Average Spread Test being maintained or improved, if recalculated after giving effect to acquisition of such Offsetting Transaction; and provided further that such fixed amounts may only be paid out of Interest Proceeds.

Upon the occurrence of a Credit Event under an Offsetting Synthetic Transaction, the Physical Settlement Amount or any cash settlement amount receivable by the Issuer will be paid into the Principal Collection Account, except to the extent that such amounts are offset against any amount payable by the Issuer.

Notwithstanding anything to the contrary herein:

(1) Offset Transactions and the related Offsetting Transactions will not be considered Assets for purposes of the Collateral Quality Tests other than the Weighted Average Spread Test; and

(2) for the purposes of the Eligibility Criteria, neither the Offset Transactions nor the Offsetting Transactions will be considered.

The Collateral Quality Tests

The Collateral Quality Tests will be used to establish that the characteristics of the Issuer's portfolio on the Closing Date satisfy certain threshold levels and, following the Closing Date, to determine whether trading of the Underlying Assets is permitted. The **"Collateral Quality Tests"** are the Standard & Poor's Minimum Weighted Average Recovery Rate Test, the Moody's Asset Correlation Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Moody's Weighted Average Rating Factor Test, the Weighted Average Coupon Test, the Weighted Average Spread Test and the Weighted Average Life Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required on the Closing Date and on each Measurement Date. For purposes of the Weighted Average Coupon Test and Weighted Average Spread Test, a Synthetic Security will be included as an Underlying Asset having the characteristics of the Synthetic Security and not of the related Reference Obligation. A failure by the Issuer to satisfy a Collateral Quality Test will not result in an Event of Default under the Indenture.

Ratings of Underlying Assets. The **"Standard & Poor's Rating"** of any Underlying Asset will be determined as described on **Schedule C** hereto. The **"Moody's Rating"** of any Underlying Asset will be determined as described on **Schedule D** hereto.

Standard & Poor's Minimum Weighted Average Recovery Rate Test. The **"Standard & Poor's Minimum Weighted Average Recovery Rate Test"** will be satisfied on the Closing Date or any Measurement Date if the Standard & Poor's Weighted Average Recovery Rate is greater than or equal to

(a) with respect to the Class A-1 Notes, []%,

(b) with respect to the Class A-2 Notes, []%,

(c) with respect to the Class B Notes, []%,

(d) with respect to the Class C Notes, []%,

(e) with respect to the Class D Notes, []% and

(f) with respect to the Class E Notes, []%.

The **"Standard & Poor's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset by its Standard & Poor's Applicable Recovery Rate, *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place. The "Standard & Poor's Applicable Recovery Rate" means, with respect to any Underlying Asset, an amount equal to the percentage for such Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) set forth in the Standard & Poor's Recovery Matrix attached as **Schedule E** in (a) the applicable table, (b) the row in such table opposite the Standard & Poor's Rating of such Underlying Asset as of the date of issuance of such Underlying Asset and (c)(i) for purposes of determining the Standard & Poor's Recovery Rate, the column in such table below the current rating of the respective Class of Notes or (ii) for purposes of determining the Calculation Amount, the column in such table below the current rating of the most senior Class of Notes outstanding.

Standard & Poor's CDO Evaluator. The **"Standard & Poor's CDO Evaluator"** means the dynamic, analytical computer model developed by Standard & Poor's and used to estimate default risk of Underlying Assets and provided to the Collateral Manager and the Trustee on or before the Closing Date, as it may be modified by Standard & Poor's from time to time and provided to the Collateral Manager and the Trustee following the Closing Date.

Moody's Asset Correlation Test. The **"Moody's Asset Correlation Test"** means a test which will be satisfied as of the Closing Date or any Measurement Date if the Moody's Correlation Factor is equal to or less than []%; *provided* that a single-obligation Synthetic Security will be included as an Asset-Backed Security having the characteristics of the related Reference Obligation (and the issuer thereof will be deemed to be the related Reference Obligor and not the Synthetic Security Counterparty). For the purpose of this test, the number of assets is [].

"Moody's Correlation Factor" means [].

Moody's Minimum Weighted Average Recovery Rate Test. The **"Moody's Minimum Weighted Average Recovery Rate Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Recovery Rate is greater than or equal to []%.

The **"Moody's Weighted Average Recovery Rate"** is the number obtained by *summing* the products obtained by *multiplying* the Principal/Notional Balance of each Underlying Asset (excluding any Defaulted Asset) by its applicable recovery rate (determined for purposes of this definition in accordance

with **Schedule F**), *dividing* such sum by the Aggregate Principal/Notional Balance of all such Underlying Assets, *multiplying* the result by 100 and rounding up to the first decimal place.

Moody's Weighted Average Rating Factor Test. The **"Moody's Weighted Average Rating Factor Test"** will be satisfied as of the Closing Date or any Measurement Date if the Moody's Weighted Average Rating Factor of the Underlying Assets is equal to a numerical value of not more than [].

The **"Moody's Weighted Average Rating Factor"** is the number determined by *dividing:*

(a) the summation of the series of products obtained for any Underlying Asset that is not a Defaulted Asset, by *multiplying* (i) the Principal/Notional Balance of each such Underlying Asset by (ii) its respective Moody's Rating Factor, by

(b) the sum of the Aggregate Principal/Notional Balance of all Underlying Assets that are not Defaulted Securities.

Weighted Average Coupon Test. The **"Weighted Average Coupon Test"** will be satisfied on the Closing Date or any Measurement Date if the Weighted Average Coupon is greater than or equal to the percentage specified in the table below with respect to such date.

Date	Test Percentage
[]	[]
[]	[]
[]	[]
[]	[]
[]	[]

The **"Weighted Average Coupon"** is the number (rounded up to the next 0.01%) obtained by (i) summing the products obtained by *multiplying* (A) the current interest rate on each Underlying Asset that is a Fixed Rate Security (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Bonds) by (B) the Principal/Notional Balance of each such Underlying Asset and (ii) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Bonds).

Weighted Average Spread Test. The **"Weighted Average Spread Test"** will be satisfied as of the Closing Date or any Measurement Date if the Weighted Average Spread is greater than or equal to the percentage specified in the table below with respect to such date.

Date	Test Percentage
[]	[]
[]	[]
[]	[]

[]	[]
[]	[]

The **"Weighted Average Spread"** is the number (rounded up to the next 0.01%) obtained by (a) summing the products obtained by *multiplying* (i) the spread above the floating rate index at which interest accrues on each Underlying Asset or Offset Transaction (in an amount equal to the difference, if any, between the spread of the long component of such Offset Transaction and that of the related Offsetting Transaction) that is a Floating Rate Security or the Fixed Amount applicable to a Synthetic Security (in each case, other than a Defaulted Asset, Written Down Security or Deferred Interest PIK Bond) as of such date by (ii) the Principal/Notional Balance of such Underlying Asset or Offset Transaction as of such date, and (b) *dividing* such sum by the Aggregate Principal/Notional Balance of all Underlying Assets that are Floating Rate Securities (excluding all Defaulted Securities, Written Down Securities and Deferred Interest PIK Bonds).

The **"Weighted Average Life Test"** will be satisfied as of the Closing Date or any Measurement Date during any period set forth below if the Weighted Average Life of all Underlying Assets as of such Measurement Date is less than or equal to the number of years set forth in the table below.

On any Measurement Date during the Reinvestment Period	[] years
Thereafter	[] years

"Weighted Average Life" means, on any Measurement Date with respect to any Underlying Asset, the number obtained by (i) summing the products obtained by multiplying (a) the Average Life at such time of each Underlying Asset (excluding Defaulted Assets) by (b) the Principal/Notional Balance of such Underlying Assets and (ii) dividing such sum by the Aggregate Principal/Notional Balance at such time of all Underlying Assets. For the purpose of this definition, with respect to the Synthetic Securities, calculations will be made with respect to related Reference Obligation.

"Average Life" means on any Measurement Date with respect to any Underlying Asset (provided that, with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive distribution of principal of such Underlying Asset (other than a Defaulted Asset) (assuming that (A) no collateral defaults or is sold, (B) prepayment of any Underlying Asset during any month occurs (a) at the rate of prepayment assumed at the time of issuance of such Underlying Asset or (b) at the prospectus pricing curve or other similar rate as determined by the Collateral Manager in its reasonable business judgment and (C) any clean-up call, auction call or similar redemption of the Underlying Asset occurs in accordance with its terms), and (b) the respective amounts of principal of such distributions by (ii) the sum of all successive distributions of principal on such Underlying Asset (other than a Defaulted Asset).

Closing Date Portfolio

The portfolio of Underlying Assets acquired (or committed to be acquired for settlement in accordance with customary settlement procedures in the relevant markets) by the Issuer on or prior to the Closing Date has the following characteristics (as of [] 2007):

Aggregate Principal/Notional Balance	(1)	U.S.$[ ]
Fixed Rate Securities	(2)	[ ]% of the Net Outstanding Underlying Asset Balance
Floating Rate Securities	(3)	[ ]% of the Net Outstanding Underlying Asset Balance
Top Issue Concentration	(4)	[]
Top Servicer Concentration	(5)	[]
Standard & Poor's Weighted Average Recovery Rate	(6)	(a) with respect to the Class A-1 Notes, [ ]% (b) with respect to the Class A-2 Notes, [ ]% (c) with respect to the Class B Notes, [ ]% (d) with respect to the Class C Notes, [ ]% (e) with respect to the Class D Notes, [ ]% (f) with respect to the Class E Notes, [ ]%
Weighted Average Coupon	(7)	[ ]%
Weighted Average Spread	(8)	[ ]%
Weighted Average Life	(9)	[ ]
Moody's Correlation Factor	(10)	[ ]%
Moody's Weighted Average Recovery Rate	(11)	[ ]%
Moody's Weighted Average Rating Factor	(12)	[ ]

The Issuer may not acquire any Underlying Asset unless such acquisition is made on an "arm's-length basis" for fair market value.

Disposition

Underlying Assets may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Underlying Assets. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing and subject to the conditions set forth in paragraphs (1) through (5) in the section "*Disposition of Underlying Assets*" below, the Collateral Manager may Dispose of any (i) Defaulted Asset,

(ii) Equity Security, (iii) Credit-Risk Asset, (iv) Credit Improved Asset, (v) other Underlying Assets Disposed of pursuant to paragraph (4) below and (vi) any Underlying Asset that is subject to withholding as described below.

"Disposition" means one of the following:

(i) in the case of any Asset-Backed Security, Equity Security, Defaulted Asset, Written Down Security or Eligible Investment, the sale thereof by the Collateral Manager, acting on behalf of the Issuer;

(ii) in the case of any Synthetic Security, the termination or novation thereof by agreement between the parties thereto; or

(iii) in respect of any Underlying Asset, the entry by the Issuer into an Offsetting Transaction in respect of such Underlying Asset.

References to "Dispose" and "Disposed" will be construed accordingly.

"Disposition Proceeds" means:

(i) in the case of any Asset-Backed Security, Equity Security, Eligible Investment, Defaulted Asset or Written Down Security, the net proceeds of sale by agreement between the parties thereto, the amounts received by the Issuer from the applicable counterparty, excluding any amounts included in such proceeds that represent accrued and unpaid interest save to the extent that such amounts are designated as Principal Proceeds by the Collateral Manager, acting on behalf of the Issuer, in connection with such sale; or

(ii) in the case of any Synthetic Security that is terminated or novated by agreement between the parties thereto:

(a) solely for the purposes of applying paragraphs (1) through (5) in the section "Disposition of Assets" below, an amount equal to the Principal/Notional Balance thereof, *plus* or *minus* any mark-to-market amounts payable or received by the Issuer upon such termination or novation; and

(b) in all other cases, any mark-to-market amounts payable or received by the Issuer upon such termination or novation.

Disposition of Underlying Assets

Defaulted Assets and Equity Securities

(1) Subject to the provisions of the immediately following sentence, the Collateral Manager on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Defaulted Asset or an Equity Security; it being agreed in the Indenture, however, that notwithstanding any of the foregoing, (A) the Issuer will be obligated to complete the Disposition of any Defaulted Asset (i) within one year of the date on which it was so determined to be a Defaulted Asset, (ii) subject to the satisfaction of the Rating Condition with respect to Moody's only, within two years of the date on which it was determined to be a Defaulted Asset or (iii) if applicable, within two years of such later date on which

such Defaulted Asset may first be Disposed of in accordance with its terms or under applicable law; (B) the Issuer will be obligated to complete the Disposition of any Equity Security received in exchange for a Defaulted Asset (i) within one year of the date on which the related Underlying Asset was so determined to be a Defaulted Asset or (ii) if applicable, within one year of such later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law; and (C) the Issuer will be obligated to complete the Disposition of any other kind of Equity Security (i) within five Business Days of the Issuer's receipt thereof or (ii) if applicable, within five Business Days of any later date on which such Equity Security may first be Disposed of in accordance with its terms or under applicable law.

Credit-Risk Assets

(2) The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit-Risk Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Risk Asset unless, in connection with the Disposition of such Credit-Risk Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* such Disposition Proceeds may not be reinvested, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset, within [180] days after such Credit-Risk Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance that, together with accrued interest thereon, is at least equal to the Disposition Proceeds arising from the Disposition of such Credit-Risk Asset being Disposed of and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Risk Asset and acquire one or more additional Underlying Assets pursuant to this paragraph unless, *additionally*, (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating respectively of the Credit-Risk Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Risk Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to

such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Credit-Improved Assets

(3) Credit-Improved Assets. The Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of any Underlying Asset that the Collateral Manager, acting on behalf of the Issuer, determines to be (and which the Collateral Manager certifies in writing to the Trustee that it has determined to be) a Credit Improved Asset and, if applicable, to acquire additional Underlying Assets in accordance with clause (B) below. The Collateral Manager may not direct the Trustee to Dispose of any Underlying Asset that it determines to be a Credit-Improved Asset unless, in connection with the Disposition of such Credit-Improved Asset, the Collateral Manager will certify in writing to the Trustee that:

(A) at the direction of the Collateral Manager, the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset shall be transferred to the Principal Collection Account to be applied in accordance with the Priority of Payments; *provided that* (i) such Disposition Proceeds may not be reinvested and (ii) such Disposition Proceeds must be at least equal to the par value of the Credit-Improved Asset Disposed, or

(B) the Collateral Manager believes that the Issuer will be able to reinvest the Disposition Proceeds arising from the Disposition of such Credit-Improved Asset, within [180] days after such Credit-Improved Asset is Disposed of, in one or more additional Asset-Backed Securities or Synthetic Securities having an Aggregate Principal/Notional Balance at least equal to the Aggregate Principal/Notional Balance of the Credit-Improved Asset to be Disposed, and the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition; *provided however* that after the Reinvestment Period, the Issuer may not Dispose of a Credit-Improved Asset and acquire another Underlying Asset pursuant to this paragraph unless, *additionally*, (i) the Collateral Quality Tests are in compliance, (ii) the Underlying Asset proposed to be acquired shall have a Moody's Rating and a Standard & Poor's Rating at least equal to the Moody's Rating and the Standard & Poor's Rating, respectively, of the Credit-Improved Asset to be Disposed, (iii) the weighted average life of the Underlying Asset(s) proposed to be acquired following such Disposition shall be no more than two years greater than the weighted average life of the Credit-Improved Asset to be Disposed and (iv)(A) all Coverage Tests are satisfied prior to such Disposition, (B) the Collateral Manager believes that, after giving effect to such Disposition and the

subsequent acquisition described in this paragraph all Coverage Tests will be satisfied and the level of each Coverage Test will be at least equal to its level prior to such Disposition and (C) the level of the Class D Overcollateralization Test is at least equal to [].

Discretionary Trading

(4) At any time during the Reinvestment Period, the Collateral Manager, on behalf of the Issuer, may direct the Trustee in writing to Dispose of (and acquire if applicable), and the Trustee shall Dispose of (and acquire, if applicable) in the manner so directed by the Collateral Manager, acting on behalf of the Issuer, in writing, any Underlying Asset if, in connection with the Disposition of such Underlying Asset and the acquisition of another Underlying Asset, as applicable, the Collateral Manager shall certify in writing to the Trustee that:

(i) the Collateral Manager believes in good faith that Disposition Proceeds relating to such Underlying Asset can be reinvested within [180] days after the Disposition of such Underlying Asset in one or more additional Underlying Assets such that the Aggregate Principal/Notional Balance of such additional Underlying Assets is greater than or equal to the Principal/Notional Balance of the Underlying Asset to be so Disposed,

(ii) the Aggregate Principal/Notional Balance of all Underlying Assets Disposed of pursuant to this paragraph during any calendar year (including the period from the Closing Date to the end of calendar year 2007), does not exceed [20]% of the Net Outstanding Asset Balance as of the first day of such period (excluding, for the purposes of such calculation, the Disposition of any Credit-Risk Assets, Credit-Improved Assets, Defaulted Assets, Equity Securities and Withholding Securities and any Underlying Asset Disposed by the entry of the Issuer into an Offsetting Transaction with respect to such Underlying Asset),

(iii) the Collateral Manager believes that after giving effect to such Disposition and the subsequent acquisition, the level of each of the Collateral Quality Tests and Eligibility Criteria is maintained or improved as compared to the test levels prior to such Disposition and subsequent acquisition;

(iv) and Moody's has not reduced the long term rating of any Class of Notes below the long term rating in effect on the Closing Date by one or more major rating categories.

Underlying Assets Subject to Withholding

(5) Notwithstanding any of the limitations prescribed by the preceding paragraphs, if no Event of Default has occurred and is continuing, the Collateral Manager, on behalf of the Issuer, may, at any time, direct the Trustee in writing to Dispose of any Underlying Asset (regardless of whether such Underlying Asset is or can be characterized as, or

determined to be, a Defaulted Asset, an Equity Security, a Credit-Risk Asset or a Credit Improved Asset) if the Collateral Manager shall certify in writing to the Trustee that, based upon an opinion of counsel addressed to the Issuer and the Collateral Manager, the Collateral Manager, acting on behalf of the Issuer, has determined, that such Underlying Asset is, or may become, subject to withholding or other similar taxes.

In addition, during and after the Reinvestment Period, the Issuer, at the direction of the Collateral Manager, may also enter into Offsetting Transactions; *provided that* each Offsetting Transaction will be treated as a Disposition of the related Underlying Asset, meaning that Offsetting Transactions will be deemed to be discretionary and not in connection with the Disposition of Defaulted Assets, Equity Securities, Credit-Risk Assets, Credit-Improved Assets and Withholding Securities shall only occur during the Reinvestment Period.

Any Disposition of an Underlying Asset will be conducted on an "arm's length basis" for fair market value and in accordance with the requirements of the Management Agreement, and, if effected with the Issuer, the Trustee, a Designated Party or any Affiliate of any of the foregoing, will be effected in a secondary market transaction on terms at least as favorable to the Noteholders as would be the case if such person were not so affiliated; *provided* that, after the Closing Date, the Collateral Manager on behalf of the Issuer shall not direct the Trustee to acquire directly any Asset-Backed Security or a Synthetic Security for inclusion in the Collateral from any account or portfolio for which the Collateral Manager serves as investment advisor or direct the Trustee to Dispose of directly any Underlying Asset to any account or portfolio for which the Collateral Manager serves as investment advisor unless such acquisition or Disposition complies with all material requirements of any applicable laws. The Trustee will have no responsibility to oversee or ensure compliance with the above conditions by the other parties. Any Disposition Proceeds arising out of the Disposition of an Asset-Backed Security that are deposited in the Disposition Proceeds Account to be reinvested in other Underlying Assets within [180] days following such Disposition. Following such [180] day period, if such Disposition Proceeds have not been reinvested in any substitute Underlying Asset and remain in the Disposition Proceeds Account, such Disposition Proceeds shall be deposited in the Principal Collection Account and applied in accordance with the Priority of Payments.

During the Reinvestment Period, Principal Proceeds may be reinvested in additional Asset-Backed Securities or additional Synthetic Securities, or used to purchase Eligible Investments, in each case in accordance with the reinvestment criteria set forth under "*—Eligibility Criteria*".

In addition, during the Reinvestment Period, the Collateral Manager may direct the Trustee to apply, by transferring such amount or portion thereof from the Synthetic Collateral Account to the Principal Collection Subaccount, on any Distribution Date to pay the amounts set forth in clauses (1) through (3) under the Principal Proceeds Priority of Payments, to the extent such amounts are not paid with Principal Proceeds listed in clauses (1) through (11) and (14) of the definition thereof and/or on any date as directed by the Issuer to acquire additional Asset-Backed Securities or additional Synthetic Securities, in each case, in accordance with the reinvestment criteria set forth under "*The Accounts—Synthetic Collateral Accounts*" (unless, at the sole and absolute discretion of the Collateral Manager, such amount is to be treated as Principal Proceeds and applied in accordance with the Priority of Payments for Principal Proceeds).

Certain Definitions

"**Average Life**" means on any Measurement Date on or after the Closing Date with respect to any Underlying Asset (*provided*, that with respect to any Synthetic Security, such determination will be made with respect to the related Reference Obligation), the quotient obtained by dividing (i) the sum of the

products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive scheduled distribution of principal of such Underlying Asset (other than a Defaulted Asset or Deferred Interest PIK Bond) (assuming that (A) no collateral defaults or is sold except those that have already defaulted or been sold, (B) prepayment of any Underlying Asset during any month occurs (x) with respect to an Underlying Asset issued no more than six months prior to such Measurement Date, at the rate of prepayment assumed at the time of issuance of such Underlying Asset and (y) with respect to an Underlying Asset issued more than six months prior to such Measurement Date, at the average rate of prepayment observed over the six months immediately preceding such Measurement Date based on available transaction reporting data (and if such data is unavailable, at the assumed constant prepayment rate or prepayment curve set out in the offering document for such Underlying Asset, as determined by the Collateral Manager in its reasonable business judgment), (C) any clean up call, auction call or similar redemption (but not optional redemption) of the Underlying Asset occurs in accordance with the terms of the relevant Underlying Asset and (D) no optional redemption occurs), and (b) the respective amounts of principal of such scheduled distributions by (ii) the sum of all successive scheduled distributions of principal on such Underlying Asset (other than a Defaulted Asset or Deferred Interest PIK Bond).

"Credit-Improved Asset" means any Asset-Backed Security or Synthetic Security (in which case such determination will be made with respect to the related Reference Obligation) (excluding in each case the long component of any Offset Transaction) that is in compliance with at least one of the following criteria (the **"Credit-Improved Criteria"**):

(a) so long as the long term ratings of the Class A-1 Notes, Class A-2 Notes or the Class B Notes have not been downgraded by one or more rating sub-categories by Moody's and so long as the long term ratings of the Class C Notes, the Class D Notes or the Class E Notes have not been downgraded by two or more rating sub-categories by Moody's (and such ratings have not been restored), the Collateral Manager, acting on behalf of the Issuer, has determined in a commercially reasonable manner (which determination may not be called into question as a result of subsequent events) that: (i) the issuer of such Asset-Backed Security or the issuer of the Reference Obligation related to such Synthetic Security, as applicable, in the commercially reasonable judgment of the Collateral Manager, acting on behalf of the Issuer, has shown improved financial results; (ii) the transferor, originator, obligor of or insurer of such Asset-Backed Security or of the Reference Obligation related to such Synthetic Security, as applicable, since the date on which such Asset-Backed Security or Synthetic Security was purchased or entered into, as applicable, by the Issuer has raised significant equity capital or has raised other capital that has improved the liquidity or credit standing of such transferor, originator, obligor or insurer; (iii) in the case of an Asset-Backed Security, there has occurred a significant improvement in the underlying pool of assets or an increase in the level of subordination; or (iv) such Asset-Backed Security or the Reference Obligation related to such Synthetic Security, as applicable, has decreased its spread over the interest rate on the applicable U.S. Treasury Benchmark by an amount exceeding [0.50]% for fixed rate assets or by an amount exceeding [0.25]% over the relevant rate index for floating rate assets or has increased in price to [102]% or more of its original purchase price paid by the Issuer due primarily to credit related reasons as determined by the Collateral Manager, acting on behalf of the Issuer, in each case, since it was acquired by the Issuer; and

(b) (i) the Collateral Manager, acting on behalf of the Issuer, believes, in the Collateral Manager's commercially reasonable judgement (which belief may not be called into question as a result of subsequent events) that the Underlying Asset or such related Reference Obligation, as applicable, has substantially improved in credit quality and (ii) such Underlying Asset or such related Reference Obligation, as applicable, has been upgraded or put on a watch list for possible upgrade by one or more rating sub-categories by one or more Rating Agencies since the date on which it was acquired or entered

into by the Issuer; it being agreed in the Indenture that only clause (2) of the definition of "Credit Improved Criteria" will apply if the long term ratings of Class A- Notes, Class A-2 Notes or the Class B Notes have been downgraded by one or more rating sub-categories by Moody's or the long term rating of the Class C Notes, the Class D Notes or the Class E Notes have been downgraded by two or more rating sub categories by Moody's.

"Credit-Risk Asset" means any Underlying Asset with respect to which (a) during any period which is not a Restricted Trading Period, its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset or if (i) in the reasonable business judgment of the Collateral Manager (which judgment shall not be called into question as a result of subsequent events), has a significant risk of declining in credit quality or, over time, becoming a Defaulted Asset or (ii) it is deferring interest or is a Written Down Security; or (b) during any period which is a Restricted Trading Period, (i) its rating has been downgraded, qualified or withdrawn by Standard & Poor's, Moody's or Fitch or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Underlying Asset, (ii) has experienced an increase in credit spread over the applicable U.S. Treasury Benchmark, the applicable swap benchmark or the applicable LIBOR by (x) [ ]% or more if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was greater than [1.50]% or (y) [0.20]% if the original credit spread (as of the date on which such Underlying Asset was first included in the portfolio) was less than or equal to [1.50]%, or (iii) it is deferring interest or is a Written Down Security.

"Equity Security" means any equity security which is acquired by the Issuer as a result of the exercise or conversion of an Underlying Asset, in conjunction with the purchase of an Underlying Asset or in exchange for a Defaulted Asset and which does not entitle the holder thereof to receive periodic payments of interest and one or more installments of principal.

"Initial Rating" means (i) with respect to the Class A-1 Notes and the Class A-2 Notes, "Aaa" by Moody's and "AAA" by Standard & Poor's, (ii) with respect to the Class B Notes, "Aa2" by Moody's and "AA" by Standard & Poor's, (iii) with respect to the Class C Notes, "A2" by Moody's and "A" by Standard & Poor's; (iv) with respect to the Class D Notes, "Baa2" by Moody's and "BBB" by Standard & Poor's, and (v) with respect to the Class E Notes, "Ba1" by Moody's and "BB+" by Standard & Poor's.

"Investment Grade" means a security with a Moody's Rating of at least "Baa3" by Moody's and a Standard & Poor's Rating of at least "BBB-".

"Restricted Trading Period" means each day during which (a) the Moody's rating of the Class A Notes or Class B Notes is one or more subcategories below its Initial Rating, or (b) the Moody's rating of the Class C Notes, the Class D Notes or the Class E Notes is two or more sub-categories below its Initial Rating; unless the holders of a majority in aggregate outstanding principal amount of the Controlling Class has directed the Issuer to waive the Restricted Trading Period (which waiver may be rescinded by the Controlling Class at any time that such rating requirement is not satisfied).

An Underlying Asset will be a **"Withholding Security"** if the related trustee or paying agent informs the Issuer, Trustee or Collateral Manager that it intends to withhold, or actually does withhold from payment on such Underlying Asset, amounts in respect of withholding taxes.

"writing" or **"written"** shall include electronic mail.

Notwithstanding anything to the contrary set forth in this section "—Disposition of Underlying Assets," the Issuer will have the right to effect any transaction that has been consented to by holders of Notes evidencing 100% of the aggregate outstanding principal amount of each Class of Notes and by each Preference Shareholder and of which each Rating Agency has been notified.

Eligibility Criteria

During the Reinvestment Period, the Issuer may Dispose of and acquire additional Underlying Assets; *provided* that, after giving effect to such investment, (i) each of the Collateral Quality Tests is satisfied or, if a Collateral Quality Test is not satisfied, the degree of compliance with such Collateral Quality Test would be maintained or improved, (ii) with respect to the acquisition of any Synthetic Security, the Synthetic Security Collateralization Conditions are satisfied, and (iii) the criteria set forth below (the **"Eligibility Criteria"**) are complied with or, if the Eligibility Criteria will not be complied with, the degree of compliance with the Eligibility Criteria will be maintained or improved. Unless otherwise stated in this section or unless the context clearly otherwise requires, in respect of the Synthetic Securities, (x) any rating criteria and any criteria relating to its status as a "Specified Type" described in this section in respect of such Synthetic Securities will be deemed to relate to the related Reference Obligations, and any quantitative criteria and limits so described will be deemed to apply to the Principal/Notional Balance of the relevant Synthetic Securities and (y) all references to "rated" or "rating" by Standard & Poor's or Fitch in this section, unless otherwise specified or unless the context otherwise requires, shall refer to the long-term, unsecured debt rating assigned by Standard & Poor's or Fitch, as applicable.

With respect to any acquisitions or Disposition of multiple Underlying Assets, that are effected either contemporaneously or no later than [30] days from each other in accordance with the provisions described herein, the Collateral Manager may, in its sole discretion, direct that two or more of such acquisitions or Dispositions of multiple Underlying Assets be treated as a **"Combined Trade"** and, following such designation by the Collateral Manager, compliance with the Collateral Quality Tests and Eligibility Criteria will be measured by determining the aggregate effect of such Combined Trade on the Issuer's level of compliance with the applicable Collateral Quality Tests and Eligibility Criteria rather than considering the effect of each acquisition or Disposition of the related Underlying Assets individually.

The Issuer may also, at the direction of the Collateral Manager, enter into a trading plan (a) pursuant to which the Collateral Manager believes all trades contemplated thereby will be entered into within [20] Business Days, (b) specifying certain (i) amounts received or expected to be received as Principal Proceeds in connection with a Trading Plan, (ii) Underlying Assets related to such Principal Proceeds and (iii) Underlying Assets acquired or intended to be acquired as a result of such Trading Plan, and (c) for which the Collateral Manager believes such plan can be executed according to its terms. Any trading plan satisfying the requirements of clauses (a)-(c), a **"Trading Plan"**. The time period for such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. With respect to any series of trades in which the Issuer commits to purchase, sell or purchase and sell multiple Underlying Assets pursuant to a Trading Plan, compliance with the Eligibility Criteria and the Collateral Quality Tests may, at the option of the Collateral Manager, be measured by determining the aggregate effect of such Trading Plan on the Issuer's level of compliance with the Eligibility Criteria and the Collateral Quality Tests rather than considering the effect of each purchase and sale of such Underlying Assets individually. The Issuer (or the Collateral Manager on its behalf) may enter into a Trading Plan only if (1) there are no other Trading Plans being implemented at such time and that the Collateral Quality Tests and Eligibility Criteria with respect to all previously implemented Trading Plans were in compliance as at the scheduled completion date of such Trading Plans, (2) as evidenced by an officer's certificate of the Collateral Manager, acting on behalf of the Issuer, delivered to the Trustee on or prior to the earliest event specified in the related Trading Plan, the Eligibility Criteria and the Collateral

Quality Tests are expected to be in compliance as of the scheduled completion date of the related Trading Plan, (3) the Aggregate Principal/Notional Balance of all Underlying Assets that are to be Disposed of pursuant to such Trading Plan may not exceed [5]% of the Portfolio Balance (each measured as of the earliest trade date) and (4) Standard & Poor's has received a prior written notice of such Trading Plan from the Collateral Manager, acting on behalf of the Issuer. If at any time any Trading Plan that was previously implemented resulted in the deterioration in the Issuer's level of compliance with any of the Eligibility Criteria and the Collateral Quality Tests, other than due to (x) a failure of the Synthetic Security Counterparty or issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or obligor/issuer for reasons beyond the control of the Issuer or any other terms that were agreed with the Issuer at or prior to the commencement of such Trading Plan or (y) an error or omission of an administrative or operational nature made by any bank, broker-dealer, clearing corporation or other similar financial intermediary holding funds, securities or other property directly or indirectly for the account of the Issuer, notice will be provided to Standard & Poor's and the Issuer will be prohibited from entering into any additional Trading Plans until the Issuer's level of compliance is restored to its prior level. The time period for each such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. The Collateral Manager, acting on behalf of the Issuer, may only specify one Trading Plan per trade date. The Eligibility Criteria will be as follows:

Standard & Poor's or Moody's Rating	1.	The Aggregate Principal/Notional Balance of the acquired Underlying Assets with a Moody's Rating or a Standard & Poor's Rating of below "Baa3" or "BBB-", respectively, shall not exceed [26.1]% of the Net Outstanding Underlying Asset Balance as of the Closing Date; provided that any such Underlying Assets shall be RMBS Securities.
Dollar denominated	2.	Such security is Dollar denominated and is not convertible into, or payable in, any other currency.
Single Issue	3.	With respect to the particular Issue being acquired, the Aggregate Principal/Notional Balance of such Issue does not exceed:

(a) [2.5]% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Baa3" or higher or a Standard & Poor's Rating of "BBB-" or higher; *provided however* that with respect to up to five such Issues, the Aggregate Principal/Notional Balance of each such Issue may be up to [3.0]% of the Net Outstanding Underlying Asset Balance;

(b) [1.25]% of the Net Outstanding Underlying Asset Balance, if such Issue has a Moody's Rating of "Ba1" or less and a Standard & Poor's Rating of "BB+" or less; *provided however* that with respect to up to five such Issues, the Aggregate Principal/Notional Balance of each such Issue may be up to [1.5]% of the Net Outstanding Underlying Asset Balance.

Single Servicer

4. With respect to the Servicer of the Underlying Asset being acquired, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed [7.50]% of the Net Outstanding Underlying Asset Balance; provided, however, the Aggregate Principal/Notional Balance of all Underlying Assets serviced by such Servicer does not exceed:

(a) [20.0]% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "Aa3" or at least "SQ1-" by Moody's, or (ii) at least "AA-" or at least "Strong" by Standard & Poor's or (iii) at least "AA-" or at least "S-1" by Fitch; and

(b) [12.5]% of the Net Outstanding Underlying Asset Balance, if such Servicer is rated (i) at least "A3" or at least "SQ2-" by Moody's, or (ii) at least "A-" or at least "Above Average" by Standard & Poor's or (iii) at least "A-" or at least "S-2" by Fitch;

provided that [Wells Fargo] or its Affiliates may constitute up to [20.0]%, [Select Portfolio Servicing] or its Affiliates may constitute up to [15.0]% and [Washington Mutual] or its Affiliates may constitute up to [15.0]%, of the Aggregate Principal/Notional Balance of all Underlying Assets; *provided further* that, regardless of clauses (a), (b) and the first proviso above, two single servicers (other than servicers with a servicer rating of "Weak" by Standard & Poor's) may each constitute up to [15.0]% of the Net Outstanding Underlying Asset Balance.

Backed by Obligations of Non-U.S. Obligors

5. The Aggregate Attributable Amount of all Underlying Assets related to obligors organized or incorporated outside the United States does not exceed [5]% of the Net Outstanding Underlying Asset Balance; *provided* that for purposes of this paragraph, "obligors" shall mean the obligors on the underlying receivables; *provided further* that the Aggregate Attributable Amount of all Underlying Assets related to

(a) Qualifying Foreign Obligors (including those obligors organized or incorporated in the United Kingdom or Canada) does not exceed [5]% of the Net Outstanding Underlying Asset Balance; and

(b) obligors (including obligors organized or incorporated in Emerging Markets) organized or incorporated outside the United States, the United Kingdom and Canada (other than Qualifying Foreign Obligors) does not exceed [0.0]% of the Net Outstanding Underlying Asset Balance.

Consumer ABS Securities

6. The Aggregate Principal/Notional Balance of all Underlying Assets constituting Consumer ABS Securities does not exceed [15]% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:

(a) Automobile Securities does not exceed [7.5]% of the Net Outstanding Underlying Asset Balance;

(b) Car Rental Fleet Securities does not exceed [1.5]% of the Net Outstanding Underlying Asset Balance;

(c) Consumer Loan Securities does not exceed [1.5]% of the Net Outstanding Underlying Asset Balance;

(d) Credit Card Securities does not exceed [7.5]% of the Net Outstanding Underlying Asset Balance; and

(e) Student Loan Securities does not exceed [7.5]% of the Net Outstanding Underlying Asset Balance.

Commercial ABS Securities

7. The Aggregate Principal/Notional Balance of all Underlying Assets constituting Commercial ABS Securities does not exceed [10]% of the Net Outstanding Underlying Asset Balance, *provided* that the Aggregate Principal/Notional Balance of all Underlying Assets consisting of:

(a) Equipment Lease Securities does not exceed [5]% of the Net Outstanding Underlying Asset Balance; and

(b) Small Business Loan Securities does not exceed [5]% of the Net Outstanding Underlying Asset Balance.

CMBS Securities

8. The Aggregate Principal/Notional Balance of all Underlying Assets that are CMBS Securities shall not exceed [10]%, of the Net Outstanding Underlying Asset Balance.

CDO Securities

9. The Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities shall not exceed [10]% of the Net Outstanding Underlying Asset Balance; *provided that*

(a) no CDO Security shall have a Moody's Rating below "Baa3" or a Standard & Poor's Rating below "BBB-" and

(b) the Aggregate Principal/Notional Balance of all Underlying Assets that are CDO Securities managed by the Collateral Manager shall not exceed [0]% of the Net Outstanding Underlying Asset Balance.

Synthetic Securities

10. The Aggregate Principal/Notional Balance of all Underlying Assets that are Synthetic Securities that are Investment Grade shall not exceed []% of the Net Outstanding Underlying Asset Balance.

Fixed Rate Securities	11.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Fixed Rate Securities shall not exceed [6.0]% of the Net Outstanding Underlying Asset Balance.
Pure Private Asset-Backed Securities	12.	If such Underlying Asset is a Pure Private Asset-Backed Security, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed [5.0]% of the Net Outstanding Underlying Asset Balance.
ABX Tranche Securities	13.	The Aggregate Principal/Notional Balance of all Underlying Assets that are ABX Tranche Securities shall not exceed [5]%, of the Net Outstanding Underlying Asset Balance.
Negative Amortization Securities	14.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Negative Amortization Securities shall not exceed [0]%, of the Net Outstanding Underlying Asset Balance.
Interest-Only Securities	15.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Interest-Only Securities shall not exceed [0]%, of the Net Outstanding Underlying Asset Balance.
Principal-Only Securities	16.	The Aggregate Principal/Notional Balance of all Underlying Assets that are Principal-Only Securities shall not exceed [0]%, of the Net Outstanding Underlying Asset Balance.
Maturity	17.	The legal final maturity of such Underlying Asset is no later than the Stated Maturity; *provided* that up to [10]% of the Aggregate Principal/Notional Balance of the Underlying Assets may have a legal final maturity after the Stated Maturity but in no event shall (A) the legal final maturity of any Underlying Asset occur later than five years after the Stated Maturity of the Notes or (B) the expected maturity of any Underlying Asset occur later than the Stated Maturity of the Notes.
PIK Bonds	18.	The Aggregate Principal/Notional Balance of all Underlying Assets that are PIK Bonds shall not exceed [10]% of the Net Outstanding Underlying Asset Balance.
Periodic Interest Payments	19.	The Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than quarterly shall not exceed [5]% of the Net Outstanding Underlying Asset Balance and the Aggregate Principal/Notional Balance of all Underlying Assets that provide for the periodic payment of interest less frequently than semi-annually shall not exceed [0]% of the Net Outstanding Underlying Asset Balance.
Other Eligibility Criteria	20.	Such Underlying Asset is not a Convertible Bond and does not provide for the mandatory conversion or exchange into equity capital at any time.
	21.	Such Underlying Asset is permitted by its terms to be held by, among others, the Issuer or other non U.S. Persons and, if applicable, assigned, participated or otherwise transferred to the Issuer.
	22.	Such Underlying Asset is not an obligation or a Underlying Asset

the rating of which from Standard & Poor's includes the subscript "p", "pi", "q", "r" or "t".

23. Such Underlying Asset (a) is not a Underlying Asset issued by an issuer located in a country that imposes foreign exchange controls that effectively limit the availability or use of Dollars to make when due the scheduled payments of principal of and interest on such security; (b) does not provide for conversion into Margin Stock; and (c) is not a financing by a debtor in possession in any insolvency proceeding.

24. Such Underlying Asset does not have a coupon or other payment that is subject to withholding tax, in each case, unless the issuer of the security is required to make "gross up payments" for the total amount of withholding on an after tax basis.

25. The acquisition of such Underlying Asset will not cause the Issuer to be subject to entity level taxation.

26. If such Underlying Asset is a Step Up Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed [5.0]% of the Net Outstanding Underlying Asset Balance. If such Underlying Asset is a Step Down Bond, the Aggregate Principal/Notional Balance of all such Underlying Assets does not exceed [5.0]% of the Net Outstanding Underlying Asset Balance.

27. Such Underlying Asset is not a security that is not eligible under its Underlying Instruments to be purchased by the Issuer and granted to the Trustee.

28. Such Underlying Asset is not a floating rate security whose interest rate is inversely related to an interest rate index.

29. Such Underlying Asset is included in one of the Specified Types.

30. Such Underlying Asset has a Moody's Rating of "[Ba2]" or higher and a Standard & Poor's Rating of "[BB]" or higher.

The Initial Investment Agreement

The information appearing under "Security for the Notes—The Initial Investment Agreement" with respect to the Initial Investment Agreement Provider has been derived from a description thereof provided by the Initial Investment Agreement Provider. The Initial Investment Agreement Provider has reviewed such information, but such information has not been independently verified by the Co-Issuers, the Collateral Manager, the Initial Purchaser, any Interest Rate Swap Counterparty or the Synthetic Security Counterparty.

Amounts on deposit in the Synthetic Security Collateral Account may be invested in Eligible Investments and will initially be invested under an investment agreement, dated as of the Closing Date (such agreement, the **"Initial Investment Agreement,"** and, together with any Replacement Investment Agreement, the **"Investment Agreement"** and amounts so invested, the **"Investment"**), among the Issuer, the Trustee and [ ], as investment agreement provider (in such capacity, the **"Initial Investment Agreement Provider"**). On the Closing Date, funds in an amount of approximately $[ ] are expected to be invested as Investments.

Pursuant to the Initial Investment Agreement, the Initial Investment Agreement Provider will be required to pay interest until the Initial Investment Agreement is terminated or terminates by its terms at a floating rate *per annum* equal to three-month LIBOR *minus* []% on the amounts invested thereunder. Interest on the Investment will accrue over each Interest Period and will be payable on the Business Day immediately prior to the Distribution Dates, commencing in [ ] 2007.

On any Business Day of each month, subject to applicable notice requirements specified in the Initial Investment Agreement, the Trustee may make a withdrawal from the Initial Investment Agreement in order to make payments as described under Allocation Procedures.

On or immediately prior to the Final Maturity Date, the Trustee (acting pursuant to the Indenture on behalf of the Issuer) will have the right to demand payment in full under the Initial Investment Agreement (if it is then in effect). On the Final Maturity Date of the Notes, all net proceeds from such liquidation and all available cash will be distributed in accordance with the priority of distribution provisions described herein.

The Trustee, subject to the Indenture, will upon the occurrence of an event of default under the Initial Investment Agreement, take actions to enforce the rights of the Issuer under the Initial Investment Agreement and to obtain payment to the Trustee of all amounts due thereunder to the extent required or directed to do so in accordance with the Indenture.

In the event that the financial strength ratings of the Initial Investment Agreement Provider are downgraded below certain thresholds specified in the Initial Investment Agreement, the Initial Investment Agreement Provider is required to perform one or more of the following actions: (i) post collateral of the kind and in the amount and form to the satisfaction of the Rating Condition, or (ii) transfer the Initial Investment Agreement to an entity approved by the Collateral Manager and satisfying the rating requirements (as specified in the Initial Investment Agreement). If within ten Business Days of a ratings event which it may remedy by (i) above or, within 30 days of a ratings event which it may remedy by (ii) above, the Initial Investment Agreement Provider does not remedy the situation by satisfying the relevant requirements of one or more of clause (i) or (ii) above, then the Initial Investment Agreement Provider will pay the entire balance of the Investment, together with all accrued, unpaid interest to the Trustee. Upon any such payment in full, the Initial Investment Agreement shall terminate.

Events of default under the Initial Investment Agreement include a failure by the Initial Investment Agreement Provider to make any payment when due pursuant to the Initial Investment Agreement, certain bankruptcy and insolvency events with respect to the Initial Investment Agreement Provider, a failure by the Initial Investment Agreement Provider to perform, in any material respect, any of its other obligations under the Initial Investment Agreement which continues for at least ten Business Days after receipt of notice thereof.

Upon the occurrence of an event of default under the Initial Investment Agreement, the Trustee the Issuer and the Collateral Manager will have the right to declare the entire balance of the Investment and all accrued and unpaid interest to be due and payable immediately and to withdraw such entire balance and unpaid interest. If, as a result of the occurrence of an event of default, the entire balance of the Investment and all unpaid interest are so withdrawn by the Trustee, the Initial Investment Agreement will be terminated on the date of such withdrawal. If an event of default occurs under the Initial Investment Agreement and the Initial Investment Agreement is terminated, any amounts withdrawn by the Issuer in connection therewith may be reinvested in Eligible Investments.

If there is a withdrawal of the funds, then a breakage fee may be payable and the gross amount of interest or principal due may be paid net of the breakage fee.

The Initial Investment Agreement Provider. The Initial Investment Agreement is being provided by [ ] or the "**Initial Investment Agreement Provider**"). Except for the information contained under this subheading, the Initial Investment Agreement Provider has not been involved in the preparation of, and does not accept responsibility for this Offering Circular.

[] ("**[ ]**"). [ ] consists of [ ] and certain subsidiaries and, as of December 31, 200{ }, [Description of Provider.]

The Interest Rate Swap Agreement

After the Closing Date, subject to satisfaction of the Rating Condition, the Issuer may enter into an ISDA Master Agreement pursuant to which the Issuer will enter into an interest rate swap entered into in accordance with the Indenture (such interest rate swap, together with any replacement therefor or additional swap agreement entered into in accordance with the Indenture, the **"Interest Rate Swap Agreement"**) with Deutsche Bank AG or one of its Affiliates (together with its successors, the **"Interest Rate Swap Counterparty"**). The address of the Interest Rate Swap Counterparty is [ ]. Any Interest Rate Swap Agreement will provide that the Issuer will pay to the relevant Interest Rate Swap Counterparty on each related Distribution Date interest at a fixed rate on a specified notional amount, in exchange for which the Interest Rate Swap Counterparty will pay to the Issuer interest on such notional amount at a rate equal to three-month LIBOR for the related calculation period. The Interest Rate Swap Counterparty will satisfy the ratings requirements specified by each of the Rating Agencies for the Interest Rate Swap Counterparty.

Any Interest Rate Swap Agreement will provide that, for each Distribution Date prior to the termination of such Interest Rate Swap Agreement, the Interest Rate Swap Counterparty will pay to the Issuer a quarterly floating amount equal to the product of:

- the three-month LIBOR rate for the relevant quarterly calculation period;
- the specified hedge notional amount for the relevant quarterly calculation period; and
- the quotient of the actual number of days in that period *divided* by 360.

In exchange for the floating amounts due from the Interest Rate Swap Counterparty, and subject to the payment netting provisions of the Interest Rate Swap Agreement, the Issuer will pay to the Interest Rate Swap Counterparty, for each Distribution Date prior to the termination of the Interest Rate Swap Agreement, a quarterly fixed amount equal to the product of:

- fixed swap rate for the relevant quarterly calculation period;
- the specified swap notional amount for the relevant quarterly calculation period; and
- the quotient of 30 over 360, calculated quarterly, adjusted.

Any Interest Rate Swap will expire after the [] Distribution Date. Pursuant to the Priority of Payments, scheduled payments required to be made by the Issuer under the Interest Rate Swap Agreement, together with any termination payments payable by the Issuer other than by reason of an event of default with respect to the Interest Rate Swap Counterparty or termination event where the Interest Rate Swap Counterparty is the "defaulting party" or the sole "affected party," will be payable pursuant to clause (3) under "Description of the Notes—Priority of Payments—Interest Proceeds" and, if Interest Proceeds are insufficient to pay such amounts in full, from Principal Proceeds pursuant to clause (1) under "Description of the Notes—Priority of Payments—Principal Proceeds." The Interest Rate Swap Agreement will be governed by New York law.

If the Interest Rate Swap Counterparty or its guarantor fails to maintain certain rating levels described in the Indenture and the Interest Rate Swap Agreement, such Interest Rate Swap Counterparty may be required to post collateral or assign its rights and obligations under the Interest Rate Swap Agreement to a replacement Interest Rate Swap Counterparty and, if the Interest Rate Swap Counterparty does not take such action as required under the Interest Rate Swap Agreement, the Issuer

will be permitted to terminate the Interest Rate Swap Agreement. See "Risk Factors—Interest Rate Risk" for a discussion of certain considerations with respect to the Interest Rate Swap Agreement.

The Collateral Manager will have a limited role in connection with decisions relating to the Interest Rate Swap Agreement. Pursuant to the Indenture, the Issuer may not reduce the notional amount under the Interest Rate Swap Agreement. However, on any date (each such date, a "**Collateral Imbalance Date**") on which the Net Outstanding Underlying Asset Balance is less than the notional amount of the Interest Rate Swap Agreement, the Interest Rate Swap Counterparty to the Interest Rate Swap Agreement will designate an early termination date with respect to the portion of the notional amount of each hedging transaction so affected; *provided, however*, that the Rating Condition must be satisfied with respect to any such early termination date. In addition, the Issuer may enter into a replacement Interest Rate Swap Agreement upon termination of an Interest Rate Swap Agreement or enter into additional Interest Rate Swap Agreements with the advice of the Collateral Manager only (a) if the Rating Condition is satisfied and (b) with respect to any additional Interest Rate Swap Agreement, the Interest Rate Swap Counterparty consents to such additional Interest Rate Swap Agreement.

The Interest Rate Swap Counterparty may terminate the Interest Rate Swap Agreement with the Issuer in limited circumstances whether or not the Notes have been paid in full prior to such termination, including in the event of (a) a failure by the Issuer to make, when due, any payment under the Interest Rate Swap Agreement within the applicable grace period; (b) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer; (c) a change in law making it illegal for either the Issuer or the Interest Rate Swap Counterparty to be a party to, or perform an obligation under, the Interest Rate Swap Agreement; (d) an Event of Default under the Indenture followed by a liquidation of Collateral on the Accelerated Maturity Date; and (e) the occurrence of a Clean-up Call Redemption, Optional Redemption, Tax Redemption, or Auction Call Redemption. With respect to such terminations, any amounts payable upon the termination of the Interest Rate Swap Agreement will be based upon standard replacement transaction valuation methodology set forth in the 1992 ISDA Master Agreement published by ISDA. In addition, the Issuer will not agree, without satisfaction of the Rating Condition solely with respect to Standard & Poor's, to any amendment, modification, or waiver of any provision of the Interest Rate Swap Agreement.

The obligations of the Issuer under the Interest Rate Swap Agreement are limited recourse obligations payable solely from the Collateral pursuant to the Priority of Payments.

The Accounts

Collection Accounts

All distributions on the Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets, to the extent such distributions or proceeds constitute Interest Proceeds and any amounts payable to the Issuer by any Interest Rate Swap Counterparty under the Interest Rate Swap Agreement (other than amounts received by the Issuer by reason of an event of default or termination event thereunder) will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "**Interest Collection Account**"). All distributions on the Underlying Assets and any proceeds received from the Disposition of any such Underlying Assets to the extent such distributions or proceeds constitute Principal Proceeds (unless simultaneously reinvested in Eligible Investments) will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee (the "**Principal Collection Account**" and, together with the Interest Collection Account, the "**Collection Accounts**"). Amounts on credited to the Principal Collection Account shall be applied in accordance with the Priority of Payments. The Collection Accounts shall be maintained for the benefit of the Noteholders and amounts on deposit therein will be available, together with reinvestment

earnings thereon, for application in the order of priority set forth above under "Description of the Notes—Priority of Payments."

Amounts received in the Collection Accounts during a Due Period will be invested in Eligible Investments (as described below) with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless used as otherwise permitted under the Indenture.

"Eligible Investments" include any Dollar-denominated investment that is not a Prohibited Asset and is one or more of the following (and may include investments for which the Trustee and/or its affiliates provides services):

(a) cash;

(b) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or Federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof and subject to supervision and examination by Federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch Ratings (**"Fitch"**) (if rated by Fitch) in the case of long-term debt obligations, or "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) in the case of commercial paper and short-term debt obligations; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch);

(d) unleveraged repurchase obligations (if treated as debt for tax purposes by the issuer) with respect to (i) any security described in clause (b) above or (ii) any other Registered security issued or guaranteed by an agency or instrumentality of the United States (in each case without regard to the stated maturity of such security), in either case entered into with a U.S. Federal or state depository institution or trust company (acting as principal) described in clause (c) above or entered into with a corporation (acting as principal) whose long-term rating at the time of such investment or contractual commitment providing for such investment is not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA+" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch) or whose short-term credit rating at the time of such

investment or contractual commitment providing for such investment is "P 1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch) at the time of such investment or contractual commitment providing for such investment; provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA+" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch);

(e) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating at the time of such investment or contractual commitment providing for such investment of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "AA" by Standard & Poor's and "AA+" by Fitch (if rated by Fitch);

(f) commercial paper or other short-term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment or contractual commitment providing for such investment a credit rating of "A 1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch); provided that (i) in each case, the issuer thereof must have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment or contractual commitment providing for such investment a long-term credit rating of not less than "AA" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch);

(g) reinvestment agreements issued by any bank (if treated as a deposit by such bank), or a Registered reinvestment agreement issued by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof (if treated as debt for tax purposes by the issuer), in each case, that has a credit rating of not less than "P-1" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, "A-1+" by Standard & Poor's and "F1+" by Fitch (if rated by Fitch); provided that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's, and if so rated, such rating is not on watch for downgrade by Moody's, and "AA+" by Fitch (if rated by Fitch) and (ii) if such security has a maturity of longer than 91 days, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AA" by Standard & Poor's and not less than "AA+" by Fitch (if rated by Fitch);

(h) any money market fund or similar investment vehicle having at the time of investment therein the highest credit rating assigned by each of the Rating Agencies; provided that (i) such fund or vehicle is formed outside the United States and is not engaged in a United States trade or business, (ii) no income to be received from such fund or vehicle is or will be subject to deduction or withholding for or on account of any withholding or

similar tax, and (iii) the ownership of an interest in such fund or vehicle will not subject the Issuer to net income tax in any jurisdiction;

(i) any guaranteed investment contract, asset swap, funding agreement, investment agreement or other similar agreement from, or a note or a certificate backed by any guaranteed investment contract, funding agreement, investment agreement or other similar agreement from, a bank, insurance company or other corporation or entity and has a long-term unsecured obligation rating of at least "AA-" by Standard & Poor's and at least "Aa3" by Moody's; and

(j) any other security the acquisition of which satisfies the Rating Condition and the ownership of which will not subject the Issuer to income tax on a net income basis for U.S. federal income tax purposes;

and, in each case (other than clause (a) or (i) or (j)), with a stated maturity (giving effect to any applicable grace period) no later than the Business Day immediately preceding the Distribution Date immediately following the Due Period in which the date of investment occurs; *provided* that Eligible Investments may not include (i) any security that does not provide for the repayment of a stated fixed amount of principal in one or more installments, any interest-only security, any security purchased at a price in excess of 100% of the par value thereof or any security whose repayment is subject to substantial non-credit related risk as determined in the reasonable business judgment of the Collateral Manager, (ii) any Floating Rate Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* a spread, (iii) any security subject to withholding tax in any jurisdiction or (iv) any security that is subject to an Offer and has not been called for redemption. Notwithstanding the foregoing, Eligible Investments will not include PIK Bonds, CMBS Securities, RMBS Securities, margin stock, securities that do not provide for the periodic payment of interest or which are zero coupon bonds and any security with a rating from Standard & Poor's which includes the subscript "p," "pi," "q," "r" or "t". The Trustee or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Trustee's economic self-interest for (x) serving as investment advisor, administrator, shareholder, servicing agent, custodian or sub-custodian with respect to certain of the Eligible Investments, (y) using Affiliates to effect transactions in certain Eligible Investments and (z) effecting transactions in certain Eligible Investments; *provided, however*, that such compensation shall not be an amount that is reimbursable or payable by the Issuer or otherwise pursuant to the Indenture. For the avoidance of doubt, an Eligible Investment is not an Underlying Asset.

Payment Account

On or prior to the Business Day prior to each Distribution Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Payment Account"**) for the benefit of the Secured Parties all funds in the Collection Accounts (other than amounts received after the end of the Due Period with respect to such Distribution Date) required for payments to Noteholders and payments of fees and expenses in accordance with the priority described under "Description of the Notes—Priority of Payments." In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the First Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the First Distribution Date and distributed in accordance with the Priority of Payments.

Expense Account

On the Closing Date, after payment of the organizational and structuring fees and expenses of the Issuers (including, without limitation, the legal fees and expenses of counsel to the Issuers, the Initial

Purchaser and the Collateral Manager) and the expenses of offering the Notes, at least U.S.$ [ ] from the proceeds of the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Expense Account"**). All funds on deposit in the Expense Account will be invested in Eligible Investments. Amounts standing to the credit of the Expense Account may be used to pay administrative expenses (including indemnities) and organization fees of the Issuers on any day other than a Distribution Date (other than fees of the Trustee, but including other amounts payable by the Issuer to the Collateral Manager under the Management Agreement or the Indenture). Amounts credited to the Expense Account will be (a) applied on or prior to the Determination Date preceding the First Distribution Date to pay amounts due in connection with the offering of the Notes and Preference Shares and (b) on the First Distribution Date, to the extent that the balance of the Expense Account exceeds U.S.$ [ ] on the related Determination Date, transferred to the Payment Account and applied as Interest Proceeds. After the Closing Date, additional amounts may be credited to the Expense Account on any Distribution Date as described under "Description of the Notes—Priority of Payments."

Uninvested Proceeds Account

On the Closing Date, the Trustee will deposit the net proceeds (if any) from the issuance and sale of the Notes and Preference Shares *plus* any principal collections on the Underlying Assets received on or prior to the Closing Date that, on the Closing Date, are not invested in Underlying Assets, not deposited in the Collection Accounts and not deposited in the Expense Account into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Uninvested Proceeds Account"**). At the direction of the Collateral Manager, amounts (if any) standing to the credit of the Uninvested Proceeds Account will be used to acquire Underlying Assets and Eligible Investments, which Eligible Investments shall be in overnight deposits. Investment earnings on Eligible Investments in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds on the First Distribution Date. In addition, any Uninvested Proceeds on deposit in the Uninvested Proceeds Account on the Determination Date preceding the First Distribution Date will be transferred to the Payment Account and treated as Principal Proceeds on the First Distribution Date and distributed in accordance with the Priority of Payments.

Disposition Proceeds Account

All Disposition Proceeds will be deposited into a single, segregated account established and maintained by the Trustee under the Indenture (the **"Disposition Proceeds Account"**) and (i) either used to purchase one or more Underlying Assets within [180] days from the date of deposit into the Disposition Proceeds Account; or (ii) after [180] days from the date of deposit into the Disposition Proceeds Account, if not used to purchase Underlying Assets, transferred to the Principal Collection Account and designated as Principal Proceeds and on the following Distribution Date distributed in accordance with the Priority of Payments. In no event shall Disposition Proceeds be designated as Interest Proceeds.

Preference Share Payment Account

On each Distribution Date, the Trustee, in accordance with the Priority of Payments, will transfer to the Preference Share Paying Agent the amounts (if any) for deposit to a segregated account (the **"Preference Share Payment Account"**) established and maintained by the Preference Share Paying Agent pursuant to the Preference Share Paying Agency Agreement. The Preference Share Payment Account and any sums standing to the credit thereof shall not form part of the Collateral.

Synthetic Security Collateral Account

The Trustee will establish a segregated trust account (the **"Synthetic Security Collateral Account"**), that will be maintained by the Trustee as entitlement holder in respect of each Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the Synthetic Securities and the Indenture. As directed by the Collateral Manager, the Trustee will, on the Closing Date, deposit into the relevant Synthetic Security Collateral Account all cash and Eligible Investments that are required to secure the obligations of the Issuer in accordance with the terms of the Synthetic Securities and the Offsetting Transactions. The Synthetic Security Collateral Account shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $[].

As directed by the Collateral Manager in writing, cash on deposit in any Synthetic Security Collateral Account will be invested in Eligible Investments. Interest payments on Eligible Investments credited to any Synthetic Security Collateral Account will be applied, as directed by the Collateral Manager, to the payment of any periodic amounts owed by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty on the date any such amounts are due. After application of any such amounts, any remaining interest payments then contained in the related Synthetic Security Collateral Account will be withdrawn from such account and deposited in the Collection Account for distribution as Interest Proceeds. Cash and Eligible Investments on deposit in any Synthetic Security Collateral Account will be included in the Collateral to the extent provided under "Security for the Notes—General" herein, will not be available to make payments under the Notes and shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Securities that relate to the Synthetic Security Collateral Account shall be considered an asset of the Issuer.

In the event a Synthetic Security or Offsetting Transaction is terminated prior to its scheduled maturity, the Collateral Manager on behalf of the Issuer shall cause such portion of the collateral in the related Synthetic Security Collateral Account that (subject to the Allocation Procedures) is available for making partial or full termination payment owed, if any, to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty to be delivered to such Synthetic Security Counterparty or Offsetting Transaction Counterparty, and the remaining collateral for such terminated Synthetic Security or Offsetting Transaction in the related Synthetic Security Collateral Account (to the extent not required to be pledged to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty) shall be released from the lien of the related Synthetic Security Counterparty and the Offsetting Transaction Counterparty and granted to the Trustee free of such lien. Any cash received upon the maturity or liquidation of any such collateral in the related Synthetic Security Collateral Account released from the lien of the relevant Synthetic Security Counterparty and the Offsetting Transaction Counterparty shall be credited to the Disposition Proceeds Account or deemed to be Principal Proceeds and credited to the Principal Collection Account.

Upon the occurrence of a "credit event" under a Synthetic Security, at the direction of the Collateral Manager, the related collateral in the related Synthetic Security Collateral Account will be delivered to the related Synthetic Security Counterparty, to the extent required, upon delivery of a Delivered Obligation. In the event a "credit event" has occurred and the Issuer is required to liquidate such collateral in the related Synthetic Security Collateral Account and deliver cash to the relevant Synthetic Security Counterparty, the Issuer will bear any market risk on the liquidation of the collateral in such Synthetic Security Collateral Account.

Amounts contained in any Synthetic Security Collateral Account shall be withdrawn by the Trustee and applied toward the payment of any amounts payable by the Issuer to the related Synthetic Security Counterparty or Offsetting Transaction Counterparty in accordance with the terms of the Indenture and the related Synthetic Security or Offsetting Transaction, as directed by the Collateral Manager in writing. Any Excess Collateral Account Amount shall be withdrawn from any Synthetic Security Collateral Account and deposited in the Principal Collection Account or Disposition Proceeds Account for application in accordance with the terms of the Indenture; *provided* that to the extent that any such withdrawal from such Synthetic Security Collateral Account would require a withdrawal from the Initial Investment Agreement, such withdrawal may only be made in accordance with the terms of the Initial Investment Agreement. **"Excess Collateral Account Amount"** means the excess of (i) the related Synthetic Security Collateral Amount over (ii) the sum of (A) the related Required Synthetic Security Collateral Amount and (B) the absolute value of the net loss on the relevant Offset Transactions.

Synthetic Security Issuer Accounts

If and to the extent that any Synthetic Security requires a Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, the Trustee will establish a segregated trust account, held in the name of the Trustee (each such account, a **"Synthetic Security Issuer Account"**). The Trustee shall deposit into each Synthetic Security Issuer Account all amounts that are required to secure the obligations of the Synthetic Security Counterparty in accordance with the terms of such Synthetic Security. Except for investment earnings, a Synthetic Security Counterparty shall not have any legal, equitable or beneficial interest in any Synthetic Security Issuer Account other than in accordance with the Indenture, the applicable Synthetic Security and applicable law. The Synthetic Security Issuer Accounts shall remain at all times with a financial institution having a long-term debt rating of at least "BBB+" by Standard & Poor's, at least "Baa1" by Moody's, and at least "BBB+" by Fitch and a combined capital and surplus in excess of $[].

As directed by the Collateral Manager in writing and in accordance with the applicable Synthetic Security, cash on deposit in a Synthetic Security Issuer Account on behalf of the Issuer shall be invested in Eligible Investments. Income received on amounts on deposit in the Synthetic Security Issuer Account may be withdrawn from such account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

Cash and Eligible Investments on deposit in each Synthetic Security Issuer Account will not be included in the Collateral and will not be available to make payments under the Notes other than as required under the related Synthetic Security. Amounts contained in any Synthetic Security Issuer Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests, but the Synthetic Security or Synthetic Securities that relate to such Synthetic Security Issuer Account shall be so considered an asset of the Issuer.

With respect to any obligation by the Synthetic Security Counterparty for payment under any Synthetic Security, amounts contained in the related Synthetic Security Issuer Account shall, as directed by the Collateral Manager in writing, be withdrawn by the Trustee and applied to the payment of such obligation payable by the related Synthetic Security Counterparty to the Issuer. Any excess amounts held in a Synthetic Security Issuer Account after payment of all amounts owing from the related Synthetic Security Counterparty to the Issuer shall be withdrawn from such Synthetic Security Issuer Account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

THE ISSUERS

General

The Issuer was incorporated as an exempted company with limited liability and registered on [], 2006 in the Cayman Islands with registered number [], is in good standing under the laws of the Cayman Islands and has an indefinite existence. The Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Issuer's telephone number is +1(345) 945-7100. The Issuer has no prior operating experience other than in connection with the acquisition of certain Underlying Assets prior to the issuance of the Notes and the Preference Shares and the engagement of the Collateral Manager and the entering into of arrangements with respect thereto, and the Issuer will not have any substantial assets other than the Collateral pledged to secure, among other things, the Notes and the Issuer's obligations to the Trustee, the Collateral Manager, any Interest Rate Swap Counterparty, the Offsetting Transaction Counterparty and the Synthetic Security Counterparty. Clause 3 of the Issuer Charter sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes. As at the Closing Date, the entire authorized shares of the Issuer will consist of (a) [250] ordinary shares, par value U.S.$1.00 each (all of which will be issued and held in trust for charitable purposes by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands (in such capacity, the **"Share Trustee"**), under the terms of a declaration of trust) and (b) [] Preference Shares, par value U.S.$0.01, all of which will be issued at a liquidation preference of U.S.$1,000 each.

The Co-Issuer was incorporated on March [ ], 2007 under the law of the State of Delaware with an organizational number [ ] and its registered office is c/o Donald Puglisi, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The sole director and officer of the Co-Issuer is Donald Puglisi, and he may be contacted at the principal office of the Co-Issuer listed on the last page of this Offering Circular. The Co-Issuer's telephone number is +1(302) 738-6680. The Co-Issuer has no prior operating experience. The Co-Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. It will not have any assets (other than its U.S.$1,000 of share capital owned by the Issuer) and will not pledge any assets to secure the Notes. The third clause of the Co-Issuer's certificate of incorporation sets out the objects of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the Notes. The Co-Issuer will not have any interest in the Underlying Assets or other assets held by the Issuer.

The Notes are obligations only of the Issuers, and none of the Notes are obligations of the Trustee, the Share Trustee, the Administrator, the Collateral Manager, the Initial Purchaser or its affiliates or any directors or officers of the Issuers.

Maples Finance Limited will act as the administrator (in such capacity, the **"Administrator"**) and the Share Registrar of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the **"Administration Agreement"**), the Administrator will perform various management functions on behalf of the Issuer, including the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates provided for in the Administration Agreement and will be reimbursed for expenses and the Issuer will provide certain indemnities to the Administrator in connection with its performance of such services.

The Administrator will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are Wendy Ebans and Carlos Farjallah, each of whom is a director or officer and an employee of the Administrator and each of whose offices are at P.O. Box 1984 GT, Elizabethan Square, George Town, Grand Cayman, Cayman Islands. The Administration Agreement may be terminated by the Issuer or the Administrator upon 14 days' notice following the occurrence of certain events. In addition, the Administration Agreement may be terminated upon three months' notice (subject to the appointment of a replacement administrator).

The Administrator's principal office is at P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Capitalization and Indebtedness of the Issuer and the Co-Issuer

The initial capitalization and indebtedness of the Issuer as of the Closing Date, after giving effect to the issuance of the Notes, the Preference Shares and the ordinary shares of the Issuer but before deducting expenses of the offering of the Notes and of the placement of the Preference Shares and organizational expenses of the Issuers, is expected to be as follows:

Class A-1 Notes	U.S.$[ ]
Class A-2 Notes	U.S.$[ ]
Class B Notes	U.S.$[ ]
Class C Notes	U.S.$[ ]
Class D Notes	U.S.$[ ]
Class E Notes	U.S.$[ ]
Total Debt	U.S.$[]
Ordinary Shares	[250]
Preference Shares	U.S.$[],000
Total Equity	U.S.$[],250
Total Capitalization	U.S.$[]

As of the Closing Date and after giving effect to the issuance of the Preference Shares, the issued share capital of the Issuer will be [250] ordinary shares, par value U.S.$1.00 per share, and [ ] Preference Shares, par value U.S.$0.01 per share and with a liquidation preference of U.S.$1,000 per share.

The Issuer will not have any material assets other than the Collateral.

The Co-Issuer will be capitalized only to the extent of its U.S.$[250] of share capital, will have no assets other than its share capital and will have no debt other than as Co-Issuer of the Notes. As of the Closing Date and after giving effect to the issuance of the Co-Issuer's shares, the authorized and issued share capital of the Co-Issuer will be [250] shares of common stock, par value U.S.$1.00 per share.

Business

The Indenture and the Issuer Charter provide that the activities of the Issuer are limited to (a) investment and reinvestment in Underlying Assets and Eligible Investments, (b) the entering into, and the performance of its obligations under, the Indenture, any Interest Rate Swap Agreement, the Offset Transactions, the Offsetting Transactions, the Synthetic Securities, any Investment Agreement, the Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Note Purchase Agreement, the Subscription Agreements and the Preference Share Paying Agency Agreement, (c) the issuance and sale of the Notes and Preference Shares, (d) the pledge of the Collateral as security for its obligations in respect of the Notes and its obligations to the other Secured Parties, (e) ownership of the Co-Issuer and (f) other activities incidental to the foregoing. The Issuer has no employees and no subsidiaries other than the Co-Issuer. The Co-Issuer will not undertake any business other than the issuance of the Notes.

The Issuer is not required by Cayman Islands law, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee, on an annual basis, with a certificate reviewing the activities of the Issuer and of the Issuer's performance during the preceding year and stating that, to the best of the certifying officer's knowledge, the Issuer has fulfilled all of its obligations under the Indenture or, if there has been a default, specifying such default, the nature and status thereof and any actions undertaken to remedy such default.

THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Collateral Manager and has not been independently verified by the Issuers or the Initial Purchaser. Neither the Issuers nor the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. Accordingly, the Collateral Manager assumes sole responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Management Agreement to be entered into between the Issuer and the Collateral Manager (the **"Management Agreement"**). The Collateral Manager will, pursuant to the terms of the Management Agreement, select, monitor and provide the Issuer with certain information relating to, the portfolio of Underlying Assets, may act as the Auction Agent, direct the Disposition certain Underlying Assets, including any Credit Risk Asset, Credit Improved Asset, Defaulted Asset, Withholding Security or Equity Security, or instruct the Trustee with respect to the purchase of Underlying Assets and investment in Eligible Investments as further set forth herein.

Additionally, during the Reinvestment Period, the Collateral Manager is permitted to Dispose of any Underlying Asset that is Investment Grade other than an Equity Security, Credit Risk Asset, Defaulted Asset, Withholding Security or Credit-Improved Asset; provided that, for any given calendar year, the aggregate principal balance of any such Underlying Assets Disposed of does not exceed 20% of the aggregate principal balance of all Underlying Assets.

All acquisitions and Dispositions of Eligible Investments and Underlying Assets, and all Dispositions of Equity Securities, by the Collateral Manager on behalf of the Issuer shall be conducted in compliance with all applicable laws. The Collateral Manager shall cause any acquisition or Disposition of any Underlying Asset or Eligible Investment, and the sale of any Equity Security, to be conducted on an arm's-length basis or as provided in the Indenture with respect to a redemption of the Notes and/or Preference Shares.

One or more Affiliates of the Collateral Manager will acquire all of the Preference Shares and may acquire some or all of the Class E Notes on the Closing Date. In addition, the Management Agreement will provide that the Collateral Manager shall notify the Trustee or the Preference Share Paying Agent, as applicable, upon the sale or transfer by the Collateral Manager of any Preference Shares to a person that is not an Affiliate of the Collateral Manager, and the Trustee shall deliver notice of such transfer to the holders of the Notes (to the extent such Notes remain outstanding). The Collateral Manager and its Affiliates may at times own Notes. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Collateral Manager Securities with respect to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Management Agreement), or any amendment or other modification of the Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote the Notes and Preference Shares held by them with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest."

HBK Investments L.P.

HBK Investments L.P., a Delaware limited partnership (together with its affiliated subadvisors and their respective successors, **"HBK"**), will act as Collateral Manager to the Issuer (in such capacity, the **"Collateral Manager"**). Collateral management services for the Issuer will be performed by various affiliated subadvisors of HBK Investments L.P., which are under common control with HBK Investments L.P. The headquarters of HBK are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201.

HBK was founded in 1991. HBK is managed by thirteen managing directors and has offices in Dallas, New York, London, Hong Kong and Tokyo. HBK is an investment management firm that, as of December 31, 2006, had approximately $12 billion in capital under management.

From time to time, HBK has responded to various requests for information from governmental and regulatory bodies, including routine inspections and examinations, as well as enforcement inquiries and investigations. HBK has provided information to the SEC related to private investments in public equity and similar transactions and related trading activity. These transactions represent a small portion of HBK's overall business and are unrelated to its activities as Collateral Manager. HBK is listed, along with several other entities, in an SEC formal order of investigation related to these matters, and relevant personnel of HBK have given testimony. HBK believes the investigation is focused on insider trading issues related to trading before the public announcement of certain transactions and is one of many such investigations or inquiries directed toward numerous market participants, including brokerage firms, other intermediaries and investors. Based on interactions to date with the SEC staff and the limited scope of HBK's activities in this area, HBK does not believe the investigation will result in a material effect on HBK or have any financial effect on the Issuer or any of the private investment funds that HBK manages.

Biographies

Set forth below is information regarding certain persons who are currently employed by the Collateral Manager, although such persons may not necessarily continue to be so employed during the entire term of the Management Agreement and/or may not continue to perform services for the Collateral Manager under the Management Agreement.

Jamiel Akhtar, Managing Director

Mr. Akhtar has been associated with HBK since 1993 and is a Managing Director of HBK. Mr. Akhtar is primarily responsible for HBK's developed markets fixed income arbitrage portfolio, which includes investments in government and agency bonds, futures, interest rate derivatives, and mortgage and asset-backed securities. He received an A.B. degree cum laude in Economics in 1993 from Harvard College.

Kevin Jenks, Senior Portfolio Manager

Mr. Jenks has been associated with HBK since 2002 and is the firm's senior portfolio manager for the ABS, MBS and CMBS sectors. From 2000 to 2002, Mr. Jenks was a senior portfolio manager at Vanderbilt Capital Advisors, LLC specializing in the structured product fixed income market with a focus on structured credit securities. He was a senior member of a five person team responsible for managing over $6 billion in institutional fixed income portfolios for clients. From 1997 to 2000, Mr. Jenks was a portfolio manager with Prime Advisors, where he was responsible for the trading, investment strategy and management of a $3 billion plus fixed income portfolio consisting of total return funds and insurance company portfolios. In addition, he was also the firm's sector manager for structured product securities. Prior to 1997, Mr. Jenks held various trading, analyst and portfolio management positions at Bank

Boston, The Boston Company Asset Management and Fidelity Investments. Mr. Jenks received a B.S. degree in Finance in 1992 from the University of Massachusetts.

Jason Lowry, Assistant Trader/Analyst

Mr. Lowry is an assistant trader/analyst with HBK. Jason oversees system analytics and surveillance. Prior to joining HBK Mr. Lowry was a quantitative analyst with Freddie Mac in fixed income research. Mr. Lowry received a B.S. degree in Physics from Carnegie Mellon in 2001.

Marco Lukesch

Mr. Lukesch is an analyst with HBK. Marco's primary responsibilities include surveillance and collateral analysis on new trades and existing positions. Prior to joining HBK Mr. Lukesch was a consultant with Oliver, Wyman & Co, a strategy consulting firm devoted to the financial services industry. Mr. Lukesch graduated magna cum laude from the University of Pennsylvania in 2001 receiving a B.S. from the Wharton School and a B.A. from the college.

Kimberlee K. Rozman, Associate General Counsel

Ms. Rozman has been associated with HBK since 1999 and is Associate General Counsel of HBK. Ms. Rozman is responsible for a range of HBK's legal matters. Prior to joining HBK Ms. Rozman was associated with Jackson & Walker L.L.P. Ms. Rozman received a J.D. degree summa cum laude from Dickinson Law School in 1990.

Gayla Utley, Director of Operations

Ms. Utley has been associated with HBK since 1996 and is responsible for global trading operations. Ms. Utley graduated from Texas A&M University in 1996 with a B.S. in Accounting.

Qi Wang

Ms. Wang has been associated with HBK since 1998 and is primarily responsible for the US fixed income arbitrage book. From 1996 to 1998, she worked on the US government sales desk at Lehman Brothers. She graduated magna cum laude from Yale University in 1995 with degrees in molecular biophysics & biochemistry and economics.

Brett Orr, CFA

Mr. Orr has been with HBK since 1997 and is responsible for financing all of HBK's government, asset backed and mortgage backed securities. He graduated with honors in 1997 from Abilene Christian University with a B.S. in Financial Management.

Jim Wang

Mr. Wang is a senior quantitative analyst with HBK. Jim's primary responsibilities include developing prepayment and default models to analyze mortgage pools. Prior to joining HBK, Mr. Wang was a quantitative analyst in ABS research at Citigroup. Mr. Wang graduated from Brandeis University with a Ph.D. in physics in 1996.

THE MANAGEMENT AGREEMENT

The following summary describes certain provisions of the Management Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Management Agreement.

As compensation for the performance of its obligations as Collateral Manager under the Management Agreement, the Collateral Manager will receive a fee (the **"Management Fee"**), to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Management Fee will accrue from the Closing Date at a rate of 0.30% *per annum* on the Quarterly Asset Amount, payable in arrears on each Distribution Date. In addition, if the Collateral Manager acts as Auction Agent, as compensation for the performance of its obligations as Auction Agent under the Management Agreement, the Collateral Manager will receive fees (the **"Auction Agent Fees"**) as described in the succeeding sentence, to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Auction Agent Fee will be (a) U.S.$[] on the first Auction Date; (b) if the Auction Call Redemption is not successful on the First Auction Call Date, U.S.$[] on the Distribution Date immediately following the First Auction Call Date; and (c) U.S.$[] on each Auction Date thereafter, if any. Any Management Fee or Auction Agent Fee accrued prior to the resignation or removal of the Collateral Manager will continue to be payable to the Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal.

To the extent not paid on any Distribution Date when due, any accrued Management Fee or Auction Agent Fee will be deferred and will be payable on the next subsequent Distribution Date on which funds are available for the payment thereof in accordance with the Priority of Payments. Any unpaid Management Fee or Auction Agent Fee that is deferred due to the operation of the Priority of Payments will not accrue interest.

The Collateral Manager will be responsible for its own ordinary expenses and costs incurred in the course of performing its obligations under the Management Agreement; *provided* that the Collateral Manager shall not be liable for the payment of any extraordinary expenses and costs or for the payment of expenses and costs of (a) legal advisers, accountants, consultants and other professionals retained by the Issuer or by the Collateral Manager on behalf of the Issuer in connection with certain services to be provided by the Collateral Manager as specified in the Management Agreement and (b) reasonable travel expenses undertaken in connection with effecting or directing Disposition of Underlying Assets and Eligible Investments, negotiating with issuers of Underlying Assets as to proposed modifications or waivers, taking action or advising the Trustee with respect to the Issuer's exercise of any rights or remedies in connection with the Underlying Assets and Eligible Investments, including in connection with an offer or default, participating in committees or other groups formed by creditors of an issuer of Underlying Assets. Such expenses will be paid by the Issuer.

The Collateral Manager will not be liable to the Issuers, the Trustee, the Noteholders, any Interest Rate Swap Counterparty or any of their respective affiliates, partners, shareholders, officers, directors, employees, consultants, agents, accountants and attorneys for any losses, damages, claims, liabilities, costs or expenses (including attorney's fees and expenses) incurred as a result of the actions taken or omitted or recommended by or on behalf of the Collateral Manager under the Management Agreement or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties and obligations thereunder. The Collateral Manager and its Affiliates and each of their respective partners, shareholders, members, officers, directors, managers, employees, consultants, agents, accountants and attorneys will be entitled to indemnification by the Issuer under

certain circumstances (as specified in the Management Agreement), which will be paid in accordance with the Priority of Payments.

The Collateral Manager may not assign its rights or responsibilities under the Management Agreement without the consent of the Issuer and the holders of a majority in aggregate principal amount of Notes of the Controlling Class and upon satisfaction of the Rating Condition, except that pursuant to the Management Agreement the Collateral Manager may assign all of its rights and responsibilities thereunder (without thereby being relieved of any of its duties or obligations) to an Affiliate without the consent of the Issuer, the Trustee or any Noteholder. In addition, the Collateral Manager may, pursuant to the Management Agreement, enter into arrangements pursuant to which its Affiliates or third parties may perform certain services on behalf of the Collateral Manager, but such arrangements shall not relieve the Collateral Manager from any of its duties or obligations thereunder.

The Collateral Manager may resign upon 60 days' prior written notice to the Issuer and the Trustee, *provided* that (a) no such resignation shall be effective unless a Replacement Manager is appointed as described below and (b) the Collateral Manager shall have the right to resign immediately if, due to a change in applicable law or regulation, the performance by the Collateral Manager of its duties under the Indenture or the Management Agreement would be a violation of such law or regulation.

The Management Agreement provides that the Collateral Manager may at any time be removed for "cause" (as defined in the Management Agreement) upon 15 Business Days' prior written notice by the Issuer, which will effect such removal at the direction of holders of at least 66 2/3% in aggregate outstanding principal amount of the holders of the Controlling Class (voting as a separate class) and the holders of at least 66 2/3% of Preference Shares. In determining whether a specified percentage of holders of Notes or Preference Shares has directed any such removal as described above or given any objection to a successor Collateral Manager as described below, Collateral Manager Securities will be excluded.

For purposes of the Management Agreement, **"cause"** means any of the following events:

(a) the Collateral Manager willfully breaches, or takes any action that it knows violates, any provision of the Management Agreement or any term of the Indenture applicable to it (not including a willful breach or knowing violation that results from a good faith dispute on alternative courses of action or interpretation of instructions);

(b) the Collateral Manager breaches in any material respect any provision of the Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 30 days after written notice of such failure is received by the Collateral Manager unless, if such failure is remediable, the Collateral Manager has taken action that the Collateral Manager in good faith believes will remedy, and that does in fact remedy, such failure within 90 days after written notice of such failure is received by the Collateral Manager;

(c) the Collateral Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or takes advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to

any substantial part of its property or (v) is adjudicated as insolvent or is to be liquidated; or

(d) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Management Agreement or the Collateral Manager being convicted for a criminal offense materially related to its investment advisory business.

No removal, termination or resignation of the Collateral Manager or termination of the Management Agreement shall be effective unless (a) a successor Collateral Manager (the **"Replacement Manager"**) has agreed in writing to assume all of the Collateral Manager's duties and obligations, including its duties and responsibilities as the Auction Agent, (b) the Replacement Manager is not objected to by holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such vote any Collateral Manager Securities) within 30 days after notice and (c) the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager; *provided, however*, that at any time when an Event of Default shall have occurred and be continuing under the Indenture and the Collateral Manager shall have resigned or been removed under the circumstances set forth above, the holders of a Majority of the Notes of the Controlling Class may appoint a successor Collateral Manager (if the Rating Condition has been satisfied with respect to the appointment of the Replacement Manager).

In addition, no removal or resignation of the Collateral Manager while any Note or Preference Share is outstanding will be effective until the appointment by the Issuer of a Replacement Manager that is an established institution which (a) is legally qualified and has the capacity to act as Collateral Manager under the Management Agreement as successor to the Collateral Manager in the assumption of all of the responsibilities, duties and obligations of the Collateral Manager under the Management Agreement and under the applicable terms of the Indenture, including its duties and responsibilities as the Auction Agent, and (b) will not cause the Issuer or the pool of Collateral to become required to register as an investment company under the provisions of the Investment Company Act. The Indenture provides that if holders of at least 66 2/3% in aggregate outstanding principal amount of any Class of Notes or the holders of at least 66 2/3% of the Preference Shares (excluding from such votes the Collateral Manager Securities if the proposed Replacement Manager is an Affiliate of the Collateral Manager) object to a proposed Replacement Manager within 30 days after such notice (the **"First Period"**), the Trustee shall notify the holders of the Notes and Preference Shares that such Replacement Manager has been rejected. Such notice shall state that a Majority-in-Interest of Preference Shareholders may nominate a successor Collateral Manager within 60 days after the termination of the First Period (the **"Second Period"**) and specify a date (not more than 20 days after the end of the First Period), time and place for a meeting (which meeting may be held telephonically) at which the Preference Shareholders may nominate (if necessary, by a majority vote of the Preference Shareholders present at such meeting) not more than two proposed successor Collateral Managers (which proposed successor Collateral Managers shall meet the requirements of a Replacement Manager specified in the Management Agreement). The Trustee shall notify each Preference Shareholder and Noteholder of the successor Collateral Managers proposed at such meeting and request that each Preference Shareholder and Noteholder, by notice given to the Trustee not later than 20 days after such meeting, select a successor Collateral Manager (if there are two proposed successor Collateral Managers) or approve such proposed Collateral Manager (if only one successor Collateral Manager is proposed). If such a successor Collateral Manager is objected to by a Majority-in-Interest of Preference Shareholders or by the Holders of 66 2/3% in aggregate principal amount of any Class of Notes, the Trustee shall notify each Holder of a Preference Share of the failure to appoint a successor Collateral Manager and specify a date (prior to the end of the Second Period), time and place for a meeting (which meeting may be held telephonically) at which a Majority-In-Interest of the

Preference Shareholders present (so long as holders of at least 66 2/3% of the Preference Shares are represented at such meeting) may appoint a successor Collateral Manager. The Collateral Manager Securities shall be excluded from the determination of whether 66 2/3% in aggregate principal amount of any Class of Notes or a Majority-in-Interest of Preference Shareholders for appointing or approving (or objecting to) a successor Collateral Manager has been obtained, except that for purposes of appointing or approving a successor Collateral Manager that is not an Affiliate of the Collateral Manager, the Notes and Preference Shares which are Collateral Manager Securities shall be included in determining whether the Noteholders and Preference Shareholders have selected or approved (or objected to) such successor Collateral Manager. In the event that a successor to the Collateral Manager is not appointed within 90 days after its resignation or removal, the Issuer or the Collateral Manager may petition a court to appoint a successor, without obtaining the approval of the Holders of the Notes and the Preference Shares.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the Management Agreement (a) upon the occurrence of an Event of Default until such time, if any, as such Event of Default is cured or waived, (b) upon the termination of the Collateral Manager in accordance with the Management Agreement or (c) upon a material default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuer under the Indenture or in any certificate or writing delivered pursuant thereto or made in connection therewith which proves to be incorrect in any material respect when made if (i) holders of at least 50% in aggregate outstanding principal amount of the Notes of any Class, Preference Shareholders whose aggregate Voting Percentages are at least 50% of all Preference Shareholders' Voting Percentages or any Interest Rate Swap Counterparty gives notice of such default or breach to the Trustee and the Collateral Manager or (ii) the Collateral Manager, Issuer or Co-Issuer has actual knowledge of such default or breach, and in either case, such default or breach (if remediable) continues for a period of 30 days.

In certain circumstances, the interests of the Issuer and/or the holders of the Notes with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager and its Affiliates. See "Risk Factors—Certain Conflicts of Interest."

DEUTSCHE BANK AKTIENGESELLSCHAFT

Incorporation, Registered Office and Objectives

Deutsche Bank Aktiengesellschaft (**"Deutsche Bank"** or the **"Bank"**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real-estate finance company, installment financing companies, research and consultancy companies and other domestic and foreign companies (the **"Deutsche Bank Group"**).

The objects of Deutsche Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. The Bank may realize these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, the Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of the Bank, in particular to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude company-transfer agreements.

Deutsche Bank AG, London Branch

"Deutsche Bank AG London" is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorized person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions.

Share Capital

As of 30 June 2006, Deutsche Bank's issued share capital amounted to Euro 1,329,684,136.96 consisting of 519,407,866 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the Stock Exchanges in New York, Tokyo and Zurich. The Management Board has decided to pursue delisting on certain stock exchanges other than Germany and New York in order to benefit from the integration of financial markets. In respect of the stock exchanges in Amsterdam, Brussels, London, Luxembourg, Paris and Vienna, this decision was already completely implemented.

Capitalization and Indebtedness of Deutsche Bank Group

As of 30 June 2006, Deutsche Bank Group's capitalization and indebtedness (unaudited) on the basis of United States Generally Accepted Accounting Principles (**"U.S. GAAP"**) was as follows:

	As of 30 June 2006
	(in Euro million)
Deposits	367,253
Trading liabilities	220,791
Central bank funds purchased and securities sold under repurchase agreements	184,282
Securities loaned	11,191
Other short-term borrowings	28,839
Other liabilities	91,087
Long-term debt	121,467
Obligation to purchase common shares	4,319
Total liabilities	**1,029,299**
Common shares, no par value, nominal value of Euro 2.56	1,330
Additional paid-in capital	14,581
Retained earnings	22,023
Common shares in treasury, at cost	(2,139)
Equity classified as obligation to purchase common shares	(4,319)
Accumulated other comprehensive income (loss)	
Deferred tax on unrealized net gains on securities available for sale relating to 1999 and 2000 tax rate changes in Germany	(2,164)
Unrealized net gains on securities available for sale, net of applicable tax and other	1,829
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax	(52)
Minimum pension liability, net of tax	(8)
Foreign currency translation, net of tax	(2,017)
Total accumulated other comprehensive loss	**(2,412)**
Total shareholders' equity	**29,064**
Total liabilities and shareholders' equity	**1,058,293**

There has been no material change in Deutsche Bank Group's capitalization and indebtedness since 30 June 2006.

Management

In accordance with German law, Deutsche Bank has both a Supervisory Board (Aufsichtsrat) and a Management Board (Vorstand). These Boards are separate; no individual may be a member of both. The Supervisory Board appoints the members of the Management Board and supervises the activities of this Board. The Management Board represents Deutsche Bank and is responsible for its management of its affairs.

The Management Board consists of

Dr. Josef Ackermann	Chairman of the Management Board (Chief Executive Officer)
Dr. Hugo Banziger	Chief Risk Officer (CRO)
Anthony Di Iorio	Chief Financial Officer (CFO)
Dr. Tessen von Heydebreck	Chief Administrative Officer (CAO)
Hermann-Josef Lamberti	Chief Operating Officer (COO)

The Supervisory Board consists of the following 20 members:

Dr. Clemens Boersig	Chairman Frankfurt am Main
Heidrun Förster*	Deputy Chairperson Deutsche Bank Privat- und Geschäftskunden AG Berlin
Dr. Karl-Gerhard Eick	Deputy Chairman of the Board of Managing Directors of Deutsche Telekom AG Cologne
Ulrich Hartmann	Chairman of the Supervisory Board of E.ON AG Düsseldorf
Gerd Herzberg*	Vice President of ver.di Vereinte Dienstleistungsgewerkschaft Berlin
Sabine Horn*	Deutsche Bank AG Frankfurt am Main
Rolf Hunck*	Deutsche Bank AG Hamburg
Sir Peter Job	London
Prof. Dr. Henning Kagermann	Chairman and CEO of SAP AG Walldorf/Baden
Ulrich Kaufmann*	Deutsche Bank AG Düsseldorf

Peter Kazmierczak*	Deutsche Bank AG Essen
Maurice Lévy	Chairman and Chief Executive Officer, Publicis Groupe S.A. Paris
Henriette Mark*	Deutsche Bank AG Munich
Dr. jur. Dr.-Ing. E.h. Heinrich von Pierer	Chairman of the Supervisory Board of Siemens AG Erlangen
Gabriele Platscher*	Deutsche Bank Privat- und Geschäftskunden AG Braunschweig
Karin Ruck*	Deutsche Bank AG Bad Soden am Taunus
Prof. Dr. Theo Siegert	Managing Director of the Haen Carstanjen & Söhne Düsseldorf
Tilman Todenhöfer	Managing Partner of Robert Bosch Industrietreuhand KG Stuttgart
Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber	Chairman of the Supervisory Board of Deutsche Lufthansa AG Hamburg
Leo Wunderlich*	Deutsche Bank AG Mannheim

* Elected by the staff in Germany.

The members of the Management Board accept membership on the Supervisory Boards of other corporations within the limits prescribed by law.

The business address of each member of the Management Board and of the Supervisory Board of Deutsche Bank is Taunusanlage 12, 60325 Frankfurt am Main, Germany.

Financial Year

The financial year of Deutsche Bank is the calendar year.

Auditors

The independent auditors of Deutsche Bank are KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG"**), Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany. KPMG audited Deutsche Bank's non-consolidated financial statements for the years ended 31 December 2003, 2004 and 2005, which were prepared in accordance with the German

Commercial Code ("**HGB**"). In accordance with § 292a HGB in the version effective until 9 December 2004 in connection with Article 2 of the Accounting Law Reform Act (Bilanzrechtsreformgesetz –BilReG) and Article 57 of the Introductory Act for the German Commercial Code (EGHGB), the consolidated financial statements for the years ended 31 December 2003, 2004 and 2005 were prepared in accordance with United States Generally Accepted Accounting Principles ("**U.S. GAAP**") and audited by KPMG. In each case an unqualified auditor's certificate has been provided.

Set out below are the following:

- Consolidated Statement of Income as at 30 June 2006 and 30 June 2005;
- Consolidated Balance Sheet as at 30 June 2006 and 31 December 2005; and
- Liabilities and Shareholders' equity as at 30 June 2006 and 31 December 2005.

Consolidated Statement of Income (unaudited)

Income Statement

in € m.	Three months ended Jun 30, 2006	Three months ended Jun 30, 2005	Six months ended Jun 30, 2006	Six months ended Jun 30, 2005
Interest revenues	15,493	11,468	27,976	20,376
Interest expense	13,623	9,855	24,504	17,320
Net interest revenues	**1,870**	**1,613**	**3,474**	**3,056**
Provision for loan losses	95	75	105	169
Net interest revenues after provision for loan losses	**1,775**	**1,538**	**3,369**	**2,887**
Commissions and fees from fiduciary activities	1,034	846	1,972	1,657
Commissions, broker's fees, markups on securities underwriting and other securities activities	1,286	951	2,675	1,889
Fees for other customer services	830	553	1,287	1,160
Trading revenues, net	1,717	1,593	4,686	4,004
Net gains on securities available for sale	125	90	187	203
Net income from equity method investments	51	85	322	220
Other revenues	84	185	305	318
Total noninterest revenues	**4,930**	**4,288**	**11,316**	**9,428**
Compensation and benefits	3,088	2,640	6,712	5,638
Net occupancy expense of premises	250	258	500	503
Furniture and equipment	38	40	80	80
IT costs	371	373	744	759
Agency and other professional service fees	298	197	569	379
Communication and data services	163	145	311	292
Other expenses	583	643	1,198	1,192
Goodwill impairment/impairment of intangibles	–	–	–	–
Restructuring activities	97	116	99	284
Total noninterest expenses	**4,838**	**4,412**	**10,213**	**9,118**
Income before income tax expense and cumulative effect of accounting changes	**1,867**	**1,414**	**4,472**	**3,197**
Income tax expense	641	467	1,582	1,116
Reversal of 1999/2000 credits for tax rate changes	–	–	–	31
Income before cumulative effect of accounting changes, net of tax	**1,226**	**947**	**2,890**	**2,050**
Cumulative effect of accounting changes, net of tax	–	–	46	–
Net income	**1,226**	**947**	**2,936**	**2,050**

Earnings per Share (EPS)

in €	Three months ended Jun 30, 2006	Three months ended Jun 30, 2005	Six months ended Jun 30, 2006	Six months ended Jun 30, 2005
Earnings per common share:				
Basic:				
Income before cumulative effect of accounting changes, net of tax	2.74	2.04	6.41	4.40
Cumulative effect of accounting changes, net of tax[1]	–	–	0.10	–
Net income	**2.74**	**2.04**	**6.51**	**4.40**
Diluted:				
Income before cumulative effect of accounting changes, net of tax[2]	2.17	1.90	5.48	4.08
Cumulative effect of accounting changes, net of tax[2]	–	–	0.09	–
Net income	**2.17**	**1.90**	**5.57**	**4.08**
Number of shares in m.				
Denominator for basic earnings per share – weighted-average shares outstanding	446.8	463.8	450.8	465.7
Denominator for diluted earnings per share – adjusted weighted-average shares after assumed conversions	511.7	498.9	514.8	503.9

[1] Related to SFAS 123(R), the cumulative effect of accounting changes, net of tax, was € 0.09 on basic EPS and € 0.08 on diluted EPS for the six months ended June 30, 2006. Related to SFAS 85-9, the cumulative effect of accounting changes, net of tax, was € 0.01 on basic and diluted EPS each for the six months ended June 30, 2005.

[2] Including numerator effect of assumed conversions. The effect for the three and six months ended June 30, 2006 was € (0.22) and € (0.13), respectively. The effect for the three and six months ended June 30, 2005 was € 0.00 and € (0.01), respectively.

Consolidated Balance Sheet

Assets

in € m.	Jun 30, 2006 (unaudited)	Dec 31, 2005
Cash and due from banks	6,987	6,571
Interest-earning deposits with banks	17,309	11,963
Central bank funds sold and securities purchased under resale agreements	150,272	130,993
Securities borrowed	106,055	101,125
Bonds and other fixed-income securities	271,391	260,469
Equity shares and other variable-yield securities	92,624	99,479
Positive market values from derivative financial instruments	78,096	75,354
Other trading assets	13,431	13,091
Total trading assets	455,542	448,393
Securities available for sale	21,640	21,875
Other investments	4,380	7,382
Loans, net	183,958	151,355
Premises and equipment, net	4,791	5,079
Goodwill	6,779	7,046
Other intangible assets, net	1,139	1,196
Other assets	119,444	99,382
Total assets	1,058,293	892,161

Liabilities and Shareholders' Equity

in € m.	Jun 30, 2006 (unaudited)	Dec 31, 2005
Noninterest-bearing deposits	27,533	33,005
Interest-bearing deposits	339,720	350,782
Total deposits	367,253	380,787
Bonds and other fixed-income securities	98,379	81,294
Equity shares and other variable-yield securities	33,224	28,473
Negative market values from derivative financial instruments	91,188	84,580
Total trading liabilities	220,791	194,347
Central bank funds purchased and securities sold under repurchase agreements	164,282	143,534
Securities loaned	11,161	24,581
Other short-term borrowings	28,839	20,549
Other liabilities	91,087	81,377
Long-term debt	121,457	113,854
Obligation to purchase common shares	4,319	3,506
Total liabilities	**1,009,229**	**962,225**
Common shares, no par value, nominal value of € 2.56	1,330	1,420
Additional paid-in capital	14,581	11,572
Retained earnings	22,023	22,628
Common shares in treasury, at cost	(2,138)	(3,368)
Equity classified as obligation to purchase common shares	(4,319)	(3,506)
Share awards	–	2,131
Accumulated other comprehensive income (loss)		
Deferred tax on unrealized net gains on securities available for sale relating to 1999 and 2000 tax rate changes in Germany	(2,164)	(2,164)
Unrealized net gains on securities available for sale, net of applicable tax and other	1,829	2,498
Unrealized net gains (losses) on derivatives hedging variability of cash flows, net of tax	(52)	9
Minimum pension liability, net of tax	(8)	(8)
Foreign currency translation, net of tax	(2,017)	(1,366)
Total accumulated other comprehensive loss	(2,412)	(1,031)
Total shareholders' equity	**29,864**	**29,936**
Total liabilities and shareholders' equity	**1,039,293**	**992,161**

Litigation

Other than set out herein Deutsche Bank is not, or during the last two financial years has not been involved (whether as defendant or otherwise) in, nor does it have knowledge of any threat of any legal, arbitration, administrative or other proceedings the result of which may have, in the event of an adverse determination, a significant effect on its financial condition presented in this Offering Circular.

IPO Allocation Litigation

Deutsche Bank Securities Inc. (**"DBSI"**) and its predecessor firms, along with numerous other securities firms, have been named as defendants in over 80 putative class action lawsuits pending in the United States District Court for the Southern District of New York. These lawsuits allege violations of securities and antitrust laws in connection with the allocation of shares in a large number of initial public offerings (**"IPOs"**) by issuers, officers and directors of issuers, and underwriters of those securities. DBSI is named in these suits as an underwriter. The securities cases allege material misstatements and omissions in registration statements and prospectuses for the IPOs and market manipulation with respect to aftermarket trading in the IPO securities. Among the allegations are that the underwriters tied the receipt of allocations of IPO shares to required aftermarket purchases by customers and to the payment of undisclosed compensation to the underwriters in the form of commissions on securities trades, and that the underwriters caused misleading analyst reports to be issued. The antitrust claims allege an illegal conspiracy to affect the stock price based on similar allegations that the underwriters required aftermarket purchases and undisclosed commissions in exchange for allocation of IPO stocks. In the securities cases, the motions to dismiss the complaints of DBSI and others were denied on February 13, 2003. Plaintiffs' motion to certify six "test" cases as class actions in the securities cases was granted on October 13, 2004, and DBSI and other defendants appealed that decision to the Court of Appeals for the Second Circuit. Discovery in the securities cases is underway. In the putative antitrust class action, the defendants' motion to dismiss the complaint was granted on November 3, 2003. On September 28, 2005 the Court of Appeals for the Second Circuit vacated the ruling and remanded the case to the lower court for consideration of alternate grounds for dismissal. Defendants have moved for reconsideration by the Second Circuit.

Enron Litigation

Deutsche Bank AG and certain of its affiliates are collectively involved in more than 10 lawsuits arising out of their banking relationship with Enron Corp., its subsidiaries and certain Enron-related entities (**"Enron"**). These lawsuits include a series of purported class actions brought on behalf of shareholders of Enron, including the lead action captioned *Newby v. Enron Corp.* The consolidated complaint filed in Newby named as defendants, among others, Deutsche Bank AG, several other investment banking firms, a number of law firms, Enron's former accountants and affiliated entities and individuals and other individual defendants, including present and former officers and directors of Enron, and it purported to allege claims against Deutsche Bank AG under federal securities laws. On June 5, 2006, the Court dismissed all of the claims alleged in the *Newby* action against Deutsche Bank AG and its affiliates. On June 21, 2006, Lead Plaintiff in *Newby* filed a motion requesting the Court to reconsider the dismissal of Deutsche Bank AG and its affiliates from *Newby*.

Also, an adversary proceeding has been brought by Enron in the bankruptcy court against, among others, Deutsche Bank AG and certain of its affiliates. In this adversary proceeding, Enron seeks damages from the Deutsche Bank entities, as well as the other defendants, for alleged aiding and abetting breaches of fiduciary duty by Enron insiders, aiding and abetting fraud and unlawful civil conspiracy, and also seeks return of alleged fraudulent conveyances and preferences and equitable subordination of their claims in the Enron bankruptcy. The Deutsche Bank entities' motion to partially dismiss the adversary complaint is pending.

In addition to Newby and the adversary proceeding described above, there are third-party actions and individual and putative class actions brought in various courts by Enron investors and creditors alleging federal and state law claims against Deutsche Bank AG and certain of its affiliates.

WorldCom Litigation

Deutsche Bank AG and DBSI were defendants in more than 40 actions filed in federal and state courts arising out of alleged material misstatements and omissions in the financial statements of WorldCom Inc. DBSI was a member of the syndicate that underwrote WorldCom's May 2000 and May 2001 bond offerings, which are among the bond offerings at issue in the actions. Deutsche Bank AG, London branch was a member of the syndicate that underwrote the sterling and euro tranches of the May 2001 bond offering. Plaintiffs were alleged purchasers of these and other WorldCom debt securities. The defendants in the various actions included certain WorldCom directors and officers, WorldCom's auditor and members of the underwriting syndicates for the debt offerings. Plaintiffs alleged that the offering documents contained material misstatements and/or omissions regarding WorldCom's financial condition. The claims against DBSI and Deutsche Bank AG were made under federal and state statutes (including securities laws), and under various common law doctrines. The largest of the actions against Deutsche Bank AG and DBSI was a class action litigation in the U.S. District Court in the Southern District of New York, in which the class plaintiffs are the holders of a significant majority of the bonds at issue. On March 10, 2005, Deutsche Bank AG and DBSI reached a settlement agreement, subject to court approval, resolving the class action claims asserted against them, for a payment of approximately US$325 million. The settlement of the class action claims did not resolve the individual actions brought by investors who chose to opt out of the federal class action. The financial effects of the class action settlement are reflected in our 2004 consolidated financial statements. All but three of the individual actions have been resolved.

Tax-Related Products

Deutsche Bank AG, along with certain affiliates and employees (collectively referred to as **"Deutsche Bank"**), have collectively been named as defendants in more than 75 legal proceedings brought by customers in various tax-oriented transactions. Deutsche Bank provided financial products and services to these customers, who were advised by various accounting, legal and financial advisory professionals. The customers claimed tax benefits as a result of these transactions, and the United States Internal Revenue Service has rejected those claims. In these legal proceedings, the customers allege that, together with Deutsche Bank, the professional advisors improperly misled the customers into believing that the claimed tax benefits would be upheld by the Internal Revenue Service. The legal proceedings are pending in numerous state and federal courts and in arbitration, and claims against Deutsche Bank are alleged under both U.S. state and federal law. Many of the claims against Deutsche Bank are asserted by individual customers, while others are asserted on behalf of a putative customer class. No litigation class has been certified as against Deutsche Bank. The legal proceedings are currently at various pre-trial stages, including discovery.

The United States Department of Justice (**"DOJ"**) is also conducting a criminal investigation of tax-oriented transactions that were executed from approximately 1997 through 2001. In connection with that investigation, DOJ has sought various documents and other information from Deutsche Bank and has been investigating the actions of various individuals and entities, including Deutsche Bank, in such transactions. In the latter half of 2005, DOJ brought criminal charges against numerous individuals based on their participation in certain tax-oriented transactions while employed by entities other than Deutsche Bank. In the latter half of 2005, DOJ also entered into a Deferred Prosecution Agreement with an accounting firm (the **"Accounting Firm"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Accounting Firm based on its participation in certain tax-oriented transactions *provided* that the Accounting Firm satisfied the terms of the Deferred Prosecution Agreement. On February 14, 2006, DOJ announced that it had entered into a Deferred Prosecution Agreement with a financial institution (the **"Financial Institution"**), pursuant to which DOJ agreed to defer prosecution of a criminal charge against the Financial Institution based on its role in providing financial products and services in connection with certain tax-oriented transactions *provided* that the Financial Institution

satisfied the terms of the Deferred Prosecution Agreement. Deutsche Bank provided similar financial products and services in certain tax-oriented transactions that are the same or similar to the tax-oriented transactions that are the subject of the above-referenced criminal charges. Deutsche Bank also provided financial products and services in additional tax-oriented transactions as well. DOJ's criminal investigation is on-going.

In the Matter of KPMG LLP Certain Auditor Independence Issues

On November 20, 2003, the SEC requested Deutsche Bank to produce certain documents in connection with an ongoing investigation of certain auditor independence issues relating to KPMG LLP. Deutsche Bank is cooperating with the SEC in its inquiry. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (**"KPMG DTG"**), a KPMG LLP affiliate, is Deutsche Bank's auditor. Aspects of this investigation appear to involve certain tax-oriented transactions among those at issue in the tax-related litigation described above, where Deutsche Bank provided financial products and services and a KPMG LLP affiliate advised the investors. During all relevant periods, including the present, KPMG DTG has confirmed to Deutsche Bank that KPMG DTG was and is "independent" from Deutsche Bank under applicable accounting and SEC regulations.

Kirch Litigation

In May 2002, Dr Leo Kirch personally and as an assignee initiated legal action against Dr Breuer and Deutsche Bank AG alleging that a statement made by Dr Breuer (then the Spokesman of Deutsche Bank's Management Board) in an interview with Bloomberg television on February 4, 2002 regarding the Kirch Group was in breach of laws and financially damaging to Kirch. On January 24, 2006 the German Federal Supreme Court sustained the action for the declaratory judgment only in respect of the claims assigned by the PrintBeteiligungs GmbH. Such action does not require a proof of any loss caused by the statement made in the interview. PrintBeteiligungs GmbH is the only company of the Kirch Group which was a borrower of Deutsche Bank. Claims by Kirch personally and by the group holding company, TaurusHolding GmbH & Co. KG, were dismissed. To be awarded a judgment for damages against Deutsche Bank AG, Dr Kirch would have to file a new lawsuit; in such proceedings he would have to prove that the statement caused financial damages to PrintBeteiligungs GmbH and the amount thereof.

In 2003, Dr Kirch instituted legal action in the Supreme Court of the State of New York in which he seeks the award of compensatory and punitive damages based upon Dr Breuer's interview. Upon introduction of additional plaintiffs and defendants and referral to the U.S. District Court for the Southern District of New York, the case was dismissed on September 24, 2004. The plaintiffs appealed this decision. On June 5, 2006, the U.S. Court of Appeals for the Second Circuit partly confirmed the dismissal of the claims and otherwise remanded the case to the court of first instance to decide for the remaining claims the issues of forum non conveniens or res judicata.

On December 31, 2005, the KGL Pool GmbH filed a lawsuit against Deutsche Bank and Dr Breuer. The lawsuit is based on alleged claims assigned from various subsidiaries of the former Kirch Group. The KGL Pool GmbH is also a plaintiff in the above mentioned case in the USA and seeks a declaratory judgment to the effect that Deutsche Bank AG and Dr Breuer are jointly and severally liable for damages as a result of the interview statement and the behaviour of Deutsche Bank in respect of several subsidiaries of the Kirch Group.

Philipp Holzmann AG

Philipp Holzmann AG (**"Holzmann"**) is a major German construction firm which filed for insolvency in March 2002. Deutsche Bank had been a major creditor bank and holder of an equity interest of Holzmann for many decades, and, from April 1997 until April 2000, a former member of Deutsche Bank AG's Management Board was the Chairman of its Supervisory Board. When Holzmann had become insolvent at the end of 1999, a consortium of banks led by Deutsche Bank participated in late 1999 and early 2000 in a restructuring of Holzmann that included the banks' extension of a credit facility, participation in a capital increase and exchange of debt into convertible bonds. In March 2002, Holzmann

and several of its subsidiaries, including in particular imbau Industrielles Bauen GmbH ("**imbau**"), filed for insolvency. As a result of this insolvency, the administrators for Holzmann and for imbau and a group of bondholders have informed Deutsche Bank they are asserting claims against it because of its role as lender to the Holzmann group prior to and after the restructuring and as leader of the consortium of banks which supported the restructuring. The purported claims include claims that amounts repaid to the banks constituted voidable preferences that should be returned to the insolvent entities and claims of lender liability resulting from the banks' support for an allegedly infeasible restructuring. Although Deutsche Bank is in ongoing discussions, it cannot exclude that some of the parties may file lawsuits against it. To date, the administrator for imbau filed a lawsuit against Deutsche Bank in August 2004 alleging that payments received by Deutsche Bank in respect of a loan made to imbau in 1997 and 1998 and in connection with a real estate transaction that was part of the restructuring constituted voidable preferences that should be returned to the insolvent entity. Several bondholders filed a lawsuit against Deutsche Bank in December 2005 seeking damages because of its allegedly unlawful support of Holzmann's 1999/2000 restructuring. Additionally, Gebema N.V. filed a lawsuit in 2000 seeking damages against Deutsche Bank alleging deficiencies in the offering documents based on which Gebema N.V. had invested in equity and convertible bonds of Holzmann in 1998.

Parmalat Litigation

Following the bankruptcy of the Italian company Parmalat, the Special Administrator of Parmalat, Mr. Enrico Bondi, is suing Deutsche Bank for damages totaling EUR2.199 billion for facilitating the insolvency offence of delaying the filing of a petition in insolvency allegedly committed by Parmalat's former management and supervisory board. There are two separate complaints and they allege that by managing and/or underwriting the issuance of Parmalat bonds in 2003 and entering into certain derivative transactions, Deutsche Bank assisted Parmalat by providing liquidity in order to enable Parmalat to meet its short term liabilities/obligations. It is alleged that Deutsche Bank knowingly helped Parmalat to continue its business for several months until December 2003, despite being aware of the true financial situation that the company was in. Parmalat reserves the right to increase the amount of damages sought. The damages currently requested are, it is claimed, equal to the loss creditors of Parmalat incurred in the second half of 2003.

Also in connection with the Parmalat insolvency, Mr. Bondi has already brought two claw back actions against Deutsche Bank SpA.

General

Due to the nature of its business, Deutsche Bank and its subsidiaries are involved in litigation, arbitration and regulatory proceedings in Germany and in a number of jurisdictions outside Germany, including the United States, arising in the ordinary course of its businesses. Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Although the final resolution of any such matters could have a material effect on Deutsche Bank's consolidated operating results for a particular reporting period, the Bank believes that it should not materially affect its consolidated financial position.

TAX CONSIDERATIONS

United States Tax Considerations

General

To ensure compliance with Internal Revenue Service Circular 230, investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Offering Circular is not intended or written to be used, and cannot be used, by investors for the purpose of avoiding penalties that may be imposed on them under the Code; (b) such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes by purchasers that acquire their Notes in the initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings, and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the **"IRS"**) with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor, nor does it address the United States federal income tax considerations applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), financial institutions, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities, currencies or notional principal contracts, persons that own (or are deemed to own) [10]% or more of the voting shares (or interests treated as equity) of the Issuer, partnerships, pass-through entities or persons who hold the Notes through partnerships or pass-through entities, S corporations, estates and trusts, investors that hold their Notes as part of a hedge, straddle, synthetic security or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences, or the indirect effects on investors of equity interests in either a U.S. Holder (as defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold their Notes as "capital assets" within the meaning of Section 1221 of the Code. Investors should consult their own tax advisors to determine the United States federal, state, local, and other tax consequences of the purchase, ownership, and disposition of the Notes.

As used herein, **"U.S. Holder"** or means a beneficial holder of a Note that is an individual citizen or resident of the United States for United States federal income tax purposes, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust for which a court within the United States is able to exercise primary supervision over its administration and for which one or more United States persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. **"Non-U.S. Holder"** means any holder (or beneficial holder) of a Note that is not a U.S. Holder. If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult their own tax advisors.

U.S. Federal Income Tax Consequences to the Issuer

Upon the issuance of the Notes, Allen & Overy LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Collateral Manager, although the matter is not free from doubt, the Issuer will not be engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a U.S. trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a trade or business, among other consequences, the Issuer would be subject to net income taxation in the United States (as well as the branch profits tax) on its income. The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes.

The Issuer intends to acquire the Underlying Assets, the interest on which, and any gain from the Disposition thereof, is expected not to be subject to United States federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Underlying Assets and, thus, there can be no absolute assurance that in every case, payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur United States withholding tax on interest received from a related United States person.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that will be subject to United States withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer shall be under no obligation to make any additional payments to any holder in respect of such withholding or deduction.

Notwithstanding the foregoing, any commitment fee, facility fee and similar fee that the Issuer earns may be subject to a 30% withholding tax and any lending fees received under a securities lending agreement may also be subject to withholding tax.

Classification of the Notes

The Issuer has agreed and, by its acceptance of a Note, each Noteholder will be deemed to have agreed, to treat each of the Notes as debt of the Issuer for United States federal income tax purposes, unless required by law. Upon the issuance of the Notes, Allen & Overy LLP will deliver an opinion generally to the effect that assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and the Initial Purchaser, the Notes, when issued, will be characterized as debt of the Issuer for United States federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS, and there can be no assurance that the IRS will not seek to characterize any Class of Notes as other than indebtedness. Except as provided under "—Alternative Characterization of the Notes," below, the balance of this discussion assumes that the Notes will be characterized as debt of the Issuer for United States federal income tax purposes unless required by law.

For United States federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

Payments of Interest on the Notes.

Generally, stated interest on a Note that is considered "unconditionally payable" (as described below) will be ordinary income taxable to a U.S. Holder when received or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. Such interest income will be treated as foreign source income for foreign tax credit purposes. If the "stated redemption price at maturity" (**"SRPM"**) of a Note exceeds the "issue price" of such Note by more than a "de minimis amount," then the excess of SRPM over the issue price may constitute original issue discount (**"OID"**). The SRPM of a debt instrument is generally the sum of all payments provided by the debt instrument other than "qualified stated interest" payments. The issue price is the first price at which a substantial amount of a debt instrument is sold to the public. The de minimis amount is any amount less than one-fourth of one percent of a debt instrument's SRPM multiplied by the number of complete years to maturity. Qualified stated interest is generally interest paid on a debt instrument that is unconditionally payable at least annually at a single fixed rate.

The Treasury Regulations provide that, for purposes of determining whether a debt instrument is issued with OID, stated interest must be included in the SRPM of the debt instrument if such interest is not "unconditionally payable." Interest is considered "unconditionally payable" if reasonable legal remedies exist to compel timely payment or terms and conditions of the debt instrument make the likelihood of late payment (other than late payment that occurs within a reasonable grace period) or non-payment (ignoring the possibility of non-payment due to default, insolvency or similar circumstances) a remote contingency. The Issuer intends, pursuant to its interpretation of the foregoing rules, to take the position that payments of interest on the Class A-1 Notes, Class A-2 Notes and Class B Notes are considered unconditionally payable, and thus not included in the SRPM of such Class A-1 Notes, Class A-2 Notes and Class B Notes and should be treated as "qualified stated interest". Because the interest payments on the Class C Notes, Class D Notes and Class E Notes are subject to deferral (and the possibility of such deferral may not be remote within the meaning of the Treasury Regulations), the Issuer intends to take the position that all interest (including interest on accrued but unpaid interest) payable on the Class C Notes, Class D Notes and Class E Notes should be included in the SRPM and should be treated as issued with OID. However, because there is no authority addressing when the likelihood of a contingency such as the deferral of interest should be considered not "remote", there can be no assurance the IRS will agree with this position.

The U.S. federal income tax treatment of the Class C Notes, the Class D Notes and the Class E Notes under the OID rules is uncertain. If the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, the Issuer intends not to calculate OID under the PAC Method referred to below, and instead to take the position that the amount of OID that accrued on such Class C Notes, Class D Notes and Class E Notes in each accrual period is equal to the amount of interest (including any Deferred Interest with respect to the Class C Notes, the Class D Notes and the Class E Notes) that accrues on such Class C Notes, Class D Notes and Class E Notes during such period. Unless the Class C Notes, the Class D Notes and the Class E Notes are issued at an issue price equal to their principal amount, in including stated interest in the SRPM of the Class C Notes, the Class D Notes and the Class E Notes, the Issuer intends, absent definitive guidance, to treat the Class C Notes, the Class D Notes and the Class E Notes as subject to an income accrual method analogous to the methods applicable to debt instruments having payments that are contingent as to amount but not as to time and debt instruments whose payments are subject to acceleration (prescribed by section 1272(a)(6) of the Code) using an assumption as to the expected prepayments on the Class C Notes, the Class D Notes and the Class E Notes (the **"PAC Method"**). As such, accruals of any such additional OID will generally be based upon the weighted average life of such Class C Notes, Class D Notes and Class E Notes rather than the stated maturity. Prospective investors should consult their own tax advisors

regarding the application of the OID rules to the Class C Notes, the Class D Notes and the Class E Notes and the tax characterization and treatment of payments on such Notes.

Sale, Exchange or Retirement of the Notes.

A U.S. Holder's tax basis in a Note will generally equal its cost, plus any accrued OID, reduced by the amount of any payments received by the U.S. Holder with respect to a Note that are not qualified stated interest payments as described above. A U.S. Holder will generally recognize gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realized and the tax basis of the Note. That gain or loss will be a capital gain or loss and generally will be treated as from sources within the United States. Prospective investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers that are individuals, trusts or estates and that held a Senior Debt Note for more than one year) and capital losses (the deductibility of which is subject to limitations).

If any Class of Notes were considered "contingent payment debt instruments" (**"CPDIs"**) within the meaning of Treasury Regulation section 1.1275-4, then, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Although the Issuer does not intend to treat the Notes as CPDIs, prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

Alternative Characterization of the Notes

Notwithstanding tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Notes. It is possible, for example, that the IRS may contend that a Class of the Notes should be treated as equity interests (or as part-debt, part-equity) in the Issuer. Such a recharacterization might result in materially adverse tax consequences to U.S. Holders.

If U.S. Holders of a Class of Notes were treated as owning equity interests in the Issuer, interest payments would be treated as dividends (to the extent of current and accumulated earnings). Further, while not certain, interest on the Notes might accrue (as dividends) prior to payment in a manner akin to the accrual of OID. No dividends received deduction would apply to any of those dividends.

Further, the Issuer is a passive foreign investment company, or PFIC. If U.S. Holders were treated as owning equity interests in the Issuer, U.S. Holders generally will be considered United States shareholders in a PFIC. Under the rules relating to PFICs, a United States shareholder of a PFIC that receives an "excess distribution" must allocate the excess distribution ratably to each day in the taxpayer's holding period for such equity, and must pay a deemed deferred tax amount with respect to each prior year in the taxpayer's holding period. The total excess distribution for any taxable year is the excess of (a) the total distributions for the year over (b) 125 percent of the average amount received in respect of such stock by the taxpayer during the three preceding years (or, if shorter, the U.S. Holder's holding period for such equity). In addition, any gain on the disposition of such equity in a PFIC would be treated as though it were an excess distribution. The deferred tax amount is equal to the sum of (a) the aggregate increases in taxes (computed at the maximum marginal rate) for each year in the taxpayer's holding period before the current year that would result from allocating the excess distributions back over the taxpayer's holding period ratably and (b) interest on those increases.

In order to avoid the application of the PFIC rules, each U.S. Holder should consider making (and consult with its tax advisors regarding the effectiveness and usefulness of making) a qualified electing fund election (the **"QEF election"**) provided in Section 1295 of the Code on a "protective" basis (although

such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held a Note. In lieu of the PFIC rules discussed above, a U.S. Holder that makes a valid QEF election with respect to a Note that is recharacterized as an equity interest in the Issuer will, in very general terms, be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income as ordinary income and long-term capital gain, respectively, for each taxable year and pay tax thereon (even if the amount of that income is not the same as the interest payment, if any, made or OID, if any accruing, on the Note during that period). In general, however, payments of interest on the Note that reflect income on which the U.S. Holder has already paid taxes under the QEF election, will not be further taxable to the U.S. Holder. While there can be no assurance that the IRS would respect the following allocation, the Issuer intends to allocate such ordinary income and net capital gains in a manner designed to cause any Class of Notes that is recharacterized as equity in the Issuer to have approximately the same amount of income as would have accrued on that Class had it been respected as debt.

In the event that any Class of Notes is recharacterized as voting equity in the Issuer and certain other conditions are met, the Issuer may be classified as a controlled foreign corporation (a **"CFC"**) with respect to U.S. Holders that own at least 10% of the Issuer's voting equity. In such event, Noteholders would, in general, be taxed in a similar manner as if they had made the QEF election described above (although some income that would otherwise be capital, may be ordinary).

Information Reporting Requirements

Under United States federal income tax law and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. These reporting requirements apply to both taxable and tax-exempt U.S. Holders. Penalties for failure to file certain of these information returns are severe. Purchasers of the Notes should consult with their own tax advisors regarding the necessity of filing information returns.

If requested by the Issuer, each holder will be required to provide the Issuer with the name and status of each beneficial owner of a Note that is a U.S. Holder.

Non-U.S. Holders

Assuming that (i) the Notes are treated as debt of a non-United States corporation or (ii) if the Notes are treated as equity in a non-United States corporation, that such corporation is not engaged in a U.S. trade or business, a Non-U.S. Holder of a Note that has no connection with the United States and is not related, directly or indirectly, with the Issuer or the holders of the Issuer's equity or the Preferred Shares, will not be subject to U.S. withholding tax on interest payments. Non-U.S. Holders may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the Notes (including OID, if any) and proceeds of the sale, exchange, redemption or other disposition of the Notes to U.S. Holders. The Issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number (typically by providing a completed and executed IRS Form W-9), to certify that such U.S. Holder is not subject to backup withholding, or to otherwise

comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability, *provided* that the required information is timely furnished to the IRS. Prospective investors in the Notes should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

IRS Disclosure Reporting Requirements

Recently promulgated U.S. Treasury Regulations (the **"Disclosure Regulations"**) meant to require the reporting of certain tax shelter transactions (**"Reportable Transactions"**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations it may be possible that certain transactions with respect to the Notes may be characterized as Reportable Transactions requiring a holder to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Note that results in a loss that exceeds certain thresholds and other specified conditions are met. Prospective investors in the Notes should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Statement).

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A NOTEHOLDER'S PARTICULAR SITUATION. PROSPECTIVE INVESTORS IN THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples & Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

(a) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(b) the Holder of any Note (or the legal personal representative of such Holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and obtained an undertaking from the Governor In Cabinet of the Cayman Islands substantially in the following form:

"The Tax Concessions Law
(1999 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Gemstone CDO VII Ltd. (the **"Company"**):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the [ ] day of [ ], 2007.

Governor in Cabinet"

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (**"ERISA"**), imposes certain duties on persons who are fiduciaries of employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA (**"ERISA Plans"**) and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. federal, state and local laws impose similar duties on fiduciaries of governmental and/or church plans which are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entity, or of a governmental or church plan which is subject to fiduciary standards similar to those of ERISA (**"Plan Fiduciary"**), who proposes to cause such a plan or entity to purchase Notes should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Notes is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Notes, a Plan Fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and/or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**), prohibit certain transactions involving the assets of ERISA Plans or plans described in Section 4975(e)(1) and subject to Section 4975 of the Code (together with ERISA Plans, **"Plans"**) and certain persons (referred to as **"parties in interest"** in ERISA and as "disqualified persons" in Section 4975 of the Code) (collectively, "Parties in Interest") having certain relationships to such Plans and entities. A Party in Interest who engages in a non-exempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, the Initial Purchaser and the Collateral Manager, as a result of their own activities or because of the activities of an Affiliate, may be considered a Party in Interest with respect to Plans. Accordingly, prohibited transactions (within the meaning of Section 406 of ERISA and Section 4975 of the Code) may arise if Notes are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the obligors on the Underlying Assets or any of their respective Affiliates is a Party in Interest. In addition, if a Party in Interest with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party in Interest with respect to a Plan which owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction.

Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan Fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are U.S. Department of Labor (**"DOL"**) PTE 96-23, regarding investments by certain "in-house asset managers"; PTE 95-60, regarding investments by insurance company general accounts; PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; and PTE 84-14, regarding transactions effected by "qualified professional asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of Notes were to constitute or result in a non-exempt prohibited transaction, the purchase might have to be rescinded.

In addition, recently enacted legislation (the **"Pension Protection Act of 2006"**) provides a statutory exemption for prohibited transactions between a plan and a Person that is a party in interest (other than a fiduciary or an affiliate that, directly or indirectly, has or exercises discretionary authority or control or renders investment advice with respect to the assets involved in the transaction) solely by reason of providing services to the plan, *provided* that there is adequate consideration for the transaction. Prospective investors should consult with their advisors regarding the application of this statutory exemption. Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other Federal laws that are similar to the foregoing provisions of ERISA and the Code.

The DOL, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and Section 4975 of the Code, has issued a regulation (the **"Plan Asset Regulation"**) which, under specified circumstances, requires Plan fiduciaries, and entities with certain specified relationships to a Plan, to "look through" investment vehicles (such as the Issuer) and treat as an "asset" of the Plan each underlying investment made by such investment vehicle. The Plan Asset Regulation provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant, then the "look-through" rule will not apply to such entity. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation, as modified by Section 3(42) of ERISA, to include (i) any employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, (ii) any plan described in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, and (iii) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice to the entity for a fee (such as the Collateral Manager) or any Affiliates of such persons (any such person, a **"Controlling Person"**)) is held by Benefit Plan Investors (the **"25% Threshold"**).

There is little pertinent authority in this area and securities may change character from debt to equity over time due to changing circumstances. Fiduciaries of Plans considering the purchase of Notes should consult their counsel in this regard. However, it is not anticipated that the Class A Notes, the Class B Notes or the Class C Notes will constitute "equity interests" in the Issuers. Based primarily on the unconditional obligation of the Issuers to pay interest and to repay principal by a fixed maturity date and the creditors' remedies available to holders of the Class D Notes and the Class E Notes, it is anticipated that the Class D Notes and the Class E Notes will not constitute "equity interests" in the Issuers, despite their subordinated position in the capital structure of the Issuers. No measures will be taken to restrict investment in the Class D Notes or the Class E Notes by Benefit Plan Investors.

The sale of any Note to a Plan is in no respect a representation by the Issuer, the Initial Purchaser, the Collateral Manager or any of their Affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for a Plan generally or any particular Plan.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT A PLAN, OR A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE, OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, *e.g.*, where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the U.S. Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Notes with assets of its general account as a wholly owned subsidiary thereof should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c 1.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Circular, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

Tax penalty avoidance

The summary of ERISA considerations contained herein was written to support the promotion and marketing of the Notes, and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any U.S. federal tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

PLAN OF DISTRIBUTION

The Issuers and the Initial Purchaser will enter into a Note Purchase Agreement (the **"Note Purchase Agreement"**) relating to the offering and sale of the Notes. In the Note Purchase Agreement, the Issuers have agreed to sell to the Initial Purchaser, and the Initial Purchaser will agree to purchase, the entire principal amount of the Notes. The Notes purchased by the Initial Purchaser, if any, will be privately placed with eligible investors by the Initial Purchaser. The obligations of the Initial Purchaser under the Note Purchase Agreement are subject to the satisfaction of certain conditions in the Note Purchase Agreement. The Issuer will pay all fees and expenses in connection with this offering as set forth in the Note Purchase Agreement. Pursuant to the Note Purchase Agreement, the Issuers will agree to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments it may be required to make in respect thereof.

The Issuers have been advised by the Initial Purchaser that the Initial Purchaser proposes to sell the Notes (i) to Qualified Purchasers who are also (a) Qualified Institutional Buyers pursuant to Rule 144A or (b) Institutional Accredited Investors pursuant to Section 4(2), and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Buyers of the Notes may be required to make certain representations with respect to their ability to invest in the Notes.

The Notes are offered subject to prior sale, to withdrawal, cancellation or modification of the offer without notice, to the right of the Initial Purchaser to reject any order in whole or in part for any reason and to certain other conditions.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S or pursuant to the exemptions from the registration requirements under the Securities Act provided by Rule 144A.

(1) In the Note Purchase Agreement, the Initial Purchaser will represent and agree that it has offered or sold Notes and will offer or sell Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the completion of the distribution of the Notes, only in accordance with Rule 903 of Regulation S or Rule 144A or any other available exemption from the Registration requirements of the Securities Act. Accordingly, the Initial Purchaser will represent and agree that neither it, its affiliates (if any) nor any persons acting on their behalf have engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes, and they have complied and will comply with the offering restrictions requirements of Regulation S.

(2) In the Note Purchase Agreement the Initial Purchaser will agree that (i) it will not solicit offers for, or offer or sell, any of the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (ii) it will solicit offers for the Notes only from, and will offer the Notes only to, persons that (A) it reasonably believes to be, in the case of offers inside the United States or to U.S. Persons, Qualified Institutional Buyers or Institutional Accredited Investors, who are also Qualified Purchasers or (B) in the case of offers outside the United States, are non-U.S. Persons; and (iii) with respect to offers and sales of the Notes outside the United States that it will not offer, sell or deliver any of the Notes in any jurisdiction outside the

United States except under circumstances that will result in compliance with the applicable laws thereof.

United Kingdom

Pursuant to the Purchase Agreement, the Initial Purchaser will represent and agree that:

(1) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or Dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**"FSMA"**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Cayman Islands

The Initial Purchaser has represented and agreed that it has not made and will not make any invitation to any member of the public in the Cayman Islands to subscribe for any of the Notes (or the Preference Shares).

General

The Issuers and the Collateral Manager extend to each prospective investor the opportunity to ask questions of, and receive answers from, the Issuers and the Collateral Manager concerning the Notes and the terms and conditions of this Offering and to obtain any additional information it may consider necessary in making an informed investment decision and any information necessary in order to verify the accuracy of the information set forth herein, to the extent the Issuers, or the Collateral Manager possesses the same. Requests for such additional information can be directed to Gemstone CDO VII Ltd., c/o Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands; Gemstone CDO VII Corp., c/o Puglisi & Associates, 850 Library Avenue Suite 204, Newark, Delaware 19711; and HBK Investments L.P., 300 Crescent Court Suite 700, Dallas, Texas 75201, Attention: Fixed Income Division.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or possession, circulation or distribution of this Offering Circular or any other offering material relating to the Issuer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Purchasers of the Notes

may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

The Notes are newly issued securities for which there currently is no market. The Initial Purchaser has advised the Issuer that the Initial Purchaser presently does not intend to make a market in the Notes.

Certain of the Underlying Assets may have been originally underwritten, originated or placed by the Initial Purchaser or its affiliates. In addition, the Initial Purchaser and its affiliates may have in the past and may in the future perform investment banking services, commercial banking services or other services for issuers of the Underlying Assets.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes.

Investor Representations on Original Purchase. Each Original Purchaser of Notes from the Initial Purchaser will be deemed to acknowledge, represent to and agree with the Issuers and the Initial Purchaser as follows:

(1) *No Governmental Approval.* The purchaser understands that the Notes have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction, nor has the SEC or any other governmental authority or agency passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer.* If required by the Indenture, the purchaser will, prior to any sale, pledge or other transfer by it of any Note (or any interest therein), obtain from the transferee and deliver to the Issuers, the Trustee and the Note Registrar a duly executed transfer certificate addressed to each of the Issuers, the Trustee and the Note Registrar in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuers, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer substantially complies with the transfer restrictions set forth in the Indenture and described herein.

(3) *Minimum Denominations; Form of Notes.* The purchaser agrees that no Note (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable required minimum denomination set forth in the Indenture and described herein.

(4) *Securities Law Limitations on Resale.* The purchaser understands that the Notes have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons (as defined in Rule 902(k) under the Securities Act) unless they are registered under the Securities Act or unless an exemption from registration is available. Accordingly, the certificates representing the Notes will bear a legend stating that such Notes have not been registered under the Securities Act and setting forth certain of the restrictions on transfer of the Notes described herein. The purchaser understands that the Issuers have no obligation to register any of the Notes under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture).

(5) *Qualified Institutional Buyer, Institutional Accredited Investor or Non-U.S. Person Status; Investment Intent.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, (a) it is a Qualified Institutional Buyer or, in respect of certain Original Purchasers, an Institutional Accredited Investor, and (b) is acquiring the Notes for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser who takes delivery of Notes in the form of a Regulation S Note, (a) it is not a U.S. Person (as defined in Rule 902(k) under the Securities Act), (b) it is purchasing such Notes for its own account and not for the account or benefit of a U.S. Person and (c) it understands that prior to the end of the

Distribution Compliance Period, interests in a Regulation S Note may be held only through Euroclear or Clearstream.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information.* The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in the Notes, (b) is financially able to bear such risk, (c) in making such investment is not relying on the advice or recommendations of the Initial Purchaser, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in the Notes is suitable and appropriate for it. The purchaser has received, and has had an adequate opportunity to review the contents of, this Offering Circular. The purchaser has had access to such financial and other information concerning the Issuers and the Notes as it has deemed necessary to make its own independent decision to purchase Notes, including the opportunity, at a reasonable time prior to its purchase of Notes, to ask questions and receive answers concerning the Issuers and the terms and conditions of the offering of the Notes.

(7) *Certain Resale Limitations; Rule 144A.* No Note (or any interest therein) may be offered, sold, pledged or otherwise transferred to (a) a transferee acquiring a Restricted Note except (i) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, (ii) to a transferee that is a Qualified Purchaser, (iii) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (iv) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (v) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction or (b) a transferee acquiring an interest in a Regulation S Note except (i) to a transferee that is a non-U.S. Person acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 904 of Regulation S, (ii) if such transfer is made in compliance with the certification (if any) and other requirements set forth in the Indenture and (iii) if such transfer is made in accordance with any applicable securities laws of any state of the United States and any other relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for Notes and that no assurance can be given as to the liquidity of any trading market for Notes and that it is unlikely that a trading market for any of the Notes will develop. The purchaser further understands that, although the Initial Purchaser may from time to time make a market in Notes, the Initial Purchaser is under no obligation to do so and, following the commencement of any market-making, it may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold Notes for an indefinite period of time or until their maturity. The purchaser further understands that the Notes are limited-recourse obligations of the Issuers, payable solely from the Collateral in accordance with the Priority of Payments.

(9) *Investment Company Act.* The purchaser either (a) is not a U.S. resident (within the meaning of the Investment Company Act) or (b) is a Qualified Purchaser. The purchaser

agrees that no sale, pledge or other transfer of a Note (or any interest therein) may be made (m) unless such transfer is made to a transferee who, if a U.S. resident (within the meaning of the Investment Company Act), is a Qualified Purchaser or (n) if such transfer would have the effect of requiring either of the Issuers to register as an investment company under the Investment Company Act. If the purchaser is a U.S. resident that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an **"excepted investment company"**): (x) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 (**"pre-amendment beneficial owners"**); and (y) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

Each purchaser of a Restricted Note or an interest therein will be deemed to represent at the time of purchase that the purchaser is (a) a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and (b) a Qualified Purchaser.

(10) *Certifications Related to Tax Withholding.* The Purchaser understands that the Issuer may require certification acceptable to it (a) to permit the Issuer to make payments to it without, or at a reduced rate of, withholding or (b) to enable the Issuer to qualify for a reduced rate of withholding in any jurisdiction from or through which the Issuer receives payments on its assets. The Purchaser agrees to provide any such certification that is requested by the Issuer.

(11) *Tax Treatment.* The Purchaser agrees by its acquisition of the Note or Notes that for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, it will treat the Notes as indebtedness of Issuer acknowledges that the Issuer will be treated as a corporation and that the Preference Shares will be treated as equity in the Issuer, and agrees to take no action inconsistent with such treatment, unless required by law.

(12) *ERISA.* In the case of each purchaser of a Note either that (i) it is not, and is not acting on behalf of, an employee benefit plan within the meaning of Section 3(3) of ERISA that is subject to Title I of ERISA, a plan within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, a governmental or church plan which is subject to any Federal, state or local law that is similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code or an entity which is deemed to hold the assets of any such plan pursuant to 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA, or otherwise or (ii) its purchase and ownership of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, a non-exempt violation of any similar U.S. Federal, state or local law).

(13) *Limitations on Flow-Through Status.* In the case of a purchaser that is a U.S. resident (within the meaning of the Investment Company Act), the purchaser represents that, unless the purchaser is a Qualifying Investment Vehicle, (a) if the purchaser would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the

Investment Company Act, the amount of the purchaser's investment in the Notes and Preference Shares does not exceed [40]% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser; (b) no person owning any equity or similar interest in the purchaser has the ability to control any investment decision of the purchaser or to determine, on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser; (c) the purchaser was not organized or reorganized for the specific purpose of acquiring Notes or Preference Shares; and (d) no additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase Notes or Preference Shares (any such transferee in (a), (b), (c) or (d) above being herein referred to as a **"Flow-Through Investment Vehicle"**). For this purpose, a **"Qualifying Investment Vehicle"** is an entity as to which all of the beneficial owners of any securities issued by such entity have made, and as to which (in accordance with the document pursuant to which such entity was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Issuers, as the case may be, and the Trustee and the Note Registrar (in the case of the Notes) or the Preference Shares Transfer Agent (in the case of the Preference Shares) each of the representations set forth herein and in the Indenture and the Preference Share Paying Agency Agreement required to be made upon transfer of any of the relevant Class of Notes or Preference Shares (with modifications to such representations satisfactory to the Issuer, the Co-Issuer, the Trustee, the Note Registrar and the Preference Share Transfer Agent (as applicable) to reflect the indirect nature of the interests of such beneficial owners in such Notes or Preference Shares. If the purchaser is a Flow-Through Investment Vehicle, the purchaser represents and warrants that either (x) none of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) or (y) some or all of the beneficial owners of its securities are U.S. residents (within the meaning of the Investment Company Act) and each such beneficial owner has certified to the purchaser that it is a Qualified Purchaser. If the purchaser is a Flow-Through Investment Vehicle, the purchaser also represents and warrants that it has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Notes or Preference Shares).

(14) *Certain Transfers Void.* In the case of a purchaser who takes delivery of Notes in the form of a Restricted Note, the purchaser agrees that (a) any sale, pledge or other transfer of a Note (or any interest therein) made in violation of the transfer restrictions contained in Indenture and described herein, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, the Co-Issuer, the Trustee or the Note Registrar will be void and of no force or effect and (b) none of the Issuer, the Co-Issuer, the Trustee and the Note Registrar has any obligation to recognize any sale, pledge or other transfer of a Note (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

The Indenture provides that if, notwithstanding the restrictions on transfer contained therein, either of the Issuers determines that any beneficial owner of a Restricted Note (or any interest therein) (a) is a U.S. Person and (b) is not both a Qualified Institutional Buyer (or, in respect of certain Original Purchasers, an Institutional Accredited Investor) and a Qualified Purchaser, then either of the Issuers may require, by notice to such beneficial

owner, that such beneficial owner sell all of its right, title and interest to such Restricted Note (or interest therein) to a person that is (i) a non-U.S. Person in a transfer for an interest in a Regulation S Note, or (ii) both a Qualified Institutional Buyer and a Qualified Purchaser, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within such 30-day period, (y) upon direction from the Collateral Manager or the Issuer, the Trustee, on behalf of and at the expense of the Issuer, shall cause such beneficial owner's interest in such Note to be transferred in a commercially reasonable sale (conducted by an investment bank selected by the Trustee with the consent of the Collateral Manager in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person to whom such Note (or interest therein) may be transferred in accordance with the transfer restrictions set forth in the Indenture and (z) pending such transfer, no further payments will be made in respect of such Note held by such beneficial owner.

(15) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuers, the Initial Purchaser and the Trustee will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties made or deemed to have been made by it in connection with its purchase of Notes are no longer accurate, the purchaser will promptly notify the Issuers, the Initial Purchaser and the Trustee.

(16) *Cayman Islands.* The purchaser is not a member of the public in the Cayman Islands.

(17) *USA PATRIOT Act.* To the extent applicable to the Issuers, the Issuers may impose additional transfer restrictions to comply with the USA PATRIOT Act and other similar laws or regulations, and each beneficial owner of a Note is deemed to have agreed to comply with such transfer restrictions. The Issuers shall notify the Trustee, the Note Registrar and the Share Registrar of any such restrictions.

(18) *Legend for Notes.* The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Regulation S Global Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE AND WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO EITHER OF THE ISSUERS (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) OTHER THAN IN THE CASE OF A TRANSFEREE WHO ACQUIRES AN INTEREST IN A REGULATION S GLOBAL NOTE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD IN AN OFFSHORE TRANSACTION EFFECTED IN ACCORDANCE WITH RULE 904 OF REGULATION S, SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. RESIDENT AND IS (A) A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT A PLAN, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD AT ANY TIME BY A U.S. PERSON WHO IS NOT A QUALIFIED PURCHASER. THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A RESTRICTED NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A RESTRICTED GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Restricted Global Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE **"SECURITIES ACT"**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN

THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (**"RULE 144A"**), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (**"REGULATION S"**), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION.

NEITHER OF THE ISSUERS HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE **"INVESTMENT COMPANY ACT"**). NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NONE OF THE ISSUERS, THE TRUSTEE OR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT (WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT) BUT IS NOT A **"QUALIFIED PURCHASER"** AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT AND RELATED RULES, A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER (WITHIN THE MEANING OF RULE 3c-5 UNDER THE INVESTMENT COMPANY ACT) OR A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE (COLLECTIVELY, A **"QUALIFIED PURCHASER"**) TAKING DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE, (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE ISSUERS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OR (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. RESIDENT THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) WHICH TAKES DELIVERY OF THIS NOTE (OR INTEREST HEREIN) IN THE FORM OF A RESTRICTED NOTE.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (a)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN.

EACH ORIGINAL PURCHASER AND TRANSFEREE WILL BE DEEMED TO REPRESENT AND WARRANT) THAT EITHER (A) IT IS NOT A PLAN, A GOVERNMENTAL OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY SUCH PLAN PURSUANT TO 29 C.F.R. SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF EREISA, OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF

ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW).

EACH PURCHASER OF THIS NOTE WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THIS LEGEND.

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A PERSON WHO TAKES DELIVERY IN THE FORM OF AN INTEREST IN A REGULATION S NOTE OR (IN CERTAIN LIMITED CIRCUMSTANCES) A DEFINITIVE NOTE ONLY (IN THE CASE OF AN INTEREST IN A REGULATION S GLOBAL NOTE) IN ACCORDANCE WITH APPLICABLE PROCEDURES (AS DEFINED IN THE INDENTURE) AND (IN THE CASE OF A DEFINITIVE NOTE) UPON RECEIPT BY THE NOTE REGISTRAR OF A TRANSFER CERTIFICATE BY THE TRANSFEROR AND THE TRANSFEREE SUBSTANTIALLY IN THE FORM SPECIFIED IN THE INDENTURE.

THIS NOTE (OR AN INTEREST HEREIN) MAY NOT BE TRANSFERRED UNLESS, AFTER GIVING EFFECT TO THE TRANSFER, THE TRANSFEREE IS HOLDING A NOTE WITH AN ORIGINAL PRINCIPAL AMOUNT WHICH IS EQUAL TO U.S.$500,000 OR INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF.

TO THE EXTENT APPLICABLE TO THE ISSUERS, THE ISSUERS MAY IMPOSE ADDITIONAL TRANSFER RESTRICTIONS TO COMPLY WITH THE USA PATRIOT ACT OR OTHER SIMILAR LAWS AND REGULATIONS, AND EACH BENEFICIAL OWNER OF A NOTE AGREES TO COMPLY WITH SUCH TRANSFER RESTRICTIONS.

THE PURCHASER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO UNDERSTAND AND AGREE THAT IF ANY PURPORTED TRANSFER OF THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN TO A PURCHASER DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH IN THIS NOTE OR THE INDENTURE, THEN THE PURPORTED TRANSFEROR OF THIS NOTE OR BENEFICIAL INTEREST HEREIN SHALL BE REQUIRED TO CAUSE THE PURPORTED TRANSFEREE TO SURRENDER THE TRANSFERRED NOTE OR ANY BENEFICIAL INTEREST THEREIN IN RETURN FOR A REFUND OF THE CONSIDERATION PAID THEREFOR BY SUCH TRANSFEREE (TOGETHER WITH INTEREST THEREON) OR TO CAUSE THE PURPORTED TRANSFEREE TO DISPOSE OF SUCH NOTE OR BENEFICIAL INTEREST PROMPTLY IN ONE OR MORE OPEN MARKET SALES TO ONE OR MORE PERSONS EACH OF WHOM SATISFIES THE REQUIREMENTS OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS SET FORTH IN THIS LEGEND, AND SUCH PURPORTED TRANSFEROR SHALL TAKE, AND SHALL CAUSE SUCH TRANSFEREE TO TAKE, ALL FURTHER ACTION NECESSARY OR DESIRABLE, IN THE JUDGMENT OF THE ISSUER, TO ENSURE THAT SUCH NOTE OR ANY BENEFICIAL INTEREST THEREIN IS HELD BY PERSONS IN COMPLIANCE THEREWITH. ANY TRANSFER IN VIOLATION OF THE FOREGOING PROVISIONS OF THIS NOTE OR THE INDENTURE WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY.

IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THIS NOTE OR THE INDENTURE, EITHER OF THE ISSUERS DETERMINES THAT ANY HOLDER OF THIS RESTRICTED NOTE OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH

A QUALIFIED INSTITUTIONAL BUYER (OR, IN RESPECT OF CERTAIN ORIGINAL PURCHASERS, AN INSTITUTIONAL ACCREDITED INVESTOR) AND A QUALIFIED PURCHASER, THE ISSUERS SHALL REQUIRE, BY NOTICE TO SUCH HOLDER, AS THE CASE MAY BE, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS NOTE (OR INTEREST HEREIN) TO A PERSON THAT IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE COLLATERAL MANAGER OR THE ISSUER, THE TRUSTEE SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE ITS INTEREST IN THIS NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY AN INVESTMENT BANK SELECTED BY THE TRUSTEE WITH THE CONSENT OF THE COLLATERAL MANAGER IN ACCORDANCE WITH SECTION 9-610(b) OF THE UCC AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT MAY DECLINE SPEEDILY IN VALUE) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS (1) A NON-U.S. PERSON IN A TRANSFER FOR AN INTEREST IN A REGULATION S NOTE OR (2) BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS NOTE, AND THE INTEREST IN THIS NOTE SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE NOTEHOLDERS.

Investor Representations on Resale. Except as provided in the remainder of this paragraph, each transferee of a Note will be required to deliver to the Issuers, the Trustee and the Note Registrar a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Note Registrar may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Circular. An owner of a beneficial interest in a Regulation S Global Note may transfer such interest in the form of a beneficial interest in such Regulation S Global Note without the provision of written certification, *provided* that such transfer is not made to a U.S. Person or for the account or benefit of a U.S. Person and is effected, prior to the expiration of the Distribution Compliance Period, through Euroclear or Clearstream or, after the expiration of the Distribution Compliance Period, through a clearing system other than Euroclear or Clearstream, in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures. An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification if the Transferee is a Qualified Institutional Buyer that is also a Qualified Purchaser.

Pursuant to such transferee certificate, (a) the transferee will acknowledge, represent to and agree with the Issuers, the Trustee and the Note Registrar as to the matters set forth in each of paragraphs (1) through (18) above (other than paragraphs (5), (6) and (8) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) further represents to and agrees with the Issuers, the Trustee and the Note Registrar as follows:

(1) In the case of a transferee who takes delivery of Restricted Notes, it (a) is a U.S. Person that is both (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser; (b) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to

any transferee; (c) is aware that the sale to it is being made in reliance on Rule 144A; and (d) is acquiring such Notes for its own account. In the case of a transferee who takes delivery of Regulation S Notes, it (u) is a non-U.S. Person acquiring such Notes in an offshore transaction in accordance with Rule 904 of Regulation S, (v) is acquiring such Notes for its own account, (w) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Notes while it is in the United States or any of its territories or possessions, (x) understands that such Notes are being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations, (y) understands that such Notes may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction, and (z) understands that prior to the end of the Distribution Compliance Period, interests in a Regulation S Global Note may only be held through Euroclear or Clearstream.

(2) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Issuers, the Trustee and the Note Registrar for the purpose of determining its eligibility to purchase Notes. It agrees to provide, if requested, any additional information that may be required to substantiate its status as a Qualified Institutional Buyer or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Notes.

LISTING AND GENERAL INFORMATION

1. Application will be made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for the prospectus to be approved. Application will be made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. Copies of this Offering Circular, the Issuer Charter, the Preference Share Paying Agency Agreement, the Management Agreement, the Note Purchase Agreement, the Administration Agreement, any Interest Rate Swap Agreement, each Synthetic Security, the Initial Investment Agreement, the Certificate of Incorporation and By-laws of the Co-Issuer and the Indenture will be available for inspection at the registered office of the Issuer and at the office of the Irish Paying Agent, where electronic copies thereof may be obtained, free of charge, upon request for the life of this document.

2. Copies of the Issuer Charter, the Certificate of Incorporation and By-laws of the Co-Issuer, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes and the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes, the Indenture and the Management Agreement may be obtained free of charge upon request within 30 days of the date of this Offering Circular at the office of the Trustee on behalf of the Issuer.

3. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

4. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of incorporation. The Issuers are not, and have not since incorporation been, involved in any litigation, governmental or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes, nor, so far as either of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

5. The issuance of the Notes will be authorized by the Board of Directors of the Issuer by resolutions passed on or before the Closing Date. The issuance of the Notes will be authorized by the Board of Directors of the Co-Issuer by resolutions to be passed on or before the Closing Date. Since incorporation, neither the Issuer nor the Co-Issuer has commenced trading or established any accounts, except as disclosed herein or accounts used to hold amounts received with respect to share capital and fees. It is estimated that the fees payable in respect of the listing of the Notes on the Irish Stock Exchange will be approximately $[7,500] consisting of Irish Stock Exchange listing fees, listing agent sponsor fees and fees to be annually paid to the Irish Paying Agent.

6. The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by the Global Notes have been accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers (ISIN) for the Notes represented by Regulation S Global Notes and Restricted Global Notes are as indicated on the following page.

	Regulation S Common Codes	Regulation S CUSIP Numbers	Regulation S ISIN Numbers	Restricted Common Codes	Restricted CUSIP Numbers	Restricted ISIN Numbers
Class A-1 Notes	[]	[]	[]	[]	[]	[]
Class A-2 Notes	[]	[]	[]	[]	[]	[]
Class B Notes	[]	[]	[]	[]	[]	[]
Class C Notes	[]	[]	[]	[]	[]	[]
Class D Notes	[]	[]	[]	[]	[]	[]
Class E Notes	[]	[]	[]	[]	[]	[]

LEGAL MATTERS

Certain legal matters with respect to the Notes and New York law will be passed upon for the Issuer by Allen & Overy LLP. Allen & Overy LLP will also act as counsel to the Initial Purchaser. Cadwalader, Wickersham & Taft LLP will act as counsel to the Collateral Manager. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder.

SCHEDULE A

LIST OF UNDERLYING ASSETS

Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

Security	CUSIP	Current Face	Legal Maturity	Moody's Type	Fixed/ Float	Fixed Coupon	Floating Spread/ CDS Premium	Explicit S&P Rating	Explicit Moody's Rating

SCHEDULE B

AUCTION CALL REDEMPTION – AUCTION PROCEDURES

The following sets forth the auction procedures (the "**Auction Procedures**") to be followed in connection with a sale effected pursuant to the Indenture.

I. Pre-Auction Process

- The Auction Agent will initiate the Auction Procedures at least 24 Business Days prior to each Auction Date by:
  - with the assistance of the Collateral Manager, preparing a list containing the names of the issuer and guarantor (if any), the par amount and the CUSIP number (if any) with respect to each Underlying Asset and such other information as shall be notified to the Auction Agent by the Collateral Manager;
  - with the assistance of the Collateral Manager, preparing a list of the constituents of each subpool which shall be based upon the Collateral Manager's good faith determination of the composition of subpools that will maximize Disposition Proceeds; *provided* that the maximum number of subpools shall be eight; and
  - directing the Trustee to send the lists prepared pursuant to clauses (i) and (ii) above to the Qualified Bidders identified on the then-current Qualified Bidder List (the "**Listed Bidders**") and requesting bids on the Auction Date.
- The general solicitation package which the Auction Agent shall deliver to the Listed Bidders will include: (i) a form of a purchase agreement (which shall, among other things, provide that (A) upon satisfaction of all conditions precedent therein, the purchaser is irrevocably obligated to acquire, and the Issuer is irrevocably obligated to Dispose of, the Underlying Assets (or relevant subpool, as the case may be) on the date and on the terms and conditions set forth therein and (B) if the subpools are to be sold to more than one bidder, the consummation of the purchase of each subpool must occur simultaneously and the closing of each purchase is conditional on the closing of each of the other purchases); (ii) the minimum purchase price; (iii) a formal bidsheet (which shall permit the relevant bidder to bid for all of the Underlying Assets, any subpool or separately for each of the subpools) including a representation from the bidder that it is eligible to acquire all of the Underlying Assets; (iv) a detailed timetable; and (v) copies of all transfer documents (including transfer certificates and subscription agreements which a bidder must execute pursuant to the Underlying Instruments and a list of the requirements which the bidder must satisfy under the Underlying Instruments (i.e., Qualified Institutional Buyer, Qualified Purchaser, etc.)).
- The Auction Agent shall send solicitation packages to all Listed Bidders at least 15 Business Days before the Auction Date. No later than 10 Business Days before the Auction Date, Listed Bidders may submit written due diligence questions relating to the legal documentation and other information contained in the general solicitation package (including comments on the draft purchase agreement to be used in connection with the Auction (the "**Auction Purchase Agreement**")) to the Collateral Manager; *provided* that the Collateral Manager shall only be obligated to answer questions relating to the Collateral to the extent that it is able to do so by reference to information which it is

required to provide under the Management Agreement. The Collateral Manager shall be solely responsible for (i) responding to all relevant questions and/or comments submitted to it in accordance with the foregoing and (ii) distributing the questions, answers and revised final Auction Purchase Agreement to all Listed Bidders at least five Business Days prior to the Auction Date.

II. **Auction Process**

- If it is not the Auction Agent, the Collateral Manager or its Affiliates will be allowed to bid in the Auction if it deems appropriate, but will not be required to do so.

- On the Auction Date, all bids will be due by facsimile to the offices of the Auction Agent by 11:00 a.m., New York City time, with the winning bidder to be notified by 2:00 p.m., New York City time. All bids from Listed Bidders will be due on the bid sheet contained in the solicitation package. Each bid shall be for the purchase and delivery to one purchaser of (i) all (but not less than all) of the Underlying Assets or (ii) all (but not less than all) of the Underlying Assets that constitute the components of one or more subpools.

- If the Auction Agent receives fewer than two bids from Listed Bidders to purchase all of the Underlying Assets or to purchase each subpool, the Auction Agent shall decline to consummate the sale.

- Subject to clause (c), the Auction Agent shall identify as the winning bidder the bid or bids that result in the Highest Auction Price (in excess of the minimum purchase price) from one or more Listed Bidders.

- Upon notification to the winning bidder(s), the winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) will be required to deliver to the Auction Agent a signed counterpart of the Auction Purchase Agreement no later than 4:00 p.m. New York City time on the Auction Date. The winning bidder (or, if the Highest Auction Price requires the sale of subpools to more than one bidder, each winning bidder) shall be required to pay the full purchase price in cash prior to the sixth Business Day following the relevant Auction Date, at which time all monies will be transferred into the Collection Account. If payment in full of the purchase price is not made when due (or, if the subpools are to be sold to more than one bidder, if any bidder fails to make payment of the purchase price when due), the Trustee on behalf of the Issuer shall decline to consummate the sale of each subpool and shall give notice (in accordance with the Indenture) that the Auction Call Redemption will not occur.

- **"Highest Auction Price"** means, with respect to an Auction Call Redemption, the greater of (a) the highest price bid by any Listed Bidder for all of the Underlying Assets and (b) the sum of the highest prices bid by one or more Listed Bidders for each subpool. In each case, the price bid by a Listed Bidder shall be the Dollar amount which the Auction Agent certifies to the Trustee based on the Auction Agent's review of the bids, which certification shall be binding and conclusive.

- **"Qualified Bidder"** means (a) a Person whose unsecured debt obligations have been assigned, or whose obligations under the bid letter and resulting purchase agreement will be guaranteed by a Person whose unsecured debt obligations have been assigned, a rating equivalent to the highest rating on the Notes or an unsecured short-term rating of "A-1+" by Standard & Poor's and "F-1" by Fitch, (b) a Person who the Auction Agent

believes to be an active purchaser of Asset-Backed Securities with the financial resources available to it to pay the purchase price of the Underlying Assets in a timely fashion, or (c) the Collateral Manager or any of its Affiliates; *provided* that with respect to the Synthetic Securities entered into with the First Synthetic Security Counterparty, the Issuer may, upon reasonable notice to the First Synthetic Security Counterparty, transfer to an Eligible Counterparty, as such term is defined in the schedule to the Master Agreement, or to any other counterparty, in regard to which the First Synthetic Security Counterparty will have the right to approve or disapprove of any novation of such Synthetic Security by the Issuer.

SCHEDULE C

STANDARD & POOR'S RATING

The Standard & Poor's Rating of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

(i) if such Underlying Asset is rated either publicly or privately (with appropriate consents) by Standard & Poor's, the Standard & Poor's Rating shall be such rating, or, if such Underlying Asset is not rated by Standard & Poor's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Standard & Poor's perform a credit estimate in respect of such Underlying Asset, the Standard & Poor's rating shall be the rating so assigned by Standard & Poor's, *provided* that pending receipt from Standard & Poor's of such rating, such Underlying Asset shall have a Standard & Poor's Rating of "CCC-" if the Collateral Manager believes that such estimate will be at least "CCC-"; and

(ii) with respect to any other Underlying Asset, as set forth below.

Part 1 - Standard & Poor's Ratings

Asset classes are eligible for notching if they are not first loss tranches or combination securities. If the security is publicly rated by two agencies, notch down as shown below based on the lowest rating. If the security is publicly rated only by one agency, then notch down what is shown below *plus* one more notch. The Aggregate Principal/Notional Balance of Underlying Assets the Standard & Poor's Rating of which is based on a Fitch rating or a Moody's rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Standard & Poor's or assigned Standard & Poor's rating estimates.

	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
1. CONSUMER ABS	-1	-2	-2	-3
Automobile Loan Receivable Securities				
Automobile Lease Receivable Securities				
Car Rental Receivables Securities				
Credit Card Securities				
Healthcare Securities				
Student Loan Securities				
2. COMMERCIAL ABS	-1	-2	-2	-3
Cargo Securities				
Equipment Lease Securities				
Aircraft Leasing Securities				

	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
Small Business Loan Securities				
Restaurant and Food Services Securities				
3. Non-RE-REMIC RMBS	-1	-2	-2	-3
Manufactured Housing Loan Securities				
4. Non-RE-REMIC CMBS	-1	-2	-2	-3
CMBS – Conduit				
CMBS - Credit Tenant Lease				
CMBS – Large Loan				
CMBS – Single Borrower				
CMBS – Single Property				
5. CBO/CLO CASHFLOW SECURITIES	-1	-2	-2	-3
Cash Flow CBO – at least 80% High Yield Corporate				
Cash Flow CBO – at least 80% Investment Grade Corporate				
Cash Flow CLO – at least 80% High Yield Corporate				
Cash Flow CLO – at least 80% Investment Grade Corporate				
6. REITs	-1	-2	-2	-3
REIT – Multifamily & Mobile Home Park				
REIT – Retail				
REIT – Hospitality				
REIT – Office				
REIT – Industrial				
REIT – Healthcare				
REIT – Warehouse				
REIT – Self Storage				
REIT – Mixed Use				
7. SPECIALTY STRUCTURED	-3	-4	-3	-4
Stadium Financings				
Project Finance				
Future flows				

	Issued prior to 8/1/01 Current rating is:		Issued after 8/1/01 Current rating is:	
	Inv. Grade	Non Inv. Grade	Inv. Grade	Non Inv. Grade
8. RESIDENTIAL MORTGAGES	-1	-2	-2	-3
Residential "A"				
Residential "B/C"				
Home equity loans				
9. REAL ESTATE OPERATING COMPANIES	-1	-2	-2	-3

Part 2 - Standard & Poor's Asset Backed Categories

Each of the following categories of asset backed security shall constitute a separate asset backed class. Securities not included in any of these categories shall be assigned by Standard & Poor's.

Structured Finance Sectors

1. ABS Consumer
2. ABS Commercial
3. CDOs
4. CMBS Diversified – Conduit and CTL
5. CMBS – Large Loan, Single Borrower and Single Property
6. REITs
7. RMBS A
8. RMBS B&C, HELs, HELOCs and Tax Lien
9. Manufactured Housing
10. Project Finance
11. U.S. Agency – Explicitly Guaranteed
12. Monoline/FER Guaranteed
13. Non-FER Company Guaranteed
14. FFELP Student Loan (Over 70% FFELP)

Part 3 - Standard & Poor's Asset Classes Not Eligible to be Notched

The following asset classes are not eligible to be notched. Credit estimates must be performed.

Asset Type

1. Non-U.S. Structured Finance Securities
2. Guaranteed Securities
3. CDOs of Structured Finance and Real Estate Securities
4. CBOs of CDOs
5. CLOs of Distressed Debt
6. Mutual Fund Fee Securities
7. Catastrophe Bonds
8. First Loss Tranches of any securitization

9. Synthetics
10. Synthetic CBOs
11. Combination Securities
12. Re-REMICs
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Structured Settlement Obligations
16. Any asset class not listed on Part 1 above

SCHEDULE D

MOODY'S RATING AND MOODY'S WEIGHTED AVERAGE RATING

The **"Weighted Average Rating"** on any Measurement Date is the number determined by dividing (i) the sum of the series of products obtained for Underlying Assets (other than Underlying Asset which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities) by multiplying the Principal/Notional Balance on such Measurement Date of each such Underlying Asset by its respective Moody's Rating Factor on such Measurement Date by (ii) the sum of the Aggregate Principal/Notional Balance on such Measurement Date of all Underlying Assets that are not Underlying Assets which the Asset Manager reasonably believes will default with respect to payment when next due and any Defaulted Securities.

The **"Moody's Rating Factor"** relating to any Underlying Asset is the number set forth in the table below opposite the Moody's Rating of such Underlying Asset:

Moody's Rating	Moody's Rating Factor
Aaa	1
Aa1	10
Aa2	20
Aa3	40
A1	70
A2	120
A3	180
Baa1	260
Baa2	360
Baa3	610
Ba1	940
Ba2	1,350
Ba3	1,766
B1	2,220
B2	2,720
B3	3,490
Caa1	4,770
Caa2	6,500
Caa3	8,070
Ca or lower	10,000

The **"Moody's Rating"** of any Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) will be determined as follows:

with respect to any Asset-Backed Security, for determining the Moody's Rating as of any date of determination:

(i) if such Asset-Backed Security is publicly rated by Moody's, the Moody's Rating shall be such rating, or, if such Underlying Asset is not publicly rated by Moody's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Moody's assign a rating to such Underlying Asset, the Moody's Rating shall be the rating so assigned by Moody's;

(ii) if such Asset-Backed Security is not publicly rated by Moody's, then the Moody's Rating of such Asset-Backed Security may be determined using any one of the methods below:

(A) with respect to any ABS type Residential Security not publicly rated by Moody's, if such ABS type Residential Security is publicly rated by Standard & Poor's, then the Moody's Rating thereof will be (1) one subcategory below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AAA"; (2) two rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "AAA" but above "BB+" and (3) three rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "BBB-"; and

(B) with respect to any other type of Asset-Backed Securities, pursuant to any method specified by Moody's;

provided that

(V) the rating of either Rating Agency used to determine the Moody's Rating pursuant to any of clauses (i) or (ii) above shall be a public, non-exclusive rating (but not a rating estimate) that addresses the obligation of the obligor to pay principal of and interest on the relevant Underlying Asset in full and is monitored on an ongoing basis by the relevant Rating Agency,

(W) the Aggregate Principal/Notional Balance of Underlying Assets the Moody's Rating of which is based on a Standard & Poor's Rating may not exceed 20% of the Aggregate Principal/Notional Balance of all Underlying Assets, the balance of which must be rated by Moody's or assigned Moody's rating estimates,

(X) the ratings of no more than [10]% of the Aggregate Principal/Notional Balance of all Underlying Assets may be assigned rating factors derived via notching from single-rated instruments,

(Y) with respect to any one Rating Agency, the single-rated notched bucket may be no larger than 7.5% of the Aggregate Principal/Notional Balance of all Underlying Assets and

(Z) if an Underlying Asset

(A) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be two rating subcategories above the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's unless rated "Aa1", in which case only one subcategory above; and

(B) is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Underlying Asset shall be (i) one rating subcategory below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated "Aaa" by Moody's or (ii) two rating subcategories below the Moody's Rating applicable to such Underlying Asset immediately prior to such Underlying Asset being placed on such watch list, if such Underlying Asset is rated below "Aaa" by Moody's; and

provided further that, with respect to notched ratings on certain asset classes, the Moody's Rating shall be determined in conjunction with the notching conventions set forth below.

Standard & Poor's

The following notching conventions are appropriate for Standard & Poor's-only rated tranches. (The figures represent the number of notches to be subtracted from the Standard & Poor's rating. For example, a "1" applied to an Standard & Poor's rating of BBB implies a Moody's rating of Baa3.)

ASSET CLASS	AAA to AA-	A+ to BBB-	Below BBB-
Auto loan	1	2	3
Car Rental Fleet	1	2	3
CDO Domestic Corporate Debt	No notching permitted	No notching permitted	No notching permitted
CDO Structured Product	No notching permitted	No notching permitted	No notching permitted
Consumer Asset-Backed	1	2	3
Credit Card	1	2	3
Equipment Lease	1	2	3
Manufactured Housing	1	2	3
Small Business Loan	1	2	3
Student Loan	1	2	3

Residential Mortgage Related (note that rating category groups differ here from above)	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential A and Residential B&C)	1	2	3

Fitch

The following notching conventions are with respect to Fitch:

Residential Mortgage Related	AAA	AA+ to BBB-	Below BBB-
Jumbo A	1	2	4
Alt-A or mixed pools	1	3	5
HEL (including Residential A and Residential B&C)	No notching	No notching	No notching

For dual-rated Jumbo A or Alt-A transactions, take the lower of the two ratings on the security, apply the appropriate single-rated notching guideline from above, then go up by 1/2 notch. For dual-rated HEL (including Residential A and Residential B&C) transactions, apply the Standard & Poor's-only rated tranche notching guidelines as set forth above.

CMBS

The following CMBS notching conventions are with respect to S&P and Fitch:

Commercial Mortgage Backed Securities		
ASSET CLASS	**Tranche Rated by Fitch and S&P; no tranche in deal rated by Moody's**	**Tranche Rated by Fitch and/or S&P; at least one other tranche in deal rated by Moody's**
Conduit*	2 notches from lower of Fitch/S&P	1.5** notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	No notching permitted	

* For this purpose, conduits are defined as fixed rate, sequential pay, multi-borrower transactions having a Herfindahl score of 40 or higher at the loan level with all collateral (conduit loans, A notes, large loans, CTLs and any other real estate collateral) factored in.

** A 1.5 notch haircut implies, for example, that if the S&P/Fitch rating were BBB, then the Moody's rating factor would be halfway between the Baa3 and the Ba1 rating factors.

SCHEDULE E

STANDARD & POOR'S RECOVERY MATRIX

A. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%

B. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is an Asset-Backed Security (other than a CMBS Security) and is not the senior-most tranche of securities issued by the issuer of such Underlying Asset:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	65.0%	70.0%	80.0%	85.0%	85.0%	85.0%	85.0%
AA+, AA, AA-	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
A+, A, A-	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
BBB+, BBB, BBB-	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
BB+, BB, BB-	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
B+, B, B-	2.5%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
CCC+, CCC, CCC-	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	5.0%

C. If the Underlying Asset (which shall mean with respect to a Synthetic Security, the related Reference Obligation) is a CMBS Security:

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
AAA	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
AA+, AA, AA-	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
A+, A, A-	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
BBB+, BBB, BBB-	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
BB+, BB, BB-	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%

Initial Standard & Poor's Rating of the Underlying Asset at Issuance	Liability Rating assigned by Standard & Poor's						
	AAA	AA+ AA AA-	A+ A A-	BBB+ BBB BBB-	BB+ BB BB-	B+ B B-	CCC+ CCC CCC-
B+, B, B-	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
CCC+, CCC, CCC-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

SCHEDULE F

MOODY'S RECOVERY RATE MATRIX

The recovery rate with respect to a Synthetic Security will be calculated using the related Reference Obligation.

ABS Type Diversified ABS Securities[1]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	70%	60%	50%	[40]%
<=70%, >[10]%	75%	70%	60%	50%	[40]%	30%
<=[10]%	70%	65%	55%	45%	35%	25%

ABS Type Diversified Residential Securities[4]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >[10]%	75%	70%	55%	45%	35%	25%
<=[10]%, >5%	65%	55%	45%	[40]%	30%	20%
<=5%, >2%	55%	45%	[40]%	35%	25%	[15]%
<=2%	45%	35%	30%	25%	[15]%	[10]%

ABS Type Undiversified ABS Securities[5]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >[10]%	75%	70%	55%	45%	35%	25%
<=[10]%, >5%	65%	55%	45%	35%	25%	[15]%
<=5%, >2%	55%	45%	35%	30%	20%	[10]%
<=2%	45%	35%	25%	20%	[10]%	5%

ABS Type Low-Diversity CDO Securities[6]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	80%	75%	60%	50%	45%	30%
<=70%, >[10]%	70%	60%	55%	45%	35%	25%
<=[10]%, >5%	60%	50%	45%	35%	25%	[15]%
<=5%, >2%	50%	[40]%	35%	30%	20%	[10]%
<=2%	30%	25%	20%	[15]%	7%	4%

ABS Type High-Diversity CDO Securities[7]:

% of Underlying Capital Structure[2]	Initial Rating of Underlying Asset[3]					
	Aaa	Aa	A	Baa	Ba	B
>70%	85%	80%	65%	55%	45%	30%
<=70%, >[10]%	75%	70%	60%	50%	[40]%	25%
<=[10]%, >5%	65%	55%	50%	[40]%	30%	20%
<=5%, >2%	55%	45%	[40]%	35%	25%	[10]%
<=2%	45%	35%	30%	25%	[10]%	5%

(1) **"ABS Type Diversified ABS Securities"** refer to Automobile Securities, Car Rental Fleet Securities, Credit Card Securities and Student Loan Securities.

(2) Initial par amount of tranche to which such Underlying Asset relates divided by initial par amount of total securities issued by such Underlying Asset issuer.

(3) The recovery rate for Underlying Assets with a Moody's Rating of Caa1, Caa2 or Caa3 is assumed to be [10]%.

(4) **"ABS Type Diversified Residential Securities"** refer to Residential A Mortgage-Backed Securities, Residential B/C Mortgage-Backed Securities, Non-Subprime Home Equity Loan Asset-Backed Securities and Manufactured Housing Securities.

(5) **"ABS Type Undiversified ABS Securities"** refer to Equipment Lease Securities, Small Business Loan Securities and CMBS Securities.

(6) **"ABS Type Low-Diversity CDO Securities"** refer to any CDO Securities that are not High-Diversity Securities.

(7) **"ABS Type High-Diversity CDO Securities"** refer to any CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cash flow from a portfolio of commercial and industrial bank loans, other asset-backed securities or corporate debt securities (or any combination of the foregoing) that are obligations of obligors or issuers that represent a relatively diversified pool of obligor credit risk having a Moody's Asset Correlation Factor lower than 20% or a Moody's diversity score higher than 15. The **"Moody's Asset Correlation Factor"** is a single number determined in accordance with the asset correlation methodology provided from time to time by Moody's and listed in the latest Monthly Report or indenture of such CDO Security.

SCHEDULE G

CLASS D PRIORITY REDEMPTION AMOUNT

The Class D Priority Redemption Amount on each Distribution Date during the Priority Distribution Period will be as follows:

Distribution Date	Class D Priority Redemption Amount
[] 2008	$[ ]
[] 2008	$[ ]
[] 2008	$[ ]
[] 2008	$[ ]
[] 2009	$[ ]
[] 2009	$[ ]
[] 2009	$[ ]
[] 2009	$[ ]
[] 2010	$[ ]
[] 2010	$[ ]
[] 2010	$[ ]
[] 2010	$[ ]

SCHEDULE H

FORM OF CONFIRMATION FOR RMBS SECURITIES

Deutsche Bank AG 

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No: [ ]

From: Deutsche Bank AG, acting through its London Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (RMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its London Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.]

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: [ ]

Effective Date: [ ]

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Floating Rate Payer:	Party B (the "Seller").
Fixed Rate Payer:	Party A (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ]. Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum
Fixed Rate Payer Payment Dates:	Not CMBS Convention

Fixed Amount:	Fixed Amount definition for underlying with no payment delay
Additional Credit Event:	Distressed Ratings Downgrade
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Not Applicable
Step-up provisions:	Applicable

If Interest Shortfall Cap is applicable, then specify:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Applicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

Office, Notice and Account Details:

The Office of Buyer for this Transaction is: George Town, Grand Cayman, Cayman Islands

The Office of Seller for this Transaction is: London

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:

Buyer:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Seller:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. General Terms:

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

1 The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "**Confirmation**") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

2 Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal

balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.[3]

Initial Face Amount: As shown in the relevant Confirmation.

Reference Obligation Notional Amount: On the Effective Date, the product of:

(a) the Original Principal Amount;

(b) the Initial Factor; and

(c) the Applicable Percentage.

Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

Initial Payment: As shown in the relevant Confirmation.

2. **Fixed Payments**:

Fixed Rate Payer: Buyer

Fixed Rate: As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

Fixed Rate Payer Payment Dates: In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable.

If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.

If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.

Fixed Amount: In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no

payment delay" or "Fixed Amount definition for underlying with payment delay".

If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the

Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any). For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business

Dates:	Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in

respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events: The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly):

Failure to Pay Principal

Writedown

Additional Credit Event (as shown in the relevant Confirmation).

Obligation: Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount: In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

Interest Shortfall Cap: As shown in the relevant Confirmation.

Interest Shortfall Cap Amount: As set out in the Interest Shortfall Cap Annex.

Actual Interest Amount: With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

WAC Cap Interest Provision: As shown in the relevant Confirmation.

For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at any future time.

Expected Interest Amount: With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to:

(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus

(b) the Aggregate Implied Writedown Amount (if any)

and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined:

(x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving

effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

Interest Shortfall: With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be

increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.

Optional Step-up Early Termination:

No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction.

If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply.

No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method: Physical Settlement

Terms Relating to Physical Settlement:

Physical Settlement Period: Five Business Days

Deliverable Obligations: Exclude Accrued Interest

Deliverable Obligations: Deliverable Obligation Category: Reference Obligation Only

Physical Settlement Amount: An amount equal to:

(a) the product of the Exercise Amount and the Reference Price; minus

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement

Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report,

then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

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[5] This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the

foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be, or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as

described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of

principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis: As shown in the relevant Confirmation.

Interest Shortfall Cap Amount: If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.

If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of:

(a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs;

(b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and

(c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.

Interest Shortfall Compounding: As shown in the relevant Confirmation.

Interest Shortfall Reimbursement Payment Amount: If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the

Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount:

With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of

the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be

equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:

[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:	
[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]:	ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:	
Transferee:	[ ]
Remaining Party:	[ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a

copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

.....	.....
(Name of Remaining Party)	(Name of Transferor)
By:	By: .....
Name:	Name:
Title:	Title:
Date:	Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i) " after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply

ICM:2978683.12

SCHEDULE I

FORM OF CONFIRMATION FOR ABX TRANCHE SECURITIES

Deutsche Bank AG

DATE: [Date]

TO: Gemstone CDO VII Ltd.
Facsimile No: [number]

FROM: [Deutsche Bank AG, acting through its New York Branch]

SUBJECT: ABX [specify series, tranche and version, if any] Transaction

REF NO: [ ]

The purpose of this communication (this "Confirmation") is to set forth the terms and conditions of the Master Transaction (as defined in the ABX Standard Terms (as defined below)) relating to residential mortgage-backed security reference obligations entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its New York Branch ("Party A"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"), and the ABX Transactions Standard Terms Supplement, as published by CDS IndexCo LLC on January 19, 2006 (the "ABX Standard Terms"), are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the ABX Standard Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the ABX Standard Terms and the Credit Derivatives Definitions, the ABX Standard Terms will govern.

This Confirmation supplements, forms a part of and is subject to the 1992 ISDA Master Agreement (Multicurrency - Cross Border) and the Schedule thereto, dated as of [____], as amended and supplemented from time to time (the "Master Agreement"), between Party A and Party B. All provisions contained in, or incorporated by reference in, the Master Agreement shall govern this Confirmation except as expressly modified below.

The terms of the Master Transaction to which this Confirmation relates are as follows:

Index:	ABX [specify series, tranche, and version, if any]
Annex Date:	[launch date of Index]
Trade Date:	[ ]
Effective Date:	[Trade Date]
Scheduled Termination Date:	[the latest Legal Final Maturity Date of any Reference Obligation in the Relevant Annex]
Floating Rate Payer:	[ ] (the "Seller")

Fixed Rate Payer:	[ ] (the "Buyer")
Aggregate Floating Rate Payer Calculation Amount:	[ ]
Fixed Rate:	[ ]% per annum [specify the fixed rate for the Index published by the Index Publisher as of the launch date]
Initial Payment Payer:	[Buyer][Seller]
Initial Payment Amount:	[ ]
[Additional Terms (if any):	[ ]]

Notice and Account Details:

Party A's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Party B's Office/Telephone/Facsimile:	[address] Telephone: [ ] Facsimile: [ ]
Account Details of Party A:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]
Account Details of Party B:	For the Account of: [ ] Bank: [ ] Account No: [ ] Fed ABA No: [ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us at the contact information listed above.

DEUTSCHE BANK AG, ACTING THROUGH ITS NEW YORK BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

[Relevant Annex

Reference Entity	Reference Obligation	Issuer	Guarantor/ Insurer	CUSIP/ ISIN	Bloomberg ID	Legal Final Maturity Date	Original Principal Amount (USD)	Initial Factor	Initial Face Amount	Coupon	Reference Policy

]

ABX TRANSACTIONS
STANDARD TERMS SUPPLEMENT
(published on January 19, 2006)[1]

This ABX Transactions Standard Terms Supplement (the "ABX Standard Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these ABX Standard Terms, these ABX Standard Terms will govern.

The parties agree that, by entering into a transaction governed by these ABX Standard Terms (a "Master Transaction"), they have entered into a separate Credit Derivative Transaction (each, a "Component Transaction") in respect of each Reference Obligation listed in the Relevant Annex (as defined below). Upon entering into a confirmation or other document (including in electronic form) (a "Confirmation") for a Master Transaction incorporating these ABX Standard Terms, the parties thereto shall be deemed to have entered into a Confirmation in respect of each such Component Transaction with respect to the related Reference Obligation listed in the Relevant Annex. Subject to paragraph 7 below and except as otherwise expressly provided herein or in the relevant Confirmation, each Component Transaction constitutes an independent Transaction for purposes of the Master Agreement (as specified in the relevant Confirmation).

References in these ABX Standard Terms to a Reference Obligation and the terms relating thereto shall be to the terms of such Reference Obligation set out in the applicable Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

The terms of each Component Transaction to which these ABX Standard Terms relate are as follows:

1. **General Terms:**

Index:	As shown in the relevant Confirmation.
Index Sponsor:	CDS IndexCo LLC
Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	As shown in the relevant Confirmation.
Component Transaction Scheduled Termination Date:	With respect to a Component Transaction, the Legal Final Maturity Date for the applicable Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.

[1] The definitions and provisions of this ABX Transactions Standard Terms Supplement may be incorporated into a Confirmation (as defined herein) by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ABX Transactions Standard Terms Supplement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

Termination Date:	With respect to a Component Transaction, the last to occur of: (a) the fifth Business Day following the Effective Maturity Date in respect of the relevant Reference Obligation; (b) the last Floating Rate Payer Payment Date in respect of such Reference Obligation; and (c) the last Additional Fixed Amount Payment Date in respect of such Reference Obligation.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Aggregate Floating Rate Payer Calculation Amount:	As shown in the relevant Confirmation.
Calculation Agent:	If both parties are licensees of the Index, Seller. If only one party is a licensee of the Index, such party.
Calculation Agent City:	New York.
Business Day:	New York and London.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these ABX Standard Terms that falls on a day that is not a Business Day).
Reference Entity:	With respect to a Component Transaction, the applicable Reference Entity contained in the Index and listed in the Relevant Annex, and any entity that succeeds to the obligations of such Reference Entity under the related Reference Obligation. Section 2.2 of the Credit Derivatives Definitions shall not apply.
Reference Obligation:	With respect to a Component Transaction, the Reference Obligation specified in the Index and set out opposite the applicable Reference Entity in the Relevant Annex. Section 2.30 of the Credit Derivatives Definitions shall not apply. The Reference Obligation is used herein solely to make certain calculations hereunder and there is no requirement that Buyer or Seller own the Reference

Obligation.

Relevant Annex:	The list of Reference Entities and Reference Obligations for the relevant Index with the relevant Annex Date, as published by the Index Publisher (which can be accessed currently at http://www.markit.com). "Index Publisher" means Markit Group Limited (or its successor) or any replacement therefor appointed by the Index Sponsor for purposes of officially publishing the relevant Index.
Applicable Percentage:	On any day, with respect to a Reference Obligation, a percentage equal to A divided by B. "A" means, with respect to a Reference Obligation, the product of the Initial Face Amount and the Initial Factor. "B" means, with respect to a Reference Obligation, the product of the Original Principal Amount and the Initial Factor. (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as such Reference Obligation; and (b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of such Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	The Aggregate Floating Rate Payer Calculation Amount divided by the number of Reference Obligations in the Relevant Annex.
Initial Factor:	With respect to a Reference Obligation, the applicable factor published by the Index Publisher as of the Annex Date.
Reference Obligation Notional Amount:	With respect to a Reference Obligation, on the Annex Date, the product of: (a) the Original Principal Amount; (b) the Initial Factor; and (c) the Applicable Percentage.

Following the Annex Date, the Reference Obligation Notional Amount with respect to a Reference Obligation will be:

(i) decreased on each day on which a Principal Payment is made with respect to the Reference Obligation by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs with respect to the Reference Obligation by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs with respect to the Reference Obligation by the relevant Writedown Amount; and

(iv) increased on each day on which a Writedown Reimbursement occurs with respect to the Reference Obligation by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement";

provided that if the relevant Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

Initial Payment: If an Initial Payment Payer and an Initial Payment Amount are specified in the relevant Confirmation, then on the date that is five Business Days following the Trade Date, and with respect to the Master Transaction and all related Component Transactions in the aggregate, the Initial Payment Payer shall pay to the other party the Initial Payment Amount. For the avoidance of doubt, the Initial Payment will not be made separately in respect of each Component Transaction.

Initial Payment Payer: As shown in the relevant Confirmation.

Initial Payment Amount: As shown in the relevant Confirmation.

2. Fixed Payments:

Fixed Rate: As shown in the relevant Confirmation.

Fixed Rate Payer Period End: The first day of each related Reference Obligation

Date:	Calculation Period.
Fixed Rate Payer Calculation Period:	Each period from and including one Fixed Rate Payer Period End Date to but excluding the next following Fixed Rate Payer Period End Date, except that (a) the initial Fixed Rate Payer Calculation Period will commence on, and include, the later of the Annex Date and the Fixed Rate Payer Period End Date falling on or immediately prior to the Trade Date and (b) the Final Fixed Rate Payer Calculation Period will end on, but include, the last day of the last Reference Obligation Calculation Period immediately prior to the final Fixed Rate Payer Payment Date.
Fixed Rate Payer Payment Dates:	With respect to a Component Transaction, each day falling five Business Days after a Reference Obligation Payment Date for the Reference Obligation; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date of the Reference Obligation.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date for a Component Transaction, an amount equal to the product of: (a) the relevant Fixed Rate; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the relevant Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and (c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay Fixed Amounts for any Fixed Rate Payer Payment Date occurring prior to the Effective Date.
Additional Fixed Amount Payment Dates:	With respect to a Reference Obligation: (a) Each relevant Fixed Rate Payer Payment Date;

and

(b) in relation to each relevant Additional Fixed Payment Event occurring after the second Business Day prior to the last relevant Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments: Following the occurrence of an Additional Fixed Payment Event in respect of a Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date for such Reference Obligation falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date for such Reference Obligation, five Business Days) after the delivery of a notice (an "Additional Fixed Payment Amount Notice") by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date of such Reference Obligation. Notwithstanding anything to the contrary herein, Buyer shall not be obligated to pay an Additional Fixed Amount unless the earliest day on which the related Additional Fixed Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date.

Additional Fixed Payment Event: The occurrence on or after the Annex Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement in respect of a Reference Obligation.

Additional Fixed Amount: With respect to each Additional Fixed Amount Payment Date in respect of a Reference Obligation, an amount equal to the sum of:

(a) the relevant Writedown Reimbursement Payment Amount (if any);

(b) the relevant Principal Shortfall

Reimbursement Payment Amount (if any); and

(c) the relevant Interest Shortfall Reimbursement Payment Amount (if any).

3. Floating Payments:

Floating Rate Payer Payment Dates: In relation to a Floating Amount Event with respect to a Reference Obligation, the first relevant Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date of such Reference Obligation, the fifth Business Day) after delivery of a notice (a "Floating Payment Notice") by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.

Floating Payments: If a Floating Amount Event occurs with respect to a Reference Obligation, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. Notwithstanding anything to the contrary herein, Seller shall not be obligated to pay a Floating Amount unless the earliest day on which the related Floating Rate Payer Payment Date can be designated in accordance with the provisions hereof occurs on or following the Effective Date. For the avoidance of doubt, the Conditions to Settlement under the Credit Derivatives Definitions shall not apply.

Floating Amount Event: A Writedown, a Failure to Pay Principal or an Interest Shortfall.

Floating Amount: With respect to each Floating Rate Payer Payment Date in respect of a Reference Obligation, an amount equal to the sum of:

(a) the relevant Writedown Amount (if any);

(b) the relevant Principal Shortfall Amount (if any); and

(c) the relevant Interest Shortfall Payment Amount (if any).

4. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall with respect to a Reference Obligation, the relevant Interest Shortfall Amount; provided that if the relevant Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, payment by or on behalf of the Issuer of an amount in respect of interest due under such Reference Obligation (including, without limitation, any deferred interest or defaulted interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of such Reference Obligation equal to (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to such Reference Obligation minus (b) the Aggregate Implied Writedown Amount (if any) for such Reference Obligation and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount in respect of a Reference Obligation shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates or (ii) any prepayment penalties or yield maintenance provisions. The Expected Interest Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on such Reference

Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the relevant Underlying Instruments).

Interest Shortfall: With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the relevant Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date in respect of such Reference Obligation, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period with respect to such Reference Obligation; over

(y) the number of days in the first Reference Obligation Calculation Period with respect to such Reference Obligation.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date for a Reference Obligation, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of such Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date in respect of a Reference Obligation, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	The amount determined pursuant to the Interest Shortfall Cap Annex.

5. Additional Provisions:

(a) Calculation Agent and Buyer and Seller Determinations

The Calculation Agent shall be responsible for determining and calculating, for each Reference Obligation, (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on composite data compiled and published by the Index Publisher from applicable Servicer Reports ("Composite Data") or, if such Composite Data is not available, from applicable Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent, Buyer or Seller may rely on calculations or determinations published by the Index Publisher in making such determinations and calculations. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations.

(b) Adjustment of Calculation Agent Determinations

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports or the Index Publisher corrects any previously published Composite Data (or other relevant calculation or determination published by the Index Publisher), and such corrections impact calculations or determinations pursuant to a Component Transaction, the calculations or determinations relevant to such Component Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations or determinations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made on the second Fixed Rate Payer Payment Date following the day on which such notification by the Calculation Agent is effective.

(c) Initial Payment Date Following Annex Date

Notwithstanding anything to the contrary herein, with respect to any Component Transactions, any amount that would otherwise be payable hereunder on the first Fixed Rate Payer Payment Date following the Annex Date will be deemed to be payable instead on the second Fixed Rate Payer Payment Date following the Annex Date (together with any other amounts payable on such date).

6. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Section 9.1(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to each Reference Entity and the Insurer in respect of the relevant Reference Policy, if applicable.

(b) For the purposes of each Component Transaction, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the relevant Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.

"Aggregate Implied Writedown Amount" means, with respect to a Reference Obligation, the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance backing the payment obligations on such Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recent Composite Data or from the most recent Servicer Report for such Reference Obligation available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Effective Maturity Date" means, with respect to a Reference Obligation, the earlier of (a) the Component Transaction Scheduled Termination Date and (b) the Final Amortization Date.

"Expected Principal Amount" means, with respect to a Reference Obligation and the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of such Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to such Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means, with respect to a Reference Obligation, (i) a failure by the relevant Reference Entity (or any Insurer thereof) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by such Reference Entity (or any Insurer thereof) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means, with respect to a Reference Obligation, the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets backing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Implied Writedown Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means, with respect to a Reference Obligation, (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, with respect to a Reference Obligation, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount for the Reference Obligation over the Current Period Implied Writedown

Amount for the Reference Obligation, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero; provided that the aggregate of all Implied Writedown Reimbursement Amounts for a Reference Obligation at any time shall not exceed the product of the Pari Passu Amount for the Reference Obligation and the Implied Writedown Percentage for the Reference Obligation.

"Insurer" means, with respect to a Reference Obligation, the insurer of such Reference Obligation specified in the Relevant Annex.

"Issuer" means, with respect to a Reference Obligation, the issuer of such Reference Obligation specified in the Relevant Annex.

"Legal Final Maturity Date" means, with respect to a Reference Obligation, the date set out in the Relevant Annex for such Reference Obligation (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of such Reference Obligation), provided that if the legal final maturity date of such Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Original Principal Amount" means, with respect to a Reference Obligation, the amount specified as such in the Relevant Annex.

"Outstanding Principal Amount" means, with respect to a Reference Obligation as of any date of determination, the outstanding principal balance of such Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of such Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of such Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition).

"Pari Passu Amount" means, with respect to a Reference Obligation as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the relevant Reference Entity backed by the relevant Underlying Assets and ranking *pari passu* in priority with such Reference Obligation.

"Previous Period Implied Writedown Amount" means, with respect to a Reference Obligation in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period for such Reference Obligation.

"Principal Payment" means, with respect to a Reference Obligation and any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of such Reference Obligation in respect of principal (scheduled or unscheduled) in respect of such Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any relevant Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, with respect to a Reference Obligation, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the relevant Actual Principal Amount; and

(B) the Applicable Percentage;

If the Principal Shortfall Amount in respect of a Reference Obligation would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then such Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to a Reference Obligation on any day, the payment by or on behalf of the relevant Issuer of an amount in respect of such Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any relevant Principal Shortfall Reimbursement on such day and (ii) the relevant Applicable Percentage.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, made on the related Reference Obligation Payment Date), provided that the aggregate of all such Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts (determined without regard to the Effective Date) in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Reference Obligation Calculation Period" means, with respect to a Reference Obligation and each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the relevant Underlying Instruments.

"Reference Obligation Coupon" means, with respect to a Reference Obligation, the periodic interest rate applied in relation to each related Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the relevant Underlying Instruments as at the Annex Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means, with respect to a Reference Obligation, (i) each scheduled distribution date for such Reference Obligation occurring on or after the Annex Date and on or prior to the Component Transaction Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of such Reference Obligation.

"Reference Policy" means, with respect to a Reference Obligation, the reference policy for such Reference Obligation specified in the Relevant Annex.

"Senior Amount" means, with respect to a Reference Obligation as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity backed by the Underlying Assets and ranking senior in priority to such Reference Obligation.

"Servicer" means, with respect to a Reference Obligation, any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means, with respect to a Reference Obligation, periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Underlying Assets" means, with respect to a Reference Obligation, the assets backing the Reference Obligation for the benefit of the holders of such Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of such Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means, with respect to a Reference Obligation, the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means, with respect to a Reference Obligation, the occurrence at any time on or after the Annex Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to such Reference Obligation resulting in a reduction or subordination of the current interest payable on such Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of such Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of such Reference Obligation, an Implied Writedown Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to a Reference Obligation on any day, the product of (i) the amount of any Writedown with respect to such Reference Obligation on such day and (ii) the Applicable Percentage.

"Writedown Reimbursement" means, with respect to a Reference Obligation on any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of such Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of such Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to such Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of such Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of such Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to a Reference Obligation on any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements with respect to such Reference Obligation on that day; and

(ii) the Applicable Percentage;

"Writedown Reimbursement Payment Amount" means, with respect to a Reference Obligation and an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date (or, in the case of an Additional Fixed Amount Payment Date after the final Fixed Rate Payer Payment Date, on the related Reference Obligation Payment Date or date of determination of an Implied Writedown Reimbursement Amount, as the case may be), provided that the aggregate of all such Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts with respect to such Reference Obligation (determined without regard to the Effective Date) in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

7. Transfer and Termination of Component Transactions

Without prejudice to Section 7 of the Master Agreement specified in the relevant Confirmation, the Component Transactions (or any part thereof) to which these ABX Standard Terms relate may only be transferred (by way of assignment, novation or otherwise) or terminated prior to the Component Transaction Scheduled Termination Date thereof (other than in accordance with the terms hereof) together with an equal part (by Initial Face Amount) of each other Component Transaction forming part of the Master Transaction of which it forms a part.

8. Disclaimers

(a) ABX™ is a service mark of the Index Sponsor and has been licensed for use in connection with the Master Transaction.

(b) The Index referenced herein is the property of the Index Sponsor and has been licensed for use in connection with the transaction hereunder. Each party acknowledges and agrees that the transaction hereunder is not sponsored, endorsed, or promoted by the Index Sponsor or any members of the Index Sponsor (the Index Sponsor, together with its members, the "Index Parties"). The Index Parties make no representation whatsoever, whether express or implied, and hereby expressly disclaim all warranties (including, without limitation, those of merchantability or fitness for a particular purpose or use), with respect to the Index or any data included therein or relating thereto, and in particular disclaim any warranty either as to the quality, accuracy and/or completeness of the Index or any data included therein, the results obtained from the use of the Index and/or the composition of the Index at any particular time on any particular date or otherwise and/or the creditworthiness of any entity, or the likelihood of the occurrence of a Floating Amount Event with respect to an obligation, in the Index at any particular time on any particular date or otherwise. The Index Parties shall not be liable (whether in negligence or otherwise) to the parties or any other person for any error in the Index, and the Index Parties are under no obligation to advise the parties or any person of any error therein. The Index Parties make no representation whatsoever, whether express or implied, as to the advisability of entering into the transaction hereunder, the ability of the Index to track relevant markets' performances, or otherwise relating to the Index or any transaction or product with respect thereto, or of assuming any risks in connection therewith. The Index Parties have no obligation to take the needs of any party into consideration in determining, composing or calculating the Index. Neither party to this transaction, nor any Index Party, shall have any liability to any party for any act or failure to act by the Index Parties in connection with the determination, adjustment, calculation or maintenance of the Index. Although the Calculation Agent will obtain information concerning the Index from sources it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express or implied) is made, and no responsibility is accepted by either party, its Affiliates or the Calculation Agent, as to the accuracy, completeness or timeliness of information concerning the Index. Each party acknowledges that the other party or one of its affiliates may be, or may be affiliated with, an Index Party and, as such, may be able to affect or influence the determination, adjustment or maintenance of the Index. For purposes of Sections 9.1(b)(iii) and (iv) of the Credit Derivatives Definitions, references to "each party" therein shall be deemed to include each Index Party.

(c) Without limitation of Section 9.1(b)(iv) of the Credit Derivatives Definitions (as modified above), each party acknowledges that the other party or its Affiliates or the Calculation Agent may act from time to time as an originator, sponsor, servicer, administrator, trustee, underwriter or market maker, or otherwise act in a capacity as a result of which such party or its Affiliates may be in possession of information in relation to one or more Reference Obligations or Reference Entities contained in the Index which may be material in the context of one or more Component Transactions and that may or may not be publicly available or known to the other party. No

furnishing by a party or its Affiliates or the Calculation Agent of any notice, report, or other information with respect to any Reference Obligation or any Reference Entity ("Reference Obligation Information") shall prejudice the foregoing provision or Section 9.1(b)(iv) of the Credit Derivatives Definitions, constitute a representation or warranty as to the correctness or completeness of such Reference Obligation Information, give rise to any duty to supplement, update or revise the Reference Obligation Information so provided, or otherwise result in such party or the Calculation Agent having any responsibility for the content of such Reference Obligation Information.

Interest Shortfall Cap Annex

Interest Shortfall Cap Amount: The Interest Shortfall Cap Amount in respect of an Interest Shortfall for a Reference Obligation shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.

Interest Shortfall Reimbursement Payment Amount: The first Additional Fixed Amount Payment Date for a Reference Obligation, zero, and with respect to any subsequent Additional Fixed Amount Payment Date for such Reference Obligation and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement for such Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date for such Reference Obligation);

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date for such Reference Obligation would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date for a Reference Obligation, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date for such Reference Obligation immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date for such Reference Obligation.

Cumulative Interest Shortfall Payment Amount: With respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) the relevant Cumulative Interest Shortfall Payment Compounding Factor;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period in respect of a Reference Obligation, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate in respect of such Reference Obligation plus (B) the relevant Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period in respect of a Reference Obligation, the relevant Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the relevant Effective Maturity Date to and including the relevant Termination Date.

Rate Source: USD-LIBOR-BBA

SCHEDULE J

FORM OF CONFIRMATION FOR CMBS SECURITIES

Deutsche Bank AG 

Date: [ ]

To: Gemstone CDO VII Ltd.

Fax No: [ ]

From: Deutsche Bank AG, acting through its New York Branch

RE: Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) (CMBS)

Dear Sir/Madam

The purpose of this communication (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transaction relating to a mortgage-backed security reference obligation entered into between you Gemstone CDO VII Ltd. ("Party B") and us Deutsche Bank AG, acting through its New York Branch ("Party A") on the Trade Date specified below (the "Transaction"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA") and the ISDA Standard Terms Supplement for use with Credit Derivatives Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement, as published by ISDA on November 10, 2006 (the "CDS on MBS Terms"), and, if (i) the Additional Provisions for Optional Early Termination have been published by ISDA at the Trade Date and (ii) Optional Early Termination is specified as being applicable, the Additional Provisions for Optional Early Termination most recently published by ISDA, are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions or the CDS on MBS Terms and this Confirmation, this Confirmation will govern. In the event of any inconsistency between the CDS on MBS Terms and the Credit Derivatives Definitions, the CDS on MBS Terms will govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of [-], 2007 as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: [ ]

Effective Date: [ ]

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Floating Rate Payer:	Party B (the "Seller").
Fixed Rate Payer:	Party A (the "Buyer").
Calculation Agent:	Party A, unless an Event of Default has occurred and is continuing with respect to Party A, in which case the Calculation Agent shall be a leading, independent dealer in derivatives selected by agreement between the parties within one Business Day of such Event of Default (the "Substitute Calculation Agent"), whose fees and expenses shall be met by Party A, whilst such Event of Default is continuing. If the parties are unable to agree on a Substitute Calculation Agent, each of the parties shall elect an independent dealer in derivatives and such two dealers shall agree on a third party, who shall be deemed to be the Substitute Calculation Agent. Party A shall be appointed to replace the Substitute Calculation Agent within one Business Day of the date on which no Event of Default is continuing in respect of Party A. All determinations by the Calculation Agent shall be made in good faith and in a commercially reasonable manner.
Calculation Agent City:	New York
Business Day:	New York and London
Reference Entity:	[ ]
Reference Obligation:	The obligation identified as follows: [Insurer: [ ]] CUSIP/ISIN: [ ] [Bloomberg ID: [ ]] Legal final maturity date: [ ] Original Principal Amount: [ ] Initial Factor: [ ] Issuer: The Reference Entity]
Reference Policy:	Not Applicable
Reference Price:	[●]%
Initial Face Amount:	[ ]
Initial Payment:	[Not Applicable] [On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]
Fixed Rate:	[ ]% per annum

Fixed Rate Payer Payment Dates:	CMBS Convention
Fixed Amount:	Fixed Amount definition for underlying with payment delay
Additional Credit Event:	No Additional Credit Event
Interest Shortfall Cap:	Applicable
WAC Cap Interest Provision:	Applicable
Step-up provisions:	Not Applicable

If Interest Shortfall Cap is applicable, then specify:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Compounding:	Inapplicable
Rate Source:	USD-LIBOR-BBA
Optional Early Termination:	Not Applicable
Additional Terms:	The definition of "Fixed Amount" in the CDS on MBS Terms shall be deleted and replaced in its entirety with the following:

"With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount (as calculated without taking into consideration any adjustment in the Reference Obligation Notional Amount due to an Implied Writedown Amount) outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360."

Office, Notice and Account Details:

The Office of Buyer for this Transaction is: New York

The Office of Seller for this Transaction is: George Town, Grand Cayman, Cayman Islands

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:

Buyer:	Attention: New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com
Seller:	[ ]
Account Details:	
Account Details of Buyer:	[ ]
Account Details of Seller:	[ ]

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile.

Yours sincerely,

DEUTSCHE BANK AG, ACTING THROUGH ITS NEW YORK BRANCH

By:_____

Name:
Title:

By:_____

Name:
Title:

Confirmed as of the date first above written:

GEMSTONE CDO VII LTD.
By HBK Investments, L.P., New York Branch, as its Investment Manager

By:_____

Name:
Title:

By:_____

Name:
Title:

ISDA STANDARD TERMS SUPPLEMENT FOR USE WITH CREDIT DERIVATIVE TRANSACTIONS ON MORTGAGE-BACKED SECURITY WITH PAY-AS-YOU-GO OR PHYSICAL SETTLEMENT[1]

(published on November 10, 2006)

This ISDA Standard Terms Supplement for use with Credit Derivative Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (the "CDS on MBS Terms") hereby incorporates by reference the definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") (the "Credit Derivatives Definitions"). In the event of any inconsistency between the Credit Derivatives Definitions and these CDS on MBS Terms, these CDS on MBS Terms will govern.[2]

References to the "Reference Obligation" in these CDS on MBS Terms or in the relevant Confirmation shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

1. General Terms:

Trade Date:	As shown in the relevant Confirmation.
Effective Date:	As shown in the relevant Confirmation.
Scheduled Termination Date:	Subject to paragraph 6, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.

THE FOOTNOTES TO THIS CDS ON MBS STANDARD TERMS SUPPLEMENT ARE PROVIDED FOR CLARIFICATION ONLY AND DO NOT CONSTITUTE ADVICE AS TO THE STRUCTURING OR DOCUMENTATION OF A CREDIT DERIVATIVE TRANSACTION.

ISDA has not undertaken to review all applicable laws and regulations of any jurisdiction in which the Credit Derivatives Definitions or these CDS on MBS Terms may be used. Therefore, parties are advised to consider the application of any relevant jurisdiction's regulatory, tax, accounting, exchange or other requirements that may exist in connection with the entering into and documenting of a privately negotiated credit derivative transaction.

1 The definitions and provisions in this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement may be incorporated into a Confirmation or other document (including in electronic form) (a "**Confirmation**") by wording in the Confirmation indicating that, or the extent to which, the Confirmation is subject to this ISDA Standard Terms Supplement for use with Credit Derivatives Transactions on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement. All definitions and provisions so incorporated in a Confirmation will be applicable to that Confirmation unless otherwise provided in that Confirmation.

2 Parties who wish to novate a trade documented by way of a Confirmation incorporating these CDS on MBS Terms should consider using the Form of Novation Confirmation set out in the Schedule to this ISDA Standard Terms Supplement.

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Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	As shown in the relevant Confirmation (the "Seller").
Fixed Rate Payer:	As shown in the relevant Confirmation (the "Buyer").
Calculation Agent:	As shown in the relevant Confirmation.
Calculation Agent City:	As shown in the relevant Confirmation.
Business Day:	As shown in the relevant Confirmation.
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in these CDS on MBS Terms or in the Relevant Confirmation that falls on a day that is not a Business Day).
Reference Entity:	As shown in the relevant Confirmation.
Reference Obligation:	As shown in the relevant Confirmation. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	As shown in the relevant Confirmation.
Reference Price:	As shown in the relevant Confirmation.
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor; (a) as increased by the outstanding principal

balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.[3]

Initial Face Amount: As shown in the relevant Confirmation.

Reference Obligation Notional Amount: On the Effective Date, the product of:

(a) the Original Principal Amount;

(b) the Initial Factor; and

(c) the Applicable Percentage.

Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such

[3] This represents the percentage covered by the relevant Transaction of the Outstanding Principal Amount. It may be more than 100%.

Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

Initial Payment:	As shown in the relevant Confirmation.

2. Fixed Payments:

Fixed Rate Payer:	Buyer
Fixed Rate:	As shown in the relevant Confirmation, subject to adjustment in accordance with paragraph 6 below.
Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
Fixed Rate Payer Payment Dates:	In the relevant Confirmation, the parties shall specify either "Not CMBS Convention" or "CMBS Convention" as applicable. If "Not CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date. If "CMBS Convention" is specified in the relevant Confirmation, the Fixed Rate Payer Payment Dates shall be, after each Reference Obligation Payment Date, the next following 25th calendar day of the month, except that when a Reference Obligation Payment Date falls on or after 25th calendar day of a month, the Fixed Rate Payer Payment Date in respect of such Reference Obligation Payment Date shall be 25th calendar day of the next following month; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	In the relevant Confirmation, the parties shall specify "Fixed Amount definition for underlying with no

payment delay" or "Fixed Amount definition for underlying with payment delay".

If "Fixed Amount definition for underlying with no payment delay" is specified in the relevant Confirmation, the Fixed Amount shall be, with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to:

(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; divided by

(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

If "Fixed Amount definition for underlying with payment delay" is specified in the relevant Confirmation, then the Fixed Amount shall be with respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:

(a) the Fixed Rate;

(b) the Reference Obligation Notional Amount outstanding on the last day of the Reference Obligation Calculation Period related to such Fixed Rate Payer Payment Date, as adjusted for any increases or decreases of the Reference Obligation Notional Amount on the Reference Obligation Payment Date immediately preceding the related Reference Obligation Payment Date; and

(c) the actual number of days in the related Fixed Rate Payer Calculation Period divided by 360.

Additional Fixed Amount Payment Dates:

(a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the

Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any). For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business

Dates:	Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and (c) the relevant Interest Shortfall Payment Amount (if any). For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

4. Credit Events and Physical Settlement

Conditions to Settlement: Credit Event Notice

Notifying Party: Buyer

Notice of Physical Settlement

Notice of Publicly Available Information: Applicable

Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.

Specified Number: 1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in

respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Section 3.3 of the Credit Derivatives Definitions is amended so that the following is added as sub-clause (d):

"(d) the expiration of any applicable grace period for a Failure to Pay Principal Credit Event".

Credit Events: The following Credit Events shall apply to the Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly):

Failure to Pay Principal

Writedown

Additional Credit Event (as shown in the relevant Confirmation).

Obligation: Reference Obligation Only

5. Interest Shortfall

Interest Shortfall Payment Amount: In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is specified as applicable in the relevant Confirmation and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

Interest Shortfall Cap: As shown in the relevant Confirmation.

Interest Shortfall Cap Amount: As set out in the Interest Shortfall Cap Annex.

Actual Interest Amount: With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or default interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

WAC Cap Interest Provision: As shown in the relevant Confirmation.

For this purpose, "WAC Cap" means a weighted average coupon or weighted average rate cap provision (however defined in the Underlying Instruments) of the Underlying Instruments that limits, increases or decreases the interest rate or interest entitlement in circumstances where the Underlying Instruments as at the Trade Date and without regard to any subsequent amendments, do not provide for any interest shortfall arising as a result of such provision to be deferred, capitalized or otherwise compensated for at any future time.

Expected Interest Amount: With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to:

(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation minus

(b) the Aggregate Implied Writedown Amount (if any)

and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

The Expected Interest Amount shall be determined:

(x) if WAC Cap Interest Provision is specified as applicable in the relevant Confirmation, after giving

effect to any WAC Cap; and

(y) if WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, without giving effect to any WAC Cap; and

in either case without regard to the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation during the Term of the Transaction, or that provide for the extinguishing or reduction of such payments or distributions (each a "Limitation Provision") (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments)[4].

For the purposes of calculating the Expected Interest Amount, and notwithstanding any other provision herein, the Reference Obligation Coupon shall be deemed to include any cap stated in the Underlying Instrument that is not a Limitation Provision and, where WAC Cap Interest Provision is specified as not applicable in the relevant Confirmation, is not a WAC Cap.

Interest Shortfall: With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be

[4] Note that this will not impact the determination of "Expected Interest Amount" in respect of a Reference Obligation that does not have a Limitation Provision.

the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is specified as not applicable in the relevant Confirmation, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, the amount determined pursuant to the Interest Shortfall Cap Annex.

6. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	As shown in the relevant Confirmation. If the Step-up provisions are applicable, then the following provisions of this paragraph 6 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to exercise, in accordance with the Underlying Instruments, a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.
Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the Issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be

increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.

Optional Step-up Early Termination:

No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue the Transaction at the increased Fixed Rate or to terminate the Transaction.

If Buyer elects to terminate the Transaction, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 6 shall not apply.

No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount calculated in accordance with the terms hereof. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under the Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue the Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue the Transaction at the increased Fixed Rate, the Transaction shall continue.

7. Settlement Terms

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

(a) the product of the Exercise Amount and the Reference Price; minus

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" minus the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the later of (a) the day on which such Servicer Report is delivered and (b) the day on which such Delayed Payment is due and payable.

Escrow: Applicable

Non-delivery by Buyer or occurrence of the Effective Maturity Date: If Buyer has delivered a Notice of Physical Settlement and:

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement

Date; or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in these CDS on MBS Terms to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

8. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report,

then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.[5]

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to the Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

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[5] This is intended to cover any situation in which the Servicer Report does not report on Interest Shortfalls.

(c) For the purposes of the Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any amount representing capitalized interest that relates to the Term of the Transaction) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the factor is not specified in the most recent Servicer Report or the factor specified includes deferred or capitalized interest that relates to the Term of the Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization or deferral of interest in respect of the Reference Obligation has occurred during the Term of the Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purpose of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the

foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the Term of the Transaction) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be, or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as

described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, provided that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the Outstanding Principal Amount.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Effective Date.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of

principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the Term of the Transaction, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub-servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

Interest Shortfall Cap Annex

If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then the following provisions will apply:

Interest Shortfall Cap Basis: As shown in the relevant Confirmation.

Interest Shortfall Cap Amount: If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.

If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of:

(a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs;

(b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and

(c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.

Interest Shortfall Compounding: As shown in the relevant Confirmation.

Interest Shortfall Reimbursement Payment Amount: If Interest Shortfall Cap is specified as applicable in the relevant Confirmation, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the

Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) either:

(1) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); or

(2) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of

the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) either:

(A) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or

(B) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 0; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period over (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) either:

(AA) if Interest Shortfall Compounding is specified as applicable in the relevant Confirmation, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or

(BB) if Interest Shortfall Compounding is specified as not applicable in the relevant Confirmation, 1;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be

equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor: With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate: With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: As shown in the relevant Confirmation.

Schedule

Form of Novation Confirmation

[Headed paper of Party A]

NOVATION CONFIRMATION

for use with the ISDA Standard Terms Supplement for use with Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement as published by the International Swaps and Derivatives Association, Inc.

Date:

To: [Name and Address or Facsimile Number of Party B and Party C]

From: [Party A]

Re: Novation Transaction

Dear _____:

The purpose of this [facsimile][letter] is to confirm the terms and conditions of the Novation Transaction entered into between the parties and effective from the Novation Date specified below. This Novation Confirmation constitutes a "Confirmation" as referred to in the New Agreement specified below.

1. The definitions and provisions contained in the 2004 ISDA Novation Definitions (the "Definitions"), the terms and provisions of the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. and amended from time to time and the Annex hereto are each incorporated in this Novation Confirmation. In the event of any inconsistency between (i) the Definitions (as amended by the Annex hereto), (ii) the Credit Derivatives Definitions and/or (iii) the Novation Agreement (as amended by the Annex hereto), this Novation Confirmation will govern.

2. The terms of the Novation Transaction to which this Novation Confirmation relates are as follows:

[Novation Trade Date:]
Novation Date:
Novated Percentage:
[Transferor][Transferor 1 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferor 2 (and notwithstanding Section 1.5 of the Definitions)]:
[Transferee][Transferee 1]:

[Remaining Party (and notwithstanding Section 1.6 of the Definitions)][Transferee 2 (and notwithstanding Section 1.6 of the Definitions)]:	
[New Agreement (between [Transferee 1 and Transferee 2][Transferee and Remaining Party])]:	ISDA Master Agreement [dated as of_____][as per Section 1.11 of the Definitions] subject to [English law][the laws of the State of New York]

3. The terms of each Old Transaction to which this Novation Confirmation relates[, for identification purposes, are as follows:][shall be specified in the copy of the Old Confirmation attached hereto as Exhibit A.]

Reference Entity:
Reference Obligation:
Trade Date of Old Transaction:
Effective Date of Old Transaction:
Applicable Percentage of Old Transaction:
Scheduled Termination Date of Old Transaction:

4. The terms of each New Transaction to which this Novation Confirmation relates [are as follows:][shall be specified in Section[s] __ [,___and___] of] the copy of the Old Confirmation attached hereto as Exhibit A.][shall be specified in the New Confirmation attached hereto as Exhibit [A][B]].

Full First Calculation Period	Applicable, [commencing on [ ]] [commencing on [ ], with respect to any amounts to be paid by the Transferee, and [ ], with respect to any amounts to be paid by the Remaining Party.

5. Other Provisions: [[Additional Provisions relating to the New Transaction][Credit Support Documents relating to the New Transaction]]:

6. Miscellaneous Provisions: [Non-Reliance][ ]

7. Notice Details:

Telephone and/or Facsimile Numbers for Notices:

Transferee:	[ ]
Remaining Party:	[ ]

8. [The parties confirm their acceptance to be bound by this Novation Confirmation as of the Novation Date by executing a copy of this Novation Confirmation and returning it to us]. The Transferor, by its execution of a copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each Old Transaction. The Transferee, by its execution of a

copy of this Novation Confirmation, agrees to the terms of the Novation Confirmation as it relates to each New Transaction.].

9. The Remaining Party and the Transferee agree that, notwithstanding any provision in the Old Transaction to which this Novation Confirmation relates, all rights of the Remaining Party and the Transferor in respect of Floating Amounts and Additional Fixed Amounts that arose before the Novation Date shall be deemed to have been exercised and all obligations of such parties in respect of such events that have arisen or are deemed to have arisen shall be deemed to have been satisfied in full, in each case solely for the purposes of determining the rights and obligations of the Remaining Party and the Transferee under the New Transaction. Nothing in this paragraph shall affect the rights or obligations of the Remaining Party or the Transferor under the Old Transaction.

.....	.....
(Name of Remaining Party)	(Name of Transferor)
By:	By: .....
Name:	Name:
Title:	Title:
Date:	Date:

.....
(Name of Transferee)

By: .....
Name: .....
Title: .....
Date: .....

Annex

1. Section 2(a) of the Novation Agreement shall be deemed to be amended as follows:

   (a) by the insertion of "(i) " after the words "with respect to" in the fifth line thereof; and

   (b) by the addition of the following at the end thereof:

   "and any rights or obligations arising in respect of Floating Amount Events or Additional Fixed Amount Events, in each case in respect of which the Remaining Party or the Transferor (each an "Original Party"), as applicable, had the right to deliver a notice pursuant to the terms of the Old Transaction but such notice was not delivered by that party or the Calculation Agent prior to the Novation Date (each an "Excluded Event") provided that the rights of the Original Parties to deliver a notice in respect of an Excluded Event pursuant to the Old Transaction shall expire on the 60thcalendar day following the Novation Date."

2. Section 2(b) of the Novation Agreement shall be deemed to be amended by the addition of the following after the words "Novation Date," in the last line thereof:

   "but excluding any rights or obligations in respect of Excluded Events,"

3. The definition of "Novated Amount" in Section 1.18 of the Definitions shall be replaced by the following definition of "Novated Percentage":

   ""Novated Percentage" means the portion of the Applicable Percentage of the Old Transaction that is the subject of the Novation Transaction. If the Novated Percentage is less than 100% of the Applicable Percentage of the Old Transaction, the Old Transaction shall remain in full force and effect but all future payments, deliveries and calculations thereunder shall be based on an Applicable Percentage that has been reduced by the relevant Novated Percentage."

   Each reference to "Novated Amount" in the Definitions and the Novation Agreement shall be deemed to be a reference to "Novated Percentage".

4. Section 2.1(a)(iii)(D)(i) of the Definitions shall not apply

ICM:2978683.12

SCHEDULE K

FORM OF CONFIRMATION FOR CDO SECURITIES

Deutsche Bank AG

Date:

To:

Attention:

Fax No.:

Our Reference:

RE: Credit Derivative Transaction on Collateralized Debt Obligation Security with Pay-As-You-Go or Physical Settlement (Dealer Form—adjusted for Gemstone CDO VII Ltd.)

Dear Sir/Madam:

The purpose of this letter (the **"Confirmation"**) is to confirm the terms and conditions of the Credit Derivative Transaction relating to a collateralized debt obligation security reference obligation entered into between Deutsche Bank AG, acting through its London Branch (**"Party A"**) and Gemstone CDO VII Ltd. (**"Party B"**) on the Trade Date specified below (the **"Transaction"**). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2003 ISDA Credit Derivatives Definitions (the **"Credit Derivatives Definitions"**), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Credit Derivatives Definitions and this Confirmation, this Confirmation shall govern.

This Confirmation supplements, forms a part of, and is subject to, the ISDA Master Agreement, dated as of June 27, 2006, as amended and supplemented from time to time (the **"Agreement"**), between you and us. All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

References in this Confirmation to the "Reference Obligation" shall be to the terms of the Reference Obligation (as defined below) set out in the Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

The terms of the Transaction to which this Confirmation relates are as follows:

1. **General Terms:**

Trade Date:	[●]
Effective Date:	[●]
Scheduled Termination Date:	Subject to paragraph 5, the Legal Final Maturity Date of the Reference Obligation, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of:
	(a) the fifth Business Day following the Effective Maturity Date;

	(b) the last Floating Rate Payer Payment Date;
	(c) the last Delivery Date; and
	(d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	Party B (the **"Seller"**).
Fixed Rate Payer:	Party A (the **"Buyer"**).
Calculation Agent:	Party A
Calculation Agent City:	New York
Business Day:	New York and London
Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in this Confirmation that falls on a day that is not a Business Day).
Reference Entity:	[●]
Reference Obligation:	The obligation identified as follows:
	Issuer: The Reference Entity
	Insurer: [●]
	CUSIP/ISIN: [●]
	Bloomberg ID: [●]
	Legal final maturity date: [●]
	Original Principal Amount: [●]
	Initial Factor: [●]
	Coupon: [●]
	Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	Not Applicable
Reference Price:	100%
Applicable Percentage:	On any day, a percentage equal to A *divided* by B.
	"A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) *divided* by the Current Factor on such day *multiplied* by (b) the Initial Factor.
	"B" means the product of the Original Principal Amount and the Initial Factor;

	(a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and
	(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.
Initial Face Amount:	[●]
Reference Obligation Notional Amount:	On the Effective Date, the product of: (a) the Original Principal Amount;
	(b) the Initial Factor; and
	(c) the Applicable Percentage.
	Following the Effective Date, the Reference Obligation Notional Amount will be:
	(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;
	(ii) decreased on the day, if any, on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;
	(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;
	(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and
	(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount *minus* the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, *provided* that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;
	provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

	For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest during the Term of this Transaction or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to deferral or capitalization of interest during the Term of this Transaction.
Initial Payment:	[Not applicable]
	[On [the Effective Date], [Buyer]/[Seller] will pay [USD][ ] to [Seller]/[Buyer].]

2. **Fixed Payments:**

Fixed Rate Payer:	Buyer
Fixed Rate:	[●]% *per annum*; subject to adjustment in accordance with paragraph 5 below.
Fixed Rate Payer Period End Date:	The first day of each Reference Obligation Calculation Period.
Fixed Rate Payer Payment Dates:	Each day falling five Business Days after a Reference Obligation Payment Date; *provided* that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.
Fixed Amount:	With respect to any Fixed Rate Payer Payment Date, an amount equal to the product of:
	(a) the Fixed Rate;
	(b) an amount determined by the Calculation Agent equal to:
	(i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period; *divided* by
	(ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and
	(c) the actual number of days in the related Fixed Rate Payer Calculation Period *divided* by 360.
Additional Fixed Amount Payment Dates:	(a) Each Fixed Rate Payer Payment Date; and
	(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.

Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, five Business Days) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, a Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of:
	(a) the Writedown Reimbursement Payment Amount (if any);
	(b) the Principal Shortfall Reimbursement Payment Amount (if any); and
	(c) the Interest Shortfall Reimbursement Payment Amount (if any).
	For the avoidance of doubt, each Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Payment Amount or Interest Shortfall Reimbursement Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

3. **Floating Payments:**

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; *provided* that any such notice must be given on or prior to the fifth Business Day following the Effective Maturity Date.

Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Implied Writedown:	Not Applicable
Floating Amount Event:	A Writedown, a Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of:
	(a) the relevant Writedown Amount (if any);
	(b) the relevant Principal Shortfall Amount (if any); and
	(c) the relevant Interest Shortfall Payment Amount (if any).
	For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.
Conditions to Settlement:	Credit Event Notice
	Notifying Party: Buyer
	Notice of Physical Settlement
	Notice of Publicly Available Information: Applicable
	Public Sources: The public sources listed in Section 3.7 of the Credit Derivatives Definitions; *provided* that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.
	Specified Number: 1

	provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Conditions to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement and, in relation to the Failure to Pay Interest Credit Event, the Additional Condition to Settlement specified below.
Additional Condition to Settlement for Failure to Pay Interest:	In addition to the Conditions to Settlement above, in respect of the Failure to Pay Interest Credit Event, if the Reference Obligation is PIK-able, it shall be a Condition to Settlement that a period of at least 360 calendar days has elapsed since the occurrence of the Credit Event without the relevant Interest Shortfall having been reimbursed in full. For the avoidance of doubt, if it is not explicitly made clear in the Servicer Report whether or not, or to what extent, a particular Interest Shortfall has been reimbursed but the Calculation Agent determines that such Interest Shortfall has been reimbursed by a certain amount on the basis of information in such Servicer Report, then the relevant Interest Shortfall reimbursement shall be calculated by the Calculation Agent on the basis of such information.
Additional agreements relating to Physical Settlement:	The parties agree that with respect to the Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:
	(a) the Conditions to Settlement may be satisfied on more than one occasion;
	(b) multiple Physical Settlement Amounts may be payable by Seller;
	(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;
	(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and
	(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the Effective Maturity Date.

	Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".
Credit Events:	The following Credit Events shall apply to this Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definitions shall be amended accordingly):
	Failure to Pay Principal
	Writedown
	Failure to Pay Interest
	Payment Requirement: USD 10,000
	Distressed Ratings Downgrade
	The definition of "Payment Requirement" in Section 4.8(d) of the Credit Derivatives Definitions shall be amended so that the words "Failure to Pay" are deleted and replaced by the words "Failure to Pay Interest".
Obligation:	Reference Obligation Only

4. **Interest Shortfall**:

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided* that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	Applicable
Interest Shortfall Cap Amount:	As set out in the Interest Shortfall Cap Annex.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the Term of this Transaction but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to:

	(a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation; *minus*
	(b) the Aggregate Implied Writedown Amount (if any),
	and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments.
	Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates; (ii) any prepayment penalties or yield maintenance provisions; and (iii) the effect of any provisions (however described) of such Underlying Instruments that otherwise permit the limitation of due payments to distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the Underlying Instruments).
Interest Shortfall:	With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.
	For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.
Interest Shortfall Amount:	With respect to any Reference Obligation Payment Date, an amount equal to the greater of:
	(a) zero; and
	(b) the amount equal to the product of:
	(i) (A) the Expected Interest Amount;
	minus
	(B) the Actual Interest Amount; and
	(ii) the Applicable Percentage;
	provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above *multiplied* by a fraction equal to:

	(x) the number of days in the first Fixed Rate Payer Calculation Period; over
	(y) the number of days in the first Reference Obligation Calculation Period.
Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	With respect to an Additional Fixed Amount Payment Date, (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the Interest Shortfall Cap Annex; *provided*, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that Interest Shortfall Compounding is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by Seller in respect of Interest Shortfalls occurring prior to such Additional Fixed Amount Payment Date.

5. **Settlement Terms:**

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category:
	Reference Obligation Only
Physical Settlement Amount:	An amount equal to:
	(a) the product of the Exercise Amount and the Reference Price; *minus*
	(b) the sum of:
	(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the relevant Exercise Percentage; and

	(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown" *minus* the aggregate of all Writedown Reimbursement Amounts in respect of Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the relevant Exercise Percentage,
	provided that if the Physical Settlement Amount would exceed the product of:
	(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and
	(2) the Exercise Percentage;
	then the Physical Settlement Amount shall be deemed to be equal to such product.
Delayed Payment:	With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following the receipt of such Servicer Report.
Escrow:	Applicable
Non-delivery by Buyer or occurrence of the Effective Maturity Date:	If Buyer has delivered a Notice of Physical Settlement and:
	(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date; or
	(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement;
	then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in this Confirmation to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

6. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the **"Notifying Party"**) shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; *provided* that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations. For the avoidance of doubt, if an Interest Shortfall Amount is not explicitly set out in the Servicer Report but the Calculation Agent determines that an Interest Shortfall has occurred on the basis of information in such Servicer Report, then the relevant Interest Shortfall Amount shall be calculated by the Calculation Agent on the basis of such information.

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to this Transaction, the calculations relevant to the Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (*provided* that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and *provided* that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

7. Offices:

The Office of Seller for this Transaction is George Town, Grand Cayman, Cayman Islands.

The Office of Buyer for this Transaction is London.

8. Notice and Account Details:

Telephone, Telex and/or Facsimile Numbers and Contact Details for Notices:		
	Buyer:	Deutsche Bank AG, London
		Winchester House
		1 Great Winchester Street
		London EC2N 2DB
		Attention:
		Telephone: +1 212 250 7730
	Seller:	Gemstone CDO VII Ltd. []

	Attention: [] Facsimile: []
	With a copy to:
	HBK Investments, L.P. [] Attention: [] Facsimile: []
Account Details:	
Account Details of Buyer:	[]
	Swift BIC Code: []
	Account No: []
	Fed ABA No: []
	CHIPS ABA No: []
	CHIPS UID No: []
	Favour []
Account Details of Seller:	[]
	Account No: []
	Fed ABA No: []
	Benef Name: []
	Benef Address: []
	FC: []
	OBI: []

9. Additional Definitions and Amendments to the Credit Derivatives Definitions:

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words ", servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of this Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount paid on such day by or on behalf of the Issuer in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts *minus* the aggregate of all Implied Writedown Reimbursement Amounts, *provided* that if Implied Writedown is not applicable, the Aggregate Implied Writedown Amount shall be deemed to be zero.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; *provided* that if the factor is not specified in the most recent Servicer Report or such specified factor includes deferred or capitalized interest relating to the Term of this Transaction, then the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the most recent Servicer Report over (ii) the Original Principal Amount.

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the lesser of (x) the Pari Passu Amount and (y) the product of (I) the Pari Passu Amount *plus* the Senior Amount and (II) an amount equal to one *minus* the Overcollateralization Ratio.

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, an amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC") or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Exercise Amount" means, for purposes of the Transaction, an amount to which a Notice of Physical Settlement relates equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the applicable Physical Settlement Date; and (ii) the Current Factor as of such date. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount. For the avoidance of doubt: (a) if any capitalization of interest in respect of the Reference Obligation occurred during the Term of this Transaction and has not been recovered by holders of the Reference Obligation pursuant to the terms of the Underlying Instruments, then, for the purposes of determining the amount of Deliverable Obligations to be Delivered, the Exercise Amount (determined above by reference to the original face amount) will represent an outstanding principal balance of the Reference Obligation to be Delivered by Buyer that includes the proportion of unrecovered interest attributable to the Reference Obligation to be Delivered and (b) notwithstanding the foregoing, the Physical Settlement Amount payable by Seller in relation to such Exercise Amount shall not include any amount in respect of such unrecovered interest.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement *divided* by an amount equal to (i) the Initial Face Amount *minus* (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, *minus* (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Interest" means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to its rating business.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation

Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount *divided* by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero, *provided* that the aggregate of all Implied Writedown Reimbursement Amounts at any time shall not exceed the product of the Pari Passu Amount and the Implied Writedown Percentage.

"Legal Final Maturity Date" means the date set out in paragraph 1 above (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), *provided* that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to its rating business.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term of this Transaction.

"Overcollateralization Ratio" means, in respect of a Reference Obligation Calculation Period:

(i) if the most recent Servicer Report sets out a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations on the Reference Obligation (subject to certain adjustments as described in the Underlying Instruments) to (B) the Pari Passu Amount *plus* the Senior Amount, then such ratio; or

(ii) if the ratio cannot be determined under (i) but the most recent Servicer Report for one or more senior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the senior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation to (B) the sum of the Pari Passu Amount *plus* the Senior Amount with respect to such Reference Obligation; or

(iii) if the ratio cannot be determined under (ii) but the most recent Servicer Report for one or more junior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the junior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation (including the Reference Obligation) and (B) the sum of the Pari Passu Amount *plus* the Senior Amount with respect to such Reference Obligation; or

(iv) if the ratio cannot be determined under (iii), then a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations under the Reference Obligation to (B) the Pari Passu Amount *plus* the Senior Amount.

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"PIK-able" means, in relation to a Reference Obligation, that the Underlying Instruments include provisions that provide for capitalization or deferral of interest on such Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(i) zero; and

(ii) the amount equal to the product of:

(A) the Expected Principal Amount *minus* the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Effective Date.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Related Obligation" means, in relation to the Reference Obligation, an obligation of the Reference Entity that is also secured by the Underlying Assets but ranks senior or junior to the Reference Obligation in priority of payment. In relation to a Related Obligation, the terms "Servicer", "Servicer Report" and "Underlying Instruments" shall have the meanings set out in this Confirmation but with references in the definitions of those terms to "Reference Obligation" being deemed, solely for this purpose, to be references to the Related Obligation.

"Relevant Amount" means, if a Servicer Report that describes a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of the Reference Obligation as of a date prior to a Delivery Date but such Servicer Report is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Servicer" means any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports in relation to the Reference Obligation pursuant to the Underlying Instruments.

"Servicer Report" means a periodic statement or report regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

10. Representations

Each party will be deemed to represent to the other party on the date on which it enters into the Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for the Transaction):

(a) *Non-Reliance*

It is acting for its own account, and it has made its own independent decisions to enter into the Transaction and as to whether the Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into the Transaction; it being understood that information and explanations related to the terms and conditions of the Transaction shall

not be considered investment advice or a recommendation to enter into the Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of the Transaction.

(b) *Assessment and Understanding*

It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of the Transaction. It is also capable of assuming, and assumes, the risks of the Transaction.

(c) *Status of Parties*

The other party is not acting as a fiduciary for, or an adviser to it in respect of the Transaction.

Please confirm your agreement to be bound by the terms of the foregoing by executing a copy of this Confirmation and returning it to us by facsimile to:

Attention:	New York Derivatives Documentation
Telephone:	(212) 250-9425
Fax:	(212) 797-0779
Email:	NYderivative.documentation@db.com

Deutsche Bank AG, acting through its London Branch is acting as principal in the Transaction. The time of transaction will be supplied on request. The time of exercise will be supplied on request. Details of arrangements with introducing brokers are available on request.

This message will be the only form of Confirmation dispatched by us. Please execute and return it to us by facsimile immediately. If you wish to exchange hard copy forms of this Confirmation, please contact us.

Yours faithfully,

DEUTSCHE BANK AG, ACTING THROUGH ITS LONDON BRANCH

By: _____

Name: _____
Title: Authorized Signatory

By: _____

Name: _____
Title: Authorized Signatory

Confirmed as of the date first written above:

Gemstone CDO VIII Ltd.

By: _____

Name: _____

Title: _____

Interest Shortfall Cap Annex

If Interest Shortfall Cap is applicable, then the following provisions will apply:

Interest Shortfall Cap Basis:	Variable Cap
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred.
	If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of:
	(a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs;
	(b) the amount determined by the Calculation Agent under sub-clause (b) of the definition of "Fixed Amount" in relation to the relevant Fixed Rate Payer Payment Date; and
	(c) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360.
Interest Shortfall Compounding:	Applicable
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is applicable, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater of:
	(a) zero; and
	(b) the amount equal to:
	(i) the product of:
	(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and
	(B) either:
	(3) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer

	Payment Date); or
	(4) if Interest Shortfall Compounding is not applicable, 1;
	minus
	(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;
	provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.
Cumulative Interest Shortfall Amount:	With respect to any Reference Obligation Payment Date, an amount equal to the greater of:
	(a) zero; and
	(b) an amount equal to:
	(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; *plus*
	(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; *plus*
	(iii) either:
	(A) if Interest Shortfall Compounding is applicable, an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; or
	(B) if Interest Shortfall Compounding is not applicable, 0; *minus*
	(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.
	Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately

	prior to the first Delivery made during such Reference Obligation Calculation Period.
Cumulative Interest Shortfall Payment Amount:	The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:
	(a) zero; and
	(b) the amount equal to:
	(i) the sum of:
	(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and
	(B) the product of:
	(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and
	(2) either:
	(AA) if Interest Shortfall Compounding is applicable, the relevant Cumulative Interest Shortfall Payment Compounding Factor; or
	(BB) if Interest Shortfall Compounding is not applicable, 1;
	minus
	(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.
	With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:
	(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); *minus*
	(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.
	Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following such Delivery *divided* by (b) the Applicable Percentage immediately prior to such Delivery; *provided, however*, that if more than one

	Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be *multiplied* by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.
Cumulative Interest Shortfall Payment Compounding Factor:	With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:
	(a) 1.0;
	plus
	(b) the product of:
	(i) the sum of (A) the Relevant Rate *plus* (B) the Fixed Rate; and
	(ii) the actual number of days in such Fixed Rate Payer Calculation Period *divided* by 360;
	provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.
Relevant Rate:	With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:
	(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;
	(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and
	(c) the following terms applied:
	(i) the Floating Rate Option were the Rate Source;
	(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and
	(iii) the Reset Date were the first day of the Calculation Period;
	provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.
Rate Source:	USD-LIBOR-BBA

SCHEDULE L

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PRINCIPAL OFFICES OF THE ISSUERS

Gemstone CDO VII Ltd.
c/o Maples Finance Limited
P.O. Box 1093GT, Queensgate House
South Church Street
George Town, Grand Cayman
Cayman Islands

Gemstone CDO VII Ltd.
c/o Puglisi & Associates
850 Library Avenue
Suite 204
Newark, Delaware 19711

TRUSTEE, PRINCIPAL PAYING AGENT AND NOTE REGISTRAR

Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

TRANSFER AGENT

Deutsche Bank Trust Company Americas
1761 East St. Andrew Place
Santa Ana, California 92705

LISTING AGENT AND IRISH PAYING AGENT

RSM Robson Rhodes LLP
RSM House, Herbert Street
Dublin 2, Ireland

COLLATERAL MANAGER

HBK Investments L.P.
300 Crescent Court Suite 700
Dallas, Texas 75201

LEGAL ADVISORS

To the Issuers

As to U.S. Law
Allen & Overy LLP
1221 Avenue of the Americas
New York, New York 10020

To the Initial Purchaser

Allen & Overy LLP
1221 Avenue of the Americas
New York, New York 10020

To the Issuer

As to Cayman Islands Law
Maples and Calder
P.O. Box 309GT, Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

To the Collateral Manager

Cadwalader, Wickersham & Taft LLP
One World Financial Center
New York, New York 10281



greglip@bbotg To: fblair@bbotg
cc:
Subject:

11/29/2006
01:30 PM

Message Sent: 11/29/2006 13:30:51
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: FBLAIR@BBOTG|FRANCIS BLAIR|DEUTSCHE BANK SECURI|1726|328663

how bout SABR 2005-FR4 B3 =

Reply: =

PIG PROBABLY A 400-525 MARKET =



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1400

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

12/01/2006 08:05 PM

To "Tyler Duncan" <TDuncan@wayzpartners.com>@DEUBAINT
cc Jamil Nathoo/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject Re: FW: Wayzata cob 11-30-06

in general the 2005 have barely moved while the 2006 vintage is collapsing. here is some credit by credit color...note some 2005 that are clean have been squeezed as there is still cdo appet ite for them and there is little to no hedge fund interest in them (at this time)

1. arsi 05-w5 we have not seen this trade since october. but this is a weak name foreclosure % is exploding, less than 1 year old as of oc tober 4.75% f./c or reo (november I'm sure is worse) we traded this on 8/23 at 315, we have it at 375 now

2. emlt 05-1 m9 this is one of the names getting squeezed...it is performing well and no one is shorting it but with 4 months to the reset, it could get interesting. We traded at 225, the mark of 185 is if anything a bit wide to where it would trade.

3. ffml 05-ff4 m8 similar st ory to the emlt...the 05 ffml is perfoming very well while t he 2006 ones have started to widen. we traded at 220 in june, marked at 175 which is reasonable

4. fhlt 05-e m9 t his is a name that is blowing up. horrible performance over 6% in f/c and reo. we traded in august at 260, marking at 450 now

5. mlmi 05-nc1 b3 this is an interesting deal, its from jan 05 so it has paid down alot and the loans are just reset ting, performa ce is not great with 5.5 % f/c oand 4.5 90+ (october numbers) t his bond t raded in comp on nov 17 at 245 so the mark of 225 (versus our 255) trade seems mid m arket to slig htly too t ight given market last two weeks but I think this mark is in the context...this bond will eit her be blowing up or clearly worth par within 6 months

7. nchet 05-d m9 deal performance is bad with nearly 5 % f/c reo less than 1 year in yet we bought protection on this in high 100s on november 16 making the mark of 230 reasonable given moves in last two weeks...i would expect this bond t o widen out much f urther (similar to what we say with fhlt 05-e)

8, ramp 05-efc2 m9 the 2005 ramp efc deals trade extremely well this mark is 10 tighter than where we traded it and is reasonable to wide given recent market action
9. ramp 05-efc3 m9 see above
10. sabr 05-fr4 b3 another freemont blowing up we traded in august at 260, this is marked at 412 and if anyt hing could be a bit wider (ie. I'd show you a 412.5 bid t o unwind it)
11. sast 05-3 b3 saxon is a weak name but is performing ok so far....we traded at 265 and the mark is 210 on 11/22 another hedge fund bought protection in comp at 220 so this mark is solidly in the middle of a slighly wider market than before

all in all your net marks are a bit wider with a few much wider (190, 150 and 60) and the rest slighly to moderately tigher (10,.10,10, 30,40,45,55)...i think things are going as we predicted lit tle to no movement and then a blowup.....I did not look into the vol question only the accuracy of the current marks.

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

"Tyler Duncan" <TDuncan@wayzpartners.com>

12/01/2006 05:43 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jamil Nathoo/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject FW: Wayzata cob 11-30-06

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1401

These seem a little off – most marks are going against us except three. The FFML 05, NCHET & SAST deals have moved over 2 pts against us since last marks – why is this? I would think we would not have 2-3 pt. swings with fairly extreme volatility. Could you guys review and make sure these make sense to you.

Tyler Duncan
Wayzata Investment Partners, LLC
Direct: 952-345-0709
Mobile: 612-877-1627
Fax: 952-345-8901

From: Leonela Lamaj [mailto:leonela.lamaj@db.com]
Sent: Friday, December 01, 2006 4:20 PM
To: Tyler Duncan
Cc: Jamil Nathoo; Rachel Rode
Subject: Wayzata cob 11-30-06

Please see attached for Nov month end statement.
Apologies on the delay

Leonela Lamaj
Deutsche Bank Securities Inc.

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Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 02:24 PM

To"Mark Lee" <mlee@contrariancapital.com>
cc
bcc
SubjectRe:

No. Sabr is a bad shelf (barclays shelf like db's ace and lehmans sail etc) but they not all bad, sabr fr blows as do many others but sabr 06-opt1 you can buy 25MM inside 300.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 02:19 PM
To: Greg Lippmann
Subject: RE:

should I assume all the SABR deals are wide like this.

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, January 25, 2007 2:05 PM
To: Mark Lee
Subject: Re:

Talked to my guys, this deal refcently traded near 800. Wmc in general is widening massively so I think wed be 850 or so. Best to look elsewhere. We'll.. Be back with a list soon.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 01:44 PM
To: Greg Lippmann
Subject: RE:

where do you think the SABR 2006 WM3 B-3 trades these days?

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, January 25, 2007 1:37 PM
To: Mark Lee
Subject: Re:

Understood on impairment just a matter of how much to pay in carry til then. Many of these are going down.

Sent from my BlackBerry Handheld.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1401

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 01:34 PM
To: Greg Lippmann
Subject: RE:

We would look at namet 400 to 550. In general we are not looking for spread widening - we are looking for chances of impairment.

From: Greg Lippmann [mailto:greg.lippmann@db.com]
Sent: Thursday, January 25, 2007 1:32 PM
To: Mark Lee
Subject: Re:

Sure. Give me some idea of spread target / shelves / tier. Ie you want weak names trading 550 +, strong names traded 350 or better or the oneswin middle. Note index is roughly 525.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Mark Lee" [mlee@contrariancapital.com]
Sent: 01/25/2007 01:29 PM
To: Greg Lippmann

Do you have any suggestion for BBB- bonds we should look at buying protection on?

Mark Lee.
Portfolio Manager
Contrarian Capital
411 West Putnam
Suite 225
Greenwich CT 06830

P: (203) 862-8203
F: (203) 629-1977

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Greg Lippmann

To: "Jashin Patel" <jashin.patel@db.com>
cc:
Subject: Where is this pig marked?

11/29/2006
05:17 PM

10mm 35729PHU7 FHLT 2005-A M9 375 last look 382

Sent from my BlackBerry Handheld.

Confidential Treatment Requested by DBSI

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1402



greglip@bbotg To: rokurita@bbotg,jmilman@bbotg
cc:
Subject: PINE MOUNTAIN 3

11/28/2006
08:41 AM

Message Sent: 11/28/2006 08:41:26
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: JMILMAN@BBOTG|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663

ABFC 2005-WF1 M9 pass
ABSHE 2005-HE4 M9 pass
ACCR 2005-3 M9 pass
ACE 2005-WF1 M9 pass
AMIT 2005-3 M6 pass
CBASS 2004-CB6 B3 pass
CMLTI 2005-OPT4 M9 155
CWL 2005-10 MV9 165
ECR 2005-3 B 285
FFML 2005-FF8 B3 pass
FMIC 2005-2 M9 190
GSAMP 2005-AHL M6 315 this is a pig we shouldnt pass like on ny life
JPMAC 2005-OPT1 M9 pass
MABS 2005-NC2 M9 240 (long sze and huge payment shock coming 6.5gwac 5.=
8 marg)
MLMI 2005-AR1 B3 160
MSAC 2005-HE7 B3 175
NCHET 2005-3 M9 165
OOMLT 2005-4 M9 140
RAMP 2005-EFC3 M9 150
RASC 2005-EMX4 M9 135
SASC 2005-WF2 M9 pass
WFHET 2005-2 M9 pass



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1404



greglip@bbotg To: hiroki.kurita@db.com
cc:
Subject: WE TRADED THAT ACE PIECE O CRAP WITH IKE AT 380 !!

05/19/2006
08:04 AM

Message Sent: 05/19/2006 09:04:53
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: hiroki.kurita@db.com| | | |

WE TRADED THAT ACE PIECE O CRAP WITH IKE AT 380 !!



OrgSmtpMsg.eml

Danielle Pluthero/NewYork/DBNA/DeuBa@DBAMERICAS

05/29/2007 04:27 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@
cc Stephanie Ruhle/NewYork/DBNA/DeuBa@DBA
bcc
Subject Re: Highfields ~40 cusips for quotes

Greg
Thank you for the feedback. Just went through your color with Farhad. He thought he had screened out most of the bad names so apologies for the freemont.
Let us know if there are any on this list that aren' t too dicey that you think you can provide prices on.
Also if there are any other shelves that look bad let me know outside of the ones mentioned on the call (LBLMT, sail, sgms etc). I don't believe we have a list but i figured given your expertise you may have a few more to mention that Highfields is not aware of. It just helps them delete them from the master list
They are still focused on 400-1000 spread range

Danni

Danielle Pluthero

Deutsche Bank Securities Inc
60 Wall Street, 3rd Floor
New York, NY 10005
Tel: (212)250 8967
Cell: (646)301 1352
Fax: (212)797 2097
danielle.pluthero@db.com

Greg Lippmann/NewYork/DBNA/DeuBa

05/29/2007 03:41 PM

To Danielle Pluthero/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject Re: Highfields ~40 cusips for quotes (Document link: Danielle Pluthero)

i thought i said freemont and wmc are bad here are the ones that fit that below:

00442VAM9 ACE 2006-ASP3 M7 this stinks though i didnt mention it

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1409

before

00442VAN7	ACE 2006-ASP3 M8 ditto
00442VAP2	ACE 2006-ASP3 M9 ditto
00442CAP4	ACE 2006-FM2 M9 FM stands for FREEMONT
040104SF9	ARSI 2006-W2 M9 ARSI is a very bad shelf (I may hnot have mentioned it)
040104TA9	ARSI 2006-W3 M8 ditto
040104TB7	ARSI 2006-W3 M9ditto
040104TR2	ARSI 2006-W4 M8 ditto
040104TS0	ARSI 2006-W4 M9ditto
04012XAP0	ARSI 2006-W5 M9ditto
07388GAK7	BSABS 2006-3 M7
12666PBD5	CWL 2006-10 MV9
12666TAU0	CWL 2006-11 BV
12667AAN6	CWL 2006-12 B
12667AAM8	CWL 2006-12 M8
126670YS1	CWL 2006-5 B
23242NAL3	CWL 2006-ABC1 M8
126670SY5	CWL 2006-IM1 B
126670SW9	CWL 2006-IM1 M7
126670SX7	CWL 2006-IM1 M8
362334PU2	GSAMP 2006-FM1 B2 FM is freemont
40430MAQ0	HASC 2006-WMC1 M9 WMC is WMC
456606LK6	INABS 2006-B M9 weak name but will try
43709BAQ2	INABS 2006-C M9 ditto
46602WAN4	IXIS 2006-HE2 B3 very very bad deal PASS
57643LPW0	MABS 2006-FRE1 M7 FRE is FREEMONT
57643LPX8	MABS 2006-FRE1 M8 ditto
57643LPY6	MABS 2006-FRE1 M9 ditto
57643GAN7	MABS 2006-FRE2 M8 ditto
57643GAP2	MABS 2006-FRE2 M9 ditto
57644UAQ8	MABS 2006-HE2 M9
57644TAN8	MABS 2006-WMC2 M8 WMC is WMC
57644TAP3	MABS 2006-WMC2 M9 ditto
59020U6Y6	MLMI 2006-WMC2 B3A ditto
59020U6Z3	MLMI 2006-WMC2 B3B ditto
61749GAN2	MSHEL 2006-3 B3
61749QAP5	MSIX 2006-1 B3
64352VRB9	NCHET 2006-1 M9
81375HAG4	SABR 2006-NC1 B1
81375HAH2	SABR 2006-NC1 B2
81375HAJ8	SABR 2006-NC1 B3
86360PAR8	SASC 2006-NC1 M9

Danielle Pluthero/NewYork/DBNA/DeuBa

05/29/2007 03:30 PM

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc: Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Stephanie Ruhle/NewYork/DBNA/DeuBa@DBAmericas

Subject: Highfields ~40 cusips for quotes

Greg
As promised.
Cusips from your list. Client has tried to avoid issuers you mentioned on the call.

00442VAM9	ACE 2006-ASP3 M7
00442VAN7	ACE 2006-ASP3 M8
00442VAP2	ACE 2006-ASP3 M9
00442CAP4	ACE 2006-FM2 M9
040104SF9	ARSI 2006-W2 M9
040104TA9	ARSI 2006-W3 M8
040104TB7	ARSI 2006-W3 M9
040104TR2	ARSI 2006-W4 M8
040104TS0	ARSI 2006-W4 M9
04012XAP0	ARSI 2006-W5 M9
07388GAK7	BSABS 2006-3 M7
12666PBD5	CWL 2006-10 MV9
12666TAU0	CWL 2006-11 BV
12667AAN6	CWL 2006-12 B
12667AAM8	CWL 2006-12 M8
126670YS1	CWL 2006-5 B
23242NAL3	CWL 2006-ABC1 M8
126670SY5	CWL 2006-IM1 B
126670SW9	CWL 2006-IM1 M7
126670SX7	CWL 2006-IM1 M8
362334PU2	GSAMP 2006-FM1 B2
40430MAQ0	HASC 2006-WMC1 M9
456606LK6	INABS 2006-B M9
43709BAQ2	INABS 2006-C M9
46602WAN4	IXIS 2006-HE2 B3
57643LPW0	MABS 2006-FRE1 M7
57643LPX8	MABS 2006-FRE1 M8
57643LPY6	MABS 2006-FRE1 M9
57643GAN7	MABS 2006-FRE2 M8
57643GAP2	MABS 2006-FRE2 M9
57644UAQ8	MABS 2006-HE2 M9
57644TAN8	MABS 2006-WMC2 M8
57644TAP3	MABS 2006-WMC2 M9
59020U6Y6	MLMI 2006-WMC2 B3A
59020U6Z3	MLMI 2006-WMC2 B3B
61749GAN2	MSHEL 2006-3 B3
61749QAP5	MSIX 2006-1 B3
64352VRB9	NCHET 2006-1 M9
81375HAG4	SABR 2006-NC1 B1
81375HAH2	SABR 2006-NC1 B2
81375HAJ8	SABR 2006-NC1 B3
86360PAR8	SASC 2006-NC1 M9

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[attachment "CUSIPS for DB submitted May 29 07.xls" deleted by Danielle Pluthero/NewYork/DBNA/DeuBa]



GREGLIP@bloomberg.net ToBAKERCDB@bloomberg.net
cc
03/02/2007 01:38 PM bcc
Subject

=====Begin Message=====
Message#: 355830
Message Sent: 03/02/2007 13:38:35
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: BAKERCDB@bloomberg.net|CLARK BAKER|HARBINGER CAPITAL|
|
Subject:

on this call & they are claiming that DB was one of the last
ones to tighten standards on buying loans to securitize.
you
were right- ace is
crap
Reply:

INDEED...IT IS....BUT I AM NOT CRAP MY FRIEND..1
=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1410



JMILMAN@bloomberg.net

03/19/2007 07:05 PM

To GREGLIP@bloomberg.net
cc
bcc
Subject

=====Begin Message=====
Message#: 21372
Message Sent: 03/19/2007 18:05:50
From: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
Subject:

the ffml 06-ff13 is a piece of crap and would be closer to
1000. .On the phone you told me closer to 400, and even the
message you sent after the fact says between 400-800.
=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1414



JMILMAN@bloomberg.net

12/01/2006 12:40 PM

To GREGLIP@bloomberg.net
cc
bcc
Subject

=====Begin Message=====
Message#: 197274
Message Sent: 12/01/2006 12:40:02
From: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
Subject:

Bal HOMEQ BWIC TODAY AT 2PM WITH THOUGHTS
10mm ACE 06-HE1 M10 Bal/BBB/BBB 100ppc to call 1250dm 75-14+
Reserve Levels
Apply
I am thinking 60-00, let me know what you think
Reply:

WHAT SPREAD IS THAT....DOENST THIS DEAL BLOW AND WHO IS SELLING?
Reply:

yes it blows I am seeing 20-40% writedowns
=====End Message=====

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1418

Confidential Treatment Requested by DBSI



"Jason Lowry" <JLowry@hbk.com>

12/19/2006 11:11 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Hiroki Kurita/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, "Rachel Wish" <RWish@hbk.com>, "FixedIncome" <FixedIncome@hbk.com>, Mike Li/db/dbcom@DBAmericas, "ABS" <ABS@hbk.com>

cc

bcc

Subject Purchase for warehouse

We bought 10mm of ACE 06-HE1 M10 (1332 @ 30cpr) at a price of 73.50 from DBS for the warehouse.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1419



JMILMAN@bloomberg.net

12/19/2006 11:27 AM

To GREGLIP@bloomberg.net, CACCIBAL1@bloomberg.net, PMANGIONE@bloomberg.net, FBRETTSC@bloomberg.net, MGINS@bloomberg.net, ROKURITA@bloomberg.net, BWIELE1@bloomberg.net, SOULMAN@bloomberg.net, MAZZACC@bloomberg.net, HFORUSZ@bloomberg.net, HLAWLESS@bloomberg.net, IBOGZA@bloomberg.net, MDESANTIS3@bloomberg.net, CRESMA.MIDB@bloomberg.net

cc

bcc

Subject

```
=====Begin Message=====
Message#: 155353
Message Sent: 12/19/2006 11:27:36
From: JMILMAN@bloomberg.net|JORDAN MILMAN|DEUTSCHE BANK
SECURI|1726|328663
To: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK
SECURI|1726|328663
To: CACCIBAL1@bloomberg.net|CON ACCIBAL|DEUTSCHE BANK
SECURI|1726|328663
To: PMANGIONE@bloomberg.net|PAUL MANGIONE|DEUTSCHE BANK
SECURI|1726|328663
To: FBRETTSC@bloomberg.net|FRED BRETTSCHNEIDER|DEUTSCHE BANK
SECURI|1726|328663
To: MGINS@bloomberg.net|MARK GINSBERG|DEUTSCHE BANK
SECURI|1726|328663
To: ROKURITA@bloomberg.net|ROCKY KURITA|DEUTSCHE BANK
SECURI|1726|328663
To: BWIELE1@bloomberg.net|BRIAN WIELE|DEUTSCHE BANK
SECURI|1726|328663
To: SOULMAN@bloomberg.net|MICHAEL SOLBERG|DEUTSCHE BANK
SECURI|1726|439306
To: MAZZACC@bloomberg.net|MICHAEL MAZZACCO|DEUTSCHE BANK
SECURI|1726|328663
To: HFORUSZ@bloomberg.net|HEATH FORUSZ|DEUTSCHE BANK AG,
LO|1726|115008
To: HLAWLESS@bloomberg.net|HEATHER LAWLESS|DEUTSCHE BANK
SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK
SECURI|1726|328663
To: MDESANTIS3@bloomberg.net|MARC DESANTIS|DEUTSCHE BANK
SECURI|1726|328663
To: CRESMA.MIDB@bloomberg.net|MARCO CRESTI|DEUTSCHE BANK AG,
LO|1726|115008
Subject:

 SOLD 10mm ACE 06-HE1 M10 THANKS L.
PIKE
=====End Message=====
```



greglip@bbotg To: greglip@bbotg
cc:
Subject: CDS TRADE

04/06/2006
05:54 PM

Message Sent: 04/06/2006 18:54:58
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

Bradley, we just did the following trade, 200MM 20MM each of 10 names wit=
h
another hedge fund. You will see we showed you comparable or better!! let=
s go !
Bond CDS Level

ACCR 2005-2 M8 135.00
CMLTI 2005-OPT4 M8 131.00
FFML 2005-FF7 M8 130.00
FMIC 2005-2 M8 135.00
MSAC 2005-NC2 B2 140.00
MSAC 2005-WMC6 B2 138.00
NCHET 2005-1 M8 138.00
NHEL 2005-3 M8 128.00
SABR 2005-OP2 B2 132.00
SABR 2005-FR4 B2 135.00
=

Bond CDS Level
NHEL 2005-1 B2 130 this bond is BBB+ SP the NHEL 05-3 is A+ SP
LBMLT 2005-2 M8 142 crap name
CARR 2005-FRE1 M8 133
FFML 2005-FF8 B2 127 we traded the ff7 3 wider than this urs A theirs=
BBB+
ACE 2005-RM1 M8 130 good level for high california
JPMAC 2005-OPT1 M8 128 compares to the cmlti 05-opt4 at 131 urs bbb thei=
r bbb+
ACCR 2005-2 M8 130 we showed u 5 tighter than we traded this exact bo=
nd!
SABR 2005-FR2 B2 135 same levels as sabr05-fr4 sam(ish) bond
AMSI 2005-R7 M8 137 crap name
POPLR 2005-D M5 128 tied for as tight as any we traded but this is sp =
bbb and
that one was sp A+



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1422



greglip@bbotg To: rokurita@bbotg
cc:
Subject: Re: Fwd: *Here is a preliminary ist for julius baer

06/16/2006
09:18 AM

Message Sent: 06/16/2006 10:18:12
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663

AND U R THE MAN !!! OK LETS INCLUDE IT AT A VERY WIDE LEVEL AND GET SOMET=
HING
TOGETHER FOR THESE GUYS...
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 10:14:42

we are short that one. all the cwl are bad.
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 6/16 10:12:26

ok if we r shrt it b/c is that the really crap one or is that the 05-3 /?=
maybe
also an 06 cwl....
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 9:42:49

we have a couple new century. how about a cwl 05-4 bv baa3
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 6/16 9:24:56

lets add one other weakish name i.e. cwl, amsi, nchet,heat want to balanc=
e it
out in spread terms more..also after the analysis they want just 10 2005 =
and 10
06 not more....sales is charlotte mcbride but lets run through me for now=
..
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 8:54:22

----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 8:54:18

Can we run the numbers? What other stats does the accoutn need? who cover=
s the
account?
1 SASC 2005-NC1 M7
2 SASC 2005-NC1 M8
3 SASC 2005-WF1 M8

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1423

From: DEUTSCHE ARMS (DEUTSCHE BANK SECURI) <DBARMS@BBOTG>
Sent: Friday, November 17, 2006 8:08 PM
To: JEFFREY LIN (DEUTSCHE BANK SECURI) <JLIN97@BBOTG>; RAJ SHOURIE (DEUTSCHE BANK) <RSHOURIE@BBOTG>; JOSEPH REARDON (DEUTSCHE BANK SECURI) <REARJOS@BBOTG>; JEANMARIE GENIRS (DEUTSCHE BANK SECURI) <JGENIRS1@BBOTG>; ERIK FALK (DEUTSCHE BANK SECURI) <EFALK@BBOTG>; MATTHEW BRAUND (DEUTSCHE BANK SECURI) <MBRAUND@BBOTG>; BRIAN WIELE (DEUTSCHE BANK SECURI) <BWIELE1@BBOTG>; ED RUBIN (DEUTSCHE BANK SECURI) <ERUBIN@BBOTG>; ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>; PETER GALL (DEUTSCHE BANK AG) <PETERGALL@BBOTG>; MICHAEL COMMAROTO (DEUTSCHE BANK SECURI) <MCOMMARO@BBOTG>; GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>; FRED BRETTSCHNEIDER (DEUTSCHE BANK SECURI) <FBRETTSC@BBOTG>; DANIEL SCHAEFFER (DEUTSCHE BANK SECURI) <SCHAEFF@BBOTG>
Subject:

Message Sent: 11/17/2006 16:08:07
From: DBARMS@BBOTG|DEUTSCHE ARMS|DEUTSCHE BANK SECURI|1726|328663
To: JLIN97@BBOTG|JEFFREY LIN|DEUTSCHE BANK SECURI|1726|8423
To: RSHOURIE@BBOTG|RAJ SHOURIE|DEUTSCHE BANK|1726|133100
To: REARJOS@BBOTG|JOSEPH REARDON|DEUTSCHE BANK SECURI|1726|328663
To: JGENIRS1@BBOTG|JEANMARIE GENIRS|DEUTSCHE BANK SECURI|1726|328663
To: EFALK@BBOTG|ERIK FALK|DEUTSCHE BANK SECURI|1726|328663
To: MBRAUND@BBOTG|MATTHEW BRAUND|DEUTSCHE BANK SECURI|1726|509770
To: BWIELE1@BBOTG|BRIAN WIELE|DEUTSCHE BANK SECURI|1726|328663
To: ERUBIN@BBOTG|ED RUBIN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: PETERGALL@BBOTG|PETER GALL|DEUTSCHE BANK AG|1726|334122
To: MCOMMARO@BBOTG|MICHAEL COMMAROTO|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: FBRETTSC@BBOTG|FRED BRETTSCHNEIDER|DEUTSCHE BANK SECURI|1726|328663
To: SCHAEFF@BBOTG|DANIEL SCHAEFFER|DEUTSCHE BANK SECURI|1726|328663

THE ARMS DESK WOULD LIKE TO EXPRESS ITS SINCERE APPRECIATION TO THE SALES FORCE FOR AN OUTSTANDING JOB IN HELPING US PLACE THE BONDS OFF DBALT 06-AR6. THANKS A LOT!!

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1425

From: DEUTSCHE ARMS (DEUTSCHE BANK SECURI) <DBARMS@BBOTG>

Sent: Tuesday, November 14, 2006 12:16 AM

To: HEATHER DAUR (DEUTSCHE BANK SECURI) <HDAUR1@BBOTG>; JEFFREY LIN (DEUTSCHE BANK SECURI) <JLIN97@BBOTG>; RAJ SHOURIE (DEUTSCHE BANK) <RSHOURIE@BBOTG>; JOSEPH REARDON (DEUTSCHE BANK SECURI) <REARJOS@BBOTG>; JEANMARIE GENIRS (DEUTSCHE BANK SECURI) <JGENIRS1@BBOTG>; ERIK FALK (DEUTSCHE BANK SECURI) <EFALK@BBOTG>; MATTHEW BRAUND (DEUTSCHE BANK SECURI) <MBRAUND@BBOTG>; BRIAN WIELE (DEUTSCHE BANK SECURI) <BWIELE1@BBOTG>; ED RUBIN (DEUTSCHE BANK SECURI) <ERUBIN@BBOTG>; ROCKY KURITA (DEUTSCHE BANK SECURI) <ROKURITA@BBOTG>; PETER GALL (DEUTSCHE BANK AG) <PETERGALL@BBOTG>; MICHAEL COMMAROTO (DEUTSCHE BANK SECURI) <MCOMMARO@BBOTG>; GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>; FRED BRETTSCHNEIDER (DEUTSCHE BANK SECURI) <FBRETTSC@BBOTG>

Subject:

Message Sent: 11/13/2006 20:16:25
From: DBARMS@BBOTG|DEUTSCHE ARMS|DEUTSCHE BANK SECURI|1726|328663
To: HDAUR1@BBOTG|HEATHER DAUR|DEUTSCHE BANK SECURI|1726|328663
To: JLIN97@BBOTG|JEFFREY LIN|DEUTSCHE BANK SECURI|1726|8423
To: RSHOURIE@BBOTG|RAJ SHOURIE|DEUTSCHE BANK|1726|133100
To: REARJOS@BBOTG|JOSEPH REARDON|DEUTSCHE BANK SECURI|1726|328663
To: JGENIRS1@BBOTG|JEANMARIE GENIRS|DEUTSCHE BANK SECURI|1726|328663
To: EFALK@BBOTG|ERIK FALK|DEUTSCHE BANK SECURI|1726|328663
To: MBRAUND@BBOTG|MATTHEW BRAUND|DEUTSCHE BANK SECURI|1726|509770
To: BWIELE1@BBOTG|BRIAN WIELE|DEUTSCHE BANK SECURI|1726|328663
To: ERUBIN@BBOTG|ED RUBIN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663
To: PETERGALL@BBOTG|PETER GALL|DEUTSCHE BANK AG|1726|334122
To: MCOMMARO@BBOTG|MICHAEL COMMAROTO|DEUTSCHE BANK SECURI|1726|328663
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: FBRETTSC@BBOTG|FRED BRETTSCHNEIDER|DEUTSCHE BANK SECURI|1726|328663

DBALT 06-AR6: Expected Losses based on prelim RA feedback
S&P: 0.60%
Moodys: 1.10%

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1425

From: LARRY PIKE (DEUTSCHE BANK SECURI) <LMPIKE@BBOTG>
Sent: Wednesday, November 29, 2006 9:21 PM
To: ELEANNY PICHARDO (DEUTSCHE BANK SECURI) <ELEANNYP@BBOTG>; ALEXANDER MALDONADO (DEUTSCHE BANK SECURI) <AMALDONADO1@BBOTG>; ANUPAMA CHAKRAVARTTI (DEUTSCHE BANK SECURI) <ACHAKRAVARTT@BBOTG>
Subject: Some success in CMO land today:

Message Sent: 11/29/2006 17:21:40
From: LMPIKE@BBOTG|LARRY PIKE|DEUTSCHE BANK SECURI|1726|192220
To: ELEANNYP@BBOTG|ELEANNY PICHARDO|DEUTSCHE BANK SECURI|1726|328663
To: AMALDONADO1@BBOTG|ALEXANDER MALDONADO|DEUTSCHE BANK SECURI|1726|328663
To: ACHAKRAVARTT@BBOTG|ANUPAMA CHAKRAVARTTI|DEUTSCHE BANK SECURI|1726|328663
Forwarded To: ELEANNY PICHARDO, DEUTSCHE BANK SECURI By: SEAN WHELAN, DEUTSCHE BAN
Forwarded To: ALEXANDER MALDONADO, DEUTSCHE BANK SECURI By: SEAN WHELAN, DEUTSCHE
Forwarded To: ANUPAMA CHAKRAVARTTI, DEUTSCHE BANK SECURI By: MICHAEL JONES, DEUTSC

Some success in CMO land today:

Sold 9mm DBALT 06-AR6 M10 (Ba2/BBB-) to HBK
This class was never sold in the new issue marketing.

Sold 9.5mm CWALT 06-6CB 2A4 (NAS) to NIR Capital.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1426

From: Jason Lowry
Sent: Thursday, November 30, 2006 11:32:03 AM
To: Abhayad Kamat; Sourav Sen; Chehao Lu; 'lucy.fagan@db.com'[lucy.fagan@db.com]; Sourav Sen; Rachel Wish; FixedIncome; 'Mike.Li@db.com'[Mike.Li@db.com]; ABS
Subject: Details on DBALT trade

Approved by wharehouse:

DB sells to HBK 8.997mm (+- variance) DBALT 06-AR6 M10 +775 $84-22 (yield table to follow) settles 12/29 with 14 days accrued.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1427

From: AXEL KUNDE (DEUTSCHE BANK AG, LO) <KUNDAX.LNDB@BBOTG>
Sent: Thursday, July 6, 2006 7:38 PM
To: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Subject:

Message Sent: 07/06/2006 15:38:33
From: KUNDAX.LNDB@BBOTG|AXEL KUNDE|DEUTSCHE BANK AG, LO|1726|115008
To: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663

He is in Lisbon. But maybe you can meet him in Barcelona.
OK...HAPPY TO DO THE CALL IF U WANT OR U CAN INTRODUCE ME TO HIM
ON M ONDAY...UR CALL..but unfortunately he is not - like many
other European guys. If you tell the sales guy the bond is reall
y bad his investor will use that as an argument against us and
demand that we buy back his note, because he trusted DB to pick
a good portfolio etc, etc. That's why I chose to say much of
the widening was due to general tiering in the market. And yes,
while this bond is underperforming there are still 49 other
bonds in the portfolio that trade in the normal range: All
other Baa2s are market between 100 and 160, and all Baa3
between 205 and 280 (LBMLT 2005-1!). SURE I CAN DO THAT...ANY C
HANCE WE CAN BUY PROTECTION FROM HIM ON THE VERY BOND AT 225 TO

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1428

Chehao Lu/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 12:41 PM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas
cc Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject G7 - HEAT and LBMLT

Shelf		amt	% of total	count
LBMLT	79,500,000		7.22%	9
HEAT	106,250,000		9.65%	13

(updated w/ the 3 new trades recently, which included 1 of LBMLT and 1 of HEAT.....)

Che Lu
Global CDO Group
Deutsche Bank Securities Inc.
212-250-7801

Abhayad Kamat/NewYork/DBNA/DeuBa

01/25/2007 11:51 AM

CONFIDENTIAL - PRODUCED TO M&T PURSUAN

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1430

To

Chehao

Lu/NewYork/DBNA/DeuBa

cc

Subject

Fw:

Fw:

send ilinca and me the $ of HEAT and long beach (LBMLT i think) in gemstone 7 pool -- also

include assets with long beach as originator or servicer. thanks.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) 519-9694 cell
(732) 578-2890 fax
----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 01/25/2007 11:49 AM -----

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 11:47
AM

To

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT

cc

Subject

Re:

Fw:

CONFIDENTIAL - PRODUCED TO M&T PURSUANT TO PROTECTIVE ORDER

No. These meetings are general overviews.. Only 2 accounts might buy his deal. I said I would send port via email.
Can u tell me percentage of these 2? They are not in the marketing book.

From: Abhayad Kamat
Sent: 01/25/2007 11:44 AM
To: Ilinca Bogza
Subject: Re: Fw:

tell this to kevin and ask if he will consider reducing some of the contentious assets. did

you get pushback on specific assets in your meetings?

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

01/25/2007 11:40
AM

To

"Abhayad Kamat"
<Abhayad.Kamat@db.com>

cc

Subject

Fw:

From: Casey Newell
Sent: 01/25/2007 11:33 AM
To: Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT
Subject: Re:

Yes, they don't like the deal. Collaterall pool has too many Long !each and Heat names.

From: Ilinca R Bogza
Sent: 01/25/2007 10:31 AM
To: Casey Newell

Any feedback from Redacted on hbk deal?

FEBRUARY 5, 2007

Call between Sean Whelan and Alex Craig

MTP 00011

ALEX: Hey Sean.

SEAN: Hey Bro, how are you?

ALEX: I'm good. How are you doing?

SEAN: I'm good man. You've been out of the office a little bit there, my man.

ALEX: No. I've been here.

SEAN: You kidding, I've tried getting you like a few times man.

ALEX: We were on our ski trip and then I called you, thinking you were out at ABX.

SEAN: I was at AFS my friend.

ALEX: And then I was at AFS, whatever, I'm sorry.

SEAN: Cool.

ALEX: And then I was out of the office on Friday.

SEAN: There we go. See I was trying. How's everything going?

ALEX: Everything is okay. Everything is okay.

SEAN: Good.

ALEX: How about with you?

SEAN: Everything is just fine.

ALEX: Peachy keen?

SEAN: Oh they certainly are just going, just fine. Alright. What's happening there bro.

ALEX: I called you on Gemstone.

SEAN Yeah, we're going to launch that bad boy on Wednesday.

ALEX: Okay.

ATTORNEY CLIENT PRIVILEGE
CONFIDENTIAL

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1435

SEAN: And also we are probably, we may structure in some AAA mezz.

ALEX: Okay. Well that's what I was calling you about.

SEAN: Okay. Now let's pull something up. Now I'm going to listen or when you're ready for me to talk, we'll go in like the little Alex and Sean cooperation thing.

ALEX: Okay. I'm ready, I'm ready to listen.

SEAN: No and I'm totally serious. Alright. Here's the gig right. I hope you've read this stuff. Have you?

ALEX: Yes.

SEAN: Okay. I do recommend that you go, like let's say you're going to buy this deal, I actually want you to set up – and I sent you a couple of research pieces talking about the questions to ask and what to do look at in CDO.

ALEX: Yep, I have that.

SEAN: It won't be good if I go to that meeting with you and I'm the mouthpiece. Right, like it's got to be you guys. They're not hard. You can prepare like 15 questions that you want to ask, you know, like and you show me what they are. I may actually take a series of questions and I have a guy who's extremely strong in CDO's, he issues them and he's buys them. And like he gave me questions and he buys every Gemstone deal by the way. Like for all the reasons you should, he does. But if you want to buy deals you need to meet the manager.

ALEX: Right.

SEAN: And you're going to get conversant with when they go in and they tell you like Alex, we own the bottom. This is like a financing trade for us. You know what I mean. And we're in the – so they're still in all the credit, right. You obviously want a guy like that working for you rather than, you know, buying this _____ like a fucking deal from GSC, right, where they don't buy any equity. Right.

ALEX: I'm with you.

SEAN: Okay. So we're going to launch this deal on Wednesday. And we're looking at creating Junior AAAs that will come out in the 45 area.

ALEX: Okay.

SEAN: Now what can happen off this, like if you, you would never buy bonds higher. Like you would never drive in a deal higher. If you indicate early, like Gemstone deals go very well, and this deal will all go very well and it will get oversubscribed. If I bring you in early and firm, you're going to get bonds, and you're going to get what you want. Now if you're a 25 bond buyer, I'll still get you that. If you're a 50 or a 75 or 100, that's better.

ALEX: Yeah well how big do you think the mezz is going to be?

SEAN: Well, I was looking before. I was looking at the full size of the AAAs, right. What do we think that was. It was big. It's a billion dollar deal.

ALEX: It's 793.

SEAN: Right. Those were the AAAs?

ALEX: Yep.

SEAN: Right. So it's going to be pretty big. Let me check. Can I put you on hold for a second?

ALEX: Absolutely.

SEAN: Okay. Alex?

ALEX: Yep.

SEAN: And I don't have the firm numbers but typically you have like a 65 kind of 35 split. Something like that.

ALEX: Alright.

SEAN: So, you know, if we add 800 million AAAs, we'll have like 700 something, right?

ALEX: Let's do the math.

SEAN: Now what I'm saying is in the total AAA size I'm paging through, I should have – yeah we –

ALEX: Yeah you said like 275-ish.

SEAN: Yeah.

ALEX: Okay.

SEAN: And that's, you know, I'll be much - I'll give you a much better feel, but you know it's going to be a, you know, 250 to 300 million.

ALEX: Okay. We'll take the whole thing.

SEAN: Now what would you take?

ALEX: Uh, we'll probably take 50.

SEAN: Okay.

ALEX: I've got to talk to Adam about this obviously.

SEAN: Okay.

ALEX: And I would like to speak with the manager.

SEAN: Alright.

ALEX: Do you want us to leave a call tomorrow?

SEAN: Umm, do you, do you, alright I'll do what you want.

ALEX: Or we could go over, I don't care. It doesn't bother me.

SEAN: I think, I think -

ALEX:

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

Redacted by the
Permanent Subcommittee on Investigations

ALEX:

Redacted by the Permanent Subcommittee on Investigations

SEAN: Do you want to see HBK tomorrow?

ALEX: Well yes, that's what I'm saying.

SEAN: Okay. I'm going to ask to see them in the afternoon.

ALEX: Okay. Wide open. I have a meeting that never happens at 10:00 a.m. with your buddy boy.

SEAN: Okay.

ALEX: And I'm good. So anytime in the afternoon would be great. It's my inaugural manager meeting and deal, if it happens.

SEAN: Well I'm going to be honest with you. I'm happy that you happen to mention this to me and that I had this deal coming. Because quite honestly it will all go well. And we don't want you to stub your toe.

ALEX: I agree. I was hoping a good thing.

SEAN: So. Alright bro. I have made a request.

ALEX: Umm, I'm going to be leaving her in like a half hour.

SEAN: Don't worry I'm going to get them to see you tomorrow afternoon.

ALEX: All day tomorrow and tomorrow morning you and me will talk about HBK if you want, in the morning, the deal.

SEAN: The truth is we don't like – did you read these market fees?

ALEX: Yeah, there's not much to talk about.

SEAN: Well you know what you want to see, okay -

ALEX: I want to see some stresses, but you know possibly but the deal well -

SEAN: In a credit report. You want to see what they're doing. And you know what you could ask them. We had a portfolio and I sent you a market with this deal, I gave the marketing piece and portfolio, and what you should do is pick a BBB minus, right, and you say could you tell me this write up and tell me about the deal. Do you know what I mean?

ALEX: Okay.

SEAN: And then quite honestly, they could like talk a lot of shit with you and you wouldn't know it but they won't do that. They'll start talking to you about what stresses they run and everything else and then you would_____ it and that's, you know, this is a great way to get involved and honestly if you need me to help you with Adam with it or whatever else I can do, for all the right reasons, especially the fact that they like own the whole bottom and they've been doing it for a very long time. It's a _____ and that's a cool thing.

ALEX: Okay.

SEAN: Alright bro?

ALEX: Alright cool.

SEAN: I will, I will be calling you then tomorrow to tell you that I have this all arranged.

ALEX: Great. So I should wear a very nice looking tie.

SEAN: You're always fucking nice and neat dude.

ALEX: Alright.

SEAN:

ALEX:

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SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

REDACTED THRU PAGE 9, Bates No. MTSS000928

FEBRUARY 6, 2007

Call between Alex Craig, Sean Whelan, and David Borchard regarding initial meeting with HBK

MTP 00012

SEAN: How are you?

ALEX: Good.

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX:

SEAN:

ALEX: So I'm just going to go and say that I read your deal I think I read through you...tell me about yourself. I read through – I'm sure they must have read through this "Deutsche Bank: Managing the Manager's Suggested Questions." Am I right?

SEAN: Ask them anyway.

ALEX: I think that their presentation is tailored to some of these questions. So I'm just going to go through the whole thing and say what other questions should I be asking and then let's look at one or two of the BBB-.

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SEAN: Ask them also in there – and I don't know if this is in our document or not. I want you to like look if they show you, ask them to just pull up the portfolio of an existing deal right?

ALEX: I have one.

SEAN: And say how do you do due diligence on this? What is your monthly tracking system? Because honestly, you are going to see that technologically they are going to access that bond, it's how they do their constant maintenance on the market and the truth is Alex, also ask them because they are selling synthetics. Talk to them about how they feel about tracking vintages to do synthetic trades because what is going on up there is like HBK. They make enormous technological investments and what they do is they're tracking the performance of like every fucking bond out there. They are getting trustee reports. Ask them how they are getting those updates. And they are loading them up so how do they come up with lists that they want to do some BS on. That's how. You know what I mean? They're actually surveilling pretty much the whole market. All right. I'm fucking proud of you taking your step in the right direction. Talk to your boy. Of course, he steers your wrong.

ALEX: We'll see.

SEAN: Now Dave Borchard.

ALEX: He's on the phone listening to this.

SEAN: Hey, Dave what do you want to get from me, dude? I'll get you everything.

DAVE: Yeah, just whatever _____. I didn't see this deal before so...

SEAN: Oh, you know why because I specifically sent it to him while we were having a conversation. You get all my Bloombergs though right?

DAVE: Yeah.

SEAN: Okay, cool. Anytime in the future I will add you and by the way as we speak. Dave you're listening in I don't know. I would never have anything unkind to say about you. But it could fucking happen.

DAVE: The second you were going to say something nasty I would have reminded you.

SEAN: De borchard right?

DAVE: That's right.

SEAN: Okay, cool. I'll just anytime I email Alex anything. Are you going to this thing too Dave?

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DAVE: Yeah.

SEAN: Good. And honestly I think this is like for both of you, you don't spend a lot of time in credit and this is a – like HBK there are several guys that I would recommend that you look at like deals from. This was like a layup. And it would have been my #1 pick, and we're happy to be doing a deal for him. Of course, don't tell Kevin Jenks that. He's the head portfolio manager. He's a bit fucking cocky but you know, other than that.

DAVE: The headquarters would be located in Dallas right?

SEAN: Yeah. These guys have always been in New York.

DAVE: Okay.

SEAN: They hired Jenks. He was like out in Oregon or some shit working for like a money manager out there. And they probably brought him back, like I don't know, maybe five years ago and the guy he has working for him Marco is a – you know the guys are very smart guys. And I'm not sure, I think that a lot of the technological fire power is down in Houston, because like in terms of all their modeling and everything – they have some pretty sophisticated model – and like Kevin doesn't build them now he works with them on them but you know in terms of forecasting like observing performance and forecasting losses and stuff like that they actually are a sophisticated player. All right.

DAVE: Okay, thanks.

SEAN: [redacted]

DAVE: [redacted]

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Footnote Exhibits - Page 2111
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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1439

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DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
B. Rogers	CIFG									Sent info. CIFG might no longer be a sure thing for Gemstone CDO 7. Sales coverage spoke to Jay Plastino today -- the feedback is that although their business side wants to pursue ABS CDOs and Gemstone, they are in the middle of a comprehensive portfolio overview / analysis being driven by their Credit dept, and until that process is done, they don't want to push ahead. The credit overview process could be done within 1-2 days or could take a few weeks.. Will have an answer monday. will come back to us at 4pm
M. Freilich	ABN		50	75						Sent info. Bought last deal. 50 to 60 mm the idea - wd need mid to high 20 s. 46.5% attachment.
R. Oswell	Standard Charter		100	150					244	Met in Lisbon. Meeting went well Sent info. Reqeusted info on the deal.
T Stevens	HBOS									can take stuff unwrapped
R. Allard	AIG									
M. Kudena	DZ Bank									Sent info. Bought last deal
Nabeel	ADIA									Sent info. Bought last deal
S. Ma	Bank of China									Sent info. Bought last deal
	Bank of America									
Anupama	B of A									looking. Told then whsiper is 27 area
T. Freeland	MBIA									requested portfolio
M. Ccann	IADB			25						looking
M. Freilich	HSBC									Sent info bought last deal. Not buying abs at the moment

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
Heather Daur	CSFB									Bought last deal. 75mm. Spoke to sales. Will send info. Could be a prob. They only invest in short paper. tim wilson had been looking at it, he is on vacation now...i wil l check...don't think he was too impressed by the fact that we w ould not put a bid on the old gemstone...just fyi..
B. Rogers	swiss re									would care at 20-21 not at 17dm. Jenks is ok with 20.OUT. Anthony and I just had a call with SwissRe regarding HBK. Unfortunately, due to the subprime market exposure, there is not attachment point or pricing level that would work for them.
A. Palmer	UBS		0	0	0	0				Sent info. UBS seems interested but they might have size constraints -- sales coverage mentioned their expected size to be around $300m.
P. Binks	BGI		0	0	0	0				I just got off the phone with Sami. He said it's Jeff Hilton in credit's call and it's on the 'razor's edge'. Sami has been pushing him for an answer but Jeff says he needs more time to think about it. It seems he's not comfortable with the rating agency correlation assumptions (Sami told him to use whatever he wants and run it himself) and he says he wants more time to think about the interest rate risk component some more. It sounds like we may not have a definitive answer until Monday. I wish I had more positive news. outr 2 much HBKexposure. cant get their arms around ABS risk in market
A. Jain	UBS			0	0	0				Sent info. Initial feedback from UBS Prop is that the 27.9% non-investment grade bucket, is much higher than what they have looked at/bought. They are doing their work on the deal, but even though a number of the BB's are First Franklin, a fair amount of the BB's are '06 vintage, which is worrisome to them.
M. Raber	NAB		0	0	0	0				stopped buying CDOS for the moment. Will be back in the 2nd quarter.t hey need to buy some more abs at the moment

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
B. Rogers	MBIA			0	0	0				Sent info. MBIA might be interested in Gemstone 7 -- i had a prelim call with David Crowle. if meeting with Jenks goes well at ASF, he said they might be in the CDO, subject to the following: - MBIA needs their strict control rights -- in case of manager termination for "cause", liquidation rights in case of EOD and such... he is sending over a copy of an OM from a recent HG deal (HARP) that they did. - they might need coverage tests in the principal waterfall , but this is a threshold issue - they might push back on concentration limits and the 5% ABX bucket that Jenks wants he gave some color on where they have been attaching in mezz deals: - sequential pay with coverage tests in intr and prin waterfalls -- low 30s - sequential pay without coverage tests - low 40s - prorata pay - high 40s 'MBIA is not a sure bet as of now. in fact the vibe I got at ASF is that they are a resonably long way from getting there on G7. OUT. 2 many BBS
	SAI			0	0	0				came in on Aas
K. Quinn	West LB		0	0	0	0				Had a meeting in Lisbon. NY will work on this. Ilinca - wlb ny shot down gemstone...avoiding 2006 vintage deals at this point due to very negative view on 2006 collateral...showed to brightwater too so will get color there...Kevin
A. Palmer	FGIC		0	0	0	0				Had a great meeting at ASF. They are still uncomfortable with the '06 vintage collateral. They do like the manager and would like to arrange a diligence to get their credit risk people comfortable with HBK. They are passing on Gemstone 7 but would like to see Gemstone 8, especially if Gemstone 8 has a short bucket.

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
Alex Giannou	Public Sector Pension		0	0	0	0				considering ABS CDO SS. They probably won't get there in the 1st quarter and are working on getting their systems up to speed so that they can trade this
M. Freilich	CQS		0	0	0	0				Out of market. No longer buying
T. Freeland	MS Prin		0	0	0	0				Sent info. hard to get excited about managed ss with a 28% bb bucket given the last several trades we've done.
R. Oswell	New Bond Street									OUT on this deal. Does not like BB exposure
J. Oesteich	DZ Bank									DZ wont participate in the deal - the investment team likes the deal and the manager - their credit comittee is a bit cautious atm for BBB/BB investments and did not want to make a fast decisioin (they were aware of it for a long time but are German)
A. Dacosta / P g	Columbia Management		0	0	0	0				No feedback yet 1/22. spoke with them today and they are not interested !! he said it is not something that he has bought in the past and the longest WAL that he could buy in any type of size would be 3yrs max.. their Enhanced Cash fund has been losing cash for past 45 days and they are not buyers right now.. they very infrequently buy CDO's.. hopefully this changes but thats feedback-
T. Oyagi										All acccounts not buying mezz abs cdo
R. Oswell	HVB - London		20	20	15	15	at 35		15	He spoke to account 4/12. Could look at the deal. Waiting for feeddback. Will most likley be 20mm. They have asked about oveerlap analysis on the deal Spoke to sales 4/24. They are still doing their work on the deal. Told sales that we are looking to price friday. needs a priced portfolio. FIRM.
O. Chebli	GIB				30	20	45		20	As good as firm on this tranche. Will be able to firm up by Monday
J. Nathoo	Vero Capital									LOOKING.
D. Ludlow	ML Bank									OUT

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. Nathoo	Vertical									
M. Freilich	ABN									
T. Freeland	Rabo				0	0				Had a conference call with Rabo. Told trev we are potemtially creating a junior AAA. Would also looked at wrapped AAAs. Told them junior AAA level would be L+ 45 area. Does not like amount of BBS in the portfolio
T. Freeland	Princeton									would consider junior aaas
M. Yencken	ING Australia		0	0	0					OUT. >They invested in gemstone 4. This deal is to close to the last one
M. Freilich	WinCap			0	0	0				Will take a look but already have a lot of exposure to them. Prob no. does not like BB exposure and focused on other things now. May look. Does not like the performance of the previous deals
G. Eagan	Wharton			0	0					Do not have room in their cdo foir aaa's
M. Mccann										Asked if any accounts would have interes in this deal. Waiting to hear back
B Stammer										
M. George	Fortis Bank		20	30	20	0				Would have interest. Waiting for analysis. Account has analysis. Waiting for feedback. Sales does not think this structure will be a problem for them. Told them 32 dm. They would put this in a bamk portfolio. With a junior AAA still below them this could work. He will finish work by friday. Could still care. They are going to comitee next week for the deal. Will come back on Wed to firm up. OUT. They need more subordination for a second pay on this deal./ Prob 10% more for 20mm bonds
O. Chebli	GIB				25	25	at 39			They could more their order from the junior AAAs into the class a-2 but need a spread of 39 on the class a-2
P. Martin	Canadian conduits									only have two non-S+P ratings based investors..one a pension fund and the other an ins co...neither is comfortable with the underlying.. although relative to corp underlying spreads with their attendant ratings migration/default/recovery risks, the secutitized space with nothing more than extension risk, is far more attractively priced..

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. McCormick	Commerzbank		0	0	0	0				They are more focused on trading the underlhying themselves
J. McCormick	B&B		0	0	0	0				Account out of office this week. Waiting for feedback. OUT on this deal. They did not invest in the last deal either. Sales will follow up with them on the new structure. They have been shown new structure. They still will not come in on this deal
S. Ruhle	DA Capital									
Anupama	Trainer									
R. Creswell	RBS			0	0	0				Do not like HBK. Spread to tight for them at 35ddm
Jamil	KBC									Out of the office this week
M. George	BS			0	0	0				60% prob. Not looking for Class A-2 tranches. They are looking for junior aaas spread 45-50
O. Chebli	GIB		40	50	0	0	at 40ish spread			Looking at AAAs or A's. Put in for the Class A-3. His cost of funding is at 30dm. They are looking at the class A-2 and trying to move credit approval from A-3 to A-2. OUT. They care more on the Class A-3 because their RAROC would be lower on the Class A-2.
Nupe	Bof A			0	0	0	@34-35			Woul.d care at 34-35. Told her 34/35 would not work and would entertain 32ish. Showed new structure. Would look at a 3 yeat+ average life 1st pay in low 30s dm. 2nd pay is not going to work
D. Ludlow	ACA			0						They would take unfunded at 9-11 and would need to get a funder.. Told them that this would be low prob on the HBK AAA's
R. Creswell	RBC			0						Not a buyer of mezz
M. Freilich	Cheyne			0						Not buying mezz abs cdo
M. Freilich	Gordian			0						Not buying mezz abs cdo
D. Ludlow	Stanfield			0						that they have been avoiding Mezz deals all year if they would look they would play in a deal that has super senior and mezz AAA(they buy super senior). The talk of 30 was also to tight for them. lest 35 on the super senior piece. OUT. They saw the A-2 structure and can not invest
W. Yip	Canadian conduits			0	0	0				showing out 4/10. Start traded at 43dm. Accounts do not like the amount of BBs in the portfolio

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
H. Jaggi	AIG									
C. Lithander	Danske Supermarket			0	0	0				Dansk Supermarked is allready full on line, they hold 10% of portfolio with HBK as manager and cannot take more.
C. Lithander	OKO Bank									
T. Freeland										Has an account that wants a wrap.
T. Freeland	Rabo		0	0	0	0				Had a conference call with Rabo. Told trev we are potemtially creating a junior AAA. Would also looked at wrapped AAAs. Told them junior AAA level would be L+ 45 area. Does not like the amount of BBs in the portfolio. Can not use CIFG as a funder.
T. Freeland	MBIA		0	0	0	0				Does not like the mezz rmbs market. They are looking at start deal and prefer that. They do not like the portfolio of the HBK deal
M. George	IKB			0	0	0				They are looking at the portfolio. Trying to schedule a meeting with jenks and IKB. Does not want to take the BB risk in the deal
M. Freilich	HSBC			0	0	0				Looking. They need 20% subordination on the deal. OUT. Concerned about asset class
R. Oswell	Citi		0	0						Only looking at CLOs. They buy ABS deals on their own. They do not want to pay for a manager to do what they can already do
R. Allard	Ambac									they won't be at 6 bps (probably not even 8 bps). They are currently looking at CLO squared deals where they are netting 20bps so unfortunately Ambac are not an option
R. Allard	CIFG									Waiting for feedback. Would look at this deal if the synthetic bucket is 20% and the subordination is 45-50%
R. Allard	FSA									FSA are struggling to get there on the modelling for these deals, fyi they struggled with collateral on START which was Baa2 so it is highly unlikely they could get anywhere close on this trade given the collateral quality. They have recently updated me t
R. Allard	Radian									do not have the asset class approved yet.
R. Allard	Assured									Assured do not look at ABS deal period.
R. Allard	MBIA monoline		0	0	0					No. structure to aggressive for them
	Total									

							Class A-2 159,000,000 L+ 0.47% area Aaa/AAA				
			64%	119%	124%	100%			100%		
			102	190	197	159			159.0		
DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
D. Ludlow	NIB		30	40	30	30	at 46		30	100.00%	Had a call with account. Looking. Did not request analysis on the deal. Know the manager well. Had a call with ludlow. Conveyed they would get only 1/2 tranche. 15mm is what it is .. Account ok with that allocation. FILLED FOR 30MM AT 47DNM
M. George	IKB		30	70	87	87	at 46		87	100.00%	Put in an order. They want at least 1/2. bit would buy at 45. told them we will give them min 30min. FILLED AT 47DM FOR 87DM
S. Whelan	M&T Bank		42	80	80	42	45 AREA		42	100.00%	ioi. Had a meeting with HBK 2/7 . Meeting went very well. Put in an IOI after that. FIRM. No analysis needed. FILLED FOR 42 AT 47. gave allocation already
M. Freilich	CQS				0	0					Out of market. No longer buying
D. Ludlow	Sailfish				20						IOI .. 45 and 50dm care. Out. They want wider

			Class B 96,900,000 L+0.68% Aa2/AA							
			77% 75	121% 117	100% 97	67% 65			100% 96.9	
DB Contact	**Institution**	**Contact**	**Low**	**High**	**IOI**	**Order**	**Pricing**	**Floating/Fixed**	**Allocation**	**Comments**
S. Whelan	M&T		40	40	40	40	AT TALK		**40**	Had a meeting with account 2/// Meeting went well. PUT in an IOI right after that. Firm at 68
D. Ludlow	NIB		5	10	5	5	at 60		**5**	Sent materials. Invested in last deal. Call scheduled with the manager. Looking at junior AAAs would care wider . Told them was coming at 68dm. Only want 5.
S Whelan	Wachovia		10	10	20	20	at 68 area		**20**	Sent materials. Invested in last deal. Looking. Requested sources and uses on the deal. Wants 2045 maturity then will come into the deal. We can change the maturity to 2045. TOLD THEM 68DM ON AAS AND 275 ON A'S
	HBK								31.9	
Nabeel	**GIB**		10	15	10		at 65			Spoke to sales 2/20.. Waiting to hear back. Wil let know us know in am.. WILL COME BACK TODAY TO FIRM UP. TOLD THEM THEY WERE COMING AT 68DM. Will know tomorrow. High prob given call with manager they will come in. Have been chasig sales. Have not heard back from them yet
L. Pike	NIR			15	0	0				Sent materials. Invested in last deal. NIR is doing the initial work on the HBK deal. He might have some questions that he'd want to chat with Kevin about (collateral oriented). He'll probably ask for that shortly. If they approve the deal, his interest is in the 15mm area for the class B (Aa2). He'd actually prefer a Aa3 class if it gets restructured. Accont is back from the travelling. They are going to focus on this deal now. Focused elsewhere this week/ Not focused on Gemstone. Told them we have 15mm AAs

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. Dineen	Wharton		0	12	12					Sent materials. Invested in last deal. Wharton (Phil Todd) HBK initial feedback with work continuing: "not fantastic" as regards to his delinquency score vs. the Countrywide "Alpha Mezz" deal also in the market at this time however, he likes HBK as a manager and intends to continue to review the deal. His initial scoring consists of loading delinquency data and comparing it to his expected loss curves. His system ranks lowest scores as better to higher and the HBK deal has a 1.52 score vs. the Countrywide deal having a 1.19 score. Still, this relative under performance is not a knock out and he continues to do his work. OUT. They do not like the collateral. looking again. Doing the work 2/14. NOT GOING TO GET WORK DONT TODAY.. NEEDS MORE TIME. They will come back to us on monday. OUT. they are having issues with their cdo. out. NEEDS a payment date in may because of their first pay on their deal
R. Creswell	RBS		0	0	0	0				Sent materials. Invested in last deal. Wharton (Phil Todd) HBK initial feedback with work continuing: "not fantastic" as regards to his delinquency score vs. the Countrywide "Alpha Mezz" deal also in the market at this time however, he likes HBK as a manager and intends to continue to review the deal. His initial scoring consists of loading delinquency data and comparing it to his expected loss curves. His system ranks lowest scores as better to higher and the HBK deal has a 1.52 score vs. the Countrywide deal having a 1.19 score. Still, this relative under performance is not a knock out and he continues to do his work. OUT. They do not like the collateral. looking again. Doing the work 2/14. NOT GOING TO GET WORK DONT TODAY.. NEEDS MORE TIME. They will come back to us on monday. OUT. they are having issues with their cdo. out. NEEDS a payment date in may because of their first pay on their deal. OUT. dont like the big discount on the equity
R. Creswell	Cheyne									looking at A's now
H. Jaggi	Koch		10	15	10		at 60			told them deal is coming at 60dm. And AAAs at 28 area. No feedback
M. George	BSAM									WOULD CARE ONN THE As

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
E. Santini	CSAM			0	0	0				Sent materials. Invested in last deal. OUT. They have been buying deals wider and don't have that much money to spend
C. Delcol	MFS		0	0	0	0				They don't like BBS in the portfolio
M George	IKB		10	10	10		at 55			Sent materials. Invested in last deal. Wants only junior AAAs. OUT
T. Freeland	RABO		0	0	0	0				Sent portfolio. OUT. Too many BBs
J. Dineen	Chotin		0	0	0	0				Sent materials. Invested in last deal. Will look at the deal next week. OUT. 28% below IG
p. Downes	Highland		0	0	0	0				ramping up a high grade cdo. DB said not to a deal for them. They will not look at this deal
R. Creswell	Prytania		0	0	0	0				Met HBK at ASF. Waiting for feeback. Would have needed more time to do analysis on the deal
R Creswell	Cairn		0	0	0	0				Sent info. Bought gemstone 2. OUT. They don't have AA money to put to work
S, Ma	SLAM		0	0	0	0				Sent materials. Invested in last deal. Account not ramping
C. Newll	Allstate		0	0	0	0				Sent info. Had a meeting in Vegas. Waiting for feeback. OUT. They have 2 many deals in front of them at the moment
J. Longstaf	B&B		0	0	0	0				Sent materials
R. Rode	Dynamic		0	0	0	0				
Nupe	Blackrock		0	0	0	0				Sent info. They don't like the portfolio that much
R. Oswell	HVB		0	0	0	0				Invested in other HBK deals in the past. Sent info. They don't like amount of BBs in the pool
J. Longstaff	B&B		0	0	0	0				the issue is that new cash deals are competing with 05/06 synthetics. This week they traded away 15+m in Cairn, Pinem, and Carrington - all CDS (we weren't the covers).
M. Braund	Redwood Trust		0	0	0	0				Gemstone and RWT... even tho Andy like the manager, it doesnt look like they are going to be comfortable with the amount of BB exposure in there. obviously with the FORE and DELINQ #s being printed they are fairly gunshy here.
W. Yip	Elliot		0	0	0	0				Could have small interest in Aas. Would be a backbid
S. Whelan	Petra Capital		0	0	0	0				Sent materials. Invested in last deal. NO feedback
S. Friede	Security Benefit		0	0	0	0				Sent materials. Would look at the AAAs
M. Yenncken	ING AUS		0	0	0	0				OUT on this deal. They don't have time to analyze
D. Ludlow	ML Bank		0	0	0	0				Pass due to high BB bucket
J. Denning	TCW		0	0	0	0				Sent info. Bought gemstone 2. put in for BBBS

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation	Comments
J. Reardon	Sailfish			15	0	0				would be at 60dm. Could prob get them to meet us 1/2 way., OUT on the deal. They don't like the collateral
E. Pichardo	Terwin		0	0	0	0				BB is too high for them. Seeing deals with similar spreads and better warf
J. Nathoo	Etrade		0	0	0	0				Concerned about the BB bucket
J. Nathoo	Delaware		0	0	0	0				Concerned about the BB bucket
K Higgins	Seneca		0	0	0	0				Sent info. Pass. Too many BBs in the portfolio
H. Jaggi	UBS									Does not like BBs in portfolio
G. Downey	Vanderbilt									Does not like BBs in portfolio
J. Reardon	Solent		0	0	0	0				Legal limit is 8/2045. Weary of the BB bicket. Wil continute to do work on the deal. unfortunately even without their final collateral runs, the deal has not passed credit..they aren't fans of the BB bucket and the barbell nature of some of the collateral makes them uncomfortable. We won't need the confi and they will not need their runs.
D. Ludlow	Aca		0	0	0	0				Sent materials. Invested in last deal. Loooking at A's and BBBs.
	Total									

0

Class C
68,300,000
L+2.25%
A2/A

			54%	68%	59%	44%				100%		
			37	46.5	40	30				68.3		
DB Contact	Institution	Contact	Low	High	IOI	Order		Pricing	Floating/Fixed	Allocation		Comments
D. Ludlow	ACA		10	10	10	10		97.03%		10		285 at a discount firm
S Whelan	Wachovia		20	20	20	20		97.03%		20		Sent materials. Invested in last deal. Looking. Requested sources and uses on the deal. Wants 2045 maturity then will come into the deal. TOLD THEM 275. WAITING TO FIRM UP. 285 firm at a discont dollar
	HBK									38.3		
Nabeel	GIB			10	10							cant give an order today. They want 10mm Aas or 10mm A's. cant get back to us today. Tomorrow 2/22. Have not heard back from them yet
R. Creswell	Cheyne											requested analysis .. Looking
G. Kane	Fisher Francis			6.5				at 300-325				looking for As at 200 area. They are in the process of getting the confi signed. Really not too keen to sign confi. Knows of 3 deals at priced at 300-325. told them to proceed with their work.Still no signed confi... But i have her doing the work on the portfolio, so we dont continue to lose time... I have a call into her already this morning to figure out where she stands and to make sure she knows T III is out there. out. they dont like the portfolio
S. Ma	DBS				20							Will hear back on Monday from account. Migh care at 340dm. Has been shown another deal. As at 450. Told her cant do 450. Would they look at 400? Working on it at 400
S. Ma	UOB			10								will maybe care at 400. Out. They are seeing deals wider
S. Ma	Woori				20	0	0					concered about BBs. Will hear back Monday. Sibmitted it to head of investment today and rejected because of BB bucket

DB Contact	Institution	Contact	Low	High	IOI	Order		Pricing	Floating/Fixed	Allocation		Comments
S. Friede	Cuna		5	10	0	0	0					concern about vintage. OUT. 31.4$ subprime Baa3 or lower does not believe A's can hold its rating
P. Brownsey	ING NZ				2	0	0					OUT. 2 much exposure to HBK
P. Brownsey	NZFM		2	2	2	0	0	at talk				don't like size of clo bucket
R. Rode	IVY		4	7.5	4	0	0					They have more interest in As. Sent info. Invested in last deal. Looking at BBBS. OUT. Warehouse blocked. Gave 2 part reason. UBS synthetic axe to sell BBB paper gemstone 6 750 synthetically
M. George	BSAM				36.3	0	0	at 350 dm				bought CBASS deal. Showing this deal to them. COULD GET THEM TO 340 manager will not sell the As wider than print. OUT. Index is collapsing
C. Delcol	Cambridge				0	0	0					Sent portfolio and information 2/12. OUT. They do not like the portfolio
J. Dineen	Wharton			12	12	0	0					OUT on As . Would only want Aas
E. Santini	CSAM			10	0	0	0					OUT. Going to work on deal synthetically. Wider spreads
M. Zuurmond	Faxtor			12	0	0	0					Sent book. Invested in last deal. Requested analysis on the deal.Will def like the deal . We have decided not to invest in this transact the following:High exposure to lower tiered originators: Fre Beach (7%), we also do not like fixed exposure in mezz cdo Finally, we do not like the Q3/4 06 production, which is about 25% in this pool, with about 8% in the BB bucket. Also, almost 5% is BB Fremont and some other like AMSI 05 has substantial DQs
L. Pike	Harding				0	0	0					might care. Requested strats on the deal. OUT. BB bucket too big
C. Keller	Omnicron			8	0	0						Looking. They will come back tomorrow 2/14. OUT. BB bucket is 2 high
A. Lahiri	SLAM			0	0	0	0					Not ramping up a cdo at the moment
L. Minkus	Lowes			0	0	0	0					Sent info. Invested in last deal. Not buying CDOs at the moment..
W. Yip	Paramax			0	0	0	0					Sent info. OUT. They are buying deals synthetically
C. Newell	Smith Breeden			0	0	0	0					Sent info. Invested in last deal. Out. They do not want HEAT and Long Beach exposure
G. Eagan	Wharton			0	0	0	0					Sent info. OUT.Does not like collateral

DB Contact	Institution	Contact	Low	High	IOI	Order		Pricing	Floating/Fixed	Allocation		Comments
S. Whelan	GSC			0	0	0	0					OUT. Only buying synthetics
M. George	IKB			0	0	0	0					interested. OUT. Wants junior AAAs
J. Dineen	Maxim			0	0	0	0					OUT. They think spread is too low given where synthetics are trading. Would be in 200 handle
J. Dineen	JPIM			0	0	0	0					OUT. They think spread is too low given where synthetics are trading. Would be in 200 handle
	Total											

Class D
55,100,000
L+4.75% AREA
Baa2/BBB

			53%	128%	34%	34%			0%		
			29	70.5	19	19			0		
DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
P. Binks	Commerzbank		15	15	15	15	at 550			15	Sent book. Invested in last deal.not sure how much appetite she has for his deal. Jenks called account. They are looking. To do 15 want a discount. Would take 10mm at 500. Will offer 25 bps concession from manager on 15mm. WILL SELL AT 550. Need to give them a 550 discount dollar price
J. Denning	TCW		4	4	4	4	at TALK			4	Sent book. Invested in last deal. They will look and possibly participate 1/22. Account has all they need at the moment. Would be in Dutch Hill CDO
	HBK									36.1	
M. Freilich	Investec										requested information. Account would like to set up a call with manager. Told them DB owns 5mm BBBS and 10mm Aas
S. Ma	OCDC		10	20							will hear back on Monday
M. George	Marathon										Sent book. Invested in last deal
R. Creswell	Cheyne										sent info. No feedback. She said BBB also on a call
R, Creswell	Prytania										Will look
R. Parekh	DB Zwirn										ramping a mezz abs cdo. No feedback. Requested sources and uses and portfolio
Francisco Diaz	La Caixa		10	20	0	0					Met in Lisbon. Really impressed with Jenks. Would take max 2 months. Would like DB to hold these bonds for them. They want to do their best to get approval for ABS. Would maybe buy in the secondary. Out. They do not have approval for ABS and do not want to spend the time for this analysis
P. Brownsey	ING NZ		3	4	4	0					Sent book. Invested in last deal. OUT. Wil prob come in for Aas
R. Rode	IVY		4	7.5	0	0	0				will look. They needupdated runs. Meed curent line items on the portfolio. Out. Their warehouse said
A, Jain	UBS										Axed to buy protection on deals in the secondary. Not necessarily hbk deals but all deals

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
C. Keller	Uniqua			5	0	0					Looking. They will come back tomorrow 2/14. Sttill looking at the deal. Will not be able to get back to us until 2/20. out. Don't like collateral
A. Maldonado	CDC IXIS		0	0	0	0					Sent book. Invested in last deal. Requested information. Redoing their systems. Will know in a day or 2. OUT. They do not like the portfolio. It was not 5 or 6 names .
M. Zuurmond	Faxtor										Sent book. Invested in last deal. Requested analysis on the deal.Will def like the deal . We have decided not to invest in this transact the following:High exposure to lower tiered originators: Fre Beach (7%), we also do not like fixed exposure in mezz cdo Finally, we do not like the Q3/4 06 production, which is about 25% in this pool, with about 8% in the BB bucket. Also, almost 5% is BB Fremont and some other like AMSI 05 has substantial DQs
Nabeel	Samba		0	0	0	0					Had a call with manager. Call went well. Looking at BBBs and BBs. Thinks it is low prob they are coming in.
j. Duffy	Fortis		0	0	0	0					Sent information on deal.OUT. 2 many BBs in the portfolio
C. Keller	Omnicron		0	0	0	0					Looking. They will come back tomorrow 2/14. BB bucket is too high
C. Newell	Peleton		0	0	0	0					lookig for information on gemstone 2. They want to short the deal
R. Creswell	CPM		0	0	0	0					Sent book. Invested in last deal. OUT. They want to see where the market goes. Not worth getting involved in market movemet
K. Gitelson	Cohen		0	0	0	0					Tough to get their focus. There is only one person that is running the CDO platform
P. Brownsey	QIC			10	0	0					Has interest. Trying to set up a meeting with this account. More of an equity account
G. Seeger	Putnam		0	0	0	0					sent info. No feedback. LOOKING AT DEAL. They are trying to price their deal and waiting to see where things settle down. Bought gemstone deal for their last prior deal
Nabeel	GIB		0	0	0	0					
Andre	Frankfurt trust		0	0	0	0					account resigned

DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
D. L udlow	ACA		5	5	0	0	at 400				subject to credit and talk. Mentioned they are seeing deals at 200 and 400 (camber). Denied by warehouse
H. Jaggi	Halcyon		10	15		0					Sent book. Invested in last deal. Might be out of the deal. Like static deals. Would likely invest if we make deal 2 yr reinvestment. Has a lot of gemstone paper.
S Beck	Graham Capital			0	0	0					Low prob account.
J. McCormick	IST		0	0	0	0					they very much liked HBK, and were wowed by the technical abilities of Halcyon. They are probablly still a little too negative on Home Eq to take BBBs which is the only place they can invest at present. They are trying to establish an off balnce sheet CP conduit whereby the can invest in senior debt in which case they would definitely buy HBK and Halcyon.
C. Newell	Smith Breeden			5	0	0					Sent book. Invested in last deal. Would know today or tomorrow on the deal. OUT. Does not like HEAT and long beach beach exposure. DB needs to set up a acall.
C. Walter	State Street		0	0	0	0					Does not like jenks
M. Frreilich	Wincap		0	0	0	0					Wont invest. They think 06 collarteral is dodgy. Sent book. LOOKING TO BUY OLDER DEALS
	Total										

			Class E 18,700,000 L+8.00% Ba1/BB+								
			0% 0	27% 5	0% 0	0% 0			0% 0		
DB Contact	Institution	Contact	Low	High	IOI	Order	Pricing	Floating/Fixed	Allocation		Comments
R. Creswell	CPM			5							Sent info. Looking. Spoke to them at the conference and they are keen
R. Creswell	Cheyne										All in return of 17 for BB.. Can take the whole piece if need be. Account on roadshow this week
Nabeel	Samba										had a call with manager. Call went well. They are looking at BBBs and BBs. Low prob. Don't like vintage

From: Jamiel Akhtar <jakhtar@hbk.com>
Sent: Thursday, October 5, 2006 2:42 PM (GMT)
To: Jon Mosle <JMosle@hbk.com>; MD <MD@hbk.com>
Subject: RE: Investment manager slots

We gave the underwriting mandate for Gemstone VII to DB. Including this deal, the score is DB 5, Lehman 3. Given our current view of DB as a counterparty (go to the counterparty relations sharepoint site (http://team/MC/CR/default.aspx) if you don't know the details), I wasn't thrilled about giving them the mandate. However, given the unusual requirement of transferring our bonds off of our balance sheet onto the underwriter's balance sheet prior to their transfer to the warehouse facility that our accounts have imposed upon us, DB is our best bet for good execution. As a condition for receiving the underwriting mandate, Kevin and I insisted that DB buy from us the $13.1mm of BB rated CDO liabilities HBK retained on its own books from Gemstone IV and V. This was a fairly sharp-elbowed tactic on our part, as the BB bonds are the worst part of the capital structure, but I feel like we should be sharp-elbowed with DB right now.

From: Jon Mosle
Sent: Friday, September 29, 2006 8:42 AM
To: MD
Subject: FW: Investment manager slots

Approved unanimously (except Baker)

From: Jon Mosle
Sent: Thursday, September 28, 2006 1:26 PM
To: MD
Subject: FW: Investment manager slots

Please use voting buttons. If you want to discuss (which we could do at the next MC meeting or earlier), vote "no" and let me know that's what you want. So far, Jamiel, Kevin and Larry have approved.

From: Jamiel Akhtar
Sent: Tuesday, September 26, 2006 2:39 PM
To: Investment Committee
Cc: Jon Mosle
Subject: Investment manager slots

We have 14 investment manager slots. We are currently using three for our feeders (one of which frees up when the Offshope BP feeder is done away with) and seven for our existing CDOs. That leaves four current open slots, with one more opening up on Jan 1 2008 [redacted]. David has indicated that he would like to have access to two slots for [redacted]. That leaves two spots open. Based on the performance of our first two CDOs, I would expect to call them in Dec '07 and May '08 respectively. The slots free back up one year after they are called. Although the other deals are performing well, it's too early to estimate call dates for them.

Today - 4 open slots
1/01/08 - 1 more slot frees up on 1 yr anniversary of [redacted]
12/01/08 - 1 more slot frees up on 1 yr anniversary of likely call of Gemstone I
5/01/09 - 1 more slot frees up on 1 yr anniversary of likely call of Sandstone I

We have enough good collateral to open a warehouse facility for our 8th CDO. **My question to the IC is may I have one of the four remaining slots, or do you think we are better served by having at least four open slots for other deals, new funds, etc?**

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1440

Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

02/08/2007 10:14 AM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas
cc Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject Re: gemstone 4 and 5 BBs

no problem, that is part of the risk we took when we were awarded the mandate and we are still making a nice all in fee

below is it $1.55 mm of loss in excess of our current mark or from where we bought it from Kevin?

regardless we need to sell it now while we still can

Abhayad Kamat/NewYork/DBNA/DeuBa

02/08/2007 10:09 AM

To

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1441

Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA, Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Re: gemstone 4 and 5 BBs(Document link: Michael Lamont)

if we sell it at 1000, we will take a loss of ~$1.55m from where we bought it from Jenks -- Ilinca said we are already marking it at 1000...

Gemstone 7 fees are at $7m (slightly over) -- i guess we are doing a deal for him for 50bps...

Abhayad
Kamat/NewYork/DBNA/DeuBa

02/08/2007 10:06
AM

To

Michael
Lamont

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

gemstone 4 and 5

BBs

jenks not interested. told him that we will try to blow it out within next few days -- he is ok with that as long as it is not blasted out to everyone so as not to affect his current deal in the market.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations



"Kevin Jenks" <kjenks@hbk.com>

02/27/2007 10:32 AM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject RE: Gemstone 4/5 BBs

We are also trying to reduce exposure, I don't understand why I should take those bonds for your promise just to do the job you were hired to. Especially when I will lose money on those bonds as well. I will only give levels on the bb's when we are out of the other risk

-----Original Message-----
From: Abhayad Kamat
Sent: Tuesday, February 27, 2007 9:59 AM
To: Kevin Jenks
Subject: RE: Gemstone 4/5 BBs

Kevin,
that doesn't work for us... we are trying to reduce our exposure right now given internal very senior mgmt review of our business... pls call when you get a chance.. i tried but got voicemail.
as we have done in the past, we will continue to work on the gemstone 7 unsold tranches and get those done... might take 1-2 months...

"Kevin Jenks" <kjenks@hbk.com>

02/27/2007 09:41 AM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

RE: Gemstone 4/5 BBs

CONFIDENTIAL - PRODUCED TO M&T PURSUANT

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1445

We would like to wait until we sell the rest of our deal. Unless you want to take them down on swap

-----Original Message-----
From: Abhayad Kamat
Sent: Tuesday, February 27, 2007 9:37 AM
To: Kevin Jenks
Subject: Gemstone 4/5 BBs

did you finish this analysis?

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Michael Lamont
Sent: Tuesday, January 9, 2007 05:00:49 PM
To: Kevin Jenks
Subject: Re: Hello

they were great, hope yours were as well

we are focused on this as well. we dont have a deal in the market and you will be first.

"Kevin Jenks" <kjenks@hbk.com>
01/09/2007 04:56 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
Hello

With this market this way and probably going to get worse we would like really move on the cdo. Please allocate the resources to expedite this. Thanks. Hope your holidays were well.

—

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1446

Jordan Milman/NewYork/DBNA/DeuBa@DBAMERICAS

02/09/2007 03:00 PM

To "Ashley Bonilla" <ABonilla@hbk.com>@DEUBAINT
cc Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Mike Li/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject RE: Warehouse Approval request

approved

"Ashley Bonilla" <ABonilla@hbk.com>

02/09/2007 02:54 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas, Lucy Fagan/db/dbcom@DBAmericas, Sourav Sen/NewYork/DBNA/DeuBa@DBAmericas, Mike Li/db/dbcom@DBAmericas, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject RE: Warehouse Approval request

Was this approved for Gem 7?

Ashley Bonilla
HBK Capital Management

ABonilla@HBK.com 214-758-6462

From: Jason Lowry
Sent: Wednesday, February 07, 2007 3:09 PM
To: Jordan Milman; Abhayad Kamat; Sourav Sen; Chehao Lu; 'lucy.fagan@db.com'; Sourav Sen; FixedIncome; 'Mike.Li@db.com'; Rachel Wish; ABS; Greg Lippmann
Subject: Warehouse Approval request

Can you approve 12.5mm of GSAMP 07-NC1 B1 at $80 (875 spread) done with GS for 2/20/2007 settle? Rated Ba1/BB+

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1448



GREGLIP@bloomberg.net Tomichael.lamont@db.com
cc
02/07/2007 06:51 PM bcc
SubjectRe: New Century Call, Check out the news out NEW Equity CN

=====Begin Message=====
Message#: 22689
Message Sent: 02/07/2007 18:51:44
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: michael.lamont@db.com| | | |
Subject: Re: New Century Call, Check out the news out NEW Equity CN

should be careful which cdos u do that if they are not composed of comparable
assets to your also i really ques tion your ability to mark / monetize that
short when u need it but guess if u r short some cdos and have to retain
others...
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/07 18:50:03

equity ok I think given how we are positioned, more worried if the
debtholders start to care
good question on the mezz short. maybe we can do it w/ finkel
probably we end up buying protection on some clean single names I guess

"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>
Sent by: greglip@bloomberg.net
02/07/2007 06:47 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
Re: New Century Call, Check out the news out NEW Equity CN

the equity will get naved it has happened before...who r u goi ng to short
the
mezz cdo tranches too..we r not a buyer..
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/07 18:06:57

yes the question is whether we are NAV'd on the debt, which will be not so
good
otherwise I think we are ok
lets talk about what to short in addition to what we already have tomorrow
we may want to try some mezz cdo tranches

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1450

"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>
Sent by: greglip@bloomberg.net
02/07/2007 06:02 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
Re: New Century Call, Check out the news out NEW Equity CN

GOOD I WAS CALLING ABOUT WHAREHOUSE MARKS AND DISTRIBUTION RISK B/C
HEARING
RUMORS ABOUT OTHER DEALERS HAVING BIG TROUBLE PLACING THIS STUFF AND AS WE
HAVE
DISCUSSED U COULD GET NAVed AT ANY TIME...if anything incresasing the
shorts
ight make sense..
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/07 18:01:31

yikes. I think we will stay short a while

they guys are still working out the warehouse marks but it appears we are
down about 35mm-40mm on our synthetic ABS bonds across deals + Dutch Hill
(so doesnt include WAMCO cash bonds, Brock CDOs, Dynamic long CDOs(equity
sold though in Dynamic)
but of the 35-40mm 16mm is HBK, 12mm is Carina where Magnetar owns the
equity, and we havent marked our SS hedge yet
so I think we are in reasonable shape.
all the deals besides Brock, Gemstone and arguably WAMCO just arent ramped
that much
full #s end of week
will be then automated weekly going forward

"GREG LIPPMANN, DEUTSCHE BANK SECURI" <greglip@bloomberg.net>
Sent by: greglip@bloomberg.net
02/07/2007 05:53 PM

To
Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
New Century Call, Check out the news out NEW Equity CN

The company will host a listen-only conference call today at 3:00 p.m. PST
to
review this announcement. To listen to the call, dial (800) 573-4840 or

(617)
224-4326 and use passcode 20268145. A replay of the call will be available
from
8:00 p.m. PST today through 12:00 p.m. PST on February 21, 2007. The
replay
number is (888) 286-8010 or (617) 801-6888 and the passcode is 57729403.
Additionally, the call will be webcast live and archived on the Investor
Relations section of the company's Web site at www.ncen.com.

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=====End Message=====



"Kevin Jenks" **<kjenks@hbk.com>**

02/08/2007 12:01 PM

To Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject RE: ** ANNOUNCING $[1.1]BLN GEMSTONE VII **

I agree, I will keep my fingers crossed

-----Original Message-----
From: Michael Lamont
Sent: Thursday, February 08, 2007 11:56 AM
To: Kevin Jenks
Subject: Fw: ** ANNOUNCING $[1.1]BLN GEMSTONE VII **

Keep your fingers crossed but I think we will price this just before the market falls off a cliff (which as usual will likely find you well-positioned to acquire new risk at a good price).

We are all focused on pricing as soon as possible.

----- Forwarded by Michael Lamont/NewYork/DBNA/DeuBa on 02/08/2007 11:52 AM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI" <ibogza@bloomberg.net> Sent by: ibogza@bloomberg.net
02/08/2007 11:38 AM

To
undisclosed-recipients:;
cc

Subject
** ANNOUNCING $[1.1]BLN GEMSTONE VII **

** ANNOUNCING GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK
** PORTFOLIO 100% RAMPED AT CLOSING. PREDOMINANTLY RMBS (89%) WITH SMALL ALLOCATION TO ABS CDO, CMBS AND STUDENT LOANS
** GEMSTONE CDO 7 WILL BE HBK'S EIGHTH ABS CDO
** STATIC BIG BUCKET; SHORT 2YR REINVESTMENT PERIOD FOR IG ASSETS ONLY WITH
REINVESTMENTS IN IG ONLY

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* CALL DESK*
B	Aa2/AA	[96.9]	[8.8]	[6.0]	
C	A2/A	[68.3]	[6.2]	[6.3]	
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	
SUB		[59.5]	[5.4]		

** CALL THE DESK FOR WHISPER TALK AND MARKETING MATERIALS.

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Wall Street & The Financial Crisis
Report Footnote #1452

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Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

02/09/2007 06:17 PM

Tollinca R Bogza/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc"Abhayad Kamat" <Abhayad.Kamat@db.com>, "Tony Pawlowski" <anthony.pawlowski@db.com>
bcc
SubjectRe: Hbk

I think we should manage him to pricing a little earlier and him taking the risk on CIFG not coming in

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/09/2007 06:00 PM

To

"Michael Lamont" <michael.lamont@db.com>

cc

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1453

"Tony Pawlowski"

<anthony.pawlowski@db.com>, "Abhayad Kamat"
<Abhayad.Kamat@db.com>

Subject

Hbk

Jenks just called me.. He is frightened that accounts pull their orders given the widening in abx today. I told him that most accounts abs cdo managers and that not likley but spreads could get wider

He mentioned he was going to give you a call. He is very nervous

Anthony Pawlowski/NewYork/DBNA/DeuBa@DBAMERICAS

02/13/2007 09:42 AM

Tomichael.lamont@db.com
cc
bcc
SubjectFw: Outstanding HBK requests

michael, in addition to not having a Red yet, see below.
i am not sure how to push guys upstairs without having them crack. everyone wants to price this deal asap (sean whelan is pushing for Friday to lock up his guys on the AAA and AA).
let me know.

----- Forwarded by Anthony Pawlowski/NewYork/DBNA/DeuBa on 02/13/2007 09:41 AM -----

Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/13/2007 09:37 AM

To anthony.pawlowski@db.com
cc
Subject Outstanding HBK requests

2/8 BGI
2/9 Rabo runs
2/12 IKB blackline of presentation
2/12 IVY rerun
2/12 harding strats
2/12 m&T runs

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1454

Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

02/20/2007 02:33 PM

To Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT, Anthony Pawlowski/NewYork/DBNA/DeuBa@DBAmericas, Michael Herzig/NewYork/DBNA/DeuBa@DBAmericas, Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

cc

bcc

Subject Re: HBK marketing

Ilinca,
Could u collate the following information (maybe we already have it) -- on our mgd mezz abs cdos last year what was the split by risk tranche across deals between real money and cdo whouses. the street may be pulling back so this would be good info to have as we think about how we are going to place risk
Sent from my Blackberry Wireless

Mr. Michael Lamont
Managing Director
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor
New York, NY, USA
Telephone: +1(212)250-8708
Mobile: +1 917-821-8843
E-Mail: michael.lamont@db.com

----- Original Message -----
From: Ilinca R Bogza
Sent: 02/20/2007 01:59 PM
To: michael.lamont@db.com;anthony.pawlowski@db.com;michael.herzig@db.com;Abhayad.Kamat@db.com
Subject: HBK marketing

Below is a summary of where we are on HBK

Senior AAAs
BGI - waiting for feedback
CIFG- waiting for feedback

Junior AAAs - 2x done at 46
IKN
M&T bank
NIB

AAs - 100% best case 67% worst case at 65dm
M&T 40mm firm
NIB 5mm at 60dm
Wachovia 20mm at 70 area. Could get them to 65 area. Other deals pricing at 65-70
Wharton - 12mm IOI. we will know tomorrow
Koch - 10mm . trying to push them into this deal
GIB- promised them junior AAA if they can get there on AAs

A's 47% worst case , 58% best case at 275dm
Aca firm 10mm
NZFM 2mm IOI
Wachovia 20mm IOI at high 200's. Other deals pricing at 225-275 context
Ivy - 4-8mm split across As and BBBs
BSAM - trying to get them to take As. No feedback

BBBs 42% worst case , 56% best case at 450dm
Commerz 15mm firm . 25bps discount from where they price
TCW 4mm firm
ING NZ 4mm IOI
IVY 4-8mm split between A's and BBBs

If you want we can discuss accounts who are out of the book and why... Can we have a call with Jenks first thing in the am re: taking back the unsold bonds..

Thanks
Ilinca

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Wall Street & The Financial Crisis
Report Footnote #1455

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

02/20/2007 06:04 PM

To"Eisman, Steven" <seisman@fppartners.com>
cc"Jashin Patel" <jashin.patel@db.com>, "Rich Rizzo" <rich.rizzo@db.com>
bcc
SubjectRe: Novastar

They are going to widen more. I'm in london, took the redeye and been here since. Leaving for the day. Will have jashin show you the friday levels (which were stale by 25-50bps before nfi news and more so now) we showed but one guy took us out of 530MM of them today so some of those are gone and I am actually ha ing trouble staying short with a dwindling cdo pipeline.

On cdos we think they are going much much wider but will have rich rizzo send you his latest offers.

Sent from my BlackBerry Handheld.

----- Original Message -----
From: "Eisman, Steven" [seisman@fppartners.com]
Sent: 02/20/2007 05:57 PM
To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: Re: Novastar

Give me some recommendations. I love my cdo trade. Would do more in your area but things have widened so much. What looks interesting to you
---
Sent using BlackBerry

-----Original Message-----
From: Greg Lippmann <greg.lippmann@db.com>
To: Eisman, Steven
Sent: Tue Feb 20 17:55:27 2007
Subject: Re: Novastar

indeed you should get some sack and do some more shorts these bonds are going much much lower.....

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

"Eisman, Steven" <seisman@fppartners.com>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1455

02/20/2007 10:53 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject
Novastar

It is like the plague

Sent using BlackBerry

****
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GREGLIP@bloomberg.net To IBOGZA@bloomberg.net
cc
02/20/2007 03:32 PM bcc
Subject Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

=====Begin Message=====
Message#: 371
Message Sent: 02/20/2007 15:32:36
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

wow that much intereest in the bbb ?? is that real ?? we would take as much as you can oversell..
----- Original Message -----
From: ILINCA BOGZA, DEUTSCHE BANK SECURI
At: 2/20 15:17:36

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

=====End Message=====

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Report Footnote #1456



GREGLIP@bloomberg.net ToIBOGZA@bloomberg.net
cc
02/20/2007 03:40 PM bcc
SubjectRe: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

=====Begin Message=====
Message#: 1370
Message Sent: 02/20/2007 15:40:21
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

very sneaky...
----- Original Message -----
From: ILINCA BOGZA, DEUTSCHE BANK SECURI
At: 2/20 15:33:39

no. that is def not real.. it is at 50%.; cant oversell any tranche to be honest

=====End Message=====

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Report Footnote #1458

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/21/2007 12:01 PM

Tollinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT, Michael Lamont/NewYork/DBNA/DeuBa, anthony.pawlowski@db.com

cc

bcc

SubjectRe: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

- see email below. should we offer more PCs for Gemstone CDO 7 given the market?
- given the current market, can we offer 300 on single-As and 600 on triple-Bs on any fresh orders/accounts on single-As and triple-Bs at this stage.

thanks.

Anirban Lahiri/SP/DBAsia/DeuBa@DBAPAC

02/21/2007 11:26 AM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1459

cc

Subject

Re: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

Production credits?

Sent from my BlackBerry Wireless Handheld

From: Abhayad Kamat
Sent: 22/02/2007 00:17
To: Anirban Lahiri; Sheree Ma
Cc: Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT
Subject: Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK **

here's the mktg book. thanks.

(Embedded image moved to file: pic07596.pcx)

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 11:15 AM -----

Abhayad
Kamat/NewYork/DBNA/DeuBa

02/21/2007 11:13
AM

To

Anirban Lahiri/SP/DBAsia/DeuBa, Sheree
Ma

cc

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

Subject

Fw: ** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

Guys,
we need help on selling the As and BBBs in the Gemstone CDO 7 transaction -- we have nearly 50% unsold on both tranches in the transaction. We have widened talk to 265 on the As and to 500 on the BBBs - see Ilinca's email below.

- i am also fwding you the latest HBK mktg book.
- any help from you on the As, BBBs and senior AAAs would be appreciated.
- on the senior AAAs, we are flexible to work with accounts at different subordination points and spread targets.

Here is a quick summary of the transaction and manager:
- this is HBK's eight CDO
- 2 year short revolving period -- can revolve in investment grade assets only
- 27% below IG bucket (BBs) but amortizations on this bucket are used to pay down notes -- no reinvestment in below IG bucket
- HBK retains entire BB and Equity, similar to what they have done in all their prior deals. HBK views their CDOs as financing trades, where they retain the equity and use the CDO to get levered returns.
- the 27% BB bucket is standard in their deals -- these are very similar to the C-BASS deals in the market...
- HBK's loan level analysis of RMBS pools is highly regarded in the market. HBK helps structure ~55% of the underlying RMBS in this transaction and retains the residual piece on those also.

- this CDO has pure sequential structure with OC and IC tests -- as opposed to most deals in the market which have pro-rata structure
- the BBB tranche has a turbo mechanic that helps it to pay down faster.

Are there any accounts that might be interested in this, given the good manager name, good alignment of interest with investors, sequential paydown structure, OC/IC tests, BBB turbo and wider price talk? any help appreciated.

thanks,
Abhayad

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/21/2007 10:39 AM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI"
<ibogza@bloomberg.net>

Sent by:
ibogza@bloomberg.net

To

undisclosed-
recipients:;

02/20/2007 03:17
PM

cc

Subject

** UPDATE $[1.1]BLN GEMSTONE VII ** REVISED TALK
**

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

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pic07596.pcx **Type:** application/octet-stream
Name: pic07596.pcx

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

03/27/2007 01:56 PM

To Richard R Kim/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: Fw: ******URGENT**********

yes sure, but i think we should keep those requests separate from the CDO warehouse valuation requests... the relevant salesperson can take care of those monthly valuation marks... let me know how you want to proceed.

Richard R Kim/NewYork/DBNA/DeuBa

03/27/2007 01:43 PM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

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Wall Street & The Financial Crisis
Report Footnote #1462

cc

Subject

Re: Fw: ******URGENT**********(Document link: Abhayad Kamat)

won't our managers want to receive monthly marks for their own monitoring purposes?

Abhayad
Kamat/NewYork/DBNA/DeuBa

03/27/2007 01:29
PM

To

Chehao Lu/NewYork/DBNA/DeuBa, Sara M
Chan/NewYork/DBNA/DeuBa@DBAmericas,
doug.hamilton@db.com

cc

Richard R Kim/NewYork/DBNA/DeuBa@DBAmericas, Sourav

Sen/NewYork/DBNA/DeuBa

Subject

Fw:

******URGENT**********

when our CDOs close, we need to convey to valuations group that we no longer need these valuations. see eg. Gemstone 7 below. they still keep pushing trading desk to give valuations... pls can you take care of this for the deals that you work on?

thanks.

----- Forwarded by Jordan Milman/NewYork/DBNA/DeuBa on 03/27/2007 11:50 AM -----

Richard
Leclezio/NewYork/DBNA/DeuBa

03/27/2007 11:23
AM

To

Jordan
Milman/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

******URGENT**********

Hi Jordan,

Please can you help,

I have HBK on my back to get the following spreads.

Please can you provide the parameters.....tks

[attachment "Jordan_Milman_daily_requests_20070326.xls" deleted by Richard R Kim/NewYork/DBNA/DeuBa]

Richard Leclezio
Assistant Vice President
Valuation Services Group
Deutsche Bank [/] - New York
(t) +1 212 250 2485
(m) +1 646 [redacted]
Email: richard.leclezio@db.com
BBG: leclri.nydb@bloomberg.net

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Paul Mazzilli
Sent: Thursday, February 8, 2007 08:12:59 AM
To: Kevin Jenks
CC: Jason Lowry
Subject: FW: Gemstone CDO 7 - price diff between purchase price and current mark

Attachments: Prices to Kevin.xls

We found the overall loss to be down 0.9% or $9.4mm.

-----Original Message-----
From: Paul Mazzilli
Sent: Wednesday, January 24, 2007 12:44 PM
To: Kevin Jenks
Cc: Jason Lowry
Subject: RE: Gemstone CDO 7 - price diff between purchase price and current mark

We see the whole portfolio down 0.9% or $9.4mm compared to DBS's 1.7%($19mm). Attached is DBS's email with our prices included.

-----Original Message-----
From: Kevin Jenks
Sent: Wednesday, January 24, 2007 4:27 AM
To: Paul Mazzilli; Jason Lowry
Subject: Fw: Gemstone CDO 7 - price diff between purchase price and current mark

I need the gem 7 portfolio priced using our ye marks and then override where you think appropiate. I need this asap

----- Original Message -----
From: Abhayad Kamat
To: Marco Lukesch; Kevin Jenks; Rachel Wish
Cc: Chehao Lu; Sourav Sen; Konstantin Kulev <konstantin.kulev@db.com>
Sent: Tue Jan 23 20:16:50 2007
Subject: Gemstone CDO 7 - price diff between purchase price and current mark

Some investors are asking for current marks on the Gemstone CDO 7 portfolio. The attached file has the purchase price and the current marks that we got from our desk. There are many bonds where the price difference between purchase price and current mark is more than 4% -- highlighted in yellow. I have asked Jordan to review the marks but it would be great if you could have someone at HBK review also to check if the current marks seem correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors.

thanks.
Abhayad

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

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Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

01/23/2007 08:14 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Jashin Patel/NewYork/DBNA/DeuBa@DBAmericas
cc Chehao Lu/NewYork/DBNA/DeuBa, Konstantin Kulev/NewYork/DBNA/DeuBa, Sourav Sen/NewYork/DBNA/DeuBa
bcc
Subject HBK - price diff between purchase price and current mark

The attached file has the purchase price and current mark for the bonds in the HBK / Gemstone CDO 7 warehouse.

There are many bonds where the price difference between purchase price and current mark is more than 4% -- highlighted in yellow. Before we send these over to CDO investors, pls could you review to check if the current marks are correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors.

thanks.

(See attached file: Gemstone VII Portfolio 01.23.07 (w Prices).xls)

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Gemstone VII Portfolio 01.23.07 (w Prices).xls	**Type:** application/msexcel **Name:** Gemstone VII Portfolio 01.23.07 (w Prices).xls



Jashin Patel/NewYork/DBNA/DeuBa@DBAMERICAS

01/24/2007 01:01 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Fw: HBK - price diff between purchase price and current mark

I checked the names Abhayad highlighed are most are marked within the context of recent color there are 4 which should be tightened.

there's one cash bond which he highlighted... HEAT 2006-7 B1: we just offered prot at 465; you had a cash bid of 94-00 (362DM at 100PPC) for Fidelity in late October

(See attached file: Gemstone VII Portfolio 01.23.07 (w Prices)_JP.xls)

Jashin Patel
Securitized Product Group Trading
Deutsche Bank Securities Inc.
212 250 7730 (t)
----- Forwarded by Jashin Patel/NewYork/DBNA/DeuBa on 01/24/2007 12:46 PM -----

Abhayad Kamat/NewYork/DBNA/DeuBa

01/23/2007 08:14 PM

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1466

To

Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas, Jashin Patel/NewYork/DBNA/DeuBa@DBAmericas

cc

Chehao Lu/NewYork/DBNA/DeuBa, Konstantin Kulev/NewYork/DBNA/DeuBa, Sourav Sen/NewYork/DBNA/DeuBa

Subject

HBK - price diff between purchase price and current mark

The attached file has the purchase price and current mark for the bonds in the HBK / Gemstone CDO 7 warehouse.

There are many bonds where the price difference between purchase price and current mark is more than 4% -- highlighted in yellow. Before we send these over to CDO investors, pls could

you review to check if the current marks are correct. It seems as if the entire portfolio price has dropped since purchase by 1.74% which does not show well to investors.

thanks.

[attachment "Gemstone VII Portfolio 01.23.07 (w Prices).xls" deleted by Jashin Patel/NewYork/DBNA/DeuBa]

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Gemstone VII Portfolio 01.23.07 (w Prices) _JP.xls	**Type:** application/msexcel **Name:** Gemstone VII Portfolio 01.23.07 (w Prices) _JP.xls

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

01/24/2007 04:15 PM

To Chehao Lu/NewYork/DBNA/DeuBa, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT, Konstantin Kulev/NewYork/DBNA/DeuBa

cc

bcc

Subject Re: We priced the port

for investors who have asked for current marks on the Gemstone CDO 7 portfolio, tell them: HBK says that the overall current portfolio is down USD 9mm.
no need to provide current prices on a line item level.

"Kevin Jenks" <kjenks@hbk.com>

01/24/2007 01:14 PM

To

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAmericas

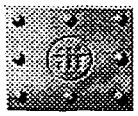
Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1468

cc

Subject

We priced the
port

It is down 9mm



Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 12:55 PM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc
bcc
Subject Re: Fw: Gemstone CDO 7 - portfolio mark

Can you ask him.. We need him to provide

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 12:54 PM

To

Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT

cc

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1469

Subject

Re: Fw: Gemstone

CDO 7 - portfolio mark(Document link: Ilinca R Bogza)

the marks we got from jordan are too low... and it will take quite some time if we try to take on an exercize where we try to get kevin and jordan to agree on the correct marks. so alternatively we ask kevin to provide us the detailed marks. worth asking.

Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 12:52
PM

To

Abhayad.Kamat@db.com

cc

Subject

Fw: Gemstone CDO 7 - portfolio mark

Why can we not show a priced portfolio?? we need to show this

----- Forwarded by Ilinca R Bogza/NewYork/DBNA/DeuBa on 02/07/2007 12:52 PM -----

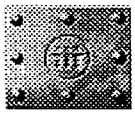
Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS
02/07/2007 12:51 PM

To
kjenks@hbk.com, MLukesch@hbk.com, rwish@hbk.com
cc
Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT, Chehao Lu/NewYork/DBNA/DeuBa
Subject
Gemstone CDO 7 - portfolio mark

Kevin,
what is the overall gain/loss (based on current marks) on the Gemstone CDO 7 portfolio?

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

[redacted] = Redacted by the Permanent Subcommittee on Investigations



Ilinca R
Bogza/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 02:46 PM

To Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS@DEUBAINT
cc Chehao Lu/NewYork/DBNA/DeuBa@DBAmericas
bcc
Subject Re: Fw: New simpler pricing

Can we include that in the disclaimer?

Abhayad Kamat/NewYork/DBNA/DeuBa@DBAMERICAS

02/07/2007 02:14 PM

To Chehao Lu/NewYork/DBNA/DeuBa, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBNA@DEUBAINT

cc

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1470

Subject

Fw: New simpler pricing

use this for the current prices to be sent to investors, but pls note to investors that this is frm hbk.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/07/2007 02:13 PM -----

"Kevin Jenks"
<kjenks@hbk.com>

02/07/2007 02:06
PM

To

Abhayad
Kamat/NewYork/DBNA/DeuBa@DBAmericas

[redacted] = Redacted by the Permanent Subcommittee on Investigations

cc

Subject

New simpler

pricing

[attachment "Pricing of gem 7.xls" deleted by Ilinca R Bogza/NewYork/DBNA/DeuBa]

From:	Kevin Jenks
Sent:	Wednesday, February 7, 2007 01:23:58 PM
To:	Jason Lowry
Subject:	FW: Gemstone CDO 7 - portfolio mark

Need line Item marks for cdo portfolio use dec or jan depending on which is better

---

From: Abhayad Kamat
Sent: Wednesday, February 07, 2007 12:51 PM
To: Kevin Jenks; Marco Lukesch; Rachel Wish
Cc: Ilinca R Bogza; Chehao Lu
Subject: Gemstone CDO 7 - portfolio mark

Kevin,
what is the overall gain/loss (based on current marks) on the Gemstone CDO 7 portfolio?

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1471

From: Kevin Jenks
Sent: Wednesday, March 7, 2007 08:44:15 AM
To: Abhayad Kamat; 'Ilinca R Bogza'[ilinca.r.bogza@db.com]
Subject: FW: Updated prices

Attachments: prices sent to kevin 20070306.xls

This is our estimate of our portfolio marks currently. This is not 3rd party as we have not gotten all for February. We are approx down 30mm

---

From: Paul Mazzilli
Sent: Tuesday, March 06, 2007 6:20 PM
To: Kevin Jenks
Cc: Jason Lowry
Subject: Updated prices

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1475

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

03/03/2007 07:44 AM

To"Richard Dalbert" <richard.dalbert@db.com>
cc
bcc
SubjectFw: Fremont Shut Down Sub-prime business

Call me if you want.

Sent from my BlackBerry Handheld.

From: Rajeev Misra
Sent: 03/03/2007 05:34 AM
To: Greg Lippmann
Cc: Richard DAlbert; Anshu Jain
Subject: Re: Fremont Shut Down Sub-prime business

Well, no regrets. Let's hold tight on our shorts now. It will be a bumpy mkt to mkt ride but we will prevail.

Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 03/02/2007 06:44 PM
To: Rajeev Misra
Cc: Richard DAlbert
Subject: Fw: Fremont Shut Down Sub-prime business

Well, we covered some a bit too early.

NEW to CCC Watch Neg at S&P from B- Watch Neg
*NEW CENTURY SAYS U.S. ATTORNEY CONDUCTING CRIMINAL PROBE
*NEW CENTURY SAYS U.S. ATTY PROBE ON TRADING, ACCOUNTING ERRORS
*NEW CENTURY SAYS NYSE REVIEWING TRANSACTIONS IN ITS SECURITIES
*NEW CENTURY SAYS SEC REQUESTED MEETING ON RESTATEMENT
*NEW CENTURY SEEKING TO OBTAIN WAIVERS FROM LENDERS
*NEW CENTURY SEES REPORTING PRETAX LOSS FOR 4Q, YEAR
*NEW CENTURY SEES CONCLUDING MATERIAL WEAKNESSES WERE PRESENT

Sent from my BlackBerry Handheld.

From: Ryan Stark
Sent: 03/02/2007 05:53 PM
To: Greg Lippmann; Hiroki Kurita; Jordan Milman
Cc: Philip Weingord; Frank Byrne; Anilesh Ahuja; Michael Commaroto; Andrew Peisch; Glenn Minkoff
Subject: Fremont Shut Down Sub-prime business

This is real - not a rumor.

Ryan Stark
Director
Deutsche Bank Securities
60 Wall St.
NY, NY 10005
212-250-8473
917-[redacted] cell

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1476

Fremont General Corporation (the "Company") could not file its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 by March 1, 2007 without unreasonable effort or expense for the reasons set forth below.

In light of the current operating environment for subprime mortgage lenders and recent legislative and regulatory events, Fremont Investment & Loan, the Company's wholly owned industrial bank subsidiary ("FIL"), intends to exit its subprime residential real estate lending business. Management and the board of directors are engaged in discussions with various parties regarding the sale of the business.

Additionally, the Company expects that it, FIL and the Company's wholly owned subsidiary, Fremont General Credit Corporation ("FGCC"), will enter into a voluntary formal agreement, to be designated as a cease and desist order (the "Order"), with the Federal Deposit Insurance Corporation (the "FDIC"). Among other things, the Order will require FIL to cease and desist from the following:

- Operating with management whose policies and practices are detrimental to FIL;
- Operating FIL without effective risk management policies and procedures in place in relation to FIL's brokered subprime mortgage lending and commercial real estate construction lending businesses;
- Operating with inadequate underwriting criteria and excessive risk in relation to the kind and quality of assets held by FIL;
- Operating without an accurate, rigorous and properly documented methodology concerning its allowance for loan and lease losses;
- Operating with a large volume of poor quality loans;
- Engaging in unsatisfactory lending practices;
- Operating without an adequate strategic plan in relation to the volatility of FIL's business lines and the kind and quality of assets held by FIL;
- Operating with inadequate capital in relation to the kind and quality of assets held by FIL;
- Operating in such a manner as to produce low and unsustainable earnings;
- Operating with inadequate provisions for liquidity in relation to the volatility of FIL's business lines and the kind and quality of assets held by FIL;
- Marketing and extending adjustable-rate mortgage ("ARM") products to subprime borrowers in an unsafe and unsound manner that greatly increases the risk that borrowers will default on the loans

==========PAGE BREAK==========

or otherwise cause losses to FIL, including (1) ARM products that qualify borrowers for loans with low initial payments based on an introductory rate that will expire after an initial period, without adequate analysis of the borrower's ability to repay at the fully

indexed rate, (2) ARM products containing features likely to require frequent refinancing to maintain affordable monthly payment or to avoid foreclosure, and (3) loans or loan arrangements with loan-to-value ratios approaching or exceeding 100 percent of the value of the collateral;

- Making mortgage loans without adequately considering the borrower's ability to repay the mortgage according to its terms;

- Operating in violation of Section 23B of the Federal Reserve Act, in that FIL engaged in transactions with its affiliates on terms and under circumstances that in good faith would not be offered to, or would not apply to, nonaffiliated companies; and

- Operating inconsistently with the FDIC's Interagency Advisory on Mortgage Banking and Interagency Expanded Guidance for Subprime Lending Programs.

The Order will also require FIL to take a number of steps, including (1) having and retaining qualified management; (2) limiting the Company's and FGCC's representation on FIL's board of directors and requiring that independent directors comprise a majority of FIL's board of directors; (3) revising and implementing written lending policies to provide effective guidance and control over FIL's residential lending function; (4) revising and implementing policies governing communications with consumers to ensure that borrowers are provided with sufficient information; (5) implementing control systems to monitor whether FIL's actual practices are consistent with its policies and procedures; (6) implementing a third-party mortgage broker monitoring program and plan; (7) developing a five-year strategic plan, including policies and procedures for diversifying FIL's loan portfolio; (8) implementing a policy covering FIL's capital analysis on subprime residential loans; (9) performing quarterly valuations and cash flow analyses on FIL's residual interests and mortgage servicing rights from its residential lending operation, and obtaining annual independent valuations of such interests and rights; (10) limiting extensions of credit to certain commercial real estate borrowers; (11) implementing a written lending and collection policy to provide effective guidance and control over FIL's commercial real estate lending function, including a planned material reduction in the volume of funded and unfunded nonrecourse lending and loans for condominium conversion and construction as a percentage of Tier I capital; (12) submitting a capital plan that will include a Tier I capital ratio of not less than 14% of FIL's total assets; (13) implementing a written profit plan; (14) limiting the payment of cash dividends by FIL without the prior written consent of the FDIC and the Commissioner of the California Department of Financial Institutions; (15) implementing a written liquidity and funds management policy to provide effective guidance and control over FIL's liquidity position and needs; (16) prohibiting the receipt, renewal or rollover of brokered deposit accounts without obtaining a Brokered Deposit Waiver approved by the FDIC; (17) reducing adversely classified assets; and (18) implementing a comprehensive plan for the methodology for determining the adequacy of the allowance for loan and lease losses.

In addition, the Company is analyzing, in connection with the preparation of the Company's consolidated financial statements as of and for the period ended December 31, 2006, the FDIC's criticism with respect to the Company's methodology for determining the carrying value of the Company's residential real estate loans held for sale.

Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

03/15/2007 08:33 AM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Fw: HBK-pls read

lets discuss this when you have a chance. long story

----- Forwarded by Michael Lamont/NewYork/DBNA/DeuBa on 03/15/2007 08:33 AM -----

Anshu Jain/DMGGM/DMG UK/DeuBa@DBEMEA

03/14/2007 06:36 PM

To

Fred Brettschneider/NewYork/DBNA/DeuBa@DBAmericas@DBAMERICAS@DEUBAINT, Rajeev Misra/DMGGM/DMG UK/DeuBa@DBEMEA, Yassine Bouhara/DMGEQ/DMG UK/DeuBa@DBEMEA, Pablo Calderini/NewYork/DBNA/DeuBa@DBAmericas, Barry Bausano/NewYork/DBNA/DeuBa@DBAmericas, Jonathan Hitchon/DMGEQ/DMG UK/DeuBa@DBEMEA

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1479

cc

Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas, Richard DAlbert/NewYork/DBNA/DeuBa@DBAmericas

Subject

Re: HBK-pls read

Well done..

From: Fred Brettschneider
Sent: 03/14/2007 06:25 PM EDT
To: Anshu Jain; Rajeev Misra; Yassine Bouhara; Pablo Calderini; Barry Bausano; Jonathan Hitchon
Cc: Michael Lamont; Richard DAlbert
Subject: HBK-pls read

We believe that we have reached an acceptable compromise with HBK. We will be restructuring the unsold mezz Aaa and we will underwrite the senior portion leaving them with the junior piece. We are still hopeful of selling the entire tranche but this "re-tranching" vastly mitigates our risk. HBK seems pleased with the outcome and was appreciative of our efforts.

Freddie

Sent from my BlackBerry Handheld.



Larry
Pike/NewYork/DBNA/DeuBa@DBAMERICAS

03/27/2007 10:34 AM

To Sean Whelan/db/dbcom@DBAmericas, michael.jones@db.com
cc
bcc
Subject As sent to Bill Healy on HBK

Discussion points:
** On Feb 21 HBK priced GEMSTONE 7 in a weak market for CDOs
** Only about half the deal cleared up and down the capital structure with HBK taking down the balance as agreed in advance.
** Earlier during the structuring phase, we had advised them against adding a 2-year revolving (reinvestment) period rather than leaving it a static deal as in past deals but they insisted on this new feature. This process pushed the deal marketing back 2 to 3 weeks into a worse time for CDOs and added a feature not favored by investors.
** 400mm of the unsold bonds were a middle (mezz) AAA class that were expected to be purchased by an investor who backed out at a late stage due to a deteriorating market.
** HBK was upset about this and wanted DB to take these bonds down, threatening to curtail business globally with HBK if we didn't.
** In the end we agreed to carve this 400mm into a senior and junior piece and DB took down the senior 200mm, with HBK keeping the junior 200mm.

Bill- side note that they did increase the deal size from 750mm to 1.1bb but we did not have any problem with that or advise against it.
If you think I have still left out some info that clarifies anything, please let me know.

Larry Pike, CFA
Director
Deutsche Bank Securities, Inc.
225 Franklin St., 24th Floor
Boston, MA 02110
(617) 217-6422

Gemstone 7

DB holds
200mm Class A-1b1

HBK owns
200mm A-1b II
31.9mm Class B (about a third of this class)
38.3mm Class C (a little over half of this class)
36.1mm Class D (about 2/3 of this class)

They take down the BBs and equity in their deal

Below is the capital structure. The A-1b was expected to be sold but the account backed out and is NOT considered to be still actively looking at it. The class is being split further with DB keeping the senior 200mm of risk in that class and HBK keeping the junior 200mm of risk.

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	COUPON	PRICE	DM
A-1a	Aaa/AAA	244.0	22.2	2.1	NA	NA	NA
A-1b	Aaa/AAA	400.0	36.3	3.1	L+ 0.35%		
A-2	Aaa/AAA	159.0	14.4	4.9	L+ 0.47%	100%	L+ 0.47%

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1479

B	Aa2/AA	96.9	8.8	5.8	L+ 0.68%	100%	L+ 0.68%
C	A2/A	68.3	6.2	6.2	L+ 2.25%	97.02640%	L+ 2.85%
D	Baa2/BBB	55.1	5.0	5.7	L+ 4.75%	98.91859%	L+ 5.00%
E	Ba1/BB+	18.7	1.7	6.3	NA	NA	NA
SUB		59.5	5.4				

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

02/20/2007 05:36 PM

To Rich Rizzo/NewYork/DBNA/DeuBa@DE
cc
bcc
Subject Re: Gemstone CDO 7 - HBK - repos

we dont have much choice....either we repo for them or we take it down...so we will need to mark it etc...

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) [redacted]
greg.lippmann@db.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Rich Rizzo/NewYork/DBNA/DeuBa

02/20/2007 09:32

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1481

PM

To

Greg

Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Re: Gemstone CDO 7 - HBK -

repos

Your call here
My concern is mostly about monitoring - seems like this requires the pool to be priced and hbk generally views market as tighter than it is

Also recall ilinca I think took 10-20MM of gemst 4 and 5 BBs back from jenks - they've been trying to sell and got a 25bid (from deveaney)

Sent from my BlackBerry Handheld.

From: Greg Lippmann
Sent: 02/20/2007 04:06 PM
To: Abhayad Kamat
Cc: Rich Rizzo
Subject: Re: Gemstone CDO 7 - HBK - repos

i dont understand these...seems backward....i would say 20% haircut on A and 30 on BBB at the moment....seems you are 15 and 25....

Abhayad
Kamat/NewYork/DBNA/DeuBa

02/20/2007 09:02
PM

To

Greg
Lippmann/NewYork/DBNA/DeuBa

cc

Rich
Rizzo/NewYork/DBNA/DeuBa@DBAmericas

Subject

Gemstone CDO 7 - HBK -

repos

Greg,

HBK's Gemstone CDO 7 is pricing tomorrow and we will probably have 40-50% of the As and BBBs unsold -- about $35m As and $30m BBBs. HBK will take these tranches back but we would like to offer them repos on these tranches if possible.

Would you be ok to offer repos at the following advance rates:

Rating	Advance Rate %
A2/A	85%
Baa2/BBB	75%

Rating	Advance Rate % (based on par)	Advance Rate % (based on pool market value)
A2/A	12.0%	6.5%
Baa2/BBB	7.0%	1.5%

- CDO purchased pool at price of ~96.5% (27% BB assets); based on current market, pool is down 2.0% since purchase.

Once you confirm if ok on the advance rates, I will check with Alain Van-Loo for interest rates to be charged.

thanks.
Abhayad

Abhayad Kamat
Global CDO Group

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) [redacted] cell
(732) 578-2890 fax

----- Forwarded by Abhayad Kamat/NewYork/DBNA/DeuBa on 02/20/2007 03:44 PM -----

"ILINCA BOGZA, DEUTSCHE BANK SECURI"
<ibogza@bloomberg.net>

Sent by:
ibogza@bloomberg.net

To

undisclosed-

recipients:;

Confidential Treatment Requested by DBSI

02/20/2007 03:17
PM

cc

Subject

** UPDATE $[1.1]BLN GEMSTONE VII **

REVISED TALK
**

** UPDATE GEMSTONE CDO 7, A $[1.1]BLN MEZZANINE ABS CDO MANAGED BY HBK

** EXPECTED PRICING FEB [21ST].

CLASS	RATING(M/S)	SIZE(MM)	SIZE(%)	WAL(YR)	PRICE TALK	IOI
A-1	Aaa/AAA	[716.0]	[65.0]	[3.2]	* CALL DESK *	---
A-2	Aaa/AAA	[87.0]	[7.9]	[5.3]	* NOT OFFERED *	---
B	Aa2/AA	[96.9]	[8.8]	[6.0]	L+ [0.62% AREA]	90%
C	A2/A	[68.3]	[6.2]	[6.3]	L+ [2.65% AREA]	75%
D	Baa2/BBB	[55.1]	[5.0]	[5.7]	L+ [5.00% AREA]	75%
E	Ba1/BB+	[18.7]	[1.7]	[6.3]	* CALL DESK *	---
SUB		[59.5]	[5.4]			

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STANDARD
&POOR'S

Ratings Services

55 Water Street, 41st. Floor
New York, NY 10041-0003
212 438 2000 Tel
212 438 2650 Fax

March 15, 2007

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited
P.O. Box 1984 GT
Elizabethan Square, Grand Cayman
Cayman Islands
Attention: The Directors

Re: **Gemstone CDO VII Ltd./Gemstone CDO VII Corp.**
U.S.$244,000,000 Class A-1a Floating Rate Notes Due December 2045
U.S.$400,000,000 Class A-1b Floating Rate Notes Due December 2045
U.S.$159,000,000 Class A-2 Floating Rate Notes Due December 2045
U.S.$96,900,000 Class B Floating Rate Notes Due December 2045
U.S.$68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045
U.S.$55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045
U.S.$18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045

Dear Sir or Madam:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned ratings to the classes as follows:

Class	Amount	Maturity	Rating
A-1a	U.S.$244,000,000	December 12, 2045	AAA
A-1b	U.S.$400,000,000	December 12, 2045	AAA
A-2	U.S.$159,000,000	December 12, 2045	AAA
B	U.S.$96,900,000	December 12, 2045	AA
C	U.S.$68,300,000	December 12, 2045	A
D	U.S.$55,100,000	December 12, 2045	BBB
E	U.S.$18,700,000	December 12, 2045	BB+

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities

Confidential Treatment Request

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laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

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Analytical Contact: William Leong
212-438-1387

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Information to be Provided by You. You shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. You also agree to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from you or your agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by you or your agents. Standard & Poor's reserves the right to withdraw the rating if you or your agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

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Standard & Poor's will use Confidential Information only in connection with the assignment and monitoring of ratings and will not directly disclose any Confidential Information to any third party. Standard & Poor's may also use Confidential Information for research and modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to you. You agree that the Confidential Information may be used to raise, lower, suspend, withdraw, and place on CreditWatch any rating if the Confidential Information is not directly disclosed.

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Limitation on Damages. You agree that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to you or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by you or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. You acknowledge and agree that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

Moody's Investors Service

March 15, 2007

Gemstone CDO VII Ltd.
c/o Deutsche Bank (Cayman) Limited
P.O. Box 1984 GT, Elizabethan Square
George Town, Grand Cayman
Cayman Islands

99 Church Street
New York, New York 10007

Gemstone CDO VII Corp.
c/o Puglisi & Associates
850 Library Avenue Suite 204
Newark, Delaware 19711

Deutsche Bank Trust Company Americas
1762 East St. Andrew Place
Santa Ana, California 92705

Re: U.S. $244,000,000 Class A-1a Floating Rate Notes Due December 2045 (the "Class A-1a Notes")
U.S. $400,000,000 Class A-1b Floating Rate Notes Due December 2045 (the "Class A-1b Notes")
U.S. $159,000,000 Class A-2 Floating Rate Notes Due December 2045 (the "Class A-2 Notes")
U.S. $96,900,000 Class B Floating Rate Notes Due December 2045 (the "Class B Notes")
U.S. $68,300,000 Class C Floating Rate Deferrable Interest Notes Due December 2045 (the "Class C Notes")
U.S. $55,100,000 Class D Floating Rate Deferrable Interest Notes Due December 2045 (the "Class D Notes")
U.S. 18,700,000 Class E Floating Rate Deferrable Interest Notes Due December 2045 (the "Class E Notes")

Ladies and Gentlemen:

At your request, Moody's Investors Service has reviewed for rating purposes the information submitted to Moody's in connection with the issuance of the above-captioned Notes. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Indenture dated as of March 15, 2007 among Gemstone CDO VII Ltd., as Issuer, Gemstone CDO VII Corp. as Co-Issuer and Deutsche Bank Trust Company Americas, as Trustee (the "Indenture").

Based upon the information submitted, Moody's has assigned the following ratings to the Notes: **"Aaa" to the Class A-1a Notes, "Aaa" to the Class A-1b Notes, "Aaa" to the Class A-2 Notes, "Aa2" to the Class B Notes","A2" to the Class C Notes, "Baa2" to the Class D Notes and "Ba1" to the Class E Notes.**

The rating assigned to the Notes addresses the ultimate cash receipt by the Noteholders of all required interest and principal payments as provided by the Notes governing documents. The ratings are based on the expected loss posed to the Notes relative to the promise of receiving the present value of such payments. The ratings are also based upon the legal structure of the transaction and the characteristics of the Underlying Assets.

Moody's will publish notice of the ratings and will monitor the ratings. The ratings are subject to reconsideration at Moody's sole discretion. The ratings are contingent upon receipt by Moody's, within 30 days of the date of this letter, of all executed documents in electronic format (e.g. Acrobat PDF).

Very truly yours,

Stephen G. Lioce
Vice President and Senior Credit Officer

Gary Lo
Senior Associate

TOTAL P.02

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1484

STATE OF NEW YORK
SUPREME COURT : COUNTY OF ERIE

M&T BANK CORPORATION
One M&T Plaza
Buffalo, New York 14203

Plaintiff,

v.

Index No. 2008007064

GEMSTONE CDO VII, LTD.
c/o Deutsche Bank (Cayman), Ltd.
P.O. Box 1984
Grand Cayman KY1-1104

SUMMONS

GEMSTONE CDO VII CORP.
c/o Donald Puglisi
850 Liberty Avenue, Suite 204
Newark, Delaware 19711

FILED
ACTIONS & PROCEEDINGS
JUN 16 2008
ERIE COUNTY
CLERK'S OFFICE

DEUTSCHE BANK SECURITIES, INC.
60 Wall Street
New York, New York 10005

DEUTSCHE BANK TRUST COMPANY AMERICAS
60 Wall Street
New York, New York 10005

DEUTSCHE BANK AG
60 Wall Street
New York, New York 10005

HBK INVESTMENTS, LP
300 Crescent Court
Dallas, Texas 75201

HBK PARTNERS II LP
300 Crescent Court
Dallas, Texas 75201

HBK MANAGEMENT LLC
300 Crescent Court
Dallas, Texas 75201

Defendants.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1487

TO DEFENDANT(S):

YOU ARE SUMMONED to appear in this action by serving your answer to the complaint on the plaintiff's attorney within the time limits stated below.

Erie County is designated as the county where this action will be tried, because one or more of the parties to this action resides in that county. If this action is based upon a consumer credit transaction, that county is designated because one or more of the defendants resides in that county or because the transaction sued upon occurred in that county.

TIME LIMITS TO ANSWER:

(1) If this summons is served by delivery to you personally within New York State, you must answer the complaint within TWENTY (20) days after such delivery.

(2) If this summons is not served by delivery to you personally within New York State, and not served pursuant to CPLR 312-a, you must answer the complaint within THIRTY (30) days after service is complete.

(3) If this summons is served pursuant to CPLR 312-a, see accompanying STATEMENT OF SERVICE BY MAIL for time limits to answer.

IF YOU FAIL TO ANSWER THE COMPLAINT within the time stated, judgment will be entered against you for the relief demanded in the complaint.

Dated: Buffalo, New York
June 16, 2008

HODGSON RUSS LLP
Attorneys for M&T Bank Corporation

By _____
Robert J. Lane, Jr.
Jodyann Galvin
The Guaranty Building
140 Pearl Street, Suite 100
Buffalo, New York 14202
Telephone: (716) 856-4000

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STATE OF NEW YORK
SUPREME COURT : COUNTY OF ERIE

M&T BANK CORPORATION,

Plaintiff

v.

Index No. 2008007064

GEMSTONE CDO VII, LTD.; GEMSTONE CDO VII CORP.; DEUTSCHE BANK SECURITIES, INC.; DEUTSCHE BANK TRUST COMPANY AMERICAS; DEUTSCHE BANK AG; HBK INVESTMENTS, LP; HBK PARTNERS II LP; and HBK MANAGEMENT LLC,

Defendants.

FILED
ACTIONS & PROCEEDINGS
JUN 16 2008
ERIE COUNTY
CLERK'S OFFICE

COMPLAINT

M&T BANK CORPORATION, by its attorneys, Hodgson Russ LLP and Kornstein Veisz Wexler & Pollard, LLP, alleges for its complaint:

Parties

1. M&T Bank Corporation ("M&T") is a New York corporation with its principal office at One M&T Plaza, Buffalo, New York 14203.

2. Defendant Gemstone CDO VII, Ltd. ("Gemstone Ltd.") is a Cayman Islands limited partnership with its principal office at c/o Deutsche Bank (Cayman), Ltd., P.O. Box 1984, Grand Cayman KY1-1104. Gemstone Ltd. is the issuer of the notes sold to M&T which are the subject of this action (the "Gemstone VII notes").

3. Defendant Gemstone CDO VII Corp. ("Gemstone Corp.") is a Delaware corporation with its principal office at c/o Donald Puglisi, 850 Liberty Avenue, Suite 204,

Newark, Delaware 19711. Gemstone Corp. is the co-issuer of the Gemstone VII notes.

4. Deutsche Bank Trust Company Americas ("Deutsche Bank Trust") is a New York banking corporation with its principal office at 60 Wall Street, New York, New York. Deutsche Bank Trust acted as trustee of the trust formed to hold and administer the collateral underlying the Gemstone VII notes (the "Gemstone Trust").

5. Defendant Deutsche Bank Securities, Inc. ("DBSI") is a Delaware corporation with its principal office at 60 Wall Street, New York, New York. DBSI is a registered broker-dealer, and it was the direct seller to M&T of the Gemstone VII notes. DBSI is the owner of a Class A-1b note. The Class A-1b notes are referred to in the Gemstone VII offering circular and in the indenture for the Gemstone Trust as the "Controlling Class." The Controlling Class noteholders have rights superior to M&T, including higher priority to interest and principal and rights to determine whether the Gemstone Trust collateral is liquidated under certain circumstances.

6. Deutsche Bank AG is a German corporation with an office at 60 Wall Street, New York, New York. Deutsche Bank AG acted as counterparty on the credit default swaps which constituted $600 million of the collateral for the Gemstone VII notes.

7. HBK Investments, LP ("HBK") is a Delaware limited partnership with its principal office at 300 Crescent Court, Dallas, Texas 75201, and with an office at 350 Park Avenue, New York, New York. HBK is the collateral manager for the Gemstone VII trust. HBK is also the owner of the $18.7 million Class E note and (together with DBSI) $400 million in Class A-1b notes issued by the Gemstone Ltd. and Gemstone Corp.

8. HBK Partners II LP ("HBK Partners") is a Delaware limited partnership with its principal office at 300 Crescent Court, Dallas, Texas 75201. HBK Partners is a general partner of HBK.

9. HBK Management LLC ("HBK Management") is a Delaware limited liability company with its principal office at 300 Crescent Court, Dallas, Texas 75201. HBK Management is a general partner of HBK Partners.

Summary of this Action

10. This action seeks recovery of more than $82 million of losses suffered by M&T as a result of a fraud and other wrongful conduct by DBSI, HBK, and their affiliates. Between early 2004 and 2007, DBSI and HBK marketed several series of notes known generically as "collateralized debt obligations" ("CDOs"), primarily under the name "Gemstone," representing that these notes were safe, secure, and nearly risk-free. On February 21, 2007, DBSI sold to M&T two Gemstone VII notes, each due December 12, 2045: (1) a Class A-2 note in the amount of $42 million, which was rated AAA by Standard & Poor's ("S&P") and which paid interest at the annual rate of 1-month LIBOR plus .47% (initially 5.82%); and (2) a Class B note in the amount of $40 million, which was rated AA by S&P and paid interest at the annual rate of 1-month LIBOR plus .68% (initially 6.03%). On February 21, 2007, 30-day U.S. Treasury bills, which were essentially risk-free, paid 5.253% annual interest; 30-day commercial paper from a high-grade corporation such as General Electric paid 5.23% annual interest and 1-month LIBOR, which is generally assumed to represent AA-rated bank debt, paid 5.32% annual interest. The Gemstone VII notes purchased by M&T were marketed by defendants as providing a higher interest rate than Treasury bills or high-grade corporate bonds, with a risk level lower

than high-grade bonds and approaching the risk-free level of Treasury bills.

11. While the representation that the Gemstone VII notes were safe, secure, and nearly risk-free may or may not have been true for earlier Gemstone CDOs, it was entirely false for the Gemstone VII notes sold to M&T in February 2007. By February 2007, DBSI and HBK had dramatically reduced the underwriting standards and due diligence performed in selecting and assembling the collateral underlying the notes they marketed. This reduction in underwriting and due diligence standards was not disclosed to M&T. As a result of their reduced underwriting and due diligence standards, defendants were able to structure the Gemstone VII CDO with impaired and non-conforming collateral, directly contrary to their representations that the Gemstone VII notes were a safe, secure, and nearly risk-free investment.

12. Defendants marketed the Gemstone CDO offerings, including Gemstone VII, by emphasizing the ratings awarded to the Gemstone notes by S&P and Moody's — the two leading debt rating companies. M&T's Class A-2 note was rated AAA by S&P and Aaa by Moody's. These are the highest ratings for safety and ability to repay. M&T's Class B note was rated AA by S&P and Aa2 by Moody's. These are the second highest ratings for safety and ability to repay. Defendants knew that these ratings were misleading and inflated, because defendants had withheld from the rating agencies material information about the quality and default problems defendants were experiencing with subprime collateral under their control in late 2006 and early 2007. Upon information and belief, defendants also withheld from the rating agencies information about the extent and scope of fraud and other problems with their subprime loan-backed portfolios and that subprime originators were refusing to stand behind their contractual warranties relating to such loans. Upon information and belief, if this information

had been disclosed to the rating agencies, the notes purchased by M&T would have received lower ratings, and M&T would not have purchased them.

13. Among the other material misrepresentations made by defendants in marketing the Gemstone VII notes to M&T were:

a. The Gemstone VII notes were sold as safe, secure, and nearly risk-free investments, similar to (but safer than) high-grade corporate bonds. In fact, defendants were aware, and failed to disclose, that the collateral underlying the Gemstone VII notes was impaired and rapidly deteriorating at the time the notes were offered for sale.

b. Defendants represented that they applied stringent underwriting standards in assembling and selecting the subprime mortgage collateral underlying the Gemstone VII notes and that they performed extensive, detailed, and state-of-the-art loan level and market due diligence in assembling and selecting that collateral, utilizing proprietary analytical systems and tools. Defendants marketed these features as assuring the safety and strong performance of the Gemstone VII notes. In fact, defendants knew that their underwriting standards and due diligence efforts had declined substantially from the earlier Gemstone offerings and that, as a result, the collateral underlying the Gemstone VII notes was impaired and deteriorating.

c. Defendants represented that HBK possessed unique and

extraordinary skills as a collateral manager, which ensured the high quality of the Gemstone VII notes and the strong performance of its collateral.

d. Defendants represented that the ratings assigned to the Gemstone notes by independent ratings agencies (S&P's and Moody's) were objective and reliable indicators that the Gemstone notes had the highest degree of safety. The Class A-2 note purchased by M&T was rated AAA by S&P and Aaa by Moody's. The Class B note purchased by M&T was rated AA by S&P and Aa2 by Moody's. In soliciting M&T, defendants emphasized that these ratings indicated that the notes M&T purchased were high-quality, low-risk investments and that the capacity of the issuer to meet all commitments under the notes was "extremely strong" and/or "very strong." In fact, defendants actually negotiated the structure of the Gemstone VII offering with the rating agencies with a specific view toward obtaining particular ratings for classes of notes for marketing purposes. Defendants knew that the ratings they obtained for the Gemstone VII notes were fraudulent and false, overstated the safety and security and understated the risk of the notes, and did not accurately reflect the impaired and deteriorating quality of the collateral underlying the Gemstone VII notes.

e. Defendants represented that the structure of the Gemstone VII

CDO provided a high degree of safety, due to the overcollateralization and tranching of the CDO. "Overcollateralization" means that there was more collateral than necessary to pay the senior and mezzanine-level notes. "Tranching" refers to the fact that the Gemstone VII notes were organized by level of seniority (or "tranche"). Because the claims to interest and principal of the less senior notes were subordinated to the claims of the more senior notes, any losses would be borne entirely by the less senior notes until their investment was exhausted. This structure was marketed as conferring a high-degree of safety on the more senior notes (such as the notes purchased by M&T).

14. In fact, all of these representations were false. The structure of the Gemstone VII CDO did not ensure its safety; that structure did not and could not protect it from massive losses. The ratings given the Gemstone VII notes by S&P and Moody's were not indicative of safety; defendants had misrepresented the collateral underlying the notes to the ratings agencies and the Gemstone VII notes did not objectively earn the ratings that defendants touted in their marketing. Defendants' representations that HBK had conducted extensive due diligence to eliminate problem loans was simply false; HBK was aware that there was a substantial percentage of non-conforming mortgages underlying the Gemstone VII collateral. Finally, the representations that HBK's alleged management skills conferred safety on the Gemstone VII notes was false; HBK and DBSI knowingly and intentionally included low-quality and unstable collateral in the Gemstone VII offering for the purpose of closing the offering and

earning fees.

FACTS RELEVANT TO M&T'S CLAIMS

Background of the Subprime Mortgage Market and CDOs

15. Prior to 2003, the subprime sector of the mortgage market was relatively small, consisting of only 8% of originated mortgages. In 2003, that figure rose to 18%. In 2005 and 2006, subprime mortgages consisted of 20% of all originated mortgages. By 2007, there was $1.3 trillion in outstanding subprime mortgage debt, $600 billion of which was originated in 2006.

16. Prior to 2002, subprime mortgage-backed securitizations involved the issuance of bonds backed by subprime mortgages or the sale of interests in trusts that held subprime mortgages. In 2002, it became more common for the financial services industry to package subprime mortgages into CDOs. CDOs are entities that issue debt securities (often notes) collateralized by other debt instruments (typically bonds, loans, or other financial obligations) which generate a stream of cash flows in the form of interest payments, as well as a return of principal. The cash flow from the collateral is used to repay the notes issued by the CDO. The purchase of securities issued by the CDO is essentially a purchase of a right to participate in the cash flows from the collateral portfolio owned by the CDO.

17. CDOs are distinguished from simpler mortgage-backed securities, such as bonds, by a number of features. First, CDOs typically own a large number of separate mortgage backed bonds; the Gemstone VII CDO, for example, owns approximately 105 mortgage or loan-backed bonds. CDO promoters marketed this as an advantage, claiming that the number of different bonds comprising the collateral provides "diversification," that there is little default

correlation among the bonds, and that this contributes to safety. Second, CDOs are structured into different levels (or "tranches") of risk. Investors who buy debt in the bottom tranche receive higher interest, but their interest is the first to be impaired on default. The rights of the lower-level tranches to receive interest payments are subordinate to the rights of the higher-level tranches to receive their interest payments. Investors who purchase notes from the higher tranches are paid less interest, but in return receive a higher degree of safety. In essence, the principal and interest that should be available to pay the lower tranches if the collateral performs as projected acts as "back-up" collateral for the higher tranches. This is referred to as "overcollateralization," and it acts as credit enhancement supporting the higher tranches. This structure allowed CDO issuers to sell notes that were AAA rated to investors seeking a high degree of safety and to sell notes that were rated below investment grade to investors seeking high returns.

18. While subprime mortgage originations rose dramatically from 2001 through 2005 (from $120 billion to over $625 billion), the demand for subprime mortgages as collateral for securitizations grew even more quickly. The investment banking industry had created flexible debt products that it marketed to fill the needs of institutional investors with a wide range of investment goals, from those seeking relatively high returns with moderate risk to those seeking a high degree of safety with more moderate returns. The AAA and AA rated tranches (which accounted for far more than half of the value in a typical subprime CDO offering) were marketed as alternatives to high-grade corporate bonds and other fixed-income securities, offering equal or greater safety and modestly higher returns.

19. The demand for subprime mortgage-backed bonds (both for direct sale and

to serve as collateral in CDOs) was so strong that by 2004 it was common for more than half of the collateral underlying a CDO to be made up of derivatives known as "credit default swaps," the performance of which mirrored an identified group of subprime mortgage-backed bonds (known as "Reference Obligations"). A "credit default swap" is a securities derivative under which one party sells credit insurance to another (known as the "credit default swap counterparty"). In return for a premium or stream of premium payments, the seller of the credit default swap agrees to pay the counterparty any shortfall in interest or principal payments that occurs as a result of any default in payments under the Reference Obligation. While the purchase of a credit default swap could be part of a plan to hedge the risk of default on a bond owned by the counterparty, the counterparty need not own the Reference Obligation and could be purchasing the credit protection purely as a speculative investment strategy.

20. The premiums received in return for selling credit default swaps become additional collateral that are reinvested by the CDO to generate increased cash flow to pay interest and principal pursuant to the CDO's terms for each tranche. The effect of selling credit default swaps is to create "virtual" investments in the subprime mortgage-backed bonds identified as Reference Obligations. There was a secondary motivation for utilizing credit default swaps in CDOs. It made it easier to assemble the required collateral for closing the CDO offering. For example, if 50% of the CDO collateral was credit default swaps, then the value of actual cash bonds to be purchased was reduced by half.

21. In retrospect, the widespread use of credit default swaps in place of actual cash bonds (which were in short supply) was indicative of an industry that was growing recklessly and speculatively, without proper controls. Out of the approximately $1.1 billion

raised in the Gemstone VII offering, $600 million was committed as potential security for credit default swaps.

M&T's Investment Decision

22. In early 2007, M&T's Treasury Department began investigating the possibility of investing in mortgage-backed CDOs. M&T contacted a number of broker-dealers and gathered information on several different CDO offerings. One of the broker-dealers was DBSI, which had a long-standing relationship with M&T. Sean Whelan, a salesman at DBSI, provided M&T with general information regarding the Gemstone VII CDO (all positive in nature).

23. The Gemstone VII CDO comprises two entities: Gemstone Ltd. (the "Issuer") and Gemstone Corp. (the "Co-Issuer"). All shares of the Issuer are owned by a Deutsche Bank Cayman Islands affiliate. All shares of the Co-Issuer are owned by the Issuer. Thus, the Issuers of the Gemstone VII notes are Deutsche Bank affiliates. The Gemstone VII notes were sold by the Issuers to DBSI for re-sale to investors like M&T. Accordingly, Mr. Whelan was selling a deal that was essentially a proprietary product formed and owned by Deutsche Bank and its affiliates.

24. In early February 2007, M&T met with HBK Investments at its 350 Park Avenue offices to discuss the Gemstone VII CDO. At that meeting or shortly afterward, M&T was provided with a copy of the preliminary offering circular and a document entitled: "Gemstone CDO VII Ltd. — Debt Investor Presentation," dated February 8, 2007. These documents, which are collectively referred to as the "Gemstone offering materials," contain numerous representations about the structure of the Gemstone VII CDO and the risk level

associated with each of its tranches.

25. M&T placed its order for $82 million in Gemstone VII notes on February 21, 2007. In deciding to invest in the Gemstone VII CDO, M&T relied on the Gemstone offering materials, the ratings of the Gemstone VII notes, and oral representations by DBSI and HBK Investments. M&T purchased a $42 million Class A-2 note (AAA rated) and a $40 million Class B note (AA rated).

26. According to S&P, a AAA rating is defined as follows:

> "An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meets its financial commitment on the obligation is extremely strong."

S&P defines a AA rating as follows:

> "An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong."

27. S&P represents that its long-term issue credit ratings are based on: (1) likelihood of payment — capacity and willingness of the obligor to meets its financial commitment on an obligation in accordance with the terms of the obligation; (2) nature of and provisions of the obligation; and (3) protection afforded by, and relative position of, the obligation in the event of bankruptcy. S&P further represents that "issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of a default." Finally, in explaining its ratings, S&P indicates that an "issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific

financial obligation, a specific class of financial obligations, or a specific financial program. . . . It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion evaluates the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could effect ultimate payment in the event of a default."

28. The AAA and AA ratings were major considerations in M&T's determination to invest in the Gemstone VII notes, because they indicated that the notes were safe, stable, and nearly risk-free investments. DBSI and HBK represented, expressly and/or impliedly, that the ratings were accurate and based on access by the rating agencies to the Gemstone VII financial information, including information about the collateral portfolio, and that all material information was provided to the rating agencies. In marketing the Gemstone VII notes based substantially on their S&P and Moody's ratings, DBSI, HBK, and the Issuers were representing that those ratings were accurate and were based on complete information.

29. This is further supported by the fact that the rating agencies were directly involved in the process of structuring the Gemstone series of CDOs. An issuer seeking an S&P or Moody's rating provides a preliminary deal structure to the ratings agencies, advising which rating it seeks to procure for each tranche. In response, the ratings agencies will provide feedback, indicating that additional credit support is (or is not) necessary to obtain the desired rating.

Representations in the
Gemstone VII Offering Circular

30. The Gemstone VII offering circular (the "GOC") states that the "net

proceeds from the issuance and sale of the Notes . . . will be used by the Issuer to purchase a diversified portfolio of interests in Underlying Assets having the characteristics described herein." GOC at 106. The offering circular describes the Underlying Assets as "Asset-Backed Securities" (*e.g.*, bonds) and "Synthetic Securities," consisting of credit default swaps. GOC at 109, 122. With respect to Synthetic Securities, the S&P or Moody's rating shall be the rating of the underlying Reference Obligation. GOC at 66-67. The offering circular further states that there are certain "Collateral Quality Tests" that "will be used to establish that the characteristics of the Issuer's portfolio on the Closing Date satisfy certain threshold levels." There are six Collateral Quality Tests, four of which rely upon S&P and Moody's ratings for the Underlying Assets. GOC at 132-33.

31. The offering circular also describes various "overcollateralization" tests, which measure the excess value of the collateral supporting each of the notes over the outstanding principal balance of the notes; the greater the excess, the safer the notes. M&T purchased Class A-2 Notes and Class B Notes. The Class A/B overcollaterization test requires that the Net Outstanding Underlying Asset Balance divided by the aggregate outstanding principal amount of the Class A and Class B notes be at least 117.37%. GOC at 72. As of March 31, 2008, the Class A/B overcollateralization ratio was 70.09% — over 40% below the required overcollateralization value.

32. The calculation of the "Net Outstanding Underlying Asset Balance" is reliant upon S&P and Moody's ratings for the underlying asset-backed securities or Reference Obligations. GOC at 66-67. For example, Underlying Assets with an S&P rating of B+, B, or B- are valued at 80 percent of their actual aggregate principal/notional balance. Underlying

Assets rated below B- are valued at 70 percent of their actual aggregate principal/notional balance. If the portion of Underlying Assets rated BB+, BB, or BB- exceeds 8.6 percent of the portfolio, then the aggregate principal/notional balance of such assets shall be deemed to be equal to 90 percent of the actual aggregate principal/notional balance. GOC at 67. The offering circular states that the S&P and Moody's ratings of the Class A-2 notes and Class B notes purchased by M&T would be AAA/Aaa and at least AA/Aa2, respectively. GOC at 22.

33. Thus, taken in its entirety, the offering circular makes clear that the Gemstone VII notes were marketed with an overriding emphasis on the S&P and Moody's ratings of the notes and the representations of safety and low risk conveyed by those ratings.

Representations in the Gemstone CDO Debt Investor Presentation

34. The February 8, 2007 Gemstone CDO "Debt Investor Presentation" ("DIP") contains a number of material representations. Some of these are set forth below.

- HBK is an "experienced CDO manager with a ***strong alignment of economic interest with investors***." DIP at 5 (emphasis added).
- HBK represented to M&T that it selected the collateral underlying the Gemstone VII CDO in three ways: (1) loans were screened, purchased from originators, and packaged into pools that were securitized in the form of bonds by investment banks working with HBK (such as Deutsche Bank); (2) HBK purchased new issue bonds after extensive loan-level due diligence; and (3) HBK purchased existing bonds on the secondary market. DIP at 29-30.
- "HBK's investment process integrates expertise in capital markets, structural analysis, collateral and loan-level analysis, due diligence, and in-house surveillance. ***HBK is seen as not as trader, but as a vigilant investor that maximizes value through intensive analysis and surveillance***." *Id.* (emphasis added).
- "Structured products [like the Gemstone VII CDO] exhibit relatively stable performance and low default history." . . . "Structured products

[like the Gemstone VII CDO] have historically priced and continue to price wider than similarly rated due to liquidity and complexity premium that can be arbitraged through buy-and-hold cash flow CDO structure." DIP at 5. ***This is a statement that CDO products like Gemstone VII deliver higher returns at lower risk.***

- Page 14 of the DIP contains a chart entitled "Breakeven Analysis." It indicates that the cashflow waterfall of the Gemstone VII CDO produces enough excess interest ***to withstand cumulative losses of $517 million (47% of the original collateral balance)*** without any impact on interest or principal payments under the M&T notes. This represents that the notes were safe and secure investments.

- "HBK's Structured Products Group is one of the leading purchasers and long-term investors in credit sensitive mortgages . . . HBK's investment model utilizes ***proprietary*** default, prepay, and severity loan level models to make investments in the residential market. . . . HBK has retained 100% of the equity from CDO transactions ***resulting in strong alignment of interest between HBK and investors***." DIP at 23 (emphasis added).

- HBK "focus[es] on [the] new issue market" and "purchases loans directly from originators." DIP at 29. "HBK analyze[s] originators for underwriting consistency and [to] monitor changes to the competitive landscape." DIP at 29.

- HBK "conduct[s] ***due diligence of underlying loan collateral*** to formulate investment assumptions," and it develops loan level models, with delinquency and default forecasts, loss severity forecasts, and prepayment forecasts. DIP at 30 (emphasis added).

- HBK conducts ***"loan level due diligence and analysis"*** (DIP at 32), and HBK "aggressively pursues exit strategies when investments underperform, ***especially where fraud is a factor***" (DIP at 31) (emphasis added). HBK "monitors collateral performance and measures it to original and subsequent default on loss assumptions." *Id.* This represents that HBK will protect noteholders against originator and mortgagor fraud.

- HBK performs detailed ongoing due diligence, monitoring, and surveillance, together with analysis of the collateral to identify potential losses and to mitigate losses, all using proprietary analytical systems. DIP at 33-37.

- HBK's "proprietary Default/Prepay and Severity MSA-level model allows for predictive power of future deal performance. . . . HBK is able to pick up on trends ***before they adversely impact the CDO***." DIP at 41 (emphasis added).

- "HBK works with dealers and originators to ***customize pools by kicking out problem loans***." DIP at 41 (emphasis added). "Because all whole loan packages and every primary deal issued in the market is analyzed, in addition to our own ***loan level surveillance systems***, HBK is able to pick up on trends before they adversely impact the CDO." DIP at 41 (emphasis added).

Oral Representations by DBSI and HBK

35. In conversations with M&T beginning in January 2007, DBSI salesman Sean Whelan touted the high quality of the Gemstone VII CDO and its management team, indicating that it was far superior to any other available CDO. Mr. Whelan also represented that HBK was an extraordinarily experienced purchaser of credit instruments, that HBK provided extremely high quality and low-risk credit management, that HBK had its own money in the Gemstone VII deal and that this protected M&T, and that the Gemstone VII collateral was very clean, *i.e.*, of high quality and safety.

36. Mr. Whelan also made the following representations to M&T:

a. In a February 6, 2007 conversation, Mr. Whelan represented that HBK does constant maintenance and surveillance on the market and makes numerous technological investments in its collateral evaluation and monitoring processes; that investing in Gemstone VII "was like a layup . . . it would've been my number 1 pick, and we're happy to be doing a deal for him."

b. In a February 7, 2007 phone call with M&T, Mr. Whelan explained the structure of Gemstone VII and said it will go extremely well.

c. In a February 13, 2007 phone call with M&T, Mr. Whelan stated that "HBK . . . wouldn't buy stuff that didn't have good interest rate cap protection" and the "underlying structures in these bonds are built to withstand" adverse conditions.

d. In a February 14, 2007 phone call with M&T, Mr. Whelan "assures" M&T that "HBK understands where the market is," and he describes the Gemstone VII deal as being "in the upper end of good assets."

e. In a February 15, 2007 phone call with M&T, Mr. Whelan described the Gemstone VII deal as having no interest rate risk and no derivative risk, and generally low risk.

f. In a February 20, 2007 phone call with M&T, Mr. Whelan states that the Gemstone VII deal has $10 million of Class B notes left to sell, but the AAA mezz level is "two times over[sold] and fully rock solid."

37. On February 21, 2007, M&T purchased $82 million of Gemstone VII notes, in reliance on Whelan's representations, the representations in the Gemstone offering materials, the AAA/AA ratings of the notes, and the other representations concerning the notes made by defendants. On March 15, 2007, the Gemstone VII offering closed and the trades pursuant to which M&T purchased its Gemstone VII notes settled.

The Facts Emerge

38. In early July 2007, only ***four months*** after the closing of the Gemstone VII CDO offering, the Gemstone VII notes were placed on negative "Credit Watch" for possible downgrade by S&P. This is strong evidence that the collateral underlying the notes was already impaired and deteriorating before M&T purchased the notes.

39. Beginning in spring 2007, the mortgage-backed bonds that serve as collateral for the Gemstone VII CDO began to suffer numerous and substantial downgrades in their S&P and Moody's ratings. This reflected the increasing default rate on the subprime mortgages underlying those bonds.

40. By July 2007, the subprime mortgage crisis was in full bloom. Housing prices had experienced substantial declines, subprime mortgage default rates were skyrocketing, the rating companies had downgraded a significant number of subprime mortgage-backed bonds and had placed a much larger number on "credit watch" for potential downgrade. Gemstone VII notes had been placed on credit watch for potential downgrade. Concerned about the deteriorating condition of the subprime market, M&T asked for a meeting with HBK.

41. On July 19, 2007, M&T met with Kevin Jenks of HBK. In the meeting, Mr. Jenks, who was HBK's senior collateral manager for Gemstone VII, provided analysis and expressed the conclusion that, while the overcollateralization cushion supporting M&T's notes was eroding, neither M&T's AAA rated note nor its AA rated note were at risk of losing principal or becoming delinquent in interest payments. Mr. Jenks also pointed out that, as the owner of the equity tranche, HBK controlled special servicing rights which allowed it to modify underlying loans, if necessary. HBK hired third-party loan reviewers, such as Clayton Holdings,

to conduct due diligence on any loan that is delinquent for 60 days or more. Mr. Jenks stated that if fraud is uncovered, HBK will force the originator to re-purchase the loan. Mr. Jenks further represented that while some subprime originators lack the financial strength to do so, many originators were still (as of July 2007) able to do so. This information was presented to HBK as proof that its Gemstone VII notes continued to be safe and secure.

42. Prior to purchasing the Gemstone VII notes, M&T was advised by DBSI that it had conducted a stress test concluding that M&T's AA rated Class B note could withstand up to a 14.5% constant default rate with a 50% severity before losing a dollar of principal.[1] Obviously, the AAA rated Class A-2 notes could withstand an even higher default level without losses. This information was presented to M&T as support for DBSI's representation that the Gemstone VII notes were safe, secure, and nearly risk-free. At the July 19, 2007 meeting, Mr. Jenks stated that a 14.5% constant default rate was far greater than projected by HBK, even as of July 2007. HBK predicted an 8% constant default rate, with a 35% severity. Mr. Jenks represented to M&T that would not come close to generating losses for the AA rated notes.

43. On September 21, 2007, Alexander Craig, M&T's Administrative Vice President and Portfolio Manager, met with the new collateral manager for the Gemstone VII CDO, Marco Lukesch. The original collateral manager, Mr. Jenks, had been fired. Upon information and belief, Mr. Jenks was fired because of the disastrous performance of the Gemstone CDOs and, in particular, the Gemstone VII CDO. At the September 21, 2007 meeting, Mr. Lukesch described HBK's business model as: buy a pool of loans, securitize it

[1] The "constant default rate" is the percentage of underlying collateral (bonds backed by subprime mortgages) defaulting on an annual basis. "Severity" is the percentage of principal lost, on average, as a result of defaults. For example, a 35% severity indicates that 65% of the principal amount of defaulted collateral is recovered, by foreclosure and sale or otherwise.

with a Wall Street investment banker, sell the AAA through A bonds, buy the BBB bonds into a CDO, and retain the equity tranche at HBK.

44. At the same meeting, ***Mr. Lukesch disclosed for the first time that HBK had been fighting with one of its largest subprime mortgage originators, Fremont General Corp. ("Fremont"), for 9 months,*** that it had a large number of claims against Fremont and had scheduled a four-day long meeting with it for early October 2007. The disputes with Fremont related to the representations and warranties Fremont provided on loans it originated: it agreed to repurchase loans that defaulted in the first 60 days and loans made on the basis of fraudulent representations by the borrower (usually relating to the borrower's employment status, income, or intention to occupy the mortgaged premises). In essence, the basis of HBK's demands that Fremont repurchase large numbers of loans underlying the Gemstone VII CDO collateral was that these loans did not meet the standards represented to Gemstone VII investors.

45. Mr. Lukesch also stated that ***HBK had been fighting with a total of five originators from which it had purchased loans for the Gemstone CDOs, and that these disputes related to loans that defaulted from the third quarter of 2006 through December 2006.***

46. This information had previously been concealed by HBK and DBSI from M&T, and M&T could not, in the exercise of reasonable diligence, have learned it earlier. These admissions by Mr. Lukesch established that HBK knew in late 2006 — well before the sale of the Gemstone VII notes to M&T — that there were major quality and default problems with the subprime loan collateral underlying the Gemstone CDOs, including the Gemstone VII CDO. In addition, prior to M&T's purchase of the Gemstone VII notes, HBK had major disputes with its

top originators about loan quality and repurchase obligations — indicating that the originators could not be relied on to provide conforming subprime loans or to honor their repurchase obligation with respect to nonconforming loans. Thus, the Gemstone VII notes were much riskier than represented to investors.

47. This was material information that HBK failed to disclose and affirmatively concealed from M&T. Upon information and belief, DBSI, Deutsche Bank Trust, and Deutsche Bank AG were aware of this information due to their proprietary involvement in the prior Gemstone CDOs and their constant communication with HBK. DBSI, Deutsche Bank Trust, and Deutsche Bank AG also failed to disclose and concealed this information from M&T. If M&T had been aware of this information, it would not have purchased the Gemstone VII notes.

48. Upon information and belief, defendants failed to disclose and concealed from the rating agencies the quality and default problems defendants were experiencing with subprime collateral under their control in late 2006 and early 2007. Defendants also failed to disclose and concealed from the rating agencies the problems they were having with subprime originators refusing to honor their repurchase obligations. Upon information and belief, if this information had been disclosed to the rating agencies, the notes purchased by M&T would have been rated lower than AAA and AA, and M&T would not have purchased them.

49. By October 31, 2007 (less than eight months after the Gemstone VII CDO closed), over 53 bonds (of approximately 105 owned by the Gemstone VII CDO) had been downgraded; 24 were listed by the trustee as in default, as defined in the Gemstone VII offering materials.

50. On October 25, 2007, M&T had a phone call with Sean Whelan (DBSI salesman) and Richard Parkus (DBSI analyst). They were negative on the performance of and prospects for the Gemstone VII notes. Parkus indicated his belief that the rating agency loss projection models used to rate M&T's Gemstone VII notes as AAA/AA were simply wrong. He further indicated that there was much greater correlation (and therefore less risk-reducing diversification) among the subprime collateral than had been believed. He questioned whether the Gemstone VII CDO or subprime CDOs in general should have been sold at all.

51. On November 21, 2007, the Gemstone Class B notes were downgraded by S&P from AA to BBB- and the Gemstone Class A-2 notes were downgraded from AAA to AA-.

52. In December 2007, M&T reviewed the status of its investment in the Gemstone VII notes. It sought bids from specialists in an effort to establish a market value for the notes. Based on that effort, M&T wrote down the value of its Gemstone VII notes from $82 million to $1.87 million — a loss of over 95% of the notes' original purchase price in only nine months. As of April 30, 2008, M&T carried its Gemstone VII notes on its books at a value of $1.031 million.

53. On February 5, 2008, less than one year after M&T purchased its notes, the Class B notes were further downgraded to CC and the Class A-2 notes were downgraded to CCC-. An S&P rating of CC means the note "is highly vulnerable to nonpayment." An S&P rating of CCC- means the note is "currently vulnerable to nonpayment" and that "[i]n the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation." The minus sign indicates that the note is at the low end of this rating, close to the CC "highly vulnerable" category. By April 28,

2008, Moody's had downgraded the Gemstone VII Class A-2 notes (originally rated Aaa) to Ca and had downgraded the Class B notes (originally rated Aa2) to Ca.

54. As of April 30, 2008, the Gemstone VII collateral bonds had suffered 167 separate downgrades by S&P and 202 separate downgrades by Moody's. The trustee listed as in default 58 bonds with a face value of over $498 million. The April 30, 2008 trustee's report listed the "Principal Recovery" value of those bonds as $13.6 million — less than 3% of their original value.

55. The radical and rapid downgrade of M&T's notes from the highest possible safety/quality ratings to "junk" status demonstrates that the collateral supporting the notes was impaired and deteriorating prior to M&T's purchase of the notes. HBK and DBSI knew or acted recklessly in failing to know this because:

a. HBK represented that it had performed extensive loan-level due diligence on the collateral, with proprietary state-of-the-art analytical tools.

b. HBK represented that it was carefully monitoring the collateral and would take action to avoid losses by putting non-conforming loans back to originators.

c. The Gemstone offering materials represent that the collateral was owned by and would be purchased from (in part) DBSI and HBK and their affiliates.

56. On January 17, 2008, media reports were published indicating that the

New York Attorney General had reached a deal with Clayton Holdings under which Clayton agreed to cooperate with an investigation into the activities of issuers and underwriters of subprime mortgage-backed securities. Clayton Holdings was the largest provider of subprime loan due diligence services to securitizers and subprime mortgage loan purchasers. The Attorney General is investigating whether issuers and underwriters were aware that the pools of subprime mortgages underlying subprime-backed securities were impaired at the time of sale, whether the ratings assigned to subprime-backed securities were inflated, and whether issuers and underwriters withheld information from the rating agencies that would have materially changed the evaluation of these securities. DBSI was one of Clayton's two largest clients, and HBK was a client of Clayton's as well.

57. HBK advised M&T that Clayton reviewed the subprime loans underlying the Gemstone VII notes.

M&T's Claims

58. M&T's claims are based on the material misrepresentations, inaccuracies, omissions, breaches of duty, and breaches of contract by defendants in connection with structuring, marketing, and selling the Gemstone VII CDO. Some of the principal acts of wrongdoing are described below.

59. On an overall basis, the Gemstone offering materials and the DBSI and HBK sales materials and oral statements, all represented that the notes purchased by M&T were high quality, safe, secure, and nearly risk-free. This was conveyed by means of the AAA/AA ratings, the representation that up to 47% of principal could be lost without impacting the notes, the description of extensive loan-level due diligence and aggressive and innovative collateral

monitoring and management, and the description of the collateral as "diversified," among other things. It is now clear that the representations of safety, security, and low risk conveyed by the Gemstone offering materials and the associated oral statements were false.

60. By the fourth quarter of 2006, at the latest, HBK and DBSI and its affiliates were experiencing substantial problems with non-performing subprime loans that were collateral for the earlier Gemstone CDO deals. They were involved in disputes with at least five subprime mortgage originators about the originators' refusal to honor their contractual obligations to repurchase non-conforming and defaulted loans. Thus, HBK and DBSI and its affiliates had knowledge that the subprime loans purchased from the group of originators they dealt with had quality problems that were resulting in rapidly rising defaults, materially different than the statistical experience from 2003, 2004, and 2005. Yet HBK and DBSI failed to respond by appropriately modifying their default and loss projection models, their due diligence, and their collateral management and administration practices. Accordingly, prior to M&T's February 21, 2007 purchase of the Gemstone VII notes, HBK and DBSI and its affiliates knew that their default and loss projection models were wrong and that their due diligence and collateral management administration practices were inadequate to provide the safety and security that they had represented for the Class A and Class B Gemstone VII notes. None of this information was disclosed to M&T during the sales process for the Gemstone VII notes.

61. The Gemstone VII offering circular discloses that bonds for the collateral pool are purchased from DBSI (or its affiliates) and/or HBK. Upon information and belief, the subprime loans underlying the bonds sold by HBK and DBSI to Gemstone VII were the subject of large numbers of pending repurchase demands to originators. HBK and DBSI failed to

disclose this material information to M&T. This constituted an undisclosed conflict of interest and fraudulent self-dealing.

62. Clayton Holdings is the largest provider of due diligence services reviewing and evaluating mortgage loans for securitizations. Media reports have stated that Clayton began noting, and reporting to securitizers, substantial deterioration in the quality of subprime mortgages as early as the second half of 2005, with problems increasing throughout 2006. For example, the New York Times reported this in a January 27, 2008 article entitled: *Loan Reviewer Aiding Inquiry Into Big Banks.* On January 28, 2008, the Wall Street Journal published a similar article, entitled: *Due Diligence Firm to Aid New York Subprime Probe.*

63. The increasing deterioration of subprime mortgage quality was measured by the percentage of loans categorized by Clayton as "exception loans." An "exception loan" was a loan that did not meet the originator's underwriting standards. With regard to subprime loans, this frequently occurred because the required borrower documentation had not been obtained or because the borrower misrepresented his income, employment status, or intent to occupy the premises. DBSI and its affiliates were among Clayton's largest customers. HBK was also was a customer of Clayton's. Upon information and belief, in 2006, Clayton provided due diligence reports to HBK and DBSI (or its affiliates) that reflected steeply increasing levels of subprime exception loans, fraud, and defaults, and sharply deteriorating subprime loan quality and underwriting. As a result, HBK and DBSI (and its affiliates) had knowledge even before 2007 that the subprime collateral being assembled for the Gemstone VII CDO was deteriorating and impaired. This was not disclosed to M&T. If it had been, M&T would not have purchased the Gemstone VII notes.

64. HBK and DBSI and its affiliates were aware that the loss projection models used in structuring and rating the Gemstone VII CDO tranches and in making the representations set forth in the Gemstone offering materials regarding overcollateralization and credit protection were false. These loss projection models were not modified to properly take account of the deteriorating subprime mortgage market. This was material information that was not disclosed to M&T. If it had been, M&T would not have purchased the Gemstone VII notes.

65. HBK and Deutsche Bank were aware that the ratings assigned to the Gemstone VII CDO tranches and the underlying bonds were inaccurate and inflated and did not accurately represent the level of risk associated with those tranches and bonds. The rating agencies have stated publicly that they were not provided with the Clayton due diligence reports when rating subprime mortgage-backed CDOs and that they would have considered those reports material. Moody's has stated that "the completeness and veracity [of the information provided by subprime issuers to the rating agencies] was deteriorating" in 2006. *Inquiry Focuses on Withholding of Data on Loans,* New York Times, January 12, 2008; *Loan Reviewer Aiding Inquiry Into Big Banks,* New York Times, January 27, 2008.

66. The HBK/DBSI Debt Investor Presentation contains specific and positive representations about the performance of prior Gemstone deals. Because HBK and DBSI were already involved in repurchase disputes with their major originators, these representations were misleading, incomplete, and false at the time they were made.

67. The Gemstone offering materials provided to M&T (particularly, the Debt Investor Presentation) contain detailed representations regarding HBK's due diligence with regard to the collateral underlying the Gemstone VII CDO. These include representations that

HBK "builds" the bond collateral from the bottom up, assembling and evaluating the specific loans and loan pools underlying the bonds. The DIP also indicates that HBK has in place proprietary processes for review and evaluation of loans and that it "kicks back" problem loans to originators before they even enter the pool underlying the bonds purchased for the CDO collateral. Finally, the DIP indicates that HBK may purchase some of the bonds on the open market, but that it will first conduct careful due diligence with regard to the loan pools underlying those bonds. Given the fact that the Gemstone VII subprime collateral began to perform poorly almost immediately after the March 15, 2007 settlement date, it is clear that HBK did not conduct the represented due diligence or that it conducted it and found quality problems with the loan pools, but nevertheless incorporated those loans into the Gemstone VII CDO, without disclosing this to M&T.

68. The Gemstone offering materials repeatedly refer to the collateral underlying the Gemstone CDO as a "diversified portfolio of interests in asset-backed securities." *See, e.g.,* GOC at 5. This represents, among other things, that while there may be losses in individual bonds, there will be no strong correlation in losses among the various bonds in the pool. Loss correlation across the bonds in the Gemstone VII CDO turned out to be very high. It is now evident that the bonds were not truly diversified. They were not appropriately geographically diversified to reduce risk, and they all had common characteristics that made them likely to experience correlated poor performance. All of the bonds, and their underlying loans, were dependent on continued and uninterrupted home price appreciation to avoid default or underperformance. As a result, the bonds were highly correlated and were not diversified, contrary to the false representations in the Gemstone offering materials.

69. M&T learned for the first time in September 2007 that HBK (through an affiliate) owned a major portion of the Class A-1b notes (designated as the "Controlling Class" in the offering circular). M&T learned for the first time in late May 2008 that DBSI owned the balance of the Class A-1b notes. This was material information because it indicates that HBK and DBSI were not able to sell the Controlling Class A-1b notes to outside, independent investors who did not have a proprietary interest in the success of the deal. Instead, DBSI and HBK were required to intervene and purchase the Class A-1b notes themselves to "save" the deal. This information was not disclosed to M&T. If M&T was aware of this, it would not have purchased the Gemstone VII notes.

70. In addition, the Gemstone offering materials contain numerous representations that HBK's financial interests are aligned with the interests of the noteholders, because HBK purchased the equity tranche, which is the lowest rated tranche and the first to suffer loss. In fact, while HBK invested $18.7 million in the Gemstone VII equity tranche, it owned (together with DBSI) $400 million of Class A-1b notes which carry the "Controlling Class" rights and are senior to M&T's Class A-2 and Class B notes. The interests of the Class A-1b noteholders are in conflict with M&T's interests in a default or liquidation scenario because the Class A-1b noteholders have the unilateral right upon an Event of Default to direct that all of the Gemstone VII collateral be sold and that the proceeds be distributed in accordance with certain Event of Default priorities. In that circumstance, it is highly likely that M&T's Class A-2 notes would be paid very little of its outstanding principal and that the Class B note would be paid nothing. This puts the Class A-1b noteholders in conflict with the Class A-2 and Class B noteholders because its interest could be to liquidate the collateral quickly, before further losses, while the Class A-2 and Class B noteholders would prefer to hold the collateral in the

hope that the mortgage market might recover — or at least to continue sharing in interest distributions (which are cut off on liquidation). The conflict of interest of HBK and DBSI, as owners of Class A-1b "Controlling Class" notes, was not disclosed to M&T, and M&T would not have purchased the Gemstone VII notes if it had been.

71. In addition, the fees (approximately $3.1 million per year) and other compensation due to HBK in connection with the Gemstone VII CDO over the life of the CDO far exceeded the value of its equity tranche. This is another way in which HBK's interests conflicted with M&T's.

72. On April 18, 2008, Deutsche Bank Trust issued notice to Gemstone VII noteholders that an Event of Default had occurred. The Gemstone VII CDO failed the Class A-1 overcollateralization test, which provides that if the Class A-1 overcollateralization ratio (as computed pursuant to a formula in the GOC) falls below 100%, an Event of Default occurs. Thus, as of March 31, 2008, the interests of M&T and HBK were concretely adverse in a way that was concealed from M&T at the time it purchased the Gemstone VII notes.

73. Pursuant to section 10.10(b) of the Gemstone VII Indenture, the Issuers were required to obtain a Note Valuation Report from an independent accountant on an annual basis. The 2007 report was due on March 13, 2008 under the terms of section 10.10(b). The Note Valuation Report is required to include detailed information about the performance of the Gemstone VII notes and the underlying collateral. The Issuers are currently in default of their obligations to provide a Note Valuation Report by an independent accountant; the report is nearly three months overdue. This reflects that defendants continue to withhold material information from M&T.

74. Reports published by S&P and Moody's over the last nine months have revealed facts that are contrary to the HBK/DBSI claims in the DIP that rigorous loan-level due diligence was conducted and that poor quality loans were identified and eliminated from the loan pools underlying the Gemstone VII collateral.

a. Gemstone VII was placed on credit watch by S&P in early July 2007 — only ***four months*** after the deal closed. *See S&PCorrect: Global CDO Deals Exposed to Subprime RMBS Reviewed*, July 10, 2007.

b. S&P published a report questioning the "data quality" provided during the rating process by CDO issuers. S&P's analysis indicates that it was provided with inaccurate information "regarding the loan and borrower characteristics" (including FICO scores, LTV, ownership status, etc.).[2] The same report states that underwriting standards declined and misrepresentations increased "in excess of historical precedents and our initial assumptions" with respect to 2006 subprime loan originations. *S&PCorrect: 612 U.P.S. Subprime RMBS Classes Put on Watch Neg; Methodology Revisions Announced*, July 11, 2007. This supports the position that issuers were aware of the declining quality of subprime mortgages but did not disclose it to the ratings agencies.

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[2] A "FICO score" is a method of rating borrower ability to pay. "LTV" is the loan to value ratio, a measure of the likelihood that the mortgage collateral may be sufficient in the event of default.

c. The same S&P report states that S&P's rating methodology for subprime CDOs was revised such that "a higher degree of correlation will be used" in evaluating risk of subprime bonds. This shows that the diversification and non-correlation assumptions underlying the Gemstone VII CDO were false.

d. S&P has reported that "almost 65% of the bonds and indexes that track subprime mortgage debt don't meet the ratings criteria in place ***when they were sold***." In addition, "of the 300 bonds and ABX indexes . . . 190 failed to meet the credit support standard" associated with their ratings and "115 of 120 securities in the BBB or BBB- rated portions of the mortgage-backed securities would have failed S&P's criteria." *S&P, Moody's Masking $200 Billion of Subprime Bond Risk* (Bloomberg, June 29, 2007). This indicates that the ratings assigned to subprime bonds and tranches of subprime CDOs were inaccurate and did not reflect the true level of risk associated with those investments.

e. Even today, the ratings associated with subprime bonds and CDOs are inflated and inaccurate. A recent Bloomberg article indicates that "all but 6 of the 80 AAA [bonds underlying the ABX index] failed an S&P test for investment-grade status, which requires credit support to be twice the percentage of troubled collateral." *Moody's, S&P Defer Cuts on AAA Subprime, Hiding Loss*

(Bloomberg, March 11, 2008). The same article identified, as an example, Deutsche Bank Bond ACE 2005-HE-7 A2D, which was rated AAA in early March 2008, even though 43% of the underlying mortgages were delinquent, 18% of its loans were in foreclosure, 15% of the properties have been seized by lenders, and about 10% had been delinquent for more than 90 days. When this bond was created, Moody's and S&P required capital support to cover a loss rate of no more than 7% for the last three loss categories combined.

f. Subprime bonds issued in 2006 and early 2007 were the "worst performing ever." *Subprime Mortgages Slipping Into Default at a Rapid Pace* (International Herald Tribune, October 8, 2007). This shows that underwriting standards were materially relaxed in 2006 without disclosure to investors and that the quality of loans underlying subprime securities substantially deteriorated during that timeframe, again without disclosure.

75. Other media reports have disclosed additional relevant information reflecting that defendants' representations relating to mortgage quality and due diligence were false.

a. Clayton Holdings, the largest subprime loan due diligence provider and a vendor for HBK and DBSI, estimates that in 2006, 30% of the loans included in securitized portfolios were "exception" loans

(*i.e.*, nonconforming loans which did not meet underwriting standards often due to indicia of fraud); some securitizations contained more than 50% exception loans. *The Securitization Bubble* (National Law Journal, March 17, 2008).

b. Some investment bank securitizers entered into agreements with originators that no more than 2.5% of subprime loans offered for sale would be rejected. *Auditor: Supervisors Covered Up Risky Loans* (National Public Radio Website, May 28, 2008).

c. Between 2001 and 2006, the number of loan review contractors working for Clayton rose from 150 to 900. Clayton's revenues rose from $19 million in 2000 to $239 million in 2006. This sort of growth indicates declining quality of the due diligence reviews that were being conducted. *Sub-Prime Mortgage Watchdogs Kept on Leash* (L.A. Times, March 17, 2008). "As time passed, Clayton executives said, Wall Street firms and their investor customers accepted increasing levels of default and fraud in subprime loans as they grew to trust software designed to offset those risks by charging higher interest rates. . . ." *Id.* These increased risks were not disclosed. This is especially misleading in view of the fact that Gemstone VII was marketed by emphasizing the performance of earlier Gemstone deals, which utilized stricter underwriting standards.

d. "Early in the decade, a securities firm might have asked Clayton to review 25% to 40% of the sub-prime loans in a pool, compared with typically 10% in 2006." *Id.* "Loan buyers who kept the mortgages as an investment instead of packaging them into securities would have 50% to 100% of the loans examined." This shows that underwriting standards declined dramatically in 2006, which was not disclosed to M&T, and that the due diligence representations in the HBK/DBSI offering materials were misleading. It would also show that using the performance of the earlier Gemstone deals to market the Gemstone VII CDO was misleading and fraudulent.

e. Early in the decade, originators would not make subprime loans for more than 80% of a property's value. During 2006, loans for 100% of the home's value were common. *Id.* This decline in underwriting standards was clearly known to HBK and DBSI, but was not disclosed.

f. Adjustable Rate Mortgages: Almost all of the major subprime originators, including those used by HBK and DBSI, evaluated borrowers' "ability to pay" solely on their ability to pay the initial "teaser" rates. Many borrowers were demonstrably unable to pay at the re-set rates. This risk was not disclosed in the Gemstone offering materials. HBK's representations regarding "loan-level"

due diligence indicates that it should have identified, disclosed, and mitigated any risks of this type. There are no disclosures in the Gemstone offering materials regarding the risks attendant to ARM re-sets and whether borrowers will be able to pay the higher rates. Recent media reports have forecast massive defaults in mid-2008 because of borrowers' inability to pay re-set, higher rates. If these risks had been disclosed to M&T, it would not have purchased the Gemstone VII notes.

76. If M&T had been aware of the true facts regarding the Gemstone VII notes, the underlying collateral, the due diligence and underwriting practices relating to the collateral, the ratings of the Gemstone VII notes, the dependence of the notes on continued home price appreciation, the earlier Gemstone deals, or the other matters discussed above, M&T would not have purchased the notes.

77. M&T acted with reasonable diligence in connection with its purchase of the Gemstone VII notes. A reasonably diligent investor would not have discovered defendants' misrepresentations or omissions relating to the notes.

78. M&T's damages from its investment in the Gemstone VII notes were directly caused by the very matters that defendants misrepresented, omitted, and failed to truthfully and completely disclose.

FIRST CAUSE OF ACTION
(Common Law Fraud)

79. Repeats the allegations in paragraphs 1 through 78.

80. As described above, the Gemstone offering materials contain numerous material misrepresentations and omissions. In addition, DBSI and HBK made numerous material oral misrepresentations and omissions to M&T in connection with the Gemstone VII notes, many of which are set forth above in paragraphs 12 and 30-36.

81. Gemstone Ltd. and Gemstone Corp. (as issuers of the Gemstone VII notes) are directly responsible and liable for these misrepresentations and omissions. DBSI, as the broker-dealer that sold the notes directly to M&T, and HBK, as the Collateral Manager, drafted the Gemstone offering materials and directly solicited M&T to purchase the notes. They are liable for their oral misrepresentations and omissions and the misrepresentations and omissions in the Gemstone offering materials. The misrepresentations and omissions by Gemstone Ltd., Gemstone Corp., DBSI, and HBK Investments were intentional and were made with knowledge of their falsity or were (at the very least) reckless.

82. M&T justifiably relied on the misrepresentations described above. The Gemstone VII CDO is an extraordinarily complex financial instrument. It would not have been possible to discover defendants' misrepresentations and omissions without extensive expertise, and unreasonable expenditure of resources to analyze the Gemstone VII CDO and the collateral, all of which M&T justifiably relied on defendants to do. Indeed, defendants solicited M&T to purchase the notes specifically on the basis of their expertise in conducting this sort of due diligence and analysis and sold the fact that investors could rely on them rather than conduct such due diligence themselves.

83. HBK Partners and HBK Management, as general partners of HBK, are liable for HBK's fraud.

84. As a result of the foregoing, M&T is entitled to judgment directing rescission of its purchase of the Gemstone VII notes and directing return to M&T of the purchase price of the notes, together with interest. M&T hereby tenders the notes to DBSI.

85. In the alternative, as a result of the foregoing, Gemstone Ltd., Gemstone Corp., DBSI, , HBK, HBK Partners, and HBK Management are liable to M&T in an amount sufficient to compensate for the damages suffered by M&T as a result of their fraud, which amount exceeds $82 million.

86. In addition, because the fraud of DBSI, Gemstone Corp., Gemstone Ltd., and HBK was intentional, willful, and malicious, M&T is entitled to an award of punitive damages in an amount exceeding $100 million.

SECOND CAUSE OF ACTION
(Aiding and Abetting Common Law Fraud)

87. Repeats the allegations in paragraph 1 through 86.

88. As described in paragraphs 4-5, 19-20, 23, 65, and 69 above, Deutsche Bank Trust, the trustee of the trusts which purchased and held the Gemstone VII collateral, and Deutsche Bank AG, the counterparty on the credit default swaps, provided substantial and material assistance to advance the fraud described in the first cause of action.

89. Because of their affiliation with DBSI and their close, ongoing business relationship with HBK, Deutsche Bank Trust and Deutsche Bank AG had knowledge of the fraud described in the first cause of action and intentionally assisted in its commission.

90. Deutsche Bank Trust and Deutsche Bank AG are liable to M&T for the

damage caused by their unlawful conduct, in an amount exceeding $82 million.

91. In addition, because the unlawful conduct of Deutsche Bank Trust and Deutsche Bank AG was intentional, willful, and malicious, M&T is entitled to an award of punitive damages in an amount exceeding $100 million.

THIRD CAUSE OF ACTION
(Negligent Misrepresentation)

92. Repeats the allegations in paragraphs 1 through 91.

93. Gemstone Ltd., Gemstone Corp., DBSI, and HBK were each aware that its misrepresentations and omissions would be used and relied on by M&T in determining to purchase the Gemstone VII notes.

94. Gemstone Ltd., Gemstone Corp., DBSI, and HBK intended that M&T rely on their misrepresentations and omissions in purchasing the Gemstone VII notes, and M&T did so. If M&T had been aware of the true facts regarding the Gemstone VII notes, the underlying collateral, the dependence of the notes on continued home price appreciation, and the due diligence and underwriting practices relating to the collateral, it would not have purchased the notes.

95. DBSI was the direct seller of the Gemstone VII notes to M&T. HBK, as Collateral Manager for the Gemstone Trust, owed a fiduciary duty to M&T. As issuers of the Gemstone VII notes, Gemstone Ltd. and Gemstone Corp. have a direct contractual relationship with M&T. DBSI and HBK communicated directly with M&T (on behalf of themselves and Gemstone Ltd. and Gemstone Corp.) in making the misrepresentations and omissions described above, in soliciting M&T to purchase the Gemstone VII notes in reliance on their

misrepresentations and omissions, and in procuring and consummating the sale of the Gemstone VII notes based on their misrepresentations and omissions.

96. As a result of the foregoing, M&T is entitled to judgment directing rescission of its purchase of the Gemstone VII notes and directing return to M&T of the purchase price of the notes, together with interest. M&T hereby tenders the notes.

97. In the alternative, as a result of the foregoing, Gemstone Ltd., Gemstone Corp., DBSI, and HBK are liable to M&T in an amount sufficient to compensate for the damage caused by their unlawful conduct, which amount exceeds $82 million.

98. HBK Partners and HBK Management, as general partners of HBK, are liable for its negligent misrepresentations.

FOURTH CAUSE OF ACTION
(Breach of Fiduciary Duty)

99. Repeats the allegations in paragraphs 1 through 98.

100. M&T, as an owner of two of the Gemstone VII notes, is a beneficiary of the Gemstone Trust. Deutsche Bank Trust, as trustee of the Gemstone Trust, owes a fiduciary duty to M&T.

101. HBK, as collateral manager for the Gemstone Trust, owes a fiduciary duty to the Gemstone VII noteholders, including M&T.

102. Deutsche Bank Trust and HBK breached their fiduciary duties to the Gemstone VII noteholders, including M&T, by, among other things, failing to properly monitor the collateral and mitigate losses to the Trust, and by failing to disclose known quality and

performance problems with the subprime loans underlying the collateral and thereby aiding and abetting the fraud of the primary wrongdoers identified in the first cause of action. Finally, HBK breached its fiduciary duties to M&T by making the misrepresentations and omissions referenced in the first cause of action.

103. HBK Partners and HBK Management, as general partners of HBK, are liable for HBK's breaches of fiduciary duty.

104. Deutsche Bank Trust, HBK, HBK Partners, and HBK Management are liable to M&T for the damage caused by their breaches of fiduciary duty, in an amount exceeding $82 million.

105. In addition, M&T is entitled to an accounting of all amounts received by HBK and Deutsche Bank Trust from M&T or in connection with the Gemstone VII notes, together with judgment imposing a constructive trust on all such amounts for the benefit of M&T.

106. In addition, because the breaches of fiduciary duty by Deutsche Bank Trust and HBK were intentional, willful and malicious, M&T is entitled to an award of punitive damages in an amount exceeding $100 million.

FIFTH CAUSE OF ACTION
(Aiding and Abetting Breach of Fiduciary Duty)

107. Repeats the allegations in paragraphs 1 through 106.

108. DBSI, as seller of the Gemstone VII notes, and Deutsche Bank AG, as counterparty on the credit default swaps, aided and abetted the breaches of fiduciary duty by

Deutsche Bank Trust and HBK by knowingly providing material assistance to such breaches of fiduciary duty.

109. DBSI provided that assistance by purchasing the Gemstone VII notes and offering them for sale in an unregistered offering, purportedly under SEC Rule 144A. In addition, the Gemstone offering materials (published in the name of DBSI, among others) were materially false. DBSI was aware of this and participated in making the misrepresentations and omissions contained in those offering materials.

110. Deutsche Bank AG assisted with the breaches of fiduciary duty of Deutsche Bank Trust and HBK by providing $600 million of collateral through the credit default swaps. The Reference Obligations underlying the credit default swaps were subject to the same misrepresentations and omissions regarding inflated ratings, quality and performance, exception loans, dependence on continued home price appreciation, and due diligence and underwriting, as were the cash bonds discussed above. As counterparty on the credit default swaps, Deutsche Bank AG was aware of these misrepresentations and omissions and failed to disclose them. Deutsche Bank AG was aware that its conduct provided material and substantial assistance to Deutsche Bank Trust and HBK in breaching their fiduciary duties.

111. DBSI and Deutsche Bank AG are liable to M&T for the damages caused by their unlawful conduct, in an amount exceeding $82 million.

SIXTH CAUSE OF ACTION
(Breach of Contract)

112. Repeats the allegations in paragraph 1 through 111.

113. On February 21, 2007, M&T and DBSI entered into a contract pursuant to

which M&T purchased, and DBSI sold, the Gemstone VII notes. It was a material term of that contract that the representations made orally by DBSI and HBK and set forth in writing in the Gemstone offering materials were true and correct and that all material information had been disclosed to M&T. DBSI breached its contract with M&T, and breached its implied covenant of good faith and fair dealing in connection with that contract, because the representations made in connection with the sale of the notes were false and DBSI failed to disclose material information to M&T, including without limitation the fact that the notes were a high-risk bet that housing prices in the United States would continue to rise, the fact that the collateral underlying the notes was low-quality and impaired, the fact that the due diligence and monitoring of the Gemstone VII collateral was inadequate, the fact that the loss projection and default models used in the Gemstone VII CDO were unreliable and wrong, the fact that the ratings of the notes were falsely inflated, and the fact that the tranched structure of the notes did not confer the safety benefits represented by DBSI.

114. Deutsche Bank Trust entered into a Indenture Agreement, dated as of March 15, 2007 (the "Indenture") with Gemstone Ltd. and Gemstone Corp. The Indenture Agreement provided, among other things, the terms on which Deutsche Bank Trust acted as trustee of the Gemstone VII collateral. As a Gemstone VII noteholder, M&T was a third-party beneficiary of the Indenture.

115. Under the Indenture, Deutsche Bank Trust agreed, expressly and/or impliedly, to disclose all material information to M&T and that it would exercise its rights under the Indenture and associated agreements (including without limitation the Management Agreement) to protect M&T's interests as a noteholder. Deutsche Bank Trust breached its

contractual obligations under the Indenture, because it did not remove HBK as collateral manager or require HBK to mitigate losses under the Indenture by selling collateral. In addition, HBK breached its obligations under the Indenture by failing to disclose to M&T that the ratings of the Gemstone VII collateral were inflated, the known quality and performance problems with the collateral, that the due diligence and monitoring of the Gemstone VII collateral was inadequate, that the loan loss and default projection models used in the Gemstone VII CDO were unreliable and wrong, and that the collateral was dependent on continued home price appreciation. This conduct also constituted a breach of Deutsche Bank Trust's obligation of good faith and fair dealing under the Indenture.

116. DBSI and Deutsche Bank Trust are liable to M&T for the damages caused by their breaches of contract, in an amount exceeding $82 million.

SEVENTH CAUSE OF ACTION
(General Business Law § 350)

117. Repeats the allegations in paragraphs 1 through 116.

118. The Gemstone offering materials constituted "advertising" under General Business Law § 350. The Gemstone offering materials were prepared and used to solicit investors by defendants Gemstone Ltd., Gemstone Corp., DBSI, and HBK. As discussed above, those materials were materially misleading.

119. The conduct of DBSI and HBK in issuing the Gemstone offering materials violated General Business Law § 350.

120. Gemstone Ltd., Gemstone Corp., DBSI, and HBK are liable to M&T for the damages caused by their unlawful false advertising, in an amount exceeding $82 million.

121. The conduct of Gemstone Ltd., Gemstone Corp., DBSI, and HBK in violating General Business Law § 350 was intentional willful and malicious. As a result, they are liable to M&T for punitive damages in an amount exceeding $100 million.

EIGHTH CAUSE OF ACTION
(General Business Law § 349)

122. Repeats the allegations in paragraph 1 through 121.

123. The Gemstone offering materials were materially misleading, as set forth above.

124. The sale of the Gemstone VII notes was within the scope of General Business Law § 349. It was not an individually negotiated transaction. Upon information and belief, the notes were offered to a wide variety of different purchasers on uniform terms that were not subject to negotiation.

125. The misrepresentations and material omissions in the Gemstone offering materials were likely to (and did) mislead reasonable purchasers acting reasonably under the circumstances.

126. The conduct of Gemstone Ltd., Gemstone Corp., DBSI, and HBK, in soliciting investors and offering the Gemstone VII notes through use of the Gemstone offering materials was in violation of General Business Law § 349.

127. Gemstone Ltd., Gemstone Corp., DBSI, and HBK are liable to M&T for the damages caused by their unlawful conduct, in an amount exceeding $82 million.

128. The conduct of Gemstone Ltd., Gemstone Corp., DBSI, and HBK in

violating General Business Law § 349 was intentional willful and malicious. As a result, they are liable to M&T for punitive damages in an amount exceeding $100 million.

NINTH CAUSE OF ACTION
(Rescission of Contract)

129. Repeats the allegations in paragraphs 1 through 128.

130. As a result of the material misrepresentations and omissions described above, M&T is entitled to judgment rescinding the contract of sale for the Gemstone VII notes and directing DBSI to return the purchase price for the notes, together with interest. M&T hereby tenders its Gemstone VII notes to DBSI.

TENTH CAUSE OF ACTION
(Rescission of Contract/Illegality)

131. Repeats the allegations in paragraphs 1 through 130.

132. The contract of sale pursuant to which DBSI sold the Gemstone VII notes to M&T was unlawful because it included misrepresentations and material omissions in violation of New York and federal law, including the New York Martin Act (N.Y. Gen. Bus. Law § 352-c), General Business Law § 349, General Business Law § 350, and section 17 of the Securities Act of 1933, 15 U.S.C. § 77q, and the regulations promulgated thereunder.

133. Because the contract of sale was illegal, M&T is entitled to judgment rescinding the contract of sale for the Gemstone VII notes and directing return of the purchase price for the notes, together with interest. M&T hereby tenders its Gemstone VII notes to DBSI.

ELEVENTH CAUSE OF ACTION
(Mutual Mistake)

134. Repeats the allegations in paragraphs 1 through 133.

135. M&T pleads this tenth cause of action in the alternative to its contention that DBSI intentionally defrauded it.

136. M&T entered into the contract to purchase the Gemstone VII notes based on the following mistakes of fact:

a. That the collateral underlying the Gemstone VII notes was diversified and not correlated.

b. That the Gemstone VII notes had actually and objectively satisfied the standards to be rated AAA by S&P and Aaa by Moody's.

c. That the same underwriting and due diligence standards had been applied to Gemstone VII as to the earlier Gemstone CDOs.

d. That the overcollateralization and tranched structure of the Gemstone VII CDO would protect M&T's notes from losses or declines in value.

e. That the safety and stability of the Gemstone VII was not dependent upon continuing appreciation of home prices in the United States market.

f. That the safety and stability of the Gemstone VII notes was

commensurate with other debt instruments paying interest at the rate of approximately 3.37% to 3.58%.

g. That the loss and default models applied by the rating companies and by defendants to the Gemstone VII notes were reasonable, accurate, and reliable for predicting the performance of the Gemstone VII notes.

137. If DBSI was also unaware of and mistaken about any of the foregoing facts, then the contract of sale for the Gemstone notes was based upon a mutual mistake of material fact.

138. In that event, M&T is entitled to rescission of that contract and return of its purchase price for the notes, together with interest. M&T hereby tenders the Gemstone VII notes to DBSI.

TWELFTH CAUSE OF ACTION
(Unjust Enrichment)

139. Repeats the allegations in paragraphs 1 through 138.

140. As a result of their fraud and other wrongful conduct, defendants have been unjustly enriched. It would be inequitable and unjust to permit defendants to retain the proceeds of their unlawful conduct.

141. M&T is entitled to judgment directing defendants to disgorge all amounts received as a result of their fraudulent and wrongful conduct in connection with notes sold by Gemstone VII, including without limitation: the proceeds of the sales of the notes, all collateral

management fees, trustee fees, collateral administration fees, amounts received by Deutsche Bank AG as counterparty on credit default swaps, distributions of any type from Gemstone VII, commissions or sales fees, and amounts received from the Gemstone VII CDO in transactions involving the purchase of collateral.

WHEREFORE, M&T demands judgment as follows:

(1) On the first through eighth causes of action, monetary damages in an amount sufficient to compensate M&T for its losses, which amount exceed $82 million.

(2) On the first, third, ninth, tenth, and eleventh causes of action, judgment determining that the contract of sale between DBSI and M&T is rescinded, and directing DBSI to return to M&T the purchase price for the Gemstone VII notes.

(3) On the fourth cause of action, judgment directing an accounting of all amounts received by HBK and DBSI from M&T or in connection with the Gemstone VII notes, together with judgment imposing a constructive trust on all such amounts for the benefit of M&T.

(4) On the twelfth cause of action, judgment directing defendants to disgorge all amounts received as a result of their wrongful conduct in connection with the Gemstone VII CDO.

(5) On all causes of actions, an award of interest, costs and disbursements, and attorneys' fees.

(6) An award of punitive damages in an amount exceeding $100 million.

(7) Such further relief as the Court deems proper.

Date: June 16, 2008

HODGSON RUSS LLP

By _____
Robert J. Lane, Jr.
Jodyann Galvin
Jennifer Mucha
The Guaranty Building
140 Pearl Street, Suite 100
Buffalo, New York 14202
Telephone: (716) 856-4000

and

KORNSTEIN VEISZ WEXLER & POLLARD, LLP
Daniel J. Kornstein
Kevin J. Fee
757 Third Avenue
New York, NY 10017
Telephone: (212) 418-8610

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	A	B	C	D	E	F	G	H
1								
2								
3		Gemstone VII						
4		Summary						
5								
6								
7		DB Contact	Institution	Contact Email	Contact Name	Class	Rating	Allocation
8								
9								($ mm)
10		Class A-1a						
11		R. Oswell	Standard Chartered	Victor.Lohle@uk.standardchartered.com	Victor Lohle	Class A-1a	Aaa/AAA	244
12								244
13		Class A-1b						
14			DB			Class A-1	Aaa/AAA	200
15			HBK	rwish@hbk.com	Rachel Wish	Class A-1	Aaa/AAA	200
16								400.0
17		Class A-2						
18		D. Ludlow	NIB	akakar@nibccm.com	ARJUN KAKAR	Class A-2	Aaa/AAA	30
19		M. George	IKB	uta.kutbis@ikb-cam.de	Uta Kutbis	Class A-2	Aaa/AAA	87
20		S. Whelan	M&T Bank	deborchard@mandtbank.com	Dave Borchad	Class A-2	Aaa/AAA	42
21								159.0
22								
23		Class B						
24		S. Whelan	M&T	deborchard@mandtbank.com	Dave Borchad	Class B	Aa2/AA	40
25		D. Ludlow	NIB	akakar@nibccm.com	ARJUN KAKAR	Class B	Aa2/AA	5
26		S Whelan	Wachovia	james.burke1@wachovia.com	James Burke	Class B	Aa2/AA	20
27			HBK			Class B	Aa2/AA	31.9
28								96.9
29								
30		Class C						
31		D. Ludlow	ACA	aregal@aca.com	Ava Regal	Class C	A2/A	10
32		S Whelan	Wachovia	james.burke1@wachovia.com	James Burke	Class C	A2/A	20
33			HBK	rwish@hbk.com	Rachel Wish	Class C	A2/A	38.3
34								68.3
35								
36		Class D						
37		P. Binks	Commerzbank	mlewis@cbktna.com	Manrice Lewis	Class D	Baa2/BBB	15
38		J. Deaning	TCW	shirley.zheng@tcw.com	Shirley Zheng	Class D	Baa2/BBB	4
39			HBK			Class D	Baa2/BBB	36.1
40								55.1
41								
42		Class E						
43			HBK			Class D	Ba2/BB	18.7
44								18.7
45		Equity						
46			HBK	rwish@hbk.com	Rachel Wish			59.5
47								59.5
48								
49		Total						857.5
50								

CONFIDENTIAL - PRODUCED TO M&T PURSUANT TO PROTECTIVE ORDER

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1487

From: Stuber, Laura (HSGAC)
Sent: Tuesday, November 23, 2010 5:25 PM
To: 'barbara.wright@wellsfargo.com'
Subject: RE: Gemstone VII Information

Yes, thanks very much.

-----Original Message-----
From: barbara.wright@wellsfargo.com [mailto:barbara.wright@wellsfargo.com]
Sent: Tuesday, November 23, 2010 4:53 PM
To: Stuber, Laura (HSGAC)
Subject: RE: Gemstone VII Information

At this point the Gemstone bonds are not anticipated to pay anything, which is why they are currently marked at $0 (i.e., their current market value) in the Longshore III trustee reports. However, the bonds did pay some interest over the years, as set forth on the attached chart. As you can see, the Class B's did pay some interest into Longshore III until recently, on a declining basis. Longshore III has not liquidated, which is why there are still trustee reports; Sagittarius has liquidated and the bonds were worthless at the liquidation, since the Class C's had stopped cash-flowing in 2007. Does this help?

-----Original Message-----
From: Stuber, Laura (HSGAC) [mailto:Laura_Stuber@hsgac.senate.gov]
Sent: Tuesday, November 23, 2010 2:38 PM
To: Wright, Barbara H
Subject: RE: Gemstone VII Information

Barbara,
Hi. I want to make sure I understand what you sent me. Did Longshore receive any return on its $30 million purchase of Gemstone 7? I know you said that the bonds are currently marked at zero, but I wasn't sure if that meant that the mark had changed post liquidation. Please let me know if I'm not understanding this correctly. Thank you.

-----Original Message-----
From: barbara.wright@wellsfargo.com [mailto:barbara.wright@wellsfargo.com]
Sent: Friday, November 19, 2010 3:01 PM
To: Stuber, Laura (HSGAC)
Subject: RE: Gemstone VII Information

Hi Laura. First, I am attaching the most recent trustee's report for the Longshore III transaction which shows the Gemstone 7 bonds marked at $0. (Note that these are not Wachovia's assets (or losses), but are collateral held in a CDO.) I was also able to locate the "missing" $10 million -- SAI purchased $10 million of the Class C's for another CDO it was managing called Sagittarius. Sagittarius went into default and was liquidated and no value was received for the Gemstone 7 bonds at the time of liquidation. I hope this is helpful.

Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1488

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$20MM GEMST 2007-7A B held by Longshore III

Period	Date	Principal	Interest
0	3/15/2007	0	0
1	6/12/2007	0	298,320
2	7/12/2007	0	0
3	8/13/2007	0	0
4	9/12/2007	0	308,711
5	10/12/2007	0	0
6	11/13/2007	0	0
7	12/12/2007	0	322,734
8	1/14/2008	0	0
9	2/12/2008	0	0
10	3/12/2008	0	293,854
11	4/14/2008	0	0
12	5/12/2008	0	0
13	6/12/2008	0	183,042
14	7/14/2008	0	0
15	8/12/2008	0	0
16	9/12/2008	0	177,164
17	10/14/2008	0	0
18	11/12/2008	0	0
19	12/12/2008	0	176,881
20	1/12/2009	0	0
21	2/12/2009	0	0
22	3/12/2009	0	138,938
23	4/14/2009	0	0
24	5/12/2009	0	0
25	6/12/2009	0	102,797
26	7/13/2009	0	0
27	8/12/2009	0	0
28	9/14/2009	0	67,403
29	10/13/2009	0	0
30	11/12/2009	0	0
31	12/14/2009	0	49,529
32	1/12/2010	0	0
33	2/12/2010	0	0
34	3/12/2010	0	46,712
35	4/12/2010	0	0
36	5/12/2010	0	0
37	6/14/2010	0	47,821
38	7/12/2010	0	0
39	8/12/2010	0	0
40	9/13/2010	0	170
41	10/12/2010	0	0

$10MM GEMST 2007-7A C held by Longshore III

Period	Date	Principal	Interest
0	3/15/2007	0	0
1	6/12/2007	0	187,974
2	7/12/2007	0	0
3	8/13/2007	0	0
4	9/12/2007	0	194,478
5	10/12/2007	0	0
6	11/13/2007	0	0
7	12/12/2007	0	0
8	1/14/2008	0	0
9	2/12/2008	0	0
10	3/12/2008	0	0
11	4/14/2008	0	0
12	5/12/2008	0	0
13	6/12/2008	0	0
14	7/14/2008	0	0
15	8/12/2008	0	0
16	9/12/2008	0	0
17	10/14/2008	0	0
18	11/12/2008	0	0
19	12/12/2008	0	0
20	1/12/2009	0	0
21	2/12/2009	0	0
22	3/12/2009	0	0
23	4/14/2009	0	0
24	5/12/2009	0	0
25	6/12/2009	0	0
26	7/13/2009	0	0
27	8/12/2009	0	0
28	9/14/2009	0	0
29	10/13/2009	0	0
30	11/12/2009	0	0
31	12/14/2009	0	0
32	1/12/2010	0	0
33	2/12/2010	0	0
34	3/12/2010	0	0
35	4/12/2010	0	0
36	5/12/2010	0	0
37	6/14/2010	0	0
38	7/12/2010	0	0
39	8/12/2010	0	0
40	9/13/2010	0	0
41	10/12/2010	0	0

$10MM GEMST 2007-7A C held by Sagittarius

Period	Date	Principal	Interest
0	3/15/2007	0	0
1	6/12/2007	0	187,974
2	7/12/2007	0	0
3	8/13/2007	0	0
4	9/12/2007	0	194,478
5	10/12/2007	0	0
6	11/13/2007	0	0
7	12/12/2007	0	0
8	1/14/2008	0	0
9	2/12/2008	0	0
10	3/12/2008	0	0
11	4/14/2008	0	0
12	5/12/2008	0	0
13	6/12/2008	0	0
14	7/14/2008	0	0
15	8/12/2008	0	0
16	9/12/2008	0	0
17	10/14/2008	0	0
18	11/12/2008	0	0
19	12/12/2008	0	0
20	1/12/2009	0	0
21	2/12/2009	0	0
22	3/12/2009	0	0
23	4/14/2009	0	0
24	5/12/2009	0	0
25	6/12/2009	0	0
26	7/13/2009	0	0
27	8/12/2009	0	0
28	9/14/2009	0	0
29	10/13/2009	0	0
30	11/12/2009	0	0
31	12/14/2009	0	0
32	1/12/2010	0	0
33	2/12/2010	0	0
34	3/12/2010	0	0
35	4/12/2010	0	0
36	5/12/2010	0	0
37	6/14/2010	0	0
38	7/12/2010	0	0
39	8/12/2010	0	0
40	9/13/2010	0	0
41	10/12/2010	0	0

From: Farber, Seth [sfarber@deweyleboeuf.com]
Sent: Tuesday, December 07, 2010 8:43 AM
To: Stuber, Laura (HSGAC)
Cc: Farber, Seth; Careiro, Vanessa (HSGAC); Petrella, Christina; Coleman, Ilona
Subject: Re: Another matter

Laura - in response to your question about the ultimate result of Commerzbank's Gemstone VII investment, the investment has been transferred to the Bank's London branch and has been written down to zero. Seth

On Nov 22, 2010, at 10:12 AM, "Stuber, Laura \(HSGAC\)" <Laura_Stuber@hsgac.senate.gov> wrote:

Thanks Seth. I will give you a call after 2:00.

From: Farber, Seth [mailto:sfarber@deweyleboeuf.com]
Sent: Saturday, November 20, 2010 3:59 PM
To: Stuber, Laura (HSGAC)
Cc: Careiro, Vanessa (HSGAC); Petrella, Christina; Coleman, Ilona
Subject: RE: Another matter

Laura - I tried you on Friday at 4 pm, as we discussed, but just got voicemail. If you'd like to follow up on Monday, my schedule is pretty clear after 2pm. Seth

---

Seth Farber

Partner

Dewey & LeBoeuf LLP

1301 Avenue of the Americas

New York, NY 10019

Direct: +1 212 259 7227

General: +1 212 259 8000

Fax: +1 212 259 6333

sfarber@dl.com

www.dl.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1490



greglip@bbotg To: jmcpassport@bbotg
cc:
Subject: Re: Fwd: Wall Street Journal Today Wednesday August 23

08/23/2006
11:31 AM

Message Sent: 08/23/2006 12:31:41
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: JMCPASSPORT@BBOTG|JEREMY COON|PASSPORT MANAGEMENT,| |

yes...as they r buying equity and shorting the single names..a bit deviou=
s..
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 12:27:13

and this chicago fund is rather bearish on housing yes?.....
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 12:24:20

chicago based hedge fund that is buying tons of cdo equity and shorting t=
he
single names...will send u a siiarl trade idea (thought we had discussed =
before)
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:34:58

what is magnetar?
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:34:12

i do indeed when magnetar gets full which is soon it will be off to the r=
aces..
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:32:46

sounds good....we are waiting for some new European funds to come in and =
then
plan on doing some more CDS with you.....u think we have a chance at crac=
king
the infernal CDO bid this fall and actually trading on fundamentals and
widening?
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:30:27

lets make a plan closer to the date
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:28:15

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1496

cool....hope to see ya down there
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:25:22

absolutely...
----- Original Message -----
From: JEREMY COON, PASSPORT MANAGEMENT,
At: 8/23 11:21:53

are you attending the ABS East Nov 5-8?
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 8/23 11:10:41

----- Original Message -----
From: Greg Lippmann <greg.lippmann@db.com>
At: 8/23 11:09:55

August 23, 2006

After the Boom
Housing Slump Proves Painful
For Some Owners and Builders
'Hard Landing' on the Coasts
Jolts Those Who Must Sell;
Ms. Guth Tries an Auction
'We're Preparing for the Worst'

By JAMES R. HAGERTY and MICHAEL CORKERY
August 23, 2006; Page A1
HERNDON, Va. -- For years, real-estate brokers and home builders promised=

that the soaring property market eventually would glide to a soft landing=

.
These optimists predicted that home prices, which had more than doubled i=
n
parts of the country between 2000 and 2005, would continue to rise, but a=
t
a more normal pace of 5% or 6% a year.
It isn't working out that way. The rapid deterioration of the market over=

the past 12 months has caught many homeowners and builders off guard. Som=
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are being forced to cut prices far below what their homes could have
fetched a year ago. It's too early to say how hard the landing will be,
but at a minimum it will be bumpy for many people who need to sell homes.=

And the economy as a whole, buoyed in recent years by the housing frenzy,=

could suffer.
The pain that homeowners and home builders are now feeling follows a
raging national house party. As Americans soured on the stock market afte=
r
the tech bubble burst in 2000, they poured money into real estate, spurre=
d
on by the lowest interest rates in four decades and looser lending
standards. Surging demand created home shortages in California, Florida
and the Northeast. Over the five years ending Dec. 31, average U.S. home
=

prices jumped by 58%, according to a federal housing index.
But mortgage rates began rising and surging inventories of homes for sale=

finally caught up with demand. Though economists had been predicting a
slowdown in housing for years, many homeowners and builders were surprise=
d
by how fast the market changed. "It's just like somebody flipped a
switch," says Lynn Gardner, a real-estate auctioneer who works in Norther=
n
Virginia.
"It would be difficult to characterize the position of home builders as
other than in a hard landing," says Robert Toll, chief executive of luxur=
y
home builder Toll Brothers Inc., which reported yesterday that net income=

fell 19% in the third quarter ended July 31. (See related article2.)
In his 40 years as a home builder, Mr. Toll says, he has never seen a
slump unfold like the current one. "I've never seen a downturn in housing=

without a downturn in employment or... some macroeconomic nasty condition=

that took housing down along with other elements of the economy," he says=

"This time, you've got low unemployment, you've got job creation, you've
=

got a stable stock market and relatively low interest rates."
Joan Guth is one homeowner who was taken by surprise. Last September, she=

put her stately five-bedroom home in Herndon, Va., on the market for abou=
t
$1.1 million. She was confident she would get something near that price,
=

and planned to use the proceeds to buy a retirement home in Florida. But
=

her home in the Washington suburbs attracted few serious lookers, and in
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March, she cut her asking price to $899,900. Still there were no takers.
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Finally, on the advice of her broker, she called in an auction firm,
beginning a process that would eventually reveal to her just how weak the=

Northern Virginia market had become.
In much of the country, property markets began cooling rapidly in the
second half of last year. Home builders were still turning out houses at =
a
rapid clip, and the surge of new and previously occupied homes on the
market convinced buyers there was no need to hurry. Over the past year,
the number of previously occupied homes listed for sale nationwide has
risen nearly 40%. In some metropolitan areas, including Orlando and
Phoenix, the supply has quadrupled.
Investors who during the boom had been snapping up properties from the
outskirts of Phoenix to the slums of Baltimore began dumping them on the
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market, hoping to get out with a profit before it was too late.
The resulting slump, thus far, is being felt mainly on the East and West
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coasts and in Florida, where home prices had soared beyond the average
working family's ability to pay. In California's San Diego County, the
median home-sale price was $487,000 in July, down 1.8% from a year
earlier, according to DataQuick Information Systems, a research firm in
San Diego. Prices in the Northern Virginia counties of Fairfax and
Arlington and in nearby towns, near Washington, averaged $537,731 in July=
,
down 3.9% from a year earlier, according to the Northern Virginia
Association of Realtors.

Joan Guth, outside the Herndon, Va., home she agreed to sell earlier this=

month.

In some other parts of the country, notably Texas and the Seattle area,
local housing markets remain robust. Texas' low housing costs are
attracting new residents and investors, while Seattle's strong job market=

and shortage of homes have kept prices rising.
Nationwide, the median sale price of previously occupied homes in June wa=
s
0.9% higher than it was a year earlier, the smallest year-to-year increas=

e
since May 1995, according to the National Association of Realtors, a trad=
e
group. Over the next few months, the median price may decline from
year-earlier periods, a spokesman for the association says, something tha=
t
hasn't happened since February 1993.
The market may be weaker than the Realtors' widely followed monthly
reports suggest. The group's data don't reflect the latest transactions.
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Its report on July home sales, for instance, due today, will mainly
reflect sales that were agreed upon in May or June and closed in July.
Moreover, when the market turns down, many home sellers initially let
their homes sit instead of cutting prices enough to entice buyers.
Allen Sinai, chief economist at Decision Economics Inc., a New York
research firm, contends that housing is poised for something "harder than=

a soft landing but softer than a hard landing." The weaker market will
hurt the economy by eliminating jobs in construction and other
housing-related fields and by reducing the ability of consumers to financ=
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spending by borrowing against their home equity. Mr. Sinai predicts these=

factors could shave as much as a percentage point off economic growth ove=
r
the next year or so. Taking that into account, he expects the economy to
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grow at a relatively sluggish annual rate of 2.5% to 2.75% in 2007,
compared with 2.5% in this year's second quarter and 5.6% in the first
quarter.
In a speech yesterday, Michael Moskow, president of the Federal Reserve
Bank of Chicago, noted: "While we factor a housing slowdown into our
outlook, there is some evidence -- such as higher rates of cancellation i=
n
home-building contracts -- that the slowdown could be more extensive."
With fewer consumers applying for home loans, some big mortgage lenders
are already retrenching. Countrywide Financial Corp. last month announced=

plans to reduce costs by $500 million. Earlier this year, Washington
Mutual Inc. eliminated 2,500 jobs at loan-processing centers.
Builders, who were optimistic about prospects until a few months ago, are=

cutting back too. KB Home, a big home builder based in Los Angeles, has
eliminated 7% of its work force, or 440 jobs. In July, U.S. home builders=

started construction at an annual rate of 1.45 million single-family
homes, down 20% from the January peak.
Last August, when Horsham, Pa.-based Toll Brothers reported that its
quarterly profit had doubled, Mr. Toll boasted: "We've got the supply, an=
d
the market has got the demand. So it's a match made in heaven." Since
then, Toll has cuts its guidance four times on the number of homes it

expects to close on, and its share price has fallen by more than 45%.
Yesterday, the company said orders for new homes in the third quarter wer=
e
down 48% from a year earlier.
Mr. Toll blames a "drop in confidence" among prospective home buyers, who=

he says are worried about "the direction of America" and the situation in=

Iraq. The retreat of speculators who were buying and "flipping" homes als=
o
hurt the market, he says. Such speculative buyers, who Mr. Toll estimates=

accounted for about 10% of demand one year ago, are now sellers.
Even so, Mr. Toll contends that new household formation, immigration, job=

creation and rising affluence are currently producing a pent-up demand fo=
r
housing. Once Americans believe that home prices have bottomed, he argues=
,
they will rush back into the market, although he is unwilling to predict
=

when that will happen.
At D.R. Horton Inc., the nation's largest home builder by units built per=

year, executives said late last year they were confident that quarterly
earnings would continue to increase even during a housing-market slump. I=
n
July, Horton reported a 21% decline in net income for the third quarter
ended June 30, the first quarter in 28 years in which it didn't report
year-over-year profit growth. Horton's chief executive, Donald Tomnitz,
said the surge in home prices had priced many people out of the market.
"Every time we've gone into a downturn in the home-building industry,
they've always been longer and deeper than we've all imagined," Mr.
Tomnitz told analysts in a July 20 conference call. "So we're preparing
for the worst, and we think this one will be longer and deeper than just
=

the last six months."
For some homeowners who bought as the market was peaking last year, the
downturn is already creating a financial pinch.
In April 2005, Jennifer Bloom paid about $229,000 for a condominium in
Yarmouth Port on Massachusetts's Cape Cod, where her son planned to live.=

After his plans changed, Ms. Bloom, a software specialist for a computer
=

company, decided early this year to sell the condo. She initially listed
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it at $229,000, and then gradually shaved the price to $199,000 as the
market weakened. Earlier this month, she gave up on finding a buyer at a
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price she could bear to accept. Instead, she is renting out the condo for=

$1,000 a month, which she says is more than $200 below her monthly costs
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for mortgage payments, insurance, taxes and other items. She says she
intends to hold off on selling it until the market improves.
The slump has been particularly harsh in Northern Virginia, where in
recent years, large home builders have turned open fields and wooded lots=

into new subdivisions. Inventories of unsold homes here have risen 147%
over the past year, compared to a 40% increase nationally.
Would-be sellers such as Tahir Javed, a 36-year-old management consultant=
,
are growing frustrated. One year ago, Mr. Javed decided to move up from
his town house in Ashburn, Va. He signed a contract to buy for $983,000 a=

four-bedroom brick colonial that a developer planned to build in nearby
Leesburg. He put down a $60,000 deposit and planned to move into the new
=

house in October 2006.
In May, Mr. Javed put his town house on the market for $499,900, which he=

says is far above the $212,000 he paid in 1999, but in line with asking
prices for similar homes in the neighborhood. He hasn't been able to find=

a buyer, and the balance he owes on his new house -- about $920,000 -- is=

due in about six weeks.
Mr. Javed says he asked the builder for a price break, but the answer was=

no. He's considering cutting the asking price for his town house to
slightly under $470,000, and if that doesn't work, he may try to find a
renter. He had planned to use the money from selling the town house as a
=

20% down payment on what he owes on his new home, and to borrow the other=

80%. Now he may need a bigger loan, which could carry a higher interest
rate, he says. "That is the painful part," he says.
Ms. Guth, whose home in Herndon, Va., had failed to attract a buyer after=

months on the market, eventually turned to Tranzon Fox, an auction firm
based in Burke, Va. Ms. Guth had based her initial $1.1 million asking
price on a 2005 appraisal of her home, which now appeared far off the
mark. She and her family decided they would accept the highest bid of at
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least $675,000.
Kristin Eddy, a 35-year-old pediatric occupational therapist living in a
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town home in Reston, Va., had noticed Ms. Guth's dark-green turreted home=

with its wraparound verandas while riding her bike along a nearby trail.
=

"I've had my eye on that house for a long time -- as a dream," Ms. Eddy says. When it first went on the market, it was far beyond her price range=

.
Then she noticed the sign announcing the auction.
On the morning of Aug. 5, the auctioneer, Stephen Karbelk, set up loudspeakers on Ms. Guth's side lawn. Ms. Guth handed bottles of chilled
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water to the several dozen bidders and curious neighbors who showed up. "=
I
have a whole stomach full of butterflies," Ms. Guth said.
Ms. Eddy figured her chances of winning were near zero. When the auction
=

began, it became clear that there were only two serious bidders. Although=

Mr. Karbelk tried to stir excitement, the bidding petered out within minutes. Ms. Eddy was the high bidder, at $475,000.
Looking stricken, Ms. Guth and one of her sons huddled with their broker
=

for a few minutes. Then they told the auctioneer they wouldn't accept the=

bid, which fell below the stipulated minimum that hadn't been revealed to=

bidders. The auction was over.
Ms. Guth said she would move and leave the house empty until she could sell it at a reasonable price. Late that afternoon, Ms. Eddy raised her offer to $525,000. The Guths wavered for two days before agreeing to accept about $530,000. Ms. Eddy is getting a home with five bedrooms, fou=
r
full bathrooms, a half-acre lot and a three-car garage for about what som=
e
people had been paying until recently for town houses in the area.
Ms. Guth has revised her retirement plan. The disappointing auction resul=
t
made it difficult for her to afford the kind of home she wanted in Florida. She has decided to buy a home in South Hill, a rural area of south-central Virginia where home prices are cheaper than they are in either Florida or the Washington suburbs. She thinks she can find a home
=

there for $175,000 or less.
Write to James R. Hagerty at bob.hagerty@wsj.com3 and Michael Corkery at
=

michael.corkery@wsj.com4

Please see www.db.com for full research report.

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embedded0.html OrgSmtpMsg.eml



greglip@bbotg To: wdowd@bbotg
cc:
Subject:

08/31/2006
01:27 PM

Message Sent: 08/31/2006 13:27:41
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: WDOWD@BBOTG|WARREN DOWD|DEUTSCHE BANK SECURI|1726|14580

can u do a call with chris james at partner funds at 12:30 est
today?
Reply:
YES
Reply:
quick question- he asked me a follow up on email. wants to
know how magnetar distorted the market...
Reply:
EASY BUT LENGTHY ANSWWER GET HIM ON THE PHONE AND CALL ME..



OrgSmtpMsg.eml

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1496

Michael Raynes@DBEMEA

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc:
Subject: Pricing of 2 important ABS CDOs

10/10/2005 11:53 AM

FYI - We priced 2 important ABS CDOs on Friday with pnl of $14mm total and more importantly, firmly established 2 new business lines for the CDO Group:

- The $1billion START 2005-B trade was backed by a static pool of CDS on mezzanine RMBS for Paulson Advisors ($4 bln risk arb hedge fund). Paulson retained the bottom 6% of the trade and we sold the rest of the capital structure. Paulson, who came to us with the strong desire to short the US housing market, wrote CDS on underlying ABS (over 100 names) to DB and DB intermediated them into the deal. Deal team was headed by Michael Lamont who was supported by Rick Kim and Ilinca Bogza on structuring and marketing, respectively .Greg Lippmann also played a critical role in deal execution. Stephanie Ruhle from sales was critical in originating the opportunity.

- We also priced an innovative cash flow ABS CDO for State Street last week (called Diogenes)- this is the first true relative value strategy in the CDO market, long $400mm mezzanine RMBS and short $300mm CDS on RMBS related corporates (homebuilders, banks w high mortgage focuses, monolines, etc). Strategy exploits the very large differential between secured and unsecured in this space (L+190 long BBB pool and 40 bps protection cost on BBB+ shorts). We are out with a similar strategy now for TCW, long ABS short corporate with the shorts more index focused. In addition we are about to execute an engagement letter with TCW for a separate CDO with a strategy long BB RMBS and short BBB RMBS on the same deals. As with the START trade, Lamont played a critical role spearheading the deal from origination to pricing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1508



GREGLIP@bloomberg.net ToSABHTAR.LNDB@bloomberg.net
cc
12/14/2006 06:26 AM bcc
SubjectRe: Four lists for tomorrow 12/14 - Summary

=====Begin Message=====
Message#: 61358
Message Sent: 12/14/2006 06:26:32
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: SABHTAR.LNDB@bloomberg.net|TARANJIT SABHARWAL|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: Four lists for tomorrow 12/14 - Summary

Agreed. Start is crap you should short because I bet we'll have to. Buyback cash ones next year.

Sent From Bloomberg Mobile MSG

---- Original Message ----
From: TARANJIT SABHARWAL, DEUTSCHE BANK SECURI <sabhtar.lndb@bloomberg.net>
At: 12/13/2006 23:04

yes Greg will be completely passing on the cash TABS equity and the high-grade OWIC..... there are some START single-A on the protection BWIC as well, so will try and get out of our cash longs if we get a decent level - dont particularly like those despite the spreads.

----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 12/13 22:59:55

Let's pass on tabs anf get some more cds done.

Sent From Bloomberg Mobile MSG

---- Original Message ----
From: TARANJIT SABHARWAL, DEUTSCHE BANK SECURI <sabhtar.lndb@bloomberg.net>
At: 12/13/2006 21:48

We have one cash BWIC, two BWICs for protection and one OWIC for protection tomorrow, 12/14/06.

List 1 - Cash BWIC - Due 11:00 AM EST
Bid for Equity tranche of Mezz ABS CDO due on Thursday, December 14th at 11am EST. Reserve levels apply.

Security Name	CUSIP	MM	Manager	Vintage
TABS 2005-2A SUB	87337LAF1	8	Tricadia	6/05

List 2 - CDS BWIC - Due 11:00 AM EST
Bids on protection on A and BBB tranches of Mezz ABS CDO due on Thursday, December 14th at 11am EST. $15MM per name. Prefer Variable Cap/No Implied Writedown. Will consider Fixed Cap/Implied Writedown. Reserve levels apply.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1509

Security Name	CUSIP	M/S/F	Cpn	Manager	Vintage
GEMST 05-2A C	36867VAE7	A2/A/-	+115	HBK	5/05
GEMST 05-3A C	36868AAJ1	A2/A/-	+150	HBK	7/05
START 05-AA C	85768PAC1	A2/A/-	+150	static	6/05
START 05-BA C	85768QAE5	Aa3/AA-/-	+120	static	10/05
ACCDO 4A C1	00388FAC2	Baa2/BBB/-	+285	RWT	4/04
ACCDO 7A C	00388YAC1	A2/A/-	+118	RWT	3/05
DUKEF 04-7A 4A	264403AD8	Baa2/BBB/-	+320	Duke	8/04
GEMST 05-2A D	36867VAF4	A3/A-/-	+158	HBK	5/05
GEMST 05-3A D	36868AAL6	Baa2/BBB/-	+265	HBK	7/05
START 05-AA D	85768PAD9	Baa2/BBB/-	+300	static	6/05
START 05-BA D	85768QAF2	A3/A-/-	+240	static	10/05
START 05-CA E	85768TAH2	Baa2/BBB/-	+450	static	1/06
BWIC 06-1A D	11161RAG7	Baa2/BBB/-	+325	Peloton	5/06
ACABS 04-1A C1	000809AD5	Baa2/BBB/BBB+	+325	ACA	5/04

List 3 - CDS BWIC - Due 11:30 AM EST
Bids for protection on A tranche of ABS CDO due on Thursday, December 14th at 11:30am EST. Size is $10MM. Variable Cap/No Implied Writedown or Fixed Cap/Implied Writedown. Reserve levels apply.

Security Name	CUSIP	M/S/F	Cpn	Manager	Vintage	Type
ACABS 2005-2A A3	00082NAE0	A3/A-/-	+145	ACA	8/05	Mezz
ACABS 2006-1A A3L	00082WAD2	A2/A/-	+155	ACA	4/06	Mezz
ACABS 2006-2A A3L	00389PAD7	A2/A/NR	+150	ACA	11/06	Mezz
CAIRH 2006-2A C	12777AAD5	A2/A/-	+120	Cairn	9/06	HG
CAIRH I-A C	127763AD2	Aa3/A/-	+150	Cairn	8/05	HG
CRNMZ 2006-1A 5	12776YAD4	A2/A/-	+120	Cairn	9/06	Mezz
CRNMZ 2006-2A C	12777CAE9	A2/A/-	+135	Cairn	11/06	Mezz
DHCDO 2005-1A C	26702TAD4	A2/A/-	+175	TCW	12/05	Mezz
GRAND 2005-1A C	38521PAE4	A2/A/-	+155	TCW	12/05	HG
GRAND 2006-2A C	38521TAL0	A3/A-/-	+140	TCW	10/06	HG
IXCBO 2005-1A A3L	46602PAD1	A2/A/-	+175	IXIS	12/05	Mezz
MRCY 2005-2A C	589368AG4	A2/A/-	+150	Fund America	12/05	HG
MRCY 2006-3A C	589372AD3	A2/A/-	+140	Fund America	5/06	HG
NEPTN 2004-1A A3L	640699AD6	A2/A/-	+180	Fund America	1/05	Mezz
NEPTN 2005-2A C	64069RAD6	A2/A/A	+147	Fund America	7/05	Mezz
NEPTN 2006-3A B	64069PAJ7	A2/A/-	+180	Fund America	3/06	Mezz
PAMP 2006-1A C	697728AD5	A2/A/-	+140	Vertical	10/06	HG
SCF 7A C	83743YAE3	A2/A/A	+140	TCW	5/05	Mezz
SCF 8A C	83743LAJ0	A2/A/-	+150	TCW	1/06	Mezz
TOPG 2005-1A B	89053XAE6	A3/A-/-	+170	MWAM	1/06	Mezz
TOPG 2006-2A B	89054BAE3	A2/A/-	+145	MWAM	12/06	Mezz
TOURM 2006-2A D	89155WAE5	A2/A/-	+155	Blackrock	3/06	Mezz
VERT 2005-1A C	92534EAD3	A2/A/-	+145	Vertical	6/05	Mezz
VERT 2006-1A A3	925345AE0	A2/A/A	+165	Vertical	4/06	Mezz
VERT 2006-2A A3	925338AD7	A2/A/A	+145	Vertical	6/06	Mezz

List 4 - CDS OWIC - Due 1:00 PM EST
Offers for protection on AA tranche of Hi Grade ABS CDO due Thursday, December 14th at 1pm EST. Size is $15MM each. Fixed Cap/Implied Writedown. Reserve levels apply.

Security Name	CUSIP	M/S/F	Cpn	Manager	Vintage
ALTS 2006-3A B	02149YAD5	Aa2/AA/-	+52	Aladdin	9/06
BKLYN 2006-1A A2	114238AC2	Aa2/AA/-	+50	Deutsche AM	11/06
BROD 2006-2A B	112018AE6	Aa2/AA/-	+50	Seneca	9/06
CAIRH 2006-2A B	12777AAC7	Aa2/AA/-	+48	Cairn	9/06
CTIUS 2006-2A B	17310JAB3	Aa2/AA/-	+50	Aladdin	12/06

G2FIN 2006-2A B	36243GAD7	Aa1/AA/-	+49	Wharton AM	11/06
IPSW 2006-1A B	46265BAG3	Aa2/AA/AA	+53	MFS	6/06
ISTAN 2006-1A B	46521UAE6	Aa2/AA/-	+51	ST AM	11/06
JPTR 2006-4A B	48206BAD8	Aa2/AA/-	+55	Maxim	6/06
KENT 2006-3A B	49056BAJ4	Aa2/AA/-	+51	Declaration	10/06
KLROS 2006-4A B	49858BAG0	Aa2/AA/-	+52	Strategos	12/06
MCKIN 2006-3A B1	58162QAC8	Aa2/AA/-	+52	Vertical	11/06
NASS 2006-1A B	63155PAD7	Aa2/AA/-	+52	Princeton Ad	12/06
RDGW 2006-1A A4	766167AE0	Aa2/AA/-	+47	CS Alt Cap	7/06
ROCKV 2006-1A B	77413PAE3	Aa2/AA/-	+50	Petra	10/06
SIXAV 2006-1A B	830087AG7	Aa2/AA/-	+60	Security Benefit	10/06
TAZ 2006-1A B	878046AE1	Aa2/AA/-	+55	Terwin	6/06
WADS 2006-1A B	930313AD3	Aa2/AA/-	+46	Hartford	9/06

=====End Message=====

RESPONSES TO QUESTIONS FOR THE RECORD
Goldman Sachs

LLOYD C. BLANKFEIN
Chairman and Chief Executive Officer
(PSI_QFR_GS0002)

DAVID A. VINIAR
Executive Vice President and
Chief Financial Officer
(PSI_QFR_GS0443)

CRAIG W. BRODERICK
Chief Risk Officer
(PSI_QFR_GS0446)

DANIEL L. SPARKS
Former Partner
Head of Mortgage Department
(PSI_QFR_GS0452)

MICHAEL J. SWENSON
Managing Director
Structured Products Group Trading
(PSI_QFR_GS0474)

JOSHUA S. BIRNBAUM
Former Managing Director
Structured Products Group Trading
(PSI_QFR_GS0498)

FABRICE P. TOURRE
Executive Director
Structured Products Group Trading
(PSI_QFR_GS0531)

☆ ☆ ☆

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

Redacted By
Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1512

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

LLOYD C. BLANKFEIN
Chairman and Chief Executive Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
LLOYD C. BLANKFEIN
Chairman and Chief Executive Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. Provide the following information regarding each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"):

   Anderson Mezzanine Funding 2007-1;
   Camber 7;
   Fort Denison Funding;
   Hudson Mezzanine Funding 2006-1;
   Hudson Mezzanine Funding 2006-2;
   Point Pleasant Funding 2007-1; and
   Timberwolf I.

   (a) Provide a list of all assets in each Transaction at the closing date of the Transaction. For each listed asset:

      (i) State whether each asset is a cash or synthetic asset.

      (ii) Specify its original face value in dollars.

      (iii) For each cash asset, identify by name the party from whom it was purchased and the date of purchase.

      (iv) For each synthetic asset: identify each referenced asset; identify by name the counter party facing the Transaction; and the nature and date of any swap or offsetting or back to back transaction entered into by the counter party with respect to such referenced asset.

(v) State whether and, if so describe, any asset that was added to or removed from each Transaction after the closing date, the source of any such asset, the purchase or sales price for any such asset, and how any such price was determined.

(b) For each Transaction:

(i) Describe in detail Goldman Sachs' ("Goldman") role in the Transaction, including whether it served as a placement agent; participated in the selection of assets or referenced assets prior to or after the closing date of the Transaction; hired a collateral manager or other agent for the Transaction; contributed, purchased, or warehoused any assets; participated in obtaining a credit rating for the Transaction; participated in the selection of any counter party for the Transaction; entered into any credit default swap or short position or acted as a counter party with respect to the Transaction or assets related to the Transaction; sold any securities related to the Transaction; or oversaw the liquidation, unwinding, closure or completion of the Transaction.

(ii) Describe the capital structure and credit ratings obtained for each Transaction, including any change in the credit ratings over time.

(iii) Identify by name and address each purchaser of each security issued in connection with the Transaction, including the name, price, size, and total notional value of each type of security purchased; the date each security was purchased; the Goldman sales representative responsible for the sale of each security; and the Gross Credits ("GCs") paid to any sales representative for the sale of each security.

(iv) Indicate how many and the nature of any securities that were retained or purchased by Goldman from the Transaction; if those securities were sold or otherwise disposed of within 12 months of the inception of the security, the number of securities sold or disposed of, the sales price or cost of disposition, and to whom they were sold or how they were otherwise disposed of; and identify any securities that were sold to investors and repurchased by Goldman.

(v) Indicate the net revenues or losses sustained by Goldman from the Transaction, combining all sales, transfers, credit defaults, short positions, and other activities undertaken by Goldman in connection with the Transaction from its inception to the present. Explain how the net revenue or loss figure was derived, and its key components.

(vi) Identify by name and address any investor who has complained to Goldman in writing about its investment in one or more of the Transactions.

(c) State if and when any Transaction was liquidated.

(d) In any Transaction, if bonds were purchased to collateralize synthetic assets, identify the bond by name, the value of the bond, the Transaction for which it was purchased, and the party from which the bond was purchased.

(e) For each Transaction, provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests (including securities) in the Transaction. It is not necessary to provide duplicates of the same material, but provide the identity of all persons who received such material.

(f) If Goldman entered into a credit default swap ("CDS") referencing any portion of any Transaction or any asset related to the transaction, provide the notional value of the CDS, the assets referenced in the CDS, the date entered, the name of the counter party, and the ultimate disposition of the CDS, including whether it was cancelled, unwound, or paid.

If some of the requested documents have already been provided to the Subcommittee, you may respond to the question by providing the Bates numbers of those documents.

2. Provide the following information regarding the sale of securities in each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"):

Abacus 2007-AC1;
Anderson Mezzanine Funding 2007-1;
Camber 7;
Fort Denison Funding;
Hudson Mezzanine Funding 2006-1;
Hudson Mezzanine Funding 2006-2;
Point Pleasant Funding 2007-1; and
Timberwolf I.

(a) Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?

(b) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented any of the Transactions, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

(c) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold short positions with respect to assets referenced in the Transaction being considered by any potential investor?

(d) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold a net short position with respect to RMBS related assets?

(e) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether it had taken steps or planned to use the offering to reduce its own inventory of RMBS or CDO securities or other holdings?

(f) Did Goldman conduct a suitability analysis in connection with soliciting clients or potential investors to purchase securities issued in any of the Transactions? If so, describe the suitability analysis conducted for each investor that purchased these securities. If Goldman retained a written record that reflects that such a analysis was conducted for any of these Transactions, provide a copy.

3. (a) In what capacity did Goldman act for Paulson & Co. (together with any of its affiliates, "Paulson") with respect to the Abacus 2007-AC1 transaction or a Credit Default Swap transaction that referenced any or all of the same entities or securities that were referenced in the Abacus 2007-AC1 transaction? Describe in detail Goldman's relationship to Paulson with respect to those transactions, its obligations to Paulson, the nature and amount of any fees or compensation received by Goldman from Paulson relating to those transactions, and whether Goldman advised investors or potential investors in Abacus 2007-AC1 of the existence and nature of its relationship with Paulson.

(b) If Goldman advised investors or potential investors of the nature or existence of the Paulson relationship, identify who so advised investors or potential investors, the date on which that person so advised investors or potential investors, the identity of the investors or potential investors so advised, the manner (i.e. verbal or in writing) in which the person was advised, and the substance of the communication (and, if in writing, provide a copy of the communication).

4. For 2006 and 2007, provide the total dollar value of the residential mortgages that Goldman asked mortgage originators to repurchase due to a breach of representations or warranties related to fraudulent loan origination or underwriting.

(a) What percentage of Goldman's repurchase requests were successful?

(b) How much money did Goldman collect from its repurchase requests?

(c) Identify the five mortgage originators to which Goldman directed the most repurchase requests and the total value of the requests made to each of those five.

(d) Identify the total dollar amount of repurchase requests that Goldman directed to:

(i) Washington Mutual;

(ii) Fremont; and

(iii) New Century.

5. What was the total dollar value of RMBS or CDO-related credit default swap (CDS) protection that Goldman obtained from AIG or an AIG subsidiary or affiliate (hereafter "AIG") from January 1, 2004 to the present?

(a) Specify each transaction in which Goldman purchased CDS protection from AIG, including the date, type and notional amount of CDS protection obtained, the referenced assets or entities, whether the protection was purchased for RMBS, CDO or other securities, and the Goldman business unit or desk involved.

(b) For each such transaction, describe the current status of the CDS protection obtained from AIG, including any settlement or final disposition of the protection and the total dollar amount received by Goldman.

6. Did Goldman enter into any arrangement by which Goldman was the ultimate beneficiary of RMBS or CDO-related CDS protection that had been issued by AIG to a third party intermediary? If so, provide the following information:

(a) the name of the third party intermediary;

(b) the relationship between Goldman and the third party intermediary;

(c) the dates and nature of the transactions through which CDS protection was obtained from AIG by the third party intermediary, with Goldman as the ultimate beneficiary;

(d) whether AIG was aware of the arrangement between Goldman and the third party intermediary;

(e) the aggregate notional amount of the CDS protection obtained from AIG;

(f) the total amount of premiums paid by the third party intermediary;

(g) the consideration paid by Goldman to the third party intermediary in connection with the CDS protection; and

(h) the dates and dollar amounts of any recovery on the protection obtained by Goldman from AIG through a third party intermediary.

7. Did Goldman play any role in suggesting, encouraging, or prompting any other individual or entity to make collateral calls on CDS protection written by AIG related to RMBS or CDO securities? If so, describe in detail.

8. Did Goldman obtain CDS protection against credit events involving AIG, Bear Stearns, Fremont, Lehman Brothers, Long Beach Mortgage, Merrill Lynch, National City Corp., New Century, or Washington Mutual? If so, for each such financial firm during the period from January 1, 2006 through December 31, 2008, provide the following information:

   (a) the dates when the CDS protection was obtained and the nature of the protection;

   (b) the counter parties involved;

   (c) the total aggregate notional amount of the CDS protection obtained;

   (d) the total amount of premiums paid by Goldman for such protection; and

   (e) the total dollar amount of any recovery obtained by Goldman in connection with the CDS protection.

9. From January 1, 2006 through December 31, 2008, did Goldman obtain any insurance or other protection from a credit event involving AIG through any means other than a CDS transaction? If so, explain in detail.

10. Is there any instance from January 1, 2006 to the present, with respect to the settlement of disputes related to CDS protection for RMBS or CDO securities, in which Goldman obtained less than 100 cents on the dollar on the total notional amount of CDS protection it had purchased? If so, specify each such instance, including the name and type of the referenced assets, the name of the counter party, the notional amount of CDS protection purchased by Goldman, the type and amount of any collateral posted by the counterparty and the dates on which the collateral was posted, and the aggregate total dollar amount obtained by Goldman from the counter party in final settlement of Goldman's CDS protection claims.

11. With respect to AIG, Bear Stearns, Fremont, Lehman Brothers, Long Beach Mortgage, Merrill Lynch, National City Corp., New Century, and Washington Mutual, provide the following information for the years 2007 and 2008:

   (a) A detailed chronology of Goldman's firm-wide proprietary trading (including trading for itself or its own accounts) in equity securities for each of the above companies, including the date, purchase price, and number of shares involved in each transaction; whether the

transaction involved a purchase or sale; whether the transaction resulted a long or short position for Goldman; and the net position of Goldman following each transaction.

(b) A detailed chronology of Goldman's firm-wide proprietary trading (including trading for itself or its own accounts) in options or futures contracts for each of the above companies, including the date, purchase price, and number of options involved in each transaction; whether the transaction involved a purchase or sale of a put or call option; whether the option was exercised, the exercise price and date, whether the transaction resulted a long or short position for Goldman; and the net position for Goldman following each transaction.

(c) The same chronologies as requested in (a) and (b) above for the Asset Backed Securities (ABS) trading desk alone.

12. (a) Did Goldman have any written procedures or policies with regard to the ABS desk's using funds from a firm trading account to make speculative or proprietary trades in equity securities or options or futures contracts such as those listed above? If so, provide a copy of those procedures or policies.

(b) Was it a departure from Goldman's policies or procedures for the ABS trading desk to have used a firm trading account to engage in speculative or proprietary trades in the equity securities or options or futures contracts listed above?

(c) Did the ABS trading desk seek or obtain a waiver of Goldman's policies or procedures to trade these securities? If so, provide the date of the waiver, the persons who requested the waiver, the person who made the final decision to grant the waiver, and a copy of the waiver and the application or request to obtain it.

13. During 2008, did any representative, employee, officer, agent, or attorney acting on behalf of Goldman contact or communicate with any federal agency, including the Federal Reserve or the Securities and Exchange Commission (SEC), to discuss any limitation on the short selling of Goldman shares or the shares of any other financial institution? If so, provide a detailed chronology describing those contacts, including the date of each contact, who initiated it, the participants involved, whether it was made by telephone or in person, and the substance of the discussion.

14. Describe how and when Goldman learned of the limitations that the SEC implemented in 2008, on the short selling of the shares of certain financial institutions.

15. Provide any document possessed by, generated by, or provided to Jonathan Egol related to obtaining a credit rating related to any Abacus transaction by any credit rating agency, including any correspondence, emails, memoranda, or other analysis or exchanges of information.

16. Describe in detail your understanding of Goldman's legal duties of disclosure, pursuant to securities laws and regulations, including rules prescribed by the SEC or FINRA, to purchasers of securities when Goldman acts in any of the following capacities: (a) market maker; (b) underwriter; (b) placement agent; (d) broker (when making a solicitation or recommendation of a security); or (e) a dealer. Include your definition of a "market maker."

17. (a) Does the fact that an investor or a potential investor with whom Goldman is transacting business is an "accredited" investor, a "qualified institutional buyer" or a "qualified purchaser" (as those terms are used in the U.S. federal securities laws) affect the duties and obligations of Goldman when acting in any of the capacities described in Question 16? If so, describe how any of Goldman's duties when acting in any of these capacities are affected by the status of the investor or potential investor.

(b) Does Goldman have a duty to conduct a suitability analysis when making a recommendation to any of the types of investors listed in question 17(a)? If so, describe the nature and extent of the analysis to be conducted.

(c) Does Goldman owe a duty to disclose any adverse interest that it may have when recommending a security to any of the types of investors listed in question 17(a)?

18. (a) Is Goldman aware of the 2004 Guidelines set forth by the United States Sentencing Commission (the "Guidelines") establishing the elements of an effective ethics and compliance program?

(b) What, if anything, has Goldman done to address the standards for ethics and compliance programs as set forth in the Guidelines? In particular, provide copies of educational materials or presentations given or presented to the Goldman Board of Directors, Goldman executives, and Goldman employees in general with respect to ethics and compliance during the period 2004 to the present.

✧ ✧ ✧

Responses of Mr. Lloyd Blankfein to the
Supplemental Questions for the Record of the Permanent Subcommittee on Investigations

As Chairman and Chief Executive Officer, I do not directly manage the areas of The Goldman Sachs Group, Inc. ("Goldman Sachs" or the "Firm") that contain information relevant to the Permanent Subcommittee on Investigations' (the "Subcommittee") Questions, and therefore do not know much of the information requested in these questions from the Subcommittee. Where I do have personal knowledge, I have provided responses. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

Questions from Chairman Levin

1. Provide the following information regarding each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"):

Anderson Mezzanine Funding 2007-1;
Camber 7;
Fort Denison Funding;
Hudson Mezzanine Funding 2006-1;
Hudson Mezzanine Funding 2006-2;
Point Pleasant Funding 2007-1; and
Timberwolf I.

(a) Provide a list of all assets in each Transaction at the closing date of the Transaction. For each listed asset:

(i) State whether each asset is a cash or synthetic asset.

(ii) Specify its original face value in dollars.

(iii) For each cash asset, identify by name the party from whom it was purchased and the date of purchase.

(iv) For each synthetic asset: identify each referenced asset; identify by name the counter party facing the Transaction; and the nature and date of any swap or offsetting or back to back transaction entered into by the counter party with respect to such referenced asset.

(v) **State whether and, if so describe, any asset that was added to or removed from each Transaction after the closing date, the source of any such asset, the purchase or sales price for any such asset, and how any such price was determined.**

Although I recently learned some general information about certain of the Transactions, I do not know the detailed information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

(b) For each Transaction:

(i) **Describe in detail Goldman Sachs' ("Goldman") role in the Transaction, including whether it served as a placement agent; participated in the selection of assets or referenced assets prior to or after the closing date of the Transaction; hired a collateral manager or other agent for the Transaction; contributed, purchased, or warehoused any assets; participated in obtaining a credit rating for the Transaction; participated in the selection of any counter party for the Transaction; entered into any credit default swap or short position or acted as a counter party with respect to the Transaction or assets related to the Transaction; sold any securities related to the Transaction; or oversaw the liquidation, unwinding, closure or completion of the Transaction.**

(ii) **Describe the capital structure and credit ratings obtained for each Transaction, including any change in the credit ratings over time.**

(iii) **Identify by name and address each purchaser of each security issued in connection with the Transaction, including the name, price, size, and total notional value of each type of security purchased; the date each security was purchased; the Goldman sales representative responsible for the sale of each security; and the Gross Credits ("GCs") paid to any sales representative for the sale of each security.**

(iv) **Indicate how many and the nature of any securities that were retained or purchased by Goldman from the Transaction; if those securities were sold or otherwise disposed of within 12 months of the inception of the security, the number of securities sold or disposed of, the sales price or cost of disposition, and to whom they were sold or how they were otherwise disposed of; and identify any securities that were sold to investors and repurchased by Goldman.**

(v) **Indicate the net revenues or losses sustained by Goldman from the Transaction, combining all sales, transfers, credit defaults, short positions, and other activities undertaken by Goldman in connection with the**

Transaction from its inception to the present. Explain how the net revenue or loss figure was derived, and its key components.

(vi) Identify by name and address any investor who has complained to Goldman in writing about its investment in one or more of the Transactions.

Although I recently learned some general information about certain of the Transactions, I do not know the detailed information requested in this Question for the reasons explained above. I am aware of a civil action by the Basis Yield Alpha Fund (Master) regarding Timberwolf I, Ltd.

In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

(c) State if and when any Transaction was liquidated.

I do not know whether any Transaction was liquidated for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

(d) In any Transaction, if bonds were purchased to collateralize synthetic assets, identify the bond by name, the value of the bond, the Transaction for which it was purchased, and the party from which the bond was purchased.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

(e) For each Transaction, provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests (including securities) in the Transaction. It is not necessary to provide duplicates of the same material, but provide the identity of all persons who received such material.

I do not have personal custody of the documents requested in this Question, but I have directed others at Goldman Sachs to gather the requested materials.

(f) If Goldman entered into a credit default swap ("CDS") referencing any portion of any Transaction or any asset related to the transaction, provide the notional value of the CDS, the assets referenced in the CDS, the date entered, the name of the counter party, and the ultimate disposition of the CDS, including whether it was cancelled, unwound, or paid.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others

within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

2. **Provide the following information regarding the sale of securities in each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"): Abacus 2007-AC1; Anderson Mezzanine Funding 2007-1; Camber 7; Fort Denison Funding; Hudson Mezzanine Funding 2006-1; Hudson Mezzanine Funding 2006-2; Point Pleasant Funding 2007-1; and Timberwolf I.**

   (a) Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?

   (b) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented any of the Transactions, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

   (c) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold short positions with respect to assets referenced in the Transaction being considered by any potential investor?

   (d) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold a net short position with respect to RMBS related assets?

   (e) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether it had taken steps or planned to use the offering to reduce its own inventory of RMBS or CDO securities or other holdings?

   (f) Did Goldman conduct a suitability analysis in connection with soliciting clients or potential investors to purchase securities issued in any of the Transactions? If so, describe the suitability analysis conducted for each investor that purchased these securities. If Goldman retained a written record that reflects that such a analysis was conducted for any of these Transactions, provide a copy.

Although I recently learned some general information about certain of the Transactions, I do not know the detailed information requested by this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

3. **(a) In what capacity did Goldman act for Paulson & Co. (together with any of its affiliates, "Paulson") with respect to the Abacus 2007-AC1 transaction or a Credit**

Default Swap transaction that referenced any or all of the same entities or securities that were referenced in the Abacus 2007-AC1 transaction? Describe in detail Goldman's relationship to Paulson with respect to those transactions, its obligations to Paulson, the nature and amount of any fees or compensation received by Goldman from Paulson relating to those transactions, and whether Goldman advised investors or potential investors in Abacus 2007-AC1 of the existence and nature of its relationship with Paulson.

(b) If Goldman advised investors or potential investors of the nature or existence of the Paulson relationship, identify who so advised investors or potential investors, the date on which that person so advised investors or potential investors, the identity of the investors or potential investors so advised, the manner (i.e. verbal or in writing) in which the person was advised, and the substance of the communication (and, if in writing, provide a copy of the communication).

I have some general knowledge about the ABACUS 2007-AC1 transaction, but, in order to provide a complete response, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

4. **For 2006 and 2007, provide the total dollar value of the residential mortgages that Goldman asked mortgage originators to repurchase due to a breach of representations or warranties related to fraudulent loan origination or underwriting.**

(a) What percentage of Goldman's repurchase requests were successful?

(b) How much money did Goldman collect from its repurchase requests?

(c) Identify the five mortgage originators to which Goldman directed the most repurchase requests and the total value of the requests made to each of those five.

(d) Identify the total dollar amount of repurchase requests that Goldman directed to:

(i) Washington Mutual;

(ii) Fremont; and

(iii) New Century.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

5. **What was the total dollar value of RMBS or CDO-related credit default swap (CDS) protection that Goldman obtained from AIG or an AIG subsidiary or affiliate (hereafter "AIG") from January 1, 2004 to the present?**

(a) Specify each transaction in which Goldman purchased CDS protection from AIG, including the date, type and notional amount of CDS protection obtained, the referenced assets or entities, whether the protection was purchased for RMBS, CDO or other securities, and the Goldman business unit or desk involved.

(b) For each such transaction, describe the current status of the CDS protection obtained from AIG, including any settlement or final disposition of the protection and the total dollar amount received by Goldman.

Although I am aware that Goldman Sachs purchased credit default swap protection from AIG affiliates relating to securities referencing residential mortgages, I do not know the detailed information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

6. **Did Goldman enter into any arrangement by which Goldman was the ultimate beneficiary of RMBS or CDO-related CDS protection that had been issued by AIG to a third party intermediary? If so, provide the following information:**

(a) the name of the third party intermediary;

(b) the relationship between Goldman and the third party intermediary;

(c) the dates and nature of the transactions through which CDS protection was obtained from AIG by the third party intermediary, with Goldman as the ultimate beneficiary;

(d) whether AIG was aware of the arrangement between Goldman and the third party intermediary;

(e) the aggregate notional amount of the CDS protection obtained from AIG;

(f) the total amount of premiums paid by the third party intermediary;

(g) the consideration paid by Goldman to the third party intermediary in connection with the CDS protection; and

(h) the dates and dollar amounts of any recovery on the protection obtained by Goldman from AIG through a third party intermediary.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

7. **Did Goldman play any role in suggesting, encouraging, or prompting any other individual or entity to make collateral calls on CDS protection written by AIG related to RMBS or CDO securities? If so, describe in detail.**

I am not aware of Goldman Sachs playing any such role.

8. **Did Goldman obtain CDS protection against credit events involving AIG, Bear Stearns, Fremont, Lehman Brothers, Long Beach Mortgage, Merrill Lynch, National City Corp., New Century, or Washington Mutual? If so, for each such financial firm during the period from January 1, 2006 through December 31, 2008, provide the following information:**

(a) the dates when the CDS protection was obtained and the nature of the protection;

(b) the counter parties involved;

(c) the total aggregate notional amount of the CDS protection obtained;

(d) the total amount of premiums paid by Goldman for such protection; and

(e) the total dollar amount of any recovery obtained by Goldman in connection with the CDS protection.

I am aware that the Firm purchased CDS protection against credit events involving AIG. I do not know, however, what CDS protection, if any, the Firm may have purchased with regard to the other entities listed in this Question. Therefore, I cannot provide a more detailed response for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

9. **From January 1, 2006 through December 31, 2008, did Goldman obtain any insurance or other protection from a credit event involving AIG through any means other than a CDS transaction? If so, explain in detail.**

I am not aware whether the Firm obtained that protection through any means other than CDS. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

10. **Is there any instance from January 1, 2006 to the present, with respect to the settlement of disputes related to CDS protection for RMBS or CDO securities, in which Goldman obtained less than 100 cents on the dollar on the total notional amount of CDS protection it had purchased? If so, specify each such instance, including the name and type of the referenced assets, the name of the counter party, the notional amount of CDS protection purchased by Goldman, the type and amount of any collateral posted by the counterparty and the dates on which the collateral was posted, and the aggregate**

total dollar amount obtained by Goldman from the counter party in final settlement of Goldman's CDS protection claims.

I do not know of any instance in which Goldman Sachs received less than the amount it was contractually due under a CDS referencing mortgage-backed securities. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

11. With respect to AIG, Bear Stearns, Fremont, Lehman Brothers, Long Beach Mortgage, Merrill Lynch, National City Corp., New Century, and Washington Mutual, provide the following information for the years 2007 and 2008:

(a) A detailed chronology of Goldman's firm-wide proprietary trading (including trading for itself or its own accounts) in equity securities for each of the above companies, including the date, purchase price, and number of shares involved in each transaction; whether the transaction involved a purchase or sale; whether the transaction resulted a long or short position for Goldman; and the net position of Goldman following each transaction.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

(b) A detailed chronology of Goldman's firm-wide proprietary trading (including trading for itself or its own accounts) in options or futures contracts for each of the above companies, including the date, purchase price, and number of options involved in each transaction; whether the transaction involved a purchase or sale of a put or call option; whether the option was exercised, the exercise price and date, whether the transaction resulted a long or short position for Goldman; and the net position for Goldman following each transaction.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

(c) The same chronologies as requested in (a) and (b) above for the Asset Backed Securities (ABS) trading desk alone.

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

12. (a) Did Goldman have any written procedures or policies with regard to the ABS desk's using funds from a firm trading account to make speculative or proprietary trades

in equity securities or options or futures contracts such as those listed above? If so, provide a copy of those procedures or policies.

(b) Was it a departure from Goldman's policies or procedures for the ABS trading desk to have used a firm trading account to engage in speculative or proprietary trades in the equity securities or options or futures contracts listed above?

(c) Did the ABS trading desk seek or obtain a waiver of Goldman's policies or procedures to trade these securities? If so, provide the date of the waiver, the persons who requested the waiver, the person who made the final decision to grant the waiver, and a copy of the waiver and the application or request to obtain it.

I generally am aware of risk limits placed on market making desks, which typically limit positions that such desks can put on, as well as policies and procedures requiring approval of increases in such risk limits, and temporary exceptions to account for over-limit risk caused by a number of factors, including increased market volatility. But I do not know the detailed information requested in the Question.

In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

13. During 2008, did any representative, employee, officer, agent, or attorney acting on behalf of Goldman contact or communicate with any federal agency, including the Federal Reserve or the Securities and Exchange Commission (SEC), to discuss any limitation on the short selling of Goldman shares or the shares of any other financial institution? If so, provide a detailed chronology describing those contacts, including the date of each contact, who initiated it, the participants involved, whether it was made by telephone or in person, and the substance of the discussion.

I recall speaking with SEC Chairman Christopher Cox telephonically on two occasions. There may have been others, but I cannot recall. I do not recall the dates. I believe that Chairman Cox initiated the first call and I am not sure about the second. As I explained in my meeting with the Subcommittee staff, I recall that Chairman Cox asked my opinion, and that I initially indicated that I was not in favor of such limitations. At the time, other firms were complaining publicly about shorts. But I recall being negative about halting shorts because banning shorts could have an adverse effect on the markets in terms of the ability to price securities. I recall, however, that I subsequently changed my view because the situation seemed extreme and the concentrated piling on of shorts might be distorting the market.

Goldman Sachs employs thousands of professionals, but I am not aware of relevant communications that other Goldman Sachs employees may have had.

14. Describe how and when Goldman learned of the limitations that the SEC implemented in 2008, on the short selling of the shares of certain financial institutions.

I am not aware of anyone at Goldman Sachs having learned of these limitations prior to the SEC's public announcement of them.

15. Provide any document possessed by, generated by, or provided to Jonathan Egol related to obtaining a credit rating related to any Abacus transaction by any credit rating agency, including any correspondence, emails, memoranda, or other analysis or exchanges of information.

I do not have personal custody of the documents requested in this Question, but I have directed others at Goldman Sachs to gather the requested materials.

16. Describe in detail your understanding of Goldman's legal duties of disclosure, pursuant to securities laws and regulations, including rules prescribed by the SEC or FINRA, to purchasers of securities when Goldman acts in any of the following capacities: (a) market maker; (b) underwriter; (b) placement agent; (d) broker (when making a solicitation or recommendation of a security); or (e) a dealer. Include your definition of a "market maker."

I understand that Goldman Sachs must comply with the applicable duties of disclosure arising under the federal securities laws, including rules prescribed by the SEC and FINRA. I am aware of an underwriter's obligation to disclose the material facts relating to the securities offered. Otherwise, I have no detailed understanding of the specific legal duties of disclosure in each of the capacities referenced above.

A market maker is a financial intermediary that stands ready, willing and able to buy and sell financial instruments at the initiation of clients. This business is client-driven, and Goldman Sachs strives to provide a fair price to its clients.

Should the Subcommittee desire a more detailed legal analysis of the federal securities laws, regulations and rules, I will direct others at Goldman Sachs to provide one.

17. (a) Does the fact that an investor or a potential investor with whom Goldman is transacting business is an "accredited" investor, a "qualified institutional buyer" or a "qualified purchaser" (as those terms are used in the U.S. federal securities laws) affect the duties and obligations of Goldman when acting in any of the capacities described in Question 16? If so, describe how any of Goldman's duties when acting in any of these capacities are affected by the status of the investor or potential investor.

I believe that, for any investor, Goldman Sachs has a duty to ensure that what it says is truthful. In my view, a sophisticated investor may generally be shown more sophisticated potential transactions that may not be suitable for less sophisticated investors. I also understand that suitability and disclosure duties under the federal securities laws vary depending on the types of investors to whom a transaction is marketed and the manner in which it is marketed.

Should the Subcommittee desire a more detailed legal analysis of the federal securities laws, regulations and rules, I will direct others at Goldman Sachs to provide one.

(b) Does Goldman have a duty to conduct a suitability analysis when making a recommendation to any of the types of investors listed in question 17(a)? If so, describe the nature and extent of the analysis to be conducted.

I believe that Goldman Sachs has implemented policies and procedures reasonably designed to ensure that the Firm meets its suitability obligations when it recommends a security to a client, and that those obligations can vary depending on the nature of the client—for example, institutional clients in contrast to individual clients. I note, however, that Goldman Sachs does not necessarily "recommend" the transactions it presents to investors.

I understand that investors who transacted with Goldman Sachs in CDOs in 2007, as in prior years, were primarily large, global financial institutions, insurance companies and hedge funds. It is my understanding that these investors generally had significant resources, had relationships with multiple securities dealers and access to extensive information and research flow, performed their own analysis of the data and formed their own views about market trends.

Should the Subcommittee desire a more detailed legal analysis of the federal securities laws, regulations and rules, I will direct others at Goldman Sachs to provide one.

(c) Does Goldman owe a duty to disclose any adverse interest that it may have when recommending a security to any of the types of investors listed in question 17(a)?

I am not sure what is meant by the term "adverse interest." Goldman Sachs may have a duty to disclose certain potential conflicts present in a securities transaction, but this will depend on the facts and circumstances—for example, where Goldman Sachs has a duty to disclose material information and the conflict is material in the context of all the relevant information. In addition, Goldman Sachs does not necessarily "recommend" the securities that it sells to investors.

Should the Subcommittee desire a more detailed legal analysis of the federal securities laws, regulations and rules, I will direct others at Goldman Sachs to provide one.

18. (a) Is Goldman aware of the 2004 Guidelines set forth by the United States Sentencing Commission (the "Guidelines") establishing the elements of an effective ethics and compliance program?

I am not aware of the specific 2004 Guidelines set forth by the United States Sentencing Commission, although I know that others within Goldman Sachs are aware of the 2004 Guidelines. I also know that Goldman Sachs maintains a robust compliance and ethics program.

(b) What, if anything, has Goldman done to address the standards for ethics and compliance programs as set forth in the Guidelines? In particular, provide copies of educational materials or presentations given or presented to the Goldman Board of Directors, Goldman executives, and Goldman employees in general with respect to ethics and compliance during the period 2004 to the present.

Goldman Sachs devotes considerable resources to ethics and compliance. I have directed others at Goldman Sachs to gather the additional detailed information requested in this Question.

Questions from Senator McCaskill

1. **How many partners of Goldman Sachs had investments with Paulson & Co. at the time the Abacus AC-1 transaction was completed?**

I do not know the information requested in this Question, but Goldman Sachs does generally track certain types of direct outside investments by its employees. In an effort to provide a more complete response, however, I have directed others at Goldman Sachs to provide this information on a schedule to be arranged with the Subcommittee staff.

2. **How large was the short position that Goldman Sachs sold to Paulson & Co. as a part of the Abacus AC-1 transaction in relation to all short positions sold to other clients through synthetic and hybrid CDO issuances in 2006 and 2007? Please express this as a percentage.**

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

3. **Of clients to whom Goldman sold short positions from synthetic CDOs, as in the Abacus AC-1 transaction, how many employed former directors or employees of Goldman Sachs?**

I do not know the information requested in this Question, nor do I believe that the Firm has this information.

4. **Did any Goldman employees see their total compensation decline as a result of the ultimate poor performance of the mortgage backed securities and collateralized debt obligations that the firm issued in 2006 and 2007?**

Goldman Sachs' compensation structure is based on the Firm's overall performance, the performance of the specific business in which the employee works and the personal performance of the employee. Increases or decreases in compensation, therefore, are based on a number of factors. I do not know the specifics of compensation paid to employees who worked in the Mortgage Department for the reasons explained above.

In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

5. **Please provide the context for the email in exhibit 77, in which a Goldman employee reviewed pool of mortgages originated by New Century. Were these loans subsequently packaged into securities? If so, how much of the pool discussed in exhibit 77 was "put back," to use the phrase from the analyst writing the document?**

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others

within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

6. **Did Goldman Sachs perform a review similar to that found in Exhibit 77 of the pools of mortgages from which the Long Beach Mortgage Loan Trust 2006-A (LBMLT-A) residential mortgage backed securities were created? If so, please produce those reviews to the committee. How many loans showed evidence of potential fraud, noncompliance, foreclosure, or other risk factors? How many problem loans ended up in the pools for LBMLT-A that were then sold to investors? How were weaknesses in the pools disclosed to investors?**

I do not know the information requested in this Question for the reasons explained above. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to gather the requested information, which will be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

7. **How many customers contacted Goldman Sachs asking to take a short position with respect to housing related assets after your firm decided to make a concerted effort to "reduce risk" which reducing your net long position with respect to the housing market? To how many customers did you sell short positions? How many customers were turned away? Do you feel that your need to "reduce risk," prevented your firm, in its role as market maker, from serving customers who wanted to purchase short positions?**

I do not know the information requested in this Question for the reasons explained above. Additionally, I do not know if information on the number of customers that were "turned away" is kept by the Firm.

I do not believe that our decision to "reduce risk" prevented the Firm from serving its customers as a market maker. Although the prices that we quoted to buyers and sellers varied with market levels, I believe that, as a general matter, Goldman Sachs continued to transact in mortgage-related products in response to client demand.

In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to determine whether the requested information is kept by the Firm.

8. **Of the customers to whom you did sell short positions how many were companies that had hired former Goldman employees or with whom Goldman employees had investments?**

I do not know the information requested in this Question, nor do I know if all of it is kept by the Firm. As indicated above, Goldman Sachs does generally track certain types of direct outside investments by its employees. In an effort to provide a more complete response, however, I have instructed others within Goldman Sachs to determine whether the Firm keeps this information so that it may be included in a subsequent response on a schedule to be arranged with the Subcommittee staff.

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
LLOYD C. BLANKFEIN
Chairman and Chief Executive Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

1. Provide the following information regarding each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"):

Anderson Mezzanine Funding 2007-1;
Camber 7;
Fort Denison Funding;
Hudson Mezzanine Funding 2006-1;
Hudson Mezzanine Funding 2006-2;
Point Pleasant Funding 2007-1; and
Timberwolf I.

(a) Provide a list of all assets in each Transaction at the closing date of the Transaction. For each listed asset:

(i) State whether each asset is a cash or synthetic asset.

Goldman Sachs encloses a spreadsheet, which sets forth certain information on the cash and synthetic assets for the specified transactions (bearing production numbers GS MBS0000027961) [See Appendix 1]. For each Transaction, the spreadsheet sets forth each referenced asset, whether it is cash or synthetic, the current face amount, the closing date, the asset source, the counterparty facing the transaction, and the warehouse period.

(ii) Specify its original face value in dollars.

Goldman Sachs encloses a spreadsheet, which sets forth certain information on the cash and synthetic assets for the specified transactions (bearing production numbers GS MBS0000027961) [See Appendix 1]. For each Transaction, the spreadsheet sets forth

each referenced asset, whether it is cash or synthetic, the current face amount, the closing date, the asset source, the counterparty facing the transaction, and the warehouse period.

(iii) **For each cash asset, identify by name the party from whom it was purchased and the date of purchase.**

Goldman Sachs encloses a spreadsheet, which sets forth certain information on the cash and synthetic assets for the specified transactions (bearing production numbers GS MBS0000027961) [See Appendix 1]. For each Transaction, the spreadsheet sets forth each referenced asset, whether it is cash or synthetic, the current face amount, the closing date, the asset source, the counterparty facing the transaction, and the warehouse period.

(iv) **For each synthetic asset: identify each referenced asset; identify by name the counter party facing the Transaction; and the nature and date of any swap or offsetting or back to back transaction entered into by the counter party with respect to such referenced asset.**

Goldman Sachs encloses a spreadsheet, which sets forth certain information on the cash and synthetic assets for the specified transactions (bearing production numbers GS MBS0000027961). For each Transaction, the spreadsheet sets forth each referenced asset, whether it is cash or synthetic, the current face amount, the closing date, the asset source, the counterparty facing the transaction, and the warehouse period.

(v) **State whether and, if so describe, any asset that was added to or removed from each Transaction after the closing date, the source of any such asset, the purchase or sales price for any such asset, and how any such price was determined.**

Goldman Sachs encloses the trustee reports (bearing production numbers GS MBS 0000027986 - 35792,35879 - 35952 and 35958 - 36047) for the respective Transactions. These reports describe the assets that were added or removed from the respective Transactions after the closing date. The relevant pages in the reports are identified in the chart below: [Corresponding documents retained in the files of the Subcommittee]

Transaction	Trustee Report Page
Anderson Mezzanine Funding 2007-1	GS MBS 000028003, 28053, 28180, 28246, 28339, 28388, 28415, 28476, 28631, 28679, 28775, 28822, 28871, 29022, 29221, 29316, 29468, 29613 and 29664
Camber 7	GS MBS 0000029713 – 29714, 30164 and 30963
Fort Denison Funding	No assets were added or removed after closing
Hudson Mezzanine Funding 2006-1	GS MBS 0000031247 – 31256, 31353 – 31362, 32770 – 32772, 32983 – 32984 and 33079
Hudson Mezzanine Funding 2006-2	GS MBS 0000033184 – 33185, 33292, 33917, 33975, 34034, 34152, 34207, 34260, 34313 – 34314, 34363, 34411, 34460, 34506, 34552, 34597, 34642, 34686, 34730, 34773, 34816, 34859, 34902, 34945, 34988 and 35977
Point Pleasant Funding 2007-1	GS MBS 0000035032, 35144, 35203 – 35204 and 35265 – 35267
Timberwolf 1	GS MBS 0000035658 – 35659

(b) For each Transaction:

(i) Describe in detail Goldman Sachs' ("Goldman") role in the Transaction, including whether it served as a placement agent; participated in the selection of assets or referenced assets prior to or after the closing date of the Transaction; hired a collateral manager or other agent for the Transaction; contributed, purchased, or warehoused any assets; participated in obtaining a credit rating for the Transaction; participated in the selection of any counter party for the Transaction; entered into any credit default swap or short position or acted as a counter party with respect to the Transaction or assets related to the Transaction; sold any securities related to the Transaction; or oversaw the liquidation, unwinding, closure or completion of the Transaction.

The offering circulars for the transactions, which we believe have been provided, outline the roles that Goldman had on these seven transactions.

- Placement agent: For each Transaction other than the Point Pleasant transaction, Goldman Sachs or an affiliate served as a placement agent. IXIS Corporate &

Investment Bank served as the initial placement agent in the Point Pleasant transaction.

- Participated in the selection of assets prior to or after the closing date of the Transaction: Generally, Goldman Sachs—like other parties to the transaction—participated in the selection of assets or referenced assets because the Firm bore significant risks with respect to those assets both during the warehouse period and to the extent that it retained any positions after closing.

- Contributed, purchased, or warehoused any assets: For all seven transactions, we would have had involvement in each of these aspects

- Participated in obtaining a credit rating for the Transaction: Goldman Sachs would be involved in obtaining a credit rating for these transactions from one of the more nationally recognized credit rating agencies

- Participated in the selection of any counter party for the Transaction: Goldman Sachs would be involved in selecting counterparties for the transaction both the asset and liability side of the CDO

- Entered into any credit default swap or short position or acted as a counter party with respect to the Transaction or assets related to the Transaction – Goldman Sachs was the protection buyer from the synthetic CDOs included in the transactions (Fort Denison was entirely a cash deal.), with the exception of Point Pleasant where IXIS Corporate & Investment Bank purchased protection from the transaction. Additionally, Goldman Sachs retained and purchased in the secondary market financial instruments issued by these transactions.

- Sold any securities related to the Transaction: Goldman Sachs sold securities into the transaction to the extent the reference portfolio included cash instruments. Additionally, Goldman Sachs sold the financial instruments issued by the transaction both upon initial underwriting as well as in conjunction with making secondary markets.

- Oversaw the liquidation, unwinding, closure or completion of the Transaction: Goldman Sachs initially acted as the liquidation agent for Hudson Mezzanine Funding 2006-1, Hudson Mezzanine Funding 2006-2 and Anderson Mezzanine Funding 2007-1. Goldman Sachs later assigned that role to The TCW Group, Inc. ("TCW") for Hudson Mezzanine Funding 2006-2 and Anderson Mezzanine Funding 2007-1 and did not liquidate any assets before the assignment. For Hudson Mezzanine Funding 2006-1, Goldman Sachs attempted to assign its role as liquidation agent to TCW, but Morgan Stanley (which was the super senior swap counterparty) exercised its right of refusal. Accordingly, Goldman Sachs remained

the liquidation agent and liquidated assets in accordance with the transaction documents (that is, the Firm solicited: (i) quotations as part of its determination of the credit default swap termination payments, and (ii) bids for the cash assets through a competitive bidding process). In its role as swap counterparty, Goldman Sachs also participated in the final liquidation of Timberwolf I by soliciting quotations as part of it determination of the credit default swap termination payments.

(ii) **Describe the capital structure and credit ratings obtained for each Transaction, including any change in the credit ratings over time.**

Two spreadsheets from Mr. Blankfein accompany this question (Parts A [See Appendix 2] and B [See Appendix 3]).

(iii) **Identify by name and address each purchaser of each security issued in connection with the Transaction, including the name, price, size, and total notional value of each type of security purchased; the date each security was purchased; the Goldman sales representative responsible for the sale of each security; and the Gross Credits ("GCs") paid to any sales representative for the sale of each security.**

Goldman Sachs previously produced to the Subcommittee a spreadsheet (bearing production numbers GS MBS 0000018045 – 18052) [See Appendix 4] providing the name, price, size, total notional value of each type of security purchased and the date each security was purchased. Goldman Sachs now encloses a spreadsheet (bearing production number GS MBS0000038669) [See Appendix 4] providing information on the Goldman Sachs sales representatives responsible for sales of securities in the Transactions and the gross sales credits allocated to those representatives in recognition of the sales.

(iv) **Indicate how many and the nature of any securities that were retained or purchased by Goldman from the Transaction; if those securities were sold or otherwise disposed of within 12 months of the inception of the security, the number of securities sold or disposed of, the sales price or cost of disposition, and to whom they were sold or how they were otherwise disposed of; and identify any securities that were sold to investors and repurchased by Goldman.**

Provided in a spreadsheet. [See Appendices 4 and 5]

(v) **Indicate the net revenues or losses sustained by Goldman from the Transaction, combining all sales, transfers, credit defaults, short positions, and other activities undertaken by Goldman in connection with the Transaction from its inception to the present. Explain how**

[redacted] = Redacted by the Permanent Subcommittee on Investigations
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the net revenue or loss figure was derived, and its key components.

In response to this Question, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000038766) [See Appendix 6] providing net revenues for the Transactions. The first grouping of Transactions were executed as part of the firm's CDO franchise acting as warehouse provider, underwriter and investor. Separately, the two Hudson Mezzanine transactions were initiated by Goldman Sachs principally as an efficient method to reduce long ABX exposure, which was amassed from making markets for clients wanting to purchase protection on the ABX index.

The spreadhseet provides deal level information, issued liabilities and details the net revenues earned/incurred on the deal. The key components were:

- *Deal underwriting fees* – fees earned for underwriting the transaction.
- *Protection purchase* – gains earned from purchasing protection from the CDO. For purchases of protection from the CDOs, Goldman Sachs has excluded protection purchases for which the firm acted to intermediate between the CDO issuer and clients who had purchased protection during the warehouse period. In addition, for the Hudson Mezzanine 2006-1 and 2006-2 transactions, Goldman Sachs has offset gains on the protection purchased from the CDO issuer against losses on the ABX long positions that the transaction was intended to hedge.
- *Collateral Securities* – losses incurred resulting from price decline of the securities which collateralize the protection purchases from the CDOs. The collateral securities consisted primarily of alt a and subprime bonds and other mortgage and asset backed securities. The majority of these losses have already been realized as securities were liquidated on credit events.
- *Retained Inventory* – losses incurred on bonds retained from the CDO.
- *Deal specific hedges* – net revenues arising from hedges to retained bonds wherein Goldman Sachs purchased protection on specific bonds issued by the CDO.

(vi) **Identify by name and address any investor who has complained to Goldman in writing about its investment in one or more of the Transactions.**

Goldman Sachs is not presently aware of any such written complaints other than those made by: (i) Basis Yield Alpha Fund (Master) ("Basis") regarding Timberwolf I; and (ii) [redacted] regarding Point Pleasant 2007-1. The addresses for Basis and [redacted] are provided in the chart below:

Entity	Address
Basis Yield Alpha Fund (Master)	Walker House 87 Mary Street Georgetown, Grand Cayman Cayman Islands, KY 1-9002 British West Indies
[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman Sachs notes that as the performance of the subprime mortgage market declined in mid-2007 and continuing thereafter, various investors have engaged in discussions with the firm related to such issues as market valuations and liquidation of collateral. We have assumed that your question is directed to customer complaints about the fundamental investment itself, and not to such other matters.

(c) State if and when any Transaction was liquidated.

Transaction	Liquidation	Date of Final Distribution
Anderson Mezzanine Funding 2007-1	Not Liquidated	N/A
Camber 7	Not Liquidated	N/A
Fort Denison Funding	Liquidated	October 6, 2008
Hudson Mezzanine Funding 2006-1	Liquidated	May 28, 2009
Hudson Mezzanine Funding 2006-2	Not Liquidated	N/A
Point Pleasant Funding 2007-1	Not Liquidated	N/A
Timberwolf I	Liquidated	October 16, 2008

(d) In any Transaction, if bonds were purchased to collateralize synthetic assets, identify the bond by name, the value of the bond, the Transaction for which it was purchased, and the party from which the bond was purchased.

Addressed in a spreadsheet from Mr. Blankfein. [See Appendix 9]

(e) For each Transaction, provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests

(including securities) in the Transaction. It is not necessary to provide duplicates of the same material, but provide the identity of all persons who received such material.

In further response to Questions 1(e) and 2(b), Goldman Sachs encloses: (i) a copy of its policies and procedures governing the distribution of sales correspondence (bearing production numbers GS MBS 0000035799 – 35821) [See Appendix 7]; and (ii) a spreadsheet (bearing production number GS MBS 0000038771) [See Appendix 8] identifying potential investors to whom the Syndicate desk marketed the Transactions. Goldman Sachs notes that in general the firm marketed CDOs solely to qualified purchasers within the meaning of Securities and Exchange Commission Rule 144A, and that the firm's salespeople discussed securities via phone or e-mail with clients or potential clients known to have an interest in the particular products in which they dealt. Marketing materials were often transmitted, upon request, to interested clients or potential clients via email.
Hard copies were sent via U.S. Mail or Federal Express. Goldman Sachs is compiling information responsive to these Questions concerning ABACUS 2007-AC1 and will produce that information to the Subcommittee.

These materials previously were produced to the Subcommittee staff. As an initial response, Goldman Sachs encloses a spreadsheet listing these materials by production number (bearing production numbers GS MBS 0000027963) [See Appendix 6].

(f) **If Goldman entered into a credit default swap ("CDS") referencing any portion of any Transaction or any asset related to the transaction, provide the notional value of the CDS, the assets referenced in the CDS, the date entered, the name of the counter party, and the ultimate disposition of the CDS, including whether it was cancelled, unwound, or paid.**

Provided in a spreadsheet. [See Appendix 5]

If some of the requested documents have already been provided to the Subcommittee, you may respond to the question by providing the Bates numbers of those documents.

2. **Provide the following information regarding the sale of securities in each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"):**

Abacus 2007-AC1;

Anderson Mezzanine Funding 2007-1;

Camber 7;

Fort Denison Funding;

Hudson Mezzanine Funding 2006-1;

Hudson Mezzanine Funding 2006-2;

Point Pleasant Funding 2007-1; and

Timberwolf I.

(a) **Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?**

The issuers of securities for each of the Transactions were special purpose vehicles ("SPVs") created for the purpose of the Transaction. In each instance, the SPVs were established by or at the request of a Goldman Sachs affiliate. These SPVs were as follows:

Transaction	Special Purpose Vehicles
Abacus 2007-AC1	ABACUS 2007-AC1, Ltd.; ABACUS 2007-AC1, Inc.
Anderson Mezzanine Funding 2007-1	Anderson Mezzanine Funding 2007-1, Ltd.; Anderson Mezzanine Funding 2007-1, Corp.
Camber 7	Camber 7 Plc; Camber 7 Corp.
Fort Denison Funding	Fort Denison Funding, Ltd.; Fort Denison Funding, Corp.
Hudson Mezzanine Funding 2006-1	Hudson Mezzanine Funding 2006-1, Ltd.; Hudson Mezzanine Funding 2006-1, Corp.
Hudson Mezzanine Funding 2006-2	Hudson Mezzanine Funding 2006-2, Ltd.; Hudson Mezzanine Funding 2006-2, Corp.
Point Pleasant Funding 2007-1	Point Pleasant Funding 2007-1, Ltd.; Point Pleasant Funding 2007-1, Corp.
Timberwolf I	Timberwolf I, Ltd.; Timberwolf I (Delaware) Corp.

(b) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented any of the Transactions, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

In further response to Questions 1(e) and 2(b), Goldman Sachs encloses: (i) a copy of its policies and procedures governing the distribution of sales correspondence (bearing production numbers GS MBS 0000035799 – 35821) [See Appendix 7]; and (ii) a spreadsheet (bearing production number GS MBS 0000038771) [See Appendix 8] identifying potential investors to whom the Syndicate desk marketed the Transactions. Goldman Sachs notes that in general the firm marketed CDOs solely to qualified purchasers within the meaning of Securities and Exchange Commission Rule 144A, and that the firm's salespeople discussed securities via phone or e-mail with clients or potential clients known to have an interest in the particular products in which they dealt. Marketing materials were often transmitted, upon request, to interested clients or potential clients via email.

Hard copies were sent via U.S. Mail or Federal Express.

The requested materials for ABACUS 2007-AC1 were previously produced to the Subcommittee staff. The following chart sets forth the production numbers of the requested materials [See Appendix 6].

As discussed with the Subcommittee staff, Goldman Sachs also encloses a CDROM containing e-mail (bearing production numbers GS-MBS-E-021019055 – 21020015)[Retained in the files of the Subcommittee] from October 1, 2006 through December 31, 2007 reflecting communications concerning potential investors to whom Goldman Sachs marketed ABACUS 2007-AC1.1 Goldman Sachs notes that in general the firm marketed CDOs solely to qualified purchasers within the meaning of Securities and Exchange Commission Rule 144A, and that the firm's salespeople discussedsecurities via phone or e-mail with clients or potential clients known to have an interest in the particular products in which they dealt. Marketing materials were often transmitted, uponrequest, to interested clients or potential clients via e-mail. Hard copies were sent via U.S. Mail or Federal Express.

Goldman Sachs also notes that it previously produced to the Subcommittee a spreadsheet (bearing production number GS MBS 0000038771) [See Appendix 8] listing investors to whom Anderson Mezzanine Funding 2007-1, Camber 7, Fort Denison Funding, Hudson Mezzanine Funding 2006-1, Hudson Mezzanine Funding 2006-2, Point Pleasant Funding 2007-1 and Timberwolf I were marketed.

(c) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold short positions with respect to assets referenced in the Transaction being considered by any potential investor?

In all of the Transactions, the offering circular expressly disclosed the identity of the protection buyer with respect to all of the synthetic assets held by the Transaction and noted that the protection buyer could hedge some or all of its exposure in the future. In all of the Transactions except for the Point Pleasant transaction, the sole protection buyer was a Goldman Sachs affiliate. For example, the offering circular for the Hudson Mezzanine Funding 2006-1 transaction stated:

> It is expected that Goldman Sachs International [a Goldman Sachs affiliate] will act as the sole Credit Protection Buyer with respect to the Credit Default Swap, which . . . may create certain conflicts of interest.
>
> The Credit Protection Buyer and its affiliates (i) may deal in any Reference Obligation, . . . and (iii) may act . . . as if the Credit Default Swap and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Holders of the Secured Notes, the Senior Swap Counterparty or the Holders of the Income Notes.
>
> [I]t is expected that one or more affiliates of the Initial Purchaser [Goldman Sachs] will also act as counterparty with respect to all of the CDS Transactions.

(*See* GS MBS-E-001550191 – 1550378 at 1550241 and 1550250.) [See Appendix 6]

(d) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold a net short position with respect to RMBS related assets?

The offering circulars for the Transactions expressly disclosed that Goldman Sachs and its affiliates might have certain conflicts of interest with respect to the Transactions and their underlying assets. For example, the offering circular for the Hudson Mezzanine Funding 2006-2 transaction stated:

The Credit Protection Buyer. [Goldman Sachs] will be the initial Credit Protection Buyer. The following briefly summarizes some potential and actual

conflicts of interests related to the Credit Protection Buyer, but the following isn't intended to be an exhaustive list of all such conflicts.

[Goldman Sachs] and/or its affiliates may be in possession of information in relation to a Reference Entity or otherwise that is or may be material in the context of the Notes and may or may not be publicly available to Holders. None of [Goldman Sachs] or any of its affiliates has any obligation to disclose to Holders any such information.

[Goldman Sachs] and/or any of its affiliates may invest and/or deal, for their own respective accounts for which they have investment discretion, in securities or in other interests in the Reference Entities, in obligations of the Reference Entities or in the obligors in respect of any Reference Obligations or Collateral Securities (the "Investments") or in credit default swaps (whether as protection buyer or seller), total return swaps or other instruments enabling credit and/or other risks to be traded that are linked to one or more Investments. Such investments, credit derivatives and/or instruments may have the same or different terms from any of the credit derivatives referred to in the terms of the Notes. In addition, [Goldman Sachs] and/or any of its affiliates may invest and/or deal, for their own respective accounts or for accounts for which they have investment discretion, in securities (or make loans or have other rights) that are senior to, or have interests different from or adverse to, any of the Investments and may act as adviser to, may be lenders to, and may have other ongoing relationships with, the issuers or obligors of Investments and obligations of any Reference Entities. [Goldman Sachs] may at certain times be simultaneously seeking to purchase or sell investments and/or protection under credit derivatives or other instruments enabling and/or other risks to be traded for any entity for which it serves as manager in the future.

(*See* GS MBS-E-000808574 – 808747, at 808627.) [See Appendix 6]

(e) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether it had taken steps or planned to use the offering to reduce its own inventory of RMBS or CDO securities or other holdings?

Please see Goldman Sachs' response to Request 2(d) posed to Mr. Blankfein.

(f) Did Goldman conduct a suitability analysis in connection with soliciting clients or potential investors to purchase securities issued in any of the Transactions? If so, describe the suitability analysis conducted for each investor that purchased these securities. If Goldman retained a written record that reflects that such a analysis was conducted for any of these

Transactions, provide a copy.

Pursuant to Goldman Sachs' "Know Your Customer: Suitability and Authority" policy (the "KYC Suitability Policy"),[1] and reinforced by a policy specific to asset-backed securities ("ABS"), Goldman Sachs conducted a suitability analysis in connection with efforts to sell the securities issued in the Transactions.[2]

The KYC Suitability Policy, which is consistent with the rules and guidance of US self-regulatory organizations, provides that the firm fulfills its "customer-specific suitability" obligation for an "institutional customer" when the firm has a reasonable belief that the institutional customer has and exercises an independent capability to evaluate investment risk. Under that Policy, the firm complies with its suitability obligations by focusing its selling efforts, and ultimately selling the securities issued in the Transactions, to institutional investors that the firm reasonably believed met these standards. Under Goldman Sachs' supervisory framework, that suitability determination was at the time the responsibility of the sales person under the supervision of his/her manager, who was tasked with regularly reviewing sales activity for potential suitability considerations. Likewise, Legal staff and Compliance officers also are available for consultation during the selling effort.

The Transaction purchasers mainly comprised institutions that were heavily involved in investments and financial markets, either as the core or as an integral part of their businesses. Specifically, the Transaction purchasers were primarily substantial hedge funds or other asset managers; global banks or other banks experienced with mortgage or other credit related securities or derivatives; insurance companies; global investment banks; and brokerdealers These types of investors reasonably were expected, directly or through professional managers, to have the knowledge and experience in the financial markets and with nonconventional products, as well as the financial resources to make investments that carried the potential for both high return and high risk. Given the nature of the Transaction purchasers, it was reasonable for the firm to conclude that they were institutional investors that were able to—and did—independently evaluate the investment risk of the Transactions.

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[1]Copy of the policy (dated March 31, 2005 and bearing production numbers GS MBS 0000037351 –37359) was produced with Goldman Sachs' response to Question 17 posed to Mr. Blankfein. [See Appendix 21]

[2]The ABS-specific policy, the *Mortgage and Other Asset-Backed Security Policy*, dated January 13, 2006, focuses on disclosure requirements, among other items, for ABS transactions, and also contains a section reiterating the "know your counterparty" requirement with the specific reminder that "because derivative mortgage products and other asset-backed securities often are very complex and may entail significant risk, care should be taken in considering whether such investments are suitable for a counterparty given such counterparty's background, objectives and investment restrictions."

The firm confirmed the investment capacity and independence of the Transactions Purchasers, and hence the suitability of its sales efforts, in the "Notice to Investors" contained in the Offering Circular for each Transaction, under which the Transaction Purchasers were deemed to have represented and agreed that:

> In connection with the purchase of the Notes: (i) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Administrator or the Share Trustee (as defined herein) is acting as a fiduciary or financial or investment adviser for the purchaser; (ii) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Administrator or the Share Trustee other than in this Offering Circular for such Notes and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Collateral Put Provider, the Credit Protection Buyer, the Senior Swap Counterparty, the Administrator or the Share Trustee has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, results, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Notes; (iv) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Collateral Put Provider, the Credit Protection Buyer, the Senior Swap Counterparty, the Administrator or the Share Trustee; (v) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Notes with a full understanding of all of the risks thereof (economic and otherwise), and is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the purchaser is a sophisticated investor.

See, e.g., GS MBS-E-001550197 and 1550199-1550200 (Offering Circular for Hudson Mezzanine Funding 2006-1)[See Appendix 6].[3]

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[3]The KYC Suitability Policy provides that "[s]ales and trading personnel ... should consider, in consultation with their managers, whether to document [suitability] determinations in special or unusual circumstances." Given the firm's knowledge of the Transaction Purchasers at the time, there were no "special or unusual circumstances" that would have suggested the need for suitability documentation under the KYC Suitability Policy. Accordingly, other than the confirmation provided by the offering documents discussed above (which did serve to confirm the suitability of the investors), the firm is not aware of any formal suitability documentation relating to the Transactions.

Goldman Sachs also notes that responsibility for reviewing and approving CDO securitizations in 2006 and 2007 was vested in the Firmwide Capital Committee ("FWCC"), which in certain periods further delegated authority for some mortgage transactions to the Mortgage Capital Committee ("MCC") due to the high volume of transactions requiring approval. Transaction teams provided these committees with formal memos summarizing the transactions and key considerations and risks. These memos were reviewed and decisions reached at the FWCC or MCC.[4] In reviewing transactions, the FWCC and its sub-committees considered whether the product was appropriate for Goldman Sachs to sell as a general matter; as indicated above, client-specific suitability was considered at the desk level.

3. (a) **In what capacity did Goldman act for Paulson & Co. (together with any of its affiliates, "Paulson") with respect to the Abacus 2007-AC1 transaction or a Credit Default Swap transaction that referenced any or all of the same entities or securities that were referenced in the Abacus 2007-AC1 transaction? Describe in detail Goldman's relationship to Paulson with respect to those transactions, its obligations to Paulson, the nature and amount of any fees or compensation received by Goldman from Paulson relating to those transactions, and whether Goldman advised investors or potential investors in Abacus 2007-AC1 of the existence and nature of its relationship with Paulson.**

Goldman Sachs, as market maker, was facilitating a trade for Paulson to purchase protection on a portfolio of Baa2-rated RMBS from the 2006 vintage. Goldman Sachs earned approximately $15 million, which was the difference between the price at which Goldman Sachs purchased the protection from the ABACUS 2007-AC1 SPV and the price at which it sold the protection to Paulson. A detailed description of the ABACUS 2007-AC1 transaction is set forth in the Mortgage Capital Committee Memorandum regarding the ABACUS 2007-AC1 transaction and Goldman Sachs' Wells Submissions to the Securities and Exchange Commission, which are enclosed herewith (bearing production numbers GS MBS-E-005974542 – 5974549 [See Appendix 14]; GS MBS 0000024769 – 24815 [See Appendix 10], 24817 – 24837 [See Appendices 12 and 13] [See also Appendix 11]).

(b) **If Goldman advised investors or potential investors of the nature or existence of the Paulson relationship, identify who so advised investors or potential**

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[4]Goldman Sachs has located and produced to the Subcommittee MCC memos for six of the eight Transactions (*see* GS MBS 0000027963 (providing production numbers for the MCC memos)). The firm has been unable to locate records to indicate that Hudson Mezzanine 2006-01 and 2006-02 were subject to such approval. Some evidence suggests that the Hudson Mezzanine 2006-01 transaction was approved through an informal meeting, likely conducted by telephone conference.

investors, the date on which that person so advised investors or potential investors, the identity of the investors or potential investors so advised, the manner (i.e. verbal or in writing) in which the person was advised, and the substance of the communication (and, if in writing, provide a copy of the communication).

As a broker-dealer, Goldman Sachs has a duty to keep information concerning its clients' trades and positions confidential. As disclosed in the ABACUS 2007-AC1 offering circular, Goldman Sachs was the original protection buyer for the ABACUS 2007-AC1 transaction but could enter into offsetting hedging transactions to convey to other parties the credit protection it purchased via CDSs with the ABACUS 2007-AC1 SPV. As a general matter, Goldman Sachs did not disclose to potential investors the identity of Goldman Sachs' potential counterparty client(s). Goldman Sachs notes that, as reflected in a document released by the Subcommittee during the April 27, 2010 hearing, ACA knew of Paulson's involvement and, in a meeting notice dated January 8, 2007, described Paulson as being a potential equity investor.

4. **For 2006 and 2007, provide the total dollar value of the residential mortgages that Goldman asked mortgage originators to repurchase due to a breach of representations or warranties related to fraudulent loan origination or underwriting.**

(a) What percentage of Goldman's repurchase requests were successful?

For whole loans owned by Goldman Sachs or a Goldman Sachs affiliate that were not securitized, the firm made $40,364,719 in repurchase claims for breaches of representations and warranties. The firm recovered $17,459,894 on those claims (which represented 43.3% of those claims). In addition, with respect to loans in securitizations underwritten by Goldman Sachs, the firm made $474,846,676 in repurchase claims for breaches of representations and warranties. The firm recovered $81,933,778 on those claims (which represented 17.3% of those claims). Goldman Sachs notes that it does not maintain information on whether repurchase claims for breaches of representations and warranties were related to fraudulent loan origination or underwriting; accordingly, these balances reflect the amounts recovered on all claims for breaches of representations and warranties.

Further, it is important to understand that once Goldman Sachs deposits loans into a securitization trust, the trustee owns the loans and has the legal authority to decide on steps to take with respect to the loans, and oversees the servicer's management of the loans. Although Goldman Sachs on occasion made repurchase claims on the trustee's behalf, any recovery benefited the trust (and thus the holders of securities) and not Goldman Sachs.

(b) How much money did Goldman collect from its repurchase requests?

For whole loans owned by Goldman Sachs or a Goldman Sachs affiliate that were not securitized, the firm made $40,364,719 in repurchase claims for breaches of representations and warranties. The firm recovered $17,459,894 on those claims (which represented 43.3% of those claims). In addition, with respect to loans in securitizations underwritten by Goldman Sachs, the firm made $474,846,676 in repurchase claims for breaches of representations and warranties. The firm recovered $81,933,778 on those claims (which represented 17.3% of those claims). Goldman Sachs notes that it does not maintain information on whether repurchase claims for breaches of representations and warranties were related to fraudulent loan origination or underwriting; accordingly, these balances reflect the amounts recovered on all claims for breaches of representations and warranties.

Further, it is important to understand that once Goldman Sachs deposits loans into a securitization trust, the trustee owns the loans and has the legal authority to decide on steps to take with respect to the loans, and oversees the servicer's management of the loans. Although Goldman Sachs on occasion made repurchase claims on the trustee's behalf, any recovery benefited the trust (and thus the holders of securities) and not Goldman Sachs.

(c) **Identify the five mortgage originators to which Goldman directed the most repurchase requests and the total value of the requests made to each of those five.**

For whole loans owned by Goldman Sachs or a Goldman Sachs affiliate that were not securitized, the five mortgage originators to which Goldman Sachs directed the most repurchase requests were: PHH Mortgage ($13,188,153); Fremont ($9,918,074); National City ($4,800,000); Aames ($2,848,243); and Greenpoint ($1,726,400).

With respect to loans in securitizations underwritten by Goldman Sachs, the five mortgage originators to which Goldman Sachs directed the most repurchase requests were: First Franklin ($97,834,791); New Century ($66,920,582); Fremont ($46,231,372); Greenpoint ($43,816,050); and Long Beach ($33,809,847).

(d) **Identify the total dollar amount of repurchase requests that Goldman directed to:**

(i) Washington Mutual;

(ii) Fremont; and

(iii)New Century.

Goldman Sachs directed $33,809,847 in repurchase requests to Washington Mutual for loans in securitizations. Goldman Sachs directed $46,231,327 in repurchase requests to Fremont for loans in securitizations and $9,918,074 for whole loans. Goldman Sachs directed $66,920,582 to New Century for loans in

securitizations. [See also follow-up questions]

5. **What was the total dollar value of RMBS or CDO-related credit default swap (CDS) protection that Goldman obtained from AIG or an AIG subsidiary or affiliate (hereafter "AIG") from January 1, 2004 to the present?**

(a) **Specify each transaction in which Goldman purchased CDS protection from AIG, including the date, type and notional amount of CDS protection obtained, the referenced assets or entities, whether the protection was purchased for RMBS, CDO or other securities, and the Goldman business unit or desk involved.**

(b) **For each such transaction, describe the current status of the CDS protection obtained from AIG, including any settlement or final disposition of the protection and the total dollar amount received by Goldman.**

Goldman Sachs encloses a list of credit derivative swap protection purchased from AIG Financial Products by Goldman Sachs International ("GSI") and Goldman Sachs Capital Markets on super senior CDO and CMBS underliers (bearing production numbers GS FCIC 000000543 – 44) [See Appendix 15]. We have highlighted the super senior CDO positions that were terminated as a part of the Maiden Lane III transaction; all other trades remained open beyond December 2008.

6. **Did Goldman enter into any arrangement by which Goldman was the ultimate beneficiary of RMBS or CDO-related CDS protection that had been issued by AIG to a third party intermediary? If so, provide the following information:**

(a) **the name of the third party intermediary;**

(b) **the relationship between Goldman and the third party intermediary;**

(c) **the dates and nature of the transactions through which CDS protection was obtained from AIG by the third party intermediary, with Goldman as the ultimate beneficiary;**

(d) **whether AIG was aware of the arrangement between Goldman and the third party intermediary;**

(e) **the aggregate notional amount of the CDS protection obtained from AIG;**

(f) **the total amount of premiums paid by the third party intermediary;**

(g) **the consideration paid by Goldman to the third party intermediary in connection with the CDS protection; and**

(h) the dates and dollar amounts of any recovery on the protection obtained by Goldman from AIG through a third party intermediary.

Goldman Sachs is unaware of any instance in which the firm was the "ultimate beneficiary" of RMBS or CDO-related credit default swap protection that had been issued by AIG to a third party. Although it is possible that a counterparty with whom Goldman Sachs entered into a swap later transferred its interest to another party, Goldman Sachs would be unable to track such a transfer.

7. Did Goldman play any role in suggesting, encouraging, or prompting any other individual or entity to make collateral calls on CDS protection written by AIG related to RMBS or CDO securities? If so, describe in detail.

Goldman Sachs did not play any role in suggesting, encouraging, or prompting any other individual or entity to make collateral calls on CDS protection written by AIG related to RMBS or CDO securities.

8. Did Goldman obtain CDS protection against credit events involving AIG, Bear Stearns, Fremont, Lehman Brothers, Long Beach Mortgage, Merrill Lynch, National City Corp., New Century, or Washington Mutual? If so, for each such financial firm during the period from January 1, 2006 through December 31, 2008, provide the following information:

(a) the dates when the CDS protection was obtained and the nature of the protection;

(b) the counter parties involved;

(c) the total aggregate notional amount of the CDS protection obtained;

(d) the total amount of premiums paid by Goldman for such protection; and

(e) the total dollar amount of any recovery obtained by Goldman in connection with the CDS protection.

Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000037361)[Retained in the files of the Subcommittee], which sets forth the requested information on CDS protection that Goldman Sachs obtained against credit events involving the firms listed above. Goldman Sachs notes that it did not buy or sell protection on Long Beach or New Century.

9. From January 1, 2006 through December 31, 2008, did Goldman obtain any insurance or other protection from a credit event involving AIG through any means other than a CDS transaction? If so, explain in detail.

Consistent with its policies and procedures, Goldman Sachs utilizes various tools to hedge counterparty exposure. Specifically to protect against a default of AIG, Goldman Sachs used credit default swaps as the primary means of hedging. At certain times, however, Goldman Sachs also purchased or sold short AIG unsecured bonds, subordinated debt and equity (*i.e.*, common stock) in order to efficiently hedge the firm's exposure to AIG. These additional hedges were particularly relevant when large movements in our exposure to AIG occurred (primarily due to market movements on the underlying derivatives or resolution of existing valuation differences). In these situations the liquidity within the credit default swap market on AIG was inadequate to efficiently hedge the movement in the exposure. At times, unsecured bonds, subordinated debt and equity can be traded more quickly and less expensively then purchasing and selling protection on credit default swaps. Enclosed is a spreadsheet (bearing production number GS MBS 0000038789) [See Appendix 16] providing information on credit default swaps, cash bonds and equity positions purchased and sold by Goldman Sachs as hedges against credit events involving AIG.

10. **Is there any instance from January 1, 2006 to the present, with respect to the settlement of disputes related to CDS protection for RMBS or CDO securities, in which Goldman obtained less than 100 cents on the dollar on the total notional amount of CDS protection it had purchased? If so, specify each such instance, including the name and type of the referenced assets, the name of the counter party, the notional amount of CDS protection purchased by Goldman, the type and amount of any collateral posted by the counterparty and the dates on which the collateral was posted, and the aggregate total dollar amount obtained by Goldman from the counter party in final settlement of Goldman's CDS protection claims.**

As discussed with the Subcommittee staff on June 14, 2010, Goldman Sachs is interpreting this Question to request information on instances in which the Firm accepted CDS termination payments from financially sound counterparties in an amount that was less than what the Firm believed that it was contractually entitled to receive. Goldman Sachs does not believe that any such instance existed.

Goldman Sachs notes, however, that the Firm had multiple CDS trades referencing CDO bonds with Deutsche Bank in which Goldman Sachs believes that the credit event terms were incorrectly defined in the confirmations and were not consistent with the definition of those terms as agreed to by the parties at the time of the trade. For these trades, Goldman Sachs believed that an "implied writedown" credit event applied to the trades, while Deutsche Bank believed that such a credit event was inapplicable. In accordance with the terms of the confirmations, Deutsche Bank refused to pay Goldman Sachs for multiple "implied writedowns" for which Goldman Sachs attempted to claim CDS protection payments. Ultimately, the trades were terminated, and Goldman Sachs and Deutsche Bank agreed to a termination price lower than was 89.36% of the notional amount of the trades. Had Deutsche Bank agreed with Goldman Sachs that there was a documentation error and that an "implied writedown" credit event applied, Goldman

Sachs would have received more in its protection payments (or as termination payments) than it ultimately did. In total, Goldman Sachs was paid $171,000,000 to terminate $191,363,845 in notional amount of trades. Information concerning these trades (bearing production numbers GS MBS 0000035796) [See Appendix 17] is enclosed herewith.

11. **With respect to AIG, Bear Stearns, Fremont, Lehman Brothers, Long Beach Mortgage, Merrill Lynch, National City Corp., New Century, and Washington Mutual, provide the following information for the years 2007 and 2008:**

(a) **A detailed chronology of Goldman's firm-wide proprietary trading (including trading for itself or its own accounts) in equity securities for each of the above companies, including the date, purchase price, and number of shares involved in each transaction; whether the transaction involved a purchase or sale; whether the transaction resulted a long or short position for Goldman; and the net position of Goldman following each transaction.**

As discussed with the Subcommittee staff in several conference calls, Goldman Sachs is a market maker in securities issued by the companies listed above. As such, Goldman Sachs enters into a large volume of principal transactions on a daily basis on behalf of the firm's clients. During 2007 and 2008, Goldman Sachs entered into several million transactions (buys and sells) in the equity securities of these companies with gross proceeds in excess of $100 billion. To help summarize the net effect of these market making transactions, Goldman Sachs encloses a schedule (bearing production number GS MBS 0000038857) [See Appendix 18], which reflects the net common stock position in each of these companies held in each firm inventory account that was included in the firm's balance sheet for each fiscal month-end during 2007 and 2008. This schedule does not include exposure from other financial instruments issued by these companies (*i.e.*, convertibles and unsecured bonds) or exposure from derivatives transacted directly with these companies or referencing these companies as underliers and as such is not a risk report.

(b) **A detailed chronology of Goldman's firm-wide proprietary trading (including trading for itself or its own accounts) in options or futures contracts for each of the above companies, including the date, purchase price, and number of options involved in each transaction; whether the transaction involved a purchase or sale of a put or call option; whether the option was exercised, the exercise price and date, whether the transaction resulted a long or short position for Goldman; and the net position for Goldman following each transaction.**

As discussed with the Subcommittee staff, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000038753) [See Appendix 19], which provides a summary for each quarter of Financial Years 2007 and 2008 of common equity and option trades concerning AIG, Bear Stearns, Fremont, Lehman Brothers, Merrill Lynch,

National City Corp. and Washington Mutual by businesses within Goldman Sachs that the firm has identified as "proprietary trading business units." Goldman Sachs also notes that Long Beach Mortgage was a wholly owned subsidiary of Washington Mutual and that there were no common equity or option trades concerning New Century by any Goldman Sachs "proprietary trading business unit" during Financial Years 2007 and 2008.

(c) The same chronologies as requested in (a) and (b) above for the Asset Backed Securities (ABS) trading desk alone.

The Asset-Backed Securities trading desk did not engage in "proprietary" trading during the period 2007 through 2008. Although the Asset-Backed Securities trading desk did regularly commit the Firm's capital, it principally did so to facilitate client transactions as a market maker, to hedge positions obtained in connection with its role as a market maker, or to hedge positions held in Goldman Sachs' mortgage department.

As discussed with the Subcommittee staff on June 14, 2010, Goldman Sachs encloses a spreadsheet (bearing production numbers GS MBS 0000035797)[Retained in the files of the Subcommittee] listing trades by the Asset-Backed Securities Trading desk in equity securities (including options & futures) for the requested financial institutions. Goldman Sachs notes, however, that Long Beach Mortgage Company was a subsidiary of Washington Mutual, Inc., and its securities could not separately be traded.

12. (a) Did Goldman have any written procedures or policies with regard to the ABS desk's using funds from a firm trading account to make speculative or proprietary trades in equity securities or options or futures contracts such as those listed above? If so, provide a copy of those procedures or policies.

Yes. Enclosed is a document (bearing production numbers GS MBS 0000038674 –38677) [See Appendix 20] describing Goldman Sachs' "Policy for Approving Non-Core Trading Products and Trading Flow Changes," which provides the procedures that franchise traders (including the ABS desk) must adhere to in advance of trading products outside of their primary markets. This policy allows a franchise trading desk, with appropriate approvals, to transact in products not core to its business.

(b) Was it a departure from Goldman's policies or procedures for the ABS trading desk to have used a firm trading account to engage in speculative or proprietary trades in the equity securities or options or futures contracts listed above?

No. Pursuant to Goldman Sachs' "Policy for Approving Non-Core Trading Products and Trading Flow Changes," the ABS desk sought, and received, approval from Bill McMahon and Don Mullen (the Divisional Risk Manager and the appropriate Operating Committee member, respectively) to use equities and equity derivatives as part of its hedging strategy for the mortgage market. Goldman Sachs notes that the ABS desk

did not engage in speculative or proprietary trading. Rather, the ABS desk used trades in equity securities, options and futures to hedge its existing positions. Goldman Sachs further notes that Josh Birnbaum participated in training classes on equity trading and equity derivatives, conducted by the firm's Compliance Department in the summer and fall of 2006.

(c) **Did the ABS trading desk seek or obtain a waiver of Goldman's policies or procedures to trade these securities? If so, provide the date of the waiver, the persons who requested the waiver, the person who made the final decision to grant the waiver, and a copy of the waiver and the application or request to obtain it.**

As explained above, the ABS desk followed the procedures outlined by the "Policy for Approving Non-Core Trading Products and Trading Flow Changes" and accordingly obtained the appropriate waiver.

13. **During 2008, did any representative, employee, officer, agent, or attorney acting on behalf of Goldman contact or communicate with any federal agency, including the Federal Reserve or the Securities and Exchange Commission (SEC), to discuss any limitation on the short selling of Goldman shares or the shares of any other financial institution? If so, provide a detailed chronology describing those contacts, including the date of each contact, who initiated it, the participants involved, whether it was made by telephone or in person, and the substance of the discussion.**

Please see Mr. Blankfein's response to this Question.

14. **Describe how and when Goldman learned of the limitations that the SEC implemented in 2008, on the short selling of the shares of certain financial institutions.**

Please see Mr. Blankfein's response to this Question.

15. **Provide any document possessed by, generated by, or provided to Jonathan Egol related to obtaining a credit rating related to any Abacus transaction by any credit rating agency, including any correspondence, emails, memoranda, or other analysis or exchanges of information.**

[Retained in the files of the Subcommittee]

16. **Describe in detail your understanding of Goldman's legal duties of disclosure, pursuant to securities laws and regulations, including rules prescribed by the SEC or FINRA, to purchasers of securities when Goldman acts in any of the following capacities: (a) market maker; (b) underwriter; (b) placement agent; (d) broker (when making a solicitation or recommendation of a security); or (e) a dealer.**

Include your definition of a "market maker."

Goldman Sachs' duties of disclosure generally can be thought of as falling under two distinct legal and regulatory regimes: one that governs its duties when acting as a broker-dealer and one that governs its duties when underwriting and marketing new-issue securities.

With regard to the firm's role as market maker, broker or dealer, these capacities all fall within the scope of Goldman Sachs' broker-dealer activities. Goldman, Sachs & Co. is registered with the SEC as a broker-dealer under Section 15(a) of the Securities Exchange Act of 1934 and maintains membership in the Financial Industry Regulatory Authority ("FINRA") and various securities exchanges. In general, a broker-dealer's duties to a customer that wishes to effect securities transactions in a non-discretionary account are limited to the duties of diligence and competence in executing the customer's trade orders on a transaction-by-transaction basis. This duty is often called a duty of best execution, and has been the subject of extensive interpretation and some rule-making by the SEC and FINRA. This duty applies with respect to all securities transactions, whether solicited or unsolicited, effected by a broker-dealer for its customers.

Special obligations apply to Goldman Sachs when it acts for a discretionary account. In such a case, Goldman Sachs must comply with any client guidelines and must enter into transactions consistent with the client's investment objectives. In exercising discretion, Goldman Sachs is typically subject to the duty to act in the best interests of the client and not that of Goldman Sachs and to disclose all conflicts of interest.

We understand the term "market maker" to mean a broker-dealer that stands ready to make an offer to buy or sell a given security whenever a seller or a buyer enters the market. A market maker connects buyers and sellers—and thereby provides critical liquidity—through its willingness and ability to commit its own capital in taking the other side of transactions that its customers wish to execute. While the transactions executed by a market maker are often initiated by a customer looking to make a specific purchase or sale, a market maker may also frequently propose transactions to its customers, based on their previously expressed investment interests or needs. As such, when Goldman Sachs acts as a market maker, it is simply engaging in a particular type of broker-dealer activity, and its basic duties are the same as those described above.

FINRA and exchange rules impose special obligations on exchange-based and over-the-counter market makers of equity securities to provide liquidity. These rules, among other things, require the market maker to maintain a two-way market and regulate when market makers can cease to provide quotations.

The firm's role as an underwriter or placement agent differs from that of a broker-

dealer.[5] As described above, a broker-dealer is primarily engaged in the business of assisting clients in executing transactions. This business is client-driven, and Goldman Sachs strives to provide a fair price to its clients.

In contrast, an underwriter or placement agent is involved with the issuer in marketing and selling offerings of securities to investors. In this context, the federal securities laws effectively impose a "gatekeeper" role on Goldman Sachs: as an underwriter or placement agent the firm is expected to assist the issuer in providing an offering document to investors that discloses material information relevant to the offering,[6] and absent a showing that the firm conducted an appropriate review (so-called "due diligence") regarding the securities being offered, the firm is potentially liable to investors for any losses resulting from any material misstatements or omissions in the offering document. The same disclosure obligations do not apply to a broker-dealer (whether acting in a market making capacity or otherwise) because a broker-dealer must execute countless transactions in order to meet the demands of clients and other parties. If a broker-dealer were required to perform extensive due diligence on each security in which it was asked to execute a transaction, and to update disclosures every time it bought or sold securities, real-time, market makers could not function and liquid markets could not exist.

17. (a) **Does the fact that an investor or a potential investor with whom Goldman is transacting business is an "accredited" investor, a "qualified institutional buyer" or a "qualified purchaser" (as those terms are used in the U.S. federal securities laws) affect the duties and obligations of Goldman when acting in any of the capacities described in Question 16? If so, describe how any of Goldman's duties when acting in any of these capacities are affected by the status of the investor or potential investor.**

(b) **Does Goldman have a duty to conduct a suitability analysis when making a recommendation to any of the types of investors listed in question 17(a)? If**

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[5]As a technical matter, a firm generally may not act as an underwriter or placement agent of securities in the United States without registering as a broker-dealer with the SEC as described above. For convenience, however, when we refer to the activities of a brokerdealer in this response, we mean the activities of a market maker, broker or dealer as described above and not those of an underwriter or placement agent, even though the latter activities may also require registration as a broker-dealer with the SEC.

[6]The type and amount of disclosure is likely to vary depending on the nature of the offering. An SEC-registered public offering, for example, is subject to specific, detailed disclosure requirements of the SEC. In contrast, an offering exempt from registration is subject to a more general requirement that any disclosure made must not be materially false or misleading.

so, describe the nature and extent of the analysis to be conducted.

In general, the legal duties that Goldman Sachs owes when engaging in a securities transaction with a customer depend on the particular services the firm provides and the nature of its interaction with the customer, taking into account, in particular, the nature and sophistication of the customer, the customer's reasonable expectations with regard to the firm's services and the compensation arrangement between the Firm and the customer.

When a broker-dealer "recommends"[7] a securities transaction to a customer, the broker-dealer has a duty to determine that the transaction is suitable for the customer. This suitability duty requires the broker-dealer to determine, in the first instance, that the transaction is suitable for at least some investors. This is sometimes called "general suitability" or the "due diligence" duty, and it applies independently of any particular customer's interests.[8] Additionally, the broker-dealer must also determine that the recommended transaction is suitable for the particular customer, based on those facts, if any, disclosed by the customer as to his security holdings, financial situation, and needs or objectives. This duty, which is sometimes called "customer specific suitability," in turn gives rise to a related duty to "know the customer."[9] In this respect, the firm believes that, before entering into any securities transaction, its sales and trading personnel have an obligation to exercise due diligence to learn the essential facts regarding the customer and the customer's orders and accounts and to ensure that the customer has provided sufficient evidence of its authority to enter into a transaction. Under Goldman Sachs' policies and applicable regulations (enclosed bearing production numbers GS MBS 0000037351 – 37359) [See Appendix 21] employees are required to be prepared to explain the basis for their suitability determinations and must consider, in consultation with their managers, whether to document such determinations in special or unusual

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[7]Whether a broker-dealer makes a "recommendation" to a customer depends on the nature and context of the firm's communications with the customer. According to FINRA, a critical factor to consider is whether a particular communication, given its content, context and manner of presentation, reasonably would be viewed as a "call to action" or a suggestion that the customer engage in a securities transaction. *See* NASD Notice to Members 01-03 (Online Suitability) (April 2001).

[8]According to FINRA, the broker-dealer must implicitly represent to the customer that a reasonable investigation has been made and that its recommendation rests on the conclusions based on that investigation. *See* FINRA Notice to Members 10-22 (April 2010); FINRA Notice to Member 09-25 (May 2009).

[9]The specific suitability and related know-your-customer duties have been codified by FINRA in Conduct Rule (NASD) 2310.

circumstances. Managers are also required to regularly review sales activity for potential suitability concerns.

Significantly, however, FINRA has provided an important exception to the customer specific suitability duty with regard to institutional customers.[10] Broadly speaking, a broker-dealer may satisfy its customer specific suitability duty owed to an institutional customer if the broker-dealer reasonably determines, based on the relevant facts and circumstances, that the institutional customer (i) is capable of evaluating the risk associated with the recommended transaction independently of the broker-dealer and (ii) is in fact exercising independent judgment in evaluating the recommendation (*i.e.*, is not relying on the broker-dealer to determine customer specific suitability). As a practical matter, this exception means that a broker-dealer need not determine whether a particular transaction is suitable for an institutional customer in light of its particular circumstances, as long as the firm has a reasonable basis to believe that the customer has sufficient expertise and resources to make its own evaluation and is in fact doing so (*e.g.*, in light of regular past practice). This exception does not relieve a broker-dealer of its general suitability duty to an institutional customer.

Goldman Sachs further notes that, in August 2008, the firm introduced suitability committees responsible for the administration of the Due Diligence and Approval Guidelines for Structured and Strategic Trades, which governs all structured trades (including CDOs) done with non-market professionals—whether primary or secondary transactions. In addition, Goldman Sachs has already implemented most of the March 2009 recommendations of the Counterparty Risk Management Policy Group requiring firms to make reasonable efforts to determine that investors possess the following: (I) capability to understand risk and return; (ii) capability or access to the capability to price and run stress tests; (iii) governance procedures, internal controls and technology; (iv) financial resources sufficient to withstand potential losses; and (v) authorization to invest in high risk complex financial instruments.

(c) Does Goldman owe a duty to disclose any adverse interest that it may have when recommending a security to any of the types of investors listed in question 17(a)?

Although Goldman Sachs does not believe that the federal securities laws require a general disclosure of "adverse interests," the firm notes that where relevant the offering circulars for the Transactions expressly disclosed that the protection buyer with respect to all of the synthetic assets held by the Transaction would be a Goldman Sachs affiliate, and noted that the protection buyer could hedge some or all of its exposure in the future. For example, the offering circulars for Hudson Mezzanine Funding 2006-1, Hudson

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[10] *See* FINRA Interpretation IM 2310-3 (Suitability Obligations to Institutional Customers).

Mezzanine Funding 2006-2 and Anderson Mezzanine Funding 2007-1 stated:

> It is expected that Goldman Sachs International [a Goldman Sachs affiliate] will act as the sole Credit Protection Buyer with respect to the Credit Default Swap, which . . . may create certain conflicts of interest.
>
> The Credit Protection Buyer and its affiliates (i) may deal in any Reference Obligation, . . . and (iii) may act . . . as if the Credit Default Swap and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Holders of the Secured Notes, the Senior Swap Counterparty or the Holders of the Income Notes.
>
> [I]t is expected that one or more affiliates of the Initial Purchaser [Goldman Sachs] will also act as counterparty with respect to all of the CDS Transactions.

(*See* GS MBS-E-001550241,1550250, 808621, 808630, 854578 – 854579 and 854588.) Similar language appeared in the Camber 7 and Timberwolf I offering circulars. (*See* GS MBS-E-000814255, 814269, 673714 – 673715 and 673729.) The Point Pleasant offering circular provided a similar disclosure for IXIS Corporate & Investment Bank, which was the protection buyer for that transaction. (*See* GS MBS-E-000638970 – 638971 and 638979.) There was no such disclosure for Fort Denison Funding, which was a cash CDO.

18. (a) **Is Goldman aware of the 2004 Guidelines set forth by the United States Sentencing Commission (the "Guidelines") establishing the elements of an effective ethics and compliance program?**

(b) **What, if anything, has Goldman done to address the standards for ethics and compliance programs as set forth in the Guidelines? In particular, provide copies of educational materials or presentations given or presented to the Goldman Board of Directors, Goldman executives, and Goldman employees in general with respect to ethics and compliance during the period 2004 to the present.**

Goldman Sachs is aware of the amendments to the Sentencing Commission Guidelines, effective November 1, 2004 (the "2004 Guidelines"), establishing the elements of an effective ethics and compliance program. During the period 2004 to the present (the "relevant period"), the firm has had and continues to have a robust and far-reaching compliance program to address the standards set by the 2004 Guidelines, to educate and report to its Board, executives and employees concerning the compliance program, and to involve those stakeholders in the program's execution. Highlights of how the firm's compliance program addresses the 2004 Guidelines follow. Further, as discussed with the Subcommittee staff, enclosed is list (bearing production number GS MBS 0000038749 – 38750 [See Appendix 22] (providing the relevant Appendices cited in this response)) of relevant documents from 2004 through 2009 concerning how the

firm's compliance program addresses the 2004 Guidelines. As discussed with the Subcommittee staff, Goldman Sachs will subsequently produce any of the documents listed in the Appendices that are requested by the Subcommittee.

I. Board of Directors

A. Compliance Presentations to the Board

In September 2005, the Compliance Department made a presentation to Goldman Sachs' Board of Directors (the "Board") entitled "Amendments to the U.S. Sentencing Guidelines for Organizations - Goldman Sachs' Compliance Program." This presentation explicitly addresses how the firm's compliance program meets the 2004 Guidelines requirements to: "(1) exercise due diligence to prevent and detect criminal conduct; and (2) otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law." *See* 2004 Guidelines § 8B2.1. The Board presentation highlights the key elements of the firm's compliance program and tracks those elements to the 2004 Guidelines.

Apart from this Board presentation, the Compliance Department has made anumber of other presentations regarding the firm's compliance program to the Board or the Board's Audit Committee.[11] *See* Appendix A. As set forth in the 2004 Guidelines presentations and these other Compliance presentations, the key elements of the firm's compliance program are:

Risk Assessments to identify compliance and reputational risks of particular business activities and to help drive the nature, scope and frequency of compliance surveillance, monitoring and testing.
Surveillance and Other Monitoring of processes and transactions to detect breaches and identify changes in the risk profile.
Testing of the Compliance Control Framework to assess and validate assumptions about the efficacy of controls, principally by the firm's Internal Audit Department and the Compliance Testing Group.[12]
Training and Communication of the rules and the firm's compliance policies and procedures to the Board, senior management and supervisors, other employees and other stakeholders.
Independence and Empowerment of the Compliance Function. In

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[11]The January 2009 presentation to the Board, "Compliance with CRMPG III Recommendations and Other Key Industry and Regulatory Reports," may be of particular interest.

[12]The Board's Audit Committee has a standing agenda item for Internal Audit presentations. Internal Audit also has a standing closed session with the Board's external directors.

2004 the firm created a Compliance Department that is separate and independent from the Legal Department, hiring a Global Head of Compliance who reports directly to the firm's Chairman/CEO and President/COO, and making him a member of the Firmwide Management Committee, the firm's highest management governing body.[13] The firm's Compliance headcount has increased by approximately 40% during the relevant period, from 399 in October 2004 (*see* November 2004 Board presentation) to its current level of 558.

B. Sarbanes-Oxley Presentations to the Board

In addition to the Compliance Department presentations to the Board or Board Audit Committee referred to above, the Board and its committees engage in governance activities related to the Sarbanes-Oxley Act of 2002, as follows:

(1) Annual review by the Board's Corporate Governance Committee, and re-approval by the Board, of the Code of Business Conduct and Ethics, originally adopted by the Board in February 2003.

(2) Annual review by the Board's Audit Committee, and re-approval by the Board, of the Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns, originally adopted by the Board as of February 2003 and June 2003. *See* Appendix B.

II. High-level Employees: Business Practices Committee

In 2003, as indicated in the 2005 Board presentation on the 2004 Guidelines, Goldman Sachs established a firmwide Business Practices Committee ("BPC"), which "assists senior management in its oversight of compliance and operational risks and related reputational concerns, seeks to ensure the consistency of the firm's polices, practices and procedures with the firm's business principles, and makes recommendations on ways to mitigate potential risks." *See* Appendix C.

The BPC, which generally meets monthly and reports to the Firmwide Management Committee (the firm's highest management governing body), is made up of

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[13]From 2004, the Global Compliance Head has been Alan Cohen, a prominent former federal prosecutor and private sector lawyer specializing in litigation and governmental investigations in the securities industry and other corporate areas. All Compliance officers report directly or indirectly to Mr. Cohen, and none reports to the business.

senior leaders of the firm's revenue producing and control divisions. *See* Appendix C. More specifically, under its charter, the BPC:

- Reviews business practices that could pose significant compliance and operational risks and related reputational concerns;
- Identifies and oversees key business practices initiatives and reviews related communications and training programs;
- Reviews internal and external incidents having significant reputational or operational impact;
- Reviews regulatory issues and significant trends;
- Establishes standards and reviews and approves policies and procedures implemented in accordance with the firm's business principles;
- Addresses issues raised by the Global Compliance Division and Internal Audit Division.

In addition, each revenue-producing division and each of the firm's non-US regions (Europe, Middle East and Africa, Asia Ex-Japan, and Japan) has its own Business Practices Committee that performs functions similar to the firmwide BPC for those respective divisions or regions.

III. Employees Generally

As indicated in the Board presentation on the 2004 Guidelines and in other Compliance presentations to the Board or Board committees, the firm has an extensive program of communication and training on its compliance policies, procedures and other controls across the firm at all levels, as well as processes that create incentives for compliance with those controls and mete out discipline for substantial compliance breaches.

- **New hires.** On their first day, new hires attend a concentrated "Day One Training" training program in the key compliance policies and controls, including components on handling material non-public information and requirements of the anti-money laundering ("AML") laws. In addition, employees are required to disclose their investment accounts, private investments and outside activities, if any. These disclosures, which must be updated with new information as circumstances change, are logged in a database and are used to enhance the firm's surveillances and monitoring for inappropriate trading or business activity. *See* Appendix D.

- **Ongoing training of employees.**
  - The firm develops training programs from time to time that employees generally are required to complete. These programs are focused on compliance and reputational issues, particularly in the context of using the firm's communications tools, and the prevention and detection of criminal conduct by educating staff on the requirements of the anti-money laundering ("AML") laws program.

- Throughout the relevant period (2004-present), recent hires, including temporary staff (but with the exception of certain service employees for whom the training would not be relevant), have been required to complete AML online training and a related assessment within a short period after joining the firm. An "AML Refresher" course was rolled out in 2005-06 for employees who had been hired prior to that time. *See* Appendix D
- In addition, recent hires complete modules that review the firm's policies and procedures governing the proper use of communications tools such as e-mail, voice mail, wireless devices and the Internet, with a focus on protection of confidential information. *See* Appendix D
- The firm's AML program, as discussed in Board presentations by Compliance referenced in Appendix A, employs various surveillances of trading and money movements to prevent and detect criminal activity, and to assist the firm in complying with its legal obligations to report suspicious activity. In 2008, the AML group rolled out a required global training program across key areas of the firm in live classroom training sessions on "Raising Suspicious Activity Awareness." This program has targeted the firm's Compliance, Legal, Internal Audit, Operations, Private Wealth Management, Asset Management and Investment Banking/Merchant Banking, and Securities Divisions and included a session for the firm's Management Committee. Training sessions have been tailored to each of the business areas and focus on the "red flags" that might indicate potential money-laundering or fraud. *See* Appendix D.

- Firmwide training is supplemented with extensive training and communications efforts customized to the needs of individual divisions, departments, groups and regions. These efforts include training designed to meet regulatory obligations as well as to reinforce the firm's compliance controls. Annual training in the revenue-producing divisions includes AML and suspicious activity components.

- **Leaders, Supervisors and Other Managers.**
  - As set forth in the Board presentation on the 2004 Guidelines, in 2004-05, the firm's then Chairman Hank Paulson conducted "The Chairman's Forum on Leadership and Accountability," at which he discussed the importance of compliance, ethical behavior and management accountability in a series of meetings with groups of the firm's managing directors ("MDs") across the globe (nearly 2,000 people).
  - Following the MD sessions, the program was adapted for the firm's vice president population, which included nearly 8,000 people. The Leadership and Accountability for Vice Presidents program began in 2005 and was completed in 2007. The program was run by senior MDs and members of the firm's Management Committee.

- In 2007, the firm's Chairman, Lloyd Blankfein, began a second iteration of the program for MDs, "The Chairman's Forum on Clients: Advancing our Franchise," which focused on the critical importance of, and challenges associated with, client relationships. During three-hour sessions, which consisted of 30 sessions in six cities conducted globally, MD participants reviewed and discussed video and written case studies depicting situations that posed potential ethical, compliance and business issues. The case studies stressed the importance of clear communication, humility and integrity.
- In 2008, the "Chairman's Forum on Clients: Advancing Our Franchise" was introduced to the firm's vice president population. Content of the program, which comprised 66 sessions globally, was tailored based on individuals' business unit functions, and firmwide sessions were held in smaller offices globally. As in the MD program, content focused on the strategic importance of our client franchise as well as key principles for client relationships.
- In 2005, in response to new rules promulgated by the US securities self-regulatory organizations, the firm instituted a CEO Certification process related to compliance policies, procedures and internal controls for its broker-dealer businesses in the US. The CEO Certification, which is discussed in several of the Board presentations by Compliance referenced in Appendix A, is supported by an extensive process whereby business supervisors in the revenue-producing divisions and compliance officers complete quarterly or monthly certifications or checklists affirming and evidencing the discharge of their oversight responsibilities.[14] These supervisory processes not only are an important part of the firm's compliance oversight and monitoring structure, but also serve as a way to remind supervisors of their responsibilities on an ongoing basis.

- **Compliance incentives and disciplinary process.** The firm's annual performance review process includes a criterion specifically devoted to knowledge of and compliance with applicable rules, policies and procedures. *See* Appendix D. In addition, as noted in the Board presentation on the 2004 Guidelines, the compliance-related disciplinary framework is overseen by a subcommittee of the firm's BPC; the process also involves Legal, Compliance, Employee Relations and business supervisors.

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[14] The supervisory checklist process has been rolled out globally for the Securities Division.

GOLDMAN SACHS/LLOYD BLANKFEIN RESPONSES TO ADDITIONAL SUPPLEMENTAL QUESTIONS FOR THE RECORDS

Confidential Treatment Requested by Goldman Sachs

LB 1(b)(i): IXIS Corporate Investment Bank served as the initial placement agent in the Point Pleasant transaction. Please explain why IXIS served the role instead of Goldman, and what, if any, placement role Goldman served in the transaction.

IXIS Corporate & Investment Bank ("IXIS") served as the "Initial Placement Agent" for the Point Pleasant transaction and offered the notes to investors in France, Luxembourg, Switzerland and Belgium. Goldman, Sachs & Co. ("Goldman Sachs") served as the "Initial Purchaser" of the notes and offered the notes to investors in other jurisdictions. Goldman Sachs served as the primary placement agent, with IXIS serving as the placement agent for the specified countries.

Supplemental Response Received From Goldman Sachs

Confidential Treatment Requested by Goldman Sachs

LB 16 – Does Goldman have a formalized due diligence review process for securities being offered? If so, please provide copies of the reviews for the transactions listed in LB 1 and LB 2.

Goldman Sachs employs a variety of due diligence processes in connection with the offering of securities for which it serves as underwriter. These processes vary based on numerous factors, including: (1) the type of security being issued; (2) the nature of the issuer and its business; (3) Goldman Sachs' familiarity with the issuer and its affiliates; and (4) the jurisdictions in which the securities are to be offered.

In the case of the transactions listed in LB 1 and LB 2, Goldman Sachs performed due diligence on both the underlying assets and, where applicable, the collateral managers involved in the transactions. Goldman Sachs examined the credit quality of the assets to be included in the transaction. Where proposed assets were unfamiliar to the team working on a specific deal, the Firm examined a wide variety of relevant materials, including available performance data, offering documents, marketing materials, trustee reports and Bloomberg and Intex data.

Additionally, nationally-recognized accounting firms reviewed the collateral and offering documents for the transactions and provided "agreed upon procedures letters" attesting to the accuracy of certain characteristics of the transactions, including the overcollateralization ratios and the asset type and rating of the underlying assets or reference obligations. These letters were produced to you on September 24, 2010, and bear production numbers GS MBS-E-021818546 – 21818598, 21820485 – 21820547, 21822176 – 21822225, 21823468 – 21823508, 21825024 – 21825069, 21826772 – 21826818 and 21828279 – 21828347.

For transactions involving collateral managers, those managers generally were required to complete due diligence questionnaires concerning numerous factors, including: (1) their management and ownership structure; (2) their assets and transactions under management; (3) litigation and disputes in which they have been involved; and (4) assets or positions that might give rise to potential conflicts of interest with the CDO investors. Copies of questionnaires that we have been able to locate are enclosed herewith bearing production numbers GS MBS 0000004769 – 4770 and 87077 – 87083.

Supplemental Response Received From Goldman Sachs

Redacted By The Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

LB 4: Please provide further explanation of the trustee's ownership of loans in a securitization trust. Under what circumstances would Goldman make repurchase requests on the trustee's behalf? Did Goldman have a financial interest in the securities on which it made repurchase requests on behalf of the trustee? Please explain why 43% of claims on non-securitized loans were recovered while 17% of claims on securitized loans were recovered?

Goldman Sachs Mortgage Company ("GSMC") purchased residential mortgage loans at arm's length from third-party originators in secondary market transactions. GSMC then pooled and conveyed those loans, through a depositor, to a securitization trust. The trustee for the securitization trust held the loans (including the rights and obligations associated with the loans) for the benefit of the investors who purchased securities that were issued by the trust.

Goldman Sachs reviewed the loans purchased by GSMC for potential breaches of representations and warranties. When Goldman Sachs identified loans owned by the firm ("whole loans") for which there were claims of breaches of representations and warranties, Goldman Sachs pursued those claims directly with the loan originator. When Goldman Sachs identified loans in securitizations for which there were claims for breaches of representations and warranties, Goldman Sachs notified the loan originator and the trustee for the securitization trust of the claims. In these instances, the trustee had the authority and responsibility to decide what steps to take with respect to the claims. At times, Goldman Sachs, on behalf of the trustee and solely for the benefit of the trust, also approached loan originators to raise claims on securitized loans, although the trustee continued to retain the authority and responsibility to pursue any such claims. In all instances, any recovery made on claims for securitized loans benefited the trust (and thus the holders of securities) and not Goldman Sachs.

As Goldman Sachs explained in its prior response to this Question (bearing production number GS MBS 0000037369), the firm recovered $17,459,894 on claims made for whole loans (which represented 43.3% of the whole loan claims the firm made). Goldman Sachs recovered $81,933,778 on claims made for securitized loans (which represented 17.3% of the securitized loan claims made by the firm for the trusts' benefit). This discrepancy is largely attributable to the approximately $9 million recovered from whole loan repurchase claims that Goldman Sachs made related to 17 large balance loans originated by PHH Mortgage. If those 17 loans are excluded, then Goldman Sachs recovered approximately 20% of the whole loan claims the firm made.

Supplemental Response Received From Goldman Sachs

Confidential Treatment Requested by Goldman Sachs

Supplemental Request to Provide:

- Records of any instance that Goldman Sachs accessed the Federal Reserve Bank's discount window.

Since becoming a bank holding company, Goldman Sachs has had access to funding through the Federal Reserve Bank discount window. Goldman Sachs has, however, only used this access in order to test that all the necessary policies, procedures and operational capabilities required to access this funding were in place. The first such test was conducted on October 1, 2008. At that time, Goldman Sachs borrowed $2,500,000.00 in exchange for collateral pledged of $3,424,657.53. It returned the entire amount borrowed the next day. During 2009 and 2010, similar tests were conducted.

Supplemental Response Received From Goldman Sachs

Confidential Treatment Requested by Goldman Sachs

Supplemental Request to Provide:

- Records (presumably minutes, notes or other memoranda) of board meetings prior to September 21, 2008, during which participants possibly converting Goldman Sachs into a bank holding company.

Goldman Sachs encloses a presentation made to the Board of Directors in June 2008 (bearing production numbers GS MBS 0000038868-38939) in which the Board discussed the possibility of converting to bank holding company in the context of its overall business strategy, as well as minutes of the meeting reflecting the presentation (bearing production numbers GS MBS 0000038862-38867). Goldman Sachs notes that while the firm has reviewed at senior levels, in the context of its overall business strategy, the possibility of becoming a bank holding company for at least a decade, dating back to the period after passage of the Financial Services Modernization Act in 1999, to the extent any of those discussions occurred at the Board level, the firm has not identified any minutes or presentations reflecting such discussions. Goldman Sachs also notes that over the years the Board did examine, as part of the Board's annual strategy review, the attractiveness of potential transactions that would have resulted in the firm becoming a bank or bank holding company, including merging with or acquiring a commercial bank. Goldman Sachs encloses, by way of example, a copy of one such presentation to the Board in June 2003 (bearing production numbers GS MBS 0000038944-38983).

Supplemental Response Received From Goldman Sachs

Goshorn, Daniel (HSGAC)

From: Fredman, Sheara [Fin] [Sheara
Sent: Friday, August 20, 2010 10:07 AM
To: 'daniel_goshorn@hsgac.senate.gov'
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Fredman, Sheara [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Subject: Response to PSI

Follow Up Flag: Follow up
Flag Status: Completed

Dan –

In response to an email received from Bob Roach on August 10, 2010, we are providing the wire transfer numbers in conjunction with our testing of the Federal Reserve Bank discount window. As we described in our response sent on July 14, 2010, we only used this access to test that all the necessary policies, procedures and operational capabilities required to access this funding were in place. The small amounts borrowed were returned in their entirety the next day.

Borrow Date	Return Date	Collateral Pledged	Amount Borrowed	Reference Number
10/1/2008	10/2/2008	3,424,657.53	$ 2,500,000.00	FD582750120001
10/23/2008	10/24/2008	5,759,492.57	$ 5,000,000.00	FD58297007C601
9/9/2009	9/10/2009	366,246,381.87	$ 1,000,000.00	2401212720539401005 19
1/11/2010	1/12/2010	294,094,297.18	$ 1,000,000.00	2401010060020100111 00
3/18/2010	3/19/2010	268,451,699.00	$ 1,000,000.00	2401010040233100318 00

Please note the following:

The information requested by the Subcommittee includes confidential internal documents and proprietary business records that Goldman Sachs does not make available to the general public. Goldman Sachs is producing these documents pursuant to Senate Rule XXVI and formally requests that these materials be treated as confidential business records. Accordingly, should you wish to publicly release any of these documents, Goldman Sachs respectfully requests reasonable notice of your intent to do so and the opportunity to object to such a release.

Goldman Sachs used various technology and manual resources to generate some of the documents for production to you in response to your Requests. While Goldman Sachs believes that these documents are reasonably accurate, we cannot make an absolute representation that it is complete or that there are not some inadvertent errors in the preparation of the spreadsheet. We will provide further updates or corrections if we discover missing information or errors.

Please confirm receipt.

Thanks,

Sheara

Goldman, Sachs & Co.
200 West Street | New York, New York 10282
Tel: (212) 357-3579
e-mail: sheara.fredman@gs.com

Sheara Fredman
Managing Director
Finance Division
Goldman Sachs

This message may contain information that is confidential or proprietary. If you are not the intended recipient, please advise the sender immediately and delete this message and any attachments. Follow this link for further information on confidentiality and the risks inherent in electronic communication: http://www.gs.com/disclaimer/email/

Supplemental Response Received From
Goldman Sachs

Goldman Sachs

Presentation to the Board of Directors
Strategy Discussion Materials

June 22, 2003

Confidential Treatment
Requested by Goldman Sachs

Goldman Sachs

Table of Contents

I. Overview of GS Strategy

II. Update on Environment and GS Performance

III. Overview of the Competitive Landscape

IV. Strategic Alternatives

Confidential Treatment
Requested by Goldman Sachs

Goldman Sachs

I. Overview of GS Strategy

Confidential Treatment
Requested by Goldman Sachs

Goldman Sachs

Current Strategy

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Business

- Three core businesses
- Advisor of choice to:
  - Leading corporations and governments
  - Major institutional investors and wealthy individuals
- Leading participant in global financial markets

Financial

- Provide superior returns to shareholders –
- growth over the cycle

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Goldman Sachs

Track Record of Success

- Successful track record of largely organic growth
- Premier global franchise in investment banking and securities
  - Leading market share across core businesses
  - Global footprint largely in place
- Emerging profitability of asset management business
- Strong financial performance, even at trough of cycle
- Leading destination for intellectual capital
- Positively differentiated reputation, despite difficult regulatory environment
- GS franchise continues to command a premium multiple

Confidential Treatment
Requested by Goldman Sachs

GS MBS 0000038948

PSI_QFR_GS0078

Goldman Sachs

Vision for the Future

- Pre-eminent global provider of advisory and risk management services to institutions, governments and high net worth individuals
  - — Advisor of choice with strongest senior decision maker relationships
  - — Leading participant in each of the most important global markets
  - — Premier principal business with best-in-class risk management skills
- Recognized destination for top intellectual talent
- Leader in market innovation and new product development
- Top-tier financial performer as measured by return on equity, earnings growth and total return to shareholders
- Unparalleled reputation for commitment to quality and integrity with culture of teamwork and client service
- True meritocracy for all employees with a diverse workforce at all levels of seniority

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Requested by Goldman Sachs

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Current Challenges

- Relative scale in a consolidating market and currently increased capital intensity of core businesses
  - — Continued pressure to extend credit
  - — Impact on traditional agency business
  - — Emergence of Citigroup
- Ability to achieve [redacted] target in a low growth, low interest rate environment
- Greater reliance on trading activities
  - — Unpredictability / volatility
  - — Potential for missteps
- Ability to develop or acquire significant, additional uncorrelated earnings streams
- Safeguarding reputation in environment of reduced business and greater scrutiny
- Optimizing global footprint
- Improving underperforming areas (e.g. private wealth management)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment
Requested by Goldman Sachs

Goldman Sachs

II. Update on Environment and GS Performance

Confidential Treatment
Requested by Goldman Sachs

Goldman Sachs

Economic Outlook

	United States		Euroland		Japan	
	2003	2004	2003	2004	2003	2004
Real GDP Growth	2.2%	2.5%	0.7%	2.6%	1.3%	0.2%
Change in Consumer Prices	2.2	1.2	1.9	1.3	(0.2)	(0.1)
Short-Term Interest Rates[a]	1.0	1.1	1.7	3.3	0.1	0.1
10-Year Bond Yields[a]	4.1	4.2	4.2	5.2	0.6	0.8

(a) As of year-end.

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Pre-Tax Profit by Division
($ millions)

	2000		2001		2002		1H 2003	
	$	Percent of Total[a]	$	Percent of Total[a]	$	Percent of Total[a]	$	Percent of Total[a]
[redacted]								
[redacted]								
FICC	1,034	19	2,187	56	2,871	72	2,757	74
[redacted]								
[redacted]								
[redacted]								
[redacted]								

(a) Percent of total divisional pre-tax earnings. Excludes unallocated charges.
(b) [redacted]

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Overview of Key Businesses

	2002 Pre-Tax Profit		2002 Competitive Metric
	Value ($mm)	% of Total	
[redacted]	[redacted]	[redacted]	[redacted]
Currencies	[redacted]	[redacted]	[redacted]
Global Securities Serv.	[redacted]	[redacted]	[redacted]
Mortgage Backed	539	17	■ #4 lead manager of CMBSs ■ #3 lead manager of CMOs
Mergers	[redacted]	[redacted]	[redacted]
Global Credit	[redacted]	[redacted]	[redacted]
US Shares	[redacted]	[redacted]	[redacted]
Equity Derivatives	[redacted]	[redacted]	[redacted]
Commodities	[redacted]	[redacted]	[redacted]
Real Estate PIA	182	6	■ Second largest real estate fund complex with $2.5bn in AUM

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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[redacted]

[redacted]

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Employees by Division

	2001		2002		1H 2003	
	Number	Year-on-Year Change	Number	Year-on-Year Change	Number	Year-on-Year Change
IBD	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Merchant Bank	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
FICC	2,441	2	2,380	(2)	2,301	(3)
Equities	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
IMD	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Investment Research	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Federation[a]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total Firm	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

(a) Includes Technology, Operations & Administration, Finance, HCM, Risk, Legal, Compliance & MCD and Executive Administration.

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Requested by Goldman Sachs

Redacted By The Permanent Subcommittee on Investigations

Goldman Sachs

Fixed Income, Currency and Commodities

- Current market environment has provided outstanding opportunities for the FICC franchise
  - Downward trending rates
  - High degree of volatility, particularly in commodities and currencies
  - Significant growth in underlying markets
- Breadth and diversity of business model enabled FICC to fully capitalize on market opportunity
  - Both the customer business and proprietary trading have performed at record levels
  - All major products (interest rates, credit, mortgages, currency and commodities) have contributed strong results
- GS has outperformed, but the performance of virtually all our competitors has been strong
- Product innovation has contributed meaningfully
- Increased profitability has come with increased risk

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Requested by Goldman Sachs

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Goldman Sachs

III. Overview of the Competitive Landscape

Confidential Treatment
Requested by Goldman Sachs

Redacted By The Permanent Subcommittee on Investigations

Goldman Sachs

IV. Strategic Alternatives

Confidential Treatment
Requested by Goldman Sachs

Goldman Sachs

Overview of Strategic Alternatives

- Continue to pursue our current business model with our existing underlying business lines
- Seek to identify and develop, through organic growth or acquisition, significant new lines of business closely related to, but distinct from, current businesses
- Pursue transformational transaction to achieve potential benefits of combining with significantly larger institution

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Requested by Goldman Sachs

Goldman Sachs

Capitalizing on Opportunities

People, brand and relationships capturing emerging opportunities

Fixed Income, Currency & Commodities

Exotics (1993)
Distressed Loans (1994)
ASSG (1997)
Credit Derivatives (1998)
Electricity Trading / Joint Venture (2001)

Equities

[redacted]

Investment Banking / Merchant Bank

[redacted]

Investment Management

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Requested by Goldman Sachs

Goldman Sachs

New Business Development / Acquisition

Rationale

- Develop significant, additional uncorrelated earnings streams
- Capitalize on large adjacent revenue pools
- Leverage core risk management skills and client relationships
- Satisfy client demand for capital commitment and risk transfer
- Achieve synergies with existing businesses

Challenges

- Tolerance for increased balance sheet liquidity risk and managing risk through diversification
- New business activities may be volatile and may not reduce GS risk profile
- Not enough change relative to transformational transaction
- GS needs to be disciplined, investing in businesses and withdrawing capital opportunistically as market conditions warrant
  - Non-opportunistic market participants suffer from sub-par ROEs
- Short-term dilution and financial risk of organic growth
- Acquisition of someone else's legacy issues
- Cultural dynamics

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Requested by Goldman Sachs

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Footnote Exhibits - Page 2379
[redacted] = Redacted by the Permanent Subcommittee on Investigations

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF THE GOLDMAN SACHS GROUP, INC.

A meeting of the Board of Directors of The Goldman Sachs Group, Inc., a Delaware corporation (the "Corporation"), was held at the Hotel Astoria, St. Petersburg, Russia on June 28, 2008 at 9:45 a.m., St. Petersburg time, recessing at approximately 11:45 a.m., St. Petersburg time, reconvening at approximately 1:15 p.m., St. Petersburg time, recessing for the day at approximately 2:15 p.m., St. Petersburg time, and reconvening on June 29, 2008 at 9:00 a.m., St. Petersburg time. There were present for all or a portion of the meeting Lloyd C. Blankfein, Gary D. Cohn, Jon Winkelreid, John H. Bryan, Claes Dahlbäck, Stephen Friedman, William W. George, Rajat K. Gupta, James A. Johnson, Lois D. Juliber, Edward M. Liddy, Lakshmi N. Mittal (after his appointment as Director at the meeting) and Ruth J. Simmons, being all of the Directors and constituting a quorum.

Also in attendance at the request of the Board of Directors for all or a portion of the meeting were J. Michael Evans, Michael S. Sherwood, John F. W. Rogers, Gregory K. Palm, David A. Viniar and Timothy J. O'Neill; and Alexander C. Dibelius, David A. Schwimmer, Christopher M. Barter and Edward K. Eisler (each for the Goldman Sachs in Russia presentation only).

Mr. Blankfein chaired the meeting and Mr. Rogers acted as Secretary of the meeting.

Mr. Blankfein called the meeting to order with each of the Directors (excluding Mr. Mittal) and Messrs. Rogers, and Palm in attendance.

[redacted]

On motion duly made and seconded, the following resolutions were unanimously adopted:

Redacted By The Permanent Subcommittee on Investigations

The Board reconvened its meeting at approximately 1:15 p.m., St. Petersburg time, on June 28, 2008.

Mr. Blankfein called the meeting to order and presented his oral CEO report. A discussion followed.

The Board then adjourned the meeting until the following day.

* * *

The Board reconvened its meeting at 9:00 a.m., St. Petersburg time, on June 29, 2008.

Mr. Blankfein called the meeting to order with each of the Directors and Messrs. Evans, Sherwood, Rogers, Palm, Viniar and O'Neill in attendance. Mr. O'Neill was asked to lead a strategy review, materials for which were distributed to the Directors in advance of the meeting. A discussion followed.

Mr. Blankfein then asked the Directors to give consideration to the draft minutes of the meetings of the Board held on April 9-10, 2008, copies of which had been distributed to the Directors in advance of the meeting. On motion duly made and seconded, the draft minutes were unanimously approved as presented.

Messrs. Liddy, Johnson and Bryan then indicated that oral reports regarding the meetings of the Audit, Compensation and Corporate Governance and Nominating Committees held earlier were unnecessary considering all Directors had been present at such meetings.

Mr. Rogers then addressed the approval of certain Board and committee meeting dates, material for which had been distributed to the Directors in advance of the meeting. A discussion followed.

Mr. Palm next gave an update on regulatory and legal matters. Mr. Palm directed the Board's attention to the materials that had been distributed in advance of the meeting. A discussion followed.

Mr. Palm then discussed the approval of removals from and an appointment to offices of the Corporation, material for which had been distributed to the Directors in advance of the meeting. A brief discussion followed.

On motion duly made and seconded, the following resolutions were unanimously adopted:

Approval of Board and Committee Meeting Dates

RESOLVED, that meetings of this Board of Directors and the Committees of the Board originally scheduled to take place on Thursday, March 26, 2009 & Friday, March 27, 2009 shall take place on Tuesday, April 7, 2009 & Wednesday, April 8, 2009.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

RESOLVED, that regular meetings of this Board of Directors and the Committees of the Board shall take place on the following dates:

Thursday, January 21, 2010 & Friday, January 22, 2010

Thursday, April 1, 2010 & Friday, April 2, 2010

Thursday, June 17, 2010 - Monday, June 21, 2010

Thursday, September 30, 2010 & Friday, October 1, 2010

Thursday, November 18, 2010 & Friday, November 19, 2010

RESOLVED, that the specific times and locations of the foregoing meetings and of any additional meetings of the Board or of Committees of the Board shall be set forth in a notice to the Directors from the Chairman of the Board, Chief Executive Officer or a President, or, in the case of a Committee meeting, any of the foregoing persons or the Committee Chair, in each case with such notice to be provided a reasonable time prior to the meeting.

Approval of Removals from and Appointment to Offices of the Corporation

[redacted]

There being no further business, upon motion duly made, seconded and unanimously adopted, the meeting thereupon was adjourned.

Confidential Treatment Requested by Goldman Sachs

Supplemental Response Received From
Goldman Sachs



Strategy Review

Presentation to the Board of Directors of The Goldman Sachs Group, Inc.

June 2008

Confidential Treatment
Requested by Goldman Sachs



Presentation at a Glance

I. Executive Summary (page D4)

II. Update on GS Strategy – Integrating Advice and Capital (pages D6 – D8)

III. Key Elements of GS Strategy (pages D10 – D17)

IV. Issues to Consider
- (a) Does GS Need to Be a Commercial Bank? (pages D20 – D22)
- (b) How Are Commercial Banks Regulated? (pages D24 – D31)
- (c) What Are the Benefits of Being a Commercial Bank? (pages D33 – D34)
- (d) Does GS Need Bank Deposits as a Funding Source? (pages D36 – D41)
- (e) Can GS Use Bank Deposits to Fund Its Core Businesses? (pages D43 – D44)
- (f) What Bank Deposits Does GS Currently Have? (pages D46 – D50)
- (g) Can GS Grow Its Deposit Base Organically? (pages D52 – D53)
- (h) Should GS Grow Its Bank Deposits by Acquiring a Commercial Bank? (pages D55 – D58)

V. What Other Opportunities Exist to Leverage GS' Strong Competitive Position? (pages D60 – D66)

VI. Key Takeaways (page D68)

VII. Appendix (pages D70 – D72)

Confidential Treatment
Requested by Goldman Sachs

Executive Summary

GS MBS 0000036870

PSI_QFR_GS0122

Confidential Treatment
Requested by Goldman Sachs



Executive Summary

- What is GS' strategy?
  - GS' strategy remains consistent: to integrate advice and capital via a business model that brings together GS' three roles as advisor, financier and principal
  - GS' strong financial performance on a stand-alone basis and relative to its peers illustrates the validity of this strategy
- What are the key elements of GS' strategy?
  - This is a growth strategy; GS believes global wealth, markets and opportunities are growing and the firm's share of these can be realized through:
    - Global expansion – new markets offer opportunities to replicate GS' business model and drive growth as clients become increasingly global
    - Diversification of the firm's business portfolio
    - Size – GS must have a sizeable presence across its existing businesses to satisfy client demands for sophisticated multi-product solutions, in particular as its roles as financier and principal require the commitment of additional capital
    - People – A significant human capital investment is required outside the U.S., with particular emphasis on business leadership, control functions and risk management
- As GS executes on its strategy, it faces issues with respect to liquidity, potential new regulation by the Federal Reserve and funding asset growth. These issues are addressed by posing and answering the following questions
  - Does GS need to be a commercial bank? No, the firm's conservative liquidity management programs and the potential support of the Fed will adequately protect it from a Bear Stearns-like collapse
  - How are commercial banks regulated? All activities of commercial banks, not just banking activities, are regulated and restricted. Commercial banks are also subject to limitations on leverage, capital requirements and comprehensive ongoing examinations
  - What are the benefits of being a commercial bank? The primary benefit of being a commercial bank is the commercial bank's ability to finance its businesses with deposits insured by the federal government at a cost that is often lower than capital markets funding
  - Does GS need bank deposits as a funding source? Continued growth in the size of GS' balance sheet may require diversified adjunct sources of funding. Deposits are a potential source of additional funding
  - Can GS use bank deposits to fund its core businesses? GS' ability to use deposits to fund its businesses is constrained by regulatory requirements regarding asset quality, lending to affiliates and local lending
  - What deposits does GS currently have? GS has two deposit taking banks: one located in Utah with deposits of approximately $22bn and one located in Ireland with approximately $7bn in deposits. These deposit balances were built largely by sweeping PWM brokerage account free cash balances
  - Can GS grow its deposit base organically? GS' deposit base is projected [redacted]
  - Should GS grow its bank deposits by acquiring a commercial bank? Commercial banking is an operationally intense, low ROE business. GS' current business model has yielded stronger results than JPMorgan Chase, the best-in-class commercial bank, in terms of ROE, price-to-book valuation and stock price performance. Commercial banking appears to be unattractive as a large scale strategic initiative

Confidential Treatment
Requested by Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations



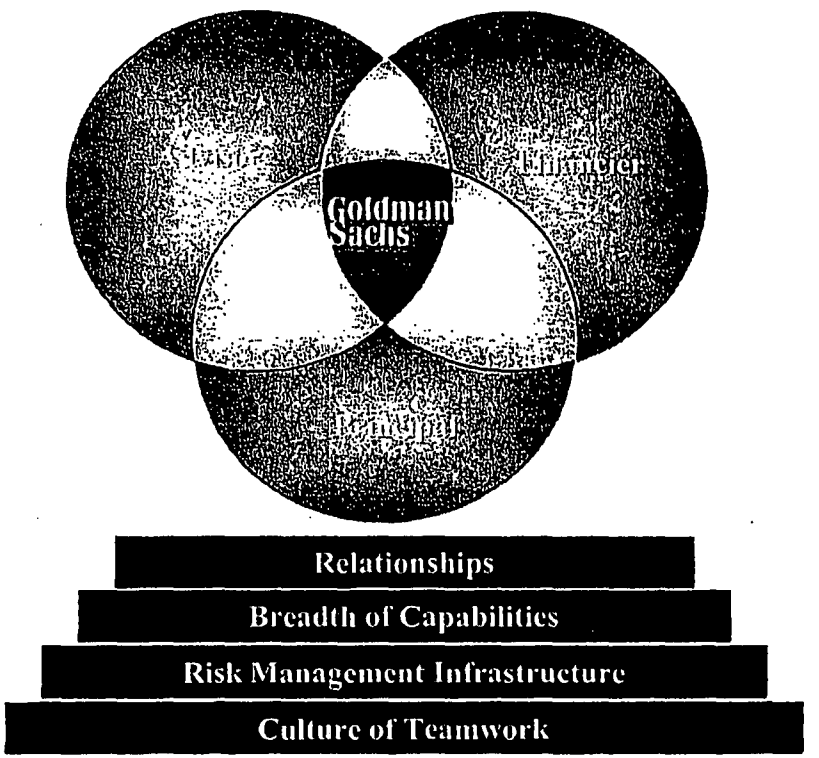
Update on GS Strategy – Integrating Advice and Capital

Confidential Treatment
Requested by Goldman Sachs

Board of Directors

Update on GS Strategy – Integrating Advice and Capital

- GS plays three roles in the global capital markets:
  - — Financial advisor
  - — Market intermediary or financier
  - — Capital provider or principal
- GS remains fully committed to this business model
- The keys to GS' success continue to be:
  - — An unparalleled network of global relationships
  - — A unique breadth of capabilities
  - — A best-in-class risk management infrastructure
  - — A culture of teamwork
- The firm's strategic focus today is to increase the firm's absolute revenue opportunity by extending this business model in existing markets (grow larger) and export the business model to new markets (become more global)



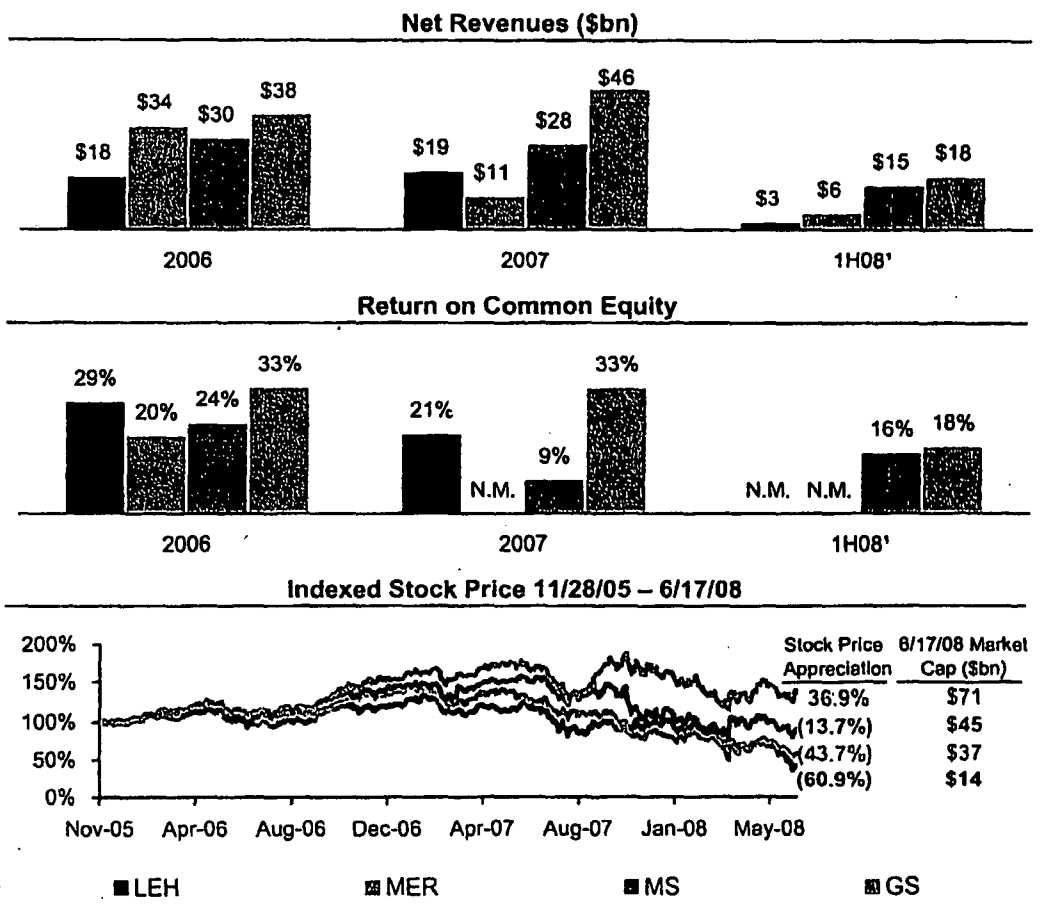
Confidential Treatment
Requested by Goldman Sachs

Board of Directors

Update on GS Strategy – Integrating Advice and Capital

Strong Recent Performance

- Our competitors, through imitation, and the public equity markets, through value accretion, have affirmed the validity of GS' strategic model
- During 2006 and 2007, GS outperformed its broker / dealer competitors in terms of net revenues and return on common equity
- The firm's overall pace of growth is not driven by the success of any individual business, but rather by the cumulative impact of many strategic initiatives
- While certain of the firm's businesses have entered a period of cyclical slowing in 2008, GS' clients continue to place a premium on the firm's advice and commitment in more difficult times



[1] *Merrill Lynch figures assume 2Q 2008 net revenues are identical those generated in 1Q 2008.*

Confidential Treatment
Requested by Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

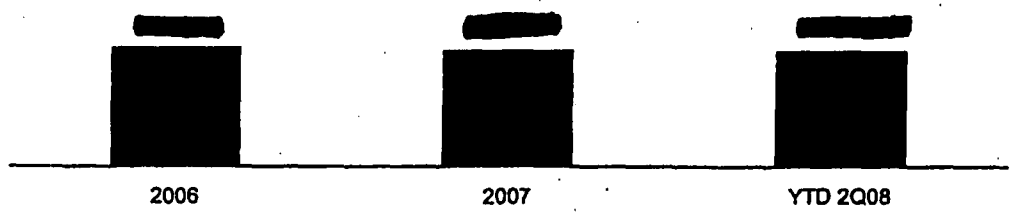
Board of Directors

Update on GS Strategy – Integrating Advice and Capital

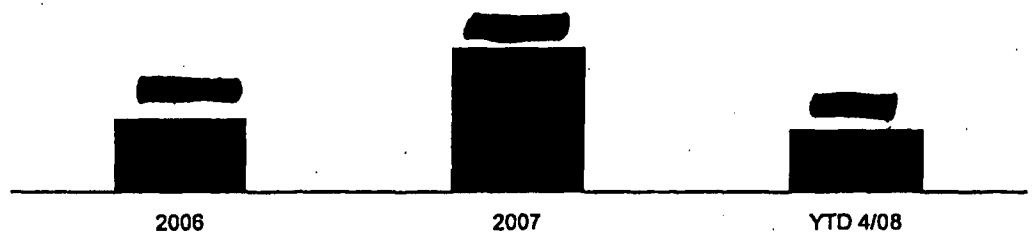
Link between Financing, Advisory, and Principalling Remains Strong

- GS has strengthened the connection between the firm's financing, advisory and principalling activities over the last two years
- Of the [redacted] deals GS completed during 2007 and 2008 YTD, financing was provided by GS on [redacted]
- [redacted]
- IBD bankers have played a meaningful role [redacted] opportunities for GS principalling groups (PIA, SSG, and GSPS) over the last 3 years, accounting for nearly [redacted]
- Fees received from PIA / REPIA portfolio companies aggregated to nearly [redacted]
- As with principalling, there is risk associated with financing (e.g., providing leverage for portfolio companies)

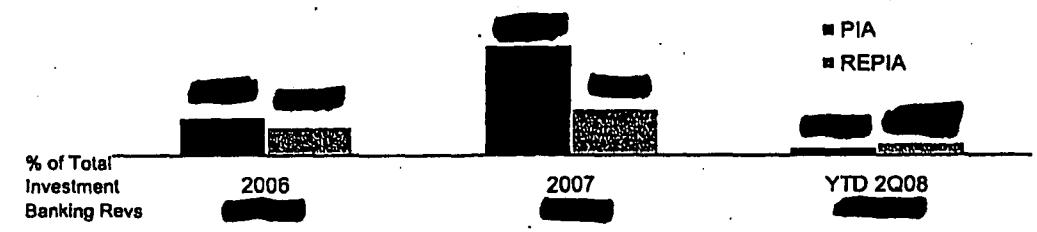
Advisory Revenue Linked to Financings as a Percentage of Total Advisory Revenue



GS Equity Invested in Principal Opportunities with Meaningful IBD Involvement ($mm)[1]



PIA / REPIA Portfolio Company Fees Paid to Agency Franchise ($mm)



[1] *Includes PIA, SSG, GSPS and FICC investments.*

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Key Elements of GS Strategy

GS MBS 0000038876

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Key Elements of GS Strategy: Diversified Business Portfolio

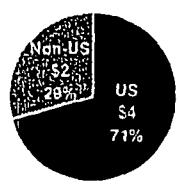
- Certain of GS' competitors, including Bear Stearns, had significant exposure to the poorly-performing mortgages business
  - In Bear Stearns' case, this exposure was further enhanced by its failure to diversify its business portfolio. Bear Stearns did not have a strong competitive position in its various businesses
- Bear Stearns also was not geographically diversified. 71% of Bear's revenues in 2007 were derived from the U.S., as compared with 51% of GS' revenues
- Lehman Brothers is more geographically diversified than Bear Stearns, but its competitive position across its businesses is also not as strong as GS' position
- GS diversifies across businesses and geographies to protect the franchise from volatility in individual businesses and geographies

2007 Global Rankings (with Market Share where Available)

	Bear Stearns	Lehman Brothers	Goldman Sachs
IBD			
M&A Advisory	> #25	#9 / 17.3%	#1 / 32.0%
MBD			
Funds Raised to Date[1]	> #50	#25 / 1.5%	#2 / 6.1%
Securities			
Non-Agency Mortgage-Backed Securities Issuance	#5 / 5.4%	#2 / 7.0%	#12 / 3.0%
Prime Brokerage[2]	#6	#9	#2
Equity Trading[2]	#5	#7	#1
Debt Trading[3]	> #20	#12 / 1.62%	#1 / 7.09%
IMD			
Assets Under Management[4]	#100	#34	#13

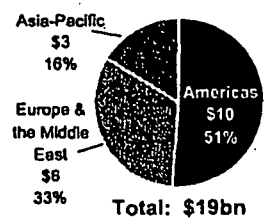
2007 Net Revenues ($bn)

Bear Stearns



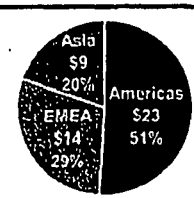
Total: $6bn

Lehman Brothers



Total: $19bn

Goldman Sachs



Total: $46bn

[1] *Capital raised over the last five years by PIA only. Market share expressed as percentage of the top 50 private equity managers.*
[2] *Alpha Magazine ranking.*
[3] *Euromoney Poll, Nov 2007. Includes, among other products, inv. grade corporates, asset-backed, cover bonds, high yield corps, CDS inv. grades, other high yield, AAA-rated, govs and supranationals.*
[4] *Source: Institutional Investor Survey (July 2007). Data as of December 31, 2006.*

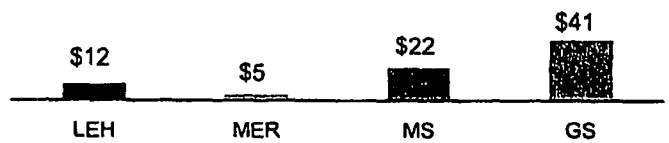
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Key Elements of GS Strategy: The Importance of Size

- GS must maintain a sizeable presence across existing businesses to satisfy client demands for sophisticated multi-product solutions
- The firm's financing and principalling activities, which also drive its advisory revenues, require GS to commit an increasing amount of its capital to risk positions
- By achieving significant absolute scale and maintaining diversification across its businesses, the firm is less susceptible to firmwide crises resulting from abnormally poor performance in individual risk positions or businesses
- GS is now the largest independent broker / dealer measured by market capitalization

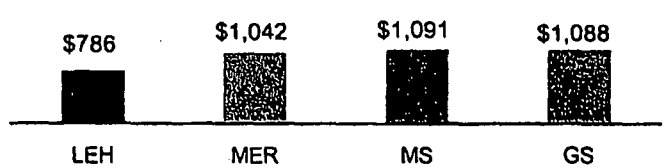
2Q 2008 LTM Net Revenues ($bn)[1]



Net Revenue CAGR

	'99 - 2Q '08	'06 - 2Q '08
LEH	22.3 %	(24.5)%
MER	(7.7)%	(79.8)%
MS[2]	5.0 %	(17.5)%
GS	15.7 %	5.5 %

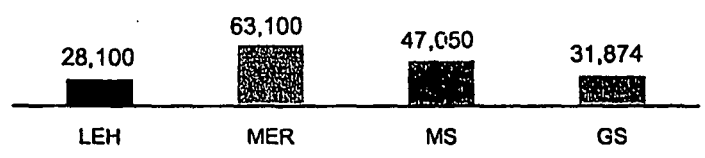
1Q 2008 Total Assets ($bn)



Total Assets CAGR

	'99 - 1Q '08	'06 - 1Q '08
LEH	23.3 %	42.8 %
MER	15.0 %	18.7 %
MS[2]	14.9 %	(2.2)%
GS	20.8 %	32.3 %

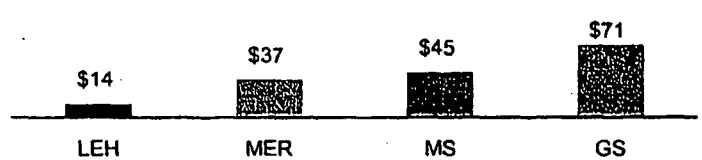
1Q 2008 Total Headcount



Total Headcount CAGR

	'99 - 1Q '08	'06 - 1Q '08
LEH	17.2 %	6.6 %
MER	(0.8)%	9.7 %
MS[2]	1.5 %	7.2 %
GS	9.3 %	16.0 %

Market Capitalization as of June 17, 2008 ($bn)



Ann. Stock Price Apprec.

	5/99 - 6/08	'06 - 6/08
LEH	7.3 %	(30.4)%
MER	(0.8)%	(20.4)%
MS[2]	4.2 %	6.2 %
GS	10.8 %	13.4 %

[1] *Merrill Lynch figures based on 1Q08 results.*
[2] *Morgan Stanley CAGRs adjusted for Discover spin-off. Assumes 13,769 of MS' employees in 1999 related to Discover based on assumed constant net revenues per employee through 2005. MS annualized stock price appreciation includes performance of Discover post spin-off.*

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D16 [redacted] D17

GS MBS 0000038883 [redacted] GS MBS 0000038884

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Issues to Consider

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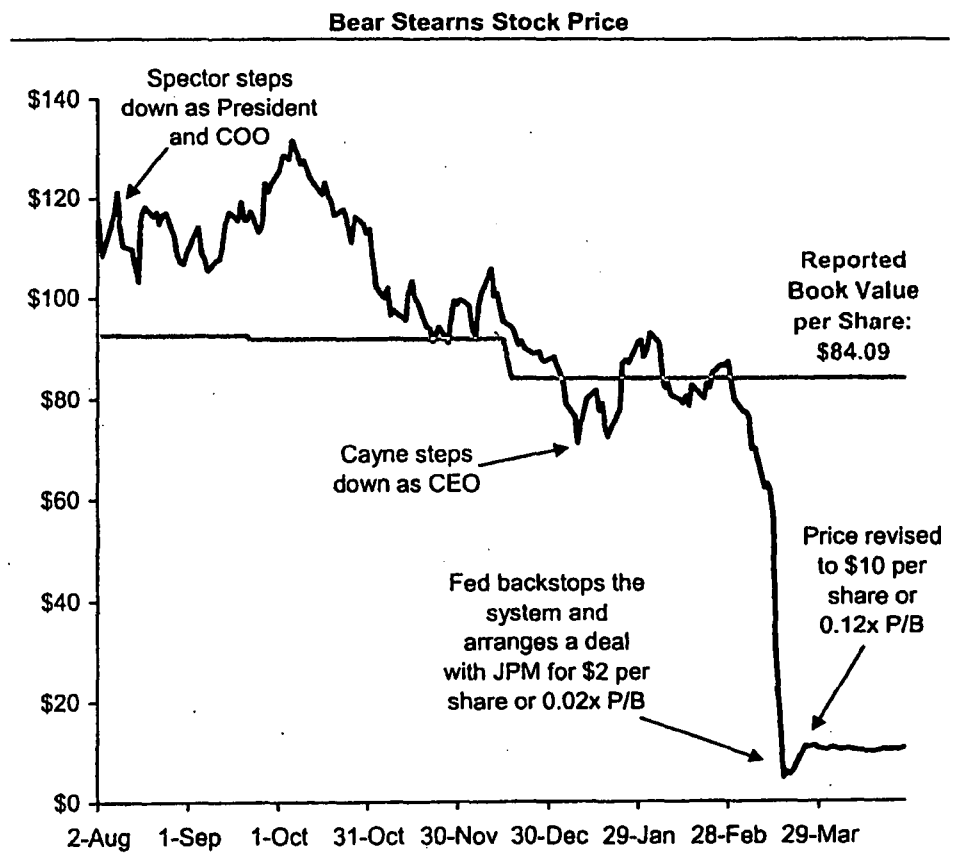
Does GS Need to Be a Commercial Bank?

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Does GS Need to Be a Commercial Bank?

Recent Events

- Bear Stearns' collapse has exposed the liquidity risks faced by investment banks
- Bear's capital position was strong immediately prior to the collapse
  - The SEC emphasized that Bear was well capitalized with a 13.5% total capital ratio (total capital as a % of risk-weighted assets)
- Bear faced a classic run on the bank, as its counterparties and creditors became concerned that it could not access sufficient liquidity to meet its cash obligations
- Lehman Brothers has recently been the subject of similar liquidity rumors



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Does GS Need to Be a Commercial Bank?

Investment Banks' Access to the Discount Window

- On March 17, 2008, in connection with the crisis at Bear Stearns, the Fed, for the first time since the Great Depression, provided liquidity to investment banks through the Primary Dealer Credit Facility ("PDCF")
- The PDCF has successfully reduced investor nervousness about liquidity issues at investment banks
- The PDCF allows investment banks to borrow cash against eligible collateral which includes:
  - US Treasuries
  - Federal agency debt
  - Federal agency residential mortgage pass-throughs
  - Investment-grade corporate securities
  - Municipal securities
  - Mortgage-backed securities
  - Asset-backed securities for which a price is available
- The PDCF was originally intended to be open until September 2008
  - Permanent access by investment banks to the discount window would require a statutory amendment

Section 13(3) of the Federal Reserve Act (12 U.S.C. § 343)

In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System... may authorize any Federal reserve bank... to [open the discount window] for any individual, partnership, or corporation [if they are] unable to secure adequate credit accommodations from other banking institutions.

Federal Reserve Board of Governors press release dated March 16, 2008

The Federal Reserve Board voted unanimously to authorize the Federal Reserve Bank of New York to create a lending facility to improve the ability of primary dealers to provide financing to participants in securitization markets. This facility will be available for business on Monday, March 17. It will be in place for at least six months and may be extended as conditions warrant.

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GS MBS 0000038888

PSI_QFR_GS0140

Does GS Need to Be a Commercial Bank?

- To prevent the type of liquidity crises faced by Bear Stearns and Lehman Brothers, GS has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both GS-specific and broader market events, including:
  - Excess liquidity: GS maintains substantial excess liquidity [redacted]
  - Asset-liability management: GS maintains funding sources that are sufficiently long-term to withstand a stressed environment without relying on asset sales
  - Conservative liability structure: GS accesses funding across a diverse range of markets, products and counterparties
  - Crisis planning: [redacted]
- The Federal Reserve's willingness to intervene in the Bear Stearns crisis, along with its establishment of the PDCF, have signaled to the market that it will not allow important players in the financial system to fail
  - This implicit support will likely continue beyond the closing of the PDCF
- Even if GS endured a period of underperformance relative to competitors, the firm believes that its conservative liquidity pre-funding strategy and the potential support of the Federal Reserve will adequately protect GS from a Bear Stearns-like collapse
- While GS does not need to be a commercial bank, it may still find certain aspects of commercial banking attractive. To make that determination, the following questions must be asked:
  - How are commercial banks regulated?
  - What are the benefits of being a commercial bank?
  - Does GS need bank deposits as a funding source?
  - Can GS use bank deposits to fund its core businesses?
  - What bank deposits does GS currently have?
  - Can GS grow its deposit base organically?
  - Should GS grow its deposit base by acquiring a commercial bank?

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How Are Commercial Banks Regulated?

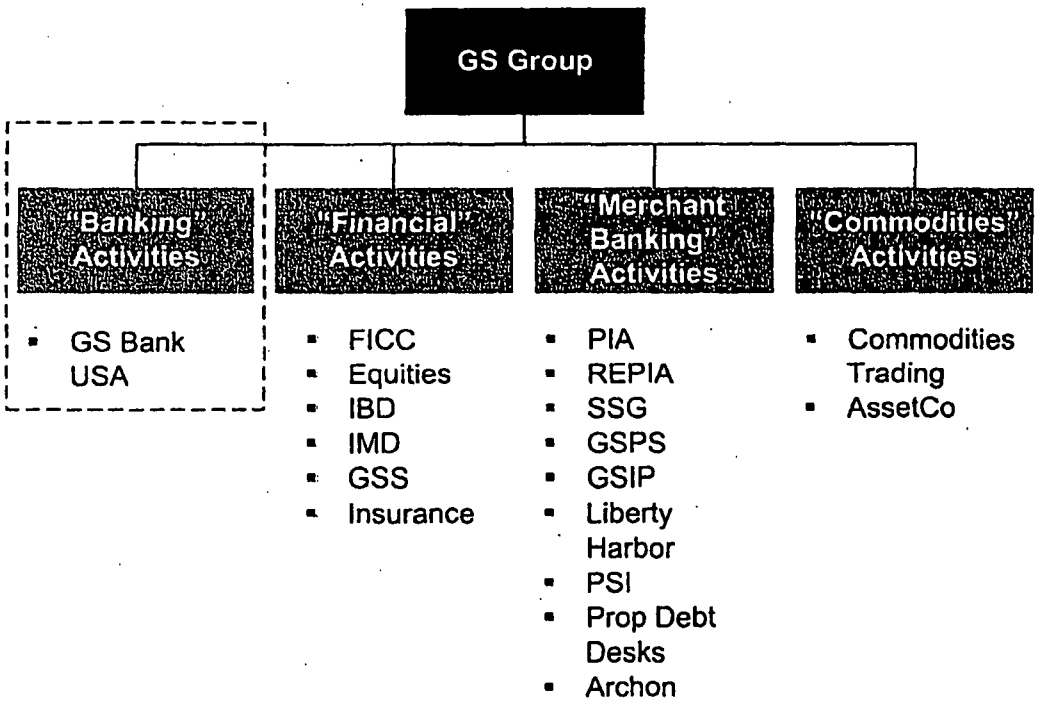
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How Are Commercial Banks Regulated?

Different Regulatory Regimes for Commercial Banks and Investment Banks

- The collapse of Bear Stearns and the provision by the Fed of liquidity to investment banks through the PDCF has raised the issue of whether the Federal Reserve will impose some form of regulation on GS and other investment banks
- In the U.S., commercial banks and investment banks are governed by different regulators and subject to different rules and restrictions
  - — The Federal Reserve ("Fed") is the principal regulator for the nation's commercial banks
  - — The SEC is the principal regulator for the nation's investment banks
- The only GS activities that are regulated by banking regulators are its banking activities
- A commercial bank's banking activities are regulated by the Federal Reserve and its non-banking activities are regulated by the Federal Reserve and the SEC
  - — The Federal Reserve's regulations restrict the commercial banks ability to engage in these non-banking activities



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How Are Commercial Banks Regulated?

Different Regulatory Regimes for Commercial Banks and Investment Banks (Cont'd)

- There are a number of differences between the regulations imposed on commercial banks by the Federal Reserve and those imposed on investment banks by the SEC
- The most meaningful differences from GS' perspective are the Fed's imposition of consolidated leverage requirements, limitations on non-banking activities and comprehensive ongoing examinations
- While commercial banks are regulated in ways investment banks are not, commercial banks have several critical advantages generally not available to investment banks
  - — Commercial banks have permanent access to the discount window as a means of funding their core businesses
  - — Commercial banks also have access to significant funding via federally insured bank deposits

	SEC (Investment Banks)	Federal Reserve (Commercial Banks)
Capital requirements	✓	✓
Leverage requirements	✗	✓
Activities limitations	✗	✓
Comprehensive ongoing examinations	✗	✓
Fair value accounting treatment[1]	✓	✗
Permanent access to discount window as a means of funding core businesses	✗	✓
Significant funding via insured bank deposits	✗	✓

[1] *While commercial banks account for some assets using fair value accounting, the majority of their assets are accounted for under the held to maturity and available for sale treatments.*

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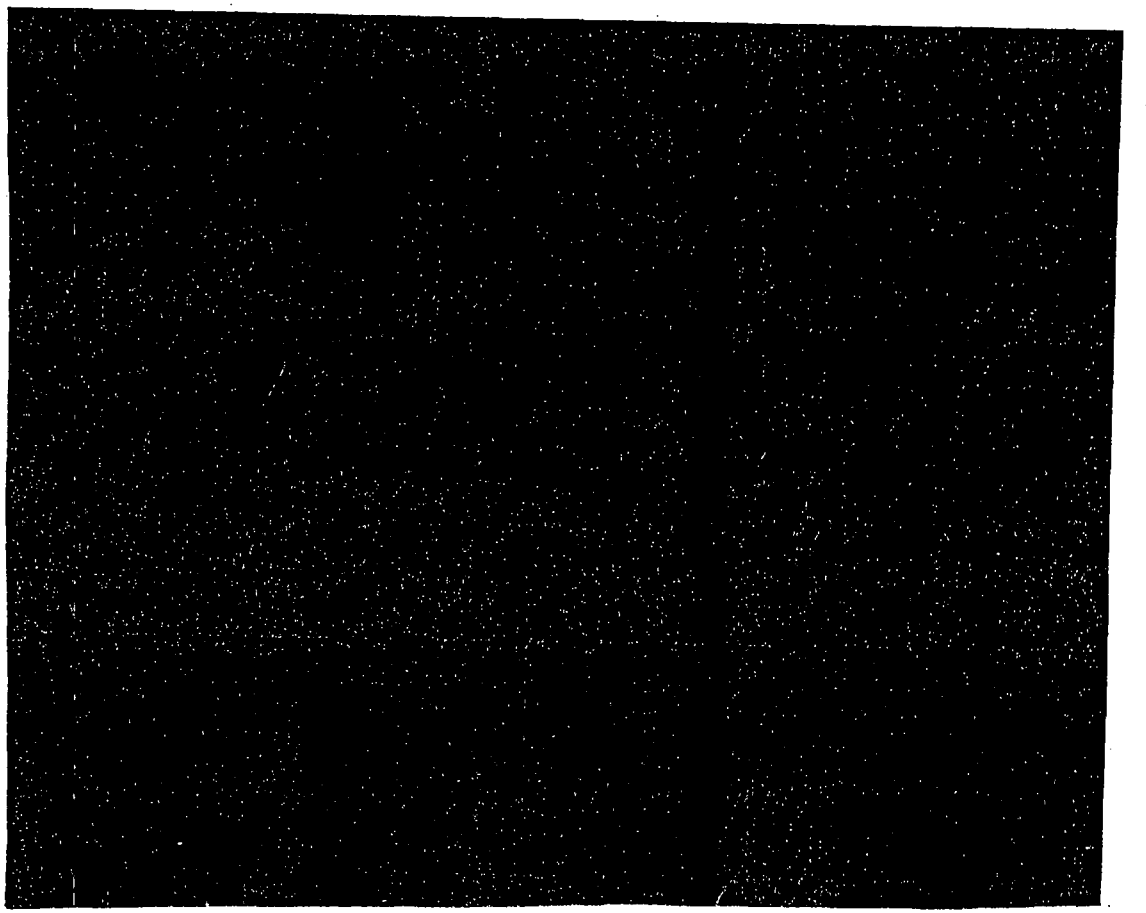
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How Are Commercial Banks Regulated?

Capital Requirements

- Both the Federal Reserve and the SEC impose capital requirements on their regulated firms
- For these regulatory purposes, a firm's primary qualifying capital is classified as Tier 1 capital
- Tier 1 capital is similar in concept to tangible equity capital and includes common equity, preferred stock and certain hybrid instruments
  - — Any goodwill on the firm's balance sheet is deducted from these sources of funding when calculating Tier 1 capital
  - — Tier 1 capital is considered the most reliable portion of financial capital for purposes of protecting creditors against losses



[1] *Includes $182,051mm of unsecured borrowings and $25,922 of secured borrowings.*
[2] *Includes $2,750mm of trust preferred securities and $$2,250mm of Automatic Preferred Enhanced Capital Securities (APEX).*

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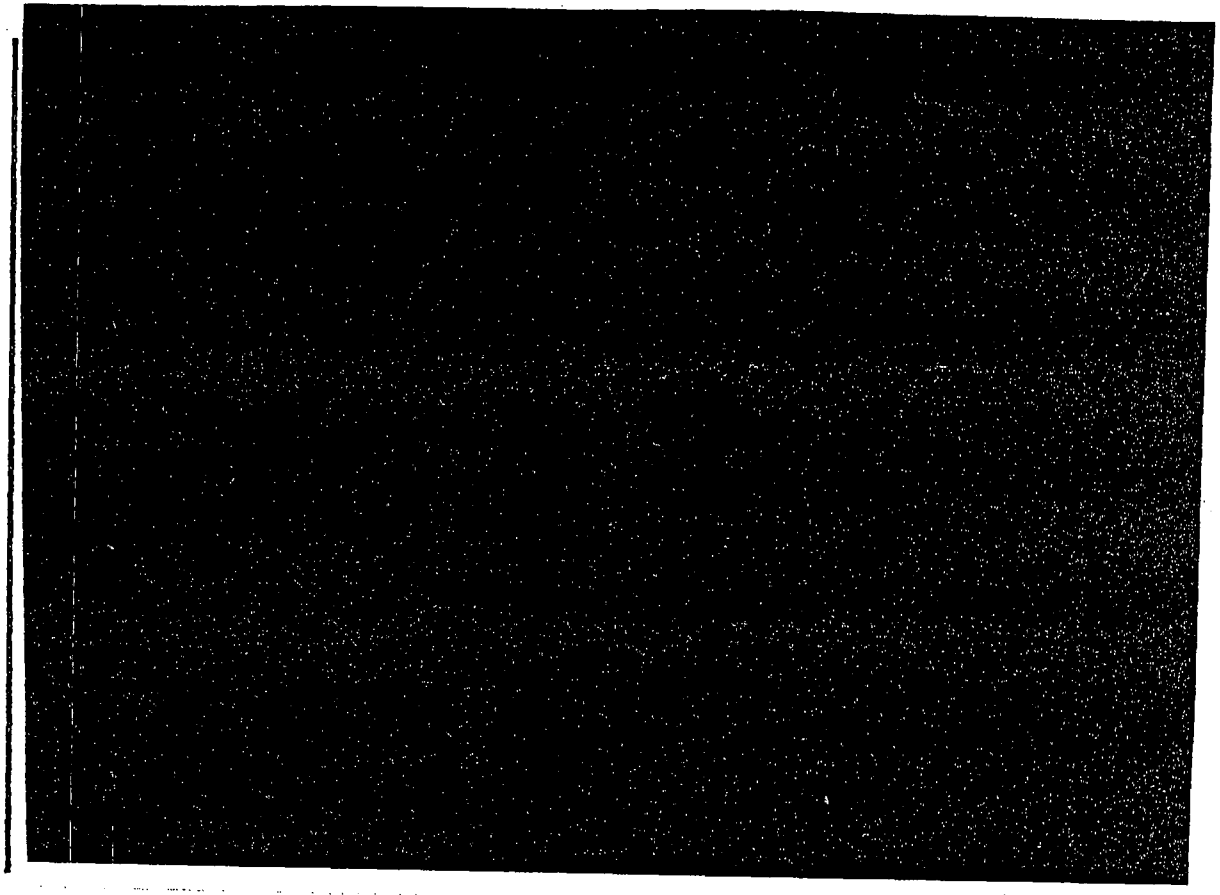
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How Are Commercial Banks Regulated?

Capital Requirements (Cont'd)

- Tier 1 capital levels are compared to the firm's total risk-weighted assets ("RWA") for purposes of assessing capital adequacy
- The firm's total RWA are calculated by applying risk-weightings to each asset on the balance sheet (and certain off-balance sheet obligations) based on the perceived credit risk, market risk and operational risk of each asset
  - The SEC requires investment banks to calculate RWA and capital ratios using the Basel II framework. The Fed currently follows the Basel I framework, but is in the process of transitioning to Basel II
- To be considered "well capitalized", the Fed requires commercial banks and each of their depository subsidiaries to maintain Tier 1 capital equal to 6% of RWA
- While the SEC does not require investment banks to meet these levels, GS has maintained its Tier 1 capital levels above the Fed's well capitalized threshold since it began calculating these ratios in 2004



[redacted]

[1] *The Federal Reserve's regulatory minimum Tier 1 capital ratio threshold for commercial banks is 4%. As a matter of policy, the Fed requires commercial banks to meet the "well capitalized" requirement of 6%.*

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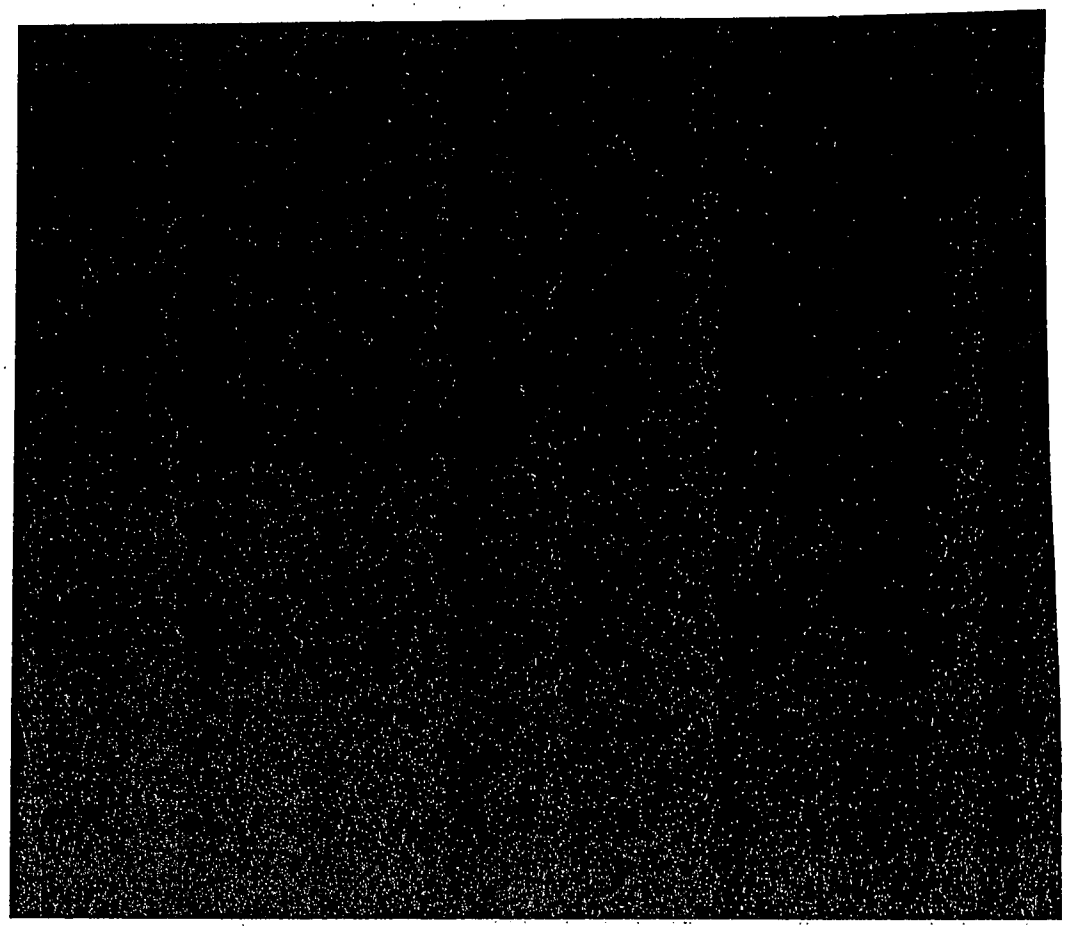
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How Are Commercial Banks Regulated?

Leverage Requirement

- Unlike the SEC, the Federal Reserve imposes a consolidated leverage requirement on commercial banks. This requirement is unique among the world's major central banks / bank regulators
- For purposes of calculating the Fed's leverage ratio, Tier 1 capital is compared to the firm's average total assets
  - The Fed's leverage ratio ignores the risk of the firm's underlying instruments and securities (a firm could be levered 10x to U.S. Treasuries and 3x to CDOs)
- To be considered "well capitalized", the Fed requires commercial banks to maintain Tier 1 capital equal to 4-5% of average total assets
- GS has historically maintained a Tier 1 capital / total assets ratio below the Fed's comfort level
  - If commercial banks valued their loan portfolios using the fair value methodology, which is the accounting methodology used by GS, a large number of banks that are currently classified as "well-capitalized" would fail to meet the threshold, as fair value writedowns to the banks' assets would reduce equity and Tier 1 capital and, therefore, result in lower ratios



[1] *The Federal Reserve's regulatory minimum leverage ratio threshold for commercial banks is 3 – 4%. As a matter of policy, the Fed requires commercial banks to meet the "well capitalized" requirement of 4 – 5%.*

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How Are Commercial Banks Regulated?

Activities Limitations

- The BHCA generally prohibits bank holding companies ("BHCs") and entities they directly or indirectly "control" (very broadly defined) globally from engaging in any activities other than banking. BHCs and entities they control must obtain prior Fed approval to acquire greater than 5% of any class of voting securities of another bank (for investment banks and other non-BHCs, the threshold is 10%)
- BHCs that are "well capitalized" and deemed to be "well managed" by the Fed can elect to be treated as Financial Holding Companies ("FHCs"), allowing them to engage in a broader range of activities than those permitted for non-FHC BHCs. All investments of 5%+ and all non-banking activities must qualify for one of three permissions: permitted financial activities, merchant banking or commodities

Permitted Financial Activities	■ FHCs may engage in or invest in entities that engage predominately (> 85% of assets / revenues) in non-banking financial activities including: providing financial or investment advisory services; dealing, underwriting and market making; merchant banking; fund administration; insurance; and other activities deemed to be incidental or complementary to financial activities, which do not pose a "substantial risk to the safety and soundness of depository institutions" ■ All non-permitted activities must be discontinued within 2 years of acquisition / investment
Merchant Banking Exemption	■ FHCs and entities they directly or indirectly control may own interests greater than 5% in aggregate in non-financial businesses (i.e., < 85% of assets / revenues) subject to the following restrictions: — Investment may not be held for more than 10 years — The FHC may not be engaged in the "routine management or operation" of the business, such as an employee of the FHC serving as an employee of the business, an employee of the business reporting directly to an employee of the FHC (other than as a board member) or via covenants or contracts with the business restricting the business's day-to-day operations ■ Exemption does not apply to entities engaged predominately (> 85% assets / revenues) in permitted financial activities
Commodities Exemptions	■ FHCs are generally permitted, if Fed permission is obtained, to hold only physical commodities authorized by the CFTC for trading, and only with aggregate value up to 5% of the FHC's Tier 1 capital ■ A special exemption would likely permit GS to own commodities assets not otherwise approved for FHCs (potentially including investments in commodity-focused operating entities such as power plants) with aggregate value up to 5% of its total assets ■ At 1Q08, GS held CFTC-authorized physical inventory equal to 3.5% of total Tier 1 capital and total commodities assets (including authorized inventory, non-authorized inventory and investments in operating entities) equal to 0.5% of total assets
Compliance Responsibility	■ The FHC will be responsible for regulatory and compliance breaches at any controlled entity, including potentially where the FHC is relying on the merchant banking exemption, even if the FHC does not in fact have the ability to exercise any practical control over the problematic activities ■ Any financial business deemed to be controlled by an FHC becomes subject to the Fed's onerous regulatory and compliance oversight, activities limitations and prohibitions on acquiring more than 5% of any class of a bank's shares — These limitations could make GS a less attractive bidder / investor compared to its non-BHC competitors in situations where GS would acquire control; a limited ability to obtain veto rights and board seats may make certain investments unattractive to GS

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How Are Commercial Banks Regulated?

Comprehensive Ongoing Examinations

- The Federal Reserve's supervision of a BHC is generally extensive and comprehensive
  - The BHC's depository subsidiaries continue to be supervised by their primary federal and state regulators (e.g., FDIC, OCC, OTS), but the Fed also has examination authority
  - In the case of large banks, 50 – 70 Fed staff are on the bank's premises at all times
- Bank regulators rate each of the depository subsidiaries of the BHC along 6 core measures: the CAMELS[1]
  - Capital adequacy
  - Asset quality
  - Management quality
  - Earnings
  - Liquidity
  - Sensitivity to market risk
- Failure to receive strong ratings in the CAMELS examination may cause the Federal Reserve to impose restrictions on the BHC's non-banking activities, and eventually may lead it to take control of the BHC's depository subsidiaries
- The Federal Reserve generally closely examines only those BHC controlled entities that are not already regulated by respected regulators
  - Registered broker / dealers, state regulated insurance entities, registered investment advisors, FDIC-regulated ILCs and foreign bank subsidiaries are likely to be less closely scrutinized by the Fed
- Investment banks regulated by the SEC are examined annually, with approximately 25 SEC staff on premises for several months
  - SEC examiners review investment banks' market, credit and other risks closely throughout the year

[1] GS Bank USA is rated using the same criteria; however, low marks at GS Bank USA do not result in the imposition by the Fed of restrictions on GS' other activities.

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How Are Commercial Banks Regulated?

Accounting

- SEC-regulated investment banks, including GS, record and mark substantially all of their balance sheet assets to fair value with unrealized gains and losses included in net income
- Fed-regulated commercial banks hold a significant portion of their assets, including their loan portfolios, at the principal amount outstanding net of loss reserves, regardless of the fair market value of those loans
  - — Loss reserves are intended to reflect impairment to a loan's future cash flows, whereas fair value is intended to reflect current market value
- Given current market valuations, the GAAP carrying value of many commercial banks' asset portfolios and shareholders' equity are likely overstated relative to fair market value

GS 2Q 2008 Balance Sheet ($mm)

- Cash and cash equivalents
- Segregated cash and securities
- Receivables from brokers, dealers and clearing orgs
- Receivables from customers and counterparties
- Securities borrowed
- Financial instruments purchased under agreement to resell
- Financial instruments owned
- Other assets
- Total Assets

All recorded at fair value

JPM 1Q 2008 Balance Sheet ($mm)

- Cash and due from banks
- Deposits with banks
- Federal funds sold and securities purch. under resale agmts.
- Securities borrowed
- **Loans, net of allowance for loan losses** → **Recorded at principal amount, net of loss reserves**
- Debt and equity instruments
- Derivative receivables
- **Available for sale securities** → **Recorded at fair value, but marks are taken through Accumulated Other Comprehensive Income, rather than net earnings**
- Accrued interest and accounts receivable
- Other assets
- Total assets

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What Are the Benefits of Being a Commercial Bank?

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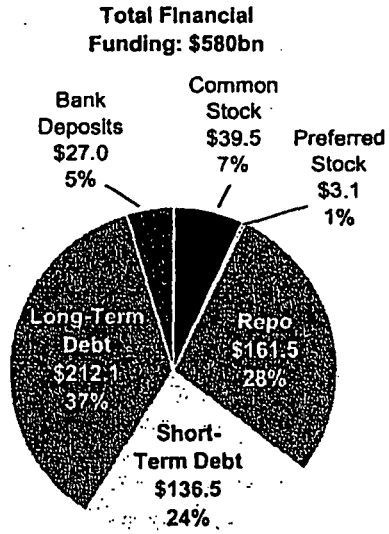
What Are the Benefits of Being a Commercial Bank?

Funding with Insured Deposits

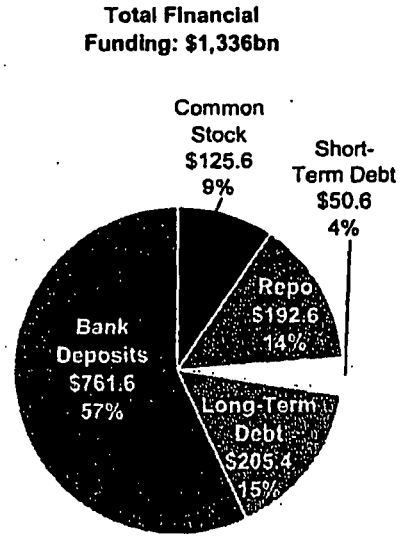
- Commercial banks, such as JPMorgan, finance many of their businesses with customer deposits
  - The ability of commercial banks to gather deposits is dependent on various government-backed guarantees, including insurance from the FDIC and permanent access to the Federal Reserve's discount window
- Investment banks such as Goldman Sachs finance their activities almost entirely in the capital markets and have not historically received any direct guarantees from the federal government

1Q 2008 Sources of Financial Funding ($bn)

Goldman Sachs



JPMorgan Chase (Consolidated)



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What Are the Benefits of Being a Commercial Bank?

Cost Savings of Funding via Deposits

- The ability to source significant insured bank deposit liabilities would not only increase GS' overall funding capacity but could also provide a lower weighted average cost of funding for certain assets
- The firm's financial inventory is currently funded with a combination of secured liabilities (largely repo), unsecured debt and equity
  - Secured liabilities are used only to the level GS expects would be available in a liquidity crisis (term repo can be used to a higher level than overnight repo)
  - Amount of equity funding is determined by the firm's economic capital model and the SEC's CSE requirements
  - Remainder of asset value is funded with unsecured debt
- GS could lower its cost of funding by replacing some portion of its secured and unsecured debt with bank deposit liabilities
  - The amount and type of inventory that could be funded with bank deposit liabilities will be limited by a number of regulatory and other constraints
- In the illustrative example below, the after-tax cost of funding is reduced by [redacted] when funded primarily with bank deposit liabilities vs. the firm's current capital markets funding

Funded in Capital Markets		Funded with Bank Deposits	
Assets		**Assets**	
Residential Prime Mortgage Whole Loans	[redacted]	Residential Prime Mortgage Whole Loans	[redacted]
Liquid Assets (i.e., CP, Treasuries, Agencies)		Liquid Assets (i.e., CP, Treasuries, Agencies)	
Total Assets		**Total Assets**	
Funding[1]		**Funding[2]**	
Secured Money Markets Funding (FF+11bps; 2.11%)[3]	[redacted]	Bank Deposits (FF-15bps; 1.85%)	[redacted]
		Bank Regulatory Capital ($5.0bn total)	
Long-Term Debt (4.58% all-in)[4]	[redacted]	Funded with GS Long-Term Debt (4.58% all-in)[4]	[redacted]
Equity (assumes 20.0% required ROE)		Funded with GS Equity (assumes 20.0% required ROE)	
Total Funding		**Total Funding**	
WACC (31.0% tax rate)	[redacted]	WACC (31.0% tax rate)	[redacted]

[1] Equity requirement based on the mortgages and money markets (proxy for liquid assets) departments' 1Q2008 CSE allocation and 1Q2008 LTM average assets. Residential prime mortgage whole loans are funded, on average, with [redacted]. Liquid assets generally are funded with [redacted].

[2] Consolidated CSE equity requirement assumed to be unchanged from capital markets scenario. Difference between total bank regulatory capital requirement [redacted] and assumed consolidated CSE equity requirement is assumed to be funded at the GS level by unsecured long-term debt. Remaining funding is sourced via bank deposits.

[3] Secured funding spread over Fed Funds is assume[redacted] residential mortgage whole loans and [redacted] for liquid assets.

[4] One-year new issue rate used for long-term debt to minimize the impact on the analysis caused by benchmark rate mismatch between bank deposits (Fed Funds) and long-term debt (term swap rate).

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Does GS Need Bank Deposits as a Funding Source?

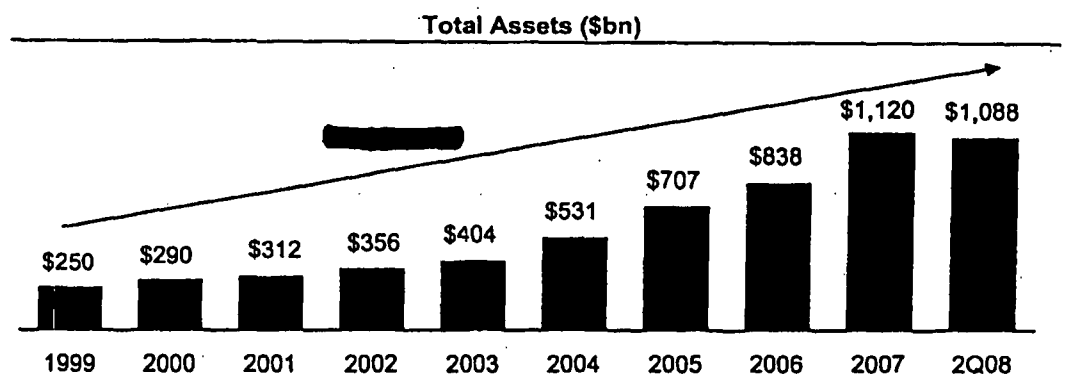
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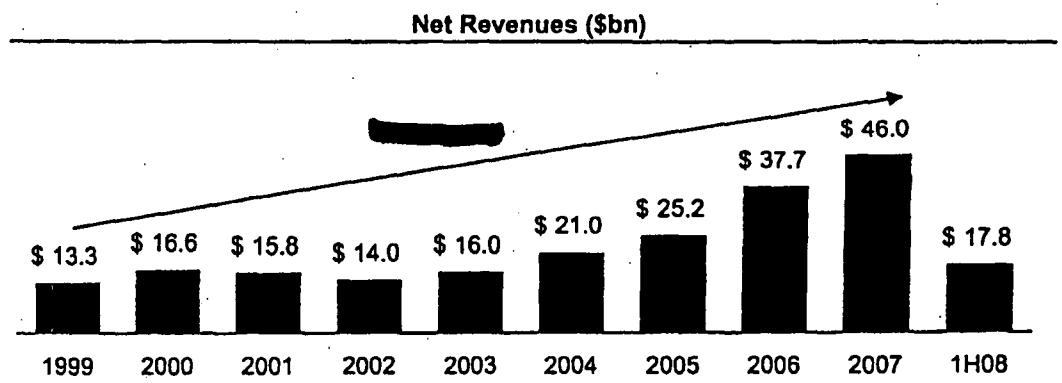
[redacted] = Redacted by the Permanent Subcommittee on Investigations

Does GS Need Bank Deposits as a Funding Source?

GS Balance Sheet Continues to Grow

- Since becoming a publicly listed company, GS' balance sheet has grown rapidly
  - [redacted]
- During that same time, net revenues grew [redacted]
- The firm's net revenue performance has been [redacted]
- GS must continue to grow its balance sheet to maintain a sizeable presence across existing businesses while also expanding geographically
  - In addition, GS is increasingly called upon to commit its own capital to client and principal transactions
- As the balance sheet grows, the firm must source additional funding for that asset growth





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Does GS Need Bank Deposits as a Funding Source?

GS Balance Sheet Continues to Grow (Cont'd)

- Financial inventory is funded with secured liabilities (largely repo), unsecured debt and equity
- Other revenue-generating assets are financed largely with payables and offsetting short positions
- The Global Core Excess is financed with unsecured debt and equity

2Q 2008 GS Balance Sheet ($mm)

Assets		Liabilities and Equity	
Funding Requirement	**Amount**	**Funding Source**	**Amount**
FICC	[redacted]	Common Equity	[redacted]
Equities		Preferred Stock	
Long Matched Book		Repo Funding	
Global Core Excess		Short-Term Borrowings	
GSS		Bank Deposits	
IMD		Long-Term Borrowings[1]	
Merchant Banking		**Total Financial Funding**	
Other		Payables	
Total Assets		Open Short Positions	
		Other Liabilities	
		Total Liabilities and Equity	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[1] *Includes $182,051mm of unsecured borrowings and $25,922 of secured borrowings.*

GS MBS 0000038904

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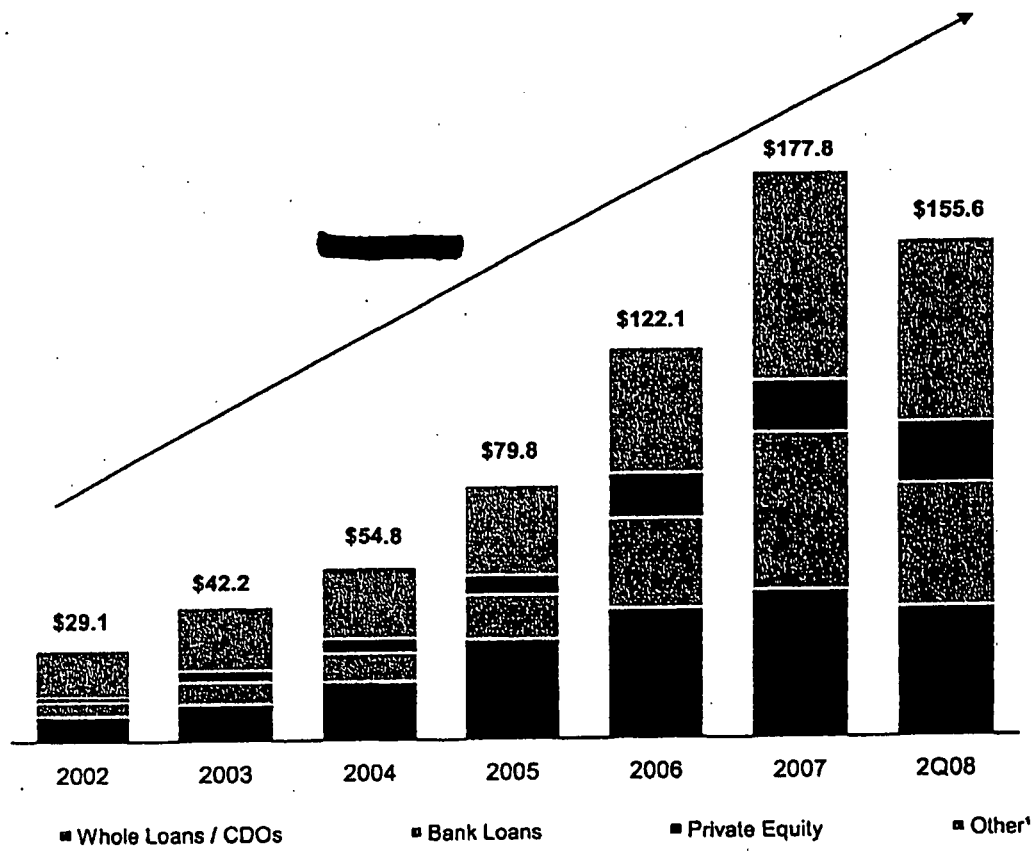
[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Does GS Need Bank Deposits as a Funding Source?

Growth in More Difficult-to-Finance Assets ($ in billions)

- In recent years, an increasing share of GS' earnings have been generated by capital intensive businesses
- Certain more difficult to finance asset classes such as whole loans, bank loans and private equity have grown at a faster pace than the rest of the balance sheet
  - [redacted]
- Secured funding markets for these more difficult to finance assets are less deep and reliable than for other assets, resulting in relatively high stressed funding haircuts that must be funded with long-term debt and equity



[1] *Includes restricted equity, high yield debt, emerging markets securities, goodwill, PP&E and other assets.*

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Does GS Need Bank Deposits as a Funding Source?

GS More Difficult to Finance Assets

- GS' inventory of more difficult to finance assets includes
  - — Loan assets such as mortgage and other asset-backed loans and securities and bank loans
  - — Certain traded securities such as high-yield securities, emerging market debt securities and emerging market equity securities
  - — Large equity positions such as ICBC ordinary shares and SMFG convertible preferred stock
  - — Other illiquid investments such as private equity and real estate fund investments, other restricted public equity securities and other investments in funds
- [redacted]
- [redacted]

2Q 2008 Firmwide More Difficult to Finance Inventory ($mm)[2]

Mortgage and other asset-backed loans and securities	[redacted]
Bank loans	[redacted]
High-yield securities	[redacted]
Emerging market debt securities	[redacted]
Private equity and real estate fund investments	[redacted]
Emerging market equity securities	[redacted]
ICBC ordinary shares	[redacted]
SMFG convertible preferred stock	[redacted]
Other restricted public equity securities	[redacted]
Other investments in funds	[redacted]

2Q08 GS Total Assets[1] | **2Q08 GS More Difficult to Finance Assets[1]**

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[1] *Geographic split based on legal domicile of GS Group entity in which assets are currently held.*
[2] *Represents entire inventory for each broad asset class, including portion that can be funded in secured markets.*

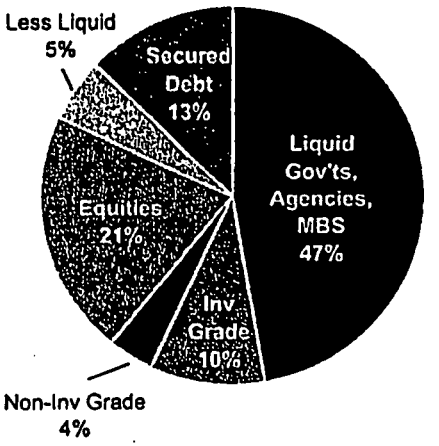
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Does GS Need Bank Deposits as a Funding Source?

Principal Funding Sources: 2Q2008

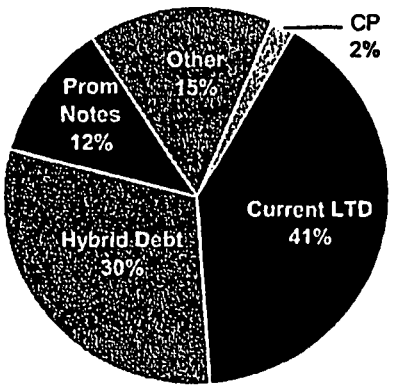
Repo / Secured Financing: [redacted]



Characteristics

- Relatively stable and low cost funding source
- Focus on terming out repo arrangements
- Focus on counterparty diversity; GS deals with 1,000+ repo counterparties worldwide [redacted]
- GS is exposed to rollover risk, haircut adjustments and margin calls

Unsecured Short-Term Debt: [redacted]

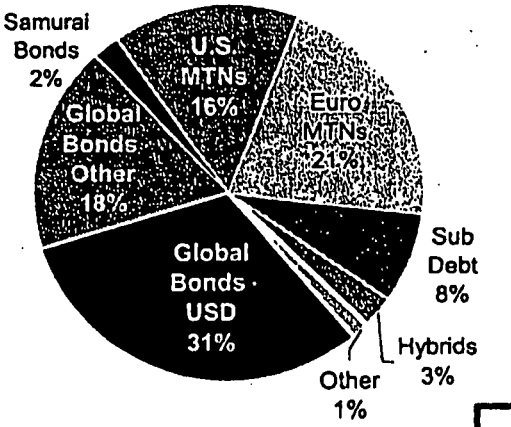


	Moody's	S&P	Fitch
Ratings	P-1	A-1+	F1+

Characteristics

- Emphasize use of promissory notes to increase stability in short-term funding
- Investor concentration limits in place; approximately [redacted]
- GS is exposed to rollover risk

Unsecured Long-Term Debt: [redacted]



	Moody's	S&P	Fitch
Ratings	Aa3	AA- (neg)	AA-

Characteristics

- Weighted average life is ~8 years
- [redacted]
- Significant focus on diversifying investor base
- [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Does GS Need Bank Deposits as a Funding Source?

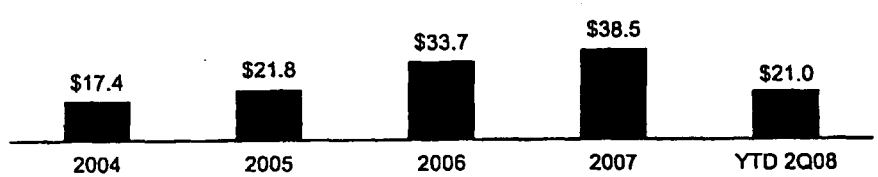
Long-Term Unsecured Debt

- As GS' balance sheet has grown, the firm has become increasingly reliant on funding its financial inventory with unsecured long-term borrowings
- While there are no present concerns, there may be times when general market conditions, GS specific events or leverage constraints limit the amount of long-term unsecured funding that GS can access in the capital markets
  - GS is currently the 17th largest issuer of outstanding long-term debt globally

Ranking of Long-Term Debt Issuers by Amount Outstanding ($bn)[1]

1	GE	$ 380.2
2	Landesbank Baden-Wuerttemberg	378.3
3	Commerzbank AG	329.2
4	Deutsche Bank AG	295.1
5	HSBC Holdings PLC	269.8
6	Citigroup Inc	258.7
7	Dexia SA	256.6
8	Banco Santander SA	252.1
9	Merrill Lynch & Co Inc	238.4
10	JPMorgan Chase & Co	222.0
11	HBOS PLC	209.8
12	Credit Agricole SA	204.9
13	Bank of America Corp	199.6
14	Morgan Stanley	193.9
15	Barclays PLC	185.7
16	Groupe Caisses d'Epargne	183.7
17	Goldman Sachs Group Inc	182.1
18	Rabobank	173.2
19	BNP Paribas SA	171.8
20	Hypo Real Estate Holding AG	156.9

GS Unsecured Long-Term Debt Issuance ($bn)



[1] *Source: Bloomberg. As of May 30, 2008.*

GS MBS 0000038908

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Can GS Use Bank Deposits to Fund Its Core Businesses?

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Can GS Use Bank Deposits to Fund Its Core Businesses?

Regulatory Constraints will Limit GS' Ability to Use Deposits to Fund Its Core Businesses

- Under certain circumstances, a bank may be able to fund GS businesses by lending to GS or by owning GS assets directly in the bank
  - While each approach is subject to a number of constraints that impacts the relative attractiveness of bank deposit liabilities vs. traditional funding sources, restrictions on affiliate transactions would make it difficult for a U.S. bank to fund GS assets in any meaningful size unless those assets were originated by, moved into or otherwise owned by the bank
- A number of constraints limit a U.S. bank's ability to own the assets that are most attractive to GS from a funding perspective

Legal Lending Limits	■ A U.S. bank cannot lend more than 15% of its total capital to any one borrower; non-U.S. jurisdictions may have similar restrictions
Affiliate Restrictions	■ U.S. banking regulations prohibit a bank's transactions with any one affiliate from representing more than 10% of its capital and transactions with all of its affiliates in the aggregate from representing more than 20% of its capital; similar restrictions may exist in certain non-U.S. jurisdictions ■ The Federal Reserve's broad definition of affiliate will limit the bank's ability to lend to companies in which a Goldman Sachs entity is an investor
Asset Quality	■ The Fed, like most banking regulators, examines each bank's asset portfolio for safety and soundness from a depositor's perspective. Diversification by issuer, geography and product is also required ■ The Fed generally limits a bank's holdings of non-investment grade assets; the amount of permitted non-investment grade assets will vary by bank, but outside counsel has advised that 10% is a reasonable assumption for a bank that receives high examination marks from the Fed in other areas — Banks generally would not be permitted to purchase non-performing loans, though banks may hold originated loans that becoming non-performing
Prohibition on Owning Certain Asset Classes	■ U.S. banks are prohibited from owning equities, unless received upon restructuring of a loan or foreclosure of a loan secured by equity, and from owning most physically-settled equity derivatives ■ Similar restrictions apply to a bank's ability to hold real estate and commodity assets
Restriction on Market Making	■ U.S. banks cannot make markets in securities, including both equity and fixed income products, making it inefficient to move certain GS asset portfolios into a bank
Local Lending	■ We have been advised that the Fed is unlikely to approve an acquisition strategy that greatly diminishes a U.S. target bank's local lending activities; these assets often represent over 80% of a traditional regional bank's asset portfolio and 50 – 75% of the largest national banks' asset portfolios ■ GS could seek approval from the Fed of a business plan that envisions transitioning the existing retail bank to a wholesale bank model, thereby reducing local lending requirements
Increased Regulatory Oversight	■ Bank regulators such as the Fed are generally more intrusive than the SEC and GS' other current regulators ■ Banks are often required to file more detailed disclosure forms, thereby providing competitors with greater insight into GS businesses conducted within a bank
Moving Assets	■ Moving existing GS assets / businesses into a bank will likely require regulatory approval

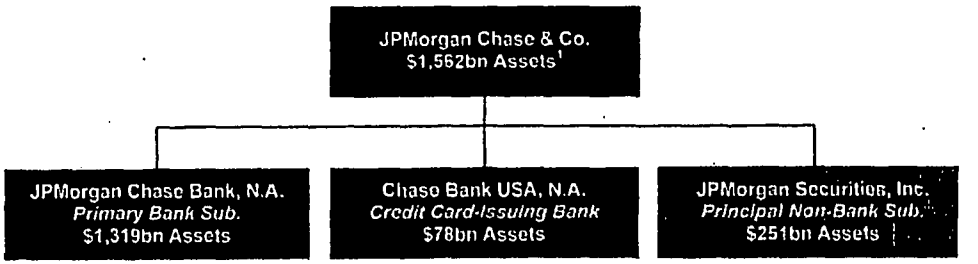
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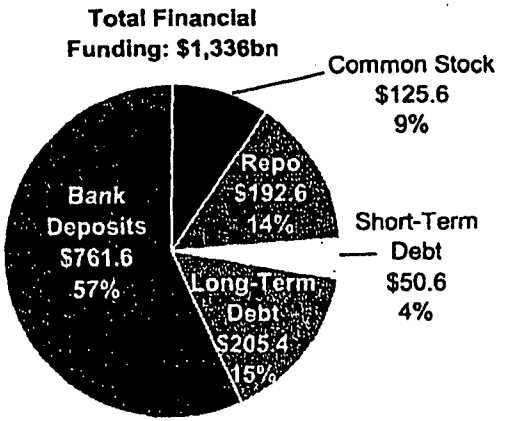
Can GS Use Bank Deposits to Fund Its Core Businesses?

JPMorgan Chase Uses Bank Deposits to Fund a Portion of its Investment Banking Businesses

- The diagram to the right is a simplified organizational chart of JPMorgan's two primary bank subsidiaries and primary non-bank subsidiary
- JPMorgan discloses that its Investment Banking business segment had $701bn average assets in 2007, implying that a substantive portion of investment bank balance sheet is at the main bank subsidiary because the non-bank sub only had approximately $250bn in assets
- JPMorgan Chase Bank, N.A.'s call reports contain significant line items that indicate a substantive portion of the investment banking business is conducted in the bank
  - — $8.0bn trading revenue
    - – Compared to $11.6bn trading revenue disclosed for the investment bank segment in the 10K
  - — $3.7bn investment banking, advisory and underwriting fees and commissions
    - – Compared to $6.6bn investment banking fees for advisory and underwriting services disclosed for the investment bank segment in the 10K
- JPMorgan Chase Bank, N.A. is a counterparty to GS on a variety of credit, rate, currency and commodity products



JP Morgan 1Q08 Financial Funding ($bn)



[1] *As of December 31, 2007. Certain assets of subsidiaries are eliminated in consolidation.*

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What Bank Deposits Does GS Currently Have?

GS MBS 0000038912

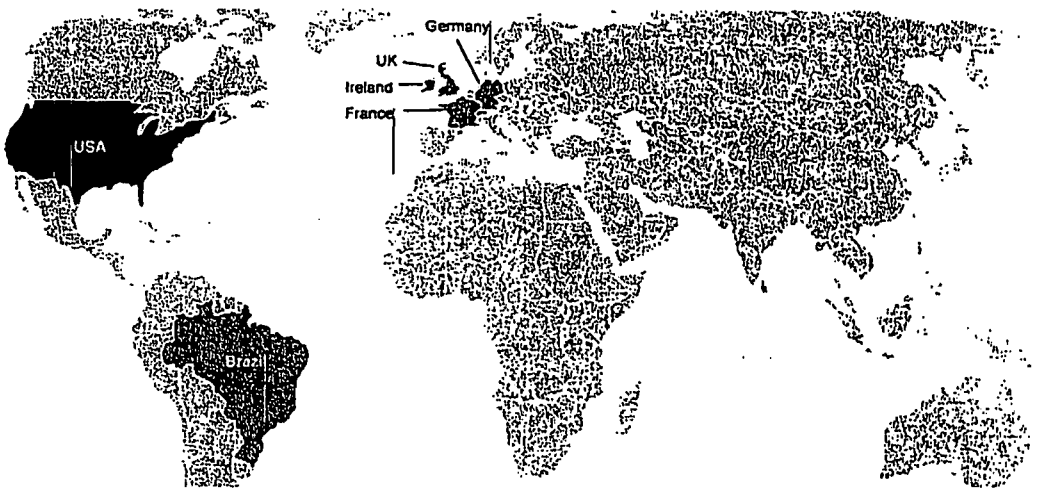
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What Bank Deposits Does GS Currently Have?

Geographic Location of GS Bank Licenses

- GS currently holds 11 bank licenses worldwide
  - — One or more licenses held in each of the United States (3), Ireland (2), Switzerland, United Kingdom, France, Germany (2) and Brazil[1]
- Of these banks, 2 are active deposit taking institutions that are funding some portion of the firm's business
  - — GS Bank USA (Utah)
  - — GS Bank Europe (Ireland)
- Remainder of bank licenses are used primarily to facilitate firm and customer securities businesses



Country	Bank Regulator	Fin. Services Regulator	Capital Ratios	Leverage Ratios
U.S.	Federal Reserve	SEC	Yes	Total leverage[2]
U.K.	FSA	FSA	Yes	None
Ireland	FSRA	FSRA	Yes	None
France	CECEI	CECEI / AMF[3]	Yes	None
Germany	BaFin / Bundesbank	BaFin	Yes	None
Brazil	Banco Central do Brasil / CMN	Banco Central do Brasil / CMN / Securities Com.	Yes	None
Switzerland	FINMA / SFBC[4]	FINMA	Yes	None

[1] GS International Bank (United Kingdom) has a branch in South Korea. GS holds three licenses in the United States (GS Bank USA, GS Trust Company NA, and GS Trust Company of Delaware), two in Germany (Goldman Sachs & Co. oHG and Delmora Bank GMBH) and two in Ireland (GS Bank Europe and GS Private Bank Ltd.). GS Trust Company NA and GS Trust Company of Delaware perform trust and estate fiduciary functions not currently performed by GS Bank USA. Delmora Bank license was acquired by ESSG as part of a distressed portfolio investment and is now used in connection with a servicing platform. GS is in the process of surrendering the GS Private Bank Ltd. license.

[2] U.S. leverage ratio test applies only to bank entities unless the bank's holding company is regulated by the Federal Reserve as a Bank Holding Company.

[3] Regulates asset managers only.

[4] The current Swiss bank regulator, SFBC, will be merged into FINMA, the newly created comprehensive financial supervisor, on January 1, 2009.

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What Bank Deposits Does GS Currently Have?

GS Bank USA

- GS Bank USA was established in July 2004 and is headquartered in Salt Lake City, Utah
  - — Active operations began in 2006
- Chartered as a Utah Industrial Loan Corporation ("ILC")
  - — Prohibited from taking commercial demand deposits
  - — Restrictions on its ability to branch in states other than Utah
- Regulated by the FDIC and Utah Department of Financial Institutions ("DFI"), not the Federal Reserve
- Approx. $22.4bn in customer deposits
  - — $21.0bn overnight deposits
  - — $1.3bn brokered CDs
- Long term credit rating of Aa3 (Moody's)
- Offers cash management products for PWM clients, such as overnight deposits in the form of Money Market Demand Accounts ("MMDA") and Negotiable Order of Withdrawals ("NOW") and a full suite of payment services
  - — Deposit balances built by sweeping PWM brokerage account free cash
- Sells CDs through third-party broker network
- While GS Bank USA is one of the larger U.S. banks, its balance sheet is small when compared to GS

Balance Sheet ($mm)

	05/08
Assets	
Liquidity portfolio	[redacted]
Investment securities, owned at fair value	
Private bank loans, net	
Warehouse loans, net unearned income	
Variable funding notes	
Mortgage loans	
Premium finance loans	
Corporate loans	
Litton assets	
Other assets	
Total assets	
Liabilities and Equity	
Deposits	[redacted]
Other liabilities and accrued expenses	
Total liabilities	
Common stock	[redacted]
Retained earnings (accumulated deficit)	
Total equity	
Total liabilities and equity	

Income Statement ($mm)

	FY2007[1]	YTD 05/08[1]
Revenues		
Liquidity portfolio	[redacted]	[redacted]
Investment portfolio		
Private bank lending		
Warehouse lending		
Variable funding notes		
Mortgages		
Premium Finance		
Corporate loans		
Total Interest Income		
Interest Expense		
Net Interest Income		
Investment portfolio	[redacted]	[redacted]
Warehouse lending		
Variable funding notes		
Mortgages		
Private bank		
Premium Finance		
Corporate loans		
Time Deposits		
Litton Fee Income		
Non-Interest Income/(Loss)		
Expenses		
Provision for loan losses	[redacted]	[redacted]
Total Operating Expenses		
Pretax Income (Loss)	[redacted]	[redacted]
Provision For Income Taxes		
Net Income (Loss)		

[1] *Calculated using GS Group's fiscal calendar.*

[redacted] = Redacted by the Permanent Subcommittee on Investigations

GS MBS 0000038914

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What Bank Deposits Does GS Currently Have?

GS Bank USA

- GS Bank USA is the 47th largest US bank based on size of customer deposit base
- GS Bank USA has been able to achieve this scale with few employees (30) and no branch network
  - Leverages PWM client relationships and infrastructure, thereby allowing GS to avoid the operational complexity, high cost structure and regulatory burdens (including the BHCA) typically associated with commercial banking

Top US Banks by Deposits as of March 31, 2008 ($mm)

Rank	Institution	Deposits	Branches	Market Cap[1]
1	JPMorgan Chase Bank, National Association	$806,319	3,188	$133,776
2	Bank of America, National Association	792,879	6,142	130,199
3	Citibank, National Association	786,392	1,081	104,060
4	Wachovia Bank, National Association	453,878	3,370	37,059
5	Wells Fargo Bank, National Association	355,015	3,395	83,887
6	Washington Mutual Bank	184,059	2,231	6,549
7	U.S. Bank National Association	143,101	2,621	53,383
8	HSBC Bank USA, National Association	123,635	475	n/a
9	SunTrust Bank	118,618	1,791	14,258
10	State Street Bank and Trust Company	107,340	2	28,766
11	National City Bank	101,268	1,556	3,635
12	The Bank of New York	94,013	46	46,450
13	Regions Bank	91,297	1,963	8,845
14	Branch Banking and Trust Company	87,824	1,500	14,371
15	PNC Bank, National Association	80,573	1,221	20,108
16	RBS Citizens, National Association	73,985	1,656	24,172
17	Capital One, National Association	69,453	731	16,460
18	Keybank National Association	66,274	999	5,531
19	ING Bank, fsb	64,951	1	n/a
20	Countrywide Bank, FSB	64,234	770[2]	2,794
47	Goldman Sachs Bank USA	22,811	1	n/a
51	IndyMac Bank, F.S.B.	18,518	33	138

8494

Source: FDIC Database

[1] *Market capitalization as of June 17, 2008.*

[2] *Countrywide Bank FSB maintains only 2 branches, but obtains retail deposits through 194 of Countrywide Home Loan's financial centers and offers other financial services from the company's 770 total locations.*

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What Bank Deposits Does GS Currently Have?

GS Bank USA's Cash Capital Treatment Limits its Ability to Fund GS' Long-Term Assets

- [redacted] are FDIC insured (insurance is capped at $100,000 per depositor)
- For "cash capital" calculation purposes, [redacted], as a result, only this "sticky" portion of GS Bank USA's deposit liabilities is used to fund GS long-term assets
- [redacted] they can only be used to fund short-term assets
- Because brokered CDs are generally offered to retail depositors in sizes less than $100,000, nearly all deposits qualify for FDIC insurance and are considered "sticky." As a result, GS currently assigns brokered CDs a 100% cash capital valuation
- Bank regulatory capital (equity) and select other liabilities also receive a 100% cash capital valuation

2Q08 Sources of Cash Capital ($bn)

Source	Cash Capital Valuation	Amount
Core Deposits	[redacted]	[redacted]
Brokered CDs	[redacted]	
Bank Regulatory Capital	[redacted]	
Other Liabilities (23A Affiliate Collateral)	[redacted]	
Total Sources of Cash Capital		
Excess Cash Capital		

2Q08 Uses of Cash Capital ($bn)

Use	Amount
PWM Loans	[redacted]
Corporate Loans	
Mortgages	
Other Loans	
Liquidity Pre-Funding for Unfunded Commitments	
Litton Net Assets	
Other Assets / Cash at FRB	
Reconciliation to Target LT Funding	
Total Required Cash Capital	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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What Bank Deposits Does GS Currently Have?

GS Irish Bank

- GS has established a deposit-taking bank in Ireland, GS Bank Europe, plc ("GSBE" or "GS Irish Bank")
- GS Irish Bank has accumulated over [redacted] of total deposits as of May 2008 [redacted]
- Regulated by the Irish Financial Services Regulatory Authority
  - Deposits up to €20,000 are insured
- The regulatory framework in Ireland allows GS Irish Bank to use a significant portion of its deposits to fund GS businesses
  - No Irish regulatory limitations on transactions with affiliates [redacted]
  - GS Irish Bank can lend up to 25% of its capital on an unsecured basis to a single client; no limit on collateralized loans
  - GS Irish Bank has outstanding repo lines of [redacted] with GSI and GSCP, respectively
  - GS Irish Bank has no regulatory minimum total leverage ratio
- As is the case with GS Bank USA, the portion of GS Irish Bank's deposits that can be used to fund the firm's long-term assets is limited by the cash capital valuation of those deposits [redacted]
  - A large portion of the remaining "non-sticky" assets are used to fund the firm via reverse repos with GSI and GSCP
- GS Irish Bank is subject to concentration limits on depositors: One entity cannot account for more than 15% of total deposits, and top 10 depositors cannot exceed 25% of total deposits
- GS Irish Bank receives favorable tax treatment in both Ireland and the United States
  - U.S. tax benefit would fall away if GS Irish Bank engaged in US trade or business
  - In certain circumstances without the tax advantage, GS Irish Bank could pay taxes in both Ireland and the U.S., resulting in a effective worldwide tax rate of up to 60%

2Q08 Balance Sheet ($mm)

Assets	
Cash and cash equivalents	[redacted]
Cash & securities segregated	
GSI & GSCP reverse repo	
Other assets	
Total assets	
Liabilities and Equity	
Short term borrowings from affiliates	[redacted]
Securities sold under repo	
Deposits payable to PWM clients	
Payable to affiliates[1]	
Other liabilities	
Total liabilities	
Total equity	
Total liabilities and equity	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[1] *Represents client cash deposited by other GS entities.*

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Can GS Grow Its Deposit Base Organically?

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Board of Directors

Can GS Grow Its Deposit Base Organically?

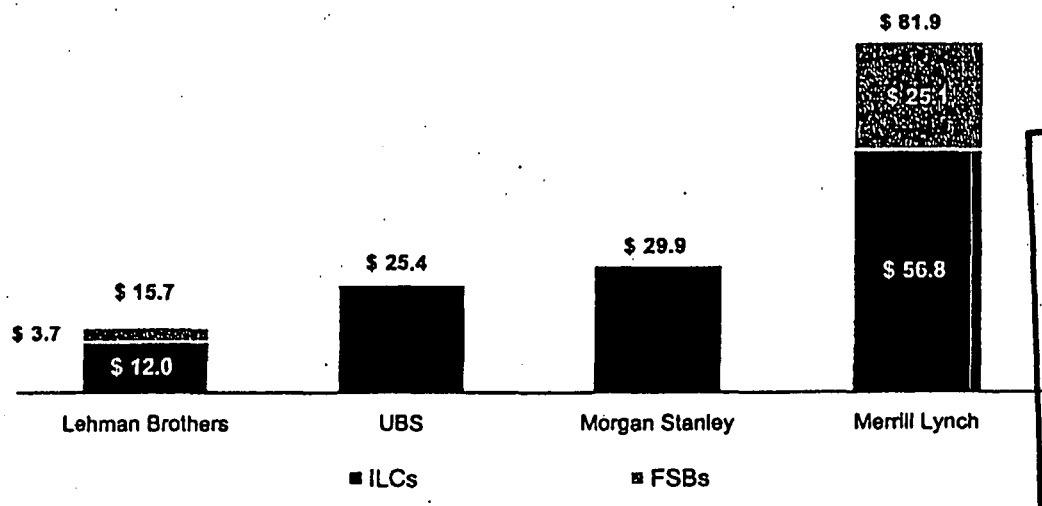
GS Bank USA Organic Growth

- GS Bank USA deposits are expected [redacted] to approximately [redacted] billion by 2010
  - — [redacted]
  - — The portion of these deposits that can be used to fund GS' long-term assets will be limited by the cash capital valuation of the deposits [redacted]
- Assuming yields normalize to more attractive levels over the next year, GS Bank USA expects to issue up to [redacted] of brokered CDs by year-end 2010
  - — GS Bank USA does not face a regulatory cap on its ability to issue brokered CDs, but GS might assign a lower cash capital value to the funding if issuance was increased significantly
- Several of GS' competitors have their own ILCs and "grandfathered" thrifts (which do not subject these competitors to BHCA regulations), with deposit bases ranging from $15.7bn to $81.9bn

GS Bank USA Organic Growth Projections ($bn)

	2Q08A	2008	2009	2010
Bank Deposits	[redacted]	[redacted]	[redacted]	[redacted]
% of PWM Client Cash				
Brokered CDs				
Total Cash Capital Funding Created[1]				

Competitor Bank Deposits as of March 31, 2008 ($bn)



= Redacted by the Permanent Subcommittee on Investigations

[1] *Assumes 30% cash capital value for bank deposits and 100% cash capital value for brokered CDs. Excludes cash capital funding created by bank regulatory capital (equity) and other liabilities.*

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Board of Directors

Can GS Grow Its Deposit Base Organically?

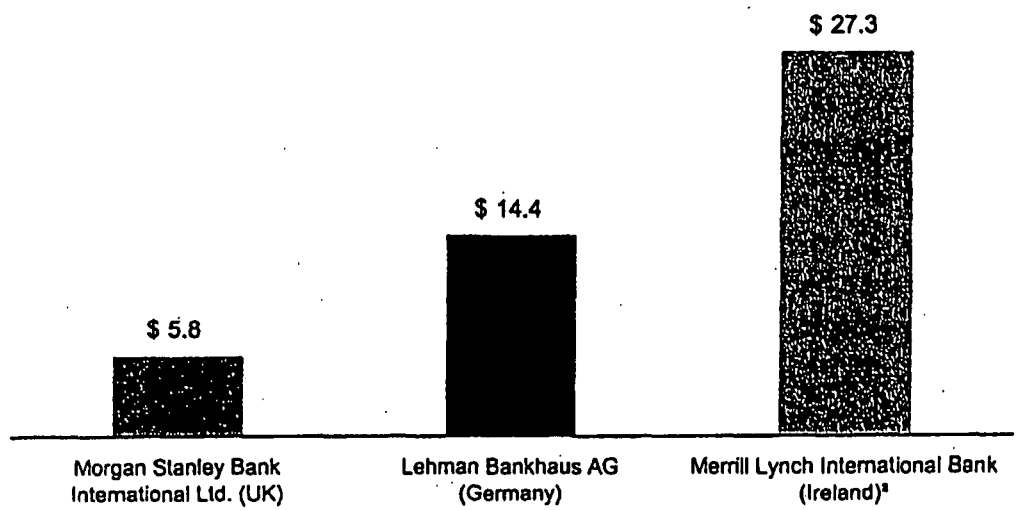
GS Irish Bank Organic Growth

- [redacted]
- GS Irish Bank's deposits [redacted]
  - The portion of these deposits that can be used to fund GS' long-term assets will be limited by the cash capital valuation of the deposits [redacted]
- Several of GS' competitors have their own European banks, with deposit bases ranging from [redacted]

GS Irish Bank Organic Growth Projections ($bn)

	2008	2009	2010
Bank Deposits	[redacted]	[redacted]	[redacted]
PWM Client Cash Deposited[1]			
Total Cash Capital Funding Created			

Competitor Foreign Bank Deposits as of March 31, 2008 ($bn)



[redacted] = Redacted by the Permanent Subcommittee on Investigations

[1] *The remainder of GS Irish Bank's deposits is sourced from affiliate deposits.*
[2] *Also includes deposits from Merrill Lynch International Bank's Swiss subsidiary.*

GS MBS 0000038920

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PSI_QFR_GS0172

Should GS Grow Its Bank Deposits by Acquiring a Commercial Bank?

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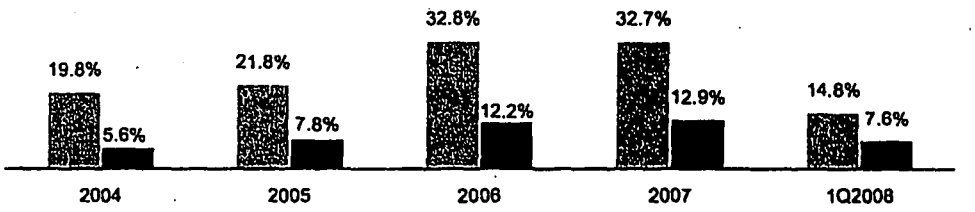
Board of Directors

Should GS Grow Its Bank Deposits by Acquiring a Commercial Bank?

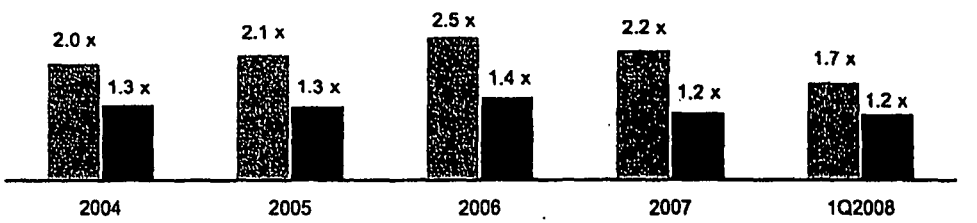
Commercial Banking Appears to be Unattractive as a Large Scale Strategic Initiative

- Commercial banking is an operationally intense, low ROE business
- GS' current business model has yielded stronger results than the best-in-class commercial bank, JPMorgan Chase, in terms of ROE, price-to-book valuation and stock price performance
- Acquiring or building a large U.S. commercial bank would subject GS to direct regulation by the Fed as a BHC, including capital requirements, activities limitations and comprehensive Fed examination
  - — Could have a negative impact on a number of GS' existing businesses (particularly the principal investing businesses)
  - — May be avoided through certain ILC or foreign bank acquisitions
- Because commercial banking appears to be unattractive as a large scale strategic initiative, any acquisition must be fully justified by the benefits associated with bank deposits as an additional source of funding for GS

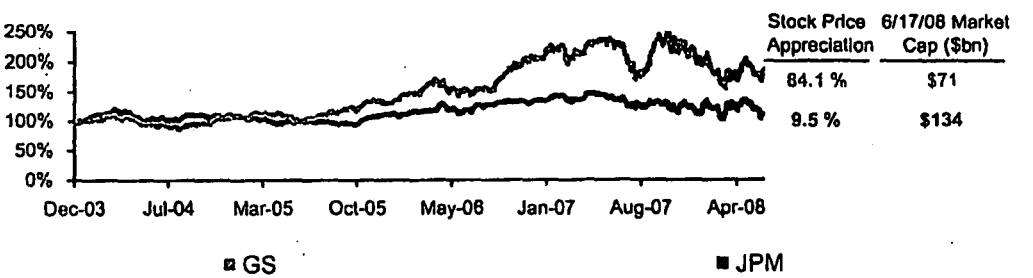
Return on Common Equity



Period-End Price-to-Book Multiple



Indexed Stock Price as of June 17, 2008



	Stock Price Appreciation	6/17/08 Market Cap ($bn)
GS	84.1 %	$71
JPM	9.5 %	$134

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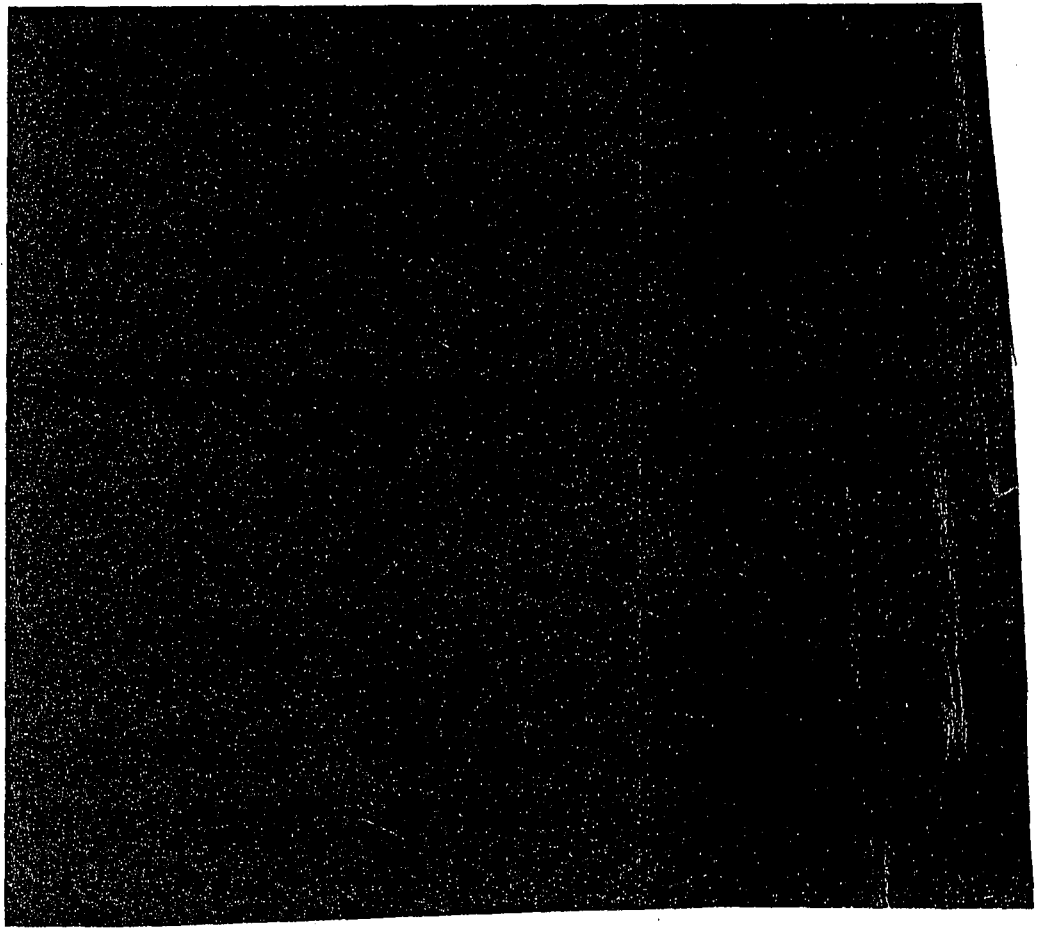
[redacted] = Redacted by the Permanent Subcommittee on Investigations

Board of Directors

Should GS Grow Its Bank Deposits by Acquiring a Commercial Bank?

Economics of a Commercial Bank Acquisition

- For an acquisition to be economically attractive, GS must be able to justify any premium paid above the fair value of the target's equity
  - Given the large discrepancy in today's market environment between the fair value of bank asset portfolios and the reserves the banks have taken against their portfolios, many banks' reported GAAP assets and equity are overvalued relative to GS' estimate of fair market value
- The primary benefit that may justify GS paying a premium to fair market value when acquiring a bank is the funding benefit associated with bank deposit liabilities
- [redacted]
- If the target bank's capital ratios after write-downs are below desired levels, GS may need to raise additional capital. The cost of this additional capital raise will be dilutive to GS on an ROE and EPS basis and will reduce the acquisition premium that could be justified



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Should GS Grow Its Bank Deposits by Acquiring a Commercial Bank?

Distressed Commercial Bank Acquisition

- While the funding benefits associated with bank deposit liabilities are meaningful to GS, it is unlikely that those benefits would justify paying the premium to a target bank's current market cap (and therefore a significant premium to the true fair market value of its equity) that would be required to complete a market-based acquisition
- GS likely would only be interested in acquiring a large U.S. commercial bank and its deposit liabilities in certain circumstances:
  - Extremely attractive purchase price in a distressed situation, such as just prior to or in FDIC receivership
  - In the context of a distressed situation, GS may be able to negotiate with the Federal Reserve to ease some of the restrictions of the BHCA

Recent Distressed Acquisitions ($mm)

Date	Target Bank	Assets	Deposits Acquired	Deposits Acquiror
Failed Banks				
5/08	First Integrity Bank	$55	$50	First International Bank and Trust
5/08	ANB Financial	2,100	213	Pulaski Bank and Trust Company
3/08	Hume Bank	19	13	Security Bank
1/08	Douglass National Bank	59	54	Liberty Bank and Trust Company
10/07	Miami Valley Bank	87	62	Citizens Bank Company
9/07	NetBank	2,500	1,500	ING Direct
2/07	Metropolitan Savings	16	12	Allegheny Valley Bank
Near-Failed Banks				
4/08	Fremont General	$6,048	$5,600	CapitalSource

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Should GS Grow Its Bank Deposits by Acquiring a Commercial Bank?

Potential Foreign Targets

- If structured properly, an acquisition of a foreign commercial bank could allow GS to fund some portion of its non-U.S. assets without subjecting GS to the Bank Holding Company Act
  - [redacted]
- Any acquisition of a non-U.S. commercial bank would be subject to the valuation considerations previously discussed
- Practical considerations limit the number of attractive potential non-U.S. commercial bank acquisition targets
- 37 of the top 40 non-US commercial banks are already regulated by the US as Bank Holding Companies[5]. GS would therefore need to restructure those banks' operations upon acquisition to avoid becoming a BHC itself
- Several otherwise attractive jurisdictions, including China, India and Canada, explicitly prohibit foreign companies from owning domestic banks
- Other countries, such as Switzerland, France, Italy and Spain may deny regulatory approval for a foreign acquisition of a prominent domestic bank
  - — The banking industry in these countries is highly concentrated, so regulators may be hesitant to allow a significant portion of the nation's banking system to be controlled by foreigners
- Most attractive countries may be the UK, Japan, certain continental European countries, Mexico and Brazil

Select Large Non-US Banks[1] ($mm)

Rank	Name	Primary Country	Deposits[2]	Market Cap[3]
1	[redacted]	UK	[redacted]	[redacted]
2		Japan		
3		UK		
4		Japan		
5		Japan		
6		Germany		
7		UK		
8		UK		
9		Spain		
10		Japan		
11		UK		
12		Netherlands		
13		Sweden		
14		Belgium		
15		Germany		
16		Belgium		
17		Australia		
18		Australia		
19		UK / Asia		
20		Australia		
21		Australia		
22		Germany		
23		Germany		
24		Denmark		
25		South Korea		
26		Austria		

[1] Excludes banks primarily domiciled in China, India, Canada, Switzerland, France, Italy and Spain.
[2] Deposits figures represent most recent available data.
[3] Market capitalization as of June 17, 2008.
[4] Does not include deposits recently acquired in ABN Amro transaction.
[5] Among top 40 largest non-US banks by deposits, only Credit Agricole (France), Bank of China (China), and Bank of Nova Scotia (Canada) are not BHCs. Credit Agricole and Bank of China currently have BHC applications pending.

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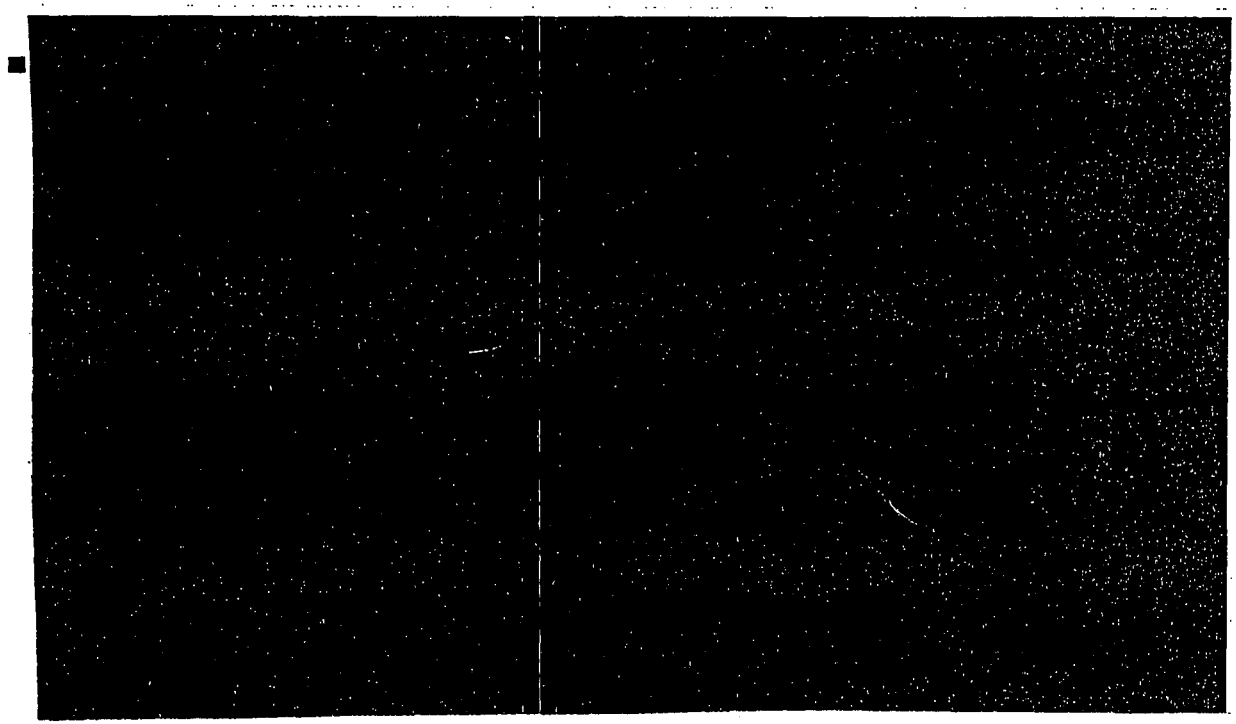
What Other Opportunities Exist to Leverage GS' Strong Competitive Position?

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What Other Opportunities Exist to Leverage GS' Strong Competitive Position?



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D61 [redacted] D65

GS MBS 0000038928 [redacted] GS MBS 0000038932

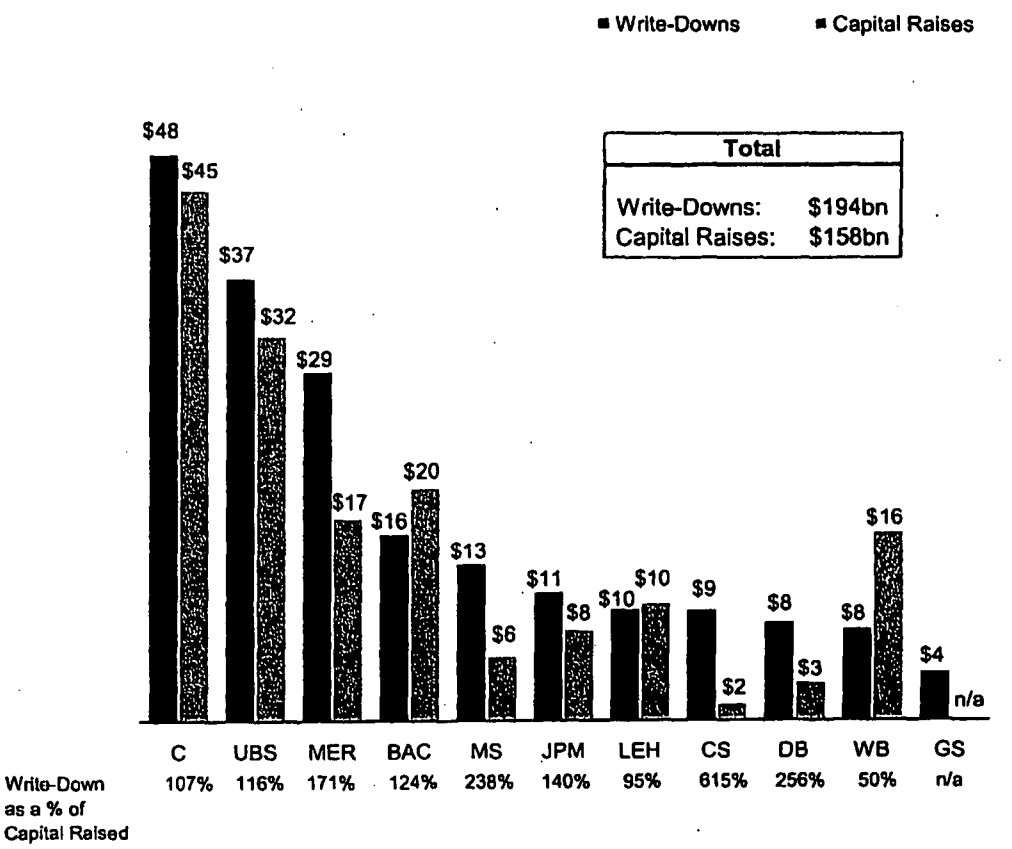
PSI_QFR_GS0180 [redacted] PSI_QFR_GS0184

Board of Directors

What Other Opportunities Exist to Leverage GS' Strong Competitive Position?

Capital Write-Downs and Raises 2007 – 2008 YTD ($ in billions)

- Many of GS' competitors have taken significant write-downs in the past year
- With the exception of GS, all major investment and commercial banks that have taken write-downs have subsequently raised additional capital
- These additional capital raises have largely been dilutive to existing shareholders
- GS has chosen not to raise equity capital in this depressed pricing environment



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Key Takeaways

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Key Takeaways

- GS remains committed to its existing growth strategy and business model
- GS will continue to execute on this business model in the BRICs and, potentially, in the "Next 11"
- Successful implementation of the GS growth strategy will require global expansion, diversification of GS' business portfolio and continued growth of the GS balance sheet
- Capitalizing on international growth opportunities will require an increasing percentage of GS employees to be based outside the U.S.
- GS does not need to be a commercial bank; the firm's conservative liquidity management programs and the potential support of the Fed will adequately protect us from a Bear Stearns-like collapse
- All activities of commercial banks, not just banking activities, are regulated and restricted. Commercial banks are also subject to limitations on leverage, capital requirements and comprehensive ongoing examinations
- The primary benefit of being a commercial bank is the commercial bank's ability to finance its businesses with deposits insured by the federal government at a cost that is often lower than capital markets funding
- Continued growth in the size of GS' balance sheet may require diversified adjunct sources of funding. Deposits are a potential source of additional funding
- GS' ability to use deposits to fund its businesses is constrained by regulatory requirements regarding asset quality, lending to affiliates and local lending
- GS has two deposit taking branches, one located in Utah with deposits of approximately $22bn and one located in Ireland with approximately $7bn in deposits. These deposit balances were built by sweeping PWM brokerage account free cash balances [redacted]
- Commercial banking is an operationally intense, low ROE business. GS' current business model has yielded stronger results than JPMorgan Chase, the best-in-class commercial bank in terms of ROE, price-to-book valuation and stock price performance

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Appendix

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Board of Directors

JPMorgan Chase Bank, NA

Balance Sheet as of March 31, 2008 ($ in millions)

Assets		Liabilities & Equity	
Real Estate:		**Deposits**	
Construction and Land Development	$6,751	*Domestic Deposits*	
Total 1 - 4 Family Residential[1]	156,937	NOW	$13,029
Multifamily Residential	717	Demand Deposits	51,985
Nonfarm Nonresidential Property	13,770	Total Transaction	65,014
Unclassified	2,083		
Total Real Estate	180,258	BDA and Savings	$287,031
Non-Real Estate:		Time Deposits < $100k	27,020
Credit Cards	$25,228	Time Deposits ≥ $100k	108,870
Commercial and Industrial	137,354	Total Non-Transaction	422,921
Consumer - Margin Loans	9,769		
Agricultural Production	530		
Loans to Depository Institutions	18,429	Total Domestic Deposits	487,935
Other Consumer Loans & Revolving Credit Plans	53,668		
Leases - Commercial and Consumer	2,562	*Foreign Deposits*	
Other	59,149	Individual Accounts	$230,100
Total Non-Real Estate	306,689	Institutional Accounts	88,284
Total Loans and Leases	$486,947	Total Foreign Deposits	318,384
Allowance for Loan Losses	9,484	**Total Deposits**	806,319
Net Loans and Leases	477,463		
Securities		**Other Borrowings & Liabilities**	
US Treasuries & US Govt Agency Obligation	$342	Fed Funds	$28,083
MBS - Issued / Guaranteed by FNMA/FHLMC/GNMA	75,990	Repurchase Agreements	150,819
MBS - Other	4,967	Derivatives with Negative Fair Value	77,877
Other	12,956	Liability for Short Positions	60,289
Securities	94,255	Other Borrowed Money	81,707
Trading Assets		Other Liabilities	65,683
US Treasury Securities in Domestic Offices	$11,652	**Total Other Borrowings & Liabilities**	464,458
US Govt Agencies in Domestic Offices	742		
MBS in Domestic Offices - Issued / Guaranteed by FNMA/FHLMC/GNMA	5,289	**Total Liabilities**	1,270,777
MBS in Domestic Offices - Other	1,267	Minority Investment	1,297
Derivatives with Positive Fair Value	90,800	**Capital**	
Other	270,498	Subordinated Debt	26,620
Trading Assets	380,248	Preferred Stock	-
Goodwill	25,807	Common Equity	108,874
Other Assets[2]	429,795	**Total Capital**	135,494
Total Assets	$1,407,568	**Total Liabilities and Capital**	$1,407,568

[1] Includes home equity lines of credit in the amount of $68bn.
[2] Other assets includes cash, Fed funds sold and securities purchased under agreements to resell, fixed assets, REO, intangible assets, accrued interest receivable, interest only strips receivables, equity securities that do not have readily determinable fair value, life insurance assets and other unidentified assets.

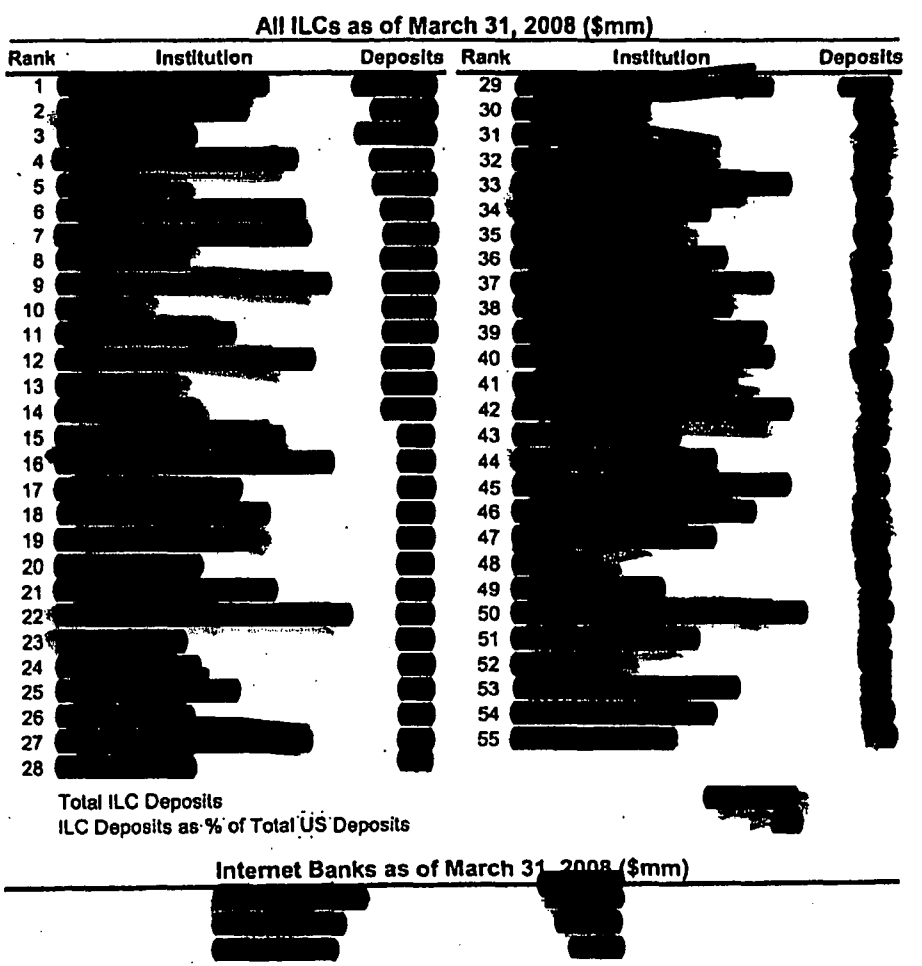
Appendix D70

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Board of Directors

Potential GS Bank USA Acquisition Targets

- An acquisition of deposits into GS Bank USA should be structured so as to preserve the bank's exemption from the Bank Holding Company Act
- The consequences of becoming subject to the Bank Holding Company Act, described in detail in the section "How Are Commercial Banks Regulated?", are material to GS Group
- In order for an ILC to avoid becoming subject to the Bank Holding Company Act, it must generally refrain from establishing deposit-taking branches outside of its home state; an acquisition that resulted in GS Bank USA owning deposit-taking branches outside of Utah would potentially cause GS to become a Bank Holding Company unless those branches were shut down
- GS could grow deposits and avoid becoming a Bank Holding Company by acquiring an existing ILC, either inside of outside of Utah
  - Most sizeable ILCs, however, are owned by competitors of GS, such as Merrill Lynch and Morgan Stanley, and these ILCs often are strategic to these competitors (i.e. fund certain business, such as mortgages, or provide services to brokerage customers)
  - The other sizeable ILCs are owned by auto manufacturers and are strategic to these auto manufacturers as they provide financing for customers
  - A non-Utah ILC would be organized as a sister company of GS Bank USA, resulting in potential inefficiencies (e.g., inability to combine capital bases for purposes of calculating 15% legal lending limits)
- GS could also grow deposits by acquiring the assets and liabilities of an internet bank
  - Internet banks do not require physical branches to maintain their deposit balances
  - Three potential targets: [redacted]



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Appendix D71
GS MBS 0000038938

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GS MBS 0000038939

PSI_QFR_GS0191

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LB 1(a)(ii)&(iii): Please provide the purchase or trade date for each asset and its original face value.

In response to the Staff's follow-up question, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000087069) providing (i) the original face value and (ii) the purchase or trade date, for each asset referenced in GS MBS 0000027961.

Supplemental Response Received From Goldman Sachs

Supplemental Response Received From
Goldman Sachs

CDO Asset Details
PSI Request LB-1a

CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
ANDMF071	00437SFE9	ACCT0901	Accredited Mortgage Loan Trust 2006-1 (ACCR 2006-1 M8)	00437SFE9	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	00442UPT3	ACE05HE4	ACE Securities Corp 2005-HE6 (ACE 2005-HE4 M8)	00442UPT3	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	00442UVC4	ACE06NC1	Ace Securities Corp 2006-NC1 (ACE 2006-NC1 M8)	00442UVC4	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	00442BAP9	ACE06HE4	ACE Securities Corp 2006-HE4 (ACE 2006-HE4 M8)	00442BAP9	10/16/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	00442PAP8	ACE06OP1	ACE Securities Corp 2006-OP1 (ACE 2006-OP1 M8)	00442PAP8	10/19/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	00072SM88	AMQ05R8	Ameriquest Mortgage Securities Inc 2005-R8 (AMSI 2005-R8 M8)	00072SM83	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	00072STB2	AMQ05R10	Ameriquest Mortgage Securities Inc 2005-R10 (AMSI 2005-R10 M8)	00072STB2	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	00072SW93	AMQ05R11	Ameriquest Mortgage Securities Inc 2005-R11 (AMSI 2005-R11 M8)	00072SW93	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	04010HT80	ARS06W4	Argent Securities Inc 2006-W4 (ARSI 2006-W4 M8)	04010HT80	11/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	04541GCH9	ASHE05HE	Asset Backed Securities Corp Home Equity 2005-HE7 (ABSHE 2005-HE7 M7)	04541GCH9	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	04541GWG1	ASHE06HE2	Asset Backed Securities Corp Home Equity 2006-HE2 (ABSHE 2006-HE2 M8)	04541GWG1	11/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	12987GLW8	CWHE0514	Countrywide Asset-Backed Certificates 2005-14 (CWL 2005-14 M8)	12987GLW8	11/22/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	12987GN44	CWHE0603	Countrywide Asset-Backed Certificates 2006-3CB (CWL 2006-3CB B)	12987GN44	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	12987GUD8	CWHE0801	Countrywide Asset-Backed Certificates 2006-1 (CWL 2006-1 M10)	12987GUD8	11/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	144531BK5	CMLT06N1	Carrington Mortgage Loan Trust 2006-NC1 (CARR 2006-NC1 M8)	144531BK5	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	144531PD0	CMLT06N1	Carrington Mortgage Loan Trust 2006-NC1 (CARR 2006-NC1 M9)	144531PD0	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	14453FAN9	CMLT06N2	Carrington Mortgage Loan Trust 2006-NC2 (CARR 2006-NC2 M8)	14453FAN9	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	17296SAN6	CTM06NC1	Citigroup Mortgage Loan Trust Inc 2006-NC1 (CMLTI 2006-NC1 M8)	17296SAN6	10/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	17307GSS8	CTM05OP3	Citigroup Mortgage Loan Trust Inc 2005-OPT3 (CMLTI 2005-OPT3 M8)	17307GSS8	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	22237JAP2	CWHE06B2	Countrywide Asset-Backed Certificates 2006-8C2 (CWL 2006-8C2 M8)	22237JAP2	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	31659EAM0	FMC0602	Fieldstone Mortgage Investment Corp 2006-2 (FMIC 2006-2 M8)	31659EAM0	12/22/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	35729QAN8	FPHE06B	Prestmt Home Loan Trust 2006-B (PHLT 2006-B M8)	35729QAN8	10/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	35729TAP7	FPHE06D	Prestmt Home Loan Trust 2006-D (PHLT 2006-D M8)	35729TAP7	10/19/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	362463AP9	GSAA06N2	GSAMP Trust 2006-NC2 (GSAMP 2006-NC2 M8)	362463AP9	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	40430HDN9	HSA06OP1	(HSI Asset Securitization Corp Trust 2006-OPT1 (HASC 2006-OPT1 M8)	40430HDN9	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	40430HEN7	HSA06OP2	HSI Asset Securitization Corporation Trust 2006-OPT2 (HASC 2006-OPT2 M8)	40430HEN7	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	40430HFA1	HSA06NC1	Hilt Asset Securitization Corp Trust 2006-NC1 (HASC 2006-NC1 M8)	40430HFA1	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	43708TAP3	HEAT0609	Home Equity Asset Trust 2006-9 (HEAT 2006-9 M8)	43708TAP3	11/22/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	46625WAN4	IXIS06N2	IXIS Real Estate Capital Trust 2006-HE3 (IXIS 2006-HE3 M8)	46625WAN4	11/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	46625LQG7	JPA06HE1	JP Morgan Mortgage Acquisition Corp 2006-HE1 (JPMAC 2006-HE1 M8)	46625LQG7	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	46625LJZ4	JPA06NC1	JP Morgan Mortgage Acquisition Corp 2006-NC1 (JPMAC 2006-NC1 M8)	46625LJZ4	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	46629BBB4	JPA06CW2	JP Morgan Mortgage Acquisition Corp 2006-CW2 (JPMAC 2006-CW2 M10)	46629BBB4	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	46629FAN0	JPA06HE2	JP Morgan Mortgage Acquisition Corp 2006-HE2 (JPMAC 2006-HE2 M8)	46629FAN0	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	57643LAG1	MABS06N2	Mastr Asset Backed Securities Trust 2006-NC2 (MABS 2006-NC2 M8)	57643LAG1	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	57643FAM8	MABS06N2	Mastr Asset Backed Securities Trust 2006-NC2 (MABS 2006-NC2 M8)	57643FAM8	11/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	59020UBH3	MLH06HE1	Merrill Lynch Mortgage Investors Inc 2006-HE1 (MLMI 2006-HE1 B2A)	59020UBH3	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	59021AAN0	MLH06NF1	Merrill Lynch Mortgage Investors Inc 2006-NF1 (MLMI 2006-NF1 B2)	59021AAN0	11/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	59023AAN6	MLH06MN1	Merrill Lynch Mortgage Investors Trust 2006-MLN1 (MLMI 2006-MLN1 B2)	59023AAN6	12/28/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	61744CKW9	MSAC06H1	Morgan Stanley ABS Capital I 2006-HE1 (MSAC 2006-HE1 B2)	61744CKW9	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	61744CM32	MSAC06N1	Morgan Stanley ABS Capital I 2006-NC1 (MSAC 2006-NC1 B2)	61744CM32	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	61744CNH8	MSAC06H2	Morgan Stanley ABS Capital I 2006-HE2 (MSAC 2006-HE2 B2)	61744CNH8	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	61744CPG3	MSAC06N2	Morgan Stanley ABS Capital I 2006-NC2 (MSAC 2006-NC2 B2)	61744CPG3	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	61744CUZ7	MSAC06H3	Morgan Stanley ABS Capital I 2006-HE3 (MSAC 2006-HE3 B2)	61744CUZ7	11/22/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	61744CWE2	MSAC06H4	Morgan Stanley ABS Capital I 2006-HE4 (MSAC 2006-HE4 B2)	61744CWE2	10/16/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	61744CYK9	MSAC06N1	Morgan Stanley ABS Capital I 2006-NC1 (MSAC 2006-NC1 B2)	61744CYK9	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	64352VWJ8	NCC06001	New Century Home Equity Loan Trust 2006-1 (NCHET 2006-1 M8)	64352VWJ8	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	64352VLA7	NCC06002	New Century Home Equity Loan Trust 2006-2 (NCHET 2006-2 M8)	64352VLA7	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	64352VLS8	NCC06003	New Century Home Equity Loan Trust 2006-3 (NCHET 2006-3 M8)	64352VLS8	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07		Goldman Sachs
ANDMF071	64352VNB3	NCC06004	New Century Home Equity Loan Trust 2006-4 (NCHET 2006-4 M8)	64352VNB3	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	64352VNS8	NCC06001	New Century Home Equity Loan Trust 2006-1 (NCHET 2006-1 M8)	64352VNS8	11/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	64390TAN7	NCC06002	New Century Home Equity Loan Trust 2006-2 (NCHET 2006-2 M8)	64390TAN7	11/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	65108AAN3	NHC06001	Novastar Mortgage Securities Trust 2006-1 (NCMT 2006-1 M8)	65108AAN3	10/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	65536MAN7	NHE06N2	Nomura Home Equity Loan Inc 2006-HE2 (NHEL 2006-HE2 M8)	65536MAN7	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	761118L34	RFC05EF6	Residential Asset Mortgage Products Inc 2005-EFC6 (RAMP 2005-EFC6 M8)	761118L34	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	81378AN7	SABR06F3	Securitized Asset Backed Receivables LLC Trust 2006-FR3 (SABR 2006-FR3 B2)	81378AN7	10/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	83611MEE4	SHE05D1	Soundview Home Equity Loan Trust 2005-DO1 (SHE 2005-DO1 M8)	83611MEE4	11/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	83611MJT2	SHE06O2	Soundview Home Equity Loan Trust 2006-OPT2 (SHE 2006-OPT2 M7)	83611MJT2	10/11/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	86360FAR8	SASC06C1	Structured Asset Securities Corp 2006-NC1 (SASC 2006-NC1 M9)	86360FAR8	11/03/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	86361KAM9	SAIL0603	Structured Asset Investment Loan Trust 2006-BNC3 (SAIL 2006-BNC3 M7)	86361KAM9	11/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
ANDMF071	92534FAE8	VERTV06F	Vertical Vega Ltd 2006-1 (VRGO 2006-1A B1)	92534FAE8	10/02/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
ANDMF071	93934JAN4	WMA06HQ	Washington Mutual Asset-Backed Certificates 2006-HE2 (WMABS 2006-HE2 M8)	93934JAN4	10/06/2006	5,000,000	5,000,000	Y	20-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
CAMBER7	00079GAH2	ABFC06OP1	ABFC 2006-OPT1 M8 COS - LIBOR + 2.11% 08/25/2036	00079GAH2	07/26/2007	7,500,000	7,500,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	00253FDB4	AMT0504	AMT 2005-4 M8 COS - LIBOR + 3.35% 10/25/2035	00253FDB4	01/29/2007	10,000,000	10,000,000	Y	28-Feb-07	Jul 06 - Feb 07		Goldman Sachs
CAMBER7	00441QAP4	ACE06CW1	ACE 2006-CW1 M8 COS - LIBOR + 3.0% 07/25/2036	00441QAP4	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	00441QAP4	ACE06CW1	ACE 2006-CW1 M8 COS - LIBOR + 2.0% 07/25/2036	00441QAP4	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07		Goldman Sachs
CAMBER7	00442ULL8	ACE05HE7	ACE 2005-HE7 M8 COS - LIBOR + 2.3% 11/25/2035	00442ULL8	09/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	00442UVB6	ACE06NC1	ACE 2006-NC1 M8 COS - LIBOR + 1.3% 12/25/2035	00442UVB6	12/14/2006	3,000,000	3,000,000	Y	28-Feb-07	Jul 06 - Feb 07		Goldman Sachs
CAMBER7	00442UVC4	ACE06NC1	Ace Securities Corp 2006-NC1 (ACE 2006-NC1 M8)	00442UVC4	07/21/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	00072STB4	AMQ05R10	AMSI 2005-R10 M8 COS - LIBOR + 1.05% 12/25/2035	00072STB4	09/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07		Goldman Sachs
CAMBER7	00072SW93	AMQ05R11	Ameriquest Mortgage Securities Inc 2005-R11 (AMSI 2005-R11 M8)	00072SW93	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	00072SW93	AMQ05R11	Ameriquest Mortgage Securities Inc 2005-R11 (AMSI 2005-R11 M8)	00072SW93	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07		Goldman Sachs
CAMBER7	04010HAL1	ARS05W2	Argent Securities Inc 2005-W2 (ARSI 2005-W2 M8)	04010HAL1	09/02/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	04010HR06	ARS06W1	Argent Securities Inc 2006-W1 (ARSI 2006-W1 M8)	04010HR06	07/21/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	04541GCH9	ASHE05HE	Asset Backed Securities Corp Home Equity 2005-HE7 (ABSHE 2005-HE7 M7)	04541GCH9	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07		Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

CDO Asset Details
PSI Request LB-1a

CDO Deal	Cusip	Index Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Ported	Asset Source	Counterparty facing the Transaction
CAMBER7	04341GRC8	ABSHE06HC	ABSHE 2006-HE3 M8 CDS - LIBOR + 3.0% 04/25/2036	04341GRC8	01/26/2007	7,800,000	7,800,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	04341GVT8	ABSHE06H1	ABSHE 2006-HE1 M8 CDS - LIBOR + 1.1% 01/25/2036	04341GVT8	08/16/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	04341GWG1	ABSHE06H2	Asset Backed Securities Corp Home Equity 2006-HE3 (ABSHE 2006-HE3 M8)	04341GWG1	07/31/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	04341GXL1	ABSHE06H3	ABSHE 2006-HE3 M8 CDS - LIBOR + 3.05% 05/25/2036	04341GXL1	12/14/2006	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	04344PAP4	ABSHE06H5	ABSHE 2006-HE5 M8 CDS - LIBOR + 2.17% 07/25/2036-r1	04344PAP4	12/14/2006	3,000,000	3,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	04344PAP4	ABSHE06H5	ABSHE 2006-HE5 M8 CDS - LIBOR + 2.17% 07/25/2036-r1	04344PAP4	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387BDC0	BSHE06H2	Bear Stearns Asset Backed Securities Inc 2006-HE2 (BSABS 2006-HE2 M8)	07387BDC0	08/29/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387BDV8	BSHE06H11	BSABS 2006-HE11 M8 CDS - LIBOR + 2.5% 11/25/2036	07387BDV8	07/27/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387BEJ0	BSHE06E1	BSABS 2006-EC1 M7 CDS - LIBOR + 1.0% 11/25/2036	07387BEJ0	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387BHV8	BSHE06H1	BSABS 2006-HE1 M7 CDS - LIBOR + 1.35% 11/25/2036	07387BHV8	11/09/2006	10,000,000	10,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	07387BKE0	BSHE06H3	BSABS 2006-HE3 M8 CDS - LIBOR + 3.2% 05/25/2036	07387BKE0	07/24/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387BTY4	BSHE06H4	BSABS 2006-HE4 M8 CDS - LIBOR + 3.3% 04/25/2036	07387BTY4	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387BYC6	BSHE06H6	Bear Stearns Asset Backed Securities Inc 2006-HE6 (BSABS 2006-HE6 M8)	07387BYC6	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387UBE0	BSHE06P1	BSABS 2006-PC1 M8 CDS - LIBOR + 2.2% 12/25/2035-r1	07387UBE0	08/13/2006	3,800,000	3,800,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	07387UBE0	BSHE06P1	BSABS 2006-PC1 M8 CDS - LIBOR + 2.2% 12/25/2035-r1	07387UBE0	10/30/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	07387UDZ1	BSHE06E2	BSABS 2006-EC2 M8 CDS - LIBOR + 2.25% 02/25/2036	07387UDZ1	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	07387UJA0	BSHE06H3	Bear Stearns Asset Backed Securities Inc 2006-HE3 (BSABS 2006-HE3 M8)	07387UJA0	09/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	129670LW8	CWHE06H4	Countrywide Asset-Backed Certificates 2006-14 (CWL 2006-14 M8)	129670LW8	08/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	129670MG6	CWHE06I8	CWL 2006-18 M8 CDS - LIBOR + 1.3% 04/25/2036	129670MG6	09/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	129670NN4	CWHE06B5	Countrywide Asset-Backed Certificates 2006-BC5 (CWL 2006-BC5 M	129670NN4	12/06/2006	10,000,000	10,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	129673SK4	CWHE06I6	CWL 2006-I6 M8 CDS - LIBOR + 1.19% 12/25/2036	129673SK4	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	129673SL2	CWHE06I6	CWL 2006-I6 E CDS - LIBOR + 1.8% 12/25/2036	129673SL2	08/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	129673TG1	CWHE06B4	CWL 2006-BC4 M8 CDS - LIBOR + 0.83% 09/25/2036	129673TG1	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	129673YE5	CWHE06B1	Countrywide Asset-Backed Certificates 2006-BC1 (CWL 2006-BC1 M	129673YE5	08/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	144328AM8	CMLT06H3	CARR 2006-NC3 M8 - LIBOR + 0.97% 08/25/2036	144328AM8	08/07/2006	1,850,000	1,850,000	N	28-Feb-07	Jul 06 - Feb 07	[redacted]	Not Applicable
CAMBER7	144331BH2	CMLT06N1	CARR 2006-NC1 M7 CDS - LIBOR + 1.0% 02/25/2036	144331BH2	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	144331CB4	CMLT06N2	Carrington Mortgage Loan Trust 2006-NC2 (CARR 2006-NC2 M8)	144331CB4	11/27/2006	3,000,000	3,000,000	N	28-Feb-07	Jul 06 - Feb 07	[redacted]	Not Applicable
CAMBER7	144331DW7	CMLT06N8	CARR 2006-NC8 M8 CDS - LIBOR + 2.11% 10/25/2036	144331DW7	08/29/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	144331FP3	CMLT06N7	CARR 2006-NC1 M8 CDS - LIBOR + 1.3% 01/25/2036	144331FP3	12/14/2006	3,000,000	3,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	144331FQ0	CMLT06R1	Carrington Mortgage Loan Trust 2006-NC1 (CARR 2006-NC1 M8)	144331FQ0	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	144336AM4	CMLT06R1	CARR 2006-NC1 M8 CDS - LIBOR + 1.4% 08/25/2036	144336AM4	12/14/2006	6,000,000	6,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	144336AN8	CMLT06R2	Carrington Mortgage Loan Trust 2006-NC2 (CARR 2006-NC2 M8)	144336AN8	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	14866PAP9	CSAB06C8	CSAB6 2006-C8 B1 CDS - LIBOR + 1.8% 07/25/2036	14866PAP9	02/02/2007	7,800,000	7,800,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	197187AC8	CETUS06I	CETUS 2006-1A B CDS - LIBOR + 1.43% 10/18/2046	197187AC8	08/23/2006	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	15718MAC5	CETUS06I	CETUS 2006-3A B CDS - LIBOR + 1.4% 12/20/2046	15718MAC5	08/29/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	172963AN8	CTHO6NC1	Citigroup Mortgage Loan Trust Inc 2006-NC1 (CML1) 2006-NC1 M8)	172963AN8	08/18/2006	6,000,000	6,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	219955AH0	CORO8	Crone 2007-1A B - LIBOR + 2.6% 05/08/2047		39141	10050000	10050000	N	39141	Jul 06 - Feb 07	[redacted]	Not Applicable
CAMBER7	26441HAD3	DUKE10	Duke Funding Ltd 2006-10 (DUKEF 2006-10A A3)	26441HAD3	08/18/2006	6,000,000	6,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	30247DAP8	FFML06F13	FFML 2006-FF13 M8 CDS - LIBOR + 3.25% 10/25/2036	30247DAP8	02/02/2007	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	31561EAN5	FFML06F6	FFML 2006-FF4 M8 CDS - LIBOR + 3.5% 04/25/2036	31561EAN5	12/14/2006	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	31568EAM0	FMIC0602	Fieldstone Mortgage Investment Corp 2006-2 (FMIC 2006-2 M8)	31568EAM0	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	32027BAH4	FFML06F5	FFML 2006-FF5 M8 CDS - LIBOR + 1.75% 07/25/2036	32027BAH4	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	362334BH8	FFML06F2	FFML 2006-FF2 M8 CDS - LIBOR + 2.18% 03/25/2036	362334BH8	12/1/2006	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	362334QC3	FFML06F4	FFML 2006-FF4 M8 CDS - LIBOR + 1.55% 03/25/2036	362334QC3	12/1/2006	3,000,000	3,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	362334QJ7	FFML06F4	First Franklin Mortgage Loan Asset Backed Certificates 2006-FF4 (FFML 2006-FF4 B1)	362334QJ7	12/1/2006	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	362334LW	GSAM06H3	GSAMP 2006-HE3 B3 CDS - LIBOR + 1.8% 05/25/2046	362334LW	12/14/2006	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	362341KX4	GSAM06H4	GSAMP Trust 2006-HE4 (GSAMP 2006-HE4 B2)	362341KX4	07/24/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	362341KL3	GSAM06H4	GSAMP 2006-HE4 B3 CDS - LIBOR + 2.1% 09/25/2035	362341KL3	12/09/2006	3,000,000	3,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	362420DA4	GSAM06N1	GSAMP 2006-NC1 B3 CDS - LIBOR + 1.18% 02/25/2036	362420DA4	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	362439AP6	GSAM06H4	GSAMP 2006-HE4 M8 CDS - LIBOR + 1.65% 09/25/2036	362439AP6	08/16/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	36244KAP0	GSAM06H3	GSAMP TRUST 2006-HE3 (GSAMP 2006-HE3 M8)	36244KAP0	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	437084QD4	HEAT0505	Home Equity Asset Trust 2005-5 (HEAT 2005-5 M8)	437084QD4	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	437084QG4	HEAT0506	Home Equity Asset Trust 2005-6 (HEAT 2005-6 M8)	437084QG4	07/24/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	437084FP8	HEAT0509	HEAT 2005-9 M8 CDS - LIBOR + 1.3% 04/25/2036	437084FP8	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	437084RF5	HEAT0508	HEAT 2005-8 M8 CDS - LIBOR + 1.5% 04/25/2036	437084RF5	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	437084SE7	HEAT0601	HEAT 2006-1 M8 CDS - LIBOR + 1.23% 04/25/2036	437084SE7	08/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	46625BAH8	JPMA06E2	JPMAC 2006-HE2 M8 CDS - LIBOR + 1.69% 07/25/2036	46625BAH8	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	46625BAP1	JPMA06E2	JPMAC 2006-HE2 M8 CDS - LIBOR + 1.9% 07/25/2036	46625BAP1	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	46626LAN0	JPMA05O1	JPMAC 2005-OPT1 M8 CDS - LIBOR + 3.85% 08/25/2035	46626LAN0	02/05/2007	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	46626LGP9	JPMA06E1	JPMAC 2006-HE1 M8 CDS - LIBOR + 1.02% 01/25/2036	46626LGP9	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	46626LGQ7	JPMA06E1	JP Morgan Mortgage Acquisition Corp 2006-HE1 (JPMAC 2006-HE1 M8)	46626LGQ7	08/15/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	46626MAP1	JPMA06W1	JPMAC 2006-CW1 M8 CDS - LIBOR + 1.18% 05/25/2036	46626MAP1	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	46626MAP1	JPMA06W1	JPMAC 2006-CW1 M8 CDS - LIBOR + 1.18% 05/25/2036	46626MAP1	08/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	46626MBS4	JPMA06W2	JP Morgan Mortgage Acquisition Corp 2006-CW2 (JPMAC 2006-CW2 MV8)	46626MBS4	08/07/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	46626QBP3	JPMA06H3	JPMAC 2006-CH3 MV8 CDS - LIBOR + 1.55% 10/25/2036	46626QBP3	02/02/2007	8,000,000	8,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	53015TAE8	LIBER3	LBRTS 2007-3A 4 - LIBOR + 1.75% 04/09/2047		02/26/2007	5,000,000	5,000,000	N	28-Feb-07	Jul 06 - Feb 07	[redacted]	Not Applicable
CAMBER7	53015TAG3	LIBER3	LBRTS 2007-3A 6 - LIBOR + 2.75% 04/09/2047		02/26/2007	5,000,000	5,000,000	N	28-Feb-07	Jul 06 - Feb 07	[redacted]	Not Applicable
CAMBER7	54231KG8	LBML0501	Long Beach Mortgage Loan Trust 2005-1 (LBMLT 2005-1 M8)	54231KG8	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	54251HK8	LBML05W2	Long Beach Mortgage Loan Trust 2005-WL2 (LBMLT 2005-WL2 M8)	54251HK8	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	54251HK8	LBML05W2	Long Beach Mortgage Loan Trust 2005-WL2 (LBMLT 2005-WL2 M8)	54251HK8	08/13/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	54251MZ8	LBML06W1	LBMLT 2006-WL1 M8 CDS - LIBOR + 2.43% 01/25/2036	54251MZ8	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	54251MAH4	LBML0604	Long Beach Mortgage Loan Trust 2006-4 (LBMLT 2006-4 M8)	54251MAH4	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	55980QBS2	MAG20606	MAGNP 2006-6A CU - LIBOR + 1.65% 11/25/2044	55980QBS2	09/13/2006	5,000,000	5,000,000	N	28-Feb-07	Jul 06 - Feb 07	[redacted]	Not Applicable

[redacted] = Redacted by the Permanent Subcommittee on Investigations

CDO Asset Details
PSI Request LB-1a

CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Ported	Asset Source	Counterparty facing the Transaction
CAMBER7	87943JAY9	MABS05H2	MABS 2005-HC2 M8 CDS - LIBOR + 2.5% 11/25/2035	87943JAY9	12/08/2006	10,000,000	10,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	59001FCZ2	MMLC0602	MMLT 2006-3 M8 CDS - LIBOR + 2.2% 11/25/2035	59001FCZ2	07/21/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	59020UDG6	MLHE06H1	Merrill Lynch Mortgage Investors 2006-HE1 (MLMI 2006-HE1 B3A)	59020UDG6	09/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	59020UDG6	MLHE06H1	Merrill Lynch Mortgage Investors 2006-HE1 (MLMI 2006-HE1 B3A)	59020UDG6	12/14/2006	3,000,000	3,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	59020UJG99	MLHE06A1	MLMI 2006-AR1 B3 CDS - LIBOR + 2.15% 08/25/2036	59020UJG99	10/30/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	59020UJG96	MLHE06A1	MLMI 2006-AR1 B2 CDS - LIBOR + 2.15% 08/25/2036	59020UJG96	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	59020URS3	MLHE05W1	MLMI 2005-WHC1 B3	59020URS3	07/31/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	59020URU1	MLHE05W1	Merrill Lynch Mortgage Investors Inc 2005-HC1 (MLMI 2005-HC1 B3)	59020URU1	08/08/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	59020UWH2	MLHE05W2	Merrill Lynch Mortgage Investors, Inc 2005-WHC2 (MLMI 2005-WHC2 B3)	59020UWH2	09/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	59023UAG1	MLHE06H4	MLMI 2006-HE4 B3 CDS - LIBOR + 1.25% 07/25/2037	59023UAG1	09/20/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	61744CMT0	MSABS0H1	Morgan Stanley ABS Capital I 2005-HC1 (MSAC 2005-HC1 B3)	61744CMT0	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61744CNZ5	MSABS0W2	MSAC 2005-WHC2 B3 CDS - LIBOR + 3.3% 02/25/2035	61744CNZ5	07/20/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61744CRY4	MSABS0W3	MSAC 2005-WHC3 B3 CDS - LIBOR + 1.05% 08/25/2035	61744CRY4	08/18/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	61744CWU8	MSABS0H7	MSAC 2005-HE7 B3 CDS - LIBOR + 1.9% 11/25/2035	61744CWU8	07/31/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61744CXD9	MSHE06I1	MSHEL 2006-1 B3 CDS - LIBOR + 2.05% 12/25/2035	61744CXD9	02/08/2007	7,500,000	7,500,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61744CYK8	MSABS0N1	Morgan Stanley ABS Capital I 2006-HC1 (MSAC 2006-HC1 B3)	61744CYK8	02/08/2007	7,500,000	7,500,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	61744CYN2	MSABS0N1	Morgan Stanley ABS Capital I 2006-HC1 (MSAC 2006-HC1 B5)	61744CYN2	08/15/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	61744CY28	MSHE06I2	MSHEL 2006-3 B3 CDS - LIBOR + 1.25% 02/25/2036	61744CY28	08/25/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61744CZH1	MSABS0N2	Morgan Stanley Capital I 2006-HC2 (MSAC 2006-HC2 B2)	61744CZH1	08/21/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61745EAE3	MSABS0H1	MSAC 2005-HE1 B3 CDS - LIBOR + 2.4% 01/25/2036	61745EAE3	08/20/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	61746QAH2	MSHE0603	MSHEL 2006-3 B3 CDS - LIBOR + 2.0% 04/25/2036	61746QAH2	08/17/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	64352VNB3	NCC05504	New Century Home Equity Loan Trust 2005-4 (NCHET 2005-4 M8)	64352VNB3	11/01/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	64352VNB3	NCC05504	New Century Home Equity Loan Trust 2005-4 (NCHET 2005-4 M8)	64352VNB3	07/20/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	64352VPG0	NCC05505C	New Century Home Equity Loan Trust 2005-C (NCHET 2005-C M8)	64352VPG0	11/09/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	66388FCZ8	OOME0601	OOMLT 2006-1 M8 CDS - LIBOR + 2.3% 01/25/2036		02/23/2007	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	72239HAD8	PHEMT	Pine Mountain 2005-A G	72239HAD8	08/17/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	75405MAH7	RFC05K69	Residential Asset Securities Corp 2005-KS9 (RASC 2005-KS9 M8)	75405MAH7	08/29/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	75406EAH3	RFC06K64	RASC 2006-KS4 M8 CDS - LIBOR + 1.05% 08/25/2036	75406EAH3	08/17/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	75406WAH3	RFC06K66	RASC 2006-KS8 M8 CDS - LIBOR + 1.17% 08/25/2036	75406WAH3	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	75406WAH3	RFC06K66	RASC 2006-KS8 M8 CDS - LIBOR + 1.17% 08/25/2036	75406WAH3	11/02/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76110W3P1	RFC05K67	RASC 2005-KS7 M8 CDS - LIBOR + 2.4% 08/25/2035	76110W3P1	11/08/2006	10,000,000	10,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BAK3	RFC06HC3	RAMP 2006-HC3 M8 CDS - LIBOR + 2.16% 03/25/2036	76112BAK3	07/20/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BD48	RFC05EF4	RAMP 2005-EFC4 M8 CDS - LIBOR + 3.7% 08/25/2035	76112BD48	03/01/2007	6,000,000	6,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BL24	RFC05EP6	Residential Asset Mortgage Products Inc 2005-EFC6 (RAMP 2005-EFC6 M8)	76112BL24	07/31/2006	9,250,000	9,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BV33	RFC05EP3	RAMP 2005-EFC3 M8 CDS - LIBOR + 1.83% 07/25/2035	76112BV33	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BW98	RFC05EZ2	RAMP 2005-NC2 M7 CDS - LIBOR + 0.98% 05/25/2035	76112BW98	08/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BZB9	RFC05EP3	RAMP 2005-EFC3 M8 CDS - LIBOR + 3.55% 08/25/2035	76112BZB9	03/01/2007	6,000,000	6,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BZB9	RFC05EP3	RAMP 2005-EFC3 M8 CDS - LIBOR + 3.55% 08/25/2035		03/01/2007	(6,000,000)	(6,000,000)	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76112BZB9	RFC05EP3	RAMP 2005-EFC3 M8 CDS - LIBOR + 3.55% 08/25/2035		03/01/2007	6,000,000	6,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76113ABT7	RFC05K63	RASC 2005-KS3 M8 CDS - LIBOR + 1.19% 04/25/2035	76113ABT7	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	76514RAL8	CMLT05H4	Carrington Mortgage Loan Trust 2005-NC4 (CARR 2005-NC4 M8)	76514RAL8	11/27/2006	1,000,000	1,000,000	N	28-Feb-07	Jul 06 - Feb 07		Not Applicable
CAMBER7	805564RK8	BAST0502	BAST 2005-3 B2	805564RK8	08/23/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	805564RK8	BAST0502	BAST 2005-3 B2	805564RK8	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	805564RZ8	BAST0502	BAST 2005-3 B3 CDS - LIBOR + 1.28% 11/25/2035	805564RZ8	07/31/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	805564TA8	BAST0503	BAST 2005-3 B3 CDS - LIBOR + 1.85% 11/25/2035	805564TA8	11/02/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	805564TB6	BAST0504	BAST 2005-4 B3 CDS - LIBOR + 3.25% 11/25/2037	805564TB6	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	80556UAM5	BAST0601	BAST 2006-1 B3 CDS - LIBOR + 1.07% 03/25/2036	80556UAM5	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	80556UAM5	BAST0601	BAST 2006-1 B3 CDS - LIBOR + 1.07% 03/25/2036	80556UAM5	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	81378WGL4	BARR05H1	BARR 2005-HE1 B3 CDS - LIBOR + 2.5% 10/25/2035	81378WGL4	08/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	81378WJN7	BARR06I1	BARR 2006-OP1 B3 CDS - LIBOR + 1.04% 10/25/2035	81378WJN7	11/02/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	81378WJP2	BARR06I1	Securitized Asset Backed Receivables LLC Trust 2006-OP1 (SABR 2006-OP1 B3)	81378WJP2	07/21/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83611MEE4	BVHE06D1	Boundview Home Equity Loan Trust 2006-DO1 (BVHE 2006-DO1 M8)	83611MEE4	11/02/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83611MEF1	BVHE05D1	BVHE 2005-DO1 M8 CDS - LIBOR + 2.51% 09/25/2035	83611MEF1	09/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83611MEY0	BVHE05I2	Boundview Home Equity Loan Trust 2005-3 (BVHE 2005-3 M8)	83611MEY0	08/13/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83611MPV3	BVHE05I3	Boundview Home Equity Loan Trust 2005-3 (BVHE 2005-3 M8)	83611MPV3	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83611MKH7	BVHE05I4	BVHE 2005-4 M8 CDS - LIBOR + 2.05% 03/25/2036	83611MKH7	12/08/2006	10,000,000	10,000,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	83611MGQ0	BVHE06O1	Boundview Home Equity Loan Trust 2006-OPT1 (BVHE 2006-OPT1 M8)	83611MGQ0	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83612CAN9	BVHE06P2	Boundview Home Equity Loan Trust 2006-OPT5 (BVHE 2006-OPT5 M8)	83612CAN9	07/21/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	83612JAM8	BVHE06E1	Boundview Home Equity Loan Trust 2006-EQ1 (BVHE 2006-EQ1 M8)	83612JAM8	12/14/2006	9,000,000	9,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	84751PEW8	SURF05B1	Specialty Underwriting & Residential Finance 2005-BC1 (SURF 2005-BC1 B2)	84751PEW8	09/22/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	84751WAN4	SURF06B3	SURF 2006-BC3 B2 CDS - LIBOR + 0.99% 09/25/2037	84751WAN4	08/18/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	86359BRK3	BASC05H1	SASC 2005-WHC1 M8 CDS - LIBOR + 1.28% 01/25/2035	86359BRK3	07/20/2006	6,250,000	6,250,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	86359BUL0	BASC05W1	SASC 2005-WHC1 M9 CDS - LIBOR + 2.05% 01/25/2035	86359BUL0	10/30/2006	5,000,000	5,000,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
CAMBER7	86359BUZ9	BASC06C1	SASC 2006-HC1 M7 CDS - LIBOR + 1.84% 03/25/2036	86359BUZ9	11/01/2006	7,500,000	7,500,000	Y	28-Feb-07	Jul 06 - Feb 07	Goldman Sachs	Goldman Sachs
CAMBER7	92925CFC1	WMAB06H1	WMABS 2006-HE1 M8 CDS - LIBOR + 3.75% 04/25/2036	92925CFC1	02/09/2007	7,500,000	7,500,000	Y	28-Feb-07	Jul 06 - Feb 07	[redacted]	Goldman Sachs
FTDEN	00079QAM4	ABFC0DP1	Asset Backed Funding Corporation 2006-OPT1 (ABFC 2006-OPT1 M8)	00079QAM4	09/07/2006	1,445,000	1,445,000	N	14-Feb-07	Oct 06 - Feb 07	[redacted]	Not Applicable
FTDEN	00368PAE8	ACAA06I2	ACA ASS Ltd 2006-3A (ACAAB 2006-3A B1L)	00368PAE8	11/17/2006	5,000,000	4,858,334	N	14-Feb-07	Oct 06 - Feb 07		Not Applicable
FTDEN	00441TAN3	ACE06HE3	ACE Securities Corp 2006-HE3 (ACE 2006-HE3 M8)	00441TAN3	09/14/2006	3,000,000	3,000,000	N	14-Feb-07	Oct 06 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	00442JZD8	ACE06HE2	Ace Securities Corp 2006-HE2 (ACE 2006-HE2 M8)	00442JZD8	04/18/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 06 - Feb 07	[redacted]	Not Applicable
FTDEN	00442YAN7	ACE06AB3	Ace Securities Corp 2006-ASP3 (ACE 2006-ASP3 M8)	00442YAN7	05/24/2006	3,000,000	3,000,000	N	14-Feb-07	Oct 06 - Feb 07	[redacted]	Not Applicable
FTDEN	00702ZAE6	ADRI02	Adirondack 2005-2 Ltd. (ADRIDC 2005-2 D)	00702ZAE6	11/22/2005	5,000,000	4,752,719	N	14-Feb-07	Oct 06 - Feb 07	[redacted]	Not Applicable
FTDEN	00836CAG7	ARLI06I3	Arlis CLO 2006-3A (ARLE 2006-3A C)	00836CAG7	12/11/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 06 - Feb 07	[redacted]	Not Applicable
FTDEN	02149PAH1	ALTI05I1	Altius I Funding, Ltd. 2005-1A (ALTS 2005-1A D)	02149PAH1	10/17/2005	4,000,000	4,096,572	N	14-Feb-07	Oct 06 - Feb 07	Goldman Sachs	Not Applicable

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CDO Asset Details
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CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
FTDEN	02149YAF0	ALTL3S3	Altius Funding Ltd 2006-3A (ALTS 2006-3A D)	02149YAF0	09/08/2006	5,000,000	4,990,539	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	00072SY25	AMCO6R01	Amortissement Mortgage Securities Inc 2006-R1 (AMSI 2006-R1 M7)	00072SY25	07/01/2006	9,000,000	9,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	040104DW4	ARSI06W5	Argent Securities Inc 2006-W5 (ARSI 2006-W5 M7)	040104DW4	01/09/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	040104TR2	ARSI06W4	Argent Securities Inc 2006-W2 (ARSI 2006-W4 M8)	040104TR2	04/18/2006	10,054,000	10,054,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	04010HAG7	ARES10	Ares X CLO Ltd (ARES X 2005-1A D1)	04010HAG7	10/17/2005	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	043410VT8	ABSH06H1	ABSHE 2006-HE1 M8 CDS - LIBOR + 1.1% 01/25/2036	043410VT8	03/09/2006	9,222,000	9,222,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	04544QAP4	ABSH06H4	Asset Backed Securities Corp Home Equity 2006-HE4 (ABSHE 2006-HE4 M7)	04544QAP4	09/25/2006	2,000,000	2,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	05874QAP3	BALLY06I	Ballyrock CDO Ltd 2006-3A (BALLY 2006-3A D)	05874QAP3	11/09/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	07387HAJ9	BSHE06A3	Bear Stearns Asset Backed Securities, Inc 2006-AC3 (BSABS 2006-AC3 B2)	07387HAJ9	04/27/2006	8,364,000	7,210,504	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	07387UAZ7	BSHE06H3	Bear Stearns Asset Backed Securities Inc 2006-HE3 (BSABS 2006-HE3 M8)	07387UAZ7	03/09/2006	3,835,000	3,835,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	07386AAM8	BSHE06H4	Bear Stearns Asset Backed Securities, Inc 2006-HE4 (BSABS 2006-HE4 M8)	07386AAM8	04/17/2006	6,810,000	6,810,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	07386HAZ2	BSHE06H7	Bear Stearns Asset Backed Securities Inc 2006-HE7 (BSABS 2006-HE7 2A6)	07386HAZ2	08/08/2006	3,000,000	3,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	11161RAG7	BROWK	Brookwell Funding, Ltd. 2006-1 (BWIC 2006-1A D)	11161RAG7	04/13/2006	5,000,000	3,823,884	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	11201RAG1	BROD3	Broderick CDO Ltd 2006-3A (BROD 2006-3A D)	11201RAG1	10/27/2006	5,000,000	4,870,855	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	11639WAD8	BUCK06D	Buckingham CDO Ltd. 2006-3A (BUCK 2006-3A D)	11639WAD8	06/30/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	126670SX7	CWHE06B1	Countrywide Asset-Backed Certificates 2006-9H (CWL 2006-9H1 M8)	126670SX7	01/17/2006	1,780,000	1,780,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	126670VD7	CWHE06D2	Countrywide Asset-Backed Certificates 2006-3 (CWL 2006-3 M8)	126670VD7	02/03/2006	5,775,000	5,775,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	126670YR3	CWHE06D5	Countrywide Asset-Backed Certificates 2006-8 (CWL 2006-8 M8)	126670YR3	03/08/2006	2,750,000	2,750,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	126673NY4	CWHE06H2	Countrywide Asset-Backed Certificates 2006-12 (CWL 2006-12 M8)	126673NY4	11/09/2006	6,500,000	6,500,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	126673RB1	CWHE06D4	Countrywide Asset-Backed Certificates 2006-4 (CWL 2006-4 M8)	126673RB1	11/16/2005	7,100,000	7,100,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	12877TAL3	CALD1	Altamont CDO Ltd 2006-1A (CLDCT 2006-1A D)	12877TAL3	12/15/2006	5,000,000	4,999,072	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	13189BAF3	CAMBER3	Camber (CAMBR 3A D)	13189BAF3	10/17/2005	4,500,000	4,500,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	21844AAE9	COCLF	Coastiga Funding, Ltd. (COCL 2005-1A D)	21844AAE9	10/17/2005	6,825,000	5,973,376	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	23818SAC8	DAVI505	Davis Square Funding, Ltd. 2005-5A (DVSQ 2005-5A D)	23818SAC8	10/17/2005	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	23818SAD6	DAVI505	Davis Square Funding, Ltd. 2005-5A (DVSQ 2005-5A E)	23818SAD6	10/17/2005	5,000,000	4,981,179	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	29100BAE6	EMERPL	Emerson Place CLO Ltd 2006-1A (EMERSN 2006-1A D)	29100BAE6	11/03/2006	2,000,000	2,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	32027EAG4	FFML05F5	First Franklin Mortgage Loan Asset Backed Certificates 2005-FF5 (FFML 2005-FF5 M9)	32027EAG4	04/28/2005	4,705,000	4,705,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	34987YAF4	FORTI2	Fortius Funding Ltd 2006-2A (FORTS 2006-2A D)	34987YAF4	12/18/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	34998CAE4	FORTI01	Fortius Funding Ltd 2006-1A (FORTS 2006-1A D)	34998CAE4	02/09/2006	8,000,000	7,976,997	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	35055PAE4	FOUGR	Fountain Grove CLO, LTD. (FGCLO 2006-1A D)	35055PAE4	03/23/2006	4,800,000	4,800,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	35729TAH3	FRHE05C	Fremont Home Loan Trust 2005-C (FHLT 2005-C M8)	35729TAH3	09/29/2005	2,000,000	2,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	36234HKF8	FFML05FA	First Franklin Mortgage Loan Asset Backed Certificates 2005-FFA (FFML 2005-FFA M9)	36234HKF8	11/17/2005	2,000,000	2,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36234HG7	FFML05FA	First Franklin Mtg Loan Asset Backed Certificates 2005-FFA (FFML 2005-FFA M8)	36234HG7	11/17/2005	4,813,000	4,813,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36234HH5	FFML05FA	First Franklin MTG Loan Asset Backed Certificates 2005-FFA B1 (FFML 2005-FFA B1)	36234HH5	11/17/2005	2,053,000	2,053,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36234HJ1	FFML05FA	First Franklin Mtg Loan Asset Backed Certificates 2005-FFA (FFML 2005-FFA B2)	36234HJ1	11/17/2005	1,166,000	1,166,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36243TAH5	GSAM06E5	GSAMP Trust 2006-HE5 (GSAMP 2006-HE5 M8)	36243TAH5	09/18/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36243BAH3	GSAM06E4	GSAMP Trust 2006-HE4 (GSAMP 2006-HE4 M7)	36243BAH3	09/02/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36243BAN1	GSAM06E4	GSAMP Trust 2006-HE4 (GSAMP 2006-HE4 M8)	36243BAN1	09/02/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36255XAH0	GSTFIN	G Street Finance Ltd. 2005-1A (GSFIN 2005-1A D)	36255XAH0	11/23/2005	5,000,000	4,723,463	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	36531TAH8	GRDAV2	Grand Avenue CDO Ltd 2006-2A (GRAND 2006-2A D)	36531TAH8	09/28/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	39907BAE5	GRSTW1	Greywolf CLO I Ltd 2007-1A (GWOLF 2007-1A D)	39907BAE5	12/11/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	40188RAD6	GUGG051	Guggenheim Structured Real Estate Funding Ltd. 2005-1A (GUGH 2005-1A D)	40188RAD6	10/17/2005	6,900,000	2,147,831	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	40188RAE6	GUGG051	Guggenheim Structured Real Estate Funding Ltd. 2005-1A (GUGH 2005-1A E)	40188RAE6	10/17/2005	4,400,000	1,369,804	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	41116TAF0	HARCH2	Harch CLO Ltd 2005-3A (HARCH 2005-3A D)	41116TAF0	12/22/2005	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	43113BAG8	HIGHR1	Highridge ABS CDO Ltd 2007-1A (HRIDG 2007-1A E)	43113BAG8	01/11/2007	5,000,000	4,974,627	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	43365UAA4	HITS051	High Income Trust Securities (HITS 2005-1A A)	43365UAA4	10/17/2005	2,100,000	1,101,729	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	442451AE0	HOUTB061	Host Bay 2006-1 Ltd. (HOUT 2006-1A D)	442451AE0	05/30/2006	5,000,000	4,987,647	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	44379PAE5	HUDS12H1	Hudson High Grade Funding Ltd 2006-1A (HUDHG 2006-1A D)	44379PAE5	09/29/2006	5,000,000	4,822,701	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	44386QAF1	HUDSMZ2	Hudson Mezzanine 2006-3 Ltd. (HUDMZ 2006-3A D)	44386QAF1	02/02/2007	4,789,836	4,726,764	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	45254HRS6	IMH0509	Impac CMB Trust 2005-8 (IMM 2005-8 1B)	45254HRS6	11/22/2005	3,835,000	3,835,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	45254TTA3	IMC05002	Impac Secured Assets Corporation 2005-3 (IMSA 2005-3 M8)	45254TTA3	12/22/2005	4,845,000	4,845,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	45660LJB	INMC088	Indymac Residential Asset Backed Trust 2006-B (INABS 2006-B M8)	45660LJB	03/08/2006	3,450,000	3,450,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	45660LPH4	INDX0A37	Indymac Index Mortgage Loan Trust 2005-AR37 (INDX 2005-AR37 B2)	45660LPH4	12/01/2005	5,000,000	4,872,811	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	46602UAM0	IXIS06H3	IXIS Real Estate Capital Trust 2006-HE3 (IXIS 2006-HE3 B2)	46602UAM0	09/27/2006	3,000,000	3,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	46602WAM8	IXIS06H3	IXIS Real Estate Capital Trust 2006-HE3 (IXIS 2006-HE3 B2)	46602WAM8	09/14/2006	6,000,000	6,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	52902WAG4	LEXCAP2	Lexington Capital Funding, Ltd. (LEXN 2006-1A D)	52902WAG4	09/28/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	53859PAE4	LOCH3	Lochaven Ltd 2006-1A (LOCH 2006-1A D)	53859PAE4	09/08/2006	6,000,000	7,986,129	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	54251HTE4	LBMLDW3	Long Beach Mortgage Loan Trust 2006-WL3 (LBMLT 2006-WL3 M8)	54251HTE4	03/07/2006	10,000,000	10,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	54317BAK9	LONGST1	Longstreet CDO, Ltd. 2006-1A (LSTRT 2006-1A E)	54317BAK9	09/29/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	54347UAD4	LOOMSL1	Loomis Sayles Ltd. 2006-1A (LOOM 2006-1A D)	54347UAD4	10/06/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	57644UAP0	MABS06E3	Mastr Asset Backed Securities Trust 2006-HE3 (MABS 2006-HE3 M8)	57644UAP0	09/08/2006	3,840,000	3,840,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	57633AAE3	MAYPL1	Mayflower CDO I Ltd. 2006-1 (MAYF 2006-1A B1L)	57633AAE3	09/01/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	59020UAH5	MLHE06W1	Merrill Lynch Mortgage Investors Inc 2006-WHC1 (MLMI 2006-WHC1 B2A)	59020UAH5	02/07/2006	1,853,000	1,853,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	59021BAP2	MLHE06R3	Merrill Lynch Mortgage Investors, Inc 2006-RM3 (MLMI 2006-RM3 B2)	59021BAP2	05/23/2006	7,000,000	7,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	59022QAH2	MLHE06H2	Merrill Lynch Mortgage Investors Trust 2006-HE2 (MLMI 2006-HE2 B2)	59022QAH2	08/11/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	61744CVR4	MSHE0504	Morgan Stanley Home Equity Loans 2005-4 (MSHEL 2005-4 B2)	61744CVR4	03/07/2006	9,250,000	9,250,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	61749BAM8	MSABS0H4	Morgan Stanley ABS Capital I 2006-HE4 (MSAC 2006-HE4 B2)	61749BAM8	09/15/2006	10,000,000	10,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	61749QAM4	MSHE0503	Morgan Stanley Home Equity Loans 2005-3 (MSHEL 2005-3 B2)	61749QAM4	04/28/2006	7,197,000	7,197,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	61749KAP6	MSABS0H2	Morgan Stanley ABS Capital I 2006-HSC2 (MSAC 2006-HSC2 B2)	61749KAP6	05/23/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	61749HAN7	MSABS0H3	Morgan Stanley ABS Capital I 2006-HE3 (MSAC 2006-HE3 B2)	61749HAN7	09/25/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	61749DAM2	MSD2B01	Morgan Stanley DB Real Estate Capital Trust 2006-1 (MSDI 2006-1 B1)	61749DAM2	09/25/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	66986AAM0	NHE06001	Novastar Home Equity Loan 2006-1 (NHEL 2006-1 M7)	66986AAM0	04/20/2006	8,375,000	8,375,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	67073NAF7	NYLF051	NYLIM Flatiron CLO Ltd/Cayman Islnd (NYLIM 2005-1A D)	67073NAF7	10/17/2005	2,500,000	2,500,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable

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CDO Asset Details
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CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
FTDEN	86402CAH4	OCH2006G2	Option One Mortgage Loan Trust 2006-3 (OOML T 2006-3 M6)	86402CAH4	08/23/2006	2,000,000	2,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	68619PAB0	ORPT2	Orient Point CDO II, Ltd. 2006-1 (ORPT 2006-1A E)	68619PAB0	10/18/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	68772AAE3	PAMP1	Pamplemus CDO, Ltd. 2006-1A (PAMP 2006-1A D)	68772AAE3	09/29/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	Barclays Capital	Not Applicable
FTDEN	74732AAE7	PYR061	Pyxis ABS CDO 2006-1 Ltd. (PYRS 2006-1A D)	74732AAE7	08/08/2006	5,000,000	4,790,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	74918PAG4	RFC06SP2	RAAC Series (RAAC 2006-SP2 M6)	74918PAG4	09/01/2006	4,155,000	4,155,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	75159UAL1	RFC06RZ3	Residential Asset Mortgage Products Inc. 2006-RZ3 (RAMP 2006-RZ3 M8)	75159UAL1	04/24/2006	1,125,000	1,125,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	75405XAL2	RFC06EM1	Residential Asset Securities Corporation 2006-EMX1 (RASC 2006-EMX1 M8)	75405XAL2	01/12/2006	1,850,000	1,850,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	75406BAM3	RFC06RS4	RASC 2006-KS4 M8 CDS - LIBOR + 1.05% 08/25/2036	75406BAM3	08/25/2006	3,000,000	3,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	761118QC7	RFC05RS5	Residential Asset Mortgage Products, Inc. 2005-RS5 (RAMP 2005-RS5 M7)	761118QC7	11/08/2005	4,790,000	4,790,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	761118ZR4	RFC05RS6	Residential Asset Mortgage Products Inc 2005-RS6 (RAMP 2005-RS6 M8)	761118ZR4	03/13/2006	4,323,000	4,323,000	N	14-Feb-07	Oct 05 - Feb 07	GSC Partners	Not Applicable
FTDEN	78420AAN0	SGM05P2	SG Mortgage Securities Trust 2005-FRE2 (SGMS 2005-FRE2 M8)	78420AAN0	07/07/2005	9,814,000	9,814,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	81379WHT8	SBS06CB1	Credit-Based Asset Servicing and Securitization 2006-CB1 (CBASS 2006-CB1 B2)	81379WHT8	03/01/2006	4,000,000	4,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	81379WJN7	SABR06C1	SABR 2006-OP1 B2 CDS - LIBOR + 1.04% 10/25/2036	81379WJN7	01/30/2006	2,000,000	2,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	81379YAR7	SABR06H1	Securitized Asset Backed Receivables 2006-HE1 (SABR 2006-HE1 B2)	81379YAR7	09/17/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	83586WAG2	SORN3	Soren Real Estate CDO III Ltd., 2006-1 (SORN 2006- 3A C-FL)	83586WAG2	03/21/2006	5,875,000	5,875,000	N	14-Feb-07	Oct 05 - Feb 07	GSC Partners	Not Applicable
FTDEN	83611MPR3	SVHE06P3	Soundview Home Equity Loan Trust 2006-OPT3 (SVHE 2006-OPT3 M7)	83611MPR3	04/13/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	83612CAN9	SVHE06O3	Soundview Home Equity Loan Trust 2006-OPT3 (SVHE 2006-OPT3 M8)	83612CAN9	05/24/2006	7,200,000	7,200,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	84751PKL3	SURF06B1	Specialty Underwriting & Residential Finance 2006-BC1 (SURF 2006-BC1 B2A)	84751PKL3	03/07/2006	7,000,000	7,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	84751XAM4	SURF06A3	Specialty Underwriting & Residential Finance 2006-BC4 (SURF 2006-AB3 B2)	84751XAM4	09/12/2006	1,850,000	1,850,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	85234AAJ5	STAC06B2	Stack 2006-3A (STAK 2006-3A B)	85234AAJ5	12/22/2006	7,500,000	7,500,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	86359BYAR3	SABR06D1	Structured Asset Securities Corp 2006-BC1 (SASC 2006-BC1 M8)	86359BYAR3	09/21/2006	8,000,000	8,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	86158TAP0	TWM06B-H2	Tarvin Mortgage Trust 2006-B-HGA (TMTS 2006-B-HGA M2)	86158TAP0	07/28/2006	4,800,000	4,800,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	92924AAP1	VICFAL	Vitesse Falls CLO Ltd (VFALL 2006-1A D)	92924AAP1	10/17/2006	6,000,000	6,000,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	93031EAB8	WACM6W	Wentworth CDO, Ltd., 2006-1A (WACM 2006-1A D)	93031EAB8	08/11/2006	5,000,000	5,000,000	N	14-Feb-07	Oct 05 - Feb 07	[redacted]	Not Applicable
FTDEN	94982DAF9	WFA05S2	Wells Fargo Alternative Loan Trust 2005-3 (WFALT 2005-3 B1)	94982DAF9	10/13/2005	1,724,000	1,724,000	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
FTDEN	95216AAA7	WCOAST1	West Coast Funding, Ltd. (WEST 2006-1A D)	95216AAA7	07/03/2006	4,900,000	4,874,788	N	14-Feb-07	Oct 05 - Feb 07	Goldman Sachs	Not Applicable
HUDSON01	00448HAH3	ACAT2006	ACAT 2006-3 M8 [illegible]	00448HAH3	10/18/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00442TUK7	ACE06NC1	Ace Securities Corp 2006-NC1 M8 [illegible]	00442TUK7	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00442TUS0	ACE06HE1	ACE 2006-HE1 M8 CDS [illegible]	00442TUS0	10/23/2006	14,000,000	14,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00442TVM9	ACE06HE2	ACE 2006-HE2 M8 CDS [illegible]	00442TVM9	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00442TVQ0	ACE06NC2	Ace Securities Corp 2006-NC2 (ACE 2006-NC2 M8)	00442TVQ0	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00442UAD1	ACE06HE3	ACE 2006-HE3 M8 CDS [illegible]	00442UAD1	10/31/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00972BAE0	AMS06FR3	Ameriquest Mortgage Securities Inc 2006-R3 (AMSI 2006-R3 M8)	00972BAE0	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00972BAS9	AMS06R11	Ameriquest Mortgage Securities Inc 2006-R11 (AMSI 2006-R11 M8)	00972BAS9	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	00972BAT7	AMS06R12	Ameriquest Mortgage Securities Inc 2006-R12 (AMSI 2006-R12 M8)	00972BAT7	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04010HAL1	ARSI06N2	Argent Securities Inc 2006-W2 (ARSI 2006-W2 M8)	04010HAL1	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04010HAM9	ARSI06W3	Argent Securities Inc 2006-W3 [illegible]	04010HAM9	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04010HAQ0	ARSI06W4	Argent Securities Inc 2006-W4 (ARSI 2006-W4 M8)	04010HAQ0	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04010HAR8	ARSI06W5	Argent Securities Inc 2006-W5 (ARSI 2006-W5 M8)	04010HAR8	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04541GHT0	ABSH06H3	ABSHE 2006-HE3 M8 CDS - LIBOR + 3.0% 08/25/2036	04541GHT0	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04541GTB1	ABSH06M1	Asset Backed Securities Corp Home Equity 2006-HE1 (ABSHE 2006-HE1 M8)	04541GTB1	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04543TAM3	CHN-ST06	CHL 2006-8 - M8 1.450% 01/2046 HE	04543TAM3	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04543TAN1	CHN-ST06	Countrywide Asset-Backed Certificates 2006-8 (CHL 2006-8 M8)	04543TAN1	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	04544HAN9	ABSH06H2	ABSHE 2006-HE2 - M8 1.550% 07/2036 HE	04544HAN9	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	07387BDU0	BSI-CSH11	Bear Stearns Asset Backed Securities Inc 2006-HE11 (BSABS 2006-HE1)	07387BDU0	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	07387BDW6	BSI-CSH11	BSABS 2006-HE1 M8 CDS - LIBOR + 2.3% 10/25/2036	07387BDW6	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	07387BDX4	BSI-CSH11	BSABS 2006-HE1 - M8 1.100% 10/2036 HE	07387BDX4	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	07387UBD3	BSH06HE1	BSABS 2006-HE1 M8 CDS - LIBOR + 2.3% 10/25/2036 HE	07387UBD3	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	07387UHG7	BSH06HE2	Bear Stearns Asset Backed Securities Inc 2006-HE2 (BSABS 2006-HE2 M8)	07387UHG7	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	07387UJA0	BSH06HE3	Bear Stearns Asset Backed Securities Inc 2006-HE3 (BSABS 2006-HE3 M8)	07387UJA0	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	12468GAH9	CBS06CB4	CBASS 2006-CB4 - M8 2.100% 08/2036 HE	12468GAH9	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	12667GBC1	CHN-EQ06J	CHL 2006-J3 [illegible] 1.33% 03/2036	12667GBC1	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	12667GBW8	CHN-EQ06J	Countrywide Asset-Backed Certificates 2006-EC3 (CHL 2006-EC3 M8)	12667GBW8	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	12667GBX6	CHN-EQ06J	Countrywide Asset-Backed Certificates 2006-EC3 (CHL 2006-EC3 M9)	12667GBX6	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	12667JJP4	EQH706E2	EQH 2006-2 - B 3.100% 1/2036 HE	12667JJP4	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	12667JL70	AMT2006	AMT 2006-3 M8 1.150% 07/2036 HE	12667JL70	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	14453UFP3	CMLTGR01	CARR 2006-NC1 M8 CDS - LIBOR + 1.2% 01/25/2036	14453UFP3	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	14453UFQ1	CMLTGR01	Carrington Mortgage Loan Trust 2006-NC1 (CARR 2006-NC1 M8)	14453UFQ1	10/23/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	14453EAM4	CMLTGR01	CARR 2006-NC1 M8 CDS - LIBOR + 1.4% 08/25/2036	14453EAM4	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	14453WAN6	CMLTGR02	Carrington Mortgage Loan Trust 2006-NC2 (CARR 2006-NC2 M8)	14453WAN6	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	17307UL29	CITM06P1	Citigroup Mortgage Loan Trust, Inc. 2006-OPT1 (CMLTI 2006-OPT1 M8)	17307UL29	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	29445KDW6	EQH06E1	Equivest Mortgage Loan Trust 2006-1 (EMLT 2006-1 M8)	29445KDW6	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	31490GTF8	FMC06H1	FMC 2006-1 M8 3.100% 08/2036 HE	31490GTF8	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	32027BAH4	FFML06F3	FFML 2006-FF3 M8 CDS - LIBOR + 1.75% 07/25/2036	32027BAH4	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	32027GAP1	FFML06F13	FFML 2006-FF13 M8 2.100% 08/2036 HE	32027GAP1	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	32027HJT8	FFML06F7	FFML 2006-FF7 - M8 1.150% 07/2036 HE	32027HJT8	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	32027HYG7	FFML06F13	First Franklin Mortgage Loan Asset Backed Certificates 2006-FF13 (FFML 2006-FF13 B2)	32027HYG7	10/23/2006	14,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	32027HYE2	FFML06F13	First Franklin Mortgage Loan Asset Backed Certificates 2006-FF13 (FFML 2006-FF13 B2)	32027HYE2	10/23/2006	15,000,000	15,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	35729PKE9	FRHE06	FHLT 2006-5 - M10 2.100% 04/2036 HE	35729PKE9	09/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	35729PPJ9	FRHE0601	FHLT 2006-1 - M7 1.150% 04/2036 HE	35729PPJ9	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs
HUDSON01	35729PQF0	FRHE0602	FHLT 2006-2 - M7 1.150% 02/2036 HE	35729PQF0	10/19/2006	13,000,000	13,000,000		5-Dec-06		Goldman Sachs	Goldman Sachs

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CDO Asset Details
PSI Request LB-1a

CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	SynthetIX	Closing Date	Warehouse Ported	Asset Source	Counterparty facing the Transaction
HUDSN001	362334AL3	GSAA06(1	GSAA 2006-10 B2 2.100% 102036 H2	362334AL3	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362334CB6	GSAA0610	GSAA 2006-9 B3 2.100% 092036 H2	362334CB6	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362334CK6	FFML06F4	FFML 2006-FF4 M8 CDS ; LIBOR + 3.00% 03/25/2036	362334CK6	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362334UJ7	FFML06F4	Fixed Floater Morgtge Loan Asset Backed Certificates 2006-FF4 (FFML 2006-FF4 B1)	362334UJ7	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362341BA3	GSAMSB1T	GSAMP 2006-HE1 M8 1.150% 01/2036 H2	362341BA3	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362341CD0	GSAA0609	GSAA 2006-9 B3 2.100% 092036 H2	362341CD0	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362341FK4	GSAMSH5	GSAMP Trust 2006-HE4 (GSAMP 2006-HE4 B3)	362341FK4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362341KL5	GSAMSH4	GSAMP 2006-HE4 B3 CDS ; LIBOR + 2.0% 09/25/2036	362341KL5	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362346AD	GSAA0608	GSAA 2006-8 B1 1.80% 082036 H2	362346AD	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362361AK	GSAA0612	GSAA 2006-12 B2 2.100% 092036 H2	362361AK	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362404HC4	GSAA0609	GSAA 2006-9 B2 2.100% 092036 H2	362404HC4	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362405WY5	GSAA0605	GSAA 2006-5 B2 2.100% 122036 H2	362405WY5	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362446AA6	GSAA0604	GSAMP 2006-HE3 Trst 1.650% 052036 H2	362446AA6	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362446AP6	GSAMSE3	GSAMP TRUST 2006-HE3 (GSAMP 2006-HE3 M8)	362446AP6	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362465AP8	GSAMSN7	GSAMP Trust 2006-NC2 (GSAMP 2006-NC2 M8)	362465AP8	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	362507AJ8	GSAA0614	GSAA 2006-14 B1 1.150% 092036 H2	362507AJ8	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	36718VAN9	GEMM0601	GEMM0 2006-1 B3 2.100% 102036 H2	36718VAN9	10/19/2006	15,500,000	15,500,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	40430KAP6	HSAI0601	HASI 2006-OPT4 M7 1.(100% 032036 H2	40430KAP6	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	43706HQG4	HEAT0605	Home Equity Asset Trust 2006-5 (HEAT 2006-5 M8)	43706HQG4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	43706HQK5	HEAT0606	HEAT 2006-6 (B1) 1.400% 092036 H2	43706HQK5	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	43706HVY6	HEAT0604	HEAT 2006-4 M8 1.400% 082036 H2	43706HVY6	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	43706HZ58	HEAT0604	Home Equity Asset Trust 2006-4 (HEAT 2006-4 B1)	43706HZ58	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46628LAN3	JPMAC051	JP Morgan Mortgage Acquisition Corp 2005-OPT1 (JPMAC 2005-OPT1 M8)	46628LAN3	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46628LAR4	JPMAC051	JPMAC 2005-OPT1 M8 CDS ; LIBOR + 2.85% 08/25/2035	46628LAR4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46628LFY7	JPMA05F1	JP Morgan Mortgage Acquisition Corp 2005-FR1 (JPMAC 2005-FR1 M8)	46628LFY7	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46629LFW9	JPMA05F1	JPMAC 2005-FR1 M8 2.650% 052035 H2	46629LFW9	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46629LGP8	JPMA06E1	JPMAC 2006-HE1 M8 CDS ; LIBOR + 1.21% 01/25/2036	46629LGP8	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46629WAN0	JPMA06C1	JPMAC 2006-ACC1 M8 1.150% 052036 H2	46629WAN0	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	46629WBS4	JPMA06W2	JP Morgan Mortgage Acquisition Corp 2006-CW2 (JPMAC 2006-CW2 M8)	46629WBS4	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	54251HHJ0	LBMLT0M3	Long Beach Mortgage Loan Trust 2006-WL3 (LBMLT 2006-WL3 M8)	54251HHJ0	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	54251HHR3	LBMLT0M2	Long Beach Mortgage Loan Trust 2006-WL2 (LBMLT 2006-WL2 M8)	54251HHR3	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	54251HPB6	LBMLT0B1	LBMLT 2006-11 M8 1.400% 082036 H2	54251HPB6	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	54251HRW4	LBMLD0B1	Long Beach Mortgage Loan Trust 2006-1 (LBMLT 2006-1 M8)	54251HRW4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	57643LAD1	MABS06H2	Mizuho Asset Backed Securities Trust 2006-HE2 (MABS 2006-HE2 M8)	57643LAD1	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	57643LAY9	MABS06H2	MABS 2006-HE2 M8 CDS ; LIBOR + 2.85% 10/25/2036	57643LAY9	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	57643LAP7	MABS06H2	MABS 2006-HE2 M8 1.450% 012036 H2	57643LAP7	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	57643LAN2	MABS06H2	Mizuho Asset Backed Securities Trust 2006-HE2 (MABS 2006-HE2 M8)	57643LAN2	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	59022UJX0	MLHE06H1	Merrill Lynch Mortgage Investors Inc 2006-HE1 (MLMI 2006-HE1 M8)	59022UJX0	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	59022UJZ5	MLHE06H1	Merrill Lynch Mortgage Investors Inc 2006-HE1 (MLMI 2006-HE1 B1A)	59022UJZ5	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	59022UK54	MLHE05A1	Merrill Lynch Mortgage Investor Inc 2005-AR1 (MLMI 2005-AR1 B2)	59022UK54	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	59022UK96	MLHE05A1	MLMI 2005-AR1 B3 CDS ; LIBOR + 2.10% 04/25/2035	59022UK96	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61744CUE7	MSAC05F3	Morgan Stanley ABS Capital I 2005-HE3 (MSAC 2005-HE3 B2)	61744CUE7	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61744CVA1	MSAC05H3	MSAC 2005-HE3 B3 2.400% 09/2035 H2	61744CVA1	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61744DTX8	MSHE0602	MSHEL 2006-3 B2 CDS ; LIBOR + 1.34% 02/25/2036	61744DTX8	10/19/2006	13,000,000	13,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61746YFD4	MSAB06H2	Morgan Stanley Capital I 2006-HE2 (MSAC 2006-HE2 B2)	61746YFD4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61746YFE4	MSAB06H2	Morgan Stanley Capital I 2006-HE2 (MSC 2006-HE2 B3)	61746YFE4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61749XAP8	MSAB06W2	Morgan Stanley ABS Capital I 2006-WMC2 (MSAC 2006-WMC2 B2)	61749XAP8	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	61749XAQ6	MSAB06W2	Morgan Stanley ABS Capital I 2006-WMC2 (MSAC 2006-WMC2 B3)	61749XAQ6	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	64352VHD3	NDCO2004	New Century Home Equity Loan Trust 2004-4 (NCHET 2004-4 M8)	64352VHD3	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	64352VNC1	NDCO2004	NCHET 2005-4 M8 1.400% 092035 H2	64352VNC1	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	64352VPG0	NDCO0503	New Century Home Equity Loan Trust 2005-C (NCHET 2005-C B2)	64352VPG0	10/19/2006	13,000,000	13,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	65967WCU8	NHEL0502	NHEL 2005-2 M8 1.150% 102035 H2	65967WCU8	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	65968WAH0	NHEL0603	NHEL 2006-3 M7 1.30% 062036 H2	65968WAH0	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	65969FCZ8	OOHE0602	OOMLT 2006-1 M8 CDS ; LIBOR + 3.3% 01/25/2036	65969FCZ8	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	69402CAH4	OOHE0602	Option One Mortgage Loan Trust 2006-2 (OOMLT 2006-2 M8)	69402CAH4	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	69121PDP8	OWML0602	OWNIT 2006-1 B2 2.100% 012037 H2	69121PDP8	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	73316PKB5	POHE06A1	POPLR 2006-A 1 M8 1.100% 022036 H2	73316PKB5	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	75156TAL4	RFC06HC2	Residential Asset Mortgage Products Inc 2006-HC2 (RAMP 2006-HC2 M8)	75156TAL4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	75156TAM2	RFC06HC2	RAMP 2006-HC2 M9 8.00% ? 02/2036 H2	75156TAM2	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	75156UAN9	RFC06K2	RAMP 2006-RZ2 M8 2.100% 052036 H2 S	75156UAN9	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	75406AAL3	RFC06EM2	RASC 2006-EMX2 Trst 1.100% ? 07/2036 H2	75406AAL3	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	76110W2D6	RFC05EM2	RASC 2005-EMX2 Trst 2.100% ? 07/2035 H2	76110W2D6	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	76110WTL4	RFC05K11	Residential Asset Securities Corporation 2005-KS11 (RASC 2005-KS11 M8)	76110WTL4	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	76110WTN0	RFC05K11	RASC 2005-KS11 M9 3.450% ? 12/2035 H2	76110WTN0	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	761120D31	RFC05EP4	Residential Asset Mortgage Products Inc 2005-EFC4 (RAMP 2005-EFC4 M8)	761120D31	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	761120D49	RFC05EP4	RAMP 2005-EFC4 M9 CDS ; LIBOR + 3.7% 09/25/2035	761120D49	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	761127BX5	RFC05EF3	RAMP 2005-EFC3 M8 CDS ; LIBOR + 1.80% 07/25/2035	761127BX5	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	76113AST7	RFC05K83	RASC 2005-KS3 M8 CDS ; LIBOR + 1.15% 04/25/2035	76113AST7	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	76113AS0	RFC05K83	Residential Asset Securities Corporation 2005-KS3 (RASC 2005-KS3 M8)	76113AS0	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	80864HEK4	GART0502	GART 2005-2 B2	80864HEK4	10/19/2006	13,000,000	13,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	81378WCX2	SABR05D1	Securitized Asset Backed Receivables LLC Trust 2005-OP1 (SABR 2005-OP1 B2)	81378WCX2	10/19/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	81378WCZ2	SABR05E1	SABR 2005-E01 - B2 1.100% ? 01/2035 H2	81378WCZ2	10/19/2006	13,000,000	13,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs
HUDSN001	81378WDK3	SABR05H1	Securitized Asset Backed Receivables LLC Trust 2005-HE1 (SABR 2005-HE1 B2)	81378WDK3	10/23/2006	15,000,000	15,000,000	Y	5-Dec-06	N	Goldman Sachs	Goldman Sachs

CDO Asset Details
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CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
HUDSM081	81378WGL4	SABR05H1	SABR 2005-HE1 B3 CDO - LIBOR + 2.0% 10/25/2035	81378WGL4	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	81378WJN7	SABR06P1	SABR 2006-OP1 B3 CDO - LIBOR + 1.04% 10/25/2036	81378WJN7	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	81378WJP2	SABR06P1	Securitized Asset Backed Receivables LLC Trust 2006-OP1 (SABR 2006-OP1 B3)	81378WJP2	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	63611MKM9	SVHE05D4	Structured Home Equity Loan Trust 2005-4 (SVHE 2005-4 M8)	63611MKM9	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	63611MKK7	SVHE05D4	SVHE 2005-4 M6 CDO - LIBOR + 2.05% 09/25/2035	63611MKK7	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	63611MMU0	SVHE06D2	SVHE 2006-OPT2 M8 2.10% 10/25/2036 H2	63611MMU0	10/19/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	63612CAN8	SVHE06D5	Structured Home Equity Loan Trust 2006-OPT3 (SVHE 2006-OPT3 M8)	63612CAN8	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	63612CAP3	SVHE06D5	Structured Home Equity Loan Trust (SVHE 2006-OPT3 M9)	63612CAP3	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	84781PGL2	SURF06B1	Specialty Underwriting & Residential Finance 2006-BC1 (SURF 2006-BC1 B3A)	84781PGL2	10/19/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86357BDN1	SASC06P4	Structured Asset Securities Corporation 2006-WF4 (SASC 2006-WF4 M8)	86357BDN1	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86357BDP6	SASC06P4	SASC 2006-WF4	M8 2.450%	11/2036 H2	86357BDP6	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86359BXG1	SAIL06H3	Structured Asset Investment Loan Trust 2006-HE3 (SAIL 2006-HE3 M8)	86359BXG1	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86359BXH9	SAIL06H3	Structured Asset Investment Loan Trust 2006-HE3 (SAIL 2006-HE3 M9)	86359BXH9	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86358BWM1	SASC06W1	SASC 2006-WMC1 M8 CDO - LIBOR + 1.05% 01/25/2036	86358BWM1	10/19/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86359DBT3	FFML06P3	FFML 2006-FF3	M8 2.100% 04/2036 H2	86359DBT3	10/19/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86360LAM6	SASC06W3	SASC 2006-WF3	M8 2.400% 07/2036 H2	86360LAM6	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86360LAN4	SASC06W3	Structured Asset Securities Corp 2006-WF3 (SASC 2006-WF3 M9)	86360LAN4	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86360WAM4	SAIL06H4	Structured Asset Investment Loan Trust 2006-4 (SAIL 2006-4 M7)	86360WAM4	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	86360WAN2	SAIL06H4	Structured Asset Investment Loan Trust 2006-4 (SAIL 2006-4 M8)	86360WAN2	10/23/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM081	94975UAR3	WFHE06H1	WFHET 2006-1 M8 2.100% 09/2036 H2	94975UAR3	10/19/2006	15,000,000	15,000,000	Y	8-Dec-06	no	Goldman Sachs	Goldman Sachs
HUDSM082	004421UK7	ACE05HE7	Ace Securities Corp 2005-HE7 (ACE 2005-HE7 M5)	004421UK7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	004421UL5	ACE05HE7	ACE 2005-HE7 M6 CDS - LIBOR + 2.3% 11/25/2035	004421UL5	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	004421VB6	ACE06NC1	ACE 2006-NC1 M6 CDS - LIBOR + 1.3% 12/25/2035	004421VB6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	004421VC4	ACE06NC1	Ace Securities Corp 2006-NC1 (ACE 2006-NC1 M5)	004421VC4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	03072SVR3	AMQ05R11	Ameriquest Mortgage Securities Inc 2005-R11 (AMSI 2005-R11 M5)	03072SVR3	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	03072SVS1	AMQ05R11	Ameriquest Mortgage Securities Inc 2005-R11 (AMSI 2005-R11 M6)	03072SVS1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	040104HL1	ARS06W32	Argent Securities Inc 2006-W3 (ARSI 2006-W3 M6)	040104HL1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	040104HM9	ARS06W32	ARSI 2006-W3 - M6 2.430% 10/2036 H2	040104HM9	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	040104RD6	ARS06W01	Argent Securities Inc 2006-W1 (ARSI 2006-W1 M5)	040104RD6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	040104RR4	ARS06W01	Argent Securities Inc 2006-W1 (ARSI 2006-W1 M9)	040104RR4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	07387B3U0	BSH05H11	Bear Stearns Asset Backed Securities Inc 2005-HE11 (BSABS 2005-HE11 M7)	07387B3U0	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	07387B3V8	BSH05H11	BSABS 2005-HE11 M8 CDS - LIBOR + 2.75 11/25/2035	07387B3V8	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	07387UHZ7	BSH06H3	Bear Stearns Asset Backed Securities Inc 2006-HE3 (BSABS 2006-HE3 M8)	07387UHZ7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	07387UJA0	BSH06H3	Bear Stearns Asset Backed Securities Inc 2006-HE3 (BSABS 2006-HE3 M9)	07387UJA0	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	144531FF2	CML706N1	CARR 2006-NC1 M8 CDS - LIBOR + 1.3% 01/25/2036	144531FF2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	144531FG0	CML706N1	Carrington Mortgage Loan Trust 2006-NC1 (CARR 2006-NC1 M9)	144531FG0	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	126670NM8	CWHE05B5	Countrywide Asset-Backed Certificates 2005-BC5 (CWL 2005-BC5 M8)	126670NM8	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	126670NN4	CWHE05B5	Countrywide Asset-Backed Certificates 2005-BC5 (CWL 2005-BC5 B)	126670NN4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	045427AN1	CWHE06D8	Countrywide Asset-Backed Certificates 2006-8 (CWL 2006-8 M8)	045427AN1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	045427AN3	CWHE06D8	CWL 2006-8 - M8 1.450% 01/2048 H2	045427AN3	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	32027NYD7	FFML05F12	First Franklin Mortgage Loan Asset Backed Certificates 2005-FF12 (FFML 2005-FF12 B2)	32027NYD7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	32027NYE5	FFML05F12	First Franklin Mortgage Loan Asset Backed Certificates 2005-FF12 (FFML 2005-FF12 B3)	32027NYE5	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	36233AQC2	FFML06F4	FFML 2006-FF4 M8 CDS - LIBOR + 1.55% 03/25/2036	36233AQC2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	36233AQJ7	FFML06F4	First Franklin Mortgage Loan Asset Backed Certificates 2006-FF4 (FFML 2006-FF4 B1)	36233AQJ7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	36234TKK4	GSAA06H4	GSAMP Trust 2006-HE4 (GSAMP 2006-HE4 B2)	36234TKK4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	36234TKL2	GSAA06H4	GSAMP 2006-HE4 B3 CDS - LIBOR + 2.1% 09/25/2036	36234TKL2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	36244KAN5	GSAA06H3	GSAMP 2006-HE3 - M8 1.450% 05/2036 H2	36244KAN5	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	36244KAP0	GSAA06H3	GSAMP TRUST 2006-HE3 (GSAMP 2006-HE3 M9)	36244KAP0	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	437084QG4	HEAT0606	Home Equity Asset Trust 2006-6 (HEAT 2006-6 M8)	437084QG4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	437084QH2	HEAT0606	HEAT 2006-6 - B1 2.450% 03/2036 H2	437084QH2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	437084YY9	HEAT0604	HEAT 2006-4 - M8 1.450% 09/2036 H2	437084YY9	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	437084VZ6	HEAT0604	Home Equity Asset Trust 2006-4 (HEAT 2006-4 B1)	437084VZ6	01/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	46628LFV7	JPM06FR1	JP Morgan Mortgage Acquisition Corp 2006-FRE1 (JPMAC 2006-FRE1 M8)	46628LFV7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	46628LFW5	JPM06FR1	JPMAC 2006-FRE1 - M9 2.850% 05/2036 H2	46628LFW5	01/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	46628LAM2	JPM05OP1	JP Morgan Mortgage Aquisition Corp 2005-OPT1 (JPMAC 2005-OPT1 M6)	46628LAM2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	46628LAN0	JPM05OP1	JPMAC 2005-OPT1 M8 CDS - LIBOR + 2.55% 06/25/2035	46628LAN0	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	542514NJ8	LBML05W2	Long Beach Mortgage Loan Trust 2005-WL2 (LBMLT 2005-WL2 M8)	542514NJ8	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	542514NK5	LBML05W2	Long Beach Mortgage Loan Trust 2005-WL2 (LBMLT 2005-WL2 M9)	542514NK5	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	542514RV8	LBML0601	LBMLT 2006-1 - M8 1.450% 02/2036 H2	542514RV8	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	542514RW6	LBML0601	Long Beach Mortgage Loan Trust 2006-1 (LBMLT 2006-1 M9)	542514RW6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	57643LNP7	MABS06N1	MABS 2006-NC1 - M8 1.450% 01/2036 H2	57643LNP7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	57643LNQ5	MABS06N1	Mast Asset Backed Securities Trust 2006-NC1 (MABS 2006-NC1 M9)	57643LNQ5	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	57643LMX1	MABS05N3	Mast Asset Backed Securities Trust 2005-NC3 (MABS 2005-NC3 M9)	57643LMX1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	57643LMY9	MABS05N3	MABS 2005-NC3 M9 CDS - LIBOR + 2.5% 11/25/2035	57643LMY9	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	59020UQ56	MLH05A1	Merrill Lynch Mortgage Investors Inc 2005-AR1 (MLMI 2005-AR1 B2)	59020UQ56	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	59020UQ98	MLH05A1	MLMI 2005-AR1 B3 CDS - LIBOR + 3.15% 08/25/2036	59020UQ98	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	59020U3N3	MLH06H1	Merrill Lynch Mortgage Investors Inc 2006-HE1 (MLMI 2006-HE1 B2A)	59020U3N3	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	59020U3Q6	MLH06H1	Merrill Lynch Mortgage Investors 2006-HE1 (MLMI 2006-HE1 B3A)	59020U3Q6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	61744CUZ7	MSAC05H5	Morgan Stanley ABS Capital I 2005-HE5 (MSAC 2005-HE5 B2)	61744CUZ7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	61744CVA1	MSAC05H5	MSAC 2005-HE5 - B3 3.450% 09/2035 H2	61744CVA1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	617451FD6	MSAC06H2	Morgan Stanley Capital I 2006-HE2 (MSAC 2006-HE2 B2)	617451FD6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	617451FE4	MSAC06H2	Morgan Stanley Capital I 2006-HE2 (MSC 2006-HE2 B3)	617451FE4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	61749KAP9	MSAC06W2	Morgan Stanley ABS Capital I 2006-WMC2 (MSAC 2006-WMC2 B2)	61749KAP9	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs

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CDO Deal	Comp	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
HUDSM082	61746KAD6	MSABS08W2	Morgan Stanley ABS Capital I 2008-WMC2 (MSAC 2008-WMC2 B3)	61746KAD6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	64352VNB3	NCC005004	New Century Home Equity Loan Trust 2005-4 (NCHET 2005-4 M8)	64352VNB3	02/08/2007	6,000,000	6,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	64352VNC1	NCC005004	NCHET 2005-4 - M9 2.450% 08/2035 HZ	64352VNC1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	781128D31	RFC006F4	Residential Asset Mortgage Products Inc 2006-EFC4 (RAMP 2006-EFC4 M8)	781128D31	02/08/2007	6,000,000	6,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	781128D49	RFC006F4	RAMP 2006-EFC4 M9 CDO - LIBOR + 3.7% 08/25/2035	781128D49	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	78110W7L4	RFC005K11	Residential Asset Securities Corporation 2005-KS11 (RASC 2005-KS11 M8)	78110W7L4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	78110W7M2	RFC005K11	RASC 2005-KS11 - M9 2.450% - L8/2035 HZ	78110W7M2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	78113ABT7	RFC006K83	RASC 2006-KS3 M8 CDO - LIBOR + 1.19% 04/25/2036	78113ABT7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	78113ABU4	RFC006K83	Residential Asset Securities Corporation 2006-KS3 (RASC 2006-KS3 M9)	78113ABU4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	78158TAL4	RFC006C2	Residential Asset Mortgage Products Inc 2006-NC2 (RAMP 2006-NC2 M8)	78158TAL4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	78158TAM2	RFC006C2	RAMP 2006-NC2 - M9 2.850% - 02/2036 HZ	78158TAM2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	81379WGK8	SABR05H1	Securitized Asset Backed Receivables LLC Trust 2005-HE1 (SABR 2005-HE1 B3)	81379WGK8	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	81379WGL6	SABR05H1	SABR 2005-HE1 B3 CDS - LIBOR + 2.0% 10/25/2035	81379WGL6	02/08/2007	6,000,000	6,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	81379WJN7	SABR0801	SABR 2008-OP1 B3 CDS - LIBOR + 1.04% 10/25/2036	81379WJN7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	81379WJP3	SABR0801	Securitized Asset Backed Receivables LLC Trust 2008-OP1 (SABR 2008-OP1 B3)	81379WJP3	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86358EXD1	SAIL05H3	Structured Asset Investment Loan Trust 2005-HE3 (SAIL 2005-HE3 M8)	86358EXD1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86358EXF6	SAIL05H3	Structured Asset Investment Loan Trust 2005-HE3 (SAIL 2005-HE3 M9)	86358EXF6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86359WAM4	SAIL0804	Structured Asset Investment Loan Trust 2008-4 (SAIL 2008-4 M7)	86359WAM4	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86359WAN2	SAIL0804	Structured Asset Investment Loan Trust 2008-4 (SAIL 2008-4 M8)	86359WAN2	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86357BQN1	SABS08W4	Structured Asset Securities Corporation 2008-WF4 (SASC 2008-WF4 M8)	86357BQN1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86357BQP6	SABS08W4	SASC 2008-WF4 - M9 2.450% - 11/2035 HZ	86357BQP6	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86360LAN8	SASD08W2	Structured Asset Securities Corp 2008-WF2 (SASC 2008-WF2 M8)	86360LAN8	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	86360LAP3	SASD08W2	SASC 2008-WF2 - M9 1.450% 07/2036 HZ	86360LAP3	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	83611MBA0	SVHE0504	Soundview Home Equity Loan Trust 2005-4 (SVHE 2005-4 M8)	83611MBA0	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	83611MBN7	SVHE0504	SVHE 2005-4 M9 CDS - LIBOR + 2.00% 07/25/2035	83611MBN7	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	83612CAH9	SVHE0805	Soundview Home Equity Loan Trust 2008-OPT5 (SVHE 2008-OPT5 M8)	83612CAH9	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
HUDSM082	83612CAP1	SVHE0805	Soundview Home Equity Loan Trust (SVHE 2008-OPT5 M9)	83612CAP1	02/08/2007	5,000,000	5,000,000	Y	8-Feb-07	no	Goldman Sachs	Goldman Sachs
PTPL071	00082NAE0	ACAA0502	ACA ABS 2005-2, Limited (ACAAS 2005-2A A3)	00082NAE0	12/14/2006	10,000,000	6,764,147	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	00082WAD2	ACAA0601	ACA ABS 2006-1 Ltd (ACAAS 2006-1A A3L)	00082WAD2	12/14/2006	10,000,000	9,894,127	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	00086PAD7-1	ACAA0602	ACA ABS Ltd 2006-2A (ACAAS 2006-2A A3L)-x1	00086PAD7-1	12/14/2006	10,000,000	9,998,499	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	00702EAD6	ADRB02	Adirondack 2005-2 Ltd. ()	00702EAD6	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	02149RAG3	ALTU0801	Altius I Funding, Ltd. 2005-1A (ALTS 2005-1A C)	02149RAG3	08/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	02149YAE3	ALTU0803	Altius Funding Ltd 2008-3A (ALTS 2008-3A C)	02149YAE3	11/21/2008	10,000,000	9,660,264	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	03878CAF3	ARSB0601	Arbor Realty Mortgage Securities 2006-1A (ARMSS 2006-1A D)	03878CAF3	04/18/2007	3,000,000	3,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	03878CAG1	ARSB0601	Arbor Realty Mortgage Securities 2006-1A (ARMSS 2006-1A E)	03878CAG1	04/18/2007	6,000,000	6,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	05350DAG9	AVAN0801	Avand Funding Ltd 2008-1A ()	05350DAG9	08/22/2008	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	05354TAJ8	AVEI0F	Avalon Finance CDO PLC 1 (AVLRY 1A C)	05354TAJ8	03/22/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	05539AAD2	BFCD2M	BFC Delaware CDO Ltd 2006-1A ()	05539AAD2	02/28/2007	10,000,000	9,841,445	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	DB Corporate & Investment Bank
PTPL071	05636AAG4	BACOL081	Bacchus Ltd 2008-1A (BACUS 2008-1A C)	05636AAG4	04/18/2007	8,000,000	8,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	06651PAA9	BARR	Barrington CDO Ltd 1A (BARRN 1A C)	06651PAA9	09/28/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	07844BAD0	BELHV	Belle Haven ABS CDO 2004-1A (BLHV 2004-1A A3)	07844BAD0	04/16/2007	4,900,000	4,900,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	07843AAD3	BELHV051	Belle Haven ABS CDO Ltd (BLHV 2005-1A C)	07843AAD3	08/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	DB Corporate & Investment Bank
PTPL071	07845EAD1	BELHV061	Belle Haven ABS CDO Ltd 2006-1A (BLHV 2006-1A C)	07845EAD1	04/18/2007	15,000,000	15,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	08661KAC0	BFCB1V	BFC Silverton CDO Ltd 2006-1A (BFCSIL 2006-1A D)	08661KAC0	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	09202XAE4	BDMN061	Black Diamond CLO Ltd 2006-1A (BLACK 2006-1A C)	09202XAE4	04/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	11270BAF3	BRGD03	Bridgeport CDO Ltd 2006-2A (BRGD 2006-2A C)	11270BAF3	12/01/2006	10,000,000	9,878,848	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	11838BAC1	BUCK1H03	Buckingham CDO Ltd 2003-2A (BUCK 2003-2A D)	11838BAC1	08/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	11838WAC6	BUCK1H03	Buckingham CDO Ltd 2006-3A (BUCK 2006-3A D)-x1	11838WAC6-1	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	12776BAD2	CARN11	Cairn High Grade ABS CDO I PLC (CARN1A C)	12776BAD2	03/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	12778YAD4	CARN061	Cairn Mezzanine ABS CDO PLC 2006-1 (CRNHZ 2006-1A D)-x1	12778YAD4	13/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	12777AAD5	CARN062	Cairn High Grade ABS CDO II, Limited 2006-2 (CARH 2006-2A C)	12777AAD5	13/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	12777CAE2	CARN062	Cairn Mezzanine ABS CDO PLC 2006-2 (CRNHZ 2006-2A C)-x1	12777CAE2-2	04/18/2007	7,750,000	7,750,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	129777AJ8	CALC01	Aldwell CDO Ltd 2006-1A (CLDCT 2006-1A C)	129777AJ8	04/18/2007	11,000,000	11,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	13188BAF8	CAMBER7	Camber 7A (CAMBR 7A C)	13188BAF8	04/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	13180LAD1	CAMBER5	Camber (CAMBR 5A B)	13180LAD1	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	13187TAE3	CAMBER6	Camber 6 (CAMBR 6A D)	13187TAE3	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	14056DAE3	CBRE08A	Capitalsource Real Estate Loan Trust 2006-1A (CRELT 2006-1A D)	14056DAE3	04/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	15719MAC5	CETU0803	CETUS 2006-3A B CDS - LIBOR + 1.4% 12/20/2046	15719MAC5-1	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	17305CAD1	CITU1	Citius I Funding Ltd., 2006-1 (CTIUS 2006-1A C)	17305CAD1	04/18/2007	5,000,000	4,516,672	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	17310JAC1	CITU2	Citius Funding Ltd 2006-2A (CITIUS 2006-2A C)	17310JAC1	07/01/2007	10,000,000	9,874,321	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	18418TAA0	1958	Bellatrix Segregated Portfolio 2007-3A (BLETA 2007-3A NOTE)	18418TAA0	04/18/2007	8,000,000	8,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	202836AG1	COMM0DR5	Commodore CDO I Ltd 2006-8A (COMMD 2006-8A C)	202836AG1	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	23810TAE7	DAVI0Q4	Davis Square Funding IV, Ltd. (DAVIQ 2005-4A C)	23810TAE7	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	23810VAH5	DAVI0Q6	Davis Square Funding, Ltd. 2006-6A (DVSQ 2006-6A C)	23810VAH5	04/18/2007	15,000,000	15,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	25509BAL9	DMHR	Diversey Harbor ABS CDO, Ltd. 2006-1A (DMHR 2006-1A B)	25509BAL9	04/18/2007	11,000,000	11,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	26138UAD4	DRAC071	Draco Ltd/United States 2007-1A (DRACO 2007-1A A3)	26138UAD4	04/18/2007	15,000,000	15,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	28450AAC1	DUKE9	Duke Funding Ltd 2005-8 (DUKE7 2005-8A A3V)	28450AAC1	04/18/2007	8,000,000	8,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	29703TAD4	DUTH_1	Dutch Hill Funding Ltd 2005-1A (DHCDO 2005-1A C)-x1	29703TAD4-2	04/18/2007	8,000,000	8,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	29825WAD8	STRA0SS	S-Trade CDO I 2006-6A (STRD 2006-6A A3)	29825WAD8	03/08/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	34958CAD9	FORTIU1	Fortius Funding Ltd 2006-1A (FORTS 2006-1A C)	34958CAD9	04/18/2007	4,000,000	4,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	36227AAH8	GSCA06ZM	GSC ABS CDO 2006-3m Ltd. (GSCSF 2006-3A D)	36227AAH8	04/18/2007	13,800,000	13,800,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	36247BAD9	GSCA06HU	GSC ABS CDO Ltd 2006-4u (GSCSF 2006-4A A3)	36247BAD9	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank
PTPL071	37939MAC0	GLACIEFM	Glacier Funding CDO Ltd 0	37939MAC0	02/08/2007	10,000,000	8,787,301	Y	18-Apr-07	Sep 06 - Apr 07		DB Corporate & Investment Bank

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CDO Deal	Cusip	Issue Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
PTPL071	36521PAE4	GRDAV1	GRAND 2005-1A - C Libor+1.35% 04/2046 HUD HG	36521PAE4	11/01/2005	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	36521TAL0	GRDAV2	Grand Avenue CDO Ltd 2006-2A (GRAND 2006-2A C)	36521TAL0	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	40536UAD4	HALSP1	Halcyon Securitized Products Investors CDO Ltd 2006-1A (HLCDO 2006-1A C)	40536UAD4	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	44345TAD2	HOUST001	Hout Bay 2006-1 Ltd. (HOUT 2006-1A C)	44345TAD2	04/18/2007	15,000,000	15,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	44378PAD7	HUDSN061	HUDN3 2006-1A - C Libor+1.30% (03/2042	44378PAD7-3	04/18/2007	7,250,000	7,250,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	44386MAE1	HUDSM061	Hudson Mezzanine Funding 2006-1A (HUDMZ 2006-1A C)	44386MAE1	04/18/2007	8,000,000	8,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	44386MAB4	HUDSM002	Hudson Mezzanine 2006-2 Ltd. (HUDMZ 2006-2A C)	44386MAB4	04/18/2007	12,000,000	12,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	45377TAG1	INDEP6	Independence VI CDO Ltd (INDE6 6A C)	45377TAG1	09/14/2006	10,000,000	9,818,803	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	46265BAJ7	IPSW	IPSW 2006-1A - C Libor+1.35% - 09/2046	46265BAJ7-1	02/14/2007	8,000,000	8,000,000	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	003 Corporate & Investment Bank
PTPL071	46428RAE9	ISCHU02	Ischus CDO Ltd (ICM 2005-2A C)	46428RAE9-1	08/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	003 Corporate & Investment Bank
PTPL071	46601QAJ7	IVYLN	Ivy Lane CDO Ltd 2006-1A ()	46601QAJ7	02/09/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	003 Corporate & Investment Bank
PTPL071	46206BAF3	JUPI04	Jupiter High-Grade CDO Ltd. 2006-4A (JPTR 2006-4A D)+x1	46206BAF3-1	03/08/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	46346XAC7	KLIO3	Klio III Funding, Ltd. 2005-3 (KLIO 2005-3A B)	46346XAC7	08/25/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	48068AAA5	KENTF3	Kent Funding III, Ltd., 2006-3 (KENT 2006-3A C)	48068AAA5	04/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	49656MAL8	KLERO02	Kleros Preferred Funding II, Ltd. 2006-1 (KLROS 2006-3A D)	49656MAL8	08/28/2006	10,000,000	9,998,179	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	52902TAL0	LEXCAP	Lexington Capital Funding Ltd (LEXN 2005-1A C)	52902TAL0	09/28/2006	10,000,000	9,991,998	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	53019GAL8	LIBER1	Liberatus Preferred Funding, Ltd. 2006-1A (LIBRT 2006-1A D)	53019GAL8	02/09/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	54317BAJ2	LONGST1	Longstreet CDO, Ltd.2006-1A (LSTRT 2006-1A D)	54317BAJ2	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	55312WAC6	MAPCB03	MAP CBO I Ltd ()	55312WAC6	09/29/2006	10,000,000	9,999,821	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	589372AD3	MER3	Mercury CDO Ltd ()	589372AD3	04/18/2007	5,000,000	4,972,708	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	59002RAL0	MIDOR	Midori CDO Ltd. 2006-1A (MIDOR 2006-1A C)	59002RAL0	11/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	60080HAD0	MILLERT2	Millerton ABS CDO, LTD 2006-HG1A (MILTN 2006-HG1A C)	60080HAD0	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	61218GAJ6	MONTPT	Montauk Point CDO 2006-1 (MPT 2006-1A D)	61218GAJ6	04/18/2007	3,400,000	3,324,786	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	61238QAC3	MTREY	Monterey CDO Ltd 2006-1A ()	61238QAC3	04/18/2007	4,000,000	3,912,238	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	623127AD9	MTOKY	Mount Gladykin CDO Ltd 2006-1A ()	623127AD9	04/18/2007	7,000,000	7,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	640888AD6	NEPT041	Neptune CDO 2004-1A (NEPTN 2004-1A A3L)	640888AD6	04/18/2007	2,000,000	1,952,380	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	65605MAL8	NORMA1	Norma CDO Ltd 2007-1A (NORMA 2007-1A D)	65605MAL8	04/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	67572GAF6	OCTAN31	Octane CDO Ltd 2006-1A (OCTAN 2006-1A D)	67572GAF6	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	67573JAD7	OCTAN32	Octane CDO Ltd 2006-2A (OCTAN 2006-2A C2)	67573JAD7	04/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	68400UAE5	OPUS1	Opus CDO Ltd 2006-1A ()	68400UAE5	04/18/2007	6,240,000	6,240,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	68618MAE1	ORPT	Orient Point CDO, Ltd. 2005-1 (ORPT 2005-1A C)	68618MAE1	12/01/2005	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	003 Corporate & Investment Bank
PTPL071	68772BAD5	PAMP1	Pampalonne CDO Ltd 2006-1A (PAMP 2006-1A C)+x1	68772BAD5-1	12/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	72268TAC6	PINEM12	Pine Mountain 2006-AA (PINEM 2006-AA C)	72268TAC6	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	74918TAF7	RIDGCT1	Ridgeway Court Funding 2006-1A (RDGW 2006-1A B)	74918TAF7	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	83437XAD0	SHERWD2	Sherwood Funding CDO Ltd (SHERW 2006-2A C)	83437XAD0	01/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	003 Corporate & Investment Bank
PTPL071	83006TAJ1	SOAV091	6th Avenue Funding 2006-1, Ltd. (SOAV 2006-1A C)	83006TAJ1	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	83588TAD9	SORN1	Sorin Real Estate CDO Ltd 2005-1A (SORIN 2005-1A C)	83588TAD9	08/27/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	83743LAJ0	SCOAST6	South Coast Funding 6A (SCF 6A C)	83743LAJ0	12/14/2006	10,000,000	9,813,457	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	83743YAE3	SCOAST7	South Coast Funding VII (SCF 7A C)	83743YAE3	11/21/2006	10,000,000	8,844,838	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	83033XAC1	SPRD091	Springdale CDO Ltd 2006-1A (SDALE 2006-1A C)	83033XAC1	12/01/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	85233XAC1	STACK052	Stack 2005-2 Ltd (STAK 2005-2A D)	85233XAC1	04/19/2007	5,000,000	5,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	86365MAD8	SUMST051	Sumster Street Ltd (SMSTR 2005-1A B)	86365MAD8	08/29/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	87337UAD8	TABS054	TABS Ltd 2006-4A ()	87337UAD8	01/18/2007	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	87337WAD2	TABS069	TABS Ltd 2006-6A (TABS 2006-6A A3)	87337WAD2	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	87337YAC6	TABS069	TABS Ltd 2006-6A (TABS 2006-6A A3)	87337YAC6	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	89054BAE3	TOPW3	Topanga CDO Ltd 2006-3A (TOPG 2006-3A E)	89054BAE3	12/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	881000AE2	TORO2	Toro ABS CDO Ltd 2006-3A ()	881000AE2	04/18/2007	8,000,000	8,848,462	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	92534EAE0	VERT081	Vertical CDO Ltd 2006-1 ()	92534EAE0	12/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	92534EAD3	VERT051	Vertical CDO Ltd 2005-1A ()	92534EAD3	12/14/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	930312AA1	WADSW	Wadsworth CDO 2006-1A (WADS 2006-1A C)	930312AA1	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	952188AF1	WCDAST1	WESTC 2006-1A - C Libor+1.30% 11/2041	952188AF1	11/21/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
PTPL071	96831SAE3	WTRAD1	West Trade Funding CDO Ltd (WTRAD 2006-1A C)+x1	96831SAE3-1	03/14/2007	6,000,000	5,808,514	Y	18-Apr-07	Sep 06 - Apr 07	Goldman Sachs	003 Corporate & Investment Bank
PTPL071	96251DAD7	WRICP051	Wrightwood Capital Real Estate CDO 2005-1, Ltd. (WWCAP 2005-1A D)	96251DAD7	08/25/2006	10,000,000	10,000,000	Y	18-Apr-07	Sep 06 - Apr 07	[redacted]	003 Corporate & Investment Bank
TIMBW1	00082HAE0	ACAAB052	ACA ABS 2005-2, Limited (ACABS 2005-2A A3)	00082HAE0	10/11/2005	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TIMBW1	00082NAE0	ACAAB052	ACA ABS 2005-2, Limited (ACABS 2005-2A A3)	00082NAE0	10/11/2005	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TIMBW1	00082WAD2	ACAAB061	ACA ABS 2006-1 Ltd (ACABS 2006-1A A3L)	00082WAD2	12/13/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TIMBW1	00082WAD2	ACAAB061	ACA ABS 2006-1 Ltd (ACABS 2006-1A A3L)	00082WAD2	12/13/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TIMBW1	00256TAD0	ASAC09H1	ASAC 2006-HG1A C	00256TAD0	11/03/2006	9,000,000	9,000,000	N	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Not Applicable
TIMBW1	00256TAE8	ASAC09H1	ASAC 2006-HG1A D	00256TAE8	11/03/2006	8,000,000	8,000,000	N	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Not Applicable
TIMBW1	00838BAC8	ADAMS01	ADAMS 2006-1A C GCS1	00838BAC8	01/25/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	00702ZAD6	ADIR052	Adirondack 2005-2 Ltd. ()	00702ZAD6	01/23/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	05538MAD2	BFCGEN	BFC Genesee CDO Ltd 2006-1A ()	05538MAD2	01/23/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	05538MAD3	BFCGEN	BFC Genesee CDO Ltd 2006-1A ()	05538MAD3	03/20/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	07646TAD3	BELHV061	Belle Haven ABS CDO Ltd (BLHV 2006-1A C)	07646TAD3	11/01/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TIMBW1	09661KAC0	BFCSLV	BFC Silverton CDO Ltd 2006-1A (BFCSL 2006-1A D)	09661KAC0	10/06/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	09661KAC0	BFCSLV	BFC Silverton CDO Ltd 2006-1A (BFCSL 2006-1A D)	09661KAC0	12/13/2006	7,500,000	7,500,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	09661KAC0	BFCSLV	BFC Silverton CDO Ltd 2006-1A (BFCSL 2006-1A D)	09661KAC0	12/13/2006	7,500,000	7,500,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	12776YAD4	CARNM1	Cairn Mezzanine ABS CDO PLC 2006-1 (CRNMZ 2006-1A E)+x1	12776YAD4	03/20/2007	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	12777CAE9	CARNM2	Cairn Mezzanine ABS CDO PLC 2006-2 (CRNMZ 2006-2A C)+x1	12777CAE9	11/03/2006	7,000,000	7,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	12777CAE9	CARNM2	Cairn Mezzanine ABS CDO PLC 2006-2 (CRNMZ 2006-2A C)+x1	12777CAE9	12/13/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	13188BAF8	CAMBER7	Camber 7A (CAMBR 7A C)	13188BAF8	03/20/2007	30,000,000	20,348,366	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TIMBW1	13188LAD1	CAMBER5	Camber (CAMBR 5A B)	13188LAD1	10/18/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TIMBW1	14214MAE9	CARN	Carina CDO 2006-1A (CACDO 2006-1A D1)	14214MAE9	12/09/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs

CDO Asset Details
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CDO Deal	Cusip	Intex Deal Name	Description	CUSIP	Trade Date	Original Face	Current Face Amount	Synthetic	Closing Date	Warehouse Period	Asset Source	Counterparty facing the Transaction
TMSW1	14214BAE8	CARN	Carina CDO 2006-1A (CACDO 2006-1A C1)	14214BAE8	12/13/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	15719TAC8	CETUS061	CETUS 2006-1A B CDS - LIBOR + 1.43% 10/18/2046	15719TAC8	01/29/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	15719MAC9	CETUS063	CETUS 2006-3A B CDS - LIBOR + 1.4% 12/20/2046	15719MAC9	01/29/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	23910VAH9	DAVIS06	Davis Square Funding, Ltd. 2006-6A (DVSQ 2006-6A C)	23910VAH9	03/13/2007	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	239186AD4	DAVIS05	DVSQ 2005-5A C CDS1	239186AD4	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	23454XAD7	DIOG2	Diogenes CDO Ltd (DIOG.CDO 2006-3A C)-cl	23454XAD7	01/29/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	26441NAC3	DUKE10	Duke Funding Ltd 2006-10 (DUKEF 2006-10A A3)	26441NAC3	10/11/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	26441NAC3	DUKE10	Duke Funding Ltd 2006-10 (DUKEF 2006-10A A3)	26441NAC3	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	34719BAC8	FTDEAR1	Fort Dearborn CDO I LTD. (FTDRB 2006-1A A3L)	34719BAC8	11/01/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	34957YAD7	FORT1U2	FORTS 2006-3A C CDS1	34957YAD7	12/13/2006	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	36232XAC5	GSCA061C	GSC ABS CDO Ltd 2006-1A ()	36232XAC5	02/07/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	36232XAH8	GSCA062M	GSC ABS CDO 2006-2m Ltd. (GSCSF 2006-2A D)	36232XAH8	10/11/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36232XAH8	GSCA062M	GSC ABS CDO 2006-2m Ltd. (GSCSF 2006-2A D)	36232XAH8	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36247DAC0	GSCA051	GSC ABS CDO Ltd ()	36247DAC0	11/01/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36247DAD0	GSCA051	GSC ABS CDO Ltd ()	36247DAD0	02/07/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36247BAD8	GSCA064U	GSC ABS CDO Ltd 2006-4u (GSCSF 2006-4A A3)	36247BAD8	12/13/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36247BAD8	GSCA064U	GSC ABS CDO Ltd 2006-4u (GSCSF 2006-4A A3)	36247BAD8	12/13/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36247BAD8	GSCA064U	GSC ABS CDO Ltd 2006-4u (GSCSF 2006-4A A3)	36247BAD8	11/22/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36865BAE0	GEMST4	Gemstone CDO Ltd (GEMST 2005-4A C)	36865BAE0	10/11/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	36865BAE0	GEMST4	Gemstone CDO Ltd (GEMST 2005-4A C)	36865BAE0	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	37839NAC3	GLACIER4	Glacier Funding CDO Ltd ()	37839NAC3	02/08/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	38521PAE4	GRDAV1	GRAND 2005-1A - C Libor+1.35% 04/20/46 HUD HQ	38521PAE4	01/23/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	45377MAL8	INDEP7	INDEP 7A D CDS1	45377MAL8	12/13/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	45377MAL8	INDEP7	INDEP 7A D CDS1	45377MAL8	12/13/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	46429RAE8	ISCHUS2	Ischus CDO Ltd (ISCH 2005-2A C)	46429RAE8	11/01/2005	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	46429XAE6	ISCHUS3	ICM 2006-3A C CDS1	46429XAE6	10/19/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	46429XAE6	ISCHUS3	ICM 2006-3A C CDS1	46429XAE6	12/13/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	46429YAC6	ISCHS002	ICM 2006-4ZA A3L	46429YAC6	12/13/2006	10,000,000	10,000,000	N	27-Mar-07	Sep 06 - Mar 07	[redacted]	Not Applicable
TMSW1	53939PAD9	LOCHS	LOCH 2006-1A O	53939PAD9	08/07/2006	13,000,000	11,744,710	N	27-Mar-07	Sep 06 - Mar 07	[redacted]	Not Applicable
TMSW1	543175AJ2	LONGST1	Longstreet CDO, Ltd. 2006-1A (LSTRT 2006-1A D)	543175AJ2	12/13/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	543175AJ2	LONGST1	Longstreet CDO, Ltd. 2006-1A (LSTRT 2006-1A D)	543175AJ2	12/13/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	553129AD9	MKPCBO6	MKP 6A C CDS1	553129AD9	02/07/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	553129AD9	MKPCBO6	MKP 6A C CDS1	553129AD9	02/08/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	578325AD4	MAYFL1	MAYF 2006-1A A3L CDS1	578325AD4	01/24/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	578325AD4	MAYFL1	MAYF 2006-1A A3L CDS1	578325AD4	02/08/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	618120AE2	MONTRH1	MNTRS 2006-1A C CDS1	618120AE2	01/25/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	618120AE2	MONTRH1	MNTRS 2006-1A C CDS1	618120AE2	01/25/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	64086PAJ7	NEPT3	Neptune CDO Corp 2006-3A ()	64086PAJ7	01/23/2007	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	64086PAJ7	NEPT3	Neptune CDO Corp 2006-3A ()	64086PAJ7	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	722694AD8	PINEMT	Pine Mountain 2005-A ()	722694AD9	10/11/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	722694AD8	PINEMT	Pine Mountain 2005-A ()	722694AD9	10/11/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	74732AAD9	PYXIS1	Pyxis ABS CDO 2006-1 Ltd. (PYXIS 2006-1A C)	74732AAD9	02/07/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	74732AAD9	PYXIS1	Pyxis ABS CDO 2006-1 Ltd. (PYXIS 2006-1A C)	74732AAD9	02/08/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	768277AD7	RIVNOR	River North CDO Ltd 2005-1A (RIVER 2005-1A C)	768277AD7	10/11/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	768277AD7	RIVNOR	River North CDO Ltd 2005-1A (RIVER 2005-1A C)	768277AD7	10/11/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	83437XAD0	SHERWD3	Sherwood Funding CDO Ltd (SHERW 2005-3A C)	83437XAD0	01/23/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	83442VAD7	SHERWD3	SHERW 2006-3A A3 CDS1	83442VAD7	02/07/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	83442VAD7	SHERWD3	SHERW 2006-3A A3 CDS1	83442VAD7	02/08/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	83743LAJ0	SCOAST8	South Coast Funding 8A (SOF 8A C)	83743LAJ0	11/01/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	83743LAJ0	SCOAST8	South Coast Funding 8A (SOF 8A C)	83743LAJ0	11/01/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	85233TAD6	STACK091	Stack Ltd (STAK 2006-1A E)	85233TAD6	10/11/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	85233TAD6	STACK091	Stack Ltd (STAK 2006-1A E)	85233TAD6	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	85234AAG1	STACK062	STAK 2006-2A B CDS1	85234AAG1	01/23/2007	20,000,000	20,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	86583MAD9	SUMST051	Summer Street Ltd (SMSTR 2005-1A E)	86583MAD9	09/19/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	87337UAD6	TABS054	TABS Ltd 2005-4A ()	87337UAD6	10/19/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	87337UAD6	TABS054	TABS Ltd 2005-4A ()	87337UAD6	12/13/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	87337UAD6	TABS054	TABS Ltd 2005-4A ()	87337UAD6	10/19/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	87337WAD2	TABS065	TABS Ltd 2006-6A (TABS 2006-6A A3)	87337WAD2	09/29/2006	20,000,000	20,000,000	N	27-Mar-07	Sep 06 - Mar 07	[redacted]	Not Applicable
TMSW1	88053XAE8	TOPAN	TOPG 2005-1A B CDS1	88053XAE8	09/29/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	88054BAE3	TOPAN2	Topanga CDO Ltd 2006-2A (TOPG 2006-2A B)	88054BAE3	11/21/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	88054BAE3	TOPAN2	Topanga CDO Ltd 2006-2A (TOPG 2006-2A B)	88054BAE3	11/21/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	89843PAD2	TRINTY	Trinity CDO, LTD 2005-1A (TRINTY 2005-1A B)	89843PAD2	02/09/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	89843PAD2	TRINTY	Trinity CDO, LTD 2005-1A (TRINTY 2005-1A B)	89843PAD2	09/19/2006	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	Goldman Sachs	Goldman Sachs
TMSW1	925338AD7	VERTO62	Vertical CDO 2006-3A ()	925338AD7	11/01/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	925338AD7	VERTO62	Vertical CDO 2006-3A ()	925338AD7	11/01/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	925338AD7	VERTO62	Vertical CDO 2006-3A ()	925338AD7	03/20/2007	10,000,000	10,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	925345AE0	VERT061	Vertical CDO Ltd 2006-1 ()	925345AE0	10/11/2006	5,000,000	5,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	925345AE0	VERT061	Vertical CDO Ltd 2006-1 ()	925345AE0	10/11/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs
TMSW1	92534FAD0	VERTV061	VRGO 2006-1A A3 CDS1	92534FAD0	10/04/2006	15,000,000	15,000,000	Y	27-Mar-07	Sep 06 - Mar 07	[redacted]	Goldman Sachs

ATTACHMENT 2

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
29-Mar-07	03404PAA8		NR				1	Anderson Mezzanine Funding 2007-	ANDMF071	PREF
29-Mar-07	034050AA2		Aaa				1	Anderson Mezzanine Funding 2007-	ANDMF071	S
29-Mar-07	034050AB0		Aaa				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
29-Mar-07	034050AC8		Aaa				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
29-Mar-07	034050AD6		Aaa				1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
29-Mar-07	034050AE4		Aa2				1	Anderson Mezzanine Funding 2007-	ANDMF071	B
29-Mar-07	034050AF1		A2				1	Anderson Mezzanine Funding 2007-	ANDMF071	C
29-Mar-07	034050AG9		Baa2				1	Anderson Mezzanine Funding 2007-	ANDMF071	D
3-Apr-07	03404PAA8			NR			1	Anderson Mezzanine Funding 2007-	ANDMF071	PREF
3-Apr-07	034050AA2			AAA			1	Anderson Mezzanine Funding 2007-	ANDMF071	S
3-Apr-07	034050AB0			AAA			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
3-Apr-07	034050AC8			AAA			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
3-Apr-07	034050AD6			AAA			1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
3-Apr-07	034050AE4			AA			1	Anderson Mezzanine Funding 2007-	ANDMF071	B
3-Apr-07	034050AF1			A			1	Anderson Mezzanine Funding 2007-	ANDMF071	C
3-Apr-07	034050AG9			BBB			1	Anderson Mezzanine Funding 2007-	ANDMF071	D
7-Nov-07	034050AB0		Aa3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
7-Nov-07	034050AC8		Aa3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
7-Nov-07	034050AD6		Baa3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
7-Nov-07	034050AE4		Ba3				1	Anderson Mezzanine Funding 2007-	ANDMF071	B
7-Nov-07	034050AF1		Caa2				1	Anderson Mezzanine Funding 2007-	ANDMF071	C
7-Nov-07	034050AG9		Caa3				1	Anderson Mezzanine Funding 2007-	ANDMF071	D
29-Nov-07	034050AD6			A+			1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
29-Nov-07	034050AE4			BBB-			1	Anderson Mezzanine Funding 2007-	ANDMF071	B
29-Nov-07	034050AF1			CCC			1	Anderson Mezzanine Funding 2007-	ANDMF071	C
29-Nov-07	034050AG9			CCC-			1	Anderson Mezzanine Funding 2007-	ANDMF071	D
11-Feb-08	034050AA2			AA			1	Anderson Mezzanine Funding 2007-	ANDMF071	S
11-Feb-08	034050AB0			B			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
11-Feb-08	034050AC8			B			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
11-Feb-08	034050AD6			CCC-			1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
11-Feb-08	034050AE4			CC			1	Anderson Mezzanine Funding 2007-	ANDMF071	B
11-Feb-08	034050AF1			CC			1	Anderson Mezzanine Funding 2007-	ANDMF071	C
11-Feb-08	034050AG9			CC			1	Anderson Mezzanine Funding 2007-	ANDMF071	D
24-Mar-08	034050AB0		Ba3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
24-Mar-08	034050AC8		Ba3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
24-Mar-08	034050AD6		Ca				1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
24-Mar-08	034050AE4		Ca				1	Anderson Mezzanine Funding 2007-	ANDMF071	B
24-Mar-08	034050AF1		Ca				1	Anderson Mezzanine Funding 2007-	ANDMF071	C
24-Mar-08	034050AG9		Ca				1	Anderson Mezzanine Funding 2007-	ANDMF071	D
30-Apr-08	034050AB0		B3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
30-Apr-08	034050AC8		B3				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
6-Aug-08	034050AA2			BB			1	Anderson Mezzanine Funding 2007-	ANDMF071	S
6-Aug-08	034050AB0			CCC			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
6-Aug-08	034050AC8			CCC			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
6-Aug-08	034050AD6			CC			1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
8-Oct-08	034050AA2		Ba1				1	Anderson Mezzanine Funding 2007-	ANDMF071	S
8-Oct-08	034050AB0		Ca				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
8-Oct-08	034050AC8		Ca				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
8-Oct-08	034050AF1		C				1	Anderson Mezzanine Funding 2007-	ANDMF071	C
8-Oct-08	034050AG9		C				1	Anderson Mezzanine Funding 2007-	ANDMF071	D
11-Dec-08	034050AA2		B1				1	Anderson Mezzanine Funding 2007-	ANDMF071	S
22-Apr-09	034050AB0		C				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
22-Apr-09	034050AC8		C				1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
22-Apr-09	034050AD6		C				1	Anderson Mezzanine Funding 2007-	ANDMF071	A2
22-Apr-09	034050AE4		C				1	Anderson Mezzanine Funding 2007-	ANDMF071	B
19-Aug-09	034050AB0			CC			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1A
19-Aug-09	034050AC8			CC			1	Anderson Mezzanine Funding 2007-	ANDMF071	A1B
4-Nov-09	034050AE4			D			1	Anderson Mezzanine Funding 2007-	ANDMF071	B
21-Dec-09	034050AA2		Caa3				1	Anderson Mezzanine Funding 2007-	ANDMF071	S
8-Mar-07	13189AAA1			BB+			1	Camber 7	CAMBER7	E
8-Mar-07	13189AAB9			NR			1	Camber 7	CAMBER7	PREF
8-Mar-07	13189BAA9			AAA			1	Camber 7	CAMBER7	S
8-Mar-07	13189BAB7			AAA			1	Camber 7	CAMBER7	A1
8-Mar-07	13189BAC5			AAA			1	Camber 7	CAMBER7	A2
8-Mar-07	13189BAD3			AAA			1	Camber 7	CAMBER7	A3
8-Mar-07	13189BAE1			AA			1	Camber 7	CAMBER7	B
8-Mar-07	13189BAF8			A			1	Camber 7	CAMBER7	C
8-Mar-07	13189BAG6			BBB			1	Camber 7	CAMBER7	D
29-Mar-07	13189AAA1		Ba1				1	Camber 7	CAMBER7	E
29-Mar-07	13189AAB9		NR				1	Camber 7	CAMBER7	PREF
29-Mar-07	13189BAA9		Aaa				1	Camber 7	CAMBER7	S
29-Mar-07	13189BAB7		Aaa				1	Camber 7	CAMBER7	A1
29-Mar-07	13189BAC5		Aaa				1	Camber 7	CAMBER7	A2
29-Mar-07	13189BAD3		Aaa				1	Camber 7	CAMBER7	A3

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
29-Mar-07	13189BAE1		Aa2				1	Camber 7	CAMBER7	B
29-Mar-07	13189BAF8		A2				1	Camber 7	CAMBER7	C
29-Mar-07	13189BAG6		Baa2				1	Camber 7	CAMBER7	D
11-Nov-07	13189AAA1		Ca				1	Camber 7	CAMBER7	E
11-Nov-07	13189BAC5		Aa3				1	Camber 7	CAMBER7	A2
11-Nov-07	13189BAD3		A1				1	Camber 7	CAMBER7	A3
11-Nov-07	13189BAE1		A3				1	Camber 7	CAMBER7	B
11-Nov-07	13189BAF8		Baa3				1	Camber 7	CAMBER7	C
11-Nov-07	13189BAG6		B1				1	Camber 7	CAMBER7	D
10-Mar-08	13189AAA1			CC			1	Camber 7	CAMBER7	E
10-Mar-08	13189BAA9			BBB+			1	Camber 7	CAMBER7	S
10-Mar-08	13189BAB7			BBB			1	Camber 7	CAMBER7	A1
10-Mar-08	13189BAC5			B+			1	Camber 7	CAMBER7	A2
10-Mar-08	13189BAD3			B+			1	Camber 7	CAMBER7	A3
10-Mar-08	13189BAE1			B-			1	Camber 7	CAMBER7	B
10-Mar-08	13189BAF8			CCC			1	Camber 7	CAMBER7	C
10-Mar-08	13189BAG6			CC			1	Camber 7	CAMBER7	D
4-Apr-08	13189AAA1		C				1	Camber 7	CAMBER7	E
4-Apr-08	13189BAB7		A3				1	Camber 7	CAMBER7	A1
4-Apr-08	13189BAC5		Ba2				1	Camber 7	CAMBER7	A2
4-Apr-08	13189BAD3		B3				1	Camber 7	CAMBER7	A3
4-Apr-08	13189BAE1		Caa3				1	Camber 7	CAMBER7	B
4-Apr-08	13189BAF8		C				1	Camber 7	CAMBER7	C
4-Apr-08	13189BAG6		C				1	Camber 7	CAMBER7	D
5-Jun-08	13189BAB7		Ba2				1	Camber 7	CAMBER7	A1
5-Jun-08	13189BAC5		Caa1				1	Camber 7	CAMBER7	A2
5-Jun-08	13189BAD3		Caa2				1	Camber 7	CAMBER7	A3
5-Jun-08	13189BAE1		Ca				1	Camber 7	CAMBER7	B
2-Jul-08	13189BAA9		A1				1	Camber 7	CAMBER7	S
7-Aug-08	13189BAB7			B			1	Camber 7	CAMBER7	A1
7-Aug-08	13189BAC5			CCC+			1	Camber 7	CAMBER7	A2
7-Aug-08	13189BAD3			CCC			1	Camber 7	CAMBER7	A3
7-Aug-08	13189BAE1			CCC-			1	Camber 7	CAMBER7	B
7-Aug-08	13189BAF8			CC			1	Camber 7	CAMBER7	C
23-Sep-08	13189BAA9		WR				1	Camber 7	CAMBER7	S
23-Sep-08	13189BAB7		Ca				1	Camber 7	CAMBER7	A1
23-Sep-08	13189BAC5		C				1	Camber 7	CAMBER7	A2
23-Sep-08	13189BAD3		C				1	Camber 7	CAMBER7	A3
23-Sep-08	13189BAE1		C				1	Camber 7	CAMBER7	B
9-Dec-08	13189BAA9			NR			1	Camber 7	CAMBER7	S
9-Dec-08	13189BAB7			CC			1	Camber 7	CAMBER7	A1
9-Dec-08	13189BAC5			CC			1	Camber 7	CAMBER7	A2
9-Dec-08	13189BAD3			CC			1	Camber 7	CAMBER7	A3
9-Dec-08	13189BAE1			CC			1	Camber 7	CAMBER7	B
4-Nov-09	13189BAC5			D			1	Camber 7	CAMBER7	A2
4-Nov-09	13189BAD3			D			1	Camber 7	CAMBER7	A3
4-Nov-09	13189BAE1			D			1	Camber 7	CAMBER7	B
5-Mar-07	347203AA9			AAA			1	Fort Denison Funding	FTDEN	S
5-Mar-07	347203AB7			AAA			1	Fort Denison Funding	FTDEN	A1
5-Mar-07	347203AC5			AAA			1	Fort Denison Funding	FTDEN	A2A
5-Mar-07	347203AD3			AAA			1	Fort Denison Funding	FTDEN	A2B
5-Mar-07	347203AE1			AA			1	Fort Denison Funding	FTDEN	B
29-Mar-07	347202AA1		NR				1	Fort Denison Funding	FTDEN	INCOME
29-Mar-07	347203AA9		Aaa				1	Fort Denison Funding	FTDEN	S
29-Mar-07	347203AB7		Aaa				1	Fort Denison Funding	FTDEN	A1
29-Mar-07	347203AC5		Aaa				1	Fort Denison Funding	FTDEN	A2A
29-Mar-07	347203AD3		Aaa				1	Fort Denison Funding	FTDEN	A2B
29-Mar-07	347203AE1		Aa2				1	Fort Denison Funding	FTDEN	B
7-Nov-07	347203AE1		A3				1	Fort Denison Funding	FTDEN	B
27-Dec-07	347203AC5		Ba3				1	Fort Denison Funding	FTDEN	A2A
27-Dec-07	347203AD3		Ba3				1	Fort Denison Funding	FTDEN	A2B
27-Dec-07	347203AE1		Ca				1	Fort Denison Funding	FTDEN	B
11-Jan-08	347203AB7			A+			1	Fort Denison Funding	FTDEN	A1
11-Jan-08	347203AC5			A+			1	Fort Denison Funding	FTDEN	A2A
11-Jan-08	347203AD3			A+			1	Fort Denison Funding	FTDEN	A2B
11-Jan-08	347203AE1			BB			1	Fort Denison Funding	FTDEN	B
19-Feb-08	347203AA9			AA			1	Fort Denison Funding	FTDEN	S
19-Feb-08	347203AB7			BB-			1	Fort Denison Funding	FTDEN	A1
19-Feb-08	347203AC5			CCC			1	Fort Denison Funding	FTDEN	A2A
19-Feb-08	347203AD3			CCC			1	Fort Denison Funding	FTDEN	A2B
19-Feb-08	347203AE1			CC			1	Fort Denison Funding	FTDEN	B
25-Apr-08	347203AB7		B1				1	Fort Denison Funding	FTDEN	A1
25-Apr-08	347203AC5		C				1	Fort Denison Funding	FTDEN	A2A

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
25-Apr-08	347203AD3		C				1	Fort Denison Funding	FTDEN	A2B
25-Apr-08	347203AE1		C				1	Fort Denison Funding	FTDEN	B
25-Jun-08	347203AB7		Ca				1	Fort Denison Funding	FTDEN	A1
17-Jul-08	347203AB7			CCC			1	Fort Denison Funding	FTDEN	A1
17-Jul-08	347203AC5			CC			1	Fort Denison Funding	FTDEN	A2A
17-Jul-08	347203AD3			CC			1	Fort Denison Funding	FTDEN	A2B
30-Jul-08	347203AA9			NR			1	Fort Denison Funding	FTDEN	S
4-Aug-08	347203AA9		WR				1	Fort Denison Funding	FTDEN	S
17-Dec-08	347203AB7			D			1	Fort Denison Funding	FTDEN	A1
17-Dec-08	347203AC5			D			1	Fort Denison Funding	FTDEN	A2A
17-Dec-08	347203AD3			D			1	Fort Denison Funding	FTDEN	A2B
17-Dec-08	347203AE1			D			1	Fort Denison Funding	FTDEN	B
1-May-09	347203AB7			NR			1	Fort Denison Funding	FTDEN	A1
1-May-09	347203AC5			NR			1	Fort Denison Funding	FTDEN	A2A
1-May-09	347203AD3			NR			1	Fort Denison Funding	FTDEN	A2B
1-May-09	347203AE1			NR			1	Fort Denison Funding	FTDEN	B
14-Jul-09	347203AB7		C				1	Fort Denison Funding	FTDEN	A1
17-Jul-09	347203AB7		WR				1	Fort Denison Funding	FTDEN	A1
17-Jul-09	347203AC5		WR				1	Fort Denison Funding	FTDEN	A2A
17-Jul-09	347203AD3		WR				1	Fort Denison Funding	FTDEN	A2B
17-Jul-09	347203AE1		WR				1	Fort Denison Funding	FTDEN	B
27-Dec-06	443860AA9		Aaa				1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
27-Dec-06	443860AB7		Aaa				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
27-Dec-06	443860AC5		Aaa				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
27-Dec-06	443860AD3		Aa2				1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
27-Dec-06	443860AE1		A2				1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
27-Dec-06	443860AF8		Baa2				1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
27-Dec-06	443860AG6		Ba1				1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
29-Dec-06	443860AA9			AAA			1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
29-Dec-06	443860AB7			AAA			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
29-Dec-06	443860AC5			AAA			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
29-Dec-06	443860AD3			AA			1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
29-Dec-06	443860AE1			A			1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
29-Dec-06	443860AF8			BBB			1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
29-Dec-06	443860AG6			BB+			1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
29-Dec-06	44386PAA4			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	PREF
12-Sep-07	443860AE1		Baa1				1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
12-Sep-07	443860AF8		Ba3				1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
12-Sep-07	443860AG6		Caa2				1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
1-Nov-07	443860AE1		Ba3				1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
1-Nov-07	443860AF8		Caa1				1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
1-Nov-07	443860AG6		Ca				1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
21-Dec-07	443860AE1			BBB			1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
21-Dec-07	443860AF8			B			1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
21-Dec-07	443860AG6			CC			1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
22-Feb-08	443860AA9			AA			1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
22-Feb-08	443860AB7			BB-			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
22-Feb-08	443860AC5			BB-			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
22-Feb-08	443860AD3			B-			1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
22-Feb-08	443860AE1			CCC-			1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
22-Feb-08	443860AF8			CC			1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
8-Apr-08	443860AB7		Baa2				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
8-Apr-08	443860AC5		Baa2				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
8-Apr-08	443860AD3		Ba1				1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
8-Apr-08	443860AE1		B3				1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
8-Apr-08	443860AF8		Ca				1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
24-Apr-08	443860AB7		B3				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
24-Apr-08	443860AC5		B3				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
24-Apr-08	443860AD3		Caa3				1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
24-Apr-08	443860AE1		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
24-Apr-08	443860AF8		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
24-Apr-08	443860AG6		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
31-Jul-08	443860AB7		Ca				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
31-Jul-08	443860AC5		Ca				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
31-Jul-08	443860AD3		Ca				1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
6-Aug-08	443860AA9			B			1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
6-Aug-08	443860AB7			CCC-			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
6-Aug-08	443860AC5			CCC-			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
6-Aug-08	443860AD3			CC			1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
6-Aug-08	443860AE1			CC			1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
8-Aug-08	443860AA9		Ca				1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
8-Aug-08	443860AB7		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
8-Aug-08	443860AC5		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
8-Aug-08	443860AD3		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
20-Feb-09	443860AA9			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
20-Feb-09	443860AB7			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
20-Feb-09	443860AC5			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
20-Feb-09	443860AD3			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
20-Feb-09	443860AE1			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
20-Feb-09	443860AF8			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
20-Feb-09	443860AG6			D			1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
1-May-09	443860AA9			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
1-May-09	443860AB7			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
1-May-09	443860AC5			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
1-May-09	443860AD3			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
1-May-09	443860AE1			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
1-May-09	443860AF8			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
1-May-09	443860AG6			NR			1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
14-Jul-09	443860AA9		C				1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
17-Jul-09	443860AA9		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	S
17-Jul-09	443860AB7		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AF
17-Jul-09	443860AC5		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	AB
17-Jul-09	443860AD3		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	B
17-Jul-09	443860AE1		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	C
17-Jul-09	443860AF8		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	D
17-Jul-09	443860AG6		WR				1	Hudson Mezzanine Funding 2006-1	HUDSM061	E
1-Mar-07	44386NAA9			NR			1	Hudson Mezzanine Funding 2006-2	HUDSM062	PREF
1-Mar-07	44386NAC5			BBB-			1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
1-Mar-07	44386QAA2			AAA			1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
1-Mar-07	44386QAB0			AAA			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
1-Mar-07	44386QAC8			AAA			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
1-Mar-07	44386QAD6			AA+			1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
1-Mar-07	44386QAE4			A+			1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
1-Mar-07	44386QAF1			BBB+			1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
29-Mar-07	44386NAA9		NR				1	Hudson Mezzanine Funding 2006-2	HUDSM062	PREF
29-Mar-07	44386NAC5		Baa3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
29-Mar-07	44386QAA2		Aaa				1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
29-Mar-07	44386QAB0		Aaa				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
29-Mar-07	44386QAC8		Aaa				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
29-Mar-07	44386QAD6		Aa2				1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
29-Mar-07	44386QAE4		A2				1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
29-Mar-07	44386QAF1		Baa1				1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
6-Nov-07	44386NAC5		Caa3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
6-Nov-07	44386QAC8		Aa2				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
6-Nov-07	44386QAD6		A2				1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
6-Nov-07	44386QAE4		Baa3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
6-Nov-07	44386QAF1		Ba3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
21-Dec-07	44386NAC5			CCC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
21-Dec-07	44386QAD6			AA-			1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
21-Dec-07	44386QAE4			BBB+			1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
21-Dec-07	44386QAF1			B+			1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
19-Feb-08	44386NAC5			CC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
19-Feb-08	44386QAA2			AA			1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
19-Feb-08	44386QAB0			BB-			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
19-Feb-08	44386QAC8			B-			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
19-Feb-08	44386QAD6			CCC+			1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
19-Feb-08	44386QAE4			CCC-			1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
19-Feb-08	44386QAF1			CC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
8-Apr-08	44386NAC5		Ca				1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
8-Apr-08	44386QAB0		Baa1				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
8-Apr-08	44386QAC8		Baa3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
8-Apr-08	44386QAD6		Ba1				1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
8-Apr-08	44386QAE4		B3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
8-Apr-08	44386QAF1		Ca				1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
24-Apr-08	44386NAC5		C				1	Hudson Mezzanine Funding 2006-2	HUDSM062	E
24-Apr-08	44386QAB0		Ba2				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
24-Apr-08	44386QAC8		B3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
24-Apr-08	44386QAD6		Caa3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
24-Apr-08	44386QAE4		C				1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
24-Apr-08	44386QAF1		C				1	Hudson Mezzanine Funding 2006-2	HUDSM062	D
20-Aug-08	44386QAB0			CCC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
20-Aug-08	44386QAC8			CC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
20-Aug-08	44386QAD6			CC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
20-Aug-08	44386QAE4			CC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	C
25-Sep-08	44386QAA2		B1				1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
25-Sep-08	44386QAB0		Ca				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
25-Sep-08	44386QAC8		C				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
25-Sep-08	44386QAD6		C				1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
22-Oct-08	44386QAA2			BB			1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
22-Oct-08	44386QAB0			CC			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
11-Dec-08	44386QAA2		Caa1				1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
24-Apr-09	44386QAB0		C				1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
29-Jul-09	44386QAA2			CCC-			1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
4-Nov-09	44386QAB0			D			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A1
4-Nov-09	44386QAC8			D			1	Hudson Mezzanine Funding 2006-2	HUDSM062	A2
4-Nov-09	44386QAD6			D			1	Hudson Mezzanine Funding 2006-2	HUDSM062	B
30-Dec-09	44386QAA2		Caa3				1	Hudson Mezzanine Funding 2006-2	HUDSM062	S
25-Apr-07	730591AA2			BBB			1	Point Pleasant Funding 2007-1	PTPL071	D
25-Apr-07	730591AB0			NR			1	Point Pleasant Funding 2007-1	PTPL071	PREF
25-Apr-07	730594AA6			AAA			1	Point Pleasant Funding 2007-1	PTPL071	S
25-Apr-07	730594AB4			AAA			1	Point Pleasant Funding 2007-1	PTPL071	A1
25-Apr-07	730594AC2			AAA			1	Point Pleasant Funding 2007-1	PTPL071	A2
25-Apr-07	730594AD0			AA			1	Point Pleasant Funding 2007-1	PTPL071	B
25-Apr-07	730594AE8			A			1	Point Pleasant Funding 2007-1	PTPL071	C
28-Jun-07	730591AA2		Baa2				1	Point Pleasant Funding 2007-1	PTPL071	D
28-Jun-07	730594AA6		Aaa				1	Point Pleasant Funding 2007-1	PTPL071	S
28-Jun-07	730594AB4		Aaa				1	Point Pleasant Funding 2007-1	PTPL071	A1
28-Jun-07	730594AC2		Aaa				1	Point Pleasant Funding 2007-1	PTPL071	A2
28-Jun-07	730594AD0		Aa2				1	Point Pleasant Funding 2007-1	PTPL071	B
28-Jun-07	730594AE8		A2				1	Point Pleasant Funding 2007-1	PTPL071	C
11-Nov-07	730591AA2		Caa3				1	Point Pleasant Funding 2007-1	PTPL071	D
11-Nov-07	730594AD0		A3				1	Point Pleasant Funding 2007-1	PTPL071	B
11-Nov-07	730594AE8		Ba3				1	Point Pleasant Funding 2007-1	PTPL071	C
12-Mar-08	730591AA2			CC			1	Point Pleasant Funding 2007-1	PTPL071	D
12-Mar-08	730594AB4			BB-			1	Point Pleasant Funding 2007-1	PTPL071	A1
12-Mar-08	730594AC2			CCC-			1	Point Pleasant Funding 2007-1	PTPL071	A2
12-Mar-08	730594AD0			CC			1	Point Pleasant Funding 2007-1	PTPL071	B
12-Mar-08	730594AE8			CC			1	Point Pleasant Funding 2007-1	PTPL071	C
4-Apr-08	730591AA2		Ca				1	Point Pleasant Funding 2007-1	PTPL071	D
4-Apr-08	730594AB4		Ba1				1	Point Pleasant Funding 2007-1	PTPL071	A1
4-Apr-08	730594AC2		Ba2				1	Point Pleasant Funding 2007-1	PTPL071	A2
4-Apr-08	730594AD0		B1				1	Point Pleasant Funding 2007-1	PTPL071	B
4-Apr-08	730594AE8		Ca				1	Point Pleasant Funding 2007-1	PTPL071	C
30-May-08	730591AA2		C				1	Point Pleasant Funding 2007-1	PTPL071	D
30-May-08	730594AB4		Ca				1	Point Pleasant Funding 2007-1	PTPL071	A1
30-May-08	730594AC2		Ca				1	Point Pleasant Funding 2007-1	PTPL071	A2
30-May-08	730594AD0		Ca				1	Point Pleasant Funding 2007-1	PTPL071	B
30-May-08	730594AE8		C				1	Point Pleasant Funding 2007-1	PTPL071	C
31-Jul-08	730594AB4			CC			1	Point Pleasant Funding 2007-1	PTPL071	A1
31-Jul-08	730594AC2			CC			1	Point Pleasant Funding 2007-1	PTPL071	A2
2-Sep-08	730594AA6		B1				1	Point Pleasant Funding 2007-1	PTPL071	S
2-Sep-08	730594AB4		C				1	Point Pleasant Funding 2007-1	PTPL071	A1
2-Sep-08	730594AC2		C				1	Point Pleasant Funding 2007-1	PTPL071	A2
2-Sep-08	730594AD0		C				1	Point Pleasant Funding 2007-1	PTPL071	B
6-Oct-08	730594AA6			BB+			1	Point Pleasant Funding 2007-1	PTPL071	S
11-Dec-08	730594AA6		Caa1				1	Point Pleasant Funding 2007-1	PTPL071	S
12-Dec-08	730594AA6			CCC-			1	Point Pleasant Funding 2007-1	PTPL071	S
22-Apr-09	730594AA6		C				1	Point Pleasant Funding 2007-1	PTPL071	S
4-Nov-09	730594AA6			D			1	Point Pleasant Funding 2007-1	PTPL071	S
4-Nov-09	730594AB4			D			1	Point Pleasant Funding 2007-1	PTPL071	A1
4-Nov-09	730594AC2			D			1	Point Pleasant Funding 2007-1	PTPL071	A2
4-Nov-09	730594AD0			D			1	Point Pleasant Funding 2007-1	PTPL071	B
30-Mar-07	88714NAA9		NR				1	Timberwolf I	TIMBW1	PREF
30-Mar-07	88714PAA4		Aaa				1	Timberwolf I	TIMBW1	S1
30-Mar-07	88714PAB2		Aaa				1	Timberwolf I	TIMBW1	A1A
30-Mar-07	88714PAC0		Aaa				1	Timberwolf I	TIMBW1	A1B
30-Mar-07	88714PAD8		Aaa				1	Timberwolf I	TIMBW1	A1C
30-Mar-07	88714PAE6		Aaa				1	Timberwolf I	TIMBW1	A1D
30-Mar-07	88714PAF3		Aaa				1	Timberwolf I	TIMBW1	A2
30-Mar-07	88714PAG1		Aa2				1	Timberwolf I	TIMBW1	B
30-Mar-07	88714PAH9		A2				1	Timberwolf I	TIMBW1	C
30-Mar-07	88714PAJ5		Baa2				1	Timberwolf I	TIMBW1	D
30-Mar-07	88714PAK2		Aaa				1	Timberwolf I	TIMBW1	S2
3-Apr-07	88714PAA4			AAA			1	Timberwolf I	TIMBW1	S1
3-Apr-07	88714PAB2			AAA			1	Timberwolf I	TIMBW1	A1A
3-Apr-07	88714PAC0			AAA			1	Timberwolf I	TIMBW1	A1B
3-Apr-07	88714PAD8			AAA			1	Timberwolf I	TIMBW1	A1C
3-Apr-07	88714PAE6			AAA			1	Timberwolf I	TIMBW1	A1D
3-Apr-07	88714PAF3			AAA			1	Timberwolf I	TIMBW1	A2

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
3-Apr-07	88714PAG1			AA			1	Timberwolf I	TIMBW1	B
3-Apr-07	88714PAH9			A			1	Timberwolf I	TIMBW1	C
3-Apr-07	88714PAJ5			BBB			1	Timberwolf I	TIMBW1	D
3-Apr-07	88714PAK2			AAA			1	Timberwolf I	TIMBW1	S2
7-Nov-07	88714PAC0		Aa3				1	Timberwolf I	TIMBW1	A1B
7-Nov-07	88714PAD8		A3				1	Timberwolf I	TIMBW1	A1C
7-Nov-07	88714PAE6		Baa1				1	Timberwolf I	TIMBW1	A1D
7-Nov-07	88714PAF3		Baa3				1	Timberwolf I	TIMBW1	A2
7-Nov-07	88714PAG1		Ba1				1	Timberwolf I	TIMBW1	B
7-Nov-07	88714PAH9		Caa1				1	Timberwolf I	TIMBW1	C
7-Nov-07	88714PAJ5		Caa3				1	Timberwolf I	TIMBW1	D
7-Nov-07	88714PAK2		Baa2				1	Timberwolf I	TIMBW1	S2
25-Mar-08	88714PAB2			A+			1	Timberwolf I	TIMBW1	A1A
25-Mar-08	88714PAC0			BBB+			1	Timberwolf I	TIMBW1	A1B
25-Mar-08	88714PAD8			BB-			1	Timberwolf I	TIMBW1	A1C
25-Mar-08	88714PAE6			CCC+			1	Timberwolf I	TIMBW1	A1D
25-Mar-08	88714PAF3			CC			1	Timberwolf I	TIMBW1	A2
25-Mar-08	88714PAG1			CC			1	Timberwolf I	TIMBW1	B
25-Mar-08	88714PAH9			CC			1	Timberwolf I	TIMBW1	C
25-Mar-08	88714PAJ5			CC			1	Timberwolf I	TIMBW1	D
25-Mar-08	88714PAK2			CC			1	Timberwolf I	TIMBW1	S2
31-Mar-08	88714PAA4		Aa2				1	Timberwolf I	TIMBW1	S1
31-Mar-08	88714PAB2		A2				1	Timberwolf I	TIMBW1	A1A
31-Mar-08	88714PAC0		Ba3				1	Timberwolf I	TIMBW1	A1B
31-Mar-08	88714PAD8		Caa1				1	Timberwolf I	TIMBW1	A1C
31-Mar-08	88714PAE6		Caa3				1	Timberwolf I	TIMBW1	A1D
31-Mar-08	88714PAF3		C				1	Timberwolf I	TIMBW1	A2
31-Mar-08	88714PAG1		C				1	Timberwolf I	TIMBW1	B
31-Mar-08	88714PAH9		C				1	Timberwolf I	TIMBW1	C
31-Mar-08	88714PAJ5		C				1	Timberwolf I	TIMBW1	D
31-Mar-08	88714PAK2		C				1	Timberwolf I	TIMBW1	S2
6-May-08	88714PAB2		Caa2				1	Timberwolf I	TIMBW1	A1A
6-May-08	88714PAC0		C				1	Timberwolf I	TIMBW1	A1B
6-May-08	88714PAD8		C				1	Timberwolf I	TIMBW1	A1C
6-May-08	88714PAE6		C				1	Timberwolf I	TIMBW1	A1D
8-May-08	88714PAA4			BB			1	Timberwolf I	TIMBW1	S1
8-May-08	88714PAB2			BB			1	Timberwolf I	TIMBW1	A1A
8-May-08	88714PAC0			CCC-			1	Timberwolf I	TIMBW1	A1B
8-May-08	88714PAD8			CCC-			1	Timberwolf I	TIMBW1	A1C
8-May-08	88714PAE6			CCC-			1	Timberwolf I	TIMBW1	A1D
9-Jul-08	88714PAA4			B-			1	Timberwolf I	TIMBW1	S1
9-Jul-08	88714PAB2			CCC-			1	Timberwolf I	TIMBW1	A1A
9-Jul-08	88714PAC0			CC			1	Timberwolf I	TIMBW1	A1B
9-Jul-08	88714PAD8			CC			1	Timberwolf I	TIMBW1	A1C
9-Jul-08	88714PAE6			CC			1	Timberwolf I	TIMBW1	A1D
31-Jul-08	88714PAA4		Caa1	D			1	Timberwolf I	TIMBW1	S1
31-Jul-08	88714PAB2		C	D			1	Timberwolf I	TIMBW1	A1A
31-Jul-08	88714PAC0			D			1	Timberwolf I	TIMBW1	A1B
31-Jul-08	88714PAD8			D			1	Timberwolf I	TIMBW1	A1C
31-Jul-08	88714PAE6			D			1	Timberwolf I	TIMBW1	A1D
31-Jul-08	88714PAF3			D			1	Timberwolf I	TIMBW1	A2
31-Jul-08	88714PAG1			D			1	Timberwolf I	TIMBW1	B
31-Jul-08	88714PAH9			D			1	Timberwolf I	TIMBW1	C
31-Jul-08	88714PAJ5			D			1	Timberwolf I	TIMBW1	D
31-Jul-08	88714PAK2			D			1	Timberwolf I	TIMBW1	S2
20-Aug-08	88714PAA4		Ca				1	Timberwolf I	TIMBW1	S1
1-May-09	88714PAA4			NR			1	Timberwolf I	TIMBW1	S1
1-May-09	88714PAB2			NR			1	Timberwolf I	TIMBW1	A1A
1-May-09	88714PAC0			NR			1	Timberwolf I	TIMBW1	A1B
1-May-09	88714PAD8			NR			1	Timberwolf I	TIMBW1	A1C
1-May-09	88714PAE6			NR			1	Timberwolf I	TIMBW1	A1D
1-May-09	88714PAF3			NR			1	Timberwolf I	TIMBW1	A2
1-May-09	88714PAG1			NR			1	Timberwolf I	TIMBW1	B
1-May-09	88714PAH9			NR			1	Timberwolf I	TIMBW1	C
1-May-09	88714PAJ5			NR			1	Timberwolf I	TIMBW1	D
1-May-09	88714PAK2			NR			1	Timberwolf I	TIMBW1	S2
14-Jul-09	88714PAA4		C				1	Timberwolf I	TIMBW1	S1
17-Jul-09	88714PAA4		WR				1	Timberwolf I	TIMBW1	S1
17-Jul-09	88714PAB2		WR				1	Timberwolf I	TIMBW1	A1A
17-Jul-09	88714PAC0		WR				1	Timberwolf I	TIMBW1	A1B
17-Jul-09	88714PAD8		WR				1	Timberwolf I	TIMBW1	A1C
17-Jul-09	88714PAE6		WR				1	Timberwolf I	TIMBW1	A1D
17-Jul-09	88714PAF3		WR				1	Timberwolf I	TIMBW1	A2

Date	Cusip	fitch Rating	moody Rating	sp Rating	fitch	moody	sp	Deal Name	Intex Deal Name	Intex Tranche Name
17-Jul-09	88714PAG1		WR			1		Timberwolf I	TIMBW1	B
17-Jul-09	88714PAH9		WR			1		Timberwolf I	TIMBW1	C
17-Jul-09	88714PAJ5		WR			1		Timberwolf I	TIMBW1	D
17-Jul-09	88714PAK2		WR			1		Timberwolf I	TIMBW1	S2

Confidential Treatment Requested by Goldman Sachs

LB 1(b)(ii): In the provided spreadsheet, please explain the "1" notations under the S&P and Moody's columns.

The transactions identified in Question 1(b)(ii) posed to Mr. Blankfein were rated by either Moody's or S&P. The "1" notation in the "moody" and "sp" columns in GS MBS 0000038828 identifies whether Moody's or S&P provided a rating. The actual ratings provided by Moody's or S&P are identified in the columns titled "moody Rating" or "sp Rating."

Supplemental Response Received From Goldman Sachs

ATTACHMENT 3

GS Deals Issued & Underwritten

						Original Rating				
Bloomberg Deal Name	Index Deal Name	Tranche Name	CUSIP	Tranche Description	Original Balance	Fitch	Moody	SP	Deal Closing Date	Deal Type
ANDY 2007-1A A1A	ANDMF071	A1A	034050AB0	MEZ_FLT	130,000,000	NA	Aaa	AAA	20-Mar-07	CDO
ANDY 2007-1A A1B	ANDMF071	A1B	034050AC8	MEZ_FLT	53,000,000	NA	Aaa	AAA	20-Mar-07	CDO
ANDY 2007-1A A2	ANDMF071	A2	034050AD6	MEZ_FLT	30,500,000	NA	Aaa	AAA	20-Mar-07	CDO
ANDY 2007-1A B	ANDMF071	B	034050AE4	MEZ_FLT	42,700,000	NA	Aa2	AA	20-Mar-07	CDO
ANDY 2007-1A C	ANDMF071	C	034050AF1	MEZ_FLT	16,775,000	NA	A2	A	20-Mar-07	CDO
ANDY 2007-1A D	ANDMF071	D	034050AG9	MEZ_FLT	11,090,000	NA	Baa2	BBB	20-Mar-07	CDO
ANDY 2007-1A INC	ANDMF071	PREF	03404PAA8	JUN_SUB	20,935,000	NA	NR	NR	20-Mar-07	CDO
ANDY 2007-1A S	ANDMF071	S	034050AA2	SEN_FLT	2,490,000	NA	Aaa	AAA	20-Mar-07	CDO
CAMBR 7A A1	CAMBER7	A1	13189BAB7	MEZ_FLT	485,000,000	NA	Aaa	AAA	28-Feb-07	CDO
CAMBR 7A A2	CAMBER7	A2	13189BAC5	MEZ_FLT	100,000,000	NA	Aaa	AAA	28-Feb-07	CDO
CAMBR 7A A3	CAMBER7	A3	13189BAD3	MEZ_FLT	72,000,000	NA	Aaa	AAA	28-Feb-07	CDO
CAMBR 7A B	CAMBER7	B	13189BAE1	MEZ_FLT	81,000,000	NA	Aa2	AA	28-Feb-07	CDO
CAMBR 7A C	CAMBER7	C	13189BAF8	MEZ_FLT	78,300,000	NA	A2	A	28-Feb-07	CDO
CAMBR 7A D	CAMBER7	D	13189BAG6	MEZ_FLT	45,450,000	NA	Baa2	BBB	28-Feb-07	CDO
CAMBR 7A E	CAMBER7	E	13189AAA1	MEZ_FLT	11,250,000	NA	Ba1	BB+	28-Feb-07	CDO
CAMBR 7A INC	CAMBER7	PREF	13189AAB9	JUN_SUB	27,000,000	NA	NR	NR	28-Feb-07	CDO
CAMBR 7A S	CAMBER7	S	13189BAA9	SEN_FLT	15,500,000	NA	Aaa	AAA	28-Feb-07	CDO
FORTD 2007-1A A1	FTDEN	A1	347203AB7	SEN_FLT	225,000,000	NA	Aaa	AAA	14-Feb-07	CDO
FORTD 2007-1A A2A	FTDEN	A2A	347203AC5	SEN_FLT	60,000,000	NA	Aaa	AAA	14-Feb-07	CDO
FORTD 2007-1A A2B	FTDEN	A2B	347203AD3	SEN_FLT	80,000,000	NA	Aaa	AAA	14-Feb-07	CDO
FORTD 2007-1A B	FTDEN	B	347203AE1	MEZ_FLT	41,000,000	NA	Aa2	AA	14-Feb-07	CDO
FORTD 2007-1A C	FTDEN	C	FTD9KET10	MEZ_FLT	64,000,000	NA	NA	NA	14-Feb-07	CDO
FORTD 2007-1A INC	FTDEN	INCOME	347202AA1	JUN_SUB	30,000,000	NA	NR	NA	14-Feb-07	CDO
FORTD 2007-1A S	FTDEN	S	347203AA9	SEN_FLT	5,300,000	NA	Aaa	AAA	14-Feb-07	CDO
HUDMZ 2006-1A AB	HUDSM061	AB	443860AC5	MEZ_FLT	120,000,000	NA	Aaa	AAA	5-Dec-06	CDO
HUDMZ 2006-1A AF	HUDSM061	AF	443860AB7	MEZ_FLT	110,000,000	NA	Aaa	AAA	5-Dec-06	CDO
HUDMZ 2006-1A B	HUDSM061	B	443860AD3	MEZ_FLT	230,000,000	NA	Aa2	AA	5-Dec-06	CDO
HUDMZ 2006-1A C	HUDSM061	C	443860AE1	MEZ_FLT	170,000,000	NA	A2	A	5-Dec-06	CDO
HUDMZ 2006-1A D	HUDSM061	D	443860AF8	MEZ_FLT	84,000,000	NA	Baa2	BBB	5-Dec-06	CDO
HUDMZ 2006-1A E	HUDSM061	E	443860AG6	MEZ_FLT	26,000,000	NA	Ba1	BB+	5-Dec-06	CDO
HUDMZ 2006-1A INC	HUDSM061	PREF	44386PAA4	JUN_SUB	60,000,000	NA	NA	NR	5-Dec-06	CDO
HUDMZ 2006-1A S	HUDSM061	S	443860AA9	SEN_FLT	37,000,000	NA	Aaa	AAA	5-Dec-06	CDO
HUDMZ 2006-1A	HUDSM061	SPR_SNR	HUDQB7ZC0	MEZ_FLT	1,200,000,000	NA	NA	NA	5-Dec-06	CDO
HUDMZ 2006-2A A1	HUDSM062	A1	44386QAB0	MEZ_FLT	240,000,000	NA	Aaa	AAA	8-Feb-07	CDO
HUDMZ 2006-2A A2	HUDSM062	A2	44386QAC8	MEZ_FLT	46,000,000	NA	Aaa	AAA	8-Feb-07	CDO
HUDMZ 2006-2A B	HUDSM062	B	44386QAD6	MEZ_FLT	56,000,000	NA	Aa2	AA+	8-Feb-07	CDO
HUDMZ 2006-2A C	HUDSM062	C	44386QAE4	MEZ_FLT	20,000,000	NA	A2	A+	8-Feb-07	CDO
HUDMZ 2006-2A D	HUDSM062	D	44386QAF1	MEZ_FLT	18,000,000	NA	Baa1	BBB+	8-Feb-07	CDO
HUDMZ 2006-2A E	HUDSM062	E	44386NAC5	MEZ_FLT	4,000,000	NA	Baa3	BBB-	8-Feb-07	CDO
HUDMZ 2006-2A INC	HUDSM062	PREF	44386NAA9	JUN_SUB	16,000,000	NA	NR	NR	8-Feb-07	CDO
HUDMZ 2006-2A S	HUDSM062	S	44386QAA2	SEN_FLT	7,900,000	NA	Aaa	AAA	8-Feb-07	CDO
PTPLS 2007-1A A1	PTPL071	A1	730594AB4	MEZ_FLT	254,930,000	NA	Aaa	AAA	18-Apr-07	CDO
PTPLS 2007-1A A2	PTPL071	A2	730594AC2	MEZ_FLT	170,000,000	NA	Aaa	AAA	18-Apr-07	CDO
PTPLS 2007-1A B	PTPL071	B	730594AD0	MEZ_FLT	100,000,000	NA	Aa2	AA	18-Apr-07	CDO
PTPLS 2007-1A C	PTPL071	C	730594AE8	MEZ_FLT	28,000,000	NA	A2	A	18-Apr-07	CDO
PTPLS 2007-1A D	PTPL071	D	730591AA2	MEZ_FLT	32,000,000	NA	Baa2	BBB	18-Apr-07	CDO
PTPLS 2007-1A INC	PTPL071	PREF	730591AB0	JUN_SUB	20,170,000	NA	NA	NR	18-Apr-07	CDO
PTPLS 2007-1A S	PTPL071	S	730594AA6	SEN_FLT	6,000,000	NA	Aaa	AAA	18-Apr-07	CDO
PTPLS 2007-1A	PTPL071	SPR_SNR	PTPIX9YC0	SEN_FLT	403,400,000	NA	NA	NA	18-Apr-07	CDO
TWOLF 2007-1A A1A	TIMBW1	A1A	88714PAB2	MEZ_FLT	100,000,000	NA	Aaa	AAA	27-Mar-07	CDO
TWOLF 2007-1A A1B	TIMBW1	A1B	88714PAC0	MEZ_FLT	200,000,000	NA	Aaa	AAA	27-Mar-07	CDO
TWOLF 2007-1A A1C	TIMBW1	A1C	88714PAD8	MEZ_FLT	100,000,000	NA	Aaa	AAA	27-Mar-07	CDO
TWOLF 2007-1A A1D	TIMBW1	A1D	88714PAE6	MEZ_FLT	100,000,000	NA	Aaa	AAA	27-Mar-07	CDO
TWOLF 2007-1A A2	TIMBW1	A2	88714PAF3	MEZ_FLT	305,000,000	NA	Aaa	AAA	27-Mar-07	CDO
TWOLF 2007-1A B	TIMBW1	B	88714PAG1	MEZ_FLT	107,000,000	NA	Aa2	AA	27-Mar-07	CDO
TWOLF 2007-1A C	TIMBW1	C	88714PAH9	MEZ_FLT	36,000,000	NA	A2	A	27-Mar-07	CDO

GS Deals Issued & Underwritten

Bloomberg Deal Name	Index Deal Name	Tranche Name	CUSIP	Tranche Description	Original Balance	Original Rating			Deal Closing Date	Deal Type
						Fitch	Moody	SP		
TWOLF 2007-1A D	TIMBW1	D	88714PAJ5	MEZ_FLT	30,000,000	NA	Baa2	BBB	27-Mar-07	CDO
TWOLF 2007-1A INC	TIMBW1	PREF	88714NAA9	JUN_SUB	22,000,000	NA	NR	NA	27-Mar-07	CDO
TWOLF 2007-1A S1	TIMBW1	S1	88714PAA4	SEN_FLT	9,000,000	NA	Aaa	AAA	27-Mar-07	CDO
TWOLF 2007-1A S2	TIMBW1	S2	88714PAK2	MEZ_FLT	8,300,000	NA	Aaa	AAA	27-Mar-07	CDO

ATTACHMENT 4

Schedule of Investors in ABS/RMBS CDOs
($ in millions)

Footnote Exhibits Page 2473

Deal	Class	Price	Original Face	Trade Date	Settle Date	Risk Taker	Industry (SIC)
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	75.50	5	10/10/2007	10/15/2007	Capital International Financial Services Ltd.	MANAGEMENT INVESTMENT FUNDS & TRUSTS
	A1A	50.00	10	11/7/2007	11/15/2007	Capital International Financial Services Ltd.	MANAGEMENT INVESTMENT FUNDS & TRUSTS
	A1A	72.50	5	9/7/2007	9/14/2007	Eiger Capital	AssetBacked-ABCP
	A1A	72.50	1	9/10/2007	9/14/2007	Eiger Capital	AssetBacked-ABCP
	A1A	72.50	2	9/12/2007	9/18/2007	Eiger Capital	AssetBacked-ABCP
	A1A	72.50	3	9/24/2007	10/1/2007	Eiger Capital	AssetBacked-ABCP
	A1A	50.00	14	11/7/2007	11/15/2007	Magna Asset Management LTD	INVESTMENT ADVISOR
	A1A	100.00	91	3/12/2007	3/20/2007	Retained	-
	A1B	97.39	2	4/3/2007	4/9/2007	Beneficial Life	INSURANCE CARRIERS
	A1B	100.00	51	3/12/2007	3/20/2007	Retained	-
	A2	98.54	15	3/20/2007	3/23/2007	Moneygram International Inc	FINANCIAL SERVICES
	A2	98.23	5	3/21/2007	3/28/2007	PIMCO	INVESTMENT ADVISOR
	A2	97.24	11	3/28/2007	3/29/2007	Princeton Advisory Group, Inc	INVESTMENT ADVISOR
	B	95.50	5	3/20/2007	3/23/2007	Moneygram International Inc	FINANCIAL SERVICES
	B	100.00	38	3/12/2007	3/20/2007	Retained	-
	C	92.38	10	3/21/2007	3/28/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR
	C	100.00	7	3/12/2007	3/20/2007	Retained	-
	D	108.21	11	3/12/2007	3/20/2007	GSCP (NJ) LP	INVESTMENT ADVISOR
	Income Notes	100.00	21	3/12/2007	3/20/2007	Retained	-
	S	100.00	3	4/13/2007	4/18/2007	MBIA Inc.	INVESTMENT ADVISOR
Camber 7 plc	A1	100.00	365	2/16/2007	2/28/2007	[redacted]	SECURITY & COMMOD BRK/DEALER
	A1	100.00	120	1/25/2007	2/28/2007		COMMERCIAL BANKS
	A2	100.00	50	1/25/2007	2/28/2007		FINANCIAL SERVICES
	A2	100.00	5	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	A2	100.00	20	1/25/2007	2/28/2007		COMMERCIAL BANKS
	A2	100.00	25	1/25/2007	2/28/2007		COMMERCIAL BANKS
	A3	100.00	7	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	A3	99.88	30	1/25/2007	2/28/2007		COMMERCIAL BANKS
	A3	100.00	20	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	A3	100.00	15	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	B	100.00	5	1/25/2007	2/28/2007		COMMERCIAL BANKS
	B	100.00	10	1/25/2007	2/28/2007		ASSET BACKED-ABS
	B	100.00	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	B	100.00	10	1/25/2007	2/28/2007		FINANCIAL SERVICES
	B	100.00	6	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	B	100.00	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	B	100.00	7	1/25/2007	2/28/2007		PRIVATE INVESTMENT VEHICLES
	B	100.00	10	1/25/2007	2/28/2007		COMMERCIAL BANKS
	B	100.00	10	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER
	B	100.00	8	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER
	C	100.00	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	C	100.00	10	1/25/2007	2/28/2007		COMMERCIAL BANKS
	C	100.00	10	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	C	100.00	10	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER
	C	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	C	100.00	4	1/25/2007	2/28/2007		COMMERCIAL BANKS
	C	100.00	21	1/25/2007	2/28/2007	Retained	-
	C	100.00	12	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER
	D	100.00	10	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	D	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	D	100.00	5	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	D	100.00	4	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	D	98.30	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	D	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	D	100.00	10	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER
	D	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	E	97.88	2	1/25/2007	2/28/2007		INVESTMENT ADVISOR
	E	94.95	2	5/10/2007	5/15/2007		SECURITY & COMMOD BRK/DEALER
	E	100.00	8	1/25/2007	2/28/2007	Retained	-
	Income Notes	100.00	1	2/28/2007	2/28/2007		COMMERCIAL BANKS
	Income Notes	48.00	13	5/10/2007	5/15/2007		SECURITY & COMMOD BRK/DEALER
	Income Notes	100.00	12	1/25/2007	2/28/2007	Retained	-
	S	100.00	16	2/8/2007	2/28/2007	[redacted]	INVESTMENT ADVISOR

= Redacted by the Permanent Subcommittee on Investigations

Schedule of Investors in ABS/RMBS CDOs
($ in millions)

Deal	Class	Price	Original Face	Trade Date	Settle Date	Risk Taker	Industry (SIC)
Fort Denison Funding, Ltd.	A1	99.79	225	1/12/2007	2/14/2007	[redacted]	SECURITY & COMMOD BRK/DEALER
	A2A	100.00	60	1/10/2007	2/14/2007		COMMERCIAL BANKS
	A2B	100.00	60	1/10/2007	2/14/2007		COMMERCIAL BANKS
	A2B	100.00	15	1/10/2007	2/14/2007		INVESTMENT ADVISOR
	A2B	100.00	5	1/10/2007	2/14/2007		INVESTMENT ADVISOR
	B	100.00	4	1/10/2007	2/14/2007		SECURITY & COMMOD BRK/DEALER
	B	100.00	10	2/8/2007	2/15/2007		SECURITY & COMMOD BRK/DEALER
	B	100.00	7	1/10/2007	2/14/2007	Retained	-
	B	100.00	20	1/10/2007	2/14/2007		INVESTMENT ADVISOR
	C Loan	100.00	64	1/10/2007	2/14/2007		COMMERCIAL BANKS
	Income Notes	100.00	17	1/10/2007	2/14/2007		INVESTMENT ADVISOR
	Income Notes	100.00	14	1/10/2007	2/14/2007	Retained	-
	S	100.00	5	1/10/2007	2/14/2007	Retained	-
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	10	10/25/2006	12/5/2006	Church Tavern Advisors LLC	INVESTMENT ADVISOR
	AB	100.00	10	10/25/2006	12/5/2006	Citigroup, Inc.	INVESTMENT ADVISOR
	AB	100.00	80	10/25/2006	12/5/2006	National Australia Bank Limited	COMMERCIAL BANKS
	AB	100.00	18	10/25/2006	12/5/2006	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR
	AB	100.00	4	10/25/2006	12/5/2006	Redwood Trust Inc	MORTGAGE BANK
	AF	100.00	55	11/15/2006	12/5/2006	GSC CDO Warehouse	Asset Backed-CDO
	AF	100.00	55	10/25/2006	12/5/2006	UBS AG	COMMERCIAL BANKS
	B	100.00	40	10/25/2006	12/5/2006	Church Tavern Advisors LLC	INVESTMENT ADVISOR
	B	100.00	15	10/25/2006	12/5/2006	Fortor Securities BV	FINANCIAL SERVICES
	B	100.00	20	10/25/2006	12/5/2006	Koch Global Capital	PRIVATE INVESTMENT VEHICLES
	B	100.00	40	10/25/2006	12/5/2006	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR
	B	100.00	68	10/25/2006	12/5/2006	Retained	-
	B	100.00	10	10/25/2006	12/8/2006	Security Benefit Mutual Holding Company	INSURANCE CARRIERS
	B	100.00	5	10/25/2006	12/5/2006	Solent Capital Partners LLP	INVESTMENT ADVISOR
	B	100.00	10	10/25/2006	12/5/2006	Trust Company of the West (TCW)	FINANCIAL SERVICES
	B	99.42	14	1/11/2007	1/17/2007	Trust Company of the West (TCW)	FINANCIAL SERVICES
	B	100.00	10	10/25/2006	12/5/2006	Vanderbilt Capital Advisors, LLC	INVESTMENT ADVISOR
	C	97.56	15	12/19/2006	12/22/2006	Commerzbank AG	COMMERCIAL BANKS
	C	93.90	8	2/14/2007	2/20/2007	Dillon Read	INVESTMENT ADVISOR
	C	99.77	15	10/25/2006	12/5/2006	GSC Group	Asset Backed-CDO
	C	99.77	8	10/25/2006	12/5/2006	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR
	C	100.00	125	10/25/2006	12/5/2006	Retained	-
	D	93.04	5	10/25/2006	12/5/2006	Fortis Bank	COMMERCIAL BANKS
	D	10.00	5	9/6/2007	9/11/2007	Graywolf Capital Partners LP	INVESTMENT ADVISOR
	D	99.04	7	11/8/2006	12/5/2006	GSCP (NJ) LP	INVESTMENT ADVISOR
	D	99.04	3	10/30/2006	12/5/2006	GSCP (NJ) LP	INVESTMENT ADVISOR
	D	99.04	4	10/25/2006	12/5/2006	Natixis SA	COMMERCIAL BANKS
	D	83.23	5	3/28/2007	4/4/2007	Mariner Investment Group	FINANCIAL SERVICES
	D	100.00	55	10/25/2006	12/5/2006	Retained	-
	E	98.50	13	10/25/2006	12/5/2006	Dynamic Credit Partners LLC	INVESTMENT ADVISOR
	E	100.00	11	10/25/2006	12/5/2006	Retained	-
	E	100.00	2	10/25/2006	12/5/2006	Trust Company of the West (TCW)	FINANCIAL SERVICES
	Income Notes	95.00	6	12/8/2006	12/7/2006	Retained	SECURITY & COMMOD BRK/DEALER
	Income Notes	80.00	5	10/25/2006	12/5/2006	Bear Stearns Companies, Inc	INVESTMENT ADVISOR
	Income Notes	95.00	1	1/3/2007	1/4/2007	Colonial BancGroup	COMMERCIAL BANKS
	Income Notes	81.00	4	4/16/2007	4/19/2007	Dillon Read	INVESTMENT ADVISOR
	Income Notes	85.00	10	10/25/2006	12/5/2006	Greywolf Capital Partners LP	INVESTMENT ADVISOR
	Income Notes	95.00	5	10/26/2006	12/5/2006	Mariner Investment Group	FINANCIAL SERVICES
	Income Notes	80.31	30	12/8/2006	12/8/2006	Citigroup, Inc.	INVESTMENT ADVISOR
	Income Notes	93.00	2	10/25/2006	12/5/2006	Trust Company of the West (TCW)	FINANCIAL SERVICES
	S	100.00	1	12/29/2006	1/4/2007	GS CDO Warehouse	AssetBacked-ABCP
	S	100.00	2	12/29/2006	1/4/2007	GS CDO Warehouse	AssetBacked-ABCP
	S	100.00	0	12/15/2006	12/20/2006	Hout Bay CDO Warehouse	ASSET BACKED-CDO
	S	100.00	0	1/18/2007	1/19/2007	Hout Bay CDO Warehouse	ASSET BACKED-CDO
	S	100.00	1	1/30/2007	2/2/2007	Hout Bay CDO Warehouse	ASSET BACKED-CDO
	S	100.00	0	2/15/2007	2/21/2007	Hout Bay CDO Warehouse	ASSET BACKED-CDO
	S	100.00	1	12/15/2006	12/20/2006	Hudson CDO Warehouse	ASSET BACKED-CDO
	S	100.00	30	10/25/2006	12/5/2006	MBIA Inc	INVESTMENT ADVISOR
	S	100.00	1	10/25/2006	12/5/2006	Retained	-
	Sr. Swap	0.00	1,200	12/5/2006	12/5/2006	Morgan Stanley & Co	SECURITY & COMMOD BRK/DEALER

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Schedule of Investors in ABS/RMBS CDOs
($ in millions)

Deal	Class	Price	Original Face	Trade Date	Settle Date	Risk Taker	Industry (SIC)
Hudson Mezzanine Funding 2006-2, Ltd.	A1	98.51	125	2/21/2007	2/26/2007	[redacted]	COMMERCIAL BANKS
	A1	100.00	115	12/21/2006	2/8/2007	Retained	-
	A2	100.00	28	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	A2	100.00	20	12/21/2006	2/8/2007	[redacted]	COMMERCIAL BANKS
	B	99.92	12	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	B	99.92	20	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	B	99.92	25	12/21/2006	2/8/2007	Retained	-
	C	100.00	12	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	C	100.00	2	12/21/2006	2/8/2007	[redacted]	SECURITY & COMMOD BRK/DEALER
	C	100.00	6	12/21/2006	2/8/2007	Retained	-
	D	98.21	5	2/13/2007	2/14/2007	[redacted]	Asset Backed-ABS
	D	100.00	13	12/21/2006	2/8/2007	Retained	-
	E	98.16	2	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	E	100.00	2	12/21/2006	2/8/2007	Retained	-
	Income Notes	100.00	3	1/24/2007	2/8/2007	[redacted]	COMMERCIAL BANKS
	Income Notes	98.00	8	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	Income Notes	100.00	3	12/22/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR
	Income Notes	100.00	3	12/22/2006	2/8/2007	Retained	-
	S	100.00	4	3/16/2007	3/20/2007	Anderson CDO Warehouse	-
	S	100.00	4	3/22/2007	3/27/2007	GS CDO Warehouse	AssetBacked-ABCP
Point Pleasant Funding 2007-1, Ltd.	A1	100.00	127	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	A1	100.00	107	4/10/2007	4/18/2007	Retained	-
	A1	99.70	20	6/19/2007	6/29/2007	Tokyo Star Bank	COMMERCIAL BANKS
	A2	100.00	85	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	A2	25.00	1	8/21/2007	8/24/2007	[redacted]	FINANCIAL SERVICES
	A2	27.50	1	9/20/2007	9/27/2007	[redacted]	FINANCIAL SERVICES
	A2	20.00	1	10/29/2007	11/5/2007	[redacted]	FINANCIAL SERVICES
	A2	91.30	20	4/24/2007	4/27/2007	Moneygram International Inc	FINANCIAL SERVICES
	A2	91.00	40	5/24/2007	5/24/2007	Paramax Capital Group, LLC	INVESTMENT ADVISOR
	A2	100.00	33	4/10/2007	4/18/2007	Retained	-
	B	100.00	50	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	B	100.00	50	4/10/2007	4/18/2007	Retained	-
	C	100.00	14	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	C	87.57	8	4/10/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	C	20.00	2	7/23/2007	7/26/2007	[redacted]	INVESTMENT ADVISOR
	C	100.00	4	4/10/2007	4/18/2007	Retained	-
	D	81.72	15	4/19/2007	4/24/2007	Basis Capital Group	INVESTMENT ADVISOR
	D	100.00	16	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	D	88.39	11	4/10/2007	4/18/2007	Mariner Investment Group	FINANCIAL SERVICES
	Income Notes	100.00	10	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR
	Income Notes	100.00	10	4/11/2007	4/18/2007	Retained	-
	S	100.00	6	4/10/2007	4/18/2007	Retained	-
	Sr. Swap	0.00	403	4/18/2007	4/18/2007	[redacted]	COMMERCIAL BANKS
Timberwolf I, Ltd.	A1A	99.45	50	3/13/2007	3/27/2007	MBIA Inc.	INVESTMENT ADVISOR
	A1A	99.47	50	5/2/2007	5/7/2007	Rabobank, N.A	COMMERCIAL BANKS
	A1B	100.00	200	3/13/2007	3/27/2007	Bear Stearns Companies, Inc	INVESTMENT ADVISOR
	A1C	99.71	100	3/13/2007	3/27/2007	Bear Stearns Companies, Inc	INVESTMENT ADVISOR
	A1D	100.00	100	3/13/2007	3/27/2007	Bear Stearns Companies, Inc	INVESTMENT ADVISOR
	A2	84.00	20	6/11/2007	6/14/2007	Carlyle Group	INVESTMENT ADVISOR
	A2	84.50	56	6/11/2007	6/14/2007	Hungkuk Life Insurance Co., Ltd	INSURANCE CARRIERS
	A2	87.79	20	4/23/2007	4/26/2007	Moneygram International Inc	FINANCIAL SERVICES
	A2	87.00	40	5/24/2007	5/24/2007	Paramax Capital Group, LLC	INVESTMENT ADVISOR
	A2	100.00	149	3/13/2007	3/27/2007	Retained	-
	A2	83.90	20	5/30/2007	6/4/2007	Tokyo Star Bank	COMMERCIAL BANKS
	B	78.25	7	7/5/2007	7/12/2007	Bank Hapoalim	COMMERCIAL BANKS
	B	78.25	2	7/11/2007	7/12/2007	Bank Hapoalim	COMMERCIAL BANKS
	B	100.00	99	3/13/2007	3/27/2007	Retained	-
	C	95.15	20	4/4/2007	4/11/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR
	C	72.50	16	3/28/2007	4/2/2007	Polygon Investment Partners	INVESTMENT ADVISOR
	D	82.41	30	3/13/2007	3/27/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR
	Income Notes	100.00	11	3/13/2007	3/27/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR
	Income Notes	70.00	11	5/24/2007	5/30/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR
	S1	100.00	8	3/22/2007	3/27/2007	Retained	-
	S2	100.00	8	3/22/2007	3/27/2007	Retained	-

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Schedule of Gross Cred

Deal	Class	Price	Original Face	Trade Date	Settle Date	Risk Taker	Industry (SIC)	Emp Name	Gross Credit %*
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	75.50	5	10/10/2007	10/15/2007	Capital International Financial Services Ltd.	MANAGEMENT INVESTMENT FUNDS & TRUSTS	Ceder, Leor	2.5%
	A1A	50.00	10	11/7/2007	11/15/2007	Capital International Financial Services Ltd.	MANAGEMENT INVESTMENT FUNDS & TRUSTS	Ceder, Leor	2.0%
	A1A	72.50	5	9/7/2007	9/14/2007	Elger Capital	AssetBacked-ABCP	Andersen, Alexander	2.0%
	A1A	72.50	1	9/10/2007	9/14/2007	Elger Capital	AssetBacked-ABCP	Andersen, Alexander	0.0%
	A1A	72.50	2	9/12/2007	9/18/2007	Elger Capital	AssetBacked-ABCP	Andersen, Alexander	0.0%
	A1A	72.50	3	9/24/2007	10/1/2007	Elger Capital	AssetBacked-ABCP	Andersen, Alexander	2.0%
	A1A	50.00	14	11/7/2007	11/15/2007	Magna Asset Management LTD	INVESTMENT ADVISOR	Ceder, Leor	2.0%
	A1B	97.39	2	4/3/2007	4/9/2007	Beneficial Life	INSURANCE CARRIERS	Gilligan, Brendan	1.0%
	A2	96.54	15	3/20/2007	3/23/2007	Moneygram International Inc	FINANCIAL SERVICES	Gilligan, Brendan	1.5%
	A2	98.23	5	3/21/2007	3/26/2007	PIMCO	INVESTMENT ADVISOR	Loggins, Dick	1.5%
	A2	97.24	11	3/26/2007	3/29/2007	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR	Fertel-Kramer/Phillips	1.5%
	B	95.50	5	3/20/2007	3/23/2007	Moneygram International Inc	FINANCIAL SERVICES	Gilligan, Brendan	1.5%
	C	92.38	10	3/21/2007	3/26/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	2.5%
	D	108.21	11	3/12/2007	3/20/2007	GSCP (NJ) LP	INVESTMENT ADVISOR	Willing, Curtis	0.0%
	S	100.00	3	4/13/2007	4/18/2007	MBIA Inc.	INVESTMENT ADVISOR	Davilman, Andrew	0.1%
Camber 7 plc	A1	100.00	365	2/16/2007	2/28/2007	[redacted]	SECURITY & COMMOD BRK/DEALER	[redacted]	0.1%
	A1	100.00	120	1/25/2007	2/28/2007		COMMERCIAL BANKS		0.1%
	A2	100.00	50	1/25/2007	2/28/2007		FINANCIAL SERVICES		0.2%
	A2	100.00	5	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.2%
	A2	100.00	20	1/25/2007	2/28/2007		COMMERCIAL BANKS		0.2%
	A2	100.00	25	1/25/2007	2/28/2007		COMMERCIAL BANKS		0.2%
	A3	100.00	7	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.2%
	A3	99.88	30	1/25/2007	2/28/2007		COMMERCIAL BANKS		0.3%
	A3	100.00	20	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.2%
	A3	100.00	15	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.2%
	B	100.00	5	1/25/2007	2/28/2007		COMMERCIAL BANKS		0.6%
	B	100.00	10	1/25/2007	2/28/2007		ASSET BACKED-ABS		0.3%
	B	100.00	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.3%
	B	100.00	10	1/25/2007	2/28/2007		FINANCIAL SERVICES		0.3%
	B	100.00	6	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.3%
	B	100.00	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR		0.3%
	B	100.00	7	1/25/2007	2/28/2007		PRIVATE INVESTMENT VEHICLES		0.3%
	B	100.00	10	1/25/2007	2/28/2007		COMMERCIAL BANKS		0.3%
	B	100.00	10	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER		0.3%
	B	100.00	8	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER		0.3%
	C	100.00	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR		1.0%
	C	100.00	10	1/25/2007	2/28/2007		COMMERCIAL BANKS		1.0%
	C	100.00	10	1/25/2007	2/28/2007		INVESTMENT ADVISOR		1.0%
	C	100.00	10	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER		1.0%
	C	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR		1.0%
	C	100.00	4	1/25/2007	2/28/2007		COMMERCIAL BANKS		1.0%
	C	100.00	12	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER		1.0%
	D	100.00	10	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	D	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	D	100.00	5	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	D	100.00	4	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	D	98.30	8	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	D	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	D	100.00	10	1/25/2007	2/28/2007		SECURITY & COMMOD BRK/DEALER		3.5%
	D	100.00	3	1/25/2007	2/28/2007		INVESTMENT ADVISOR		3.5%
	E	97.88	2	1/25/2007	2/28/2007		INVESTMENT ADVISOR		5.0%
	E	54.95	2	5/10/2007	5/15/2007		SECURITY & COMMOD BRK/DEALER		10.0%
	Income Notes	100.00	1	2/28/2007	2/28/2007		COMMERCIAL BANKS		
	Income Notes	48.00	13	5/10/2007	5/15/2007		SECURITY & COMMOD BRK/DEALER		10.0%
	S	100.00	18	2/8/2007	2/28/2007		INVESTMENT ADVISOR		0.2%

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Schedule of Gross Cred

Deal	Class	Price	Original Face	Trade Date	Settle Date	Risk Taker	Industry (SIC)	Emp Name	
Fort Denison Funding, Ltd.	A1	99.79	225	1/12/2007	2/14/2007	[redacted]	COMMERCIAL BANKS	[redacted]	0.1%
	A2A	100.00	60	1/10/2007	2/14/2007		COMMERCIAL BANKS		0.1%
	A2B	100	60	1/10/2007	2/14/2007		COMMERCIAL BANKS		0.2%
	A2B	100.00	15	1/10/2007	2/14/2007		INVESTMENT ADVISOR		0.2%
	A2B	100.00	5	1/10/2007	2/14/2007		INVESTMENT ADVISOR		0.0%
	B	100.00	4	1/10/2007	2/14/2007		SECURITY & COMMOD BRK/DEALER		0.3%
	B	100.00	10	2/8/2007	2/15/2007		SECURITY & COMMOD BRK/DEALER		0.3%
	B	100.00	20	1/10/2007	2/14/2007		INVESTMENT ADVISOR		0.3%
	C Loan	100.00	64	1/10/2007	2/14/2007		COMMERCIAL BANKS		
	Income Notes	100.00	17	1/10/2007	2/14/2007		INVESTMENT ADVISOR		10.0%
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	10	10/25/2006	12/5/2006	Church Tavern Advisors LLC	INVESTMENT ADVISOR	Reich, Spencer	0.4%
	AB	100.00	10	10/25/2006	12/5/2006	Citigroup, Inc.	INVESTMENT ADVISOR	Waldman/Mutter	0.4%
	AB	100.00	80	10/25/2006	12/5/2006	National Australia Bank Limited.	COMMERCIAL BANKS	Fraser/Lee/Ha	0.4%
	AB	100.00	16	10/25/2006	12/5/2006	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR	Mermagen, Morgan Schma	0.4%
	AB	100.00	4	10/25/2006	12/5/2006	Redwood Trust Inc	MORTGAGE BANK	Paige, Kevin	0.4%
	AF	100.00	55	10/25/2006	12/5/2006	UBS AG	COMMERCIAL BANKS	Kelly, Ryan	0.4%
	B	100.00	40	10/25/2006	12/5/2006	Church Tavern Advisors LLC	INVESTMENT ADVISOR	Reich, Spencer	0.5%
	B	100.00	15	10/25/2006	12/5/2006	Faxtor Securities BV	FINANCIAL SERVICES	Van Dijk, Emile	0.5%
	B	100.00	20	10/25/2006	12/5/2006	Koch Global Capital	PRIVATE INVESTMENT VEHICLES	Romaszka/Kerr	0.5%
	B	100.00	40	10/25/2006	12/5/2006	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR	Mermagen, Morgan Schma	0.5%
	B	100.00	10	10/25/2006	12/8/2006	Security Benefit Mutual Holding Company	INSURANCE CARRIERS	Romaszka/Kerr	0.5%
	B	100.00	5	10/25/2006	12/5/2006	Solent Capital Partners LLP	INVESTMENT ADVISOR	Vemudachi, Charles	0.5%
	B	100.00	10	10/25/2006	12/5/2006	Trust Company of the West (TCW)	FINANCIAL SERVICES	Loggins, Dick	0.5%
	B	99.42	14	1/11/2007	1/17/2007	Trust Company of the West (TCW)	FINANCIAL SERVICES	Loggins, Dick	1.0%
	B	100.00	10	10/25/2006	12/5/2006	Vanderbilt Capital Advisors, LLC	INVESTMENT ADVISOR	Geddi, Robert	0.5%
	C	97.56	15	12/18/2006	12/22/2006	Commerzbank AG	COMMERCIAL BANKS	Ophel, Dave	3.3%
	C	93.90	8	2/14/2007	2/20/2007	Dillon Read	INVESTMENT ADVISOR	Waldman, Fred	5.0%
	C	99.77	15	10/25/2006	12/5/2006	GSC Group	Asset Backed-CDO		
	C	99.77	8	10/25/2006	12/5/2006	Princeton Advisory Group, Inc.	INVESTMENT ADVISOR	Mermagen, Morgan Schma	2.5%
	D	99.04	5	10/25/2006	12/5/2006	Fortis Bank	COMMERCIAL BANKS	Glezer, Ronnet	5.0%
	D	10.00	5	9/8/2007	9/11/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	0.3%
	D	99.04	7	11/9/2006	12/5/2006	GSCP (NJ) LP	INVESTMENT ADVISOR	Willing, Curtis	5.0%
	D	99.04	3	10/30/2006	12/5/2006	GSCP (NJ) LP	INVESTMENT ADVISOR	Willing, Curtis	5.0%
	D	99.04	4	10/25/2006	12/5/2006	Natixis SA	COMMERCIAL BANKS	Mermagen, Morgan Schma	5.0%
	D	83.23	5	3/28/2007	4/4/2007	Mariner Investment Group	FINANCIAL SERVICES	Carrett, Paul	5.0%
	E	98.50	13	10/25/2006	12/5/2006	Dynamic Credit Partners LLC	INVESTMENT ADVISOR	Reinstein, Darren J.	7.5%
	E	100.00	2	10/25/2006	12/5/2006	Trust Company of the West (TCW)	FINANCIAL SERVICES	Loggins, Dick	7.5%
	Income Notes	80.00	5	10/25/2006	12/5/2006	Bear Stearns Companies, Inc.	INVESTMENT ADVISOR	Davilman, Andrew	10.0%
	Income Notes	95.00	1	1/3/2007	1/4/2007	Colonial BancGroup	COMMERCIAL BANKS	Ruberti, Timothy	10.0%
	Income Notes	81.00	4	4/16/2007	4/19/2007	Dillon Read	INVESTMENT ADVISOR	Waldman, Fred	0.0%
	Income Notes	85.00	10	10/25/2006	12/5/2006	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	10.0%
	Income Notes	95.00	5	10/26/2006	12/5/2006	Mariner Investment Group	FINANCIAL SERVICES	Chew, Patricia	0.0%
	Income Notes	80.31	30	12/8/2006	12/8/2006	Citigroup, Inc.	INVESTMENT ADVISOR		
	Income Notes	93.00	2	10/25/2006	12/5/2006	Trust Company of the West (TCW)	FINANCIAL SERVICES	Loggins, Dick	10.0%
	S	100.00	30	10/25/2006	12/5/2006	MBIA Inc.	INVESTMENT ADVISOR	Davilman, Andrew	0.2%
	Sr. Swap	0.00	1,200	12/5/2006	12/5/2006	Morgan Stanley & Co	SECURITY & COMMOD BRK/DEALER		
Hudson Mezzanine Funding 2006-2, Ltd.	A1	98.51	125	2/21/2007	2/26/2007	[redacted]	COMMERCIAL BANKS	[redacted]	0.2%
	A2	100.00	26	12/21/2006	2/8/2007		INVESTMENT ADVISOR		0.2%
	A2	100.00	20	12/21/2006	2/8/2007		COMMERCIAL BANKS		0.2%
	B	99.92	12	12/21/2006	2/8/2007		INVESTMENT ADVISOR		0.3%
	B	99.92	20	12/21/2006	2/8/2007		INVESTMENT ADVISOR		0.3%
	C	100.00	12	12/21/2006	2/8/2007		INVESTMENT ADVISOR		1.0%
	C	100.00	2	12/21/2006	2/8/2007		SECURITY & COMMOD BRK/DEALER		
	E	98.16	2	12/21/2006	2/8/2007		INVESTMENT ADVISOR		5.0%

	Income Notes	100.00	3	1/24/2007	2/8/2007	[redacted]	COMMERCIAL BANKS	[redacted] 10.0%
	Income Notes	98.00	8	12/21/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR	10.0%
	Income Notes	100.00	3	12/22/2006	2/8/2007	[redacted]	INVESTMENT ADVISOR	10.0%

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Schedule of Gross Cred

Deal	Class	Price	Original Face	Trade Date	Settle Date	Risk Taker	Industry (SIC)	Emp Name	
Point Pleasant Funding 2007-1, Ltd.	A1	100.00	127	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	A1	90.70	20	6/19/2007	6/26/2007	Tokyo Star Bank	COMMERCIAL BANKS	Wada, Koji (FI)	4.0%
	A2	100.00	85	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	A2	25.00	1	8/21/2007	8/24/2007	[redacted]	FINANCIAL SERVICES	[redacted]	5.0%
	A2	27.50	1	9/20/2007	9/27/2007	[redacted]	FINANCIAL SERVICES	[redacted]	5.0%
	A2	20.00	1	10/29/2007	11/5/2007	[redacted]	FINANCIAL SERVICES	[redacted]	2.0%
	A2	91.30	20	4/24/2007	4/27/2007	Moneygram International Inc	FINANCIAL SERVICES	Gilligan, Brendan	2.0%
	A2	91.00	40	5/24/2007	5/24/2007	Paramax Capital Group, LLC	INVESTMENT ADVISOR	Radtke, Lorin	2.0%
	B	100.00	50	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	C	100.00	14	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	C	87.57	8	4/10/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	C	20.00	2	7/23/2007	7/26/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	1.0%
	D	81.72	15	4/19/2007	4/24/2007	Basis Capital Group	INVESTMENT ADVISOR	Carrett, Paul	5.0%
	D	100.00	18	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	D	88.39	11	4/10/2007	4/18/2007	Mariner Investment Group	FINANCIAL SERVICES	Carrett, Paul	5.0%
	Income Notes	100.00	10	4/11/2007	4/18/2007	[redacted]	INVESTMENT ADVISOR	[redacted]	0.0%
	Sr. Swap	0.00	403	4/18/2007	4/18/2007	[redacted]	COMMERCIAL BANKS		
Timberwolf I, Ltd.	A1A	99.45	50	3/13/2007	3/27/2007	MBIA Inc.	INVESTMENT ADVISOR	Davilman, Andrew	1.0%
	A1A	99.47	50	5/2/2007	5/7/2007	Rabobank, N.A	COMMERCIAL BANKS	Fraser/Lee/Ha	1.0%
	A1B	100.00	200	3/13/2007	3/27/2007	Bear Steams Companies, Inc.	INVESTMENT ADVISOR	Davilman, Andrew	0.0%
	A1C	99.71	100	3/13/2007	3/27/2007	Bear Steams Companies, Inc.	INVESTMENT ADVISOR	Davilman, Andrew	0.0%
	A1D	100.00	100	3/13/2007	3/27/2007	Bear Steams Companies, Inc.	INVESTMENT ADVISOR	Davilman, Andrew	0.0%
	A2	84.00	20	6/11/2007	6/14/2007	Carlyle Group	INVESTMENT ADVISOR	Ruberti, Timothy	6.0%
	A2	84.50	56	6/11/2007	6/14/2007	Hungkuk Life Insurance Co., Ltd	INSURANCE CARRIERS	Park, Kevin (FICC)	7.0%
	A2	87.79	20	4/23/2007	4/26/2007	Moneygram International Inc	FINANCIAL SERVICES	Gilligan, Brendan	2.0%
	A2	87.00	40	5/24/2007	5/24/2007	Paramax Capital Group, LLC	INVESTMENT ADVISOR	Radtke, Lorin	2.0%
	A2	83.90	20	5/30/2007	6/4/2007	Tokyo Star Bank	COMMERCIAL BANKS	Wada, Koji (FI)	6.0%
	B	78.25	7	7/5/2007	7/12/2007	Bank Hapoalim	COMMERCIAL BANKS	Ceder, Leor	8.0%
	B	78.25	2	7/11/2007	7/12/2007	Bank Hapoalim	COMMERCIAL BANKS	Ceder, Leor	8.0%
	C	95.15	20	4/4/2007	4/11/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	0.0%
	C	72.50	16	3/28/2007	4/2/2007	Polygon Investment Partners	INVESTMENT ADVISOR	Raazi, Cactus	3.1%
	D	92.41	30	3/13/2007	3/27/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	0.0%
	Income Notes	100.00	11	3/13/2007	3/27/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	0.0%
	Income Notes	70.00	11	5/24/2007	5/30/2007	Greywolf Capital Partners LP	INVESTMENT ADVISOR	Martin, Nicole	5.0%

*Goldman Sachs notes that the gross credits information in the enclosed spreadsheet are expressed as a percentage of the notional balance associated with each trade. Gross credits are one of many measures used by Goldman Sachs to track activity between the Goldman Sachs sales force and clients and do not reflect the compensation paid to salespeople.

Confidential Treatment Requested by Goldman Sachs

LB 1(b)(iii)&(iv): What is the appropriate method for calculating the sale price of each security? Were any securities repurchased by Goldman Sachs? If so, at what price?

The sale price for the securities issued in connection with the CDO transactions identified in Questions 1(b)(iii) & (iv) posed to Mr. Blankfein were contractually agreed to by the purchaser and the seller.

In response to the Staff's follow-up question, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000087064) identifying securities issued by the identified CDOs that were repurchased by Goldman Sachs in the ordinary course of business at fair value.

Supplemental Response Received From Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Secondary Trades in Securities Issued by Mortgage-Related CDOs
CONFIDENTIAL TREATMENT REQUESTED BY GOLDMAN SACHS

CUSIP	Buy/Sell	Original Face	Bond Name	Price	Trade Date	Settle Date	Counterparty
G03652AG2	Buy	1,590,000	ANDY 0701 D REGS	0.03	11/30/2007	12/5/2007	GSC
13189BAC5	Buy	5,000,000	CAMBER 7 A2 144A	5.00	1/18/2008	1/24/2008	[redacted]
13189BAD3	Buy	7,000,000	CAMBER 7 A3 144A	5.00	1/18/2008	1/24/2008	[redacted]
G17754AD7	Buy	30,000,000	CAMBER 7 A3 REGS	5.00	12/21/2007	12/26/2007	[redacted]
G17754AD7	Buy	8,218,000	CAMBER 7 A3 REGS	0.00	9/18/2008	9/24/2008	[redacted]
G17754AE5	Buy	5,000,000	CAMBER 7 B REGS	5.00	12/21/2007	12/26/2007	[redacted]
347203AC5	Buy	1,000,000	FORTD 0701 A2A 144A	10.00	11/1/2007	11/6/2007	[redacted]
G46429AA7	Buy	5,000,000	HUDMZ 061 INCOME NOT	85.00	9/28/2007	4/4/2007	Mariner Bridge Invs
44386PAA4	Buy	10,000,000	HUDMZ 061 INCOME NOT	5.00	9/6/2007	9/11/2007	Greywolf Capital Par
44386PAA4	Buy	1,000,000	HUDMZ 061 INCOME NOT	2.50	10/9/2007	10/12/2007	Epirus Capital Mgmt
443860AA9	Buy	1,740,000	HUDMZ 061 S 144A	15.00	8/26/2008	8/29/2008	Trust Co of the West
44386PAA4	Buy	500,000	HUDMZ 061 INCOME NOT	0.00	12/29/2008	12/31/2008	Trust Co of the West
44386NAA9	Buy	2,500,000	HUDMZ 062 INCOME NOT	95.00	2/21/2007	2/26/2007	[redacted]
44386NAA9	Buy	3,000,000	HUDMZ 062 INCOME NOT	2.50	10/9/2007	10/12/2007	[redacted]
44386QAA2	Buy	4,300,000	HUDMZ 062 S 144A	100.00	5/16/2008	5/19/2008	[redacted]
44386NAC5	Buy	2,000,000	HUDMZ 062 E 144A	0.00	8/17/2009	8/20/2009	[redacted]
44386NAA9	Buy	8,000,000	HUDMZ 062 INCOME NOT	0.00	8/17/2009	8/20/2009	[redacted]
44386QAC8	Buy	11,000,000	HUDMZ 062 A2 144A	0.05	5/18/2010	5/21/2010	[redacted]
G71503AA7	Buy	7,500,000	PTPLS 0701 D REGS	81.72	4/19/2007	4/23/2007	[redacted]
730594AC2	Buy	10,000,000	PTPLS 0701 A2 144A	91.30	4/26/2007	5/1/2007	[redacted]
G71503AA7	Buy	15,000,000	PTPLS 0701 D REGS	10.00	7/24/2007	7/24/2007	BASIS CAPITAL FUNDS
730594AE8	Buy	2,000,000	PTPLS 0701 C 144A	0.00	7/2/2008	7/8/2008	[redacted]
88714PAC0	Buy	75,000,000	TWOLF 0701 A1B 144A	96.00	6/19/2007	6/19/2007	Bear Stearns Asset M
88714PAC0	Buy	125,000,000	TWOLF 0701 A1B 144A	96.00	6/19/2007	6/19/2007	Bear Stearns Asset M
88714PAD8	Buy	100,000,000	TWOLF 0701 A1C 144A	90.00	6/19/2007	6/19/2007	Bear Stearns Asset M

Supplemental Response Received From Goldman Sachs

CUSIP	BuySell	OrigFace	CurrFace	Bond Name	TradeDate	SettleDate	Counterparty
00255BAA5	Buy	12,500,000.00	12,500,000.00	ABACUS 068 A1 144A	11/12/2008	11/17/2008	[redacted]
00255BAA5	Buy	15,000,000.00	-	ABACUS 068 A1 144A	1/25/2010	1/28/2010	
00255BAA5	Buy	7,500,000.00	7,500,000.00	ABACUS 068 A1 144A	11/18/2008	11/21/2008	
00255BAB3	Buy	3,000,000.00	3,000,000.00	ABACUS 068 A2 144A	8/15/2008	8/20/2008	
00255BAB3	Buy	8,000,000.00	-	ABACUS 068 A2 144A	1/25/2010	1/28/2010	
00255TAA6	Buy	80,000,000.00	80,000,000.00	ABACUS 051 A1 144A	10/22/2009	10/27/2009	
002561AF5	Buy	135,000,000.00	135,000,000.00	ABACUS 06HGS1 AMSS 1	6/19/2007	6/19/2007	
002563AA2	Buy	10,500,000.00	10,500,000.00	ABACUS 06NS1 H 144A	2/15/2007	2/21/2007	
002563AB0	Buy	4,625,000.00	4,625,000.00	ABACUS 06NS1 J 144A	2/15/2007	2/21/2007	
002563AC8	Buy	5,000,000.00	5,000,000.00	ABACUS 06NS1 K 144A	2/15/2007	2/21/2007	
00256FAA5	Buy	62,000,000.00	62,000,000.00	ABACUS 055 A1 144A	10/22/2009	10/27/2009	
00256FAA5	Buy	42,000,000.00	42,000,000.00	ABACUS 055 A1 144A	2/12/2010	2/18/2010	
00256GAA3	Buy	3,000,000.00	3,000,000.00	ABACUS 054 A1 144A	8/22/2007	8/27/2007	
00256GAA3	Buy	22,000,000.00	22,000,000.00	ABACUS 054 A1 144A	11/28/2007	12/3/2007	
00256GAA3	Buy	25,000,000.00	25,000,000.00	ABACUS 054 A1 144A	3/12/2010	3/17/2010	
00256GAA3	Buy	120,000,000.00	120,000,000.00	ABACUS 054 A1 144A	4/14/2010	4/19/2010	
00256GAA3	Buy	50,000,000.00	50,000,000.00	ABACUS 054 A1 144A	5/17/2006	5/22/2006	
00256GAB1	Buy	7,000,000.00	7,000,000.00	ABACUS 054 A2 144A	10/25/2006	10/30/2006	
00256GAB1	Buy	7,000,000.00	7,000,000.00	ABACUS 054 A2 144A	3/12/2010	3/17/2010	
00256GAB1	Buy	7,000,000.00	7,000,000.00	ABACUS 054 A2 144A	5/17/2007	5/22/2007	
00256LAB0	Buy	10,000,000.00	10,000,000.00	ABACUS 053 B 144A	10/6/2009	10/9/2009	
00256LAB0	Buy	20,000,000.00	20,000,000.00	ABACUS 053 B 144A	8/13/2009	8/18/2009	
00256LAB0	Buy	21,000,000.00	21,000,000.00	ABACUS 053 B 144A	4/6/2010	4/9/2010	
00256LAB0	Buy	60,000,000.00	60,000,000.00	ABACUS 053 B 144A	2/12/2010	2/18/2010	
00256NAA8	Buy	6,000,000.00	6,000,000.00	ABACUS 053 E 144A	12/20/2006	12/28/2006	
00256NAD2	Buy	25,000,000.00	25,000,000.00	ABACUS 053 D 144A	3/29/2006	4/3/2006	
00256NAE0	Buy	10,000,000.00	10,000,000.00	ABACUS 053 D SR2 144	10/20/2009	10/23/2009	
00256PAC9	Buy	15,500,000.00	15,500,000.00	ABACUS 054 C 144A	7/12/2007	7/17/2007	
00256VAC6	Buy	10,000,000.00	10,000,000.00	ABACUS 05CB1 B 144A	8/18/2006	8/23/2006	
00256WAB6	Buy	250,000.00	250,000.00	ABACUS 05CB1 F 144A	6/20/2008	6/25/2008	
00256WAB6	Buy	1,356,500.00	1,356,500.00	ABACUS 05CB1 F 144A	11/13/2008	11/18/2008	
002573AA1	Buy	15,000,000.00	15,000,000.00	ABACUS 06NS1 A 144A	6/17/2008	6/20/2008	
002578AC6	Buy	15,000,000.00	15,000,000.00	ABACUS 0617 B 144A	12/11/2009	12/16/2009	
002578AC6	Buy	5,000,000.00	5,000,000.00	ABACUS 0617 B 144A	7/21/2009	7/24/2009	
002578AE2	Buy	10,020,000.00	10,020,000.00	ABACUS 0617 D 144A	3/24/2009	3/27/2009	
002578AJ1	Buy	12,780,000.00	12,780,000.00	ABACUS 0617 H 144A	2/15/2007	2/21/2007	
002578AK8	Buy	3,000,000.00	3,000,000.00	ABACUS 0617 J 144A	12/27/2006	12/29/2006	
002578AK8	Buy	8,760,000.00	8,760,000.00	ABACUS 0617 J 144A	2/15/2007	2/21/2007	
002578AL6	Buy	9,480,000.00	9,480,000.00	ABACUS 0617 K 144A	2/15/2007	2/21/2007	
002579AA8	Buy	6,000,000.00	6,000,000.00	ABACUS 0617 L 144A	2/15/2007	2/21/2007	
002579AB6	Buy	4,500,000.00	4,500,000.00	ABACUS 0617 M 144A	2/15/2007	2/21/2007	
002579AC4	Buy	3,000,000.00	3,000,000.00	ABACUS 0617 N 144A	2/15/2007	2/21/2007	
002579AD2	Buy	1,500,000.00	1,500,000.00	ABACUS 0617 O 144A	3/24/2009	3/27/2009	
002579AE0	Buy	750,000.00	750,000.00	ABACUS 0617 P 144A	3/24/2009	3/27/2009	
002579AF7	Buy	750,000.00	750,000.00	ABACUS 0617 Q 144A	3/24/2009	3/27/2009	
002579AG5	Buy	6,000,000.00	6,000,000.00	ABACUS 0617 FL 144A	3/24/2009	3/27/2009	
00257AAA5	Buy	3,326,008.00	3,326,008.00	ABACUS 0610 A 144A	1/27/2010	2/1/2010	
00257AAA5	Buy	406,552.00	406,552.00	ABACUS 0610 A 144A	12/1/2009	12/4/2009	
00257AAA5	Buy	15,000,000.00	15,000,000.00	ABACUS 0610 A 144A	10/20/2009	10/23/2009	
00257AAC1	Buy	6,000,000.00	6,000,000.00	ABACUS 0610 C 144A	7/21/2009	7/24/2009	
00257AAC1	Buy	1,000,000.00	1,000,000.00	ABACUS 0610 C 144A	5/18/2007	5/23/2007	
00257AAC1	Buy	5,000,000.00	5,000,000.00	ABACUS 0610 C 144A	7/12/2007	7/13/2007	
00257AAD9	Buy	4,000,000.00	4,000,000.00	ABACUS 0610 D 144A	7/21/2009	7/24/2009	
00257AAG2	Buy	4,500,000.00	4,500,000.00	ABACUS 0610 G 144A	7/23/2008	7/28/2008	
00257AAG2	Buy	3,562,500.00	3,562,500.00	ABACUS 0610 G 144A	7/11/2007	7/16/2007	
00257AAH0	Buy	5,000,000.00	5,000,000.00	ABACUS 0610 H 144A	7/11/2007	7/16/2007	
00257AAH0	Buy	1,500,000.00	1,500,000.00	ABACUS 0610 H 144A	10/17/2006	10/20/2006	
00257AAH0	Buy	3,400,000.00	3,400,000.00	ABACUS 0610 H 144A	3/6/2007	3/9/2007	
00257AAH0	Buy	9,062,500.00	9,062,500.00	ABACUS 0610 H 144A	10/14/2008	10/17/2008	
00257BAA3	Buy	15,000,000.00	-	ABACUS 0612 A1 144A	3/24/2010	3/29/2010	
00257CAA1	Buy	5,380,000.00	5,380,000.00	ABACUS 0610 L 144A	6/22/2006	6/27/2006	
00257CAA1	Buy	3,020,000.00	3,020,000.00	ABACUS 0610 L 144A	3/6/2007	3/9/2007	
00257CAA1	Buy	600,000.00	600,000.00	ABACUS 0610 L 144A	6/9/2008	6/12/2008	
00257CAC7	Buy	15,000,000.00	15,000,000.00	ABACUS 0610 M 144A	12/4/2006	12/7/2006	
00257HAE2	Buy	4,000,000.00	4,000,000.00	ABACUS 0613 E 144A	1/25/2010	1/28/2010	
00257HAF9	Buy	3,925,000.00	3,925,000.00	ABACUS 0613 F 144A	5/22/2007	5/25/2007	
00257HAF9	Buy	1,000,000.00	1,000,000.00	ABACUS 0613 F 144A	1/25/2010	1/28/2010	
00257HAF9	Buy	3,925,000.00	3,925,000.00	ABACUS 0613 F 144A	9/26/2008	10/1/2008	

CUSIP	BuySell	OrigFace	CurrFace	Bond Name	TradeDate	SettleDate	Counteparty
00257HAG7	Buy	4,000,000.00	4,000,000.00	ABACUS 0613 G 144A	5/22/2007	5/25/2007	[redacted]
00257HAG7	Buy	1,000,000.00	1,000,000.00	ABACUS 0613 G 144A	2/15/2007	2/21/2007	
00257HAG7	Buy	5,000,000.00	5,000,000.00	ABACUS 0613 G 144A	9/26/2008	10/1/2008	
00257HAH5	Buy	3,925,000.00	3,925,000.00	ABACUS 0613 H 144A	5/22/2007	5/25/2007	
00257HAH5	Buy	4,000,000.00	4,000,000.00	ABACUS 0613 H 144A	2/15/2007	2/21/2007	
00257HAH5	Buy	7,925,000.00	7,925,000.00	ABACUS 0613 H 144A	9/26/2008	10/1/2008	
00257HAJ1	Buy	4,937,500.00	4,937,500.00	ABACUS 0613 J 144A	5/22/2007	5/25/2007	
00257HAJ1	Buy	5,000,000.00	5,000,000.00	ABACUS 0613 J 144A	2/15/2007	2/21/2007	
00257HAK8	Buy	5,000,000.00	5,000,000.00	ABACUS 0613 K 144A	5/22/2007	5/25/2007	
00257HAK8	Buy	11,000,000.00	11,000,000.00	ABACUS 0613 K 144A	2/15/2007	2/21/2007	
00257JAA6	Buy	9,937,500.00	9,937,500.00	ABACUS 0613 L 144A	2/15/2007	2/21/2007	
00257JAB4	Buy	600,000.00	600,000.00	ABACUS 0613 M 144A	10/27/2006	11/1/2006	
00257JAB4	Buy	7,950,000.00	7,950,000.00	ABACUS 0613 M 144A	2/15/2007	2/21/2007	
00257JAC2	Buy	5,962,500.00	5,962,500.00	ABACUS 0613 N 144A	2/16/2007	2/22/2007	
G0010FAA5	Buy	1,000,000.00	1,000,000.00	ABACUS 043 A1 REGS	2/4/2008	2/7/2008	
G0010FAA5	Buy	3,000,000.00	3,000,000.00	ABACUS 043 A1 REGS	11/13/2006	11/16/2006	
G0010FAA5	Buy	40,000,000.00	40,000,000.00	ABACUS 043 A1 REGS	3/19/2007	3/22/2007	
G0010FAB3	Buy	20,000,000.00	20,000,000.00	ABACUS 043 A2 REGS	6/8/2005	6/13/2005	
G0010UAA2	Buy	25,000,000.00	25,000,000.00	ABACUS 057 A1 REGS	12/3/2007	12/6/2007	
G0010UAA2	Buy	30,000,000.00	30,000,000.00	ABACUS 057 A1 REGS	12/14/2007	12/19/2007	
G0010UAA2	Buy	35,000,000.00	35,000,000.00	ABACUS 057 A1 REGS	2/11/2008	2/14/2008	
G0010UAA2	Buy	10,000,000.00	10,000,000.00	ABACUS 057 A1 REGS	8/23/2007	8/28/2007	
G0010UAB0	Buy	30,000,000.00	30,000,000.00	ABACUS 057 A1 SR2 RE	2/8/2008	2/13/2008	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

CUSIP	BuySell	OrigFace	CurrFace	Bond Name	TradeDate	SettleDate	Counteparty
00256YAA4	Buy	20,000,000.00	-	ABACUS 07AC1 A2 144A	2/24/2010	3/1/2010	Bank of America NA -
00256YAA4	Buy	20,000,000.00	-	ABACUS 07AC1 A2 144A	3/24/2010	3/29/2010	Stone Tower Debt Adv

ATTACHMENT 5

Redacted By The Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

LB 1(b)(iv): For the data provided in GS MBS 0000039105, what was the reference entity for each trade? What is the difference between "Mtg Default Swap" and "Mtg Synth CDO"?

In response to the Staff's follow-up question, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 000008760) identifying the reference obligation underlying each of the credit default swaps. "Mtg Default Swap" and "Mtg Synth CDO" identified in the column titled "Security Type" distinguish the method used in processing the trade booking. "Mtg Default Swap" tends to include single name credit default swap trades. "Mtg Synth CDO" tends to include trades with multiple underliers.

Supplemental Response Received From Goldman Sachs

CONFIDENTIAL TREATMENT REQUESTED BY GOLDMAN SACHS

External Trade ID	Security Type	Counterparty	Notional	Rate	Eff Dt	Deal name	Reference entity	Buy/Sell Protection	CUSIP
SDB981927101A	Mtg Default Swap	[redacted]	17,500,000	1.25	2-Jul-07	ABAC0718AB	ABACUS LTD	Buy Protection	00257PAA2
SDB981512009A	Mtg Default Swap	[redacted]	5,000,000	4.73	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAG6
SDB981512012A	Mtg Default Swap	[redacted]	5,000,000	2.52	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAF8
SDB981516083	Mtg Default Swap	[redacted]	(5,000,000)	2.55	28-Feb-07	CAMBR7	CAMBER	Sell Protection	13189BAF8
SDB981651590	Mtg Default Swap	TIMBERWOLF I LTD GSI (GSI, GEORGE TOWN, TIMBERWOLF I LTD)	20,248,366	6.55	27-Mar-07	CAMBR7	CAMBER	Buy Protection	13189BAF8
SDB981732297A	Mtg Default Swap	[redacted]	4,778,000	0.77	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAB1
SDB981734986A	Mtg Default Swap	[redacted]	3,000,000	0.77	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAB1
SDB981734989A	Mtg Default Swap	[redacted]	2,224,000	0.77	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAB1
SDB981742135A	Mtg Default Swap	[redacted]	10,000,000	2.75	25-May-07	CAMBR7	CAMBER	Buy Protection	13189BAB1
SDB981916531.0B	Mtg Default Swap	[redacted]	1,588,000	5.72	29-Jun-07	CAMBR7	CAMBER	Buy Protection	13189BAE1
SDB981916531.2A	Mtg Default Swap	[redacted]	3,412,000	5.72	29-Jun-07	CAMBR7	CAMBER	Buy Protection	13189BAE1
SDB981918940	Mtg Default Swap	[redacted]	5,000,000	5.72	29-Jun-07	CAMBR7	CAMBER	Buy Protection	Not Available
SDB981963160A	Mtg Default Swap	[redacted]	1,588,000	0.77	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAE1
SDB981963195A	Mtg Default Swap	[redacted]	(1,588,000)	0.79	9-Jul-07	CAMBR7	CAMBER	Sell Protection	13189BAE1
SDB981963199A	Mtg Default Swap	[redacted]	3,412,000	0.77	28-Feb-07	CAMBR7	CAMBER	Buy Protection	13189BAE1
SDB981963221A	Mtg Default Swap	[redacted]	(3,412,000)	0.79	9-Jul-07	CAMBR7	CAMBER	Sell Protection	13189BAE1
SDB980892555	Mtg Synth CDO	Morgan Stanley NY (GSCM, New York, Morgan Stanley Capital Services Inc.)	1,200,000,000	0.2	05-Dec-06	HUDMZ061AAF	HUDSON MEZZANINE FUNDING	Buy Protection	21644AE9
SDB981417972A	Mtg Default Swap	GSC ELIOT BRIDGE MAS (GSI, NEW YORK, GSC ELIOT BRIDGE MASTERFUND I LTD)	15,000,000	0.48	31-Jan-07	HUDMZ061AAF	HUDSON MEZZANINE FUNDING	Buy Protection	443860AB7
SDB981415502	Mtg Default Swap	[redacted]	(20,000,000)	0.48	31-Jan-07	HUDMZ061AAF	HUDSON MEZZANINE FUNDING	Sell Protection	443860AB7
SDB981614615A	Mtg Default Swap	BASIS YIELD ALPHA (GSI, SYDENY, BASIS YIELD ALPHA FUND (MASTER))	50,000,000	0.9	18-Jun-07	TWOLF071	TIMBERWOLF LTD	Buy Protection	88714PAF3
SDB981614981A	Mtg Default Swap	BASIS YIELD ALPHA (GSI, SYDENY, BASIS YIELD ALPHA FUND (MASTER))	50,000,000	1.4	18-Jun-07	TWOLF071	TIMBERWOLF LTD	Buy Protection	88714PAG1
Not Available	Mtg Default Swap	[redacted]	403,400,000	NA	18-Apr-07	Point Pleasant	POINT PLEASANT FUNDING LTD	Sell Protection	PTPIX9YC0

[redacted] Supplemental Response Received From Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

ATTACHMENT 6

Transaction Name	Mortgage Capital Committee	Mortgage Capital Committee	Mortgage Capital Committee	Commitment Committee	Credit Committee	Other
Abacus 2007-AC1		GS MBS-E-005974542		GS MBS-E-013100361	GS MBS-E-019710908; GS MBS-E-002507886	GS MBS-E-005954148
Anderson Mezz	GS MBS 0000006309 - 10 (9/25/2006)	GS MBS-E-001957931 - 37 (9/25/2006)	GS MBS 0000020331-33 (9/27/2006)	GS MBS-E-000854537 - 694 (3/16/2007)	GS MBS-E-000894345 - 48 (3/2007)	GS MBS-E-000855351 - 87 (2/2007)
Camber 7	GS MBS 0000020942 - 43 (7/31/2006)	GS MBS-E-017184893 (7/31/2006)	GS MBS 0000020307 - 09 (8/2/2006)	GS MBS-E-000814198 - 470 (2/27/07)	GS MBS-E-000822355 - 58 (1/4/07); GS MBS-E-000822377 - 78(2/5/07)	GS MBS-E-000822102 - 82 (1/2007)
Fort Denison	GS MBS 0000020901-2 (unredacted) GS MBS 0000006252-53 (redacted)	GS MBS-E 000972833-36 (2/21/06); GS MBS-E 001121659-64 (2/28/06)		GS MBS-E-000842763 - 922 (2/9/07)	GS MBS-E-000974736 - 41 (12/28/06)	GS MBS-E-000974394 - 441 (1/2007)
Hudson Mezz 2006-1				GS MBS-E-001550191-378 (12/3/2006)	GS MBS-E-001557689 - 73 (10/20/2006)	GS MBS-E-001557726 - 59 (10/2006)
Hudson Mezz 2006-2				GS MBS-E-000808574 - 747 (2/6/2007)	GS MBS-E-000808984 - 89 (12/15/2006)	
Point Pleasant	GS MBS 0000006272 - 74 (5/8/2006)	DHED-415-002-006737 (5/8/2006)	GS MBS 0000004445 - 46 (5/10/2006)	GS MBS-E-000838920 - 9113 (4/16/2007)	GS MBS-E-009238909 - 12 (3/12/2007)	GS MBS-E-000857734 - 857774 (3/2007)
Timberwolf	GS MBS 0000006319 - 20 (11/13/2006)	GS MBS-E-010089465 - 72 (11/10/2006)	GS MBS 0000020354 - 57 (11/15/2006)	GS MBS-E-000873670 - 678 (3/23/2007)	GS MBS-E-000767460 - 64 (3/6/2007)	GS MBS-E-000884891 - 940 (3/2007)

Referenced documents are retained in the files of the Subcommittee. Where appropriate, documents related to Anderson Mezz, Hudson Mezz 2006-1, and Timberwolf are included in the applicable sections of the report.

Confidential Treatment Requested by Goldman Sachs

LB 2(f): Why were there no Mortgage Capital Committee memos for Hudson Mezzanine 2006-1 and Hudson Mezzanine 2006-2? What evidence suggests that Hudson Mezzanine 2006-1 was approved through an informal meeting? Who was involved in that informal meeting? Do any of the participants have documents that memorialize the decision? Who would have been responsible for presenting the deal in an informal setting? Was it necessary to get approval to review Hudson Mezzanine 2006-1 informally, rather than through the Mortgage Capital Committee? If so, please provide. Would an informal review of a CDO be in violation of Goldman Sachs policy? Why or why not? Were these CDOs discussed at any other regular meetings, such as the Firmwide Capital Committee or Firmwide Risk Committee? If so, please provide the complete records of these meetings.

The governance oversight for the origination and distribution of Mortgage CDO transactions was developed in the broader context of Goldman Sachs' origination and distribution practices during 2006-2007. This included standard business unit and business division approvals, review and approval of the underwriting role by the Firmwide Capital Committee or the Mortgage Capital Committee (a sub-committee of the Firmwide Capital Committee), and receipt of other transactional approvals and/or reviews by the relevant control areas and any appropriate committees. Firm policy allowed for committee meeting approval ("formal approval") and non-committee meeting approval ("informal approval") of the underwriting role. CDO transactions were also discussed at the Firmwide Risk Committee. Firmwide Risk Committee minutes discussing the Hudson transactions (therein referred to as the "CDO with indicies," "synthetic ABX CDO" and "ABX CDO") were previously produced to you bearing production numbers GS MBS 000004472-79 and GS MBS 000004484-85.

We have confirmed that Hudson Mezzanine Funding 2006-1 was approved by the co-chairs of the Mortgage Capital Committee (Dan Sparks and Jonathan Sobel). Goldman Sachs to date has not located any records memorializing approval of Hudson Mezzanine Funding 2006-1.

Supplemental Response Received From Goldman Sachs

Redacted By The Permanent Subcommittee on Investigations

Goshorn, Daniel (HSGAC)

From: Fredman, Sheara [Fin] [Sh
Sent: Wednesday, August 04, 2010 4:40 PM
To: Goshorn, Daniel (HSGAC)
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Subject: Re: Responses to PSI supplemental questions

Dan - the details you outlined below is consistent with what we discussed although with one clarification. The Point Pleasent CDO is still outstanding although all of the collateral was, in June of 2008, essentially liquidated.

The Realized Loss on Liquidation for the Timberwolf CDO arose from liquidation of assets once the CDO went into default. A third party broker was responsible for liquidating the collateral securities via auction. We do not have the details of what price the assets were sold. However, we do know the shortfall we incurred on the credit default swap protection purchases from the CDO.

Please let us know if you have additional questions.

Sheara

From: Goshorn, Daniel (HSGAC) <Daniel_Goshorn@hsgac.senate.gov>
To: Fredman, Sheara [Fin]
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Sent: Wed Aug 04 10:51:01 2010
Subject: RE: Responses to PSI supplemental questions

Hi Sheara,

Thank you for the follow up. I have a question on the collateral securities spreadsheet. Under the "TWolf" tab, what does the "Realized Loss on Broker Liquidation" line refer to? The other liquidated CDOs do not appear to have this.

Also, there are still two additional items from our phone call last week I'd like confirmation on. First is the date on which each of the CDOs became inactive. I had the following in my notes:

Anderson Mezzanine	Still Active
Camber 7	Still Active
Fort Denison	Inactive September 2008
Hudson Mezz 1	Inactive December 2008
Hudson Mezz 2	Still Active
Point Pleasant	Inactive June 2008
Timberwolf	Inactive June 2008

Would you please confirm the accuracy of these dates, and provide the exact month/day/year if that information is available?

Also, my notes state that Goldman Sachs experienced a gross gain on Hudson Mezzanine 2006-1 of $1.697 billion offset by a loss of $1.393 billion on the ABX index. For Hudson Mezzanine 2006-2, Goldman Sachs experienced a gain of $391 million, offset by a loss of $391 million on the ABX index. Would you please confirm these numbers?

Thanks,

Dan

Daniel Goshorn
Counsel
U.S. Senate Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, D.C. 20510
202-224-[redacted]
202-224-9505 - Main

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Fredman, Sheara [Fin] [mailto:Sheara.Fredman@gs.com]
Sent: Monday, August 02, 2010 7:40 PM
To: Goshorn, Daniel (HSGAC)
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Fredman, Sheara [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Subject: Responses to PSI supplemental questions

Dan,

As requested last week, attached is a spreadsheet detailing losses incurred on the price risk that Goldman Sachs has on the collateral securities within the requested CDOs. To the extent the bond was liquidated from the CDO, we calculated the loss based upon the price the firm valued the security when the security was acquired. To the extent the collateral securities are still held in the CDO, we included the unrealized loss the firm has recorded to date.

Additionally, you asked us to describe how the firm calculated net revenues earned from the credit default swap protection purchases on the Hudson Mezzanine Funding 2006-1 and 2006-2 transactions. As you are aware, the ABX index was introduced on January 19, 2006. In the following months, the firm, in its capacity as a market maker, sold protection on the ABX index to hedge funds, dealers and other market participants. This resulted in a multi-billion dollar long ABX position for the firm. In an effort to reduce that exposure, Goldman Sachs sponsored the Hudson Mezzanine Funding 2006-1 and 2006-2 transactions. Therefore, when calculating net revenues on the credit default swap protection purchases, we included the gains earned from the credit default swaps with the CDO as well as the losses incurred on the long ABX positions that motivated the Hudson Mezzanine 2006-1 and 2006-2 transactions.

Please note the following:

The information requested by the Subcommittee includes confidential internal documents and proprietary business records that Goldman Sachs does not make available to the general public. Goldman Sachs is producing these documents pursuant to Senate Rule XXVI and formally requests that these materials be treated as confidential business records. Accordingly, should you wish to publicly release any of these documents, Goldman Sachs respectfully requests reasonable notice of your intent to do so and the opportunity to object to such a release.

Goldman Sachs used various technology and manual resources to generate some of the documents for production to you in response to your Requests. While Goldman Sachs believes that these documents are reasonably accurate, we cannot make an absolute representation that it is complete or that there are not some inadvertent errors in the preparation of the spreadsheet. We will provide further updates or corrections if we discover missing information or errors.

Please confirm receipt.

Regards,

Sheara

Goldman, Sachs & Co.
200 West Street | New York, New York 10282
Tel: (212) [redacted]
e-mail: sheara.fredman@gs.com

Sheara Fredman
Managing Director
Finance Division

Goldman
Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Confidential Treatment Requested by Goldman Sachs

LB 1(b)(v): Why did Goldman receive no underwriting fees for Timberwolf, Anderson and Point Pleasant? What was the warehouse carry for each deal? What were the put fees collected (both total dollar amount and basis points)?

In lieu of an underwriting fee, Goldman Sachs retained equity positions in the Timberwolf, Anderson Mezzanine and Point Pleasant CDOs. In response to the Staff's follow-up questions, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000087072) identifying the warehouse carry and put fees collected for each deal.

Supplemental Response Received From Goldman Sachs

Confidential Treatment Requested by Goldman Sachs

Does the information in GS MBS 0000087072 now incorporate all profit and losses for each of the seven deals? If there are any other sources of revenue or losses for Goldman Sachs (*e.g.*, Liquidation Agent fees, collateral Disposal Agent fees) could you please break those out as well.

Goldman Sachs attaches a spreadsheet (bearing production number GS MBS 0000087090) updating the information the firm previously provided in GS MBS 0000087072. The attached spreadsheet provides information on "warehouse synthetic premiums" and updates the information that Goldman Sachs previously produced on "losses incurred on retained inventory." During Goldman Sachs' review of the information provided in GS MBS 0000087072, the firm determined that the information provided in the "losses incurred on retained inventory" column inadvertently omitted losses on retained positions that were issued pursuant to SEC Regulation S (as opposed to SEC Regulation 144). Goldman Sachs has corrected this inadvertent mistake in the attached spreadsheet and is aware of no other sources of revenue that should be included in the spreadsheet.

Supplemental Response Received From Goldman Sachs

GS MBS 0000067080

Net Revenues for Specific CDOs
Privileged and confidential
($ in millions)

	Deal Information							Issued liabilities		Net Revenues									
	Name	Closing date	Managed	Portfolio advisor or similar role	Original notional balance	Cash reference obligations	Synthetic reference obligations	Unfunded swap trades	Cash instruments issued by deal	Underwriting fees	Warehouse cash reference obligations carry[2]	Warehouse synthetic premium	Gains from protection purchases	Put fees (in bps)	Put fee revenues[3]	Losses incurred on collateral securities	Losses incurred on retained inventory	Gains on deal specific hedges	Total
1	Fort Denison Funding	2/14/2007	Yes	Basis Capital Securitization Pty. Ltd.	500	500	0	0	505	5	0	0	0	0	0	0	(7)	0	(1)
2	Camber 7	2/28/2007	Yes	Cambridge Place Collateral Management LLC	900	31	869	0	916	10	0	5	196	Sops	0	(337)	(21)	0	(145)
3	Timberwolf	3/27/2007	Yes	Greywolf Capital Management LP	1,000	70	930	0	1,017	0	1	2	330	0	0	(226)	(917)	65	(455)
4	Anderson Mezz	3/20/2007	No	N.A.	305	5	300	0	307	0	0	2	131	0	0	(122)	(185)	0	(173)
5	Point Pleasant	4/18/2007	No	Dilton Road Capital Management LLC	1,009	0	1,009	403	611	0	0	3	73	Sops	0	(113)	(225)	0	(262)
	Total				3,714	606	3,108	403	3,356	16	1	11	732		0	(798)	(1,354)	66	(1,036)
	Hudson Mezz[1]																		
6	Hudson Mezz 06-1	12/5/2006	Yes	N.A.	2,000	0	2,000	1,200	837	30	0	0	304	Sops	1	(111)	(267)	0	(43)
7	Hudson Mezz 06-2	2/8/2007	Yes	N.A.	400	0	400	0	408	5	0	0	0	Sops	0	(109)	(153)	0	(257)
	Total				2,400	0	2,400	1,200	1,245	35	0	0	304		1	(220)	(420)	0	(299)

1 - The Hudson Mezzanine deals were initiated by the firm as the most efficient method to reduce long ABX exposure. As a result, we have included the losses incurred on the long positions which predicated the deal in the "Gains from protection purchases" amounts.
2 - Warehouse carry earned on cash securities was less than $500,000 for all deals except for Timberwolf.
3 - Fees earned as collateral put provider were less than $500,000 for all deals except for Hudson Mezz 06-1.

Supplemental Response Received From Goldman Sachs

Confidential Treatment Requested by Goldman Sachs

Question 1: First, are the liquidation agent fees included in the underwriting fees section? (This question applies for Anderson as well.) If so, could you please break out the revenue for each CDO?

The Liquidation Agent Fees for Hudson Mezzanine 2006-1 and Hudson Mezzanine 2006-2 were not included in the previously provided spreadsheet (bearing production number GS MBS 0000087090). The amount Goldman, Sachs & Co. received was approximately $3.1 million for Hudson Mezzanine 2006-1, $0.5M for Hudson Mezzanine 2006-2 and $0.2 million for Anderson.

Question 2: Second, it is our understanding that in order to reference the underlying single-names in the ABX index for Hudson Mezz 1 and 2, dedicated accounts were created for each CDO that were long ABX and short the corresponding single-name assets. It is also our understanding that these accounts had a net positive carry for the SPG desk. If you could please provide P&L information for each of these accounts in order to round out the CDO P&L data, we would appreciate it.

The account that maintained the long ABX position offset by a short position of the constituents of the ABX index earned approximately $1.2 million for Hudson Mezzanine 2006-1 and approximately $0.6 million for Hudson Mezzanine 2006-2.

Supplemental Response Received From Goldman Sachs

ATTACHMENT 7

United States
Policies for the Preparation, Supervision, Distribution and Retention of Written And Electronic Communications



GOLDMAN, SACHS & CO.

February 1, 2001

Confidential Treatment
Requested by Goldman Sachs

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I. Introduction

Goldman Sachs communicates with its customers (including private individuals, institutions and other broker/dealers), counterparties, and the general public in many ways. The integrity of these communications is essential to the firm's reputation and success. Therefore, with this manual, the firm is setting forth its policies regarding the preparation, supervision, distribution and retention of all written and electronic communications relating to our business.

For the purposes of these policies, *"communication"* is defined very broadly. It includes any and all written or electronic communication — from formal recommendations to casual opinions and thoughts relating to our business. It includes words, diagrams, pictures, graphs, and images. And it does not matter whether these be conveyed by note, letter, prospectus, advertisement, e-mail, television or radio broadcast, or any other means or media. Although these policies do not specifically cover oral communications, the same content guidelines apply to oral communications.

The policies stated in this memorandum outline the firm's expectations and requirements with respect to communications with the public relating to any business of the firm. Individual divisions or business units may establish policies that supplement or supercede parts of the policies outlined here. In addition, the section entitled *"Firm Expectations of Employee Conduct"* in the firm's Employee Handbook contains standards and guidelines that apply to the communications covered here.

Therefore, this manual must be read and implemented in conjunction with the applicable Divisional Compliance policies and the requirements of the Employee Handbook. You are responsible to know the additional requirements of the Handbook and those of your division and business unit.

Business units and **Divisional Compliance** will be responsible for communicating the contents of these policies and any related divisional or regional policies by distributing them to all appropriate personnel, by distributing any periodic updates or revisions to them, and through both new employee and on-going training programs.

While business units and **Divisional Compliance** are responsible for communicating policies, it is the responsibility of each individual to understand the rules of the firm and of the businesses in which s/he works. **Failure to comply with the policies may result in disciplinary action, including potential separation from the firm.**

As with any compliance issues, the most important thing is that you be aware of your responsibilities and seek clarification and help if you have any questions. If you have any questions about the application or interpretation of these standards and requirements or about possible exceptions to them, speak with your **Divisional Compliance** officers, to Central Compliance or the Legal Department.

II. Categorization of Communications

While these policies apply to all written and electronic communication, there are three categories of communications for which there are specific rules. These categories are **advertisements, sales literature,** and **sales correspondence**. There are two types of content that merit special attention, as well. These are **research** and **recommendations.** These categories of communication and types of content are defined below.

A. Categories of Communication

Advertisements

An advertisement is any written or electronic communication relating to the firm's securities business that is made publicly available in such a way that the individual recipients are not known to and cannot be limited by the firm. In other words, the firm does not have control over who receives, sees, or hears an advertisement.

An advertisement may include material published or designed for use in a newspaper, magazine or other periodical, radio, television, telephone or tape recording, on a generally accessible website or in or on another publicly available medium.

Advertisements must conform to standards established by Corporate Communications and must be approved before use (as described later in this manual).

Sales Literature

Sales literature is any written or electronic communication relating to the firm's securities business that is sent or made available to multiple public recipients who are known or directly targeted by the firm.

Sales literature may include, but is not limited to, circulars, research reports (including most of the publications of the firm's Investment Research Department), market letters, performance reports or summaries, and form letters. Sales literature also includes the written text of any communication delivered orally to a broad audience, such as a telemarketing script or a seminar text and material posted on password-protected websites available to clients.

The key characteristic of sales literature is that it is addressed to multiple recipients specifically targeted by the firm.

As is the case with advertisements, sales literature must be approved before use (as described later in this manual).

Sales Correspondence

Sales correspondence is any written or electronic communication (other than that classified as advertising or sale literature) that is sent or made available to a current or prospective customer by a salesperson involved in the firm's securities business or by a person who is soliciting fee-based investment advisory or management services.

The key characteristic of sales correspondence is that it is directed to a specific recipient. It may or may not need to be approved prior to use.

B. Research and Recommendations

Sales literature and sales correspondence may include a ***recommendation to a customer*** and, in certain contexts, may constitute ***research***. Recommendations and research each has its own approval process, and research requires specialized legends, which are discussed later in this manual. For the purposes of this manual:

- ***Research*** is an analysis of individual companies, industries, market conditions, or securities or other investment vehicles that provides information reasonably sufficient upon which to base an investment decision. While reports prepared by one of the firm's investment research departments generally fall into the category of research, materials prepared by other personnel also may constitute research under applicable regulations. Research does **not** include publicly available information, consensus data, or data attributable to management of the company being discussed.

- A ***recommendation*** to a customer is the promotion or endorsement of a transaction involving a security.

Note that there are significant restrictions on including any research or recommendations in marketing materials for asset management services. Consult **Divisional Compliance** policies for further guidance.

C. General Communication

As stated above, although these particular categories and types of communication require special attention, except where otherwise noted, this manual covers all written or electronic communication with the public relating to any business of the firm.

III. Content Standards

A. General Standards

No matter what you are communicating to the public, your words reflect on the reputation of the firm. Furthermore, the firm can be held accountable for what you communicate. The firm, therefore, requires that your communication reflect the high standards of the firm, not only in what you say, but also in the way you say it.

The following are general standards and requirements that the firm expects all of its employees to understand and follow in all of their communications.

Truthfulness and Completeness

Communications may not omit material facts or include untrue or misleading statements. Keep in mind that the level of detail or explanation necessary to make a communication clear, accurate, and understandable will depend, in part, on the breadth and sophistication of the intended audience and the complexity of the subject matter. For example, communicating complicated material or the lack of financial sophistication of the recipient will often warrant a more detailed presentation.

Professionalism and Good Taste

- All communications should be professional and in good taste. Of course, your communications should never contain obscene, offensive, or otherwise inappropriate, unprofessional, or unlawful language. Remember, that you do not control and you cannot always predict who the reader will be.

- Write using standard, formal written language. Pay attention to proper grammar and accurate word usage.

- Avoid superlatives and exaggerations.

- Communicate succinctly. Stay strictly to the topic of your communication. Do not include any gratuitous comments.

- Remember, your business communications become part of the official records of the firm. Regulators and other third parties may have access to these communications in the case of dispute, litigation, or criminal action.

Records of Past Performance

Any communication that portrays past performance of recommendations or actual transactions must be balanced and not misleading. In particular:

- Past performance may not be used to promise or suggest, directly or indirectly, future profits or income, nor may it be presented as indicative of future performance.

- Records or statistics must:

  - disclose the existence of any relevant costs (*e.g.*, commissions and interest charges, if applicable).

  - be clearly defined as to scope (i.e., the universe of securities or transaction types covered) and context.

  - cover at least the most recent 12-month period, if available.

- Whenever annualized rates of return are used:

  - All material assumptions used in the process of annualization must be disclosed.

  - The date and price of each initial recommendation or transaction and the date and price at the earlier of when liquidation was suggested or effected must be included.

  - Summaries or averages may be presented so long as they include the total number of items recommended or transacted, the number that advanced and declined, and an offer to provide the complete record upon request.

Finally, the communication should include an indication of general market conditions during the relevant period (*e.g.*, the performance of the S&P 500). Any such comparison should be reasonable.

Note that there are special requirements for showing past performance of mutual funds and separate account composites, and for certain other investments (*e.g.*, options). Consult **Divisional Compliance** policies for further guidance.

Speculating on Litigation Results

Do not speculate on or predict the outcome of any litigation involving the issuer of a security.

Guarantees

Do not make any guarantee of profit or against loss, or offer any promise of specific results.

Projections and Predictions

Communications may include projections and predictions (including forecasts of financial performance), but those projections and predictions must:

- Be based on reasonable assumptions.
- Be clearly labeled as opinion.
- Include a description of the assumptions and information upon which projections and predictions are based or indicate that the underlying assumptions and information are available upon request.

Hypotheticals that look backwards in time and recalculate performance based on stated assumptions are not necessarily subject to the same standard of reasonableness as forward-looking projections or predictions. This is because with backward-looking projections evidence of what actually occurred is always available for consideration. The availability of actual data limits the danger of acting on an unreasonable assumption. Forward-looking projections, on the other hand, require more care.

Note that significantly stricter standards apply to the use of forward-looking or backward-looking projections in connection with asset management services. Consult **Divisional Compliance** policies for further guidance.

Balance of Risks and Potential Rewards

Any discussion of the merits of a potential investment should be balanced with a discussion of its risks. The discussion must also provide enough information to allow the recipient to understand the full nature of the investment and of its potential risks and rewards.

Suitability of Investments

Communications may not state or imply that any particular investment is suitable for **all** investors.

Subject to otherwise applicable firm policies on suitability and requirements to "know your customer," communications may state that an investment is suitable for a particular customer or class of similarly-situated customers.

Rumors

Communications may not circulate or encourage dissemination of unsubstantiated rumors. Therefore, it is the policy of the firm to make no comment on rumors whatsoever, even to deny rumors you believe to be untrue.

Dating Communications

All communications should be appropriately dated. Any significant information that is more than six months old or otherwise is not reasonably current must be noted.

Identifying Sources

All communications should include the firm's name and, when appropriate, the name of the person who prepared the communication.

Disclosure of Client Names and Positions

Names of clients of the firm and their assets, objectives, and positions are confidential and may not be disclosed outside of the firm, or to anyone within the firm without a "need to know". Despite this general rule, the name of a client may be disclosed with the client's consent, if permitted by applicable **Divisional Compliance** policies.

B. Providing Customers with Valuations of Their Positions

Because valuations of positions can be used for a variety of reasons (risk management, accounting, as the basis of trading decisions, margining, etc.) it is imperative that valuations are carefully prepared and that both the valuations themselves and the basis on which they have been calculated are communicated clearly and completely.

Check individual divisional policies for requirements as to the form and content of valuations and as to any disclosure statements (hedge clauses) that may be required to be used.

C. Third Party Material and Testimonials

Attribution of Sources

Using outside sources without attribution is plagiarism. Plagiarism is a serious breach of the firm's standards and exposes the firm to significant legal and reputational risk. Therefore:

- All material — whether words, graphs, charts, analyses, or other matter taken from outside sources, and whether directly quoted or simply referred to — **must be** properly attributed. This includes paraphrases and summaries of discussions.
- Attribution may appear in footnotes or in the text.
- The attribution must be specific. Generic phrases such as "experts claim" or "market sources agree" are not sufficient or acceptable.

- Any market letter or research report prepared by an outside organization must identify the preparer and not give the impression that it was prepared by Goldman Sachs. See divisional policies regarding the use of such third-party material.

Testimonials

A testimonial is a quotation from a customer or outside expert expressing support for a Goldman Sachs product or activity. Any testimonial must be accompanied by a disclaimer, the substance of which includes the following:

- That the testimonial may not be representative of the experience of other customers.
- That the testimonial is not indicative of future performance or success.
- That it is a paid testimonial (if more than a nominal sum was paid for the testimonial).
- That the person making the testimonial has the knowledge and experience to form a valid opinion (if the testimonial concerns a technical aspect of investing).
- That the person making the testimonial has a relationship with the firm (if such a relationship exists).

If a testimonial is used in an advertisement, the Corporate Communications Department must also be consulted. **Testimonials are prohibited in any communication related to asset management services.**

D. Copyright Issues

Using published material from sources outside of the firm, with or without attribution, may constitute a copyright infringement. Copyright rules differ from situation to situation and from jurisdiction to jurisdiction.

Note that copyright rules are not restricted to printed material. They extend to material published in other media, including the Internet.

You should consult the section entitled "*Copyrighted Materials*" in the Employee Handbook.

E. Recommendations of Securities Transactions by Securities Salespeople*

Suitability of Recommendations Made to Customers

Prior to recommending that a customer purchase, sell or exchange any security, salespeople must have reasonable grounds for believing that the recommendation is suitable for that particular customer upon the basis of the facts disclosed by the customer as to his/her other security holdings, investment objectives and financial situation.

Know the Security Being Recommended

The suitability concept also requires a salesperson to have an adequate and reasonable basis for his/her recommendation of a particular security. This requires familiarity with the characteristics (including potential risks and rewards) of the security being recommended. Therefore, salespeople must "know their security", as well as their customer.

Determining Whether a Recommendation is Made

A broad range of circumstances may cause a transaction to be considered recommended, and this determination does not depend on the classification of the transaction by divisional policies as "solicited" or "unsolicited." In particular, a transaction will be considered to be recommended when a representative of the firm brings a *specific* security to the attention of a *particular* customer (or group of customers) through any means, including telephone, mail, e-mail or fax.

Trade Ideas

Firm employees frequently provide so-called "trade ideas" to multiple recipients. Such trade ideas are designed to help clients take advantage of market conditions and intelligence, but are not intended to be specific buy/sell recommendations for specific clients or customers. Characteristics of trade ideas frequently include:

- Market situations to watch closely.
- "If/then" suggestions, such as: "If your position is X, consider taking advantage of Y"; "if a security begins to do A, consider taking action B."
- Delivery to multiple recipients, rather than to specific clients.
- Suggestions about a range of actions rather than a specific transaction.

* Note that the requirements of this section apply to securities brokerage (including discretionary brokerage) accounts. For advisory account requirements, consult Divisional Compliance policies.

- Common distribution via e-mail.

Such trade ideas are not considered to fall within the definition of a recommendation.

Seeking Additional Guidance

In sum, whether a particular transaction is in fact recommended depends on an analysis of all the relevant facts and circumstances. Therefore, employees are required to be familiar with divisional policies on recommendations and suitability, and are encouraged to consult their Divisional Compliance personnel or the Legal Department for assistance in answering any questions.

F. Recommendations Contained in Research Reports*

When a recommendation to a customer is made in advertisements or sales literature (including the firm's published research), the market price of the security at the time of the recommendation must be indicated and the following information must be disclosed:

- Whether the firm makes a market in the security or will buy or sell the security on a principal basis
- Whether the firm was a manager or co-manager of any public offering by the issuer within the past three years
- Whether the firm, its officers, or any personnel involved in preparing the communication may have positions in the securities or options of the issuer
- Whether the firm or any of its employees is a director of the issuer.

The publication of all research reports must be approved by one of the firm's investment research departments, which will add any additional required disclosures.

G. Restricted Trading List Securities

Sales correspondence may not include discussion of, nor may a salesperson recommend transactions in, any security on the firm's Restricted Trading List without the **prior approval** of the Central Compliance Control Room.

Asset management personnel should refer to their Divisional Compliance policies which, in some instances, may differ from the foregoing.

* Note that the requirements of this section apply to securities brokerage (including discretionary brokerage) accounts. For advisory account requirements, consult Divisional Compliance policies.

H. Hedge Clauses

The proper hedge clauses must accompany all advertisements and sales literature. The hedge clauses may not be misleading or inconsistent with the content of the communication.

The required hedge clauses vary based upon product, country, recipient and a number of other factors. Therefore, contact Divisional Compliance to determine the proper hedge clauses to use on any material sent to third parties on behalf of the firm.

I. Internal-Use-Only Documents

No written or electronic communication marked (or customarily handled as) "for internal use only" or "for broker use only" may be distributed, in whole or in part, to anyone outside of the firm. This includes e-mail and material on the internal website.

If a particular business unit determines that material originally prepared for internal or broker-only use becomes appropriate for dissemination to the public, any internal use designation must be removed and all appropriate approval procedures and standards governing outside written communications, as detailed in this document, must be satisfied.

J. Distributing "To All" Memoranda

"To All" memos, whether distributed by memo, e-mail or other means, must be approved as described in the section entitled "*Firmwide Memoranda*" in the Employee Handbook.

K. Dissemination of Information Concerning The Goldman Sachs Group, Inc.

The NYSE prohibits any recommendation or solicitation with respect to the common stock of The Goldman Sachs Group, Inc. Accordingly, only the Investor Relations or Corporate Communications Departments are authorized to make any comments regarding The Goldman Sachs Group, Inc.

L. Registered, Publicly-Offered Securities (other than GSAM Mutual Funds)

The U.S. securities laws impose severe restrictions on the distribution of any written materials in the United States by participants in a U.S. registered public offering (including both IPOs and follow-on offerings) in connection with such offering other than the most

recent "red herring" prospectus and, after the offering is priced, the final prospectus. It has always been the firm's policy to adhere strictly to these requirements. In addition, it is the firm's policy to apply these requirements in a variety of other circumstances.

These restrictions are as follows:

- No written materials may be distributed outside the firm in the United States in connection with any U.S. registered public offering (both IPOs and follow-on offerings) other than the "red herring" prospectus and, after pricing of the offering, the final prospectus. This includes e-mails (including responses to clients' e-mails to us), faxes, and any other method of written communication. For example, neither the sales memorandum for the offering nor any portion thereof (nor any summary thereof) may be distributed outside the firm. In addition, only the entire "red herring" or final prospectus may be distributed; employees must not distribute selected pages from a prospectus, nor highlight or draw attention to selected portions of the prospectus. These restrictions continue in effect for the first 25 days after the pricing of a U.S. registered IPO.

- It is firm policy, in connection with U. S. registered public offerings, to observe the foregoing restrictions with respect to the distribution of written materials outside the U. S.

- It is also firm policy to observe the foregoing restrictions with respect to the distribution of written materials, both inside and outside the U. S., in connection with Regulation S and Rule 144A offerings.

Any exceptions to the first of the foregoing restrictions must be approved by the Legal Department or a senior member of the Special Execution Group. Any exceptions to the second or third of the foregoing restrictions must be approved by a member of the Commitments Committee in consultation with a senior member of the Special Execution Group.

IV. Reviews and Approvals

A. General

Responsibility for obtaining reviews

In general, the employee preparing and sending a communication is responsible for obtaining any necessary approvals and for following the appropriate procedures for retention and review.

Documents previously approved

In certain instances, divisional policies may designate certain material sent to specified recipients as "pre-approved", in which case the pre-approved documents do not have to be re-approved each time they are sent.

Any additional correspondence accompanying the approved documents, such as a cover letter or note, may have to be approved, depending on the substance contained in it. For instance, casual correspondence, thank you notes, confirmations or schedules for meetings, invitations, and other correspondence that does not relate to business does not require approval.

Reviewer's Signature

When approval is required, the reviewer must initial or sign and date the firm's retained copy of any written communication (or, for certain business units, *a "Compliance Cover Sheet"*) to indicate and record his/her review and approval or maintain a comparable record.

In cases where electronic correspondence requires approval, a record of the review and approval must be maintained. The nature of that record — an addition to the electronic file, a log file of reviews, a physical record on a hard copy, or other means — can be determined by the business unit. Whatever the nature of the record, it must clearly indicate the reviewer's approval and maintain a clear audit trail to the reviewed communication.

Advertisements and Sales Literature

In general, advertisements must be approved in advance by the Corporate Communications Department in order to assure compliance with firm-wide identity, branding, logo and other standards. In some divisions, this approval process may be handled by Divisional Compliance. In addition, advertisements related to the firm's sales and trading of securities must be approved prior to first use or first availability by a registered principal in the relevant business unit.

All sales literature must also comply with firm-wide design and content standards established by Corporate Communications. In addition, sales literature related to the firm's sales and trading of securities must be approved, prior to first use or availability, by a registered principal in the relevant business unit.

For any options-related sales literature, the approving registered principal must be the Compliance Registered Options Principal (CROP) or the CROP's designee.

Research reports must be approved by a supervisory analyst prior to issuance.

SRO Filing Requirements

Certain product-specific sales literature and advertisements (e.g., certain investment company-related materials, CMO-related advertisements, and options-related educational materials) must be filed with an appropriate SRO (NASD, CBOE, etc.) at least 10 days prior to first use or first availability. Approvals must be sought from the appropriate registered principal or Corporate Communications early enough to meet the 10-day filing requirement.

B. Review of Certain Outgoing Correspondence

Outgoing correspondence with the public by registered representatives and associated persons involved in the sale of securities, whether in hard-copy, fax, e-mail or other electronic format, will be subject to review by a registered principal or his/her designee.

Each division or business unit involved in the firm's broker/dealer business may approach the review of outgoing correspondence in one of two ways:

- Review **all** outgoing sales correspondence **before** it is sent; or
- Review a **sample** of outgoing sales correspondence **after** it is sent.

Guidelines for developing a sampling program appear in the Appendix at the end of this manual. Check your Divisional Compliance policies for the procedures applicable to you.

A copy of all such correspondence, no matter the medium in which it is delivered, must be retained in accordance with procedures established by the applicable division and must be readily available for review. The person who reviewed the correspondence must be easily ascertainable. Finally, the outgoing communications file will be subject to periodic review to assure compliance with these requirements.

Compliance with the requirements of these policies will be a subject of discussion at annual or other periodic performance reviews and will be the subject of remedial action, if required.

Confidential Treatment
Requested by Goldman Sachs

Compliance with the requirements for review of communications (including appropriate monitoring, testing, and documenting of results and evaluation of effectiveness) are subject to annual Central Compliance review and will be included in the Management Controls Department's periodic audits.

C. Review of Incoming Correspondence

All incoming written and electronic correspondence from the public directed to registered representatives and associated persons involved in the sale of securities are also subject to the firm's supervision and review in accordance with divisional procedures. Except for written correspondence (i.e., material in paper form) sent to registered representatives (all of which must be reviewed as described below), divisional policies may provide for either review of all such correspondence or a sample selected in substantially the same manner as outgoing correspondence.

Review of Incoming Written Correspondence Sent to Sales Representatives

In order to provide early notice of potential sales practice issues and customer complaints, and to help ensure proper handling of customer funds and securities, a registered principal or his/her designee will review all incoming written correspondence (i.e., correspondence in paper form) that is directed to registered representatives involved in the sale of securities. To facilitate this review:

- The correspondence will be opened by, or in the presence of, an authorized individual (a principal or his/her designee) to identify any possible complaints and to remove customer funds and securities.
- The individual reviewing the correspondence will, after the review is completed, forward the material as appropriate for proper retention.
- Funds and securities will be forwarded to the personnel responsible for custody of funds and securities in the office in which the funds or securities were received. These items should be delivered by hand, if possible, or by an alternative delivery method approved by the firm's operations officials.
- Any correspondence containing a possible customer complaint must be handled as described in the following section.

Correspondence that can be readily identified as regulatory bulletins, research or promotional material, advertising, periodicals, fund raising appeals or similar non-customer material need not be subject to this procedure.

Confidential Treatment
Requested by Goldman Sachs

Treatment of Customer Inquiries and Complaints

As a matter of good business practice, it is the firm's policy to handle and resolve any customer or client inquiry expeditiously, especially when it regards proper handling of business solicitations, transactions, and customer securities or funds. In addition, the Legal Department and Central Compliance will designate certain types of inquiries as "customer complaints," which require specific handling and regulatory reporting.

To make sure that all inquiries and potential "customer complaints" are handled expeditiously and properly, both from the business and regulatory points of view, employees must observe the following procedure.

Any employee who receives a written, electronic, or oral communication from a customer or any person acting on behalf of a customer alleging a grievance involving the solicitation or execution of any transaction or the disposition of securities or funds of that customer must report it to his or her supervisor immediately. A copy of the communication (unless it is oral) must be sent immediately to the supervisor.

The supervisor will first determine whether the communication **might** be classified as a "customer complaint". If the supervisor considers the communication to be a possible complaint, the supervisor will notify and forward copies of the communication to the Director of Central Compliance, the Legal Department and Divisional Compliance.

The Legal Department or Central Compliance will determine whether the inquiry actually constitutes a "customer complaint." If it does, Central Compliance will be responsible for reporting the complaint as required by regulation. The Legal Department will coordinate the firm's response to the communication and advise the Central Compliance Department and Divisional Compliance of the resolution.

Regulatory Inquiries and Litigation

Any complaint, notice, subpoena, interrogatories or other document relating to a litigation matter, an arbitration proceeding, or a regulatory investigation should be forwarded immediately to the Legal Department. See the section entitled "*Legal Matters*" in the Employee Handbook.

D. Handling of Sales Literature and Correspondence Off Firm Premises

Written Material

All sales literature and sales correspondence must be sent to and from the premises of the firm to facilitate proper supervision.

E-mail and FAX Communications

All electronic communications, including e-mail and fax traffic, concerning firm business that is to or from customers must be sent and received from or to a firm e-mail address or firm fax machine or from and to a firm-approved third-party computer system .

Therefore:

- All e-mail traffic concerning firm business that is to and from the public **must** take place at the firm's premises or be routed through firm-provided, secure equipment.

- Faxes containing sales literature or sales correspondence must be sent from and to the premises of the firm. Personnel who are out of town on business should route faxes to the firm where they will be forwarded to the appropriate recipients.

Additional policies concerning e-mail and other electronic communications are contained in the Employee Handbook.

Employees working from home offices

All sales correspondence from or to employees working from home offices must be routed through regional offices for purposes of review, approval, distribution and retention.

Employees working from home offices **may not** direct customers to send correspondence to the home office.

Employees may not send faxes containing sales literature or sales correspondence to customers or potential customers from home fax machines unless Divisional Compliance has approved such communication and established procedures for its supervision and retention.

V. Retention

A. Material Relating to Securities Business

All written or electronic advertisements, sales literature, sales correspondence and other communications related to the firm's broker/dealer business must be retained for a minimum period of three years, except that:

- Communications relating to commodities or futures or options on commodities or futures must be retained for a minimum of five years.
- Communications relating to customer complaints must be retained for eight years.
- Communications relating to asset management services must be retained for six years.

Supervisors must retain evidence of supervisory reviews and approvals for the same periods.

B. Other Material

Retention of all other material will be in accordance with requirements established by individual divisions or business units.

Confidential Treatment
Requested by Goldman Sachs

VI. Other Issues

A. Education and Training

The firm's policies and procedures regarding written and electronic communications may be included in the firm's required annual compliance meeting and will otherwise be a part of the firm's continuing education program.

B. Monitoring

The policies set forth above will be subject to periodic review by the firm's Management Controls Department.

VII. Appendix

Appendix 1. Guidelines for Sampling Correspondence

Divisions or business units may set up a system of reviewing appropriate samples of outgoing sales correspondence after they have been distributed.

If the division or business unit selects a sampling approach, regulations require that:

- Specific procedures must be designed and documented to provide reasonable supervision of each representative who conducts business with the public.

- The sampling techniques must be designed so that they can reasonably detect any potential violation of regulations under which the firm and its individual business units and divisions do business. Sampling levels must be set to provide statistically acceptable results. These levels must be determined in consultation with technology experts, business people, and the Legal and Compliance Departments. They will be reviewed periodically to assure reasonable accuracy and effectiveness.

In developing a sampling system, a number of additional factors should be taken into account:

- In determining the level of supervision appropriate for each sales representative, supervisors should consider the representative's overall complaint and disciplinary history, with particular emphasis on previous incidents involving communication with customers.

- Samples should be designed to reflect the breadth of an individual's communications, but need not be strictly random; samples may be concentrated on, for example, very active periods of time or very complicated or sensitive transactions.

- Electronic communications must be covered by the sample. Therefore, a selection of e-mails (and other electronic communications, if any) must also be reviewed. Where e-mail systems automatically save copies of outgoing e-mails, procedures should be adopted for the periodic review of saved e-mail folders for each person subject to review.

- The selection of specific electronic communications to be reviewed may be made by an automated system that selects individual communications for review based on key words or phrases.

- Individual supervisors are generally in the best position to determine the transactions or activities most likely to give rise to deviations from firm policies or risk to customers. Input will be sought from line-of-business supervisors in setting sampling guidelines.

Confidential Treatment
Requested by Goldman Sachs

- Reviews are required to confirm the appropriateness of a representative's recommendations to customers. Therefore, sample selection criteria should assure that recommendations are included in the material reviewed for all representatives.

- Frequency of reviews should follow these guidelines:

  - Each individual's correspondence must be sampled no less often than annually.

  - Supervisors may wish to review the correspondence of junior employees (e.g., second- and third-year salespersons, certain lateral hires from other firms, etc.) more frequently than annually.

  - For the least-experienced employees (e.g., new hires, recent graduates of training programs, etc.), supervisors may find it advisable to review all correspondence prior to use or distribution until a level of confidence is reached as to the individual's work product.

- Records must be kept of the reviews.

- Divisions, business units, or supervisors may choose to review material more frequently or to increase the size of any sample.

- In conjunction with the sampling program, a program of periodic training must be established to educate employees as to the regulatory requirements applicable to their communications. Records showing when programs were conducted and who attended or otherwise participated must be maintained and be available for audit.

wcp020101.3

CDO Investor List

Camber VII

[redacted]

Fort Denison

[redacted]

Hudson Mezz Funding 2006-1

Absolute Capital
AC Capital
ACA
ACAS
Access Economics
ADIA
AIB
AIG
Aiol Insurance
Aladdin
Alico
Allegiance
Alliance & Leicester
Anchor
Anglo Irish Bank
Aozora Bank
Arab Banking Corp
Babcock & Brown
Banca Intesa
Bank Sinopec
Barits
Basis Capital
Bawag
BGB
Blackrock
BONY
BOOC
Bradford & Bingley
BSAM
Cairn
Calyon
Cambridge Place
Cathay Life
Cathay United Bank
CBASS
Ceska Sporitelna
Cheyne
Chibs Bank (HK)
China Minsheng
Chotin
Church Tavern
Citi Alternative Investment
Clinton
CNCE
Cohen
Collineo
Colonnial
Comerz
Credit Suisse Asset Management
DBS
DCP
DE Shaw
Declaration
Deerfield
Delaware Asset Management
Delta Lloyd
Deutsche AM
Deutsche Hypo
DG Hype
E. Sun Bank
Elger
Etrade
Eurohypo
Evergreen
Faxtor
FFTW
Fortis
Fubon Life
GIB Bahrain
Grand Cathay Securites
Greywolf
GSC
Gulfstream
Harding

Hudson Mezz Funding 2006-2

[redacted]

Anderson Mezz Funding 2007-1

Access Econmcs
ADIA
Alliance
Anchor
Axon
Basis Capital
Basso
Beneficial Life
BGI
Blackrock
Braddock
Camber
Chotin
Clinton
Credaris
CSAI
CSAM
DB Prop
DB ZWIRN
DCP
DE Shaw
Duquesne Capital Management
E-trade
Evergreen
FFTW
FSI
Fubon Life
GM Pension
Greywolf
GSC
Highland
IXIS
Lehman
Lion Capital
Litchfield
Met Life
Metwest
Merrill Lynch Bank
Moneygram
NAB
NIR
Old Lane
PAG
Paramax
Petra
PIMCO
Putnam
Rabobank
Redwood
Sandelman
Smith Breedon
Stark
TCW
Terwin
TIAA
UBS Prop
Vanderbilt Asset Management
Vertical
Wachovia
Wincap
Zwirn

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Timberwolf CDO

AC Capital
AIG
Alliance & Leicester
Anchor
Antares
Aozora Bank
Axon
Babson
Basis Capital
BGI
Blackrock
BNP Structured Cred
BOC BIG
BSAM
Calyon
Camber
Cambridge Place
Carlyle
Cathay United Bank
CCB
Cheyne SIV
Chotin
CIBC
CNCE
Cohen
Collineo
Commerz
Credit Suisse Asset Management
DB ZWIRN
DBS CTU
DCP
DE Shaw
Declaration
Dekabank
Delaware Asset Management
Diversepart
E. Sun Bank
Elger
Elliot
Evergreen
Faxtor
Federated
Forth
Fortress
Frankfurt Trust
Greywolf
HBOS
Highland
HSBC (UK)
Hyungkuk Life
Investec
Ivy Asset Management
IXIS London
Kapan
KBC
KfW
Koch Capital
Lehman
LIG
LRI
MBIA
Met Life
Met West
Miller Anderson
Mitsubishi CF
Mitsuho CB
Moneygram
MUFG
NAB NY
NBSAM
NIB
NIBC
NIR
NL Bank

Point Pleasant

[redacted]

CDO Investor List

Camber VII

Fort Denison

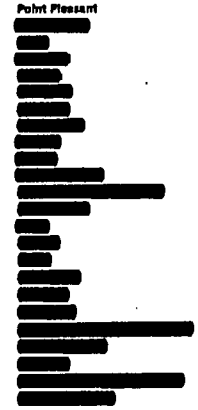
Hudson Mezz Funding 2006-1
Highland
Huntington
ICBC Taiwan
ING
ING Atlanta
ING Clarion
ING NZ
Investec
Investkredit / Oevag
Ixchus
DUS
JP Arb
JPMIM
JS Cresvale
KBC London
KFCC
KGI Alliance
KIB Cyprus
KOCH
LB Saar
Lehman AM
Liberty Hampshire
Lion Capital
LRI
Macquarie Bank
Marathon
Mariner
Mezz FI
Maxim
Metwest
Mitsubishi Corp (UK)
Mizuho Bank (NY)
MKP
Merrill Lynch Bank
Merrill Lynch Principal Finance
Moneygram
Morgan Stanley Prop
NAB NY
NBSAM
New Bond Street
NIBC
NIR
Northern Rock
NTUC
NZ Funds
Oakvale
Omicron
Oppenheimer
PAG
Paramax
PB Capital
Peloton
Petra
PIMCO
Polygon
Postbank
President Securities
Rabobank
RBC (UK)
RBS
Redwood
RZB
Sandelman
Sanin Gode Bank
Saudi IBank
Schroders
Security Benefit Life
Seneca
SFA
SGAM IM
Shell
Shinkong Life
SK Koln/Bonn
SMBC (Tokyo)

Hudson Mezz Funding 2006-2

Anderson Mezz Funding 2007-1

Timberwolf CDO
Norinchukin
Northern Rock
NY Life
Oevag
Oko
Old Lane
Omicron
Oppenheimer
Paramax
Pequot
Petra
PIMCO
Polygon
Postbank
PAG
Prytania
Rabobank
RBS (UK)
Redwood
Robeco
Sandelman
Security Benefit Life
Shinsei Bank
Solent
Sparkasse Koln
Standard Charter
TCW
Tokyo Star Bank
Turnberry
UBS AM
UBS GAM
UBS Prop
Vaso
Vero
Wachovia
West LB
Wharton Asset Management
Wincap

Point Pleasant



= Redacted by the Permanent Subcommittee on Investigations

CDO Investor List

Camber VII	Fort Denison	Hudson Mezz Funding 2006-1	Hudson Mezz Funding 2006-2	Anderson Mezz Funding 2007-1	Timberwolf CDO	Point Pleasant
		Smith Breeden				
		Solent				
		SSGA				
		STAM				
		Standish				
		Stanfield				
		Stark				
		Ta Chong Bank				
		Taishin Int'l Bank				
		Taiwan Life				
		TCW				
		Terwin				
		TPG Axon				
		Tricadia				
		UBS				
		UBS Asset Management				
		UBS Principal Finance				
		UBS Prop				
		Uniqa				
		UOB				
		Vanderbilt Asset Management				
		Vero				
		Vertical				
		Wachovia				
		West LB				
		Wharton Asset Management				
		Winchester				
		Zais				

Confidential Treatment Requested by Goldman Sachs

LB 2(b): Please explain how the search terms "collateral disposal agent" were selected. Please provide the relevant communications for Hudson Mezzanine Funding 2006-1 and Timberwolf transactions.

The term "collateral disposal agent" was selected as a search term because it is a unique term that would be distinct to the Abacus program. For the Hudson Mezzanine Funding 2006-1 and Timberwolf transactions, we provided a response on July 8, 2010, which included the potential investors to whom the Syndicate desk marketed these transactions (bearing production number GS MBS 0000038771).

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Confidential Treatment Requested by Goldman Sachs

LB 1(d): Please provide more explanation of the data provided. For example, how do current face value and actual face value differ? Why do several securities have two "sell" trades? What is the reason for the large differences in face value between the buy/sell values?

The information provided in the "Orig[inal] face" and "Actual Face" columns in GS MBS 0000038831 should differ only in that the data in the "Actual Face" column identifies buys (as positive) and sells (as negative). Both columns provide information on the face value of the bonds at the time they were purchased for the respective CDO transactions identified in Question 1(d) posed to Mr. Blankfein. Accordingly, the Staff should focus on the "Actual Face column"; the "Orig[inal] face" column was inadvertently included. The "Current Face" column provides information on the face value of the bonds at the time the trade was executed.

There are "two sell trades" for certain bonds because those trades were booked as two distinct sales into the respective CDO by the relevant Goldman Sachs desk. The face value and the buy and sell values for certain trades differ because Goldman Sachs did not sell to the respective CDO the entire amount it purchased in those trades.

Supplemental Response Received From Goldman Sachs

Goshorn, Daniel (HSGAC)

From: Fredman, Sheara [Fin] [Sheara.Fredman@gs.com]
Sent: Monday, August 02, 2010 7:40 PM
To: Goshorn, Daniel (HSGAC)
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Fredman, Sheara [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Subject: Responses to PSI supplemental questions
Attachments: GS MBS 0000039108.xlsx

Dan,

As requested last week, attached is a spreadsheet detailing losses incurred on the price risk that Goldman Sachs has on the collateral securities within the requested CDOs. To the extent the bond was liquidated from the CDO, we calculated the loss based upon the price the firm valued the security when the security was acquired. To the extent the collateral securities are still held in the CDO, we included the unrealized loss the firm has recorded to date.

Additionally, you asked us to describe how the firm calculated net revenues earned from the credit default swap protection purchases on the Hudson Mezzanine Funding 2006-1 and 2006-2 transactions. As you are aware, the ABX index was introduced on January 19, 2006. In the following months, the firm, in its capacity as a market maker, sold protection on the ABX index to hedge funds, dealers and other market participants. This resulted in a multi-billion dollar long ABX position for the firm. In an effort to reduce that exposure, Goldman Sachs sponsored the Hudson Mezzanine Funding 2006-1 and 2006-2 transactions. Therefore, when calculating net revenues on the credit default swap protection purchases, we included the gains earned from the credit default swaps with the CDO as well as the losses incurred on the long ABX positions that motivated the Hudson Mezzanine 2006-1 and 2006-2 transactions.

Please note the following:

The information requested by the Subcommittee includes confidential internal documents and proprietary business records that Goldman Sachs does not make available to the general public. Goldman Sachs is producing these documents pursuant to Senate Rule XXVI and formally requests that these materials be treated as confidential business records. Accordingly, should you wish to publicly release any of these documents, Goldman Sachs respectfully requests reasonable notice of your intent to do so and the opportunity to object to such a release.

Goldman Sachs used various technology and manual resources to generate some of the documents for production to you in response to your Requests. While Goldman Sachs believes that these documents are reasonably accurate, we cannot make an absolute representation that it is complete or that there are not some inadvertent errors in the preparation of the spreadsheet. We will provide further updates or corrections if we discover missing information or errors.

Please confirm receipt.

Regards,

Sheara

Goldman, Sachs & Co.
200 West Street | New York, New York 10282
Tel: (212) [redacted]
e-mail: sheara.fredman@gs.com

Sheara Fredman
Managing Director
Finance Division

Goldman
Sachs

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Anderson Mezzanine

Cusip	Name	Current Notional	Liquidation Px	Loss (000s)
71085PBX0	PCHLT 2005-2 A3	109,589	89.00	12
144531EV8	CARR 2006-NC1 A2	3,694,657	86.00	517
03072SF91	AMSI 2005-R6 A2	1,979,479	85.00	297
35729QAC2	FHLT 2006-B 2A2	1,550,010	85.00	233
14454AAB5	CARR 2006-FRE2 A2	11,000,000	84.00	1,760
35729VAB3	FHLT 2006-D 2A1	3,087,061	79.00	648
35729VAB3	FHLT 2006-D 2A1	1,706,088	79.00	358
75156UAB3	RAMP 2006-RZ2 A2	6,500,000	76.00	1,560
34957YAA5	FORTS 2006-2A S	2,162,158	75.00	541
362375AA5	GSAA 2006-10 AV1	2,126,615	68.50	670
23245CAC4	CWL 2007-1 2A2	7,012,742	62.50	2,630
3622EBAA6	GSAA 2007-4 A1	17,087,744	42.53	9,820
362334NA8	GSAA 2006-7 AV1	472,955	92.56	35
3622EBAA6	GSAA 2007-4 A1	9,577,421	41.06	5,645
59022QAD4	MLMI 2006-HE5 A2C	4,681,722	23.60	3,577
59022QAD4	MLMI 2006-HE5 A2C	7,516,187	23.75	5,731
362439AD3	GSAMP 2006-HE4 A2C	4,552,484	38.00	2,823
66988RAC1	NHEL 2006-6 A2B	4,000,000	49.10	2,036
61750FAE0	MSAC 2006-HE6 A2C	6,560,855	26.00	4,855
362439AD3	GSAMP 2006-HE4 A2C	447,516	38.00	277
55275TAC2	MABS 2007-WMC1 A3	9,555,913	33.13	6,391
55275TAC2	MABS 2007-WMC1 A3	3,124,034	31.25	2,148
55275TAC2	MABS 2007-WMC1 A3	1,537,565	36.00	984
59022QAD4	MLMI 2006-HE5 A2C	309,205	34.28	203
59022QAD4	MLMI 2006-HE5 A2C	618,249	32.20	419
55275TAC2	MABS 2007-WMC1 A3	1,897,579	31.00	1,309
55275TAC2	MABS 2007-WMC1 A3	462,753	31.22	318
61750FAE0	MSAC 2006-HE6 A2C	356,980	28.00	257
61750FAE0	MSAC 2006-HE6 A2C	889,465	32.00	605
643529AA8	NCAMT 2006-ALT2 AV1	2,161,033	60.00	864
23245CAC4	CWL 2007-1 2A2	1,987,258	56.50	864
17309LAD7	CMLTI 2006-HE2 A2C	1,000,000	38.00	620
3622ELAA4	GSAA 2006-18 AV1	4,843,815	78.00	1,066
3622EBAA6	GSAA 2007-4 A1	6,121,578	50.00	3,061

Total Realized	63,134
Total Unrealized	59,000
Total	122,134

Hudson Mezzanine 06-1

Cusip	Name	Current Notional	Liquidation Px	Loss (000s)
12667HAB7	CWL 0620 2A1	38,164,999.66	93.00	2,671,549.98
12667HAB7	CWL 0620 2A1	14,902,164.01	94.00	894,129.84
35729VAB3	FHLT 06D 2A1	5,579,340.93	90.00	557,934.09
44328AAB6	HASC 06HE1 2A1	16,075,000.00	91.00	1,446,750.00
65537FAB7	NHELI 06FM2 2A1	39,456,000.00	93.00	2,761,920.00
12668PAB8	CWALT 06OA17 1A1B	15,617,805.00	90.00	1,561,780.50
ACC54A2C5	ACCR 054 A2C	3,843,000.00	92.00	307,440.00
GS05HE4B5	GSAMP 05HE4 A2B	3,625,000.00	92.00	290,000.00
35729VAB3	FHLT 06D 2A1	12,273,337.90	91.75	1,012,550.38
643529AA8	NCAMT 06ALT2 AV1	10,697,700.27	88.75	1,203,491.28
362257AA5	GSAA 0617 A1	42,515,963.65	87.75	5,208,205.55
23245FAB9	CWALT 06OC10 2A1	24,155,000.10	91.00	2,173,950.01
23245FAB9	CWALT 06OC10 2A1	22,468,892.40	91.00	2,022,200.32
23245GAA9	CWALT 06OC9 A1	45,879,456.87	91.00	4,129,151.12
362725AA1	GSRPM 062 A1A	7,305,719.18	80.90	1,395,392.36
64352VJY8	NCHET 051 A2C	4,084,404.61	82.90	698,433.19
362257AA5	GSAA 0617 A1	12,969,694.24	85.40	1,893,575.36
144528AB2	CARR 06NC3 A2	6,007,715.00	85.20	889,141.82
GSAA07053	GSAA 0705 1AV1	6,776,913.60	85.40	989,429.39
75156UAB3	RAMP 06RZ2 A2	12,762,028.00	81.90	2,309,927.07
75156UAB3	RAMP 06RZ2 A2	736,467.00	81.90	133,300.53
66988RAC1	NHEL 066 A2B	1,233,000.00	77.90	272,493.00
3622ELAA4	GSAA 0618 AV1	49,220,908.30	85.40	7,186,252.61
23245GAA9	CWALT 06OC9 A1	8,058,272.61	50.00	4,029,136.30
12669HAA7	CWL 07QH1 A1	10,347,299.07	71.20	2,980,022.13
144539AC7	CARR 06NC5 A3	7,472,244.00	85.15	1,109,628.23
144539AC7	CARR 06NC5 A3	1,861,756.00	85.15	276,470.77
66988RAC1	NHEL 066 A2B	31,767,000.00	77.40	7,179,342.00
64352VQR5	NCHET 061 A2B	9,508,945.46	71.90	2,672,013.67
12670BAA7	CWL 07S2 A1	2,692,081.81	82.00	484,574.73
75156UAB3	RAMP 06RZ2 A2	1,505.00	80.77	289.41
12669HAA7	CWL 07QH1 A1	1,328,084.00	79.77	268,671.39
12670BAA7	CWL 07S2 A1	3,073,839.46	87.15	395,142.06
23245PAC5	CWALT 06OA22 A3	13,179,949.75	49.00	6,721,774.37
GSAA6S1A9	GSAA 06S1 IA1	1,643,022.00	9.00	1,495,150.02
23245PAC5	CWALT 06OA22 A3	5,465,922.00	17.00	4,536,715.26
12668VAA7	CWL 06S7 A1	36,547,262.00	42.00	21,197,411.96
36245CAC6	GSAMP 06S6 A1C	6,663,058.00	7.00	6,196,643.94
36245CAC6	GSAMP 06S6 A1C	2,877,103.10	8.00	2,646,934.85
36245CAC6	GSAMP 06S6 A1C	7,175,813.34	8.75	6,547,929.67
			Total Realized	110,746,849
			Total	110,746,849

Hudson Mezzanine 06-2

Cusip	Name	Current Notional	Liquidation Px	Loss (000s)
362341QH5	GSAA 0511 3A3	202,115.56	89.60	21
3622MDAB1	GSAMP 07HE1 A2A	10,125,213.42	82.75	1,747
12668BRE5	CWALT 06OC2 2A1	1,882,609.32	83.87	304
362341NX3	GSAA 0511 3A3	440,613.60	89.60	46
004375EH0	ACCR 054 A2C	587,435.19	85.00	88
3622ELAA4	GSAA 06-18 AV1	6,458,420.60	78.00	1,421
3622EQAA3	GSAA 2007-1 1A1	4,894,245.27	52.00	2,349
3622EQAA3	GSAA 0701 1A1	1,173,486.00	37.00	739
3622EBAA6	GSAA 2007-4 A1	5,294,464.83	47.06	2,803
3622MHAC0	GSAMP 2007-FM2 A2B	4,032,705.00	26.25	2,974
3622MDAC9	GSAMP 07HE1 A2B	9,442,548.00	26.00	6,987
3622MDAC9	GSAMP 2007-HE1 A2B	12,162,942.00	31.50	8,332
3622MDAC9	GSAMP 2007-HE1 A2B	6,586,808.00	36.50	4,183
36245TAC9	GSAMP 2006-FM3 A2B	5,814,801.00	27.00	4,245
36245TAC9	GSAMP 2006-FM3 A2B	8,129,683.94	34.13	5,355
40431KAB6	HALO 2007-WF1 A2	8,374,000.00	32.53	5,650
36245TAC9	GSAMP 2007-FM2 A2B	748,621.00	30.28	522
3622MDAC9	GSAMP 2007-HE1 A2B	7,780,482.00	67.00	2,568
3622MDAC9	GSAMP 2007-HE1 A2B	3,506,730.00	60.16	1,397
3622MHAC0	GSAMP 2007-FM2 A2B	2,630,710.00	32.53	1,775
3622MHAC0	GSAMP 2007-FM2 A2B	4,395,073.00	34.88	2,862
32029GAC8	FFML 2007-FF2 A2B	3,741,887.00	38.53	2,300
32029GAC8	FFML 2007-FF2 A2B	3,385,687.00	39.03	2,064
32029GAC8	FFML 2007-FF2 A2B	3,846,472.00	38.50	2,366
32029GAC8	FFML 2007-FF2 A2B	825,954.00	41.00	487
3622MHAC0	GSAMP 2007-FM2 A2B	1,273,296.00	34.00	840
3622MHAC0	GSAMP 2007-FM2 A2B	1,464,645.00	38.50	901
3622MHAC0	GSAMP 2007-FM2 A2B	2,148,575.00	37.02	1,353

Total Realized	66,679
Total Unrealized	42,000
Total	108,679

Camber 7

Cusip	Name	Current Notional	Liquidation Px	Loss (000s)
04544QAD9	ABSHE 06HE7 A4	10,699,493	39.10	6,516
04544QAD9	ABSHE 06HE7 A4	8,741,583	42.25	5,048
04544QAD9	ABSHE 06HE7 A4	553,847	42.25	320
03072SP33	AMSI 05R9 A2B	5,670,422	65.00	1,985
040104TF8	ARSI 06W4 A2B	13,920,141	89.50	1,462
05530MAA7	BCAP 06AA2 A1	28,999,055	32.00	19,719
073855AA6	BSABS 07FS1 1A1	33,750,477	76.75	7,847
14454AAC3	CARR 06FRE2 A3	1,869,952	43.24	1,061
14454AAC3	CARR 06FRE2 A3	5,720,868	44.25	3,189
144531EV8	CARR 06NC1 A2	6,190,449	82.75	1,068
17309QAC8	CMLTI 06WFH3 A3	18,759,440	48.50	9,661
17309QAC8	CMLTI 06WFH3 A3	11,240,560	48.50	5,789
17311XAA3	CMLTI 07AMC2 A3A	29,041,950	76.25	6,897
17311XAA3	CMLTI 07AMC2 A3A	12,089,364	50.00	6,045
12666VAC5	CWL 0617 2A2	21,662,423	52.50	10,290
12666VAC5	CWL 0617 2A2	1,594,390	65.00	558
12666VAC5	CWL 0617 2A2	11,204,852	65.00	3,922
12666VAC5	CWL 0617 2A2	1,660,941	65.00	581
12666VAC5	CWL 0617 2A2	3,877,394	65.00	1,357
23243WAC2	CWL 0618 2A2	6,791,588	40.00	4,075
23243WAC2	CWL 0618 2A2	8,100,000	47.00	4,293
23243WAC2	CWL 0618 2A2	10,083,322	49.00	5,142
23243WAC2	CWL 0618 2A2	24,858	51.75	12
12667LAB8	CWL 0621 2A1	1,422,228	88.00	171
12667LAB8	CWL 0621 2A1	303,701	83.00	52
12668YAA1	CWL 06S10 A1	17,814,622	65.75	6,102
12668NAB3	CWL 072 2A1	2,619,601	78.00	576
35729QAC2	FHLT 06B 2A2	12,571,821	85.00	1,886
31659YAB0	FMIC 071 2A1	5,485,129	78.00	1,207
34528WAC5	FORDO 07B A2B	3,500,033	97.25	96
617538AA1	MSAC 07HE3 A2A	9,634,392	82.75	1,662
655374AA4	NAA 07S1 A1	12,809,826	7.00	11,913
68403FAB2	OOMLT 074 2A1	2,084,476	78.25	453
73316NAA3	POPLR 07A A1	8,733,930	78.00	1,921
86362QAA1	SASC 07GEL1 A1	1,027,305	77.75	229
86362QAA1	SASC 07GEL1 A1	16,010,654	53.00	7,525

Total Realized	140,630
Total Unrealized	196,000
Total	336,630

Point Pleasant

Cusip	Name	Current Notional	Liquidation Px	Loss (000s)
04541GRJ3	ABSHE 05HE4 A1	1,659,154	87	216
02150KAA7	CWALT 07OH1 A1A	8,145,746	84	1,303
12668WAA5	CWL 074 A1A	7,379,638	84	1,181
12669WAC0	CWL 078 2A1	8,235,398	84	1,318
36242D3U5	GSAA 056 A1	1,226,789	86	172
362341AM1	GSAA 057 AV1	849,097	83	144
3622EBAA6	GSAA 0704 A1	28,472,785	83	4,840
57645JAA7	MABS 06HE3 A1	7,274,054	85	1,091
3622ECAA4	GSAA 0705 1AV1	56,389,263	88	6,767
03072SF91	AMSI 05R6 A2	14,958,416	88.5	1,720
144528AB2	CARR 06NC3 A2	3,597,285	84.5	558
362341QH5	GSAA 0511 3A3	5,702,895	94	342
3622EBAA6	GSAA 0704 A1	28,938,438	78.5	6,222
3622ECAA4	GSAA 0705 1AV1	30,804,270	86.5	4,159
57643LGV2	MABS 05WMC1 A5	1,362,147	87.5	170
04544NAD6	ABSHE 06HE6 A4	9,000,000	67	2,970
02150KAB5	CWALT 07OH1 A2A	11,175,213	80	2,235
23242MAA9	CWL 06S3 A1	3,440,302	57.5	1,462
126683AA9	CWL 06S5 A1	2,435,145	57.5	1,035
12669LAC4	CWL 076 2A2	12,000,000	70.65	3,522
12669WAD8	CWL 078 2A2	3,694,000	70.5	1,090
12670BAA7	CWL 07S2 A1	35,382,010	62.75	13,180
32029GAC8	FFML 07FF2 A2B	34,700,000	59.75	13,967
30248EAA6	FFML 07FFBSS A	36,447,017	59.65	14,706
40051CAA5	GSAA 06S1 IA1	692,972	31.5	475
3622EAAX8	GSAA 0703 1A1B	9,003,915	23	6,933
3622EBAA6	GSAA 0704 A1	57,104,701	71	16,560
3622EBAB4	GSAA 0704 A2	904,000	42	524
362440AC3	GSAMP 07HE2 A2B	13,347,000	66.9	4,418

Total Realized	113,279
Total Unrealized	-
Total	113,279

Timberwolf

CUSIP	Name	Current Notional	Liquidation Px	Loss (000s)
04541GRJ3	ABSHE 2005-HE4 A1	1,659,154	87.00	216
07389RAN8	BSABS 2006-HE10 21A1	7,130,248	96.00	285
07389RAN6	BSABS 2006-HE1021 A1	4,435,127	95.00	222
144531CV0	CARR 2005-NC3 A1C	5,250,776	97.00	158
144531CV0	CARR 2005-NC3 A1C	3,144,706	97.00	94
144531DL1	CARR 2005-NC5 A2	8,682,715	95.00	434
144531DL1	CARR 2005-NC5 A2	19,410,749	95.00	971
14454AAB5	CARR 2006-FRE2 A2	4,887,365	86.50	660
14454AAB5	CARR 2006-FRE2 A2	1,211,010	87.00	157
14453MAB0	CARR 2006-NC4 A2	20,000,000	86.00	2,800
161571AF1	CHAIT 2005-A1 A1	10,930,000	99.63	40
22545RAA4	CSMC 2006-TF2A A1	4,053,526	97.00	122
02150KAA7	CWALT 2007-OH1 A1A	8,145,746	84.00	1,303
12666SAB4	CWL 2006-BCS 2A1	17,695,118	96.00	708
23245CAC4	CWL 2007-1 2A2	205,659	79.50	42
23245CAC4	CWL 2007-1 2A2	7,922,052	88.00	951
12668UAE1	CWL 2007-3 2A1	15,530,779	92.00	1,242
12668UAE1	CWL 2007-3 2A1	3,224,955	92.00	258
12668UAE1	CWL 2007-3 2A1	23,197,763	92.00	1,856
12668WAA5	CWL 2007-4 A1A	7,379,638	84.00	1,181
12669WAC0	CWL 2007-8 2A1	8,235,398	84.00	1,318
12668TAB0	CWL 2007-BC1 2A1	11,079,094	93.00	776
35729QAC2	FHLT 2006-B 2A2	1,356,481	86.50	183
35729QAC2	FHLT 2006-B 2A2	1,674,981	86.50	226
35729VAB3	FHLT 2006-D 2A1	10,127,378	97.00	304
34957YAA5	FORTS 2006-2A S	4,214,071	80.00	843
36242D3U5	GSAA 2005-6 A1	1,226,789	86.00	172
362341AM1	GSAA 2005-7 AV1	849,097	83.00	144
3622ELAA4	GSAA 2006-18 AV1	5,353,894	86.00	750
3622ELAA4	GSAA 2006-18 AV1	4,960,302	85.00	744
3622EBAA6	GSAA 2007-4 A1	4,039,698	85.00	606
3622EBAA6	GSAA 2007-4 A1	7,071,000	85.00	1,061
3622EBAA6	GSAA 2007-4 A1	14,492,792	85.00	2,174
3622EBAA6	GSAA 2007-4 A1	9,667,026	85.00	1,450
3622EBAA6	GSAA 2007-4 A1	2,929,073	83.00	498
3622EBAA6	GSAA 2007-4 A1	28,472,785	83.00	4,840
3622EBAA6	GSAA 2007-4 A1	504,946	86.00	71
3622EBAA6	GSAA 2007-4 A1	1,246,821	88.00	150
362341L49	GSAMP 2005-WMC3 A2B	1,000,000	91.00	90
362334QF4	GSRPM 2006-1 A2	287,882	97.00	9
362334QF4 1	GSRPM 2006-1 A2	621,572	97.00	19
44386QAA2	HUDMZ 2006-2A S	3,511,665	75.00	878
452570AA2	IMSA 2007-2 1A1A	17,742,243	90.00	1,774
452570AA2	IMSA 2007-2 1A1A	22,767,938	87.65	2,812
46626LEJ5	JPMAC 2005-OPT2 A3	803,286	94.00	48
46626LEJ5	JPMAC 2005-OPT2 A3	189,862	94.00	11
57645JAA7	MABS 2006-HE3 A1	7,274,054	85.00	1,091
55264TCC3	MBNAS 2003-A9 A9	12,660,000	99.50	63
61749NAC1	MSAC 2005-HE5 A2B	11,280,000	92.00	902
61749NAC1	MSAC 2005-HE5 A2B	800,000	92.00	64
61749NAC1	MSAC 2005-HE5 A2B	16,802,237	90.00	1,680
643529AA8	NCAMT 2006-ALT2 AV1	4,384,451	87.00	570
643529AA8	NCAMT 2006-ALT2 AV1	2,760,088	87.50	345
643529AA8	NCAMT 2006-ALT2 AV1	2,760,088	87.50	345
64352VLG4	NCHET 2005-3 A2C	7,719,440	92.00	618
64352VNW7	NCHET 2005-C A2B	4,621,847	97.00	139
69121PBT9	OWNIT 2005-5 A2B	31,727,500	97.00	952
71085PBX0	PCHLT 2005-2 A3	5,751,335	95.00	288
76110WF35	RASC 2004-KS9 AII4	1,799,672	97.00	54
92976BHJ4	WBCMT 2006-WL7A A1	9,714,587	93.00	680

Realized	43,439
Realized loss on broker liquidation	182,330
Total	225,769

Fort Denison

Cash deal - no collateral security losses incurred

Goshorn, Daniel (HSGA

From: Fredman, Sheara [Fin] [Sheara.Fredman@gs.com]
Sent: Thursday, December 02, 2010 6:56 PM
To: Goshorn, Daniel (HSGAC)
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Subject: RE: Responses to PSI supplemental questions
Attachments: GS MBS 0000087354.xlsx

Dan –

Attached please find a revised response to Question LB 1d, which was previously submitted to the Subcommittee with a schedule bearing production number GS MBS 0000039108. As requested, Goldman Sachs has updated the previously produced schedule to include re-investment trades done with Goldman Sachs that were executed subsequent to the issuance of the specified transactions. To the extent the re-investment trades were made at the direction of the portfolio advisor and executed with a party other than Goldman Sachs, these trades are not included in the firm's books and records and therefore have not been included.

Please note the following:

The information requested by the Subcommittee includes confidential internal documents and proprietary business records that Goldman Sachs does not make available to the general public. Goldman Sachs is producing these documents pursuant to Senate Rule XXVI and formally requests that these materials be treated as confidential business records. Accordingly, should you wish to publicly release any of these documents, Goldman Sachs respectfully requests reasonable notice of your intent to do so and the opportunity to object to such a release.

Goldman Sachs used various technology and manual resources to generate some of the documents for production to you in response to your Requests. While Goldman Sachs believes that these documents are reasonably accurate, we cannot make an absolute representation that it is complete or that there are not some inadvertent errors in the preparation of the spreadsheet. We will provide further updates or corrections if we discover missing information or errors.

Regards,
Sheara

From: Goshorn, Daniel (HSGAC) [mailto:Daniel_Goshorn@hsgac.senate.gov]
Sent: Thursday, December 02, 2010 3:19 PM
To: Fredman, Sheara [Fin]
Subject: RE: Responses to PSI supplemental questions

Hi Sheara,

Any update on this?

Thanks.

Dan

From: Fredman, Sheara [Fin] [mailto:Sheara.Fredman@gs.com]
Sent: Thursday, November 18, 2010 9:56 AM
To: Goshorn, Daniel (HSGAC)
Cc: Broeckel, Janet [Legal]
Subject: RE: Responses to PSI supplemental questions

Dan - GS MBS 0000039108 (attached) includes the collateral securities which we incurred a loss on. I am checking about updating 1d with the additional information you have requested.

S

From: Goshorn, Daniel (HSGAC) [mailto:Daniel_Goshorn@hsgac.senate.gov]
Sent: Wednesday, November 17, 2010 1:26 PM
To: Fredman, Sheara [Fin]
Subject: RE: Responses to PSI supplemental questions

Sheara-

Thanks. Does the item provided with bates GS MBS 0000039108 (attached) include all collateral securities associated with each deal? Would it be possible to update the response to 1d to include all collateral securities associated with each CDO, including the face values, clients and trade dates like the current version?

Thanks
Dan

From: Fredman, Sheara [Fin] [mailto:Sheara.Fredman@gs.com]
Sent: Wednesday, November 17, 2010 1:18 PM
To: Goshorn, Daniel (HSGAC)
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Fredman, Sheara [Fin]; Broeckel, Janet [Legal]
Subject: RE: Responses to PSI supplemental questions

Dan – The schedule only includes the purchases and sales associated with the collateral securities in the deal upon issuance of the deal. It does not include any collateral securities purchased with the cash received from the original collateral securities.

Sheara

From: Goshorn, Daniel (HSGAC) [mailto:Daniel_Goshorn@hsgac.senate.gov]
Sent: Tuesday, November 16, 2010 5:59 PM
To: Fredman, Sheara [Fin]
Subject: RE: Responses to PSI supplemental questions

Hi Sheara,

Thanks for all your help with these responses. For the response to LB1(d), could you please confirm that the spreadsheet contains all securities purchases to collateralize synthetic assets during the life of each deal. It appears the list only goes through the closing date of each deal.

Thanks,
Dan

From: Fredman, Sheara [Fin] [mailto:Sheara.Fredman@gs.com]
Sent: Friday, September 10, 2010 6:00 PM
To: Goshorn, Daniel (HSGAC)
Cc: Smith, Sarah [Fin]; Lee, Brian-J (FI Controllers) [Fin]; Simpson, Michael [Fin]; Fredman, Sheara [Fin]; Broeckel, Janet [Legal]; Michaels, Susan [Fin]
Subject: Responses to PSI supplemental questions

Dan –

Attached is responses to the supplemental questions on LB1(b)(ii) and LB1(d). Please let us know if you have any additional questions.

Please note the following:

The information requested by the Subcommittee includes confidential internal documents and proprietary business records that Goldman Sachs does not make available to the general public. Goldman Sachs is producing these documents pursuant to Senate Rule XXVI and formally requests that these materials be treated as confidential business records. Accordingly, should you wish to publicly release any of these documents, Goldman Sachs respectfully requests reasonable notice of your intent to do so and the opportunity to object to such a release.

Goldman Sachs used various technology and manual resources to generate some of the documents for production to you in response to your Requests. While Goldman Sachs believes that these documents are reasonably accurate, we cannot make an absolute representation that it is complete or that there are not some inadvertent errors in the preparation of the spreadsheet. We will provide further updates or corrections if we discover missing information or errors.

Regards,
Sheara

= Redacted by the Permanent Subcommittee on Investigations

Goldman, Sachs & Co.
200 West Street | New York, New York 10282
Tel: (212) [redacted]
e-mail: sheara.fredman@gs.com

Sheara Fredman
Managing Director
Finance Division

Goldman Sachs

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Goldman Sachs

Buy/Sell	Cusip	BondName	Orig face	Actual Face	Current Face	Tradedate	SettleDate	Client	Desk
Buy	55275TAC2	MABS 07WMC1 A3	48,850,000	48,850,000	48,850,000	2/12/2007	2/27/2007	[redacted]	Anderson Mezz
Sell	55275TAC2	MABS 07WMC1 A3	22,000,000	(22,000,000)	22,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	59022QAD4	MLMI 06HE5 A2C	40,000,000	40,000,000	40,000,000	9/11/2006	9/28/2006	[redacted]	Anderson Mezz
Sell	59022QAD4	MLMI 06HE5 A2C	18,000,000	(18,000,000)	18,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	3622ELAA4	GSAA 0618 AV1	218,347,000	218,347,000	218,347,000	11/14/2006	11/30/2006	ALT A MTG NI ACCT	Anderson Mezz
Sell	3622ELAA4	GSAA 0618 AV1	15,000,000	(15,000,000)	13,102,139	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	643529AA8	NCAMT 06ALT2 AV1	186,161,000	186,161,000	186,161,000	10/19/2006	10/30/2006	ALT A MTG NI ACCT	Anderson Mezz
Sell	643529AA8	NCAMT 06ALT2 AV1	16,000,000	(16,000,000)	12,226,249	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	35729VAB3	FHLT 06D 2A1	75,000,000	75,000,000	75,000,000	10/25/2006	11/3/2006	[redacted]	Anderson Mezz
Sell	35729VAB3	FHLT 06D 2A1	13,000,000	(13,000,000)	11,389,054	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	14454AAB5	CARR 06FRE2 A2	23,754,000	23,754,000	23,754,000	1/25/2007	1/30/2007	[redacted]	Anderson Mezz
Sell	14454AAB5	CARR 06FRE2 A2	11,000,000	(11,000,000)	11,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	126673MY5	CWHEL 04Q 2A	94,000,000	94,000,000	20,206,486	3/8/2007	3/13/2007	[redacted]	Anderson Mezz
Sell	126673MY5	CWHEL 04Q 2A	42,000,000	(42,000,000)	8,750,024	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	23245CAC4	CWL 071 2A2	20,000,000	20,000,000	20,000,000	1/29/2007	2/9/2007	[redacted]	Anderson Mezz
Sell	23245CAC4	CWL 071 2A2	9,000,000	(9,000,000)	9,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	66988RAC1	NHEL 066 A2B	45,000,000	45,000,000	45,000,000	11/20/2006	11/30/2006	[redacted]	Anderson Mezz
Sell	66988RAC1	NHEL 066 A2B	4,000,000	(4,000,000)	4,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	35729QAC2	FHLT 06B 2A2	13,795,000	13,795,000	13,795,000	2/9/2007	2/14/2007	[redacted]	Anderson Mezz
Sell	35729QAC2	FHLT 06B 2A2	2,000,000	(2,000,000)	2,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	3622EAAD2	GSAA 0703 2A1B	11,112,000	11,112,000	11,112,000	2/16/2007	2/23/2007	ALT A MTG NI ACCT	Anderson Mezz
Sell	3622EAAD2	GSAA 0703 2A1B	5,000,000	(5,000,000)	5,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	362439AD3	GSAMP 06HE4 A2C	10,368,000	10,368,000	10,368,000	3/9/2007	3/14/2007	[redacted]	Anderson Mezz
	362439AD3	GSAMP 06HE4 A2C	5,000,000	(5,000,000)	5,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	71085PBX0	PCHLT 052 A3	11,322,000	11,322,000	11,322,000	1/17/2007	1/24/2007	[redacted]	Anderson Mezz
Sell	71085PBX0	PCHLT 052 A3	5,000,000	(5,000,000)	5,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	40051CAA5	GSAA 06S1 IA1	85,924,000	79,747,892	79,747,892	2/27/2007	3/2/2007	[redacted]	Anderson Mezz
Sell	40051CAA5	GSAA 06S1 IA1	46,838,319	(46,838,319)	43,471,640	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	1248MKAB1	CBASS 07SL1 A2	148,222,000	148,222,000	148,222,000	3/9/2007	3/19/2007	ABS MTG SYN/	Anderson Mezz
Sell	1248MKAB1	CBASS 07SL1 A2	45,000,000	(45,000,000)	45,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	34957YAA5	FORTIUS II S 144A	12,700,000	12,700,000	12,700,000	12/4/2006	12/7/2006	CDO 1 NI AC/	Anderson Mezz
Sell	34957YAA5	FORTIUS II S 144A	5,135,135	(5,135,135)	5,000,000	3/16/2007	3/20/2007	LN	Anderson Mezz
Buy	44379PAF2	HUDHG 06S 144A	11,650,000	11,650,000	11,650,000	9/29/2006	11/1/2006	CDO 1 NI AC/	Anderson Mezz
Sell	44379PAF2	HUDHG 06S 144A	3,791,802	(3,791,802)	3,791,802	3/16/2007	3/20/2007	LN	Anderson Mezz
Buy	44386QAA2	HUDMZ 062 S 144A	7,900,000	7,900,000	7,900,000	2/6/2007	2/8/2007	CDO 1 NI AC/	Anderson Mezz
Sell	44386QAA2	HUDMZ 062 S 144A	3,600,000	(3,600,000)	3,600,000	3/16/2007	3/20/2007	LN	Anderson Mezz
Buy	61750FAE0	MSAC 06HE6 A2C	30,000,000	30,000,000	30,000,000	9/8/2006	9/27/2006	[redacted]	Anderson Mezz
Sell	61750FAE0	MSAC 06HE6 A2C	15,000,000	(15,000,000)	15,000,000	3/14/2007	3/20/2007	LN	Anderson Mezz
Buy	3622EBAA6	GSAA 0704 A1	535,274,000	535,274,000	535,274,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Anderson Mezz
Sell	3622EBAA6	GSAA 0704 A1	55,083,000	(55,083,000)	55,083,000	3/14/2007	3/29/2007	LN	Anderson Mezz
Buy	03072SF91	AMSI 05R6 A2	97,306,000	34,470,127	34,470,127	3/23/2007	3/28/2007	[redacted]	Anderson Mezz
Sell	03072SF91	AMSI 05R6 A2	14,200,000	(5,030,274)	5,030,274	3/28/2007	4/2/2007	LN	Anderson Mezz
Buy	75156UAB3	RAMP 06RZ2 A2	20,000,000	20,000,000	20,000,000	4/04/2007	4/10/2007	[redacted]	Anderson Mezz
Sell	75156UAB3	RAMP 06RZ2 A2	6,500,000	(6,500,000)	6,500,000	4/30/2007	5/2/2007	LN	Anderson Mezz
Buy	17309LAD7	CMLTI 06HE2 A2C	1,000,000	1,000,000	1,000,000	3/13/2007	3/16/2007	[redacted]	Anderson Mezz
Sell	17309LAD7	CMLTI 06HE2 A2C	1,000,000	(1,000,000)	1,000,000	6/1/2007	6/5/2007	LN	Anderson Mezz
Buy	144531EV8	CARR 06NC1 A2	4,195,000	4,195,000	4,195,000	4/23/2007	4/26/2007	[redacted]	Anderson Mezz
Buy	144531EV8	CARR 06NC1 A2	2,500,000	2,500,000	2,500,000	5/09/2007	5/14/2007	[redacted]	Anderson Mezz
Sell	144531EV8	CARR 06NC1 A2	6,695,000	(6,695,000)	6,695,000	6/1/2007	6/5/2007	LN	Anderson Mezz

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Buy	362334NA8	GSAA 067 AV1	1,620,000	1,620,000	1,620,000	5/11/2006	5/17/2006	[redacted]	Anderson Mezz
Buy	362334NA8	GSAA 067 AV1	525,000	511,256	511,256	5/25/2006	5/26/2006	[redacted]	Anderson Mezz
Buy	362334NA8	GSAA 067 AV1	450,000	438,220	438,220	5/31/2006	5/31/2006	[redacted]	Anderson Mezz
Buy	362334NA8	GSAA 067 AV1	955,001	851,944	851,944	7/24/2006	7/27/2006	[redacted]	Anderson Mezz
Buy	362334NA8	GSAA 067 AV1	10,758,000	9,273,831	9,273,831	9/12/2006	9/15/2006	[redacted]	Anderson Mezz
Sell	362334NA8	GSAA 067 AV1	4,495,000	(2,081,944)	2,081,944	6/26/2007	6/29/2007	LN	Anderson Mezz
Buy	362375AA5	GSAA 0610 AV1	10,535,000	5,505,282	5,505,282	6/05/2007	6/08/2007	[redacted]	Anderson Mezz
Sell	362375AA5	GSAA 0610 AV1	10,535,000	(5,149,365)	5,149,365	6/26/2007	6/29/2007	LN	Anderson Mezz

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Buy/Sell	Cusip	BondName	Orig face	Actual Face	Current Face	Tradedate	SettleDate	Client	Deal
Buy	04544QAD9	ABSHE 06HE7 A4	23,414,000	23,414,000	23,414,000	11/3/2006	11/30/2006	[redacted]	Camber 7 PLC
Sell	04544QAD9	ABSHE 06HE7 A4	23,414,000	(23,414,000)	23,414,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	00442CAD1	ACE 06FM2 A2C	12,000,000	12,000,000	12,000,000	10/20/2006	10/30/2006	[redacted]	Camber 7 PLC
Sell	00442CAD1	ACE 06FM2 A2C	12,000,000	(12,000,000)	12,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	040104TF8	ARSI 06W4 A2B	31,000,000	31,000,000	31,000,000	2/12/2007	2/15/2007	[redacted]	Camber 7 PLC
Sell	040104TF8	ARSI 06W4 A2B	31,000,000	(31,000,000)	31,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	05530MAA7	BCAP 06AA2 A1	40,000,000	40,000,000	40,000,000	11/22/2006	11/30/2006	[redacted]	Camber 7 PLC
Sell	05530MAA7	BCAP 06AA2 A1	40,000,000	(40,000,000)	38,151,327	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	07389RAP1	BSABS 06HE10 IIA2	50,000,000	50,000,000	50,000,000	12/19/2006	12/29/2006	[redacted]	Camber 7 PLC
Sell	07389RAP1	BSABS 06HE10 IIA2	50,000,000	(50,000,000)	50,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	073855AA6	BSABS 07FS1 1A1	75,000,000	75,000,000	75,000,000	2/26/2007	2/28/2007	[redacted]	Camber 7 PLC
Sell	073855AA6	BSABS 07FS1 1A1	75,000,000	(75,000,000)	75,000,000	2/27/2007	2/28/2007	LN	Camber 7 PLC
Buy	07401RAA8	BSMF 07SL2 1A	55,000,000	55,000,000	55,000,000	2/20/2007	2/28/2007	[redacted]	Camber 7 PLC
Sell	07401RAA8	BSMF 07SL2 1A	55,000,000	(55,000,000)	55,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	14454AAC3	CARR 06FRE2 A3	20,000,000	20,000,000	20,000,000	10/5/2006	10/18/2006	[redacted]	Camber 7 PLC
Sell	14454AAC3	CARR 06FRE2 A3	20,000,000	(20,000,000)	20,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	17309QAC8	CMLTI 06WFH3 A3	30,000,000	30,000,000	30,000,000	10/5/2006	10/31/2006	[redacted]	Camber 7 PLC
Sell	17309QAC8	CMLTI 06WFH3 A3	30,000,000	(30,000,000)	30,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	12666VAC5	CWL 0617 2A2	40,000,000	40,000,000	40,000,000	9/8/2006	9/25/2006	[redacted]	Camber 7 PLC
Sell	12666VAC5	CWL 0617 2A2	40,000,000	(40,000,000)	40,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	23243WAC2	CWL 0618 2A2	25,000,000	25,000,000	25,000,000	9/19/2006	9/28/2006	[redacted]	Camber 7 PLC
Sell	23243WAC2	CWL 0618 2A2	25,000,000	(25,000,000)	25,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	12668YAA1	CWL 06S10 A1	100,000,000	100,000,000	100,000,000	12/21/2006	12/29/2006	[redacted]	Camber 7 PLC
Sell	12668YAA1	CWL 06S10 A1	70,000,000	(70,000,000)	65,942,152	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	35729QAC2	FHLT 06B 2A2	10,000,000	10,000,000	10,000,000	2/9/2007	2/14/2007	[redacted]	Camber 7 PLC
Buy	35729QAC2	FHLT 06B 2A2	13,795,000	13,795,000	13,795,000	2/9/2007	2/14/2007	[redacted]	Camber 7 PLC
Sell	35729QAC2	FHLT 06B 2A2	18,763,538	(18,763,538)	18,763,538	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	35729TAD4	FHLT 06C 2A2	35,000,000	35,000,000	35,000,000	12/19/2006	12/22/2006	[redacted]	Camber 7 PLC
Sell	35729TAD4	FHLT 06C 2A2	35,000,000	(35,000,000)	35,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	43709NAD5	HEAT 067 2A3	50,000,000	50,000,000	50,000,000	9/22/2006	10/3/2006	[redacted]	Camber 7 PLC
Sell	43709NAD5	HEAT 067 2A3	50,000,000	(50,000,000)	50,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	57645MAE2	MABS 06WMC4 A5	19,000,000	19,000,000	19,000,000	11/3/2006	11/30/2006	[redacted]	Camber 7 PLC
Sell	57645MAE2	MABS 06WMC4 A5	19,000,000	(19,000,000)	19,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	617538AA1	MSAC 07HE3 A2A	23,300,000	23,300,000	23,300,000	2/26/2007	2/28/2007	[redacted]	Camber 7 PLC
Sell	617538AA1	MSAC 07HE3 A2A	23,300,000	(23,300,000)	23,300,000	2/27/2007	2/28/2007	LN	Camber 7 PLC
Buy	655374AA4	NAA 07S1 A1	34,000,000	34,000,000	34,000,000	2/13/2007	2/14/2007	[redacted]	Camber 7 PLC
Sell	655374AA4	NAA 07S1 A1	34,000,000	(34,000,000)	33,078,982	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	81376GAD2	SABR 06WM2 A2C	40,000,000	40,000,000	40,000,000	10/13/2006	10/26/2006	[redacted]	Camber 7 PLC
Sell	81376GAD2	SABR 06WM2 A2C	40,000,000	(40,000,000)	40,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	78581NAA0	SACO 072 A1	27,000,000	27,000,000	27,000,000	2/12/2007	2/28/2007	[redacted]	Camber 7 PLC
Sell	78581NAA0	SACO 072 A1	27,000,000	(27,000,000)	27,000,000	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	86362QAA1	SASC 07GEL1 A1	35,000,000	35,000,000	35,000,000	2/6/2007	2/9/2007	[redacted]	Camber 7 PLC
Sell	86362QAA1	SASC 07GEL1 A1	35,000,000	(35,000,000)	33,911,358	2/23/2007	2/28/2007	LN	Camber 7 PLC
Buy	617538AA1	MSAC 07HE3 A2A	23,300,000	23,300,000	23,300,000	2/26/2007	2/28/2007	[redacted]	Camber 7 PLC
Sell	617538AA1	MSAC 07HE3 A2A	23,300,000	(23,300,000)	23,300,000	2/27/2007	2/28/2007	LN	Camber 7 PLC
Buy	073855AA6	BSABS 07FS1 1A1	75,000,000	75,000,000	75,000,000	2/26/2007	2/28/2007	[redacted]	Camber 7 PLC
Sell	073855AA6	BSABS 07FS1 1A1	75,000,000	(75,000,000)	75,000,000	2/27/2007	2/28/2007	LN	Camber 7 PLC
Buy	655374AA4	NAA 07S1 A1	34,000,000	34,000,000	34,000,000	2/13/2007	2/14/2007	[redacted]	Camber 7 PLC

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Sell	655374AA4	NAA 07S1 A1	34,000,000	(33,078,982)	33,078,982	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	78581NAA0	SACO 072 A1	27,000,000	27,000,000	27,000,000	2/12/2007	2/28/2007 [redacted]	Camber 7 PLC
Sell	78581NAA0	SACO 072 A1	27,000,000	(27,000,000)	27,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	35729TAD4	FHLT 06C 2A2	35,000,000	35,000,000	35,000,000	12/19/2006	12/22/2006 [redacted]	Camber 7 PLC
Sell	35729TAD4	FHLT 06C 2A2	35,000,000	(35,000,000)	35,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	12668YAA1	CWL 06S10 A1	100,000,000	100,000,000	100,000,000	12/21/2006	12/29/2006 [redacted]	Camber 7 PLC
Sell	12668YAA1	CWL 06S10 A1	70,000,000	(65,942,152)	65,942,152	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	23243WAC2	CWL 0618 2A2	25,000,000	25,000,000	25,000,000	9/19/2006	9/28/2006 [redacted]	Camber 7 PLC
Sell	23243WAC2	CWL 0618 2A2	25,000,000	(25,000,000)	25,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	43709NAD5	HEAT 067 2A3	50,000,000	50,000,000	50,000,000	9/22/2006	10/03/2006 [redacted]	Camber 7 PLC
Sell	43709NAD5	HEAT 067 2A3	50,000,000	(50,000,000)	50,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	12666VAC5	CWL 0617 2A2	40,000,000	40,000,000	40,000,000	9/08/2006	9/25/2006 [redacted]	Camber 7 PLC
Buy	12666VAC5	CWL 0617 2A2	10,000,000	10,000,000	10,000,000	12/12/2006	12/15/2006 [redacted]	Camber 7 PLC
Sell	12666VAC5	CWL 0617 2A2	40,000,000	(40,000,000)	40,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	35729QAC2	FHLT 06B 2A2	13,795,000	13,795,000	13,795,000	2/09/2007	2/14/2007 [redacted]	Camber 7 PLC
Buy	35729QAC2	FHLT 06B 2A2	10,000,000	10,000,000	10,000,000	2/09/2007	2/14/2007 [redacted]	Camber 7 PLC
Sell	35729QAC2	FHLT 06B 2A2	18,763,538	(18,763,538)	18,763,538	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	040104TF8	ARSI 06W4 A2B	31,000,000	31,000,000	31,000,000	2/12/2007	2/15/2007 [redacted]	Camber 7 PLC
Sell	040104TF8	ARSI 06W4 A2B	31,000,000	(31,000,000)	31,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	00442CAD1	ACE 06FM2 A2C	12,000,000	12,000,000	12,000,000	10/20/2006	10/30/2006 [redacted]	Camber 7 PLC
Sell	00442CAD1	ACE 06FM2 A2C	12,000,000	(12,000,000)	12,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	05530MAA7	BCAP 06AA2 A1	40,000,000	40,000,000	40,000,000	11/22/2006	11/30/2006 [redacted]	Camber 7 PLC
Sell	05530MAA7	BCAP 06AA2 A1	40,000,000	(38,151,327)	38,151,327	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	BSMF07SL9	BSMF 07SL2 1A	55,000,000	55,000,000	55,000,000	2/21/2007	2/28/2007 [redacted]	Camber 7 PLC
Sell	BSMF07SL9	BSMF 07SL2 1A	55,000,000	(55,000,000)	55,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	04544QAD9	ABSHE 06HE7 A4	23,414,000	23,414,000	23,414,000	11/03/2006	11/30/2006 [redacted]	Camber 7 PLC
Sell	04544QAD9	ABSHE 06HE7 A4	23,414,000	(23,414,000)	23,414,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	86362QAA1	SASC 07GEL1 A1	35,000,000	35,000,000	35,000,000	2/06/2007	2/09/2007 [redacted]	Camber 7 PLC
Sell	86362QAA1	SASC 07GEL1 A1	35,000,000	(33,911,358)	33,911,358	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	57645MAE2	MABS 06WMC4 A5	19,000,000	19,000,000	19,000,000	11/03/2006	11/30/2006 [redacted]	Camber 7 PLC
Sell	57645MAE2	MABS 06WMC4 A5	19,000,000	(19,000,000)	19,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	14454AAC3	CARR 06FRE2 A3	20,000,000	20,000,000	20,000,000	10/05/2006	10/18/2006 [redacted]	Camber 7 PLC
Sell	14454AAC3	CARR 06FRE2 A3	20,000,000	(20,000,000)	20,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	81376GAD2	SABR 06WM2 A2C	40,000,000	40,000,000	40,000,000	10/13/2006	10/26/2006 [redacted]	Camber 7 PLC
Sell	81376GAD2	SABR 06WM2 A2C	40,000,000	(40,000,000)	40,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	17309QAC8	CMLTI 06WFH3 A3	30,000,000	30,000,000	30,000,000	10/05/2006	10/31/2006 [redacted]	Camber 7 PLC
Sell	17309QAC8	CMLTI 06WFH3 A3	30,000,000	(30,000,000)	30,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	07389RAP1	BSABS 06HE10 IIA2	50,000,000	50,000,000	50,000,000	12/19/2006	12/29/2006 [redacted]	Camber 7 PLC
Sell	07389RAP1	BSABS 06HE10 IIA2	50,000,000	(50,000,000)	50,000,000	2/23/2007	2/28/2007 LN	Camber 7 PLC
Buy	39539JAA4	GPMF 07HE1 A1	50,000,000	50,000,000	50,000,000	2/21/2007	3/06/2007 [redacted]	Camber 7 PLC
Sell	39539JAA4	GPMF 07HE1 A1	50,000,000	(50,000,000)	50,000,000	2/23/2007	3/06/2007 LN	Camber 7 PLC

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Buy/Sell	Cusip	BondName	Orig face	Actual Face	Current Face	Tradedate	SettleDate	Client	Deal
Buy	362257AA5	GSAA 0617 A1	589,300,000	589,300,000	589,300,000	10/13/2006	10/30/2006	ALT A MTG /	HUDMZ1
Sell	362257AA5	GSAA 0617 A1	94,300,000	(94,300,000)	94,300,000	11/20/2006	11/22/2006	LN	HUDMZ1
Buy	36245CAC6	GSAMP 06S6 A1C	95,531,000	95,531,000	95,531,000	10/13/2006	10/20/2006	SUBPRIME MT/	HUDMZ1
Sell	36245CAC6	GSAMP 06S6 A1C	68,531,000	(68,531,000)	68,531,000	11/20/2006	11/22/2006	LN	HUDMZ1
Buy	12668PAB8	CWALT 06OA17 1A1B	35,903,000	35,903,000	35,903,000	10/12/2006	10/17/2006	[redacted]	HUDMZ1
Sell	12668PAB8	CWALT 06OA17 1A1B	35,903,000	(35,903,000)	35,376,193	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	23245FAB9	CWALT 06OC10 2A1	75,000,000	75,000,000	75,000,000	11/27/2006	11/30/2006	[redacted]	HUDMZ1
Sell	23245FAB9	CWALT 06OC10 2A1	75,000,000	(75,000,000)	75,000,000	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	23245GAA9	CWALT 06OC9 A1	100,000,000	100,000,000	100,000,000	11/8/2006	11/15/2006	[redacted]	HUDMZ1
Sell	23245GAA9	CWALT 06OC9 A1	100,000,000	(100,000,000)	99,570,235	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	12667HAB7	CWL 0620 2A1	100,000,000	100,000,000	100,000,000	10/26/2006	11/8/2006	[redacted]	HUDMZ1
Sell	12667HAB7	CWL 0620 2A1	100,000,000	(100,000,000)	99,401,655	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	12668VAA7	CWL 06S7 A1	100,000,000	100,000,000	100,000,000	11/17/2006	11/30/2006	[redacted]	HUDMZ1
Sell	12668VAA7	CWL 06S7 A1	100,000,000	(100,000,000)	100,000,000	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	35729VAB3	FHLT 06D 2A1	75,000,000	75,000,000	75,000,000	10/25/2006	11/3/2006	[redacted]	HUDMZ1
Sell	35729VAB3	FHLT 06D 2A1	32,250,877	(32,250,877)	32,250,877	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	3622ELAA4	GSAA 0618 AV1	218,347,000	218,347,000	218,347,000	11/14/2006	11/30/2006	ALT A MTG NI ACCT	HUDMZ1
Sell	3622ELAA4	GSAA 0618 AV1	100,000,000	(100,000,000)	100,000,000	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	362725AA1	GSRPM 062 A1A	25,784,000	25,784,000	25,784,000	10/11/2006	10/18/2006	ABS MTG SYN NI ACCT	HUDMZ1
Sell	362725AA1	GSRPM 062 A1A	15,077,428	(15,077,428)	14,623,326	11/22/2006	11/24/2006	LN	HUDMZ1
Sell	362725AA1	GSRPM 062 A1A	468,204	(468,204)	437,925	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	44328AAB6	HASC 06HE1 2A1	25,000,000	25,000,000	25,000,000	10/18/2006	11/3/2006	[redacted]	HUDMZ1
Sell	44328AAB6	HASC 06HE1 2A1	25,000,000	(25,000,000)	24,509,647	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	65537FAB7	NHELI 06FM2 2A1	72,000,000	72,000,000	72,000,000	10/17/2006	10/31/2006	[redacted]	HUDMZ1
Sell	65537FAB7	NHELI 06FM2 2A1	72,000,000	(72,000,000)	67,737,634	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	362725AA1	GSRPM 062 A1A	25,784,000	25,784,000	25,784,000	10/11/2006	10/18/2006	ABS MTG SYN NI ACCT	HUDMZ1
Sell	362725AA1	GSRPM 062 A1A	468,204	(437,925)	437,925	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	3622ELAA4	GSAA 0618 AV1	218,347,000	218,347,000	218,347,000	11/14/2006	11/30/2006	ALT A MTG NI ACCT	HUDMZ1
Sell	3622ELAA4	GSAA 0618 AV1	100,000,000	(100,000,000)	100,000,000	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	23245GAA9	CWALT 06OC9 A1	100,000,000	100,000,000	100,000,000	11/08/2006	11/15/2006	[redacted]	HUDMZ1
Sell	23245GAA9	CWALT 06OC9 A1	100,000,000	(99,570,235)	99,570,235	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	65537FAB7	NHELI 06FM2 2A1	72,000,000	72,000,000	72,000,000	10/17/2006	10/31/2006	[redacted]	HUDMZ1
Sell	65537FAB7	NHELI 06FM2 2A1	72,000,000	(67,737,634)	67,737,634	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	44328AAB6	HASC 06HE1 2A1	25,000,000	25,000,000	25,000,000	10/18/2006	11/03/2006	[redacted]	HUDMZ1
Sell	44328AAB6	HASC 06HE1 2A1	25,000,000	(24,509,647)	24,509,647	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	23245FAB9	CWALT 06OC10 2A1	75,000,000	75,000,000	75,000,000	11/27/2006	11/30/2006	[redacted]	HUDMZ1
Sell	23245FAB9	CWALT 06OC10 2A1	75,000,000	(75,000,000)	75,000,000	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	12667HAB7	CWL 0620 2A1	100,000,000	100,000,000	100,000,000	10/26/2006	11/08/2006	[redacted]	HUDMZ1
Sell	12667HAB7	CWL 0620 2A1	100,000,000	(99,401,656)	99,401,656	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	35729VAB3	FHLT 06D 2A1	75,000,000	75,000,000	75,000,000	10/25/2006	11/03/2006	[redacted]	HUDMZ1
Sell	35729VAB3	FHLT 06D 2A1	32,250,877	(32,250,877)	32,250,877	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	12668VAA7	CWL 06S7 A1	100,000,000	100,000,000	100,000,000	11/17/2006	11/30/2006	[redacted]	HUDMZ1
Sell	12668VAA7	CWL 06S7 A1	100,000,000	(100,000,000)	100,000,000	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	12668PAB8	CWALT 06OA17 1A1B	35,903,000	35,903,000	35,903,000	10/12/2006	10/17/2006	[redacted]	HUDMZ1
Sell	12668PAB8	CWALT 06OA17 1A1B	35,903,000	(35,376,193)	35,376,193	11/28/2006	12/5/2006	LN	HUDMZ1
Buy	23245PAC5	CWALT 06OA22 A3	25,850,000	25,850,000	25,850,000	12/07/2006	12/11/2006	[redacted]	HUDMZ1
Sell	23245PAC5	CWALT 06OA22 A3	25,850,000	(25,680,256)	25,680,256	1/2/2007	1/5/2007	LN	HUDMZ1

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Buy	643529AA8	NCAMT 06ALT2 AV1	186,161,000	186,161,000	186,161,000	10/19/2006	10/30/2006	ALT A MTG NI ACCT	HUDMZ1
Sell	643529AA8	NCAMT 06ALT2 AV1	1,500,000	(1,343,975)	1,343,975	1/2/2007	1/5/2007	LN	HUDMZ1
Sell	643529AA8	NCAMT 06ALT2 AV1	1,790,000	(1,603,810)	1,603,810	1/16/2007	1/19/2007	LN	HUDMZ1
Sell	643529AA8	NCAMT 06ALT2 AV1	2,400,000	(1,976,433)	1,976,433	1/30/2007	2/2/2007	LN	HUDMZ1
Sell	643529AA8	NCAMT 06ALT2 AV1	27,000,000	(22,234,873)	22,234,873	2/15/2007	2/21/2007	LN	HUDMZ1
Buy	66988RAC1	NHEL 066 A2B	45,000,000	45,000,000	45,000,000	11/20/2006	11/30/2006	[redacted]	HUDMZ1
Sell	66988RAC1	NHEL 066 A2B	33,000,000	(33,000,000)	33,000,000	2/28/2007	3/5/2007	LN	HUDMZ1
Buy	40051CAA5	GSAA 06S1 IA1	240,924,000	240,924,000	240,924,000	12/15/2006	12/28/2006	[redacted]	HUDMZ1
Sell	40051CAA5	GSAA 06S1 IA1	2,945,000	(2,733,317)	2,733,317	3/16/2007	3/21/2007	LN	HUDMZ1
Buy	126708AA7	CWL 07S2 A1	70,000,000	70,000,000	70,000,000	3/23/2007	3/30/2007	[redacted]	HUDMZ1
Sell	126708AA7	CWL 07S2 A1	10,350,000	(10,350,000)	10,350,000	3/30/2007	4/3/2007	LN	HUDMZ1
Buy	12669HAA7	CWL 07QH1 A1	20,000,000	20,000,000	20,000,000	3/29/2007	3/30/2007	[redacted]	HUDMZ1
Sell	12669HAA7	CWL 07QH1 A1	20,000,000	(20,000,000)	20,000,000	3/30/2007	4/3/2007	LN	HUDMZ1
Buy	144528AB2	CARR 06NC3 A2	10,000,000	10,000,000	10,000,000	4/10/2007	4/13/2007	[redacted]	HUDMZ1
Sell	144528AB2	CARR 06NC3 A2	815,000	(815,000)	815,000	4/18/2007	4/20/2007	LN	HUDMZ1
Buy	144528AB2	CARR 06NC3 A2	10,000,000	10,000,000	10,000,000	4/10/2007	4/13/2007	[redacted]	HUDMZ1
Sell	144528AB2	CARR 06NC3 A2	5,192,715	(5,192,715)	5,192,715	4/30/2007	5/3/2007	LN	HUDMZ1
Buy	3622ECAA4	GSAA 0705 1AV1	144,477,000	144,477,000	144,477,000	4/11/2007	4/30/2007	ALT A MTG NI ACCT	HUDMZ1
Sell	3622ECAA4	GSAA 0705 1AV1	9,108,000	(9,108,000)	9,108,000	4/30/2007	5/3/2007	LN	HUDMZ1
Buy	004375EH0	ACCR 054 A2C	128,843,000	128,843,000	128,843,000	11/10/2005	11/23/2005	ABS MTG SYN NI ACCT	HUDMZ1
Sell	004375EH0	ACCR 054 A2C	3,843,000	(3,843,000)	3,843,000	4/30/2007	5/3/2007	LN	HUDMZ1
Buy	75156UAB3	RAMP 06RZ2 A2	13,500,000	13,500,000	13,500,000	4/30/2007	5/03/2007	[redacted]	HUDMZ1
Sell	75156UAB3	RAMP 06RZ2 A2	13,500,000	(13,500,000)	13,500,000	4/30/2007	5/3/2007	LN	HUDMZ1
Buy	64352VQR5	NCHET 061 A2B	10,000,000	10,000,000	10,000,000	4/10/2007	4/13/2007	[redacted]	HUDMZ1
Sell	64352VQR5	NCHET 061 A2B	10,000,000	(10,000,000)	10,000,000	5/31/2007	6/5/2007	LN	HUDMZ1
Buy	144539AC7	CARR 06NC5 A3	25,000,000	25,000,000	25,000,000	1/16/2007	1/19/2007	[redacted]	HUDMZ1
Sell	144539AC7	CARR 06NC5 A3	9,334,000	(9,334,000)	9,334,000	5/31/2007	6/5/2007	LN	HUDMZ1
Buy	64352VJY8	NCHET 051 A2C	13,757,000	13,757,000	13,757,000	3/14/2007	3/19/2007	[redacted]	HUDMZ1
Sell	64352VJY8	NCHET 051 A2C	13,757,000	(10,894,088)	10,894,088	7/6/2007	7/11/2007	LN	HUDMZ1
Buy	362341KA6	GSAMP 05HE4 A2B	50,000,000	42,529,886	42,529,886	6/07/2007	6/11/2007	[redacted]	HUDMZ1
Sell	362341KA6	GSAMP 05HE4 A2B	25,000,000	(17,681,632)	17,681,632	7/6/2007	7/11/2007	LN	HUDMZ1

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Buy/Sell	Cusip	BondName	Orig face	Actual Face	Current Face	Tradedate	SettleDate	Client	Deal
Buy	00438QAA2	ACCR 071 A1	15,000,000	15,000,000	15,000,000	1/24/2007	1/30/2007	[redacted]	HUDMZ2
Sell	00438QAA2	ACCR 071 A1	15,000,000	(15,000,000)	15,000,000	2/5/2007	2/8/2007	LN	HUDMZ2
Buy	12668YAA1	CWL 06S10 A1	100,000,000	100,000,000	100,000,000	12/21/2006	12/29/2006	[redacted]	HUDMZ2
Sell	12668YAA1	CWL 06S10 A1	30,000,000	(30,000,000)	29,236,656	2/5/2007	2/8/2007	LN	HUDMZ2
Buy	3622ELAA4	GSAA 0618 AV1	218,347,000	218,347,000	218,347,000	11/14/2006	11/30/2006	ALT A MTG NI ACCT	HUDMZ2
Sell	3622ELAA4	GSAA 0618 AV1	10,000,000	(10,000,000)	9,115,101	2/5/2007	2/8/2007	LN	HUDMZ2
Sell	3622ELAA4	GSAA 0618 AV1	10,000,000	(10,000,000)	9,115,101	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	362351AD0	GSAA 0620 2A1B	16,076,000	16,076,000	16,076,000	12/12/2006	12/29/2006	ALT A MTG NI ACCT	HUDMZ2
Sell	362351AD0	GSAA 0620 2A1B	11,000,000	(11,000,000)	10,722,437	2/5/2007	2/8/2007	LN	HUDMZ2
Sell	362351AD0	GSAA 0620 2A1B	5,076,000	(5,076,000)	4,947,917	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	36245TAC9	GSAMP 06FM3 A2B	59,281,000	59,281,000	59,281,000	12/15/2006	12/21/2006	NON PERFORMING MTG S	HUDMZ2
Sell	36245TAC9	GSAMP 06FM3 A2B	10,000,000	(10,000,000)	10,000,000	2/6/2007	2/8/2007	LN	HUDMZ2
Sell	36245TAC9	GSAMP 06FM3 A2B	10,000,000	(10,000,000)	10,000,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	40431KAA8	HALO 07WF1 A1	20,000,000	20,000,000	20,000,000	1/26/2007	2/6/2007	[redacted]	HUDMZ2
Sell	40431KAA8	HALO 07WF1 A1	20,000,000	(20,000,000)	20,000,000	2/7/2007	2/8/2007	LN	HUDMZ2
Buy	40431KAB6	HALO 07WF1 A2	8,374,000	8,374,000	8,374,000	1/26/2007	2/6/2007	[redacted]	HUDMZ2
Sell	40431KAB6	HALO 07WF1 A2	8,374,000	(8,374,000)	8,374,000	2/5/2007	2/8/2007	LN	HUDMZ2
Buy	45668WAA5	INDX 07FLX1 A1	155,024,000	155,024,000	155,024,000	1/18/2007	1/31/2007	[redacted]	HUDMZ2
Sell	45668WAA5	INDX 07FLX1 A1	20,024,000	(20,024,000)	20,024,000	2/5/2007	2/8/2007	LN	HUDMZ2
Buy	45668WAA5	INDX 07FLX1 A1	155,024,000	155,024,000	155,024,000	1/18/2007	1/31/2007	[redacted]	HUDMZ2
Sell	45668WAA5	INDX 07FLX1 A1	20,024,000	(20,024,000)	20,024,000	2/5/2007	2/8/2007	LN	HUDMZ2
Buy	3622EQAA3	GSAA 0701 1A1	515,268,000	515,268,000	515,268,000	1/11/2007	1/30/2007	ALT A MTG /	HUDMZ2
Sell	3622EQAA3	GSAA 0701 1A1	10,268,000	(10,268,000)	10,268,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	3622MHAC0	GSAMP 07FM2 A2B	62,864,000	62,864,000	62,864,000	2/15/2007	2/21/2007	NON PERFORM/	HUDMZ2
Sell	3622MHAC0	GSAMP 07FM2 A2B	62,864,000	(62,864,000)	62,864,000	2/15/2007	2/21/2007	LN	HUDMZ2
Buy	36245YAV6	GSAMP 07H1 A2A2M	10,157,000	10,157,000	10,157,000	1/23/2007	1/31/2007	NON PERFORM/	HUDMZ2
Sell	36245YAV6	GSAMP 07H1 A2A2M	5,157,000	(5,157,000)	5,157,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	643529AA8	NCAMT 06ALT2 AV1	186,161,000	186,161,000	186,161,000	10/19/2006	10/30/2006	ALT A MTG /	HUDMZ2
Sell	643529AA8	NCAMT 06ALT2 AV1	27,000,000	(27,000,000)	22,234,873	2/15/2007	2/21/2007	LN	HUDMZ2
Buy	36245YAV6	GSAMP 07H1 A2A2M	10,157,000	10,157,000	10,157,000	1/23/2007	1/31/2007	NON PERFORMING MTG S	HUDMZ2
Sell	36245YAV6	GSAMP 07H1 A2A2M	5,157,000	(5,157,000)	5,157,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	362351AD0	GSAA 0620 2A1B	16,076,000	16,076,000	16,076,000	12/12/2006	12/29/2006	ALT A MTG NI ACCT	HUDMZ2
Sell	362351AD0	GSAA 0620 2A1B	5,076,000	(4,947,917)	4,947,917	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	36245TAC9	GSAMP 06FM3 A2B	59,281,000	59,281,000	59,281,000	12/15/2006	12/21/2006	NON PERFORMING MTG S	HUDMZ2
Sell	36245TAC9	GSAMP 06FM3 A2B	10,000,000	(10,000,000)	10,000,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	3622ELAA4	GSAA 0618 AV1	218,347,000	218,347,000	218,347,000	11/14/2006	11/30/2006	ALT A MTG NI ACCT	HUDMZ2
Sell	3622ELAA4	GSAA 0618 AV1	10,000,000	(10,000,000)	10,000,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	3622MHAC0	GSAMP 07FM2 A2B	62,864,000	62,864,000	62,864,000	2/15/2007	2/21/2007	NON PERFORMING MTG S	HUDMZ2
Sell	3622MHAC0	GSAMP 07FM2 A2B	62,864,000	(62,864,000)	62,864,000	2/15/2007	2/21/2007	LN	HUDMZ2
Buy	3622EQAA3	GSAA 0701 1A1	515,268,000	515,268,000	515,268,000	1/11/2007	1/30/2007	ALT A MTG NI ACCT	HUDMZ2
Sell	3622EQAA3	GSAA 0701 1A1	10,268,000	(10,268,000)	10,268,000	2/16/2007	2/21/2007	LN	HUDMZ2
Buy	3622MDAC9	GSAMP 07HE1 A2B	44,191,000	44,191,000	44,191,000	2/20/2007	2/23/2007	NON PERFORMING MTG S	HUDMZ2
Sell	3622MDAC9	GSAMP 07HE1 A2B	44,191,000	(44,191,000)	44,191,000	2/20/2007	2/23/2007	LN	HUDMZ2
Buy	3622MDAB1	GSAMP 07HE1 A2A	50,000,000	50,000,000	50,000,000	2/21/2007	2/23/2007	NON PERFORMING MTG S	HUDMZ2
Sell	3622MDAB1	GSAMP 07HE1 A2A	50,000,000	(50,000,000)	50,000,000	2/21/2007	2/23/2007	LN	HUDMZ2
Buy	3622MDAB1	GSAMP 07HE1 A2A	50,000,000	50,000,000	50,000,000	2/21/2007	2/23/2007	NON PERFORM/	HUDMZ2
Sell	3622MDAB1	GSAMP 07HE1 A2A	50,000,000	(50,000,000)	50,000,000	2/21/2007	2/23/2007	LN	HUDMZ2

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Buy	3622MDAC9	GSAMP 07HE1 A2B	44,191,000	44,191,000	44,191,000	2/20/2007	2/23/2007	NON PERFORM	HUDMZ2
Sell	3622MDAC9	GSAMP 07HE1 A2B	44,191,000	(44,191,000)	44,191,000	2/20/2007	2/23/2007	LN	HUDMZ2
Buy	12668BRE5	CWALT 06OC2 2A1	24,500,000	24,500,000	15,256,402	2/1/2007	2/6/2007	[redacted]	HUDMZ2
Buy	12668BRE5	CWALT 06OC2 2A1	24,000,000	24,000,000	14,945,046	2/1/2007	2/6/2007	[redacted]	HUDMZ2
Sell	12668BRE5	CWALT 06OC2 2A1	48,500,000	(48,500,000)	28,111,412	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	126684AA7	CWL 06S6 A1	9,400,000	9,400,000	8,444,540	1/23/2007	1/26/2007	[redacted]	HUDMZ2
Sell	126684AA7	CWL 06S6 A1	9,400,000	(9,400,000)	9,400,000	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	12666MAA9	CWL 06SPS1 A	18,500,000	18,500,000	16,195,088	1/23/2007	1/26/2007	[redacted]	HUDMZ2
Sell	12666MAA9	CWL 06SPS1 A	18,500,000	(18,500,000)	18,500,000	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	35729VAB3	FHLT 06D 2A1	75,000,000	75,000,000	75,000,000	10/25/2006	11/3/2006	[redacted]	HUDMZ2
Sell	35729VAB3	FHLT 06D 2A1	14,000,000	(14,000,000)	12,265,135	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	12666MAA9	CWL 06SPS1 A	18,500,000	16,195,088	16,195,088	1/23/2007	1/26/2007	[redacted]	HUDMZ2
Sell	12666MAA9	CWL 06SPS1 A	18,500,000	(16,098,352)	16,098,352	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	12668BRE5	CWALT 06OC2 2A1	24,500,000	15,256,402	15,256,402	2/01/2007	2/06/2007	[redacted]	HUDMZ2
Buy	12668BRE5	CWALT 06OC2 2A1	24,000,000	14,945,046	14,945,046	2/01/2007	2/06/2007	[redacted]	HUDMZ2
Sell	12668BRE5	CWALT 06OC2 2A1	48,500,000	(30,201,448)	30,201,448	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	35729VAB3	FHLT 06D 2A1	75,000,000	75,000,000	75,000,000	10/25/2006	11/03/2006	[redacted]	HUDMZ2
Sell	35729VAB3	FHLT 06D 2A1	14,000,000	(14,000,000)	14,000,000	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	126684AA7	CWL 06S6 A1	9,400,000	8,444,540	8,444,540	1/23/2007	1/26/2007	[redacted]	HUDMZ2
Sell	126684AA7	CWL 06S6 A1	9,400,000	(8,444,540)	8,444,540	2/22/2007	2/27/2007	LN	HUDMZ2
Buy	12668KAC7	CWL 075 2A2	15,000,000	15,000,000	15,000,000	3/23/2007	3/30/2007	[redacted]	HUDMZ2
Sell	12668KAC7	CWL 075 2A2	15,000,000	(15,000,000)	15,000,000	3/26/2007	3/30/2007	LN	HUDMZ2
Buy	32029GAC8	FFML 07FF2 A2B	46,500,000	46,500,000	46,500,000	3/27/2007	3/30/2007	[redacted]	HUDMZ2
Sell	32029GAC8	FFML 07FF2 A2B	11,800,000	(11,800,000)	11,800,000	3/30/2007	4/3/2007	LN	HUDMZ2
Buy	004375EH0	ACCR 054 A2C	128,843,000	128,843,000	128,843,000	11/10/2005	11/23/2005	ABS MTG SYN NI ACCT	HUDMZ2
Sell	004375EH0	ACCR 054 A2C	7,000,000	(7,000,000)	7,000,000	4/30/2007	5/3/2007	LN	HUDMZ2
Sell	004375EH0	ACCR 054 A2C	600,000	600,000	600,000	5/30/2007	6/4/2007	LN	HUDMZ2
Buy	07389RAN6	BSABS 06HE10 21A1	30,000,000	30,000,000	30,000,000	12/19/2006	12/29/2006	[redacted]	HUDMZ2
Sell	07389RAN6	BSABS 06HE10 21A1	4,000,000	(3,465,402)	3,465,402	5/30/2007	6/4/2007	LN	HUDMZ2
Buy	12669WAD8	CWL 078 2A2	6,844,000	6,844,000	6,844,000	5/21/2007	5/31/2007	[redacted]	HUDMZ2
Sell	12669WAD8	CWL 078 2A2	2,000,000	(2,000,000)	2,000,000	5/30/07	6/4/2007	LN	HUDMZ2
Buy	362341KA6	GSAMP 05HE4 A2B	255,843,000	255,843,000	255,843,000	8/15/2005	8/25/2005	GSAMP Collateral	HUDMZ2
Sell	362341KA6	GSAMP 05HE4 A2B	3,724,000	(1,559,477)	1,559,477	5/30/2007	6/4/2007	LN	HUDMZ2
Buy	362341QH5	GSAA 0511 3A3	168,833,000	168,833,000	168,833,000	9/12/2005	9/29/2005	Alt A MTG/AL NI	HUDMZ2
Sell	362341QH5	GSAA 0511 3A3	3,724,000	(1,559,478)	1,559,478	5/30/2007	6/04/2007	LN	HUDMZ2
Buy	12669WAD8	CWL 078 2A2	3,694,000	3,694,000	3,694,000	5/21/2007	5/31/2007	[redacted]	HUDMZ2
Sell	12669WAD8	CWL 078 2A2	3,694,000	(3,694,000)	3,694,000	5/31/2007	6/5/2007	LN	HUDMZ2
Buy	36249BAA8	GSAA 0707 1A1	161,141,000	161,141,000	161,141,000	6/22/2007	6/28/2007	ALT A MTG NI ACCT	HUDMZ2
Sell	36249BAA8	GSAA 0707 1A1	7,811,000	(7,811,000)	7,811,000	7/9/2007	7/12/2007	LN	HUDMZ2

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Buy/Sell	Cusip	BondName	Orig face	Actual Face	Current Face	Tradedate	SettleDate	Client	Deal
Buy	04541GRJ3	ABSHE 05HE4 A1	41,000,000	41,000,000	9,731,001	3/23/2007	3/28/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	04541GRJ3	ABSHE 05HE4 A1	41,000,000	(41,000,000)	9,731,001	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	04544NAD6	ABSHE 06HE6 A4	10,000,000	10,000,000	10,000,000	3/9/2007	3/9/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	04544NAD6	ABSHE 06HE6 A4	1,000,000	(1,000,000)	1,000,000	3/22/2007	3/27/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Sell	04544NAD6	ABSHE 06HE6 A4	9,000,000	(9,000,000)	9,000,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	030725F91	AMSI 05R6 A2	97,306,000	97,306,000	34,470,127	3/23/2007	3/28/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	030725F91	AMSI 05R6 A2	83,106,000	(83,106,000)	29,439,854	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	144528AB2	CARR 06NC3 A2	10,000,000	10,000,000	10,000,000	4/10/2007	4/13/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	144528AB2	CARR 06NC3 A2	3,597,285	(3,597,285)	3,597,285	4/17/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	23242MAA9	CWL 06S3 A1	8,970,000	8,970,000	6,747,372	4/9/2007	4/12/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	23242MAA9	CWL 06S3 A1	8,970,000	(8,970,000)	6,747,372	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	126683AA9	CWL 06S5 A1	7,060,000	7,060,000	5,836,388	4/2/2007	4/5/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	126683AA9	CWL 06S5 A1	7,060,000	(7,060,000)	5,836,388	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	12668WAA5	CWL 074 A1A	10,000,000	10,000,000	10,000,000	3/23/2007	3/29/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	12668WAA5	CWL 074 A1A	10,000,000	(10,000,000)	10,000,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	12669LAC4	CWL 076 2A2	12,000,000	12,000,000	12,000,000	3/29/2007	3/30/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	12669LAC4	CWL 076 2A2	12,000,000	(12,000,000)	12,000,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	12670BAA7	CWL 07S2 A1	70,000,000	70,000,000	70,000,000	3/23/2007	3/30/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	12670BAA7	CWL 07S2 A1	56,050,000	(56,050,000)	56,050,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	32029GAC8	FFML 07FF2 A2B	46,500,000	46,500,000	46,500,000	3/27/2007	3/30/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	32029GAC8	FFML 07FF2 A2B	34,700,000	(34,700,000)	34,700,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	362341QH5	GSAA 0511 3A3	168,833,000	168,833,000	168,833,000	9/12/2005	9/29/2005	ALT A MTG NI ACCT	Point Pleasant Funding 2007-1, Ltd.
Sell	362341QH5	GSAA 0511 3A3	21,500,000	(21,500,000)	9,778,926	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	362341AM1	GSAA 057 AV1	50,000,000	50,000,000	11,822,109	4/11/2007	4/16/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	362341AM1	GSAA 057 AV1	50,000,000	(50,000,000)	11,822,109	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	40051CAA5	GSAA 06S1 IA1	85,924,000	85,924,000	79,747,892	2/27/2007	3/2/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	40051CAA5	GSAA 06S1 IA1	1,161,681	(1,161,681)	1,029,296	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	3622EAAX8	GSAA 0703 1A1B	62,428,000	62,428,000	62,428,000	2/16/2007	2/23/2007	ALT A MTG NI ACCT	Point Pleasant Funding 2007-1, Ltd.
Sell	3622EAAX8	GSAA 0703 1A1B	12,050,000	(12,050,000)	11,919,451	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	3622EBAA6	GSAA 0704 A1	535,274,000	535,274,000	535,274,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Point Pleasant Funding 2007-1, Ltd.
Sell	3622EBAA6	GSAA 0704 A1	150,191,000	(150,191,000)	150,191,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	3622EBAB4	GSAA 0704 A2	143,692,000	143,692,000	143,692,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Point Pleasant Funding 2007-1, Ltd.
Sell	3622EBAB4	GSAA 0704 A2	904,000	(904,000)	904,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	57643LGV2	MABS 05WMC1 A5	5,000,000	5,000,000	5,000,000	1/10/2007	1/16/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	57643LGV2	MABS 05WMC1 A5	5,000,000	(5,000,000)	5,000,000	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	57645JAA7	MABS 06HE3 A1	14,000,000	14,000,000	11,107,172	3/12/2007	3/13/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	57645JAA7	MABS 06HE3 A1	14,000,000	(14,000,000)	10,613,234	4/16/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	76112BEB2	RAMP 04RS10 AII4	5,000,000	5,000,000	4,544,062	4/11/2007	4/16/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	76112BEB2	RAMP 04RS10 AII4	5,000,000	(5,000,000)	4,544,062	4/17/2007	4/18/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	362440AC3	GSAMP 07HE2 A2B	20,000,000	20,000,000	20,000,000	3/30/2007	4/20/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	362440AC3	GSAMP 07HE2 A2B	13,347,000	(13,347,000)	13,347,000	4/16/2007	4/20/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	30248EAA6	FFML 07FFBS5 A	295,150,000	295,150,000	295,150,000	4/12/2007	4/26/2007	SUBPRIME MTG NZ ACCT	Point Pleasant Funding 2007-1, Ltd.
Sell	30248EAA6	FFML 07FFBS5 A	84,313,000	(84,313,000)	84,313,000	4/16/2007	4/26/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	3622ECAA4	GSAA 0705 1AV1	144,477,000	144,477,000	144,477,000	4/11/2007	4/30/2007	ALT A MTG/AL NI	Point Pleasant Funding 2007-1, Ltd.
Sell	3622ECAA4	GSAA 0705 1AV1	113,369,000	(113,369,000)	113,369,000	4/16/2007	4/30/2007	NY LT	Point Pleasant Funding 2007-1, Ltd.
Buy	02150KAA7	CWALT 07OH1 A1A	10,000,000	10,000,000	10,000,000	5/22/2007	5/30/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	02150KAA7	CWALT 07OH1 A1A	10,000,000	(10,000,000)	10,000,000	5/31/2007	6/5/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	12669WAC0	CWL 078 2A1	10,000,000	10,000,000	10,000,000	5/21/2007	5/31/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	12669WAC0	CWL 078 2A1	10,000,000	(10,000,000)	10,000,000	5/31/2007	6/5/2007	LN	Point Pleasant Funding 2007-1, Ltd.
Buy	02150KAB5	CWALT 07OH1 A2A	15,072,000	14,655,577	14,655,577	6/26/2007	6/29/2007	[redacted]	Point Pleasant Funding 2007-1, Ltd.
Sell	02150KAB5	CWALT 07OH1 A2A	15,072,000	(14,655,577)	14,655,577	7/9/2007	7/12/2007	LN	Point Pleasant Funding 2007-1, Ltd.

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Buy/Sell	Cusip	BondName	Orig face	Actual Face	Current Face	Tradedate	SettleDate	Client	Deal
Buy	362341L49	GSAMP 05WMC3 A2B	1,000,000	1,000,000	1,000,000	1/10/2007	1/12/2007	[redacted]	Timberwolf I
Sell	362341L49	GSAMP 05WMC3 A2B	1,000,000	(1,000,000)	1,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	362439AD3	GSAMP 06HE4 A2C	10,368,000	10,368,000	10,368,000	3/9/2007	3/14/2007	[redacted]	Timberwolf I
Sell	362439AD3	GSAMP 06HE4 A2C	5,368,000	(5,368,000)	5,368,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	362334QF4	GSRPM 061 A2	2,400,000	2,400,000	2,183,305	7/18/2006	7/19/2006	[redacted]	Timberwolf I
Sell	362334QF4	GSRPM 061 A2	2,400,000	(2,400,000)	1,434,237	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	44386QAA2	HUDMZ 062 S 144A	7,900,000	7,900,000	7,900,000	2/6/2007	2/8/2007	[redacted]	Timberwolf I
Sell	44386QAA2	HUDMZ 062 S 144A	4,300,000	(4,300,000)	4,300,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	46626LEJ5	JPMAC 05OPT2 A3	1,000,000	1,000,000	1,000,000	1/10/2007	1/12/2007	[redacted]	Timberwolf I
Sell	46626LEJ5	JPMAC 05OPT2 A3	1,000,000	(1,000,000)	1,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	55275TAC2	MABS 07WMC1 A3	48,850,000	48,850,000	48,850,000	2/12/2007	2/27/2007	[redacted]	Timberwolf I
Sell	55275TAC2	MABS 07WMC1 A3	26,850,000	(26,850,000)	26,850,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	59022QAD4	MLMI 06HE5 A2C	40,000,000	40,000,000	40,000,000	9/11/2006	9/28/2006	[redacted]	Timberwolf I
Sell	59022QAD4	MLMI 06HE5 A2C	22,000,000	(22,000,000)	22,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	61749NAC1	MSAC 06HE5 A2B	32,000,000	32,000,000	32,000,000	3/13/2007	3/16/2007	[redacted]	Timberwolf I
Sell	61749NAC1	MSAC 06HE5 A2B	32,000,000	(32,000,000)	32,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	61750FAE0	MSAC 06HE6 A2C	30,000,000	30,000,000	30,000,000	9/8/2006	9/27/2006	[redacted]	Timberwolf I
Sell	61750FAE0	MSAC 06HE6 A2C	15,000,000	(15,000,000)	15,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	617463AC8	MSIX 062 A3	11,470,000	11,470,000	11,470,000	11/3/2006	11/28/2006	[redacted]	Timberwolf I
Sell	617463AC8	MSIX 062 A3	11,470,000	(11,470,000)	11,470,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	643529AA8	NCAMT 06ALT2 AV1	186,161,000	186,161,000	186,161,000	10/19/2006	10/30/2006	ALT A MTG NI ACCT	Timberwolf I
Sell	643529AA8	NCAMT 06ALT2 AV1	20,241,000	(20,241,000)	13,054,336	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	64352VLG4	NCHET 053 A2C	11,570,000	11,570,000	11,570,000	3/15/2007	3/20/2007	[redacted]	Timberwolf I
Sell	64352VLG4	NCHET 053 A2C	11,570,000	(11,570,000)	11,570,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	64352VNW7	NCHET 05C A2B	5,000,000	5,000,000	5,000,000	3/14/2007	3/19/2007	[redacted]	Timberwolf I
Sell	64352VNW7	NCHET 05C A2B	5,000,000	(5,000,000)	5,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	66988RAC1	NHEL 066 A2B	45,000,000	45,000,000	45,000,000	11/20/2006	11/30/2006	[redacted]	Timberwolf I
Sell	66988RAC1	NHEL 066 A2B	5,550,000	(5,550,000)	5,550,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	69121PBT9	OWNIT 05S A2B	31,727,000	31,727,000	31,727,000	3/13/2007	3/16/2007	[redacted]	Timberwolf I
Sell	69121PBT9	OWNIT 05S A2B	31,727,000	(31,727,000)	31,727,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	71085PBX0	PCHLT 052 A3	11,322,000	11,322,000	11,322,000	1/17/2007	1/24/2007	[redacted]	Timberwolf I
Sell	71085PBX0	PCHLT 052 A3	6,322,000	(6,322,000)	6,322,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	76110WF35	RASC 04KS9 AII4	11,650,000	11,650,000	5,778,245	7/26/2006	7/31/2006	[redacted]	Timberwolf I
Sell	76110WF35	RASC 04KS9 AII4	11,650,000	(11,650,000)	2,757,206	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	76113ABH3	RASC 06KS3 AI3	10,000,000	10,000,000	10,000,000	3/14/2007	3/19/2007	[redacted]	Timberwolf I
Sell	76113ABH3	RASC 06KS3 AI3	10,000,000	(10,000,000)	10,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	78577RAA7	SACO 069 A1	39,000,000	39,000,000	32,077,010	3/14/2007	3/19/2007	[redacted]	Timberwolf I
Sell	78577RAA7	SACO 069 A1	39,000,000	(39,000,000)	31,113,939	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	86362YAC0	SASC 07BC2 A3	26,814,000	26,814,000	26,814,000	3/13/2007	3/16/2007	[redacted]	Timberwolf I
Sell	86362YAC0	SASC 07BC2 A3	26,814,000	(26,814,000)	26,814,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	04544NAD6	ABSHE 06HE6 A4	10,000,000	10,000,000	10,000,000	3/9/2007	3/9/2007	[redacted]	Timberwolf I
Sell	04544NAD6	ABSHE 06HE6 A4	1,000,000	(1,000,000)	1,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	40051CAA5	GSAA 06S1 IA1	85,924,000	85,924,000	79,747,892	2/27/2007	3/2/2007	[redacted]	Timberwolf I
Sell	40051CAA5	GSAA 06S1 IA1	22,924,000	(22,924,000)	20,311,589	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	3622EAAX8	GSAA 0703 1A1B	62,428,000	62,428,000	62,428,000	2/16/2007	2/23/2007	ALT A MTG NI ACCT	Timberwolf I
Sell	3622EAAX8	GSAA 0703 1A1B	15,378,000	(15,378,000)	15,211,396	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	07400YAA4	BSMF 06SL2 A1	25,000,000	25,000,000	20,214,037	3/14/2007	3/19/2007	[redacted]	Timberwolf I
Sell	07400YAA4	BSMF 06SL2 A1	25,000,000	(25,000,000)	20,214,037	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	144531AY6	CARR 05NC1 A1C1	5,000,000	5,000,000	5,000,000	1/10/2007	1/16/2007	[redacted]	Timberwolf I
Sell	144531AY6	CARR 05NC1 A1C1	5,000,000	(5,000,000)	3,049,124	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	144531CV0	CARR 05NC3 A1C	30,000,000	30,000,000	30,000,000	3/16/2007	3/21/2007	[redacted]	Timberwolf I
Sell	144531CV0	CARR 05NC3 A1C	30,000,000	(30,000,000)	30,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	14454AAB5	CARR 06FRE2 A2	23,754,000	23,754,000	23,754,000	1/25/2007	1/30/2007	[redacted]	Timberwolf I
Sell	14454AAB5	CARR 06FRE2 A2	12,754,000	(12,754,000)	12,754,000	3/22/2007	3/27/2007	LN	Timberwolf I

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Buy	14452BAC0	CARR 06NC3 A3	20,000,000	20,000,000	20,000,000	3/21/2007	3/26/2007	[redacted]	Timberwolf I
Sell	14452BAC0	CARR 06NC3 A3	20,000,000	(20,000,000)	20,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	14453MAB0	CARR 06NC4 A2	20,000,000	20,000,000	20,000,000	3/15/2007	3/20/2007	[redacted]	Timberwolf I
Sell	14453MAB0	CARR 06NC4 A2	20,000,000	(20,000,000)	20,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	144531DL1	CARR 200SNCS A2	48,500,000	48,500,000	48,500,000	3/16/2007	3/21/2007	[redacted]	Timberwolf I
Sell	144531DL1	CARR 200SNCS A2	48,500,000	(48,500,000)	48,500,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	1248MKAB1	CBASS 07SL1 A2	148,222,000	148,222,000	148,222,000	3/9/2007	3/19/2007	ABS MTG SYN NI ACCT	Timberwolf I
Sell	1248MKAB1	CBASS 07SL1 A2	38,222,000	(38,222,000)	38,000,250	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	126673MY5	CWHEL 04Q 2A	94,000,000	94,000,000	20,205,486	3/8/2007	3/13/2007	[redacted]	Timberwolf I
Sell	126673MY5	CWHEL 04Q 2A	52,000,000	(52,000,000)	10,833,363	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	23245CAC4	CWL 07I 2A2	20,000,000	20,000,000	20,000,000	1/29/2007	2/9/2007	[redacted]	Timberwolf I
Sell	23245CAC4	CWL 07I 2A2	11,000,000	(11,000,000)	11,000,000	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	12668TAB0	CWL 07BC1 2A1	16,413,000	16,413,000	16,413,000	3/20/2007	3/23/2007	[redacted]	Timberwolf I
Sell	12668TAB0	CWL 07BC1 2A1	16,413,000	(16,413,000)	16,003,309	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	35729VAB3	FHLT 06D 2A1	75,000,000	75,000,000	75,000,000	10/25/2006	11/3/2006	[redacted]	Timberwolf I
Sell	35729VAB3	FHLT 06D 2A1	15,749,123	(15,749,123)	13,443,149	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	31659XAA4	FMIC 06S1 A	46,140,000	46,140,000	44,718,008	3/14/2007	3/19/2007	[redacted]	Timberwolf I
Sell	31659XAA4	FMIC 06S1 A	46,140,000	(46,140,000)	44,173,109	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	34957YAA5	FORTIUS II S 144A	12,700,000	12,700,000	12,700,000	12/4/2006	12/7/2006	CDO 1 NI ACCT	Timberwolf I
Sell	34957YAA5	FORTIUS II S 144A	7,564,865	(7,564,865)	7,365,789	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	3622ELAA4	GSAA 0618 AV1	218,347,000	218,347,000	218,347,000	11/14/2006	11/30/2006	ALT A MTG NI ACCT	Timberwolf I
Sell	3622ELAA4	GSAA 0618 AV1	18,347,000	(18,347,000)	15,354,314	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	3622EAAD2	GSAA 0703 2A1B	11,112,000	11,112,000	11,112,000	2/16/2007	2/23/2007	ALT A MTG NI ACCT	Timberwolf I
Sell	3622EAAD2	GSAA 0703 2A1B	6,112,000	(6,112,000)	6,009,620	3/22/2007	3/27/2007	LN	Timberwolf I
Buy	12668UAE1	CWL 073 2A1	47,000,000	47,000,000	47,000,000	3/16/2007	3/29/2007	[redacted]	Timberwolf I
Sell	12668UAE1	CWL 073 2A1	47,000,000	(47,000,000)	47,000,000	3/22/2007	3/29/2007	LN	Timberwolf I
Buy	3622EBAA6	GSAA 0704 A1	535,274,000	535,274,000	535,274,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Timberwolf I
Sell	3622EBAA6	GSAA 0704 A1	80,000,000	(80,000,000)	80,000,000	3/22/2007	3/29/2007	LN	Timberwolf I
Buy	3622EBAB4	GSAA 0704 A2	143,692,000	143,692,000	143,692,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Timberwolf I
Sell	3622EBAB4	GSAA 0704 A2	45,788,000	(45,788,000)	45,788,000	3/22/2007	3/29/2007	LN	Timberwolf I
Buy	12668UAF8	CWL 073 2A2	18,000,000	18,000,000	18,000,000	3/16/2007	3/29/2007	[redacted]	Timberwolf I
Sell	12668UAF8	CWL 073 2A2	18,000,000	(18,000,000)	18,000,000	3/22/2007	3/29/2007	LN	Timberwolf I
Buy	12668UAG6	CWL 073 2A3	17,000,000	17,000,000	17,000,000	3/16/2007	3/29/2007	[redacted]	Timberwolf I
Sell	12668UAG6	CWL 073 2A3	17,000,000	(17,000,000)	17,000,000	3/22/2007	3/29/2007	LN	Timberwolf I
Buy	12668UAE1	CWL 073 2A1	47,000,000	47,000,000	47,000,000	3/16/2007	3/29/2007	[redacted]	Timberwolf
Sell	12668UAE1	CWL 073 2A1	47,000,000	(47,000,000)	47,000,000	3/22/2007	3/29/2007	LN	Timberwolf
Buy	12668UAG6	CWL 073 2A3	17,000,000	17,000,000	17,000,000	3/16/2007	3/29/2007	[redacted]	Timberwolf
Sell	12668UAG6	CWL 073 2A3	17,000,000	(17,000,000)	17,000,000	3/22/2007	3/29/2007	LN	Timberwolf
Buy	12668UAF8	CWL 073 2A2	18,000,000	18,000,000	18,000,000	3/16/2007	3/29/2007	[redacted]	Timberwolf
Sell	12668UAF8	CWL 073 2A2	18,000,000	(18,000,000)	18,000,000	3/22/2007	3/29/2007	LN	Timberwolf
Buy	3622EBAB4	GSAA 0704 A2	143,692,000	143,692,000	143,692,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Timberwolf
Sell	3622EBAB4	GSAA 0704 A2	45,788,000	(45,788,000)	45,788,000	3/22/2007	3/29/2007	LN	Timberwolf
Buy	3622EBAA6	GSAA 0704 A1	535,274,000	535,274,000	535,274,000	3/13/2007	3/29/2007	ALT A MTG NI ACCT	Timberwolf
Sell	3622EBAA6	GSAA 0704 A1	80,000,000	(80,000,000)	80,000,000	3/22/2007	3/29/2007	LN	Timberwolf
Buy	92976BHJ4	WBCMT 06WL7A A1	7,600,000	5,638,626	5,638,626	8/02/2007	8/07/2007	[redacted]	Timberwolf
Buy	92976BHJ4	WBCMT 06WL7A A1	6,300,000	4,674,124	4,674,124	8/03/2007	8/06/2007	[redacted]	Timberwolf
Sell	92976BHJ4	WBCMT 06WL7A A1	13,900,000	(10,118,550)	10,118,550	9/25/2007	9/28/2007	LN	Timberwolf
Buy	22545RAA4	CSMC 06TF2A A1	7,600,000	6,343,192	6,343,192	8/16/2007	8/16/2007	[redacted]	Timberwolf
Sell	22545RAA4	CSMC 2006-TF2A A1	7,600,000	(6,017,626)	6,017,626	9/25/2007	9/28/2007	NY MOG	Timberwolf

[redacted] = Redacted by the Permanent Subcommittee on Investigations

ATTACHMENT 10

FOIA CONFIDENTIAL TREATMENT
REQUESTED BY GOLDMAN, SACHS & CO.

UNITED STATES OF AMERICA

before the

SECURITIES AND EXCHANGE COMMISSION

In the Matter of ABACUS CDO	File No. HO-10911

SUBMISSION ON BEHALF OF GOLDMAN, SACHS & CO.

Richard H. Klapper
Michael T. Tomaino, Jr.
Christopher J. Dunne
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004

Attorneys for Goldman, Sachs & Co.

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UNITED STATES OF AMERICA

before the

SECURITIES AND EXCHANGE COMMISSION

In the Matter of ABACUS CDO	File No. HO-10911

SUBMISSION ON BEHALF OF GOLDMAN, SACHS & CO.

Goldman, Sachs & Co. ("Goldman Sachs") makes this submission in response to the Staff's proposed recommendation that an enforcement action be brought against Goldman Sachs.[1] No such action is warranted.

[1] This submission is provided solely in connection with the Staff's consideration of possible action against Goldman Sachs, and is made without any admission that the conduct under investigation violated any laws, rules or regulations. Should the Staff decide to make any recommendation that varies in any respect from the issues and positions Goldman Sachs has addressed, we expressly reserve the right to revise this submission in accordance with Rule 5(c) of the Commission's Rules Regarding Information and Other Proceedings, 17 C.F.R. § 202.5(c), and Procedures Relating to the Commencement of Enforcement Proceedings and Termination of Staff Investigations, Nos. 33-5310, 34-9796, 1972 WL 130244, at *1-2 (Sept. 27, 1972). Goldman Sachs also expressly reserves the right to object to the admissibility of this submission and those submitted by any other person in any subsequent proceeding. Finally, Goldman Sachs hereby asserts that this submission constitutes attorney work product and requests that (a) it be treated confidentially and not as a waiver of any privilege or immunity from production, and (b) pursuant to Commission Rule 83, 17 C.F.R. § 200.83, that this submission not be disclosed in response to any request made under the Freedom of Information Act, 5 U.S.C. § 552.

PRELIMINARY STATEMENT

In early 2007, Goldman Sachs acted as the underwriter of privately-placed notes issued in a synthetic CDO transaction known as ABACUS 2007-AC1 ("2007-AC1"). There was nothing unusual or remarkable about the transaction or the portfolio of assets it referenced. Like countless similar transactions during that period, the synthetic portfolio consisted of dozens of Baa2-rated subprime residential mortgage-backed securities ("RMBS") issued in 2006 and early 2007 that were identified in the offering materials (the "Reference Portfolio"). As in other synthetic CDO transactions, by definition *someone* had to assume the opposite side of the portfolio risk, and the offering documents made clear that Goldman Sachs, which took on that risk in the first instance, might transfer some or all of it through a hedging and trading strategies using derivatives. Like other transactions of this type, all participants were highly sophisticated institutions that were knowledgeable about subprime securitization products and had both the resources and the expertise to perform due diligence, demand any information that was important to them, analyze the portfolio, form their own market views and negotiate forcefully at arm's length. And like other transactions with similar lower-rated subprime portfolios, 2007-AC1's performance was battered by the unprecedented subprime market meltdown, which has impaired cashflow to countless noteholders in such transactions and caused many participants in the market to fail altogether.

Now, with the benefit of perfect hindsight about the magnitude of the market downturn, the Staff proposes to charge Goldman Sachs with misrepresenting material facts relating to the offering. Notably, the Staff does not contend that anything about the Reference Portfolio itself was incorrectly disclosed. Rather, the Staff's theory relates exclusively to the role of Paulson & Co., Inc. ("Paulson") – now recognized as a heavy bettor against the subprime market but at the time a relatively unknown hedge fund manager – in making suggestions to the

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independent selection agent as to the composition of the Reference Portfolio and taking a negative position on that portfolio through a swap with Goldman Sachs. Moreover, the Staff proposes not only to base its charges on theories of negligence under Section 17(a) of the Securities Act of 1933, but also to assert that Goldman Sachs made *intentional* misrepresentations concerning Paulson in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. There is no basis in the law, the record or common sense for such charges.

First, what *was* important to the note investors, as embodied in Regulation AB, were the offering documents' descriptions of the Reference Portfolio and the distribution of proceeds, which sophisticated institutional investors in asset-backed securities input into their models in order to make their investment decisions based on their views of market and housing trends. This information was accurately disclosed, and the Staff does not contend otherwise. By contrast, we are aware of no synthetic CDO offering that disclosed how the protection buyer would manage the risk it took on, other than to disclose generally that it may do so, as occurred here. Certainly, nothing in Regulation AB requires disclosure of the underwriter's risk management plans, which may shift as parties change their market views and adjust their risk tolerance over time.

Second, given the absence of an affirmative directive in Regulation AB to disclose the involvement of Paulson, the Staff relies on a theory that references in the offering documents to the Portfolio Selection Agent were misleading because they somehow implied that the agent, ACA Capital Management LLC ("ACA"), picked the portfolio in isolation without input from any participant, including ones whose true economic interests at the time were opposite those of the noteholders. But the Reference Portfolio, however it was selected, was

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fully disclosed and available for all to evaluate on its merits. To the extent that investors took comfort from ACA's involvement, it was only because an independent expert had approved the portfolio, and that is precisely what ACA did. ACA plainly exercised its own judgment in deciding which securities were included (whatever its impression as to the economic interests of Paulson), rejected dozens that it disliked, and was entirely satisfied with the resulting portfolio. Indeed, ACA put its own money behind its analysis by investing in the notes itself and entering into a large swap referencing the portfolio. There is no industry definition of "Portfolio Selection Agent" that implied that ACA would operate within an ivory tower or refuse to consider suggestions made by interested parties in exercising its independent judgment. In fact, it was a customary feature of the market that participants (including those here) often offered their views on potential securities to be included in referenced portfolios, so no one would have been surprised that Paulson was doing so.

Third, and more fundamentally, while Paulson's investment strategy and success are well known today, nothing in the record establishes that Paulson's involvement would have been significant in early 2007 to anyone involved in the 2007-AC1 transaction. All participants in the transaction understood that *someone* had to take the other side of the portfolio risk, and the offering documents clearly stated that Goldman Sachs might lay off some or all of the short exposure to the portfolio that it had taken on. A disclosure that the relatively unknown Paulson was the entity to which Goldman Sachs transferred that risk would have been immaterial to investors in April 2007.

Fourth, there is no basis to suggest that the portfolio would have performed any differently or that the economic outcome for the participants would have changed in the least had Paulson's role and interest been more transparent. The portfolio that ACA originally selected

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had the same characteristics as the Reference Portfolio, and both experienced virtually the same poor performance in the face of the subprime meltdown. Further, the principal note investor, IKB Deutsche Industriebank AG ("IKB"), was an active investor in the CDO markets, had expressed its specific interest in transactions like 2007-AC1, had invested in similar ABACUS transactions before, and thoroughly evaluated the portfolio. ACA was a major player in the CDO marketplace with billions under management and had every reason – reputationally and economically – to perform its job well. ABN Amro ("ABN"), which intermediated Goldman Sachs' swap with ACA, showed little interest in the portfolio and relied instead as a swap intermediary on the credit of its other swap counterparty, ACA, which proved fatal when ACA failed. In the end, every portfolio of lower-rated subprime RMBS was decimated in the market meltdown, and any marginal differences in bond quality underlying the Staff's theory would not have resulted in any materially different outcome.

Fifth, beyond these fatal deficiencies in the Staff's materiality theory, there is no basis for a finding that Goldman Sachs made any alleged misrepresentations about Paulson's role with the negligence required under Section 17(a), much less with the *scienter* mandated by Section 10(b). The Staff has pointed to two ambiguous statements contained in an e-mail from Goldman Sachs that it contends caused ACA to infer that Paulson would be an equity investor. As an initial matter, it is difficult to reconcile such an inference with the Staff's theory that Paulson tried to influence ACA to select dozens of riskier Baa2-rated securities, which would have raised questions about Paulson's true economic interests for any sophisticated market participant. The record, in all events, contains no evidence that Goldman Sachs caused ACA to infer that Paulson had an equity position. Nor does the record support the conclusion that any confusion by ACA as to the nature of Paulson's involvement in 2007-AC1 changed how ACA

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selected the Reference Portfolio. Similarly, the absence of any disclosure of Paulson's role did not affect IKB's decision to invest. IKB regularly invested through Goldman Sachs and other firms in numerous CDOs and other complex securities and conducted its own evaluations of the underlying reference portfolios, including for the 2007-AC1 transaction.

Finally, the Staff's proposed theory ignores the fact that, as a broker-dealer acting as an intermediary on behalf of a client, Goldman Sachs had a duty to keep information concerning its client's (Paulson's) trades, positions and trading strategy confidential. The Staff itself has recognized this obligation in other contexts, but seeks here to impose a duty to disclose the identity and market views of swap counterparties.

In short, the Staff's contention that Goldman Sachs had a duty to disclose Paulson's involvement in the process by which ACA selected the portfolio is without support in either the factual record or the law, would impose obligations not recognized in existing law and would be directly contrary to market practice, where broker-dealers intermediate between parties taking opposite views and do not disclose those parties' identity or roles to each other. No enforcement action is warranted even on the existing record. If this matter is litigated, Goldman Sachs is confident that a fuller record – including its own discovery of all transaction participants – will underscore that no one in fact considered Paulson's role important and that no one was misled.

THE RECORD

A. Relevant Parties

1. Goldman Sachs

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-

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net-worth individuals. Through its mortgage group, Goldman Sachs structured and distributed RMBS and CDO-related products.

2. ACA

ACA was the asset management subsidiary of ACA Capital Holdings, Inc., and provided asset management services and credit protection products to investors. As of May 31, 2007, ACA was managing "26 outstanding CDOs with underlying portfolios consisting of $17.5 billion of assets." (GS MBS-E-003525837.) ACA acted as the Portfolio Selection Agent for the 2007-AC1 transaction, invested $42 million in the 2007-AC1 notes, and sold protection to Goldman Sachs on the $909 million notional amount super senior tranche of the transaction.

ACA suffered serious financial troubles at the end of 2007 and beginning of 2008. In November of 2007, ACA posted a $1.04 billion third-quarter loss. After a restructuring supervised by the Maryland Insurance Administration (Maryland's insurance commissioner), ACA Capital Holdings, Inc. is now operating under the name Manifold Capital. ACA is currently operating as a run-off financial guaranty insurance company.

3. Paulson

Paulson is an employee-owned hedge fund founded in 1994. Beginning in 2006, Paulson created two funds, the Paulson Credit Opportunities Funds, which took a bearish view on subprime mortgage loans by purchasing protection through credit default swaps ("CDSs") on various debt securities. These funds earned substantial profits, and have recently received significant media attention. At the time that 2007-AC1 was being transacted, however, Paulson's investment strategy was not yet widely known in the industry. (*See* Kreitman Tr. 40-41; Herald-Granoff Tr. 25.) Paulson now has more than $30 billion under management.

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4. IKB

IKB is a German Bank founded in 1924. In January of 2007, IKB Credit Asset Management, the asset management arm of IKB, had approximately "$23.9 billion of assets under management" and "over $16.8 billion of [collateralized loan obligations]/CDOs [had been] launched and managed within IKB group." (GS MBS-E-007698102.) IKB publicly stated that "Securitization and CDO investments are an integral part of IKB AG's business model." (*Id.*) IKB was a highly sophisticated institutional investor that marketed itself as a CDO manager with:

- a large investment team, including 20 portfolio managers and analysts and 20 compliance, IT, legal and operations and surveillance staff;
- "one of the largest databases of CDO structures and performance";
- a "[m]arket leading ABS/CDO evaluation and surveillance platform"; and
- "extensive ABS focused research capabilities and relationships."

(GS MBS-E-007698113; GS MBS-E-007698102.) Indeed, in January of 2007, IKB launched Rhinebridge Plc, a structured investment vehicle that invested heavily in the United States subprime market. Rhinebridge Plc was to be the "flagship vehicle in IKB CAM's expansion into ABS asset management." (GS MBS-E-007698102.)

IKB invested in multiple ABACUS transactions through Goldman Sachs, including ABACUS 2004-1, 2005-3, 2006-11, 2006-15, 2006-8 and 2007-AC1. (*See* GS MBS 0000018045 – 18046; Tourre Tr. Vol. 1, 16.) In fact, IKB made the reverse inquiry that led to the first ABACUS transaction, ABACUS 2004-1. (*See* Tourre Tr. Vol. 1, 16.) In late 2006 and early 2007, Goldman Sachs was working with IKB on a number of transactions, including multiple ABACUS transactions. (*See* Nartey Tr. 23.)

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5. ABN

ABN is a Dutch bank currently owned by RFS Holdings B.V. ABN was in the business of intermediating CDS between parties that would not or could not accept each other's credit risk. In 2007-AC1, Goldman Sachs would not accept ACA's credit risk without an agreement to post cash collateral, which ACA would not provide. (*See* Gerst Tr. 75.) ABN agreed to intermediate the protection that ACA sold to Goldman Sachs on the super senior tranche of the 2007-AC1 transaction by entering into a CDS with Goldman Sachs and agreeing to post collateral, and then entered into a back-to-back CDS with ACA. (*See* Gerst Tr. 75.). ABN appears to have evaluated only ACA's corporate credit rating, and had little or no interest as to the Reference Portfolio. (GS MBS-E-002485173.) Prior to agreeing to intermediate the transaction, ABN purchased from Goldman Sachs a $27 million CDS providing ABN protection if ACA's credit weakened. (GS MBS-E-003528155.)

B. The Subprime and CDO Market

A CDO is a debt security collateralized by debt obligations, including mortgage-backed securities in many instances. These securities are packaged and held by a special purpose vehicle ("SPV"), which issues notes that entitle their holders to payments derived from the underlying assets. In a synthetic CDO, the SPV does not own a portfolio of actual fixed income assets, but rather enters into CDSs that reference the performance of a portfolio. The SPV does hold some collateral securities (separate from the reference portfolio), which it uses to meet its payment obligations.

Beginning in 2005, the market for CDOs expanded extremely rapidly. According to a study performed by the Securities Industry and Financial Markets Association ("SIFMA"), the Global CDO Issuance Volume for 2005 and 2006, not including unfunded synthetic tranches, was approximately one trillion dollars. (SIFMA, Global CDO Market Issuance Data, *available*

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at www.sifma.org/research/pdf/CDO_ Data2008-Q4.pdf (last visited Sept. 10, 2009).) The markets for mortgage-backed securities became volatile and unpredictable in late 2006 and early 2007. Investors and speculators in those markets developed conflicting views of the future direction of the principal factors that drove the market – housing prices, interest rates, defaults and delinquencies, delinquencies on loans made by different originators or in different regions of the country, the health of subprime originators and other factors – all of which were entirely within the public domain. Some hedge funds, including Paulson's funds, bet aggressively against the mortgage market, while other investors and speculators believed that any weakness in the housing markets or RMBS would be temporary and mild. Up to the middle of 2007, no one view of the market predominated.

C. The ABACUS Transactions Generally

The ABACUS transactions were synthetic CDOs in which the CDO entities sold notes referencing specific portfolios of securities. The proceeds from the sale of the notes were used to purchase collateral securities, which were held by the SPV. At the same time, the SPV entered into a CDS transaction, whereby it agreed to provide a "protection buyer" with "insurance" payments in the event of write-downs on the referenced securities in exchange for periodic premium payments. These premium payments, along with interest on the collateral securities, were used to pay the noteholders. The collateral securities themselves were used either to pay principal to noteholders or to make payments due to the protection buyer under the CDS, depending on the performance of the reference portfolio. The first ABACUS transaction was ABACUS 2004-1, which was developed in response to IKB's desire to invest in AAA, AA and A rated CDO notes referencing a portfolio of high-grade asset-backed securities. (Tourre Tr. Vol. 1, 16, 24.)

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D. ABACUS 2007-AC1

ABACUS 2007-AC1 ("2007-AC1") was a synthetic CDO transaction referencing a $2 billion portfolio consisting of 90 Baa2-rated subprime RMBS issued in 2006 and early 2007. (GS MBS-E-005974542; GS MBS-E-002407039-2407041.) The securities issued in the 2007-AC1 transaction were offered in a private placement pursuant to Rule 144A. (GS MBS 0000010089.)

1. The Paulson Reverse Inquiry

In late 2006, Paulson initiated a "reverse inquiry" by approaching Goldman Sachs to determine whether it would enter into a CDS in which Paulson bought protection on a portfolio of Baa2-rated RMBS from the 2006 vintage. To mitigate the significant market risk that it would take on if it entered into the CDS, Goldman Sachs structured two separate transactions.

In the first transaction, Goldman Sachs created the 2007-AC1 SPV, which would issue notes and enter into a CDS through which Goldman Sachs would purchase credit protection on a portfolio of Baa2-rated 2006 vintage subprime securities. The investors that bought the notes issued by the SPV would, by definition, be taking the view that the securities in the Reference Portfolio would perform at least moderately well, while Goldman Sachs as credit protection buyer took the contrary view that those securities would perform poorly. In the second transaction, Goldman Sachs would enter into the CDS that Paulson had requested. To the extent that Paulson's requested CDS portfolio matched the 2007-AC1 Reference Portfolio, Goldman Sachs would effectively neutralize its market risk. (GS MBS-E-003272296; GS MBS-E-003272305.) David Gerst and Fabrice Tourre explained this dual structure to the Staff. (*See* Tourre Tr. Vol. 1, 95; Gerst Tr. 139).

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2. The Portfolio Selection Process

ACA, the Portfolio Selection Agent for 2007-AC1, had extensive experience and a strong reputation in the industry. In its role as Portfolio Selection Agent, ACA was to select a portfolio of Baa2-rated RMBS from the 2006 and 2007 vintages to comprise the Reference Portfolio, but would not provide any ongoing asset management or other services.

Goldman Sachs started the portfolio selection process by providing Paulson with a database of RMBS securities and a spreadsheet listing securities that fit Paulson's requirement that the portfolio be restricted to 2006-vintage subprime RMBS that were rated Baa2 by Moody's Investor Service and approximately BBB by Standard & Poor's. (Gerst Tr. 13-14.) Paulson then provided Goldman Sachs with a spreadsheet of 123 securities. Goldman Sachs sent this spreadsheet of 123 securities to ACA for its evaluation and potential inclusion in the 2007-AC1 Reference Portfolio. (GS MBS-E-007974381.)

ACA evaluated each of the 123 securities using its proprietary models and methods of analysis. ACA rejected more than half of the securities, and sent Goldman Sachs a revised spreadsheet listing 86 securities, including 55 from the list of 123 securities and 31 additional 2006-vintage Baa2-rated securities. (GS MBS-E-002537707.) ACA later proposed an additional 26 reference securities. (GS MBS-E-002480599.) Goldman Sachs suggested that two of the proposed securities be rejected, and ACA suggested three replacements. (GS MBS-E-003026086.)

ACA and Paulson then met on February 2, 2007 to discuss the reference portfolio. During this meeting, Paulson proposed a list of securities, nine of which ACA had already rejected. After the meeting, ACA emailed Paulson and Goldman Sachs, reiterating its rejection of the nine securities and attaching a spreadsheet listing 100 securities (79 of which previously had been approved by Paulson and ACA). (GS MBS-E-0038338442.) Paulson suggested

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removal of eight of the securities (seven of which were removed) and Goldman Sachs suggested removal of two of the securities (one of which was removed). (GS MBS-E-002483508; GS MBS-E-002983660.) Paulson then circulated a list of 90 reference securities. Of these 90, ACA requested that the parties make substitutions for three of the securities. (GS MBS-E-003782252; GS MBS-E-002445333.) ACA proposed eleven alternative securities and Paulson agreed to three out of those eleven securities. (GS MBS-E-002444961-2444962; GS MBS-E-002445333-2445334; GS MBS-E-002444961-2444962.) ACA thereafter agreed to the removal of three New Century securities, and the substitution of three securities to include in the final portfolio.[2] (GS MBS-E-003740868; GS MBS-E-003740867-3740869.)

ACA ultimately approved 90 securities that it stood behind as the portfolio selection agent, albeit from the category of 2006/2007-vintage Baa2-rated subprime RMBS. There is no indication that ACA "rubber stamped" any of the securities suggested by Paulson, or that it behaved in any way that was inconsistent with the normal obligations of a Portfolio Selection Agent. And as a sophisticated market player that managed billions of dollars in subprime securities, ACA should easily have recognized any tendencies or marginal biases in the securities that Paulson recommended.

3. Marketing and Sale of the 2007-AC1 Transaction

Because of IKB's prior interest in ABACUS transactions, Goldman Sachs approached IKB as a potential investor in 2007-AC1. IKB ultimately decided to purchase $150 million in senior certificates with the view that it would have a relatively protected senior position in a risky portfolio. (*See* GS MBS 0000018046.) ACA purchased $42 million worth of

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[2] IKB had previously expressed concern over RMBS for which New Century and Fremont were the servicers, which may have been the reason for removing those securities. (GS MBS-E-0029722269.)

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senior secured notes. (GS MBS 0000018046.) The 2007-AC1 transaction closed on April 26, 2007. The SPV used the proceeds of the sale to purchase AAA-rated certificates to hold as collateral.

Goldman Sachs entered into a CDS with the SPV in a notional amount of $192 million in which Goldman Sachs agreed to make premium payments in return for protection on the Reference Portfolio. In addition to the CDS purchased from the SPV, on May 31, 2007 Goldman Sachs also entered into a $909 million notional amount CDS referencing the super-senior (50-100%) tranche of the 2007-AC1 CDO. (GS MBS 0000018052.) ABN served as intermediary for this trade by entering into the $909 million CDS with Goldman Sachs and an offsetting CDS with ACA, thereby assuming credit risk if ACA was unable to pay. (GS MBS-E-002485172-2485173.) ABN appears to have principally evaluated only ACA's corporate credit rating before entering into the CDS.[3] (GS MBS-E-002485172-2485173.) The record does not indicate whether ABN entered into other CDS trades with ACA, but Goldman Sachs is confident that a full record would reflect ABN's familiarity with ACA and consistent approach to such transactions as solely credit decisions.

E. The Credit Default Swaps Between Goldman Sachs and Paulson

Through CDSs with Paulson, Goldman Sachs sold all of the protection that it had purchased from the SPV and from ACA (through ABN). (Tourre Tr. Vol. 1, 33.) Because Goldman Sachs purchased protection from ACA on a portion (50-100%) of the super senior tranche, but wrote protection to Paulson on the entire (45-100%) super senior tranche, it bore the

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3 In connection with this evaluation, ABN purchased $27 million in corporate CDS protection on ACA from Goldman Sachs, which entitled it to payment if ACA's credit rating fell below a certain level. (GS MBS E-003528155.)

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risk that poor performance of the Reference Portfolio would affect the 45-50% portion. (Tourre Tr. Vol. 1, 33.)

The 2007-AC1 Offering Circular could not have been more clear that Goldman Sachs might enter into transactions to increase, reduce or even eliminate its exposure to the SPV:

- "The Protection Buyer is not required to have any credit exposure to any Reference Entity or any Reference Obligation." (GS MBS 0000010105.)
- "[T]he Protection Buyer . . . may hold long or short positions with respect to Reference Obligations and/or other securities or obligations of related Reference Obligations and/or other securities or obligations of related Reference Entities and may enter into credit derivative or other derivative transactions with other parties pursuant to which it sells or buys credit protection with respect to one or more related Reference Entities and/or Reference Obligations. . . . [i]f the Protection Buyer . . . holds claims against a Reference Entity or a Reference Obligation other than in connection with the transactions contemplated in this Offering Circular, such party's interest as a creditor may be in conflict with the interests of the Issuer." (GS MBS 0000010127.)

Nothing stopped any other transaction participant – from the noteholders, to ABN, to Paulson – from similarly reducing or adjusting their own exposure depending on their own perceptions and views as market and economic conditions evolved.

F. The Collapse of the Subprime Market

As was clear to all of the parties, the market for securities backed by subprime loans had already begun to weaken in late 2006, as housing prices stopped increasing and began to decline in some regions of the country. The ABX.HE 06-2 BBB Index,[4] which referenced BBB securities issued in the second half of 2006, decreased in early 2007, reaching a low of $67 on February 27, 2007. It rebounded to as high as $84.5 on May 24-25, 2007 (a week before ACA, ABN and Goldman Sachs entered into the $909 million CDS), and then dropped

[4] The ABX.HE Indices, or Asset-Backed Securities Indices, are synthetic indices distributed by Markit Group, Limited. Each references a basket of 20 CDSs on subprime mortgage-backed securities of a specific vintage and rating.

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precipitously from $80.875 on June 11 to $20.5 at the end of 2007. (*See* Appendix 1.) The securities in the Reference Portfolio, which in April 2007 were rated Baa2 by Moody's Investor Service and at or around BBB by Standard & Poor's, were severely affected. The historical performance data relied on by rating agencies, investment banks, government agencies and other participants in the market turned out to be an unreliable predictor of future prices and performance. As reflected by the prices of the ABX indices in early 2007, most sophisticated market participants – including senior government officials – did not predict the severity and breadth of the downturn in U.S. housing markets, and many suffered dramatic losses as a result.

The significant divergence between the expected and actual performance of Baa2-rated RMBSs resulted in large part from the unanticipated severity and breadth of housing market price declines, and the weakening of local economies throughout the United States. The combination of high loan-to-value ratios, the unexpected severity and speed of deterioration in residential housing prices throughout the country and the lack of available refinancing provided little incentive for borrowers to continue making payments on mortgage loans on properties in which they had little or no equity. *See, e.g., Semiannual Monetary Policy Report to the Congress*, Statement of Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System (Mar. 28, 2007). In addition to these unexpected economic factors, an unknown amount of fraud by borrowers, originators, brokers, appraisers and others involved in the loan origination process may have resulted in underwriting of material numbers of loans to borrowers lacking either the means to (or the intention of) making payments on the loans. *See, e.g.*, Tyler Cowen, *So We Thought, But Then Again ...*, N.Y. TIMES, Jan. 13, 2008, at 6; Carolyn Said, *Plenty of Blame for Lending Mess; Mortgage Meltdown*, S.F. CHRON., Feb. 3, 2008, at C1.

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THE STAFF'S INVESTIGATION AND ALLEGATIONS

The Staff's investigation of 2007-AC1 began on August 29, 2008. The Staff has taken five days of testimony from five Goldman Sachs witnesses: Gail Kreitman and Melanie Herald-Granoff, Michael Nartey, Fabrice Tourre, and David Gerst. Goldman Sachs has produced approximately 8,000,000 pages of documents to the Staff.

Goldman Sachs understands that the Staff currently proposes to recommend that the Commission bring an enforcement action against Goldman Sachs alleging violations of Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The Staff contends that:

- Goldman Sachs deceived ACA by leading ACA to believe that Paulson would invest in the equity tranche of 2007-AC1, thereby allegedly causing ACA to believe that Paulson had the same interests as ACA when Paulson's interests were, according to the Staff, the opposite of ACA's interests.
- Goldman Sachs deceived investors in the 2007-AC1 transaction by describing ACA as the Portfolio Selection Agent when, in fact, Paulson had played a significant role in selecting the Reference Portfolio.

To Goldman Sachs' understanding, the Staff's theory is that Goldman Sachs should have made the role of Paulson in the 2007-AC1 transaction clear to ACA, and disclosed that role (and Paulson's identity) in the offering documents. If the Commission chooses to proceed against Goldman Sachs, the Staff has indicated it will seek disgorgement of Goldman Sachs' profits on the 2007-AC1 transaction, as well as penalties and injunctive relief.

DISCUSSION

I. THE ABACUS OFFERING DOCUMENTS CONTAINED NO MATERIAL MISREPRESENTATIONS.

To prove materiality under Sections 10(b) and 17(a), the Commission must show a "substantial likelihood" that the alleged misstatement or omission would be deemed significant by a reasonable investor in light of the "total mix" of information available about the investment

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at the time the investment decision is made. *Basic, Inc.* v. *Levinson*, 485 U.S. 224, 231-32 (1988). In evaluating whether an alleged misrepresentation was material, the offering documents must be read as a whole, focusing not "on whether particular statements, taken separately, were literally true, but whether defendants' representations, taken together and in context, would have mis[led] a reasonable investor about the nature of the [securities]." *DeMaria* v. *Andersen*, 318 F.3d 170, 180 (2d Cir. 2003) (emphasis added).

The offering documents for the 2007-AC1 transaction provided all material information that the sophisticated institutional investors here required – most fundamentally, the particulars of the portfolio that the investors could (and did) analyze and evaluate on an equal footing with Paulson and Goldman Sachs. The offering documents contained nothing materially false or misleading about ACA's role, and no reasonable investor would have needed disclosures describing the participation of Paulson, which at the time was little-known and only one of many market participants that investors understood routinely took the opposite risk in transactions of this type (and were a structural necessity for synthetic CDOs).

A. The Offering Documents Fully Disclosed the Material Facts Relating to the Reference Portfolio.

Regardless of how the Reference Portfolio was selected, the offering documents comprehensively described each asset backing the securities. Nothing about the selection process affected the inherent value or risks of the Reference Portfolio. The offering documents provided the sophisticated potential investors in 2007-AC1 with the material information about the constituent securities that they needed to perform their own analyses and modeling of the creditworthiness and cash flows of the assets underlying their investment.

Regulation AB recognizes that in an asset-backed securities transaction, investors view information about the asset portfolio and the distribution of proceeds as material, because

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performance of those assets, as affected by macro-economic factors and trends that any investor can analyze, will dictate the performance of asset-backed securities.[5] Regulation AB thus focuses on the underlying assets, and sets forth in great detail the disclosures required in offering documents for asset-backed securities, including: (1) the title and type of securities being offered, (2) a summary of the flow of funds, (3) statements detailing servicer or other fees, (4) detailed descriptions of the characteristics of the assets, and (5) a description of any credit enhancement features. *See, e.g.*, 17 C.F.R. §§ 229.1102, 229.1103, 229.1105, 229.1111.

The value of the assets underlying asset-backed securities does not change based on any "inside" information within the issuer's control. No subjective corporate judgments about budgets, sales, reserves or any other matters relevant to traditional corporate issuers impact a portfolio of mortgage-backed securities. Accordingly, Regulation AB's comprehensive disclosure scheme does not require any mention of the underwriter's (or its clients') subjective view of the assets, or a comprehensive listing of all of the parties that had input into the selection of the assets backing the securities. Rather, Regulation AB focuses on disclosures of the objective features of the underlying assets, which allows potential investors to perform their own analyses and evaluations based on their assessment of economic trends, regardless of the views of the underwriter or other entities as to the value of the underlying assets. This focus on the intrinsic character of the portfolio also is consistent with the distinction drawn by the courts between "hard" and "soft" information. Only the former must be disclosed to investors:

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[5] Although the ABACUS notes at issue here were offered pursuant to the limited requirements of Rule 144A, Regulation AB's focus on information about the underlying assets and how the proceeds of those assets will be distributed reflects what is material to an investor in any asset-backed transaction.

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> Hard information is typically historical information or other factual information that is objectively verifiable. Publicly disclosed, hard information is actionable if false and material. Soft information, on the other hand, includes predictions and matters of opinion. The failure to disclose soft information is actionable only if [it is] . . . virtually as certain as hard facts.

City of Monroe Employees Ret. System v. *Bridgestone Corp.*, 399 F.3d 651, 669 (6th Cir. 2005); *see also Glassman* v. *Computervision Corp.*, 90 F.3d 617, 631 (1st Cir. 1996) ("[T]he federal securities laws focus on the mandatory disclosure of backward-looking hard information, not forecasts.").

In accordance with this regulatory focus, the offering documents at issue here set forth *precisely which* RMBS would comprise the Reference Portfolio. (*See* GS MBS 0000010274-10277.) The offering documents for each of these RMBS in turn disclosed the various categories of information required by Regulation AB, including detailed information concerning the loans held by the trust that issued the RMBS. This is all that was required. The offering documents need not interpret the information they disclose in ways that "might have facilitated an investor's task," because "interpretations drawn from the facts presented in the prospectus[]" do not provide new information, and thus cannot "significantly alter[] the 'total mix' of the information already presented." *Benzon* v. *Morgan Stanley Distributors, Inc.*, 420 F.3d 598, 609 (6th Cir. 2005). In light of the extensive, objective disclosures contained in the offering documents, investors – particularly the sophisticated entities at issue here in the context of a Rule 144A offering – had all the information they needed to understand and evaluate the reference securities, just as a consumer purchaser can evaluate a store's inventory of merchandise regardless of how it was selected, fully understanding that there may be other brands available elsewhere. *See Ley* v. *Visteon Corp.*, 543 F.3d 801, 808 (6th Cir. 2008) ("The federal securities laws do not ordain that the issuer of a security compare itself in myriad ways to its competitors, whether favorably or unfavorably . . . . [I]t is precisely and uniquely the function

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of the prudent investor, not the issuer of securities, to make such comparisons among investments.").

B. The Sophisticated Investors in 2007-AC1 Were More Than Capable of Evaluating the Transaction Based on the Portfolio Information.

The sophisticated investors in 2007-AC1 were fully capable of evaluating the Reference Portfolio, and nothing in the record suggests that their analysis turned on how the securities were selected here or, for that matter, in any of the countless other transactions they considered over time.

ACA, as described above, was a well-recognized collateral manager as well as a sophisticated investor in CDOs. It was paid to analyze the Reference Portfolio and approved every security in it. It applied rigorous and disciplined financial modeling to evaluate the portfolio, as it did every day with respect to the billions of dollars it managed.

IKB had long described itself as one of the most highly-sophisticated CDO investors in the world. (*See* GS MBS-E-007698102; *see also Conservative Mittelstand lender IKB has transformed itself into Germany's biggest investor in structured credit – with a taste for riskier deals,* RISK, February 1, 2004.) It stated in January 2007 that it had launched and managed approximately $16.8 billion of its own CDOs and related securities. (GS MBS-E-007698102.) IKB regularly invested through Goldman Sachs and other firms in CDOs and other sophisticated and complex securities, including ABACUS and other synthetic CDOs in which other parties took the opposite view of the portfolio . (GS MBS 0000018045-18046.) IKB had its own significant capabilities to (a) research and analyze market conditions and relevant, underlying loan data (*e.g.*, housing statistics, ABX index prices and volumes, subprime securities pricing levels, origination volumes and performance of loans in securitized pools), and (b) obtain expert and knowledgeable advice and counsel.

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Similarly, in early 2007, ABN was "a leading international bank with total assets of EUR 999 [billion]" and "operate[d] more than 4,500 branches in 53 countries" with a "staff of more than 110,000 full-time employees worldwide." Press Release, ABN AMRO, ABN AMRO Announces Sale of ABN AMRO Mortgage Group, Inc. to Citigroup, Jan. 22, 2007, *available at* http://www.abnamro.com/pressroom/pressreleasedetail.cfm? ReleaseID=278522 (last visited Sept. 10, 2009). ABN regularly assumed credit risk by "act[ing] as an intermediary on behalf of customers or other third parties or issue[d] guarantees." ABN AMRO Holding N.V., 2006 Annual Report at 204, *available at* http://www.shareholder.com/visitors/dynamicdoc/document.cfm?CompanyID=ABN&DocumentID=1448&PIN=&Page=2&Zoom=1 (last visited Sept. 10, 2009). In connection with these activities, ABN's senior management "establish[ed] the credit policies" and "procedures required to analyze, manage and control credit risk." *Id.* ABN closely "monitored on an ongoing basis" the "risk that counterparties might default on their obligations." *Id.*

Consistent with their sophistication, ACA and IKB were Qualified Institutional Buyers within the meaning of Rule 144A. The Master Repurchase Agreement between Goldman Sachs and ACA stated that, with respect to each of the transactions comprising 2007-AC1, ACA agreed that:

> It is acting for its own account, and it has made its own independent decisions to enter into that Transaction. It has evaluated for itself whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into the transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction. . . .
>
> It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms,

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> conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(GS MBS-E-009154451.)

Thus, the investors had more than sufficient resources and market knowledge to evaluate the portfolio based on the inherent characteristics of the securities, demand additional information or changes to the portfolio, and decline to invest if they were not entirely satisfied or preferred other investment alternatives. There is no evidence that they approached this transaction any differently than the countless other similar transactions they considered. If this matter is litigated, Goldman Sachs is confident that a full record will show that their behavior here conformed to their overall investment approaches.

C. To the Extent that Investors Considered ACA's Participation Important, ACA's Role Was Described Accurately.

Significantly, the Staff has not alleged that the offering documents for 2007-AC1 misrepresented anything about the Reference Portfolio. Rather, the Staff's position appears to be that investors would have wanted to know that Paulson had input into the *process* by which ACA ultimately selected the RMBS included in the Reference Portfolio, and that the description of ACA as "Portfolio Selection Agent" was therefore misleading without including a description of Paulson's role. That position is fundamentally flawed for several reasons.

As a threshold matter, the Staff's position incorrectly assumes that the term "Portfolio Selection Agent" conveys to investors that the agent selected the portfolio without any input from others. Nothing in the offering documents asserted that ACA was acting in isolation, and no definition of "Portfolio Selection Agent" would create that impression. The Offering Circular, which described ACA's role as Portfolio Selection Agent, merely stated that "[ACA would], pursuant to the Portfolio Selection Agreement . . . select the Initial Reference Portfolio." (GS MBS 0000010178.) Nowhere did the Offering Circular state that ACA would not consult

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with other entities regarding the selection of the Reference Portfolio, and it was common in CDO transactions for participants to offer views in the process of selecting the referenced assets, as Goldman Sachs and IKB did here. (Herald-Granoff Tr. 26; Narty Tr. 18-19, 57 ("I don't think I can recall a transaction we worked on with [IKB], where we didn't have a back and forth on the portfolio").) *See In re Worlds of Wonder Sec. Litig.*, 35 F.3d 1407, 1417-18 (9th Cir. 1994) (common industry practices require no disclosure). Rather, the Offering Circular states only that ACA would "select" the Reference Portfolio, and the record in this investigation has shown that ACA did so. ACA ultimately approved each security for inclusion in the Reference Portfolio. (*See,e.g.*, GS MBS-E-002537707; GS MBS-E-003838442-3838443.)

Indeed, ACA had served as portfolio selection agent or collateral manager for numerous other transactions, and no doubt was accustomed to an interactive selection process. What is important is that ACA used its own expertise and models in scrutinizing and approving the referenced securities and earned substantial fees for doing so. Whether certain securities were initially suggested by Paulson, Goldman Sachs or IKB, ACA subjected the securities proposed for inclusion in the Reference Portfolio to its own proprietary models and analysis. ACA conducted its own analysis and engaged in significant dialogue with Goldman Sachs and Paulson, and it rejected *75 securities* that Paulson initially proposed. (*See, e.g.*, GS MBS-E-002537707; GS MBS-E-003838442-3838443; GS MBS-E-007974381.)

There is no evidence that ACA included any securities that it thought were inappropriate. Indeed, ACA demonstrated its confidence in the quality of the Reference Portfolio by purchasing $42 million worth of ABACUS 2007-AC1 notes and entering into a $909 million notional value CDS referencing the portfolio. It defies credulity to assert that ACA would have invested $42 million of its own funds and entered into a $909 million CDS based on

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the Reference Portfolio if it had any concerns about the referenced securities. Although Goldman Sachs has not yet had the opportunity to take discovery of ACA, it is confident that if this matter is litigated, the full record will demonstrate ACA's independence, full conviction about the portfolio it selected and professional work quality in performing its function.

D. Paulson's Economic Interests Were Not Material to Investors.

The Staff's theory appears to be that Paulson's role would have been significant both to ACA in its role as Portfolio Selection Agent and to investors because – like Warren Buffett or E.F. Hutton – it would have raised a red flag that a prominent "short" strategist was betting against the portfolio. Paulson's name and precise role were not material, however, particularly at the time of the transaction.

First, although Paulson's name and his successful strategy of shorting the subprime RMBS market are now well known, they were not in April 2007. Even Goldman Sachs witnesses testified that they had no knowledge of Paulson or its strategies at the time of the 2007-AC1 transaction. (*See* Herald-Granoff Tr. 25; Kreitman Tr. 40-41.) Indeed, the Staff does not contend that ACA had heard of Paulson prior to the 2007-AC1 transaction. The fact that Paulson was unknown to ACA – which, as of May 31, 2007, had 26 CDOs valued at $17.5 billion under management – demonstrates that the fact of Paulson's involvement would not have been material. Nor is there any evidence that IKB or ABN knew of Paulson at the time or would have changed their investment decisions one iota had they fully understood his involvement. Certainly, those will be significant matters in dispute if this matter is litigated.

Second, given the structure of synthetic CDOs such as 2007-AC1, investors understood that *someone* (whether Goldman Sachs, Paulson or another entity) would necessarily be taking a position contrary to the Reference Portfolio. As the CDS counterparty, Goldman Sachs stood to gain if the Reference Portfolio performed poorly (GS MBS 0000010095) unless it

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entered into an offsetting CDS with another counterparty. The Offering Documents clearly disclosed that Goldman Sachs was the Protection Buyer, and also that the

> Protection Buyer . . . may hold long or short positions with respect to Reference Obligations and/or other securities or obligations of related Reference Entities and may enter into credit derivative or other derivative transactions with other parties pursuant to which it sells or buys credit protection with respect to one or more related Reference Entities and/or Reference Obligations.

(GS MBS 0000010127; *see also* GS MBS 0000010105 ("The Protection Buyer is not required to have any credit exposure to any Reference Entity or any Reference Obligation.").) This is precisely what Goldman Sachs did through its swap transaction with Paulson. The Goldman Sachs-Paulson CDS was from Goldman Sachs' perspective nothing more than a standard risk-mitigating strategy, which is commonplace in the industry (and indeed beneficial to it) and did not require disclosure.[6] *Donovan* v. *Am. Skandia Life Assurance Corp.*, No. 02 CV 9859, 2003 WL 21757260, *2 (S.D.N.Y. July 31, 2003) ("Liability does not arise from the failure to disclose that which should be obvious to the average investor."); *In re Ultimate Corp. Sec. Litig.*, No. 86 CIV. 5944 (CSH), 1989 WL 79372, at *2 (S.D.N.Y. July 11, 1989) (no duty to disclose obvious facts, such as risk that executive might leave company in future). Ultimately, some entity would take a position opposite the debt investors – whether Goldman Sachs kept that position or transferred it to another entity (such as Paulson) was not material.

Similarly, the fact that ACA may have perceived Paulson to be an equity investor is of no moment. As a threshold matter, the interests of an equity investor would not necessarily be aligned with those of ACA or other noteholders, and holders of equity may also hold other long or short positions that offset or exceed their equity exposure. Indeed, Laura Schwartz of

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[6] Indeed, as Mr. Tourre testified, the ABACUS platform originated as a way to hedge Goldman Sachs' exposure to RMBS products. (*See* Tourre Tr. Vol. 1, 20-21.)

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ACA understood this from her work on a transaction that closed in December 2006 in which Magnetar, a hedge fund that bought equity and took short positions in mezzanine-level debt, participated. (*See* GS MBS-E-007992234 ("Magnetar-like equity investor").) Certainly, ACA could have questioned Paulson about its interests if it that information were significant to it.

More fundamentally, the Staff does not appear to contend that ACA would have refused to approve the Reference Portfolio or that investors would have declined to proceed with the transaction if they had known of Paulson's precise interest. Indeed, the Staff does not contend that prior to the 2007-AC1 transaction ACA even knew that Paulson existed. Paulson's participation in the portfolio selection process did not diminish ACA's extensive analysis. ACA evaluated Paulson's list of 123 securities using its proprietary methods, and rejected more than half of them. ACA then generated its own list of securities, including 31 not proposed by Paulson. Ultimately, ACA vetted and approved all of the 90 securities included in the Reference Portfolio. The mere fact that Paulson – as well as Goldman Sachs and IKB – offered views on the securities proposed for the Reference Portfolio does not support the allegation that ACA failed to perform its duties or compromised its standards.

In short, all of the parties involved evaluated potential investments based on the fundamentals of the securities and not on who offered suggestions as to which securities to include in the Reference Portfolio. There was no "substantial likelihood" that a reasonable sophisticated investor would have deemed Paulson's involvement in selecting the portfolio to be significant in light of the "total mix" of information available. *Basic*, 485 U.S. at 231-32; *see also Capri Optics Profit Sharing* v. *Digital Equipment Corp.*, 760 F. Supp. 227, 233 (D. Mass. 1991) ("This Court questions whether the information allegedly not disclosed was even material, *i.e.*, information affecting a reasonable investor's decision to invest. No evidence is presented

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that Capri would have refrained from investing had those things been done which Capri says ought have been done." (citation omitted)).

E. Investor Losses Were Attributable Solely to the Overall Market Collapse and Not to Any Alleged Misrepresentations by Goldman Sachs.

The Staff appears to suggest that materiality is somehow established by the poor performance of the transaction. But the cause of those losses was the collapse of the subprime market, and not anything unique to this transaction or its disclosures. Goldman Sachs should not be held responsible for losses caused by a general market-wide decline. *Wielgos* v. *Commonwealth Edison Co.*, 892 F.2d 509, 515 (7th Cir. 1989) ("Securities laws require issuers to disclose firm-specific information . . . . [They] needn't disclose the hazards of its business, hazards apparent to all serious observers and most casual ones." (citation omitted)).[7]

There is no evidence that the original reference portfolio proposed by ACA – or any other portfolio of similar securities for that matter – would have performed any differently. To the contrary, any portfolio of this type would have been swept up in the meltdown of the subprime market and experienced considerable write-downs, and none would have materially outperformed the other. (*See* Appendix 2.) The Reference Portfolio was designed to contain high-risk tranches of RMBS issued in 2006 and 2007, and nearly all Baa2-rated, 2006/2007-vintage subprime RMBS – including those initially proposed by ACA without Paulson's involvement – have suffered materially similar losses. (*Id.*)

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[7] And indeed, the offering documents disclosed these general market risks, stating:

> The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower.

(GS MBS 0000010121.)

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In that respect, the transaction participants received precisely what they bargained for. When ACA and IKB bought notes in 2007-AC1 or sold protection referencing the 2007-AC1 Reference Portfolio, they took the view that the senior tranches of 2007-AC1 would suffer losses only if a significant percentage of the 90 referenced securities were written down. ACA and IKB ultimately suffered losses not because Paulson played a role in the portfolio selection process, but because *every security* of that rating and vintage decreased in value as a result of unprecedented market events. The Reference Portfolio was a fair representation of the credit quality of 2006/2007-vintage Baa2-rated subprime RMBS; that credit quality, however, turned out to be very poor.

Similarly, ABN's losses stemmed from overall market forces, not anything relating to the disclosure issues the Staff has raised. ABN was in the business of intermediating credit default swaps for monoline insurers such as ACA and, in connection with that business, intermediated the swap between Goldman Sachs and ACA that referenced the super-senior tranche of the 2007-AC1 securitization. (GS MBS-E-002485172- 2485174; GS MBS-E-002461503-2461505) ABN principally evaluated ACA's credit rating, ultimately deeming the risks associated with the swap transaction to be acceptable in light of its compensation and appetite for *the risk associated with ACA*. (*See* GS MBS-E-002485172-2485173 (Fabrice Tourre tells ABN that entities that had intermediated trades for ACA in the past had "slowly gotten full on ACA's name and that is why we are now trading at the . . . wider level for ACA intermediation").) Consistent with this approach, ABN purchased protection from Goldman Sachs in the form of a $27 million corporate CDS referencing ACA's credit rating. (GS MBS-E-003528155.) To Goldman Sachs' knowledge, ABN did not purchase credit protection referencing the Reference Portfolio.

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Nor did ABN give substantive scrutiny to the 2007-AC1 transaction itself. Rather, the discussions between Goldman Sachs traders and ABN focused almost entirely on what compensation would be appropriate for ABN's intermediation. (*See* Tourre Tr. Vol. 1, 88.) ABN's losses (and Goldman Sachs' on the $27 million CDS it entered into with ABN) were attributable to ACA's collapse, not the characteristics of the Reference Portfolio or any representations pertaining to it.

Finally, nothing stopped any transaction participant from changing its views and adjusting its exposure. The only constant was the Reference Portfolio once it had been selected. If participants suffered losses, they did so solely because they projected that the economic downturn would be less severe than it was.

II. THERE IS NO EVIDENCE THAT GOLDMAN SACHS ACTED NEGLIGENTLY, LET ALONE WITH THE LEVEL OF SCIENTER REQUIRED TO SUPPORT A SECTION 10(b) CLAIM.

A party's fraudulent intent, defined as "a mental state embracing intent to deceive, manipulate, or defraud," is the touchstone of a violation under Sections 10(b) and 17(a)(1). *Ernst & Ernst* v. *Hochfelder*, 425 U.S. 185, 193 n.12 (1976). Some courts have held that this standard can be met by a showing of "extreme recklessness," which has been described as an "extreme departure from the standards of ordinary care . . . which presents a danger of misleading buyers or sellers that is either known to the defendant or is so obvious that the actor must have been aware of it. In other words, it is a lesser form of intent." *SEC* v. *Steadman*, 967 F.2d 636, 641-42 (D.C. Cir. 1992) (internal quotations omitted). Additionally,

> [t]o prove scienter with respect to a non-disclosure, it is not enough to simply show that the defendant was aware of an undisclosed fact that a court later determines is material. Rather, a plaintiff must show that the defendant must have been aware of both the materiality of the undisclosed fact and that its non-disclosure would likely mislead investors.

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SEC v. *Gane*, No. 03-61553-CIV-SEITZ, 2005 WL 90154, at *15 (S.D. Fl. Jan. 4, 2005) (internal citations omitted); *see also SEC* v. *Patty*, 891 F.2d 295, 295 (9th Cir. 1989) (stating that "the question is not merely whether [the defendant] had knowledge of the undisclosed facts; rather, it is the *danger of misleading buyers* that must actually be known or so obvious that any reasonable man should be legally bound as knowing.") (internal citations omitted)).

With respect to Section 17(a)(2) and (3), although the Staff need not establish fraudulent intent, it still must demonstrate the existence of negligence, defined as a departure from the standard of reasonable care. *Aaron* v. *SEC*, 446 U.S. 680, 687-91 (1980). The reasonableness of conduct must be judged in light of the customs and practices of others in similar circumstances at the time the conduct occurred. *See Cherokee Ins. Co.* v. *E.W. Blanch Co.*, 66 F.3d 117, 123 (6th Cir. 1995) (insurance broker "acted in accordance with practices customary in the industry at the time"); *Ward* v. *Hobart Mfg. Co.*, 450 F.2d 1176, 1182 and n.16 (5th Cir. 1971) (design of product consistent with industry practices at the time); Restatement (Second) of Torts § 295A. Compliance with industry standards is a factor (although not dispositive) in determining whether a party met the appropriate standard of care in cases under the securities laws. *See Vernazza* v. *SEC*, 327 F.3d 851, 861 (9th Cir. 2003) ("relevant to show standard of care necessary to a recklessness inquiry"); *Messer* v. *E.F. Hutton & Co.*, 847 F.2d 673, 679 (11th Cir. 1988) (same); *Coates* v. *Heartland Wireless Communications, Inc.*, 100 F. Supp. 2d 417, 425 n.6 (N.D. Tex. 2000) (absent contrary evidence, a defendant who follows industry practices is not liable for fraud under 10(b)); *In re Piper Capital Management, Inc.*, SEC Rel. No. 2163, 2003 WL 22016298, at *8 (Aug. 26, 2003) ("compliance with industry standards is a consideration"). The record in this investigation has revealed no evidence of negligence, let alone fraudulent intent or extreme recklessness.

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A. Goldman Sachs Did Not Mislead ACA Regarding Paulson's Involvement in the Portfolio Selection Process.

The Staff's theory is predicated on the notion that ACA believed that Paulson would be an equity investor in the 0-9% tranche of the 2007-AC1 transaction, and that Goldman Sachs intentionally or negligently led ACA to this belief. In support of this contention, the Staff principally cites:

- Laura Schwartz of ACA's January 8, 2007 e-mail to Gail Kreitman in which she wrote "I have no idea how [the Paulson meeting] went – I wouldn't say it went poorly, not at all, but I think it didn't help that we didn't know exactly how they want to participate in the space. Can you give us some feedback?" (GS MBS-E-003499710);

- Fabrice Tourre's January 10, 2007 e-mail to Ms. Schwartz containing the "Transaction Summary" in which he stated that the transaction was "sponsored by Paulson" and included the line: "[0] - [9]%: pre-committed first loss," (GS MBS E-003504901) which the Staff stated described the equity tranche; and

- Ms. Kreitman's e-mail exchanges with Ms. Schwartz on January 14 and 28, 2007 in which Ms. Kreitman did not correct Ms. Schwartz's apparent misunderstanding that Paulson was an equity investor (GS MBS-E-007980762; GS MBS-E-007992234).[8]

Nothing in those e-mails or elsewhere supports an inference of scienter.

To the extent that ACA inferred from the January 10 e-mail that Paulson would act as an equity investor in the transaction, there is no evidence in the record to suggest that Goldman Sachs intended that ACA draw this inference. The Staff has not asserted that Goldman Sachs or Paulson told ACA that Paulson was an equity investor, and Goldman Sachs is not aware that Ms. Schwartz could recall any such representation being made. Mr. Tourre's reference to "[0] - [9]%: pre-committed first loss" did not state that Paulson would be purchasing a long position, and the record contains no evidence indicating what Mr. Tourre meant by this

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[8] The Staff has also asserted that certain internal ACA documents state that Paulson intended to invest in the equity tranche of the 2007-AC1 transaction. Copies of those documents have not been provided to Goldman Sachs.

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statement. Indeed, Mr. Tourre himself testified that he had no recollection of its meaning. (Tourre Tr. Vol. 2, 145.)

Further, as several Goldman Sachs employees testified, the term "sponsor" is not uniformly defined in the context of a CDO transaction, and it need not refer to an equity investor at all. (*See* Tourre Tr. Vol. 1, 13 (stating that the term transaction sponsor is "not necessarily . . . a defined term" and "a very loose concept"); Gerst Tr. 105 ("I don't really think of ["sponsor"] as . . . an official designated role in a transaction per se."); Nartey Tr. 31 ("[W]e use [transaction sponsor] in different ways.").)

Indeed, the documents and testimony show that that the term "sponsor" was sometimes used to refer to an investor that initiated a reverse inquiry, a counterparty that initiated a reverse inquiry, the entity that selected the portfolio, or Goldman Sachs itself. (*See* Tourre Tr. Vol. 1, 24 (describing IKB as the "sponsor investor" for the first ABACUS deal); Tourre Tr. Vol. 1, 71 (stating that the term "ACA Sponsorship" in the 2007-AC1 flipbook referred to the fact that ACA selected the 2007-AC1 Reference Portfolio); GS MBS 0000010036 (ABACUS 2007-AC1 Flipbook dated February 26, 2007) (stating that ABACUS 2007-AC1 was being "sponsored by ACA."); Gerst Tr. 105 (stating that he thought of the investor who "initiated the inquiry" as a transaction sponsor); Nartey Tr. 31 (stating that clients, managers, and Goldman Sachs itself could be deemed a sponsor)). If Ms. Schwartz inferred that Paulson was an equity investor from Mr. Tourre's email, that at most indicates that a misunderstanding occurred. It does not indicate that Goldman Sachs negligently (let alone recklessly or intentionally) led ACA to believe this was the case, particularly in light of the amorphous language from which Ms. Schwartz apparently drew her inference. Indeed, there is no indication that a reasonable professional under the circumstances presented here would have expected Ms. Schwartz to

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construe the term "sponsor" to mean that Paulson necessarily was an equity investor. *See Gebhart* v. *SEC*, 255 F. App'x 254, 255 (9th Cir. 2007) ("The objective component of scienter asks what a reasonably prudent securities professional under the circumstances would have done.")

Additionally, the fact that Ms. Kreitman did not correct Ms. Schwartz's statements that Paulson was an equity investor does not indicate that she attempted to conceal the truth from ACA. The record shows that Ms. Kreitman, who provided sales coverage on ACA, acted as an "intermediary between the [various] trading desk[s] and clients." (Kreitman Tr. 11.). Ms. Kreitman's role in 2007-AC1 was to "manage the relationship for ACA," meaning that she "acted as an intermediary between the trading desk and [ACA] facilitating meetings and phone calls." (*Id.* at 27-28.) She did not "attend or participate [in the meetings she arranged]" relating to the 2007-AC1 transaction, nor was she "involved in" the creation of the 2007-AC1 CDO. (*Id.* at 31-33.) Nothing in the record suggests that Ms. Kreitman understood the significance of Ms. Schwartz's statements suggesting that she believed Paulson to be an equity investor, much less that Ms. Kreitman acted with scienter or departed from the standard of ordinary care by not correcting them. *Salster* v. *Singer Sewing Mach. Co.*, 361 F. Supp. 1056, 1062 (D. Miss. 1973) ("Reasonable care does not demand perfection.").

Finally, ACA's purported belief that Paulson was an equity investor would have been neither reasonable nor credible if one accepts the major premise of the Staff's theory that Paulson proposed literally dozens of weaker securities that were systematically rejected by ACA. If this premise were true, then a market participant as sophisticated as ACA would have quickly recognized this trend, and questioned at least in its own mind what Paulson's economic interest

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was. Certainly, the credibility of ACA's purported interpretation will be subject to vigorous attack in a contested proceeding.

B. No Evidence Supports an Inference that Goldman Sachs Retained ACA or Characterized ACA as the Portfolio Selection Agent in Order to Deceive Investors.

The Staff has focused on Goldman Sachs' reasons for including ACA in the 2007-AC1 transaction, citing: (1) statements in a memorandum to the Goldman Sachs Mortgage Capital Committee Memo to the effect that ACA's involvement would enhance the marketability the 2007-AC1 transaction; and (2) an email in which Mr. Tourre wrote, "One thing that we need to make sure ACA understands is that we want their name on this transaction. This is a transaction for which they are acting as portfolio selection agent, this will be important that we can use ACA's branding to help distribute the bonds." (GS MBS-E-006142887.)

The Staff contends that these statements – as well as Jonathan Egol's February 11, 2007 e-mail stating "You know I love it all I'm saying is the cdo biz is dead and we don't have a lot of time left" (GS MBS-E-002633997) – indicate that Goldman Sachs believed that the 2007-AC1 securitization could not be marketed without the ACA brand name. Thus, the Staff contends that Goldman Sachs deliberately concealed Paulson's role in order to maintain the "false" appearance that ACA had selected the Reference Portfolio because, without this deception, the transaction would not be marketable. The Staff's theory does not withstand scrutiny.

ACA was no mindless dupe that could be so easily manipulated. It was a significant player in the CDO marketplace, with a strong reputation as a collateral manager and portfolio selection agent. (GS MBS-E- 003525837.) IKB was familiar with ACA and respected its skills as a collateral manager. (GS MBS-E-002668754.) Although the documents cited by the Staff show that Goldman Sachs wanted ACA to assume the role of Portfolio Selection Agent,

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they provide no basis for concluding that Goldman Sachs did so in order to conceal Paulson's role. ACA indisputably fulfilled its role as Portfolio Selection Agent, and ACA's approval of the 90 reference securities may have appealed to some potential investors, including IKB. The non-disclosure of Paulson's role (and its separate hedging transaction with Goldman Sachs) simply reflected industry practice not to disclose client names and strategies, as well as the lack of materiality of Paulson's name to potential investors. *See Gane*, 2005 WL 90154, at *15 (to prove scienter, plaintiff must show that defendant was aware that non-disclosed fact was material).

Additionally, there is no evidence whatsoever that Goldman Sachs would have had any intention to mislead investors. In fact, the record reflects that the 2007-AC1 transaction – which was approved by the Mortgage Capital Committee, an independent committee within Goldman Sachs – was very much routine, and one of numerous CDO transactions underwritten by Goldman Sachs. Although Goldman Sachs certainly hoped to earn profits by structuring the 2007-AC1 transaction, it is well established that allegations of fraud cannot rest on this ground alone, because such a "generalized motive . . . could be imputed to any publicly owned, for-profit endeavor." *Chill* v. *Gen. Elec. Co.*, 101 F.3d 263, 267 (2d Cir. 1996). More fundamentally, Goldman Sachs would not have compromised its reputation in the industry or its longstanding customer relationships in order to marginally increase its profitability in a single transaction.

Moreover, it has never been industry practice for financial institutions to disclose the identities of clients with which they enter into hedging transactions. Such disclosures would have been particularly unnecessary here, where the existence of the CDS between Goldman Sachs and the SPV – as well as Goldman's right to transfer the risk assumed thereunder – was

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disclosed in the offering documents. Goldman Sachs acted appropriately in not disclosing that ACA conferred with Paulson, because Paulson's involvement was not material. *See SEC* v. *Todd*, No. 03-CV-2230-BEN (WMC), 2006 WL 1564892, at *7 (S.D. Cal. May 30, 2006) (holding that Commission had not proven scienter where, although defendant knew that certain transactions had occurred but did not disclose them, Commission had failed to point to any evidence demonstrating that the defendant "had knowledge of [the] impropriety [of the transactions], or was reckless in not knowing" (emphasis added)).

As to Mr. Egol's February 11, 2007 e-mail, even if that e-mail suggests that Mr. Egol (from whom the Staff did not take testimony) had a negative view of the CDO marketplace, Goldman Sachs' non-disclosure of that view does not indicate that it was using ACA's brand name to perpetrate some fraud on investors by concealing its own market views or those of Paulson. Goldman Sachs certainly could have sponsored the transaction itself without disclosing its own market outlook, because is well established that market participants need not disclose their internal views of the market, even if those views have implications for securities being offered.[9] *See Dirks* v. *SEC*, 463 U.S. 646, 654 (1983) ("A duty [to disclose] arises from the relationship between parties . . . and not merely from one's ability to acquire information because of his position in the market." (internal quotation marks omitted; alterations in original)); *Moss* v. *Morgan Stanley Inc.*, 719 F.2d 5, 15 (2d Cir. 1983) ("[N]othing in the language or legislative

[9] Indeed, Mr. Egol's statement that "the cdo biz is dead" did not reflect a belief that widespread CDO failures would occur. Mr. Egol's email addressed an analysis of the then soon-to-be launched Markit ABX.HE Tranche Indices ("TABX"). The TABX indices referenced the BBB and BBB- rated tranches of the ABX indices, and provided investors with the ability to gain or hedge exposure to specific levels of risk in the referenced securities, which previously could only be achieved through bespoke CDOs. As a result, the market for bespoke CDOs could suffer because TABX provided a more liquid and transparent way for investors to buy or sell tranche-specific protection.

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history of section 10(b) or rule 10b-5 . . . suggests that Congress intended to impose a special duty of disclosure on broker-dealers simply by virtue of their status as market professionals"). It certainly cannot be held liable for failing to disclose a counterparty's views.

Once the pertinent facts have been disclosed, investors in asset-backed securities bear responsibility for evaluating the credit quality of the underlying assets. Ultimately, the 2007-AC1 transaction sustained losses because of a general decline experienced by RMBS of similar rating and vintage, not because of the particular Baa2-rated securities in the Reference Portfolio.

III. THE STAFF'S THEORY THAT GOLDMAN SACHS COMMITTED FRAUD BY FAILING TO DISCLOSE PAULSON'S ROLE MISCONCEIVES THE FUNCTION AND OBLIGATIONS OF A BROKER-DEALER.

The Staff claims that Goldman Sachs' failure to disclose Paulson's role in the process of selecting the Reference Portfolio is actionable. This assertion, however, rests on two faulty assumptions: (1) that Paulson's involvement – in light of Paulson's now-known market view and investment strategy – would have been material to investors at the time of the 2007-AC1 transaction, and (2) that Goldman Sachs was free to disclose Paulson's role if it wished to do so.

The Staff's first assumption relies on hindsight, and is colored by the knowledge that Paulson later went on to record substantial profits by betting against the subprime market. As discussed above (*see supra,* part I(D)), it does not account for the market reality of the time, which was that Paulson was a little-known hedge fund with a market strategy that ran counter to the views of many sophisticated investors. Simply put, to most investors (including ACA and IKB) the name Paulson would not have been significant even if it had been disclosed.

The second assumption overlooks Goldman Sachs' duty as a broker-dealer to keep information concerning its clients' trades and positions confidential. As disclosed in the

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Offering Circular, Goldman Sachs was the original protection buyer for the 2007-AC1 transaction. The CDSs entered into by Goldman Sachs and Paulson were separate, albeit related, transactions from the 2007-AC1 securitization. Indeed, the Staff argued on our July 28, 2009 call that in computing Goldman Sachs' profits it intended to treat the Paulson CDSs as separate transactions that did not offset Goldman Sachs' profits on its CDSs with the SPV and ABN. Leaving aside the lack of logic or fairness of refusing to consider offsetting hedge transactions in computing profit, the Staff did recognize that the Paulson CDSs were separate transactions from those with the SPV and ABN. Given that the offering documents disclosed that Goldman Sachs might enter into just such transactions to convey to other parties the credit protection it purchased in CDSs with the 2007-AC1 SPV, the Staff's argument reduces to nothing more than Goldman Sachs' failure to disclose the *identity* of one of its counterparty clients.

Consistent with one of the fundamental ethical standards governing their conduct, broker-dealers do not have to disclose their clients' positions or strategies to other parties with whom they engage in trades. The Commission itself recently described the obligation not to divulge client information as "one of the most fundamental ethical standards in the securities industry," noting that "[t]he duty to maintain the confidentiality of client information is grounded in fundamental fiduciary principles." *In re Thomas W. Heath, III*, SEC Rel. No. 59223, 2009 WL 56755, at *4 (Jan. 9, 2009) (affirming sanctions against former registered representative of member of national securities exchange who divulged confidential client information).

Through the enforcement action being proposed here, the Staff would create a new disclosure obligation requiring broker-dealers to disclose the identities and positions of their counterparties or customers to other market participants. The creation of this obligation would greatly expand existing disclosure requirements, and would run afoul of the existing obligation to

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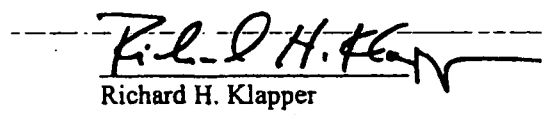
maintain the confidentiality of client transactions. It should therefore be effected – if at all – through formal rulemaking rather than an enforcement action.

CONCLUSION

For the foregoing reasons, no enforcement action is warranted.

Dated: New York, New York
September 10, 2009

Respectfully submitted,



Richard H. Klapper
Michael T. Tomaino, Jr.
Christopher J. Dunne
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004
(212) 558-4000

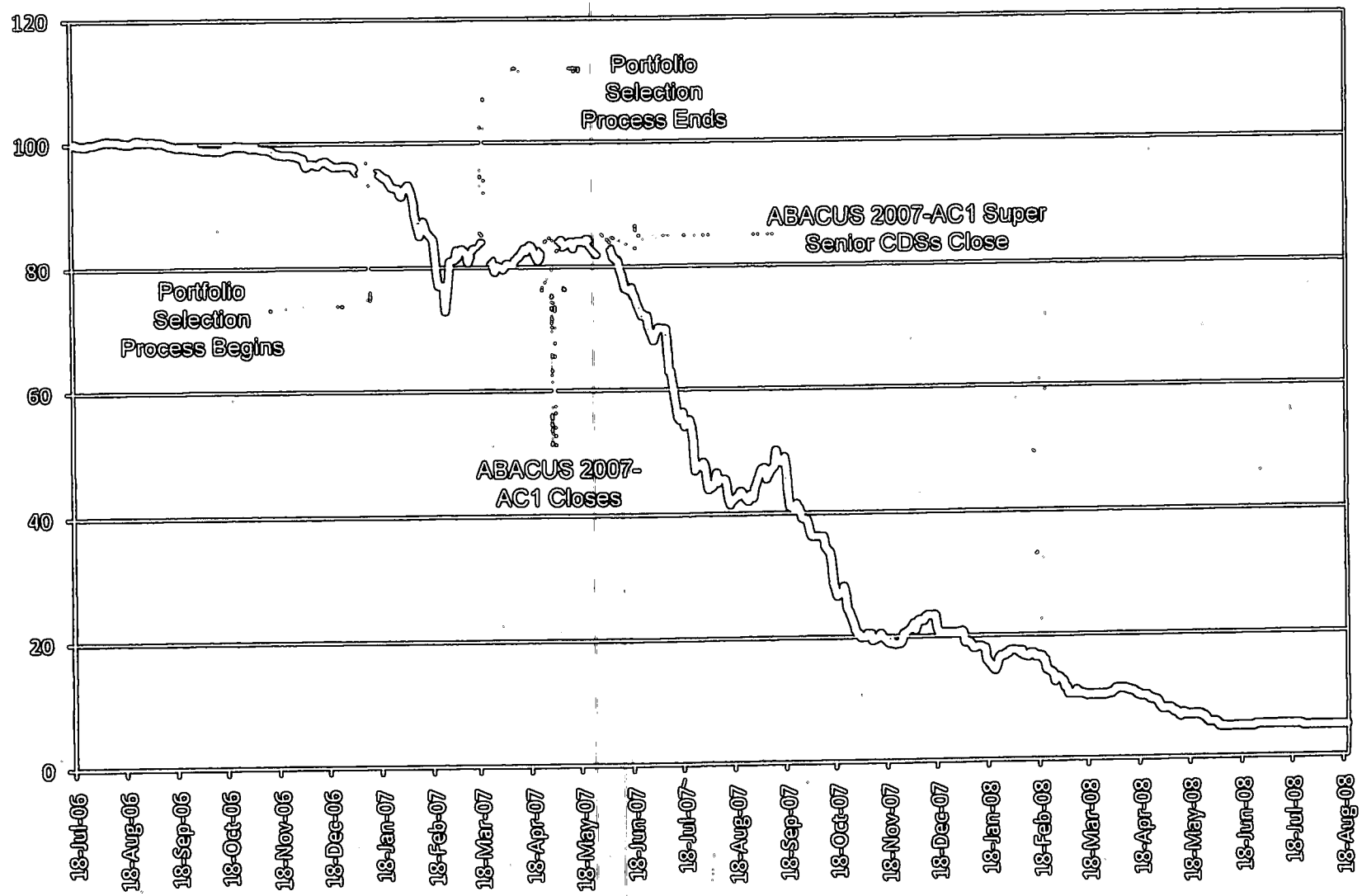
Attorneys for Goldman, Sachs & Co.

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ATTACHMENT 11

Appendix 1

Price of ABX.HE 06-2 BBB Index Over Time



GS MBS 0000024816

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ATTACHMENT 12

Appendix 2

Performance of the Reference Portfolio

Data	2007-AC1 Final Reference Portfolio	Initial Portfolio Suggested by ACA	Subprime Deals From 2006/1Q07*
Number of Bonds	90	86	293
Average % 60+ Days Delinquent Loans	46.2	45.9	44.4
Average Cumulative Loss on Loans	13.1	12.5	12.2
Average Borrower FICO Score	629	627	624
Average Loan-to-Value Ratio	80	80	81
Average % Limited Documentation	37	40	33
Average Original Credit Enhancement	4.5	4.6	4.6
Average Weighted Average Loan Age (months)	37	38	38
Average % Written Down	85	80	72
Average Time to Writedown (months)**	0.8	1.4	1.7

** All Subprime RMBS deals from 2006/1Q07 as classified by LoanPerformance, with a Moody's rating of Baa2 or S&P rating of BBB, without split ratings.*

***Goldman Sachs estimate.*

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ATTACHMENT 13

FOIA CONFIDENTIAL TREATMENT
REQUESTED BY GOLDMAN, SACHS & CO.

UNITED STATES OF AMERICA

before the

SECURITIES AND EXCHANGE COMMISSION

In the Matter of ABACUS CDO	File No. HO-10911

SUPPLEMENTAL SUBMISSION ON BEHALF OF GOLDMAN, SACHS & CO.

Richard H. Klapper
Michael T. Tomaino, Jr.
Christopher J. Dunne
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004

Attorneys for Goldman, Sachs & Co.

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UNITED STATES OF AMERICA

before the

SECURITIES AND EXCHANGE COMMISSION

In the Matter of ABACUS CDO	File No. HO-10911

SUPPLEMENTAL SUBMISSION ON BEHALF OF GOLDMAN, SACHS & CO.

Goldman, Sachs & Co. ("Goldman Sachs") makes this supplemental submission to respond to certain factual questions posed by the Staff during our September 15, 2009 meeting about the ABACUS 2007-AC1 CDO transaction ("2007-AC1"), as well as to provide additional observations with respect to the Staff's theory as it was explicated during the course of the meeting.[1]

[1] This submission is provided solely in connection with the Staff's consideration of possible action against Goldman Sachs, and is made without any admission that the conduct under investigation violated any laws, rules or regulations. Should the Staff decide to make any recommendation that varies in any respect from the issues and positions Goldman Sachs has addressed, we expressly reserve the right to revise this submission in accordance with Rule 5(c) of the Commission's Rules Regarding Information and Other Proceedings, 17 C.F.R. § 202.5(c), and Procedures Relating to the Commencement of Enforcement Proceedings and Termination of Staff Investigations, Nos. 33-5310, 34-9796, 1972 WL 130244, at *1-2 (Sept. 27, 1972). Goldman Sachs also expressly reserves the right to object to the admissibility of this submission and those submitted by any other person in any subsequent proceeding. Finally, Goldman Sachs hereby asserts that this submission constitutes attorney work product and requests that (a) it be treated confidentially and not as a waiver of any privilege or immunity from production, and (b) pursuant to Commission Rule 83, 17 C.F.R. § 200.83, that this

I. FACTUAL QUESTIONS POSED BY THE STAFF

During the September 15, 2009 meeting, the Staff raised the following factual matters, which Goldman Sachs undertook to investigate and address:

1. The Staff inquired whether the 293 Baa2-rated securities from the 2006/2007 vintage included in the chart attached as Appendix 2 to Goldman Sachs' Wells Submission included securities backed by "midprime" as well as subprime loans, and thus whether the performance of all subprime and "midprime" Baa2-rated RMBS differed materially from that of the Reference Portfolio.

2. The Staff also raised the issue whether certain undisclosed criteria – such as average borrower FICO scores and geographical concentration of loans – restricted the ability of ACA Capital Management LLC ("ACA") to include in the Reference Portfolio certain securities from within the category of 2006/2007 Baa2-rated RMBS backed by subprime and "midprime" mortgage loans.

3. The Staff asserted its belief that in transactions marketed as having a portfolio selected by a Portfolio Selection Agent, other market participants had disclosed the participation in the portfolio selection process of a party taking a short position with respect to the portfolio and cited the Auriga CDO, Norma CDO I and Sorrento 2006-1 CDOs as examples.

We address these factual matters in sequence.

A. The 293 Securities Described in Appendix 2 to Goldman Sachs' Initial Submission Included "Midprime" RMBS.

The 293 securities in Goldman Sachs' summary of performance of subprime RMBS in Appendix 2 to Goldman Sachs' Wells Submission included "midprime" RMBS. To gather the information set forth in the column labeled "Subprime Deals From 2006/1Q07" in Appendix 2, Goldman Sachs compiled data for all securitizations other than those classified as "prime" or "alt-A" by LoanPeformance. The 293 securities thus consisted of "midprime" and

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submission not be disclosed in response to any request made under the Freedom of Information Act, 5 U.S.C. § 552.

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"subprime" securitizations.[2] As the Appendix (a copy of which is attached to this submission) illustrates, this universe of Baa2-rated, 2006/2007-vintage mid and subprime RMBS suffered losses that were materially similar to those of the Reference Portfolio, because nearly all mid and subprime RMBS of that rating and vintage – including those initially proposed by ACA without Paulson's involvement – have performed poorly.

B. The Portfolio Selection Criteria Were Fully Disclosed in the Offering Documents.

At our September 15 meeting, the Staff asserted that criteria such as average borrower FICO scores and geographic concentration of loans restricted the ability of ACA to include in the Reference Portfolio certain securities from within the category of 2006/2007 Baa2-rated RMBS backed by subprime and "midprime" mortgage loans.

Based on the record available to Goldman Sachs, the only evidence of criteria in addition to the limitation to 2006/2007 Baa2-rated RMBS backed by sub and midprime mortgage loans are draft engagement letters between Goldman Sachs and Paulson & Co., Inc. ("Paulson"), which contain additional criteria initially discussed by Goldman Sachs and Paulson prior to the

---

2 The term "midprime" is used by Moody's Investor Service, which defines "midprime" RMBS as having a weighted-average borrower FICO score between 625 and 700. "Prime" loans have FICO scores greater than 700: of the 222 RMBS issued in 2006 and the first quarter of 2007 and characterized as "prime" by LoanPerformance, only two had average borrower FICO scores less than 700, and in these two securities the average borrower FICO score was 699.73 and 696.36, respectively. Alt-A securitizations generally contain loans that do not fully meet the definition of "prime." The Federal Housing Finance Authority defines an "alt-A" loan as "[a] conventional single-family mortgage made to a borrower who typically provides limited income or asset verification or no evidence of an employer. Such loans may have other non-standard underwriting." Federal Housing Finance Authority, Mortgage Market Note 07-1, *available at* http://www.fhfa.gov/webfiles/1246/MMNOTE9607.pdf (last visited Sept. 24, 2009). Of the 634 securitizations issued in 2006 and the first quarter of 2007 and characterized as "alt-A" by LoanPerformance, 111 had average borrower FICO scores of less than 700. The average borrower FICO score among these 111 securities, however, was 690.97.

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selection of ACA as Portfolio Selection Agent.[3] (*See* GS MBS-E-002755993-2756029.) As Goldman Sachs witnesses testified, however, these criteria were used to guide Goldman Sachs' preliminary search for potential reference securities. (Gerst Tr. 134-36; Tourre Tr. Vol. 1, 47-49.) No formal engagement letter was ever executed, and Goldman Sachs has seen no evidence that the criteria listed in the draft engagement letters were ever conveyed to ACA. (Gerst Tr. 51-53.) Indeed, Mr. Tourre testified that the only criteria conveyed to ACA were that the securities be 2006/2007-vintage, Baa2-rated and backed by sub or midprime loans. (Tourre Tr. Vol. 1, 62.) Further, counsel for Paulson deleted the reference to these criteria in the last draft of the engagement letter. (*See* GS MBS-E-006121092.) The record available to Goldman Sachs does not indicate that *any* restrictions were imposed on ACA's selection process other than those set forth in the various term sheets, namely, that the portfolio would be comprised of 2006/2007-vintage, Baa2-rated mid and subprime RMBS.

C. Market Practice Did Not Entail Disclosure of a Short Investor's Participation.

At our meeting, the Staff suggested that at least some market participants disclosed the involvement in the portfolio selection process of third parties that took short positions with respect to the CDO's portfolio and referenced as examples the Auriga, Norma and Sorrento transactions. Respectfully, those examples are readily distinguishable, and we have identified no evidence of any such general market practice.

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[3] The draft of the Engagement Letter dated January 3, 2007, lists six criteria disclosed in the Term Sheet, plus two additional criteria: (i) the value of collateral in the securitization must exceed $500 million, and (ii) at least 80% of the collateral should consist of adjustable-rate mortgages. (GS MBS-E-002756016.) The draft also limits the reference securities to those issued after March 1, 2006, while the Term Sheet refers to 2006- and 2007-vintage securities. The Reference Portfolio, however, contained eight securities issued in January and February 2006, one security with less than $500 million in collateral and 20 securities in which less than 80% of the collateral consisted of adjustable-rate mortgages.

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Auriga, unlike 2007-AC1, is an actively-managed CDO transaction without a static Reference Portfolio. (Auriga Offering Circular at 200.) Its collateral manager is 250 Capital LLC, a subsidiary of Merrill Lynch & Co., the underwriter of the transaction. (*Id.* at 197.) At our meeting, the Staff made no reference to particular disclosures used in the Auriga, Norma or Sorrento transactions. Our own examination of the Auriga Offering Circular has revealed no relevant disclosures, but we have excerpted three provisions that the Staff may have had in mind.

First, the Auriga Offering Circular discloses that an "Initial Preferred Securityholder"[4] may take a position opposite that of the noteholders:

> *Initial Preferred Securityholder may enter into credit derivative transactions relating to Reference Obligations or Cash Collateral Debt Securities in the Issuer's portfolio*. On or after the Closing Date, the Initial Preferred Securityholder may enter into credit derivative transactions relating to Reference Obligations or Cash Collateral Debt Securities in the Issuer's portfolio, under which it takes a short position (for example, by buying protection under a credit default swap relating to such obligation or security) or otherwise hedges certain of the risks to which the Issuer is exposed. The Issuer and Noteholders will not receive the benefit of these transactions by the Initial Preferred Securityholder and, as a result of these transactions, the interests of the Initial Preferred Securityholder may not be consistent with those of Noteholders.

(*Id.* at 55.) Goldman Sachs understands that the Initial Preferred Securityholder was Magnetar Capital LLC ("Magnetar"), but this information is not disclosed in the offering circular. Goldman Sachs does not know the extent to which Magnetar played a role in the selection of the Auriga portfolio, and this too is not disclosed in the offering circular. In fact, other than listing 18 pages of "eligibility criteria" (*id.* at 143-161), which state in general terms what the portfolio may contain, the Auriga offering circular does not mention the contents of the portfolio *at all*.

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[4] The "Initial Preferred Securityholder" was the purchaser of the Class H Notes, Class I Notes and the "Preferred Securities," which were the three most subordinate classes of securities issued in the Auriga transaction. (Auriga Offering Circular at 1-3.) These three classes of securities were sold in a separate offering and are not described in detail in the Auriga Offering Circular.

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Second, the Auriga Offering Circular discloses that the Credit Default Swap Counterparty, Merrill Lynch International ("MLI"), "is likely to seek to eliminate any credit exposure to the Reference Obligations by entering into back-to-back hedging transactions." (*Id.* at 56.) This disclosure is materially similar to that stated in the 2007-AC1 Offering Circular. (*See* GS MBS 0000010105 ("The Protection Buyer is not required to have any credit exposure to any Reference Entity or any Reference Obligation."); GS MBS 0000010127 ("[T]he Protection Buyer . . . may hold long or short positions with respect to Reference Obligations . . . and may enter into credit derivative or other derivative transactions with other parties pursuant to which it sells or buys credit protection with respect to one or more related Reference Entities and/or Reference Obligations. . . .").)

Finally, the Auriga Offering Circular discloses that, in its capacity as Credit Default Swap Counterparty, MLI may have conflicts of interest because the terms of the transaction permit it to determine when defaults of the Reference Obligations – events that trigger payment to it under the Credit Default Swap – have occurred:

> *Conflicts of Interest of Credit Default Swap Counterparty*. MLI will, in its role as Credit Default Swap Counterparty for all of the Credit Default Swaps, have the right to make determinations regarding the Reference Obligations (including a decision to give notice that a credit event or "floating amount event" has occurred and require the Issuer to make payments to it). In addition, MLI, as Credit Default Swap Counterparty to the Synthetic Securities, will have sole discretion to determine whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Amount Event has occurred under a Synthetic Security.

(Auriga Offering Circular at 69.) This disclosure, however, relates not to the selection of the reference securities but to the determination that certain credit events have occurred with respect

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to them.[5] Moreover, Auriga's structure is so radically different from that of 2007-AC1 that any attempt to analogize the two transactions would be futile.

The Norma CDO, which also was an actively managed transaction underwritten by Merrill Lynch & Co., contained disclosures that were materially similar to those used in Auriga. (Norma Offering Circular at 56, 67.) We understand that Magnetar was the "Initial Preference Shareholder"[6] for the Norma transaction, but this information is not disclosed in the offering circular. Similarly, we do not know whether Magnetar played a role in the selection of the Norma portfolio, and this too is not disclosed in the offering circular.[7]

---

5 The 2007-AC1 Offering Circular disclosed that Goldman Sachs, as Protection Buyer, would have certain conflicts of interest, including that it might enter into other transactions that have an adverse effect on the reference securities. (GS MBS 0000010126-10127.)

6 The "Initial Preference Shareholder" was the purchaser of the Class G Notes, Class H Notes and the "Preference Shares," which were the three most subordinate classes of securities issued by the Norma CDO. (Norma Offering Circular at 1-3.) These three classes of securities were sold in a separate offering and are not described in detail in the Norma Offering Circular.

7 The Norma CDO was the subject of a December 27, 2007 Wall Street Journal article entitled "Wall Street Wizardry Amplified Credit Crisis – A CDO Called Norma Left 'Hairball of Risk.'" The article states that Norma was "[c]reated at the behest of an Illinois hedge fund" understood by "people familiar with the matter" to be Magnetar. Carrick Mollenkamp and Serena Ng, *Wall Street Wizardry Amplified Credit Crisis – A CDO Called Norma Left 'Hairball of Risk,'* THE WALL STREET JOURNAL, Dec. 27, 2007, at A1. The article goes on to note that:

> Most [of the collateral was] not actual securities, but derivatives linked to triple-B-rated mortgage securities. Called credit default swaps, these derivatives worked like insurance policies on subprime residential mortgage-backed securities or on the CDOs that held them. Norma, acting as the insurer, would receive a regular premium payment, which it would pass on to its investors. The buyer of protection, which was initially Merrill Lynch, would receive payouts from Norma if the insured securities were hurt by losses. *It is unclear whether Merrill retained the insurance, or resold it to other investors who were hedging their subprime exposure or betting on a meltdown.*

Id. (emphasis added).

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Sorrento was a $67.4-million bespoke CDO transaction. Goldman Sachs has been unable locate the offering documents used in the transaction. In any event, the disclosure practices used in a $67.4-million offering cannot be said to reflect market norms for multi-billion-dollar transactions such as 2007-AC1.

More fundamentally, if it were market practice to disclose reverse inquiries and participation by entities with long or short positions in selecting the reference portfolio, we would have expected to see many examples of that disclosure, because those activities were a regular feature of synthetic CDO transactions. Even the existing record reflects that ACA and IKB themselves offered views on reference portfolios in transactions in which they participated. We have confirmed with outside counsel experienced in the drafting of CDO offering materials that market participants were well aware that participants in CDO transactions routinely provided input on selection of the portfolio securities, and that it was not market practice to disclose their involvement in the portfolio selection process. Goldman Sachs has no doubt that a fully developed record would reflect that both long and short investors often initiated transactions through reverse inquiries, and that they and other potential participants regularly expressed views as to the reference portfolio's composition. Market participants understood that those activities occurred, and in the end all were fully capable of analyzing the resulting portfolio and making their investment decision on the merits of the portfolio.

II. THE OFFERING MATERIALS DISCLOSED ALL MATERIAL FACTS.

The September 15 meeting was very useful in helping us understand the Staff's evolving thinking. We appreciate the Staff's willingness to engage in an open and robust discussion of the issues, and take this occasion to offer several additional observations based on the additional insights gained as to the Staff's theory.

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Goldman Sachs had prepared its Wells Submission in response to the proposed charges as outlined in the Staff's Wells call and ensuing letter in early August, which appeared to highlight the role of Paulson, as well as ACA's apparent belief that Paulson was an equity investor. The Staff clarified at the meeting that its theory does not turn on disclosure of Paulson's name or on anything unique to Paulson, but rather rests on the degree of participation by *any* entity in the selection of a reference portfolio when the offering documents refer to a portfolio selection agent and the entity participating in the selection process intends to take a short position with respect to the reference portfolio. As we understand the Staff's position, participation by that entity in that manner would have qualified the offering materials' statement that ACA was the Portfolio Selection Agent, because that statement implied that the Agent acted without input or comment from others in selecting the portfolio.

With the benefit of this clarification of the Staff's position, we revisit below several points we have previously made to sharpen our observations:

- *First*, investors already understood and therefore required no disclosure that (i) a synthetic CDO transaction could not occur absent market participants absorbing both the long and short side of the exposure, and (ii) it is a regular aspect of the market for those participants to make reverse inquiries about transactions and express their views as to the reference portfolio. The reference to a Portfolio Selection Agent did not suggest otherwise or impliedly disclaim the normal interaction among participants in the transaction, and so needed no qualification as to the degree of investor participation in the process. (Section A)

- *Second*, to the extent that investors took comfort in ACA's role in selecting the Reference Portfolio, they received the benefit of ACA's participation, because in the end the Portfolio *was selected* by ACA, and no transaction could have occurred absent its approval. There can simply be no question as to ACA's

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satisfaction with the Reference Portfolio as it invested its own capital heavily in the transaction. (Section B)

- *Third*, however the Reference Portfolio came to be, the sophisticated institutional investors in the resulting ABACUS private placement were well-equipped to perform their own objective analysis of the underlying assets, which turned on information equally available to all participants. (Section C)

A. All Investors Understood That Synthetic CDO Transactions Emanate From Inquiries by Market Participants and That Those Participants Provide Input Into the Portfolio's Composition.

The Staff's theory hinges on the proposition that investors assumed by virtue of the reference to a Portfolio Selection Agent that the Agent would operate alone and without input from other participants in the transaction, and that the transaction had emanated from Goldman Sachs rather than from a reverse inquiry. Respectfully, the very sophisticated participants involved in 2007-AC1 knew differently, and required no disclosure regarding the role of participants taking a short position.

These and other regular CDO investors were fully aware that a synthetic CDO transaction can occur only if there are market participants taking long and short exposure to the reference portfolio. They also understood that synthetic CDOs routinely arose as a result of reverse inquiries; indeed, they had themselves made such inquiries from time to time. For example, IKB's own inquiry led to the initial ABACUS transaction. Finally, they were also fully aware that in synthetic CDO transactions, participants often express their views as to the composition of the portfolio; they had all expressed their views in such circumstances in the past. Accordingly, they had every reason to assume that these same dynamics – participants shorting

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the portfolio, reverse inquiries and interactions as to the portfolio composition – would exist in the case of 2007-AC1.[8]

The reference in the offering materials to a Portfolio Selection Agent did not imply otherwise. The Staff expressed the view that such a selection agent presumptively assembles a portfolio without input from investors or reference to selection criteria, but provided no basis in industry practice or otherwise for such a presumption. Certainly there was nothing in the offering materials that so suggested.[9] All those materials said was that *this* agent would select the ultimate portfolio, subject to disclosed criteria, and even under the Staff's theory there cannot be any question that ACA made the selections. That ACA had input from interested participants does not diminish its exclusive authority to select the portfolio, its thorough review

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8 Goldman Sachs does not understand the Staff to contend that it should have disclosed the participation of *any* entity that intended to take a short position, no matter how little that entity had participated in the portfolio selection process. Further, customary market practices do not generally have to be disclosed to investors. *See In re Worlds of Wonder Sec. Litig.*, 35 F.3d 1407, 1417-18 (9th Cir. 1994) (common industry practices require no disclosure).

9 The offering circular described the role of the Portfolio Selection Agent as follows:

> The Portfolio Selection Agent will, pursuant to the terms of the Portfolio Selection Agreement, (a) select the Initial Reference Portfolio and (b) have the right to review the calculations of the Credit Default Swap Calculation Agent and the Trustee on any Determination Date. The Portfolio Selection Agent will not be responsible for producing or providing reports, notices or other information relating to the Notes or the Reference Portfolio. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral.

(GS MBS 0000010178.) The Portfolio Selection Agreement gave ACA the authority to select the Reference Portfolio, and said nothing about whether ACA would act with or without input from third parties. (*See* GS MBS-E-0003639016.)

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of each security included using its proprietary analytic models, and its complete satisfaction with the resulting portfolio as evidenced by its investment of its own cash in the deal.

We also pause to consider precisely what the additional disclosure advocated by the Staff would say. Based on our discussion at the September 15 meeting, Goldman Sachs understands that the Staff apparently has in mind the addition of a disclosure such as the following:

> The Portfolio Selection Agent may, from time to time, receive recommendations as to the content of the Reference Portfolio from third parties, including third parties whose interests are adverse to those of the noteholders. The Portfolio Selection Agent may consider and accept or reject such recommendations, with the result that any or all of the Reference Obligations may have initially been proposed by such third parties, and that Reference Obligations originally proposed for inclusion by the Portfolio Selection Agent may be deleted from the Reference Portfolio. Investors should review the list of Reference Obligations set forth herein and conduct their own investigation and analysis with respect to the creditworthiness of each Reference Obligation.

Such a disclosure would provide a potential investor with no information the investor did not already know, since the dynamics described represented a regular course of dealing in the market. A disclosure more narrowly tailored to the facts of the 2007-AC1 transaction would convey even less. For example, a potential disclosure of the discussions at issue here might read:

> The Portfolio Selection Agent has received recommendations as to the content of the Reference portfolio from third parties, including a third party that intends to take a short position with respect to the Reference Portfolio (the "Third Party"). The Third Party initially suggested 123 securities to the Portfolio Selection Agent. The Portfolio Selection Agent evaluated these 123 securities, rejected 68 of these securities, accepted 55 of these securities and proposed an additional 31 securities. The Portfolio Selection Agent later proposed an additional 26 securities. Goldman Sachs requested that two of the proposed securities be rejected, and the Portfolio Selection Agent suggested three replacements. After a meeting between the Portfolio Selection Agent and the Third Party, the Portfolio Selection Agent circulated a spreadsheet of 100 securities, including the securities that the two parties had agreed upon, as well as several additional securities. The Third Party requested removal of eight of these securities and Goldman Sachs requested removal of two other securities. The Third Party then circulated a list of 90 securities. The Portfolio Selection Agent requested removal of 3 securities and proposed 11 alternative securities, 3 of which were agreed upon by the Third

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Party. The parties than further discussed the substitution of a handful of securities and settled on the final portfolio.

The bottom line is that no amount of disclosure would change that the very sophisticated investors already knew that some entity or entities by necessity had to take a short position, and that any and all participants – including themselves – might express their views as to the reference portfolio. None of these descriptions contains any concrete, analyzable information that might educate the sophisticated institutional investors that typically purchase synthetic CDOs. Regardless of who selected them, the offering documents for each of the reference securities disclosed detailed information on their underlying assets, as required by Regulation AB. It is this concrete information on the assets – not the economic interest of the entity that selected them – that investors could analyze and use to inform their decisions.[10]

B. ACA Selected the Reference Portfolio, and the Offering Documents Properly Described ACA as Portfolio Selection Agent.

The Staff questioned at times during the September 15 meeting whether ACA actually selected the portfolio. The record in this investigation is clear that the overwhelming majority of the securities were identified by ACA. Of the 90 securities in the Reference Portfolio:

- 47 were among the 55 selected by ACA from the 123 securities initially sent to ACA (*see* GS MBS 0000010274-10277; GS MBS-E-007988151-007988152),

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[10] At the September 15 meeting, the Staff stated that it had asked some market participants whether they would have wanted to know prior to investing in a securitization that a participant in the portfolio selection process intended to take a short position, and that these market participants stated that they would have wanted to know this information. Leaving aside whether these market participants could truly and objectively recall – without hindsight – what they thought was material given the market conditions prevalent in 2006 and early 2007, it is unlikely that an informal survey, without reference to the specific, detailed information provided to investors here, would yield meaningful responses.

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- 19 were among the 31 initially recommended by ACA for its first portfolio of 86 securities (*see id.*),
- 21 were initially recommended by ACA later in the process (*see* GS MBS 0000010274-10277; GS MBS-E-003026086; GS MBS-E-003838442-3838443; GS MBS-E-002444961-2444962; GS MBS-E-003740868) and
- 3 were initially recommended by Paulson (*see* GS MBS 0000010274-10277; GS MBS-E-003740868; GS MBS-E-007974382).

The record is equally clear that, regardless of who proposed or commented on any particular security, in the end, ACA carefully analyzed every security, and ACA alone selected the final portfolio and underscored its satisfaction by investing its own money. Only ACA had the authority to select and approve the Reference Portfolio; certainly Paulson had no such authority. If investors took any comfort from ACA's role as Portfolio Selection Agent, they got precisely what they were expecting.

C. Investors Had All the Objective Information They Required to Make an Informed Investment Decision.

As Goldman Sachs noted in its initial Submission, what mattered to investors – particularly the sophisticated institutions that invested here – were the details of the Reference Portfolio. Every investor was simply applying its own broad directional bet on macro-economic and housing trends to a portfolio of securities. That objective portfolio information was entirely static and involved no corporate inside knowledge. Regardless of how the Reference Portfolio was selected, the offering documents comprehensively described each individual asset backing the securities. Nothing about the selection process affected the inherent value or risks of the resulting Reference Portfolio. And nothing stopped any investor from adjusting its risk tolerance to the extent that its economic outlook and view of the housing market changed.

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Knowledge that a participant in the portfolio selection process intended to short the portfolio – especially in a synthetic CDO, where there *must always* be participants shorting the portfolio – would not alter the "total mix" of information available, given the extensive, objective disclosures present here. *Basic, Inc.* v. *Levinson*, 485 U.S. 224, 231-32 (1988). Regulation AB's objective disclosure scheme reflects as much, *see, e.g.*, 17 C.F.R. §§ 229.1102, 229.1103, 229.1105, 229.1111, and the Staff has not suggested what – if any – additional analysis a description of the portfolio selection process would have permitted investors to perform on the underlying assets.

III. THERE IS NO BASIS FOR ALLEGING THAT GOLDMAN SACHS ACTED WITH SCIENTER OR INTENDED TO MISLEAD ANYONE.

While the September 15 meeting included a robust discussion of materiality, the issue of scienter was never raised. Although we are therefore hopeful that our Wells submission was sufficient to dispel any continuing consideration of charges requiring scienter, out of an abundance of caution we comment briefly as to this issue as well.

We respectfully believe that the Staff has at most shown that ACA may have been confused about the role of Paulson. But nothing in the record establishes that anyone at Goldman Sachs intended to mislead ACA, and the drafts of the offering materials Goldman Sachs provided to ACA expressly indicated that the first loss tranche was "N/A," rather than identifying Paulson as the investor. The notion that ACA was misled into believing that Paulson was an equity investor is in all events difficult to reconcile with the Staff's theory that Paulson proposed weaker securities to ACA, a trend that would have caused a market participant with ACA's deep knowledge to question Paulson's true interest.

Nor is there any basis to suggest that Goldman Sachs would have intentionally jeopardized its own reputation and relationship with established customers and counterparties.

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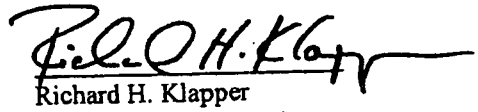
This transaction at the time was just one of many in the marketplace, and because it was a synthetic CDO, Goldman Sachs had no inventory of securities that it would need to dispose of if the transaction did not close, or any other reason to proceed with a transaction that could potentially damage its reputation or relationships. Goldman Sachs had no reason to mislead anyone.

CONCLUSION

For the foregoing reasons, as well as those set forth in the Submission of Goldman, Sachs & Co. dated September 10, 2009, no enforcement action is warranted.

Dated: New York, New York
September 25, 2009

Respectfully submitted,



Richard H. Klapper
Michael T. Tomaino, Jr.
Christopher J. Dunne
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004
(212) 558-4000

Attorneys for Goldman, Sachs & Co.

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ATTACHMENT 14

MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Jonathan Egol
David Gerst
Jordan Kaufman
Darren Thomas
Fabrice Tourre
Geoff Williams
Shin Yukawa

Cc: Armen Avanessians
Robert Berry
Justin Gmelich
Margaret Holen
Bill McMahon
Bunty Bohra
Slim Bentami
Josh Bimbaum
David Lehman
Peter Ostrem
Matt Schroeder
Mike Swenson
Mike Turok
Steve Elia
Glade Jacobsen
Rob Leventhal
Darren Littlejohn
Mary Marr
Mitch Resnick

Date: March 12, 2007

Re: **ABACUS Transaction sponsored by ACA**

I. Introduction

The Structured Product Correlation Trading Desk is currently structuring a synthetic CDO, ABACUS 2007-AC1 ("AC1", or the "Transaction"). AC1 will reference a $2 billion static portfolio consisting entirely of Baa2-rated midprime and subprime RMBS (such portfolio, the "Reference Portfolio"). ACA Capital Management (the "Portfolio Selection Agent"), will be the portfolio selection agent for the transaction. The Desk will distribute on a best efforts basis the super senior through A/A2 layers of credit risk of AC1 (such risk layers, the "Targeted Tranches"), and consistent with prior ABACUS transactions, Goldman will act as protection buyer in connection with the Transaction. Simultaneously with the distribution of AC1, Goldman will write protection on the Targeted Tranches to Paulson Credit Opportunities Master Ltd. ("Paulson"). Goldman will receive an upfront premium from Paulson for distributing risk at or within specified strike spreads. Through this arrangement, Goldman is effectively working an order for Paulson to buy protection on specific layers of the AC1 capital structure at or inside specific spread levels.

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Several additional key aspects of the AC1 transaction include:

- The tranches offered in connection with AC1 (other than the super senior tranche, which is expected to be executed privately through one or more supersenior swaps) are intended to be distributed broadly to suitable investors through the Structured Products Syndicate Desk.
- This will be the first ABACUS transaction in which a portfolio selection agent has been appointed. There have been three prior ABACUS transactions that were lightly-managed by a third party, the first being ABACUS 2005-CB1, which priced in November 2005, the second being ABACUS 2006-NS1 which priced in July 2006 and the third being ABACUS 2006-HGS1, which priced in November 2006. We expect the strong brand-name of ACA as well as our market-leading position in synthetic CDOs of structured products to result in a successful offering.
- Goldman is not taking any warehouse risk in this transaction. The underlying portfolio will not be ramped in the CDS market. Goldman is solely working as agent and but retains the option to underwrite the risk as principal.
- As described below, we project the profitability of the transaction to be between $15 million and $20 million, depending on the amount of CDO tranches distributed, and the levels at which those CDO tranches are distributed at.
- We do not expect the transaction to result in the creation of additional EITF 02-3 balances, as the tranches that are distributed will be immediately be crossed to Paulson, resulting in no retained unobservable tranches on the closing date.

We are pursuing this transaction for the following reasons:

- Partnering with ACA on this innovative, franchise-building transaction will enhance our leadership position in the market for structured product synthetic CDOs. We expect that the role of ACA as Portfolio Selection Agent will broaden the investor base for this and future ABACUS offerings.
- As described above, upon execution of the Distributed Tranches, Goldman will simultaneously sell protection on such CDO tranches of the Reference Portfolio to Paulson for a fee, which will depend on the notional amount the CDO tranche executed and the spread it was executed at. This format therefore enables Goldman to work as agent on a best efforts basis, with the ability to principal any layer of risk of the Transaction.
- This transaction will enhance Goldman's franchise as a leading firm in the synthetic structured product CDO sector.

We expect to price the Transaction by the end of March, and close by the end of April.

Given the franchise value and innovative nature of this transaction, as well as the potential to benefit the overall structured products business, we request the Committee's approval to execute the proposed synthetic CDO.

II. Transaction Overview

A Cayman's special purpose vehicle will be established for the sole purpose of issuing approximately $700 million of Notes (such special purpose vehicle, the "Issuer").

The Issuer will enter into a CDS with Goldman to write protection on the mezzanine layers of risk of the Reference Portfolio. Under the CDS, the Issuer will write protection to Goldman covering cumulative losses between 10.00% and 45.00% of the notional amount of the Reference Portfolio. The Issuer's obligations to Goldman under the CDS will be collateralized by triple-A securities selected by Goldman. In return for this credit protection, Goldman will pay a stated premium equal to the periodic administrative expenses of the Issuers, the spread over LIBOR on the outstanding classes of Notes and the portfolio selection fees accrued actual/360 and paid monthly on the outstanding classes of the Notes. The structure is described in more detail in the Appendix.

We intend to separately purchase credit default swap protection from one or more suitable counterparties approved by Credit on the super senior 45% to 100% risk layer. The Desk has been in discussions with ACA and AMBAC to transact on this supersenior tranche at a level of approximately 40bps. The structure

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and margin terms of such exposure will be reviewed and approved by Legal and Credit prior to execution of such private CDS trades.

The expected issuance is summarized below:

Tranche	Notional Amount ($MM)	Loss Exposure	ACA Selection Fees [b]	Expected Ratings (Moody's/S&P)	Target Investors / Distribution
Super Senior [a]	1,100.00	45.00% - 100.00%	NA	Not Applicable	ACA, other hedge funds, monolines
Class A1	200.00	35.00% - 45.00%	0.250%	Aaa/AAA	Syndicated Tranche
Class A2	180.00	21.00% - 35.00%	0.250%	Aaa/AAA	Syndicated Tranche
Class B	60.00	18.00% - 21.00%	0.500%	Aa2/AA	Syndicated Tranche
Class C	100.00	13.00% - 18.00%	0.500%	Aa3/AA-	Syndicated Tranche
Class D	60.00	10.00% – 13.00%	1.000%	A2/A	Syndicated Tranche
First Loss	200.00	0.00% - 10.00%	NA	NR/NR	Not Offered
Total	2,000.00				

[a] We expect to buy protection on the super senior tranche of the AC1 transaction from one or more suitable counterparties. Such super senior trade would be executed in the form of a private credit default swap transaction.

[b] ACA will earn portfolio selection fees accrued actual/360 and paid monthly on the outstanding notional amount (as reduced from time-to-time by amortization or credit losses) of the Notes as set forth above.

We expect on the closing date to issue up to $700 million of Notes as summarized in the table above. All of the Notes will be rated by both S&P and Moody's.

We intend to target suitable structured product investors who have previously participated in ACA-managed cashflow CDO transactions or who have previously participated in prior ABACUS transactions.

The Notes will have a legal maturity of 30 years. However, the expected average life of the Notes will be between 3 and 5 years. Goldman shall have the option to terminate the CDS and cause one or more classes of Notes to be redeemed on any payment date occurring on or after 2 years following the closing date.

The Reference Portfolio has been selected and mutually agreed upon by ACA and Goldman. Following is a summary of the Reference Portfolio characteristics expected to pertain as of the pricing date:

- 90 equally-sized Reference Obligations, $22.22 million notional per name.
- Each Reference Obligation is a midprime or subprime RMBS obligation.
- All of the Reference Obligations were issued after January 1, 2006.
- Each Reference Obligation has an actual rating by Moody's of "Baa2".

Pursuant to a portfolio selection agency agreement that ACA will enter into on the Closing Date with the Issuer, ACA will select the initial Reference Portfolio. Following the Closing Date, the Reference Portfolio will remain static, and no discretionary removals, substitutions nor reinvestments will be permitted.

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III. ACA's role

ACA Capital Management (the "Portfolio Selection Agent"), will be the portfolio selection agent for the transaction. ACA has selected a Reference Portfolio of 90 Baa2 rated RMBS obligations for the Transaction. ACA has approximately $16 billion of assets in 22 CDOs under management. ACA currently employs 30 full-time professionals who are dedicated to the CDO asset management business and is active in both the cash and synthetic structured product markets. We expect to leverage ACA's credibility and franchise to help distribute this Transaction.

The financial guarantee insurance company arm of ACA has also indicated its interest in participating as risk taker at the supersenior level of the capital structure. ACA has indicated that they would have interest in writing protection on the 45% - 100% supersenior tranche of the Reference Portfolio at a spread of approximately 40bps. This level does not include intermediation costs that will be incurred in order to be able to hedge the ACA counterparty risk. We expect the cost of such intermediation to be 10bps p.a. The Desk is still working on identifying counterparties that will be able to take ACA's counterparty risk.

IV. Paulson's role

Paulson is a large macro hedge fund that has taken directional views on the subprime RMBS market for the past few months. In 2006 the Desk worked an order for Paulson to buy protection on a supersenior tranche off a portfolio similar to the Reference Portfolio selected by ACA, and the AC1 Transaction is another mean for Paulson to accomplish their trading objective: buying protection in tranched format on the subprime RMBS market.

The Desk expects to enter over the next few days into a letter agreement with Paulson. Under such agreement, Goldman will work an order for Paulson to buy protection on specific layers of the AC1 capital structure (such layers, the "Targeted Tranches") at or inside specific spread levels (the "Strike Spreads"). If Goldman succeeds in placing a given Targeted Tranche inside the related Strike Spread, Goldman will receive from Paulson a fee on the notional amount of such Targeted Tranche distributed. Such fee will have a floor component (the "Minimum Fee Rate") and an upside sharing component, under which Goldman will share with Paulson any execution delivered at levels tighter than the Strike Spreads.

Using reasonable pricing assumptions for the super senior and the mezzanine layers of risk as disclosed below, in conjunction with the Strike Spreads that we expect to negotiate with Paulson, we project the all-in profit for this transaction to be between $15mm and $20mm.

Tranche	Expected Ratings (Moody's/S&P)	Strike Spread (% p.a.)	Expected Pricing Spread (% p.a.)
Super Senior [a]	Not Applicable	0.95%	0.50%
Class A1	Aaa/AAA	L+1.25%	L+1.00%
Class A2	Aaa/AAA	L+1.50%	L+1.25%
Class B	Aa2/AA	L+2.40%	L+1.75%
Class C	Aa3/AA-	L+2.90%	L+2.50%
Class D	A2/A	L+5.75%	L+5.00%
First Loss	NR/NR	NA	NA

V. Accounting Treatment

With respect to Goldman's accounting treatment, AC1 has been reviewed and approved by Mary Marr in Accounting Policy, and the transaction contains the same structural provisions which were approved by Accounting Policy for the prior ABACUS transactions. In particular, given that the junior-most class of notes in each transaction is exposed to the substantial majority of expected losses in the structure and

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the expectation that Goldman will not purchase any of the junior-most class of notes, Accounting Policy is comfortable that Goldman would not be required to consolidate the transaction. Similar to the prior ABACUS transactions, AC1 uses the so-called Beneficial Interest Exchange ("BIE") Option structure approved by Accounting Policy which permits Goldman to sell the initial triple-A collateral to the Issuer at fair market value without requiring Goldman to consolidate the transaction. The BIE Option allows noteholders to substitute the triple-A collateral securities held by the Issuer with other eligible securities of their choosing, subject to approval of Goldman (such approval not to be unreasonably withheld).

Mary Marr in Accounting Policy has reviewed and approved this aspect of the transaction with respect to regulatory and accounting considerations. To the extent Goldman was to purchase Notes on the Closing Date, further review might be required to confirm the FIN 46 and FAS 140 analysis of this transaction. Tim Saunders has received this memo and will sign off on the legal considerations prior to pricing.

P&L recognition and valuation adjustments for ABACUS transactions will follow the valuation adjustment policy as approved by Brian Lee and Rob Leventhal in Controllers. As noted above, we expect to have full capital structure price observability on the pricing date.

The CDS transaction will be marked to market, and P&L will be recognized reflecting observable spread movements on the reference obligations. For example, a general widening of spreads, holding implied correlation constant, would result in the recognition of a gain on the transaction, and conversely a general tightening of spreads would result in the recognition of a loss. Spreads on the reference obligations will be marked to market by the secondary traders responsible for cash and synthetic trading of such securities, and will be subject to price verification by Controllers. However, so long as Goldman's offsetting credit default swap trades with Paulson remain outstanding, Goldman should remain mark to market neutral following any such spread movements.

VI. Model and Booking Policy

There is not yet an industry standard model for ABACUS type transactions. FICC Strategies have developed and Derivatives Analysis has approved a pricing model and tradable infrastructure specifically for the ABACUS CDS transactions which are in compliance with Firm policy. The model reflects the economic and legal structure of the reference obligations, the specialized credit events and settlement mechanisms applicable to the ABACUS CDS transactions, and a correlation framework for the structured product portfolios referenced in the ABACUS CDS transactions. This ABACUS CDS model is fully consistent with the pricing model and infrastructure which has already been put in place for single-name credit default swaps on structured products. No model waiver will be required for this transaction.

As with the prior ABACUS transactions, the issuance of Notes will require the relevant Goldman affiliates to enter into a new basis swap and a new collateral security put. These aspects of the ABACUS structure are described in more detail in the Appendix. FICC Strategies has recently developed a pricing model for the basis swap and the put options for ABACUS trades. This model has been blessed by FICC Strategies, approved by Derivatives Analysis and affirmed by Model Control.

VII. Strengths / Issues to Consider

Strengths

- **Franchise:** This transaction is a new and innovative transaction for Goldman Sachs and the CDO market; it is the first ABACUS transaction using a Portfolio Selection Agent, using an attractively structured reference portfolio of Baa2 midprime and subprime RMBS obligations that will be appealing to investors, in a challenging market environment. This transaction addresses the objectives of multiple clients of the firm: it helps ACA increase their assets under management and their fee income; it enables Paulson to execute a macro hedge on the RMBS market; it offers to CDO investors an attractive product relative to other structured credit products available in the market. Our ability to structure and execute complicated transactions to meet multiple client's needs and objectives is key for our franchise.
- **Attractive Risk/Return Profile:** Goldman is not taking any warehouse risk in this transaction. No underlying risk is ramped before the execution of AC1, and Goldman's profits come directly from the purchase of credit protection on tranches of an RMBS portfolio (selected by ACA) from the CDO market and simultaneous re-offering of such protection under the same terms for a pre-negotiated

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premium that will be payable by Paulson. Goldman is therefore acting as agent, but retains the option to principal this AC1 transaction.

- **Establish Leadership in Growing Market Segment:** Executing this transaction and others like it helps position Goldman to compete more aggressively in the growing market for synthetics written on structured products.
- **Profit:** Assuming distribution in full of the super senior through "A2/A" tranches this transaction is expected to generate, after fees and expenses, between $15 and $20 million in P&L.

Issues to Consider

- **Potential Conflicts of Interest:** Although the reference portfolio has been selected by AC1 as portfolio selection agent, as in all the ABACUS transactions Goldman is acting as principal as a protection buyer in these transactions (as well as taking other principal roles summarized in the Appendix). The transaction disclosure notes the various capacities in which Goldman entities act as counterparty to the transactions and the risk factors section notes the potential for conflicts of interest. As with prior ABACUS transactions, we receive advice of outside counsel (McKee Nelson) regarding disclosure in ABACUS securities offerings and all such disclosure will be reviewed and approved by Tim Saunders in Legal.
- **Expense and Protection Cost:** The AC1 transaction will entail non-refundable upfront expenses which are expected to be paid from an upfront expense payment made by Paulson to Goldman pursuant to the letter agreement expected to be entered into between Goldman and Paulson as well as ongoing protection costs (inclusive of portfolio selection fees paid to ACA) that will match the ongoing protection costs payable by Paulson to Goldman under our credit default swaps with Paulson.
- **Distribution Cannibalization:** This transaction will be appealing to the same type of investors who traditionally purchase mezzanine ABS CDOs. The firm is currently prioritizing the sale of ABS CDOs for which the risk has already been aggregated vs. CDOs that have not been ramped. For this reason the AC1 transaction is only being showed to accounts that have already declined to participate in other ABS CDO transactions where Goldman has taken warehouse risk.
- **Contingent Market Value Risk on Collateral Securities:** Similar to the prior ABACUS transactions, in the event that some or all of the collateral securities need to be liquidated to fund protection payments to Goldman under the credit default swap, or to fund certain other principal payments on the notes, Goldman will be exposed to the risk that such collateral securities have a market value less than par at the time of liquidation. This risk is mitigated somewhat by the facts that (1) the collateral securities will be triple-A floating rate structured securities selected by Goldman, (2) Goldman may select the particular securities to be liquidated and thus may select the securities expected to trade at or above par at such time and (3) only a relatively small amount of securities are expected to be liquidated at any given time. The exception to this third point is the case of optional redemption, which is entirely at Goldman's discretion.
- **Accounting:** We do not expect any consolidation issues with respect to this transaction. P&L recognition, valuation adjustment policies and infrastructure/control enhancements are continuing subjects of discussion with Brian Lee and Rob Leventhal in Controllers.

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VIII. Appendix: Structural Summary

The Issuer will enter into a CDS with GSCM (as protection buyer), as well as several other hedging transactions with other Goldman entities as described below. Under the CDS, the Issuer will be obligated to pay GSCM for credit losses experienced on the Reference Portfolio to the extent a relevant tranche is impacted by such losses and the Issuer has sold protection to Goldman under the CDS on such tranche. In exchange for the protection payments, GSCM will be obligated to pay a stated running premium to the Issuer, which shall be used to make interest payments under the notes.

No Goldman entity shall be required to own or be otherwise exposed to any of the reference obligations as a condition for payment under the CDS.

The CDS will be cash settled immediately upon satisfaction of conditions to settlement after a credit event. All credit events and related settlement mechanics are consistent with the current form of the Standard Terms Supplement for a Credit Derivative Transaction on a Mortgage- Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) and Form of Confirmation.

The Notes will be collateralized by relatively liquid triple-A structured product securities (none of which shall be issued by the same issuer as any reference obligation). GSCM (as protection buyer) will have the right to select the collateral securities, subject however to several constraints specified in the Offering Circular. Note that selection of high-quality collateral is generally in Goldman's interest and that in this respect our incentives are largely aligned with that of Noteholders. The collateral securities will be reviewed by Credit prior to closing.

GSMMDP will enter into a basis swap with the Issuer, under which the accrued interest payments on the collateral securities (which bear interest at rates indexed to LIBOR) will be paid to GSMMDP and GSMMDP shall pay the related Issuer LIBOR flat. Noteholders will bear the credit risk of collateral security non-payment, as failure of the Issuer to pay the accrued coupons on the collateral securities to GSMMDP will be an event of default under the notes, and GSMMDP will not be required to continue payments under the basis swap. Amounts owed to GSMMDP under the basis swap will be senior to payments due under the notes. The combination of the LIBOR index payments by GSMMDP and the CDS premium by GSCM will always equal the sum of ongoing expenses of the Issuer and interest payments under the Notes.

The rating agencies require that noteholders be protected against market value declines in the collateral securities, in the event that collateral must be liquidated to fund (1) cash settlements to GSCM, (2) amortization of the Notes (other than a mandatory early redemption), or (3) an optional redemption of the Notes if GSCM exercises its termination option under the CDS.

Goldman, Sachs & Co. (as collateral disposal agent) will select which collateral securities are to be liquidated in each case above, and will be responsible for determining in good faith the strategy (in its commercially reasonable discretion) likely to achieve the highest proceeds for the collateral securities to be liquidated.

In the first circumstance (cash settlements under the CDS), Goldman will bear the risk that the collateral has declined in value. When a loss amount is determined, a commensurate face amount of collateral will be liquidated, and GSCM under the CDS will only be entitled to receive such proceeds received on such liquidation.

With respect to the other two circumstances, GSI (as put provider) shall be required to buy the collateral securities to be liquidated at par, if GS&Co. (as collateral disposal agent) is unable to obtain a price in the market of at least par.

In the case of optional termination, the put is not really a risk to Goldman, since our decision to terminate the transaction will by definition include both the value of the CDS termination and the value of the collateral securities. We view the put more as a modest reduction in the value of our option to terminate the CDS.

We believe the put risk arising from amortization of the notes (other than in connection with Goldman terminating the CDS) is small for the following reasons:

- The notes cannot begin to amortize until after the super senior notional has been reduced to zero. We do not expect any of the Notes to receive any principal payments for at least 4.0 years under base-case prepayment assumptions.

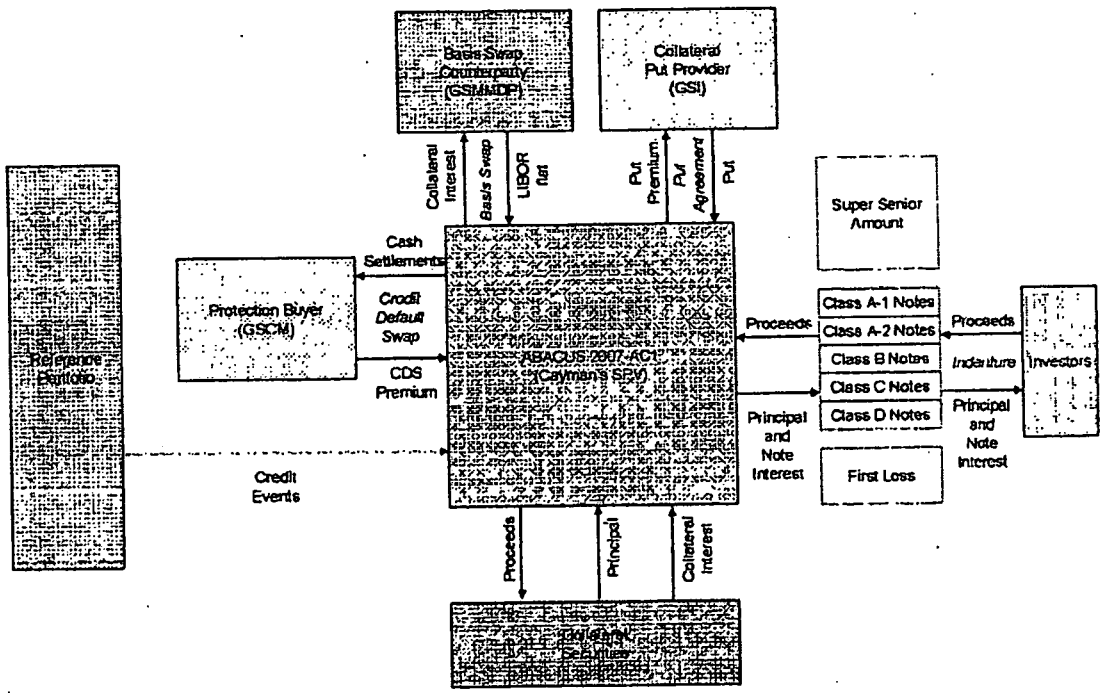
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- The amount of collateral required to be liquidated in any month is purely a function of reference portfolio amortizations in that month, which is likely to be small in relation to the principal balance of the notes and should be smoothly distributed over time.
- Goldman (as protection buyer) has the right to direct reinvestment of any principal on collateral securities. The initial collateral securities are expected to have approximately a 2- to 3-year weighted average life. In the future, prior to any amortization of the notes occurring, we could direct the trustee to keep a suitable portion of the collateral invested in cash, incurring more negative carry on our protection in exchange for negligible put risk.

The spread on the initial collateral securities is expected to be approximately 7-10 bps over LIBOR. It is the put to Goldman which enables us to select high-quality collateral and earn this positive spread over LIBOR in the ABACUS structure. For these reasons outlined above, we believe that this positive carry generated by the put feature creates significant value for the synthetic transaction and more than adequately compensates for the put risk.

Lastly, as noted above, in a mandatory early redemption of the Notes (arising from an adverse tax event or from a default of one or more Goldman entities that are parties to the transaction), the put would not be exercisable against Goldman, exposing noteholders to the market value of the collateral.

The transaction structure is depicted in the schematic below.



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ATTACHMENT 15

Derivative Trades versus AIG
January 2006 - December 2008

Reference Obligation	CUSIP	External Trade ID	Trade Date	Notional
BACM 2004-6 AJ	05947UC22	SDB2012886109	4/21/2006	44,500,000
BACM 2005-1 AJ	05947UD54	SDB2012886111	4/21/2006	44,500,000
BACM 2005-4 AJ	05947UX60	SDB2012886113	4/21/2006	44,500,000
BACM 2005-5 AJ	05947U2T4	SDB2012886117	4/21/2006	44,500,000
BACM 2006-1 AJ	05947U7N2	SDB2012886119	4/21/2006	44,500,000
BSCMS 2005-PW10 AJ	07387BEE9	SDB2012886121	4/21/2006	44,500,000
BSCMS 2005-PWR9 AJ	07387BAL7	SDB2012886123	4/21/2006	44,500,000
CD 2005-CD1 AJ	12513EAK0	SDB2012886125	4/21/2006	44,500,000
CD 2006-CD2 AJ	12513XAH5	SDB2012886127	4/21/2006	44,500,000
CGCMT 2005-C3 AJ	173067HB8	SDB2012886131	4/21/2006	44,500,000
CSFB 2005-C5 AJ	225470AS2	SDB2012886133	4/21/2006	44,500,000
CSFB 2005-C6 AJ	225470NN9	SDB2012886135	4/21/2006	44,500,000
GECMC 2005-C4 AJ	36828QQH2	SDB2012886137	4/21/2006	44,500,000
GMACC 2006-C1 AJ	361849R48	SDB2012886139	4/21/2006	44,500,000
GSMS 2005-GG4 AJ	36228CVX8	SDB2012886141	4/21/2006	44,500,000
JPMCC 2005-LDP3 AJ	46625YSM8	SDB2012886145	4/21/2006	44,500,000
JPMCC 2005-LDP5 AJ	46625YXV0	SDB2012886147	4/21/2006	44,500,000
MLMT 2005-MCP1 AJ	59022HHM7	SDB2012886149	4/21/2006	44,500,000
WBCMT 2005-C17 AJ	929766C43	SDB2012886151	4/21/2006	44,500,000
WBCMT 2005-C22 AJ	92976BBR2	SDB2012886153	4/21/2006	44,500,000
WBCMT 2006-C23 AJ	929768DX7	SDB2012886155	4/21/2006	44,500,000
BSCMS 2004-T16 A6	07383FU71	SDB2012886159	4/21/2006	44,500,000
CSFB 2005-C4 A5	225458S66	SDB2012886163	4/21/2006	44,500,000
CSMC 2006-C1 A4	225470F73	SDB2012886165	4/21/2006	44,500,000
LBUBS 2004-C6 A6	52108HK78	SDB2012886201	4/21/2006	44,500,000
MSC 2005-HQ7 A4	617451CL1	SDB2012886211	4/21/2006	44,500,000
WBCMT 2004-C14 A4	929766UK7	SDB2012886216	4/21/2006	44,500,000
WBCMT 2005-C21 A4	9297667G2	SDB2012886220	4/21/2006	44,500,000
BACM 2004-6 A5	05947UB72	SDB2012987809A	7/12/2006	12,500,000
BACM 2005-1 A5	05947UD39	SDB2012987858A	7/12/2006	12,500,000
BACM 2005-4 A5A	05947UX37	SDB2012987916A	7/12/2006	12,500,000
BACM 2005-5 A4	05947U2R8	SDB2012987934A	7/12/2006	12,500,000
BACM 2006-1 A4	05947U7L6	SDB2012987938A	7/12/2006	12,500,000
BSCMS 2004-T16 A6	07383FU71	SDB2012987940A	7/12/2006	12,500,000
BSCMS 2005-PW10 A4	07387BEB5	SDB2012987943A	7/12/2006	12,500,000
BSCMS 2005-PWR9 A4A	07387BAH6	SDB2012987947A	7/12/2006	12,500,000
CD 2005-CD1 A4	12513EAG9	SDB2012987952A	7/12/2006	12,500,000
CGCMT 2005-C3 A4	173067GT0	SDB2012987954A	7/12/2006	12,500,000
COMM 2005-LP5 A4	20047PAE7	SDB2012987959A	7/12/2006	42,500,000
COMM 2005-LP5 AJ	20047PAH0	SDB2012987962A	7/12/2006	15,000,000
CSFB 2005-C4 A5	225458S66	SDB2012987971A	7/12/2006	13,000,000
CSFB 2005-C5 A4	225470AP8	SDB2012987973A	7/12/2006	12,500,000
CSFB 2005-C6 A4	225470NK5	SDB2012988039A	7/12/2006	12,500,000
CSMC 2006-C1 A4	225470F73	SDB2012988040A	7/12/2006	12,500,000
GCCFC 2005-GG3 A4	396789JU4	SDB2012988042A	7/12/2006	42,500,000
GCCFC 2005-GG3 AJ	396789JW0	SDB2012988043A	7/12/2006	15,000,000
GECMC 2005-C1 A5	36828QKR6	SDB2012988045A	7/12/2006	42,500,000
GECMC 2005-C1 AJ	36828QKT2	SDB2012988046A	7/12/2006	15,000,000
GECMC 2005-C2 A4	36828QMC7	SDB2012988047A	7/12/2006	48,500,000
GECMC 2005-C2 AJ	36828QME3	SDB2012988048A	7/12/2006	11,000,000
GECMC 2005-C3 A7A	36828QPW0	SDB2012988050A	7/12/2006	42,500,000
GECMC 2005-C3 AJ	36828QNZ5	SDB2012988052A	7/12/2006	15,000,000
GECMC 2005-C4 A4	36828QQE9	SDB2012988053A	7/12/2006	12,500,000
GMACC 2006-C1 A4	361849Q96	SDB2012988054A	7/12/2006	12,500,000
GSMS 2005-GG4 A4A	36228CVU4	SDB2012988055A	7/12/2006	12,500,000
JPMCC 2005-LDP2 A4	46625YNC3	SDB2012988056A	7/12/2006	42,500,000
JPMCC 2005-LDP2 AJ	46625YNF8	SDB2012988057A	7/12/2006	15,000,000
JPMCC 2005-LDP3 A4A	46625YSG9	SDB2012988058A	7/12/2006	12,500,000
JPMCC 2005-LDP5 A4	46625YXP3	SDB2012988059A	7/12/2006	12,500,000
LBUBS 2004-C6 A6	52108HK78	SDB2012988060A	7/12/2006	12,500,000
LBUBS 2005-C1 A4	52108H2U7	SDB2012988061A	7/12/2006	42,500,000
LBUBS 2005-C1 AJ	52108HZW3	SDB2012988062A	7/12/2006	15,000,000
MSC 2005-HQ7 A4	617451CL1	SDB2012988071A	7/12/2006	13,000,000
WBCMT 2004-C14 A4	929766UK7	SDB2012988074A	7/12/2006	12,500,000
WBCMT 2005-C17 A4	929766C35	SDB2012988077A	7/12/2006	12,500,000
WBCMT 2005-C21 A4	9297667G2	SDB2012988084A	7/12/2006	15,500,000
WBCMT 2005-C22 A4	92976BBN1	SDB2012988088A	7/12/2006	12,500,000
WBCMT 2006-C23 A4	92976BDT6	SDB2012988092A	7/12/2006	12,500,000
MLMT 2005-MCP1 A4	59022HHJ4	SDB2012988167A	7/12/2006	12,500,000
CD 2006-CD2 A4	12513XAE2	SDB2012988168A	7/12/2006	12,500,000
CMBS Total				2,002,500,000

Derivative Trades versus AIG
January 2006 - December 2008

Reference Obligation	CUSIP	External Trade ID	Trade Date	Notional	
MKP 3A A1	G6177YAA0	NUUQ403JD0080000A0	4/7/2004	140,000,000	*
DUKEF 2004-7A 1A2	264403AJ5	NUUQ40741008000080	8/12/2004	129,650,000	*
DUKEF 2004-7A 1A2V	264403AK2	NUUQ4075U087000000	8/12/2004	100,000	*
GLCR 2004-2A A1NV	37638VAG8	NUUQ409HR008000000	10/12/2004	324,800,000	*
GLCR 2004-2A A1V	37638VAA1	NUUQ409IN008000000	10/12/2004	100,000	*
RESF 2004-1A A1NV	76112CAB4	NUUQ409HS008000000	10/26/2004	374,800,000	*
RESF 2004-1A A1V	76112CAA6	NUUQ409IP008000000	10/26/2004	100,000	*
MRCY 2004-1A A1NV	58936RAB3	NUUQ4102N008000000	11/3/2004	299,800,000	*
MRCY 2004-1A A1VA	58936RAA5	NUUQ4102Q008000000	11/3/2004	100,000	*
DUNHL 2004-1A A1NV	26545QAQ2	NUUQ4123N00800	12/16/2004	327,000,000	*
DUNHL 2004-1A A1VA	26545QAA7	NUUQ4123O008000000	12/16/2004	250,000	*
RIVER 2005-1A A1	768277AA3	NUUQ4125H008000000	1/19/2005	149,750,000	*
HUNTN 2005-1A A1A	446279AA9	NUUQ5030K00800	3/29/2005	406,500,000	*
HUNTN 2005-1A A1B	446279AC5	NUUQ5030L008000000	3/29/2005	250,000	*
ORCHD 2005-2A A1	68571UAA7	NUUQ5035B008000000	4/19/2005	113,750,000	*
SCF 7A A1AN	83743YAS2	NUUQ504GD008000000	5/25/2005	773,500,000	*
SCF 7A A1B	83743YAB9	NUUQ504GE00800	5/25/2005	250,000	*
MDO ABACUS04-1 S Q2L9 00 K3J 1	multi	NUUQ505GJ0030000B00	6/8/2005	1,760,000,000	
MDO ABACUS04-2 S 9HYC 00 K3J 1	multi	NUUQ505GI0030000B00	6/8/2005	730,000,000	
SATV 2005-1A A1	80410RAA4	NUUQ5055C008000000	6/9/2005	267,750,000	*
COOL 2005-1A	216444AA7	NUUQ506BO0420000A00	7/22/2005	274,700,000	*
ICM 2005-2A A1A	46426RAA7	BUUQ5060J008000000	7/27/2005	213,750,000	*
ICM 2005-2A A1B	46426RAB5	BUUQ5060K008000000	7/27/2005	50,000,000	*
MDO ABACUS05-3 S 8SQZ 00 4LX 0	multi	NUUQ5074F0030000000	7/28/2005	1,200,000,000	
JPTR 2005-3A A1NV	48206AAG3	NUUQ507BS00800	8/10/2005	1,299,500,000	*
JPTR 2005-3A A1VA	48206AAA6	NUUQ507CD008000000	8/10/2005	250,000	*
LEXN 2005-1A A1AN	52902TAC0	NUUQ509IU008000000	10/25/2005	199,500,000	*
LEXN 2005-1A A1B	52902TAE6	NUUQ509IV008000000	10/25/2005	250,000	*
ORPT 2005-1A A1V	68619MAJ0	NUUQ510DL008000000	10/25/2005	250,000	*
ORPT 2005-1A A1VB	68619MAQ4	NUUQ510DN00800	10/25/2005	649,750,000	*
ORPT 2005-1A A1VF	68619MAL5	NUUQ510DP00800	10/25/2005	647,250,000	*
MDO ABACUS05-2 S C7FF 00 322 0	multi	NUUQ5102A0030000B00	10/28/2005	1,000,000,000	
ALTS 2005-2A A1	02149WAA5	NUUQ510L300800	11/10/2005	1,277,900,000	*
MDO ABACUS05-C S SEMJ 00 H34 0	multi	BUUQ51103003000B00	12/7/2005	480,000,000	
BROD 2005-1A A1NA	112021AB8	BUUQ5111500800	12/13/2005	354,500,000	*
BROD 2005-1A A1B1	112021AC4	BUUQ51116008000000	12/13/2005	485,000,000	*
BROD 2005-1A A1V	112021AA8	BUUQ51119008000000	12/13/2005	250,000	*
SHERW 2005-2A A1	82437XAA6	BUUQ5111400800	12/15/2005	322,250,000	*
KLROS 2006-2A A1NV	498588AC6	BUUQ5120L00800	1/10/2006	869,500,000	*
KLROS 2006-2A A1V	498588AA0	NUUQ512BM008000000	1/10/2006	250,000	*
SCF 8A A1NV	83743LAC5	NUUQ6013A008000000	1/25/2006	344,500,000	*
SCF 8A A1AV	83743LAA9	NUUQ6014M008000000	1/25/2006	250,000	*
TDS FORTS1 A1 JDE5 00 ATU 0	multi	SDB2012930412	3/8/2006	390,000,000	*
MDO HOUTB061 C T GSL4 00 R22 0	multi	NUUQ6055902400000000	5/19/2006	825,000,000	*
WESTC 2006-1A A1A	952186AA2	SDB503565139	7/26/2006	1,187,950,000	*
WESTC 2006-1A A1B	952186AB0	SDB503565518	7/26/2006	1,187,850,000	*
MDO ABACUS06-N S TUQ4 01 634 0	multi	NUUQ6090V0030000A00	9/12/2006	329,000,000	
TRIAX 2006-2A A1B1	896008AB5	SDB504492863 / SDB504678635	12/14/2006	1,499,850,000	**
TRIAX 2006-2A A1B2	896008AC3	SDB504493409 / SDB504678606	12/14/2006	1,498,850,000	*
Dominican Republic	AP07787XX	SDB505280114	3/16/2007	6,900,000	
MDO ABAC07-18 S 2BRB 01 634 0	multi	SDB981652352A	3/22/2007	470,000,000	
ROMFIN A3	XS0161620868	NEEQ3040500900	5/11/2007	234,839,910	
ORKN 2005-1	686335AA8	NUUQ5022A00700	7/11/2007	600,000,000	
INDE5 5A A1	45343PAA3	NUUQ402B1008000000	4/24/2008	200,000,000	
DUKEF 2003-5A 1A1	264402AK4	NUUQ308FT00800	6/3/2008	175,000,000	
CDO Total				24,074,289,910	

* *These trades were terminated during 2008 as part of the Maiden Lane III transaction, all other trades remained open beyond December 2008.*

** *This trade was partially terminated in 2008 as part of the Maiden Lane III transaction, 500M original notional remained open.*

Confidential Treatment Requested by Goldman Sachs

LB 5: Does Goldman consider a "desk" to be the same as a "business unit?" If not, what desk and business unit is responsible for each trade?

In response to the Staff's follow-up question, Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000087061) providing information on the desks responsible for the trades identified in GS MBS 0000035877. Goldman Sachs does not consider "desks" and "business units" to be the same; there may be a number of desks (*e.g.*, Structured Products Trading) within a business group (*e.g.*, Mortgages).

Supplemental Response Received From Goldman Sachs

Confidential Treatment Requested by Goldman Sachs
Derivative Trades versus AIG
January 2006 - December 2008

Entity	Reference Obligation	CUSIP	External Trade ID	Trade Date	Notional	Type	Trading desk	Status	Termination Pmt	Termination Date
GSCM	BACM 2004-6 AJ	05947UC22	SDB2012888109	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2005-1 AJ	05947UD54	SDB2012888111	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2005-4 AJ	05947UX60	SDB2012888113	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2005-5 AJ	05947U2T4	SDB2012888117	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2006-1 AJ	05947U7N2	SDB2012888119	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BSCMS 2004-T16 A6	07383FU71	SDB2012888159	4/21/2006	44,500,000	CMBS	Mortgage desk	Terminated	2,601,902	7/15/2009
GSCM	BSCMS 2005-PW10 AJ	07387BEE9	SDB2012888121	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BSCMS 2005-PWR9 AJ	07387BAL7	SDB2012888123	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	CD 2005-CD1 AJ	12513EAK0	SDB2012888125	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	CD 2006-CD2 AJ	12513XAH5	SDB2012888127	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	CGCMT 2005-C3 AJ	173067HB8	SDB2012888131	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	CSFB 2005-C4 A5	225458S66	SDB2012888163	4/21/2006	44,500,000	CMBS	Mortgage desk	Terminated	2,447,500	7/31/2009
GSCM	CSFB 2005-C5 AJ	225470AS2	SDB2012888133	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	CSFB 2005-C6 AJ	225470NN9	SDB2012888135	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	CSMC 2006-C1 A4	225470F73	SDB2012888165	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	GECMC 2005-C4 AJ	36828QQH2	SDB2012888137	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	GMACC 2006-C1 AJ	361849R46	SDB2012888139	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	GSMS 2005-GG4 AJ	36228CVX8	SDB2012888141	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	JPMCC 2005-LDP3 AJ	46625YSM6	SDB2012888145	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	JPMCC 2005-LDP5 AJ	46625YXV0	SDB2012888147	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	LBUBS 2004-C8 A6	52108HK78	SDB2012888201	4/21/2006	44,500,000	CMBS	Mortgage desk	Terminated	2,405,711	7/15/2009
GSCM	MLMT 2005-MCP1 AJ	59022HHM7	SDB2012888149	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	MSC 2005-HQ7 A4	617451CL1	SDB2012888211	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2004-C14 A4	929766UK7	SDB2012888216	4/21/2006	44,500,000	CMBS	Mortgage desk	Terminated	2,345,192	7/15/2009
GSCM	WBCMT 2005-C17 AJ	929766C43	SDB2012888151	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2005-C21 A4	9297667G2	SDB2012888220	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2005-C22 AJ	92976BBR2	SDB2012888153	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2006-C23 AJ	92976BDX7	SDB2012888155	4/21/2006	44,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2004-6 A5	05947UB72	SDB2012887809A	7/12/2006	12,500,000	CMBS	Mortgage desk	Assigned	-	7/15/2009
GSCM	BACM 2005-1 A5	05947UD39	SDB2012887858A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	687,500	8/4/2009
GSCM	BACM 2005-4 A5A	05947UX37	SDB2012887916A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2005-5 A4	05947U2R8	SDB2012887934A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	BACM 2006-1 A4	05947U7L8	SDB2012887938A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	BSCMS 2004-T16 A6	07383FU71	SDB2012887940A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	733,126	7/15/2009
GSCM	BSCMS 2005-PW10 A4	07387BEB5	SDB2012887943A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	BSCMS 2005-PWR9 A4A	07387BAH6	SDB2012887947A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	CD 2005-CD1 A4	12513EAG9	SDB2012887952A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	CD 2006-CD2 A4	12513XAE2	SDB2012888168A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	CGCMT 2005-C3 A4	173067GT0	SDB2012887954A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	687,500	7/31/2009
GSCM	COMM 2005-LP5 A4	20047PAE7	SDB2012887959A	7/12/2006	42,500,000	CMBS	Mortgage desk	Terminated	2,337,500	7/31/2009
GSCM	COMM 2005-LP5 AJ	20047PAH0	SDB2012887982A	7/12/2006	15,000,000	CMBS	Mortgage desk	Open		
GSCM	CSFB 2005-C4 A5	225458S66	SDB2012887971A	7/12/2006	13,000,000	CMBS	Mortgage desk	Terminated	715,000	7/31/2009
GSCM	CSFB 2005-C5 A4	225470AP8	SDB2012887973A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	CSFB 2005-C6 A4	225470NK5	SDB2012888039A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	CSMC 2006-C1 A4	225470F73	SDB2012888040A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	GCCFC 2005-GG3 A4	396788JU4	SDB2012888042A	7/12/2006	42,500,000	CMBS	Mortgage desk	Terminated	2,739,574	7/15/2009
GSCM	GCCFC 2005-GG3 AJ	396788JW0	SDB2012888043A	7/12/2006	15,000,000	CMBS	Mortgage desk	Open		
GSCM	GECMC 2005-C1 A5	36828QKR6	SDB2012888045A	7/12/2006	42,500,000	CMBS	Mortgage desk	Terminated	2,740,508	7/15/2009
GSCM	GECMC 2005-C1 AJ	36828QKT2	SDB2012888046A	7/12/2006	15,000,000	CMBS	Mortgage desk	Open		
GSCM	GECMC 2005-C2 A5	36828QMC7	SDB2012888047A	7/12/2006	46,500,000	CMBS	Mortgage desk	Terminated	2,557,500	8/4/2009
GSCM	GECMC 2005-C2 AJ	36828QME3	SDB2012888048A	7/12/2006	11,000,000	CMBS	Mortgage desk	Open		
GSCM	GECMC 2005-C3 A7A	36828QPW0	SDB2012888050A	7/12/2006	42,500,000	CMBS	Mortgage desk	Open		
GSCM	GECMC 2005-C3 AJ	36828QNZ5	SDB2012888052A	7/12/2006	15,000,000	CMBS	Mortgage desk	Open		
GSCM	GECMC 2005-C4 A5	36828QQE9	SDB2012888053A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	GMACC 2006-C1 A5	361849Q96	SDB2012888054A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	GSMS 2005-GG4 A4A	36228CVU4	SDB2012888055A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	687,500	8/4/2009
GSCM	JPMCC 2005-LDP2 A4	46625YNC3	SDB2012888056A	7/12/2006	42,500,000	CMBS	Mortgage desk	Terminated	2,337,500	8/4/2009
GSCM	JPMCC 2005-LDP2 AJ	46625YNF6	SDB2012888057A	7/12/2006	15,000,000	CMBS	Mortgage desk	Open		
GSCM	JPMCC 2005-LDP3 A4A	46625YSG9	SDB2012888058A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	687,500	8/4/2009
GSCM	JPMCC 2005-LDP5 A4	46625YXP3	SDB2012888059A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	LBUBS 2004-C8 A5	52108HK78	SDB2012888060A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	677,667	7/15/2009
GSCM	LBUBS 2005-C1 A4	52108H2U7	SDB2012888061A	7/12/2006	42,500,000	CMBS	Mortgage desk	Assigned		
GSCM	LBUBS 2005-C1 AJ	52108H2W3	SDB2012888062A	7/12/2006	15,000,000	CMBS	Mortgage desk	Open		
GSCM	MLMT 2005-MCP1 A4	59022HHJ4	SDB2012888167A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	687,500	8/4/2009
GSCM	MSC 2005-HQ7 A4	617451CL1	SDB2012888071A	7/12/2006	13,000,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2004-C14 A4	929766UK7	SDB2012888074A	7/12/2006	12,500,000	CMBS	Mortgage desk	Terminated	660,921	7/15/2009
GSCM	WBCMT 2005-C17 A4	929766C35	SDB2012888077A	7/12/2006	12,500,000	CMBS	Mortgage desk	Assigned		
GSCM	WBCMT 2005-C21 A4	9297667G2	SDB2012888084A	7/12/2006	15,500,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2005-C22 A4	92976BBN1	SDB2012888086A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSCM	WBCMT 2006-C23 A4	92976BDT6	SDB2012888092A	7/12/2006	12,500,000	CMBS	Mortgage desk	Open		
GSIL	MDO ABACUS04-1 S Q2L9 00 K3J 1	multi	NUUQ505GJ0030000B00	6/8/2005	1,760,000,000	CDO	Mortgage desk	Terminated	805,492,319	6/16/2009

Derivative Trades versus AIG
January 2006 - December 2008

Entity	Reference Obligation	CUSIP	External Trade ID	Trade Date	Notional	Type	Trading desk	Status	Termination Pmt	Termination Date
GSIL	MDO ABACUS04-2 S 9HYC 00 K3J 1	multi	NUUQ505GI0030000B00	6/8/2005	730,000,000	CDO	Mortgage desk	Terminated	259,697,424	6/16/2009
GSIL	MDO ABACUS05-3 S 8SQZ 00 4LX 0	multi	NUUQ5074F0030000000	7/28/2005	1,200,000,000	CDO	Mortgage desk	Open		
GSIL	MDO ABACUS05-2 S C7FF 00 322 0	multi	NUUQ5102A0030000B00	10/28/2005	1,000,000,000	CDO	Mortgage desk	Terminated	519,462,344	6/16/2009
GSIL	MDO ABACUS05-C S SEMJ 00 H34 0	multi	BUUQ511030030000B00	12/7/2005	480,000,000	CDO	Mortgage desk	Terminated	143,070,903	6/16/2009
GSIL	MDO ABACUS06-N S TUQ4 01 634 0	multi	NUUQ6090V0030000A00	9/12/2006	329,000,000	CDO	Mortgage desk	Open		
GSIL	TRIAX 2006-2A A1B1	896008AB5	SDB504492883 / SDB504678635	12/14/2006	500,000,000	CDO	Credit desk	Open		
GSIL	Dominican Republic	AP07787XX	SDB505280114	3/16/2007	6,900,000	CDO	Credit desk	Open		
GSIL	MDO ABAC07-18 S 2BRB 01 634 0	multi	SDB981652352A	3/22/2007	470,000,000	CDO	Mortgage desk	Open		
GSIL	ROMFIN A3	XS0161620868	NEEQ3040500900	5/11/2007	234,839,910	CDO	Credit desk	Terminated	84,003,652	9/16/2009
GSIL	ORKN 2005-1	688335AA8	NUUQ5022A00700	7/11/2007	600,000,000	CDO	Credit desk	Terminated	359,997,667	8/5/2009
GSIL	INDE5 5A A1	45343PAA3	NUUQ402B1008000000	4/24/2008	200,000,000	CDO	Credit desk	Terminated	103,243,223	3/12/2008
GSIL	DUKEF 2003-5A 1A1	264402AK4	NUUQ308FT00800	6/3/2008	175,000,000	CDO	Credit desk	Open		
					9,688,239,910					
GSIL	ALTS 2005-2A A1	02149WAA5	NUUQ510L300800	11/10/2005	1,277,900,000	CDO	Credit desk	Terminated - ML3	491,285,394	11/21/2008 *
GSIL	BROD 2005-1A A1V	112021AA8	BUUQ51119008000000	12/13/2005	250,000	CDO	Credit desk	Terminated - ML3	236,020	11/24/2008 *
GSIL	BROD 2005-1A A1NA	112021AB6	BUUQ5111500800	12/13/2005	354,500,000	CDO	Credit desk	Terminated - ML3	116,618,781	11/21/2008 *
GSIL	BROD 2005-1A A1B1	112021AC4	BUUQ511160080000000	12/13/2005	485,000,000	CDO	Credit desk	Terminated - ML3	159,546,228	11/21/2008 *
GSIL	COOL 2005-1A	216444AA7	NUUQ506BD0420000A00	7/22/2005	274,700,000	CDO	Mortgage desk	Terminated - ML3	75,092,199	11/24/2008 *
GSIL	DUKEF 2004-7A 1A2	264403AJ5	NUUQ40741008000080	8/12/2004	129,650,000	CDO	Credit desk	Terminated - ML3	51,292,364	11/21/2008 *
GSIL	DUKEF 2004-7A 1A2V	264403AK2	NUUQ4075U0870000000	8/12/2004	100,000	CDO	Credit desk	Terminated - ML3	76,514	11/24/2008 *
GSIL	DUNHL 2004-1A A1VA	26545QAA7	NUUQ4123O0080000000	12/16/2004	250,000	CDO	Credit desk	Terminated - ML3	116,286	11/24/2008 *
GSIL	DUNHL 2004-1A A1NV	26545QAQ2	NUUQ4123N008000	12/16/2004	327,000,000	CDO	Credit desk	Terminated - ML3	68,359,135	11/21/2008 *
GSCM	TDS FORTS1 A1 JDE5 00 ATU 0	34958CAA2	SDB2012930412	3/8/2006	390,000,000	CDO	Credit desk	Terminated - ML3	103,048,148	11/21/2008 *
GSIL	GLCR 2004-2A A1V	37638VAA1	NUUQ409IN0080000000	10/12/2004	100,000	CDO	Credit desk	Terminated - ML3	44,024	11/24/2008 *
GSIL	GLCR 2004-2A A1NV	37638VAG8	NUUQ409HR0080000000	10/12/2004	324,600,000	CDO	Credit desk	Terminated - ML3	81,320,748	11/21/2008 *
GSIL	MDO HOUTB061 C T GSL4 00 R22 0	442451AA8	NUUQ60559024000000	5/19/2006	825,000,000	CDO	Credit desk	Terminated - ML3	300,488,409	12/21/2008 *
GSIL	HUNTN 2005-1A A1A	446279AA9	NUUQ5030K00800	3/29/2005	406,500,000	CDO	Credit desk	Terminated - ML3	168,077,315	11/21/2008 *
GSIL	HUNTN 2005-1A A1B	446279AC5	NUUQ5030L0080000000	3/29/2005	250,000	CDO	Credit desk	Terminated - ML3	218,726	11/24/2008 *
GSIL	ICM 2005-2A A1A	48426RAA7	BUUQ5060J0080000000	7/27/2005	213,750,000	CDO	Credit desk	Terminated - ML3	46,463,760	11/21/2008 *
GSIL	ICM 2005-2A A1B	48426RAB5	BUUQ5060K0080000000	7/27/2005	50,000,000	CDO	Credit desk	Terminated - ML3	10,873,399	11/21/2008 *
GSIL	JPTR 2005-3A A1VA	48206AAA6	NUUQ507CD0080000000	8/10/2005	250,000	CDO	Credit desk	Terminated - ML3	226,832	11/24/2008 *
GSIL	JPTR 2005-3A A1NV	48206AAG3	NUUQ507BS00800	8/10/2005	1,299,500,000	CDO	Credit desk	Terminated - ML3	369,371,511	11/21/2008 *
GSIL	KLROS 2006-2A A1V	498588AA0	NUUQ512BM0080000000	1/10/2006	250,000	CDO	Credit desk	Terminated - ML3	227,493	11/24/2008 *
GSIL	KLROS 2006-2A A1NV	498588AC6	BUUQ5120L00800	1/10/2006	869,500,000	CDO	Credit desk	Terminated - ML3	341,855,112	11/21/2008 *
GSIL	LEXN 2005-1A A1AN	52902TAC0	NUUQ509IU0080000000	10/25/2005	199,500,000	CDO	Credit desk	Terminated - ML3	33,634,883	11/21/2008 *
GSIL	LEXN 2005-1A A1B	52902TAE6	NUUQ509IV0080000000	10/25/2005	250,000	CDO	Credit desk	Terminated - ML3	169,871	11/24/2008 *
GSIL	MKP 3A A1	G6177YAA0	NUUQ403JD0080000A0	4/7/2004	140,000,000	CDO	Credit desk	Terminated - ML3	6,647,722	11/21/2008 *
GSIL	MRCY 2004-1A A1VA	58936RAA5	NUUQ4102Q0080000000	11/3/2004	100,000	CDO	Credit desk	Terminated - ML3	53,661	11/24/2008 *
GSIL	MRCY 2004-1A A1NV	58936RAB3	NUUQ4102N0080000000	11/3/2004	299,800,000	CDO	Credit desk	Terminated - ML3	65,161,973	11/21/2008 *
GSIL	ORCHD 2005-2A A1	68571UAA7	NUUQ5035B0080000000	4/19/2005	113,750,000	CDO	Credit desk	Terminated - ML3	19,911,850	11/21/2008 *
GSIL	ORPT 2005-1A A1V	68619MAJ0	NUUQ510DL0080000000	10/25/2005	250,000	CDO	Credit desk	Terminated - ML3	247,024	11/24/2008 *
GSIL	ORPT 2005-1A A1VF	68619MAL5	NUUQ510DP00800	10/25/2005	647,250,000	CDO	Credit desk	Terminated - ML3	180,638,881	11/21/2008 *
GSIL	ORPT 2005-1A A1VB	68619MAQ4	NUUQ510DN00800	10/25/2005	649,750,000	CDO	Credit desk	Terminated - ML3	181,336,578	11/21/2008 *
GSIL	RESF 2004-1A A1V	76112CAA8	NUUQ408IP0080000000	10/26/2004	100,000	CDO	Credit desk	Terminated - ML3	76,111	11/24/2008 *
GSIL	RESF 2004-1A A1NV	76112CAB4	NUUQ409HS0080000000	10/26/2004	374,600,000	CDO	Credit desk	Terminated - ML3	121,458,544	11/21/2008 *
GSIL	RIVER 2005-1A A1	768277AA3	NUUQ4125H0080000000	1/19/2005	149,750,000	CDO	Credit desk	Terminated - ML3	47,546,568	11/21/2008 *
GSIL	SATV 2005-1A A1	80410RAA4	NUUQ5055C0080000000	6/9/2005	267,750,000	CDO	Credit desk	Terminated - ML3	45,066,197	11/21/2008 *
GSIL	SHERW 2005-2A A1	82437XAA6	BUUQ5111400800	12/15/2005	322,250,000	CDO	Credit desk	Terminated - ML3	68,070,564	11/21/2008 *
GSIL	SCF 8A A1AV	83743LAA9	NUUQ6014M0080000000	1/25/2006	250,000	CDO	Credit desk	Terminated - ML3	192,111	11/24/2008 *
GSIL	SCF 8A A1NV	83743LAC5	NUUQ6013A0080000000	1/25/2006	344,500,000	CDO	Credit desk	Terminated - ML3	62,476,648	11/21/2008 *
GSIL	SCF 7A A1B	83743YAB9	NUUQ504GE00800	5/25/2005	250,000	CDO	Credit desk	Terminated - ML3	142,942	11/24/2008 *
GSIL	SCF 7A A1AN	83743YAS2	NUUQ504GD0080000000	5/25/2005	773,500,000	CDO	Credit desk	Terminated - ML3	120,810,907	11/21/2008 *
GSIL	TRIAX 2006-2A A1B1	896008AB5	SDB504492883 / SDB504678635	12/14/2006	999,850,000	CDO	Credit desk	Terminated - ML3	565,123,991	11/21/08, 12/17/08 **
GSIL	TRIAX 2006-2A A1B2	896008AC3	SDB504493409 / SDB504678606	12/14/2006	1,499,850,000	CDO	Credit desk	Terminated - ML3	859,318,483	11/21/2008 *
GSIL	WESTC 2006-1A A1A	952186AA2	SDB503565139	7/26/2006	1,187,850,000	CDO	Credit desk	Terminated - ML3	383,793,306	11/21/2008 *
GSIL	WESTC 2006-1A A1B	952186AB0	SDB503565516	7/26/2006	1,187,850,000	CDO	Credit desk	Terminated - ML3	387,678,256	11/24/08, 12/17/08 *
					16,388,550,000					

** These trades were terminated during 2008 as part of the Maiden Lane III transaction, all other trades remained open beyond December 2008.*

*** This trade was partially terminated in 2008 as part of the Maiden Lane III transaction, 500M original notional remained open / split reflected above*

ATTACHMENT 16

Confidential Treatment Requested by Goldman Sachs

LB 9: Do the negative positions in GS MBS 0000038789 represent short positions?

No. The negative positions in GS MBS 0000038789 represent protection sold by Goldman Sachs, and the positive positions represent protection purchased by Goldman Sachs.

Supplemental Response Received From Goldman Sachs

Footnote Exhibits - Page 2644

Privileged and Confidential - Attorney Client Privilege
AIG Credit Protection
January 1, 2006 - December 31, 2008

CDS

Trade Date	Deal	Notional Traded
7/27/2007	SDB506413265	100,000,000
7/30/2007	SDB506428762	100,000,000
8/2/2007	SDB506485022	100,000,000
8/2/2007	SDB506480246	55,000,000
8/2/2007	SDB506483869	70,000,000
8/3/2007	SDB506504143	100,000,000
8/9/2007	SDB506591558	50,000,000
8/24/2007	SDB506787402	28,500,000
8/29/2007	SDB506835337	3,000,000
8/29/2007	SDB506835310	140,000,000
8/29/2007	SDB506835366	2,500,000
9/13/2007	SDB506997016	700,000,000
11/8/2007	SDB507681392	145,000,000
11/9/2007	SDB507690665	30,000,000
11/13/2007	SDB507701834	45,000,000
11/13/2007	SDB507702114	50,000,000
11/13/2007	SDB507707129	20,000,000
11/14/2007	SDB507714559	25,000,000
11/15/2007	SDB507730397	10,000,000
11/16/2007	SDB507742454	100,000,000
11/27/2007	SDB507836730	(100,000,000)
1/25/2008	SDB508394922	20,000,000
1/29/2008	SDB508420675	90,000,000
1/30/2008	SDB508438416	40,000,000
1/31/2008	SDB508475234	55,000,000
2/1/2008	SDB508494972	80,000,000
2/6/2008	SDB508549159	50,000,000
2/6/2008	SDB508549986	10,000,000
2/6/2008	SDB508521409	30,000,000
3/24/2008	SDB509124043	25,000,000
3/24/2008	SDB509126126	25,000,000
3/25/2008	SDB509143043	75,000,000
3/26/2008	SDB509186684	25,000,000
3/27/2008	SDB509201519	20,000,000
3/31/2008	SDB509232740	25,000,000
3/31/2008	SDB509233251	25,000,000
4/1/2008	SDB509244691	200,000,000
4/2/2008	SDB509264289	200,000,000
4/3/2008	SDB509278192	150,000,000
4/9/2008	SDB509319658	25,000,000
4/24/2008	SDB509474033	(100,000,000)
5/8/2008	SDB509695059	(75,000,000)
5/13/2008	SDB509752644	100,000,000
5/13/2008	SDB509738313	90,000,000
5/13/2008	SDB509739755	25,000,000
5/16/2008	SDB509816476	50,000,000
5/20/2008	SDB509903675	30,000,000
5/21/2008	SDB509919651	15,000,000

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5/22/2008	SDB509931923	20,000,000
5/29/2008	SDB509989336	20,000,000
5/30/2008	SDB925207681	34,000,000
5/30/2008	SDB925207688	(20,000,000)
6/17/2008	SDB925385261	(10,000,000)
6/18/2008	SDB925401780	(25,000,000)
6/19/2008	SDB925413246	(75,000,000)
6/20/2008	SDB925461770	(45,000,000)
6/23/2008	SDB925483016	(80,000,000)
6/23/2008	SDB925488843	(170,000,000)
6/24/2008	SDB925504839	(75,000,000)
6/25/2008	SDB925529066	(50,000,000)
6/27/2008	SDB925587707	(25,000,000)
7/22/2008	SDB925865679	15,000,000
7/23/2008	SDB925883371	35,000,000
7/25/2008	SDB925903379	30,000,000
7/30/2008	SDB925971987	25,000,000
8/1/2008	SDB926005478	25,000,000
8/4/2008	SDB926019724	35,000,000
8/4/2008	SDB926019729	(21,000,000)
8/5/2008	SDB926034774	225,000,000
8/5/2008	SDB926036962	50,000,000
8/5/2008	SDB926041326	25,000,000
9/13/2008	SDB926432077	(300,000,000)
9/18/2008	SDB926727961	(50,000,000)
9/19/2008	SDB926745244	(100,000,000)
9/19/2008	SDB926750305	(100,000,000)
9/22/2008	SDB926814339	(75,000,000)
9/23/2008	SDB926832889	(25,000,000)
9/25/2008	SDB926887827	(25,000,000)
9/26/2008	SDB926915189	(25,000,000)
11/10/2008	SDB927797131	(50,000,000)
11/10/2008	SDB927799036	(50,000,000)
11/10/2008	SDB927799174	(25,000,000)
11/12/2008	SDB927818877	(150,000,000)
11/13/2008	SDB927843741	(90,000,000)
11/19/2008	SDB927939880	(35,000,000)
11/20/2008	SDB927976561	(185,000,000)
11/21/2008	SDB927993686	(25,000,000)
11/26/2008	SDB928045971	(45,000,000)
12/9/2008	SDB928224278	35,000,000
12/9/2008	SDB928227391	34,000,000
12/9/2008	SDB928222015	(20,000,000)
12/10/2008	SDB928271988	(40,000,000)
Subtotal CDS		1,676,000,000

*downsized to 400MM 9/12/08

BONDS

Trade Date	Security Description	Notional Traded
12/7/2007	AIG 5.85 16Jan18	40,000,000
5/20/2008	AIG 8.175 15May58 (38 CA 100.00)	41,000,000
5/21/2008	AIG 8.175 15May58 (38 CA 100.00)	18,500,000
6/2/2008	AIG 8.175 15May58 (38 CA 100.00)	20,000,000

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6/18/2008	AIG 8.175 15May58 (38 CA 100.00)	20,000,000
6/20/2008	AIG 8.175 15May58 (38 CA 100.00)	10,000,000
6/26/2008	AIG 8.175 15May58 (38 CA 100.00)	20,000,000
9/19/2008	AIG 8.25 15Aug18	61,940,000
11/13/2008	AIG 5.85 16Jan18	15,000,000
12/4/2008	AIG 4.25 15May13	10,000,000
12/5/2008	AIG 5.45 18May17	5,000,000
12/8/2008	AIG 5.6 18Oct16	5,000,000
12/9/2008	AIG 5.05 1Oct15	17,000,000
12/9/2008	AIG 8.25 15Aug18	(15,000,000)
12/10/2008	AIG 4.25 15May13	5,000,000
12/15/2008	AIG 4.25 15May13	5,000,000
12/16/2008	AIG 4.9 2Jun14 *	22,000,000
12/17/2008	AIG 4.9 2Jun14 *	20,000,000
12/18/2008	AIG 4.9 2Jun14 *	36,000,000
12/22/2008	AIG 5.85 16Jan18	7,000,000
12/23/2008	AIG 4.95 20Mar12	8,690,000
	Total Bonds	**372,130,000**

* CAD denominated bonds, all others are USD

Common Stock

Trade Date	Security Description	Quantity Traded
6/5/2007[1]	AMERICAN INTERNATIONAL GROUP, INC	(90,600)
6/6/2007[1]	AMERICAN INTERNATIONAL GROUP, INC	(1,000)
11/7/2007	AMERICAN INTERNATIONAL GROUP, INC	(3,514,600)
11/8/2007	AMERICAN INTERNATIONAL GROUP, INC	(2,300,000)
11/9/2007	AMERICAN INTERNATIONAL GROUP, INC	(1,000,000)
11/26/2007	AMERICAN INTERNATIONAL GROUP, INC	2,500,000
11/27/2007	AMERICAN INTERNATIONAL GROUP, INC	510,060
11/28/2007	AMERICAN INTERNATIONAL GROUP, INC	1,000,000
11/29/2007	AMERICAN INTERNATIONAL GROUP, INC	1,000,000
12/20/2007	AMERICAN INTERNATIONAL GROUP, INC	900,000
1/24/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,000,000)
1/28/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,000,000)
2/1/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,000,000)
2/5/2008	AMERICAN INTERNATIONAL GROUP, INC	(68,700)
2/6/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,500,000)
3/24/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,500,000)
3/25/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,500,000)
4/1/2008	AMERICAN INTERNATIONAL GROUP, INC	(1,500,000)
5/5/2008	AMERICAN INTERNATIONAL GROUP, INC	(30,000)
5/9/2008	AMERICAN INTERNATIONAL GROUP, INC	1,000,000
5/12/2008	AMERICAN INTERNATIONAL GROUP, INC	1,000,000
4/25/2008	AMERICAN INTERNATIONAL GROUP, INC	1,153,095
5/28/2008	AMERICAN INTERNATIONAL GROUP, INC	1,477,821
4/24/2008	AMERICAN INTERNATIONAL GROUP, INC	3,800,000
9/17/2008	AMERICAN INTERNATIONAL GROUP, INC	1,572,324
	Total Stocks	**(91,600)**

1 Equity trades were executed to sell long common stock positions sourced prior to the trades requested.

ATTACHMENT 17

Deal Name	Tranche Name	Notional	Current Notional No IWD	CUSIP	Effective Date	Termination Date	Transacted Spread	RefObl Issuer	External Trade ID	Counterparty
ADROC 2005-2A	C	10,000,000	9,455,167	007022AD8	3-Mar-06	6-Dec-41	150	Adirondack Ltd	SDB980001328	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
ADROC 2005-2A	C	10,000,000	9,455,167	007022AD8	23-Feb-06	6-Dec-41	150	Adirondack Ltd	SDB980001427	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
ALTS 2005-2A	C	10,000,000	9,552,699	02149WAD9	3-Mar-06	5-Dec-40	160	Altius Funding Ltd	SDB980001361	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
ALTS 2005-2A	C	10,000,000	9,552,699	02149WAD9	23-Feb-06	5-Dec-40	160	Altius Funding Ltd	SDB980001437	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
BFCGE 2006-1A	A3L	20,000,000	19,882,881	05539MAD2	23-Feb-06	10-Jan-41	185	BFC Genesee CDO Ltd	SDB980001480	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
CBCL 15A	C	15,000,000	15,000,000	124670AC4	23-Feb-06	16-Feb-41	135	Credit-Based Asset Servicing and Se	SDB980001506	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
DUKEF 2005-9A	A3V	10,000,000	10,000,000	26450AAC1	23-Feb-06	9-Mar-45	180	Duke Funding Ltd	SDB980001510	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
DUKEF 2005-9A	A3V	10,000,000	10,000,000	26450AAC1	3-Mar-06	9-Mar-45	180	Duke Funding Ltd	SDB980001368	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
FORTS 2006-1A	C	10,000,000	9,332,616	34958CAD6	3-Mar-06	12-Jul-41	150	Fortius Funding Ltd	SDB980001387	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
FORTS 2006-1A	C	10,000,000	9,332,616	34958CAD6	23-Feb-06	12-Jul-41	150	Fortius Funding Ltd	SDB980001531	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GEMST 2005-2A	C	10,000,000	10,000,000	36867VAE7	23-Feb-06	9-May-40	170	Gemstone CDO Ltd	SDB980001536	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GEMST 2005-2A	C	10,000,000	10,000,000	36867VAE7	3-Mar-06	9-May-40	170	Gemstone CDO Ltd	SDB980001397	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GEMST 2005-3A	C	10,000,000	10,000,000	36868AAJ1	23-Feb-06	26-Jul-40	170	Gemstone CDO Ltd	SDB980001540	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GEMST 2005-3A	C	10,000,000	10,000,000	36868AAJ1	3-Mar-06	26-Jul-40	170	Gemstone CDO Ltd	SDB980001403	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GEMST 2005-4A	C	10,000,000	10,000,000	36868BAE0	23-Feb-06	12-Feb-41	170	Gemstone CDO Ltd	SDB980001543	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GEMST 2005-4A	C	10,000,000	10,000,000	36868BAE0	3-Mar-06	12-Feb-41	170	Gemstone CDO Ltd	SDB980001413	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GSCSF 2005-1A	A3	10,000,000	10,000,000	362470AC0	3-Mar-06	12-Nov-45	200	GSC ABS CDO Ltd	SDB980001418	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)
GSCSF 2005-1A	A3	10,000,000	10,000,000	362470AC0	23-Feb-06	12-Nov-45	200	GSC ABS CDO Ltd	SDB980001553	DeutscheLDN-Dealer (GSI, London, Deutsche Bank AG)

Confidential Treatment Requested by Goldman Sachs

LB 10: What does the term "financially sound" mean?

Goldman Sachs interpreted Question 10 posed to Mr. Blankfein to request information on instances in which the firm accepted CDS termination payments from "financially sound" counterparties in an amount that was less than what the firm believed that it was contractually entitled to receive. By "financially sound," Goldman Sachs meant counterparties that were solvent.

Supplemental Response Received From Goldman Sachs

ATTACHMENT 18

Estimated Balance Sheet
Trade Date Net Inventory
For the fiscal months ended Jan 2007 through Dec 2008

COMMON EQUITY
NET MARKET VALUE

Issuer/Entity	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
AIG	(40,561,868)	8,998,268	34,931,751	74,697,195	17,082,191	(2,200,480)	(22,089,819)	(71,152,781)	(4,718,948)	100,404,644	22,774,262	143,900,654
Lehman Brothers	6,172,696	23,529,468	(20,402,080)	(23,338,402)	11,025,227	(29,749,419)	(7,523,348)	6,655,280	49,045,417	48,391,867	(5,780,021)	46,400,442
National City	(18,115,600)	352,187	21,749,716	(47,417,584)	(5,588,488)	(39,281,931)	(22,248,762)	(62,467,064)	(36,757,800)	(47,197,271)	(24,742,557)	(15,419,620)
New Century	(587,974)	(1,461,596)	37,552	(116,138)	(97,781)	(106,712)	(87,157)	(3,797)	(3,913)	(3,212)	1,579	2,190
Washington Mutual	(79,428,936)	(69,627,423)	(27,952,971)	(33,539,184)	(32,664,569)	(62,204,816)	(87,129,870)	(70,280,499)	(41,358,807)	(89,999,584)	(86,297,323)	(112,704,561)
Merrill Lynch	(21,820,456)	(2,802,982)	(107,819,661)	(122,298,491)	(99,428,278)	(73,309,467)	15,375,674	19,798,843	27,070,972	89,480,430	244,851,010	320,509,496
Bear Stearns	8,185,217	5,824,737	(22,062,543)	(35,027,433)	(25,381,446)	(33,249,879)	(11,536,760)	(17,889,011)	(4,127,343)	4,778,465	(84,043,658)	(7,633,570)
Fremont	2,900,928	(3,372,606)	(2,167,628)	(4,055,572)	(6,636,690)	(7,480,804)	(6,342,465)	(9,587,819)	(9,066,660)	(2,197,351)	(1,825,234)	(2,980,510)

Estimated Balance Sheet
Trade Date Net Inventory
For the fiscal months ended Jan 2007 through Dec 2008

COMMON EQUITY
NET MARKET VALUE

Issuer/Entity	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
AIG	13,427,744	(148,910,708)	(240,549,230)	(147,813,141)	64,498,564	8,376,442	28,888,652	42,861,912	42,861,912	(2,128,719)	1,627,503	2,267,211
Lehman Brothers	14,395,637	11,747,670	20,336,009	37,272,542	(1,964,284)	23,719,665	20,097,824	10,318,498	10,318,498	74,321	76,822	21,203
National City	(65,891,525)	32,684,970	28,722,467	(3,107,585)	(21,312,634)	2,170,827	(49,449,809)	(65,240,482)	(65,240,482)	8,458,834	10,765,694	12,231,036
New Century	2,481	1,771	984	2,376	9,327	2,047	2,931	799	799	799	799	799
Washington Mutual	(143,467,661)	(97,753,159)	(10,063,325)	(111,761)	(37,901,882)	(79,419,428)	(15,529,514)	421,516	421,516	1,389,252	1,160,192	704,772
Merrill Lynch	275,585,572	210,871,241	188,772,478	180,012,602	143,972,312	258,150,006	212,550,666	250,696,959	250,696,959	78,529,766	67,484,669	17,190,504
Bear Stearns	4,884,999	8,889,036	5,587,404	6,148,121	7,877,187							
Fremont	(2,466,574)	(1,168,342)	(619,133)	(2,071)	35,962	57,172	126,730	142,473	142,473	33,102	12,160	108,693

Supplemental Response Received From Goldman Sachs

LB 11: GS MBS 0000038857 lists a positions of (84,043,658) for Bear Stearns in November 2007. Is this correct? If so, please explain the variation.

The data included in GS MBS 0000038857 lists Goldman Sachs' net common stock positions in several companies, including Bear Stearns, held in Goldman Sachs' inventory accounts that were included in the firm's balance sheet for each fiscal month-end during 2007 and 2008. At the end of November 2007, these Goldman Sachs' accounts had a short position of $84,043,658 in Bear Stearns common stock. This varied from the firm's common stock positions in Bear Stearns for both the preceding month (October 2007) and the following month (December 2007). Goldman Sachs' net cash position in Bear Stearns common stock became shorter in November 2007 relative to October 2007 by approximately $89 million, and became longer in December 2007 relative to November 2007 by approximately $76 million. In both instances, Goldman Sachs' equity franchise desk's exposure to Bear Stearns common stock changed in order to hedge equity derivative exposure to Bear Stearns.

ATTACHMENT 19

Proprietary Trading Business Units
Common Equity Activity for 2007 - 2008 [1] [2] [3]

	Buy		Sell		Net Total	
	Shares	Proceeds	Shares	Proceeds	Shares	Proceeds
AIG						
Common	1,967,000	(108,814,154)	(1,757,000)	94,322,751	210,000	(14,491,403)
2007 - Q1	420,000	(29,236,320)	(210,000)	14,798,770	210,000	(14,437,550)
2007 - Q2	-	-	-	-	-	-
2007 - Q3	515,000	(34,371,244)	(515,000)	33,431,818	-	(939,426)
2007 - Q4	70,000	(4,875,500)	(70,000)	4,856,575	-	(18,925)
2008 - Q1	685,000	(32,107,313)	(685,000)	33,352,657	-	1,245,343
2008 - Q2	127,000	(5,001,672)	(127,000)	4,829,021	-	(172,651)
2008 - Q3	150,000	(3,222,105)	(150,000)	3,053,911	-	(168,194)
2008 - Q4	-	-	-	-	-	-
BEAR STERNS						
Common	873,325	(104,798,851)	(826,925)	96,940,856	46,400	(7,858,195)
2007 - Q1	134,750	(21,347,766)	(79,150)	11,900,492	55,600	(9,447,274)
2007 - Q2	107,900	(15,740,982)	(139,500)	20,741,528	(31,600)	5,000,566
2007 - Q3	366,275	(43,644,635)	(309,500)	35,653,053	56,775	(7,991,581)
2007 - Q4	214,400	(20,743,442)	(133,200)	13,432,321	81,200	(7,311,121)
2008 - Q1	50,000	(3,323,047)	(165,575)	15,213,263	(115,575)	11,890,216
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
FREMONT						
Common	320,000	(3,060,577)	(277,700)	2,344,460	42,300	(716,117)
2007 - Q1	320,000	(3,060,577)	(277,700)	2,344,460	42,300	(716,117)
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
LEHMAN BROTHERS						
Common	6,677,720	(282,716,310)	(6,351,320)	270,028,143	326,400	(12,682,167)
2007 - Q1	505,000	(38,732,388)	(623,000)	46,893,773	(118,000)	8,161,385
2007 - Q2	474,500	(35,292,549)	(444,000)	34,214,776	30,500	(1,077,773)
2007 - Q3	928,400	(57,615,259)	(603,500)	37,304,350	324,900	(20,310,910)
2007 - Q4	655,100	(40,545,366)	(864,900)	51,318,101	(209,800)	10,772,734
2008 - Q1	887,100	(35,755,001)	(957,200)	42,396,663	(70,100)	6,641,662
2008 - Q2	1,860,000	(64,145,239)	(1,805,000)	49,411,718	55,000	(14,733,521)
2008 - Q3	1,313,720	(10,228,258)	(1,053,720)	8,486,763	260,000	(1,741,495)
2008 - Q4	53,900	(404,250)	-	-	53,900	(404,250)
MERRILL LYNCH						
Common	3,556,573	(222,813,847)	(3,428,913)	216,988,577	127,660	(5,825,270)
2007 - Q1	253,000	(17,213,241)	(112,800)	10,506,753	140,200	(6,706,488)
2007 - Q2	407,300	(36,508,423)	(528,100)	47,638,146	(120,800)	11,029,723
2007 - Q3	875,700	(66,177,260)	(932,100)	70,606,465	(56,400)	4,429,205
2007 - Q4	656,500	(43,839,428)	(496,000)	30,414,940	160,500	(13,424,489)
2008 - Q1	459,773	(20,750,331)	(883,773)	39,609,613	(424,000)	18,859,282
2008 - Q2	763,600	(32,301,991)	(349,837)	13,765,557	413,763	(18,536,434)
2008 - Q3	133,500	(5,283,173)	(126,303)	4,547,105	7,197	(736,069)
2008 - Q4	7,200	(540,000)	-	-	7,200	(540,000)
NATIONAL CITY						
Common	5,025,000	(92,098,295)	(4,650,000)	73,894,000	375,000	(18,204,295)
2007 - Q1	375,000	(13,910,213)	-	-	375,000	(13,910,213)
2007 - Q2	275,000	(9,383,000)	(550,000)	19,358,868	(275,000)	9,975,868
2007 - Q3	475,000	(14,113,594)	(600,000)	15,348,527	(125,000)	1,232,933
2007 - Q4	1,200,000	(29,002,423)	(800,000)	19,604,486	400,000	(9,397,937)
2008 - Q1	75,000	(5,201,428)	(75,000)	5,062,257	-	(139,171)
2008 - Q2	2,625,000	(20,487,637)	(805,000)	8,471,647	1,820,000	(12,015,990)
2008 - Q3	-	-	(1,820,000)	6,050,216	(1,820,000)	6,050,216
2008 - Q4	-	-	-	-	-	-
WASHINGTON MUTUAL						
Common	5,629,768	(124,386,393)	(5,399,768)	134,402,215	230,000	10,015,822
2007 - Q1	350,000	(15,093,645)	(330,000)	14,700,512	20,000	(393,134)
2007 - Q2	225,000	(9,834,878)	(115,000)	4,921,315	110,000	(4,913,563)
2007 - Q3	770,000	(27,634,841)	(1,070,000)	40,067,569	(300,000)	12,432,729
2007 - Q4	2,011,700	(45,191,947)	(1,611,700)	43,809,933	400,000	(1,382,014)
2008 - Q1	2,173,068	(26,379,221)	(2,173,068)	30,667,360	-	4,288,139
2008 - Q2	-	-	-	-	-	-
2008 - Q3	100,000	(251,862)	(100,000)	235,527	-	(16,336)
2008 - Q4	-	-	-	-	-	-

Proprietary Trading Business Units
Option Activity for 2007 - 2008 [1] [2] [3]

	Buy		Sell		Net Total	
	Contracts	Proceeds	Contracts	Proceeds	Contracts	Proceeds
AIG						
Calls	-	-	-	-	-	-
2007 - Q1	-	-	-	-	-	-
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
Puts	1,000	(165,591)	(750)	613,420	250	447,829
2007 - Q1	-	-	-	-	-	-
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	1,000	(165,591)	-	-	1,000	(165,591)
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	(750)	613,420	(750)	613,420
2008 - Q4	-	-	-	-	-	-
BEAR STERNS						
Calls	500	(222,500)	(1,350)	167,500	(850)	(65,000)
2007 - Q1	-	-	(350)	52,500	(350)	52,500
2007 - Q2	500	(222,500)	-	-	500	(222,500)
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	(1,000)	105,000	(1,000)	105,000
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
Puts	1,250	(608,723)	(5,350)	6,419,352	(4,100)	5,812,630
2007 - Q1	500	(124,300)	(1,850)	2,268,002	(1,350)	2,143,702
2007 - Q2	-	-	-	-	-	-
2007 - Q3	500	(480,000)	(750)	2,067,600	(250)	1,587,600
2007 - Q4	-	-	(1,250)	468,750	(1,250)	468,750
2008 - Q1	250	(2,423)	(1,500)	1,615,000	(1,250)	1,612,578
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
FREMONT						
Calls	500	(60,000)	(500)	8,750	-	(51,250)
2007 - Q1	500	(60,000)	(500)	8,750	-	(51,250)
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
Puts	2,050	(288,904)	(4,000)	2,349,000	(1,950)	2,060,096
2007 - Q1	2,050	(288,904)	(4,000)	2,349,000	(1,950)	2,060,096
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
LEHMAN BROTHERS						
Calls	11,590	(2,755,828)	(10,690)	1,932,141	1,000	(823,687)
2007 - Q1	690	(127,573)	(690)	96,600	-	(30,973)
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	6,200	(1,907,792)	(5,200)	1,489,953	1,000	(417,839)
2008 - Q3	4,700	(720,463)	(4,700)	345,588	-	(374,875)
2008 - Q4	-	-	-	-	-	-
Puts	34,990	(4,495,726)	(35,640)	4,365,599	(650)	(130,127)
2007 - Q1	21,000	(1,112,825)	(20,000)	1,450,000	1,000	337,175
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	(750)	330,000	(750)	330,000
2008 - Q2	8,950	(2,685,650)	(8,250)	1,607,896	700	(1,077,954)
2008 - Q3	5,040	(697,251)	(6,640)	977,903	(1,600)	280,652

	Buy		Sell		Net Total	
	Contracts	Proceeds	Contracts	Proceeds	Contracts	Proceeds
2008 - Q4	-	-	-	-	-	-

MERRILL LYNCH

Calls	360	(129,169)	(1,460)	268,400	(1,100)	139,231
2007 - Q1	360	(129,169)	(460)	168,400	(100)	39,231
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	(1,000)	100,000	(1,000)	100,000
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
Puts	13,600	(8,220,271)	(14,037)	7,382,525	(437)	4,162,254
2007 - Q1	7,000	(1,149,910)	(2,100)	1,074,000	4,900	(75,910)
2007 - Q2	1,500	(285,300)	(3,500)	1,235,000	(2,000)	949,700
2007 - Q3	1,100	(953,500)	(2,500)	1,207,500	(1,400)	254,000
2007 - Q4	-	-	(2,500)	2,695,000	(2,500)	2,695,000
2008 - Q1	2,000	(550,000)	(2,237)	646,025	(237)	96,025
2008 - Q2	1,000	(155,731)	-	-	1,000	(155,731)
2008 - Q3	1,000	(126,830)	(1,200)	525,000	(200)	399,170
2008 - Q4	-	-	-	-	-	-

NATIONAL CITY

Calls	-	-	-	-	-	-
2007 - Q1	-	-	-	-	-	-
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
Puts	-	-	-	-	-	-
2007 - Q1	-	-	-	-	-	-
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-

WASHINGTON MUTUAL

Calls	-	-	-	-	-	-
2007 - Q1	-	-	-	-	-	-
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	-	-	-	-	-	-
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-
Puts	26,000	(1,011,685)	(10,000)	1,444,000	16,000	432,315
2007 - Q1	6,000	(592,500)	-	-	6,000	(592,500)
2007 - Q2	-	-	-	-	-	-
2007 - Q3	-	-	-	-	-	-
2007 - Q4	-	-	-	-	-	-
2008 - Q1	20,000	(419,185)	(10,000)	1,444,000	10,000	1,024,815
2008 - Q2	-	-	-	-	-	-
2008 - Q3	-	-	-	-	-	-
2008 - Q4	-	-	-	-	-	-

(1.) Long Beach was a private subsidiary of Washington Mutual and we are not aware of trades on any public exchanges on a stand alone basis.

(2.) There was no activity we are aware of for New Century during this time frame on any public exchange.

(3.) We have not identified any futures trading activity on the CME for these financial names.

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LB 11(b): What proprietary units were involved in the trades outlined in GS MBS 0000038753?

Goldman Sachs has certain business units that solely engage in proprietary trading activities and are not customer facilitation in nature. These business units are principal equity strategies, credit principal investing and macro proprietary trading businesses.

Supplemental Response Received From Goldman Sachs

ATTACHMENT 20

POLICY FOR APPROVING NON-CORE TRADING PRODUCTS AND TRADING FLOW CHANGES

Effective Date: June 1, 2005
For: All Equities and FICC Franchise Traders

In the normal course of business, franchise desk traders may need to trade products outside of their primary markets. In order to ensure the non-core trading is in line with division objectives and the appropriate control infrastructure is established, approval is required.

The Equities and FICC Divisions have adopted the following policy for franchise desks to ensure an adequate assessment of all requests to trade outside primary markets and/or to add positions in similar products. Supporting these opportunities can result in changes to the existing trading flow, as well as create unique or additional firm, regulatory, legal or compliance requirements.

This policy applies globally to all Equities and FICC requests.

A. Required Approvals

Trading positions in similar products. Franchise and/or flow traders are expected to only trade products which fall within the scope of their primary markets. Primary markets in this case would mean products for which the trader has market making responsibility, though it is permissible for traders to take positions in similar products. For example, a yen trader may have positions in the euro. Business approval as specified in this policy is not required for this case. However, if infrastructure changes are needed (different trade entry system, new trading account, etc.) by taking positions in similar products, then an infrastructure review (as noted below) is required.

Hedging. It is understood that more efficient hedging vehicles may exist in markets completely different from the underlying franchise products. For example, a trader making markets in oil shares may want to hedge their positions with oil swaps. In these cases, business approval and infrastructure review is required.

Trading products outside the scope of primary markets. Occasionally, traders may want to trade products falling outside their primary markets. While this sort of non-core trading is generally discouraged, traders may seek permission by following the approval procedure. Business approval and infrastructure review is required.

B. Business Approval

For hedging and trading products outside the scope of primary markets, the desk supervisor must receive prior approval from both the Divisional Risk Manager and a FICC-Equities Operating Committee member. Requests for business approval should be provided in writing to the Divisional Risk Manager, Legal and Compliance and include the following:

- A description of the non-core product to be traded
- List of impacted trading flows / systems
- A description of any unique requirements or constraints

C. Infrastructure Review

Upon receipt of business approval, the trader is required to engage their appropriate support area contacts, complete an Infrastructure Control Assessment and inform their regional New Products Committee.

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Traders are required to work with representatives from Trading Technology, Legal, Compliance, Market Risk Management Analysis, Strategies, Controllers and Operations to complete the checklist.

Please refer to Annex A for a list of the Divisional Risk Managers and regional New Products Committees and Annex B for an example of the Infrastructure Control Checklist.

Once complete, the checklist will be reviewed by the appropriate regional New Products Committee to ensure all appropriate impact areas are addressed and assist the desk in making sure the necessary infrastructure changes are implemented and issues are resolved.

D. Implementation

The desk is responsible for ensuring that all approvals and infrastructure control action items are completed prior to the start of trading.

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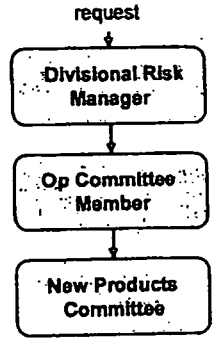
[redacted] = Redacted by the Permanent Subcommittee on Investigations

ANNEX A

Divisional Risk Managers

Bill McMahon	(212)[redacted]
Bruce Petersen	(212[redacted]
Ed Wilson	(212)[redacted]

Approval Chain



New Products Committees

Americas **New Products Committee**

Barry Goldman	(212[redacted]
Dirk Kranenburg	(212)[redacted]
Walter Wanga	(212)[redacted]

Tokyo **Business Opportunity Review Group**

Craig Crossman	8[redacted]
Catherine Wedgbury	8[redacted]
Kent Garneau	8[redacted]

Hong Kong Asia ex-Japan New Business Initiative Committee

Craig Crossman	8[redacted]
Ian Clay	8[redacted]
Samantha Yang	8[redacted]

Europe **European New Business Initiative Committee**

Robert Charnley	8[redacted]
Stephen Davies	8[redacted]

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ANNEX B

The following is an example of the Infrastructure Control Checklist:

Infrastructure Control Checklist (draft)
New Business / Non Core Trading and Trading Flow Changes

Prior to trading products outside primary markets (including for hedging purposes), implementing infrastructure changes or introducing new customer flow and execution venues, Business Managers are required to engage their Regional New Products Committee to complete the following Infrastructure Control Checklist.

The purpose of the checklist is to ensure the appropriate infrastructure is in place to enable compliance with all regulatory and firm controls.
Please return all completed checklists to your respective Regional New Products Committee.

Key Control Requirement	Key Control Point	Key Control Checklist Please check all that apply. (Not an exhaustive list.)	Key Control Sign-Off (Name)	Title/Group
Capture client & execution details accurately	Sales / Customer Trade Booking	Capture new product knowledge		Head of Sales Desk
		Ensure orders match executions		
		Ensure client/commission schedules/ allocation mechanism are configured		
		Investigate & understand all applicable rules and regulations that apply for all new activity		
		Ensure sales people are registered accordingly to conduct all required activity		
		Ensure trade entry of economic fields are captured completely & accurately		
	Trading	Capture new product knowledge		Head of Trading Desk
		Ensure orders match execution		
		Ensure new accounts / agg units are properly configured		
		Investigate & understand all applicable rules and regulations(including regulatory capital requirements) that apply for all new activity		
		Ensure traders are registered accordingly to conduct all required activity		
		Ensure trade entry of economic fields are captured completely & accurately		
	Front Office Systems	Ensure adequate performance and capacity		Trading Technology
		Ensure necessary exchange connectivity has been established		
		Ensure additional system access does not compromise the integrity of information barrier controls		
		Review of system architecture		
Satisfy all trading, position and transaction reporting requirements	Regulatory Reporting / Compliance	Define regulatory and compliance requirements for new products		Compliance, Regulatory Reporting
		All necessary training and competency requirements have been completed.		Compliance
		Automated capture & alerts for outliers		Legal
		Supervision over manual processing & date to automate process		ERG Operations
Reflect position, risk and P&L accurately w/in B&R	Position Management	Ensure proper product set-up/ mappings		Head of Trading Desk
		Trading systems provide real time feeds		
		Trading & Risk Management systems use an approved model and booking is in compliance w/ the firm policy		
	Risk Reporting	Ensure risk is correctly captured in B&R		Market Risk Mgmt Analysis
	Risk Management	Define notional / sovereign limits		Strats
		Alerts for outliers		
		Independent feed of risk analytics to MRMA & Div. Risk		Market Risk Mgmt Analysis
		Credit Risk Management due diligence		
		System displays aggregated risk management data for all products		
	P&L Reporting	Traders P&L adjustments to B&R correlate to Trade Support break resolution		Controllers
		Accurate pricing		
Establish automatic links to trade processing systems to ensure fully & accurately configured trades are passed to downstream systems	Trade Booking	Ensure straight-thru processing		Core Operations
		Accurate figuration of proceeds & middle monies		
		Trade event monitoring/notifications/processing agreed and understood		
	Trade Completion	Establish mandatory enrichments from common reference data		ETM Operations
	Settlements	Ensure proper payment & settlement instructions are appended to the transaction		Core Operations
				ETM Operations
	Core Technology	Ensure adequate performance and capacity		Core Technology
		Ensure necessary connectivity has been established		
		Appropriate system entitlements in place (as needed)		
		Review of system architecture		

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ATTACHMENT 21

KNOW YOUR CUSTOMER: SUITABILITY AND AUTHORITY

Effective Date: March 31, 2005 (revised from July 1996)
For: FICC Division

Sales and trading personnel have an obligation to "know their customers" before recommending or entering into any securities transaction. This obligation includes the duty to exercise due diligence to learn the essential facts regarding the customer and the customer's orders and accounts.

Under GS&Co. policy and applicable regulations, before recommending a securities transaction to a customer, sales and trading personnel must determine that the transaction is suitable for the customer. In addition, the firm must determine that a customer has provided sufficient evidence of its authority to enter into a transaction (whether the transaction is recommended or not).

In addition to considering suitability and authority issues in the context of each securities transaction, you should observe the general trading patterns of each customer and recognize any trading activity which is unusual for a customer because of the size of the trades, the securities or markets involved, or any other reason. You should also be aware of market "rumors" about customers that may raise suitability or authority concerns.

Sales managers should regularly review sales activity for potential suitability problems. Sales and trading personnel should bring to the attention of a sales manager any unusual transactions, changes in client conditions or characteristics, significant losses experienced by customers, or other events that may affect the suitability of securities for a customer.

For a discussion of suitability requirements for transactions in municipal securities, see the policies and procedures memorandum entitled Municipal Securities.

For information regarding the documentation and other requirements and procedures applicable to opening new accounts, see the policies and procedures memorandum entitled Documentation.

In addition, various regulatory requirements may apply to the firm's communications with customers generally or in connection with specific securities. See the policies and procedures memorandum entitled Customer Communications/Correspondence.

A. Suitability/Know Your Customer Requirements

Traders and salespersons must comply with general "know your customer" and suitability requirements established by securities self-regulatory organizations, including the NYSE and the NASD.

Sales and trading personnel should be prepared to explain the basis for their suitability determinations and should consider, in consultation with their managers, whether to document such determinations in special or unusual circumstances.

1. Reasonable-Basis Suitability

The firm must have a reasonable basis to believe that the securities it recommends are suitable for at least some customers, based on a careful review and understanding of the terms and conditions of the securities being offered. In

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other words, the firm must have a reasonable basis to believe that the of fered securities are reasonably suitable for investment in general. Of course, sales and trading personnel must always understand the relevant features of any securities in which they are trading, including the potential risks and rewards, so that they are in a position to conduct an appro.priate suitability analysis.

The concept of a "recommendation" is discussed in Section A.3 below. See also Section A.5 (regarding "non-conventional investments") and Section A.6 (regarding options).

2. Customer-Specific Suitability/Know Your Customer Requirement

In addition, in recommending any securities transaction to any particular customer (whether institutional or otherwise), sales and trading personnel must, under NASD Rule 2310, have reasonable grounds for believing that the recommendation is suitable for the customer. This determination must be based on facts, if any, that have been disclosed by such customer regarding the customer's other security holdings and regarding the customer's financial situation and needs. The concept of a "recommendation" is discussed in Section A.3 below.

The NASD has cautioned against relying too heavily on a customer's financial status as a basis for making a recommendation, since a customer's net worth alone is not necessarily determinative of whether a particular security is suitable for that investor.

The NYSE's "know your customer" requirement under Rule 405 also requires that the firm use diligence to learn the essential facts relative to every customer, every order, every cash or margin account accepted or carried by the firm, and every person holding power of attorney over any account accepted or carried by the firm. The country of which a customer is a citizen is deemed to be an "essential fact."

(a) "Institutional Customers"

If a customer is an "institutional customer," that is, **any entity other than a natural person,** the obligation under NASD Rule 2310 to determine that a recommendation is suitable for the particular customer is fulfilled when a broker-dealer has reasonable grounds to conclude that:

- The customer is capable of independently evaluating investment risk.

AND

- The customer is making independent investment decisions.

Note, however, that the NASD has indicated that this guidance is more appropriately applied to customers with at least $10 million invested in securities. Where a customer has delegated decision-making authority to an agent, such as an investment advisor or a bank trust department, the obligations discussed under this section apply with respect to the agent.

(i) Capability to Evaluate Risk Independently

Sales and trading personnel should consider, based on the information available to them, the customer's capability to evaluate investment risk, including the resources available to the customer to make informed decisions. If a customer is either generally not capable of evaluating investment risk or lacks sufficient capability to evaluate a particular

security, then the firm's customer-specific suitability obligation is not diminished by the fact that the member is dealing with an institutional customer.

Relevant considerations in determining capability to evaluate investment risk independently could include:

- The use of one or more consultants, investment advisers, or bank trust departments.
- The general level of experience of the institutional customer in financial markets and specific experience with the type of security under consideration.
- The customer's ability to understand the economic features of the security involved.
- The customer's ability to independently evaluate how market developments would affect the security.
- The complexity of the securities involved.

(ii) Exercise of Independent Judgment

Sales and trading personnel may conclude that a customer is exercising independent judgment if the customer's investment decision will be based on its own independent assessment of the opportunities and risks presented by the potential transaction, market factors, and other investment considerations.

A determination that a customer is making independent investment decisions depends on the nature of the relationship between the member and the customer. Relevant considerations could include:

- Any written or oral understanding that exists between the member and the customer regarding the nature of the relationship between the member and the customer and the services to be rendered by the member.
- The presence or absence of a pattern of acceptance of the member's recommendations.
- The use by the customer of ideas, suggestions, market views, and information obtained from other members or market professionals, particularly those relating to the same type of securities.
- The extent to which the member has received from the customer current comprehensive portfolio information in connection with discussing recommended transactions or has not been provided important information regarding its portfolio or investment objectives.

(b) Customers with Less than $50 Million in Assets

Under NASD Rule 2310(b), in the case of a transaction recommended to any customer (whether a natural person or otherwise) with total assets of under $50 million, sales and trading personnel must, prior to execution, make a reasonable effort to obtain information concerning:

- The customer's financial status.
- The customer's tax status.

- The customer's investment objectives.
- Such other information used or considered to be reasonable by sales and trading personnel in making recommendations to the customer.

This requirement does not apply to:

- A bank, savings and loan association, insurance company, or registered investment company.
- An investment adviser registered either with the SEC under Section 203 of the Advisers Act or with a state securities commission (or agency or office performing like functions).

(c) Individuals

Individual customers may be less sophisticated and less able to bear any losses from risky securities. Reasonable efforts should be made to obtain from these customers information regarding their financial background and objectives, and special caution should be exercised to determine the suitability of any securities for these customers in light of such information.

Even if a customer seeks to engage in, or has previously engaged in, highly speculative or otherwise aggressive trading, sales and trading personnel have a duty to refrain from making recommendations that are incompatible with the customer's financial profile and interests.

The NASD has expressed concern that some individual investors may not understand the risks and costs associated with bonds and bond funds, and has reiterated the responsibility of broker-dealers to take appropriate steps to ensure that their customers understand the risks, costs, and benefits of these securities.

3. "Recommendations"

The NASD's customer-specific suitability requirements apply only where the firm recommends a securities transaction to a customer. Whether a particular transaction is in fact "recommended" depends on an analysis of all the relevant facts and circumstances.

- The suitability rule ordinarily would not apply when the firm acts solely as an "order-taker" for customers who, on their own initiative, effect transactions without a recommendation from the firm.
- On the other hand, a broad range of circumstances may cause a transaction to be considered recommended; this determination does not depend on whether the salesperson classifies the trade as "solicited" or "unsolicited," nor does it depend on the mode of communication between the trader or salesperson and the customer.
- The NASD has stated more generally that an important factor is whether, in view of its content, context, and manner of presentation, a particular communication to a customer reasonably would be viewed as a "call to action" or suggestion that the customer engage in a securities transaction.

- In general, the more individually tailored the communication to a specific customer or a targeted group of customers about a security or group of

securities, the greater the likelihood that the communication may be viewed as a "recommendation."

- The suitability rule applies to all "recommendations" made to customers via e-mail or other electronic communications, including customer-specific electronic communications encouraging the purchase of a security, or e-mails to customers stating they should be invested in securities from a particular sector and urging them to buy securities from a list with "buy" recommendations.
- Although the firm cannot avoid or disclaim away its suitability obligation (and a particular communication may be deemed a "recommendation" notwithstanding the use of a disclaimer), the firm may properly disclose to customers that information is not based on a customer's particular financial situation or needs, or that opinions or recommendations expressed in research do not take into account individual investors' circumstances and are not intended to represent "recommendations" of particular securities to particular customers.

The NASD has also found that when a broker effects transactions in an account over which it has discretion, the transactions are implicitly recommended. Additional NASD guidance addresses the circumstances in which various online services or products (e.g., Web sites with research or analytical tools) may entail a "recommendation." For further information regarding whether any activities may constitute a "recommendation," consult the Compliance or Legal Departments.

4. Activities that May Raise Suitability or Other Issues

The NASD has identified certain activities that may raise special suitability or other concerns, including:

- Excessive trading activity in a customer's account ("churning" or "overtrading"). Whether activity is excessive depends on the objectives and financial situation of the customer involved.
- Trading in mutual fund shares, particularly on a short-term basis.
- Recommending the purchase of securities in amounts inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.
- Recommending or accepting orders for new financial products — members must make every effort to familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such securities, and should make customers aware of the pertinent information regarding the securities.

Other activities that may be fraudulent or impermissible are discussed in the policies and procedures memorandum entitled 'Parking' and Other Impermissible Trading Activities.

5. Non-Conventional Investments

The NASD has expressed concern that investors, particularly retail investors, may seek greater yields or returns through what the NASD has termed "non-conventional investments" ("NCIs") without fully understanding the risks associated with these securities. For these purposes, NCIs include, among other securities, asset-backed securities, equity-linked notes, index-linked notes, non-

traded REITs, multi-callable step up notes, redeemable secured notes, auction rate preferred securities, principal protected index-linked CDs, distressed debt, derivative products, and emerging market debt securities. The NASD has noted that NCIs may entail significant credit risks that are difficult to understand and assess, may have less market liquidity, and may have less transparency as to their pricing and value.

The NASD has noted that members should perform appropriate due diligence to ensure they understand the nature of an NCI, as well as the potential risks and rewards associated with it, in order to make a "reasonable-basis" suitability analysis (see Section A.1 above) — even if the security is intended only for institutional investors. The type of due diligence investigation that is appropriate will vary from security to security, but certain common features that sales and trading personnel should understand include, but are not limited to:

- The liquidity of the security.
- The existence of a secondary market and the prospective transparency of pricing in any secondary market transactions.
- The creditworthiness of the issuer.
- The creditworthiness and value of any underlying collateral.
- Where applicable, the creditworthiness of the counterparties.
- Principal, return, and/or interest rate risks and the factors that determine those risks.
- The tax consequences of the security.
- The costs and fees associated with purchasing and selling the security.

Broker-dealers may in good faith rely on representations concerning an NCI contained in a prospectus or disclosure document, but reliance on such materials alone may be insufficient where the materials do not provide sufficient information to fully evaluate the security's risks.

In addition, sales and trading personnel must make the types of customer-specific suitability determinations described in Section A.2 above when recommending an NCI to a customer.

6. Options on Fixed Income Securities

Special suitability rules apply with respect to customers trading securities options. GS&Co. sales and trading personnel may not recommend any option transaction to a customer unless there are reasonable grounds for believing (based on information furnished by the customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other information known by sales or trading personnel) that the recommended transaction is suitable for the customer.

In addition, sales or trading personnel may not recommend to the customer an opening transaction in an option contract unless the person making the recommendation has a reasonable basis for believing, at the time of the recommendation, that:

- The customer has such knowledge and experience in financial matters that the customer may reasonably be expected to be capable of evaluating the risks of the recommended transaction.

AND

- The customer is financially able to bear the risks of the recommended position in the option contract.

For information regarding the special documentation and disclosure requirements and procedures applicable when opening new options accounts, see the policies and procedures memorandum entitled Documentation.

7. Customers Subject to Specific Regulatory Regimes

Recommendations made to customers subject to specific regulatory regimes may raise additional suitability concerns. In case of any questions or concerns regarding such customers, trading and sales personnel should contact the Compliance or Legal Departments.

(a) Employee Benefit Plans

It is especially important to "know your customer" when dealing with employee benefit plans. Such plans are usually subject to the Employee Retirement Income Security Act of 1974 ("ERISA") and the rules thereunder, as well as rules and guidelines adopted by trustees or governing boards. Under ERISA, a fiduciary of a plan (i.e., the person managing the plan's assets) must diversify the assets of the plan to prevent large losses and must discharge its investment duties "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. . . ." See the policies and procedures memorandum entitled Prohibited Transactions Under ERISA.

Although adherence to the "prudent man" rule cited above and other investment requirements under ERISA is primarily the responsibility of the pension plan's investment manager, salespersons and traders should be alert to circumstances indicating the need to raise questions with their manager or the Compliance or Legal Departments. You need to be sensitive to whether you believe the strategies are inconsistent with these basic duties. Other ERISA requirements discussed in the policies and procedures memorandum entitled Prohibited Transactions Under ERISA also may affect GS&Co.'s ability to enter into fixed income transactions with ERISA plans.

While public pension plans are not subject to ERISA, they are governed by state and local statutory schemes. These schemes vary greatly, sometimes including a "prudence" standard and at other times providing a list of prohibited and permitted investments. As in the case of ERISA plans, adherence to the investment standards applicable to public pension plans is primarily the responsibility of the investment manager for the plan. However, it is very important for GS&Co. that it not engage in any transaction with these plans that is prohibited by local law. GS&Co. is on constructive notice of these statutes, and there have been instances where broker-dealers have been held responsible in connection with transactions that have exceeded their authority. GS&Co. personnel should remain alert to circumstances indicating the need to raise questions with their manager or the Compliance or Legal Departments.

(b) State and Municipal Counterparties

Special caution should be exercised when dealing with state and municipal entities, even when such counterparties are sophisticated investors and understand the risks involved in the transaction.

B. *Power and Authority*

Before entering into a securities transaction, it is essential that the firm take appropriate measures to determine whether:

- A customer has the power, capacity and authority to enter into the proposed transactions (e.g., there are no legal or regulatory prohibitions against the customer entering into such transactions, such transactions are not prohibited under the customer's organizational or other constitutive documents, etc.)

AND

- The individuals with whom GS&Co. is dealing have authority to act for the customer in such transactions.

The appropriate measures to be taken will vary, depending both on the nature of the customer and the nature of the transaction. Factors which you should consider include whether your customer is acting as principal or agent, whether the proposed transaction falls within the institution's guidelines for permissible transactions, and whether the transaction is permitted by the regulators, if any, of that institution. In considering whether the individual with whom you are dealing has authority, you may look to evidence of actual authority or evidence of whether the person reasonably appears to have been given authority to act on behalf of the institution he or she purports to represent — e.g., whether the institution has held the individual out as having authority or has knowingly permitted the individual to act on its behalf.

Sales and trading personnel should contact the Compliance or Legal Departments if they have any doubts or questions regarding the power of a customer to enter into transactions or the authority of the individuals with whom they are dealing to act on behalf of the customer. Specific authority considerations for various categories of customers are discussed below.

1. Governments and Public-Sector Entities

It is especially important to consider whether state and local government entities, including public pension plans, have the power to enter into securities transactions and whether persons acting on behalf of such entities have obtained proper authorization. State and municipal organizations are often prohibited from engaging in certain types of transactions.

The power of an entity to enter into securities transactions generally flows from its charter and by-laws or, in some cases, the law under which it was created. Where sovereign or public-sector entities are concerned, a local or national constitution; charter or statute in the case of a public corporation; or investment management agreement, trust agreement, and related investment guidelines may also be relevant. Be aware, however, that while reviewing these documents is a necessary first step, the review should not end the inquiry. As additional protection, consider obtaining the opinion of counsel to the entity or including representations from the entity as to authority under applicable law in the transaction documents.

2. Cash or Margin Accounts; Agency, Estate or Trust Accounts

NYSE requires that certain information related to power and authority be maintained by the firm in connection with certain cash or margin accounts carried by the firm and certain agency accounts. For further information regarding account documentation and related requirements, see the policies and procedures memorandum entitled Documentation. Note in particular that when estate or trust accounts are involved, the Legal Department should be consulted as to the documents that should be obtained.

3. Financial Institutions

All transactions with federally insured depository institutions (i.e., commercial banks, savings banks) must meet certain "written agreement" and related requirements to be enforceable. These requirements are less stringent in the case of "securities contracts," "forward contracts," "commodity contracts," "repurchase agreements," "swap agreements," and "fed funds" transactions. In addition, the Federal Financial Institutions Examinations Council and other regulatory agencies restrict the permissible transactions of depository institutions. Sales and trading personnel should contact the Compliance or Legal Departments if they have any doubts regarding whether a transaction with a financial institution meets the applicable "written agreement" requirements.

4. ERISA Plans

For further information regarding power and authority issues arising in connection with ERISA plans, consult the policies and procedure memorandum entitled Prohibited Transactions Under ERISA.

5. Investment Companies

Investment companies must be specifically authorized under their constitutive documents to enter into transactions with respect to the type of security involved. GS&Co. must also be a permissible counterparty under those documents.

6. Insurance Companies

Insurance companies are subject to state regulatory requirements that vary by jurisdiction. As a result, when entering into transactions with insurance companies, sales and trading personnel should exercise special care regarding applicable laws or regulations that may limit or regulate the ability of the company to engage in the transaction.

ATTACHMENT 22

Appendix A: Presentations Regarding the Firm's Compliance Program

Date	Prepared for	Document
Nov 2004	Board	Global Compliance Function
Apr 2005	Audit Committee	Global Compliance Update
Sep 2005	Audit Committee	Update on CEO Certification (NASD Rule 3013) and Compliance and Surveillance Architecture
Nov 2005	Audit Committee	NASD Rule 3013 Update
Mar 2006	Audit Committee	NASD Rule 3013 Update
Sep 2006	Audit Committee	Compliance Testing Group Initiative
Mar 2007	Audit Committee	NASD Rule 3013 Update
Apr 2008	Audit Committee	Global Compliance Update and CEO Compliance Certifications and Compliance Reports
Jan 2009	Board	Compliance with CRMPG III Recommendations and Other Key Industry and Regulatory Reports
May 2009	Audit Committee	Global Compliance Update, Certifications and Risk Management Program and Approval of Risk Management Program

Appendix B: Board and Board Committee Governance Activities

Date	Prepared for	Document
Jan 2004	Board	Reapproval of Certain Governance Documents (Code of Business Conduct and Ethics, Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns)
Jan 2004	Corp Gov Committee	Annual Review of Code of Business Conduct and Ethics
Jan 2004	Audit Committee	Review of Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns
Jan 2005	Board	Approval of Amendment to Code of Business Conduct and Ethics
Jan 2005	Board	Reapproval of Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns
Jan 2005	Corp Gov Committee	Annual Review of the Code of Business Conduct and Ethics and Recommendation to the Board of Proposed Amendments
Jan 2005	Audit Committee	Review of Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns
Jan 2006	Board	Reapproval of Certain Governance Documents (Code of Business Conduct and Ethics, Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns)
Jan 2006	Corp Gov Committee	Annual Review of Code of Business Conduct and Ethics
Jan 2006	Audit Committee	Review of Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns
Jan 2007	Board	Approval of Amendments to the Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns)
Jan 2007	Board	Reapproval of Certain Governance Documents (Code of Business Conduct and Ethics)
Jan 2007	Corp Gov Committee	Annual Review of Code of Business Conduct and Ethics
Jan 2007	Audit Committee	Recommendation to the Board of Proposed Amendments to the Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns
Jan 2008	Board	Reapproval of Certain Governance Documents (Code of Business Conduct and Ethics, Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns)
Jan 2008	Corp Gov Committee	Annual Review of Code of Business Conduct and Ethics
Jan 2008	Audit Committee	Annual Review of Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns

Jan 2009	Board	Reapproval of Certain Governance Documents (Code of Business Conduct and Ethics, Policy on Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns)
Jan 2009	Corp Gov Committee	Annual Review of Code of Business Conduct and Ethics
Jan 2009	Audit Committee	Annual Review of Reporting of Concerns Regarding Accounting and Other Matters and Policy Regarding Escalation to, and Retention by, the Audit Committee of Accounting Complaints and the Non-Management Directors of Other Concerns
May 2009	Board	Approval of Amendment to Code of Business Conduct and Ethics
May 2009	Corp Gov Committee	Recommendation to the Board of Proposed Amendment to Code of Business Conduct and Ethics

Appendix C: Firmwide Business Practices Committee

- BPC Charter
- BPC Summary of Meetings/Topics (2003-2010)
- Firmwide Business Practices Committee Presentation to Board (Sep 2009)

Appendix D: Samples of Training and Communications Efforts

- New Hire Training (Materials used in June 2004 and Spring 2010)
- Anti-Money Laundering and Communications Modules (sample screenshots)
- Suspicious Activity Training
  - Suspicious Activity Presentation Exemplar (GS Bank)
  - Suspicious Activity Presentation to firm's Management Committee (May 2009)

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CLAIRE McCASKILL
Permanent Subcommittee on Investigations

to

LLOYD C. BLANKFEIN
Chairman and Chief Executive Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CLAIRE McCASKILL
Permanent Subcommittee on Investigations
to
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PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
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April 27, 2010

1) **How many partners of Goldman Sachs had investments with Paulson & Co at the time the Abacus AC-1 transaction was completed?**

There were no Goldman Sachs partners who had investments with Paulson & Co. at the time the ABACUS 2007-AC1 transactions closed (April 26 2007). One retired partner invested $20,000 in the Paulson Enhanced Limited Fund, a leveraged fund that focuses on mergers and acquisitions, on May 23, 2007. No Goldman Sachs partners had investments with the Paulson Credit Opportunities Funds at the time of the ABACUS 2007-AC1 transaction.

2) **How large was the short position that Goldman Sachs sold to Paulson & Co as a part of the Abacus AC-1 transaction in relation to all short positions sold to other clients through synthetic and hybrid CDO issuances in 2006 and 2007? Please express this as a percentage.**

The purchase of protection by Paulson & Co. from Goldman Sachs in conjunction with ABACUS 2007-AC1 represented approximately 18% of all short positions sold to clients through synthetic and hybrid CDO issuances in 2006 and 2007.

3) **Of clients to whom Goldman sold short positions from synthetic CDOs, as in the Abacus AC-1 transaction, how many employed former directors or employees of Goldman Sachs?**

See 8.

4) **Did any Goldman employees see their total compensation decline as a result of the ultimate poor performance of the mortgage backed securities and collateralized debt obligations that the firm issued in 2006 and 2007?**

In general, Goldman Sachs' compensation structure is based on the firm's overall performance, the performance of the specific business in which the employee works and the personal performance of the employee. Further, the firm, and specifically the mortgage business, aggressively managed head count commensurate with performance of the business from 2006 through 2008. For employees within the mortgage business involved in the structuring, underwriting and trading of non-agency RMBS and CDOs, total headcount declined by approximately 50% during the period of 2006 through 2008. Additionally, for non-partner employees who remained with the firm during that period, compensation declined on average by approximately 47%.

5) **Please provide the context for the email in exhibit 77, in which a Goldman employee reviewed pool of mortgages originated by New Century. Were these loans subsequently packaged into securities? If so, how much of the pool discussed in exhibit 77 was "put back," to use the phrase from the analyst writing the document?**

The loans in Exhibit 77 were part of a securitization (GSAMP Home Equity Trust 2007-NC1) at the time the review described in Exhibit 77 was conducted. New Century, the loan seller, provided contractual protection for early payment defaults ("EPDs"). The securitization trust received the benefit of this EPD protection under the securitization documents. When an EPD occurred on a loan, New Century was obligated to repurchase the EPD loan and the securitization trust was entitled to the principal balance of and accrued interest on the EPD loan. After being notified of the EPD event, New Century asked Goldman Sachs to provide a bid to purchase the EPD loans from New Century once it repurchased the EPD loans. As is customary for loan purchases, in order to ascertain a price for the EPD loans, Goldman Sachs performed a review of the EPD loans as described in Exhibit 77.

All of the EPD loans discussed in Exhibit 77 (123 loans total) were repurchase obligations of New Century. The "put back" notation in Exhibit 77 identifies loans that Goldman Sachs was not willing to purchase from New Century as a result of review findings. However, New Century was still obligated to repurchase the EPD loans that were in the securitization trust. Goldman Sachs notes that due to New Century's financial difficulties and subsequent bankruptcy, New Century never fulfilled their EPD repurchase obligation, and Goldman Sachs never purchased any of the loans from New Century.

6) **Did Goldman Sachs perform a review similar to that found in Exhibit 77 of the pools of mortgages from which the Long Beach Mortgage Loan Trust 2006-A (LBMLT-A) residential mortgage backed securities were created? If so, please produce those reviews to the committee. How many loans showed evidence of potential fraud, noncompliance, foreclosure, or other risk factors? How many problem loans ended up in the pools for LBMLT-A that were then sold to investors? How were weaknesses in the pools disclosed to investors?**

Unlike the New Century loans discussed above, the LBMLT 2006-A securitization did not include a provision whereby the originator or seller (Long Beach) was required to repurchase EPD loans. Goldman Sachs, therefore, did not perform a review for LBMLT 2006-A similar to that found in Exhibit 77 for GSAMP Home Equity Trust 2007-NC1. The risks associated with

the LBMLT 2006-A securitization were disclosed as part of the offering document at time of issuance.

7) **How many customers contacted Goldman Sachs asking to take a short position with respect to housing related assets after your firm decided to make a concerted effort to "reduce risk" which reducing your net long position with respect to the housing market? To how many customers did you sell short positions? How many customers were turned away? Do you feel that your need to "reduce risk," prevented your firm, in its role as market maker, from serving customers who wanted to purchase short positions?**

Goldman Sachs does not maintain records indicating: (i) the number of customers in aggregate who approached the firm during this period, seeking to sell cash assets or purchase credit protection on mortgage-related products; or (ii) the number of customers seeking to purchase credit protection on mortgage-related products who were "turned away" by the firm. Goldman Sachs notes, however, that the firm sold credit protection of more than $100 billion notional to over 500 customers, and that the firm is not aware of customers seeking bids or offers (whether for cash assets or credit protection referencing such assets) who did not receive such bids or offers.

Further, the firm's decision to "reduce risk" did not prevent it from serving its customers as a market maker. Although the prices that Goldman Sachs quoted to buyers and sellers varied with market levels, the firm continued to transact in mortgage-related products in response to client demand. Indeed, acting in its capacity as a market maker in cash and derivative mortgage-related products, Goldman Sachs stood ready on a daily basis in late 2006 and continuing through 2007 to provide bids or offers to customers on cash instruments and credit protection referencing such mortgage-related instruments.

8) **Of the customers to whom you did sell short positions how many were companies that had hired former Goldman employees or with whom Goldman employees had investments?**

Goldman Sachs encloses (i) a spreadsheet (bearing production number GS MBS 0000038772) providing information on individuals employed by Goldman Sachs as a Managing Director ("MD") in a front office division who left Goldman Sachs between January 1, 2000 and December 31, 2007 for a position at one of the firms listed below (in Table A) to which Goldman Sachs sold short positions on synthetic CDOs; and (ii) a spreadsheet (bearing production number GS MBS 0000038773) providing information on private investments made by Goldman Sachs MDs from January 1, 2000 through December 31, 2007 in any of the firms listed below (in Table A) to which Goldman Sachs sold short positions on synthetic CDOs.[1]

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[1] Goldman Sachs notes that the information in these spreadsheets was derived from data provided voluntarily by former Goldman Sachs employees at the time of departure or from information voluntarily provided by Goldman Sachs alumni.

Goldman Sachs also notes that (i) one former Goldman Sachs MD (Asif Khan) who worked on synthetic CDOs while at Goldman Sachs was subsequently employed by a broker-dealer identified in this response as a firm that was

The firms to which Goldman Sachs sold short positions on synthetic CDOs that were reviewed to provide the information in the enclosed spreadsheets include:

Aladdin Capital Management	Nomura
Calyon	Rabo Bank
Countrywide Financial	Natixis
FBR Capital Markets	Paulson
Fortis	Piper Jaffray
FTN Financial	RBS Greenwich
GSC Partners	Wachovia
Investec	The Winter Group
MacDonald Investments	Washington Mutual
Magnetar	Winchester Capital
Morgan Keegan	

Certain broker-dealers were excluded when examining this information because a large number of former Goldman Sachs employees have subsequently been employed by these firms, and Goldman Sachs has assumed that information concerning the employment of former Goldman Sachs employees at these firms would not necessarily be relevant to the Subcommittee's inquiry. These excluded broker-dealers include: Bank of America, Barclays Capital, Bear Stearns, Citigroup, Credit Suisse First Boston, Deutsche Bank, HSBC, JPMorgan Chase, Lehman Brothers, Merrill Lynch, Morgan Stanley and UBS. Should the Subcommittee want this information, Goldman Sachs will attempt to compile and produce it to the Subcommittee staff.

Goldman Sachs wishes to stress that it does not maintain a central repository of the requested information and, accordingly, used various technologies and manual resources to generate this spreadsheet for production to the Subcommittee in response to this Question. While Goldman Sachs believes that the spreadsheet is reasonably accurate, Goldman Sachs cannot make an absolute representation that it is complete or that there were not some inadvertent errors in its preparation, especially given the expedited timeframe within which it was generated and produced to you. Goldman Sachs also wishes to stress that the information used to generate this spreadsheet for production to you was maintained and used for limited, internal firm purposes, and not pursuant to or for purposes of regulatory or other reporting requirements, or for use by third parties.

# # #

not searched to provide the information in the enclosed spreadsheet and (ii) two former Goldman Sachs MDs (Alfred Eckhert and Richard Hayden) who left Goldman Sachs prior to January 1, 2000 are currently partners at GSC Partners.

Name	GS_AD Division	GS_Last Division	GS_Last Region	GS_Last Office	GS_Last Title	New Organization
[redacted]	IBD	IBD	Americas	New York	Advisory Director	GSC Group
	IBD	IBD	Americas	New York	Participating MD	FBR Capital Markets
	IBD	IBD	Americas	New York	Participating MD	FBR Capital Markets
	Finance/IBD	Finance	Americas	New York	Participating MD	FBR Capital Markets
	IBD/IMD	IBD	EMEA	London	Participating MD	GSC Group
	IBD	IBD	EMEA	London	Participating MD	Nomura
	IBD	IBD	Americas	New York	Extended MD	GSC Group
	IBD	IBD	Americas	Los Angeles	Advisory Director (retired); Consultant (current)	GSC Group
	IBD	IBD	AP	Hong Kong	Extended MD	Nomura
	IBD/Finance/IBD/Technology/Finance/Operations, Tec	IBD	EMEA	London	Extended MD	RBS
	EQSEquities	ED	Americas	New York	Senior Director	Wachovia Corporation

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Emp Name	Emp Title	Currently Employed at GS (Yes or No)	Entity	Entity Description	InvAmount	Inv Date
[redacted]	AYCO Profession	Yes	Greenwich Captial Partners II	Private Equity Fund	$200,000	Jan-2000
	Extended Managing Director	Yes	Greenwich Street Investments II	Company	$50,000	Sep-2000
	Extended Managing Director	Yes	GCM 2007 OPPORTUNITY FUND, L.P.	Fund(Other)	$2,000,000	Oct-2007

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Emp Name	Emp Title	Currently Employed at GS (Yes or No)	Entity	Entity Description	InvAmount	Inv Date
[redacted]	Extended Managing Director	No	GSC Recovery IIA, LP	Hedge Fund	$1,000,000	Jun-2002
	Extended Managing Director	No	GSC Recovery IIA, LP	Hedge Fund	$1,000,000	Jun-2002
	Advisory Director	No	GSC European Mezzanine Fund, LP	Private Equity Fund	$250,000	Jun-2000
	Senior Director	No	GSC Recovery IIA, LP	Hedge Fund	$2,500,000	May-2002
	Senior Director	No	GSC Recovery IIA, LP	Hedge Fund	$3,000,000	Jun-2002
	Extended Managing Director	No	GSC Credit Strategies Fund, L.P.	Hedge Fund	$1,000,000	Jul-2006
	Participating Managing Director	Yes	GSC Credit Strategies Fund, L.P.	Hedge Fund	$1,000,000	Jun-2006
	Extended Managing Director	No	GSC Credit Strategies Fund, L.P.	Hedge Fund	$5,000,000	Jul-2006
	Extended Managing Director	No	GSC Recovery IIA, LP	Hedge Fund	$3,000,000	Apr-2002
	ARCHON Professional	Yes	GSC Recovery III, Inc.	Private Equity Fund	$109,375	Jan-2005

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Emp Name	Emp Title	Currently Employed at GS (Yes or No)	Entity	Entity Description	InvAmount	Inv Date
[redacted]	Participating Managing Director	Yes	Piper Private Equity	Private Equity Fund	1,500,000 GBP	Aug-2005

[redacted] = Redacted by the Permanent Subcommittee on Investigations

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

DAVID A. VINIAR
Executive Vice President and
Chief Financial Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
DAVID A. VINIAR
Executive Vice President and
Chief Financial Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. Exhibit 26 from the Subcommittee's hearing on April 27, 2010, includes an email between you and Gary Cohn. Mr. Cohn informed you that Goldman Sach's ("Goldman") SPG Trading desk made $373 million while the CDO-CLO desk lost $230 million and the Residential Credit desk lost $92 million. You responded by writing: "Tells you what might be happening to people who don't have the big short."

   Describe in detail what you meant by your response and describe the "big short" to which you are referring, including the notional value of the position, when it was acquired, and when it was sold or covered.

2. For the period between December 14, 2006, and December 31, 2007, identify the 5 dates on which Goldman had the largest net short positions with respect to RMBS securities (including the ABX), and the notional size of those net short positions.

✧ ✧ ✧

Responses of Mr. David Viniar to the
Supplemental Questions for the Record of the Permanent Subcommittee on Investigations

1. **Exhibit 26 from the Subcommittee's hearing on April 27, 2010, includes an email between you and Gary Cohn. Mr. Cohn informed you that Goldman Sachs's ("Goldman") SPG Trading desk made $373 million while the CDO-CLO desk lost $230 million and the Residential Credit desk lost $92 million. You responded by writing: "Tells you what might be happening to people who don't have the big short."**

   Describe in detail what you meant by your response and describe the "big short" to which you are referring, including the notional value of the position, when it was acquired, and when it was sold or covered.

   As I testified on April 27, 2010:

   > [W]hat I meant . . . because I didn't give the full thought, which is: tells you what might happen to people who don't have the big short, when they do have a big long. This came, I believe, shortly after people had announced their second quarter results. Quite a number of people had disclosed how big their long inventory positions were and without basically balancing those positions, there would be significant losses which is what proved to happen across the industry.

   Although I was aware that Goldman, Sachs & Co. ("Goldman Sachs") had obtained a significant short position in order to counterbalance its significant long mortgage-related inventory positions, which reduced the Firm's overall exposure to the mortgage market, I was not personally involved in the transactions. I also have no memory of any particular transactions or the overall notional value of this position at any point in time. I should add that totaling up long and short notional amounts for different assets and then netting the total long and short notional amounts will not reflect whether Goldman Sachs was net long or net short the mortgage market, because different assets vary considerably in their sensitivity to changes in market prices. Often, the only indicator of whether positions were net long or net short were the profits earned or losses sustained on those positions.

   It is my understanding that Goldman Sachs is discussing with the Subcommittee staff how the Firm can provide the additional information called for by this Question on a schedule agreed with the Subcommittee staff.

2. **For the period between December 14, 2006, and December 31, 2007, identify the 5 dates on which Goldman had the largest net short positions with respect to RMBS securities (including the ABX), and the notional size of those net short positions.**

   I do not know the information requested in this Question. I would not, in the ordinary course of business, have requested aggregate net short data on a notional basis. To the extent that this data can be compiled from Firm records, it is my understanding that Goldman Sachs will work with the Subcommittee staff to provide a response on behalf of the Firm.

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

CRAIG W. BRODERICK
Chief Risk Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
CRAIG W. BRODERICK
Chief Risk Officer
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
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THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. Exhibit 48 from the Subcommittee's hearing on April 27, 2010, is a copy of a presentation that you made to the Goldman Sachs ("Goldman") Tax Department on October 29, 2007. Your presentation addressed "events in the credit markets over the past few months, as well as [Goldman's] own credit and trading performance."

   In the fourth full paragraph on page 2, you wrote:

   "So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk -- you saw in our 2nd and 3rd quarter results that we made money despite our inherently long cash positions – because starting early in '07 our mortgage trading desk started putting on big short positions, mostly using the ABX Index, which is a family of indices designed to replicate cash bonds. And did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today.)"

   (a) What was the notional value of the net short positions put on by the mortgage trading desk that you refer to in your presentation? For the period between December 14, 2006, and December 31, 2007, identify the 5 dates on which mortgage trading desk had the largest notional net short positions, and the notional value of those net short positions.

   (b) In your presentation, you wrote that the mortgage trading desk "started putting on big short positions. . .[a]nd did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened." How much money was made in 2007 as a result of the short positions put on by the mortgage trading desk? Also, quantify "substantial" – how much money was made in the third quarter of 2007? When stating those amounts, do not offset any money made by these

net short positions with any losses or gains from or with respect to other transactions or assets.

(c) In addressing the short positions of the mortgage trading desk in the presentation referred to above, you write: "we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today.)" As of the date you gave that presentation, what was the notional net short position of the mortgage trading desk?

✧ ✧ ✧

Responses of Mr. Craig Broderick to the
Supplemental Questions for the Record of the Permanent Subcommittee on Investigations

1. **Exhibit 48 from the Subcommittee's hearing on April 27, 2010, is a copy of a presentation that you made to the Goldman Sachs ("Goldman") Tax Department on October 29, 2007. Your presentation addressed "events in the credit markets over the past few months, as well as [Goldman's] own credit and trading performance."**

   In the fourth full paragraph on page 2, you wrote:

   "So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk – you saw in our 2nd and 3rd quarter results that we made money despite our inherently long cash positions – because starting early in '07 our mortgage trading desk started putting on big short positions, mostly using the ABX Index, which is a family of indices designed to replicate cash bonds. And did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today.)"

   (a) **What was the notional value of the net short positions put on by the mortgage trading desk that you refer to in your presentation? For the period between December 14, 2006, and December 31, 2007, identify the 5 dates on which mortgage trading desk had the largest notional net short positions, and the notional value of those net short positions.**

I was aware that the Goldman, Sachs & Co. ("Goldman Sachs") had acquired a substantial short position in order to counterbalance its long mortgage-related inventory positions and reduce its overall exposure to the mortgage market. I was not personally involved in the transactions through which that short position was acquired or covered, and have no recollection of any specific transactions or the overall notional value of this position at any time during this period. I was also aware that, while our VaR risk metrics showed us to be generally short, our credit spread widening measures generally indicated the contrary.

The presentation offered a year-to-date recap of Goldman Sachs' performance through the third quarter of 2007 and was, therefore, concerned primarily with quarterly trends or results. My statement in the presentation that we were net short was based largely on hindsight given the fact that the Firm had earned modest profits during a period of time during which the mortgage market declined.

Regarding notional exposures, during this period, the ABX index and other mortgage positions held by Goldman Sachs were constantly changing, sometimes on a daily basis. Further, and importantly, any calculation of net short positions based on the notional value of positions would be meaningless because prices of different instruments adjust differently depending on their underlying credit and other characteristics. For example, a downward movement in market prices resulting from overall credit deterioration would likely affect a position referencing BBB rated securities far more than a position referencing AAA rated

securities. It is therefore not possible to ascribe a single notional value to the net short positions referred to in the presentation. Instead, the overall magnitude of the net short positions would have been assessed contemporaneously using available risk metrics (including the VaR and CSW measures referenced above) together with a retrospective analysis of profits and losses and market movements.

It is my understanding that Goldman Sachs is discussing with the Subcommittee Staff how the Firm can provide the Subcommittee with additional information on a schedule agreed with the Subcommittee staff.

(b) **In your presentation, you wrote that the mortgage trading desk "started putting on big short positions. . .[a]nd did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened." How much money was made in 2007 as a result of the short positions put on by the mortgage trading desk? Also, quantify "substantial" – how much money was made in the third quarter of 2007? When stating those amounts, do not offset any money made by these net short positions with any losses or gains from or with respect to other transactions or assets.**

I do not know the detailed information requested in this Question. Answering this question will require Goldman Sachs to calculate information that, to my understanding, is not readily maintained in the form the Question seeks. It is my understanding, however, that Goldman Sachs has had discussions with the Subcommittee Staff and is working to provide a response on behalf of the Firm.

(c) **In addressing the short positions of the mortgage trading desk in the presentation referred to above, you write: "we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today.)" As of the date you gave that presentation, what was the notional net short position of the mortgage trading desk?**

I do not know the answer to this Question and do not possess in my files the detailed information necessary to respond. It is my understanding that Goldman Sachs is discussing this Question with the Subcommittee staff and, to the extent that this information can be calculated from Firm records, will provide a response on behalf of Goldman Sachs on a schedule agreed to with the Subcommittee staff.

Confidential Treatment Requested by Goldman Sachs

1. **Exhibit 48 from the Subcommittee's hearing on April 27, 2010, is a copy of a presentation that you made to the Goldman Sachs ("Goldman") Tax Department on October 29, 2007. Your presentation addressed "events in the credit markets over the past few months, as well as [Goldman's] own credit and trading performance."**

   In the fourth full paragraph on page 2, you wrote:

   "So what happened to us? A quick word on our own market and credit risk performance in this regard. In market risk – you saw in our 2nd and 3rd quarter results that we made money despite our inherently long cash positions – because starting early in '07 our mortgage trading desk started putting on big short positions, mostly using the ABX Index, which is a family of indices designed to replicate cash bonds. And did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened. (This remains our position today.)"

   . . .

   (b) **In your presentation, you wrote that the mortgage trading desk "started putting on big short positions. . .[a]nd did so in enough quantity that we were net short, and made money (substantial $$ in the 3rd quarter) as the subprime market weakened." How much money was made in 2007 as a result of the short positions put on by the mortgage trading desk? Also, quantify "substantial" – how much money was made in the third quarter of 2007? When stating those amounts, do not offset any money made by these net short positions with any losses or gains from or with respect to other transactions or assets.**

The Mortgage Department trades in both cash and synthetic products and manages its exposure in an integrated way. As a result, reviewing net revenues on a gross basis is not consistent with how the Mortgage Department is managed. The Mortgage Department earned net revenues of approximately $900 million in 2007, of which less than $500 million related to the non-agency residential mortgage business. Specifically, in the Third Quarter of 2007, the Mortgage Department earned net revenues of approximately $600 million, of which approximately $550 million related to the non-agency residential mortgage business. The $550 million amount is comprised of losses of approximately $2.4 billion on loan and security positions and gains of approximately $3.0 billion on derivative positions.

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

DANIEL L. SPARKS
Former Partner
Head of Mortgages Department
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
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April 27, 2010

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
DANIEL L. SPARKS
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PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
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WALL STREET AND THE FINANCIAL CRISIS: THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. Provide the following information regarding the sale of securities in each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"):

   Abacus 2007-AC1;
   Anderson Mezzanine Funding 2007-1;
   Camber 7;
   Fort Denison Funding;
   Hudson Mezzanine Funding 2006-1;
   Hudson Mezzanine Funding 2006-2;
   Point Pleasant Funding 2007-1; and
   Timberwolf I.

   (a) Was Goldman Sachs ("Goldman") a placement agent?

   (b) Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?

   (c) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented any of the Transactions, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.) If you are unable to provide complete responses to any of any of the foregoing matters, identify the persons within Goldman who would be able to provide the answers or information requested.

(d) Identify the persons within Goldman who would be able to provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests (including securities) in the Transaction.

(e) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold short positions with respect to assets referenced in the Transaction being considered by any potential investor?

(f) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether Goldman held or planned to hold a net short position with respect to RMBS related assets?

(g) In the Transactions in which Goldman acted as a placement agent, did Goldman advise potential investors whether it had taken steps or planned to use the offering to reduce its own inventory of RMBS or CDO securities or other holdings?

(h) Did Goldman conduct a suitability analysis in connection with soliciting clients or potential investors to purchase securities issued in any of the Transactions? If so, describe the suitability analysis conducted for each investor that purchased these securities. Identify the persons within Goldman who would know if Goldman retained a written record that reflects that such a analysis was conducted for any of these Transactions and would be able to provide a copy.

2. (a) In what capacity did Goldman act for Paulson & Co. (together with any of its affiliates, "Paulson") with respect to the Abacus 2007-AC1 transaction or a Credit Default Swap transaction that referenced the same entities or securities that were referenced in the Abacus 2007-AC1 transaction? Describe in detail Goldman's relationship to Paulson with respect to those transactions, its obligations to Paulson, the nature and amount of any fees or compensation received by Goldman from Paulson relating to those transactions, and whether Goldman advised investors or potential investors in Abacus 2007-AC1 of the existence and nature of its relationship with Paulson.

(b) If Goldman advised investors or potential investors of the nature or existence of the Paulson relationship, identity who so advised investors or potential investors, the date on which that person so advised investors or potential investors, the identity of the investors or potential investors so advised, the manner (i.e. verbal or in writing) in which the person was advised, and the substance of the communication (and, if in writing, provide a copy of the communication). If you are unable to provide complete responses to any of any of the foregoing matters, identify the persons within Goldman who would be able to provide the answers or information requested.

3. The attached document is a November 16, 2007, email from John McHugh to you. The topic is "2008 FICC business plan presentation to Firm."

(a) Mr. McHugh starts his message by writing:

> "Lahey's team is preparing Montag for this presentation on Monday and Tom asked for more color in several areas. ... here's what I've collected today, let me know if you want me to change anything ... thanks."

At the end of the email, under the sub-heading "Prop vs Flow," Mr. McHugh writes the following:

> "Prop/flow components of SPG Trading will be roughly equal
> Majority of CRE Loan Trading, Structured finance JV will be flow revenue
> Residential mortgage business will be more prop oriented due to dislocations in the securitization market:
>
> - Focus will be on establishing SSG JV (i.e., Litton purchase)
> - Distressed asset (loan pools, portfolios) purchases".

With respect to this email and its contents:

(i) Did you understand "prop" to mean proprietary? If not, what did you understand it to mean?

(ii) Did you understand "flow" to mean flow business -- transactions that Goldman facilitates on behalf of clients? If not, what did you understand it to mean?

(iii) Did you understand "Prop v. Flow" to mean the activities of SPG Trading that would be associated with Goldman's proprietary activities versus SPG Trading activities that would be associated with client-related activities? If not, what did you understand "Prop v. Flow" to mean?

(iv) What did you understand the "Prop" components of SPG Trading to be?

(v) What did you understand the "flow" components of SPG Trading to be?

(vi) Did you understand the phrase "Prop/flow components of SPG Trading will be roughly equal" to mean that the amount of proprietary activities of SPG Trading were anticipated to be equal to the amount of flow activities? If not, what did you understand the phrase to mean?

(vii) Did you understand the phrase, "Residential mortgage business will be more prop oriented," to mean that the residential mortgage business of SPG Trading would be more oriented to proprietary activities than flow activities? If not, what did you understand the phrase to mean?

(viii) Did SPG Trading plan or anticipate engaging in proprietary activities in 2008?

(ix) Did SPG Trading engage in proprietary activities in 2007? If so, what percentage of its activities by dollar amount were related to proprietary activities? What profits were derived from its proprietary activities in 2007?

(b) Earlier in the e-mail referenced in question 3(a) above, under the sub-heading "Assumptions/initiatives in ABS p&l," Mr. McHugh writes the following:

- "Capturing greater cash and synthetic market flows from weakened competitors
- Facilitating SIV/CDO liquidations and portfolio changes
- Good prop opportunity capitalizing on selling pressure, selective distressed asset purchases
- Expect prop flow split to be roughly 50/50".

(i) Did any activities of the ABS desk in any way involve or utilize any SIV that was in any way related to or affiliated with Goldman? If so, describe the activities, any SIV involved, the name and jurisdiction of incorporation of any SIV, the assets held by the SIV and the value of any assets held by the SIV during the period 2006-2008?

(ii) Did the activities of the ABS desk in any way facilitate SIV/CDO liquidations and portfolio changes in instances in which the SIV, CDO or portfolio contained assets provided or sold by Goldman? If so, for each SIV, CDO or portfolio liquidated or changed, describe the activities involved, the name and jurisdiction of incorporation of any SIV or CDO, the name of the sponsor, underwriter or majority owner of the SIV, CDO or portfolio, the assets held, and the value of any assets held, the assets provided or sold by Goldman, and the percentage of total assets provided by Goldman during the period 2006-2008?

(iii) Did you understand the phrase, "Good prop opportunity capitalizing on selling pressure, selective distressed asset purchases," to mean that selling assets and purchasing select distressed assets presented good opportunities for Goldman's proprietary activities? If not, what did you understand that phrase to mean?

(iv) Did you understand the phrase, "Expect prop flow split to be roughly 50/50," to mean that the ABS desk's profits and losses were expected to be divided

approximately evenly between proprietary and flow activities? If not, what did you understand that phrase to mean?

(v) Did the ABS desk plan or anticipate engaging in proprietary activities in 2008?

(vi) Did the ABS desk engage in proprietary activities in 2007? If so, what percentage of its activities by dollar amount were related to proprietary activities? What profits were derived from its proprietary activities in 2007? If you are unable to provide complete responses to any of any of the foregoing matters, identify the persons within Goldman who would be able to provide the information requested.

4. For each quarter you were head of the Mortgages Department between January 1, 2006, and December 31, 2008, estimate the percentage of transactions involving proprietary trading versus customer flow. If you are unable to provide a complete response to this question, identify the persons within Goldman who would be able to provide the answers or information requested.

5. Throughout FY2007, it appears that Goldman's London office performed an analysis to estimate the percentage of transactions in its fixed income business involving proprietary trading versus customer flow. Did the Mortgages Department in New York perform a similar analysis of the percentage or dollar amount of transactions involving proprietary trading versus customer flow? If so, provide the following information.

(a) What was the analysis and resulting document called?

(b) How often was the document prepared, and to whom was it circulated?

(c) Did the document or its information become part of any larger document? If so what was that larger document called, and to whom and how frequently was it circulated?

6. Exhibit 47 from the Subcommittee's hearing on April 27, 2010 is a draft of your powerpoint presentation entitled, "Global Mortgages Townhall." It states that "the desk benefitted from a proprietary position in CDO and RMBS single names."

(a) What did the term "proprietary position" mean?

(b) Describe precisely the proprietary position referred to in the powerpoint, including the exact assets and total notional amounts involved.

(c) Identify by name and job title who authorized the acquisition of that proprietary position on behalf of Goldman.

(d) Describe the transactions involved in acquiring that proprietary position, including the source of the funding, the specific securities purchased or sold, the net profit or loss

obtained from the transactions (including the nature and amount of any offsets applied in reaching the net number), and the specific accounts used to record relevant information.

(e) Explain how the desk "benefitted" from the proprietary position, including what transactions took place, the net profit obtained from those transactions (including the nature and amount of any offsets applied in reaching the net number), and the specific accounts used to record relevant information.

7. Did you prepare or authorize the preparation of a powerpoint presentation or other summary document similar to Exhibit 47 for a Mortgages Department Townhall regarding either:

(a) the fourth quarter of FY 2007; or

(b) the entire FY 2007?

8. Was a Mortgages Department Townhall Meeting held for either the fourth quarter of FY 2007, the entire FY 2007, or both? If so, what was the date and who were the speakers?

9. During your appearance before the Subcommittee on April 27, 2010, you engaged in the following exchange with Senator Levin:

> **Senator Levin.** By the way, that Anderson deal was downgraded from AAA to junk in 7 months. Did you make money on that deal, on the short position?
>
> **Mr. Sparks.** Well, I know in the longs that we took, we lost money.
>
> **Senator Levin.** I understand. I am asking about the short position you took.
>
> **Mr. Sparks.** But on the shorts, Mr. Chairman, I do not know how much of it we had, if any.
>
> **Senator Levin.** Okay.
>
> **Mr. Sparks.** And so I cannot – I just do not have that number.
>
> **Senator Levin.** Do you want to check your records and tell us how much money you made on that?
>
> **Mr. Sparks.** I will. I will have to get back to you and work with the people at Goldman. (Transcript, pp. 56-57)

How much money did Goldman make from the short positions it held in the Anderson transaction? When stating that amount, do not offset any money made from its short positions with any losses or gains from or with respect to other transactions or assets.

10. During your appearance before the Subcommittee on April 27, 2010, you engaged in the following exchange with Senator Levin:

> **Senator Levin.** Mr. Sparks, turn to 173. This is an email message, November 2006, between two Goldman employees in sales. It discusses selling Fremont securities. One salesperson sends to the other a client's explanation of why they do not want to buy the securities -- even after talking to Fremont, by the way. The client wrote: "...Fremont refused to make any forward-looking statements so we really got nothing from them on the crap pools" -- "the crap pools that are out there now." The salesperson wrote: "They are concerned about all the Fremont exposure they already have, and they are going to put Fremont `in the box' for the time being." Were you aware of the poor reputation that Fremont had, and that is, loans among the highest default rates in the country? Were you aware of it at the time?
>
> **Mr. Sparks.** Mr. Chairman, can I just read the e-mail?
>
> **Senator Levin.** Exhibit 173. Do you see it? "Fremont refused to make any forward-looking statements so we really got nothing from them on the crap pools that are out there now." Do you see that?
>
> **Mr. Sparks.** I do not want to slow you down. I have not read the whole thing, so I--
>
> **Senator Levin.** I am just asking you, look at the bottom paragraph there, the last two lines. "Fremont refused to make any forward-looking statements so we really got nothing from them on the crap pools that are out there now." Do you see that?
>
> **Mr. Sparks.** Yes, sir.
>
> **Senator Levin.** Okay. Now, were you aware of Fremont's poor reputation at the time?
>
> **Mr. Sparks.** This e-mail--
>
> **Senator Levin.** Were you aware? Do you remember whether you were aware at the time of their poor reputation? That is my question. Do you remember?
>
> **Mr. Sparks.** Whether they had a poor reputation in November?
>
> **Senator Levin.** Yes, with high default rates.
>
> **Mr. Sparks.** Fremont originated subprime loans. People understood that.

Senator Levin. Yes or no, were you aware of their poor reputation and high default rate.

Mr. Sparks. I do not recall at that time. (Transcript, pp. 58-59)

(a) Were you aware during your employment as head of the Goldman Mortgage Desk that Fremont had a reputation for issuing poor quality mortgage loans? If so, when did you become aware of that fact?

(b) With regard to Fremont, New Century, and Long Beach Mortgage, identify any assessments or reports regarding the condition of those lenders, or the quality of the mortgage loans they originated, that you or personnel who reported to you received, made, or sent to others within Goldman, provide the approximate date of those assessments or reports, and describe the nature of those assessments or reports. If you are unable to provide complete responses to the requests for information about such assessments or reports, identify the persons within Goldman who would be able to provide the information requested.

11. During your appearance before the Subcommittee on April 27, 2010, you engaged in the following exchange with Senator McCaskill regarding Hearing Exhibit 103, an email exchange between Mr. Mullen, Mr. Montag, Mr. Harvey Schwartz and you regarding the sales effort for Timberwolf. Senator McCaskill quoted the following portion of the email:

> "I doubt they will sell over weekend. And Harvey is concerned about the representations we may be making to clients as well as how we will price assets once we sell them to clients. I think we need to sort these things out before we make sales."

Senator McCaskill then stated:

> "What is clear here is that there did not seem to be a great deal of confidence in the long side of this particular instrument. But the salespeople were being pushed to move it, and, you know, it just looks like that you guys are not only making the market, you are playing in the market and mucking it up. Do you understand that?"

You responded:

> "Senator, I just read this particular e-mail, and the issue that was being discussed in this particular e-mail was when you make a sale on an illiquid asset, what is your bid price, you show that client, because oftentimes you marked it and sometimes you had financed it. So there is a bid-offer spread with respect to securities and market makers, and my recollection of this particular point was what are we going to show them as our bid after that, and

let us make sure we thought that through. And so on this particular e-mail, that is what I recall." (Transcript pp. 122-124)

(a) Was it your belief or understanding that the "Harvey" referred to in the email was Harvey Schwartz? If not, to whom did you understand "Harvey" referred?

(b) Your response to Senator McCaskill addresses concerns about pricing the assets in Timberwolf. Describe your understanding of the concerns that "Harvey" referenced in the email had about the representations Goldman may be making to clients.

12. Exhibit 86 from the Subcommittee's hearing on April 27, 2010, is an email dated September 19, 2006, from Peter Ostrem to the FICC-SPCDOGROUP. The email states:

"We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1.5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . ."

(a) Was the transaction described in this email carried out? Was the transaction Hudson Mezzanine Funding 2006-1 ("Hudson Mezzanine")? If not, what was the name of the transaction?

(b) Identify by name and job title the individuals in the Mortgages Department who were involved in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine, and the activities related to the transaction that each of them engaged in.

(c) Describe in detail any role you had in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

(d) Describe in detail any role the ABS desk had in the origination, formulation, design, approval, or implementation of Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

(e) Was the Hudson Mezzanine transaction a proprietary transaction?

(f) What did you understand the phrase "for the desk" to mean?

(g) Was the purpose of the transaction described in Mr. Ostrem's email to enable the ABS desk to reduce cash or swap positions (and the risk associated with those positions) that the ABS desk held? If not, what was the purpose of the transaction?

(h) Identify any committee or individual at Goldman that approved this transaction.

(i) Identify any employee of Goldman or its affiliates and any third parties who were involved in the identification and selection of the assets referenced in the Hudson Mezzanine transaction and describe in detail the nature of their involvement.

(j) List the criteria used to identify and select the assets that were referenced in the Hudson Mezzanine transaction.

(k) Based on your knowledge or belief, identify the reasons why Hudson Mezzanine was "a trade [Goldman] need[ed] to execute for the desk over the next 4-6 weeks."

(l) Based on your knowledge or belief, identify the reasons why the Hudson Mezzanine transaction "involve[d] selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale)."

(m) Was the Camber 7 transaction delayed to develop the Hudson Mezzanine transaction? If so, explain why.

13. Exhibit 30 from the Subcommittee's hearing on April 27, 2010, contains an email from you dated August 14, 2007. It is entitled "Post." Included in the email is the following paragraph:

> "(2) AAA ABX and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly."

(a) Was the transaction or series of transactions (hereinafter "transaction") that you identified in your email ("we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part"), or a transaction similar to the one you identified in your email, implemented by Goldman? If so, provide the following information.

(b) Describe the purpose of the transaction.

(c) Describe in detail your role in this transaction.

(d) Identify the assets involved.

(e) Identify any entity involved in the transaction and its role.

(f) Describe and state the notional value of each of the assets involved or referenced in the transaction.

(g) Identify when the transaction took place.

(h) Identify the Goldman personnel who participated in this transaction and the roles they performed.

(i) Identify the Goldman personnel who reviewed or approved this transaction.

(j) State the value when sold or, if retained, the current value of the assets involved in this transaction.

14. Exhibit 55b from the Subcommittee's hearing on April 27, 2010, is an excerpt from Mr. Swenson's 2007 EMD Review. On page 2, in the last sentence of point 3 under the Self-Review section, Mr. Swenson wrote:

> "I oversaw and directed the covering of $9bb of AAA ABX that the department was short and was able to monetize approx $250mm of p and l for the origination businesses."

(a) Is the transaction addressed in Question 13 above related to the transaction addressed in Mr. Swenson's 2007 EMD Review?

(b) If so, explain how they are related and whether they were separately implemented.

(c) If the transactions were not related, explain how they were different, and how the transaction identified by Mr. Swenson was implemented.

15. Exhibit 34 from the Subcommittee's hearing on April 27, 2010, is a series of emails dated August 21, 2007, and entitled "RE: Potential large subprime trade and impact on Firmwide VAR." The first email in the chain, at the bottom of the page, is from Mr. Birnbaum. It reads:

> "- The Mortgages Department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.
> - We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.

- Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.
- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
- On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.
- On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted] and 100% of the AAAs from [redacted] to [redacted] and [redacted]."

(a) Is the transaction addressed in Question 13 above related to the transaction addressed in the email written by Mr. Birnbaum?

(b) If so, explain how they are related and whether they were separately implemented.

(c) If the transactions were not related, explain how they were different, and how the transaction identified by Mr. Birnbaum was implemented.

16. A Goldman graph entitled "RMBS Subprime Notional History" is Exhibit 56(a) in the Subcommittee's hearing on April 27, 2010. It shows that Goldman had a net short position of approximately $8 billion on a notional basis in November 2006 (hereafter the "short position") on the ABX AAA index (hereafter "ABX AAA").

(a) When did Goldman's short position in ABX AAA first reach approximately $8 billion on a notional basis?

(b) Who within Goldman had knowledge of the full extent of the notional short position in ABX AAA during FY 2006 and FY 2007?

(c) Who was responsible for reviewing and approving the size of the short position in ABX AAA?

(d) Whose capital was used to acquire the approximately $8 billion notional short position in ABX AAA?

(e) Did you understand the short position to be a Goldman proprietary position?

(f) Did the approximately $8 billion notional short position in ABX AAA include the short positions in ABX AAA held by the desks under the control of Messrs. Gasvoda, Nichols, and Finck?

(g) When did Goldman begin to monetize the $8 billion notional short position in ABX AAA? How was this accomplished?

17. (a) In 2007, did the Mortgages Department cover the ABX AAA short position and then, after August 1, go long on the ABX AAA?

(b) If so, identify the specific trades that resulted in the long ABX AAA position, including the dates of the trades, the amounts involved, and the identity of each counterparty.

(c) Did the Mortgages Department hedge its long ABX AAA position? If so, how and when?

18. Identify the greatest total notional amount by which the Mortgages Department went long on the ABX AAA after August 1, 2007, and the date on which that position was reached.

19. Did the Mortgages Department monetize or unwind its ABX AAA long position during the period August 1, 2007 through the end of FY 2007? If so, provide that date of each transaction used to monetize or unwind the long position, and the notional amount by which the long position was reduced.

20. Provide the total net profit or loss to the Mortgages Department from the ABX AAA transactions during the fourth quarter of FY 2007.

21. Describe in detail your understanding (when you worked at Goldman) of Goldman's legal duties of disclosure, pursuant to securities laws and regulations, including rules prescribed by the SEC or FINRA, to purchasers of securities when Goldman acts in any of the following capacities: (a) market maker; (b) underwriter; (b) placement agent; (d) broker (when making a solicitation or recommendation of a security); or (e) a dealer. Include your definition of a "market maker."

22. (a) Does the fact that an investor or a potential investor with whom Goldman is transacting business is an "accredited" investor, a "qualified institutional buyer" or a "qualified purchaser" (as those terms are used in the U.S. federal securities laws) affect the duties and obligations of Goldman when acting in any of the capacities described in Question 21? If so, describe how any of Goldman's duties when acting in any of these capacities are affected by the status of the investor or potential investor.

(b) Does Goldman have a duty to conduct a suitability analysis when making a recommendation to any of the types of investors listed in question 22(a)? If so, describe the nature and extent of the analysis to be conducted.

(c) Does Goldman owe a duty to disclose any adverse interest that it may have when recommending a security to any of the types of investors listed in question 22(a)?



LAW OFFICES
STILLMAN, FRIEDMAN & SHECHTMAN, P.C.

425 PARK AVENUE
NEW YORK, NY 10022
www.stillmanfriedman.com

CHARLES A. STILLMAN
JULIAN W. FRIEDMAN
PAUL SHECHTMAN
SCOTT M. HIMES
MARJORIE J. PEERCE
JOHN B. HARRIS
JAMES A. MITCHELL
MICHAEL J. GRUDBERG
NATHANIEL Z. MARMUR

CAROLYN BARTH RENZIN
MARY MARGULIS-OHNUMA
NATHANIEL I. KOLODNY
ELIZABETH S. WEINSTEIN
DANIEL V. SHAPIRO
ERIK M. ZISSU
ALISON L. FISCHER
SARAH K. JACKEL

TELEPHONE
(212) 223-0200
FACSIMILE
(212) 223-1942

VIA E-MAIL

June 18, 2010

Senator Carl Levin, Chairman
Permanent Subcommittee on Investigations
Homeland Security & Governmental Affairs Committee
United States Senate
199 Russell Senate Office Building
Washington, DC 20510-6200

Senator Tom Coburn, M.D., Ranking Member
Permanent Subcommittee on Investigations
Homeland Security & Governmental Affairs Committee
United States Senate
199 Russell Senate Office Building
Washington, DC 20510-6200

Dear Chairman Levin & Ranking Member Coburn:

Enclosed please find the answers of Daniel L. Sparks to the Supplemental Questions for the Record submitted to him following the April 27, 2010 hearing. Mr. Sparks is no longer employed by Goldman Sachs and therefore does not have access to the documents and other sources of information that are needed to answer some of the supplemental questions (or to refresh his recollection). He has tried to give the best answers possible with the information that is available to him. Mr. Sparks continues to believe that a clear understanding of the causes of the financial crisis is extremely important for our country.

Sincerely,

Paul Shechtman

PS:wr
Enclosure

Responses to Supplemental Questions for the Record

1. Specific information regarding these transactions can be found in the disclosures provided in the final offering memoranda (also called the Offering Circular, Private Placement Memorandum or Prospectus and Prospectus Supplement, depending on the deal). Transactions were often fluid, so early versions of flip books, term sheets and offering memoranda may not reflect the final transaction. Goldman acted as a placement agent in connection with the marketing and sales of the securities issued in these transactions. Generally, the issuer of the securities was a special purpose vehicle created for the purposes of each transaction. Goldman brought transactions to the attention of potential investors through a variety of means, including emails (to individuals and via distribution lists), telephone calls, in-person meetings and mail. Also, investors often approached Goldman with specific transaction characteristics and asked Goldman to offer or create securities that met those criteria. Goldman typically provided all of the short risk to these transactions, which would be disclosed in the offering memorandum as part of the credit risk. Goldman could hedge or sell its short position, before or after the transaction, separate from the deal. On some of these transactions, Goldman told potential investors that it intended to hold portions of the CDO equity but that it was under no obligation to do so. There were suitability requirements for the transactions. Typically, the investors were large financial institutions, insurance companies, hedge funds, and other entities with significant resources and access to pertinent information.

A clarification on the Timberwolf deal: There was much discussion at the hearing about Tom Montag's email to me in which he referred to the Timberwolf deal with an expletive. The email was written months after the transaction priced, and it probably reflected Mr. Montag's overall assessment of the deal, including the net monetary loss to Goldman. A

question at the hearing suggested that Goldman had sold $600 million of Timberwolf CDO Securities after the date of the email. I believe that Goldman sold less than $10 million after the email, and that the sales were priced at a substantial discount from face value.

2. I believe that Goldman entered into one or more separate credit default swaps with Paulson & Co. effectively referencing certain securities from the Abacus-2007-AC1 transaction. The swap(s) allowed Goldman to hedge the short risk it was taking on as part of the transaction. You should contact Goldman for further details. It was not Goldman's general practice to identify buyers and sellers in a transaction to one another.

3. "Prop" or "proprietary" can mean different things to different people. Here, it seems to refer to buying assets with the intention of holding them for a long period - months or years. "Flow" or "flow business" seems to refer to trading with shorter holding periods. Defined this way, both "prop" and "flow" trades can involve customers, although sometimes the term "proprietary" is used to describe business that does not involve a customer. (Sometimes "proprietary" is used to describe any activity that involves use of a firm's own capital.) For 2008, the anticipation was that the overall residential mortgage business, which included loans, securities and derivatives (and not just SPG trading), would likely look to go long distressed assets, resulting in a larger component of positions with a planned lengthy holding period than in prior years. Goldman explored different strategies for doing so, including having businesses outside the Mortgage Department participate more actively. To my knowledge, Goldman did not operate its own SIVs; it did trade with SIVs, including buying assets from SIV liquidations. "50/50" in the email seems to relate to revenue projections for the upcoming year. In a volatile trading business, such projections are suspect.

with synthetic reference assets, Goldman was the sole protection buyer (the party going short), and this fact was disclosed as part of the credit risk on the deal. Goldman could trade or hedge the protection if and when it chose to.

10. I was aware that Fremont, New Century and Long Beach were originators of subprime mortgage loans, which by their nature have higher delinquency and default rates than other types of mortgage loans. Goldman performed due diligence on these institutions and loan packages; it should be able to provide relevant information. There was a question at the hearing suggesting that Goldman had acted as underwriter for a Long Beach originated mortgage loan securitization which contained 90% "stated income" loans and that this information was not disclosed. The percentage of stated income loans was 64% and that fact was disclosed in the publicly available offering documents; the nature of the loans was disclosed in the aggregate and on a loan-by-loan basis. The offering materials also disclosed Long Beach's origination practices and its stated income loan program. (This clarification is not meant to challenge the basic point that income verification is a sound practice for loan originators.) At the hearing, I was also asked how Goldman responded to a question relating to its getting comfort with New Century's collateral. The customer's focus, I believe, related to New Century's ability to perform on-going servicing, and not to the quality of the loans it originated.

11. The "Harvey" referred to in the email was Harvey Schwartz, who was then the head of Fixed Income Sales. Harvey's concern seemed to be that markets were particularly volatile, and therefore we needed to think through how we would adjust future client marks. At the time, marks could change sharply due to changes in the ABX index, bid-offer spreads, other CDO trade prices, and other events.

4. I do not recall generally labeling Mortgage Department transactions as "prop" and "flow."

5. As noted above, I do not recall tracking transactions as "prop" or "flow." For me, any such division would not be meaningful.

6. The presentation should have used the words "net short position," and not "proprietary position." Goldman should have specific details regarding what its positions were at the close of each day.

7. There was probably a Mortgage Department Townhall after the fourth quarter of FY 2007. If so, there was most likely a PowerPoint presentation.

8. If there was a Mortgage Department Townhall after the fourth quarter of FY 2007, I would have spoken at it, if I was available. There were often a few other speakers.

9. I do not believe that one can meaningfully talk about how much money Goldman made on any short positions related to the Anderson deal. As disclosed in the offering documents, Goldman shorted 100% of the risk into the CDO. The CDO team then attempted to cover this short risk with other parties, including the Goldman secondary trading desk. The CDO team tracked its profit by deal — the difference between the purchase price of the CDO liabilities and their sale price. By contrast, the secondary trading desk did not usually track profit by deal. That is because any position that a trader takes affects his subsequent trading strategy. Thus, in my view, one generally cannot calculate the profit that the secondary trading desk made related to a CDO new issue; it would be a fictitious number.

At the hearing, it was suggested that Goldman was short 50% of the deal and did not disclose its short position. As mentioned above, potential investors knew that Goldman shorted 100% of the reference risks in the deal. In the Anderson deal, as in most Goldman CDOs

12. The transaction referred to in the email was Hudson Mezzanine I. It was one of many CDO transactions involving the CDO team and sold through the sales force. Goldman should be able to identify team members. One goal of the transaction was to reduce a net ABX long position for the SPG trading desk, and I helped formulate that goal. The transaction was also designed to structure an ABX-based CDO in a way that would appeal to investors: some customers wanted credit enhanced ABX risk; some wanted levered ABX; and some wanted additionally diversified ABX. This was similar to all securitizations, the purpose of which is to restructure loans, securities and/or derivatives in ways that appeal to investors. If the restructured sale is not more efficient, the transaction will usually not occur. As with other deals, it was disclosed that Goldman took on 100% of the short risk on this transaction. Goldman should be able to determine whether the Mortgage Capital Committee approved the transaction. The Hudson Mezzanine I transaction was done without a customer acting as a collateral manager or selection agent. Goldman typically retained equity and other risks on CDOs, with the amounts factoring in accounting issues. I do not recall the timing of the different deals. Because it was a static synthetic deal without a manager and one which met specific investing demand, the Hudson Mezzanine I transaction could move quickly. The actively-managed Camber 7 deal grew from $500 million to $900 million during this period. The increase in size was beneficial to the customer, which increased its fees and assets under management by 180% of the planned amount.

13. I do not recall Goldman executing the specific transaction described in the email. During this period, Goldman did purchase substantial quantities of RMBS and residential loans.

14. Mike Swenson should be able to better identify the transactions referred to in his self review.

15. I do not recall Goldman executing the specific transaction described in the email.

16. The graph contained in Exhibit 56(a) does not reflect the risk of the department, which was net long in November 2006. Along with members of the risk team, I had knowledge of, and was responsible for, all Mortgage Department risk, including the size of the position in ABX AAA in FY 2006 and FY 2007. Goldman would be better able to answer specific details asked for in this question.

17-20. The ABX index was used as a core hedge for many products. It therefore made little sense to separately calculate ABX net revenue (or ABX risk), and we did not generally focus on it. It would be counting only one side of our positions. I do not recall specifically what our positions in ABX AAA were in 2007, and they could change daily. Goldman should be able to better provide this information.

21. Broker dealers serve customers as market makers by providing them with opportunities to buy and sell financial products. Market makers commit their own capital in taking the opposite side of transactions from customers. A market maker has a duty to be honest and fair with its customers and to transact at prices in the context of the market. Broker dealers can be positioned differently than their customers, and it would be foolish to assume that customers with different views are wrong. The broker dealer part of Goldman where I worked was neither a fiduciary nor an investment advisor to its customers. I do not believe that a broker dealer has a duty to disclose how it is positioned. As a practical matter, positions change often, and different traders at a firm can have different positions in the same market. In my view, such a disclosure rule would be unworkable. More fundamentally, each market participant should make his own independent investment decision as to the positions and risks that he wants and at what prices. With regard to its role as underwriter and placement agent, Goldman has a duty to

disclose the material information that investors need in order to decide whether to invest in a product. For mortgage backed securities, that disclosure usually focused on the assets involved, the structural mechanics of the deal and the potential risks to investors. Goldman's Legal and Compliance Department should be able to answer these questions more fully.

22. This question calls for a legal analysis and would be better directed to Goldman's Legal and Compliance Departments.

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

MICHAEL J. SWENSON
Managing Director
Structured Products Group Trading
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

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PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. Exhibit 86 from the Subcommittee's hearing on April 27, 2010, is an email dated September 19, 2006, from Peter Ostrem to the FICC-SPCDOGROUP. The email states:

> "We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1.5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . ."

   (a) Was the transaction described in this email carried out? Was the transaction Hudson Mezzanine Funding 2006-1 ("Hudson Mezzanine")? If not, what was the name of the transaction?

   (b) Identify by name and job title the individuals in the Mortgages Department who were involved in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine, and the activities related to the transaction that each of them engaged in.

   (c) Describe in detail any role you had in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

(d) Describe in detail any role the ABS desk had in the origination, formulation, design, approval, or implementation of Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

(e) Was the Hudson Mezzanine transaction a proprietary transaction?

(f) What did you understand the phrase "for the desk" to mean?

(g) Was the purpose of the transaction described in Mr. Ostrem's email to enable the ABS desk to reduce cash or swap positions (and the risk associated with those positions) that the ABS desk held? If not, what was the purpose of the transaction?

(h) Identify any committee or individual at Goldman Sachs ("Goldman") that approved this transaction.

(i) Identify any employee of Goldman or its affiliates and any third parties who were involved in the identification and selection of the assets referenced in the Hudson Mezzanine transaction and describe in detail the nature of their involvement.

(j) List the criteria used to identify and select the assets that were referenced in the Hudson Mezzanine transaction.

(k) Based on your knowledge or belief, identify the reasons why Hudson Mezzanine was "a trade [Goldman] need[ed] to execute for the desk over the next 4-6 weeks."

(l) Based on your knowledge or belief, identify the reasons why the Hudson Mezzanine transaction "involve[d] selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale)."

(m) Was the Camber 7 transaction delayed to develop the Hudson Mezzanine transaction? If so, explain why.

2. Exhibit 55b from the Subcommittee's hearing on April 27, 2010, is an excerpt from your 2007 EMD Review. On page 2, in the last sentence of point 3 under the Self-Review section, you wrote:

> "I oversaw and directed the covering of $9bb of AAA ABX that the department was short and was able to monetize approx $250mm of p and l for the origination businesses."

(a) Describe the purpose of the transaction or series of transactions (hereinafter "transaction").

(b) Describe in detail your role in this transaction.

(c) Identify the assets involved

(d) Identify any entity involved in the transaction and its role.

(e) Describe and state the notional value of each the assets involved or referenced in the transaction.

(f) Identify when the transaction took place.

(g) Identify the Goldman personnel who participated in this transaction and the roles they performed.

(h) Identify the Goldman personnel who reviewed or approved this transaction.

(i) State the value when sold or, if retained, the current value of the assets involved in this transaction.

3. Exhibit 30 from the Subcommittee's hearing on April 27, 2010, contains an email from Dan Sparks dated August 14, 2007. It is entitled "Post." Included in the email is the following paragraph written by Mr. Sparks:

> "(2) AAA ABX and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly."

(a) Is the trade addressed in Question 2, above, related to the transaction addressed in the email written by Mr. Sparks?

(b) If so, explain how they are related and whether they were separately implemented.

(c) If the transactions were not related, explain how they were different, and whether and how the transaction identified by Mr. Sparks was implemented.

4. Exhibit 34 from the Subcommittee's hearing on April 27, 2010, is a series of emails dated August 21, 2007 and entitled "RE: Potential large subprime trade and impact on Firmwide VAR." The first email in the chain, at the bottom of the page, is from Mr. Birnbaum. It reads:

> "- The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.
> - We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.
> - Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.
> - At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
> - On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.
> - On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted] and 100% of the AAAs from [redacted] to [redacted] and [redacted]."

   (a) Is the trade addressed in Question 2, above, related to the transaction addressed in the e-mail written by Mr. Birnbaum?

   (b) If so, explain how they are related and whether they were separately implemented.

   (c) If the transactions were not related, explain how they were different, and whether and how the transaction identified by Mr. Birnbaum was implemented.

5. A Goldman graph entitled "RMBS Subprime Notional History" is Exhibit 56(a) in the Subcommittee's hearing on April 27, 2010. It shows that Goldman had a net short position of approximately $8 billion on a notional basis in November 2006 (hereafter the "short position") in the ABX AAA index (hereinafter "ABX AAA").

   (a) When did Goldman's short position in ABX AAA first reach approximately $8 billion on a notional basis?

   (b) Who within Goldman had knowledge of the full extent of the notional short position in ABX AAA during FY 2006 and FY 2007?

(c) Who was responsible for reviewing and approving the size of the short position in ABX AAA?

(d) Whose capital was used to acquire the approximately $8 billion notional short position in ABX AAA?

(e) Did you understand the short position to be a Goldman proprietary position?

(f) Did the approximately $8 billion notional short position in ABX AAA include the short positions in ABX AAA held by the desks under the control of Messrs. Gasvoda, Nichols, and Finck?

(g) When did Goldman begin to monetize the $8 billion notional short position in ABX AAA? How was this accomplished?

6. (a) In 2007, did the Mortgages Department cover the ABX AAA short position and then, after August 1, go long on the ABX AAA?

(b) If so, identify the specific trades that resulted in the long ABX AAA position, including the dates of the trades, the amounts involved, and the identity of each counterparty.

(c) Did the Mortgages Department hedge its long ABX AAA position? If so, how and when?

7. Identify the greatest total notional amount by which the Mortgages Department went long on the ABX AAA after August 1, 2007, and the date on which that position was reached.

8. Did the Mortgages Department monetize or unwind its ABX AAA long position during the period August 1, 2007 through the end of FY 2007? If so, provide that date of each transaction used to monetize or unwind the long position, and the notional amount by which the long position was reduced.

9. Provide the total net profit or loss to the Mortgages Department from the ABX AAA transactions during the 4th quarter of FY 2007.



Responses of Mr. Michael Swenson to the
Supplemental Questions for the Record of the Permanent Subcommittee on Investigations

1. **Exhibit 86 from the Subcommittee's hearing on April 27, 2010, is an email dated September 19, 2006, from Peter Ostrem to the FICC-SPCDOGROUP. The email states:**

> **"We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1.5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . ."**

(a) Was the transaction described in this email carried out? Was the transaction Hudson Mezzanine Funding 2006-1 ("Hudson Mezzanine")? If not, what was the name of the transaction?

I was not in the "FICC-SPCDOGROUP" to which this email was sent and have no recollection of having seen or received it around the time it was sent. However, based on the description in the document, it appears that the transaction matches many of the characteristics of Hudson Mezzanine Funding 2006-1 ("HM1"). HM1 was carried out.

(b) Identify by name and job title the individuals in the Mortgages Department who were involved in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine, and the activities related to the transaction that each of them engaged in.

HM1 was originated by the CDO Origination Desk, which was headed by Peter Ostrem. I do recall interacting with Mr. Ostrem in connection with this transaction, including discussing with him the possibility of packaging ABX securities into CDOs, as was being done by competitors of Goldman, Sachs & Co. ("Goldman Sachs" or the "Firm"). I do not recall who initiated the conversation. The ABS Desk, which I headed, supplied some and possibly all of the securities for the transaction.

(c) Describe in detail any role you had in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

Please see my answer to Question 1(b).

(d) Describe in detail any role the ABS desk had in the origination, formulation, design, approval, or implementation of Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

Please see my answer to Question 1(b). In addition, after HM1 was marketed, certain parts of the structure remained in the inventory of the CDO Origination Desk at Goldman Sachs. Late in the second quarter of 2007, those retained positions were moved to the ABS Desk. The ABS Desk may have subsequently tried to sell some of those positions.

(e) Was the Hudson Mezzanine transaction a proprietary transaction?

I do not believe that HM1 was designed as a proprietary transaction.

(f) What did you understand the phrase "for the desk" to mean?

As noted above, I was not in the "FICC-SPCDOGROUP" to which this email was sent and have no recollection of having seen or received it around the time it was sent. In addition, I do not know what Peter Ostrem meant when he wrote "for the desk." In reading the email, it appears that the phrase could have a number of possible meanings, including Mr. Ostrem's CDO Origination Desk

(g) Was the purpose of the transaction described in Mr. Ostrem's email to enable the ABS desk to reduce cash or swap positions (and the risk associated with those positions) that the ABS desk held? If not, what was the purpose of the transaction?

Assuming that the transaction described in Exhibit 86 is HM1, the transaction was implemented by the CDO Origination Desk, headed by Peter Ostrem, and I believe that it was his desk's purpose to identify and pursue a positive arbitrage opportunity. The ABS Desk benefited from HM1 because HM1 provided a buyer for certain long swap positions held by the ABS Desk at the time.

(h) Identify any committee or individual at Goldman Sachs ("Goldman") that approved this transaction.

Assuming that the transaction described in Exhibit 86 is HM1, I do not know whether this transaction was approved by any committee or individual at Goldman Sachs because the HM1 transaction was not implemented by the ABS Desk but rather the CDO Origination Desk. However, I believe that the Mortgage Capital Committee ("MCC") typically was involved in the approval process for new issue CDO transactions.

(i) Identify any employee of Goldman or its affiliates and any third parties who were involved in the identification and selection of the assets referenced in the Hudson Mezzanine transaction and describe in detail the nature of their involvement.

I do not recall who identified or selected the assets referenced in the HM1 transaction, although I believe it is likely that there would have been discussions between the ABS Desk and the CDO Desk about the willingness of the ABS Desk to supply risk for the HM1

transaction. Peter Ostrem would have had the ultimate authority to decide on the assets that were included in the transaction.

(j) List the criteria used to identify and select the assets that were referenced in the Hudson Mezzanine transaction.

I do not recall the criteria used to identify and select the assets referenced in the HM1 transaction. The desk responsible for designing this transaction, the CDO Origination Desk, likely would have worked with the rating agencies and determined the criteria for selecting assets. Those criteria would have related to, among other things, originators, servicers and issuers of the underlying transactions but I do not recall specifics.

(k) Based on your knowledge or belief, identify the reasons why Hudson Mezzanine was "a trade [Goldman] need[ed] to execute for the desk over the next 4-6 weeks."

I do not know why HM1 was a trade that Peter Ostrem thought Goldman Sachs "need[ed] to execute for the desk over the next 4-6 weeks." In general, I believe that when a new issue CDO transaction is fully ramped (*i.e.*, the warehouse is filled), it is in the interest of the transaction originator and underwriter to complete the transaction as quickly as possible to reduce its market risk associated with those assets.

(l) Based on your knowledge or belief, identify the reasons why the Hudson Mezzanine transaction "involve[d] selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale)."

To me, "true sale" is an accounting concept but I am not certain of the specific accounting rules that would apply to the transaction described in the email.

(m) Was the Camber 7 transaction delayed to develop the Hudson Mezzanine transaction? If so, explain why.

I do not recall whether Camber 7 was affected by the development of HM1.

2. Exhibit 55b from the Subcommittee's hearing on April 27, 2010, is an excerpt from your 2007 EMD Review. On page 2, in the last sentence of point 3 under the Self-Review section, you wrote:

> **"I oversaw and directed the covering of $9bb of ABX AAA that the department was short and was able to monetize approx $250mm of p and l for the origination businesses."**

(a) Describe the purpose of the transaction or series of transactions (hereinafter "transaction").

In this excerpt from my EMD Review, I am describing my efforts to help the RMBS Origination Desk cover a number of its short positions.

(b) Describe in detail your role in this transaction.

As a market maker, the ABS Desk purchased the securities that enabled the RMBS Origination Desk to cover some of its short positions.

(c) Identify the assets involved.

Though I cannot identify all such assets, I believe that ABX 06-1 and 06-2 AAAs were, at least, involved in these trades.

(d) Identify any entity involved in the transaction and its role.

I do not recall from whom the ABS Desk purchased the securities. Goldman Sachs' trading records will likely provide responsive information.

(e) Describe and state the notional value of each the assets involved or referenced in the transaction.

I do not recall the notional value of the purchased securities. Goldman Sachs' trading records will likely provide responsive information.

(f) Identify when the transaction took place.

I do not recall when the trades took place. I believe that most if not all occurred in the third quarter of 2007. Goldman Sachs' trading records will likely provide responsive information.

(g) Identify the Goldman personnel who participated in this transaction and the roles they performed.

I do not recall who executed the trades. I believe that I or Josh Birnbaum, Deeb Salem, and/or Edwin Chin were involved, along with a number of sales people.

(h) Identify the Goldman personnel who reviewed or approved this transaction.

Responsibility generally resided with the trading desk and its supervisors, acting within their risk and product limits.

(i) State the value when sold or, if retained, the current value of the assets involved in this transaction.

I do not recall the value of the assets involved in these trades. Goldman Sachs' trading records will likely provide responsive information.

3. Exhibit 30 from the Subcommittee's hearing on April 27, 2010, contains an email from Dan Sparks dated August 14, 2007. It is entitled "Post." Included in the email is the following paragraph written by Mr. Sparks:

"(2) ABX AAA and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly."

(a) Is the trade addressed in Question 2, above, related to the transaction addressed in the email written by Mr. Sparks?

I do not believe that I received this email. However, from its context, it appears that it was not a transaction but, instead, a precursor to the transaction proposed in Exhibit 34 (the subject of Question 4, below). I am also not certain what is meant by "related to" in this question. The decision whether to implement the trades referenced in Exhibits 30 and 34 did not depend on the decision to implement the trades I described in the excerpt quoted in Question 2.

(b) If so, explain how they are related and whether they were separately implemented.

Please see the answer to Question 3(a).

(c) If the transactions were not related, explain how they were different, and whether and how the transaction identified by Mr. Sparks was implemented.

I do not believe that I received this email. However, from its context, it appears that it was not a transaction but, instead, a precursor to the transaction proposed in Exhibit 34 (the subject of Question 4, below). I do not believe that the transaction proposed in Exhibit 34 was implemented, as I indicate in my response to Question 4(c), below. In addition, it appears from the context of Exhibit 30, that Mr. Sparks is proposing that Goldman Sachs acquire a longer position in certain ABX securities. In my EMD Review, I am describing trades that were designed to cover a short position held by the RMBS Origination Desk that served as a hedge.

4. Exhibit 34 from the Subcommittee's hearing on April 27, 2010, is a series of emails dated August 21, 2007 and entitled "RE: Potential large subprime trade and impact on Firmwide VAR." The first email in the chain, at the bottom of the page, is from Mr. Birnbaum. It reads:

"- The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.

- We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.

- Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.

- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.

- On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.

- On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted] and 100% of the AAAs from [redacted] to [redacted] and [redacted]."

(a) Is the trade addressed in Question 2, above, related to the transaction addressed in the email written by Mr. Birnbaum?

I am not certain what is meant by "related to" in this question. The decision whether to implement the trades referenced in Exhibits 30 and 34 did not depend on the decision to implement the trades I described in the excerpt quoted in Question 2.

(b) If so, explain how they are related and whether they were separately implemented.

Please see the answer to Question 4(a).

(c) If the transactions were not related, explain how they were different, and whether and how the transaction identified by Mr. Birnbaum was implemented.

I recall Mr. Birnbaum proposing that Goldman Sachs acquire a longer position in certain ABX securities. In my EMD Review, I am describing trades that were designed to cover a short position held by the RMBS Origination Desk that served as a hedge. I do not believe that Mr. Birnbaum's proposed transaction was implemented.

5. A Goldman graph entitled "RMBS Subprime Notional History" is Exhibit 56(a) in the Subcommittee's hearing on April 27, 2010. It shows that Goldman had a net short position of approximately $8 billion on a notional basis in November 2006 (hereafter the "short position") in the ABX AAA index (hereinafter "ABX AAA").

(a) When did Goldman's short position in ABX AAA first reach approximately $8 billion on a notional basis?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me (ABS Desk), David Lehman (CMBS Desk), and Jonathan Egol (Correlation Desk), and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. I do recall that the RMBS Origination Desk held short positions in ABX AAA that totaled approximately $9 billion, but I do not know when that level was first reached.

(b) Who within Goldman had knowledge of the full extent of the notional short position in ABX AAA during FY 2006 and FY 2007?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me, David Lehman, and Jonathan Egol, and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. I also do not recall who in Goldman Sachs knew of the full extent of the notional short position in ABX AAA in FY 2006 and 2007. Dan Sparks or any member of the ABS Desk would have had access to the information described in this question, but I do not recall whether I accessed that information.

(c) Who was responsible for reviewing and approving the size of the short position in ABX AAA?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me, David Lehman, and Jonathan Egol, and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. I also do not know who in Goldman Sachs was responsible for reviewing and approving the size of the hedge in ABX AAA. To the extent any particular desk held a short position, I believe that it would have been, at a minimum, the responsibility of the head of that desk to review that position.

(d) Whose capital was used to acquire the approximately $8 billion notional short position in ABX AAA?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me, David Lehman, and Jonathan Egol, and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. I also do not recall whose capital was used or allocated to acquire the short positions. In general, without knowing the specific short position of each desk, I do not know which desk's capital was used.

(e) Did you understand the short position to be a Goldman proprietary position?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me, David Lehman, and Jonathan Egol, and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. In addition, the short position referenced in this graph would not be a proprietary position because the short position was largely a hedge against the long loan and securities positions held by the RMBS Origination Desk.

(f) Did the approximately $8 billion notional short position in ABX AAA include the short positions in ABX AAA held by the desks under the control of Messrs. Gasvoda, Nichols, and Finck?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me, David Lehman, and Jonathan Egol, and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. I also do not know whose short positions could have been involved in the graph's depiction of short positions because I was not involved in the development of this graph. To the extent the graph depicts the overall short position of the Mortgage Department, it should include the short position of the desks in that department, including the desk under the control of Mr. Gasvoda, under whom Matt Nichols and Greg Finck worked.

(g) When did Goldman begin to monetize the $8 billion notional short position in ABX AAA? How was this accomplished?

I did not develop this graph and I do not recall reviewing it in the normal course of business. I do not believe, however, that the positions in the graph accurately depict the "Mtg Dept – Mtg NYC SPG Portfolio" because such a chart would reflect the combined positions of the desks headed by me, David Lehman, and Jonathan Egol, and at no time in 2006-2007 was that combined position short $8 billion in ABX AAA. Also, please see my answer to Question 2(f), above. I recall that during the third quarter, the ABS Desk executed some trades to begin monetizing the short position in the securities held by the RMBS Origination Desk. Within the ABS Desk, I believe that I or Josh Birnbaum, Deeb Salem, and/or Edwin Chin were involved, along with a number of sales people.

6. (a) In 2007, did the Mortgages Department cover the ABX AAA short position and then, after August 1, go long on the ABX AAA?

Please see my answer to Question 2(f), above. I recall that the ABS Desk covered a AAA short position that was held as a hedge by the RMBS Origination Desk. I believe that the ABS Desk went longer ABX AAA after covering the short position that was held as a hedge by the RMBS Origination Desk. I do not recall the extent to which the ABS Desk went longer ABX AAA. Goldman Sachs' trading records will likely provide responsive information.

(b) If so, identify the specific trades that resulted in the long ABX AAA position, including the dates of the trades, the amounts involved, and the identity of each counterparty.

Goldman Sachs' trading records will likely provide responsive information.

(c) Did the Mortgages Department hedge its long ABX AAA position? If so, how and when?

From my perspective as head of the ABS Desk, I believe that the Mortgage Department did not hedge the ABX AAA referenced in Question 6(a). However, the longer

ABX AAA position acquired by the ABS Desk after covering the short position that was held by the RMBS Origination Desk served as an offset to the short BBB ABX position held by the ABS Desk and reduced the Mortgage Department's VAR.

7. **Identify the greatest total notional amount by which the Mortgages Department went long on the ABX AAA after August 1, 2007, and the date on which that position was reached.**

I do not recall the total notional amount that the Mortgage Department went long on ABX AAA after August 1. To the extent that this information can be obtained from Goldman Sachs' trading records, it is my understanding that the Firm is working to provide this information to the Subcommittee promptly.

8. **Did the Mortgages Department monetize or unwind its ABX AAA long position during the period August 1, 2007 through the end of FY 2007? If so, provide that date of each transaction used to monetize or unwind the long position, and the notional amount by which the long position was reduced.**

I do not recall how long it took the Mortgage Department to unwind its ABX AAA long position or how it did so because the Department's positions changed daily (even intraday) as trades were done and these positions were not segregated in a separate account. To the extent that this information can be obtained from Goldman Sachs' trading records, it is my understanding that the Firm is working to provide this information to the Subcommittee promptly.

9. **Provide the total net profit or loss to the Mortgages Department from the ABX AAA transactions during the 4th quarter of FY 2007.**

I do not recall the total net profit or loss to the Mortgage Department from ABX AAA during that time period. To the extent that this information can be obtained from the Goldman Sachs' trading records, it is my understanding that the Firm is working to provide this information to the Subcommittee promptly.

SUPPLEMENTAL INFORMATION FOR MR. SWENSON'S RESPONSES SUPPLIED BY GOLDMAN SACHS

Confidential Treatment Requested by Goldman Sachs

1. **Exhibit 86 from the Subcommittee's hearing on April 27, 2010, is an e-mail dated September 19, 2006, from Peter Ostrem to the FICC-SPCDOGROUP. The e-mail states:**

> **"We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1.5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . ."**

(a) Was the transaction described in this e-mail carried out? Was the transaction Hudson Mezzanine Funding 2006-1 ("Hudson Mezzanine")? If not, what was the name of the transaction?

The facts reflected in the e-mail are consistent with the Hudson Mezzanine Funding 2006-1 transaction.

(b) Identify by name and job title the individuals in the Mortgages Department who were involved in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine, and the activities related to the transaction that each of them engaged in.

The names and job titles of the individuals in the Mortgage Department who were involved in the Hudson Mezzanine 2006-1 transaction are set forth in the marketing flip book and term sheet for the transaction, which were previously produced to the Subcommittee (bearing production numbers GS MBS-E-001557726 – 59 and GS MBS-E-001557869 – 73). For the Subcommittee staff's convenience, additional copies of these materials are enclosed herewith.

(c) Describe in detail any role you had in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

Please see Mr. Swenson's response to this Question.

(d) Describe in detail any role the ABS desk had in the origination, formulation, design, approval, or implementation of Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

The Structured Products Trading desk entered into credit default swaps with the SPV in the Hudson Mezzanine 2006-1 transaction that had the effect of reducing a long position in the ABX index held by the desk.

(e) Was the Hudson Mezzanine transaction a proprietary transaction?

This transaction was not a proprietary transaction. The Mortgage Department does not engage in proprietary trading.

(f) What did you understand the phrase "for the desk" to mean?

Please see Mr. Swenson's response to this Question.

(g) Was the purpose of the transaction described in Mr. Ostrem's e-mail to enable the ABS desk to reduce cash or swap positions (and the risk associated with those positions) that the ABS desk held? If not, what was the purpose of the transaction?

Please see Mr. Swenson's response to this Question.

(h) Identify any committee or individual at Goldman Sachs ("Goldman") that approved this transaction.

Typically, transactions of this type would have been reviewed and approved by members of the Mortgage Capital Committee through either a formal or informal meeting. The Hudson Mezzanine 2006-1 transaction appears to have been reviewed and approved through an informal meeting, likely conducted by telephone conference.

(i) Identify any employee of Goldman or its affiliates and any third parties who were involved in the identification and selection of the assets referenced in the Hudson Mezzanine transaction and describe in detail the nature of their involvement.

Goldman Sachs selected the portfolio of reference obligations because there was no collateral manager or selection agent engaged for this transaction. As noted in our response to Question 1(b) posed to Mr. Swenson, the Goldman Sachs employees involved in the origination and structuring of the transaction are set forth in the marketing flip book and term sheets for the transaction.

(j) List the criteria used to identify and select the assets that were referenced in the Hudson Mezzanine transaction.

Please see Goldman Sachs' response to Question 1(i) posed to Mr. Swenson.

(k) Based on your knowledge or belief, identify the reasons why Hudson Mezzanine was "a trade [Goldman] need[ed] to execute for the desk over the next 4-6 weeks."

Please see Mr. Swenson's response to this Question.

(l) Based on your knowledge or belief, identify the reasons why the Hudson

Mezzanine transaction "involve[d] selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale)."

Please see Mr. Swenson's response to this Question.

(m) Was the Camber 7 transaction delayed to develop the Hudson Mezzanine transaction? If so, explain why.

Goldman Sachs does not believe that the Camber 7 transaction was delayed to develop the Hudson Mezzanine 2006-1 transaction. Because the Hudson Mezzanine 2006-1 transaction (i) had a static portfolio, (ii) referenced the highly-liquid ABX indices and (iii) did not employ a collateral manager, it moved quickly to market. The actively-managed Camber 7 transaction, by contrast, took much longer to complete. During this period, however, Camber 7 grew from $500 million to $900 million.

Confidential Treatment Requested by Goldman Sachs

5. A Goldman graph entitled "RMBS Subprime Notional History" is Exhibit 56(a) in the Subcommittee's hearing on April 27, 2010. It shows that Goldman had a net short position of approximately $8 billion on a notional basis in November 2006 (hereafter the "short position") in the ABX AAA index (hereinafter "ABX AAA").

(a) When did Goldman's short position in ABX AAA first reach approximately $8 billion on a notional basis?

On October 12, 2006, the Mortgage Department's ABX AAA position reached approximately $8 billion on a notional basis. The majority of that position was held by the Residential Prime and Credit Origination desks. The position offset long prime and subprime whole loan inventory of approximately $10 billion. The two exposures would net to a long position.

(b) Who within Goldman had knowledge of the full extent of the notional short position in ABX AAA during FY 2006 and FY 2007?

(c) Who was responsible for reviewing and approving the size of the short position in ABX AAA?

The Mortgage Department (as well as other trading businesses within Goldman Sachs) managed the size of its exposures and inventory in line with risk limits established by senior management. These risk limits ensured that regardless of the opinion of an individual or a business unit about market direction, risk remains within prescribed levels. The specific risk limits relevant to the Mortgage Department included VaR, credit spread widening and balance sheet size.

The ABX AAA position was one of many positions incorporated into all of the long and short exposures maintained by the Mortgage Department and reviewed by senior leadership within the department. Risk was managed within the risk limits approved by the Securities Division Risk Committee. Senior traders within the Mortgage Department and Risk Management were generally aware of the increasing size of the short position (as well as the offsetting long position) during this period.

(d) Whose capital was used to acquire the approximately $8 billion notional short position in ABX AAA?

As a market maker, Goldman Sachs assumed risk positions and put its own capital at risk. The firm's capital consisted of shareholder equity, supplemented by long-term debt issued by the firm. Goldman Sachs has long had well-established procedures to set risk limits by business units and to ensure that the firm has appropriate levels of capital to support those levels of activity.

(e) Did you understand the short position to be a Goldman proprietary position?

Please see Mr. Swenson's response to this Question.

(f) Did the approximately $8 billion notional short position in ABX AAA include the short positions in ABX AAA held by the desks under the control of Messrs. Gasvoda, Nichols, and Finck?

The majority of the approximately $8 billion of notional short position in ABX AAA included hedges maintained by the Residential Mortgage Origination business.

(g) When did Goldman begin to monetize the $8 billion notional short position in ABX AAA? How was this accomplished?

Commensurate with the reduction in long residential loan inventory, the Mortgage Department began reducing its short ABX AAA position during the Third Quarter of 2007. This was executed through trades, primarily with dealers, where Goldman Sachs sold protection on ABX AAA.

6. (a) In 2007, did the Mortgages Department cover the ABX AAA short position and then, after August 1, go long on the ABX AAA?

Yes. In the latter portion of the third Quarter of 2007, in conjunction with reducing its long residential loan inventory, the Mortgage Department reduced its short ABX AAA position and ultimately had a long ABX AAA position in the Fourth Quarter of 2007.

(b) If so, identify the specific trades that resulted in the long ABX AAA position, including the dates of the trades, the amounts involved, and the identity of each counterparty.

Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000038761) providing information for ABX AAA trades executed in July and August 2007.

(c) Did the Mortgages Department hedge its long ABX AAA position? If so, how and when?

The Mortgage Department's ABX AAA position was part of the Department's exposures and was managed in conjunction with other positions held by the Department. For example, in the Fourth Quarter of 2007, the Department was short single-name credit default swap positions in lower-rated securities, which offset the long exposures including the AAA ABX.

7. Identify the greatest total notional amount by which the Mortgages Department went long on the ABX AAA after August 1, 2007, and the date on which that position was reached.

The largest notional long ABX AAA position held by the Mortgage Department after August 1, 2007 was on September 25, 2007. The position was long approximately $1.8 billion notional.

8. Did the Mortgages Department monetize or unwind its ABX AAA long position during the period August 1, 2007 through the end of FY 2007? If so, provide that date of each transaction used to monetize or unwind the long position, and the notional amount by which the long position was reduced.

The Mortgage Department reduced its long ABX AAA position from September 25, 2007 through the end of 2007. Goldman Sachs encloses a spreadsheet (bearing production number GS MBS 0000038761) providing information on trades during that period.

9. Provide the total net profit or loss to the Mortgages Department from the ABX AAA transactions during the 4th quarter of FY 2007.

During the Fourth Quarter of 2007, the Mortgage Department lost approximately $152 million on its ABX AAA position. These losses were offset by gains on other positions in the mortgage department resulting in a gain of approximately $107 million in non-agency residential mortgages for the Quarter.

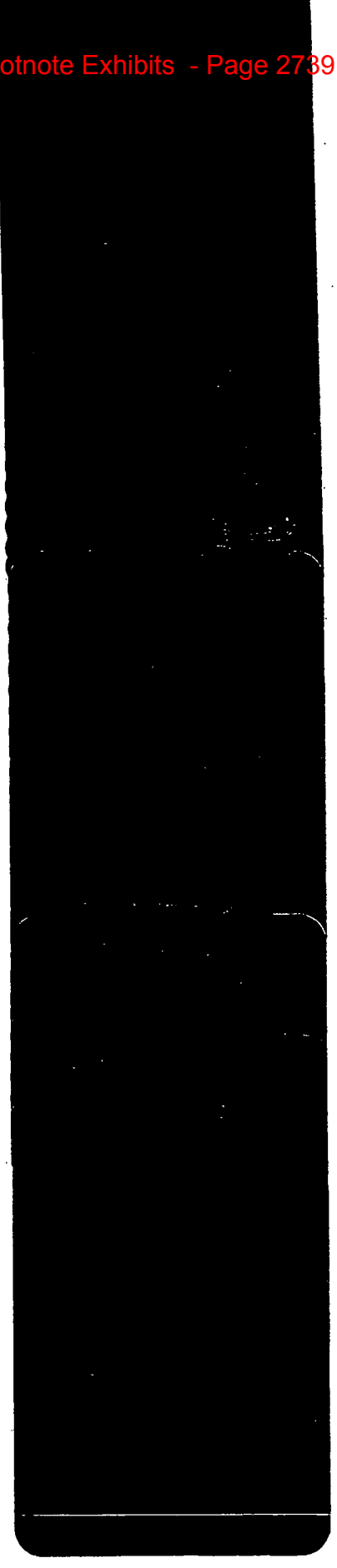
Book	Leaf	External Trade ID	Notional	Net effect	Trade Date	Counterparty
TG02130	MDX ABX.HE.AAA.07-1 LP0 JDD50	SDB982423739	25,000,000	25,000,000	30-Nov-07	[redacted]
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982423746A	25,000,000	25,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982423753A	50,000,000	50,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982423761A	25,000,000	25,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 JDD50	SDB982423771A	25,000,000	25,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.06-2 A50 KMYR0	SDB982423772A	25,000,000	25,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 JDD50	SDB982423797	10,000,000	10,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 JDD50	SDB982424148A	60,000,000	60,000,000	30-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982424236A	(25,000,000)	(25,000,000)	30-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DUZ0	SDB982418814.1A	(8,000,000)	(8,000,000)	29-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982421393A	5,000,000	5,000,000	29-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982421417A	5,000,000	5,000,000	29-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB981330261A	(20,000,000)	(20,000,000)	28-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 EY820	SDB981330261A	(100,000,000)	100,000,000	28-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982129551A	500,000,000	(500,000,000)	28-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982129551A	340,000,000	340,000,000	28-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982418231A	(55,000,000)	(55,000,000)	28-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DUZ0	SDB982418814A	(7,000,000)	(7,000,000)	28-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DUZ0	SDB982418841A	(20,000,000)	(20,000,000)	28-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DUZ0	SDB982418886A	25,000,000	25,000,000	28-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982419444A	160,000,000	160,000,000	28-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982151686A	50,000,000	(50,000,000)	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982414338A	25,000,000	25,000,000	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982414376A	25,000,000	25,000,000	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DXB50	SDB982414612.1A	18,000,000	18,000,000	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DXB50	SDB982414612.2A	1,200,000	1,200,000	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DXB50	SDB982414612A	800,000	800,000	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DXB50	SDB982414917.1A	1,681,000	1,681,000	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DXB50	SDB982414917.2A	4,250,600	4,250,600	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DXB50	SDB982414917A	4,068,400	4,068,400	26-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152284.3A	2,000,000	(2,000,000)	23-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152284A	13,750,000	(13,750,000)	23-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982152284A	7,015,000	7,015,000	23-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152284.1A	65,500,000	(65,500,000)	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982152284.1A	33,418,000	33,418,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152284.2A	13,000,000	(13,000,000)	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982152284.2A	6,633,000	6,633,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152284.4A	5,750,000	(5,750,000)	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982152284.4A	2,934,000	2,934,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982154232.1A	25,000,000	(25,000,000)	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982154232.1A	5,000,000	5,000,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982154232A	25,000,000	(25,000,000)	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982154232A	5,000,000	5,000,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982403981A	5,000,000	5,000,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982404054A	5,000,000	5,000,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982404645A	32,082,000	32,082,000	21-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982404650A	6,367,000	6,367,000	21-Nov-07	
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TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982152736A	95,000,000	95,000,000	20-Nov-07	
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TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982402100.1A	22,500,000	22,500,000	20-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982402100.2A	1,500,000	1,500,000	20-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982402100A	1,000,000	1,000,000	20-Nov-07	
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TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982397317A	10,000,000	10,000,000	19-Nov-07	
TG02130	MDX ABX.HE.AAA.06-2 A50 CN3N0	SDB982049765A	50,000,000	(50,000,000)	15-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982118395A	25,000,000	(25,000,000)	15-Nov-07	
TG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982377305A	25,000,000	25,000,000	15-Nov-07	
TG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982377343A	10,000,000	10,000,000	15-Nov-07	
TG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982377353A	25,000,000	25,000,000	15-Nov-07	
TG02130	MDX ABX.HE.AAA.06-2 A50 CN3N0	SDB982071617.8A	6,700,000	(6,700,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.06-2 A50 CN3N0	SDB982136112.3A	(6,700,000)	6,700,000	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.10A	(3,520,000)	(3,520,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.11A	(1,452,000)	(1,452,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.12A	(623,000)	(623,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.13A	(534,000)	(534,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.14A	(1,228,000)	(1,228,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.15A	(430,000)	(430,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.16A	(170,000)	(170,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.17A	(72,000)	(72,000)	14-Nov-07	
TG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.18A	(2,167,000)	(2,167,000)	14-Nov-07	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.1A	(2,934,000)	(2,934,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.20A	(628,000)	(628,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.21A	(644,000)	(644,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.22A	(541,000)	(541,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.23A	(202,000)	(202,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.24A	(110,000)	(110,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.25A	(98,000)	(98,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.26A	(105,000)	(105,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.27A	(14,000)	(14,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.28A	(92,000)	(92,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.29A	(141,000)	(141,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.2A	(1,194,000)	(1,194,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.30A	(67,000)	(67,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.31A	(22,000)	(22,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.32A	(1,367,000)	(1,367,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.33A	(23,000)	(23,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.34A	(38,000)	(38,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.35A	(482,000)	(482,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.36A	(24,000)	(24,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.3A	(668,000)	(668,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.4A	(94,000)	(94,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.5A	(46,000)	(46,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.6A	(39,000)	(39,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.7A	(1,015,000)	(1,015,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.8A	(1,163,000)	(1,163,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604.9A	(748,000)	(748,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982375604A	(741,000)	(741,000)	14-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982373754A	(25,000,000)	(25,000,000)	13-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152647A	10,000,000	(10,000,000)	9-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982363118A	5,000,000	5,000,000	9-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982363126A	5,000,000	5,000,000	9-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982363608A	10,000,000	10,000,000	9-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982363698A	10,000,000	10,000,000	9-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982363768.1A	(18,000,000)	(18,000,000)	9-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982363768A	(12,000,000)	(12,000,000)	9-Nov-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 CN3N0	SDB982086848A	50,000,000	(50,000,000)	8-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982361590.1A	(3,000,000)	(3,000,000)	8-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982361590A	(2,000,000)	(2,000,000)	8-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982361775.1A	(18,000,000)	(18,000,000)	8-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982361775A	(12,000,000)	(12,000,000)	8-Nov-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982360432A	(10,000,000)	(10,000,000)	7-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982360810A	(6,500,000)	(6,500,000)	7-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982360818A	(18,500,000)	(18,500,000)	7-Nov-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982358934A	10,000,000	10,000,000	6-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982359139.1A	(2,500,000)	(2,500,000)	6-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982359139A	(2,500,000)	(2,500,000)	6-Nov-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982359182A	25,000,000	25,000,000	6-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982074489.0A	110,000,000	(110,000,000)	5-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982074489.1A	90,000,000	(90,000,000)	5-Nov-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982345508.1A	(11,000,000)	(11,000,000)	2-Nov-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982345508.2A	(9,000,000)	(9,000,000)	2-Nov-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982345508A	(5,000,000)	(5,000,000)	1-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982345628.1A	(7,193,000)	(7,193,000)	1-Nov-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982345628A	(2,807,000)	(2,807,000)	1-Nov-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB981933829A	(100,000)	100,000	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982325793A	(100,000,000)	(100,000,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.1A	(110,000)	(110,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.2A	(90,000)	(90,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.3A	(9,030,000)	(9,030,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.4A	(20,000)	(20,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.5A	(1,650,000)	(1,650,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.6A	(1,000,000)	(1,000,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288.7A	(1,700,000)	(1,700,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326288A	(1,400,000)	(1,400,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982326532A	(10,000,000)	(10,000,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982326537A	(20,000,000)	(20,000,000)	31-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982055840.0A	774,000	(774,000)	30-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982055840.1A	9,356,000	(9,356,000)	30-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982055840.2A	9,870,000	(9,870,000)	30-Oct-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982324825A	10,000,000	10,000,000	30-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982324966A	774,000	774,000	30-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982324975A	9,356,000	9,356,000	30-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982324991A	9,870,000	9,870,000	30-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982325164A	(25,000,000)	(25,000,000)	30-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982311050.1A	(375,000,000)	(375,000,000)	29-Oct-07

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MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982311112A	(10,000,000)	(10,000,000)	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312389A	4,600,000	4,600,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312397A	850,000	850,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312432A	3,000,000	3,000,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312471A	1,250,000	1,250,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312496A	1,750,000	1,750,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312529A	7,250,000	7,250,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982312560A	6,300,000	6,300,000	29-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982122528A	25,000,000	(25,000,000)	26-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982125443A	25,000,000	(25,000,000)	26-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982306991.1A	(4,450,000)	(4,450,000)	26-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982308745A	25,000,000	25,000,000	26-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982308757A	25,000,000	25,000,000	26-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982305954A	(25,000,000)	(25,000,000)	25-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982306991A	(550,000)	(550,000)	25-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982152477A	20,000,000	(20,000,000)	24-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982295257A	5,000,000	5,000,000	23-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982295375A	35,000,000	35,000,000	23-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982292604A	(10,000,000)	(10,000,000)	22-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982293113A	(50,000,000)	(50,000,000)	22-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982293758A	5,000,000	5,000,000	22-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982288852A	25,000,000	25,000,000	19-Oct-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982289464A	25,000,000	25,000,000	19-Oct-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 G32N0	SDB982123431A	(25,000,000)	25,000,000	18-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982286570A	(5,000,000)	(5,000,000)	18-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982286621A	25,000,000	25,000,000	18-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982287158A	25,000,000	25,000,000	18-Oct-07
MTG02130	MDX ABX.HE.AAA.07-2 SX0 6DCZ0	SDB982287215A	(25,000,000)	(25,000,000)	18-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982287291A	(25,000,000)	(25,000,000)	18-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982281223A	25,000,000	25,000,000	16-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982117406A	200,000,000	(200,000,000)	15-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982117406A	25,000,000	25,000,000	15-Oct-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982279633A	(50,000,000)	(50,000,000)	15-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982279635A	(50,000,000)	(50,000,000)	15-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982279821A	50,000,000	50,000,000	15-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982278379A	10,000,000	10,000,000	12-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 EY820	SDB982038368A	15,000,000	(15,000,000)	11-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 A3VK1	SDB982119249A	50,000,000	(50,000,000)	11-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982277371A	15,000,000	15,000,000	11-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982277660A	15,000,000	15,000,000	11-Oct-07
MTG02130	MDX ABX.HE.AAA.06-1 5D0 DZB50	SDB982275253A	(50,000,000)	(50,000,000)	9-Oct-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 EY820	SDB982119037.1A	10,000,000	(10,000,000)	28-Sep-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 EY820	SDB982119037A	5,000,000	(5,000,000)	28-Sep-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982243442A	10,000,000	10,000,000	28-Sep-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 3BPR0	SDB982243451A	5,000,000	5,000,000	28-Sep-07
MTG02130	MDX ABX.HE.AAA.07-1 LP0 EY820	SDB982128693A	25,000,000	(25,000,000)	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.10B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.11A	600,000	600,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.12B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.13B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.14A	2,800,000	2,800,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.15A	800,000	800,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.16B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.17A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.18A	700,000	700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.19A	1,500,000	1,500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.1A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.20A	1,200,000	1,200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.21A	500,000	500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.22A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.23A	1,200,000	1,200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.24A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.25A	5,500,000	5,500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.26B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.27B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.28B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.29A	2,200,000	2,200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.2A	1,100,000	1,100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.30A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.31A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.32B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.33A	1,300,000	1,300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.34A	900,000	900,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.35A	1,300,000	1,300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.36A	400,000	400,000	27-Sep-07



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MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.37A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.38A	1,200,000	1,200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.39A	900,000	900,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.3B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.40A	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.41A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.42A	4,700,000	4,700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.43A	1,000,000	1,000,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.44A	1,400,000	1,400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.45A	1,300,000	1,300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.46B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.47A	500,000	500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.48A	1,600,000	1,600,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.49A	500,000	500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.4A	2,700,000	2,700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.50A	700,000	700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.51B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.52A	1,900,000	1,900,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.53A	2,200,000	2,200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.54A	1,400,000	1,400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.55A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.56A	2,500,000	2,500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.57A	600,000	600,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.58A	900,000	900,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.59A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.5B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.60A	1,000,000	1,000,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.61A	6,000,000	6,000,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.62A	1,200,000	1,200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.63A	900,000	900,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.64A	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.65A	1,100,000	1,100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.66A	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.67A	500,000	500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.68A	700,000	700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.69A	600,000	600,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.6A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.70A	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.71A	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.72B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.73A	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.74A	4,600,000	4,600,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.75B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.76A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.77A	900,000	900,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.78A	700,000	700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.79A	2,700,000	2,700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.7A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.80A	600,000	600,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.81A	800,000	800,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.82A	100,000	100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.83A	1,700,000	1,700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.84A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.85B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.86B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.87A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.88A	1,300,000	1,300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.89A	1,500,000	1,500,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.8A	2,800,000	2,800,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.90A	4,700,000	4,700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.91A	700,000	700,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.92B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.93A	1,100,000	1,100,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.94A	1,300,000	1,300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.95A	1,400,000	1,400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.96B	300,000	300,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.97B	200,000	200,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413.9A	400,000	400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 KMUR0	SDB982238413A	2,400,000	2,400,000	27-Sep-07
MTG02130	MDX ABX.HE.AAA.06-2 A50 CN3N0	LTAA0982233571	100,000,000	(100,000,000)	26-Sep-07

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

JOSHUA S. BIRNBAUM
Former Managing Director
Structured Products Group Trading
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
JOSHUA S. BIRNBAUM
Former Managing Director
Structured Products Group Trading
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. Is it, or was it, your understanding or belief that one or more individuals within Goldman Sachs ("Goldman") believed that the ABS desk made money in 2007 primarily from a single short trade (the "Trade")? If so, provide the following information.

   (a) Identify by name and job title any individuals that you understood held that belief.

   (b) Describe in detail the Trade to which you understood any such individuals to be referring.

   (c) State the notional value of the Trade.

   (d) Describe in detail the assets or positions that were included or referenced in the Trade.

   (e) Describe in detail how Goldman unwound or covered the positions acquired in the Trade.

   (f) State when Goldman unwound or covered the positions acquired in the Trade.

   (g) State the amount of profit made, or loss avoided, by Goldman from the Trade.

   If you are unable to provide complete answers to any of the foregoing questions, identify the persons within Goldman who would be able to provide the answers or information requested.

2. Is it or was it your understanding or belief that by June 2007, all CDO and RMBS positions retained by SPG Trading were identified and already hedged?

3. Is it or was it your understanding or belief that after the Bear Stearns Asset Management (BSAM) unwind in 2007, SPG Trading initiated shorts on an outright basis, with no accompanying CDO or RMBS retained position longs? If so, what was the dollar value of the short position acquired as a result off that activity?

4. Is it or was it your understanding or belief that the shorts referenced in Question 3, above, were not a hedge?

5. Exhibit 86 from the Subcommittee's hearing on April 27, 2010, is an email dated September 19, 2006, from Peter Ostrem to the FICC-SPCDOGROUP. The email states:

> "We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1.5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . ."

(a) Was the transaction described in this email carried out? Was the transaction Hudson Mezzanine Funding 2006-1 ("Hudson Mezzanine")? If not, what was the name of the transaction?

(b) Identify by name and job title the individuals in the Mortgages Department who were involved in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine, and the activities related to the transaction that each of them engaged in.

(c) Describe in detail any role you had in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

(d) Describe in detail any role the ABS desk had in the origination, formulation, design, approval, or implementation of Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.

(e) Was the Hudson Mezzanine transaction a proprietary transaction?

(f) What did you understand the phrase "for the desk" to mean?

(g) Was the purpose of the transaction described in Mr. Ostrem's email to enable the ABS desk to reduce cash or swap positions (and the risk associated with those positions) that the ABS desk held? If not, what was the purpose of the transaction?

(h) Identify any committee or individual at Goldman that approved this transaction.

(i) Identify any employee of Goldman or its affiliates and any third parties who were involved in the identification and selection of the assets referenced in the Hudson Mezzanine transaction and describe in detail the nature of their involvement.

(j) List the criteria used to identify and select the assets that were referenced in the Hudson Mezzanine transaction.

(k) Based on your knowledge or belief, identify the reasons why Hudson Mezzanine was "a trade [Goldman] need[ed] to execute for the desk over the next 4-6 weeks."

(l) Based on your knowledge or belief, identify the reasons why the Hudson Mezzanine transaction "involve[d] selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale)."

(m) Was the Camber 7 transaction delayed to develop the Hudson Mezzanine transaction? If so, explain why.

6. During your tenure in the Mortgages Department at Goldman, did you ever intentionally fail to respond to a request for a bid or an offer to purchase from a customer or another broker-dealer? If so, explain the circumstances.

7. During your tenure in the Mortgages Department at Goldman, did you ever knowingly make a non-competitive response to a request for a bid or an offer to purchase?

8. During your tenure in the Mortgages Department at Goldman, did you ever inform a customer or a broker-dealer that Goldman did not make a market in any ABX product in order to avoid selling or purchasing that product?

9. Exhibit 34 from the Subcommittee's hearing on April 27, 2010, is a series of emails dated August 21, 2007, and entitled "RE: Potential large subprime trade and impact on Firmwide VAR." The first email in the chain, at the bottom of the page, was written by you. It reads:

> "- The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.

- We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.
- Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.
- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
- On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.
- On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted] and 100% of the AAAs from [redacted] to [redacted] and [redacted]."

(a) Was the transaction or series of transactions (hereinafter "transaction") you proposed in your email ("We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts"), or a transaction similar to the one you identified in your email, implemented? If so, provide the following information.

(b) Describe the purpose of the transaction.

(c) Describe in detail your role in this transaction.

(d) Identify the assets involved.

(e) Identify any entity involved in the transaction and its role.

(f) Describe and state the notional value of each the assets involved or referenced in the transaction.

(g) Identify when the transaction took place.

(h) Identify the Goldman personnel who participated in this transaction and the roles they performed.

(i) Identify the Goldman personnel who reviewed or approved this transaction.

(j) State the value when sold or, if retained, the current value of the assets involved in this transaction.

10. Exhibit 30 from the Subcommittee's hearing on April 27, 2010, contains an email from Mr. Sparks, dated August 14, 2007. It is entitled "Post." Included in the email is the following paragraph written by Mr. Sparks:

> "(2) AAA ABX and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly."

(a) Is the transaction addressed in Question 9, above, related to the transaction addressed in the email written by Mr. Sparks?

(b) If so, explain how they are related and whether they were separately implemented.

(c) If the transactions were not related, explain how they were different, and how the transaction identified by Mr. Sparks was implemented.

11. Exhibit 55b from the Subcommittee's hearing on April 27, 2010, is an excerpt from Mr. Swenson's 2007 EMD Review. On page 2, in the last sentence of point 3 under the Self-Review section, Mr. Swenson wrote:

> "I oversaw and directed the covering of $9bb of AAA ABX that the department was short and was able to monetize approx $250mm of p and l for the origination businesses."

(a) Is the transaction addressed in Question 9, above, related to the transaction addressed in Mr. Swenson's 2007 EMD Review?

(b) If so, explain how they are related and whether they were separately implemented.

(c) If the transactions were not related, explain how they were different, and how the transaction identified by Mr. Swenson was implemented.

12. A Goldman graph entitled "RMBS Subprime Notional History" is Exhibit 56(a) in the Subcommittee's hearing on April 27, 2010. It shows that Goldman had a net short position of approximately $8 billion on a notional basis in November 2006 (hereafter the "short position") on the ABX AAA index (hereafter "ABX AAA").

(a) When did Goldman's short position in ABX AAA first reach approximately $8 billion on a notional basis?

(b) Who within Goldman had knowledge of the full extent of the notional short position in ABX AAA during FY 2006 and FY 2007?

(c) Who was responsible for reviewing and approving the size of the short position in ABX AAA?

(d) Whose capital was used to acquire the approximately $8 billion notional short position in ABX AAA?

(e) Did you understand the short position to be a Goldman proprietary position?

(f) Did the approximately $8 billion notional short position in ABX AAA include the short positions in ABX AAA held by the desks under the control of Messrs. Gasvoda, Nichols, and Finck?

(g) When did Goldman begin to monetize the $8 billion notional short position in ABX AAA? How was that accomplished?

13. (a) In 2007, did the Mortgages Department cover the ABX AAA short position and then, after August 1, go long on the ABX AAA?

(b) If so, identify the specific trades that resulted in the long ABX AAA position, including the dates of the trades, the amounts involved, and the identity of each counterparty.

(c) Did the Mortgages Department hedge its long ABX AAA position? If so, how and when?

14. Identify the greatest total notional amount by which the Mortgages Department went long on the ABX AAA after August 1, 2007, and the date on which that position was reached.

15. Did the Mortgages Department monetize or unwind its ABX AAA long position during the period August 1, 2007 through the end of FY 2007? If so, provide the date of each transaction used to monetize or unwind the long position, and the notional amount by which the long position was reduced.

16. Provide the total net profit or loss to the Mortgages Department from the ABX AAA transactions during the 4th quarter of FY 2007.

✧ ✧ ✧

Schulte Roth&Zabel LLP

1152 Fifteenth Street, NW, Suite 850
Washington, DC 20005
202.729.7470
202.730.4520 fax

www.srz.com

Writer's Direct Number
202.729.7476

Writer's E-mail Address
peter.white@srz.com

June 21, 2010

VIA EMAIL (mary_robertson@hsgac.senate.gov)

The Honorable Carl Levin
c/o Mary Robertson, Chief Clerk
United States Senate
Committee on Homeland Security and Governmental Affairs
Washington, DC 20510-6250

Re: Permanent Subcommittee on Investigations' Follow Up Questions

Dear Senator Levin:

Enclosed please find, on behalf of Joshua S. Birnbaum, responses to the questions posed in your letter dated May 24, 2010 following the April 27, 2010 hearing. As you are aware, Mr. Birnbaum is no longer employed by Goldman Sachs and therefore does not have access to the documents and other sources of information needed to answer many of the supplemental questions.

Should you have any further questions, please contact me.

Sincerely,

Peter H. White

Enclosure

DOC ID-11208193.1

Responses of Joshua S. Birnbaum to
Additional Questions Posed by the
Permanent Subcommittee on Investigations

1. I do not believe that the profitability of the ABS desk in 2007 was driven primarily by a single short trade, and do not know of anyone at Goldman Sachs ("Goldman") who thought it was.

2. I do not know whether all CDO and RMBS positions retained by SPG Trading were identified and already hedged by June 2007. I did not retain the records from my time with Goldman relevant to making such a determination. In any event, as I testified, there was significant debate within Goldman regarding the extent of our CDO and RMBS exposures and how to hedge them in part because hedging in this space is not subject to discrete, clear-cut mapping. Goldman would be better able to provide the details asked for in this question.

3. In late June and July 2007, SPG Trading sold the ABX index and bought protection in the single name market, thereby lessening that book's long exposure and increasing its short exposures. Because I did not retain records from my time at Goldman, I do not know the dollar value of the short position acquired as a result of that activity. Goldman would be better able to provide the details asked for in this question.

4. I do not know whether "the shorts referenced in Question 3" were a hedge because I do not recall the extent of those positions or the other long investments Goldman held at that time, and do not have the records necessary to make such a determination. Goldman would be better able to provide the details asked for in this question.

5. I did not receive the email and do not know what is meant by the various phrases the Subcommittee has quoted from that message. Though I do not have access to all of the documents that might help refresh my recollection at this time, I believe the concept referenced in this email became the Hudson Mezzanine Funding 2006-1 transaction. Other than Peter Ostrem, who sent this email, I do not remember who else was involved in the origination, formulation, design, approval or implementation of this transaction, or in the sale of securities issued by the Hudson Mezzanine. I do not recall having any role in that process, other than perhaps providing pricing for the ABX Index, and do not remember whether anyone else on the ABS desk had such a role. I do not know who approved the transaction or selected its referenced assets, or what the criteria for selection were. I believe that the purpose of the transaction was to provide clients interested in purchasing subprime risk exposure with a diversified portfolio that included CDS from the single names that were included in the 06-1 and 06-2 ABX Index and other single name CDS which, if attractive to investors, could also reduce the ABS trading desk's long position in the ABX Index. I do not know what the Subcommittee means by the term "proprietary," but this was not a proprietary transaction as I understand the meaning ascribed to that term by Goldman and the broader Wall Street community. I do not recognize the name "Camber 7."

6. During my tenure at the Mortgage Department at Goldman, in connection with our role as a market maker, we provided liquidity to customers who requested bids or offers in the context of the market. I do not recall intentionally failing to respond to a customer request for a bid or an offer. It would not be unusual for a broker to not respond to another broker's requests and market practice does not dictate any obligation to provide liquidity to counterparties that are not clients.

7. As I do not understand what is meant by "a non-competitive response to a request for a bid or an offer to purchase," I cannot answer the Committee's question as posed.

8. I do not recall informing any customers that Goldman did not make a market in any ABX product in order to avoid selling or purchasing that product.

9. The transaction I proposed in this email was not implemented. Its purpose would have been to hedge our desk's existing mezzanine subprime BBB short position by purchasing a significant AAA long position.

10. The transaction addressed in the email from Mr. Sparks dated August 14, 2007 was related to the transaction addressed in Question 9, but I do not believe either was implemented as described.

11. The transaction referenced in Mr. Swenson's 2007 EMD review was not related to the transaction addressed in Question 9. The transaction referenced in the emails referenced in Questions 9 and 10 proposed to purchase AAA long positions to offset existing BBB short positions. The transaction described in Mr. Swenson's EMD review covered short AAA positions held outside the SPG Trading group.

12. The graph entitled "RMBS Subprime Notional History" is misleading to the extent that it purports to amalgamate positions that cannot be offset against one another from a risk management perspective. *See* Transcript of Proceedings, United States Senate, Permanent Subcommittee on Investigations, April 27, 2010, at 75-76. Combining these very different positions in this way does not reflect the firm's position or what would happen to the firm's profit and loss statement to the extent the market moved up and down. I do not have access to the records necessary to determine when Goldman's short position in ABX AAA reached any particular level on a notional basis, and do not believe this number to be particularly meaningful from a risk management perspective. I cannot answer the question further as I did not take those records with me when I left Goldman. Goldman would be better able to provide the details asked for in this question.

13. I recall that the Mortgage Department covered many of its ABX AAA short positions in mid 2007, but do not recall whether the Department went net long after August 1, 2007. As I am not certain there was a long ABX AAA position after August 1, 2007, and as I did not retain the relevant documents after leaving Goldman, I cannot provide the information requested regarding trading and hedging activity. Goldman would be better able to provide the details asked for in this question.

14. As I did not retain the documents relevant to this issue after leaving Goldman, I cannot determine the greatest total notional amount by which the Mortgage Department went

long on the ABX AAA after August 1, 2007. In fact, as mentioned above, I do not even know whether the Department actually went long on the ABX AAA after August 1, 2007. Goldman would be better able to provide the details asked for in this question.

15. Without access to the relevant records, I cannot answer whether the Mortgage Department monetized or unwound some or all of its ABX AAA position between August 1, 2007 and the end of the year. Goldman would be better able to provide the details asked for in this question.

16. I do not know the total net profit or loss to the Mortgage Department from the ABX AAA transactions during the fourth quarter of FY 2007. Goldman would be better able to provide the details asked for in this question.

Schulte Roth&Zabel LLP

1152 Fifteenth Street, NW, Suite 850
Washington, DC 20005
202.729.7470
202.730.4520 fax

www.srz.com

Writer's Direct Number
202.729.7476

Writer's E-mail Address
peter.white@srz.com

October 20, 2010

VIA COURIER

The Honorable Carl Levin
Attn: Mr. Bob Roach
United States Senate
Committee on Homeland Security and Governmental Affairs
199 Russell Senate Office Building
Washington, DC 20510-6250

Re: Supplemental Responses to Selected Permanent Subcommittee on Investigations Follow Up Questions

Dear Senator Levin:

We write on behalf of Joshua S. Birnbaum to supplement responses to certain questions posed in your May 24, 2010 letter following his testimony at the April 27, 2010 hearing. During Mr. Birnbaum's second interview with your staff on October 1, 2010, it was revealed that a draft of a document Mr. Birnbaum wrote in 2007 (SPG Trading - 2007, GS MBE-E-015654036-50, copy attached) was quoted extensively, without citation, in certain follow up questions posed to Mr. Birnbaum (specifically Questions 1-4). Unfortunately, Mr. Birnbaum did not have a copy of that document at the time he responded to the May 24 questions and, therefore, could not use it to refresh his recollection of events that occurred several years ago. Curiously, nothing in the questions indicated that your staff had incorporated quotations from a document, unlike the many other questions posed where the your staff clearly indicated that it was quoting from documents that had been provided to Mr. Birnbaum. We cannot understand what legitimate reason the staff would have for neither providing the document nor even disclosing that it was quoting a particular document in posing these questions. Without the benefit of that document, Mr. Birnbaum was not able to answer all of the questions in his written responses. In fact, his response to the questions at issue specifically noted that he did not have the documents necessary to refresh his recollection.

Having now reviewed the document quoted in the questions posed, Mr. Birnbaum's recollection is refreshed regarding certain events that occurred during 2006 and 2007. Accordingly, even though nothing contained in the document is inconsistent with Mr. Birnbaum's June 21, 2010 responses, we wish to supplement those responses as follows:

1. ***Question**: Is it, or was it, your understanding or belief that one or more individuals at Goldman Sachs ("Goldman") believed that the ABS desk made money in 2007 primarily from a single short trade (the "Trade")? If so, provide the following information.*

   (a) Identify by name and job title any individuals that you understood held that belief.

   (b) Describe in detail the Trade to which you understood any such individuals to be referring.

   (c) State the notional value of the Trade.

   (d) Describe in detail the assets or positions that were included or referenced in the Trade.

   (e) Describe in detail how Goldman unwound or covered the positions acquired in the Trade.

   (e) State when Goldman unwound or covered the positions acquired in the Trade.

   (f) State the amount of profit made, or loss avoided, by Goldman from the Trade.

   If you are unable to provide complete answers to any of the foregoing questions, identify the persons within Goldman who would be able to provide the answers or information requested.

   Previous Answer: I do not believe that the profitability of the ABS desk in 2007 was driven primarily by a single short trade, and do not know of anyone at Goldman Sachs ("Goldman") who thought it was.

   Supplemental Answer: In late 2007, I drafted a deck of PowerPoint slides entitled "SPG Trading - 2007" for possible use in the compensation process at Goldman. GS MBS-E-015654036-050 (attached). We ultimately decided not to use that document in connection with the 2007 compensation process and, at the time I responded to the Subcommittee's written questions, I did not recall even having created an unused draft of it. In that document, there was a slide dedicated to debunking the potential misimpression about SPG Trading that "2007 was a unique event, desk made money primarily from a single short trade, results not likely to be repeatable." GS MBS-E-015654041. This is the document which the Subcommittee was quoting in Question #1 (*"desk made money in 2007 primarily from a single short trade"*). The document goes on to state: "Revenues in 2007 were diversified across many different strategies (directional both long and short, capital structure, index/SN [ABX Index/Single Names] basis, tiering, idiosyncratic, flow trading). We switched direction several times with well-timed calls relative to subsequent market moves." *Id.* Having now reviewed the document quoted in this question, which was not available to me at the time I answered the Subcommittee's questions previously, I stand by my prior answer.

2. ***Question**: Is it or was it your understanding or belief that by June 2007, all CDO and RMBS positions retained by SPG Trading were identified and already hedged?*

Previous Answer: I do not know whether all CDO and RMBS positions retained by SPG Trading were identified and already hedged by June 2007. I did not retain the records from my time with Goldman relevant to making such a determination. In any event, as I testified, there was significant debate within Goldman regarding the extent of our CDO and RMBS exposures and how to hedge them in part because hedging in this space is not subject to discrete, clear-cut mapping. Goldman would be better able to provide the details asked for in this question.

Supplemental Answer: As noted in my previous answer, because I did not have access to the records in the possession of the Subcommittee and Goldman when I answered this question, I did not know whether all CDO and RMBS positions retained by SPG Trading were identified and already hedged, nor did I recall whether I held that belief as of June 2007. Without the benefit of the PowerPoint slides entitled "SPG Trading - 2007," my initial answer was based on what I was able to recall. The staff recently showed me the deck of "SPG Trading - 2007" PowerPoint slides that helped refresh my recollection. In that document, which we ultimately decided not to use in the compensation process, I stated: "By June, all retained CDO and RMBS positions [retained by SPG Trading] were identified and already hedged." GS MBS-E-015654044. Having now reviewed the document, I recall that I did believe, in late 2007, that all CDO and RMBS positions retained by SPG Trading were identified and already hedged by June 2007. As I testified, though, there was significant debate within Goldman regarding the extent of our CDO and RMBS exposures and how to hedge them in part because hedging in this space is not subject to discrete, clear-cut mapping.

3. ***Question**: Is it or was it your understanding or belief that after the Bear Stearns Asset Management (BSAM) unwind in 2007, SPG Trading initiated shorts on an outright basis, with no accompanying CDO or RMBS retained position longs? If so, what was the dollar value of the short position acquired as a result of that activity?*

Previous Answer: In late June and July 2007, SPG Trading sold the ABX index and bought protection in the single name market, thereby lessening that book's long exposure and increasing its short exposures. Because I did not retain records from my time at Goldman, I do not know the dollar value of the short position acquired as a result of that activity. Goldman would be better able to provide the details asked for in this question.

Supplemental Answer: In late 2007, in the deck of PowerPoint slides entitled "SPG Trading - 2007" that we ultimately did not use in the compensation process, I stated that "SPG trading reinitiated shorts post BSAM unwind on an outright basis with no accompanying CDO or RMBS retained position longs." GS MBS-E-015654044. Having reviewed the document the staff did not previously identify, I can now recall that, as of late June and July 2007, I believed that this SPG Trading activity resulted in the initiation of shorts on an outright basis with no accompanying CDO or RMBS retained position longs following the Bear Stearns Asset Management unwind in 2007. Even without the

benefit of the document quoted by the Subcommittee without citation in this question, my previous answer was accurate.

4. **Question**: *Is it or was it your understanding or belief that the shorts referenced in Question 3, above, were not a hedge?*

Previous Answer: I do not know whether "the shorts referenced in Question 3" were a hedge because I do not recall the extent of those positions or the other long investments Goldman held at that time, and do not have the records necessary to make such a determination. Goldman would be better able to provide the details asked for in this question.

Supplemental Answer to Questions 3 and 4: In late 2007, in the deck of PowerPoint slides entitled "SPG Trading - 2007" that we ultimately did not use in the compensation process, I stated that "SPG trading reinitiated shorts post BSAM unwind on an outright basis with no accompanying CDO or RMBS retained position longs. In other words, the shorts *were not a hedge*." GS MBS-E-015654044 (emphasis in original). Having reviewed the document the staff did not previously provide me, I can now recall that, as of late June and July 2007, I believed that this SPG Trading activity resulted in the initiation of shorts on an outright basis with no accompanying CDO or RMBS retained position longs following the Bear Stearns Asset Management unwind in 2007, and that these short positions were not a hedge. At the time, as I previously testified, my desk traded, within firm-established risk parameters, with a short bias, resulting in a net short position for the SPG Trading desk. Opening Statement of Josh Birnbaum, United States Senate, Permanent Subcommittee on Investigations, April 27, 2010, at 2-3. Even without the benefit of the document quoted by the Subcommittee without citation in these questions, my previous answers were accurate.

5. *Question: Exhibit 86 from the Subcommittee's hearing on April 27, 2010, is an email dated September 19, 2006, from Peter Ostrem to the FICC-SPCDOGROUP. The email states:*

> *"We have been asked to do a CDO of $2bln for the ABS desk. Approx. $1.2bln will be CDS off single-names referenced from the ABS index 06-1 and 06-2. This is a trade we need to execute for the desk over the next 4-6 weeks and involves selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale). I would like everyone to work together on this one. We expect to charge ongoing 10bp liquidation agent fees and 1-1. 5pts upfront. Equity will be offered around 22% no-loss yield. Obviously important to overall SP floor and Sobel and Sparks are focused on this happening . . ."*

(a) *Was the transaction described in this email carried out? Was the transaction Hudson Mezzanine Funding 2006-1 ("Hudson Mezzanine")? If not, what was the name of the transaction?*

(b) *Identify by name and job title the individuals in the Mortgages Department who were involved in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine, and the activities related to the transaction that each of them engaged in.*

(c) *Describe in detail any role you had in the origination, formulation, design, approval, or implementation of the Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.*

(d) *Describe in detail any role the ABS desk had in the origination, formulation, design, approval, or implementation of Hudson Mezzanine transaction, or in the sale of securities issued by Hudson Mezzanine.*

(e) *Was the Hudson Mezzanine transaction a proprietary transaction?*

(f) *What did you understand the phrase "for the desk" to mean?*

(g) *Was the purpose of the transaction described in Mr. Ostrem's email to enable the ABS desk to reduce cash or swap positions (and the risk associated with those positions) that the ABS desk held? If not, what was the purpose of the transaction?*

(h) *Identify any committee or individual at Goldman that approved this transaction.*

(i) *Identify any employee of Goldman or its affiliates and any third parties who were involved in the identification and selection of the assets referenced in the Hudson Mezzanine transaction and describe in detail the nature of their involvement.*

(j) *List the criteria used to identify and select the assets that were referenced in the Hudson Mezzanine transaction.*

(k) *Based on your knowledge or belief, identify the reasons why Hudson Mezzanine was "a trade [Goldman] need[ed] to execute for the desk over the next 4-6 weeks."*

(l) *Based on your knowledge or belief, identify the reasons why the Hudson Mezzanine transaction "involve[d] selling half the equity (at least 30mm to sell) and the seniors and the mezz (at least half the BBBs to get true sale)."*

(m) *Was the Camber 7 transaction delayed to develop the Hudson Mezzanine transaction? If so, explain why.*

Previous Answer: I did not receive the email and do not know what is meant by the various phrases the Subcommittee has quoted from that message. Though I do not have access to all of the documents that might help refresh my recollection at this time, I believe the concept referenced in this email became the Hudson Mezzanine Funding 2006-1 transaction. Other than Peter Ostrem, who sent this email, I do not remember

who else was involved in the origination, formulation, design, approval or implementation of this transaction, or in the sale of securities issued by the Hudson Mezzanine. I do not recall having any role in that process, other than perhaps providing pricing for the ABX Index, and do not remember whether anyone else on the ABS desk had such a role. I do not know who approved the transaction or selected its referenced assets, or what the criteria for selection were. I believe that the purpose of the transaction was to provide clients interested in purchasing subprime risk exposure with a diversified portfolio that included CDS from the single names that were included in the 06-1 and 06-2 ABX Index and other single name CDS which, if attractive to investors, could also reduce the ABS trading desk's long position in the ABX Index. I do not know what the Subcommittee means by the term "proprietary," but this was not a proprietary transaction as I understand the meaning ascribed to that term by Goldman and the broader Wall Street community. I do not recognize the name "Camber 7."

Supplemental Answer: The previous answer is accurate. I do not recall having an active role in the origination, formulation, design, approval or implementation of Hudson Mezzanine Funding 2006-1, or in the sale of securities issued by that transaction. Having reviewed additional documents regarding the transaction, it appears that I passed along information and a point of contact for the transaction to another Goldman employee, and that I may have also provided pricing levels for the ABX Index, which may have been used by the Goldman employee(s) in charge of pricing the transaction. I am not sure how others at Goldman prioritized the motivations for performing the Hudson transaction, but I continue to believe the purpose was as I described above. I, along with most other Wall Street professionals I know, define the term "proprietary trading" to include only those trades which involve no customers. Under that definition, street facing desks like Goldman's ABS and CDO desks do not engage in proprietary trading.

12. ***Question**: A Goldman graph entitled "RMBS Subprime Notional History" is Exhibit 56(a) in the Subcommittee's hearing on April 27, 2010. It shows that Goldman had a net short position of approximately $8 billion on a notional basis in November 2006 (hereafter the "short position") on the ABX AAA index (hereafter "ABX AAA").*

(a) When did Goldman's short position in ABX AAA first reach approximately $8 billion on a notional basis?

(b) Who within Goldman had knowledge of the full extent of the notional short position in ABX AAA during FY 2006 and FY 2007?

(c) Who was responsible for reviewing and approving the size of the short position in ABX AAA?

(d) Whose capital was used to acquire the approximately $8 billion notional short position in ABX AAA?

(e) Did you understand the short position to be a Goldman proprietary position?

(f) *Did the approximately $8 billion notional short position in ABX AAA include the short positions in ABX AAA held by the desks under the control of Messrs. Gasvoda, Nichols, and Finck?*

(g) *When did Goldman begin to monetize the $8 billion notional short position in ABX AAA? How was that accomplished?*

Previous Answer: The graph entitled "RMBS Subprime Notional History" is misleading to the extent that it purports to amalgamate positions that cannot be offset against one another from a risk management perspective. *See* Transcript of Proceedings, United States Senate, Permanent Subcommittee on Investigations, April 27, 2010, at 75-76. Combining these very different positions in this way does not reflect the firm's position or what would happen to the firm's profit and loss statement to the extent the market moved up and down. I do not have access to the records necessary to determine when Goldman's short position in ABX AAA reached any particular level on a notional basis, and do not believe this number to be particularly meaningful from a risk management perspective. I cannot answer the question further as I did not take those records with me when I left Goldman. Goldman would be better able to provide the details asked for in this question.

Supplemental Answer: The previous answer is accurate. To explain further, the graph entitled "RMBS Subprime Notional History" is misleading in the context for which it was used at the Permanent Subcommittee on Investigations ("PSI") hearing for two reasons. First, the graph fails to include non-synthetic positions, like cash and loans, some of which were hedged by the short positions noted in the graph. As these excluded positions are long positions, this graph is an incomplete depiction of the risk position held in the Mortgage Department at any given time, overstating the extent to which the Department was short the market. Second, as noted previously, the graph purports to amalgamate positions that cannot be offset against one another from a risk management perspective. As such, I believe that this graph is not particularly meaningful from a risk management perspective and does not accurately depict how long or short Goldman or its Mortgage Department was during 2007. While the chart which is PSI Exhibit #162 (Goldman Sachs Mortgage Department Total New Short Position, February - December 2007 in $ Billions (Including All Synthetic and Cash Positions in Mortgage Related Products), Prepared by the U.S. Senate PSI, April 2010) appears to fix the first of these problems, even it does not account for the second problem, as it too amalgamates positions that cannot be offset against one another from a risk management perspective. For example, one cannot tell from this amalgamated position alone whether the firm would make or lose money in a declining market.

We appreciate this opportunity to supplement the record. Should you have any further questions, please contact me.

Sincerely,

Peter H. White /KEK

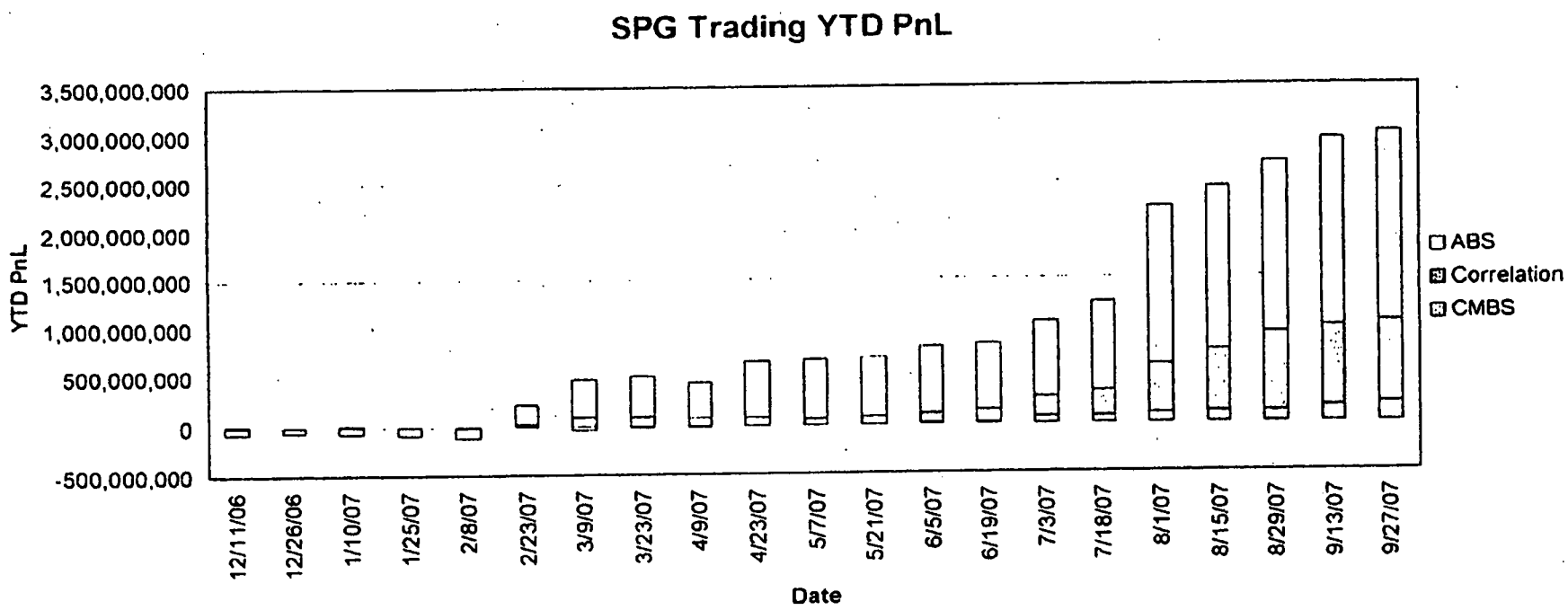
Peter H. White

SPG Trading - 2007

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Highlights: Revenue

- YTD: $3.0Bln, with revenue growing steadily over the year with little fluctuation. RMBS-related revenues: #1 on the street by a wide margin. #2 in the world behind Paulson Partners.



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Highlights: Franchise

- #1 Franchise on the street, perceived as *the* thought leaders by the customer base.
- Largest market share: est 30-40%
- Voted #1 franchise in ABS CDS based on *Risk Magazine* end user survey of institutional investors.

Confidential Treatment Requested by Goldman Sachs

Highlights: Assumed responsibility for CDOs

- SPG Trading assumed responsibility for the CDO business and risk while the market was collapsing, helping mitigate losses and reduce risk (Warehouse and retained positions) before our competitors.

- Results out of DB, Citi, UBS, Bear, Lehman, etc. all bear evidence that we were far ahead of our competition in marking down positions and moving CDO risk before the market cratered and came to a standstill post-BSAM.

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Potential qualifications

- 1. "2007 was a unique event, desk made money primarily from a single short trade, results not likely to be repeatable."
- 2. "SPG trading would not have been permitted to be as short, if management was not attempting to offset risk in retained longs in other parts of department."
- 3. "Revenue was achieved taking very significant risk. Results less impressive when risk-adjusted."
- 4. "Discussing a HFE (hedge fund equivalent) percentage payout is inappropriate because much of the revenue came from the franchise, i.e. sitting in the seat."
- 5. "Cannot pay SPG trading team based on stand-alone p&l, must consider the results for the entire mortgage department."

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Responses to qualifications

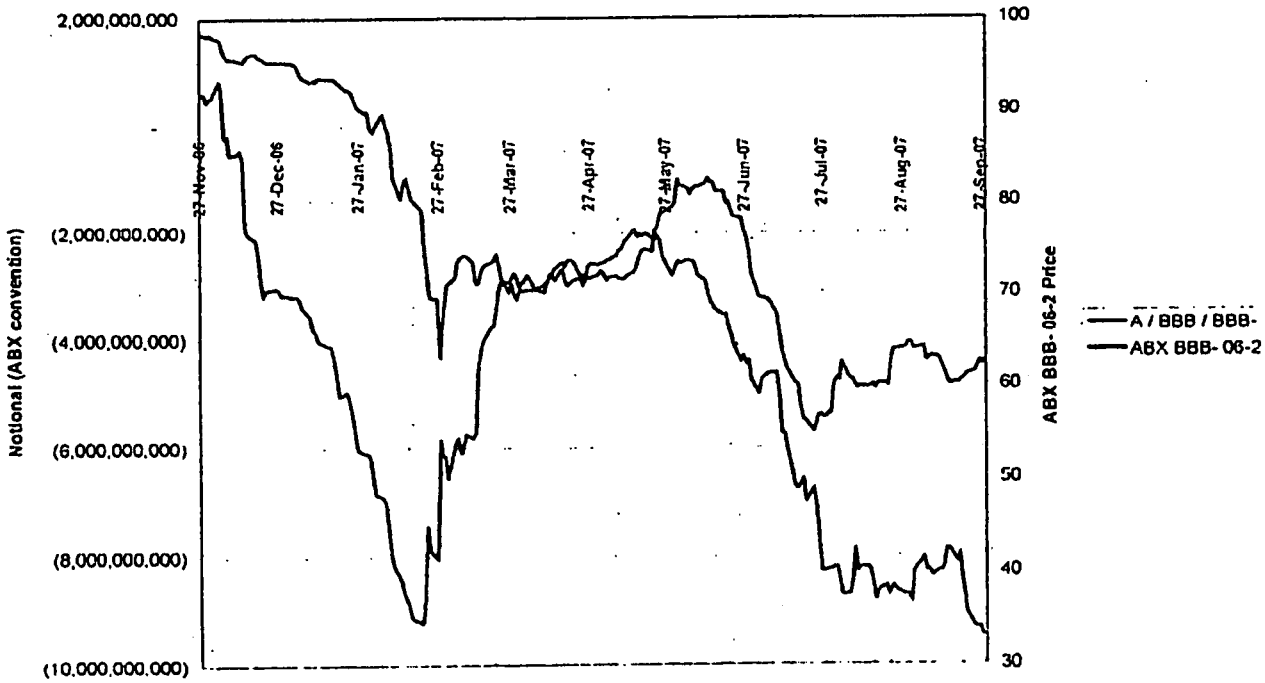
- 1. "2007 was a unique event, desk made money primarily from a single short trade, results not likely to be repeatable."

- FALSE. Revenues in 2007 were diversified across many different strategies (directional both long and short, capital structure, index/SN basis, tiering, ideosyncratic, flow trading). We switched direction several times with well-timed calls relative to subsequent market moves (Graphs #1, #2). Most of these opportunities are in place for 2008. Revenue projection for 2008 is $1.2 Bln reflecting a diverse set of opportunities. The opportunity set is much more than simply buying/trading distressed.

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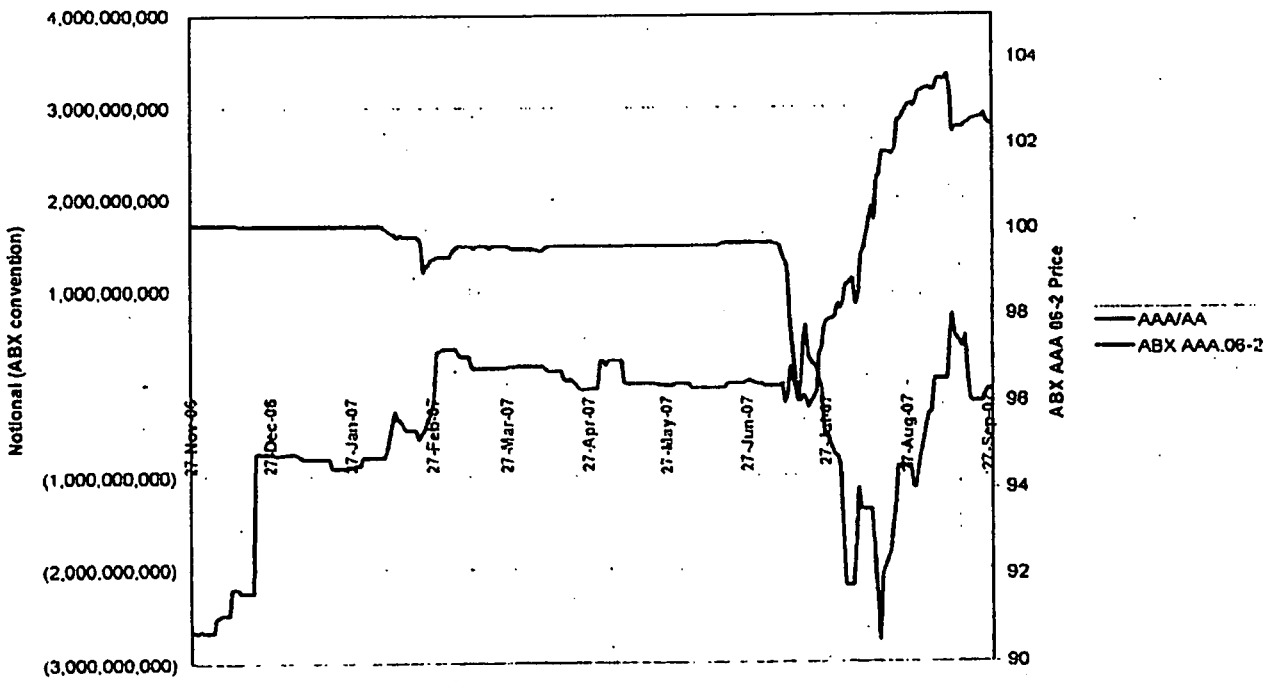
Graph #1

Graph #2: RMBS Subprime Notional History
– Mezzanine / bottom of the capital structure –
(ABS Base Portfolio)



Graph #2

Graph #1: RMBS Subprime Notional History
– Top of the capital structure –
(ABS Base Portfolio)



Responses to qualifications

- 2. "SPG trading would not have been permitted to be as short, if management was not attempting to offset risk in retained longs in other parts of department."

- FALSE. This statement is inconsistent with how the position evolved. By June, all retained CDO and RMBS positions were identified already hedged. As Graph #1 indicates, SPG trading re-initiated shorts post BSAM unwind on an outright basis with no accompanying CDO or RMBS retained position longs. In other words, the shorts *were not a hedge*.

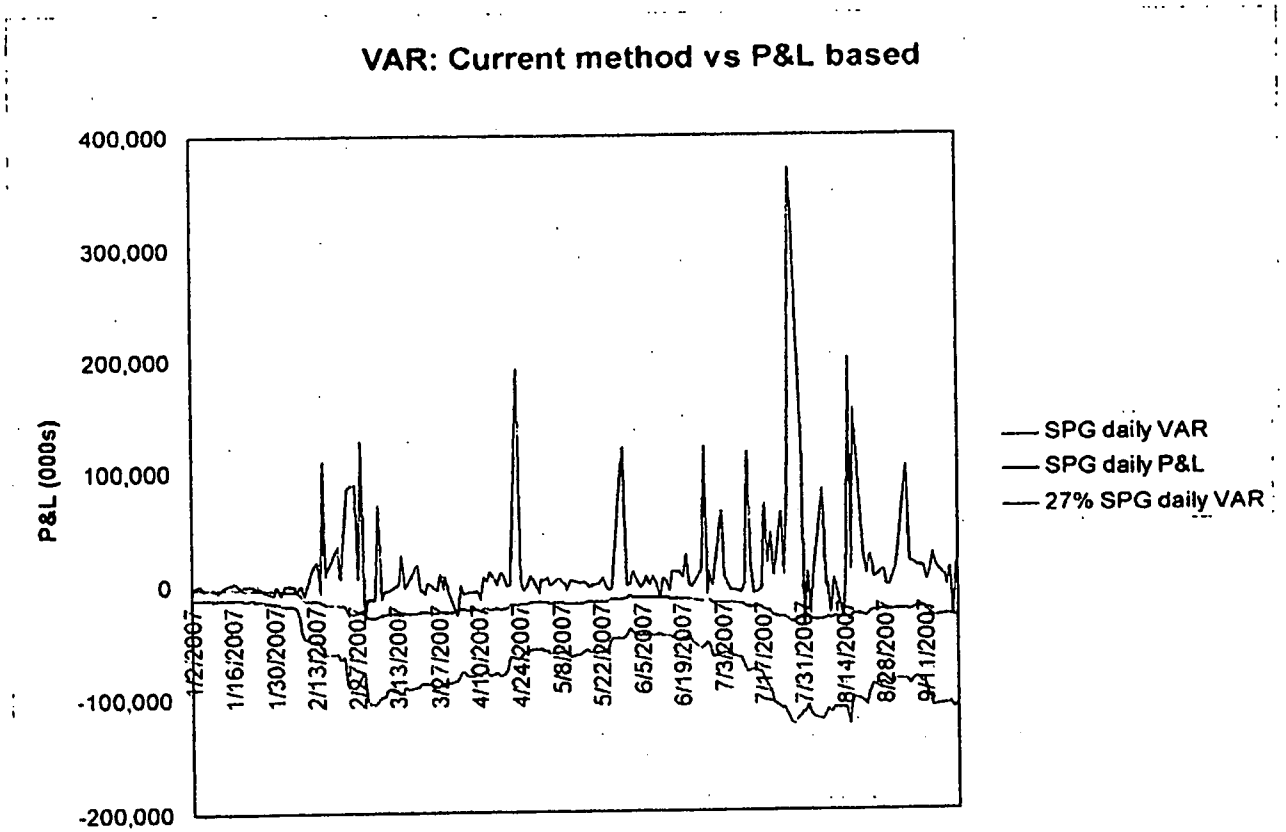
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Responses to qualifications

- 3. "Revenue was achieved taking very significant risk. Results less impressive when risk-adjusted."

  FALSE. SPG Trading's largest down day in 2007 was ($38mm) and SPG trading NEVER came close to losing more money than the daily VAR (Graph #2). In fact, to lose more money than the daily VAR 1 out of 20 times, SPG trading reported VAR would have to be 27% of the what has been reported. The ratio of profit / empirical VAR likely higher for SPG Trading than for the firm as a whole.

Graph #3



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Responses to qualifications

- 4. "Discussing a HFE (hedge fund equivalent) percentage payout is inappropriate because much of the revenue came from the franchise, i.e. sitting in the seat."

- FALSE. If the seat is so valuable, why did no other street firm come close to our performance?

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Responses to qualifications

- 5. "Cannot pay SPG trading team based on stand-alone p&l, must consider the results for the entire mortgage department."

- TRUE. SPG trading recognizes that compensation needs to fit rationally within the confines of the Mortgage Department compensation pool.

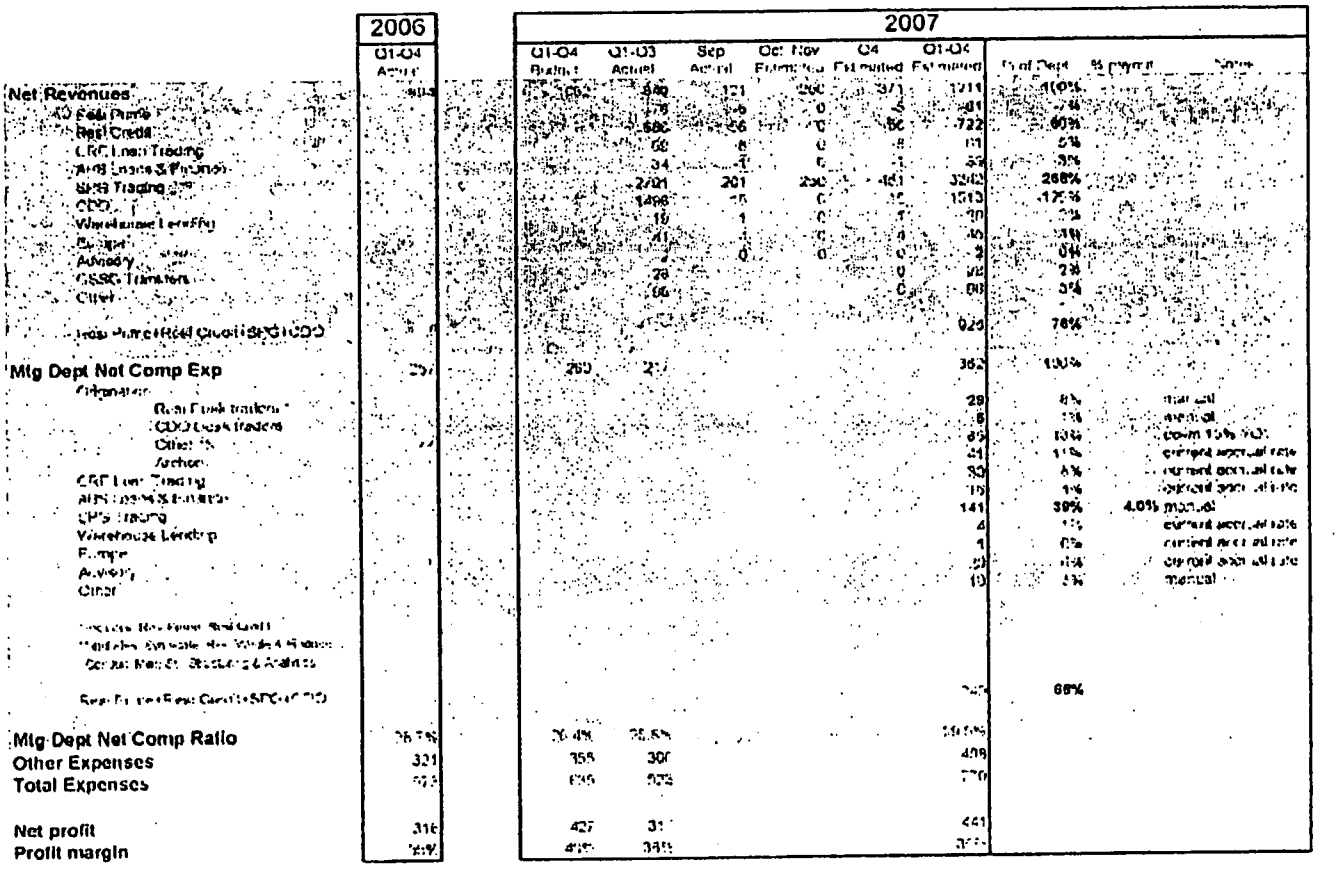
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Proposed Mortgage Department Compensation Breakdown

- SPG trading accounts for 250%-300% of the department's revenue.
- SPG trading seeks ~150mm total comp pool, or roughly 40%-50% of the estimated department-wide pool.
- 141mm equates to a 4.0% payout on estimated revenues.
- The 4 businesses consisting of SPG Trading, CDOs, Resi Prime, Resi Credit account for 76% of dept revenue. Total proposed compensation for 4 businesses = $240mm = 66% of dept revenue.
- Proposed net profit = $441mm vs $316mm in 2006.
- Proposed net profit margin = 36% vs 35% in 2006.

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Proposed Mortgage Department Compensation Breakdown



	2006	2007							
	Q1-Q4 Actual	Q1-Q4 Budget	Q1-Q3 Actual	Sep Actual	Oct Nov Estimate	Q4 Estimated	Q1-Q4 Estimated	% of Dept	% growth
Net Revenues									
Mtg Dept Net Comp Exp									
Mtg Dept Net Comp Ratio									
Other Expenses	321								
Total Expenses									
Net profit	316	427	31				441		
Profit margin									

RESPONSES TO QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations

to

FABRICE P. TOURRE
Executive Director
Structured Products Group Trading
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
FABRICE P. TOURRE
Executive Director
Structured Products Group Trading
The Goldman Sachs Group, Inc.

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF INVESTMENT BANKS
April 27, 2010

Please provide answers to the following questions by June 15, 2010:

1. (a) In the sale of the securities in the Abacus 2007-AC1 transaction ("transaction"), was Goldman Sachs ("Goldman") a placement agent?

   (b) Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?

   (c) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented the transaction, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

   (d) Provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests (including securities) in the transaction. It is not necessary to provide duplicates of the same material, but provide the identity of all persons who received such material.

   (e) Did Goldman advise potential investors whether it had taken steps or planned to use the offering to reduce its own inventory of RMBS or CDO securities or other holdings?

   (f) Did Goldman conduct a suitability analysis in connection with soliciting clients or potential investors to purchase securities issued in the transaction? If so, describe the suitability analysis conducted for each investor that purchased these securities. If

Goldman retained a written record that reflects that such a analysis was conducted provide a copy.

2. (a) In what capacity did Goldman act for Paulson & Co. (together with any of its affiliates, "Paulson") with respect to the Abacus 2007-AC1 transaction or a Credit Default Swap transaction that referenced any or all of the same entities or securities that were referenced in the Abacus 2007-AC1 transaction? Describe in detail Goldman's relationship to Paulson with respect to those transactions, its obligations to Paulson, the nature and amount of any fees or compensation received by Goldman from Paulson relating to those transactions, and whether Goldman advised investors or potential investors in Abacus 2007-AC1 of the existence and nature of its relationship with Paulson.

   (b) If Goldman did so advise investors or potential investors of the nature or existence of the Paulson relationship, identity who so advised investors or potential investors, the date on which that person so advised investors or potential investors, the identity of the investors or potential investors so advised, the manner (i.e. verbal or in writing) in which the person was advised, and the substance of the communication (and, if in writing, provide a copy of the communication).

3. During your appearance before the Subcommittee on April 27, 2010, you engaged in the following exchange with Senator Levin:

   Senator Levin. You did not disclose to ACA that Paulson was on the short side of this deal. Is that correct?

   Mr. Tourre. I did mention to ACA that the expectation was that Paulson was going to buy protection on senior layers of risk in the transaction.

   Senator Levin. That they were going to be only on the short side.

   Mr. Tourre. Yes. (Transcript, pp. 210-211)

   Describe in detail what information was provided to ACA regarding the fact that Paulson was going to be only on the short side, identify to whom at ACA the information was provided, and identify each Goldman representative who provided that information.

4. (a) Did you or any representative of Goldman state to ACA that Paulson would not be an equity investor or otherwise not take any long position in or with respect to the Abacus 2007- AC1 transaction?

(b) If your answer to Question 4(a) is "yes," describe in detail what information was provided to ACA, identify to whom at ACA the information was provided, and identify each Goldman representative who provided that information.

5. Provide a list of any Abacus bonds, from Abacus 2007-AC1 or other Abacus transactions, that Goldman repurchased from the market. List each bond by name, size, and the party from whom it was repurchased.

6. Provide a list of all CDOs containing bonds from Abacus 2007-AC1 or other Abacus transactions. List each bond by name, size, and the CDO that purchased the bond.

7. Provide any document possessed by, generated by, or provided to you related to obtaining a credit rating related to any Abacus transaction by any credit rating agency, including any correspondence, emails, memoranda, or other analysis or exchanges of information.

8. Describe in detail your understanding of Goldman's legal duties of disclosure, pursuant to securities laws and regulations, including rules prescribed by the SEC or FINRA, to purchasers of securities when Goldman acts in any of the following capacities: (a) market maker; (b) underwriter; (b) placement agent; (d) broker (when making a solicitation or recommendation of a security); or (e) a dealer. Include your definition of a "market maker."

9. (a) Does the fact that an investor or a potential investor with whom Goldman is transacting business is an "accredited" investor, a "qualified institutional buyer" or a "qualified purchaser" (as those terms are used in the U.S. federal securities laws) affect the duties and obligations of Goldman when acting in any of the capacities described in Question 8? If so, describe how any of Goldman's duties when acting in any of these capacities are affected by the status of the investor or potential investor.

(b) Does Goldman have a duty to conduct a suitability analysis when making a recommendation to any of the types of investors listed in Question 9(a)? If so, describe the nature and extent of the analysis to be conducted.

(c) Does Goldman owe a duty to disclose any adverse interest that it may have when recommending a security to any of the types of investors listed in Question 9(a)?

✧ ✧ ✧

Responses of Mr. Fabrice P. Tourre to the
Supplemental Questions for the Record of the Permanent Subcommittee on Investigations

1. (a) In the sale of the securities in the Abacus 2007-AC1 transaction ("transaction"), was Goldman Sachs ("Goldman") a placement agent?

As explained in the ABACUS 2007-AC1 offering circular, which I believe was produced previously to the Subcommittee staff, Goldman, Sachs & Co. ("Goldman Sachs") acted as the Initial Purchaser and underwriter, Goldman Sachs Capital Markets, L.P. acted as the Protection Buyer and Basis Swap Provider and Goldman Sachs International acted as the Collateral Put Provider. I do not know if Goldman Sachs was considered a "placement agent."

(b) Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?

The co-issuers of securities for the ABACUS 2007-AC1 transaction were ABACUS 2007-AC1, Ltd. and ABACUS 2007-AC1, Inc., special purpose vehicles ("SPVs") established by or at the request of a Goldman Sachs affiliate for the purpose of the transaction.

(c) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented the transaction, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

In connection with ABACUS transactions, both the syndicate group and the sales force within the Mortgage Department assisted in distributing offering materials to Goldman Sachs clients and potential investors. In addition, Goldman Sachs salespeople were sometimes approached, via phone or e-mail, by clients or potential clients interested in purchasing securities. Offering materials were often transmitted via e-mail, and hard copies were also often sent via U.S. Mail or Federal Express. With respect to the ABACUS 2007-AC1 transaction, ACA Management LLC ("ACA") was contacted to serve as portfolio selection agent and potential investor. I also recall that IKB Deutsche Industriebank AG ("IKB") was approached to determine their interest in potentially investing in the transaction. As I did not work in the syndicate or sales aspect of Goldman Sachs' business, I do not know the identity of each client or potential investor to whom Goldman Sachs presented the 2007-AC1 transaction. To the extent that such communications are memorialized, they would likely be in documents maintained by Goldman Sachs. I believe that some of these documents have been produced to the Subcommittee by Goldman Sachs.

(d) Provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests (including securities) in the transaction. It is not necessary to provide duplicates of the same material, but provide the identity of all persons who received such material.

I believe that the requested materials previously were produced to the Subcommittee staff.

Neither I nor, to my knowledge, Goldman Sachs recorded in a single file or central location each instance in which offering materials were transmitted to potential investors.

Regarding the mortgage capital committee memo, I do not know the identity of all persons who received this memo. A partial list of intended recipients may be found on the memo itself, which I believe has already been produced to the Subcommittee.

(e) Did Goldman advise potential investors whether it had taken steps or planned to use the offering to reduce its own inventory of RMBS or CDO securities or other holdings?

I recall that the ABACUS 2007-AC1 transaction was not planned to reduce Goldman Sachs' "inventory of RMBS or CDO securities or other assets." Although the SPV in the ABACUS 2007-AC1 transaction ultimately purchased the collateral securities from Goldman Sachs, the firm retained material economic interest in those securities.

(f) Did Goldman conduct a suitability analysis in connection with soliciting clients or potential investors to purchase securities issued in the transaction? If so, describe the suitability analysis conducted for each investor that purchased these securities. If Goldman retained a written record that reflects that such a analysis was conducted provide a copy.

I do not know the specific information sought in this Request. I believe that Goldman Sachs did, however, establish suitability requirements for transactions involving mortgage-related products, and I have no reason to believe that these requirements were not adhered to in connection with the ABACUS 2007-AC1 transaction. Generally, the investors with whom Goldman Sachs transacted in these products were large, global financial institutions, insurance companies and hedge funds with significant resources, relationships with multiple financial intermediaries, and access to extensive information and research flow. Further, as I testified to the Subcommittee, the only two investors in 2007-AC1, ACA and IKB, were institutions with significant resources and extensive experience in this market. Indeed, at the time of 2007-AC1, each institution had managed more than $16 billion of CDOs or CLOs. ACA and IKB were also both longstanding clients of Goldman Sachs and had each invested into numerous ABACUS-type transactions with Goldman Sachs prior to 2007-AC1.

2. (a) In what capacity did Goldman act for Paulson & Co. (together with any of its affiliates, "Paulson") with respect to the Abacus 2007-AC1 transaction or a Credit

Default Swap transaction that referenced any or all of the same entities or securities that were referenced in the Abacus 2007-AC1 transaction? Describe in detail Goldman's relationship to Paulson with respect to those transactions, its obligations to Paulson, the nature and amount of any fees or compensation received by Goldman from Paulson relating to those transactions, and whether Goldman advised investors or potential investors in Abacus 2007-AC1 of the existence and nature of its relationship with Paulson.

Goldman Sachs, as market maker, was facing Paulson & Co. ("Paulson") as a counterparty in several credit default swap ("CDS") transactions in which Paulson purchased credit protection on layers of risk referencing a portfolio of Baa2-rated RMBS from the 2006 and 2007 vintage. Goldman Sachs received upfront and running premium payments from Paulson as compensation for this protection. Goldman Sachs partially offset the credit risk taken in these transactions by buying CDS protection from ACA (intermediated by ABN Amro) and the SPV on the same portfolio but with either different attachment/detachment points or different settlement mechanics. Upon almost simultaneous execution of these CDS transactions, Goldman Sachs recognized trading revenue of approximately $15 million. A detailed description of the ABACUS 2007-AC1 transaction is set forth in the Mortgage Capital Committee Memorandum regarding the ABACUS 2007-AC1 transaction and Goldman Sachs' Wells Submissions to the Securities and Exchange Commission, which I believe have already been produced to the Subcommittee.

Regarding my personal knowledge about whether Goldman Sachs advised investors or potential investors of the existence and nature of its relationship with Paulson, please see my response to Request 2(b).

(b) **If Goldman did so advise investors or potential investors of the nature or existence of the Paulson relationship, identity who so advised investors or potential investors, the date on which that person so advised investors or potential investors, the identity of the investors or potential investors so advised, the manner (i.e. verbal or in writing) in which the person was advised, and the substance of the communication (and, if in writing, provide a copy of the communication).**

Because communications with investors or potential investors were made by many different people within Goldman Sachs, I do not know all of the detailed information necessary to respond to this Request. I do not know what information other individuals at Goldman Sachs provided to potential investors regarding the nature or existence of the Paulson relationship, who they communicated it to, or how they communicated it. I believe, however, that ACA, which invested in 2007-AC1, was fully aware of Paulson's role in suggesting securities for inclusion in the portfolio. Also, as I testified to the Subcommittee, I informed ACA that Paulson was expected to buy credit protection on some of the senior tranches of the 2007-AC1 transaction. I further note that, as disclosed in the ABACUS 2007-AC1 offering circular, Goldman Sachs Capital Markets, L.P., was the original protection buyer for the 2007-AC1 transaction but could enter into offsetting hedging transactions to convey to other parties the credit protection it purchased via CDSs with the ABACUS 2007-AC1 SPVs.

3. **During your appearance before the Subcommittee on April 27, 2010, you engaged in the following exchange with Senator Levin:**

> **Senator Levin. You did not disclose to ACA that Paulson was on the short side of this deal. Is that correct?**
>
> **Mr. Tourre. I did mention to ACA that the expectation was that Paulson was going to buy protection on senior layers of risk in the transaction.**
>
> **Senator Levin. That they were going to be only on the short side.**
>
> **Mr. Tourre. Yes. (Transcript, pp. 210-211)**

Describe in detail what information was provided to ACA regarding the fact that Paulson was going to be only on the short side, identify to whom at ACA the information was provided, and identify each Goldman representative who provided that information.

As I testified on April 27, 2010, although I do not recall the exact words I used, I did inform Laura Schwartz at ACA that Paulson was expected to purchase credit protection on some of the senior tranches of the ABACUS 2007-AC1 transaction, which necessarily meant that Paulson was expected to take some short exposure in the deal. As I further testified to the Subcommittee, I never told ACA that Paulson would be an equity investor in 2007-AC1 or take any long position in the deal.

Moreover, the negotiations for this transaction occurred during a six-month period between January and June 2007. Until the CDSs between Paulson and Goldman Sachs actually closed in April and June 2007, Paulson was not obligated to purchase credit protection on any specific tranches or indeed on any tranches at all, and Goldman Sachs was not obligated to sell the protection to Paulson. Market conditions were volatile throughout this period, and all parties were free to change their views and intended positions until the transactions actually closed.

I do not know what other representatives of Goldman Sachs may have discussed with ACA.

4. (a) **Did you or any representative of Goldman state to ACA that Paulson would not be an equity investor or otherwise not take any long position in or with respect to the Abacus 2007- AC1 transaction?**

I do not recall stating to ACA that Paulson would not be an equity investor or otherwise not take any long position with respect to 2007-AC1, nor do I recall ACA ever asking me if Paulson intended to take an equity or long position in the deal. As I testified to the Subcommittee, I am surprised that ACA could ever have thought that Paulson intended to take an equity or long position, given that numerous drafts of the offering documents, as well as the final versions of those documents, made clear that the equity tranche was not being offered. Moreover, as far as I am aware, Paulson's expectation was always to purchase protection on senior layers of risk and I conveyed this expectation to Laura Schwartz at ACA.

As I further testified to the Subcommittee, ACA had every opportunity to ask questions about Paulson's position to Paulson's representatives directly. Indeed, representatives of Paulson participated in all my meetings with ACA. Moreover, ACA and Paulson had several discussions about the transaction and at least one meeting without any Goldman Sachs representatives present.

I do not know what other representatives of Goldman Sachs may have discussed with ACA.

(b) **If your answer to Question 4(a) is "yes," describe in detail what information was provided to ACA, identify to whom at ACA the information was provided, and identify each Goldman representative who provided that information.**

Please see my response to Request 4(a).

5. **Provide a list of any Abacus bonds, from Abacus 2007-AC1 or other Abacus transactions, that Goldman repurchased from the market. List each bond by name, size, and the party from whom it was repurchased.**

I am not aware of the ABACUS bonds that Goldman Sachs as a firm repurchased from the market, but I believe that Goldman Sachs could address this question. As such, this Request is properly directed to Goldman Sachs.

6. **Provide a list of all CDOs containing bonds from Abacus 2007-AC1 or other Abacus transactions. List each bond by name, size, and the CDO that purchased the bond.**

I am not aware of the CDOs containing bonds from 2007-AC1 or other ABACUS transactions, but I believe that Goldman Sachs could address this question. As such, this Request is properly directed to Goldman Sachs.

7. **Provide any document possessed by, generated by, or provided to you related to obtaining a credit rating related to any Abacus transaction by any credit rating agency, including any correspondence, emails, memoranda, or other analysis or exchanges of information.**

I do not personally maintain in readily accessible form the requested documents;[1] this Request is more properly directed to Goldman Sachs and my understanding is that Goldman Sachs is working to address this Request.

8. **Describe in detail your understanding of Goldman's legal duties of disclosure, pursuant to securities laws and regulations, including rules prescribed by the SEC or FINRA, to purchasers of securities when Goldman acts in any of the following capacities: (a)**

[1] I also note for the record that I am currently on paid administrative leave from Goldman Sachs International and I am not reporting to my office or performing my regular duties.

market maker; (b) underwriter; (b) placement agent; (d) broker (when making a solicitation or recommendation of a security); or (e) a dealer. Include your definition of a "market maker."

Regarding Goldman Sachs' legal duties of disclosure, I am not a lawyer and am not qualified to describe the legal duties of Goldman Sachs as a firm. Goldman Sachs has a well-established institutional review process for securities offerings that includes review of potential transactions by its Legal and Compliance departments, and I always relied on that process to ensure adequate legal disclosures.

However, my personal understanding of a "market maker" is a financial intermediary that stands ready to make an offer to buy or sell a given financial instrument whenever a seller or a buyer enters the market. A market maker connects buyers and sellers – and thereby provides critical liquidity – through its willingness and ability to commit its own capital in taking the other side of transactions that its customers wish to execute. While the transactions executed by a market maker are often initiated by a customer looking to make a specific purchase or sale, a market maker may also frequently propose transactions to its customers, based on their previously expressed investment interests or needs.

As I testified on April 27, I believe that, in my capacity as a market maker, I had a duty to serve my clients, and with respect to Goldman Sachs' role as market maker, Goldman Sachs has a duty to show prices to its clients and offer them liquidity.

With regard to the role of an underwriter and placement agent, I believe that disclosure with respect to the assets and the structure of the transaction is required, and that the specific information that underwriters and issuers have a duty to disclose is governed by disclosure rules that are meant to provide an investor with what they need to make their decision in investing in that particular product. But, as noted above, the precise nature of those disclosure obligations are best addressed by others within Goldman Sachs.

9. (a) **Does the fact that an investor or a potential investor with whom Goldman is transacting business is an "accredited" investor, a "qualified institutional buyer" or a "qualified purchaser" (as those terms are used in the U.S. federal securities laws) affect the duties and obligations of Goldman when acting in any of the capacities described in Question 8? If so, describe how any of Goldman's duties when acting in any of these capacities are affected by the status of the investor or potential investor.**

As noted above, I am not a lawyer and thus not in a position to speak with authority on the legal duties imposed on Goldman Sachs to transact business in the circumstances described above. However, I do know that Goldman Sachs has a duty to be truthful. In addition, I believe that for the sophisticated investors who dealt with my desk, such as ACA and IKB, we were able to show them more sophisticated potential transactions. However, to the extent that this request calls for a legal analysis of the implications of "accredited investor," "qualified institutional buyer" and "qualified purchaser" status under state

and federal securities laws, this Request is better directed to the members of Goldman Sachs' Legal and Compliance Departments who covered my desk.

(b) Does Goldman have a duty to conduct a suitability analysis when making a recommendation to any of the types of investors listed in Question 9(a)? If so, describe the nature and extent of the analysis to be conducted.

I believe that Goldman Sachs has implemented controls to ensure that certain restricted transactions are sold only to certain types of investors, but I was not personally involved in such analysis. However, the investors with which I did business were all sophisticated institutions with significant resources and expertise in the relevant markets. As I noted in my response to Request 9(a), I believe that sophisticated investors, such as those I dealt with on my desk, may be shown more sophisticated potential transactions. To the extent that this Request calls for a legal analysis under state and federal securities laws, it is better directed to Goldman Sachs' Legal and Compliance Departments.

(c) Does Goldman owe a duty to disclose any adverse interest that it may have when recommending a security to any of the types of investors listed in Question 9(a)?

As an initial matter, I am not clear about the definition of "adverse interest" as used by the Subcommittee in this Request. In the absence of such an understanding, I am not certain that I can properly address the Request. Moreover, as I am not a lawyer, this Request is better directed to Goldman Sachs' Legal and Compliance Departments.

However, as a general matter, my understanding is that Goldman Sachs regularly discloses certain conflicts of interest that arise when Goldman Sachs assumes multiple roles in a transaction. I believe that such disclosure may sometimes include a description of certain adverse interests. For example, in the 2007-AC1 transaction, a Goldman Sachs affiliate, Goldman Sachs Capital Markets, L.P., was disclosed in the offering documents as the Protection Buyer that bought CDS protection from the SPV; this role as Protection Buyer meant that a Goldman Sachs affiliate had an interest adverse to investors in 2007-AC1, and this adverse interest was fully disclosed.

Regarding Goldman Sachs "recommending" a security, I am unclear about the definition of "recommending" as used by the Subcommittee; as I understand the term, however, I do not know whether Goldman Sachs' "recommendation" of a security impacts its duties of disclosure.

Confidential Treatment Requested by Goldman Sachs

1. (a) In the sale of the securities in the Abacus 2007-AC1 transaction ("transaction"), was Goldman Sachs ("Goldman") a placement agent?

Goldman, Sachs & Co. acted as the Initial Purchaser and underwriter, Goldman Sachs Capital Markets, L.P. acted as the Protection Buyer and Basis Swap Provider and Goldman Sachs International acted as the Collateral Put Provider

(b) Who was the issuer of any securities; what was the issuer's relationship to Goldman; who established the issuer; and who requested the establishment of the issuer?

Please see Mr. Tourre's response to this Question and Goldman Sachs' response to Question 2(a) posed to Mr. Blankfein.

Confidential Treatment Requested by Goldman Sachs

Tourre 1(c) & (d):

1. (c) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented the transaction, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

1. (d) Provide copies of any offering circular or memorandum, mortgage capital committee memo, pitch book or marketing flip book or similar materials regarding the structuring or sale of interests (including securities) in the transaction. It is not necessary to provide duplicates of the same material, but provide the identity of all persons who received such material.

Blankfein 2(b):

2. Provide the following information regarding the sale of securities in each of the following transactions (each of which is hereinafter referred to in this question as a "Transaction" or, collectively, "the Transactions"): Abacus 2007-AC1; Anderson Mezzanine Funding 2007-1; Camber 7; Fort Denison Funding; Hudson Mezzanine Funding 2006-1; Hudson Mezzanine Funding 2006-2; Point Pleasant Funding 2007-1; and Timberwolf I.

. . .

(b) In the sale of any securities, how and by what means did Goldman bring the specific securities to the attention of a client or potential investor? Identify each client or potential investor to whom Goldman presented any of the Transactions, describe each communication with that client, and state the substance of each communication. (In lieu of stating the substance of a communication, you may provide a copy of the communication.)

The requested materials for ABACUS 2007-AC1 were previously produced to the Subcommittee staff. The following chart sets forth the production numbers of the requested materials.

Transaction Document	Production Number
Offering Circular	GS MBS-E-013100361 – 13100556
Term Sheet	GS MBS-E-019710908 – 19710916; GS MBS-E-002507886 – 2507894
Flip Book	GS MBS-E-005954146 – 5954211; GS MBS-E-002407580 – 2407645
Mortgage Capital Committee Memo	GS MBS-E-005974542 – 5974549

As discussed with the Subcommittee staff, Goldman Sachs also encloses a CD-ROM containing e-mail (bearing production numbers GS-MBS-E-021019055 – 21020015) from October 1, 2006 through December 31, 2007 reflecting communications concerning potential investors to whom Goldman Sachs marketed ABACUS 2007-AC1.[1] Goldman Sachs notes that in general the firm marketed CDOs solely to qualified purchasers within the meaning of Securities and Exchange Commission Rule 144A, and that the firm's salespeople discussed securities via phone or e-mail with clients or potential clients known to have an interest in the particular products in which they dealt. Marketing materials were often transmitted, upon request, to interested clients or potential clients via e-mail. Hard copies were sent via U.S. Mail or Federal Express.

Goldman Sachs also notes that it previously produced to the Subcommittee a spreadsheet (bearing production number GS MBS 0000038771) listing investors to whom Anderson Mezzanine Funding 2007-1, Camber 7, Fort Denison Funding, Hudson Mezzanine Funding 2006-1, Hudson Mezzanine Funding 2006-2, Point Pleasant Funding 2007-1 and Timberwolf I were marketed.

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[1] To locate these communications, Goldman Sachs reviewed e-mail sent to or from the Exchange user accounts of Goldman Sachs employees from the period October 1, 2007 through December 31, 2007 containing the search terms "collateral disposal agent" and "ABACUS."

Confidential Treatment Requested by Goldman Sachs

6. Provide a list of all CDOs containing bonds from Abacus 2007-AC1 or other Abacus transactions. List each bond by name, size, and the CDO that purchased the bond.

Goldman Sachs encloses a spreadsheet, which sets forth the initial and current mortgage-related CDOs underwritten by Goldman Sachs (bearing production numbers GS MBS 0000035823) which include bonds from Abacus 2007-AC1 or other Abacus transactions.

Current balances

Confidential Treatment Requested by Goldman Sachs

CDO Asset Details (Current)

Type of collateral	CDO Deal	Cusip	DEFAULT FLAG	Description	Current Face Amount	Intex Deal Name	Intex Tranche Name	RATING FITCH	RATING MOODY	RATING S&P	Source	SYNTHETIC	As Of	Closing Date
ABS	ADIR052	00256GAB1	N	ABAC 2005-4A A2	30,000,000.00	ABAC054	A2	NR	Baa3	CCC-	Intex	N	17-Jun-10	15-Nov-05
ABS	ADIR052	00256PAC9	N	ABAC 2005-4A C	15,000,000.00	ABAC054	C	NR	Ba1	CCC-	Intex	N	17-Jun-10	15-Nov-05
ABS	ALTIUS1	00256GAB1	N	ABAC 2005-4A A2	20,000,000.00	ABAC054	A2	NR	Baa3	CCC-	Intex	N	17-Jun-10	24-Aug-05
ABS	ALTIUS1	00256GAC9	N	ABAC 2005-4A B	40,000,000.00	ABAC054	B	NR	Ba1	CCC-	Intex	N	17-Jun-10	24-Aug-05
CMBS	ALTIUS3	00257AAC1	N	ABAC 2006-10A - C Libor+0.52% 10/2045	4,750,000.00	ABAC0610	C	NA	B2	CCC-	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS3	00257AAD9	N	ABAC 2006-10A - D Libor+0.65% 10/2045	5,250,000.00	ABAC0610	D	NA	B2	CCC-	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS3	00257HAB8	Y	ABAC 2006-13A - B Libor+0.43% 09/2046	11,718,750.00	ABAC0613	B	CCC	C	CCC	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS3	00257HAC6	Y	ABAC 2006-13A - C Libor+0.46% 09/2046	5,931,250.00	ABAC0613	C	CCC	C	CCC	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS3	00257HAD4	Y	ABAC 2006-13A - D Libor+0.50% 09/2046	2,000,000.00	ABAC0613	D	CCC	C	CCC	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS3	00257HAE2	Y	ABAC 2006-13A - E Libor+0.65% 09/2046	7,925,000.00	ABAC0613	E	CCC	C	CCC	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS3	00257HAG7	Y	ABAC 2006-13A - G Libor+0.80% 09/2046	2,950,000.00	ABAC0613	G	CCC	C	CCC	Intex	N	17-Jun-10	28-Sep-06
CMBS	ALTIUS4	002578AF9	Y	ABACUS 2006-17, Ltd. (ABAC 2006-17A E)	13,500,000.00	ABAC0617	E	NA	C	CC	Intex	N	17-Jun-10	31-May-07
CDO	DAVISQ3	002550AA9	Y	ABACUS 2004-1 Ltd (ABAC 2004-1A A)	9,687,959.33	ABAC041	A	NA	C	CCC-	Intex	N	17-Jun-10	21-Oct-04
CDO	DAVISQ3	00256LAC8	Y	ABACUS 2005-3, Ltd. (ABAC 2005-3 CS2)	5,000,000.00	ABAC053	C	NA	C	CCC-	Intex	N	17-Jun-10	21-Oct-04
CDO	DAVISQ4	002550AA9	Y	ABACUS 2004-1 Ltd (ABAC 2004-1A A)	24,219,898.32	ABAC041	A	NA	C	CCC-	Intex	N	17-Jun-10	6-Apr-05
CDO	DAVISQ4	00256LAC8	Y	ABACUS 2005-3, Ltd. (ABAC 2005-3 CS2)	8,000,000.00	ABAC053	C	NA	C	CCC-	Intex	N	17-Jun-10	6-Apr-05
ABS	DAVISQ7	00257AAA5	N	ABAC 2006-10A - A Libor+.40% 10/2045	40,000,000.00	ABAC0610	A	AAA	Ba2	CCC-	Intex	N	17-Jun-10	5-Dec-06
ABS	DAVISQ7	00257AAB3	N	ABAC 2006-10A - B Libor+0.47% 10/2045	15,000,000.00	ABAC0610	B	AA+	B1	CCC-	Intex	N	17-Jun-10	5-Dec-06
ABS	DAVISQ7	00257AAC1	N	ABAC 2006-10A - C Libor+0.52% 10/2045	5,000,000.00	ABAC0610	C	NA	B2	CCC-	Intex	N	17-Jun-10	5-Dec-06
ABS	FORTIU1	00256PAA3	N	ABAC 2005-4A - D Libor+2.50% 08/2046	4,500,000.00	ABAC054	D	NA	Baa1	CCC-	Intex	N	17-Jun-10	8-Mar-06
ABS	FORTIU1	00256PAB1	N	ABAC 2005-4A - E Libor+5.0% 08/2046	2,500,000.00	ABAC054	E1	NA	Baa1	CCC-	Intex	N	17-Jun-10	8-Mar-06
CMBS	FORTIU2	00257HAH5	Y	ABAC 2006-13A - H Libor+1.30% 09/2046	4,000,000.00	ABAC0613	H	CCC	C	CCC	Intex	N	17-Jun-10	7-Dec-06
CMBS	FORTIU2	002563AB0	Y	ABAC 2006-NS1A - J Libor+1.80% 08/2046	5,000,000.00	ABAC06N1	J	NA	C	CCC	Intex	N	17-Jun-10	7-Dec-06
CMBS	FORTIU2	002563AC8	Y	ABAC 2006-NS1A - K Libor+2.20% 08/2046	2,000,000.00	ABAC06N1	K	NA	C	CCC	Intex	N	17-Jun-10	7-Dec-06
CDO	GSTFIN	00256GAB1	N	ABACUS 2005-4, Ltd. (ABAC 2005-4A A2)	10,000,000.00	ABAC054	A2	NA	Baa3	CCC-	Intex	N	17-Jun-10	20-Oct-05
CMBS	HOUTB061	00257AAA5	N	ABACUS 2006-10, Ltd. (ABAC 2006-10A A)	43,000,000.00	ABAC0610	A	NA	Ba2	CCC-	Intex	N	17-Jun-10	2-May-06

Current balances

Confidential Treatment Requested by Goldman Sachs

CDO Asset Details (Original)

Type of Collateral	CDO Deal	Cusip	DEFAULT_FLAG	Description	Current Face Amount	Intex Deal Name	Intex Tranche Name	RATING_FITCH	RATING_MOODY	RATING_S&P	Source	SYNTHETIC	As Of	Closing Date
CMBS	ADIR052	00256GAB1	N	ABACUS 2005-4, Ltd. (ABAC 2005-4A A2)	30,000,000.00	ABAC054	A2	NA	Aaa	AAA	Intex	N	17-May-06	15-Nov-05
CMBS	ADIR052	00256PAC9	N	ABACUS 2005-4, Ltd. (ABAC 2005-4A C)	15,000,000.00	ABAC054	C	NA	A3	A+	Intex	N	17-May-06	15-Nov-05
CMBS	ALTIUS1	00256GAB1	N	ABACUS 2005-4, Ltd. (ABAC 2005-4A A2)	20,000,000.00	ABAC054	A2	NA	Aaa	AAA	Intex	N	29-May-06	24-Aug-05
CMBS	ALTIUS1	00256GAC9	N	ABACUS 2005-4, Ltd. (ABAC 2005-4A B)	40,000,000.00	ABAC054	B	NA	Aa3	AA-	Intex	N	29-May-06	24-Aug-05
CDO	ALTIUS3	00257AAC1	N	ABAC 2006-10A - C Libor+0.52% 10/2045	4,750,000.00	ABAC0610	C	NA	Aa2	AA	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS3	00257AAD9	N	ABAC 2006-10A - D Libor+0.65% 10/2045	5,250,000.00	ABAC0610	D	NA	Aa3	AA-	Intex	N	29-Jan-07	28-Sep-06
RMBS	ALTIUS3	002559AB8	N	ABAC 2006-11A - A2 Libor+0.60% 09/2045	20,000,000.00	ABAC0611	A2	NA	Aa1	AAA	Intex	N	29-Jan-07	28-Sep-06
RMBS	ALTIUS3	002559AC6	N	ABAC 2006-11A - B Libor+0.78% 09/2045	19,375,000.00	ABAC0611	B	NA	Aa3	AA-	Intex	N	29-Jan-07	28-Sep-06
RMBS	ALTIUS3	002559AD4	N	ABAC 2006-11A - C Libor+1.80% 09/2045	18,750,000.00	ABAC0611	C	NA	A2	A-	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS3	00257HAB8	N	ABAC 2006-13A - B Libor+0.43% 09/2046	11,718,750.00	ABAC0613	B	NA	Aa1	AA+	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS3	00257HAC6	N	ABAC 2006-13A - C Libor+0.46% 09/2046	5,931,250.00	ABAC0613	C	NA	Aa2	AA	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS3	00257HAD4	N	ABAC 2006-13A - D Libor+0.50% 09/2046	2,000,000.00	ABAC0613	D	NA	Aa3	AA-	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS3	00257HAE2	N	ABAC 2006-13A - E Libor+0.65% 09/2046	7,925,000.00	ABAC0613	E	NA	A1	A+	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS3	00257HAG7	N	ABAC 2006-13A - G Libor+0.80% 09/2046	2,950,000.00	ABAC0613	G	NA	A3	A-	Intex	N	29-Jan-07	28-Sep-06
RMBS	ALTIUS3	002560AB8	N	ABAC 2006-14A - A2 Libor+0.58% 10/2045	20,000,000.00	ABAC0614	A2	NA	Aa1	AAA	Intex	N	29-Jan-07	28-Sep-06
RMBS	ALTIUS3	002560AC4	N	ABAC 2006-14A - B Libor+0.70% 10/2045	20,000,000.00	ABAC0614	B	NA	Aa3	AA-	Intex	N	29-Jan-07	28-Sep-06
RMBS	ALTIUS3	00257MAA9	N	ABAC 2006-14A - C Libor+1.50% 10/2045	20,000,000.00	ABAC0614	C	NA	A2	A-	Intex	N	29-Jan-07	28-Sep-06
CMBS	ALTIUS4	002576AF9	N	ABACUS 2006-17, Ltd. (ABAC 2006-17A E)	13,500,000.00	ABAC0617	E	A+	A1	A+	Intex	N	30-Aug-07	31-May-07
CDO	DAVISQ3	002550AA9	N	ABACUS 2004-1 Ltd (ABAC 2004-1A A)	12,000,000.00	ABAC041	A	AAA	Aaa	AAA	Intex	N	25-May-05	21-Oct-04
CDO	DAVISQ4	002550AA9	N	ABACUS 2004-1 Ltd (ABAC 2004-1A A)	30,000,000.00	ABAC041	A	NA	Aaa	AAA	Intex	N	10-Oct-05	6-Apr-05
ABS	DAVISQ7	00257AAA5	N	ABAC 2006-10A - A Libor+.40% 10/2045	40,000,000.00	ABAC0610	A	AAA	Aaa	AAA	Intex	N	10-Oct-07	5-Dec-06
ABS	DAVISQ7	00257AAB3	N	ABAC 2006-10A - B Libor+0.47% 10/2045	15,000,000.00	ABAC0610	B	AA+	Aa1	AA+	Intex	N	10-Oct-07	5-Dec-06
ABS	DAVISQ7	00257AAC1	N	ABAC 2006-10A - C Libor+0.52% 10/2045	5,000,000.00	ABAC0610	C	NA	Aa2	AA	Intex	N	10-Oct-07	5-Dec-06
CDO	DAVISQ7	00257BAB1	N	ABAC 2006-12A - A2 Libor+.63% 07/2038	14,900,000.00	ABAC0612	A2	AA	Aa2	AAA	Intex	N	10-Oct-07	5-Dec-06
CDO	DAVISQ7	00257BAC9	N	ABAC 2006-12A - B Libor+.72% 07/2038	10,100,000.00	ABAC0612	B	AA-	Aa3	AAA	Intex	N	10-Oct-07	5-Dec-06
CDO	DAVISQ7	00257DAA9	N	ABAC 2006-12A - C Libor+1.60% - 07/2038	12,000,000.00	ABAC0612	C	NA	A3	A-	Intex	N	10-Oct-07	5-Dec-06
CDO	DAVISQ7	00257KAB1	N	ABAC 2006-15A - A2 Libor+.52% 04/2045	10,000,000.00	ABAC0615	A2_ISSUED	AAA	Aaa	AAA	Intex	N	10-Oct-07	5-Dec-06
CDO	DAVISQ7	00257KAC9	N	ABAC 2006-15A - A3 Libor+0.60% 04/2046	20,000,000.00	ABAC0615	A3_ISSUED	NA	Aa1	AAA	Intex	N	10-Oct-07	5-Dec-06
CDO	DAVISQ7	00257LAA1	N	ABAC 2006-15A - CS1 Libor+1.67% 04/2045	20,000,000.00	ABAC0615	C_SERIES1	NA	A3	A-	Intex	N	10-Oct-07	5-Dec-06
ABS	FORTIU1	00256PAA3	N	ABAC 2005-4A - D Libor+2.50% 08/2046	4,500,000.00	ABAC054	D	NA	Baa1	BBB	Intex		12-Jun-06	8-Mar-06
ABS	FORTIU1	00256PAB1	N	ABAC 2005-4A - E Libor+5.0% 08/2046	2,500,000.00	ABAC054	E1	NA	Baa1	BB+	Intex		12-Jun-06	8-Mar-06
RMBS	FORTIU2	00257WAA7	N	ABAC 2006-11A - D Libor+3.30% 09/2045	10,000,000.00	ABAC0611	D	NA	Baa1	BBB	Intex	N	9-May-07	7-Dec-06
CMBS	FORTIU2	00257HAH5	N	ABAC 2006-13A - H Libor+1.30% 09/2046	4,000,000.00	ABAC0613	H	BBB+	Baa1	BBB+	Intex	N	9-May-07	7-Dec-06
CMBS	FORTIU2	002563AB0	N	ABAC 2006-NS1A - J Libor+1.80% 08/2046	5,000,000.00	ABAC06N1	J	NA	Baa2	BBB	Intex	N	9-May-07	7-Dec-06
CMBS	FORTIU2	002563AC8	N	ABAC 2006-NS1A - K Libor+2.20% 08/2046	2,000,000.00	ABAC06N1	K	NA	Baa3	BBB-	Intex	N	9-May-07	7-Dec-06
CDO	GSCAD63G	00257AAG2	N	ABACUS 2006-10, Ltd. (ABAC 2006-10 G)	4,500,000.00	ABAC0610	G	NA	A3	A-	Intex	N	21-May-07	18-Jan-07
CDO	GSTFIN	00256GAB1	N	ABACUS 2005-4, Ltd. (ABAC 2005-4A A2)	10,000,000.00	ABAC054	A2	NA	Aaa	AAA	Intex	N	24-Apr-06	20-Oct-05
CMBS	HOUTB061	00257AAA5	N	ABACUS 2006-10, Ltd. (ABAC 2006-10 A)	43,000,000.00	ABAC0610	A	NA	Aaa	AAA	Intex	N	4-Oct-06	2-May-06
ABS	LOCHS	00257AAF4	N	ABAC 2006-10A - F Libor+0.65% 10/2045	10,000,000.00	ABAC0610	F	NA	A2	A	Intex	Y	9-May-07	4-Oct-06
ABS	LOCHS	00257HAF9	N	ABAC 2006-13A - F Libor+0.70% 09/2046	7,000,000.00	ABAC0613	F	NA	A2	A	Intex	Y	9-May-07	4-Oct-06
CDO	TIMBW1	002561AD0	N	ABAC 2006-HG1A C	6,000,000.00	ABAC06H1	C	NA	A2	A	Intex	N	30-Aug-07	27-Mar-07
CDO	TIMBW1	002561AE8	N	ABAC 2006-HG1A D	9,000,000.00	ABAC06H1	D	NA	A3	A-	Intex	N	30-Aug-07	27-Mar-07

SPG Trading

Mortgages Weekly Metrics 30-November-2007

INTERNAL USE ONLY

	P&L ($000)						Sales Credits		
Desk	WTD	PWA	Variance %	07 YTD	YTD Annl	2006 FYE	07 YTD	YTD Annl	2006 FYE
SPG Trading (Swenson, Lehman, Birnbaum)									
CMBS Securities	(20,598)	(1,356)	1420%	(91,087)	(89,368)	29,623	101,024	101,024	61,419
CMBS Synthetics	22,067	7,033	214%	387,762	380,446	18,688		n/a	-
CRE CDO	0	51	-100%	2,651	2,601	3,283		n/a	-
ABS Securities	(67,379)	(20,081)	236%	(1,111,597)	(1,090,624)	20,602	307,997	307,997	141,613
ABS Synthetics	75,446	63,873	18%	3,396,855	3,332,763	36,150		n/a	-
Property Derivatives	0	0	n/a	0	n/a	0		n/a	-
Correlation	27,304	21,270	28%	1,133,355	1,111,971	118,519	162,251	162,251	76,226
Gross Total	36,840	70,790	-48%	3,717,939	3,647,789	226,865	571,272	571,272	279,258
Exit Price	0	0	n/a	0	n/a	(52,958)	-	n/a	-
Transfers	8,113	(8)	-98111%	7,682	7,537	(10,504)	-	n/a	-
Net Total	44,953	70,782	-36%	3,725,621	3,655,326	163,403	571,272	571,272	279,258

Actual P&L as of 29-November-2007

As of 23-November-2007 (week lag)

	P&L ($000)						Sales Credits		
Desk	WTD	PWA	Variance %	07 YTD	YTD Annl	2006 FYE	07 YTD	YTD Annl	2006 FYE
CDO/CLO	(3,150)	(33,516)	-91%	(1,745,974)	(1,713,031)	173,863	71,877	71,877	149,023

Actual P&L as of 29-November-2007

As of 23-November-2007 (week lag)

Risk Measures ($mm)*	VaR	Stress Test	SDV01
SPG Trading	83.2	596.0	(172)

As of 29-November-2007 / VaR is not additive due to portfolio diversification benefit

Balance Sheet ($m)*	Long	Limit	Short
SPG Trading	5,953	10,000	(345)

As of 29-November-2007

** Risk, and Balance Sheet include SP CDOs*

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Commercial Mortgage Backed Securities

CMBS Cash/TRS

[redacted]

CMBS Synthetics (CMBX/CDS)

[redacted]

Asset Backed Securities

ABS Cash

In ABX, the desk had $700mm in total flows (GS buys $300mm, GS sells $400mm). Volumes picked up prior to remit data as fast money shorts coupled with dealer selling pushed the market wider. Even at these lows, we continue to see short interest. Post remits, we have seen short covering from macro accounts. We have also seen several capital structure trades put on as macro players speculate on convergence.

ABS Single-Names

Single-name volume remained light this week. The desk saw roughly $500mm in BWIC/OWIC activity. We continue to see large amounts of short interest even at these all time wides with many line items trading north of 90 points upfront. Dealers remain risk-averse in terms of offering protection.

ABS Index

In cash trading, we saw active selling up the capital structure. Real money accounts continue to sell short, AAA securities. Non-resi ABS continues to widen, specifically cards and autos. The desk saw over $1bn in non-resi cash up for the bid. Overall, the lack of liquidity has increased frustration amongst investors.

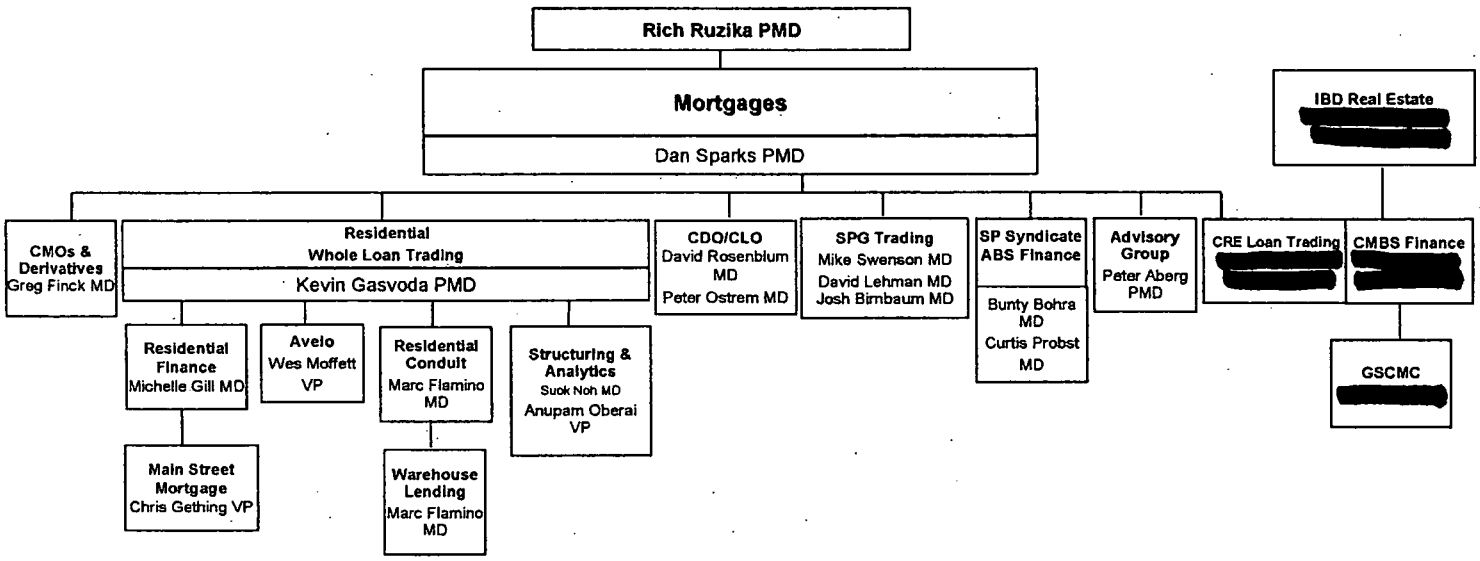
Tranche Risk

Correlation & CDO

[redacted]n Friday MS asked us to indicate the bid side for the full size of the $1.8bn ABX Quadrant super senior tranche and the $1.2bn Hudson Mezz I super senior tranche. We think MS may look to trade both positions next week.

In cash CDOs, a number of trustees have put out bid lists relating to CDOs experiencing events of default, to judge liquidation value. We have been hit on small pieces (trading has been sporadic).

North America Mortgages



[redacted] = Redacted by the Permanent Subcommittee on Investigations

Prepared at the request of Counsel

1

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1531

From: O'Brien, Brian
Sent: Tuesday, June 27, 2006 11:26 AM
To: Cassidy, John
Cc: Peterson, Linda
Subject: RE: Conduit Sellers and u'writing guides - ~ INTERNAL

John - Do you have a full list of all approved Conduit accounts? It's important that I get all on here, and looks like two came up today that are not:

CLC Home Loans and
Comunity First Bank.

From: O'Brien, Brian
Sent: Tuesday, June 27, 2006 11:00 AM
To: Cassidy, John
Subject: FW: Conduit Sellers and u'writing guides - ~ INTERNAL

[redacted] = Redacted by the Permanent Subcommittee on Investigations

FYI - it's a read only file.

<< File: GSMC Conduit - Sellers and UW Guides 2006.xls >>

From: Gething, Christopher
Sent: Tuesday, June 27, 2006 10:56 AM
To: O'Brien, Brian; gs-whole-loan-florida; Hood, Kris
Cc: Flamino, Marc
Subject: RE: Conduit Sellers and u'writing guides - ~ INTERNAL

Let's get this to Flamino as well and let him decide how to distribute

From: O'Brien, Brian
Sent: Monday, June 26, 2006 11:22 AM
To: gs-whole-loan-florida
Subject: RE: Conduit Sellers and u'writing guides - ~ INTERNAL

The following file should be used by all TM's and CRM's to identify:

- Active Conduit Sellers
- Which underwriting guidelines are used for each Seller (and guideline exceptions).
- Sampling amounts for each Seller.

[redacted]Obrien Brian\Conduit Underwriting\Conduit UW to sellers guides \GSMC Conduit - Sellers and UW Guides 2006.xls> Please open as a READ-ONLY and do not save the document. It should never be distributed externally.

If anyone on this list needs the file, but cannot access this link then please let me know.

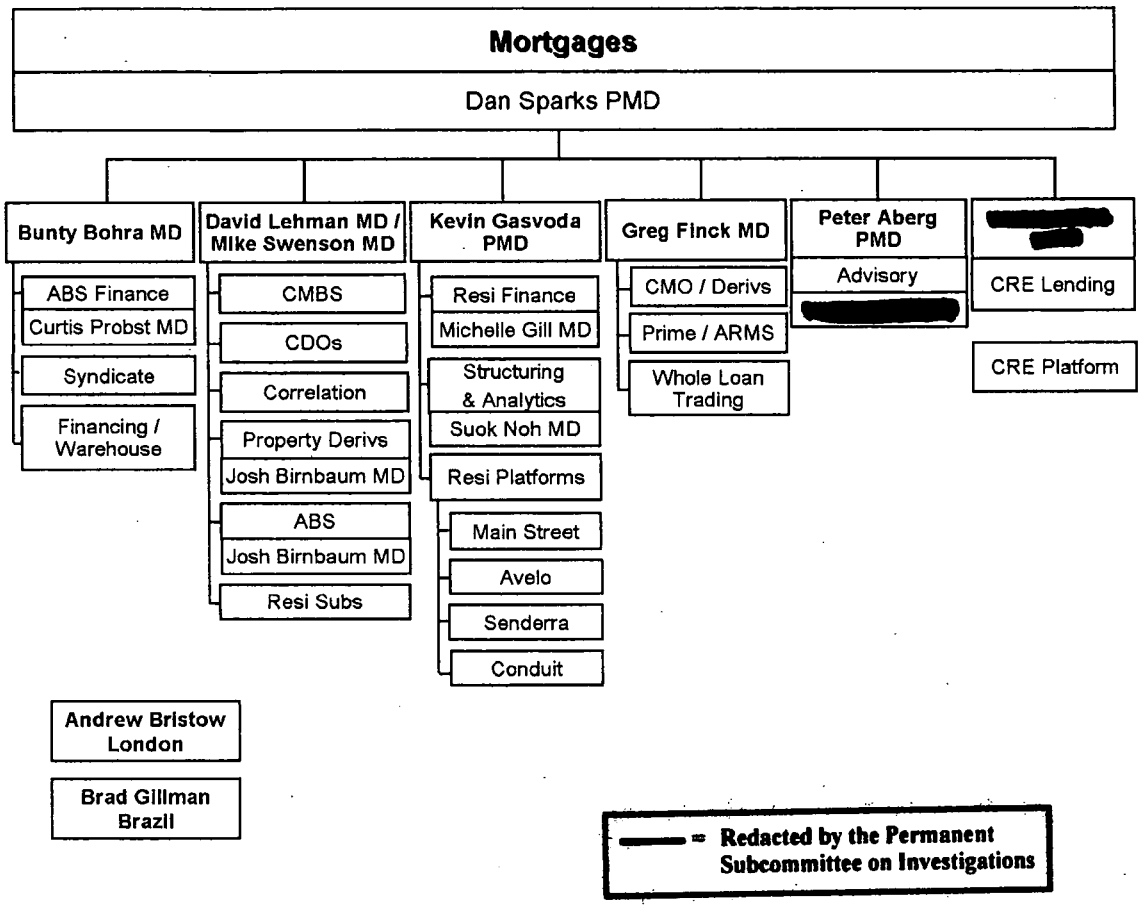
thanks

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1533

Confidential Treatment Requested by Goldm

GS MBS-E-004060914

Mortgages Organizational Structure



Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1539

Confidential Treatment Requested by Goldr

RMBS

Trustees:
Bank of New York
Citibank
Deutsche Bank
HSBC
JPMorgan Chase Bank
LaSalle Bank
U.S. Bank
Wachovia Bank
Wells Fargo Bank

Rating Agencies:
S&P
Moody's
Fitch
DBRS
If multiple, separate by **comma*

Collateral Type:
Alt-A
HELOC
Option ARM
Prime Fixed
Prime Hybrid
S&D
Seconds
Subprime

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1541

Transaction Name:	FFML 2004-FF3	FFML 2005-FF2
Closing Date	May 27, 2004	April 28, 2005
Issuer	FFMLT Trust 2004-FF3	FFMLT Trust 2005-FF2
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's, Fitch	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$982,174,000	A-1	$783,060,000
A-2A	$199,443,000	A-2A	$329,624,000
A-2B	$64,957,000	A-2B	$174,940,000
A-2C	$58,365,000	A-2C	$91,981,000
M-1	$95,775,000	M-1	$65,240,000
M-2	$79,813,000	M-2	$59,151,000
M-3	$23,944,000	M-3	$34,794,000
M-4	$21,549,000	M-4	$29,576,000
B-1	$19,156,000	M-5	$28,705,000
B-2	$17,558,000	M-6	$25,226,000
B-3	$15,963,000	B-1	$22,617,000
X	100%	B-2	$20,007,000
P	$1	B-3	$14,788,000
R	N/A	B-4	$13,048,000
		B-5	$17,397,000
		R-1	$100
		R-2	$100
		X	N/A
		P	N/A

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

Transaction Name:	FFML 2005-FF8	FFML 2005-FFA
Closing Date	September 29, 2005	July 21, 2005
Issuer	FFMLT Trust 2005-FF8	FFMLT Trust 2005-FFA
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$304,713,000	A-1	$300,687,000
A-2A	$388,977,000	A-2A	$146,433,000
A-2B	$105,951,000	A-2B	$92,053,000
A-2C	$197,892,000	M-1	$69,618,000
A-2D	$131,311,000	M-2	$40,364,000
M-1	$101,834,000	M-3	$16,294,000
M-2	$31,778,000	M-4	$14,813,000
M-3	$46,945,000	B-1	$15,553,000
M-4	$18,778,000	B-2	$11,109,000
B-1	$20,945,000	B-3	$14,442,000
B-2	$15,889,000	B-4	$11,850,000
B-3	$12,278,000	B-5	$7,406,000
B-4	$14,444,000	X	$740,622,812
B-5	$20,945,000	X-1	N/A
R-1	$50	P	N/A
R-2	$100	R-1	N/A
R-3	$50	R-2	N/A
X	N/A		
P	N/A		
C	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	FFNT 2005-FF11	FFML 2006-FF13
Closing Date	January 23, 2006	September 28, 2006
Issuer	FFMLT Trust 2005-FF11	FFMLT Trust 2006-FF13
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$240,920,000	A-1	$241,582,000
A-2A	$162,968,000	A-2A	$266,689,000
A-2B	$65,054,000	A-2B	$121,873,000
A-2C	$62,808,000	A-2C	$115,439,000
A-2D	$71,578,000	A-2D	$48,975,000
M-1	$46,612,000	M-1	$41,491,000
M-2	$15,412,000	M-2	$38,379,000
M-3	$21,803,000	M-3	$22,820,000
M-4	$9,398,000	M-4	$19,190,000
M-5	$9,773,000	M-5	$19,190,000
M-6	$6,768,000	M-6	$17,634,000
B-1	$5,263,000	M-7	$17,115,000
B-2	$4,887,000	M-8	$14,003,000
B-3	$7,518,000	M-9	$11,410,000
R-1	$50	B-1	$10,373,000
R-2	$100	B-2	$10,373,000
R-3	$50	R	$50
X	$21,051,171	RC	$100
P	N/A	RX	$50
C	N/A	X	$20,745,778
		P	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

Transaction Name:	FFML 2006-FF3	FFML 2006-FF4
Closing Date	February 23, 2006	March 30, 2006
Issuer	FFMLT Trust 2006-FF3	FFMLT Trust 2006-FF4
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$241,651,000	A-1	$631,866,000
A-2A	$280,279,000	A-2	$517,371,000
A-2B	$245,124,000	A-3	$67,566,000
A-2C	$31,616,000	M-1	$54,894,000
M-1	$33,712,000	M-2	$49,556,000
M-2	$30,737,000	M-3	$29,734,000
M-3	$17,847,000	M-4	$25,922,000
M-4	$16,361,000	M-5	$24,397,000
M-5	$14,872,000	M-6	$22,872,000
M-6	$14,377,000	M-7	$21,348,000
M-7	$12,890,000	M-8	$18,298,000
M-8	$10,411,000	B-1	$12,961,000
M-9	$7,932,000	B-2	$15,248,000
B-1	$6,941,000	R	$50
B-2	$9,915,000	RC	$100
R	$50	RX	$50
RC	$100	X	$32,783,744
RX	$50	P	$100
X	$16,856,656	C	$100
P	$100		
C	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**FFML 2006-FF6**	**FFML 2007-FFBS**
Closing Date	May 16, 2006	April 26, 2007
Issuer	FFMLT Trust 2006-FF6	FFMLT 2007-FFB-SS
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$144,738,000	A	$295,150,000
A2	$59,157,000	M1	$32,394,000
A3	$64,915,000	M2	$9,740,000
A4	$30,598,000	M3	$17,997,000
M1	$23,930,000	M4	$8,257,000
M2	$18,551,000	M5	$7,622,000
M3	$5,008,000	M6	$6,987,000
M4	$5,009,000	M7	$12,280,000
M5	$3,710,000	X	$33,030,324
M6	$3,154,000	P	$100
M7	$1,855,000	X1	$100
B1	$3,710,000	R	$100
X	$6,678,790		
P	$100		
C	$100		
R	$50		
RC	$100		
RX	$50		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GPMF 2006-OH1	GSAA 2004-3
Closing Date	December 29, 2006	May 28, 2004
Issuer	GreenPoint Mortgage Funding Trust 2006-OH1	GSAA Home Equity Trust 2004-3
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$261,887,000	AV-1	$156,061,000
A-2	$109,119,000	AF-2	$96,866,000
A-3	$65,472,000	AF-3	$30,018,000
M-1	$12,948,000	AF-4	$62,106,000
M-2	$3,532,000	AF-5	$38,340,000
M-3	$2,589,000	M-1	$14,395,000
M-4	$2,590,000	M-2	$11,644,000
M-5	$2,590,000	B-1	$7,409,000
M-6	$2,354,000	B-2	$3,176,000
M-7	$3,060,000	X	N/A
M-8	$2,355,000	P	$0
R	$100	R	N/A
RC	$100		
RX	$100		
X	N/A		
P	$0		

RMBS

Transaction Name:	GSAA 2004-4	GSAA 2004-5
Closing Date	June 28, 2004	June 29, 2004
Issuer	GSAA Home Equity Trust 2004-4	GSAA Home Equity Trust 2004-5
Trustee	JPMorgan Chase Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$145,084,000	AV-1	$106,867,000
A2A	$102,801,000	AF-2	$67,382,000
A2B	$42,282,000	AF-3	$21,554,000
M-1	$6,431,000	AF-4	$44,497,000
M-2	$9,411,000	AF-5	$26,700,000
M-3	$4,704,000	AV-2	$11,319,000
X	$2,980,872	M-1	$8,669,000
R	$100	M-2	$6,540,000
P	$100	B-1	$5,932,000
		B-2	$1,825,000
		X	N/A
		P	$0
		R	N/A

RMBS

Transaction Name:	**GSAA 2004-6**	**GSAA 2004-7**
Closing Date	July 29, 2004	August 31, 2004
Issuer	GSAA Home Equity Trust 2004-6	GSAA Home Equity Trust 2004-7
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	Moodys, Fitch
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$124,177,000	AV-1	$107,665,000
A-2	$75,359,000	AF-2	$65,734,000
M-1	$6,312,000	AF-3	$26,718,000
M-2	$4,708,000	AF-4	$45,360,000
M-3	$3,423,000	AF-5	$27,275,000
X	N/A	M-1	$5,598,000
P	$0	M-2	$3,875,000
R	N/A	B-1	$3,301,000
		B-2	$1,581,000
		X	N/A
		R	N/A

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2004-8**	**GSAA 2004-9**
Closing Date	September 23, 2004	October 28, 2004
Issuer	GSAA Home Equity Trust 2004-8	GSAA Home Equity Trust 2004-9
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$96,837,000	A-1	$217,272,000
A2	$139,498,000	A-2	$114,355,000
A3-A	$197,534,000	M-1	$25,668,000
A3-B	$7,165,000	M-2	$20,739,000
M1	$12,093,000	M-3	$6,161,000
M2	$9,247,000	M-4	$5,133,000
B-1	$7,351,000	M-5	$4,928,000
B-2	$2,845,000	B-1	$3,491,000
P	$0	B-2	$4,107,000
X	N/A	P	$0
R	N/A	X	N/A
		R	N/A

RMBS

Transaction Name:	GSAA 2004-10	GSAA 2004-11
Closing Date	November 24, 2004	December 30, 2004
Issuer	GSAA Home Equity Trust 2004-10	GSAA Home Equity Trust 2004-11
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AV1	$128,552,000	1A1	$141,041,000
AF2	$83,109,000	2A1	$188,816,000
AF3	$18,644,000	2A2	$100,000,000
AF4	$48,836,000	2A3	$11,112,000
AF5	$31,016,000	M1	$13,885,000
M1	$14,301,000	M2	$11,251,000
M2	$10,905,000	B1	$8,379,000
B1	$8,938,000	B2	$4,309,000
B2	$2,682,000	X	$3,112,161
B3	$4,290,000	P	$0
X	$8,257,500	R	$0
P	$0		
R	$0		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2004-CW1**	**GSAA 2004-NC1**
Closing Date	April 29, 2004	February 26, 2004
Issuer	GSAA Trust 2004-CW1	GSAA Trust 2004-NC1
Trustee	JPMorgan Chase Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	Moody's, Fitch
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
IA-1	$16,718,000	AV-1	$48,506,000
IIA-1	$100,000,000	AF-2	$17,874,000
IIA-2	$102,068,000	AF-3	$34,264,000
IIA-3	$15,000,000	AF-4	$20,851,000
A-R	$190,424	AF-5	$23,009,000
A-X	$23,934,320	AF-6	$16,056,000
B1	$8,629,000	AV-2A	$71,370,000
B2	$2,626,000	AV-2B	$17,835,000
B3	$1,751,000	M-1	$11,584,000
B4	$1,376,000	M-2	$10,860,000
B5	$875,000	B-1	$7,963,000
B6	$875,953	B-2	$2,896,000
R	$0	X	N/A
		P	$0
		R	N/A

RMBS

Transaction Name:	**GSAA 2005-1**	**GSAA 2005-2**
Closing Date	January 28, 2005	January 28, 2005
Issuer	GSAA Home Equity Trust 2005-1	GSAA Home Equity Trust 2005-2
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	**Orig. Balance**	**Tranche**	**Orig. Balance**
AV1	$144,436,000	1A1	$89,370,000
AV2	$40,000,000	1A2	$9,930,000
AF2	$123,802,000	2A1	$188,756,000
AF3	$32,913,000	2A2	$57,207,000
AF4	$76,351,000	2A3	$48,160,000
AF5	$46,389,000	M1	$17,191,000
M1	$16,494,000	M2	$15,226,000
M2	$12,370,000	M3	$8,596,000
B1	$6,185,000	M4	$8,595,000
B2	$5,154,000	M5	$8,595,000
B3	$5,154,000	M6	$7,367,000
X	$6,186,980	B1	$6,140,000
P	$0	B2	$6,140,000
R	$0	B3	$4,912,000
		B4	$6,385,000
		X	$8,595,811
		P	$0
		R	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2005-3**	**GSAA 2005-4**
Closing Date	February 25, 2005	March 30, 2005
Issuer	GSAA Home Equity Trust 2005-3	GSAA Home Equity Trust 2005-4
Trustee	HSBC	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	**Orig. Balance**	**Tranche**	**Orig. Balance**
A1	$214,158,000	A1	$185,000,000
A2	$63,889,000	A2	$56,332,000
A3	$66,764,000	A3	$59,769,000
M1	$19,177,000	A4	$6,640,000
M2	$9,781,000	A5	$214,912,000
B1	$4,219,000	A6	$23,879,000
B2	$1,342,000	M1	$16,958,000
B3	$1,918,000	M2	$11,306,000
X	$2,301,932	B1	$6,248,000
P	$0	B2	$2,975,000
R	$0	B3	$2,975,000
		B4	$2,975,000
		X	$5,058,322
		P	$100
		R1	$100
		R2	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAA 2005-5	GSAA 2005-6
Closing Date	April 28, 2005	May 27, 2005
Issuer	GSAA Home Equity Trust 2005-5	GSAA Home Equity Trust 2005-6
Trustee	HSBC	HSBC
Rating Agencies	S&P, Fitch, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$392,187,000	A1	$588,972,000
A2	$91,518,000	A2	$187,119,000
A3	$77,000,000	A3	$214,886,000
A4	$59,755,000	M1	$31,186,000
M1	$27,234,000	M2	$6,990,000
M2	$17,807,000	M3	$10,753,000
M3	$15,712,000	M4	$5,376,000
M4	$3,491,000	B1	$5,376,000
B1	$3,491,000	B2	$5,376,000
B2	$3,491,000	B3	$5,376,000
B3	$3,491,000	B4	$5,376,000
X	$3,146,730	X	$8,609,664
P	$100	P	$0
R-1	$100	C	$0
R-2	$100	R-1	$100
		R-2	$100

Transaction Name:	GSAA 2005-7	GSAA 2005-8
Closing Date	June 29, 2005	June 29, 2005
Issuer	GSAA Home Equity Trust 2005-7	GSAA Home Equity Trust 2005-8
Trustee	HSBC	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AV-1	$306,700,000	A1	$159,755,000
AF-2	$163,242,000	A2	$48,442,000
AF-3	$46,526,000	A3	$55,732,000
AF-4	$66,316,000	A4	$256,500,000
AF-5	$64,754,000	A5	$28,500,000
M-1	$10,085,000	M1	$20,230,000
M-2	$9,389,000	M2	$4,831,000
M-3	$4,868,000	M3	$7,850,000
M-4	$4,868,000	M4	$3,321,000
M-5	$4,173,000	B1	$3,019,000
M-6	$2,086,000	B2	$3,019,000
B-1	$2,086,000	B3	$3,019,000
B-2	$1,738,000	B4	$4,529,000
B-3	$1,738,000	X	$5,136,376
B-4	$3,477,000	P	$0
X	$3,483,643	C	$0
P	$100	R-1	$100
C	$100	R-2	$100
R1	$100		
R2	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSAA 2005-9	GSAA 2005-10
Transaction Name:		
Closing Date	July 28, 2005	August 26, 2005
Issuer	GSAA Home Equity Trust 2005-9	GSAA Home Equity Trust 2005-10
Trustee	HSBC	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$119,458,000	1A1	$149,186,000
1A2	$13,273,000	2A1	$254,412,000
2A1	$393,886,000	2A2	$57,699,000
2A2	$125,468,000	2A3	$6,412,000
2A3	$132,504,000	2A4	$36,079,000
2A4	$14,722,000	2A5	$4,010,000
M1	$11,621,000	M1	$25,109,000
M2	$8,608,000	M2	$23,457,000
M3	$4,304,000	M3	$13,876,000
M4	$4,304,000	M4	$12,224,000
M5	$4,304,000	M5	$11,233,000
M6	$4,304,000	M6	$10,241,000
B1	$4,304,000	B1	$9,250,000
B2	$4,304,000	B2	$8,259,000
B3	$4,304,000	B3	$7,598,000
B4	$4,304,000	B4	$15,197,000
X	$6,890,883	X	$16,523,860
P	$100	P	$100
C	$100	C	$100
R-1	$100	R-1	$100
R-2	$100	R-2	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

Transaction Name:	GSAA 2005-11	GSAA 2005-12
Closing Date	September 29, 2005	October 28, 2005
Issuer	GSAA Home Equity Trust 2005-11	GSAA Home Equity Trust 2005-12
Trustee	Wachovia	HSBC
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$103,804,000	AV-1	$253,054,000
1A2	$11,534,000	AF-2	$21,174,000
2A1	$99,780,000	AF-3	$18,492,000
2A2	$11,087,000	AF-3W	$75,000,000
3A1	$300,000,000	AF-4	$64,211,000
3A2	$33,334,000	AF-5	$42,067,000
3A3	$168,833,000	AF-6	$52,666,000
3A4	$53,085,000	M-1	$7,105,000
3A5	$62,868,000	M-2	$7,105,000
M1	$23,668,000	M-3	$3,979,000
M2	$7,737,000	M-4	$3,694,000
M3	$7,282,000	M-5	$3,694,000
M4	$4,551,000	M-6	$2,842,000
B1	$4,551,000	B-1	$2,558,000
B2	$4,551,000	B-2	$1,989,000
B3	$4,551,000	B-3	$2,842,000
B4	$4,551,000	B-4	$3,126,000
X	$4,557,243	X	$2,847,284
P	$100	P	$100
C	$100	R1	$100
R-1	$100	R2	$100
R-2	$100		

RMBS

Transaction Name:	**GSAA 2005-14**
Closing Date	November 22, 2005
Issuer	GSAA Home Equity Trust 2005-14
Trustee	Wachovia
Rating Agencies	S&P, Moody's
Collateral Type	Alt-A

Capital Structure:

Tranche	Orig. Balance
1A1	$168,059,000
1A2	$18,674,000
2A1	$393,599,000
2A2	$134,713,000
2A3	$133,800,000
2A4	$14,867,000
M1	$18,554,000
M2	$8,349,000
M3	$4,638,000
M4	$4,638,000
M5	$4,638,000
M6	$4,638,000
B1	$4,638,000
B2	$4,638,000
B3	$4,638,000
X	$4,644,183
P	$100
R-1	$100
R-2	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2005-15**	**GSAA 2005-MTR1**
Closing Date	December 29, 2005	October 28, 2005
Issuer	GSAA Home Equity Trust 2005-15	GSAA Home Equity Trust 2005-MTR1
Trustee	HSBC	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$168,059,000	A1	$239,254,000
1A2	$18,674,000	A2	$66,874,000
2A1	$393,599,000	A3	$7,431,000
2A2	$134,713,000	A4	$77,094,000
2A3	$133,800,000	A5	$8,566,000
2A4	$14,867,000	M1	$7,202,000
M1	$18,554,000	M2	$6,548,000
M2	$8,349,000	M3	$4,365,000
M3	$4,638,000	M4	$6,329,000
M4	$4,638,000	M5	$2,837,000
M5	$4,638,000	B1	$3,055,000
M6	$4,638,000	B2	$2,183,000
B1	$4,638,000	B3	$2,401,000
B2	$4,638,000	X	$2,404,480
B3	$4,638,000	P	$100
X	$4,644,183	R-1	$100
P	$100	R-2	$100
R-1	$100		
R-2	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2006-1**	**GSAA 2006-2**
Closing Date	January 27, 2006	February 6, 2006
Issuer	GSAA Home Equity Trust 2006-1	GSAA Home Equity Trust 2006-2
Trustee	U.S. Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$498,836,000	1A1	$148,331,000
A-2	$165,814,000	1A2	$16,482,000
A-3	$176,445,000	2A1	$444,704,000
A-4	$19,606,000	2A2	$85,046,000
M-1	$13,658,000	2A3	$9,450,000
M-2	$4,554,000	2A4	$48,946,000
M-3	$4,554,000	2A5	$5,439,000
M-4	$4,554,000	M-1	$41,283,000
M-5	$4,554,000	M-2	$38,225,000
B-1	$4,555,000	M-3	$23,445,000
B-2	$4,556,000	M-4	$20,387,000
B-3	$4,555,000	M-5	$19,367,000
X	$4,554,506	M-6	$17,839,000
P	$100	B-1	$16,820,000
R-1	$100	B-2	$14,271,000
R-2	$100	B-3	$10,704,000
		B-4	$20,386,000
		X	$38,228,439
		P	$100
		R	$100
		RC	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

Transaction Name:	GSAA 2006-3	GSAA 2006-4
Closing Date	February 24, 2006	March 2, 2006
Issuer	GSAA Home Equity Trust 2006-3	GSAA Home Equity Trust 2006-4
Trustee	U.S. Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$548,029,000	1A1	$223,080,000
A2	$186,047,000	1A2	$24,787,000
A3	$190,366,000	2A1	$81,053,000
A4	$21,152,000	3A1	$101,396,000
M-1	$16,624,000	4A1	$201,218,000
M-2	$5,038,000	4A2	$84,122,000
M-3	$5,038,000	4A3	$116,263,000
M-4	$5,038,000	B-1	$22,304,000
M-5	$5,038,000	B-2	$13,828,000
B-1	$5,038,000	B-3	$8,921,000
B-2	$5,038,000	B-4	$6,691,000
B-3	$5,038,000	B-5	$4,906,000
B-4	$5,038,000	B-6	$3,570,172
X	$5,041,393	4A-IO	$285,340,000
P	$100	P	$100
R	$100	R	$100
RC	$100	RC	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAA 2006-5	GSAA 2006-6
Closing Date	March 30, 2006	April 28, 2006
Issuer	GSAA Home Equity Trust 2006-5	GSAA Home Equity Trust 2006-6
Trustee	U.S. Bank	U.S. Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$186,376,000	AV-1	$198,417,000
2A1	$569,877,000	AF-2	$28,298,000
2A2	$178,462,000	AF-3	$69,317,000
2A3	$193,964,000	AF-4	$58,335,000
2A4	$21,552,000	AF-5	$34,500,000
M-1	$22,819,000	AF-6	$38,886,000
M-2	$9,866,000	AF-7	$4,321,000
M-3	$6,168,000	M-1	$6,399,000
M-4	$6,168,000	M-2	$6,162,000
M-5	$6,168,000	M-3	$3,792,000
B-1	$6,168,000	M-4	$3,317,000
B-2	$6,168,000	M-5	$3,317,000
B-3	$12,334,000	M-6	$2,371,000
X	$7,402,284	B-1	$2,371,000
P	$100	B-2	$2,371,000
R	$100	B-3	$2,371,000
RC	$100	B-4	$3,081,000
RX	$100	R	$100
		RC	$100
		RX	$100
		X	$6,399,528
		P	N/A

RMBS

Transaction Name:	**GSAA 2006-7**	**GSAA 2006-8**
Closing Date	April 28, 2006	April 28, 2006
Issuer	GSAA Home Equity Trust 2006-7	GSAA Home Equity Trust 2006-8
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AV-1	$193,351,000	1A1	$199,053,000
AF-2	$133,519,000	2A1	$599,904,000
AF-3	$43,105,000	2A2	$189,774,000
AF-4A	$82,067,000	2A3A	$197,853,000
AF-4B	$9,119,000	2A3B	$24,265,000
AF-5A	$36,832,000	M-1	$16,309,000
AF-5B	$14,409,000	M-2	$16,309,000
M-1	$8,504,000	M-3	$9,133,000
M-2	$5,484,000	M-4	$16,309,000
M-3	$2,744,000	M-5	$6,524,000
M-4	$2,744,000	B-1	$7,828,000
M-5	$2,744,000	B-2	$6,524,000
B-1	$2,744,000	B-3	$6,524,000
B-2	$2,744,000	R	$100
B-3	$3,072,000	RC	$100
R	$100	RX	$100
RC	$100	X	$8,485,206
RX	$100	P	N/A
X	$5,487,316		
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2006-9**	**GSAA 2006-10**
Closing Date	May 26, 2006	June 29, 2006
Issuer	GSAA Home Equity Trust 2006-9	GSAA Home Equity Trust 2006-10
Trustee	U.S. Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P / Moodys
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$724,918,000	AV1	$296,280,000
A-2	$237,590,000	AF2	$40,496,000
A-3	$255,442,000	AF3	$117,039,000
A-4-A	$244,624,000	AF4	$67,727,000
A-4-B	$27,181,000	AF5	$60,523,000
M-1	$28,726,000	AF6	$64,679,000
M-2	$14,363,000	M1	$9,158,000
M-3	$10,373,000	M2	$8,454,000
M-4	$12,765,000	M3	$4,931,000
M-5	$7,980,000	M4	$4,579,000
B-1	$7,980,000	M5	$3,874,000
B-2	$7,980,000	M6	$3,523,000
B-3	$7,980,000	B1	$3,523,000
R	$100	B2	$3,523,000
RC	$100	B3	$3,523,000
RX	$100	B4	$3,523,000
X	$7,979,637	X	$9,160,209
P	N/A	P	N/A
		R	$100
		RC	$100
		RX	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2006-11**	**GSAA 2006-12**
Closing Date	June 30, 2006	July 28, 2006
Issuer	GSAA Home Equity Trust 2006-11	GSAA Home Equity Trust 2006-12
Trustee	Deutsche Bank	U.S. Bank
Rating Agencies	S&P / Moodys	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$242,367,000	A1	$567,989,000
2A1	$707,406,000	A2A	$165,021,000
2A2	$221,428,000	A2B	$18,336,000
2A3-A	$240,727,000	A3A	$195,407,000
2A3-B	$26,748,000	A3B	$21,712,000
M1	$27,013,000	M-1	$13,975,000
M2	$13,118,000	M-2	$9,317,000
M3	$7,719,000	M-3	$10,352,000
M4	$7,719,000	M-4	$6,211,000
M5	$7,719,000	B-1	$10,352,000
B1	$7,719,000	B-2	$5,177,000
B2	$7,719,000	B-3	$5,177,000
B3	$16,208,000	X	$6,212,069
R	$100	P	N/A
RC	$100	R	$100
RX	$100	RC	$100
X	$10,034,369	RX	$100
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

Transaction Name:	GSAA 2006-13	GSAA 2006-14
Closing Date	August 25, 2006	August 25, 2006
Issuer	GSAA Home Equity Trust 2006-13	GSAA Home Equity Trust 2006-14
Trustee	Deutsche Bank	LaSalle Bank
Rating Agencies	S&P / Moody's	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AV1	$181,651,000	A-1	$726,454,000
AF2	$34,050,000	A-2	$221,318,000
AF3	$78,527,000	A-3A	$277,524,000
AF4	$61,500,000	A-3B	$30,837,000
AF5	$60,721,000	M-1	$19,325,000
AF6	$46,272,000	M-2	$9,995,000
M1	$7,439,000	M-3	$12,661,000
M2	$3,720,000	M-4	$6,664,000
M3	$2,976,000	B-1	$12,661,000
M4	$2,480,000	R	$100
M5	$3,223,000	RC	$100
B1	$2,480,000	RX	$100
B2	$2,976,000	B-2	$6,664,000
B3	$2,480,000	X	N/A
R	$100	P	$100
RC	$100		
RX	$100		
X	$5,455,599		
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2006-15**	**GSAA 2006-16**
Closing Date	September 28, 2006	September 28, 2006
Issuer	GSAA Home Equity Trust 2006-15	GSAA Home Equity Trust 2006-16
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P / Moody's	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AV1	$222,508,000	A1	$797,539,000
AF2	$39,820,000	A2	$216,239,000
AF3-A	$78,811,000	A3_A	$302,442,000
AF3-B	$8,757,000	A3_B	$33,605,000
AF4	$62,948,000	M1	$18,878,000
AF5	$48,004,000	M2	$18,153,000
AF6	$51,206,000	M3	$10,165,000
M1	$6,286,000	M4	$9,440,000
M2	$2,736,000	M5	$14,522,000
M3	$2,736,000	B1	$8,711,000
M4	$2,736,000	B2	$7,262,000
M5	$2,736,000	B3	$7,262,000
M6	$2,736,000	R	$100
B1	$2,736,000	RC	$100
B2	$2,736,000	RX	$100
B3	$2,736,000	X	$7,987,705
B4	$2,736,000	P	$100
R1	$100		
RC	$100		
RX	$100		
X	$4,103,164		
P	$100		

RMBS

Transaction Name:	GSAA 2006-17	GSAA 2006-18
Closing Date	October 30, 2006	November 30, 2006
Issuer	GSAA Home Equity Trust 2006-17	GSAA Home Equity 2006-18
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P / Moodys	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$589,300,000	A-1	$218,347,000
A2	$155,750,000	A-2A	$25,075,000
A-3A	$223,873,000	A-2B	$2,787,000
A-3B	$24,875,000	A-3A	$76,557,000
M1	$13,899,000	A-3B	$8,507,000
M2	$13,365,000	A-4A	$50,337,000
M3	$7,484,000	A-4B	$5,593,000
M4	$6,950,000	A-5A	$25,963,000
M5	$5,346,000	A-5B	$6,491,000
M6	$5,346,000	A-6	$46,629,000
B1	$5,880,000	M-1	$11,047,000
B2	$5,346,000	M-2	$7,707,000
B3	$5,346,000	M-3	$4,367,000
R	$100	M-4	$3,597,000
RC	$100	M-5	$3,083,000
RX	$100	M-6	$2,826,000
X	$6,415,901	B-1	$4,109,000
P	$100	B-2	$2,570,000
		B-3	$3,340,000
		R	$100
		RC	$100
		RX	$100
		X	$4,881,756
		P	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2006-19**	**GSAA 2006-20**
Closing Date	November 24, 2006	December 29, 2006
Issuer	GSAA Home Equity 2006-19	GSAA Home Equity 2006-20
Trustee	U.S. Bank	U.S. Bank
Rating Agencies	S&P / Moodys	S&P / Moodys
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$452,682,000	1A1	$584,602,000
A2	$129,034,000	1A2	$158,240,000
A3-A	$172,006,000	2A1A	$144,680,000
A3-B	$19,112,000	2A1B	$16,076,000
M1	$11,231,000	A4A	$276,744,000
M2	$10,399,000	A4B	$30,750,000
M3	$6,239,000	M1	$23,925,000
M4	$4,574,000	M2	$12,286,000
M5	$4,160,000	M3	$6,467,000
M6	$4,160,000	M4	$6,467,000
B1	$4,160,000	M5	$6,467,000
B2	$4,991,000	B1	$6,467,000
B3	$4,160,000	B2	$6,467,000
R	$100	B3	$6,467,000
RC	$100	P	$100
RX	$100	X	$7,112,705
X	$4,991,428	R	$100
P	$100	RC	$100
		RX	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2006-S1**	**GSAA 2007-1**
Closing Date	December 28, 2006	January 30, 2007
Issuer	GSAA Home Equity Trust 2006-S1	GSAA Home Equity Trust 2007-1
Trustee	Deutsche Bank	U.S. Bank
Rating Agencies	S&P / Moody's	S&P / Moody's
Collateral Type	Seconds	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
I-A-1	$240,924,000	1A1	$515,268,000
I-A-IO	$147,920,000	1A2	$199,818,000
I-M-1	$32,770,000	2A1A	$82,495,000
I-M-2	$6,520,000	2A1B	$9,167,000
I-M-3	$15,048,000	A4A	$158,851,000
I-M-4	$5,350,000	A4B	$17,651,000
I-M-5	$5,350,000	M1	$13,715,000
I-M-6	$4,180,000	M2	$12,659,000
I-M-7	$5,183,000	M3	$7,913,000
I-B-1	$5,183,000	M4	$5,802,000
I-X	$334,385,335	M5	$5,275,000
I-X-1	$100	M6	$5,275,000
I-P	$100	B1	$5,275,000
I-R	$100	B2	$5,275,000
II-A-1	$42,135,000	B3	$5,275,000
II-M-1	$6,533,000	R1	$100
II-M2	$5,576,000	RC	$100
II-M-3	$1,716,000	RX	$100
II-M-4	$3,267,000	X	$5,275,378
II-M-5	$1,319,000	P	$100
II-X	$65,991,160		
II-X-1	$100		
II-P	$100		
II-R	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2007-2**	**GSAA 2007-3**
Closing Date	February 23, 2007	February 23, 2007
Issuer	GSAA Home Equity Trust 2007-2	GSAA Home Equity Trust 2007-3
Trustee	Deutsche Bank	U.S. Bank
Rating Agencies	S&P / Moody's	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AV1	$240,623,000	1A1A	$561,842,000
AF2	$32,032,000	1A1B	$62,428,000
AF3	$115,066,000	1A2	$209,413,000
AF4A	$53,131,000	2A1A	$100,000,000
AF4B	$12,000,000	2A1B	$11,112,000
AF5A	$48,351,000	A4A	$233,360,000
AF5B	$5,373,000	A4B	$25,930,000
AF6A	$50,658,000	M1	$17,544,000
AF6B	$5,629,000	M2	$16,895,000
M1	$7,627,000	M3	$7,142,000
M2	$6,711,000	M4	$6,499,000
M3	$4,271,000	M5	$6,499,000
M4	$3,661,000	M6	$6,499,000
M5	$3,661,000	B1	$6,499,000
M6	$3,661,000	B2	$6,499,000
B1	$3,051,000	B3	$6,499,000
B2	$4,576,000	B4	$7,148,000
B3	$3,051,000	R	$100
R	$100	RC	$100
RC	$100	RX	$100
RX	$100	X	$7,798,289
X	$7,017,029	P	$100
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAA 2007-4**	**GSAA 2007-5**
Closing Date	March 29, 2007	April 30, 2007
Issuer	GSAA Home Equity Trust 2007-4	GSAA Home Equity Trust 2007-5
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P / Moody's	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$535,274,000	1AV1	$144,477,000
A2	$143,692,000	1AF2A	$25,614,000
A-3A	$201,942,000	1AF2B	$2,847,000
A-3B	$25,381,000	1AF3A	$39,256,000
M1	$12,648,000	1AF3B	$9,815,000
M2	$11,189,000	1AF4A	$47,947,000
M3	$5,831,000	1AF4B	$5,328,000
M4	$4,866,000	1AF5A	$23,661,000
M5	$4,866,000	1AF5B	$2,629,000
M6	$4,866,000	1AF6	$8,000,000
B1	$4,866,000	1AF7A	$20,407,000
B2	$4,866,000	1AF7B	$5,102,000
B3	$6,811,000	1M1	$6,116,000
R	$100	1M2	$3,057,000
RC	$100	1M3	$2,159,000
RX	$100	1M4	$1,975,000
X	$5,837,672	1M5	$1,260,000
P	$100	1M6	$1,260,000
		1B1	$1,260,000
		1B2	$1,260,000
		1B3	$1,619,000
		1R	$100
		1RC	$100
		1RX	$100
		1X	$4,676,370

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAA 2007-6	GSAA 2007-7
Closing Date	May 30, 2007	June 28, 2007
Issuer	GSAA Home Equity Trust 2007-6	GSAA Home Equity Trust 2007-7
Trustee	Deutsche Bank	U.S. Bank
Rating Agencies	S&P / Moody's	S&P / Moody's
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$275,766,000	1A1	$161,141,000
1A2	$102,718,000	1A2	$63,314,000
2A1	$112,825,000	2A1	$110,428,000
3A1A	$78,936,000	A4	$72,188,000
3A1B	$8,771,000	A5	$45,231,000
A4	$113,496,000	M1	$8,998,000
A5	$67,202,000	M2	$4,620,000
M1	$15,096,000	M3	$3,161,000
M2	$7,344,000	M4	$3,162,000
M3	$5,301,000	M5	$1,945,000
M4	$4,081,000	M6	$1,702,000
M5	$4,081,000	B1	$2,432,000
M6	$2,857,000	B2	$2,918,000
B1	$4,081,000	R	$100
B2	$4,896,000	RC	$100
R	$100	RX	$100
RC	$100	X	$5,107,189
RX	$100	P	$100
X	$8,568,478		
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAA 2007-8	GSAA 2007-9
Closing Date	July 30, 2007	September 28, 2007
Issuer	GSAA Home Equity Trust 2007-8	GSAA Home Equity Trust 2007-9
Trustee	Citibank	Citibank
Rating Agencies	S&P / Moody's	Fitch / S&P
Collateral Type	Alt-A	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1	$118,546,000	A1A	$188,341,000
A2	$89,339,000	A1B	$12,842,000
A3	$91,082,000	A2A	$148,538,000
A4	$33,219,000	A2B	$10,128,000
M1	$6,658,000	A3A	$61,312,000
M2	$3,419,000	A3B	$4,181,000
M3	$2,519,000	B1	$10,662,000
M4	$2,158,000	B2	$5,898,000
M5	$1,440,000	B3	$2,495,000
M6	$1,440,000	B4	$2,949,000
B1	$1,440,000	B5	$2,495,000
B2	$1,260,000	B6	$2,722,759
B3	$1,800,000	A-PO	$1,120,302
R	$100	A-IO	$3,890,509
RC	$100	R	$100
RX	$100	RC	$100
X	$5,578,664	P	$100
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAA 2007-10	GSAA 2007-S1
Closing Date	October 30, 2007	February 28, 2007
Issuer	GSAA Home Equity Trust 2007-10	GSAA Home Equity Trust 2007-S1
Trustee	Citibank	Deutsche Bank
Rating Agencies	Fitch / S&P	S&P / Moody's
Collateral Type	Alt-A	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A1A	$40,846,000	A-1	$277,251,000
A1B	$3,380,000	A-IO	$114,658,000
A2A	$104,746,000	R	$100
A2B	$8,668,000	X	$21,189,360
B1	$4,852,000	P	$100
B2	$2,554,000	X-1	$100
B3	$1,021,000		
B4	$1,277,000		
B5	$1,106,000		
B6	$1,277,337		
A-PO	$499,776		
A-IO	$6,838,067		
R	$100		
RC	$100		
P	$1,000		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2004-AHL	GSAMP 2004-AR1
Closing Date	October 28, 2004	July 12, 2004
Issuer	GSAMP Trust 2004-AHL	GSAMP Trust 2004-AR1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's, Fitch
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1A	$148,594,000	A-1A	$639,127,000
A-1B	$37,149,000	A-1B	$27,023,000
A-2A	$77,099,000	A-2A	$218,483,000
A-2B	$41,803,000	A-2B	$45,774,000
A-2C	$23,637,000	A-2C	$60,000,000
A-2D	$74,388,000	M-1	$52,160,000
M-1	$28,585,000	M-2	$31,421,000
M-2	$24,359,000	M-3	$21,367,000
M-3	$7,209,000	M-4	$15,711,000
B-1	$5,965,000	M-5	$15,711,000
B-2	$4,971,000	M-6	$25,137,000
B-3	$4,972,000	B-1	$16,339,000
B-4	$5,965,000	B-2	$16,339,000
N	$27,913,000	B-3	$12,569,000
X	N/A	B-4	$15,711,000
R-1	N/A	B-5	$12,568,000
R-2	N/A	X	N/A
		P	N/A
		R	N/A

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2004-AR2**	**GSAMP 2004-FM1**
Closing Date	August 31, 2004	January 28, 2004
Issuer	GSAMP Trust 2004-AR2	GSAMP Trust 2004-FM1
Trustee	Deutsche Bank	Wells Fargo
Rating Agencies	Moody's, Fitch	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1A	$273,942,000	A-1	$374,015,000
A-1B	$30,438,000	A-2A	$191,161,000
A-2A	$267,588,000	A-2B	$45,858,000
A-2B	$29,732,000	M-1	$49,959,000
A-3A	$78,744,000	M-2	$42,273,000
A-3B	$53,228,000	M-3	$13,450,000
A-3C	$20,661,000	B-1	$11,529,000
M-1	$45,865,000	B-2	$11,529,000
M-2	$31,715,000	B-3	$11,529,000
M-3	$18,054,000	X	$17,293,884
M-4	$14,637,000	P	N/A
M-5	$15,126,000	R	N/A
M-6	$16,102,000		
B-1	$16,589,000		
B-2	$12,198,000		
B-3	$9,759,000		
B-4	$14,638,000		
X	N/A		
P	N/A		
R	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2004-FM2**	**GSAMP 2004-HE1**
Closing Date	March 30, 2004	April 30, 2004
Issuer	GSAMP Trust 2004-FM2	GSAMP Trust 2004-HE1
Trustee	Wells Fargo	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$241,162,000	A-1A	$251,136,000
A-2A	$271,687,000	A-1B	$27,905,000
A-2B	$30,188,000	A-2A	$115,639,000
A-3A	$210,187,000	A-2B	$16,549,000
A-3B	$44,069,000	M-1	$37,023,000
M-1	$67,695,000	M-2	$31,735,000
M-2	$55,159,000	M-3	$9,256,000
M-3	$17,550,000	M-4	$9,256,000
B-1	$15,044,000	B-1	$7,405,000
B-2	$14,542,000	B-2	$7,405,000
B-3	$13,037,000	B-3	$6,347,000
B-4	$12,536,000	A-IO	$188,497,000
X	$10,029,496	A-INV	$528,911,975
P	N/A	X	100%
R	N/A	P	$1
		R	$1

RMBS

Transaction Name:	**GSAMP 2004-HE2**	**GSAMP 2004-NC1**
Closing Date	July 30, 2004	April 29, 2004
Issuer	GSAMP Trust 2004-HE2	GSAMP Trust 2004-NC1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$284,714,000	A-1	$201,244,000
A-2	$236,934,000	A-2	$70,956,000
A-3A	$117,719,000	A-3	$51,672,000
A-3B	$45,371,000	M-1	$27,673,000
A-3C	$32,809,000	M-2	$23,573,000
M-1	$58,510,000	M-3	$7,174,000
M-2	$31,750,000	B-1	$5,125,000
M-3	$13,607,000	B-2	$4,715,000
M-4	$13,607,000	B-3	$5,124,000
B-1	$13,607,000	N	$20,574,000
B-2	$9,072,000	X	N/A
B-3	$9,071,000	R	N/A
B-4	$20,411,000		
X	100%		
P	N/A		
R	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2004-NC2	GSAMP 2004-OPT
Closing Date	October 28, 2004	December 28, 2004
Issuer	GSAMP Trust 2004-NC2	GSAMP Trust 2004-OPT
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Fitch	S&P, Moody's, Fitch
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A -1A	$263,769,000	A-1	$354,000,000
A-1B	$29,308,000	A-2	$110,970,000
A-2A	$67,249,000	A-3	$71,427,000
A-2B	$49,195,000	A-4	$37,929,000
A-2C	$25,730,000	M-1	$43,424,000
M-1	$38,007,000	M-2	$34,320,000
M-2	$13,536,000	M-3	$9,805,000
M-3	$7,810,000	B-1	$7,004,000
B-1	$4,425,000	B-2	$7,004,000
B-2	$5,206,000	B-3	$6,304,000
B-3	$4,686,000	B-4	$7,004,000
N	$28,811,000	X	$1
X	N/A	P	$1
R-1	N/A	R	N/A
R-2	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2004-SD1	GSAMP 2004-SEA1
Closing Date	July 30, 2004	March 30, 2004
Issuer	GSAMP Trust 2004-SD1	GSAMP Trust 2004-SEA1
Trustee	Wachovia	Wachovia
Rating Agencies	S&P, Moody's	S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$59,000,000	A-1A	$82,409,000
A-2	$24,140,000	A-1B	$15,790,000
A-3	$16,094,000	A-2	$17,329,000
A-4	$43,000,000	M-1	$7,702,000
A-5	$43,000,000	M-2	$2,246,000
M-1	$27,212,000	B-1	$842,000
M-2	$14,322,000	B-2	$642,000
B-1	$4,774,000	B-3	$642,000
B-2	$3,581,000	X	$128,365,405
B-3	$3,580,000	P	$1
X	100%	R	$1
P	$100		
R	$100		

RMBS

Transaction Name:	**GSAMP 2004-SEA2**	**GSAMP 2004-WF**
Closing Date	June 29, 2004	November 23, 2004
Issuer	GSAMP Trust 2004-SEA2	GSAMP Trust 2004-WF
Trustee	JPMorgan Chase Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$52,000,000	A-1A	$145,492,000
A-2A	$355,360,000	A-1B	$36,373,000
A-2B	$69,040,000	A-2A	$42,349,000
M-1	$46,554,000	A-2B	$27,782,000
M-2	$43,450,000	A-2C	$13,777,000
M-3	$15,518,000	A-2D	$100,000,000
M-4	$10,863,000	M-1	$31,321,000
M-5	$9,931,000	M-2	$16,426,000
B-1	$11,794,000	M-3	$4,381,000
B-2	$6,207,000	B-1	$4,381,000
A-IO	$220,093,000	B-2	$4,380,000
X	100%	B-3	$4,381,000
R	N/A	B-4	$4,380,000
		X	100%
		P	N/A
		R	N/A

RMBS

Transaction Name:	GSAMP 2005-AHL	GSAMP 2005-AHL2
Closing Date	May 26, 2005	December 28, 2005
Issuer	GSAMP Trust 2005-AHL	GSAMP Trust 2005-AHL2
Trustee	Deutsche Bank	LaSalle Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$269,282,000	A-1A	$108,759,000
A-2	$145,242,000	A-1B	$27,190,000
A-3	$77,440,000	A-2A	$156,886,000
M-1	$46,190,000	A-2B	$65,607,000
M-2	$31,620,000	A-2C	$63,603,000
M-3	$9,300,000	A-2D	$25,693,000
M-4	$7,749,000	M-1	$43,526,000
M-5	$5,580,000	M-2	$11,317,000
M-6	$5,270,000	M-3	$19,152,000
B-1	$4,340,000	M-4	$8,995,000
B-2	$6,200,000	M-5	$8,415,000
R-1	$100	B-1	$6,094,000
R-2	$100	B-2	$5,803,000
X	N/A	B-3	$5,804,000
P	N/A	B-4	$5,803,000
		R-1	$100
		R-2	$100
		R-3	$100
		X	$17,700,621
		P	N/A
		C	N/A

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2005-HE1	GSAMP 2005-HE2
Closing Date	January 27, 2005	March 30, 2005
Issuer	GSAMP Trust 2005-HE1	GSAMP Trust 2005-HE2
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A -1A	$248,741,000	A-1	$297,636,000
A -1B	$62,185,000	A-2	$169,463,000
A-2A	$91,591,000	A-3	$79,117,000
A-2B	$49,331,000	M-1	$49,720,000
A-2C	$25,890,000	M-2	$40,265,000
A-2D	$147,210,000	M-3	$11,555,000
M-1	$54,086,000	B-1	$10,154,000
M-2	$44,216,000	B-2	$8,403,000
M-3	$11,844,000	B-3	$8,754,000
B-1	$12,238,000	B-4	$9,804,000
B-2	$9,475,000	R-1	$100
B-3	$7,896,000	R-2	$100
B-4	$9,475,000	X	N/A
X	N/A	P	N/A
P	N/A		
R	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2005-HE3**	**GSAMP 2005-HE4**
Closing Date	June 30, 2005	August 25, 2005
Issuer	GSAMP Trust 2005-HE3	GSAMP Trust 2005-HE4
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's, Fitch, DBRS	S&P, Moody's, Fitch
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1A	$256,997,000	A-1	$371,030,000
A-1B	$64,249,000	A-2A	$385,189,000
A-2A	$382,945,000	A-2B	$255,843,000
A-2B	$197,691,000	A-2C	$93,538,000
A-2C	$93,421,000	M-1	$57,881,000
M-1	$96,487,000	M-2	$54,951,000
M-2	$75,117,000	M-3	$37,366,000
M-3	$20,722,000	M-4	$26,376,000
M-4	$19,427,000	M-5	$26,376,000
B-1	$18,780,000	M-6	$23,446,000
B-2	$16,189,000	B-1	$24,911,000
B-3	$14,894,000	B-2	$18,316,000
R-1	$100	B-3	$19,782,000
R-2	$100	B-4	$18,317,000
X	$38,206,194	R-1	$50
P	N/A	R-2	$100
		R-3	$50
		X	N/A
		P	N/A
		C	N/A

RMBS

Transaction Name:	**GSAMP 2005-HE5**	**GSAMP 2005-HE6**
Closing Date	November 22, 2005	December 29, 2005
Issuer	GSAMP Trust 2005-HE5	GSAMP Trust 2005-HE6
Trustee	Deutsche Bank	LaSalle Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$405,564,000	A-1	$341,242,000
A-2A	$148,016,000	A-2A	$137,997,000
A-2B	$45,362,000	A-2B	$71,346,000
A-2C	$53,218,000	A-2C	$18,060,000
A-2D	$46,405,000	M-1	$31,355,000
M-1	$36,888,000	M-2	$29,032,000
M-2	$33,660,000	M-3	$20,516,000
M-3	$23,516,000	M-4	$15,097,000
M-4	$16,600,000	M-5	$15,097,000
M-5	$16,599,000	M-6	$13,161,000
M-6	$14,294,000	M-7	$12,774,000
M-7	$15,217,000	M-8	$9,290,000
M-8	$11,527,000	B-1	$10,839,000
B-1	$11,528,000	B-2	$10,065,000
B-2	$10,144,000	R-1	$50
R-1	$50	R-2	$100
R-2	$100	R-3	$50
R-3	$50	X	$46,356,023
X	$33,660,672	P	$100
P	$100	C	N/A

RMBS

Transaction Name:	**GSAMP 2005-NC1**	**GSAMP 2005-S1**
Closing Date	February 25, 2005	April 7, 2005
Issuer	GSAMP Trust 2005-NC1	GSAMP Trust 2005-S1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's, Fitch	Moody's, Fitch
Collateral Type	Subprime	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A -1	$189,636,000	A1	$187,366,000
A-2	$129,754,000	M1	$21,530,000
A-3	$49,572,000	M2	$19,993,000
M 1	$45,170,000	B1	$16,917,000
M 2	$23,298,000	B2	$4,742,000
M 3	$4,754,000	B3	$5,510,000
B-1	$4,755,000	R	$256,315,158
B-2	$4,755,000		
B-3	$4,754,000		
B-4	$4,750,000		
X	N/A		
N	$28,053,000		
R1	N/A		
R2	N/A		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2005-S2**	**GSAMP 2005-WMC1**
Closing Date	May 13, 2005	September 28, 2005
Issuer	GSAMP Trust 2005-S2	GSAMP Trust 2005-WMC1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, Fitch	Moody's, S&P
Collateral Type	Seconds	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A	$315,407,000	A-1	$331,764,000
M-1	$38,966,000	A-2	$117,392,000
M-2	$28,359,000	A-3	$123,367,000
M-3	$11,040,000	A-4	$116,671,000
M-4	$8,226,000	M-1	$64,542,000
B-1	$8,443,000	M-2	$20,762,000
B-2	$8,659,000	M-3	$30,239,000
B-3	$6,494,000	M-4	$13,089,000
X	$432,954,843	M-5	$13,540,000
X-1	$0	M-6	$10,381,000
P	$0	B-1	$8,124,000
R	$0	B-2	$9,478,000
		B-3	$8,124,000
		B-4	$9,930,000
		B-5	$11,735,000
		R-1	$100
		R-2	$100
		X	$13,539,989
		P	$100
		C	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2005-WMC2**	**GSAMP 2005-WMC3**
Closing Date	November 23, 2005	December 28, 2005
Issuer	GSAMP Trust 2005-WMC2	GSAMP Trust 2005-WMC3
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	**Orig. Balance**	**Tranche**	**Orig. Balance**
A-1A	$266,290,000	A-1A	$238,899,000
A-1B	$66,572,000	A-1B	$26,545,000
A-2A	$261,433,000	A-2A	$159,198,000
A-2B	$190,321,000	A-2B	$121,835,000
A-2C	$66,596,000	A-2C	$12,360,000
M-1	$80,187,000	M-1	$52,207,000
M-2	$26,355,000	M-2	$15,074,000
M-3	$37,570,000	M-3	$26,104,000
M-4	$16,822,000	M-4	$11,397,000
M-5	$17,944,000	M-5	$10,295,000
M-6	$13,458,000	M-6	$6,617,000
B-1	$12,897,000	B-1	$8,456,000
B-2	$12,337,000	B-2	$6,986,000
R-1	$100	B-3	$7,353,000
R-2	$100	R-1	$100
X	$52,710,111	R-2	$100
P	$100	X	$31,986,672
		P	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2006-FM1	GSAMP 2006-FM2
Closing Date	April 27, 2006	September 29, 2006
Issuer	GSAMP Trust 2006-FM1	GSAMP Trust 2006-FM2
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$245,164,000	A-1	$351,611,000
A-2A	$250,071,000	A-2A	$225,825,000
A-2B	$110,276,000	A-2B	$95,613,000
A-2C	$101,913,000	A-2C	$99,392,000
A-2D	$42,914,000	A-2D	$53,666,000
M-1	$34,646,000	M-1	$34,230,000
M-2	$30,849,000	M-2	$29,631,000
M-3	$18,034,000	M-3	$19,414,000
M-4	$16,611,000	M-4	$16,349,000
M-5	$16,136,000	M-5	$15,837,000
M-6	$14,713,000	M-6	$15,838,000
M-7	$13,763,000	M-7	$14,305,000
B-1	$12,340,000	M-8	$11,750,000
B-2	$9,492,000	M-9	$9,196,000
B-3	$8,543,000	B-1	$6,131,000
B-4	$9,492,000	B-2	$10,217,000
R	$50	X	$12,772,822
RC	$100	P	$100
RX	$50	C	$100
X	$14,237,951	R	$50
P	$100	RC	$100
C	$100	RX	$50

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2006-FM3	GSAMP 2006-HE1
Closing Date	December 21, 2006	February 17, 2006
Issuer	GSAMP Trust 2006-FM3	GSAMP Trust 2006-HE1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$257,050,000	A-1	$210,928,000
A-2A	$154,772,000	A-2A	$300,225,000
A-2B	$59,281,000	A-2B	$85,326,000
A-2C	$63,186,000	A-2C	$95,696,000
A-2D	$37,996,000	A-2D	$30,102,000
M-1	$28,759,000	M-1	$38,167,000
M-2	$26,601,000	M-2	$35,268,000
M-3	$12,581,000	M-3	$21,258,000
M-4	$11,504,000	M-4	$18,842,000
M-5	$11,143,000	M-5	$17,876,000
M-6	$7,190,000	M-6	$15,943,000
M-7	$8,627,000	M-7	$15,460,000
M-8	$4,674,000	M-8	$13,528,000
M-9	$7,908,000	B-1	$10,629,000
B-1	$8,627,000	B-2	$11,595,000
B-2	$6,831,000	B-3	$10,629,000
X	$12,221,818	R	$50
P	$100	RC	$100
C	$100	RX	$50
R	$50	X	$55,213,918
RC	$100	P	$100
RX	$50		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2006-HE2**	**GSAMP 2006-HE3**
Closing Date	April 6, 2006	May 26, 2006
Issuer	GSAMP Trust 2006-HE2	GSAMP Trust 2006-HE3
Trustee	U.S. Bank	LaSalle Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$282,460,000	A-1	$304,472,000
A-2	$181,748,000	A-2A	$517,353,000
A-3	$21,005,000	A-2B	$176,107,000
M-1	$24,214,000	A-2C	$151,980,000
M-2	$22,327,000	A-2D	$49,697,000
M-3	$13,207,000	M-1	$63,053,000
M-4	$12,264,000	M-2	$59,063,000
M-5	$11,321,000	M-3	$35,916,000
M-6	$10,377,000	M-4	$31,926,000
B-1	$11,635,000	M-5	$29,531,000
B-2	$10,377,000	M-6	$27,137,000
B-3	$7,547,000	M-7	$25,540,000
B-4	$7,233,000	M-8	$22,348,000
B-5	$6,289,000	M-9	$19,156,000
CE	$6,918,615	B-1	$19,155,000
P	$0	B-2	$17,559,000
R	$0	R	$50
RX	$0	RC	$100
		RX	$50
		X	$46,292,971
		P	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2006-HE4	GSAMP 2006-HE5
Closing Date	June 29, 2006	August 25, 2006
Issuer	GSAMP Trust 2006-HE4	GSAMP Trust 2006-HE5
Trustee	LaSalle Bank	LaSalle Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$352,415,000	A-1	$241,582,000
A-2A	$208,415,000	A-2A	$266,689,000
A-2B	$94,519,000	A-2B	$121,873,000
A-2C	$87,368,000	A-2C	$115,439,000
A-2D	$34,923,000	A-2D	$48,975,000
M-1	$40,100,000	M-1	$41,491,000
M-2	$37,055,000	M-2	$38,379,000
M-3	$21,319,000	M-3	$22,820,000
M-4	$19,289,000	M-4	$19,190,000
M-5	$18,781,000	M-5	$19,190,000
M-6	$15,200,000	M-6	$17,634,000
M-6	$1,551,000	M-7	$17,115,000
M-7	$16,243,000	M-8	$14,003,000
M-8	$14,720,000	M-9	$11,410,000
M-9	$11,167,000	B-1	$10,373,000
B-1	$10,152,000	B-2	$10,373,000
B-2	$10,152,000	R	$50
R	$50	RC	$100
RC	$100	RX	$50
RX	$50	X	$20,745,778
X	$21,827,150	P	$100
P	$100		

RMBS

Transaction Name:	GSAMP 2006-HE6	GSAMP 2006-HE7
Closing Date	September 14, 2006	October 31, 2006
Issuer	GSAMP Trust 2006-HE6	GSAMP Trust 2006-HE7
Trustee	U.S. Bank	LaSalle Bank
Rating Agencies	Moody's, S&P, Fitch, DBRS	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$300,146,000	A-1	$333,098,000
A-2	$64,689,000	A-2A	$184,027,000
A-3	$104,712,000	A-2B	$46,214,000
A-4	$41,994,000	A-2C	$73,637,000
M-1	$26,834,000	A-2D	$43,787,000
M-2	$32,608,000	M-1	$34,900,000
M-3	$12,568,000	M-2	$39,317,000
M-4	$11,888,000	M-3	$13,695,000
M-5	$13,927,000	M-4	$16,787,000
M-6	$8,152,000	M-5	$16,345,000
M-7	$8,152,000	M-6	$10,161,000
M-8	$6,793,000	M-7	$10,602,000
B-1	$12,228,000	M-8	$7,069,000
B-2	$11,889,000	M-9	$11,486,000
B-3	$10,869,000	B-1	$11,927,000
CE	N/A	B-2	$11,928,000
CL-R	$50	R	$50
CL-RX	$100	RC	$100
P	$100	RX	$50
		X	$18,554,474
		P	$100

RMBS

Transaction Name:	GSAMP 2006-HE8	GSAMP 2006-NC1
Closing Date	December 27, 2006	February 28, 2006
Issuer	GSAMP Trust 2006-HE8	GSAMP Trust 2006-NC1
Trustee	LaSalle Bank	U.S. Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$353,741,000	A-1	$310,299,000
A-2A	$230,823,000	A-2	$224,955,000
A-2B	$65,795,000	A-3	$42,565,000
A-2C	$85,335,000	M-1	$23,213,000
A-2D	$33,516,000	M-2	$21,784,000
M-1	$45,700,000	M-3	$12,857,000
M-2	$41,593,000	M-4	$11,070,000
M-3	$25,161,000	M-5	$10,714,000
M-4	$21,567,000	M-6	$9,642,000
M-5	$20,539,000	B-1	$9,285,000
M-6	$16,431,000	B-2	$10,000,000
M-7	$12,837,000	B-3	$6,428,000
M-8	$8,729,000	B-4	$5,357,000
M-9	$11,811,000	B-5	$7,142,000
B-1	$16,945,000	CE	$8,928,486
B-2	$14,892,000	P	$0
R	$50	R	$0
RC	$100	RX	$0
RX	$50		
X	$21,840,703		
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2006-NC2**	**GSAMP 2006-S1**
Closing Date	June 29, 2006	January 27, 2006
Issuer	GSAMP Trust 2006-NC2	GSAMP Trust 2006-S1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, S&P	Moody's, Fitch
Collateral Type	Subprime	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$239,818,000	A-1	$273,339,000
A-2A	$214,090,000	A-2A	$53,999,000
A-2B	$102,864,000	A-2B	$13,500,000
A-2C	$99,900,000	M-1	$47,546,000
A-2D	$42,998,000	M-2	$41,087,000
M-1	$35,700,000	M-3	$12,662,000
M-2	$28,649,000	M-4	$13,695,000
M-3	$16,748,000	M-5	$12,146,000
M-4	$14,986,000	M-6	$9,561,000
M-5	$14,545,000	B-1	$9,819,000
M-6	$13,663,000	B-2	$8,786,000
M-7	$12,341,000	X	$20,672,865
M-8	$11,019,000	X-1	$100
M-9	$7,052,000	P	$100
B-1	$6,170,000	R	$100
B-2	$8,815,000		
X	$12,341,301		
P	$100		
R	$50		
C	$100		
RC	$100		
RX	$50		

RMBS

Transaction Name:	GSAMP 2006-S2	GSAMP 2006-S3
Closing Date	March 30, 2006	April 27, 2006
Issuer	GSAMP Trust 2006-S2	GSAMP Trust 2006-S3
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, S&P, Fitch	Moody's, S&P
Collateral Type	Seconds	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1A	$130,000,000	A-1	$240,613,000
A-1B	$32,500,000	A-2	$74,961,000
A-2	$243,151,000	A-3	$19,989,000
A-3	$100,000,000	M-1	$47,196,000
M-1	$79,333,000	M-2	$12,603,000
M-2	$16,682,000	M-3	$23,721,000
M-3	$35,217,000	M-4	$11,367,000
M-4	$12,975,000	M-5	$10,625,000
M-5	$15,570,000	M-6	$7,907,000
M-6	$11,863,000	M-7	$9,885,000
M-7	$21,131,000	B-1	$12,849,000
B-1	$12,604,000	B-2	$8,401,000
B-2	$12,604,000	X	$14,085,219
X	$17,794,403	X-1	$100
X-1	$100	P	$100
P	$100	R	$100
R	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2006-S4	GSAMP 2006-S5
Closing Date	June 9, 2006	August 18, 2006
Issuer	GSAMP Trust 2006-S4	GSAMP Trust 2006-S5
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	Moody's, S&P	Moody's, S&P
Collateral Type	Seconds	Seconds

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$340,283,000	A-1	$164,416,000
A-2	$100,116,000	A-2	$67,155,000
A-3	$20,295,000	M-1	$27,789,000
M-1	$70,148,000	M-2	$8,601,000
M-2	$12,725,000	M-3	$15,879,000
M-3	$29,691,000	M-4	$7,609,000
M-4	$12,724,000	M-5	$8,436,000
M-5	$11,746,000	M-6	$7,278,000
M-6	$10,441,000	M-7	$4,962,000
M-7	$10,440,000	B-1	$6,451,000
B-1	$12,399,000	B-2	$5,624,000
B-2	$8,809,000	X	$6,616,322
X	$12,724,566	X-1	$100
X-1	$100	P	$100
P	$100	R	$100
R	$100		
RC	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSAMP 2006-S6**	**GSAMP 2007-FM1**
Closing Date	October 20, 2006	January 30, 2007
Issuer	GSAMP Trust 2006-S6	GSAMP Trust 2007-FM1
Trustee	Deutsche Bank	Deutsche Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Seconds	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1A	$76,000,000	A-1	$315,873,000
A-1B	$19,000,000	A-2A	$131,536,000
A-1C	$95,531,000	A-2B	$28,394,000
A-2	$62,603,000	A-2C	$46,057,000
A-3	$19,053,000	A-2D	$28,008,000
M-1	$35,241,000	M-1	$31,825,000
M-2	$8,324,000	M-2	$28,289,000
M-3	$13,281,000	M-3	$12,376,000
M-4	$8,376,000	M-4	$12,377,000
M-5	$7,260,000	M-5	$10,962,000
M-6	$5,667,000	M-6	$8,133,000
M-7	$5,844,000	M-7	$7,426,000
X	$354,180,830	M-8	$6,011,000
X-1	$100	M-9	$6,719,000
P	$100	B-1	$10,962,000
R	$100	B-2	$8,487,000
		X	$13,790,579
		P	$100
		C	$100
		R	$50
		RC	$100
		RX	$50

RMBS

Transaction Name:	**GSAMP 2007-FM2**	**GSAMP 2007-H1**
Closing Date	February 21, 2007	January 31, 2007
Issuer	GSAMP Trust 2007-FM2	GSAMP Trust 2007-H1
Trustee	Deutsche Bank	LaSalle Bank
Rating Agencies	S&P, Moody's	Fitch, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$351,823,000	A-1A	$39,569,000
A-2A	$230,215,000	A-1B	$26,640,000
A-2B	$62,864,000	A-1C	$10,651,000
A-2C	$83,578,000	A-2A1	$42,000,000
A-2D	$45,285,000	A-2A2S	$30,472,000
M-1	$42,570,000	A-2A2M	$10,157,000
M-2	$44,072,000	A-2B	$61,559,000
M-3	$16,527,000	A-2C	$12,480,000
M-4	$17,027,000	M-1	$11,532,000
M-5	$15,025,000	M-2	$10,622,000
M-6	$11,018,000	M-3	$6,069,000
M-7	$12,020,000	M-4	$5,615,000
M-8P	$4,106,000	M-5	$5,614,000
M-8D	$3,907,000	M-6	$5,007,000
M-9	$12,019,000	M-7	$4,553,000
B-1	$14,524,000	M-8	$4,248,000
B-2	$14,023,000	M-9	$4,401,000
X	$21,034,651	R	$50
P	$100	RC	$100
C	$100	RX	$50
R	$50	X	$12,291,039
RC	$100	P	$100
RX	$50		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2007-HE1	GSAMP 2007-HE2
Closing Date	February 23, 2007	April 20, 2007
Issuer	GSAMP Trust 2007-HE1	GSAMP Trust 2007-HE2
Trustee	LaSalle Bank	LaSalle Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$205,454,000	A-1	$370,801,000
A-2A	$149,399,000	A-2A	$216,267,000
A-2B	$44,191,000	A-2B	$50,045,000
A-2C	$59,585,000	A-2C	$74,161,000
A-2D	$15,726,000	A-2D	$28,668,000
M-1	$25,691,000	M-1	$42,961,000
M-2	$32,668,000	M-2	$39,423,000
M-3	$13,367,000	M-3	$24,261,000
M-4	$12,063,000	M-4	$21,228,000
M-5	$14,019,000	M-5	$19,206,000
M-6	$9,129,000	M-6	$17,184,000
M-7	$9,129,000	M-7	$18,196,000
M-8	$8,150,000	M-8	$16,173,000
M-9	$9,129,000	M-9	$15,162,000
B-1	$10,772,000	R	$50
B-2	$9,455,000	RC	$100
R	$50	RX	$50
RC	$100	C	$100
RX	$50	X	$57,114,094
X	$24,125,896	P	$100
P	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSAMP 2007-HS1	GSAMP 2007-NC1
Closing Date	August 30, 2007	February 20, 2007
Issuer	GSAMP Trust 2007-HSBC1	GSAMP Trust 2007-NC1
Trustee	Deutsche Bank	LaSalle Bank
Rating Agencies	S&P, Moody's	S&P, Moody's
Collateral Type	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1	$522,538,000	A-1	$479,787,000
M-1	$6,361,000	A-2A	$482,234,000
M-2	$12,403,000	A-2B	$145,757,000
M-3	$12,722,000	A-2C	$196,365,000
M-4	$11,449,000	A-2D	$79,824,000
M-5	$11,132,000	M-1	$76,022,000
M-6	$9,859,000	M-2	$75,106,000
M-7	$6,679,000	M-3	$40,301,000
M-8	$7,633,000	M-4	$38,469,000
M-9	$6,360,000	M-5	$34,805,000
R	$50	M-6	$24,730,000
RC	$100	M-7	$22,898,000
RX	$50	M-8	$15,571,000
C	$100	M-9	$21,982,000
X	$28,992,502	B-1	$32,058,000
P	$100	B-2	$26,562,000
		R	$50
		RC	$100
		RX	$50
		X	$39,384,621
		P	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSR 2004-2F	GSR 2004-3F
Closing Date	January 30, 2004	February 27, 2004
Issuer	GSR Mortgage Loan Trust 2004-2F	GSR Mortgage Loan Trust 2004-3F
Trustee	Wachovia	Wachovia
Rating Agencies	S&P, Fitch	S&P, Fitch
Collateral Type	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
I-A1	$23,285,625	I-A1	$37,754,000
I-A2	$23,285,625	IIA-1	$85,576,000
I-A3	$38,809,375	IIA-2	$19,449,090
I-A4	$16,715,000	IIA-3	$31,137,000
I-A5	$35,673,000	IIA-4	$21,213,000
I-A6	$12,972,000	IIA-5	$5,675,000
I-A7	$14,483,000	IIA-6	$38,353,334
II-A1	$100,000,000	IIA-7	$38,353,334
II-A2	$38,461,538	IIA-8	$16,000,000
II-A3	$40,156,188	IIA-9	$15,444,734
II-A4	$40,156,188	IIA-10	$19,562,932
II-A5	$38,505,188	IIA-11	$26,277,000
II-A6	$18,152,624	IIA-12	$500,000
III-A1	$100,000,000	IIIA-1	$87,000,000
III-A2	$40,769,230	IIIA-2	$32,842,500
III-A3	$53,120,438	IIIA-3	$36,845,894
III-A4	$53,120,438	IIIA-4	$36,845,894
III-A5	$38,096,500	IIIA-5	$30,332,571
III-A6	$21,050,062	IIIA-6	$19,995,535
IV-A1	$76,198,000	IIIA-7	$19,578,582
IV-A2	$76,198,000	IIIA-8	$440,418
V-A1	$35,524,000	A-P	$114,266
VI-A1	$94,581,000	A-X	$862,716
VII-A1	$53,305,000	B-1	$7,606,000
VII-A2	$53,305,000	B-2	$2,788,000
VIII-A1	$32,814,000	B-3	$1,775,000
IX-A1	$14,146,000	B-4	$1,268,000
X-A1	$41,137,000	B-5	$1,014,000
XI-A1	$27,838,000	B-6	$760,550
XII-A1	$55,415,000	R	$0
XIII-A1	$43,680,000		
XIV-A1	$45,060,000		
I-B1	$9,103,000		
I-B2	$2,896,000		
I-B3	$1,654,000		
I-B4	$1,241,000		
I-B5	$827,000		
I-B6	$827,817		
II-B1	$1,057,000		
II-B2	$528,000		
II-B3	$395,000		
II-B4	$264,000		
II-B5	$264,000		
II-B6	$131,965		
R	$0		
A-X	$4,724,122		
A-P	$929,495		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSR 2004-4**
Closing Date	February 27, 2004
Issuer	GSR Mortgage Loan Trust 2004-4
Trustee	Wachovia
Rating Agencies	S&P, Fitch
Collateral Type	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance
1A1	$61,126,000
2A1	$25,000,000
2A2	$50,000,000
2A3	$50,000,000
2A4	$112,438,000
2A5	$112,438,000
3A1	$45,000,000
3A2	$37,914,000
3A3	$37,914,000
4A1	$20,551,000
B1	$6,862,000
B2	$722,000
B3	$541,000
B4	$361,000
B5	$361,000
B6	$181,353
R	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSR 2004-5	GSR 2004-6F
Transaction Name:	GSR 2004-5	GSR 2004-6F
Closing Date:	April 30, 2004	May 27, 2004
Issuer:	GSR Mortgage Loan Trust 2007-5	GSR Mortgage Loan Trust 2004-6F
Trustee:	JPMorgan Chase Bank	Wachovia
Rating Agencies:	S&P, Moody's	S&P, Fitch
Collateral Type:	Prime Hybrid	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$80,000,000	IA-1	$24,017,000
1A2	$1,702,000	IA-2	$3,180,000
1A3	$88,621,000	IA-3	$3,107,000
2A1	$192,070,000	IIA-1	$139,984,000
3A1	$98,403,000	IIA-2	$17,870,000
3A2	$36,888,000	IIA-3	$12,870,000
3A3	$32,113,000	IIA-4	$21,859,000
1AX	$168,323,000	IIA-5	$25,453,000
2AX	$192,070,000	IIA-6	$684,000
B1	$10,996,000	IIA-7	$1,000,000
B2	$4,123,000	IIA-8	$35,246,000
B3	$2,199,000	IIIA-1	$70,000,000
B4	$1,925,000	IIIA-2	$20,461,538
B5	$1,649,000	IIIA-3	$11,700,000
B6	$1,099,886	IIIA-4	$13,817,000
R	$100	IIIA-5	$34,032,267
		IIIA-6	$5,235,733
		IVA-1	$65,529,000
		VA-1	$43,263,000
		A-P	$116,381
		A-X	$3,031,408
		B1	$6,510,000
		B2	$2,711,000
		B3	$1,356,000
		B4	$1,084,000
		B5	$1,085,000
		B6	$542,329
		R	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSR 2004-7	GSR 2004-8F
Closing Date:	June 30, 2004	July 30, 2004
Issuer:	GSR Mortgage Loan Trust 2004-7	GSR Mortgage Loan Trust 2004-8F
Trustee:	JPMorgan Chase Bank	Wachovia
Rating Agencies:	S&P	S&P, Fitch
Collateral Type:	Prime Hybrid	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$125,580,000	IA-1	$165,993,000
1A2	$12,560,000	IA-2	$3,932,000
1A3	$105,000,000	IIA-1	$133,700,000
2A1	$99,089,000	IIA-2	$33,425,000
3A1	$237,742,000	IIA-3	$59,159,000
4A1	$96,059,000	IIIA-1	$61,611,000
B1	$11,899,000	IIIA-2	$62,740,000
B2	$4,899,000	IIIA-3	$1,129,000
B3	$2,099,000	A-X	$151,398
B4	$2,100,000	B1	$6,345,000
B5	$1,749,000	B2	$1,969,000
B6	$1,050,537	B3	$1,531,000
R	$100	B4	$875,000
		B5	$875,000
		B6	$438,507
		R	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSR 2004-9	GSR 2004-10F
Closing Date:	July 30, 2004	August 26, 2004
Issuer:	GSR Mortgage Loan Trust 2007-9	GSR Mortgage Loan Trust 2004-10F
Trustee:	Wachovia	Wachovia
Rating Agencies:	S&P, Moody's, Fitch	S&P, Fitch
Collateral Type:	Prime Hybrid	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$30,000,000	1A-1	$50,000,000
1AX	$30,000,000	1A-2	$2,027,000
1A2	$41,207,000	1A-3	$28,475,000
2A1	$232,398,000	1A-4	$14,051,000
3A1	$155,295,000	1A-5	$64,617,000
3A2	$4,760,000	1A-6	$50,000,000
4A1	$90,711,000	1A-7	$647,000
5A1	$37,892,000	2A-1	$86,228,000
5A2	$44,352,000	2A-2	$6,228,000
5A3	$20,439,000	2A-3	$10,000,000
5A4	$16,080,000	2A-4	$138,953,000
5A5	$12,319,000	2A-5	$406,000
5A6	$21,373,000	3A-1	$63,654,000
5A7	$25,229,000	4A-1	$55,211,000
5A8	$1,640,000	5A-1	$21,434,000
6A1	$144,471,000	6A-1	$142,460,000
7A1	$51,075,000	7A-1	$192,798,000
B1	$16,480,000	8A-1	$147,700,000
B2	$9,208,000	8A-2	$36,925,000
B3	$4,846,000	8A-3	$69,955,000
B4	$3,877,000	9A-1	$36,926,000
B5	$1,938,000	A-P	$1,906,837
B6	$3,878,611	A-X	$223,222
R	$100	B1	$12,145,000
		B2	$4,832,000
		B3	$2,416,000
		B4	$1,812,000
		B5	$1,811,000
		B6	$1,208,819
		R	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSR 2004-11	GSR 2004-12
Transaction Name:	GSR 2004-11	GSR 2004-12
Closing Date:	August 27, 2004	October 29, 2004
Issuer:	GSR Mortgage Loan Trust 2007-11	GSR Mortgage Loan Trust 2004-12
Trustee:	Wachovia	U.S. Bank
Rating Agencies:	S&P, Moody's	Moody's, Fitch
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$381,670,000	1A1	$299,849,000
1A2	$50,000,000	1A2	$6,518,000
2A1	$200,000,000	2AR	$100
2A2	$200,000,000	2A1	$96,813,000
2A3	$197,041,000	2A2	$150,000,000
3A1	$28,864,000	2A3	$60,000,000
4A1	$12,475,000	3A1	$90,841,000
5A1	$106,126,000	3A2	$35,697,000
B1	$22,054,000	3A3	$63,505,000
B2	$9,801,000	3A4	$38,519,000
B3	$4,901,000	3A5	$32,825,000
B4	$5,513,000	3A6	$88,679,000
B5	$4,288,000	1B1	$8,800,000
B6	$2,451,068	1B2	$3,585,000
1AX	$50,000,000	1B3	$2,770,000
2AX1	$200,000,000	1B4	$1,467,000
2AX2	$200,000,000	1B5	$815,000
R	$100	1B6	$2,118,829
		2B1	$12,873,000
		2B2	$6,507,000
		2B3	$3,082,000
		2B4	$2,055,000
		2B5	$1,370,000
		2B6	$2,397,983
		1AX	$321,522,000
		2A1X	$96,813,000
		2A2X	$150,000,000
		2A3X	$60,000,000
		R	$100

RMBS

Transaction Name:	**GSR 2004-13F**	**GSR 2004-14**
Closing Date:	October 29, 2004	November 26, 2004
Issuer:	GSR Mortgage Loan Trust 2004-13F	GS Mortgage Loan Trust 2004-14
Trustee:	Wachovia	U.S. Bank
Rating Agencies:	S&P, Moody's	S&P, Moody's
Collateral Type:	Prime Fixed	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$16,518,000	AR	$100
2A-1	$100,000,000	1A1	$106,377,000
2A-2	$29,166,666	1AX	$106,377,000
2A-3	$29,883,000	2A1	$201,853,000
3A-1	$65,000,000	2AX	$201,853,000
3A-2	$21,666,666	3A1	$119,431,000
3A-3	$19,677,000	3A2	$75,000,000
4A-1	$97,379,000	3AX	$194,431,000
4A-2	$97,379,000	4A1	$43,651,000
A-P	$40,902	5A1	$100,000,000
A-X	$249,347	5AX	$100,000,000
B1	$4,358,000	5A2	$92,218,000
B2	$1,006,000	1BX	$16,482,000
B3	$502,000	1B1	$9,890,000
B4	$336,000	1B2	$4,120,000
B5	$167,000	1B3	$2,472,000
B6	$335,918	1B4	$2,307,000
R	$0	1B5	$1,648,000
		1B6	$991,856
		2B1	$6,518,000
		2B2	$4,494,000
		2B3	$3,595,000
		2B4	$1,797,000
		2B5	$1,573,000
		2B6	$1,125,047
		R	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSR 2004-15F	GSR 2005-1F
Transaction Name:	GSR 2004-15F	GSR 2005-1F
Closing Date:	December 17, 2004	January 31, 2005
Issuer:	GSR Mortgage Loan Trust 2004-15F	GSR Mortgage Loan Trust 2005-1F
Trustee:	Wachovia	Wachovia
Rating Agencies:	S&P, Moody's	S&P, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$86,047,000	1A-1	$79,000,000
1A2	$19,854,000	1A-2	$17,489,000
1A3	$11,376,000	1A-3	$10,790,000
1A4	$391,000	1A-4	$25,439,000
2A1	$75,423,000	1A-5	$19,857,000
2A2	$91,099,000	1A-6	$24,080,000
2A3	$15,183,168	1A-7	$38,617,000
2A4	$13,373,000	1A-8	$345,000
3A1	$44,939,000	1A-9	$369,000
3A2	$44,939,000	2A-1	$145,000,000
4A1	$38,507,000	2A-2	$32,302,000
5A1	$101,668,000	2A-3	$19,700,000
6A1	$40,123,000	3A-1	$143,000,000
7A1	$12,052,000	3A-2	$41,708,333
7A2	$12,052,000	3A-3	$56,327,000
AX	$695,498	4A-1	$57,599,000
AP	$686,163	4A-2	$57,599,000
B1	$6,492,000	AX	$149,363
B2	$2,743,000	AP	$1,000,989
B3	$1,097,000	B1	$9,685,000
B4	$1,372,000	B2	$4,150,000
B5	$822,000	B3	$2,767,000
B6	$549,590	B4	$1,383,000
R	$0	B5	$1,729,000
		B6	$1,038,251
		R	$0

RMBS

	GSR 2005-2F	GSR 2005-3F
Transaction Name:	GSR 2005-2F	GSR 2005-3F
Closing Date:	February 25, 2005	March 30, 2005
Issuer:	GSR Mortgage Loan Trust 2005-2F	GSR Mortgage Loan Trust 2005-3F
Trustee:	Wachovia	Wachovia
Rating Agencies:	S&P, Fitch	Fitch, Moody's
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$13,167,000	1A-1	$26,522,000
1A-2	$89,774,000	1A-2	$40,868,000
1A-3	$23,258,000	1A-3	$67,380,000
1A-4	$23,258,000	1A-4	$28,661,000
1A-5	$12,456,000	1A-5	$3,128,000
1A-6	$7,209,000	1A-6	$1,120,000
2A-1	$105,000,000	1A-7	$848,000
2A-2	$30,625,000	1A-8	$1,112,000
2A-3	$45,880,000	1A-9	$2,988,000
3A-1	$13,172,000	1A-10	$4,000,000
3A-2	$13,172,000	1A-11	$6,760,000
A-P	$1,199,835	1A-12	$5,000,000
A-X	$127,206	1A-13	$4,056,000
B-1	$5,431,000	1A-14	$24,087,066
B-2	$1,961,000	1A-15	$6,049,140
B-3	$1,207,000	1A-16	$2,709,794
B-4	$754,000	1A-17	$6,000,000
B-5	$452,000	2A-1	$53,899,000
B-6	$754,798	2A-2	$13,474,750
R1	$0	2A-3	$20,056,000
R2	$0	2A-4	$17,792,000
		2A-5	$1,295,000
		A-P	$983,627
		A-X	$33,360
		B-1	$6,739,000
		B-2	$1,853,000
		B-3	$1,179,000
		B-4	$674,000
		B-5	$505,000
		B-6	$674,619
		C	$0
		R1	$0
		R2	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSR 2005-4F	GSR 2005-5F
Closing Date:	April 29, 2005	May 26, 2005
Issuer:	GSR Mortgage Loan Trust 2005-4F	GSR Mortgage Loan Trust 2005-5F
Trustee:	Wachovia	Wachovia
Rating Agencies:	S&P, Moody's	S&P, Moody's
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$20,683,000	1A-1	$28,202,000
2A1	$100,230,000	1A-2	$5,351,000
3A1	$49,232,000	2A-1	$32,844,000
4A1	$40,333,000	2A-2	$35,466,000
4A2	$21,667,000	2A-3	$138,000,000
4A3	$30,556,000	2A-4	$8,170,000
4A4	$10,082,000	2A-5	$16,714,000
4C	$40,689,478	2A-6	$7,721,000
4A5	$1,849,522	2A-7	$3,000,000
5A1	$142,047,000	2A-8	$41,802,000
5A2	$4,938,000	2A-9	$6,000,000
6A1	$31,556,000	2A-10	$29,779,466
AX	$414,279	2A-11	$10,000,000
AP	$1,913,141	2A-12	$5,214,588
B1	$6,831,000	2A-13	$1,977,946
B2	$2,549,000	2A-14	$17,600,000
B3	$1,529,000	2A-15	$6,400,000
B4	$1,275,000	2A-16	$628,571
B5	$1,019,000	2A-17	$146,267
B6	$765,397	2A-18	$25,142
R	$0	2A-19	$27,942,000
		3A-1	$12,959,000
		3A-2	$90,570,000
		3A-3	$2,942,125
		3A-4	$13,358,875
		3A-5	$13,358,875
		3A-6	$14,517,000
		3A-7	$1,001,000
		4A-1	$201,751,250
		4A-2	$201,751,250
		4A-3	$100,000,000
		4A-4	$3,249,000
		4A-5	$14,374,000
		4A-6	$1,110,000
		4A-7	$127,063,000
		4A-8	$7,579,750
		5A-1	$8,913,000
		6A-1	$74,022,000
		7A-1	$7,084,000
		7A-2	$7,084,000
		8A-1	$164,000,000
		8A-2	$25,000,000
		8A-3	$225,845,000
		8A-4	$389,845,000
		8A-5	$25,000,000
		8A-6	$49,147,000
		8A-7	$49,147,000
		8A-8	$2,233,954
		8A-9	$2,000,000
		8A-10	$7,591,000
		A-P	$385,956
		A-X	$468,232
		B-1	$24,570,000
		B-2	$10,057,000
		B-3	$5,028,000
		B-4	$4,190,000
		B-5	$3,352,000
		B-6	$2,517,964
		X	$0
		C	$0
		R1	$0
		R2	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSR 2005-6F**	**GSR 2005-7F**
Closing Date:	June 30, 2005	August 26, 2005
Issuer:	GSR Mortgage Loan Trust 2005-6F	GSR Mortgage Loan Trust 2005-7F
Trustee:	Wachovia	Wachovia
Rating Agencies:	S&P, Moody's	S&P, Moody's
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$177,583,875	1A-1	$13,807,000
1A-2	$50,000,000	1A-2	$1,515,000
1A-3	$25,369,125	1A-3	$1,515,000
1A-4	$25,369,125	2A-1	$83,000,000
1A-5	$48,830,000	2A-2	$2,714,286
1A-6	$31,272,000	2A-3	$14,285,714
1A-7	$2,259,000	2A-4	$14,285,714
2A-1	$25,343,000	2A-5	$26,879,000
2A-2	$25,343,000	2A-6	$29,530,000
3A-1	$45,000,000	2A-7	$2,190,000
3A-2	$30,000,000	3A-1	$20,000,000
3A-3	$45,000,000	3A-2	$35,000,000
3A-4	$30,000,000	3A-3	$20,000,000
3A-5	$15,684,000	3A-4	$35,000,000
3A-6	$86,000,000	3A-5	$10,142,000
3A-7	$86,000,000	3A-6	$2,608,000
3A-8	$3,237,000	3A-7	$105,000,000
3A-9	$89,237,000	3A-8	$20,125,000
3A-10	$3,088,000	3A-9	$33,250,000
3A-11	$31,036,875	3A-10	$16,380,000
3A-12	$31,036,875	3A-11	$1,212,000
3A-13	$100,000,000	3A-12	$1,000,000
3A-14	$32,878,000	4A-1	$8,707,000
3A-15	$52,150,000	4A-2	$8,707,000
3A-16	$52,383,000	A-P	$11,045
3A-17	$23,586,000	B-1	$7,826,000
3A-18	$23,586,125	B-2	$2,537,000
3A-19	$29,490,000	B-3	$1,268,000
3A-20	$2,130,000	B-4	$1,268,000
4A-1	$20,000,000	B-5	$634,000
4A-2	$20,000,000	B-6	$636,750
4A-3	$5,048,000	X	$0
A-P	$716,232	C	$0
B-1	$15,200,000	R1	$0
B-2	$7,124,000	R2	$0
B-3	$3,325,000		
B-4	$3,325,000		
B-5	$2,849,000		
B-6	$1,425,763		
X	$0		
C	$0		
R1	$0		
R2	$0		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSR 2005-8F**	**GSR 2005-8F**
Closing Date:	October 28, 2005	December 29, 2005
Issuer:	GSR Mortgage Loan Trust 2005-8F	GSR Mortgage Loan Trust 2005-8F
Trustee:	Wachovia	U.S. Bank
Rating Agencies:	S&P, Fitch	S&P, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$38,721,000	1A-1	$265,973,000
2A-1	$57,940,000	1A-2	$30,000,000
2A-2	$35,513,000	1A-3	$30,000,000
2A-3	$57,429,000	1A-4	$7,012,000
2A-4	$61,664,000	1A-5	$488,000
2A-5	$45,000,000	1A-6	$203,973,000
2A-6	$59,945,000	1A-7	$125,632,000
2A-7	$32,769,000	1A-8	$45,692,000
2A-8	$2,508,000	1A-9	$79,940,000
3A-1	$8,250,000	1A-10	$78,341,000
3A-2	$25,000,000	1A-11	$42,846,000
3A-3	$25,000,000	1A-12	$21,191,000
3A-4	$165,395,000	1A-13	$21,655,000
3A-5	$34,319,000	1A-14	$17,910,000
3A-6	$20,642,000	1A-15	$1,244,000
3A-7	$1,549,000	1A-16	$8,270,000
4A-1	$100,895,000	2A-1	$92,404,565
5A-1	$39,063,000	2A-2	$175,000,000
5A-2	$39,063,000	2A-3	$53,065,000
6A-1	$38,242,000	2A-4	$19,928,414
7A-1	$107,712,000	2A-5	$18,244,393
A-P	$30,582	2A-6	$15,512,888
A-X	$2,783,432	2A-7	$1,077,600
B-1	$13,573,000	2A-8	$7,095,042
B-2	$5,744,000	3A-1	$17,629,000
B-3	$2,872,000	3A-2	$17,629,000
B-4	$2,872,000	3A-3	$17,629,000
B-5	$2,872,000	4A-1	$42,898,000
B-6	$960,258	4A-2	$2,813,000
X	$0	5A-1	$85,420,000
C	$0	5A-2	$4,289,000
R1	$0	6A-1	$15,578,000
R2	$0	6A-2	$1,022,000
		7A-1	$23,892,520
		7A-2	$23,892,520
		1-AP	$1,202,541
		2-AP	$182,012
		1-AX	$268,602
		2-AX	$147,187
		1-B1	$14,397,000
		1-B2	$4,113,000
		1-B3	$2,742,000
		2-B1	$2,552,000
		2-B2	$1,240,000
		2-B3	$551,000
		1-B4	$1,713,000
		1-B5	$1,028,000
		1-B6	$1,715,711
		2-B4	$551,000
		2-B5	$344,000
		2-B6	$416,447
		1-R1	$0
		1-R2	$0
		2-R1	$0
		2-R2	$0
		3-R	$0
		X	$0

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSR 2005-AR1	GSR 2005-AR2
Transaction Name:	GSR 2005-AR1	GSR 2005-AR2
Closing Date:	January 31, 2005	March 31, 2005
Issuer:	GSR Mortgage Loan Trust 2005-AR1	GSR Mortgage Loan Trust 2005-AR2
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Fitch	S&P, Moody's
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
AR	$100	1A1	$88,117,000
1A1	$211,732,000	1A2	$172,225,000
2A1	$154,594,000	1A3	$8,208,000
3A1	$193,750,000	2A1	$222,753,000
3A2	$7,855,000	3A1	$50,885,000
4A1	$86,006,000	4A1	$136,791,000
4A2	$5,973,000	5A1	$181,967,000
B1	$12,686,000	R	$100
B2	$4,456,000	RH	$100
B3	$3,088,000	RS	$100
B4	$2,057,000	1B1	$10,648,000
B5	$2,057,000	1B2	$7,454,000
B6	$1,371,276	1B3	$4,614,000
R	$100	1B4	$4,259,000
		1B5	$2,129,000
		1B6	$1,775,131
		2B1	$1,205,000
		2B2	$927,000
		2B3	$464,000
		2B4	$556,000
		2B5	$93,000
		2B6	$185,758
		R	$100
		RH	$100
		RS	$100

RMBS

	GSR 2005-AR3	GSR 2005-AR4
Transaction Name:	GSR 2005-AR3	GSR 2005-AR4
Closing Date:	May 27, 2005	June 30, 2005
Issuer:	GSR Mortgage Loan Trust 2005-AR3	GSR Mortgage Loan Trust 2005-AR4
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Moody's	S&P, Fitch
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$133,284,000	1A1	$70,927,000
2A1	$169,571,000	2A1	$132,353,000
3A1	$181,240,000	3A1	$28,000,000
3A2	$20,138,000	3A2	$50,000,000
4A1	$278,440,000	3A3	$3,500,000
5A1	$188,605,000	3A4	$205,630,000
6A1	$360,482,000	3A5	$68,208,000
6A2	$11,168,000	4A1	$42,548,000
7A1	$34,039,000	5A1	$230,375,000
8A1	$67,807,000	6A1	$411,115,000
8A2	$3,655,000	1B1	$14,680,000
1B1	$7,790,000	1B2	$6,044,000
1B2	$2,544,000	1B3	$3,886,000
1B3	$1,271,000	1B4	$3,022,000
1B4	$1,431,000	1B5	$2,591,000
1B5	$1,272,000	1B6	$1,727,144
1B6	$795,489	2B1	$5,498,000
2B1	$28,335,000	2B2	$2,538,000
2B2	$13,262,000	2B3	$1,269,000
2B3	$7,234,000	2B4	$1,057,000
2B4	$6,028,000	2B5	$846,000
2B5	$4,220,000	2B6	$635,219
2B6	$3,014,910	X	$411,115,000
X	$317,958,489	R	$100
R	$100	RT1	$100
RSR	$100	RT2	$100
RH	$100		

RMBS

Transaction Name:	GSR 2005-AR5	GSR 2005-AR6
Closing Date:	August 26, 2005	September 30, 2005
Issuer:	GSR Mortgage Loan Trust 2005-AR5	GSR Mortgage Loan Trust 2005-AR6
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Fitch, DBRS	S&P, Fitch, DBRS
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$140,821,000	1A1	$559,193,000
2A1	$25,000,000	1A2	$22,634,000
2A2	$1,998,000	1A3	$60,000,000
2A3	$273,002,000	1A4	$90,000,000
2A4	$245,693,000	2A1	$1,068,165,000
2A5	$81,897,000	2A2	$96,015,000
3A1	$112,212,000	3A1	$398,180,000
4A1	$167,173,000	3A2	$12,708,000
B1	$26,938,000	4A1	$125,000,000
B2	$9,345,000	4A2	$8,081,000
B3	$4,397,000	4A3	$175,492,000
B4	$4,947,000	4A4	$34,552,000
B5	$3,848,000	4A5	$70,000,000
B6	$2,201,858	B1	$53,241,000
R-1	$100	B2	$14,010,000
R-2	$100	B3	$5,604,000
		B4	$4,203,000
		B5	$4,203,000
		B6	$2,803,665
		R1	$100
		R2	$100

RMBS

Transaction Name:	GSR 2005-AR7	GSR 2005-HEL1
Closing Date:	October 31, 2005	December 29, 2005
Issuer:	GSR Mortgage Loan Trust 2005-AR7	GSR Trust 2005-HEL1
Trustee:	U.S. Bank	Deutsche Bank
Rating Agencies:	S&P, Fitch	S&P, Moody's
Collateral Type:	Prime Hybrid	HELOC

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$114,582,000	A-1	$370,469,000
1A2	$4,379,000	A-2A	$163,150,000
2A1	$435,290,000	A-2B	$68,078,000
2A2	$16,634,000	M-1	$47,736,000
3A1	$107,172,000	M-2	$38,485,000
4A1	$132,045,000	M-3	$11,102,000
4A2	$5,046,000	M-4	$10,731,000
5A1	$141,747,000	M-5	$8,511,000
5A2	$5,417,000	M-6	$8,141,000
6A1	$775,768,000	B-1	$6,291,000
1B1	$16,484,000	B-2	$3,000,000
1B2	$6,485,000	B-2	$4,401,000
1B3	$4,490,000	R-1	$0
1B4	$3,492,000	R-2	$0
1B5	$2,494,000	R-3	$0
1B6	$1,996,047	X	$0
2B1	$11,197,000	S	$0
2B2	$4,798,000		
2B3	$2,799,000		
2B4	$2,400,000		
2B5	$1,599,000		
2B6	$1,200,358		
R	$100		
RT1	$100		
RT2	$100		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	GSR 2006-1F	GSR 2006-2F
Closing Date:	January 30, 2006	February 24, 2006
Issuer:	GSR Mortgage Loan Trust 2006-1F	GSR Mortgage Loan Trust 2006-2F
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Moody's, Fitch	S&P, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$103,279,000	1A1	$38,766,000
1A-2	$91,070,000	2A1	$110,830,000
1A-3	$10,383,000	2A2	$20,000,000
1A-4	$82,623,000	2A3	$8,560,000
1A-5	$11,818,185	2A4	$8,284,000
1A-6	$65,000,015	2A5	$16,844,000
1A-7	$6,271,800	2A6	$9,703,000
1A-8	$4,000	2A7	$690,000
1A-9	$19,542,000	2A8	$2,498,000
1A-10	$1,388,000	2A9	$109,000
1A-11	$71,654,000	2A10	$917,000
1A-12	$10,989,000	2A11	$2,842,274
1A-13	$5,427,000	2A12	$10,240,726
1A-14	$5,542,000	2A13	$29,923,000
1A-15	$19,304,000	2A14	$1,995,000
1A-16	$1,352,000	2A15	$39,776,000
1A-17	$3,643,000	2A16	$7,949,000
2A-1	$226,937,000	2A17	$32,885,000
2A-2	$100,000,000	2A18	$47,725,000
2A-3	$16,666,666	2A19	$4,000,000
2A-4	$38,011,000	2A20	$4,000,000
2A-5	$14,331,000	3A1	$86,000,000
2A-6	$1,004,000	3A2	$10,750,000
2A-7	$50,000,000	3A3	$32,336,000
2A-8	$50,000,000	3A4	$12,843,000
2A-9	$10,965,000	3A5	$857,000
2A-10	$770,000	3A8	$115,000,000
2A-11	$765,000	4A1	$49,148,000
2A-12	$156,139,000	4A2	$49,148,000
2A-13	$25,411,000	5A1	$11,422,000
2A-14	$13,269,000	6A1	$20,514,000
2A-15	$12,142,000	7A1	$46,652,000
2A-16	$42,417,000	AX	$783,564
2A-17	$2,970,000	M1	$8,493,000
3A-1	$39,964,000	B1	$9,228,000
3A-2	$39,964,000	B2	$4,429,000
4A-1	$134,763,000	B3	$2,583,000
4A-2	$8,610,000	B4	$1,845,000
4A-3	$84,557,000	B5	$1,107,000
4A-4	$23,253,000	B6	$1,848,497
4A-5	$12,500,000	RC	$0
4A-6	$10,753,000	R	$0
4A-7	$26,953,000		
5A-1	$100,000,000		
5A-2	$19,920,000		
5A-3	$129,587,000		
5A-4	$37,299,000		
5A-5	$21,096,000		
5A-6	$16,203,000		
5A-7	$41,722,000		
5A-8	$208,608,000		
5A-9	$3,152,000		
6A-1	$40,394,000		
6A-2	$40,394,000		
6A-3	$600,000		
7A-1	$18,311,000		
7A-2	$18,311,000		
1-AP	$2,124,289		
2-AP	$238,095		
AX	$224,309		
1-M1	$10,164,000		
1-B1	$9,315,000		
1-B2	$5,081,000		
1-B3	$2,117,000		
2-M1	$8,628,000		
2-B1	$8,470,000		
2-B2	$2,965,000		
2-B3	$1,887,000		
1-B4	$1,693,000		
1-B5	$1,270,000		
1-B6	$1,696,737		
2-B4	$1,078,000		
2-B5	$808,000		
2-B6	$1,081,558		
R	$0		
1-RC	$0		
2-RC	$0		
X	$0		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSR 2006-3F**	**GSR 2006-4F**
Closing Date:	March 30, 2006	April 28, 2006
Issuer:	GSR Mortgage Loan Trust 2006-3F	GSR Mortgage Loan Trust 2006-4F
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Fitch	S&P, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$50,105,000	1A1	$32,589,000
1A2	$37,383,000	2A1	$145,607,000
1A3	$3,815,000	2A2	$109,412,000
1A4	$3,896,000	2A3	$26,886,000
1A5	$7,711,000	2A4	$39,957,000
1A6	$4,691,000	2A5	$42,569,000
1A7	$320,000	2A6	$66,843,000
2A1	$174,888,000	2A7	$10,697,000
2A2	$122,054,000	2A8	$10,937,000
2A3	$133,060,000	2A9	$21,634,000
2A4	$11,006,000	2A10	$13,686,000
2A5	$17,856,000	2A11	$875,000
2A6	$6,850,000	3A1	$195,374,000
2A7	$32,757,000	3A2	$3,638,000
2A8	$2,221,000	4A1	$62,674,000
3A1	$239,878,000	4A2	$62,674,000
3A2	$45,359,000	5A1	$86,719,000
3A3	$3,779,916	5A2	$81,137,000
3A4	$60,437,000	5A3	$15,710,000
3A5	$5,036,416	5A4	$20,953,000
3A6	$45,359,000	5A5	$24,474,000
3A7	$60,437,000	5A6	$36,663,000
3A8	$105,796,000	5A7	$6,044,000
3A9	$105,796,000	5A8	$6,179,000
3A10	$8,816,332	5A9	$12,223,000
3A11	$182,422,000	5A10	$8,151,000
3A12	$67,047,000	5A11	$5,208,000
3A13	$9,569,000	6A1	$10,000,000
3A14	$10,000	6A2	$72,547,000
3A15	$9,480,000	6A3	$7,068,000
3A16	$44,930,000	AP	$113,975
3A17	$3,046,000	AX	$406,722
3A18	$76,626,000	B-1	$12,555,000
4A1	$127,059,000	B-2	$5,149,000
5A1	$49,835,000	B-3	$3,218,000
5A2	$49,835,000	B-4	$2,574,000
A-P	$86,872	B-5	$2,252,000
A-X	$38,880	B-6	$1,612,868
M1	$6,012,000	RC	$0
B1	$9,018,000	R	$0
B2	$4,007,000		
B3	$2,671,000		
B4	$1,669,000		
B5	$1,001,000		
B6	$1,673,234		
R	$0		
RC	$0		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

Transaction Name:	**GSR 2006-5F**	**GSR 2006-6F**
Closing Date:	May 26, 2006	June 30, 2006
Issuer:	GSR Mortgage Loan Trust 2006-5F	GSR MORTGAGE LOAN TRUST 2006-6FO
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Fitch	Fitch, Moody's
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$57,343,000	1A1	$11,875,000
2A1	$67,675,000	2A1	$103,000,000
2A2	$60,417,000	2A2	$7,725,000
2A3	$25,000	2A3	$44,722,000
2A4	$13,960,000	2A4	$34,461,000
2A5	$33,212,000	2A5	$2,470,000
2A6	$2,307,000	3A1	$30,000,000
3A1	$207,148,000	3A2	$164,510,357
3A2	$8,398,000	3A3	$164,510,357
3A3	$207,148,000	3A4	$12,654,643
3A4	$207,148,000	3A5	$12,654,643
3A5	$179,526,532	4A1	$23,322,000
3A6	$179,526,532	4A2	$23,322,000
3A7	$27,619,468	AP	$18,850
4A1	$22,407,000	AX	$29,560
4A2	$22,407,000	M-1	$3,321,000
5A1	$24,368,000	B-1	$5,756,000
AP	$255,214	B-2	$2,658,000
AX	$19,309	B-3	$1,549,000
M-1	$3,881,000	B-4	$885,000
B-1	$6,978,000	B-5	$664,000
B-2	$3,101,000	B-6	$888,331
B-3	$2,067,000	RC	$0
B-4	$1,292,000	R	$0
B-5	$775,000		
B-6	$1,294,070		
RC	$0		
R	$0		

RMBS

Transaction Name:	**GSR 2006-7F**	**GSR 2006-8F**
Closing Date:	July 28, 2006	August 25, 2006
Issuer:	GSR Mortgage Loan Trust 2006-7F	GSR Mortgage Loan Trust 2006-8F
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Moody's, Fitch	S&P, Moody's, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$6,620,000	1A-1	$3,388,000
2A-1	$100,598,000	2A-1	$76,086,000
2A-2	$73,819,000	3A-1	$88,973,000
2A-3	$38,660,000	3A-2	$88,973,000
2A-4	$35,159,000	3A-3	$5,000,000
2A-5	$28,127,200	3A-4	$20,000,000
2A-6	$28,127,200	3A-5	$102,876,000
2A-7	$7,031,800	3A-6	$47,130,000
2A-8	$7,031,800	3A-7	$3,509,000
2A-9	$16,719,000	3A-8	$3,073,000
2A-10	$8,726,000	3A-9	$3,770,400
2A-11	$7,993,000	3A-10	$47,130,000
2A-12	$9,400,000	3A-11	$47,130,000
2A-13	$660,000	4A-1	$54,420,000
3A-1	$77,984,000	4A-2	$50,000,000
3A-2	$77,984,000	4A-3	$830,000
3A-3	$3,117,000	4A-4	$2,409,000
3A-4	$25,851,000	4A-5	$3,635,000
3A-5	$78,342,000	4A-6	$279,815
3A-6	$42,711,000	4A-7	$58,422,000
3A-7	$2,990,000	4A-8	$4,494,000
3A-8	$622,000	4A-9	$2,164,000
4A-1	$50,000,000	4A-10	$168,461
4A-2	$69,625,000	4A-11	$3,635,000
4A-3	$83,214,000	4A-12	$8,000
4A-4	$498,000	4A-13	$58,422,000
4A-5	$68,238,000	4A-14	$58,422,000
4A-6	$2,526,000	4A-15	$2,164,000
4A-7	$13,014,000	4A-16	$2,164,000
4A-8	$1,001,076	4A-17	$64,221,000
4A-9	$911,000	4A-18	$64,221,000
4A-10	$46,270,000	4A-19	$64,221,000
4A-11	$9,430,000	4A-20	$66,830,000
4A-12	$13,014,000	4A-21	$4,940,076
4A-13	$13,014,000	5A-1	$81,799,000
4A-14	$2,917,569	5A-2	$81,799,000
5A-1	$62,686,000	A-X	$35,064
5A-2	$62,686,000	M-1	$1,870,000
A-X	$72,267	B-1	$8,711,000
M-1	$8,712,000	B-2	$3,733,000
B-1	$7,319,000	B-3	$2,488,000
B-2	$3,659,000	B-4	$1,244,000
B-3	$1,829,000	B-5	$1,244,000
B-4	$1,219,000	B-6	$1,247,485
B-5	$914,000	X	$0
B-6	$919,387	RC	$0
X	$0	R	$0
RC	$0		
R	$0		

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSR 2006-6F	GSR 2006-10F
Transaction Name:	GSR 2006-6F	GSR 2006-10F
Closing Date:	October 30, 2006	December 29, 2006
Issuer:	GSR Mortgage Loan Trust 2006-6F	GSR Mortgage Loan Trust 2006-10F
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Moody's, Fitch	S&P, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$5,480,000	1A-1	$8,451,000
2A-1	$102,032,000	2A-1	$46,760,000
3A-1	$506,770,000	3A-1	$204,541,000
4A-1	$306,639,000	4A-1	$88,737,000
4A-2	$284,738,214	4A-2	$88,737,000
4A-3	$284,738,214	4A-3	$3,859,000
4A-4	$21,902,788	5A-1	$27,210,000
4A-5	$21,902,788	6A-1	$31,938,000
5A-1	$126,252,000	A-X	$369,509
5A-2	$196,252,000	M-1	$4,717,000
5A-3	$70,000,000	B-1	$5,358,000
5A-4	$2,635,000	B-2	$2,786,000
6A-1	$90,220,000	B-3	$1,500,000
6A-2	$90,220,000	B-4	$1,071,000
7A-1	$8,013,000	B-5	$842,000
8A-1	$50,491,000	B-6	$1,074,413
9A-1	$62,255,000	RC	$0
A-X	$1,284,597	R	$0
M-1	$11,728,000		
B-1	$17,238,000		
B-2	$7,584,000		
B-3	$4,137,000		
B-4	$2,758,000		
B-5	$2,068,000		
B-6	$2,760,849		
RC	$0		
R	$0		

RMBS

	GSR 2006-AR1	GSR 2006-AR2
Transaction Name:	GSR 2006-AR1	GSR 2006-AR2
Closing Date:	January 30, 2006	April 28, 2006
Issuer:	GSR Mortgage Loan Trust 2006-AR1	GSR Mortgage Loan Trust 2006-AR2
Trustee:	U.S. Bank	Citibank
Rating Agencies:	S&P, Fitch	S&P, Fitch
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$131,839,000	1A1	$50,873,000
1A2	$6,520,000	2A1	$104,564,000
2A1	$400,000,000	2A2	$19,882,000
2A2	$383,536,000	2A3	$8,159,000
2A3	$68,481,000	3A1	$222,647,000
2A4	$150,685,000	3A2	$11,011,000
2A5	$49,583,000	4A1	$190,796,000
3A1	$94,348,000	4A2	$9,435,000
3A2	$4,666,000	5A1	$287,215,000
B1	$31,059,000	5A2	$14,204,000
B2	$10,804,000	1X	$55,685,666
B3	$5,401,000	1B1	$2,284,000
B4	$6,077,000	1B2	$1,002,000
B5	$4,051,000	1B3	$557,000
B6	$3,376,498	2B1	$19,044,000
RC	$100	2B2	$7,254,000
R	$100	2B3	$4,534,000
		1B4	$501,000
		1B5	$278,000
		1B6	$390,666
		2B4	$4,081,000
		2B5	$3,174,000
		2B6	$2,721,016
		R	$100
		1RC	$100
		2RC	$100

RMBS

Transaction Name:	**GSR 2006-OA1**	**GSR 2007-1F**
Closing Date:	August 24, 2006	February 28, 2007
Issuer:	GSR Mortgage Loan Trust 2006-OA1	GSR Mortgage Loan Trust 2007-1F
Trustee:	Deutsche Bank	U.S. Bank
Rating Agencies:	S&P, Moody's	S&P, Moody's, Fitch
Collateral Type:	Option ARM	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1-A-1	$744,970,000	1A-1	$2,520,000
2-A-1	$848,465,000	2A-1	$670,073,000
2-A-2	$353,527,000	2A-2	$497,836,000
2-A-3	$212,117,000	2A-3	$38,222,000
3-A-1	$148,888,000	2A-4	$124,215,000
3-A-2	$38,722,000	2A-5	$9,800,000
M-1	$62,195,000	2A-6	$310,270,000
M-2	$44,055,000	2A-7	$187,566,000
M-3	$18,140,000	2A-8	$18,909,000
M-4	$31,098,000	2A-9	$19,313,000
M-5	$12,957,000	2A-10	$536,058,000
M-6	$12,958,000	3A-1	$214,978,678
M-7	$12,957,000	3A-2	$157,522,000
M-8	$12,957,000	3A3	$14,461,000
M-9	$12,958,000	3A4	$132,127,000
R	$100	3A5	$12,314,000
RC	$100	3A-6	$153,000,000
RX	$100	3A-7	$153,000,000
P	$100	3A-8	$50,000,000
X	$28,506,312	3A-9	$142,670,000
		3A-10	$13,972,500
		3A-11	$50,000,000
		3A-12	$142,670,000
		3A-13	$10,112,000
		3A-14	$142,670,000
		3A-15	$132,127,000
		3A-16	$5,505,291
		4A-1	$165,077,000
		4A-2	$165,077,000
		A-X	$289,488
		M-1	$10,482,000
		B-1	$16,887,000
		B-2	$8,032,000
		B-3	$4,016,000
		B-4	$3,212,000
		B-5	$1,608,000
		B-6	$2,413,395
		X	$0
		RC	$0
		R	$100

Confidential Proprietary Business Information
Produced Pursuant to Senate Confidentiality Rules

RMBS

	GSR 2007-2F	GSR 2007-3F
Transaction Name:	GSR 2007-2F	GSR 2007-3F
Closing Date:	March 30, 2007	April 30, 2007
Issuer:	GSR Mortgage Loan Trust 2007-2F	GSR Mortgage Loan Trust 2007-3F
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	Moody's, Fitch	Moody's, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$101,801,000	1A-1	$53,113,000
1A-2	$75,460,000	1A-2	$36,758,000
1A-3	$5,981,000	1A-3	$6,732,000
1A-4	$18,988,000	1A-4	$9,917,000
1A-5	$1,372,000	1A-5	$706,000
2A-1	$206,768,000	2A-1	$253,277,000
2A-2	$152,973,000	2A-2	$185,501,000
2A-3	$162,584,000	2A-3	$197,528,000
2A-4	$9,811,000	2A-4	$12,027,000
2A-5	$12,441,000	2A-5	$17,121,000
2A-6	$2,830,000	2A-6	$5,094,000
2A-7	$38,568,000	2A-7	$47,282,000
2A-8	$2,786,000	2A-8	$3,383,000
2A-9	$94,568,000	2A-9	$114,758,000
2A-10	$58,405,000	2A-10	$70,743,000
3A-1	$241,703,000	3A-1	$370,744,000
3A-2	$173,545,000	3A-2	$281,073,000
3A-3	$185,328,000	3A-3	$262,541,000
3A-4	$11,783,000	3A-4	$18,532,000
3A-5	$19,817,000	3A-5	$34,054,000
3A-6	$8,034,000	3A-6	$15,522,000
3A-7	$45,084,000	3A-7	$69,226,000
3A-8	$3,257,000	3A-8	$4,923,000
3A-9	$89,073,000	4A-1	$67,882,000
3A-10	$84,472,000	4A-2	$67,882,000
4A-1	$54,907,000	A-X	$248,093
4A-2	$54,907,000	M-1	$5,409,000
A-X	$192,375	B-1	$10,431,000
M-1	$4,393,000	B-2	$4,635,000
B-1	$8,153,000	B-3	$3,091,000
B-2	$3,763,000	B-4	$1,545,000
B-3	$2,196,000	B-5	$1,159,000
B-4	$1,254,000	B-6	$1,545,564
B-5	$941,000	R	$100
B-6	$1,254,730	RC	$0
R	$100		
A-P	$89,793		
X	$0		
RC	$0		

RMBS

	GSR 2007-4F	GSR 2007-5F
Transaction Name:	GSR 2007-4F	GSR 2007-5F
Closing Date:	June 29, 2007	December 28, 2007
Issuer:	GSR Mortgage Loan Trust 2007-4F	GSR Mortgage Loan Trust 2007-5F
Trustee:	U.S. Bank	U.S. Bank
Rating Agencies:	S&P, Fitch	S&P, Fitch
Collateral Type:	Prime Fixed	Prime Fixed

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$27,834,000	A-1	$667,024,000
2A-1	$160,449,000	A-2	$28,215,000
2A-2	$112,720,000	M-1	$10,128,000
2A-3	$120,887,000	B-1	$4,341,000
2A-4	$8,167,000	B-2	$4,702,000
2A-5	$15,639,000	B-3	$2,532,000
2A-6	$7,472,000	B-4	$2,894,000
2A-7	$29,851,000	B-5	$2,170,000
2A-8	$2,239,000	B-6	$1,447,809
3A-1	$100,000,000	R	$100
3A-2	$182,099,000	RC	$100
3A-3	$81,945,000		
3A-4	$100,154,000		
3A-5	$18,377,000		
3A-6	$59,068,000		
3A-7	$4,431,000		
3A-8	$45,000,000		
3A-9	$8,510,000		
3A-10	$3,476,000		
3A-11	$250,595,395		
4A-1	$77,646,000		
4A-2	$77,646,000		
5A-1	$12,891,000		
6A-1	$45,244,000		
7A-1	$19,503,000		
M-1	$1,190,000		
B-1	$11,062,000		
B-2	$5,135,000		
B-3	$2,766,000		
B-4	$2,370,000		
B-5	$1,185,000		
B-6	$1,975,749		
A-P	$90,993		
A-X	$245,320		
R	$100		
RC	$0		

RMBS

	GSR 2007-AR1	GSR 2007-AR2
Transaction Name:	GSR 2007-AR1	GSR 2007-AR2
Closing Date:	January 31, 2007	May 24, 2007
Issuer:	GSR Mortgage Loan Trust 2007-AR1	GSR Mortgage Loan Trust 2007-AR2
Trustee:	Deutsche Bank	Deutsche Bank
Rating Agencies:	S&P, Fitch	S&P, Fitch
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:	Tranche	Orig. Balance	Tranche	Orig. Balance
	1A1	74,245,000	1A1	$419,625,000
	1A2	$3,449,000	1A2	$24,143,000
	2A1	$1,080,259,000	2A1	$231,812,000
	2A2	$50,176,000	2A2	$8,717,000
	3A1	$160,221,000	3A1	$68,220,000
	3A2	$7,443,000	3A2	$2,568,000
	4A1	$60,686,000	4A1	$43,565,000
	4A2	$2,819,000	4A2	$1,640,000
	5A1	$131,889,000	5A1A	$56,038,000
	5A2	$6,127,000	5A1B	$317,896,000
	6A1	$89,171,000	5A2	$14,073,000
	6A2	$4,142,000	6A1	$89,703,000
	B1	$39,259,000	6A2	$3,376,000
	B2	$13,085,000	B1	$19,916,000
	B3	$7,851,000	B2	$9,293,000
	B4	$5,234,000	B3	$5,311,000
	B5	$4,361,000	B4	$5,310,000
	B6	$4,365,162	B5	$3,983,000
	R	$100	B6	$2,656,049
	RC	$100	R	$100
			RC	$100

RMBS

Transaction Name:	**GSR 2007-HEL1**	**GSR 2007-OA1**
Closing Date:	April 17, 2007	May 8, 2007
Issuer:	GSR Trust 2007-HEL1	GSR Mortgage Loan Trust 2007-OA1
Trustee:	Deutsche Bank	Deutsche Bank
Rating Agencies:	S&P, Moody's	S&P, Moody's
Collateral Type:	HELOC	Option ARM

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A	$132,937,000	1A-1	$374,616,000
R	$100	1A-2	$93,654,000
X	$100	2A-1	$156,221,000
S	$100	2A-2	$74,739,000
X-1	$100	2A-3A	$93,896,000
		2A-3B	$10,433,000
		2A-4	$200,000,000
		2A-M	$59,477,000
		M-1	$18,718,000
		M-2	$19,024,000
		M-3	$6,341,000
		M-4	$6,918,000
		M-5	$9,224,000
		M-6	$4,612,000
		M-7	$8,070,000
		M-8	$5,765,000
		M-9	$4,036,000
		M-10	$2,882,000
		R	$100
		RC	$100
		RX	$100
		XP	$6,341,774

RMBS

Transaction Name:	**GSR 2007-OA2**	**NCAMT 2006-ALT2**
Closing Date:	October 29, 2007	October 30, 2006
Issuer:	GSR Mortgage Loan Trust 2007-OA2	New Century Alternative Mortgage Loan Trust 2006-ALT2
Trustee:	Deutsche Bank	U.S. Bank
Rating Agencies:	S&P, Moody's	S&P, Moody's
Collateral Type:	Option ARM	Alt-A

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A-1	$186,326,000	AV-1	$186,161,000
2A-1	$105,399,000	AF-2	$38,791,000
A-2	$72,931,000	AF-3	$85,815,000
1X	$232,907,000	AF-4	$31,742,000
2X	$131,749,000	AF-5	$55,290,000
B-1	$9,738,000	AF-6A	$39,580,000
B-2	$8,677,000	AF-6B	$4,398,000
B-3	$5,291,000	M-1	$6,751,000
B-4	$8,677,000	M-2	$3,492,000
B-5	$6,138,000	M-3	$2,329,000
B-6	$9,312,000	M-4	$3,955,000
B-7	$2,328,000	B-1	$2,329,000
B-8	$8,486,028	B-2	$2,329,000
P-1	$100	B-3	$2,329,000
P-2	$100	R	$100
R	$100	RC	$100
RC	$100	RX	$100
		X	$2,328,818
		P	$100

RMBS

Transaction Name:	**STARM 2007-1**	**STARM 2007-4**
Closing Date:	February 23, 2007	September 24, 2007
Issuer:	STARM Mortgage Loan Trust 2007-1	STARM Mortgage Loan Trust 2007-4
Trustee:	Deutsche Bank	Deutsche Bank
Rating Agencies:	S&P, Fitch	S&P, Moody's, Fitch
Collateral Type:	Prime Hybrid	Prime Hybrid

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
1A1	$63,302,000	1A1	$19,656,000
1A2	$3,323,000	1A2	$1,341,000
2A1	$305,002,000	2A1	$75,233,000
2A2	$16,009,000	2A2	$95,418,000
3A1	$93,757,000	2A3	$11,638,000
3A2	$31,252,000	2X	$95,418,000
3A3	$6,562,000	3A1	$391,616,000
B1	$13,628,000	3A2	$26,702,000
B2	$4,088,000	4A1	$102,139,000
B3	$3,271,000	4A2	$6,965,000
B4	$1,908,000	M	$23,942,000
B5	$1,635,000	B1	$4,431,000
B6	$1,363,429	B2	$8,996,000
R	$100	B3	$2,721,000
RC	$100	B4	$4,275,000
		B5	$1,166,000
		B6	$3,109,952
		R	$100
		RC	$100

RMBS

Transaction Name:	**FHLT 2004-A**	**CBASS 2006-CB9**
Closing Date:	February 20, 2004	December 7, 2006
Issuer:	Fremont Home Loan Trust 2004-A	C-BASS Trust 2006-CB9
Trustee:	HSBC	LaSalle Bank
Rating Agencies:	S&P, Moody's	Moody's, Fitch, DBRS
Collateral Type:	Subprime	Subprime

Capital Structure:

Tranche	Orig. Balance	Tranche	Orig. Balance
A-1A	$212,726,000	A-1	$330,834,000
A-1B	$23,637,000	A-2	$72,092,000
A-2	$237,239,000	A-3	$116,880,000
A-3	$189,451,000	A-4	$82,496,000
M-1	$58,419,000	M-1	$28,281,000
M-2	$47,987,000	M-2	$22,930,000
M-3	$14,604,000	M-3	$13,758,000
B-1	$14,605,000	M-4	$11,848,000
B-2	$10,432,000	M-5	$12,229,000
B-3	$10,432,000	M-6	$9,554,000
X	N/A	M-7	$9,172,000
P	$100	M-8	$8,790,000
R	N/A	M-9	$6,115,000
		B-1	$13,376,000
		B-2	$4,968,000
		B-3	$7,644,000
		CE-1	$13,375,922
		CE-2	$100
		R	$100
		RX	$100
		P	$100

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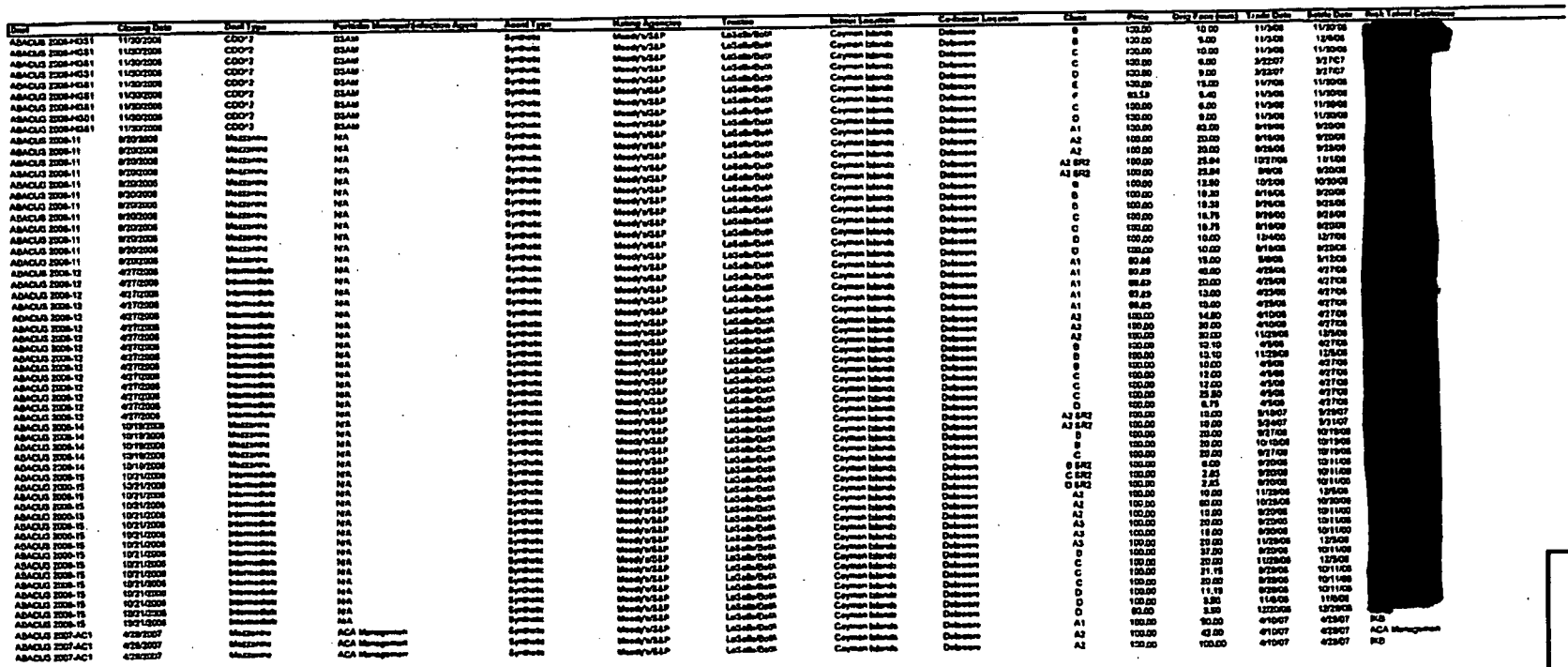
Sum of Orig Face (mm)	
Risk Taker/ Customer	Total
ACA Management	42.0
AIG (AIGFP)	149.7
AIG (Banque AIG)	205.0
AIG (Global)	18.6
Aladdin	[redacted]
Allied Irish	[redacted]
Anglo Irish	[redacted]
Bank Hofman	[redacted]
BAWAG	[redacted]
BSAM	760.2
C-BASS	[redacted]
Church Tavern	[redacted]
CNCE	[redacted]
Commerzbank	[redacted]
Credit Suisse	[redacted]
Deutsche Bank	[redacted]
Faxtor	[redacted]
GIB	[redacted]
Greywolf	15.0
HBK	[redacted]
Highland Capital	[redacted]
IKB	965.5
Koch Global	[redacted]
Merrill	[redacted]
New Bond Street	[redacted]
Nordea	[redacted]
NY CDO DESK	250.6
Oppenheimer	[redacted]
Princeton Advisory	[redacted]
Security Benefit Life	[redacted]
TCW	[redacted]
Tricadia	[redacted]
Vanderbilt	[redacted]
Wachovia	[redacted]
Grand Total	3,661.5

[redacted] = Redacted by the Permanent Subcommittee on Investigations

= Redacted by the Permanent Subcommittee on Investigations

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GS MBS 0000021130



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TRADE DETAILS:

Deal	Class	Price	Orig Face (mm)	Trade Date	Settle Date	Risk Taker/ Customer
ABACUS 06-11 NR	A-1	CDS- 54bps	-41.25	9/18/06	9/26/06	MAGNETAR CNS MF LTD
ABACUS 06-11 NR	A-1	CDS- 54bps	-41.25	9/18/06	9/26/06	DEUTSCHE AG LONDON
ABACUS 06-11 NR	A-2	CDS- 62bps	-22.97	9/18/06	9/26/06	MAGNETAR CNS MF LTD
ABACUS 06-11 NR	A-2	CDS- 62bps	-22.97	9/18/06	9/26/06	DEUTSCHE AG LONDON
ABACUS 06-11 NR	B	CDS- 120bps	-10.63	9/18/06	9/26/06	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 06-11 NR	B	CDS- 120bps	-10.63	9/18/06	9/26/06	MAGNETAR CNS MF LTD
ABACUS 06-11 NR	B	CDS- 120bps	-10.63	9/18/06	9/26/06	DEUTSCHE AG LONDON
ABACUS 06-11 NR	C	CDS- 230bps	-6.25	9/18/06	9/26/06	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 06-11 NR	C	CDS- 230bps	-6.25	9/18/06	9/26/06	MAGNETAR CNS MF LTD
ABACUS 06-11 NR	C	CDS- 230bps	-6.25	9/18/06	9/26/06	DEUTSCHE AG LONDON
ABACUS 06-11 NR	D	CDS- 405bps	-5.94	9/18/06	9/26/06	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 06-11 NR	D	CDS- 405bps	-5.94	9/18/06	9/26/06	MAGNETAR CNS MF LTD
ABACUS 06-11 NR	D	CDS- 405bps	-5.94	9/18/06	9/26/06	DEUTSCHE AG LONDON
ABACUS 06-14 NR	A-2	CDS- 70bps	-36.68	10/10/06	10/13/06	MAGNETAR CNS MF LTD
ABACUS 06-14 NR	B	CDS- 105bps	-36.68	10/10/06	10/13/06	MAGNETAR CNS MF LTD
ABACUS 06-14 NR	C	CDS- 200bps	-25.16	10/10/06	10/13/06	MAGNETAR CNS MF LTD
ABACUS 06-14 NR	D	CDS- 400bps	-15.72	10/10/06	10/13/06	MAGNETAR CNS MF LTD
ABACUS 06-15	C	CDS- 185bps	-6.81	11/8/06	11/13/06	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 06-HGS1	SS	CDS- 22bps	-1032.00	9/15/06	9/20/06	PAULSON CRED OPP MST
ABACUS 06-INDX2	SS	CDS- 22bps	-660.00	9/27/06	10/4/06	PAULSON CRED OPP MST
ABACUS 07-AC1	SS	CDS- 85bps	-1000.00	5/31/07	5/31/07	PAULSON CRED OPP MST
ABACUS 07-AC1	A2	CDS- 141bps	-142.00	5/31/07	4/26/07	PAULSON CRED OPP MST
ABACUS 07-AC1	A1	CDS- 116bps	-50.00	4/10/07	4/26/07	PAULSON CRED OPP MST

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

TRADE DETAILS:

Deal	Class	Price	Orig Face (mm)	Trade Date	Settle Date	Risk Taker/ Customer
ABACUS 04-1	Second Loss	500bps running	3.00	9/29/05	10/18/05	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 04-1	First Loss	800bps running	4.50	9/29/05	10/18/05	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 04-1	First Loss	185bps running	10.00	3/30/06	3/30/06	[redacted]
ABACUS 04-1	Second Loss	175bps running	12.50	12/5/06	12/5/06	
ABACUS 04-1	SS	12bps running	1760.00	5/26/05	6/8/05	AIGFP
ABACUS 04-2	SS	12bps running	730.00	5/26/05	6/8/05	AIGFP
ABACUS 05-2	First Loss	1590bps running	3.00	10/20/05	11/9/05	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 05-2	Second Loss	875bps running	4.20	10/20/05	11/9/05	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 05-2	First Loss	1590bps running	5.00	10/18/05	11/2/05	Bear Stearns Structured Risk Partners Master Fund Ltd.
ABACUS 05-2	Second Loss	875bps running	7.00	10/18/05	11/2/05	Bear Stearns Structured Risk Partners Master Fund Ltd.
ABACUS 05-2	SS	13bps running	1000.00	10/7/05	10/28/05	AIGFP
ABACUS 05-3	SS	12bps running	1200.00	7/6/05	7/28/05	AIGFP
ABACUS 05-CB1	First Loss	550bps running	15.94	11/10/05	12/7/05	[redacted]
ABACUS 05-CB1	Second Loss	1150bps running	15.94	11/10/05	12/7/05	
ABACUS 05-CB1	SS	19bps running	480.00	11/10/05	12/7/05	AIGFP
ABACUS 06-15	E	CDS- 1530bps	5.00	11/8/06	11/13/06	GSC Elliot Bridge Master Fund I, Ltd.
ABACUS 06-15 V2	A-1	CDS- 55bps	54.00	11/16/06	11/28/06	Bear Stearns High Grade Credit Strategies Enhanced Leveraged Master Fund Ltd.
ABACUS 06-15 V2	SS	CDS- 22bps	315.00	11/17/06	11/17/06	[redacted]
ABACUS 06-8	E	CDS- 60bps	2.30	11/17/06	11/17/06	[redacted]
ABACUS 06-8	E	CDS- 60bps	2.70	11/17/06	11/17/06	[redacted]
ABACUS 06-8 FL	F	CDS- 2050bps	0.46	7/2/07	2/16/08	[redacted]
ABACUS 06-8 FL	F	CDS- 2050bps	4.50	2/7/06	2/16/06	[redacted]
ABACUS 06-8 SS	SS	CDS- 28bps	199.64	11/17/06	11/28/06	[redacted]
ABACUS 06-HGS1	FL	CDS- 600bps	2.80	11/7/06	11/30/06	Bear Stearns Structured Risk Partners Master Fund Ltd.
ABACUS 06-HGS1	SS	CDS- 27bps	450.00	11/3/07	11/3/06	[redacted]
ABACUS 06-HGS1	SS	CDS- 27bps	450.00	11/3/06	11/3/06	[redacted]
ABACUS 06-INDX2	SS	CDS- 21.5bps	660.00	10/2/06	10/3/06	[redacted]
ABACUS 06-INDX2	SS	CDS- 21.5bps	1032.00	9/15/06	9/20/06	Morgan Stanley Prop
ABACUS 07-AC1 v2	SS	CDS- 87bps	909.09	5/31/07	5/31/07	ABN Amro - London

CLOSING DATES:

Deal Name	Closing Date	Deal Type
Fortius I Funding, Ltd.	03/08/06	Mezzanine
Davis Square Funding VI, Ltd.	03/30/06	High Grade
Hout Bay 2006-1 Ltd.	05/02/06	High Grade
Broadwick Funding, Ltd.	05/11/06	Mezzanine
West Coast Funding I, Ltd.	07/26/06	High Grade
Altius III Funding, Ltd.	09/28/06	High Grade
Lochsong, Ltd.	10/04/06	CDO^2
Hudson High Grade Funding 2006-1, Ltd.	11/01/06	High Grade
Hudson Mezzanine Funding 2006-1, Ltd.	12/05/06	Mezzanine
Davis Square Funding VII, Ltd.	12/05/06	High Grade
Fortius II Funding, Ltd.	12/07/06	Mezzanine
GSC ABS Funding 2006-3g, Ltd.	01/18/07	High Grade
Hudson Mezzanine Funding 2006-2, Ltd.	02/08/07	Mezzanine
Fort Denison Funding, Ltd.	02/14/07	CDO^2
Camber 7 plc	02/28/07	Mezzanine
Anderson Mezzanine Funding 2007-1, Ltd.	03/20/07	Mezzanine
Timberwolf I, Ltd.	03/27/07	CDO^2
Point Pleasant Funding 2007-1, Ltd.	04/18/07	CDO^2
Altius IV Funding, Ltd.	05/31/07	High Grade

Deal Name	Settle Date	Deal Type
ABACUS 2006-14	10/2006, 5/2007	Mezzanine
ABACUS 2006-11	9/2006	Mezzanine
ABACUS 2006-15	10/2006	Mezzanine
ABACUS 2006-9	1/2007, 8/2006	High Grade
ABACUS 2006-HGS1	11/2006	CDO^2
ABACUS 2006-12	4/2006	High Grade
ABACUS 2006-8	4/2006	Mezzanine
ABACUS 2007-AC1	4/2007	Mezzanine

TRADE DETAILS:

Deal	Class	Price	Orig Face	Trade Date	Settle Date	Risk Taker/ Customer
ABACUS 2005-1	A1	100.00	80.00	5/9/05	5/30/05	BEAR STEARNS Asset Management
ABACUS 2005-3	C SR2	100.00	25.00	2/14/06	2/28/06	Trust Company of the West
ABACUS 2005-3	D SR2	100.00	12.00	5/31/06	6/28/06	FAXTOR
ABACUS 2005-3	D SR2	100.00	5.00	6/21/06	6/28/06	Trust Company of the West
ABACUS 2005-3	D SR2	100.00	10.00	6/20/06	6/28/06	WACHOVIA SECURITIES
ABACUS 2005-3	D SR2	100.00	10.00	6/16/06	6/28/06	WACHOVIA SECURITIES
ABACUS 2005-3	D SR3	100.00	15.00	8/28/06	9/28/06	KOCH GLOBAL
ABACUS 2005-3	B	100.00	15.00	3/30/06	4/28/06	BEAR STEARNS Asset Management
ABACUS 2005-3	D	98.25	25.00	4/3/06	4/10/06	IKB DEUTSCH
ABACUS 2005-3	E	100.00	6.00	3/30/06	4/28/06	BEAR STEARNS Asset Management
ABACUS 2005-4	A1	100.28	25.00	5/17/06	5/22/06	DEUTSCHE BANK
ABACUS 2005-4	A1	100.28	25.00	5/17/06	5/22/06	LIBERTY HAM/
ABACUS 2005-7	A1 SR2	100.00	30.00	3/22/06	3/28/06	DEUTSCHE POV
ABACUS 2005-CB1	B	100.13	10.00	8/18/06	8/23/06	NEW BOND ST
ABACUS 2005-CB1	C	100.00	6.44	4/18/06	4/21/06	COMMERZBANK/
ABACUS 2006-11	A1	100.00	82.50	9/19/06	9/20/06	IKB DEUTSCH
ABACUS 2006-11	A1	100.00	82.50	9/19/06	9/20/06	IKB DEUTSCH
ABACUS 2006-11	A2	100.00	20.00	9/26/06	9/28/06	NY CDO DESK
ABACUS 2006-11	A2	100.00	25.94	10/27/06	11/1/06	NY CDO DESK
ABACUS 2006-11	A2	100.00	20.00	8/16/06	9/20/06	CDO Desk
ABACUS 2006-11	A2 SR2	100.00	25.94	9/6/06	9/20/06	Aladdin
ABACUS 2006-11	B	100.00	12.50	10/2/06	10/30/06	OPPENHEIMER
ABACUS 2006-11	B	100.00	19.38	8/16/06	9/20/06	Aladdin
ABACUS 2006-11	C	100.00	18.75	9/26/06	9/28/06	NY CDO DESK
ABACUS 2006-11	C	100.00	18.75	8/16/06	9/20/06	Aladdin
ABACUS 2006-11	D	100.00	10.00	12/4/06	12/7/06	NY CDO DESK
ABACUS 2006-11	D	100.00	10.00	8/16/06	9/20/06	Aladdin
ABACUS 2006-12	A1	99.86	15.00	5/9/06	5/12/06	ACA MGMT LL
ABACUS 2006-12	A1	99.89	40.00	4/25/06	4/27/06	CHURCH TAVERN
ABACUS 2006-12	A1	99.89	20.00	4/25/06	4/27/06	DEUTSCHE AM
ABACUS 2006-12	A1	99.89	10.00	4/25/06	4/27/06	PRINCETON Advisory
ABACUS 2006-12	A1	99.89	10.00	4/25/06	4/27/06	VANDERBILT
ABACUS 2006-12	A2	100.00	14.90	4/10/06	4/27/06	Trust Company of the West
ABACUS 2006-12	A2	100.00	30.00	4/10/06	4/27/06	Trust Company of the West
ABACUS 2006-12	B	100.00	10.10	4/5/06	4/27/06	Davis Square VII (TCW)
ABACUS 2006-12	B	100.00	10.00	4/5/06	4/27/06	Trust Company of the West
ABACUS 2006-12	C	100.00	12.00	4/5/06	4/27/06	Davis Square VII (TCW)
ABACUS 2006-12	C	100.00	25.50	4/5/06	4/27/06	Trust Company of the West
ABACUS 2006-12	D	100.00	8.75	4/5/06	4/27/06	Trust Company of the West
ABACUS 2006-13	A	100.00	159.00	8/9/06	9/7/06	RABOBANK
ABACUS 2006-13	B	100.00	11.72	8/9/06	9/7/06	ALTIUS III WAREHOUSE
ABACUS 2006-13	B	100.00	27.00	8/9/06	9/7/06	CREDIT SUIS/
ABACUS 2006-13	B	100.00	8.00	8/9/06	9/7/06	DELAWARE
ABACUS 2006-13	C	100.00	5.93	8/9/06	9/7/06	ALTIUS III WAREHOUSE
ABACUS 2006-13	C	100.00	5.00	8/9/06	9/7/06	DELAWARE
ABACUS 2006-13	D	100.00	2.00	8/9/06	9/7/06	ALTIUS III WAREHOUSE
ABACUS 2006-13	D	100.00	5.93	8/9/06	9/7/06	DECLARATION
ABACUS 2006-13	D	100.00	4.00	8/9/06	9/7/06	DELAWARE
ABACUS 2006-13	E	100.00	7.93	8/9/06	9/7/06	ALTIUS III WAREHOUSE
ABACUS 2006-13	E	100.00	4.00	8/9/06	9/7/06	PRINCETON Advisory
ABACUS 2006-13	F	100.00	3.93	8/9/06	9/7/06	CATAMOUNT
ABACUS 2006-13	F	100.00	7.00	8/9/06	9/7/06	DEUTSCHE BANK
ABACUS 2006-13	F	100.00	1.00	8/9/06	9/7/06	PRINCETON Advisory
ABACUS 2006-13	G	100.00	2.95	8/9/06	9/7/06	ALTIUS III WAREHOUSE
ABACUS 2006-13	G	100.00	4.00	8/9/06	9/7/06	CATAMOUNT
ABACUS 2006-13	G	100.00	1.00	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-13	H	100.00	3.93	8/9/06	9/7/06	CATAMOUNT
ABACUS 2006-13	H	100.00	4.00	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-13	H	100.00	4.00	8/9/06	9/7/06	WAREHOUSE
ABACUS 2006-13	J	100.00	4.94	8/9/06	9/7/06	CATAMOUNT
ABACUS 2006-13	J	100.00	5.00	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-13	K	100.00	5.00	8/9/06	9/7/06	CATAMOUNT
ABACUS 2006-13	K	100.00	2.94	8/9/06	9/7/06	DECLARATION
ABACUS 2006-13	K	100.00	11.00	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-13	L	100.00	9.94	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-13	M	100.00	7.95	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-13	N	100.00	5.96	8/9/06	9/7/06	UBS GLOBAL (UK)
ABACUS 2006-14	A2	100.00	20.00	9/27/06	10/19/06	ALADDIN CAPITAL
ABACUS 2006-14	B	100.00	20.00	9/27/06	10/19/06	ALADDIN
ABACUS 2006-14	C	100.00	20.00	9/27/06	10/19/06	ALADDIN
ABACUS 2006-15	B SR2	100.00	6.00	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	C SR2	100.00	2.85	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	D SR2	100.00	2.85	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	A2	100.00	10.00	9/20/06	10/11/06	Davis Square VII (TCW)
ABACUS 2006-15	A2	100.00	60.00	10/26/06	10/30/06	IKB DEUTSCH
ABACUS 2006-15	A2	100.00	10.00	9/20/06	10/11/06	Davis Square VII (TCW)
ABACUS 2006-15	A3	100.00	20.00	9/20/06	10/11/06	Davis Square VII (TCW)
ABACUS 2006-15	A3	100.00	16.00	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	A3	100.00	20.00	9/20/06	10/11/06	Davis Square VII (TCW)
ABACUS 2006-15	A3	100.00	16.00	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	B	100.00	37.50	9/20/06	10/11/06	Trust Company of the West

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Deal	Class	Price	Orig Face	Trade Date	Settle Date	Risk Taker/Customer
ABACUS 2006-15	B	100.00	6.00	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	B	100.00	37.50	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	C	100.00	20.00	9/20/06	10/11/06	Davis Square VII (TCW)
ABACUS 2006-15	C	100.00	21.15	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	C SR1	100.00	20.00	9/20/06	10/11/06	NY CDO DESK
ABACUS 2006-15	C SR1	100.00	21.15	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	C SR2	100.00	2.85	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	D	100.00	11.15	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	D SR1	99.00	11.15	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-15	D SR1	100.00	3.50	12/20/06	12/26/06	Trust Company of the West
ABACUS 2006-15	D SR2	100.00	2.85	9/20/06	10/11/06	Trust Company of the West
ABACUS 2006-8	A1	100.00	20.00	4/6/06	4/28/06	BEAR STEARNS Asset Management
ABACUS 2006-8	A1	100.00	30.00	4/6/06	4/28/06	PRINCETON Advisory
ABACUS 2006-8	A2	100.00	23.00	4/6/06	4/28/06	CHURCH TAVERN
ABACUS 2006-8	A2	100.00	4.00	4/6/06	4/28/06	HBK INVS LP/
ABACUS 2006-8	A2	100.00	8.00	4/6/06	4/28/06	PRINCETON Advisory
ABACUS 2006-8	A3	100.00	27.50	2/17/06	3/14/06	IKB DEUTSCH
ABACUS 2006-8	B	100.00	20.00	2/17/06	3/14/06	IKB DEUTSCH
ABACUS 2006-8	C	100.00	32.50	2/17/06	3/14/06	IKB DEUTSCH
ABACUS 2006-8	D	100.00	4.00	4/6/06	4/28/06	PRINCETON Advisory
ABACUS 2006-9	A1	100.00	25.00	1/3/07	1/29/07	WACHOVIA SECURITIES
ABACUS 2006-9	A2	100.00	40.63	7/14/06	8/3/06	IKB DEUTSCH
ABACUS 2006-9	B	100.00	35.94	7/14/06	8/3/06	IKB DEUTSCH
ABACUS 2006-9	C	100.00	23.44	7/14/06	8/3/06	IKB DEUTSCH
ABACUS 2006-HGS1	A1	100.00	99.00	11/3/06	11/30/06	BEAR STEARNS Asset Management
ABACUS 2006-HGS1	A2	100.00	94.50	11/3/06	11/30/06	BEAR STEARNS Asset Management
ABACUS 2006-HGS1	AMSS	99.73	67.50	11/7/06	11/30/06	BEAR STEARNS Asset Management
ABACUS 2006-HGS1	AMSS	99.25	67.50	2/2/07	2/7/07	BEAR STEARNS Asset Management
ABACUS 2006-HGS1	B	100.00	20.25	11/3/06	11/30/06	BEAR STEARNS Asset Management
ABACUS 2006-HGS1	B	100.00	10.00	11/3/06	11/30/06	CREDIT SUISSE
ABACUS 2006-HGS1	B	100.00	5.00	11/3/06	12/6/06	SECURITY BENEFIT LIFE
ABACUS 2006-HGS1	C	100.00	10.00	11/3/06	11/30/06	SECURITY BENEFIT LIFE
ABACUS 2006-HGS1	C	100.00	6.00	3/22/07	3/27/07	Timberwolf I, Ltd.
ABACUS 2006-HGS1	D	100.00	9.00	3/22/07	3/27/07	Timberwolf I, Ltd.
ABACUS 2006-HGS1	E	100.00	15.00	11/7/06	11/30/06	BEAR STEARNS Asset Management
ABACUS 2006-HGS1	F	98.59	5.40	11/3/06	11/30/06	BEAR STEARNS Asset Management
ABACUS 2007-AC1	A1	100.00	50.00	4/10/07	4/26/07	IKB DEUTSCH
ABACUS 2007-AC1	A2	100.00	42.00	4/10/07	4/26/07	ACA MGMT LL
ABACUS 2007-AC1	A2	100.00	100.00	4/10/07	4/26/07	IKB DEUTSCH
Altius III Funding, Ltd.	A1A	100.00	10.00	9/8/2006	9/28/2006	African Development Bank
Altius III Funding, Ltd.	A1A	100.00	10.00	3/16/2007	3/20/2007	Anderson Default Swap Collateral
Altius III Funding, Ltd.	A1A	100.00	110.00	9/8/2006	9/28/2006	Barclays Global
Altius III Funding, Ltd.	A1A	100.00	25.00	9/8/2006	9/28/2006	Evergreen
Altius III Funding, Ltd.	A1A	100.00	15.00	9/8/2006	9/28/2006	MBIA Capital
Altius III Funding, Ltd.	A1A	100.00	60.00	9/8/2006	9/28/2006	Metropolitan West
Altius III Funding, Ltd.	A1B-1B	100.00	499.95	9/8/2006	9/28/2006	CIBC, XL, GS Funding Group
Altius III Funding, Ltd.	A1B-1F	100.00	499.95	9/8/2006	9/28/2006	CIBC, XL, GS Funding Group
Altius III Funding, Ltd.	A1B-2	Unfunded - 0.08%	300.00	9/8/2006	9/28/2006	AIOI Insurance
Altius III Funding, Ltd.	A1B-3	100.00	250.00	9/8/2006	9/28/2006	National Australia Bank
Altius III Funding, Ltd.	A1B-V	100.00	0.10	9/8/2006	9/28/2006	CIBC, XL, GS Funding Group
Altius III Funding, Ltd.	A2	100.00	20.00	9/8/06	9/28/06	ARAB BANKING CORP.
Altius III Funding, Ltd.	A2	100.00	15.00	9/11/06	9/28/06	LB Saar
Altius III Funding, Ltd.	A2	100.00	10.00	9/8/06	9/28/06	NORTHERN ROCK
Altius III Funding, Ltd.	A2	100.00	45.00	9/8/06	9/28/06	TPG-AXON CA
Altius III Funding, Ltd.	B	100.00	12.50	9/8/06	9/28/06	DILLON READ
Altius III Funding, Ltd.	B	100.00	20.00	9/8/06	9/28/06	DYNAMIC CREDIT PARTNERS
Altius III Funding, Ltd.	B	100.00	5.00	9/8/06	9/28/06	ERSTE BANK
Altius III Funding, Ltd.	B	100.00	12.50	9/8/06	9/28/06	MERRILL LYNCH / NIR's CDO
Altius III Funding, Ltd.	B	100.00	10.00	9/8/06	9/28/06	NORTHERN ROCK
Altius III Funding, Ltd.	B	100.00	28.00	9/8/06	9/28/06	ROYAL BANK of Canada (UK)
Altius III Funding, Ltd.	C	100.00	12.00	9/8/06	9/28/06	AOZORA BANK
Altius III Funding, Ltd.	C	100.00	5.00	9/8/06	9/28/06	DYNAMIC CREDIT PARTNERS
Altius III Funding, Ltd.	C	100.00	4.00	9/8/06	9/28/06	EVERGREEN
Altius III Funding, Ltd.	C	100.00	2.00	9/8/06	9/28/06	NORTHERN ROCK
Altius III Funding, Ltd.	D	100.00	5.00	9/8/06	9/28/06	Fort Denison Funding (Basis)
Altius III Funding, Ltd.	D	100.00	5.00	9/8/06	9/28/06	Merril Lynch (Gateway Funding- Basis)
Altius III Funding, Ltd.	D	100.00	4.00	9/8/06	9/28/06	NORTHERN ROCK
Altius III Funding, Ltd.	D	100.00	5.00	9/8/06	9/28/06	RETAINED
Altius III Funding, Ltd.	Income Notes	100.00	3.00	11/17/06	11/27/06	Mariner
Altius III Funding, Ltd.	Income Notes	91.00	5.00	9/26/06	9/28/06	Mizuho
Altius III Funding, Ltd.	Income Notes	100.00	2.00	9/8/06	9/28/06	RETAINED
Altius III Funding, Ltd.	S	100.07	17.50	6/8/2007	6/13/2007	MBIA Capital
Altius IV Funding, Ltd.	A1B	100.00	644.85	5/9/07	5/31/07	CIBC, XL, GS Funding Group
Altius IV Funding, Ltd.	A1F	100.00	644.85	5/9/07	5/31/07	CIBC, XL, GS Funding Group
Altius IV Funding, Ltd.	A1V	100.00	0.30	5/9/07	5/31/07	CIBC, XL, GS Funding Group
Altius IV Funding, Ltd.	A2A	100.00	50.00	5/15/07	5/31/07	ARAB BANKING CORP.
Altius IV Funding, Ltd.	A2B	100.00	12.50	5/15/07	5/31/07	AXON CREDIT
Altius IV Funding, Ltd.	A2B	99.77	30.00	5/16/07	5/31/07	CHINA CONSTRUCTION BANK
Altius IV Funding, Ltd.	A2B	100.00	12.50	5/15/07	5/31/07	INTESA SANP
Altius IV Funding, Ltd.	B	98.41	36.00	6/4/07	6/7/07	AOZORA BANK
Altius IV Funding, Ltd.	B	100.00	20.00	5/16/07	5/31/07	CHINA CONSTRUCTION BANK
Altius IV Funding, Ltd.	B	100.00	10.00	6/5/07	6/12/07	FIRST COMMERCIAL BANK
Altius IV Funding, Ltd.	C	92.68	11.63	6/4/07	6/7/07	AOZORA BANK
Altius IV Funding, Ltd.	C	97.13	3.00	5/15/07	5/31/07	BT FUNDS MG
Altius IV Funding, Ltd.	C	97.13	4.88	5/15/07	5/31/07	GENERAL MOTORS PENSION
Altius IV Funding, Ltd.	D	88.94	5.10	5/15/07	5/31/07	ALADDIN CAPITAL
Altius IV Funding, Ltd.	D	100.00	3.80	5/15/07	5/31/07	RETAINED
Altius IV Funding, Ltd.	D	100.00	3.00	5/16/07	5/31/07	YAMATO LIFE
Altius IV Funding, Ltd.	Income Notes	90.00	2.75	5/15/07	5/31/07	ALADDIN CAPITAL
Altius IV Funding, Ltd.	Income Notes	96.33	2.75	5/15/07	5/31/07	RETAINED
Altius IV Funding, Ltd.	Income Notes	100.00	2.00	5/16/07	5/31/07	YAMATO LIFE
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	75.50	5.20	10/10/07	10/15/07	CAPITAL INTERNATIONAL
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	50.00	10.26	11/7/07	11/15/07	CAPITAL INTERNATIONAL
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	72.50	5.12	9/7/07	9/14/07	EIGER CAPITAL
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	72.50	0.64	9/10/07	9/14/07	EIGER CAPITAL
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	72.50	1.64	9/12/07	9/18/07	EIGER CAPITAL
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	72.50	2.54	9/24/07	10/1/07	EIGER CAPITAL
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	50.00	13.74	11/7/07	11/15/07	MAGNA ASSET
Anderson Mezzanine Funding 2007-1, Ltd.	A1A	100.00	90.88	3/12/07	3/20/07	RETAINED
Anderson Mezzanine Funding 2007-1, Ltd.	A1B	97.39	2.00	4/3/07	4/9/07	BENEFICIAL LIFE
Anderson Mezzanine Funding 2007-1, Ltd.	A1B	100.00	51.00	3/12/07	3/20/07	RETAINED
Anderson Mezzanine Funding 2007-1, Ltd.	A2	96.54	15.00	3/20/07	3/23/07	MONEYGRAM
Anderson Mezzanine Funding 2007-1, Ltd.	A2	96.23	5.00	3/21/07	3/26/07	PIMCO - USA
Anderson Mezzanine Funding 2007-1, Ltd.	A2	97.24	10.50	3/26/07	3/29/07	PRINCETON Advisory
Anderson Mezzanine Funding 2007-1, Ltd.	B	95.50	5.00	3/20/07	3/23/07	MONEYGRAM
Anderson Mezzanine Funding 2007-1, Ltd.	B	100.00	37.70	3/12/07	3/20/07	RETAINED
Anderson Mezzanine Funding 2007-1, Ltd.	C	92.38	10.00	3/21/07	3/26/07	GREYWOLF CAPITAL
Anderson Mezzanine Funding 2007-1, Ltd.	C	100.00	6.78	3/12/07	3/20/07	RETAINED
Anderson Mezzanine Funding 2007-1, Ltd.	D	108.21	11.09	3/12/07	3/20/07	GSCP (NJ)
Anderson Mezzanine Funding 2007-1, Ltd.	Income Notes	100.00	20.94	3/12/07	3/20/07	RETAINED
Anderson Mezzanine Funding 2007-1, Ltd.	S	100.00	2.79	4/13/07	4/18/07	MBIA CAPITAL
Broadwick Funding, Ltd.	A1A	100.00	50.00	4/12/06	5/11/06	Bear Stearns
Broadwick Funding, Ltd.	A1A	100.00	10.00	4/12/06	5/11/06	Abu Dhabi Investments
Broadwick Funding, Ltd.	A1A	100.00	37.50	4/25/06	5/11/06	RETAINED
Broadwick Funding, Ltd.	A1B	100.00	552.50	4/12/06	5/11/06	Peloton Partners

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Deal	Class	Price	Orig Face (m	Trade Date	Settle Date	Risk Taker/Customer
Broadwick Funding, Ltd.	A2	100.00	20.00	4/12/06	5/11/06	Bear Stearns
Broadwick Funding, Ltd.	A2	100.00	60.00	4/12/06	5/11/06	UBS Principal Investments
Broadwick Funding, Ltd.	A2	100.00	5.00	4/12/06	5/12/06	Standish Mellon
Broadwick Funding, Ltd.	A2	100.00	20.00	4/12/06	5/11/06	Deutsche Bank
Broadwick Funding, Ltd.	A2	100.00	5.00	4/12/06	5/11/06	Church Tavern
Broadwick Funding, Ltd.	B	100.00	65.00	4/12/06	5/11/06	UBS Principal Investments
Broadwick Funding, Ltd.	B	100.00	10.00	4/12/06	5/11/06	Church Tavern
Broadwick Funding, Ltd.	B	100.00	17.00	4/12/06	5/11/06	UBS Principal Investments
Broadwick Funding, Ltd.	B	100.00	5.00	4/12/06	5/11/06	Vanderbilt
Broadwick Funding, Ltd.	B	100.00	5.00	4/12/06	5/12/06	Standish Mellon
Broadwick Funding, Ltd.	B	100.00	10.00	4/12/06	5/11/06	Merryl Lynch
Broadwick Funding, Ltd.	C	100.00	7.50	4/12/06	5/11/06	Dustsche Bank to Winchester
Broadwick Funding, Ltd.	C	100.00	25.00	4/12/06	5/11/06	KBC Financial
Broadwick Funding, Ltd.	C	100.00	7.50	4/12/06	5/11/06	Dustsche Bank to Wharton
Broadwick Funding, Ltd.	D	100.00	5.00	4/12/06	5/11/06	GSCP (NJ)
Broadwick Funding, Ltd.	D	100.00	5.00	4/12/06	5/11/06	hbs
Broadwick Funding, Ltd.	D	100.00	6.00	4/12/06	5/11/06	Deutsche Bank
Broadwick Funding, Ltd.	D	100.00	11.00	4/12/06	5/11/06	Bear Stearns
Broadwick Funding, Ltd.	D	100.00	1.00	4/12/06	5/11/06	Barris Global
Broadwick Funding, Ltd.	D	100.00	2.00	4/12/06	5/11/06	KGI Alliance
Broadwick Funding, Ltd.	D	100.00	5.00	4/12/06	5/11/06	Fort Denison CDO - warehouse first
Broadwick Funding, Ltd.	D	100.00	3.00	4/20/06	5/11/06	Bank Sinopac
Broadwick Funding, Ltd.	D	100.50	2.00	8/8/06	8/14/06	Deutsche Bank
Broadwick Funding, Ltd.	E	100.00	50.00	4/12/06	5/11/06	Peloton Partners
Broadwick Funding, Ltd.	S	100.00	15.00	4/12/06	5/11/06	Peloton Partners
Camber 7 plc	A1	100.00	365.00	2/16/07	2/28/07	CIBC (ACA Credit)
Camber 7 plc	A1	100.00	120.00	1/25/07	2/28/07	RABOBANK
Camber 7 plc	A2	100.00	50.00	1/25/07	2/28/07	AXON CREDIT
Camber 7 plc	A2	100.00	5.00	1/25/07	2/28/07	BABSON CAPITAL
Camber 7 plc	A2	100.00	20.00	1/25/07	2/28/07	RABOBANK
Camber 7 plc	A2	100.00	25.00	1/25/07	2/28/07	UBS AG
Camber 7 plc	A3	100.00	7.00	1/25/07	2/28/07	BABSON CAPITAL
Camber 7 plc	A3	99.88	30.00	1/25/07	2/28/07	BANK OF CHINA
Camber 7 plc	A3	100.00	20.00	1/25/07	2/28/07	NEW BOND ST
Camber 7 plc	A3	100.00	15.00	1/25/07	2/28/07	SOLENT CAPITAL
Camber 7 plc	B	100.00	5.00	1/25/07	2/28/07	BANK OF CHINA
Camber 7 plc	B	100.00	10.00	1/25/07	2/28/07	C-BASS
Camber 7 plc	B	100.00	8.00	1/25/07	2/28/07	OB ZWIRN
Camber 7 plc	B	100.00	10.00	1/25/07	2/28/07	FAXTOR SECS
Camber 7 plc	B	100.00	6.00	1/25/07	2/28/07	ING INV MGM
Camber 7 plc	B	100.00	7.50	1/25/07	2/28/07	ISCHUS CAPITAL
Camber 7 plc	B	100.00	7.00	1/25/07	2/28/07	NIR CAPITAL
Camber 7 plc	B	100.00	10.00	1/25/07	2/28/07	STATE STREET
Camber 7 plc	B	100.00	10.00	1/25/07	2/28/07	TERWIN CAPITAL
Camber 7 plc	B	100.00	7.50	1/25/07	2/28/07	WACHOVIA SECURITIES
Camber 7 plc	C	100.00	8.00	1/25/07	2/28/07	ACA MGMT LL
Camber 7 plc	C	100.00	10.00	1/25/07	2/28/07	COMMERZBANK
Camber 7 plc	C	100.00	10.00	1/25/07	2/28/07	DILLON READ
Camber 7 plc	C	100.00	10.00	1/25/07	2/28/07	E*TRADE
Camber 7 plc	C	100.00	3.00	1/25/07	2/28/07	GSCP (NJ)
Camber 7 plc	C	100.00	4.00	1/25/07	2/28/07	INVESTEC BAML
Camber 7 plc	C	100.00	21.00	1/25/07	2/28/07	RETAINED
Camber 7 plc	C	100.00	12.30	1/25/07	2/28/07	WACHOVIA SECURITIES
Camber 7 plc	D	100.00	10.00	1/25/07	2/28/07	ACA MGMT LL
Camber 7 plc	D	100.00	3.00	1/25/07	2/28/07	CHURCH TAVERN
Camber 7 plc	D	100.00	5.00	1/25/07	2/28/07	CPM ADVISER
Camber 7 plc	D	100.00	4.00	1/25/07	2/28/07	GSCP (NJ)
Camber 7 plc	D	98.30	7.50	1/25/07	2/28/07	IVY ASSET MANAGEMENT
Camber 7 plc	D	100.00	2.95	1/25/07	2/28/07	SENECA CAPITAL
Camber 7 plc	D	100.00	10.00	1/25/07	2/28/07	WACHOVIA SECURITIES
Camber 7 plc	D	100.00	3.00	1/25/07	2/28/07	WASHINGTON SQUARE
Camber 7 plc	E	97.88	2.00	1/25/07	2/28/07	CPM ADVISER
Camber 7 plc	E	54.95	1.60	5/10/07	5/15/07	MORGAN STANLEY
Camber 7 plc	E	100.00	7.65	1/25/07	2/28/07	RETAINED
Camber 7 plc	Income Notes	100.00	1.35	2/28/07	2/28/07	CITIBANK (Cambridge Place)
Camber 7 plc	Income Notes	48.00	13.23	5/10/07	5/15/07	MORGAN STANLEY
Camber 7 plc	Income Notes	100.00	12.42	1/25/07	2/28/07	RETAINED
Camber 7 plc	S	100.00	15.50	2/8/07	2/28/07	MBIA CAPITAL
Davis Square Funding VI, Ltd.	A1LTA	100.00	274.00	3/10/06	3/30/06	Societe Generale
Davis Square Funding VI, Ltd.	A1LTB	100.00	20.00	3/10/06	3/30/06	BMO Financial
Davis Square Funding VI, Ltd.	A1LTB	100.00	250.00	3/10/06	3/30/06	Banque AIG
Davis Square Funding VI, Ltd.	A1LTB	100.00	30.00	3/10/06	3/30/06	Landesbank - LRI
Davis Square Funding VI, Ltd.	A2	100.00	17.00	3/10/06	3/30/06	Catamount
Davis Square Funding VI, Ltd.	A2	100.00	10.00	3/10/06	3/30/06	RBS
Davis Square Funding VI, Ltd.	A2	100.00	18.00	3/10/06	3/30/06	Ixis
Davis Square Funding VI, Ltd.	A2	100.00	18.00	3/10/06	3/30/06	Solent
Davis Square Funding VI, Ltd.	A2	100.00	5.00	3/10/06	3/30/06	Anglo Irish Bank
Davis Square Funding VI, Ltd.	A2	100.00	10.00	3/10/06	3/30/06	GIB Bahrain
Davis Square Funding VI, Ltd.	A2	100.00	7.00	3/10/06	3/30/06	Landesbank - LRI
Davis Square Funding VI, Ltd.	B	100.00	4.00	3/10/06	3/30/06	Terwin Capital
Davis Square Funding VI, Ltd.	B	100.00	5.00	3/10/06	3/30/06	ING Investment Management
Davis Square Funding VI, Ltd.	B	100.00	4.50	3/10/06	3/30/06	Declaration
Davis Square Funding VI, Ltd.	B	100.00	20.00	3/10/06	3/30/06	Princeton Advisory Group
Davis Square Funding VI, Ltd.	B	100.00	8.00	3/10/06	3/30/06	PB Capital
Davis Square Funding VI, Ltd.	B	100.00	3.00	3/10/06	3/30/06	Chotin Group
Davis Square Funding VI, Ltd.	B	100.00	5.00	3/10/06	3/30/06	Deerfield
Davis Square Funding VI, Ltd.	B	100.00	5.00	3/10/06	3/30/06	RBS
Davis Square Funding VI, Ltd.	B	100.00	15.00	3/10/06	3/30/06	UBS Principal Investments
Davis Square Funding VI, Ltd.	B	100.00	7.00	3/10/06	3/30/06	Vanderbilt
Davis Square Funding VI, Ltd.	B	100.00	4.50	3/10/06	3/30/06	Solent Capital
Davis Square Funding VI, Ltd.	B	100.00	10.00	3/10/06	3/30/06	RBC
Davis Square Funding VI, Ltd.	B	100.00	4.00	3/10/06	3/30/06	Anglo Irish Bank
Davis Square Funding VI, Ltd.	B	100.00	10.00	3/10/06	3/30/06	RETAINED
Davis Square Funding VI, Ltd.	C	100.00	8.00	3/10/06	3/30/06	Eurohypo
Davis Square Funding VI, Ltd.	C	100.00	15.00	3/10/06	3/30/06	UBS Principal Investments
Davis Square Funding VI, Ltd.	C	100.00	8.00	4/28/06	5/2/06	Hout Bay CDO
Davis Square Funding VI, Ltd.	C	100.00	4.00	3/10/06	3/30/06	Anglo Irish Bank
Davis Square Funding VI, Ltd.	Combo	100.00	18.00	3/10/06	3/30/06	Fubon Life
Davis Square Funding VI, Ltd.	D	98.00	25.00	3/10/06	3/30/06	Sandelman Partners
Davis Square Funding VI, Ltd.	E-2	100.00	2.80	3/10/06	3/30/06	RETAINED
Davis Square Funding VII, Ltd.	A1A	99.45	620.00	5/22/07	5/24/07	BNP PARIBAS
Davis Square Funding VII, Ltd.	A1A	99.78	150.00	5/18/07	5/25/07	HSBC BANK
Davis Square Funding VII, Ltd.	A1A	99.37	800.00	5/22/07	5/24/07	SOCIETE GENERALE (FGIC Credit)
Davis Square Funding VII, Ltd.	A1B	100.00	50.00	11/3/06	12/5/06	BMO Financial
Davis Square Funding VII, Ltd.	A2	99.01	40.00	3/8/07	3/13/07	AC CAPITAL
Davis Square Funding VII, Ltd.	A2	100.00	30.00	11/27/06	12/5/06	ARAB BANKING CORP.
Davis Square Funding VII, Ltd.	A2	100.00	10.00	1/23/07	1/26/07	LANDESBANK
Davis Square Funding VII, Ltd.	A2	100.00	20.00	11/3/06	12/5/06	NORTHERN ROCK
Davis Square Funding VII, Ltd.	A3	99.44	4.00	2/28/07	3/5/07	DEERFIELD CAPITAL
Davis Square Funding VII, Ltd.	A3	100.00	10.00	11/3/06	12/5/06	EIGER CAPITAL
Davis Square Funding VII, Ltd.	A3	100.00	80.00	11/3/06	12/5/06	NATIONAL AUSTRALIA BANK
Davis Square Funding VII, Ltd.	A3	100.00	25.00	11/3/06	12/5/06	NORTHERN ROCK
Davis Square Funding VII, Ltd.	A3	100.00	5.00	11/6/06	12/5/06	REDWOOD TRUST
Davis Square Funding VII, Ltd.	A3	100.00	30.00	11/3/06	12/5/06	ROYAL BANK of Canada (UK)
Davis Square Funding VII, Ltd.	A3	95.39	6.00	4/24/07	4/27/07	SECURITY BENEFIT LIFE

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Deal	Class	Price	Orig Face (m	Trade Date	Settle Date	Risk Taker/ Customer
Davis Square Funding VII, Ltd.	B	100.00	7.00	11/3/06	12/5/06	EIGER CAPITAL
Davis Square Funding VII, Ltd.	B	100.00	9.00	11/3/06	12/5/06	FORTIS SECURITIES
Davis Square Funding VII, Ltd.	B	100.00	15.00	11/3/06	12/5/06	KOCH GLOBAL
Davis Square Funding VII, Ltd.	B	100.00	8.00	11/3/06	12/5/06	NORTHERN ROCK
Davis Square Funding VII, Ltd.	B	100.00	11.00	11/3/06	12/5/06	RETAINED
Davis Square Funding VII, Ltd.	C	100.00	15.00	11/3/06	12/5/06	KOCH GLOBAL
Davis Square Funding VII, Ltd.	C	100.00	9.00	11/3/06	12/5/06	NORTHERN ROCK
Davis Square Funding VII, Ltd.	C	100.00	6.00	11/3/06	12/5/06	RETAINED
Davis Square Funding VII, Ltd.	C	100.00	9.00	11/3/06	12/5/06	ROYAL BANK of Canada (UK)
Davis Square Funding VII, Ltd.	Combo Note	100.00	5.00	11/28/06	12/5/06	BANK OF PANSHIN
Davis Square Funding VII, Ltd.	D	100.00	5.00	11/3/06	12/5/06	NORTHERN ROCK
Davis Square Funding VII, Ltd.	D	100.00	3.00	11/6/06	12/5/06	REDWOOD TRUST
Davis Square Funding VII, Ltd.	D	100.00	13.00	11/3/06	12/5/06	RETAINED
Davis Square Funding VII, Ltd.	E	90.00	0.60	2/20/07	2/23/07	LOEWS CORP
Davis Square Funding VII, Ltd.	E	100.00	4.00	11/3/06	12/5/06	Loews Corporation
Davis Square Funding VII, Ltd.	E	100.00	4.47	11/3/06	12/5/06	RETAINED
Davis Square Funding VII, Ltd.	S	100.00	20.00	11/3/06	12/5/06	RETAINED
Fort Denison Funding, Ltd.	A1	99.79	225.00	1/12/07	2/14/07	CIBC (ACA Credit)
Fort Denison Funding, Ltd.	A2A	100.00	60.00	1/10/07	2/14/07	UBS AG
Fort Denison Funding, Ltd.	A2B	100.00	60.00	1/10/07	2/14/07	National Australia Bank
Fort Denison Funding, Ltd.	A2B	100.00	15.00	1/10/07	2/14/07	PRINCETON Advisory
Fort Denison Funding, Ltd.	A2B	100.00	5.00	1/10/07	2/14/07	WEISS PECK / Robaco
Fort Denison Funding, Ltd.	B	100.00	4.00	1/10/07	2/14/07	OPPENHEIMER
Fort Denison Funding, Ltd.	B	100.00	10.00	2/9/07	2/15/07	OPPENHEIMER
Fort Denison Funding, Ltd.	B	100.00	7.00	1/10/07	2/14/07	RETAINED
Fort Denison Funding, Ltd.	B	100.00	20.00	1/10/07	2/14/07	WEISS PECK / Robaco
Fort Denison Funding, Ltd.	C Loan	100.00	64.00	1/10/07	2/14/07	SMBC (NY)
Fort Denison Funding, Ltd.	Income Notes	100.00	16.50	1/10/07	2/14/07	Basis Capital
Fort Denison Funding, Ltd.	Income Notes	100.00	13.50	1/10/07	2/14/07	RETAINED
Fort Denison Funding, Ltd.	S	100.00	5.30	1/10/07	2/14/07	RETAINED
Fortius I Funding, Ltd.	A1	100.00	390.00	2/9/06	3/8/06	Hypo RE (via TRS with Goldman and credit protection from A
Fortius I Funding, Ltd.	A2	100.00	20.00	2/9/06	3/8/06	Fortis Investments
Fortius I Funding, Ltd.	A2	100.00	14.00	5/16/06	5/22/06	Wachovia Securities
Fortius I Funding, Ltd.	A2	100.00	10.00	2/9/06	3/8/06	Anglo Irish Bank
Fortius I Funding, Ltd.	A2	100.00	40.00	2/9/06	3/8/06	Deutsche Bank
Fortius I Funding, Ltd.	B	100.00	6.00	2/9/06	3/8/06	Wachovia Securities
Fortius I Funding, Ltd.	B	100.00	12.00	2/9/06	3/8/06	Princeton Advisory Group
Fortius I Funding, Ltd.	B	100.00	10.00	2/9/06	3/8/06	UBS Principal Investments
Fortius I Funding, Ltd.	B	100.00	5.00	2/9/06	3/8/06	Fortis Investments
Fortius I Funding, Ltd.	B	100.00	14.00	2/9/06	3/8/06	Church Tavern
Fortius I Funding, Ltd.	B	100.00	10.00	2/9/06	3/8/06	Anglo Irish Bank
Fortius I Funding, Ltd.	C	100.00	4.00	2/9/06	3/8/06	UBS Principal Investments
Fortius I Funding, Ltd.	C	100.00	11.00	2/9/06	3/8/06	Deutsche Bank
Fortius I Funding, Ltd.	D	100.00	18.00	2/9/06	3/8/06	Commerzbank
Fortius I Funding, Ltd.	D	97.72	8.00	3/16/06	3/20/06	CDO Warehouse (then Fort Denison CDO)
Fortius I Funding, Ltd.	D	99.57	4.00	8/11/06	8/16/06	Halcyon
Fortius I Funding, Ltd.	E	98.94	5.00	2/9/06	3/8/06	Dynamic Credit Partners
Fortius I Funding, Ltd.	S	100.00	11.50	7/18/06	7/21/06	Hout Bay CDO - CDS collateral
Fortius II Funding, Ltd.	A1	99.94	325.00	12/4/06	12/7/06	CIBC Funding + CIFG Credit
Fortius II Funding, Ltd.	A2	100.00	10.00	11/3/06	12/7/06	IXIS FINANCIAL
Fortius II Funding, Ltd.	A2	97.91	15.00	3/2/07	3/7/07	MONEYGRAM
Fortius II Funding, Ltd.	A2	92.60	10.00	5/23/07	5/29/07	OPPENHEIMER
Fortius II Funding, Ltd.	A2	100.00	15.00	11/3/06	12/7/06	RETAINED
Fortius II Funding, Ltd.	B	26.00	15.00	9/26/07	10/1/07	DYNAMIC CREDIT PARTNERS
Fortius II Funding, Ltd.	B	94.24	5.00	3/2/07	3/7/07	MONEYGRAM
Fortius II Funding, Ltd.	B	100.00	25.00	11/3/06	12/7/06	RETAINED
Fortius II Funding, Ltd.	C	100.00	10.00	11/3/06	12/7/06	CATHAY UNITED
Fortius II Funding, Ltd.	C	100.00	3.00	11/3/06	12/7/06	UBS GLOBAL
Fortius II Funding, Ltd.	Combo Note	100.00	10.00	11/3/06	12/7/06	ANGLO IRISH
Fortius II Funding, Ltd.	D	100.00	15.00	11/3/06	12/7/06	COMMERZBANK
Fortius II Funding, Ltd.	D	100.00	5.00	12/19/06	12/22/06	Fort Denison Funding (Basis)
Fortius II Funding, Ltd.	D	83.11	3.50	3/28/07	4/4/07	MARINER BRIDGE
Fortius II Funding, Ltd.	D	100.00	4.00	11/3/06	12/7/06	Merrill Lynch (Basis CDO- Gateway)
Fortius II Funding, Ltd.	E	100.00	1.00	11/3/06	12/7/06	DYNAMIC CREDIT PARTNERS
Fortius II Funding, Ltd.	E	100.00	1.00	11/3/06	12/7/06	Merrill Lynch (Basis CDO- Gateway)
Fortius II Funding, Ltd.	E	100.00	1.50	11/3/06	12/7/06	Trust Company of the West
Fortius II Funding, Ltd.	E	100.00	4.00	11/3/06	12/7/06	UBS GLOBAL (UK)
Fortius II Funding, Ltd.	Income Notes	100.00	5.00	11/3/06	12/7/06	ALADDIN CAPITAL
Fortius II Funding, Ltd.	Income Notes	100.00	4.00	11/24/06	12/7/06	MARINER BRIDGE
Fortius II Funding, Ltd.	Income Notes	95.00	3.00	11/3/06	12/7/06	Trust Company of the West
Fortius II Funding, Ltd.	Income Notes	99.00	0.28	11/3/06	12/7/06	UBS GLOBAL (UK)
Fortius II Funding, Ltd.	Income Notes	99.00	4.72	11/3/06	12/7/06	UBS GLOBAL (UK)
Fortius II Funding, Ltd.	S	100.00	5.14	3/18/07	3/20/07	Anderson Default Swap Collateral
Fortius II Funding, Ltd.	S	100.00	7.57	3/22/07	3/27/07	Default Swap Collateral - GS CDO
GSC ABS Funding 2006-3g, Ltd.	A1A	100.00	35.00	12/7/06	1/18/07	CHEYNE CAPITAL
GSC ABS Funding 2006-3g, Ltd.	A1B	99.07	32.00	3/9/07	3/14/07	AC CAPITAL
GSC ABS Funding 2006-3g, Ltd.	A1B	100.00	100.00	12/7/06	1/25/07	NATIONAL AUSTRALIA BANK
GSC ABS Funding 2006-3g, Ltd.	A1B	99.85	50.00	1/24/07	1/25/07	NATIONAL AUSTRALIA BANK
GSC ABS Funding 2006-3g, Ltd.	A1B	99.80	10.00	1/26/07	1/31/07	NORDEA BANK
GSC ABS Funding 2006-3g, Ltd.	A1LTe	98.00	1085.00	8/7/07	8/10/07	Morgan Stanley
GSC ABS Funding 2006-3g, Ltd.	A2	33.33	3.00	10/5/07	10/15/07	CAPITAL INTERNATIONAL
GSC ABS Funding 2006-3g, Ltd.	A2	33.13	7.00	10/9/07	10/16/07	CAPITAL INTERNATIONAL
GSC ABS Funding 2006-3g, Ltd.	A2	100.00	104.00	12/8/06	1/18/07	SMBC
GSC ABS Funding 2006-3g, Ltd.	B	100.00	25.00	12/8/06	1/18/07	AOZORA BANK
GSC ABS Funding 2006-3g, Ltd.	B	100.00	31.00	12/7/06	1/18/07	ROYAL BANK of Canada (UK)
GSC ABS Funding 2006-3g, Ltd.	B	100.00	40.00	12/7/06	1/18/07	SOLENT CAPITAL
GSC ABS Funding 2006-3g, Ltd.	C	100.00	24.60	12/7/06	1/18/07	RETAINED
GSC ABS Funding 2006-3g, Ltd.	C	98.88	3.00	1/26/07	1/31/07	SOLENT CAPITAL
GSC ABS Funding 2006-3g, Ltd.	C	98.04	10.00	1/9/07	1/18/07	Trust Company of the West
GSC ABS Funding 2006-3g, Ltd.	C	98.04	3.00	2/7/07	2/12/07	Trust Company of the West
GSC ABS Funding 2006-3g, Ltd.	C	84.79	7.00	4/12/07	4/16/07	WELLS FARGO
GSC ABS Funding 2006-3g, Ltd.	C	85.50	2.00	5/9/07	5/14/07	WESTLB
GSC ABS Funding 2006-3g, Ltd.	D	100.00	16.40	12/7/06	1/18/07	RETAINED
GSC ABS Funding 2006-3g, Ltd.	D	100.00	1.00	12/7/06	1/18/07	Trust Company of the West
GSC ABS Funding 2006-3g, Ltd.	D	99.12	5.00	12/11/06	1/18/07	VANDERBILT
GSC ABS Funding 2006-3g, Ltd.	Income Notes	97.00	4.00	12/7/06	1/18/07	GSCP (NJ)
GSC ABS Funding 2006-3g, Ltd.	Income Notes	97.00	7.00	12/7/06	1/18/07	LOEWS CORP
GSC ABS Funding 2006-3g, Ltd.	Income Notes	97.00	5.00	12/7/06	1/18/07	RETAINED
Hout Bay 2006-1 Ltd.	A1	100.00	800.00	5/1/06	5/2/06	Rabobank (via TRS with Goldman and credit protection from
Hout Bay 2006-1 Ltd.	A1	100.00	475.00	5/1/06	5/2/06	GS Funding Group / GS Long Credit Risk
Hout Bay 2006-1 Ltd.	A2	100.00	10.00	3/30/06	5/2/06	RBS
Hout Bay 2006-1 Ltd.	A2	100.00	10.00	3/30/06	5/2/06	Oppenheimer
Hout Bay 2006-1 Ltd.	A2	100.00	22.50	3/30/06	5/2/06	Solent Capital
Hout Bay 2006-1 Ltd.	A2	100.00	15.00	5/9/06	5/15/06	Bank Intesa
Hout Bay 2006-1 Ltd.	A2	99.93	40.00	5/18/06	5/23/06	Vertical Capital
Hout Bay 2006-1 Ltd.	A2	99.95	20.00	5/24/06	5/25/06	Highland Capital
Hout Bay 2006-1 Ltd.	A2	100.00	5.00	5/31/06	6/5/06	Oppenheimer
Hout Bay 2006-1 Ltd.	A2	100.00	4.50	6/21/06	6/26/06	Deerfield
Hout Bay 2006-1 Ltd.	A2	97.75	5.00	5/29/07	6/1/07	Deerfield
Hout Bay 2006-1 Ltd.	A2	97.62	15.00	5/30/07	6/4/07	Vector Capital
Hout Bay 2006-1 Ltd.	B	100.00	25.00	3/30/06	5/2/06	Solent Capital
Hout Bay 2006-1 Ltd.	B	100.00	5.00	3/30/06	5/2/06	Oppenheimer
Hout Bay 2006-1 Ltd.	B	100.00	7.00	3/30/06	5/2/06	Merryl Lynch
Hout Bay 2006-1 Ltd.	B	100.00	7.00	3/30/06	5/2/06	CALYON - PA
Hout Bay 2006-1 Ltd.	B	100.00	6.00	3/30/06	5/2/06	Deerfield

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Deal	Class	Price	Orig Face	Trade Date	Settle Date	Risk Taker/ Customer
Hout Bay 2006-1 Ltd.	C	99.76	21.00	3/30/06	5/2/06	UBS Principal Investments
Hout Bay 2006-1 Ltd.	D	100.00	10.00	3/30/06	5/2/06	UBS Principal Investments
Hout Bay 2006-1 Ltd.	D	100.00	5.00	3/30/06	5/2/06	Fort Denison CDO
Hout Bay 2006-1 Ltd.	D	100.00	2.00	3/30/06	5/2/06	RETAINED
Hout Bay 2006-1 Ltd.	E	100.00	4.00	3/30/06	5/2/06	Dynamic Credit Partners
Hout Bay 2006-1 Ltd.	Sub	100.00	3.00	3/30/06	5/2/06	Investec
Hout Bay 2006-1 Ltd.	Sub	100.00	3.00	3/30/06	5/2/06	RETAINED
Hudson High Grade Funding 2006-1, Ltd.	A1	100.00	1275.00	9/29/06	11/1/06	UBS
Hudson High Grade Funding 2006-1, Ltd.	A2	99.95	88.75	10/5/06	11/1/06	Brightwater
Hudson High Grade Funding 2006-1, Ltd.	A2	100.00	10.00	9/29/06	11/1/06	Citigroup for ING
Hudson High Grade Funding 2006-1, Ltd.	A2	100.00	5.00	9/29/06	11/1/06	Dynamic Credit Partners
Hudson High Grade Funding 2006-1, Ltd.	A2	100.00	10.00	9/29/06	11/1/06	ING Capital
Hudson High Grade Funding 2006-1, Ltd.	A2	100.00	10.00	9/29/06	11/1/06	Trust Company of the West
Hudson High Grade Funding 2006-1, Ltd.	B	100.00	10.00	9/29/06	11/1/06	CHINA MINSHIN
Hudson High Grade Funding 2006-1, Ltd.	B	100.00	10.00	9/29/06	11/1/06	Citigroup for ING
Hudson High Grade Funding 2006-1, Ltd.	B	100.00	15.75	9/29/06	11/1/06	OPPENHEIMER
Hudson High Grade Funding 2006-1, Ltd.	B	100.00	10.00	9/29/06	11/1/06	Trust Company of the West
Hudson High Grade Funding 2006-1, Ltd.	B	100.00	15.00	9/29/06	11/1/06	VANDERBILT
Hudson High Grade Funding 2006-1, Ltd.	C	100.00	5.00	9/29/06	11/1/06	Citigroup for ING
Hudson High Grade Funding 2006-1, Ltd.	C	100.00	8.00	9/29/06	11/1/06	Davis Square VII (TCW)
Hudson High Grade Funding 2006-1, Ltd.	C	100.00	7.25	9/29/06	11/1/06	DILLON READ
Hudson High Grade Funding 2006-1, Ltd.	D	100.00	5.00	9/29/06	11/1/06	Fort Denison Funding (Basis)
Hudson High Grade Funding 2006-1, Ltd.	D	100.00	5.00	9/29/06	11/1/06	Merrill Lynch (Basis CDO- Gateway)
Hudson High Grade Funding 2006-1, Ltd.	D	100.00	2.75	9/29/06	11/1/06	RETAINED
Hudson High Grade Funding 2006-1, Ltd.	Income Notes	100.00	1.00	10/12/06	11/1/06	Ascent Holdings (Taiwan PWM)
Hudson High Grade Funding 2006-1, Ltd.	Income Notes	64.00	3.00	10/12/06	11/1/06	Clinton Group
Hudson High Grade Funding 2006-1, Ltd.	Income Notes	100.00	3.50	10/12/06	11/1/06	RETAINED
Hudson High Grade Funding 2006-1, Ltd.	S	100.00	3.79	3/16/07	3/20/07	Default Swap Collateral - GS CDO
Hudson High Grade Funding 2006-1, Ltd.	S	100.00	1.06	11/8/06	11/9/06	Hout Bay Default Swap Collateral
Hudson High Grade Funding 2006-1, Ltd.	S	100.00	0.70	11/29/06	12/4/06	Hout Bay Default Swap Collateral
Hudson High Grade Funding 2006-1, Ltd.	S	100.00	6.10	9/29/06	11/1/06	MBIA Capital
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	10.00	10/25/06	12/5/06	CHURCH TAVERN
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	10.00	10/25/06	12/5/06	CITIGROUP ALTERNATIVE INVESTMENTS
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	80.00	10/25/06	12/5/06	National Australia Bank
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	16.00	10/25/06	12/5/06	PRINCETON Advisory
Hudson Mezzanine Funding 2006-1, Ltd.	AB	100.00	4.00	10/25/06	12/5/06	REDWOOD TRUST
Hudson Mezzanine Funding 2006-1, Ltd.	AF	100.00	55.00	11/15/06	12/5/06	GSC 06-3g Default Swap Collateral
Hudson Mezzanine Funding 2006-1, Ltd.	AF	100.00	55.00	10/25/06	12/5/06	UBS AG
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	40.00	10/25/06	12/5/06	CHURCH TAVERN
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	15.00	10/25/06	12/5/06	FAXTOR SECS
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	20.00	10/25/06	12/5/06	KOCH GLOBAL
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	40.00	10/25/06	12/5/06	PRINCETON Advisory
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	66.00	10/25/06	12/5/06	RETAINED
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	10.00	10/25/06	12/6/06	SECURITY BENEFIT LIFE
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	5.00	10/25/06	12/5/06	SOLENT CAPITAL
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	10.00	10/25/06	12/5/06	Trust Company of the West
Hudson Mezzanine Funding 2006-1, Ltd.	B	99.42	14.00	1/11/07	1/17/07	Trust Company of the West
Hudson Mezzanine Funding 2006-1, Ltd.	B	100.00	10.00	10/25/06	12/5/06	VANDERBILT
Hudson Mezzanine Funding 2006-1, Ltd.	C	97.56	15.00	12/19/06	12/22/06	COMMERZBANK
Hudson Mezzanine Funding 2006-1, Ltd.	C	93.90	8.00	2/14/07	2/20/07	DILLON READ
Hudson Mezzanine Funding 2006-1, Ltd.	C	99.77	15.00	10/25/06	12/5/06	GSC 06-3g
Hudson Mezzanine Funding 2006-1, Ltd.	C	99.77	7.50	10/25/06	12/5/06	PRINCETON Advisory
Hudson Mezzanine Funding 2006-1, Ltd.	C	100.00	124.50	10/25/06	12/5/06	RETAINED
Hudson Mezzanine Funding 2006-1, Ltd.	D	99.04	5.00	10/25/06	12/5/06	FORTIS BANK
Hudson Mezzanine Funding 2006-1, Ltd.	D	10.00	5.00	9/8/07	9/11/07	GREYWOLF CAPITAL
Hudson Mezzanine Funding 2006-1, Ltd.	D	99.04	7.00	11/9/06	12/5/06	GSCP (NJ)
Hudson Mezzanine Funding 2006-1, Ltd.	D	99.04	3.00	10/30/06	12/5/06	GSCP (NJ)
Hudson Mezzanine Funding 2006-1, Ltd.	D	99.04	4.00	10/25/06	12/5/06	IXIS FINANCE
Hudson Mezzanine Funding 2006-1, Ltd.	D	83.23	5.00	3/28/07	4/4/07	MARINER BRIDGE
Hudson Mezzanine Funding 2006-1, Ltd.	D	100.00	55.00	10/25/06	12/5/06	RETAINED
Hudson Mezzanine Funding 2006-1, Ltd.	E	98.50	13.00	10/25/06	12/5/06	DYNAMIC CREDIT PARTNERS
Hudson Mezzanine Funding 2006-1, Ltd.	E	100.00	11.00	10/25/06	12/5/06	RETAINED
Hudson Mezzanine Funding 2006-1, Ltd.	E	100.00	2.00	10/25/06	12/5/06	Trust Company of the West
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	95.00	6.00	12/6/06	12/7/06	Bank Loan Trading Desk
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	80.00	5.00	10/25/06	12/5/06	BEAR STEARNS Asset Management
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	95.00	1.00	1/3/07	1/4/07	COLONIAL
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	81.00	3.50	4/16/07	4/19/07	DILLON READ
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	85.00	10.00	10/25/06	12/5/06	GREYWOLF CAPITAL
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	95.00	5.00	10/26/06	12/5/06	MARINER SEC
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	80.31	30.00	12/8/06	12/8/06	SALOMON SMITH BARNEY (BSAM Orig Trade)
Hudson Mezzanine Funding 2006-1, Ltd.	Income Notes	93.00	2.00	10/25/06	12/5/06	Trust Company of the West
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	1.20	12/29/06	1/4/07	Default Swap Collateral - GS CDO
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	1.85	12/29/06	1/4/07	Default Swap Collateral - GS CDO
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	0.32	12/15/06	12/20/06	Hout Bay Default Swap Collateral
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	0.39	1/16/07	1/19/07	Hout Bay Default Swap Collateral
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	1.00	1/30/07	2/2/07	Hout Bay Default Swap Collateral
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	0.37	2/15/07	2/21/07	Hout Bay Default Swap Collateral
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	0.54	12/15/06	12/20/06	HUDSON HG DEF SWAP COLL
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	30.00	10/25/06	12/5/06	MBIA Capital
Hudson Mezzanine Funding 2006-1, Ltd.	S	100.00	1.33	10/25/06	12/5/06	RETAINED
Hudson Mezzanine Funding 2006-1, Ltd.	Sr. Swap	0.20%	1200.00	12/5/06	12/5/06	Morgan Stanley Prop
Hudson Mezzanine Funding 2006-2, Ltd.	A1	98.51	125.00	2/21/07	2/26/07	RABOBANK
Hudson Mezzanine Funding 2006-2, Ltd.	A1	100.00	115.00	12/21/06	2/8/07	RETAINED
Hudson Mezzanine Funding 2006-2, Ltd.	A2	100.00	26.00	12/21/06	2/8/07	CHURCH TAVERN
Hudson Mezzanine Funding 2006-2, Ltd.	A2	100.00	20.00	12/21/06	2/8/07	RABOBANK
Hudson Mezzanine Funding 2006-2, Ltd.	B	99.92	11.50	12/21/06	2/8/07	CHURCH TAVERN
Hudson Mezzanine Funding 2006-2, Ltd.	B	99.92	20.00	12/21/06	2/8/07	ING INV MGM
Hudson Mezzanine Funding 2006-2, Ltd.	B	99.92	24.50	12/21/06	2/8/07	RETAINED
Hudson Mezzanine Funding 2006-2, Ltd.	C	100.00	12.00	12/21/06	2/8/07	DILLON READ
Hudson Mezzanine Funding 2006-2, Ltd.	C	100.00	2.00	12/21/06	2/8/07	DIVERSEPORT
Hudson Mezzanine Funding 2006-2, Ltd.	C	100.00	6.00	12/21/06	2/8/07	RETAINED
Hudson Mezzanine Funding 2006-2, Ltd.	D	98.21	4.79	2/13/07	2/14/07	Fort Denison Funding (Basis)
Hudson Mezzanine Funding 2006-2, Ltd.	D	100.00	13.21	12/21/06	2/8/07	RETAINED
Hudson Mezzanine Funding 2006-2, Ltd.	E	98.16	2.00	12/21/06	2/8/07	III OFFSHORE
Hudson Mezzanine Funding 2006-2, Ltd.	E	100.00	2.00	12/21/06	2/8/07	RETAINED
Hudson Mezzanine Funding 2006-2, Ltd.	Income Notes	100.00	3.00	1/24/07	2/8/07	COLONIAL
Hudson Mezzanine Funding 2006-2, Ltd.	Income Notes	98.00	8.00	12/21/06	2/8/07	III OFFSHORE
Hudson Mezzanine Funding 2006-2, Ltd.	Income Notes	100.00	2.50	12/22/06	2/8/07	PROPHET CAP
Hudson Mezzanine Funding 2006-2, Ltd.	Income Notes	100.00	2.50	12/22/06	2/8/07	RETAINED
Hudson Mezzanine Funding 2006-2, Ltd.	S	100.00	3.60	3/16/07	3/20/07	Anderson Default Swap Collateral
Hudson Mezzanine Funding 2006-2, Ltd.	S	100.00	4.30	3/22/07	3/27/07	Default Swap Collateral - GS CDO
Lochsong, Ltd.	A	100.00	11.00	9/7/06	10/4/06	KOCH GLOBAL
Lochsong, Ltd.	A	100.00	2.00	9/7/06	10/4/06	PRINCETON Advisory
Lochsong, Ltd.	A	100.00	5.00	9/7/06	10/4/06	RETAINED
Lochsong, Ltd.	B	100.00	10.00	9/7/06	10/4/06	DECLARATION
Lochsong, Ltd.	B	100.00	15.00	9/8/06	10/4/06	INVESTEC
Lochsong, Ltd.	B	99.78	10.00	1/18/07	1/25/07	JP MORGAN
Lochsong, Ltd.	B	100.00	10.00	9/7/06	10/4/06	KOCH GLOBAL

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Deal	Class	Price	Orig Face	Trade Date	Settle Date	Risk Taker/ Customer
Lochsong, Ltd.	B	100.00	5.00	9/7/06	10/4/06	PRINCETON Advisory
Lochsong, Ltd.	B	100.00	15.00	9/7/06	10/4/06	RETAINED
Lochsong, Ltd.	B	100.00	13.00	9/7/06	10/4/06	VANDERBILT
Lochsong, Ltd.	C	100.00	12.00	9/7/06	10/4/06	GREYWOLF/ TIMBERWOLF
Lochsong, Ltd.	C	100.00	12.00	9/7/06	10/4/06	VANDERBILT
Lochsong, Ltd.	D	100.00	5.00	9/7/06	10/4/06	Fort Denison Funding (Basis)
Lochsong, Ltd.	D	100.00	5.00	9/7/06	10/4/06	Merrill Lynch (Basis CDO- Gateway)
Lochsong, Ltd.	D	100.00	14.00	9/7/06	10/4/06	RETAINED
Lochsong, Ltd.	E	100.00	4.50	9/7/06	10/4/06	MARINER SEC
Lochsong, Ltd.	F	100.00	12.00	9/7/06	10/4/06	Deutsche Bank (Wincap)
Lochsong, Ltd.	F	100.00	12.00	9/7/06	10/4/06	RETAINED
Lochsong, Ltd.	S	100.00	12.10	9/7/06	10/4/06	MBIA Capital
Lochsong, Ltd.	Senior Swap	0.18%	1032.00	10/4/06	10/4/06	Deutsche Bank AG, London Branch
Point Pleasant Funding 2007-1, Ltd.	A1	100.00	127.47	4/11/07	4/18/07	DILLON READ
Point Pleasant Funding 2007-1, Ltd.	A1	100.00	107.47	4/10/07	4/18/07	RETAINED
Point Pleasant Funding 2007-1, Ltd.	A1	90.70	20.00	8/19/07	8/26/07	TOKYO STAR
Point Pleasant Funding 2007-1, Ltd.	A2	100.00	85.00	4/11/07	4/18/07	DILLON READ
Point Pleasant Funding 2007-1, Ltd.	A2	25.00	1.00	8/21/07	8/24/07	IBTS FINANC
Point Pleasant Funding 2007-1, Ltd.	A2	27.50	1.00	9/20/07	9/27/07	IBTS FINANC
Point Pleasant Funding 2007-1, Ltd.	A2	20.00	0.50	10/29/07	11/5/07	IBTS FINANC
Point Pleasant Funding 2007-1, Ltd.	A2	91.30	20.00	4/24/07	4/27/07	MONEYGRAM
Point Pleasant Funding 2007-1, Ltd.	A2	91.00	40.00	5/24/07	5/24/07	PARAMAX CAPITAL
Point Pleasant Funding 2007-1, Ltd.	A2	100.00	32.50	4/10/07	4/18/07	RETAINED
Point Pleasant Funding 2007-1, Ltd.	B	100.00	50.00	4/11/07	4/18/07	DILLON READ
Point Pleasant Funding 2007-1, Ltd.	B	100.00	50.00	4/10/07	4/18/07	RETAINED
Point Pleasant Funding 2007-1, Ltd.	C	100.00	14.00	4/11/07	4/18/07	DILLON READ
Point Pleasant Funding 2007-1, Ltd.	C	87.57	7.80	4/10/07	4/18/07	PLENUM ASSET
Point Pleasant Funding 2007-1, Ltd.	C	20.00	2.00	7/23/07	7/26/07	PLENUM ASSET
Point Pleasant Funding 2007-1, Ltd.	C	100.00	4.20	4/10/07	4/18/07	RETAINED
Point Pleasant Funding 2007-1, Ltd.	D	81.72	15.00	4/19/07	4/24/07	Basis Capital
Point Pleasant Funding 2007-1, Ltd.	D	100.00	16.00	4/11/07	4/18/07	DILLON READ
Point Pleasant Funding 2007-1, Ltd.	D	88.39	11.00	4/10/07	4/18/07	MARINER BRIDGE
Point Pleasant Funding 2007-1, Ltd.	Income Notes	100.00	10.09	4/11/07	4/18/07	DILLON READ
Point Pleasant Funding 2007-1, Ltd.	Income Notes	100.00	10.09	4/11/07	4/18/07	RETAINED
Point Pleasant Funding 2007-1, Ltd.	S	100.00	6.00	4/10/07	4/18/07	RETAINED
Point Pleasant Funding 2007-1, Ltd.	Sr. Swap	0.20%	403.40	4/18/07	4/18/07	NATIXIS
Timberwolf I, Ltd.	A1A	99.45	50.00	3/13/07	3/27/07	MBIA CAPITAL
Timberwolf I, Ltd.	A1A	99.47	50.00	5/2/07	5/7/07	RABOBANK
Timberwolf I, Ltd.	A1B	100.00	200.00	3/13/07	3/27/07	BEAR STEARNS Asset Management
Timberwolf I, Ltd.	A1C	99.71	100.00	3/13/07	3/27/07	BEAR STEARNS Asset Management
Timberwolf I, Ltd.	A1D	100.00	99.70	3/13/07	3/27/07	BEAR STEARNS Asset Management
Timberwolf I, Ltd.	A2	84.00	20.00	6/11/07	6/14/07	CARLYLE
Timberwolf I, Ltd.	A2	84.50	56.00	6/11/07	6/14/07	HUNGKUK LIFE
Timberwolf I, Ltd.	A2	87.79	20.00	4/23/07	4/26/07	MONEYGRAM
Timberwolf I, Ltd.	A2	87.00	40.00	5/24/07	5/24/07	PARAMAX CAPITAL
Timberwolf I, Ltd.	A2	100.00	149.00	3/13/07	3/27/07	RETAINED
Timberwolf I, Ltd.	A2	83.90	20.00	5/30/07	6/4/07	TOKYO STAR
Timberwolf I, Ltd.	B	78.25	6.80	7/5/07	7/12/07	BANK HAPOAL
Timberwolf I, Ltd.	B	78.25	1.70	7/11/07	7/12/07	BANK HAPOAL
Timberwolf I, Ltd.	B	100.00	98.50	3/13/07	3/27/07	RETAINED
Timberwolf I, Ltd.	C	95.15	20.00	4/4/07	4/11/07	GREYWOLF CAPITAL
Timberwolf I, Ltd.	C	72.50	16.00	3/28/07	4/2/07	POLYGON INV
Timberwolf I, Ltd.	D	92.41	30.00	3/13/07	3/27/07	GREYWOLF CAPITAL
Timberwolf I, Ltd.	Income Notes	100.00	11.25	3/13/07	3/27/07	GREYWOLF CAPITAL
Timberwolf I, Ltd.	Income Notes	70.00	10.75	5/24/07	5/30/07	GREYWOLF CAPITAL
Timberwolf I, Ltd.	S1	100.00	9.00	3/22/07	3/27/07	RETAINED
Timberwolf I, Ltd.	S2	100.00	8.30	3/22/07	3/27/07	RETAINED
West Coast Funding I, Ltd.	A1A	100.00	1187.95	7/25/06	7/26/06	GS Funding Group / AIG Credit Protection Provider
West Coast Funding I, Ltd.	A1B	100.00	1187.95	7/25/06	7/26/06	Rabobank / AIG Credit Protection Provider
West Coast Funding I, Ltd.	A1V	100.00	0.10	7/25/06	7/26/06	GS Funding Group / AIG Credit Protection Provider
West Coast Funding I, Ltd.	A2	100.00	81.00	6/30/06	7/26/06	Stanfield
West Coast Funding I, Ltd.	A3	100.00	30.00	6/30/06	7/26/06	Paramax
West Coast Funding I, Ltd.	A3	100.00	16.00	2/2/07	2/9/07	Deutsche Postbank
West Coast Funding I, Ltd.	A3	100.00	10.00	7/3/06	7/26/06	Landesbank - LRI
West Coast Funding I, Ltd.	A3	100.00	25.00	6/30/06	7/26/06	CNCE
West Coast Funding I, Ltd.	B	100.00	19.60	2/2/07	2/9/07	Deutsche Postbank
West Coast Funding I, Ltd.	B	100.00	2.00	6/30/06	7/26/06	Moneygram
West Coast Funding I, Ltd.	B	100.00	7.00	6/30/06	7/26/06	Vanderbilt
West Coast Funding I, Ltd.	B	100.00	10.00	1/19/07	1/24/07	Koch Global
West Coast Funding I, Ltd.	C	100.00	10.00	6/30/06	7/26/06	Hudson High Grade
West Coast Funding I, Ltd.	C	100.00	22.75	6/30/06	7/26/06	UBS Principal Investments
West Coast Funding I, Ltd.	C	100.00	4.00	6/30/06	7/26/06	Moneygram
West Coast Funding I, Ltd.	C	100.00	7.00	6/30/06	7/26/06	Vanderbilt
West Coast Funding I, Ltd.	C	100.00	7.00	6/30/06	7/26/06	Elger Capital
West Coast Funding I, Ltd.	C	100.00	5.00	6/30/06	7/26/06	E Sun Bank
West Coast Funding I, Ltd.	C	100.00	5.00	6/30/06	7/26/06	RETAINED
West Coast Funding I, Ltd.	Combo	100.00	10.00	7/3/06	7/26/06	Cathay United
West Coast Funding I, Ltd.	D	100.00	6.25	6/30/06	7/26/06	Sandelman Partners
West Coast Funding I, Ltd.	D	100.00	10.00	6/30/06	7/26/06	OCBC
West Coast Funding I, Ltd.	D	100.00	5.00	7/3/06	7/26/06	Merrill Lynch - Basis CDO
West Coast Funding I, Ltd.	D	100.00	3.00	7/3/06	7/26/06	Grand Cathay Securities
West Coast Funding I, Ltd.	D	100.00	4.90	8/18/06	8/22/06	Fort Denison CDO
West Coast Funding I, Ltd.	E	100.00	0.50	6/30/06	7/26/06	TCW
West Coast Funding I, Ltd.	E	100.00	0.50	6/30/06	7/26/06	TCW
West Coast Funding I, Ltd.	E	100.00	8.00	6/30/06	7/26/06	Basis Capital
West Coast Funding I, Ltd.	E	100.00	4.50	6/30/06	7/26/06	RETAINED

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TRADE DETAILS:

Deal	Class	Price	Orig Face (mm)	Trade Date	Settle Date	Risk Taker/ Customer
ABAC06-11 NR	A-1	CDS- 54bps	-41.25	9/18/07	9/26/06	MAGNETAR CNS MF LTD
ABAC06-11 NR	A-2	CDS- 62bps	-22.97	9/18/07	9/26/06	MAGNETAR CNS MF LTD
ABAC06-11 NR	B	CDS- 120bps	-10.63	9/26/06	9/26/06	MAGNETAR CNS MF LTD
ABAC06-11 NR	C	CDS- 230bps	-6.25	9/26/06	9/26/06	MAGNETAR CNS MF LTD
ABAC06-11 NR	D	CDS- 405bps	-5.94	9/26/06	9/26/06	MAGNETAR CNS MF LTD
ABAC06-11 NR	A-1	CDS- 54bps	-41.25	9/18/07	9/26/06	DEUTSCHE AG LONDON
ABAC06-11 NR	A-2	CDS- 62bps	-22.97	9/18/07	9/26/06	DEUTSCHE AG LONDON
ABAC06-11 NR	B	CDS- 120bps	-10.63	9/26/06	9/26/06	DEUTSCHE AG LONDON
ABAC06-11 NR	C	CDS- 230bps	-6.25	9/26/06	9/26/06	DEUTSCHE AG LONDON
ABAC06-11 NR	D	CDS- 405bps	-5.94	9/26/06	9/26/06	DEUTSCHE AG LONDON
ABAC06-14 NR	A-2	CDS- 70bps	-36.68	10/10/06	10/13/06	MAGNETAR CNS MF LTD
ABAC06-14 NR	B	CDS- 105bps	-36.68	10/10/06	10/13/06	MAGNETAR CNS MF LTD
ABAC06-14 NR	C	CDS- 200bps	-25.16	10/13/06	10/13/06	MAGNETAR CNS MF LTD
ABAC06-14 NR	D	CDS- 400bps	-15.72	10/13/06	10/13/06	MAGNETAR CNS MF LTD
ABAC06-15 V2	SS	CDS- 22bps	315.00	11/17/06	11/17/06	CIBC - London
ABAC06-HGS2	SS	CDS- 27bps	450.00	11/3/07	11/3/06	CIBC - London
ABAC06-INDX2	SS	CDS- 22bps	-660.00	9/27/06	10/4/06	PAULSON CRED OPP MST
ABAC06-INDX2	SS	CDS- 21.5bps	660.00	10/2/06	10/3/06	CIBC - London (GSI, London, Canadian Imperial Bank ofCommerce - London)
ABAC07-AC1	A1	CDS- 116bps	-50.00	4/10/07	4/26/07	PAULSON CRED OPP MST
ABAC07-AC1	A2	CDS- 141bps	-142.00	5/31/07	4/26/07	PAULSON CRED OPP MST
ABAC07-AC1	SS	CDS- 85bps	-1000.00	5/31/07	5/31/07	PAULSON CRED OPP MST
ABAC07-AC1 v2	SS	CDS- 67bps	909.09	5/31/07	5/31/07	ABN LDN
ABACUS06-8 FL	F	CDS- 2050bps	4.50	2/7/06	2/16/06	QVT FUND, LP
ABACUS06-8 FL	F	CDS- 2050bps	0.46	7/2/07	2/16/06	QUINTESSENCE FUND LP
ABACUS06-8 SS	SS	CDS- 29bps	199.64	11/17/06	11/28/06	Morgan Stanley- Prop

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From: Sparks, Daniel L
Sent: Tuesday, October 17, 2006 10:48 PM
To: Montag, Tom
Subject: Re: 3 things

Stacy and tom c co-ran it (stacy more irp and tom more struct prod) - there was some tension between the 2. When tom was moved there was some concern as stacy had not been involved in the past. She has really done well.

Josh should be the one on the bubble for us and he has had a rough couple as months. But he has handled it very well and is a key person for our franchise. I don't think those 2 months should confuse his value to the firm. He will make us a bunch of money. I may be able to manage through it if he does not make it, but he is so focused on it, he is well known to hedge funds and competitors, and I'd rather not take the risk.

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Tue Oct 17 22:28:05 2006
Subject: Re: 3 things

Thanks

Yours is a critical business for the future and we want the top guys engaged and satisfued so let's make sure we do that. Thought some room in there so let's see what u can do. Who had jovb before stacy and what is she up to

Josh slipped a bit with the abx position etc. Is that inappropriate

Tom

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Sherwood, Michael S
Sent: Wed Oct 18 10:09:48 2006
Subject: 3 things

1. Comp today - I understand that the department increase is not consitent with that of other departments in relation to revenue growth. I also got the point that we were probably increasing some of our mid-level people by more than necessary and I'm adjusting that. The things I am struggling with are that the structured products business is growing and up a fair amount (should be mid-20s), and that when we went through our more senior people, there seemed to be general agreement that the numbers were appropriate. However, when we knock $X million off, that group will be the ones to absorb most of the burden. We'll do our best with your guidance.

2. Josh for EMD - he is an extraordinary commercial talent and a key franchise driver. Josh has reported to me for just this year, but I have been very impressed with his maturity, teamwork and leadership - the areas of question in the past. He is a great trading talent, product innovator and he is driving our US property derivatives. I thought he cross-ruffed around 41, and I know there are other considerations. But he is a guy worth considering adding another spot for.

3. Stacy - she has recently taken over managing the sales group for structured products and I just wanted you to know that she is doing a very good job.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1553

Confidential Treatment Requested by Goldm

From: Ruzika, Richard
Sent: Monday, February 05, 2007 12:00 PM
To: Cohn, Gary
Subject: RE: Are you living Morgatages?

Yes -- keep in mind it is just two months -- You asked me to be patient until Jon was moved to the bank before stepping in. In some respects this is trickier than if we were just beginning to build the business from scratch. The business is unfortunately being overshadowed by our ABX position and our sub prime exposure, so it feels bad right now. You know and I know this position was allowed to get too big - for the liquidity in the market, our infrastructure, and the ability of our traders. That statement would be the same even if we had gotten the market direction correct -- although the vultures wouldn't be circling. You also know that we probably would have gotten the position correct had I been involved a year ago -- I probably would have gotten short to protect our warehouse and general hedge against the business given our outlook in the space. None of that matters now --we are where we are so I am sure you only care about what am I doing to get the business contained and then in position to grow.

In a nutshell:

First and foremost I am supporting Dan and his guys. There is a long way to go with all of them, they aren't and weren't equipped to handle the market. I am going to get them there or upgrade them -- we are going to hire to help Dan.

We are building out a risk platform -- Margaret Holen was my strat -- now she will be moved to fill Jay Dweck leaving. Weinstein will come over but there will be an obvious transition period.

I have a working model of the risk program which we are using for our sub prime risk -- the first that they've had.

I am moving CLOs to Credit.

Senderra -- Brad Bradley -- we will build out our origination platform with this group and will do so as prices continue to fall.

I could have answered your question with a simple Yes -- there's more to list but you get the picture... I also am leveraging Tom and his experience in this space. Sat with him Friday night to take him through the platform and game plan. -- I don't want to be short -- I want to neutralize the risk and shed our basis risk.

From: Cohn, Gary (EO 85B30)
Sent: Monday, February 05, 2007 8:22 AM
To: Ruzika, Richard
Subject: Are you living Morgatages?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1553

Confidential Treatment Requested by Goldman

From: Montag, Tom
Sent: Thursday, December 07, 2006 10:10 PM
To: Viniar, David
Subject: RE:

x-gs-classification: Internal-GS

on with sparks now--makes me mad because they should have kept doing it ugh

---

From: Viniar, David
Sent: Thursday, December 07, 2006 9:42 PM
To: Montag, Tom
Subject: RE:

I agree. Sparks is now doing a good job of communicating on position.

From: Montag, Tom
Sent: Thursday, December 07, 2006 9:30 PM
To: Viniar, David
Subject:

on ABX having numerous conversations--i dont think we should panic out but we certainly didnt do good job of keeping pressure on
anything you want or need

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1555

Confidential Treatment Requested by Goldm

From: Montag, Tom
Sent: Thursday, August 23, 2007 3:53 PM
To: Sparks, Daniel L
Subject: RE: Current Outstanding Notional in SN ames

so if I make you sell a whopping 800 out of 3 billion which is less than 30% how can anyone complain--the position is huge and outsized

---

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:51 PM
To: Montag, Tom
Subject: RE: Current Outstanding Notional in SN ames

That's why we say we are short (long protection) about $3BB single names - the correlation is very high

---

From: Montag, Tom
Sent: Thursday, August 23, 2007 3:45 PM
To: Sparks, Daniel L
Subject: RE: Current Outstanding Notional in SN ames

if you take the 13 out of each side its
11.8 by 8.8 which is 3 billion long
what does the 11.8 in theory hedge or part of it that net leaves us in reality short

---

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:42 PM
To: Montag, Tom
Subject: RE: Current Outstanding Notional in SN ames

Meaning the IO we spoke about - exact cusip long and short, but at different running premiums that creates IO

From: Montag, Tom
Sent: Thursday, August 23, 2007 3:39 PM
To: Sparks, Daniel L
Subject: RE: Current Outstanding Notional in SN ames

what does explicitly mean? 13bb by 13bb offset--what does that mean

---

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:37 PM
To: Montag, Tom; Mullen, Donald
Cc: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: RE: Current Outstanding Notional in SN ames

All synthetics
Positions are in terms of protection (so negative means long risk, positive means short risk)
13BB by 13BB explicitly offset (Josh mentioned in out meeting)
Rest are comparable, but try to buy protection on worse deals vs writing protection on better deals

---

From: Montag, Tom
Sent: Thursday, August 23, 2007 3:29 PM
To: Sparks, Daniel L; Mullen, Donald
Cc: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: RE: Current Outstanding Notional in SN ames

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1559

Confidential Treatment Requested by Goldmai

what are the longs? are these comparable? are these all synthetics ?

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:19 PM
To: Mullen, Donald; Montag, Tom
Cc: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: FW: Current Outstanding Notional in SN ames

Per your earlier question about absolute longs and shorts in single names:

	Notional Long	Notional Short	# of cusips
A	3,686,600,000	-2,337,750,000	385
BBB	10,419,693,103	-8,753,543,403	703
BBB-	10,767,733,239	-8,877,635,250	638

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From: Silva, Ralph
Sent: Tuesday, November 13, 2007 7:30 PM
To: Broderick, Craig; Smith, Sarah; Beshel, Liz; Berry, Robert; Lee, Brian-J (FI Controllers); Holloway, Mark W
Cc: Josselyn, Kenneth
Subject: Trilateral Commission Document

Attachments: Tri-Lateral Combined Comments 11 13 2007.doc

I am attaching bullet points for tomorrow's meeting, incorporating comments from each of you. I won't attempt to collect additional input or distribute additional drafts. If you'd like to amend your points, please do so in the document and carry your own copy to tomorrow's meeting. Please note below the remaining holes in our script, together with my suggestions on addressing them.

Page 3, A. 2., the second bullet - Brian, please note we've assigned this one to you, with bullets provided by Sarah

Page 8, #6, second bullet(How will your business strategy or model change as a result of this experience or because of other business concerns you see going forward?) - we have no answer in the script, but could Sarah or Craig reiterate that we won't be making big changes?

P. 17 - 18 D1-5 - Craig, you'll be covering all credit questions except as noted

P. 20 - #2, bullets 2-3 - ABCP backstops, and capital & earnings volatility - Liz, for continuity, are you comfortable taking these 2?

P. 21, # 5 - re: granularity of risk - Craig & Robert, can you comment on this one?

P. 21, #6 - accounting and disclosures - Sarah and Brian to comment.

Tri-Lateral
ombined Comments

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1560

Confidential Treatment Requested by Goldman

General Questions for Firms

This note outlines a preliminary exploration of the strengths and weaknesses of financial institution risk management practices revealed by the recent market turmoil. It is too early to draw definitive conclusions about banks' and investment banks' risk management practices, as the sufficiency of their liquidity and capital buffers can be judged only after the current episode has run its course. Nonetheless, it is not too soon for firms and supervisors to begin thinking about issues that may warrant exploration in the coming months. The broad questions we wish to address can be framed as the following:

1. **In senior management's opinion, what worked well, what did not work well in terms of the firm's overall risk management during the recent period?**

2. **What changes are firms making to their processes or practices as a result?**

3. **How well did stress tests and limits perform as measures and mitigators of risk, respectively? Did internal processes estimate the nature and scale of any losses appropriately?**

4. **How effective were internal reporting mechanisms in identifying and highlighting key drivers of risk and losses?**

5. **How effective were hedging strategies in responding to rapidly changing conditions? To what extent did the firm's planning contemplate both the scale and speed at which liquidity conditions deteriorated?**

6. **How effective were firms in identifying both direct and indirect exposures (whether or not involving contractual obligations) to other sources of risk and potential concentrations of risk, including exposures to structured investment vehicles, alternative investments, or mutual funds, among others?**

The discussions with firms will cover five areas of interest:

A. **Senior Management Oversight**
B. **Liquidity Risk Management**
C. **Market Risk Management**
D. **Credit Risk Management**
E. **Economic and Regulatory Capital and Related Issues**

While the questions below are organized by risk category for practical reasons, supervisors expect firms to manage risks in an integrated manner across businesses and risk dimensions. As such, we intend to form observations about risk management practices, including the quality of stress testing and scenario analysis, on a corporate-wide basis. The supervisors will share among the participating Agencies their understanding of firms' risk managing practices. Each of the Agencies will be reminded that information shared during these discussions will be treated as confidential supervisory information.

Introductory Comments – SARAH/CRAIG

1 On balance, GS' risk management policies and procedures have worked well throughout the year, and, in particular, over the past several months: **a** we had more than adequate funding, **b** our risk models served as effective means of identifying and quantifying exposures and **c** our price verification procedures helped us identify issues early so we could act accordingly.

2 The recent turbulent markets have caused us to re-think some of our methods for quantifying exposures – however, none of the changes represents a material deviation from current practice. Today we'll discuss some of those changes.

3 We first observed disturbing trends in the performance of sub prime debt in late December, early January and began marking down positions at that time. As a result, we became concerned about our long exposure and acted quickly in a number of ways, including putting hedges in place. We followed these trends closely and continued to mark down sub prime positions throughout 2007. As it turned out this time period represented a narrow window of opportunity to create effective hedges and as a result we were able to maintain a short throughout the year.

4 The press and others have discussed an anticipated Q4 write-down for GS. Our remaining long sub prime exposure totals $695 million, inclusive of whole loans and CDO positions. However, we're net short – as we have been throughout 2007. Accordingly, we have nothing to write down.

5 We supplemented our risk reporting packages as necessary and discussed our mortgage book at every Risk Committee meeting throughout the year. We've made several presentations to the Board regarding mortgage exposures and will make another tomorrow.

6 In summary, the process by which we mark all our positions to market on a daily basis – and the process for an independent verification of those prices – are quite simply the key to our risk management processes.

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A. Senior Management Oversight

1. Risk Appetite

- Did the effects of recent market turbulence on your key measures of risk and performance (e.g., profit/loss, firm-wide liquidity levels, capital buffers, etc.) fall within the Board's and senior management's stated policies for risk? Please describe any material differences with previously existing policy, limits, etc.

CBroderick
- with some exceptions, general answer is that we did not end up with positions that were greater than our mgmt / board thought appropriate
- in risk terms, we managed positions very actively such that we took down multiple positions as they got larger;
- not to say we didn't have limit excesses (Robert to discuss, also CSW); but sr mgmt participated actively in all of the significant exposure management including decisions on when / how to reduce positions, and in the case of lending the actual approval of transactions

LBeshel
Yes, they did. With respect to Treasury:
- GCE remained above MLO and above our GCE target of $55-60bn. MLO assumptions broadly held up. We were able to raise liquidity through efficiency projects rather than drain the GCE
- Cash capital ratio generally remained above 1.0x. It dipped below in September, but we issued $10bn of LTD in October to bring it back up
- CSE Tier 1 capital ratio remained at or above our minimum targeted level
- Quarter-end EDL ratios were at or below maximum target levels
- Share repurchases were adjusted to maintain target equity capital ratios

RBerry
To discuss history of VaR and CSW

2. Communication with Board/Senior Executives

- At what point were senior executives or the Board of Directors made aware of specifics surrounding the impact that the market disruption may have on the firm's business? What led to the decision to communicate the relevant issues to Directors or senior executives?

RBerry
There is constant communication from the revenue side and the control side of the firm with the 30th floor. In addition David/Jerry co-chair FWRC and Lloyd/Gary regularly attend.

CBroderick
- Sept '06 Risk presentation (including special topics on Leveraged Finance, Derivatives Prime Brokerage and Systemic Risk
- March '07Subprime Mortgage Business presentation
- Sept '07 Residential Mortgage presentation

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- What special sessions, if any, were held with the Board of Directors/senior executives, or what reports were shared, to ensure that they understood the specifics related to valuation issues, conduits, structured investment vehicles, leveraged lending, etc.?

BLee
- Quarterly PV presentations to the Board
- Weekly Risk Committee Meetings, attended by DViniar and GCohn, and often LBlankfein
- Recent meetings with Lloyd & Gary re: pricing

- What role, if any, did the Board/senior executives play in re-assessing the firm's risk appetite and strategy?

RBerry
Limits are set by FWRC. Decisions regarding e.g. short positions in mortgages taken by business units but with full knowledge of the 30th floor.

C Broderick
FWCC approves each significant financing transaction

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3. Senior management reporting and analysis

- Did senior management reporting systems provide accurate and timely insight into material changes in the firm's risk profile? What *ad hoc* reporting, if any, was prepared to supplement standard reporting packages?

RBerry
Key risk measures are computed on a daily basis – including day-on-day and other time comparisons - and communicated to most senior management. Measures are themselves highly responsive (volatilities and correlations are re-estimated weekly, credit risk is linked to traded spreads).

Changes are often made to the risk packages in response to senior management/FWRC interest as businesses and markets change (e.g. breakout of Acquisition Commitments from Mortgages, addition of Insurance as a Industry risk in JTD report, breakout of Index vs. Stock in Equity Topsheet, refined Loan Commitment pages).

Ad hoc analysis is done on a daily basis generally in response to business unit managers – examples during this period included more granular breakout of CSW by credit quality, marginal contributions to VaR and hedge analysis in Mortgages, credit and Equities.

MRMA produces a Quarterly Risk Review where a conscious effort is made to include new and topical analysis alongside mile-stoned changes in standard measures.

The 2007 Q3 report included breakout of changes in VaR due to position changes and due to market changes (Static VaR), examination of change in convexity position of Equities Division (Top Sheet), update of basis risk in Mortgages (CSW) and curve positions in Credit, concentration in Financials/Energy in Emerging Markets, and Maya position in Commodities.

- How timely was senior management made aware of the implications of the rapidly changing market environment on the firm's own exposures? Was senior management accurately informed of the scale of exposures?

RBerry
Communication is constant.
Management participated in many of the important decisions

- At what point and how did senior management become aware of valuation uncertainties, if any? For example, did external or internal auditors raise issues regarding the valuation of certain positions? How did senior management reach decisions on valuations that affected results? What role did senior management play in overseeing the valuation process and ensuring that it was appropriate?

BLee
- Senior management heightened their focus on the mortgage department and its inventory during the first quarter of 2007 when the non investment grade ABX index began showing volatility as hedge funds began utilizing it to express bearish views on the US housing market. Concerns were further exacerbated by declines in home price appreciation and pricing pressure on subprime mortgages.

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- This focus resulted in periodic meetings with senior management including; the CFO, divisional risk heads, division heads, desk management and controllers.

- We use fair value to measure our financial instruments, which is fundamental to our risk management process and financial statements. It is essential for us to understand the value of what we hold so that we can manage the associated risk. Due to reduced liquidity, determining fair value is more challenging; however, we still look to the significant amount of available evidence and extrapolate as appropriate. If there is a question on price transparency, senior management may require traders to execute trades to substantiate their valuations. We also back test marks against actual trades to ensure accuracy.

4. Conflicts of interest

- Did the firewalls between the firm's operations with access to public versus private information lead to any challenges in gathering and interpreting information to understand market events or their implications for key customers or counterparties? If so, how were these addressed?

CBroderick

- Managing this is always a challenge; however these issues were fully addressable w/o non-public, counterpart-specific discussions
- Where firewalls really affected us were on our hedging decisions; this meant for example that we generally hedge bank loans via indicies, and derivatives via NCLs

5. Immediate responses

- Please describe the decisions that senior management undertook (and their timing) once it became aware of the significance of the market disruptions. Examples might include seeking specific analyses of the situation through customized stress tests, etc.; changing the firm's limits; altering management reporting or other MIS processes; altering management structure; etc.

LBeshel

- Raised long-term debt at beginning of year to stay ahead of growth in cash capital requirements. Also raised new unsecured debt during the strained period when possible
- As a general policy, we term out secured funding for less liquid assets in a *normal environment* to mitigate rollover risk in a crisis. As the market began to get more challenging, we termed out even more secured funding and raised new secured funding when possible
- Addressed a variety of internal funding efficiency issues to boost liquidity and create a report to track progress
- Created a new "days to zero" liquidity report
- Cut back share repurchases to preserve cash and capital in the early period of uncertainty
- Increased focus on maximizing distributions of excess capital from subsidiaries
- Partnered with businesses to come up with structured funding solutions for bank loans

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— Maintained a heightened dialogue with businesses to ensure that business selection decisions appropriately incorporated the scarcity of funding

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BLee
First quarter 2007:
Shut down residential mortgage warehouses
Increased protection for disaster scenarios via RMBS and CDO CDS
Increased long correlation position
Continued vigilant EPD identification and workout
Reduced loan positions through securitization and sale

Second quarter 2007:
Terminated CDO warehouses
Took significant mark to market losses on long mortgage and CDO positions
Further shorted synthetic CDOs and RMBS
Actively manage counterparties for disputed margin calls or payment failures

Third quarter 2007 through current:
Actively managed risk exposure to hedge funds
Begin covering of short mortgage positions
Opportunistically look to buy assets
Increased hedging of leveraged loan commitments
Focus on generating additional liquidity sources

RBerry
Heightened dialogue at all levels, and between revenue and control.
[Limit History]
Global Alpha onto firmwide systems?

CBroderick
- Heightened dialogue at all levels, and between revenue and control.
- Overall: tightened credit terms with counterparts including revised limits, strengthened stress tests; specific hedge fund close out scenario analysis conducted & reviewed at Risk Committee
- Increased focus on collateral calls and position marks
- Leveraged Finance: increased hedging, strengthened stress tests, revised credit approval terms; additional focus on distribution

- Were any changes made in management or senior staff during this period?

RBerry
The mortgage business was moved into the Credit World
Marc Spilker, Jon Sobel into GSAM

- Did you encounter any material operational challenges (e.g., back office processing, etc.) during this period that affected your ability to assess exposures, analyze, or manage exposures or your ability to complete increased trading or processing volumes? If so, how did you address those challenges?

RBerry
There was one day when SecDB coincidently broke down CRAIG to comment on collateral impact

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CBroderick

- Several situations where systems' capacities were stretched resulting in late processing / credit info / collateral calls
- But in each case the delays were short (within same day) and work-arounds for collateral were arranged (prioritized, manual calculations) so that we were not put at risk
- We are focusing now on significantly upgrading our system capacity to handle much larger trading volumes

- To what extent were your decisions motivated by concerns about reputation in the market place?

LBeshel

- Decided to scale back CP balances (flat Q/Q) given that Bear Stearns got credit for reducing its balances
- Decided to allow funding trades with conduits to roll off so as not to be perceived as causing any conduits to go under
- Decided not to participate in M-LEC (partly because we don't really see the benefit)
- Decided not to access the Fed discount window jointly with MS/MER to finance CP inventory
- Decided to invest in GEO?

RBerry

We continued to do client business? i.e., we preserved, not hoarded, liquidity and risk capital.

CBroderick

- Very focused on reputational issues; tried hard to be a good corporate citizen, maintaining financing and derivatives lines in the vast majority of cases; being scrupulous about our marks; keeping our regulators posted on issues

6. Lessons learned/changes as a result

- What changes have been, or will be, made in your risk management structure or processes as a result of this experience?

RBerry

It is too premature to make far-reaching changes (if any). Our risk management structure and processes generally performed well and as designed.
GSAM
MRMA above the wall?

CBroderick

- We constantly tweak our risk organization, processes and procedures and this will continue. We brought out a new alert system for troubled counterparts. We upgraded our reporting template. We will continue to make these changes, but in general things worked well and no radical changes are required

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- How will your business strategy or model change as a result of this experience or because of other business concerns you see going forward?

CBroderick

- No fundamental changes – we are generally ok with results
- We will be opportunistic as we always are, and may find selective investments attractive (eg the Litton mortgage servicing platform from CBass)
- Other changes may be imposed on us from the market, eg the asset backed CP market; or by a need to be prudent risk managers, eg reviewing our underwriting practices for monoline insurance cos

B. Liquidity Risk Management

1. Liquidity Planning/Stress Testing

- By what process does your institution assess the appropriate level of excess liquidity reserves to maintain? What are the key factors that drive these decisions?

LBeshel

— GCE target is decided by Global Treasurer with input from senior Treasury personnel, Funding Desk, and Finance Committee
— Factors that drive the decision include:
  - MLO model
  - Market color provided by Funding Desk
  - Known one-off funding gains/drains
  - Subjective assessment of condition of GS in relation to the crisis

- How effective were the types of scenarios employed in liquidity stress tests and contingency funding plans in helping you prepare for the recent financial market liquidity strains? Did the scenarios reflect the potential for general market disruptions as well as firm-specific scenarios?

LBeshel

— We manage to a general market disruption in which GS is specifically affected. Recent strains were not nearly as severe as what we manage to
— Treasury has participated in one-off scenario exercises, including a sub-prime meltdown, hedge fund failure, and pandemic outbreak
— Scenario planning can only take you so far. More important in a crisis is to have good communication lines both internally (Treasury, Funding Desk, businesses) and externally (creditors, rating agencies) and robust reporting.

- How appropriate were the assumptions incorporated into contingency funding plans and stress tests? How well did market events vis-à-vis off-balance sheet exposures, securitization, funding concentrations, cross-currency exposures, and general market liquidity correlate with those assumptions?

LBeshel

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Our scenario planning incorporates more severe stresses than we experienced.

Events that were as or less severe than our assumptions:
— Some loss of secured funding, but in line with expectations
— Difficulty rolling unsecured funding, although LOC usage actually increased
— No material derivatives collateral outflows (MTM or downgrade)
— No increased requirements at exchanges and clearinghouses
— No material withdrawals of free credits in GSI

Events that were more severe than our assumptions:
— Conduit funding less robust than anticipated
— Credit origination commitments posed greater liquidity risk than planned for (we had focused on one month, but crisis lasted longer)
— Possibility of having to provide liquidity support to GSAM funds
— Collateral disputes with derivative counterparts greater than anticipated

- How well did your quantitative measures and limits on its liquidity perform during this period? What impact, positively or negatively, did any limits mandated by regulations have on your actions during this period? What changes, if any, will the firm make to its efforts to measure its overall levels of liquidity?

LBeshel
— Measures performed well. GCE remained above MLO, and cash capital ratio remained above 1.0x
— Not aware of any regulatory mandates that affected the firm's actions
— No plans to change how we *measure* liquidity (i.e. definition of GCE or cash capital), but do plan to reassess certain liquidity *risks* as noted below

2. Securitization and Syndicated Financing

- How are the risks of timing mismatches between the origination of assets and the subsequent packaging and sale of assets considered in contingency funding plans?

LBeshel
— We do not rely on securitization to manage through a liquidity crisis. We assess liquidity assuming we maintain our current inventory levels
— Our liquidity planning incorporates severe draws by clients on warehouse lines we have provided

- Does your liquidity analysis process capture and report the level of committed pipeline credit?

LBeshel
— Yes.
— However, we will likely reassess liquidity risk of credit origination commitments in light of our recent experience, as noted below

3. Support for Conduits/SIVs/SPEs

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- In what ways did your liquidity risk management reflect the possibility of supporting sponsored investment funds and/or securitization programs, including those that you had no contractual obligation to support?

  LBeshel
  — Not applicable

- *A priori*, how well-developed and comprehensive were your ongoing risk measurement and monitoring of these entities?

  LBeshel
  — Not applicable

4. Support for other vehicles such as money market funds

- In what ways did your liquidity risk management reflect the possibility of supporting other vehicles such as money market funds? What support, if any, did the firm actually provide?

  LBeshel
  — Large investment in GEO was an attractive opportunity, not a bail-out
  — We monitored GSAM money market fund but did not need to provide support
  — Liquidity planning did not incorporate the possibility of providing support to GSAM money market fund, but have since added a $2.5bn buffer for this risk in the MLO model

5. Pricing of Liquidity Commitments

- What factors were considered in the pricing of contingent liquidity facilities? With the benefit of hindsight, was such pricing appropriate?

  LBeshel
  — We have traditionally not charged businesses for GCE, in order to keep the cost – and therefore the control – at management level. We are moving toward charging businesses for the portion of MLO that is pre-funding specifically attributable to a business activity.
  — Except for WS commitments, we currently do not charge for pre-funding for lending commitments. We recognize this is inappropriate and plan to change it in the near future
  — We do control the size of liquidity commitments through our risk management infrastructure(Capital Committee, etc.)

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6. Legal Entities

- To what extent were liquidity risk considerations factored into decisions on the booking of business in a particular legal entity, vs. such other considerations as tax, accounting, or regulatory differences? Were restrictions of the full transfer of liquidity capabilities across various parts of the organization appropriately considered?

  LBeshel
  - Liquidity risk typically not the driver of deciding where to conduct business. Tax, regulatory, or operational issues are more commonly the driver
  - In whatever entity we conduct business, we put in place a liquidity risk management strategy (MLO models for broker-dealer entities, funding plans in BRICK countries, etc.)
    - We monitor amount of GCE held in GSI and GSJCL above their stand-alone requirements
    - We consider trapped cash capital in our cash capital planning

- What was the impact of actions taken by affiliates on regulated entities?

  LBeshel
  - Certain efficiency projects were designed to untrap liquidity in regulated entities (GSI client money deposit to GSoHG, repayment of GSI accrued sub-debt interest)

7. Risk Measurement and Limits

- Did internal liquidity metrics, limits, and monitoring systems provide "early warning" that the availability of market liquidity was materially changing from historic norms?

  LBeshel
  - Because our funding book has long duration, our experience in this crisis was that we did not immediately see the impact on our funding, but instead saw the impact by watching others' experience in the markets and press.
  - Do not have specific limits or monitoring to identify when market liquidity is drying up – we carefully watch trends and activity in the markets broadly (look for appetite for collateral types, pricing changes, maturity changes, etc.)
  - Primary means of identification is communication between Treasury and the Funding Desk, external funding counterparties and GS senior sales/trading and control personnel, Committee meetings, and the CFO's view

- During the period of stress, did you capture and aggregate exposures with sufficient granularity (i.e., risk factor, product type, counterparty type) for liquidity risk management purposes?

  LBeshel
  - Yes, we break down the causes of contingent liquidity outflows (unsecured funding rollover, secured funding rollover, buyback risk, derivative outflows, etc.)

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- Was the MIS provided to senior management sufficient and comprehensive?

LBeshel

Yes. Reporting provided to senior management included:

— Funding Snapshot
— Liquidity Dashboard
— Finance Committee packet
— Weekly funding summary

8. Management of Liquidity Events

- How were contingency funding plans and stress tests utilized during market events?

LBeshel

— Recent market events were not so severe as to require putting in motion the Liquidity Crisis Plan
— However we did consult our plan as we created a menu of various alternatives to generate liquidity outside of the funding markets.

- Was there an effective communication infrastructure to measure, monitor and control your liquidity positions (for all material legal entities, jurisdictions, foreign branches and subsidiaries)?

LBeshel

Yes.

— Frequent calls between Global Treasurer, senior Treasury personnel, Funding Desk
— Effective use of email distributions for sharing of information, such as steps being taken to boost liquidity, credit origination pipeline, etc.
— Robust liquidity reporting

- Did senior management intercede to allocate/ration liquidity?

LBeshel

Yes.

— Maintained heightened dialogue with businesses to ensure that business selection decisions appropriately incorporated the scarcity of funding
— Capital Committee vigilant about approving new commitments

9. Lessons Learned

- Do you plan to make changes to liquidity risk management or contingency funding plans as a result of the recent market turmoil?

LBeshel

Yes, we plan to:

— Continue to fortify our already-strong funding position by funding wherever/whenever possible, paying up for term and continuing to diversify our distribution, particularly for lower-grade collateral
— Reassess liquidity risk of credit origination commitments and other contractual commitments
— Incorporate possibility of providing liquidity support to GSAM funds in our planning (have already added $2.5bn as a buffer)

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- What are the implications of recent events on the future composition of your pools of liquidity resources?

LBeshel
No impact.
— GCE will continue to be composed of securities of the highest quality.
— Will continue to not use committed credit facilities as a source of backup liquidity

C. Market Risk Management

1. Value-at-risk

- What was the incidence of VaR and limit breaches during this period? What was done to bring exposures under limits and was it effective?

RBerry
[Get history]
Exposures were managed responsibly by the business units within agreed limits.

Highs were set in Mortgages, Credit Products, Credit Origination, EPG and GSP. Benign P&L allowed for a disciplined but measured response.

Shorts in Mortgages and Credit Products tended to hedge long market exposure in Credit Origination and Equities. As a result "diversification" reach a high of 63%.

- Did valuation issues impact VaR calculations?

RBerry
To the extent that mark downs reduce positions size (which reduces risk) and conversely to the extent that wider spreads provoke higher volatilities, valuation impacts VaR in our models.

- Have you made any changes to your risk management program/VaR models as a result of these back-test exceptions?

RBerry
No specific changes.
- Our models already are highly reactive to changes in volatility – we use a 20%/month decay.
- We examine all backtesting exceptions at the 95% and 99% 1-day level for "red flags" – P&L driven by missing positions or risk factors – none apparent.
- There was considerable work done around mortgages to validate distributional assumptions as prices plunged – in general return volatility remained proportionality to spreads.
- Certain assets were re-mapped as data became available [e.g. as we shorted single-name A Mortgage CDS we did not have time series history; instead these were initially mapped to ABX BBB index scaled by spread – this is ongoing and routine]

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- How significant would the difference be between VaR measured using the benign historical period vs. the data we have now?

  RBerry
  If we apply Q2 volatilities/correlations to Q3 positions, period end Firmwide VaR would have been 95 vs. 131 (38% higher); Interest Rate Category VaR would have been 55 vs. 109 (98%); Equity Category 66 vs. 102 (54%); Mortgage business 40 vs. 75 (87%); Credit Products 26 vs. 77 (196%).

  As an anecdote, the 2006 Y/E Mortgage business VaR was 14mm and the ABX BBB was 189bp. As at end of August the ABX was 3156bp and the VaR of the 11/24 positions would have been 531mm.

2. Scenario analysis/Stress tests

- Were your scenario analyses and stress tests adequate for assessing risk exposure during the recent period?

  RBerry
  Yes
  - in particular CSW very granular by business e.g. SPG vs. cash, RMBS vs. CMBS

- How well did business line and corporate-wide stress tests identify the impact of recent market events?

  RBerry
  It is impossible to predict exact moves
  - and not everything moves together (for example CMBS to date and Emerging markets), but the exposures are listed and broken out in sufficient granularity to identify impacts.

- What lessons have you learned from recent events about your stress testing techniques?

  RBerry
  We already prefer single asset stress tests that do not depend on correlation assumptions between markets. We make no assumptions about liquidity. We breakout impacts to a granular level (we don't rely on a single number – or for that matter a single tool).

  We will further drill down on Basis risk e.g. Country, Industry, Cash, Derivative, Index.

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3. Risk reporting and aggregation

- During the period of stress, was the MIS provided to senior management sufficient?

  RBerry
  Yes

- Did you capture and aggregate exposures with sufficient granularity (i.e., risk factor, product type, counterparty type) for market risk management purposes?

  RBerry
  Yes

4. Valuation practices

- What mechanisms did the firm have to assess whether valuation methodologies were accurate/appropriate reflections of market valuations and to identify when, if at all, a breakdown in accuracy was likely to occur?

  BLee

- Within Controllers, a dedicated group performs an independent price verification of the mortgage inventory. The team has extensive experience in the valuation of mortgage related products.
- The collaboration with this team and desk management has ensured market movements are reflected in pricing on a timely basis and at times has lead to the remarking of positions.
- The team employs the following primary strategies in their price verification process:
  - Trade comparison: Available trade data are dissected for their parameters which are applied to the cash and derivative positions with similar collateral and/or risk profiles.
  - Fundamental analysis: Various analyses which examine the underlying position characteristics are utilized to derive fair value. Note that these characteristics are corroborated to the market. Examples include discounted cash flow (DCF), option adjusted spread (OAS) or securitization analysis.
  - External price compares: Where available, prices received from third party vendors are attained, validated and utilized.
  - Collateral analysis: Disputes surrounding margin calls of mortgage derivative contracts are closely examined to glean an indication of market levels.
- These marks are reviewed with auditors and regulators on a recurring basis.

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- Was your valuation methodology for particular instruments consistent across the firm?

BLee

- We maintain a central Controllers Pricing & Valuation Group (CPVG) which is responsible for the consistent application of fair value across all inventory within the Trading Division through centrally managing the price verification process and opining on determination of fair value.
- Within the mortgage department specifically, as part of our price verification procedures, we focus on consistency across inventory (cash and derivatives), client prices, and repo. In this regard, we are developing reports which will monitor consistency at a cusip and capital structure level.

- To what extent have you had problems valuing structured credit products, loans and loan commitments?

BLee

- Although it has been more challenging, due to reduced liquidity, especially surrounding bid versus offer, we identify and fixate on areas and products where transparency exists. We then reverse engineer the parameters witnessed in transparent products so they can be applied to less liquid inventory. Thus there exists meaningful market data to ensure that our determination of fair value is reasonable.

- What changes, if any, do you plan to make in your valuation practices/controls in light of recent turmoil?

BLee

As the market has changed, our process has evolved throughout the year and we continue to look for ways to enhance. The following are examples of additions made during the year:

- Worked closely with Markit and Fitch, third party composite vendors for derivative pricing, as they have struggled to keep up with the market moves. Specifically, we have provided recommendations surrounding the cleansing of the prices submitted as well as recommended incorporating durations (as well as spreads) into the information they provide.
- Developed a tool to allow for the review of thousands of ABS CDS positions to ensure consistency and appropriateness of marks as well as identifying outliers for investigation.
- Utilized a creation value analysis whereby the underlying assets comprising a CDO portfolio is valued based upon sector, vintage, and rating and then allocated across the CDO liabilities as appropriate.
- Created models independent of the trading function to value scratch and dent loan inventory.

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5. Hedging

- How well did your market risk hedging approaches perform?

  RBerry
  See above.

- To what extent is the liquidity of a hedge incorporated into market risk management practices?

  RBerry
  We assume unchanged positions through all our stress tests. Most stress events are accompanied by a lack of liquidity.

- How will hedging strategies and techniques related to market risk change in light of the recent turmoil?

  RBerry
  Will probably think more about liquidity and crowded trades – and techniques to identify such.

D. Credit Risk Management Issues – CRAIG TO ADDRESS

1. Accuracy of potential exposure measures and stress testing

- How did estimates of potential exposure to credit risk / credit-related losses compare to actual levels during the recent period?

- Which kinds of stress testing frameworks (e.g., single risk factor versus complex) proved most reliable in estimating actual or mark-to-market losses? Where stress tests misjudged the size of losses, were the deviations still within an acceptable margin for error?

- To what degree did stress tests accurately anticipate correlations across asset classes?

2. Risk reporting and aggregation

- During the period of stress, did you capture and aggregate exposures with sufficient granularity (i.e., risk factor, product type, counterparty type)? For complex instruments, did the aggregation capture underlying risk factors effectively? Was the MIS provided to senior management sufficient for understanding the underlying changes in the market environment?

3. Hedging, provisioning, and reserving

- How effective were your credit risk hedging strategies during the recent market volatility?

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- How will hedging strategies and techniques related to credit risk change in light of the recent turmoil?

4. Counterparty Credit Risk Management

- Describe the events and circumstances surrounding requests for additional margin during recent events. Were the initial margins set appropriately from the outset? How did they change? What methodologies were used? Were margin calls met in a timely manner?

- Have any classes of counterparties posed particular counterparty risk management issues?

- In your view, what has been the role (if any) of hedge funds in the recent market turmoil?

5. Syndicated lending

- What mechanisms did you have for tracking the dimensions of pipelines and was the tracking effective? What were your limits (if any) on pipeline commitments? Did you experience any limit breaches related to your pipeline commitments?

- How much did underwriting standards and associated risk premia change as a result of the long period of relatively benign economic conditions and low market volatility? To what extent did your underwriting standards for loans intended to be distributed differ from those standards used for loans intended to be held?

6. Subprime lending

- For originators of subprime mortgages, how have underwriting standards evolved in recent years? How dependent were subprime-related businesses on market liquidity?

BLee

- As home price appreciation continued to rise, subprime mortgage lenders aimed to provide affordability products including interest only, forty and fifty year amortizations and negatively amortizing loans.
- Additionally, originators looked to provide financing to previously under represented borrowers including stated income from which various documentation types manifested.
- Unlike the prime mortgage market which is dominated by large banks, the subprime mortgage market was dominated by companies which trafficed exclusively in subprime origination (New Century, Ameriquest, etc.). From a financing perspective, these subprime originators were reliant on liquidity to fund their origination pipeline as well as to purchase their inventory for dispersion in the secondary market.

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- For investors in securities backed by subprime mortgages, how have due diligence and risk assessment practices evolved in recent years? When making investment decisions on subprime-related securities, how dependent were investors on rating agencies?

BLee

- Due diligence processes are dynamic in that new findings and ever-changing markets result in constant changes in practice.
- Specifically, prior to acquiring any residential mortgage loans, we will conduct a thorough review of the seller including reviewing select financial information for credit and market risk assessment, undertaking a review of the underwriting standards employed by the mortgage originator, engaging in senior management discussions, conducting an operational review and performing background checks.
- In addition to the review of the seller, we review residential mortgage loans in advance of acquisition. The scope of the due diligence we perform depends on the credit quality of the mortgage loans and our past experience with the loan seller. Due diligence may include: review for adherence to the seller's underwriting and compliance standards, examination of loan documents, verification of recorded liens, review of insurance certificates and requesting independent valuations. We may increase that sample or drop loans from the pool as a result of due diligence findings.
- As the subprime market has continued to deteriorate, we have been more conservative in our due diligence process both in assessing sellers and in reviewing/dropping loans. Additionally we have limited our subprime purchases through conservative bids as well as electing not to bid.
- Investors in subprime related securities, especially higher rated bonds, have historically relied significantly on bond ratings particularly when securities are purchased by structured investing vehicles.
- It is important to note that loan level information is available to investors upon request as well as through tools available in the market including Intex. Assuming the investor is sophisticated enough to parse through loan level information; they would be able to stress assumptions used by the rating agencies. (Although they do not have property addresses and borrower social security numbers.)

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I. Economic and Regulatory Capital and Related Issues

1. Internal capital assessments

- How did the capital planning process assess the appropriate level of regulatory and economic capital to hold?

LBeshel

— We believe CSE regulatory capital requirement is conservative and therefore a reasonable proxy for required economic capital
— Projections of required CSE capital always consider the market environment
— We enhanced our projections to more accurately capture expected and potential increases in required capital from new credit commitments and drawdowns on existing commitments
— We target CSE regulatory capital ratios substantially above the regulatory minimum and expect the cushions we hold would enable us to maintain the necessary levels of regulatory capital in the event of potential losses and/or increases in RWA
— During periods of high uncertainty and stress we generally manage to the higher end of the target range

2. Capital & CDO/CLO businesses

- To what degree, in recent years, had risk capital been allocated to the CDO and leveraged-lending/CLO businesses?

LBeshel

— We don't limit businesses by allocating risk capital as such
— We manage capital usage by imposing limits on balance sheet limit, VaR, credit risk, and certain other factors
— For performance measurement, we attribute regulatory capital to businesses

- Were your liquidity backstop facilities to ABCP programs (SIVs) priced correctly for internal risk management and capital attribution purposes? Did the pricing appropriately reflect the structures' funding strategies?

- Did your risk management tools (including economic capital models) accurately reflect changes in the actual degree of correlation in losses?

3. Capital & earnings volatility

- Did your stress tests identify the impact on earnings (and if impacted, capital) of the market turmoil? Are you anticipating making any changes in your stress tests as a result?

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4. **Capital planning**

- Did the firm's capital planning process include consideration of potential uncertainties in the valuation of the firm's holdings of, or exposures to, complex financial products (CDOs, etc.)?

  LBeshel
  — Our projections of required CSE capital were enhanced to more accurately reflect expected and potential increases in required capital from new credit commitments and drawdowns on existing commitments

- How were potential on-boarding requirements of pipeline exposure, contingent liabilities, etc., incorporated within the capital planning process?

5. **MIS**

- During the period of stress, did you capture and aggregate exposures with sufficient granularity (i.e., risk factor, product type, counterparty type, geographic location) for capital planning purposes? Was the MIS provided to senior management sufficient? What, in particular, were the areas where the MIS reports were found to be deficient?

6. **Accounting & Disclosure**

- Are accounting rules applicable to off-balance sheet vehicles sufficiently transparent? Do they adequately reflect the risks to sponsors of such vehicles and providers of credit and liquidity support?

- Would better disclosure for securitization pools reduce the risk that a deterioration of credit quality in one market segment leads to a general withdrawal of liquidity?

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FIXED INCOME, CURRENCY AND COMMODITIES INDIVIDUAL REVIEW BOOK

Reviewee : Salem, Deeb A

Title : VP
Review Criteria : FICC-Vice President
Business Unit : Mortgages
Department : SPG Trading
Region : Americas
Date of Hire : 16-JUL-01
Primary Manager : Swenson, Michael J
Co - Manager 1 : Lehman, David A
Co - Manager 2 : Birnbaum, Josh S
Co - Manager 3 :
Co - Manager 4 :
Mentor :

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1561

THE PURPOSE OF THIS REVIEW MATERIAL IS FOR PERSONAL DEVELOPMENT. IT IS NOT INTENDED FOR DISCLOSURE OUTSIDE THE FIRM.

Title Description: VP=Vice President/Executive Director; AS=Associate; AN=Analyst; EX=Exempt; NX=Non-Exempt

As you review feedback information, you should be alert to instances in which an individual has received an unusually negative comment or low score on the "Compliance" or "Diversity and Equitable Treatment" questions. Please consider whether the response requires follow-up, including consultation with a more senior manager, a Compliance professional, Employee Relations representative or other individuals.

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Report Configurations

1. Peer Group = all employees who share the same title, across the division, as the reviewee and are rated on the same review criteria.
2. All averages in the report do not include ratings from the self evaluation.

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
Overall Performance	1. General Trading Acumen: Mike has been a tremendous leader, role model and mentor to me over the past 4 years. I think he has created a machine. As a trader, I am an aggressive risk-taker who has respect for both liquidity and exit strategies of positions. I like to put on big positions that we believe in and have the discipline not to take winning trades off prematurely. My confidence ride a position on for an extended period of time stems from having an ultimate exit strategy to all trades. For example, even before the likelihood of massive amounts of writedowns became a real possibility in sub-prime, and thus a new exit strategy to our short, we understood the leverage in the system and the painful unwind that would be caused by downgrades and severe moves in prices. As a counterbalance, however, I am not afraid to reverse my view and admit when an exit strategy needs to be changed. In May, while we were remained as negative as ever on the fundamentals in sub-prime, the market was trading VERY SHORT, and was susceptible to a squeeze. We began to encourage this squeeze, with plans of getting very short again, after the short squeezed caused capitulation of these shorts. The strategy seemed do-able and brilliant, but once the negative fundamental news kept coming in at a tremendous rate, we stopped waiting for the shorts to capitulate, and instead just reinitiated shorts ourselves immediately. I also respect liquidity tremendously. When the desk needs to add or reduce a position, I focus more on optimizing the likelihood of getting desired size of the trade and less on optimizing the price of each individual trade. Another important skill that I possess, but is often neglected by many wall street traders, is that of being able to change gears quickly. Many traders are great at being aggressive and moving markets in their direction. Others are great at being passive and quietly accumulating large positions without the opposition even knowing so. But few have the ability to implement both strategies at different times, depending on your counterparty and market conditions amongst other things. I believe that I have the nature to change gears quickly and take advantage of opportunities in various market environments. My nature puts me in the unique position of being able to relate to the other members of the team, Mike and Josh, who are very different personalities. At times my risk appetite swings the pendulum enough to put on the trades we want on in size and keep them on long enough. While other times, I respect the challenge of exiting such large positions, and will leave enough on the table to encourage others to provide us the liquidity we want. 2. My attitude: In addition to the skills that make me a great trader, I think that my personality also plays a vital role in the deskÍs success. I am as competitive as Michael Jordan. I donÍt just want to win - I want to win every time and I want to steamroll the opposition. I have the confidence to remain positive and optimistic through the difficult times, like when the desk was down $100mm to start the year. I take ownership in both the winners and the losers and worry more about providing solutions than dwelling on the past. When Swenny is away I assume the role of the leader of the trading team. And I love that responsibility. 3. Obviously the most important aspect of my 2007 and my contribution to the firm has been the deskÍs P&L. Mike, Josh, and I were able to learn from our bad long position at the end of 2006 and layout the game plan to put on an enormous directional short. The results of that are obvious. But I think itÍs more important to take a closer look at some of the subtleties of our positions, which have contributed just as much, if not more to the 2007. These nuances were put on primarily by Edwin and myself. a. The Dispersion Trade More than a year ago, Edwin and I realized that dispersion amongst single-name subprime CDS was grossly mispriced. Bad names (tier 4), that the market almost universally disliked traded only 50bps wider than securities that we all agreed were superior

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
	in structure and collateral characteristics. That 2 percent difference in expected loss difference did not compensate for the difference in risk of tier 1 and tier 4 securities. But given the 20x levered nature of a CDO, the 50bps difference could mean an extra 10% pre-loss yield to the equity. Thus CDO managers who had pre-sold portions of equity at a certain level were encouraged to sell protection on the tier 4 names and keep the extra $. So for the past year, we bought protection on tier 4 names at every chance possible, caring little about our "covers" on BWICs. When we wanted to flatten out the book, we just wrote protection on the tier 1 names. Amazingly we did this for most of the year without a usuable model to value the different single-names. We didn't get every trade right, but through our own understanding of loans and through taking notes on what names the guys with the best models (Ellington, QVT, JP prop, etc.) liked and didn't like our success ratio was very high. We were very aggressive with pricing and only shared risk with smart guys if they gave us insight on other names to short or go long in return. Even when the dispersion widened out from 2pts to 8pts by the end of February when we were doing the Harbinger trades, Edwin and I refused to monetize the trade and instead sold protection on tier 1 and 2 names to flatten the notional of the trading book. The tier basis is now trading at ~30bps. With 3-4bb of notional in this dispersion trade on, we have recognized $750mm of P&L so far on this trade. b. Our single-name market share: Having traded over $200bb of notional in SN CDS, GS is the dominant market-maker in single-name CDS. We approximate our market share to be greater than 33%. Even when we were running a flat SN CDS book, we were trading around more CDS than the other market makers. This market share and willingness to trade size proved invaluable in November, December, and January when we decided to make the HUGE directional bet of being long SN CDS protection. We saw flow, and got last looks that nobody else would get. We single-handedly filled more than 50% of the Vertical CDO and many other CDOs that were ramping. If we did not have such presence in the SN CDS market, it is unlikely that we would have achieved the size short that we desired and eventually put on. We're up $1.7bb in RMBS SN CDS! c. Willingness to put on trades that others don't want to/know where to price The 2 most successful trades in this regard, have been our $700mm long Alt-A protection and our $1-2bb long sub-prime single-A protection. When CDOs wanted to sell Alt-A and single-A protection for diversification purposes, the rest of the street was tentative to provide liquidity because they did not have any hedge funds to take the other side of the trade. We viewed this as a tremendous opportunity to buy cheap out-of-the-money options at a significant discount to fair-value. Our exit strategy was always that if sub-prime fundamentals got bad enough, and they did, that the contagion would have to spread up the capital structure because cum loss vol/uncertainty has to go up thus. And it would have to spread to Alt-A because many of the problems that enticed hedge funds to short sub-prime, like a bubble in the coastal markets, high amounts of investor properties, and low documentation of incomes on mortgage applications, were actually more prevalent in Alt-A than in sub-prime. These trades have been worth close to $400mm so far for the desk (and hopefully more room to move). d. CDO CDS trade: This trade has made $900mm so far, which exceeded all of our high expectations for the trade. I had the confidence and desire for the desk to buy A, AA, and AAA CDO CDS protection in size during the fall of 2006 for several reasons: the buyers of risk were other CDOs who wanted good spread for the rating (always a dangerous thing), the rating agencies' correlation assumptions were out of whack with the growing concern in the housing market and the remarkable similarity between the bonds in a CDO, the difficulty that GS itself had in placing such mezzanine liabilities, and the complexity of such securities scared hedge funds from buying the protection themselves. Edwin and I used the same aggressive strategies in purchasing this protection that we used to dominate the RMBS SN CDS market. Our market share was enormous and we did everything we could to print every trade possible. I knew the trade was a good one, when I saw how much Jonathan Egol liked it (again sided with the smartest guy in the market).
Unfulfilled Accomplishments	I would like to continue working on my leadership skills and some of the characteristics that are necessary not only to be the

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
	world's best trader, but also a culture carrier and leader of the firm.
Career Development Plans	I like to think big...My long term goal (but not too long term) is to become my own version of Rich Ruzika. One step towards achieving that is to become a managing director next year. I know that this will take a tremendous amount of hard work on my part. I think that I deserve this and can use the title to expand my contributions to Goldman Sachs. As one of the most talented and important members of the SPG trading team, being an MD would give me added credibility and hopefully access to important counterparties that we want to do large trades with. I would like to map out how we make this happen as I am willing to work as hard as necessary to ensure that I achieve this goal. I think that it involves getting to know a broader array of senior people throughout the firm. We are having a record year in 2007 and I am as responsible for our P&L as anybody. And it's important to me that this gets recognized.
Other Issues	No Comments Noted.

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From: Case, Benjamin
Sent: Friday, July 13, 2007 3:51 PM
To: Kang, Connie; Shimonov, Roman
Cc: Lehman, David A.
Subject: FW: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

Attachments: ArticlePDF.pdf

From: Case, Benjamin
Sent: Tuesday, July 10, 2007 7:13 PM
To: Maltezos, George (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW)
Cc: Lehman, David A.; Egol, Jonathan; Bieber, Matthew G.; Chaudhary, Omar; Lee, Jay; Sugioka, Hirotaka
Subject: FW: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

INTERNAL USE ONLY

George,

Below are some talking points for you related to today's price movements for Basis. Please note that the price moves sent to Basis (and the notes below) reflect the S&P actions that were announced this morning, but did not take into account the Moody's actions that were announced very late in the day here. We are still in the process of working through the Moody's actions.

Point Pleasant
- 19% of the total portfolio was listed in the attached S&P paper as having "material exposure" to the 612 RMBS that S&P placed on negative credit watch today (and stated on a conference call that they would be downgraded within days). If a portion of the assets with material exposure PIK (due to OC tests failing in the underlying CDOs from the RMBS downgrades and resulting OC haircuts), the Point Pleasant BBBs will be shut off from cashflow.

Timberwolf
- Approximately 25% of the total portfolio was listed in the attached S&P paper as having "material exposure" to the 612 RMBS that S&P placed on negative credit watch today (and stated on a conference call that they would be downgraded within days).

Fort Denison
- 17 RMBS assets (21% of the overall portfolio and 43% of the total RMBS component of the portfolio) were placed on negative credit watch today. In addition, 10 CDO assets (10% of the overall portfolio and 23% of the total CDO component of the portfolio) were on the list in the S&P paper. Asset downgrades in the Fort Denison portfolio cause a diversion of all principal proceeds and a portion (approximately 40%) of excess interest proceeds away from the equity to amortize down the Class C Loan. Depending on the amount of principal amortization on the asset portfolio in each period, this will cause an overall reduction of projected payments to the Fort Denison equity by 45-60%. Additionally, if/when the CDO assets in the portfolio PIK (due to OC tests failing in the underlying CDOs from to the RMBS downgrades and resulting OC haircuts), that will cause additional reduction in payments that will be borne by the equity.

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Wall Street & The Financial Crisis
Report Footnote #1564

From: Egol, Jonathan
Sent: Tuesday, July 10, 2007 10:46 AM
To: ficc-mtgsales; ficc-fisales; ficc-creditsales
Cc: Mullen, Donald; Sparks, Daniel L; Brafman, Lester R; Saunders, Tim; ficc-mtgcdstrat; ficc-spgtrading; ficc-spcdo
Subject: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

INTERNAL USE ONLY

From the tape:
*S&P IS REVIEWING "GLOBAL UNIVERSE" OF SUBPRIME CDOS
*S&P SAYS 218 CDOS HAVE SUBPRIME BONDS THAT MAY BE CUT
*S&P SAYS 168 RATED CDOS ARE BACKED BY BBB SUBPRIME BONDS

In connection with today's S&P report today on subprime RMBS criteria changes and associated credit review, the following Goldman Sachs CDO transaction have been flagged by S&P as having exposure to subprime RMBS. S&P has stated that is reviewing the global universe of CDOs for such exposure. Full report (PDF) attached.



ArticlePDF.pdf

Mezzanine ABS Cashflow CDOs:

- Fortius II
- Hudson Mezz I

High Grade ABS Cashflow CDOs:

- GSC ABS Funding 2006-3g
- West Coast Funding I

ABACUS Synthetic ABS CDOs:

- ABACUS 2006-11
- ABACUS 2006-14
- ABACUS 2007-AC1

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Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917[redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman Sachs

Jonathan M. Egol
Structured Products Trading

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How Did GS Avoid the Mortgage Crisis?

Our Response

Mortgages is an important business for Goldman Sachs. However, it is typically the smallest of five main businesses within FICC and therefore, on a relative basis, it has been a smaller contributor to overall Fixed Income revenues than for many of our peers. We always proactively manage the risk of our businesses, and our mortgage business was no different. We were actively managing our mortgage exposure throughout 2006, and towards the end of the year we became increasingly concerned about the sub-prime market. As a result we took a number of actions at that time and into early 2007 to reduce our risk. In the first quarter of 2007 we stopped our residential mortgage warehousing efforts, shut down our CDO warehouses, aggressively reduced our inventory positions, reduced counterparty exposure and increased our protection for disaster scenarios.

Key to our ability to do this was our extremely robust mark to market philosophy. You simply cannot manage risk effectively if you don't know what positions are worth. An accurate daily marking process makes difficult decisions considerably easier, as you tangibly feel the cost of inaction everyday as the market declines. We have extensive price discovery and valuation resources and don't subscribe to the notion that there are instruments that can't be valued.

So, we knew the value of what we had and managed our risk accordingly. However, one should not be lead to believe that we went through this period unscathed and somehow significantly profited from a "bet" on the downturn in mortgage markets. The actions that I outlined led to significant write-downs in the value of our long mortgage inventory over the course of this year. We mentioned during our second quarter conference call that a weak quarter in Mortgages contributed to lower results in our FICC businesses. A better characterization of the situation is that we effectively avoided greater losses by taking these proactive steps and in fact during the third quarter we were able to make money on mortgages as a result of our net short position. As a consequence, we believe that we are well-positioned to opportunistically participate in the inevitable restructuring of the mortgage market.

Ultimately, our ability to be proactive was a function of our people and our risk management culture. Given the complexity and diversity of risks in our business, we believe that it is critical to provide our teams with the confidence and support necessary to identify and escalate issues as soon as possible and to prioritize the interest of the entire firm over any individual objectives. In addition, we think it is important for senior leadership to be actively engaged in the business flows and decision making process, in times of calm as well as crisis.

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Quarterly Breakdown of Mortgage P/L

Business (USD Millions)	Q1 2007 Loan/ Security P&L	Q1 2007 Derivs P&L	Q1 2007 Other/ UW P&L	Q1 2007 Total	Q2 2007 Loan/ Security P&L	Q2 2007 Derivs P&L	Q2 2007 Other/ UW P&L	Q2 2007 Total	Q3 2007 Loan/ Security P&L	Q3 2007 Derivs P&L	Q3 2007 Other/ UW P&L	Q3 2007 Total	Q4 2007 Loan/ Security P&L	Q4 2007 Derivs P&L	Q4 2007 Other/ UW P&L	Q4 2007 Total	October 26, 2007 FYTD Loan/ Security P&L	October 26, 2007 FYTD Derivs P&L	October 26, 2007 FYTD Other/ UW P&L	October 26, 2007 FYTD Total
Residential Prime	$ 65	$ (0)	$ -	$ 65	$ 48	$ (0)	$ -	$ 48	$ (252)	$ 33	$ -	$ (219)	$ (76)	$ (42)	$ -	$(118)	$ (216)	$ (9)	$ -	$ (224)
Residential Credit	$ (248)	$ 213	$ -	$ (36)	$ (239)	$ (60)	$ -	$(299)	$ (641)	$ 358	$ (27)	$ (311)	$ (193)	$ 63	$ 26	$(103)	$ (1,321)	$ 574	$ (1)	$ (749)
Alt-A	(31)	56	-	25	10	(16)	-	(5)	(201)	111	(7)	(98)	(99)	(21)	7	(113)	(321)	130	-	(191)
S&D	(51)	13	-	(37)	(39)	(11)	-	(50)	(104)	108	16	20	(42)	13	(16)	(45)	(236)	124	-	(112)
Subprime	(167)	144	-	(23)	(210)	(34)	-	(244)	(336)	138	(36)	(233)	(51)	71	35	54	(764)	319	(1)	(446)
SPG Trading	$ (60)	$ 359	$ (1)	$ 298	$ (103)	$ 646	$ 9	$ 452	$ (724)	$2,850	$ 7	$2,133	$ (133)	$ 842	$ (1)	$ 708	$ (1,019)	$ 4,698	$ 15	$ 3,691
ABS Securities	(58)	290	-	232	(63)	480	-	417	(646)	1,916	19	1,288	(96)	479	(22)	362	(863)	3,165	(3)	2,289
CMBS Securities	(1)	5	-	4	(24)	22	-	(2)	(48)	173	(11)	113	(14)	156	11	153	(87)	355	(0)	267
Correlation	(1)	64	(1)	62	(16)	44	9	37	(29)	761	(0)	732	(23)	206	10	193	(69)	1,076	17	1,024
CDO/CLO	$ (170)	$ (0)	$ 23	$(147)	$ (307)	$(175)	$ 29	$(453)	$ (844)	$ 120	$ (74)	$ (898)	$ (208)	$ 19	$ 70	$(120)	$ (1,629)	$ (37)	$ 48	$(1,618)
[redacted]																				
Other*	28	-	6	33	19	-	13	32	1	-	41	43	43	-	0	43	91	-	60	151
Grand Total	$ (327)	$ 571	$ 28	$ 272	$ (535)	$ 310	$ 51	$(174)	$ (2,737)	$3,482	$ (4)	$ 741	$ (553)	$ 889	$ 96	$ 432	$ (4,152)	$ 5,252	$ 171	$ 1,271

*Included in Other are gains earned in conjunction with bond U/W (+$70 million) and transfers from AMSSG (+$45 million)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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GS Subprime Mortgage Business

Subprime Risk: Current Position as of 11/2/07

Mortgage Department		
SUBPRIME	***Current Notional (Bn)***	***Market Value (Bn)***
Securities (IG)	2.3	1.2
Subs & Residuals	0.1	0.1
Loans	0.3	0.3
Single-Name Synthetic Risk (Net)	2.7	1.6
TABX & Tranched Synthetic Risk (Net)	(3.1)	(0.9)
Net	**2.3**	**2.4**
ALT-A		
Securities (IG)	4.3	3.8
Subs & Residuals	0.3	0.2
Loans	0.1	0.1
Synthetic Risk (net)	(1.7)	(1.3)
Net	**3.0**	**2.8**
SCRATCH & DENT		
Loans	0.9	0.5
CDOs / TRANCHE RISK		
Securities	2.1	0.3
Single-Name Synthetic Risk (Net)	(1.2)	(0.4)
Tranched Synthetic Risk (Net)	(5.4)	(3.0)
Seasoned Super Senior Shorts	(3.5)	(3.4)
Net	**(7.9)**	**(6.4)**

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Subprime Mortgage Business Comparisons

MER, C, UBS releases compared with GS Position as of 11/02/07

	Merrill Lynch[1]	Goldman Sachs
Subprime	$5.7Bn US Subprime mortgage related exposure	$2.4Bn US Subprime mortgage related market value
CDO/Warehouse	$15.2Bn ABS CDO related exposure	($6.4Bn) ABS CDO related market value

	Citigroup[2]	Goldman Sachs
Subprime	$11.7Bn US Subprime mortgage related exposure	$2.4Bn US Subprime mortgage related market value
CDO	$43Bn exposure to senior CDO tranches	($5.1Bn) market value of senior CDO tranches

	UBS[3]	Goldman Sachs
Subprime	$16.8Bn Subprime Securities	$1.2Bn Subprime Securities market value
CDO	$20.2Bn notional exposure to senior CDO tranches	($5.1Bn) market value of senior CDO tranches

[1] Goldman Sachs Subprime exposure includes our net exposure to subprime loans, bonds, and derivatives while our CDO/Warehouse exposure includes our net exposure to CDO bonds and derivatives. GS does not have any current CDO warehouse exposure. We are interpreting ML's exposure to be net market value and are reporting the same measure for GS.

[2] Goldman Sachs Subprime exposure includes our net exposure to subprime loans, bonds, and derivatives while our CDO exposure includes our net exposure to senior CDO bonds and derivatives. We are interpreting Citigroup's exposure to be net market value and are reporting the same measure for GS.

[3] Goldman Sachs Subprime exposure includes our net exposure to subprime loans, bonds, and derivatives while our CDO exposure includes our net exposure to senior CDO bonds and derivatives. We are interpreting UBS's Subprime exposure to be net market value and their CDO exposure to be notional and are reporting the same measures for GS.

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From: Ruzika, Richard
Sent: Friday, May 11, 2007 9:59 PM
To: Sparks, Daniel L
Subject: Re: You okay?

Get Elisha on it too. He is very good at getting the math right. One thing you don't want is multiple write downs. Whatever it is get it out there in total.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Ruzika, Richard
Sent: Fri May 11 19:33:32 2007
Subject: Re: You okay?

Cdo positions and market liquidity and transparency have seized. I posted senior guys that I felt there is a real issue. I'm going to make a change in the responsibility of the business away from ostrem to david lehman (with swenson helping).
We are going to have a very large mark down - multiple hundreds. Not good.

Mullen has been really good - dug in, thoughtful, balanced. I hate that he has to deal with this out of the shoot. We had a meeting today with viniar, don, mcmahon, my team, controllers, gary on the phone to walk through situation. The market has seized up so much that levels are very hard to determine for the complex products - which also are difficult to model for value due to market changes.

That's a long way of saying that I feel the way I probably should right now in light of the situation, but the team and I have our heads in the game.

Thanks for reaching out

----- Original Message -----
From: Ruzika, Richard
To: Sparks, Daniel L
Sent: Fri May 11 18:30:55 2007
Subject: You okay?

Dan. Anything I could do to help?

Sent from my BlackBerry Wireless Handheld

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GS MBS-E-019659221

From: Burchard, Paul
Sent: Monday, May 14, 2007 1:49 PM
To: Egol, Jonathan; Wiesel, Elisha; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: RE: Gameplan - asset model analysis

Here are the asset model results including both A2 and B tranches of Timberwolf, looking at both 1.5x and 2x spread shock scenarios for the CDOs (corresponding to median CDO spreads of 900 and 1200, respectively, for this portfolio). Again, best estimate of correlation is 20-50% range.

CDO	Spread Shock	Model Price 30%	Model Price 50%	Model Price 70%	Model Price 100%
TWOLF 2007-1 A2	1x	72	72	72	73
TWOLF 2007-1 A2	1.5x	51	54	56	59
TWOLF 2007-1 A2	2x	37	41	44	48
TWOLF 2007-1 B	1x	42	49	56	68
TWOLF 2007-1 B	1.5x	28	34	40	52
TWOLF 2007-1 B	2x	21	25	30	41

Will look at Point Pleasant next.

-----Original Message-----
From: Egol, Jonathan
Sent: Monday, May 14, 2007 8:06 AM
To: Wiesel, Elisha; Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: RE: Gameplan - asset model analysis

I think we can look at the 2x CDO CDS scenario Paul provided below as a proxy.

-----Original Message-----
From: Wiesel, Elisha
Sent: Monday, May 14, 2007 7:57 AM
To: Egol, Jonathan; Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: RE: Gameplan - asset model analysis

Can we not incorporate the cds bid/offer by running Paul's analysis on #2 below at shocked RMBS cds levels?

-----Original Message-----
From: Egol, Jonathan
Sent: Monday, May 14, 2007 5:28 AM
To: Burchard, Paul; Wiesel, Elisha; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: Re: Gameplan - asset model analysis

This correlation analysis does not incorporate 2 things:
- cds bid/offer
- cashflow triggers (underlying level)

For names where the underlying longs were externalized, the cdo cds offered side spread is going to be close to 2x the current marked spread for many underliers. It will be important to use the cdo cds trading franchise to source hedges at the bid side of the market.

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The downgrade sensitivity of the underlying cdo cashflow triggers means that there is some (hard to quantify) probability that some or all names essentially jump to default.

----- Original Message -----
From: Burchard, Paul
To: Wiesel, Elisha; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Sent: Mon May 14 00:45:22 2007
Subject: Re: Gameplan - asset model analysis

One point of this correlation analysis is that it provides a relative value argument about how to hedge the cdo^2 risk. It indicates (as the desk is aware) that it is currently cheaper to buy protection against the cdo^2 at the cdo level than at the rmbs level. To the extent that we can put on this hedge, we can recover the higher (72 cent) price, no matter how bad rmbs looks.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Wiesel, Elisha
To: Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Sent: Mon May 14 00:01:17 2007
Subject: RE: Gameplan - asset model analysis

David - We spoke briefly to Ben and Edwin earlier this evening and asked them if it would be possible to come up with CDS marks for any missing BBB/BBB- RMBS deals as well as a heuristic for marking any high-grade tranches by vintage. As Paul says below, this would really help us run results through the asset model (as well as through the NAV analysis we'd discussed doing) for CDOs. I realize this might be painful (several thousand underlying RMBS deals might need to be marked) but we'd like to come back to you when we have some stats on what we're missing and brainstorm on a good way to do this.

From: Burchard, Paul
Sent: Sunday, May 13, 2007 11:05 PM
To: Lehman, David A.; Sparks, Daniel L; Wiesel, Elisha; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: RE: Gameplan - asset model analysis

We can estimate the value of the Timberwolf CDO^2 by applying a correlation model (the asset model). We have three questions to answer:

1. Based on marks for the single-A CDOs under the CDO^2, what should be the value of the Timberwolf CDO^2?
2. Based on marks for the RMBS under the single-A CDOs, what should be the marks on the CDOs that went into (1)?
3. In both (1) and (2), what market evidence do we have for the correlation that takes us from underlier valuation to the valuation one level up?

In brief, the answers we find are:

1. Based on current single-A CDO marks, the A2 tranche of Timberwolf would have a price of 72 cents on the dollar. The price is not sensitive to correlation at these levels.
2. Based on a small sample of single-A CDOs for which we have complete underlier marks, we believe that the risks of the RMBS underliers are frequently not fully reflected in the marks on the CDOs. If the trends in this small sample are extrapolated, the fair spreads on the CDOs could even be double where they are marked now; if that were the case, the price of the A2 tranche of Timberwolf would actually be 35-41 cents on the dollar, depending on the correlation.
3. Recent Abacus CDOs and CDO^2 have been marked with correlations in the 30-50% range. Median sector marks for mezzanine CDOs imply a correlation of 22%.

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Clearly, the next step is to get marks on more of the RMBS underliers in order to be able to run more of the CDOs in Timberwolf through a model.

For (1), we find the following relationship between price of the A2 tranche of Timberwolf, and the correlation. The results are also shown when all the underlier spreads are multiplied by a factor of two, based on the results of (2).

CDO	Underlier Spread Multiple	Model Price 30%	Model Price 50%	Model Price 70%	Model Price 100%
TWOLF 2007-1 A2	1	72	72	72	73
TWOLF 2007-1 A2	2	37	41	44	48

For (2), we have the following comparison between current spread marks on single-A CDOs, and Gaussian copula model spreads computed from the current spread marks on their underliers (mostly RMBS). The first three CDOs are Timberwolf underliers. In general, this analysis shows that at current underlier marks, single-A CDOs are equity-like (long correlation). However, per (3), market-implied correlations are low, in the range 20-50%.

CDO	Sector	Mark	Model 30%	Model 50%	Model 70%	Model 100%
ABAC 2006-HG1A C	CDO^2 Mezzanine	520	1667	1336	1077	710
ADROC 2005-2A C	CDO High Grade	275	185	201	192	140
CAMBR 7A C	CDO Mezzanine	665	1096	938	804	579
FORTS 2006-1A C	CDO Mezzanine	440	527	527	499	425
HUDMZ 2006-1A C	CDO Mezzanine	160*	1643	1378	1168	880
HUDMZ 2006-2A C	CDO Mezzanine	250*	2209	1794	1490	1105

*No trades currently on these ref obs, so marks may be stale.

From: Lehman, David A.
Sent: Friday, May 11, 2007 7:37 PM
To: Sparks, Daniel L; Wiesel, Elisha; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Burchard, Paul; Turok, Michael
Cc: Brafman, Lester R; Lehman, David A.
Subject: Gameplan

Following up from this afternoon's meeting -

We are going to better evaluate the CDO^2 risk using three distinct frameworks

1) Blended scenario analysis using HPA (Primer)
2) Risk neutral/correlation framework, consistent with our current synthetic ABS CDOs (Burchard)
3) Simplistic loss assumptions on underlyings / Market Value Coverage (Turok)

Let's look to have something on #1 and #2 to discuss Monday. # 3 will likely take some more time give the low coverage...Turok, pls let us know if you can cuff #3 with our current coverage.

To quote Elisha -

"Am thinking we want a concise write-up of each methodology (one paragraph), with a rank-ordered list of assumptions that show directionality and estimated impact of each assumption. Also think we want to see results of bounding analysis in writing using each methodology, with a description of what knobs we turned, and how far, to come up the bounding analysis."

In addition, the specific trading desks are taking a more detailed look @ the ABS/CMBS/CLO/Option Arm/SP CDO assets in the warehouse and in the retained position account (outside of the CDO^2).

Pls add/comment if there is anything I missed

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-863-4678
e-mail: david.lehman@gs.com

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From: Wiesel, Elisha
Sent: Wednesday, May 16, 2007 7:50 AM
To: Birnbaum, Josh; Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: Re: DRAFT: Modelling approaches for Cash ABS CDO/CDO^2

Thanks Josh. We ended up sending a much tighter version of the "modelling approaches" email up the chain, Gary asked to discuss live but that hasn't happened yet (when I saw him yesterday at another meeting he said he would reach out on this topic when he had time).

Lester also asked me yesterday for a high-level slide on why these positions are generally speaking hard to model (in the context of what sounds like the same big-picture posting up the chain that you're recommending), we'll be drafting something on that today. I think the high-level description of what these positions are/the cdo-squared correlation insensitivity/the indications of interest that we're seeing which you provide below is an excellent start towards explaining where we are.

Do we want to broadcast re-mark numbers, though, at this point on the back of the ABACUS approach -- or hold off until we have vetted numbers for the whole book based on all three approaches? My thinking was that we have a few more days, according to latest understanding from the meeting in NYP/50A on Monday, and so should use them to sharpen as best we can (and incorporate all three approaches). Very open to your thoughts, and those of others on this thread.

----- Original Message -----
From: Birnbaum, Josh
To: Wiesel, Elisha; Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Sent: Wed May 16 00:21:26 2007
Subject: RE: DRAFT: Modelling approaches for Cash ABS CDO/CDO^2

I agree with the path of the multiple approaches, the content so far and the suggestions from the group. I haven't been in all the meetings so I could be off base here but I was wondering if it makes sense to have some brief big picture explanations/statements/conclusions so far (or even a graphical depiction of RMBS -> CDO > CDO^2) for senior folks and controllers who are less familiar with these products.

Maybe some points like:

- A RMBS CDO, ignoring all the bells and whistles, is tranched from RMBS single names, and its fair value, similar to a corporate CDO depends on one's assumption for correlation of losses between the underlying deals. We have some transparency on CDO spreads with X trades occurring per week in single name CDOs. Most trade spots indicate that CDOs tend to trade tight relative to an empirical view of a reasonable range on the correlation of losses between RMBS deals. We are marking our single name CDOs at these trade spots. When we don't have a trade spot on a CDO name, we can reasonably infer a price by applying an implied correlation from other similar CDOs to the underlying RMBS single names for the deal in question. We have good transparency on most RMBS single names as that market trades actively on a daily basis.

- A RMBS CDO^2, is tranched from RMBS CDOs. Analagous to the CDOs, the fundamental value of the CDO^2 will depend on how losses are distributed amongst the CDOs, i.e. how correlated are the CDOs? For our largest CDO^2 positions, conveniently the valuation is relatively CDO deal correlation insensitive and the primary issue is simply the value of the underlying CDOs. We are seeing indications of interest, not firm bids, on 2 of our larger CDO^2 positions in the context of our valuations from the table below (show Paul's

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table for 2 timberwolf bonds, along with "bids").

From: Wiesel, Elisha
Sent: Monday, May 14, 2007 7:55 AM
To: Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: DRAFT: Modelling approaches for Cash ABS CDO/CDO^2

Working group --

This is a draft of the email Gary requested at Friday's meeting. We've focused on explaining the modelling approaches we feel we could meaningfully employ over the next 10 days in valuing all of the CDO and CDO-squared positions in the warehouse and retained portfolios, as well as the work remaining to make that happen. Am considering further edits to the table which would describe the model inputs (as separate from market inputs), and how we'd propose stressing them to obtain valuation bounds. Please read and share feedback/suggested edits.

* * *

Gary,

As requested, here are some thoughts on the modelling approaches available to us in SecDb for valuing the CDO and CDO-squared positions in the warehouse and retained portfolios.

No one approach is complete, but it turns out that the approach most recently developed ("blended HPA scenario") is closer to the LEH bottoms-up approach than I'd understood at the time of our meeting on Friday -- what's missing is not a bottoms-up style empirical analysis, but a framework in SecDb for the CDO cash-flow waterfalls, and loan-level data for many of the RMBS. There is no easy way to tackle the former, but we compensate for the latter by using representative collateral pools by vintage. We've also described the risk-neutral model ("asset model") which we currently use in production for our synthetic ABS CDO (ABACUS) transactions. Although this model was built for synthetic deals which have significantly less complexity to their CDO-level cashflows, we do have working experience of the model which will be valuable in calibrating results. Lastly, we also include two "static" methodologies, a simplistic NAV analysis which is driven by market-observed bond prices, as well as the trading/structuring desk's Excel spreadsheets which fully represent the cash-flow properties at both the ABS and CDO levels.

All of the SecDb-based approaches below suffer from not properly assigning value to over-collateralization that builds up over time in the deals. They also all fail to detract value from the likelihood of ratings downgrades and forced liquidation. We don't have any good solutions yet to these two issues. It's also worth noting that all these approaches currently would fail to automatically assign 100% correlation to the overlapping RMBS deals included across multiple CDOs, ie; the (very common) case where CDO #1 and CDO #2 share an RMBS underlier -- we believe we'll be able to fix this in at least one of our approaches.

Our plan over the next few days is to work with Trading to get rough CDS marks for each underlying ABS deal which we can use to drive the first two approaches, while searching for good heuristics towards representative collateral selection for the third approach. We also want to highlight that in working full-bore on these positions, there is a loose end we will not be able to get to by quarter-end. This is a $50M notional PIK swap (derivative) that was recently traded for which we do not have any models, and for which the models discussed below will not help us tackle.

Please let us know if you have any questions, we're happy to convene a group of Strats and Traders to walk you through any questions that you may have.

Elisha

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* * *

Comparison of proposed modelling approaches:

	asset model	NAV analysis	blended HPA scenario	Excel model (desk)
Loss model	asset value	NAV based	empirical	bond level CDR
Correlation model	gaussian copula	none	HPA copula	none
Overlap capture (CDO^2)	no	no, for now	no	no
ABS Cash flow waterfall	simplified	attach/exhaust	full (Intex)	full (imported from Intex)
CDO cash flow waterall	simplified	attach/exhaust	attach/exhaust	full
CDO collat within CDOs	yes	yes	no, for now	yes
Market Inputs	underlier CDS spreads	underlier prices	Implied HPA, loan-level static data	?
Dynamism	full simulation	static	simulation with static flows	static
Collateral representation	homogeneous, assumed	none	vintage representatives	none
usage by quarter-end	CDO and CDO^2 debt, approximation of equity			everything
	Residential component			
roadblocks for quarter-end	underlier spreads	underlier spreads	heuristics for representative collateral selection	Excel does not scale

Description of proposed modelling approaches:

Asset Model: The asset model for CDOs is a correlation model that drills down two layers of structure to the values of the assets backing the loans underlying the ABS underlying the CDO. Loans default when the asset value becomes zero. The price it computes is an average over a large number of scenarios of correlated asset values, where the correlation between loans in the same ABS is highest, followed by loans in the same market sector but different ABS, followed by two loans in different market sectors. The market inputs to the model are CDS spreads at the ABS level; from these are calculated the initial asset values and the correlation between loans in the same ABS. If there are market observations of CDO spreads, these can be used to calibrate the correlation between loans in different ABS; otherwise, that correlation becomes an exogenous input. The main simplifications made in the model are (1) to use approximations of the cashflow waterfalls at both the ABS and CDO levels, and (2) to treat the loans behind each ABS as homogeneous. This is the model currently used in production for pricing synthetic ABS CDOs and and ABS CDS.

NAV Analysis: A static NAV or market value analysis uses market prices (expressed as a discount to par) to directly imply projected loss amounts on any given underlying bond. We describe the cashflow waterfalls with a static description of the attachment/exhaustion points at every layer of the CDO^2 capital structure. There is no explicit model for the correlation of losses at any layer. By applying the market-implied losses to the static attachment/exhaustion points at each layer of the structure, we can estimate what the losses will be at the top layer of the capital structure. Note that this approach is common in corporate cash CDO's, and a similar framework is being used in discussions with clients. Simplifications: Simplified model for lowest level loss assumptions as implied from the market. Ignores all actual cashflow waterfall features at every layer of the capital structure, including credit enhancement and triggers. Has no notion of how to correlate loss assumptions at any level.

Blended HPA Scenario: One method we use for evaluating CDO structures is called blended scenario analysis. It starts with running static HPA scenarios through an empirical, loan-level model for RMBS underliers, and saving the cash flows. These cash flows are combined using an HPA distribution that is centered on an average HPA implied by RMBS market pricing. Variation of losses across RMBS underliers is captured by the empirical model itself and also by imposing deal-specific loss variation. The risk-neutral volatility of losses can be calibrated to the pricing of relatively liquid correlation trades such as TABX. Implementing deal-specific loss volatility involves a Monte Carlo evaluation of a CDO tranche in which different HPA-based static cash flows are chosen from the stored collection for each RMBS tranche at each iteration. The main advantages of this approach include its realistic RMBS scenario modeling, explicit sector-wide HPA dependency with vintage year differentiation, the absence of any need for marks on all

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underliers, and its relative simplicity. The drawbacks include the need for loan-level data, no of handling of actual CDO cash flow waterfalls, no handling of non-subprime assets (CMBS, CDO, Prime MBS), and the pre-production nature of the software that carries it out.

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From: Sparks, Daniel L
Sent: Monday, May 14, 2007 4:03 PM
To: Montag, Tom
Cc: Mullen, Donald
Subject: RE:

I think we should take the write-down, but market at much higher levels. I'm a little concerned we are overly negative and ahead of the market, and that we could end up leaving some money on the table - but I'm not saying we shouldn't find and hit some bids.

-----Original Message-----
From: Montag, Tom
Sent: Monday, May 14, 2007 3:44 PM
To: Sparks, Daniel L
Subject: Re:

What do u think. T

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Mon May 14 15:36:49 2007
Subject: Re:

In large meeting on marks now - base case from traders is down 382 - some more work to do. Strat needs more time.

In base case, timberwolf aaa's at 65. Fortress looking in low 80's.

In meeting now - sales, controllers, strat, trading (mort and credit)

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon May 14 15:27:22 2007
Subject:

Update?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1574

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From: Schwartz, Harvey
Sent: Friday, May 11, 2007 7:37 PM
To: Montag, Tom; Sparks, Daniel L; Mullen, Donald
Subject: Re: Lester Called

If transaction is consistent with mtm than no issue...by definition.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Montag, Tom
To: Schwartz, Harvey; Sparks, Daniel L; Mullen, Donald
Sent: Fri May 11 19:27:33 2007
Subject: Re: Lester Called

Yes. But if we find value from fortress or whomever in size that should provide the value base. No?

Great trip down here btw. Great to see alex in his element-impressive and igor Also hung a bit with assg team Which was good. Pablo will be great with these guys. Don lovw for u to come down some time clients nice guys and lots of interesting-albeit somewhat illusionary-opportunities

----- Original Message -----
From: Schwartz, Harvey
To: Montag, Tom; Sparks, Daniel L; Mullen, Donald
Sent: Fri May 11 19:04:36 2007
Subject: Re: Lester Called

Yes.

But don't think we can trade this with our clients andf then mark them down dramatcially the next day. That is what I was told there was a risk of..but perhaps miscommunicated to me. Needs to be a discussion if that risk exists. Really shouldn't be a big issue or impact our process.

If folks disagree happy to discuss, maturally.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L; Schwartz, Harvey; Mullen, Donald
Sent: Fri May 11 19:01:29 2007
Subject: Re: Lester Called

Of course we should but this is how we find value by showing assets and seeing where bid comes. If fortress can value bad debt from [redacted] they can do this. They don't look to us for guidance they pay what they think its worth. Is there a different issue? We will value where the market shows us it is if we find a bid won't we?

----- Original Message -----
From: Sparks, Daniel L
To: Schwartz, Harvey; Mullen, Donald
Cc: Montag, Tom
Sent: Fri May 11 18:47:57 2007
Subject: Re: Lester Called

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1575

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Sounds fine

----- Original Message -----
From: Schwartz, Harvey
To: Mullen, Donald; Sparks, Daniel L
Cc: Montag, Tom
Sent: Fri May 11 18:16:38 2007
Subject: Re: Lester Called

Don't think we should slow or delay and discussions. However we need to huddle quickly before hitting bids I think.

Is that not an option?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Mullen, Donald
To: Sparks, Daniel L
Cc: Montag, Tom; Schwartz, Harvey
Sent: Fri May 11 17:46:13 2007
Subject: Re: Lester Called

I doubt they will sell over weekend. And harvey is concerned about the representations we may be making to clients as well as how we will price assets once we sell them to clients. I think we need to sort these things out before we make sales.

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald
Sent: Fri May 11 17:25:33 2007
Subject: FW: Lester Called

There are some people working on Timberwolf - Forterss is continuing to work, Basis sales person feels there is a decent chance (but it will be a week out as they are traveling). Also, Cornac team working on it. If we get strong bids, can't we hit them?

From: Lehman, David A.
Sent: Friday, May 11, 2007 4:58 PM
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh
Subject: Lester Called

He wants to us to talk with him or Mullen before we sell any of our retained positions

I posted Ben and Bieber

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Alexander, Lee
Sent: Sunday, May 20, 2007 8:31 PM
To: Mullen, Donald; Sparks, Daniel L
Cc: Brafman, Lester R; Kaprelian, Michael
Subject: Viniar Presentation - Updated

Attachments: Mortgages V4.ppt

Please see attached for the Viniar Presentation. Don - We sent this to you via car ~15mins ago. Waiting to get a confirm from the driver that it has been dropped off.

Lester and I will dial into the call at 9pm.

Dial in information is:
Dial-In Information: 888-446-9291 code:756062


Mortgages V4.ppt

Thx

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1576

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Mortgage Department

May 2007

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Mortgage Department
Executive Summary

- The Mortgage Department is concerned about the following risks:
  - Retained Positions in the CDO Origination Business
    - Market Value of CDO Debt and Equity is $4.262bn
    - $2.6bn represents High Grade Super Senior positions
    - Desk is specifically concerned about CDO^2 positions which represent $637mm of Debt. The complex structure of these positions make them difficult to value and distribute.
  - Warehouse Collateral in the CDO Origination Business
    - Market Value of $1.458bn
    - Desk is specifically concerned about $742mm of Structured Product CDOs. Currently, there is limited liquidity and price transparency in this space.
  - SPG Trading Book
    - Short position of $2.8bn in Structured Product CDOs, of which $2.4bn is in single A or Lower tranches
    - Desk is specifically concerned about the basis risk between the short in this book and the warehouse collateral. Although they are the same product, there is limited overlap between the two books.
  - Non-CDO PnL Items

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Mortgage Department
Retained Positions

- The desk is most concerned about the CDO^2 positions, comprised of the recent Timberwolf and Point Pleasant transactions.
- The lack of liquidity in this space and the complexity of the product make these extremely difficult to value.

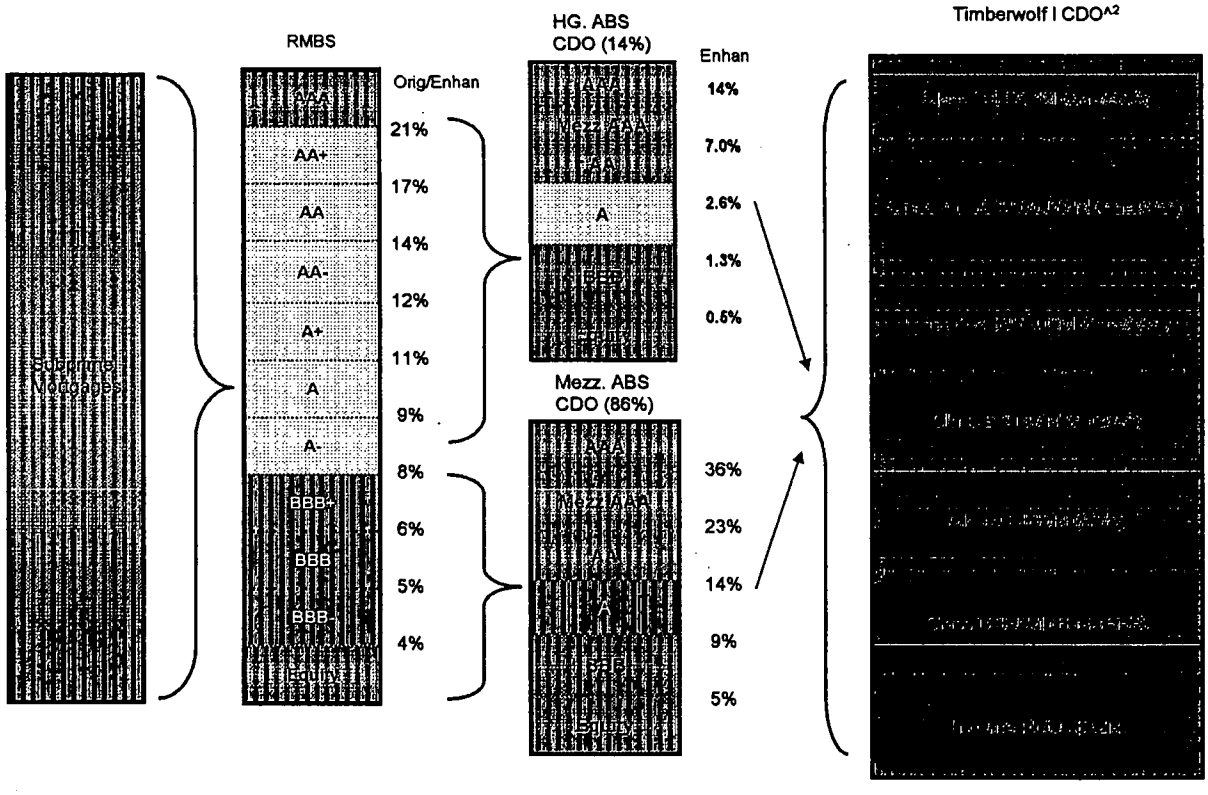
Tranche	Deal	Moys	Notional *	Mark	MktValue *
"S" tranche	Timberwolf	Aaa	9.0	100.00%	9.0
"S" tranche	Timberwolf	Aaa	8.3	100.00%	8.3
Mezz AAA	Timberwolf	Aaa	285.0	91.34%	260.3
AA	Timberwolf	Aa2	107.0	88.72%	94.9
Equity	Timberwolf		10.8	85.00%	9.1
		Total	420.1		381.7
#1 Mezz AAA	Point Pleasant	Aaa	127.5	94.78%	120.8
#2 Mezz AAA	Point Pleasant	Aaa	75.0	92.24%	69.2
AA	Point Pleasant	Aa2	50.0	89.41%	44.7
A	Point Pleasant	A2	10.1	71.88%	7.3
BBB	Point Pleasant	Baa2	10.5	76.72%	8.1
Equity	Point Pleasant		10.1	58.00%	5.8
		Total	283.2		255.9
		TOTAL	703.2		637.6

* Notional and Market Value in MMs

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Mortgage Department

Timberwolf I CDO^2: Overview of Capital Structure

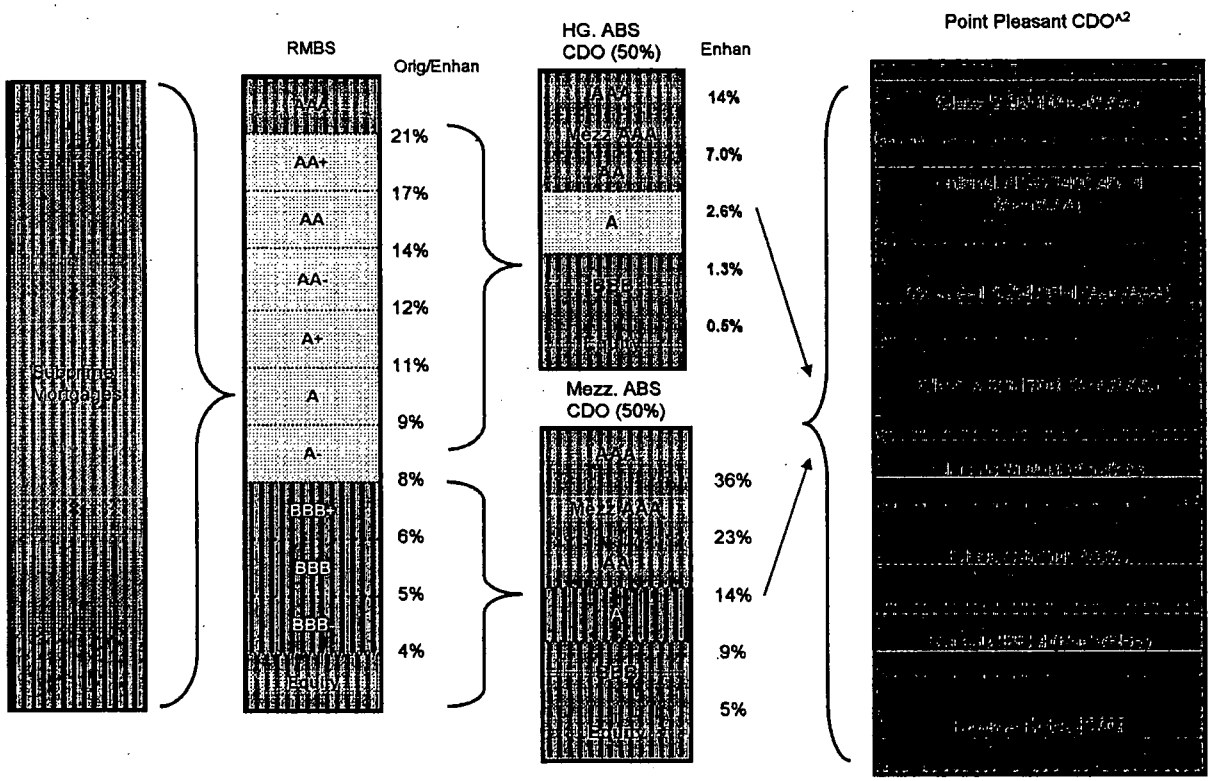


Note: Current RMBS enhancement levels are approximately 4 to 6% higher as a result of excess spread building up within the structure

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Mortgage Department

Point Pleasant CDO^2: Overview of Capital Structure



Note: Current RMBS enhancement levels are approximately 4 to 6% higher as a result of excess spread building up within the structure

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Mortgage Department
Warehouse Positions

- The desk holds $1.458bn in Warehouse Collateral related to 3 CDO transactions
- Current valuation policy is to mark to viable securitization valuation or cost. As securitization is no longer a viable exit, the warehoused collateral will be marked to market on an individual basis.
- Biggest driver of the mark to market is the $742mm Structured Product CDO collateral which has limited price visibility
- Details of the Warehouse Collateral are represented below:

			SPG Trading		Controllers	
Sector	Market Value	Price	Proposed Writedown	Average Price	Proposed Writedown	Average Price
CLO	69.5	100.00%	(2.0)	97.07%	-	100.00%
CMBS/CRE CDO	121.8	100.00%	(5.3)	95.65%	(3.0)	97.54%
RMBS - Other	183.7	100.00%	(15.8)	91.43%	(8.0)	95.65%
RMBS - Subprime	341.3	100.00%	(27.2)	92.02%	(9.0)	97.36%
SP CDO	741.8	100.00%	(169.6)	77.14%	(153.0)	79.37%
Less: Warehouse reserves			82.0		82.0	
Less: SMBC Funding facility			12.0			
Total	1,458.1		(125.9)		(91.0)	

* Market Value and Proposed Mark in MMs

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Mortgage Department
SPG Trading

- Over the past year the Secondary trading desk has built a short position of $2.4bn in Single A or below Structured Product CDOs

- During this time period, Single A CDO prices are ~20pts lower (from $100 to $80)

- As the market for securities in this space has declined, the desk has recognized the following PnL related to CDOs:

	CDO PnL			SPG Trading
	CDO Origination/Retained	Warehouse	Total	ABS / Correlation
MTD	(25.7)	(21.2)	(46.9)	14.7
QTD	(172.3)	(155.8)	(328.1)	196.8
YTD	(226.5)	(231.5)	(458.0)	262.8

* in MMs

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Mortgage Department
SPG Trading Valuation Methodology

- CDO^2
  - Use of rough modeling tools/frameworks such as risk neutral pricing and initial HPA/empirical analysis
  - Trader views of where risk should trade in the context of the market, incorporating the current fundamental and technical backdrop
  - Customer feedback/potential indications of interest

- Non - CDO^2
  - Market observables on debt securities (CDOs, CMBS, RMBS, CLOs)
  - Blended scenario analysis on retained SP CDO equity positions, incorporating downgrade triggers and cashflow waterfall structure

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Mortgage Department
SCT Modeling Procedure

- Step 1: Value RMBS Underliers
  - Pricing feeds taken from 3rd party pricing service (IDC) first and then from SPG trading to backfill
  - IDC pricing vs. SPG Trading were very close in most cases
- Step 2: Run Net Asset Value ("NAV") Analysis and Simulation Analysis on CDO residual position and CDO^2 underlying CDOs
  - NAV analysis prices a CDO's asset pool (using prices mentioned in Step #1) and then layers that aggregate asset value over the CDO's capital structure in a sequential fashion
  - Simulation analysis runs multiple possible outcomes with the goal of determining how a portfolio's aggregate value should be allocated across the tranches of a given CDO structure. Often value in a CDO is not allocated in a purely sequential fashion and simulation analysis can expose the relationship better in many cases than NAV analysis alone
- Step 3: Create a rule based system to choose simulation based valuation output vs. NAV based output & implement approximations for line items where simulations and / or NAVs could not be executed
  - For line items where simulation analysis and NAV analysis could both be run, a simulation based valuation was used
  - For line items where only NAV analysis could be run, NAV level was used subject to a valuation floor and cap
  - For line items where neither NAV nor simulation analysis could be run, the weighted average price of successfully priced line items with similar asset characteristics was used. If no comparable line items were available (approx 15% of the 250 line item portfolio), the desk used a degree of subjectivity in determining price
- Step 4: Based upon implied ATM spreads calculated in Step #3, run an additional simulation analysis and NAV analysis on both CDO^2 transactions (Point Pleasant and Timberwolf)

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Mortgage Department

Mortgage Strats Modeling Procedure

- The asset model is a 2-layer correlation model designed for pricing synthetic CDOs of structured product securities. Correlations at each level are calibrated from the variation of market spreads across the capital structure. Underlying asset values driving the valuation are calibrated from market spreads at the second level; a basis in asset values may be inferred from market spreads at the top level.
- Advantages:
  - Simultaneously models 2 layers of structure, capturing interaction between 2 levels of correlation
  - A large number of correlated loss scenarios are simulated
  - Credit curves for underlying assets 2 layers down are based on a Merton-style asset value model, suitable for asset-backed loans typically at this level
  - Handles synthetic CDO features such as individual callability of blocks of tranches and modified sequential paydown
  - Handles key features of structured product underliers such as RMBS stepdown
- Disadvantages:
  - Designed for synthetic CDOs, does not currently capture some features of cash flow CDO such as oc/ic triggers and ratings downgrade triggers
  - Does not capture rate convexity for rate sensitive mortgage products

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Mortgage Department
Controllers Valuation Methodology

- Due to the current lack of liquidity in the CDO squared market, the retained CDO squared inventory is unverified.

- Accordingly, feedback from the ongoing discussions with clients to distribute the retained inventory is essential to determining the appropriate valuation for quarter end.

- Previously, we verified CDO squared inventory to comparable market transactions. Market transactions included data from new underwritings from competitors and/or firm transactions.

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Mortgage Department
Alternative Valuations

	Current Mark	SPG Trading A	SPG Trading B	SPG Trading C	Model Approach A	Model Approach B	Controllers
Retained Positions	4,261.9	(129.3)	(216.3)	(303.4)	(543.3)	TBD	TBD
- CDO Debt	*4,150.3*	*(117.0)*	*(187.3)*	*(257.8)*	*(473.3)*	*TBD*	*TBD*
- CDO Equity	*111.6*	*(12.3)*	*(29.0)*	*(45.7)*	*(70.0)*	*TBD*	*TBD*
Warehouse Collateral	1,458.1	(107.2)	(125.9)	(144.6)	N/A	N/A	(91.0)
TOTAL (Retained and Warehoused)	5,720.0	(236.5)	(342.2)	(448.0)	N/A	N/A	TBD

* In MMs

Tranche	Deal	Notional	Mark	SPG Mark Scen A	Scen B	Scen C	Model A	Model B	Notional	Last Sale Price	Trade Date
Mezz AAA	Timberwolf	285.0	91.34%	75.00%	70.00%	65.00%	38.19%	66.00%	20.0	87.79%	4/23/2007
AA	Timberwolf	107.0	88.72%	60.00%	50.00%	40.00%	32.92%	38.00%			
#1 Mezz AAA	Point Pleasant	127.5	94.78%	89.00%	87.00%	85.00%	46.88%	90.00%			
#2 Mezz AAA	Point Pleasant	75.0	92.24%	75.00%	70.00%	65.00%	23.62%	65.00%	20.0	91.30%	4/24/2007
AA	Point Pleasant	50.0	89.41%	60.00%	50.00%	40.00%	24.01%	43.00%	16.0	72.50%	3/28/2007

* Notional in MMs

Note: Model A represents SCT and Model B represents Mortgage Strats

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Mortgage Department
Next Steps

- Unwind the warehouses
- Independent teams to continue to value retained positions
  - David Lehman & Michael Swenson (SPG Trading)
  - Will Roberts, Jerry Ouderkirk, Doug Weaver (SCT Trading)
  - Dedicated Mortgage Strat support, led by Elisha Wiesel
- Distribution team to continue to work with targeted investors, led by Stacy Bash-Polley (Elisha Wiesel further working with legal on viability of disseminating information to investors)
  - Basis Capital
  - Fortress
  - Polygon
  - Winchester Capital
- SPG Trading to gather observable prices on underliers to improve accuracy of valuation models
- Justin Gmelich will continue to work with Controllers to resolve discrepancies for non-CDO PnL items

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Mortgage Department
Non-CDO PnL Items

	SPG Trading Estimate	Controllers Estimate
Subprime Residuals	(40) to (50)	(5)
Alt A Residuals	(25) to (30)	8
Second Lien Residuals	(21)	TBD
HELOC Residual	(5)	(5)
Scratch and Dent Residuals	(5)	(5)
Scratch and Dent Loans	TBD	TBD
CDS Duration	100 to 125	100 to 125

* Estimate in MMs

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Appendix

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgage Department

CDO Debt - Retained Positions

"S" tranche	Altius III	S	Aaa	High grade	[redacted]													
"S" tranche	Timberwolf	S1	Aaa	CDO-squared	9.0	100.00%	9.0				100.00%							
"S" tranche	Timberwolf	S2	Aaa	CDO-squared	8.3	100.00%	8.3				100.00%							
"S" tranche	Davis Square VII	S	Aaa	High grade	[redacted]													
"S" tranche	Fort Denison	S	Aaa	Mezz														
"S" tranche	Point Pleasant	S	Aaa	CDO-squared	6.0	100.00%	6.0				100.00%							
Super Senior	Davis Square VII	A1-a	Aaa	High grade	[redacted]													
Super Senior	GSC 2006-3g	A1-e	Aaa	High grade														
Super Senior	Hudson Mz 06-2	A1	Aaa	Mezz														
Super Senior	Summer Street 04-1	A1	Aaa	Mezz														
Super Senior	Anderson	A1-a	Aaa	Mezz	130.0	98.82%	128.5	98.7%	98.2%	97.7%	98.82%							
Super Senior	Anderson	A1-b	Aaa	Mezz	51.0	94.72%	48.3	94.8%	94.3%	93.8%	94.72%							
Mezz AAA	Adirondack 2005-1	A2	Aaa	High grade	[redacted]													
Mezz AAA	Fortius II	A2	Aaa	Mezz														
Mezz AAA	Mainsail	A2	Aaa	High grade														
Mezz AAA	Bernoull	A2	Aaa	High grade														
Mezz AAA	Timberwolf	A2	Aaa	CDO-squared	285.0	91.34%	260.3	75.0%	70.0%	65.0%	55.00%					20.0	87.79	4/23/2007 MONEYGRAM I
Mezz AAA	Point Pleasant	A1	Aaa	CDO-squared	127.5	94.78%	120.8	89.0%	87.0%	85.0%	55.00%							
Mezz AAA	Point Pleasant	A2	Aaa	CDO-squared	75.0	92.24%	69.2	75.0%	70.0%	65.0%	34.00%					20.0	91.30	4/24/2007 MONEYGRAM I
AA	Fortius II	B	Aa2	Mezz	[redacted]													
AA	Altius 4	B	Aa2	High grade														
AA	Fort Denison	B	Aa2	Mezz														
AA	Summer Street 04-1	A3	Aa2	Mezz														
AA	Avebury	B	Aa1	High grade														
AA	Anderson	B	Aa2	Mezz	37.7	91.87%	34.7	87.8%	85.8%	83.8%	85.00%					5.0	95.50	3/20/2007 MONEYGRAM I
AA	Timberwolf	B	Aa2	CDO-squared	107.0	88.72%	94.9	60.0%	50.0%	40.0%	34.00%							
AA	Hudson Mz 06-1	B	Aa2	Mezz	51.0	77.50%	39.5	82.0%	80.0%	78.0%	37.85%							
AA	Hudson Mz 06-2	B	Aa2	Mezz														
AA	Point Pleasant	B	Aa2	CDO-squared	50.0	89.41%	44.7	60.0%	50.0%	40.0%	25.00%					16.0	72.50	3/28/2007 POLYGON

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Mortgage Department

CDO Debt - Retained Positions (cont)

| | | |

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Mortgage Department

CDO Equity - Retained Positions

2002-2004 High Grade	Putnam Structured Product 2002-1	[redacted]							
2002-2004 High Grade	Davis Square Funding I, Ltd								
2002-2004 High Grade	Sierra Madre Funding, Ltd.								
2002-2004 High Grade	Davis Square Funding III, Ltd								
2005-2006 High Grade	Altius I Funding, Ltd.								
2005-2006 High Grade	Davis Square Funding V, Ltd.								
2005-2006 High Grade	Davis Square Funding VI, Ltd								
2005-2006 High Grade	Hout Bay, Ltd								
2005-2006 High Grade	Hudson High Grade								
2005-2006 High Grade	Davis Square VII								
2005-2006 High Grade	GSC ABS Funding 2006-3g, Ltd.								
2005-2006 High Grade	West Coast Funding, Ltd.								
2005-2006 High Grade	Adirondack 2005-1 Funding, Ltd								
2005-2006 High Grade	Davis Square Funding IV, Ltd.								
2005-2006 High Grade	G-Street Finance								
2005-2006 High Grade	Adirondack 2005-2 Funding, Ltd								
2005-2006 High Grade	Altius 4 Funding, Ltd.								
2005-2006 High Grade	Altius III Funding, Ltd.								
2001-2005 Mezz	NYLIM Stratford CDO 2001-1, Ltd								
2001-2005 Mezz	Camber III plc								
2001-2005 Mezz	Coolidge Funding, Ltd.								
2001-2005 Mezz	Fortius I Funding, Ltd.								
2006 Mezz	Fortius II Funding, Ltd.								
2006 Mezz	Hudson Mezzanine 2006-2, Ltd.								
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.	2.6	57%	1.4	50.0%	40.0%	30.0%	3.5	81.00 4/16/2007 DILLON READ
2006 Mezz	Camber 7								
2006 Mezz	Anderson	20.0	57%	11.9	57.0%	47.0%	37.0%		
CDO-squared	Lochsong, Ltd.								
CDO-squared	Fort Denison								
CDO-squared	Timberwolf	10.0	85%	8.5	65.0%	55.0%	45.0%		
CDO-squared	Point Pleasant	10.1	55%	5.6	71.0%	61.0%	51.0%		
Total		$ 170.0		$ 111.6					
% of current face									
Class X	Broadwick	[redacted]							
	Davis Square V								
	Davis Square VI								
	Davis Square VII								
	G-Street								
	West Coast								

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Mortgage Department

Timeline – Timberwolf & Point Pleasant

- **Timberwolf (Greywolf)**
  - 7/21/06 - Engagement letter signed
  - 9/5/06 - Warehouse begins ramping
  - 12/13/06 - Warehouse 50% ramped
  - 3/2/07 - Revision to engagement letter - Greywolf commitment to purchase BBB and single A tranches
  - 3/13/07 - Pricing
  - 3/27/07 - Closing
- **Point Pleasant (Dillon Read)**
  - 6/2/06 - Engagement letter signed
  - 9/14/06 - Warehouse begins ramping
  - 12/14/06 - Warehouse 50% ramped
  - 3/5/07 - Commitment letter signed with Natixis for Super senior
  - 4/10/07 - Pricing
  - 4/18/07 - Closing

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Mortgage Department
Distribution

Account	Sales	Deal	Tranche	Defcon	Comments
Fortress	Davilman	Timberwolf I	Mezz AAA	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
Fortress	Davilman	Timberwolf I	AA-Rated	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
Stark	Gaddi	Timberwolf I	Mezz AAA	1	Looking on a financed basis - Indicative terms ([redacted] - concerned about correlation, our level, [redacted]
Winchester	Radtke	Point Pleasant 2007-1	Mezz AAA	1	Engaged and looking - has been offered bonds at 450 on A2, 700 on B / [redacted]
Basis	Maltezos	Timberwolf I	Mezz AAA	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
Basis	Maltezos	Timberwolf I	AA-Rated	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
AIG	Penick	Timberwolf I	Mezz AAA	3	[redacted] trying to get answer by GS qtr end. Asked/received additional information today / they are still working / Penick to follow up early next week
Fidelity	Martin	Point Pleasant 2007-1	A-rated	3	Looking
IS Plenum	Arslan	Point Pleasant 2007-1	A-Rated	3	[redacted]
Miller Anderson	Brazil	Timberwolf I	Mezz AAA	3	Looking
Moneygram	Gilligan	Timberwolf I	AA-Rated	3	Potential interest on AAs (already own AAAs) / trying to see if they go down in cap. Structure (low Delta)
Old Lane	Grinstein	Timberwolf I		3	Need lookthru analysis / Strats are working on it
Pequot	brazil	Timberwolf I	Mezz AAA	3	Looking
Sandelman	Kelly			3	Checking - Twolf higher delta than Point Pleasant given headline risk wrt Dillon Read - want lookthru analysis on Timberwolf / Strats are working on it / [redacted]
UBS Prop	Kelly	Timberwolf or Pt. Pleasant		3	Class
DeShaw	cohen	Point Pleasant 2007-1	Mezz AAA	3	Looking - asked for materials and raw data ([redacted] / had call / low delta [redacted]
Elliot	Grinstein	Timberwolf I	Mezz AAA	3	[redacted]
Polygon	Raazi	Timberwolf I	AA-Rated	3	[redacted]

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Mortgage Department

Distribution (cont)

Account	Sales	Deal	Tranche	Defcon	Comments
Carlyle	Ruberti			4	Will go through look through analysis - go from there / Strats are working on it
DA Capital	Kreitman			4	Start work @ +800 - 1000dm for mezz AAA
Elliot	Grinstein			4	Focused on anderson Equity
					[redacted] evaluating
Harvard	Radtke	Point Pleasant 2007-1	Mezz AAA	4	counter / Radtke to follow up next week
Highland	Ruberti			4	Low Delta - Need lookthru analysis / Strats are working on it
					Checking - need feedback on interest from account before showing wider offering levels - [redacted]
JPM Prop	Verrochi			4	[redacted]
Marathon	Kreitman			4	
MS Prop	Martin	Timberwolf I	Mezz AAA	4	will do work in the L+800-1000 context ($71-65) - passed on GS offer at 80-00
Nochu/SSG				4	Further analysis needed
Princeton	Fertel/Phillips			4	Low Delta - have never Bought CDO^2
Smith Breedan	martin			4	Start work @ +800 - 1000dm for mezz AAA
Zais	Grinstein	Point Pleasant 2007-1	Mezz AAA	4	potential - will likely be slower with feedback
Lehman A/M	Gaddi	Timberwolf I	Mezz AAA	4	Need a look-through of the underlying vintages / strats are working on it
Providence	Reinstein	Point Pleasant 2007-1		4	Looking - sent final CC/Portfolio
					Looking - may care for a small amount for their CDO bucket in their own deals / limited room in their
Vanderbilt	Gaddi	Timberwolf I		4	Bucket - small size if they care
Hyperion	Willing	Timberwolf I		4	Looking - [redacted]
Paramax	Matthias	Point Pleasant 2007-1	Mezz AAA	4	Very Low Delta
Paramax	Matthias	Timberwolf I	Mezz AAA	4	Very Low Delta
Blackrock	Fertel/Phillips	Point Pleasant 2007-1		4.5	Unlikely, relooking at analysis from new issue, [redacted]
Clinton	Verocchi	Point Pleasant 2007-1	Mezz AAA	4.5	Low Delta - Can't model CDO^2
Harding	Hornback	Point Pleasant 2007-1	A-rated	4.5	looked at single A's new issue - still need final feedback - low delta
					Checking - [redacted]
ML Bank	Willing			4.5	[redacted] Timberwolf more likely than Point Pleasant given headline risk wrt Dillon Read
CBASS	Pinkos			5	Out - do not buy CDO^2
Ellington	Sue/Elaine	Timberwolf I	Mezz AAA	5	removed from list - have not been shown levels
Mariner	Maltezos	Timberwolf I	Mezz AAA	5	Out - too much overlap with Point Pleasant
TPG-Axon	Fertel/Phillips	Point Pleasant 2007-1	Mezz AAA	5	Out - [redacted]

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Mortgage Department

CDO Derivative Positions

Trade Type	Model Status	Notional Exposure					Stated P&L
			Warehouse		Closed Deals		
		Net	Long	Short	Long	Short	
Collateral Put	Off-Label	2,674.1	-	-	2,674.1	-	0.2
Supersenior Total Return Swap	Off-Label	1,665.0	-	-	1,665.0	-	(1.1)
Supersenior Tranched Swap	Fully Approved	(825.0)	-	-	-	825.0	(2.4)
Mtg Index Product	Fully Approved	(625.0)	-	-	450.0	1,075.0	(38.7)
Interest Rate Swap	Fully Approved	(540.0)	-	540.0	-	-	(1.5)
Mtg Default Swap	Fully Approved	(398.7)	611.8	-	7,965.7	8,976.1	(31.4)
PIK Swap	Not Modeled	50.0	-	-	50.0	-	0.0
Equity Total Return Swap	Off-Label	(17.0)	-	-	-	17.0	(9.7)
CLO Equity Principal Protection	Fully Approved	13.9	-	-	13.9	-	(0.0)
Total Return Swap?	Unknown	-	-	-	274.7	274.7	0.4
Mtg Synthetic CDO	Fully Approved	-	-	-	22.5	22.5	0.0

- Notes:
  - "Long" notional exposure means long bonds (long treasuries in the case of interest rate swaps)
  - "Off-Label" model status means fully approved model being used outside its originally intended scope, and so not capturing some important features of these trades
  - Collateral Put is writing protection against short AAA floaters (used to collateralize funded tranches built off synthetic portfolios)
  - Supersenior Tranched Swap is selling the top 2/3 of one of the two supersenior tranches held in Supersenior Total Return Swap form.

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Mortgages CDO Origination

Retained Positions & Warehouse Collateral

May 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1576

Mortgages CDO Origination
Executive Summary

- Based upon the inability to place the liabilities of the Timberwolf and Point Pleasant CDO^2 transactions, the Mortgage trading desk assessed the current valuation of retained positions and the ability to securitize current CDO^2 warehouse collateral.
- The inability to securitize CDO^2 warehouse collateral will result in the unwind of the warehouse facilities, which will move the collateral from a mark to model valuation to a mark to market valuation.
- The initial estimate on May 11th of the mark-to-market P&L impact of this revaluation of retained positions and change in valuation methodology is shown as follows:

	Market Value ($mm)	A	B	C
Retained Positions:				
Debt - CDO	4,053	(121)	(196)	(273)
Equity - CDO	113	(12)	(24)	(36)
Warehouse Collateral	1,493	(116)	(160)	(202)
Total	**5,659**	**(248)**	**(380)**	**(511)**

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Mortgages CDO Origination
Retained Positions

- As of May 11th, the desk held $4.166bn in Retained positions related to CDO Debt and Equity. Breakout of this balance by type and the anticipated writedowns are shown below:

	Market Value($mm)	A	B	C
Debt - CDO				
CDO-squared	637	(111)	(166)	(221)
Mezz	622	(11)	(26)	(42)
High grade	2,793	1	(3)	(9)
Total	**4,053**	**(121)**	**(196)**	**(273)**
Benchmark Timberwolf Mezz AAA	*1,260*	*(47)*	*(97)*	*(179)*
Average Price		*82%*	*77%*	*71%*
Equity - CDO				
2001-2005 Mezz	11	(3)	(4)	(5)
2002-2004 High Grade	5	-	-	-
2005-2006 High Grade	33	(5)	(7)	(8)
2006 Mezz	32	(4)	(9)	(14)
CDO-squared	32	0	(4)	(9)
Total	**113**	**(12)**	**(24)**	**(36)**
TOTAL	**4,166**	**(132)**	**(220)**	**(309)**

- The anticipated writedowns are driven by Mezz AAA and AA tranches of Timberwolf and Point Pleasant CDO^2 structures ($(159.3)mm – Scenario B). These deals were priced the wk of 03/16 and the week of 04/13, respectively.
- Due to the lack of liquidity in the marketplace for these structures (i.e. Timberwolf and Point Pleasant last traded on 04/23 and 04/24, respectively), the desk has proposed writedowns to reflect current market conditions.

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Mortgages CDO Origination
Warehouse Positions

- As of May 11th, the desk was in the midst of ramping up 4 CDO warehouses. At this time, the warehouse collateral was valued with the assumption that a CDO was a viable exit. Thus, inventory warehoused was marked to model by comparing asset and liability spreads, including the desired equity yield. To the extent that the current CDO liability spreads were wider than the cost on an aggregate basis, the estimated loss was reserved.
- As securitization is no longer a viable exit, the warehoused assets will be marked to market on an individual basis. Current market value of all warehouse collateral is par. Anticipated writedowns are as follows:

		A		B		C	
Sector	Market Value($mm)	Write down	Average Price	Write down	Average Price	Write down	Average Price
CLO	70	(1)	98%	(2)	97%	(3)	96%
CMBS/CRE CDO	122	(4)	96%	(5)	96%	(6)	95%
RMBS - Other	184	(15)	92%	(16)	91%	(17)	91%
RMBS - Subprime	341	(26)	93%	(27)	92%	(29)	92%
SP CDO	777	(145)	81%	(185)	76%	(222)	71%
Less: Warehouse mark-to-model reserves		75		75		75	
Total	**1,493**	**(116)**		**(160)**		**(202)**	

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Mortgages CDO Origination

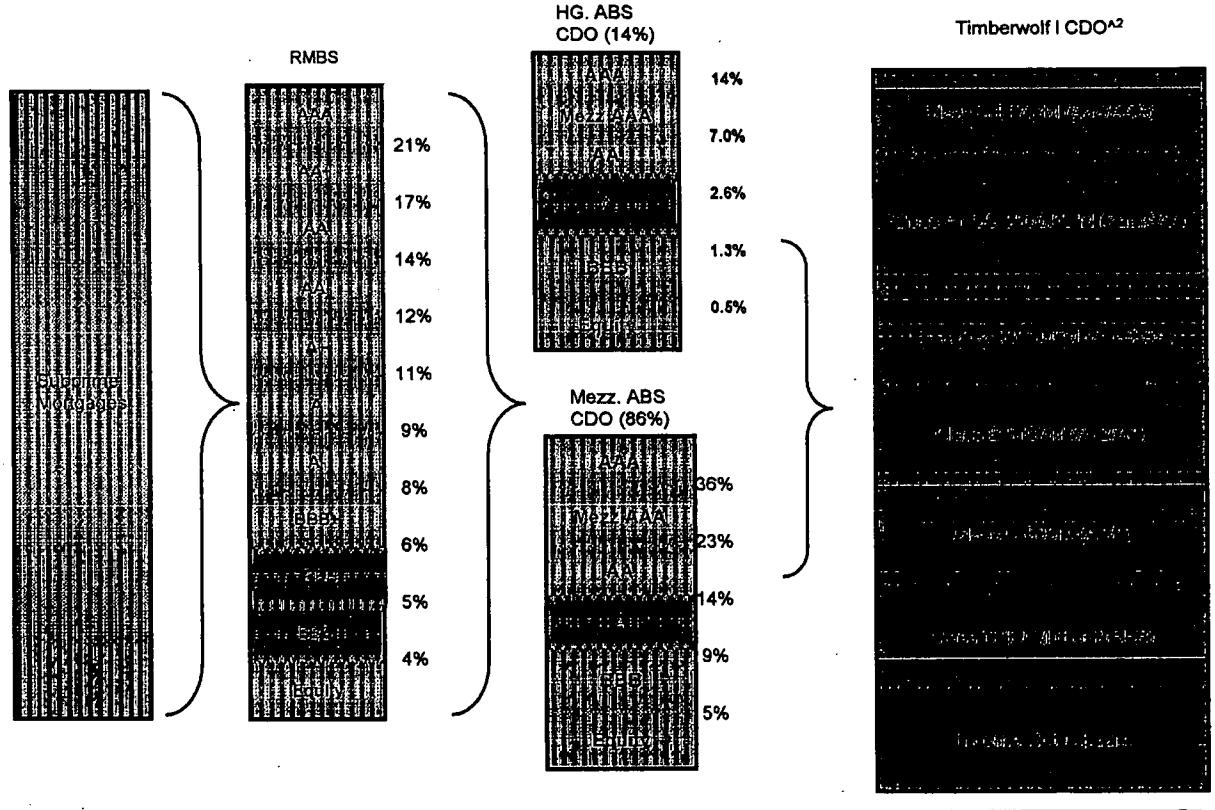
CDO Origination Risk vs. SPG Trading Risk

- Origination – Long 2.6bn of CDO Risk
  - Our CDO^2 collateral was ramped prior to the market widening and marked to model – average ramp period is 6-9 months
  - Our CDO^2 deals, Timberwolf and Point Pleasant, priced in March with demand only for the super senior tranche
  - The complexity of the CDO^2 product and the poor demand for CDOs in general has made this risk difficult to sell and the desk expects it to underperform
- SPG Trading – Short $2.8bn of CDO Risk
  - Over the past 6 months, Single A CDO prices are ~20-25pts lower (from $100 to $75-80)
  - SPG Trading Shorts were marked to market as prices declined

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Mortgages CDO Origination

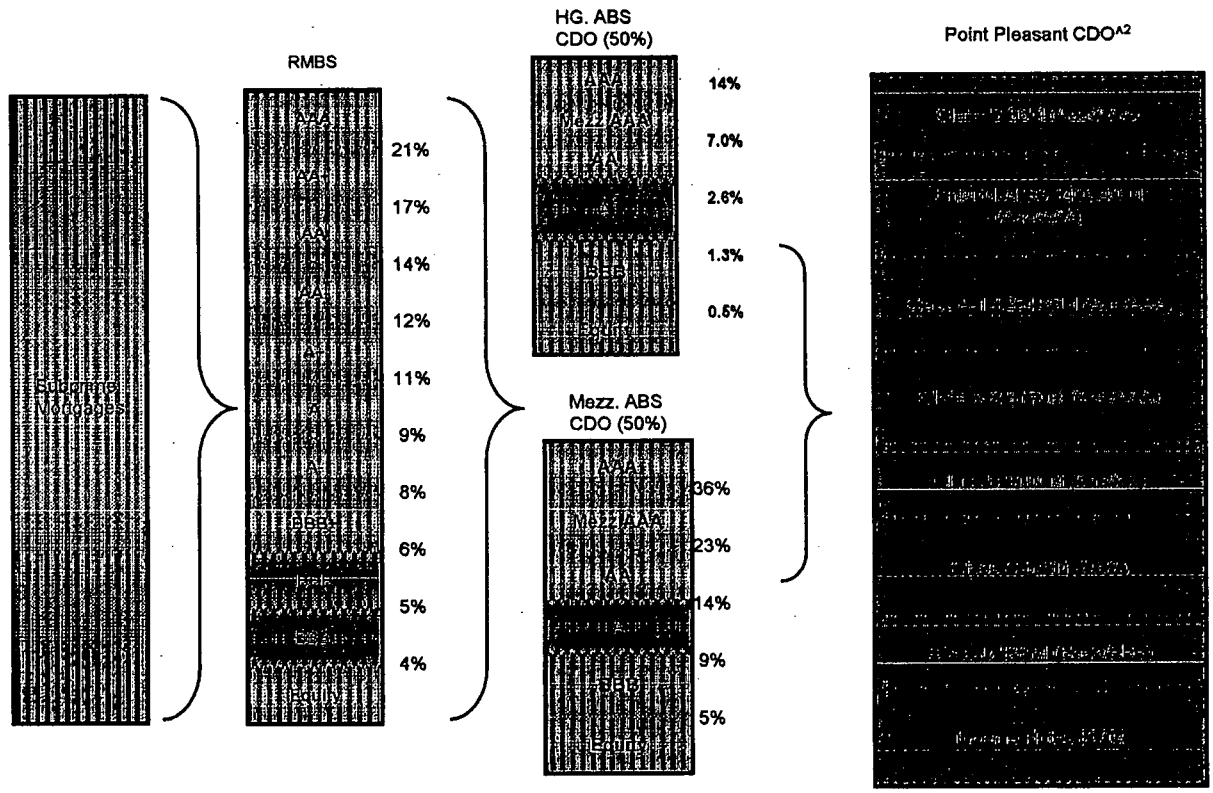
Timberwolf I CDO^2: Overview of Capital Structure



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Mortgages CDO Origination

Point Pleasant CDO^2: Overview of Capital Structure



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Mortgages CDO Origination
Action Steps – May 11th

- Unwind the warehouses
- Form three independent teams to value retained positions independently
  - David Lehman & Michael Swenson (SPG Trading)
  - Will Roberts, Gerald Ouderkirk, Doug Weaver (SCT Trading)
  - Dedicated strat support, led by Elisha Wiesel
- Distribution team headed by Stacy Bash-Polley and Scott Wisenbaker

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Mortgages CDO Origination

Anticipated Writedowns (in MMs)

	SPG A	SPG B	SPG C	CrossRoll	Strats
Retained Positions	(117)	(187)	(258)		
Benchmarks					
Timberwolf Mezz AAA	(47)	(69)	(75)		
Warehouse*	(126)	(126)	(126)	(126)	(126)
Total	**(243)**	**(313)**	**(384)**	**(126)**	**(126)**

* Warehouse p&l shown using scenario B level of $126mm

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Mortgages CDO Origination

CDO Debt - Retained Positions

Tranche	CDO	Asset	Moody's	Deal Type	Current OC		Underlying		Subordination			Comments			Issuance		
"S" tranche	Altius III	S	Aaa	High grade	[redacted]												
"S" tranche	Timberwolf	S1	Aaa	CDO-squared	9.0	100.00%	9.0										
"S" tranche	Timberwolf	S2	Aaa	CDO-squared	8.3	100.00%	8.3										
"S" tranche	Davis Square VII	S	Aaa	High grade	[redacted]												
"S" tranche	Fort Denison	S	Aaa	Mezz													
"S" tranche	Point Pleasant	S	Aaa	CDO-squared													
Super Senior	Davis Square VII	A1-a	Aaa	High grade	[redacted]												
Super Senior	GSC 2006-3g	A1-e	Aaa	High grade													
Super Senior	Hudson Mz 06-2	A1	Aaa	Mezz													
Super Senior	Summer Street 04-1	A1	Aaa	Mezz													
Super Senior	Anderson	A1-a	Aaa	Mezz	130.0	98.82%	128.5	98.7%	98.2%	97.7%							
Super Senior	Anderson	A1-b	Aaa	Mezz	51.0	94.72%	48.3	94.8%	94.3%	93.8%							
Mezz AAA	Adirondack 2005-1	A2	Aaa	High grade	[redacted]												
Mezz AAA	Fortius II	A2	Aaa	Mezz													
Mezz AAA	Mainsail	A2	Aaa	High grade													
Mezz AAA	Bernoudi	A2	Aaa	High grade													
Mezz AAA	Timberwolf	A2	Aaa	CDO-squared	285.0	91.34%	260.3	75.0%	70.0%	65.0%					29.0	87.79	4/23/2007 MONEYGRAM I
Mezz AAA	Point Pleasant	A1	Aaa	CDO-squared	127.5	94.78%	120.8	89.0%	87.0%	85.0%							
Mezz AAA	Point Pleasant	A2	Aaa	CDO-squared	75.0	92.24%	69.2	75.0%	70.0%	65.0%					20.0	91.30	4/24/2007 MONEYGRAM I
AA	Fortius II	B	Aa2	Mezz	[redacted]												
AA	Altius 4	B	Aa2	High grade													
AA	Fort Denison	B	Aa2	Mezz													
AA	Summer Street 04-1	A3	Aa2	Mezz													
AA	Avebury	B	Aa1	High grade													
AA	Anderson	B	Aa2	Mezz	37.7	91.97%	34.7	87.8%	85.8%	83.8%					5.0	95.50	3/20/2007 MONEYGRAM I
AA	Timberwolf	B	Aa2	CDO-squared	107.0	88.72%	94.9	60.0%	50.0%	40.0%							
AA	Hudson Mz 06-1	B	Aa2	Mezz	51.0	77.50%	39.5	82.0%	80.0%	78.0%							
AA	Hudson Mz 06-2	B	Aa2	Mezz	24.5	61.75%	15.1	71.0%	68.0%	65.0%							
AA	Point Pleasant	B	Aa2	CDO-squared	50.0	89.41%	44.7	60.0%	50.0%	40.0%							

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Mortgages CDO Origination

CDO Debt - Retained Positions (cont)

A	Altius I	C	A2	High grade	[redacted]									
A	Altius 4	C	A2	High grade										
A	Coolidge	C	A3	Mezz										
A	Davis Square VII	C	A2	High grade										
A	GSC 2006-3g	C	A2	High grade										
A	START 2005CA D	COHEN	A2	Mezz										
A	LEXN 20073A E	COHEN	A3	Mezz										
A	Anderson	C	A2	Mezz	6.8	86.69%		5.9	91.7%	86.7%	81.7%			
A	Hudson Mz 06-1	C	A2	Mezz	109.5	67.00%		73.4	60.0%	55.0%	50.0%			
A	Hudson Mz 06-2	C	A2	Mezz										
A	Point Pleasant	C	A2	CDO-squared	10.1	71.88%		7.3	55.0%	50.0%	45.0%		7.8	87.57	4/10/2007 PLENUM ASSE
BBB	Davis Square VII	D	Baa2	High grade	[redacted]									
BBB	Altius 4	D	Baa2	High grade										
BBB	GSC 2006-3g	D	Baa2	High grade										
BBB	Adirondack 2005-2	D	Baa2	High grade										
BBB	Altius III	D	Baa2	High grade										
BBB	Hout Bay	D	Baa2	High grade										
BBB	G-Street	D	Baa2	High grade										
BBB	Lochsong	D	Baa2	CDO-squared										
BBB	Putnam 2001-1	C1	Baa2	Mezz										
BBB	TABS 20066A B2	COHEN	Baa2	Mezz										
BBB	GSFIN 20051A D	COHEN	Baa2	High Grade										
BBB	STAK 20062A 6	COHEN	Baa2	Mezz										
BBB	COOL 20051A D	COHEN	Baa2	Mezz										
BBB	ACABS 20061A B1L	COHEN	Baa2	Mezz										
BBB	INDE7 7A E	COHEN	Baa2	Mezz										
BBB	DVSO 20066A D	COHEN	Baa2	High Grade										
BBB	Hudson High Grade	D	Baa2	High grade										
BBB	Hudson Mz 06-1	D	Baa2	Mezz										
BBB	Hudson Mz 06-2	D	Baa1	Mezz										
BBB	Hudson Mz 06-2	E	Baa3	Mezz										
BBB	Point Pleasant	D	Baa2	CDO-squared	10.5	76.72%		8.1	50.0%	45.0%	40.0%			
BBB	TIAA Structured Finance	B	Baa1	Mezz	[redacted]									
BB	Camber 7	E	Ba1	Mezz	[redacted]									
BB	Glacier 2005-3	D	Ba1	Mezz										
BB	Hudson Mz 06-1	E	Ba1	Mezz	11.0	52.50%		5.8	47.0%	42.0%	37.0%			
BB	Phoenix 2	B	Ba2	Mezz										
Total							$ 4,421.8			$ 4,150.3				

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Mortgages CDO Origination

CDO Equity - Retained Positions

2002-2004 High Grade	Putnam Structured Product 2002-1	[redacted]						
2002-2004 High Grade	Davis Square Funding I, Ltd							
2002-2004 High Grade	Sierra Madre Funding, Ltd.							
2002-2004 High Grade	Davis Square Funding III, Ltd							
2005-2006 High Grade	Altius I Funding, Ltd.							
2005-2006 High Grade	Davis Square Funding V, Ltd.							
2005-2006 High Grade	Davis Square Funding VI, Ltd.							
2005-2006 High Grade	Hout Bay, Ltd.							
2005-2006 High Grade	Hudson High Grade							
2005-2006 High Grade	Davis Square VII							
2005-2006 High Grade	GSC ABS Funding 2006-3g, Ltd.							
2005-2006 High Grade	West Coast Funding, Ltd.							
2005-2006 High Grade	Adirondack 2005-1 Funding Ltd							
2005-2006 High Grade	Davis Square Funding IV, Ltd.							
2005-2006 High Grade	G-Street Finance							
2005-2006 High Grade	Adirondack 2005-2 Funding, Ltd							
2005-2006 High Grade	Altius 4 Funding, Ltd.							
2005-2006 High Grade	Altius III Funding, Ltd.							
2001-2005 Mezz	NYLIM Stratford CDO 2001-1, Ltd							
2001-2005 Mezz	Camber III plc							
2001-2005 Mezz	Coolidge Funding, Ltd.							
2001-2005 Mezz	Fortius I Funding, Ltd.							
2006 Mezz	Fortius II Funding, Ltd.							
2006 Mezz	Hudson Mezzanine 2006-2, Ltd.							
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.	2.5	57%	1.4	50.0%	40.0%	30.0%	[redacted]
2006 Mezz	Camber 7							
2006 Mezz	Anderson	20.9	57%	11.9	57.0%	47.0%	37.0%	
CDO-squared	Lochsong, Ltd.							
CDO-squared	Fort Denison							
CDO-squared	Timberwolf	10.6	85%	9.1	65.0%	55.0%	45.0%	
CDO-squared	Point Pleasant	10.1	58%	5.8	71.0%	61.0%	51.0%	
Total		$ 170.0		$ 111.6				
% of current face								
Class X	Broadwick	[redacted]						
	Davis Square V							
	Davis Square VI							
	Davis Square VII							
	G-Street							
	West Coast							

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Mortgages CDO Origination
Next Steps

- Continue working with targeted investors
  - Basis Capital
  - Fortress
  - Polygon
  - Winchester Capital
- Elisha Wiesel and SCT Trading will continue to refine models
- SPG Trading to gather observable prices on underliers to improve accuracy of valuation models

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Mortgages CDO Origination
Additional PnL Items

	Desk Estimate	Controller Estimate
Subprime Residuals	(40) to (50)	(5)
Alt A Residuals	(25) to (30)	8
Second Lien Residuals	(21)	TBD
HELOC Residual	(5)	(5)
Scratch and Dent Residuals	(5)	(5)
Scratch and Dent Loans	TBD	TBD
CDS Duration	100 to 125	100 to 125

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Appendix

Mortgages CDO Origination

Market Value & Retained Positions as at May 18th

Warehouse Positions

Sector	Market Value($mm)	Anticipated Writedowns A	B	C
CLO	70	(2)	(2)	(2)
CMBS/CRE CDO	122	(4)	(5)	(6)
RMBS - Other	184	(15)	(16)	(17)
RMBS - Subprime	341	(26)	(27)	(29)
SP CDO	742	(155)	(170)	(184)
Less: Warehouse mark-to-model reserves		82	82	82
Less: SMBC Funding facility		12	12	12
Total	***1,458***	***(107)***	***(126)***	***(145)***

Retained Positions

	Market Value($mm)	Anticipated Writedowns A	B	C
Debt - CDO				
CDO-squared	637	(116)	(154)	(192)
Mezz	658	(4)	(25)	(45)
High grade	2,855	4	(9)	(21)
Total	***4,150***	***(117)***	***(187)***	***(258)***
Benchmark				
Timberwolf Mezz AAA	*[260]*	*(67)*	*(99)*	*(75)*
	Average Price	*0.62*	*0.77*	*0.71*
Equity - CDO				
2001-2005 Mezz	11	(4)	(5)	(6)
2002-2004 High Grade	5	(1)	(2)	(3)
2005-2006 High Grade	35	(7)	(12)	(17)
2006 Mezz	29	(1)	(6)	(11)
CDO-squared	32	0	(4)	(9)
Total	***112***	***(12)***	***(29)***	***(46)***
TOTAL (Warehouse and Retained)	5,720	(236)	(342)	(448)

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgages CDO Origination
Distribution

Account	Sales	Deal	Tranche	Defcon	Comments
Fortress	Davilman	Timberwolf I	Mezz AAA	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
Fortress	Davilman	Timberwolf I	AA-Rated	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
Stark	Gaddi	Timberwolf I	Mezz AAA	1	Looking on a financed basis - Indicative terms ([redacted] concerned about correlation, our level, r[redacted]
Winchester	Radtke	Point Pleasant 2007-1	Mezz AAA	1	Engaged and looking - has been offered bonds at 450 on A2, 700 on B / [redacted]
Basis	Maltezos	Timberwolf I	Mezz AAA	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
Basis	Maltezos	Timberwolf I	AA-Rated	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
AIG	Penick	Timberwolf I	Mezz AAA	3	re-engaged - trying to get answer by GS qtr end. Asked/received additional information today / they are still working / Penick to follow up early next week
Fidelity	Martin	Point Pleasant 2007-1	A-rated	3	Looking [redacted]
IS Plenum	Arslan	Point Pleasant 2007-1	A-Rated	3	v[redacted]
Miller Anderson	Brazil	Timberwolf I	Mezz AAA	3	Looking
Moneygram	Gilligan	Timberwolf I	AA-Rated	3	Potential interest on AAs (already own AAAs) / trying to see if they go down in cap. Structure (low Delta)
Old Lane	Grinstein	Timberwolf I		3	Need lookthru analysis / Strats are working on it
Pequot	brazil	Timberwolf I	Mezz AAA	3	Looking
Sandelman	Kelly			3	Checking - Twolf higher delta than Point Pleasant given headline risk wrt Dillon Read - want lookthru analysis on Timberwolf / Strats are working on it / [redacted]
UBS Prop	Kelly	Timberwolf or Pt. Pleasant		3	[redacted]
DeShaw	cohen	Point Pleasant 2007-1	Mezz AAA	3	Looking - asked for materials and raw data ([redacted] / had call / low delta
Elliot	Grinstein	Timberwolf I	Mezz AAA	3	[redacted]
Polygon	Raazi	Timberwolf I	AA-Rated	3	[redacted]

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Mortgages CDO Origination
Distribution (cont)

Account	Sales	Deal	Tranche	Defcon	Comments
Carlyle	Ruberti			4	Will go through look through analysis - go from there / Strats are working on it
DA Capital	Kreitman			4	Start work @ +800 - 1000dm for mezz AAA
Elliot	Grinstein			4	[redacted]
Harvard	Radtke	Point Pleasant 2007-1	Mezz AAA	4	[redacted]
Highland	Ruberti			4	Low Delta - Need lookthru analysis / Strats are working on it
JPM Prop	Verrochi			4	[redacted]
Marathon	Kreitman			4	
MS Prop	Martin	Timberwolf I	Mezz AAA	4	will do work in the L+800-1000 context ($71-65) - passed on GS offer at 80-00
Nochu/SSG				4	Further analysis needed
Princeton	Fertel/Phillips			4	Low Delta - have never Bought CDO^2
Smith Breedan	martin			4	Start work @ +800 - 1000dm for mezz AAA
Zais	Grinstein	Point Pleasant 2007-1	Mezz AAA	4	potential - will likely be slower with feedback
Lehman A/M	Gaddi	Timberwolf I	Mezz AAA	4	Need a look-through of the underlying vintages / strats are working on it
Providence	Reinstein	Point Pleasant 2007-1		4	Looking - sent final CC/Portfolio
					Looking - may care for a small amount for their CDO bucket in their own deals / limited room in their
Vanderbilt	Gaddi	Timberwolf I		4	Bucket - small size if they care
Hyperion	Willing	Timberwolf I		4	Looking - [redacted]
Paramax	Matthias	Point Pleasant 2007-1	Mezz AAA	4	Very Low Delta
Paramax	Matthias	Timberwolf I	Mezz AAA	4	Very Low Delta
Blackrock	Fertel/Phillips	Point Pleasant 2007-1		4.5	[redacted]
Clinton	Verocchi	Point Pleasant 2007-1	Mezz AAA	4.5	Low Delta - Can't model CDO^2
Harding	Hornback	Point Pleasant 2007-1	A-rated	4.5	looked at single A's new issue - still need final feedback - low delta
					Checking - if [redacted]
ML Bank	Willing			4.5	[redacted] Timberwolf more likely than Point Pleasant given headline risk wrt Dillon Read
CBASS	Pinkos			5	Out - do not buy CDO^2
Ellington	Sue/Elaine	Timberwolf I	Mezz AAA	5	removed from list - have not been shown levels
Mariner	Maltezos	Timberwolf I	Mezz AAA	5	Out - too much overlap with Point Pleasant
TPG-Axon	Fertel/Phillips	Point Pleasant 2007-1	Mezz AAA	5	[redacted]

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HUDSON MEZZANINE FUNDING 2006-1, LTD.
HUDSON MEZZANINE FUNDING 2006-1, CORP.
U.S.$37,000,000 Class S Floating Rate Notes Due 2012
U.S.$110,000,000 Class A-f Floating Rate Notes Due 2042
U.S.$120,000,000 Class A-b Floating Rate Notes Due 2042
U.S.$230,000,000 Class B Floating Rate Notes Due 2042
U.S.$170,000,000 Class C Deferrable Floating Rate Notes Due 2042
U.S.$84,000,000 Class D Deferrable Floating Rate Notes Due 2042
U.S.$26,000,000 Class E Deferrable Floating Rate Notes Due 2042
U.S.$60,000,000 Income Notes Due 2042

Secured primarily by (i) the Collateral and (ii) the Issuer's rights under (a) the Collateral Put Agreement and (b) the Credit Default Swap referencing a portfolio of Residential Mortgage-Backed Securities

The Secured Notes (as defined herein) and the Income Notes (as defined herein) (collectively, the "Offered Notes") are being offered hereby by Goldman, Sachs & Co. in the United States to qualified institutional buyers (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in reliance on Rule 144A under the Securities Act, and, solely in the case of the Income Notes, to accredited investors (as defined in Rule 501(a) under the Securities Act) who have a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act. The Offered Notes are being offered hereby in the United States only to persons that are also "qualified purchasers" for purposes of Section 3(c)(7) under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition, the Offered Notes are being offered hereby by Goldman, Sachs & Co., selling through its agents, outside the United States to non U.S. Persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. See "Underwriting."

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

It is a condition of the issuance of the Notes that the Class S Notes, the Class A-f Notes and the Class A-b Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P" and, together with Moody's, the "Rating Agencies"), that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A2" by Moody's and at least "A" by S&P, that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P and that the Class E Notes be issued with a rating of at least "Ba1" by Moody's and at least "BB+" by S&P. It is also a condition of the issuance of the Notes that the Senior Swap be assigned a rating of "Aaa" by Moody's and "AAA" by S&P. The Income Notes will not be rated by either Rating Agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings of the Notes."

Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained or maintained. No application will be made to list the Notes to any other exchange.

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Offered Notes by the Initial Purchaser.

THE PLEDGED ASSETS ARE THE SOLE SOURCE OF PAYMENTS IN RESPECT OF THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE NOTES, THE LIQUIDATION AGENT, THE COLLATERAL PUT PROVIDER, THE SENIOR SWAP COUNTERPARTY, THE INITIAL PURCHASER, THE CREDIT PROTECTION BUYER, THE ADMINISTRATOR, THE AGENTS, THE TRUSTEE, THE SHARE TRUSTEE (EACH, AS DEFINED HEREIN) OR ANY OF THEIR RESPECTIVE AFFILIATES.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND NEITHER OF THE ISSUERS (AS DEFINED HEREIN) WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE OFFERED NOTES ARE BEING OFFERED HEREBY ONLY TO (A) (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND, SOLELY IN THE CASE OF THE INCOME NOTES, ACCREDITED INVESTORS (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) THAT HAVE A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND, WHO ARE (2) QUALIFIED PURCHASERS FOR PURPOSES OF SECTION 3(c)(7) UNDER THE INVESTMENT COMPANY ACT AND (B) CERTAIN NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PURCHASERS AND SUBSEQUENT TRANSFEREES OF THE CLASS E NOTES (OTHER THAN THE REGULATION S CLASS E NOTES) AND THE INCOME NOTES (OTHER THAN THE REGULATIONS S INCOME NOTES) WILL BE REQUIRED TO EXECUTE AND DELIVER A LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS, AND PURCHASERS AND SUBSEQUENT TRANSFEREES OF THE CLASS S NOTES, THE CLASS A NOTES, THE CLASS B NOTES, THE CLASS C NOTES, THE CLASS D NOTES, THE REGULATION S CLASS E NOTES AND THE REGULATION S INCOME NOTES WILL BE DEEMED TO HAVE MADE SUCH REPRESENTATIONS AND AGREEMENTS, AS SET FORTH UNDER "NOTICE TO INVESTORS." THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Offered Notes are being offered by Goldman, Sachs & Co. (in the case of the Notes offered outside the United States, selling through its selling agent) (the "Initial Purchaser"), subject to the Initial Purchaser's right to reject any order in whole or in part, in one or more negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date (as defined herein). It is expected that the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Regulation S Class E Notes and the Regulation S Income Notes will be ready for delivery in book entry form only in New York, New York, on or about December 5, 2006 (the "Closing Date"), through the facilities of DTC and in the case of the Notes sold outside the United States, for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), against payment therefor in immediately available funds. It is expected that the Class E Notes (other than the Regulation S Class E Notes) and the Income Notes (other than the Regulation S Income Notes) will be ready for delivery in definitive form in New York, New York on the Closing Date, against payment therefor in immediately available funds. The Notes sold in reliance on Rule 144A and, solely in the case of the Income Notes, to Accredited Investors, will be issued in minimum denominations of U.S.$250,000 and integral multiples of U.S.$1 in excess thereof. The Notes sold in reliance on Regulation S will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof.

Goldman, Sachs & Co.

Offering Circular dated December 3, 2006.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1584

Hudson Mezzanine Funding 2006-1, Ltd., an exempted company incorporated with limited liability under the laws of the Cayman Islands (the "Issuer"), and Hudson Mezzanine Funding 2006-1, Corp., a Delaware corporation (the "Co-Issuer" and, together with the Issuer, the "Issuers"), will issue U.S. $37,000,000 principal amount of Class S Floating Rate Notes Due 2012 (the "Class S Notes"), U.S.$110,000,000 principal amount of Class A-f Floating Rate Notes Due 2042 (the "Class A-f Notes"), U.S.$120,000,000 principal amount of Class A-b Floating Rate Notes Due 2042 (the "Class A-b Notes" and, together with the Class A-f Notes, the "Class A Notes"), U.S.$230,000,000 principal amount of Class B Floating Rate Notes Due 2042 (the "Class B Notes"), U.S.$170,000,000 principal amount of Class C Deferrable Floating Rate Notes Due 2042 (the "Class C Notes") and U.S.$84,000,000 principal amount of Class D Deferrable Floating Rate Notes Due 2042 (the "Class D Notes" and, together with the Class S Notes, Class A Notes, the Class B Notes and the Class C Notes, the "Co-Issued Notes") and the Issuer will issue U.S.$26,000,000 principal amount of Class E Deferrable Floating Rate Notes Due 2042 (the "Class E Notes" and, together with the Co-Issued Notes, the "Secured Notes") pursuant to an Indenture (the "Indenture") dated on or about December 5, 2006 among the Issuers and The Bank of New York Trust Company, National Association, as trustee and securities intermediary (in such capacity, the "Trustee" and the "Securities Intermediary," respectively).

In addition, the Issuer will issue U.S.$60,000,000 principal amount of Income Notes Due 2042 (the "Income Notes" and, together with the Secured Notes, the "Notes") pursuant to a Fiscal Agency Agreement dated on or about December 5, 2006 (the "Fiscal Agency Agreement") between the Issuer and The Bank of New York Trust Company, National Association, as fiscal agent (in such capacity, the "Fiscal Agent").

It is also anticipated that on the Closing Date the Issuer will enter into a swap transaction with an initial notional amount of U.S.$1,200,000,000 (the "Senior Swap") with Goldman Sachs International (in such capacity, the "Senior Swap Counterparty"). The Senior Swap is not offered hereby.

The net proceeds received from the offering of the Notes will be applied by the Issuer to purchase the initial Collateral Securities (as defined herein) and certain Eligible Investments (as defined herein) selected by the Credit Protection Buyer (as defined herein). The Collateral Securities and Eligible Investments (collectively, the "Collateral"), together with the Delivered Obligations (as defined herein), if any, delivered to the Issuer will secure the Issuer's obligations under a default swap transaction (the "Credit Default Swap") to be entered into on the Closing Date by the Issuer and Goldman Sachs International (in such capacity, the "Credit Protection Buyer") pursuant to which the Issuer (in such capacity, the "Credit Protection Seller") will sell credit protection to the Credit Protection Buyer with respect to a portfolio (the "Reference Portfolio") of Reference Obligations (as defined herein) consisting of Residential Mortgage-Backed Securities (as defined herein). Certain summary information about the Reference Portfolio is set forth in Appendix B to this Offering Circular. The Collateral Securities, the Eligible Investments, the Delivered Obligations, the Issuer's rights under the Liquidation Agency Agreement, the Collateral Put Agreement and the Senior Swap and certain other assets of the Issuer (collectively, the "Pledged Assets") will be pledged under the Indenture to the Trustee, for the benefit of the Secured Parties (as defined herein), as security for, among other obligations, the Issuers' obligations under the Secured Notes and the Senior Swap and to certain service providers. The Income Notes will be unsecured obligations of the Issuer.

Interest will be payable on the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes in arrears on the 12th day of each calendar month, or if any such date is not a Business Day (as defined herein), the immediately following Business Day (each date, a "Payment Date") commencing April 12, 2007. The Class S Notes will bear interest at a per annum rate equal to LIBOR (as defined herein) *plus* 0.15% for each Interest Accrual Period (as defined herein). The Class A-f Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.26% for each Interest Accrual Period. The Class A-b Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.50% for each Interest Accrual Period. The Class B Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.62% for each Interest Accrual Period. The Class C Notes will bear interest at a per annum rate equal to LIBOR *plus* 1.60% for each Interest Accrual Period. The Class D Notes will bear interest at a per annum rate equal to LIBOR *plus* 3.75% for each Interest Accrual Period. The Class E Notes will bear interest at a per annum rate equal to LIBOR *plus* 6.75% for each Interest Accrual Period. Payments will be made on the Income Notes on each Payment Date commencing April 12, 2007, to the extent amounts are available therefore, as described herein. The Senior Swap Premium (as defined herein) will be payable by the Issuer on each Payment Date, commencing April 12, 2007, at the rate of 0.20% per annum on the Outstanding Notional Amount of the Senior Swap.

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All payments on the Senior Swap and the Notes will be made from Proceeds available in accordance with the Priority of Payments. On each Payment Date, except as otherwise provided in the Priority of Payments, payments on the Class S Notes will be senior to payments on the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes; payments on the Senior Swap and the Class A Notes will be made *pro rata* and will be senior to payments on the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes; payments on the Class B Notes will be senior to payments on the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes; payments on the Class C Notes will be senior to payments on the Class D Notes, the Class E Notes and the Income Notes; payments on the Class D Notes will be senior to payments on the Class E Notes and the Income Notes; and payments on the Class E Notes will be senior to payments on the Income Notes, in each case in accordance with the Priority of Payments as described herein. Certain of the Secured Notes (other than the Class S Notes) are subject to mandatory redemption and the notional amount of the Senior Swap is subject to reduction, in whole or in part, if a Coverage Test is not satisfied on any date of determination which may result in variations to the order of distributions described above and as more fully described in the Priority of Payments.

The Senior Swap is subject to termination and the Notes are subject to redemption, in each case, in whole and not in part, (i) at any time as a result of a Tax Redemption (as defined herein), (ii) on an Auction Payment Date (as defined herein) as a result of a successful Auction (as defined herein) or (iii) as a result of an Optional Redemption (as defined herein) on or after the April 2010 Payment Date. The stated maturity of the Notes (other than the Class S Notes) is the Payment Date in April 2042. The actual final distribution on the Notes (other than the Class S Notes) is expected to occur substantially earlier. The stated maturity of the Class S Notes is the Payment Date in August 2012. See "Risk Factors—Notes—Average Lives, Duration and Prepayment Considerations."

The Notes (other than the Class E Notes and the Income Notes) sold in reliance on Rule 144A under the Securities Act ("Rule 144A") will be evidenced by one or more global notes (the "Rule 144A Global Notes") in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("DTC"). Beneficial interests in the Rule 144A Global Notes will trade in DTC's Same Day Funds Settlement System, and secondary market trading activity in such interests will therefore settle in immediately available funds. Except as described herein, beneficial interests in the Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Class E Notes and the Income Notes sold in reliance on Rule 144A under the Securities Act and, in the case of the Income Notes only, to Accredited Investors who have a net worth of not less than U.S. $10 million, will be evidenced by one or more Definitive Notes in fully registered form.

The Notes that are being offered hereby in reliance on the exemption from registration under Regulation S (collectively, the "Regulation S Notes"; in the case of the Class E Notes, the "Regulation S Class E Notes"; and in the case of the Income Notes, the "Regulation S Income Notes") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Notes may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser"), and takes delivery in the form of an interest in a Rule 144A Global Note, a definitive Class E Note or a definitive Income Note, in an amount equal to at least U.S.$250,000. See "Description of the Notes" and "Underwriting."

This Offering Circular (the "Offering Circular") is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Offered Notes described herein. The information contained in this Offering Circular has been provided by the Issuers and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchaser, the Liquidation Agent, the Credit Protection Buyer, the Senior Swap Counterparty, the Collateral Put Provider, the Trustee, the Note Agents, the Fiscal Agent, or the Income Note Transfer Agent (the Note Agents, the Fiscal Agent and the Income Note Transfer Agent, together, the "Agents") as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser, the Trustee, the Liquidation Agent, the Credit Protection Buyer, the Senior Swap Counterparty, the Collateral Put Provider or the Agents. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use

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of any information herein for any purpose other than considering an investment in the Offered Notes is prohibited. Each offeree of the Offered Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

THE NOTES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this Offering Circular and the offering and sale of the Offered Notes in certain jurisdictions may be restricted by law. The Issuers and the Initial Purchaser require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Offered Notes, see "Underwriting." This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Offered Notes in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

No invitation may be made to the public in the Cayman Islands to subscribe for the Notes.

NOTICE TO RESIDENTS OF THE REPUBLIC OF IRELAND

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS AND DOES NOT CONSTITUTE AN INVITATION TO THE PUBLIC TO PURCHASE OR SUBSCRIBE FOR ANY SECURITIES AND NEITHER IT NOR ANY FORM OF APPLICATION WILL BE ISSUED, CIRCULATED OR DISTRIBUTED TO THE PUBLIC.

THIS OFFERING CIRCULAR AND THE INFORMATION CONTAINED HEREIN IS CONFIDENTIAL AND IS FOR THE USE SOLELY OF THE PERSON TO WHOM IT IS ADDRESSED. ACCORDINGLY, IT MAY NOT BE REPRODUCED IN WHOLE OR IN PART, NOR MAY ITS CONTENTS BE DISTRIBUTED IN WRITING OR ORALLY TO ANY THIRD PARTY AND IT MAY BE READ SOLELY BY THE PERSON TO WHOM IT IS ADDRESSED AND HIS/HER PROFESSIONAL ADVISERS.

In this Offering Circular, references to "U.S. Dollars," "$" and "U.S.$" are to United States dollars.

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The Issuers having made all reasonable inquiries, confirm that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make any such information or the expression of any such opinions or intentions misleading and, as applicable, take responsibility accordingly.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular nor any sale hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date of this Offering Circular.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, A PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF A PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED IN THIS OFFERING CIRCULAR AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH PROSPECTIVE INVESTORS REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.

PROSPECTIVE INVESTORS SHOULD READ THIS OFFERING CIRCULAR CAREFULLY BEFORE DECIDING WHETHER TO INVEST IN THE SECURITIES AND SHOULD PAY PARTICULAR ATTENTION TO THE INFORMATION SET FORTH UNDER THE HEADING "RISK FACTORS." INVESTMENT IN THE SECURITIES IS SPECULATIVE AND INVOLVES SIGNIFICANT RISK. INVESTORS SHOULD UNDERSTAND SUCH RISKS AND HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THEM FOR AN EXTENDED PERIOD OF TIME.

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NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

Each purchaser who has purchased Class S Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes, Regulation S Class E Notes and Regulation S Income Notes, will be deemed to have represented and agreed, and each purchaser of Class E Notes (other than the Regulation S Class E Notes) and Income Notes (other than the Regulation S Income Notes) will be required to represent and agree, in each case with respect to such Notes, as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. (a) In the case of Secured Notes sold in reliance on Rule 144A (the "Rule 144A Notes"), the purchaser of such Rule 144A Notes (i) is a qualified institutional buyer (as defined in Rule 144A) (a "Qualified Institutional Buyer"), (ii) is aware that the sale of Secured Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Rule 144A Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and in a principal amount of not less than U.S.$250,000 and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

(b) In the case of the Income Notes (other than the Regulation S Income Notes), the purchaser of such Income Notes (i) is a Qualified Institutional Buyer, (ii) is aware that the sale of the Income Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Income Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and, unless otherwise permitted by the Fiscal Agency Agreement is purchasing a principal amount of not less than $250,000 for the purchaser and for each such account and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees; or, if the purchaser is not a Qualified Institutional Buyer, such purchaser (w) is a person who is an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than U.S.$10 million that is purchasing the Income Notes for its own account, (x) is not acquiring the Income Notes with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below, (y) is purchasing a principal amount of not less than $250,000 (unless otherwise permitted by the Fiscal Agency Agreement) and (z) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

2. The purchaser understands that the Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a Qualified Institutional Buyer and is purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A, (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) solely in the case of the Income Notes, to an Accredited Investor who has a net worth of not less than U.S.$10 million, and, in each case, who shall have satisfied, and in the case of Class E Notes (other than the Regulation S Class E Notes) and Income Notes (other than the Regulation S Income Notes) shall have represented, warranted, covenanted and agreed, or, in all other cases, shall be deemed to have satisfied, and shall be deemed to have represented, warranted, covenanted and agreed that it will continue to comply with, all requirements for transfer of the Notes specified in this Offering Circular, in the case of the Secured Notes, the Indenture, and, in the case of the Income Notes, the Fiscal Agency Agreement, and all other requirements for it to qualify for an exemption from registration under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States. Before any interest in a Rule 144A Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the Note Transfer Agent with a written certification (in the form provided in the Indenture) as to compliance with the transfer restrictions described herein. Before any interest in a Class E Note (other than a Regulation S Class E Note) or an Income Note (other than a Regulation S Income Note) may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Issuer, and, in the case of a Class E Note, the Note Transfer Agent, and, in the case of an Income Note, the Income Notes Transfer Agent, with a letter substantially in the form attached to this Offering Circular as Annex A-1 (the "Income Note Purchase and Transfer Letter") or Annex A-2 (the "Class E Note Purchase and Transfer Letter"). The purchaser understands and agrees that any purported transfer of Notes to a

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purchaser that does not comply with the requirements of this paragraph (2) will, in the case of the Class S Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes, Regulation S Class E Notes and Regulation S Income Notes, be null and void *ab initio*, and, in the case of the Class E Notes (other than the Regulation S Class E Notes) and the Income Notes (other than the Regulation S Income Notes), not be permitted or registered by (i) in the case of the Class E Notes, the Note Transfer Agent and (ii) in the case of the Income Notes, the Income Notes Transfer Agent. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Notes that is a U.S. Person and is not a Qualified Institutional Buyer or, in the case of the Income Notes, not an Accredited Investor, to sell its interest in such Notes, or the Issuers may sell such Notes on behalf of such owner.

3. The purchaser of such Notes also understands that neither of the Issuers has been registered under the Investment Company Act. In the case of the Rule 144A Notes and the Income Notes (other than the Regulation S Income Notes) described in paragraph (1) above, the purchaser and each account for which the purchaser is acquiring such Notes is a qualified purchaser for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser"). The purchaser is acquiring Notes in a principal amount, in the case of Rule 144A Notes and, in the case of Income Notes sold to Accredited Investors, of not less than U.S.$250,000, or, in the case of Notes sold in reliance on Regulation S ("Regulation S Notes"), of not less than U.S.$100,000, in each case for the purchaser and for each such account. The purchaser (or if the purchaser is acquiring Notes for any account, each such account) is acquiring the Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The purchaser and each such account: (a) was not formed for the specific purpose of investing in the Notes (except when each beneficial owner of the purchaser and each such account is a Qualified Purchaser), (b) to the extent the purchaser is a private investment company formed before April 30, 1996, the purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (d) is not a broker dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the purchaser agrees with respect to itself and each such account: (i) that it shall not hold such Notes for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes and (ii) that it shall not sell participation interests in the Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Notes. The purchaser understands and agrees that any purported transfer of Notes to a purchaser that does not comply with the requirements of this paragraph (3) will, in the case of the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Regulation S Class E Notes and the Regulation S Income Notes, be null and void *ab initio*, and, in the case of the Class E Notes (other than the Regulation S Class E Notes), not be permitted or registered by the Note Transfer Agent and, in the case of the Income Notes (other than the Regulation S Income Notes), not be permitted or registered by the Income Notes Transfer Agent. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Notes that is a U.S. Person and is not a Qualified Purchaser to sell its interest in such Notes, or the Issuers may sell such Notes on behalf of such owner.

4. (a) With respect to the Class S Notes, Class A Notes, Class B Notes, Class C Notes and Class D Notes, each purchaser will be deemed, by its purchase, to have represented and warranted that either (i) the purchaser is not and will not be an "employee benefit plan" as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), a plan as defined in and subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), any entity whose underlying assets include "plan assets" by reason of an employee benefit plan's or other plan's investment in the entity, or another employee benefit plan subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA, or Section 4975 of the Code ("Similar Law") or (ii) the purchaser's purchase and holding of a Note does not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such another plan, any Similar Law) for which an exemption is not available. The purchaser understands and agrees that any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph (4)(a) shall be null and void *ab initio*.

(b) With respect to the Class E Notes (other than the Regulation S Class E Notes) and the Income Notes (other than the Regulation S Income Notes) purchased or transferred on or after the Closing Date, the purchaser or transferee must disclose in writing in advance to the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, (i) whether or not it is (A) an "employee benefit plan" as defined in and subject to Title I of ERISA, (B) a "plan" as described in and subject to Section 4975 of the Code, or (C) an entity whose underlying

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assets include "plan assets" within the meaning of ERISA by reason of an employee benefit or other plan's investment in the entity (all such persons and entities described in clauses (A) through (C) being referred to herein as "Benefit Plan Investors"); (ii) if the purchaser is a Benefit Plan Investor (or other employee benefit plan subject to Similar Law), then (x) the purchase and holding of the Class E Notes and/or the Income Notes will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to Similar Law, any Similar Law) for which an exemption is not available or (y) solely in the case of Benefit Plan Investors, the purchase and holding of Income Notes is exempt under an identified Prohibited Transaction Class Exemption or individual exemption, based on the assumption that less than 25% of each of the Outstanding Class E Notes and the Outstanding Income Notes are owned by Benefit Plan Investors; and (iii) whether or not it is the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (a "Controlling Person"). If a purchaser is an insurance company acting on behalf of its general account or another entity deemed to be holding plan assets, it may be required to so indicate, and to identify a maximum percentage of the assets in such general account or entity that may be or become plan assets, in which case the purchaser will be required to make certain further agreements that would apply in the event that such maximum percentage would thereafter be exceeded. The purchaser agrees that, before any interest in a Class E Note (other than a Regulation S Class E Note) or an Income Note (other than a Regulation S Income Note) may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Note Transfer Agent with a Class E Notes Purchase and Transfer Letter or the Income Notes Transfer Agent with an Income Notes Purchase and Transfer Letter, as applicable, stating, among other things, whether the transferee is a Benefit Plan Investor. The purchaser acknowledges and agrees that no purchase or transfer will be permitted, and the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, will not register any such transfer, to the extent that the purchase or transfer would result in Benefit Plan Investors owning 25% or more of the total value of either the Outstanding Class E Notes or the Outstanding Income Notes immediately after such purchase or transfer (determined in accordance with the Indenture or Fiscal Agency Agreement, as applicable). The foregoing procedures are intended to enable the Class E Notes (other than the Regulation S Class E Notes) and the Income Notes (other than the Regulation S Income Notes) to be purchased by or transferred to Benefit Plan Investors at any time, although no assurance can be given that there will not be circumstances in which purchases or transfers of Class E Notes or Income Notes will be required to be restricted in order to comply with the aforementioned 25% limitation. See "ERISA Considerations."

(c) With respect to the Regulation S Class E Notes and the Regulation S Income Notes, each purchaser will be deemed, by its purchase, to have represented and warranted that it is not a Benefit Plan Investor or a Controlling Person. Each purchaser also will be deemed, by its purchase, to have represented and warranted that if it is an employee benefit plan subject to Similar Law, then its purchase and holding of Income Notes do not and will not constitute or result in a violation of any Similar Law for which an exemption is not available. The purchaser understands and agrees that any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph 4(c) shall be null and void *ab initio*.

5. The purchaser is not purchasing the Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands that an investment in the Notes involves certain risks, including the risk of loss of its entire investment in the Notes under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuers and the Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Notes, including an opportunity to ask questions of, and request information from, the Issuer.

6. In connection with the purchase of the Notes: (i) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Administrator or the Share Trustee (as defined herein) is acting as a fiduciary or financial or investment adviser for the purchaser; (ii) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Administrator or the Share Trustee other than in this Offering Circular for such Notes and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Collateral Put Provider, the Credit Protection Buyer, the Senior Swap Counterparty, the Administrator or the Share Trustee has given to the purchaser (directly or indirectly through any other person) any assurance,

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guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, results, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Notes; (iv) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Collateral Put Provider, the Credit Protection Buyer, the Senior Swap Counterparty, the Administrator or the Share Trustee; (v) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Notes with a full understanding of all of the risks thereof (economic and otherwise), and is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the purchaser is a sophisticated investor.

7. Pursuant to the terms of the Indenture, unless otherwise determined by the Issuers in accordance with the Indenture, the Class S Notes, Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will bear a legend to the following effect:

> THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE (AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE,

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NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE TRANSFER AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT EITHER (I) THE HOLDER IS NOT AND WILL NOT BE AN EMPLOYEE BENEFIT PLAN AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), A PLAN DEFINED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY, OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (II) THE HOLDER'S PURCHASE AND HOLDING OF A NOTE DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH ANOTHER PLAN, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF A NOTE TO A HOLDER THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

8. Pursuant to the terms of the Indenture, unless otherwise determined by the Issuer in accordance with the Indenture, the Regulation S Class E Notes will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES

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FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE (AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE TRANSFER AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

WITH RESPECT TO THE CLASS E NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE NOTE TRANSFER AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE,

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LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF CLASS E NOTES WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE NOTE TRANSFER AGENT WITH AN CLASS E NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE NOTE TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF CLASS E NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING CLASS E NOTES (OTHER THAN THE CLASS E NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE INDENTURE).

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

9. Pursuant to the terms of the Indenture, unless otherwise determined by the Issuer in accordance with the Indenture, the Class E Notes (other than the Regulation S Class E Notes) will bear a legend to the following effect:

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THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL NOT BE PERMITTED OR REGISTERED BY THE NOTE TRANSFER AGENT. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. EACH TRANSFEROR OF THE CLASS E NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT, TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A CLASS E NOTE THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL SUCH CLASS E NOTES, OR MAY SELL SUCH CLASS E NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF THE CLASS E NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS E NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE NOTE TRANSFER AGENT A CLASS E NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (1) A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

WITH RESPECT TO THE CLASS E NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN

ADVANCE TO THE NOTE TRANSFER AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF CLASS E NOTES WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE NOTE TRANSFER AGENT WITH AN CLASS E NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE NOTE TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF CLASS E NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING CLASS E NOTES (OTHER THAN THE CLASS E NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE INDENTURE).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

10. The purchaser acknowledges that it is its intent and that it understands it is the intent of the Issuer that, for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, the Issuer will be treated as a corporation, the Secured Notes will be treated as indebtedness of the Issuer and the Income Notes will be treated as equity in the Issuer; the purchaser agrees to such treatment and agrees to take no action inconsistent with such treatment.

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11. The purchaser understands that the Issuers, the Trustee, the Initial Purchaser, the Liquidation Agent and their counsel will rely upon the accuracy and truth of the foregoing representations, and the purchaser hereby consents to such reliance.

12. Pursuant to the terms of the Fiscal Agency Agreement, unless otherwise determined by the Issuer in accordance with the Fiscal Agency Agreement, the Income Notes sold to non-U.S. Persons in offshore transactions (the "Regulation S Income Notes") will bear a legend to the following effect:

THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE TERMS AND CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT DECEMBER 5, 2006 (THE "FISCAL AGENCY AGREEMENT") BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND THE BANK OF NEW YORK TRUST COMPANY, NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE, THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, IN EACH CASE AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO

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SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE IS DEEMED TO REPRESENT AND WARRANT), THAT (i) IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" AS DESCRIBED IN SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) IT IS NOT A PERSON WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF THE PURCHASER OR TRANSFEREE IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), SUCH PURCHASER OR TRANSFEREE ALSO IS DEEMED TO REPRESENT AND WARRANT THAT ITS PURCHASE AND HOLDING OF THE INCOME NOTES WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SIMILAR LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF AN INCOME NOTE THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

13. Pursuant to the terms of the Fiscal Agency Agreement, unless otherwise determined by the Issuer in accordance with the Fiscal Agency Agreement, the Income Notes (other than the Regulation S Income Notes) will bear a legend to the following effect:

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THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE TERMS AND CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT DECEMBER 5, 2006 (THE "FISCAL AGENCY AGREEMENT") BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND THE BANK OF NEW YORK TRUST COMPANY, NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE, THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND, IN EACH CASE, IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT

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PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE FISCAL AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF INCOME NOTES WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE INCOME NOTES TRANSFER AGENT WITH AN INCOME NOTE PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE TRUSTEE OR INCOME NOTES TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF INCOME NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE FISCAL AGENCY AGREEMENT).

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PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

14. The purchaser is not purchasing the Notes in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan with respect to United States federal income taxes within the meaning of U.S. Treasury Regulation Section 1.881-3(a)(4).

15. The purchaser agrees, in the case of the Secured Notes, to treat the Notes as debt for United States federal, state and local income taxes and, in the case of the Income Notes, to treat such Income Notes as equity for United States federal, state and local income tax purposes.

16. The purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, may require further identification of the purchaser before the purchase application can proceed. The Issuer and the Note Transfer Agent or the Income Notes Transfer Agent shall be held harmless and indemnified by the purchaser against any loss arising from the failure to process the application if such information as has been required from the purchaser has not been provided by the purchaser.

The Notes that are being offered hereby in reliance on the exemption from registration under Regulation S (such Notes, respectively, the "Regulation S Co-Issued Notes"; the "Regulation S Class E Notes"; the "Regulation S Income Notes"; and, collectively, the "Regulation S Notes") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Notes may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser") or, solely in the case of the Income Notes, that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act (an "Accredited Investor") who has a net worth of not less than $10 million and a Qualified Purchaser, and takes delivery in the form of (i) an interest in a Rule 144A Global Note in an amount at least equal to the minimum denomination applicable to the Rule 144A Notes or (ii) an Income Note in a principal amount at least equal to $250,000. See "Description of the Notes" and "Underwriting."

The requirements set forth under "Notice to Investors" above apply only to Notes offered in the United States, except for the requirements set forth in Paragraphs (4), (5), (6), (10), (11), (14) and (15) and except that the Regulation S Notes will bear the legends set forth in Paragraphs (7), (8) and (12) under "Notice to Investors" above.

THE ISSUERS ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OTHER THAN INFORMATION PROVIDED IN THE SECTIONS ENTITLED "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT". TO THE BEST OF THE KNOWLEDGE AND THE BELIEF OF THE ISSUERS, THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OTHER THAN INFORMATION PROVIDED IN THE SECTION ENTITLED "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT", IS ACCURATE IN ALL MATERIAL RESPECTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE LIQUIDATION AGENT ACCEPTS RESPONSIBILITY FOR THE INFORMATION PROVIDED IN "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT" SECTION. TO THE BEST OF THE KNOWLEDGE AND THE BELIEF OF THE LIQUIDATION AGENT, THE INFORMATION CONTAINED IN THE SECTION ENTITLED "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT" IS ACCURATE IN ALL MATERIAL RESPECTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

EACH PURCHASER OF THE NOTES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH NOTES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF

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SUCH NOTES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE ISSUERS, THE INITIAL PURCHASER, THE LIQUIDATION AGENT, THE SENIOR SWAP COUNTERPARTY, THE CREDIT PROTECTION BUYER, THE COLLATERAL PUT PROVIDER OR THEIR AGENTS SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.

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AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with the resale of the Notes, the Issuers will be required under the Indenture and the Fiscal Agency Agreement, to furnish upon request to a Holder or beneficial owner of a Note and to a prospective investor who is a Qualified Institutional Buyer designated by such Holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) if, at the time of the request neither the Issuer nor the Co-Issuer, as applicable, is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

To the extent the Issuer or the Trustee delivers any annual or other periodic report to the Holders of the Secured Notes, the Issuer or the Trustee will include in such report a reminder that (1) each Holder (other than those Holders who are not U.S. Persons and have purchased their Notes outside the United States pursuant to Regulation S) is required to be (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, in each case that can make all of the representations in the Indenture applicable to a Holder that is a U.S. Person; (2) the Notes can only be transferred (i) to a transferee that is (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser that can make all of the representations in the Indenture applicable to a Holder who is a U.S. Person or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or 904 under Regulation S; and (3) the Issuers have the right to compel any Holder who does not meet the transfer restrictions set forth in the Indenture to transfer its interest in the Notes to a person designated by the Issuers or sell such interests on behalf of the Holder.

To the extent the Issuer or the Fiscal Agent delivers any annual or periodic reports to the Holders of the Income Notes, the Issuer or the Fiscal Agent, as applicable, will include in such report a reminder that (1) each Holder (other than those Holders who are not U.S. Persons and have purchased their Income Notes outside the United States pursuant to Regulation S) is required to be (a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth of not less than U.S.$10 million and (b) a Qualified Purchaser that can make all of the representations in the Income Notes Purchase and Transfer Letter applicable to a Holder who is a U.S. Person; (2) the Income Notes can only be transferred to a transferee that is (i)(a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth not less than U.S.$10 million and (b) a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 under Regulation S; and (3) the Issuer has the right to compel any Holder who does not meet the transfer restrictions set forth in the Fiscal Agency Agreement to transfer its Income Notes to a person designated by the Issuer or sell such Income Notes on behalf of the Holder.

In addition, notwithstanding the foregoing, any prospective purchaser (and each employee, representative, or other agent of a prospective purchaser) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this Offering Circular and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective purchaser relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with the prospective purchaser regarding the transactions contemplated herein.

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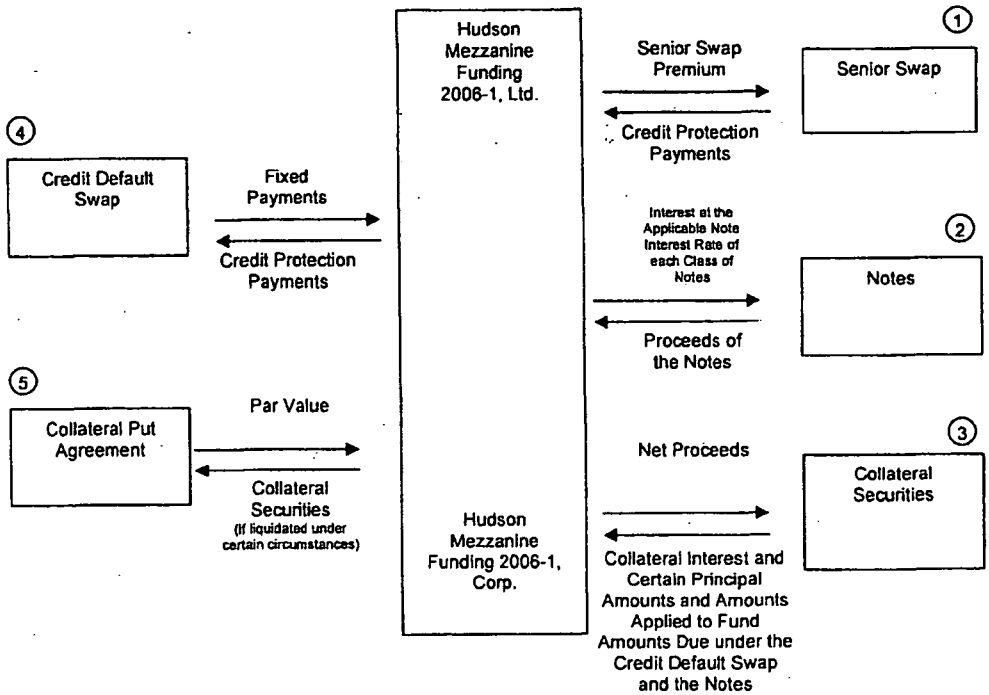
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TRANSACTION OVERVIEW

This overview is not complete and is qualified in its entirety by reference to (i) the detailed information appearing elsewhere in this Offering Circular, (ii) the terms and conditions of the Notes and (iii) the provisions of the documents referred to in this Offering Circular.



(1) On the Closing Date the Issuer and Goldman Sachs International, as the Senior Swap Counterparty, will enter into the Senior Swap whereby (a) the Issuer will pay to the Senior Swap Counterparty the Senior Swap Premium on each Payment Date and (b) if the Balance of the Eligible Investments and the Collateral Securities in the Collateral Account has been reduced to zero, the Senior Swap Counterparty will pay to the Issuer amounts equal to credit protection amounts due to the Credit Protection Buyer under the Credit Default Swap.

(2) On the Closing Date, the Notes will be issued in the Aggregate Outstanding Amount set forth in the "Summary—Notes".

(3) The Issuer will use the net proceeds of the offering of the Notes to purchase the initial Collateral Securities and Eligible Investments selected by the Credit Protection Buyer.

(4) On the Closing Date, the Issuer and Goldman Sachs International, as the Credit Protection Buyer, will enter into the Credit Default Swap whereby the Issuer (a) sells credit protection to the Credit Protection Buyer with respect to a Reference Portfolio of RMBS Securities and (b) receives from the Credit Protection Buyer (i) a Fixed Payment on each Payment Date and (ii) certain Additional Fixed Payments. The Issuer will pay to the Credit Protection Buyer (i) certain Additional Floating Amounts and (ii) following the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement an amount equal to the Physical Settlement Amount. For a description of all payments to be made under the Credit Default Swap, see "The Credit Default Swap—Credit Protection Buyer Payments" and "—Credit Protection Seller Payments".

(5) On the Closing Date, the Issuer and Goldman Sachs International, as the Collateral Put Provider, will enter into the Collateral Put Agreement whereby the Liquidation Agent, on behalf of the Issuer, will have the right to put a Collateral Security or an Eligible Investment (other than Put Excluded Collateral) to the Collateral Put Provider in return for a payment of 100% of the principal amount of such Collateral Security or Eligible Investment, as applicable, if it cannot be liquidated by the Liquidation Agent on behalf of the Issuer for an amount equal to at least 100% of par in connection with the payment by the Issuer to the Credit Protection Buyer of amounts due thereto under the Credit Default Swap.

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SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For definitions of certain terms used in this Offering Circular see "Appendix A — Certain Defined Terms" and for the location of the definitions of those and other terms, see "Index of Defined Terms." For a discussion of certain factors to be considered in connection with an investment in the Notes, see "Risk Factors."

The Notes

The Issuers .....

Hudson Mezzanine Funding 2006-1, Ltd. (the "Issuer") is an exempted company incorporated under the laws of the Cayman Islands for the sole purpose of (i) entering into and performing its obligations under, the Credit Default Swap, (ii) acquiring the Collateral Securities and the Eligible Investments, (iii) entering into and performing its obligations under the Senior Swap, the Collateral Put Agreement and the Liquidation Agency Agreement, (iv) co-issuing the Co-Issued Notes, (v) issuing the Class E Notes and Income Notes and (vi) engaging in certain related transactions.

The Issuer will not have any assets other than (i) the Collateral Securities and the Eligible Investments (collectively, the "Collateral"), (ii) the Delivered Obligations, if any, and any principal payments received thereon, if any, delivered to the Issuer, (iii) the Issuer's rights under the Credit Default Swap, the Collateral Put Agreement and the Liquidation Agency Agreement and (iv) certain other assets that will be pledged by the Issuer to the Trustee under the Indenture (the "Pledged Assets"), for the benefit of the Secured Parties, as security for, among other obligations, the Issuers' obligations under the Secured Notes and Senior Swap.

Hudson Mezzanine Funding 2006-1, Corp. (the "Co-Issuer" and, together with the Issuer, the "Issuers") is a corporation formed under the laws of the State of Delaware for the sole purpose of co-issuing the Secured Notes.

The Co-Issuer will not have any assets (other than U.S.$10 of equity capital) and will not pledge any assets to secure the Secured Notes or the Senior Swap. The Co-Issuer will have no claim against the Issuer in respect of the Pledged Assets or otherwise.

The authorized share capital of the Issuer consists of 250 ordinary shares, par value U.S.$1.00 per share ("Issuer Ordinary Shares"), which have been issued. The Issuer Ordinary Shares and all of the outstanding common equity of the Co-Issuer will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands (the "Administrator") as the trustee pursuant to the terms of a declaration of trust for the benefit of charitable and similar purposes (the "Share Trustee").

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The Notes								
Class Designation	S	A-f	A-b	B	C	D	E	Income Notes
Original Principal Amount	$37,000,000	$110,000,000	$120,000,000	$230,000,000	$170,000,000	$84,000,000	$26,000,000	$60,000,000
Stated Maturity	August 12, 2012	April 12, 2042						
Minimum Denomination (Integral Multiples):								
Rule 144A	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)
Reg S	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)
Accredited Investors	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$250,000 ($1)
Applicable Investment Company Act of 1940 Exemption	3(c)(7)							
Initial Ratings:								
Moody's	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Ba1	N/A
S&P	AAA	AAA	AAA	AA	A	BBB	BB+	N/A
Deferred Interest	No	No	No	No	Yes	Yes	Yes	N/A
Pricing Date	October 25, 2006							
Closing Date	December 5, 2006							
Interest Rate	1 Month LIBOR + 0.15%	1 Month LIBOR + 0.26%	1 Month LIBOR + 0.50%	1 Month LIBOR + 0.62%	1 Month LIBOR + 1.60%	1 Month LIBOR + 3.75%	1 Month LIBOR + 6.75%	N/A
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	Floating	N/A
Interest Accrual Period[1]	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	N/A
Dates of Payment	(i) the 12th day of each month (or if such day is not a Business Day, the next succeeding Business Day) beginning in April, 2007 and at Stated Maturity (each, a "Scheduled Payment Date") and (ii) any Redemption Date							
First Payment Date	April 12, 2007	April 12, 2007	April 12, 2007	April 12, 2007	April 12, 2007	April 12, 2007	April 12, 2007	April 12, 2007
Record Date	Business Day prior to the applicable Payment Date (or the 10th Business Day prior to the applicable Payment Date for Notes issued in definitive form)							
Frequency of Payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	N/A
Form of Notes:								
Global	Yes	Yes	Yes	Yes	Yes	Yes	Yes (Reg S only)	Yes (Reg S only)
Certificated	No	No	No	No	No	No	Yes (other than Reg S)	Yes (other than Reg S)
CUSIPS Rule 144A	443860AA9	443860AB7	443860AC5	443860AD3	443860AE1	443860AF8	443860AG6	44386PAA4
CUSIPS Reg S	G46464AA4	G46464AB2	G46464AC0	G46464AD8	G46464AE6	G46464AF3	G46464AG1	G46429AA7
ISIN Reg S	USG46464AA44	USG46464AB27	USG46464AC00	USG46464AD82	USG46464AE65	USG46464AF31	USG46464AG14	USG46429AA71
CUSIPS REG D	N/A	N/A	N/A	N/A	N/A	N/A	N/A	44386PAB2
Euroclear Common Codes	027587160	027587313	027587429	027587534	027587000	027587140	027587239	027587301
Clearing Method:								
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	Physical	Physical
Reg S	EuroClear	EuroClear	EuroClear	EuroClear	EuroClear	EuroClear	EuroClear	Euroclear

1. "Floating Period" means, with respect to the Secured Notes and any Payment Date, the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date.

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The Indenture	On the Closing Date, (i) the Issuer and the Co-Issuer will co-issue U.S.$37,000,000 principal amount of Class S Floating Rate Notes Due 2012 (the "Class S Notes"), U.S.$110,000,000 principal amount of Class A-f Floating Rate Notes Due 2042 (the "Class A-f Notes"), U.S.$120,000,000 principal amount of Class A-b Floating Rate Notes Due 2042 (the "Class A-b Notes" and, together with the Class A-f Notes, the "Class A Notes"), U.S.$230,000,000 principal amount of Class B Floating Rate Notes Due 2042 (the "Class B Notes"), U.S.$170,000,000 principal amount of Class C Deferrable Floating Rate Notes Due 2042 (the "Class C Notes") and U.S.$84,000,000 principal amount of Class D Deferrable Floating Rate Notes Due 2042 (the "Class D Notes" and, together with the Class S Notes, Class A Notes, the Class B Notes and the Class C Notes, the "Co-Issued Notes") and (ii) the Issuer will issue U.S.$26,000,000 principal amount of Class E Deferrable Floating Rate Notes Due 2042 (the "Class E Notes" and, together with the Co-Issued Notes, the "Secured Notes") pursuant to an Indenture (the "Indenture") dated on or about December 5, 2006, among the Issuers and The Bank of New York Trust Company, National Association, as trustee and as securities intermediary (in such capacity, the "Trustee" and the "Securities Intermediary", respectively). Under the Indenture, The Bank of New York Trust Company, National Association will also act as principal paying agent for the Notes (the "Principal Note Paying Agent"), as registrar (the "Note Registrar"), as calculation agent (the "Note Calculation Agent"), as transfer agent (the "Note Transfer Agent") and as paying agent for the Notes (the "Note Paying Agent" and, together with the Principal Note Paying Agent, the Note Registrar, the Note Calculation Agent, the Note Transfer Agent and the Irish Paying Agent (if any), the "Note Agents").
The Fiscal Agency Agreement	On the Closing Date, the Issuer will also issue U.S.$60,000,000 principal amount of Income Notes Due 2042 (the "Income Notes" and, together with the Secured Notes, the "Notes") pursuant to a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated on or about the Closing Date between the Issuer and The Bank of New York Trust Company, National Association, as fiscal agent (in such capacity, the "Fiscal Agent"). The Fiscal Agent will initially be appointed as the Income Notes transfer agent (in such capacity, the "Income Notes Transfer Agent" and, together with the Fiscal Agent and the Note Agents, the "Agents") under the Fiscal Agency Agreement. The Note Paying Agent, the Principal Note Paying Agent and any other Note paying agents appointed from time to time under the Indenture are collectively referred to as the "Note Paying Agents." The Note Paying Agents and the Fiscal Paying Agent are collectively referred to as the "Paying Agents." The Note Transfer Agent and the Income Notes Transfer Agent are collectively referred to as the "Transfer Agents." The Indenture, the Senior Swap, the Credit Default Swap, the Liquidation Agency Agreement, the Collateral Put Agreement, the Collateral Administration Agreement, the Administration Agreement and the Fiscal Agency Agreement are collectively referred to as the "Transaction Documents." Only the Secured Notes and the Income Notes (collectively, the "Offered Notes") are offered hereby.
Status of the Notes and Senior Swap.....	The Co-Issued Notes will be limited recourse obligations of the Issuers and the Senior Swap and the Class E Notes will be limited recourse obligations of the Issuer. The Income Notes will be limited recourse obligations of the

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	Issuer, will not be secured obligations of the Issuer and will only be entitled to receive amounts available for payment on any Payment Date after payment of all amounts payable prior thereto under the Priority of Payments and only out of funds legally available therefor. Interest on the Class A-f Notes will be *pro rata* with interest on the Class A-b Notes and with the Senior Swap Premium (as hereinafter defined). Principal on the Class A-f Notes and the Class A-b Notes will be paid either *pro rata* or first to the Class A-f Notes and second to the Class A-b Notes depending on the circumstances as more fully described in the Priority of Payments. The Class S Notes will be senior in right of payment on each Payment Date to the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes; the Senior Swap and the Class A Notes will be paid *pro rata* and the Senior Swap and the Class A Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes; the Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes; the Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes, the Class E Notes and the Income Notes; the Class D Notes will be senior in right of payment on each Payment Date to the Class E Notes and the Income Notes; and the Class E Notes will be senior in right of payments on each Payment Date to the Income Notes, each to the extent provided in the Priority of Payments. Payments on the Income Notes will be paid solely from and to the extent of the available proceeds from distributions on the Pledged Assets after payment of all of the liabilities of the Issuer that rank ahead of the Income Notes pursuant to the Indenture or applicable law. See "Description of the Notes—Status and Security" and "—Priority of Payments."
Security for the Secured Notes	Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit and security of the Trustee on behalf of the Holders of the Secured Notes, the Fiscal Agent, the Liquidation Agent, the Senior Swap Counterparty, the Collateral Put Provider and the Credit Protection Buyer (together the "Secured Parties"), to secure the Issuer's obligations under the Secured Notes, the Indenture, the Senior Swap, the Liquidation Agency Agreement, the Collateral Put Agreement and the Credit Default Swap (the "Secured Obligations"), a first priority security interest in the Pledged Assets. The Income Notes will not be secured.
Use of Proceeds	The net proceeds associated with the offering of the Notes issued on the Closing Date, after the payment of applicable fees and expenses, are expected to equal approximately U.S.$805,000,000. The net proceeds will be used by the Issuer to purchase on the Closing Date the Collateral Securities and Eligible Investments having an aggregate Principal Balance on the Closing Date of approximately U.S.$800,000,000. See "The Collateral Securities" and "Use of Proceeds."

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Interest and Other Payments on the Notes	The Secured Notes will accrue interest from the Closing Date and such interest will be payable, on the 12th day of each calendar month, or if any such date is not a Business Day, the immediately following Business Day (each such date, a "Payment Date") commencing on April 12, 2007. Payments on the Income Notes will be payable in arrears on each Payment Date commencing on April 12, 2007, out of Excess Amounts (as defined below). All payments on the Notes will be made from Proceeds in accordance with the Priority of Payments. To the extent interest that is due is not paid on the Class C Notes on any Payment Date ("Class C Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class C Notes, and shall accrue interest at the Class C Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes or Class B Notes are outstanding or the Senior Swap is outstanding, the failure to pay any interest on the Class C Notes on any Payment Date will not be an Event of Default under the Indenture. To the extent interest that is due is not paid on the Class D Notes on any Payment Date ("Class D Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class D Notes, and shall accrue interest at the Class D Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding or the Senior Swap is outstanding, the failure to pay any interest on the Class D Notes on any Payment Date will not be an Event of Default under the Indenture. To the extent interest that is due is not paid on the Class E Notes on any Payment Date ("Class E Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class E Notes, and shall accrue interest at the Class E Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding or the Senior Swap is outstanding, the failure to pay any interest on the Class E Notes on any Payment Date will not be an Event of Default under the Indenture. See "Description of the Notes—Interest on the Secured Notes" and "—Priority of Payments." The Income Notes will not bear interest based upon any fixed or floating rate. The Fiscal Agent will make payments to the Holders of the Income Notes out of the Proceeds, if any, available pursuant to clause (xxiii) (or pursuant to clause (viii) in the case of the Final Payment Date) under "Description of the Notes—Priority of Payments." Such payments will be made on the Income Notes only after all interest and other payments due on the Secured Notes have been made and all expenses of the Issuers have been paid (with such remaining Proceeds referred to as "Excess Amounts"). See "Risk Factors—Notes—Subordination of the Income Notes; Unsecured Obligations."
Principal Payments	The Notes (other than the Class S Notes) will mature on the Payment Date in April 2042 (each such date the "Stated Maturity" with respect to such Notes), and the Class S Notes will mature on the Payment Date in August 2012 (the "Stated Maturity" with respect to the Class S Notes), unless redeemed or retired prior thereto. The average life of the Notes (other than

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the Class S Notes) is expected to be substantially shorter than the number of years from issuance until Stated Maturity for each Class of Notes. See "Description of the Notes—Principal" and "Risk Factors—Notes—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class S Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in May 2007 in an amount equal to the Class S Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, the Class S Notes will be paid in full prior to any distributions to any other Notes. Shifting principal will be payable (pursuant to clause (xiii) of the Priority of Payments) on the Secured Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in April 2007 as described in the Priority of Payments.

As a result of the Priority of Payments, notwithstanding the subordination of the Notes described under "Status of the Notes" above, the Outstanding Notional Amount of the Senior Swap may be reduced and the Class A Notes may be entitled to receive certain payments of principal while the Class S Notes are outstanding, the Class B Notes may be entitled to receive certain payments of principal while the Class S Notes, the Senior Swap and the Class A Notes are outstanding, the Class C Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Senior Swap and the Class B Notes are outstanding, the Class D Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Senior Swap, the Class B Notes and the Class C Notes are outstanding and the Class E Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are outstanding. In addition, the Income Notes may be entitled to receive certain payments while the Senior Swap and Secured Notes are outstanding. See "Description of the Notes—Priority of Payments."

In addition, to the extent funds are available therefor in accordance with the Priority of Payments, the Senior Swap and certain of the Secured Notes (other than the Class S Notes) will be subject to mandatory redemption on any Payment Date if the Coverage Tests are not satisfied as described herein. See "Description of the Notes—Principal", "—Mandatory Redemption" and "—Priority of Payments."

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Tax Redemption.....	Subject to certain conditions described herein, the Secured Notes will be redeemed from Liquidation Proceeds, in whole but not in part, on the 90th day (which 90-day period may be extended an additional 90 days, as described under "Description of the Notes—Tax Redemption") following the Issuers becoming aware of the occurrence of a Tax Event, at the written direction of, or with the written consent of, Holders of at least 66-2/3% of the Income Notes or Holders of at least a Majority of any Class of Secured Notes which, as a result of the occurrence of such Tax Event, have not received 100% of the aggregate amount of principal and interest or other amounts due and payable to such Holders (such redemption, a "Tax Redemption"). No such Tax Redemption will occur unless the expected Liquidation Proceeds equal or exceed the Total Redemption Amount (which includes the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes). Upon the occurrence of a Tax Redemption, the Income Notes will be simultaneously redeemed. No such Tax Redemption will occur unless all amounts payable to the Senior Swap Counterparty, the Credit Protection Buyer or any assignee of the Credit Protection Buyer (including all Credit Default Swap Termination Payments) will have been paid in full, in each case, on the related redemption date. With respect to a Tax Redemption as described above, the Secured Notes will be redeemed at their Secured Note Redemption Prices, respectively, as described herein. The amount distributable as the final payment on the Income Notes following any Tax Redemption will equal the amount of the Liquidation Proceeds remaining after the redemption of the Secured Notes in full together with the payment of all other amounts required to be paid in accordance with the Priority of Payments. See "Description of the Notes—Tax Redemption."
Auction.....	Sixty (60) days prior to the Payment Date occurring in April of each year (the "Auction Date"), commencing on the April 2015 Payment Date, the Liquidation Agent, on behalf of the Issuer, shall take steps to conduct an auction (the "Auction") of the Credit Default Swap, the Eligible Investments (other than cash), the Delivered Obligations, if any, and the Collateral Securities in accordance with the procedures specified in the Indenture. If the Liquidation Agent receives one or more bids from Eligible Bidders not later than ten (10) Business Days prior to the Auction Date, which, when added to the cash on deposit in the Collateral Account, equal to or exceed the Minimum Bid Amount (which includes the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes), it will sell, assign, terminate or otherwise dispose of the Credit Default Swap, the Eligible Investments (other than cash), the Delivered Obligations, if any, and the Collateral Securities on or before the fifth Business Day prior to such Auction Date. The Notes will be redeemed in whole and the Outstanding Notional Amount of the Senior Swap will be reduced to zero on such Auction Date (any such date, the "Auction Payment Date"). If a successful Auction occurs, the Income Notes will also be redeemed in full. If the highest single bid on the entire portfolio, or the aggregate amount of multiple bids with respect to individual Collateral Securities, Eligible Investments (other than cash) and Delivered Obligations when added with the other Liquidation Proceeds and cash on deposit in the Collateral Account, does not equal or exceed the

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	Minimum Bid Amount or if there is a failure at settlement, the Credit Default Swap and the Senior Swap will not be terminated or assigned, the Eligible Investments (other than cash), Collateral Securities and the Delivered Obligations, if any, will not be sold and no redemption of Notes on the related Auction Date will occur.
Optional Redemption	The Secured Notes may be redeemed by the Issuers from Liquidation Proceeds, in whole but not in part, on any Payment Date on or after the Payment Date occurring in April 2010 (the "Optional Redemption Date"), at the written direction of, or with the written consent of the Holders of at least a Majority of the Income Notes (an "Optional Redemption"). If the Holders of the Income Notes so elect to cause an Optional Redemption of the Secured Notes, the Income Notes will also be redeemed. In the event of an Optional Redemption, the Secured Notes will be redeemed at their Secured Note Redemption Prices as described herein. No Secured Notes shall be redeemed pursuant to an Optional Redemption and a final payment to the Income Notes shall not be made unless the Aggregate Reference Obligation Notional Amount of the Credit Default Swap and the Outstanding Notional Amount of the Senior Swap will be reduced to zero and the Liquidation Agent furnishes certain assurances that the Total Redemption Amount (which includes the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes) will be available for payment on the related Optional Redemption Date. In the event of any redemption of the Secured Notes, the Fiscal Agent will receive for payment to the Holders of the Income Notes the remaining balance, if any, of funds in the Payment Account (net of all expenses of the Issuers after payment of the Secured Note Redemption Prices of the Secured Notes and the payment of all other amounts payable prior to payments to the Fiscal Agent) for payment to the Holders of the Income Notes pursuant to the Priority of Payments (the "Income Note Redemption Price"). The Income Note Redemption Price may not be less than the then current Income Note Face Amount (or such lesser amount as may be agreed to by the Holders of 100% of the Income Notes). See "Description of the Notes–Optional Redemption."
Mandatory Redemption	On any Payment Date on which any Overcollateralization Test is not satisfied as of the preceding Determination Date the Outstanding Notional Amount of the Senior Swap shall be reduced and certain of the Secured Notes (other than the Class S Notes) will be subject to mandatory redemption in accordance with the Priority of Payments, until the Outstanding Notional Amount of the Senior Swap has been reduced to zero and the applicable Secured Notes have been paid in full (a "Mandatory Redemption"). The Class E Notes are also subject to mandatory redemption in accordance with the Priority of Payments on any Payment Date if the Class E Interest Diversion Test is not satisfied. The Class S

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Notes and the Income Notes are not subject to mandatory redemption as a result of the failure of any Coverage Test. See "Description of the Notes—Principal", "—Mandatory Redemption" and "—Priority of Payments."

Coverage Tests..... The following table identifies the Coverage Tests and the value at which such tests will be satisfied. See "Description of The Notes—Mandatory Redemption".

Coverage Test	Ratio at Which Test is Satisfied
Senior Overcollateralization Test	equal to or greater than 116.5%
Class C Overcollateralization Test	equal to or greater than 106.5%
Class D Overcollateralization Test	equal to or greater than 102.4%

In addition, the Class E Interest Diversion Test will be satisfied if the Class E Overcollateralization Ratio is equal to or greater than 101.4%. On the Closing Date, the Senior Overcollateralization Ratio is expected to be 120.5%, the Class C Overcollateralization Ratio is expected to be 109.3%, the Class D Overcollateralization Ratio is expected to be 104.5% and the Class E Overcollateralization Ratio is expected to be 103.1%.

The Credit Default Swap.....

Documentation..... The Credit Default Swap will be structured as a "pay-as-you-go" credit default swap and will be documented pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the Schedule thereto (the "Master Agreement"), along with a confirmation (the "Master Confirmation") between the Issuer, as Credit Protection Seller, and Goldman Sachs International ("GSI"), as the Credit Protection Buyer, evidencing a transaction with respect to each Reference Obligation in the Reference Portfolio thereunder (each such transaction, a "CDS Transaction").

Reference Obligation Notional Amount..... Each CDS Transaction is expected to have a specified notional amount (the "Reference Obligation Notional Amount") which represents the dollar amount of the credit exposure which the Issuer is assuming thereunder with respect to the Reference Obligation related to such CDS Transaction. The "Aggregate Reference Obligation Notional Amount" is the sum of the aggregate Reference Obligation Notional Amounts of all CDS Transactions. On the Closing Date, the Issuer expects to enter into CDS Transactions with the Credit Protection Buyer referencing the Reference Obligations described herein and having an Aggregate Reference Obligation Notional Amount of approximately U.S.$2,000,000,000. In

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accordance with the terms of the Credit Default Swap, the Reference Obligation Notional Amount of a CDS Transaction is expected after the Closing Date to be:

(i) decreased on each day on which a Reference Obligation Principal Payment is made by the relevant Reference Obligation Principal Amortization Amount;

(ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the relevant amount determined pursuant to paragraph (b) under the heading "Physical Settlement Amount" in the Master Confirmation; *provided* that, if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date.

Each CDS Transaction will terminate by its terms no later than the scheduled legal final maturity of the related Reference Obligation unless a Credit Event occurs or a Floating Amount becomes due with respect to such CDS Transaction and the physical settlement date is scheduled to occur after such date.

For a more detailed description of the Credit Default Swap, see "The Credit Default Swap". Copies of the Master Agreement and the Master Confirmation are available to investors from the Trustee.

The Reference Portfolio ..... On the Closing Date, the Credit Default Swap will reference 140 Reference Obligations (collectively, the "Reference Portfolio"). See Appendix B to this Offering Circular for certain summary information about the Reference Portfolio.

The types of Residential Mortgage-Backed Securities that constitute Reference Obligations in the Reference Portfolio will include RMBS Prime Mortgage Securities, RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities.

Credit Events ..... The following Credit Events (each a "Credit Event") shall apply with

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	respect to each Reference Obligation: (i) Failure to Pay Principal; (ii) Writedown; or (iii) Distressed Ratings Downgrade. See "The Credit Default Swap—Credit Events."
Conditions to Settlement	The "Conditions to Settlement" will be satisfied upon delivery to the Credit Protection Seller and the Trustee of a Credit Event Notice and a Notice of Publicly Available Information.
Notifying Party	The Credit Protection Buyer.
Credit Default Swap Calculation Agent	GSI will be the calculation agent (in this capacity the "Credit Default Swap Calculation Agent") under the Credit Default Swap.
Settlement Method	Physical.
Credit Default Swap Early Termination	The Credit Default Swap may be terminated by the Issuer or by the Credit Protection Buyer (a "Credit Default Swap Early Termination") at the option of the non-defaulting or non-affected party, as applicable, upon the occurrence of an "Event of Default" or "Termination Event" (each, as defined in the Master Agreement). Upon the Trustee having actual knowledge of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Trustee or the Fiscal Agent, as applicable, will as promptly as practicable notify the Noteholders of such event but will only terminate any such agreement on behalf of the Issuer (i) at the direction of a Majority of the Income Notes or (ii) (a) upon the redemption of the Secured Notes in full, (b) if the principal balance of the Secured Notes is reduced to zero or (c) upon the acceleration of the maturity of the Secured Notes pursuant to the terms of the Indenture. The Issuer is required to satisfy the Rating Agency Condition prior to any (i) replacement of the Credit Protection Buyer or (ii) assignment of the Credit Default Swap. In connection with any Noteholder vote to terminate the Credit Default Swap, any Income Notes held by or on behalf of the Credit Protection Buyer or any of its Affiliates will have no voting rights and will be deemed not to be Outstanding in connection with any such vote.
The Collateral Securities	The Issuer will use the net proceeds from the offering of the Notes to purchase Collateral Securities and Eligible Investments having an initial principal amount as of the Closing Date of approximately U.S.$800,000,000. The Collateral Securities are required to have the characteristics and satisfy the criteria described herein under "The Collateral Securities."

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The Liquidation Agent, on behalf of the Issuer, will obtain the funds to pay Credit Protection Amounts (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap of an amount equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to clause (i)) and the Outstanding Notional Amount of the Senior Swap.

If the Notes become due in connection with an Optional Redemption, Tax Redemption or Auction, (i) the Liquidation Agent, on behalf of the Issuer, will assign or terminate the CDS Transactions and will liquidate all of the Collateral Securities and Eligible Investments in the Collateral Account and all Delivered Obligations in the Delivered Obligations Account and (ii) the Issuer will pay to the Credit Protection Buyer any Credit Default Swap Termination Payments the Issuer is required to pay to the Credit Protection Buyer (if any) in connection with any assignment or termination of the CDS Transactions. Certain amounts will be held back if one or more outstanding Credit Events remain due as of the Redemption Date.

If a CDS Transaction is terminated in connection with the occurrence of an Event of Default or Termination Event (each, as defined in the Master Agreement), the Liquidation Agent, on behalf of the Issuer, will pay to the Credit Protection Buyer any Credit Default Swap Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) owed by the Issuer to the Credit Protection Buyer by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap of an amount equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to clause (i)) and the Outstanding Notional Amount of the Senior Swap. Certain amounts will be held back if one or more outstanding Credit Events exist or Floating Amounts remain due as of any termination date.

If a CDS Transaction terminates on its scheduled termination date without a Credit Event occurring, payments of principal on the Collateral Securities and Eligible Investments in the Collateral Account in an amount equal to the Aggregate Net Adjusted Amortization Amount shall be applied as Proceeds in accordance with the Priority of Payments on the immediately following Payment Date.

See "The Collateral Securities"

Senior Swap..... On the Closing Date, the Senior Swap Counterparty will enter into the Senior Swap with the Issuer. GSI will be the initial Senior Swap Counterparty. The Senior Swap will be a limited recourse obligation of the Issuer.

The Senior Swap will provide for the payment by the Issuer of a premium

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(the "Senior Swap Premium") payable on each Payment Date, at the rate of 0.20% per annum on the Outstanding Notional Amount of the Senior Swap. The Senior Swap Premium will accrue during each Interest Accrual Period. To the extent a Floating Amount (other than those related to Interest Shortfalls) or Credit Default Swap Termination Payment becomes due from the Issuer with respect to a CDS Transaction and the Balance of the Collateral Securities and Eligible Investments in the Collateral Account have been reduced to zero, the Senior Swap Counterparty will be required to make a payment (any such payment, a "Senior Swap Funding Payment") to the Issuer to fund such amount in accordance with the Senior Swap in an amount equal to the lesser of the Floating Amount due and the Outstanding Notional Amount (any such amount, a "Senior Swap Funding Amount"). To the extent the Issuer receives Writedown Reimbursement Payment Amounts or Principal Shortfall Reimbursement Payment Amounts after the Senior Swap Counterparty has made a Senior Swap Funding Payment, the Issuer will pay such amounts directly to the Senior Swap Counterparty until all Senior Swap Funding Payments have been reimbursed to the Senior Swap Counterparty.

At least two Business Days prior to each Payment Date, the Trustee, on behalf of the Issuer, will calculate the amount by which, if any, the Outstanding Notional Amount of the Senior Swap will be reduced on the related Payment Date in connection with the Aggregate Net Amortization Amount as described under "Description of the Notes – Priority of Payments" and on each Payment Date the Outstanding Notional Amount will be reduced by the Senior Swap Reduction Amount, if any, for such Payment Date.

If an Event of Default or a Termination Event occurs under the Senior Swap, "Market Quotation" and "Second Method" will be applied to determine any related termination or assignment payments; *provided however*, that if the Issuer is the sole Affected Party or the Defaulting Party in respect of such Event of Default or Termination Event, (i) the Issuer will pay to the Senior Swap Counterparty any accrued but unpaid Senior Swap Premium Amounts, (ii) the Senior Swap Counterparty will pay to the Issuer any unpaid Senior Swap Funding Payments and (iii) no other amounts shall be paid by the Issuer. Notwithstanding the foregoing, no termination payments will be payable by the Senior Swap Counterparty or the Issuer in connection with an optional termination of the Senior Swap. Any termination payments paid by the Senior Swap Counterparty to the Issuer will be deposited into the Collateral Account.

The Issuer's obligations under the Senior Swap will be secured under the Indenture. The Notes (other than the Class S Notes and the Class A Notes) are subordinated to the payment by the Issuer of the Senior Swap Premium. The Senior Swap is not offered hereby.

The Collateral Put Agreement..... On or prior to the Closing Date, the Issuer will enter into a put agreement (the "Collateral Put Agreement") with GSI (in such capacity, the "Collateral Put Provider").

With respect to the Issuer's liquidation of Collateral Securities and Eligible Investments (other than Put Excluded Collateral) in connection with the

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	payment by the Issuer of any Credit Protection Amounts to the Credit Protection Buyer, if the Liquidation Agent is unable to obtain at least 100% of par for a Collateral Security or at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Liquidation Agent will then, on behalf of the Issuer, exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Liquidation Agent will deliver such Collateral Securities or Eligible Investments (other than Put Excluded Collateral) to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider of an amount equal to 100% of par for such Collateral Securities or Eligible Investments (plus accrued and unpaid interest). See "The Collateral Put Agreement".
Liquidation of Collateral.....	On or immediately prior to the final maturity date of the Notes or in connection with any Optional Redemption, Auction, Tax Redemption or Event of Default, the Liquidation Agent, on behalf of the Issuer, will (i) assign or terminate or cause to be assigned or terminated CDS Transactions, (ii) liquidate all of the Collateral Securities, Delivered Obligations and Eligible Investments and (iii) demand payment for any termination or assignment payments due to the Issuer.
The Liquidation Agent.....	Goldman, Sachs & Co. ("GS&Co.") as Liquidation Agent (in such capacity, the "Liquidation Agent") under the Liquidation Agency Agreement dated as of the Closing Date (the "Liquidation Agency Agreement") between GS&Co. and the Issuer will, on behalf of the Issuer, (i) assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer to be Credit Risk Obligations and (b) Delivered Obligations, (ii) sell, assign, terminate or otherwise dispose of the Credit Default Swap, Delivered Obligations, Collateral Securities and Eligible Investments of the Issuer in connection with (a) a redemption of the Notes as a result of an Optional Redemption, a Tax Redemption, an Auction or as otherwise required under the Indenture as described therein and (b) an acceleration of Notes as a result of an Event of Default as required under the Indenture as described therein, (iii) exercise rights of the Issuer under the Collateral Put Agreement and (iv) perform certain other functions, as described herein. The Liquidation Agent will have twelve (12) months to assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be Credit Risk Obligations and (b) Delivered Obligations in accordance with the terms of the Liquidation Agency Agreement (such twelve months measured from the date the Liquidation Agent is notified of either (1) such determination by the Collateral Administrator or (2) the receipt of such Delivered Obligation by the Issuer, as applicable). The proceeds of any such sale of Delivered Obligations will be deposited by the Trustee into the Collateral Account and invested in Eligible Investments and Collateral Securities selected at the direction of the Liquidation Agent. In addition, any principal proceeds received on such Delivered Obligations prior to such sale, will be deposited by the Trustee into the Collateral Account. The Liquidation Agent will not have the right, or the obligation, to exercise any

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	discretion with respect to the method or the price of any assignment, termination or disposition of a CDS Transaction; the sole obligation of the Liquidation Agent will be to execute such assignment or termination of a CDS Transaction in accordance with the terms of the Liquidation Agency Agreement. Notwithstanding the appointment of the Liquidation Agent, the Liquidation Agent shall have no responsibility for, or liability relating to, the performance of the Issuer or any CDS Transaction, Reference Obligation, Collateral Security or Eligible Investment. See "The Liquidation Agency Agreement."
Reports	A report will be made available to the Holders of the Notes and will provide information on the Reference Portfolio and payments to be made in accordance with the Priority of Payments (each, a "Note Valuation Report") beginning in April, 2007. See "Reports."
The Offering	The Offered Notes are being offered to non-U.S. Persons in offshore transactions in reliance on Regulation S, and in the United States to persons who are Qualified Institutional Buyers purchasing in reliance on the exemption from registration under Rule 144A or, with respect to Income Notes only, Accredited Investors purchasing in transactions exempt from registration under the Securities Act. Each purchaser who is a U.S. Person must also be a Qualified Purchaser. Each Accredited Investor must have a net worth of at least U.S.$10 million. See "Description of the Notes—Form of the Notes," "Underwriting" and "Notice to Investors."
Minimum Denominations	The Notes will be issued in minimum denominations of U.S.$250,000 (in the case of the Rule 144A Notes and the Income Notes sold to Accredited Investors) and U.S.$100,000 (in the case of the Regulation S Notes) and integral multiples of U.S.$1 in excess thereof for each Class of Notes.
Form of the Notes	Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by one or more temporary global notes (each, a "Temporary Regulation S Global Note"). Each Temporary Regulation S Global Note will be deposited on the Closing Date with The Bank of New York Trust Company, National Association as custodian for, and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), for the respective accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"). Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream and may not be held at any time by a U.S. Person ("U.S. Person") (as such term is defined in Regulation S under the Securities Act). Each Class of Rule 144A Notes (other than the Class E Notes and the Income Notes) will be issued in the form of one or more global notes in fully registered form (the "Rule 144A Global Notes" and, together with the Temporary Regulation S Global Notes and the Regulation S Global Notes, the "Global Notes"), deposited with The Bank of New York Trust Company, National Association as custodian for, and registered in the name of Cede & Co. as nominee of, DTC, which will credit the account of

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	each of its participants with the principal amount of Notes being purchased by or through such participant. Beneficial interests in the Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.
	The Class E Notes (other than the Regulation S Class E Notes) and the Income Notes (other than the Regulation S Income Notes) will be evidenced by one or more notes in definitive, fully registered form, registered in the name of the owner thereof (each, a "Definitive Note").
	Beneficial interests in the Global Notes and the Definitive Notes may not be transferred except in compliance with the transfer restrictions described herein. See "Description of the Notes—Form of the Notes" and "Notice to Investors."
Governing Law	The Indenture, the Collateral Administration Agreement, the Senior Swap, the Credit Default Swap, the Notes, the Liquidation Agency Agreement, the Collateral Put Agreement and the Fiscal Agency Agreement will be governed by the laws of the State of New York.
Listing and Trading.....	There is currently no market for the Notes and there can be no assurance that such a market will develop. See "Risk Factors—Notes—Limited Liquidity and Restrictions on Transfer." Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained or maintained.
Irish Listing Agent; Irish Paying Agent (if any)	If application is made to list the Notes on the Irish Stock Exchange, (i) Maples and Calder Listing Services Limited will be the Irish Listing Agent for the Notes (the "Irish Listing Agent") and (ii) Maples Finance Dublin will be the Irish Paying Agent for the Notes (the "Irish Paying Agent").
Tax Status.....	See "Income Tax Considerations."
ERISA Considerations	See "ERISA Considerations."

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RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Notes

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Notes. Although GS&Co. has advised the Issuers that it intends to make a market in the Offered Notes, GS&Co. is not obligated to do so, and any such market making with respect to the Offered Notes may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop or, if a secondary market does develop, that it will provide the Holders of the Notes with liquidity of investment or that it will continue for the life of such Notes and consequently a purchaser must be prepared to hold the Notes until the Stated Maturity.

In addition, no sale, assignment, participation, pledge or transfer of the Notes may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Notes will not be registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, and the Issuer has no plans, and is under no obligation, to register the Notes under the Securities Act or any state securities laws or under the laws of any other jurisdiction. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Description of the Notes—Form of the Notes" and "Notice to Investors." Such restrictions on the transfer of the Notes may further limit their liquidity. See "Description of the Notes—Form of the Notes." Application may be made for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained.

Limited Recourse Obligations. The Class A Notes, Class B Notes, Class C Notes and Class D Notes will be limited recourse obligations of the Senior Swap and the Issuers and the Class E Notes will be limited recourse obligations of the Issuer, in each case, payable solely from the Pledged Assets pledged by the Issuer to secure the Secured Notes and the Senior Swap. The Income Notes will be limited recourse obligations of the Issuer and will not be secured by the Pledged Assets securing the Secured Notes and the Senior Swap. None of the Liquidation Agent, the Holders of the Notes, the Initial Purchaser, the Trustee, the Administrator, the Share Trustee, the Agents, the Senior Swap Counterparty, the Collateral Put Provider, the Credit Protection Buyer or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Secured Notes, the Senior Swap or the Income Notes. Consequently, the Senior Swap Counterparty and the Holders of the Secured Notes must rely solely on distributions on the Pledged Assets pledged to secure the Senior Swap and the Secured Notes for the payment of principal, interest, premium and other distributions thereon. If distributions on the Pledged Assets are insufficient to make payments in respect of the Senior Swap and the Secured Notes, no other assets (and, in particular, no assets of the Liquidation Agent, the Holders of the Secured Notes, the Holders of the Income Notes, the Initial Purchaser, the Trustee, the Administrator, the Share Trustee, the Agents, the Senior Swap Counterparty, the Collateral Put Provider, the Credit Protection Buyer or any affiliates of any of the foregoing) will be available for payment of the deficiency, and following realization of the Pledged Assets pledged to secure the Senior Swap and the Secured Notes, the obligations of the Issuers to pay such deficiency shall be extinguished and shall not revive.

Subordination of the Notes. Payments of principal on the Class S Notes will be senior to reductions of the Outstanding Notional Amount of the Senior Swap and payments of principal on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes and to the distribution of Proceeds to the Holders of the Income Notes on each Payment Date to the extent set forth in the Priority of Payments. Payments of premium on the Senior Swap will be senior to payments of principal on the Secured Notes and senior to the distribution of Proceeds to the Holders of the Income Notes on each Payment Date to the extent set forth in the Priority of Payments. The Outstanding Notional Amount of the Senior Swap will be reduced either *pro rata* with principal payments on the Class A Notes or senior to payments of principal to the Class A Notes as described herein. Payments of principal on the Class A-f Notes and the Class A-b Notes will be paid either *pro rata* or first to the Class A-f Notes and second to the Class A-b Notes depending on the circumstances as more fully described herein. Payments of principal on the Class A Notes due on any Payment Date will be senior to payments of principal of the

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Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes and to the distribution of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class B Notes due on any Payment Date will be senior to payments of principal on the Class C Notes, the Class D Notes and the Class E Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class C Notes due on any Payment Date will be senior to payments of principal on the Class D Notes and Class E Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class D Notes due on any Payment Date will be senior to payments of principal on the Class E Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class E Notes due on any Payment Date will be senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. As a result of the Priority of Payments, notwithstanding the subordination of the Notes described under "Description of the Notes—Status and Security," the Outstanding Notional Amount of the Senior Swap will be reduced while the Class S Notes are outstanding, the Class A Notes will be entitled to receive certain payments of principal while the Class S Notes and the Senior Swap are outstanding, the Class B Notes will be entitled to receive certain payments of principal while the Class S Notes, the Senior Swap and the Class A Notes are outstanding, the Class C Notes will be entitled to receive certain payments of principal while the Class S Notes, the Senior Swap, the Class A Notes and the Class B Notes are outstanding, the Class D Notes will be entitled to receive certain payments of principal while the Class S Notes, the Senior Swap, the Class A Notes, the Class B Notes and the Class C Notes are outstanding and the Class E Notes will be entitled to receive certain payments of principal while the Class S Notes, the Senior Swap, the Class B Notes, the Class C Notes and the Class D Notes are outstanding and the Class E Notes will be entitled to receive certain payments of principal while the Class S Notes, the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are outstanding. In addition, the Income Notes will be entitled to receive certain payments while the Secured Notes and Senior Swap are outstanding. See "Description of the Notes—Priority of Payments." To the extent that any losses are incurred by the Issuer in respect of any Pledged Assets, such losses will be borne first by Holders of the Income Notes, then by the Holders of the Class E Notes, then, by Holders of the Class D Notes, then, by Holders of the Class C Notes; then, by Holders of the Class B Notes, then, by Holders of the Class A-b Notes, then, by the Holders of the Class A-f Notes and then, by the Senior Swap Counterparty, and finally, by Holders of the Class S Notes.

Payments of interest on the Class S Notes due on any Payment Date will be senior to payments of premium on the Senior Swap and to payments of interest on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class A Notes due on any Payment Date will be senior to payments of interest on the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class B Notes due on any Payment Date will be senior to payments of interest on the Class C Notes and the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class C Notes due on any Payment Date will be senior to payments of interest on the Class D Notes and the Class E Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class D Notes due on any Payment Date will be senior to payments of interest on the Class E Notes and senior to distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class E Notes due on any Payment Date will be senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. See "Description of the Notes."

On any Payment Date on which certain conditions are satisfied and funds are available therefor, the "shifting principal" method in clause (xiii) of the Priority of Payments may permit the Outstanding Notional Amount of the Senior Swap to be reduced and the Holders of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes to receive payments of principal in accordance with the Priority of Payments while more senior Classes of Notes and the Senior Swap remain outstanding and may permit distributions of Principal Proceeds to the Holders of the Income Notes, to the extent funds are available in accordance with the Priority of Payments, while the more senior Notes are outstanding. Amounts properly paid pursuant to the Priority of Payments to a junior Class of Notes will not be recoverable in the event of a subsequent shortfall in the amount required to pay a more senior Class of Secured Notes.

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Holders of the Controlling Class may not be able to effect a liquidation of the Pledged Assets in an Event of Default; Holders of other Classes of Notes may be Adversely Affected by Actions of the Controlling Class. If an Event of Default occurs and is continuing, a Majority of the Controlling Class will be entitled to determine the remedies to be exercised under the Indenture; however, the Majority of the Controlling Class will not be able to direct a sale or liquidation of the Pledged Assets unless, among other things, the Trustee determines (which determination will be based upon a certificate of the Liquidation Agent as to the estimated proceeds) that the anticipated proceeds of such sale or liquidation (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to pay in full the sum of (A) amounts due to the Senior Swap Counterparty, net of all amounts payable to the Issuer by the Senior Swap Counterparty, (B) the principal (including any Class C Deferred Interest, Class D Deferred Interest and Class E Deferred Interest) and accrued interest (including all Defaulted Interest, and interest thereon) and any other amounts due with respect to all the outstanding Notes, (C) unpaid Administrative Expenses, (D) all amounts, including Credit Default Swap Termination Payments, due the Credit Protection Buyer or an assignee of a Credit Protection Buyer upon termination or assignment of the Credit Default Swap, net of termination or assignment payments payable to the Issuer by the Credit Protection Buyer or an assignee of a Credit Protection Buyer, (E) all amounts due to the Collateral Put Provider, net of amounts payable to the Issuer by the Collateral Put Provider and (F) all other items in the Priority of Payments ranking prior to payments on the Notes and a Majority of the Controlling Class agrees with such determination. There can be no assurance that proceeds of a sale and liquidation, together with all other available funds, will be sufficient to pay in full such amount. In addition, even if the anticipated proceeds of such sale or liquidation would not be sufficient to pay in full such amount, the Senior Swap Counterparty and/or the requisite Holders of Notes as determined pursuant to the Indenture or the Holders of a Majority of the Controlling Class may direct the sale and liquidation of the Pledged Assets.

Remedies pursued by the Holders of the Class S Notes, the Senior Swap and Class A Notes could be adverse to the interests of the Holders of the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes. After the Class S Notes, the Senior Swap and the Class A Notes are no longer outstanding, the Holders of the Class B Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Senior Swap, the Class A Notes, and the Class B Notes are no longer outstanding, the Holders of the Class C Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Senior Swap, the Class A Notes, the Class B Notes and the Class C Notes are no longer outstanding, the Holders of the Class D Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are no longer outstanding, the Holders of the Class E Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. See "Description of the Notes—The Indenture—Events of Default."

Subordination of the Income Notes; Unsecured Obligations. The Income Notes are limited recourse obligations of the Issuer and are not secured by the Pledged Assets securing the Secured Notes. As such, the Holders of the Income Notes will rank behind all of the secured creditors and *pari passu* with all unsecured creditors, whether known or unknown, of the Issuer. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Secured Notes, the Senior Swap and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Income Notes as and when such proceeds are released from the lien of the Indenture in accordance with the Priority of Payments. There can be no assurance that, after payment of principal and interest on the Secured Notes and other fees and expenses of the Issuer in accordance with the Priority of Payments, the Issuer will have funds remaining to make payments in respect of the Income Notes. Failure to pay the full principal amount of the Income Notes will in no event constitute an Event of Default. No person or entity other than the Issuer will be required to make any payments on the Income Notes. Except with respect to the obligations of the Issuer to make payments pursuant to the Priority of Payments, the Issuer does not expect to have any creditors. The funds available to be paid to the Fiscal Agent will depend in part on the weighted average of the Note Interest Rates.

Any amounts that are released from the lien of the Indenture for payment to the Holders of the Income Notes in accordance with the Priority of Payments on any Payment Date will not be available to make payments in respect of the Secured Notes or the Senior Swap on any subsequent Payment Date.

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Leveraged Investment. The Income Notes represent a leveraged investment in the underlying Pledged Assets. The use of leverage generally magnifies an investor's opportunities for gain and risk of loss. Therefore, changes in the market value of the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the Pledged Assets, which are also subject to credit, liquidity and interest rate risk.

Supplemental Indentures May Modify the Indenture, and Some Supplemental Indentures Do Not Require Consent of Holders of Notes. The Indenture provides that the Issuers and the Trustee may enter into supplemental indentures to modify various provisions of the Indenture. The execution of supplemental indentures is subject to various conditions precedent. In certain cases, the consent of the Holders of the Notes is required, but in certain cases, such consent is not required. Furthermore, if no Holder of a Note of a Class responds to notice of a proposed amendment within the prescribed time period, all Notes of such Class may be deemed not to be adversely or materially adversely affected by the proposed supplemental indenture. See "Description of the Notes—The Indenture—Modification of the Indenture."

Optional Redemption and Tax Redemption of Notes. Subject to the satisfaction of certain conditions, the Secured Notes may be optionally redeemed and the Senior Swap terminated in whole and not in part (i) on any Payment Date on or after the April 2010 Payment Date at the written direction of, or with the written consent of, Holders of at least a Majority of the Income Notes or (ii) on the date that is 90 days from the date on which the Issuers first become aware of the occurrence of a Tax Event (*provided* that such 90-day period shall be extended by another 90 days if, during the initial 90-day period, the Issuers have notified the Holders of the Notes that the related Issuer expects that it shall have changed its place of residence by the end of the later 90-day period), at the written direction of, or with the written consent of, Holders of at least 66-2/3% of the Income Notes or the Holders of at least a Majority of any Class of Notes, if as a result of an occurrence of a Tax Event, such Class of Notes has not received 100% of the aggregate amount of principal and interest due and payable on such Class of Notes. If an Optional Redemption or Tax Redemption of the Secured Notes occurs, the Income Notes will be redeemed simultaneously.

There can be no assurance that after payment of the redemption prices for the Secured Notes, amounts payable in connection with the termination of the Credit Default Swap and the Senior Swap and all other amounts payable in accordance with the Priority of Payments, any Proceeds will remain to distribute to the Holders of the Income Notes upon redemption. See "Description of the Notes—Optional Redemption" and "—Tax Redemption." An Optional Redemption or Tax Redemption of the Notes could require the Liquidation Agent to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the CDS Transactions, the Eligible Investments or the Delivered Obligations. In addition, the redemption procedures in the Indenture may require the Liquidation Agent to aggregate securities to be sold together in one block transaction, thereby possibly resulting in a lower aggregate realized value for the CDS Transactions, the Eligible Investments or the Delivered Obligations. In any event, there can be no assurance that the market value of the CDS Transactions, the Eligible Investments or the Delivered Obligations will be sufficient for the Holders of the Income Notes to direct an Optional Redemption or, in the case of a Tax Redemption, for the Holders of the affected Class of Secured Notes or Income Notes to direct a Tax Redemption. A decrease in the market value of the CDS Transactions, the Eligible Investments or the Delivered Obligations would adversely affect the proceeds that could be obtained upon a disposition of the CDS Transactions, the Eligible Investments or the Delivered Obligations; consequently, the conditions precedent to the exercise of an Optional Redemption or a Tax Redemption may not be met. The interests of the Holders of the Income Notes in determining whether to elect to effect an Optional Redemption and the interests of the Holders of the affected Class of Secured Notes and the Income Notes with respect to a Tax Redemption may be different from the interests of the Holders of the other Classes of Notes in such respect. The Holders of the Notes also may not be able to invest the proceeds of the redemption of the Notes in one or more investments providing a return equal to or greater than the Holders of the Notes expected to obtain from their investment in the Notes. An Optional Redemption or a Tax Redemption will shorten the average lives of the Notes and the duration of the Notes and may reduce the yield to maturity of the Notes.

Auction. There can be no assurance that an Auction of the Pledged Assets on any Auction Date will be successful. The failure of an Auction may lengthen the expected average lives of the Notes and may reduce the yield to maturity of the Notes. In the event of an Auction, Holders of Income Notes may have their Income Notes redeemed without receiving any payments on such Income Notes. In addition, the success of an Auction will shorten the average lives of the Notes and may reduce the yield to maturity of the Notes.

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Mandatory Redemption of Notes. If the Senior Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes will be used to reduce the Outstanding Notional Amount of the Senior Swap and to redeem the Class A Notes and the Class B Notes in full in the order described in the Priority of Payments. If the Class C Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class D Notes, the Class E Notes and the Income Notes will be used to reduce the Outstanding Notional Amount of the Senior Swap and to redeem the Class A Notes, the Class B Notes and the Class C Notes in full in the order described in the Priority of Payments. If the Class D Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class E Notes and the Income Notes will be used to reduce the Outstanding Notional Amount of the Senior Swap and to redeem the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes in full in the order described in the Priority of Payments. The foregoing redemptions could result in an elimination, deferral or reduction in the amounts available to make payments to the Holders of the Class C Notes, the Class D Notes, the Class E Notes and payments to Holders of the Income Notes. See "Description of the Notes—Mandatory Redemption". Any such redemptions will shorten the average life of the redeemed Notes, may lower the yield to maturity of the Notes.

Collateral Accumulation. In anticipation of the issuance of the Notes, GSI has agreed to "warehouse" up to U.S.$2,000,000,000 aggregate notional amount of CDS Transactions and up to U.S.$800,000,000 aggregate principal amount of Collateral Securities and Eligible Investments, for assumption by the Issuer or resale to the Issuer, as applicable, pursuant to the terms of a forward purchase agreement (the "Forward Purchase Agreement"). No collateral manager or other person acting on behalf of the Issuer has reviewed the prices established pursuant to such Forward Purchase Agreement (nor has there been any third party verification of such prices). All of such notional amount will be represented by one or more CDS Transactions entered into between the Issuer and GSI or an affiliate thereof, wherein the Issuer will be selling credit protection. Pursuant to the terms of the Forward Purchase Agreement, the Issuer will be obligated to assume or purchase, as applicable, the "warehoused" assets, *provided* that with respect to the Collateral Securities, such securities satisfy certain eligibility criteria on the Closing Date, for a formula purchase price designed to reflect the premiums at which such "warehoused" assets were assumed or purchased, as applicable (using, as applicable, the prepayment speed and other assumptions used to set the initial price of each individual asset), as adjusted for any hedging gain or loss and any loss or gain on any "warehoused" asset assigned or sold, as applicable, to a party other than the Issuer during the warehousing period. Consequently, the market values of "warehoused" assets at the Closing Date may be less than or greater than the formula purchase price paid by the Issuer. In addition, if a CDS Transaction, Collateral Security or Eligible Investment becomes ineligible during the warehousing period and is not assumed or purchased, as applicable, by the Issuer on the Closing Date, or if a CDS Transaction, Collateral Security or Eligible Investment is otherwise disposed at the direction of GSI (which disposition may only occur with the consent of GSI's affiliate), the Issuer will bear the loss or receive the gain on the disposition of such CDS Transaction, Collateral Security or Eligible Investment to a third party.

Disposition of CDS Transactions by the Liquidation Agent Under Certain Circumstances. Under the Indenture, the Liquidation Agent will be required to assign, terminate or otherwise dispose of, on behalf of the Issuer, all CDS Transactions that reference Reference Obligations that are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to meet the definition of Credit Risk Obligations subject to satisfaction of the conditions described herein. The Liquidation Agent will have twelve (12) months (from the date it is notified of the determination of the Collateral Administrator) to assign, terminate or otherwise dispose of such CDS Transactions. The Liquidation Agent will not have the right, or the obligation, to exercise any discretion with respect to the method or the price of any assignment, termination or disposition of a CDS Transaction that references a Reference Obligation that is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation; the sole obligation of the Liquidation Agent will be to execute the assignment, termination or disposition of such CDS Transaction in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance that the Liquidation Agent will be able to dispose any such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation. Any such sale of a CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation may result in losses by the Issuer, which losses may

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result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. See "— No Collateral Manager."

Average Lives, Duration and Prepayment Considerations. The average lives of the Notes (other than the Class S Notes) are expected to be shorter than the number of years until their Stated Maturity. See "Weighted Average Life and Yield Considerations."

The average lives of the Notes will be affected by the financial condition of the obligors on or issuers of the Reference Obligations and the characteristics of the Reference Obligations, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prepayment speed, the occurrence of any early amortization events, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries in respect of any Defaulted Obligations, the frequency of tender or exchange offers for the Reference Obligations and the tenor of any sales of CDS Transactions.

Some or all of the loans underlying the RMBS may be prepaid at any time (although certain of such mortgage loans may have "lockout" periods, defeasance provisions, prepayment penalties or other disincentives to prepayment). Defaults on and liquidations of the loans and other collateral underlying the RMBS may also lead to early repayment thereof. Prepayments on loans are affected by a number of factors. If prevailing rates for similar loans fall below the interest rates on such loans, prepayment rates would generally be expected to increase. Conversely, if prevailing rates for similar loans rise above the interest rates on such loans, prepayment rates would generally be expected to decrease. The existence and frequency of such prepayments, optional redemptions, defaults and liquidations will affect the average lives of, and credit support for, the Notes. See "Weighted Average Life and Yield Considerations."

Projections, Forecasts and Estimates. Estimates of the weighted average lives of, and returns on, the Notes included herein, together with any other projections, forecasts and estimates provided to prospective purchasers of the Notes, are forward looking statements. Such statements are necessarily speculative in nature, as they are based on certain assumptions. It can be expected that some or all of the assumptions underlying such statements will not reflect actual conditions. Accordingly, there can be no assurance that any estimated projections, forecasts or estimates will be realized or that the forward looking statements will materialize, and actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of the Reference Obligations, differences in the actual allocation of the Reference Obligations among asset categories from those assumed and mismatches between the timing of accrual and receipt of Proceeds from the Reference Obligations, among others.

None of the Issuer, the Co-Issuer, the Liquidation Agent, the Initial Purchaser or any of their respective affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Dependence of the Issuer on the Liquidation Agent. The Issuer has no employees and is dependent on the employees of the Liquidation Agent to perform its obligations under the Liquidation Agency Agreement in accordance with the terms of the Indenture and the Liquidation Agency Agreement. Consequently, the loss of one or more of the individuals employed by the Liquidation Agent to perform its obligations under the Liquidation Agency Agreement could have an adverse effect, which effect may be material, on the performance of the Issuer.

Static Transaction. The Hudson Mezzanine Funding 2006-1, Ltd. transaction is a static collateralized debt obligation transaction. As a result, the CDS Transactions held by the Issuer on the Closing Date will be retained by the Issuer even if it would be in the best interests of the Issuer and the Holders of the Notes to assign, terminate or dispose of certain CDS Transactions unless Reference Obligations referenced by those CDS Transactions are designated as Credit Risk Obligations and are required to be assigned, terminated or disposed by the Liquidation Agent pursuant to the terms of the Indenture and the Liquidation Agency Agreement. See "The Credit Default Swap—Removal of Reference Obligations from the Reference Portfolio". In addition, circumstances may exist

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under which it is in the best interests of the Issuer or the Holders of the Notes to assign, terminate or otherwise dispose of a CDS Transaction, but (a) pursuant to the Collateral Administration Agreement, the Collateral Administrator, on behalf of the Issuer, does not determine that the Reference Obligation referenced by such CDS Transaction is a Credit Risk Obligation or (b) the Liquidation Agent is not able to assign, terminate or otherwise dispose, on behalf of the Issuer, such CDS Transaction in accordance with the terms of the Liquidation Agency Agreement.

Substitution of Collateral Securities. From time to time following the Closing Date, any Holder of any Note may submit to the Trustee or the Fiscal Agent, as applicable, a request to substitute one or more BIE Collateral Securities for one or more existing Collateral Securities, in whole or in part. Such substitution will be subject to the affirmative approval of the Holders of a Majority of each Class of Notes and the Senior Swap Counterparty. Any such substitution could (i) adversely affect the Issuer and the Issuer's ability to make payments on the Notes, (ii) affect the weighted average lives of the Notes, (iii) adversely affect the returns on the Notes and (iv) increase the frequency of defaults on the Collateral Securities or reduce the proceeds following the liquidation of any Collateral Securities. On the other hand, it is also possible that a Holder of a Note could propose a substitution which would be beneficial to the Issuer and the Holders of the Notes but such substitution is not permitted because such proposal is not affirmatively approved by the Senior Swap Counterparty and the Holders of a Majority of each Class of Notes.

No Collateral Manager. The Issuer has not engaged and will not engage, a collateral manager to select the Pledged Assets (or to verify their prices), to monitor the Pledged Assets on a regular basis or to consult with the Issuer with respect to the Pledged Assets, including the advisability, timing or terms of any disposition thereof. None of the Liquidation Agent or any of their affiliates will provide investment advisory services to or act as an advisor to or an agent for the Issuer or the Holders of the Notes, and they will not have any fiduciary duties to, nor be obligated to consider the interests of the Issuer or the Holders of the Notes. As a result, the Issuer and the Holders of the Notes will not have the benefit of the provisions of the Investment Advisers Act of 1940 which afford certain protections to clients of investment advisors. Furthermore, because there is no collateral manager in the Hudson Mezzanine Funding 2006-1, Ltd. transaction, the Indenture eliminates the ability of the Issuer to exercise discretion in contexts where a collateral manager in a managed, or static, collateralized debt obligation transaction customarily has discretion to act on behalf of the Issuer. For example, the Indenture provides, among other things, that (i) where the Issuer, as the beneficial owner of a Collateral Security or Delivered Obligation, or the Trustee, as the registered owner of a Collateral Security, has the right to exercise a vote or consent to (or otherwise approve of) (a) any action, or inaction, pursuant to the terms of such Collateral Security or Delivered Obligation and its related underlying documentation or (b) an offer by the issuer of such Collateral Security or Delivered Obligation or by any other person to purchase or otherwise acquire such Collateral Security or Delivered Obligation or to convert or exchange such Collateral Security or Delivered Obligation for cash or any other consideration, the Trustee, as directed by the applicable holders, acting in its capacity as registered owner of such Collateral Security or Delivered Obligation, shall direct the Issuer's vote be cast in the following manner: (x) if other holders of the class of which such Collateral Security or Delivered Obligation is a part respond to such solicitation for vote or consent, in the same manner as the votes of a plurality of the other voting holders of such class (based on the Principal Balance of such Collateral Security or Delivered Obligation), (y) if no other holders of such class exercise a vote or if there are no other holders of such class, but holders of different classes issued under the same governing instrument respond, in the same manner as the votes of a plurality of the voting holders of all classes issued under the governing instrument pursuant to which such Collateral Security or Delivered Obligation was issued (based on the Principal Balance of all such classes and treated as a single class) or (z) if no holders of any class issued under the same governing instrument respond or if there are no other holders, the Issuer's vote shall be exercised against such action or inaction and (ii) the Issuer will have no discretion with respect to the temporary investment of funds held pending application thereof in accordance with the terms of the Indenture. The inability of the Issuer to exercise discretion in these contexts could adversely affect the Issuer and the Holders of the Notes, and it is impossible to quantify the potential magnitude of this impact. Potential investors in the Notes are urged to (a) review carefully this Offering Circular and the related terms of the Indenture, the Fiscal Agency Agreement and other operative documents and (b) take the inability of the Issuer to exercise discretion into account before investing in any of the Notes.

Scheduled Maturity of CDS Transactions. From time to time, the scheduled maturity or termination of one or more CDS Transactions is likely to occur without a Credit Event occurring. Any such maturity or termination of a CDS Transaction will result in a decrease in the Aggregate Reference Obligation Notional Amount and may result

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in a required reduction of the notional amount of the Senior Swap and a redemption of the Notes in accordance with the Priority of Payments. The Issuer anticipates that payments of principal of the Collateral Securities and Eligible Investments in the Collateral Account will be applied to so redeem the Notes, but it is possible that such payments of principal will not be sufficient to permit such redemption.

The Credit Default Swap and Reference Obligations

General. The following description of the Credit Default Swap and Reference Obligations and the underlying documents and the risks related thereto is general in nature. The attributes and risks related to any individual Reference Obligation may differ in significant and material manners from the general description of the Reference Obligations and the underlying documents and the risks related thereto.

Nature of Reference Portfolio. The Reference Portfolio is subject to credit, liquidity, prepayment and interest rate risks. The amount and nature of collateral securing the Senior Swap and the Secured Notes has been established to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the Reference Obligations and the Eligible Investments. See "Ratings of the Notes." If any deficiencies exceed such assumed levels, however, payment of the Senior Swap and the Notes could be adversely affected. To the extent that any Reference Obligation referenced by a CDS Transaction is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation and the Liquidation Agent, on behalf of the Issuer, assigns, terminates or otherwise disposes of such Credit Default Swap Disposition Transaction, it is not likely that the proceeds of such assignment, termination or other disposition will be equal to the amounts owing to the Issuer in respect of such CDS Transaction.

The market value of the CDS Transactions and the Reference Obligations generally will fluctuate with, among other things, the financial condition of the related Reference Obligations and obligors on or issuers of the Reference Obligations, the credit quality of the underlying pool of assets in any Reference Obligation, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. None of the Issuer, the Co-Issuer, the Initial Purchaser, the Liquidation Agent, the Collateral Administrator, the Senior Swap Counterparty, the Credit Protection Buyer, the Collateral Put Provider or the Trustee has any liability or obligation to the Holders of Notes as to the amount or value of, or decrease in the value of, the Reference Obligations from time to time, or makes any representation or warranty as to the performance of the Reference Obligations.

If any Reference Obligation referenced by a CDS Transaction is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation, the Liquidation Agent is required, subject to the terms of the Liquidation Agency Agreement, to assign, terminate or otherwise dispose on behalf of the Issuer the affected CDS Transaction. There can be no assurance as to the timing of the Issuer's disposition of the affected CDS Transaction, or as to the rates of recovery on such affected CDS Transaction. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes.

CDS Transactions. As of the Closing Date, 100% of the CDS Transactions will consist of CDS Transactions the Reference Obligations of which are RMBS Securities.

The economic return on a CDS Transaction depends substantially upon the performance of the related Reference Obligation and partially upon the performance of the collateral posted by the Issuer to secure its obligations to the Credit Protection Buyer on deposit in the Collateral Account. CDS Transactions generally have probability of default, recovery upon default and expected loss characteristics, which are closely correlated to the corresponding Reference Obligation, but may have different maturity dates, coupons, payment dates or other non credit characteristics than the corresponding Reference Obligation. In addition to the credit risks associated with holding the Reference Obligation, with respect to CDS Transactions, the Issuer will usually have a contractual relationship only with the related Credit Protection Buyer, and not with the Reference Obligor of the Reference Obligation. Due to the fact that a CDS Transaction may be illiquid or may not be terminable on demand (or terminable on demand only upon payment of a substantial fee by the Issuer), the Issuer's ability to dispose of a CDS Transaction, if circumstances arise permitting such disposal, may be limited. Any settlement payments and termination payments payable by the Issuer (net of any termination payments owing by the Credit Protection Buyer)

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to the Credit Protection Buyer will reduce the amount available to pay the Holders of the Income Notes, the Secured Notes and the Senior Swap Counterparty in inverse order of seniority. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set off against the Reference Obligor, nor have any voting rights with respect to the Reference Obligation. The Issuer will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

Because neither the Credit Protection Buyer nor the Issuer is required to hold any Reference Obligation, the Issuer will not have any right to obtain from either the Credit Protection Buyer or the Reference Obligor information on the Reference Obligations or information regarding any Reference Obligor. The Credit Protection Buyer will have no obligation to keep the Issuer, the Trustee, the Liquidation Agent, the Holders of the Secured Notes or the Holders of the Income Notes informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a credit event.

In addition, in the event of the insolvency of the Credit Protection Buyer, the Issuer will be treated as a general creditor of such Credit Protection Buyer, and will not have any claim with respect to the Reference Obligor or the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the Credit Protection Buyer as well as that of the Reference Obligor and the Reference Obligation. As a result, concentrations of CDS Transactions in any one Credit Protection Buyer subject the Notes to an additional degree of risk with respect to defaults by such Credit Protection Buyer. It is expected that Goldman Sachs International, an affiliate of Goldman, Sachs & Co., will act as the sole Credit Protection Buyer with respect to the Credit Default Swap, which creates concentration risk and may create certain conflicts of interest. In addition, neither the Credit Protection Buyer nor its affiliates will be (or will be deemed to be acting as) the agent or trustee of the Issuer, the Holders of the Secured Notes, the Senior Swap Counterparty or the Holders of the Income Notes in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Credit Protection Buyer and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. The Credit Protection Buyer and its affiliates (i) may deal in any Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if the Credit Default Swap and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Holders of the Secured Notes, the Senior Swap Counterparty or the Holders of the Income Notes.

All of the CDS Transactions are expected to be structured as "pay-as-you-go" credit default swaps. The obligation of the Issuer to make payments to the Credit Protection Buyer under the Credit Default Swap creates credit exposure to the related Reference Obligations (as well as to the default risk of the related Credit Protection Buyer). Following the occurrence of a "credit event", the Issuer may be required to pay to the Credit Protection Buyer a "physical settlement payment". In addition, each Credit Default Swap Disposition Transaction may require the Issuer, in its capacity as protection seller, to pay certain "floating amounts" to the Credit Protection Buyer equal to certain principal shortfall amounts, writedown payments and interest shortfalls under the Reference Obligation upon the occurrence thereof. The payment of any such credit protection payments and floating amounts will be funded by the Issuer, or the Liquidation Agent (on behalf of the Issuer), by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap of an amount equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap. Although the Credit Protection Buyer, in its capacity as protection buyer, will be obligated to reimburse all or part of such payments to the Issuer if the writedown payments of the related shortfalls are ultimately paid to Holders of the Reference Obligations or if the related Reference Obligations are written up, the amounts available to the Issuer to make payments in respect of the Secured Notes and Income Notes may be reduced after payment by the Issuer of the relevant payment to the Credit Protection Buyer until the Issuer receives such reimbursement, if any, from the Credit Protection Buyer. Any "floating payments" or credit protection payments payable by the Issuer, may result in a reduction of the notional amount of the Credit Default Swap, and therefore reduce the amounts payable by the Credit Protection Buyer and the amount of interest collections available to pay interest on the Notes. In addition, any "floating payment" or "physical settlement payment" would reduce the Collateral Securities on deposit in the Collateral Account that is available to pay the principal of the Notes and may reduce the interest collections available to pay interest on the Notes.

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Determination of the floating amounts and additional fixed amounts (as described in the Master Confirmation) will depend on the relevant servicer reports being available and on such reports containing adequate information to enable the required calculations to be made. Current private industry investigations of the market practices show that such reports can vary and that not all reports contain adequate information. In addition, access to servicer reports may be limited if such reports are confidential and neither counterparty holds the related Reference Obligation.

In the event a "credit event" occurs under the Credit Default Swap, the Liquidation Agent, on behalf of the Issuer, will obtain funds to pay Credit Protection Amounts (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) owed by the Issuer to the Credit Protection Buyer by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap of an amount equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap. In addition, under certain circumstances upon the occurrence of a "credit event", the Liquidation Agent, on behalf of the Issuer will pay any related Physical Settlement Amount owed by the Issuer to the Credit Protection Buyer in exchange for a Delivered Obligation by (i) applying the Collateral Liquidation Procedure and (ii) if the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap of the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap. Any Delivered Obligation delivered to the Issuer will be sold by the Liquidation Agent, on behalf of the Issuer, pursuant to the terms of the Liquidation Agency Agreement. If a CDS Transaction is terminated or partially terminated prior to its scheduled maturity, the Liquidation Agent, on behalf of the Issuer, will make any termination payments (which, for the avoidance of doubt, shall not include Defaulted Swap Termination Payments) due to the Credit Protection Buyer by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap of an amount equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap.

"Pay-as-you-go" credit default swaps are a type of credit default swap developed to incorporate the unique structures of asset-backed securities. The International Swaps and Derivatives Association, Inc. ("ISDA") has published a form confirmation for "pay-as-you-go" credit default swaps referencing RMBS Securities. The form confirmation expected to be used to document the Credit Default Swap is expected to be similar to the RMBS Securities "pay-as-you-go" form, but may differ in significant ways. While ISDA has published its form confirmations and has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the "pay-as-you-go" credit default swap forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. ISDA is currently preparing forms for other types of asset-backed securities. There can be no assurance that such forms will be substantially similar to the form confirmation expected to be used for the Credit Default Swap. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the ISDA "pay-as-you-go" credit default swap forms, the confirmations used to document the Credit Default Swap may differ from the future market standard. Such a result may have a negative impact on the liquidity and market value of the Credit Default Swap.

There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be favorable to the Issuer. Amendments or supplements to the "pay-as-you-go" credit default swap forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will only apply to the Credit Default Swap executed prior to such amendment or supplement if the Issuer and the Credit Protection Buyer agree to amend the Credit Default Swap to incorporate such amendments or supplements and the Rating Agency Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the Credit Protection Buyer, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

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Residential Mortgage Backed Securities. 100% of the Aggregate Reference Obligation Notional Amount will consist of Residential Mortgage Backed Securities ("RMBS") as of the Closing Date. The types of Residential Mortgage Backed Securities that constitute the Reference Obligations related to the CDS Transactions the Issuer will enter into on the Closing Date will consist of RMBS Prime Mortgage Securities, RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities.

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one-to-four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS.

Structural and Legal Risks of RMBS. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

RMBS may have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the

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underlying mortgage loans themselves or a cap based on an asset's designated floating rate index. As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Servicemembers' Civil Relief Act of 2003 (the "Relief Act") provides relief for certain soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% per annum. In addition, pursuant to the laws of various states, under certain circumstances, payments on the underlying mortgage loans by residents in such states who are called into active duty with the National Guard or the reserves will be deferred. These state laws may also limit the ability of the servicer to foreclose on the related mortgaged property. This could result in delays or reductions in payment and increased losses on the underlying mortgage loans which impact the return to investors. Certain RMBS may provide for the payment of only interest for a stated period of time.

In addition, structural and legal risks of RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer or could be substantively consolidated with those of the originator or the servicer, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of RMBS.

It is not expected that the RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Subordination of Reference Obligations. All of the Reference Obligations are mezzanine grade as of the Closing Date. Some of the Reference Obligations will be subordinated to one or more other classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. The subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

PROSPECTIVE PURCHASERS OF THE SECURED NOTES AND THE INCOME NOTES SHOULD CONSIDER AND ASSESS FOR THEMSELVES THE LIKELY LEVEL OF DEFAULTS ON THE REFERENCE OBLIGATIONS, AS WELL AS THE LIKELY LEVEL AND TIMING OF RECOVERIES ON THE REFERENCE OBLIGATIONS.

Insolvency Considerations with Respect to Issuers of Reference Obligations. Various laws enacted for the protection of creditors may apply to the Reference Obligations. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a Reference Obligation, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Reference Obligation or for granting a lien securing the Reference Obligation and, after giving effect to such indebtedness or such lien, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness or such lien as a fraudulent conveyance, to subordinate such indebtedness or such lien to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation, or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was "insolvent" after giving effect to the incurrence of the indebtedness constituting the Reference Obligation or the grant of a lien securing the Reference Obligation or that, regardless of the method of valuation, a court would not determine that the issuer was "insolvent" upon giving effect to such incurrence or grant. In addition, in the event of the insolvency of an issuer of a Reference Obligation, payments made on such Reference Obligation or a lien securing such Reference Obligation could be subject to avoidance as a "preference" if made within a certain period of time (which

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may be as long as one year or longer) before insolvency. Payments made under loans underlying Reference Obligations may also be subject to avoidance in the event of the bankruptcy of the borrower.

In general, if payments on a Reference Obligation are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured. To the extent that any such payments are recaptured, the resulting loss will be borne first by the Holders of the Income Notes, then by the Holders of the Class E Notes, then by the Holders of the Class D Notes, then by the Holders of the Class C Notes, then by the Holders of the Class B Notes, then by the Holders of the Class A-b Notes, then by the Holders of the Class A-f Notes, then by the Senior Swap Counterparty, and finally, by the Holders of the Class S Notes.

Illiquidity of CDS Transactions; Certain Restrictions on Transfer. There may be a limited trading market for many of the CDS Transactions entered into by the Issuer, and in certain instances there may be effectively no trading market therefor. The illiquidity of CDS Transactions may also affect the ability of the Issuer to conduct a successful Optional Redemption, Tax Redemption or Auction, to exercise redemptions and may also affect the amount and timing of receipt of proceeds from the disposition of CDS Transactions in connection with the exercise of remedies following an Event of Default.

Volatility of Market Value of CDS Transactions, Collateral Securities and Reference Obligations. The market value of the CDS Transactions, the Collateral Securities and the Reference Obligations will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the parties to, or issuers of, the CDS Transactions, Collateral Securities and Reference Obligations. A decrease in the market value of the CDS Transactions, Collateral Securities and Reference Obligations would adversely affect the proceeds that could be obtained upon the assignment, termination or other disposition of the CDS Transactions, Collateral Securities and Reference Obligations could ultimately affect the ability of the Issuer to effect an Auction, an Optional Redemption or a Tax Redemption, or to pay the principal of the Notes upon a liquidation of the CDS Transactions, Collateral Securities and Reference Obligations following the occurrence of an Event of Default.

Interest Rate Risk. There will be a basis and timing mismatch between such Notes and the Collateral Securities which bear interest at a floating rate, since the interest rates on such Collateral Securities bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rate on the Notes.

Concentration Risk. The Issuer will invest in CDS Transactions which relate to the portfolio of Reference Obligations described in Appendix B hereto. Payments on the Notes could be adversely affected by the concentration in the portfolio of any one issuer or any one servicer if such issuer or servicer were to default. No single issuer will represent as of the Closing Date more than approximately 1.50% of the Aggregate Reference Obligation Notional Amount. See "The Credit Default Swap—The Reference Portfolio."

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSIDER AND ASSESS FOR THEMSELVES THE LIKELIHOOD OF A DEFAULT BY EITHER THE CREDIT PROTECTION BUYER OR THE COLLATERAL PUT PROVIDER, AS WELL AS THE OBLIGATIONS OF THE ISSUER UNDER EITHER THE CREDIT PROTECTION BUYER OR THE COLLATERAL PUT PROVIDER, INCLUDING THE OBLIGATION TO MAKE TERMINATION PAYMENTS TO EITHER THE CREDIT PROTECTION BUYER OR THE COLLATERAL PUT PROVIDER.

Other Considerations

Changes in Tax Law; No Gross-Up. Under current tax law of the United States and other jurisdictions, payments made by the Credit Protection Buyer under the Credit Protection Buyer and obligors on any Eligible Investments are not expected to be subject to the imposition of U.S. federal or other withholding tax. There can be no assurance, however, that as a result of a change in any applicable law, treaty, rule or regulation or interpretation thereof or other causes, such payments might not in the future become subject to U.S. federal or other withholding tax. In the event that any withholding tax should be determined to be applicable to payments on any Eligible Investments and the obligors thereon were not then required to make "gross-up" payments that cover the full amount of any such withholding taxes, such tax would reduce the amounts available to make payments on the Notes. In

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addition, if any payment by the Credit Protection Buyer to the Issuer under any CDS Transaction is subject to any deduction or withholding for or on account of any tax, duty, assessment or other governmental charge, the Credit Protection Buyer will be obligated to gross-up of such payment for any such deduction or withholding. However, if such gross-up is the result of a change in applicable tax law (or in the application or interpretation thereof) or action taken by a taxing authority or court, the Credit Protection Buyer may terminate the related CDS Transaction and the Issuer may be obligated to make a termination payment to such Credit Protection Buyer, which may, in turn, reduce the amounts available to make payments on the Notes.

In the event that any withholding tax is imposed on payments on the Notes, the Holders of such Notes will not be entitled to receive "grossed-up" amounts to compensate for such withholding tax. In addition, 90 days following the Issuers becoming aware of the occurrence of a Tax Event (which 90-day period may be extended by 90 days), the Issuer will redeem in whole but not in part, at applicable Secured Note Redemption Prices or the Income Note Redemption Price, as applicable, specified herein, the Notes in accordance with the procedures described under "Description of the Notes—Tax Redemption," "—Optional Redemption—Optional Redemption/Tax Redemption Procedures" herein.

Lack of Operating History. Each of the Issuers is a newly organized entity and has no prior operating history. Accordingly, neither of the Issuers has a performance history for a prospective investor to consider.

Investment Company Act. Neither of the Issuers has registered with the United States Securities and Exchange Commission (the "SEC") as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States whose investors resident in the United States are solely Qualified Purchasers and which do not make a public offering of their securities in the United States. Counsel for the Issuers will opine, in connection with the sale of the Notes by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Notes are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.

If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (iii) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

The Notes are only permitted to be transferred to Qualified Institutional Buyers in transactions meeting the requirements of Rule 144A and, solely in the case of the Income Notes, to Accredited Investors having a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act, or in an offshore transaction, to a non-U.S. Person, complying with Rule 903 or Rule 904 of Regulation S. The Notes being offered in the United States are being offered only to persons that are also Qualified Purchasers. Any non-permitted transfer will be voided and the Issuers can require the transferee to sell its Notes to a permitted transferee, with such sale to be effected within 30 days after notice of such sale requirement is given. If such sale is not effected within such 30 day period, upon written direction from the Issuer or the Liquidation Agent, on behalf of the Issuer, will be authorized to conduct a commercially reasonable sale of such Notes to a permitted transferee and pending such transfer, no further payments will be made in respect of such Notes or any beneficial interest therein. See "Description of the Notes—Form of the Notes" and "Notice to Investors."

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect

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the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates.

Document Repository. Pursuant to the Indenture, the Issuer will consent to the posting of this Offering Circular, the Indenture and certain periodic reports required to be delivered pursuant to the Transaction Documents, together with any amendments or modifications thereto, to the internet-based password protected electronic repository of transaction documents relating to privately offered and sold collateralized debt obligation securities located at "www.cdolibrary.com."

Implementation of Securities Regulation in Europe. As part of a coordinated action plan for harmonization of securities markets in Europe, the European Parliament and the Council of the European Union has adopted a series of directives, including the Prospectus Directive (2003/71/EC) the Transparency Directive (2004/109/EC) and the Market Abuse Directive (2003/6/EC) which aim to ensure investor protection and market efficiency in accordance with high regulatory standards across the European community. Pursuant to such directives member states have introduced, or are in the process of introducing, legislation into their domestic markets to implement the requirements of these directives. The introduction of such legislation has effected and will effect the regulation of issuers of securities that are offered to the public or admitted to trading on a European Union regulated market and the nature and content of disclosure required to be made in respect of such issuers and their related securities. The listing of Notes on any European Union stock exchange would subject the Issuers to regulation under these directives, although the requirements applicable to the Issuer are not yet fully clarified. The Indenture will not require the Issuer to apply for, list or maintain a listing for any Class of Notes on a European Union stock exchange if compliance with these directives (or other requirements adopted by the European Parliament and Council of the European Union or a relevant member state) becomes burdensome. Should the Notes be delisted from any exchange, the ability of the holders of such Notes to sell such Notes in the secondary market may be negatively impacted.

EU Savings Directive. If, following implementation of European Council Directive 2003/48/EC, a payment were to be made or collected through a member state that opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor the Paying Agent nor any other person would be obliged to pay additional amounts as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a paying agent following implementation of this Directive, the Issuer will be required to maintain a paying agent in a member state that will not be obliged to withhold or deduct tax pursuant to the Directive.

Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall activities of the Credit Protection Buyer, the overall underwriting, investment and other activities of the Liquidation Agent, the Senior Swap Counterparty and the Collateral Put Provider, their respective affiliates and its clients and employees and from the overall investment activity of the Initial Purchaser, including in other transactions with the Issuer. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Credit Protection Buyer and Senior Swap Counterparty. GSI will be the initial Credit Protection Buyer and the initial Senior Swap Counterparty. The following briefly summarizes some potential and actual conflicts of interests related to the Credit Protection Buyer and Senior Swap Counterparty, but the following isn't intended to be an exhaustive list of all such conflicts.

GSI and/or its affiliates may be in possession of information in relation to a Reference Entity or otherwise that is or may be material in the context of the Notes and may or may not be publicly available to Holders. None of GSI or any of its affiliates has any obligation to disclose to Holders any such information.

GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts for which they have investment discretion, in securities or in other interests in the Reference Entities, in obligations of the Reference Entities or in the obligors in respect of any Reference Obligations or Collateral Securities (the "Investments") or in credit default swaps (whether as protection buyer or seller), total return swaps or other instruments enabling credit and/or other risks to be traded that are linked to one or more Investments. Such investments, credit derivatives and/or instruments may have the same or different terms from any of the credit

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derivatives referred to in the terms of the Notes. In addition, GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts or for accounts for which they have investment discretion, in securities (or make loans or have other rights) that are senior to, or have interests different from or adverse to, any of the Investments and may act as adviser to, may be lenders to, and may have other ongoing relationships with, the issuers or obligors of Investments and obligations of any Reference Entities. GSI may at certain times be simultaneously seeking to purchase or sell investments and/or protection under credit derivatives or other instruments enabling and/or other risks to be traded for any entity for which it serves as manager in the future.

Various potential and actual conflicts of interest may arise from the overall activities of GSI and/or any of its affiliates. GSI, its respective affiliates and the directors, officers, employees and agents of GSI and its respective affiliates may, among other things: (a) serve as directors, officers, partners, employees, agents, nominees or signatories for any Investment, any originator and/or servicer of or any other party interested in an Investment or the obligors in respect of the Investments; (b) receive fees for services of any nature rendered to any obligor in respect of the Investments or any originator and/or servicer of or any other party interested in the Investments; (c) be a secured or unsecured creditor of, or hold an equity interest in any obligor in respect of the Investments, any originator and/or servicer of or any other party interested in the Investments; (d) underwrite, act as a distributor of, or make a market in any Investments, or in the securities of any originator and/or servicer of or any other party interest in the Investments; (e) invest for its own account in the Investments or any other securities issued by any originator and/or servicer of or any other party interested in the Investments; (f) serve as a member of any "creditors' committee" with respect to any formal or informal workout group with respect to any obligor in respect of the Investments, any originator and/or servicer of or any other party interest in the Investments; (g) act as the adviser or investment adviser to any other person, entity or fund; and (h) maintain other relationships with any obligor in respect of the Investments, any originator and/or servicer of or any other party interested in the Investments.

Any Floating Amounts owed by the Issuer may be greater or less than the actual loss, if any, incurred by the Credit Protection Buyer related Reference Obligation. The Credit Protection Buyer has no obligation to hold the Reference Obligations or to incur a loss in order to receive a credit protection payment. To the extent it holds a Reference Obligation, the Credit Protection Buyer, the Senior Swap Counterparty or their respective affiliates, as the case may be, will have the right to exercise of all the voting and consent rights of a holder of such Reference Obligation and it will exercise those rights in such manner as it determines to be in its own commercial interests without regard to the Holders of the Notes.

The Collateral Put Provider. GSI will be the initial Collateral Put Provider. The following briefly summarizes some potential and actual conflicts of interests related to the Collateral Put Provider, but the following is not intended to be an exhaustive list of all such conflicts.

The Collateral Put Provider and/or its affiliates have ongoing relationships with, render service to, finance and engage in transactions with, and may own debt or equity securities issued by issuers of certain of the Reference Obligations and Collateral Securities. The Collateral Put Provider, its affiliates and/or its clients may invest in securities that are senior or subordinated to, or have interests different from or adverse to, the Reference Obligations and Collateral Securities. The interests of such parties may be different than or adverse to the interest of the holders of the Notes. In addition, such persons may possess information relating to the Reference Obligations and Collateral Securities which is not known to the individuals at the Collateral Put Provider responsible for performing its obligations under the Collateral Put Agreement. Such persons will not be required (and may not be permitted) to share such information or pass it along to the Issuer, the Liquidation Agent or any holder of any Notes. Neither the Collateral Put Provider nor any of such person will have liability to the Issuer or any holder of any Notes for failure to disclose such information or for taking, or failing to take, any action based upon such information.

In addition, the Collateral Put Provider and/or any of its affiliates may engage in any other business and furnish investment banking and other services to others which may include, without limitation, investing in, lending to, being affiliated with or have other ongoing relationships with, other entities organized to issue collateralized debt obligations secured by assets similar to the Reference Obligations, and the Collateral Securities and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. In providing services to other clients, the Collateral Put Provider and its affiliates may engage in activities that would compete with or otherwise adversely affect the Issuer.

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In addition, the Collateral Put Provider will be free, in its sole discretion, to effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Collateral Put Provider and/or its affiliates may furnish investment banking or other services to others who may have investment policies similar to those followed by the Issuer and who may own securities of the same class, or which are the same type as, the Reference Obligations and the Collateral Securities on behalf of the Issuer.

No provision in the Collateral Put Agreement prevents the Collateral Put Provider or any of its affiliates from rendering services of any kind to the issuer of any Reference Obligations or Collateral Securities and their respective affiliates, the Trustee, the holders of the Notes, the Senior Swap Counterparty, or any other entity. Without prejudice to the generality of the foregoing, the Collateral Put Provider and its affiliates, directors, officers, employees and agents may, among other things: (a) serve as directors, partners, officers, employees, agents, nominees or signatories for an issuer of any Reference Obligations or Collateral Securities; (b) receive fees for services rendered to the issuer of any Reference Obligations or any affiliate thereof; (c) be a secured or unsecured creditor of, or hold an equity interest in, any issuer of any Reference Obligations or Collateral Securities; and (d) serve as a member of any "creditors' board" or "creditors' committee" with respect to any Reference Obligations or Collateral Securities which has become or may become a Defaulted Obligation.

The Collateral Put Provider or any of its affiliates or subsidiaries will be permitted to exercise all voting rights with respect to any Notes which they may acquire (other than with respect to a vote regarding the removal of the Liquidation Agent or the termination or assignment of the Liquidation Agency Agreement).

The Liquidation Agent. GS&Co. will be the initial Liquidation Agent. Although the Liquidation Agent will exercise no discretion with respect to the Pledged Assets and the Liquidation Agent is not providing investment advisory servicers to, or acting as an advisor to, the Issuer or the Holders of the Notes, various potential and actual conflicts of interest may arise from the overall underwriting, investment and other activities of the Liquidation Agent, its affiliates and its clients. The Liquidation Agent is also the Initial Purchaser. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Liquidation Agent and/or its affiliates have ongoing relationships with, render service to, finance and engage in transactions with, and may own debt or equity securities issued by issuers of certain of the Reference Obligations and Collateral Securities. The Liquidation Agent, its affiliates and/or its clients may invest in securities that are senior or subordinated to, or have interests different from or adverse to, the Reference Obligations and Collateral Securities. The interests of such parties may be different than or adverse to the interest of the holders of the Notes. In addition, such persons may possess information relating to the Reference Obligations and Collateral Securities which is not known to the individuals at the Liquidation Agent responsible for performing its obligations under the Liquidation Agency Agreement. Such persons will not be required (and may not be permitted) to share such information or pass it along to the Issuer, the Liquidation Agent or any holder of any Notes. Neither the Liquidation Agent nor any of such person will have liability to the Issuer or any holder of any Notes for failure to disclose such information or for taking, or failing to take, any action based upon such information.

In addition, the Liquidation Agent and/or any of its affiliates may engage in any other business and furnish investment banking and other services to others which may include, without limitation, investing in, lending to, being affiliated with or have other ongoing relationships with, other entities organized to issue collateralized debt obligations secured by assets similar to the Reference Obligations, and the Collateral Securities and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. In providing services to other clients, the Liquidation Agent, the Collateral Put Provider and its affiliates may engage in activities that would compete with or otherwise adversely affect the Issuer. In addition, the Liquidation Agent will be free, in its sole discretion, to effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Liquidation Agent and/or its affiliates may furnish investment banking or other services to others who may have investment policies similar to those followed by the Issuer and who may own securities of the same class, or which are the same type as, the Reference Obligations and the Collateral Securities on behalf of the Issuer. In addition, under certain circumstances the Liquidation Agent will be required to dispose of certain CDS Transactions which reference Reference Obligations in accordance with the procedures set forth in the Liquidation Agency Agreement. Such disposition of CDS Transactions which reference Reference Obligations may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by

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any of the Rating Agencies. In making any such sale, the Liquidation Agent need not take into account the interests of the Issuers, the Holders of the Notes or any other party. The Liquidation Agent and/or its affiliates may at certain times be simultaneously seeking to purchase or dispose of investments for their respective accounts or for another entity at the same time as it is disposing of investments for the Issuer. Accordingly, conflicts may arise regarding the allocation of sale opportunities.

No provision in the Liquidation Agency Agreement prevents the Liquidation Agent or any of its affiliates from rendering services of any kind to the issuer of any Reference Obligations or Collateral Securities and their respective affiliates, the Trustee, the holders of the Notes, the Senior Swap Counterparty or any other entity. Without prejudice to the generality of the foregoing, the Liquidation Agent and its affiliates, directors, officers, employees and agents may, among other things: (a) serve as directors, partners, officers, employees, agents, nominees or signatories for an issuer of any Reference Obligations or Collateral Securities; (b) receive fees for services rendered to the issuer of any Reference Obligations or any affiliate thereof; (c) be a secured or unsecured creditor of, or hold an equity interest in, any issuer of any Reference Obligations or Collateral Securities; and (d) serve as a member of any "creditors' board" or "creditors' committee" with respect to any Reference Obligations or Collateral Securities which has become or may become a Defaulted Obligation.

The Liquidation Agent or any of its affiliates or subsidiaries will be permitted to exercise all voting rights with respect to any Notes which they may acquire (other than with respect to a vote regarding the removal of the Liquidation Agent or the termination or assignment of the Liquidation Agency Agreement).

The Initial Purchaser. GS&Co. will be the Initial Purchaser. Various potential and actual conflicts of interest may arise from the conduct by the Initial Purchaser and its affiliates in other transactions with the Issuer, including, without limitation, acting as counterparty with respect to the Credit Default Swap. GS&Co. will also initially act as the Liquidation Agent under the Liquidation Agency Agreement. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

It is expected that the Initial Purchaser and/or its affiliates and selling agent will have placed or underwritten certain of the Reference Obligations and Collateral Securities at original issuance, will own equity or other securities of issuers of or obligors on Reference Obligations and Collateral Securities and will have provided investment banking services, advisory, banking and other services to issuers of Reference Obligations and Collateral Securities. The Issuer may invest in the securities of companies affiliated with the Initial Purchaser and/or any of its affiliates or in which the Initial Purchaser and/or any of its affiliates have an equity or participation interest. The purchase, holding and sale of such investments by the Issuer may enhance the profitability of the Initial Purchaser's and/or any of its affiliates' own investments in such companies. In addition, it is expected that one or more affiliates of the Initial Purchaser will also act as counterparty with respect to all of the CDS Transactions. The Issuer may invest in money market funds that are managed by the Initial Purchaser or its affiliates; *provided* that such money market funds otherwise qualify as Eligible Investments. GS&Co. and/or a consolidated entity controlled by GS&Co. or an affiliate thereof is providing "warehouse" financing to the Issuer prior to the Closing Date and GS&Co. selected the warehoused Credit Default Swap and Collateral Securities which will be sold to the Issuer on the Closing Date pursuant to the terms of the Forward Purchase Agreement. No collateral manager or other person acting on behalf of the Issuer has reviewed the prices established pursuant to such Forward Purchase agreement (nor has there been any third party verification of such prices). See "—Notes—Collateral Accumulation."

There is no limitation or restriction on the Initial Purchaser or any of its affiliates with regard to acting as investment advisor, initial purchaser or placement agent (or in a similar role) to other parties or persons. This and other future activities of the Initial Purchaser and/or its affiliates may give rise to additional conflicts of interest.

Anti-Money Laundering Provisions. The Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), signed into law on and effective as of October 26, 2001, imposes anti money laundering obligations on different types of financial institutions, including banks, broker dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "Treasury") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti money laundering obligations. It is not clear whether the Treasury will require entities such as the Issuer to enact anti money laundering policies. It is possible that the Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service

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providers to the Issuers, in connection with the establishment of anti money laundering procedures, to share information with governmental authorities with respect to investors in the Secured Notes and/or the Income Notes. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Secured Notes and/or the Income Notes. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.

The Issuer. The Issuer is a recently incorporated Cayman Islands exempted company and has no substantial prior operating history. The Issuer will have no significant assets other than the CDS Transactions, the Collateral Securities, Eligible Investments, rights under the Credit Default Swap, rights under the Collateral Put Agreement, rights under the Senior Swap, rights under the Senior Swap Agreement, and certain other accounts and agreements entered into as described herein, and proceeds thereof, all of which have been pledged to the Trustee to secure the Issuer's obligations to the Senior Swap Counterparty, the Holders of the Secured Notes and the Credit Protection Buyer. The Issuer will not engage in any business activity other than the issuance and sale of the Secured Notes, and the Income Notes as described herein, the issuance of the Ordinary Shares, the acquisition and disposition of the CDS Transactions, the Collateral Securities and Eligible Investments as described herein, the entering into of, and the performance of its obligations under, the Indenture, the Senior Swap, the Account Control Agreement, the Liquidation Agency Agreement, the Collateral Put Agreement, the Collateral Administration Agreement, any other applicable Transaction Document, the pledge of the Pledged Assets as security for its obligations in respect of the Senior Swap and the Secured Notes and otherwise for the benefit of the Secured Parties, certain activities conducted in connection with the payment of amounts in respect of the Secured Notes and the Income Notes and the management of the Pledged Assets and other activities incidental to the foregoing. Income derived from the Pledged Assets will be the Issuer's only source of cash.

The Co-Issuer. The Co-Issuer is a newly incorporated Delaware corporation and has no prior operating history. The Co-Issuer does not have and will not have any significant assets. The Co-Issuer will not engage in any business activity other than the co-issuance of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes.

Tax. See "Income Tax Considerations."

ERISA. See "ERISA Considerations."

Listing. Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any application will be made, that any such listing will be obtained or that, if it is obtained, that it will be maintained by the Issuer. If any Class or Classes of Notes are admitted to the official list of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Notes. If the Issuer terminates the listing, it may, but is under no obligation to, seek a replacement listing on another stock exchange.

DESCRIPTION OF THE NOTES

The Secured Notes will be issued by the Issuers pursuant to the Indenture. The Income Notes will be issued by the Issuer pursuant to the Fiscal Agency Agreement. The following summary describes certain provisions of the Notes, the Indenture and the Fiscal Agency Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Notes, the Indenture and the Fiscal Agency Agreement. Copies of the Indenture may be obtained by prospective purchasers of the Secured Notes upon request in writing to the Trustee at The Bank of New York Trust Company, National Association, 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Global Corporate Trust — Hudson Mezzanine Funding 2006-1, Ltd. (telephone number (713) 483-6000). Copies of the Fiscal Agency Agreement may be obtained by prospective purchasers of Income Notes upon request in writing to the Fiscal Agent at The Bank of New York Trust Company, National Association, 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Global Corporate Trust — Hudson Mezzanine Funding 2006-1, Ltd. (telephone number (713) 483-6000).

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Status and Security

The Co-Issued Notes will be limited recourse obligations of the Issuers and the Senior Swap and the Class E Notes will be limited recourse obligations of the Issuer, secured as described below. The Income Notes will be limited recourse obligations of the Issuer, will not be secured obligations of the Issuer and will only be entitled to receive amounts available for payment to the Holders of the Income Notes after payment of all amounts payable prior thereto under the Priority of Payments. The Class S Notes will be senior in right of payment on each Payment Date to the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes to the extent provided in the Priority of Payments. The Class A Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes. Interest on the Class A-f Notes will be *pro rata* with interest on the Class A-b Notes and with payments of the Senior Swap Premium. The Outstanding Notional Amount of the Senior Swap will be reduced either senior to or *pro rata* with principal on the Class A Notes as more fully described in the Priority of Payments. Principal on the Class A-f Notes and the Class A-b will be paid either *pro rata* or first to the Class A-f Notes and second to the Class A-b Notes depending on the circumstances as more fully described in the Priority of Payments. The Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes. The Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes, the Class E Notes and the Income Notes. The Class D Notes will be senior in right of payment on each Payment Date to the Class E Notes and the Income Notes. The Class E Notes will be senior in right of payment on each Payment Date to the Income Notes. See "—Priority of Payments."

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit and security of the Trustee on behalf of the Senior Swap Counterparty, the Secured Notes, the Fiscal Agent, the Liquidation Agent, the Collateral Put Provider and the Credit Protection Buyer (but only to the extent of (a) the Collateral Securities and Eligible Investments in the Collateral Account and (b) the Delivered Obligations in the Delivered Obligations Account) (collectively, the "Secured Parties"), a first-priority security interest in (i) the Credit Default Swap; (ii) the Interest Collection Account; (iii) the Payment Account; (iv) the Expense Reserve Account; (v) the Delivered Obligations Account; (vi) the Amortization Shortfall Account, (vii) the CDS Counterparty Collateral Account, (viii) the Collateral Account (including the Cash Collateral Account) and (ix) the Collateral Put Provider Account (subject to the rights of the Collateral Put Provider) (items (ii) through (ix), the "Accounts"); (x) Eligible Investments; (xi) the Issuer's rights under the Senior Swap, (xii) the Issuer's rights under the Credit Default Swap; (xiii) the Issuer's rights under the Collateral Put Agreement, (xiv) the Issuer's rights under the Collateral Administration Agreement, (xv) the Issuer's rights under the Liquidation Agency Agreement and (xvi) certain other property (collectively, the "Pledged Assets").

Payments of interest on and principal of the Secured Notes, payments on the Senior Swap and payments to the Holders of the Income Notes, will be made solely from the proceeds of the Pledged Assets in accordance with the Priority of Payments.

The aggregate amount that will be available for payments required or permitted to be made on the Notes, the Senior Swap and of certain expenses of the Issuers, the Trustee and the Agents on any Payment Date will be the total amount of Proceeds received during the period (a "Due Period") ending on (and including) the fifth Business Day prior to such Payment Date (or, in the case of a Due Period that is applicable to the Payment Date relating to the Stated Maturity of any Note, ending on (and including) the day preceding such Payment Date), and commencing immediately following the fifth Business Day prior to the preceding Payment Date (or, in the case of the Due Period relating to the first Payment Date, on the Closing Date).

Interest on the Secured Notes

The Class S Notes will bear interest during each Interest Accrual Period at the Class S Note Interest Rate for such Interest Accrual Period. The Class A-f Notes will bear interest during each Interest Accrual Period at the Class A-f Note Interest Rate for such Interest Accrual Period. The Class A-b Notes will bear interest during each Interest Accrual Period at the Class A-b Note Interest Rate for such Interest Accrual Period. The Class B Notes will bear interest during each Interest Accrual Period at the Class B Note Interest Rate for such Interest Accrual Period. The Class C Notes will bear interest during each Interest Accrual Period at the Class C Note Interest Rate for such Interest Accrual Period. The Class D Notes will bear interest during each Interest Accrual Period at the Class D

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Note Interest Rate for such Interest Accrual Period. The Class E Notes will bear interest during each Interest Accrual Period at the Class E Note Interest Rate for such Interest Accrual Period. Interest with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will be payable monthly in arrears on each Payment Date, commencing on the April 2007 Payment Date. LIBOR for the first Interest Accrual Period with respect to the Secured Notes will be determined as of the second Business Day preceding the Closing Date. Calculations of interest on the Secured Notes will be made based on a 360-day year and the actual number of days in each Interest Accrual Period. The Holders of the Income Notes will receive on each Payment Date any amount of Proceeds that are available for distribution thereon in accordance with the Priority of Payments on such Payment Date. The "Interest Accrual Period," is with respect to the Class S Notes, the Class A-f Notes, the Class A-b Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes and any Payment Date, the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date. The Interest Accrual Period shall also be the "Senior Swap Premium Calculation Period" under the Senior Swap.

If funds are not available on any Payment Date to pay the full amount of interest on the Class C Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class C Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of the Class C Notes and, to the extent lawful and enforceable, thereafter shall accrue interest at the Class C Note Interest Rate. If funds are not available on any Payment Date to pay the full amount of interest on the Class D Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class D Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of the Class D Notes and, to the extent lawful and enforceable, thereafter shall accrue interest at the Class D Note Interest Rate. If funds are not available on any Payment Date to pay the full amount of interest on the Class E Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class E Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of such Class E Notes, and, to the extent lawful and enforceable, thereafter will accrue interest at the Class E Note Interest Rate. So long as the Senior Swap or any Class S Notes, Class A Notes or Class B Notes are outstanding, the failure to pay interest to the Holders of the Class C Notes will not be an Event of Default under the Indenture, so long as the Senior Swap or any Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, the failure to pay interest to the Holders of the Class D Notes will not be an Event of Default under the Indenture. So long as the Senior Swap or any Class S Note, Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding, the failure to pay interest to the Holders of the Class E Notes will not be an Event of Default under the Indenture. See "—Priority of Payments" and "—The Indenture—Events of Default."

Interest will cease to accrue on each Secured Note from the date of repayment in full or Stated Maturity, or in the case of partial repayment, on such part, unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments of principal. See "—Principal." To the extent lawful and enforceable, interest on any Defaulted Interest on each Class of Secured Notes entitled thereto will accrue at the interest rate applicable to such Class of Notes, until paid as provided herein. "Defaulted Interest" means any interest due and payable in respect of any Class S Note, Class A Note or Class B Note or if the Senior Swap is not outstanding and there are no Class S Notes, Class A Notes or Class B Notes outstanding, any Class C Note or if the Senior Swap is not outstanding and there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Note or if the Senior Swap is not outstanding and there are no Class S Notes, Class A Notes, Class B Notes, Class C or Class D Notes outstanding, any Class E Note which, in any such case, is not punctually paid or duly provided for on the applicable Payment Date or at Stated Maturity, as the case may be.

Determination of LIBOR

For purposes of calculating each of the Note Interest Rates, the Issuers will appoint as agent The Bank of New York Trust Company, National Association (in such capacity, the "Note Calculation Agent"). LIBOR shall be determined by the Note Calculation Agent in accordance with the following provisions:

(i) On the second Business Day prior to the commencement of an Interest Accrual Period (each such day, a "LIBOR Determination Date"), LIBOR ("LIBOR") shall equal the rate, as obtained by the Note Calculation

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Agent, for Eurodollar deposits for, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, a one-month period (or, in the case of a designated initial payment period of less than 25 days or, in the case of the first Interest Accrual Period, the linear interpolation thereof, calculated in accordance with generally acceptable methodology, which appears on Bridge Telerate Page 3750 (as Telerate is defined in the International Swaps and Derivatives Association, Inc. Annex to the 2000 ISDA Definitions (June 2000 version)), or such page as may replace Bridge Telerate Page 3750, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Bridge Telerate Page 3750, or such page as may replace Bridge Telerate Page 3750, the Note Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for Eurodollar deposits for, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, a one month period (or, in the case of a designated initial payment period of less than 25 days or, in the case of the first Interest Accrual Period, the linear interpolation thereof, calculated in accordance with generally acceptable methodology, in an amount determined by the Note Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Note Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Note Calculation Agent (after consultation with the Issuer or the Liquidation Agent on behalf of the Issuer) are quoting on the relevant LIBOR Determination Date for Eurodollar deposits for the applicable period in an amount determined by the Note Calculation Agent (after consultation with the Issuer or the Liquidation Agent on behalf of the Issuer) by reference to the principal London offices of leading banks in the London interbank market; *provided, however*, that if the Note Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be LIBOR as determined on the most recent date LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Note Calculation Agent (after consultation with the Issuer or the Liquidation Agent on behalf of the Issuer).

As soon as possible after 11:00 a.m. (New York time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Note Calculation Agent will cause notice of each of the Note Interest Rates for the next Interest Accrual Period and the amount of interest for such Interest Accrual Period payable in respect of each U.S.$1,000 principal amount of the Class S Notes (the "Class S Note Interest Amount"), of the Class A-f Notes (the "Class A-f Note Interest Amount"), of the Class A-b Notes (the "Class A-b Note Interest Amount"), of the Class B Notes (the "Class B Note Interest Amount"), of the Class C Notes (the "Class C Note Interest Amount"), of the Class D Notes (the "Class D Note Interest Amount") and of the Class E Notes (the "Class E Note Interest Amount") (collectively, the "Note Interest Amounts") (each rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date, to be communicated to the Issuers, DTC, Euroclear, Clearstream, the Note Paying Agents, the Trustee, the Liquidation Agent, the Securities Intermediary and the Irish Paying Agent (if any) for further delivery to the Irish Stock Exchange (so long as any Class of Notes is listed on such exchange). In the last case, the Note Calculation Agent will furnish such information as soon as possible after its determination to the Irish Paying Agent (if any) as long as any Notes are listed on the Irish Stock Exchange. The Note Interest Amount on any Payment Date of any Class of Notes shall be calculated based on the Outstanding principal balance of such Class prior to the payment of any Amortization Shortfall Amounts. The Note Calculation Agent will also specify to the Issuers and the Liquidation Agent the quotations upon which each of the Note Interest Rates are based. The Note Calculation Agent shall notify the Issuers and the Liquidation Agent before 12:00 p.m. (New York time) on any LIBOR Determination Date if it has not determined and is not in the process of determining the applicable Note Interest Rates and Note Interest Amounts (collectively, the "Interest Calculations"), together with its reasons therefor. "Business Day" means any day other than (x) Saturday or Sunday or (y) a day on which commercial banking institutions are authorized or obligated by law, regulation or executive order to close in New York, New York, the city of the Corporate Trust Office or, for the purposes of the Credit Default Swap and the Collateral Put Agreement only, London; *provided, however*, that for the sole purpose of determining LIBOR, "Business Day" shall be defined as any day on which dealings in deposits in U.S. Dollars are transacted in the London interbank market and *provided further*, that to the extent action is required of the Irish Paying Agent (if any), the location of such Irish Paying

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Agent shall be considered in determining the "Business Day" for purposes of determining when such Irish Paying Agent action is required.

The Note Calculation Agent may not be removed by the Issuers unless the entity that is serving as Trustee is removed as Trustee. If the Note Calculation Agent is unable or unwilling to act as such or, in accordance with the preceding sentence, is removed by the Issuers, or if the Note Calculation Agent fails to determine the applicable Interest Calculations for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market and which does not control or is not controlled by or under common control with the Issuers or their affiliates. The Note Calculation Agent may not resign its duties without a successor having been duly appointed. In addition, if and for so long as any Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, notice of the appointment of any Note Calculation Agent will be furnished to such stock exchange. For so long as any of the Notes remain outstanding, there will at all times be a Note Calculation Agent for the purpose of calculating the applicable Interest Calculations. The determination of the applicable Interest Calculations by the Note Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Payments on the Income Notes

The Income Notes will not bear interest based upon any fixed or floating rate.

The Fiscal Agent will receive Proceeds (and make payments to the Holders of the Income Notes) to the extent provided in the Indenture, if any, such Proceeds are available pursuant to clause (xxiii) (or pursuant to clause (viii) in the case of the Final Payment Date) under "—Priority of Payments." Such payments will be made on the Income Notes only after all interest and other payments due on the Secured Notes have been made and all expenses of the Issuers have been paid (with such remaining Proceeds referred to as "Excess Amounts"). See "Risk Factors—Notes——Subordination of the Income Notes; Unsecured Obligations."

Except as permitted pursuant to clause (xxiii) of the Priority of Payments, no principal payments will be made on the Income Notes until principal of, and accrued and unpaid interest on, the Secured Notes, and all other payments, certain fees and expenses, have been paid in full in accordance with the Priority of Payments.

Principal

The Notes (other than the Class S Notes) will mature on the Payment Date in April 2042 (each such date the "Stated Maturity" with respect to such Notes) and the Class S Notes will mature on the Payment Date in August 2012 (the "Stated Maturity" with respect to the Class S Notes). The average life of each Class of Notes (other than the Class S Notes) is expected to be substantially shorter than the number of years from issuance until the Stated Maturity for such Class of Notes. See "Risk Factors—Notes—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class S Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in May 2007 in an amount equal to the Class S Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, the Class S Notes will be paid in full prior to any distributions to any other Notes. Principal will be payable on certain of the Notes and the Outstanding Notional Amount of the Senior Swap will be reduced on each Payment Date, in accordance with the Priority of Payments. On any Payment Date, on which certain conditions are satisfied, (i) the Outstanding Notional Amount of the Senior Swap will be reduced by the Senior Swap Reduction Amount and (ii) principal will be paid to the Holders of the Class A Notes pursuant to the Senior Principal Allocation, only in an amount required to increase (or maintain) the Class A Adjusted Overcollateralization Ratio to a specified target of 143.8%. After achieving and maintaining such target and minimum, the payment of remaining principal will shift to the Holders of the Class B Notes until such Holders have been paid an amount required to increase (or maintain) the Class B Adjusted Overcollateralization Ratio to the specified target of 122.5%. After achieving and maintaining such target level, the payment of remaining principal shifts to the Holders of the Class C Notes which will receive principal only in an amount required to increase (or

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maintain) the Class C Adjusted Overcollateralization Ratio to a specified target of 110.2%. After achieving and maintaining such target level, the payment of remaining principal shifts to the Holders of the Class D Notes which will receive principal only in an amount required to increase (or maintain) the Class D Adjusted Overcollateralization Ratio to a specified target of 105.8%. However, if the Aggregate Outstanding Portfolio Amount is less than U.S.$ 1,050,000,000 on the Determination Date with respect to the related Payment Date, then only the amount described above to be allocated to reduce the Outstanding Notional Amount of the Senior Swap or to be paid to the Class A Notes will be allocated or paid, such amount to be allocated, *first*, to reduce the Outstanding Notional Amount of the Senior Swap, *second*, to the payment of principal of Class A Notes until the Class A Notes have been paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date relating to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full, and then to the Class A-b Notes until the Class A-b Notes are paid in full, *third*, to the payment of principal of all outstanding Class B Notes, *fourth*, to the payment of principal of all outstanding Class C Notes and *fifth*, to the payment of all outstanding Class D Notes. The foregoing "shifting principal" method permits Holders of the Class B Notes, the Class C Notes and the Class D Notes to receive payments of principal in accordance with the Priority of Payments while more senior Classes of Notes remain outstanding and permits distributions of Proceeds to the Holders of the Income Notes, to the extent funds are available in accordance with the Priority of Payments, while more senior Notes are outstanding. Holders of the Class E Notes may receive payments of principal in accordance with (a) clause (xvi) of the Priority of Payments in an amount necessary to increase or maintain the Class E Adjusted Overcollateralization Ratio to a specified target of 104.2%; *provided however*, that if the Aggregate Outstanding Portfolio Amount is less than U.S.$ 1,050,000,000 on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, then all remaining Amortization Proceeds will be applied to the payment of all outstanding Class E Notes until the Class E Notes are paid in full and (b) clause (xvii) of the Priority of Payments if the Class E Interest Diversion Test is not satisfied. Amounts properly paid pursuant to the Priority of Payments to a junior Class of Secured Notes or to the Income Notes will not be recoverable in the event of a subsequent shortfall in the amount required to pay a more senior Class of Secured Notes.

Subject to the availability of funds therefor in accordance with the Priority of Payments, if any of the Coverage Tests are not satisfied on any applicable Determination Date, the Outstanding Notional Amount of the Senior Swap will be reduced and certain of the Secured Notes (other than the Class S Notes) will be subject to mandatory redemption on the related Payment Date until paid in full. See "—Mandatory Redemption" and the "—Priority of Payments" for a description of the order in which such Notes are paid in connection with the failure of a Coverage Test. The Class E Notes are also subject to mandatory redemption in accordance with the Priority of Payments on any Payment Date if the Class E Interest Diversion Test is not satisfied.

Scheduled Redemption of Income Notes

On or prior to the date that is one (1) Business Day prior to the end of the Due Period applicable to the Maturity Date, the Liquidation Agent will sell, assign, terminate or otherwise dispose of all remaining Pledged Assets. The settlement dates for any such sales or other dispositions shall be no later than one (1) Business Day prior to the end of such Due Period. The proceeds of such sales or other dispositions will be paid to the Fiscal Agent after the payment of amounts senior to the Holders of the Income Notes in the Priority of Payments for deposit into the account maintained therefore by the Fiscal Agent (the "Income Note Payment Account") and payment to the Holders of the Income Notes as the redemption price for the Income Notes upon such payment. Upon such payment, the Issuer shall redeem the Income Notes.

Auction

Sixty (60) days prior to the Payment Date occurring in April of each year (each, an "Auction Date") commencing on the April 2015 Payment Date, the Liquidation Agent, on behalf of the Issuer, will take steps to conduct an auction (the "Auction") of the Credit Default Swap, the Eligible Investments (other than cash), the Delivered Obligations and the Collateral Securities in accordance with procedures specified in the Indenture. If the Liquidation Agent receives one or more bids from Eligible Bidders not later than ten (10) Business Days prior to the Auction Date, which, when added to the cash on deposit in the Collateral Account, equals or exceeds the Minimum Bid Amount, it will sell, assign, terminate or otherwise dispose of the Credit Default Swap, Eligible Investments

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(other than cash), the Delivered Obligations and the Collateral Securities for settlement on or before the fifth Business Day prior to such Auction Date and the Notes and the Income Notes will be redeemed in whole on such Auction Date (any such date, an "Auction Payment Date"). The Liquidation Agent and its affiliates shall be considered Eligible Bidders. If the highest single bid on the entire portfolio, or the aggregate amount of multiple bids with respect to individual Collateral Securities, Eligible Investments (other than cash) and Delivered Obligations, when added to the other Liquidation Proceeds and cash on deposit in the Collateral Account, does not equal or exceed the Minimum Bid Amount (which includes the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes) or if there is a failure at settlement, the Credit Default Swap and the Senior Swap will not be terminated or assigned, the Eligible Investments (other than cash), Collateral Securities and the Delivered Obligations will not be sold and the redemption of the Notes on the related Auction Date will not occur.

The Outstanding Notional Amount of the Senior Swap will be reduced to zero and the Secured Notes will be redeemed in whole at the applicable Secured Note Redemption Price following a successful Auction in accordance with the Priority of Payments. The amount distributable as the final payment on the Income Notes following any such redemption will equal the Income Note Redemption Price, which may be less than the then current Aggregate Outstanding Amount of the Income Notes).

Tax Redemption

Subject to certain conditions described herein, the Secured Notes may be redeemed by the Issuers at any time, in whole but not in part, 90 days following the Issuers becoming aware of the occurrence of a Tax Event (*provided* that such 90-day period shall be extended by another 90 days if, during the initial 90-day period, the Issuers have notified the Holders of the Notes that the related Issuer expects that it shall have changed its place of residence by the end of the later 90-day period) at their Secured Note Redemption Prices or the Income Note Redemption Price, as applicable, at the written direction of, or with the written consent of, (i) the Holders of at least 66-2/3% of the Income Notes or (ii) the Holders of a Majority of any Class of Secured Notes which, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest or other amounts then due and payable on such Notes on any Payment Date (such redemption, a "Tax Redemption"); *provided* that no such redemption shall be effected unless the expected Liquidation Proceeds equal or exceed the Total Redemption Amount (which includes the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes). If a Tax Redemption occurs, the Income Notes will be redeemed simultaneously. No such Tax Redemption will occur unless all amounts payable to the Senior Swap Counterparty, the Credit Protection Buyer and any assignee of the Credit Default Swap (including all Credit Default Swap Termination Payments) will have been paid in full, in each case, on the related redemption date.

In connection with a Tax Redemption, the Issuers (in the case of the Co-Issued Notes) and the Issuer (in the case of the Class E Notes and the Income Notes) shall notify the Trustee and the Fiscal Agent, of such Tax Redemption and the Payment Date which is the date for redemption (the "Tax Redemption Date") and direct the Trustee, in writing, to assign, terminate or otherwise dispose of, in the manner determined by the Liquidation Agent, and in accordance with the Indenture, any CDS Transaction, Collateral Security, Eligible Investment and Delivered Obligation and upon any such assignment, termination or other disposition, the Trustee shall release the lien upon such CDS Transaction, Collateral Security, Eligible Investment and Delivered Obligation pursuant to the Indenture; *provided, however*, that the Issuer may not direct the Trustee to assign, terminate or otherwise dispose of (and the Trustee shall not be obligated to release the lien upon) any CDS Transaction, Collateral Security, Eligible Investment or Delivered Obligation except in accordance with the procedures set forth in the Indenture including, without limitation, the requirement that the Liquidation Agent shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the disposition of the Pledged Assets will equal or exceed the Total Redemption Amount. The proceeds available for distribution in connection with a Tax Redemption will be reduced by the amount of expected Credit Default Swap Termination Payments due to the Credit Protection Buyer.

The amount payable to the Holders of the Secured Notes in connection with any Tax Redemption of the Secured Notes will equal the Secured Note Redemption Prices thereof. The amount distributable as a final redemption payment on the Income Notes following any redemption of the Secured Notes will equal the Income

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Note Redemption Price (which may be less than the then current Aggregate Outstanding Amount of the Income Notes).

Optional Redemption

Subject to certain conditions described herein, the Secured Notes may be redeemed by the Issuers and the Income Notes may be redeemed by the Issuer, in whole but not in part at their Secured Note Redemption Prices or the Income Note Redemption Price, as applicable, on any Payment Date on or after the April 2010 Payment Date, at the written direction of, or with the written consent of, the Holders of at least a Majority of the Income Notes (including Income Notes held by the Liquidation Agent or any affiliate thereof) (such redemption, an "Optional Redemption"); *provided* that no Optional Redemption shall be effected unless the expected Liquidation Proceeds will equal or exceed the Total Redemption Amount (which includes the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes). If the Holders of the Income Notes so elect to cause an Optional Redemption, the Income Notes will be redeemed simultaneously.

In connection with an Optional Redemption, the Issuers (in the case of the Co-Issued Notes) and the Issuer (in the case of the Class E Notes and the Income Notes) shall notify the Trustee and the Fiscal Agent, as applicable, of such Optional Redemption and the Optional Redemption Date and direct the Trustee, in writing, to sell, assign, terminate or otherwise dispose of, in the manner determined by the Liquidation Agent, and in accordance with the Indenture, the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations and upon any such sale, assignment, termination or other disposition, the Trustee shall release the lien upon the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations pursuant to the Indenture; *provided, however*, that the Issuer may not direct the Trustee to assign, terminate or otherwise dispose of (and the Trustee shall not be obligated to release the lien upon) the Credit Default Swap, Collateral Security, Eligible Investment or Delivered Obligation except in accordance with the procedures set forth in the Indenture including, without limitation, the requirement that the Liquidation Agent shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the assignment, termination or other disposition of the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations and other assets of the Issuer will equal or exceed the Total Redemption Amount.

The amount payable to the Holders of the Secured Notes in connection with any Optional Redemption of the Secured Notes will equal the Secured Note Redemption Prices thereof. The amount distributable as a final redemption payment on the Income Notes following any redemption of the Secured Notes will equal the Income Note Redemption Price (which shall at least be equal to the Income Note Face Amount or such lesser amount as is agreed to by the Holders of 100% of the Income Notes).

Optional Redemption/Tax Redemption Procedures. To conduct an Optional Redemption or a Tax Redemption, the procedures set forth in the Indenture must be followed and any conditions precedent thereto must be satisfied.

If in the case of a Tax Redemption or an Optional Redemption of the Secured Notes and the Income Notes, any Holder of an Income Note or, in the case of a Tax Redemption, any Holder of a Secured Note affected by a Tax Event, desires to direct the Issuers with respect to the Secured Notes and the Issuer with respect to the Income Notes to redeem the Secured Notes and the Income Notes, such person shall notify the Principal Note Paying Agent, in the case of a Holder of Secured Notes or the Fiscal Agent, in the case of a Holder of Income Notes, which in each case will in turn notify the Trustee (with a copy to the Issuer, the Liquidation Agent, the Credit Protection Buyer, the Collateral Put Provider and the Senior Swap Counterparty) of such desire in writing no less than thirty (30) Business Days prior to such Payment Date. Such notice shall be irrevocable.

The Trustee will provide notice of any Optional Redemption or Tax Redemption by first-class mail, postage prepaid, mailed not less than ten (10) Business Days prior to the scheduled Tax Redemption Date or Optional Redemption Date, as applicable, to the Principal Note Paying Agent, to the Fiscal Agent, to the Credit Protection Buyer, to the Collateral Put Provider, to the Senior Swap Counterparty and to each Holder of a Secured Note at such Holder's address in the register maintained by the Note Registrar under the Indenture. The Fiscal Agent will provide the same notice to each Holder of an Income Note at such Holder's address in the Income Notes Register maintained by the Income Notes Transfer Agent pursuant to the Fiscal Agency Agreement. In addition, the

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Trustee or the Fiscal Agent will, if and for so long as any Class of Secured Notes or the Income Notes to be redeemed is listed on the Irish Stock Exchange, direct the Irish Paying Agent to (i) cause notice of such Optional Redemption or Tax Redemption to be delivered to the Company Announcements Office of the Irish Stock Exchange not less than ten (10) Business Days prior to the Redemption Date and (ii) promptly notify the Irish Stock Exchange of such Optional Redemption or Tax Redemption.

The initial paying agents for the Notes are The Bank of New York Trust Company, National Association, as Principal Note Paying Agent, and, if and so long as any Notes are listed on the Irish Stock Exchange, the Irish Paying Agent.

Secured Notes or Income Notes called for redemption (other than in the case of an Auction) must be surrendered at the office of any paying agent appointed under the Indenture or the Fiscal Agency Agreement, respectively, in order to receive any final payments on the Notes. The initial paying agent for the Secured Notes and Income Notes is The Bank of New York Trust Company, National Association and if and for so long as any Notes are listed on the Irish Stock Exchange, the Irish Paying Agent.

Any such notice of redemption will be deemed to be withdrawn in its entirety by the Issuers (with respect to the Co-Issued Notes) and the Issuer (with respect to the Class E Notes and the Income Notes) on the seventh Business Day prior to the scheduled redemption date if the Liquidation Agent shall not have delivered the sale agreement or agreements or certifications, required by the Indenture by such date. In such event, the Trustee shall notify the Fiscal Agent that the notice of redemption has been withdrawn by overnight courier guaranteeing next day delivery sent not later than the sixth Business Day prior to such scheduled redemption date with a copy by facsimile transmission. The Senior Swap and the Collateral Put Agreement will not terminate upon notice to the respective counterparties of redemption until the time for withdrawal of notice has expired. The Liquidation Agent shall be liable only for the failure to effect an Optional Redemption or Tax Redemption due to the Liquidation Agent's gross negligence or willful misconduct. Notice of any such withdrawal shall be given at the Issuer's expense by the Trustee or the Fiscal Agent, as applicable, to each Holder of a Note at the address appearing in the applicable register maintained by the Note Transfer Agent under the Indenture or the Income Notes Transfer Agent under the Fiscal Agency Agreement, as applicable, by overnight courier guaranteeing next day delivery sent not later than the third Business Day prior to the scheduled redemption date, with a copy by facsimile transmission to the Collateral Put Provider, the Credit Protection Buyer, the Senior Swap Counterparty, the Liquidation Agent and the Rating Agencies (so long as any of the Notes are rated). The Trustee or the Fiscal Agent will also give notice to the Irish Paying Agent if any Notes are then listed on the Irish Stock Exchange.

Mandatory Redemption

On any Payment Date on which the Senior Overcollateralization Test was not satisfied on the last Business Day of the immediately preceding Due Period (such Business Day, the "Determination Date"), the Class A Notes and the Class B Notes will be redeemed at par *plus* accrued interest as follows:

If the Senior Overcollateralization Test is not satisfied on any Determination Date related to a Payment Date after giving effect to all payments of principal and reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to clause (viii) or clauses (x), (xii) and (xiii) of the Priority of Payments), Amortization Proceeds net of amounts payable under clauses (i) through (vii) of the Priority of Payments will be used, *first*, to reduce the Outstanding Notional Amount of the Senior Swap until amortized in full, *second*, to the payment of principal of the Class A Notes until the Class A Notes are paid in full, and *third*, to the payment of principal of the Class B Notes until the Class B Notes are paid in full; *provided* that, as long as the Senior Swap is outstanding on such date, any remaining Interest Proceeds will be deposited in the Collateral Account for investment in Collateral Securities and Eligible Investments, and the Outstanding Notional Amount of the Senior Swap shall be reduced by the same amount. The Class S Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Senior Overcollateralization Test.

If the Class C Overcollateralization Test is not satisfied on any Determination Date related to a Payment Date after giving effect to all payments of principal and the reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to clause

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(x) or clauses (xii) and (xiii) of the Priority of Payments), Principal Proceeds net of amounts payable under clauses (i) through (ix) of the Priority of Payments will be applied as follows: If the Senior Overcollateralization Test was satisfied on each Determination Date with respect to each preceding Payment Date and the Aggregate Outstanding Portfolio Amount is greater than or equal to U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date, Amortization Proceeds will be applied, *pro rata* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, (ii) to the payment of principal of the Class B Notes and (iii) to the payment of principal of the Class C Notes, until the Outstanding Notional Amount of the Senior Swap is reduced to zero and the Class A Notes, the Class B Notes and the Class C Notes are paid in full and, any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, Amortization Proceeds will be applied *first* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date, *second* (ii) to the payment of principal of the Class A Notes until the Class A Notes are paid in full; *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and then to the Class A-b Notes until the Class A-b Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the Class B Notes are paid in full and *fourth* (iv) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full. The Class S Notes, the Class D Notes, the Class E Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Class C Overcollateralization Test.

If the Class D Overcollateralization Test is not satisfied on any Determination Date related to a Payment Date (together with the Senior Overcollateralization Test, the Class C Overcollateralization Test and the Class E Interest Diversion Test, the "Coverage Tests") after giving effect to all payments of principal and the reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to clause (xii) or clause (xiii) of the Priority of Payments, Principal Proceeds net of amounts payable under clauses (i) through (xi) of the Priority of Payments will be used as follows: If the Senior Overcollateralization Test was satisfied on each Determination Date with respect to each preceding Payment Date and the Aggregate Outstanding Portfolio Amount is greater than or equal to U.S.1,050,000,000 on the Determination Date with respect to the related Payment Date, Amortization Proceeds will be applied *pro rata* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, (ii) to the payment of principal of the Class B Notes, (iii) to the payment of principal of the Class C Notes and (iv) to the payment of principal of the Class D Notes, until the Outstanding Notional Amount of the Senior Swap is reduced to zero and the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are paid in full and any remaining Proceeds to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, Amortization Proceeds will be applied, *first* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date, *second* (ii) to the payment of principal of the Class A Notes until the Class A Notes are paid in full; *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and second to the Class A-b Notes until the Class A-b Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the Class B Notes are paid in full, *fourth* (iv) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and *fifth* (v) to the payment of principal of the Class D Notes until the Class D Notes are paid in full. The Class S Notes, the Class E Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Class D Overcollateralization Test.

The Coverage Tests will be used primarily to determine whether interest may be paid on the Class C Notes, the Class D Notes and the Class E Notes and whether Proceeds will be distributed to the Holders of the Income Notes, and whether Proceeds must be used to reduce the Outstanding Notional Amount of the Senior Swap and to

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make mandatory redemptions of the Class A-f Notes, the Class A-b Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes. See "Description of the Notes—Principal" and "—Priority of Payments." The Coverage Tests will consist of the Senior Overcollateralization Test, the Class C Overcollateralization Test, the Class D Overcollateralization Test and the Class E Interest Diversion Test. For purposes of the Coverage Tests, (i) unless otherwise specified, a CDS Transaction shall be included as a Pledged Asset having the characteristics of the Reference Obligation and not of the CDS Transaction; *provided*, that if such Credit Protection Buyer is in default under the related CDS Transaction, such CDS Transaction shall not be included as a Collateral Asset for purposes of the Coverage Tests or such CDS Transaction will be treated in such a way that will satisfy the Rating Agency Condition and (ii) the calculation of the Senior Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class E Interest Diversion Test on any Determination Date that such Coverage Test is applicable shall be made by giving effect to all payments scheduled or expected to be made pursuant to the Priority of Payments on the Payment Date following such Determination Date. For purposes of each of the Senior Overcollateralization Test, the Class C Overcollateralization Test, the Class D Overcollateralization Test and the Class E Interest Diversion Test, notwithstanding the definition of Principal Balance contained herein, the Principal Balance of any security that is not currently paying cash interest (excluding any security that is, in accordance with its terms, making payments due thereon "in kind") shall be the accreted value of such security as of the date on which it was purchased by the Issuer; *provided*, that such accreted value shall not exceed the par amount of such security.

The Senior Overcollateralization Test

The "Senior Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the sum of (a) the Outstanding Notional Amount of the Senior Swap, (b) the Unreimbursed Senior Swap Funding Amount and (c) the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes, *minus* the Amortization Proceeds expected to be available prior to clause (xiii) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Senior Overcollateralization Test" will be satisfied on any Determination Date on which any Class A Notes or Class B Notes remain outstanding if the Senior Overcollateralization Ratio on such Determination Date is equal to or greater than 116.5%. As of the Closing Date, the Senior Overcollateralization Ratio is expected to be equal to 120.5%.

The Class C Overcollateralization Test

The "Class C Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the sum of (a) the Outstanding Notional Amount of the Senior Swap, (b) the Unreimbursed Senior Swap Funding Amount and (c) the Aggregate Outstanding Amount of the Notes (other than the Class S Notes, the Class D Notes, the Class E Notes and the Income Notes and including Class C Deferred Interest), *minus* the Amortization Proceeds expected to be available prior to clause (xiii) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class C Overcollateralization Test" will be satisfied on any Determination Date on which any Class C Notes remain outstanding if the Class C Overcollateralization Ratio on such Determination Date is equal to or greater than 106.5%. As of the Closing Date, the Class C Overcollateralization Ratio is expected to be equal to 109.3%.

The Class D Overcollateralization Test

The "Class D Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the sum of the (a) the Outstanding Notional Amount of the Senior Swap, (b) the Unreimbursed Senior Swap Funding Amount and (c) Aggregate Outstanding Amount of the Notes (other than the Class S Notes, the Class E Notes and Income Notes and including Class C Deferred Interest and Class D Deferred Interest), *minus* the

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Amortization Proceeds expected to be available prior to clause (xiii) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class D Overcollateralization Test" will be satisfied on any Determination Date on which any Class D Notes remain outstanding if the Class D Overcollateralization Ratio on such Determination Date is equal to or greater than 102.4%. As of the Closing Date, the Class D Overcollateralization Ratio is expected to be equal to 104.5%.

The Class E Interest Diversion Test.

The Class E Interest Diversion Test will be used primarily whenever certain Proceeds will be used to make mandatory redemptions of the Class E Notes. See "Description of the Notes – Priority of Payments." The "Class E Interest Diversion Test" will be satisfied on any Determination Date if the Class E Overcollateralization Ratio is equal to or greater than 101.4%. As of the Closing Date, the Class E Overcollateralization Ratio is expected to be equal to 103.1%.

The "Class E Overcollateralization Ratio" as of any Determination Date will equal a ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the sum of (a) the Outstanding Notional Amount of the Senior Swap, (b) the Unreimbursed Senior Swap Funding Amount and (c) the Aggregate Outstanding Amount of the Notes (other than the Class S Note and the Income Notes and including Class C Deferred Interest, Class D Deferred Interest and Class E Deferred Interest), *minus* the Amortization Proceeds expected to be available prior to clause (xiii) of the Priority of Payments assuming that the Coverage Tests are satisfied.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Payments

Payments on any Payment Date in respect of principal of and interest on the Notes issued as Global Notes will be made to the person in whose name the relevant Global Note is registered at the close of business on the Business Day prior to such Payment Date. For the Notes issued in definitive form, payments on any Payment Date in respect of principal, interest and other distributions will be made to the person in whose name the relevant Security is registered as of the close of business 10 Business Days prior to such Payment Date. Payments on the Global Notes will be payable by wire transfer in immediately available funds to a U.S. Dollar account maintained by DTC or its nominee (in the case of the Global Notes) or each Holder (in the case of individual Definitive Notes) to the extent practicable or otherwise by U.S. Dollar check drawn on a bank in the United States sent by mail either to DTC or its nominee (in the case of the Global Notes), or to each Holder at its address appearing in the applicable register. Final payments in respect of principal on the Notes will be made only against surrender of the Notes at the office of any paying agent. None of the Issuers, the Securities Intermediary, the Trustee, the Liquidation Agent, the Credit Protection Buyer, the Senior Swap Counterparty, the Collateral Put Provider or any paying agent will have any responsibility or liability for any aspects of the records maintained by DTC or its nominee or any of its participants relating to, or for payments made thereby on account of beneficial interests in, a Global Note.

The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note held by DTC or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

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If any payment on a Note is due on a day that is not a Business Day, then payment will not be made until the next succeeding Business Day.

If and for so long as the Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, the Issuers will have a paying agent and a transfer agent in accordance with the requirements of the rules of such exchange for such Notes and payments on and transfers or exchanges of interest in such Notes may be effected through the Irish Paying Agent. In the event that the Irish Paying Agent (if any) is replaced at any time during such period, notice of the appointment of any replacement will be given to the Irish Stock Exchange if and as long as any Notes are listed thereon.

Senior Swap Notional Reduction

On each Payment Date, the Outstanding Notional Amount of the Senior Swap will be reduced by the Senior Swap Reduction Amount as calculated in accordance with the provisions hereof.

Two Business Days prior to each Payment Date, to the extent there is a positive Aggregate Amortization Amount for such Payment Date and the Trustee has determined that amounts on deposit or expected to be on deposit in the Payment Account on the related Payment Date will not be sufficient to pay in full amounts due pursuant to clauses (i) through (vii) of the Priority of Payments for such Payment Date, the Liquidation Agent, on behalf of the Issuer, will apply the Amortization Collateral Liquidation Procedure and will deposit in the Payment Account the lesser of (a) the amount of such deficiency and (b) the Aggregate Amortization Amount for such Payment Date (such amount, the "Senior Waterfall Shortfall Amount").

Two Business Days prior to each Payment Date (only to the extent the Maximum Principal Amount exceeds the Aggregate Reference Obligation Notional Amount following the calculation and withdrawal of any Senior Shortfall Amount), in accordance with the procedures set forth in this paragraph, the Trustee shall determine the amount, if any, that the Outstanding Notional Amount of the Senior Swap will be reduced on the related Payment Date in accordance with the procedures below:

(a) If the Senior Overcollateralization Test as applied in clause (viii) of the Priority of Payments was not satisfied on any Determination Date, including the Determination Date related to the current Payment Date, or, if the Aggregate Outstanding Portfolio Amount is less than U.S. $1,050,000,000 on the Determination Date with respect to the current Payment Date, then the Senior Swap Reduction Amount shall be equal to the lesser of (1) the Aggregate Net Amortization Amount and (2) the Outstanding Notional Amount of the Senior Swap;

(b) If the Class C Overcollateralization Test as applied in clause (x) of the Priority of Payments was not satisfied on the current Determination Date, then (1) the Aggregate Net Amortization Amount will be allocated pro rata among the Senior Swap, the Class A Notes, the Class B Notes and the Class C Notes and (2) the Senior Swap Reduction Amount shall be the amount allocated to the Senior Swap pursuant to subclause (1) of this paragraph (b);

(c) If the Class D Overcollateralization Test as applied in clause (xii) of the Priority of Payments was not satisfied on the current Determination Date, then (1) the Aggregate Net Amortization Amount will be allocated pro rata among the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes and (2) the Senior Swap Reduction Amount shall be the amount allocated to the Senior Swap pursuant to subclause (1) of this paragraph (c);

(d) If Proceeds are being applied pursuant to clause (xiii) of the Priority of Payments, then (1) the Aggregate Net Amortization Amount shall be allocated pro rata among the Senior Swap and the Class A Notes up to the amount necessary to increase the Class A Adjusted Overcollateralization Ratio to 143.8% and (2) the Senior Swap Reduction Amount shall be the amount allocated to the Senior Swap pursuant to subclause (1) of this paragraph (d);

(e) The "Senior Swap Reduction Amount" with respect to any Payment Date will be the amount determined pursuant to clause (a), (b), (c) or (d), as applicable, with respect to such Payment Date.

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If on any Payment Date there exists an Amortization Shortfall Amount, the Collateral Account Amount shall be deemed to be reduced by the full Amortization Payment Amount and the Trustee shall calculate, and maintain a record of, how such Amortization Shortfall Amount would have been paid out on a pro forma basis on such Payment Date in accordance with the Priority of Payments had the amount available pursuant to the Amortization Collateral Liquidation Procedure from the Collateral Account on such Payment Date been equal to the full Amortization Payment Amount. In each Due Period relating to the Payment Date or Payment Dates immediately following any Payment Date on which an Amortization Shortfall Amount occurred, all principal payments received by the Issuer on the Collateral Securities and the Eligible Investments in the Collateral Account up to an amount equal to such Amortization Shortfall Amount shall be deposited by the Trustee in the Amortization Shortfall Account. Amounts on deposit in the Amortization Shortfall Account shall be applied by the Trustee on the immediately following Payment Date for the purposes and to the Persons that would have otherwise received such amounts in accordance with the calculations (and records) of the Trustee maintained pursuant to the first sentence of this paragraph. To the extent there remains any unsatisfied Amortization Shortfall Amount on the next Payment Date, for purposes of calculating the Amortization Payment Amount on such Payment Date the Principal Balance of the Collateral Securities and Eligible Investments on deposit in the Collateral Account shall be reduced by the amount of any unsatisfied Amortization Shortfall Amount from any prior Payment Date.

Priority of Payments

With respect to any Payment Date, all Proceeds received on the Pledged Assets during the related Due Period in the Interest Collection Account will be applied by the Trustee in the priority set forth below (the "Priority of Payments"). For purposes of the Priority of Payments, amounts paid as interest, fees or distributions on the Notes and the Senior Swap on a "*pro rata*" basis shall be *pro rata* based on the amount due on such Class or subclass of Notes or Senior Swap, amounts paid as principal and reductions of the Outstanding Notional Amount of the Senior Swap shall be made *pro rata* based on the amount of principal then outstanding on such Class or subclass of Notes and on the Outstanding Notional Amount of the Senior Swap and unless stated otherwise, Proceeds not constituting Principal Proceeds will be assumed to be applied prior to any Principal Proceeds.

Amounts due in respect of Defaulted Credit Default Swap Termination Payments shall be deposited into the Payment Account and paid in accordance with the Priority of Payments on each Payment Date. Credit Protection Amounts due to the Credit Protection Buyer will be paid when due pursuant to the terms of the Credit Default Swap. Any reimbursement of Senior Swap Funding Payments to the Senior Swap Counterparty will be paid when received by the Issuer under the Credit Default Swap.

On the Business Day prior to each Payment Date (other than a Final Payment Date), the Trustee will transfer all funds then on deposit in the Interest Collection Account (other than amounts received after the end of the related Due Period) into the Payment Account. On each Payment Date (other than a Final Payment Date), amounts in the Payment Account will be applied by the Trustee pursuant to the Note Valuation Report in the manner and order of priority set forth below:

i. to the payment of taxes and filing and registration fees (including, without limitation, annual return fees) owed by the Issuers, if any;

ii. to the payment of accrued and unpaid fees of the Trustee up to a maximum amount on any Payment Date equal to the greater of U.S.$4,167 and 0.0004167% of the Monthly Asset Amount for the related Due Period (or, in the case of the first Due Period, as such amounts are adjusted based on the number of days in such Due Period);

iii. (a) *first*, to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers, excluding any indemnities (and legal expenses related thereto) payable by the Issuers *first*, to the Trustee, the Collateral Administrator, the Fiscal Agent and the Income Notes Transfer Agent and second, *pro rata*, to any other parties entitled thereto; (b) *second*, to the payment of any indemnities (and legal expenses related thereto) payable by the Issuers *first*, to the Trustee, the Collateral Administrator and the Fiscal Agent and *second*, *pro rata*, to any other parties entitled thereto; and (c) *third*, to the Expense Reserve Account the lesser of U.S.$50,000 and the amount necessary to bring the balance of such account to U.S.$200,000; *provided*, *however*, that the

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aggregate payments pursuant to subclauses (a) through (c) of this clause (iii) on any Payment Date shall not exceed U.S.$250,000 and the aggregate payments pursuant to subclauses (a) and (b) of this clause (iii) and the prior 11 Payment Dates shall not exceed U.S.$400,000;

iv. to the payment of, (a) *first*, *pro rata* (based on amounts due) and *pari passu* (i) accrued and unpaid Collateral Put Provider Fees, (ii) accrued and unpaid interest on the Class S Notes (including Defaulted Interest and interest thereon) and (iii) beginning with the Payment Date occurring in May 2007, principal of the Class S Notes in an amount equal to the Class S Notes Amortizing Principal Amount until the Class S Notes are paid in full, and (b) *second*, if an Event of Default or Tax Event shall have occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, to the payment of principal to the Class S Notes until the Class S Notes are paid in full prior to any distributions to any other Notes;

v. to the payment to the Liquidation Agent of the accrued and unpaid Liquidation Agent Fee;

vi. to the payment of, *pro rata* (based on the amounts due) (i) the Senior Swap Premium and (ii) accrued and unpaid interest on the Class A Notes (including any Defaulted Interest and interest thereon);

vii. to the payment of accrued and unpaid interest on the Class B Notes (including any Defaulted Interest and any interest thereon);

viii. if the Senior Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to this clause (viii) or clauses (x), (xii) and (xiii) below), then *first*, to reduce the Outstanding Notional Amount of the Senior Swap until amortized in full, *second*, to the payment of principal of the Class A Notes until the Class A Notes are paid in full, and *third*, to the payment of principal of the Class B Notes until the Class B Notes are paid in full; *provided* that, as long as the Senior Swap remains outstanding on such date, any remaining Interest Proceeds will be deposited in the Collateral Account for investment in Collateral Securities and Eligible Investments, and the Outstanding Notional Amount of the Senior Swap shall be reduced by the same amount;

ix. to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon but not including Class C Deferred Interest);

x. if the Class C Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and the reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to this clause (x) or clauses (xii) and (xiii) below), then if the Senior Overcollateralization Test was satisfied on each Determination Date with respect to each preceding Payment Date and the Aggregate Outstanding Portfolio Amount is greater than or equal to U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date, Amortization Proceeds will be applied, *pro rata* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, (ii) to the payment of principal of the Class B Notes and (iii) to the payment of principal of the Class C Notes, until the Outstanding Notional Amount of the Senior Swap is reduced to zero and the Class A Notes, the Class B Notes and the Class C Notes are paid in full and, any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, Amortization Proceeds will be applied *first* (i) to reduce the Outstanding

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Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date, *second* (ii) to the payment of principal of the Class A Notes until the Class A Notes are paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and then to the Class A-b Notes until the Class A-b Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the Class B Notes are paid in full and *fourth* (iv) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full;

xi. to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon but not including Class D Deferred Interest);

xii. if the Class D Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and the reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to this clause (xii) or clause (xiii) below), then if the Senior Overcollateralization Test was satisfied on each Determination Date with respect to each preceding Payment Date and the Aggregate Outstanding Portfolio Amount is greater than or equal to U.S.1,050,000,000 on the Determination Date with respect to the related Payment Date, Amortization Proceeds will be applied *pro rata* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, (ii) to the payment of principal of the Class B Notes, (iii) to the payment of principal of the Class C Notes and (iv) to the payment of principal of the Class D Notes, until the Outstanding Notional Amount of the Senior Swap is reduced to zero and the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are paid in full and, any remaining Proceeds to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, Amortization Proceeds will be applied, *first* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date, *second* (ii) to the payment of principal of the Class A Notes until the Class A Notes are paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and second to the Class A-b Notes until the Class A-b Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the Class B Notes are paid in full, *fourth* (iv) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and *fifth* (v) to the payment of principal of the Class D Notes until the Class D Notes are paid in full; and any remaining Proceeds to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xiii. *first*, (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and (ii) to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, up to the amount specified in clause (b)(1) below, *second*, to the payment of principal of the Class B Notes up to the amount specified in clause (b)(2) below, *third*, to the payment of principal of the Class C Notes up to the amount specified in clause (b)(3) below, and *fourth*, to the payment of principal of the Class D Notes up to the amount specified in clause (b)(4) below, in an aggregate amount equal to the lesser of (a) the Amortization Proceeds for the related Due Period, and (b) the sum of (1) the amount necessary to increase the Class A Adjusted Overcollateralization Ratio to or maintain it at 143.8%, plus (2) the amount necessary to increase the Class B Adjusted Overcollateralization Ratio to or maintain it at 122.5%, plus (3) the amount necessary to increase the Class C Adjusted Overcollateralization

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Ratio to or maintain it at 110.2%, plus (4) the amount necessary to increase the Class D Adjusted Overcollateralization Ratio to or maintain it at 105.8%; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date, or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, then only the amount described in sub-clause (a) of this clause (xiii) will be applied, *first*, to reduce the Outstanding Notional Amount of the Senior Swap, *second*, to the payment of principal of the Class A Notes until the Class A Notes are paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and then to the Class A-b Notes until the Class A-b Notes are paid in full, *third*, to the payment of principal of the Class B Notes until the Class B Notes are paid in full, *fourth*, to the payment of principal of the Class C Notes until the Class C Notes are paid in full and *fifth*, to the payment of principal of the Class D Notes until the Class D Notes are paid in full;

xiv. *first*, to the payment of principal of the Class C Notes in an amount equal to that portion of the principal of the Class C Notes comprised of Class C Deferred Interest unpaid after giving effect to payments under the clauses above (amounts will be considered unpaid for this purpose if the principal balance of the Class C Notes after giving effect to the clauses above exceeds any previous lowest amount outstanding) and *second*, to the payment of principal of the Class D Notes in an amount equal to that portion of the principal of the Class D Notes comprised of the Class D Deferred Interest unpaid after giving effect to payments under the clauses above (amounts will be considered unpaid for this purpose if the principal balance of the Class D Notes after giving effect to the clauses above exceeds any previous lowest amount outstanding);

xv. to the payment of accrued and unpaid interest on the Class E Notes (including Defaulted Interest and any interest thereon but not including Class E Deferred Interest);

xvi. to the payment of principal of the Class E Notes, in an amount necessary to increase the Class E Adjusted Overcollateralization Ratio to or maintain it at 104.2%; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$1,050,000,000 on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, all remaining Amortization Proceeds will be applied to the payment of principal of all outstanding Class E Notes until the Class E Notes are paid in full;

xvii. if the Class E Interest Diversion Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date, then to the payment of principal of all outstanding Class E Notes until the Class E Notes are paid in full;

xviii. after the Payment Date occurring in April 2015, *first*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full, *second*, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full and, *third*, to the payment of principal of all outstanding Class E Notes until the Class E Notes are paid in full;

xix. to the payment of principal of the Class E Notes in an amount equal to that portion of the principal of the Class E Notes comprised of Class E Deferred Interest unpaid after giving effect to payments under the clauses above (amounts will be considered unpaid for this purpose if the principal balance of the Class E Notes after giving effect to the clauses above exceeds any previous lowest amount outstanding);

xx to the payment of any unpaid Defaulted Swap Termination Payments;

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xxi *first* (a) to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers not paid pursuant to clauses (ii) and (iii) above (as the result of the limitations on amounts set forth therein) in the same order of priority set forth above in clause (iii) excluding any indemnities (and legal expenses related thereto) payable by the Issuers; *second*, (b) to the payment of any indemnities (and legal expenses related thereto) payable by the Issuers not paid pursuant to clause (iii) above (as the result of the limitation on amounts set forth therein) in the same order of priority set forth above in clause (iii); and *third*, (c) to the Expense Reserve Account until the balance of such account reaches U.S.$200,000 (after giving effect to any deposits made therein on such Payment Date under clause (iii) above); *provided, however*, that the aggregate payments pursuant to subclause (c) of this clause (xxi) and subclause (c) of clause (iii) on any Payment Date shall not exceed U.S.$50,000;

xxii to the payment of the Class D Notes Amortizing Principal Amount; and

xxiii any remaining amount to the Fiscal Agent for deposit into the Income Note Payment Account for payment to the Holders of the Income Notes.

On the Business Day prior to the Final Payment Date, the Trustee will transfer all funds then on deposit in the Interest Collection Account into the Payment Account and, after the liquidation of (i) the Credit Default Swap, (ii) the Collateral Securities and Eligible Investments in the Collateral Account, (iii) the Amortization Proceeds drawn from the Collateral Account to the Payment Account and (iv) the Delivered Obligations and Eligible Investments in the Delivered Obligation Account, the Trustee will deposit all proceeds therefrom, into the Payment Account. On the Final Payment Date, amounts in the Payment Account will be applied by the Trustee pursuant to the Note Valuation Report in the manner and order of priority set forth below:

i. to the payment of the amounts referred to in clauses (i) through (vi) of the Priority of Payments for Payment Dates which are not Final Payment Dates, in that order (without regard to the limitations in clause (iii)); *provided* that no deposit shall be made to the Expense Reserve Account pursuant to subclause (iii);

ii. first, to the payment to the Class A-f Notes and second, to the payment to the Class A-b Notes, in each case, the amount necessary to pay the outstanding principal amounts of such Notes, in full;

iii. to the payment to the Class B Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Defaulted Interest and any interest thereon) in full;

iv. to the payment to the Class C Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

v. to the payment to the Class D Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

vi. to the payment to the Class E Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

vii. to the payment of the amounts referred to in clause (xx) of the Priority of Payments for Payment Dates that are not Final Payment Dates; and

viii. to the payment of the amounts referred to in clause (xxiii) of the Priority of Payments for Payment Dates which are not Final Payment Dates.

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Upon payment in full of the last outstanding Secured Note, the Issuer (or the Liquidation Agent acting pursuant to the Liquidation Agency Agreement on behalf of the Issuer) will liquidate any remaining Pledged Assets, including the Credit Default Swap, the Eligible Investments, the Collateral Securities, the Delivered Obligations and any other items comprising the Pledged Assets and deposit the proceeds thereof in the Interest Collection Account. The net proceeds of such liquidation and all available cash (other than the U.S.$250 of capital contributed by the owners of the Issuer Ordinary Shares in accordance with the Issuer's Memorandum and Articles of Association and U.S.$250 representing a transaction fee to the Issuer and any interest income earned on such amounts) will be distributed in accordance with the Priority of Payments for Final Payment Dates and all amounts remaining thereafter will be distributed to the Holders of the Income Notes as a redemption payment whereupon all of the Notes and the Income Notes will be canceled.

Income Notes

The final payment on the Income Notes will be made by the Issuer on the Maturity Date, unless redeemed or retired prior thereto in accordance with the Priority of Payments.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default. An "Event of Default" under the Indenture includes:

i. a default in the payment, when due and payable, of any Senior Swap Premium, any Collateral Put Provider Fee or any interest on any Class S Note, Class A Note or Class B Note or, if the Senior Swap is not outstanding and there are no Class S Notes, Class A Notes or Class B Notes outstanding, any Class C Note or, if the Senior Swap is not outstanding and there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Note or if the Senior Swap is not outstanding and there are no Class S Notes, Class A Notes, Class B Notes, Class C Notes or Class D Notes outstanding, any Class E Note and a continuation of such default, in each case, for a period of 7 days (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made aware of such administrative error or omission);

ii. a default in the payment of principal due on any Secured Note at its Stated Maturity or on any Redemption Date (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made aware of such administrative error or omission);

iii. the failure on any Payment Date to disburse amounts (other than in payment of interest on any Secured Note or principal of any Secured Note at its Stated Maturity or any date set for redemption as described in (i) and (ii) above) available in the Payment Account in excess of $500 in accordance with the Priority of Payments and a continuation of such failure for a period of 7 days after such failure has been recognized;

iv. a circumstance in which either of the Issuers becomes an investment company required to be registered or the Pledged Assets or any portion thereof becomes subject to regulation under the Investment Company Act;

v. a default, which has a material adverse effect on the Holders of the Secured Notes or the Senior Swap Counterparty (as determined by at least a Majority, by interest, of the Controlling Class), in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuers in the Indenture (it being understood that a failure to satisfy a Coverage Test is not a

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default or breach) or in any certificate or writing delivered pursuant to the Indenture, or if any representation or warranty of the Issuers made in the Indenture or in any certificate or writing delivered pursuant thereto proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days after notice thereof shall have been given to the Issuers and the Liquidation Agent by the Trustee or to the Issuers, the Liquidation Agent and the Trustee by at least a Majority, by interest, of the Controlling Class or the Senior Swap Counterparty, as applicable;

vi the Credit Default Swap is terminated; and

vii. certain events of bankruptcy, insolvency, receivership or reorganization of either of the Issuers.

If an Event of Default should occur and be continuing, the Trustee may and will (i) if the Credit Protection Buyer is in default under the Credit Default Swap, at the direction of not less than a Majority of the Class S Notes, the Senior Swap, the Class A Notes (the Class A-f Notes and the Class A-b Notes voting together as a single class) and the Class B Notes, for so long as any Class S Notes, the Senior Swap, the Class A Notes or the Class B Notes are Outstanding; if no Class S Notes, the Senior Swap, the Class A Notes or the Class B Notes are Outstanding, then the Class C Notes, for so long as any Class C Notes are Outstanding; if no Class S Notes, the Senior Swap, the Class A Notes, the Class B Notes or the Class C Notes are Outstanding, the Class D Notes, for so long as any Class D Notes are Outstanding; and if no Class S Notes, the Senior Swap, the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes are Outstanding, then the Class E Notes, for so long as any Class E Notes are Outstanding and otherwise (ii) at the direction of the Holders of at least a Majority of the Controlling Class declare the principal of and accrued and unpaid interest on all Secured Notes to be immediately due and payable (except that in the case of an Event of Default described in clause (vi) or (vii) above, such an acceleration will occur automatically and shall not require any action by the Trustee or any Secured Noteholder).

If an Event of Default should occur and be continuing, the Trustee is required to retain the Pledged Assets intact and collect all payments in respect of the Pledged Assets and continue making payments in the manner described under Priority of Payments unless (a) the Trustee determines (which determination will be based upon a certificate from the Liquidation Agent) that the anticipated proceeds of a sale or liquidation of the Pledged Assets based on an estimate obtained from a nationally recognized investment banking firm (which estimate takes into account the time elapsed between such estimate and the anticipated sale of the Pledged Assets) would equal the amount necessary to pay in full (after deducting the reasonable expenses of such sale or liquidation) the sum of (i) the principal (including any Class C Deferred Interest, Class D Deferred Interest and Class E Deferred Interest) and accrued interest (including all Defaulted Interest, and interest thereon) and any other amounts due with respect to all the outstanding Secured Notes; (ii) all Administrative Expenses; (iii) any unpaid amounts due the Credit Protection Buyer, the Collateral Put Provider and the Senior Swap Counterparty and any unpaid amounts due any assignee of a CDS Transaction net of amounts payable to the Issuer by the Credit Protection Buyer, the Collateral Put Provider, Senior Swap Counterparty or assignee of a CDS Transaction; and (iv) all other items in the Priority of Payments ranking prior to payments on the Secured Notes, and, in any case, the Holders of a Majority of the Controlling Class agree with such determination or (b) the Senior Swap Counterparty and/or the requisite Holders of Notes as determined pursuant to the Indenture or the Holders of a Majority of the Controlling Class (whichever directed the acceleration of the Secured Notes pursuant to the preceding paragraph) direct, subject to the provisions of the Indenture, the sale and liquidation of the Pledged Assets.

The Holders of a Majority of the Controlling Class will have the right to direct the Trustee in writing in the conduct of any proceedings or in the sale of any or all of the Pledged Assets, but only if (i) such direction will not conflict with any rule of law or the Indenture (including the limitations described in the paragraph above), (ii) the Trustee determines that such action will not involve it in liability (unless the Trustee has received an indemnity which is reasonably acceptable to the Trustee against any such liability) and (iii) any direction to the Trustee to undertake a sale of the Pledged Assets shall be by at least a Majority of the Controlling Class.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default with respect to the Secured Notes occurs and is continuing, the Trustee is under no obligation to exercise any of the rights or powers under the Indenture at the request of any Holders of Secured Notes, unless such Holders have offered to the Trustee reasonable security or an indemnity which is reasonably acceptable to the Trustee. The

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Holders of a Majority of the Controlling Class may waive any default with respect to the Secured Notes, except (a) a default in the payment of principal or interest on any Secured Note; (b) failure on any Payment Date to disburse amounts available in the Payment Account in accordance with the Priority of Payments and continuation of such failure for a period of seven (7) days; (c) certain events of bankruptcy or insolvency with respect to the Issuers; or (d) a default in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the Holder of each outstanding Note adversely affected thereby.

Furthermore, any declaration of acceleration of maturity of the Secured Notes may be revoked and annulled by the Senior Swap Counterparty and/or the requisite Holders of Notes as determined pursuant to the Indenture or the Holders of a Majority of the Controlling Class, as applicable, before a judgment or decree for the payment of money has been obtained by the Trustee or the Pledged Assets have been sold or foreclosed in whole or in part, by notice to the Issuers, the Trustee and the Senior Swap Counterparty, if (a) the Issuer has paid or deposited with the Trustee a sum sufficient to pay, in accordance with the Priority of Payments, the principal and accrued interest (including all Defaulted Interest and the interest thereon), discount or other unpaid amounts with respect to the outstanding Secured Notes and any other administrative expenses, fees or other amounts that, under the Transaction Documents and pursuant to the Priority of Payments, are payable prior to the payment of the principal of and interest on the outstanding Secured Notes, and (b) the Trustee has determined that all Events of Default, other than the non-payment of the interest on or principal of the outstanding Secured Notes that have become due solely by such acceleration, have been cured and the Holders of a Majority of the Controlling Class by notice to the Trustee have agreed with such determination (which agreement shall not be unreasonably withheld) or waived such Event of Default in accordance with the provisions set forth in the Indenture.

Only the Trustee may pursue the remedies available under the Indenture or the Secured Notes and no Holder of a Secured Note will have the right to institute any proceeding with respect to the Indenture, its Note, or otherwise unless (i) such Holder previously has given to the Trustee written notice of a continuing Event of Default; (ii) except in the case of a default in the payment of principal or interest, the Holders of at least 25%, by Aggregate Outstanding Amount, of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such Holders have offered the Trustee an indemnity which is reasonably acceptable to the Trustee; (iii) the Trustee has for 30 days failed to institute any such proceeding; and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the Holders of a Majority of the Controlling Class.

In determining whether the Holders of the requisite percentage of Secured Notes have given any direction, notice or consent, Secured Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding. In addition, Holders of Income Notes will not be considered to be affiliates of the Issuer or Co-Issuer by virtue of such ownership of Income Notes.

Notices. Notices to the Holders of the Secured Notes and the Senior Swap Counterparty shall be given by first-class mail, postage prepaid, to each Noteholder at the address appearing in the applicable note register. In addition, if and for so long as any of the Secured Notes are listed on the Irish Stock Exchange and so long as the rules of such exchange so require, notices to the Holders of such Secured Notes shall also be published by the Irish Listing Agent in the official list thereof or as otherwise required by the rules of such exchange.

Modification of the Indenture. Without obtaining the consent of Holders of the Notes, the Issuers and the Trustee may enter into one or more supplemental indentures for any of the following purposes:

(i) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Notes, the Fiscal Agency Agreement and under the Indenture;

(ii) to add to the covenants of the Issuers or the Trustee for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuers;

(iii) to convey, transfer, assign, mortgage or pledge any property to the Trustee, or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Notes;

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(iv) to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(v) to correct or amplify the description of any property at any time subject to the security interest created by the Indenture, or to better assure, convey, and confirm unto the Trustee any property subject or required to be subject to the security interest created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or subject to the security interest created by the Indenture any additional property;

(vi) to otherwise correct any inconsistency or cure any ambiguity or manifest error or correct or supplement any provisions contained in the Indenture which may be defective or inconsistent with any provision contained in the Indenture or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error;

(vii) to take any action necessary or advisable to prevent the Issuer, the Trustee, any Note Paying Agents or the Fiscal Agent from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis;

(viii) to conform the Indenture to the descriptions contained in this Offering Circular;

(ix) to comply with any reasonable requests made by the Irish Stock Exchange in order to list or maintain the listing of any Notes on such stock exchange; or

(x) to make any other change for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or any other Transaction Document; *provided however* that such changes would have no material adverse effect on any of the Notes (which may be evidenced by an opinion of counsel or a Noteholder Poll (as hereinafter defined)).

With the written consent of the Holders of (a) at least a Majority, by Aggregate Outstanding Amount, of the Secured Notes materially adversely affected thereby (voting together as a single class) and (b) at least a Majority of the Income Notes materially adversely affected thereby, the Trustee and the Issuers may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the Holders of the Notes.

Notwithstanding anything in the Indenture to the contrary, without the written consent of each Noteholder of each Class adversely affected thereby no supplemental indenture may:

(i) change the Stated Maturity of the principal of or the due date of any installment of interest or discount on a Note; reduce the principal amount thereof or the rate of interest thereon, or the applicable Secured Note Redemption Price or the Income Note Face Amount with respect thereto; change the earliest date on which a Note may be redeemed; change the provisions of the Indenture relating to the application of proceeds of any Pledged Asset to the payment of principal of or interest on Notes or change any place where, or the coin or currency in which, Notes or the principal thereof or interest thereon are payable; or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or other due date thereof (or, in the case of redemption, on or after the Redemption Date);

(ii) reduce the percentage in aggregate principal amount, notional amount or Outstanding Notional Amount, as applicable, of Holders of the Notes of each Class and the Senior Swap Counterparty whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture or their consequences;

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(iii) impair or adversely affect the Pledged Assets except as otherwise permitted by the Indenture;

(iv) permit the creation of any security interest ranking prior to or on a parity with the security interest created by the Indenture with respect to any part of the Pledged Assets or terminate such security interest on any property at any time subject thereto or deprive the Holder of any Note, the Trustee or any other Secured Party of the security afforded by the lien of the Indenture;

(v) reduce the percentage of Holders of the Notes of each Class or Senior Swap whose consent is required to request the Trustee to preserve the Collateral Assets or rescind the Trustee's election to preserve the Collateral Assets or to sell or liquidate the Collateral Assets pursuant to the Indenture;

(vi) modify any of the provisions of the Indenture with respect to supplemental indentures, except to increase the percentage of Outstanding Notes or Outstanding Notional Amount whose Holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each outstanding Note and Senior Swap Counterparty adversely affected thereby;

(vii) modify the definition of the term "Outstanding," or the Priority of Payments set forth in the Indenture;

(viii) modify any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Secured Note or modify any amount distributable to the Fiscal Agent for payment to the Holders of the Income Notes on any Payment Date or to affect the right of the Holders of the Notes or the Trustee to the benefit of any provisions for the redemption of such Notes contained therein;

(ix) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated by the Indenture relating to the institution of proceedings for the Issuer or the Co-Issuer to be adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing with respect to the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under the United States Bankruptcy Code or any similar laws, or the consent of the Issuer or the Co-Issuer to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or any substantial part of its property, respectively;

(x) increase the amount of the Liquidation Agent Fees payable to the Liquidation Agent beyond the amount provided for in the original Liquidation Agency Agreement;

(xi) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated thereby that provides that the obligations of the Issuers or the Issuer, as the case may be, are limited recourse obligations of the Issuers or the Issuer, respectively, payable solely from the Pledged Assets in accordance with the terms of the Indenture;

(xii) at the time of execution of such supplemental indenture, cause payments made by or to the Issuer, the Credit Protection Buyer, the Senior Swap Counterparty, the Liquidation Agent or any Paying Agents to become subject to withholding or other taxes, fees or assessments or cause the Issuer to be treated as engaged in a United States trade or business or otherwise be subject to United States federal, state or local income tax on a net income basis; or

(xiii) at the time of the execution of such supplemental indenture, result in a deemed sale or exchange of any of the Notes under Section 1001 of the Code (items (i) through (xiii) above collectively, the "Reserved Matters").

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Notwithstanding anything to the contrary herein, no supplement or amendment to the Indenture will be effective until the consent of each of the Credit Protection Buyer (which shall not be unreasonably withheld), the Collateral Put Provider (which consent shall not be unreasonably withheld), the Liquidation Agent (which consent shall not be unreasonably withheld) and the Senior Swap Counterparty (which shall not be unreasonably withheld) has been obtained.

Under the Indenture, in making the determination of whether a proposed amendment has or would have no material adverse effect on any of the Notes, which Notes are materially adversely affected by a proposed amendment or which Classes of Notes are adversely affected by any Reserved Matter (each such determination, an "Amendment Determination"), the Trustee may rely on an opinion of counsel. If no opinion of counsel is provided with respect to a proposed amendment, a Noteholder Poll shall be conclusively determinative of such Amendment Determination and the Trustee shall be entitled to conclusively rely on such Noteholder Poll. The results of such Noteholder Poll shall be conclusive and binding on the Issuer and all present and future Noteholders.

"Noteholder Poll" with respect to a proposed supplemental indenture means the following:

The Trustee will (at the expense of the Issuer) give written notice of such proposed supplemental indenture to the Holders of the Secured Notes and to the Fiscal Agent for notification by the Fiscal Agent to the Holders of the Income Notes. If any Holder of a Note of a Class delivers a written objection to any portion of such supplemental indenture to the Trustee, in the case of the Secured Notes, and the Fiscal Agent, in the case of the Income Notes, within 20 Business Days after the date on which such notice was given by the Trustee or the Fiscal Agent, as applicable, each Note of such Class will be deemed to be both adversely affected and materially and adversely affected. If no Holder of a Note of a Class delivers a written objection to the Trustee or the Fiscal Agent, as applicable, within such period, all Notes of such Class shall be deemed not to be materially and adversely affected and not to be adversely affected by such supplemental indenture. The Fiscal Agent will promptly communicate to the Trustee the receipt of any such written objection from a Holder of an Income Note or if no such written objection is received within the prescribed time period, that no written objections were received from any Income Noteholder.

Under the Indenture, the Trustee will deliver a copy of any proposed supplemental indenture to the Holders of the Secured Notes, the Fiscal Agent, the Rating Agencies (for so long as any of the Notes are outstanding and rated by the Rating Agencies), the Credit Protection Buyer, the Senior Swap Counterparty, the Collateral Put Provider and the Liquidation Agent not later than 20 Business Days prior to execution of a proposed supplemental indenture. The Fiscal Agent will deliver a copy of the same to the Holders of the Income Notes. For so long as any of the Notes are outstanding and rated by the Rating Agencies, no supplemental indenture shall be entered into unless the Rating Agency Condition is met; *provided* that the Trustee shall, with the consent of the Holders of 100% of the Aggregate Outstanding Amount of Secured Notes of each Class and the Income Notes, whose consent, in the case of the Income Notes, will be communicated to the Fiscal Agent for notice to the Trustee, the Liquidation Agent, the Credit Protection Buyer, the Collateral Put Provider and the Senior Swap Counterparty, enter into any such supplemental indenture notwithstanding any potential reduction or withdrawal of the ratings of any outstanding Class of Notes. The Trustee must provide notice of any amendment or modification of the Indenture (whether or not required to be approved by such parties) to the Holders of the Secured Notes, the Fiscal Agent, the Liquidation Agent, the Collateral Put Provider, the Senior Swap Counterparty, the Credit Protection Buyer and if and for so long as any Secured Notes are listed on the Irish Stock Exchange, the Irish Paying Agent promptly upon the execution of such supplemental indenture. The Fiscal Agent will provide notice of any such amendment or modification of the Indenture to the Holders of the Income Notes and if and for so long as any Income Notes are listed on the Irish Stock Exchange, the Irish Paying Agent promptly upon the execution of such supplemental indenture.

In connection with any amendment, the Trustee may require the delivery of an opinion of counsel satisfactory to it (which opinion of counsel may rely on an officer's certificate from the Liquidation Agent), at the expense of the Issuer, that such amendment is permitted under the terms of the Indenture.

In addition, the Issuers and the Trustee may enter into any additional agreements not expressly prohibited by the Indenture or any other Transaction Document.

Jurisdictions of Incorporation and Formation. Under the Indenture, the Issuer and the Co-Issuer will be required to maintain their rights and franchises as a company incorporated under the laws of the Cayman Islands and

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a corporation formed under laws of the State of Delaware, respectively, to comply with the provisions of their respective organizational documents and to obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validation and enforceability of the Indenture, the Secured Notes, or any of the Pledged Assets; *provided, however*, that the Issuers shall be entitled to change their jurisdictions of incorporation from the Cayman Islands or Delaware, as applicable, to any other jurisdiction reasonably selected by such Issuer or Co-Issuer, as applicable, and approved by its common shareholders, so long as (i) the Issuer or Co-Issuer, as applicable, does not believe such change is disadvantageous in any material respect to such entity or the Holders of any Class of Secured Notes or the Senior Swap Counterparty; (ii) written notice of such change shall have been given by the Issuer or Co-Issuer, as applicable to the other of the Issuer or Co-Issuer, as applicable, the Trustee, the Note Paying Agent, the Liquidation Agent, the Credit Protection Buyer, the Holders of each Class of Notes, the Senior Swap Counterparty, the Collateral Put Provider, and each of the Rating Agencies at least thirty (30) Business Days prior to such change of jurisdiction; and (iii) on or prior to the 25th Business Day following such notice the Trustee shall not have received written notice from Holders of a Majority of the Controlling Class, the Liquidation Agent, the Senior Swap Counterparty, the Collateral Put Provider or the Credit Protection Buyer or, if and so long as any Notes are listed thereon, the Irish Stock Exchange objecting to such change.

Petitions for Bankruptcy. The Indenture will provide that neither (i) the Senior Swap Counterparty, the Paying Agents, the Liquidation Agent, the Note Registrar, or the Trustee, in its own capacity, or on behalf of any Secured Noteholder, nor (ii) the Secured Noteholders may, prior to the date which is one year and one day (or, if longer, the applicable preference period then in effect) after the payment in full of all Notes, institute against, or join any other person in instituting against, the Issuer or Co-Issuer any bankruptcy, reorganization, arrangement, moratorium, liquidation or similar proceedings under the laws of any jurisdiction.

Satisfaction and Discharge of the Indenture. The Indenture will be discharged with respect to the Pledged Assets securing the Secured Notes upon delivery to the Note Paying Agent for cancellation all of the Secured Notes and the payment in full of the Secured Notes, or, within certain limitations (including the obligation to pay principal and interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Indenture.

Trustee. The Bank of New York Trust Company, National Association will be the Trustee under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee relating to the Secured Notes is solely the obligation of the Issuers. The Trustee and/or its affiliates may receive compensation in connection with the Trustee's investment of trust assets in certain Eligible Investments as provided in the Indenture and in connection with the Trustee's administration of any securities lending activities of the Issuer.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. The Trustee will not be bound to take any action unless indemnified for such action. The Secured Noteholders shall together have the power, exercisable by the Controlling Class, to remove the Trustee as set forth in the Indenture. The removal of the Trustee shall not become effective until the later of the effective date of the appointment of a successor trustee and the acceptance of appointment by a successor trustee. If the Trustee is removed without cause, costs and expenses of the Trustee incurred in connection with the transfer to the successor Trustee shall be paid by the successor Trustee or the Issuer.

Agents. The Bank of New York Trust Company, National Association will be the Note Paying Agent, the Note Registrar, the Note Calculation Agent and the Note Transfer Agent under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with The Bank of New York Trust Company, National Association. The payment of the fees and expenses of The Bank of New York Trust Company, National Association, as the Paying Agent, the Note Registrar, the Note Calculation Agent and the Note Transfer Agent relating to the Notes is solely the obligation of the Issuers. The Indenture contains provisions for the indemnification of The Bank of New York Trust Company, National Association for any loss, liability or expense incurred without gross negligence, willful misconduct, default or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture.

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Irish Paying Agent. If and for so long as any of the Secured Notes or the Income Notes are listed on the Irish Stock Exchange, and the rules of such exchange shall so require, the Issuers will have an Irish Paying Agent in accordance with the requirements of the rules of such exchange for the Notes. The Issuers and their affiliates may maintain other relationships in the ordinary course of business with the Irish Paying Agent. The payment of the fees and expenses of the Irish Paying Agent relating to the Notes is solely the obligation of the Issuers.

Status of the Income Notes. The Holders of the Income Notes will have certain rights to vote with respect to limited matters arising under the Indenture and the Liquidation Agency Agreement including, without limitation, in connection with certain modifications to the Indenture. However, the Holders of the Income Notes will have no right to vote in connection with the realization of the Pledged Assets or certain other matters under the Indenture.

Fiscal Agency Agreement

The Income Notes will be issued by the Issuer and administered in accordance with a Fiscal Agency Agreement (the "Fiscal Agency Agreement") between The Bank of New York Trust Company, National Association as fiscal agent (in such capacity, the "Fiscal Agent"). The following summary describes certain provisions of the Income Notes and the Fiscal Agency Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Fiscal Agency Agreement. After the closing, copies of the Fiscal Agency Agreement may be obtained by prospective investors upon request in writing to the Fiscal Agent at 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Global Corporate Trust —Hudson Mezzanine Funding 2006-1, Ltd. (telephone number (713) 483-6000).

Pursuant to the Fiscal Agency Agreement, the Fiscal Agent and the Income Notes Transfer Agent will perform various fiscal services on behalf of the Holders of the Income Notes. The payment of the fees and expenses of the Fiscal Agent and Income Notes Transfer Agent is solely the obligation of the Issuer. The Fiscal Agency Agreement contains provisions for the indemnification of the Fiscal Agent and Income Notes Transfer Agent for any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Fiscal Agency Agreement.

Status. The Income Notes are not secured by the Pledged Assets securing the Secured Notes. There can be no assurance that, after payment of principal and interest on the Secured Notes and other fees and expenses of the Issuers in accordance with the Priority of Payments, the Issuer will have funds remaining to make payments in respect of the Income Notes. As a result, the rights of the Income Note holders to receive payments will rank (i) behind the rights of all secured creditors of the Issuer, whether known or unknown, including the Holders of the Secured Notes, the Liquidation Agent, the Credit Protection Buyer, the Collateral Put Provider and the Senior Swap Counterparty and (ii) *pari passu* with all unsecured creditors of the Issuer, whether known or unknown. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Secured Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Income Notes as and when such proceeds are released from the lien of the Indenture in accordance with the Priority of Payments. See "—Priority of Payments."

Payment. On each Payment Date, to the extent funds are available therefor, and after the Secured Notes and certain other amounts due and payable on such Payment Date that rank senior to payments on the Income Notes have been paid in full, Proceeds will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Fiscal Agent on such Payment Date for payment to the Holders of the Income Notes. See "—Status and Security", "—Interest on the Secured Notes" and "—Principal."

Payments on any Income Note will be made to the person in whose name such Income Note is registered 10 Business Days' prior to the applicable Payment Date. Payments will be made by wire transfer in immediately available funds to a U.S. Dollar account maintained by the Holder thereof appearing in the Income Notes Register in accordance with wire transfer instructions received from such Holder by the Fiscal Agent on or before the Record Date or, if no wire transfer instructions are received by the Fiscal Agent, by a U.S. Dollar check drawn on a bank in the United States. Final distributions or payments made in the course of a winding up of the Issuer will be made only against surrender of the certificate representing such Income Notes at the office of the Income Notes Transfer Agent. The Income Notes Transfer Agent will communicate or cause communications of such distributions and payments and the related Payment Date to the Issuer, the Fiscal Agent, Euroclear and Clearstream.

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Modification of the Fiscal Agency Agreement. The Fiscal Agency Agreement may be amended by the Issuer and the Fiscal Agent without the consent of any of the Income Noteholders for any of the following purposes: (i) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Notes, the Fiscal Agency Agreement and the Indenture; (ii) to add to the covenants of the Issuers or the Fiscal Agent for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuers; (iii) to cure any ambiguity or manifest error or correct or supplement any provisions contained herein which may be defective or inconsistent with any provision contained herein or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error; (iv) to take any action necessary or advisable to prevent the Issuer, the Trustee, any Note Paying Agents or the Fiscal Agent from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis; (v) to conform the Fiscal Agency Agreement to the descriptions contained in this Offering Circular; (vi) to comply with any reasonable requests made by the Irish Stock Exchange in order to list or maintain the listing of any Notes on such stock exchange; or (vii) to make any other change for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Fiscal Agency Agreement; *provided, however* that such changes would have no material adverse effect on any of the Notes.

The Fiscal Agency Agreement may also be amended from time to time by the Issuer and the Fiscal Agent with the consent of a Majority of Income Noteholders for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Fiscal Agency Agreement, or of modifying in any manner the rights of the Income Noteholders; *provided*, that no such amendment shall (i) reduce in any manner the amount of, or delay the timing of, or change the allocation of, the payments on the Income Notes or (ii) reduce the voting percentage of the Income Noteholders required to consent to any amendment to the Fiscal Agency Agreement, in each case without the consent of the Income Noteholders of all of the Income Notes.

Income Notes Register. The Fiscal Agent will initially be appointed as Income Notes Transfer Agent (in such capacity, the "Income Notes Transfer Agent") for the purpose of registering and administrating the transfer of Income Notes. The Income Notes Transfer Agent shall maintain at its offices, a register (the "Income Notes Register") in which it shall provide for the registration of Income Notes and the registration of transfers of Income Notes in accordance with the Fiscal Agency Agreement.

Notices. Notices to the Income Note holders will be given by first class mail, postage prepaid, to the registered holders of the Income Notes at their addresses appearing in the Income Notes Register. In addition, if and for so long as any of the Income Notes are listed on the Irish Stock Exchange and so long as the rules of such exchange so require, notices to the Holders of such Income Notes shall also be published by the Irish Listing Agent in the official list thereof as otherwise required by the rules of such exchange.

Governing Law of the Transaction Documents

The Indenture, the Fiscal Agency Agreement, the Notes, the Credit Default Swap, the Senior Swap, the Collateral Put Agreement and the Liquidation Agency Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein without regard to the conflict of laws principles thereof. Under the Indenture, the Fiscal Agency Agreement, the Senior Swap Agreement, the Collateral Put Agreement and the Liquidation Agency Agreement, the Issuers have submitted irrevocably to the non-exclusive jurisdiction of the courts of the State of New York and the courts of the United States of America in the State of New York (in each case sitting in the County of New York) for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Indenture, the Notes, the Fiscal Agency Agreement, the Senior Swap Agreement, the Collateral Put Agreement and the Liquidation Agency Agreement.

Form of the Notes

The Notes. Each Class of Notes (other than the Class E Notes and the Income Notes) sold in reliance on Rule 144A under the Securities Act will be represented by one or more Rule 144A Global Notes and will be deposited with The Bank of New York Trust Company, National Association as custodian for DTC and registered in

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the name of Cede & Co., a nominee of DTC. Each of the Class E Notes and the Income Notes which are sold either to (1) a qualified institutional buyer as defined in Rule 144A under the Securities Act purchasing for its own account or for the account of a Qualified Institution Buyer or (2) in the case of the Income Notes only, an Accredited Investor who has a net worth of not less than U.S. $10 million will be issued in definitive, fully registered form, registered in the name of the owner thereof ("Definitive Notes"). The Rule 144A Global Notes and the Definitive Notes (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by a Temporary Regulation S Global Note deposited on the Closing Date with The Bank of New York Trust Company, National Association as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream. Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream. Beneficial interests in a Temporary Regulation S Global Note will be exchanged for beneficial interests in a permanent Regulation S Global Note (the "Regulation S Global Note") for the related Class of Notes in definitive, fully registered form upon the later of (i) the expiration of the Distribution Compliance Period and (ii) the first date on which the requisite certifications (in the form provided in the Indenture) are provided to the Trustee. The Regulation S Global Note will be registered in the name of Cede & Co., a nominee of DTC, and deposited with The Bank of New York Trust Company, National Association as custodian for DTC for credit to the accounts of Euroclear and Clearstream for the respective accounts of the Holders of such Notes. Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

A beneficial interest in a Regulation S Global Note or a Temporary Regulation S Global Note may be transferred, whether before or after the expiration of the Distribution Compliance Period, to a U.S. person only, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes, in the form of a beneficial interest in a Rule 144A Global Note, and, with respect to any Regulation S Class E Notes or Regulation S Income Notes, in the form of a definitive Class E Note or Income Note, as applicable, and only upon receipt by the Note Transfer Agent or Income Notes Transfer Agent, as applicable, of a written certification from the transferor (in the form provided in the Indenture or the Fiscal Agency Agreement, as applicable) to the effect that the transfer is being made to a person the transferor reasonably believes is (a) a Qualified Institutional Buyer or, solely in the case of the Income Notes, an Accredited Investor who has a net worth of not less than U.S. $10 million and (b) a Qualified Purchaser. In addition, transfers of a beneficial interest in a Regulation S Global Note or Temporary Regulation S Global Note to a person who takes delivery in the form of an interest in a Rule 144A Global Note or, a Definitive Note in the case of the Class E Notes or the Income Notes, may occur only in denominations greater than or equal to the minimum denominations applicable to the Rule 144A Global Notes or in a principal amount of not less than $250,000.

A beneficial interest in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Temporary Regulation S Global Note or a Regulation S Global Note, as the case may be, whether during or after the expiration of the Distribution Compliance Period, only upon receipt by the Note Registrar or Income Notes Transfer Agent, as applicable, of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a non U.S. Person in accordance with Rule 903 or 904 of Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to the person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such interest.

Except in the limited circumstances described below, owners of beneficial interests in any Global Note will not be entitled to receive a Definitive Note. The Notes are not issuable in bearer form.

Each Note will be issued in minimum denominations of U.S.$250,000 (in the case of Rule 144A Notes and in the case of Income Notes sold to Accredited Investors) and U.S.$100,000 (in the case of Regulation S Notes) and *integral multiples of U.S.$1* in excess thereof.

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Global Notes. Upon the issuance of the Global Notes, DTC or its custodian will credit, on its internal system, the respective aggregate original principal amount of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in Global Notes will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or Holder of the Global Notes, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Notes represented by such Global Notes for all purposes under the Indenture and such Notes. Unless DTC notifies the Issuers that it is unwilling or unable to continue as depositary for a global note or ceases to be a "Clearing Agency" registered under the Exchange Act, owners of the beneficial interests in the Global Notes will not be entitled to have any portion of such Global Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered to be the owners or Holders of any Notes under the Indenture. In addition, no beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in a Regulation S Global Note or a Temporary Regulation S Global Note directly through Clearstream or Euroclear, if they are participants in these systems, or indirectly through organizations which are participants in these systems. Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Notes and Temporary Regulation S Global Notes in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in a Rule 144A Global Note directly through DTC if they are participants in the system, or indirectly through organizations which are participants in the system.

Payments of the principal of and interest on the Global Notes will be made to DTC or its nominee, as the registered owner thereof. Neither the Issuers, the Trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for any notice permitted or required to be given to Holders of Notes or any consent given or actions taken by DTC as Holder of Notes. The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note representing any Notes held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective interests in the principal amount of such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Global Notes to these persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in Global Notes to pledge its interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of its interest, may be affected by the lack of a physical certificate of the interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC participants, on the one hand, and, directly or indirectly through Euroclear or Clearstream account holders, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require

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delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Temporary Regulation S Global Note or a Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for a same-day funds settlement applicable to DTC. Clearstream and Euroclear account holders may not deliver instructions directly to the depositaries for Clearstream or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and the credit of any transactions in interests in a Global Note settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of the Notes (including the presentation of the applicable Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in a Global Note are credited and only in respect of that portion of the aggregate principal amount of the Notes as to which the participant or participants has or have given direction.

The giving of notices and other communications by DTC to participants, by participants to persons who hold accounts with them and by such persons to Holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised the Issuers as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Clearstream. Clearstream Banking, société anonyme, was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of the Euroclear System, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks and may include the Initial Purchaser. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

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Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

The Euroclear System. The Euroclear System was created in 1968 to hold securities for participants of the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including U.S. Dollars and Japanese Yen. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above.

The Euroclear System is operated by Euroclear Bank S.A./N.V. (the "Euroclear Operator"), under contract with Euroclear Clearance System plc, a U.K. corporation (the "Euroclear Clearance System"). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Euroclear Clearance System. The Euroclear Clearance System establishes policy for the Euroclear System on behalf of Euroclear participating organizations. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchaser. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Euroclear Operator is a Belgian bank. The Belgian Banking Commission regulates and examines the Euroclear Operator.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

(a) transfers of securities and cash within the Euroclear System;

(b) withdrawal of securities and cash from the Euroclear System; and

(c) receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participating organizations in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Operator and by Euroclear.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Notes and in the Rule 144A Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. Neither the Issuers nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Payments; Certifications by Holders of Temporary Regulation S Global Notes. A Holder of a beneficial interest in a Temporary Regulation S Global Note must provide Clearstream or Euroclear, as the case may be, with a certificate in the form required by the Indenture certifying that the beneficial owner of the interest in such Global Note is not a U.S. Person (as defined in Regulation S), and Clearstream or Euroclear, as the case may be, must

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provide to the Trustee a certificate in the form required by the Indenture prior to (i) the payment of interest or principal with respect to such Holder's beneficial interest in the Temporary Regulation S Global Note and (ii) any exchange of such beneficial interest for a beneficial interest in a Regulation S Global Note.

Individual Definitive Notes. The Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Regulation S Class E Notes and the Regulation S Income Notes will be initially issued in global form. The Class E Notes (other than the Regulation S Class E Notes) and the Income Notes (other than the Regulation S Income Notes) will not be global and will be represented by one or more Definitive Notes. If DTC or any successor to DTC advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Notes" and a successor depositary is not appointed by the Issuers within 90 days or as a result of any amendment to or change in, the laws or regulations of the Cayman Islands or the State of Delaware, as applicable, or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after the Closing Date, the Issuers, the Note Paying Agent or the Fiscal Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive form and the Issuers will issue Definitive Notes in registered form in exchange for the Regulation S Global Notes and the Rule 144A Global Notes, as the case may be. Upon receipt of such notice from DTC, the Issuers will use their best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for individual Definitive Notes and cause the requested individual Definitive Notes to be executed and delivered to the Note Registrar or Income Notes Transfer Agent, as applicable, in sufficient quantities and authenticated by or on behalf of the Note Transfer Agent or Income Notes Transfer Agent, as applicable, for delivery to Holders of the Notes. Persons exchanging interests in a Global Note for individual Definitive Notes will be required to provide to the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, through DTC, Clearstream or Euroclear, (i) written instructions and other information required by the Issuers, the Note Transfer Agent and the Income Notes Transfer Agent to complete, execute and deliver such individual Definitive Notes, (ii) in the case of an exchange of an interest in a Rule 144A Global Note, such certification as to (a) Qualified Institutional Buyer status or, solely in the case of the Income Notes, as to Accredited Investor status and (b) that such Holder is a Qualified Purchaser, as the Issuers shall require and (iii) in the case of an exchange of an interest in a Regulation S Global Note, such certification as the Issuers shall require as to non-U.S. Person status. In all cases, individual Definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in denominations in compliance with the minimum denominations specified for the applicable Global Notes, requested by DTC.

Individual Definitive Notes will bear, and be subject to, such legend as the Issuers require in order to assure compliance with any applicable law. Individual Definitive Notes will be transferable subject to the minimum denomination applicable to the Rule 144A Global Notes and Regulation S Global Notes, in whole or in part, and exchangeable for individual Definitive Notes of the same Class at the office of the Note Paying Agent, Note Transfer Agent, Income Notes Transfer Agent or the office of any transfer agent, upon compliance with the requirements set forth in the Indenture or the Fiscal Agency Agreement, as applicable. Individual Definitive Notes may be transferred through any transfer agent upon the delivery and duly completed assignment of such Notes. Upon transfer of any individual Definitive Note in part, the Note Transfer Agent or Income Notes Transfer Agent, as applicable, will issue in exchange therefor to the transferee one or more individual Definitive Notes in the amount being so transferred and will issue to the transferor one or more individual Definitive Notes in the remaining amount not being transferred. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge may be required. The Holder of a restricted individual Definitive Note may transfer such Note, subject to compliance with the provisions of the legend thereon. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, the Issuer will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Payments of principal and interest on individual Definitive Notes shall be payable by the Note Paying Agents or the Fiscal Agent, as applicable, by U.S. Dollar check drawn on a bank in the United States of America and sent by mail to the registered Holder thereof, by wire transfer in immediately available funds. In addition, if and for so long as any Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, in the case of a transfer or exchange of individual Definitive Notes, a Holder thereof may effect such transfer or exchange by presenting such Notes at, and obtaining a new individual Definitive Note from the office of the Irish Paying Agent,

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in the case of a transfer of only a part of an individual Definitive Note, a new individual Definitive Note in respect of the balance of the principal amount of the individual Definitive Note not transferred will be delivered at the office of the Irish Stock Exchange and in the case of a replacement of any lost, stolen, mutilated or destroyed individual Definitive Notes, a Holder thereof may obtain a new individual Definitive Note from the Irish Paying Agent.

The Class E Notes. The Regulation S Class E Notes will initially be in global form. The Class E Notes (other than Regulation S Class E Notes) will not be global and will be represented by one or more notes in definitive form. All Class E Notes will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

The Class E Notes may be transferred only (i) upon receipt by the Issuer and Note Transfer Agent of a Class E Notes Purchase and Transfer Letter to the effect that the transfer is being made to a Qualified Institutional Buyer that has acquired an interest in the Class E Notes in a transaction meeting the requirements of Rule 144A who is also a Qualified Purchaser or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S. The transferee of a Class E Note (other than a Regulation S Class E Note) must also make certain other representations applicable to such transferee, as set forth in the Class E Notes Purchase and Transfer Letter.

Each Purchaser of a Regulation S Class E Note will be deemed by its purchase to have represented and warranted as set forth under "Notice to Investors."

Payments on the Class E Notes on any Payment Date will be made to the person in whose name the relevant Note is registered as of the close of business 10 Business Days prior to such Payment Date.

The Income Notes. The Regulation S Income Notes will initially be in global form. The Income Notes (other than Regulation S Income Notes) will not be global and will be represented by one or more Income Note Certificates in definitive form. All Income Notes will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Income Notes may be transferred only (i) upon receipt by the Issuer and Income Notes Transfer Agent of an Income Notes Purchase and Transfer Letter to the effect that the transfer is being made (a) to a Qualified Institutional Buyer that has acquired an interest in the Income Notes in a transaction meeting the requirements of Rule 144A or (b) to an Accredited Investor having a net worth of not less than U.S.$10 million in a transaction exempt from registration under the Securities Act, who is a Qualified Purchaser or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S. The transferee of an Income Note (other than a Regulation S Income Note) must also make certain other representations applicable to such transferee, as set forth in the Income Notes Purchase and Transfer Letter.

Each Purchaser of a Regulation S Income Note will be deemed by its purchase to have represented and warranted as set forth under "Notice to Investors."

Payments on the Income Notes on any Payment Date will be made to the person in whose name the relevant Income Note is registered in the Income Notes Register as of the close of business 10 Business Days prior to such Payment Date.

USE OF PROCEEDS

The gross proceeds associated with the offering of the Notes are expected to equal approximately U.S.$837,000,000. Approximately U.S.$31,800,000 of such gross proceeds will be applied by the Issuer to pay upfront fees and expenses associated with the offering of the Notes. On the Closing Date or promptly thereafter as is consistent with customary settlement procedures, pursuant to agreements to purchase entered into on or before the Closing Date, the Issuer will apply the net proceeds to purchase the Collateral Securities and Eligible Investments described herein having an aggregate Principal Balance of approximately U.S.$800,000,000 and will have entered into the Credit Default Swap, the Collateral Put Agreement and the Senior Swap. In addition, on the Closing Date, approximately U.S.$200,000 of the net proceeds from the issuance of the Notes will be deposited into the Expense Reserve Account.

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RATINGS OF THE NOTES

It is a condition to the issuance of the Notes that the Class S Notes, the Class A-f Notes and the Class A-b Notes be rated "Aaa" by Moody's and "AAA" by S&P, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be rated at least "A2" by Moody's and at least "A" by S&P, that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by S&P and that the Class E Notes be issued with a rating of at least "Ba1" by Moody's and at least "BB+" by S&P. The Income Notes will not be rated by either Rating Agency. It is also a condition to the issuance of the Notes that the Senior Swap be assigned a rating of "Aaa" by Moody's and "AAA" by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

If and for so long as any Class of Notes is listed on the Irish Stock Exchange, the Trustee will inform the Irish Paying Agent if any rating assigned to any Class of Notes is reduced or withdrawn.

Moody's Ratings

The ratings assigned to the Secured Notes and the Senior Swap by Moody's are based upon its assessment of the probability that the Credit Default Swap and the Collateral Assets will provide sufficient funds to pay such Secured Notes and Senior Swap, based largely upon Moody's statistical analysis of historical default rates on debt obligations with various ratings, expected recovery rates on the Reference Obligations and the Collateral Assets, the asset and interest coverage required for such Secured Notes and Senior Swap (which is achieved through the subordination of more junior Notes), and the diversification requirements that the Pledged Assets must satisfy.

Moody's rating of (i) the Senior Swap, the Class S Notes, the Class A Notes and the Class B Notes addresses the ultimate cash receipt of all required principal payments or complete reduction of the Outstanding Notional Amount of the Senor Swap and the timely cash receipt of all interest or premium payments as provided in the governing documents and (ii) the Class C Notes, the Class D Notes and the Class E Notes addresses the ultimate cash receipt of all required interest and principal payments as provided in the governing documents. Moody's ratings are based on the expected loss posed to the Holders of the Notes relative to the promise of receiving the present value, calculated using a discounted rate equal to the promised interest rate of such payments. Moody's analyzes the likelihood that each debt obligation included in the portfolio will default, based on historical default rates for similar debt obligations, the historical volatility of such default rates (which increases as securities with lower ratings are added to the portfolio) and an additional default assumption to account for future fluctuations in defaults. Moody's then determines the level of credit protection necessary to achieve the expected loss associated with the rating of the structured securities, taking into account the potential recovery value of the Pledged Assets and the expected volatility of the default rate of the portfolio based on the level of diversification by issuer and industry.

In addition to these quantitative tests, Moody's ratings take into account qualitative features of a transaction, including the experience of the Liquidation Agent, the legal structure and the risks associated with such structure, its view as to the quality of the participants in the transaction and other factors that it deems relevant.

S&P Ratings

S&P will rate the Senior Swap and the Secured Notes in a manner similar to the manner in which it rates other structured issues. The ratings assigned to the Senior Swap, the Class S Notes, the Class A Notes and the Class B Notes by S&P address the likelihood of the timely payment of interest or premium and the ultimate payment of principal on such Secured Notes or complete reduction of the Outstanding Notional Amount of the Senior Swap. The ratings assigned to the Class C Notes and the Class D Notes by S&P address the likelihood of the ultimate payment of interest and principal on such Secured Notes. This requires an analysis of the following: (i) credit quality of the Pledged Assets securing the Secured Notes; (ii) cash flow used to pay liabilities and the priorities of these payments; and (iii) legal considerations. Based on these analyses, S&P determines the necessary level of credit enhancement needed to achieve a desired rating.

S&P's analysis includes the application of its proprietary default expectation computer model, the Standard & Poor's CDO Monitor (which will be provided to the Issuer), which is used to estimate the default rate the

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portfolio is likely to experience. The Standard & Poor's CDO Monitor calculates the projected cumulative default rate of a pool of collateral consistent with a specified benchmark rating level based upon S&P's proprietary corporate debt default studies. The Standard & Poor's CDO Monitor takes into consideration the rating of each issuer or obligor, the number of issuers or obligors, the issuer or obligor industry concentration and the remaining weighted average maturity of each of the Reference Obligations included in the Reference Portfolio. The risks posed by these variables are accounted for by effectively adjusting the necessary default level needed to achieve a desired rating. The higher the desired rating, the higher the level of defaults the portfolio must withstand.

Credit enhancement to support a particular rating is then provided based, in part, on the results of the Standard & Poor's CDO Monitor, as well as other more qualitative considerations such as legal issues and management capabilities. Credit enhancement is typically provided by a combination of overcollateralization/subordination, cash collateral/reserve account, excess spread/interest and amortization. A transaction-specific cash flow model (the "Transaction-Specific Cash Flow Model") is used to evaluate the portfolio and determine whether it can withstand an estimated level of default while fully repaying the class of debt under consideration.

There can be no assurance that actual loss on the Pledged Assets will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates and the timing of recovery with respect thereto will not differ from those assumed in the Transaction-Specific Cash Flow Model. The Issuers make no representation as to the expected rate of defaults on the portfolio or as to the expected timing of any defaults that may occur.

S&P's rating of the Notes will be established under various assumptions and scenario analyses. There can be no assurance, and no representation is made, that actual defaults on the Pledged Assets will not exceed those in S&P's analysis, or that recovery rates with respect thereto (and, consequently, loss rates) will not differ from those in S&P's analysis.

THE CREDIT DEFAULT SWAP

General

The following description of the Credit Default Swap is a summary of certain provisions of the Credit Default Swap but does not purport to be complete and prospective investors must refer to the Credit Default Swap for more detailed information regarding the Credit Default Swap. Copies of the Master Agreement and the Master Confirmation will be available to investors from the Trustee. Capitalized terms not otherwise defined in this section will have the meanings set forth in the Master Agreement and Master Confirmation.

The Credit Default Swap will be structured as a "pay-as-you-go" credit default swap and will be documented pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the Schedule thereto (the "Master Agreement"), between the Issuer and the Credit Protection Buyer along with a confirmation (the "Master Confirmation") evidencing a transaction with respect to each Reference Obligation in the Reference Portfolio thereunder (each such transaction, a "CDS Transaction").

Each CDS Transaction is expected to have a specified Reference Obligation Notional Amount which represents the dollar amount of the credit exposure which the Issuer is assuming thereunder with respect to the Reference Obligation related to such CDS Transaction. The "Aggregate Reference Obligation Notional Amount" is the sum of the Reference Obligation Notional Amounts of all CDS Transactions. On the Closing Date, the Issuer expects to enter into a Credit Default Swap with an Aggregate Reference Obligation Notional Amount of approximately U.S.$2,000,000,000. In accordance with the terms of the CDS Transactions, the Reference Obligation Notional Amount of each CDS Transaction is expected after the Closing Date to be: (i) decreased on each day on which a Reference Obligation Principal Payment is made by the relevant Reference Obligation Principal Amortization Amount; (ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise

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Amount *minus* the relevant amount determined pursuant to paragraph (b) under the heading, "Physical Settlement Amount" in the Master Confirmation; *provided* that, in accordance with the Master Confirmation, if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date.

The effective date of the Credit Default Swap will be the Closing Date and the Credit Default Swap will terminate by its terms on April 12, 2042 (the "Scheduled Termination Date") unless a Credit Event occurs with respect to the Credit Default Swap and the physical settlement date is scheduled to occur after such date.

Credit Protection Buyer Payments

Pursuant to the Credit Default Swap, on each Determination Date, the Credit Protection Buyer will make a fixed rate payment (minus any related Interest Shortfall Amounts as described below and in the Master Confirmation) (the "Fixed Amount") to the Issuer, representing the aggregate Fixed Amounts which became due with respect to the Reference Obligation Payment Dates during the related Due Period. The Credit Protection Buyer will make certain other payments under the Credit Default Swap to the Issuer at the times and in the amounts described herein, including any Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and any Principal Shortfall Reimbursement Payment Amounts (together "Additional Fixed Amounts"). In connection with any termination or assignment of a CDS Transaction, proceeds from such termination or assignment, if any, will be deposited into the Interest Collection Account.

Upon the occurrence of any Interest Shortfall with respect to any Reference Obligation, the Fixed Amount payable under a CDS Transaction by the Credit Protection Buyer to the Issuer will be reduced by an amount equal to the related Interest Shortfall Payment Amount, such reduction amount not to exceed the Fixed Amount. Interest will accrue on any Interest Shortfall Payment Amount at a rate equal to LIBOR plus the fixed rate as specified in the applicable CDS Transaction. Interest Shortfall Payment Amounts are subject to the Interest Shortfall Cap as described in the Credit Default Swap. If any amount in satisfaction of the Interest Shortfall which gave rise to any Interest Shortfall Payment Amount, including interest accrued thereon, is later paid with respect to a Reference Obligation, the Credit Protection Buyer will pay such amount, or in certain circumstances a portion of such amount to the Issuer as an Interest Shortfall Reimbursement Payment. Interest Shortfall Reimbursement Payment Amounts will not exceed the cumulative Interest Shortfall Payment Amounts (including any interest thereon) previously withheld from the Issuer relating to such Reference Obligation.

So long as the long-term ratings (or, in the case of clause (ii)(b) of this paragraph only, the short-term rating) of the Credit Protection Buyer or any guarantor of the Credit Protection Buyer's obligation under the Credit Default Swap are equal to or higher than (i) "Aa3" by Moody's (and, if rated "Aa3" by Moody's, is not on watch for possible downgrade) and (ii)(a) "AA-" by S&P (and, if rated "AA-" by S&P, is not on watch for possible downgrade) or (b), if Goldman Sachs International is not the Credit Protection Buyer, "A-1+" by S&P (and, if rated "A-1+" by S&P, is not on watch for possible downgrade), the fixed payment due by the Credit Protection Buyer will be payable in arrears. However, if the long-term ratings (or the short-term rating, as applicable) of the Credit Protection Buyer or any guarantor fall below any such levels, the Credit Protection Buyer will be required to pay the fixed payment due under the Credit Default Swap in advance. The failure of the Credit Protection Buyer to make the fixed payment in advance if such rating levels are no longer satisfied will constitute a termination event under the terms of the Credit Default Swap with the Credit Protection Buyer as the sole "Affected Party" under the Credit Default Swap.

Credit Protection Seller Payments

Under the Credit Default Swap, the Issuer will be required to pay certain Floating Amounts to the Credit Protection Buyer following the occurrence of a Floating Amount Event with respect to a Reference Obligation as described herein. The Issuer will pay to the Credit Protection Buyer all Floating Amounts which became due during each Due Period, if any, on the related Determination Date.

Upon the occurrence of a Credit Event with respect to a Reference Obligation, the Credit Protection Buyer may deliver such Reference Obligation to the Issuer, in exchange for which the Issuer will pay to the Credit

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Protection Buyer an amount (a "Physical Settlement Amount"), which amount shall be calculated in accordance with the related CDS Transaction. The Issuer will pay to the Credit Protection Buyer all Physical Settlement Amounts which became due during the related Due Period, if any, on the related Determination Date.

Delivered Obligations delivered to the Issuer will be credited to the Delivered Obligation Account. Any Delivered Obligation delivered to the Issuer shall be sold by the Liquidation Agent within twelve (12) months of the date on which the Liquidation Agent receives notice of such delivery in accordance with the Liquidation Agency Agreement; *provided* that no Event of Default has occurred and is continuing. The proceeds of such sale will be deposited by the Trustee into the Collateral Account and invested in Eligible Investments and Collateral Securities selected at the direction of the Liquidation Agent. In addition, any principal proceeds or interest received on such Delivered Obligations prior to such sale, will be deposited by the Trustee into the Collateral Account.

In connection with any termination or assignment of a CDS Transaction, the Issuer may owe a Credit Default Swap Termination Payment; *provided however*, that the Issuer will not be obligated to make any Credit Default Swap Termination Payments to the Credit Protection Buyer in the event of a termination or assignment of the Credit Default Swap in respect of which the Credit Protection Buyer is the "Defaulting Party" or the sole "Affected Party" (each as defined in the Credit Default Swap). Credit Default Swap Termination Payments due to the Credit Protection Buyer will be paid directly and outside of the Priority of Payments in accordance with the following paragraph. Defaulted Swap Termination Payments due to the Credit Protection Buyer will be paid in accordance with the Priority of Payments. Credit Default Swap Termination Payments due to an assignee of a CDS Transaction will be paid as and when they become due to the extent of available funds.

The Issuer will obtain the funds to pay Credit Protection Amounts by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap.

The obligations of the Issuer to make payments under a CDS Transaction will exist irrespective of whether the Credit Protection Buyer suffers a loss on a Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the Credit Default Swap.

Credit Events

A Credit Event with respect to the Credit Default Swap and any Reference Obligation means the occurrence of any of the events specified in the Credit Default Swap as a Credit Event on or before the scheduled termination date for such CDS Transaction. The Credit Events are expected to be Failure to Pay Principal, Writedown and Distressed Ratings Downgrade. The Master Confirmation may alter the standard definitions of such terms and the actual CDS Transactions should be consulted for the details of the Credit Events applicable thereto. The capitalized terms used in this section and not otherwise defined, have the meanings set forth in the related CDS Transactions.

A "Credit Event" is the occurrence of any of the following (however caused, directly or indirectly), as applicable:

(i) Failure to Pay Principal

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the underlying instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

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(ii) Writedown

"Writedown" means the occurrence at any time on or after the Effective Date of: (i)(A) a writedown or applied loss (however described in the underlying instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the underlying instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the underlying instruments resulting in a reduction in the Outstanding Principal Amount; or (iii) if the underlying instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

(iii) Distressed Ratings Downgrade:

"Distressed Ratings Downgrade" means, with respect to a Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC") or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

The Reference Portfolio

The Aggregate Reference Obligation Notional Amount on the Closing Date is expected to be U.S.$ 2,000,000,000. The Reference Obligations will consist of 100 issues across three categories of RMBS Securities. The Reference Portfolio will include RMBS Prime Mortgage Securities, RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities.

As of the Closing Date, (i) RMBS Prime Mortgage Securities are expected to make up approximately 4.65% of the Aggregate Reference Obligation Notional Amount, (ii) RMBS Midprime Mortgage Securities are expected to make up approximately 54.00% of the Aggregate Reference Obligation Notional Amount and (iii) RMBS Subprime Mortgage Securities are expected to make up approximately 41.35% of the Aggregate Reference Obligation Notional Amount. See Appendix B to this Offering Circular for certain summary information with respect to the Reference Portfolio.

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Removal of Reference Obligations from the Reference Portfolio

Following a Writedown and the satisfaction of the Conditions to Settlement relating thereto, the Reference Obligation that is the subject of such Credit Event will not be removed from the Reference Portfolio, and such Reference Obligation may experience one or more subsequent Credit Events (including a Writedown).

Following (i) the scheduled maturity, redemption or amortization in full of a Reference Obligation or (ii) a Credit Event other than a Writedown and the satisfaction of the Conditions to Settlement, the Reference Obligation that matured, redeemed or amortized in full or that is the subject of such Credit Event will be removed from the Reference Portfolio. Subject to the foregoing, if the Reference Obligation Notional Amount of a Reference Obligation that suffered one or more Writedowns is reduced to zero at any time on or prior to the Scheduled Termination Date and remains at zero for a period of one calendar year, such Reference Obligation shall be removed from the Reference Portfolio as of the last day of such one calendar year period. The Aggregate Reference Obligation Notional Amount shall be decreased by the Reference Obligation Notional Amount of each Reference Obligation removed from the Reference Portfolio.

The Issuer will not have the authority to assign, terminate or otherwise dispose of any CDS Transaction on a discretionary basis. The only CDS Transactions that shall be assign, terminated or otherwise disposed of by the Issuer are CDS Transactions that reference Reference Obligations that are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be Credit Risk Obligations. Pursuant to the terms of the Indenture and subject to the restrictions contained therein and in the Liquidation Agency Agreement, the Liquidation Agent shall assign, terminate or otherwise dispose of, on behalf of the Issuer, any such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation within one (1) year from the date on which the Collateral Administrator, on behalf of the Issuer, pursuant to the Collateral Administration Agreement, identifies such Reference Obligation as a Credit Risk Obligation. The assignment, termination or disposition price for any such assignment, termination or disposition of a CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation will equal the fair market value of such CDS Transaction. The fair market value of any such CDS Transaction will be the highest bid received by the Liquidation Agent after attempting to solicit a bid from up to three independent third parties making a market in such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation, at least one of which is not from the Liquidation Agent or an affiliate thereof; *provided* that, if upon commercially reasonable efforts of the Liquidation Agent, bids from three independent third parties making a market in such CDS Transaction are not available, the higher of the bids from two such third parties may be used; *provided, further* that, if upon commercially reasonable efforts of the Liquidation Agent, bids from two independent third parties making a market in such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation are not available, one such bid may be used. See "Risk Factors—Notes—Static Transaction" and "—No Collateral Manager." The proceeds from any such disposition of a CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation (exclusive of any accrued interest) will be deposited to the Collateral Account for investment in Eligible Investments or Collateral Securities, and may be applied as Amortization Proceeds pursuant to the calculation of the Amortization Payment Amount. A "Credit Risk Obligation" is a Reference Obligation (i) the rating of which has been (a) downgraded to below "BB-" or "Ba3" by any Rating Agency (but not including any Reference Obligations which are rated "BB-" or "Ba3" and on credit watch for possible downgrade) or (b) withdrawn or, (ii) that is a Defaulted Obligation or (iii) that is a PIK Bond that has been deferring interest for at least twelve consecutive months.

The Liquidation Agent, on behalf of the Issuer, may also (i) in the case of an Auction terminate the Credit Default Swap and liquidate the remaining Pledged Assets; *provided*, that the criteria for an Auction can be demonstrably met prior to any such disposition and that the expected Liquidation Proceeds equal or exceed the Minimum Bid Amount; (ii) in the case of a Tax Redemption on any Payment Date, dispose of the Credit Default Swap and liquidate the remaining Pledged Assets in connection with a Tax Redemption; *provided* that the criteria for a Tax Redemption can be demonstrably met prior to any such disposition and that the expected Liquidation Proceeds equal or exceed the Total Redemption Amount; and (iii) in the case of an Optional Redemption, dispose of the Credit Default Swap and liquidate the remaining Pledged Assets in connection with an Optional Redemption; *provided* that the criteria for an Optional Redemption can be demonstrably met prior to any such disposition and that the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. See "Description of the Notes—Auction," "—Tax Redemption" and "–Optional Redemption."

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Credit Default Swap Early Termination

The Issuer will have the right to terminate the Credit Default Swap upon the occurrence of an "Event of Default" or "Termination Event," including, but not limited to, (a) payment defaults by the Credit Protection Buyer and any guarantor lasting a period of at least three local business days, (b) a default by the Credit Protection Buyer or any guarantor on specific financial transactions as specified in the Credit Default Swap, (c) bankruptcy-related events applicable to the Credit Protection Buyer or any guarantor, (d) any redemption of the Notes in whole, (e) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (f) it becomes unlawful for the Issuer to perform its obligations under the Credit Default Swap and the Issuer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, (g) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Issuer will be required to (1) make a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment or (h) the unsecured, unsubordinated debt rating of the Credit Protection Buyer or any guarantor of the Credit Protection Buyer, whichever is higher, assigned by S&P or Moody's at any time falls below "AA-" (or is on downgrade watch at "AA-") or "Aa3" (or is on downgrade watch at "Aa3"), the Credit Protection Buyer fails to make an Expected Fixed Payment as set forth in the Credit Default Swap and the Credit Protection Buyer, or its guarantor, fails to either (a) transfer all of its rights and obligations under the Credit Default Swap to another entity which has such ratings or (b) cause an entity which has such ratings to guarantee or to provide an indemnity in respect of the Credit Protection Buyer's or its guarantor's, obligations under the Credit Default Swap which satisfies the Rating Agency Condition.

The Credit Protection Buyer will have the right to terminate the Credit Default Swap upon the occurrence of an "Event of Default" or "Termination Event" under the Credit Default Swap, including, but not limited to (a) an Event of Default under the Indenture caused by a payment default by the Issuer lasting a period of at least three local business days, (b) any redemption of the Notes in whole, (c) bankruptcy-related events applicable to the Issuer, and (d) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (e) it becomes unlawful for the Credit Protection Buyer to perform its obligations under the Credit Default Swap and the Credit Protection Buyer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, or (f) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Credit Protection Buyer will be required to make (1) a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment. If the Master Agreement and the CDS Transactions made thereunder are terminated, the Issuer will no longer receive payments from the Credit Protection Buyer and will likely not have sufficient funds to make payments when due on the Notes and may not have sufficient funds to redeem the Notes in full.

Upon the Trustee having actual knowledge of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Trustee or the Fiscal Agent, as applicable, will as promptly as practicable notify the Noteholders of such event but will only terminate any such agreement on behalf of the Issuer (i) at the direction of a Majority of the Income Notes or (ii) (a) upon the redemption of the Secured Notes in full, (b) if the principal balance of the Secured Notes is reduced to zero or (c) upon the acceleration of the Secured Notes in accordance with the terms of the Indenture. The Issuer is required to satisfy the Rating Agency Condition prior to any (i) replacement of the Credit Protection Buyer or (ii) assignment of the Credit Default Swap. In connection with any Noteholder vote to terminate the Credit Default Swap, any Notes held by or on behalf of the Credit Protection Buyer or any of their respective Affiliates will have no voting rights and will be deemed not to be outstanding in connection with any such vote. The failure by the Issuer to pay a Credit Protection Amount as a result of the Senior Swap Counterparty's failure to pay the Senior Swap Funding Amount will not be a default under the Credit Default Swap.

If an Event of Default or a Termination Event occurs under the Credit Default Swap and (i) the Credit Protection Buyer is the Defaulting Party or Affected Party, "Market Quotation" and "First Method" will apply and otherwise (ii) "Market Quotation" and "Second Method" will apply, in each case as set forth in the Credit Default Swap, to value the CDS Transactions under the Credit Default Swap.

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Payments on Credit Default Swap Early Termination

Payments by the Issuer. Upon the occurrence of a Credit Default Swap Early Termination, the Issuer will be required to pay to the Credit Protection Buyer the following amounts:

(i) any Physical Settlement Amounts owed by the Issuer to the Credit Protection Buyer for any Credit Events that occur on or prior to the Credit Default Swap Early Termination Date for which the Conditions to Settlement have been satisfied; and

(ii) any Credit Default Swap Termination Payment due to the Credit Protection Buyer.

Payments by the Credit Protection Buyer. Upon the occurrence of a Credit Default Swap Early Termination, the Credit Protection Buyer will be required to pay to the Issuer the following amounts:

(i) any accrued but unpaid Fixed Amounts and Additional Fixed Amounts; and

(ii) any Credit Default Swap Termination Payment due to the Issuer.

There can be no assurance that, upon early termination by the Issuer or the Credit Protection Buyer, either the Credit Protection Buyer would be required to make any termination payment to the Issuer or, if it did make such a payment, the amount of the termination payment made by the Credit Protection Buyer would be sufficient to pay any amounts due in respect of the Notes. If the Issuer is required to make a Credit Default Swap Termination Payment to the Credit Protection Buyer, such termination payment may be substantial and may result in losses to the holders of the Notes.

Amendment

The Credit Default Swap may be amended only with (i) the satisfaction of the Rating Agency Condition, (ii) the consent of the Noteholders (in a percentage as would have been required had such amendment been taken pursuant to this Indenture), (iii) the consent of the Collateral Put Provider (which consent shall not be unreasonably withheld), (iv) the consent of the Liquidation Agent (which consent shall not be unreasonably withheld) and (v) the consent of the Senior Swap Counterparty (which consent shall not be unreasonably withheld); *provided however*, that (A) with respect to (i), such condition need not be satisfied with respect to any amendment that corrects a manifest error and (B) with respect to (ii), (iii), (iv) and (v), such consent shall not be required, if, in reliance on an opinion of counsel or an officer's certificate of the Liquidation Agent, the Issuer determines that such amendment would not have a material adverse effect on such party.

Guarantee

The GS Group will guarantee the obligations of the Credit Protection Buyer under the Credit Default Swap.

THE CREDIT PROTECTION BUYER

The initial Credit Protection Buyer under the Credit Default Swap will be Goldman Sachs International. The swap guarantor with respect to the Credit Default Swap is The Goldman Sachs Group, Inc., a Delaware corporation (the "GS Group"), which is an affiliate of the Credit Protection Buyer. Goldman Sachs International is located at Peterborough Court 133 Fleet Street, London EC4A 2BB.

The Annual Report on Form 10-K for the fiscal year ended November 30, 2005 filed by GS Group with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules) will not form part of a prospectus prepared for the purposes of admission to the official list of the Irish Stock Exchange and to trading on its regulated market should any Notes be listed on such exchange.

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GS Group, together with its subsidiaries, is a global investment banking, securities and investment management firm that provides financial services worldwide to clients that include corporations, financial institutions, governments and high net-worth individuals.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this Offering Circular, or contained in this Offering Circular, will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. GS Group's filings with the SEC are available to the public through the SEC's Internet site at http://www.sec.gov, and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which GS Group's common stock is listed.

The Notes do not represent an obligation of, and will not be insured or guaranteed by, GS Group or any of its subsidiaries and investors will have no rights or recourse against GS Group or any of its subsidiaries.

THE COLLATERAL SECURITIES

The Initial Collateral Securities

Pursuant to the Credit Default Swap, the Issuer will use the net proceeds from the offering of the Notes to purchase Collateral Securities and Eligible Investments (having an initial principal amount as of the Closing Date of approximately U.S.$800,000,000).

The Collateral Securities or Eligible Investments for deposit in the Collateral Account, as applicable, are required to satisfy the following "Collateral Securities Eligibility Criteria":

(i) it is rated "Aaa" by Moody's and, if such asset has a short-term rating from Moody's, "P-1", and "AAA" by S&P, and, if such asset has a short-term rating from S&P, it must be "A-1+";

(ii) it is expected to have an outstanding principal balance of less than U.S.$1,000 after the Stated Maturity of the Class A-f Notes, assuming a constant prepayment rate since the date of purchase equal to the constant prepayment rate reasonably expected by the Liquidation Agent as of the date of purchase;

(iii) after taking into consideration the addition of any such security (a) at least 40% of the Collateral Securities by principal balance have an expected average life (calculated by the Liquidation Agent based on market prepayment assumptions) of less than or equal to 1.0 year, (b) 100% of the Collateral Securities by principal balance has an expected average life (calculated by the Liquidation Agent based on market prepayment assumptions) of less than or equal to 2.0 years, and (c) after Closing Date, the expected weighted average life (calculated by the Liquidation Agent based on market prepayment assumptions) of the Collateral Securities does not exceed the expected weighted average life of the Reference Portfolio at such time;

(iv) after taking into consideration the addition of any such security, the aggregate of the weighted average spread and the rate of the related index of the Collateral, in the aggregate, is at least equal to LIBOR plus 0.05% per annum or if prior to acquisition of such Collateral Security or Eligible Investment the aggregate of the weighted average spread and the rate of the related index of the Collateral was less than LIBOR plus 0.05% per annum, such acquisition would maintain or improve the aggregate of the weighted average spread and the rate of the related index of the Collateral;

(v) after taking into consideration the addition of any such security, no more than 25% of the Collateral Securities by principal balance has single counterparty exposure including servicer, issuer and put swap counterparty exposure;

(vi) provides for payments of monthly periodic interest at a floating rate and for a payment of principal in full at its final maturity;

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(vii) each such security satisfies the definition of an "Eligible Investment" or is a Residential Mortgage-Backed Security, a Commercial Mortgage-Backed Security or an Asset-Backed Security;

(viii) at least 70% of the Collateral Securities by principal balance consists of Asset-Backed Securities and Residential Mortgage-Backed Securities;

(ix) shall not have a maturity later than the Stated Maturity with respect to the Notes (other than the Class S Notes); and

(x) after taking into consideration the addition of any such security, the weighted average life of the Collateral Securities is not longer than the weighted average life of the Notes Outstanding.

The Collateral Securities are expected to be purchased in a face amount equal to the initial Aggregate Notional Amount of the Credit Default Swap. Under the terms of the Indenture, all Collateral Securities are required to be deposited in the Collateral Account for the benefit of the Credit Protection Buyer. The Issuer will also grant to the Trustee for the benefit of the Secured Parties, a security interest in the Collateral Securities, subject to the lien of the Credit Protection Buyer, and shall notify the Credit Protection Buyer of such security interest. The Issuer must obtain the consent of the Credit Protection Buyer with respect to any initial Collateral Securities purchased by the Issuer and any Collateral Securities purchased thereafter.

Principal payments on the Collateral Securities prior to the termination of the Credit Default Swap shall be held in accordance with the Credit Default Swap in the Collateral Account and invested in Eligible Investments until reinvested in Collateral Securities which satisfy the Collateral Securities Eligibility Criteria with the consent of the Credit Protection Buyer.

The Liquidation Agent, on behalf of the Issuer, will obtain the funds to pay Credit Protection Amounts (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap.

If the Notes become due in connection with an Optional Redemption, Tax Redemption or Auction, (i) the Liquidation Agent, on behalf of the Issuer, will assign or terminate the Credit Default Swap and liquidate all of the Collateral Securities and Eligible Investments in the Collateral Account and all Delivered Obligations in the Delivered Obligations Account and (ii) the Issuer will pay to the Credit Protection Buyer any Credit Default Swap Termination Payments the Issuer is required to pay to the Credit Protection Buyer (if any) in connection with any assignment or termination of the Credit Default Swap. Certain amounts will be held back if one or more outstanding Credit Events or Floating Amounts remain due as of a Redemption Date.

If the Credit Default Swap is terminated in connection with the occurrence of an Event of Default or Termination Event (each as defined in the Master Agreement), the Liquidation Agent, on behalf of the Issuer, will pay to the Credit Protection Buyer any Credit Default Swap Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) owed by the Issuer to the Credit Protection Buyer by (i) applying the Collateral Liquidation Procedure and (ii) after the Balance of the Collateral Account has been reduced to zero, demanding payment under the Senior Swap equal to the lesser of the Credit Protection Amount due (net of any amount applied pursuant to subclause (i)) and the Outstanding Notional Amount of the Senior Swap. Certain amounts will be held back if one or more outstanding Credit Events exist or Floating Amounts remain due as of any termination date.

For purposes of the Coverage Tests and for purposes of determining whether a Credit Default Swap is a Credit Risk Obligation, a Credit Default Swap shall be included as a Pledged Asset having the characteristics of the Reference Obligation and not of the Credit Default Swap; *provided*, that if such Credit Protection Buyer is in default under the related Credit Default Swap, such Credit Default Swap shall not be included in the Coverage Tests or such Credit Default Swap will be treated in such a way that will satisfy the Rating Agency Condition.

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Substitution of Collateral Securities

From time to time following the Closing Date, any Holder of any Note may submit to the Trustee or the Fiscal Agent, as applicable, a Collateral Securities Substitution Request Notice requesting substitution of one or more securities for one or more existing Collateral Securities, in whole or in part. Following receipt of such request, pursuant to the Collateral Administration Agreement, the Collateral Administrator, on behalf of the Issuer, will determine the BIE Transaction Cost. Upon such determination by the Collateral Administrator, the Trustee or the Fiscal Agent, as applicable, will deliver a Collateral Securities Substitution Information Notice to the Originating Noteholder.

Within five Business Days of receiving a Collateral Securities Substitution Information Notice, the Originating Noteholder must (i) notify the Trustee or the Fiscal Agent, as applicable, whether it wishes to proceed with the proposed substitution and, if so (ii) agree to pay any BIE Transaction Cost (regardless of whether the Holders of a Majority of the Notes of each Class and the Senior Swap Counterparty consent to such proposed substitution) (the occurrence of subclauses (i) and (ii), a "Substitution Confirmation"). If a Substitution Confirmation is not received by the Trustee or the Fiscal Agent, as applicable, within the time period specified above, the related request will be deemed to be void and of no further effect. Upon the receipt of a Substitution Confirmation, the Trustee or the Fiscal Agent, as applicable, will deliver a BIE Consent Solicitation Notice to all Holders of Notes, including the Originating Noteholder and the Senior Swap Counterparty with a copy to the Credit Protection Buyer. Upon receipt of such BIE Consent Solicitation Notice, each Holder of a Note and the Senior Swap Counterparty may, on or prior to the BIE Notification Date, submit written notice to the Trustee or the Fiscal Agent, as applicable, indicating either (1) approval or (2) disapproval of any proposed BIE Consent Solicitation Notice by the BIE Notification Date. If the BIE Consent Solicitation Notice fails to receive the affirmative approval of the Holders of a Majority of each Class of Notes by the BIE Notification Date or the Senior Swap Counterparty does not approve the BIE Consent Solicitation Notice by the BIE Notification Date, the Trustee or the Fiscal Agent will deliver a Collateral Securities Substitution Noteholder Refusal Notice to the Originating Noteholder and the related Collateral Securities Substitution Request Notice will be deemed void and of no further effect. If the BIE Consent Solicitation Notice receives the approval of each of (1) Holders of a Majority of each Class of Notes and (2) the Senior Swap Counterparty, the Trustee or the Fiscal Agent, as applicable, will deliver a BIE Acceptance Notice to the Originating Noteholder and the Liquidation Agent.

Upon receipt of the BIE Acceptance Notice and confirmation from the Trustee (1) that the Originating Noteholder has paid the BIE Transaction Cost to the Trustee and (2) that the relevant BIE Collateral Securities have been delivered to the Trustee, and the par amount of such delivered BIE Collateral Securities is at least equal to each of the par amount of each of the Collateral Securities to be substituted, the Trustee shall release its lien on the par amount of the relevant existing Collateral Securities to be substituted and deliver the par amount of such substituted Collateral Securities to such Originating Noteholder.

If (i) any BIE Collateral Security is not delivered to the Issuer or (ii) the Issuer is not paid the BIE Transaction Cost, in each case by the end of the BIE Exercise Period identified in the BIE Acceptance Notice, the BIE Acceptance Notice and the Collateral Securities Substitution Request Notice will be deemed void and of no further effect.

Voting and Other Matters Relating to Collateral Securities and Delivered Obligations

Under the Indenture, where the Issuer, as the beneficial owner of a Collateral Security or Delivered Obligation, or the Trustee, as the registered owner of a Collateral Security or Delivered Obligation, has the right to exercise a vote or consent to (or otherwise approve of) (i) any action, or inaction, pursuant to the terms of such Collateral Security or Delivered Obligation and its related underlying documentation or (ii) an offer by the issuer of such Collateral Security or Delivered Obligation or by any other person to purchase or otherwise acquire such Collateral Security or Delivered Obligation or to convert or exchange such Collateral Security or Delivered Obligation for cash or any other consideration, the Trustee, as directed by the applicable holders, acting in its capacity as registered owner of such Collateral Security or Delivered Obligation, shall direct the Issuer's vote be cast in the following manner: (x) if other holders of the class of which such Collateral Security or Delivered Obligation is a part respond to such solicitation for vote or consent, in the same manner as the votes of a plurality of the other voting holders of such class (based on the Principal Balance of such Collateral Security or Delivered

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Obligation), (y) if no other holders of such class exercise a vote or if there are no other holders of such class, but holders of different classes issued under the same governing instrument respond, in the same manner as the votes of a plurality of the voting holders of all classes issued under the governing instrument pursuant to which such Collateral Security or Delivered Obligation was issued (based on the Principal Balance of all such classes and treated as a single class) or (z) if no holders of any class issued under the same governing instrument respond or if there are no other holders, the Issuer's vote shall be exercised against such action or inaction.

THE SENIOR SWAP

General

The following description of the Senior Swap is a summary of certain provisions of the Senior Swap. The following summary does not purport to be complete, and is qualified in its entirety by reference to the detailed provisions of the Senior Swap.

On the Closing Date, GSI, as Senior Swap Counterparty, will enter into the Senior Swap with the Issuer. The Senior Swap will provide for the periodic payment by the Issuer of the Senior Swap Premium on each Payment Date at the rate of 0.20% per annum on the Outstanding Notional Amount thereof for each Interest Accrual Period. Such Senior Swap Premium will be calculated on the basis of a year of 360 days and the actual number of days elapsed. The Issuer's obligations under the Senior Swap will be secured under the Indenture. The Senior Swap is not offered hereby.

To the extent a Floating Amount (other than those related to Interest Shortfalls) or Credit Default Swap Termination Payment becomes due from the Issuer with respect to the CDS Transactions and the Balance of the Collateral Securities and Eligible Investments in the Collateral Account have been reduced to zero, the Senior Swap Counterparty will be required to make a payment (any such payment, a "Senior Swap Funding Payment") to the Issuer to fund such amounts in accordance with the Senior Swap in an amount equal to the lesser of the amount due and the Outstanding Notional Amount (any such amount, a "Senior Swap Funding Amount"). To the extent the Issuer receives Writedown Reimbursement Payment Amounts or Principal Shortfall Reimbursement Payment Amounts after the Senior Swap Counterparty has made a Senior Swap Funding Payment, (i) the Trustee, on behalf of the Issuer, will pay such amounts directly to the Senior Swap Counterparty until all Senior Swap Funding Payments have been reimbursed to the Senior Swap Counterparty and (ii) otherwise, the Trustee, on behalf of the Issuer shall deposit such amounts in the Collateral Account.

The Issuer will have the right to terminate the Senior Swap upon the occurrence of an "Event of Default" or "Termination Event," including, but not limited to, (a) payment defaults by the Senior Swap Counterparty and any guarantor lasting a period of at least three local business days, (b) a default by the Senior Swap Counterparty or any guarantor on specific financial transactions as specified in the Senior Swap, (c) bankruptcy-related events applicable to the Senior Swap Counterparty or any guarantor, (d) any redemption of the Notes in whole, (e) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (f) it becomes unlawful for the Issuer to perform its obligations under the Senior Swap and the Issuer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, or (g) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Issuer will be required to (1) make a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment. The Issuer will terminate the Senior Swap only (i) upon the termination of the Credit Default Swap or the acceleration of the Notes or (ii) upon the replacement of the Senior Swap Counterparty pursuant to the terms of the Senior Swap and with the consent of the Credit Protection Buyer and subject to the satisfaction of the Rating Agency Condition.

The Senior Swap Counterparty will have the right to terminate the Senior Swap upon the occurrence of an "Event of Default" or "Termination Event" under the Senior Swap, including, but not limited to (a) an Event of Default under the Indenture caused by a payment default by the Issuer lasting a period of at least three local business days, (b) any redemption of the Notes in whole, (c) bankruptcy-related events applicable to the Issuer, and (d) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (e) it becomes unlawful for the Senior Swap Counterparty to perform its obligations under the Senior Swap and the Senior Swap Counterparty is not able to transfer its obligations to a different jurisdiction or substitute another entity in its

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place so that such illegality ceases to apply, or (f) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Senior Swap Counterparty will, on the next succeeding payment date be required to make (1) a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment.

If an Event of Default or a Termination Event occurs under the Senior Swap, "Market Quotation" and "Second Method" will be applied to determine any related termination or assignment payments; *provided however*, that if the Issuer is the sole Affected Party or the Defaulting Party in respect of such Event of Default or Termination Event, (i) the Issuer will pay to the Senior Swap Counterparty any accrued but unpaid Senior Swap Premium Amounts, (ii) the Senior Swap Counterparty will pay to the Issuer any unpaid Senior Swap Funding Payments and (iii) no other amounts shall be paid by the Issuer to the Senior Swap Counterparty or by the Senior Swap Counterparty to the Issuer. Notwithstanding the foregoing, no termination payments will be payable by the Senior Swap Counterparty or the Issuer in connection with an Optional Termination of the Senior Swap. Any termination payments paid by the Senior Swap Counterparty to the Issuer will be deposited into the Collateral Account.

Amendment

The Issuer will enter into any agreement amending, modifying or terminating the Senior Swap with the consent of the Senior Swap Counterparty, (a) only with the consent of the Credit Protection Buyer, (b) upon the satisfaction of the Rating Agency Condition, (c) with the consent of the Collateral Put Provider (which consent shall not be unreasonably withheld) and (d) with the consent of the Liquidation Agent (which consent shall not be unreasonably withheld); *provided however*, that with respect to (c) and (d), such consent shall not be required, if, in reliance on an opinion of counsel or an Officer's certificate of the Liquidation Agent, the Issuer determines that such amendment would not have a material adverse effect on any such party.

Guarantee

The GS Group will guarantee the obligations of the Senior Swap Counterparty under the Senior Swap. For a description of the GS Group, see "The Credit Protection Buyer" above.

THE COLLATERAL PUT AGREEMENT

The following description of the Collateral Put Agreement is a summary of certain provisions of the Collateral Put Agreement. The following summary does not purport to be complete, and is qualified in its entirety by reference to the detailed provisions of the Collateral Put Agreement.

The Notes do not represent an obligation of the Collateral Put Provider. Noteholders will not have any right to proceed directly against the Collateral Put Provider in respect of the Collateral Put Provider's obligations under the Collateral Put Agreement. However, the Holders of a Majority of the Income Notes will have the right to direct the Issuer with respect to the enforcement of any claims that it may have against the Collateral Put Provider.

On each Payment Date, the Issuer will pay to the Collateral Put Provider an amount, in Dollars, (each, a "Collateral Put Provider Fee") equal to the product of:

(i) a rate of 0.05% per annum; and

(ii) the aggregate Principal Balance of the Collateral Securities and Eligible Investments in the Collateral Account on the first day of the preceding Interest Accrual Period; and

(iii) the actual number of days in the preceding Interest Accrual Period *divided* by 360.

If and so long as the unsecured, unsubordinated debt rating of the Collateral Put Provider or the credit support provider for the Collateral Put Provider, whichever is higher, assigned by Moody's is below "A1", all principal payments on the Collateral Securities and Eligible Investments in the Collateral Account will be maintained in cash and Eligible Investments (unless otherwise required to be applied, in accordance with the terms

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of the Indenture, to either (i) the payment of the Notes in accordance with the Priority of Payments or (ii) the payment of Credit Protection Amounts) until such time as the Balance of the cash and Eligible Investments in the Collateral Account is equal to the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes.

Effective Date and Scheduled Termination

The effective date of the Collateral Put Agreement will be the Closing Date.

Unless terminated prior to its scheduled termination date, the Collateral Put Agreement will terminate on April 12, 2042.

Payments and Delivery

In connection with any liquidation of the Collateral Securities and Eligible Investments (other than Put Excluded Collateral) in connection with the payment by the Issuer of any Credit Protection Amounts to the Credit Protection Buyer if (x) the Liquidation Agent is unable to obtain at least 100% of par for a Collateral Security or at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Liquidation Agent will then, on behalf of the Issuer, exercise the Issuer's right under the Collateral Put Agreement pursuant to which the Liquidation Agent will deliver such Collateral Securities and Eligible Investments (other than Put Excluded Collateral) to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Collateral Securities and Eligible Investments (plus accrued and unpaid interest).

Collateral Put Agreement Early Termination

If an Event of Default or a Termination Event occurs under the Collateral Put Agreement, "Market Quotation" and "Second Method" will be applied to determine any termination or assignment payments payable; *provided however*, that if the Issuer is the sole Affected Party or the Defaulting Party in respect of such Termination Event or Event of Default, (i) the Issuer will pay to the Collateral Put Provider any accrued but unpaid Collateral Put Provider Fee Amounts, (ii) the Collateral Put Provider will pay to the Issuer the Strike Price (as defined in the Collateral Put Agreement) in respect of any exercised Options (as defined in the Collateral Put Agreement) in respect of which settlement has not yet occurred (upon delivery of the related Collateral Securities or Eligible Investments, as applicable, by the Issuer) and (iii) no other amounts will be paid by the Issuer to the Collateral Put Provider and by the Collateral Put Provider to the Issuer.

The Issuer will have the right to terminate the Collateral Put Agreement upon the occurrence of an "Event of Default" or "Termination Event," including, but not limited to, (a) payment defaults by the Collateral Put Provider and any guarantor lasting a period of at least three local business days, (b) a default by the Collateral Put Provider or any guarantor on specific financial transactions as specified in the Collateral Put Agreement, (c) bankruptcy-related events applicable to the Collateral Put Provider or any guarantor thereof, (d) any redemption of the Notes in whole, (e) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (f) it becomes unlawful for the Issuer to perform its obligations under the Collateral Put Agreement and the Issuer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply or (g) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Issuer will be required to (1) make a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment.

The Collateral Put Provider will have the right to terminate the Collateral Put Agreement upon the occurrence of an "Event of Default" or "Termination Event" under the Collateral Put Agreement, including, but not limited to (a) an Event of Default under the Indenture caused by a payment default by the Issuer lasting a period of at least three local business days, (b) any redemption of the Notes in whole, (c) bankruptcy-related events applicable to the Issuer, and (d) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (e) it becomes unlawful for the Collateral Put Provider to perform its obligations under the Collateral Put Agreement and the Collateral Put Provider is not able to transfer its obligations to a different jurisdiction or

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substitute another entity in its place so that such illegality ceases to apply, or (f) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law there is a substantial likelihood that it will, on the next succeeding payment date be required to make (1) a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment.

Upon the Trustee having actual knowledge of the occurrence of any event that gives rise to the right of the Issuer to terminate the Collateral Put Agreement, the Trustee or the Fiscal Agent, as applicable, will as promptly as practicable notify the Noteholders of such event but the Trustee will only terminate the Collateral Put Agreement on behalf of the Issuer (i) at the direction of a Majority of the Income Notes or (ii) upon the termination of the Credit Default Swap. The Issuer is required to satisfy the Rating Agency Condition prior to any (i) replacement of the Collateral Put Provider or (ii) assignment of the Collateral Put Agreement. In connection with any Noteholder vote to terminate the Collateral Put Agreement, any Notes held by or on behalf of the Collateral Put Provider or any of its Affiliates will have no voting rights and will be deemed not to be Outstanding in connection with any such vote.

Amendment

The Collateral Put Agreement may be amended at any time with the consent of the Collateral Put Provider only with (i) the satisfaction of the Rating Agency Condition, (ii) the consent of the Noteholders (in a percentage as would have been required had such amendment been taken pursuant to this Indenture), (iii) the consent of the Credit Protection Buyer (which consent shall not be unreasonably withheld), (iv) the consent of the Liquidation Agent (which consent shall not be unreasonably withheld) and (v) the consent of the Senior Swap Counterparty (which consent shall not be unreasonably withheld); *provided however*, that (A) with respect to (i), such condition need not be satisfied with respect to any amendment that corrects a manifest error and (B) with respect to (ii), (iii), (iv) and (v), such consent shall not be required, if, in reliance on an opinion of counsel or an officer's certificate of the Liquidation Agent, the Issuer determines that such amendment would not have a material adverse effect on such party.

Guarantee

The GS Group will guarantee the obligations of the Collateral Put Provider under the Collateral Put Agreement. For a description of the GS Group, see "The Credit Protection Buyer" above.

THE LIQUIDATION AGENCY AGREEMENT

The following summary describes certain provisions of the Liquidation Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Liquidation Agency Agreement.

General

The Liquidation Agent will, on behalf of the Issuer, pursuant to the Liquidation Agency Agreement, (i) assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined by the Collateral Administrator, on behalf of the Issuer, pursuant to the Collateral Administration Agreement, to be Credit Risk Obligations or (b) Delivered Obligations, (ii) sell, assign, terminate or otherwise dispose of the CDS Transactions, Collateral Securities, Delivered Obligations and Eligible Investments of the Issuer in connection with (a) a redemption of the Notes as a result of an Optional Redemption, a Tax Redemption, an Auction or as otherwise required under the Indenture as described therein and (b) an acceleration of the Notes as a result of an Event of Default as required under the Indenture as described therein and (iii) perform certain other functions, as described herein. The Liquidation Agent will have twelve (12) months to assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be Credit Risk Obligations and (b) Delivered Obligations in accordance with the terms of the Liquidation Agency Agreement (such twelve months measured from the date the Liquidation Agent is notified of either (1) such determination by the Collateral Administrator or (2) the receipt of such Delivered Obligation by the Issuer, as applicable). The proceeds of such sale of Delivered Obligations will be deposited into the Collateral Account and invested in Eligible

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Investments and Collateral Securities selected at the direction of the Liquidation Agent. In addition, any principal proceeds received on such Delivered Obligations prior to such sale, will be deposited into the Collateral Account. The Liquidation Agent will have no ability or authority to direct the assignment, termination or other disposition of any CDS Transactions. The Liquidation Agent will not provide investment advisory services to the Issuer or act as the "collateral manager" for the Credit Default Swap. The Liquidation Agent will not have fiduciary duties to the Issuer or to the holders of the Notes.

The Liquidation Agent

The Liquidation Agent is Goldman, Sachs & Co. ("GS&Co."). GS&Co. is a New York limited partnership and a registered U.S. broker-dealer. The Notes do not represent an obligation of, and will not be insured or guaranteed by GS&Co., its parent or any of its subsidiaries or its affiliates and investors will have no rights or recourse against GS&Co., its parent or any of its subsidiaries or affiliates.

Compensation

As compensation for the performance of its obligations under the Liquidation Agency Agreement, the Liquidation Agent will be entitled to receive a fee in accordance with the Priority of Payments, payable in arrears on each Payment Date, of 0.10% per annum (the "Liquidation Agent Fee") times the Aggregate Outstanding Portfolio Amount, measured as of the beginning of the Due Period preceding such Payment Date.

If amounts distributable on any Payment Date in accordance with the Priority of Payments are insufficient to pay the Liquidation Agent Fee in full, then the shortfall will be deferred and will be payable on subsequent Payment Dates on which funds are available therefor according to the Priority of Payments.

The Liquidation Agent Fee will be calculated on the basis of a 360 day year consisting of twelve 30-day months. All fees payable to the Liquidation Agent on a Payment Date are subject to payment only in accordance with the Priority of Payments.

The Liquidation Agent may, at its election and upon notice to the Issuer and the Trustee, direct for a predetermined period of time that all or a portion of the amount that is due to it as the Liquidation Agent Fee be paid directly to a third party; *provided*, that the Liquidation Agent will not (unless it is assigning all of its rights and obligations in accordance with the Liquidation Agency Agreement) be relieved of any of its duties under the Liquidation Agency Agreement or the Indenture as a result of the redirection of its right to receive all or a portion of the Liquidation Agent Fee.

Procedure for Disposition of CDS Transaction, Eligible Investments, Collateral Securities and Delivered Obligations

Pursuant to the Liquidation Agency Agreement, whenever the assignment, termination or other disposition of CDS Transactions; Eligible Investments, Collateral Securities and Delivered Obligations is required under the Indenture, as described under "The Credit Default Swap—Removal of Reference Obligations from the Reference Portfolio", the Liquidation Agent will use commercially reasonable efforts to solicit bids from at least three independent market makers, at least one of which is not the Liquidation Agent or an affiliate thereof. If after such commercially reasonable efforts, bids from three independent market makers are not available, the higher of two such bids may be used and if bids from two such independent market makers are not available, one such bid may be used. Assuming at least one bid is received in accordance with the preceding sentence, the applicable CDS Transactions, Eligible Investments, Collateral Securities and Delivered Obligations shall be disposed of at the highest bid price. The Liquidation Agent or an affiliate of the Liquidation Agent may purchase a CDS Transaction, Eligible Investment, Collateral Security or Delivered Obligation assigned, terminated or otherwise disposed as described above. Notwithstanding the foregoing, any Auction shall be conducted in accordance with the auction procedures set forth in the Indenture.

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Termination, Removal and Resignation

If the Liquidation Agency Agreement is terminated for any reason or the entity then serving as Liquidation Agent resigns or is removed, the Liquidation Agent Fee owing to such entity will be prorated for any partial periods between Payment Dates and such prorated amount will be due and payable on the first Payment Date following the date of such termination, subject to the priority of payments.

The Liquidation Agent may resign, upon 60 days' (or such shorter notice as is acceptable to the Issuer) written notice to the Issuer, the Trustee and the Rating Agencies. If the Liquidation Agent resigns, the Issuer agrees to use its best efforts to appoint a successor Liquidation Agent, and the effectiveness of such resignation will be conditioned upon the appointment of such successor.

The Liquidation Agent may be removed for "cause" (i) by the Issuer or the Trustee; *provided* that written notice thereof shall have been given to the holders of the Notes and each Rating Agency stating that such termination shall be effective only if directed in writing within 30 days after the date of such notice by, the Senior Swap Counterparty, the holders of at least a Super Majority of the Income Notes and a Super Majority of the Controlling Class, but excluding in any such calculation any Notes held by the Liquidation Agent or any Notes over which the Liquidation Agent has discretionary voting authority, (ii) in the case of an event described in clause (3) below, by the Issuer or the Trustee upon 10 days' prior written notice to the Liquidation Agent, or (iii) by the Senior Swap Counterparty, holders of at least a Super Majority of the Income Notes and a Super Majority of the Controlling Class, but excluding in any such calculation any Income Notes or Notes held by the Liquidation Agent or any Notes over which the Liquidation Agent has discretionary voting authority, upon 10 days' prior written notice to the Liquidation Agent.

For purposes of determining "cause" with respect to any such termination of the Liquidation Agency Agreement, such term shall mean the occurrence and continuation of any one of the following events: (1) the Liquidation Agent willfully violates, or takes any action that it knows breaches, any provision of the Liquidation Agency Agreement or the Indenture applicable to it; (2) the Liquidation Agent breaches in any material respect any provision of the Liquidation Agency Agreement or any terms of the Indenture applicable to it, which breach (i) has a material adverse effect on the holders of the Notes and (ii) within 30 days of its becoming aware (or receiving notice from the Trustee) of such breach, the Liquidation Agent fails to cure such breach; (3) the Liquidation Agent is wound up or dissolved or there is appointed over it or over all or substantially all of its assets a receiver, administrator, administrative receiver, trustee or similar officer; or the Liquidation Agent (w) ceases to, or admits in writing its inability to, pay its debts as they become due and payable, or makes a general assignment for the benefit of or enters into any composition or arrangement with, its creditors generally; (x) applies for or consents (by admission of material allegations of a petition or otherwise) to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official) of the Liquidation Agent or of all or substantially all of its properties or assets, or authorizes such an application or consent, or proceedings seeking such appointment are commenced without such authorization, consent or application against the Liquidation Agent and continue undismissed for 60 consecutive days; (y) authorizes or files a voluntary petition in bankruptcy, or applies for or consents (by admission of material allegations of a petition or otherwise) to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency or dissolution, or authorizes such application or consent, or proceedings to such end are instituted against the Liquidation Agent without such authorization, application or consent and are approved as properly instituted and remain undismissed for 60 consecutive days or result in adjudication of bankruptcy or insolvency; or (z) permits or suffers all or substantially all of its properties or assets to be sequestered or attached by court order and the order remains undismissed for 60 consecutive days; or (4) the Issuer, the Co-Issuer or the Pledged Assets have become required to be registered as an investment company under the provisions of the Investment Company Act, as a result of a material breach by the Liquidation Agent in violation of the Liquidation Agency Agreement. The Liquidation Agent shall notify the Trustee, each Rating Agency (to the extent any Secured Notes outstanding are rated by such Rating Agency), the Senior Swap Counterparty, the Fiscal Agent and the holders of the Income Notes if a "cause" event, or an event which with the giving of notice or the lapse of time (or both) becomes "cause," occurs.

Any resignation or removal of the Liquidation Agent will be effective only upon (i) the appointment by the holders of a Super Majority of the Income Notes (including any Income Notes owned by the Liquidation Agent, any Affiliate of the Liquidation Agent, and any account over which the Liquidation Agent has discretionary authority)

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(or if such holders fail to make such appointment within 30 days after any such resignation or removal, by the Issuer, as directed by a Super Majority of the Controlling Class) of a successor Liquidation Agent that is an established institution with experience servicing assets similar to the Pledged Assets that (1) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Liquidation Agent under the Liquidation Agency Agreement, (2) is legally qualified and has the capacity to act as Liquidation Agent under the Liquidation Agency Agreement as successor to the Liquidation Agent under the Liquidation Agency Agreement, (3) has agreed in writing to assume all of the responsibilities, duties and obligations of the Liquidation Agent under the Liquidation Agency Agreement and under the applicable terms of the Indenture, (4) shall not cause the Issuer, the Co-Issuer or the pool of Pledged Assets to become required to register as an investment company under the Investment Company Act and (5) has been approved by the Issuer, upon the direction of the Senior Swap Counterparty and a Majority of each Class of Notes and (ii) satisfaction of the Rating Agency Condition with respect to such appointment. Notwithstanding the foregoing, if no successor has been appointed as aforesaid within 120 days after resignation of the Liquidation Agent, the Liquidation Agent may appoint a successor satisfying the requirements of the Liquidation Agency Agreement without consent of any other party or confirmation by the Rating Agencies. The Issuer, the Trustee and the successor Liquidation Agent shall take such action (or cause the outgoing Liquidation Agent to take such action) consistent with the Liquidation Agency Agreement and the terms of the Indenture applicable to the Liquidation Agent as shall be necessary to effectuate any such succession. If the Liquidation Agent shall resign or be removed but a successor Liquidation Agent shall not have assumed all of the Liquidation Agent's duties and obligations under the Liquidation Agency Agreement within 90 days after such resignation or removal, then the Issuer, the Trustee, any holder of Notes or the resigning or terminated Liquidation Agent may petition any court of competent jurisdiction for the appointment of a successor Liquidation Agent. The compensation payable to a successor Liquidation Agent from payments on the Pledged Assets shall not exceed the compensation payable to the Liquidation Agent under the Liquidation Agency Agreement without the approval of the Senior Swap Counterparty and the holders of a Majority of the Aggregate Outstanding Amount of each Class of Notes.

Any Notes held by the Liquidation Agent or any Notes over which the Liquidation Agent has discretionary voting authority, in each case will have no voting rights with respect to any vote in connection with the removal of the Liquidation Agent or the disposition of any CDS Transaction or Eligible Investment and will be deemed not to be outstanding in connection with any such vote; *provided, however*, that any such Notes will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Notes are entitled to vote.

The Liquidation Agent may assign the Liquidation Agency Agreement, in whole or in part, to an affiliate of the Liquidation Agent without the consent of the Issuer, the Senior Swap Counterparty, any Class of Secured Notes or the Income Notes and without satisfaction of the Rating Agency Condition. In the event of any such assignment, Goldman Sachs & Co. will have no further obligations to the Issuer.

Except for the assignment to an affiliate, the Liquidation Agency Agreement may not be assigned by the Liquidation Agent, in whole or in part, without (i) the prior written consent of the Issuer, (ii) the prior written consent of or affirmative vote by the Senior Swap Counterparty, a Majority of the Controlling Class and the holders of a Majority of the Income Notes and (iii) satisfaction of the Rating Agency Condition with respect to such assignment or delegation.

The Liquidation Agency Agreement will terminate when the earliest of the following occurs: (i) the payment in full of the Notes; (ii) the liquidation of the Pledged Assets and the final distribution of the proceeds of such liquidation to the Holders of the Notes or (iii) the termination thereof due to the resignation or removal of the Liquidation Agent in accordance with the Liquidation Agency Agreement.

The Liquidation Agency Agreement may not be amended or modified or any provision thereof waived (other than in connection with an assignment to an affiliate of the Liquidation Agent) except by (i) an instrument in writing signed by the parties thereto, (ii) the prior written consent of the Senior Swap Counterparty and a Majority of the Controlling Class and (iii) written confirmation from each Rating Agency to the effect that such amendment, modification or waiver will not cause a qualification, downgrade or withdrawal of its then current ratings of the Senior Swap or any Class of Notes rated by such Rating Agency unless the Senior Swap Counterparty (if any rating of the Senior Swap would be qualified, downgraded or withdrawn) and the holders of 100% of each Class of Notes

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that would be qualified, reduced or withdrawn due to an amendment, modification or waiver approves such amendment, modification or waiver.

The Liquidation Agent, its affiliates and their respective members, principals, partners, managers, directors, officers, stockholders, partners, agents and employees will not be liable to the Co-Issuers, the Trustee, the Fiscal Agent, the Senior Swap Counterparty, the holders of the Notes or any other Person for any losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities incurred by the Co-Issuers, the Trustee, the Fiscal Agent, the holders of the Notes or any other Person that arise out of or in connection with the performance by the Liquidation Agent of its duties under the Liquidation Agency Agreement or the Indenture, or for any decrease in the value of the Pledged Assets; *provided* that the Liquidation Agent shall be subject to liability by reason of acts or omissions of the Liquidation Agent constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Liquidation Agent under the Liquidation Agency Agreement and under the terms of the Indenture applicable to the Liquidation Agent; *provided* that in no event shall the Liquidation Agent or any of its affiliates be liable for consequential, special, exemplary or punitive damages. Subject to the priority of payments described herein, the Liquidation Agent will be entitled to indemnification by the Issuer under certain circumstances.

Various potential and actual conflicts of interest may arise from the overall activities of the Liquidation Agent and its affiliates. In certain circumstances, the interests of the Issuer, the Senior Swap Counterparty and/or the holders of the Notes with respect to matters as to which the Liquidation Agent is advising the Issuer may conflict with the interests of the Liquidation Agent or its affiliates. See "Risk Factors—Other Considerations—Certain Conflicts of Interest" and "—The Liquidation Agent."

ACCOUNTS

Pursuant to the Indenture, the Issuer shall cause there to be opened and at all times maintained the Interest Collection Account, the Payment Account, the Expense Reserve Account, the Collateral Account (including the Cash Collateral Account), the Delivered Obligation Account, the Collateral Put Provider Account, the Amortization Shortfall Account and the CDS Counterparty Collateral Account (each as hereinafter defined), each of which shall be a segregated account or sub-account established with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties as further described in the Indenture. Each Account is required to be maintained by the Trustee or by another financial institution that is an Eligible Depositary.

Certain distributions on the Pledged Assets, including Fixed Amounts received by the Issuer under the Credit Default Swap will be remitted to a single, segregated account established and maintained under the Indenture (the "Interest Collection Account") and will be available, to the extent described herein, for application in the manner and for the purposes described herein. Funds held in the Interest Collection Account will be invested by the Trustee in Eligible Investments in accordance with the terms of the Indenture. All Fixed Amounts and Interest Shortfall Reimbursement Payment Amounts paid by the Credit Protection Buyer to the Issuer under a CDS Transaction and any investment income on the Collateral will be remitted to the Interest Collection Account. If Expected Fixed Amounts (as defined in the Master Confirmation) are paid by the Credit Protection Buyer to the Issuer in accordance with the Credit Default Swap following a downgrade or placement on watch for downgrade of the Credit Protection Buyer, on the Payment Date immediately thereafter, the Expected Fixed Amount (as defined in the Master Confirmation) will not be transferred to the Payment Account to be distributed in accordance with the Priority of Payments for such Payment Date but will instead be held in the Interest Collection Account until the next Payment Date.

On the Closing Date, the net proceeds of the offering of the Notes issued on such date will be used to purchase Collateral Securities and Eligible Investments with an initial principal balance of $800,000,000 which will be deposited to a single, segregated account established and maintained under the Indenture (the "Collateral Account"). The "Cash Collateral Account" shall be a subaccount of the Collateral Account. Termination payments paid by the Credit Protection Buyer, the Collateral Put Provider and the Senior Swap Counterparty to the Issuer, any amounts paid by an assignee of a CDS Transaction to the Issuer, Sale Proceeds from Collateral Securities, Delivered Obligations and Eligible Investments (other than (i) proceeds of Collateral Securities and Eligible Investments applied to pay Credit Protection Amounts and (ii) Sale Proceeds from Eligible Investments purchased with principal

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payments on the Collateral Securities diverted into the Amortization Shortfall Account) received by the Issuer will be remitted by the Trustee to the Interest Collection Account and invested in Eligible Investments. The Collateral Securities and any Eligible Investments on deposit in the Collateral Account may be used to pay Credit Protection Amounts and to redeem the Notes as described herein. In addition, if an Amortization Shortfall Amount exists in respect of a Payment Date, all principal payments received by the Issuer on Collateral Securities and Eligible Investments (other than cash) in the Collateral Account shall be deposited by the Trustee in the Amortization Shortfall Account up to the amount required to satisfy all outstanding Amortization Shortfall Amounts. All investment earnings from the Collateral Securities and Eligible Investments in the Collateral Account will be remitted to the Interest Collection Account. All principal payments on Collateral Securities in the Collateral Account will be invested in Eligible Investments at the direction of the Liquidation Agent until invested in Collateral Securities satisfying the Collateral Securities Eligibility Criteria at the direction of the Liquidation Agent.

Certain principal payments may be need to be reserved (rather than be invested in Eligible Investments and Collateral Securities) in accordance with the terms of the Collateral Put Agreement. See "The Collateral Put Agreement."

If a Senior Swap Funding Payment has been made under the Senior Swap and remains unreimbursed, Principal Shortfall Reimbursement Payment Amounts and Writedown Reimbursement Payment Amounts received from the Credit Protection Buyer will be paid directly to the Senior Swap Counterparty until all Senior Swap Funding Payments have been reimbursed. If no Senior Swap Funding Payments are outstanding, Principal Shortfall Reimbursement Payment Amounts and Writedown Reimbursement Payment Amounts received by the Issuer will be deposited to the Collateral Account.

On the Business Day prior to each Payment Date other than a Final Payment Date (the "Transfer Date"), the Trustee will deposit into a separate account (the "Payment Account") all funds (including any reinvestment income) in the Interest Collection Account (to the extent received prior to the end of the related Due Period) for application in accordance with the Priority of Payments.

Principal Proceeds shall be deposited in the Interest Collection Account and applied in accordance with the Priority of Payments.

On the Closing Date, U.S.$200,000 from the net proceeds of the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Reserve Account"). On each Payment Date, to the extent that funds are available for such purpose in accordance with and subject to the limitations of the Priority of Payments, the Trustee will deposit into the Expense Reserve Account an amount from Proceeds such that the amount on deposit in the Expense Reserve Account (after giving effect to such deposit) will equal U.S.$200,000. Amounts on deposit in the Expense Reserve Account may be withdrawn from time to time to pay accrued and unpaid Administrative Expenses of the Issuers. With respect to the first Payment Date, funds on deposit in the Expense Reserve Account in excess of U.S.$200,000 will be transferred by the Trustee to the Payment Account for application as interest proceeds. All funds on deposit in the Expense Reserve Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of will be transferred by the Trustee to the Payment Account for application as Proceeds on the immediately succeeding Payment Date.

Under certain conditions described in the Credit Default Swap, the Credit Protection Buyer may be required to post collateral ("CDS Counterparty Collateral") under the terms of the Credit Default Swap. The CDS Counterparty Collateral pledged by the Credit Protection Buyer will be deposited by the Trustee into a segregated account (the "CDS Counterparty Collateral Account") established in the name of the Trustee and held therein pursuant to the terms of the Credit Default Swap.

On or before the first date on which there exists an Amortization Shortfall Amount, the Trustee will establish and maintain a single, segregated account established and maintained under the Indenture (the "Amortization Shortfall Account") into which certain principal payments and interest received by the Issuer on Collateral Securities and Eligible Investments in the Collateral Account shall be deposited up to the Amortization Shortfall Amount.

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On or before the first date that a Delivered Obligation is received by the Issuer, the Trustee will establish and maintain under the Indenture a segregated collateral account (the "Delivered Obligation Account") into which all Delivered Obligations shall be deposited. Each Delivered Obligation will be held in the Delivered Obligation Account until such Delivered Obligation is sold by the Liquidation Agent, on behalf of the Issuer, pursuant to the terms of the Indenture.

Amounts retained in the Accounts during a Due Period will be invested in Eligible Investments.

REPORTS

A report will be made available to the Holders of the Secured Notes and Holders of the Income Notes and will provide information on the Pledged Assets as well as information with respect to payments made on the related Payment Date (each, a "Note Valuation Report"), beginning in April, 2007.

The information in each Note Valuation Report will be prepared as of the Determination Date preceding the related Payment Date and will set out, among other things, the amounts payable in accordance with the Priority of Payments on such Payment Date. The Issuer will instruct the Trustee to transfer the amounts set forth in such Note Valuation Report in the manner specified in, and in accordance with, the Priority of Payments.

WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes (other than the Class S Notes) is the Payment Date in April 2042. However, the principal of the Notes (other than the Class S Notes) is expected to be paid in full prior to the Stated Maturity. Average life refers to the average amount of time that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor. The average lives of the Notes will be determined by the amount of principal payments which are dependent on a number of factors, including when the Reference Obligations are repaid.

Weighted Average Life. Weighted average life refers to the average amount of time that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor. The weighted average lives of the Notes of each Class will be determined by the amount and frequency of principal payments, which are dependent upon, among other things, the amount of payments received at or in advance of the scheduled maturity of the Reference Obligations (whether through sale, maturity, redemption, prepayment, default or other liquidation or disposition). The actual weighted average lives and actual maturities of the Notes will be affected by the financial conditions of the obligors on or the issuers of the Reference Obligations or the obligors on the underlying assets, and the characteristics of such securities and assets, including the existence and frequency of exercise of any optional or mandatory redemption features, the prevailing level of interest rates, the redemption price, prepayment rates, any lockout periods or prepayment premiums or penalties, the actual default rate and the actual level of recoveries on any Defaulted Obligations, and the frequency of tender or exchange offers for such Reference Obligations. Any disposition of a CDS Transaction will change the composition and characteristics of the Reference Portfolio and Collateral Securities and the scheduled payments and payment characteristics thereon, and, accordingly, may affect the actual weighted average lives of the Notes. The rate of future defaults and the amount and timing of any cash realization from CDS Transactions the Reference Obligations of which are determined to be Credit Risk Obligations also will affect the maturity and weighted average lives of the Notes. The weighted average life of the Notes of each Class may also vary depending on whether or not the Notes are redeemed. The weighted average lives of the Notes are expected to be shorter, and may be substantially shorter, than the Stated Maturity of the Notes.

The table set forth below indicates the percentage of the initial balance of each Class of Notes that would be outstanding on each Payment Date assuming no prepayments or losses and the weighted average life of each Class of Notes and principal window of each Class based on the assumptions (the "Collateral Assumptions") set forth below. The table set forth below is included only for illustrative purposes, and none of the Issuers, the Liquidation Agent, the Trustee or the Initial Purchaser makes any representation as to whether such assumptions will be realized.

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i. Forward 1-month LIBOR curve as of November 30, 2006 are assumed;

ii. the Closing Date is December 5, 2006 and the first Payment Date is April 12, 2007;

iii. all of the net proceeds of the offering of the Notes are invested as of the Closing Date in the Collateral Securities;

iv. the Coverage Tests are satisfied as of the Closing Date;

v. expenses due under clauses (i), (ii) and (iii) of the Priority of Payments are paid on each Payment Date and will be 0.01% per annum of the Aggregate Outstanding Portfolio Amount, the Liquidation Agent Fee is 0.10% per annum of the Aggregate Outstanding Portfolio Amount;

vi. each CDS Transaction will pay monthly on the 25th day of the month in which such payment is due and receipts will be reinvested for 12 days at a rate equal to one-month LIBOR minus 0.25%;

vii. asset payments including amounts due on the Collateral Securities are fully paid out in accordance with the Priority of Payments on the 12th day of the month in which they are received (each of which is assumed to be a Business Day), commencing April 2007;

viii. failure to pay interest to the Holders of the Class A Notes and the Class B Notes and the failure to pay the Senior Swap Premium or the Collateral Put Provider Premium Amount is not an Event of Default;

ix. all unpaid Class C Note, Class D Note and Class E Note interest is Deferred Interest;

x. there are no dispositions of CDS Transactions;

xi. no rating change occurs on any Reference Obligation or the Notes;

xii. there is no Optional Redemption, Tax Redemption or Auction (except in the computation of the DEC table and Sensitivity of Reference Obligation Principal Payments to CDR table below);

xiii. all Classes of Notes are issued at par;

xiv. defaults are incurred at the constant annual default rates and are applied on each Payment Date to the outstanding Reference Obligation Notional Amount of the Reference Portfolio as of such Payment Date commencing on the Payment Date in April 2008;

xv. the Senior Swap Counterparty makes all required payments to the Issuer on a timely basis; and

xvi the Expense Reserve Account is assumed to stay fully funded at $200,000 on each Payment Date.

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	Class A-f	Class A-b	Class B	Class C	Class D	Class E
Closing Date	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
April 12, 2007	100.00%	100.00%	100.00%	100.00%	99.58%	100.00%
April 12, 2008	98.82%	100.00%	100.00%	100.00%	95.89%	100.00%
April 12, 2009	59.11%	100.00%	86.97%	88.66%	74.02%	94.18%
April 12, 2010	13.39%	100.00%	63.33%	64.56%	53.82%	67.24%
April 12, 2011	0.00%	98.90%	55.78%	56.87%	47.67%	59.23%
April 12, 2012	0.00%	98.90%	55.78%	56.87%	47.67%	59.23%
April 12, 2013	0.00%	98.90%	55.78%	56.87%	47.67%	59.23%
April 12, 2014	0.00%	0.00%	0.00%	56.12%	47.67%	59.23%
April 12, 2015	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Principal Window(1)	April 12, 2008 to September 12, 2010	September 12, 2010 to November 12, 2013	November 12, 2008 to April 12, 2014	December 12, 2008 to August 12, 2014	April 12, 2007 to September 12, 2014	April 12, 2009 to November 12, 2014
Expected Weighted Average Life(2)	2.6 years	6.8 years	5.3 years	5.6 years	5.1 years	5.9 years

(1) The "Expected Principal Window" for a Class of Notes is the period in which (a) the initial principal payment of the Class is expected to be made and (b) the final payment of principal of the Class is expected to be made under the Collateral Assumptions (assuming no defaults).

(2) The "Expected Weighted Average Life" of each Class of Notes is determined by (i) multiplying the amount of each principal distribution on such Class that would result under the Collateral Assumptions (assuming no defaults) by the number of years from the date of determination to the related Payment Date (assuming 30 days in each month and a 360-day year), (ii) adding the results and (iii) dividing the sum by the aggregated principal distributions referred to in clause (i).

The following table shows the "Expected Weighted Average Life" and the "Expected Principal Window" for each Class of Notes under various constant default rates. The "Expected Weighted Average Life" of each Class of Notes is determined by (i) multiplying the amount of each principal distribution on such Class that would result under the Collateral Assumptions by the number of years from the Closing Date to the related Payment Date (assuming 30 days in each month and a 360-day year), (ii) adding the results and (iii) dividing the sum by the aggregated principal distributions referred to in clause (i). The "Expected Principal Window" for a Class of Notes is when the first and last payments of principal are expected to be made under the Collateral Assumptions. The loss severity is assumed to be 65%.

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Sensitivity of Reference Obligation Principal Payments to CDR

	0.0% CDR		0.5% CDR		1.0% CDR		1.5% CDR	
Class	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window
A-f	2.63 years	April 12, 2008 to September 12, 2010	2.62 years	April 12, 2008 to May 12, 2013	2.59 years	April 12, 2008 to August 12, 2010	2.57 years	April 12, 2008 to August 12, 2010
A-b	6.79 years	September 12, 2010 to November 12, 2013	6.79 years	May 12, 2013 to November 12, 2013	6.77 years	August 12, 2010 to November 12, 2013	6.74 years	August 12, 2010 to November 12, 2013
B	5.31 years	November 12, 2008 to April 12, 2014	5.33 years	November 12, 2008 to April 12, 2014	5.30 years	December 12, 2008 to May 12, 2014	5.27 years	December 12, 2008 to May 12, 2014
C	5.58 years	December 12, 2008 to August 12, 2014	5.60 years	January 12, 2009 to August 12, 2014	5.58 years	January 12, 2009 to August 12, 2014	5.56 years	February 12, 2009 to August 12, 2014
D	5.06 years	April 12, 2007 to September 12, 2014	5.11 years	April 12, 2007 to September 12, 2014	5.13 years	April 12, 2007 to November 12, 2014	5.20 years	April 12, 2007 to November 12, 2014
E	5.92 years	April 12, 2009 to November 12, 2014	6.02 years	July 12, 2009 to November 12, 2014	6.11 years	October 12, 2009 to November 12, 2014	7.82 years	July 12, 2010 to December 12, 2014

The table set forth below entitled "Class A-f, A-b, B, C, D and E Note Constant Default Rate Stress Tests" shows the Constant Default Rate ("CDR") and Cumulative Defaults for each Class of Notes under three stress scenarios, assuming a 65% loss severity on defaulted Reference Obligations. In column one ("First Dollar of Loss"), CDR represents the CDR starting on the April 2008 Payment Date that would result in the first dollar of principal loss to the respective Class of Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate notional amount of the Reference Obligations as of the Closing Date. In column two ("Flat Return"), CDR represents the CDR starting on the April 2008 Payment Date that would result in a yield equivalent to a zero discount margin over one-month LIBOR for the Class A-f Notes, the Class A-b Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate notional amounts of the Reference Obligations as of the Closing Date. In column three ("Return of Investment (0% return)"), the CDR represents the CDR starting on the April 2008 Payment Date that would result in an approximate 0.0% return for the Class A-f Notes, the Class A-b Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate notional amounts of the Reference Obligations as of the Closing Date.

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Class A-f, A-b, B, C, D and E Note Constant Default Rate Stress Tests

	First Dollar of Loss		Flat Return		Return of Investment (0% return)	
Constant Annual Default Rate at 65% Loss Severity	CDR	Cumulative Defaults	CDR	Cumulative Defaults	CDR	Cumulative Defaults
Class A-f	18.00%	42.61%	18.20%	42.95%	21.00%	47.54%
Class A-b	18.00%	42.61%	18.40%	43.29%	21.10%	47.70%
Class B	11.10%	29.23%	11.40%	29.87%	13.90%	35.03%
Class C	5.00%	14.52%	5.60%	16.11%	6.90%	19.43%
Class D	2.40%	7.28%	3.10%	9.29%	3.60%	10.70%
Class E	1.70%	5.22%	2.00%	6.10%	2.20%	6.69%

Yield. The yield to maturity of the Notes of each Class will also be affected by the rate of repayment of the Reference Obligations, as well as by the redemption of the Notes in an Auction, an Optional Redemption or Tax Redemption (and upon the Note Redemption Price or Income Note Redemption Price, as applicable, then payable). The Issuer is not required to repay the Notes on any date prior to their Stated Maturity. The receipt of principal payments on the Notes at a rate slower than the rate anticipated by investors purchasing the Notes at a discount will result in an actual yield that is lower than anticipated by such investors.

The yield to maturity of the Notes may also be affected by the rate of delinquencies and defaults on and liquidations of the Reference Obligations and Collateral Securities, to the extent not absorbed by the Income Notes; dispositions of CDS Transactions and the effect of the Coverage Tests on payments under the Priority of Payments. The yield to investors in the Notes will also be adversely affected to the extent that the Issuers incur certain expenses that are not absorbed by the Income Notes.

THE ISSUERS

General

The Issuer was incorporated on September 16, 2006 in the Cayman Islands with the registered number 173876. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. Maples Finance Limited's telephone number is (345) 945-7099. The Issuer has no prior operating history. The Issuer's Memorandum of Association sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes.

The Co-Issuer was incorporated on November 13, 2006 under the laws of the State of Delaware with the registered number 4250022. The registered office of the Co-Issuer is at Donald J. Puglisi, Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware, 19711. The Co-Issuer's telephone number is (302) 738-6680. The Co-Issuer has no prior operating history. Article 3 of the Co-Issuer's Certificate of Incorporation sets out the purposes of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the issuance of the Secured Notes.

The Co-Issued Notes are obligations only of the Issuers and the Senior Swap, the Class E Notes and the Income Notes are obligations only of the Issuer, and not of the Trustee, the Liquidation Agent, the Initial Purchaser, the Senior Swap Counterparty, the Administrator, the Agents, the Share Trustee or any directors, managers or officers of the Issuers or any of their respective affiliates.

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The authorized share capital of the Issuer consists of 250 ordinary shares, U.S.$1.00 par value per share (the "Issuer Ordinary Shares"). All of the Issuer Ordinary Shares will be issued on or prior to the Closing Date. All of the outstanding Issuer Ordinary Shares will be held by the Share Trustee pursuant to the terms of a declaration of trust for the benefit of charitable and similar purposes. All of the outstanding common equity of the Co-Issuer will be held by the Share Trustee under the terms of the charitable trust which holds the Issuer Ordinary Shares. For so long as any of the Notes are outstanding, no beneficial interest in the ordinary shares of the Issuer or of the common equity of the Co-Issuer shall be registered to a U.S. Person.

Capitalization of the Issuer

The initial proposed capitalization of the Issuer as of the Closing Date after giving effect to the issuance of the Notes and the Issuer Ordinary Shares and entry into the Senior Swap Agreement before deducting expenses of the offering of the Notes is as set forth below.

	Amount
Class S Notes	$ 37,000,000
Class A-f Notes	$ 110,000,000
Class A-b Notes	$ 120,000,000
Class B Notes	$ 230,000,000
Class C Notes	$ 170,000,000
Class D Notes	$ 84,000,000
Class E Notes	$ 26,000,000
Income Notes	$ 60,000,000
Total Debt	$ 837,000,000
Issuer Ordinary Shares	250
Total Equity	$ 250
Total Capitalization	$ 837,000,250

Capitalization of the Co-Issuer

The Co-Issuer will be capitalized only to the extent of its common equity of U.S.$10, will have no assets other than its equity capital and will have no debt other than as Co-Issuer of the Secured Notes. The Co-Issuer has agreed to co-issue the Secured Notes as an accommodation to the Issuer, and the Co-Issuer is receiving no remuneration for so acting. Because the Co-Issuer has no assets, and is not permitted to have any assets, Holders of Notes will not be able to exercise their rights against any assets of the Co-Issuer. Holders of Secured Notes must rely on the Pledged Assets held by the Issuer and pledged to the Trustee for payment on their respective Secured Notes in accordance with the Priority of Payments.

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Flow of funds

The approximate flow of funds of the Issuer from the gross proceeds of the offering of the Notes on the Closing Date is as set forth below:

Gross Proceeds

Class S Notes	$ 37,000,000
Class A-f Notes	$ 110,000,000
Class A-b Notes	$ 120,000,000
Class B Notes	$ 230,000,000
Class C Notes	$ 170,000,000
Class D Notes	$ 84,000,000
Class E Notes	$ 26,000,000
Income Notes	$ 60,000,000
Total:	$ 837,000,000

Expenses

Third Party Expenses	$1,700,000
Goldman, Sachs & Co.	$30,100,000
Expense Reserve Accounts	$200,000
Total:	$32,000,000

Collateral Assets

Net Proceeds	$805,000,000
Par Value of Collateral	$800,000,000
Clean Price of Collateral	$800,000,000
Purchase Accrued Interest on Collateral	$1,000,000
First Period Interest Reserve	$4,000,000

Business

The Issuers will not undertake any business other than the issuance of the Co-Issued Notes and, in the case of the Issuer, the issuance of the Class E Notes and the Income Notes, the acquisition and management of the

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Pledged Assets and, in each case, other related transactions. Neither of the Issuers will have any subsidiaries other than the Co-Issuer in the case of the Issuer.

The Administrator will act as the administrator of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement to be dated on or about the Closing Date by and between the Administrator and the Issuer (as amended, supplemented or otherwise modified from time to time, the "Administration Agreement"), the Administrator will perform various management functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The directors of the Issuer listed below are also officers and/or employees of the Administrator and may be contacted at the address of the Administrator.

The Administrator will be subject to the overview of the Issuer's Board of Directors. The Administration Agreement may be terminated by either the Issuer or the Administrator upon 30 days' written notice.

The Administrator's principal office is: Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Directors

The Directors of the Issuer are Carrie Bunton and Carlos Farjallah, each having an address at Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The director of the Co-Issuer is Donald Puglisi who may be contacted at the address of the Co-Issuer.

INCOME TAX CONSIDERATIONS

Circular 230

Any discussion of U.S. federal tax matters set forth in this Offering Circular was written in connection with the promotion and marketing by the Issuer and the Initial Purchaser of the Notes (as defined herein). Such discussion was not intended or written to be legal or tax advice to any person and was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

United States Tax Considerations

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes by purchasers that acquire their Notes in their initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the "IRS") with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor; nor does it address (except, in some instances, in very general terms) the United States federal income tax considerations applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), banks, regulated investment companies, real estate investment trusts, insurance companies, tax-exempt organizations, dealers in securities or currencies, electing large partnerships, natural persons, cash method taxpayers, S corporations, estates and trusts, investors that hold the Notes as part of a hedge, straddle, or an integrated or conversion transaction, or investors whose "functional currency" is

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not the United States dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the investors of equity interests in either a U.S. Holder (defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold the Notes as "capital assets" within the meaning of section 1221 of the Internal Revenue Code 1986 (the "Code"). Investors should consult their own tax advisors to determine the United States federal, state, local and other tax consequences of the purchase, ownership and disposition of the Notes.

As used herein, "U.S. Holder" means any holder (or beneficial holder) of a Note that is an individual citizen or resident of the United States for U.S. federal income tax purposes, a corporation or partnership or other entity treated as a corporation or partnership for U.S. federal income tax purposes created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust for which a court within the United States is able to exercise primary supervision over its administration and for which one or more U.S. persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. If a partnership holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding the Notes should consult their own tax advisors. "Non-U.S. Holder" means any holder (or beneficial holder) of a Security that is not a U.S. Holder.

U.S. Federal Income Tax Consequences to the Issuer

Upon the issuance of the Notes, Sidley Austin LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and/or GS&Co., although the matter is not free from doubt, the Issuer will not be engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a United States trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a trade or business, among other consequences, the Issuer would be subject to net income taxation in the United States (as well as the branch profits tax) on its income that is effectively connected to such United States trade or business. The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes.

The Issuer intends to acquire Collateral Assets and enter into certain swap transactions the interest on which, and any gain from the sale or disposition thereof, is expected not to be subject to United States federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Collateral Assets or Reference Obligations and thus there can be no absolute assurance that in every case payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur U.S. withholding tax on interest received from a related United States person. Under current law, payments received on the Senior Swap Agreement are not subject to U.S. federal withholding tax.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that would be subject to United States withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer shall be under no obligation to make any additional payments to the holders of any Notes in respect of such withholding or deduction.

Notwithstanding the foregoing, any commitment or facility fee (or other similar fee) that the Issuer earns may be subject to a 30% withholding tax.

Classification and Tax Treatment of the Secured Notes. The Issuer has agreed and, by its acceptance of a Secured Note, each such Noteholder will be deemed to have agreed, to treat each of the Secured Notes as debt of the Issuer for U.S. federal income tax purposes except to the extent such a Noteholder makes a protective QEF election (described below). On the Closing Date, Sidley Austin LLP will deliver an opinion generally to the effect that

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assuming compliance with Indenture (and certain other documents) and based on certain factual representations made by the Issuer and GS&Co. (i) the Class S Notes, the Class A-f Notes, the Class A-b Notes, the Class B Notes, the Class C Notes and the Class D Notes will be characterized as debt and (ii) the Class E Notes should be characterized as debt of the Issuer for U.S. federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no assurance that the IRS will not seek to characterize any Class of Secured Notes as other than indebtedness. Except as provided under "—Alternative Characterization of the Secured Notes" below, the balance of this discussion assumes that the Secured Notes will be characterized as debt of the Issuer for federal income tax purposes.

For U.S. federal income tax purposes, the Issuer of the Secured Notes, and not the Co-Issuer, will be treated as the issuer of the Secured Notes.

Subject to the following paragraph, U.S. Holders of the Secured Notes will include payments of stated interest received on the Secured Notes in income in accordance with their method of tax accounting as ordinary interest income.

While not absolutely certain, it appears that the Class C Notes, the Class D Notes and the Class E Notes will be issued with original issue discount ("OID", and such a Note, an "OID Note") because interest payments on such Notes ("OID interest payments") may not be considered to be unconditionally payable (a requisite for interest to not constitute OID) since they will be deferred in the event that certain overcollateralization tests are not met and failure to pay interest will not, in certain circumstances, be an event of default. A U.S. Holder of an OID Note will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Note. Thus, the U.S. Holder of an OID Note will be required to include original issue discount in income as it accrues, prior to the receipt of the cash attributable to such income. U.S. Holders, however, would be entitled to claim a loss upon maturity or other disposition of an OID Note with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss.

Although there can be no assurance, the Secured Notes should not be "contingent payment debt instruments" ("CPDIs") within the meaning of Treasury Regulation section 1.1275-4, effective for debt instruments issued after August 12, 1996. If any Class of Notes were considered such instruments, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

The Secured Notes may be debt instruments described in section 1272(a)(6) of the Code (debt instruments that may be accelerated by reason of the prepayment of other debt obligations securing such debt instruments). Special tax rules principally relating to the accrual of original issue discount, market discount and bond premium apply to debt instruments described in section 1272(a)(6). Further, those debt instruments may not be part of an integrated transaction with a related hedge under Treasury Regulation § 1.1275-6. Prospective investors should consult with their own tax advisors regarding the effects of section 1272(a)(6).

In general, a U.S. Holder of a Secured Note will have a tax basis in such Note equal to the cost of such Note increased by any market discount includible in income by such U.S. Holder and reduced by any amortized premium and any principal payments and any OID interest payments. Upon a sale, exchange or other disposition of a Secured Note (including redemption or retirement), a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or other disposition (less any accrued and unpaid interest, which would be taxable as such) and the U.S. Holder's tax basis in such Secured Note. Such gain or loss generally will be long term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Alternative Characterization of the Secured Notes. U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Secured Notes. It is possible, for example, that the IRS may contend that a class of Secured Notes should be treated as equity interests (or as part debt, part equity) in the Issuer. Such a recharacterization might result in material adverse tax consequences to U.S. Holders. If U.S. Holders of Secured Notes were treated as owning equity interests in the Issuer, the U.S. federal

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income tax consequences to U.S. Holders of such recharacterized Notes would be as described under "—United States Tax Treatment of Holders of Income Notes." In addition, in order to avoid one application of the PFIC rules, each U.S. Holder should consider making a qualified electing fund election (the "QEF election") provided in section 1295 of the Code on a "protective" basis (although such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). See "—United States Tax Treatment of Holders of Income Notes—Status of the Issuer as a PFIC" and "—QEF Election."

Information Reporting Requirements. Under United States federal income tax law and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. These reporting requirements apply to both taxable and tax-exempt U.S. Holders. Penalties for failure to file certain of these information returns are severe. Purchasers of the Secured Notes should consult with their own tax advisors regarding the necessity of filing information returns.

If requested by the Issuer, each Holder will be required to provide the Issuer with the name and status of each beneficial owner of a Secured Note that is a U.S. Holder.

Prospective investors should consult with their own tax advisors with respect to whether they are required to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Non-U.S. Holders

A Non-U.S. Holder of a Secured Note that has no connection with the United States will not be subject to U.S. withholding tax on interest payments. Non-U.S. Holders may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

United States Tax Treatment of Holders of Income Notes

General. Prospective investors of the Income Notes should not rely on this summary only and should consult their own tax advisors regarding alternative characterizations of the Income Notes and the consequences of their acquiring, holding, and disposing of the Income Notes, including the possibility that the Income Notes will be treated as contingent payment debt instruments. Subject to the anti-deferral rules discussed below, payments on Income Notes paid by the Issuer to a U.S. Holder that is subject to United States federal income tax will be taxable to such U.S. Holder as a payment to the extent of the current and accumulated earnings and profits of the Issuer. Dividends will not be eligible for the dividends received deduction allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the extent of, and will be applied against and reduce, the U.S. Holder's adjusted tax basis in the Income Notes. Distributions in excess of earnings and profits and the U.S. Holder's tax basis will be taxable as gain from the sale or exchange of property.

The tax consequences discussed in the second preceding paragraph are likely to be materially modified by the anti-deferral rules discussed below. In general, each U.S. Holder's investment in the Issuer will be taxed as an investment in a "passive foreign investment company" ("PFIC"). In addition, each U.S. Holder's investment in the Issuer may be taxed as an investment in a CFC, depending (in part) upon the percentage of the Issuer's equity that is acquired and held by certain U.S. Holders. If applicable, the rules pertaining to CFCs generally override those pertaining to PFICs (although, in certain circumstances, more than one set of rules may be applicable simultaneously).

Prospective investors should be aware that in determining what percentage of the equity of the Issuer is held by various categories of investors (for example, for purposes of the CFC and information reporting rules described below) and the Liquidation Agent's interest in certain portions of its fee and certain classes of Secured Notes may be considered equity (and might be considered voting equity).

Prospective investors should be aware that the Issuer's income that is allocated to holders (under the QEF rules as well as under the CFC rules discussed below) will not necessarily bear any particular relationship in any year to the amount of cash that is distributed on the Income Notes and in any given year may be substantially

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greater. Such an excess will arise, among other circumstances, when Collateral Assets are purchased at a discount, or interest or other income on the Collateral Assets or Credit Default Swap (which is included in gross income) is used to acquire other Collateral Assets or to repay principal on the Secured Notes (which does not give rise to a deduction).

Status of the Issuer as a PFIC. The Issuer will be treated as a "passive foreign investment company" or "PFIC" for United States federal income tax purposes. U.S. Holders in PFICs, other than U.S. Holders that make a timely "qualified electing fund" or "QEF" election described below, are subject to special rules for the taxation of "excess distributions" (which include both certain distributions by a PFIC and any gain recognized on a disposition of PFIC stock). In general, section 1291 of the Code provides that the amount of any "excess distribution" will be allocated to each day of the U.S. Holder's holding period for its PFIC stock. The amount allocated to the current year will be included in the U.S. Holder's gross income for the current year as ordinary income. With respect to amounts allocated to prior years, the tax imposed for the current year will be increased by the "deferred tax amount" (an amount calculated with respect to each prior year by multiplying the amount allocated to such year by the highest rate of tax in effect for such year, together with an interest charge, as though the amounts of tax were overdue).

An excess distribution is the amount by which distributions for a taxable year exceed 125 percent of the average distribution in respect of the Income Notes during the three preceding taxable years (or, if shorter, the investor's holding period for the Income Notes). As indicated above, any gain recognized upon disposition (or deemed disposition) of the Income Notes will be treated as an excess distribution and taxed as described above (i.e., not be taxable as capital gain). For this purpose, a U.S. Holder that uses an Income Note as security for an obligation may be treated as having disposed of the Income Note.

QEF Election. If a U.S. Holder (including certain U.S. Holders indirectly owning Income Notes) makes the qualified electing fund election (the "QEF election") provided in section 1295 of the Code, the U.S. Holder will be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income (as ordinary income and long-term capital gain, respectively) for each taxable year and pay tax thereon even if such income and gain is not distributed to the U.S. Holder by the Issuer. In addition, any losses of the Issuer will not be deductible by such U.S. Holder. A U.S. Holder that makes the QEF election, may, however (in general) elect to defer the payment of tax on undistributed income (until such income is distributed or the Income Note is transferred), *provided* it agrees to pay interest on such deferred tax liability. For this purpose, a U.S. Holder that uses an Income Note as security for an obligation may be treated as having transferred such Income Note. If the Issuer later distributes the income or gain on which the U.S. Holder has already paid taxes, amounts so distributed to the U.S. Holder will not be further taxable to the U.S. Holder. A U.S. Holder's tax basis in the Income Notes will be increased by the amount included in such U.S. Holder's income and decreased by the amount of nontaxable distributions. In general, a U.S. Holder making the QEF Election will recognize, on the disposition of the Income Notes, capital gain or loss equal to the difference, if any, between the amount realized upon such disposition (including redemption or retirement) and its adjusted tax basis in such Income Notes. Such gain or loss generally will be long term capital gain or loss if the U.S. Holder held the Income Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held an Income Note.

The QEF election is effective only if certain required information is made available by the Issuer to the IRS. The Issuer will undertake to comply with the IRS information requirements necessary to be a QEF, which will permit U.S. holders to make the QEF election. Nonetheless, there can be no absolute assurance that such information will always be available or presented.

Where a QEF election is not timely made by a U.S. Holder for the year in which it acquired its Income Notes, but is made for a later year, the excess distribution rules can be avoided by making an election to recognize gain from a deemed sale of the Income Notes at the time when the QEF election becomes effective.

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A U.S. Holder should consult its own tax advisors regarding whether it should make a QEF election (and, if it failed to make an initial election, whether it should make an election in a subsequent taxable year).

Status of the Issuer as a CFC. U.S. tax law also contains special provisions dealing with controlled foreign corporations ("CFC"). A U.S. holder (or any other holder of an interest treated as voting equity in the foreign corporation that would meet the definition of U.S. Holders but for the fact that such holder does not hold Income Notes) that owns (directly or indirectly) at least 10 percent of the voting stock of a foreign corporation, the U.S. Holder is considered a "U.S. Shareholder" with respect to the foreign corporation. If U.S. Shareholders in the aggregate own (directly or indirectly) more than 50% of the voting power or value of the stock of such corporation, the foreign corporation will be classified as a CFC. Complex attribution rules apply for purposes of determining ownership of stock in a foreign corporation such as the Issuer.

If the Issuer is classified as a CFC, a U.S. Shareholder (and possibly any U.S. Holder that is a direct or indirect holder of a grantor trust that is considered to be a U.S. Shareholder) that is a shareholder of the Issuer as of the end of the Issuer's taxable year generally would be subject to current U.S. tax on the income of the Issuer, regardless of cash distributions from the Issuer. Earnings subject to tax generally as income of the U.S. Holder generally will not be taxed again when they are distributed to the U.S. Holder. In addition, income that would otherwise be characterized as capital gain and gain on the sale of the CFC's stock by a U.S. Shareholder (during the period that the corporation is a CFC and thereafter for a five-year period) would be classified in whole or in part as dividend income.

Certain income generated by a corporation conducting a banking, financing, insurance, or other similar business would not be includible in a holder's income under the CFC rules. However, each holder of an Income Note will agree, by its acquisition of the Income Notes, not to take the position that the Issuer is engaged in such a business. Accordingly, if the CFC rules apply, a U.S. Shareholder would generally be subject to tax on its share of all of the Issuer's income.

Information Reporting. In general, U.S. Holders that acquire any Income Notes (or any Class of Notes recharacterized as equity in the Issuer) for cash may be required to file an IRS Form 926 with the IRS and to supply certain additional information to the IRS if (i) such U.S. Holder owns (directly or indirectly) immediately after the transfer, at least 10% by vote or value of the Issuer or (ii) the transfer when aggregated with all related transfers under applicable regulations, exceeds U.S.$100,000. In the event a U.S. Holder that is required to file such form fails to file such form, the U.S. Holder could be subject to a penalty of up to U.S.$100,000 (computed as 10% of the gross amount paid for the Income Notes) or more if the failure to file was due to intentional disregard of its obligation). Other important information reporting requirements apply to persons that acquire 10% or more of a foreign corporation's equity.

Prospective investors should consult with their own tax advisors with respect to whether they are required to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Tax-Exempt Investors. Special considerations apply to pension plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their "unrelated business taxable income" ("UBTI"). A Tax-Exempt Investor's income from an investment in the Issuer generally should not be treated as resulting in UBTI under current law, so long as such investor's acquisition of stock in the Issuer is not debt-financed, and such investor does not own more than 50% of the Issuer's equity (here, the Income Notes and any Class of Secured Notes (if any) that is recharacterized as equity).

Tax-Exempt Investors should consult their own tax advisors regarding an investment in the Issuer.

Taxation of Non-U.S. Holders. Dividends on, and gain from the sale, exchange or redemption of, Income Notes generally should not be subject to United States federal income tax in the hands of a Non-U.S. Holder that has no connection with the United States other than the holding of the Income Notes.

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Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

(i) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(ii) No stamp duty is payable in respect of the issue of the Notes. The Notes themselves will be stampable if they are executed in or brought into the Cayman Islands. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor In Cabinet of the Cayman Islands in the following form:

THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Hudson Mezzanine Funding 2006-1, Ltd. (the "Company"):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of thirty years from the 26th day of September, 2006.

ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" as defined in and subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing such ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk

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Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, "Parties in Interest")) having certain relationships to such Plans, unless a statutory, regulatory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

The United States Department of Labor ("DOL") has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the "Plan Asset Regulation"), as modified by Section 3(42) of ERISA, describing what constitutes the assets of a Plan ("Plan Assets") with respect to the Plan's investment in an entity for purposes of applying ERISA and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by Benefit Plan Investors is not "significant."

Prohibited transactions may arise under Section 406 of ERISA or Section 4975 of the Code if Notes are acquired with Plan Assets with respect to which the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Fiscal Agent or any of their respective affiliates, is a Party in Interest. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Security and the circumstances under which such decision is made. Included among these exemptions are: DOL Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers"; PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers;" and the service provider exemption under new Section 408(b)(17) of ERISA and new Section 4975(d)(20) of the Code (the "Service Provider Exemption"). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Notes, or that, if available, the exemption would cover all possible prohibited transactions.

Governmental plans and certain church and other plans, while not necessarily subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Any insurance company proposing to invest assets of its general account in the Notes should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the DOL for transactions involving insurance company general accounts in PTCE 95-60 and the regulations issued by the DOL, 29 C.F.R. Section 2550.401c-1 (January 5, 2000). Certain additional information regarding general accounts is set forth below.

Any Plan fiduciary or other person who proposes to use Plan Assets to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of any Security to a Plan, or to a person using Plan Assets to effect its purchase of any Security, is in no respect a representation by the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee or the Fiscal

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Agent that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Class S Notes, Class A Notes, Class B Notes, Class C Notes and Class D Notes

For purposes of the Plan Asset Regulation, an equity interest includes any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Because the Secured Notes (a) are expected to be treated as indebtedness under local law and for federal tax purposes (see "Income Tax Considerations" herein), and (b) should not be deemed to have any "substantial equity features," purchases of the Secured Notes with Plan Assets should not be treated as equity investments and, therefore, the Pledged Assets should not be deemed to be Plan Assets of the investing Plans. Those conclusions are based, in part, upon the traditional debt features of the Secured Notes, including the reasonable expectation of purchasers of the Secured Notes that the Secured Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. However, if the Secured Notes were nevertheless treated as equity interests for purposes of the Plan Asset Regulation and if the assets of the Issuers were deemed to constitute Plan Assets of an investing Plan, (i) transactions involving the assets of the Issuers could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuers could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an investment in the Notes could be deemed to have delegated its responsibility to manage Plan Assets.

By its purchase of any Class S Note, Class A Note, Class B Note, Class C Note or Class D Note, the purchaser thereof will be deemed to have represented and warranted either that (i) it is not and will not be a Plan or an entity whose underlying assets include Plan Assets by reason of any Plan's investment in the entity, or an employee benefit plan which is subject to any federal, state, local or foreign law ("Similar Law") that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code; or (ii) its purchase and holding of a Class S Note, Class A Note, Class B Note, Class C Note or Class D Note are eligible for the exemptive relief available under PTCE 84-14, 90-1, 91-38, 95-60, 96-23, the Service Provider Exemption, or a similar exemption or, in the case of a plan subject to Similar Law, do not and will not constitute or result in a prohibited transaction under Similar Law for which an exemption is not available.

Class E Notes and Income Notes

Equity participation in an entity by Benefit Plan Investors is "significant" under the Plan Asset Regulation (see above) if 25% or more of the total value of any class of equity interest in the entity is held by Benefit Plan Investors. If equity participation in either Issuer by Benefit Plan Investors is "significant," the assets of such Issuer could be deemed to be Plan Assets of Plans investing in the equity. If the assets of either Issuer were deemed to constitute Plan Assets of an investing Plan, (i) transactions involving the assets of such Issuer could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an equity investment in the Issuer could be deemed to have delegated its responsibility to manage Plan Assets. The term "Benefit Plan Investor" includes (i) an employee benefit plan as defined in and subject to the provisions of Title I of ERISA, (ii) a plan as described in and subject to Section 4975(e)(1) of the Code and (iii) any entity whose underlying assets include Plan Assets by reason of any such employee benefit plan's or plan's investment in the entity. For purposes of making the 25% determination, the value of any equity interests in the Issuer held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the Issuer, any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person (any of the foregoing, a "Controlling Person"), are disregarded. Under the Plan Asset Regulation, an "affiliate" of a person includes any person, directly or indirectly through one or more intermediaries, controlling, controlled by or under common control with the person, and "control" with respect to a person, other than an individual, means the power to exercise a controlling influence over the management or policies of such person. If the equity participation in an entity by Benefit Plan Investors is significant, then the entity's assets will be deemed to constitute Plan Assets to the extent of such investor's interest in the entity.

The Class E Notes and the Income Notes will be equity interests for purposes of applying ERISA and Section 4975 of the Code. Accordingly, purchases and transfers of Class E Notes and Income Notes will be limited,

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so that less than 25% of the total value of all the Class E Notes or the Income Notes will be held by Benefit Plan Investors, by requiring each purchaser or transferee of a Class E Note (other than a Regulation S Class E Note) or an Income Note (other than a Regulation S Income Note) to make (or, in the case of a Regulation S Class E Note or Regulation S Income Note, to be deemed to have made, certain representations and agree to additional transfer restrictions described under "Notice to Investors." No purchase of a Class E Note or an Income Note by, or proposed transfer to, a person that has represented that it is a Benefit Plan Investor or a Controlling Person will be permitted to the extent that such purchase or transfer would result in persons that have represented that they are Benefit Plan Investors owning 25% or more of the total value of the outstanding Class E Notes or Income Notes immediately after such purchase or proposed transfer (determined in accordance with the Plan Asset Regulation and the Fiscal Agency Agreement), based upon the representations made by investors. In addition, the Initial Purchaser, the Liquidation Agent, the Trustee and the Fiscal Agent agree that neither they nor any of their respective affiliates will acquire any Class E Notes or Income Notes unless such acquisition would not, as determined by the Trustee or the Fiscal Agent, result in persons that have acquired Class E Notes or Income Notes and represented that they are Benefit Plan Investors owning 25% or more of the total value of the outstanding Class E Notes or Income Notes immediately after such acquisition by the Initial Purchaser, the Liquidation Agent, the Trustee or the Fiscal Agent. Income Notes held as principal by the Initial Purchaser, the Liquidation Agent, the Trustee, the Fiscal Agent, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding for purposes of determining compliance with the 25% limitation to the extent that such a Controlling Person is not a Benefit Plan Investor. Any Benefit Plan Investor that acquires Class E Notes (other than the Regulation S Class E Notes) or Income Notes (other than the Regulation S Income Notes) will be required to represent and agree (or, in the case of the Regulation S Class E Notes or Regulation S Income Notes, will be deemed to have represented and agreed) that the acquisition and holding of the Class E Notes or Income Notes will not constitute a prohibited transaction under ERISA or Section 4975 of the Code, for which an exemption is not available. If any purchaser or transferee of Class E Notes or Income Notes is an employee benefit plan subject to Similar Law, such purchaser or transferee will be deemed to have represented and warranted that its purchase and holding of the Class E Notes Income Notes will not constitute or result in a violation of any Similar Law for which an exemption is not available.

Any entity using Plan Assets to purchase Notes, including an insurance company using general account assets, may be asked (i) to identify the maximum percentage of the assets of such entity or general account that may be or become Plan Assets, (ii) whether it is a "Controlling Person" (defined above), and (iii) without limiting the remedies that may be available in the event that the maximum percentage is thereafter exceeded, to agree to notify the Issuer, and dispose of certain Notes as instructed by the Issuer, before the specified maximum percentage is exceeded.

CERTAIN LEGAL INVESTMENT CONSIDERATIONS

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investments in the Secured Notes and the Income Notes. Any such institution should consult its legal advisors in determining whether and to what extent there may be restrictions on its ability to invest in the Secured Notes and the Income Notes. Without limiting the foregoing, any financial institution that is subject to the jurisdiction of the Comptroller of Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, any state insurance commission, or any other federal or state agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing the Secured Notes or the Income Notes. Depository institutions should review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities, which has been adopted by the respective federal regulators.

None of the Issuers or the Initial Purchaser make any representation as to the proper characterization of the Secured Notes or Income Notes for legal investment or other purposes, or as to the ability of particular investors to purchase the Secured Notes or Income Notes for legal investment or other purposes, or as to the ability of particular investors to purchase the Secured Notes or Income Notes under applicable investment restrictions. The Issuers understand that certain state insurance regulators, in response to a request for guidance, may be considering the characterization (as U.S. domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any guidance or other action

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that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Secured Notes or Income Notes) may affect the liquidity of the Secured Notes or Income Notes. Accordingly, all institutions whose activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Secured Notes or Income Notes are subject to investment, capital or other restrictions.

LEGAL MATTERS

Certain legal matters will be passed upon for the Issuer and the Initial Purchaser by Sidley Austin LLP. Certain matters with respect to Cayman Islands law will be passed upon for the Issuer by Maples and Calder, Grand Cayman, Cayman Islands.

UNDERWRITING

The Offered Notes will be offered by Goldman, Sachs & Co. (the "Initial Purchaser"), from time to time at varying prices in negotiated transactions subject to prior sale, when, as and if issued. Subject to the terms and conditions set forth in the Purchase Agreement (the "Purchase Agreement") dated as of October 25, 2006 among Goldman, Sachs & Co. and the Issuers, the Issuers have agreed to sell to Goldman, Sachs & Co. and Goldman, Sachs & Co. has agreed to purchase all of the Secured Notes and the Income Notes.

Under the terms and conditions of the Purchase Agreement, the Initial Purchaser is committed to take and pay for all the Offered Notes to be offered by it, if any are taken. Furthermore, under the terms and conditions of the Purchase Agreement, the Initial Purchaser will be entitled to an underwriting discount on the Offered Notes purchased by it and a fixed structuring fee based upon the aggregate principal amount of the Notes.

The Offered Notes purchased from the Issuers by the Initial Purchaser will be offered by it from time to time for sale in negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date.

The Notes have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. Person or a U.S. resident (as determined for purposes of the Investment Company Act, a "U.S. Resident") except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuers have been advised by (a) the Initial Purchaser that it proposes to resell the Offered Notes (a) outside the United States (in part, by Goldman, Sachs & Co., through its selling agent) in offshore transactions in reliance on Regulation S and in accordance with applicable law and (b) in the United States only to (1) Qualified Institutional Buyers in reliance on Rule 144A purchasing for their own accounts or for the accounts of Qualified Institutional Buyers or (2) in the case of the Income Notes only, Accredited Investors, which have a net worth of not less than U.S.$10 million, each of which purchasers or accounts is a Qualified Purchaser. The Initial Purchaser's discount will be the same for the Regulation S Notes and the Rule 144A Notes offered hereby and for the Income Notes within each Class of Notes.

The Initial Purchaser has acknowledged and agreed that it will not offer, sell or deliver any Regulation S Notes purchased by it to, or for the account or benefit of, any U.S. Person or U.S. Resident (as determined for purposes of the Investment Company Act) as part of its distribution at any time and that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Regulation S Notes purchased by it a confirmation or other notice setting forth the prohibition on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, any U.S. Person or U.S. Resident.

With respect to the Notes initially sold pursuant to Regulation S, until the expiration of (x) forty (40) days after the commencement of the distribution of the offering of the Secured Notes by Goldman, Sachs & Co., with respect to offers or sales of the Secured Notes and (y) one year after the commencement of the distribution of the Income Notes, with respect to offers or sales of the Income Notes purchased by the Initial Purchaser, an offer or sale

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of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Initial Purchaser has represented, warranted and agreed that: (i) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) ("FSMA") except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (FSA); (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 or in circumstances in which section 21 of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and the Initial Purchaser has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the

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"Relevant Implementation Date") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time :

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The Initial Purchaser has agreed that it has not made and will not make any invitation to the public in the Cayman Islands to purchase any of the Offered Notes.

Buyers of Regulation S Securities sold by the selling agent of Goldman, Sachs & Co. may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the purchase price.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuers or the Notes, in any jurisdiction where action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Notes are a new issue of securities with no established trading market. The Issuers have been advised by Goldman, Sachs & Co. that it may make a market in the Notes it is offering but is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes. There can be no assurance that any secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the Holders of the Notes with liquidity of investment or that it will continue for the life of the Notes.

Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained.

The Issuers have agreed to indemnify the Initial Purchaser, the Liquidation Agent, the Administrator and the Trustee and their respective directors, officers, employees and agents against certain liabilities, including in the case of the Initial Purchaser, liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof. In addition, the Issuers have made certain representations and warranties to the Initial Purchaser and have agreed to reimburse the Initial Purchaser for certain of its expenses.

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The Initial Purchaser may, from time to time as principal or through one or more investment funds that it manages, make investments in the equity securities of one or more of the issuers of Reference Obligations and Collateral Securities with the result that one or more of such issuers may be or may become controlled by the Initial Purchaser.

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APPENDIX A

Certain Defined Terms

"Accounts" means collectively, the Interest Collection Account, the Payment Account, the Expense Reserve Account, the Collateral Account (including the Cash Collateral Account), the CDS Counterparty Collateral Account, the Collateral Put Provider Account, the Amortization Shortfall Account and the Delivered Obligation Account.

"Actual Interest Amount" means with respect to any Reference Obligation Payment Date, payment by or on behalf of the Reference Entity of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the CDS Transaction but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Principal Amount" means, with respect to the Final Amortization Date or the legal final maturity date of any Reference Obligation, the amount paid on such day by or on behalf of the Reference Entity in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Rating" means with respect to any Reference Obligation, Delivered Obligation or Eligible Investment, the actual expressly monitored outstanding public rating assigned by a Rating Agency without reference to any other rating by another Rating Agency, and which rating by its terms addresses the full scope of the payment promise of the obligor on such Reference Obligation, Delivered Obligation or Eligible Investment, after taking into account any applicable guarantee or insurance policy or if no such rating is available from a Rating Agency, any "credit estimate" or "shadow rating" assigned by such Rating Agency. For purposes of this definition, (i) the rating of "Aaa" assigned by Moody's to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by Moody's by one subcategory and any other rating assigned by Moody's to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by Moody's by two subcategories, (ii) the rating assigned by S&P to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible downgrade by S&P will be deemed to have been downgraded by S&P by one subcategory, (iii) the rating of "Aa1" assigned by Moody's to a Reference Obligation, Delivered Obligation or Eligible Investment placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by Moody's by one subcategory and any other rating assigned by Moody's to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by Moody's by two subcategories and (iv) the rating assigned by S&P to a Reference Obligation, Delivered Obligation or Eligible Investment placed on watch for possible upgrade by S&P will be deemed to have been upgraded by S&P by one subcategory.

"Additional Floating Amount" means any Floating Amount described in clause (a), (b) or (c) of the definition of Floating Amounts.

"Adjusted Net Outstanding Portfolio Collateral Balance" means, on any Determination Date, the Net Outstanding Portfolio Collateral Balance reduced by the excess, if any, of (i) the product of (a) the Statistical Loss Amount and (b) the lesser of 1 and a fraction the numerator of which is U.S.$2,000,000,000 and the denominator of which is the Net Outstanding Portfolio Collateral Balance as of such Determination Date over (ii) the product of (a) U.S.$21,300,000 and (b) the lesser of 1 and a fraction the numerator of which is the Net Outstanding Portfolio Collateral Balance as of such Determination Date and denominator of which is U.S.$2,000,000,000.

"Administrative Expenses" means amounts (including indemnities) due or accrued with respect to any Payment Date and payable by the Issuer and/or the Co-Issuer to (i) the Trustee pursuant to the Indenture or any co-trustee appointed pursuant to the Indenture; (ii) the Administrator pursuant to the Administration Agreement; (iii) the independent accountants, agents (including the Note Agents under the Indenture, the Fiscal Agent and Income Notes Transfer Agent as defined under the Fiscal Agency Agreement and the Collateral Administrator under the

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Collateral Administration Agreement) and counsel of the Issuer for fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Issuers); (iv) the Liquidation Agent pursuant to the Liquidation Agency Agreement (other than the Liquidation Agent Fee); (v) the Rating Agencies for fees and expenses in connection with any rating or credit estimate (including the fees payable to the Rating Agencies for the monitoring of any rating or credit estimate) of the Notes, including fees and expenses, if any, due or accrued in connection with any rating of the Reference Obligations; (vi) any other person in respect of any governmental fee, charge or tax in relation to the Issuer or the Co-Issuer; (vii) to the liquidator(s) of the Issuer for the fees and expenses of liquidating the Issuer following the redemption of all of the Notes; (viii) the Irish Stock Exchange listing any Notes at the request of the Issuer; and (ix) any other person in respect of any other fees or expenses (including indemnities and fees relating to the provision of the Issuer's registered office) permitted under the Transaction Documents; *provided* that Administrative Expenses shall not include (a) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (b) amounts payable in respect of the Senior Swap, the Secured Notes and the Income Notes, (c) any Collateral Put Provider Fee payable under the Collateral Put Agreement and (d) any Liquidation Agent Fee payable pursuant to the Liquidation Agency Agreement.

"Aggregate Amortization Amount" means, with respect to any Payment Date calculations, the excess, if any, of (i) the Maximum Principal Amount on such date over (ii) the sum of (a) the Aggregate Reference Obligation Notional Amount and (b) the par value of any Delivered Obligations, Eligible Investments and any such amounts on deposit in the Delivered Obligations Account.

"Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds" means the least of (a) the Aggregate Moody's Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, (b) the Aggregate S&P Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, and (c) the aggregate of the Market Values of all Defaulted Obligations and Deferred Interest PIK Bonds.

"Aggregate Moody's Recovery Value" means, with respect to Defaulted Obligations and Deferred Interest PIK Bonds, the aggregate of (a) the Moody's Recovery Rate for each such asset multiplied by (b) the Principal Balance of such asset.

"Aggregate Net Adjusted Amortization Amount" means, with respect to any Payment Date the excess, if any, of (i) the Aggregate Net Amortization Amount with respect to such Payment Date over (ii) the Senior Swap Reduction Amount, if any, with respect to such Payment Date, which amount will be drawn from the Collateral Account pursuant to the Amortization Collateral Liquidation Procedure and deposited to the Payment Account for distribution in accordance with the Priority of Payments on such Payment Date. For the avoidance of doubt, the Amortization Collateral Liquidation Procedures will be applied following the Collateral Liquidation Procedure in respect of any Senior Waterfall Shortfall Amount in respect of such Payment Date.

"Aggregate Net Amortization Amount" means, with respect to any Payment Date, the excess, if any, of (i) the Aggregate Amortization Amount, if any, for such Payment Date over (ii) the Senior Waterfall Shortfall Amount, if any, for such Payment Date.

"Aggregate Outstanding Amount" means, with respect to any of the Secured Notes or Income Notes on any date of determination, the aggregate principal amount of such Secured Notes or Income Notes outstanding on such date.

"Aggregate Outstanding Portfolio Amount" means the sum of (i) the Aggregate Reference Obligation Notional Amount and (ii) the Principal Balance of the Delivered Obligations and any Eligible Investments in the Delivered Obligations Account.

"Aggregate S&P Recovery Value" means the sum of, with respect to each Defaulted Obligation and each Deferred Interest PIK Bond of the lesser of (a) the Market Value for such Defaulted Obligation or Deferred Interest PIK Bond, as applicable, and (b) the S&P Recovery Rate for such Defaulted Obligation or Deferred Interest PIK Bond multiplied by the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond.

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"Amortization Collateral Liquidation Procedure" means, in connection with the payment of any Aggregate Net Adjusted Amortization Amount, (i) *first*, by applying each amount on deposit in the Collateral Account received as principal on the Collateral Securities and Eligible Investments and (ii) *second*, once any such cash on deposit in the Collateral Account has been reduced to zero, by liquidating Eligible Investments in the Collateral Account, in each case, up to the lesser of (a) such Aggregate Net Adjusted Amortization Amount or (b) amounts available in the Collateral Account pursuant to subclause (i) above and, if necessary, (ii).

"Amortization Payment Amount" means, with respect to any Payment Date, the sum of (i) the Senior Waterfall Shortfall Amount with respect to such Payment Date and (ii) the Aggregate Net Adjusted Amortization Amount with respect to such Payment Date.

"Amortization Proceeds" means with respect to each Payment Date, the Amortization Payment Amount drawn from the Collateral Account pursuant to the Amortization Collateral Liquidation Procedure and deposited to the Payment Account for distribution pursuant to the Priority of Payments.

"Amortization Shortfall Amount" means, on any Payment Date where sufficient funds cannot be drawn from the Collateral Account pursuant to the Amortization Collateral Liquidation Procedure, the difference between the Aggregate Net Adjusted Amortization Amount for such Payment Date and the amount available from the Collateral Account on such Payment Date pursuant to the Amortization Collateral Liquidation Procedure.

"Applicable Percentage" means, on any day, a percentage equal to A divided by B, where "A" means the product of the Initial Face Amount (as such term is defined in the related CDS Transaction) and the Initial Factor (as such term is defined in the related CDS Transaction) as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Delivered Obligations delivered to the Issuer (as adjusted by the Relevant Amount, if any) divided by the Current Factor (as such term is defined in the related CDS Transaction) on such day multiplied by (b) the Initial Factor (as such term is defined in the related CDS Transaction) and where "B" means the product of the Original Principal Amount of the related Reference Obligation and the Initial Factor (as such term is defined in the related CDS Transaction); (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the outstanding principal amount of the related Reference Obligation resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.

"Applicable Recovery Rate" means, with respect to any Reference Obligation or Collateral Asset on any Determination Date, the lesser of the Moody's Recovery Rate and the S&P Recovery Rate.

"Asset-Backed Securities" or "ABS Securities" means structured finance securities which have the benefit of a financial guarantee insurance policy, or surety bond or corporate guarantee insuring or guaranteeing the timely payment of interest or the ultimate payment of interest and the ultimate payment of principal.

"Auction Payment Date" means the Auction Date on which the Secured Notes and Income Notes are redeemed in connection with a successful Auction.

"Balance" means, on any date, with respect to cash, Collateral Securities, Delivered Obligations or Eligible Investments in any account, the aggregate of the (i) current balance of cash, demand deposits, time deposits, certificates of deposit and federal funds; (ii) principal amount of interest bearing corporate and government securities, money market accounts and repurchase obligations; and (iii) purchase price or accreted value (but not greater than the face amount) of non-interest bearing government and corporate securities and commercial paper.

"BIE Acceptance Notice" means a notice from the Trustee or the Income Notes Transfer Agent, as applicable, to an Originating Noteholder specifying (i) each BIE Collateral Security that will be substituted for an existing Collateral Security, (ii) each such Collateral Security to be substituted, (iii) the BIE Exercise Period, (iv) the BIE Transaction Cost and (v) account information of the Issuer for such Originating Noteholder to deliver such BIE Collateral Security to the Issuer and to present payment of the BIE Transaction Cost to the Issuer.

"BIE Collateral Security" means any security that any Holder of a Note proposes to substitute for part or all of an existing Collateral Security pursuant to the Indenture.

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"BIE Consent Solicitation Notice" means a notice from the Trustee or the Fiscal Agent, as applicable, to each Holder of a Note, including the Originating Noteholder and the Senior Swap Counterparty with a copy to the Credit Protection Buyer specifying (i) each proposed BIE Collateral Security and its par amount, (ii) each Collateral Security to be substituted and its par amount and (iii) the BIE Notification Date.

"BIE Exercise Period" means the period from and including the delivery of a BIE Acceptance Notice to but excluding the day that is three Business Days thereafter.

"BIE Notification Date" means the Business Day by which a Holder of a Note must respond to a BIE Consent Solicitation Notice, which date shall be 20 Business Days from the date of such BIE Consent Solicitation Notice.

"BIE Transaction Cost" means an amount, as determined pursuant to the Collateral Administration Agreement, by the Collateral Administrator, on behalf of the Issuer, equal to the aggregate amount of the expenses of the Issuer and the Trustee that would be incurred as a result of the proposed substitution of each BIE Collateral Security for part or all of an existing Collateral Security including the purchase price of any such BIE Collateral Security.

"Board of Directors" means, with respect to the Issuer or the Co-Issuer, the directors of the Issuer or the Co-Issuer, as applicable, duly appointed by the shareholders or the directors of the Issuer or the Co-Issuer, as applicable.

"Calculation Amount" means, with respect to any Defaulted Obligation or Deferred Interest PIK Bond at any time, the lesser of (a) the Market Value of such Defaulted Obligation or Deferred Interest PIK Bond or (b) the Applicable Recovery Rate multiplied by the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond. For purposes of determining the Calculation Amount, the Principal Balance of a Defaulted Obligation shall be deemed to be its outstanding principal amount or Reference Obligation Notional Amount, as applicable, and the Principal Balance of a Deferred Interest PIK Bond shall be deemed to be its outstanding principal amount or Reference Obligation Notional Amount, as applicable, without regard to any deferred or capitalized interest.

"Cash Proceeds" means, with respect to any Due Period, the amount on deposit or expected to be on deposit in the Payment Account on the related Payment Date (as calculated by the Trustee two Business Days prior to such Payment Date); without taking into account any Aggregate Amortization Amount or amounts calculated in relation thereto that may be available on such Payment Date.

"Class" means each class of Secured Notes having the same Stated Maturity and same alphabetical (but not necessarily numerical) designation of any of "S", "A", "B", "C", "D" or "E" as a single class and the Income Notes as a single class.

"Class A Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided* by the Aggregate Outstanding Amount of the Class A Notes *plus* the Outstanding Notional Amount of the Senior Swap *plus* the Unreimbursed Senior Swap Funding Amount, after giving effect to payments or reductions, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class A Note Redemption Price" shall equal the Class A-f Note Redemption Price and the Class A-b Note Redemption Price.

"Class A-f Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.26%.

"Class A-f Note Redemption Price" shall equal (i) the outstanding principal amount of the Class A-f Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

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"Class A-b Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.50%.

"Class A-b Note Redemption Price" shall equal (i) the outstanding principal amount of the Class A-b Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class B Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the sum of the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes *plus* the Outstanding Notional Amount of the Senior Swap *plus* the Unreimbursed Senior Swap Funding Amount, after giving effect to payments or reductions, as applicable to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class B Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.62%.

"Class B Note Redemption Price" shall equal (i) the outstanding principal amount of the Class B Notes, *plus* (ii) accrued interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to, but excluding, the Redemption Date.

"Class C Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the sum of the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes and the Class C Notes *plus* the Outstanding Notional Amount of the Senior Swap *plus* the Unreimbursed Senior Swap Funding Amount, after giving effect to payments or reductions, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class C Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 1.60%.

"Class C Note Redemption Price" shall equal the sum of (i) the outstanding principal amount of the Class C Notes (including any Class C Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class D Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the sum of the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes *plus* the Outstanding Notional Amount of the Senior Swap *plus* the Unreimbursed Senior Swap Funding Amount, after giving effect to payments or reductions, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class D Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 3.75%.

"Class D Note Redemption Price" shall equal the sum of (i) the outstanding principal amount of the Class D Notes (including any Class D Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class D Notes Amortizing Principal Amount" means an amount equal to the lesser of (a) with respect to the first Payment Date the excess, if any, of any Proceeds remaining after payment of all amounts payable under clauses (i) through (xxi) of the Priority of Payments and $8,000,000; with respect to the Payment Date in May 2007, U.S.$350,000; with respect to any other Payment Date up to and including the Payment Date in July 2010, U.S.$250,000 and (b) the remaining principal balance of the Class D Notes (including any Deferred Interest and any Defaulted Interest and interest thereon).

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"Class E Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the sum of the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes *plus* the Outstanding Notional Amount of the Senior Swap *plus* the Unreimbursed Senior Swap Funding Amount, after giving effect to payments or reductions, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class E Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 6.75%.

"Class E Note Redemption Price" shall equal the sum of (i) the outstanding principal amount of the Class E Notes (including any Class E Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class S Note Redemption Price" means (i) the outstanding principal amount of the Class S Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class S Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.15%.

"Class S Notes Amortizing Principal Amount" means an amount equal to the lesser of (a) the sum of (i) with respect to the first Payment Date, U.S.$0 and with respect to each subsequent Payment Date, U.S.$578,125 and (ii) the aggregate amount of any Class S Notes Amortizing Principal Amounts that were due on any prior Payment Date and not paid on one or more prior Payment Dates, and (b) the remaining principal balance of the Class S Notes.

"Closing Date" means December 5, 2006.

"CMBS Conduit Securities" means Commercial Mortgage Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage Backed Securities) on the cash flow from a pool of commercial mortgage loans.

"CMBS Credit Tenant Lease Securities" means Commercial Mortgage Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases).

"CMBS Large Loan Securities" means Commercial Mortgage Backed Securities (other than CMBS Conduit Securities and CMBS Credit Tenant Lease Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage Backed Securities) on the cash flow from a commercial mortgage loan or a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties. Generally, five or fewer commercial mortgage loans shall account for more than 20% of the aggregate principal balance of the entire pool of commercial mortgage loans supporting payments on the securities.

"CMBS Repackaging Securities" means a security that entitles the holders thereof to receive payments that depend on the cash flow from a portfolio of all (100%) CMBS Securities, REIT Debt Securities and other interests in commercial mortgage loans or similar commercial real estate interests

"Collateral Account Amount" means, the par amount of Eligible Investments, Collateral Securities and principal payments received thereon on deposit in the Collateral Account.

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"Collateral Administration Agreement" means the Collateral Administration Agreement, dated as of the Closing Date, between the Issuer and the Collateral Administrator, as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms.

"Collateral Administrator" means The Bank of New York Trust Company, National Association, or any successor Collateral Administrator under the Collateral Administration Agreement.

"Collateral Asset" means a Collateral Security, Eligible Investment or Delivered Obligation.

"Collateral Liquidation Procedure" means, where specified in connection with the payment of any amount, such amount shall be drawn from the Collateral Account (i) *first*, by applying cash amounts on deposit in the Collateral Account that were received as principal payments on the Collateral Securities and Eligible Investments, (ii) *second*, once the amount of such cash on deposit in the Collateral Account has been reduced to zero, by liquidating Eligible Investments in the Collateral Account and (iii) *third*, once the principal balance of Eligible Investments on deposit in the Collateral Account has been reduced to zero, by liquidating Collateral Securities on deposit in the Collateral Account; in each case, up to the lesser of (a) the amount specified for such payment and (b) the amount and principal balance available in the Collateral Account pursuant to subclause (i) and, to the extent necessary, subclause (ii), then subclause (iii).

"Collateral Put Agreement Early Termination" means the occurrence of either a Collateral Put Agreement Event of Default or a Collateral Put Agreement Termination Event.

"Collateral Put Agreement Early Termination Date" means an early termination date under the Collateral Put Agreement (other than as triggered by the Credit Default Swap or the Basis Swap).

"Collateral Put Provider Credit Support Document" has the meaning assigned to the term "Credit Support Document" in the Collateral Put Agreement and initially, the guaranty dated as of the Closing Date by the GS Group with respect to the obligations of the Collateral Put Provider under the Collateral Put Agreement.

"Collateral Put Provider Credit Support Provider" has the meaning assigned to the term "Credit Support Provider" in the Collateral Put Agreement and, initially, the GS Group.

"Collateral Put Provider Defaulted Termination Payments" means any termination payment required to be made by the Issuer to the Collateral Put Provider pursuant to the Collateral Put Agreement in the event of a termination of the Collateral Put Agreement in respect of which such Collateral Put Provider is the sole Defaulting Party or the sole Affected Party (as defined in the Collateral Put Provider Agreement), other than with respect to "Illegality" or "Tax Event" (as defined in the Collateral Put Agreement).

"Collateral Securities" means securities or other collateral purchased by the Issuer meeting the Collateral Securities Eligibility Criteria using the proceeds of the Notes and from time to time using the principal payments thereon and securing the Issuer's obligations under the Credit Default Swap and the Indenture.

"Collateral Securities Substitution Information Notice" means a notice from the Trustee or the Fiscal Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder of the BIE Transaction Cost relating to each proposed BIE Collateral Security.

"Collateral Securities Substitution Noteholder Refusal Notice" means a notice from the Trustee or the Fiscal Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder that the Senior Swap Counterparty or the Holders of a Majority of a Class of Notes did not approve of one or more proposed BIE Collateral Securities by the BIE Notification Date.

"Collateral Securities Substitution Request Notice" means a notice from an Originating Noteholder to the Trustee or the Fiscal Agent, as applicable, (i) requesting the substitution of one or more BIE Collateral Securities for one or more existing Collateral Securities, (ii) identifying each Collateral Security and the par amount to be

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substituted, (iii) identifying each proposed BIE Collateral Security and the par amount and (iv) any other information that such Originating Noteholder deems relevant.

"Commercial Mortgage-Backed Securities" or "CMBS" means securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers and shall include, without limitation, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities and CMBS Repackaging Securities.

"Controlling Class" will be the Class S Notes, the Senior Swap and the Class A Notes (the Class A-f Notes and the Class A-b Notes voting together as a single class), for so long as any Class S Notes, the Senior Swap or Class A Notes are outstanding; if no Class S Notes, the Senior Swap or Class A Notes are outstanding, then the Class B Notes, so long as any Class B Notes are outstanding; if no Class S Notes, the Senior Swap, Class A Notes or Class B Notes are outstanding, then the Class C Notes, so long as any Class C Notes are outstanding; if no Class S Notes, the Senior Swap, Class A Notes, Class B Notes or Class C Notes are outstanding, then the Class D Notes, so long any Class D Notes are outstanding; and if no Class S Notes, the Senior Swap, Class A Notes, Class B Notes, Class C Notes or Class D Notes are outstanding, then the Class E Notes, so long as any Class E Notes are outstanding.

"Corporate Trust Office" means the principal corporate trust office of the Trustee, currently located at 601 Travis Street, 16th Floor, Houston, Texas, 77002, Attention: Hudson Mezzanine Funding 2006-1, Ltd. – Global Corporate Trust, or such other address as the Trustee may designate may designate from time to time by notice to the Noteholders, the Liquidation Agent and the Issuers or the principal corporate trust office of any successor Trustee.

"Credit Default Swap" means the credit default swap entered into by the Issuer, as Credit Protection Seller, and Goldman Sachs International, as Credit Protection Buyer, on the Closing Date, evidenced by an ISDA Master Agreement (Multicurrency Cross Border) and the Master Confirmation.

"Credit Default Swap Early Termination Date" has the meaning set forth in the Credit Default Swap.

"Credit Default Swap Termination Payment" means any termination or assignment payment required to be paid by the Issuer in the event of a termination or assignment of the Credit Default Swap. For the avoidance of doubt, no termination payments or assignment payments are required to be paid by the Issuer in the event of a termination or assignment of the Credit Default Swap in respect of which the Credit Protection Buyer is the "Defaulting Party" or the sole "Affected Party" (each as defined in the Credit Default Swap).

"Credit Protection Amounts" means Physical Settlement Amounts, Writedown Amounts, Principal Shortfall Amounts and Credit Default Swap Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) payable by the Issuer to the Credit Protection Buyer.

"Credit Protection Buyer" means Goldman Sachs International and, if Goldman Sachs International is no longer the Credit Protection Buyer, any entity required to make payments on the Credit Default Swap pursuant to the terms of the Credit Default Swap or any guarantor thereof.

"Default" means any Event of Default or any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

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"Defaulted Swap Termination Payment" means any Credit Default Swap Termination Payment or termination payment under the Senior Swap required by a bankruptcy court or receiver (in a proceeding at law or in equity) to be paid by the Issuer notwithstanding the terms of the Credit Default Swap or Senior Swap, as applicable, in the event of a termination or assignment of the Credit Default Swap or Senior Swap, as applicable, in respect of which the Credit Protection Buyer or the Senior Swap Counterparty, as applicable, is the "Defaulting Party" or the sole "Affected Party" (each as defined in the Credit Default Swap or Senior Swap, as applicable).

"Defaulted Obligation" means any Reference Obligation or Delivered Obligation with respect to which:

(i) there has occurred and is continuing for the lesser of three (3) Business Days and any applicable grace period, a default with respect to the payment of interest or principal on such Reference Obligation or Delivered Obligation in accordance with its terms; *provided* that, the Reference Obligation or Delivered Obligation shall not constitute a Defaulted Obligation if and when such default has been cured through the payment of all past due interest and principal or waived;

(ii) the Principal Balance of such Reference Obligation or Delivered Obligation has been written down;

(iii) the Trustee has received notice of any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer of such Reference Obligation or Delivered Obligation and is unstayed and undismissed; *provided*, that, if such proceeding is an involuntary proceeding, the condition of this clause (iii) will not be satisfied until the earliest of the following: (I) the issuer consents to such proceeding, (II) an order for relief under the United States Bankruptcy Code, or any similar order under a proceeding not taking place under the United States Bankruptcy Code, has been entered, and (III) such proceeding remains unstayed and undismissed for 60 days; or

(iv) such Reference Obligation or Delivered Obligation has an S&P Rating of "CC" or lower, "D" or "SD" or, if S&P withdraws its rating and the S&P Rating at the time of withdrawal is "CCC" or below or such Reference Obligation or Delivered Obligation has a Moody's Rating of "C" or lower or "Ca".

"Deferred Interest PIK Bond" means a PIK Bond with respect to which interest thereon has been deferred or capitalized more than once in the last 12 monthly periods, but only until such time as payment of interest on such PIK Bond has resumed and all capitalized or deferred interest has been paid in full in accordance with the underlying documents ; *provided* that for the purpose of calculating the Overcollateralization Ratios, (1) if a security is rated "Baa3" or above and makes payment more frequently than monthly and has deferred interest equal to the amount of interest accrued over two payment periods or one year, whichever time period is shorter, or (2) if a security is rated "Baa3" or above and makes payment on a monthly basis and has deferred interest equal to the amount of interest accrued over (i) the maximum of two payment periods and six months or (ii) one year, whichever time period is shorter, or (3) if a security is rated "Ba1" or below and makes payment more frequently than monthly and has deferred interest equal to the amount of interest accrued over one payment period or six months, whichever time period is shorter, or (4) if a security is rated "Ba1" or below and makes payment on a monthly basis and has deferred interest equal to the amount of interest accrued over (i) the maximum of one payment period and three months or (ii) six months, whichever time period is shorter, such a security shall be deemed to be Deferred Interest PIK Bond. Once such a security's deferred interest balance is reduced to zero and it has commenced the payment of current interest, it would no longer be Deferred Interest PIK Bond.

"Deliverable Obligation" means an obligation which, pursuant to the terms of the Credit Default Swap, may be delivered to the Credit Protection Seller as a result of a Credit Event.

"Delivered Obligation" means any Deliverable Obligation delivered to the Issuer pursuant to a Notice of Physical Settlement under the Credit Default Swap.

"Delivery Date" means the date on which a Deliverable Obligation is delivered to the Issuer pursuant to the Credit Default Swap.

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"Distribution Compliance Period" means, with respect to the Notes, the period that ends 40 days after the later of (i) the commencement of the offering of the Notes and (ii) the Closing Date.

"Double B Calculation Amount" means the sum of the products of (a) the Principal Balance of each Double B Rated Asset and (b) (i) when used in the context of the calculation of the Senior Overcollateralization Ratio, or the Class E Interest Diversion Test, 80%, and (ii) otherwise, (A) with respect to the aggregate Principal Balance of Double B Rated Assets in excess of 10% of the Aggregate Outstanding Portfolio Amount, 90%, and (B) with respect to the aggregate Principal Balance of all Double B Rated Assets up to 10% of the Aggregate Outstanding Portfolio Amount, 100%.

"Double B Rated Asset" means any Collateral Asset or Reference Obligation with an Actual Rating or Implied Rating from S&P less than "BBB-" but with an Actual Rating greater than "B+" or with an Actual Rating or Implied Rating from Moody's less than "Baa3" but with an Actual Rating greater than "B1."

"Eligible Bidders" are (i) any institutions, which may include affiliates of the Initial Purchaser or the Liquidation Agent and Holders of the Secured Notes and the Income Notes, whose short-term unsecured debt obligations have a rating of at least "P-1" by Moody's or "A-1+" by S&P and (ii) the Liquidation Agent.

"Eligible Depositary" shall be a financial institution organized under the laws of the United States or any state thereof, authorized to accept deposits, having a combined capital and surplus of at least U.S.$200,000,000, and having (or if its obligations are guaranteed by its parent company, its parent having), a long term debt rating of at least "Baa1" by Moody's (and if rated "Baa1", such rating is not on watch for downgrade) and "BBB+" by S&P and a short term debt rating of "P-1" by Moody's (and not on watch for downgrade) and at least "A-1" by S&P.

"Eligible Investment" means any U.S. Dollar-denominated investment that, at the time it is delivered to the Trustee, is one or more of the following obligations or securities (including security entitlements with respect thereto): (i) direct Registered obligations of, and Registered obligations fully guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States; (ii) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by, any depository institution or trust company incorporated in the United States or any state thereof, which depository institution or trust company is subject to supervision and examination by federal or state authorities, with a maturity not in excess of 183 days; and with a credit rating by S&P of at least "A-1+" or at least "AA-", as applicable, a credit rating by Moody's of at least "P-1" or at least "Aa3" (and if rated "Aa3", not on watch for downgrade), as applicable, in the case of a maturity in excess of 30 days, or a credit rating by S&P of at least "A-1" and a credit rating by Moody's of at least "P-1" (and not on watch for downgrade) in the case of a maturity of less than 30 days; (iii) repurchase obligations with respect to (a) any security described in clause (i) above or (b) any other security issued or guaranteed by an agency or instrumentality of the United States, entered into with a depository institution or trust company described in clause (ii) above or entered into with a corporation whose long-term senior unsecured rating is at least "A1" (and if rated "A1", not on watch for downgrade) by Moody's and "AA-" by S&P and whose short-term credit rating is "P-1" (and not on watch for downgrade) by Moody's and "A-1" by S&P at the time of such investment, with a term not in excess of 91 days; (iv) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of at least "Aa3" (and if rated "Aa3", not on watch for downgrade) or "P-1" (and not on watch for downgrade) by Moody's and "AA-" or "A-1" by S&P; (v) commercial paper or other short-term obligations of a corporation, partnership, limited liability company or trust, or any branch or agency thereof located in the United States or any of its territories, such commercial paper or other short-term obligations having a credit rating of "P-1" (and not on watch for downgrade) by Moody's and "A-1" by S&P, and that are Registered and either are interest bearing or are sold at a discount from the face amount thereof and have a maturity of not more than 91 days from their date of issuance; and (vi) offshore money market funds which have a credit rating of not less than "Aaa/MR1+" by Moody's and "AAA" or "AAAm" or "AAAm-G" by S&P, *provided however*, that each rating in clauses (iii) through (vi) above by Moody's or S&P shall be an Actual Rating and *provided further*, that any such investment purchased on the basis of S&P's short-term rating of "A-1" shall mature no later than 30 days after the date of purchase and may not, other than overnight investments from The Bank of New York Trust Company, National Association (so long as The Bank of New York Trust Company, National Association (1) is the Trustee under the Indenture and (2) has a short-term rating from S&P of at least "A-1"), exceed 20% of the Aggregate Outstanding Amount of the Notes rated by S&P. Eligible Investments shall not include any RMBS, CMBS, any

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inverse floater, any security subject to withholding tax if owned by the Issuer, any security subject to an offer, any interest only security, any principal only security (other than treasury bills or commercial paper) or any security with a price in excess of 100% of par. Each such Eligible Investment shall mature no later than the second Business Day immediately preceding the Payment Date next following the Due Period in which the date of investment occurs, unless such Eligible Investment is issued by the institution acting as Securities Intermediary, in which event such Eligible Investment may mature on the Business Day preceding such Payment Date. Eligible Investments may include those investments with respect to which the Securities Intermediary, the Trustee, the Liquidation Agent or the Initial Purchaser or an affiliate of the Trustee, the Liquidation Agent or the Initial Purchaser provides services. As used in this definition, ratings may not include ratings with an "r", "p", "q", "pi" or "t" subscript.

"Exercise Amount" means the amount determined in connection with a Credit Event in accordance with the related CDS Transaction.

"Expected Fixed Payment" shall have the meaning set forth in the Credit Default Swap.

"Expected Interest Amount" means with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the outstanding principal amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the underlying instruments) that are attributable to the Reference Obligation; minus (b) the "Aggregate Implied Writedown Amount" (as such term is defined in the related CDS Transaction) (if any), and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the underlying instruments, calculated in accordance with the related CDS Transaction.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the legal final maturity date of the related Reference Obligation, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the underlying instruments, minus (ii) the sum of (A) the "Aggregate Implied Writedown Amount" (as such term is defined in the related CDS Transaction) (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the underlying instruments) that are attributable to the Reference Obligation. For purposes hereof, the Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the underlying instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Final Payment Date" means a Payment Date with respect to an Optional Redemption, a Payment Date in connection with the Stated Maturity, Tax Redemption, an Auction or redemption due to an Event of Default resulting in acceleration of the Secured Notes and liquidation of the Pledged Assets.

"Floating Amounts" means with respect to any CDS Transaction, an amount equal to the sum of (a) the relevant Writedown Amount (if any), (b) the relevant Principal Shortfall Amount (if any), (c) the relevant Interest Shortfall Payment Amount (if any) and (d) the relevant Physical Settlement Amount (if any).

"Floating Amount Event" means with respect to any CDS Transaction, the occurrence of a Writedown, a Failure to Pay Principal or an Interest Shortfall (as each such term is defined in the related CDS Transaction) with respect to the Reference Obligation thereunder.

"Holder" or "Noteholder" means, with respect to any Note the person in whose name such Note is registered, or, for purposes of voting, the granting of consents and other similar determinations under the Indenture

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or Fiscal Agency Agreement, as applicable, with respect to any Notes in global form, a beneficial owner thereof. "Secured Noteholder" means, with respect to any Secured Note, the Holder of such Secured Note.

"Implied Rating" means, in the case of a rating on a Collateral Asset or Reference Obligation, a rating that is determined in accordance with the terms set forth for assets not rated by a particular Rating Agency by reference to any publicly available, fully monitored rating by another Rating Agency that, by its terms, addresses the full scope of the payment promise of the obligor.

"Income Note Face Amount" means, with respect to any Income Note, as of any date of determination, the initial principal amount of such Income Note, less the aggregated amount of all payments made on such Income Note on or prior to such date; *provided* that, the Income Note Face Amount shall not be less than U.S.$1.00.

"Income Notes Documents" means the resolutions of the Board of Directors of the Issuer authorizing the execution and delivery of the Indenture, the Memorandum and Articles of Association and the Fiscal Agency Agreement.

"Interest Proceeds" means, in respect of any Payment Date, all investment income received on the Collateral Securities and the Eligible Investments on deposit in the Collateral Account and the Fixed Rate Payments received from the Credit Protection Buyer under the Credit Default Swap in the related Due Period, which Interest Proceeds shall be deposited to the Interest Collection Account.

"Interest Shortfall" means with respect to any Reference Obligation Payment Date and any Reference Obligation, either (a) the nonpayment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount, as described in the related CDS Transaction.

"Interest Shortfall Amount" means with respect to any Reference Obligation Payment Date, an amount equal to the greater of: (a) zero; and (b) the amount equal to the product of: (i)(A) the Expected Interest Amount; minus (B) the Actual Interest Amount; and (ii) the Applicable Percentage.

"Interest Shortfall Cap" means the cap, if any on Interest Shortfalls as set forth in the related CDS Transaction.

"Interest Shortfall Cap Amount" means the amount of any Interest Shortfall Cap as set forth in the related CDS Transaction.

"Interest Shortfall Payment Amount" means in respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided* that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

"Interest Shortfall Reimbursement" means with respect to any Reference Obligation Payment Date, the payment by or on behalf of the Reference Entity of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.

"Interest Shortfall Reimbursement Payment" means with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

"Interest Shortfall Reimbursement Payment Amount" means, (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the related CDS Transaction; *provided*, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that "Interest Shortfall Compounding" is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by the Issuer in respect of Interest Shortfalls occurring prior to the date of payment of any such Additional Fixed Amount.

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"Issue" of a Collateral Asset or Reference Obligation means any such Collateral Asset or Reference Obligation issued by the same issuer, having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination) and otherwise being fungible with one another.

"Liquidation Proceeds" means, with respect to any Optional Redemption, Tax Redemption, Auction or the Final Payment Date, including, without duplication, (i) all proceeds from CDS Transactions, Collateral Securities, Eligible Investments and Delivered Obligations, terminated, assigned or otherwise disposed of in connection with such redemption and payable to the Issuer, including any termination or assignment payments or other amounts payable to the Issuer, (ii) the aggregate amount received by the Issuer on or prior to the Business Day immediately preceding the relevant Payment Date from the termination of the Senior Swap Agreement in connection with such redemption, (iii) cash on deposit in the Accounts, to the extent available therefor, including any amounts designated by the Credit Protection Buyer as retained for investment in Eligible Investments and Collateral Securities, in each case as determined by the Credit Protection Buyer, (iv) any termination payments or other amounts payable to the Issuer by the Credit Protection Buyer and (v) any payments receivable by the Issuer from any assignee of a CDS Transaction, in each case as determined by the Liquidation Agent.

"Majority" means (i) with respect to any Class or Classes of Secured Notes and the Senior Swap, the Holders of more than 50% of the Aggregate Outstanding Amount of such Class or Classes of Secured Notes and the Outstanding Notional Amount of the Senior Swap and (ii) with respect to the Income Notes, the Holders of more than 50% of the outstanding Income Notes, calculated on the basis of the Aggregate Outstanding Amount (or, if the Aggregate Outstanding Amount has been paid in full, based on the original Aggregate Outstanding Amount) of the Income Notes held by each Income Noteholder.

"Market Value" means, with respect to any Collateral Asset or Reference Obligation, (i) the average of three bona fide bids for such Collateral Asset or Reference Obligation obtained by the Liquidation Agent at such time from any three nationally recognized dealers, which dealers are independent from one another and from the Liquidation Agent, or (ii) if the Liquidation Agent is unable to obtain three such bids, the lesser of two bona fide bids for such Collateral Asset or Reference Obligation obtained by the Liquidation Agent at such time from any two nationally recognized dealers acceptable to the Liquidation Agent, which dealers are independent from one another and from the Liquidation Agent, or (iii) if the Liquidation Agent is unable to obtain two such bids, one bona fide bid for such Collateral Asset or Reference Obligation obtained by the Liquidation Agent at such time from any nationally recognized dealer acceptable to the Liquidation Agent, which dealer is independent from the Liquidation Agent, or (iv) in the event the Liquidation Agent is unable to obtain one such bid, the price on such date provided to the Liquidation Agent by an independent pricing service, or (v) in the event the Liquidation Agent cannot in good faith determine the market value of such Collateral Asset or Reference Obligation using commercially reasonable efforts to apply the methods specified in clauses (i) through (iv) above, the lesser of (a) the product of (1) the Principal Balance of such Collateral Asset or Reference Obligation and (2) the Applicable Recovery Rate and (b) the market Value as determined in good faith by the Liquidation Agent using commercially reasonable efforts to apply its reasonable business judgment. If the method of determining Market Value is based solely on clause (v) above, such Market Value shall be considered zero after 30 days until such time as the Market Value for such Collateral Asset or Reference Obligation may be determined applying the methods specified in clauses (i) through (iv) above.

"Maximum Principal Amount" means, as of any date of determination, an amount equal to the sum of the Collateral Account Amount, *plus* the Outstanding Notional Amount of the Senior Swap.

"Minimum Bid Amount" means an amount equal to the sum of (a) the Secured Note Redemption Price with respect to the Auction Payment Date, (b) the Income Note Face Amount with respect to the Auction Payment Date (or such lesser amount as is agreed to by the Holders of 100% of the Income Notes), (c) unpaid amounts due under the CDS Transactions upon termination or assignment of the CDS Transactions, (d) any unpaid amounts due under the Senior Swap, including accrued Senior Swap Premium and Unreimbursed Senior Swap Funding Amount, (e) accrued and unpaid Liquidation Agent Fees, (f) accrued and unpaid Collateral Put Provider Fees and (g) 101% of all unpaid expenses of the Issuer, less amounts on deposit in the Accounts which are available to redeem the Notes.

"Monthly Asset Amount" means, with respect to any Payment Date, the Aggregate Reference Obligation Notional Amount on the first day of the related Due Period.

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"Moody's Rating" means the rating determined in accordance with the methodology described in the Indenture.

"Moody's Recovery Rate" means, with respect to a Collateral Asset or Reference Obligation, an amount equal to the percentage for such Collateral Asset or Reference Obligation set forth in the recovery rate assumptions for Moody's attached as Part I of Schedule C to the Indenture; *provided, however*, that (A) Defaulted Obligations which exceed 2.5% of the Aggregate Outstanding Portfolio Amount and have been defaulted for more than one year will be deemed to have a Moody's Recovery Rate of 0%, (B) Defaulted Obligations which exceed 1.00% of the Aggregate Outstanding Portfolio Amount and have been defaulted for more than 2 years shall be deemed to have a Moody's Recovery Rate of 0%; and (C) Defaulted Obligations which have been defaulted for more than 3 years shall be deemed to have a Moody's Recovery Rate of 0%.

"Net Outstanding Portfolio Collateral Balance" means, on any Determination Date, an amount equal to (i) the Aggregate Reference Obligation Notional Amount on such Determination Date *plus* the Principal Balance of all Delivered Obligations, *minus* (ii) the aggregate Principal Balance on such date of determination of all Delivered Obligations that are and all CDS Transactions that reference Reference Obligations that are: (A) Defaulted Obligations, (B) Deferred Interest PIK Bonds, (C) Double B Rated Assets, (D) Single B Rated Assets and (E) Triple C Rated Assets, *plus* (iii) the Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds, the Double B Calculation Amount, the Single B Calculation Amount and the Triple C Calculation Amount. For purposes of calculating the Net Outstanding Portfolio Collateral Balance, if a Reference Obligation or a Delivered Obligation could be classified in more than one of the categories set forth in clauses (A) through (E) above, such Reference Obligation or Delivered Obligation will not be discounted multiple times but will be treated in the applicable category that results in the largest discount thereof.

"Non-Call Period" means the period commencing on and including the Closing Date and ending on but excluding the Payment Date in April 2010.

"Note Interest Rates" means, collectively, the Class S Note Interest Rate, the Class A-f Note Interest Rate, the Class A-b Note Interest Rate, the Class B Note Interest Rate, the Class C Note Interest Rate, the Class D Note Interest Rate and the Class E Note Interest Rate.

"Noteholder Communication Notice" means a notice from an Originating Noteholder to the Trustee or the Fiscal Agent, as applicable, the contents of which are to be delivered by the Trustee or the Fiscal Agent, as applicable to all other Holders of Notes in accordance with the Indenture or the Fiscal Agency Agreement, as applicable.

"Noteholder" means, with respect to any Note, the person in whose name such Note is registered, or, for purposes of voting, the granting of consents and other similar determinations under the Indenture, with respect to any Notes in global form, a beneficial owner thereof.

"Optional Termination" means, with respect to the Senior Swap, the right of the Issuer to terminate the Senior Swap, on and after the Optional Redemption Date, upon three Business Days' notice to the Senior Swap Counterparty and payment of any accrued but unpaid Senior Swap Premium Amount as calculated on such date.

"Originating Noteholder" means with respect to (i) any Collateral Securities Substitution Request Notice, the Holder(s) of a Note submitting such Collateral Securities Substitution Request Notice and (ii) any Noteholder Communication Notice, the Holder(s)of a Note submitting such Noteholder Communication Notice.

"Outstanding" or "outstanding" means (i) with respect to each Class of Secured Notes, as of any date of determination, all of such Class of Secured Notes theretofore authenticated and delivered under the Indenture and registered in the Note Register as outstanding except:

(a) Notes theretofore canceled by the Note Registrar or delivered to the Note Registrar for cancellation;

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(b) Notes or portions thereof for whose payment or redemption funds in the necessary amount have been theretofore irrevocably deposited with the Trustee or any Paying Agent in trust for the Holders of such Notes; *provided* that, if such Notes or portions thereof are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;

(c) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any such Notes are held by a Holder in due course;

(d) Notes alleged to have been mutilated, destroyed, lost or stolen for which replacement Notes have been issued as provided in the Indenture;

(e) in connection with any waiver, (i) all Notes (if any) held by the Trustee and its affiliates if the relevant waiver relates to a Default or an Event of Default arising primarily from any act or omission of the Trustee and, (ii) all Notes (if any) held by the Liquidation Agent and its affiliates if the relevant waiver relates to a Default or an Event of Default arising primarily from any act or omission of the Liquidation Agent; and

(f) in connection with the termination of the Trustee or the Liquidation Agent, as applicable, (i) all Notes (if any) held by the Trustee and its affiliates if the termination relates to a Default or an Event of Default arising primarily from any act or omission of the Trustee and (ii) all Notes (if any) held by the Liquidation Agent and its affiliates if the relevant termination relates to a Default or an Event of Default arising primarily from any act or omission of the Liquidation Agent;

(ii) with respect to the Income Notes, as of any date of determination, all of the Income Notes issued pursuant to the Income Notes Documents and indicated in the Income Notes Register as Outstanding except in connection with the termination of the Trustee or the Liquidation Agent, as applicable:

(a) all Income Notes (if any) held by the Trustee and its affiliates if the termination relates to a Default or an Event of Default arising primarily from any act or omission of the Trustee, and

(b) all Income Notes (if any) held by the Liquidation Agent and its affiliates if the relevant termination relates to a Default or an Event of Default arising primarily from any act or omission of the Liquidation Agent and

provided that in determining whether the Holders of the requisite Aggregate Outstanding Amount of the Secured Notes or Income Notes have given any request, demand, authorization, direction, notice, consent or waiver, Secured Notes or Income Notes owned by the Issuer or the Co-Issuer or any other obligor upon the Secured Notes or Income Notes or any affiliate thereof shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Issuer and the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Secured Notes and Income Notes that the Issuer or Trustee knows to be so owned shall be so disregarded. Secured Notes or Income Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Issuer and the Trustee the pledgee's right so to act with respect to such Secured Notes or Income Notes and that the pledgee is not the Issuer, the Co-Issuer, the Liquidation Agent or any other obligor upon the Secured Notes or Income Notes or any affiliate of the Issuer, the Co-Issuer, the Liquidation Agent or such other obligor.

"Outstanding Notional Amount" means, with respect to the Senior Swap, the initial notional amount specified therein as reduced from time to time in accordance with the Senior Swap.

"Outstanding Principal Amount" has the meaning set forth in the related CDS Transaction.

"Overcollateralization Ratios" means the Senior Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class D Overcollateralization Ratio, the Class E Overcollateralization Ratio, the Class A Adjusted Overcollateralization Ratio, the Class B Adjusted Overcollateralization Ratio, the Class C

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Adjusted Overcollateralization Ratio, the Class D Adjusted Overcollateralization Ratio and the Class E Adjusted Overcollateralization Ratio.

"Overcollateralization Tests" means the Senior Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test.

"PIK Bond" means a Reference Obligation or Delivered Obligation on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

"Principal Balance" means, with respect to any Reference Obligation, Collateral Security, Delivered Obligation or Eligible Investment, as of any date of determination, the Reference Obligation Notional Amount of such Reference Obligation and the outstanding principal amount of such Collateral Security, Delivered Obligation or Eligible Investment; subject to the following exceptions: (i) the Principal Balance of each Defaulted Obligation shall be deemed to be zero, except (A) for purposes of the calculation of the Coverage Tests, in which case, the Principal Balance of Defaulted Obligations shall equal their respective outstanding principal amount or Reference Obligation Notional Amount, as applicable (unless otherwise indicated in such tests), (B) for purposes of determining whether an Event of Default described in clause (vi) of the definition thereof has occurred, Defaulted Obligations shall be included at their Applicable Recovery Rate, (C) for purposes of calculating any trustee fees and the Liquidation Agent Fee, the Principal Balance of each Defaulted Obligation shall equal the Calculation Amount for such Defaulted Obligations and (D) as otherwise expressly indicated; (ii) the Principal Balance of any cash shall be the amount of such cash; (iii) the Principal Balance of any Delivered Obligation, any Collateral Securities and any Eligible Investments in which the Trustee does not have a perfected security interest shall be deemed to be zero; and (iv) the Principal Balance of any Reference Obligation, Collateral Security or Delivered Obligation that is an equity security shall be deemed to be zero.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (i) all payments of interest and principal on, or liquidation proceeds of, the Delivered Obligations and Eligible Investments on deposit in the Delivered Obligations Account received in cash by the Issuer during such Due Period, (ii) any termination payments received from the Credit Protection Buyer during such Due Period and (iii) any Additional Fixed Amounts received from the Credit Protection Buyer (other than those due to the Senior Swap Counterparty in repayment of Senior Swap Funding Payments) during such Due Period; *provided, however*, that Principal Proceeds shall not include any accrued interest or any funds from the Income Note Payment Account and all funds deposited in or credited thereto, transaction fees payable to the Issuer and its share capital on account of its ordinary shares held in its account in the Cayman Islands.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of: (i) zero; and (ii) the amount equal to the product of: (A) the Expected Principal Amount minus the Actual Principal Amount; (B) the Applicable Percentage; and (C) the Reference Price. For purposes hereof, if the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Reference Entity of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Payment" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, as of any date of determination, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal prior to such date.

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"Proceeds" means, with respect to any Due Period, without duplication, (i) all Amortization Proceeds with respect to the related Payment Date, (ii) all Interest Proceeds with respect to the related Payment Date and (iii) any amounts to be released or withdrawn on the related Payment Date from the Expense Reserve Account for deposit to the Payment Account.

"Put Excluded Collateral" means, as of any time of determination, collectively, (i) demand and time deposits that are Eligible Investments as described in clause (ii) of the definition thereof or (ii) cash.

"Rating Agency Condition" means, with respect to any action taken or to be taken under the Transaction Documents, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer and the Trustee that such action will not result in the immediate withdrawal, reduction or other adverse action with respect to any then-current rating of any Class of Notes or the Senior Swap.

"Record Date" means, (i) with respect to any Payment Date and any Notes issued in book-entry form, the close of business on the Business Day prior to such Payment Date and (ii) with respect to any Payment Date and any Notes issued in definitive form, the tenth day prior to such Payment Date (or, if such day is not a Business Day, the next succeeding Business Day).

"Redemption Date" means any Optional Redemption Date, Tax Redemption Date or Auction Payment Date.

"Reference Entity" means the issuer of a Reference Obligation.

"Reference Obligation" means a Residential Mortgage-Backed Security referenced under the Credit Default Swap.

"Reference Obligor" means the obligor on a Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to its underlying instruments. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Closing Date.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the underlying instruments as at the Closing Date, without regard to any subsequent amendment.

"Reference Obligation Notional Amount" means, with respect to each CDS Transaction, the notional amount specified therein as reduced or increased pursuant to the terms of such CDS Transaction.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for a Reference Obligation occurring on or after the Closing Date and on or prior to the scheduled termination date of the related CDS Transaction, determined in accordance with the underlying instruments and (ii) any day after the effective maturity date on which a payment is made in respect of such Reference Obligation.

"Reference Obligation Principal Amortization Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Reference Obligation Principal Payment on such date and (ii) the Applicable Percentage.

"Reference Obligation Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

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"Reference Price" means the reference price (expressed as a percentage) specified in the related CDS Transaction.

"Registered" means, with respect to any debt obligation or debt security, a debt obligation or debt security that is issued after July 18, 1984, and that is in registered form within the meaning of Section 881(c)(2)(B)(i) of the Code and the Treasury regulations promulgated thereunder.

"REIT Debt Security" means a security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision).

"Relevant Amount" means with respect to any Reference Obligation, if a servicer report that describes a Reference Obligation Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of such Reference Obligation as of a date prior to a Delivery Date but such servicer report is delivered to holders of such Reference Obligation or to the calculation agent under the related CDS Transaction on or after the related Delivery Date, an amount equal to the product of (i) the sum of any such Reference Obligation Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage (as defined in the related CDS Transaction).

"Residential Mortgage-Backed Securities" or "RMBS" means securities that represent interests in pools of residential mortgage loans secured by 1 to 4 family residential mortgage loans and shall include, without limitation, RMBS Prime Mortgage Securities, RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities.

"RMBS Midprime Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Subprime Mortgage Securities and RMBS Prime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Residential Mortgage-Backed Securities) on the cash flow from midprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by 1- to 4-family residential real estate, the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). At issuance, the loans in the portfolio underlying each such RMBS Midprime Mortgage Security will have a weighted average FICO Score greater than 625, but less than 700.

"RMBS Prime Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Subprime Mortgage Securities and RMBS Midprime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Residential Mortgage-Backed Securities) on the cash flow from prime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by 1- to 4-family residential real estate, the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). At issuance, the loans in the portfolio underlying each such RMBS Prime Mortgage Security will have a weighted average FICO Score of at least 700.

"RMBS Subprime Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Prime Mortgage Securities and RMBS Midprime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Residential Mortgage-Backed Securities) on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by 1- to 4-family residential real estate, the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). At issuance, the loans in the portfolio underlying RMBS Subprime Mortgage Security will have a weighted average FICO Score of 625 or below.

"S&P Rating" means the rating determined in accordance with the methodology described in the Indenture.

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"S&P Recovery Rate" means, with respect to a Collateral Asset or Reference Obligation, on any Determination Date, an amount equal to the percentage for such Collateral Asset or Reference Obligation set forth in the S&P Recovery Rate Matrix attached as a schedule to the Indenture (determined in accordance with procedures prescribed by S&P for such Credit Default Swap, Reference Obligation or Delivered Obligation on the date of its purchase by the Issuer or, in the case of a Defaulted Obligation, the S&P Rating immediately prior to default).

"Sale Proceeds" means all amounts representing Proceeds (including accrued interest) from the sale, assignment, termination or other disposition of any CDS Transaction, Collateral Securities, Delivered Obligation or Eligible Investment received during such Due Period, net of any reasonable amounts expended by the Liquidation Agent or the Trustee in connection with such sale or other disposition.

"Secured Note Redemption Price" means the Class S Note Redemption Price, the Class A Note Redemption Price, the Class B Note Redemption Price, the Class C Note Redemption Price and the Class D Note Redemption Price, as applicable.

"Senior Funding" means the Senior Swap and the Class A Notes.

"Senior Principal Allocation" means, if the Senior Overcollateralization Test is satisfied on the Determination Date relating to the current Payment Date and was satisfied on each Determination Date relating to each preceding Payment Date, then any Principal Proceeds available for payment to the Senior Funding will be allocated *pro rata* based on the Outstanding Notional Amount of the Senior Swap and the Outstanding Principal Amount of the Class A Notes on the Determination Date relating to such Payment Date (i) to reduce the Outstanding Notional Amount of the Senior Swap and (ii) to the payment of the Class A Notes, *provided*, that such amounts allocated to the Class A Notes will be paid (i) *first*, to the Class A-f Notes until such Class A-f Notes are paid in full, and *second*, to the Class A-b Notes until such Class A-b Notes are paid in full. If the Senior Overcollateralization Test was not satisfied on any Determination Date, including the one relating to the current Payment Date, then, unless otherwise specified in the Priority of Payments, any Principal Proceeds available for payment to the Senior Funding will be allocated *first* (i) to the reduction of the Outstanding Notional Amount of the Senior Swap, until reduced in full, and *second* (ii) *pro rata* to the Class A-f Notes and the Class A-b Notes, until such Class A Notes are paid in full.

"Servicer" means, with respect to any Issue of Reference Obligation or Collateral Asset, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for monitoring and otherwise administering the cash flows from which payments to investors in such Reference Obligation or Collateral Asset are made.

"Single B Calculation Amount" means the sum of the products of (a) the Principal Balance of each Single B Rated Asset and (b) (i) when used in the context of the calculation of the Senior Overcollateralization Ratio, 60%, (ii) when used in the context of the calculation of the Class E Interest Diversion Test, 70% and (iii) otherwise, 80%.

"Single B Rated Asset" means any Collateral Asset or Reference Obligation, that is not a Triple C Rated Asset, with an Actual Rating from S&P less than "BB-" or with an Actual Rating from Moody's less than "Ba3."

"Statistical Loss Amount" means, as of any Determination Date, the sum of, for each Reference Obligation and Collateral Asset, the product of (i) the Principal Balance of such Reference Obligation or Collateral Asset and (ii) the Moody's "Idealized" Cumulative Expected Loss Rate as set forth in the Indenture for such Reference Obligation and Collateral Asset. For purposes of the calculation of the Statistical Loss Amount on any Determination Date with respect to Single B Rated Assets, Deferred Interest PIK Bonds, Double B Rated Assets, Triple C Rated Assets, Defaulted Obligations and the principal amount of any Reference Obligations and Collateral Assets expected to be paid in full after the April 12, 2042 Payment Date, the principal amount thereof expected to be paid after the Payment Date related to such Determination Date shall be excluded.

"Step-Down Bond" means a security which by the terms of the related underlying instrument provides for a decrease, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage

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of time; *provided* that a Step-Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of calculation.

"Super Majority" means with respect to any Class of Notes and the Senior Swap, the Holders of more than 66-2/3% of the Aggregate Outstanding Amount of such Class of Notes and the Outstanding Notional Amount of the Senior Swap.

"Tax Event" means (i) the adoption of, or a change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in withholding tax payments representing in excess of 3% of the aggregate premium and interest due and payable on the Credit Default Swap and Pledged Assets during the Due Period in which such event occurs as a result of the imposition of U.S. or other withholding tax with respect to which the obligors are not required to make gross-up payments that cover the full amount of such withholding taxes on an after-tax basis or (ii) the adoption of, or change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in taxation of the Issuer's net income in an amount equal to 3% or more of the net income of the Issuer during any Due Period in which such event occurs.

"Total Redemption Amount" means the sum of (a) all amounts due as of the Redemption Date pursuant to clauses (i), (ii), (iii), (iv), (v), (xx) and (xxiii) of the Priority of Payments, (b) the Secured Note Redemption Prices and (c) the Income Note Face Amount as of the Redemption Date (or such lesser amount as is agreed to by the Holders of 100% of the Income Notes).

"Treasury" means the United States Department of the Treasury.

"Triple C Calculation Amount" means the sum of the products of (a) the Principal Balance of each Triple C Rated Asset and (b) (i) when used in the context of the calculation of the Senior Overcollateralization Ratio, 25% and (ii) otherwise, 50%.

"Triple C Rated Asset" means any Collateral Asset or Reference Obligation (other than a Defaulted Obligation) with an Actual Rating from S&P of less than "B-" or with an Actual Rating from Moody's of less than "B3."

"Unreimbursed Senior Swap Funding Amount" has the meaning set forth in the Senior Swap.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of: (i) a payment by or on behalf of the Reference Entity of an amount in respect of the Reference Obligation in reduction of any prior Writedowns; (ii)(A) an increase by or on behalf of the Reference Entity of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or (B) a decrease in the principal deficiency balance or realized loss amounts (however described in the underlying instruments) attributable to the Reference Obligation; or (iii) if "Implied Writedown" (as defined in the related CDS Transaction) is applicable and the underlying instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an "Implied Writedown Reimbursement Amount" (as defined in the related CDS Transaction) being determined in respect of the Reference Obligation by the calculation agent thereunder.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of: (i) the sum of all Writedown Reimbursements on that day; (ii) the Applicable Percentage; and (iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to any date of determination, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the

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Reference Obligation Calculation Period relating to such date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns occurring prior to such date.

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APPENDIX B

Reference Portfolio

CUSIP	Name	Issuer	Original Face	Factor	Current Face	Total Deal Par	Tranche Par	Issue Date	Coupon Index	Coupon/Margin	Maturity
004421UK7	ACE 2005-HE7 M8	ACE 2005-HE7	15,000,000	1.0000	15,000,000	1,787,611,469	21,571,000	11/28/2005	synthetic sprd	1.300%	11/25/2035
03072SV85	AMSI 2005-R11 M8	AMSI 2005-R11	15,000,000	1.0000	15,000,000	1,830,242,361	15,560,000	12/20/2005	synthetic sprd	1.300%	1/25/2036
040104NL1	ARSI 2005-W2 M6	ARSI 2005-W2	15,000,000	1.0000	15,000,000	2,750,000,000	27,500,000	9/27/2005	synthetic sprd	1.300%	10/25/2035
0738793U0	BSABS 2005-HE11 M7	BSABS 2005-HE11	15,000,000	1.0000	15,000,000	641,048,174	8,334,000	11/30/2005	synthetic sprd	1.300%	11/25/2035
126670NM8	CWL 2005-BC5 M8	CWL 2005-BC5	15,000,000	1.0000	15,000,000	949,999,828	11,400,000	12/28/2005	synthetic sprd	1.300%	1/25/2036
32027NYD7	FFML 2005-FF12 B2	FFML 2005-FF12	15,000,000	1.0000	15,000,000	1,965,157,627	21,616,000	12/28/2005	synthetic sprd	1.300%	11/25/2036
362341KK4	GSAMP 2005-HE4 B2	GSAMP 2005-HE4	15,000,000	1.0000	15,000,000	1,465,342,417	18,316,000	8/25/2005	synthetic sprd	1.300%	8/25/2035
437084QG4	HEAT 2005-8 M8	HEAT 2005-8	15,000,000	1.0000	15,000,000	1,500,000,100	15,000,000	11/1/2005	synthetic sprd	1.300%	2/25/2036
46626LAM2	JPMAC 2005-OPT1 M8	JPMAC 2005-OPT1	15,000,000	1.0000	15,000,000	1,510,095,312	18,876,000	7/26/2005	synthetic sprd	1.300%	6/25/2035
542514NJ9	LBMLT 2005-WL2 M8	LBMLT 2005-WL2	15,000,000	1.0000	15,000,000	2,755,716,668	28,935,000	8/30/2005	synthetic sprd	1.300%	8/25/2035
57643LMX1	MABS 2005-NC2 M8	MABS 2005-NC2	15,000,000	1.0000	15,000,000	902,787,580	8,576,000	11/29/2005	synthetic sprd	1.300%	11/25/2035
59020UG58	MLMI 2005-AR1 B2	MLMI 2005-AR1	15,000,000	1.0000	15,000,000	1,108,279,648	10,528,000	9/29/2005	synthetic sprd	1.300%	6/25/2036
61744CUZ7	MSAC 2005-HE5 B2	MSAC 2005-HE5	15,000,000	1.0000	15,000,000	1,486,749,917	19,333,000	10/28/2005	synthetic sprd	1.300%	9/25/2035
64352VNB3	NCHET 2005-4 M8	NCHET 2005-4	15,000,000	1.0000	15,000,000	2,080,229,977	22,900,000	8/17/2005	synthetic sprd	1.300%	9/25/2035
76112BD31	RAMP 2005-EFC4 M8	RAMP 2005-EFC4	15,000,000	1.0000	15,000,000	733,092,475	8,797,000	9/29/2005	synthetic sprd	1.300%	9/25/2035
76110W7L4	RASC 2005-KS11 M8	RASC 2005-KS11	15,000,000	1.0000	15,000,000	1,380,000,196	16,560,000	11/29/2005	synthetic sprd	1.300%	12/25/2035
81375WGK6	SABR 2005-HE1 B2	SABR 2005-HE1	15,000,000	1.0000	15,000,000	1,240,138,788	14,925,000	11/30/2005	synthetic sprd	1.300%	10/25/2035
86358EXE1	SAIL 2005-HE3 M8	SAIL 2005-HE3	15,000,000	1.0000	15,000,000	2,370,277,347	20,147,000	8/30/2005	synthetic sprd	1.300%	9/25/2035
863576DN1	SASC 2005-WF4 M8	SASC 2005-WF4	15,000,000	1.0000	15,000,000	1,962,205,522	14,717,000	11/23/2005	synthetic sprd	1.300%	11/25/2035
83611MKM9	SVHE 2005-4 M8	SVHE 2005-4	15,000,000	1.0000	15,000,000	882,999,999	11,921,000	12/21/2005	synthetic sprd	1.300%	3/25/2036
004421UL5	ACE 2005-HE7 M9	ACE 2005-HE7	15,000,000	1.0000	15,000,000	1,797,611,469	19,774,000	11/28/2005	synthetic sprd	2.450%	11/25/2035
03072SV93	AMSI 2005-R11 M9	AMSI 2005-R11	15,000,000	1.0000	15,000,000	1,830,242,361	14,640,000	12/20/2005	synthetic sprd	2.450%	1/25/2036
040104NM9	ARSI 2005-W2 M9	ARSI 2005-W2	15,000,000	1.0000	15,000,000	2,750,000,000	16,500,000	9/27/2005	synthetic sprd	2.450%	10/25/2035
0738793V8	BSABS 2005-HE11 M8	BSABS 2005-HE11	15,000,000	1.0000	15,000,000	641,048,174	7,052,000	11/30/2005	synthetic sprd	2.450%	11/25/2035
126670NN4	CWL 2005-BC5 B	CWL 2005-BC5	15,000,000	1.0000	15,000,000	949,999,828	11,875,000	12/28/2005	synthetic sprd	2.450%	1/25/2036
32027NYE5	FFML 2005-FF12 B3	FFML 2005-FF12	15,000,000	1.0000	15,000,000	1,965,157,627	19,651,000	12/28/2005	synthetic sprd	2.450%	11/25/2036
362341KL2	GSAMP 2005-HE4 B3	GSAMP 2005-HE4	15,000,000	1.0000	15,000,000	1,465,342,417	19,782,000	8/25/2005	synthetic sprd	2.450%	8/25/2035
437084QH2	HEAT 2005-8 B1	HEAT 2005-8	15,000,000	1.0000	15,000,000	1,500,000,100	12,750,000	11/1/2005	synthetic sprd	2.450%	2/25/2036
46626LAN0	JPMAC 2005-OPT1 M9	JPMAC 2005-OPT1	15,000,000	1.0000	15,000,000	1,510,095,312	15,101,000	7/26/2005	synthetic sprd	2.450%	6/25/2035
542514NK6	LBMLT 2005-WL2 M9	LBMLT 2005-WL2	15,000,000	1.0000	15,000,000	2,755,716,668	27,557,000	8/30/2005	synthetic sprd	2.450%	8/25/2035
57643LMY9	MABS 2005-NC2 M9	MABS 2005-NC2	15,000,000	1.0000	15,000,000	902,787,580	9,027,000	11/29/2005	synthetic sprd	2.450%	11/25/2035
59020UG66	MLMI 2005-AR1 B3	MLMI 2005-AR1	15,000,000	1.0000	15,000,000	1,108,279,648	11,082,000	9/29/2005	synthetic sprd	2.450%	6/25/2036
61744CVA1	MSAC 2005-HE5 B3	MSAC 2005-HE5	15,000,000	1.0000	15,000,000	1,486,749,917	15,616,000	10/28/2005	synthetic sprd	2.450%	9/25/2035
64352VNC1	NCHET 2005-4 M9	NCHET 2005-4	15,000,000	1.0000	15,000,000	2,080,229,977	22,900,000	8/17/2005	synthetic sprd	2.450%	8/25/2035
76112BD49	RAMP 2005-EFC4 M9	RAMP 2005-EFC4	15,000,000	1.0000	15,000,000	733,092,475	9,164,000	9/29/2005	synthetic sprd	2.450%	9/25/2035
76110W7M2	RASC 2005-KS11 M9	RASC 2005-KS11	15,000,000	1.0000	15,000,000	1,380,000,196	15,180,000	11/29/2005	synthetic sprd	2.450%	12/25/2035
81375WGL4	SABR 2005-HE1 B3	SABR 2005-HE1	15,000,000	1.0000	15,000,000	1,240,138,788	14,303,000	11/30/2005	synthetic sprd	2.450%	10/25/2035
86358EXF8	SAIL 2005-HE3 M9	SAIL 2005-HE3	15,000,000	1.0000	15,000,000	2,370,277,347	18,962,000	8/30/2005	synthetic sprd	2.450%	9/25/2035
863576DP6	SASC 2005-WF4 M9	SASC 2005-WF4	15,000,000	1.0000	15,000,000	1,962,205,522	14,717,000	11/23/2005	synthetic sprd	2.450%	11/25/2035
83611MKN7	SVHE 2005-4 M9	SVHE 2005-4	15,000,000	1.0000	15,000,000	882,999,999	10,155,000	12/21/2005	synthetic sprd	2.450%	3/25/2036
004421VB6	ACE 2006-NC1 M8	ACE 2006-NC1	15,000,000	1.0000	15,000,000	1,324,265,728	16,553,000	1/30/2006	synthetic sprd	1.450%	12/25/2035
040104RQ8	ARSI 2006-W1 M8	ARSI 2006-W1	15,000,000	1.0000	15,000,000	2,266,736,540	31,850,000	2/7/2006	synthetic sprd	1.450%	3/25/2036
07387UHZ7	BSABS 2006-HE3 M8	BSABS 2006-HE3	15,000,000	1.0000	15,000,000	783,431,580	11,505,000	3/30/2006	synthetic sprd	1.450%	4/25/2036
144531FF2	CARR 2006-NC1 M8	CARR 2006-NC1	15,000,000	1.0000	15,000,000	1,441,051,750	15,852,000	2/8/2006	synthetic sprd	1.450%	1/25/2036
045427AM3	CWL 2006-8 M8	CWL 2006-8	15,000,000	1.0000	15,000,000	1,999,999,998	22,000,000	6/28/2006	synthetic sprd	1.450%	1/25/2046
362334GC2	FFML 2006-FF4 M8	FFML 2006-FF4	15,000,000	1.0000	15,000,000	1,524,816,744	18,298,000	3/30/2006	synthetic sprd	1.450%	3/25/2036
36244KAN5	GSAMP 2006-HE3 M8	GSAMP 2006-HE3	15,000,000	1.0000	15,000,000	1,596,288,271	22,348,000	5/26/2006	synthetic sprd	1.450%	5/25/2036
437084VY9	HEAT 2006-4 M8	HEAT 2006-4	15,000,000	1.0000	15,000,000	1,600,000,100	16,000,000	5/1/2006	synthetic sprd	1.450%	8/25/2036

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CUSIP	Name	Issuer	Original Face	Factor	Current Face	Total Deal Par	Tranche Par	Issue Date	Coupon Index	Coupon/Margin	Maturity
46626LFV7	JPMAC 2006-FRE1 M8	JPMAC 2006-FRE1	15,000,000	1.0000	15,000,000	1,011,142,920	14,174,000	1/27/2006	synthetic sprd	1.450%	5/25/2035
542514RV8	LBMLT 2006-1 M8	LBMLT 2006-1	15,000,000	1.0000	15,000,000	2,499,990,025	25,000,000	2/7/2006	synthetic sprd	1.450%	2/25/2036
57643LNP7	MABS 2006-NC1 M8	MABS 2006-NC1	15,000,000	1.0000	15,000,000	915,168,720	11,897,000	2/24/2006	synthetic sprd	1.450%	1/25/2036
59020U3N3	MLMI 2006-HE1 B2A	MLMI 2006-HE1	15,000,000	1.0000	15,000,000	781,325,635	8,251,000	2/7/2006	synthetic sprd	1.450%	12/25/2036
61749KAP8	MSAC 2006-WMC2 B2	MSAC 2006-WMC2	15,000,000	1.0000	15,000,000	2,602,987,083	27,331,000	6/28/2006	synthetic sprd	1.450%	7/25/2036
617451FD6	MSC 2006-HE2 B2	MSC 2006-HE2	15,000,000	1.0000	15,000,000	2,266,849,639	29,469,000	4/28/2006	synthetic sprd	1.450%	3/25/2036
75156TAL4	RAMP 2006-NC2 M8	RAMP 2006-NC2	15,000,000	1.0000	15,000,000	760,001,320	7,600,000	3/2/2006	synthetic sprd	1.450%	2/25/2036
76113ABT7	RASC 2006-KS3 M8	RASC 2006-KS3	15,000,000	1.0000	15,000,000	1,150,000,002	12,650,000	3/29/2006	synthetic sprd	1.450%	4/25/2036
81375WJN7	SABR 2006-OP1 B2	SABR 2006-OP1	15,000,000	1.0000	15,000,000	1,259,700,972	11,337,000	1/26/2006	synthetic sprd	1.450%	10/25/2035
86360WAM4	SAIL 2006-4 M7	SAIL 2006-4	15,000,000	1.0000	15,000,000	2,446,422,284	19,571,000	6/30/2006	synthetic sprd	1.450%	7/25/2036
86360LAM8	SASC 2006-WF2 M8	SASC 2006-WF2	15,000,000	1.0000	15,000,000	1,299,190,814	12,342,000	6/30/2006	synthetic sprd	1.450%	7/25/2036
83612CAN9	SVHE 2006-OPT5 M8	SVHE 2006-OPT5	15,000,000	1.0000	15,000,000	3,100,000,000	38,750,000	6/19/2006	synthetic sprd	1.450%	7/25/2036
004421VC4	ACE 2006-NC1 M9	ACE 2006-NC1	15,000,000	1.0000	15,000,000	1,324,265,728	13,243,000	1/30/2006	synthetic sprd	2.650%	12/25/2035
040104RR4	ARSI 2006-W1 M9	ARSI 2006-W1	15,000,000	1.0000	15,000,000	2,266,736,540	22,750,000	2/7/2006	synthetic sprd	2.650%	3/25/2036
07387UJA0	BSABS 2006-HE3 M9	BSABS 2006-HE3	15,000,000	1.0000	15,000,000	793,431,580	9,124,000	3/30/2006	synthetic sprd	2.650%	4/25/2036
144531FG0	CARR 2006-NC1 M9	CARR 2006-NC1	15,000,000	1.0000	15,000,000	1,441,051,750	14,410,000	2/8/2006	synthetic sprd	2.650%	1/25/2036
045427AN1	CWL 2006-8 M9	CWL 2006-8	15,000,000	1.0000	15,000,000	1,999,999,998	17,000,000	6/28/2006	synthetic sprd	2.650%	1/25/2046
362334GJ7	FFML 2006-FF4 B1	FFML 2006-FF4	15,000,000	1.0000	15,000,000	1,524,816,744	12,961,000	3/30/2006	synthetic sprd	2.650%	3/25/2036
36244KAP0	GSAMP 2006-HE3 M9	GSAMP 2006-HE3	15,000,000	1.0000	15,000,000	1,596,286,271	19,156,000	5/26/2006	synthetic sprd	2.650%	5/25/2036
437084VZ6	HEAT 2006-4 B1	HEAT 2006-4	15,000,000	1.0000	15,000,000	1,600,000,100	11,200,000	5/1/2006	synthetic sprd	2.650%	8/25/2036
46626LFW5	JPMAC 2006-FRE1 M9	JPMAC 2006-FRE1	15,000,000	1.0000	15,000,000	1,011,142,920	11,136,000	1/27/2006	synthetic sprd	2.650%	5/25/2035
542514RW6	LBMLT 2006-1 M9	LBMLT 2006-1	15,000,000	1.0000	15,000,000	2,499,990,025	20,000,000	2/7/2006	synthetic sprd	2.650%	2/25/2036
57643LNQ5	MABS 2006-NC1 M9	MABS 2006-NC1	15,000,000	1.0000	15,000,000	915,168,720	7,778,000	2/24/2006	synthetic sprd	2.650%	1/25/2036
59020U3Q6	MLMI 2006-HE1 B3A	MLMI 2006-HE1	15,000,000	1.0000	15,000,000	781,325,635	5,079,000	2/7/2006	synthetic sprd	2.650%	12/25/2036
61749KAQ6	MSAC 2006-WMC2 B3	MSAC 2006-WMC2	15,000,000	1.0000	15,000,000	2,602,987,083	26,030,000	6/28/2006	synthetic sprd	2.650%	7/25/2036
617451FE4	MSC 2006-HE2 B3	MSC 2006-HE2	15,000,000	1.0000	15,000,000	2,266,849,639	23,802,000	4/28/2006	synthetic sprd	2.650%	3/25/2036
75156TAM2	RAMP 2006-NC2 M9	RAMP 2006-NC2	15,000,000	1.0000	15,000,000	760,001,320	7,600,000	3/2/2006	synthetic sprd	2.650%	2/25/2036
76113ABU4	RASC 2006-KS3 M9	RASC 2006-KS3	15,000,000	1.0000	15,000,000	1,150,000,002	11,500,000	3/29/2006	synthetic sprd	2.650%	4/25/2036
81375WJP2	SABR 2006-OP1 B3	SABR 2006-OP1	15,000,000	1.0000	15,000,000	1,259,700,972	12,597,000	1/26/2006	synthetic sprd	2.650%	10/25/2035
86360WAN2	SAIL 2006-4 M8	SAIL 2006-4	15,000,000	1.0000	15,000,000	2,446,422,284	18,348,000	6/30/2006	synthetic sprd	2.650%	7/25/2036
86360LAN6	SASC 2006-WF2 M9	SASC 2006-WF2	15,000,000	1.0000	15,000,000	1,299,190,814	18,189,000	6/30/2006	synthetic sprd	2.650%	7/25/2036
83612CAP4	SVHE 2006-OPT5 M9	SVHE 2006-OPT5	15,000,000	1.0000	15,000,000	3,100,000,000	34,100,000	6/19/2006	synthetic sprd	2.650%	7/25/2036
04541GTS1	ABSHE 2005-HE6 M8	ABSHE 2005-HE6	13,000,000	1.0000	13,000,000	1,500,817,890	15,759,000	8/4/2005	synthetic sprd	1.150%	7/25/2035
04544PAN9	ABSHE 2006-HE5 M8	ABSHE 2006-HE5	13,000,000	1.0000	13,000,000	914,255,803	8,685,000	7/18/2006	synthetic sprd	1.150%	7/25/2036
126673L75	AMIT 2005-2 M8	AMIT 2005-2	13,000,000	1.0000	13,000,000	1,158,340,680	14,479,000	5/31/2005	synthetic sprd	1.150%	7/25/2035
03072SA82	AMSI 2005-R3 M8	AMSI 2005-R3	13,000,000	1.0000	13,000,000	2,000,000,163	10,000,000	4/27/2005	synthetic sprd	1.150%	5/25/2035
14453EAM4	CARR 2006-RFC1 M8	CARR 2006-RFC1	13,000,000	1.0000	13,000,000	768,451,036	10,758,000	5/24/2006	synthetic sprd	1.150%	5/25/2036
1266708C1	CWL 2005-10 MV8	CWL 2005-10	13,000,000	1.0000	13,000,000	500,000,000	6,000,000	9/20/2005	synthetic sprd	1.150%	2/25/2036
32027NUT6	FFML 2005-FF7 M8	FFML 2005-FF7	13,000,000	1.0000	13,000,000	893,997,514	10,728,000	8/26/2005	synthetic sprd	1.150%	7/25/2035
35729PPJ3	FHLT 2006-1 M7	FHLT 2006-1	13,000,000	1.0000	13,000,000	1,009,982,562	13,635,000	4/13/2006	synthetic sprd	1.150%	4/25/2036
35729PQF0	FHLT 2006-2 M7	FHLT 2006-2	13,000,000	1.0000	13,000,000	983,091,385	13,272,000	4/28/2006	synthetic sprd	1.150%	2/25/2036
3623415A3	GSAMP 2006-HE1 M8	GSAMP 2006-HE1	13,000,000	1.0000	13,000,000	962,620,855	13,528,000	2/17/2006	synthetic sprd	1.150%	1/25/2036
40430KAP6	HASC 2006-OPT4 M7	HASC 2006-OPT4	13,000,000	1.0000	13,000,000	959,655,418	13,435,000	4/28/2006	synthetic sprd	1.150%	3/25/2036
46628RAN5	JPMAC 2006-ACC1 M8	JPMAC 2006-ACC1	13,000,000	1.0000	13,000,000	716,064,802	7,540,000	6/2/2006	synthetic sprd	1.150%	5/25/2036
46626LGP9	JPMAC 2006-HE1 M8	JPMAC 2006-HE1	13,000,000	1.0000	13,000,000	619,359,045	7,123,000	2/28/2006	synthetic sprd	1.150%	1/25/2036
61744CYX8	MSHEL 2006-2 B2	MSHEL 2006-2	13,000,000	1.0000	13,000,000	996,245,245	14,446,000	3/30/2006	synthetic sprd	1.150%	2/25/2036
64352VPG0	NCHET 2005-C M8	NCHET 2005-C	13,000,000	1.0000	13,000,000	1,994,778,882	23,034,000	12/8/2005	synthetic sprd	1.150%	12/25/2035
65987WCU9	NHEL 2005-2 M8	NHEL 2005-2	13,000,000	1.0000	13,000,000	1,800,000,000	13,500,000	5/27/2005	synthetic sprd	1.150%	10/25/2035
65988VAM0	NHEL 2006-2 M7	NHEL 2006-2	13,000,000	1.0000	13,000,000	1,021,102,080	6,127,000	6/15/2006	synthetic sprd	1.150%	8/25/2036
68402CAN4	OOMLT 2006-2 M8	OOMLT 2006-2	13,000,000	1.0000	13,000,000	1,499,998,976	12,000,000	6/29/2006	synthetic sprd	1.150%	7/25/2036
69121PDP5	OWNIT 2006-2 B2	OWNIT 2006-2	13,000,000	1.0000	13,000,000	585,992,346	9,981,000	3/9/2006	synthetic sprd	1.150%	1/25/2037
75406AAL3	RASC 2006-EMX2 M8	RASC 2006-EMX2	13,000,000	1.0000	13,000,000	570,000,007	8,550,000	2/23/2006	synthetic sprd	1.150%	2/25/2036
81375WDJ2	SABR 2005-EC1 B2	SABR 2005-EC1	13,000,000	1.0000	13,000,000	358,007,813	3,580,000	3/30/2005	synthetic sprd	1.150%	1/25/2035
81375WCX2	SABR 2005-OP1 B2	SABR 2005-OP1	13,000,000	1.0000	13,000,000	1,319,193,830	11,213,000	3/24/2005	synthetic sprd	1.150%	1/25/2035
86359B6K2	SASC 2005-WMC1 M4	SASC 2005-WMC1	13,000,000	1.0000	13,000,000	335,067,032	8,544,000	3/11/2005	synthetic sprd	1.150%	1/25/2035

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CUSIP	Name	Issuer	Original Face	Factor	Current Face	Total Deal Par	Tranche Par	Issue Date	Coupon Index	Coupon/Margin	Maturity
805564SK8	SAST 2005-2 B2	SAST 2005-2	13,000,000	1.0000	13,000,000	980,000,000	9,800,000	6/7/2005	synthetic sprd	1.150%	10/25/2035
84751PKL2	SURF 2006-BC1 B2A	SURF 2006-BC1	13,000,000	1.0000	13,000,000	1,500,000,388	12,000,000	2/21/2006	synthetic sprd	1.150%	12/25/2036
04541GRC8	ABSHE 2005-HE3 M9	ABSHE 2005-HE3	13,000,000	1.0000	13,000,000	783,876,981	7,055,000	4/4/2005	synthetic sprd	2.100%	4/25/2035
00437NAN2	ACCR 2006-2 M9	ACCR 2006-2	13,000,000	1.0000	13,000,000	1,400,000,000	21,700,000	6/29/2006	synthetic sprd	2.100%	9/25/2036
004421XQ1	ACE 2006-ASP2 M9	ACE 2006-ASP2	13,000,000	1.0000	13,000,000	561,768,074	5,618,000	3/30/2006	synthetic sprd	2.100%	3/25/2036
03072SM85	AMSI 2005-R8 M9	AMSI 2005-R8	13,000,000	1.0000	13,000,000	1,416,191,359	10,620,000	9/28/2005	synthetic sprd	2.100%	10/25/2035
0738795K0	BSABS 2005-EC1 M8	BSABS 2005-EC1	13,000,000	1.0000	13,000,000	704,187,774	6,802,000	12/30/2005	synthetic sprd	2.100%	11/25/2035
07387UBE0	BSABS 2006-PC1 M8	BSABS 2006-PC1	13,000,000	1.0000	13,000,000	480,119,392	6,241,000	1/30/2006	synthetic sprd	2.100%	12/25/2035
14453FAN9	CARR 2006-NC2 M9	CARR 2006-NC2	13,000,000	1.0000	13,000,000	941,444,817	8,473,000	6/21/2006	synthetic sprd	2.100%	6/25/2036
12498QAN8	CBASS 2006-CB4 B3	CBASS 2006-CB4	13,000,000	1.0000	13,000,000	520,639,704	5,206,000	6/1/2006	synthetic sprd	2.100%	5/25/2036
17307GUZ9	CMLTI 2005-OPT4 M9	CMLTI 2005-OPT4	13,000,000	1.0000	13,000,000	967,048,148	7,776,000	9/8/2005	synthetic sprd	2.100%	7/25/2035
126673J94	ECR 2005-2 B	ECR 2005-2	13,000,000	1.0000	13,000,000	1,400,041,523	14,000,000	5/27/2005	synthetic sprd	2.100%	11/25/2035
29445FCW6	EMLT 2005-1 M9	EMLT 2005-1	13,000,000	1.0000	13,000,000	767,546,571	7,675,000	3/17/2005	synthetic sprd	2.100%	4/25/2035
86359DBT3	FFML 2005-FF3 M9	FFML 2005-FF3	13,000,000	1.0000	13,000,000	770,270,704	7,703,000	4/29/2005	synthetic sprd	2.100%	4/25/2035
320278AN4	FFML 2006-FF8 M9	FFML 2006-FF8	13,000,000	1.0000	13,000,000	847,664,524	5,934,000	6/29/2006	synthetic sprd	2.100%	7/25/2036
35729PKE9	FHLT 2005-B M10	FHLT 2005-B	13,000,000	1.0000	13,000,000	982,866,992	13,269,000	5/6/2005	synthetic sprd	2.100%	4/25/2035
31659TFJ9	FMIC 2006-1 M9	FMIC 2006-1	13,000,000	1.0000	13,000,000	933,000,000	9,330,000	3/23/2006	synthetic sprd	2.100%	5/25/2036
31659EAN8	FMIC 2006-2 M9	FMIC 2006-2	13,000,000	1.0000	13,000,000	800,000,000	8,000,000	7/6/2006	synthetic sprd	2.100%	7/25/2036
367910AN6	GEWMC 2005-1 B3	GEWMC 2005-1	13,000,000	1.0000	13,000,000	1,027,816,852	11,823,000	9/28/2005	synthetic sprd	2.100%	10/25/2035
362463AP6	GSAMP 2006-NC2 M9	GSAMP 2006-NC2	13,000,000	1.0000	13,000,000	881,499,701	7,052,000	6/29/2006	synthetic sprd	2.100%	6/25/2036
46629BBB4	JPMAC 2006-CW2 MV9	JPMAC 2006-CW2	13,000,000	1.0000	13,000,000	349,984,974	8,354,000	8/8/2006	synthetic sprd	2.100%	8/25/2036
68389FKZ6	OOMLT 2006-1 M9	OOMLT 2006-1	13,000,000	1.0000	13,000,000	3,021,905,085	25,688,000	2/3/2006	synthetic sprd	2.100%	1/25/2036
73316PKB5	POPLR 2006-A M6	POPLR 2006-A	13,000,000	1.0000	13,000,000	330,002,299	3,300,000	1/31/2006	synthetic sprd	2.100%	2/25/2036
76112BVX5	RAMP 2005-EFC2 M9	RAMP 2005-EFC2	13,000,000	1.0000	13,000,000	702,518,131	7,727,000	7/28/2005	synthetic sprd	2.100%	7/25/2035
76110W2Q8	RASC 2005-EMX2 M9	RASC 2005-EMX2	13,000,000	1.0000	13,000,000	641,955,156	6,419,000	6/29/2005	synthetic sprd	2.100%	7/25/2035
32027GAP1	FFML 2006-FF12 M9	FFML 2006-FF12	13,000,000	1.0000	13,000,000	1,049,648,742	6,823,000	8/30/2006	synthetic sprd	2.100%	9/25/2036
83611MMU9	SVHE 2006-OPT2 M8	SVHE 2006-OPT2	13,000,000	1.0000	13,000,000	1,600,000,000	15,200,000	4/7/2006	synthetic sprd	2.100%	5/25/2036
9497EUAR8	WFHET 2006-1 M9	WFHET 2006-1	13,000,000	1.0000	13,000,000	1,096,234,530	5,481,000	5/30/2006	synthetic sprd	2.100%	5/25/2036
75156UAM9	RAMP 2006-RZ2 M9	RAMP 2006-RZ2	13,000,000	1.0000	13,000,000	374,801,739	3,375,000	5/5/2006	synthetic sprd	2.100%	5/25/2036
36242D4C4	GSAA 2005-6 B2	GSAA 2005-6	15,500,000	1.0000	15,500,000	1,075,395,864	5,376,000	5/27/2005	synthetic sprd	1.150%	6/25/2035
362341CZ0	GSAA 2005-8 B2	GSAA 2005-8	15,500,000	1.0000	15,500,000	603,883,576	3,019,000	6/29/2005	synthetic sprd	1.150%	6/25/2035
36242DWY5	GSAA 2005-3 B3	GSAA 2005-3	15,500,000	1.0000	15,500,000	383,549,932	1,916,000	2/25/2005	synthetic sprd	2.100%	12/25/2034
362334CB8	GSAA 06-3 B3	GSAA 06-3	15,500,000	1.0000	15,500,000	1,007,563,693	5,038,000	2/24/2006	synthetic sprd	2.100%	3/25/2036
362348AJ3	GSAA 06-8 B1	GSAA 06-8	15,500,000	1.0000	15,500,000	1,304,794,506	7,828,000	4/28/2006	synthetic sprd	1.150%	5/25/2036
362381AK1	GSAA 06-12 B2	GSAA 06-12	15,500,000	1.0000	15,500,000	1,035,238,369	5,177,000	7/28/2006	synthetic sprd	2.100%	8/25/2036
36298YAJ9	GSAA 06-14 B1	GSAA 06-14	15,500,000	1.0000	15,500,000	1,332,768,190	12,661,000	8/25/2006	synthetic sprd	1.150%	9/25/2036
362256AL3	GSAA 06-16 B2	GSAA 06-16	15,500,000	1.0000	15,500,000	1,452,206,105	7,262,000	9/28/2006	synthetic sprd	2.100%	10/25/2036

GS MBS-E-021821356

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CUSIP	Name	Moodys	Moodys Notch	S&P	S&P Notch	Asset Type	Avg Life	Servicer
004421UK7	ACE 2005-HE7 M8	Baa2	Baa2	A	A	RMBS Midprime	4.30	Litton Loan Servicing LP
03072SV85	AMSI 2005-R11 M8	Baa2	Baa2	A-	A-	RMBS Subprime	4.30	Ameriquest Mortgage Company
040104NL1	ARSI 2005-W2 M8	Baa2	Baa2	A-	A-	RMBS Subprime	4.01	Ameriquest Mortgage Company
0738793U0	BSABS 2005-HE11 M7	Baa2	Baa2	BBB	BBB	RMBS Midprime	4.19	EMC Mortgage Corporation
126670NM6	CWL 2005-BC5 M8	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.03	Countrywide Home Loans Servicing LP
32027NYD7	FFML 2005-FF12 B2	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.61	National City Home Loan Services, Inc.
362341KK4	GSAMP 2005-HE4 B2	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	3.87	JP Morgan Chase Bank, N.A.
437084QG4	HEAT 2005-8 M8	Baa2	Baa2	A-	A-	RMBS Midprime	4.21	Select Portfolio Servicing
46626LAM2	JPMAC 2005-OPT1 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	3.60	Option One Mortgage Corporation
542514NJ9	LBMLT 2005-WL2 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	3.93	Long Beach Mortgage Company
57643LMX1	MABS 2005-NC2 M8	Baa2	Baa2	A+	A+	RMBS Midprime	4.37	Ocwen Loan Servicing, LLC
59020UG58	MLMI 2005-AR1 B2	Baa2	Baa2	A-	A-	RMBS Midprime	3.72	Wilshire Credit Corporation
61744CUZ7	MSAC 2005-HE5 B2	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.02	Countrywide Home Loans Servicing LP
64352VNB3	NCHET 2005-4 M8	Baa2	Baa2	BBB	BBB	RMBS Midprime	3.92	New Century Mortgage Corporation
76112BD31	RAMP 2005-EFC4 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.29	Residential Funding Corporation
76110W7L4	RASC 2005-KS11 M8	Baa2	Baa2	A	A	RMBS Subprime	4.36	Residential Funding Corporation
81375WGK8	SABR 2005-HE1 B2	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.12	Countrywide HomeLoans Servicing LP^ and HomEq Servicing Corporation
86358EXE1	SAIL 2005-HE3 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	3.97	Option One Mortgage Corporation
863576DN1	SASC 2005-WF4 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.32	Wells Fargo Bank, N.A.
83611MKM9	SVHE 2005-4 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.25	Countrywide Home Loans Servicing LP, JPMorgan Chase Bank N.A., National City Home Loan Services, Inc.
004421UL5	ACE 2005-HE7 M9	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.29	Litton Loan Servicing LP
03072SV93	AMSI 2005-R11 M9	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.30	Ameriquest Mortgage Company
040104NM9	ARSI 2005-W2 M9	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.00	Ameriquest Mortgage Company
0738793V8	BSABS 2005-HE11 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.19	EMC Mortgage Corporation
126670NN4	CWL 2005-BC5 B	Baa3	Baa3	BBB	BBB	RMBS Subprime	4.02	Countrywide Home Loans Servicing LP
32027NYE5	FFML 2005-FF12 B3	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.61	National City Home Loan Services, Inc.
362341KL2	GSAMP 2005-HE4 B3	Baa3	Baa3	BBB	BBB	RMBS Midprime	3.87	JP Morgan Chase Bank, N.A.
437084QH2	HEAT 2005-8 B1	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.21	Select Portfolio Servicing
46626LAN0	JPMAC 2005-OPT1 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	3.58	Option One Mortgage Corporation
542514NK6	LBMLT 2005-WL2 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	3.92	Long Beach Mortgage Company
57643LMY9	MABS 2005-NC2 M9	Baa3	Baa3	A	A	RMBS Midprime	4.37	Ocwen Loan Servicing, LLC
59020UG66	MLMI 2005-AR1 B3	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	3.72	Wilshire Credit Corporation
61744CVA1	MSAC 2005-HE5 B3	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.01	Countrywide Home Loans Servicing LP
64352VNC1	NCHET 2005-4 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	3.92	New Century Mortgage Corporation
76112BD49	RAMP 2005-EFC4 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.29	Residential Funding Corporation
76110W7M2	RASC 2005-KS11 M9	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.38	Residential Funding Corporation
81375WGL4	SABR 2005-HE1 B3	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.12	Countrywide HomeLoans Servicing LP and HomEq Servicing Corporation
86358EXF8	SAIL 2005-HE3 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	3.95	Option One Mortgage Corporation
863576DP8	SASC 2005-WF4 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	4.31	Wells Fargo Bank, N.A.
83611MKN7	SVHE 2005-4 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.25	Countrywide Home Loans Servicing LP, JPMorgan Chase Bank N.A., National City Home Loan Services, Inc.
004421VB6	ACE 2006-NC1 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.39	Saxon Mortgage Services, Inc.
040104RQ8	ARSI 2006-W1 M8	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.47	Ameriquest Mortgage Company
07387UHZ7	BSABS 2006-HE3 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.56	Wells Fargo Bank, N.A.
144531FF2	CARR 2006-NC1 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.57	New Century Mortgage Corporation
045427AM3	CWL 2006-8 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.99	Countrywide Home Loans Servicing LP
362334GC2	FFML 2006-FF4 M8	Baa2	Baa2	A-	A-	RMBS Midprime	4.72	National City Home Loan Services, Inc.
36244KAN5	GSAMP 2006-HE3 M8	Baa2	Baa2	A-	A-	RMBS Midprime	4.79	Litton Loan Servicing LP
437084VY9	HEAT 2006-4 M8	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.68	Wells Fargo Bank, N.A.
46626LFV7	JPMAC 2006-FRE1 M8	Baa2	Baa2	BBB	BBB	RMBS Midprime	4.35	JP Morgan Chase Bank, N.A.
542514RV8	LBMLT 2006-1 M8	Baa2	Baa2	A-	A-	RMBS Midprime	4.55	Washington Mutual Bank
57643LNP7	MABS 2006-NC1 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.46	Wells Fargo Bank, N.A.

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GS MBS-E-021821358

CUSIP	Name	Moodys	Moodys Notch	S&P	S&P Notch	Asset Type	Avg Life	Servicer
59020U3N3	MLMI 2006-HE1 B2A	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.47	Wilshire Credit Corporation
61749KAP8	MSAC 2006-WMC2 B2	Baa2	Baa2	BBB	BBB	RMBS Midprime	4.96	Wells Fargo Bank, N.A.
617451FD6	MSC 2006-HE2 B2	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.93	Wells Fargo Bank, N.A.
75156TAL4	RAMP 2006-NC2 M8	Baa2	Baa2	BBB	BBB	RMBS Midprime	4.56	Residential Funding Corporation
76113ABT7	RASC 2006-KS3 M8	Baa2	Baa2	A-	A-	RMBS Subprime	4.68	Residential Funding Corporation
81375WJN7	SABR 2006-OP1 B2	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.17	Option One Mortgage Corporation
86360WAM4	SAIL 2006-4 M7	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.05	Option One Mortgage Corporation
86360LAM8	SASC 2006-WF2 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	5.32	Wells Fargo Bank, N.A.
83612CAN9	SVHE 2006-OPT5 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.88	Option One Mortgage Corporation
004421VC4	ACE 2006-NC1 M9	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	5.00	Saxon Mortgage Services, Inc.
040104RR4	ARSI 2006-W1 M9	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.47	Ameriquest Mortgage Company
07387UJA0	BSABS 2006-HE3 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	5.00	Wells Fargo Bank, N.A.
144531FG0	CARR 2006-NC1 M9	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.57	New Century Mortgage Corporation
045427AN1	CWL 2006-8 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	5.00	Countrywide Home Loans Servicing LP
362334GJ7	FFML 2006-FF4 B1	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.72	National City Home Loan Services, Inc.
36244KAP0	GSAMP 2006-HE3 M9	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.79	Litton Loan Servicing LP
437084VZ6	HEAT 2006-4 B1	Baa3	Baa3	BBB	BBB	RMBS Subprime	4.68	Wells Fargo Bank, N.A.
46626LFW5	JPMAC 2006-FRE1 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.35	JP Morgan Chase Bank, N.A.
542514RW6	LBMLT 2006-1 M9	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.54	Washington Mutual Bank
57643LNQ5	MABS 2006-NC1 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.45	Wells Fargo Bank, N.A.
59020U3Q6	MLMI 2006-HE1 B3A	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.46	Wilshire Credit Corporation
61749KAQ6	MSAC 2006-WMC2 B3	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.96	Wells Fargo Bank, N.A.
617451FE4	MSC 2006-HE2 B3	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.93	Wells Fargo Bank, N.A.
75156TAM2	RAMP 2006-NC2 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.56	Residential Funding Corporation
76113ABU4	RASC 2006-KS3 M9	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.68	Residential Funding Corporation
81375WJP2	SABR 2006-OP1 B3	Baa3	Baa3	BBB	BBB	RMBS Subprime	4.16	Option One Mortgage Corporation
86360WAN2	SAIL 2006-4 M8	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	4.86	Option One Mortgage Corporation
86360LAN6	SASC 2006-WF2 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	5.26	Wells Fargo Bank, N.A.
83612CAP4	SVHE 2006-OPT5 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	4.88	Option One Mortgage Corporation
04541GTS1	ABSHE 2005-HE6 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	3.68	Option One Mortgage Corporation
04544PAN9	ABSHE 2006-HE5 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	5.00	Option One Mortgage Corporation
126673L75	AMIT 2005-2 M8	Baa2	Baa2	A	A	RMBS Subprime	2.57	Aames Capital Corporation
03072SA62	AMSI 2005-R3 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	3.11	Ameriquest Mortgage Company
14453EAM4	CARR 2006-RFC1 M8	Baa2	Baa2	A	A	RMBS Subprime	4.79	HomeComings Financial Network, Inc.
126670BC1	CWL 2005-10 MV8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.32	Countrywide Home Loans Servicing LP
32027NUT6	FFML 2005-FF7 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	3.99	Countrywide Home Loans Servicing LP
35729PPJ3	FHLT 2006-1 M7	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.57	Fremont Investment & Loan
35729PQF0	FHLT 2006-2 M7	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.55	Fremont Investment & Loan
3623415A3	GSAMP 2006-HE1 M8	Baa2	Baa2	A-	A-	RMBS Midprime	4.75	Litton Loan Servicing LP
40430KAP6	HASC 2006-OPT4 M7	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.82	Option One Mortgage Corporation
46628RAN5	JPMAC 2006-ACC1 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.57	Accredited Home Lenders, Inc.and JP Morgan Chase, N.A.
46626LGP9	JPMAC 2006-HE1 M8	Baa2	Baa2	BBB	BBB	RMBS Midprime	4.42	JP Morgan Chase Bank, N.A. and ResMAE Mortgage Corporation
61744CYX8	MSHEL 2006-2 B2	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	4.68	Homeq Servicing Corporation
64352VPG0	NCHET 2005-C M8	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.41	JP Morgan Chase Bank, National Association
66987WCU9	NHEL 2005-2 M8	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	3.48	NovaStar Mortgage, Inc.
66986VAM0	NHEL 2006-2 M7	Baa2	Baa2	A	A	RMBS Subprime	4.89	NovaStar Mortgage, Inc.
68402CAN4	OOMLT 2006-2 M8	Baa2	Baa2	BBB	BBB	RMBS Subprime	4.88	Option One Mortgage Corporation
69121PDP5	OWNIT 2006-2 B2	Baa2	Baa2	A-	A-	RMBS Midprime	4.81	Litton Loan Servicing LP
75406AAL3	RASC 2006-EMX2 M8	Baa2	Baa2	A-	A-	RMBS Subprime	4.70	Residential Funding Corporation
81375WDJ2	SABR 2005-EC1 B2	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	2.58	Countrywide Home Loans Servicing LP
81375WCX2	SABR 2005-OP1 B2	Baa2	Baa2	BBB	BBB	RMBS Subprime	2.72	Option One Mortgage Corporation
86359B6K2	SASC 2005-WMC1 M4	Baa2	Baa2	BBB	BBB	RMBS Midprime	3.03	Aurora Loan Services
805564SK8	SAST 2005-2 B2	Baa2	Baa2	BBB	BBB	RMBS Subprime	2.69	Saxon Mortgage Services, Inc.

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CUSIP	Name	Moodys	Moodys Notch	S&P	S&P Notch	Asset Type	Avg Life	Servicer
84751PKL2	SURF 2006-BC1 B2A	Baa2	Baa2	BBB+	BBB+	RMBS Subprime	4.62	Wilshire Credit Corporation
04541GRC8	ABSHE 2005-HE3 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	3.12	Countrywide Home Loans Servicing LP
00437NAN2	ACCR 2006-2 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.87	Accredited Home Lenders, Inc.
004421XQ1	ACE 2006-ASP2 M9	Baa3	Baa3	A	A	RMBS Midprime	4.72	Ocwen Loan Servicing, LLC
03072SM85	AMSI 2005-R8 M9	Baa3	Baa3	BBB	BBB	RMBS Subprime	3.79	Ameriquest Mortgage Company
0738795K0	BSABS 2005-EC1 M8	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	4.31	EMC Mortgage Corporation
07387UBE0	BSABS 2006-PC1 M8	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.12	EMC Mortgage Corporation
14453FAN9	CARR 2006-NC2 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	4.88	New Century Mortgage Corporation
12498QAN6	CBASS 2006-CB4 B3	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.94	Litton Loan Servicing LP
17307GUZ9	CMLTI 2005-OPT4 M9	Baa3	Baa3	BBB	BBB	RMBS Subprime	3.72	Option One Mortgage Corporation
126673J94	ECR 2005-2 B	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	2.74	ECC Capital Corporation
29445FCW6	EMLT 2005-1 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	3.68	Saxon Mortgage Services, Inc.
86359DBT3	FFML 2005-FF3 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	3.83	National City Home Loan Services, Inc.
320278AN4	FFML 2006-FF8 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.94	National City Home Loan Services, Inc.
35729PKE9	FHLT 2005-B M10	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	3.31	Fremont Investment & Loan
31659TFJ9	FMIC 2006-1 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.19	Fieldstone Servicing Corp
31659EAN8	FMIC 2006-2 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.42	Fieldstone Servicing Corp
36791DAN6	GEWMC 2005-1 B3	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.37	Litton Loan Servicing LP
362463AP6	GSAMP 2006-NC2 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.88	Ocwen Loan Servicing, LLC
46629BBB4	JPMAC 2006-CW2 MV9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	4.91	Countrywide Home Loans Servicing LP
68389FKZ6	OOMLT 2006-1 M9	Baa3	Baa3	A	A	RMBS Midprime	4.45	Option One Mortgage Corporation
73316PKB5	POPLR 2006-A M6	Baa3	Baa3	BBB	BBB	RMBS Subprime	4.51	Equity One, Inc.
76112BVX5	RAMP 2005-EFC2 M9	Baa3	Baa3	BBB	BBB	RMBS Midprime	4.10	HomeComings Financial Network, Inc.
76110W2Q8	RASC 2005-EMX2 M9	Baa3	Baa3	BBB-	BBB-	RMBS Subprime	3.76	Residential Funding Corporation
32027GAP1	FFML 2006-FF12 M9	Baa3	Baa3	BBB-	BBB-	RMBS Midprime	4.00	National City Home Loan Services, Inc.
83611MMU9	SVHE 2006-OPT2 M8	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.63	Option One Mortgage Corporation
9497EUAR8	WFHET 2006-1 M9	Baa3	Baa3	BBB+	BBB+	RMBS Subprime	4.83	Wells Fargo Bank, N.A.
75156UAM9	RAMP 2006-RZ2 M9	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	4.91	Residential Funding Corporation
36242D4C4	GSAA 2005-8 B2	Baa2	Baa2	BBB	BBB	RMBS Prime	2.90	Countrywide Home Loans Servicing LP
362341CZ0	GSAA 2005-8 B2	Baa2	Baa2	BBB+	BBB+	RMBS Prime	3.07	GreenPoint Mortgage Funding, Inc
36242DWY5	GSAA 2005-3 B3	Baa3	Baa3	BBB+	BBB+	RMBS Midprime	1.44	Wells Fargo Bank, N.A.
362334CB8	GSAA 06-3 B3	Baa3	Baa3	BBB-	BBB-	RMBS Prime	3.34	Countrywide Home Loans Servicing LP
362348AJ3	GSAA 06-8 B1	Baa2	Baa2	BBB+	BBB+	RMBS Midprime	3.79	Avelo Mortgage LLC
362381AK1	GSAA 06-12 B2	Baa3	Baa3	A-	A-	RMBS Prime	3.72	Countrywide Home Loans Servicing LP
36298YAJ9	GSAA 06-14 B1	Baa2	Baa2	BBB	BBB	RMBS Prime	4.08	Countrywide Home Loans Servicing LP
362356AL3	GSAA 06-16 B2	Baa3	Baa3	BBB+	BBB+	RMBS Prime	3.75	Countrywide Home Loans Servicing LP

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GS MBS-E-021821360

CUSIP	Name	FICO	Avg LTV	%IO	% Fixed	% 2nd Lien	% Hybrid	Avg. Loan Balance	%Occupancy	%Refinance	%Cash Out	%Purchase	%Neg Am
004421UK7	ACE 2005-HE7 M8	639	no info	29.98%	14.92%	7.69%	85.08%	154,213.00	95.78%	2.24%	42.11%	55.65%	0.00%
03072SV85	AMSI 2005-R11 M8	624	77.69%	20.52%	19.34%	0.00%	80.66%	179,277.34	96.67%	3.42%	93.91%	2.67%	0.00%
040104NL1	ARSI 2005-W2 M8	618	79.63%	10.01%	19.94%	1.25%	80.06%	187,210.51	91.00%	4.80%	53.15%	42.05%	0.00%
0738793U0	BSABS 2005-HE11 M7	628	80.42%	30.03%	23.84%	3.55%	76.16%	134,448.00	90.56%	5.90%	60.10%	34.00%	0.00%
126670NM6	CWL 2005-BC5 M8	619	78.60%	30.74%	23.70%	0.00%	76.30%	189,956.00	97.62%	9.74%	59.36%	30.90%	0.00%
32027NYD7	FFML 2005-FF12 B2	656	80.13%	65.65%	10.37%	0.00%	89.63%	213,743.00	96.65%	2.75%	28.51%	68.74%	0.00%
362341KK4	GSAMP 2005-HE4 B2	627	78.97%	29.41%	15.87%	4.61%	84.13%	169,726.00	93.53%	3.28%	44.68%	52.04%	0.00%
437084QG4	HEAT 2005-8 M8	627	80.66%	29.80%	9.90%	2.60%	90.10%	188,451.62	95.28%	5.09%	47.95%	46.96%	0.00%
46626LAM2	JPMAC 2005-OPT1 M8	613	76.75%	20.73%	16.44%	0.96%	83.56%	183,776.96	93.12%	9.17%	62.27%	28.56%	0.00%
542514NJ9	LBMLT 2005-WL2 M8	629	81.02%	9.33%	8.44%	0.00%	91.56%	197,250.24	90.15%	3.66%	39.74%	56.60%	0.00%
57643LMX1	MABS 2005-NC2 M8	657	80.19%	100.00%	0.00%	0.00%	100.00%	267,097.00	94.86%	8.60%	28.10%	63.40%	0.00%
59020UG58	MLMI 2005-AR1 B2	632	86.68%	46.44%	16.46%	0.00%	83.54%	210,980.00	93.80%	3.42%	61.69%	34.89%	0.00%
61744CUZ7	MSAC 2005-HE5 B2	638	no info	25.01%	12.09%	5.65%	87.91%	171,609.77	95.99%	7.01%	60.24%	32.75%	0.00%
64352VNB3	NCHET 2005-4 M8	626	80.99%	39.27%	18.24%	2.31%	81.76%	205,009.36	89.68%	7.44%	51.95%	40.61%	0.00%
76112BD31	RAMP 2005-EFC4 M8	630	84.08%	26.32%	13.57%	0.00%	86.43%	166,326.00	97.03%	3.29%	54.58%	42.13%	0.00%
76110W7L4	RASC 2005-KS11 M8	619	80.82%	17.34%	19.93%	0.00%	80.07%	150,869.00	91.38%	16.23%	42.05%	41.72%	0.00%
81375WGK6	SABR 2005-HE1 B2	651	81.93%	51.55%	11.56%	6.62%	88.44%	215,896.00	96.72%	4.17%	42.25%	53.57%	0.00%
86358EXE1	SAIL 2005-HE3 M8	628	no info	33.19%	19.53%	3.68%	80.47%	194,125.00	89.17%	4.07%	58.33%	37.59%	0.00%
863576DN1	SASC 2005-WF4 M8	617	no info	14.55%	25.57%	4.91%	74.43%	141,399.00	98.23%	6.35%	70.69%	22.96%	0.00%
83611MKM9	SVHE 2005-4 M8	629	83.23%	41.06%	17.02%	3.35%	82.98%	183,146.00	94.56%	4.79%	53.75%	41.46%	0.00%
004421UL5	ACE 2005-HE7 M9	639	no info	29.98%	14.92%	7.69%	85.08%	154,213.00	95.78%	2.24%	42.11%	55.65%	0.00%
03072SV93	AMSI 2005-R11 M9	624	77.69%	20.52%	19.34%	0.00%	80.66%	179,277.34	96.67%	3.42%	93.91%	2.67%	0.00%
040104NM9	ARSI 2005-W2 M9	618	79.63%	10.01%	19.94%	1.25%	80.06%	187,210.51	91.00%	4.80%	53.15%	42.05%	0.00%
0738793V8	BSABS 2005-HE11 M8	627	80.43%	29.65%	23.05%	3.33%	76.95%	135,781.00	90.34%	5.87%	59.71%	34.42%	0.00%
126670NN4	CWL 2005-BC5 B	619	78.60%	30.74%	23.70%	0.00%	76.30%	189,956.00	97.62%	9.74%	59.36%	30.90%	0.00%
32027NYE5	FFML 2005-FF12 B3	656	80.13%	65.65%	10.37%	0.00%	89.63%	213,743.00	96.65%	2.75%	28.51%	68.74%	0.00%
362341KL2	GSAMP 2005-HE4 B3	627	78.97%	29.41%	13.97%	4.61%	86.03%	169,726.00	93.53%	3.28%	44.68%	52.04%	0.00%
437084QH2	HEAT 2005-8 B1	627	80.66%	29.80%	9.90%	2.60%	90.10%	188,451.62	95.28%	5.09%	47.95%	46.96%	0.00%
46626LAN0	JPMAC 2005-OPT1 M9	613	76.75%	20.73%	16.44%	0.96%	83.56%	183,776.96	93.12%	9.17%	62.27%	28.56%	0.00%
542514NK6	LBMLT 2005-WL2 M9	629	81.02%	9.33%	8.44%	0.00%	91.56%	197,250.24	90.15%	3.66%	39.74%	56.60%	0.00%
57643LMY9	MABS 2005-NC2 M9	657	80.19%	100.00%	0.00%	0.00%	100.00%	267,097.00	94.86%	8.60%	28.10%	63.40%	0.00%
59020UG66	MLMI 2005-AR1 B3	632	86.68%	46.44%	16.46%	0.00%	83.54%	210,980.00	93.80%	3.42%	61.69%	34.89%	0.00%
61744CVA1	MSAC 2005-HE5 B3	638	no info	25.01%	12.09%	5.65%	87.91%	171,609.77	95.99%	7.01%	60.24%	32.75%	0.00%
64352VNC1	NCHET 2005-4 M9	626	80.99%	39.27%	18.24%	2.31%	81.76%	205,009.36	89.68%	7.44%	51.95%	40.61%	0.00%
76112BD49	RAMP 2005-EFC4 M9	630	84.08%	26.32%	13.57%	0.00%	86.43%	166,326.00	97.03%	3.29%	54.58%	42.13%	0.00%
76110W7M2	RASC 2005-KS11 M9	619	80.82%	17.34%	19.93%	0.00%	80.07%	150,869.00	91.38%	16.23%	42.05%	41.72%	0.00%
81375WGL4	SABR 2005-HE1 B3	651	81.93%	51.55%	11.56%	6.62%	88.44%	215,896.00	96.72%	4.17%	42.25%	53.57%	0.00%
86358EXF8	SAIL 2005-HE3 M9	628	no info	33.19%	19.53%	3.68%	80.47%	194,125.00	89.17%	4.07%	58.33%	37.59%	0.00%
863576DP6	SASC 2005-WF4 M9	617	no info	14.55%	25.57%	4.91%	74.43%	141,399.00	98.23%	6.35%	70.69%	22.96%	0.00%
83611MKN7	SVHE 2005-4 M9	629	83.23%	41.06%	17.02%	3.35%	82.98%	183,146.00	94.56%	4.79%	53.75%	41.46%	0.00%
004421VB6	ACE 2006-NC1 M8	627	no info	27.68%	22.77%	4.24%	77.23%	192,062.00	89.83%	6.30%	46.95%	46.75%	0.00%
040104RQ6	ARSI 2006-W1 M8	623	82.48%	28.80%	13.22%	1.25%	86.78%	217,730.19	90.58%	3.45%	51.26%	45.29%	0.00%
07387UHZ7	BSABS 2006-HE3 M8	613	80.75%	32.75%	12.54%	2.63%	87.46%	198,407.00	91.46%	6.87%	60.47%	32.66%	0.00%
144531FF2	CARR 2006-NC1 M8	630	81.17%	52.61%	13.62%	0.63%	86.38%	211,741.66	93.24%	9.76%	47.83%	42.41%	0.00%
045427AM3	CWL 2006-8 M8	614	79.35%	28.23%	37.32%	no info	62.68%	178,549.41	96.87%	4.31%	55.53%	40.16%	0.00%
362334GC2	FFML 2006-FF4 M8	652	82.68%	52.65%	13.94%	0.00%	86.06%	207,119.00	96.07%	3.39%	34.39%	62.22%	0.00%
36244KAN5	GSAMP 2006-HE3 M8	627	77.19%	23.08%	14.98%	6.58%	85.02%	152,030.00	94.33%	4.70%	38.38%	56.92%	0.00%
437084VY9	HEAT 2006-4 M8	621	79.48%	20.02%	18.36%	no info	81.64%	158,250.42	94.10%	5.93%	56.36%	37.71%	0.00%
46626LFV7	JPMAC 2006-FRE1 M8	627	81.80%	14.26%	12.03%	6.02%	87.97%	204,278.00	93.09%	0.94%	43.95%	55.11%	0.00%
542514RV8	LBMLT 2006-1 M8	633	79.68%	7.58%	8.67%	0.00%	91.33%	253,993.08	89.58%	3.66%	33.16%	63.18%	0.00%
57643LNP7	MABS 2006-NC1 M8	627	80.39%	26.97%	20.07%	2.52%	79.93%	190,066.00	89.21%	6.75%	54.56%	38.69%	0.00%
59020U3N3	MLMI 2006-HE1 B2A	630	82.85%	31.98%	22.71%	20.09%	77.29%	161,947.00	93.85%	5.02%	46.54%	46.44%	0.00%
61749KAP8	MSAC 2006-WMC2 B2	643	82.03%	13.62%	18.74%	8.76%	81.26%	207,840.00	95.74%	2.12%	38.99%	58.89%	0.00%
617451FD6	MSC 2006-HE2 B2	630	no info	10.21%	14.10%	7.28%	85.90%	184,147.00	96.60%	5.53%	45.74%	48.73%	0.00%

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GS MBS-E-021821361

CUSIP	Name	FICO	Avg LTV	%IO	% Fixed	% 2nd Lien	% Hybrid	Avg. Loan Balance	%Occupancy	%Refinance	%Cash Out	%Purchase	%Neg Am
75156TAL4	RAMP 2006-NC2 M8	625	80.82%	19.55%	22.09%	0.00%	77.91%	198,278.00	89.23%	0.17%	59.93%	39.90%	0.00%
76113ABT7	RASC 2006-KS3 M8	622	81.25%	18.41%	19.14%	0.00%	80.86%	156,676.00	95.51%	4.97%	56.04%	38.99%	0.00%
81375WJN7	SABR 2006-OP1 B2	622	no info	22.85%	15.87%	0.68%	84.13%	180,887.56	93.48%	5.26%	58.44%	36.30%	0.00%
86360WAM4	SAIL 2006-4 M7	621	no info	19.08%	17.18%	4.30%	82.82%	195,557.34	87.50%	5.85%	54.33%	39.83%	0.00%
86360LAM8	SASC 2006-WF2 M8	611	82.17%	13.06%	26.02%	9.37%	73.98%	123,650.00	96.75%	6.65%	61.91%	31.44%	0.00%
83612CAN9	SVHE 2006-OPT5 M8	605	80.56%	8.79%	16.76%	4.43%	83.24%	196,789.00	93.43%	7.13%	61.99%	30.88%	0.00%
004421VC4	ACE 2006-NC1 M9	627	no info	27.66%	22.77%	4.24%	77.23%	192,062.00	89.83%	6.30%	46.95%	46.75%	0.00%
040104RR4	ARSI 2006-W1 M9	623	82.48%	28.80%	13.22%	1.25%	86.78%	217,730.19	90.58%	3.45%	51.26%	45.29%	0.00%
07387UJA0	BSABS 2006-HE3 M9	613	80.75%	32.75%	12.54%	2.63%	87.46%	198,407.00	91.46%	6.87%	60.47%	32.66%	0.00%
144531FG0	CARR 2006-NC1 M9	630	81.17%	52.61%	13.62%	0.63%	86.38%	211,741.86	93.24%	9.76%	47.83%	42.41%	0.00%
045427AN1	CWL 2006-8 M9	614	79.35%	28.23%	37.32%	no info	62.68%	178,549.41	96.87%	4.31%	55.53%	40.16%	0.00%
362334GJ7	FFML 2006-FF4 B1	652	82.88%	52.65%	13.94%	0.00%	86.06%	207,119.00	96.07%	3.39%	34.39%	62.22%	0.00%
36244KAP0	GSAMP 2006-HE3 M9	627	77.19%	23.06%	14.98%	6.58%	85.02%	152,030.00	94.33%	4.70%	38.38%	56.92%	0.00%
437084VZ6	HEAT 2006-4 B1	621	79.48%	20.02%	18.36%	no info	81.64%	158,250.42	94.10%	5.93%	56.36%	37.71%	0.00%
46626LFW5	JPMAC 2006-FRE1 M9	627	81.80%	14.26%	12.03%	6.02%	87.97%	204,278.00	93.09%	0.94%	43.95%	55.11%	0.00%
542514RW6	LBMLT 2006-1 M9	633	79.68%	7.58%	8.87%	0.00%	91.33%	253,993.08	89.58%	3.66%	33.18%	63.18%	0.00%
57643LNQ5	MABS 2006-NC1 M9	627	80.39%	26.97%	20.07%	2.52%	79.83%	190,066.00	89.21%	6.75%	54.56%	38.69%	0.00%
59020U3Q6	MLMI 2006-HE1 B3A	630	82.85%	31.98%	22.71%	20.09%	77.29%	161,947.00	93.85%	5.02%	48.54%	46.44%	0.00%
61749KAQ6	MSAC 2006-WMC2 B3	643	82.03%	13.62%	18.74%	8.76%	81.26%	207,840.00	95.74%	2.12%	38.99%	58.89%	0.00%
617451FE4	MSC 2006-HE2 B3	630	no info	10.21%	14.10%	7.28%	85.90%	184,147.00	98.60%	5.53%	45.74%	48.73%	0.00%
75156TAM2	RAMP 2006-NC2 M9	625	80.82%	19.55%	22.09%	0.00%	77.91%	198,278.00	89.23%	0.17%	59.93%	39.90%	0.00%
76113ABU4	RASC 2006-KS3 M9	622	81.25%	18.41%	19.14%	0.00%	80.86%	156,676.00	95.51%	4.97%	56.04%	38.99%	0.00%
81375WJP2	SABR 2006-OP1 B3	622	no info	22.85%	15.87%	0.68%	84.13%	180,887.56	93.48%	5.26%	58.44%	36.30%	0.00%
86360WAN2	SAIL 2006-4 M8	621	no info	19.08%	17.18%	4.30%	82.82%	195,557.34	87.50%	5.85%	54.33%	39.83%	0.00%
86360LAN6	SASC 2006-WF2 M9	611	82.17%	13.06%	26.02%	9.37%	73.98%	123,650.00	96.75%	6.65%	61.91%	31.44%	0.00%
83612CAP4	SVHE 2006-OPT5 M9	605	80.56%	8.79%	16.76%	4.43%	83.24%	196,789.00	93.43%	7.13%	61.99%	30.88%	0.00%
04541GTS1	ABSHE 2005-HE6 M8	614	78.25%	20.76%	16.57%	1.01%	83.43%	183,564.00	92.35%	6.78%	62.33%	30.89%	0.00%
04544PAN9	ABSHE 2006-HE5 M8	606	80.92%	10.24%	5.28%	5.30%	94.72%	191,869.00	93.66%	7.24%	58.92%	33.84%	0.00%
126673L75	AMIT 2005-2 M8	609	78.29%	16.49%	0.00%	0.00%	100.00%	177,496.00	95.32%	6.10%	54.51%	39.39%	0.00%
03072SA62	AMSI 2005-R3 M8	619	77.62%	0.00%	20.00%	0.00%	80.00%	176,710.00	97.00%	4.95%	94.65%	0.40%	0.00%
14453EAM4	CARR 2006-RFC1 M8	613	no info	14.14%	13.47%	1.78%	86.53%	165,028.53	96.64%	9.56%	53.30%	37.14%	0.00%
126670BC1	CWL 2005-10 MV8	600	83.69%	39.44%	0.00%	0.00%	100.00%	217,423.84	97.63%	1.77%	67.83%	30.41%	0.00%
32027NUT6	FFML 2005-FF7 M8	650	82.56%	63.60%	21.60%	0.00%	78.40%	223,723.00	97.45%	4.75%	40.49%	54.76%	0.00%
35729PPJ3	FHLT 2006-1 M7	619	81.25%	10.45%	11.01%	no info	88.99%	215,289.00	92.52%	0.93%	53.02%	46.05%	0.00%
35729PQF0	FHLT 2006-2 M7	625	81.20%	14.60%	9.97%	4.33%	90.03%	221,167.91	93.26%	0.38%	49.78%	49.86%	0.00%
3623415A3	GSAMP 2006-HE1 M8	632	79.70%	37.79%	15.99%	3.33%	84.01%	156,936.00	94.20%	7.74%	31.57%	60.69%	0.00%
40430KAP6	HASC 2006-OPT4 M7	621	79.70%	19.92%	18.50%	4.05%	81.50%	196,471.00	92.92%	6.17%	60.85%	32.98%	0.00%
46628RAN5	JPMAC 2006-ACC1 M8	614	82.81%	7.20%	13.49%	0.03%	86.51%	201,590.00	90.67%	1.65%	62.74%	35.61%	0.00%
46626LGP9	JPMAC 2006-HE1 M8	641	81.69%	32.99%	17.25%	9.16%	82.75%	175,605.00	92.38%	1.71%	39.00%	59.29%	0.00%
61744CYX8	MSHEL 2006-2 B2	635	no info	29.94%	17.54%	3.16%	82.46%	182,730.00	96.17%	7.99%	48.23%	43.78%	0.00%
64352VPG0	NCHET 2005-C M8	622	81.08%	33.68%	21.98%	3.08%	78.02%	194,706.15	89.73%	8.90%	51.31%	39.79%	0.00%
66987WCU9	NHEL 2005-2 M8	633	81.66%	no info	17.90%	3.26%	82.10%	154,311.11	92.94%	3.56%	55.21%	41.23%	0.00%
66988VAM0	NHEL 2006-2 M7	624	81.24%	17.21%	16.78%	3.13%	83.22%	169,393.00	93.37%	3.12%	58.88%	38.00%	0.00%
68402CAN4	OOMLT 2006-2 M8	607	81.27%	10.07%	15.37%	4.51%	84.63%	200,394.19	92.76%	7.52%	58.66%	33.82%	0.00%
69121PDP5	OWNIT 2006-2 B2	636	79.42%	32.01%	22.12%	no info	77.88%	189,030.00	96.84%	3.74%	33.95%	62.31%	0.00%
75406AAL3	RASC 2006-EMX2 M8	618	84.08%	18.65%	25.25%	0.00%	74.75%	151,547.00	95.46%	1.27%	71.52%	27.21%	0.00%
81375WDJ2	SABR 2005-EC1 B2	616	no info	15.96%	15.61%	1.78%	84.39%	200,677.00	95.67%	7.87%	68.68%	23.45%	0.00%
81375WCX2	SABR 2005-OP1 B2	622	no info	22.85%	15.88%	0.68%	84.12%	180,888.00	93.48%	5.26%	58.44%	36.30%	0.00%
86359B6K2	SASC 2005-WMC1 M4	644	no info	71.80%	14.30%	11.33%	85.70%	227,473.00	96.80%	13.53%	36.54%	49.93%	0.00%
805564SK8	SAST 2005-2 B2	606	78.01%	41.38%	14.10%	0.00%	85.90%	177,784.39	96.64%	4.78%	75.09%	20.13%	0.00%
84751PKL2	SURF 2006-BC1 B2A	612	81.58%	30.64%	19.38%	6.84%	80.62%	145,082.00	98.15%	3.29%	50.34%	46.37%	0.00%
04541GRC8	ABSHE 2005-HE3 M9	645	80.64%	29.77%	18.28%	10.00%	81.72%	184,146.00	95.06%	8.01%	40.92%	51.07%	0.00%
00437NAN2	ACCR 2006-2 M9	631	76.78%	9.49%	51.00%	1.61%	49.00%	175,350.00	95.59%	3.42%	71.66%	24.72%	0.00%
004421XQ1	ACE 2006-ASP2 M9	645	no info	62.67%	6.52%	4.71%	93.48%	161,473.43	97.70%	5.12%	23.38%	71.50%	0.00%
03072SM85	AMSI 2005-R8 M9	619	78.23%	20.65%	21.39%	0.00%	78.61%	178,847.08	97.72%	3.92%	93.82%	2.26%	0.00%

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CUSIP	Name	FICO	Avg LTV	%IO	% Fixed	% 2nd Lien	% Hybrid	Avg. Loan Balance	%Occupancy	%Refinance	%Cash Out	%Purchase	%Neg Am
0738795K0	BSABS 2005-EC1 M8	621	82.18%	30.19%	19.26%	4.36%	80.74%	218,488.00	93.93%	10.49%	68.45%	21.06%	0.00%
07387UBE0	BSABS 2006-PC1 M8	604	82.76%	15.85%	28.14%	0.00%	71.86%	238,747.00	91.50%	4.60%	70.31%	25.09%	0.00%
14453FAN9	CARR 2006-NC2 M9	623	80.82%	13.88%	11.60%	1.01%	88.40%	211,076.74	90.81%	8.34%	48.42%	43.24%	0.00%
12498QAN6	CBASS 2006-CB4 B3	634	no info	22.85%	14.20%	2.48%	85.80%	208,603.00	93.64%	2.75%	54.29%	42.96%	0.00%
17307GUZ9	CMLTI 2005-OPT4 M9	612	no info	20.58%	16.23%	0.98%	83.77%	184,617.37	92.39%	8.44%	64.70%	26.86%	0.00%
126673J94	ECR 2005-2 B	619	78.75%	19.38%	15.48%	0.00%	84.52%	216,823.00	94.64%	8.03%	67.99%	23.98%	0.00%
29445FCW6	EMLT 2005-1 M9	639	89.08%	17.53%	18.05%	2.02%	81.95%	158,132.00	98.02%	4.42%	64.92%	30.66%	0.00%
86359DBT3	FFML 2005-FF3 M9	648	82.05%	65.35%	8.20%	0.00%	91.80%	223,655.84	97.09%	5.97%	44.24%	49.79%	0.00%
320278AN4	FFML 2006-FF8 M9	650	82.17%	38.10%	16.44%	0.00%	83.56%	184,531.00	96.29%	3.99%	29.58%	66.43%	0.00%
35729PKE9	FHLT 2005-8 M10	620	78.97%	25.88%	11.31%	3.21%	88.69%	212,197.00	91.92%	1.27%	53.02%	45.71%	0.00%
31659TFJ9	FMIC 2006-1 M9	644	no info	54.04%	7.04%	1.95%	92.98%	197,368.87	98.59%	1.86%	38.01%	60.03%	0.00%
31659EAN8	FMIC 2006-2 M9	644	84.14%	42.91%	11.54%	2.11%	88.46%	191,153.79	99.08%	0.42%	34.50%	65.08%	0.00%
387910AN6	GEWMC 2005-1 B3	646	no info	21.27%	17.86%	10.58%	82.14%	195,329.00	94.95%	3.12%	43.90%	52.98%	0.00%
362483AP6	GSAMP 2006-NC2 M9	626	79.31%	11.48%	11.79%	1.30%	88.21%	223,221.00	8.22%	7.56%	49.17%	43.27%	0.00%
46629BBB4	JPMAC 2006-CW2 MV9	614	76.62%	32.51%	24.30%	1.00%	75.70%	179,513.63	97.57%	3.92%	52.90%	43.19%	0.00%
68389FKZ6	OOMLT 2006-1 M9	625	80.31%	6.72%	22.33%	4.08%	77.67%	198,850.02	91.98%	6.11%	60.83%	33.06%	0.00%
73316PKB5	POPLR 2006-A M6	615	no info	10.35%	34.98%	0.00%	65.02%	155,002.97	92.84%	8.67%	74.38%	16.95%	0.00%
761118VX5	RAMP 2005-EFC2 M9	631	86.04%	22.97%	11.54%	0.10%	88.46%	164,191.00	97.34%	14.61%	48.38%	37.03%	0.00%
76110W2Q8	RASC 2005-EMX2 M9	618	84.08%	18.64%	25.25%	0.00%	74.75%	151,547.49	95.46%	1.27%	71.52%	27.21%	0.00%
32027GAP1	FFML 2006-FF12 M9	650	82.87%	31.72%	16.89%	0.00%	83.11%	186,903.00	96.63%	2.96%	24.29%	72.75%	0.00%
83611MMU9	SVHE 2006-OPT2 M8	622	77.70%	18.94%	15.61%	4.18%	84.39%	201,099.00	89.00%	4.69%	63.36%	31.95%	0.00%
9497EUAR8	WFHET 2006-1 M9	613	no info	3.23%	6.98%	no info	93.02%	162,405.00	96.90%	5.85%	51.14%	43.01%	0.00%
75156UAM9	RAMP 2006-RZ2 M9	691	100.40%	15.81%	20.74%	0.00%	79.26%	147,696.00	78.08%	4.92%	24.24%	70.84%	0.00%
36242D4C4	GSAA 2005-6 B2	714	77.06%	90.86%	0.00%	0.00%	100.00%	268,152.00	80.44%	11.72%	23.32%	64.96%	0.00%
362341CZ0	GSAA 2005-8 B2	709	77.79%	89.50%	0.00%	0.00%	100.00%	280,746.00	89.06%	11.17%	20.95%	67.88%	0.00%
36242DWY5	GSAA 2005-3 B3	690	85.85%	0.00%	0.00%	0.00%	100.00%	228,296.00	76.98%	4.25%	27.01%	68.74%	0.00%
362334CB8	GSAA 06-3 B3	706	76.09%	90.46%	0.00%	0.00%	100.00%	259,598.00	83.92%	10.34%	19.66%	70.00%	0.00%
362348AJ3	GSAA 06-8 B1	700	78.68%	75.57%	0.00%	0.00%	100.00%	249,657.00	79.02%	7.84%	19.67%	72.49%	0.00%
362381AK1	GSAA 06-12 B2	710	77.34%	90.11%	0.00%	0.00%	100.00%	303,587.00	82.41%	8.36%	22.71%	68.93%	0.00%
36298YAJ9	GSAA 06-14 B1	712	77.56%	88.72%	0.00%	0.00%	100.00%	273,065.00	78.04%	9.54%	22.84%	67.62%	0.00%
362356AL3	GSAA 06-16 B2	705	76.83%	84.97%	0.00%	0.00%	100.00%	273,041.00	78.90%	10.08%	22.79%	67.13%	0.00%

GS MBS-E-021821362

ANNEX A-1

FORM OF INCOME NOTES PURCHASE AND TRANSFER LETTER

The Bank of New York Trust Company, National Association
601 Travis Street, 16th Floor
Houston, Texas 77002
Attention: Global Corporate Trust - Hudson Mezzanine Funding 2006-1, Ltd.

Re: Hudson Mezzanine Funding 2006-1, Ltd.
Income Notes

Dear Sirs:

Reference is hereby made to the Income Notes due 2042 (the "Income Notes") issued by Hudson Mezzanine Funding 2006-1, Ltd. (the "Issuer"), described in the Issuer's Offering Circular dated December 3, 2006 ("Offering Circular") to be purchased and held by us in definitive certificated form. We (the "Purchaser") are purchasing U.S. $[ ] principal amount of Income Notes (the "Purchaser's Income Notes"). Terms defined or referenced in the Offering Circular and not otherwise defined or referenced herein shall have the meanings set forth in the Offering Circular.

The Purchaser hereby represents, warrants and covenants for the benefit of the Issuer that:

(a) (i) The Purchaser is (check one) (x) __ a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) (a "Qualified Institutional Buyer") (y) __ an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than U.S.$10 million that is purchasing the Income Notes for its own account; (ii) The Purchaser is a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act") (a "Qualified Purchaser"); (iii) The Purchaser, in the case of clause (y) above, is not acquiring the Income Notes with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below; (iv) The Purchaser is aware that the sale of the Purchaser's Income Notes to the Purchaser is being made in reliance on an exemption from registration under the Securities Act; (v) With respect to any transferee, the Purchaser also understands that, in conjunction with any transfer of the Purchaser's ownership of any Purchaser's Income Notes purchased hereunder, it will not transfer or cause the transfer of such Purchaser's Income Notes without obtaining from the transferee a certificate substantially in the form of this Income Note Purchase and Transfer Letter; (vi) The Purchaser will provide notice of the transfer restrictions described to any subsequent transferees.

(b) The Purchaser is purchasing the Purchaser's Income Notes in an amount equal to or exceeding the minimum permitted number thereof for its own account (or, if the Purchaser is a Qualified Institutional Buyer, for the account of another Qualified Institutional Buyer with respect to which the Purchaser exercises sole investment discretion) for investment purposes only and not for sale in connection with any distribution thereof, but nevertheless subject to the understanding that the disposition of its property shall at all times be and remain within its control (subject to the restrictions set forth in the Offering Circular, the certificate in respect of the Purchaser's Income Notes and the Fiscal Agency Agreement).

(c) The Purchaser understands that the Purchaser's Income Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only in accordance with the restrictions on transfer set forth herein and in the Fiscal Agency Agreement. The Purchaser understands and agrees that any purported transfer of Income Notes to a purchaser that does not comply with the requirements herein

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will not be permitted or registered by the Income Notes Transfer Agent. The Purchaser further understands that the Issuer has the right to compel any beneficial owner of Income Notes that is a U.S. Person and is not (a) either a Qualified Institutional Buyer or an Accredited Investor with a net worth of U.S.$10 million or more and (b) a Qualified Purchaser, to sell its interest in such Income Notes, or the Issuer may sell such Income Notes on behalf of such owner.

(d) If the Purchaser or any account for which the Purchaser is purchasing the Purchaser's Income Notes is a U.S. Person (as defined in Regulation S under the Securities Act) the following representations shall be true and correct: The Purchaser (or if the Purchaser is acquiring the Purchaser's Income Notes for any account, each such account) is acquiring the Purchaser's Income Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The Purchaser and each such account: (a) was not formed for the specific purpose of investing in the Income Notes (except when each beneficial owner of the Purchaser and each such account is a Qualified Purchaser), (b) to the extent the Purchaser is a private investment company formed before April 30, 1996, the Purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made; and (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the Purchaser agrees: (i) that neither it nor such account shall hold the Purchaser's Income Notes for the benefit of any other person and such purchaser of such account shall be the sole beneficial owner thereof for all purposes; and (ii) that neither it nor such account shall sell participation interests in the Purchaser's Income Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Purchaser's Income Notes. The Purchaser understands and agrees that any purported transfer of the Purchaser's Income Notes to a Purchaser that does not comply with the requirements of this clause (d) will not be permitted or registered by the Income Notes Transfer Agent.

(e) In connection with the purchase of the Purchaser's Income Notes: (i) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Administrator or the Fiscal Agent, is acting as a fiduciary or financial or investment adviser for the Purchaser; (ii) the Purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Liquidation Agent, the Administrator or the Fiscal Agent other than in the Offering Circular and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Senior Swap Counterparty, the Liquidation Agent, the Collateral Put Provider, the Administrator or the Fiscal Agent has given to the Purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Purchaser's Income Notes; (iv) the Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and the Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Senior Swap Counterparty, the Liquidation Agent, the Collateral Put Provider, the Administrator or the Fiscal Agent; (v) the Purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Purchaser's Income Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the Purchaser is a sophisticated investor.

(f) The certificates in respect of the Income Notes (other than the Regulation S Income Notes) will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Fiscal Agency Agreement and applicable law:

> THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT DECEMBER 5, 2006 (THE "FISCAL AGENCY AGREEMENT") BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND THE BANK OF NEW YORK TRUST COMPANY,

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NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN EACH CASE IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A

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QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE FISCAL AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF INCOME NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE INCOME NOTES TRANSFER AGENT WITH AN INCOME NOTE PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE TRUSTEE OR INCOME NOTES TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY

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PURCHASE OR TRANSFER OF INCOME NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE FISCAL AGENCY AGREEMENT).

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(g) The certificates in respect of the Regulation S Income Notes will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Fiscal Agency Agreement and applicable law:

THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT DECEMBER 5, 2006 (THE "FISCAL AGENCY AGREEMENT) BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND THE BANK OF NEW YORK TRUST COMPANY, NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR

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PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE IS DEEMED TO REPRESENT AND WARRANT), THAT (i) IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" AS DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) IT IS NOT A PERSON WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF THE PURCHASER OR TRANSFEREE IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), SUCH PURCHASER OR TRANSFEREE

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ALSO IS DEEMED TO REPRESENT AND WARRANT THAT ITS PURCHASE AND HOLDING OF THE INCOME NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SIMILAR LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF AN INCOME NOTE THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(h) With respect to Income Notes transferred or purchased on or after the Closing Date, the Purchaser understands and agrees that the representations and agreements made in this paragraph (g) will be deemed made on each day from the date hereof through and including the date on which the Purchaser disposes of the Income Notes.

(x) The Purchaser is __ is not __ [check one] (i) an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" as described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or (iii) an entity whose underlying assets include assets of any such employee benefit plan or other plan (for purposes of ERISA or Section 4975 of the Code) by reason of a plan's investment in the entity (such persons and entities described in clauses (i) through (iii) being referred to herein as "Benefit Plan Investors"); and (y) if the Purchaser is a Benefit Plan Investor (or another employee benefit plan subject to any federal, state, local or foreign law substantially similar to Section 406 of ERISA or section 4975 of the Code ("Similar Law")), the Purchaser's purchase and holding of an Income Note do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of an employee benefit plan subject to Similar Law, any Similar Law) for which an exemption is not available.

The Purchaser is _____ is not _____ [check one] the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (any such person described in this paragraph being referred to as a "Controlling Person").

If the Purchaser is an insurance company acting on behalf of its general account or any other entity holding plan assets of Benefit Plan Investors ____ [check if true], then (i) not more than ____% [complete by entering a percentage], (the "Maximum Percentage") of the assets of such general account or entity constitutes assets of Benefit Plan Investors for purposes of the "plan assets" regulations under ERISA, and (ii) without limiting the remedies that may otherwise be available, the Purchaser agrees that it shall (x) immediately notify the Issuer if the Maximum Percentage is exceeded, and (y) dispose of all or a portion of its Income Notes as may be instructed by the Issuer (including, in the discretion of the Issuer, a disposition back to the Issuer or an affiliate thereof (or other person designated by the Issuer) for the then value of the Income Notes as reasonably determined by the Issuer, in any case in which the Purchaser cannot otherwise make a disposition it has been instructed by the Issuer to make).

(i) The Purchaser understands and acknowledges that the Income Notes Transfer Agent will not register any purchase or transfer of Income Notes either to a proposed initial purchaser or to a proposed subsequent transferee of Income Notes that has, in either case, represented that it is a Benefit Plan Investor or a Controlling Person if, after giving effect to such proposed transfer, persons that have represented that they are Benefit Plan Investors would own 25% or more of the total value of the outstanding Income Notes. For purposes of this determination, Income Notes held by the Liquidation Agent, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding. The Purchaser understands and agrees that any purported purchase

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or transfer of the Purchaser's Income Notes to a Purchaser that does not comply with the requirements of this clause (i) will not be permitted or registered by the Income Notes Transfer Agent.

(j) The purchaser is not purchasing the Purchaser's Income Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The Purchaser understands that an investment in the Purchaser's Income Notes involves certain risks, including the risk of loss of its entire investment in the Purchaser's Income Notes under certain circumstances. The Purchaser has had access to such financial and other information concerning the Issuers and the Purchaser's Income Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Purchaser's Income Notes, including an opportunity to ask questions of, and request information from, the Issuer.

(k) The Purchaser is not purchasing the Purchaser's Income Notes in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan.

(l) The Purchaser agrees to treat the Purchaser's Income Notes as equity for United States federal, state and local income tax purposes.

(m) The Purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Income Notes Transfer Agent may require further identification of the Purchaser before the purchase application can proceed. The Issuer and the Income Notes Transfer Agent, as applicable, shall be held harmless and indemnified by the Purchaser against any loss arising from the failure to process the application if such information as has been required from the Purchaser has not been provided by the Purchaser.

(n) The Purchaser agrees to complete any other instrument of transfer as required under Cayman Islands law.

(o) The Purchaser is not a member of the public in the Cayman Islands.

We acknowledge that you and other persons will rely upon our confirmation, acknowledgments, representations, warranties, covenants and agreements set forth herein, and we hereby irrevocably authorize you and such other persons to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Very truly yours,

[ ]

By: _____

Name:

Title:

Receipt acknowledged as of date set forth above,

_____

(Signature and Addresses)

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ANNEX A-2

FORM OF CLASS E NOTES PURCHASE AND TRANSFER LETTER

The Bank of New York Trust Company,
National Association
601 Travis Street, 16th Floor
Houston, Texas 77002
Attention: Global Corporate Trust-Hudson Mezzanine Funding 2006-1, Ltd.

Re: Hudson Mezzanine Funding 2006-1, Ltd.
Class E Notes

Dear Sirs:

Reference is hereby made to the Class E Notes due 2042 (the "Class E Notes") issued by Hudson Mezzanine Funding 2006-1, Ltd. (the "Issuer"), described in the Issuer's Offering Circular dated December 3, 2006 ("Offering Circular") to be purchased and held by us in definitive certificated form. We (the "Purchaser") are purchasing U.S. $[ ] principal amount of Class E Notes (the "Purchaser's Class E Notes"). Terms defined or referenced in the Offering Circular and not otherwise defined or referenced herein shall have the meanings set forth in the Offering Circular.

The Purchaser hereby represents, warrants and covenants for the benefit of the Issuer that:

(a) (i) The Purchaser is a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) (a "Qualified Institutional Buyer") that is purchasing the Class E Notes for its own account; (ii) The Purchaser is a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act") (a "Qualified Purchaser"); (iii) The Purchaser is aware that the sale of the Purchaser's Class E Notes to the Purchaser is being made in reliance on an exemption from registration under the Securities Act; (iv) The Purchaser is acquiring not less than $250,000 of Class E Notes, (v) With respect to any transferee, the Purchaser also understands that, in conjunction with any transfer of the Purchaser's ownership of any Purchaser's Class E Notes purchased hereunder, it will not transfer or cause the transfer of such Purchaser's Class E Notes without obtaining from the transferee a certificate substantially in the form of this Class E Note Purchase and Transfer Letter; (vi) The Purchaser will provide notice of the transfer restrictions described to any subsequent transferees.

(b) The Purchaser is purchasing the Purchaser's Class E Notes in an amount equal to or exceeding the minimum permitted number thereof for its own account (or, for the account of another Qualified Institutional Buyer with respect to which the Purchaser exercises sole investment discretion) for investment purposes only and not for sale in connection with any distribution thereof, but nevertheless subject to the understanding that the disposition of its property shall at all times be and remain within its control (subject to the restrictions set forth in the Offering Circular, the certificate in respect of the Purchaser's Class E Notes and the Indenture).

(c) The Purchaser understands that the Purchaser's Class E Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only in accordance with the restrictions on transfer set forth herein and in the Indenture. The Purchaser understands and agrees that any purported transfer of Class E Notes to a purchaser that does not comply with the requirements herein will not be permitted or registered by the Note Transfer Agent. The Purchaser further understands that the Issuer has

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the right to compel any beneficial owner of Class E Notes that is a U.S. Person and is not (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser, to sell its interest in such Class E Notes, or the Issuer may sell such Class E Notes on behalf of such owner.

(d) If the Purchaser or any account for which the Purchaser is purchasing the Purchaser's Class E Notes is a U.S. Person (as defined in Regulation S under the Securities Act) the following representations shall be true and correct: The Purchaser (or if the Purchaser is acquiring the Purchaser's Class E Notes for any account, each such account) is acquiring the Purchaser's Class E Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The Purchaser and each such account: (a) was not formed for the specific purpose of investing in the Class E Notes (except when each beneficial owner of the Purchaser and each such account is a Qualified Purchaser), (b) to the extent the Purchaser is a private investment company formed before April 30, 1996, the Purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made; and (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the Purchaser agrees: (i) that neither it nor such account shall hold the Purchaser's Class E Notes for the benefit of any other person and such purchaser of such account shall be the sole beneficial owner thereof for all purposes; and (ii) that neither it nor such account shall sell participation interests in the Purchaser's Class E Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Purchaser's Class E Notes. The Purchaser understands and agrees that any purported transfer of the Purchaser's Class E Notes to a Purchaser that does not comply with the requirements of this clause (d) will not be permitted or registered by the Note Transfer Agent.

(e) In connection with the purchase of the Purchaser's Class E Notes: (i) none of the Issuers, the Initial Purchaser, the Liquidation Agent or the Administrator, is acting as a fiduciary or financial or investment adviser for the Purchaser; (ii) the Purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Liquidation Agent or the Administrator other than in the Offering Circular and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Senior Swap Counterparty, the Liquidation Agent, the Collateral Put Provider or the Administrator has given to the Purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Purchaser's Class E Notes; (iv) the Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Senior Swap Counterparty, the Liquidation Agent, the Collateral Put Provider or the Administrator; (v) the Purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Purchaser's Class E Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the Purchaser is a sophisticated investor.

(f) The certificates in respect of the Class E Notes (other than the Regulation S Class E Notes) will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Indenture and applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER

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REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL NOT BE PERMITTED OR REGISTERED BY THE NOTE TRANSFER AGENT. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. EACH TRANSFEROR OF THE CLASS E NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT, TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A CLASS E NOTE THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL SUCH CLASS E NOTES, OR MAY SELL SUCH CLASS E NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF THE CLASS E NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS E NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE NOTE TRANSFER AGENT A CLASS E NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (1) A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

WITH RESPECT TO THE CLASS E NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE NOTE TRANSFER AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND

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ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF CLASS E NOTES WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE NOTE TRANSFER AGENT WITH AN CLASS E NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE NOTE TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF CLASS E NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING CLASS E NOTES (OTHER THAN THE CLASS E NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE INDENTURE).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT

(g) The certificates in respect of the Regulation S Class E Notes will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Indenture and applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN

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REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE (AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE TRANSFER AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

WITH RESPECT TO THE CLASS E NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE NOTE TRANSFER AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF CLASS E NOTES WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT

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AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE NOTE TRANSFER AGENT WITH AN CLASS E NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE NOTE TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF CLASS E NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING CLASS E NOTES (OTHER THAN THE CLASS E NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE INDENTURE).

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL. SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

(h) With respect to Class E Notes transferred or purchased on or after the Closing Date, the Purchaser understands and agrees that the representations and agreements made in this paragraph (g) will be deemed made on each day from the date hereof through and including the date on which the Purchaser disposes of the Class E Notes.

(x) The Purchaser is __ is not __ [check one] (i) an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" as described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or (iii) an entity whose underlying assets include assets of any such employee benefit plan or other plan (for purposes of ERISA or Section 4975 of the Code) by reason of a plan's investment in the entity (such persons and entities described in clauses (i) through (iii) being referred to herein as "Benefit

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Plan Investors"); and (y) if the Purchaser is a Benefit Plan Investor (or another employee benefit plan subject to any federal, state, local or foreign law substantially similar to Section 406 of ERISA or section 4975 of the Code ("Similar Law")), the Purchaser's purchase and holding of an Class E Note do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of an employee benefit plan subject to Similar Law, any Similar Law) for which an exemption is not available.

The Purchaser is _____ is not _____ [check one] the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (any such person described in this paragraph being referred to as a "Controlling Person").

If the Purchaser is an insurance company acting on behalf of its general account or any other entity holding plan assets of Benefit Plan Investors ____ [check if true], then (i) not more than ____% [complete by entering a percentage], (the "Maximum Percentage") of the assets of such general account or entity constitutes assets of Benefit Plan Investors for purposes of the "plan assets" regulations under ERISA, and (ii) without limiting the remedies that may otherwise be available, the Purchaser agrees that it shall (x) immediately notify the Issuer if the Maximum Percentage is exceeded, and (y) dispose of all or a portion of its Class E Notes as may be instructed by the Issuer (including, in the discretion of the Issuer, a disposition back to the Issuer or an affiliate thereof (or other person designated by the Issuer) for the then value of the Class E Notes as reasonably determined by the Issuer, in any case in which the Purchaser cannot otherwise make a disposition it has been instructed by the Issuer to make).

(i) The Purchaser understands and acknowledges that the Note Transfer Agent will not register any purchase or transfer of Class E Notes either to a proposed initial purchaser or to a proposed subsequent transferee of Class E Notes that has, in either case, represented that it is a Benefit Plan Investor or a Controlling Person if, after giving effect to such proposed transfer, persons that have represented that they are Benefit Plan Investors would own 25% or more of the total value of the outstanding Class E Notes. For purposes of this determination, Class E Notes held by the Liquidation Agent, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding. The Purchaser understands and agrees that any purported purchase or transfer of the Purchaser's Class E Notes to a Purchaser that does not comply with the requirements of this clause (i) will not be permitted or registered by the Note Transfer Agent.

(j) The purchaser is not purchasing the Purchaser's Class E Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The Purchaser understands that an investment in the Purchaser's Class E Notes involves certain risks, including the risk of loss of its entire investment in the Purchaser's Class E Notes under certain circumstances. The Purchaser has had access to such financial and other information concerning the Issuers and the Purchaser's Class E Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Purchaser's Class E Notes, including an opportunity to ask questions of, and request information from, the Issuer.

(k) The Purchaser is not purchasing the Purchaser's Class E Notes in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan.

(l) The Purchaser agrees to treat the Purchaser's Class E Notes as equity for United States federal, state and local income tax purposes.

(m) The Purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Note Transfer Agent may require further identification of the Purchaser before the purchase application can proceed. The Issuer and the Note Transfer Agent, as applicable, shall be held harmless and indemnified by the Purchaser against any loss arising from the failure to process the application if such information as has been required from the Purchaser has not been provided by the Purchaser.

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(n) The Purchaser agrees to complete any other instrument of transfer as required under Cayman Islands law.

(o) The Purchaser is not a member of the public in the Cayman Islands.

We acknowledge that you and other persons will rely upon our confirmation, acknowledgments, representations, warranties, covenants and agreements set forth herein, and we hereby irrevocably authorize you and such other persons to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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Very truly yours,
[ ]
By: _____
Name:
Title:

Receipt acknowledged as of date set forth above,

_____
(Signature and Addresses)

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REGISTERED OFFICES OF THE ISSUERS

HUDSON MEZZANINE FUNDING 2006-1, LTD.

Queensgate House, P.O. Box 1093GT

George Town

Grand Cayman, Cayman Islands

HUDSON MEZZANINE FUNDING 2006-1, CORP.

850 Library Avenue, Suite 204

Newark, Delaware 19711

TRUSTEE, PRINCIPAL NOTE PAYING AGENT, NOTE PAYING AGENT, NOTE TRANSFER AGENT, NOTE REGISTRAR, FISCAL AGENT AND INCOME NOTES TRANSFER AGENT

The Bank of New York Trust Company, National Association

601 Travis Street, 16th Floor
Houston, Texas 77002

LIQUIDATION AGENT

Goldman, Sachs & Co.

85 Broad Street

New York, NY 10004

LEGAL ADVISORS

To the Issuers, the Initial Purchaser and the Liquidation Agent

As to matters of United States Law

Sidley Austin LLP

787 Seventh Avenue

New York, New York 10019

To the Trustee, Principal Note Paying Agent, Note Paying Agent, Note Transfer Agent, Note Registrar, Fiscal Agent and Income Notes Transfer Agent

As to matters of United States Law

Gardere Wynne Sewell, LLP.

1000 Louisiana, Suite 3400
Houston, Texas 77002-5019

To the Issuer

As to matters of Cayman Islands Law

Maples and Calder

P.O. Box 309GT, Ugland House

South Church Street,

George Town

Grand Cayman, Cayman Islands

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HUDSON MEZZANINE FUNDING 2006-1, LTD.

HUDSON MEZZANINE FUNDING 2006-1, CORP.

U.S.$37,000,000
Class S Floating Rate Notes
Due 2012

U.S.$110,000,000
Class A-f Floating Rate Notes
Due 2042

U.S.$120,000,000
Class A-b Floating Rate Notes
Due 2042

U.S.$230,000,000
Class B Floating Rate Notes
Due 2042

U.S.$170,000,000
Class C Deferrable Floating Rate Notes
Due 2042

U.S.$84,000,000
Class D Deferrable Floating Rate Notes
Due 2042

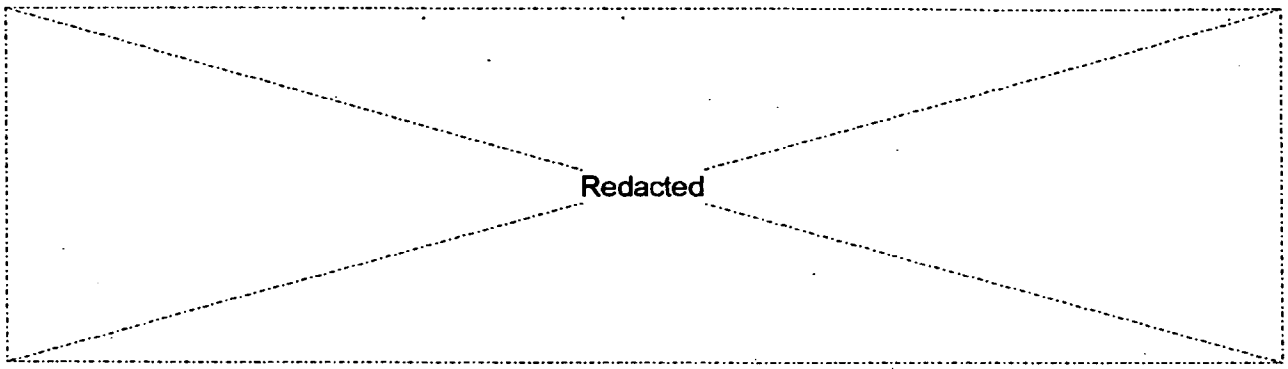
U.S.$26,000,000
Class E Deferrable Floating Rate Notes
Due 2042

U.S.$60,000,000
Income Notes Due 2042

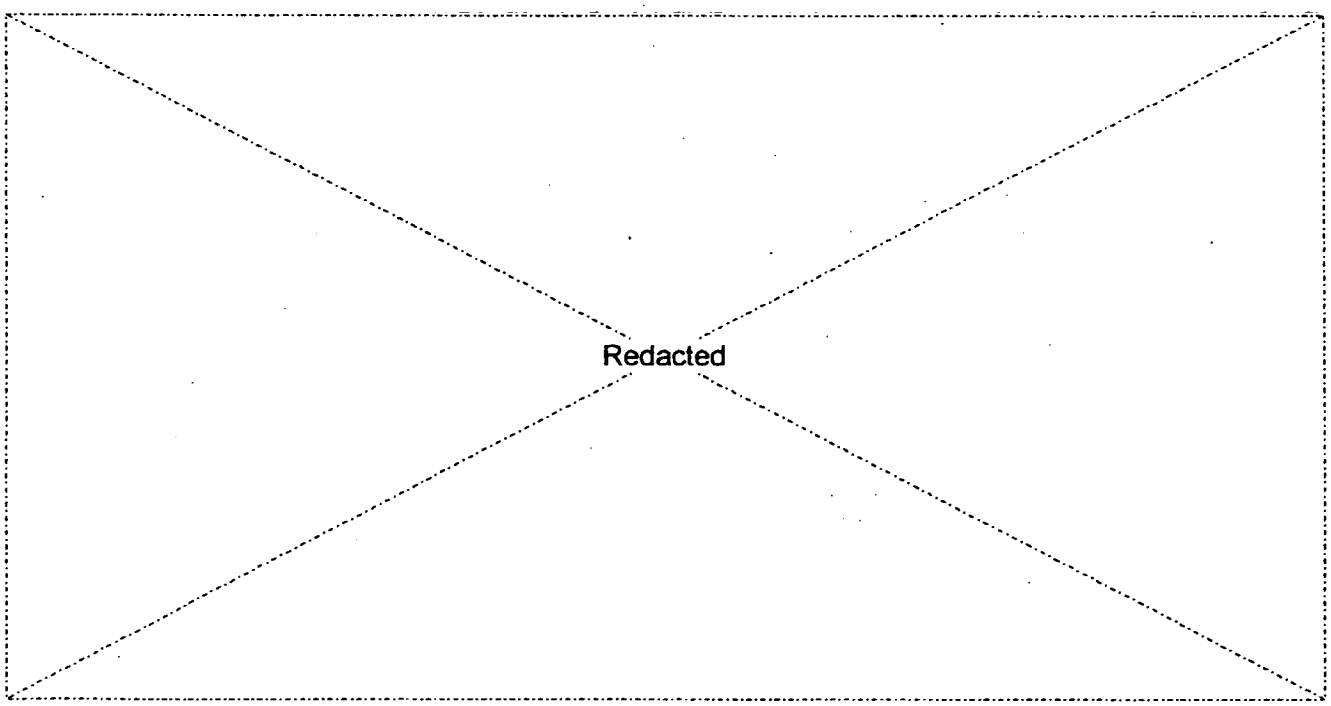
OFFERING CIRCULAR

Goldman, Sachs & Co.

To: Petrick, Michael (FID)[Michael.Petrick@morganstanley.com]
Subject: 2/06 recap
Sent: Wed 2/6/2008 11:43:43 PM
From: Pearce, John (FID)



Hudson:
Went down the road again with Goldman on the liquidation agent assets (now ~$1bb of eligible assets post downgrades). They told me they will "continue to take my opinion under advisement" but provided no course of action. I broke my phone. Will talk to Rick Ostrander tomorrow but don't think there is any probable way for us to force them to liquidate the assets.



To: . David.Lehman@gs.com[David.Lehman@gs.com]
Subject: Re: cmbs
Sent: Thur 2/7/2008 2:36:14 AM
From: Pearce, John (FID)

What I can. [redacted]..spoke with Ben re: Hudson today.

Goes without saying I remain very frustrated by the way GS is handling the liquidation agent role. There is almost $1bb of eligible assets in that deal now, every one of which has lost value since it was downgraded.

No good reason to wait other then to devalue our position. It's a shame...one day I hope I get the real reason why you are doing this to me.

Glad you asked?

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---- Original Message ----
From: Lehman, David A. <David.Lehman@gs.com>
To: Pearce, John (FID)
Sent: Wed Feb 06 21:08:46 2008
Subject: RE: cmbs

have you been doing much abs cdo sup snr lately?

From: Pearce, John (FID) [mailto:John.Pearce@morganstanley.com]
Sent: Wednesday, February 06, 2008 9:02 PM
To: Lehman, David A.
Subject: Re: cmbs

Ok--will keep an eye on it. Thanks.

---- Original Message ----
From: Lehman, David A. <David.Lehman@gs.com>
To: Pearce, John (FID)
Sent: Wed Feb 06 20:58:50 2008
Subject: cmbs

I am going to have the desk reach out to kyle tomorrow on the trades that might fit us - I will be on and off the desk, so I think kyle and our traders is the most efficient

---

Goldman, Sachs & Co.
One New York Plaza - 47th Floor | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917[redacted]
e-mail: david.lehman@gs.com
Goldman
Sachs
David Lehman

Fixed Income, Currency & Commodities

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From: Gill, Michelle
Sent: Friday, February 02, 2007 9:02 AM
To: Nichols, Matthew; Gasvoda, Kevin; Flamino, Marc
Subject: RE: Warehouse policy

Couple of things:
(1) New Century / Fremont - since they have both made changes to UW guidelines, seems like we should be giving them at least some benefit for those changes
(2) Accredited / Aames - they are not originated Aames G/L product, nor are they processing the Aames way, they have revamped both, that being said, we have no first hand knowledge; there, could we get comfrotable asking them for their diligence results from last couple whole loan sales since we have no personal experience

---

From: Nichols, Matthew
Sent: Friday, February 02, 2007 8:57 AM
To: Gasvoda, Kevin; Flamino, Marc
Cc: Gill, Michelle
Subject: RE: Warehouse policy

A few things:

1. We're way too low on the charges - we should be using actual performance where possible - NC is running a 10% drop rate at ~6 points / drop and 4% EPD rate at close to 20 points. That equates to something more like 1.25 rather than 0.35. Given Fremont is in the same place and Accredited still has a lot of that Aames production, I think we'd be kidding ourselves to think that any of these guys should be below a point.

2. MLN and other "B" list guys are a moot point - in this enviornment we would not lend to them - or if we did it would be at a much higher haircut.

3. We will still have the issue of market - take NC for example - they're trying to push someone into 1.75 premium for their production - we care closer to 1.25 - what't the appropriate starting mark to market?

4. I think we need to restate the economic rationale for each of these lines - don't want to blow up relationships, but I don't think we're making money off of NC right now and we're taking a lot of risk on the loans and warehouse side.

From: Gasvoda, Kevin
Sent: Friday, February 02, 2007 7:57 AM
To: Flamino, Marc
Cc: Nichols, Matthew; Gill, Michelle
Subject: RE: Warehouse policy

Ok. I need to get Dan's signoff first.

From: Flamino, Marc
Sent: Friday, February 02, 2007 7:56 AM
To: Gasvoda, Kevin
Cc: Nichols, Matthew; Gill, Michelle; Flamino, Marc
Subject: RE: Warehouse policy

I agree with the methodology below and also feel that NC and Accred should receive the lowest end of the range. They still may balk but harder for them to argue with the valuation approach. Also we need to combine this with some additional flexibility on the scratch and dent side for Accredited to make them feel more important to us. In both cases there are potential consequences with the marks but the market has changed.

I do not think that LH deserves the same level however I am sensitive to the capital needs issue for our perspective. Given their product mix I would think about them in the range of 1.5-2x New Cen and Accred (.50 -.75). I am not sure what that does to cash flow and liquidity. They should also (and we urge them to)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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put that Merrill deal in place asap.

Let's agree internally and make the calls to Kevin and Stu.

From: Gasvoda, Kevin
Sent: Friday, February 02, 2007 7:40 AM
To: Ramino, Marc
Cc: Nichols, Matthew; Gill, Michelle
Subject: Warehouse policy

Marc, let's discuss new more transparent mark policy whereby we mark on real loan bid side then have a transparent price adjustment related to potential epd and loan kicks. I think for our most credit worthy/largest clients, we should be on the low side and for our private/small guys we can be on the high side.

Decent range you can see below would be 35 bps to 2 points. I think New Cen/Accred get a 35 bp "charge" and if we had MLN (pre blow up) they'd be in the 3/4-7/8 range. We should not be giving lines to people we think we need a 2 point reserve but if we get material deterioration in company health we start working that direction.

Senderra is a moot point obviously. Lownhome is the big question. Do we give them the best client 35 bp charge? Without it, their capital needs are significant. Merrill apparently will give them a line to finance total trade price for all trades going to ML.

Thoughts? We need to give Cloyd and Stu clarity on our policy ASAP and face the consequences rather than mouse around w/ low ball marks.

Loan adjustments

	Low		High	
EPD rate	2.00%		5.00%	
EPD loss	10.00%	20.00%	10.00%	20.00%
EPD adj	0.20%	0.40%	0.50%	1.00%
Drop rate	5.00%		12.00%	
Drop loss	3.00%	10.00%	3.00%	10.00%
Drop adj	0.15%	0.50%	0.36%	1.20%
Total adj	**0.35%**	**0.90%**	**0.86%**	**2.20%**

Goldman, Sachs & Co.
85 Broad Street, 26th Floor | New York, New York 10004
Tel: 212-902-8768 | Fax: 212-902-1691
email: kevin.gasvoda@gs.com

Kevin S. Gasvoda
Managing Director
Fixed Income Currency & Commodities

Goldman Sachs

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From: Cassidy, John
Sent: Thursday, February 08, 2007 9:02 AM
To: Peterson, Linda; Hood, Kris; Gething, Christopher; Ozment, Joseph; O'Brien, Brian; Grehalva, Troy
Subject: New Century/Home 123

Importance: High

Given the current state of the company I am no longer comfortable with the practice of taking loans with trailing docs (specifically missing HUDs) that we need in order to conduct compliance testing regardless of the jurisdiction that the loan is originated in.

-----Original Message-----
From: Gasvoda, Kevin
Sent: Thursday, February 08, 2007 7:19 AM
To: Welch, Patrick; Wildermuth, David; Hemphill, Lee; Aberg, Peter (FICC 85B27); Akileswar, Subramanian; Altarescu, Howard; Anasetti, Marco; AnupamOberai; Arango, Carlos; Arkan, Canem; ArvinPrakash; Behrend, Robert B.; BrianO'Brien; Brosterman, Jonathan; CarolynWang; Carter, Lauren; Cassidy, John; Cawthon, Michael; Chakravorti, Rajarshi; Chan, Nancy Y.; ChristopherGething; Cohen, Jennifer L.; Conroy, Erin; DeAngelis, Matthew; Deliiska, Asseneta N.; Delikaris, Nickolas P; Dente, Michael; D'Urso, Joseph; Egeran, Sean N.; Erbst, Jared R.; Feingold, Jessica; Flamino, Marc; Gill, Michelle; Gorelik, Eugene; Gupta, Shashank; Heagle, Jonathan; Holen, Margaret; Hou, Edward D.; Iqbal, Farrukh; Jordanov, Nasko; JustinMahoney; KevinGasvoda; Kilman, James (FICC 85B27); Kong, Sarah C.; Koo, Simone; Larson, Erika L.; Larson, Stephanie; Lee, Insoo; Lei, Stephen; Liepold, Christina; LindaPeterson; Lyu, Michael; Marks, Aaron D.; Marschoun, Michael; Meyer, Guenter; Moliski, William; Muehlhauser, Eric; Murray, Kelli; Nanik, Manisha; Nestor, Genevieve; Nichols, Matthew; Nikodem, Paul; Noh, Suok; Okudo, Melkizedeck; Parkinson, David; Pinkos, Steve; Pohani, Anu N; Pouraghabagher, Dariush; Preisano, Anthony; Ribet, Barrie; Rosenblum, David J.; Rutherford, Malcolm; Shuey, William; Smith, Joan; Solan, Guy; Sparks, Daniel L; Thelwell, Aduke H.; Yao, Roger; Yukawa, Shin
Subject: FW: Piper/NEW: Ugly 4Q And Restatement, Rough Valuation Range - $19-$26

-----Original Message-----
From: Robert Napoli [mailto:robert.p.napoli@pjc.com]
Sent: Thursday, February 08, 2007 5:49 AM
To: Gasvoda, Kevin
Subject: Piper/NEW: Ugly 4Q And Restatement, Rough Valuation Range - $19-$26

Piper Jaffray & Co.

Company Note
February 8, 2007

New Century Financial Corporation
Market Perform

(NEW - $30.16)
Volatility: Medium

Ugly 4Q And Restatement, Rough Valuation Range - $19-$26

Robert P. Napoli, Sr Research Analyst
312 920-2156, robert.p.napoli@pjc.com

Jason S. Deleeuw, Research Associate
612 303-6497, Jason.S.Deleeuw@pjc.com

Brian D. Hogan, Research Analyst
312 920-2151, brian.d.hogan@pjc.com

Reason for Report:
Company Update

Piper Jaffray & Co.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1588

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KEY POINTS:

* NEW took investors by surprise last night, announcing the need for a negative restatement, a loss in the fourth quarter, and a 20% lower loan origination outlook for 2007. The stock traded briefly at $25 in the after market. NEW released a tape recorded message, essentially reading the press release. Company representatives took calls last night, but gave little color.
* There were no real financial ranges provided, so we are doing our best in this note to give investors a framework to go by.

* The restatement is for the first three quarters of 2006 and relates to improper accounting for repurchase reserves. We believe NEW only reserved for the premium (gain) received when the loan was sold, and not for the 15%-20% loss that is typical on a repurchased loan, which is typical in the industry.
* NEW is delaying 4Q results, previously scheduled to be released on February 8, and has a goal of getting results to investors by March 1, with completed quarterly restatements.
* Fourth quarter loss expected. The loss is likely mostly due to a write-down to securitization residuals and acceleration in repurchases in 4Q.
* Lower origination outlook lowered to a decline of 20%. NEW had forecasted flat originations for 2007; it now forecasts a decline of 20%, in line with our expectations for the subprime market. The lowered forecast was blamed on the trend in early payment defaults and loan repurchases, changing secondary market demand for certain products, and potential regulatory changes.
* We very roughly estimate a book value hit of $2.40-$4.29 per share, resulting in tangible book value per share of a best case of $29 and a worst-case of $27.30. We estimate best/worst case scenarios for reserve increases, residual write down and an increased repurchase reserve. The following page lays out our logic.
* Liquidity seems okay with $1.6 billion of tangible book value under our worst-case analysis. We believe problems would have to accelerate in future quarters in order for liquidity to become an issue, unless we have materially underestimated the worst case scenario.
* Future dividends and REIT structure are likely in question. We suggest NEW immediately terminate the REIT structure and retain all capital until the market settles down. We believe NEW's strategy to "return $400 MM in capital to shareholders in '07" is history, due to the likely write-downs.
* Valuation range of 70%-90% of tangible book value seems likely, suggesting a valuation range of $19-$26 per share, on our rough analysis.

	From	To		
Changes	(Previous)	(Current)	Price:	$30.16
Rating	--	MarketPerform	52 Week High:	$51.97
Price Tgt	$33.00	NA	52 Week Low:	$29.07
FY07E Net Inc (mil)	$196.7	NA	12-Month Price Target:	NA
			Shares Out (mil):	56.5
FY08E Net Inc (mil)	$248.6	NA	Market Cap. (mil):	$1,704.0
			Avg Daily Vol (000):	1,487
FY07E EPS	$3.75	NA	Book Value/Share:	NA
			Div (ann):	$7.30

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FY08E EPS	$4.95	NA Est LT EPS Growth:	8%
		P/E to LT EPS Growth (FY07):	NA
		Est Next Rep Date:	03/01/2007
		Fiscal Year End:	Dec

Unable to provide price target and
estimates due to restatement

Net Inc (mil)	2006E	2007E	2008E
Mar	$101.2A	NA	NA
Jun	$103.0A	NA	NA
Sep	$63.5A	NA	NA
Dec	NA	NA	NA
FY	NA	NA	NA
CY	NA	NA	NA

EPS	2006E	2007E	2008E
Mar	$1.78A	NA	NA
Jun	$1.81A	NA	NA
Sep	$1.12A	NA	NA
Dec	NA	NA	NA
FY	NA	NA	NA
CY	NA	NA	NA
FY P/E	NM	NM	NM
CY P/E	NM	NM	NM

Unable to provide price target and
estimates due to restatement

INVESTMENT RECOMMENDATION:
We are maintaining our Market Perform rating, as we expect the stock to trade in our range today.

RISKS TO ACHIEVEMENT OF TARGET PRICE:
Risks include the potential for volatile earnings, increasing competition, a weak economy, and credit quality, as well as regulatory or predatory lending issues.

COMPANY DESCRIPTION:
New Century Financial Corporation originates, sells, and services mortgage loans with a particular emphasis on the subprime or nonprime sector.

We believe that relaxed underwriting standards have been the main driver for the large number of loan repurchases reported by the subprime lenders.
Therefore, we have reviewed the securitization filings for both NEW and Accredited Home Lenders (LEND) to track key underwriting metrics over the past two years (the repurchase problems have resulted from '05 and '06 originations). We are assuming that the underwriting standards on the securitized loans are representative of the underwriting standards for all of NEW's and LEND's loans.

In general, NEW's underwriting standards have been less stringent than LEND's.
Some key takeaways comparing NEW to LEND:

* NEW has typically underwritten a higher percentage of Stated Income loans compared to LEND, on average.
* NEW has typically underwritten loans at higher LTVs compared to LEND, on average.
* NEW has typically underwritten loans at lower Credit Scores compared to LEND, on average.

It is also useful to compare both NEW's and LEND's underwriting metrics over time, as it paints a picture for how each has adjusted their underwriting standards in response to the spike in loan repurchases (again, assuming the underwriting standards on the securitized loans are representative of the standards for all loans originated). In general, both companies are doing fewer Stated Doc loans, but LEND is requiring lower LTVs, while NEW is requiring higher Credit Scores.

NEW has tightened up its underwriting (starting w/ June '06 securitization) by

* doing fewer Stated/Limited Doc loans
* requiring higher Credit Scores on average for Stated/Limited Doc loans
* but has kept LTV requirements pretty much the same

LEND has tightened up its underwriting (starting w/ June '06 securitization) by

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* doing fewer Stated/Alt Doc loans
* requiring lower LTVs on average
* even though Stated/Alt Doc Credit Scores are lower

Given NEW's less stringent underwriting standards, it is no surprise that its securitizations have performed worse than LEND's. Our analysis of static pool securitization data shows that NEW's securitizations have had much higher delinquency rates than LEND. We also included NovaStar Financial (NFI: not rated) for comparison.

Accredited Home Lenders (LEND) is currently rated Market Perform with a $30 price target, which is based on 1.0x projected tangible '07 book value. Risks include the potential for volatile earnings, increasing competition, a weak economy, and credit quality, as well as regulatory or predatory lending issues.

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* Outperform (OP): Expected to outperform the relevant broader market index over the next 12 months.
* Market Perform (MP): Expected to perform in line with the relevant broader market index over the next 12 months.
* Underperform (UP): Expected to underperform the relevant broader market

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index over the next 12 months.
* Suspended (SUS): No active analyst opinion or no active analyst coverage; however, an analyst investment opinion or analyst coverage is expected to resume.

* Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, it identifies the volatility of a particular stock.

* Low: The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
* Medium: The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
* High: The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this volatility rating for the first 12 months of trading.

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MEMORANDUM

Goldman Sachs

To: GSI Risk Committee

From: Mitch Resnick
Peter Ostrem

Cc: Dan Sparks
Tim Saunders

Date: March 16, 2007

Re: **GSI Warehousing for Structured Product CDOs**

I. Introduction

Goldman Sachs International (GSI) provides financing for the warehousing of financial assets to be securitized in connection with CDOs. These warehouses are collateralized by US dollar denominated mortgage and asset backed securities and single name credit default swaps with significant exposure to the US sub prime mortgage sector. The client base that purchase CDO product is global. In exchange for warehousing, structuring and placing the transaction Goldman Sachs earns carry during the warehousing period and receives a fee from the CDO upon closing.

To mitigate the risks during the warehousing period typically GSI will enter into a risk sharing arrangement with the asset manager for the first 20mm (facilitated by a $10mm deposit from the asset manager representing their share). This arrangement is collateralized by cash received upfront from the asset manager. GSI may also use synthetics or additional risk partners to hedge exposure during the warehousing period. GSI has the right to veto any assets suggested by the asset manager for purchase. In addition, assets purchased for the CDO are sold forward to the CDO at the time of purchase and the forward price covers hedge costs and trading gains or losses incurred during the warehouse period. GSI retains the right to unilaterally liquidate an asset or the warehouse, and will do so if economics warrant it. Additionally, Goldman Sachs will pursue equity and mezzanine debt commitments for the CDO during the warehouse period.

There has been significant deterioration within the sub prime mortgage sector driven by rising delinquencies and failing originators. This fact pattern coupled with increased media attention has pushed synthetic and cash spreads dramatically wider. CDO spreads have widened as well negating the arbitrage. As a result of this scenario, we have incurred losses within our CDO warehouses and determined, in some instances, to liquidate warehouses.

Inventory warehoused for CDO execution is marked to market by comparing asset and liability spreads, including the desired equity yield. To the extent that the current CDO liability spreads are wider than the transacted asset spreads on an aggregate basis, the estimated loss is recorded.

The following section details our current structured product CDO warehouses as of March 13th, 2007 and includes a summary of our pre sold risk in each warehouse both with regard to the warehouse and any pre sold liabilities or equity of the intended CDO take-out. Separately, we have offsetting hedges against the warehouse risk in the form of short positions on ABX 06-1 and 06-2 and single-name CDS shorts on AAA, AA, and A rated SP CDO liabilities. This information is detailed in section III.

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II. Current Warehouse Overview

Structured product CDO warehouses are currently $4.7bln in notional. After reducing for deposits received, recognized losses, and pre placed liabilities and equity GSI is long $2.3B warehouse risk (including catastrophic risk above any capped risk sold to third parties) and GSCO is long $710mm. Against the warehouse risk, GSI is short $2.2B of the ABX 06-1 and 06-2 across AAA, A, BBB, and BBB- tranches of the index and GSI is short $210mm of single-name CDS on structured product CDO AAA, AA, and A liabilities.

On a year to date basis through March 13, 2007, the CDO warehouses have incurred the following P&L:

Warehouse		
Greywolf	$	(8,750,000)
GSC High Grade		(40,926,020)
Hout Bay II		(8,716,216)
Altius IV		(7,719,360)
Anderson Funding / GSC Mezz		(22,875,000)
Paramax		(5,608,817)
Dillon Read		(17,659,370)
Cohen		(4,185,681)
Closed Warehouse		(73,329,811)
Other (carry and hedge)		13,010,637
Total	$	(176,759,638)

For each warehouse, we have provided a summary of our risk exposure, any risk we have presold, and the progress we have made in executing a CDO take-out.

A dedicated group within product control performs an independent price verification of the CDO warehouse inventory on a monthly basis. All cash positions held within the warehouse are independently verified via external price compares or fundamental analysis. For single name CDS, product control substantiates the marks by comparing them to recent trading activity. In addition, product control reviews for reasonableness the gains and losses incurred when assessing CDO execution via substantiation of transacted asset spreads, spread duration and review of liability spreads through comparison to available market data.

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A. Greywolf
Deal Size: **$1bln**
Ramped Amount: **$950mm**
Executed CDS:**$879mm**
Funded Bonds: **$71mm**
- Priced deal on 3/13/07 thereby transferring risk to GSCo.
- Equity is shared 50/50 between GS and Greywolf. BBBs sold to Greywolf. As sold to Greywolf (20) and Goldman (16). BSAM purchased senior AAAs (top 50%).
- Still marketing sub-AAAs, AAs, As, and equity to third parties.
- Recorded -$8.75mm as of 3/13.

Greywolf - GS 50. 100% above $20mm	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	-	-	-	-	-
AA	-	-	-	-	-
A	-	-	950,141,377	-	950,141,377
BBB		-	-	-	-
Total	-	-	950,141,377	-	950,141,377

B. GSC High Grade
Deal Size: **$1bln**
Ramped Amount: **$820mm ($138mm** [redacted]
Executed CDS: **$174mm**
Funded Bonds: **$508mm**
- $138mm of warehouse assets held at [redacted]
[redacted] Goldman has $682mm of risk [redacted]
- Executing CDO take-out: Showing super seniors to [redacted] sub AAA notes to [redacted] and [redacted] mezz notes to [redacted] equity to [redacted] and [redacted] Will commence open marketing following Anderson, Greywolf, and Dillon Read closings.
- Recorded -$41mm as of 3/13

GSC ABS II - GS 100%	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	-	-	-	10,000,000	10,000,000
AA	87,012,000	43,243,000	-	68,269,000	198,524,000
A	53,945,000	302,182,000	212,333,396	41,536,000	609,996,396
BBB	-	-	-	-	-
Total	140,957,000	345,425,000	212,333,396	119,805,000	818,520,396

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C. Hout Bay II
Deal Size: **$500mm**
Ramped Amount: **$379mm**
Executed CDS: **$201mm**
Funded Bonds: **$178mm**
- 50% warehouse risk sold to Investec to a $10mm cap. Goldman has 100% risk above $20mm and 50% of risk on first $20mm.
- Executing CDO take-out: [redacted] committing to 50% equity, 50% BBBs, and 50%
As. Discussing super seniors with [redacted] and [redacted]
- Recorded -$8.7mm as of 3/13

Hout Bay II - GS 50%. 100% above $20mm	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	-	-	4,993,468	-	4,993,468
AA	-	-	67,891,125	-	67,891,125
A	-	2,000,000	304,089,909	-	306,089,909
BBB	-	-	-	-	-
Total	-	2,000,000	376,974,502	-	378,974,502

D. Altius IV
Deal Size: **$1.5bln**
Ramped Amount: **$908mm**
Funded Bonds: **$908mm**
- 50% warehouse risk sold to [redacted] to a $3mm cap. Goldman has 100% risk above $6mm and 50% of risk on first $6mm.
- Executing CDO take-out: [redacted] looking at super senior (top 85%). [redacted] is approved to finalize super senior credit at 7bp and [redacted] looking at funding at 16bp.
$3mm equity sold to [redacted]
- Warehouse has no subprime RMBS assets.
- Recorded -$7.7mm as of 3/13

Altius IV - GS 50, 100% above $6mm	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	342,201,000			186,257,000	190,987,000
AA	30,589,000			202,163,000	118,580,000
A	29,825,000	-		117,125,000	76,611,000
BBB	-	-	-	-	-
Total	402,615,000	-	-	505,545,000	908,160,000

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E. Anderson Funding / GSC Mezz deal
Deal Size: **$305mm**
Ramped Amount: **$305mm**
Executed CDS: **$300mm**
Funded Bonds: **$5mm**
- Deal priced 3/12/07 thereby transferring risk to GSCo.
- Goldman is taking 100% of equity, GSC is taking 100% of BBBs,
- Goldman is marketing the remaining A, AA, AAA liabilities.
- Citi, Treasury and RBS looking at AAAs, 10+ accounts doing work on subordinate debt. Stark is looking at equity.
- Recorded -$22.9mm as of 3/13

Anderson Funding - GS 60%, 100% above $10mm	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA					-
AA					-
A					-
BBB		300,000,000	5,000,000		305,000,000
Total	-	300,000,000	5,000,000	-	305,000,000

F. Paramax
Deal Size: **$1bln**
Ramped Amount: **$224mm**
Executed CDS: **$170mm**
Funded Bonds: **$54mm**
- 50% warehouse risk sold to [redacted] a $10mm cap. Goldman has 100% risk above $20mm and 50% of risk on first $20mm.
- Discussing CDO take-out: [redacted] considering commitment on super seniors in return for half the equity returns. [redacted] considering super seniors. [redacted] committed to 50% of equity. Will commence open marketing following Anderson, Greywolf, and Dillon read closings.
- Recorded -$5.6mm as of 3/13

Paramax - GS 50%, 100% above $20mm	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA					-
AA					-
A			224,352,677		224,352,677
BBB					-
Total	-	-	224,352,677	-	224,352,677

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G. Dillon Read

Deal Size: **$1bln**
Ramped Amount: **$1bln**
- 50% warehouse risk sold to Dillon Read (no cap) and 90% of top $700mm sold to Natixis. Natixis is considering some equity.
- Executing CDO take-out: Dillon Read committed on 50% of the equity. Currently marketing in Asia and Europe. Target pricing date of April 9th.
- Recorded -$17.7mm as of 3/13

Dillon Read - GS 50%	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA					-
AA					-
A			1,009,106,871		1,009,106,871
BBB			-		-
Total	-	-	1,009,106,871	-	1,009,106,871

H. Cohen

Deal Size: **$400mm**
Ramped Amount: **$70mm**
Executed CDS: **$20mm**
Funded Bonds: **$50mm**
- 50% warehouse risk sold to [redacted] (no cap).
- On hold. Given equal risk sharing this transaction makes sense to push through so long as Cohen agrees to primarily buy BBB securities from GS.
- Recorded -$4.2mm as of 3/13.

Cohen - GS 50%	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	-		-	-	-
AA	-		-	-	-
A	-		19,896,741		19,896,741
BBB			49,864,613		49,864,613
Total	-	-	69,761,354	-	69,761,354

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III. Hedges

In 2006, we added $210mm of single-name CDS shorts on structured product CDO AAA, AA, and A rated liabilities. This is both a hedge against our warehouse exposure and a hedge against our structured product CDO take-out on the liability side. Additionally, in early 2007, we added $1.85bln of ABX 06-1 and 06-2 shorts in the AAA, A, BBB, and BBB- tranches and $100mm of CMBX BBB shorts. Details on all of our short positions (which are marked to market daily) are detailed below:

Index	Tranche	Size
ABX 2006-1	AAA	-500,000,000
ABX 2006-1	AAA	-200,000,000
ABX 2006-1	AAA	-250,000,000
ABX 2006-1	A	-750,000,000
ABX 2006-1	BBB	-25,000,000
ABX 2006-2	BBB	-75,000,000
ABX 2006-2	BBB-	-50,000,000
CMBX	BBB	-100,000,000
AAA CDS HG	AAA	-100,000,000
AA CDS HG	AA	-60,000,000
A CDS HG	A	-25,000,000
A CDS Mezz	A	-25,000,000
		$ (2,160,000,000)

Our net exposure after simply subtracting our notional of shorts vs. our notional of warehouse long positions (after subtracting out any pre sold risk), leaves Goldman (including GSI and GSCo) net long $800mm of warehouse risk.

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From: Black, Robert N
Sent: Monday, March 12, 2007 2:23 PM
To: Bieber, Matthew G.; Wisenbaker, Scott
Cc: Ostrem, Peter L; Chitson, Michele; Mishra, Deva R.; Lin, Shelly
Subject: RE: Anderson - some thoughts on the book...

Matt,

We will keep pushing the axe. Below is specific feedback to your inquiries.

Duquesne - Low delta account, Lauren should have more tangible feedback for us today
Teachers - too much New Century exposure. They are out
Old Lane - they would look at the equity in the mid to high 30s…is this a context where we trade?
FFTW - Candee coming back to us.
GM Pension - bandwith issue, they will focus on this trade after they clear [redacted] in que
Paramax - Did we counter their proposal ojn the [redacted]
FSI - Spencer getting feedback
Evergreen - Do not like the synthetic underlying
MetWest - Logging Checking
ADIA - Checking, low delta, they are looking for [redacted] now and more focused on Agency product.
MBIA -- Davilman Chscking

From: Bieber, Matthew G.
Sent: Saturday, March 10, 2007 2:40 PM
To: Wisenbaker, Scott; Black, Robert N
Cc: Ostrem, Peter L; Chitson, Michele; Mishra, Deva R.; Lin, Shelly
Subject: Anderson - some thoughts on the book...

Looks like we have a decent number of accounts looking at the deal. There are several outstanding run requests which should all go out Monday morning, if not before (Lehman Prop, DB Prop, Turnberry).

Duquesne - Lauren Karp mentioned they were looking at each of Anderson, Timberwolf and Point Pleasant but don't see any feedback in the sheet.
Teachers - At one point Gail mentioned they were looking at the deal - have they dropped?
Old Lane - do they still want call with GSC?
FFTW - pricing on [redacted] right at their bogey. We should press Candee to see what other info they need to put an order in
TCW - Had call with GSC last week. We should follow up to see where they stand.
GM Pension - what other runs do they need to see from us?
A-1-a Notes (as default swap collateral) - Peloton (for Broadwick), Clinton (Adirondack 2005-1, Adirondack 2005-2), Aladdin (Fortius I, Fortius II, Altius I, Altius III), GSC (2006-3g)
Paramax - what do they need from us?
FSI - what levels interest them?
Turberry - requested runs - are they looking at the [redacted] (looking at [redacted] tranche in TWOLF)
IXIS - would they have any interest further up the capital structure?
Fidelity - Have historically been interested in [redacted] (and expressed recent interest). Given [redacted] tranche, it may be equally attractive to them, especially at the spread we're talking the tranche. Possible to follow up with Nicole?
ADIA - would they be interested in [redacted] given the WAL profile?
Evergreen - Have participated in [redacted] tranches in the past ([redacted] Can we have sales see if there's interest in

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[redacted]?
Metwest - Have participated in [redacted] in the past ([redacted]). Can we have sales see if there's interest in [redacted]?
MBIA - Davilman has them focused at the moment on the [redacted] in Timberwolf, but we should see what they can do on the [redacted] in Anderson.

Also, is there any feedback from the sales force on managers with reinvestment periods? Looks like majority of feedback still centers around deals that are currently ramping.

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From: Sparks, Daniel L
Sent: Monday, February 26, 2007 8:48 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Dillon read: 1 bb deal, 50/50 risk.
Greywolf: 1 bb deal, now basically gs risk because losses thru the greywolf upfront 50 percent first loss

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 08:33:46 2007
Subject: Re: Questions you had asked

Is that our half of the warehouse. Who is doing them with us or is it all ours

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Mon Feb 26 08:32:06 2007
Subject: Re: Questions you had asked

Roughly 2 bb, and they are the deals to worry about. Focus is super- senior, which if we get done will make them work

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:43:29 2007
Subject: RE: Questions you had asked

cdo squared--how big and how dangerous

-----Original Message-----
From: Sparks, Daniel L
Sent: Monday, February 26, 2007 7:37 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Roughly 2 bb high grade deals and 2 bb cdo's squared

In client meeting in greenwich and can give more details in hour and half

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:31:49 2007
Subject: Re: Questions you had asked

So what is total of cdo warehouse after liquidation by sector

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom

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GS MBS-E-019164806

Sent: Mon Feb 26 06:47:43 2007
Subject: Re: Questions you had asked

Still subprime, but only outright bbb subprime is in gsc deal we may liquidate. Other subprime in form of a, aa, aaa subprime and in form of a-rated cdo's (greywolf and dillon read).

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Sun Feb 25 22:49:48 2007
Subject: Re: Questions you had asked

Thanks. So no warehouse in subprime? What about greywolf-what is in that

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Cc: Ruzika, Richard
Sent: Sun Feb 25 20:34:19 2007
Subject: Questions you had asked

Last week the trading desks did the following:

(1) Cover around $1.5 billion single name subprime BBB- CDS and around $700mm single name subprime BBB CDS. The desk also net sold over $400mm BBB- ABX index. Desk is net short, but less than before. Shorts are in senior tranches of indexes sold and in single names. Plan is to continue to trade from short side, cover more single names and sell BBB- index outright.

(2) The CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). Business also began liquidation of $820mm JPMIM warehouse - all synthetics done, cash bonds will be sold in next few days. One more CDO warehouse may be liquidated this week - approximately $300mm with GSC as manager. That will leave us with 2 large CDOs of A-rated CDOs, 2 high grade deals with limited subprime mezz risk, and 2 other small warehouses that are on hold. Getting super-senior done on CDOs is the critical path, and that is where the focus is - for the CDOs of CDOs, NATIXIS (Paris) on Dillion Reed deal and Wincap (London) on Greywolf deal.

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From: Bieber, Matthew G.
Sent: Tuesday, March 13, 2007 6:51 AM
To: Ostrem, Peter L
Subject: Timberwolf -Greywolf
Importance: High

My thoughts on topics Greg wants to discuss later this morning.....

From: Greg Mount
Sent: Wednesday, March 07, 2007 3:04 PM
To: 'Ostrem, Peter L'; Bieber, Matthew G.
Cc: Joe Marconi
Subject: FW: Timberwolf I, Ltd. Preliminary Offering Circular
Importance: High

Pete / Matt –

Couple of things on this:

1) We will not be fully ramped and I want to use the remaining bucket strategically. Is it OK if we have 5% ramped post close?

We represented to BSAM that deal would be fully ramped upon closing. As long as they're ok (or get veto rights), I don't have any issue.

2) As we discussed, we didn't expect to close for 5 – 6 weeks. You indicated that you could do long settle or otherwise finance us for that time period. We need to discuss that, as we would like to mimic the current collateral posting, carry and other aspects of our current arrangement.

Thought we already went back to them on this and said that we could settle post close. Wed., April 11th is about 5 weeks from when we had this exchange, so we should propose to settle securities on that date.

3) We want to sell these securities. We want to make sure that we and you are on the same page and that we don't lose distribution momentum by pricing.

Still focused on selling the bonds....

We understand your urgency here. Do you have any more info re how that might unfold?

Thanks,
Greg

From: Sharp, Gaelyn [mailto:gsharp@orrick.com]
Sent: Wednesday, March 07, 2007 2:02 PM
To: dgerard@sidley.com; Greg Mount; Joe Marconi; Mark Matthews
Cc: matthew.bieber@gs.com; connie.kang@gs.com; Shimonov, Roman; West, Ariane; Saini, Rhea; Racic, Mark; Raff, Joshua E.; Moskowitz, Kara; Kim, Chris; Chang, Eunsu
Subject: RE: Timberwolf I, Ltd. Preliminary Offering Circular
Importance: High

As most of you are aware, the timing for this transaction has been accelerated and we are now targeting closing for

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the **end of next week**. In light of that schedule we will be moving straight to the black which we will need to finalize and print early next week. Please send us any comments you may have on the OC as soon as possible, including any updates to the Greywolf section and bios. We will be distributing first drafts of the Indenture, Glossary, CDS, and Collateral Management Agreement today and tomorrow and would greatly appreciate you immediate attention to those as well.

Thank you for your help -

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Gaelyn Sharp
Orrick, Herrington & Sutcliffe LLP
212-[redacted]

From: Moskowitz, Kara
Sent: Tuesday, March 06, 2007 7:36 PM
To: dgerard@sidley.com; greg.mount@greywolfcapital.com; joe.marconi@greywolfcapital.com; Mark Matthews
Cc: matthew.bieber@gs.com; connie.kang@gs.com; 'Shimonov, Roman'; 'Robertson, Andrew X'; Sharp, Gaelyn; Saini, Rhea
Subject: Timberwolf I, Ltd. Preliminary Offering Circular

In connection with the Timberwolf I, Ltd. transaction, attached please find an initial draft of the Preliminary Offering Circular. As we would like to print early next week, we would appreciate it if you could submit your comments by the end of the day on Thursday, March 8th.

Please note that this version is being distributed simultaneously to all parties, and that it therefore remains subject to revision and review in all respects.

Best regards,

Kara

KARA MOSKOWITZ
associate
ORRICK, HERRINGTON & SUTCLIFFE LLP
666 FIFTH AVENUE
NEW YORK, NY 10103-0001
tel (212) 506-5183
fax (212) 506-5151
email kmoskowitz@orrick.com
www.orrick.com

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From: Birnbaum, Josh
Sent: Tuesday, May 15, 2007 9:21 AM
To: Swenson, Michael
Subject: RE: Goldman Sachs ABS Commentary 5/14 (extemal)

What a beautiful quote.

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, May 15, 2007 7:01 AM
To: Lehman, David A.; Sparks, Daniel L; Birnbaum, Josh
Subject: Re: Goldman Sachs ABS Commentary 5/14 (external)

I would characterize this as a great opportunity to be constructive on the market

----- Original Message -----
From: Lehman, David A.
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh
Sent: Tue May 15 06:55:07 2007
Subject: RE: Goldman Sachs ABS Commentary 5/14 (external)

Given the sizeable short interest in ABS/subprime mkt it does not surprise me that short covering is pushing spds tighter

Not sure I would enter new longs here

-----Original Message-----
From: Sparks, Daniel L
Sent: Tuesday, May 15, 2007 6:47 AM
To: Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Subject: FW: Goldman Sachs ABS Commentary 5/14 (external)

Is this a head fake or does this make you bullish on all spread product

-----Original Message-----
From: Chin, Edwin
Sent: Monday, May 14, 2007 10:20 PM
Subject: Goldman Sachs ABS Commentary 5/14 (external)

Incredible as it may seem, the subprime mortgage slump is already distant memory for some. It's been two months since the ABX market plunged amid worries about a housing meltdown, and already investors (and some dealers) are beginning to get "complacent" again. Blame it on the CDO bids, but with subprime production projected down 40-60% from last year's level, appetite for spread products triumphs any risk concern in the marketplace right now. ABX Index is trading higher as dealers short cover their single name positions after a month of range-bound trading. Flows continue to weigh toward better seller of protection - longs outpace shorts by 3 to 1 as CDO demand has been robust the last two weeks. While warehouse activities might be slow, many CDOs are still looking to finish up their ramp post-closing. Other notable trends/themes:

1) I estimate BWIC's hit ratio to be about 25%. Few names trade as CDOs all gravitate to the better 05/07 names in the market. While there were 500mm-1bn of single-name CDS out for the bid each day, reserve levels remained out of reach for most dealers, and the majority failed to trade.

2) With DOW at all time high, the bears have been largely standing on the sidelines. The protection buying euphoria has faded to a certain degree, but mostly because hedge funds have expanded their playground beyond subprime - already CMBS/CLOs are showing some cracks.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1597

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3) The basis between seasoned 05/newer 07 production and weaker 06 names continues to expand.

4) Cash bonds are beginning to catch a bid in the market as many single names fail to trade because of tight levels. Flows have picked up last week as we sold over $200MM A3/BBB+ paper. We continue to recommend investors buying cash bonds outright and/or buying protection to take advantage of the inverted basis.

As for trade idea, at the current spread levels, there is no obvious fundamental trade. We recommend putting on basis trades and capital structure trades that provide positive carry. For example, buy weaker 05/06 single-As like WMC and NC that are trading north of +200bps while buy protection on single-As that are trading below +90bps. For those who believe in convergence and high correlation these paired trades can pick up significant spreads in most scenarios. Also, for those who might have missed the opportunity to buy protection back in December/January, this is a very good entry point to load up on single-name protection that trades significantly cheap to the index.

Closes were:

ABX.HE.07-1 Closes

	Price	Spread	Change
AAA	99-24	14	-4bp
AA	99-14	31	+0bp
A	95-16	196	-4bp
BBB	79-08	857	+4bp
BBB-	73-08	1229	-20bp

ABX.HE.06-2 Closes

	Price	Spread	Change
AAA	99-24	17	-4bp
AA	99-16	33	+0bp
A	96-16	159	-4bp
BBB	84-00	685	-12bp
BBB-	77-04	1055	-44bp

ABX.HE.06-1 Closes

	Price	Spread	Change
AAA	100-08	12	-1bp
AA	100-00	32	+0bp
A	98-28	97	-4bp
BBB	94-12	380	+0bp
BBB-	90-10	661	-22bp

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Report Footnote #1601

CDO Platform Overview

Goldman Sachs

Goldman Sachs

June 2007

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\\FIRMWIDE\fICCrOOT\Projects\LN\Presentation\Presentation\Bankers Personal Folders\May 2006\Tony Ofori - GRA22427\02 Generic CLO Pitch May 2006.ppt

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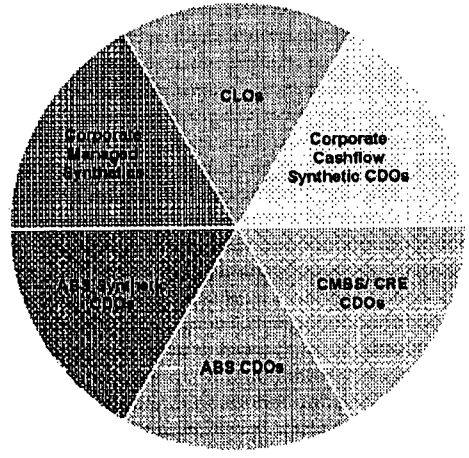
A. Goldman Sachs Completed CDO Transactions

I. Goldman Sachs CDO Platform

Goldman Sachs CDO Platform

Breakdown by Products

- Goldman Sachs CDO business sits in the Fixed Income, Currency & Commodities Division
- Global business operating in North America, Europe, the Middle East & Asia
- Full spectrum of product capabilities across cash, synthetic and hybrid CDOs



GS MBS-E-001918726

Goldman Sachs U.S. CLOs

Key Contacts

MANAGEMENT CONTACTS
Steve Hickey, *Partner (Leveraged Finance)*
Will Roberts, *Partner (U.S. Structured Credit Trading)*
Tom Comacchia, *Partner (U.S. Sales)*
David Rosenblum, *Managing Director (US CLOs)*

US CLO
Amit Roy, *Vice President*
David Race, *Vice President*
Keith Lee, *Vice President*
Andrew Robertson, *Vice President*
Vicky Zhao, *Associate*
Tim Kirk, *Associate*
Charles Carey, *Associate*
Nina Gidwaney, *Associate*
Leonard Chung, *Analyst*
Rohan Duggal, *Analyst*
David Kim, *Analyst*
Anusha Harid, *Analyst*

LOAN SALES & TRADING
Blake Mather, *Managing Director (Sales)*
Mark DeNatale, *Managing Director (Trading)*
Bill Dobson, *Vice President (Trading)*

PRIMARY LOANS
Denis Coleman, *Managing Director*
Tom Stein, *Managing Director*

STRUCTURED PRODUCT SYNDICATE
Bundy Bohra, *Managing Director*
Scott Wisenbaker, *Vice President (CLOs)*
Robert Black, *Vice President (CLOs)*
Scott Walter, *Vice President (NY)*
Anthony Kim, *Analyst (NY)*
Malcolm Mui, *Analyst (NY)*
Russell Brocato, *Analyst (NY)*
Mitch Resnick, *Executive Director (London)*
Jessica Reis, *Analyst (London)*
Omar Chaudhary, *Vice President (Tokyo)*
Jay Lee, *Associate (Tokyo)*
Hirotaka Sugioka, *Analyst (Tokyo)*

ANALYTICS & STRATEGIES
Elisha Weisel, *Managing Director*
Scott Weinstein, *Managing Director*
Dino Buturovic, Managing Director

LEGAL RESOURCES
Tim Saunders, *Vice President*
Sang Kim, *Vice President*

STRUCTURED CREDIT MARKETING
Shlomi Raz, *Managing Director*
Steve Ricciardi, *Managing Director*
Katelyn Kleinert, *Analyst*

CLO SECONDARY TRADING
Gerry Ouderkirk, *Managing Director, CLOs*
Phillip Ha, *Vice President, CLOs*
Shelly Shapiro, *Associate*

CLO MIDDLE OFFICE
Carly Scales, *Vice President*
Mike Macchia, *Associate*
Jason Tarantino, *Associate*

LOAN OPS
Tracy McCaffrey, *Vice President*
Juan-Carlos Isaza, *Vice President*
Rahul Kapur, *Vice President*

Goldman Sachs European CLOs

Key Contacts

MANAGEMENT CONTACTS
Dan Sparks, *Partner (Structured Products Group)*
Vishal Gupta, *Partner (European Trading)*
Steve Hickey, *Partner (Leveraged Finance)*
Yusuf Allredha, *Partner (European Sales)*

LONDON CDO STRUCTURING
Norman Hardie, *Managing Director*
Shomick Bhattacharya, *Executive Director*
Sharad Vohra, *Associate*
Jean Manuel Costa, *Associate*
Sora Hahn Kim, *Associate*
Mustafa Mahmood, *Associate*
David Leifert, *Associate*
Saugata Mukherjee, *Associate*
Ken Sim, *Secondee from White & Case*
Anantheraman Pattabiraman, *Analyst*
Tony Ofori, *Analyst*

LOAN TRADING
Stephen P. Byrne, *Executive Director*
Faiyaz Basher, *Associate*

PRIMARY LOANS
Ian Gilday, *Managing Director*
Michael Marsh, *Executive Director*

STRUCTURED PRODUCT SYNDICATE
Bunty Bohra, *Managing Director*
Scott Wisenbaker, *Vice President (CLOs)*
Mitch Resnick, *Executive Director (London)*
Omar Chaudhary, *Vice President (Tokyo)*
Scott Walter, *Vice President (NY)*
Robert Black, *Vice President (CLOs)*
Jay Lee, *Associate (Tokyo)*
Anthony Kim, *Analyst (NY)*
Hirotake Sugioka, *Analyst (Tokyo)*
Jessica Reis, *Analyst (London)*

ANALYTICS & STRATEGIES
Klaus Toft, *Managing Director*
Alex Duponi, *Associate*

LEGAL RESOURCES
Matthew Fleti, *Executive Director*
Sarah Taylor, *Associate*

CLO SECONDARY TRADING
Gerry Ouderkirk, *Managing Director, CLOs*
Phillip Ha, *Vice President, CLOs*

LOAN MIDDLE OFFICE
Patricia Tessier, *Executive Director*
Daniel Herdiman, *Associate*

Goldman Sachs ABS CDOs

Key Contacts

MANAGEMENT CONTACTS
Dan Sparks, *Partner (Structured Products Group)*
Stacy Bash-Polley, *Partner (US Sales)*
Mike Swenson, *Managing Director (SPG Trading & CDOs)*
David Lehman, *Managing Director (SPG Trading & CDOs)*

ABS CDO
Matt Bieber, *Vice President*
Michelle Chitson, *Vice President*
Chris Creed, *Vice President*
Connie Kang, *Associate*
Nityanand Sharma, *Associate*
Roman Shimonov, *Associate*
Ariane West, *Associate*
Shelly Lin, *Analyst*
Deva Mishra, *Analyst*
Mahesh Ganapathy, *Analyst*
Eric Siegel, *Analyst*

STRUCTURED PRODUCT SYNDICATE
Bunty Bohra, *Managing Director*
Scott Wisenbaker *Vice President (ABS CDOs)*
Robert Black *Vice President (ABS CDOs)*
Scott Walter, *Vice President (NY)*
Anthony Kim, *Analyst (NY)*
Mitch Resnick, *Executive Director (London)*
Jessica Reis, *Analyst (London)*
Omar Chaudhary, *Vice President (Tokyo)*
Jay Lee, *Associate (Tokyo)*
Hirotaka Sugioka, *Analyst (Tokyo)*

CORRELATION TRADING
Jonathan Egol, *Vice President*
Fabrice Tourre, *Vice President*
David Gerst, *Vice President*

LEGAL RESOURCES
Tim Saunders, *Vice President*
Sang Kim, *Vice President*

ABS CDO SECONDARY TRADING
Ben Case, *Vice President, ABS CDOs*
Rajiv Kamilla, *Vice President, ABS CDOs*

ABS CDO MIDDLE OFFICE
Carly Scales, *Vice President*
Mike Macchia, *Associate*
Jason Tarantino, *Associate*

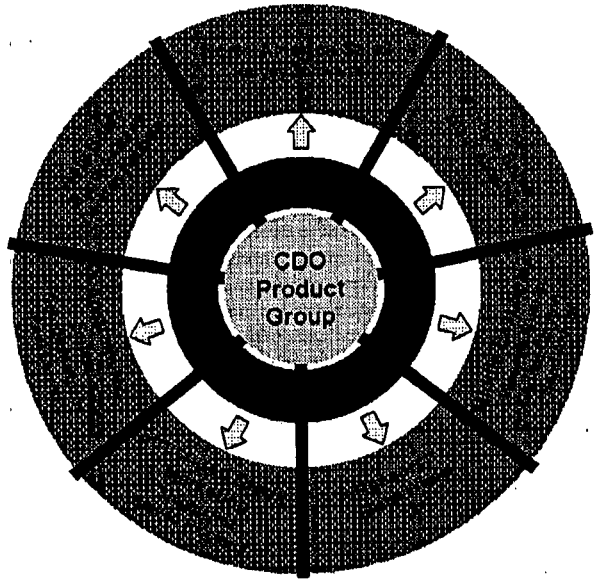
ANALYTICS & STRATEGIES
Elisha Wiesel, *Managing Director*
Mike Turok, *Managing Director*
Paul Burchard, *Vice President*

GS MBS-E-001918729

Goldman Sachs CDO Platform

Global Distribution Platform

- The CDO platform benefits from Goldman Sachs' global distribution



8

GS MBS-E-001918730

Goldman Sachs CDO Platform

Global Bookrunners Collateralized Debt Obligations

		2006 Issuance ($Mil.)	No. of Deals	Market Share (%)	2005 Ranking	2005 Issuance ($Mil.)	No. of Deals	Market Share (%)
1	Merrill Lynch	$54,153.50	67	12.2	2	$27,327.10	45	11.3
2	Deutsche Bank	34,866.10	68	7.8	7	12,281.40	42	5.1
3	Citigroup	32,871.10	60	7.4	1	28,146.60	43	11.7
4	Goldman Sachs	32,440.30	51	7.3	5	14,539.60	30	6.0
5	Credit Suisse	25,364.70	43	5.7	10	11,179.90	32	4.6
6	Bear Stearns	23,091.90	46	5.2	6	12,963.60	39	5.4
7	UBS	21,937.70	70	4.9	13	7,142.00	18	3.0
8	Banc of America	21,858.80	51	4.9	12	10,072.90	34	4.2
9	J.P. Morgan Chase	20,608.40	43	4.6	8	11,791.80	28	4.9
10	Wachovia	19,519.70	44	4.4	4	17,325.70	32	7.2
11	Morgan Stanley	19,225.40	66	4.3	9	11,305.80	42	4.7
12	Calyon	18,744.70	65	4.2	16	2,698.00	36	1.1
13	Barclays Capital	17,837.60	82	4.0	3	17,705.80	18	7.3
14	IXIS Securities	17,759.50	27	4.0	14	6,664.60	12	2.8
15	Royal Bank of Scotland	16,348.50	26	3.7	15	4,044.00	12	1.7
16	Lehman Brothers	15,776.70	47	3.5	11	10,630.00	37	4.4
17	BNP Paribas	5,221.90	14	1.2	17	2,145.10	19	0.9
18	Fortis Bank	5,090.90	9	1.1	18	594.30	5	0.2
	OTHERS	23,042.00	42	5.2		32,705.40	69	13.5
	TOTAL	445,279.10	965	100.0		241,263.60	593	100.0

Source: Asset-Backed Alert as of January 2007

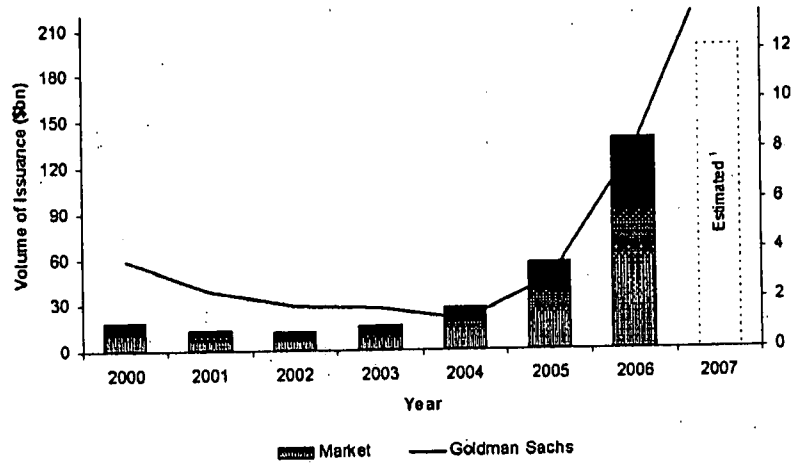
II. US & European CLOs

GS MBS-E-001918732

U.S. & European CLOs

Significant Growth and Expansion in CLOs

- The CLO market has experienced dramatic growth in transaction volume over the last 3 years
- From 2004 to 2006, the annual market growth rate has been approximately 125.0%, while Goldman Sachs has experienced an annual growth rate of 157.0% over the same time period
- In 2007 Goldman Sachs expects to originate $15.8 billion of CLOs in U.S. and Europe



¹ US CLO estimate from S&P Levereged Lending Review Q4 2006; Euro CLO estimate interpolated from historical growth
Source: IFR, MCM, JPM, Bloomberg and Asset-Backed Alert

US & European CLOs
Transaction Types

Traditional Broadly Syndicated Leveraged Loan CLO Transactions

- Continues to form the backbone of our pipeline
- Cash arbitrage transactions backed by traditional leveraged loans with ratings around B1
- Repeat mandates from franchise clients (Fidelity, Ares, etc) to first time collateral managers
- Trending towards larger 2nd Lien / High-yield Bond buckets in search of yield

Middle Market CLO Transactions

- Primary focus on "club" loan deals, typically in total loan issue sizes of $30mm - $150mm and ratings around B3
- Drawing spotlight as the sweet spot of cash arbitrage transactions
- More managers looking to expand into the middle market loan space
- Asset-sourcing capabilities of managers, warehousing risk are among Goldman's concerns and we typically enter into risk sharing agreements

Sponsored Fund Equity CLO Transactions

- Provide for non-recourse, long duration term-financing vs. total return swap / repo agreements with mark-to-market risks
- Generally exhibit low-leverage structure to give manager room for ramp-up, trading flexibilities
- Manager typically commits to a significant portion of the equity

US & European CLOs

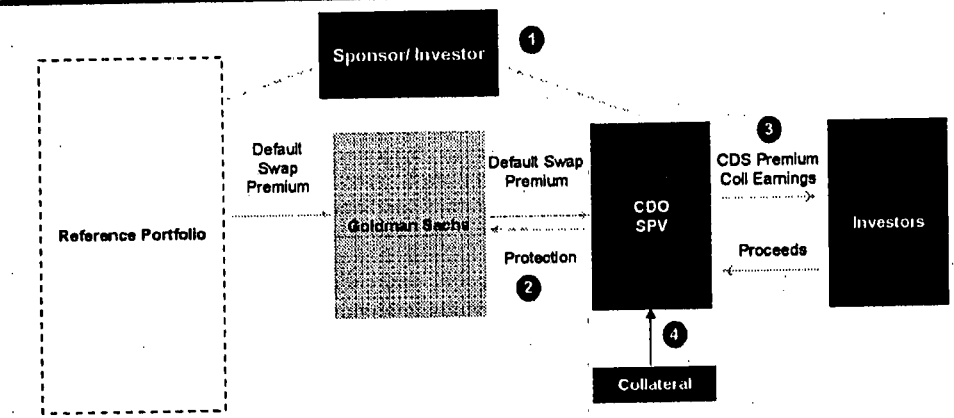
What Differentiates Us From Our Competitors

- Goldman Sachs' CLO platform is a joint venture between Leveraged Finance and Structured Products
  - Goldman Sachs among the top five banks in volume of leveraged loan issuance
  - CLO managers benefit from preferential allocation process in the primary loan market
  - Secondary trading facilitates managers' asset acquisition during initial warehouse ramp-up and beyond
  - CLO business able to leverage strong manager relationships cultivated by Bank Loan Sales desk
  - CLO managers have access to the global resources and credit research of the Distressed Investing Group
- Creativity and opportunistic risk taking
  - Goldman Sachs and Zais Group, LLC. launched US EPICS, a $180 million CLO equity fund which closed in June 2005, and Euro EPICS, a €257 million CLO equity fund which closed in May 2006
  - Goldman Sachs developed a new risk management technology that allowed for the CLO equity funds to be offered in principal protected form, mitigating some potential risks associated with CDO investments
  - The fund provided leveraged exposure to a highly diversified pool of senior secured bank loans of varying management styles
- Ongoing customer service
  - Many of our issuers are satisfied repeat customers
  - We work closely with managers on an on-going basis to modify structural covenants as required to provide incremental flexibility in a changing market environment (including reducing coupon and spread constraints, changes in the fixed and floating collateral percentages, adjustment to swaps)
- Emphasis on transparency
  - All transactions on INTEX since May 2002
  - Goldman Sachs CDO Monthly transaction surveillance updates
  - "NORMA" – CDO analytical tool that we developed to analyze closed CDOs

III. Corporate Cash Flow Synthetic CDOs

GS MBS-E-001918736

Corporate Cash Flow Synthetic CDOs
Structural Overview



1	Investor/ Sponsor will select a portfolio of Reference Entities subject to criteria of diversity, rating and spread and will undertake active discretionary management*
2	Goldman Sachs buys protection from the SPV on losses in the Reference Portfolio via a Portfolio Credit Default Swap referenced to the Reference Portfolio.
3	The SPV will pass through the CDS premium and interest proceeds on the high grade Collateral (#4 below) through the interest collection account. At maturity, principal proceeds will be released through the principal collection account.
4	Proceeds from issuance (net of upfront fees) are used to purchase high grade Collateral. This pays the LIBOR component of the note (and equity) coupon and collateralises the default swap exposure

* Investor/ Sponsor will sell protection on individual reference entities with Goldman Sachs or other CDS dealers and assign them to Goldman Sachs as swap counterparty to the CDO

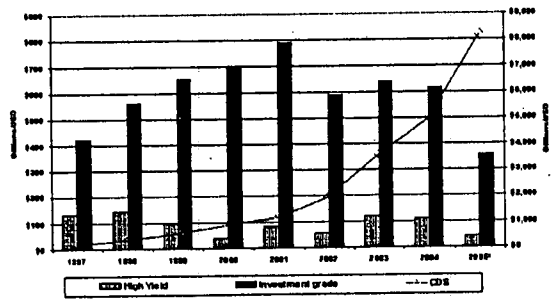
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GS MBS-E-001918737

Corporate Cash Flow Synthetic CDOs
Overview

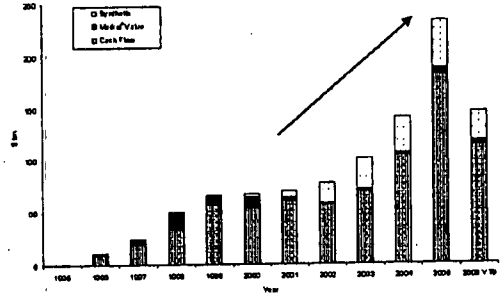
- Goldman Sachs is a leading arranger of corporate synthetics
  - Ranked #1 in Structured Credit by Institutional Investor End User Survey in 2006
  - Ranked Best Global Credit Derivative House by Euromoney in 2006
- Single name credit default swaps have grown to a multiple of the underlying cash market with much of the growth fueled by the CDO Market

Growth of Single Name CDS Market (outstanding notional)



Source: British Bankers Association Credit Derivatives Report 2003/2004; Standard and Poor's LCD; Bond Market Association

Growth of Synthetic CDO Market



Goldman Sachs estimates. Synthetic issuance amounts refer to funded amounts.

Corporate Cash Flow Synthetic CDOs
Market Evolution & Opportunity

- Recently, synthetic CDO issuance has seen the emergence (re-emergence) of fully issued capital structures with waterfalls and coverage tests
- Synthetic CDOs using cash flow technology has come full circle:
  - 2000: issuance of arbitrage synthetic CDOs (Inv Grade CDS underlying) relied on traditional cash flow CDO technology with waterfalls and coverage tests
  - 2001 - Current: surge in synthetic CDO issuance (largely still Inv Grade CDS) with the development of customized single tranche CDO technology
  - 2003: introduction of unsecured single name HY CDS and liquid tranche markets
  - 2006: adoption of cash flow technology for corp. synthetic CDOs largely driven by (i) correlation model adjustments and (ii) S&P rating methodology change
- The implementation of cash flow CDO technology on unsecured corporate default swaps has gained popularity with both "synthetic" and "cash" investors:
  - Full transparency of transaction economics
  - No delta hedging or reserves- monetization of gains and losses are in cash and flow through the structure
  - Superior relative value for debt investors
  - High running carry for equity investors and ability to hedge individual credits
  - Full retention of economics in a call scenario for equity

GS MBS-E-001918739

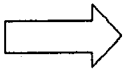
Corporate Cash Flow Synthetic CDOs

Fully Issued Structure – Single Tranche Reverse Inquiry

- The issuance of fully issued capital structures inherently provide an opportunity for single tranche issuance as an add-on to investment or in lieu of a fully issued structure

Fully Issued "Wayfarer"

- Static pool, Lightly Managed or Actively Managed
- Entire capital structure is issued
- Structured with P & I Waterfalls and OC Coverage Tests
- Underlying CDS can be IG, XO, HY, Loans or EM

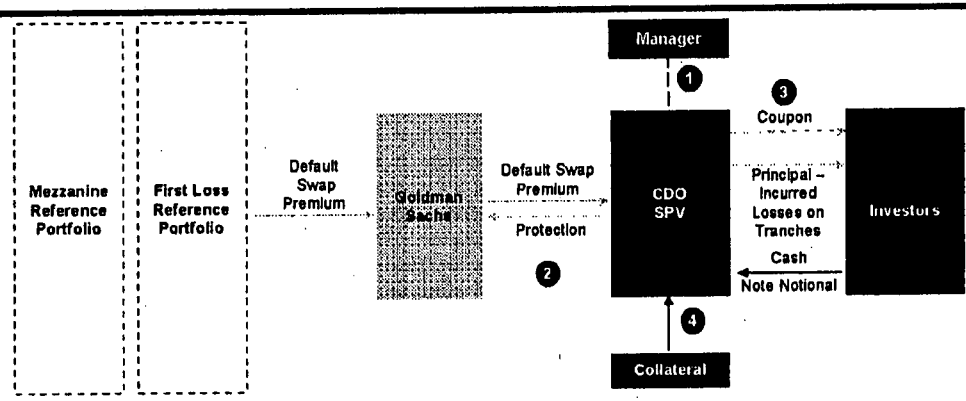


Customized Risk can be manufactured on demand

IV. Corporate Managed Synthetic CDOs

GS MBS-E-001918741

Sample Transaction Structural Overview



1	Manager will select a portfolio of Reference Entities subject to criteria of diversity, rating and spread and will undertake active management
2	Goldman Sachs buys protection from the SPV on losses in the Reference Portfolio that exceeds the agreed subordination via a Portfolio Credit Default Swap referenced to the Reference Portfolio
3	The SPV transfers exposure to the relevant tranche of risk via the issuance of a credit linked note which pays a credit contingent coupon and will redeem at par minus any Tranche Incurred Losses (i.e. losses above the agreed subordination)
4	Proceeds from the Notes are used to purchase high grade Collateral. This pays the LIBOR/EURIBOR component of the note coupon and collateralises the default swap exposure

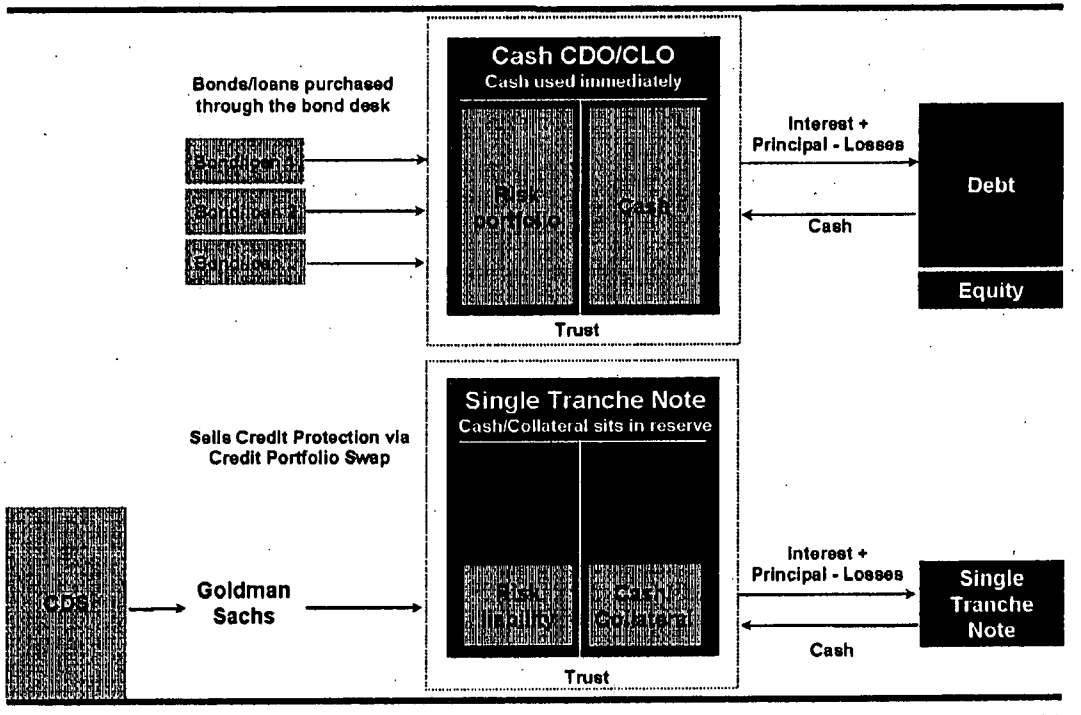
Note that Goldman Sachs may or may not hedge the exposures created with the market

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CDOs and Single Tranche Notes

Structural Differences



Goldman Sachs' Track Record

- Goldman Sachs has an outstanding track record in structuring and globally distributing innovative public 3rd managed synthetic CDO transactions across a wide range of asset classes

Ocelot I: Investment Grade synthetic CDO program managed by Prudential M&G (H2 2004)
- USD 1bn plus of mezzanine placed for first time with synthetic manager
- Fixed spread or floating spread coupons linked to the Dow Jones CDX issued off SPV platform allowing for deal up-sizes by tapping the initial issue (26 taps, 2 maturities, 3 currencies)

Sydbank Emerging Markets Sovereign Only Synthetic CDO (Q1 2005)
- First publicly distributed EM synthetic single tranche transaction - over USD 250mm placed
- Unique structural feature with separate portfolios for equity and debt tranches allowed to diverge over time and variable equity tranche exhaustion point

Archstone I: High Yield Synthetic CDO managed by Rabobank (Q1 2005)
- Unique structure featuring high fixed recoveries, enabling the transaction to bridge the gap between the leveraged loan (CLO) and synthetic (CDS) market
- Global marketing of the transaction (144a / Reg S) with USD 282m placed – co-syndicate with Rabobank Int'l

Modjeska Canyon: Emerging Markets synthetic CDO program managed by PIMCO (Q4 05 / Q1/2 06)
- USD 800mm plus placed in consecutive taps over closing month
- Separate mezzanine and equity structures with built in reserve coupon and performance benefit sharing - first loss risk placed in fixed rate, zero coupon, principal protected and combo note form

Ocelot II: Investment Grade synthetic CDO managed by Prudential M&G (Q4 2005 / Q1 2006)
- USD 300m closed following the success of Ocelot I in '04
- Offering included hybrid structures and structured coupons with fixed and floating spread alternatives in addition to separate equity and mezzanine portfolios with short bucket

GSAM Investment Grade Synthetic CDO: Investment Grade synthetic CDO managed by GSAM (Q2 2006)
- USD 150mm Asia-exclusive distribution; offering included structured coupons with fixed and floating coupon alternatives

Cairn Recovery Rebate CDO: Investment Grade synthetic CDO managed by Cairn Capital Limited (Q4 2006 / Q1 2007)
- USD 250mm Europe-exclusive distribution; offering included structured coupons with fixed and floating coupon alternatives, with recovery rebate feature

TCW Asia Synthetic CDO: Investment Grade synthetic CDO managed by TCW IM (Q1 2007 – Present)
- Asia-exclusive distribution on 100% Asian IG portfolio; offering including structured coupons with fixed and floating coupon alternatives

Aladdin Synthetic CDO II: Investment Grade synthetic CDO managed by Aladdin Capital LLC (Q4 2006 – Present)
- Offering including structured coupons with fixed and floating coupon alternatives, multi-currency issuances, and the possibility of short bucket

Effect Of Trading On Subordination

- Any change in subordination will be determined by the change in spread of the Reference Entity being removed, and the new Reference Entity (determined at the time of switch), obligor percentage and an adjustment factor:
- Subordination reduction = (Spread Old – Spread New) x Adjustment Factor x Obligor Percentage
- What is the rationale behind Adjustment Factors?
  - When Manager trades a name, this changes the value of the portfolio credit default swap
  - In order for the substitution cost to be zero, the value of the portfolio credit default swap must remain the same – hence subordination must be changed
  - The Adjustment Factor is determined at the time of trading such that the net change in value is zero
- What determines the Adjustment Factor?
  - Adjustment Factors are determined by a number of variables that also determine the value of a tranche:
    - Time to Maturity
    - Absolute spreads and distribution of spreads in portfolio
    - Subordination of tranches
    - Recovery rates and recovery volatilities
    - Correlation between credits
    - Size of mezzanine and equity tranches placed with investors
- The adjustment factors are driven by the market conditions at the time of trading - hence, Adjustment Factors upon the request of a substitution.

Goldman Sachs' Strength in Structured Credit

Risk

Institutional Investor End-User Survey 2006:

"Goldman Sachs performed well in all asset classes, coming top overall in structured credit, over-the-counter single-stock equity options and equity index options."

Structured Credit Overall	GS #1	DB #2
Tradable Index Products	GS #1	JPM #2
Bespoke Equity	GS #1	DB #2
Bespoke Mezzanine	GS #1	MS #2
ABS Syndicate CDOs	GS #1	Citi #2

EUROMONEY

2006 Global Best Credit Derivatives House: Goldman Sachs:

"The firm has a powerful reputation for innovating around clients and for spotting opportunities faster than most. It is also one of the biggest liquidity providers in flow products."

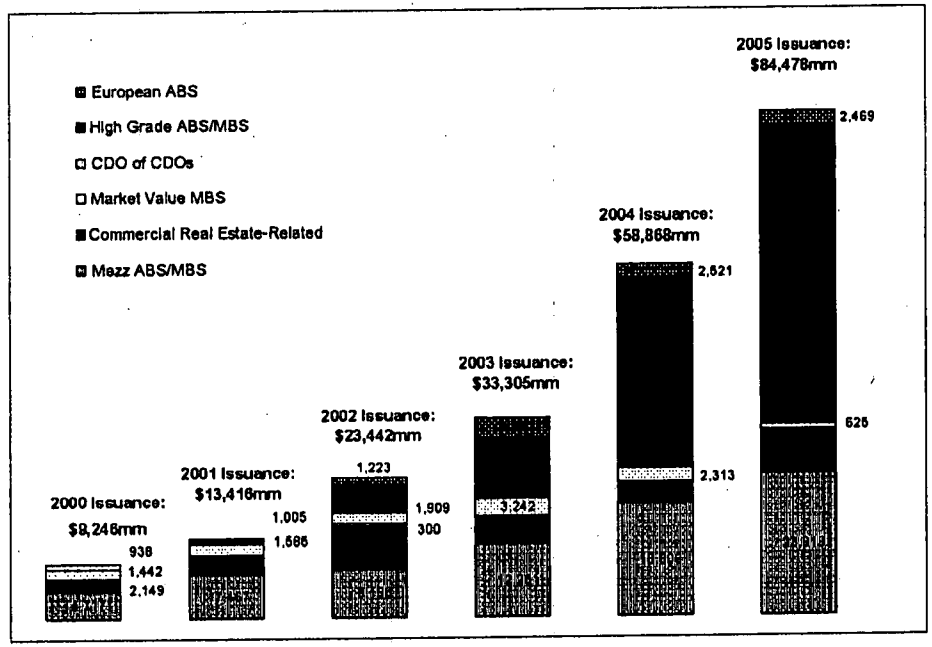
V. ABS CDOs

ABS CDOs
Overview

- The ABS CDO business originates, structures and places CDO transactions backed by diversified portfolios of RMBS, CMBS, CDO and ABS
- Goldman Sachs led approximately $19 billion in issuance of ABS CDOs in 2006.
- ABS CDO transactions can be categorized by the market based on the credit quality of the underlying portfolio or style of management
  - Credit Quality Classifications:
    - High Grade – Average portfolio credit quality of Aa3
    - Mezzanine – Average portfolio credit quality of Baa2/Baa3
    - Niche transactions – Double-B rated RMBS portfolios, diverse single-A portfolios, super high grade AAA/AA portfolios, RMBS Prime/Alt-A-only portfolios
  - Management Style Classifications:
    - Managed – 3-5 year reinvestment period
    - Defensively Managed – Credit risk sales only, no reinvestment
    - Static – Deterministic liquidation of credit risk only, no reinvestment

ABS CDOs

Issuance – Changing Composition (Deal Sizes)



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ABS CDOs
Agency and Principal Type

Agency CDO Transactions

- Goldman Sachs works with large top-tier institutional asset managers
- Goldman Sachs acts as agent and structures and places the transaction's debt and equity
- Neither Goldman Sachs nor the collateral manager typically make equity commitments Debt and equity are broadly syndicated out to a large investor base
- Examples of managers that we are working with/have worked with in the past
  - Trust Company of the West (TCW)
  - Cambridge Place Collateral Management (Cambridge)
  - GSC

Principal CDO Transactions

- Goldman Sachs teams up with a suitable partner to share 50/50 risk and reward in the transaction (warehouse, equity commitment, fees are equivalent on a PV basis)
- Goldman Sachs and our partner typically commit to each retain 50% of the unsold equity
- Transaction motivation is to create an attractive investment for Goldman Sachs and our partner by leveraging expertise of both parties in executing the transaction
- Examples of partners that we are working/have worked with in the past
  - Aladdin Capital Management
  - Greywolf
  - Winchester Capital

ABS CDOs
Collateral Management Type

Managed Transactions

- Repayment of CDO liabilities locked-out for 3-5 years while Collateral Manager reinvests principal payments from portfolio in additional assets
- Annual discretionary trading of 10-15%
- Reinvestment and trading subject to pre-determined portfolio constraints
- Longer duration due to reinvestment period allows for higher transaction fees

Defensively Managed Transactions

- Collateral manager has discretion to make "credit risk" sales
- No reinvestment or substitution of principal proceeds, no discretionary trading
- Lower fee structure than managed transactions
- Risks and rewards of CDO transaction are shared 50/50 between Goldman and Collateral Manager (shared equity underwriting, warehouse risk sharing, fee arrangement)

Static Transactions

- No collateral manager
- 3rd party equity sponsor acts as silent partner that faces the Street assisting with sourcing collateral
- No reinvestment or substitution of principal proceeds, no discretionary trading
- Goldman acts as "liquidation agent", selling assets that are deemed "credit risk" based on pre-determined criteria within 1 year

VI. ABACUS Program

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ABACUS Program
Overview

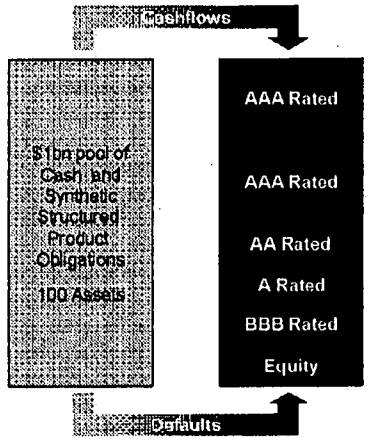
- ABACUS is the Goldman brand name for single-tranche credit-linked note (CLN) issuances referencing portfolios comprised entirely of structured products
- Goldman has executed 17 ABACUS transactions since 2004:
  - Almost US $5 billion of CLNs placed globally to buy-and-hold investors
  - Over US $30 billion of risk transfer against referenced portfolios
- Goldman has executed two managed ABACUS transactions and is in process of executing a third
  - ABACUS 2005-CB1 (RMBS-focused transaction sponsored by C-BASS)
  - ABACUS 2006-NS1 (CMBS-focused transaction sponsored by NorthStar)
  - ABACUS 2006-HGS1 (Mezz ABS CDO^2 transaction sponsored by BSAM)
- Transaction velocity has increased:
  - 3 deals in 2004
  - 6 deals in 2005
  - Projecting 12 deals in 2006 (9 priced YTD and 3 more October-December)
  - Projecting 24 deals in 2007, including 6-8 third-party managed ABACUS transactions

ABACUS Program

Comparison of Single-Tranche and Cashflow Waterfall Formats

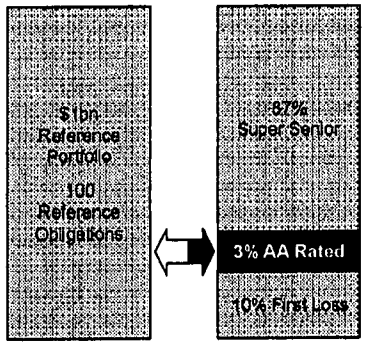
Cashflow Waterfall CDO

- Collateral is cash assets and/or single-name CDS
- Warehousing aggregation model
- Requires full capital structure placement
- Cash flow waterfall usually with OC / IC triggers and cashflow shortfall risk
- Investment in note form only
- Low flexibility regarding format (e.g., currency)



Single Tranche Synthetic CDO

- Reference portfolio only
- No warehousing period required
- Customized single tranche placement
- Direct cashflow through credit default swap
- No OC / IC triggers
- Can be structured with no cashflow shortfall risk
- Investment in note or swap form
- High flexibility regarding format (e.g., currency)

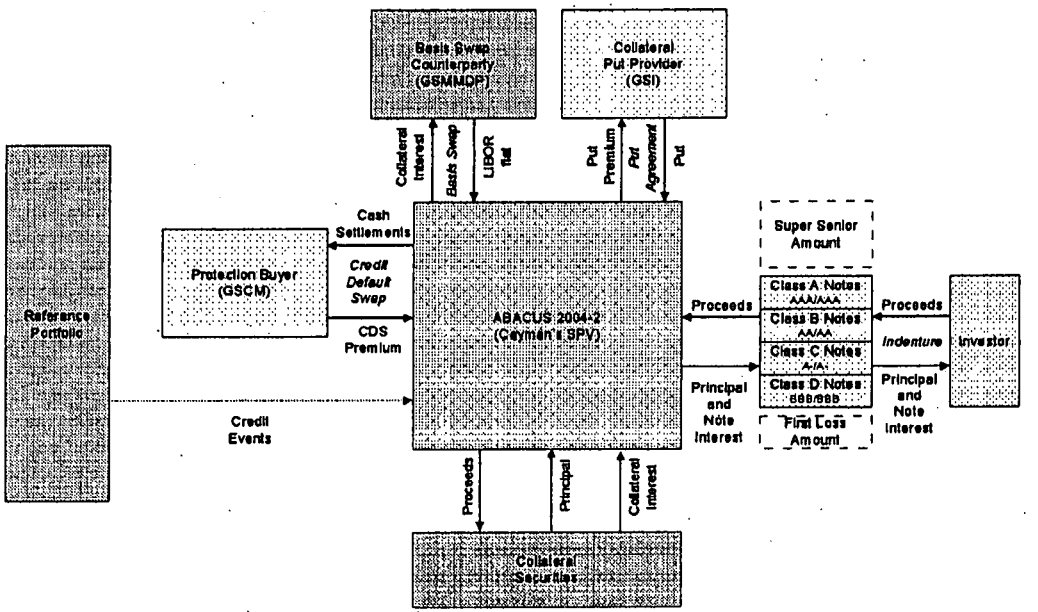


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ABACUS Program

Example Structure Diagram



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ABACUS Program
Key Potential Investor Advantages

- Portfolio construction flexibility
- Customized amount of term leverage and credit enhancement
- Customized for investor rating requirements
- Potential inclusion of variable leverage to increase spread (e.g., levered super senior)
- Funded or unfunded trade format
- Denomination currency or other specialized collateral structures
- Step-up structures to achieve better average life/maturity profile
- Potential to reduce or exclude exposure to undesirable cashflow characteristics of certain underlying securities:
  - Embedded WAC and/or available funds caps (RMBS)
  - Fixed rate underlying product (RMBS and CMBS) and related interest-rate hedges
  - CDO PIK risk

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ABACUS Program
Goldman Roles

- Goldman acts as protection buyer from each ABACUS vehicle
- Goldman covers all upfront and ongoing expenses of each ABACUS vehicle
- Goldman acts as counterparty under the basis swap to hedge the cashflow and/or basis risk of triple-A collateral securities
- Goldman acts as counterparty under the collateral put to hedge the market-value risk of triple-A collateral securities
- Goldman generally takes 100% of the cashflow risk (e.g., AFC or other interest shortfalls) with respect to reference obligations to create non-PIKable ABACUS notes
- Goldman bears the "ramp" risk of the reference portfolio
- Goldman bears the risk with respect to layers of the capital structure not covered by the ABACUS transaction
- Goldman does not earn underwriting fees in connection with ABACUS transactions

ABACUS Program
Market Participants

- Buy-and-hold investment grade debt buyers
  - Banks
  - Insurance companies
  - Structured vehicles (CDOs, SIVs, Conduits)
- Super Senior protection writers
  - Monoline and multi-line insurance companies
  - Banks (through levered super senior structures)
  - Hedge funds
- Equity / First Loss investors
  - Hedge funds
  - MLPs or other equity ownership vehicles
  - Insurance companies and pension funds (through principal protected units)
- Portfolio Advisors
- Financial Products providers

ABACUS Program
Other Considerations

- Average life/maturity
  - — Actual principal amortization of the transaction tracks that of the reference portfolio
  - — The average life will reflect any borrower prepayments/extensions, credit performance, and the underlying structure of the reference obligations
  - — Most tranches will have a 7-12 year expected weighted average life
  - — Transactions run to the legal final of the reference obligations (typically 40 years)
- ABACUS CLNs are generally non-deferrable/non-PIKable
- Transactions include an optional call exercisable by Goldman after a non-call period

Key Themes in 2006

- Significant inclusion of "bespoke" synthetic trades inside cashflow ABS CDOs
- Levered supersenior trades in swap and/or note format
- Outright and delta-hedged first-loss correlation trading strategies
- Relative value trades using single-name CDS referencing ABS CDOs
- ABX basis trades and early tranche trades referencing ABX

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Outlook for 2007

- Standardized ABX tranches
- Principal protected trades with first- and/or second-loss participation
- Expansion of market value products such as levered super senior and CPPI
- Managed ABACUS program with sponsor mezzanine debt investor(s)

VII. CRE CDOs

Redacted By The Permanent Subcommittee on Investigations

Appendix A: Completed CDO Deals

GS MBS-E-001918765

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Jun-07	Nob Hill II	SCM Advisors	400	Leveraged Loans
May-07	Flagship CLO VI	Deutsche Asset Management	600	Leveraged Loans
May-07	Katonah X	Katonah Debt Advisors	500	Leveraged Loans
Apr-07	Westwood CDO II	Alcentra, Inc.	350	Leveraged Loans
Apr-07	Harch III	Hegemony Capital Management	400	Leveraged Loans
Feb-07	Ares IIIVR	Ares Management	700	Leveraged Loans
Feb-07	Madison Park IV	Credit Suisse Asset Management	500	Leveraged Loans
Jan-07	Wood Street CLO IV	Alcentra Limited	712	Leveraged Loans
Jan-07	Grant Grove CLO	Tall Tree Investment Management LLC	300	Leveraged Loans
Dec-07	Greywolf CLO I	Geywolf	602	Leveraged Loans
Dec-07	AMMC-VII	American Money Management Corporation	500	Leveraged Loans
Dec-06	Ballyrock CLO 2006-2	Ballyrock Investment Advisors	600	Leveraged Loans
Dec-06	ABACUS 2006-17	NA	600	Synthetic CMBS
Nov-06	ABACUS 2006-HGS1	BSAM	1350	Synthetic ABS CDO^2
Oct-06	ABACUS 2006-14	NA	838.5	Synthetic ABS
Oct-06	ABACUS 2006-15	NA	2250	Synthetic ABS
Oct-06	Loomis Sayles CLO I	Loomis, Sayles & Co.	400	Leveraged Loans
Oct-06	Hudson Mezzanine Financing 2006-1	NA	2000	ABS
Sep-06	ABACUS 2006-11	NA	760	Synthetic ABS
Sep-06	ABACUS 2006-13	NA	795	Synthetic CMBS

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Sep-06	Flagship CLO V	Deutsche Asset Management	800	Leveraged Loans
Sep-06	Altus II Funding	Aladdin Capital Management	2000	ABS
Aug-06	ABACUS 2006-NS1	NorthStar	700	Synthetic CMBS/CRE CDOs
Aug-06	West Coast Funding I	TCW	2700	ABS
Aug-06	Capmark VII	Capmark	1000	Comm. Real Estate
Aug-06	Ballyrock CLO 2006-1	Ballyrock Investment Advisors	400	Leveraged Loans
Aug-06	ABACUS 2006-9	NA	1250	Synthetic ABS
Jul-06	Nash Point CLO	Sankaty Advisors	766	Leveraged Loans
Jul-06	GSMS 06-RR2	NA	771	Comm. Real Estate
Jul-06	Del Mar CLO	Caywood-Scholl Capital Management	350	Leveraged Loans
Jun-06	Wood Street III CLO	Alcentra	704	Leveraged Loans
Jun-06	Katonah VIII CLO	Katonah Debt Advisors	400	Leveraged Loans
May-06	Navigare Funding I CLO Ltd.	Navigare Partners	300	Leveraged Loans
May-06	Hout Bay Funding (Investec)	Investec	1500	ABS
May-06	Broadwick Funding	Peloton Partners	1000	ABS
Apr-06	ABACUS 2006-12	NA	1000	Synthetic ABS
Apr-06	Founders Grove CLO	Tall Tree Investment Management	300	Leveraged Loans
Mar-06	ABACUS 2006-10	NA	3750	Synthetic CMBS
Mar-06	LNR CRE CDO IV	LNR	1864	Comm. Real Estate
Mar-06	Fortius I	Aladdin Capital Management	600	ABS

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Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Mar-06	Davis Square VI	TCW	2000	ABS
Mar-06	Capital Trust CRE CDO IV	Capital Trust	489	ABS
Mar-06	Ares VR CLO	Ares Management	625	Leveraged Loans
Mar-06	ABACUS 2006-8	NA	1000	Synthetic ABS
Dec-05	ABACUS 2005-CB1	C-BASS	750	Synthetic ABS
Dec-05	GSC 2005-1	GSC Partners	300	Leveraged Loans
Nov-05	ABACUS 2005-7	NA	5400	Synthetic CMBS Levered Super Senior
Nov-05	Katonah VII	Katonah Debt Advisors	355	Leveraged Loans
Nov-05	Harch II	Harch Capital Management	400	Leveraged Loans
Nov-05	ADROC 2005-2	Clinton Group	1545	ABS
Nov-05	ABACUS 2005-6	NA	120	Synthetic ABS
Oct-05	G Street Finance	Wharton AM	1500	ABS
Sep-05	DVSO 2005-5	TCW	2000	ABS
Sep-05	Ares X CLO	Ares Management	600	Leveraged Loans
Aug-05	ABACUS 2005-4	NA	6000	Synthetic CMBS
Aug-05	NYLIM Flatiron CLO 2005-1	NY Life Investment Management	400	Leveraged Loans
Aug-05	LNR 2005-1	LNR	1099	Comm. Real Estate
Aug-05	Guggenheim II	Guggenheim Capital	305	Comm. Real Estate
Aug-05	Altius Funding (Aladdin HG)	Aladdin Capital Management	2000	ABS
Jul-05	ABACUS 2005-3	NA	2000	Synthetic ABS

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Jul-05	ABACUS 2005-2	NA	1250	Synthetic ABS
Jul-05	Gramercy CDO	Gramercy Capital Corp.	1000	Comm. Real Estate
Jul-05	Five Mile Capital RE CDO	Five Mile Capital	467	Comm. Real Estate
Jun-05	Coolidge Funding	Allianz Risk Transfer	410	ABS
Jun-05	Ballyrock CLO III	Fidelity	600	Leveraged Loans
May-05	Guggenheim Re CDO	Guggenheim	500	Comm. Real Estate
May-05	Adirondack	Clinton Group	1520	ABS
Apr-05	Santiago CDO Limited	Pacific Investment Mgmt. Company	400	EM Bonds and CDS
Apr-05	Davis Square Funding IV, Ltd	TCW	1500	ABS
Apr-05	Camber 8	Cambridge Place	600	ABS
Mar-05	ABACUS 2005-1	NA	2000	Synthetic ABS
Feb-05	Victoria Falls CLO, Ltd.	Jefferies Capital Management	300	Leveraged Loans
Dec-04	ABACUS 2004-3	NA	1600	Synthetic RMBS
Oct-04	ABACUS 2004-2	NA	1000	Synthetic ABS
Oct-04	NYLIM Flatiron CLO 2004-1	NY Life Investment Management	350	Leveraged Loans
Oct-04	Davis Square Funding III, Ltd.	TCW	1600	ABS
Aug-04	Galaxy III CLO	AIG Global Investment Group	350	Leveraged Loans
Aug-04	GSC Partners Gemini Fund Limited	Greenwich St. Partners	692	Leveraged Loans
Jul-04	Signature 7	John Hancock Life Insurance Co.	215	Private Placements
Jul-04	Sierra Madre Funding	Western Asset Management Co.	1500	ABS

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Jul-04	ABACUS 2004-1	NA	2000	Synthetic ABS
Jan-04	Galaxy CLO 2003-1, Ltd.	AIG Global Investment Group	300	Leveraged Loans
Dec-03	Aquilae CLO I PLC	Henderson Global Investors	300	Leveraged Loans
Nov-03	Ballyrock CLO II	Fidelity	400	Leveraged Loans
Oct-03	Putnam Structured Product Funding 2003-1	Putnam Advisory Company	661	ABS
Oct-03	Davis Square Funding	TCW	1000	ABS
Sep-03	Carlyle Loan Opportunity Fund	Carlyle Investment Mgmt.	300	Leveraged Loans
Jul-03	NYLIM Flatiron CLO 2003-1	New York Life	350	Leveraged Loans
May-03	Putnam Structured Product CDO 2002-1 (Upsizing)	Putnam Advisory Company	1000	ABS
May-03	LCM I Limited Partnership	Credit Lyonnais	325	Leveraged Loans
Dec-02	Putnam Structured Product CDO 2002-1	Putnam Advisory Company	1000	ABS
Nov-02	G-STAR 2002-2	GMACC	397	CMBS
Oct-02	RMF Euro CDO I	RMF Investment Products	300	Leveraged Loans
Oct-02	Flagship CLO II Limited	Flagship Capital Management	400	Leveraged Loans
Oct-02	Channel CDO I Limited	Pacific Investment Mgmt. Company	1000	Investment Grade CDS
Aug-02	Finalter CDO I B.V	CDC Ixis Capital Markets	1000	Investment Grade CDS
May-02	Newark CBO	Abbey National	500	High Yield Bonds
Apr-02	G-STAR 2002-1	Static pool	311	CMBS
Feb-02	Ballyrock CDO I	Fidelity Mgmt.	400	Leveraged Loans
Dec-01	Ecureuil Credit Plus CDO B.V.	Private Transaction	100	High Yield Bonds

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Dec-01	AIMCO CLO, Series 2001-A	Allstate Investment Management Co	300	Leveraged Loans
Nov-01	Putnam Structured Product CDO 2001-1	Putnam Investment Mgmt.	300	ABS
Nov-01	Polar Funding I Ltd.	(static pool)	300	High Yield Bonds
Nov-01	Ares V CLO Ltd.	Ares Management	400	Leveraged Loans
Oct-01	San Joaquin CDO I, Limited	Pacific Investment Mgmt. Company	240	High Yield Bonds
Aug-01	RMB CDO II Ltd.	Rand Merchant Bank	400	High Yield Bonds
Aug-01	Lifestar CDO	DWS Group	625	I G Bonds
Jul-01	Melchior CDO No. 1	Henderson Global Investors	400	High Yield Bonds
Jul-01	Copernicus Euro CDO I	ING Capital Advisors, Inc.	350	Leveraged Loans
Jul-01	Concerto II CDO	AXA Investment Managers Paris	600	High Yield Bonds
May-01	Clydesdale CLO 2001-1 Ltd	Nomura Corporate Research	350	Leveraged Loans
May-01	Capital Guardian High Yield CBO I Ltd.	Capital Guardian Trust Company	316	High Yield Bonds
Apr-01	TORUS SA	Toronto Dominion	4690	C & I Loans
Apr-01	NYLIM Stratford CDO 2001-1	New York Life	400	ABS
Apr-01	Nicholas-Applegate CBO II Ltd.	Nicholas-Applegate	1500	Capital Management
Mar-01	Flagship CLO 2001-1 Ltd	Flagship Capital Management	500	Leveraged Loans
Mar-01	Centurion CDO IV Ltd.	American Express Asset Management	250	CDOs
Dec-00	Carlyle High Yield Partners III	Carlyle Investment Mgmt.	450	Leveraged Loans
Dec-00	Blue Eagle CDO	Barclays	500	High Yield Bonds
Nov-00	GSAM CBO II Ltd	Goldman Sachs Asset Management	300	High Yield Bonds

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Nov-00	First European Debt Investments Trust	TIAA-CREF	964	Leveraged Loans
Nov-00	Centurion CDO II	American Express Asset Management	600	Leveraged Loans
Nov-00	Ares IV CLO Ltd.	Ares Management	630	Leveraged Loans
Oct-00	Titanium CBO I	Blackrock Financial Management, Inc.	500	High Yield Bonds
Sep-00	Chartwell CBO I	Chartwell Investment Partners	160	High Yield Bonds
Aug-00	Nicholas-Applegate CBO I Ltd.	Nicholas-Applegate	400	Capital Management
Aug-00	Concerto I CDO	AXA Investment Managers Paris	455	High Yield Bonds
Jun-00	Franklin CLO I	The Floating Rate Debt Group of Franklin Advisers, Inc.	600	Leveraged Loans
Jun-00	Black Diamond CLO 2000-1	Black Diamond	610	Leveraged Loans
Jun-00	AIMCO CDO, Series 2000-A	Allstate Investment Management Co.	456	Leveraged Loans
May-00	Gleacher CBO 2000-I Ltd.	Midway Capital Partners	400	High Yield Bonds
Mar-00	Harch CLO I	Harch Capital Mgmt	425	Leveraged Loans
Dec-99	First Dominion Funding III	Credit Suisse Asset Mgmt.	750	Leveraged Loans
Nov-99	FC CBO III	Bank of Montreal	400	High Yield Bonds
Sep-99	Pennant CBO	ING Ghent	225	High Yield Bonds
Aug-99	Highland Legacy CLO	Highland Capital Management	750	Leveraged Loans
Jun-99	GSAM CBO	Goldman Sachs Asset Management	400	High Yield Bonds
Apr-99	SKM-Libertyview CBO Ltd.	Liberty View Capital Mgmt.	350	High Yield Bonds
Apr-99	First Dominion Funding II	Credit Suisse Asset Mgmt.	750	Leveraged Loans
Mar-99	Dijon Finance 1999-1	Goldman Sachs International Bank	72	C & I Loans

Goldman Sachs Completed CDO Transactions

1997 – 2007 YTD (continued)

Closing Date	Issuer	Manager	Total Size ($mm)	Collateral
Feb-99	Gibraltar Ltd.	Seneca Capital Mgmt.	400	High Yield Bonds
Feb-99	GELDILUX 99-1	HypoVereinsbank	2,234	C & I Loans
Dec-98	Pool Funding Master Trust+	[US Branch of European Bank]	3,275	C & I Loans
Dec-98	Fort Washington CBO I	Fort Washington Inv. Advisors	250	High Yield Bonds
Oct-98	Lex Commercial Loan Master Trust I	Canadian Imperial Bank	400	C & I Loans
Sep-98	FC CBO II	Bank of Montreal	1,000	High Yield Bonds
Jul-98	Lakeshore Commercial Loan Master Trust I	Bank of Montreal	3,050	C & I Loans
Jun-98	First Dominion Funding I	Credit Suisse Asset Mgmt.	997	Leveraged Loans
Mar-98	WINGS Commercial Loan Master Trust I	Sumitomo Bank	2,400	C & I Loans
Mar-98	Helyard CBO I	ING Ghent	181	High Yield Bonds
Dec-97	Loop Funding Master Trust I	ABN AMRO Bank N.V.	1,500	C & I Loans
Nov-97	TCW Gem III	TCW Funds Mgmt., Inc.	97	Emerging Market
Oct-97	Platinum Commercial Loan Master Trust I	Long Term Credit Bank of Japan	2,700	C & I Loans
Sep-97	TCW Gem II	TCW Funds Mgmt., Inc	352	Emerging Market
Jun-97	FC CBO I	Bank of Montreal	1,031	High Yield Bonds



STRICTLY CONFIDENTIAL
FOR DISCUSSION PURPOSES ONLY

Presentation Regarding

Overview of Structured Products

Goldman, Sachs & Co.

April 2006

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1601

Agenda

Structured Products Market Overview	I
Structured Products Synthetics	II
ABX and CMBX Indices	III
Synthetic Structures	IV
Abacus Program	V
Appendix	VI

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Structured Product Themes in 2006

- Growth of CDS and Synthetics market
- Growth of global distribution
- Continued spread tightening
- Issuance outside of USD
- Limited number of credit events/distressed opportunities
- Growth of lower credit collateral pools
- Reduced subprime ABS supply

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Structured Product Spreads

As of April 2006

		Average Life			
Sector	Rating	1yr	3yr	5yr	7-10yr
Credit Card	AAA	-3	-1	3	8
(floating)	A	--	10	16	30
	BBB	--	21	30	48
FFELP Student Loans	AAA	-3	0	4	9
(floating)	AA	--	--	--	20
Alt-A Resi	AAA	10	22	38	--
(floating)	A	--	--	67	--
	BBB	--	--	135	--
Subprime	AAA	10	22	38	--
(floating)	A	--	--	65	--
	BBB	--	--	130	--
CLO	AAA	--	--	--	25
(floating)	A	--	--	--	75
	BBB	--	--	--	175
ABS CDO	Super Senior AAA	--	--	--	25
(floating)	Subordinate AAA	--	--	--	45
	A	--	--	--	140
	BBB	--	--	--	300

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Asset-Backed Security: A Definition

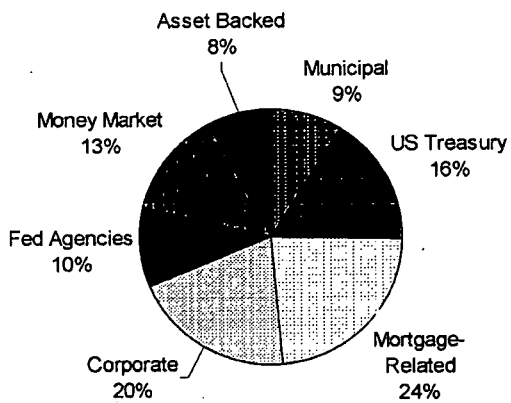
- A security that is bankruptcy remote from the sponsor/originator of the underlying assets
- Its creditworthiness is derived from the performance of an isolated collateral pool
- While the market is primarily rated triple-A, single-As and triple-Bs account for about 10-15% of issuance
- The majority of structured products transactions are collateralized by:
  - Residential real estate
  - Credit cards
  - Autos (loans, leases and dealer floorplans)
  - Student loans
  - Equipment (loans and leases)
  - Stranded costs (cashflows resulting from the deregulation of the power industry)

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ABS and the U.S. Fixed Income Market

- The ABS market now represents 8% of the $24.7 trillion public U.S. fixed income market ...

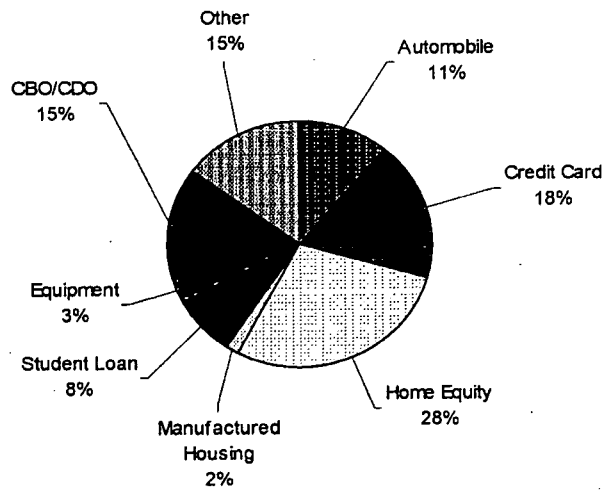
Composition of U.S. Fixed Income Market



Total: $24.7 Trillion

Source: Bond Market Association (2005 Q3)

Non-CDO ABS Outstandings by Asset Type



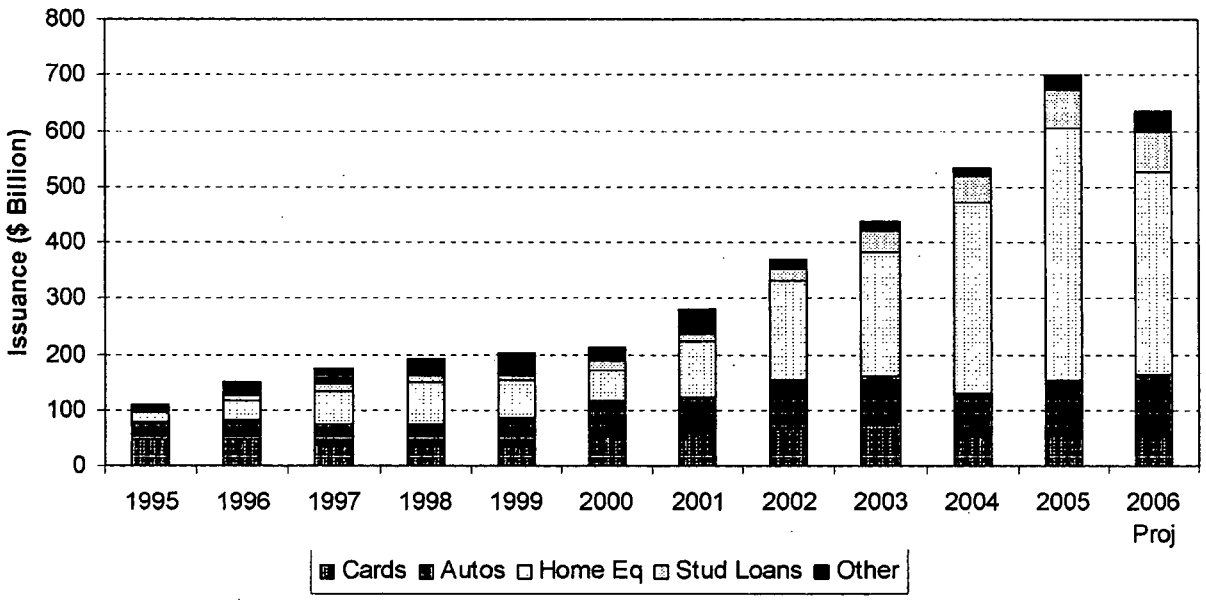
Total: $1,955.2 Billion

Source: Bond Market Association (2005 Q4)

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Rapid Growth in ABS Issuance

Led by Home Equity



Source: Bond Market Association (2005 Q3)

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

ABS Outlook for 2006

- Heavy issuance expected again in 2006
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
    - [redacted]
    - [redacted]
- Expect spreads to remain firm across sectors over the near term
  - Demand for ABS paper from CDOs
  - Rising economic activity
  - Improving consumer credit/collateral performance
  - Home prices
- Expect to see further innovation in structures and enhancements with appeal to wide audience
- Synthetic ABS product will grow rapidly
  - Bespoke tranche trades
  - Indexes
  - Single-names

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Key Trends in the Subprime Market

- Spreads tightened to historically tight levels through most of 2005
  - Tightening occurred across the capital structure
  - Driven by strong credit fundamentals and demand technicals
- Starting in the fall of 2005, a strong bid for protection resulted in significant spread widening in lower-rated tranches of home equity ABS
  - Spread widening largely confined to subprime
  - Largely confined to single-A and triple-B tranches
- Demand side:
  - Record CDO issuance
  - Strong demand from traditional structured product investors (money managers, banks, insurance, companies)
  - Growing international interest
- Protection buying side:
  - Macro hedge funds with negative views on U.S. housing prices and consumers
- Factors driving fundamental credit conditions include:
  - Home price growth
  - Interest rates (and rate resets)
  - Unemployment
  - Lending competition (driving prepayments)

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Definitions: Subprime vs. Home Equity

- Subprime is often confused with Home Equity, since there is considerable overlap between the two definitions, and the terms are often used interchangeably
- Subprime is a subset of Home Equity
- Home Equity includes:
  - 1st Lien Subprime Loans (largest part of securitized Home Equity market)
  - Closed End Seconds (CES) and HELOCs
  - High LTV Loans (LTV > 90%)

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Why has subprime surged in popularity over the past few years?

- Attractive Spreads, Diversification of Collateral, Collateral Performance
  - Investing in subprime allows investors to avoid much of the prepayment risk and the negative convexity that is associated with agency mortgage product
  - Earn additional spread by taking exposure to diversified credits
  - Can obtain High Quality AAA floaters at attractive spreads
  - Excellent Liquidity
  - Event risk protection relative to corporates
  - Wide variety of structuring options allows risk profile to match risk appetite
  - Low spread volatility
  - Ratings stability
  - Portfolio diversification
- **The following table compares generic subprime spreads with other spread product (as of 1/12/2006):**

Type	Collateral	Credit Rating	Avg Life	Spread to LIBOR
Subprime Floater	2/28 Hybrid	AAA	3	1mL + 24
Subprime Floater	2/28 Hybrid	BBB	4.5	1mL + 185
MBS Passthru (fixed)	FNCL 6	Agency wrap	5.3	E + 69
Agency PAC	PAC/30yr 5	Agency wrap	5	E + 90
Agency Sequential	5.0/5.0	Agency wrap	3	E + 120
Agency CMO Floater	off FN 5	Agency wrap	5	E + 20
Agency Hybrid	FN 5/1 5%	Agency wrap	2.4	E + 11
Agency Bullet	FNMA 5 yr	Agency wrap	4.4	E -13
Jumbo MBS Passthru	5.5% Fixed	AAA	3.8	E + 27
MTA Floater		AAA	3.5	1mL + 42
CMBS		AAA	1.8	1mL + 20
CMBS		BBB	2.6	1mL + 105

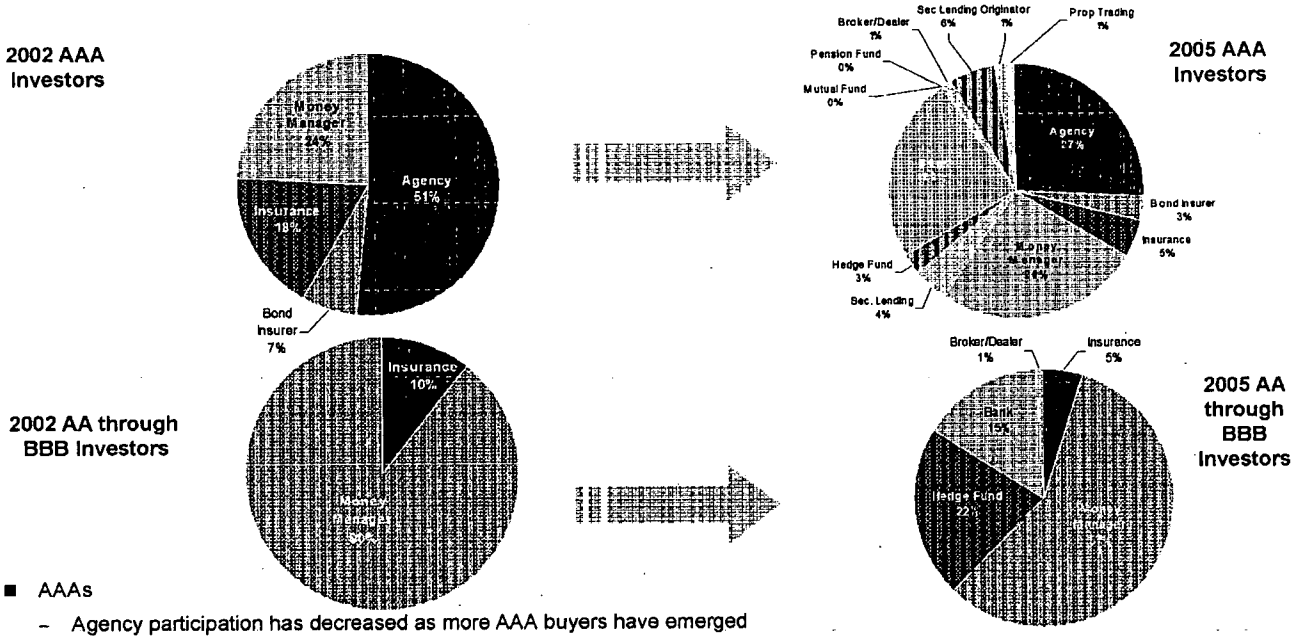
Note - Illustrative only

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Diversity of Subprime Investors

Significant Increase Over the Past 3 Years

Breakdown of purchasers of GSAMP deals



- AAAs
  - Agency participation has decreased as more AAA buyers have emerged
  - There has been increased demand for LCF AAAs from CDOs
  - International demand has accounted for as much as 40% of AAA demand recently
- BBB: CDOs have been a big buyer of BBB tranches recently, buying up to 90% of BBB bonds in 2005

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Overview of ABS Credit Derivatives

- ABS CDS is the most exciting development in the ABS Market's 20 year history
- Permanently changes how we invest, hedge and transfer risk
- In just 18 months the market has become BIG and REAL

- Key drivers of growth:
  - Development of Standard ISDA document in June 2005
  - Positioning by dealers in making ABS CDS an actively traded two-way market
  - Recent release of ABX Index products

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Overview of Structured Product Synthetics

- Structured product synthetics are credit derivatives referenced to a single underlying structured product security or to a basket of underlying structured product securities
  - RMBS
  - CMBS
  - CDOs
  - Credit Card ABS
  - Student Loan ABS
- Market activity has been concentrated in real estate-related sectors of the structured finance market (i.e., RMBS and CMBS)
- Structured product synthetics consist of:
  - Single-name CDS
  - Basket Trades
  - Levered Synthetics

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Advantages of Structured Product Synthetics

- Not limited by availability of cash bonds or dealer inventory
  - Gain exposure to cashflows not readily available in the new-issue or secondary markets
  - Ramp up a CDO quickly and efficiently
- Ability to short structured product securities
  - There is a relatively undeveloped repo market for shorting cash securities
- Can be used to hedge origination/whole loan pipelines
- Potential to create customized and diversified exposures
  - Can be levered or un-levered
- Ability to trade unfunded credit exposure to term
  - Basis trades (i.e. CDS vs. Cash bonds)
  - Capital structure trades (i.e. long BBs vs. short BBBs)

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Structured Product CDS Sample Terms

- **Primary Features**
  - Reference obligation: Designated tranche of an existing transaction (specified CUSIP)
  - Term trades (the life of the swap mirrors the life of reference obligation)
- **Payments**
  - Fixed rate (paid by protection buyer): CDS premium, ACT/360 basis, paid monthly / quarterly
  - Floating rate (paid by protection seller): Upon the occurrence of a credit event, the cash settlement amount
- **Notional Balance** is adjusted as follows:
  - Reduced by principal paydowns
  - Reduced by write-downs (realized losses)
- **Interest Shortfalls**
  - Partial or full transfer of interest shortfall risk

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Key Market Participants

Buyers of Protection	Sellers of Protection
– Hedge funds	– CDOs
– Arbitrage accounts	• Synthetic
• Fixed income	• Hybrid (part cash / part synthetic)
• Equity	– Hedge funds
– Whole loan originators / traders	– Arbitrage accounts
– Dealers	• Fixed income
• Flow trading desks	• Equity
• Proprietary desks	– Money managers
– Money managers	– Dealers
– Banks / asset funding counterparties putting on negative basis trades	– Insurance companies
– Insurance companies	

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Liquidity in the Structured Product CDS Market

- The structured product CDS market is a newly emerging market, with current outstanding notional estimated at 200+ BB.
  - Current Single-Name CDS bid/offer
    - 2 bps on AAA reference obligations
    - 3-5bps on AA and A reference obligations
    - 10-20bp area on BBB and BBB- reference obligations

- Liquidity is improving rapidly – primarily in the CMBS and RMBS sectors – and is expected to ultimately surpass liquidity in the cash market
  - Standardization of confirm – ISDA
  - Introduction of subprime RMBS and CMBS indexes
  - Expansion of the inter-dealer market

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The CDS/Cash Basis

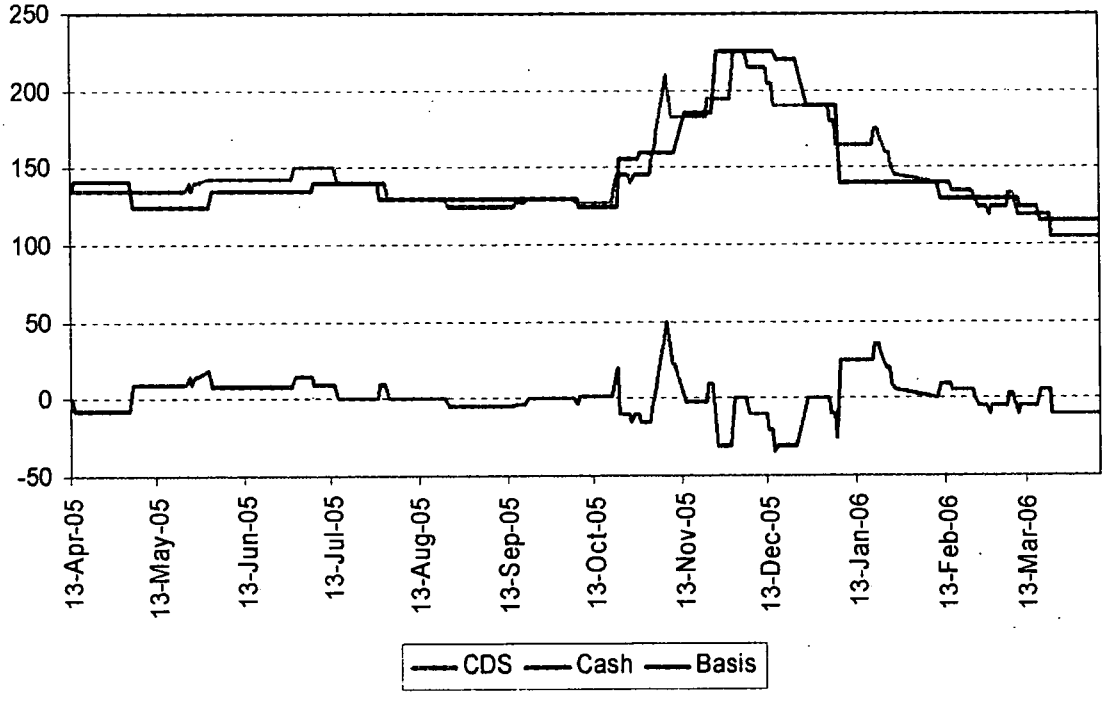
- The CDS/cash basis measures the differential between spread levels in the cash and CDS markets
  - CDS/Cash Basis = CDS Spread – Cash Spread
  - When CDS spreads are tighter than cash spreads, the basis is deemed to be "negative"
  - When CDS spreads are wider than the cash market, the basis is deemed to be "positive"

- The CDS/cash basis is driven by:
  - Supply/demand for protection
  - Amount of interest shortfall (or cap risk) transferred
  - Contract optionality
  - Funding and leverage costs

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The Cash/CDS Basis

BBB subprime RMBS



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[redacted] = Redacted by the Permanent Subcommittee on Investigations

What Trades Has GS Executed?

Goldman Sachs has traded in excess of $75BB notional in subprime RMBS and conduit CMBS

- RMBS: AAA through BBB-
  - 80% BBB and BBB-
  - 10% A
  - 10% AAA and AA
- CMBS: AAA through BB
  - [redacted]
- GS both buyer and seller
- Trade size with individual counterparties has ranged from $10MM to $1+BB

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Trade Themes

- [redacted]

- Express Capital Structure views via CDS

- Speculate on home prices and subprime borrower performance

- Single name CDS vs. RMBS Index CDS

- SP CDS vs. Corporate CDS

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ABS CDS: ISDA Publications

- June 2005: ISDA Publishes Confirmation for "Credit Derivative Transaction on Asset-Backed Security with Pay-As-You-Go or Physical Settlement (Dealer Form)"

- Form designed primarily for use with RMBS and CMBS Reference Obligations

- January 2006: ISDA Publishes Revised Confirmation for "Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form)

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Characteristics of Structured Products CDS

Reference Entity / Reference Obligation	References Corporate Entity and Related Reference Obligation	References Specific CUSIP Asset Backed Security (RMBS and CMBS)
Documentation	ISDA Documents	ISDA Documents – "Pay-as-you-go" (PAYG) Dealer Form
Notional	Constant	Reduces upon Amortizations and Writedowns
Scheduled Termination	3, 5, 7 or 10 years	Legal Final Maturity of Reference Obligation
Payment Frequency	Quarterly	Payment Frequency of Reference Obligation (typically Monthly)
Premium / Fixed Rate	Fixed at Inception	Fixed at Inception; Adjusted for - Interest Shortfalls and Reimbursements - Step-up of Reference Obligation Coupon with Buyer's Option for "tear-up"

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Characteristics of Structured Products CDS

Credit Events	- Failure to Pay - Bankruptcy - Restructuring	- Failure to Pay Principal - Writedown (Principal Loss) - Distressed Ratings Downgrade
Conditions to Settlement	Credit Event Notice & Notice of Publicly Available Information	Calculation Agent Notifies of Interest Shortfall or Loss Event based on Trustee Reports
Interest Shortfalls	- Not Applicable	- Fixed Cap: Up to the Fixed Rate -Variable Cap: Up to LIBOR plus the Fixed Rate - No Cap: Full coverage
Settlement Methods	- Usually Single Settlement Date - Physical Settlement -Cash Settlement (dealer poll valuation process on specified Reference Obligation)	- PAYG Settlement (actual losses on Reference Obligation only) - Physical Settlement

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Characteristics of Structured Products CDS

Physical Settlement - Deliverable Obligations	Obligations within Specified Parameters	Reference Obligation Only
Physical Settlement - Settlement Period	Notice within 30 calendar days following Event Determination date	Anytime following a Credit Event
Valuation Methods (if Cash Settlement)	Dealer Poll Based on Specified Elections	- Not Applicable - Multiple PAYG Payments of Actual Loss
Assignment	-Available, subject to counterparty approval -ISDA Novation Protocol	- Available, subject to counterparty approval -ISDA Novation Protocol
Payment Flows	Buyer to Seller: *Fixed Amount* Seller to Buyer: *Loss Amount*	Buyer to Seller: *Fixed Amount* *Additional Fixed Amounts* • Interest Shortfall Reimbursement Amt • Writedown Reimbursement Amt • Principal Shortfall Reimbursement Amt Seller to Buyer: *Floating Amounts* • Interest Shortfall Amt • Writedown Amt • Principal Shortfall Amt

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Interest Shortfall

An Illustration

- Assumptions
  - Reference Obligation Coupon: Minimum (L+400 bps, 10%); 10% is Available Fund Cap
  - Fixed Rate: 200 bps

Scenario

  - Reference Obligation fails to pay its entire coupon on a given payment date, i.e. Interest Shortfall Amount is L+400 bps
- Interest Shortfall Cap: Fixed Cap Applicable
  - Interest Shortfall Payment Amount = Minimum (Interest Shortfall Amount, Fixed Rate) = (L+400, 200 bps) = 200 bps
  - Seller's Net Payment = 0 bps
- Interest Shortfall Cap: Variable Cap Applicable
  - Interest Shortfall Payment Amount = Minimum (Interest Shortfall Amount, L + Fixed Rate) = (L+400, L+200 bps) = L+200 bps
  - Seller's Maximum Net Payment = L bps
- Interest Shortfall Cap: Not Applicable
  - Interest Shortfall Payment Amount = Interest Shortfall Amount = L+400 bps
  - Seller's Maximum Net Payment = L+200 bps

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Related ISDA Publications

- ISDA anticipates future publication of one or more template Confirmations for use with other types of asset-backed securities
  - CDOs
  - Student Loans
  - Credit Cards
- ISDA Asset-Backed Credit Derivatives Definitions of 2006....!

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Agenda

Structured Products Market Overview

Structured Products Synthetics

ABX and CMBX Indices III

Synthetic Structures

Abacus Program

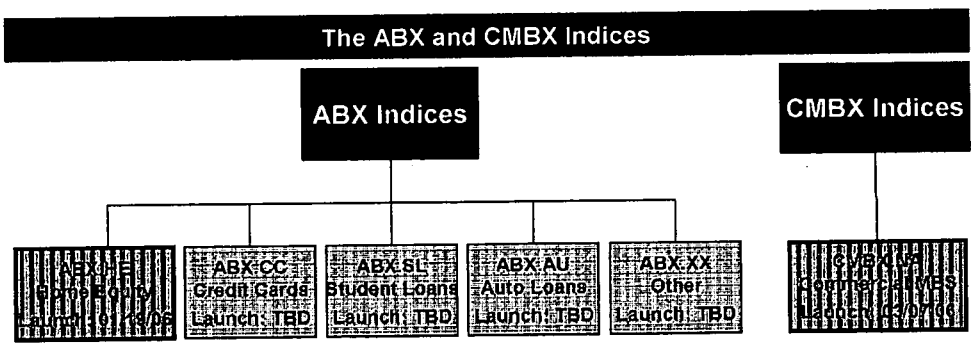
Appendix

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The New ABX/CMBX Indices

- CDS IndexCo
  - Owns and maintains the DJ CDX family of credit default swap (CDS) indices
  - Between $25 and $50 billion of CDX notional volume traded daily
  - Introduced second generation products such as index tranches and index options

- CDS IndexCo will apply a defined set of rules in order to construct a portfolio representative of each structured product sector's current market
  - ABX.HE began trading on January 19, 2006, and CMBX.NA on March 7, 2006



Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo LLC)

Notes:

1. ABX, ABX.HE, and CMBX.NA are service marks of CDS IndexCO LLC and have been licensed by Goldman, Sachs & Co.
2. The ABX.HE and CMBX.NA Indices referenced herein is the property of CDS IndexCO LLC and is used under license. The transactions described herein are not sponsored, endorsed or promoted by CDS IndexCO LLC or any of its members, other than Goldman, Sachs & Co.

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The ABX.HE and CMBX Indices

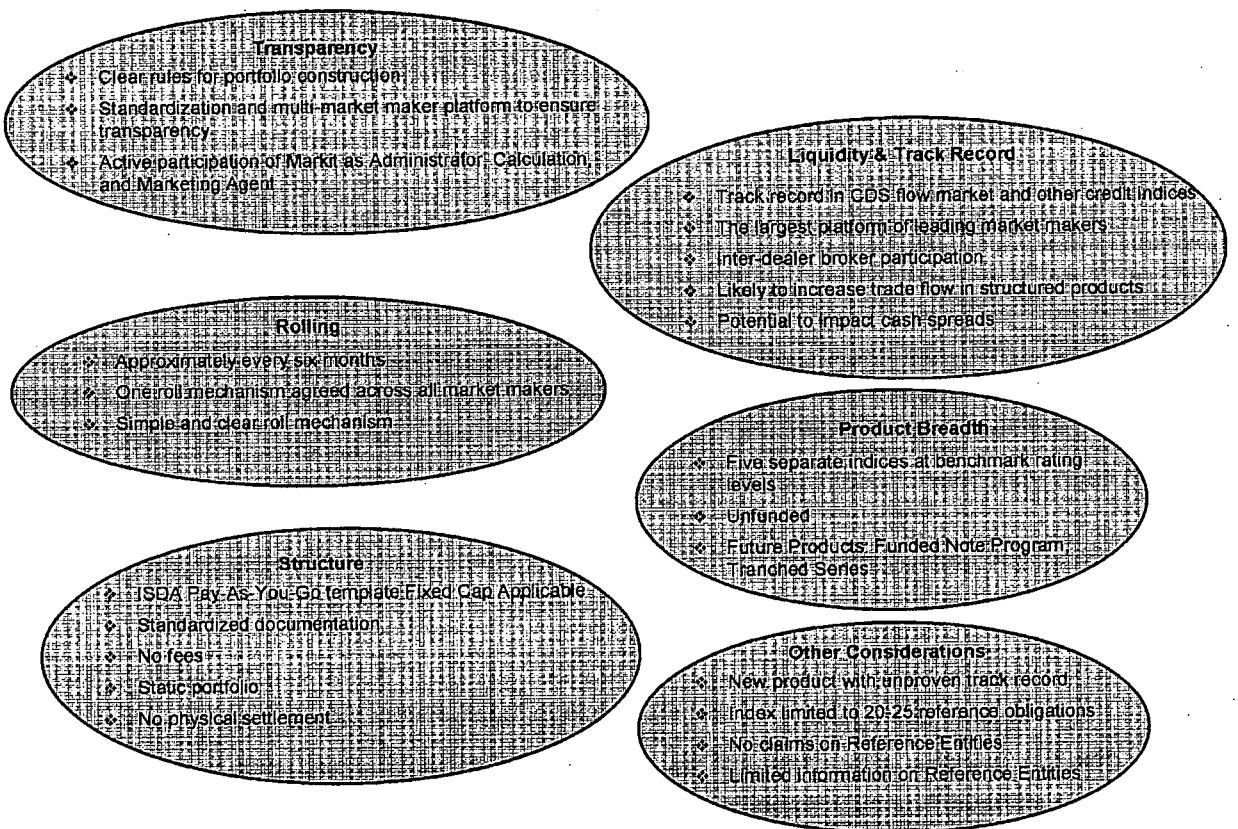
Highlights

- ABX.HE references 20 HEL ABS obligations and CMBX references 25 CMBS obligations
- The Indices comprise five subindices: AAA, AA, A, BBB and BBB-
- Each subindex, in turn, includes 20 Subprime Home Equity bonds or 25 CMBS securities
  - The reference obligations in each subindex comprise bonds at different rating levels
  - Bonds in each subindex are selected from the same set of reference entities
- Every six months, the Indices will be reconstituted using the same criteria
- On January 19, 2006, the ABX.HE began trading
  - As of March 27, we estimate that more than $30.0bn of trade notional has been executed on the ABX.HE indices
  - Goldman has executed more than $17.0bn of trade notional
- On March 7, 2006, the CMBX Index began trading

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The ABX.HE and CMBX Indices

Key Features & Investment Considerations

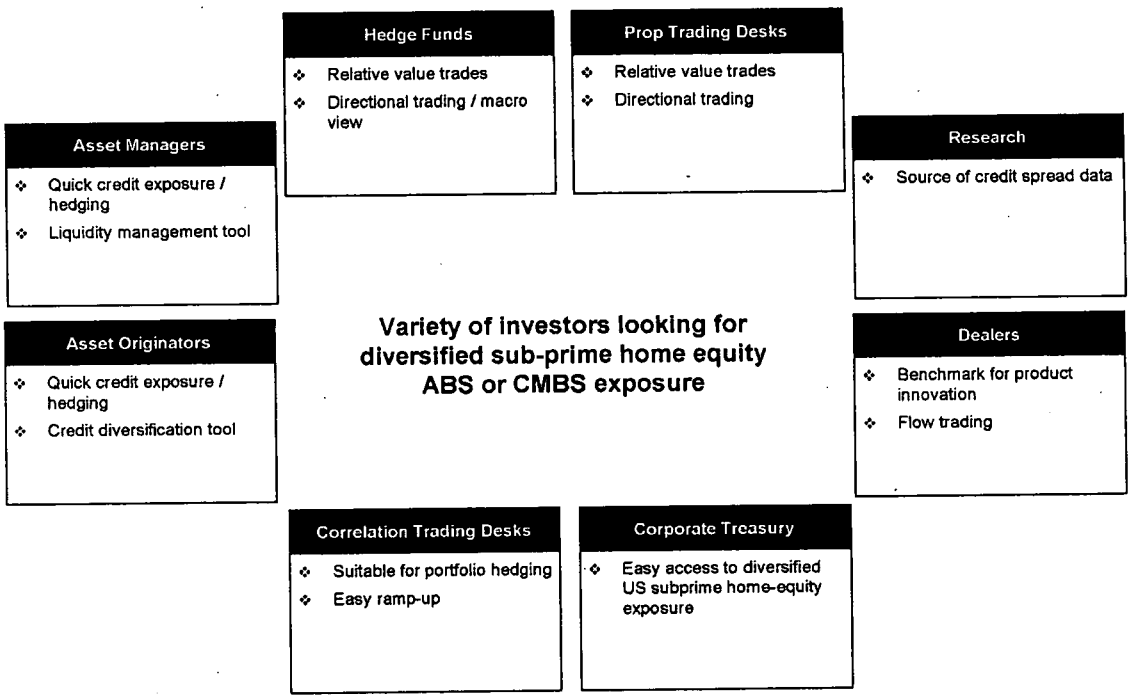


Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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The ABX.HE and CMBX Indices

Participants



Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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The ABX.HE and CMBX Indices

Construction Criteria

Portfolio Selection Criteria

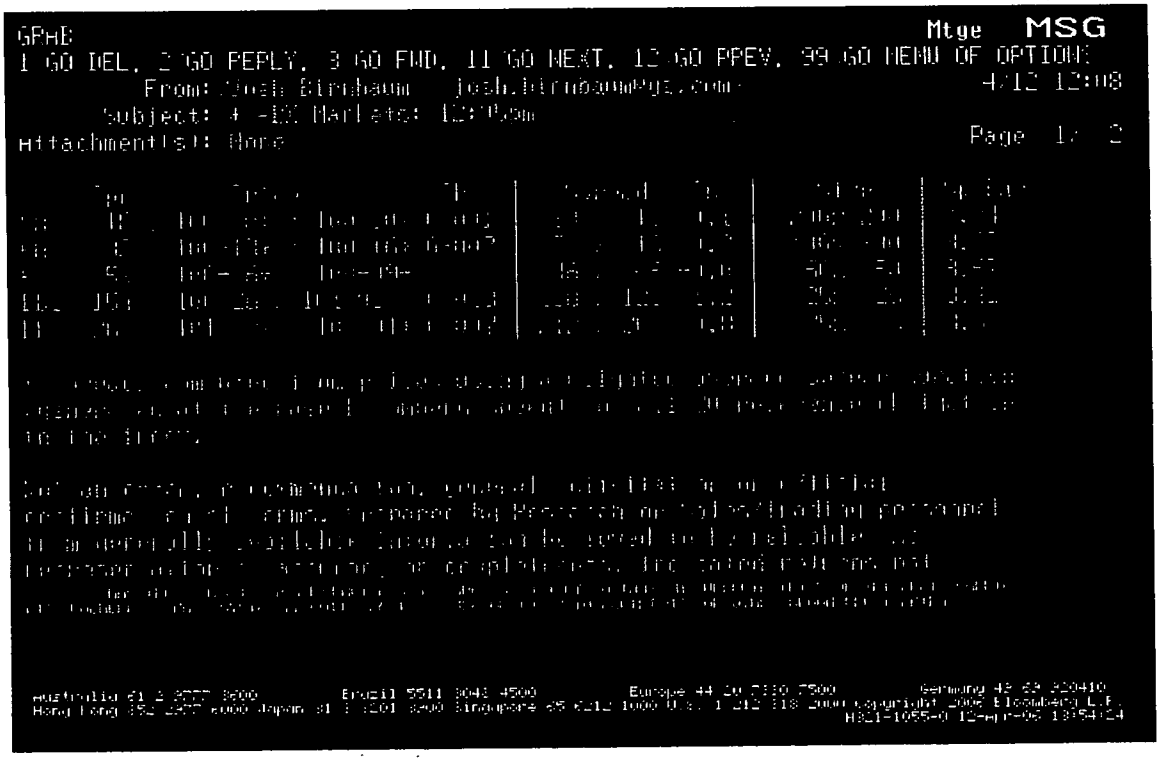
Portfolio:	20 deals in basket, with a new ABX.HE series expected to be launched approximately every 6 months	25 deals in basket, with a new CMBX series expected to be launched approximately every 6 months
Credit score:	Each deal must have a maximum average FICO equal to 660	
Age:	Each tranche must have settled within 6 months of the roll date	Each tranche must have settled within 2 years of the roll date
Weighting:	Reference obligations equally weighted by initial par amount, with subsequent weightings evolving as a function of prepayment and credit experience of underlying transactions	Reference obligations equally weighted by initial par amount, with subsequent weightings evolving as a function of prepayment and credit experience of underlying transactions
Lien type:	The pool must consist of at least 90% first lien loans	
Diversification:	–Limits same originator to 4 deals	–Limits same state to 40%
	–Limits master servicer to 6 deals	–Limits same property type to 60%
Minimum deal size:	$500mm	$700mm
Average life:	Each tranche must have a weighted average life of 4-6 years as of the issuance date (except AAAs which must be greater than 5 years)	With respect to CMBX.NA.AAA only, expected weighted average life must be greater than 8y and less than 12y calculated using a 0% CPY

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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ABX.HE Markets

Indicative Run on Bloomberg (as of April 12, 2006)

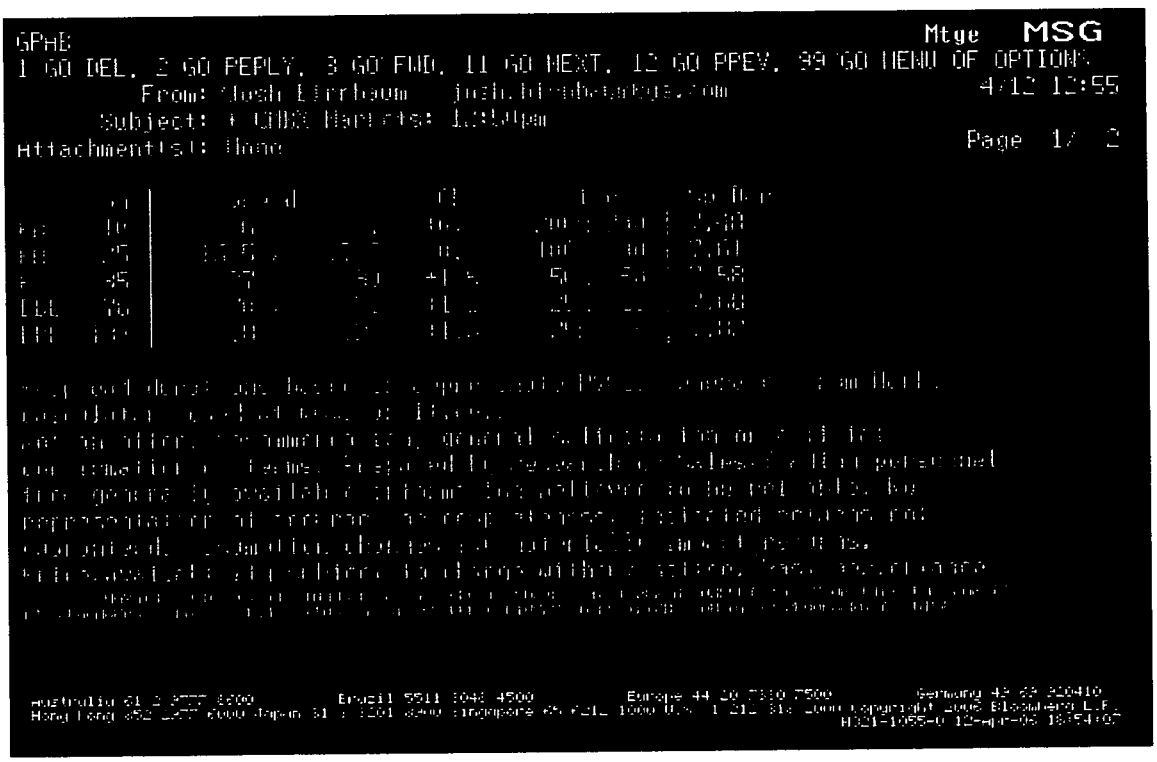


Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

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CMBX Markets

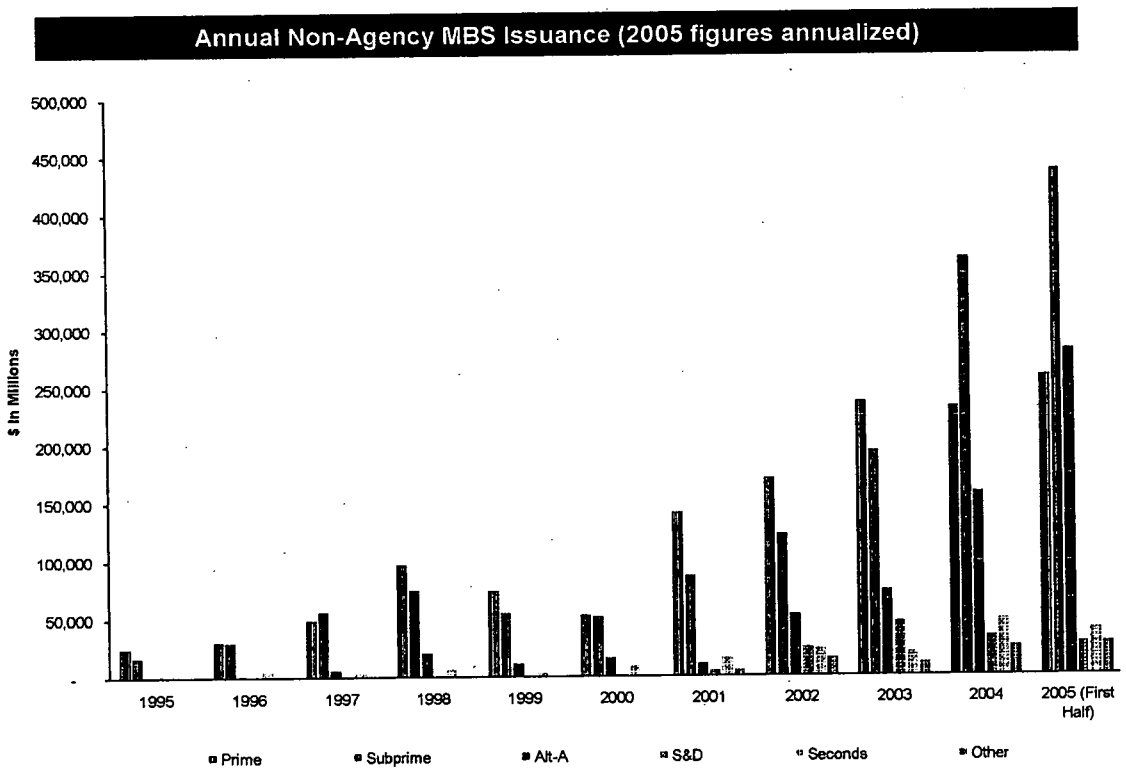
Indicative Run on Bloomberg (as of April 12, 2006)



Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

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Growth in Loan Types underlying the ABX Indices has fueled the Growth in the Mortgage Market



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Update on ABX.HE Trading Activity

From 01/19/2006 to 3/31/2006

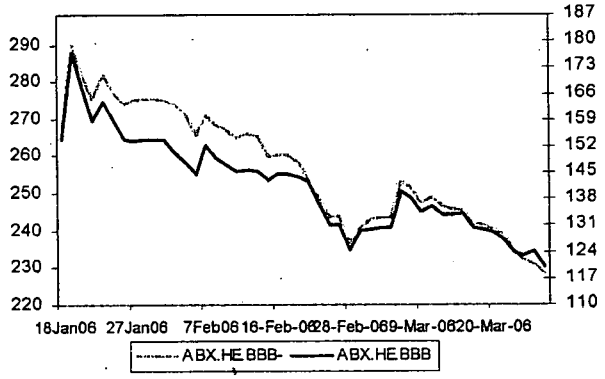
- Trading activity out of the gates was heavier than anticipated
- GS executed more than 3 dozen trades on the first day of trading with volume exceeding $1.0bn
- To date, GS has traded north of $17bn of the Indexes with more than 50 different counterparties
- Trade sizes have ranged from $5mm-$1bn, with the average trade size around $35mm
- Trades have occurred on both sides of each Index (AAA, AA, A, BBB, BBB-)
- Flows (by volume) have been heavier in the A, BBB and BBB- Indexes, although size trades have occurred in every part of the capital structure

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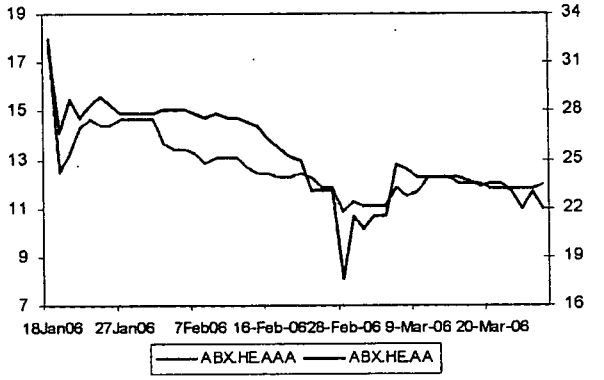
Evolution of Spreads for the ABX.HE Subindices[1]

From 01/19/2006 to 03/31/2006

ABX.HE BBB and BBB-



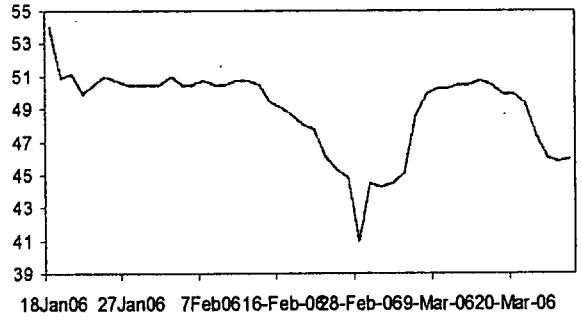
ABX.HE AAA and AA



ABX.HE 06-1 Spread Stats

	Open	High	Low	Avg	Curr
AAA	18	15	11	13	12
AA	32	29	18	25	22
A	54	51	41	49	46
BBB	154	177	120	142	120
BBB-	257	290	228	257	228

ABX.HE A



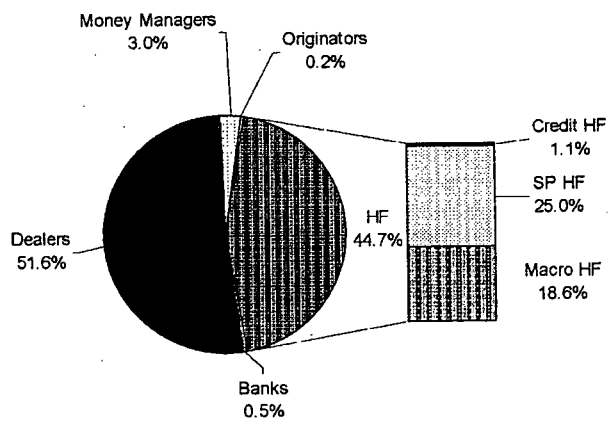
[1] Source: Goldman Sachs

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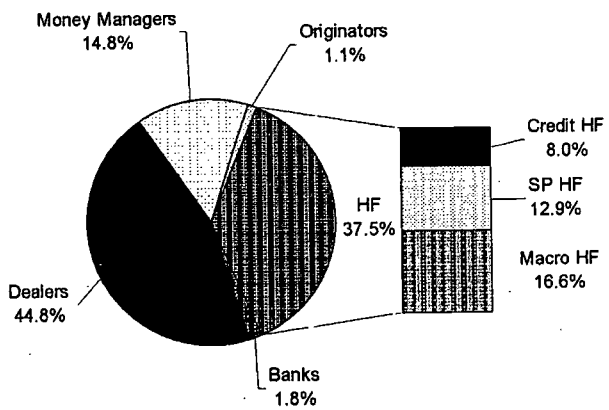
GS Transactions in ABX.HE Indices[1]

From 01/19/2006 to 03/31/2006

GS Trade Volume by Participant Type



GS Number of Trades by Participant Type



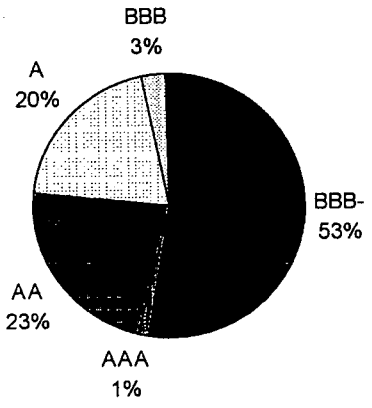
[1] Source: Goldman Sachs

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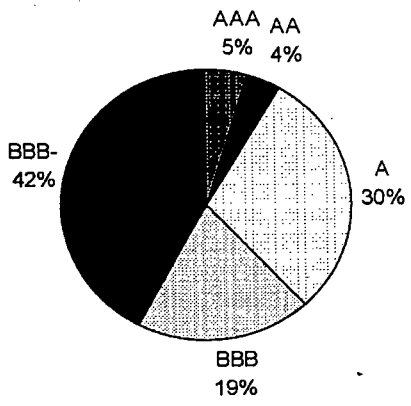
GS Transactions in ABX.HE Indices[1]

From 01/19/2006 to 03/31/2006

GS Trade Volume by Rating



GS Number of Trades by Rating



[1] Source: Goldman Sachs

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Trade Ideas using the ABX.HE Indices

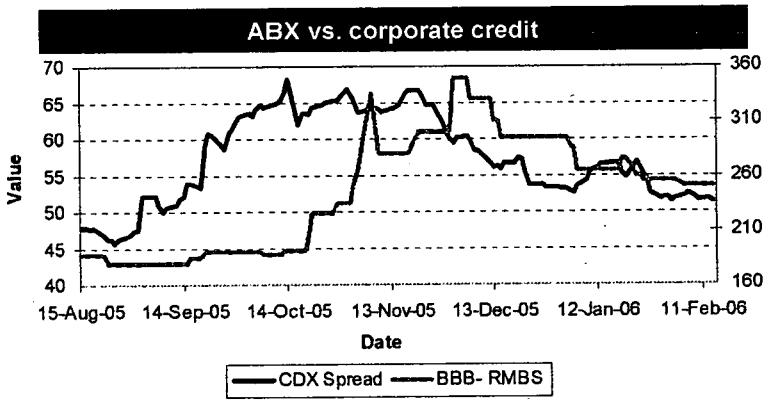
- **Bearish view on housing/consumers:**
  - Customers with this view have been selling the Index (shorting credit; buying protection) at the A, BBB, and BBB- level
- **Credit steepener trades:**
  - View is that credit curve will steepen with adverse developments for subprime credits
  - Fund shorts by selling protection higher in the capital structure
  - Most common: BBB- vs BBB, BBB vs AAA
- **Transition Management:**
  - Investors with cash to invest (or risk to add) have used the index to gain exposure to home equity spreads while they ramp up single-name or cash positions
  - Investors can scale out of the index as they put new cash to work (or add risk)
- **ABS Basis trades:**
  - Trading single names or cash vs the Index
  - Can structure positive carry trades or express leveraged views on particular names
  - Index arbitrage

Note: Past results are not indications of future performance

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Trade Ideas using the ABX.HE Indices
Continued

- **Hedging mortgage credit risk:**
  - Originators have sold the index across the capital structure to hedge their origination pipelines
  - Originators or investors with positions in residuals have sold the BBB and BBB- Indexes to mitigate risk
  - Some originators view BBB/BBB- protection as cheap to mortgage insurance
- **ABX vs corporate credit:**
  - Hedge funds have traded BBB/BBB- vs correlated corporate credit such as consumer portion of CDX



Note: Past results are not indications of future performance

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Trade Ideas using the ABX.HE Indices
Continued

- **ABX vs Equities:**
  - Equity accounts and macro hedge funds have used the Index (primarily BBB and BBB-) to hedge the residual risk in originator stocks
  - Short is funded by high dividend yield
  - ABX and equity housing indices such as the Philadelphia Housing Index (HGX <Index>) have become more correlated
- **Tranching:**
  - Significant interest/inquiry in tranches
  - Standardization, pricing, and liquidity should take time to evolve
- **Options:**
  - Hedgers have expressed interest in options strategies to mitigate risk
  - Similar in construction to options on CDX currently traded

Note: Past results are not indications of future performance

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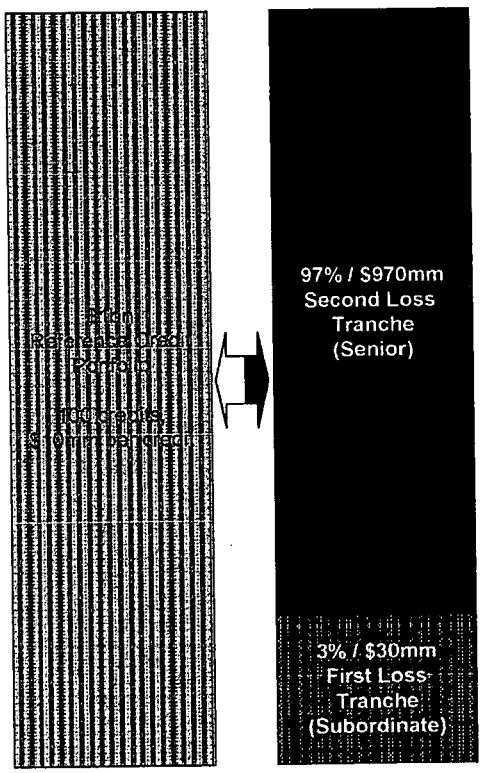
Agenda

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Structured Products Synthetics	II
ABX and CMBX Indices	III
Synthetic Structures	IV
Abacus Program	V
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Structured Credit Tranches

Subordination and Tranche Size



- Structured credit relies on two key principals:
  - **Subordination**
    - The measure of losses that must occur within a portfolio before a tranche is at risk to loss
  - **Tranche size**
    - Reflects the notional (value-at-risk) of a structured credit investment
- In this example, the first loss tranche size is $30mm
  - $30mm of reference portfolio losses would need to occur before the second-loss tranche is subject to loss
  - Investors can thus create "credit enhanced" credit exposure through the use of subordination
- Tranche size is also a measure of leverage
  - For example, an investor may wish to invest $60mm into the same 3% first loss tranche - and thus would reference a portfolio of $2bn rather than $1bn
- Combined with tranche size, varying levels of subordination enable investors to tailor both the structural leverage and the risk/return profile of their investment

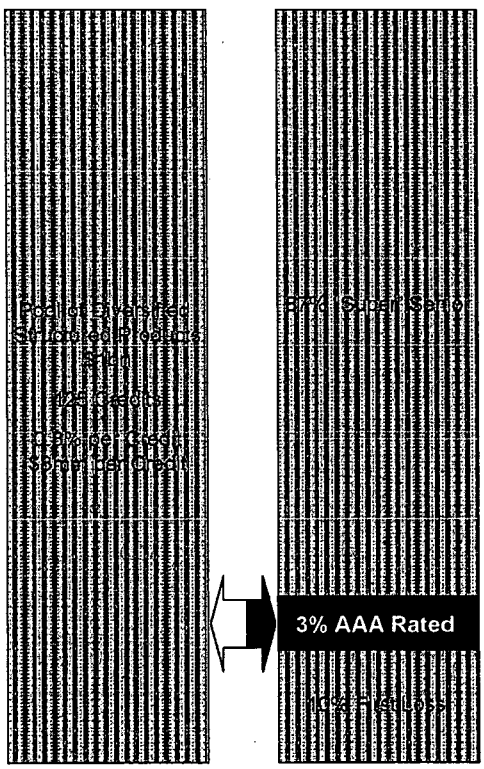
Illustrative only – diagram not to scale

Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Structured Credit Tranches

Rating Tranches



- Investors can create rated "credit enhanced" credit exposure through the use of subordination
  - In this example, the AAA rated tranche subordination is 10% ($100mm)
  - $100mm of reference portfolio losses would need to occur before the AAA tranche is subject to loss
- Tranche size is a measure of leverage
  - In this example, the AAA rated tranche size is 3% ($30mm)
  - Once portfolio losses reach 10% ($100mm), the tranche can withstand an additional 3% ($30mm) portfolio losses before exhaustion
  - An investor may wish to invest $60mm into the same 3% AAA tranche - and thus would reference a portfolio of $2bn rather than $1bn

Illustrative only – diagram not to scale

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Structured Credit Tranches

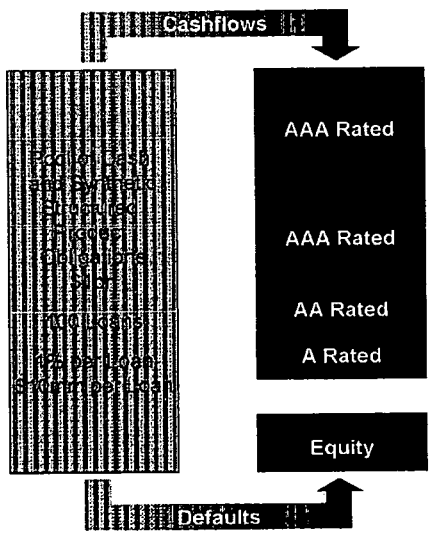
Cash CDO vs. Single Tranche

Single Tranche Mechanics

- Investors customize tranche risk/ return profile by specifying tranche subordination and tranche size
- Investors can create rated "credit enhanced" credit exposure through the use of subordination
  - In this example, the AAA rated tranche subordination is 10% ($100mm)
  - $100mm of reference portfolio losses would need to occur before the AAA tranche is subject to loss
- Tranche size is a measure of leverage
  - In this example, the AAA rated tranche size is 3% ($30mm)
  - Once portfolio losses reach 10% ($100mm), the tranche can withstand an additional 3% ($30mm) portfolio losses before exhaustion

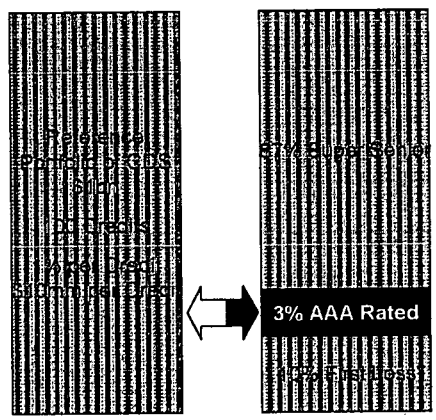
Cash CDO

- Collateral is cash assets
- Full capital structure placement
- Cash flow waterfall
- Unwind triggers
- Investment in note form



Single Tranche

- Reference portfolio comprised of CDS
- Single tranche placement
- Direct cashflow through credit default swap
- No unwind triggers
- Investment in note or swap form



Illustrative only – not an actual transaction

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Structured Credit Tranches

Benefits of Single-Tranche Synthetic Securitizations

- Increasing liquidity in the single name CDS market enables creation of pure bespoke synthetic structured product CDOs
- Investors can harness this new product to build customized synthetic structured product portfolios
  - Not limited by new issuance calendar and bond allocations
  - Not limited by cash bonds in dealer inventory
  - Customized by sector (e.g., RMBS, CMBS, ABS), rating, vintage, servicer, etc.
- Investors can tranche the synthetic portfolio and meet various investment objectives via structure
  - Rating of investment
  - Degree of term leverage
  - Spread
  - Currency denomination
- Credit-linked notes issued in such synthetic transactions are usually uncapped and cannot defer interest, even though many of the underlying reference obligations may have embedded caps and/or may be permitted to defer interest

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Structured Credit Tranches
Portfolio Selection Considerations

- Synthetic transactions have tended to focus on the sectors of the US structured products market that have either experienced or are expected to experience the heaviest activity in the single-name structured product CDS market
  - Prime, Alt-A and Subprime RMBS
  - US CMBS Conduits
  - Structured Product Cashflow CDOs and CLOs
  - Consumer ABS
- Most transactions are diversified across sectors
  - It is possible to structure single-sector transactions (i.e. 100% subprime RMBS)
- Portfolios referencing AAA through BB securities can be created, although the best liquidity is in the double-A through triple-B rated layer
- Most synthetic transactions focus on 2004, 2005 and 2006 vintage structured finance
- Reference portfolio can be static or dynamic, subject to constraints customized to investor requirements

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Structured Credit Tranches

Tranche and Structural Considerations

- After selecting a reference portfolio (or appropriate rules in the case of a dynamic portfolio), ratings can be assigned to particular risk layers ("tranches")
- Investors can select the tranche which best meets their investment guidelines with respect to ratings and leverage
- Structure and cash flow mechanics are very similar to corporate single-tranche synthetics
- Transactions run to the legal final of the underlying reference obligations (typically 40 years)
  - Most tranches will have a 7-12 year expected weighted average life
  - The actual principal amortization of the transaction tracks that of the reference portfolio
  - The average life will reflect any borrower prepayments/extensions, credit performance, and the underlying structure of the reference obligations
- Tranches are usually not subject to caps which may be embedded in the underlying reference obligations, although the cost of such caps and other embedded options will be reflected in the spread of each tranche
- Most transactions include an optional call exercisable after a non-call period
- For a customized rated transaction, investment size generally needs to be $50 million or more to justify the fixed costs incurred
- Goldman can offer tranches in liquid currencies other than US dollars

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Structured Credit Tranches

Overview of Credit-Linked Note Structure

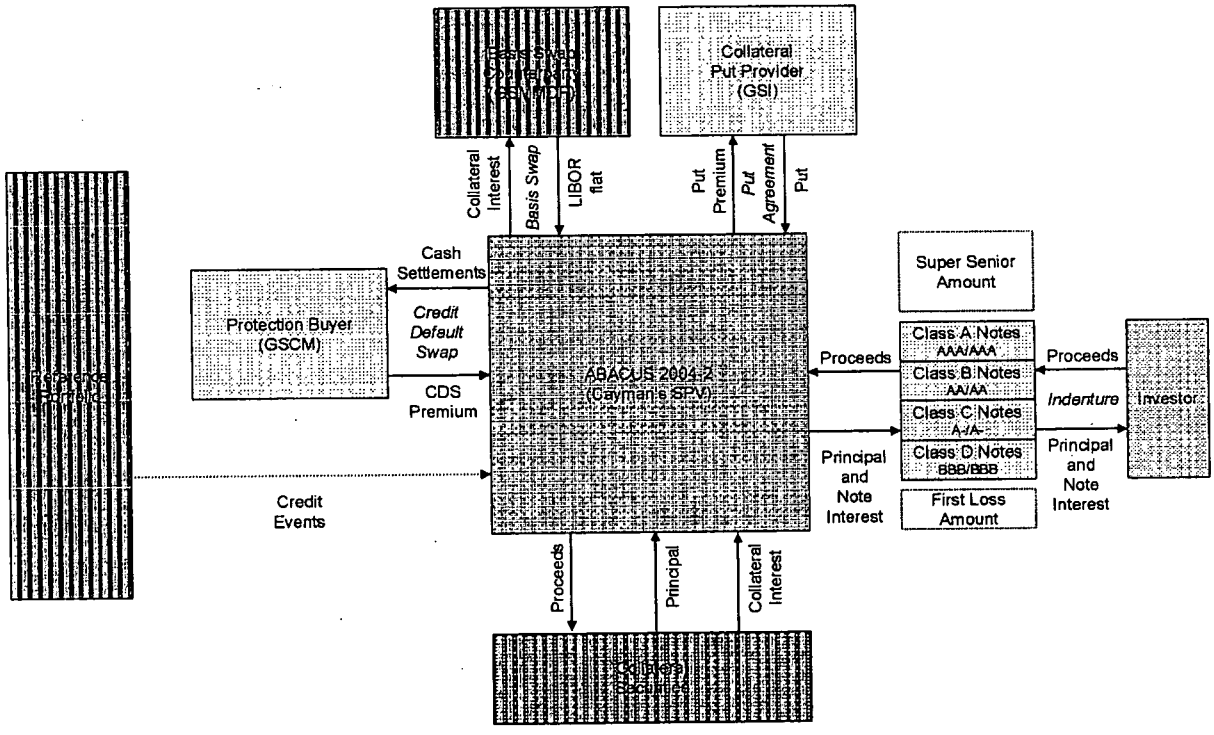
- Investor purchases a credit-linked note (CLN) issued by an SPV issuer (the "Issuer"), the proceeds of which are used to collateralize the notional amount of a credit default swap (CDS) referencing layers of risk of the reference portfolio
- Goldman acts as protection buyer under the CDS, while the Issuer (and indirectly, the investor) acts as protection seller
- Under the CDS, Goldman pays a running premium which covers the spread paid to the investor as well as upfront and ongoing expenses of the CLN issuer
- Investor earns current interest at the stated floating coupon, accrued on the outstanding principal balance of the CLN
- The junior-most tranche of CLN may have credit enhancement in the form of a subordinated first loss amount
- If a credit event occurs in respect of a reference obligation, a loss amount is calculated
- Any such loss amount is deducted from the first loss amount remaining, if any, after which:
  - The principal of the junior-most CLN is written down
  - Investor loses principal by the amount of such write down
  - Goldman is paid protection under the CDS equal to the amount of such write down
- CLN tranches are written-down by loss amounts in reverse sequential order of priority
- Principal amortization (in the absence of credit events) tracks that of the reference portfolio

Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Structured Credit Tranches

Example Credit-Linked Note Structure Diagram



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Agenda

Structured Products Market Overview

Structured Products Synthetics

ABX and CMBX Indices

Synthetic Structures

Abacus Program V

Appendix

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ABACUS Program

Overview of ABACUS Transactions

- ABACUS is the GS brand name for single-tranche CLN issuances referencing portfolios comprised entirely of structured products
- GS completed 12 pure bespoke single-tranche structured product synthetics since 2004
- Since 2004, GS has distributed globally approximately $3.5bn of single-tranche CLNs to a variety of buy-and-hold investors seeking customized exposures to the US structured product market
- Through CLN issuance and tranched CDS trading, GS traded approximately $21bn notional amount of structured product credit risk
- Select sample transactions:
  - ABACUS 2005-4: $6.0bn AAA CMBS transaction
  - ABACUS 2005-2: $1.25bn single-A multi-sector transaction
  - ABACUS 05-CB1: $750mm third party managed transaction
  - ABACUS 2005-7: $100mm levered supersenior transaction

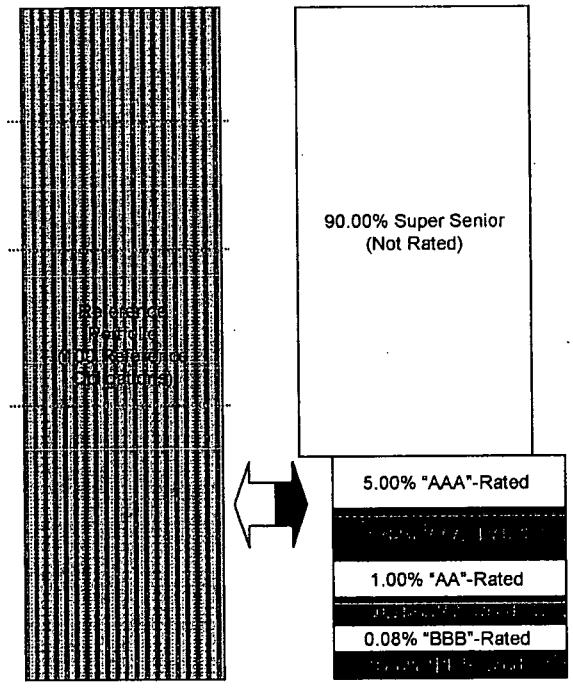
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ABACUS Program

ABACUS 2005-4: a Static "AAA" CMBS Transaction

- $6.0 billion static portfolio of 30 equally sized triple-A CMBS reference obligations
- GS issued $600mm of CLNs in six bespoke tranches rated by S&P and Moody's
- Transaction illustrates a recurring theme of taking levered exposure to a portfolio of low leverage credit risks
- Transaction that enables investors to take exposure to the AAA US CMBS conduit market on a floating rate basis at attractive spreads compared to the underlying risk
- GS is currently working on similar transactions referencing portfolios of junior "AAA" CMBS securities and "AA" CMBS securities



Illustrative only – diagram not to scale

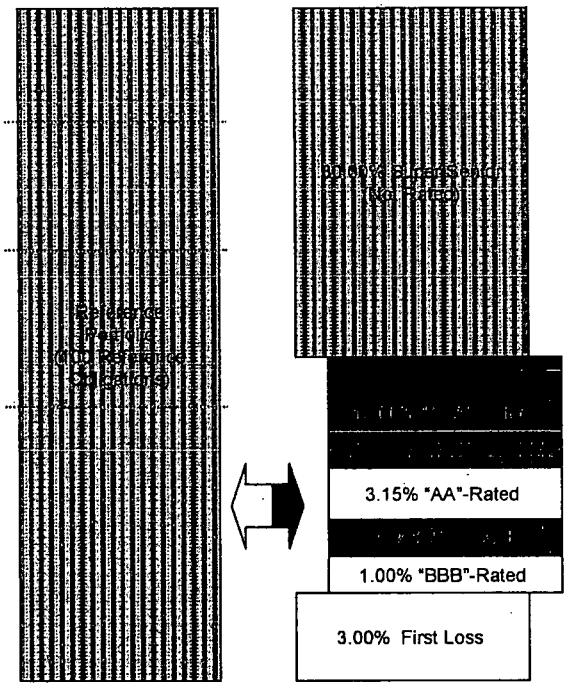
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ABACUS Program

ABACUS 2005-2: a Diversified Single-A Multi-Sector Transaction

- $1.25 billion portfolio with 100 reference obligations
- GS issued $212.5mm of CLNs in five bespoke tranches rated by S&P and Moody's
- "A2" reference portfolio weighted average rating
- Portfolio composed of Asset-Backed (10%), CMBS (20%), RMBS (55%) and CDO Cashflow securities (15%)
- Investors take levered exposure to a diversified portfolio of single-A rated structured product securities with credit enhancement protection. Such exposure is rarely available in the cash ABS CDO market
- Protection buyer has the right to substitute reference obligations in the reference portfolio subject to strictly defined rules customized by investors
- Substitution flexibility enables (a) GS to more easily manage its correlation book and (b) GS to pay significantly more spread to investors compared to the benchmark cash ABS CDO market



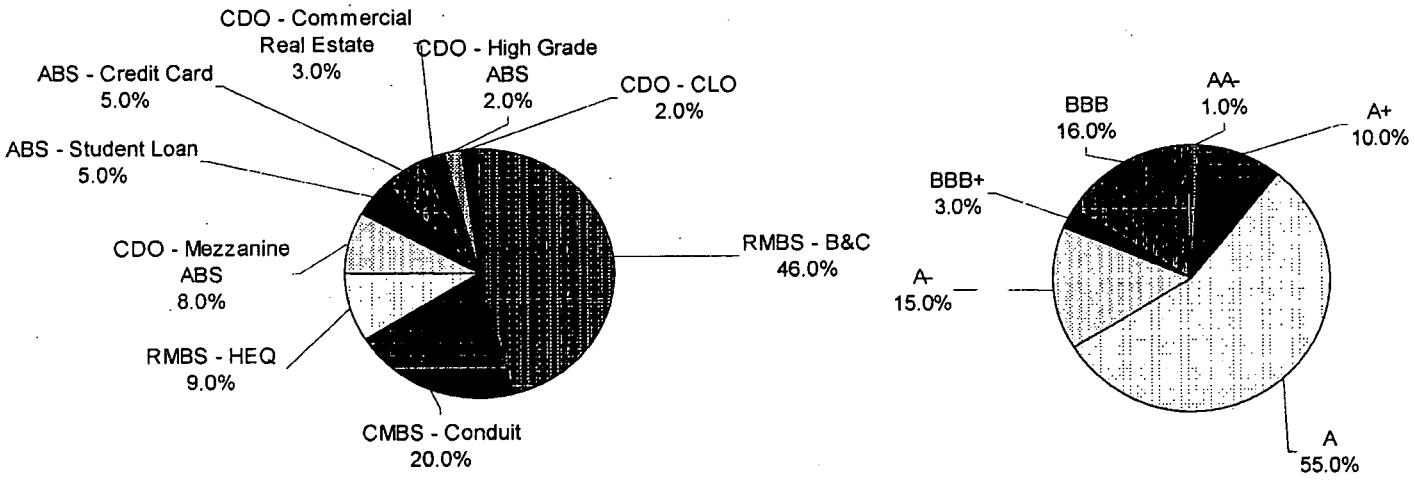
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ABACUS Program

ABACUS 2005-2: a Diversified Single-A Multi-Sector Transaction



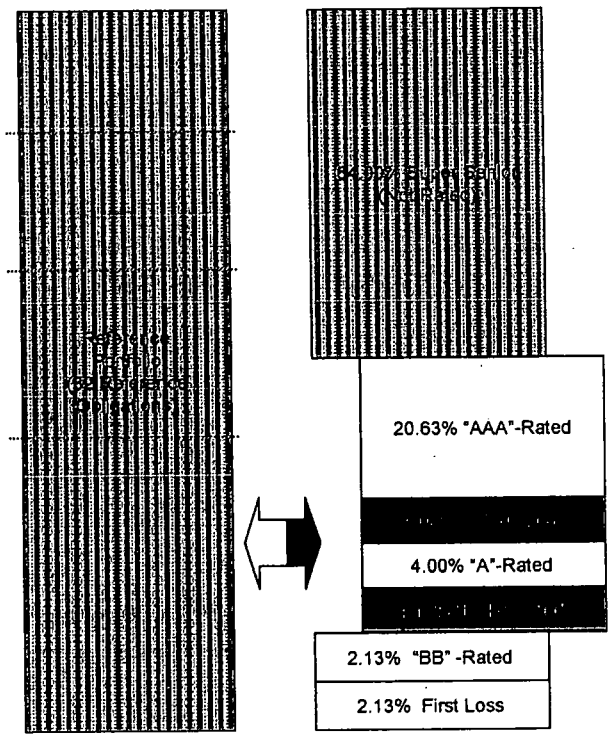
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ABACUS Program

ABACUS 2005-CB1: a Managed Subprime RMBS Transaction

- $750 million reference portfolio
- GS issued $238mm of CLNs in eight bespoke tranches rated by S&P and Fitch (excluding Super Senior, BB – rated and first loss tranches that were not offered)
- 481 WARF Reference Portfolio (Baa2/Baa3)
- C-BASS serves as Portfolio Advisor
- The Portfolio Advisor selects, monitors the Reference Portfolio and has defensive management rights with respect to the reference portfolio
- GS is working with first tier portfolio managers to bring pure bespoke managed structured product synthetic CDO transactions in a format similar to the ABACUS 2005-CB1 transaction



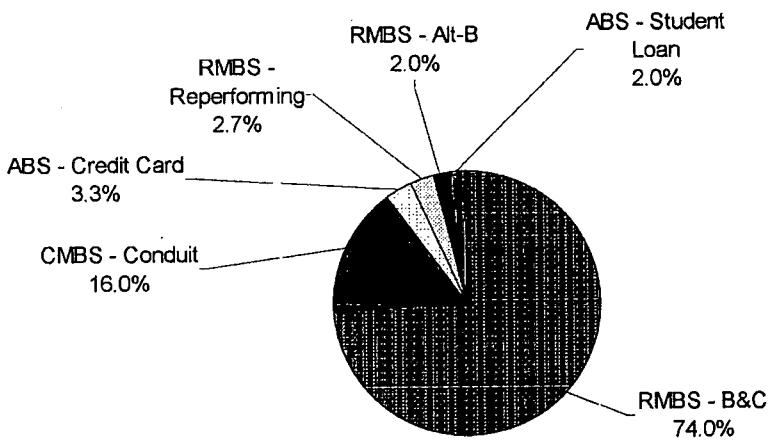
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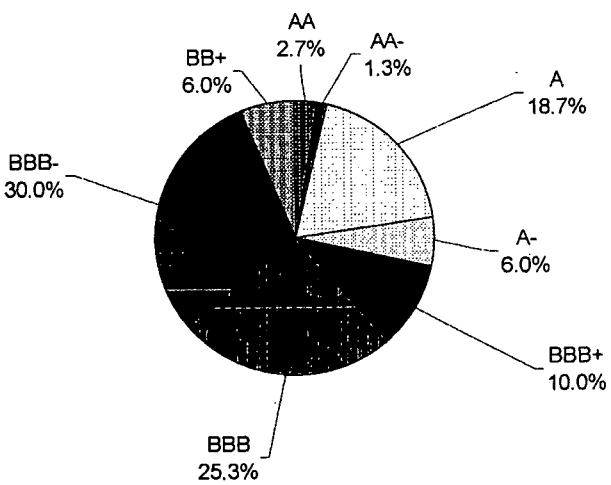
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ABACUS Program

ABACUS 2005-CB1: a Managed Subprime RMBS Transaction





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ABACUS Program

ABACUS 2005-7: a Levered Super-Senior Transaction

- First ever rated levered supersenior transaction referencing structured product credit risk
- Transaction referencing the 10% - 100% supersenior tranche off a portfolio consisting of 30 equally sized triple-A CMBS reference obligations
- AAA/AAA (S&P/Fitch)
- GS issued $130mm credit linked notes with a 10x leverage multiple, transferring the credit and spread risk of $1.3bn notional supersenior tranche
- Transaction uses spread triggers referencing the underlying reference portfolio average CDS spread
  - If the average reference portfolio spread breaches an unwind trigger, investor can either
    - Unwind the transaction at market, or
    - Purchase additional CLNs in order not to crystallize its mark to market loss
  - Several triggers structured, which are "AAA" remote, with gradual deleveraging
- ABACUS 05-7 enables a broad set of capital market investors to access supersenior credit risk, which used to be a risk available only to insurance companies
- GS is working with rating agencies to standardize the approach in order to replicate the levered supersenior format to other asset classes and other rating categories

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Transaction and Trade Themes for 2006

- Reverse inquiry bespoke mezzanine CLN transactions
  - Multi-sector or single-sector portfolios, static or with GS-substitution right, but always using reference obligations that benefit from single-name CDS trading liquidity
  - Structure tailor-made to address specific investor constraints, such as:
    - minimum concentration in certain sectors (addressed by potentially constructing barbell portfolios),
    - high-grade reference portfolios (addressed by structuring a transaction with GS substitution right), etc.
- Lightly managed synthetic CDOs where portfolio manager:
  - Benefits from good track record in investing in and managing ABS
  - Invests in a significant portion of the first and second loss risk
  - Brings investor relationships in order to help debt placement
- Reverse inquiry bespoke mezzanine CLN transactions where investors retain some degree of defensive management rights, often subject to adjustment of subordination levels or spreads
- Levered super-senior transactions referencing new sectors: mezzanine CMBS, subprime RMBS (across the entire capital structure), etc.
- First and second loss swap trades with or without delta-exchange, with counterparties with high return on capital targets
- Principal protected units with first loss participation

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Agenda

Structured Products Market Overview

Structured Products Synthetics

ABX and CMBX Indices

Synthetic Structures

Abacus Program

Appendix VI

- Additional Information on the Indices A
- GS Contacts B
- Disclaimers & Risk Factors C

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Reference Entities for the ABX.HE 06-1 Series of Indices

Reference Entities for the ABX.HE 06-1
1. ACE SECURITIES CORP. SERIES 2005-HE7
2. AMERIQUEST MORTGAGE SECURITIES INC., SERIES 2005-R11
3. ARGENT SECURITIES INC SERIES 2005-W2
4. BEAR STEARNS ASSET BACKED SECURITIES 2005-HE11
5. CWABS ASSET-BACKED CERTIFICATES TRUST 2005-BC5
6. FIRST FRANKLIN MORTGAGE LOAN TRUST SERIES 2005-FF12
7. GSAMP TRUST 2005-HE4
8. HOME EQUITY ASSET TRUST 2005-8
9. J.P. MORGAN MORTGAGE ACQUISITION CORP. 2005-OPT1
10. LONG BEACH MORTGAGE LOAN TRUST 2005-WL2
11. MASTR ASSET BACKED SECURITIES TRUST 2005-NC2
12. MORGAN STANLEY ABS CAPITAL 2005-HE5
13. MERRILL LYNCH MORTGAGE INVESTORS TRUST, SERIES 2005-AR1
14. NEW CENTURY HOME EQUITY LOAN TRUST 2005-4
15. RASC SERIES 2005-KS11 TRUST
16. RESIDENTIAL ASSET MORTGAGE PRODUCTS SERIES 2005-EFC4
17. SECURITIZED ASSET BACKED RECEIVABLES 2005-HE1
18. SOUNDVIEW HOME LOAN TRUST 2005-4
19. STRUCTURED ASSET INVESTMENT LOAN TRUST 2005-HE3
20. STRUCTURED ASSET SECURITIES CORPORATION SERIES 2005-WF4

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Reference Entities for the CMBX.NA.1 Series of Indices

Reference Entities for the CMBX.NA.1
1. Banc of America Commercial Mortgage Inc., Series 2005-4
2. Banc of America Commercial Mortgage Inc., Series 2005-5
3. Banc of America Commercial Mortgage Inc., Series 2005-6
4. BEAR STEARNS COMMERCIAL MORTGAGE SECURITIES TRUST 2005-PWR10
5. Bear Stearns Commercial Mortgage Securities Trust 2005-PWR9
6. BEAR STEARNS COMMERCIAL MORTGAGE SECURITIES TRUST 2005-TOP20
7. CD 2005-CD1 COMMERCIAL MORTGAGE TRUST COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2005-CD1
8. COMMERCIAL MORTGAGE TRUST 2005-GG5
9. CSFB Commercial Mortgage Trust 2005-C5
10. CSFB Commercial Mortgage Trust 2005-C6
11. GE Commercial Mortgage Corp. Series 2005-C4
12. GMAC Commercial Mortgage Securities, Inc. Series 2006-C1 Trust
13. J.P. MORGAN CHASE COMMERCIAL MORTGAGE SECURITIES CORP., SERIES 2005-CIBC13
14. J.P. MORGAN CHASE COMMERCIAL MORTGAGE SECURITIES CORP., SERIES 2005-LDP4
15. J.P. MORGAN CHASE COMMERCIAL MORTGAGE SECURITIES CORP., SERIES 2005-LDP5
16. LB-UBS COMMERCIAL MORTGAGE TRUST 2005-C5
17. LB-UBS COMMERCIAL MORTGAGE TRUST 2005-C7
18. LB-UBS COMMERCIAL MORTGAGE TRUST 2006-C1
19. MORGAN STANLEY CAPITAL I TRUST 2005-HQ7
20. MORGAN STANLEY CAPITAL I TRUST 2005-IQ10
21. MORGAN STANLEY CAPITAL I TRUST 2006-TOP21
22. WACHOVIA BANK COMMERCIAL MORTGAGE TRUST COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES SERIES 2005-C21
23. WACHOVIA BANK COMMERCIAL MORTGAGE TRUST COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES SERIES 2005-C22
24. MERRILL LYNCH MORTGAGE TRUST 2005-LC1
25. MERRILL LYNCH MORTGAGE TRUST 2005-CKI1

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Trading the ABX.HE

The Mechanics

Index at 100.00 Assumes Market Spread Equals Index Fixed Rate		
Trade Date	Index at 98.00 ■ Implies spreads have widened	Index at 102.00 ■ Implies spreads have tightened
Trade Initiation	■ Buyer pays Seller 2% x (Notional) x (Factor) ■ Seller pays Buyer accrued premium from the end of the last accrual period until the trade effective date	■ Seller pays Buyer 2% x (Notional) x (Factor) ■ Seller pays Buyer accrued premium from the end of the last accrual period until the trade effective date
Trade Termination	■ Seller pays Buyer 2% x (Notional) x (Factor) ■ Buyer pays Seller accrued premium from the end of the last accrual period until the trade effective date	■ Buyer pays Seller 2% x (Notional) x (Factor) Buyer pays ■ Buyer pays Seller accrued premium from the end of the last accrual period until the trade effective date

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Trading the CMBX Index

The Mechanics

Each CMBX Has a Fixed Rate		
Trade Date	Index quoted higher than Fixed Rate ■ Implies spreads have widened	Index quoted lower than Fixed Rate ■ Implies spreads have tightened
Trade Initiation	■ Buyer of protection (Index Buyer) pays the Seller of protection the difference in market value ■ Buyer of protection receives accrued premium from the Seller of protection for the period from the end of the last accrual period until the trade effective date	■ Seller of protection (Index Seller) pays Buyer of protection the difference in market value ■ Seller of protection pays Buyer of protection the accrued premium for the period from the end of the last accrual period until the trade effective date
Trade Termination	■ Seller of protection pays the Buyer of protection the difference in market value ■ Seller of protection receives the accrued premium from the end of the last accrual period until the trade effective date from the buyer of protection	■ Buyer of protection pays the Seller of protection the difference in market value ■ Buyer of protection pays the Seller of protection the accrued premium for the period from the end of the last accrual period until the trade effective date

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

Source: Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Key Features of Trade Mechanics[1]

Important Definitions, Valuable Dates and Margin Requirements

Important Definitions

- **Trade Date** – the day the trader says "done" and trade is executed
- **Effective date of trade** – same as trade date: when protection begins
- **Effective date of index (i.e. annex date)** – date the annex was initially published or revised
- **Settlement date** – date on which the premium is exchanged
- **Premium** – fee exchanged when trade is initially done comprising the market value of the trade and accrued interest since last payment date
- **Accrued interest** (in terms of premium) – interest accumulated from and including last payment date but excluding effective date of trade
- **Factor** - A change in the outstanding principal issuance i.e. % of principal unpaid on the reference obligation
- **Initial Fixed rate Payer Calculation period** – from and including last payment date but excluding the next payment date of the bond

Margin Requirements

GS Buys Protection

Rating	Initial Margin
AAA	0.75%
AA	1.25%
A	1.75%
BBB	3.25%
BBB-	4.50%
Speculative Grade	Case-by-case

GS Sells Protection

- Investment Grade underlier: no initial margin
- Speculative Grade: case-by-case basis

(key considerations: fund's quality, liquidity of underlier)

Valuable Dates

- **Trade date** – T
- **Effective date of trade** – T+ 0
- **MarkIt Publish date** - 24 hours or less after trustee report is published (25th)

	COUPONS		FEES	
	Accrual Dates	Payment Delay	Upfront	Termination
ABX	25th - 25th	5 Business Day after 25th	T+5	T + 3
CMBX	25th - 25th	No payment delay	T + 3	T + 3

[1] Source: Goldman Sachs

Note : All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

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Trading the ABX.HE Indices

Indicative terms and conditions

- Indices:

Indices	Fixed Rate
ABX.HE.AAA.06-1	18
ABX.HE.AA.06-1	32
ABX.HE.A.06-1	54
ABX.HE.BBB.06-1	154
ABX.HE.BB-.06-1	267

- Notional: Amortization mirrors that of the underlying bonds
- Fixed Rate: Established on roll date premium. Subsequent trades require upfront exchange of premium/discount
- Floating Rate Payments: Interest Shortfall, Writedown, Principal Shortfall
- Additional Fixed Payments: Interest Shortfall Reimbursement, Writedown Reimbursement, Principal Shortfall Reimbursement
- Quotations: Dealers will quote price and exchange upfront amounts based on the difference between that price and par
- Floating Amount Events: Failure to Pay Principal, Interest Shortfall and Writedown
- Physical Settlement: Not Applicable

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction
Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Trading the CMBX Indices

Indicative terms and conditions

- Indices:

Indices	Fixed Rate
CMBX.AAA.06-1	10
CMBX.AA.06-1	25
CMBX.A.06-1	35
CMBX.BBB.06-1	76
CMBX.BB-.06-1	134

- Notional: Amortization mirrors that of the underlying bonds
- Fixed Rate: Established one day prior to roll date. Payable monthly based on average balance.
- Floating Rate Payments: Interest Shortfall, Writedown, Principal Shortfall
- Additional Fixed Payments: Interest Shortfall Reimbursement, Writedown Reimbursement, Principal Shortfall Reimbursement
- Quotations: Dealers will quote spread and compute price from the Markit calculator
- Credit Events: Principal Shortfall and Write-Down
- Physical Settlement: Not Applicable
- Accruals: Accrues 25th to 25th with no following convention; payments made on the 25th on an Actual/360 basis

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

Source: Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Trading the ABX.HE and CMBX Indices

XYZ Sells Protection on $100mm on ABX.HE.A.06-1

- The Fixed Rate on ABX.HE.A.06-1 Index is 54bp per annum, payable monthly
- The mechanics described below work similarly for the ABX.HE and CMBX Indices

Fixed Rate Payer (Protection Buyer)

- Pays 54bp per annum monthly to counterparty on notional amount
  - Notional amount will decline over time based on the reference obligations amortization
- Receives payments from the Floating Rate Payer in the event of the following:
  - Interest Shortfall (capped at fixed rate)
  - Principal Shortfall
  - Writedown
- Pays in the event of the following:
  - Interest Shortfall Reimbursement Amount
  - Principal Shortfall Reimbursement Amount
  - Writedown Reimbursement Amount

Floating Rate Payer (Protection Seller)

- Receives 54bp per annum monthly to counterparty on notional amount
  - Notional amount will decline over time based on the reference obligation's amortization
- Pays Fixed Rate Payer in the event of the following:
  - Interest Shortfall (capped at fixed rate)
  - Principal Shortfall
  - Writedown
- Receives payment in the event of the following:
  - Interest Shortfall Reimbursement Amount
  - Principal Shortfall Reimbursement Amount
  - Writedown Reimbursement Amount

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Index vs. Single Name Trades

Comparing a few features

	CMBS		Subprime ABS	
	Index	Single-Name	Index	Single-Name
Credit Events	FTPP, Writedown	FTPP, Writedown	FTPP, Writedown	FTPP, Writedown, Distressed Ratings Downgrade
Settlement	PAYG	PAYG, Optional Physical	PAYG	PAYG, Optional Physical
Interest Shortfall	Fixed Cap Applicable	Fixed Cap, Variable Cap, or Cap N/A	Fixed Cap Applicable	Fixed Cap, Variable Cap, or Cap N/A
Coupon Step-up	None	None	None	If clean-up call not exercised w/ Buyer's option to terminate
Trading Quotation	Spread	Spread	Price	Spread
Accruals	Act / 360	Act / 360	Act / 360	Act / 360
Effective Date	T + 0	T + 3 (generally)	T + 0	T + 3 (generally)
Settlement Date	T + 3	T + 3	T + 5	T + 3

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Credit Event (Writedown)

XYZ Sells Protection on $100mm on ABX.HE.A.06-1

Credit Event - Writedown

- Reference Obligation Original Factor = 1.0; Current Factor = 0.7
- A Writedown occurs on a Reference Obligation, for example, in year 3, in the amount of 1% of its current principal balance
  - (Current Factor * Weighting * Loss) = (0.70 * .05 * .01) = .00035 = 0.035%
- Protection Seller pays to Protection Buyer a floating amount (0.035% x 100MM)= $35,000
- Index notional amount on which premium is paid reduces by an additional 0.035%, in addition to the principal payments of the month
- Following the Credit Event, protection seller receives premium of [70] bps on the remaining index notional amount until the earlier of the next credit event or scheduled termination
- The mechanics described above work similarly for the ABX.HE and CMBX Indices

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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About Markit

- Markit is the Administration and Calculation Agent for the DJ CDX index program
- Markit Background:
  - Founded in 2001 by a team of credit market professionals to aggregate and provide clean credit data across asset classes on a single platform
  - Asset Classes include: CDS (Corporate and ABS), Bonds (corporate, financial, sovereign, convertible), Mortgage- and Asset-Backed Securities, Syndicated Loans and Index Products
  - Markit Reference Entity Database (RED) is the market standard for reference entity long legal names, reference entity-reference obligation relationships and "pair" identifiers
  - The key industry source for accurate, consensus pricing for independent price verification, risk modelling and data back testing
  - The industry source for standardized CDO and 1st-to-default valuations, OTC derivative valuations as well as corporate dividend payment and equity index constituent information

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Update on the ABX.HE Bases[1]

As of March 27, 2006

Indicative Basis Report

Subindex	Index - CDS	CDS - Cash
AAA	1	-15
AA	1	-17
A	3	-7
BBB	13	-10
BBB-	13	0

Reference Entities			Index - CDS Basis for BBB-
ACE	05-HE7	M9	15
MLMI	05-AR1	B3	15
GSAMP	05-HE4	B3	5
HEAT	05-8	B1	-5
MABS	05-NC2	M9	-5
FFML	05-FF12	B3	20
NCHET	05-4	M9	-10
BSABS	05-HE11	M8	-15
MSAC	05-HE5	B3	10
LBMLT	05-WL2	M9	-15
SVHE	05-4	M9	15
SABR	05-HE1	B3	10
CWL	05-BC5	B	-15
SAIL	05-HE3	M9	-30
AMSI	05-R11	M9	-20
RASC	05-KS11	M9	0
ARSI	05-W2	M9	-20
RAMP	05-EFC4	M9	10
JPMAC	05-OPT1	M9	20
SASC	05-WF4	M9	15

[1] Source: Goldman Sachs

Note: Past results are not indications of future performance

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Agenda

Structured Products Market Overview — I

Structured Products Synthetics — II

ABX and CMBX Indices — III

Synthetic Structures — IV

Abacus Program — V

Appendix — VI

- Additional Information on the Indices — A
- GS Contacts — B
- Disclaimers & Risk Factors — C

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Goldman Sachs Contacts

ABS Trading	+1 212-902-5090
	Michael Swenson
	Rajiv Kamilla
	Deeb Salem
	Josh Bimbaum
	Edwin Chin
CMBS Trading	+1 212-902-2927
	David Lehman
	Jason Kalisman
	Shaun Heelan
Structured Product Correlation Trading	+1 212-357-3349
	Jonathan Egol
	Fabrice Tourre
	Geoffrey Williams
Structured Products Strategy	+1 212-902-1730
	Shelly Shapiro
	Kyle Nagel
	Michael Turok
Structured Credit Marketing	+1 212-902-2117
	Shlomi Raz
	Naz Majidi
Structured Products Syndicate Asia	+81(3)6437-7198
	Omar Chaudhary
	Jay Lee

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Risk Factors

PROSPECTIVE INVESTORS SHOULD READ THE OFFERING CIRCULAR FOR A MORE COMPLETE DESCRIPTION OF RISK FACTORS RELEVANT TO A PARTICULAR INVESTMENT

- Purchasing the Securities involves certain risks. Prospective investors should carefully consider the following factors, as well as the risk factors included in the final Offering Circular, prior to purchasing the Securities. The following is not intended to be an exhaustive list of the risks involved in the Transaction.
- The final Offering Circular will include more complete descriptions of the risks described below as well as additional risks. Any decision to invest in the Securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the Securities.

Leveraged Credit Exposure to Reference Entities

- Investors will have leveraged exposure to the credit of a number of Reference Entities because the notional amount of the Reference Portfolio is significantly larger than the principal amount of the Notes. Following either (1) the delivery of a Credit Event Notice by Goldman Sachs in relation to a Credit Event with respect to a Reference Entity and the satisfaction of the other Conditions to Settlement or (2) removal of a Credit Risk Reference Obligation by the Portfolio Advisor and the determination of a related Discount Amount, the outstanding principal amount of the investment may be reduced. Investors in the Securities may suffer significant reductions in their outstanding principal amounts. The maximum loss for investors is the full principal amount.

No Legal or Beneficial Interest in Obligations of Reference Entities

- Participation in the Transaction does not constitute a purchase or other acquisition or assignment of any interest in any obligation of any Reference Entity. Neither the Issuer nor investors will have recourse against any Reference Entities. Neither the investors nor any other entity will have any rights to acquire from Goldman Sachs any interest in any obligation of any Reference Entity, notwithstanding any reduction in the principal of the relevant class with respect to such Reference Entity. Neither the Issuer nor any investor will have the benefit of any collateral delivered by any Reference Entity nor any right to enforce any remedies against any Reference Entity.

Tax/Regulatory Impact

- There may be a tax or regulatory impact of investing in the Notes. Goldman Sachs does not provide any opinion on these issues. Any investor should consult with its own advisors prior to investing in the Notes.

Limited Liquidity of the Transaction

- There is currently no market for the Securities. There can be no assurance that a secondary market for the Securities will develop or, if a secondary market does develop, that it will provide the holder of the Securities with liquidity, or that it will continue for the life of the Securities. Moreover, the limited scope of information available to the investors regarding the Reference Entities, the nature of any Credit Event, including uncertainty as to the extent of any reduction to be applied to the notional amount of each class if a Credit Event has occurred but the amount of the relevant reduction in the notional amount has not been determined, and the uncertainty regarding any Credit Risk Reference Obligation, including the ability of the Portfolio Advisor to remove such obligations from the reference portfolio at any time and the extent of any reduction to be applied to the notional amount of each class if and when such Credit Risk Reference Obligations is removed, may further affect the liquidity of the Securities. Consequently, any investor in the Securities must be prepared to hold such Securities for an indefinite period of time or until final maturity.

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Risk Factors

Mark-to-Market Risk

- Investors are exposed to considerable mark-to-market volatility following changes in any of the following: spreads of the credits in the Reference Portfolio, comparable CDO spreads, ratings migration in the reference portfolio, ratings migration of the Securities, ratings migration of the Collateral or issuers or providers thereof, and Credit Events in the Reference Portfolio (and hence reduction of subordination). These will be reflected in mark-to-market valuations which are likely to be more volatile than an equivalently rated unleveraged investment.

Credit Events may vary from Defaults

- Historical default statistics may not capture events that would trigger a Credit Event as specified under the Notes. All Credit Event definitions will be defined in the final legal documents and will be governed by the 2003 ISDA Credit Derivatives Definitions and any amendment or supplement thereto.

Credit Ratings

- Credit ratings represent the rating agencies' *opinions* regarding credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and/or interest payments and do not evaluate the risks of fluctuations in market value. Accordingly, the credit ratings may not fully reflect the true risks of the Transaction. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates.

Rating Volatility

- Rating agencies may from time to time change the ratings of the Notes (or the Reference Entities in the portfolio) even if no losses have been incurred under the Notes due to changes in rating methodology or rating migration of the Reference Entities in the portfolio. Due to the leveraged nature of the transaction, the rating may be significantly more volatile than corporate debt with an equivalent credit rating.

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Risk Factors

Certain conflicts of interest relating to Goldman Sachs and its Affiliates; No reliance

- Goldman Sachs does not provide investment, accounting, tax or legal advice and shall not have a fiduciary relationship with any investor. In particular, Goldman Sachs does not make any representations as to (a) the suitability of purchasing Securities, (b) the appropriate accounting treatment or possible tax consequences of the transaction as described herein (the "Transaction") or (c) the future performance of the Transaction either in absolute terms or relative to competing investments. Investors should obtain their own independent accounting, tax and legal advice and should consult their own professional investment advisor to ascertain the suitability of the Transaction, including such independent investigation and analysis regarding the risks, security arrangements and cash-flows associated with the Transaction as they deem appropriate to evaluate the merits and risks of the Transaction.
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Risks Associated with Responsibilities of the Portfolio Advisor

- The exercise of responsibilities of the Portfolio Advisor by the Portfolio Advisor, particularly in the form of credit risk removals affecting the subordination of the Notes, can potentially (a) increase the risk of the investment by reducing the subordination and hence increase the probability of suffering an actual loss from a subsequent removal of a Credit Risk Reference Obligation or a Credit Event, (b) cause a rating downgrade of the Notes or (c) increase the mark-to-market volatility of the Notes.

Certain conflicts of interest relating to the Portfolio Advisor and its Affiliates

- The Portfolio Advisor and its Affiliates may invest or invest for the account of others in debt obligations that would be appropriate as Reference Obligations and/or Collateral Securities and have no duty in making such investments or to act in a way that is favorable to the Issuer or the Noteholders. The Portfolio Advisor and its Affiliates may have economic interests in, or other relationships with, issuers in whose obligations or securities are Reference Obligations and/or Collateral Securities.
- The Portfolio Advisor, its Affiliates or any account managed by any of the foregoing may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of the Portfolio Advisor, its Affiliates or any account managed by any of the foregoing serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer.

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Risk Factors

Reliance on Creditworthiness of the Collateral

- The ability of the Issuer of the Notes to meet its obligations under the Notes will depend on, amongst other things, the receipt by it of payments of interest and principal from the Collateral. Consequently, investors are exposed not only to the occurrence of Credit Events in relation to any of the Reference Entities and/or the removal of Credit Risk Reference Obligations from the reference portfolio, but also to the ability of the Collateral or the issuer or provider thereof, to perform its obligations to make payments to the Issuer of the Notes. Although at the time of purchase, such Collateral will be highly rated, there is no assurance that such rating will not be reduced or withdrawn in the future, nor is a rating a guarantee of future performance.

Creditworthiness of Goldman Sachs

- Premium payments will be required to be made by Goldman Sachs throughout the life of the transaction. Consequently, investors are exposed not only to the occurrence of Credit Events in relation to any of the Reference Entities, but also to the ability of Goldman Sachs to perform its obligations to make payments to the Issuer of the Notes, amongst other secured parties.

Historical Performance does not Predict Future Performance of Transaction

- Individual Reference Entities may not perform as indicated by historical performance for similarly rated credits. Furthermore, even if future credit performance is similar to that of historic performance for the entire market, investors must make their own determination as to whether the Reference Portfolio will reflect the experience of the universe of rated credits. Hence, the frequency of Credit Events experienced under the Notes may be higher than that of historical Credit Event rates, and that of future Credit Event rates for the entire market.
- The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the part investments of any such persons or entities.

Projections, Forecasts and Estimates

- Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Issuer considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Confidential Treatment Requested by Goldman Sachs

United States of America
Before the Securities and Exchange Commission

In the Matter of Abacus 2007-AC1 CDO	File No. HO-10911

STATEMENT OF LAURA U. SCHWARTZ

Confidential Treatment Requested Under FOIA
by Fried, Frank, Harris, Shriver & Jacobson LLP

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1605

I, Laura Ullman Schwartz, submit the following statement:

Introduction

1. From September 2002 through October 2007, I was a Managing Director (and from 2004 through October 2007 the Senior Managing Director), of collateralized debt obligation ("CDO") asset management for ACA Capital Holdings, Inc. ("ACA"). Throughout this time period, ACA conducted its asset management business through ACA Management, L.L.C. ("ACAM"). ACAM was a subsidiary of ACA Financial Guaranty Corporation, which itself is a wholly-owned subsidiary of ACA.

2. On November 13, 2008, at the request of the staff of the Securities and Exchange Commission ("Staff"), I testified before the Staff in connection with this investigation. Through counsel, the Staff has requested that I address a number of follow-up questions relating to the subject matter of my testimony. This statement is submitted at the Staff's request.

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Permanent Subcommittee on Investigations

10. In particular, on January 10, 2007, Goldman Sachs employee Fabrice Tourre sent me an e-mail with a transaction summary for the Abacus CDO (Bates-numbered ACA-ABACUS-0000000024 - ACA-ABACUS-0000000025; SEC Exhibit 7) stating that the 0 – 9% tranche of the Abacus CDO would be a "pre-committed first loss" tranche. Mr. Tourre's transaction summary also states that the "transaction sponsor" had been "in discussions with a couple of potential CDO managers." The e-mail defines "the transaction sponsor" as Paulson. The transaction summary lists no other tranche as pre-committed. Based on my knowledge of the industry, I believe that "pre-committed first loss" refers to the equity position, a belief that is consistent with the fact that the 0-9% tranche typically encompasses the equity portion of a CDO transaction. I believe this communication from Fabrice Tourre is representative of communications that led to my understanding that Paulson was the equity investor in the transaction.

11. The "pitch book" for the Abacus CDO (one copy of which appears at the document Bates-numbered ABACUS-0001785285 – ACA-ABACUS-0001785350; SEC Exhibit 27) contains a page titled "Structure Overview – Capital Structure." It is my general recollection that, although ACAM drafted those sections of the Abacus CDO pitch book relating to ACAM, Goldman Sachs personnel drafted the remainder of the document, including this passage on the Capital Structure. This page designates a "First Loss" tranche with a $200,000,000 notional value and a tranche size of "[+10%]" of the initial reference portfolio notional amount as "Not Offered." The phrase "Not Offered" is generally assumed, in routine market practices in the industry, to mean "pre-placed," and indicates that the piece of the transaction so designated has already been committed to purchase by an investor and will not be marketed. The language in the pitch book is

consistent with my understanding that the equity position was being purchased by the transaction sponsor, who I understood to be Paulson.

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Laura Ullman Schwartz

Subscribed and sworn before me, this 21st day of January, 2010.

Seal:

[ROBERTA RYAN]
NOTARY PUBLIC

ROBERTA RYAN
Notary Public
State of Connecticut
My Commission Expires June 30,2010

My commission expires: 6/30, 2010.

7544518

From: Bernstein, Stuart (IB NYP48)
Sent: Thursday, July 13, 2006 6:03 PM
To: Solomon, David (IB NYP48); Berlinski, Milton (IB 85B18); Truesdale, Don (IB 85B23); von Holzhausen, Kurt (IB 85B23); Ross, Ivan (IB NYP48); Lee, Craig (IB NYP48); Grippi, Kristen (IB NYP48)
Cc: Cohn, Gary
Subject: Lasry called

[redacted] = Redacted by the Permanent Subcommittee on Investigations

We discussed three topics:

1) He wanted to know if we would do a SPAC for him - long discussion but the essence of it is that he only wants to do a SPAC because he believes the mortgage REIT market is dead. We agreed that the economics of a mortgage REIT are better for him and that as the market got worse, his "distressed' expertise would be more (not less) interesting to investors. Next step - go see him and discuss the merits of both capital raising opportunities

2) [redacted]

3) [redacted]

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****

Classification: General Business~External~Standard~

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1608

GS MBS-E-016209254

From: Swenson, Michael
Sent: Tuesday, September 19, 2006 10:06 AM
To: Bimbaum, Josh
Subject: Re: ABX

Good

----- Original Message -----
From: Birnbaum, Josh
To: Swenson, Michael
Sent: Tue Sep 19 10:04:52 2006
Subject: RE: ABX

I said you were "in a meeting"

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, September 19, 2006 10:03 AM
To: Birnbaum, Josh
Subject: Re: ABX

[redacted]

= Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Birnbaum, Josh
To: Swenson, Michael
Sent: Tue Sep 19 10:01:33 2006
Subject: RE: ABX

no

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, September 19, 2006 10:01 AM
To: Birnbaum, Josh
Subject: Re: ABX

Are the pissed at me?

----- Original Message -----
From: Birnbaum, Josh
To: Swenson, Michael
Sent: Tue Sep 19 10:00:26 2006
Subject: RE: ABX

Believe it or not sobel and sparks want to know if we should exit or double down. We double down if we have a structured place to go with the risk. We are waiting for you to get in, then we are going to sit down with CDO guys and talk about a deal.

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, September 19, 2006 9:59 AM
To: Birnbaum, Josh
Subject: Fw: ABX

What happened here?

----- Original Message -----
From: Sobel, Jonathan
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1609

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GS MBS-E-012683946

Sent: Tue Sep 19 07:01:07 2006
Subject: ABX

Let's sit down at 8am to discuss.

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From: Lehman, David A.
Sent: Thursday, July 20, 2006 10:17 AM
To: Sobel, Jonathan; Sparks, Daniel L; McHugh, John; Brazil, Alan; Egol, Jonathan; Turok, Michael; Burchard, Paul; Paz, Jeffrey; Levy, Bradford S; Jacobsen, Glade; Littlejohn, Darren; Downing, Claudia E.; Scales, Carly
Cc: Swenson, Michael; Birnbaum, Josh; Kamilla, Rajiv; Lehman, David A.
Subject: Mortara Nomination -- ABX/CMBX Indices

Attachments: ABX-CMBX 2006_MikeMortaraAward- 7-20-06.doc

Attached please find our submission for the Mortara award.



ABX-CMBX
06_MikeMortaraAwa

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1615

Confidential Treatment Requested by Goldm

2006 Mike Mortara Award for Innovation
Nomination Template for ABX & CMBX Indices

Name of project / transaction:

ABX and CMBX structured product ("SP") credit default swap ("CDS") indices

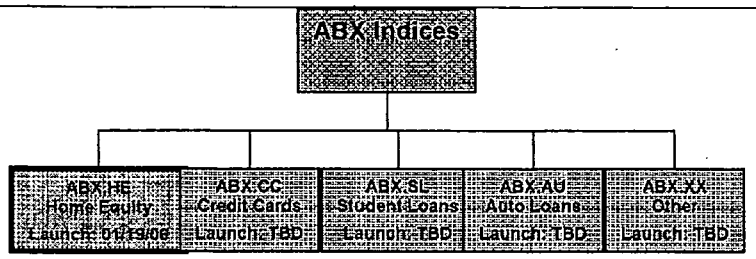
Detailed project / transaction description:

The ABX and CMBX indices, which launched Q12006, are comprised of CDS that reference various SP securities. ABX references twenty different subprime home equity loan ABS deals while CMBX references twenty-five commercial mortgage backed security deals. There are five sub-indices for each product corresponding to five rating layers of risk – AAA, AA, A, BBB and BBB-. The development of these indices was preceded by the explosive growth of single name SP CDS (referencing individual CUSIPs) trading over a span of roughly fifteen months – with the bulk of the trading activity focused on the home equity ABS and CMBS sectors. The ABX and CMBX index products follow in the success of the CDX family of index products in corporate CDS trading.

ABX and CMBX indices are part of the intellectual property of CDX IndexCo, which owns and licenses other tradable index products such as CDX and HVOL in the corporate CDS market. CDX IndexCo, in turn, is largely owned by a consortium of several dealers, including Goldman Sachs. Similar to other tradable CDS index products, a new ABX and CMBX index will be created every six months, with the older indices outstanding and traded in the marketplace.

Goldman Sachs played a leadership role in the inter-dealer consortium in the development and launch of the ABX and CMBX indices; and thereafter has dominated the trading of these products.

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Notes:

- ABX, ABX.HE, and CMBX are service marks of CDS IndexCO LLC and have been licensed by Goldman, Sachs & Co.
- The ABX.HE and CMBX Indices referenced herein is the property of CDS IndexCO LLC and is used under license. The transactions described herein are not sponsored, endorsed or promoted by CDS IndexCO LLC or any of its members, other than Goldman, Sachs & Co.

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo LLC)

How did the project / transaction solve an important problem for a client or for the firm and, if applicable, what was the client's perspective?

Following the inception of the single name SP CDS market in the fall of 2004, Goldman Sachs has been an innovator and a leader in the derivatization of structured finance securities.

As ABS and CMBS traditionally have been cash only markets, the ability to create and trade risk synthetically has revolutionized the market. SP CDS enables market participants to trade risk without ownership of the underlying SP security - thereby permitting market participants to efficiently go short the risk of these securities. The ABX and CMBX indices have significantly contributed to the evolution of this market by explicitly fostering liquidity through market-maker sponsorship in addition to standardization and transparency. The impact has been significant across several market participants.

- Banks, Loan Originators, and Dealer Primary Desks: Flexibility to lock in credit spreads for pending asset sale or securitization and hedge loan pools, retained tranches and residuals. Examples of clients include (but not limited to) Countrywide, Huntington, ABN AMRO, First Franklin, National City, and FBR.
- Hedge Funds: Flexibility to actively express relative value trades across market sectors and across products. Examples of clients include (but not limited to) Paulson Capital, Moore Capital, III Advisors, Dillon Read Capital Management, Scion, Peloton, The Clinton Group, BSAM Credit Strategies Fund, Cascade, Fir Tree, Basswood, and Old Lane.
- Dealer Trading Desks: Flexibility to actively trade risk and to express positive and negative views by selling and buying protection without being limited by inventory.

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Examples include all major broker dealers.

- Asset Managers:

  1. Flexibility to customize portfolios by investing based on risk preference rather than dealer inventory or syndicate allocation. Examples of clients include (but not limited to) Wellington, Fidelity, Metlife, and Prudential.

  2. Flexibility to manage the ramp-up risk during portfolio accumulation and retain flexibility in portfolio construction for collateralized debt obligations ("CDOs"). Examples of clients include (but not limited to) Ellington, Blackrock, TCW, State Street, NorthStar Realty Finance, Winchester Capital, and CDC Ixis.

  3. Flexibility to selectively hedge certain SP risks. Examples of clients include (but not limited to) PIMCO, JP Morgan Chase Bank, and ING Clarion.

- Financial Guarantors and Surety Providers: Flexibility to write protection on senior and super-senior risk layers of synthetic portfolios. Examples of clients include (but not limited to) AIG Financial Products, MBIA, and ACA Financial Guaranty.

Certain significant aspects of this market development include:

- Entry of hedge funds (including macro and equity Long/Short) into the SP market, given the ability to execute both long and short views
- Advent of new trading products; including but not limited to second generation products on the indices, such as ABX tranches.
- Growth of new trading strategies; including but not limited to cross-sector relative value trading strategies (corporate vs. SP, emerging market vs. SP, etc.), cross product trading strategies (cash securities vs. CDS), cross tranche trading strategies (BBB vs. BB, AAA vs. BBB) and correlation trading (similar to the corporate CDS market)
- Impact of CDS spread dynamics on the pricing of new issues in the cash SP market.

What was the market reaction?

Goldman Dominates Client Trading Volume:

Since the indices were launched in 1Q2006, the Firm has traded close to $50BN in gross notional of ABX and CMBX, maintaining an estimated 40% market share. The FICC-Equities salesforce and the SP derivatives marketing effort proved invaluable in working with the trading desk to establish and maintain this market share. In addition,

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the Firm dominates single name SP CDS trading flows with a similar market share, having traded approximately $150BN of gross notional to date. The SP CDS market is expected to have outstanding notional of approximately $750BN by year end 2006.

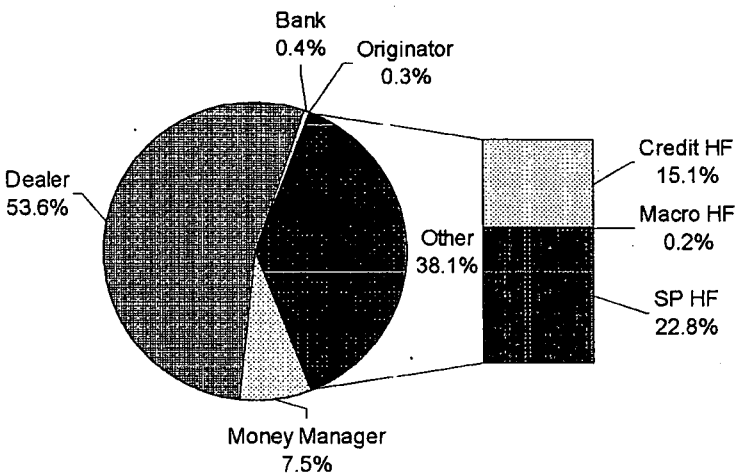
Goldman Dominates Inter-Dealer Trading:

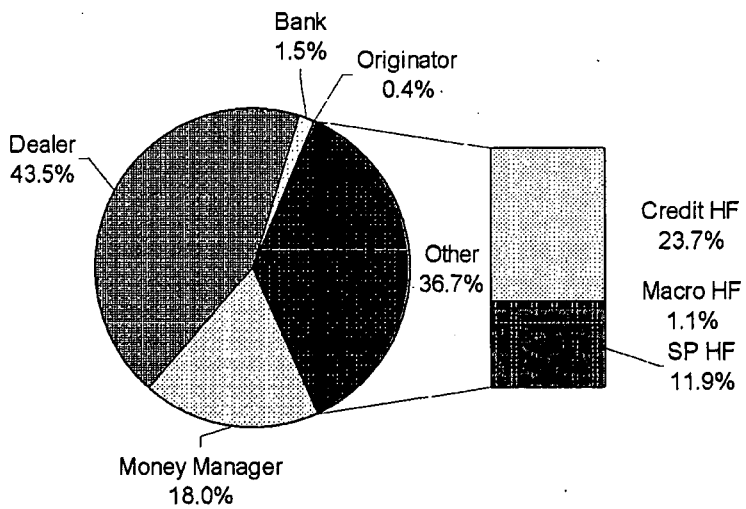
In addition to high market share in our client flows, the Firm dominates the inter-dealer market.

Goldman Establishes Significant Trading Relationships with Several New Clients:

ABX and CMBX are now the benchmark for SP CDS. The liquidity generated by the Firm has made this market attractive to many non-traditional ABS and CMBS clients. Specifically, macro and equity hedge funds, as well as credit funds, have been large participants in the index market. As liquidity and sponsorship are paramount to hedge funds and other trading oriented clients, the ABX and CMBX indices opened up our market to these clients, creating marginal supply and demand. For example, it is interesting to note that approximately 38% of trading volume on the ABX indices has been with hedge funds, most of which are new clients of the structured products trading business.

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How did the project / transaction differentiate Goldman Sachs in the marketplace?

Goldman was the leader and principal driver in the creation of both ABX and CMBX.

First, GS demonstrated a leadership role with ISDA leading to the development of standardized trading terms and documentation of SP CDS in June 2005. Standardization resulted in explosive growth in trading volume – to $2-5BN in trading notional each week from $200-300MM a week prior to June 2005. This was followed concurrently by efforts on the development of the ABX and CMBX, where the standardization of the single name CDS confirmation was invaluable in the process of building consensus relating to the indices.

Second, Firm employees were instrumental in leading all aspects of the index creation, including structuring, trading, legal, and operational. In addition, Markit Group, the administrator for the indices, constantly looked to Goldman during the process for advice and support.

Finally, given the Firm's expertise and market share in the single name SP CDS market, both our clients and our competitors looked to Goldman in the creation of ABX and CMBX.

What was the benefit to Goldman Sachs (including profitability)?

The Firm's role in ABX and CMBX have The benefits to the Firm include:

a) Market share of approximately 40%.

b) Cementing the Firm's leadership role at the forefront of the developing SP derivatives market.

c) Gross P&L YTD of $30mm from trading ABX and CMBX (In aggregate $60mm on SP synthetics trading). Expected aggregate SP synthetics P&L for fiscal 2006 of 125mm.

d) Euromoney recently named Goldman Sachs the Global Best Credit Derivatives House for 2006. Our leadership and innovation in SP CDS and the ABX and CMBX indices were important considerations for this award.

Is this project / transaction replicable? If so, what is the plan to do so?

Despite the rapid growth of the SP CDS market, it is still in its relative infancy. We expect the market to significantly grow in notional and rapidly dwarf the underlying cash securities market with concurrent revenue potential for Goldman Sachs.

While these indices satisfy the market's demand for unfunded ABS sub prime and

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CMBS risk, we feel similar opportunities are available where the Firm can display innovation and leadership.

Specifically, we are working towards "second generation" products such as index options and tranches. These are established businesses in the corporate market, and the Firm has already taking a leadership role in the index tranche market, having executed several trades.

In addition, the ABX and CMBX technology potentially has use with other structured products, such as CDOs, credit card ABS, and auto loan ABS.

Name of team or individual who worked on the project / transaction:

Trading
Domenico AcriGarofalo
Josh Birnbaum
Edwin Chin
Jonathan Egol
David Gerst
Rajiv Kamilla
David Lehman
Deeb Salem
Matt Salem
Ben Solomon
Michael Swenson
Fabrice Tourre
Geoff Williams

FICC-Equities Sales and Derivatives Marketing Team

Strategies
Tom Barrett
Alan Brazil
Paul Burchard
Toby Falk
Kevin Kao
Ting Liu
Jordan Mann
Kyle Nagel
Shelly Shapiro
Michael Turok
Peng Yu

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Technology
Jeff Paz

Firmwide eBusiness
Brad Levy

Legal
Glade Jacobsen
Darren Littlejohn

Credit
Ilana Ash
Li-Wan Chia
Nicolas Friedman
Clare Sant
Dennis Young

Operations
Anne Cottancin
Claudia Downing
Rohan Murphy
Nehal Nishar
Mark Perry
Carly Scales
Poonam Shah
Aude Walon
Tina Yang

Name(s) of those making the nomination:

Josh Birnbaum

Rajiv Kamilla

David Lehman

Michael Swenson

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From: Sparks, Daniel L
Sent: Friday, July 07, 2006 12:38 PM
To: Lehman, David A.
Subject: RE: Mike Mortara Award for Innovation

yes

From: Lehman, David A.
Sent: Friday, July 07, 2006 11:37 AM
To: McHugh, John; Swenson, Michael
Cc: Sparks, Daniel L; Kamilla, Rajiv; Birnbaum, Josh
Subject: RE: Mike Mortara Award for Innovation

OK, then I think we should go for it. Dan/Mike/Rajiv/Josh?

From: McHugh, John
Sent: Friday, July 07, 2006 12:26 PM
To: Lehman, David A.; Swenson, Michael
Cc: Sparks, Daniel L; Kamilla, Rajiv
Subject: RE: Mike Mortara Award for Innovation

I spoke to the coordinator. If we can claim to have originated the innovative product concept/structure **or** we were the driving force behind the consortium, we can submit a nomination.

From: Lehman, David A.
Sent: Friday, July 07, 2006 8:09 AM
To: McHugh, John; Swenson, Michael
Cc: Sparks, Daniel L; Kamilla, Rajiv
Subject: RE: Mike Mortara Award for Innovation

Added Rajiv to the e-mail.

I like the idea and I think ABX/CMBX fit most of the below criteria, my only thought is that ABX/CMBX were formed by a multi-dealer consortium, not just GS. While GS was clearly a leader in the consortium, I am unsure if this fits the Mortara award. I am for it if we feel that criteria is met.

From: McHugh, John
Sent: Friday, July 07, 2006 8:02 AM
To: Swenson, Michael; Lehman, David A.
Cc: Sparks, Daniel L
Subject: FW: Mike Mortara Award for Innovation

Should we submit a nomination for ABX/CMBX?

From: Equities and FICC Communications
Sent: Tuesday, June 20, 2006 4:27 PM
To: 'All Equities and FICC'

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1617

Subject: Mike Mortara Award for Innovation

Goldman Sachs

Equities and FICC Comm

June 20, 2006
Mike Mortara Award for Innovation

We are pleased to accept nominations for the fifth annual Mike Mortara Award for Innc FICC divisions. Mike Mortara served as co-head of FICC from 1994 until his sudden p recognizes the creative, forward-looking, and entrepreneurial contributions of an indivi

The review committee will use the following criteria to judge the submissions:

- Did the transaction or project distinguish us from the competition?
- Was an important client or firm problem solved?
- What was or will be the impact on the market and firm?
- Is the transaction replicable?
- What was the profitability of the transaction?

Please use the nomination template for your submission.

Nominations are due Thursday, July 20. The winner will be announced shortly ther divisions will make a significant donation to the charity of the winner's choice.

Phil Hylander, Paul Young, Bernie Mensah, Sheila Patel, and Bruce Petersen will com committee, which will be chaired by Bill McMahon.

Robert Nuzzo will serve as committee coordinator and all submissions should be sent contact him with any questions.

This award perpetuates Mike's focus on innovation. He embodied the best of Goldma mark on the firm and the financial services industry. Mike would be proud of the ability embrace change to benefit our clients.

Gary D. Cohn
J. Michael Evans
Thomas K. Montag
Michael S. Sherwood

FIXED INCOME, CURRENCY AND COMMODITIES INDIVIDUAL REVIEW BOOK

Reviewee: Kamilla, Rajiv K

Title: VP
Review Criteria: FICC-Vice President
Business Unit: Mortgages
Department: ABS Trading
Region: Americas
Date of Hire: 14-Jul-97
Primary Manager: Swenson, Michael J
Co-Manager 1: Lehman, David A
Co-Manager 2: Sparks, Daniel L
Co-Manager 3:
Co-Manager 4:
Mentor:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1619

THE PURPOSE OF THIS REVIEW MATERIAL IS FOR PERSONAL DEVELOPMENT. IT IS NOT INTENDED FOR DISCLOSURE OUTSIDE THE FIRM.

Title Description: VP=Vice President/Executive Director; AS=Associate; AN=Analyst; EX=Exempt; NX=Non-Exempt

As you review feedback information, you should be alert to instances in which an individual has received an unusually negative comment or low score on the "Compliance" or "Diversity and Equitable Treatment" questions. Please consider whether the response requires follow-up, including consultation with a more senior manager, a Compliance professional, Employee Relations representative or other individuals.

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VIII. Training Transcript

Report Configurations

1. Peer Group = all employees who share the same title, across the division, as the reviewee and are rated on the same review criteria.
2. All averages in the report do not include ratings from the self evaluation.

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VI. Self Evaluation

Review Criteria	Self Rating
Technical Skills	5.00
Communication Skills	4.00
Judgment/Problem Solving	5.00
Teamwork	5.00
Compliance	3.00
Diversity and Equitable Treatment	3.00
People Management	4.00
Franchise Contribution	5.00
Leadership	4.00
Overall Commercial Effectiveness	4.00
Overall Professional Performance	4.00
Cumulative Average:	**4.18**

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
Overall Performance	During the past 12 months, I have made significant contributions to Goldman's structured products franchise. 1. Structured Products Synthetics Played significant role in establishing GS as the dominant and pre-eminent structured products synthetics franchise. Goldman has approximately 40% market share in the structured products synthetics market estimated currently to be at $500Bn of notional. The business is expected to generate $125mm+ for fiscal 2006. In addition, GS is viewed as the primary thought leader in the structured products synthetics market, not only by clients and but also by its competitors. • Played a prominent role in the development and launch of the ABX indices a. Represented GS in the inter-dealer consortium b. Played a leadership role within the working group - in structuring the indices, in developing consensus amongst trading desk representatives in the consortium, quotation convention, naming convention, etc. c. Relied on as the primary product protagonist by the other trading partners in the consortium and Markit, the index administrator, based on breadth of structured finance and credit derivatives experience and knowledge d. Coordinated the global marketing and successful launch of the ABX indices on behalf of the ABX consortium – created and presented the ABX launch webcast along with Markit and trading desk counterpart from Bear Stearns on behalf of the entire ABX consortium e. Coordinated the full gamut of GS response to the launch – ensuring that Trading, Strategy, Sales, Operations, Legal &Technology resources were adequately prepared and geared in preparation of the launch; GS executed more trades than any other Street firm on the launch date f. Involved in the initial marketing of ABX to GS Sales and trading/banking clients of the firm g. Provided a roadmap for the subsequent launch of the CMBX indices h. Instrumental in GS being identified as the thought leader and product champion • Continued to enhance our trading dominance in single name ABS synthetics • Continued to spearhead the build-out of Operations, Strategy and Technology functionality to support our business • Played leadership role as primary spokesperson for GS in the ISDA taskforce related to the standardization of terms and market practice on trading of ABS CDS; helped the market arrive at a consensus a. Played a key role in the standardization of the confirm for trading CDS on CDO reference obligations b. Following the key role in the publication of the ISDA "pay-as-you-go" CDS confirm last year, invited by ISDA to chair several industry symposia educating industry participants about the product c. Continue to play a significant role in guiding the development of (i) CDS on other related ABS products not covered by the two published forms, and (ii) operational and settlement standards for the industry • Developing standardized index tranches a. Engaged in initial stages of discussion with traders in the ABX consortium on the form and scope of standard ABX tranches 2. [redacted]

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
	[redacted] 3. Structured Investment Vehicle (SIV) a. Developed initial business plan and strategy for GS sponsoring a SIV as a complement to its Synthetics Funding and Principal Investments business b. Currently pursuing an interesting opportunity for GS to invest in the equity of an ABS SIV at an attractive return and achieve certain key funding benefits by establish a strategic relationship with an existing SIV manager and a prospective mezzanine capital investor c. Currently in project development phase 4. Scalable Synthetics Funding Structure a. Developing a term funding structure to provide scalability to the Synthetics Funding and Principal Investments business 5. Financial Guaranty Reinsurance a. Exploring strategic partnerships with primary financial guarantors that would enable GS to go long credit risk in insurance form by deploying reinsurance "sidecar" structures 6. Risk Finance a. Leading the effort in pitching banks and loan origination clients along with teams from Residential Finance, ABS Finance and Americas Financing Group to source and execute synthetic securitizations b. Exploring risk sharing opportunities with mortgage reinsurers with GS acting as principal c. [redacted]
Unfulfilled Accomplishments	1. I made significant contributions to the Structured Products business last year (see details above). 2. Several of the trades/ventures that are being pursued require a significant amount of effort and extensive investment in resources and time (including over multiple business cycles). Some of these trades are expected to close in 2007 (see related discussion point below). 3. Structured Solutions a. Recently established working relationship to pursue illiquid credit investment opportunities with the Structured Solutions team within Structured Credit Trading b. Expect to pursue trades jointly starting late this year
Career Development Plans	1. Enhancement of career trajectory at Goldman Sachs given my performance and my significant contributions to the Structured Products business. a. Desire to take ownership of a business and the chance to grow it in scale and profitability b. Management sponsorship for promotion to Managing Director 2. Continue to provide effective leadership, mentoring and stimulating work experience to my colleagues and my project/deal teams

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
Other Issues	1. Confirm management expectations for my contributions over the next 12 months 2. Confirm buy-in of management given the significant execution risk of each of the trades/business ventures that we are pursuing and the significant amount of effort and extensive investment in resources and time (some possibly over multiple compensation cycles) 3. Discuss concerns about difficulties faced by professionals with strong structuring skills getting visibility and recognition with the GS FICC franchise 4. Alignment of my compensation trajectory with my performance and contribution to the business unit

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VII. Written Comments (solicited and unsolicited)

Feedback

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	- unparalled credit derivative and general finance product knowledge. - has become a tremendous team player in the past 3 months. - one of the division's true innovators. extremely creative and visionary. - did an outstanding job getting the ABX and CMBX products off the ground. viewed as a real leader in product innovation in the business. - outstanding capacity to deal with contracts - a valuable go-to person when a complicated issue arises. great person to bounce an idea off of. - has come up with a number of creative private equity ideas which will likely produce significant revenues for the firm in the future. - has done a much better job of aligning his skill set to his job function in the last 3-6 months. this realignment will likely pay great dividends for the firm and his career.
[redacted]	Extensive	Peer	Rajiv has been the primary driving force behind the creation of profitable new businesses for the firm, including businesses that required building consensus across the street as a whole. His two primary accomplishments this year were the standardization of the ISDA confirm for CDS on several types of ABS, and the creation of the ABX home equity index. Both of these developments brought greater liquidity and volumes to the ABS market; the ABX index also brought much broader sponsorship to the home equity market (even within GS, quite a variety of desks now trade ABX). Although both developments were nominally the products of dealer consortia, Rajiv was the primary driver, pushing and cajoling the dealer group to consensus. Rajiv's strategic vision and intelligence are a great asset to the firm. He is smart enough to understand the value and limitations of models and works well with Strategies.
[redacted]	Extensive	More Junior	One of Rajiv's greatest strength is his ability to synthesize large amounts of information and see the big picture quickly. This enables him to ask questions when discussing trade ideas on the desk or with clients that get to the heart of the issues at hands despite the complexity of many of our products. Rajiv also displays tireless drive and initiative in getting to know every detail of the projects that he works on. I have met "Rajiv fans" outside of work who hail him as the expert of synthetic structured products...little do they know he also manages 5 other projects in completely different industries. As a junior member of the desk, one of the things I appreciate most about Rajiv is that he takes time to encourage those around him to speak up and express their views. Even during late nights at the office, he always has time to talk about whatever you might working on and is genuinely interested in hearing what you have to say.
[redacted]	Extensive	More Senior	Rajiv is one of the most important people in the mortgage franchise today. * His knowledge of specialty finance companies is vastly valuable. * He works like a dog. * He is smart, bordering on brilliant. * He is a great team player. * He delegates when appropriate; he shares information appropriately. * He is sensitive to delicate client situations.

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	Rajiv displays a tremendous amount of energy and commitment to the business. Constantly looking out for new opportunities across markets and once identified, pushes projects through - his efforts on the establishment of a DPC and SIV are perfect examples in that respect. Reliable and gets things done. Energizes and pushes fellow team members, offering help where needed. Has high but reasonable expectations and pushes people hard.
[redacted]	Extensive	Peer	Rajiv has made significant and obvious contributions to the development of the ABS synthetic franchise, by spearheading the Firm's leadership role in the ISDA documentation process and the index construction project. While he does not share many details of his current focus on principal investing/DPC/SIV projects, it is clear he has found commercial opportunities worthy of his significant talents. When he is focused and engaged, Rajiv can produce a tremendous amount of creative and market-leading commercial ideas.
[redacted]	Extensive	More Senior	He is so talented and such a rare combination of raw intellect, no attitude and a contagious love for markets and interesting ideas. He is a pleasure to work with and is very approachable. I bounce the most random challenging things off him and he never always takes the time and gives thoughtful advice. Really a rare commodity and it will be our challenge to keep him motivated and interested for a long time.
[redacted]	Extensive	More Junior	Rajiv is brilliant and quickly recognizes potential issues. He is an excellent teacher, tries to keep people involved in all aspects of transactions, and is quick to offer praise in front of others. When working with Rajiv you become involved with all aspects of a transaction and have a better experience because of this.
[redacted]	Extensive	More Senior	Rajiv can always be counted out to think outside the box and come up with a creative solution to any client problem. He has visibility into many products and is able to utilize his broad based knowledge to apply to a situation at hand. Apart from his technical knowledge, his able to distill down information to impart to a client on terms that speak to them, i.e. translate complex financial engineering into cost of equity / capital that the client thinks about daily. Additionally, Rajiv is one of the hardest working people I have met at the firm, he is seemingly not driven by title / number of direct reports, etc. but rather by the intellectual challenge that new products bring. He is constantly undertaken cross divisional / group projects that generally have large fees associated with them. Rajiv is not only a huge asset to the department, but also to the firm.
[redacted]	Extensive	More Senior	Rajiv has an excellent product understanding, is highly motivated and very reliable. He is a great team player. Him spearheading GS involvement in structured financial operating companies like SIVs and DPSs should hopefully be very beneficial to the firm and I believe he is the perfect person to make it a success. Simply a great person to work with !

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	Rajiv was one of the first people I started working with following my arrival at Goldman Sachs last summer. He immediately helped me get oriented to the firm and integrated with his desk, which I have been supporting in the legal function for the past year. He coordinates very effectively with legal and compliance and is always sensitive to potential issues and concerns in the transactions we work on. He is incredibly detail-oriented, particularly in his review of trade documentation. No matter how busy the business may be, Rajiv always takes the time to answer questions and provide details about the trades we are working on. When we have encountered obstacles to transactions or particular structures (whether for legal or other reasons), Rajiv is always receptive to new ideas and working together to develop solutions which work. He is very respectful of colleagues and makes all the functions which support the business feel valued and part of a team. Rajiv has taken a leading role in developing new products and standard documentation in the synthetic ABS space. It is very rewarding to be involved as a lawyer in these projects (e.g., ISDA working groups, ABX, CMBX) knowing that Rajiv is engaged and actively supportive from the business side. I look forward to continuing to work with Rajiv in support of our structured products businesses.
[redacted]	Extensive	More Junior	I worked with Rajiv on a scalable TRS and SIVs. His level of energy and passion for work is humbling. He always provides junior people with sufficient room to perform their task and takes them seriously.
[redacted]	Extensive	Peer	Rajiv understands his market exceptionally well. He is viewed by customers as a celebrity of the CDS space. His explanations of how various products work are effective, clear, to the point.
[redacted]	Extensive	More Junior	- still the man to ask whenever you need to figure out anything complex - thirst for knowledge is unmatched - his respect from others in the industry in the synthetics market has been vital to the development of our market this year and GS's respect in the market - has a work ethic that almost nobody can match - has become increasingly more pleasurable to interact with in his new role on the trading desk. - loves to be involved in everything
[redacted]	Extensive	Peer	Extremely knowledable in his product areas Very involved in the Industry in devloping and progressing mtg dervative products Teamwork/partnering with other areas within the firm to make us industry leaders in mtg dervative space Rajiv is both internally and externally a leader in this product. His knowledge not only from a trading perspective, but from a documentation perspective make him the go to person for all things mtg cd. From an operations/support perspective Rajiv is great to work with. He is interested in perfecting this product/ market in every aspect including how it is supported. He is approachable and always willing to answer quesitons or help resolve issues.
[redacted]	Extensive	More Junior	Rajiv can be described in one word: excellence. He is not only a master in his own product line but has knowledge in various financial fields. He is a lead in the industry helping direct dealer groups in both the ABS and CMBS markets to a more standardized route. He is also proactive in helping make sure other teams within the firm are comfortable and have a voice in any changes in the industry. This makes Rajiv a key player in the market within trading but also in all technical aspects as well. Rajiv not only is a leader in the product development but he has also a stronghold in various financial networking groups. He has helped several other members of the teams professionally grow serving as an informal mentor.

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	More Senior	Incredible expertise and commercial drive. Development and leadership of index products was outstanding. Has a significant impact across a number of businesses and activities. Makes others better.
[redacted]	Extensive	More Junior	Rajiv's strong technical/project mgmt skills combined with an extraordinary energy level and infectious enthusiasm make for a very potent combination. He has done an extraordinary job in progressing both the SIV and the DPC projects for the firm. He has excellent attention to detail and is very good at catching the key drivers of risk/economics for the firm and negotiating the right deal for the firm on these points. It has been a pleasure to work closely with him this year.
[redacted]	Extensive	Peer	Rajiv is extremely creative and thoughtful about thinking through new business opportunities, and his drive and persistence help push many of these new endeavors down the path to becoming viable p&l generating endeavors.
[redacted]	Extensive	Peer	[redacted]e provides strong and clear direction for the support he needs from Strategies and also appreciates the hurdles involved in satisfying these requests. The milestones he helps establish are reasonable and he is always ready to help in acquiring business data not readily available to us.
[redacted]	Moderate	Peer	Communication - Rajiv communicates clearly and effectively. He is good at reaching out to others around the firm and keeping them in the loop. For instance when working on the new ABX product, he contacted me early on to ensure the appropriate issues were raised and discussed ahead of time. Teamwork - Rajiv has built good relationships outside of his core area. He is collaborative and works well with others to arrive at mutually agreeable outcomes. This has made our ability to resolve client issues much more efficient and effective. Judgment/Problem Solving - Rajiv appropriately escalates issues, and works together to resolve them. He quickly gets to the heart of an issue, and will quickly come up with a proposed solution.
[redacted]	Moderate	Peer	As the manager of CD documentation for NY, I support many desks and many traders. Rajiv is a breath of fresh air. In stark contrast to many of his peers across other non-mortgage desks, Rajiv truly knows his product documentation inside and out. There is no amount of time he won't spend educating people in his area of expertise as he understands the value of having everyone who supports his product well-informed. He is fiercely intelligent and decisive when called upon to escalate issues with the Street; Rajiv can always be counted on to get results. He is a strong asset to Goldman Sachs and a pleasure to work with.
[redacted]	Moderate	Peer	*Rajiv makes himself available to the finance team for calls, meetings or general business discussions - his knowledge of synthetic technology has been value-added with clients on the finance side, especially banks *Rajiv was constructive on the [redacted]purchase and was very helpful in assisting with documentation to ensure that the resulting TRS take-out was properly structuring *Rajiv makes an effort to come to the 27th floor for discussions and meetings
[redacted]	Moderate	Peer	Rajiv has an impressive understanding of the firm and its resources and capabilities. He does a great job of ensuring that a particular project does not stall and/or get hung up in bureaucratic morass– no small task given the complexities of the projects and the number of various participants.

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	Rajiv has been a major contributor to the development of our ABS synthetics business over the last year. He is a driving force behind so much of structure and legal terms that have evolved. His leadership skills internally and among the dealer community, combined with his technical expertise have been a critical factor in GS's leading role in the synthetics business. He is an important resource for sales and clients alike. One client of mine in particular w/ which he really developed a good relationship is [redacted] He cultivated a relationship w/ a senior PM which has helped generate cds business for us. I also think his work in leading the charge for more standardized CDS on CDO docs has been a major breakthrough for the market this year. And finally, Rajiv really thinks big picture when it comes to analyzing an acct and potential trades with them. I hope to involve him w/ ACA for example.
[redacted]	Moderate	Client	Has a strong grasp of issues affecting the products he covers and is adept at coordinating solutions among the various internal functions primarily responsible for those issues. He is sensitive to these issues, appropriately raising and working in partnership with other areas to successfully address them. Able to deal with both the big picture and the details of a matter and communicate them effectively to others. Very effectively assumed a market leadership role in developing new and standardized products (single obligation ABS CDS and ABX CDS).
[redacted]	Moderate	Peer	Rajiv is an extremely hard worker, an innovative thinker, and incredibly thorough and diligent. As he has been focused on several projects this year, Rajiv seems in his element. Driving the ISDA and ABX process last year, it was clear he needed a new focus, a new challenge. Even as Rajiv drives the [redacted] projects, he remains thoughtful about managing the desk risk, managing client relationships, and working with the middle office and MarkIt to streamline CDS trade surveillance. Finally, Rajiv remains incredibly knowledgeable about all aspects of our market from the business, legal, compliance, and operations perspective. He is a resource for the desk.
[redacted]	Moderate	More Junior	My experience with Rajiv revolved around the development of the ABX and CMBX CDS indices. Throughout this project, he demonstrated to me a very deep knowledge of the product (vs. his peers) and his ability to understand the details. He was the clear leader of this effort and the street and, because of this, the design of the products reflects how we would have designed it on our own. He is a good negotiator and displayed real skill in getting people to come around to his view. He had a good understanding when to defer to others (me, legal, ops, etc.) and was very easy to work with. He seems to be extremely commercial, but my view of this is somewhat limited. Very creative and innovative.
[redacted]	Moderate	More Junior	I have been very impressed with Rajiv's technical and client relationship skills. Rajiv is very good at communicating market information and complex trades to clients. Rajiv has a diverse product knowledge, which makes him an invaluable asset to the firm. For example, Rajiv can easily discuss single name ABS CDS, complex ABACUS transactions and new business ventures, [redacted] with clients. Rajiv is also franchise focused, and he's built solid relationships with many of my accounts. Rajiv is very diligent about following up on potential trade opportunities, and he responds quickly to client questions. Rajiv is hard working, diligent and commercially effective.

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	Rajiv is extraordinarily strong technically. He understands the capital markets generally, with specific knowledge in structured finance, trading, syndication, credit, pricing. Rajiv is the go-to guy on many different topics; I rely on him to inform my thinking on a wide range of products, as I know he will give me a thoughtful view on all aspects. Rajiv is not territorial; he tries to be helpful to different areas of the firm. No BS; all substance and tells it like it is.
[redacted]	Moderate	Peer	Extremely knowlegable about the CDS product Very intelligent
[redacted]	Moderate	More Senior	-Exceptional technical skills. -Strong knowledge of diverse businesses and products. -Excellent process guy who is detailed oriented. Works thoroughly through complex legal and regulatory hurdles in driving a deal. -Hard worker who tackles difficult projects with great enthusiasm. -Strong communicator and team player who is able to pull together best of Goldman Sachs quickly.
[redacted]	Moderate	More Junior	Rajiv is very commercial. He understands what motivates clients and is willing to be blunt with clients in pushing the envelope to get to an agreement. This aggressiveness is combined with a very effective communication style that is at once forceful, but very affable. This serves to get clients comfortable quickly, while encouraging them to look at the most appropriate business issues at hand. Rajiv has superior technical skills and wears the mantle of leadership easily. He has been very helpful with my clients, always willing to take time out for office visits or dinner to drive more business. He has always been very forthcoming with me and my clients, which saves time, effort and money. This approach is welcome and I think develops stronger relationships over the long-term. I look forward to working with Rajiv in whatever roles he assumes inthe future.
[redacted]	Moderate	Peer	Very smart, thoughtful and commercial, but also has a solid understanding for legal and reputational risk. Effective negotiator with clients - he knows what to push for commercially and legally, and when we can compromise. Possesses good judgment. Sees the big picture, but also good with the details. Excellent listener and seeks input from other team members when making a decision. Observed these qualities through our work on the formation of a derivatives product company and other trading initiatives.

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	More Senior	- Rajiv is as usual a key figure of our business, having once again pushed the creation of new markets: CDS on CDOs, indices referencing ABS and CMBS credit risk. - Through this exercise Rajiv has pushed the dealer community to adopt standards that would fit Goldman very well given how our trading books have been positioned. - Goldman's perception amongst our client base is as good as it has ever been as Goldman is viewed as a market leader, a key innovator and a driver of new businesses, and Rajiv has contributed a lot to this overall effort. - Rajiv looks at the business on a global basis. He is able to take a big step back, and does not necessarily get stuck at the micro level: the projects he will focus on will get the benefit of Rajiv's global knowledge and understanding of the structured products' markets. - Rajiv communicates extremely frequently, and always makes sure that everybody is aware of trading patterns that he was able to identify or market color that he was able to collect. He shares information with his entire team and is a great team player. - Rajiv also constantly pushes people to perform well, motivates his team and is an excellent team driver. His ability to show enthusiasm, carry a project by himself and pull everyone around him to excel is a rare skill.
[redacted]	Moderate	More Junior	very strong technically, very intelligent, very commercial amd market savvy very valuable as the representative of GS who negotiated the ABS CDS template with ISDA and the dealer community. has a lot of trading experience and insight, which is quite helpful for the salespeople. tremendous knowledge of the markets, strong structuring capabilities. excellent businessman, pleasure to work with.
[redacted]	Limited	Peer	Rajiv has been instrumental in developing the CDS platform for both ABS and CDS and making GS the leader in these products. He is an extremely valuable resource internally and externally for CDS. Rajiv had numerous calls with many of my clients bringing them up to speed to trade, resulting in many first looks on trades.

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VII. Written Comments (solicited and unsolicited) (Continued)

Weakness/Actionable Areas for Development

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	Don't try to make him a flow trader.
[redacted]	Extensive	More Junior	One possible area of development for Rajiv is that sometimes he can be too blunt with his views, which could potentially discourage others from disagreeing with him. Overtime, Rajiv could also learn to become more comfortable with delegating work to others, and checking over work without necessarily having to go through all the details himself.
[redacted]	Extensive	More Senior	Rajiv has come an enormous way in his interpersonal skills in just a few short years. I remember years ago, I client telling me never to put Rajiv on the phone with him again. Rajiv let his mastery of a topic blind him to how he came across in conversation. The one thing I've noticed, is that Rajiv shouldn't volunteer information. I don't know if it is because he is so damned smart, or because he likes to demonstrate mastery over a topic, but sometimes he'll answer questions that were never asked. That marginal information could oftentimes be left unsaid. I can envision situations where that could hurt the firm.
[redacted]	Extensive	Peer	Has strong opinions - not shy to speak up and often leading discussions. If anything, should from time to time try to open up the dialogue more and take into account others viewpoints when visions aren't directly aligned.
[redacted]	Extensive	Peer	Rajiv has on occasion given the perception that he views the documentation/index development projects as a personal accomplishment, rather than a significant team accomplishment of which he is an acknowledged leader. This creates needless friction. Nobody would deny Rajiv credit for his major role in enhancing Goldman's market-leading franchise in ABS synthetics. However leadership is not the same as ownership. The team would benefit from more frequent heading of Rajiv's insights/views on structural developments/market trends, but Rajiv has separated himself a bit from the trading desk (perhaps this is required for client confidentiality reasons). As the various structured products businesses work more closely together across former departments, Rajiv should focus on maintaining more of a "big picture" commercial perspective on how to generate commercial opportunities and idea-sharing which will benefit the wider franchise as well as his specific transaction and/or project. Rajiv also sometimes puts off salespeople/customers with his verbal communication style. Although his technical skill set easily outmatches most other people, sometimes Rajiv makes this a bit too obvious which can get in the way of getting business done.
[redacted]	Extensive	More Senior	Would like to see him in a leadership role more often. I think he is so comfortable being a resident expert that we risk him just being a person that is brought in to projects instead of a person who is driving projects. Terrific capacity for this however so I'm sure he can be a solid leader.
[redacted]	Extensive	More Junior	Rajiv will always listen to other people's ideas and suggestions but it is sometimes difficult to get a complete sentence in when engaged in a discussion. I think brainstorming sessions with him would go better on occasion if he was mindful of this.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	More Senior	he interacts well with clients, but needs to make sure that he does not lose his patience with some of the more difficult one during the structuring process ....
[redacted]	Extensive	Peer	N/A
[redacted]	Extensive	More Junior	Rajiv is a rock star...who am I to judge him?

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VII. Written Comments (solicited and unsolicited) (Continued)

Weakness/Actionable Areas for Development

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	Rajiv can fail to service the customer sometimes. I feel that he often forgets we are not a prop desk and are here to facilitate business with our customer base. Occassionally he can be stubborn and combative when on a calls with customers.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	Peer	The only thing I can say here is that Rajiv is so passionate about and involved with this product that sometimes when answering a question or explaining an issue he forgets that he is the expert and others may need a little more information/training.
[redacted]	Extensive	More Junior	Rajiv is able to understand complex products that very few understand. However, Rajiv sometimes has difficulty explaining this to other groups in ways they may understand. This makes it difficult to help Rajiv translate his ideas to processes that can be handled downstream.
[redacted]	Extensive	More Senior	Sometimes over-thinks his contribution and activities. Periodically shuts down communication. Should continue to develop judgement on good and bad business revenue opportunities.
[redacted]	Extensive	More Junior	While he has been very succesful on dioing a variety of important projects around the firm (SIV, DPC, Williiam Street, ABS single name trading), he has lacked the continuity of focussing on and building a single business. Think to take his career to the next level, he would be wellserved by attaching himself to a single business and growing it.
[redacted]	Extensive	Peer	Rajiv is sometimes too secretive, and doesn't give enough of the picture or context for us to understand what is happening. It makes it very difficult for we strategists to coordinate our efforts to get relevant pricing and risk models into usable shape.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	NA-Unable to Judge.
[redacted]	Moderate	Peer	*Rajiv could be more transparent about the economics of trades executed in conjunction with ABS Finance
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Client	No Comments Noted.
[redacted]	Moderate	Peer	Rajiv sometimes can be too loud and overpowering when dealing with his colleagues. He can come across as condescending at times. Displaying a bit more tact and nuance will go a long way in furthering his career at the Firm. Finally, Rajiv is quite commercial and knows how optimize revenue (especially on bigger, longer term projects) but I would like to hear his thoughts on the desks risk, how to build/enhance our franchise, etc.
[redacted]	Moderate	More Junior	Stylistically, can be a bit heavy handed at times. Some people I have come across respect his knowledge, but feared his response at times. This could cause the better answer to get buried.
[redacted]	Moderate	More Junior	Rajiv should continue to network with the Credit sales teams to assist them in educating their accounts on the development of the synthetic ABS / MTG market. Also, by continuing to build his client relationships, Rajiv will be able to help the sales force identify strategic opportunities with their accounts.

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VII. Written Comments (solicited and unsolicited) (Continued)

Weakness/Actionable Areas for Development

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	Rajiv can be a little short in dealing with certain people (usually people who manage his time poorly or have not done their basic homework before asking him a question). While I can appreciate this, it can somewhat undermine teamwork. Would encourage somewhat more tact, while he should continue to make sure he doesn't get taken advantage of (because he is brilliant, hard-working and does not take credit for nearly as much as he contributes). At the same time, I think Rajiv can be a little passive-aggressive; e.g., take on large projects that he doesn't necessarily believe in (because they are not good for him or not good for GS). I would encourage him to speak up on these items more.
[redacted]	Moderate	Peer	Has a tendency to get caught up in the details and loses focuses on the big picture Can get a bit emotional/worked up in the office and this can affect his performance at work Needs to understand his audience when he is talking about his product - needs to realise that he is smarter than most people on the topic and sometimes needs to bring it down a notch so others can understand him
[redacted]	Moderate	More Senior	-Seems to be spread quite thin at times. Needs to get more leverage from those around and below him. -Appears to need to be where the action is at all times, which creates the risk of bouncing around too much and not focusing enough on any one thing to really own it. -Can overcommunicate at times. Sometimes less is more, particularly in negotiations where information advantage can create bargaining leverage. Prone to giving away valuable information for free, which he will need to address if he wants to become a trader. -Needs to fully understand that at this point in his career he needs to start driving large revenues. His days of being evaluated on raw skills and potential are behind him. He can no longer afford to spend his time on projects that don't come to fruition.
[redacted]	Moderate	More Junior	Since Rajiv has been working on specialized projects over the past few months, I have not had exposure to him. Ideally, he will make himself and his new projects more accessible in the short-term.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Senior	- Might want to be more tolerant from time to time.
[redacted]	Moderate	More Junior	Rajiv is very smart and determined, but quite aggressive in negotiations which can sometimes be suboptimal if the other side is sensitive to the tone.
[redacted]	Limited	Peer	No Comments Noted.

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VII. Written Comments (solicited and unsolicited) (Continued)

Additional Performance Feedback

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	if he can maintain his positive momentum in terms of attitude adjustment, team play, and appropriately deploying his skill-set, the sky is the limit.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	More Senior	Please make sure that even though Rajiv is focusing on special projects, and these might have low visibility outside those people who are in the know, he gets the recognition that he deserves. These projects might take 1-5 years to come to fruition or be harvested. But unless you praise, reward and acknowledge people like Rajiv, it'll be hard to keep the talented people necessary to push these unusual businesses forward.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	Peer	Please see above.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Junior	Rajiv has helped the ABS market grow and develop. He has worked with MarkIt and ISDA taking a lead in almost all the developments in the mortgage synthetic market. He is well recognized and looked to as a innovator/leader within the market due to this leadership.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.

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VII. Written Comments (solicited and unsolicited) (Continued)

Additional Performance Feedback

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Client	No Comments Noted.
[redacted]	Moderate	Peer	Rajiv is an asset to the desk with his hard work and know how. His ability to execute and coordinate complex transactions and projects is second to none.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Senior	-Overall Rajiv is a tremendously talented guy who is quite a pleasure to work with. Rajiv's extremely positive attitude is quite refreshing. He is the kind of person others want to see do well at GS.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Senior	No Comments Noted.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Limited	Peer	No Comments Noted.

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FIXED INCOME, CURRENCY AND COMMODITIES INDIVIDUAL REVIEW BOOK

Reviewee : Kamilla, Rajiv K

Title : VP
Review Criteria : FICC-Vice President
Business Unit : Mortgages
Department : SPG Trading
Region : Americas
Date of Hire : 14-JUL-97
Primary Manager : Swenson, Michael J
Co - Manager 1 : Lehman, David A
Co - Manager 2 : Birnbaum, Josh S
Co - Manager 3 : Sparks, Daniel L
Co - Manager 4 :
Mentor :

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1619

THE PURPOSE OF THIS REVIEW MATERIAL IS FOR PERSONAL DEVELOPMENT. IT IS NOT INTENDED FOR DISCLOSURE OUTSIDE THE FIRM.

Title Description: VP=Vice President/Executive Director; AS=Associate; AN=Analyst; EX=Exempt; NX=Non-Exempt

As you review feedback information, you should be alert to instances in which an individual has received an unusually negative comment or low score on the "Compliance" or "Diversity and Equitable Treatment" questions. Please consider whether the response requires follow-up, including consultation with a more senior manager, a Compliance professional, Employee Relations representative or other individuals.

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Report Configurations

1. Peer Group = all employees who share the same title, across the division, as the reviewee and are rated on the same review criteria.
2. All averages in the report do not include ratings from the self evaluation.

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VI. Self Evaluation

Review Criteria	Self Rating
Technical Skills	5.00
Communication Skills	4.00
Judgment/Problem Solving	5.00
Teamwork	5.00
People Management	4.00
Compliance	5.00
Diversity and Equitable Treatment	4.00
Franchise Contribution	5.00
Leadership	5.00
Overall Commercial Effectiveness	5.00
Overall Professional Performance	5.00
Cumulative Average	4.73

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
Overall Performance	During the past 12 months, I have made significant contributions to Goldman's structured products franchise. 1. Structured Products Synthetics Continue to play a significant role in establishing GS as the dominant and pre-eminent structured products synthetics franchise. Goldman has a hefty market share in the structured products synthetics market estimated currently to be at well in excess of $1trillion of notional. The business is expected to generate significant revenue for the structured products trading desk in FY 2007. In addition, GS continues to be viewed as the primary thought leader in the structured products synthetics market, not only by clients and but also by its competitors. Goldman has recently been recognized as the #1 franchise in ABS Synthetics by Risk magazine survey. • Played a prominent role in the development and launch of the TABX indices in February 2007 a. Represented GS in the inter-dealer consortium b. Played a leadership role within the working group - in structuring the indices, in developing consensus amongst trading desk representatives in the consortium, quotation convention, naming convention, etc. c. Relied on as the primary product protagonist by the other trading partners in the dealer consortium and Markit, the index administrator, based on breadth of structured finance and credit derivatives experience and knowledge d. Coordinated the global marketing and successful launch of the TABX indices on behalf of the dealer consortium • created and presented the TABX launch webcast along with Markit and trading desk counterparts from other dealer firms e. Coordinated the full gamut of GS response to the launch • ensuring that Trading, Strategy, Sales, Operations, Legal &Technology resources were adequately prepared and geared in preparation of the launch; GS executed more TABX trades than any other Street firm on the launch date • Continued to enhance our trading dominance in single name ABS synthetics and ABX indices a. Primary thought leader and creator of the ABX indices in Jan 2005 b. Continue to lead the ABX dealer consortium on all product and trading revision discussions c. Instrumental in GS being identified as the thought leader and product champion • Continued to spearhead the build-out of Operations, Strategy and Technology functionality to support our business both within GS and also at the industry level a. Created product vision for RCD (Reference Cashflow Database) for ABS CDS and its subsequent launch by Markit • a third-party platform providing for standardized settlement amounts of loss and recovery payments thereby reducing disputes and breaks b. Guided the ISDA process for all ABS CDS being settled on DTCC • Primary spokesperson for GS in the ISDA taskforce related to the standardization of terms and market practice on trading of ABS CDS a. Continue to play a prominent and primary role in guiding the development of ABS CDS • product definition, trading guidance, amd operational and settlement standards for the industry • Represent GS in presenting ABS synthetics - product developments and trading in industry panels and conferences 2. Property Index Derivatives Trading business

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
	▯ Launched the US Property Index Trading business in Spring 2007 a. Executed several initial derivatives trades in US residential and commercial property derivatives b. Involved in product marketing with clients and sales people ▯ Lead a consortium of Wall street firms in creating standardized terms for the trading of property index derivatives a. Publication of 2007 ISDA Property Index Derivatives Definitions in May 2007 3. Initiation of Australian mortgage effort ▯ In the process of developing working joint venture between the Mortgages and GSJBWere to exploit mortgage related opportunities in Australia/New Zealand a. Focus to span trading, principal investment, agent banking and platform building [redacted] 5. Initiation of an SIV business a. In process of seeking mandates for GS to partner with a select group of asset managers to establish SIVs b. GS will structure SIV; place capital notes through its structured products syndicate and be the lead ABCP agent c. GS revenue potential $50mm+ [redacted]

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VI. Self Evaluation (Continued)

Self Evaluation

Review Criteria	Comments
	[redacted] 7. Risk Finance a. Assisting AFG, ABS Finance and Residential Finance bankers in pitching synthetic securitizations to banks and finance companies b. Exploring risk sharing opportunities with mortgage reinsurers with GS acting as principal
Unfulfilled Accomplishments	1. I have been quite satisfied with my contributions to the Structured Products business over the past 12 months (see details above). 2. Several of the trades/ventures that are being pursued require a significant amount of effort and extensive investment in resources and time (including over multiple business cycles). Some of these trades are expected to close in late 2007 or in 2008 (see related discussion point below). 3. In addition, some of my focus has been in initiation of trading businesses and/or building new business platforms - which are expected to result in revenue opportunities for Structured Products Trading and/or the broader Mortgages business over several years thereafter
Career Development Plans	1. Enhancement of career trajectory at Goldman Sachs given my performance and my significant contributions to the Structured Products Trading business. a. Desire to take ownership of a business and the chance to grow it in scale and profitability b. Discuss interest in heading a formal New Products & Illiquids Trading/Business desk within Mortgages c. Promotion to Managing Director in 2007 2. Continue to provide effective leadership, mentoring and stimulating work experience to my colleagues and my project/deal teams
Other Issues	1. Confirm management expectations for my contributions over the next 12 months 2. Confirm buy-in of management given the significant execution risk of each of the trades/business ventures that we are pursuing and the significant amount of effort and extensive investment in resources and time (some possibly over multiple annual cycles) 3. Discuss parity of management expectations and their assessment of my contributions and performance vis-à-vis self assessment of my performance and contributions 4. Alignment of my compensation trajectory with my performance and contribution to the business unit

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VII. Written Comments (solicited and unsolicited)

Feedback

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	More Junior	1. deserves enormous credit for building our highly profitable structured products business at GS. he is the public face of these businesses and reflects very well on the firm. 2. he has a diverse portfolio of contributions, some of which have or will pay off big for the firm. one of the few people capable of generating enormous revenues for the firm with new initiatives. 3. extremely creative and hard-working 4. very rangey, a key go-to resource. 4. has become extremely team-oriented, a real pleasure to work with. 5. displays very sound judgement, very efficient
[redacted]	Extensive	More Senior	Creativity - one of the most innovative problem solvers I have woked with (supported by a lot of substance as well) Technical acumen - world class Rigor - prosecutes situations with unparalled tenacity and will drill as deep as necessary to get the answers/solutions
[redacted]	Extensive	Peer	Very good communicator Excellent technical skills Good focus on innovation Excellent approach to seeking out opportunities with GS clients Good team player
[redacted]	Extensive	More Junior	Rajiv is someone who I very much respect and also enjoy working with, because of his sound judgment and commercial effectiveness [redacted] In addition to his ability to see the big picture, one of Rajiv's greatest strengths is the meticulous and comprehensive approach he uses to analyze every potential investment. He has high expectations for himself and others, thoroughly explores every avenue, yet constantly thinks about what angles he might not yet have thought of. This comprehensive approach has helped us to make money by making sure we put money to work in ideas in which we have the highest conviction and avoid losing money in dicier trades. Because he views are always backed up with thoughtful analysis, Rajiv is always able to have great conviction in his ideas, and he is not afraid to express an out of consensus opinion to those both more senior or junior to him. Rajiv is also extremely proactive about keeping everyone on the desk informed real time with relevant market and trading color, something that is invaluable during this period of market volatility.
[redacted]	Extensive	Peer	Rajiv straddles two worlds because though he is in the securities division, he has spent over a year working on the [redacted] which is more of an investment banking timeframe. He has manuevered well through the rating agency hurdles and our Partner's political and business delays. He has demonstrated how effective he is at handling difficult situations and synthesizing solutions to heretofore unseen issues. His attention to detail helps to keep the project on track and enables all the teammates an opportunity to add to the project.
[redacted]	Extensive	Peer	Rajiv continues to show a great amount of energy and commitment to the business. His focus on new opportunities across markets combined with a very solid background experience and structuring skills make him an excellent resource to the firm. Takes responsibility for projects, reliable and gets things done. His continued work on [redacted] and focus on the [redacted] business are perfect examples in this respect.

VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	Rajiv has leveraged his relationships and strong profile within the firm to create a unique role for himself. Whether you call it new products or proprietary investments, it is pretty clear that Rajiv is an obvious candidate whenever building complex transactions or products from scratch is called for. He knows how to maximize his leverage in the GS organization, bringing together various groups/committees and working with his small time to crank out a lot of interesting business in a compressed time frame.
[redacted]	Extensive	Peer	-excellent resource, especially concerning new industry developments -tries to keep team involved with all aspects of transactions and projects -industry leader in development of new products
[redacted]	Extensive	More Senior	(1) Commercial - Rajiv is consistently seeking to build out the mortgage franchise, whether internationally, synthetically, through principal investments or through agented transactions (2) Can do attitude - Rajiv has a can do attitude with regard to any task that is put in front him; namely, whether looking at second loss risk for a mortgage insurance provider, an investment in a company that takes on HPA risk internationally, delivering information to the SEC about a potential issue in the synethtics market (3) Effective mentor - Rajiv is an effecitve mentor in a number of ways: (a) he builds up junior people by giving them the building blocks and leverages them but always provides an appropriate back stop, (b) he is quick to identify strong technical talent and (c) he is constantly looking to move strong junior people into more commercial seats (4) Culture carrier - Rajiv is the consummate culture carrier: (a) he thinks about the franchise, (b) trains and supports junior people, (c) develops strong relationships and is trusted by clients, (d) is a resource for others at the firm and outside the firm
[redacted]	Extensive	Peer	I have spent a good amount of time w/ Rajiv lately and enjoy working with him. Rajiv displays excellent judgment in dealing with internal and external issues and steps up to take ownership of a task. On Project BigCo, Rajiv provided strong trading leadership in dealing with operational, booking and risk mgmt issues. He is very effective at navigating through the trading side of the firm and offers helpful advice in many situations. Rajiv is a valuable member to any team he is on.
[redacted]	Extensive	More Senior	Excellent at delegating/managing the various projects he is involved with Unparalleled breadth of knowledge and work ethic Creative across markets - has done an awesome job spearheading our DPC and SIV effort Has a tremendous network across the Firm Everybody loves him and nobody can anyone keep up with him ??

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	More Senior	Had the opportunity to work closely with Rajiv as part of the project Rightway team. One of the strongest VPIs I have ever worked with at the Firm. Commands the respect of the team (both junior and senior members) well beyond his years. Acts like and carryIs himself like a MD. All of the following where clearly demonstrated as key strengths over the entire transaction process: I Very strong technical skills I Great work ethic I Very commercial I Great communicator - very thoughtful and concise / ability to make clear points; can explain complicated things simply I Very user friendly.
[redacted]	Extensive	Peer	Rajiv has done a tremendous job of spearheading new products, encouraging market standardization and pursuing private-side deals in the securitized product space. To enumerate: * His leadership in creating ABX, CMBX and TABX last year brought the sort of market transparency that Goldman believed would be helpful to the firm and possibly harmful to some other established ABS players. When subprime melted down, the transparency indeed did help the firm and did hurt some other firms. It also made the entire meltdown more transparent for the investment world, drawing in players from all sectors and creating an unprecedented media frenzy. ABX also made it clearer where ABS synthetic and cash trades should be marked, which given the size of our books was helpful in its own right. * Similar leadership in the property derivatives space led to the creation of global ISDA standards for property index transactions. Here the results have been commercially less satisfying, owing mainly to the current reliance of the business on a number of small vendors in the property index space. We are nonetheless optimistic that the business will take off in the coming 18 months and that the investment of time will pay off. * Rajiv's work on equity-linked product showed an attention to legal and transactional detail that I think is critical for serious structured products players. That is in addition to his work on the [redacted] and on the ill-fated [redacted] and any number of other projects I don't know about. He is also very entertaining and fun to work with, and a natural as a mentor.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	Really smart guy and broad thinker, with extensive expertise across the ABS space. Over the years have worked with him on a variety of projects in different areas and have always found him to be thoughtful and hard-working. In the last year, have worked closely with him on the [redacted] which he has been an effective negotiator, with good judgment and focus on advancing the firm's interests. A real team player and a pleasure to work with, with an excellent sense of humor.

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	Peer	Product/Business Knowledge Teamwork I have worked closely with Rajiv for 5 years, first on the CDO new issue/structuring side and then when he moved over to begin Mortgage Derivative business. Kamilla is arguably one of the most knowledgeable and well versed people at the firm on Mortgage Derivs - he knows the contracts and economics better than the flow traders who are trading it. He is the "go to person" when any issues arise in this space and is often called upon in Industry forums to speak and provide guidance. Over the past 2 years, this business as seen explosive growth and Rajiv has been at the center of many new products offering in this space . One of the things that further makes Rajiv stand out is his awareness of all the infrastructure and downstream support that is required for this business. To that end , he has proven to be a great partner - reaching out where appropriate and proactivley consulting with others to make sure that we are not only in the loop , but that we have the most effective tools to manage the business. He is fiercely intelligent, proactive and a huge contributor to this business.
[redacted]	Extensive	More Junior	Rajiv is pivotal in creating new business in the structured products space. This has been something Rajiv has focused and excelled in continually. He is instrumental in driving the growth and start up of new businesses. His knowledge is ever expanding ranging from knowledge about products and processes. I have worked with Rajiv in various capacities from the perspective of the synthetic market as well as international projects. In both situations, Rajiv has been a key driver of ensuring that each and every aspect of the project is thoroughly looked into and explored. Rajiv not only helps the business grow in terms of products but he also is concerned about the people he interacts with. He has acted as a mentor to many and has been a guide to various people throughout their careers. He takes interest in other's growth and has become someone others have come to look towards for guidance in their careers.
[redacted]	Extensive	More Junior	Rajiv has excellent structuring skills and a very broad knowledge base across legal, accounting , rating agency and market instruments. He is a very energetic particpant in group transactions and is very diligent on following up on trades. He is also very thoughtful on issues and provides very good analysis with his answers.
[redacted]	Extensive	More Senior	- team player - outstanding technical skills - extremely creative - market leader in the derivative space
[redacted]	Extensive	More Junior	Very knowledgeable of the business, have never heard a question he does not know the answer to Aggressive at pushing for the interests of the firm, never listens to the word "no" if he thinks there is a viable solution Has developed a very deep network at GS, knows people around the firm in many different groups Very quick learner

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	Communication - reaches out to various groups when necessary, pulls in the right people to make decisions, communicates the issues and solutions concisely Problem Solving - thinks of creative solutions, gets the necessary information from around the firm to help solve problems Rajiv has developed good relationships with Credit, which has allowed us to work together through a difficult market environment and find the right balance between protecting the firm and doing business.
[redacted]	Moderate	More Junior	My staff supports many trading desks across Credit and Equity Derivatives - Rajiv is a true stand-out in so many ways. He is fiercely intelligent, always accessible and a thorough pleasure to interact with. He appreciates the risk-mitigation role of Operations and builds relationships. Beyond these strengths, the contribution Rajiv makes to the Dealer community is immeasurable. There isn't an ISDA Conference I attend where people don't know him and tell me how much they respect him. People look to him Streetwide for answers. I feel extremely fortunate to have him here at GS and to work with him personally.
[redacted]	Moderate	Peer	Extremely knowledgable from the most general to the most specific. If someone is looking for an answer to something, chances are that Rajiv will know it...and he will know even more about it than you needed to know Rajiv has the rare ability to synthesize complicated facts and explain them in a clear, concise manner Outstanding with clients - he impresses them with his deep thorough understanding...and he gets them to like and trust him. A rare combination that is invaluable
[redacted]	Moderate	Peer	Franchise contribution/Technical Innovation - Rajiv is definitely a leader in new idea and product generation. He's able to tackle the most complex of products and is effective at looking into innovative ways/strategies for the clients and the firm to enter into profitable trades. - Rajiv is also very responsive to sales people when they have client requests/want to schedule calls,etc. He always makes the time. As an example, we had a long call on property derivatives with one of my clients, and another about SIV structures w/ one of my hedge funds. Both clients found the calls very helpful. - Rajiv has also been good about spotting important market news/articles (as an example, re: the monolines and my client ACA), summarizing them, and then sharing the information.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	Peer	Rajiv is working closely with one of my clients to set up a SIV. He has spent many hours instructing and educating TCW on the process. He is an expert on the structure and my client is very happy to be working with him. When synthetic trading was in its infancy, Rajiv was the expert for all our clients.
[redacted]	Moderate	Peer	Rajiv is very technical and analytical. He has a very good grasp on how structured finance deals work. Rajiv has also been a valuable resource on the trading desk, as part of the [redacted] Rajiv provided good contacts within the firm as it related to operational challenges. Rajiv also served as good conduit of information to the "26th floor". Rajiv was the ultimate team player when making sure the entire team received exposure for the work they were doing on the transaction. I always enjoy working with Rajiv because he communicates very directly and concisely.
[redacted]	Moderate	More Senior	No Comments Noted.

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VII. Written Comments (solicited and unsolicited) (Continued)

Top Strengths

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	-extremely user friendly - sees big picture -franchise oriented - wants to get good profitable trades done - makes them happen -great team player I was really a pleasure to work with him on the [redacted] He was committed to making it all happen, worked hard and was extremely respectful of our relationship with the client. I real pleasure to work with!
[redacted]	Moderate	More Senior	Rajiv is extremely thoughtful and intelligent in approaching situations, but yet very approachable and willing to do whatever it takes. He does not take credit for enough of what he does, but is integral to both the trading and finance businesses within Mortgages. Rajiv adds tremendous value, in that he can be thrown into virtually any complex situation and figure it out. Rajiv exhibits good teamwork, and is willing to explain things to everyone. He is doing a better job communicating with others about what he is doing and what is going on in the market that is relevant to our business. In the past, Rajiv was at times overly negative or somewhat terse in dealing with others. I believe he has matured in that respect, and has developed a more positive demeanor, and acts as an owner of the business and a leader. Rajiv should be promoted to MD.
[redacted]	Moderate	More Junior	The following are the most effective aspects of Rajiv's performance: 1) Very effective problem solver - Rajiv played a key role during the [redacted] helping the team structure the transaction and negotiate terms and conditions. His insights into structuring this very complex and unique transaction were invaluable to the team. 2) Steps up to provide leadership in difficult situations - At several difficult times during the [redacted] Rajiv stepped up to provide leadership. In particular, when the deal was about to fall apart because the team could not develop a consensus view internally, Rajiv developed an alternative economic proposal that addressed the needs of the client while satisfying GS' risk parameters. 3) Encourages junior team members to get involved and make a contribution
[redacted]	Moderate	More Senior	N/A

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VII. Written Comments (solicited and unsolicited) (Continued)

Actionable Areas for Development

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	More Senior	Brevity - clear communicator, but could be more economical with time Leadership - not a weakness per se, but would like to see Rajiv take on more responsibility for people and businesses as opposed to just transactions/projects.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Junior	One area which Rajiv could work on is providing more qualitative guidance and feedback to those who work with him. In addition to analytical instruction, it would be valuable for those who work with him to hear his views on more high level yet significant issues such as increasing one's commercial effectiveness as well as how to think about approaching new sectors and trade ideas.
[redacted]	Extensive	Peer	I'd love to see Rajiv leverage himself more by getting more from his subordinates. Every hour spent mentoring will pay off by that much and more by the multiplier effect of developing the next generation so that they can contribute.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	A number of Rajiv's successes this past year have been obvious -- eg, ABX/TABX launch. A number of them are still in process but have a lot of potential. At this point Rajiv is juggling a lot of projects in various stages of completion. While not a weakness, to grow Rajiv needs to get projects off the assembly line so he can refocus/regroup as he seems stretched a bit thin.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Senior	(1) Stretched very thin - Rajiv gives every opportunity his all and never says no to anything; should become better at prioritizing among initiatives and leveraging other areas of the firm to do the heavy lifting (2) Communication - Rajiv is generally smarter than his audience; he should make more of an effort to deliver information so that his audience can better understand his message; also, should better gage the level of detail required in various situations, tends to be over thorough
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Senior	Communication could be a little more tailored to the specific audience - sometimes his hard charging style can put people off Sometimes needs to understand that others are not as quick/smart as he is and slow down a bit - seems to prefer one speed
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	He has a significant amount of knowledge and expertise but often has difficulty synthesizing and conveying that in a clear and concise manner.
[redacted]	Extensive	Peer	No Comments Noted.

VII. Written Comments (solicited and unsolicited) (Continued)

Actionable Areas for Development

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	More Junior	Rajiv embodies the qualities of a GS employee. He works incredibly hard and cares about the people, the work and new opportunities to help the growth of the company and business. There is not any area in my opinion that Rajiv needs to develop as he mastered most if not all of his skills and expertise. He has become a leader in my opinion in the structured products group.
[redacted]	Extensive	More Junior	He tends to get carried away with ideas that dont have traction and could work on the skill of marking to market trades faster.
[redacted]	Extensive	More Senior	- needs to leverage himself better
[redacted]	Extensive	More Junior	Sometimes quick to jump to conclusions prior to hearing all views on a given subject
[redacted]	Moderate	Peer	No comments.
[redacted]	Moderate	More Junior	NA
[redacted]	Moderate	Peer	Hard to get a hold of him because he is pulled off on so many projects
[redacted]	Moderate	Peer	When on the phone w/ clients, just work on speaking a little more consisely
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	Peer	Rajiv is very comfortable explaining the difficult concepts to experts in the same arena, he must be able to teach the basics of his market as well.
[redacted]	Moderate	Peer	Everything seems to be urgent with Rajiv and this may just be his level of intensity; however, everything can not have the same level of urgency. Rajiv should temper his level of excitement for items less urgent.
[redacted]	Moderate	More Senior	No Comments Noted.
[redacted]	Moderate	Peer	-keep up the enthusiasm and good work
[redacted]	Moderate	More Senior	No Comments Noted.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	More Senior	N/A

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VII. Written Comments (solicited and unsolicited) (Continued)

Additional Performance Feedback

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Extensive	More Junior	A key aspect of GS' franchise in structured products. About as close to a irreplaceable talent as it comes. Has demonstrated strong year over year growth in leadership.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	Peer	There have been several bumps along the road to the DPC, and Rajiv's ability to manuever through them should be noted. He deftly handled our partners who are providing capital and management, and the ratings agencies. He kept this project on track.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Senior	Awesome performer, key asset to the GS team
[redacted]	Extensive	More Senior	Rajiv is a great team player who clearly adds value to any transaction. Given his level, over time it would great to see him have a more tangible role / set of responsibilities / platform to develop and to be able to see him develop people management skills. That said, would be great to have him on any team / involve in any transaction we work on in any role in the future.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	Peer	No Comments Noted.
[redacted]	Extensive	More Junior	Rajiv has helped the launch of TABX and property derivatives and has been a key person defining how soft credit events should be handled when the mortgage synthetic market experienced its first events.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Extensive	More Senior	No Comments Noted.
[redacted]	Extensive	More Junior	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Junior	NA
[redacted]	Moderate	Peer	No Comments Noted.

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VII. Written Comments (solicited and unsolicited) (Continued)

Additional Performance Feedback

Reviewer	Level of Interaction	Reviewer's Relationship to Reviewee	Comments
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Senior	No Comments Noted.
[redacted]	Moderate	Peer	No Comments Noted.
[redacted]	Moderate	More Senior	No Comments Noted.
[redacted]	Moderate	More Junior	No Comments Noted.
[redacted]	Moderate	More Senior	N/A

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From: Tourre, Fabrice
Sent: Wednesday, February 21, 2007 10:14 PM
To: Lehman, David A.
Subject: RE: ACA/Paulson post

My idea to broker the short. Paulson's idea to work with a manager. My idea to discuss this with ACA who could do supersenior at the same time...

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, February 21, 2007 9:50 PM
To: Tourre, Fabrice
Subject: Re: ACA/Paulson post

Ok - but how long have we been working on this and whose idea was it? Need to refresh my memory

Walk josh through the $, if that makes sense let's go

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Tourre, Fabrice
To: Lehman, David A.
Sent: Wed Feb 21 21:47:39 2007
Subject: RE: ACA/Paulson post

Sorry, just saw your email. I think people will be on board with this - Egol, Ostrem, Rosi and even Sweny sound ok with it, it is really Josh I need to walk carefully through my thinking. Sparks is really relying on us at this point. He is mostly focused on covering our single-names/idyosyncratic short trades to get better observability.

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, February 21, 2007 10:50 AM
To: Tourre, Fabrice
Subject: Re: ACA/Paulson post

Put the #s in front of josh and/or swenny (live) as a gut check and walk them through it.

As u know, I am for doing this deal for them/with them, let's just make sure we are charging enough for it given our axe as principal in this type of risk

Also post sparks live (I'm assuming he is sitting next to you)

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Tourre, Fabrice
To: Lehman, David A.
Sent: Wed Feb 21 10:00:58 2007
Subject: RE: ACA/Paulson post

14mm before. We are asking for higher min fee and wider strikes

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, February 21, 2007 10:00 AM
To: Tourre, Fabrice; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.; Birnbaum, Josh
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Subject: Re: ACA/Paulson post

The 19mm compares to what # before ? (assuming equal not'l sold)

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Tourre, Fabrice
To: Lehman, David A.; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.; Birnbaum, Josh
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Sent: Tue Feb 20 16:29:16 2007
Subject: RE: ACA/Paulson post

OK, based on the price thoughts circulated in the previous email for the ABACUS 2007-AC1 transaction, I would like to update the Paulson engagement letter to reflect the following:

-- Up to $1,300mm of supersenior @ a strike spread of 60bps. Distribution fee of 0.25% + 1/2 the upside vs. the strike spread
-- Up to $240mm of Aaa/AAA @ an all-in strike spread (including portfolio advisory fees) of 125bps. Distribution fee of 1.25% + 1/2 the upside vs. the strike spread
-- Up to $100mm of Aa2/AA @ an all-in strike spread (including portfolio advisory fees) of

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200bps. Distribution fee of 2.50% + 1/2 the upside vs. the strike spread
-- Up to $80mm of Aa3/AA- @ an all-in strike spread (including portfolio advisory fees) of 250bps. Distribution fee of 3.00% + 1/2 the upside vs. the strike spread
-- Up to $100mm of A2/A @ an all-in strike spread (including portfolio advisory fees) of 500bps. Distribution fee of 4.00% + 1/2 the upside vs. the strike spread

My assumption is that we can execute at the levels below, and P&L in that case would be up to $19mm for this trade:

-- supersenior @ 50bps
-- Aaa/AAA @ L+75bps (+25bps of portfolio advisory fees) = 100bps
-- Aa2/AA @ L+90bps (+50bps of portfolio advisory fees) = 140bps
-- Aa3/AA- @ L+115bps (+50bps of portfolio advisory fees) = 165bps
-- A2/A @ L+300bps (+100bps of portfolio advisory fees) = 400bps

Please let me know if you have comments on this, thanks.

From: Tourre, Fabrice
Sent: Thursday, January 18, 2007 9:59 AM
To: Lehman, David A.; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Subject: ACA/Paulson post

ACA is going to be ok acting as portfolio selection agent for Paulson, in exchange for a portfolio advisory fee of at least $1mm per year. We will have to distribute supersenior through single-A rated notes off a static portfolio of mezzanine subprime RMBS obligations selected by ACA.

The transaction will not be broadly marketed until February 23 since ACA is already locked with another investment bank until that date. If everyone agrees, the idea is to quietly show this trade to a select number of accounts, and broadly announce the transaction on Feb 23 if it fits with the overall CDO pipeline and if we feel ok with our existing Baa2 RMBS risk position.

We are trying to get Paulson to give us an order on the following tranches:

-- Up to $1,300mm of supersenior @ a strike spread of 34bps. Distribution fee of 0.20% + 1/2 the upside vs. the strike spread
-- Up to $240mm of Aaa/AAA @ an all-in strike spread (including portfolio advisory fees) of 100bps. Distribution fee of 1.00% + 1/2 the upside vs. the strike spread
-- Up to $100mm of Aa2/AA @ an all-in strike spread (including portfolio advisory fees) of 150bps. Distribution fee of 2.00% + 1/2 the upside vs. the strike spread
-- Up to $80mm of Aa3/AA- @ an all-in strike spread (including portfolio advisory fees) of 175bps. Distribution fee of 2.50% + 1/2 the upside vs. the strike spread
-- Up to $100mm of A2/A @ an all-in strike spread (including portfolio advisory fees) of 425bps. Distribution fee of 3.00% + 1/2 the upside vs. the strike spread

My assumption is that we can execute at the levels below, and P&L in that case would be up to $15mm for this trade ($7.5mm for a $1bn trade):

-- supersenior @ 25bps
-- Aaa/AAA @ L+60bps (+20bps of portfolio advisory fees) = 85bps
-- Aa2/AA @ L+80bps (+50bps of portfolio advisory fees) = 130bps
-- Aa3/AA- @ L+95bps (+50bps of portfolio advisory fees) = 145bps
-- A2/A @ L+275bps (+100bps of portfolio advisory fees) = 375bps

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From: Swenson, Michael
Sent: Friday, June 29, 2007 3:56 PM
To: Lehman, David A.
Subject: RE: ABS Update

No he is in spain - don't worry I am fine 49-00 bid on the screens for 07-1 bbb- right now

Please relax and enjoy your day off

-----Original Message-----
From: Lehman, David A.
Sent: Friday, June 29, 2007 3:31 PM
To: Swenson, Michael
Subject: Re: ABS Update

Is josh in?

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Fri Jun 29 15:26:46 2007
Subject: RE: ABS Update

I think we will see 3 to 5 guys go under next week

-----Original Message-----
From: Lehman, David A.
Sent: Friday, June 29, 2007 3:06 PM
To: Swenson, Michael
Subject: Re: ABS Update

Don't worry "bout seating

we r in the middle of a mkt meltdown

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: [redacted]
e-mail: david.lehman@gs.com

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----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Fri Jun 29 15:00:59 2007
Subject: RE: ABS Update

Lilly sent out the seating chart caused a major problem here - I am running p and l on a napkin and I have ben wigging out - ugghhh

-----Original Message-----
From: Lehman, David A.
Sent: Friday, June 29, 2007 2:17 PM
To: Swenson, Michael
Subject: Re: ABS Update

U shd let them know we have added 250mm of A/BBB/BBB- CMBS CDS risk as the mkt has widened today. Across cmbs and correlation.

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Fri Jun 29 13:59:57 2007
Subject: RE: ABS Update

Yes - it is probably more but I had to haircut egol

Cmbs is up 2 bucks

-----Original Message-----
From: Lehman, David A.
Sent: Friday, June 29, 2007 1:56 PM
To: Swenson, Michael
Subject: Re: ABS Update

U incl cmbs?

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

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----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald; Montag, Tom; Sparks, Daniel L; Brafman, Lester R
Cc: Lehman, David A.; Birnbaum, Josh
Sent: Fri Jun 29 13:54:24 2007
Subject: RE: ABS Update

+10 - 15

-----Original Message-----
From: Mullen, Donald
Sent: Friday, June 29, 2007 1:45 PM
To: Swenson, Michael; Montag, Tom; Sparks, Daniel L; Brafman, Lester R
Cc: Lehman, David A.; Birnbaum, Josh
Subject: Re: ABS Update

Pnl est?

----- Original Message -----
From: Swenson, Michael
To: Swenson, Michael; Mullen, Donald; Montag, Tom; Sparks, Daniel L; Brafman, Lester R
Cc: Lehman, David A.; Birnbaum, Josh
Sent: Fri Jun 29 13:36:48 2007
Subject: RE: ABS Update

06-1 ABX (2005 vintage) down the most today (2+ points). The WSJ article really has the account base very concerned on the vintage.

06-2 and 07-1 Single-As are down 2pts on the day (80bps) - UBS on the dealer side has been pounding on it all day. Highbridge and Polygon have been active as well.

There is absolutely no support at the lower levels from the street.

CDOs are wider by 50bp or more.

From: Swenson, Michael
Sent: Friday, June 29, 2007 9:22 AM
To: Mullen, Donald; Montag, Tom; Sparks, Daniel L; Brafman, Lester R
Cc: Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Subject: ABS Update

ABX - 2005 vintage (06-1) under pressure (down 1/2 point) due to today's article in the wsj that attributed the poor performance of Cambridge's overweight of the 2005 vintage collateral in the fund it has decided to close down.

Single-Names - continued short covering 10 CDS BWICs totaling $675mm. QVT who has been very big from the short side in single names for 18 months now has asked to work out of comp in helping them cover some of the Tier 4 shorts that they had put on. This will take a number of days to get the liquidity but is a very good trading opportunity for us.

CDOs - 2 small BWICs (Ischus, Investec) from mangers who are well along in ramping a CDO warehouse. Names are seasoned and very clean. Investors are in a holding pattern for the next few days as margin calls and month-end marks are being digested.

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85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com

Goldman
Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

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NEW PRODUCT MEMORANDUM

To:	Federation New Products Committee - Americas
From:	John Bimbaum, Structured Products Group Trading Rajiv Kamilla, Structured Products Group Trading Jeremy Primer, FICC Strategy - Mortgages
Date:	December 18, 2006
Subject:	Launch of US Property Derivatives Trading
Partner Sponsor:	Dan Sparks, Global Structured Products and Mortgages

Executive Summary

Description of Business / Overview: While a US property derivative market has been considered for some time, a number of trends have now converged to make such a market viable on a large scale:

- There has been major recent growth of global interest in alternative asset classes that are decorrelated to G-7 equities and fixed income. Among these have been commodities, physical real estate, hedge funds, and private equity. Of these, real estate is the largest asset class without a derivatives market directly linked to it.
- The major residential and commercial property indices now have the availability and sponsorship required of derivative underliers. Earlier this year, some of the Fiserv/Case-Shiller indices were branded by Standard & Poor's with the intent of supporting index trading activity. This gave the Case-Shiller indices additional credibility and visibility. It is the residential index family we prefer for trading, though the indices published by OFHEO (Office of Federal Housing Enterprise Oversight) provide an alternative. On the commercial side, the NCREIF index is the major benchmark commercial index for US money managers, but it has been unavailable for broad-based trading over the past two years owing to an exclusive license agreement between Credit Suisse and NCREIF. Credit Suisse is now waiving their exclusive in an effort to open up the market.
- The recent focus on US residential real estate prices has raised the level of interest in hedging and expressing trading views in that market.

In 2006, the US structured products business at Goldman Sachs and at other dealers has traded significant notional in derivatives referenced to RMBS and CMBS, namely ABS credit-default swaps (CDS) and the related indices ABX.HE and CMBX. There have been several drivers of growth in this space, with CDOs on the long side, and macro hedge funds largely on the short side, buying protection against a downturn in underlying property values. The growth in the business is partly a reflection of investors looking to express views on property values using derivatives.

In anticipation of the launch of this market, a multi-dealer working group (including GS) is, in conjunction with ISDA, drafting industry-standard definitions (Property Index Derivatives Definitions of 2007) and standardized confirmation templates for this business.

In preparation for this launch, we have built an index database framework, tradables, marking tools, and risk management tools for property index derivatives. The tradable for forward contracts is complete at this time, and has been approved by DA and MCD. The tradable for TRS has been developed, though it still requires approval. The team will build a tradable for vanilla options, which will be tested and down-streamed prior to our trading in options.

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Based on our discussions with several players, we see the following likely applications:

Pension Funds, Mutual Funds, Insurance Companies: Gain access to new derivative products giving exposures that are complementary to existing property exposure. Property derivatives allow for diversification into single-family homes as well as additional commercial sectors. Its low correlation with other asset classes, together with long-run correlation to inflation, makes property particularly attractive to pension funds.

Hedge funds: Take direct exposure to real estate, and make relative value plays versus real estate-related equities and credit.

Banks and GSEs: Hedge and diversify real estate exposure.

Developers and Builders: Hedge and diversify their pipelines, and at times taking on long exposure in derivatives in lieu of physical properties

Mortgage Originators, Servicers and Insurers: Hedge real estate exposure. Servicers have a natural housing short in place through their prepayment exposure, which they may wish to cover with longs in property derivatives.

Dealers: Provides a new product for market-making, hedging loan portfolios and hedging ABS/CMBS residuals and structures.

CDOs: Buy rated property derivative index loss contracts.

ETFs: Outright long and short positions, and/or relative value trades, depending on fund mandate.

Previous Committee Approvals: none

Approval Requested: Approval to trade the transactions described herein, under "Types of Transaction"

Expected Start Date:

Residential Forwards: January 2, 2007
Total Return Swaps, Commercial Forwards: January 16, 2007
Vanilla Options: February 20, 2007
Bespoke Property transactions: as they arise

Types of Transaction: We plan on doing the following types of transaction:

Forwards
Total Rate of Return Swaps ("TRS")
Vanilla Options
Bespoke Transactions

Terms will range from 3 months to 5 years.

We plan on referencing the following indices:

S&P Case-Shiller Home Price Indices

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OFHEO House Price Indices
NCREIF Property Index and its components (National Council of Real Estate Investment Fiduciaries)

The indices are described in detail in Appendix 1 (PowerPoint).

Forward trades will be cash-settled forwards on a single underlying index; at expiration, the short party will pay the long party an amount involving the observed index minus the strike.

Total Rate of Return Swaps will be vanilla swaps with a LIBOR leg and a property leg. The property leg will pay the periodic return on the underlying index. This type of vanilla TRS contains no optional or varying structural features.

We expect most residential transactions to be forward contracts based on the S&P/Case-Shiller House Price indices. We expect most commercial transactions to be Total Rate of Return Swaps based on the NCREIF Property Index or its sector-specific or geographic sub-indices.

We expect vanilla options on forwards to trade in the major indices. These will include European and American puts and calls, as well as caps and floors. We also expect to do bespoke transactions on individual indices or on baskets in response to the needs of particular customers.

Some plausible but imperfect hedges for property trades include (i) property index derivative trades in other indices or with alternative structures, (ii) credit default swaps in the ABS/CMBS space (iii) interest rate products, (iv) equity index trades in related sectors, (v) corporate credit default swaps in related sectors.

Business Analysis:

Benefits. The US fixed income market has capitalization of $25.9 trillion, US equities has $16.4 trillion, US housing $22.2 trillion, and US Commercial Real Estate approximately $5.0 trillion (as of March 31, 2006). For many cash and physical markets that have developed associated derivative markets, the size of the derivative market is now significantly greater than that of the underlying cash market, e.g. global government bonds, corporate credit, RMBS/CMBS credit, and equities. Entering the property derivatives business gives dealers direct access to the real estate market and a large potential revenue stream. It will also leverage our structured products franchise, which is focused on origination, structuring and trading of residential and commercial mortgage loans and associated securities. Of 400 accounts that we cover in ABS, only about 80 have printed synthetic ABX or single-name ABS CDS trades with us, but many of the remainder would be interested in direct plays on asset values. We expect the property derivatives business to also open up a whole range of additional, property-related end users to our trading and structuring franchise.

Risks. We plan to run a large and diversified book of business in the sector, and the risks are comparable to those in any major commodity and derivatives businesses. They comprise market risk, hedging risk and index risk. The market risk can be decomposed into (i) changes in spot levels, (ii) changes in the shape of the forward curves, and (iii) changes in volatility and correlation, both implied and realized. There is also the possibility that the presence of a derivatives market may lead to changes in the dynamics of the underlying physical markets that need to be considered. As noted above (in "Types of Transaction"), various hedges will be used in the business, so there are risks associated with hedge efficiency. Finally, the business will be reliant on a number of indices, and although the index providers have gone to great lengths to ensure the indices will continue to be published and will not contain errors, the business is exposed to risks associated with index publication. We expect this risk to be small; based on our survey of

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the index providers, they have never had any errors in the past. Some of the indices have a scheduled publication of revisions, but the draft ISDA definitions for property derivatives contemplate this and treat revisions differently than errors.

Financial Analysis: We believe the revenue opportunity for Goldman Sachs to be in the $50 million to $200 million range for the 2007 fiscal year. Following the first year, we would expect this business to gross $100 million to $300 million annually.

Volume: Initially we expect 5 to 20 trades per week, most with size in the $5 to $50 million notional range. Some trades may be in the $100 million to $500 million notional area.

Goldman Sachs Entity: Goldman Sachs Capital Markets (GSCM), Goldman Sachs International (GSI)

Risks/Issues and Associated Mitigants

Compliance The team met with Steve Elia and Jordan Horvath to discuss compliance concerns. Any use of retail aggregators would have to comply with the GS aggregator policy; however, at this time, we are only requesting approval to trade with institutional accounts, so the policy is not applicable. No other concerns were noted.

Controllers The team met with Sal Fortunato to discuss financial reporting. The only issues identified are generic to new businesses, and concern price transparency and bid-offer reserve policy. The business will provide controllers with whatever market information is available regarding forward curves in an index group prior to engaging in any option transactions in that group.

We have spoken with John Chartres about CSE regulatory capital for the business. CSE regulatory capital will be based on charges for incremental value-at-risk as well as charges for counterparty credit risk on positive mark-to-market amounts. Given the uncertain nature of hedging relationships of property index derivatives with any existing financial assets, the team does not believe there should be any capital charge reduction on account of hedge positions at the launch of this business, and hence property derivatives positions and any other hedge positions will contribute independently to CSE regulatory capital requirements.

We have also spoken with Martin Ashworth regarding GSI regulatory capital. The nexus of the market risk in this business will be at GSCM, there being a back-to-back swap between GSI and GSCM for each trade. GSI regulatory capital is comprised of risk based charges for position risk (market and specific), counterparty risk and large exposure or concentration risk. For GSI, the back-to-back nature of the property derivative trades neutralises the position risk charge but generates counterparty risk to the client and counterparty risk plus concentration risk to GSCM. Any GSCM mark-to-market exposure in GSI is however mitigated by the collateral process in place between the entities. The counterparty risk and concentration risk calculations are based on the positive mark-to-market plus a percentage of the notional of the derivative.

Credit The team had discussions with Ilana Ash and Nicolas Friedman in Credit. They have emphasized the following considerations:

Credit risk exposure considerations

- GS Credit has been working with the team to understand credit risk implications of the simpler products (forward and TRS) expected to be traded initially. More complex structures such as CDS and options will be reviewed and analyzed subsequently

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- Key considerations to quantify credit risk include liquidity as well as technical and sentiment risk expected to generate intra-month MTM volatility before reference indices are published
- Although some more validation work will be required, Credit has developed the following preliminary initial margin (aka "IA") schedule that we intend to apply to high risk counterparties (such as hedge funds) to fully collateralize our risk.
  - This schedule is intended to cover a 2-week, greater than 99% CI move in MTM
  - It is expected to be revised as liquidity improves and market data becomes available
  - Although GS Credit's initial preference was to apply one uniform schedule for all MSAs, this approach could have resulted in adverse business selection whereby trading volume of low volatility markets would be significantly reduced
  - As a result, GS Credit grouped MSAs in three main buckets: Low, Medium and High volatility markets, and uniform IA levels were developed for each volatility bucket:

Initial Margin as % of notional (preliminary schedule)

HPA vol type	Low		Medium					High			
Tenor / MSA	CHI	DEN	BOS	LAX	LAV	NYM	SDG	MIA	SFR	WDC	COMPOSITE
1 Y	2.8%	2.8%	4.2%	4.2%	4.2%	4.2%	4.2%	5.6%	5.6%	5.6%	3.5%
2 Y	4.1%	4.1%	6.2%	6.2%	6.2%	6.2%	6.2%	8.3%	8.3%	8.3%	5.2%
3 Y	4.8%	4.8%	7.2%	7.2%	7.2%	7.2%	7.2%	9.5%	9.5%	9.5%	6.0%
4 Y	5.1%	5.1%	7.6%	7.6%	7.6%	7.6%	7.6%	10.1%	10.1%	10.1%	6.3%
5 Y	5.2%	5.2%	7.8%	7.8%	7.8%	7.8%	7.8%	10.4%	10.4%	10.4%	6.5%

Operational considerations

- The margining process will be manual (at least initially)
- As such, GS Credit will need to be contacted for every trade in order to determine margin, set up trade level terms and ensure margin terms go on the confirm

Legal considerations

- This new product will be offered to new types of counterparties, namely real estate developers, home builders, REIT and PWM clients, against which GS does not have credit exposure traditionally.
- Front Office will need to contact Credit ahead of a trade and help provide necessary documentation required for credit review a new counterparty if necessary
- Credit will liaise with Legal to start the negotiation of ISDA/CSA documents for new counterparties

Human Capital Management There are no outstanding headcount issues specific to launching this business, so the team did not meet with HCM.

Legal The team met with Glade Jacobsen, Darren Littlejohn and Erin Holland of the Legal Department.

All counterparties facing GSI and GSCM in property derivative transactions must qualify as "eligible contract participants" under the US Commodity Exchange Act. Most US counterparties provide representations confirming this fact under their ISDA Master Agreement with GS. All transactions will have to be confirmed using templates approved by the legal department for the relevant index and transaction type. The templates must be finalized before any trading activity begins. The publication of a property derivatives definition booklet by ISDA (see below) in early 2007 should help standardize documentation in this area. In addition, all marketing materials will need to be reviewed by legal and compliance before being distributed to prospective counterparties.

The underlying components of any index referenced in a property derivatives transaction must be actual properties (and not mortgage backed securities, for example). The legal analysis related to this business would likely differ if the indices referenced securities or anything other than actual properties.

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To the extent there are recurrent dealings in the market in these types of property derivatives transactions, GS should receive favourable netting and collateral treatment under the US Bankruptcy Code for US counterparties.

License Fees - GS has entered into a non-exclusive contractual agreement with S&P that will allow us to reference the applicable S&P/Case-Shiller index in our property derivative contracts. We expect to enter into a comparable contract with NCREIF within a few weeks. Teresa de Turris and Philip Cenatiempo (eCommerce) have handled the negotiations and contracting.

Contract Structure and Confirmations – GS is a member of a multi-dealer working group that is, in conjunction with ISDA, drafting industry-standard definitions (Property Index Derivatives Definitions of 2007) and standardized confirmation templates. Darren Littlejohn and Erin Holland have been involved in these discussions. Draft confirmations are available from ISDA's counsel.

Market Risk We have over 20 years of data in each of the tradable index series. With this data, the team has built a structural VaR model which can form the basis of VaR calculations prior to the existence of a trading history in the market. The team is able to work with MRMA to make alterations to this model if needed for VaR calculation. After a period of time, the usual GS VaR methodology, based on actual price movements of forward contracts, will supersede this.

We have proposed initial stress test levels based on a combination of (a) a view of the magnitude of moves in the forward curve that would allow for a statistical arbitrage versus physical properties, net of transaction costs, and (b) a long-dated version of the VaR framework that allows for calibration of risks across trade in different indices and tenors, as well as portfolio-level stress. MRMA may consider using a scenario-based stress test in lieu of this.

We have discussed these issues with MRMA (Arbind Jha, Victor Ng, and Fei Luo), and they feel that we have addressed them appropriately to enable MRMA to risk monitor this business at the outset, though the methods will need to be revisited by MRMA as the business grows.

The team has produced risk analytics that will be provided in production form to MRMA prior to day one trading in each product.

Operational Risk Trades will be booked, risk-managed and processed in SecDb and Odyssey.

Operations The team has met with John Godfrey, Carly Scales, Claudia Downing, and Kerrill O'Mahony of Credit Derivative Operations. Their chief concerns have been trade processing and confirmations. All property derivative products will initially be implemented in the "Generics" flow, (i.e. non STP). In this flow, payment data flows automatically to Odyssey, but confirm generation is not automatic.

We will commit to operating within the guidelines communicated to the Regulators with regard to confirm issuance & execution. These guidelines require documents being issued within t+10, and executed within t+30.

In order to meet this target, the following support will be required from Trading & Sales

1 - Prior to any trading, the desk will agree with any given counterparties to trade under the draft standard ISDA terms. Written confirmation will be received from the counterparty indicating their adherence to these standard terms
2 - Trading and Sales will ensure that all activity is accurately booked on trade date

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3 - Trading and Sales will assist Operations in obtaining executed confirmations from our counterparts as required
4 - If Operations identify a counterparty who consistently fails to meet the industry guidelines with respect to confirmation and/or settlement execution, trading with that counterparty will be suspended

Forwards Product
Operations have reviewed the Forwards product and have had open dialogue with the desk and IT around the challenges posed by this product. There is not currently a published ISDA document for these transactions (publication is anticipated in February 2007).

The weekly trading limit will be 20 trades.

TRS Product
Operations have reviewed the TRS product and have had open dialogue with the desk and IT around the challenges posed by this product. There is not currently a published ISDA document for these transactions (publication is anticipated in February 2007).

The weekly trading limit will be 20 trades.

Options & Bespokes
The terms under which this product will trade are not yet finalized, therefore Operations are not in a position to indicate the limits that would be appropriate for the controlled roll out of these products. As more information becomes available, Operations will work closely with the desk & IT to ensure a controlled & successful implementation.

Removal of Trading Limits
Each trading limit will be revisited once monthly (Ops mgmt designate & Trading desk) as native Odyssey implementations (per calculator) comes to fruition.

In order to remove or expand the trading restrictions Operations will need to see evidence of
1 - Standard ISDA Documentation
2 - Native implementation within our technology infrastructure, resulting in STP for the product
3 - A sustained period of time during which the product is operating within the Regulatory guidelines (t+10 issuance & t+30 execution)

We will use industry standard ISDA documentation (Property Index Derivatives Definitions of 2007 and associated confirmation templates) to facilitate logistics associated with execution and processing of confirms. Unique & market standard ID's per Case-Shiller, OFHEO, NCREIF indices (and revisions) will be essential for processing.

Reputational Risk We do not believe the property derivatives business poses any incremental reputational risks to GS. We also expect the business will be launched by a number of dealers simultaneously or in close succession. At this time, we are only requesting approval to trade with institutional accounts, so the retail aggregator policy does not apply (see "Compliance" section).

Tax The team spoke with Mary Harmon, Jay Friedman, and Kristen Garry of the Tax Department. The Tax Department has discussed the proposed housing derivatives with external counsel, Sullivan & Cromwell. Based on those discussions, they believe that forwards and swaps based on property indices such as the S&P/Case-Shiller indices or the NCREIF indices should likely not constitute "interests in U.S. real property." If these relevant derivatives were to be treated as "interests in U.S. real property", non-U.S. counterparties would be subject to a 30% U.S. withholding tax on gains. This contrasts sharply with

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the tax treatment of non-property derivatives, on which non-residents are exempt from U.S. tax. The Tax Department will continue to monitor the development of these derivatives to confirm that such a U.S. tax issue does not arise.

They have also preliminarily concluded that these housing derivatives are unlikely to generate good income for purposes of qualification tests for mutual funds or real estate investment trusts (REITs). However, structured notes with embedded exposure to the housing indices may be good assets for mutual funds.

Technology The team has worked with Sanjay Acharya and Anna Lukasiak in IT. The IT group is working on down-streaming the SecDb trade and tradable representations to Odyssey. Their work on forward trades is complete. For the other trade types, they expect to be able to complete down-streaming within three weeks of receiving the corresponding tradable from Strategy. The team has also met with cross-divisional IT to help them in relaying trades to the market risk and credit departments.

Treasury There are no funding issues. We will request a separate review and approval when we initiate funded index derivative trades that rely on access to GS funding/balance sheet.

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US Property Derivatives NPC Memo

Appendix I: Index Details

FOR INTERNAL USE ONLY

December 20, 2006

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular. Capitalized terms used as defined herein.

Measuring Home Price Changes

- There are several sources of home price data. The following supply home price indices:
  - National Association of Realtors (NAR)
  - Office of Federal Housing Enterprise Oversight (OFHEO)
  - Fiserv Lending Solutions*
  - Standard & Poor's Case-Shiller**

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* Provides licenses for standard Case-Shiller Indices, exclusively for research and analysis purposes

** Under permission granted by MacroMarkets LLC, licensing agent for the (tradable) S&P/Case-Shiller® Home Price Indices, for the purposes of creating, developing and settling housing-linked financial products

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Home Price Methodologies
A Comparative Analysis

- There are two established methodologies for generating home price indices:
  - Median home price
  - Repeat sales

	Median Home Price	Repeat Sales
Description/Method	■Based on the median price of home sales in a particular geographic area during a particular time period	■Computed by stringing together a series of repeat sales of the same property
Indices	■NAR	■S&P/Case-Shiller Home Price Indices ■OFHEO ■Case-Shiller
Pros	■Simple	■Eliminates distortions from changes in the quality of homes in a geographic area (i.e., increasing size, newer homes, etc.) ■Better proxy for actual returns on owning residential real estate
Cons	■Volatile ■Does not adjust for differences in range of housing values	■New homes not included

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Home Price Index Development

Historical Timeline

- 1991: Case, Shiller, Weiss Inc. founded to publish the Case-Shiller Indices
- 1995: OFHEO introduces a repeat home sales methodology
  - Similar in design to the Case-Shiller Indices
  - Based on home prices associated with only conforming loans, approximately 35% of the mortgage market in 2005*
  - Includes appraisals for refinancing, which introduce bias to the indices
- 2002: CSW is acquired by Fiserv and becomes Fiserv CSW Inc
  - MacroMarkets LLC is founded and retains the rights to develop financial products based on the Case-Shiller Indices
- 2006: MacroMarkets issues sublicense to Standard & Poor's to facilitate administration and dissemination of the S&P/Case-Shiller Home Price Indices, with a view towards stimulating development and trading of housing-linked products
  - Base period of January 2000 when indices are established at 100.00
  - Based on the universe of available sales (not limited to those associated with conforming loans)
  - GS is the first dealer to license the S&P/Case-Shiller Home Price Indices to create home price derivatives
- The Case-Shiller Home Price Indices have been used as a benchmark for home price changes for approximately 16 years

* Source: Inside Mortgage Finance, 2/24/06

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Example of Repeat Sales Methodology

How Home Sales Are Linked Together

- Consider the following example of three homes in a specific neighborhood that change hands over a three-year period:

Property	2000	2001	2002
A	$100,000	$120,000	NA
B	$75,000	NA	$100,000
C	NA	$100,000	$105,000

- We can make the following inferences:
  - Property A's price rose by 20% from 2000-2001
  - Property B's price rose 33% from 2000-2002
  - Property C's price rose 5% from 2001-2002
- If we assume the sales information for Property A is correct, the home price change over year one is 20%, which implies a value for Property B of $90,000 in 2001
- Thus, the implied appreciation of Property B is 11% from 2001-2002
- Property C, however, suggests that the rate of increase was 5% over that time period
- From 2001 to 2002 the home price index change is based on the average of the increase in Property C and imputed increase in Property B, i.e. 8%
- In the repeat sales methodology, the averaging of price appreciation from different pairs of sales is done using a complex linear regression in which each pair is a separate observation. The Appendix contains a technical description of some additional details in the case of the S&P/Case-Shiller Home Price Indices

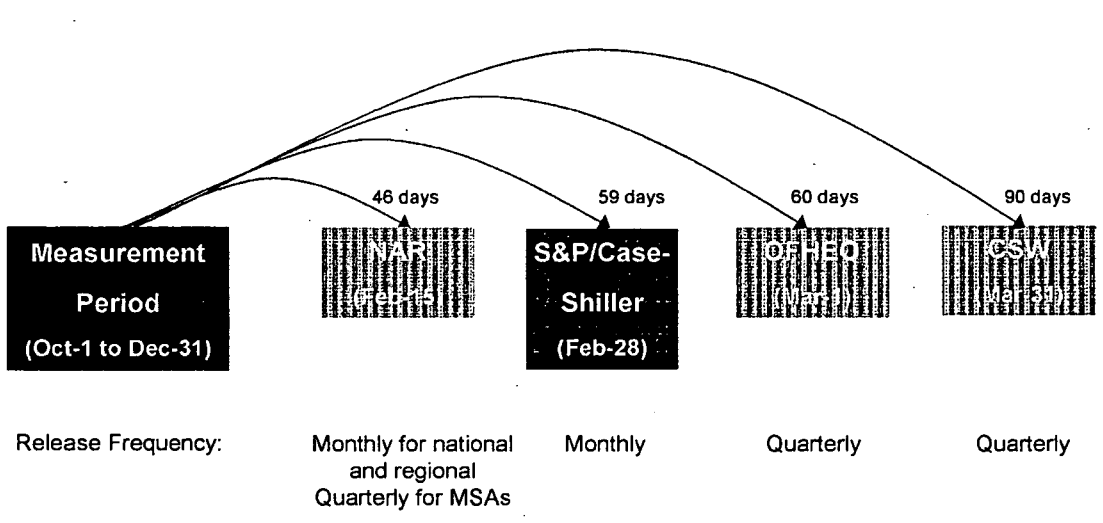
Source: Case-Shiller, www.cswonline.com

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Release Dates for Home Price Indices

Example Lag from Index Measurement to Release



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Overview of Home Price Indices

Comparison of Key Characteristics

	NAR	OFHEO	Fiserv	S&P/Case-Shiller
Release Frequency	Monthly for national and regional Quarterly for MSAs	Quarterly	Quarterly	Monthly
Computational Methodology	Median Sales	Repeat Observations	Repeat Sales	Repeat Sales
Transaction Coverage	30-40% of All Sales*	Repeat Observations; Conforming Loans Only; Includes Appraisals	All Repeat Sales	All Repeat Sales
Calculation Agent	National Association of Realtors	OFHEO	Fiserv	Fiserv
Back-up Calculation Agent	None	None	None	Standard & Poor's
Tiers	None	None	Low, Middle and High Priced; Condominium	Low, Middle and High Priced; Condominium

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* http://www.realtor.org/Research.nsf/Pages/EHSMeth

Note: These indices are subject to revisions

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MSA Definitions for S&P/Case-Shiller Home Price Indices

Counties Included in Each MSA

Boston	Chicago	Denver	Las Vegas	Los Angeles	Miami
Essex, MA	Cook, IL	Adams, CO	Clark, NV	Los Angeles, CA	Broward, FL
Middlesex, MA	De Kalb, IL	Arapahoe, CO		Orange, CA	Miami-Dade, FL
Norfolk, MA	Du Page, IL	Clear Creek, CO			Palm Beach, FL
Plymouth, MA	Grundy, IL	Denver, CO			
Suffolk, MA	Kane, IL	Douglas, CO			
Rockingham, NH	Kendall, IL	Elbert, CO			
Strafford, NH	Mchenry, IL	Gilpin, CO			
	Will, IL	Jefferson, CO			
		Park, CO			

New York		San Diego	San Francisco	Washington D.C.	
Fairfield, CT	Warren, NJ	San Diego, CA	Alameda, CA	District of Columbia, DC	Falls Church City, VA
New Haven, CT	Bronx, NY		Contra Costa, CA	Calvert, MD	Fauquier, VA
Bergen, NJ	Dutchess, NY		Marin, CA	Charles, MD	Fredericksburg City, VA
Essex, NJ	Kings, NY		San Francisco, CA	Frederick, MD	Loudoun, VA
Hudson, NJ	Nassau, NY		San Mateo, CA	Montgomery, MD	Manassas City, VA
Hunterdon, NJ	New York, NY			Prince Georges, MD	Manassas Park City, VA
Mercer, NJ	Orange, NY			Alexandria City, VA	Prince William, VA
Middlesex, NJ	Putnam, NY			Arlington, VA	Spotsylvania, VA
Monmouth, NJ	Queens, NY			Clark, VA	Stafford, VA
Morris, NJ	Richmond, NY			Fairfax, VA	Warren, VA
Ocean, NJ	Rockland, NY			Fairfax City, VA	Jefferson, WV
Passaic, NJ	Suffolk, NY			Falls Church, VA	
Somerset, NJ	Westchester, NY				
Sussex, NJ	Pike, PA				
Union, NJ					

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S&P/Case-Shiller Normalized Composite Weights

Each MSA's Share of the Composite Index

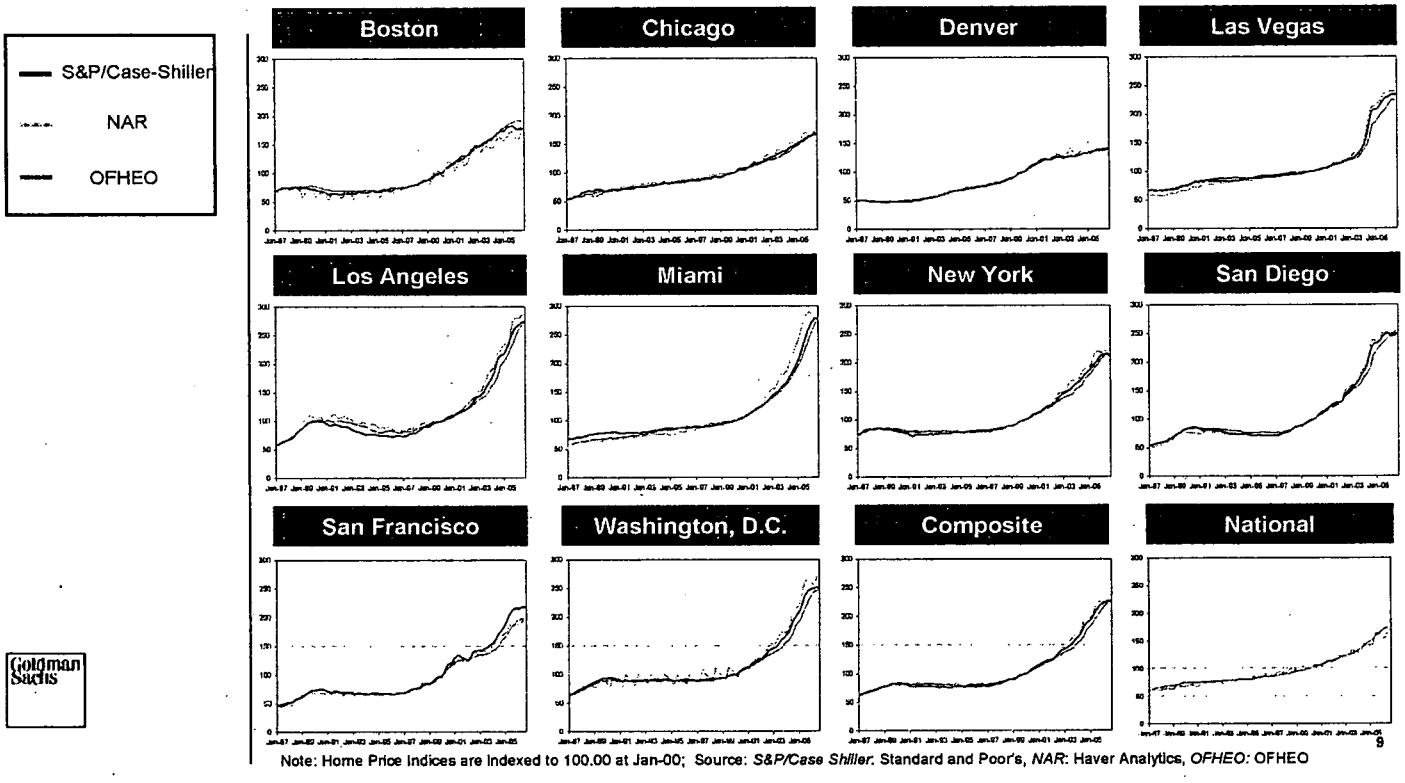
MSA	2000 Composite Weight
Boston	7.41%
Chicago	8.89%
Denver	3.68%
Las Vegas	1.48%
Los Angeles	21.16%
Miami	4.99%
New York	27.24%
San Diego	5.51%
San Francisco	11.79%
Washington, DC	7.85%

Source: S&P: "S&P/Case-Shiller Home Price Indices Methodology"

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Home Price Index Levels

Rapid Appreciation in Recent Years

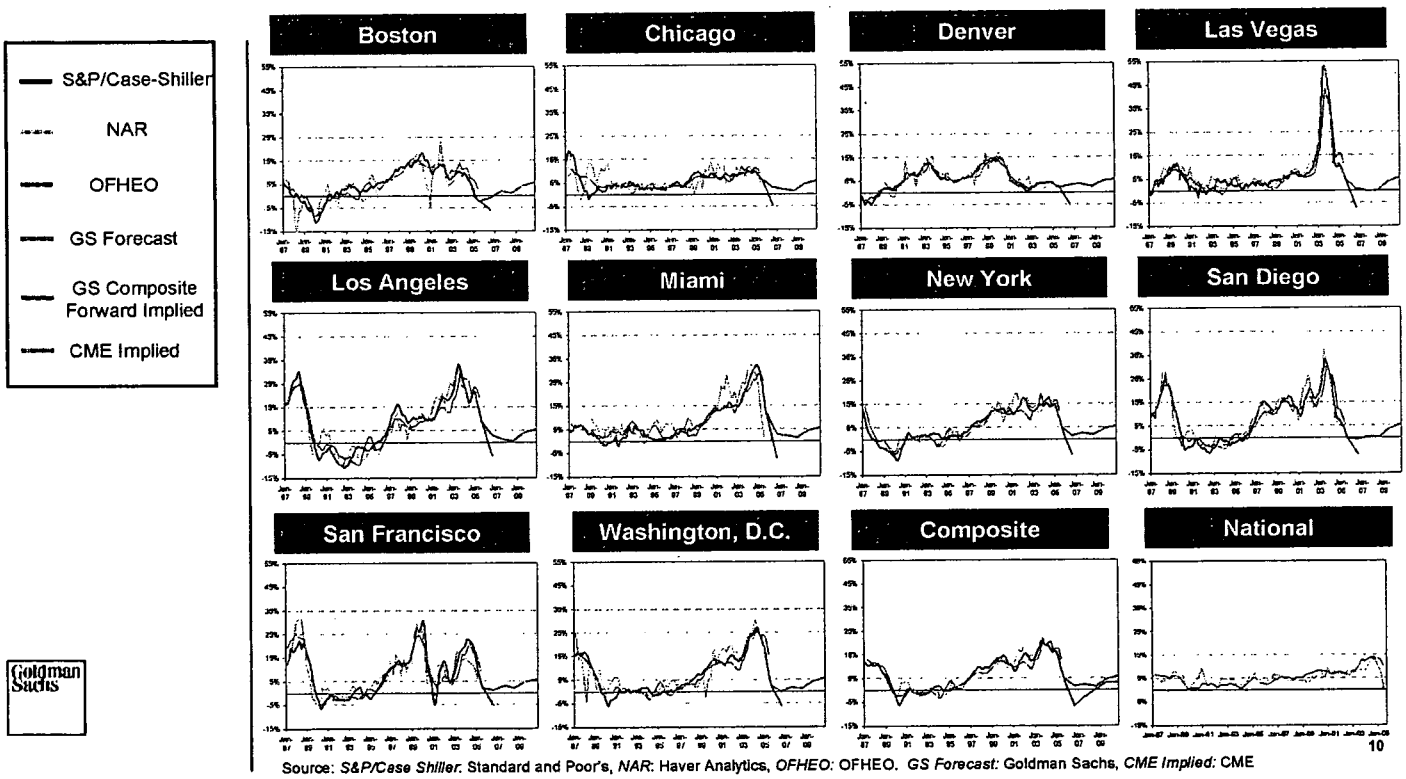


Note: Home Price Indices are indexed to 100.00 at Jan-00; Source: *S&P/Case Shiller*: Standard and Poor's, *NAR*: Haver Analytics, *OFHEO:* OFHEO

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Home Price Indices

Year-Over-Year Percent Changes



Source: *S&P/Case Shiller:* Standard and Poor's, *NAR:* Haver Analytics, *OFHEO:* OFHEO. *GS Forecast:* Goldman Sachs, *CME Implied:* CME

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Measuring Commercial Real Estate Changes

- There are several sources of commercial real estate data. The following supply commercial real estate indices:
  - National Council of Real Estate Investment Fiduciaries (NCREIF)
  - Global Real Analytics (GRA)

	NCREIF	GRA Commercial Real Estate Index (CREX)
Description/Method	■Total Return Index ■Based on property performance data collected from NCREIF data contributing members	■Market Cap Index ■Computed by measuring average price per square foot then applying a weighting factor to calculate total aggregate value of commercial real estate
Pros	■Reflects returns of owning commercial real estate ■Properties held entirely or partially in fiduciary environment by institutional investors ■Large database of appraisals and sales	■Transaction based ■Utilizes only arms-length transactions which eliminates below market sales between family members or other inter-related parties ■Computationally simple
Cons	■Appraisal based ■Member firm data only	■Smaller sample size ■Volatile

Source: NCREIF: *User's guide to NPI, CREX: GRA Commercial Real Estate Index Methodology*

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NCREIF Property Index Development

Historical Timeline

- 1981: Frank Russell Company establishes the FRC Property Index—the first ever private real estate performance index
- 1982: NCREIF established to develop private real estate market databases and risk-return measures
- 1991: Index is renamed to Russell-NCREIF Property Index to reflect NCREIF's identity and its increasing role in overseeing data collection and promoting standardization
- 1995: NCREIF assumes full Index responsibility
- 2005: Credit Suisse granted exclusive license to use the NCREIF indices for creating derivative transactions
- 2006/07: Dealer community expects to begin trading derivatives based on the NCREIF indices

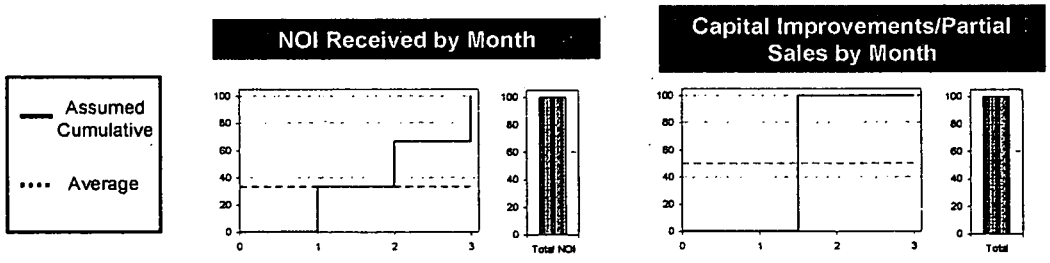
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Total Return Methodology

How Income and Capital Returns are Measured

- NCREIF Property Index (NPI) quarterly returns provide an estimate of a property's IRR as if it were purchased at the beginning of the quarter and sold at the end of the quarter with the investor receiving all net cash flow during the quarter
- Calculations are based on quarterly returns of individual properties before the deduction of portfolio level management fees, but inclusive of property level management fees
  - Returns are weighted by the property's market value
  - Formulas assume (i) net operating income (NOI) is received at the end of each quarter, (ii) capital expenditures occur at mid-quarter and (iii) partial sales occur at mid-quarter
- Income Return measures the portion of total return resulting from the net operating income of a property
  - **Income Return** = NOI / (Beginning Market Value + ½ Capital Improvements – ½ Partial Sales – ½ NOI)
- Capital Value Return measures the change in market value from one period to the next
  - **Capital Value Return** = (Ending Market Value – Beginning Market Value + Partial Sales – Capital Sales) / (Beginning Market Value + ½ Capital Improvements – ½ Partial Sales – ½ NOI)
- **Total Return** = Income Return + Capital Value Return
- The adjustments in the denominator reflect an estimate of the average investment throughout the period given the assumptions above



Source: NCREIF: *User's guide to NPI*

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Overview of Real Estate Indices

Comparison of Key Characteristics

	NCREIF	CREX
Release Frequency	Quarterly	Monthly, Released last Wednesday of each month
Measurement Period	Quarterly	Quarterly on a rolling basis
Computational Methodology	Total return	Market cap weighted method
Data Source	Member firms	Public and quasi-public information
Coverage	All member properties	Arms-length sales
Property Type Indices	Apartment, Hotel, Industry, Office, Retail	Apartment, Office, Retail, Warehouse
Regional Indices	East, Midwest, South, West	Desert Mountain West, MidAtlantic South, Midwest, Northeast, Pacific West
Return Tiers	Capital return, income return	None
Trade Method	OTC dealer market	CME
Calculation Agent	NCREIF	GRA

Source: NCREIF: *User's guide to NPI, CREX: GRA Commercial Real Estate Index Methodology*

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Commercial Real Estate Indices

Rapid Appreciation in Recent Years

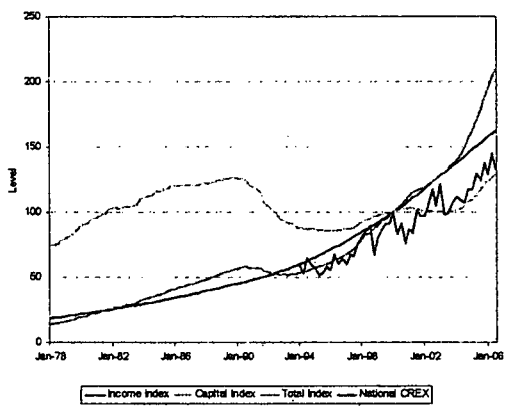
NCREIF Total Return

NCREIF Capital Return

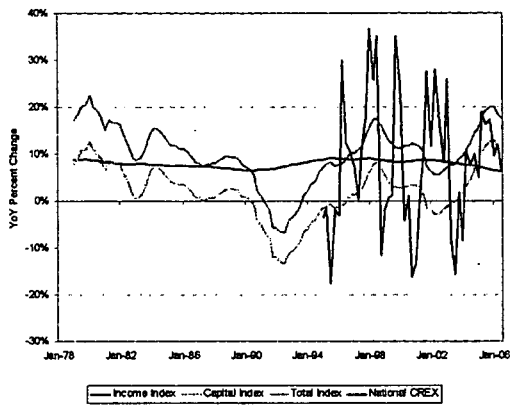
NCREIF Income Return

CREX

National



National YoY



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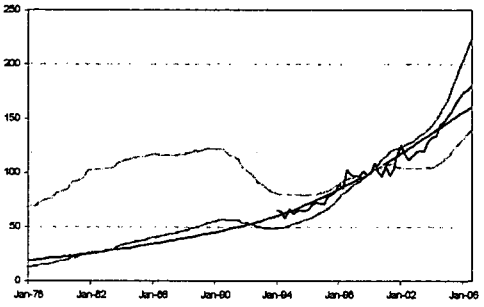
Note: Indices are indexed to 100.00 at Jan-00; Source: *NCREIF*: NCREIF, *CREX*: GRA

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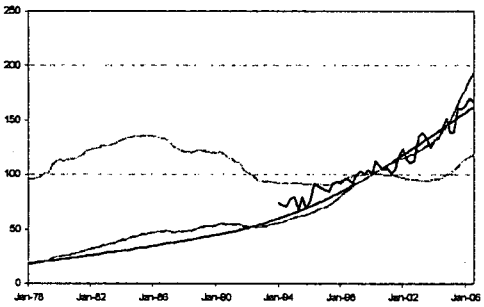
Regional Commercial Real Estate Indices

NCREIF Total Return
NCREIF Capital Return
NCREIF Income Return
CREX

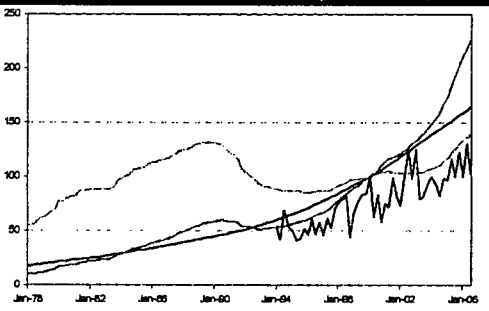
NCREIF West v CREX PacficWest



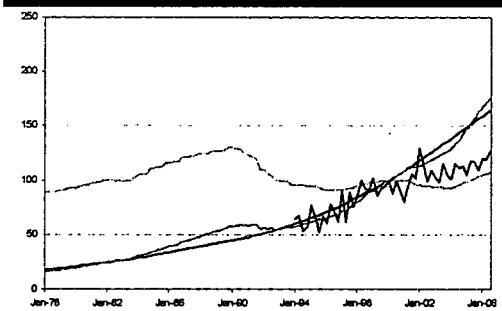
NCREIF South v CREX MidAtlantic South



NCREIF East v CREX Northeast



NCREIF Midwest v CREX Midwest



Note: Indices are indexed to 100.00 at Jan-00; Source: *NCREIF*: NCREIF, *CREX*: GRA

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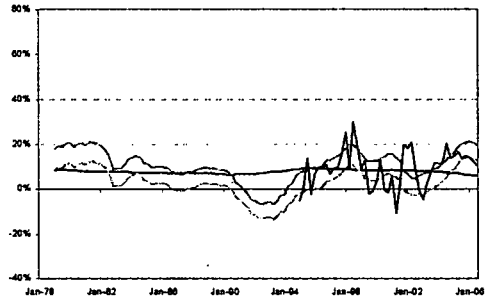
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Regional Commercial Real Estate Indices

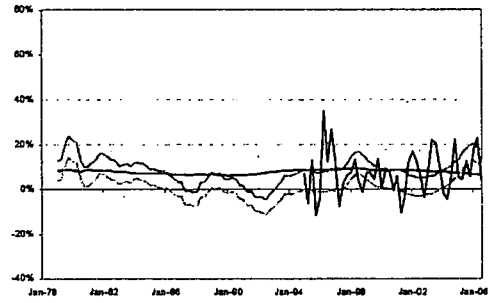
Year-Over-Year Percent Changes

NCREIF Total Return
NCREIF Capital Return
NCREIF Income Return
CREX

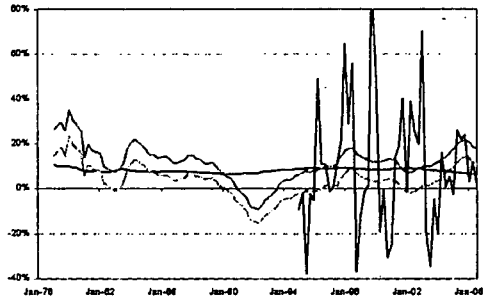
NCREIF West v CREX PacficWest



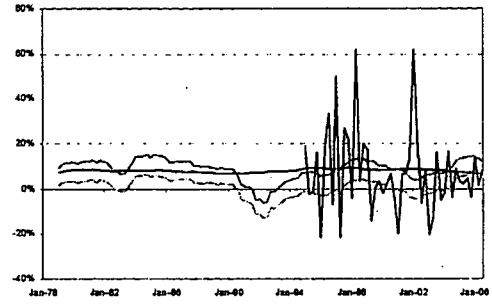
NCREIF South v CREX MidAtlantic South



NCREIF East v CREX Northeast



NCREIF Midwest v CREX Midwest



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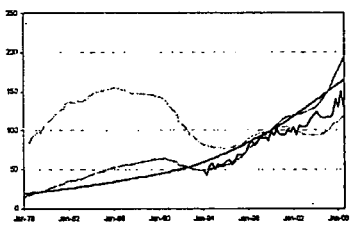
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Note: Indices are indexed to 100.00 at Jan-00; Source: *NCREIF*: NCREIF, *CREX*: GRA

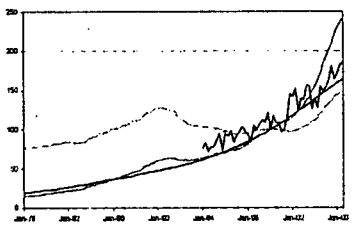
Property Specific Commercial Real Estate Indices

NCREIF Total Return
NCREIF Capital Return
NCREIF Income Return
CREX

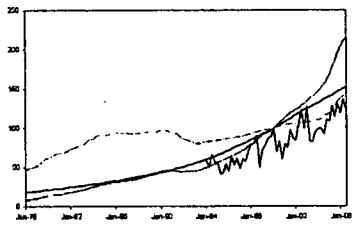
Office



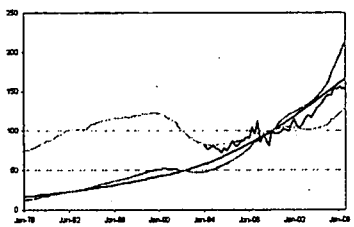
Retail



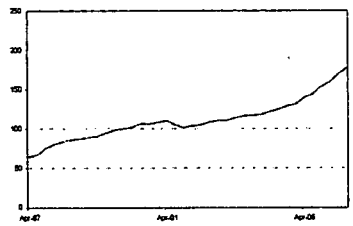
Apartment



NCREIF Industrial v CREX Warehouse



Hotel



Goldman Sachs

Note: Indices are indexed to 100.00 at Jan-00; Source: *NCREIF*: NCREIF, *CREX*: GRA

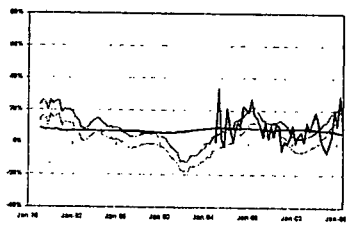
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Property Specific Commercial Real Estate Indices

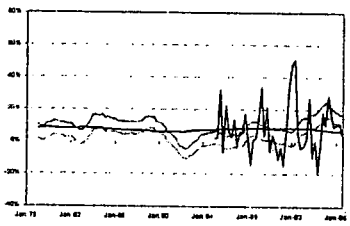
Year-Over-Year Percent Changes

NCREIF Total Return
NCREIF Capital Return
NCREIF Income Return
CREX

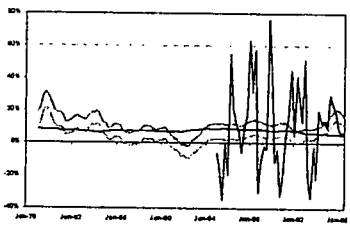
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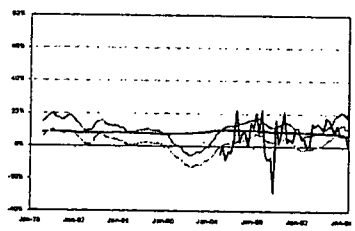
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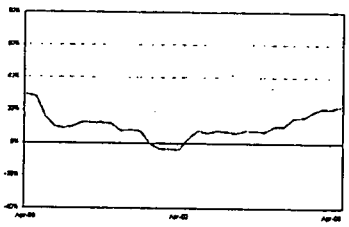
Apartment



NCREIF Industrial v CREX Warehouse



Hotel



Note: Indices are indexed to 100.00 at Jan-00; Source: *NCREIF*: NCREIF, *CREX*: GRA

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From: Swenson, Michael
Sent: Tuesday, May 16, 2006 10:08 AM
To: Birnbaum, Josh
Subject: RE: Housing Futures and Options

It means other people ie cw dealer desk is thinking about it

-----Original Message-----
From: Birnbaum, Josh
Sent: Tuesday, May 16, 2006 9:50 AM
To: Swenson, Michael
Subject: FW: Housing Futures and Options

what does he mean?

-----Original Message-----
From: Swenson, Michael
Sent: Friday, May 12, 2006 1:26 PM
To: Birnbaum, Josh
Subject: FW: Housing Futures and Options

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: William Grady [mailto:WGrady@ramius.com]
Sent: Friday, May 12, 2006 1:18 PM
To: Swenson, Michael; Salem, Deeb
Subject: FW: Housing Futures and Options

FYI-The cat is crawling out of the bag.

William E. Grady
Ramius Capital Group, LLC
Chrysler Center
666 Third Avenue, 26th Floor
New York, NY 10017
Em wgrady@ramius.com
W (212) 201-4827, M (908) [redacted]
F (708) 570-7562

-----Original Message-----
From: gmichael1@bloomberg.net [mailto:gmichael1@bloomberg.net]
Sent: Friday, May 12, 2006 1:05 PM
To: undisclosed-recipients
Subject: Fwd: Housing Futures and Options

----- Original Message -----
From: JONATHAN LIEBER, COUNTRYWIDE SECURITI
At: 5/12 13:02:11

Synthetic instruments have begun to make significant inroads into the world of structured products. Late in 2005, the standardization of trading documentation for ABCDS contracts increased investors' ability to hedge RMBS exposure - or take an outright short position - which led to a short and sharp widening of subordinated spreads (this widening was short lived and spreads are now tighter than "pre-ABCDS" levels). This was followed by the introduction of the ABX.HE indices in January, a product line that so far seems to have led to increased market liquidity, price discovery, and two-way flow in the subordinated

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HEL sector. On May 22nd, the next synthetic vehicle that may be of interest to RMBS investors will debut when the Chicago Mercantile Exchange (CME) begins trading a pure real-estate-linked futures contract, as well as options on these futures.

The CME housing futures will represent ten major metropolitan areas: Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York, San Diego, San Francisco, and Washington D.C. Housing price indices for each of these MSAs will be determined by an index of repeat home sales in that region, as measured and tracked over time by Case-Shiller.
Simply put, participants will be able to go long or short housing price appreciation in these MSAs by taking long or short positions in the appropriate futures contracts. These indices will be marked to market every day, and will settle in cash. As noted, options on these contracts will also be available, allowing participants to take a long or short position via calls or puts on the MSA of interest.

These housing futures and options are likely to be of interest to businesses that have direct exposure to regional housing markets (e.g., home builders in Miami may find it useful to hedge price risk in ongoing construction projects by going short Miami CME futures). It is also possible that these instruments will be used as more of a speculative vehicle for individuals or institutions wishing to express a particular view on the housing market in any particular region (e.g., taking a bearish view on Las Vegas real estate). As for RMBS investors, it remains to be seen just how useful the market will find these products.
Although RMBS investors are concerned with housing-price appreciation - especially in regions to which their collateral pools have concentrated exposure - it is important to note that bond returns are not "linearly correlated" with changes in housing prices. In other words, the spread/price performance of a bond is not particularly sensitive to changes in underlying HPI until or unless the underlying HPI is very weak (or negative). Our initial thought is that some holders of RMBS debt at the lower end of the capital structure may explore options on these indices as "insurance" against severe HPI downturns, perhaps by buying out of the money puts on specific indices. We expect to monitor activity and index performance in these new synthetic products going forward.

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From: Raazi, Cactus
Sent: Thursday, August 10, 2006 3:48 PM
To: Shah, Poonam
Cc: Scales, Carly; Swenson, Michael
Subject: Paulson bookings

I've already tried to book this once - didn't stick - need your help now

GS sold 550mm protection on ABX.HE.A.06-2 to Paulson - should be allocated as follows:

Paulson & Co. ABX Ledger

ABX Index

	ABX.HE.A.06-2
Executing Broker	GSCO
CDS Counterparty	GSCO
All Prices Quoted in Basis Points	**8/9/06**
Account Name	**99 31/32**
HFR	(8,900,000)
Paulson Partners Enhanced LP	(38,160,000)
Paulson Partners LP	(29,130,000)
Paulson International Ltd	(104,360,000)
Lyxor Paulson International	(37,420,000)
Paulson Enhanced Ltd.	(329,715,000)
PGS Focus	(2,315,000)
TOTAL =	(550,000,000.00)

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Cactus Raazi
212.902.3943 direct
917.[redacted] mobile

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Wall Street & The Financial Crisis
Report Footnote #1623

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GS MBS-E-012395893

From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 9:06 PM
To: Montag, Tom
Subject: RE: More thorough response

Life to date now is basically flat to down a bit.
Have been to big, stubborn and provided too much liquidity.
But they are very good and I have confidence they will do well once we get through this.

-----Original Message-----
From: Montag, Tom
Sent: Thursday, December 07, 2006 8:59 PM
To: Sparks, Daniel L
Subject: RE: More thorough response

what is LTD now? how well are they really trading it

-----Original Message-----
From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 8:58 PM
To: Montag, Tom
Subject: RE: More thorough response

Pushing and squeezing is definitely working. The head guy - John Paulsen - makes all the calls.
Our guys will trade it well - just need to get square.
Fitch putting Ameriquest on servicer watch observation could cause some early pain Friday.
Ameriquest is the monster in the space.

-----Original Message-----
From: Montag, Tom
Sent: Thursday, December 07, 2006 8:48 PM
To: Sparks, Daniel L
Subject: RE: More thorough response

seems with big move like this they would take some off the table--unless the nature of this lends itself to squeezing and pushing--maybe we should hire there guy who is doing this

-----Original Message-----
From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 8:06 PM
To: Montag, Tom
Subject: RE: More thorough response

They appear to have dedicated funds raised specifically for this trade - short resi subprime

They have it levered

We have on with them something like (these were done prior to the last few months when we have not done much with them):
$3 billion BBB flat
$2 billion A
$2 billion of tranched protection CDS

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GS MBS-E-010931324
2.6

We have heard they have a total of $15-20 billion on

They had asked us to do another tranched protection trade for them, and seem fine with it being pushed to January

-----Original Message-----
From: Montag, Tom
Sent: Thursday, December 07, 2006 7:48 PM
To: Sparks, Daniel L
Subject: RE: More thorough response

how big is paulsen and what are they doing

-----Original Message-----
From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 7:08 AM
To: Montag, Tom
Subject: More thorough response

I was e-mailing while driving

After moore there were not other follow-on short-coverers or outright buyers at those levels

Structured exits are complicated and take time

And we didn't push hard enough

Market has repriced so there are starting to be some outright buyers, and team is pushing hard on structured outs

Biggest/quickest issue is whether to approach the monster who is shorting non-stop - paulsen

Could result in quick reduction, or they could use it against us in a very significant way

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Goldman Sachs

Mortgage Department Update

January 9, 2007

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1625

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Agenda

1. P&L Review
2. ABX / ABS CDS Risk
3. Subprime Risk
4. Competitors
5. Opportunities, Challenges & People

Appendix

Subprime Recent History
CDO Pipeline
Growth Opportunities
Challenges
People

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Mortgage Department P&L

$mm Business Unit	2004	2005	2006	2007 Budget	YTD 2007
Resi Prime	**108**	**73**	**42**	**75**	**14**
CMO & Derivatives	78	18	1	30	4
Hybrids & Subs.	30	55	41	45	10
Resi Credit	**133**	**204**	**269**	**300**	**26**
CRE Loan Trading	**99**	**197**	**167**	**200**	**22**
ABS Loans & Finance	**28**	**45**	**40**	**52**	**4**
SPG Trading	**68**	**99**	**179**	**200**	**(62)**
ABS	29	44	61	75	(62)
CMBS	41	46	53	50	-
*Correlation **	(2)	9	65	75	-
CDO	**50**	**146**	**222**	**265**	**23**
SP CDO	27	87	122	120	3
US CLO	23	48	70	75	10
Euro CLO	-	11	30	70	10
Tax Residuals	**7**	**2**	**12**	**15**	**-**
Warehouse Lending	**17**	**26**	**24**	**35**	**2**
Gross Structured Products	**510**	**792**	**955**	**1,143**	**29**
Transfers out	**(71)**	**(156)**	**(140)**	**(173)**	**(16)**
Net Structured Products	**439**	**636**	**815**	**970**	**13**
European CMBS JV	23	35	41	50	4
Acquisition Finance JV	57	22	11	-	-
Advisory	16	12	19	22	2
PFG / SSG JV	51	35	39	20	-
Manager's/Other	(10)	(11)	(36)	-	-
Mortgages	**576**	**729**	**889**	**1,062**	**19**

Results have been restated to include Liquid Products revenues in IRP.
**** Correlation revenues are net of EITF in the amounts of 0, 54 and 53. Current reserve is 98.***

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ABX / ABS CDS Risk

Insert risk report

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Subprime Risk Areas

	Loans	Residual Interest	ABX	Loan Warehouse	CDO Warehouse	Platforms
Current Position	Long $7B subprime loans (to be securitized: $4B Jan, $2B Feb, $1B Mar)	Long $289mm	Long $1.4mm/bp ABX	$798mm loans funded vs. $842mm market value $221mm resids and bonds funded vs. $344mm market value	$2.5B High Grade $2.2B mezzanine	$10mm minority equity investment (Senderra & LownHome)
Primary Risk	LIQUIDITY & COUNTER-PARTY ✓Spreads widen pre-deal ✓Counterparty failure - EPDs ✓Liquidity dries up, can't issue bonds	REALIZED LOSSES ✓Losses exceed estimates	MARKET SPREADS ✓ABX/single name CDS basis widens	COUNTER-PARTY CREDIT ✓Counterparty defaults and misses margin calls	MARKET SPREADS ✓CDO liabilities widen making deal uneconomic and assets in warehouse widen	REPUTATIONAL & COUNTER-PARTY
Mitigant	✓Largest exposures generally to better capitalized counterparties ✓Short $8B of CDS/ABX	✓Seasoning of book ($6mm '02, $2mm '03, $45mm '04, $63mm '05 and $173mm '06)	✓Short $1.4mm/bp single name CDS ✓Directionally flat	✓Mark-to-market rights ✓All margin lending ✓Ability to trap cash and offset	✓Risk Sharing ✓CDS on CDOs ✓Pre-placement	✓Board Seats ✓Additional oversight ✓Loan due diligence

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Residential Loan Competitors

	Origination		Servicing	International Presence	Platform Name	Servicer Name
	Direct	Conduit				
Bear Stearns	X	X	X	X	Encore	EMC
Credit Suisse		X	X	X		Select
Deutsche Bank	X	X		X	Chapel / MortgageIT	
Goldman Sachs		X	X			Avelo
RBS Greenwich						
Lehman Brothers	X	X	X	X	BNC Mortgage	Aurora
Merrill Lynch	X		X	X	First Franklin	Home Loan Services
Morgan Stanley	X	X	X	X	Saxon	Saxon

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Competitive Benchmarking

	GS	LEH
Relative Impact (2005 YE)		
Gross Revenue	$885 mm	$2,025 mm (est.)
Balance Sheet (Net)[1]	$31.4 bn	$48.5 bn
Headcount[2]	293	4,500-5,500 (est.)
Pro Forma Revenue[3]	$1,860 mm (adj.)	$2,025 mm (est.)
% of FICC Revenue (PF)	21.9%	27.7%
% of Firmwide Revenue (PF)	11.4%	13.8%
Business Lines		
Liquid Products	via IRP	IRP JV
Warehouse Lending	Yes	Yes
Structured Products Trading	Yes	Yes
CDOs / CLOs	Credit JV	Credit JV
Residential Conduit	Yes	Yes
Retail Mortgage Orig.	In Process	Yes
Residential Servicer	Yes	Yes
Commercial Mortgage Orig.	IBD JV	Yes
Real Estate Principal	via REPIA/Whitehall	Yes
Special Situations	via GSSG	Yes
International	Small	Yes

[1] Excludes pass-throughs and agencies, as per external reporting.
[2] Aggregates Mortages (215), CMBS origination {Archon Financial} (51), and Loan Servicing {Avelo Mortgage} (27).
[3] Adds back IBD portion of CMBS JV, Euro CMBS, the US PFG effort, and REPIA.

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Opportunities, Challenges and People

Opportunities

Platforms

New Products

CDOs & CLOs

Securitization Finance

International

Challenges

Environment

Competitors

Distribution

Systems

Internal structural issues & conflicts

Key People & Moves

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11-B

Appendix

1. Subprime Recent History
2. CDO Pipeline
3. Growth Opportunities
4. Challenges
5. People

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Subprime Recent History

	Year	Annual Volume	Loan Prices	Pre-tax Lender Margin	Cum. Loss of Loans	EPD Fre-quency	EPD Losses	Street Loan Buyers
	2002	$225B	104	150 bps	2%	1%	10-15 bps	5
New lenders enter	2003	$350B	105	250 bps	2.5%	1%	10-20 bps	8
Rapid market & CDO growth	2004	$550B	103 1/2	150 bps	3%	2%	15-25 bps	10
Credit loosened as rates rise	2005	$650B	103	100 bps	4.5%	2.5%	25-35 bps	15
HPA down & credit pain	2006	$650B	102	0 bps	6%	4%	40-60 bps	12

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GS CDO Pipeline

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Deal Name	Collateral Type	Manager	Mgmt Type	Expected Pricing
Camber 7	Struct Prod CDO	Cambridge Place Coll. Mgmt	Managed	Q1 2007
Fort Denison Funding	Struct Prod CDO	Basis Capital	Def Mngd	Q1 2007
Charles Funding	Struct Prod CDO	GS (Liquidation Agent)	Static	Q1 2007
Timberwolf CDO	Struct Prod CDO	Greywolf Capital Management	Def Mngd	Q1 2007
JPMIM	Struct Prod CDO	JP Morgan Investment Mgmt	Managed	Q1 2007
Point Pleasant CDO	Struct Prod CDO	Dillon Read Capital Mgmt	Static	Q1 2007
Madison Park IV	U.S. CLO	[redacted]	Managed	Q1 2007
Harch III CLO	U.S. CLO	[redacted]	Managed	Q1 2007
GSAM CLO	U.S. CLO	[redacted]	Managed	Q1 2007
Westwood CDO II, Ltd.	U.S. CLO	[redacted]	Managed	Q1 2007
Katonah X CLO	U.S. CLO	[redacted]	Managed	Q1 2007
Nob Hill CLO II	U.S. CLO	[redacted]	Managed	Q2 2007
Halcyon CLO	U.S. CLO	[redacted]	Managed	Q2 2007
ACA CLO 2007-1, Ltd.	U.S. CLO	[redacted]	Managed	Q2 2007
Dalradian Europ. CLO III	European CLO	[redacted]	Managed	Q1/Q2 2007
[Malin] CLO	European CLO	[redacted]	Managed	Q1/Q2 2007
CELF Loan Partners IV	European CLO	[redacted]	Managed	Q1/Q2 2007
Harbourmaster ProRataIII	European CLO	[redacted]	Managed	Q1/Q2 2007
HSAM Europ. CLO 2007	European CLO	[redacted]	Managed	Q1/Q2 2007
GSMS 2007 – NCM1	CRE CDO	[redacted]	Static	Q1 2007
Sandelman Realty 2007-1	CRE CDO	[redacted]	Managed	Q1 2007
Aladdin Synthetic CDO II	US Corp Mngd Synth CDO	[redacted]	Managed	Q1 2007
Millennium Park CDO	Corp Cashflow CDO	[redacted]	Managed	Q1 2007
ORCA Funding	CDO Equity Sponsorship Vehicle			

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Opportunities for Growth

Platforms	Residential platform vertical integration & product expansion (conduit, Alt A, prime, servicer, asset management)
	Build / acquire resi origination platform in US – long-term payoff
	Build / acquire other platforms – REIT, multi-family loans, student loans, auto loans, international
New Products	Property derivatives – commercial and residential
	Distressed trading – Resi Credit and SP CDO
	Synthetic products – managed synthetics, CPDO, CPPI, residual synthetics
	Reverse mortgages, small balance commercial loans and synthetic hybrids
	Bank balance sheet restructurings
	Prop investing & prop desk
CDOs & CLOs	Combine SP CDOs , correlation, secondary CDOs and tranched index trading
	Growth of CDOs & CLOs globally
	CRE CDOs
	Asia sponsored SP Deals
	Secondary CDO trading
	Alternative capital raising – CDO, REIT, Credit opp funds
	Portfolio credit integration – with corps and globally
Securitization Finance	LBO & esoteric secured financing opportunities – including whole business
	CRE product expansion – LBO, construction, healthcare, non-US, esoteric, ARCs-like acquisition
	Infrastructure finance
International	Europe expansion – secondary trading, securitization, CMBS, resi platform, warehouse lending, SP/CRE CDOs, correlation, loan pricipalling
	Other locations – Asia and Latin America

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Risks, Challenges and Structural Issues

Environment	Very rough going in Resi Credit world – p&l will be challenging
	Housing price & loan volume declines
	Investing in business in difficult environment
	Performance of GS Resi deals
	Flat yield curve
	Tight spreads and low vol in non-subprime sector
	Event and headline risk in subprime
Competitors	Competition – driving margins down & risk up
	Vertically integrated originators controlling product flows
	People
	Financing and super-senior risk
	Portfolio Lenders
Distribution	Global & middle market distribution
	Mezz distribution – especially CDO
	Marketing tools and support
Systems	SecDB
	Relative value tools with strats
	Operations
Internal structural issues & conflicts	IBD R.E.
	Financing Group
	SSG & REPIA
	Non-US opportunities
	Dealing with small counterparties

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Key People Issues

People moves – strategic allocation of talent:

- Bunty Bohra to manage ABS Finance & lead coordination with Financing Group

Separation of origination function from management of residual/equity

- Cyrus Pouraghabagher
- Ben Case to trade SP CDO (secondary and equity)

Full time systems person to work with desks, ops, strats, technology and controllers

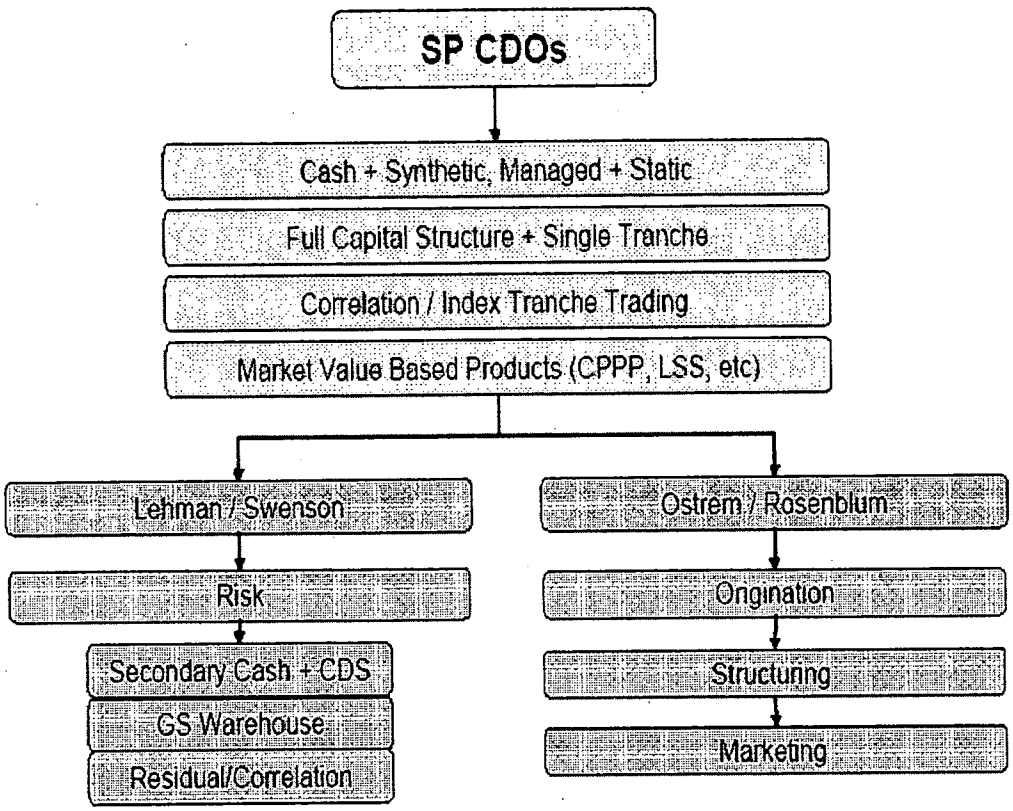
- Suok Noh

Key people & potential moves:

- Clay DeGiacinto
- Genevieve Nestor
- Janet Bell
- Chris Creed
- Scott Wisenbaker & Mitch Resnick
- Brian Snyder
- Matt Nichols
- Michael Cawthon
- Omar Chaudhary
- Roger Boone
- Rajiv Kamilla
- Jon Egol

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Cash & Synthetic SP CDOs Combination



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From: Krausz, Amy
Sent: Thursday, November 02, 2006 10:15 AM
To: ficc-abstrading; ficc-wlcredit
Cc: Cohen, Jennifer L.; Nikodem, Paul
Subject: Q3 Mortgage Investor Survey Results: PLEASE COMMENT

Attachments: mortgage survey oct06 v2.doc

Hello -

Attached is the draft of the results of the Q3 Mortgage Investor Survey. **Please review and send comments by the end of today**. (Note that all graphs will be gstyled appropriately).

Thank you!
Amy



mortgage survey oct06 v2.doc

Amy Krausz
Goldman Sachs
Mortgage Strategies
Fixed Income, Currencies, and Commodities
Tel: 212.357.4794
Fax: 212.256.2498

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19-2

Structured Products Strategies
Alan Brazil (212) 902-4822
Jennifer Cohen (212) 357-2280
Eric Splaver (212) 357-9673
Paul Nikodem (212) 357-5048
Amy Krausz (212) 357-4794

November 1, 2006

Clients expect a downturn in housing in 2007, investors worried about high LTV, low/no doc loans, and pay option ARMs, origination volumes to be down 10% in 2007

Housing Market

Investors are predominantly bearish on the housing market (almost 70% think that home prices will decrease by at least 5%). This is significantly more bearish than investor views from our previous survey, where 38% of investors thought that prices would remain flat, and 30% thought that prices would drop by 5% next year.

In the case of a nationwide downturn in the housing market, most investors (90%) anticipate that losses on Subprime collateral will range between 4% and 8%. This figure is slightly lower than what many research departments are projecting. Most investors think that these collateral losses would cause partial losses on the lower rated tranches.

CDS and ABX

A majority of respondents (73%) have transacted or are planning to transact in ABX and/or CDS. The product is playing a small but growing role in portfolios – 39% of investors expected to have synthetics represent less than 10% of their portfolios, while another 16% of investors expected ABX / CDS to represent 10-25% of their portfolios. Respondents are evenly distributed between using CDS and/or ABX to ramp a CDO and express views on relative value (both at 26%). An additional 21% use CDS and/or ABX to express a view on home prices, up from 15% three months ago. This is in line with the general bearish view on the housing market. Seven investors plan to use ABX/CDS to express a view on home prices. Of those seven, six investors (86%) plan to participate in the housing derivatives market.

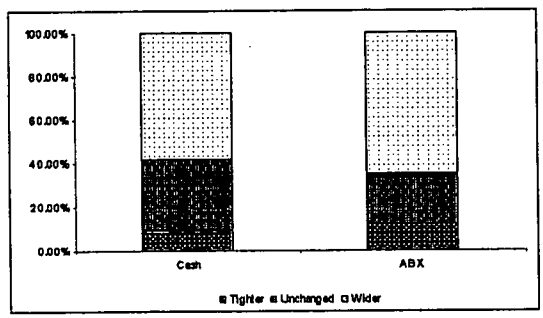
Home Price Derivatives

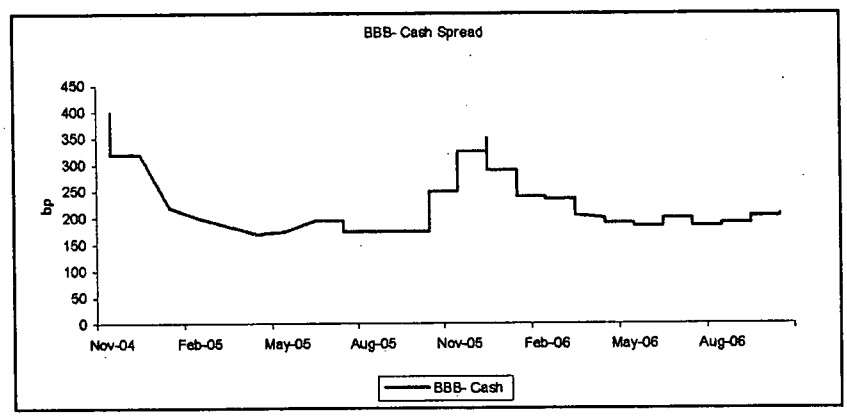
35% of respondents plan to participate in the housing derivatives market in the near future. Of those that plan to participate, most intend to invest in CDS contracts (64%).

Spreads

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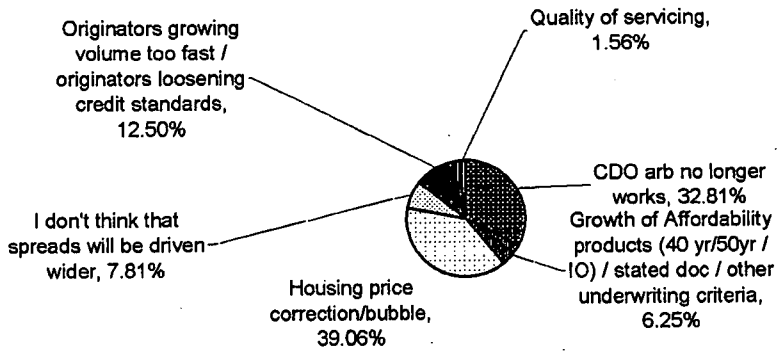
In both cash and ABX spreads, investors are generally of the opinion that BBB-s will widen (55% and 62%, respectively), comparable to results of early surveys. Fewer investors think BBB- spreads would tighten (10% now vs. 19% 3 months ago). Investors are still less bearish when compared to historical standards, however, as shown on the graph below. Since the inception of the survey two years ago, investors have been consistently bearish on spreads, although spreads have tightened in for the most part during that time period.





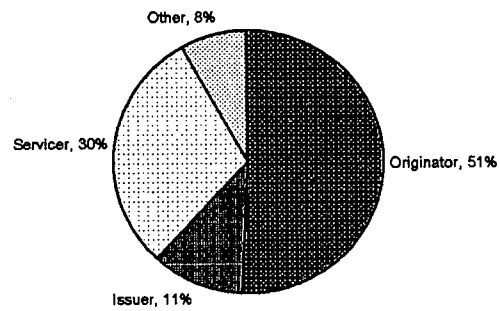
Investor Concerns / Risks to Sector

Overall, a large percentage of respondents are favorable to the Subprime sector, but view it as riskier than other ABS sectors (57% of respondents). Similarly, a large percentage of respondents are favorable to the Alt-A sector; however, they view it as less risky than other ABS sectors (37%). Most investors are worried that a housing price correction (39%) and CDO arb going away (33%) could drive subprime spreads wider, similar to the results of the July survey. Investors in Europe are most worried about a housing correction (44%), but also show concern that origination volumes are growing too fast and that credit standards are loosening (22%).



Investors' greatest concerns in new product risk are high LTV loans (40% of respondents), stated/no doc loans (31%), and Pay Option ARMs (22%).

When investors evaluated similar pools of subprime loans, the characteristic investors focused on most was the originator (51% of respondents), followed by servicer (30%).



Another area of concern amongst investors is Reverse Mortgages (RMs). 43% of investors would not invest in an RM without at GSE wrap. An additional 32% accede that a GSE wrap is important, but would invest nonetheless if the yield was right. Only 12% of investors would buy RMs without HECM government insurance; the remaining 88% would definitely not or are unsure. Majority of investors (56%) would not invest in longer term accrual bonds backed by RMs.

New Products

Investors feel differently about the various new mortgage products on the market. 47% of the investors surveyed invest in deals with second lien loans in them, 51% invest in deals with option arms, and 29% in scratch and dent. Additionally, 15% of the investors polled invest in deals with SBC loans, and another 22% are considering this asset class.

While currently there are no investors in reverse mortgages, 10% are actively looking at that sector. Most investors invest in both fixed and floating rate bonds, with a slight weighting towards floating. Depending on the product, different collateral characteristics become important:

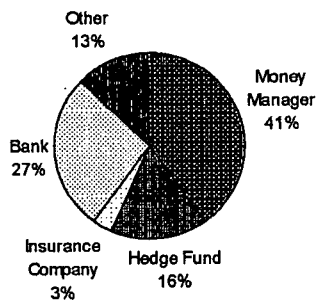
	Most scrutinized factor
Second Liens	CLTV
Option Arms	FICO
S&D	FICO, CLTV, DOC
Reperforming	FICO, CLTV, DOC, OCC

Origination in 2007

A large percentage of investors expected subprime origination volumes to be down 10% in 2007 vs. 2006 (47% of respondents for Alt-A, 43% for Subprime). 21% of respondents thought that volumes would be flat, and 11% thought that volumes would be down more than 20%.

Demographics of Respondents

Of the 66 responses to this investor survey, 27% were banks, 40% were money managers, 16% were hedge funds, 3% were Insurance companies, and the remaining 13% did not fall into the above categories.



Geographically, 6% were from Asia, 14% were from Europe, and 80% were from North America. 39% of respondents were CDO managers, with 17% focusing on high grade and 23% focusing on mezzanine.

	Asia	Europe	N. America	Total
I am a				
Money Manager	0.00%	11.11%	48.98%	40.32%
Hedge Fund	0.00%	11.11%	18.37%	16.13%
Insurance Company	0.00%	0.00%	4.08%	3.23%
Bank	100.00%	66.67%	14.29%	27.42%
Other	0.00%	11.11%	14.29%	12.90%
With regard to Structured Products CDOs				
I am a CDO manager currently focusing primarily on High Grade	25.00%	11.11%	17.02%	16.67%
I am a CDO manager currently focusing primarily on Mezzanine	0.00%	22.22%	25.53%	23.33%
I am not a CDO manager and have no plans to manage a CDO in 2006	75.00%	66.67%	48.94%	53.33%
I will become a CDO manager in 2006	0.00%	0.00%	8.51%	6.67%
With respect to the 'high property value' areas of Los Angeles, San Diego, San Francisco, Miami, Washington DC, New York and Boston, by the end of 2007 I expect home prices to be:				
Down 15 percent or more	25.00%	11.11%	3.85%	6.15%
Down 10 percent	25.00%	11.11%	34.62%	30.77%
Down 5 percent	25.00%	44.44%	38.46%	38.46%
Flat	25.00%	22.22%	7.69%	10.77%
Up 5 percent	0.00%	11.11%	15.38%	13.85%
If Housing on a national level goes down, I think that the impact on low rated Subprime bonds will be:				
Losses will increase to 4-5%	50.00%	55.56%	43.40%	45.45%
Losses will increase to 6-8%	50.00%	33.33%	45.28%	43.94%
Losses will increase to 9-10% or greater	0.00%	0.00%	9.43%	7.58%
Losses will stay the same (2-3%)	0.00%	11.11%	1.89%	3.03%
If Housing on a national level goes down, I think the impact on Subprime lower rated bonds will be:				
Full losses on the lower rated tranches	0.00%	0.00%	9.62%	7.69%
No losses, credit support is sufficient	25.00%	11.11%	3.85%	6.15%
No losses, HPA will not increase collateral losses significantly	0.00%	11.11%	7.69%	7.69%
Partial losses on the lower rated tranches	75.00%	77.78%	78.85%	78.46%
In three months I think cash BBB- will be				
Tighter	0.00%	22.22%	7.69%	9.23%
Unchanged	25.00%	33.33%	32.69%	32.31%
Wider	75.00%	44.44%	59.62%	58.46%
In three months I think ABX BBB- will be:				
Tighter	0.00%	33.33%	9.62%	12.31%
Unchanged	25.00%	33.33%	21.15%	23.08%
Wider	75.00%	33.33%	69.23%	64.62%
I think the biggest factor that could drive Alt-A/Subprime spreads wider is:				
CDO arb no longer works	25.00%	11.11%	37.25%	32.81%
Growth of Affordability products (40 yr/50yr / IO) / stated doc / other underwriting criteria	0.00%	0.00%	7.84%	6.25%
Housing price correction/bubble	75.00%	44.44%	35.29%	39.06%
I don't think that spreads will be driven wider	0.00%	11.11%	7.84%	7.81%
Originators growing volume too fast / originators loosening credit standards	0.00%	22.22%	11.76%	12.50%
Quality of servicing	0.00%	11.11%	0.00%	1.56%

	Asia	Europe	N. America	Total
_____ concern me the most from a credit perspective, all else being equal:				
50-year Loans	0.00%	0.00%	1.92%	1.54%
High (100+) LTV loans	25.00%	22.22%	44.23%	40.00%
IO loans	50.00%	11.11%	1.92%	6.15%
Pay Option ARMs	25.00%	33.33%	19.23%	21.54%
Stated/no-doc loans	0.00%	33.33%	32.69%	30.77%
I think Alt-A (including Option ARMs) origination volume in 2007 will be ____ relative to 2006:				
Down 10 percent	0.00%	22.22%	50.98%	43.75%
Down 20 percent or greater	25.00%	0.00%	7.84%	7.81%
Flat	75.00%	55.56%	23.53%	31.25%
Up 10 percent or greater	0.00%	22.22%	17.65%	17.19%
I think Subprime origination volume in 2007 will be ____ relative to 2006:				
Down 10 percent	75.00%	33.33%	38.46%	40.00%
Down 20 percent or greater	0.00%	0.00%	13.46%	10.77%
Flat	25.00%	22.22%	38.46%	35.38%
Up 10 percent or greater	0.00%	44.44%	9.62%	13.85%
I view the Subprime sector vs. other ABS classes as:				
I like it LESS than other ABS sectors, and I believe that the Subprime sector is LESS risky than other ABS sectors	0.00%	0.00%	0.00%	0.00%
I like it LESS than other ABS sectors, and I believe that the Subprime sector is MORE risky than other ABS sectors	0.00%	66.67%	21.15%	26.15%
I like it MORE than other ABS sectors, and I believe that the Subprime sector is LESS risky than other ABS sectors	25.00%	22.22%	15.38%	16.92%
I like it MORE than other ABS sectors, and I believe that the Subprime sector is MORE risky than other ABS sectors	75.00%	11.11%	63.46%	56.92%
I view the Alt-A sector vs. other ABS classes as:				
I like it LESS than other ABS sectors, and I believe that the Alt-A sector is LESS risky than other ABS sectors	0.00%	11.11%	2.04%	3.23%
I like it LESS than other ABS sectors, and I believe that the Alt-A sector is MORE risky than other ABS sectors	0.00%	44.44%	26.53%	27.42%
I like it MORE than other ABS sectors, and I believe that the Alt-A sector is LESS risky than other ABS sectors	75.00%	33.33%	34.69%	37.10%
I like it MORE than other ABS sectors, and I believe that the Alt-A sector is MORE risky than other ABS sectors	25.00%	11.11%	36.73%	32.26%
When choosing between various Alt-A/Subprime pools with similar credit characteristics, the following factor is most important to me in tiering the different pools:				
Originator	25.00%	55.56%	52.00%	50.79%
Issuer	25.00%	0.00%	12.00%	11.11%
Servicer	50.00%	44.44%	26.00%	30.16%
Other	0.00%	0.00%	10.00%	7.94%
If credit enhancement levels increase:				
I would be more likely to buy lower rated tranches, but only at the same spread	25.00%	11.11%	7.84%	9.38%
I would be more likely to buy lower rated tranches, even at a wider spread	25.00%	44.44%	50.98%	48.44%
I would not change my investing habits	50.00%	44.44%	41.18%	42.19%
My current involvement in CDS and/or ABX could be described as follows:				
Have already transacted in CDS and/or ABX	0.00%	33.33%	45.10%	40.63%
Have not transacted in CDS and/or ABX, but am considering it	0.00%	33.33%	27.45%	26.56%
Will probably not transact in CDS and/or ABX	100.00%	33.33%	27.45%	32.81%

	Asia	Europe	N. America	Total
I use CDS and/or ABX in the following way:				
Express a view on home prices (macro view)	100.00%	0.00%	20.69%	20.59%
Express views on relative value	0.00%	50.00%	24.14%	26.47%
Hedge against spread widening in credit products	0.00%	0.00%	17.24%	14.71%
Pick up spread by selling protection	0.00%	25.00%	10.34%	11.76%
To Ramp a CDO	0.00%	25.00%	27.59%	26.47%
As a percentage of my total portfolio, by the mid of 2007 CDS and/or ABX will represent:				
10-25 percent	0.00%	11.11%	17.65%	15.63%
25-50 percent	0.00%	11.11%	9.80%	9.38%
Less than 10 percent	25.00%	33.33%	41.18%	39.06%
More than 50 percent	0.00%	11.11%	5.88%	6.25%
None	75.00%	33.33%	25.49%	29.69%
On the Housing Derivative Market:				
I don't plan to participate	75.00%	77.78%	61.22%	64.52%
I plan to participate	25.00%	22.22%	38.78%	35.48%
I plan to participate in the housing derivatives market by:				
2nd generation products (options, structured paper, etc.)	100.00%	50.00%	21.05%	27.27%
CDS contracts	0.00%	0.00%	73.68%	63.64%
Forwards	0.00%	50.00%	5.26%	9.09%
For bond backed by RMs, I feel it is ___ to have a GSE wrap				
Not important if yield is right	0.00%	0.00%	28.21%	23.91%
Somewhat important, but would still invest if the yield is right	0.00%	50.00%	30.77%	32.61%
Would not invest without a GSE wrap	100.00%	50.00%	41.03%	43.48%
I would consider buying bonds backed by RMs without HECM government insurance:				
Maybe	0.00%	66.67%	39.53%	40.38%
No	100.00%	33.33%	46.51%	48.08%
Yes	0.00%	0.00%	13.95%	11.54%
I would invest in longer term accrual bonds backed by RMs:				
Maybe, but I don't really understand	0.00%	33.33%	34.88%	32.69%
Maybe, but I prefer current pay	0.00%	33.33%	4.65%	7.69%
No	100.00%	33.33%	55.81%	55.77%
Yes	0.00%	0.00%	4.65%	3.85%
I have invested in a CMBS deal with weighted average loan balance of less than $2 million:				
No	0.00%	42.86%	43.18%	40.74%
Not invested in CMBS	100.00%	14.29%	38.64%	38.89%
Yes	0.00%	42.86%	18.18%	20.37%

	2nd Lien Loans	Option ARMs	S&D	Re-performing
I participate in the following part of the capital structure in:				
AAA	30.77%	31.11%	22.95%	28.36%
AA or A	17.95%	20.00%	13.11%	14.93%
BBB or BBB-	8.97%	11.11%	8.20%	5.97%
BB+ or BBB-	5.13%	6.67%	4.92%	4.48%
Residuals	3.85%	4.44%	3.28%	2.99%
None	33.33%	26.67%	47.54%	43.28%
I invest in pools backed by				
Yes	46.88%	50.79%	28.57%	0.00%
No	42.19%	41.27%	57.14%	70.73%
No, but considering	10.94%	7.94%	14.29%	29.27%
I buy the following products in _____ deals.				
Fixed rate only	10.34%	1.85%	2.04%	9.62%
Floating rate only	24.14%	38.89%	18.37%	15.38%
A combination of fixed and floating rate	18.97%	14.81%	14.29%	19.23%
None	46.55%	44.44%	65.31%	55.77%
When I look at _____ pools, the credit variable that I give greatest scrutiny to is:				
CLTV	25.81%	14.29%	20.51%	25.64%
Allowable Neg Am	4.84%	24.29%	10.26%	7.69%
Documentation Level	19.35%	18.57%	23.08%	23.08%
Credit Score	35.48%	27.14%	28.21%	23.08%
Occupancy Type	14.52%	15.71%	17.95%	20.51%
Total	100.00%	100.00%	100.00%	100.00%
Relative to subprime, I think _____ are trading:				
Cheap	29.79%	46.51%	21.88%	20.00%
In-line	31.91%	18.60%	53.13%	50.00%
Rich	38.30%	34.88%	25.00%	30.00%
	RMs	**SBCs**		
For Reverse Mortgages (RMs), Small Balance Commercial (SBC):				
I have bonds backed by ___ in my portfolio	0.00%	14.55%		
I am planning to add bonds backed _____ to my portfolio	10.87%	21.82%		
I am not planning to add bonds backed _____ to my portfolio	89.13%	63.64%		
I would characterize my knowledge of RM, SBC product as:				
I have sufficient knowledge to make an investment	26.00%	32.08%		
I would have to become more familiar with the product before making an investment	74.00%	67.92%		

From: Sparks, Daniel L
Sent: Thursday, August 10, 2006 7:26 PM
To: Ostrem, Peter L; Rosenblum, David J.
Subject: Re: Leh CDO Fund

Next week, in the meantime calm the blank down

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Ostrem, Peter L
To: Rosenblum, David J.; Sparks, Daniel L
Sent: Thu Aug 10 19:23:57 2006
Subject: Re: Leh CDO Fund

P.S. Ricciardi has done nothing. He is lost in "tax" ideas which is a worthless route in my opinion. We have sold to High Net Worth withourt any discussion on this point by the way.
I need real leverage. Got some structured ideas too. When can we talk strategy for an hour or so?

----- Original Message -----
From: Ostrem, Peter L
To: Rosenblum, David J.; Sparks, Daniel L
Sent: Thu Aug 10 19:07:43 2006
Subject: Re: Leh CDO Fund

Let's do our own fund. SP CDO desk. Big time. GS commits to hold proportion of equity outright. This could be big. Of course, after Orca closes! I need orca orders. We are slipping here and I need both your help!

----- Original Message -----
From: Rosenblum, David J.
To: ficc-clo; ficc-spgsyn
Cc: Ostrem, Peter L; Sparks, Daniel L
Sent: Thu Aug 10 19:02:32 2006
Subject: Fw: Leh CDO Fund

Fyi
D

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

----- Original Message -----
From: Hornback, Joseph
To: Wisenbaker, Scott; Rosenblum, David J.
Cc: Raz, Shlomi; Ricciardi, Steven
Sent: Thu Aug 10 18:57:54 2006
Subject: Leh CDO Fund

David and Scott,

Steve and I wanted to post you on the current status and plans at the LEH CDO fund. In the way of background, the Leh CDO Fund 1 ([redacted]) consists of [redacted] equity of predominately [redacted] risk (they have bought equity in a couple of [redacted] deals). Their performance to date has been well received by their investors. They are currently raising their 2nd fund and already have indications north of [redacted] without any OC or marketing

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materials (including [redacted] from the [redacted] that Steve tee'd up before he left). Their initial intentions were to raise another [redacted] fund, but given their success so far they are contemplating a larger fund with a longer drawdown period. The strategy of the 2nd fund will have a slightly different twist. Consistent with the 1st fund, they will be investing heavily in [redacted] But they want to also execute macro hedging and long short structured credit strategies along with exploring MV structures with the appropriate managers.

Below is a list of managers that Leh has multiple commitments with:

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman, Sachs & Co.
One New York Plaza | 50th Floor | New York, NY 10004
Work: 212-902-7357 | Fax: 212-256-6360
email: joseph.hornback@gs.com

Goldman

Sachs

Joe Hornback
Vice President - Structured Credit
Fixed Income Currency & Commodities Division

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From: Herrick, Darryl K
Sent: Thursday, June 08, 2006 10:50 AM
To: Ostrem, Peter L
Subject: Fw: **GS ABS** RMBS CDS Lineup

Attachments: 61103082.htm

Shelves people are shorting are enhanced garbage

Darryl Herrick
Structured Products Group
Goldman, Sachs & Co.

-----Original Message-----
From: Salem, Deeb <Deeb.Salem@ny.email.gs.com>
Sent: Thu Jun 08 10:17:12 2006
Subject: **GS ABS** RMBS CDS Lineup



61103082.htm

1 BWIC, OWICs

11am BWIC:
$10mm per, $100mm total

TMTS 2006-1 1B1	881561M92	Baa1	BBB+
TMTS 2006-6 B2	BCC0PL4B8	Baa1e	BBB+
CMLTI 2006-WMC1 M8	17307G2F4	Baa2	BBB+
CMLTI 2005-WF1 M3	17307GPJ1	Baa2	BBB
EMLT 2005-1 M8	29445FCV8	Baa2	BBB
HASC 2006-OPT3 M8	40430HFV5	Baa2	BBB+
JPMAC 2006-WMC1 M8	46626LJC5	Baa2	BBB
MSHEL 2006-2 B2	61744CYX8	Baa2	BBB+
MMLT 2005-3 M8	59001FDU2	Baa2	A
MLMI 2006-HE1 B2A	59020U3N3	Baa2	BBB+

12pm OWIC:
$9mm per, $18mm

152314PB0	CXHE 2005-C B1	Baa2	
86359BZ79	SASC 2005-NC1 M7	Baa2	

1pm OWIC:
$5-10mm per, $100-200mm

$5-10mm	00764MBH9	AABST 2004-1 B2	Baa2	BBB	BBB
$5-10mm	03072SMC6	AMSI 2003-11 M5	Baa2	BBB	BBB
$5-10mm	03072SNJ0	AMSI 2003-13 M5	Baa2	BBB	BBB
$5-10mm	03072SNK7	AMSI 2003-13 M6	Baa3	BBB-	NR
$5-10mm	68389FEM2	OOMLT 2003-6 M6	Baa3	BBB-	BBB
$5-10mm	68400XBZ2	OOMLT 2003-5 M6	Baa3	BBB-	BBB
$5-10mm	040104LV1	ARSI 2004-W10 M8	Baa3	BBB-	BBB-
$5-10mm	04541GLB6	ABSHE 2004-HE5 M6	Baa3	BBB-	BBB
$5-10mm	126673PB2	CWL 2004-12 BV	Baa3	BBB-	NR
$5-10mm	61744CHX7	MSAC 2004-NC8 B3	Baa3	BBB-	BBB-
$5-10mm	61746RHX2	MSAC 2004-WMC2 B3	Baa3	BBB-	NR
$5-10mm	81375WAQ9	SABR 2004-NC1 B3	Baa3	BBB-	BBB-
$5-10mm	84751PDC0	SURF 2004-BC3 B2	Baa3	BBB	NR
$5-10mm	36228FR81	GSAMP 2004-HE1 B2	Baa3	BBB	NR
$5-10mm	76110WJ80	RASC 2004-KS11 M6	Baa3	BBB	BBB-

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Wall Street & The Financial Crisis
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GS MBS-E-016445770

$5-10mm	004421ER0	ACE 2004-HE1 M6	Ba2	BBB-/*-BB-	
$5-10mm	04541GKJ0	ABSHE 2004-HE4 M7	A3	BBB	NR
$5-10mm	03072SQH1	AMSI 2004-R3 M6	Baa3	BBB-	BBB-
$5-10mm	040104EJ6	ARSI 2003-W9 M5	Baa2	BBB	BBB
$5-10mm	12489WJC9	CBASS 2004-CB2 B2	Baa2	BBB	BBB

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Rosenblum, David J.
Sent: Wednesday, February 28, 2007 1:53 AM
To: Ostrem, Peter L
Subject: Pete-- pls send me cob 2/28 MTM for SP CDO WH's first thing in the morning

dan tells me that SP CDO desk has reported -77 from retained debt (Hmezz 1+2, etc), and -129 from unrealized and realized CDO WH markdowns

am trying to reconcile that to the WH MTM sheet you sent me this morning-- perhaps it'll make sense when you send me the 2/28 version (plus JPMIM losses) - also Please remove JPMIM WH from the MTM sheet, and/or remove all the asssets and hard code in the realized loss.

Thoughts and Questions:
0. the 1.75bln 06-1 abx AAA short - is that still the property of the SP CDO desk - we'd originally put that on against the retained s.seniors from the two HG deals in Dec
1. retained CDO debt (Huds mezz 1+2, etc) - is that the sole property of the swenson desk now? - and if not do you want it to be, and I understand its hedged with index now - it makes tons of sense to have these hedged with index - who specifically is managing this risk now and are we still sharing 50pct of ups and downs on it is basically what I am asking here
2. the two Dec HG SS's totalling $2.65bln - how confident are you that [redacted] will be good for the credit - if we say 50pct change and hedge half, then that is 1.325bln AAA abx - if we say 75pct chance of getting done, then that is $663mm AAA abx - i am inclined to go with the 75pct chance of it getting done number
3. Greywolf - great job - understand all-in execution approx L+100 - do you agree - should we hedge the bottom 50 pct and/or when can we get it sold and to whom - else do you have a hedge thought - mine would be shorting approp. hedge ratio worth of underlyin single-A CDOs
4. Dillon Read - timing on Natexis signature - where is ss attachment? - can we get them to fund earlier in exchange for carry - thought on a hedge for rest of cap strcture
5. [redacted] think we should short AAA abx against this warehosue, primmarily to hedge super senior- 80% of 1.5bln is 1.2bln AAA abx I figure
6. [redacted]- think we should short AA and A index against this warehouse
7. Anderson - status report with rabo please on SS
8. [redacted] understand major differential betw mark to market and mark to model (as is true massively on any single A CDO^2 at the moment it seems) - this situation can't possibly persist - shouldn't we liquidate both of them, and upsize GW or DR, and find a brand name manager to get SS done from both warehouses mixed together or something? can you noodle around this train of thought please? this way you hit them both for $10mm, and print the trade with a brand name guy, and do it as a managed trade with reinvestment period even--whatever promotes super senior execution - in the meantime think we should short some ABX single-A on these
9. [redacted]- wouldn't hedge this one at this point - if plan to grow it would short BBB- index against it - at least 1:1 ratio
10. [redacted]- Pat is going to want to know whether we plan to proceed with mgd index trade with him or not when we talk at 3pm

Potential Hedge Strategy
1. ABX AAA's need to be short $663mm (ret. s. seniors) plus $1.2bln ([redacted] is approx 1.866bln and we are already short 1.75bln so I think we leave ABX AAA alone for noe
2. ABX AA's - wouldn't mind to short some of these - for [redacted]- feels like best risk/reward in ABX stack to me at present - perhaps sell $250mm of this
3. ABX A's - wouldn't mind to short some of these - for [redacted]- thinking around $250mm
4. ABX BBB's - wouldn't mind to short some of these - for [redacted]- thinking around $250mm

alternatively, we could just sell, say, $1BLN of ABX AA's under the thought that it will get punished (like single A's did recently) if stuff continues to deteriorate and if not, or if stuff improves from here, it only rally 50bp on us which on $1BLN only costs us, say, $15mm to $20mm bucks - am I doing this math right? thinking I might like this best-- along with getting actual super senior done everywhere we can, as fast as we can...

please call me to discuss when you get up - thanks - d

d

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Report Footnote #1637

From: Ostrem, Peter L
Sent: Tuesday, February 27, 2007 7:26 AM
To: Rosenblum, David J.
Subject: RE: Pls send me most recent wh mk to model - tx - d

From: Rosenblum, David J.
Sent: Tuesday, February 27, 2007 9:08 AM
To: Ostrem, Peter L
Subject: Pls send me most recent wh mk to model - tx - d

From: Rosenblum, David J.
Sent: Wednesday, February 28, 2007 9:13 PM
To: Case, Benjamin; Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Cc: Sparks, Daniel L
Subject: Re: Hedges Status Report

Great. Getting pretty nailed down.

----- Original Message -----
From: Case, Benjamin
To: Rosenblum, David J.; Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Cc: Sparks, Daniel L
Sent: Wed Feb 28 21:07:47 2007
Subject: RE: Hedges Status Report

Not double-counting - the 933 in total hedge notional was designed to hedge the 780 total cash CDO debt (excluding HG super-seniors). Allocating 1.3 bln of the AAA ABX short as a hedge for the HG super-seniors leaves 925 of AAA ABX as part of the warehouse hedges.

-----Original Message-----
From: Rosenblum, David J.
Sent: Wednesday, February 28, 2007 9:00 PM
To: Case, Benjamin; Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Cc: Sparks, Daniel L
Subject: Re: Hedges Status Report

But does this mean we are double hedged on the s. senior 2.65bln, or no

----- Original Message -----
From: Case, Benjamin
To: Rosenblum, David J.; Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Cc: Sparks, Daniel L
Sent: Wed Feb 28 20:49:29 2007
Subject: RE: Hedges Status Report

Also add 1.3 bln of AAA ABX short vs. 2.65 bln in cash HG super-seniors as described in Rosie's most recent email

-----Original Message-----
From: Case, Benjamin
Sent: Wednesday, February 28, 2007 8:46 PM
To: Rosenblum, David J.; Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Birnbaum, Josh
Cc: Sparks, Daniel L
Subject: RE: Hedges Status Report

Here are the ABX hedges put on yesterday on the cash CDO retained positions (all numbers in millions):

06-1 AA	122
06-1 A	237
06-1 BBB	11

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06-1 BBB- 139
06-2 BBB 90
06-2 BBB- 144
07-1 BBB 90
07-1 BBB- 100

In aggregate, these positions were designed to hedge:

397 Hudson Mezz debt (11 BB, 80 BBB, 116 A, 76 AA, and 115 AAA)
148 Other Mezz debt (12 BB, 18 BBB, 6 A, 67 AA, and 46 AAA)
235 HG sub cash debt (46 BBB, 50 A, 10 AA, and 130 AAA) 2,650 HG super-senior AAA debt

In total notionals, we now have 933 in hedges vs. 780 in cash CDO debt (ex. HG super-seniors) for a total aggregate hedge ratio of 1.2x.

-----Original Message-----
From: Rosenblum, David J.
Sent: Wednesday, February 28, 2007 8:02 PM
To: Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Case, Benjamin
Cc: Sparks, Daniel L
Subject: Hedges Status Report

In sp cdo biz, can you now describe to me the total hedge position in:

1. AAA ABX is short 2.25bln correct? (Against retained s. seniors and altius 4) 2. AA ABX is nothing done correct? (Against cdo warehouses generally) 3. A ABX is short 250mm correct? (Against cdo warehouses generally) 4. BBB ABX is short 100mm correct? (Against retained hudson mezz / cdo debt) 5. BBB- ABX is short 50mm correct? (Against retained hudson mezz / cdo debt) 6. CDS of CDO shorts - pls describe - thought we were short 150 or so here - this should be against CDO warehouses generally now

Pls correct / confirm

Tx
D

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From: Rosenblum, David J.
Sent: Thursday, February 22, 2007 9:44 PM
To: Ostrem, Peter L
Subject: Re: League Tables

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The three:
1. Jpmim
2. Hudson Square (hardly counts really)
3. What is third?

Liquidating greywolf-- why?

Ill call you in a bit [redacted]

----- Original Message -----
From: Ostrem, Peter L
To: Rosenblum, David J.
Sent: Thu Feb 22 21:23:45 2007
Subject: FW: League Tables

FYI

Liquidating 3 warehouses tomorrow. And Dan wants to liquidate Greywolf. . .

From: Ostrem, Peter L
Sent: Thursday, February 22, 2007 9:23 PM
To: Schwartz, Harvey
Subject: League Tables

Informa Global Networks shows Goldman as #4 for SP CDOs with $19.8bln of issuance in 2006. That data is wrong as we issued $27bln in 2006. Using our $27bln number, we range 3rd behind ML ($46bln) and CITI ($33bln).

the rest is DBS ($21bln), BAS ($17bln), WACH ($17bln), CS ($17bln), MS ($15bln), IXIS ($12bln), Bear ($12bln), JPM ($12bln), UBS ($11bln), Leh ($9bln)

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From: Sparks, Daniel L
Sent: Thursday, February 22, 2007 9:10 PM
To: Montag, Tom
Subject: RE:

Long meeting tonight with entire team.
CDO warehouses have risk sharing arrangements and are long outright - most deal warehouses have a 50/50 type risk share arrangement.

Separately, Swenson/Lehman/Birnbaum have a large CDO short position. I have viewed this as a protection hedge for the department if the CDO market gets choppy.

We are there - choppy. We will make the hedges explicit based on deal probability.

We had significantly reduced warehouses (new deals) over the past 3 months, and many warehouses we have stopped adding. But we are still have risk.

Deals take time to market and execute, and there are a number of deals that should work because they are far down the road, they have good managers, or they are high grade (AAA to A deals). But as the market gets tougher, we need to be careful and focused.

There are a few deals that look tough now, including a A-rated CDO of CDOs with Greywolf.

-----Original Message-----
From: Montag, Tom
Sent: Thursday, February 22, 2007 7:24 PM
To: Sparks, Daniel L
Subject:

What other deals do we have like jpmim and what r we doing

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From: Cohn, Gary (EO 85B30)
Sent: Tuesday, February 13, 2007 7:25 AM
To: Viniar, David
Subject: Fw: Post today

----- Original Message -----
From: Sobel, Jonathan
To: Cohn, Gary
Sent: Mon Feb 12 21:15:21 2007
Subject: Fw: Post today

Justin spent over an hour with him today, I spent a couple on various things. Risk that concerns me is basis between ABX and single names as well as some CDO positions with tranched index about to debut.

I had dinner with CBass tonight to talk about taking their escrows as deposits in the bank (2bn). They complained about the margin calls on their warehouse lines, but they are meeting them as required.

----- Original Message -----
From: Sparks, Daniel L
To: Gmelich, Justin; Sobel, Jonathan
Sent: Mon Feb 12 20:54:21 2007
Subject: FW: Post today

Guys, thanks for helping out today. A little color on things that happened today. Your continued input and suggestions will be very helpful.

-----Original Message-----
From: Sparks, Daniel L
Sent: Monday, February 12, 2007 7:07 PM
To: Ruzika, Richard; Viniar, David; Montag, Tom; Smith, Sarah; McMahon, Bill; Lee, Brian-J (FI Controllers)
Cc: Winkelried, Jon (EO 85B30); Cohn, Gary (EO 85B30); Gasvoda, Kevin
Subject: Post today

(1) +$20mm P&L today.
Secondary trading desk is net short risk in form of single names and structured index vs index longs (some index shorts also). Large move down again today (A 40 bps wider, BBB/BBB- 80 bps wider).

(2) Possible significant upside in book.
The desk has been moving single names about 1/3 of what they feel the correct correlation is (around 70%). The team needs to work with controllers to demonstrate observability. As the market has moved so much one way, there is the potential for the book to currently have significant upside revenue embedded in it.

(3) Loan & resid books flat.
Loan and residual books have been marking down with movement of ABX hedges - will be reviewed for quarter end process.

(4) Resi warehouse OK.
All margin calls received. New Century moved $30mm off line today to Citi and plans to move $165mm off line Tuesday to MS, and they claim we are the only ones being harsh. C-Bass claims we are the only one margin calling. Our marks are appropriate for moves in the

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market. More margin calls are going out today.

(5) Quarter end mark process.
We continue to go through positions based on market moves, loan performance, and transitioning positions to secondary desks (Wednesday) to get set for month end.

(6) CMBS good.
First day of EOP marketing felt good - will price March. Also, GS conduit deal (GG9) will price next week and should be nice P&L.

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From: Montag, Tom
Sent: Sunday, February 11, 2007 1:52 PM
To: Winkelried, Jon (EO 85B30); Blankfein, Lloyd (EO 85B30)
Subject: Re: Mortgage Risk - Credit residential

Agreed. There is no est loss in the basis risk. Big wildcard. They think they have correlation right and moves either way should be ok but obviously index assumptions have been wrong starting last may or june when positions were being put on and the gains seduced us to do more

----- Original Message -----
From: Winkelried, Jon (EO 85B30)
To: Montag, Tom; Blankfein, Lloyd (EO 85B30)
Sent: Sun Feb 11 10:58:00 2007
Subject: RE: Mortgage Risk - Credit residential

The view of the additional downside seems less than I would have thought given size of book and also basis risk in hedges

-----Original Message-----
From: Montag, Tom
Sent: Sunday, February 11, 2007 1:26 AM
To: Winkelried, Jon; Blankfein, Lloyd
Subject: Fw: Mortgage Risk - Credit residential

Very good writeup of our positions in each sector hedges we have on and potential for further write-down over next six months. Need to view on regular email to see tables.

We are moving residuals to traders which has been a focus before the latest problems

Tom

----- Original Message -----
From: Gasvoda, Kevin
To: Montag, Tom
Cc: Sparks, Daniel L; Ruzika, Richard
Sent: Thu Feb 08 23:40:34 2007
Subject: Mortgage Risk - Credit residential

Tom,

For clarity, none of the below includes cash bonds in the ABS 2ndry book (Swenson) or CDO retained positions (FYI - the stress case in CDO positions looks like down $25mm, although bonds have been trading at our marks) . Below pertains strictly to risk in the whole loan trading businesses:

OVERVIEW

These are our primary reidiential mortgage businesses w/ credit risk:
* Subprime (Matt Nichols)
* Scratch & Dent (Michael Cawthon)
* Alt-A (Genevieve Nestor)
* Prime Hybrids/Option Arms (Clay DeGiacinto) => I'll send details on this tmrw
* 2nd liens (Dariush Pouraghabagher)

Each of these desks buy resi whole loans, securitize them and generally keep some or all of the levered equity (residuals). They have 3 primary positions with the following risks:
* Loans (held pre-securitization on average 4-8 weeks)
* Bond spreads widen pre-securitization, hedged with ABX/CDS and eurodollars/swaps

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40-5

* Duration or rates, hedged w/ swaps, mortgages, UST and ED's
* Liquidity - no bids for bonds
* Residuals or equity (created in securitization, levered first loss risk held at after-loss yields of 12-30%)
* Actual losses hedged w/ CDS/ABX since there is some correlation
* Duration (ED's, swaps)
(Note, a lot of the performance is dependent on loss timing rather than loss magnitude - big late losses may be less painful than small early losses)
* Retained bonds and NIMs (bonds not sold at securitization time)
* Spreads (ABX/CDS)
* Duration (ED's, swaps, UST)
(Note, NIM's are rated bonds we create w/ residual cashflows that are very short duration and lever our residual returns)

At your and Dan's urging, we are moving all retained bonds to 2ndry trading hands next week (mostly Mike Swenson). Also, we are moving all residual positions to a central residual trading desk next week (Cyrus Pouraghabagher).

****

SUMMARY OF LOSSES

Where we have gotten hurt this year:
* 2nd lien residual - took $20-25mm write-downs over last 3 months (could lose $5-15mm more)
* 2nd lien retained bonds - took $18mm write-down this week (could lose $5-15mm more)
* Subperforming loan book - taking $28mm write-down this week (could lose $20-40mm more)

What do these areas have in common? - most HPA sensitive sectors. They've crumbled under HPA slowdown as these are the most levered borrowers.

What have we done to mitigate? - we stopped buying subprime 2nd liens in the summer of '06 and have focused on alt-a and prime
- more emphasis at moving new issue bonds at any clearing levels
- moving retained bonds out of primary desk hands to 2ndry desk

Next shoe to drop? - '05 vintage subprime residuals, possible creep in bad performance up into alt-a

****

SUMMARY OF POSITIONS
(Note loss ranges below are not predictions. Overall feel good a/b our marks at this point but trying to show possible nearer term downsides.)

SUBPRIME
* Loans - net short spreads significantly (mostly ABX) and long $3B loans. Don't see a lot of near term P&L risk in this position.
<<Picture (Metafile)>>

* Residuals - $204mm (60% is pre-2005 vintage and less risky). Actively marketing $21mm resid trust position (aggregation of a bunch of old deals). OK w/ overall valuation, if loss performance deteriorates rather substantially over next 3-9 months, we could lose $20-40mm in these positions (mostly '06 vintage).

<<Picture (Metafile)>>

* Bonds/NIMs - much larger than usual as a byproduct of jamming out a lot of deals in Dec and Jan (some of the ABX short intentionally covers us here). Long $115mm bonds and $81mm NIMS. Downside on bonds is probably $5mm and NIMs could be $10-15mm (we've seen some stronger 2ndry prints last 2 days but haven't sold any NIMs, have sold $40mm bonds).

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<<Picture (Metafile)>> <<Picture (Metafile)>>

ALT-A
Sector has not been effected yet by lower credit contagion but we expect it to come so we've upped due dilg and are turning the book fast
* Loans - Long $5.2B loans (on the high side of normal). Higher quality loans so they produce far less lower rated bonds. Hedging w/ AAA and BBB ABX but net long spreads above BBB's (flat BBB's). Priced $660mm deal today so this drops to $4.4B. Feel good a/b executing out of loans here.

<<Picture (Metafile)>>

* Residuals - Importantly, we plan to bring our first Alt-A resid trust in March w/ a goal of selling $50-100mm of this risk (we'll sell all we get demand for). If defaults spiked up in Alt-a over next 6-9 months we could drop $20-30mm here.

<<Picture (Metafile)>>

* Bonds/NIMS - Good shape here w/ $182mm bonds but $132mm of them AAA and new, working on a large BB trade ($44mm owned) and $21mm NIMs (mostly single A). Risk is in the BB's, could lose $5mm in big spread widening.

<<Picture (Metafile)>> <<Picture (Metafile)>>

2nd LIENS
* Loans - $550mm of this is seasoned 2nd lien subprime ('05 vintage) that is performing well and will be securitized next month. $250mm is Alt-A 2nds (again performing well) and $250mm is prime HELOCs. Overall slightly long spreads above BBB and short below. Execution looks OK still on these but we could lose $5mm in this space if spreads had to widen more dramatically to place all the bonds.
<<Picture (Metafile)>>

* Residuals - $48mm but $38mm of this is Alt-A 2nds (performing well) and $10mm subprime (has been written down $20-25mm over last 3 months). The $10mm is mostly prepay penalty value, no value in the credit IO's. Could lose $5-15mm if performance problems creeps up into Alt-A 2nd liens in next 3-6 months.

* Bonds/NIMs - Took $18mm write down this week. Could drop another $5-15mm if performance falls further. Big focus to reduce these positions but bids are hard to come by.

<<Picture (Metafile)>>

S&D
* Loans - Net long top of the capital structure and short the bottom for the securitizable portion of this loan book ($380mm). Remaining subperforming book ($854mm) was written down $28mm this week do to poorer cashflows. Very credit sensitive, could lose another $20-40mm if performance falls further

<<Picture (Metafile)>>

* Residuals - $55mm total value, these are cashflowing and less levered structures than Alt-a, subprime, etc. (but lower credit quality). Could lose $5-15mm in this book if losses increased more than expected.

* Retained bonds - The BBB-BB bonds are retained for investment generally and the higher rated are marketed. Tougher bond sales since the sizes are small, the deals are private and credit work is extensive. We could lose $5-15mm here if losses stepped up and bond spreads widened materially.

<<Picture (Metafile)>>

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Goldman, Sachs & Co.
85 Broad Street, 26th Floor | New York, New York 10004
Tel: 212-902-8768 | Fax: 212-902-1691
email: kevin.gasvoda@gs.com

Kevin S. Gasvoda
Managing Director
Fixed Income Currency & Commodities

Goldman
Sachs

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From: Birnbaum, Josh
Sent: Monday, January 08, 2007 6:04 PM
To: Sparks, Daniel L
Subject: FW: ABX/Subprime Risk by vintages

Attachments: Index and Single Name Position History 2006 As of 05Jan07.xls

---

From: Kao, Kevin J.
Sent: Monday, January 08, 2007 5:39 PM
To: Birnbaum, Josh
Cc: Turok, Michael
Subject: ABX/Subprime Risk by vintages

Josh, this is updated as of Jan. 5. I'll be sending it out once a week. Do you want me to include anyone else on the distribution?



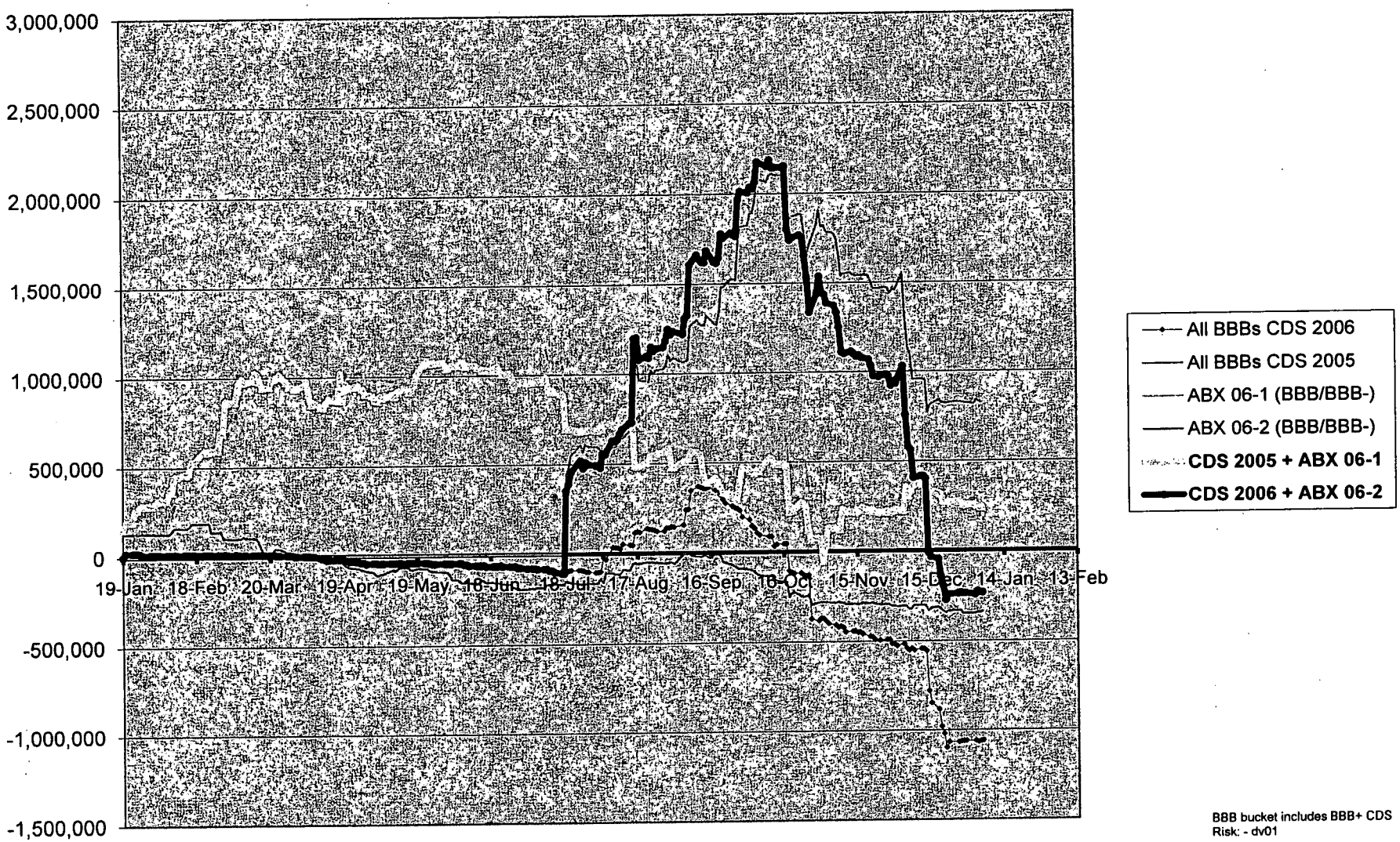
Index and Single Name Position...

Thanks.

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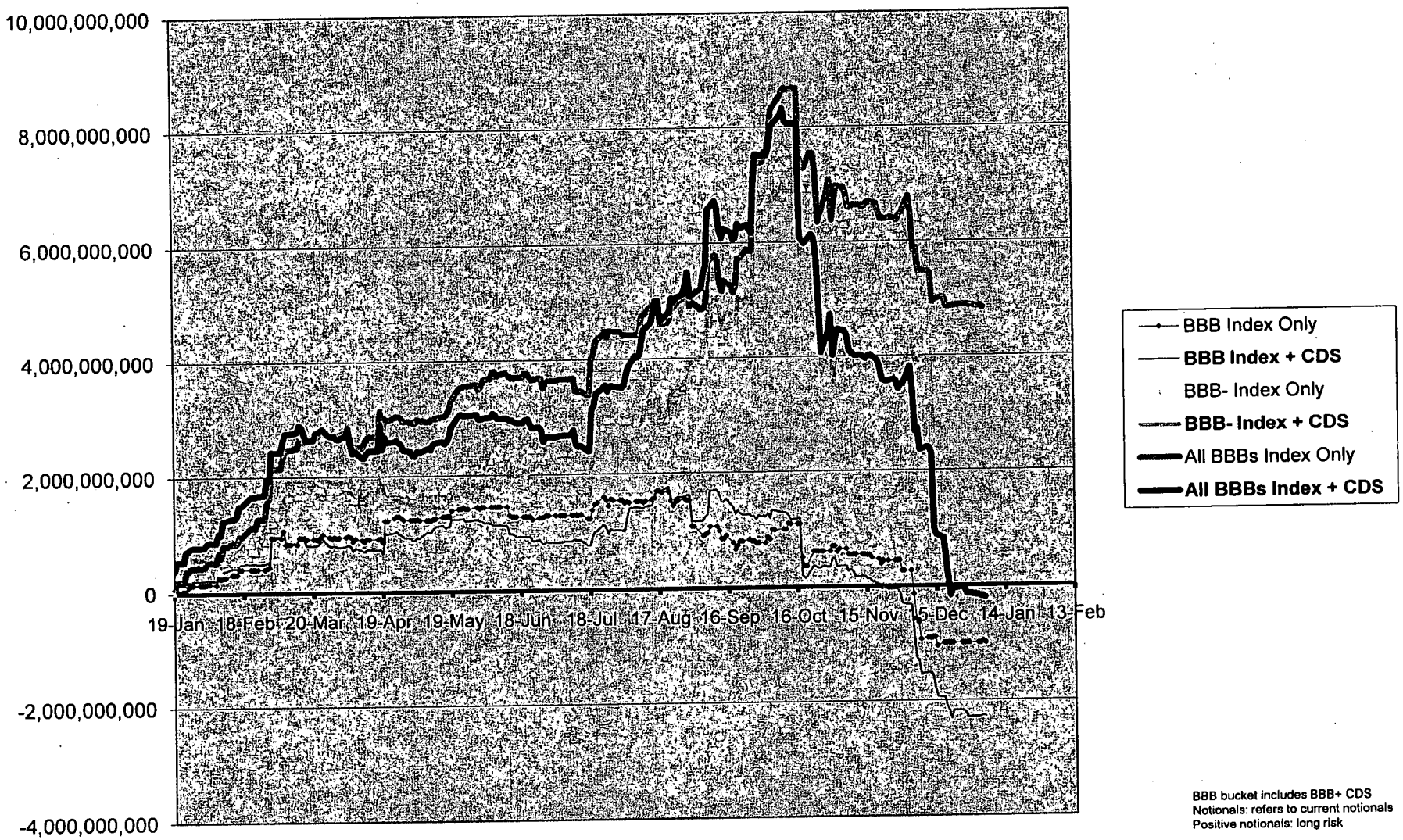
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Risk By Vintage / Index

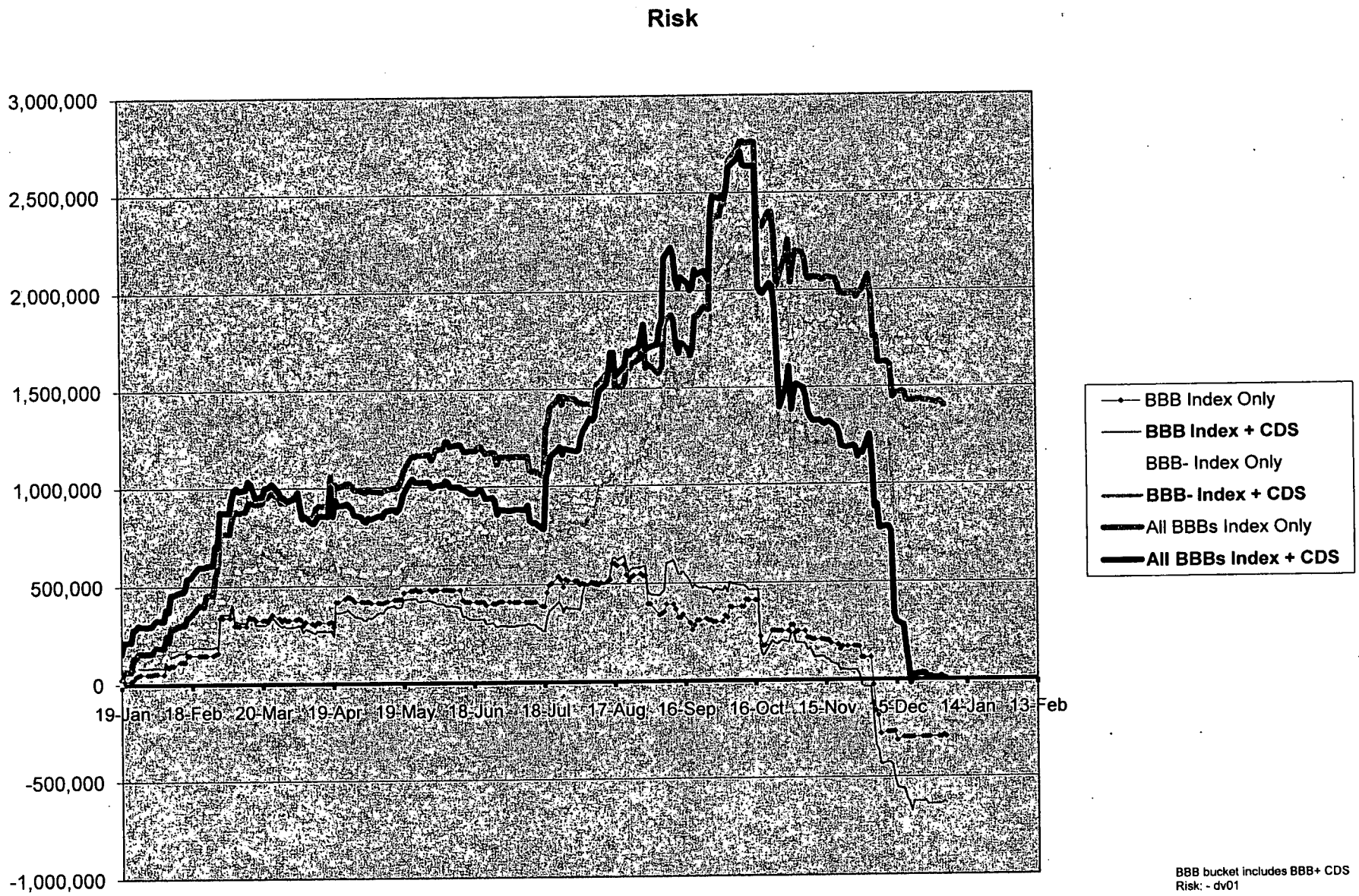


BBB bucket includes BBB+ CDS
Risk: - dv01

Notionals (ABX convention)



BBB bucket includes BBB+ CDS
Notionals: refers to current notionals
Positive notionals: long risk


Risk
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
-1,000,000
19-Jan
18-Feb
20-Mar
19-Apr
19-May
18-Jun
18-Jul
17-Aug
16-Sep
16-Oct
15-Nov
5-Dec
14-Jan
13-Feb
BBB Index Only
BBB Index + CDS
BBB- Index Only
BBB- Index + CDS
All BBBs Index Only
All BBBs Index + CDS
BBB bucket includes BBB+ CDS
Risk: - dv01

From: Kao, Kevin J.
Sent: Tuesday, February 06, 2007 9:23 AM
To: Birnbaum, Josh
Subject: Index and Single Name Position History 2006 As of 05Feb07.xls

Attachments: Index and Single Name Position History 2006 As of 05Feb07.xls

PRELIMINARY --- will double check again after the meeting ...

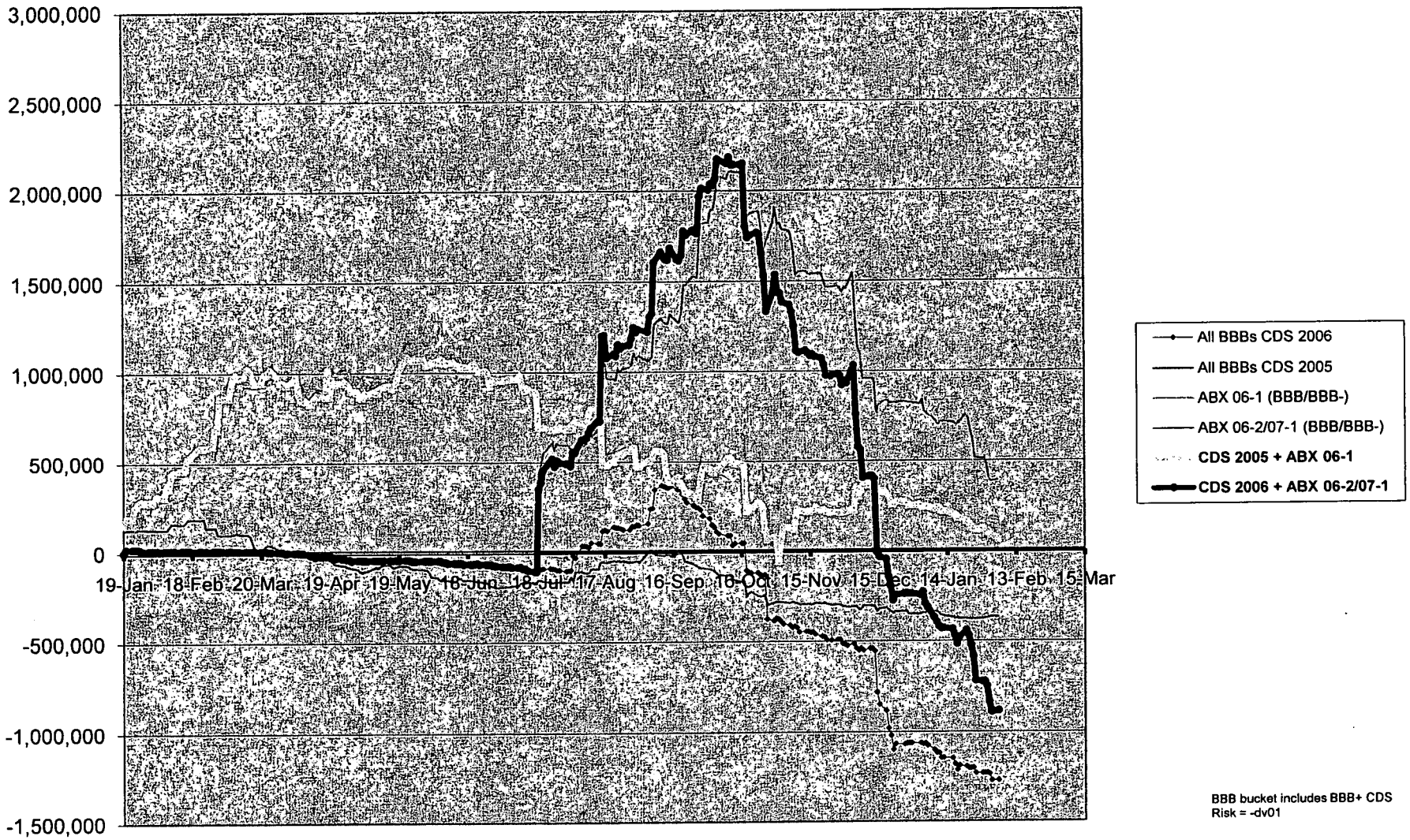


Index and Single Name Position...

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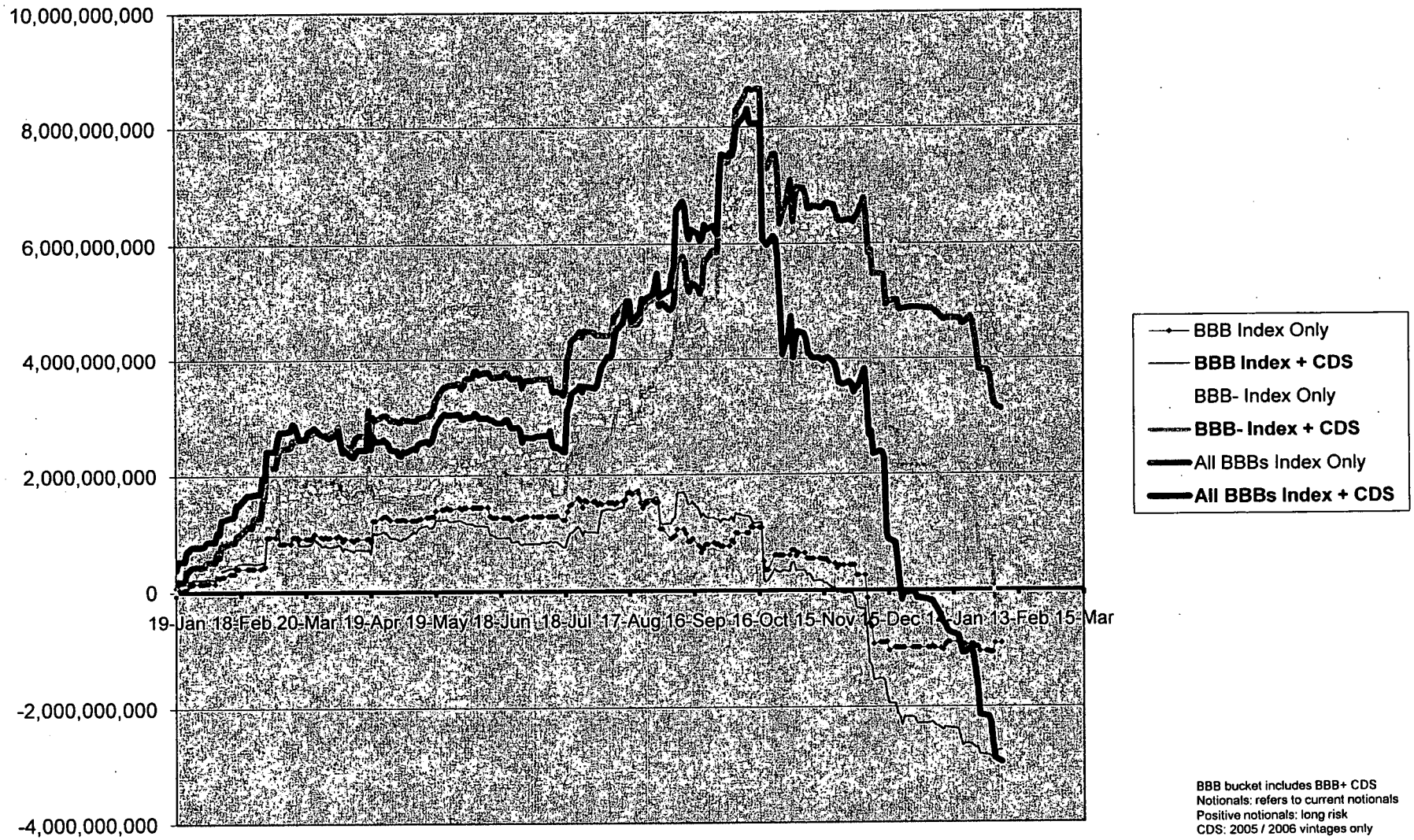
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Risk By Vintage / Index



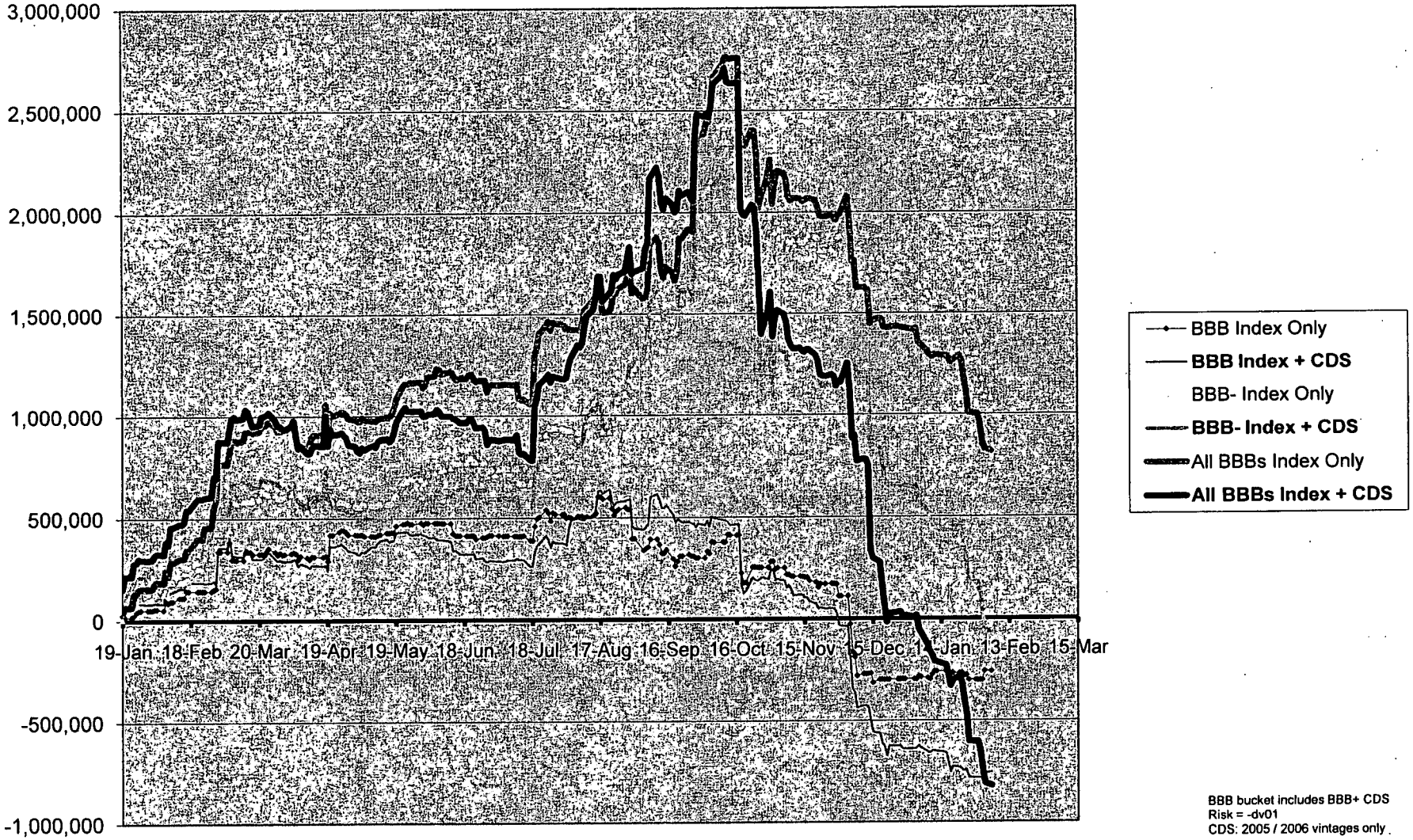
BBB bucket includes BBB+ CDS
Risk = -dv01

Notionals (ABX convention)



BBB bucket includes BBB+ CDS
Notionals: refers to current notionals
Positive notionals: long risk
CDS: 2005 / 2006 vintages only

Risk



BBB bucket includes BBB+ CDS
Risk = -dv01
CDS: 2005 / 2006 vintages only

From: Barrett, Tom
Sent: Friday, February 23, 2007 4:33 PM
To: Kao, Kevin J.; Swenson, Michael; Gmelich, Justin
Subject: Index and Single Name Position History 2006 As of 22Feb07.xls

Attachments: Index and Single Name Position History 2006 As of 22Feb07.xls

Per your request Michael, attached is the graph of Index/Single name positions/risk as of last nights close.

Cheers, tom

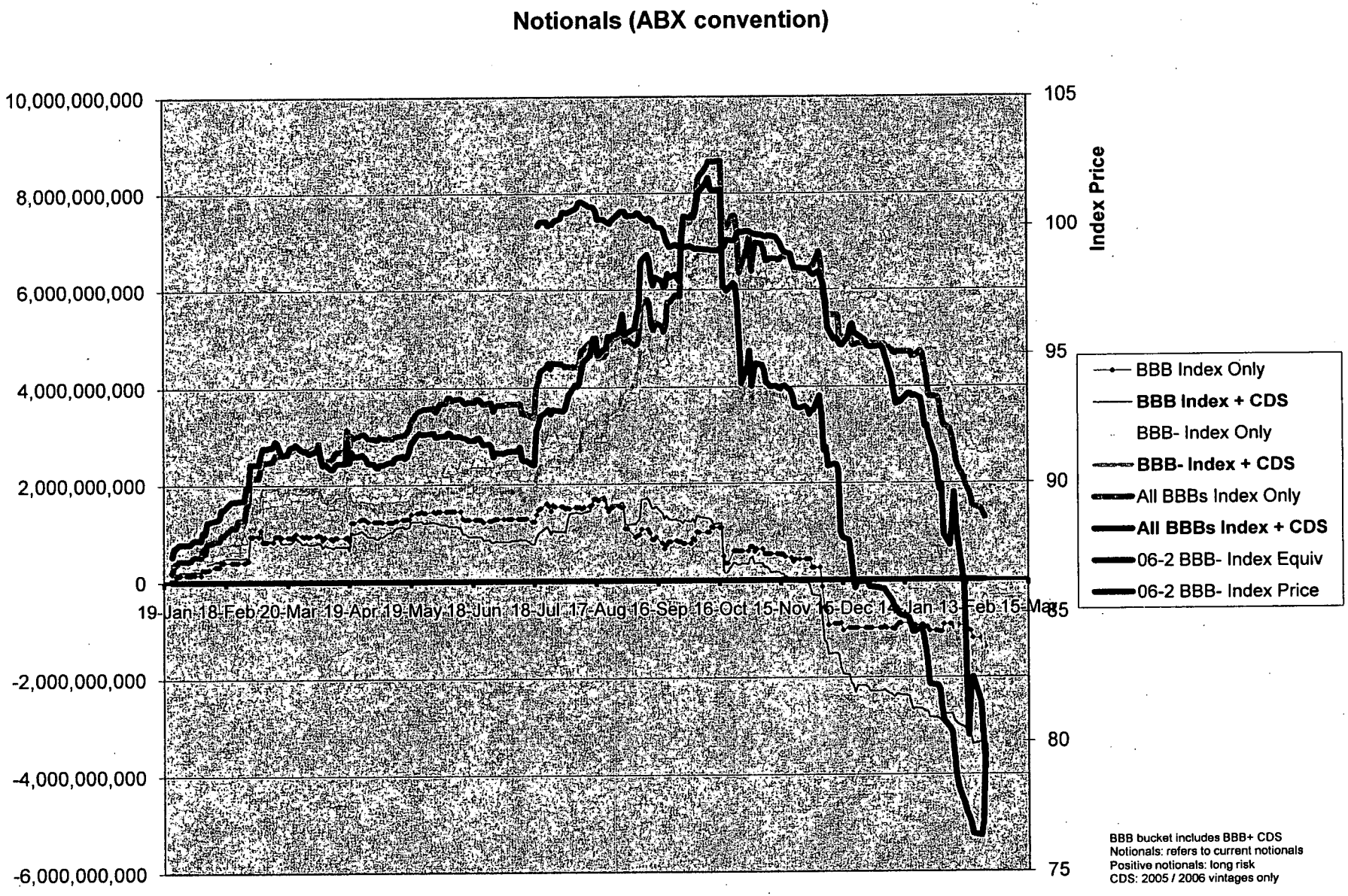


Index and Single Name Position...

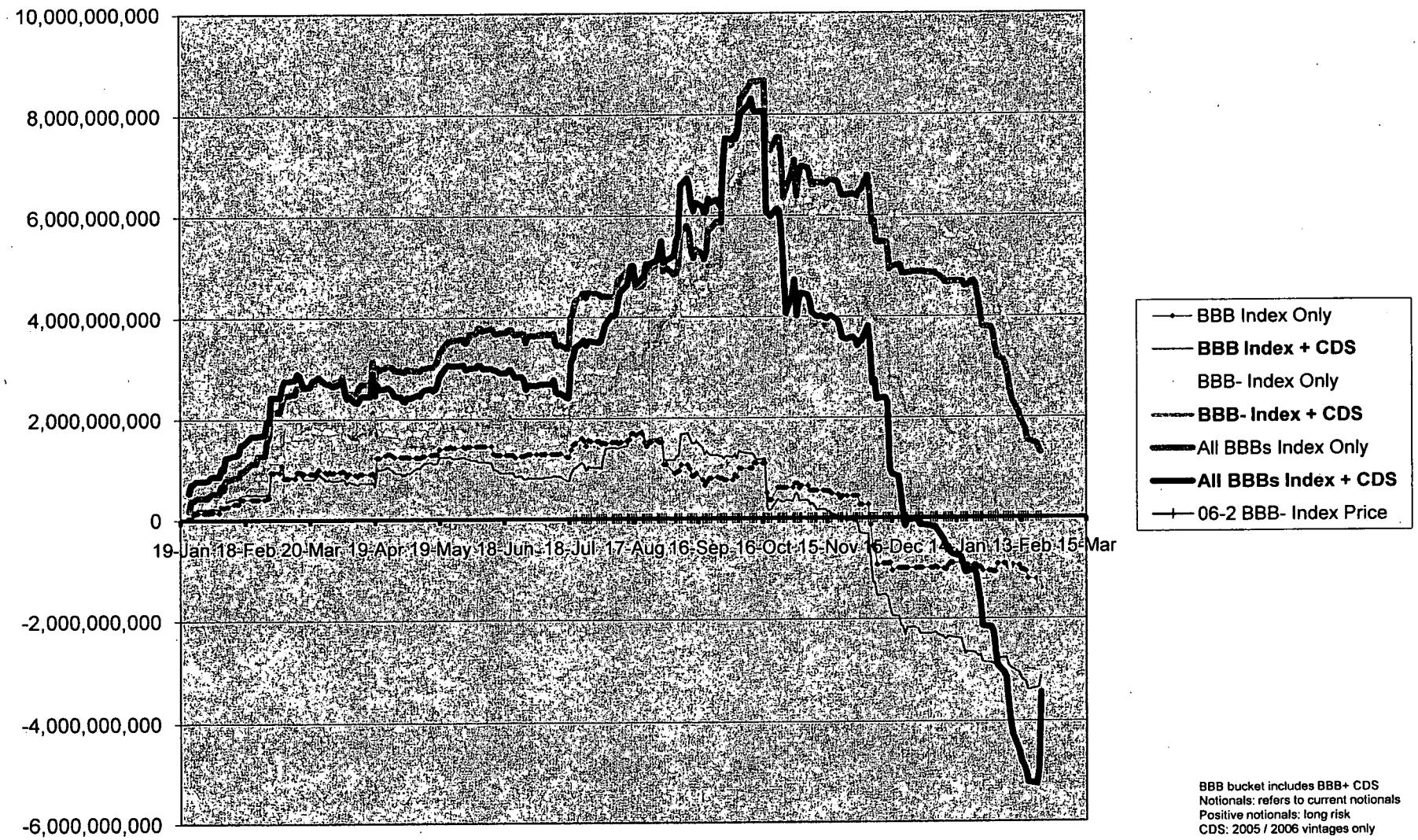
Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1650

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Notionals Chart with ABX Price

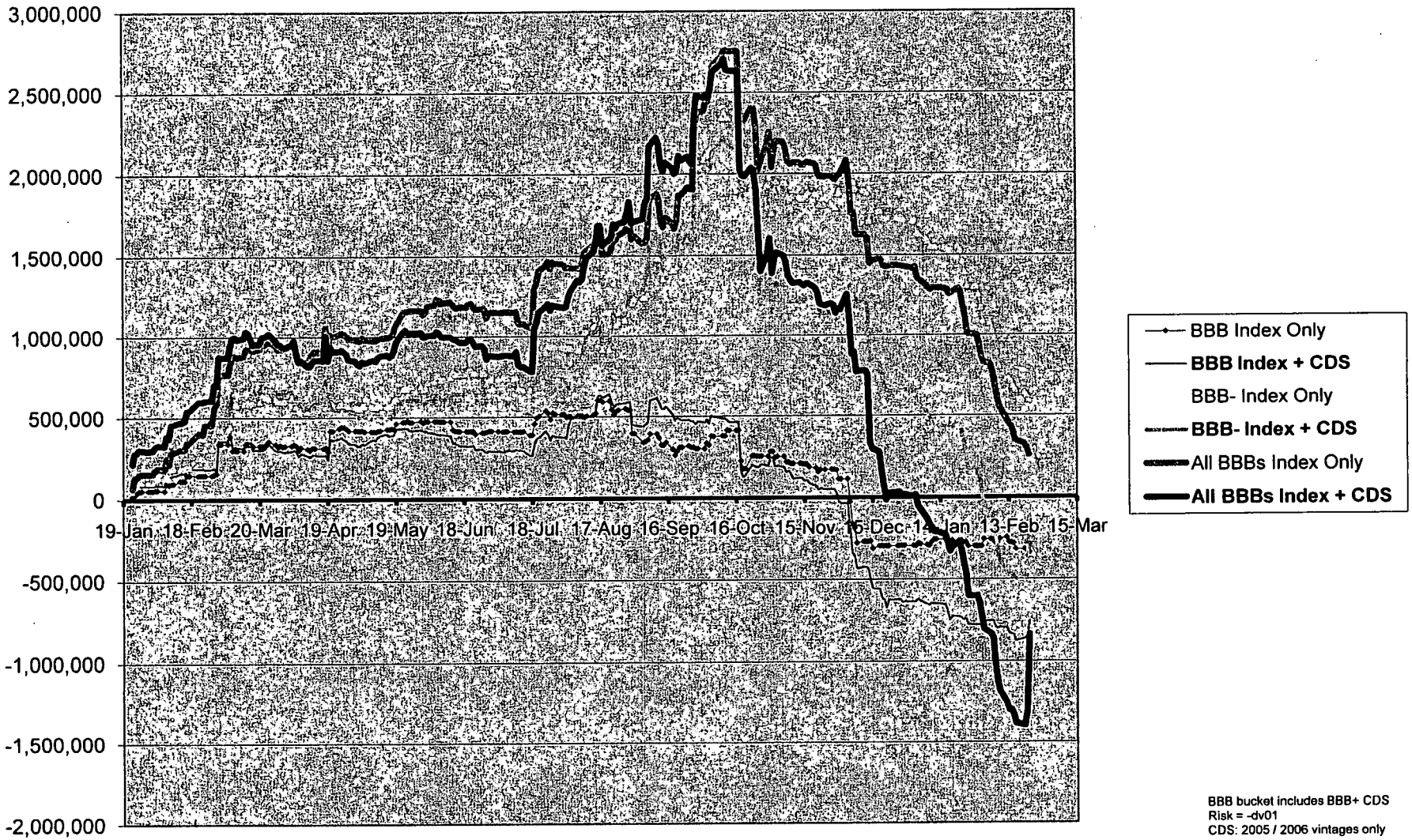


Notionals (ABX convention)



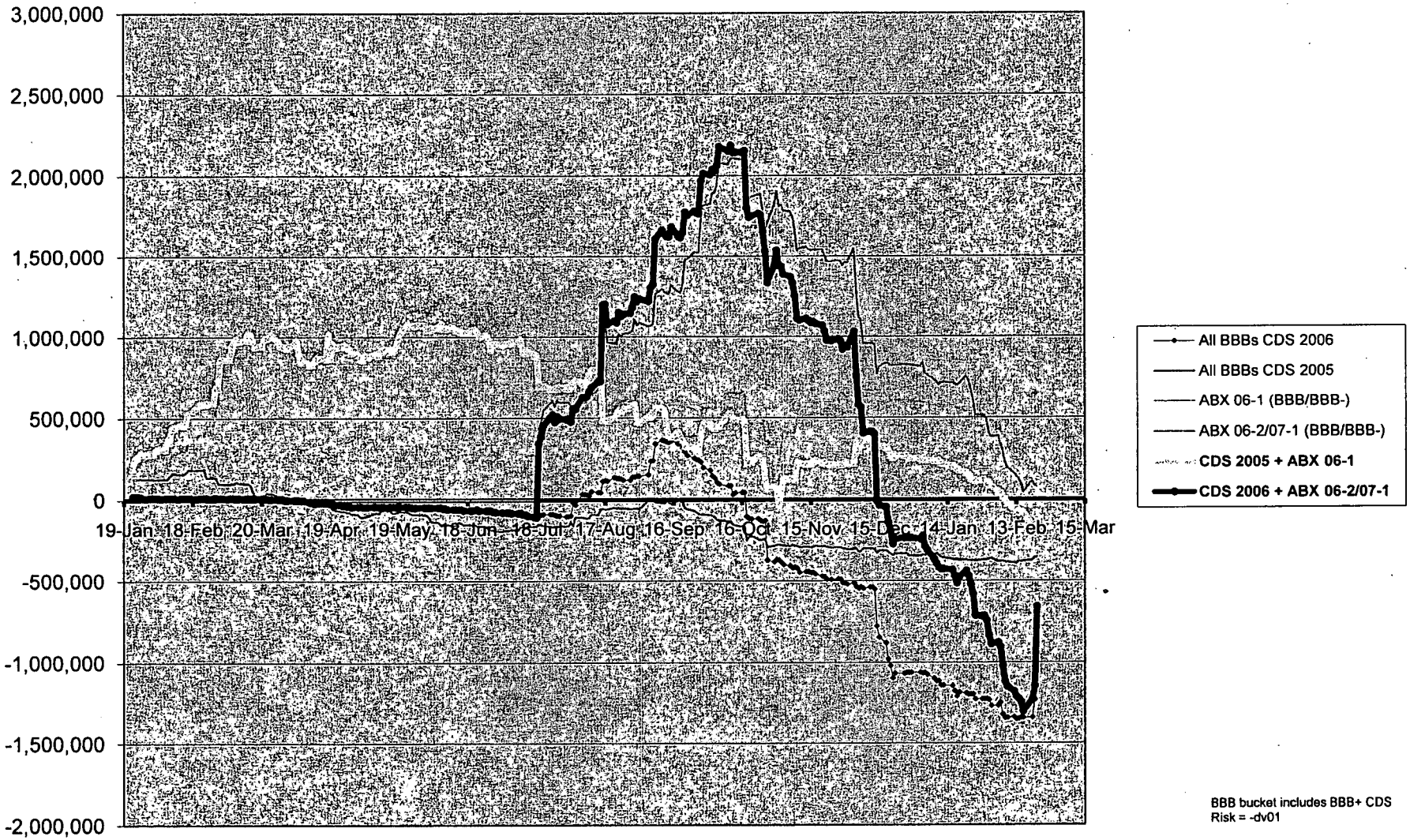
BBB bucket includes BBB+ CDS
Notionals: refers to current notionals
Positive notionals: long risk
CDS: 2005 / 2006 vintages only

Risk



BBB bucket includes BBB+ CDS
Risk = -dv01
CDS: 2005 / 2006 vintages only

Risk By Vintage / Index



BBB bucket includes BBB+ CDS
Risk = -dv01

From: Kao, Kevin J.
Sent: Friday, March 02, 2007 8:00 AM
To: Birnbaum, Josh
Subject: Index and Single Name Position History 2006 As of 01Mar07.xls

Attachments: Index and Single Name Position History 2006 As of 01Mar07.xls

Josh - Here's the updated chart as of last night, with MRMA-style index equivalents that we talked about on Wed. Please forward to Swenson / Justin as needed.

(FYI - I am out of the office today but should be on blackberry. Thanks.)

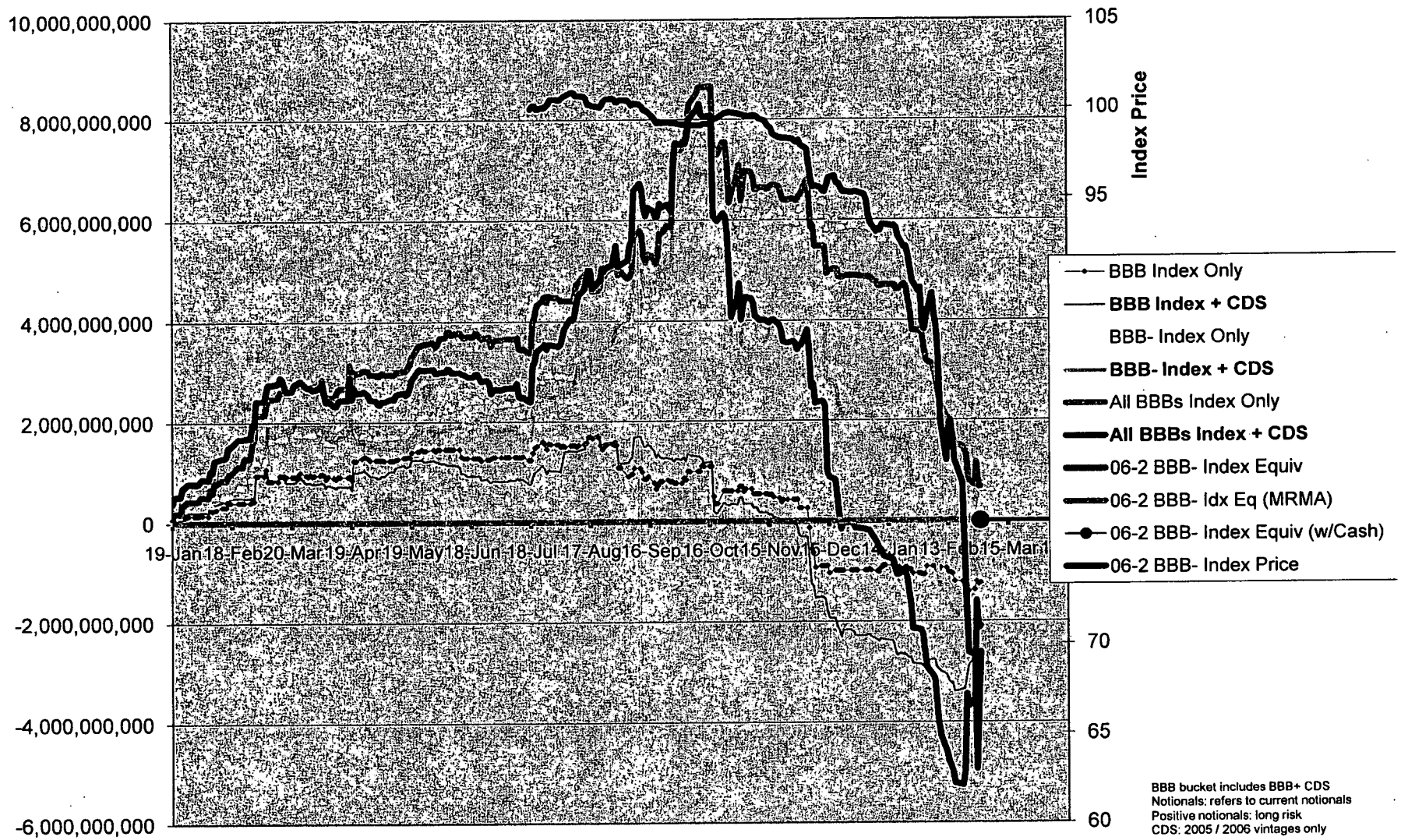


Index and Single Name Position...

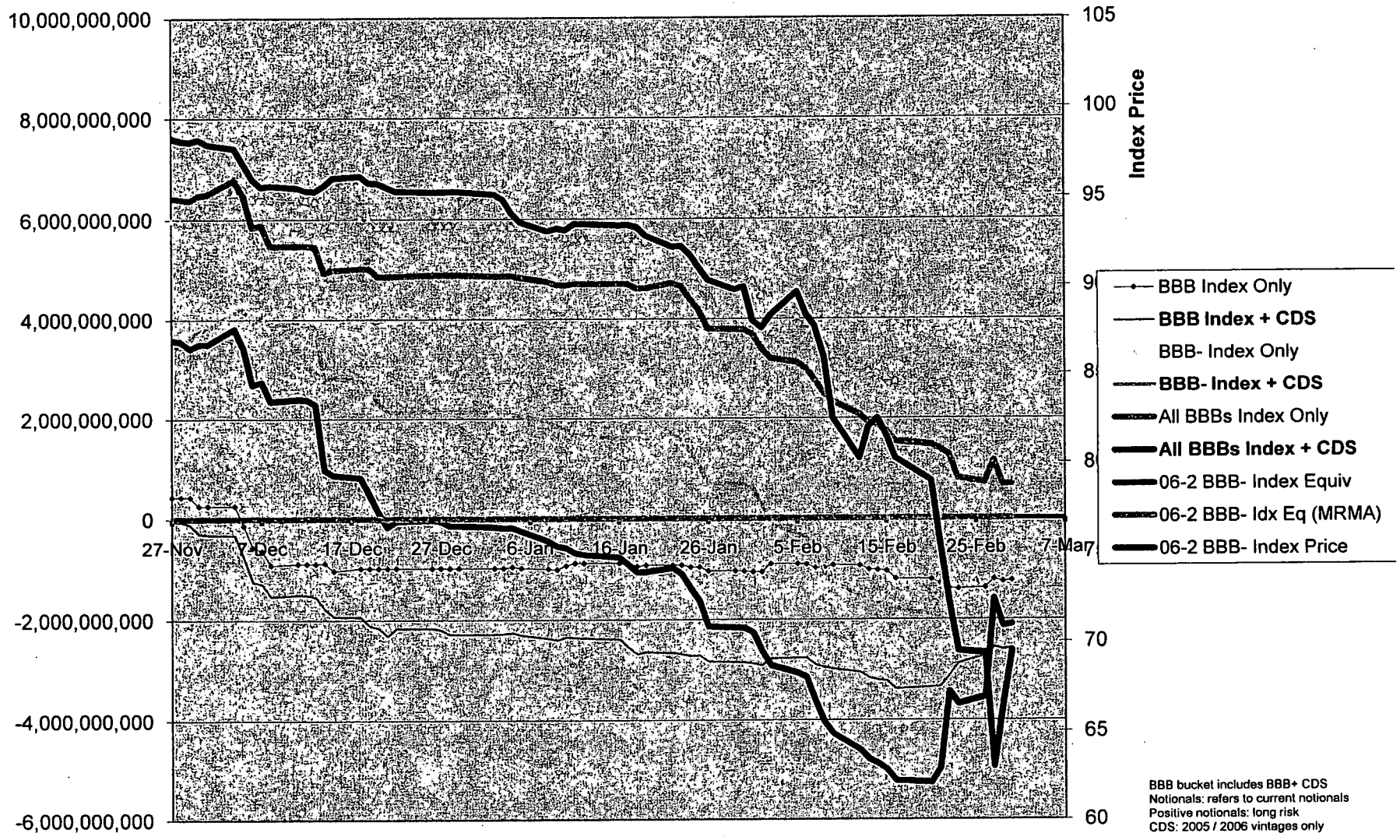
Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1650

Confidential Treatment Requested by Goldma

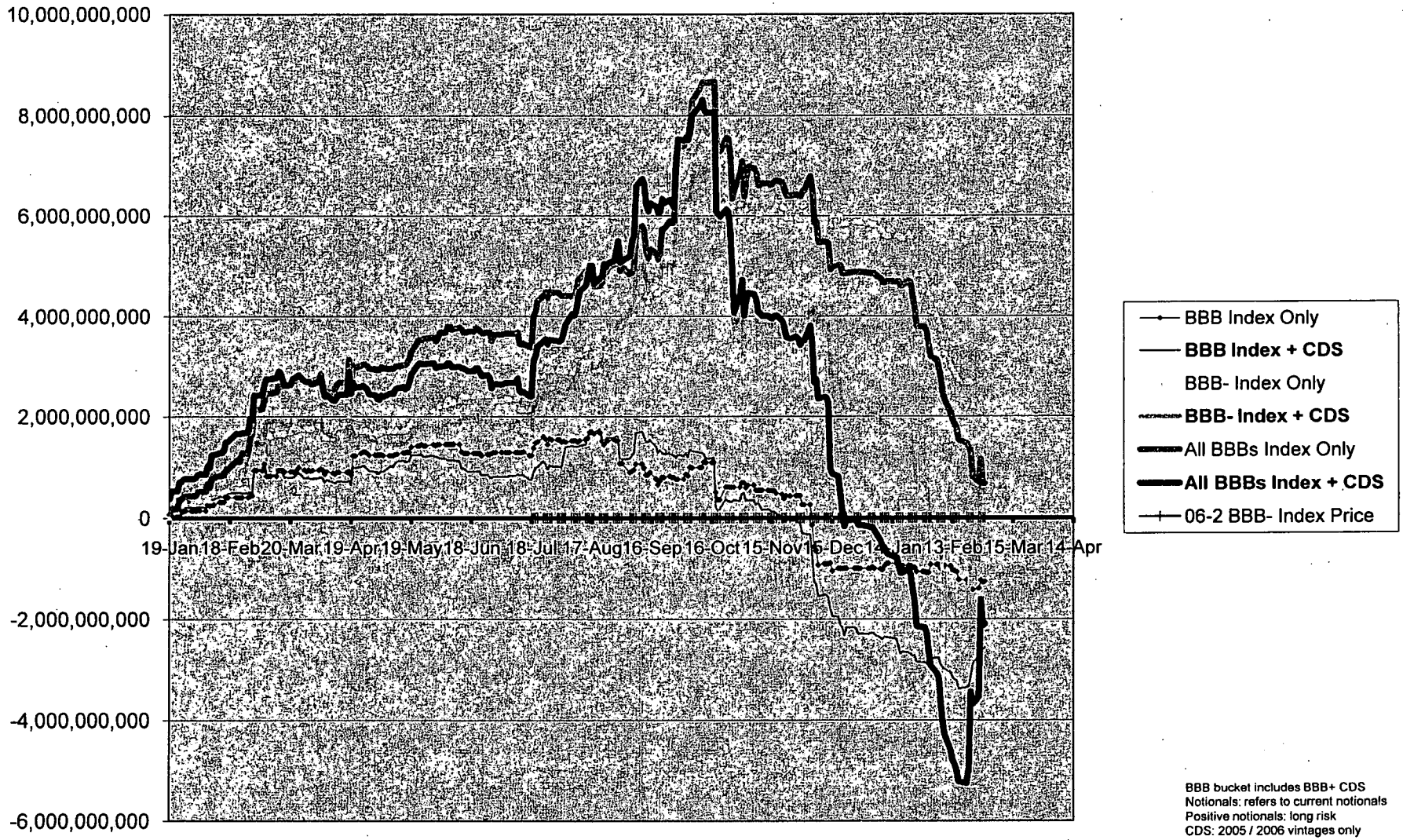
Notionals (ABX convention)



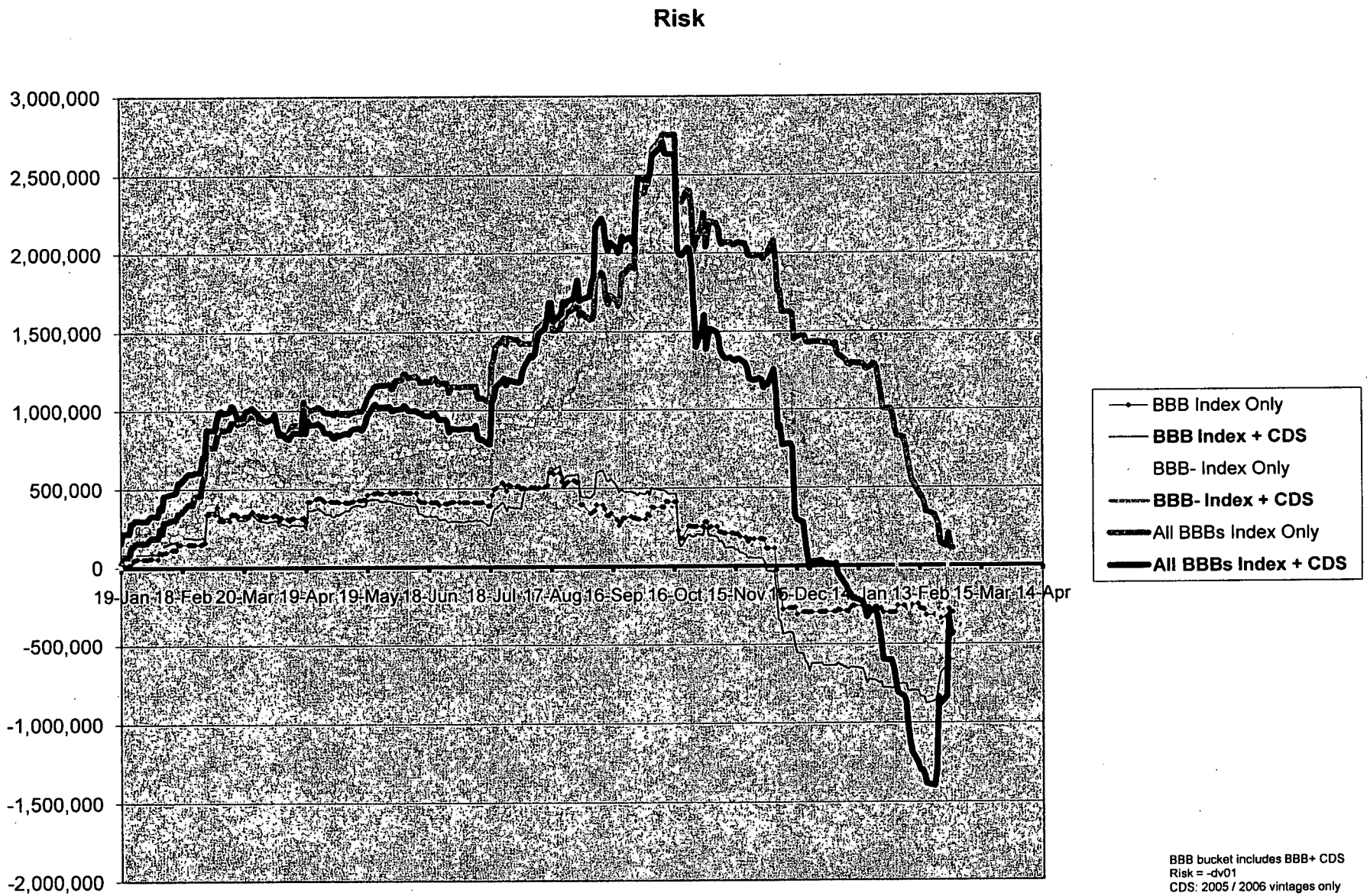
Notionals (ABX convention) - Fiscal Year 2007



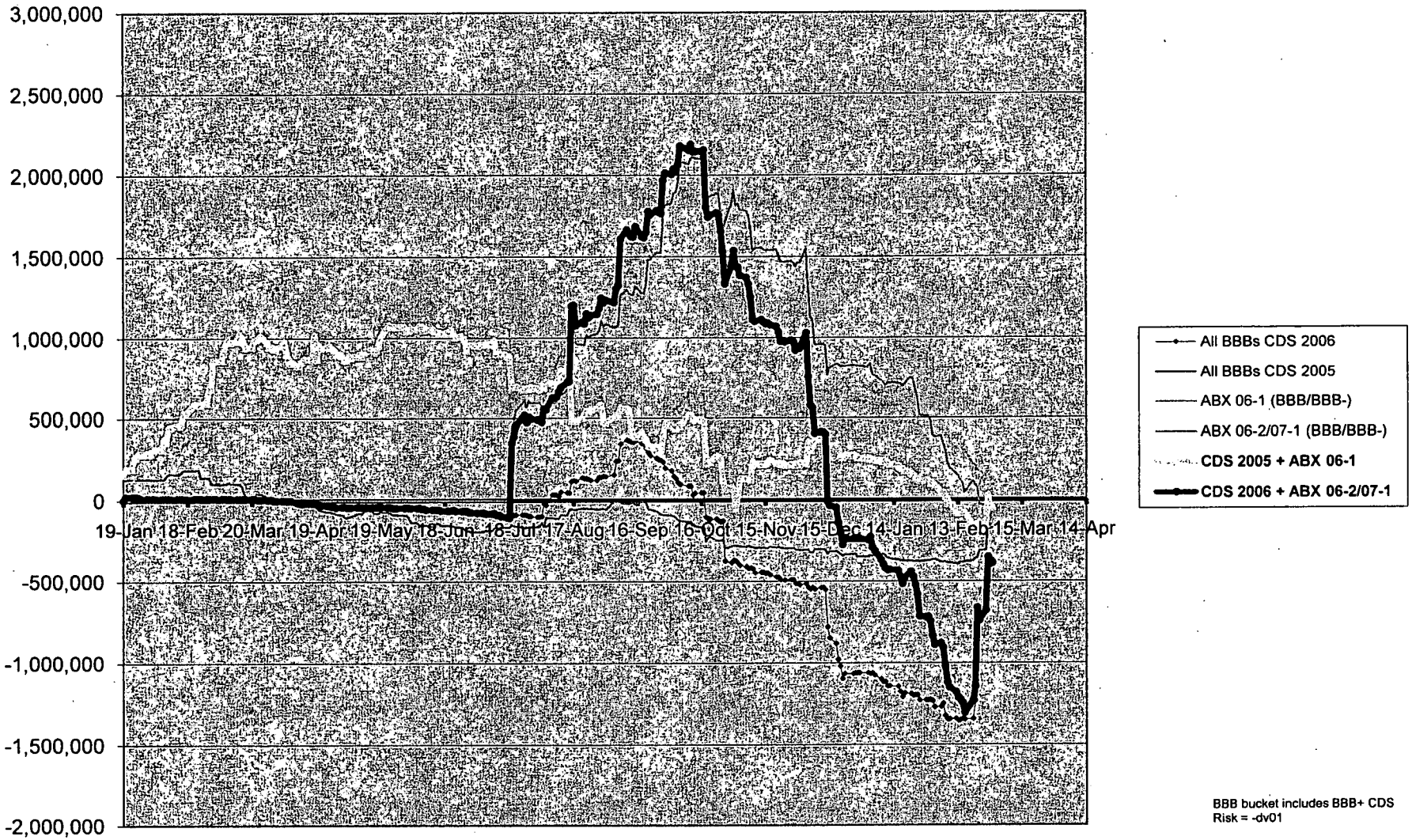
Notionals (ABX convention)



BBB bucket includes BBB+ CDS
Notionals: refers to current notionals
Positive notionals: long risk
CDS: 2005 / 2006 vintages only


Risk
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
-1,000,000
-1,500,000
-2,000,000
19-Jan 18-Feb 20-Mar 19-Apr 19-May 18-Jun 18-Jul 17-Aug 16-Sep 16-Oct 15-Nov 15-Dec 14-Jan 13-Feb 15-Mar 14-Apr
BBB Index Only
BBB Index + CDS
BBB- Index Only
BBB- Index + CDS
All BBBs Index Only
All BBBs Index + CDS
BBB bucket includes BBB+ CDS
Risk = -dv01
CDS: 2005 / 2006 vintages only

Risk By Vintage / Index



BBB bucket includes BBB+ CDS
Risk = -dv01

Goldman Sachs

Presentation to SEC

Subprime Mortgage Business

14-Mar-2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1656

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I. Subprime Overview

II. Recent Events in the Subprime Mortgage Sector

III. Looking Forward

IV. Appendix: Subprime Mortgage Originators

Goldman Sachs does not provide accounting, tax, or legal advice. Notwithstanding anything in this document to the contrary, and except as required to enable compliance with applicable securities law, you (and each of your employees, representatives, and other agents) may disclose to any and all persons the US federal income and state tax treatment and tax structure of the transaction and all materials of any kind (including tax opinions and other tax analyses) that are provided to you relating to such tax treatment and tax structure, without Goldman Sachs imposing any limitation of any kind.

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I. Subprime Overview

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Subprime Mortgage Overview

Definitions

Mortgage Classification	FICO Score Range	Percentage of Recent Mortgage Originations	Size of Market (2006 origination volume)	Description
Prime	>700	72%	■ $2.6tr	■ Highest credit quality: no recent foreclosures, delinquencies or bankruptcies
Alt-A[1]	640-730	11%	■ $400bn	■ Self-employed and/or non-resident borrowers ■ Limited disclosures on income and assets of borrower ■ Agency non-conforming due to credit issues, payment history or minimal documentation
Subprime	605-640	17%	■ $600bn	■ Lowest credit quality: borrowers with average to poor credit profiles, including first time homebuyers, people who did not previously have credit available to them ■ Agency non-conforming due to credit issues, payment history or minimal documentation ■ Percentage of stated income loans grew significantly in the past year

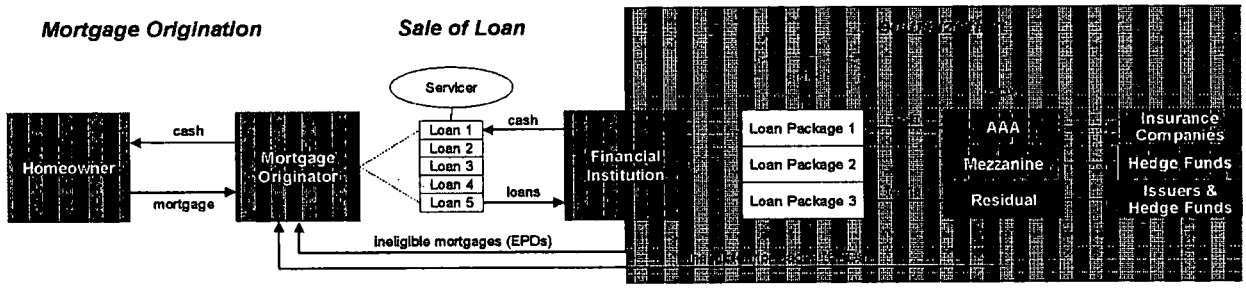
[1] Alt-A category is sometimes broken out into "Prime Alt-A" (FICO Score Range 680-730) and "Alt-B" (FICO Score Range 640-690).

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Subprime Mortgage Overview

How the securitization process works



Participants:

- Homeowner: Classified as subprime based on FICO scores, could include investors speculating in residential real estate
- Mortgage Originator: Includes large diversified players, REITS, and small mortgage finance companies. Origination volume is dominated by larger players, however there are many small, mono-line players with limited track records and very small equity bases. Many mortgages are not originated directly from homeowners but rather through independent brokers
- Financial Institution: Firms such as GS purchase pools of loans to repackage, underwrite and sell into the asset-backed market
- SPV: Tranches pool of mortgages into super-senior, mezzanine and subordinated pieces and sells into secondary market

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GS Subprime Mortgage Business

Type of Business	Market Risk	Credit Risk
Loans		
Financing *GS extends lines of credit directly to subprime mortgage originators to fund mortgages while they are held on the companies' balance sheets.*	■ None	■ Lending is done on a secured basis with a first lien on the underlying mortgage assets and a haircut on the value of the loans
Aggregation *GS buys and holds bulk and conduit subprime loans from mortgage originators for the purpose of securitization.*	■ Mark to market losses on loans during accumulation period (if securitizations are not completed) ■ Some loss sharing arrangements exist	■ Counterparty risk during the extended settlement period (typically 30-60 days) ■ Put option to originator if individual mortgages suffer from early homeowner defaults (EPDs) or reps and warranties are breached
Securitization		
Securitization Underwriting *GS underwrites, structures and distributes securities for ourselves and clients.*	■ Mark to market gains and losses on securitized instrument until distribution	■ Reputational risk / underwriters liability ■ Trust and/or GS has put option to originator if individual mortgages suffer from early homeowner defaults (EPDs) or reps and warranties are breached
CDO Underwriting *GS structures and distributes liabilities related to pools of assets, many of which relate to subprime RMBS.*	■ Mark to market risk during ramp up period if deal failure occurs ■ Mark to market risk on retained positions	■ Risk share partners ■ Forward commitments / pre-sold liabilities
Securities Trading		
Residential Mortgage Backed Securities *GS trades RMBS subprime securities as a secondary business.*	■ Mark to market gains and losses on RMBS securities over the hold period	■ Counterparty risk on repo transactions with RMBS underliers
Residuals *GS retains all or a portion of mortgage residuals from securitization.*	■ Mark to market gains and losses on residuals over the hold period	■ Counterparty risk on repo transactions with residual underliers
Derivatives *GS is an active user of derivatives as a part of our trading business as well as to hedge our long credit risk (ABX, single name, subprime RMBS and synthetic transactions)*	■ Mark to market risk on long or short positions	■ Counterparty risk to writer of option or OTC derivatives counterpart
Equity stakes in mortgage originators	■ Potential write down of investment	■ None

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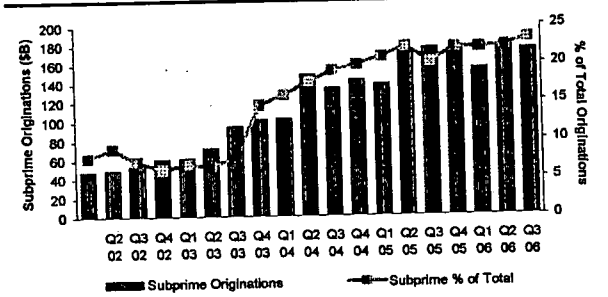
II. Recent Events in the Subprime Mortgage Sector

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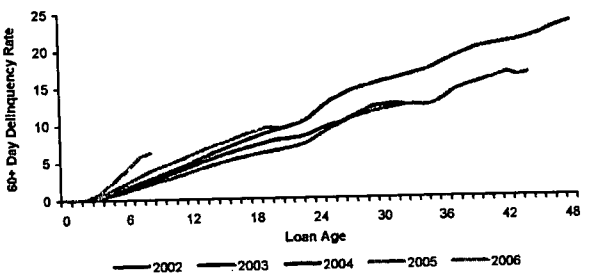
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Market Trends

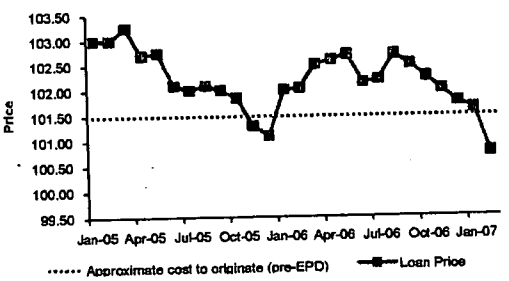
Volumes Increase Significantly[1]



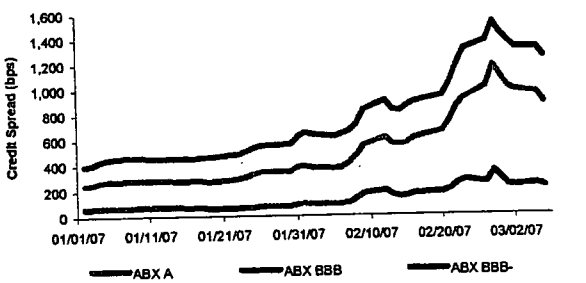
Credit Quality Declines: Relaxed Underwriting Standards



Pricing Pressure: Subprime Mortgage Loan Pricing Levels



Credit Spreads Adjust



[1] *Latest available data*

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10-15

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Timeline of Major Events & GS Response

Subprime Sector		GS Response
■ Easy access to credit allows subprime borrowers to purchase homes, raising the share of subprime mortgages to over 20% of market ■ ABX indices launch in January tracking the performance of specific securitization tranches ■ Investors seeking yield and broader global investor base drive demand for subprime securitizations ■ Acoustic defaults (May 2006)	1&2Q 2006	■ GS is inherently long the sector given market presence. Long position grows in 2006 with increased market activity ■ GS long position is further increased via ABX indices trades (counterparts are primarily hedge funds) ■ GS becomes more vigilant on EPD identification and workout
■ Rumors of significant deterioration in underwriting standards and some borrower fraud ■ Spreads on RMBS cool as hedge funds actively target subprime synthetics as a way to express negative views on the sector; prior to this activity, investor and CDO demand had pushed the market very high ■ Bank regulators issue underwriting guidance on non-traditional mortgage products ■ Widespread mortgage originator defaults begin including Sebring (Nov 06) and MLN (Jan 07) ■ Bids for subprime loans fall below cost to originate; business is therefore no longer profitable for originators	3&4Q 2006 1Q 2007	■ Credit department steps up due diligence process on mortgage originators, creates watch list, suspends multiple names from further business ■ Enhanced focus on independent valuation ■ GS scales back purchasing of riskier loans ■ GS reduces CDO activity ■ Residual values reduced to reflect market deterioration ■ GS reverses long market position through purchases of single name CDS and reductions of ABX position although market illiquidity and basis risk constrain effectiveness of offset
■ Large originators announce numerous accounting restatements and losses for 2006 triggering equity market sell off ■ Securitization market for subprime slows significantly. Market for securities is dislocated	Current	■ GS effectively halts new purchases of sub-prime loan pools through conservative bids ■ Warehouse lending business reduced ■ EPD claims continue to increase as market environment continues to soften ■ Credit terms tightened further ■ New Century closed out

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Credit Exposure Summary

- Warehouse lending has declined substantially due to tighter credit terms and reduced originator demand; trend continues today, with net committed amounts of $1.1bn and funded amounts of $388
- Whole loan purchases have declined as well driven primarily by similar considerations
- EPDs have risen reflecting continued market deterioration; current EPD claims are $1.14bn notional with $427mm in potential exposure
- Credit risk in securitization underwriting is difficult to quantify. The risks we face in this business are
  - Standard underwriting risks (need to make a market, due diligence requirements, etc.)
  - Franchise / reputational risks
  - Reps and warranties risks

	Current		1Q 2007		FYE 2006		2Q 2006	
Type of Exposure	Notional Exposure ($mm)	Potential Exposure ($mm)	Notional Exposure ($mm)	Potential Exposure ($mm)	Notional Exposure ($mm)	Potential Exposure ($mm)	Notional Exposure ($mm)	Potential Exposure ($mm)
Warehouse Lending:								
Actual Funded	$388	$22	$804	$46	$1,120	$64	$1,444	$82
Total Committed Facilities	$1,111	$63	$1,611	$91	$1,811	$103	$2,260	$128
Whole Loan Purchases Pre-Settlement Exposure (Whole Loan Market risk):								
Subprime *	$2,521	$76	$2,498	$74	$6,339	$209	$8,115	$243
Whole Loan Purchases Post-Settlement Exposure (EPDs):								
Total EPD Claims	$1,137	$427	$1,137	$427	$845	$317	$936	$351

* *Subprime includes Alt-A, 2nd Liens, Option-Arms, Scratch & Dent and Subprime collateral*

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Credit Exposure Summary

Most Worrisome Counterparts

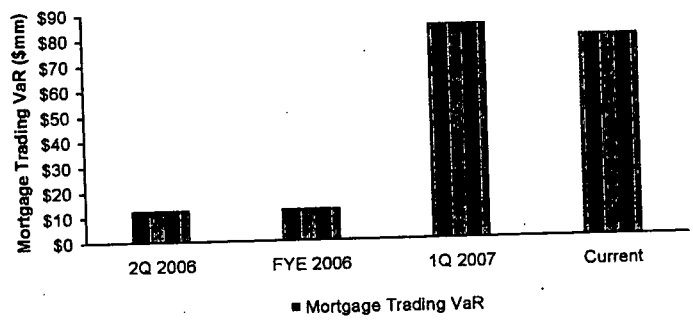
Counterparty	Company Description	Recent Events	Total Exposure[1] ($ mm)
New Century	Publicly traded and largest non-captive subprime mortgage lender with $45bn in the first nine months of 2006 originations and book equity of $2bn as of Sept 2006. Ranked #3 by market share.	Restated 3rd quarter financial results and delayed filing 10-K; California Attorney-General launched criminal inquiry into securities trading and accounting errors. Company has stopped originating new mortgages given funding shortfalls.	$45.2[2]
Fremont	Publicly traded mortgage originator with FDIC insured/regulated ILC subsidiary. Ranked #5 by market share and had $1.5bn in book equity as of Sept 2006.	Entered cease and desist order with the FDIC. Company has said that it is exiting the subprime mortgage business and delaying the filing of 4Q06 results.	$12.9
Novastar	Publicly traded mortgage originator structured as a REIT. Ranked #18 by market share and had $514mm in book equity as of Sept 06.	Reported 4th quarter loss of $14.4mm.	$9.7
Accredited	Publicly traded mortgage lender structured as a REIT. Ranked #14 in subprime mortgage originations. Book equity of $739mm as of Dec 06.	Reported 4th quarter earning loss of $37.8mm, filed form 12b-25 with SEC with respect to earnings delay.	$5.9[3]
SouthStar	SouthStar is a privately held mortgage originator operating Alt-A, Sub-Prime, I/O, Option ARM and HELOC programs.	Reported 1st quarter 2007 loss of $707K on revenues of $18.5mm. Non-sales workforce to be reduced by 20% and one operations center to be closed this month. Warehouse line and additional workforce reductions being considered.	$19[4]

[1] Reflects EPD claims and warehouse loans on a potential exposure basis.
[2] New Century also owes GS $0.1mm relating to MBS Extended Settlement trades settling in mid-April. Total exposure number has been reduced by $5mm held back as collateral on whole loan trades plus $0.6mm excess collateral retained on warehouse line.
[3] GS also holds fully collateralized $50mm commercial paper from Accredited's asset backed commercial paper program called Carmel Mountain Funding Trust.
[4] As of 2/26, total exposure was $19mm consisting of $13.2mm on $35.3mm in outstanding EPD claims and $5.8mm in pre-settlement risk from $194.36mm pending settlement trades.

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Market Exposure Summary



- VaR increase driven by
  - Increase in ABS synthetics due to a combination of wider spreads and increase volatility in the ABX market
    - During the quarter, ABX BBB- spreads widened from 300 bps to 1500 bps
  - The desk is increasing their net short risk in the RMBS subprime sector
    - Daily volatility increased from 5 bps to 53 bps
- In the synthetic space, the desk started the quarter with long $6.0bn notional ABX BBB- risk and shifted the position to net short $10bn notional by reducing the longs in ABX BBB- and increasing shorts in single name CDS
- GS also has $25mm equity investments in subprime lenders

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III. Looking Forward

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Lessons Learned

- What went right
- What went wrong
- How well did our risk measures capture / reflect risk incurred
- Observations for other businesses

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Looking Forward

- We believe the mono-line subprime mortgage originators will not be able to survive current market conditions for very long
  - Those with limited capital bases will quickly go out of business
- There is a concern that the problems observed in the subprime market will spread to other parts of the real estate sector, most notably, the Alt-A market
- GS strategy going forward
  - Position ourselves to be flat to short
  - Increased due diligence performed on purchased loans
  - Collection of amounts owed by originators from buybacks
  - Aggressively manage deal performance via asset management team (oversight of servicer actions)
  - Hedge all purchases
  - Work through inevitable defaults with minimal operational and credit risk losses
  - Conservative management of warehouse lines; review appropriate haircut levels
  - Communicate with originators, servicers, investors
- GS will evaluate ongoing opportunities on a case by case basis
  - Opportunistic purchases of potential loan packages / portfolios
  - Potential equity investments

GS MBS-E-0100223

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IV. Appendix: Subprime Mortgage Originators

GS MBS-E-0100223

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Impact on Originators

Rank	Originator	Status
1	Wells Fargo Home Mortgage	
2	HSBC Finance	Increased loan loss reserves by $1.8bn
3	New Century Financial	Criminal investigation; liquidity impaired
4	Countrywide Financial	
5	Fremont Investment & Loan.	Exited subprime business
6	CitiMortgage	
7	Ameriquest Mortgage (ACC)	Citigroup providing financing with option to buy
8	Option One Mortgage (H&R Block)	For sale
9	Washington Mutual	
10	First Franklin Financial Corp.	Acquired by Merrill Lynch
11	Residential Capital Corp. (GM)	Potential write down of up to $1bn on subprime portfolio
12	BNC Mortgage/Finance America (Lehman)	
13	Aegis Mortgage Corp.	Scaling back operations
14	Accredited Home Lenders	Delayed SEC filings
15	American General Finance (AIG)	
16	Chase Home Finance	
17	Ownit Mortgage Solutions	Out of business
18	NovaStar Financial	Loss in latest quarter; little, if any, income forecast through 2011
19	Equifirst (Regions Financial)	Acquired by Barclays Bank
20	ResMae Mortgage Corporation	Acquired by Citadel
21	WMC (GE)	Scaling back operations
22	MLN	Out of business
23	Decision One (HSBC)	
24	ECC/Encore	Acquired by Bear Steams
25	Fieldstone	Acquired by C-BASS

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From: Egol, Jonathan
Sent: Monday, February 26, 2007 2:31 PM
To: Swenson, Michael; Lehman, David A.; Salem, Deeb; Chin, Edwin; Case, Benjamin; Williams, Geoffrey; Tourre, Fabrice; Ostrem, Peter L; Herrick, Darryl K; Bieber, Matthew G.
Cc: Sparks, Daniel L
Subject: Portfolio for Proposed Transaction 070226 (2).xls

Attachments: Portfolio for Proposed Transaction 070226 (2).xls

INTERNAL AND NOT TO BE FORWARDED



Portfolio for Proposed Transac...

Got a call from Kate Birchall @ Lloyd's. The attached portfolio (~$1bn of AA/A) is for a Faxtor-sponsored HG deal. Punchline is they are not liquidating, I surmise Llody's backstopped super senior so they have to print. However they are asking for protection offer on 0-x% -- they will come back with detachment point "x" tonight.

Many of these assets are garbage. I told her she will not like the level. I told her we were more axed to buy super senior protection on this type of portfolio but she had no interest in writing, and she is not permitted to liquidate. Recall this is not her business, I surmise their CDO group was tapped and she has been instructed to neutralize all risk.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1657

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ISIN	CUSIP	ISSUER	TRANCHE	NOTIONAL
US46626LHU70	46626LHU7	JPMAC 2006-WMC1	A5	20,000,000
US362334JB17	362334JB1	GSAA 2006-5	2A4	21,552,000
US12489WQX55	12489WQX5	CBASS 2006-CB3	AV4	21,547,000
US61744CZD19	61744CZD1	MSAC 2006-NC3	A2D	16,000,000
US362334NE00	362334NE0	GSAA 2006-7	AF4	6,119,000
US437084VN35	437084VN3	HEAT 2006-4	2A-4	16,600,000
US81375HAC34	81375HAC3	SABR 2006-NC1	A3	7,000,000
US36868FAE16	36868FAE1	GEMST 2006-5A	C	6,000,000
US525221JX68	525221JX6	LXS 2006-5	2A3	21,251,000
US81879MAW91	81879MAW9	SGMS 2006-FRE1	A2C	7,689,000
US61749HAE09	61749HAE0	MSAC 2006-HE3	A2D	13,000,000
US362382AH60	362382AH6	GSAA 2006-9	A4B	10,000,000
US413358AD40	413358 AD 4	HARP 2006-1A	C	2,500,000
US16678WAD83	16678WAD8	CCMFC 2006-2A	B2	6,000,000
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US00256NAE04	00256NAE0	ABAC 2005-3	D	12,000,000
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US61749NAG25	61749NAG2	MSAC 2006-HE5	M2	10,000,000
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US02147QBD34		CWALT 2006-19C 1A28	A28	22,500,000
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US86360RAK95	86360RAK9	SASC 2006-EQ1	M5	12,000,000
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US57645FAH01	57645FAH0	MABS 2006-AM2	M5	4,000,000
US073873AD30	073873AD3	BALTA 2006-5	1M2	4,811,000
US02146TAU16	02146TAU1	CWALT 2006-24CB	A19	22,500,000
US59021BAD82	59021BAD8	MLMI 2006-SL2	M3	2,497,000
US59021BAE65	59021BAE6	MLMI 2006-SL2	M4	5,993,000
US41161GAG82	41161GAG8	HVMLT 2006-8	B2	7,215,000
US59020URQ03	59020URQ0	MLMI 2005-NC1	M2	5,000,000
us46628sah67		JPMAC 2006-WF1	A5	17,860,000
US65536QAJ76	65536QAJ7	NHELI 2006-HE3	M4	12,000,000
US021468AE39	021468AE2	CWALT 2006-14CB	A5	22,500,000
US00441XAG97	00441XAG9	ACE 2006-NC2	M2	6,864,000
US04013BAH50	04013BAH5	ARSI 2006-M2	M4	12,000,000
US81376YAG61	81376YAG6	SABR 2006-HE1	M2	12,000,000
US55275BAK35	55275BAK35	MABS 2006-NC2	M5	5,408,000
US14983AAF66	14983AAF6	CBASS 2006-SL1	M3	7,735,000
US14983AAH23	14983AAH2	CBASS 2006-SL1	M5	11,500,000
US57645FAF45	57645FAF4	MABS 2006-AM2	M3	3,500,000

US23243LAG77	23243LAG7	CWI 2006-14	M3	4,750,000
US16678YAD40	16678YAD4	CCMFC 2006-3	B2	6,000,000
US12666VAF85	12666VAF8	CWI 2006-17	M2	6,000,000
US61750FAK66	61750FAK6	MSAC 2006-HE6	M4	4,000,000
US55291KAK34	55291KAK3	MABS 2006-WMC3	M5	7,000,000
US36245AAF30	36245AAF3	GSAMP 2006-HE6	M2	8,000,000
US52520VAF04	52520VAF0	LBSBC 2006-2	M2	3,943,000
US23243WAF59	23243WAF5	CWL 2006-18	M2	12,000,000
US14453MAG96	14453MAG9	CARR 2006-NC4	M2	14,000,000
US81377AAJ16	81377AAJ1	SABR 2006-HE2	M4	7,318,000
US03076MAK09	03076MAK0	ARSI 2006-M3	M5	8,000,000
US80556AAE73	80556AAE7	SAST 2006-3	M1	3,950,000
US80556AAF49	80556AAF4	SAST 2006-3	M2	9,600,000
US12489WNV27	12489WNV2	CBASS 2005-CB6	M6	4,660,000
US17309QAG91	17309QAG9	CMLTI 2006-WFH3	M3	6,288,000
US46626LJR24	46626LJR2	JPMAC 2006-NC1	M1	4,000,000
US32028GAM78	32028GAM7	FFML 2006-FF15	M6	7,109,000
US32028GAL95	32028GAL9	FFML 2006-FF15	M5	4,000,000
US81376GAG55	81376GAG5	SABR 2006-WMC2	M2	7,000,000
US443860AD30	443860AD3	HUDMZ 2006-1A	B	15,000,000
US17309SAJ96	17309SAJ9	CMLTI 2006-WFH4	M5	4,750,000
US54251YAL20	54251YAL2	LBMLT 2006-10	M6	6,000,000
US57645MAL63	57645MAL6	MABS 2006-WMC4	M5	3,000,000
US320275AK63	320275AK6	FFML 2006-FF16	M5	1,000,000
US320275AL47	320275AL4	FFML 2006-FF16	M6	4,000,000
US576449AJ15	576449AJ1	MABS 2006-HE4	M5	2,500,000
US07389PAJ93	07389PAJ9	BSABS 2006-AQ1	M5	2,093,000
US52521BAE65	52521BAE6	LBSBC 2006-3A	M1	5,000,000
US52521BAF31	52521BAF3	LBSBC 2006-3A	M2	4,500,000
US88156AAB08	88156AAB0	OMTS 2006-OT1	M1	15,870,000
US32028JAK51	32028JAK5	FFML 2006-FFB	M5	12,362,000
US16678XAD66	16678XAD6	CCMFC 2006-4A	B2	5,000,000
US92978GAG47	92978GAG4	WMLT 2006-ALT1	M4	1,068,000
US31809VAB53	31809VAB5	FIOR 2006-1A	B	16,000,000
US31809VAC37	31809VAC3	FIOR 2006-1A	C	4,000,000
US49327HAH84	49327HAH8	KSLT 2006-A	2B	10,000,000
US577749AW47	577749AW4	MAXIM 2006-1A	A5	20,000,000
		IXION-MATRIX 2007-I	B	15,000,000
US83612MAK36	83612MAK3	SVHE 2006-WF2	M5	6,000,000
US82442VAC90	82442VAC9	Sherwood III ABS CDO, Ltd	A2	3,000,000
US82442VAD73	82442VAD7	Sherwood III ABS CDO, Ltd	A3	8,000,000
US07389RAX44	07389RAX4	BSABS 2006-HE10	M5	4,000,000
US86363AAE73	86363AAE7	SASC 2006-S4	M4	4,000,000
US86363AAF49	86363AAF4	SASC 2006-S4	M5	3,569,000
US12668HAK68	12668HAK6	CWL 2006-26	M5	2,000,000
USG5296YAD25	G5296YAD2	KLROS 2006-5	B	8,500,000
US52902YAJ47	52902YAJ4	Lexington	Class C	20,000,000
US431138AG12	431138AG1	HRIDG 2007-1A	A3	15,500,000
US617526AL27	617526AL2	MSAC 2007-HE1	M5	3,000,000
US54316PAD24	54316PAD2	LONGRIDGE ABS CDO LTD	A2J	6,000,000
US617505AK80	617505AK8	MSAC 2007-NC1	M5	2,750,000
		CAMBER 7	B	10,000,000
US72912SAE46	72912SAE4	Plettenberg Bay CDO	A2	4,000,000
US54316PAE07	54316PAE0	LONGRIDGE ABS CDO LTD	A3S	10,000,000
		Pyxis II	C	12,000,000
		JPALT 2007-A1	M4	810,000
		JPALT 2007-A1	M5	840,000
		ACABS 2007-1	A2	10,000,000

From: Gasvoda, Kevin
Sent: Monday, April 23, 2007 12:49 PM
To: Montag, Tom
Cc: Sparks, Daniel L
Subject: RE: Resi credit QTD/YTD P&L and positionsFrom

Attachments: Resi credit QTD/YTD P&L and positions



Resi credit QTD/ YTD P&L and po...

Tom, here are the follow-ups I owe you.

First the "subs position" (managed w/ the resids book) we have approx $400mm market value of primarily below investment grade prime securities (this was blank in my table from first msg, which I re-attached above if you can't find it) and the "prime hybrid - primary" loan book I estimated at $3B is actually $2.9B.

Regarding beginning of FY subprime resid position, we started the FY at $157mm vs the $255mm balance now. Therefore, we've net created $98mm of subprime resids which is a function of the YTD deal volume and the fact we haven't been securitizing out the front cashflows on these deals the last few months as we think it is trading too cheap (10-12% yield for 1/2 year average life single A rated bond).

Last, regarding hedge P&L YTD and QTD, see below. Note, this does not include rate hedges since I assume you were interested in ABX/CDS credit/spread hedges only. You see significant hedge gains in subprime ($96mm YTD) which did not offset the counterparty credit losses (EPD's) and residual re-marking. Q1 was significantly positive while Q2 has been significantly negative as spreads have tightened generally. Also note the resids had been managed w/ the loan books and have only been recently split out and managed separately.

ABX/CDS HEDGE P&L:

	Q1	Q2 (4/20)	YTD
Hybrids	5.3	-13.8	-8.5
AltA	37.8	-17.8	20.0
Subprime	119.4	-23.4	96.0
S&Dent	13.5	-9.8	3.7
2nds	24.1	-6.8	17.3
Resids	n/a	-8.1	-8.1
Subs	0.6	-0.4	0.2
All	200.7	-80.1	120.6

From: Gasvoda, Kevin
Sent: Sunday, April 22, 2007 9:13 PM
To: Montag, Tom
Cc: Sparks, Daniel L
Subject: RE: Resi credit QTD/YTD P&L and positions

<< Message: resi credit weekly recap >>
You are correct on the first point Tom - we have $180mm in loans (unsecuritized) and $255mm of residuals off old deals. The $180mm of loans is the smallest we've been since we started the business in 2002. We had been running at an average loan position balance in subprime of around $4B. The loan book turns over on average every 2 months however as we generally had been securitizing at least once per month. Note, we turn the loan balance into securities and historically 75-80% of a loan deal is AAA rated and 15-20% of the deal is AA thru BBB- risk, the remainder position (3-5% of the deal) is the unrated, first loss risk or "residual" - in other words, every $1B subprime deal produces a $30-50mm residual investment (most of which we re-lever via NIM securitization) leaving $5-15mm

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on our books assuming we don't have a purchasing partner (HBK, Cbass to name a few).

The $255mm we have retained is from deals dating back to 2002 and while we've developed some buying partners, it is not a deep market. These have been intentional principal retained positions. We did sell approx 50% of our interest in deals created from mid-2005 thru end of 2006.

The losses of $28mm and $84mm are net of hedge gains - we had been short spreads via ABX/CDS so had mark to market gains ytd. I will get you the specific ytd hedge #'s tmrw.

I can get you change of balance year to date for resids but loans is attached per my email to you a few weeks ago. Specifically at end of FY '06 we were at $6.9B (risk not b/s funded) in subprime, a higher than run rate level. The resid #'s are up in subprime since we've created a lot early in the year (function of securitizing $6.9B+ add'l purchases in FY '07). I'll get you the resid #'s YTD tmrw too.

From: Montag, Tom
Sent: Sunday, April 22, 2007 8:31 PM
To: Gasvoda, Kevin
Cc: Sparks, Daniel L
Subject: RE: Resi credit QTD/YTD P&L and positions

Let me make sure I have this right--for subprime we now have 180 million in loans on the book AND 255 million of residuals on old deals

We have lost 28 million on the loans and 84 million on the residuals

Is this independent of hedges?

Do you have change on year for each?
Why do we have so large a book of residuals? Just cant sell?

From: Gasvoda, Kevin
Sent: Monday, April 23, 2007 3:04 AM
To: Montag, Tom
Cc: Sparks, Daniel L
Subject: Resi credit QTD/YTD P&L and positions

Tom,

Below is the QTD and YTD P&L of the residential credit loans and retained positions along w/ the current position in each book. Note, the top section is just the primary business which includes P&L related to loan purchase and securitization. Some of the P&L also relates to unsold new issue allotments (most of the 2nd lien losses) prior to being moved to secondary hands (a practice that we just began in January as you know).

On the loan side we are long approx $6.4B in resi loans (this excludes any prime fixed rate loan positions since they are managed under Greg Finck, do not have retained bond elements, are more akin to our CMO business and have little to no credit element). The Alt-A business is having a good year and the Hybrid Option Arm business is having a great year. This group of businesses made approx $200mm last year for your reference.

The second section ("residential residuals".....etc.) is related to positions intentionally retained after new issue, primarily residuals. Current position is approx $680mm and this group of businesses made over $100mm last year. Again note, the predominant pain has been in subprime resids to date. We will spend the rest of quarter digging deeper into all resid positions.

Note, I believe the "Prime Hybrid - Primary" loan position is $3B (shown in italics below), I don't have a report w/ real time info on that at my disposal today. This category is our Option Arm business run by Clay DeGiacinto. Also, I do not have the "subs" book position size at hand (shown as "xxx" below) but will get that tmrw for you. "Subs" are non-investment grade bonds primarily off of prime related deals that we generally retain and re-remic (aggregate to re-securitize).

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Friday's $50mm subprime residual writedown is incorporated below in the "Residuals - subprime" line and the $24mm S&D loan write down is included in the first section on the "Scratch & Dent" line.

I will work on the hedge P&L in isolation Monday a.m. for you. If you have questions please call my home number 203-656-8419 or my cel 917-596-5113.

<< OLE Object: Picture (Metafile) >>

GS MBS-E-010474

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From: Gasvoda, Kevin
Sent: Sunday, April 22, 2007 2:04 PM
To: Montag, Tom
Cc: Sparks, Daniel L
Subject: Resi credit QTD/YTD P&L and positions

Attachments: Picture (Metafile)

Tom,

Below is the QTD and YTD P&L of the residential credit loans and retained positions along w/ the current position in each book. Note, the top section is just the primary business which includes P&L related to loan purchase and securitization. Some of the P&L also relates to unsold new issue allotments (most of the 2nd lien losses) prior to being moved to secondary hands (a practice that we just began in January as you know).

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Note, I believe the "Prime Hybrid - Primary" loan position is $3B (shown in italics below), I don't have a report w/ real time info on that at my disposal today. This category is our Option Arm business run by Clay DeGiacinto. Also, I do not have the "subs" book position size at hand (shown as "xxx" below) but will get that tmrw for you. "Subs" are non-investment grade bonds primarily off of prime related deals that we generally retain and re-remic (aggregate to re-securitize).

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I will work on the hedge P&L in isolation Monday a.m. for you. If you have questions please call my home number 203-656-8419 or my cel 917-596-5113.

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Sector	QTD	YTD	POSITION
Residential Credit Loans/New Issue			
Subprime	(61,387,052)	(28,140,510)	180,000,000
Scratch and Dent	(34,089,858)	(73,044,733)	770,000,000
2nd Liens	(21,932,613)	(40,597,590)	82,000,000
Alt-A	(3,550,099)	13,591,505	2,400,000,000
Prime Hybrid - Primary	5,207,529	44,270,518	*3,000,000,000*
Total	**(115,752,093)**	**(83,920,810)**	**6,432,000,000**
Residential Residuals & Subs / Retained Positions			
Subs	249,969	7,249,828	xxx
Residuals - Scratch & Dent	91,810	1,803,042	56,000,000
Residuals - Subprime	(57,784,353)	(84,597,798)	255,000,000
Residuals - Alt-A	46,595	7,528,639	296,000,000
Residuals - 2nd Liens	311,789	(11,838,044)	74,000,000
Total	**(57,084,190)**	**(79,854,333)**	**681,000,000**
TOTAL OF BOTH	**(172,836,283)**	**(163,775,143)**	

Document Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Tuesday, January 23, 2007 10:43 AM
To: Birnbaum, Josh; Swenson, Michael; Lehman, David A.
Subject: RE: Subprime Risk Report

my other concern is I want to stay nimble, and not get too wedded to one way positions - getting massively short could be more painful than what we have experienced.

From: Birnbaum, Josh
Sent: Tuesday, January 23, 2007 9:51 AM
To: Sparks, Daniel L; Swenson, Michael; Lehman, David A.
Subject: RE: Subprime Risk Report

From: Sparks, Daniel L
Sent: Tuesday, January 23, 2007 7:49 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.
Subject: FW: Subprime Risk Report

It does not look like you made any progress on the things we discussed - I want a plan and daily reports on progress.

Not to be difficult, but if you 3 are too busy I can add someone who can focus on this issue.

1. Collapse 01 vs 02 AAA index basis

There are 2 internal trades we plan to do as discussed:
1) BBB, BBB- Index vs singles names. Deeb has sent out a portfolio to the Alt A and whole loan desks and apparently those desks want to sit down with you before signing off on these trades. I believe you confirmed we are doing this in an email last night.
2) The plan was to mention the AAA trade when we sit down to discuss the BBB basis trade. Once we move internal shorts in AAAs to 06-1, step 1 should be accomplished.

2. Collapse 01 vs 02 A index
1) We fundamentally like the single A shorts but clearly we want to get out of our 06-2 long. We made good progress on that front recently, selling 400mm 06-2 A to Dillon Read on Friday. We have <1Bln long 2006 single A risk at this point. We will continue to work this down.

3. Dramatically cut notional BBB- index risk (01 and 02)
We all know this is the #1 focus. We sold 55mm 07-1 BBB- Index this morning so far and we will continue to try to work this down in 50-100mm chunks daily. We are also trying to diversify our 06-2 long into some 07-1 risk to some extent in order to reduce ideosyncratic risk. I am optimistic that if we can buy another 1-2Bln of BBB- single name protection, clear some of the risk in the CDO warehouse and secondary we can become quite aggressive in making index sales both to the street and retail and be comfortable that we are not hurting our overall position, i.e. not being limited in our trading style by our position (as you have talked about).

From: ficc-mtgcdstrat
Sent: Tuesday, January 23, 2007 2:52 AM
To: Sparks, Daniel L; Fortunato, Salvatore; Lehman, David A.; Swenson, Michael; Birnbaum, Josh; Salem, Deeb; Chin, Edwin; Kamilla, Rajiv; Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Dinias, Michael; Jha,

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Arbind
Cc: ficc-mtgcdstrat
Subject: Subprime Risk Report

Attached are the short form Subprime Risk reports for 22Jan07

From: Lehman, David A.
Sent: Tuesday, January 30, 2007 1:32 PM
To: Swenson, Michael
Subject: RE: Montag...

OK

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, January 30, 2007 1:31 PM
To: Lehman, David A.
Subject: Re: Montag...

In office first thing

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael
Sent: Tue Jan 30 13:10:55 2007
Subject: RE: Montag...

You are back tomorrow a.m. in NYC or p.m.?

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, January 30, 2007 1:08 PM
To: Lehman, David A.
Subject: Re: Montag...

I spoke with dan last night - I asked for it. I told him I want to go over the facts of what we are up against. It will involve a discusion of valuation metrics. Also, a discussion of what are competitors are saying as well about valuation. It also will incolve our views on the affects the tranched market will have on the cdo etc.

It was suppose to be a way for me to arm rich as he navigates the waters as this topic comes up. I also wanted his input on what he thinks is the right thing to do. It was my intention for it to be interactive. Now that montag will be there it may be less of that.

The goal is to gain control of the discussions from our side - I am frankly tired of the misinformation that is being spread from the peanut gallery.

I also want them to realize what is reasonably achievable given liquidity etc.

Weds will be a big day as we prepare for this meeting.

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael
Sent: Tue Jan 30 12:55:34 2007
Subject: RE: Montag...

What mtg is this?

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, January 30, 2007 12:54 PM
To: Sparks, Daniel L; Lehman, David A.; Birnbaum, Josh
Subject: Re: Montag...

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Report Footnote #1661

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Will do

----- Original Message -----
From: Sparks, Daniel L
To: Lehman, David A.; Birnbaum, Josh; Swenson, Michael
Sent: Tue Jan 30 12:51:02 2007
Subject: Re: Montag...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Invite montag to meeting with ruzika

----- Original Message -----
From: Lehman, David A.
To: Sparks, Daniel L; Birnbaum, Josh; Swenson, Michael
Sent: Tue Jan 30 11:30:02 2007
Subject: Montag...

...called the desk to get an update on ABX.

- Gave him the quick rundown w/r/t flows, positioning, etc.

- We have seen little flow as a result of ASF.

- Mentioned ASF was the one big ABS event of the year and that we were on the ground talking to mkt players to gauge sentiment.

- Despite the dip in prices we feel the mkt could leak and we remained axed to get down and mitigate basis risk.

He wants us to keep him apprised of meaningful activity, mkt movements, etc.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

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From: Cohn, Gary
Sent: Tuesday, February 13, 2007 11:58 AM
To: Winkelried, Jon; Blankfein, Lloyd
Subject: Fw: Catch up

----- Original Message -----
From: Ruzika, Richard
To: Cohn, Gary
Sent: Tue Feb 13 11:46:18 2007
Subject: Catch up

Gary -- wanted to catch you on a couple of things.

Mortgages -- the risk spread sheets we have been developing have definitely helped in understanding our subprime exposure to market movements and correlation. Basically this gave me the observability to push the team to be short against the correlation and basis risk. Obviously this has helped stabilize our trading risk and actually make some money back. My concern now which I have been communicating to the team is that the single name CDO and CDO squared finds a floor and tightens while ABX stays wide again lowering the correlation. I am directing the team to cover the basis whenever possible and trade the hedge as it needs to be dynamic. I am working with Dan to uncover exactly what else needs to be proactively written down so that we can pnl it this quarter and be clean going into next. My efforts have been to get us back to being offensive --we are getting there if not there already. Justin --- I think the guy is great and exactly what the business needs on the risk side to get Dan back into his sweet spot -Structuring and business development. There's a boat load to do -- Europe -- etc. Dan can't do it all which is why I have been trying to take the heat off by stepping in on the risk, Justin's help and experience would be a huge plus.
EOP getting closer -- probably 50 bucks for us.

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Produced by Goldma

From: Prigent, Alexandra
Sent: Tuesday, March 27, 2007 7:33 AM
To: Salem, Deeb
Subject: RE: ABX - TABX : Request from [redacted]

No worries - we hope to get this client to trade some of our trading axes.
This is an important client of us in France

Thanks

-----Original Message-----
From: Salem, Deeb
Sent: Tuesday, March 27, 2007 1:31 PM
To: Prigent, Alexandra
Subject: RE: ABX - TABX : Request from [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

sorry for the confusion

-----Original Message-----
From: Prigent, Alexandra
Sent: Tuesday, March 27, 2007 8:29 AM
To: Salem, Deeb; Williams, Geoffrey
Cc: ficc-abstrading; Serres, Marine
Subject: RE: ABX - TABX : Request from [redacted]

Sorry - we are a bit slow here in London... Understood now

-----Original Message-----
From: Salem, Deeb
Sent: Tuesday, March 27, 2007 1:28 PM
To: Prigent, Alexandra; Williams, Geoffrey
Cc: ficc-abstrading; Serres, Marine
Subject: RE: ABX - TABX : Request from [redacted]

what is there to explain? i just put these levels in this morning. they are very different than the levels i sent last week on bbb-...pls check an old email

-----Original Message-----
From: Prigent, Alexandra
Sent: Tuesday, March 27, 2007 8:27 AM
To: Salem, Deeb; Williams, Geoffrey
Cc: ficc-abstrading; Serres, Marine
Subject: RE: ABX - TABX : Request from [redacted]

Ok well - we will try to explain the client.
Could you please than give us your levels for BBB-

-----Original Message-----
From: Salem, Deeb
Sent: Tuesday, March 27, 2007 1:26 PM
To: Prigent, Alexandra; Williams, Geoffrey
Cc: ficc-abstrading; Serres, Marine
Subject: RE: ABX - TABX : Request from [redacted]

no these are bbb...sorry, i made the adjustments at the bottom and just copied it up top

-----Original Message-----
From: Prigent, Alexandra
Sent: Tuesday, March 27, 2007 8:25 AM
To: Salem, Deeb; Williams, Geoffrey

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1663

Confidential Treatment Requested by Goldman

GS MBS-E-021893369

Cc: ficc-abstrading; Serres, Marine
Subject: RE: ABX - TABX : Request from [redacted]

Deeb,

These are the spreads you gave us for bbb- They would like the spread for bbb flat

thanks

-----Original Message-----
From: Salem, Deeb
Sent: Tuesday, March 27, 2007 1:07 PM
To: Prigent, Alexandra; Williams, Geoffrey
Cc: ficc-abstrading; Serres, Marine
Subject: RE: ABX - TABX : Request from [redacted]

Below are the spreads we showed them on BBB on ABX.HE.06-2

MLM6E1 2006-HE1 B-2A USD	200
RASC06-KS3 2006-KS3 M-8 USD	550
LBMLT06-1 2006-1 M-8 USD	750
CWL06-8 2006-8 M8 USD	550
MSAC06-WMC2 2006-WMC2 B-2 USD	800
ARSI06-W1 2006-W1 M-8 USD	900
FFML06-FF4 2006-FF4 M-8 USD	500
ACE06-NC1 2006-NC1 M-8 USD	200
SVHE06-OPT5 2006-OPT5 M-8 USD	300
SAIL06-4 2006-4 M7 USD	1000
GSAMP06-HE3 2006-HE3 M-8 USD	400
JPMAC06-FRE1 2006-FRE1 M8 USD	400
RAMP06-NC2 2006-NC2 M-8 USD	800
HEAT06-4 2006-4 M-8 USD	550
BSABS06-HE3 2006-HE3 M-8 USD	600
MABS06-NC1 2006-NC1 M-8 USD	600
CARR06-NC1 2006-NC1 M-8 USD	175
SASC06-WF2 2006-WF2 M8 USD	200
SABR06-OP1 2006-OP1 B-2 USD	175
MSCT06-HE2 2006-HE2 B-2 USD	500

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Prigent, Alexandra
Sent: Tuesday, March 27, 2007 3:12 AM
To: Williams, Geoffrey; Salem, Deeb
Cc: ficc-abstrading; Serres, Marine
Subject: Re: ABX - TABX : Request from [redacted]

Ok will call you this morning to discuss.

In the meantime, Deeb could you please send us the indic levels for the ABX.HE.06-2 BBB flat ?

Thanks
Alex

----- Original Message -----
From: Williams, Geoffrey
To: Prigent, Alexandra; Salem, Deeb
Cc: ficc-abstrading; Serres, Marine
Sent: Mon Mar 26 17:46:36 2007
Subject: RE: ABX - TABX : Request from [redacted]

We should discuss base correlations live...there is no market standard for calculating them...

Confidential Treatment Requested by Goldman Sachs

From: Prigent, Alexandra
Sent: Monday, March 26, 2007 11:58 AM
To: Williams, Geoffrey; Salem, Deeb
Cc: ficc-abstrading; Serres, Marine
Subject: ABX - TABX : Request from [redacted]

Hi Geoff, Deeb,

The head of Capital Markets a[redacted] is trying to identify opportunities in TABX and ABX.

Specific questions from the client:

1) Please send us the Base correlation on the 3 top tranches of TABX.BBB- (15-25, 25-40 and 40-100) and TABX.BBB (12 to 100)?

2) He would also like to have indicative bids for protection on the ABX.06-2.BBB underlying single-names:

Below are the spreads we showed them on BBB- on ABX.HE.06-2

MLM6E1 2006-HE1 B-2A USD	200
RASC06-KS3 2006-KS3 M-8 USD	550
LBMLT06-1 2006-1 M-8 USD	750
CWL06-8 2006-8 M8 USD	550
MSAC06-WMC2 2006-WMC2 B-2 USD	800
ARSI06-W1 2006-W1 M-8 USD	900
FFML06-FF4 2006-FF4 M-8 USD	500
ACE06-NC1 2006-NC1 M-8 USD	200
SVHE06-OPT5 2006-OPT5 M-8 USD	300
SAIL06-4 2006-4 M7 USD	1000
GSAMP06-HE3 2006-HE3 M-8 USD	400
JPMAC06-FRE1 2006-FRE1 M8 USD	400
RAMP06-NC2 2006-NC2 M-8 USD	800
HEAT06-4 2006-4 M-8 USD	550
BSABS06-HE3 2006-HE3 M-8 USD	600
MABS06-NC1 2006-NC1 M-8 USD	600
CARR06-NC1 2006-NC1 M-8 USD	175
SASC06-WF2 2006-WF2 M8 USD	200
SABR06-OP1 2006-OP1 B-2 USD	175
MSCT06-HE2 2006-HE2 B-2 USD	500

Fyi we are also trying to push for trading axes from the SP CDO as well with this client.

Many thanks,
Alexandra

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman Sachs International
Tel: +44 207 774 1696 | cell: +44 [redacted]
Email: alexandra.prigent@gs.com

Alexandra Prigent

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Confidential Treatment Requested by Goldman Sachs

From: Swenson, Michael
Sent: Thursday, February 15, 2007 6:41 AM
To: Bimbaum, Josh
Subject: Fw: Mortgages Estiimate REVISED

Fyi

----- Original Message -----
From: Jha, Arbind
To: Swenson, Michael
Sent: Wed Feb 14 20:02:04 2007
Subject: Re: Mortgages Estiimate REVISED

Congratulations for a very good day !

Will stop by tomorrow morning.

Thanks.

----- Original Message -----
From: Swenson, Michael
To: Jha, Arbind
Sent: Wed Feb 14 19:38:59 2007
Subject: Re: Mortgages Estiimate REVISED

Arbind it has to do with the single name cds position where we have been marking at a low beta. I am happy to discuss with you in the morning.

I do not have the relative moves in front of me right now.

Mike

----- Original Message -----
From: Jha, Arbind
To: Swenson, Michael
Sent: Wed Feb 14 19:33:12 2007
Subject: FW: Mortgages Estiimate REVISED

Michael,

Will you be able to provide some color on $100mm PNL in ABS Trading? Dan in a brief conversation yesterday did mention that we have been marking our single name CDS position with a beta of 0.25 vs. desk's perceived beta of 0.7 in SPG Trading desk.

Would appreciate your response and color on this.

Thanks,
Arbind

From: Bin, Ki-Jun
Sent: Wednesday, February 14, 2007 6:02 PM
To: Dinias, Michael; DMR-FICC; Fredman, Sheara; Fortunato, Salvatore; Jha, Arbind; Lee, Brian-J (FI Controllers); Montag, Tom; Ruzika, Richard; Simpson, Michael; Smith, Sarah; Sparks, Daniel L
Subject: Mortgages Estiimate REVISED

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1663

Confidential Treatment Requested by Goldman

GS MBS-E-012474685

Mortgages Estimate

Total 104,327,500
MTD (Including Estimate) 82,249,368

CRE Loan Trading
- Fixed Large Loan
- Floater Large Loan 87,500
- Fixed Conduit (280,000)
- Transitional Loans 20,000
- CRE CDO
- Warehouse
- Muni JV

ABS Loans & Finance
- Consumer
- Commercial
- Europe
- Warehouse

SPG Trading
- ABS Trading 100,000,000 ABX
- CMBS Trading
- Correlation Trading

CDO/CLO
- ABS/MBS CDO
- GSI SP Credit Warehouse
- US CLO
- EURO CLO
- CRE CDO
- Retained Principal Positions

Syndicate
- ABS
- CMBS
- CDO

Hedges Manager's Account

Advisory Fees

Other

RMBS
Mortgage Derivative
Agency Derivatives
Whole Loan Derivs
MSR

Residential Prime
FHA/VA - Primary
FHA/VA - Secondary
Subs
Prime Hybrid - Primary 4,500,000 Resid sale
Prime Hybrid - Secondary
Agency Hybrid 150,000
Prime Fixed - Primary
Prime Fixed - Secondary
Agency CMO - Primary (150,000)
Agency CMO - Secondary

Residential Credit
Scratch and Dent

Confidential Treatment Requested by Goldman Sachs

Subprime
Alt-A
2nd Liens
Residuals - Scratch & Dent
Residuals - Subprime
Residuals - Alt-A
Residuals - 2nd Liens
Warehouse

Tax Residuals
NERDS

EUROPE
Acquisition Finance
Euro CMBS

Global Special Situations
AMSSG
ESSG
ASSG

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10038
Tel: 212-357-7385
e-mail: ki-jun.bin@gs.com

Ki-Jun Bin
Finance Division

Goldman Sachs

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Confidential Treatment Requested by Goldman Sachs

From: Sherwood, Michael S
Sent: Wednesday, February 28, 2007 10:42 AM
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Gmelich, Justin
Cc: Montag, Tom; Ruzika, Richard
Subject: FW: ABX/Single name notional / risk history

Attachments: Index and Single Name Position History 2006 As of 27Feb07.pdf

Many congrats on last few weeks trading.....keep it up!!

Woody

From: Swenson, Michael
Sent: Wednesday, February 28, 2007 8:47 AM
To: Montag, Tom
Subject: FW: ABX/Single name notional / risk history

From: Kao, Kevin J.
Sent: Wednesday, February 28, 2007 7:40 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.
Cc: Turok, Michael; Holen, Margaret
Subject: ABX/Single name notional / risk history

Good morning. Attached please find the updated risk history charts.

Page 1 is the usual risk history chart.
Page 2 gives you a snapshot of risk for 2007 fiscal year only.



Index and Single Name Position...

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1666

Confidential Treatment Requested by Goldm

From: Montag, Tom
Sent: Monday, February 19, 2007 1:57 PM
To: Sparks, Daniel L
Subject: Re: 2 things

[redacted]

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Mon Feb 19 13:54:38 2007
Subject: 2 things

1. Please send a note to Josh Birnbaum, Mike Swenson and David Lehman telling them great week - short singles and short CDOs. Plus they have really kept their heads on well.

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1666

Confidential Treatment Requested by Goldman

From: Dinias, Michael
Sent: Thursday, February 08, 2007 4:03 PM
To: Berry, Robert; Broderick, Craig
Subject: FW: VaR limit for Mtg SPG

talked to Bill and he bumped mortgage var limit to 35, he also mentioned that its all hands on deck today as scratch & dent positions are being written down $40mm today.

From: McMahon, Bill
Sent: Thursday, February 08, 2007 3:59 PM
To: Dinias, Michael; Pouraghabagher, Cyrus; Berry, Robert
Cc: Ruzika, Richard; Sparks, Daniel L; Gasvoda, Kevin; Jha, Arbind
Subject: RE: VaR limit for Mtg SPG

Why don't we raise it to $35mm

From: Dinias, Michael
Sent: Thursday, February 08, 2007 8:38 AM
To: Pouraghabagher, Cyrus; McMahon, Bill; Berry, Robert
Cc: Ruzika, Richard; Sparks, Daniel L; Gasvoda, Kevin; Jha, Arbind
Subject: RE: VaR limit for Mtg SPG

Bill, I recommend Mortgage VaR limit be permanently increased to $30mm.

This would make the VaR limit more in line with increase in the Mortgage Credit Widening Scenario Limit.

For example, the Mortgage Credit Widening Scenario Limit has increased 54% in the last year (from $325mm to $500mm).

At the same time the Mortgage VaR limit was actually reduced 20%, from $25mm to $20mm.

Its worth noting that in the last year the strats have made a number of enhancements to their models allowing us to improve our VaR computation and therefore the VaR number is better capturing some of the basis risks inherent to the the mortgage business.

From: Pouraghabagher, Cyrus
Sent: Wednesday, February 07, 2007 8:02 PM
To: McMahon, Bill
Cc: Ruzika, Richard; Sparks, Daniel L; Gasvoda, Kevin; Dinias, Michael
Subject: VaR limit for Mtg SPG

Bill,

We recently topped our 20mm VaR limit, and this risk measure is expected to increase from 20.5 to around 23/24 tomorrow. Note that we've averaged closer to 15mm in past quarter, but this has steadily increased from a low of around 10mm in mid November. Our VaR risk is concentrated in our SPG trading books (ABS CDS/ABX and Correlation account for around 70% of this), which net provide significant stress scenario protection. The increase in VaR is primarily a result of increased volatility around the ABX indices, where, for instance, daily vol on BBB- has increased from 5 bps/day to 14 bps/day and is expected to increase further based on recent trading vol:

Daily ABX Vol (bps)

	Current	As of cob 11/24/06
ABX OTR "A"	3	1

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1679

Confidential Treatment Requested by Goldm

ABX OTR "BBB"	11	4
ABX OTR "BBB-"	14	5

Since this VaR limit is effectively coming into play for the first time, we'd like to bump the VaR limit to 25-30mm, at least for the interim, and keep a closer eye on the dynamics of this risk. Note that the limit was *reduced* from 25mm to 20mm earlier in the year precisely to achieve this effect, and ultimately, it may make sense to have this limit be north of 30mm to account for the growth as well as the more accurate assessment of our VaR across our synthetic businesses.

Let us know your thoughts,
Cyrus

<< File: MortgageRiskSummary070206.pdf >>

From: Song, Scarlett
Subject: MarketRisk: Mortgage Risk Report (cob 02/06/2007)

CDO/CLO desk is over its scenario risk limit. The limit is currently under discussion as the desk is undergoing a business restructuring.
MTG SPG desk is over its VaR limit

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Desk	95% VaR ($MM) 02/06	02/05	Limit
MTG SPG	20.5	20.5	20

Desk	Stress Test ($MM) 02/06	02/05	Limit
MTG SPG	549	556	800
Deriv	25	27	30
Res Prime	84	84	100
Res Credit	166	162	185
Credit Resid	141	141	170
[redacted]			
SPG Trading	-153	-142	160
CDO/CLO	84	84	55
Manager	0	0	
[redacted]			
CDO Warehouse	139	139	170
CDO	74	74	100
CLO	65	65	70

(results include both US and Europe CLO Warehouse)

Confidential Treatment Requested by Goldman Sachs

From: Montag, Tom
Sent: Wednesday, February 14, 2007 6:12 PM
To: Winkelried, Jon; Cohn, Gary
Cc: Ruzika, Richard
Subject: Fw:

Good points below by justin

Surprised by two things but still going back and forth

1-why margaret can't drive
2-rosenblum driving trading-only because he doesn't stride me that way

3-good idea on work our guys

4-clearly need to opportunistically take position down

Tom

----- Original Message -----
From: Gmelich, Justin
To: Montag, Tom
Sent: Wed Feb 14 18:04:17 2007
Subject: Re:

Let's see. Credit tighter. 4-5mm in credit. Activity high. LCC (usair) made 750k. Still long 3.2mm shares. Bernanke testimony only emboldening the credit people.

Abx risk should be working to get closer to home. My opinion, singles short v index is too big (no news here). Abx correlation trade is good. I think we should be covering a bit of our short. There is a lot to do.

Few people issues. Rosenblum should not go w the clo business to credit. He has far too much mortgage knowledge. Keep him in mtg trading. Also, elisha needs to start getting involved in systems build. Very important. We shud be hiring laterally in strats (bear lehman merrill) . We also need to hire "work out" specialists in mortgage credit. There will be many of these situations.
Next stop for me is cdo equity book. I am keenly interested to see risk there. I am out friday.

----- Original Message -----
From: Montag, Tom
To: Gmelich, Justin
Sent: Wed Feb 14 16:34:19 2007
Subject:

Anything else happen today

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1683

Confidential Treatment Requested by Gold

From: Sparks, Daniel L
Sent: Thursday, February 22, 2007 6:57 AM
To: Birnbaum, Josh; Swenson, Michael; Lehman, David A.
Subject: FW: Block size tranche protection offers for Paulson or others

Thursday.

We need to buy back $1 billion single names and $2 billion of the stuff below - today.
I know that sounds huge, but you can do it - spend bid/offer, pay through the market, whatever to get it done.
It is a great time to do it - bad news on HPA, originators pulling out, recent upticks in unemployment, originator pain.

I will not want us to trade property derivatives until we get much closer to home as it will be a significant distraction from our goal.

This is a time to just do it, show respect for risk, and show the ability to listen and execute firm directives.

You called the trade right, now monetize a lot of it.

You guys are doing very well.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Egol, Jonathan
Sent: Wednesday, February 21, 2007 11:23 AM
To: Sparks, Daniel L
Cc: Swenson, Michael; Birnbaum, Josh; Lehman, David A.; ficc-mtgcorr-desk; Salem, Deeb
Subject: Block size tranche protection offers for Paulson or others

Summary of ABX-related tranches we could offer protection on if we want to close down shorts:

- $2.4bn notional 40-100 super senior tranche off of ABX "Quadrant" trade (25% each of 06-1/06-2 BBB and BBB-), could potentially offer NC4 (we did $1.8bn NC3 with [redacted] and $600mm NC4 with [redacted])
- $200mm notional 20-30 tranche off of 06-1 BBB- (open risk vs [redacted] NC3)
- $325mm notional 30-100 super senior tranche off of 06-1 BBB- (open risk vs [redacted] intermediation, NC5)
- $500mm notional 40-100 super senior tranche off of 06-1/06-2 BBB- (open risk vs [redacted], non-callable)

We are currently managing ABX deltas against all of these tranches.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman
Sachs

Jonathan M. Egol
Structured Products Trading

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1685

Confidential Treatment Requested by Goldma

From: Viniar, David
Sent: Wednesday, February 21, 2007 4:56 PM
To: Sparks, Daniel L
Subject: RE: Mortgages today

x-gs-classification: Internal-GS

Good start. Keep covering.

From: Sparks, Daniel L
Sent: Wednesday, February 21, 2007 4:43 PM
To: Montag, Tom; Ruzika, Richard; McMahon, Bill; Smith, Sarah; Lee, Brian-J (FI Controllers)
Cc: Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Viniar, David; Gmelich, Justin; Gasvoda, Kevin
Subject: Mortgages today

Commercial Mortgage	+30mm (50/50 FICC/IBD)
Single names	+60mm
Index	(42)mm
Index tranches/index	flat
CDO CDS	+25mm
CDO positions	(5)mm
CDO warehouse	(5)mm
Other	+6
Total	+54 to FICC (+69 to firm)

Market sold off significantly (BBB and BBB- indices over 100 bps wider)

We covered over $400mm single names - still significant work to do.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1688

Confidential Treatment Requested by Goldman

From: Montag, Tom
Sent: Wednesday, February 21, 2007 8:41 PM
To: Sparks, Daniel L
Subject: Re:

If you sold it in a bad market u oughjt to be able to buy it.

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Cc: Ruzika, Richard
Sent: Wed Feb 21 20:39:33 2007
Subject: Re:

Pushing hard, but need to be realistic with respect to expectations on liquidity. Very hard to force it. Trade has been right, and should continue to run (though there will be bumps).

Entire team knows we have to reduce and is focused on it.

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Cc: Ruzika, Richard
Sent: Wed Feb 21 20:15:53 2007
Subject:

Tt mcmahon. How hard are we pushing covering some of singlename. Let's not be bidoffer foolish. The downside isn't worth the upside imo

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1688

Confidential Treatment Requested by Goldm

From: Ruzika, Richard
Sent: Thursday, February 22, 2007 5:53 PM
To: Montag, Tom; Sparks, Daniel L
Subject: Re:

I think Dan's guys are being practical. I know Bill was upset but covering the single name bbb and bbb- is prudent as it cuts vol and var the most.
Guys didn't give up bid ask but they also didn't stand on the bid.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Cc: Ruzika, Richard
Sent: Wed Feb 21 20:15:53 2007
Subject:

Tt mcmahon. How hard are we pushing covering some of singlename. Let's not be bidoffer foolish. The downside isn't worth the upside imo

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1689

Confidential Treatment Requested by Goldm

From: Lehman, David A.
Sent: Friday, February 23, 2007 9:10 PM
To: Salem, Matthew
Subject: Re: [redacted] CDO w/ [redacted]

U should have asked for some $ back if u printed 4 of 5 w/ big covers

Good job

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Salem, Matthew
To: Lehman, David A.
Sent: Fri Feb 23 20:52:03 2007
Subject: Re: [redacted] CDO w/ [redacted]

Not sure. Our cvrs on the '05 vintage were huge. One of the covers was in the mid 30s, another mid-40s, another there was no cover. We bought in the low 50s on 3 cmbx1 type names (cmbx was 62 mid at the time). We also bought an '06 lbubs at 74 (w/ a 4 bps cvr). Pretty sure they are all $ losing trades but I after talking with you and sparks I figured why not buy some protection. It's amazing to me that everyone was lifting cmbx 1 and 2 but NOBODY will bid single names.

Anyway, [redacted] loves us as we printed 4 of the 5 names they put out and covered on the other one.

----- Original Message -----
From: Lehman, David A.
To: Salem, Matthew
Sent: Fri Feb 23 20:27:47 2007
Subject: Re: [redacted] CDO w/ [redacted]

Lvls u like?

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1693

Confidential Treatment Requested by Goldma

GS MBS-E-01127013

Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Salem, Matthew
To: ficc-cmbs-desk; ficc-crelt
Sent: Fri Feb 23 16:08:39 2007
Subject: [redacted] CDO w/ [redacted]

[redacted] is ramping a CDO w/ [redacted]. I'll get more color when it's less busy but we just bought $60MM of protection from them (facing [redacted]).

Matt Salem
CMBS Trading

Goldman, Sachs & Co.
85 Broad Street | 26th | New York, NY 10004
* (212) 902-2927
* Matthew.Salem@GS.com

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Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Sunday, February 25, 2007 8:34 PM
To: Montag, Tom
Cc: Ruzika, Richard
Subject: Questions you had asked

Last week the trading desks did the following:

(1) Cover around $1.5 billion single name subprime BBB- CDS and around $700mm single name subprime BBB CDS. The desk also net sold over $400mm BBB- ABX index. Desk is net short, but less than before. Shorts are in senior tranches of indexes sold and in single names. Plan is to continue to trade from short side, cover more single names and sell BBB- index outright.

(2) The CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). Business also began liquidation of $820mm JPMIM warehouse - all synthetics done, cash bonds will be sold in next few days. One more CDO warehouse may be liquidated this week - approximately $300mm with GSC as manager. That will leave us with 2 large CDOs of A-rated CDOs, 2 high grade deals with limited subprime mezz risk, and 2 other small warehouses that are on hold. Getting super-senior done on CDOs is the critical path, and that is where the focus is - for the CDOs of CDOs, NATIXIS (Paris) on Dillion Reed deal and Wincap (London) on Greywolf deal.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1694

Confidential Treatment Requested by Goldm

From: Sparks, Daniel L
Sent: Tuesday, February 27, 2007 8:28 AM
To: Ruzika, Richard
Subject: Re:

I'm in meeting with new century ceo on 22 - do you need me to step out and call you?

Desk knows have to step up covering single names

----- Original Message -----
From: Ruzika, Richard
To: Sparks, Daniel L
Sent: Tue Feb 27 08:09:49 2007
Subject: Re:

Dan. Directly from opcom we have to pick up the pace of buying back single names even if it costs us some money. I know your guys are trying but we can pay away some if it helps to get size done.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Ruzika, Richard; Montag, Tom; Gmelich, Justin
Sent: Tue Feb 27 07:49:35 2007
Subject: RE:

We have been legging it. The team is putting together some package trades to show out to certain people, but so far accounts have wanted directional exposure.

We are not as short because of cash positions that don't show up on risk and because of CDO warehouse. We are in the process of allocating short positions more explicitly for that.

The team knows we have to reduce risk. That means:
(1) get super-seniors done on CDOs or take other steps to reduce CDO pipeline risk
(2) cover more single name shorts BBB- and BBB
(3) reduce the basis trade between BBB- index and BBB- single names
(4) reduce the index/index trades in A and AAA

-----Original Message-----
From: Ruzika, Richard
Sent: Tuesday, February 27, 2007 7:18 AM
To: Montag, Tom; Gmelich, Justin; Sparks, Daniel L
Subject: RE:

Dan can answer -- we are. And we are focused on both -- covering some of the short and trimming basis. We thought we were going to get a chunk done last night (of the short) -- we'll see where we start today.

-----Original Message-----
From: Montag, Tom
Sent: Tuesday, February 27, 2007 7:14 AM
To: Ruzika, Richard; Gmelich, Justin; Sparks, Daniel L
Subject: Re:

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Wall Street & The Financial Crisis
Report Footnote #1695

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We can also sell our package to people. Both sides. Are we actively selling the package. Would accomplish both and we obviously believe in it

----- Original Message -----
From: Ruzika, Richard
To: Montag, Tom; Gmelich, Justin; Sparks, Daniel L
Sent: Tue Feb 27 07:12:40 2007
Subject: RE:

There are two issues --
first is the size of the short -- I want to see us getting the short down to 4.5 bil net (excluding what exists in the resids) Second - the basis in the book needs to be reduced as well

The way to accomplish the above is to leg into the market by buying what we are short and then making the decision to leg out of the basis or keep the long. At this moment the over all is too short so I wouldn't rush to leg out of basis.

I'm not sure we have to pay to get there -- but I wouldn't pay a lot if it only accomplished a little.

We are on them everyday but don't want to move the market in our faces.

-----Original Message-----
From: Montag, Tom
Sent: Tuesday, February 27, 2007 7:03 AM
To: Gmelich, Justin; Sparks, Daniel L
Cc: Ruzika, Richard
Subject:

How much r we pushing these guys to get it down further? What r the plans? Where do we want it? What would u be willing to pay to get there?

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From: Sparks, Daniel L
Sent: Tuesday, February 27, 2007 8:14 AM
To: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: Opcom directive

Buyback single names in size today

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Wall Street & The Financial Crisis
Report Footnote #1697

Confidential Treatment Requested by Goldm

From: Estus, Ian [iestus@harbingercap.net]
Sent: Thursday, February 22, 2007 12:42 PM
To: Valtz, Nicholas
Cc: Bhavsar, Avanish R; Swenson, Michael; Salem, Deeb; HDIF Accounting; Jones, Pia; Turano, Ken; Baker, Clark; Drew, Bill; Estus, Ian
Subject: RE: Hi Ian - please confirm the attached for second trade today - thx

Agree

Allocations:

MF 20MM
SSF 5MM

-----Original Message-----
From: Valtz, Nicholas [mailto:Nicholas.Valtz@gs.com]
Sent: Thursday, February 22, 2007 12:32 PM
To: Estus, Ian
Cc: Bhavsar, Avanish R; Swenson, Michael; Salem, Deeb
Subject: Hi Ian - please confirm the attached for second trade today - thx

> CUSIPS on attached spreadsheet
> <<Harbinger - ABS Characteristics - 22Feb07.xls>> Protection Buyer:
> Harbinger Protection Seller: Goldman Sachs
> Size: $300mm total ($25mm x 12 reference obs)
> Premium: +585bps running
>
> Baa3
> JPMAC 2006-NC2 M9
> JPMAC 2006-CW2 MV9
> MSAC 2006-NC1 B3
> ACE 2006-NC1 M9
> RASC 2006-EMX1 M9
> CARR 2006-NC1 M9
> SAST 2006-2 B3
> OWNIT 2006-1 B3
> FFML 2006-FF1 M9
> CMLTI 2006-WFH1 M9
> POPLR 2006-A M6
> JPMAC 2006-CH2 MV9
>
>
> Protection Buyer: Harbinger
> Protection Seller: Goldman Sachs
> Size: $325mm total ($25mm x 13 reference obs)
> Premium: +395bps running
>
> Baa2
> WFHET 2006-1 M8
> RASC 2006-KS3 M8
> ABSHE 2006-HE3 M7
> SVHE 2006-OPT2 M7
> CXHE 2006-A M8
> CMLTI 2006-AMC1 M8
> GSAMP 2006-HE1 M8
> JPMAC 2006-HE2 M8
> WMABS 2006-HE2 M8
> BSABS 2006-PC1 M7

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Wall Street & The Financial Crisis
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[redacted] = Redacted by the Permanent Subcommittee on Investigations

> ACCR 2006-2 M8
> NSTR 2006-B M8
> CBASS 2006-CB1 B2
>
>
> _____
> Nicholas Valtz
> Vice President
> Capital Structure Sales
> Securities Division
>
> Goldman, Sachs & Co.
> 1 New York Plaza 50th Floor | New York, NY 10004
> Tel: 212 357-8694 | Fax: 212 256-4109 AOL IM: [redacted] | e-mail:
> nicholas.valtz@gs.com
> _____
>
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> and we will send the contents to you.
>

From: Valtz, Nicholas
Sent: Thursday, February 22, 2007 6:29 PM
To: Parker, Amanda; Estus, Ian
Cc: Bhavsar, Avanish R; Salem, Deeb; Swenson, Michael
Subject: RE: Basket characteristics & individual spreads - Baa3 basket

Confirmed - thank you

Protection Buyer: Harbinger
Protection Seller: Goldman Sachs
Size: $1bn total ($25mm x 40 reference obs, as listed below)
Premium: +785bps running

-----Original Message-----
From: Parker, Amanda [mailto:AParker@Harbert.net]
Sent: Thursday, February 22, 2007 6:26 PM
To: Estus, Ian; Valtz, Nicholas
Subject: RE: Basket characteristics & individual spreads - Baa3 basket

25,000,000 EACH (ALLOCATED 20M TO MASTER FUND, 5M TO SPECIAL SITS)

@ 785

AGREE

-----Original Message-----
From: Estus, Ian
Sent: Thursday, February 22, 2007 5:13 PM
To: Parker, Amanda
Subject: FW: Basket characteristics & individual spreads - Baa3 basket

-----Original Message-----
From: Valtz, Nicholas [mailto:Nicholas.Valtz@gs.com]
Sent: Thursday, February 22, 2007 1:34 PM
To: Estus, Ian; Baker, Clark
Cc: Bhavsar, Avanish R
Subject: Basket characteristics & individual spreads - Baa3 basket

Hi Clark & Ian -

Attached please find the spreadsheet with the requested data for the basket of 40 Baa3 names:

<<Harbinger - Third List - ABS Characteristics - 22Feb07.xls>>

Baa3 Ref Ob	CUSIP	Spread
ABFC 2006-HE1 M9	00075WAN9	850
ACE 2006-CW1 M9	00441QAP4	625
AMSI 2006-R2 M9	03072S2F1	800
CARR 2006-NC2 M9	14453FAN9	575
CBASS 2006-CB6 B1	14986PAP8	525
CWL 2006-13 BV	23242EAU3	700
FFML 2006-FF6 M6	31561EAN5	750
GSAMP 2006-HE3 M9	36244KAP0	900
GSAMP 2006-HE5 M9	362437AP0	825
GSAMP 2006-NC1 B3	362334ER1	625
GSAMP 2006-NC2 M9	362463AP6	975
HASC 2006-OPT1 M9	40430HDN5	650

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HASC 2006-OPT2 M9	40430HEJ3	800
HEAT 2006-3 B1	437084VA1	975
JPMAC 2006-ACC1 M9	46628RAP0	650
JPMAC 2006-HE1 M9	46626LGQ7	650
MABS 2006-AM1 M9	57643LQJ8	800
MABS 2006-NC1 M9	57643LNQ5	1025
MLMI 2006-HE1 B3A	59020U3Q6	575
MLMI 2006-HE5 B3	59022QAP7	900
MSC 2006-HE2 B3	617451FE4	975
MSHEL 2006-2 B3	61744CYY6	700
NHELI 2006-WF1 M9	65536RAN6	550
POPLR 2006-B M6	73316PKP4	650
POPLR 2006-C M6	73316MAK3	650
RAMP 2006-EFC1 M9	76112BW71	850
RAMP 2006-EFC2 M9	749238AN1	700
RAMP 2006-NC3 M9	76112B4X5	1025
SASC 2006-WF1 M9	863576FR0	525
SASC 2006-WF2 M9	86360LAN6	575
SAST 2006-1 B3	80556UAN3	725
SAST 2006-3 B3	80556AAN7	725
SURF 2006-AB1 B3	84751PLF4	750
SVHE 2006-OPT1 M8	83611MMG0	750
SVHE 2006-OPT2 M8	83611MMU9	775
SVHE 2006-OPT3 M8	83611MPS1	675
SVHE 2006-OPT5 M9	83612CAP4	850
WMABS 2006-HE1 M9	92925CFC1	675
WMABS 2006-HE2 M9	93934JAN4	675
WMABS 2006-HE5 M9	93934XAN3	675

Nicholas Valtz
Vice President
Capital Structure Sales
Securities Division

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 357-8694 | Fax: 212 256-4109
AOL IM: [redacted] | e-mail: nicholas.valtz@gs.com

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From: Swenson, Michael
Sent: Tuesday, February 27, 2007 4:16 PM
To: McMahon, Bill

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Bought 1.5bb of sn baa3 risk from harbinger

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917[redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com

Goldman Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

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From: Sparks, Daniel L
Sent: Thursday, March 01, 2007 3:40 PM
To: Fortunato, Salvatore; Lee, Brian-J (FI Controllers); Simpson, Michael
Subject: FW: SN Protection Offers for Harbinger (50 names)

Trade was executed at +725

-----Original Message-----
From: Salem, Deeb
Sent: Thursday, March 01, 2007 3:33 PM
To: Sparks, Daniel L
Subject: FW: SN Protection Offers for Harbinger (50 names)

-----Original Message-----
From: Salem, Deeb
Sent: Tuesday, February 27, 2007 10:54 AM
To: Gmelich, Justin; Bhavsar, Avanish R
Cc: Salem, Deeb; Chin, Edwin; Swenson, Michael; Birnbaum, Josh
Subject: SN Protection Offers for Harbinger (50 names)

+875 offer

ABFC 2006-OPT1 M9	00075QAN2	Baa3
ABSHE 2006-HE3 M8	04541GXL1	Baa3
ABSHE 2006-HE5 M9	04544PAP4	Baa3
ACCR 2005-2 M9	004375DM0	Baa3
ACCR 2005-3 M9	004375EC1	Baa3
ACCR 2006-1 M9	004375FF3	Baa3
ACCR 2006-2 M9	00437NAN2	Baa3
ACE 2005-AG1 B3	004427CL2	Baa3
ACE 2005-WF1 M9	004421QX4	Baa3
ACE 2006-NC1 M9	004421VC4	Baa3
AMSI 2005-R10 M9	03072ST62	Baa3
AMSI 2005-R11 M9	03072SV93	Baa3
BSABS 2005-AQ2 M8	0738793C0	Baa3
BSABS 2005-TC1 M6	073879VL9	Baa3
BSABS 2005-TC2 M6	073879E79	Baa3
CARR 2006-NC1 M9	144531FG0	Baa3
CARR 2006-NC2 M9	14453FAN9	Baa3
CARR 2006-OPT1 M9	144531FW5	Baa3
CARR 2006-RFC1 M9	14453EAN2	Baa3
CBASS 2006-CB1 B3	81375WHU3	Baa3
CMLTI 2006-WFH1 M9	17307G2W7	Baa3
CMLTI 2006-WFH2 M9	17309MAN3	Baa3
CMLTI 2006-WFH3 M9	17309QAN4	Baa3
CWL 2005-BC4 M9	1266737H9	Baa3
CXHE 2006-A M9	15231AAN6	Baa3
EMLT 2005-1 M9	29445FCW6	Baa3
FFML 2005-FF12 B3	32027NYE5	Baa3
FFML 2005-FF8 B3	362341QX0	Baa3
FFML 2006-FF1 M9	32027NYZ8	Baa3
GSAMP 2006-NC1 B3	362334ER1	Baa3
HASC 2006-OPT2 M9	40430HEJ3	Baa3
JPMAC 2005-FLD1 M9	46626LBB5	Baa3
JPMAC 2005-OPT2 M9	46626LEU0	Baa3
JPMAC 2006-CH1 M9	46629TAP5	Baa3
JPMAC 2006-CW2 MV9	46629BBB4	Baa3

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JPMAC 2006-NC2 M9	46629FAN0	Baa3
LBMLT 2006-WL1 M9	542514RE6	Baa3
MLMI 2006-HE1 B3A	59020U3Q6	Baa3
MSAC 2006-NC1 B3	61744CYK6	Baa3
MSC 2006-HE1 B3	617451EA3	Baa3
MSC 2006-HE2 B3	617451FE4	Baa3
MSHEL 2006-1 B3	61744CXG6	Baa3
NCMT 2006-1 M9	65106AAW3	Baa3
NHELI 2006-WF1 M9	65536RAN6	Baa3
NSTR 2006-B M9	63860FAN3	Baa3
RASC 2005-EMX4 M9	76110W6H4	Baa3
SABR 2005-HE1 B3	81375WGL4	Baa3
SABR 2006-OP1 B3	81375WJP2	Baa3
SAST 2006-1 B3	80556UAN3	Baa3
WMABS 2006-HE3 M9	93934MAP2	Baa3

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From: Gmelich, Justin
Sent: Saturday, March 03, 2007 7:29 AM
To: Swenson, Michael; Sparks, Daniel L
Cc: Birnbaum, Josh
Subject: Re: Harbinger Update

Great. Av sent me a msg last night and said 3b more is not out of the question. Swenny, he said that he is going to swing by your place this weekend to go over details :).

----- Original Message -----
From: Swenson, Michael
To: Sparks, Daniel L; Gmelich, Justin
Cc: Birnbaum, Josh; Swenson, Michael
Sent: Sat Mar 03 06:55:15 2007
Subject: Harbinger Update

Av sent a message to harbinger last night to Harbinger saying we would be interested in looking at the larger opportunity as we discussed. Harbinger immediately responded saying that was great and "it would be embarrassing for them to get the money and not to be able to execute".

After Av left, we noodled through everything and we decided to investigate putting together a package of 1bb single-As, 1bb Baa2s and 1bb Baa3s for them. They have been reluctant in the past with single-As but it is worth a shot. Also keep in mind that the account is likely to ask for an upsize at the end. If that is the case we will be able to accommodate them with the existing position.

Josh has mobilized strats (primer, elisha and turok) and they are going to go through our entire single-name position using the primer/marschoun default and scenario model. The biggest challenge from what I understand is underlying data coverage not the number crunching. No one really knows how much coverage we will get but an educated guess of 60% seems reasonable.

Deeb and Edwin are reviewing our tiering of existing positions. We will assemble our list after we review strats' model results.

Our first prioirty will be to cover the names that we are short as well as the names that match up well with our model results. This is a great opportunity to cover single-A and Baa2 SN at a level that makes sense from a valuation perspective.

We have time since the account said they need to "raise the money" and will not be at all surprised to have them want to go live sooner rather than later.

It is clear to all of us we are in basis risk reduction mode. We have a number of parties to puruse index sales once we have better clarity.

If you need to reach me call me at 917-[redacted]

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com
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Michael J. Swenson
Fixed Income, Currency & Commodities

This material has been prepared specifically for you by the Fixed Income Trading

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GS MBS-E-010707216

From: Bhavsar, Avanish R
Sent: Friday, April 20, 2007 12:56 PM
To: Swenson, Michael; Birnbaum, Josh; Salem, Deeb
Cc: Ash, Ilana; Kelman, Peter; Kiflu, Alpha; Friedman, Nicolas B.
Subject: RE: Harbinger didnt add the last piece we had spoken of, but are now thinking of adding ~ 50mm

Harbinger may want to add 25mm to 50mm of single name protection, can you share your thoughts about the view from the desk...

From: Young, Greg
Sent: Friday, April 20, 2007 12:52 PM
To: Bhavsar, Avanish R
Cc: Ash, Ilana; Kelman, Peter; Kiflu, Alpha; Friedman, Nicolas B.
Subject: RE: Harbinger didnt add the last piece we had spoken of, but are now thinking of adding ~50mm

Av,

Harbinger is our #1 hedge fund exposure globally. We had to explain this to the SEC this month.

If at all possible I would prefer to have you place this with a different hedge fund, if it's a matter of managing our own credit exposure.

I'm out of the office, but am checking e-mail frequently. Ilana Ash and Peter Kelman are both familiar with the situation and can authorize the trade if need be.

From: Bhavsar, Avanish R
Sent: Friday, April 20, 2007 12:41 PM
To: Young, Greg
Subject: Harbinger didnt add the last piece we had spoken of, but are now thinking of adding ~50mm

Avanish R. Bhavsar
Managing Director
Capital Structure Sales
Securities Divison

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 357-8405 | Cell: 917[redacted]
e-mail: avanish.bhavsar@gs.com

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GS MBS-E-012523933

From: Swenson, Michael
Sent: Monday, July 30, 2007 10:23 AM
To: Bhavsar, Avanish R

Spoke with credit get tom c. involved early

-----Original Message-----
From: Bhavsar, Avanish R
Sent: Monday, July 30, 2007 10:06 AM
To: Salem, Deeb; Swenson, Michael
Subject: FW: Harbinger Single-A Offerings.xls

-----Original Message-----
From: Baker, Clark [mailto:cbaker@harbingercap.net]
Sent: Monday, July 30, 2007 10:05 AM
To: Bhavsar, Avanish R; Estus, Ian; Turano, Ken
Cc: Valtz, Nicholas
Subject: RE: Harbinger Single-A Offerings.xls

Thanks, looking now

-----Original Message-----
From: Bhavsar, Avanish R [mailto:avanish.bhavsar@gs.com]
Sent: Monday, July 30, 2007 9:56 AM
To: Baker, Clark; Estus, Ian; Turano, Ken
Cc: Valtz, Nicholas
Subject: Harbinger Single-A Offerings.xls

Here's the package offering for Harbinger -

ABX:
2006-1 A: Harbinger sells us $1bb

AND

Single-names ($15mm per name, $1,040,000 total) as a package:
25 2005-vintage ref obs offered @ +725bps running
35 2006-vintage ref obs offered @ +1050bps running
12 2007-vintage ref obs offered @ +1050bps running

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Avanish R. Bhavsar
Managing Director
Capital Structure Sales
Securities Divison

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 357-8405 | Cell: 917-[redacted]
e-mail: avanish.bhavsar@gs.com

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GS MBS-E-012374026

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<<Harbinger Single-A Offerings.xls>>

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From: Cohn, Gary (EO 85B30)
Sent: Thursday, August 23, 2007 8:31 AM
To: Montag, Tom; Viniar, David
Subject: Re: Harbinger post

Great

----- Original Message -----
From: Montag, Tom
To: Cohn, Gary; Viniar, David
Sent: Thu Aug 23 07:19:44 2007
Subject: Fw: Harbinger post

Finally actuall covering singles. We had bought back almost 9 billion of aaa abx over last two weeks though

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald; Montag, Tom; Sparks, Daniel L; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas
Cc: Birnbaum, Josh; Lehman, David A.; Brafman, Lester R; Swenson, Michael
Sent: Wed Aug 22 22:07:34 2007
Subject: Harbinger post

We just printed 400mm of Singles with Harbinger. 130mm of BBB and 270mm BBB-.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com

Goldman
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Michael J. Swenson
Fixed Income, Currency & Commodities

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1755

GS MBS-E-009739009

From: Gmelich, Justin
Sent: Monday, March 05, 2007 8:32 AM
To: Montag, Tom; Sparks, Daniel L; Ruzika, Richard
Subject: RE:

I think we have a very modest short across all the businesses at current market levels. I concur with Dan.

-----Original Message-----
From: Montag, Tom
Sent: Monday, March 05, 2007 8:31 AM
To: Sparks, Daniel L; Gmelich, Justin; Ruzika, Richard
Subject: Re:

How short

I thought justin had a different conclusion

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Gmelich, Justin; Ruzika, Richard
Sent: Mon Mar 05 08:27:00 2007
Subject: RE:

We think the overall business is net short, but there is a lot of basis.

Long risk positions:
Resi loans
Cash RMBS resids
CDO warehouse
CDO bonds
Commercial mortgage loans
CMBS bonds

Short risk positions:
ABX
RMBS CDS
CDO CDS
CMBS TROR

-----Original Message-----
From: Montag, Tom
Sent: Monday, March 05, 2007 8:21 AM
To: Sparks, Daniel L; Gmelich, Justin; Ruzika, Richard
Subject:

Do we think the business is net short long or flat right now

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1702

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From: Montag, Tom
Sent: Wednesday, March 14, 2007 7:10 PM
To: Blankfein, Lloyd
Subject: FW: Cactus Delivers

Covered another 1.2 billion in shorts in mortgages--almost flat--now need to reduce risk

From: Sparks, Daniel L
Sent: Thursday, March 15, 2007 8:47 AM
To: Montag, Tom
Subject: RE: Cactus Delivers

Stanfield - he did a great job filling our ax (Tom C has really done a good job developing this guy)

From: Montag, Tom
Sent: Wednesday, March 14, 2007 7:31 PM
To: Sparks, Daniel L
Subject: RE: Cactus Delivers

What does that mean he brought in? Who with --what did it affect etc

From: Sparks, Daniel L
Sent: Thursday, March 15, 2007 7:13 AM
To: Montag, Tom; Schwartz, Harvey; Ruzika, Richard; Cohn, Gary (EO 85B30)
Cc: Gmelich, Justin; Cornacchia, Thomas
Subject: Cactus Delivers

Cactus Raazi did a fantastic job for the desk by bringing in $1.2 BB in A-rated single names today.

Cornac and Gmelich were there usual outstanding contributors.

Please recognize Cactus when you get a chance.

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Wall Street & The Financial Crisis
Report Footnote #1705

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From: Ruzika, Richard
Sent: Thursday, March 15, 2007 7:20 AM
To: Lehman, David A.; Sparks, Daniel L
Cc: Swenson, Michael; Birnbaum, Josh
Subject: Re: ABS trading - Subprime risk

Yes exactly. Thank you David.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Lehman, David A.
To: Ruzika, Richard; Sparks, Daniel L
Cc: Swenson, Michael; Birnbaum, Josh
Sent: Wed Mar 14 23:06:33 2007
Subject: ABS trading - Subprime risk

Rich - let us know if the below is what you wanted and if you need anything else...

Subprime Risk - ABS Trading

Notional

AAA	long 185mm index, short 302mm single name, net short 117mm
AA	long 289mm index, short 2mm single name, net long 287mm
A	short 1.572bb index, short 622mm single name, net short 2.194bb
BBB	short 1.039bb index, short 1.596bb single name, net short 2.635bb
BBB-	long 1.738bb index, short 1.439bb single name, net long 299mm

Dv01

AAA	long 69k/bp
AA	long 166k/bp
A	short 566/bp
BBB	short 592k/bp
BBB-	long 188k/bp

CDO shorts

Mezz "AA" CDOs	short 125mm or 67k/bp
Mezz "A" CDOs	short 1.381bb or 642k/bp
Mezz "BBB" CDOs	short 157mm or 89k/bp

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Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

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From: Kao, Kevin J.
Sent: Wednesday, May 23, 2007 10:16 AM
To: Birnbaum, Josh; Swenson, Michael
Cc: Turok, Michael
Subject: RMBS Subprime risk history as of 18May07

Attachments: Index and Single Name Position History As of 18May07.xls

Here's the updated version as of 18May07. Thanks.

Kevin

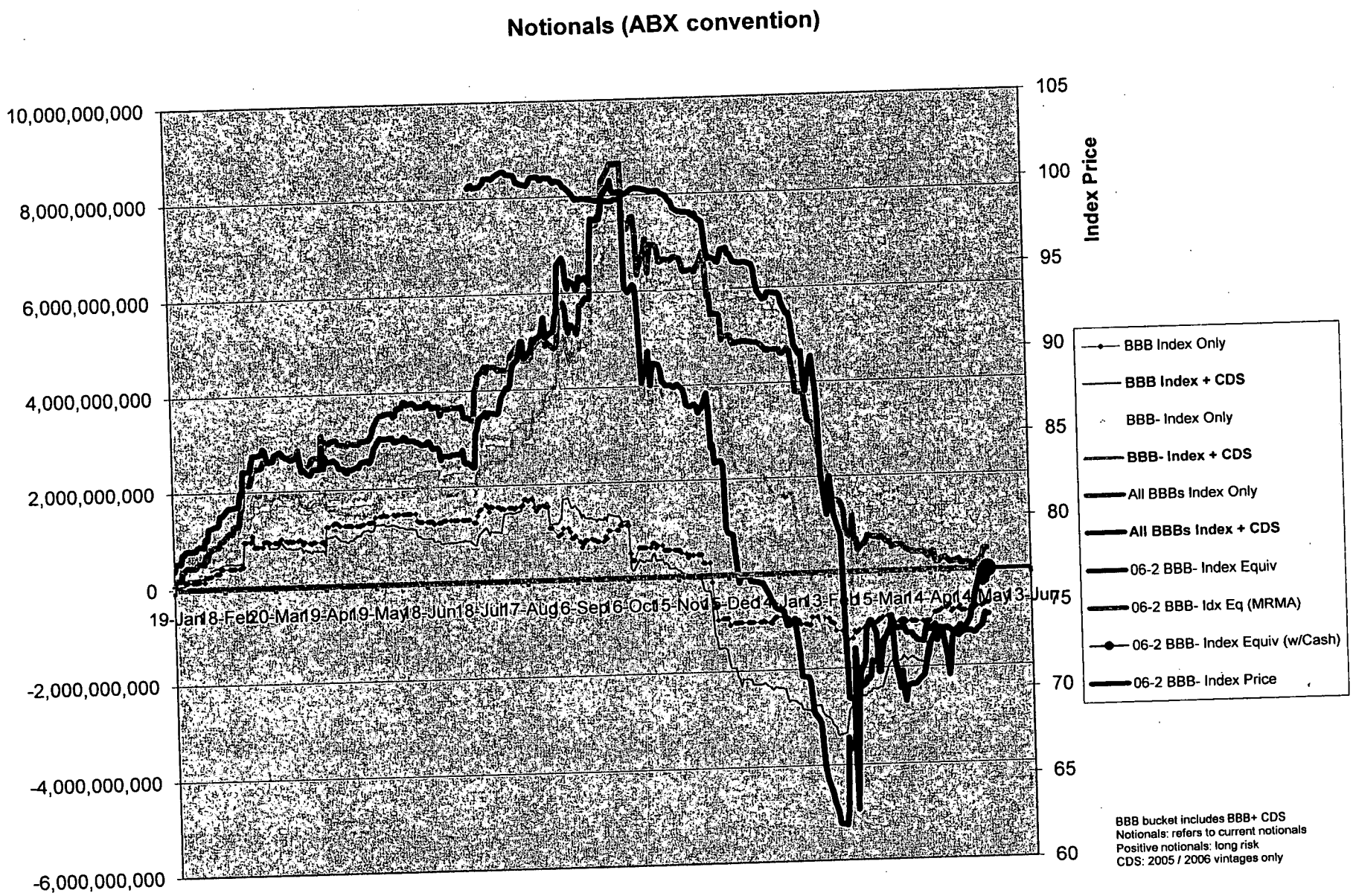


Index and Single Name Position...

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Report Footnote #1709

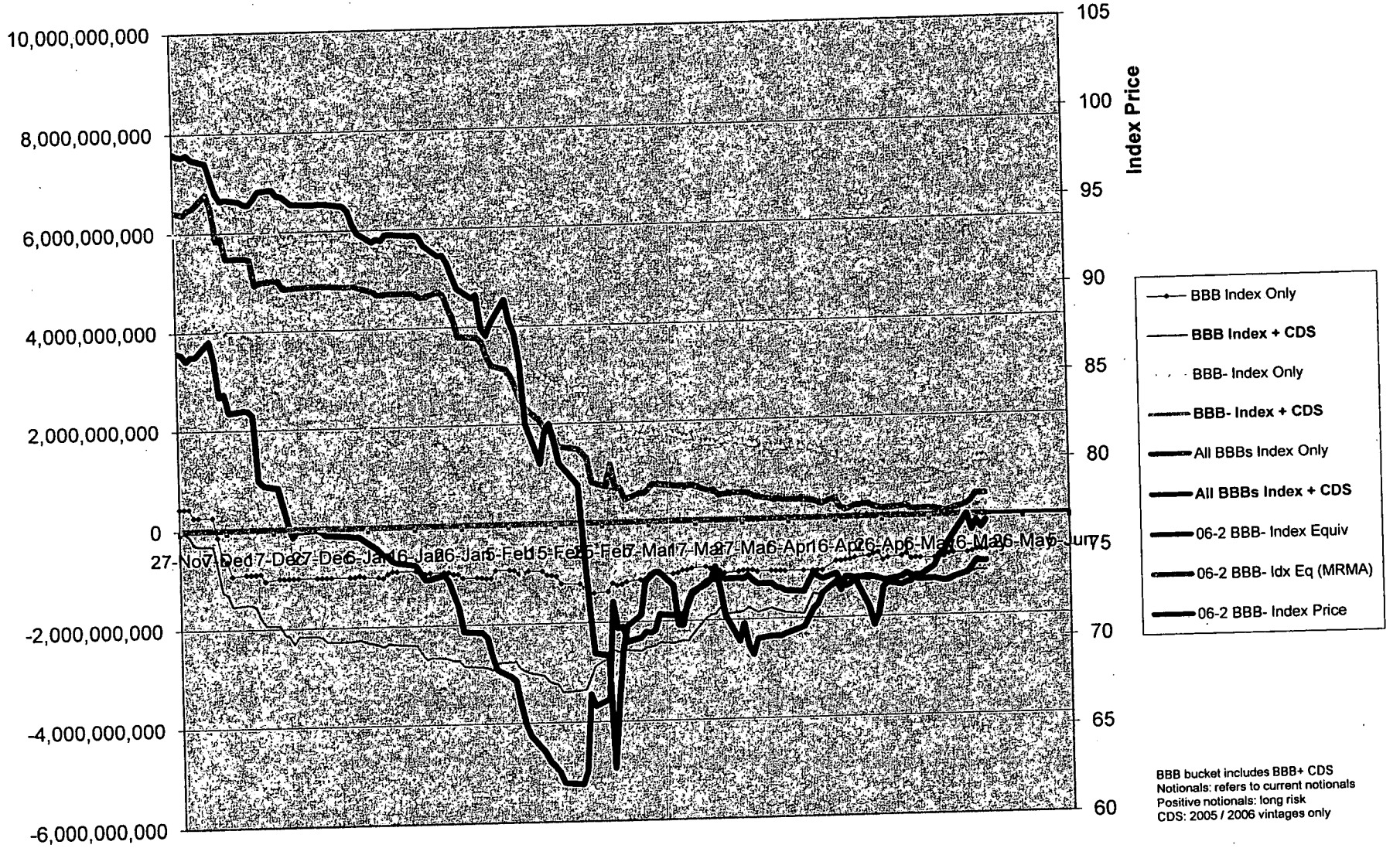
Confidential Treatment Requested by Goldm

Notionals Chart with ABX Price

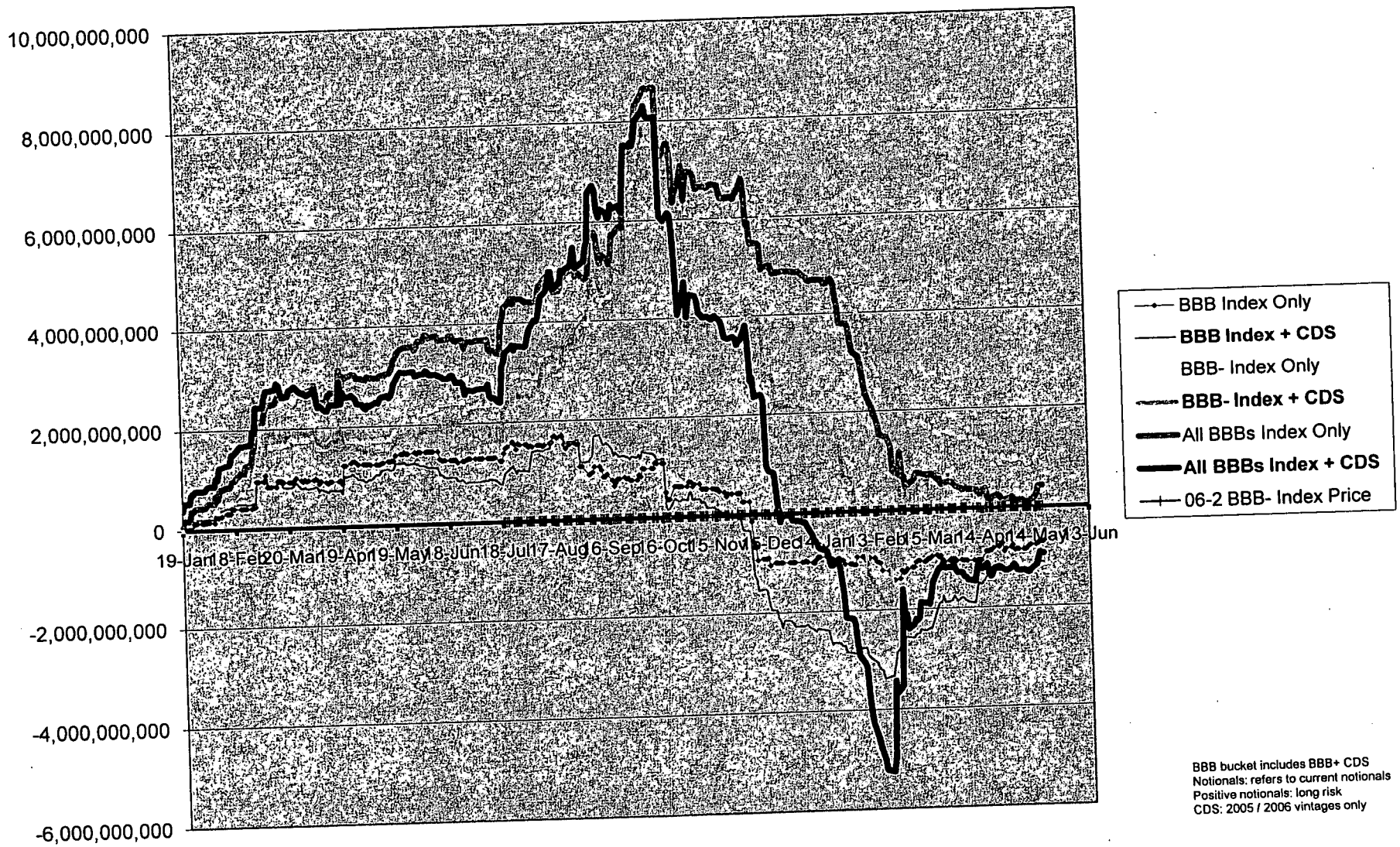


Notionals Chart w ABX - 2007

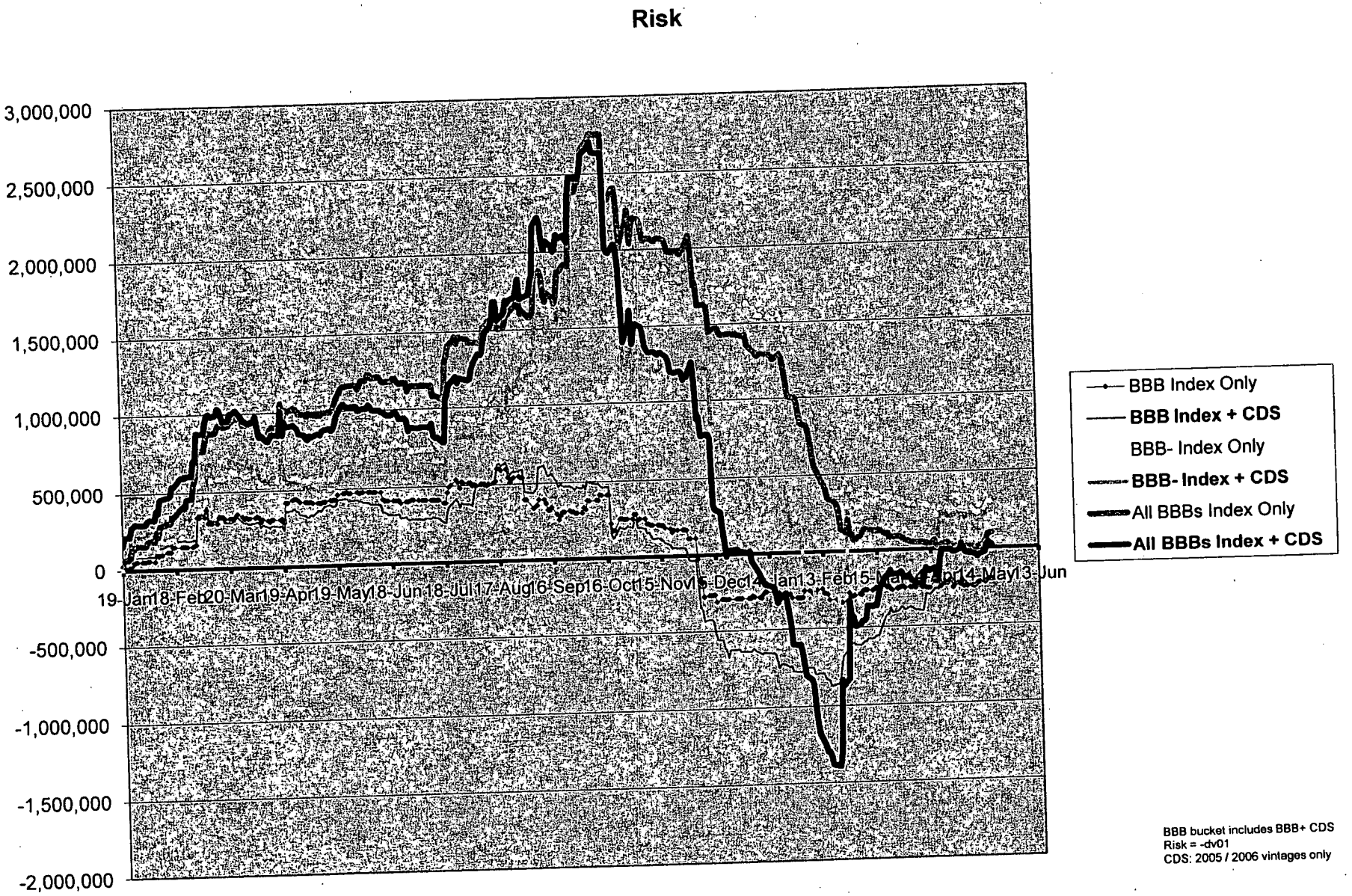
Notionals (ABX convention) - Fiscal Year 2007



Notionals (ABX convention)

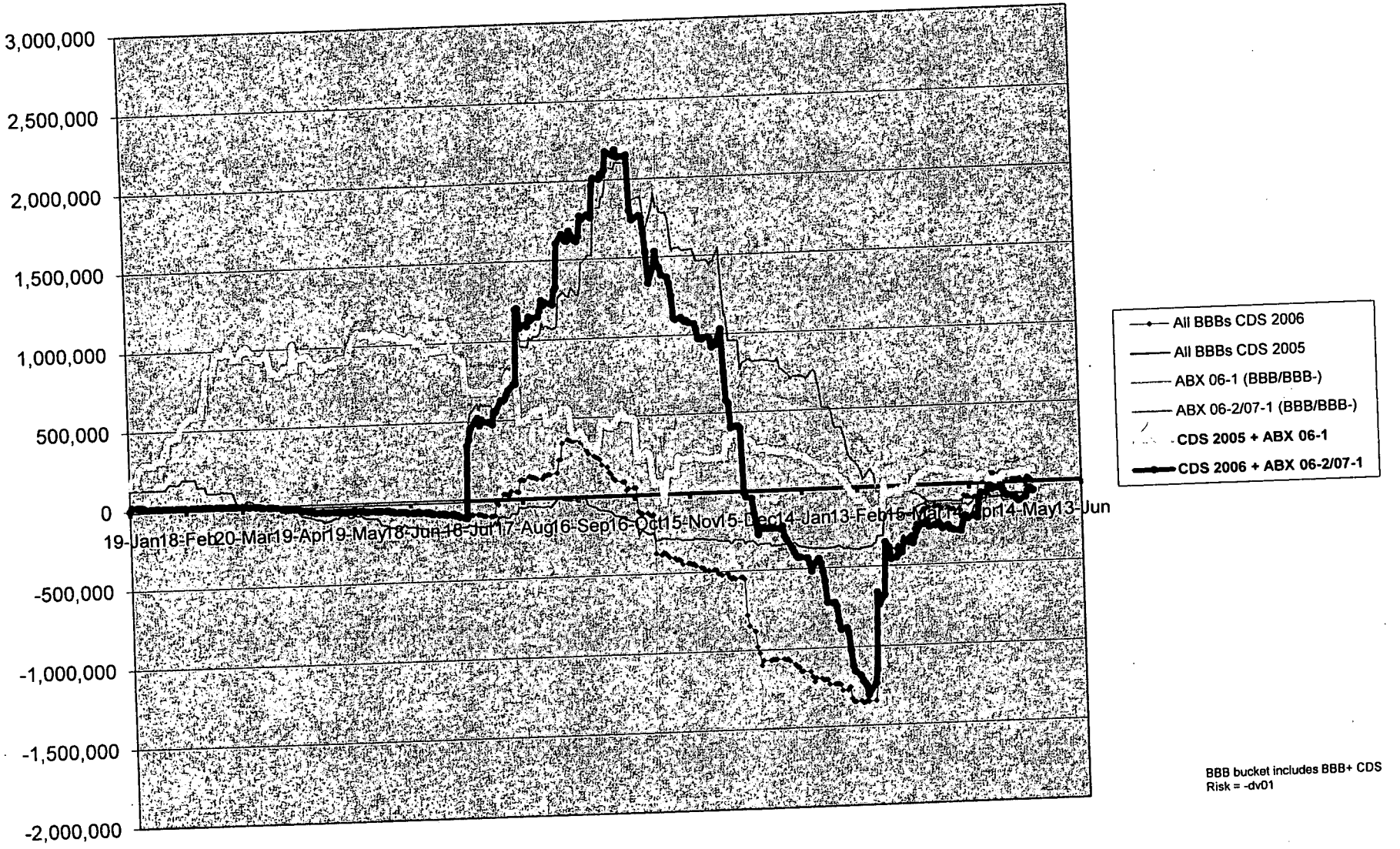


BBB bucket includes BBB+ CDS
Notionals: refers to current notionals
Positive notionals: long risk
CDS: 2005 / 2006 vintages only

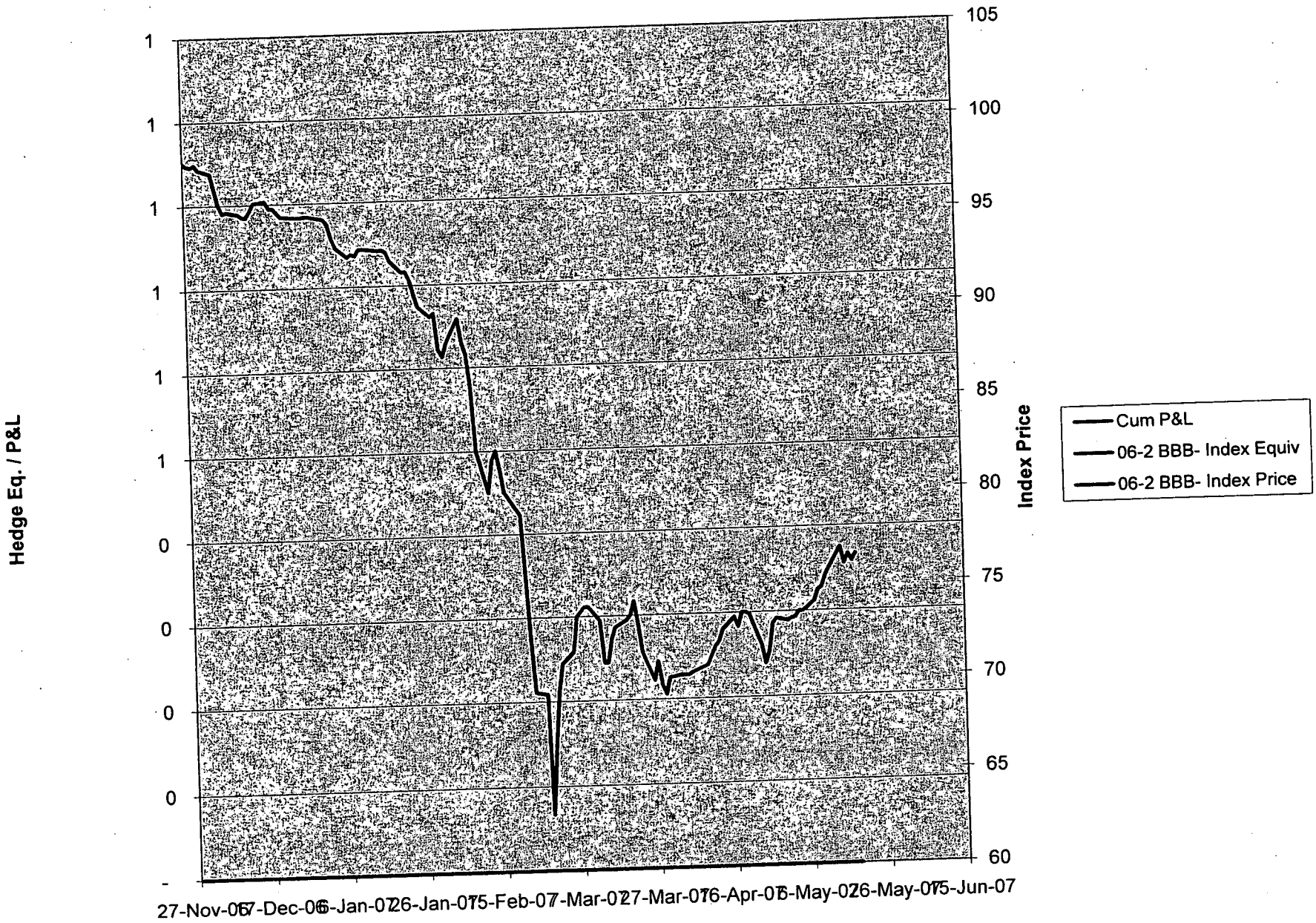

Risk
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
-1,000,000
-1,500,000
-2,000,000
19-Jan18-Feb20-Mar19-Apr19-May18-Jun18-Jul17-Aug16-Sep16-Oct15-Nov15-Dec14-Jan13-Feb15-Mar14-Apr14-May13-Jun
BBB Index Only
BBB Index + CDS
BBB- Index Only
BBB- Index + CDS
All BBBs Index Only
All BBBs Index + CDS
BBB bucket includes BBB+ CDS
Risk = -dv01
CDS: 2005 / 2006 vintages only

INTERNAL ONLY

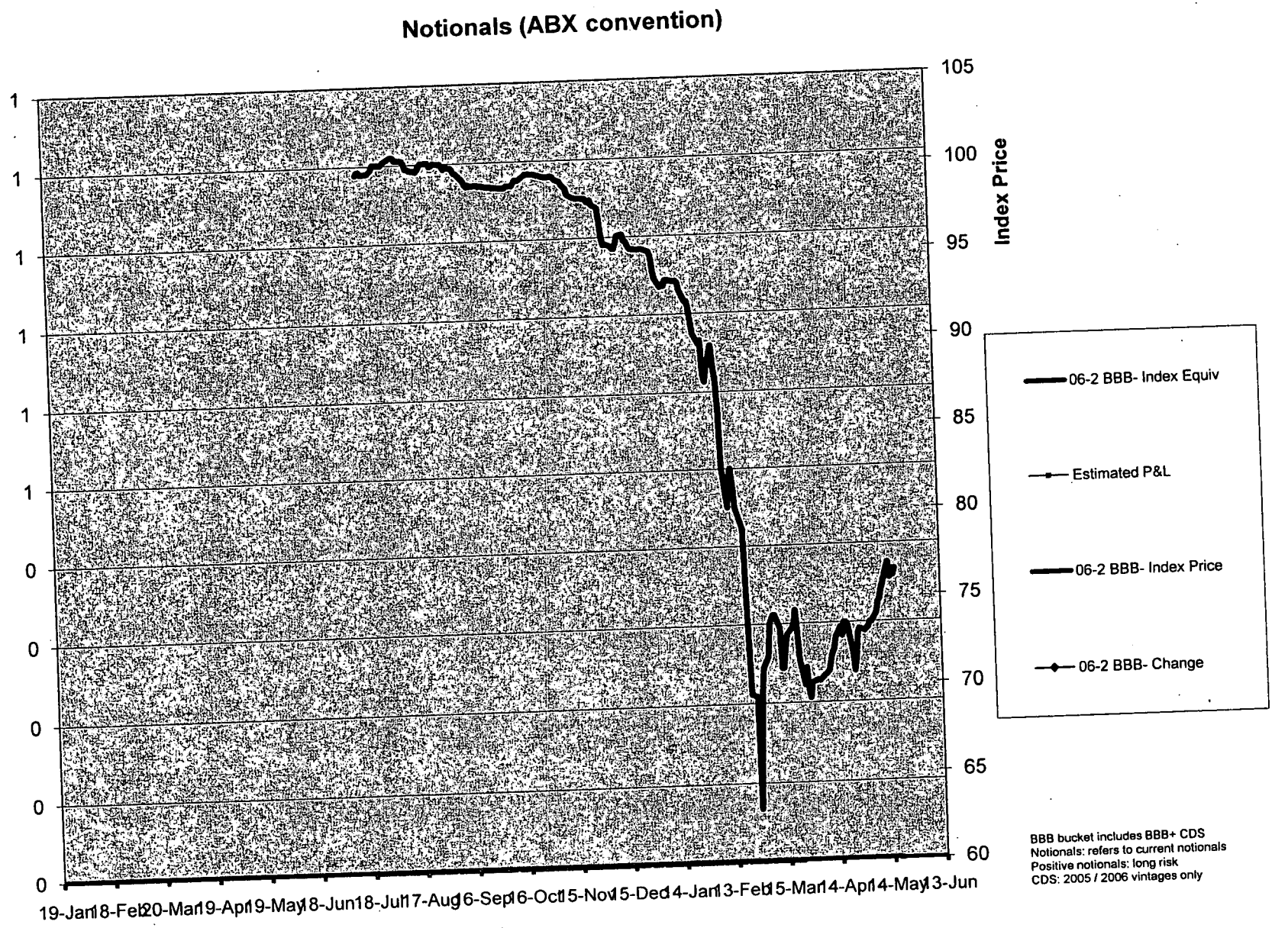
Risk By Vintage / Index



BBB bucket includes BBB+ CDS
Risk = -dv01


Hedge Eq. / P&L
1
1
1
1
1
0
0
0
0
-
105
100
95
90
85
80
75
70
65
60
Index Price
27-Nov-06
7-Dec-06
6-Jan-07
26-Jan-07
5-Feb-07
7-Mar-07
27-Mar-07
6-Apr-07
6-May-07
26-May-07
5-Jun-07
Cum P&L
06-2 BBB- Index Equiv
06-2 BBB- Index Price

P&L Estimate


Notionals (ABX convention)
1
1
1
1
1
0
0
0
0
105
100
95
90
85
80
75
70
65
60
Index Price
19-Jan
18-Feb
20-Mar
19-Apr
19-May
18-Jun
18-Jul
17-Aug
16-Sep
16-Oct
15-Nov
15-Dec
14-Jan
13-Feb
15-Mar
14-Apr
14-May
13-Jun
06-2 BBB- Index Equiv
Estimated P&L
06-2 BBB- Index Price
06-2 BBB- Change
BBB bucket includes BBB+ CDS
Notionals: refers to current notionals
Positive notionals: long risk
CDS: 2005 / 2006 vintages only

From: Sparks, Daniel L
Sent: Sunday, March 04, 2007 12:02 PM
To: Gasvoda, Kevin
Subject: Re: Quick thoughts on ABX AAA risk

Good trading response and thought process We need to consider daily

----- Original Message -----
From: Gasvoda, Kevin
To: Sparks, Daniel L
Sent: Sun Mar 04 11:33:42 2007
Subject: Quick thoughts on ABX AAA risk

I talked to Nichols and Clay a/b the AAA ABX short. Think it offers a good amount of downside protection w/ relatively light pain if we're wrong. Below is a $8B ABX AAA short #'s. It costs us $5mm/quarter to carry. On the downside, if the market rallies to par (current spreads are in the low 20's, par is around 10) we drop $50mm. Taking it to 0 spread we lose $80mm.

On the upside front, we get good jump risk. If AAA's widen to current AA levels (low 40's) we gain $70mm and if spreads move to super senior risk pricing in CDOs (75) we're up $190mm.

A comment on the structure too. In many cases, I'd rather own AA risk than these last cflow AAA's that the index is comprised of. They are structurally locked out and in many cases can get paid after the AA's return a lot of principal. As bad deal performance gets more backloaded, the AAA last cflow gets even worse.

Net, think this is a good position to have on given downside protection and relatively light upside pain. If we get an opportunity to buy some back early this week, think we should but I'm thinking buy back $1-2B, not $8B. Also gives us some coverage to take advantage of long opportunities as they present themselves. Agree that correlation btwn index and our other assets has broken down but not hard to imagine ABX rallying to par being a positive sign for our ability to get securitizations done and slightly more favorable market conditions.

position $8,000 mm's
price 99.38%
spread dur 4.50%
cur spread 23

annual cost ($18.4)
qrtrly cost ($4.6)

		Mark-to-market	imp spread	
	100.38%	($80.0)	1	
Rally	100.00%	($50.0)	9	
	99.75%	($30.0)	15	
	99.00%	$30.0	31	
Sell off	98.50%	$70.0	42	- AA levels currently
	97.00%	$190.0	76	- super snr prints in CDO

ABX AA's trading high 30's to high 40's
ABX A's trading low 200's

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Wall Street & The Financial Crisis
Report Footnote #1716

From: Ostrem, Peter L
Sent: Monday, March 05, 2007 5:41 PM
To: Pouraghabagher, Cyrus; Rosenblum, David J.
Subject: RE: Peter and Dave - "Open Kimono" for ABX hedges

Here is our ABX hedge book:

		Size	Previous Mark	Curr. Bid	Curr. Ask	Closes	Chg
2/28/2007 2006-1	AAA	-500,000,000.00	99.78	99.13	100.13	99.63	781,250
2/26/2007 2006-1	AAA	-1,500,000,000.00	99.78	99.13	100.13	99.63	2,343,750
2/26/2007 2006-1	AAA	-250,000,000.00	99.78	99.13	100.13	99.63	390,625
2/28/2007 2006-1	A	-250,000,000.00	97.50	95.50	97.50	96.50	2,500,000
3/5/2007 2006-1	A	-500,000,000.00	96.50	95.50	97.50	96.50	0
2/28/2007 2006-1	BBB	-25,000,000.00	91.00	89.00	93.00	91.00	0
2/28/2007 2006-2	BBB	-75,000,000.00	81.00	79.25	83.25	81.25	-187,500
2/28/2007 2006-2	BBB-	-50,000,000.00	71.00	69.75	73.75	71.75	-375,000

From: Pouraghabagher, Cyrus
Sent: Monday, March 05, 2007 5:32 PM
To: Ostrem, Peter L; Rosenblum, David J.
Subject: Peter and Dave - "Open Kimono" for ABX hedges

Peter and Dave,

Please see below for a summary of current ABX hedge positions across our Resi books and what we're leaning to do over next few days (mostly looking to cover $1-2 billion of 06-2 and 06-1 AAA shorts, but also small potential buy interest in A, BBB). Would be happy to continue to post you on our hedge axes, and likewise would appreciate you giving us the look on any axes you may have coming up so that we might be able to accommodate in context of mid-market levels between desks if a mutual fit. We've found liquidity to be lacking in recent weeks even at the AAA level given the volatility, so would appreciate the "open kimono" ABX relationship between our desks to help facilitate liquidity, when a fit.

Let me know if you agree, and also to the extent you can tally up current position summary that could be helpful.

Thx

From: Pouraghabagher, Cyrus
Sent: Monday, March 05, 2007 9:46 AM
To: Birnbaum, Josh; Salem, Deeb
Cc: Swenson, Michael; Sparks, Daniel L; Gasvoda, Kevin; Gmelich, Justin; Rosenblum, David J.; Ostrem, Peter L; Nichols, Matthew; DeGiacinto, Clayton; Cawthon, Michael; Pouraghabagher, Dariush; Nestor, Genevieve; Prakash, Arvin; Finck, Greg; Pouraghabagher, Cyrus
Subject: ABX hedges for Resi businesses

Below are all our ABX hedges across our Resi Credit + Prime books. Please keep us posted on all material flows and index buy axes in particular (with clients or internally across other groups). We'd like to *opportunistically* cover some shorts, primarily in the 06-1 and 06-2 AAAs and possibly small amounts of lower rated A, BBB.

In particular, we're considering covering some ABX shorts in the following areas (not necessarily all at once/today):
Subprime: 250mm 06-1 AAA and 500-750 06-2 AAA
Hybrids: 500-1000 06-1 AAA vs possibly selling 50mm BBB- *long* (will most likely pair off BBB- long with other desk shorts, however)

Initially thinking 99-area 06-2 AAA, and mid 99s 06-1, but would like your guidance on this and what's best for the

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firm. Please let us know your thoughts or market clearing levels as we are setup to provide market liquidity and want to capitalize on this to the extent possible.

Additionally, other books in total may look to cover pieces 50-100mm across each A, BBB.

<< File: ABX_packet_out.pdf >>

All ABX	Sprime	S&D	2nds	AltA	Hybrid	Subs	Prm Fix	All
AAA	(2,250)	0	(300)	(1,775)	(2,500)	(100)	0	(6,925)
AA	(50)	(100)	0	0	0	0	0	(150)
A	(150)	(200)	(60)	(100)	0	0	0	(510)
BBB	(170)	(70)	(50)	(50)	0	0	0	(340)
BBB-	(25)	0	(25)	(50)	50	0	0	(50)

ABX.HE.07-1	Sprime	S&D	2nds	AltA	Hybrid	Subs	Prm Fix	All
AAA	0	0	0	0	0	0	0	0
AA	(50)	(50)	0	0	0	0	0	(100)
A	0	(100)	0	0	0	0	0	(100)
BBB	0	0	0	0	0	0	0	0
BBB-	0	0	0	0	0	0	0	0

ABX.HE.06-2								
AAA	(2,000)	0	(300)	(1,150)	(200)	0	0	(3,650)
AA	0	(50)	0	0	0	0	0	(50)
A	(150)	0	(60)	(100)	0	0	0	(310)
BBB	(50)	0	(50)	(50)	0	0	0	(150)
BBB-	(25)	0	(25)	(50)	50	0	0	(50)

ABX.HE.06-1								
AAA	(250)	0	0	(625)	(2,300)	(100)	0	(3,275)
AA	0	0	0	0	0	0	0	0
A	0	(100)	0	0	0	0	0	(100)
BBB	(120)	(70)	0	0	0	0	0	(190)
BBB-	0	0	0	0	0	0	0	0

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From: Tourre, Fabrice
Sent: Wednesday, February 28, 2007 8:37 PM
To: Egol, Jonathan
Subject: RE: Hedges Status Report

Is Rosenblum back in business ?

-----Original Message-----
From: Egol, Jonathan
Sent: Wednesday, February 28, 2007 8:35 PM
To: Tourre, Fabrice
Subject: Fw: Hedges Status Report

Love that huge AAA abx short

----- Original Message -----
From: Rosenblum, David J.
To: Ostrem, Peter L; Egol, Jonathan; Lehman, David A.; Swenson, Michael; Case, Benjamin
Cc: Sparks, Daniel L
Sent: Wed Feb 28 20:02:24 2007
Subject: Hedges Status Report

In sp cdo biz, can you now describe to me the total hedge position in:

1. AAA ABX is short 2.25bln correct? (Against retained s. seniors and altius 4) 2. AA ABX is nothing done correct? (Against cdo warehouses generally) 3. A ABX is short 250mm correct? (Against cdo warehouses generally) 4. BBB ABX is short 100mm correct? (Against retained hudson mezz / cdo debt) 5. BBB- ABX is short 50mm correct? (Against retained hudson mezz / cdo debt) 6. CDS of CDO shorts - pls describe - thought we were short 150 or so here - this should be against CDO warehouses generally now

Pls correct / confirm

Tx
D

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Report Footnote #1721

From: Lehman, David A.
Sent: Wednesday, May 30, 2007 12:42 PM
To: Creed, Christopher J; Bieber, Matthew G.
Subject: FW: ABX hedges - Buy order

Do not fwd

From: Lehman, David A.
Sent: Wednesday, May 30, 2007 12:36 PM
To: Chin, Edwin; Salem, Deeb; Bruns, William; Kaufman, Jordan
Cc: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Case, Benjamin
Subject: ABX hedges - Buy order

Please work to buy the below ABX risk on a best efforts basis

We want to begin unwinding certain ABX hedges vs. the CDO WH and transition book

This can happen over several days, pls use appropriate discretion and ask Mike/Josh/Myself if you have any questions

I understand the issues w/r/t to current positions where there is overlap in shorts (i.e. 06-1 A, 06-1 AAA), we will deal with that appropriately to the extent there is no external liquidity

	ABX 06-1	ABX 06-2	ABX 07-1
AAA	1,550		
AA	122		
A	987		
BBB			90
BBB-	50	50	100

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Goldman Sachs

DRAFT

Presentation to GS Board of Directors

Subprime Mortgage Business

[16-Mar-2007]

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Report Footnote #1732

Goldman Sachs

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DRAFT

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I. GS Mortgage Business Overview

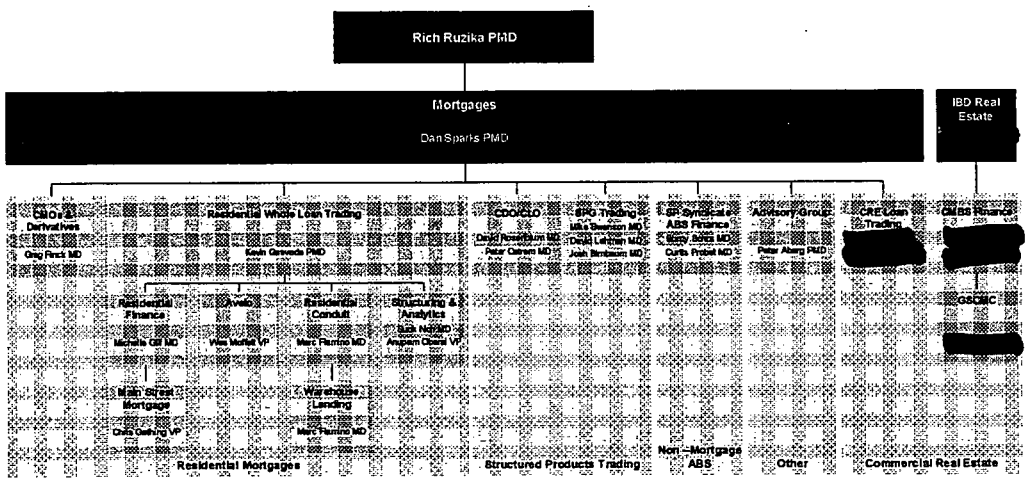
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Goldman Sachs

Mortgage Business Organizational Structure

North America Mortgages



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Business Unit Descriptions

Residential Mortgage Businesses

Department	Description of function
Residential mortgages, including warehouse lending	■ Trading, pricing and risk management of residential mortgage loans and residual interests ■ Manage the underwriting process of our securitization business ($18bn subprime volume through August 2006) ■ Perform due diligence of residential mortgage loans purchased, monitor performance of the loans over time ■ Servicing of residential mortgage loans: collection of payments from borrowers, management of delinquency and foreclosure processes ($10bn boarded in 2006) ■ Wholesale origination of loan inventory: purchase closed loans from correspondents (2006 volumes - $17bn total, $6bn subprime) ■ Extend lines of credit directly to residential and commercial mortgage and other asset backed (autos, credit cards) lenders in order to fund loans ($2.8bn average funding in 2006) ■ Manage the structuring of the securitization in order to meet credit rating criteria and cash flow requirements
Commercial real estate	■ Aggregate and securitize commercial real estate related loans
Non-mortgage ABS	■ Aggregate and securitize non-mortgage assets such as credit card and auto loans
Structured Products Trading (including derivatives)	■ Secondary trading of residential and commercial mortgage and other asset backed securities, as well as single name and index derivatives. ■ Warehousing of mortgage and other asset backed securities as well as bank loans, securitization of these pools of assets
Other	■ Includes the Advisory Group, which [to come]

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Goldman Sachs

Mortgage Business at GS

P&L

DRAFT

Comment [c1]: <file:/\\Ubnbs001\s cstalla\Work Folder\PowerPoint\Securitization Process.ppt>

Product / Business	YTD 2Q 07	1Q 07	2006	2005
Residential mortgages	(15)	34	311	277
Warehouse Lending	6	5	24	26
Commercial real estate	[redacted]			
Non-mortgage ABS (credit card, auto)				
Structured Products Trading (including derivatives)	199	174	401	245
Other	15	30	86	95
TOTAL, Gross	327	359	1,029	885

Of which, the portion which relates to subprime is as follows

Product / Business	YTD 2Q 07	1Q 07	2006	2005
Residential mortgages	(115)	(61)	215	173
Warehouse Lending	1	1	9	8
Commercial real estate	[redacted]			
Non-mortgage ABS (credit card, auto)				
Structured Products Trading (including derivatives)	181	114	292	134
Other	-	-	-	-
TOTAL, Gross	67	54	516	315

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II. Subprime Overview

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Subprime Mortgage Overview

Definitions

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Mortgage Classification	FICO Score Range	Percentage of Recent Mortgage Originations	Size of Market (2006 origination volume)	Description
Prime	>700	72%	■ $2.6tr	■ Highest credit quality: no recent foreclosures, delinquencies or bankruptcies
Alt-A[1]	640-730	11%	■ $400bn	■ Self-employed and/or non-resident borrowers ■ Limited disclosures on income and assets of borrower ■ Agency non-conforming due to credit issues, payment history or minimal documentation
Subprime	605-640	17%	■ $600bn	■ Lowest credit quality: borrowers with average to poor credit profiles, including first time homebuyers, people who did not previously have credit available to them ■ Agency non-conforming due to credit issues, payment history or minimal documentation ■ Percentage of stated income loans grew significantly in the past year

[1] Alt-A category is sometimes broken out into "Prime Alt-A" (FICO Score Range 680-730) and "Alt-B" (FICO Score Range 640-690).

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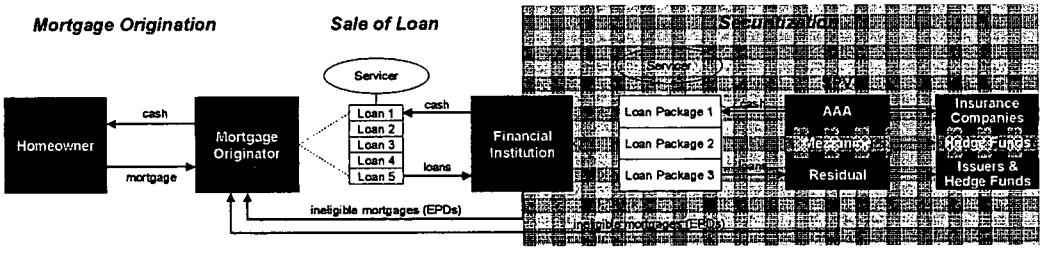
Goldman Sachs

Subprime Mortgage Overview

How the securitization process works

DRAFT

Comment [c2]: <file:\\tbnbs001\cstella\Work Folder\PowerPoint\Securitization Process.ppt>



Participants:

- Homeowner: Classified as subprime based on FICO scores
- Mortgage Originator: Includes large diversified players, REITS, and small mortgage finance companies. Origination volume is dominated by larger players, however there are many small, mono-line players with limited track records and very small equity bases. Many mortgages are not originated directly from homeowners but rather through independent brokers
- Financial Institution: Firms such as GS purchase pools of loans to repackage, underwrite and sell into the asset-backed market
- SPV: Tranches pool of mortgages into super-senior, mezzanine and subordinated pieces and sells into secondary market

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CopyArea\FINANCIAL INSTITUTIONS Team Folder\Mortgage Banks\MAIN STREET\Main Street Presentations\Sub-Prime_Presentation to GS BOD\Sub-prime Presentation to GS BOD_v9.doc cbaker 15 Mar 2007 20:29 8/24

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GS Subprime Mortgage Business

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Type of Business	Market Risk	Credit Risk
Loans		
Financing *GS extends lines of credit directly to subprime mortgage originators to fund mortgages while they are held on the companies' balance sheets.*	■ None	■ Lending is done on a secured basis with a first lien on the underlying mortgage assets and a haircut on the value of the loans
Aggregation *GS buys and holds subprime loans from mortgage originators for the purpose of securitization.*	■ Mark to market losses on loans during accumulation period (if securitizations are not completed) ■ Some loss sharing arrangements exist	■ Counterparty risk during the extended settlement period (typically 30-60 days) ■ Put option to originator if individual mortgages suffer from early homeowner defaults (EPDs) or reps and warranties are breached
Securitization		
Securitization Underwriting *GS underwrites, structures and distributes securities for ourselves and clients.*	■ Mark to market gains and losses on securitized instrument until distribution	■ Reputational risk / underwriters liability ■ Trust and/or GS has put option to originator if individual mortgages suffer from early homeowner defaults (EPDs) or reps and warranties are breached
CDO Underwriting *GS structures and distributes liabilities related to pools of assets, many of which relate to subprime RMBS.*	■ Mark to market risk during ramp up period if deal failure occurs ■ Mark to market risk on retained positions	■ Risk share partners ■ Forward commitments / pre-sold liabilities
Securities Trading		
Residential Mortgage Backed Securities *GS trades RMBS subprime securities as a secondary business.*	■ Mark to market gains and losses on RMBS securities over the hold period	■ Counterparty risk on repo transactions with RMBS underliers
Residuals *GS retains all or a portion of mortgage residuals from securitization.*	■ Mark to market gains and losses on residuals over the hold period	■ Counterparty risk on repo transactions with residual underliers
Derivatives *GS is an active user of derivatives as a part of our trading business as well as to hedge our long credit risk (ABX, single name, subprime RMBS and synthetic transactions)*	■ Mark to market risk on long or short positions	■ Counterparty risk to writer of option or OTC derivatives counterpart
Equity stakes in mortgage originators	■ Potential write down of investment	■ None

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III. Recent Events in the Subprime Mortgage Sector

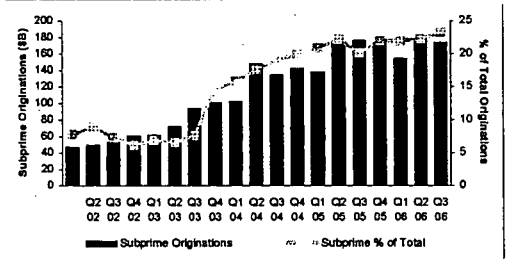
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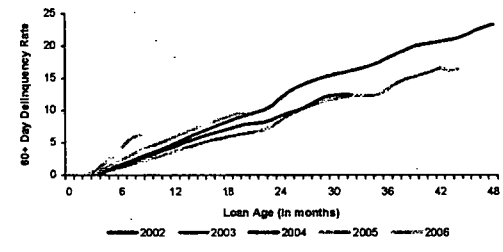
Market Trends

DRAFT

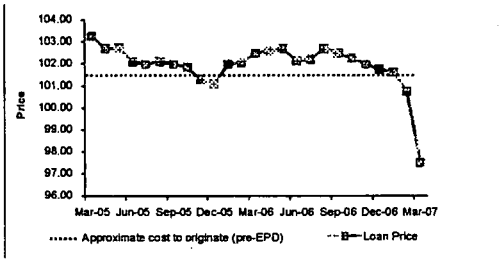
Volumes Increase Significantly[1]



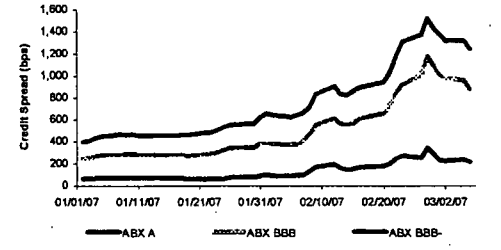
Credit Quality Declines: Relaxed Underwriting Standards



Pricing Pressure: Subprime Mortgage Loan Pricing Levels



Credit Spreads Adjust



Comment [m3]: EXCEL SOURCE copied at 11-Mar-2007 21:45:50 : FIRMWIDE\Talbot_Nathan\Copy of MORTGAGE Subprime Presentation Graphs and Data 01.xls(Subprime 60+ Day Delinquenc...red)

Comment [m4]: EXCEL SOURCE copied at 11-Mar-2007 21:45:06 : FIRMWIDE\Talbot_Nathan\Copy of Q3 2006 Subprime Originators (p 7).xls(Quarterly_chart_reduced)

Comment [m5]: EXCEL SOURCE copied at 11-Mar-2007 21:46:54 : FIRMWIDE\Talbot_Nathan\Page 8 Loan Price 01 (V2)approximate cost to originate (pre-EPD).xls(Sub Prime Mortgage Gain...red)

Comment [m6]: EXCEL SOURCE copied at 11-Mar-2007 21:44:04 : FIRMWIDE\Talbot_Nathan\PlotTool\ABX.xls(Credit Spread...colo-reduced)

[1] *Latest available data*

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Timeline of Major Events & GS Response

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Subprime Sector		GS Response
■ Easy access to credit allows subprime borrowers to purchase homes, raising the share of subprime mortgages to over 20% of market ■ ABX indices launch in January tracking the performance of specific securitization tranches ■ Investors seeking yield and broader global investor base drive demand for subprime securitizations ■ Acoustic defaults (May 2006)	1&2Q 2006	■ GS is inherently long the sector given market presence. Long position grows in 2006 with increased market activity ■ GS long position is further increased via ABX indices trades (counterparts are primarily hedge funds) ■ GS becomes more vigilant on EPD identification and workout
■ Rumors of significant deterioration in underwriting standards and some borrower fraud ■ Spreads on RMBS widen as hedge funds actively target subprime synthetics as a way to express negative views on the sector; prior to this activity, investor and CDO demand had pushed the market very high ■ Bank regulators issue underwriting guidance on non-traditional mortgage products ■ Widespread mortgage originator defaults begin including Sebring (Nov 06) and MLN (Jan 07)	3&4Q 2006	■ Credit department steps up due diligence process on mortgage originators, creates watch list, suspends multiple names from further business ■ Enhanced focus on independent valuation ■ GS scales back purchasing of riskier loans ■ GS reduces CDO activity ■ Residual values decline to reflect market deterioration ■ GS reverses long market position through purchases of single name CDS and reductions of ABX
■ Bids for subprime loans fall below cost to originate; business is therefore no longer profitable for originators ■ Large originators announce numerous accounting restatements and losses for 2006 triggering equity market sell off ■ Securitization market for subprime slows significantly. Market for securities is dislocated	1Q 2007	■ GS effectively halts new purchases of sub-prime loan pools through conservative bids ■ Warehouse lending business reduced ■ EPD claims continue to increase as market environment continues to soften ■ Credit terms tightened further ■ New Century closed out
	Current	

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GS Subprime Mortgage Business

Subprime Risk

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	Residential Mortgages	Warehouse Lending	Structured Products Trading	Platforms
Current Position				
Long	$2.9bn subprime loans $0.4bn residuals	$0.2bn loans funded $0.2bn bonds funded	$5.0bn bonds $4.9bn CDO warehouse $0.3bn index	$25mm investments in originators
Short	$6.1B ABX Index		$1.4bn Resi Single Name $8.7bn CDO Single Name	
Net	Short $3.6bn	Flat - lines are over-collateralized	Flat	Long $25mm
Primary Risk(s)	BASIS LIQUIDITY COUNTERPARTY CREDIT[1]	COUNTERPARTY CREDIT	BASIS LIQUIDITY	BUSINESS
YTD 2007 Revenues				
Long	$264mm Loss	$1mm Gain	$1.0bn Loss	$-
Short	$149mm Gain	$-	$1.2bn Gain	$-
Net	$115mm Loss	$1mm Gain	$181mm Gain	$-

[1] *EPD or Reps & Warranties*

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Credit Exposure Summary

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- Warehouse lending has declined substantially due to tighter credit terms and reduced originator demand; trend continues today, with net committed amounts of $600mm and funded amounts of $388mm (down from a peak of $4.01bn committed/$2.42bn funded)
- Whole loan purchases have declined as well driven primarily by similar considerations
- EPDs have risen reflecting continued market deterioration; current EPD claims are $1.14bn in notional terms resulting in potential losses in the $100mm range
- Credit risk in securitization includes:
  - — Standard underwriting risks (need to make a market, due diligence requirements, etc.)
  - — Franchise / reputational risks
  - — Representations and warranties risks

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Credit Exposure Summary

Most Worrisome Counterparts

Counterparty	Company Description	Recent Events	Total Exposure[1] ($ mm)
New Century	Publicly traded and largest non-captive subprime mortgage lender with $45bn in the first nine months of 2006 originations and book equity of $2bn as of Sept 2006. Ranked #3 by market share.	Restated 3rd quarter financial results and delayed filing 10-K; California Attorney-General launched criminal inquiry into securities trading and accounting errors. Company has stopped originating new mortgages given funding shortfalls.	$45.2[2]
SouthStar	SouthStar is a privately held mortgage originator operating Alt-A, Sub-Prime, I/O, Option ARM and HELOC programs. Book equity of $35.9mm as of 1Q07.	Reported 1st quarter 2007 loss of $707K on revenues of $18.5mm. Non-sales workforce to be reduced by 20% and one operations center to be closed this month.	$19[3]
Fremont	Publicly traded mortgage originator with FDIC insured/regulated ILC subsidiary. Ranked #5 by market share and had $1.5bn in book equity as of Sept 2006.	Entered cease and desist order with the FDIC. Company has said that it is exiting the subprime mortgage business and delaying the filing of 4Q06 results.	$12.9[4]
Novastar	Publicly traded mortgage originator structured as a REIT. Ranked #18 by market share and had $514mm in book equity as of Sept 06.	Reported 4th quarter loss of $14.4mm.	$9.7[5]
Accredited	Publicly traded mortgage lender structured as a REIT. Ranked #14 in subprime mortgage originations. Book equity of $739mm as of Dec 06.	Reported 4th quarter earning loss of $37.8mm, filed form 12b-25 with SEC with respect to earnings delay.	$5.9[6]

[1] Reflects EPD claims and warehouse loans on a potential exposure basis.
[2] New Century also owes GS $0.1mm relating to MBS Extended Settlement trades settling in mid-April. Total exposure number has been reduced by $5mm held back as collateral on whole loan trades plus $0.6mm excess collateral retained on warehouse line. Does not include $25mm reserve taken against potential losses.
[3] As of 2/26, total exposure was $19mm consisting of $13.2mm on $35.3mm in outstanding EPD claims and $5.8mm in pre-settlement risk from $194.36mm pending settlement trades. Does not include $1.04mm reserve taken against potential losses.
[4] Does not include $144,610 reserve taken against potential losses.
[5] Does not include a $637,013 reserve taken against potential losses.
[6] GS also holds fully collateralized $50mm commercial paper from Accredited's asset backed commercial paper program called Carmel Mountain Funding Trust.

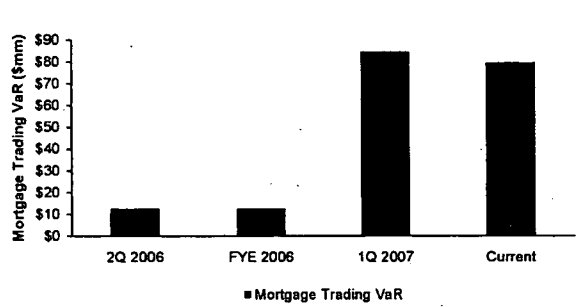
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Market Exposure Summary

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- The desk started the quarter with long $6.0bn notional ABX BBB- risk and shifted the position to net short $10bn notional by reducing the longs in ABX BBB- and increasing shorts in single name CDS
- The increase in VaR was driven by
  - An increase in ABS synthetics and an increase in the net short risk in the RMBS subprime sector
- GS also has $25mm equity investments in subprime lenders

Comment [t7]: EXCEL SOURCE range $B$2:$K$17 copied at 09-Mar-2007 12:03:25 \\CreditRisk\CopyArea\FINANCIAL INSTITUTIONS Team Folder\Mortgage Banks\MAIN STREET\Main Street Presentations\BOD Graphs\Exposure Summaries\Page 12 Market Exposure Summary VaR.xls(Condensed)

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Comment [t9]: EXCEL SOURCE range $B$2:$K$17 copied at 09-Mar-2007 12:58:01 \\CreditRisk\CopyArea\FINANCIAL INSTITUTIONS Team Folder\Mortgage Banks\MAIN STREET\Main Street Presentations\BOD Graphs\Exposure Summaries\Page 12 Market Exposure Summary VaR.xls(Condensed)

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Independent Price Verification

- A dedicated group within Product Control performs an independent price verification of the mortgage inventory. The team is highly specialized and has extensive experience in the valuation of mortgage related products
- The investment in this team over the last several years has led to a significant reduction in the mortgage related unverified cash inventory (Feb. 2007 unverified market value of $0.7 billion vs. Nov. 2004 of $9.1 billion). The close coordination of this team and desk management has ensured market movements are reflected in pricing and at times has lead to the remarking of certain positions
- The price verification results for the quarter ending 2/23/07 indicate that the mortgage inventory is marked prudently. A majority of conservativeness in the marks appropriately reflects decreased liquidity within the subprime market
- Price verification analysis utilizes four core strategies:

1. External price comparison: prices received from third party vendors are compared against inventory positions
2. Fundamental analysis: this analysis utilizes discounted cash flow (DCF), option adjusted spread (OAS) or securitization analysis. Observable market data or inputs are incorporated when available and appropriate
3. Trade comparison: this utilizes a review of recent market transactions against inventory positions with similar collateral and/or risk profiles and is an important determinant of market technicals or risk premium
4. Collateral analysis: two way collateral agreements are commonly utilized by market counterparts for mortgage derivatives. These agreements call for the posting of collateral against outstanding contracts when their market value falls. The exchange of collateral margin against derivative transactions is a strong indicator of market levels

Comment [t11]: EXCEL SOURCE range $B$2:$K$17 copied at 09-Mar-2007 12:03:25 : \\CreditRisk\CopyArea\FINANCIAL INSTITUTIONS Team Folder\Mortgage Banks\MAIN STREET\Main Street Presentations\BOD Graphs\Exposure Summaries\Page 12 Market Exposure Summary VaR.xls(Condensed)

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IV. Looking Forward

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Lessons Learned

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- What went right
- What went wrong
- How well did our risk measures capture / reflect risk incurred
- Observations for other businesses

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Looking Forward

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- We believe the mono-line subprime mortgage originators will not be able to survive current market conditions for very long
  - Those with limited capital bases will quickly go out of business
- GS strategy going forward
  - Position ourselves to be flat to short
  - Increased due diligence performed on purchased loans
  - Collection of amounts owed by originators from buybacks
  - Aggressively manage deal performance via asset management team (oversight of servicer actions)
  - Hedge all purchases
  - Work through inevitable defaults with minimal operational and credit risk losses
  - Conservative management of warehouse lines; review appropriate haircut levels
  - Communicate with originators, servicers, investors
- GS will evaluate ongoing opportunities on a case by case basis
  - Opportunistic purchases of potential loan packages / portfolios
  - Potential equity investments
- GS will also protect itself against credit deterioration spreading to other markets by keeping limits tight, transactions short and making full use of risk mitigants

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V. Appendix

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Impact on Originators

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Rank	Originator	Status
1	Wells Fargo Home Mortgage	
2	HSBC Finance	Increased loan loss reserves by $1.8bn
3	New Century Financial	Criminal investigation; liquidity impaired
4	Countrywide Financial	
5	Fremont Investment & Loan.	Exited subprime business
6	CitiMortgage	
7	Ameriquest Mortgage (ACC)	Citigroup providing financing with option to buy
8	Option One Mortgage (H&R Block)	For sale
9	Washington Mutual	
10	First Franklin Financial Corp.	Acquired by Merrill Lynch
11	Residential Capital Corp. (GM)	Potential write down of up to $1bn on subprime portfolio
12	BNC Mortgage/Finance America (Lehman)	
13	Aegis Mortgage Corp.	Scaling back operations
14	Accredited Home Lenders	Delayed SEC filings
15	American General Finance (AIG)	
16	Chase Home Finance	
17	Ownit Mortgage Solutions	Out of business
18	NovaStar Financial	Loss in latest quarter; little, if any, income forecast through 2011
19	Equifirst (Regions Financial)	Acquired by Barclays Bank
20	ResMae Mortgage Corporation	Acquired by Citadel
21	WMC (GE)	Scaling back operations
22	MLN	Out of business
23	Decision One (HSBC)	
24	ECC/Encore	Acquired by Bear Stearns
25	Fieldstone	Acquired by C-BASS

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Key Players Involved Today

Origination vs. Securitization

Top 10 Subprime Mortgage Originators			Top 10 Subprime MBS Securitization Shelves		
Rank	Lender	3Q06YTD Market Share	Rank	Lender	3Q06YTD Market Share
1	Wells Fargo Home Mortgage	13.1%	1	Morgan Stanley ABS Capital	7.5%
2	HSBC Finance	8.5%	2	SASCO (Lehman)	7.2%
3	New Century Financial	7.8%	3	CWABS	6.8%
4	Countrywide Financial	6.0%	4	Merrill Lynch Mortgage Inv	6.0%
5	Fremont Investment & Loan	5.5%	5	Long Beach Securities	5.9%
6	CitiMortgage	4.8%	6	FASC (RBS GC)	5.8%
7	Ameriquest Mortgage	4.7%	7	GS Mortgage Securities	4.9%
8	Option One Mortgage	4.4%	8	Ace Securities (Deutsche)	4.1%
9	Washington Mutual	4.2%	9	Argent Securities	3.5%
10	First Franklin Financial Corp	3.9%	10	JP Morgan Acceptance Corp	3.1%

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From: Raazi, Cactus
Sent: Thursday, April 05, 2007 10:36 AM
To: Brad Rosenberg
Subject: Brad - please take a look at this

Brad - please take a look at this portfolio. These are all dirty '06 originations that we are going to trade as a block. You are not the only client seeing this so time will be of the essence.

Save the price discussion for later - at the moment you might want to figure out whether this portfolio suits your objectives.

- 30 Baa2 ref obs that we could offer as a package at +625bps ($15mm per name, $450mm total)

ACCR 2006-2 M8	00437NAM4
ACE 2006-HE2 M8	004421ZD8
BSABS 2006-HE6 1M8	07388UAL4
FFML 2006-FF4 M8	362334GC2
FMIC 2006-2 M8	31659EAM0
GSAMP 2006-HE4 M8	362439AN1
HEAT 2006-4 M8	437084VY9
HEAT 2006-8 M8	43709QAP1
IXIS 2006-HE1 B2	45071KDN1
JPMAC 2006-HE2 M8	46625SAN6
JPMAC 2006-HE3 M8	46629VAN5
MABS 2006-NC1 M8	57643LNP7
MLMI 2006-MLN1 B2	59023AAN6
MLMI 2006-RM4 B2	59023QAN1
MSAC 2006-WMC1 B2	61744CXV3
MSC 2006-HE1 B2	617451DZ9
NCMT 2006-1 M8	65106AAV5
NHELI 2006-WF1 M8	65536RAM8
NHELI 2007-2 M8	65537MAN6
OOMLT 2007-1 M8	68400DAP9
RAMC 2006-1 M8	759950HG6
RAMP 2006-EFC1 M8	76112BW63
RASC 2006-EMX3 M8	76113ACJ8
SABR 2006-OP1 B2	81375WJN7
SABR 2007-NC2 B2	81378GAM0
SAIL 2006-BNC3 M7	86361KAM9
SAST 2006-2 B2	80556XAP2
SVHE 2006-OPT5 M8	83612CAN9
WMABS 2006-HE2 M8	93934JAM6
WMABS 2006-HE3 M8	93934MAN7

From: Cornacchia, Thomas
Sent: Thursday, April 05, 2007 9:46 AM
To: Raazi, Cactus; LoBue, Lindsay; Grinstein, Veronica; Bhavsar, Avanish R
Cc: Swenson, Michael; Salem, Deeb
Subject: FW: let's sell ~200mm in Baa2 protection...

Get this done please - who is the better salespaerson??

From: Swenson, Michael
Sent: Thursday, April 05, 2007 9:42 AM

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1738

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To: Salem, Deeb; Cornacchia, Thomas
Subject: RE: let's sell ~200mm in Baa2 protection...

Make that 500mm

From: Salem, Deeb
Sent: Thursday, April 05, 2007 9:35 AM
To: Cornacchia, Thomas
Cc: Swenson, Michael
Subject: let's sell ~200mm in Baa2 protection...

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From: Swenson, Michael
Sent: Friday, May 25, 2007 12:08 PM
To: Chin, Edwin; Salem, Deeb
Subject: Re:

We should be offering sn protection down on the offer side to the street on tier one stuff to cause maximum pain

----- Original Message -----
From: Chin, Edwin
To: Bhavsar, Avanish R
Cc: Swenson, Michael; Salem, Deeb
Sent: Fri May 25 11:41:59 2007
Subject: RE:

We can offer protection on the following mezz CDO names @ 795 as a package. Levels good up to 10MM each.

Deal Name	Tranche	Rating	Issuer	Ref Ob	Px Date
BFCGE 2006-1A	A3L	A	BFC Genesee CDO Ltd	BFCGE 2006-1A A3L	Feb-06
BWIC 2006-1A	C	A	Broadwick Funding Ltd	BWIC 2006-1A C	Apr-06
CAMBR 6A D	A	Camber	CAMBR 6A D	May-06	
CRNMZ 2006-1A	5	A	Cairn CRNMZ 2006-1A 5	Aug-06	
CRNMZ 2006-2A	C	A	Cairn CRNMZ 2006-2A C	Oct-06	
DUKEF 2006-10A	A3	A	Duke Funding Ltd	DUKEF 2006-10A A3	Apr-06
ETRD 2006-5A	A3	A	E*Trade CDO I	ETRD 2006-5A A3	Aug-06
GLCR 2006-4A	C	A	Glacier Funding CDO Ltd	GLCR 2006-4A C	Mar-06
HGCDO 2006-1A	C	A	Hamilton Gardens CDO Ltd	HGCDO 2006-1A C	Sep-06
HLCDO 2006-1A	C	A	Halcyon	HLCDO 2006-1A C	Sep-06
IXCBO 2006-2A	C	A	IXIS ABS CDO 1 Ltd	IXCBO 2006-2A C	May-06
LRDG 2006-1A	C	A	Longridge ABS CDO Ltd	LRDG 2006-1A C	Sep-06
PINEM 2006-AA	C	A	Pine Mountain	PINEM 2006-AA C	Oct-06
TOPG 2006-2A	B	A	Topanga CDO Ltd	TOPG 2006-2A B	Nov-06
TOURM 2006-2A	D	A	Tourmaline CDO	TOURM 2006-2A D	Mar-06

-----Original Message-----
From: Bhavsar, Avanish R
Sent: Friday, May 25, 2007 11:19 AM
To: Chin, Edwin
Subject: RE:

whats eta?

-----Original Message-----
From: Chin, Edwin
Sent: Friday, May 25, 2007 10:38 AM
To: Bhavsar, Avanish R; Salem, Deeb
Cc: Swenson, Michael
Subject: RE:

Let's start with these RMBS offers. 10MM each.

ABFC 2006-OPT2 M8	355
CWL 2006-15 M9	315
FHLT 2006-E M8	345
FMIC 2006-3 M8	415
GSAMP 2006-FM2 M8	465
GSAMP 2006-HE8 M8	375

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Wall Street & The Financial Crisis
Report Footnote #1742

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JPMAC 2006-FRE2 M8	525
JPMAC 2006-NC2 M8	295
SAST 2006-3 B3	450
SVHE 2006-EQ2 M8	375

From: Bhavsar, Avanish R
Sent: Friday, May 25, 2007 9:36 AM
To: Salem, Deeb; Chin, Edwin
Cc: Swenson, Michael
Subject:

We have a new equity acct Kensico, they are interested in seeing offerings on the following

1) CDS on CDOs late 06, early 07 mezz deals, BBB thru AA

2) Single names RMBS 2nd half '06, BBB- or BBB

They are axed to buy protection.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Avanish R. Bhavsar
Managing Director
Capital Structure Sales
Securities Divison

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 357-8405 | Cell: 917-[redacted]
e-mail: avanish.bhavsar@gs.com

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From: Swenson, Michael
Sent: Tuesday, May 29, 2007 11:06 AM
To: Salem, Deeb
Subject: Re: they want to think about doing this again...

We should start killing the sn shorts in the street - let's pick some high quality stuff that guys are hoping is wider today and offer protection tight - this will have people totally demoralized

----- Original Message -----
From: Salem, Deeb
To: Swenson, Michael
Sent: Tue May 29 10:41:55 2007
Subject: RE: they want to think about doing this again...

the index wont close where it is this morning in my opinion...

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, May 29, 2007 10:21 AM
To: Salem, Deeb
Subject: Re: they want to think about doing this again...

Then you need to be prepared to widen their marks we also need credit approval

----- Original Message -----
From: Salem, Deeb
To: Bhavsar, Avanish R; Swenson, Michael
Cc: Chin, Edwin; Birnbaum, Josh
Sent: Tue May 29 10:05:52 2007
Subject: RE: they want to think about doing this again...

indices ~125bps wider since trades 1 week ago

Ref Ob	CUSIP	Offer
ACE 2006-CW1 M9	00441QAP4	500
BSABS 2006-HE3 M8	07387UHZ7	650
CARR 2006-NC2 M9	14453FAN9	650
GSAMP 2006-NC2 M8	362463AN1	715
IXIS 2006-HE3 B2	46602UAM0	725
JPMAC 2006-ACC1 M9	46628RAP0	625
JPMAC 2006-FRE1 M8	46626LFV7	595
JPMAC 2006-NC2 M9	46629FAN0	525
LBMLT 2006-8 M8	54251UAN6	875
LBMLT 2006-WL1 M9	542514RE6	595
MSAC 2005-HE5 B3	61744CVA1	600
RAMP 2006-NC3 M9	76112B4X5	700
SVHE 2006-OPT3 M8	83611MPS1	575
WMABS 2006-HE2 M9	93934JAN4	650

-----Original Message-----
From: Bhavsar, Avanish R
Sent: Tuesday, May 29, 2007 9:20 AM
To: Salem, Deeb; Swenson, Michael
Cc: Chin, Edwin
Subject: they want to think about doing this again...

last trade with Harbinger...

Protection Buyer: Harbinger

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Protection Seller: Goldman Sachs
Size: $105mm total ($7.5mm x 14 reference obs)

ACE 2006-CW1 M9	00441QAP4	415bps
BSABS 2006-HE3 M8	07387UHZ7	575bps
CARR 2006-NC2 M9	14453FAN9	490bps
GSAMP 2006-NC2 M8	362463AN1	625bps
IXIS 2006-HE3 B2	46602UAM0	550bps
JPMAC 2006-ACC1 M9	46628RAP0	515bps
JPMAC 2006-FRE1 M8	46626LFV7	500bps
JPMAC 2006-NC2 M9	46629FAN0	415bps
LBMLT 2006-8 M8	54251UAN6	800bps
LBMLT 2006-WL1 M9	542514RE6	465bps
MSAC 2005-HE5 B3	61744CVA1	490bps
RAMP 2006-NC3 M9	76112B4X5	590bps
SVHE 2006-OPT3 M8	83611MPS1	490bps
WMABS 2006-HE2 M9	93934JAN4	540bps

Confidential Treatment Requested by Goldman Sachs

From: Salem, Deeb
Sent: Monday, May 21, 2007 12:02 AM
To: Swenson, Michael; Chin, Edwin
Subject: A few things...pain related

1. [redacted] is going to buy back their 06-1 abx short on monday. Fund is having a bad month and needs cash. It's only 30mm. He does not check away. I'd just go offer side on the run for him

2. Guys r gonna complain about their marks (kbass already emailed me). I would talk about the recent flow of OWICs and the levels were they have been trading as the reason we moved marks on friday...scsf lost 6 pct based on fridays moves

---

Sent from my BlackBerry Wireless Device

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From: Swenson, Michael
Sent: Monday, May 21, 2007 2:59 PM
To: Chin, Edwin; Salem, Deeb
Subject: RE: Edwin - Important - Stanfield levels

We are ok with that they do not have much more gun powder

From: Chin, Edwin
Sent: Monday, May 21, 2007 2:56 PM
To: Swenson, Michael; Salem, Deeb
Subject: FW: Edwin - Important - Stanfield levels
Importance: High

FYI

From: Raazi, Cactus
Sent: Monday, May 21, 2007 2:46 PM
To: Chin, Edwin; Bruns, William
Subject: Edwin - Important - Stanfield levels
Importance: High

Hi Edwin - I know you're very busy, but your attention to this matter is important.

Stanfield feels we are marking them tighter than other dealers with whom they have similar protection.

In addition, 14 of the 25 names below were marked over 100bps tighter week-on-week. That is a massive move and is creating major stress at the client, as we can't see a similar move in the broader mkt.

Finally, be aware that Stanfield may look for you to offer protection very close to your mark. Cornacchia hs gone up there with me and promised he is available to address any problems Stanfield might have. I'm hoping your attention to the marks below will defuse a situation in which they think we're messing with them via our marks on their protection.

Your attention to this matter is very much appreciated.

CDS	Coupon	Mark
BNCMT 2006-1 M8 / BNC06001 M8 (055682AM0)	615	550
BSABS 2006-EC1 M7 / BSHE06E1 M7 (07387UAK7)	615	475
BSABS 2006-PC1 M7 / BSHE06P1 M7 (07387UBD2)	615	245
CWL 2006-13 MV8 / CWHE0613 MV8 (23242EAT6)	615	425
CWL 2006-BC2 M8 / CWHE06B2 M8 (22237JAN7)	615	425
GSAMP 2005-AHL M5 / GSA05AHL M5 (36242D2E2)	615	325
GSAMP 2005-HE6 M8 / GSA05HE6 M8 (362341H36)	615	375
GSAMP 2006-HE3 M8 / GSA06HE3 M8 (36244KAN5)	615	400
JPMAC 2006-FRE1 M8 / JPA06FR1 M8 (46626LFV7)	615	500
JPMAC 2006-RM1 M8 / JPA06RM1 M8 (46629NAP8)	615	400
JPMAC 2006-WMC1 M8 / JPA06WM1 M8 (46626LJC5)	615	575
LBMLT 2005-2 M8 / LBML0502 M8 (542514KY9)	615	500
MABS 2005-NC2 M8 / MABS05N2 M8 (57643LMX1)	615	300
MLMI 2005-NC1 B2 / MLHE05N1 B2 (59020URT4)	615	225
MLMI 2005-WMC1 B2 / MLHE05W1 B2 (59020URA5)	615	200
MLMI 2006-RM4 B2 / MLHE06R4 B2 (59023QAN1)	615	450
MSAC 2006-WMC1 B2 / MSAB06W1 B2 (61744CXV3)	615	325
MSAC 2006-HE1 B2 / MSAB06H1 B2 (617451DZ9)	615	600
NHELI 2006-HE3 M8 / NMHE06H3 M8 (65536QAN8)	615	500
PCHLT 2005-3 M8 / PCH05003 M8 (71085PCY7)	615	215

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RAMP 2006-NC3 M8 / RFC06NC3 M8 (76112B4W7)	615	525
SAIL 2006-BNC3 M7 / SAIL06B3 M7 (86361KAM9)	615	650
SASC 2005-WMC1 M4 / SAS05WM1 M4 (86359B6K2)	615	225
BNCMT 2007-1 M8 / BNC07001 M8 (05569GAN6)	615	500
RASC 2006-KS2 M8 / RFC06KS2 M8 (75406BAM9)	615	425

Cactus Raazi
212.902.3943 direct
917[redacted] mobile

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From: Raazi, Cactus
Sent: Friday, May 25, 2007 10:29 AM
To: Ryan Rolfert; Jonathan Kalikow
Subject: RE: Jon & Ryan: Our thoughts on single-A RMBS CDS

Ryan - my comments are in navy blue below:

From: Ryan Rolfert [mailto:rrolfert@Stanfieldcp.com]
Sent: Thursday, May 24, 2007 6:17 PM
To: Raazi, Cactus; Jonathan Kalikow
Subject: RE: Jon & Ryan: Our thoughts on single-A RMBS CDS

Cactus,

When we put on the Single A protection trade the underlying names were suppose to have a large similarity to the index. Over the past couple of months that correlation has broken down significantly. What concerns me is trying to figure out why this correlation broke down. The indexes are only up a couple of points since we did the trade. Looking at the mid's on our Single A trades we have tightened roughly 33%. By no means, when we did the trade was this portfolio suppose to be "cherry picked". Can you ask your strategist his thoughts on why this correlation broke down so much? Are there are only sellers of single name single-A protection? Is no one a seller of the index? Should we sell index protection with the thought this correlation may return and the index should rally back harder than Single-A single name protection? I'm just trying to figure out how we can reverse some of the losses we have incurred.
[At the time of our trade, the single-A protection we sold you did indeed have a high degree of similarity to the index. I recall sending you summary stats related to Loan Age and Delinquencies (30, 60, 90, FLC, REO) which were virtually identical in aggregate to the like-vintage index. I will rerun these stats - I think what you're going to see is that the protection you own is still quite similar in aggregate composition to the index. At the time of our trade I verified with my trading desk that the portfolios we sold you were not cherry picked. I'd like to revisit this and demonstrate that the protection you own is seasoning similarly to the index in aggregate. After we agree that the single-name protection you own is similar to like-vintage index in aggregate, let's think about possibly selling index protection (buying index) against your single-names. My desk certainly feels the spread between index and single-names is unsustainable over the long term. The CDO selling of single-name CDS is a technical in the mkt that has created this current situation. If mkt conditions deteriorate, CDOs will not be able to get done, and will no longer be selling single-name protection. If mkt conditions improve, you should see the index tighten to your single-name levels - and you will be hedged in this regard. Let's talk further on these points with my desk - you ask good questions and I want to make sure to give you complete answers.]

Also, from where our BBB trade was marked last Friday around 413. Using a 25bps bid offer spread we would be down to a mid of 400. This trade is tighter by 35% percent as well. Does your strategist have any thoughts on the BBB's? I would expect we could leverage your below thoughts into that trade as well but we are open to any comments.
[Our thoughts on BBBs will be similar to those above - the tightening is also due to the CDO technical. In fact, we have seen good buying of BBB protection from our client base at these levels - over the last week there have been several hundred million in BBB OWICs. Both my trading desk and clients feel that '06 vintage single-name BBBs have tightened far too much, regardless of where the index is. When you look at how wide the index is trading this only emphasizes the degree to which single-name BBBs have rallied.]

I had always thought that these trades were meant to be the start of a partnership building of future business between Stanfield and Goldman Sachs. I know we are big boys and we did the trade there is no doubt on that. What I am attempting to do is either cut our losses and get out or determine what I can say to keep this trade on to hopefully see benefits by the end of the year. I've lost a lot of creditability on the desk with this trade. Maybe I was naive to trust the pitch on the trade. It has cost me a lot.
[This is the hardest part of this mail. The intention was very much to create a partnership, and I do feel that we would be having a different conversation right now had single-name CDS not rallied so dramatically. I have worked with you and your team for a long while through a variety of crises - hopefully you will keep that in mind when evaluating my (and my firm's) motives in facilitating this trade for you. I can't do a good job giving you comfort on the ultimate outcome of RMBS protection. But I can tell you that the tightening in single-names over the past couple of months is due to CDO selling of single-name protection. We have not seen an improvement in the fundamental picture. We have not seen capitulation by

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clients who have large shorts in RMBS. We have not seen any news that would suggest the situation for subprime RMBS is improving. Today we are getting remits - early color is that prepay speeds have come in slower than expected, and that delinquencies are spiking. Both factors point to the fact that the subprime borrower is experiencing financial distress and cannot refinance as planned (slower prepays.) I do think the idea of selling index protection here is something worth talking about, but the main point I want to make is that the reasons you put on this trade (and the reasons we have the same trade on) still exist. The investment thesis is playing out. Whether we will see total doomsday for subprime, or whether it'll be bad but not a complete disaster, is yet to be seen. But my opinion is that this is not a good time to get out of your protection - you would be acting on a technical, not on a change in the fundamentals.]

Let me know your or GS strategist's thoughts.
[I'd like to get you the remit info as it comes out. Initial read on today's numbers shows all three indices have increases in 60+ delinquencies of over 1% relative to last month. We will be doing some analysis over the weekend. On Tuesday I'd like to present you with my strategist's thoughts. We can also speak with my head single-name trader, Deeb. We'll give you the straight facts, our opinions, and then we will do any additional analytical work that you would like us to perform. Hopefully we can be helpful to you as you evaluate your options at this stage.]

Thanks,
Ryan

From: Raazi, Cactus [mailto:Cactus.Raazi@gs.com]
Sent: Thursday, May 24, 2007 4:08 PM
To: Jonathan Kalikow; Ryan Rolfert
Subject: Jon & Ryan: Our thoughts on single-A RMBS CDS

We have seen the mkt for single-A RMBS CDS tighten meaningfully over the past couple of months - in particular over the last month. In considering whether to buy or sell protection at the current levels, it is important to bear in mind the following fundamentals:

1) Thus far, delinquency patterns look to be about as bad as, but not meaningfully worse than the peak delinquencies we saw in 2000. Some of the CDS pricing we saw in the mkt (especially in BBB-) implied a delinquency/default experience worse than what we experienced in 2000 - certainly possible but not yet observed. That said, we are now heading into resets on late '05 production deals. It's tough to correctly forecast the effects of the recent subprime credit crunch on late '05 deals, but the general consensus is that the typical subprime borrower is going to have a tough time qualifying for a new loan on their property absent of a meaningful equity cushion. Remits over the next six months could show an uptick in delinquencies on late '05 originations as borrowers struggle with higher payments.

2) Housing prices continue to deteriorate. The rally we have seen in RMBS spreads over the past weeks turns a blind eye to the fundamental fact that home prices are deteriorating. If home prices continue to deteriorate we are going to see higher severities as borrowers default. As an example, today's new home sales number showed a strong topline sales number but an 11% decline in average price. A similar decline in existing home prices would be devastating for many of the late '05 and '06 originated subprime deals.

3) Please bear in mind that 06-1 single-A index (2H '05 deals) is trading at 100bps mid, and the 06-2 single-A index (1H '06 deals) is trading at 170 mid. Your single-names are trading meaningfully tight to the index despite very similar aggregate credit characteristics.

My strategist feels that late '05 single-A protection at 50bps doesn't have much room to tighten further absent of sharply positive news. 2006 single-A protection at 100 could rally in the absence of bad news. Alternatively, '06 vintage protection also has less HPA build into it than '05 production.

On a technical note, there has been better selling of CDS over the past few weeks from the CDO community - and few buyers. Recently, we have seen buyers of protection emerge at these tight spread levels. In fact, some spreads are all the way back to Fall '06 levels despite the sharp deterioration in the fundamental picture.

I can't tell you which way the mkt is going to go, but I think if you look at where single-A protection is currently trading, the more likely direction for spreads is wider. This is particularly true of '05 protection given imminent resets and the very tight spread levels. GS will have additional fundamental research on subprime mortgages as remits come in. We will keep our analysis in front of you.

PLEASE come back to me with any questions you may have.

Cactus Raazi
212.902.3943 direct
917[redacted] mobile
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From: Salem, Deeb
Sent: Thursday, May 31, 2007 12:18 PM
To: Gaddi, Robert; Chin, Edwin; Swenson, Michael
Subject: RE: Stark CDO CDS potential trade 5/31

you couldnt be more wrong robert

From: Gaddi, Robert
Sent: Thursday, May 31, 2007 12:17 PM
To: Chin, Edwin; Salem, Deeb; Swenson, Michael
Subject: Stark CDO CDS potential trade 5/31

Stark has an interest in looking at this trade; but here is an obstacle that we need to address:
They feel Goldman is very inconsistent in the single name HEL CDS marks that we provide them. We are drastically different in marking positions versus other dealers. It is an annoyance that would potentially limit their interest in putting on incremental CDS trades. I can name specific examples if you would like. Please advise.

Goldman, Sachs & Co.
71 South Wacker Drive, Suite 500 Chicago, IL 60606
Tel: 312-655-4895 | Fax: 312-655-5368
e-mail: robert.gaddi@gs.com

Goldman
Sachs

Robert S. Gaddi
Vice President
Fixed Income Currency & Commodities Division

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Valuation & Pricing Related to Transactions with AIG

In July 2007, as the housing market continued to deteriorate, financial markets began to significantly re-price risk in U.S. mortgage products, including super senior Collateralized Debt Obligations (CDOs). As required by US GAAP, our policy of fair value accounting, which recognizes the value of an asset or liability as the price at which willing buyers and sellers transact, prompted us, as always, to mark our positions to the then prevailing market prices. We believe our marks were accurate and reflected the value markets were placing on the transactions.

Over subsequent weeks and months, we made collateral calls to AIG, and other counterparties, consistent with the further deterioration in the market. We made those collateral calls based on prices that reflected the deteriorating conditions in the market for the underlying collateral in Residential Mortgage Backed Securities (RMBS) and CDOs and specific transactions in comparable securities – transactions in which we acted as a market maker and transactions we observed between other market participants. Goldman Sachs called for and paid (known as "posting") collateral consistent with the marks we used for our internal and external reporting purposes as well as for our own collateral posting calculations.

The foundation of our approach to risk management is based upon disciplined mark-to-market accounting. This involves the daily practice of valuing the firm's assets and liabilities to current market levels – that is, the value one might expect to find on the open market. Without a realistic view of our own financial position, we would not be able to properly assess or manage our risk. Goldman Sachs is one of the few financial institutions in the world that carries virtually all financial instruments held in its inventory at current market value, with any changes reflected immediately in our risk management systems.

Significant Trading Activity On Behalf of Clients Informed Pricing

Throughout 2007 and 2008, Goldman Sachs was an active market maker in cash and credit default swap (CDS) mortgage products. This market activity provided a strong foundation for our marks:

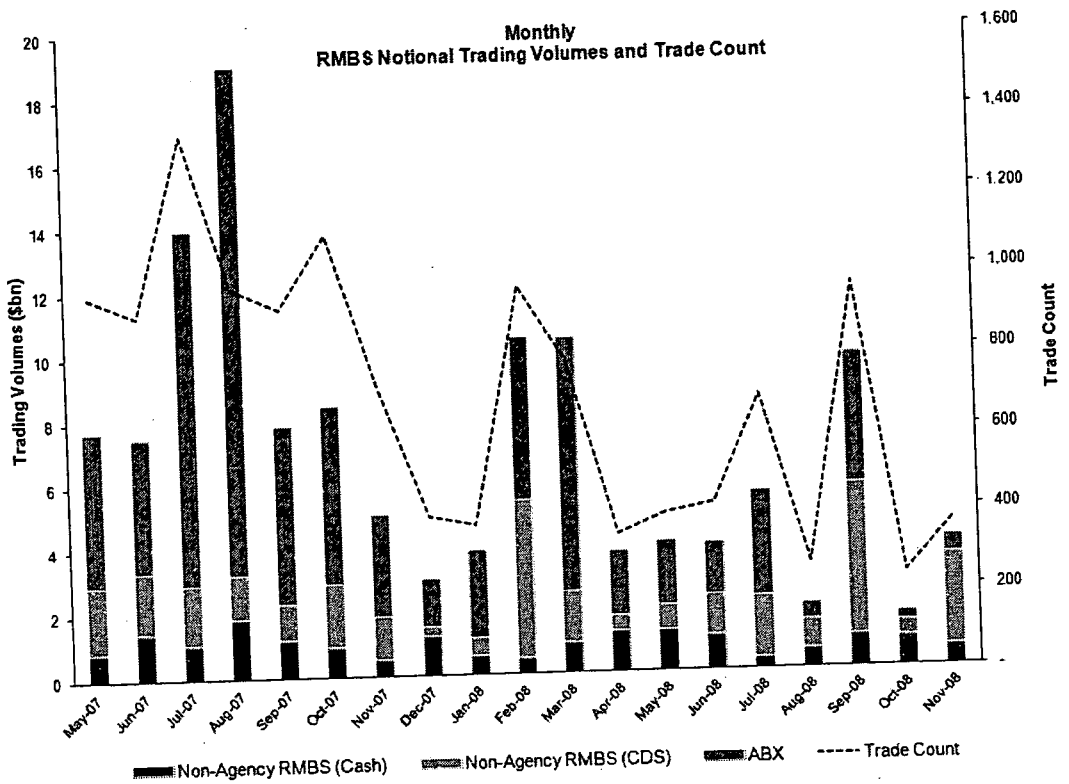
For example, from May 2007 through November 2008, our Mortgage Department bought and sold approximately:

- $85 billion notional amount of the ABX and TABX indices, representing 5,000 trades
- $17 billion principal amount of RMBS cash securities, representing 2,000 trades
- $32 billion notional amount of RMBS CDS, comprising 5,000 trades
- $5 billion principal amount of CDO cash securities, in more than 350 trades
- $16 billion notional amount of CDO CDS, in more than 800 trades

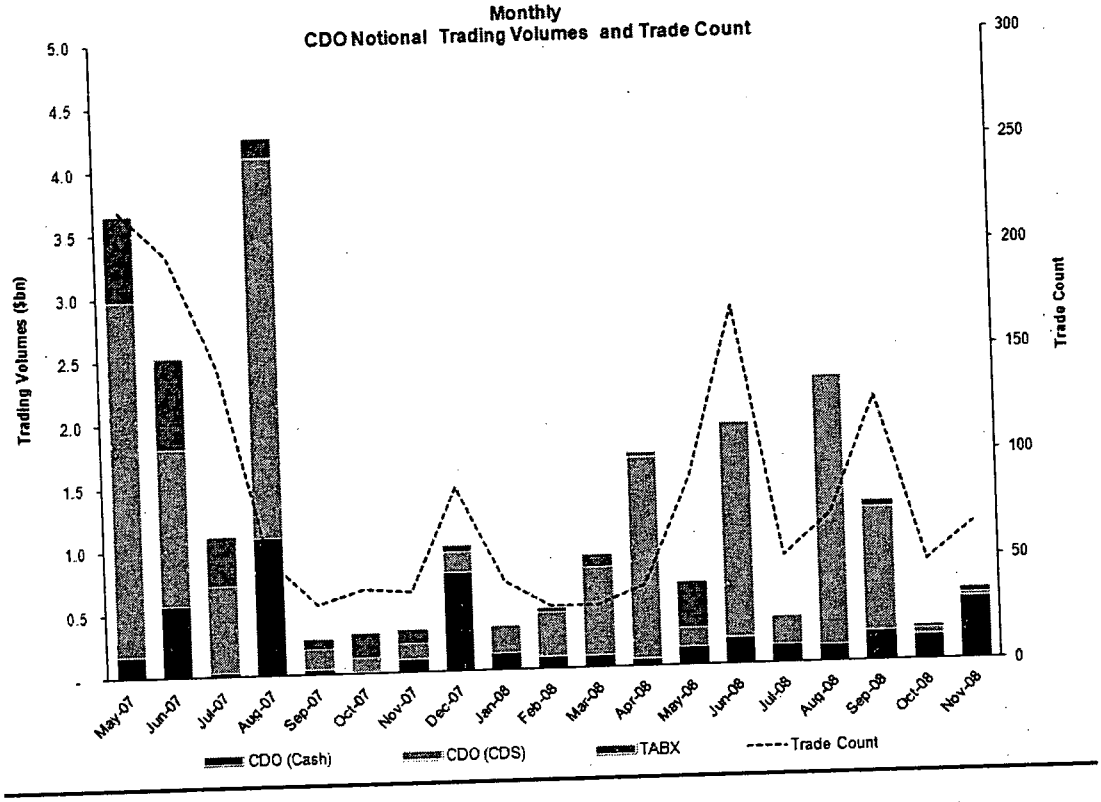
The following graphs provide for RMBS and CDOs the total notional traded and trade count on a monthly basis from May of 2007 through November 2008. In addition, we have provided to the Commission the detailed list of all transactions executed during that time (bearing production number GS MBS 0000039095).

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How We Determined Pricing

Our marks were based upon the best available market information at the time, including observed trades, actionable bids or offers from other parties, and other market information sourced through our franchise.

Consistent with other cash and derivative markets, it was not unusual for there to be an absence of transactions in specific RMBS, CDO securities and derivatives. In addition, certain securities often had only one or a limited numbers of holders. As a result, we used observed transactions in comparable instruments (e.g., instruments having similar underlying collateral, structure, and/or risk/reward profile) to help inform our valuations.

Market information we used in connection with determining valuations extended beyond trades executed by Goldman Sachs. We were frequently asked to bid and/or offer securities or derivatives. Whether or not we executed a transaction, we were able to obtain additional useful pricing information from client feedback as well as other market color.

At times, in order to gauge the fair value of the CDO securities, we would also value the collateral underlying the CDO. This approach, referred to as a net asset value ("NAV") analysis, valued the underlying collateral based upon the best available market information for the underlying RMBS and other securities at that time.

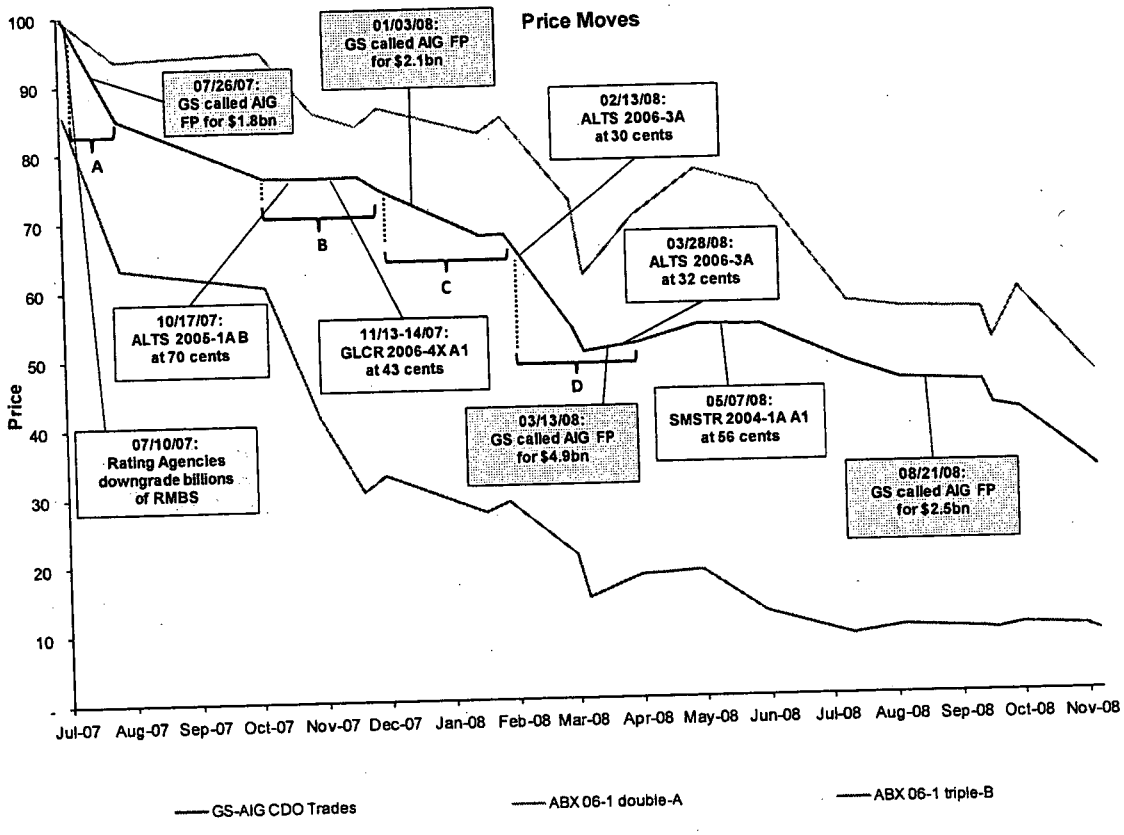
This NAV analysis incorporated additional factors into the valuation process. For example:

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- CDO securities began to trade at a discount to NAV-implied values as market participants penalized less liquid and complex instruments during the market deterioration in 2007 and 2008;
- Valuations of the CDO securities reflected the allocation of NAV across the CDO's capital structure (e.g., senior classes vs. subordinate classes).

While a certain degree of judgment was necessary in these valuations, we were able to access the best available market information to price these CDO securities and to ensure that our pricing represented actual fair market values at the time.

Market Moves, Examples of Comparable Transactions and Timeline



The above graph depicts Goldman Sachs' weighted average price of the back-to-back CDO trades (i.e., trades in which AIG sold credit protection to Goldman Sachs and Goldman Sachs sold credit protection to another counterparty referencing the same security), hereafter referred to as the "AIG portfolio". These trades constituted the substantial majority of the CDS transactions we undertook with AIG. AIG's CDO trades predominantly consisted of high-grade (typically double-A average rating) and mezzanine (typically triple-B average rating) CDOs from the 2003 to early 2006 vintages. Also shown are two indices referencing subprime securities issued in the second half of 2005 -- the double-A rated and triple-B rated tranches of the ABX

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06-1 index. These indices represented the most liquid and observable proxy for the vintage and ratings of the RMBS underlying the AIG CDO positions.

From July of 2007 through November of 2008 there was observable market data which provided the basis for our collateral requests to AIG.

A) July 2007:

- In mid-July 2007, before our first collateral call to AIG, rating agencies downgraded hundreds of subprime RMBS and put hundreds more securities on watch for further downgrades. With tens of billions of dollars of subprime securities negatively impacted, ABX and subprime RMBS prices dropped sharply and significantly over the month.
    - Specifically, in July, the ABX 06-1 AA index dropped 7 points from $100 to $93, and ABX 06-1 BBB index dropped 21 points from $86 to $65. At the time, these were unprecedented drops and new market lows.
- Over the course of July, after the subprime ratings downgrades, a number of our clients requested that dealers bid on more than $1 billion of CDO risk. Clients wanted to sell their risk, but frequently could not find buyers at prices they liked.
- Dealers were aggressively buying CDS protection on CDOs across the vintage spectrum. During July 2007, we observed CDS on subordinate classes from 2005 and earlier vintage CDOs trading at 70 cents on the dollar or lower in competitive auctions. In particular, this was the case for high grade CDOs such as ALTS 2005-1A, ALTS 2005-2A, and BUCK 2005-2A and mezzanine CDOs such as DUKEF 2005-9A, GSCSF 2005-1A, PS 2A, SCF 5A, TOPG 2005-2A and TRNTY 2005-1A. Although, of the above CDOs, only ALTS 2005-2A CDO was specifically referenced in the AIG portfolio, the observed transactions clearly substantiated widespread re-pricing of 2005 and earlier vintage CDOs in the market.
- In July, we traded approximately $14 billion RMBS and approximately $1 billion CDOs across cash securities, single name CDS, and CDS indices.
- The observed significant re-pricing of CDO liabilities and the relevant market moves necessitated the initial collateral call to AIG, as illustrated by the graph on page 4.

B) October - November 2007:

- During October and November 2007, based upon increasing delinquencies and clear credit deterioration in underlying subprime RMBS, rating agencies downgraded dozens of CDO transactions with billions of dollars in outstanding securities. CDO prices continued to fall during this period, as the following examples reflect.

GS MBS 0000039100

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- On October 17th, we bought at 70 cents on the dollar ALTS 2005-1A B, the double-A rated subordinate tranche from a 2005 vintage high grade CDO. The ALTS 2005-1A CDO is very similar to the ALTS 2005-2A CDO on which AIG had written super senior protection to Goldman Sachs. In particular, the two ALTS CDOs have similar type and vintage of collateral, similar structures and the same collateral manager. The trade on the subordinate ALTS 2005-1A B tranche at 70 clearly demonstrated that market pricing at the time reflected a significant degree of stress for 2005 vintage high grade CDOs. On October 30th, the mark we used for the AIG collateral call on ALTS 2005-2A super senior was 87.

- On November 30th, we owned SMSTR 2004-1A A1, the super senior class of a 2004 vintage mezzanine CDO, marked on our books at a price of 68. We viewed this particular security as better quality and more desirable versus the mezzanine CDO transactions in the AIG portfolio, which had a weighted average price of approximately 69 as of November 30th in the AIG collateral call. SMSTR 2004-1A A1 was ultimately sold on May 7, 2008 at 56 cents on the dollar.

- From the beginning of October through the end of November 2007, the ABX 06-1 AA index dropped 9 points from $95 to $86 and ABX 06-1 BBB index dropped 28 points from $61 to $33, as illustrated by the graph on page 4.

- During this period, we traded more than $13 billion RMBS and approximately $700 million CDOs across cash securities, single name CDS and CDS indices.

C) December 2007 - January 2008:

- Cash CDO trading activity picked up considerably in late 2007 and into early 2008. In December 2007, we purchased almost $800 million notional of various senior and subordinate CDO securities.

- On November 13th and 14th, we purchased at a blended price of approximately 43 cents on the dollar almost $67 million of GLCR 2006-4A A1, an early 2006 vintage mezzanine CDO. This transaction was comparable to specific line items in the AIG CDO portfolio, in particular SCF 8A A1, which was marked at 55 cents on the dollar as of November 30th.

- We observed that approximately $90 million of the super senior class from TRAIN 3A A1, a 2003 vintage mezzanine CDO, traded at approximately 70 cents on the dollar. Although this specific bond was not in AIG's portfolio, this observation clearly substantiated the fact that even highly seasoned super senior CDO tranches traded at a significant discount to par value at the time.

- From the beginning of December 2007 through the end of January 2008, the ABX 06-1 AA index dropped 2 points from $86 to $84 and the ABX 06-1 BBB index dropped 4 points from $33 to $29, as illustrated by the graph on page 4.

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- During this period, we traded approximately $7 billion RMBS and approximately $1.4 billion CDOs across cash securities, single name CDS and CDS indices.

D) February-March 2008:

- The RMBS and CDO markets became further stressed in February and March 2008 as Bear Stearns nearly failed, the hedge fund Peloton Partners collapsed and other mortgage participants experienced financial distress and investors were concerned that a substantial amount of assets would be sold into the market.

- On February 13th, we facilitated a client unwind of $296 million notional credit protection referencing the super senior tranche of ALTS 2006-3A, an early 2006 vintage high grade CDO, at approximately 30 cents on the dollar. This high grade CDO security was similar to early 2006 vintage high grade CDOs on which AIG had sold Goldman Sachs credit protection, and in particular WESTC 2006-1A which was marked at 33 on February 29th.

- On March 28th, we purchased $38 million of the super senior class of the same ALTS 2006-3A high grade CDO at approximately 32 cents on the dollar from a different client. The price of WESTC 2006-1A super senior was marked at 33 on March 28th.

- From the beginning of February through the end of March 2008, the ABX 06-1 AA index dropped 13 points from $83 to $70 and ABX 06-1 BBB index dropped 11 points from $29 to $18, as illustrated by the graph on page 4.

- During this period, we traded approximately $21 billion RMBS and approximately $1.4 billion CDOs across cash securities, single name CDS and CDS indices.

CDO Valuation Discussion with AIG

Throughout the period of the collateral dispute, we continued to augment and refine tools to provide additional analysis for our valuations.

In particular, in January 2008, in order to have a very detailed dialogue with AIG about our pricing, we performed an extensive analysis on our CDO transactions with AIG.

- **ALTS 2005-2A A1** is a super senior tranche from a late 2005 vintage high grade CDO. The valuation approach we used began with the underlying portfolio net asset value ("NAV"). The underlying portfolio was 96% RMBS, comprised of alt-A (43%), subprime (36%) and prime (15%), with the other 4% of the portfolio comprised of various other types of asset backed securities. Almost 95% of the collateral was issued in 2005 and had original ratings of triple-A (46%), double-A (25%) and single-A (29%). Informed by our market making activities in RMBS, Goldman Sachs used the large amount of available trade information to price the underlying assets. The result of this analysis was

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an average price of $73 for alt-A, $67 for subprime and $87 for prime arriving at a weighted average portfolio NAV of approximately 71 cents on the dollar.

The super senior notes comprised approximately 87.1% of the overall CDO capital structure. Therefore, the portfolio market value was equal to approximately 81.4% of the face amount of the super senior class (71.0/87.1). The portfolio NAV divided by the super senior tranche size ignores the cashflows owed as well as the value of the other parts of the CDO capital structure, such as subordinate tranches, swap counterparties, and other fees and expenses (collectively referred to as cashflow "leakage"). For ALTS 2005-2A A1, we estimated the leakage (using market pricing for the subordinate CDO liabilities and the embedded fixed/floating interest rate swap) to be approximately 6% of the super senior face amount. Deducting this 6% leakage from 81.4% resulted in a NAV-based calculated value of 75.4 for the super senior tranche.

Goldman Sachs' bid and offer for ALTS 2005-2A A1 was 67.5 / 77.5, further informed by the market supply/demand dynamic, other market pricing information, in depth portfolio analysis and relative value tools. The mid-market price of 72.5 was used for purposes of margining the CDS protection with AIG.

- **BROD 2005-1A A1NA** and **A1B1** are *pari passu* super senior tranches from a 2005 vintage high grade CDO issued in late 2005. The underlying portfolio was 80% RMBS, comprised of subprime (45%), alt-A (26%), and prime (9%), with the other 20% of the portfolio comprised mostly of CDOs. Over 90% of the collateral was issued in 2005 and had original ratings of triple-A (25%), double-A (47%) and single-A (27%). Informed by our market making activities in RMBS and other products, Goldman Sachs used the large amount of available trade information to price the underlying assets. The result of this analysis was an average price of $57 for 2005 collateral and $70 for 2004 vintage collateral arriving at an NAV of 57 cents on the dollar.

  The super senior class comprised approximately 84.0% of the overall CDO capital structure. The leakage was estimated to be approximately 4.0% of the super senior class face amount on this date. Therefore, the NAV-based calculated value was 64.4 (i.e., 57.5 / 84.0 – 4.0).

  Incorporating the market supply/demand dynamic and other market pricing information, our bid and offer for BROD 2005-1A A1NA and A1B1 was 55 / 65. The mid-market price of 60 was used for purposes of margining the CDS protection with AIG.

- **SCF 8A A1NV** is an early 2006 vintage mezzanine super senior CDO. The underlying portfolio was 88% RMBS, comprised mostly of subprime (73%) and alt-A (14%) with the other 12% of the portfolio consisted mostly of CDOs and CMBS. More than 85% of the collateral was issued in 2005 or later and had original ratings of triple-B (98%), and single-A (2%). Informed by our market making activities in RMBS and other products, we used the large amount of available trade information to price the underlying assets. The result of this analysis was an average price of $43 for the RMBS, $86 for the CMBS and $5 for the CDOs, resulting in a portfolio NAV of 41 cents on the dollar.

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The super senior class size was 68.1% of the overall CDO capital structure. We estimated the leakage to be approximately 10.6% of the super senior class face amount. Therefore, the NAV-based value was 49.4.

Incorporating the market supply/demand dynamic and other market pricing information, our bid and offer for SCF 8A A1NV was 37.5 / 47.5. The mid-market price of 42.5 was used for purposes of margining the CDS protection with AIG.

Although we did not conduct the same level of analysis as the January 2008 exercise summarized above, throughout the course of our collateral dispute with AIG we performed analyses of comparable transactions and actionable bids and offers using a similar methodology.

Conclusion

We believe that our marks on the GS-AIG trades were accurate for a number of reasons, including:

- As we have demonstrated, our fair value marks were based upon the best available market information at that time because we were an active market maker in cash and credit default swap mortgage products throughout 2007 and 2008.
- We were willing and ready to make a two-way market. If AIG believed that our marks were too low relative to the rest of the market, it could have bought additional risk at those significantly lower prices. It did not.
- We told AIG that it could offer our prices to other counterparties in an effort to find clearing levels for the specific reference obligations if it was not interested in adding risk.
- The prices at which we marked the securities were consistent with the prices we had on similar securities that we held in our inventory.
- We used consistent prices to post collateral to clients on the other side of the AIG transactions.
- We felt confident enough in the accuracy of our marks to pay a premium to other financial institutions in order to hedge our uncollateralized credit risk to AIG.

We questioned AIG's view of the value of super senior CDO risk they insured because:

- We provided our individual marks to AIG on a daily basis, but AIG did not provide us with its marks, despite repeated requests to do so. This was not consistent with how other counterparties looked to resolve valuation disputes.
- AIG stated on numerous occasions in our discussions with them that they were not actively trading in the market.
- AIG depended on third party marks but confirmed on multiple occasions that it could not buy or sell on those prices. In other words, the marks they cited were not actionable.
- During early discussions with AIG, they stated they were looking at their positions on a "more fundamental" basis and were accordingly not incorporating actual current market values.

Indeed, as AIG stated during its testimony before the FCIC, it did not have an internal pricing system to value the securities on which they sold credit protection until December 2007.

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From: Swenson, Michael
Sent: Thursday, May 31, 2007 12:35 PM
To: Gaddi, Robert
Subject: RE: Stark CDO CDS potential trade 5/31

You need to manage their opinions on marks - that has been fully vetted over here

---

From: Gaddi, Robert
Sent: Thursday, May 31, 2007 12:34 PM
To: Swenson, Michael
Subject: RE: Stark CDO CDS potential trade 5/31

I know. Just stating that I want to team up with you guys. It is based on the simple frustration I've had with Stark They are printing business and we can't seem to hit. Like I said yseterday:
NIMs
Reremic NIMs
Residuals
Whole loan packages
CDO equity
Their opinions on our marks
The list is long.

From: Swenson, Michael
Sent: Thursday, May 31, 2007 11:30 AM
To: Gaddi, Robert
Subject: RE: Stark CDO CDS potential trade 5/31

You make it sound like it is impossible - this trade is not broadly disseminated (we can not print a lot of it and many people ask for it)

From: Gaddi, Robert
Sent: Thursday, May 31, 2007 12:29 PM
To: Swenson, Michael
Subject: RE: Stark CDO CDS potential trade 5/31

I am trying to work with you guys.

From: Swenson, Michael
Sent: Thursday, May 31, 2007 11:27 AM
To: Gaddi, Robert
Subject: RE: Stark CDO CDS potential trade 5/31

ok

From: Gaddi, Robert
Sent: Thursday, May 31, 2007 12:26 PM
To: Swenson, Michael
Subject: RE: Stark CDO CDS potential trade 5/31

OK. Fair enough. I'd like you to spearhead any call.

From: Swenson, Michael
Sent: Thursday, May 31, 2007 11:23 AM
To: Gaddi, Robert; Chin, Edwin; Salem, Deeb

Permanent Subcommittee on Investigations
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Subject: RE: Stark CDO CDS potential trade 5/31

Frankly we believe we are best in class and have numerous data from controllers, collateral posting and markit data (the company not market) that reflect upon this. This process is thoroughly reviewed by all levels of senior management at GS.

However, they are the client and they are allowed to feel that way . . . Unlike other dealers we stand by our marks and are willing to transact in the context of our marks. We are happy to address that if they wish.

We also do not mark our book wide if we are long protection and tight if we are short. we mark to market.

From: Gaddi, Robert
Sent: Thursday, May 31, 2007 12:17 PM
To: Chin, Edwin; Salem, Deeb; Swenson, Michael
Subject: Stark CDO CDS potential trade 5/31

Stark has an interest in looking at this trade; but here is an obstacle that we need to address: They feel Goldman is very inconsistent in the single name HEL CDS marks that we provide them. We are drastically different in marking positions versus other dealers. It is an annoyance that would potentially limit their interest in putting on incremental CDS trades. I can name specific examples if you would like. Please advise.

Goldman, Sachs & Co.
71 South Wacker Drive, Suite 500 Chicago, IL 60606
Tel: 312-655-4895 | Fax: 312-655-5368
e-mail: robert.gaddi@gs.com

Goldman
Sachs

Robert S. Gaddi
Vice President
Fixed Income Currency & Commodities Division

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From: Swenson, Michael
Sent: Thursday, June 07, 2007 9:34 PM
To: Lehman, David A.
Subject: Re: BSAM Post

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No not really

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael
Sent: Thu Jun 07 21:20:03 2007
Subject: Re: BSAM Post

Ur fired up tonight

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Thu Jun 07 21:15:35 2007
Subject: Re: BSAM Post

He is done

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael
Sent: Thu Jun 07 21:13:37 2007
Subject: Re: BSAM Post

I disagree on this one

Let's talk tomorrow

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

Permanent Subcommittee on Investigations
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Report Footnote #1754

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----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Thu Jun 07 21:11:47 2007
Subject: Re: BSAM Post

A lot

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael
Sent: Thu Jun 07 21:10:35 2007
Subject: Re: BSAM Post

How much do u want to mark him by?

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Thu Jun 07 21:09:43 2007
Subject: Re: BSAM Post

We need to mark him he is the biggest elephant by far and it has an impact on the m$arket

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael
Sent: Thu Jun 07 21:07:36 2007
Subject: Re: BSAM Post

Told Egol I'm comfortable w/ the prices, especially when u include the 5 pt HC

Don't think marling him down 1 or 2 pts makes sense or sends the right message

I wud run it by Dan and get his take

He already took the riskiest tranche off the line and we just have the 60-80 and 80-90 tranche

If Sparks feels like u and Egol I wud go for it, but my opinion is that the Firm is appropriatley protected w/ current HC and mark

---

David A. Lehman
Goldman, Sachs & Co.

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85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

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----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Thu Jun 07 20:59:12 2007
Subject: Fw: BSAM Post

I am on the same pageas egol we nEed to mark hinm

----- Original Message -----
From: Mullen, Donald
To: Swenson, Michael; Lehman, David A.
Sent: Thu Jun 07 20:52:43 2007
Subject: Fw: BSAM Post

Fyi

----- Original Message -----
From: Ouderkirk, Gerald
To: Mullen, Donald; Roberts, William; Brafman, Lester R
Cc: Davilman, Andrew
Sent: Thu Jun 07 17:44:11 2007
Subject: BSAM Post

Got an incoming from BSAM today via Davilman. It sounds like given the noise around his fund and the requests for redemptions, he would be open to entertaining bids on select positions in his portfolio. He sent over a list of holdings in his two funds: High Grade Structured Credit Strategies & High Grade Structured Credit Strategies Enhanced Leverage. The 'Structured Credit' portion of these fund names is a bit of a misnomer given they contain almost entirely ABS CDO positions. A brief look at the credit positions in these two funds indicate that they are below average at best; lots of Highland, some Mariner, hardly any super senior and quite a few middle market exposures. In total these two portfolios add up to roughly 17bil in total exposure after leverage. It goes without saying that if this portfolio were to be released into the market the implications would be pretty severe. While we think that this is a very low probability given he has been granted a freeze on redemptions, it is clear that about 30% of his investors want out. His plan is to commence a controlled sell-down to lower leverage and cash people out slowly. He feels given his redemption freeze, he will not be a forced seller. We are going to try to show a handful of bids in on his CLO line items to test willingness to sell and curry some good favor. We should know a lot more once we see his response to our bids. Will keep you all posted.
-Jerry

Jerry Ouderkirk
Goldman, Sachs & Co.
Secondary CDO & Cat Bond Trading
One New York Plaza, 50th Floor
New York, NY 10004

Tel: (212) 902-8140
Fax: (212) 428-3341

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From: Chin, Edwin
Sent: Thursday, June 07, 2007 9:49 AM
To: Swenson, Michael; Salem, Deeb
Subject: RE:

I had drinks with PK at ellington yesterday and he is looking to add at least about $500MM of BBB risk in the near term. I mentioned there was a hedge fund on the side and he was very axed to do something. He is also axed to sell protecton on dicey single-A names.

-----Original Message-----
From: Swenson, Michael
Sent: Thursday, June 07, 2007 9:34 AM
To: Salem, Deeb; Chin, Edwin
Subject: RE:

We need to be careful

-----Original Message-----
From: Salem, Deeb
Sent: Thursday, June 07, 2007 9:30 AM
To: Swenson, Michael; Chin, Edwin
Subject: Re:

Should we also send an email to select sales people in the mtg salesforce saying that we r looking to buy a block of single name protection vs a cdo OUT OF COMP? Its a no lose situation...either we get some sn protection that we want or we gave these guys a chance and nobody can say we aren't working with them
---
Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Swenson, Michael
To: Salem, Deeb; Chin, Edwin
Sent: Thu Jun 07 09:05:43 2007
Subject: RE:

Great idea

-----Original Message-----
From: Salem, Deeb
Sent: Thursday, June 07, 2007 9:04 AM
To: Swenson, Michael; Chin, Edwin
Subject:

We need to go to magnetar and see if we can buy a bunch of the cdo protection. Nice thing about it is that they have low cpn trades that we can step into.

Can tell them we have a protection buyer, who is looking to get into this trade now that spreads have tightened back in
---
Sent from my BlackBerry Wireless Device

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Report Footnote #1755

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From: Swenson, Michael
Sent: Friday, June 08, 2007 11:09 AM
To: Case, Benjamin; Chin, Edwin; Salem, Deeb
Subject: RE: CDO CDS protection offers

Want to slow down on cdo protection offers

From: Case, Benjamin
Sent: Wednesday, June 06, 2007 6:14 PM
To: Chin, Edwin; Salem, Deeb; Swenson, Michael
Subject: CDO CDS protection offers

Here's what I'm thinking for offers for protection for Fortis (who said they want to buy protection on names like Cairn Mezz, Sherwood, and Glacier in the 700-800 range) and Pardus (new to the CDO market and likes the idea of seeing a slice of protection from our book as a package) -- you guys ok with this?

25 names, 5mm a name, offer protection as a package at +750. Can kick out up to 3 names if they want and keep the same level on the package.

TOPG 2006-2A B
BFCGE 2006-1A A3L
CRNMZ 2006-2A C
SHERW 2005-2A C
IXCBO 2006-2A C
MNPT 2006-2A A4
CAMBR 6A D
PINEM 2006-AA C
DUKEF 2006-10A A3
TOURM 2006-2A D
GEMST 2005-3A C
CRNMZ 2006-1A 5
BFCSL 2006-1A D
TOPG 2005-1A B
GSCSF 2006-1A B
DUKEF 2005-9A A3V
HGCDO 2006-1A C
SHERW 2006-3A A3 (this name only for Fortis since they specifically asked for it, not for others)
ALPHA 2007-1A 5
FTDRB 2005-1A A3L
RIVER 2005-1A C
LHILL 2006-1A A3
BARM 2006-1A C
GLCR 2006-4A C
BWIC 2006-1A C

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Report Footnote #1759

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From: Swenson, Michael
Sent: Sunday, June 10, 2007 3:56 PM
To: Salem, Deeb; Bhavsar, Avanish R; Chin, Edwin
Subject: Re: CDS on CDOs

Really don't want to offer any

----- Original Message -----
From: Salem, Deeb
To: Bhavsar, Avanish R; Chin, Edwin; Swenson, Michael
Sent: Sun Jun 10 13:21:03 2007
Subject: Re: CDS on CDOs

Not sure if we have any to offer any more. Let's discuss monday
---
Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Bhavsar, Avanish R
To: Salem, Deeb; Chin, Edwin
Sent: Sun Jun 10 12:07:08 2007
Subject: Fw: CDS on CDOs

Can I get levels gor chad thx

----- Original Message -----
From: C. Klinghoffer <cklinghoffer@glenviewcapital.com>
To: Bhavsar, Avanish R
Sent: Sun Jun 10 12:05:58 2007
Subject: Re: CDS on CDOs

<<Glenview_Disclaimer.txt>>
K thanks

----- Original Message -----
From: Bhavsar, Avanish R <avanish.bhavsar@gs.com>
To: C. Klinghoffer
Sent: Sun Jun 10 12:02:51 2007
Subject: Re: CDS on CDOs

I can get mon, range 6-900 roughly

----- Original Message -----
From: C. Klinghoffer <cklinghoffer@glenviewcapital.com>
To: Bhavsar, Avanish R
Sent: Sat Jun 09 18:59:08 2007
Subject: RE: CDS on CDOs

hey av, what levels are these at?

From: Bhavsar, Avanish R [mailto:avanish.bhavsar@gs.com]
Sent: Thursday, June 07, 2007 3:10 PM
To: C. Klinghoffer
Subject: CDS on CDOs

Deal Name Tranche Rating

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BFCGE 2006-1A	A3L	A
BWIC 2006-1A	C	A
CAMBR 6A	D	A
CBCL 15A	C	A
CBCL 16A	C	A
CRNMZ 2006-1A	5	A
CRNMZ 2006-2A	C	A
DUKEF 2006-10A	A3	A
ETRD 2006-5A	A3	A
GEMST 2005-3A	C	A
GLCR 2006-4A	C	A
HGCDO 2006-1A	C	A
HLCDO 2006-1A	C	A
ICM 2005-2A	C	A
IXCBO 2006-2A	C	A
LRDG 2006-1A	C	A
PINEM 2006-AA	C	A
RIVER 2005-1A	C	A
SHERW 2005-2A	C	A
SMSTR 2005-1A	B	A
TOPG 2006-2A	B	A
TOURM 2006-2A	D	A
ALPHA 2007-1A	3	AA
ACCDO 10A	B	AA
CAMBR 5A	A3	AA
CBCL 15A	B	AA
DUKEF 2006-12A	A2	AA
SHERW 2005-2A	B	AA
TOURM 2005-1A	III	AA

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Avanish R. Bhavsar
Managing Director
Capital Structure Sales
Securities Divison

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 357-8405 | Cell: 917-[redacted]
e-mail: avanish.bhavsar@gs.com

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From: Salem, Deeb
Sent: Wednesday, June 13, 2007 9:59 AM
To: Case, Benjamin; Chin, Edwin; Swenson, Michael
Subject: RE: CDO protection

too late!

From: Case, Benjamin
Sent: Wednesday, June 13, 2007 9:58 AM
To: Chin, Edwin; Salem, Deeb; Swenson, Michael
Subject: FW: CDO protection

From: Cagnassola, Michael
Sent: Wednesday, June 13, 2007 9:50 AM
To: Case, Benjamin
Cc: Hancock, Samuel; Cagnassola, Michael
Subject: CDO protection

Dwight is looking to buy protection on cdos
AA or A tranche
>5% seconds
High ltv

Michael A. Cagnassola
Goldman Sachs & Co
Mortgage Sales
212-902-4570
800-242-4796
212-902-0686 Fax
michael.cagnassola@gs.com

Permanent Subcommittee on Investigations
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Report Footnote #1762

From: Babikian, Aram
Sent: Tuesday, June 12, 2007 6:06 PM
To: Salem, Deeb; Davilman, Andrew; Swenson, Michael; ficc-abs-desk; Nehushtan, Liran
Cc: ficc-valuations-ny; Fan, Ronald; Lin, Jennifer C. (NY); Fredman, Sheara; Fortunato, Salvatore
Subject: RE: Please advise- Client challenging marks

CC'ing controllers

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From: Salem, Deeb
Sent: Tuesday, June 12, 2007 6:05 PM
To: Babikian, Aram; Davilman, Andrew; Swenson, Michael; ficc-abs-desk; Nehushtan, Liran
Cc: ficc-valuations-ny; Fan, Ronald; Lin, Jennifer C. (NY)
Subject: RE: Please advise- Client challenging marks

marks should come thru in the reports being generated tonight

From: Babikian, Aram
Sent: Tuesday, June 12, 2007 6:04 PM
To: Davilman, Andrew; Swenson, Michael; ficc-abs-desk; Nehushtan, Liran
Cc: ficc-valuations-ny; Fan, Ronald; Lin, Jennifer C. (NY)
Subject: RE: Please advise- Client challenging marks

Michael,

Has the system been updated with the new marks?

Regards,
Aram

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From: Davilman, Andrew
Sent: Tuesday, June 12, 2007 12:39 PM
To: Babikian, Aram; Swenson, Michael; ficc-abs-desk; Nehushtan, Liran
Cc: ficc-valuations-ny; Fan, Ronald; Lin, Jennifer C. (NY)
Subject: RE: Please advise- Client challenging marks

will these updated marks go out to the client?

From: Babikian, Aram
Sent: Monday, June 11, 2007 3:06 PM
To: Swenson, Michael; ficc-abs-desk; Davilman, Andrew
Cc: ficc-valuations-ny; Fan, Ronald; Lin, Jennifer C. (NY)
Subject: RE: Please advise- Client challenging marks

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1763

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Michael,

Thank you very much.

--CC'ing compliance--

Jennifer,

Please be advised that GS needs to change their marks on the below trades due to a price disagreement.

Trading has agreed to change below marks in yellow.

Please approve.

GS Reference #	Product Type	B/S	Credit Market/Ref Ob	CUSIP	Cur
SDB981728144	Mtg Default Swap	Buy	FHLT 2005-1 M9 / FRHE0501 M9	35729PJK7	USD
SDB981024636.1	Mtg Default Swap	Buy	FHLT 2005-B M10 / FRHE05B M10	35729PKE9	USD
SDB981644490.0	Mtg Default Swap	Buy	MABS 2005-NC2 M9 / MABS05N2 M9	57643LMY9	USD
SDB981644493.1	Mtg Default Swap	Buy	MABS 2006-NC1 M9 / MAB06NC1 M9	57643LNQ5	USD

New marks per GS trading desk:

```
FHLT 05-1 M9      +547    will change to +750
FHLT 05-B M10     +747    will change to +950
MABS 05-NC2 M9    +565    on 5/17 this traded at +480   - mark will be
480 as it was unchanged after 5/17
MABS 06-NC1 M9    +1001   offered at +1150 on 5/30 we did not trade or
cover - mark will be 1150 since it was unchanged.
```

Thank you very much.

Regards,
Aram

From: Swenson, Michael
Sent: Monday, June 11, 2007 2:14 PM
To: Swenson, Michael; Babikian, Aram; ficc-abs-desk; Davilman, Andrew
Cc: ficc-valuations-ny
Subject: RE: Please advise- Client challenging marks

```
FHLT 05-1 M9      +547    will change to +750
FHLT 05-B M10     +747    will change to +950
```

From: Swenson, Michael
Sent: Monday, June 11, 2007 1:04 PM
To: Babikian, Aram; ficc-abs-desk; Davilman, Andrew
Cc: ficc-valuations-ny
Subject: RE: Please advise- Client challenging marks

```
FHLT 05-1 M9      +547     we will be
back to you
FHLT 05-B M10     +747     we will be
back to you
MABS 05-NC2 M9    +565     on 5/17 this
traded at +480
MABS 06-NC1 M9    +1001    offered at
+1150 on 5/30 we did not trade or cover
```

From: Babikian, Aram
Sent: Monday, June 11, 2007 12:51 PM
To: ficc-abs-desk
Cc: ficc-valuations-ny
Subject: Please advise- Client challenging marks

GS Reference #	Product Type	B/S	Credit I
SDB981728144	Mtg Default Swap	Buy	FHLT 2(M9
SDB981024636.1	Mtg Default Swap	Buy	FHLT 2(M10
SDB981644490.0	Mtg Default Swap	Buy	MABS 2 MABS0
SDB981644493.1	Mtg Default Swap	Buy	MABS 2 MAB06I

Team,

We show the above marks for COB 31MAY2007. The client has comeback to us and has challenged the marks. Do you stand by the above or is the system incorrect?

Thank you.

Regards,
Aram

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From: Swenson, Michael
Sent: Tuesday, June 12, 2007 12:26 PM
To: Salem, Deeb
Subject: FW: CDS

I tild him 4:15 be ready

From: Mazumdar, Sanjay
Sent: Tuesday, June 12, 2007 12:10 PM
To: Swenson, Michael
Cc: Fortunato, Salvatore
Subject: CDS

Mike-

Given recent gyrations in the ABX and CDS markets when can I come by to discuss how you are marking the book tonight.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1764

Confidential Treatment Requested by Goldma

From: Swenson, Michael
Sent: Tuesday, June 19, 2007 6:26 PM
To: Fortunato, Salvatore
Subject: Re: A3 subprime bonds in transition account

Tier 4 bonds talk with deeb

----- Original Message -----
From: Fortunato, Salvatore
To: Swenson, Michael
Sent: Tue Jun 19 18:20:06 2007
Subject: RE: A3 subprime bonds in transition account

Mike,

These levels look quite wide. Do you have any specific market color that points in this direction?

From: Swenson, Michael
Sent: Tuesday, June 19, 2007 6:02 PM
To: Fortunato, Salvatore; Fredman, Sheara
Cc: Swenson, Michael; Lehman, David A.
Subject: A3 subprime bonds in transition account

fyi

<< File: Book1.xls >>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1765

Confidential Treatment Requested by Gold

From: Egol, Jonathan
Sent: Friday, June 08, 2007 3:46 PM
To: Sparks, Daniel L
Cc: Swenson, Michael; Lehman, David A.; Brafman, Lester R; Egol, Jonathan
Subject: BSAM mark recap

We lowered the marks on 4 bonds down 2 pts each:

TWOLF 071 A1B 98 (from 100), BSAM has $200mm
TWOLF 071 A1C 95 (from 97), BSAM has $100mm
OCTANS 062 A3A 90 (from 92) -- not sold to them by GS but moved $40mm onto our line
ABACUS 06HG1A AMSS 85 (from 87), BSAM has $135mm

I talked to Saunders re: rationale for these mark changes, can post you live if there are any questions.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman Sachs

Jonathan M. Egol
Structured Products Trading

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Report Footnote #1770

From: Egol, Jonathan
Sent: Thursday, June 07, 2007 11:00 AM
To: Sparks, Daniel L
Subject: FW:

Attachments: Book12.xls

GS exposure to BSAM as of today. ABACUS mark corrected to 87 handle.

From: Malloy, Breanne
Sent: Thursday, June 07, 2007 11:00 AM
To: Tourre, Fabrice; Egol, Jonathan; Case, Benjamin
Cc: Davilman, Andrew
Subject:



Book12.xls

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1770

Confidential Treatment Requested by Gold

From: Williams, Geoffrey
Sent: Tuesday, June 12, 2007 6:39 AM
To: Sparks, Daniel L
Subject: Re: BSAM Exposure Summary

Marks for everything but the correlation positions are taken from work egol did last thurs. Correlation marks are as of friday's cob.

----- Original Message -----
From: Sparks, Daniel L
To: Williams, Geoffrey
Sent: Mon Jun 11 22:51:22 2007
Subject: RE: BSAM Exposure Summary

Marks look stale

From: Williams, Geoffrey
Sent: Monday, June 11, 2007 10:20 PM
To: Sparks, Daniel L
Cc: Swenson, Michael; Birnbaum, Josh; Lehman, David A.; Salem, Deeb; Egol, Jonathan; Kaufman, Jordan
Subject: BSAM Exposure Summary

Dan -- the attached spreadsheet summarizes all non-corporate cash/synthetic positions that BSAM's two high grade funds currently have on with GS either directly or through the repo desk. The spreadsheet also includes a separate tab which details each of the 225 individual positions (of which 86 are corporate related). Let us know if you have any questions or would like to see any additional analysis.

<< File: BSAM Exposure 20070611.xls >>

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 357-0818 | Fax: (212) 493-9565
e-mail: geoffrey.williams@gs.com

Goldman
Sachs

Geoff Williams
Structured Products Trading

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Report Footnote #1770

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GS MBS-E-010798675

From: Young, Greg
Sent: Tuesday, June 12, 2007 7:08 PM
To: Broderick, Craig
Subject: BSAM Bullet Points

BSAM Bullet Points

Last week, GS learned that BSAM High Grade Structured Credit Strategies Enhanced Leverage Master Fund suspended redemptions at the end of February. The redemption requests at that time totaled $250mm.

The fund strategy is essentially a 'carry book', trading primarily AAA and AA CDOs.

GS positions with the fund include mainly repo and CDS. We have 6-month committed financing with the fund via our Repos (a large part of the book). We committed to the 6-month financing b/c the deals financed were Goldman deals.

The fund is primarily long CDOs via repo ($330mm of $425mm)
The fund is somewhat short CDOs via the CDS book ($194mm of $1,089mm)

GS has similar positions with the High Grade Structured Credit Strategies Master Fund.

BSAM is currently in the process of restating their performance figures for April, from down 5% to down 10%. This was due to many dealers changing the way they are marking their Repo positions. They said performance rebounded in May, being up 1.75%, so YTD performance should be roughly -14% as the end of May.

The GS Repo desk re-marked positions on Thursday. Collateral calls of $13mm were sent and paid that afternoon.

BSAM also met calls on Friday.

On Monday, calls of $6.8 mm were issued to the Enhanced Fund. $2.4mm of this was not met. The portion not met was associated primarily with the remarking of two CDOs (Abacus and "Octan" - not sure of the spelling on the second)

In conversations on Monday with the PM, Ralph Cioffi, GS learned the following

The fund had approximately $36mm of cash and $66mm of liquid securities.
The fund had over $60mm of calls on Monday, but that the majority of the calls had been extended
The fund hoped to organize a meeting of its 17 or so repo dealers to arrange a period of forbearance for 8 weeks while it liquidated assets
The fund hoped to raise an incremental $200mm through liquidations
BSAM reported NAV of $991mm, Total balance sheet assets of $6.3 Bn

An additional call of $1mm was issued on Tuesday morning, for a total call of $3.45 for Enhanced (and also total $2.3mm for Master)

The fund met the call in full at approximately 5:00 pm on Tuesday evening.

On Tuesday, GS discovered an incremental $4.7mm in collateral relating to CDS that should be called from the Enhanced fund (and an incremental $2.9mm from Master Fund). This amount will be incorporated into Wednesday morning's call. The incremental margin call should be less than this amount because before giving effect to this change, GS was holding excess collateral.

For both repo and CDS business, GS is currently fully collateralized. Open collateral calls are related to replenishing the maintenance margin. In all cases, initial margin / haircut exceeds the margin calls.

Settlement fails: both funds did fail to pay yesterday on a number of CD trades which is quite unusual **(12 fails** opened yesterday for two counterparties who have a total of 30 outstanding for CDs). They do have until 5:45 today to send payments. As of 5 pm, Treasury has not received anything. No fails are currently outstanding for other product areas or regions. Amounts are approximately $110,000 for the Enhanced fund and $45,000 for the Master Fund.

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BSAM is implementing a voluntary liquidation of [Warehouse facility? Still checking with Davilman]. BSAM believes it will free up $135-140mm of liquidity they had posted as haircut. Bids are due Thursday 10am. Settlement will be either T+3 or T+4. They need to work the settlement date out with Dresdner. They will sell bonds before Thursday if their reserves are met.

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Monday, June 25, 2007 7:37 AM
To: Sparks, Daniel L
Subject: FW: BSAM Repo Summary

He loves it

From: Montag, Tom
Sent: Monday, June 25, 2007 7:37 AM
To: Lehman, David A.
Subject: RE: BSAM Repo Summary

thanks--timberwolf outlook?

From: Lehman, David A.
Sent: Monday, June 25, 2007 7:17 AM
To: Lehman, David A.; Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael
Subject: RE: BSAM Repo Summary

Pls find an updated version of the BSAM repo summary

Some of the GS buy prices in the previous sheet were incorrect (too low)

Everything else is the same

Trading P+L (excluding correlation collapse) is +1.4mm

<< File: BSAM Repo Summary.xls >>

From: Lehman, David A.
Sent: Friday, June 22, 2007 5:03 PM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael
Subject: BSAM Repo Summary

GS purchased ~664mm (9 line items) from BSAM

We have re-traded ~217mm (3 line items) and collapsed 135mm (1 line item) into our correlation book

Trading P+L (excluding correlation collapse) is +2mm

GS currently owns $311mm bonds, $300mm of which are TWOLF A1B and A1C

Details attached

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1770

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CUSIP	Product Description	Buy Price	Sell Price	BSAM Repo Position	GS Current Position	Security Type	Rating
002561AF5	ABACUS 06HGS1 AMSS 144A 3(C)7	77.00	N/A**	135,000,000	-	CDO	AAA/Aaa

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88714PAC0	TWOLF 0701 A1B 144A 3(C)7 - RE	96.00		200,000,000	200,000,000	CDO	AAA/Aaa
88714PAD8	TWOLF 0701 A1C 144A 3(C)7 - RE	90.00		100,000,000	100,000,000	CDO	AAA/Aaa
Total				664,126,590	311,852,000		

** ABACUS deal was collapsed into the correlation book

CUSIP	Product Description	Buy Price	Sell Price	BSAM Repo Position	GS Current Position	Security Type	Rating
002561AF5	ABACUS 06HGS1 AMSS 144A 3(C)7	78.00	N/A**	135,000,000	-	CDO	AAA/Aaa
88714PAC0	TWOLF 0701 A1B 144A 3(C)7 - RE	95.00		200,000,000	200,000,000	CDO	AAA/Aaa
88714PAD8	TWOLF 0701 A1C 144A 3(C)7 - RE	89.00		100,000,000	100,000,000	CDO	AAA/Aaa
Total				664,126,590	311,852,000		

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** ABACUS deal was collapsed into the correlation book

Permanent Subcommittee on Investigations
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Original document retained in the Subcommittee files.

From: Lehman, David A.
Sent: Monday, June 18, 2007 9:33 PM
To: Egol, Jonathan
Subject: FW: Today's Bear Stearns Prices

Attachments: BEAREXP.xls

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From: Loftus, Colleen
Sent: Monday, June 18, 2007 7:11 PM
To: Cafagna, Francesco; Ryan, Brendan F; Reinhart, Erik
Cc: Piliego, Louis; Swann, Brian; Cameron, Patrick; Malloy, Breanne; Camacho, Robert; ficc-ops-repopricing; ficc-rcs-ny; Fong, Matthew A.; Sourov, Kroum R.; Chin, Edwin; Case, Benjamin; Tourre, Fabrice; Mullen, Donald; Sparks, Daniel L; Brafman, Lester R; Swenson, Michael; Lehman, David A.; Surur, Paul R; Pradet, Steven; Godfrey, John
Subject: Today's Bear Stearns Prices

Good Afternoon,

We have received the following prices for today. Please advise if you do not agree with any of the prices listed below.

CUSIP	Product Description	Price as of 6/15	Price as of 6/18	Trader
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
002561AF5	ABAC 2006-HG1A AMSS	81	78	Fabrice Tourre
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
88714PAC0	TWOLF 2007-1A A1B	96	95	Ben Case
88714PAD8	TWOLF 2007-1A A1C	91	89	Ben Case

Current Exposure:

**** Please note this is a rough calculation. Prices have been adjusted. This calculation does not include the adjusted accrued coupon amount or overnight interest.**

BEAR STEARNS HIGH GRADE STRUCTURED CRED STRAT MASTER FD LTD: GS can mark Bear $4,041,819
BEAR STEARNS HIGH-GRADE STRC CR STRT ENHN LEVG MST FD, LTD: GS can mark Bear $18,683,235

BEAREXP.xls

BEAR STEARNS HIGH-GRADE STRC CR STRT ENHN LEVG MST FD, LTD.

Notional (Loan Amt. + Accrued Interest) = $404,038,103
Security Value = $405,636,702
Haircut = 5%
Haircut Cushion = $20,281,835
MTM = $18,683,235

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1770

Exposure Net of Collateral = $1,598,599 in GS' favor

BEAR STEARNS HIGH GRADE STRUCTURED CRED STRAT MASTER FD LTD .

Notional (Loan Amt. + Accrued Interest) = $190,774,530
Security Value = $196,560,748
Haircut = 5%
Haircut Cushion = $9,828,037
MTM = $4,041,819
Exposure Net of Collateral = $5,786,218 in GS' favor

Thank you,
Colleen

Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Wednesday, June 27, 2007 10:01 AM
To: Viniar, David
Subject: CDO^2's

Attachments: SP CDO MTM - 6-25.xls

Below is an update of CDO^2 retained positions that we had the primary valuation discussions on. We included CDS protection buys as sales.

Bond	End May (MM)	6/27/07 (MM)	Sales (MM)	Current Price	Current Mkt Value
Point Pleasant Jr AAA front class	127	107	(20)	87	93
Point Pleasant Jr AAA second class	35	35		76	27
Point Pleasant AA	50	50		60	30
Point Pleasant A	10	10		54	5
Point Pleasant BBB	3	3		50	2
Point Pleasant Equity	10	10		71	7
Timberwolf Jr AAA (20-50 attachment)	245	99	(146)	75	74
Timberwolf AA	107	57	(50)	66	38
Total	588	372	(216)		276
Bought from BSAM					
Timberwolf Super Sr AAA (70-90 attachment)		200		96	192
Timberwolf Super Sr AAA (60-70 attachment)		100		90	90
		300			282

Below is the spreadsheet with some minor revisions of the print-out I gave you today.

From: Lehman, David A.
Sent: Wednesday, June 27, 2007 9:18 AM
To: Salame, Pablo
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Brafman, Lester R
Subject: CDO MTM spreadsheet from 6/25

As per Lester, pls find the attached detail on the SP CDO MTM that was put through on Monday

SP CDO MTM - 6-25.xls

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Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

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Report Footnote #1770

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David Lehman
Fixed Income, Currency & Commodities

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P+L from CDO cash and CDS re-mark

	($mm)
ABS Trading	
Cash	(7)
CDS	92
Correlation Trading (CDS)	23
CMBS Trading (CDS)	4
Total - SPG Trading	**111**
CDO Retained and WH	
CDO Retained Cash	(63)
CDO Retained CDO^2	(22)
CDO Retained CDS (longs)	(18)
CDO Retained CDS (hedges)	17
Total - CDO Retained and WH	**(86)**
TOTAL - Mtg Dept	**25**

GS MBS-E-009747489

Bond	C/F (MM)	Old Price	New Price		P&L
PTPLS 0701 A1 144A	107.47	90.00	87.00	3.00	(3.22)
PTPLS 0701 A2 144A	35.00	82.50	76.00	6.50	(2.28)
PTPLS 0701 B 144A	50.00	65.00	60.00	5.00	(2.50)
PTPLS 0701 C 144A	3.90	54.00	54.00	-	-
PTPLS 0701 C REGS	6.20	54.00	54.00	-	-
PTPLS 0701 D REGS	3.00	48.00	50.00	(2.00)	0.06
PTPLS 0701 INCOME NOTES REGS	10.09	71.00	71.00	-	-
TWOLF 0701 A1B 144A	200.00	96.00	96.00	-	-
TWOLF 0701 A1C 144A	100.00	90.00	90.00	-	-
TWOLF 0701 A2 144A	149.00	82.00	75.00	7.00	(10.43)
TWOLF 0701 B 144A	107.00	69.25	66.00	3.25	(3.48)
CDS TWOLF 0701 A2 144A	(50.00)	84.00	77.00	7.00	N/A
CDS TWOLF 0701 B 144A	(50.00)	78.00	71.00	7.00	N/A
Total					(21.85)

From: Lee, Jay
Sent: Friday, June 08, 2007 6:14 AM
To: Sparks, Daniel L
Cc: Bohra, Bunty
Subject: FW: Heads up -- rates market volatile

FYI -- I have been trying to reach the cellphones of people in risk-taking roles about the unprecedented overnight market volatility. Given rates volatility (10yrs currently off 14bp, curve 11bp steeper, swap spreads 3-4bp wider) and widening of corporates spreads, it probably makes sense for Passthrough, CMO, and ABX traders to come in early. Much of IRP is already in the office.

From: Lee, Jay
Sent: Friday, June 08, 2007 7:06 PM
To: ficc-spgsyn
Cc: Lehman, David A.; Swenson, Michael; Chin, Edwin; Salem, Deeb; Birnbaum, Josh; Williams, Geoffrey
Subject: Heads up — rates market volatile
Importance: High

When London came in, [redacted] sold off through stop-loss levels and UST sold off in sympathy without any flows. GS isn't seeing anything in [redacted] either. This is the most volatile market move I have ever seen overnight -- we're off 12.5bp from the close and 10bp steeper. 10yr yields are 5.23% (previous day's close was 4.97%). Swap spreads 3-4bp wider on the day, I would price mortgages at least 4-6 wider to swaps, and vol guaranteed to rise. Corporate credit spreads wider as well.

Given recent correlation of risk assume this is not a good sign for RMBS / ABS spreads.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldma

From: Birnbaum, Josh
Sent: Friday, June 08, 2007 11:41 AM
To: [redacted]
Subject: RE: * ABX Markets 07-1, 06-2, 06-1: 11:00am

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Patience, patience. The CDO unwind has only begun.

-----Original Message-----
From: [redacted]
Sent: Friday, June 08, 2007 11:39 AM
To: Birnbaum, Josh
Subject: RE: * ABX Markets 07-1, 06-2, 06-1: 11:00am

These markets are devastating Joshua; my colleagues and I are getting crushed!

-----Original Message-----
From: Birnbaum, Josh [mailto:josh.birnbaum@gs.com]
Sent: Friday, June 08, 2007 11:04 AM
Subject: * ABX Markets 07-1, 06-2, 06-1: 11:00am

ABX.HE.07-1

	Cpn	Price		Ch	Spread	Ch	Size		SpDur
AAA	9	99-05 /	99-29	-0-002	27 / 11	+0.2	50x 50		4.75
AA	15	98-31 /	99-31	-0-003	44 / 16	+0.3	25x 25		3.55
A	64	92-20 /	93-20	-0-125	283 / 254	+11.8	25x 25		3.36
BBB	224	73-04 /	74-04	-0-302	1048 / 1018	+29.0	10x 10		3.26
BBB-	389	65-24 /	66-24	-0-226	1469 / 1438	+22.4	10x 10		3.17

ABX.HE.06-2

	Cpn	Price		Ch	Spread	Ch	Size		SpDur
AAA	11	99-08 /	100-00	0-01+	28 / 11	-1.0	50x 50		4.49
AA	17	99-01 /	100-01	-0-002	48 / 16	+0.3	25x 25		3.09
A	44	95-00 /	96-00	-0-16	211 / 178	+16.7	25x 25		2.99
BBB	133	81-20 /	82-20	-0-096	771 / 736	+10.6	10x 10		2.88
BBB-	242	72-00 /	73-00	-0-117	1249 / 1213	+13.3	10x 10		2.78

ABX.HE.07-1/ABX.HE.06-2 Roll

	Price		Ch	Spread	Ch	Size
AAA	-0-01 /	0-07	0-016	3 / -2	-1.2	50x 50
AA	-0-02 /	0-06	0-001	6 / -1	-0.0	50x 50
A	1-28 /	2-28	-0-033	-59 / -89	+5.0	25x 25
BBB	7-24 /	9-08	0-20+	-256 / -302	-18.4	25x 25
BBB-	5-16 /	7-00	0-107	-199 / -246	-9.1	25x 25

ABX.HE.06-1

	Cpn	Price		Ch	Spread	Ch	Size		SpDur
AAA	18	99-24 /	100-16	0-011	24 / 5	-0.9	50x 50		3.92
AA	32	99-17 /	100-17	-0-002	49 / 13	+0.3	25x 25		2.76
A	54	97-20 /	98-20	-0-113	146 / 108	+13.8	25x 25		2.57
BBB	154	92-20 /	93-20	-0-147	455 / 414	+19.0	10x 10		2.45
BBB-	267	86-16 /	87-16	-0-165	825 / 784	+21.5	10x 10		2.42

**Spreads computed from prices using a weighted average spread duration (generated at the base Bloomberg speed) for all 20 reference obligations in the index.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1773

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Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Tuesday, July 17, 2007 6:34 PM
To: Mullen, Donald; Montag, Tom
Subject: FW: Mortgages Estimate

We moved a significant amount of positions today from origination desks to secondary and took hits related to that. The only positions not moved are Prime Hybrid subs (we will do in next day or 2 and we reserved $5mm for it which should be close to internal transfer cost) and the scratch and dent subs (not currently planning to move for business reasons). Finck did a very good job mediating - Clay and Nestor are very unhappy with me but I have given them months to do this and it was time.

Large move down and visibility in option ARM subs today from bid list that traded poorly.

Gain today in Alt A space as hedge gains had been reserved too much - team understands going forward to flow through vol.

In case you did not see it, BSAM funds returning 9 cents and 0 cents on the dollar in less-levered and more levered funds.

Separately, I really want to speak about Will Roberts and what you think this will achieve that is not either happening or in process - and a little more about me.

From: Bin, Ki-Jun
Sent: Tuesday, July 17, 2007 6:19 PM
To: ficc-eod
Subject: Mortgages Estimate

[redacted] = Redacted by the Permanent Subcommittee on Investigations

FICC Mortgages - Daily P&L Estimate

I. SUMMARY

Structured Products	**(9,415,000)**
- Resi Prime/Mtg Derivs	*(26,750,000)*
- Resi Credit	*5,000,000*
- CRE LT	[redacted]
- ABS L&F	-
- SPG Trading	*15,000,000*
- CDO / CLO	*(5,200,000)*
- Other Structure Products	-
Europe	-
Other (Advisory, PFG, Managers/Other)	-
MORTGAGES	(9,415,000)

Mortgages WTD	28,140,357
Mortgages MTD	(41,586,278)

II. DETAIL

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Wall Street & The Financial Crisis
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Business Strategy	Desk	Daily Total	Comments
STRUCTURED PRODUCTS			
Mortgage Derivative		**250,000**	
	Agency Derivatives	*250,000*	
	Whole Loan Derivs		
	MSR		
Residential Prime		**(27,000,000)**	
	FHA/VA - Primary		
	FHA/VA - Secondary		
	Prime Hybrid - Primary		
	Prime Hybrid - Secondary	*(15,000,000)*	
	Agency Hybrid	*(5,000,000)*	
	Prime Fixed	*(7,000,000)*	**subs transfer/write down**
	Agency CMO - Primary		
	Agency CMO - Secondary		
Residential Credit		**5,000,000**	
	Scratch and Dent	*(6,500,000)*	**ABX AAA tightening**
	Subprime		
	Alt-A	*18,000,000*	**loans & ABX**
	2nd Liens	*(500,000)*	**ABX AAA tightening**
	Subs	*(6,000,000)*	
	Residuals - Scratch & Dent		
	Residuals - Subprime		
	Residuals - Alt-A		
	Residuals - 2nd Liens		
CRE Loan Trading		[redacted]	
	Fixed Large Loan		
	Floater Large Loan		
	Fixed Conduit		
	Transitional Loans		
	CRE CDO		
ABS Loans & Finance			
	Consumer		
	Commercial		
	Europe		
	Warehouse		
SPG Trading		**15,000,000**	
	CMBS Trading	*8,000,000*	**CMBS CDS**
	CRE CDO		
	ABS Trading	*6,000,000*	**ABS CDS**
	Property Derivatives		
	Correlation	*1,000,000*	**ABS CDS, CMBS CDS, New CMBX Tr**
CDO/CLO		**(5,200,000)**	
	ABS / MBS CDO	*(5,200,000)*	**retained debt markdowns/ gain on A**
	GSI SP Credit Warehouse		
	US CLO		
	EURO CLO		
	CRE CDO		

[redacted] Redacted by the Permanent Subcommittee on Investigations

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	Retained Principal Positions	-
Tax Related Securities		
	Non-economic residuals	-
	Economic residuals	-
Warehouse Lending		
	Residential	-
	Commercial	-
	Asset Backed	-
Syndicate		
	ABS	-
	CMBS	-
	CDO	-
	RMBS	-
Other		-
Total Structured Products		(9,415,000)
EUROPE		
Acquisition Finance		
	Syndicate	-
	Trading	-
European CMBS		
	Syndicate	-
	Trading	-
Total Europe		-
Total Advisory		-
Total PFG JV		-
Total Manager's Account / Other		-

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10038
Tel: 212-357-7385
e-mail: ki-jun.bin@gs.com

Goldman Sachs

Ki-Jun Bin
Finance Division

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From: Montag, Tom
Sent: Friday, June 22, 2007 4:32 PM
To: Sparks, Daniel L
Subject: RE: Few trade posts

boy that timeberwof was one shitty deal

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, June 22, 2007 4:30 PM
To: Montag, Tom
Subject: Re: Few trade posts

Yes - main thing left is 300mm timberwolfs Other large positions were tmts - gone, octan - gone, abacus - we will collapse against short There were some small rmbs positions

I will get you a complete summary with details

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Fri Jun 22 16:22:56 2007
Subject: RE: Few trade posts

can I get complete rundown on everything we bought from BSAM and whats left?

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, June 22, 2007 3:00 PM
To: Montag, Tom
Subject: Fw: Few trade posts

----- Original Message -----
From: Lehman, David A.
To: Mullen, Donald; Sparks, Daniel L; Brafman, Lester R
Cc: Swenson, Michael; Birnbaum, Josh
Sent: Fri Jun 22 14:28:20 2007
Subject: Few trade posts

Traded $20mm of the OCTAN 06-2 A3A mezz CDO bonds to Magnetar @ $82....we bot these bonds @ $80 from BSAM...trying to upsize the ticket to 40mm @ $82 which will clean us out...Egol did a great job w/ Magnetar on this one.

Also, we have sold $40mm RMBS A3/A- out of the WH account to MS prop and another $10mm to Ellington.

Only 40mm RMBS A3/A- remain in the WH accounts, 1/2 of which is Long Beach paper - Edwin/Deeb continue to work.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1778

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From: CHARMAINE LEE - GOLDMAN, SACHS & CO. [charmaine.lee@hk.email.gs.com]
Sent: Monday, June 18, 2007 7:12 PM
To: Chin, Edwin
Subject: [BB2Inet Log Message] [3858985629] [Fwd: ABX Open.....Comments on pg 2]

'X-GS-Communications-System' => 'Bloomberg to Internet', 'X-Bloomberg-Original-From' => CLEEE1@bloomberg.net|CHARMAINE LEE|GOLDMAN, SACHS & CO.|3788|, 'X-Bloomberg-Original-To' => EKC9@bloomberg.net|EDWIN CHIN|GOLDMAN, SACHS & CO.|3788|2270779 'X-Bloomberg-Original-Date' => 2007-06-18-19.11.55.000000, 'X-Bloomberg-Original-TimeZone' => 'New York Time',

----- Original Message -----
From: ROBERT LYNN, CREDIT SUISSE SECURI
At: 6/18 13:07:21

---- Original Msg from: TED MORAN, CREDIT SUISSE SECURI At: 6/18 9:06:58

ABX 2007-1	strike	size	bid	offer
ABX.HE.AAA	9	50x50	99-0	100-0
ABX.HE.AA	15	25x25	98-24	99-24
ABX.HE.A	64	25x25	90-0	91-16
ABX.HE.BBB	224	10x10	69-0	71-0
ABX.HE.BBB-	389	10x10	60-0	62-0

ABX 2006-2	strike	size	bid	offer
ABX.HE.AAA	11	50x50	99-0	100-0
ABX.HE.AA	17	25x25	99-0	100-0
ABX.HE.A	44	25x25	92-0	94-24
ABX.HE.BBB	133	10x10	75-0	77-0
ABX.HE.BBB-	242	10x10	66-8	68-8

ABX 2006-1	strike	size	bid	offer
ABX.HE.AAA	18	50x50	99-24	100-10
ABX.HE.AA	32	25x25	99-16	100-8
ABX.HE.A	54	25x25	96-8	98-0
ABX.HE.BBB	154	10x10	90-0	92-0
ABX.HE.BBB-	267	10x10	82-8	84-8

Comments:
Wild ride to close the week on Friday, with the 07-1 bbb- trading thru $60-00 briefly Friday afternoon, and setting a new closing low ($60-30).....the sell off in ABX was precipitated by a rout in TABX 40% - 100% tranche which was rumoured to be related to the BSAM liquidation.....after setting a new trading low we saw significant short covering interest which helped the index to close off its lows.....the BSAM story will dictate the tone in the ABX market in the short term, as a continued liquidation of their holdings will put further downward price pressure on TABX which will then leak into ABX trading

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Wall Street & The Financial Crisis
Report Footnote #1779

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From: rkelly10@bloomberg.net on behalf of RYAN KELLY, GOLDMAN, SACHS & CO. [rkelly10@bloomberg.net]
Sent: Thursday, June 21, 2007 9:35 AM
To: Salem, Deeb
Subject: yo - who the F- is getting short ABX at these levels.

yo - who the F- is getting short ABX at these levels.

Not an offer, recommendation, gen. solicitation or off. confirm of terms. Prepared by Research/Sales/Trading from gen. avail. info believed reliable. No representation of accuracy/completeness is made or that you will achieve returns indicated. Assumption changes may materially impact returns; price/avail. may change w/o notice; past perf. not indicative of future results. GS may have a position in any subject investment. GS PRICING IS PROPRIETARY; YOU AGREE NOT TO DISCLOSE & WE RELY ON THAT AGMT WHEN FURNISHING (FULL TERMS: www.gs.com/disclaimer/pricinginfo). For UK, issued/app. by GS Int'l, reg. by FSA, but not made avail. to priv. cust.

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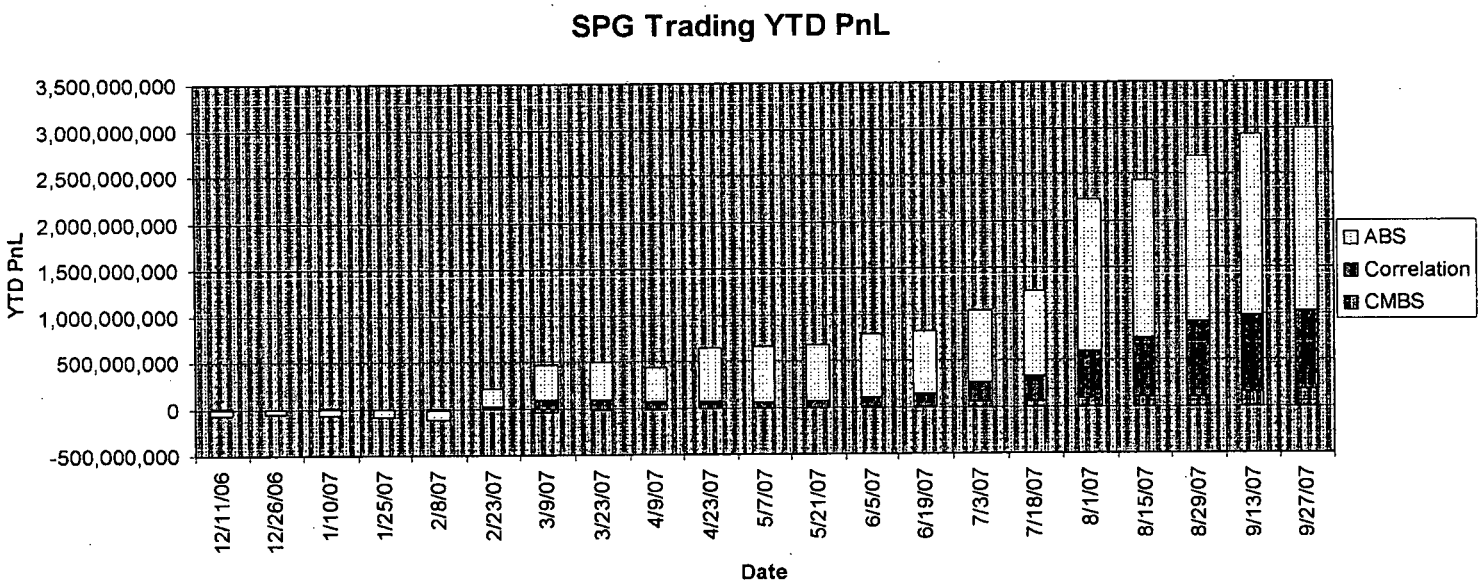
SPG Trading - 2007

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Wall Street & The Financial Crisis
Report Footnote #1781

Highlights: Revenue

- YTD: $3.0Bln, with revenue growing steadily over the year with little fluctuation. RMBS-related revenues: #1 on the street by a wide margin. #2 in the world behind Paulson Partners.



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Highlights: Franchise

- #1 Franchise on the street, perceived as *the* thought leaders by the customer base.
- Largest market share: est 30-40%
- Voted #1 franchise in ABS CDS based on *Risk Magazine* end user survey of institutional investors.

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Highlights: Assumed responsibility for CDOs

- SPG Trading assumed responsibility for the CDO business and risk while the market was collapsing, helping mitigate losses and reduce risk (Warehouse and retained positions) before our competitors.

- Results out of DB, Citi, UBS, Bear, Lehman, etc. all bear evidence that we were far ahead of our competition in marking down positions and moving CDO risk before the market cratered and came to a standstill post-BSAM.

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Potential qualifications

- 1. "2007 was a unique event, desk made money primarily from a single short trade, results not likely to be repeatable."
- 2. "SPG trading would not have been permitted to be as short, if management was not attempting to offset risk in retained longs in other parts of department."
- 3. "Revenue was achieved taking very significant risk. Results less impressive when risk-adjusted."
- 4. "Discussing a HFE (hedge fund equivalent) percentage payout is inappropriate because much of the revenue came from the franchise, i.e. sitting in the seat."
- 5. "Cannot pay SPG trading team based on stand-alone p&l, must consider the results for the entire mortgage department."

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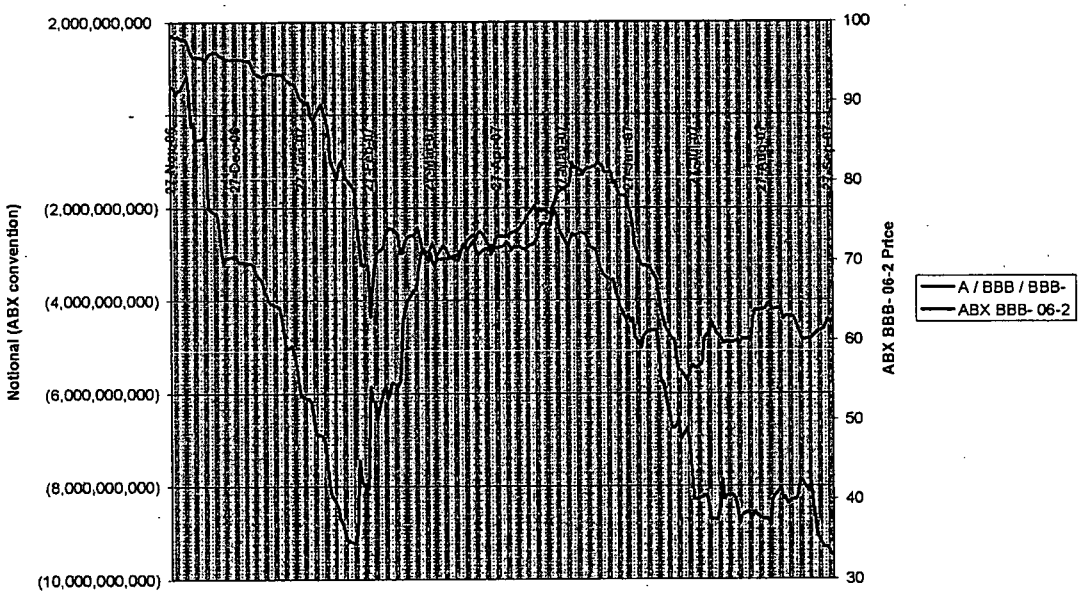
Responses to qualifications

- 1. "2007 was a unique event, desk made money primarily from a single short trade, results not likely to be repeatable."

- FALSE. Revenues in 2007 were diversified across many different strategies (directional both long and short, capital structure, index/SN basis, tiering, ideosyncratic, flow trading). We switched direction several times with well-timed calls relative to subsequent market moves (Graphs #1, #2). Most of these opportunities are in place for 2008. Revenue projection for 2008 is $1.2 Bln reflecting a diverse set of opportunities. The opportunity set is much more than simply buying/trading distressed.

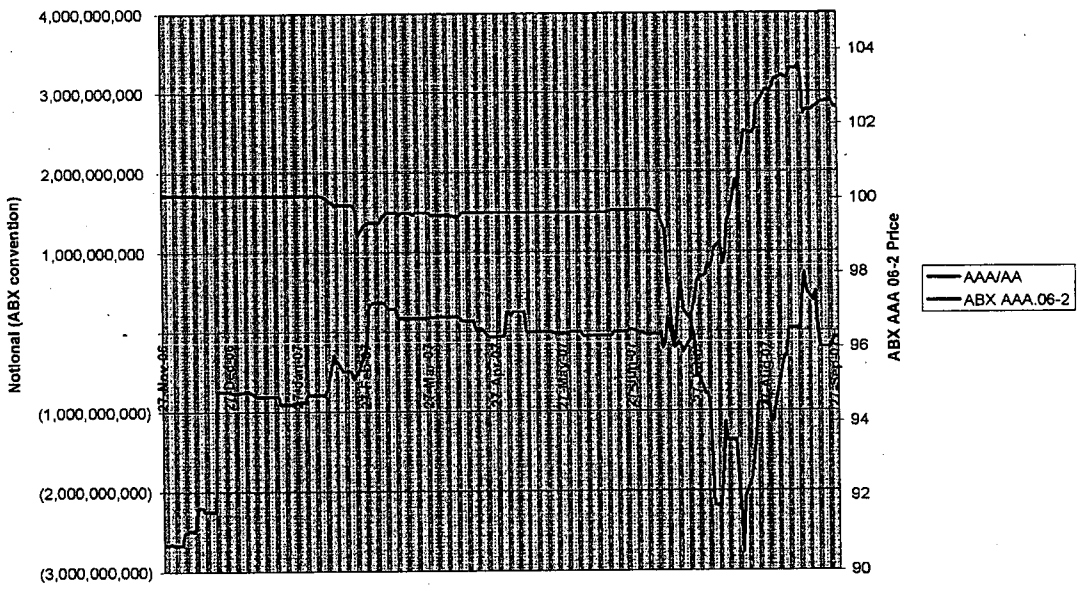
Graph #1

Graph #2: RMBS Subprime Notional History
– Mezzanine / bottom of the capital structure –
(ABS Base Portfolio)



Graph #2

Graph #1: RMBS Subprime Notional History
– Top of the capital structure –
(ABS Base Portfolio)



Responses to qualifications

- 2. "SPG trading would not have been permitted to be as short, if management was not attempting to offset risk in retained longs in other parts of department."

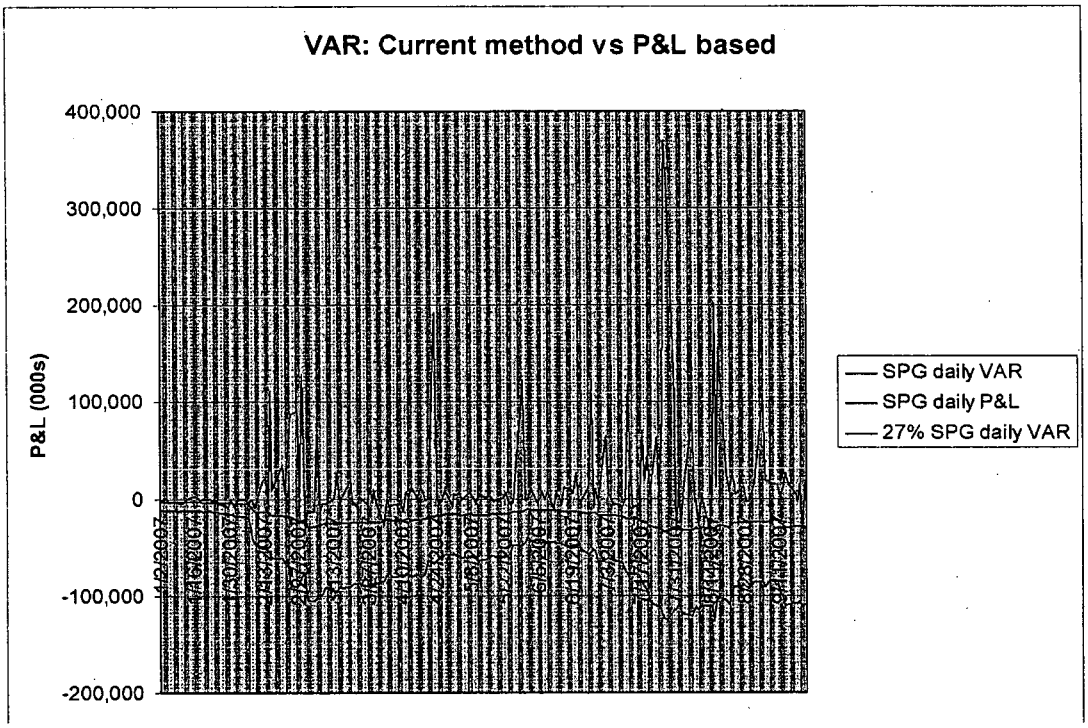
- FALSE. This statement is inconsistent with how the position evolved. By June, all retained CDO and RMBS positions were identified already hedged. As Graph #1 indicates, SPG trading re-initiated shorts post BSAM unwind on an outright basis with no accompanying CDO or RMBS retained position longs. In other words, the shorts *were not a hedge*.

Responses to qualifications

- 3. "Revenue was achieved taking very significant risk. Results less impressive when risk-adjusted."

  FALSE. SPG Trading's largest down day in 2007 was ($38mm) and SPG trading NEVER came close to losing more money than the daily VAR (Graph #2). In fact, to lose more money than the daily VAR 1 out of 20 times, SPG trading reported VAR would have to be 27% of the what has been reported. The ratio of profit / empirical VAR likely higher for SPG Trading than for the firm as a whole.

Graph #3



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Responses to qualifications

- 4. "Discussing a HFE (hedge fund equivalent) percentage payout is inappropriate because much of the revenue came from the franchise, i.e. sitting in the seat."

- FALSE. If the seat is so valuable, why did no other street firm come close to our performance?

Responses to qualifications

- 5. "Cannot pay SPG trading team based on stand-alone p&l, must consider the results for the entire mortgage department."

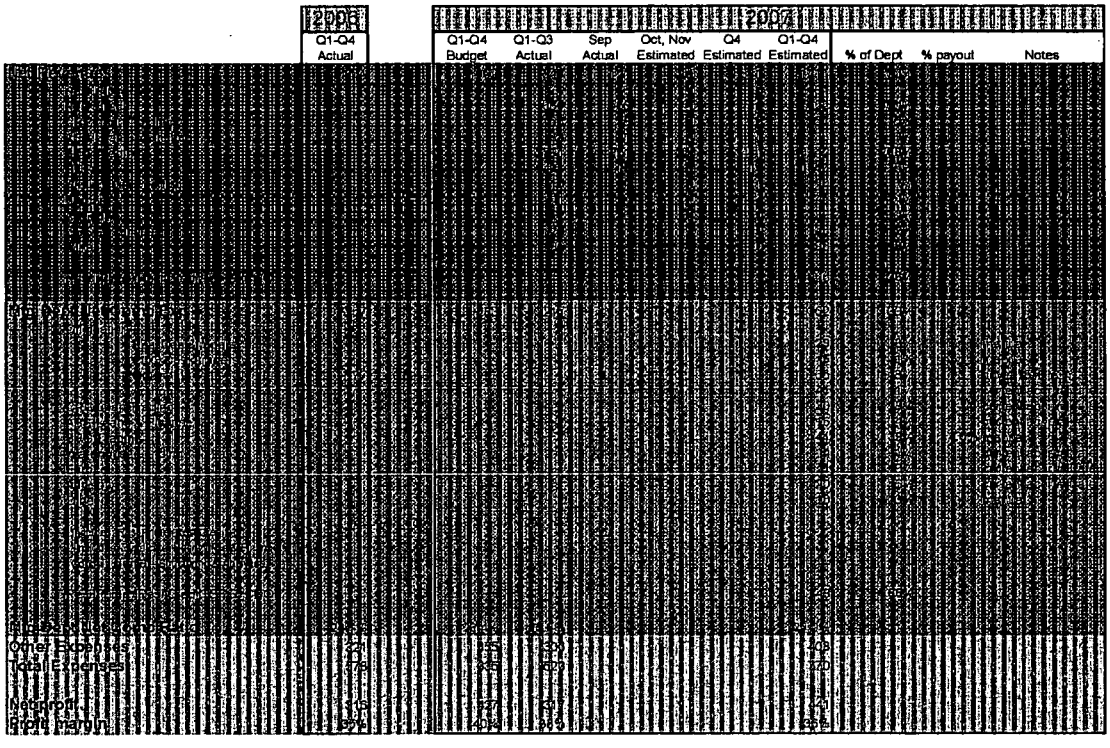
- TRUE. SPG trading recognizes that compensation needs to fit rationally within the confines of the Mortgage Department compensation pool.

Proposed Mortgage Department Compensation Breakdown

- SPG trading accounts for 250%-300% of the department's revenue.
- SPG trading seeks ~150mm total comp pool, or roughly 40%-50% of the estimated department-wide pool.
- 141mm equates to a 4.0% payout on estimated revenues.
- The 4 businesses consisting of SPG Trading, CDOs, Resi Prime, Resi Credit account for 76% of dept revenue. Total proposed compensation for 4 businesses = $240mm = 66% of dept revenue.
- Proposed net profit = $441mm vs $316mm in 2006.
- Proposed net profit margin = 36% vs 35% in 2006.

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Proposed Mortgage Department Compensation Breakdown



From: Birnbaum, Josh
Sent: Tuesday, October 02, 2007 9:28 AM
To: Lehman, David A.
Cc: Swenson, Michael
Subject: RE: SPG Trading - 2007.ppt

I added your bullet and 1 more:

Results out of Citi, UBS, Bear, Lehman, etc. all bear evidence that we were far ahead of our competition in marking down positions and moving CDO risk before the market cratered and came to a standstill post-BSAM.

-----Original Message-----
From: Lehman, David A.
Sent: Monday, October 01, 2007 4:37 PM
To: Birnbaum, Josh
Subject: RE: SPG Trading - 2007.ppt

Note sure if you need the below comments, I think you do just fine by stating "TRUE - SPG trading recognizes that compensation needs to fit rationally within the confines of the Mortgage Department compensation pool."

- members of SPG Trading had no responsibility for the areas which lost money,

- in Feb/Mar, we were shot down when we voiced concern about covering shorts because other areas in the department were longer than reported

- in Feb/Mar, we were told we had enough to worry about and that if the CDO business lost money, it would be the equivalent of a desk in the Equities Division losing money

Also it might help to point out that we assumed responsibility for the CDO business and risk while the market was collapsing, helping mitigate losses and reduce risk (Warehouse and retained positions) before our competitors

-----Original Message-----
From: Birnbaum, Josh
Sent: Monday, October 01, 2007 4:25 PM
To: Lehman, David A.
Subject: SPG Trading - 2007.ppt

Current draft. Handle with care.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1781

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From: Swenson, Michael
Sent: Thursday, October 04, 2007 10:45 AM
To: Lehman, David A.; Birnbaum, Josh
Subject: RE: How's this?

Sounds good

From: Lehman, David A.
Sent: Thursday, October 04, 2007 10:05 AM
To: Birnbaum, Josh; Swenson, Michael
Subject: RE: How's this?

Like it

From: Birnbaum, Josh
Sent: Thursday, October 04, 2007 10:01 AM
To: Swenson, Michael; Lehman, David A.
Subject: How's this?

- 5. "Cannot pay SPG trading team based on stand-alone p&l, must consider the results for the entire Mortgage Department, the Division, and the Firm."

- TRUE. SPG trading recognizes that compensation needs to fit rationally within the compensation pool of the Mortgage Department, the Division, and the Firm. The table on the following page outlines an example of how SPG trading can achieve compensation expectations within a reasonable compensation pool scenario for the Mortgage Department.

Btw, I found another 4mm for SPG, was over-estimating comp-related expenses a bit. I dialed down Oct, Nov p&l from 250 to 233 to make the dept hit exactly $1.2 for year-end.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1781

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From: Swenson, Michael
Sent: Friday, June 29, 2007 3:57 PM
To: Lehman, David A.
Subject: RE: ABS Update

Funds

no

-----Original Message-----
From: Lehman, David A.
Sent: Friday, June 29, 2007 3:31 PM
To: Swenson, Michael
Subject: Re: ABS Update

Funds or dealers?

U out monday?

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-863-4678
e-mail: david.lehman@gs.com

----- Original Message -----
From: Swenson, Michael
To: Lehman, David A.
Sent: Fri Jun 29 15:26:46 2007
Subject: RE: ABS Update

I think we will see 3 to 5 guys go under next week

-----Original Message-----
From: Lehman, David A.
Sent: Friday, June 29, 2007 3:06 PM
To: Swenson, Michael
Subject: Re: ABS Update

Don't worry "bout seating

we r in the middle of a mkt meltdown

David A. Lehman
Goldman, Sachs & Co.

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Wall Street & The Financial Crisis
Report Footnote #1783

Confidential Treatment Requested by Gold

From: Bash-Polley, Stacy
Sent: Saturday, July 28, 2007 3:01 PM
To: Montag, Tom; Sparks, Daniel L; Mullen, Donald
Cc: Schwartz, Harvey
Subject: Fw: Structured Products Weekly Update - 07/27/07(Internal Use Only)

Pretty remarkable week
Some high quality business done with a lot of teamwork bw sales and trading.

----- Original Message -----
From: Radtke, Lorin
To: Montag, Tom; Mullen, Donald; Schwartz, Harvey; Bash-Polley, Stacy; Madoff, Paula; Pinkos, Steve; Kreitman, Gail; Gasvoda, Kevin; Icikson, David; Joseph, Alexandra A.; Kaprelian, Michael
Cc: Radtke, Lorin
Sent: Fri Jul 27 21:15:46 2007
Subject: Structured Products Weekly Update - 07/27/07(Internal Use Only)

Market Update
Week on week move 7/13/07-7/20/07 (4:00 PM):

2yr notes	rallied 24.9bps	
10yr notes	rallied 18.5bps	
10yr spreads	widened 7.9bps	
ABX.07-1 BBB-	widened 151.5bps	(2395.5)
CMBX.3 BBB-	widened 110bps	(555)
TABX 40-100	widened 264bps	(2249.5)
IG8	widened 28bps	(80.5)
LCDX8	widened 109bps	(373)
S&P 500	down 4.91%	(1458.98)
Oil	up $1.49	($77.06)
$/Yen	down 2.63	(118.575)

Themes
Summary:
Whether you remember '94, '98, or '03, the general themes/patterns are consistent. An initial dislocation to the market (in this instance a credit deterioration in sub prime mortgages) acts as a tipping point and leads to spread widening in other sectors. This in turn quickly becomes a liquidity crunch/crisis. It appears that this is where the structured product market is now - searching for liquidity. This has produced numerous capitulation/liquidation situations and forced customers to trade. As evidenced by the highlight trades, sales/trading worked together in getting orders, crossing bonds and moving risk throughout the volatile week. The impact of this week leaves the account base in three camps:

* The Paralyzed - This group is represented by traditional Money Managers and like accounts that have to manage their own customers and are spending a lot of time trying to explain performance. They want to buy but are fighting fires and need to put them out first.
* The Wounded(some fatally) - Hedge funds on the wrong side of the trade and getting hit hard on financing,marks, and margin calls. CDO managers have/will start to disappear.
* The Opportunistic - Hedge Funds, Prop desk, Insurance Cos, and Money Managers with dry powder. This group was on the right side of this move and is trading(at least trying to). A portion of this group hasn't played in subprime or CDOs in years. They are returning to look and selectively buy….very cautious because they believe more widening to come.

What next week will bring: The watch words for next week will be month end marks….and the impact on customers.

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From: Sparks, Daniel L
Sent: Saturday, August 11, 2007 3:41 PM
To: Montag, Tom; Lehman, David A.; Mullen, Donald; Swenson, Michael
Subject: Re: Japan exposure to CDOs

Loans are marked around 93, team thinks they should execute above but market tough. Stark agreed to take have the resid and looking at subs. Team shooting to get deal converted to securities this month, sell what it call. Could slip into sept

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.; Mullen, Donald; Swenson, Michael; Sparks, Daniel L
Sent: Sat Aug 11 12:01:56 2007
Subject: Re: Japan exposure to CDOs

What is overall balance sheet now? What has happened the [redacted] loans u bought? Where are those marked?

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom; Mullen, Donald; Swenson, Michael; Sparks, Daniel L
Sent: Sat Aug 11 11:35:03 2007
Subject: Re: Japan exposure to CDOs

Very general-

Long correlation in abs and cmbs via sup snr shorts in correlation book 3bb abs BBB/BBB- and 5bb cmbs A/BBB/BBB- (ie positive gamma and we benefit from systemic spd moves and get hurt from idiosyncratic defaults or spd moves)

Overall long cmbs AAA/AA, short A, flat BBB/BBB-, short BBs, short Commercial Real Estate CDOs

Short abs cdos overall from AAA to A, biggest concerns on the long side r 300mm TWOLF sup snr AAA bot from BSAM (60-90% tranche) and 450mm HOUT BAY AAA retained from new issue (15-45% tranche)

Hope to have traction with [redacted] on 450mm hout bay this week

Also, as swenny/deeb/josh have done an awesome job sourcing risk, the CDO transition book AAA ABX short decreased from 1.55bb to 250mm over the past 2 weeks - we love covering that trade, we might keep 1-150mm on as a way out-of-the-$ option but feel it is not a great hedge for the long cdo risk in that book

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1792

Confidential Treatment Requested by Goldn

Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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----- Original Message -----
From: Montag, Tom
To: Lehman, David A.; Mullen, Donald; Swenson, Michael; Sparks, Daniel L
Sent: Sat Aug 11 10:58:17 2007
Subject: Re: Japan exposure to CDOs

What trades do we have on now?

----- Original Message -----
From: Lehman, David A.
To: Mullen, Donald; Swenson, Michael; Sparks, Daniel L
Cc: Montag, Tom
Sent: Sat Aug 11 10:27:57 2007
Subject: Re: Japan exposure to CDOs

Don't thk so - we haven't covered any CDO risk (we have gone the other way by 1.4bb since june 1st) and that is where the mkt still has bad longs - thk AAA rmbs is a very different trade

---

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Mullen, Donald
To: Swenson, Michael; Lehman, David A.; Sparks, Daniel L
Cc: Montag, Tom
Sent: Sat Aug 11 10:21:25 2007
Subject: Fw: Japan exposure to CDOs

Did we cover to soon? Looks like more selling at the higher end of cap stack

----- Original Message -----
From: Mensah, Bernard
To: Mullen, Donald; Salame, Pablo
Sent: Sat Aug 11 10:14:43 2007
Subject: FW: Japan exposure to CDOs

[redacted]

-----Original Message-----
From: Gottfried, Michael A
Sent: Friday, August 10, 2007 5:02 PM
To: Mensah, Bernard
Cc: Fernandez-Aller, Carlos; Chew, John
Subject: RE: Japan exposure to CDOs

Confidential Treatment Requested by Goldman Sachs

BankThai also said today that they are more exposed to [redacted] -- sounds like through [redacted]. Most tranches were rated [redacted]

The article also said "BankThai's total investment in CDOs is about $427 million, or 6.4 percent of its total assets".

Bank Thai bought [redacted] of CDOs backed by [redacted] -- both [redacted] portfolios. Sales tells me that we did not sell any of the [redacted] to BankThai.

RCBC in the Philippines said they may be liquidating CDOs currently marked [redacted] The July month end marks we sent them were [redacted]

-----Original Message-----
From: Gottfried, Michael A
Sent: Tuesday, August 07, 2007 1:45 PM
To: Mensah, Bernard
Cc: Fernandez-Aller, Carlos; Chew, John
Subject: Japan exposure to CDOs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Following up on your question about pan-Asia CDO exposure, there was the below story on Bloomberg this morning about Shinsei having some CDO of ABS exposure.

Of course there is also the Japanese corporate with a large exposure to CDOs through the trade with us.

Shinsei Has $200 Million in Possible Subprime Loans (Update1)
2007-08-06 23:50 (New York)

(Adds earnings in last paragraph.)

By Takahiko Hyuga

Aug. 7 (Bloomberg) -- Shinsei Bank Ltd., the first Japanese bank bought by overseas investors, said it has about $200 million invested in U.S. mortgage-backed securities that may contain subprime loans.

A quarter of the Tokyo-based bank's investments in U.S. mortgage-backed securities are of the riskiest type, known as equity tranches, the bank said. Losses on these at the end of June had reached as much as $30 million, according to Tokyo- based Shinsei spokesman Shinji Hasumi.

Fallout from the slumping U.S. housing market continues to spread, with Bear Stearns Cos. yesterday ousting Co-President Warren Spector after errant trades that led to the collapse of hedge funds controlled by the firm. Investors have sold shares of banks and insurance companies in Australia, Singapore and Taiwan after they said they held securities backed by U.S.
mortgages given to borrowers with patchy credit records.

Shinsei said on July 30 first-quarter profit rose 63 percent to 31.2 billion yen ($263 million) on a 20.6 billion yen one-time gain after the sale of its housing loan unit to Sumitomo Trust & Banking Co. in April.

--Editor: Richardson.

To contact the reporters on this story:
Takahiko Hyuga in Tokyo at +813-3201-7498 or thyuga@bloomberg.net.

To contact the editor responsible for this story:
Ben Richardson at +852-2977-6467 or
brichardson8@bloomberg.net.

[TAGINFO]

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8303 JP <Equity>

Confidential Treatment Requested by Goldman Sachs

From: Swenson, Michael
Sent: Tuesday, August 21, 2007 7:36 PM
To: Alexander, Lee; Buono, Mark; Finck, Greg; Gasvoda, Kevin; Lehman, David A.; Birnbaum, Josh
Cc: Mullen, Donald; Salame, Pablo; Sparks, Daniel L; Petersen, Bruce; Brafman, Lester R; Kaprelian, Michael; Andrea, Mireille N.
Subject: RE: Mortgage Commentary for Firmwide Risk Committee

ABS Summary

1) ABX 07-1 Closing Price and Changes for the week ended August 21st:

		Weekly Change
AAA	92-16	+1.0 pts
AA	67-16	-2.5
A	44-16	-3.5
BBB	33-00	-4.5
BBB-	32-00	-5.0

[redacted] = Redacted by the Permanent Subcommittee on Investigation

2) General Color

- This evening S&P released negative rating actions on 4 out of 5 of the existing SIV Lites (market value CDOs funded by CP). The ratings actions affect $5.5 billion of outstanding ABS CP.
- [redacted] liquidated [redacted] of cash [redacted] subprime bonds on Monday which was one of the 4 programs put on watch by S&P. Bonds traded at 84-00 (implied cumm losses >35%). 19 dealers were shown the list Goldman bought half of the list and sold 1/3 of what we bought.
- AAAs and AAs were much better bid on Tuesday as the street is net short ABX at the top of the capital structure.
- Index and synthetic flows are at a near standstill. We traded only $125mm of Index risk in the past 2 days.

3) Current SPG Trading Desk Position Summary:

- RMBS AAA - long $2.2bb
- RMBS AA - long $1.0bb
- RMBS Single-As - net short $0.9bb (100% in single-name CDS)
- RMBS BBB/BBB- - net short $3.5bb (80% in single-name CDS - 60% in 2005 vintage)

4) August 14th - 21st

Total ABX Indices by Rating Bought this week:

AAA	$730mm
AA	190
A	165
BBB	220
BBB-	280

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Wall Street & The Financial Crisis
Report Footnote #1793

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Total $1,555mm

ABS and Correlation Desk Net ABX Risk Change on the Week:

AAA	+464mm
AA	+125
A	+ 40
BBB	+ 60
BBB-	+133
Total	+822mm

From: Alexander, Lee
Sent: Tuesday, August 21, 2007 3:57 PM
To: Buono, Mark; Finck, Greg; Gasvoda, Kevin; Lehman, David A.; Swenson, Michael
Cc: Mullen, Donald; Salame, Pablo; Sparks, Daniel L; Petersen, Bruce; Brafman, Lester R; Kaprelian, Michael; Andrea, Mireille N.
Subject: Mortgage Commentary for Firmwide Risk Committee
Importance: High

Mark / Greg / Kevin / David / Mike -

Apologies for the short notice, however, in preparation for Risk Committee tomorrow morning, Don / Pablo / Dan / Bruce were hoping to receive commentary for your respective businesses between now and 7AM. Commentary should include market color, risk commentary, and information related to market flows.

Please copy all parties CC'd on the email - in order to facilitate the delivery of the information.

Appreciate your feedback - Thx, Lee

Confidential Treatment Requested by Goldman Sachs

From: Montag, Tom
Sent: Wednesday, August 08, 2007 4:38 PM
To: Lehman, David A.; Swenson, Michael
Subject: RE:

great==now on to the 3 billion short

From: Lehman, David A.
Sent: Wednesday, August 08, 2007 4:36 PM
To: Montag, Tom; Swenson, Michael
Subject: RE:

Gamma helping get our cmbs short very close to home - if the mkt continues to rally we do not need to hedge much more, maybe another 100-200mm BBBs

From: Montag, Tom
Sent: Wednesday, August 08, 2007 4:35 PM
To: Swenson, Michael; Lehman, David A.
Subject: RE:

guess we are still short a lot--did gamma take us out of some risk? what is game plan?

From: Swenson, Michael
Sent: Wednesday, August 08, 2007 4:35 PM
To: Montag, Tom; Lehman, David A.
Subject: RE:

Lots of moving parts pre estimate estimate is down 100mm

From: Montag, Tom
Sent: Wednesday, August 08, 2007 4:29 PM
To: Swenson, Michael; Lehman, David A.
Subject: RE:

that's net of aaa--what about rest of cap structure? p and l?

From: Swenson, Michael
Sent: Wednesday, August 08, 2007 4:24 PM
To: Montag, Tom; Lehman, David A.
Subject: RE:

ABS

Market rallied especially at the top end of the capital structure - AAA (up 2pts), AA (up 3pts), A (up 2 pt).

We bought 300mm of AAA and redistributed to internal desks. Department net short is 3.1bb of AAA right now.

From: Montag, Tom

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1798

Sent: Wednesday, August 08, 2007 4:19 PM
To: Lehman, David A.; Swenson, Michael
Subject:

what happened today?

Confidential Treatment Requested by Goldman Sachs

From: Winkelried, Jon
Sent: Thursday, August 09, 2007 2:06 PM
To: Blankfein, Lloyd; Cohn, Gary
Subject: FW:

fyi

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From: Montag, Tom
Sent: Thursday, August 09, 2007 2:01 PM
To: Winkelried, Jon
Subject: RE:

stat arb, gss, systems, mortgages , money markets, credit, munis

stat arb down 25 million, gss seeing nothing, systems hanging in, mortgages bought back 1 billion of 3 billion short in AAA indices at 1/2 to 1 point better
than yesterday, money markets steady as she goes except for stctd vehicles--GS funded in CP well, munis no pain but no way to lower risk right now,
credit weaker by about 1/2 of yesterday move-don't know on stctd credit

sat down with or visited ravi, mitch and george on 44
visited barringer on 29
ashok on 26
swenson gasvoda on 26
mullen and harvey on 50
heller and russo and levin on 50
scope on 50

talked to [redacted] about getting [redacted] to fund some of our commitment--calling [redacted] now
getting price on option from [redacted] on buying our loans--tom talked to [redacted] directly--still think buying option would
be good in land of [redacted]

things actually a bit quiet except for rumours, aaa short covering

From: Winkelried, Jon (EO 85B30)
Sent: Thursday, August 09, 2007 1:57 PM
To: Montag, Tom
Subject: RE:

Good. What have you been focusing on today

From: Montag, Tom
Sent: Thursday, August 09, 2007 1:51 PM
To: Winkelried, Jon
Subject:

fyi I didn't go

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1799

From: Sparks, Daniel L
Sent: Tuesday, August 07, 2007 10:46 PM
To: Montag, Tom; Mullen, Donald
Subject: RE: Gsc ms prop/paulson swap

Not explicitly - but we keep buying risk We need to keep buying AAA ABX, and now we can start looking to cover some CDO CDS

-----Original Message-----
From: Montag, Tom
Sent: Tuesday, August 07, 2007 6:26 PM
To: Sparks, Daniel L; Mullen, Donald
Subject: Re: Gsc ms prop/paulson swap

Leaves us a lot shorter-did we take off anything else?

----- Original Message -----
From: Sparks, Daniel L
To: Cohn, Gary (EO 85B30); Montag, Tom; Mullen, Donald
Sent: Tue Aug 07 18:13:04 2007
Subject: Gsc ms prop/paulson swap

Done. We will recognize positive $37mm, but market ran hard on us today so overall department revenue will be down.

1.085 billion gsc cdo super senior sold

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Report Footnote #1801

Confidential Treatment Requested by Goldm

From: Sparks, Daniel L
Sent: Monday, August 20, 2007 9:10 AM
To: Montag, Tom
Subject: RE: [redacted] loans

We are planning to continue to play offense. The big focus has been var, and how to cut. But the agreement was not to trade to manipulate var only, trade to do what we think is smart. The var numbers greatly overstate the shorts, and we did some calculations last week that say we are long. Discussions on the up the quality trade (top cap stack and top quality collateral) were had in various times with don, gary and bill. We aren't going crazy with it, just being opportunistic. Before we get large, we are going to lay out strategy for the four of you.

From: Montag, Tom
Sent: Monday, August 20, 2007 9:03 AM
To: Sparks, Daniel L
Subject: RE: [redacted] loans

we should reduce some basis IMO

who did you go through it with

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Sparks, Daniel L
Sent: Monday, August 20, 2007 9:02 AM
To: Montag, Tom
Subject: RE: [redacted] loans

As a overall business, we're not short AAA's anymore. We are putting on the long index (mostly AAA)/short single name mezz trade on. We went through it with a bunch of people last week and should walk you through it today. Nestor has been reluctantly covering and has about 500 aaa to go and we are having high energy discussion on it.

From: Montag, Tom
Sent: Monday, August 20, 2007 8:57 AM
To: Sparks, Daniel L
Subject: RE: [redacted] loans

heavily isnt the half of it--we have bought back 4 - 5 billion and still short

---

From: Sparks, Daniel L
Sent: Monday, August 20, 2007 8:56 AM
To: Sparks, Daniel L; Montag, Tom
Subject: RE: [redacted] loans

And loan books had been heavily net short (still are some - especially nestor in alt a) and I have been forcing them to cover over the past 2 weeks

---

From: Sparks, Daniel L
Sent: Monday, August 20, 2007 8:55 AM
To: Montag, Tom
Subject: RE: [redacted] loans

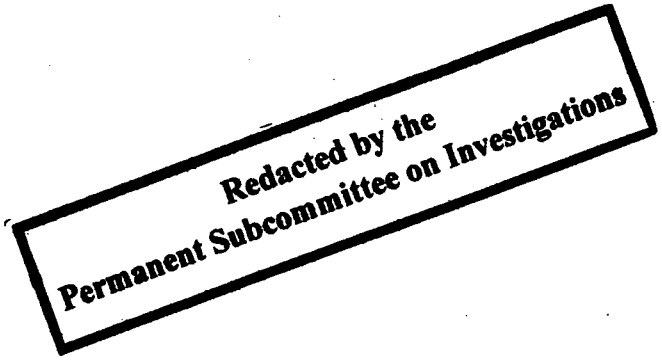
Abx for spread, whatever the appropriate thing (probably 2 yrs) for rates

---

From: Montag, Tom
Sent: Monday, August 20, 2007 8:54 AM
To: Sparks, Daniel L
Subject: RE: [redacted] loans

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Wall Street & The Financial Crisis
Report Footnote #1802

hedged with?



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From: Swenson, Michael
Sent: Tuesday, August 14, 2007 10:31 PM
To: Mullen, Donald; Sparks, Daniel L; Salame, Pablo
Cc: Lehman, David A.; Brafman, Lester R; Swenson, Michael
Subject: FW: ABS Summary for Week Ended August 10th

Nothing new - extremely quiet over the past couple of days considering all of the issues surrounding the sector. . .

Top of the capital structure is where all the action is. AAAs are extremely cheap want to scale into a large long timing is the real issue with all that is going on in the CP market.

1) Current Desk Position Summary:

- RMBS Single-As - net short $1.0bb 100% in single-name CDS
- RMBS BBB/BBB- - net short $3.5bb (80% in single-name CDS - 60% in 2005 vintage)
- Correlation Desk - net short $0.4bb of ABX 06-1 BBB and BBB-
- Mortgage Department ABX net falt AAAs

2) Week Ended August 14th

Total ABX Indices by Rating Bought this week:

AAA	$3,840mm
AA	250
A	75
BBB	0
BBB-	42
Total	4,207mm

ABS and Correlation Desk Net ABX Risk Change on the Week:

AAA	+	435mm
AA	+	85mm
A	-	26mm
BBB	-	65mm
BBB-	-	11mm
Total	+	428mm

Total Mortgage Dept Net ABX Risk Change on the Week:

AAA		+3,900mm
AA	+	110mm
A	+	19mm
BBB	-	55mm
BBB-	-	11mm
Total		+3,963mm

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Report Footnote #1803

Confidential Treatment Requested by Goldm

6M
1784
1805

From: Birnbaum, Josh
Sent: Sunday, August 19, 2007 11:48 PM
To: Lehman, David A.; Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Finck, Gı
Subject: RE: Mtg Department Weekly Update

On the AAA outperformance question, I think AAAs would have performed similarly without our adding. Given the remote likelihood of loss on "real" RMBS AAAs (i.e. not AAA CDOs), trading around 90 is mostly a liquidity trade and last week's injection of liquidity should have been particularly constructive for AAAs. Of note, we saw AAA buying from relatively conservative accounts not normally involved in outright strategies (III, for example).

-----Original Message-----
From: Lehman, David A.
Sent: Sunday, August 19, 2007 9:23 PM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Finck, Greg; Birnbaum, Josh
Subject: Re: Mtg Department Weekly Update

Going back to your previous question - Net/net the department is long 600ish mm ABX AAAs (short the seasoned 06-1, long the newer 07-1 index)

Swenny or Birnbaum can speak to your question re: AAA ABX px action

Wrt correlation, just the super senior RMBS trades (40-100% or 50-100% of BBB/BBB- subprime portfolios) were impacted

The desk is currenty evaluating the right parameter for the cmbs super senior shorts but we have not had as much observability as we have had in rmbs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.
Sent: Sun Aug 19 20:42:07 2007
Subject: Re: Mtg Department Weekly Update

How much of aaa outperforming was us buying?

What assets were affected by correlation change?

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom
Cc: Mullen, Donald; Sparks, Daniel L; Swenson, Michael; Finck, Greg
Sent: Sun Aug 19 19:20:36 2007

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Subject: RE: Mtg Department Weekly Update

Got it

Of the ~1.6bb AAA ABX bot I believe 900mm was SPG trading getting longer and 700mm was short covering in books (Alt A, Hybrids)

I don't have the current AAA ABX position @ the dept level in front of me but will get it and circle back

-----Original Message-----
From: Montag, Tom
Sent: Sunday, August 19, 2007 7:11 PM
To: Lehman, David A.
Subject: Re: Mtg Department Weekly Update

I saw the change. I wondered if that covewred risk or took us long. Understand net is same we are longer

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Finck, Greg
Sent: Sun Aug 19 19:07:36 2007
Subject: RE: Mtg Department Weekly Update

Added Finck, he can speak to your first question re: Fixed Agcy

On your second question, the dept net added subrprime risk via ABX and reduced risk in AAA CMBS (TRS and AAA CMBX)

The dept net added risk via ABX @ across the curve but predominantly @ the AAA level (below from Swenny)

Mortgage Dept Net ABX Change on the Week

AAA	+1,580mm
AA	+ 115
A	+ 50
BBB	+ 155
BBB-	+ 100
Total	+2,000mm

On the CMBS side the dept reduced 1bb of AAA risk which was the desk selling down a natural long (i.e. from long 1bb to flat)

-----Original Message-----
From: Montag, Tom
Sent: Sunday, August 19, 2007 6:50 PM
To: Lehman, David A.
Subject: Re: Mtg Department Weekly Update

Fixed agency. Are we trying to get down? What did we buy?

How much did whole dept reduce risk this week? Was it all indices again or did we actually cover aby shorts?

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom; Sparks, Daniel L; Mullen, Donald; Salame, Pablo
Cc: Swenson, Michael; Finck, Greg
Sent: Sun Aug 19 17:03:46 2007
Subject: Mtg Department Weekly Update

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Resi Mortgage Update (Finck)

Mortgage Derivatives
---
* Remains most stable and orderly Resi mortgage market
* Flows are healthy: JPMIM selling ~1B Inverse IO, Countrywide selling 600mm PO, otherwise insignificant
* Better demand for levered, non-balance-sheet-intensive positions (IOs, Inverse IOs)
* P&L on week: +$500k
* Hedges: Pass-throughs, Swaps

Fixed Agency/Prime
---
* Spreads continue to widen under selling pressure (AAA super-senior Pass-throughs now 1-24 back from FNMA)
  - Dealers (particularly Countrywide) are overloaded and dumping bonds into any available bid
  - Only 2-3 active street bidders: most dealers are passing on everything
* Decent two-way flows: Sold roughly $1B CMOs on week, and bought approximately $700mm
* P&L on Week: -10mm on spread widening: Making money trading, but losing more money on positions mark-downs in widening
* Position size (Secondary, New issue, and Loans): ~ $6B
* Hedges: Predominantly Agency Pass-throughs, with some swaps

Hybrid Agency/Prime
---
* Very heavy selling. Bid $10B-$15B on the week mostly out of Reits (Thornburg, KKR, FBR)
* Spreads continue to push wider on supply pressure (AAA Libor Floaters now L+100)
* Bought and sold over $2B. Developing good supply/demand balance with large money managers becoming big buyers
* P&L on Week: -$15mm
* Position Size (Secondary / Loans): ~$4B
* Hedges: ~500mm ABX (down from over $1B), Agency Pass-throughs, and Swaps

Alt-A
---
* Very light origination volumes: less than $500mm on week
* Significant widening in AAAs, both Fixed and ARMs
  - Super-Senior AAA pass-throughs widened a point on week from FNMA: now back 3-24 (3pts wider over month)
  - AAA Hybrids also much wider: 25+bps on week
* P&L on week (ex Residual writedown): +10mm on ABX widening
* Position Size: ~500mm loans
* Hedges: Short $1B ABX AAAs. Covered back 500+mm ABX on week, need to cover more

Subprime/Scratch and Dent
---
* Very quiet with essentially no new origination
  - we continue to work on Cbass portfolio for potential buy opportunity
  - also, working on new deal with HSBC loans: weak investor interest
* P&L on Week: 7mm (ABX widening)
* $1.3B ABX short vs $1B Subprime and 600mm S&D position

ABS Summary (Swenson)

1) Closing Price and Changes for the week ended ABX 07-1:

		Weekly Change
AAA	91-00	+1.5pts
AA	67-00	-3.0pts
A	45-00	-3.5pts
BBB	35-00	-3.5pts
BBB-	33-16	-3.5pts

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2) General Color

* Market was up as much as 6 or 7 points post Fed announcement this morning. Market came off the highs as fast money faded the rally with the market closing up 2 points on average

* Further liquidations from real money accounts facing redemptions. Multiple billions of AAA and AA home equity out for bid with roughly two-thirds trading

* Moody's downgraded 84% of the second lien universe including 78 AAA bonds, likely to trigger numerous forced sales

* S&P downgraded 158 Alt-A deals that had been previously on watch

3) Current SPG Trading Desk Position Summary:

* RMBS AAA - long $2.2bb

* RMBS AA - long $1.0bb

* RMBS Single-As - net short $0.8bb 100% in single-name CDS

* RMBS BBB/BBB- - net short $3.5bb (80% in single-name CDS - 60% in 2005 vintage)

4) August 13th - 17th

Total ABX Indices by Rating Bought this week:

AAA	$1,580mm
AA	180
A	175
BBB	180
BBB-	282
Total	$2,397mm

ABS and Correlation Desk Net ABX Risk Change on the Week:

AAA	+ 865mm
AA	+ 115
A	+ 50
BBB	+ 155
BBB-	+ 100
Total	+1,285mm

Mortgage Dept Net ABX Change on the Week

AAA	+1,580mm
AA	+ 115
A	+ 50
BBB	+ 155
BBB-	+ 100
Total	+2,000mm

CMBS (Lehman)

Summary
* Continued mezzanine underperformance - AAAs finally managed to rally, with both cash and CDS spreads 5 tighter on the week while AA/A/BBBs were off 30 bps (2 pts) and BBs were

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unched
* Real and fast $ now putting cash to work @ the AAA level, with the market trading a bit short in the on-the-run names - BlackRock has been the largest buyer
* Desk cmbs risk - Overall very close to home - small long in AAAs/AAs, short As, small long BBBs/BBB-s, and short BBs
* CMBS Trading sold ~1+bb of AAA risk into the rally this week to take position from long ~1mm/bp to 200k/bp flat
* AA through BB CMBS risk did not change materially wk/wk across CMBS Trading OR Correlation

Mkt moves week/week
* 10yr AAA cash CMBS spds 5 tighter on the week @ S+65 bps middle
* AA OTR CMBX spds were 30bps wider (~2pts) to 175 middle
* A OTR CMBX spds were 30bps wider (~2pts) to 270 middle
* BBB OTR CMBX spds were 30bps wider (~2pts) to 515 middle
* BBB- OTR CMBX spds were 30bps wider (~2pts) to 630 middle
* BB OTR CMBX spds were unched @ 975 middle

Customer Flows
* AAA flow was better to buy, particularly on Friday after the Fed discount rate move, with real and levered $ involved and adding risk - mkt trading in a 10 bp range on the week and closed @ the tights (5 tighter wk/wk)
* Not a lot of conviction down in credit - Market was 40 wider on Thursday and 40 tighter on Friday, with the Street largely playing defense and flows overall better for sale - the "easy" trade is to buy protection and we are seeing that across the board.
* Most of the flow is new shorts being added to the market a opposed to longs capitulating, and the Street just does not want to position any risk in the context of the last print

Current Risk and wk/wk change
* AAAs - Desk long risk 186k/bp in the CMBS trading book. Wk/wk cmbs trading sold 700k/bp in risk while correlation risk was +/- unched
* AAs - Desk long risk 125k/bp via CDS, position entirely in CMBS trading - Wk/Wk this position is unched
* As - Desk short risk 250k/bp in 2005 and newer vintages - cmbs trading short 75k/bp and correlation short 175k/bp -No significant risk change wk/wk in CMBS Trading or Correlation
* BBBs/BBB-s - Desk long risk 150k/bp in 2005 and newer vintages - cmbs trading long 350k/bp and correlation short 200k/bp - No significant risk change wk/wk in CMBS Trading or Correlation
* BBs - Desk short risk 290k/bp in 2005 and newer vintages, with both correlation and cmbs trading short - Wk/wk this position unched

CDOs (Lehman)

* Desk was able to short 100+m notional on the week
* Sold one cash "A" and bought protection from two different counterparties @ the "AA" and "A" level
* Flows largely from hedge funds and fast money desks covering short risk positions - we still have not seen a lot of new longs in the market
* First time in 6+ weeks we have seen decent trading activity
* Market continues to be dislocated with few dealers making markets and nobody looking to get long risk

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From: Avanessians, Armen
Sent: Monday, July 30, 2007 6:06 PM
To: Broderick, Craig
Subject: FW: Some important questions about AAA subprime-- pls advise as to who can answer--

Fyi, thought you'd be interested as well..

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Brazil, Alan
Sent: Monday, July 30, 2007 6:03 PM
To: Avanessians, Armen
Subject: FW: Some important questions about AAA subprime-- pls advise as to who can answer--

Fyi, thought you would be interested. The questions was raised by rosenblum below.
-----Original Message-----
From: Brazil, Alan
Sent: Monday, July 30, 2007 8:47 AM
To: Rosenblum, David J.; Raz, Shlomi; Bohra, Bunty; Wiesel, Elisha
Cc: Sobel, Jonathan
Subject: RE: Some important questions about AAA subprime-- pls advise as to who can answer--

Well, as is becoming clearer to the market is that the subprime issue is really a triple-a issue, either directly as a aaa subprime or indirectly in a aaa cdo. As a rough guide, over 90% of a subprime deal are in aaas. And the main strategy for these triple-as is leverage, aka, bsam. And once you start downgrading bbb/bbb- you will ultimately be start downgrading aaas. And, in my view, that is significant escalation of the subprime meltdown.

1 and 2. sivs, or siv lites, these are the abs comical paper programs. These are structured vehicles that own highly rated assets, typically aaa, and finance it through commercial paper and medium term notes. Typically the leverage is 10 to 1, but can be as high as 20 to 1. It has two features, one is a backup line of credit from a sponsoring bank, and a mark-to-market threshold. There are three events that would dump assets into the market.
A. Mark-to-market. In the event of mark that wipes out the capital plus a margin, the deal needs to unwound. In this event, the sponsoring bank would step in an finance the assets until they are sold.
B. Downgrade. The other problem for these vehicles downgrades. In this case, they would need to sell the downgraded assets or come up with more capital.
C. Liquidity. If they vehicle cannot fund itself in the commercial paper market, it will need to sell assets, since the sponsoring bank's line of credit is limited.
Clearly, the most immediate problem that the sivs are now facing is liquidity. The commercial paper market is starting to tier based on subprime exposure. (I am adding jon to the list, since the money market world reports to him).

I would be watching for tiering and failed auctions. In terms of siv or siv lites, the latter are the most vulnerable, since they were a recent innovation, and have a large exposure to the sector.

3. [redacted]. A problem that will ultimately dwarf their [redacted] problem. They own aaa subprime with about 2.5 to 3% capital against. However, the market is more focused on them as a potential beneficiary of the subprime problem, see stock price. Both provide clues to their mark-to-market hits, and as subprime aaas go south, the extent of the problem will become clearer.

4. Monolines. Big problem with subprime/cdo. For example. ACA, has 10 billion of

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Wall Street & The Financial Crisis
Report Footnote #1807

Confidential Treatment Requested by Goldm

super/senior mez cdo exposure that was originated in 2006-2007, think dollar price 60 to 80, and a mark-to-market loss of 2 to 4 billion. Unfortunately, they have only 400 mm of capital. Others are in better condition, either more capital or better assets. For example, [redacted] has 14 billion of super/senior exposure, of which 12 billion is high grade cdos (avg att 14%) , and 2 billion is mez cdo(avg att 36%) . Not sure of market for hg ss in cdo, but lets me optimistic and say 90. And lets be optimistic and say 70 on the mez. So, mark-to market hit of 1.5 billion or so. Oh and by the way they have 42 billion of cmbs aaa exposure.
However, these are not mark-to-market institution but rather mark to model and ratings. So,only a big problem when the rating agencies start downgrading, which they will, and soon. In that scenario, they will need to come into the market to get more capital, and that will be an issue.

Bigger problem with the industry, I think, is alt-a. Many of the monolines avoided the subprime mess directly. Instead, they moved into alt-a, and that sector is started to follow subprime, which it should, driven by housing price declines.

5. [redacted] not sure how to help. Investors who have talked to them say they are "comfortable with their marks", of course they still have first Franklyn at 1.5 billion, the price they paid for it.

6. [redacted] Difficult to sort out, lots of wrapping by corp parent, but it was a problem at the aaa level, ask fannie. I am looking at mh as we speak, so I can give you a little more info.

Also, the banks are the hidden players in all this at the aaa level. Not only were they the sponsor of many of the sivs, but they also had a large securitized lending business using aaas as collateral.

Over all, I think the aaa problem, as was brought up by the ny times this Sunday, is the main issue. And it slowly becoming the focus of the market. At its heart, the main shoe to fall will be when the rating agencies downgrade to the aaa level. I don't see as they have much of a choice. Mez aaa cdo trade in the 20 and 30s cannot be overlooked even by the agencies.

alan

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Rosenblum, David J.
Sent: Monday, July 30, 2007 8:04 AM
To: Raz, Shlomi; Bohra, Bunty; Brazil, Alan; Wiesel, Elisha
Subject: FW: Some important questions about AAA subprime-- pls advise as to who can answer--

perhaps one of the four of you can dig in here?

would be very helpful

thanks
d

-----Original Message-----
From: Rosenblum, David J.
Sent: Monday, July 30, 2007 7:21 AM
To: Rosenblum, David J.; Kamilla, Rajiv; Egol, Jonathan; Swenson, Michael; Sparks, Daniel L
Cc: Roberts, William; Gmelich, Justin; Mullen, Donald; Rosenblum, Steven
Subject: RE: Some important questions about AAA subprime-- pls advise as to who can answer--

also, [redacted] - what is happening pls?

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-----Original Message-----
From: Rosenblum, David J.
Sent: Sunday, July 29, 2007 7:46 PM
To: Kamilla, Rajiv; Egol, Jonathan; Wiesel, Elisha; Swenson, Michael; Sparks, Daniel L
Cc: Roberts, William; Hickey, Steve; Tse, Irene; Varadhan, Ashok; Gmelich, Justin; Sobel, Jonathan; Mullen, Donald; Rosenblum, Steven
Subject: Some important questions about AAA subprime-- pls advise as to who can answer--

Rajiv, Jonathan, Swennie, Sparks, Elisha,

Out of a number of conversations with various people this weekend-- these questions:

1. SIVs-- what to watch for, impact of 95 dollar price rmbs AAAs, implications of unwinding through asset sales, and also if their ABCP/MTN are affected 2. ABCP facilities for ABS CDOs-- what causes problems here (, and what are the implications of backstops getting hit 3. [redacted]-- implications of [redacted] holdings-- are they forced sellers at a price of downgrade level?
4. Monolines-- what should we look for?
5. [redacted]-- this was the largest abs cdo shop on the planet, and they haven't said a word about any problems-- anyone know what is happening here?
6. [redacted] bonds in late 90s and early 2000s-- did AAAs get downgraded on a lot of those? What is risk of AAA RMBS getting downgraded and when do you think timing could be like on that.

Any answers much much appreciated.

D

David J. Rosenblum
Managing Director
Structured Credit
Goldman, Sachs & Co.
(Work) 212-902-6941
(Mob) 917-[redacted]
(Fax) 212-256-5819

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Montag, Tom
Sent: Tuesday, August 14, 2007 3:18 PM
To: Cohn, Gary (EO 85B30); Viniar, David
Subject: Fw: Post

We will not be going long billions. Lots of risk to clean up first imo

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Mullen, Donald; Cohn, Gary (EO 85B30); Viniar, David; O'Neill, Tim (FIN 85B030); Winkelried, Jon (EO 85B30)
Sent: Tue Aug 14 10:38:22 2007
Subject: Post

(1) Mortgage CDO market has continued to be hammered with combination of the large downward move in subprime RMBS, rating agencies action, and no liquidity. For example, our market for the Timberwolf A2 (mezz AAA) that we marked at the end of May at 80 is now 15/25. Mortgage CDOs are so geared that many tranches are priced to IO value, and it's not just liquidity - there are fundamental cashflow issues.

(2) AAA ABX and RMBS may be the best opportunity to make a bunch of money. The losses implied from the ABX trading levels seem way too high (over 30% cum losses). We've been covering, but we will likely come to you soon and say we'd like to get long billions - and we'd stay short BBBish part. The potential for large liquidations may continue to put technical pressure on, but once it stops AAA should perform strongly.

(3) Platforms are interesting out there, but even the good ones are really struggling and the trades are hard. The question is, what capabilities are we really getting, and at what price. We continue to look hard.

(4) Liquidity - we are focused on making an adjustment to our bid offer reserves for synthetics to reflect how bad liquidity is, and we are working with controllers on it.

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Wall Street & The Financial Crisis
Report Footnote #1812

Confidential Treatment Requested by Goldm

From: Winkelried, Jon (EO 85B30)
Sent: Tuesday, August 21, 2007 1:07 AM
To: Sparks, Daniel L; Cohn, Gary (EO 85B30); Viniar, David; Montag, Tom; Mullen, Donald
Subject: RE: Big Opportunity

Clearly and opportuntiy although we need to control what we stockpile before we sell. Need velocity thru the system. If things turn south again difficult to finance as we have seen.

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Sparks, Daniel L
Sent: Monday, August 20, 2007 3:15 PM
To: Cohn, Gary; Viniar, David; Winkelried, Jon; Montag, Tom; Mullen, Donald
Subject: Big Opportunity

We are seeing large liquidations - we bought $350mm AAA subprime RMBS from [redacted] SIV unwinds today with prices ranging from 77 to 94 (depending on the bond specifics) - these levels price cumulative losses around 35% while ABX BBB- price cum losses in the low-to-mid teens. This is liquidity, fear and technically driven. We are also getting frequent calls from originators who need to sell loans - most recent is $10BB from [redacted].

We think it is now time to start using balance sheet and it is a unique opportunity with real upside - specifically for AAA RMBS. We've sold over $100mm of what we bought today - most up1-2 points.

That's a great trade - buy and flip up 1-2 points, however, we're not always going to be able to that - and there's the opportunity for us to make 5-10+ points if we have a longer term hold.

I spoke with Don and Tom this morning, and we are going to come back to them with a specific plan describing the opportunity and parameters (including funding and risk) relating to buying billions.

This is consistent with our view that the AAA ABX index is a great opportunity and we continue to like it.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1814

Confidential Treatment Requested by Goldm

From: Birnbaum, Josh
Sent: Tuesday, August 21, 2007 2:07 PM
To: Montag, Tom; Mullen, Donald; Sparks, Daniel L; Swenson, Michael; Lehman, David A.
Subject: For 2pm meeting

ABS Outline

- Graph #1: Mortgage Dept Position history***

- Currently short $4Bln notional BBB/BBB-s, $2Bln notional single As, flat AAAs.
- We are long 13.5 Bln BBB/BBB- IO, which effectively reduces our short to $2.5 to $3.0 Bln in BBB/BBB-
- Over the last month we have been covering shorts in BBB index and putting into Correlation book (which has been getting shorter)

*** Department-wide Notionals. RMBS only. Excludes Cash, Correlation.

- Graph #2: ABX price vs collateral loss

- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
- We would like to be opportunistic buyers of up to **$10Bln subprime AAAs** in either cash or synthetic (ABX) form and run that long against our mezzanine subprime shorts. **Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm**

Trading Strategy:

We plan to continue to opportunistically cover shorts in BBB/BBB- index (single names are 10-15pts rich to index) and add longs at the AAA level.

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Report Footnote #1815

Confidential Treatment Requested by Gold

From: Montag, Tom
Sent: Tuesday, August 21, 2007 9:53 AM
To: Bimbaum, Josh
Cc: Mullen, Donald; Sparks, Daniel L
Subject: Re: Potential large subprime trade and impact on Firmwide VAR

Fyi. I think it would be much better for all concerned that we all discuss this and any strategy and have agreemnt before we go to the presidents and cfo

Secondly I think we should be reducing our basis trades to reduce var as is

Let's sit down

----- Original Message -----
From: Birnbaum, Josh
To: Montag, Tom; Mullen, Donald; Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Viniar, David; McMahon, Bill; Sherwood, Michael S; Salame, Pablo
Cc: Sparks, Daniel L; Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Sent: Tue Aug 21 09:30:37 2007
Subject: Potential large subprime trade and impact on Firmwide VAR

- The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.
- We would like to be opportunistic buyers of up to $10Bln subprime AAAs in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.
- Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.
- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
- On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.
- On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted], and 100% of the AAAs from [redacted] to [redacted] and [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1817

Confidential Treatment Requested by Gold

From: Birnbaum, Josh
Sent: Tuesday, August 21, 2007 10:12 AM
To: McMahon, Bill
Cc: Swenson, Michael; Sparks, Daniel L
Subject: RE: Potential large subprime trade and impact on Firmwide VAR

We have the 13.5Bln IO which makes us less short by $1-1.5 Bln and we are running a long in AAAs, AAs right now. The shorts are very rich to where we can cover risk in index and up the capital structure.

From: McMahon, Bill
Sent: Tuesday, August 21, 2007 9:59 AM
To: Birnbaum, Josh
Subject: RE: Potential large subprime trade and impact on Firmwide VAR

What are we holding against the 3.5b mezz shorts right now? Why don't we just cover the shorts?

From: Birnbaum, Josh
Sent: Tuesday, August 21, 2007 9:31 AM
To: Montag, Tom; Mullen, Donald; Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Viniar, David; McMahon, Bill; Sherwood, Michael S; Salame, Pablo
Cc: Sparks, Daniel L; Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: Potential large subprime trade and impact on Firmwide VAR

- The mortgage department thinks there is currently an extraordinary opportunity for those with dry powder to add AAA subprime risk in either cash or synthetic form.
- We would like to be opportunistic buyers of up to **$10Bln subprime AAAs** in either cash or synthetic (ABX) form and run that long against our $3.5Bln in mezzanine subprime shorts.
- **Mortgage dept VAR would be reduced by $75mm and Firmwide VAR would be reduced by $25mm.**
- At current dollar prices, the implied losses at the AAA level are 2.5x higher than the implied losses at the BBB level where we have our shorts (the ratio is even cheaper for cash due to technicals). If AAAs were priced consistent with BBB implied loss levels, they would be trading 5-10pts higher in synthetics and 10-15pts higher in cash.
- On the supply side, we think we can source these assets from SIVs, SIV-lites, ABCP Conduits, Sec Lenders, total return accounts.
- On the demand side, we plan to share this trade quietly with selected risk partners. We began doing so yesterday when we sold 1/3 of the AAAs purchased off the [redacted] list to [redacted], and 100% of the AAAs from [redacted] to [redacted] and [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1818

Confidential Treatment Requested by Goldman

From: McMahon, Bill
Sent: Wednesday, August 15, 2007 2:08 PM
To: Cohn, Gary (EO 85B30)
Cc: Viniar, David
Subject: RE: Trading VaR $165mm

The volatilities and correlations among our assets are really driving the swings in var right now. Robert Berry sent out a note last night indicating that the sensitivity of our var models to correlations suggests that the var can swing between 140 and 160 without any changes in the complexion of our trading books - essentially, it is noise. The only solution is to reduce the size of the books, which is what we are working on with mortgages and credit trading. In credit trading, in Ram's book, we are long 1.1 dv01 by short 3.4 dv01. He is reducing his short by 550 dv01 today (in monolines, brokers and IG index), and we are trying to figure out how much of his remaining short he needs against other commitments he has which ARE NOT showing up on his long side. Don and I are meeting with the mortgage guys today, and will share with you the plan in that book after its is finalized.

-----Original Message-----
From: Cohn, Gary (EO 85B30)
Sent: Wednesday, August 15, 2007 1:43 PM
To: Dinias, Michael; Viniar, David; Montag, Tom; Sherwood, Michael S; Broderick, Craig; Berry, Robert; Mullen, Donald; Sparks, Daniel L; McMahon, Bill; Petersen, Bruce; Wilson, Edward
Subject: Re: Trading VaR $165mm

There is no room for debate - we must get down now

----- Original Message -----
From: Dinias, Michael
To: Viniar, David; Cohn, Gary; Montag, Tom; Sherwood, Michael S; Broderick, Craig; Berry, Robert; Mullen, Donald; Sparks, Daniel L; McMahon, Bill; Petersen, Bruce; Wilson, Edward (ED, 1NYP/042)
Sent: Wed Aug 15 13:41:22 2007
Subject: Trading VaR $165mm

Trading VaR increased $16mm, from $149mm to $165mm, versus $150mm limit.

Mortgage VaR increased $14mm, from $96mm to $110mm. Mortgage risk increase was driven almost entirely from wider spreads/markdowns on ABS CDOs.

Credit Trading VaR i[redacted]

Credit Origination VaR [redacted]

Interest Rate Product VaR now stands at [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1820

Confidential Treatment Requested by Goldma

From: Cohn, Gary
Sent: Saturday, July 21, 2007 12:32 PM
To: Blankfein, Lloyd
Subject: Fw: Mortgages Estimate

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Viniar, David; Cohn, Gary; Salame, Pablo
Sent: Sat Jul 21 08:33:39 2007
Subject: FW: Mortgages Estimate

The combination of our large AAA ABX index shorts and the relatively new volatility in the AAA part of the index will result in much larger daily swings in P&L both ways - like Thursday when we were down $50mm mid-day but ended flat, and Friday where about half of the P&L was from the AAA index short. Much of the shorts are hedges for loans and some senior AAA CDOs (basis risk), but there is also a large net short that we are chipping away to cover - it will take time as liquidity is tough.

From: Bin, Ki-Jun
Sent: Friday, July 20, 2007 6:02 PM
To: ficc-eod
Subject: Mortgages Estimate

[redacted] = Redacted by the Permanent Subcommittee on Investigations

FICC Mortgages - Daily P&L Estimate

I. SUMMARY

	TOTAL
Structured Products	71,410,000
- Resi Prime/Mtg Derivs	(375,000)
- Resi Credit	25,200,000
- CRE LT	[redacted]
- ABS L&F	[redacted]
- SPG Trading	64,000,000
- CDO / CLO	(22,000,000)
- Other Structure Products	-
Europe	1,225,000
Other (Advisory, PFG, Managers/Other)	-
MORTGAGES	72,635,000
Mortgages WTD	102,262,015
Mortgages MTD	32,535,380

II. DETAIL

Business Strategy Desk	Daily Total	Comments
STRUCTURED PRODUCTS		
Mortgage Derivative	-	
Agency Derivatives	-	
Whole Loan Derivs	-	
MSR	-	
Residential Prime	(375,000)	

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FHA/VA - Primary		-	
FHA/VA - Secondary		-	
Prime Hybrid - Primary	1,500,000	ABX	
Prime Hybrid - Secondary	(1,750,000)		non-agency spreads wider
Agency Hybrid		-	
Prime Fixed		-	
Agency CMO - Primary	(125,000)		
Agency CMO - Secondary		-	
Residential Credit	25,200,000		
Scratch and Dent	4,500,000	ABX widening	
Subprime	13,000,000	ABX widening	
Alt-A	14,700,000	ABX widening	
2nd Liens		-	
Subs	(7,000,000)	Spreads Wider	
Residuals - Scratch & Dent			-
Residuals - Subprime		-	
Residuals - Alt-A		-	
Residuals - 2nd Liens		-	
CRE Loan Trading	[redacted]		
Fixed Large Loan			
Floater Large Loan			
Fixed Conduit			
Transitional Loans			
CRE CDO			
ABS Loans & Finance			
Consumer			
Commercial			
Europe			
Warehouse			
SPG Trading	64,000,000		
CMBS Trading	(5,000,000)	CMBS CDS	
CRE CDO			
ABS Trading	57,000,000	ABS CDS	
Property Derivatives			
Correlation	12,000,000	ABS CDS, CMBS CDS	
CDO/CLO	(22,000,000)		
ABS / MBS CDO	(22,000,000)	Reserve	
GSI SP Credit Warehouse			-
US CLO		-	
EURO CLO		-	
CRE CDO		-	
Retained Principal Positions			-
Tax Related Securities			-
Non-economic residuals			-
Economic residuals			
Warehouse Lending		-	
Residential		-	
Commercial		-	
Asset Backed			-
Syndicate		-	
ABS	-		
CMBS	-		
CDO	-		
RMBS	-		
Other	-		

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Total Structured Products	71,410,000
EUROPE	
Acquisition Finance	-
Syndicate	[redacted]
Trading	
European CMBS	
Syndicate	
Trading	
Total Europe	1,225,000
Total Advisory	-
Total PFG JV	-
Total Manager's Account / Other	-

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10038
Tel: 212-357-7385
e-mail: ki-jun.bin@gs.com

Ki-Jun Bin
Finance Division

Goldman Sachs

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From: Salem, Deeb
Sent: Thursday, August 09, 2007 8:22 AM
To: Birnbaum, Josh
Subject: RE:

of course...genevieve was actually forced to revise her estimate to be down less after teh email went out...after dan talked to her

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 8:19 AM
To: Salem, Deeb
Subject: RE:

I'm sure AAA ABX is being blamed as the reason the dept was down 100 yest.

From: Salem, Deeb
Sent: Thursday, August 09, 2007 8:17 AM
To: Birnbaum, Josh
Subject: RE:

david and clay. was gonna do more with clay but then the street offer came down late afternoon

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 8:17 AM
To: Salem, Deeb
Subject: RE:

To david?

From: Salem, Deeb
Sent: Thursday, August 09, 2007 8:16 AM
To: Birnbaum, Josh
Subject: RE:

sold 200mm internally yesterday at 98-28

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 8:16 AM
To: Salem, Deeb
Subject: RE:

Hopefully we get some more triples

From: Salem, Deeb
Sent: Thursday, August 09, 2007 8:15 AM
To: Birnbaum, Josh
Subject: RE:

yup. you saw libor rose to 5.86...

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 8:14 AM
To: Salem, Deeb
Subject: RE:

European-related?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1824

Confidential Treatment Requested by Goldman

From: Salem, Deeb
Sent: Thursday, August 09, 2007 8:13 AM
To: Birnbaum, Josh
Subject: RE:

could be a messy one today...

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 8:11 AM
To: Birnbaum, Josh; Swenson, Michael; Salem, Deeb; Chin, Edwin; Kaufman, Jordan; Bruns, William; Primer, Jeremy; Kamilla, Rajiv
Subject: RE:

Still sick today. Will be checking email.

From: Birnbaum, Josh
Sent: Wednesday, August 08, 2007 5:46 AM
To: Swenson, Michael; Salem, Deeb; Chin, Edwin; Kaufman, Jordan; Bruns, William; Primer, Jeremy
Subject:

I have the flu. I will not be coming in today. Jeremy, with apologies, if you could roll the market risk meeting to Friday or Monday please. Thanks.

Confidential Treatment Requested by Goldman Sachs

From: Swenson, Michael
Sent: Wednesday, August 08, 2007 4:44 PM
To: Montag, Tom; Lehman, David A.
Subject: RE:

Numbers are not final

Resi (alt-a,arms, s&d) -50 (ABX AAA shorts)

ABS trading -15mm (shorts in 06-1 BBB/BBB-)

CDOs -20mm (ABX single-A and triple A shorts)

From: Montag, Tom
Sent: Wednesday, August 08, 2007 4:36 PM
To: Lehman, David A.; Swenson, Michael
Subject: RE:

so who lost the hundy

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Lehman, David A.
Sent: Wednesday, August 08, 2007 4:35 PM
To: Montag, Tom; Swenson, Michael
Subject: RE:

[redacted]

From: Montag, Tom
Sent: Wednesday, August 08, 2007 4:33 PM
To: Lehman, David A.; Swenson, Michael
Subject: RE:

[redacted]

From: Lehman, David A.
Sent: Wednesday, August 08, 2007 4:32 PM
To: Swenson, Michael; Montag, Tom
Subject: RE:

Cmbs [redacted]

[redacted]

[redacted]

From: Swenson, Michael
Sent: Wednesday, August 08, 2007 4:24 PM
To: Montag, Tom; Lehman, David A.
Subject: RE:

ABS

Market rallied especially at the top end of the capital structure - AAA (up 2pts), AA (up 3pts), A (up 2 pt).

We bought 300mm of AAA and redistributed to internal desks. Department net short is 3.1bb of AAA right now.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1825

Confidential Treatment Requested by Goldma

From: Montag, Tom
Sent: Wednesday, August 08, 2007 4:19 PM
To: Lehman, David A.; Swenson, Michael
Subject:

what happened today?

Confidential Treatment Requested by Goldman Sachs

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:55 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i do think that is a real concern. how quickly can you work with strats to get them to revise our VAR to a more realistic number?

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:47 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i just asked b/c i saw the note about mortgages dropping back down to a permanent limit of 35mm (which we are way over). this would mark a change of their recent policy to just keep increasing out limit. makes me a little nervous that we may be told to do something stupid.

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:43 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

no heat over the last 2 days...that said, im not sure how aware he is of it. we've actually bot a decent amount of single name protection this week. 300mm BBB/BBB- and 50mm A's

---

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:38 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

good, was that a "no" on the heat question?

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:37 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

we have waved in ~120mm in bbb and bbb- protection the last 2 days. almost all 2006 stuff (tier 1, 2, and 3).

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:34 PM
To: Salem, Deeb
Subject: FW: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

are you getting any more heat to cut/cover risk? these VAR numbers are ludicrous, btw. completely overestimated for SPG trading, underestimated for other mortgage desks.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1827

281-B

Confidential Treatment Requested by Goldr

From: Song, Scarlett
Sent: Thursday, August 09, 2007 3:08 PM
To: Montag, Tom; Sobel, Jonathan; Sparks, Daniel L; McHugh, John; Bohra, Bunty; Pouraghabagher, Cyrus; Finck, Greg; Gasvoda, Kevin; Turok, Michael; Brazil, Alan; Gallagher, Timothy (IB PBC07); Buono, Mark; Montag, Tom; Lehman, David A.; 'Ostrem, Peter L'; Rosenblum, David J.; Birnbaum, Josh; Swenson, Michael; 'Huang, Leo'; DeGiacinto, Clayton; Egol, Jonathan; Nichols, Matthew; Nestor, Genevieve; Cawthon, Michael; Iqbal, Farrukh; Holen, Margaret; Kamilla, Rajiv; Mahoney, Justin; Weinstein, Scott; Resnick, Mitchell R; Gao, Renyuan; Bristow, Andrew; DeNatale, Mark; Gold, Erica; Cannon, JeanMarie; Stern, Matt; Alexander, Lee; Andrea, Mireille N.
Cc: Berry, Robert; Dinias, Michael; Lee, Brian-J (FI Controllers); Leventhal, Robert; Pantow, Albert; Fredman, Sheara; Fortunato, Salvatore; Mazumdar, Sanjay; Chen, Benjamin; gs-mra-mtg
Subject: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

Temporary MTG SPG VaR limit of $110mm expired on 8/7/2007

MTG SPG is over its permanent VaR limit of $35 mm
Resi Prime is over its current stress test limit of $100mm
Acquisition Commitment is over its current stress test limit of $150mm

	95% VaR ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	95.0	97.6	35
	Stress Test ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	(257)	(238)	(650)
Deriv	(24)	(25)	(30)
Res Prime	(103)	(104)	(100)
Res Credit	(108)	(111)	(185)
Credit Resid	(80)	(80)	(170)
Non-Resi Orig	4	4	(70)
CRE Loan	[redacted]		
ABS Loan	[redacted]		
SPG Trading	180	194	(160)
ABS/MBS CDO	(1)	(1)	(30)
Manager	0	0	
Commitment	(204)	(195)	(150)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Dinias, Michael
Sent: Tuesday, August 21, 2007 1:54 PM
To: Viniar, David; Cohn, Gary; Montag, Tom; Sherwood, Michael S; Winkelried, Jon (EO 85B30); Mullen, Donald; Salame, Pablo; Sparks, Daniel L; Broderick, Craig; Berry, Robert; McMahon, Bill; Petersen, Bruce; Wilson, Edward
Subject: Trading VaR Analysis

Attachments: Picture (Metafile); Mortgage VaR Contribution.pdf; FW: Potential large subprime trade and impact on Firmwide VAR

The below table computes the Trading VaR impact of going long credit risk via CDX Investment Grade, CDX High Yield, Loan CDX, and ABX BBB. For example, going long $1.0mm/bp of ABX BBB results in $35mm reduction in Trading VaR (from $167mm to $132mm). Likewise going long $5.3mm/bp of CDX High Yield generates $33mm decrease in Trading VaR.

Its important to note that this analysis is based on the current VaR model and that the mortgage desk has questioned the size of the implied short exposure (i.e., desk believes they are less short than implied by the VaR model). We are reviewing the current VaR methodology with the mortgage traders/strategists and assessing the impact of various potential enhancements (e.g., price volatility versus spread volatility).

Trading VaR =	167					
	US CDX IG series 8	US CDX HY100 series 8	LCDX	ABX BBB 07-1	Resulting Trading VaR	Trading VaR Impact
Scenario 10	+$21.3mm/bp				142	-25
Scenario 11		+$5.3mm/bp			135	-33
Scenario 12			+$8.1mm/bp		143	-25
Scenario 13				+$1.0mm/bp	132	-35
Scenario 14	+$4.0mm/bp	+$4.6mm/bp			136	-32
Scenario 15	+$10.9mm/bp	+$7.1mm/bp	-$6.7mm/bp		133	-35
Scenario 16	+$7.8mm/bp	+$7.7mm/bp	-$8.4mm/bp	+$0.8mm/bp	98	-69

The attached pdf below shows Mortgage Trading VaR broken down by desk and the 3 columns from the right show marginal percentage contribution and total contribution to Firmwide VaR. Mortgage Trading has 41% marginal contribution to Firmwide VaR and adds $48mm to Firmwide VaR. This is primarily driven by mortgage shorts on the ABS Synthetics and Correlation desks.

Decreasing the long cash vs short derivative basis risk on the Mortgage desk would also reduce VaR (albeit much less than decreasing net short). The significant long cash positions are comprised of $900mm RMBS Suprime securities and $100mm CDO Squared positions on the ABS Securities desk, $115mm Cash CDOs on the Correlation desk, $320mm CDO Mezz and $100mm CDO Squared on the ABS/MBS CDO Origination desk. There is also $250mm BB/B bonds in the Subs book on the Residential Prime desk and $8.8B of loans/commitments in the Acquisition Commitments line.

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Mortgage VaR Contribution.pdf

In separate email (attached below) the desk has proposed purchasing $10B subprime AAAs in either cash or synthetic (ABX) form. If done in "synthetic" form this would result in $34mm reduction in Trading VaR. However if done in "cash" form Trading VaR would decrease $11mm. The smaller Trading VaR impact of cash is due to the increase in the long cash vs. short derivative basis risk.



FW: Potential large subprime t...

Confidential Treatment Requested by Goldman Sachs

From: Petersen, Bruce
Sent: Tuesday, August 07, 2007 7:49 AM
To: Cohn, Gary; Viniar, David; McMahon, Bill
Cc: Berry, Robert; Dinias, Michael
Subject: VaR

We are attempting to get an early estimate of where var finished up close of business yesterday. We are doing detailed analysis of mortgage and credit trading var contributors to see where we might get the most efficient var reduction.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1829

From: Berry, Robert
Sent: Wednesday, August 15, 2007 5:23 AM
To: Viniar, David; McMahon, Bill; Broderick, Craig
Subject: RE: MarketRisk: End of Day Summary - cob 8/10/2007

the most obvious risks are the short in mortgages and effectively a credit basis trade, long loans, short other credit. hedging these (across mortgages, gcp, ssg and origination) might reduce by ~20%.

i know you know, but our sensitivity to estimates of correlation implicit in the data we use for simulation is becoming acute. put another way, there will be days where "nothing happened" - positions didn't change, markets were quiet, but small changes in correlation will mean the difference between 140 and 160. it will be really difficult to explain to you and to the desks why were under yesterday but over today. this only gets worse as the headline risks reduce.

we're making some changes over the next couple of weeks that should allow us to more easily quantify the daily "creep". it will still be hard to give much intuition other than "it is what it is", but at least we can factor it out in discerning changes driven by desks increasing positions.

From: Viniar, David
Sent: Monday, August 13, 2007 7:27 PM
To: McMahon, Bill; Broderick, Craig; Berry, Robert
Subject: FW: MarketRisk: End of Day Summary - cob 8/10/2007

No comment necessary. Get it down.

From: McAndrew, Thomas R.
Sent: Monday, August 13, 2007 6:44 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN PBC09); Evans, J. Michael (EO CKC68); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis)
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen
Subject: MarketRisk: End of Day Summary - cob 8/10/2007

VaR increased from $150mm to $159mm

95% VaR by Business ($mm)

	10-Aug	9-Aug	% Contr
Trading	159	150	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	96	102	40%
[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Wall Street & The Financial Crisis
Report Footnote #1831

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95% VaR by Product Category ($mm)

	10-Aug	9-Aug	% Contr
Trading	159	150	100%

[redacted]

Credit Scenario ($MM)

	10-Aug	9-Aug	Limit
[redacted]			
Mortges.	(313)	(289)	(750)
Warehouse	56	52	(170)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Limit Excesses
Credit Origination widening scenario temporary limit of <$2.25bn> is at a level of <$2.5bn>.
Credit Origination temporary VaR limit of $50mm is at a level of $63mm.
Residential Prime is over its permanent limit of <$100mm> with an impact of <$102mm>.

Temporary Limits
Interest Rate Product Category VaR temporary limit of $150mm until cob 8/29.
Global Credit Products VaR temporary limit of $90mm until cob 8/29.
Acquisition Commitment widening scenario temporary limit of <$250mm> until cob 8/21
Mortgages has a temporary VaR limit of $110mm until cob 8/21.
Mortgage Trading widening scenario has a temporary limit of <$750mm> until cob 8/21.

<< File: Daily Trading Risk Summary20070810.pdf >>

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From: Dinias, Michael
Sent: Wednesday, August 15, 2007 7:10 AM
To: McMahon, Bill; Petersen, Bruce; Sparks, Daniel L; Mullen, Donald
Cc: Berry, Robert
Subject: FW: Hedge Analysis cob 08/13/07

Attachments: Picture (Metafile)

Scenario 13: going long $0.7mm/bp of ABX BBB would reduce Firmwide VaR by $23mm ($150mm to $127mm). Going long ABX is probably the easiest and most effective single hedge we could do. Worth noting that this trade would reduce Mortgage VaR by $34mm ($96mm to $62mm) .

Scenario 15: short $13.5mm/bp LCDX, long $8mm/bp CDX HY, and short $9.1mm/bp CDX IG would reduce Firmwide VaR by $10mm. This effectively is hedging the longs in Credit Origination and the shorts in Global Credit Trading.

Scenario 10, 11, and 12: impact of hedging with only one corporate index at a time (CDX IG, CDX HY, or LCDX) with Firmwide VaR reduction in the $4mm to $6mm range.

Scenario 18: using all the below assets results in $37mm reduction in Firmwide VaR

From: McAndrew, Thomas R.
Sent: Tuesday, August 14, 2007 10:23 PM
To: Berry, Robert
Cc: Dinias, Michael; Rookley, Cameron; Luo, Fei; Walters, Kristen; Ng, Victor K; Jha, Arbind; Filgueiras, Geraldo A.; Shaw, Michael; Yunger, Dalia (Kronenberg); Goh, Amy; Yunger, Dalia (Kronenberg)
Subject: Hedge Analysis cob 08/13/07

Below is the Hedge Analysis for cob 8/13
There are a few credit only scenarios as well as inclusion and exclusion of LCDX across all assets

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Wall Street & The Financial Crisis
Report Footnote #1832

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	JPY[1]	EUR[1]	S&P 500	US 10y Swap	Nikkei 225	Russell 2000	STX50E	FTSE	W
Scenario 1					-$1.9Bn				
Scenario 2				-$2.0mm/bp					
Scenario 3			+$2.1Bn						
Scenario 4	-$1.3Bn								
Scenario 5		-$3.6Bn							
Scenario 6						+$1.2Bn			
Scenario 7							+$0.9Bn		
Scenario 8								+$0.5Bn	
Scenario 9									-9m
Scenario 10									
Scenario 11									
Scenario 12									
Scenario 13									
Scenario 14									
Scenario 15									
Scenario 16			+$4.0Bn		-$2.1Bn	-$1.7Bn	+$2.8Bn	-$2.3Bn	
Scenario 17	-$0.2Bn	-$2.0Bn	+$2.0Bn	+$0.4mm/bp	-$1.9Bn	-$1.6Bn	+$2.9Bn	-$3.5Bn	-6.0m
Scenario 18	-$1.1Bn	-$2.1Bn	+$1.1Bn	+$0.9mm/bp	-$1.7Bn	-$1.0Bn	+$2.1Bn	-$2.9Bn	-7m

Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Wednesday, August 22, 2007 9:33 AM
To: Montag, Tom; Mullen, Donald
Subject: RE: VAR reduction possibilities

Yes on single names.
As I mentioned to Don, tactics are very important - we are working with specific salespeople who have best account likelihood to succeed, as widespread attention will decrease chance to execute.
Then we'd look at abx index (after doing singles) For [redacted] trade, will appeal more broadly as that is best way to execute.

Also, a number of things in var calc need to be worked thru with risk team.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, August 22, 2007 9:04 AM
To: Mullen, Donald; Sparks, Daniel L
Subject: Re: VAR reduction possibilities

Are those single names we are already short

----- Original Message -----
From: Mullen, Donald
To: Sparks, Daniel L; Montag, Tom
Sent: Wed Aug 22 08:44:46 2007
Subject: Re: VAR reduction possibilities

I would like to discuss

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom
Sent: Wed Aug 22 08:40:59 2007
Subject: FW: VAR reduction possibilities

We are basically going to try to execute on all this (cmbs in next e-mail)

-----Original Message-----
From: Salem, Deeb
Sent: Tuesday, August 21, 2007 7:39 PM
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh
Cc: Salem, Deeb
Subject: VAR reduction possibilities

1. Show [redacted] $500mm of 2005-vintage BBB and BBB- single name protection at mid mkt (or better)
- $8mm scenario risk
- [redacted] likes a "deal"
- minimal risk because [redacted] is quiet
- high previous success rate

2. Show [redacted] $500mm of 2006-vintage single-A single name protection at mid mkt (or better)
- $8mm scenario risk
- mentioned last week that they would be a better buyer of this protection given last week's marks
- problem is that they only want to look at names they already have on

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3. Buy $250mm of either ABX 06-1 BBB/BBB- index or single-name risk from [redacted] and the various pockets of money he oversees ([redacted])
- $4mm scenario risk
- may have some appetite to add to shorts before August remits (out next Friday or Monday)
- responds positively to momentum and would be more likely to execute if/when market sells-off

4. Buy $500mm of ABX 06-2/07-1 AA index from RBC
- $11mm scenario risk
- great success rate with this account over the past month as we bot $3bb of ABX AAA from RBC
- would be offered side or higher
- difficult to do without the market moving against us
- ABX liquidity is sparse this week

5. Buy $400mm of ABX AAA and AA risk from [redacted] ($100 of each 062 AAA, 062 AA, 071 AAA, and 071 AA)
- $5mm scenario risk
- claim to be real sellers of ABX, but we have had trouble doing trades >$50mm. They take the free information of us showing bids, tell us our price is too low, but refuse to show us a counter

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Dinias, Michael
Sent: Thursday, August 16, 2007 2:04 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Broderick, Craig; Berry, Robert; Mullen, Donald; Sparks, Daniel L; McMahon, Bill; Petersen, Bruce; Wilson, Edward
Subject: Trading VaR $171mm

Trading VaR increased $6mm, from $165mm to $171mm, versus $150mm limit.

Interest Rate Product VaR [redacted]

Credit Trading VaR [redacted]

Mortgage Trading VaR increased $4mm, from $110mm to $114mm.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1833

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Confidential Treatment Requested by Goldm

From: Walters, Kristen
Sent: Friday, August 17, 2007 8:45 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Evans, J. Michael (EO CKC68); Montag, Tom; Sherwood, Michael S; McMahon, Bill; Broderick, Craig
Cc: Berry, Robert; Dinias, Michael
Subject: Weekly Market Risk Summary as of 8/16/07

Attachments: Daily_Widening_Est_20070816.pdf

Significant changes in risk from previous week (cob 8/10/07 to cob 8/16/07):

- **Trading VaR increased $15mm to $174mm (vs. limit $150mm) principally due to risk increases in Mortgages and Global Credit Products.**

  (i) Global Credit Products (37%) and Mortgages (46%) now contribute 83% to Trading VaR even with increased diversification offset by Credit Origination.
  (ii) Firmwide directional long Equity Delta decreased to $1.7B with EPG net short <$1.1B>.
  (iii) Interest rate duration (standardized DV01) flipped from short to slightly long $0.4mm/bp

- **Credit Spread Widening Scenarios:**

  (i) Global Credit Products spread widening exposure decreased due to a reduction in Project Elaine exposure (even after a long exposure from a valuation adjustment was added to the bespoke correlation portfolio).



Daily_Widening_Est_20070816.pd...

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1833

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 6:41 PM
To: Montag, Tom
Subject: RE: Current Outstanding Notional in SN ames

Not much more today - trying

From: Montag, Tom
Sent: Thursday, August 23, 2007 6:16 PM
To: Sparks, Daniel L
Subject: RE: Current Outstanding Notional in SN ames

how much did we cover--shooting for 1 billion

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:51 PM
To: Montag, Tom
Subject: RE: Current Outstanding Notional in SN ames

That's why we say we are short (long protection) about $3BB single names - the correlation is very high

---

From: Montag, Tom
Sent: Thursday, August 23, 2007 3:45 PM
To: Sparks, Daniel L
Subject: RE: Current Outstanding Notional in SN ames

if you take the 13 out of each side its
11.8 by 8.8 which is 3 billion long
what does the 11.8 in theory hedge or part of it that net leaves us in reality short

---

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:42 PM
To: Montag, Tom
Subject: RE: Current Outstanding Notional in SN ames

Meaning the IO we spoke about - exact cusip long and short, but at different running premiums that creates IO

From: Montag, Tom
Sent: Thursday, August 23, 2007 3:39 PM
To: Sparks, Daniel L
Subject: RE: Current Outstanding Notional in SN ames

what does explicitly mean? 13bb by 13bb offset--what does that mean

---

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:37 PM
To: Montag, Tom; Mullen, Donald
Cc: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: RE: Current Outstanding Notional in SN ames

All synthetics
Positions are in terms of protection (so negative means long risk, positive means short risk)
13BB by 13BB explicitly offset (Josh mentioned in out meeting)
Rest are comparable, but try to buy protection on worse deals vs writing protection on better deals

---

From: Montag, Tom

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1838

Confidential Treatment Requested by Goldman

Sent: Thursday, August 23, 2007 3:29 PM
To: Sparks, Daniel L; Mullen, Donald
Cc: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: RE: Current Outstanding Notional in SN ames

what are the longs? are these comparable? are these all synthetics ?

From: Sparks, Daniel L
Sent: Thursday, August 23, 2007 3:19 PM
To: Mullen, Donald; Montag, Tom
Cc: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Subject: FW: Current Outstanding Notional in SN ames

Per your earlier question about absolute longs and shorts in single names:

	Notional Long	Notional Short	# of cusips
A	3,686,600,000	-2,337,750,000	385
BBB	10,419,693,103	-8,753,543,403	703
BBB-	10,767,733,239	-8,877,635,250	638

Confidential Treatment Requested by Goldman Sachs

From: Cohn, Gary
Sent: Thursday, August 23, 2007 2:25 PM
To: Blankfein, Lloyd
Subject: Re: Trading VaR $133mm

Down 40 in 2 days

----- Original Message -----
From: Blankfein, Lloyd
To: Cohn, Gary
Sent: Thu Aug 23 14:22:53 2007
Subject: Re: Trading VaR $133mm

Good job.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Cohn, Gary
To: Blankfein, Lloyd; Viniar, David
Sent: Thu Aug 23 14:20:47 2007
Subject: Fw: Trading VaR $133mm

The message got through

----- Original Message -----
From: Dinias, Michael
To: Viniar, David; Cohn, Gary; Montag, Tom; Sherwood, Michael S; Winkelried, Jon; Mullen, Donald; Sparks, Daniel L; Salame, Pablo; Broderick, Craig; Berry, Robert; McMahon, Bill; Petersen, Bruce; Wilson, Edward (ED, 1NYP/042)
Sent: Thu Aug 23 14:18:17 2007
Subject: Trading VaR $133mm

Trading VaR decreased $11mm, from $144mm to $133mm.

Credit Trading VaR [redacted]

Mortgage VaR decreased $9mm, from $99mm to $90mm. approximately $6mm of the decrease was due to the desk going longer $250mm ABX BBB (06-1) and $160mm BBB Single Name CDS. the remaining $3mm was driven by strats updating the prepayment speeds on subprime bonds resulting in a duration in line with the synthetics. there is an additional $270mm of BBB- Single Name CDS (booked after the close) that will result in a further $5mm reduction in Mortgage VaR.

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Wall Street & The Financial Crisis
Report Footnote #1839

Confidential Treatment Requested by Goldm

From: Blankfein, Lloyd
Sent: Friday, August 31, 2007 9:36 AM
To: Montag, Tom
Subject: RE: Structured Products Weekly Update - 08/30/07 (Internal Use Only)

Thanks

Appreciate the posts, I'm watching the financial news

-----Original Message-----
From: Montag, Tom
Sent: Friday, August 31, 2007 9:23 AM
To: Blankfein, Lloyd
Subject: Fw: Structured Products Weekly Update - 08/30/07 (Internal Use Only)

Bush says FHA will guarantee some tiny piece of mtg market and it takes off. Countrywide and rescap rally a lot. We are up a lot but once mkt really looks at it may come off

U can ignore long string of email just top

----- Original Message -----
From: Birnbaum, Josh
To: Montag, Tom; Mullen, Donald; Sparks, Daniel L
Cc: Swenson, Michael; Lehman, David A.; Brafman, Lester R; Salem, Deeb
Sent: Fri Aug 31 09:07:25 2007
Subject: RE: Structured Products Weekly Update - 08/30/07 (Internal Use Only)

Based on the mkts we are making, we would be ok in this move. We are +50mm in AAAs alone right now. If we keep moving higher, the top of the structure will lose steam and we will trade short again. No street markets yet, should have more clarity soon.

From: Lehman, David A.
Sent: Friday, August 31, 2007 9:00 AM
To: Montag, Tom
Cc: Salem, Deeb; Birnbaum, Josh
Subject: RE: Structured Products Weekly Update - 08/30/07 (Internal Use Only)

Added Deeb, he can comment on p+l and the large abx move to the upside

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From: Montag, Tom
Sent: Friday, August 31, 2007 8:58 AM
To: Lehman, David A.
Subject: RE: Structured Products Weekly Update - 08/30/07 (Internal Use Only)

abx hurting us today? mkt over reacting?

From: Lehman, David A.
Sent: Friday, August 31, 2007 8:50 AM
To: Montag, Tom
Subject: RE: Structured Products Weekly Update - 08/30/07 (Internal Use Only)

yup

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1840

Confidential Treatment Requested by Goldm

From: Montag, Tom
Sent: Friday, August 31, 2007 8:47 AM
To: Lehman, David A.
Subject: RE: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

I will say in BOLD it says they helped desk DRAMATICALLY REDUCE BALANCE SHEET--in fact, it did nothing

too funny

From: Lehman, David A.
Sent: Friday, August 31, 2007 8:43 AM
To: Montag, Tom
Subject: RE: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

It does not - must have been a miscommunication

From: Montag, Tom
Sent: Friday, August 31, 2007 8:41 AM
To: Lehman, David A.
Subject: RE: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

so how would that help balance sheet?

From: Lehman, David A.
Sent: Friday, August 31, 2007 8:39 AM
To: Montag, Tom
Subject: RE: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

1.3bb was total trading volume, split evenly b/w buys and sells

From: Montag, Tom
Sent: Friday, August 31, 2007 8:13 AM
To: Lehman, David A.
Subject: FW: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

what are the cmbs she references below?

From: Kreitman, Gail
Sent: Thursday, August 30, 2007 1:56 PM
To: Montag, Tom; Mullen, Donald; Schwartz, Harvey; Bash-Polley, Stacy; Sparks, Daniel L; Madoff, Paula; Gasvoda, Kevin; Pinkos, Steve; Radtke, Lorin; Icikson, David; Joseph, Alexandra A.; Kaprelian, Michael
Subject: FW: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

Subject: Structured Products Weekly Update - 08/30/07

(Internal Use Only)

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SPG Trading
Mortgages Weekly Metrics 16-November-2007

INTERNAL USE ONLY

Desk	P&L ($000) WTD	PWA	Variance %	07 YTD	YTD Annl	2006 FYE	Sales Credits 07 YTD	YTD Annl	2006 FYE
SPG Trading (Swenson, Lehman, Birnbaum)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABS Securities	(62,880)	(19,377)	225%	(1,031,746)	(1,051,976)	20,602	298,014	309,935	141,613
ABS Synthetics	85,690	63,667	35%	3,269,058	3,333,158	36,150		n/a	-
Property Derivatives	0	0	n/a	0	n/a	0		n/a	-
Correlation	10,014	22,468	-55%	1,133,414	1,155,637	118,519	160,993	167,433	76,226
Gross Total	44,731	72,527	-38%	3,671,077	3,743,059	226,865	645,758	667,588	279,258
Exit Price	0	0	n/a	0	n/a	(52,958)	-	n/a	-
Transfers	126	(14)	-982%	(587)	(598)	(10,504)	-	n/a	-
Net Total	44,857	72,513	-38%	3,670,490	3,742,461	163,403	645,758	667,588	279,258

Actual P&L as of 15-November-2007

As of 09-November-2007 (weekly lag)

Desk	P&L ($000) WTD	PWA	Variance %	07 YTD	YTD Annl	2006 FYE	Sales Credits 07 YTD	YTD Annl	2006 FYE
CDO/CLO	(52,340)	(33,310)	57%	(1,717,836)	(1,751,519)	173,863	71,403	74,259	149,023

Actual P&L as of 15-November-2007

As of 09-November-2007 (weekly lag)

Risk Measures ($mm)*	VaR	Stress Test	SDV01
SPG Trading	81.2	674.1	(227)

As of 15-November-2007 / VaR is not additive due to portfolio diversification benefit

Balance Sheet ($m)*	Long	Limit	Short
SPG Trading	6,239	10,000	(494)

As of 15-November-2007

** Risk, and Balance Sheet include SP CDOs*

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Commercial Mortgage Backed Securities

CMBS Synthetics

[redacted]

Asset Backed Securities

ABS Cash

In cash trading, we continue to see selling up the capital structure. Several European accounts continue to sell AA/AAA. Fears of massive supply coming to the market (due to possible liquidations) along with market technicals have left investors unwilling to go long cash at this point in the cycle. Non-Resi ABS continues to widen, specifically cards and autos – The desk saw over $1bn in non-resi cash up for the bid. The lack of overall liquidity has increased frustration amongst investors. Particular to the desk, we were able to sell $100mm in AA/AAA positions to several accounts.

ABS Single-Names

In single-name activity, volumes also slowed. The desk saw roughly $750mm in BWIC/OWIC activity. We continue to see large amounts of short interest even at these all time wides with many line items trading north of 90 points upfront. Dealers remain risk-averse in terms of offering protection. Away from this, the desk printed its first series of Credit Card CDS trades (notional of $100mm). Multiple hedge funds and macro players have expressed interest in getting short consumer receivables via CDS (cards, autos, student loans).

ABS Index

In ABX trading, the desk had $250mm in total flows (GS Buys $50mm, GS Sells $200mm). ABX rallied early in the week largely due to short covering in the credit and CMBX markets as macro players decided to take profits. It appears as though many dealers have flattened themselves out, lowering ABX volume across the street. Late in the week, dealer selling up the capital structure pushed the market a bit wider. Overall, ABX prices were essentially unchanged across all vintages and parts of the capital structure with the exception of 06-1 BBB/BBB- (down 5 points each, due to street selling Friday afternoon). We expect a few monthly remits to be released late next week (consensus points to continued deterioration in performance), with the remainder being released after Thanksgiving.

Tranche Risk

Correlation & CDO

[redacted]

ABS CDO Secondary bid on roughly $600mm of ABS CDO super senior risk – $400mm of high grade CDO SS risk and $200mm of mezz CDO SS risk. High grade bids wanted by Aioi Insurance and BGI, both holders of Altius III (a GS deal), nothing traded. Seller of the $200mm in mezz CDO SS risk was WinCap which is in wind-down mode, we bought $60mm of cash bonds and unwound $60mm of ABX Quadarant super senior tranche WinCap had on versus us. No notable ABS tranche activity this week – MS Prop may be looking to unwind all or part of the $1.8bn ABX Quadrant and $1.2bn Hudson Mezz super senior trades they have on with us.

Permanent Subcommittee on Investigations

Document originally produced in excel format; reformatted/margins modified for readability and printing purposes by the Subcommittee. Original document retained in the Subcommittee files.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1853

From: Iqbal, Farrukh
Sent: Monday, February 26, 2007 3:47 PM
To: Sparks, Daniel L; Gasvoda, Kevin; Swenson, Michael; Finck, Greg; Noh, Suok; Noh, Suok; McHugh, John; Pouraghabagher, Cyrus
Cc: Holen, Margaret; Wiesel, Elisha; Turok, Michael; Barrett, Tom; Chen, Xin; Li, Ji; Dutta, Mitrajit
Subject: RE: RE: New cross desk Top Sheet risk report
Attachments: MtgTopSheet23Feb07.pdf; MtgTopSheet_2bd_changes.pdf; MtgTopSheet_1bd_changes.pdf

Please see the top sheet risk report for 23Feb07 (attached) as well as reports highlighting the one business day and two business day changes in market value and spread dv01 across the desks currently covered (Resi Loans and Resids, SPG Index, Sgl Name and CDO synthetics).

We will be generating this report daily and should have it out to you each morning going forward. Please let us know who else you would like on the distribution.

thanks,
Farrukh

From: Iqbal, Farrukh
Sent: Thursday, February 08, 2007 9:27 PM
To: Sparks, Daniel L
Cc: Holen, Margaret; Gasvoda, Kevin; Swenson, Michael; Turok, Michael; Pouraghabagher, Cyrus; Noh, Suok; Barrett, Tom; Chen, Xin; Li, Ji
Subject: RE: New cross desk Top Sheet risk report

Please see the attached file for an initial version of the cross desk top sheet report. The report currently covers resi-credit and spg secondary/synthetics. We are working on integrating Prime Fixed and Prime Hybrid books and they should be available in the next few days.

Let us know if you would like any enhancements to the attached report. We are looking to start generating this report daily starting next week, adding more desks/sectors as the positions and risk analytics become available (cash CDO, CLO, CMBS, etc). (special thanks to Ji Li, Tom Barret and Xin Chen for helping to put this report together)

From: Iqbal, Farrukh
Sent: Friday, February 02, 2007 7:59 PM
To: Sparks, Daniel L
Cc: Holen, Margaret; Gasvoda, Kevin; Swenson, Michael; Turok, Michael; Pouraghabagher, Cyrus; Noh, Suok; Barrett, Tom; Chen, Xin
Subject: New cross desk Top Sheet risk report

Dan,

We've been looking at integrating the existing prime, resi credit and spg trading risk reports into a new departmental top sheet risk report. An example report is listed below. The report will break out resi loan and rmbs synthetics positions by desk/sector and will report AAA thru BBB- equivalent market values for rmbs loan, securitized bonds (notionals for cds) as well as rate dv01's and spread DV01s. The report will also break out market values on resids by sector and also differentiate between resids embedded in loan bulks and securitized resids (pre 2006 and 2006+).

This report should be ready by next Thursday.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1858

We are also working on tracking down positions in the cash CDO, CLO and CMBS businesses for inclusion in this report. More investigation needs to be done here and will look to provide an ETA for these positions next week.

	Market Value (Notional for CDS)										R DV
Desk / Sector	**Total**	**AAA**	**AA**	**A**	**BBB**	**BBB-**	**Loan Resid**	**Sec Resid <2006**	**Sec Resid 2006+**	**Total Resid**	
Prime/Alt-A											
Prime Fixed											
Prime Hybrid											
Option ARM											
Alt-A											
RMBS Subprime											
Subprime											
2nds											
S&D											
RMBS Synthetics											
Index											
<2006											
2006+											
Single Name											
<2006											
2006+											
Syn CDO											
<2006											
2006+											
RMBS CDO Synthetics											
High Grade											
Single Name CDS											
Syn CDO											
Mezz											
Single Name											
Syn CDO											

CDO: Single Name CDS = CDS referencing Cash CDO tranche
Syn CDO = a synthetic CDO referencing a cash CDO tranche

Goldman Sachs

Mortgage Strategies

Date: 23Feb07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

			Market Value(MM$)(Notional for CDS)												Spread DV01(K$)					
Group	Sector	Type	Total	AAA	AA	A	BBB	BBB-	NR	Loan Resid	Sec Resid <2006	Sec Resid >=2006	Total Resid	Rate DV01(k$)	AAA	AA	A	BBB	BBB-	NR
Dept	Total		-9,500.8	-514.6	685.0	-6,682.8	-3,771.1	-1,560.2	1,378.5	226.0	223.3	515.0	964.3	-487.2	1,095.4	-346.9	2,256.1	944.5	334.1	-224.8
Prime/ARA	Total		2,336.2	1,829.4	98.8	-25.2	-15.1	-19.8	255.0	38.9	65.5	110.4	212.9	-286.9	133.3	-23.2	14.5	4.5	2.2	-61.8
	ARA	Total	2,336.2	1,829.4	98.8	-25.2	-15.1	-19.8	255.0	38.9	65.5	110.4	212.9	-286.9	133.3	-23.2	14.5	4.5	2.2	-61.8
		Bulk Loan	2,212.3	2,052.7	56.3	40.2	20.1	17.2	0.2	25.5	0.0	0.0	25.5	-340.7	304.8	-12.0	8.1	-4.0	-5.4	-0.0
		Conduit Loan	1,570.5	1,461.4	42.5	27.9	14.4	12.2	0.7	11.4	0.0	0.0	11.4	-279.8	242.7	-11.3	6.7	-3.5	-3.2	-0.2
		Bond	176.5	90.3	0.0	1.6	0.3	1.0	83.3	0.0	0.0	0.0	0.0	-10.7	-26.2	0.0	0.2	-0.0	-0.0	-28.9
		Residual	351.9	0.0	0.0	5.1	0.0	0.0	170.8	0.0	65.5	110.4	176.0	-498.0	-0.0	0.0	0.2	0.0	0.0	-32.6
		ABX	-1,975.0	-1,775.0	0.0	-100.0	-50.0	-50.0	0.0	0.0	0.0	0.0	0.0	828.3	0.0	0.0	0.0	0.0	0.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.3	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0							
RMBS Subprime	Total		1,450.3	-678.1	302.8	-123.7	-75.9	150.3	1,123.5	189.1	157.7	404.8	751.4	-200.3	800.8	-63.5	80.7	38.0	-41.3	-162.8
	Scratch&Dent	Total	789.5	214.4	26.8	-144.5	-1.5	70.2	545.2	25.5	20.4	33.4	79.2	29.2	-21.6	-7.6	43.8	-1.5	-18.2	-22.0
		Bulk Loan	805.6	214.4	26.8	19.2	26.5	15.0	478.4	25.6	0.0	0.0	25.5	-40.0	-21.6	-7.6	-5.4	-7.5	-6.1	-0.0
		Bond	148.5	0.0	0.0	36.3	42.0	55.2	13.1	0.0	0.0	0.0	0.0	-10.8	0.0	0.0	-11.3	-10.9	-12.1	-6.1
		Residual	107.5	0.0	0.0	0.0	0.0	0.0	53.7	0.0	20.4	33.4	53.7	-20.6	0.0	0.0	0.0	0.0	0.0	-15.9
		ABX	-270.0	0.0	0.0	-200.0	-70.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.2	0.0	0.0	60.5	18.9	0.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.2	0.0	0.0	0.0	0.0	0.0	0.0
		ED Future	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.0	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	33.7	0.0	0.0	0.0	0.0	0.0	0.0
	Subprime 1st Lien	Total	218.5	-1,139.7	208.7	41.1	-48.3	62.5	509.5	124.8	135.9	303.9	564.6	-135.7	741.5	-39.3	37.1	32.0	-23.5	-122.0
		Bulk Loan	1,020.1	740.5	93.6	44.4	22.9	31.7	0.0	87.0	0.0	0.0	87.0	-166.2	-135.8	-33.5	-15.3	-7.8	-11.7	0.0
		Conduit Loan	479.9	349.8	45.2	22.2	9.1	15.8	0.0	37.8	0.0	0.0	37.8	-64.3	-46.7	-15.5	-6.4	-4.5	-10.7	0.0
		Bond	168.9	0.0	0.0	0.0	0.0	0.0	168.9	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0	-45.3
		Residual	879.6	0.0	0.0	19.4	24.7	55.0	340.7	0.0	135.9	303.9	439.8	-101.5	0.0	0.0	-0.8	-4.0	-7.2	-76.7
		ABX	-2,595.0	-2,250.0	0.0	-150.0	-170.0	-25.0	0.0	0.0	0.0	0.0	0.0	-6.8	922.4	0.0	44.5	41.0	5.4	0.0
		CDS	265.0	20.0	70.0	105.0	65.0	5.0	0.0	0.0	0.0	0.0	0.0	-0.0	1.0	9.7	18.0	7.3	0.8	-0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	202.1	0.0	0.0	0.0	0.0	0.0	0.0
	2nd Lien	Total	442.3	247.2	67.5	-20.3	-26.0	-2.4	68.8	38.7	1.5	67.3	107.6	-63.9	80.8	-16.6	9.8	7.4	0.4	-18.8
		Bulk Loan	739.8	547.2	67.5	39.7	24.0	22.6	0.0	38.7	0.0	0.0	38.7	-77.4	-43.8	-16.5	-8.0	-4.8	-5.0	0.0
		Residual	137.6	0.0	0.0	0.0	0.0	0.0	68.8	0.0	1.5	67.3	68.8	-64.5	0.0	0.0	0.0	0.0	0.0	-18.8
		ABX	-435.0	-300.0	0.0	-60.0	-50.0	-25.0	0.0	0.0	0.0	0.0	0.0	-4.2	-124.8	0.0	17.8	12.0	5.4	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	52.2	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Synthetics	Total		-10,795.5	-1,434.1	214.2	-4,435.5	-3,449.1	-1,690.9						0.0	64.5	-193.4	1,138.2	796.2	373.2	
	CDO	Total	-8,584.5	-1,363.5	-671.8	-1,875.4	-2,104.8	-2,569.2						0.0	106.3	117.2	444.2	433.3	506.5	
		>=06	-1,073.3	0.0	0.0	-435.1	-331.8	-306.6						0.0	0.0	0.0	133.8	90.2	79.0	
		< 06	-7,511.2	-1,363.5	-671.8	-1,440.3	-1,773.0	-2,262.6						0.0	106.3	117.2	310.4	343.1	427.5	
	Index	Total	982.9	-365.0	567.0	-1,803.8	-571.8	3,156.1						0.0	-24.2	-198.8	441.5	136.5	-685.3	
		>=06	5,103.7	2,565.0	337.0	1,595.5	-415.8	1,022.0						0.0	-1,051.8	-129.0	-479.6	99.3	-207.8	
		< 06	-4,120.8	-2,930.0	230.0	-3,399.0	-155.9	2,134.1						0.0	1,027.6	-69.5	921.1	37.2	-477.5	
	Single Name	Total	-3,193.6	294.4	319.0	-756.5	-772.7	-2,277.8						0.0	-17.6	-112.1	253.5	226.5	551.9	
		>=06	-3,312.3	0.0	175.0	-718.6	-1,186.6	-1,584.1						0.0	0.0	-80.5	243.2	331.9	378.7	
		< 06	118.7	294.4	144.0	-39.9	413.9	-693.7						0.0	-17.6	-31.6	10.3	-105.4	173.3	
RMBS CDO Syn	Total		-2,482.1	-231.9	69.1	-2,098.4	-231.0	0.0						0.0	96.8	-66.8	1,011.7	108.8	0.0	
	HG CDO		-339.9	-61.4	-55.8	-222.6	0.0	0.0						0.0	26.7	25.8	105.9	0.0	0.0	
	HG Single Name		-144.9	-19.0	20.0	-45.0	-29.9	0.0						0.0	-4.5	-10.1	19.7	15.1	0.0	
	Mezz CDO		-1,884.9	-180.5	-361.4	-1,237.3	-85.7	0.0						0.0	75.7	-154.7	577.7	29.3	0.0	
	Mezz Single Name		-242.4	0.0	486.3	-593.3	-115.4	0.0						0.0	-1.0	-237.2	308.4	61.5	0.0	

Confidential Treatment Requested by Goldman Sachs

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Goldman Sachs

Mortgage Strategies

Date: 23Feb07 -21Feb07
E-mail: fico-mtgstrat

Mortgage Dept Top Sheet - CHANGES 21Feb07 TO 23Feb07

			Market Value(MM$)(Notional for CDS)												Spread DV01(K$)					
										Loan	Sec Resid		Total	Rate					
Group	Sector	Type	Total	AAA	AA	A	BBB	BBB-	NR	Resid	<2006	>=2006	Resid	DV01(k$)	AAA	AA	A	BBB	BBB-	NR
Dept	Total		1,250.3	106.4	49.5	-252.4	304.2	837.1	196.8	-16.6	-3.7	29.2	8.6	63.2	-57.3	-17.6	74.5	-124.3	-285.0	-43.8
Prime/Alt-A	Total		263.4	353.2	9.8	5.9	3.5	3.0	-57.2	1.8	0.1	-56.7	-54.8	51.5	-56.7	-2.1	-2.6	-1.7	-2.0	8.9
	Alt-A	Total	263.4	353.2	9.8	5.9	3.5	3.0	-57.2	1.8	0.1	-56.7	-54.8	51.5	-56.7	-2.1	-2.6	-1.7	-2.0	8.9
		Bulk Loan	380.2	354.9	9.8	7.1	3.5	3.0	0.0	1.8	0.0	0.0	1.8	-57.4	-53.1	-2.1	-1.5	-0.7	-1.0	-0.0
		Conduit Loan	-1.9	-1.7	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	0.0	0.0	-0.1	-0.3	0.1	0.0	0.0	0.0	0.0	0.0
		Bond	-1.8	0.0	0.0	-1.1	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	9.7	0.0	0.0	0.2	-0.0	-0.0	0.1
		Residual	-113.2	0.0	0.0	0.0	0.0	0.0	-56.6	0.0	0.1	-56.7	-56.6	109.6	0.0	0.0	0.0	0.0	0.0	-8.8
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.3	-3.7	0.0	-1.4	-1.0	-1.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Subprime	Total		-0.8	-259.6	-36.4	-20.2	-1.5	-0.6	254.0	-18.5	-3.8	86.0	63.6	11.7	30.5	14.1	2.8	-5.8	-0.5	-52.7
	Scratch&Dent	Total	-13.4	-32.1	-0.1	-0.1	7.7	6.8	2.3	4.9	-4.3	1.5	-2.1	9.8	6.5	0.9	-0.2	-2.1	-2.2	1.3
		Bulk Loan	-7.8	-32.1	-0.1	-0.1	7.7	4.6	7.3	4.9	0.0	0.0	4.9	3.2	6.8	0.9	0.9	-1.2	-1.8	0.0
		Bond	0.1	0.0	0.0	0.0	0.0	2.2	-2.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	-0.4
		Residual	-5.7	0.0	0.0	0.0	0.0	0.0	-2.9	0.0	-4.3	1.5	-2.9	6.8	0.0	0.0	0.0	0.0	0.0	0.9
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.4	0.0	0.0	-1.1	-1.0	0.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		ED Future	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
	Subprime 1st Lien	Total	281.7	-10.5	-1.1	-0.8	-0.4	-0.3	231.6	-1.9	0.2	64.8	63.1	-38.1	0.8	0.8	-1.8	-5.2	-0.2	-48.5
		Bulk Loan	-15.8	-11.7	-1.3	-0.7	-0.4	-0.4	0.0	-1.3	0.0	0.0	-1.3	1.4	1.4	0.4	0.3	0.2	0.2	0.0
		Conduit Loan	1.0	1.2	0.2	0.1	0.0	0.1	0.0	-0.5	0.0	0.0	-0.5	2.8	3.0	0.3	0.1	0.0	0.1	0.0
		Bond	166.7	0.0	0.0	0.0	-0.0	0.0	166.7	0.0	0.0	0.0	0.0	-8.8	0.0	0.0	0.0	-2.7	0.0	-42.0
		Residual	129.8	0.0	0.0	0.0	0.0	0.0	64.9	0.0	0.2	64.8	64.9	-45.5	0.0	0.0	0.0	0.0	0.0	-7.5
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.8	3.8	0.0	2.1	-2.6	-0.5	0.0
		CDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.1	-0.2	-0.1	-0.0	-0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2nd Lien	Total	-289.1	-217.0	-35.1	-19.4	-8.8	-7.4	20.1	-21.8	0.4	19.7	-1.5	40.0	23.5	12.5	4.9	1.8	1.8	-4.4
		Bulk Loan	-309.3	-217.0	-35.1	-19.4	-8.8	-7.4	0.0	-21.8	0.0	0.0	-21.8	43.1	23.9	12.5	5.7	2.5	2.3	0.0
		Residual	40.2	0.0	0.0	0.0	0.0	0.0	20.1	0.0	0.4	19.7	20.1	-1.9	0.0	0.0	0.0	0.0	0.0	-4.4
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.3	-0.6	0.0	-0.8	-1.0	-0.5	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Synthetics	Total		1,033.1	-14.8	75.0	-213.8	321.5	835.0						0.0	-31.8	-29.9	71.0	-122.8	-262.3	
	CDO	Total	-219.0	-14.8	0.8	46.2	-138.0	-142.8						0.0	0.4	-0.7	-13.2	23.6	17.1	
		>=06	-117.5	0.0	0.0	10.2	-56.9	-70.8						0.0	0.0	0.0	-3.6	11.0	13.1	
		<06	-101.5	-14.8	0.8	36.0	-81.1	-71.8						0.0	0.4	-0.7	-9.7	12.5	4.0	
	Index	Total	-519.0	0.0	75.0	-155.0	-105.5	-333.5						0.0	-32.5	-29.4	44.8	18.7	124.7	
		>=06	-486.0	-100.0	75.0	-130.0	-2.5	-328.5						0.0	58.4	-28.6	48.6	-5.2	98.2	
		<06	-33.0	100.0	0.0	-25.0	-103.0	-5.0						0.0	-90.9	-0.7	-3.8	23.9	26.5	
	Single Name	Total	1,771.1	0.0	0.0	-105.0	565.0	1,311.1						0.0	0.2	0.2	39.4	-165.2	-404.4	
		>=06	1,600.0	0.0	0.0	-105.0	395.0	1,310.0						0.0	0.0	0.3	39.6	-126.3	-398.4	
		<06	171.1	0.0	0.0	0.0	170.0	1.1						0.0	0.2	0.1	-0.2	-38.9	-6.0	
RMBS CDO Syn	Total		-48.3	-2.0	0.8	-24.4	-18.4	0.0						0.0	0.7	0.9	3.2	0.1	0.0	
	HG CDO		-2.0	-0.8	-5.5	-0.7	0.0	0.0						0.0	0.3	0.2	0.3	0.0	0.0	
	HG Single Name		0.0	0.0	0.0	0.0	0.0	0.0						0.0	0.0	0.0	0.1	-0.8	0.0	
	Mezz CDO		-5.1	-1.2	2.9	-3.7	-3.0	0.0						0.0	0.4	-1.2	-1.6	0.3	0.0	
	Mezz Single Name		-38.2	0.0	-1.8	-20.0	-15.4	0.0						0.0	-0.0	1.9	4.4	0.4	0.0	

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Mortgage Strategies

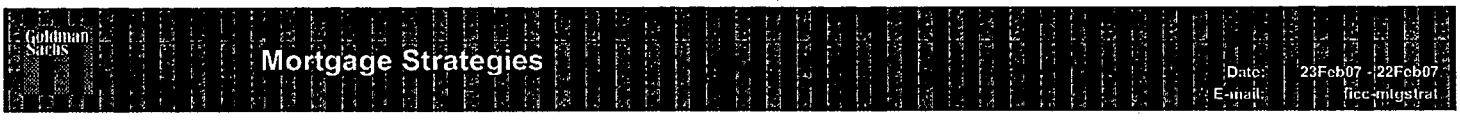
Date: 23Feb07 - 22Feb07
E-mail: fico-mtgstrat

Mortgage Dept Top Sheet - CHANGES 22Feb07 TO 23Feb07

			Market Value(MM$)(Notional for CDS)												Spread DV01(K$)					
										Loan	Sec Resid		Total	Rate					
Group	Sector	Type	Total	AAA	AA	A	BBB	BBB-	NR	Resid	<2006	>=2006	Resid	DV01(k$)	AAA	AA	A	BBB	BBB-	NR
Dept	Total		-110.2	2.7	24.5	-226.2	177.5	-436.0	280.2	-0.0	1.3	85.8	87.1	-28.1	-38.9	-10.8	82.1	-61.8	85.0	-57.2
Prime/Alt-A	Total		-6.5	-6.8	-0.2	-1.3	-0.1	-0.1	2.2	-0.4	0.6	1.4	1.6	9.5	-2.8	0.0	-0.4	-0.5	-0.5	-0.4
	Alt-A	Total	-6.5	-6.8	-0.2	-1.3	-0.1	-0.1	2.2	-0.4	0.6	1.4	1.6	9.5	-2.8	0.0	-0.4	-0.5	-0.5	-0.4
		Bulk Loan	-1.8	-0.9	-0.0	-0.0	-0.0	-0.0	0.0	-0.8	0.0	0.0	-0.8	-6.4	-0.2	-0.0	0.0	0.0	0.0	-0.0
		Conduit Loan	-7.9	-7.7	-0.2	-0.1	-0.1	-0.1	0.0	0.3	0.0	0.0	0.3	-3.4	0.7	0.0	0.0	0.0	0.0	0.0
		Bond	-0.9	0.0	0.0	-1.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.2	-0.0	-0.0	-0.1
		Residual	4.1	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.6	1.4	2.0	19.1	0.0	0.0	0.0	0.0	0.0	-0.3
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.3	-3.9	0.0	-0.6	-0.5	-0.5	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Subprime	Total		342.6	-2.6	-0.3	-0.1	-0.1	2.2	258.0	0.4	0.7	84.4	85.5	-37.8	-1.0	0.4	-2.0	-2.3	-0.8	-56.8
	Scratch&Dent	Total	4.5	-1.7	-0.1	-0.1	-0.1	2.2	4.1	0.1	-0.1	-0.0	0.1	4.6	0.1	0.0	-0.9	-0.5	-0.4	0.4
		Bulk Loan	4.3	1.7	-0.1	-0.1	-0.1	-0.0	6.2	0.1	0.0	0.0	0.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0
		Bond	0.1	0.0	0.0	0.0	0.0	2.2	2.2	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	-0.4	-0.4
		Residual	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	-0.0
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8	0.0	0.0	-0.9	-0.5	-0.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		CD Future	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		TBA PassThru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
	Subprime 1st Lien	Total	298.6	-0.9	-0.2	-0.0	-0.0	0.0	233.6	0.2	0.3	64.5	65.0	-39.7	-0.7	0.3	-0.8	-1.4	-0.1	-52.7
		Bulk Loan	0.8	-0.0	-0.0	-0.0	-0.0	0.0	0.0	0.6	0.0	0.0	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
		Conduit Loan	-0.4	-0.0	-0.0	-0.0	-0.0	0.0	0.0	-0.4	0.0	0.0	-0.4	3.2	3.2	0.4	0.2	0.1	0.1	0.0
		Bond	168.9	0.0	0.0	0.0	0.0	0.0	168.9	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0	0.0	0.0	-45.3
		Residual	129.8	0.0	0.0	0.0	-0.0	0.0	64.8	0.0	0.3	64.5	64.8	-44.1	0.0	0.0	0.0	-0.0	0.0	-7.4
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.1	-3.9	0.0	-0.8	-1.4	-0.3	0.0
		CDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2nd Lien	Total	39.6	-0.9	-0.2	-0.1	-0.0	-0.0	20.3	0.1	0.4	19.8	20.4	-2.3	-0.4	0.1	-0.3	-0.5	-0.3	-4.5
		Bulk Loan	-1.0	-0.9	-0.2	-0.1	-0.0	-0.0	0.0	0.1	0.0	0.0	0.1	-0.0	0.1	0.1	0.0	0.0	0.0	0.0
		Residual	40.6	0.0	0.0	0.0	0.0	0.0	20.3	0.0	0.4	19.8	20.3	-1.8	0.0	0.0	0.0	0.0	0.0	-4.5
		ABX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	-0.5	0.0	-0.4	-0.5	-0.3	0.0
		ESwap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RMBS Synthetics	Total		-442.7	19.3	25.9	-223.5	178.8	-438.1						0.0	-34.9	-12.4	69.2	-56.8	86.3	
	CDO	Total	-112.7	13.3	0.9	21.5	-62.7	-85.8						0.0	0.3	-0.4	-5.3	-8.7	7.1	
		>=06	-51.0	0.0	0.0	4.0	-26.2	-28.8						0.0	0.0	0.0	-1.3	2.7	3.0	
		< 06	-61.7	13.3	0.9	17.5	-36.6	-56.8						0.0	0.3	-0.4	-4.0	-4.0	4.1	
	Index	Total	-470.0	0.0	25.0	-170.0	-12.5	-312.5						0.0	-35.4	-12.1	42.9	0.9	67.2	
		>=06	-445.0	0.0	25.0	-170.0	-2.5	-297.5						0.0	-12.2	-10.8	49.6	-0.9	77.0	
		< 06	-25.0	0.0	0.0	0.0	-10.0	-15.0						0.0	-47.5	-1.3	-6.8	1.8	-10.2	
	Single Name	Total	140.0	0.0	0.0	-75.0	255.0	-40.0						0.0	0.1	-0.0	31.8	-84.5	-8.1	
		>=06	-35.0	0.0	0.0	-75.0	80.0	-40.0						0.0	0.0	-0.0	31.7	-23.9	-4.7	
		< 06	175.0	0.0	0.0	0.0	175.0	0.0						0.0	0.1	0.0	-0.1	-60.5	-3.4	
RMBS CDO Syn	Total		-3.7	0.6	-0.9	-1.2	-2.1	0.0						0.0	-0.2	1.1	-4.7	-2.2	0.0	
	HG CDO		-1.1	-0.3	-0.1	-0.7	0.0	0.0						0.0	0.1	0.1	0.4	0.0	0.0	
	HG Single Name		0.0	0.0	0.0	0.0	0.0	0.0						0.0	-0.0	-0.0	0.1	-0.6	0.0	
	Mezz CDO		-0.8	-0.9	-1.0	-0.6	-2.1	0.0						0.0	-0.3	-0.3	-1.2	-0.2	0.0	
	Mezz Single Name		-1.7	0.0	-1.8	0.0	0.0	0.0						0.0	-0.0	1.3	-4.0	-1.8	0.0	

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304-5



Confidential Treatment Requested by Goldman Sachs

From: Song, Scarlett

Sent: Thursday, August 09, 2007 3:08 PM

To: Montag, Tom; Sobel, Jonathan; Sparks, Daniel L; McHugh, John; Bohra, Bunty; Pouraghabagher, Cyrus; Finck, Greg; Gasvoda, Kevin; Turok, Michael; Brazil, Alan; Gallagher, Timothy (IB PBC07); Buono, Mark; Montag, Tom; Lehman, David A.; Ostrem, Peter L; Rosenblum, David J.; Birnbaum, Josh; Swenson, Michael; Huang, Leo; DeGiacinto, Clayton; Egol, Jonathan; Nichols, Matthew; Nestor, Genevieve; Cawthon, Michael; Iqbal, Farrukh; Holen, Margaret; Kamilla, Rajiv; Mahoney, Justin; Weinstein, Scott; Resnick, Mitchell R; Gao, Renyuan; Bristow, Andrew; DeNatale, Mark; Gold, Erica; Cannon, JeanMarie; Stern, Matt; Alexander, Lee; Andrea, Mireille N.

Cc: Berry, Robert; Dinias, Michael; Lee, Brian-J (FI Controllers); Leventhal, Robert; Pantow, Albert; Fredman, Sheara; Fortunato, Salvatore; Mazumdar, Sanjay; Chen, Benjamin; gs-mra-mtg

Subject: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

Attachments: MortgageRiskSummary070808.pdf

Temporary MTG SPG VaR limit of $110mm expired on 8/7/2007

MTG SPG is over its permanent VaR limit of $35 mm
Resi Prime is over its current stress test limit of $100mm
Acquisition Commitment is over its current stress test limit of $150mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

	95% VaR ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	95.0	97.6	35
	Stress Test ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	(257)	(238)	(650)
Deriv	(24)	(25)	(30)
Res Prime	(103)	(104)	(100)
Res Credit	(108)	(111)	(185)
Credit Resid	(80)	(80)	(170)
[redacted]			
SPG Trading	180	194	(160)
ABS/MBS CDO	(1)	(1)	(30)
Manager	0	0	
[redacted]			

Confidential Treatment Requested by Goldman

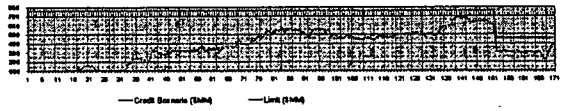
Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1860

Market Risk Report | 8/8/07 | Mortgage Portfolio Summary

Mortgage VaR



Mortgage Credit Scenario



Portfolio Name	VaR ($MM) 08/08/07	VaR ($MM) 08/07/07	Stress Test ($MM) 08/08/07	Stress Test ($MM) 08/07/07	Net MV (2) ($MM)	Rate DV01 ($M/bp)	OAS DV01 ($M/bp)	Vega ($M/1%vol)	2yr/10yr Steepener ($M/bp)
Mortgage Structured Products	95.0	97.6	(256.9)	(237.5)	40,386	(2,424)	1,441	5,910	410
Mortgage Derivative	3.8	3.8	(24.2)	(24.5)	2,822	(295)	(192)	2,957	275
Inverse IO	3.1	3.2	(10.2)	(10.8)	557	(87)	(201)	3,118	238
Strip IO/PO	1.0	1.0	(8.8)	(7.5)	1,237	(124)	171	142	227
Agency Derivative	0.6	0.5	(3.8)	(4.8)	913	(65)	(50)	(659)	(210)
Whole Loan Derivative	0.3	0.3	(1.5)	(1.5)	115	(19)	(112)	1,020	48
Residential Prime	3.5	3.1	(103.5)	(103.9)	13,445	(1,897)	245	2,953	145
Agency CMOs	1.9	1.0	(9.7)	(10.7)	2,378	(55)	267	(467)	(52)
FHA/VA	0.5	0.5	(2.6)	(2.6)	187	(14)	47	(325)	(26)
Prime Hybrid	6.6	6.5	(44.3)	(42.2)	3,038	(505)	263	2,845	281
Prime Fix	5.7	5.7	(21.3)	(22.7)	6,962	(1,241)	(463)	1,016	(56)
ARMs	0.5	0.5	(1.3)	(1.4)	572	(82)	130	(117)	(2)
Subs[1]	8.9	8.9	(24.3)	(24.3)	308	-			
Residential Credit	8.6	8.6	(108.5)	(111.4)	3,409	(237)	554	-	-
Alt A	2.1	2.0	(0.3)	(1.9)	1,166		311		
Subprime	4.1	4.1	5.9	4.8	1,083		150		
Second Lien			(2.9)	(2.9)	88		28	-	-
Sub/Non-Performing	1.6	1.6	(30.9)	(31.1)	763		65		
Credit Residuals[1]			(80.2)	(80.2)	320			-	-
[redacted]								-	-
								-	-
								-	-
SPG Trading	111.9	114.6	179.8	193.9	3,490	9	(1,108)	-	(10)
CMBS Securities	21.6	25.0	(63.0)	(62.5)	1,322	-	1,791	-	-
ABS Securities	44.8	44.7	(19.7)	(19.9)	1,961	(22)	410	-	(10)
ABS Synthetics	124.9	125.5	63.7	62.6	-9,642	0	-962	0	
Correlation Book	39.9	44.6	199.1	214.0	194	-	(2,348)	-	-
ABS/MBS CDO Origination	24.9	24.8	(0.5)	(0.5)	619	n/a	n/a	-	-
Manager Account	0.0	0.0	0.0	0.0	0	(0)	0	-	-
[redacted]									
Europe Mortgage[1]	0.5	0.5	0.0	0.0	1,147	-	-	-	-

Note (1) On PNL VAR (2) Exclude hedges

	CF	NCF	Total
Resi Prime	78.1	56.0	134.1
Resi Credit	161	159	320

	CDO	CLO	total
Equities	26	0	26

Significant Risk Changes:
Acquisition Commitment is over its limit of $150mm
Resi Prime is over its stress test limit of $100mm
Temporary MTG SPG VaR limit of $110mm expired on 8/7/2007
MTG SPG is over its permanent VaR limit of $35mm

Acquisition Commitment scenario limit is $150mm
Mtg SPG desk Stress test temproray limit is $650mm (vs. permanent $500mm)
MTG SPG desk VaR limit has been changed to $110mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: McHugh, John
Sent: Monday, October 01, 2007 3:45 PM
To: Sparks, Daniel L; Finck, Greg; Swenson, Michael; Lehman, David A.; Buono, Mark
Subject: Viniar Risk Pack - Sept

Attachments: Sept Risk Pack Viniar.pdf

Soft copy for future reference



Sept Risk Pack Viniar.pdf

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1861

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(1)

Whole Loans

5/9/2007		ABX
	Loans	Hedges
Subprime	180	(2,525)
Alt-A	1,750	(1,925)
S&D	606	(420)
2nds	60	(195)
Hybrids	2,850	(2,350)
Prime Fix	1,293	-
	5,446	**(7,415)**

9/25/2007		Hedges		
	Loans	ABX	MBS	Swaps
Subprime	379	(230)		
Alt-A	141	(400)	(193)	
S&D	587	(170)		
2nds	0	-		
Hybrids	574	(250)		(772)
Prime Fix	737	-	(775)	(10)
	2,418	**(1,050)**	**(968)**	**(782)**

(2)

Prime Bonds

5/9/2007

	Bonds		Hedges		
	AAA	Subs	MBS	Swaps	ABX
Prime Fix	1,639	250			
Agency Fixed	5,644	0			
Agency ARMs	1,445	0			
WL Hybrids	1,083	300			
Alt-A	169	100			
	9,980	**650**			**(90)**

9/25/2007

	Bonds		Hedges		
	AAA	Subs	MBS	Swaps	ABX
Prime Fix	3,021	275	(2,323)	(644)	
*Agency Fixed	4,454	0	(3,225)	(2,990)	
Agency ARMs	700	0	(110)	(82)	
Prime Hybrid	760	240	(200)	(430)	
Alt-A Hybrid	1,575	325	(405)	(700)	
Alt-A Fixed	982	93	(788)	(634)	
	11,492	**933**	**(7,051)**	**(5,480)**	-

* Includes Derivs positions of $2.7bn.

313-B

Residuals, NIMs and Subs

5/9/2007

	Residuals	NIMs	Subs	ABX Hedges
Subprime	273	86	0	
Alt-A	251	59	70	
S&D	50	0	10	
2nds	99	0	0	
Prime / FHAVA	0	0	180	
Hybrids	119	4	300	
	792	149	560	-120

9/25/2007

	Residuals			NIMs			Subs	ABX Hedges
	New Issue	Secondary	Total	New Issue	Secondary	Total		
Subprime	4	55	59	0	90	90	0	
Alt-A	20	109	129	6	42	48	72	
S&D	0	13	13	0		0	11	
2nds	0	12	12	0		0	0	
Prime / FHAVA	0	0	0	0	0	0	176	
Hybrids	81	17	98	27	16	43	10	
	105	206	311	33	148	181	269	-120

9/25/2007
NIMs by Rating

	Alt-A	Hybrids	Subprime	Total
A	39	15	51	105
BBB	9	21	30	60
BB	-	7	9	16
Total	48	43	90	181

9/25/2007
Subs by Rating

	Prime	FHAVA	AltA	Opt Arm	S&D	Total
BB	76	13	56	0	0	145
B	48	5	14	9	8	84
NR	33	2	2	1	3	41
Total	156	20	72	10	11	269

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(4)

ABS Trading - RMBS Subprime

5/9/07

	Notional ($mm)				Spread DV01 (000)			
	Cash	SN	Index	Net	Cash	SN	Index	Net
AAA	268	(276)	235	227	(53)	44	(99)	(108)
AA	49	(1)	289	337	(19)	(65)	(113)	(197)
A	218	(840)	(291)	(913)	(47)	230	47	230
BBB	167	(658)	(833)	(1,324)	(20)	28	243	251
BBB-	652	(1,197)	920	375	(111)	54	(240)	(297)
	1,354	(2,972)	320	(1,298)	(250)	291	(162)	(121)

9/25/07

	Notional ($mm)				Spread DV01 (000)			
	Cash	SN	Index	Net	Cash	SN	Index	Net
AAA	640	(242)	2,400	2,798	(142)	26	(1,020)	(1,136)
AA	413	(1)	764	1,176	(101)	(43)	(227)	(371)
A	192	(1,287)	253	(842)	(23)	254	(56)	175
BBB	141	(1,602)	108	(1,353)	(13)	119	(35)	71
BBB-	465	(1,787)	104	(1,218)	(17)	81	8	72
	1,851	(4,919)	3,629	561	(296)	437	(1,330)	(1,189)

Changes from 5/9/2007 to 9/25/2007

	Notional ($mm)				Spread DV01 (000)			
	Cash	SN	Index	Net	Cash	SN	Index	Net
AAA	372	34	2,165	2,571	(89)	(18)	(921)	(1,028)
AA	364		475	839	(82)	22	(114)	(174)
A	(26)	(447)	544	71	24	24	(103)	(55)
BBB	(26)	(944)	941	(29)	7	91	(278)	(180)
BBB-	(187)	(590)	(816)	(1,593)	94	27	248	369
	497	(1,947)	3,309	1,859	(46)	146	(1,168)	(1,068)

Risk Summary

- Primary trade is now capital structure trade:
  - Desk is long $4.0bb of AAA/AA risk
  - Desk is short $3.3bb of mezz risk (A/BBB/BBB-)
- Since May, the desk has added $2.5bb of AAA and $0.8bb AA
- Since May, at the mezz level, desk has bought $0.7bb of index risk and sold $2.2bb of cash and single-name risk
- Desk has very little index/SN basis. The index position is relatively flat (<$250mm in any mezz rating bucket)

Trading Rationale

Capital Structure Trade

Fundamentals:
- Current market implied cum losses on ABX 06-2 AAAs are 23%
- Current market implied cum losses on ABX 06-2 BBBs are 13%
- For example, the $ price spread between 2006 vintage ABX AAs and 2005 vintage SN BBBs is only 8pts, while the difference in credit enhancement is 10%

Technicals:
- Prior to Fed action in mid-August, Mortgages bought approx $9bb of AAA ABX from the street ==> street trades short.
- Re-initiated short BBB position following the BSAM Hedge Fund troubles

(4)

ABX/Single-Name Basis

	Current Notional	ABX Prices	SN Prices	Basis
ABX.HE.06-1.A	(527)	86.5	92.3	5.8
ABX.HE.06-2.A	(312)	70.3	85.9	15.7
ABX.HE.07-1.A	(231)	51.0	68.5	17.5
ABX.HE.07-2.A	(213)	62.5	72.1	9.6
Total	(1,283)			10.9
ABX.HE.06-1.BBB	(815)	61.5	73.8	12.3
ABX.HE.06-2.BBB	(61)	39.3	47.0	7.8
ABX.HE.07-1.BBB	(135)	32.0	46.2	14.2
ABX.HE.07-2.BBB	(615)	40.5	48.5	8.0
Total	(1,626)			10.7
ABX.HE.06-1.BBB-	(1,203)	50.8	65.3	14.6
ABX.HE.06-2.BBB-	20	33.0	46.2	13.2
ABX.HE.07-1.BBB-	(450)	29.5	40.4	10.9
ABX.HE.07-2.BBB-	(198)	37.0	44.9	7.9
Total	(1,831)			12.9

(4)

ABS Credit IO

Date	Per Annum Value ($mm)	Duration	Market Value ($mm)
2-Feb-07	11.9	2.3	27.6
7-Mar-07	111.6	2.7	301.3
25-May-07	165.4	3.5	577.4
27-Aug-07	177.2	2.4	420.5

Risk Summary

- In Dec/Jan, the desk bought protection on $8bb of BBBs, primarily facing other street warehouses (ie Citi, ML, UBS). These trades were initiated with coupons of 150-350bps

- In Feb/Mar, the desk sold protection on $4bb of BBBs. These were par priced trades struck at coupons between 300bps and 700bps.

- By early March the per annum value of our IO was $112mm

- Throughout April and May as we flattened out our net short position, by continuing to sell protection on par trades, the IO increased to $165mm per annum

- Since May, the per annum value of the IO has been relatively stable because new shorts were initated outright

Trading Rationale

- Credit IO has very attractive convexity:
  - Current mark: 2.3 yrs
  - Downside 1yr
  - Upside 5yrs

- Credit IO makes us less short at the mezz level:
  - ~~effectively a net long position of approx 750mm to 1bb of BBB/BBB- risk~~
  - (see difference between Hedge equivalents and notionals on risk table)

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(1)

Goldman Sachs Mtg NYC Spg Trading Portfolio Summary 28Sep07

Mtg NYC Spg Trading Portfolio

RMBS

Sector	Credit Rating	Notional(mm)	Hedge Eq(mm)	SDV01(k)	Contr VaR(mm)	VaR(mm)	Stress(mm)
RMBS	AAA	2117.89	2118.90	-955.77	-11.18	13.10	5.25
RMBS	AA	660.41	661.52	-273.36	-12.29	14.12	13.70
RMBS	A	-868.58	-849.63	162.60	9.26	10.34	115.26
RMBS	BBB	-2266.27	-1949.07	233.20	28.04	28.10	324.42
RMBS	BBB-	-1888.06	-1356.81	139.19	17.70	21.18	342.13
RMBS	BB	-93.88	-93.89	6.07	0.00	0.00	3.60

CMBS

Sector	Credit Rating	Notional(mm)	Hedge Eq(mm)	SDV01(k)	Contr VaR(mm)	VaR(mm)	Stress(mm)
[redacted]							

CDO

Sector	Credit Rating	Notional(mm)	Hedge Eq(mm)	SDV01(k)	Contr VaR(mm)	VaR(mm)	Stress(mm)
CDO	AAA	-563.05	-568.54	217.66	9.05	9.71	7.57
CDO	AA	-686.86	-713.51	201.64	12.41	12.84	28.05
CDO	A	-1772.38	-1796.04	300.76	37.67	38.64	42.97
CDO	BBB	-356.85	-369.39	49.12	7.02	7.45	7.05

[redacted] = Redacted by the Permanent Subcommittee on Investigations

3 18 12

SPG Trading - SP CDO Risk (9/25/2007)
Includes retained CDO positions

	CDO Cash and CDS (MV $mm)		
	Mezz	High Grade	CDO ^2
AAA	(102)	212	171
AA	(314)	(178)	22
A	(519)	(58)	0
BBB	(101)	6	1
BB	1	-	-
Equity	6	10	1
Total	**(1,028)**	**(7)**	**196**

	ABX Hedges (Notional $mm)	
Index	*ABX 06-1*	*ABX 06-2*
AAA		
AA		
A	(500)	
BBB	(56)	(60)
BBB-	(49)	(54)
Total	**(605)**	**(114)**

5/9/2007 - CDO Retained Debt/Equity

	Mezz	High Grade	CDO ^2	Total
Class S	6	19	37	62
Super-senior	324	3,094	-	3,418
Mezz AAA	23	33	450	506
AA	133	9	140	282
A	82	36	7	125
BBB	44	35	17	96
BB	11	-	-	11
Equity	43	38	32	113
Total	666	3,265	683	4,614

9/25/2007 - CDO Retained Debt/Equity

	Mezz	High Grade	CDO ^2	Total
Class S	6	19	17	42
Super-senior	198	293	105	595
Mezz AAA	5	2	54	61
AA	40	-	22	62
A	5	3	0	9
BBB	8	6	0	14
BB	1	-	-	1
Equity	6	10	1	17
Total	269	333	200	802

Difference

	Mezz	High Grade	CDO ^2	Total
Class S	-	-	(20)	(20)
Super-senior	(126)	(2,802)	105	(2,823)
Mezz AAA	(17)	(32)	(396)	(445)
AA	(93)	(9)	(117)	(220)
A	(77)	(33)	(7)	(117)
BBB	(36)	(29)	(17)	(82)
BB	(10)	-	-	(10)
Equity	(37)	(28)	(31)	(96)
Total	(396)	(2,933)	(483)	(3,812)

- Since May 2007, GS has sold $3.0bb MV of retained CDO risk (2.6bb of retained super senior and 400mm in junior AAA and below)

- SPG Trading is short mezzanine CDO risk across the capital structure, and remains long CDO^2 risk from GS transactions executed in Q2 2007 (TWOLF and Point Pleasant)

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GS MBS-E-013693136

SPG Trading - CMBS Risk

5/9/2007

	Notional ($mm)						Spread DV01 (000)					
	Cash	SN	Index	Syn CDO	TRS	Net	Cash	SN	Index	Syn CDO	TRS	Net
AAA	(174)	(2,512)	(445)	3,326	(517)	(322)	(113)	(1,633)	(289)	2,162	(336)	(209)
AA	(106)	(125)	(378)	178	-	(431)	(69)	(81)	(246)	116	-	(280)
A	(45)	(1,572)	492	2,160	-	1,036	(29)	(1,022)	320	1,404	-	673
BBB/BBB-	(83)	62	(1,885)	2,683	-	777	(54)	40	(1,225)	1,744	-	505
BB+/BB	(20)	55	(40)	348	-	343	(13)	36	(26)	226	-	223

9/25/2007

	Notional ($mm)						Spread DV01 (000)					
	Cash	SN	Index	Syn CDO	TRS	Net	Cash	SN	Index	Syn CDO	TRS	Net
AAA	(209)	(2,482)	(2,431)	4,368	1,314	560	(136)	(1,613)	(1,580)	2,839	854	364
AA	(129)	(120)	(528)	374	-	(403)	(84)	(78)	(343)	243		(262)
A	(92)	(1,772)	(1,631)	4,308	-	812	(60)	(1,152)	(1,060)	2,800		528
BBB/BBB-	(97)	142	(3,466)	4,105	(52)	631	(63)	92	(2,253)	2,668	(34)	410
BB+/BB	(40)	46	(29)	378	-	355	(26)	30	(19)	246	-	231

Changes from 5/9/2007 to 9/25/2007

	Notional ($mm)						Spread DV01 (000)					
	Cash	SN	Index	Syn CDO	TRS	Net	Cash	SN	Index	Syn CDO	TRS	Net
AAA	(35)	31	(1,986)	1,042	1,831	882	(23)	20	(1,291)	677	1,190	573
AA	(23)	5	(149)	195	-	28	(15)	3	(97)	127	-	18
A	(48)	(200)	(2,123)	2,148	-	(223)	(31)	(130)	(1,380)	1,396	-	(145)
BBB/BBB-	(14)	80	(1,582)	1,422	(52)	(146)	(9)	52	(1,028)	924	(34)	(95)
BB+/BB	(20)	(9)	11	31	-	12	(13)	(6)	7	20	-	8

- Desk remains short @ the A/BBB/BB level of the cap structure - 1.2mm/bp all-in, with 800k/bp in 2005 through 2007 vintages

- Short positions are in both super senior protection and single name/index

- Desk has added 2.5bb in super senior protection since May @ the single A level (MBIA)

- In addition to the 2.5bb trade with MBIA, correlation increases observed on previous super senior positions accounted for an additional 1.2bb of tranche short increases

- Net/net, while out risk has changed a lot intra quarter, our risk vs May 2007 is largely unchanged

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GS MBS-E-013693137

Commercial Mortgage Risk Report

Fixed Rate Loans

		MAY 21 2007				SEPT 26 2007			
	Type	Total Balance	$ DV01	10 BP Credit Spread Widening	Change in Market Value for Fall 1998 Shock*	Total Balance	$ DV01	10 BP Credit Spread Widening	Change in Market Value for Fall 1998 Shock*
FIXED	Conduit	2,354	1.47	(14.69)	(59.72)	1,065	0.67	(6.70)	(31.98)
	Large Loan	1,846	1.18	(11.76)	(52.90)	2,281	1.51	(15.10)	(67.84)
	Fixed Subtotal	4,200	2.64	(26.44)	(112.63)	3,346	2.18	(21.80)	(99.82)
HEDGES	5yr Swaps	(769)		-	-	(750)			
	10yr Swaps	(2,649)		-	-	(2,488)			
	20 yr swaps	-	-	-	-				
	AAA CMBS CDS	(450)	(0.33)	3.26	8.16				
	CMBS Index (Swap)	(3,400)	(2.41)	24.14	72.42	(2,750)	(1.95)	19.50	58.58
	CMBX A	(200)	(0.14)	1.42	7.10	(125)	(0.09)	0.88	4.44
	CMBX BBB	(25)	(0.02)	0.18	1.78	(75)	(0.05)	0.53	5.33
	CMBX BBB-	(25)	(0.02)	0.18	2.66	(10)	(0.01)	0.07	1.07
	Loan CDS	-	-	-	-				
	Corp CDS	50	0.02	(0.23)	(1.04)	(60)	(0.03)	0.28	1.24
	Hedge Subtotal		(2.89)	28.95	91.08		(2.13)	21.25	70.66
	Fixed & Hedge Total		(0.25)	2.50	(21.55)		0.05	(0.55)	(29.16)

Floating Rate Loans

	Type	Total Balance	$DV01	10 BP Credit Spread Widening	Change in Market Value for Fall 1998 Shock*	Total Balance	$DV01	10 BP Credit Spread Widening	Change in Market Value for Fall 1998 Shock*
FLOATING	Securitization	1,416	0.25	(2.53)	(12.64)	1,841	0.32	(3.24)	(16.20)
	Transitional Loans	1,443	0.17	(1.67)	(8.36)	1,461	0.17	(1.72)	(8.62)
	Floating - cemented	990	0.21	(2.10)	(10.51)	515	0.06	(0.61)	(3.04)
	Floating Total	3,849	0.63	(6.30)	(31.51)	3,817	0.56	(5.57)	(27.86)

		Total Balance	$DV01	10 BP Credit Spread Widening	Change in Market Value for Fall 1998 Shock*	Total Balance	$DV01	10 BP Credit Spread Widening	Change in Market Value for Fall 1998 Shock*
OTHER	BOP Loan	1,300	0.26	(2.60)	(13.00)				
	[redacted]					[redacted]	[redacted]	[redacted]	[redacted]
	Equity Inns Commitment					920	0.37	(3.68)	(66.61)
	Stratosphere Commitment					1,208	0.48	(4.83)	(81.18)
	Other Total	1,300	0.26	(2.60)	(13.00)	5943*	2.98	(20.75)	(266.38)

*loan balance only

LOAN TOTAL	Fixed, Hedges, & Floating and Other	(53.054)	(57.020)

DESK TOTAL	*excluding other*	
	Funded Balance	5,839
	*Committed Balance	2,210
	Total Funded & Commited	8,049

DESK TOTAL	*excluding other*	
	Funded Balance	6,675
	*Committed Balance	515
	Total Funded & Commited	7,191

*Balance Committed valued at 0% for Fall 1998 Shock as many loan commitments would be renegotiated, valued at 100% for 10bp widening

Exit [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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GS MBS-E-013693138

Warehouse - CDO

5/10/2007

Warehouse Risk ($MM)

	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	339	-	5	196	541
AA	118	43	68	297	526
A	95	314	761	198	1,367
BBB	-	-	50	-	50
Total	**552**	**357**	**883**	**691**	**2,484**
HC		-5.0%	-30.0%	-3.0%	

Warehouse Hedges ($MM)

Index	ABX 06-1	CMBX 06-2	Single Name CDOs	Total
AAA	(500)		(50)	(550)
AA			(40)	(40)
A	(750)		(120)	(870)
BBB	(75)			(75)
BBB-		(50)		(50)
Total	**(1,325)**	**(50)**	**(210)**	**(1,585)**

9/25/2007

Warehouse Risk ($MM)

	RMBS Prime	RMBS Subprime	CDO	CMBS/Other	Total
AAA	-	-	-	-	-
AA	-	-	-	-	-
A	-	-	-	-	-
BBB	-	-	-	-	-
Total	-	-	-	-	-

Warehouse Hedges ($MM)

Index	ABX 06-1	CMBX 06-2	Single Name CDOs	Total
AAA	-	-	-	-
AA	-	-	-	-
A	-	-	-	-
BBB	-	-	-	-
BBB-	-	-	-	-
Total	-	-	-	-

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693139

Warehouse - Residential Book

5/9/2007

Warehouse Facility	UPB	Funded Balance	Market Value	Excess/(Deficit)	Required Haircut	Excess/(Deficit)	Funded Balance/UPB	Market Value/UPB
[redacted] (1)	7,083,323,959	134,257,100	224,674,700	90,417,600	90,417,600	-	1.90%	3.17%
[redacted]	167,500.00	160,038	164,988	4,950	4,950	-	95.55%	98.50%
[redacted]	13,078,588.89	10,548,405	10,296,773	(251,632)	205,935	(457,567)	80.65%	78.73%
[redacted]	47,748,455.74	44,511,230	46,554,744	2,043,514	931,095	1,112,420	93.22%	97.50%
		189,476,773	**281,691,205**	**92,214,432**	**91,559,580**	**654,852**		

(1) [redacted] is the face amount of the securities funded.

9/25/2007

Warehouse Facility	UPB	Funded Balance	Market Value	Excess/(Deficit)	Required Haircut	Excess/(Deficit)	Funded Balance/UPB	Market Value/UPB
[redacted]	14,576,054,684	43,376,444	53,241,722	9,865,278	24,765,522	(14,900,244)	0.30%	0.37%
[redacted]	1,611,500.00	1,611,500	1,611,500	-	-	-	100.00%	100.00%
[redacted]	37,828,732.77	34,926,619	37,442,880	2,516,261	772,974	1,743,286	92.33%	98.98%
[redacted]		**79,914,563**	**92,296,102**	**12,381,539**	**25,538,496**	**(13,156,958)**		

(1) [redacted] is the face amount of the securities funded.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Warehouse - Commercial Book

5/9/2007
Client
[redacted]

Facility Type	Maturity Date	Facility Size	Outstanding Balance	Borrowing Base	Excess (Deficit)	WAP
Commercial	06/28/07	150,000,000	-	-	-	0.0000
Commercial	06/29/09	150,000,000	77,450,225	122,450,225	45,000,000	100.0000
Commercial	09/01/07	50,000,000	15,530,050	15,790,920	260,870	100.0000
Commercial	07/22/07	26,403,500	-	-	-	0.0000
Commercial	12/21/07	25,500,000	25,500,000	25,500,000	-	100.0000
Commercial		50,000,000	43,750,000	43,750,000	-	100.0000
Commercial	01/03/08	400,000,000	133,067,937	133,067,937	(0)	100.0000
Commercial	01/19/09	175,000,000	90,078,546	90,078,546	-	100.0000
Commercial	10/01/07	250,000,000	164,321,374	164,321,351	(23)	98.0098
Commercial	09/15/09	75,000,000	8,651,367	29,366,294	20,714,927	100.0000
Commercial	02/01/08	300,000,000	-	-	-	0.0000
Commercial	06/21/08	250,000,000	76,432,159	76,432,159	-	0.0000
Commercial	10/26/07	100,000,000	61,164,586	61,380,326	215,740	100.3783
Commercial	06/22/07	100,000,000	37,041,390	37,041,393	2	99.5353
Commercial	07/27/07	250,000,000	29,709,000	29,709,000	-	100.0000
Commercial	10/20/07	22,649,444	20,515,001	20,515,001	0	100.0000
		2,374,552,944	**783,211,634**	**849,403,150**	**66,191,516**	

9/25/2007
Client
CT REIT
[redacted]

Facility Type	Maturity Date	Facility Size	Outstanding Balance	Borrowing Base	Excess (Deficit)	WAP
Commercial	06/29/09	150,000,000	71,900,722	119,912,026	48,011,304	99.2607
Commercial	08/27/09	50,000,000	10,000,000	31,504,485	21,504,485	100.0000
Commercial	09/11/08	25,500,000	25,500,000	25,500,000	-	100.0000
Commercial	02/02/09	31,412,500	31,098,375	31,098,375	-	99.0000
Commercial	01/03/08	400,000,000	34,910,120	48,162,253	13,252,133	98.7903
Commercial	01/19/09	175,000,000	37,527,669	39,888,901	2,361,232	97.2500
Commercial	06/25/09	75,000,000	32,618,806	32,618,806	-	100.0000
Commercial	10/01/07	250,000,000	171,833,632	178,561,152	6,727,520	92.6520
Commercial	02/01/08	300,000,000	-	-	-	
Commercial	06/21/08	250,000,000	124,030,717	126,867,224	2,836,507	98.1625
Commercial	10/26/07	100,000,000	51,209,771	51,209,771	0	99.0350
Commercial	04/07/10	250,000,000	17,812,500	18,984,507	1,172,007	95.2614
		2,056,912,500	**608,442,313**	**704,307,502**	**95,865,189**	

13-523

GS MBS-E-013693140

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693141

Warehouse - ABS Book

[redacted] = Redacted by the Permanent Subcommittee on Investigations

5/9/2007

Client	Facility Type	Maturity Date	Facility Size	Outstanding Balance	Borrowing Base	Excess (Deficit)	WAP
[redacted]	ABS	12/15/08	500,000,000	43,470,156	99,959,874	56,489,718	104.5189
[redacted]	ABS	10/28/07	750,000,000	467,410,346	562,986,439	95,576,093	0.0000
[redacted]	ABS	09/28/09	250,000,000	193,000,000	193,000,000	-	100.0000
BASIS CAPITAL	ABS	10/27/07	100,000,000	35,943,686	35,943,686	-	100.0000
			1,600,000,000	**739,824,188**	**891,889,999**	**152,065,811**	

9/25/2007

Client	Facility Type	Maturity Date	Facility Size	Outstanding Balance	Borrowing Base	Excess (Deficit)	WAP
[redacted]	ABS	12/15/08	500,000,000	145,452,399	150,834,842	5,382,444	102.6348
[redacted]	ABS	10/28/07	750,000,000	284,931,272	371,758,834	86,827,563	0.0000
[redacted]	ABS	09/28/09	250,000,000	193,000,000	193,000,000	-	100.0000
			1,500,000,000	**623,383,670**	**715,593,677**	**92,210,006**	

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693142

Goldman Sachs

EPD Summary

September 26, 2007

- Between May 10, 2007 and September 26, 2007, there was a 37% reduction in total EPD outstanding notional.

	Total Notional ($)	60+ Day Aged Claims ($)
May 10, 2007	$659,198,749	$372,224,646
September 26, 2007	$418,055,390	$82,431,066
Reduction	**$241,143,359 (37%)**	**$289,793,580 (78%)**

- Between February 2007 and September 2007, there was an 82% increase in total loans collected based on current UPB.

	Current Claimed ($)[1]	Total Monitored ($)	Total Rescinded ($)	Total Collected ($)[2]	Total Bankruptcy Out of Business ($)
February 2007	$2,097,805,579	$17,999,544	$393,521,906	$213,575,036	$43,668,586
May 2007	659,198,746	48,165,771	647,909,462	715,991,154	50,385,834
September 2007	126,881,624	6,659,526	694,140,979	1,195,442,359	291,173,765

[1] Current Claimed includes collectible current and delinquent loans as of the date represented above that are outstanding
[2] Collected column is inclusive of repurchased and settled loans. Repurchased loans were settled at full price whereas settled loans were settled at a negotiated price.

Confidential Treatment Requested by Goldman Sachs

Other ABS Risk

Bond	9/25/2007 Pos (MM)	5/9/2007 Pos (MM)	Rating
[redacted] Positions			
[redacted]	287.12	-	NR
[redacted]	67.95	-	NR
[redacted]	183.24	-	NR
[redacted]	761.40	-	NR
LEASE REC VFN FUNDED	29.53	-	NR
LEASE REC VFN UNFUNDED	213.37	-	NR
RETAIL LOAN VFN FUNDED	513.11	-	NR
RETAIL LOAN VFN UNFUNDED	136.89	-	NR
WHOLESALE REC VFN FUNDED	125.56	-	NR
WHOLESALE REC VFN UNFUNDED	194.44	-	NR
	2,512.61		
[redacted] VFN			
[redacted] VFN FUNDED	98.00	-	NR
[redacted] VFN UNFUNDED	9.50	-	NR
	107.50		
CMBS Floater - Rake Bond			
[redacted]	3.96	-	Aa3/AA-
[redacted]	4.26	-	A1/A+
[redacted]	5.17	-	A2/A
[redacted]	3.70	-	A3/A-
[redacted]	5.11	-	Baa1/BBB+
	22.20		

[redacted] = Redacted by the Permanent Subcommittee on Investigations

GS MBS-E-013693144

Mortgage Weekly Risk Review
As of COB: 9/26/07

Business	Sub Business	Core Trade and/or Risk	sdv01 (K)	Ntl (B)	MV (MM)	Stress Test	VaR	Contr VaR	P/L	sdv01 (K)	Ntl (B)	MV (MM)	Stress Test	VaR	Contr VaR	P/L
SPG	ABS	Net Short BBB-	84	(1.5)						(26)	0.30	-	-	-	-	-
		Capital Structure Steepener		2.5						-	(0.30)	-	-	-	-	-
		Long Residuals			355					-	-	-	-	-	-	-
		Net Long CDS IO		8.8						-	-	-	-	-	-	-
										-	-	-	-	-	-	-
										-	-	-	-	-	-	-
	Correlation	Short RMBS SS vs SN CDS		(2.8)						-	0.15	-	-	-	-	-
		Short CRE SS vs SN CDS		(4.5)						-	-	-	-	-	-	-
										-	-	-	-	-	-	-
										-	-	-	-	-	-	-
	CDO	Short CDO's		(0.8)						-	-	-	-	-	-	-
Resi Credit	Subprime	Long Subprime Loans vs ABX		0.3	384					-	(0.12)	-	-	-	-	-
										-	-	-	-	-	-	-
										-	-	-	-	-	-	-
	Alt A	Long Alt - A Loans		0.2						-	-	-	-	-	-	-
		Net Short ABX		(0.2)						-	-	-	-	-	-	-
		Alt-A / ABX Basis		0.2						-	-	-	-	-	-	-
										-	-	-	-	-	-	-
										-	-	-	-	-	-	-
	Scratch & Dent	Long Whole Loans			585					-	-	-	-	-	-	-
Resi Prime	Agency / WL	Long Hybrid / OA / Fixed Loans		1.5						-	0.30	-	-	-	-	-
		Long Mortgage Basis		1.5						-	1.50	-	-	-	-	-
		Agency / Non Agency Basis		1.9						-	-	-	-	-	-	-
		Long Residuals			90					-	-	(5)	-	-	-	-
		Convexity (1mX10y Straddle Eq)		(0.5)						-	-	-	-	-	-	-
CRE Origination		Unfunded Commitments	[redacted]							-	-	-	-	-	-	-
		Long CRE Floaters / Transitionals								-	-	-	-	-	-	-
		Conduit / Large Loan Basis vs. TRS / Index								-	-	-	-	-	-	-

* Development is a work in progress: all numbers are approximate

[redacted] = Redacted by the Permanent Subcommittee on Investigations

(11)

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693145

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

Market	Sub Market	Notional ($MM)* Total	Notional ($MM)* Long	Notional ($MM)* Short	Market Value ($MM)** Total	Market Value ($MM)** Long	Market Value ($MM)** Short	Spread DV01 ($k)	Rate DV01 ($k)
Total		21,548.5	168,001.8	-146,453.3	-5,156.5	122,124.5	-127,281.0	893.4	-637.8
RMBS	Total	16,043.4	61,239.4	-45,196.0	12,910.5	43,776.2	-30,865.7	-4,914.5	-5,104.2
	Subprime/2nds	431.5	43,960.9	-43,529.4	-600.6	28,795.2	-29,395.7	-868.2	-310.9
	Alt-A	628.4	2,099.8	-1,471.4	177.0	1,454.6	-1,277.6	-28.4	-679.4
	Prime	13,737.2	13,932.2	-195.1	12,432.8	12,625.2	-192.4	-3,938.0	-4,057.1
	Scratch & Dent	1,238.9	1,238.9		893.8	893.8		-79.8	-56.9
	Other	7.6	7.6		7.5	7.5		-0.1	0.0
ABS Non-Resi	Total	1,574.0	2,426.5	-852.4	-36.3	814.0	-850.3	186.5	0.0
	ABS	-686.6	165.0	-851.6	-685.7	163.8	-849.5	301.7	0.0
	ABS Auto Prime	1,944.6	1,944.6		363.9	363.9		-40.6	0.0
	ABS Credit Card Prime	0.0	0.2	-0.2	0.0	0.2	-0.2	-0.0	0.0
	ABS Other	316.0	316.0		285.4	285.4		-74.5	0.0
	ABS Student Loans Private	0.0	0.5	-0.5	0.0	0.5	-0.5	-0.0	0.0
CMBS	Total	[redacted]							0.0
	CMBS								0.0
CDO	Total	8,490.5	19,391.9	-10,901.4	-2,702.8	4,140.4	-6,843.2	1,225.0	0.0
	CDO Commercial Real Estate	0.0	10.1	-10.1	0.0	9.0	-9.0	-0.0	0.0
	CDO CRE	-422.7	685.1	-1,107.8	-399.5	540.2	-939.7	264.0	0.0
	CDO Squared	836.0	851.7	-15.8	207.4	213.9	-6.6	-93.8	0.0
	CLO	-172.6	31.8	-204.4	-172.6	30.5	-203.1	75.0	0.0
	HG CDO	9,482.6	12,021.9	-2,539.3	-692.8	1,232.3	-1,925.1	315.6	0.0
	Mezz CDO	-1,232.8	5,791.3	-7,024.0	-1,645.3	2,114.5	-3,759.8	664.3	0.0
Rate Hedges	Total	[redacted]							

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693146

Mortgage Dept Top Sheet -- Report B: Dept Wide By Market, Sub Market and Product (All Desks Covered)

Market	Sub Market	Type	Notional ($MM)*							Market Value ($MM)**								Spread DV01 ($k)					
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
Total			21,548.5	17,814.1	1,194.7	-1,373.2	-2,099.3	-1,169.2	15,846.5	-5,156.5	8,333.5	805.6	-2,824.7	-1,967.3	-1,773.4	1,230.9	106.1	893.4	-2,294.0	-445.8	1,405.6	441.1	707.1
RMBS	Total		16,043.4	10,664.4	1,212.6	-832.5	-1,723.5	-393.3	1,378.6	12,910.5	9,215.9	982.0	-775.9	-1,552.3	-1,227.1	1,081.7	106.1	-4,914.5	-3,012.2	-408.0	163.4	228.7	102.8
	Subprime/2nds	Total	431.5	1,955.4	1,126.9	-753.6	-1,536.6	-489.2	93.6	-600.6	1,773.8	897.8	-697.9	-1,356.4	-1,294.7	93.6	13.2	-866.2	-911.4	-386.5	159.6	183.7	121.3
		Bond	1,946.0	640.0	455.4	218.5	155.9	473.0	0.0	1,166.7	566.4	364.4	116.1	61.7	78.1	0.0	0.0	-319.7	-142.0	-114.3	-30.0	-16.2	-17.2
		Loans	428.4	311.1	40.0	21.6	12.5	9.1	34.1	390.9	310.7	40.0	18.0	6.7	2.2	0.0	13.2	-56.3	-34.9	-8.1	-5.2	-3.1	-2.4
		NIM Bond	197.7	0.0	0.0	71.5	57.3	68.9	0.0	80.4	0.0	0.0	49.9	13.3	17.2	0.0	0.0	-12.6	0.0	0.0	-3.8	-3.9	-5.1
		Residual	93.6	0.0	0.0	0.0	0.0	0.0	93.6	93.6	0.0	0.0	0.0	0.0	0.0	93.6	0.0	-30.4	0.0	0.0	0.0	0.0	0.0
		ABX-Long	10,858.1	2,500.4	1,017.1	1,036.4	2,777.9	3,526.3	0.0	7,036.6	2,378.3	906.0	720.1	1,451.7	1,582.5	0.0	0.0	-2,398.9	-1,056.3	-294.0	-230.3	-413.1	-405.2
		ABX-Short	-3,255.2	-695.0	-65.0	-1,005.2	-922.7	-577.4	-0.1	-2,122.6	-679.7	-55.6	-730.2	-411.1	-246.0	0.0	0.0	675.3	253.8	18.9	224.2	115.7	62.7
		TABX-Long	787.9	0.0	0.0	257.6	75.6	434.7	0.0	409.0	0.0	0.0	257.6	45.8	105.6	0.0	0.0	-104.0	0.0	0.0	-70.3	-12.2	-21.5
		TABX-Short	-2,602.7	0.0	0.0	-72.2	-1,099.1	-1,631.4	0.0	-2,560.1	0.0	0.0	-72.2	-1,019.4	-1,468.6	0.0	0.0	577.7	0.0	0.0	18.7	244.9	314.1
		CDS-Long	26,356.6	383.6	521.9	3,842.9	11,914.5	11,695.7	0.0	18,281.4	380.2	481.1	3,240.5	7,432.7	6,747.0	0.0	0.0	-4,393.9	-54.3	-154.4	-870.4	-1,792.2	-1,522.6
		CDS-Short	-31,588.4	-286.9	-210.1	-4,169.0	-13,456.3	-13,466.2	-0.1	-18,840.0	-284.2	-205.6	-3,343.9	-7,915.5	-7,090.7	0.0	0.0	4,576.1	35.0	45.1	943.1	1,929.9	1,623.1
		Abacus-Long	1,302.4	0.0	11.3	2.9	1,161.8	126.3	0.0	1,302.4	0.0	11.3	2.9	1,161.8	126.3	0.0	0.0	-315.1	0.0	-2.1	-0.7	-286.8	-25.6
		Abacus-Short	-5,862.8	-897.8	-643.8	-958.7	-2,214.2	-1,148.3	0.0	-5,862.8	-897.8	-643.8	-958.7	-2,214.2	-1,148.3	0.0	0.0	933.7	87.3	120.4	184.2	420.6	121.1
	Alt-A	Total	628.4	897.1	10.6	-166.6	-227.7	-31.6	145.0	177.0	396.1	10.4	-156.1	-190.2	-26.5	141.7	3.6	-28.4	-92.7	-5.0	54.4	63.5	2.9
		Bond	844.3	602.6	2.5	218.9	5.1	11.5	2.6	298.4	101.8	2.4	185.1	3.1	6.0	0.0	0.0	-83.4	-20.8	-1.7	-54.9	-2.3	-3.8
		Loans	315.1	294.5	8.1	4.8	2.7	3.2	1.0	314.3	294.3	8.0	4.4	2.0	1.6	0.4	3.6	-78.9	-71.9	-3.4	-1.6	-0.8	-0.6
		NIM Bond	45.1	0.0	0.0	32.4	0.0	12.8	0.0	39.4	0.0	0.0	30.2	0.0	9.1	0.0	0.0	-3.8	0.0	0.0	-1.7	0.0	-2.1
		Residual	141.3	0.0	0.0	0.0	0.0	0.0	141.3	141.3	0.0	0.0	0.0	0.0	0.0	141.3	0.0	-50.7	0.0	0.0	0.0	0.0	0.0
		CDS-Long	782.9	0.0	0.0	554.2	78.0	120.7	30.0	660.3	0.0	0.0	504.4	65.5	90.4	0.0	0.0	-200.8	0.0	0.0	-157.2	-20.6	-23.0
		CDS-Short	-1,467.2	0.0	0.0	-973.5	-313.8	-180.0	-0.1	-1,273.4	0.0	0.0	-878.7	-261.1	-133.5	0.0	0.0	388.1	0.0	0.0	268.6	87.3	32.2
		Abacus-Long	1.0	0.0	0.0	0.0	1.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	-0.2	0.0
		Abacus-Short	-4.2	0.0	0.0	-3.5	-0.8	0.0	0.0	-4.2	0.0	0.0	-3.5	-0.8	0.0	0.0	0.0	1.3	0.0	0.0	1.2	0.2	0.0
	Prime	Total	13,737.2	7,697.8	47.2	10.1	-51.5	42.7	358.4	12,432.6	6,911.8	46.6	7.9	-52.1	35.8	323.7	78.8	-3,938.0	-1,998.0	-6.3	-7.9	-2.4	-8.8
		Agy CMO	2,306.8	0.0	0.0	0.0	0.0	0.0	0.0	1,924.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-665.0	0.0	0.0	0.0	0.0	0.0
		Agy ARM	581.4	0.0	0.0	0.0	0.0	0.0	2.3	583.8	0.0	0.0	0.0	0.0	0.0	2.2	0.0	-116.3	0.0	0.0	0.0	0.0	0.0
		Agy IO/PO/Drv	2,574.0	0.0	0.0	0.0	0.0	0.0	0.0	2,574.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1,054.8	0.0	0.0	0.0	0.0	0.0
		Prime IO/PO/Drv	123.3	123.3	0.0	0.0	0.0	0.0	0.0	123.3	123.3	0.0	0.0	0.0	0.0	0.0	0.0	-44.8	-44.8	0.0	0.0	0.0	0.0
		OA/Hyb WAC IO	84.1	1.1	0.0	0.0	0.0	0.0	83.0	84.1	1.1	0.0	0.0	0.0	0.0	83.0	0.0	-15.5	-0.0	0.0	0.0	0.0	0.0
		Prime Fix CMO	3,672.2	3,672.2	0.0	0.0	0.0	0.0	0.0	3,209.0	3,209.0	0.0	0.0	0.0	0.0	0.0	0.0	-1,265.3	-1,265.3	0.0	0.0	0.0	0.0
		Prime ARM CMO	2,461.1	2,441.7	0.0	0.0	0.0	0.0	19.4	2,355.0	2,336.0	0.0	0.0	0.0	0.0	19.0	0.0	-443.1	-437.8	0.0	0.0	0.0	0.0
		Prime Sub	247.8	0.0	0.0	0.0	0.0	0.0	247.8	219.5	0.0	0.0	0.0	0.0	0.0	219.5	0.0	-48.6	0.0	0.0	0.0	0.0	0.0
		Prime Fix Loan	744.5	717.0	6.7	9.3	4.1	4.5	3.0	737.9	710.6	6.6	9.2	4.1	4.4	3.0	0.0	-245.3	-236.2	-2.2	-3.1	-1.3	-1.5
		Prime Arm Loan	130.8	125.6	2.0	1.3	0.7	1.0	0.3	127.8	122.7	1.9	1.3	0.6	1.0	0.3	0.0	-11.9	-11.4	-0.2	-0.1	-0.1	-0.1
		HOA/MTA Loan	627.1	416.9	13.7	6.9	4.8	9.6	2.8	524.9	409.0	13.4	6.7	4.7	9.4	2.7	78.8	-9.0	-2.7	-0.1	-0.0	-0.0	-0.1
		CDS-Long	121.7	0.0	29.8	20.0	34.4	37.5	0.0	109.2	0.0	29.8	18.0	30.9	30.7	0.0	0.0	-32.3	0.0	-6.8	-6.8	-10.6	-8.1
		CDS-Short	-137.6	0.0	-5.0	-27.4	-95.4	-9.8	0.0	-134.4	0.0	-5.0	-27.4	-92.4	-9.7	0.0	0.0	13.6	0.0	1.0	2.2	9.6	0.8
	Scratch & Dent	Total	1,238.9	129.1	27.8	75.1	92.4	79.0	781.7	893.8	129.2	27.1	69.8	76.3	56.3	522.6	10.5	-79.8	-10.1	-6.2	-22.8	-16.2	-12.6
		Bond	197.7	0.0	9.0	60.2	60.1	52.1	16.3	153.9	0.0	6.4	55.7	49.4	40.5	0.0	0.0	-43.6	0.0	-3.5	-20.7	-11.5	-8.1
		Loans	1,016.5	129.1	18.8	14.8	32.4	26.9	757.0	715.2	129.2	18.8	14.0	27.0	17.8	497.9	10.5	-27.3	-10.1	-2.7	-2.1	-4.7	-4.5
		Residual	24.7	0.0	0.0	0.0	0.0	0.0	24.7	24.7	0.0	0.0	0.0	0.0	0.0	24.7	0.0	-8.7	0.0	0.0	0.0	0.0	0.0
	Other	Total	7.6	5.0	0.0	2.5	0.0	0.0	0.0	7.5	4.9	0.0	2.5	0.0	0.0	0.0	0.0	-0.1	-0.0	0.0	-0.1	0.0	0.0
		Bond	7.6	5.0	0.0	2.5	0.0	0.0	0.0	7.5	4.9	0.0	2.5	0.0	0.0	0.0	0.0	-0.1	-0.0	0.0	-0.1	0.0	0.0
ABS Non-Resi	Total		1,574.0	96.8	27.0	-119.0	-141.3	0.0	1,710.6	-36.3	94.0	24.3	-135.1	-141.5	0.0	122.0	0.0	186.5	-16.9	-15.5	183.0	80.3	-0.0
	ABS	Total	-686.6	-19.9	0.0	-512.9	-153.9	0.0	0.0	-685.7	-19.9	0.0	-512.1	-153.7	0.0	0.0	0.0	301.7	8.6	0.0	226.4	-66.7	0.0
		CDS-Long	165.0	0.0	0.0	115.0	50.0	0.0	0.0	163.8	0.0	0.0	113.9	49.9	0.0	0.0	0.0	-101.3	0.0	0.0	-66.2	-15.1	0.0

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

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GS MBS-E-013693147

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Market	Sub Market	Type	Notional ($MM)* Total	AAA	AA	A	BBB	BBB-	NR	Market Value ($MM)** Total	AAA	AA	A	BBB	BBB-	NR	Resid	Spread DV01 ($k) Total	AAA	AA	A	BBB	BBB-
		CDS-Short	-265.0			-195.0	-70.0			-262.9			-193.1	-69.8				176.6			150.2	26.4	
		Abacus-Long																0.0			0.0	0.0	
		Abacus-Short	-566.6	-19.9		-432.9	-133.9			-566.6	-19.9		-432.9	-133.9			0.0	226.4	8.6		162.4	55.4	
	ABS Auto Prime		1,944.6	0.0		319.9			1,624.8	363.9	0.0		323.1			40.8		-40.6	-0.0		-32.5		
	ABS Credit Card I		0.0			0.0				0.0			0.0					-0.0			-0.0		
	ABS Other		316.0	116.6	27.0	74.1	12.5	0.0	85.8	265.4	113.8	24.3	53.9	12.3		61.2		-74.5	-25.5	-15.5	-10.9	-6.4	-0.0
	ABS Student Loar		0.0			0.0				0.0			0.0					-0.0			-0.0		
CMBS	Total		[redacted]																				
	CMBS	Total																					
		Bond																					
		CDS-Long																					
		CDS-Short																					
		Abacus-Long																					
		Abacus-Short																					
		CMBX																					
		TRS																					
CDO	Total		8,490.5	-173.4	-459.1	-1,233.6	-122.1	-76.3	10,554.9	-2,702.6	-654.2	-617.5	-1,166.8	-196.3	-68.1	22.0		1,225.0	370.6	238.6	511.9	60.8	53.0
	CDO Commercial		0.0		0.0					0.0		0.0						-0.0		-0.0			
	CDO CRE		-422.7	123.8	10.8	-431.0	-27.2	-101.2	2.0	-399.5	89.9	5.8	-368.0	-39.4	-89.3	1.5		264.0	-37.7	-1.4	231.9	18.4	53.5
	CDO Squared		836.0	612.1	183.3	8.1	30.4		22.1	207.4	172.3	25.2	0.4	3.6		5.8		-93.8	-77.9	-11.5	-0.2	-1.6	
	CLO		-172.6	-41.5	-72.0	-35.7	-23.3			-172.6	-41.5	-72.0	-35.7	-23.3				75.0	11.8	34.6	16.6	11.9	
	HG CDO		9,462.6	-425.6	-250.5	-10.6	46.9	14.0	10,108.4	-692.6	-434.4	-198.9	-78.9	5.7	0.9	10.8		315.6	206.5	89.3	28.2	-3.2	-0.4
	Mezz CDO		-1,232.8	-442.2	-310.7	-764.4	-148.8	10.9	422.4	-1,645.3	-440.5	-379.7	-686.5	-142.8	0.3	4.0		664.3	287.9	127.6	235.4	35.2	-0.1
Rate Hedges	Total		[redacted]																				

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693148

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report B1: SPG Secondary (excluding Correlation) By Market, Sub Market and Product

Market	Sub Market	Type	Notional ($MM)*							Market Value ($MM)**								Spread DV01 ($k)					
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
Total			21,641.6	10,663.7	1,524.5	-1,179.8	-1,697.4	-1,537.3	13,867.9	399.6	2,482.3	1,310.7	-2,131.6	-841.3	-568.8	148.2	0.0	168.9	-689.6	-597.9	1,061.8	181.8	250.0
RMBS	Total		-621.5	2,804.9	1,176.4	-1,559.7	-1,704.5	-1,338.6	0.0	899.7	2,613.2	960.3	-1,305.1	-606.2	-562.6	0.0	0.0	-900.9	-1,136.5	-370.1	360.0	151.1	94.6
	Subprime/2nds	Total	-116.7	2,796.2	1,176.4	-1,341.5	-1,466.8	-1,280.9		1,335.4	2,606.7	960.3	-1,100.7	-610.8	-520.3	0.0	0.0	-1,041.4	-1,136.3	-370.1	295.1	84.4	85.5
		Bond	1,851.6	640.0	413.3	192.3	141.3	464.8		1,101.3	566.4	323.0	92.8	48.9	70.2			-294.8	-142.0	-100.6	-22.5	-13.1	-16.5
		ABX-Long	5,216.8	2,400.4	789.1	572.9	1,414.8	1,039.5		4,517.7	2,280.2	690.5	366.9	717.4	462.8			-1,700.5	-1,020.2	-233.5	-123.1	-205.2	-118.6
		ABX-Short	-2,020.2	0.0	-25.0	-820.2	-622.7	-552.4		-1,121.6	0.0	-23.6	-614.6	-245.9	-237.5	0.0	0.0	323.0	0.0	6.6	186.7	69.2	60.5
		TABX-Long	354.0	0.0	0.0	0.0	0.0	354.0		70.4	0.0	0.0	0.0	0.0	70.4	0.0	0.0	-13.6	0.0	0.0	0.0	0.0	-13.6
		CDS-Long	24,967.5	44.6	209.1	2,847.4	11,022.0	10,844.4		15,527.9	44.3	176.1	2,366.9	6,759.3	6,181.3	0.0	0.0	-3,918.3	-9.1	-87.7	-683.4	-1,691.2	-1,446.9
		CDS-Short	-31,486.3	-286.9	-210.1	-4,134.0	-13,424.3	-13,431.1		-16,760.2	-284.2	-205.6	-3,312.8	-7,890.2	-7,067.4	0.0	0.0	4,562.8	35.0	45.1	937.5	1,924.7	1,620.5
		Abacus-Long	14.2	0.0	11.3	2.9	0.0	0.0		14.2	0.0	11.3	2.9	0.0	0.0	0.0	0.0	-2.7	0.0	-2.1	-0.7	0.0	0.0
		Abacus-Short	-14.2	0.0	-11.3	-2.9	0.0	0.0		-14.2	0.0	-11.3	-2.9	0.0	0.0	0.0	0.0	2.7	0.0	2.1	0.7	0.0	0.0
	Alt-A	Total	-505.4	1.8	0.0	-213.7	-235.6	-57.7	0.0	-436.2	1.6	0.0	-199.9	-195.6	-42.3	0.0	0.0	139.2	-0.2	0.0	53.6	86.7	9.1
		Bond	208.8	1.8	0.0	205.5	0.0	1.6	0.0	176.9	1.6	0.0	174.4	0.0	0.9	0.0	0.0	-48.1	-0.2	0.0	-47.9	0.0	-0.0
		CDS-Long	752.9	0.0	0.0	554.2	78.0	120.7	0.0	660.3	0.0	0.0	504.4	65.5	90.4	0.0	0.0	-200.8	0.0	0.0	-157.2	-20.6	-23.0
		CDS-Short	-1,467.2	0.0	0.0	-973.5	-313.8	-180.0	0.0	-1,273.4	0.0	0.0	-878.7	-261.1	-133.5	0.0	0.0	388.1	0.0	0.0	268.6	87.3	32.2
	Prime	Total	-7.0	0.0	0.0	-7.0	0.0	0.0	0.0	-7.0	0.0	0.0	-7.0	0.0	-0.0	0.0	0.0	1.4	0.0	0.0	1.4	0.0	-0.0
		CDS-Long	6.0	0.0	0.0	0.0	0.0	6.0	0.0	6.0	0.0	0.0	0.0	0.0	6.0	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	-0.5
		CDS-Short	-13.0	0.0	0.0	-7.0	0.0	-6.0	0.0	-12.9	0.0	0.0	-7.0	0.0	-6.0	0.0	0.0	1.9	0.0	0.0	1.4	0.0	0.5
	Other	Total	7.6	5.0	0.0	2.5	0.0	0.0	0.0	7.5	4.9	0.0	2.5	0.0	0.0	0.0	0.0	-0.1	-0.0	0.0	-0.1	0.0	0.0
		Bond	7.6	5.0	0.0	2.5	0.0	0.0	0.0	7.5	4.9	0.0	2.5	0.0	0.0	0.0	0.0	-0.1	-0.0	0.0	-0.1	0.0	0.0
ABS Non-Resi	Total		2,100.7	116.6	27.0	278.9	-32.5	0.0	1,710.6	490.6	113.8	24.3	263.1	-32.6	0.0	122.0	0.0	-10.0	-25.5	-15.5	42.7	12.7	-0.0
	ABS	Total	-160.0	0.0	0.0	-115.0	-45.0	0.0	0.0	-158.7	0.0	0.0	-113.9	-44.9	0.0	0.0	0.0	105.2	0.0	0.0	86.1	19.1	0.0
		CDS-Long	105.0	0.0	0.0	80.0	25.0	0.0	0.0	104.2	0.0	0.0	79.2	24.9	0.0	0.0	0.0	-71.4	0.0	0.0	-64.1	-7.3	0.0
		CDS-Short	-265.0	0.0	0.0	-195.0	-70.0	0.0	0.0	-262.9	0.0	0.0	-193.1	-69.8	0.0	0.0	0.0	176.6	0.0	0.0	150.2	26.4	0.0
	ABS Auto Prime		1,944.6	0.0		319.9	0.0	0.0	1,624.8	363.9	0.0	0.0	323.1	0.0	0.0	40.8	0.0	-40.6	-0.0	0.0	-32.5	0.0	0.0
	ABS Credit Card I		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	0.0
	ABS Other		316.0	116.6	27.0	74.1	12.5	0.0	85.8	285.4	113.8	24.3	53.9	12.3	0.0	81.2	0.0	-74.5	-25.5	-15.5	-10.9	-6.4	-0.0
	ABS Student Loan		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	0.0
CMBS	[redacted]																						
CDO	Total		9,347.3	126.5	-241.0	-1,042.6	24.2	-74.7	10,554.9	-1,274.5	-355.2	-241.1	-595.4	-39.2	-65.6	22.0	0.0	759.7	255.6	139.8	306.7	16.8	50.7
	CDO Commercial		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	0.0	0.0
	CDO CRE		-275.7	101.8	22.6	-292.4	-10.0	-99.7	2.0	-209.9	70.9	17.7	-222.4	-10.8	-66.8	1.5	0.0	172.6	-25.6	-8.0	145.6	10.0	51.2
	CDO Squared		840.7	616.9	163.3	8.1	30.4	0.0	22.1	212.1	177.1	25.2	0.4	3.6	0.0	5.8	0.0	-95.6	-79.7	-11.5	-0.2	-1.6	0.0
	CLO		-15.0	0.0	0.0	-15.0	0.0	0.0	0.0	-15.0	0.0	0.0	-15.0	0.0	0.0	0.0	0.0	5.7	-0.0	-0.0	5.7	0.0	0.0
	HG CDO		9,692.1	-359.0	-166.1	47.9	46.9	14.0	10,108.4	-463.3	-365.9	-110.1	-4.7	5.7	0.9	10.8	0.0	236.2	181.7	58.2	4.8	-3.2	-0.4

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values. **Market value of bonds/loans, bond equiv mkt val for synthetics.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Market	Sub Market	Type	Notional ($MM)*							Market Value ($MM)**								Spread DV01 ($k)					
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
	Mezz CDO		-894.8	-233.2	-260.8	-791.1	-43.1	10.9	422.4	-796.4	-237.4	-173.9	-353.6	-37.7	0.9	4.0		440.8	179.2	101.0	150.8	11.6	-0.1

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values. **Market value of bonds/loans, bond equiv mkt val for synthetics.

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GS MBS-E-013693150

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report B2: SPG Correlation By Market, Sub Market and Product

Market	Sub Market	Type	Notional ($MM)*							Market Value ($MM)**								Spread DV01 ($k)					
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
Total			-1,857.0	-987.9	-457.7	-285.5	-270.0	114.2		-4,835.2	-1,013.9	-638.8	-801.3	-1,034.0	-1,347.2			1,571.5	277.2	181.1	370.2	248.1	494.8
RMBS	Total		862.9	-458.9	-91.6	635.1	112.9	685.4		-1,616.0	-463.9	-112.0	421.0	-654.0	-807.0			-40.9	6.0	-6.8	-150.3	66.3	45.9
	Subprime/2nds	Total	566.1	-458.9	-91.6	638.6	112.7	685.4		-1,612.8	-463.9	-112.0	424.4	-654.3	-807.0			-42.0	6.0	-6.8	-151.4	66.4	45.9
		ABX-Long	4,591.4	100.0	228.0	463.5	1,363.1	2,436.8		2,503.8	98.0	215.5	353.3	734.4	1,102.6			-694.0	-36.1	-60.5	-107.2	-207.9	-282.2
		ABX-Short	-90.0			-50.0	-40.0			-47.0			-32.0	-15.0				15.0			10.8	4.2	
		TABX-Long	413.9			257.6	75.6	80.7		338.7			257.8	45.8	35.2			-80.4			-70.3	-12.2	-7.9
		TABX-Short	-2,802.7			-72.2	-1,099.1	-1,631.4		-2,560.1			-72.2	-1,019.4	-1,468.6			577.7			18.7	244.9	314.1
		CDS-Long	3,391.1	338.9	312.9	995.5	892.5	851.3		2,753.6	335.9	305.0	873.6	673.4	565.7			-475.7	-45.2	-66.7	-187.0	-101.0	-75.8
		CDS-Short	-57.1				-27.0	-30.1		-41.2				-21.2	-20.0			6.7			4.5	2.2	
		Abacus-Long	1,288.2				1,161.8	126.3		1,288.2				1,161.8	126.3			-912.4	0.0			-286.8	-25.6
		Abacus-Short	-5,848.7	-897.8	-632.5	-955.8	-2,214.2	-1,148.3		-5,848.7	-897.8	-632.5	-955.8	-2,214.2	-1,148.3			931.0	87.3	118.4	183.5	420.6	121.1
	Alt-A	Total	-3.2			-3.5	0.3			-3.2			-3.5	0.3				1.1			1.2	-0.1	
		Abacus-Long	1.0			1.0				-1.0				1.0				-0.2				-0.2	
		Abacus-Short	-4.2			-3.5	-0.8			-4.2			-3.5	-0.8				1.3			1.2	0.2	
ABS Non-Resi	Total		-526.6	-19.9		-397.9	-108.9			-527.0	-19.9		-398.2	-108.9				196.4	8.6		140.3	47.6	
	ABS	Total	-526.6	-19.9		-397.9	-108.9			-527.0	-19.9		-398.2	-108.9				196.4	8.6		140.3	47.6	
		CDS-Long	60.0			35.0	25.0			59.7			34.7	25.0				-29.9			-22.1	-7.8	
		Abacus-Long																0.0			0.0		
		Abacus-Short	-586.6	-19.9		-432.9	-133.9			-586.6	-19.9		-432.9	-133.9				226.4	8.6		162.4	55.4	
CMBS	Total	[redacted]																					
CDO	Total		-856.8	-299.9	-218.1	-191.1	-146.3	-1.5		-1,428.3	-296.9	-376.4	-573.4	-157.1	-22.5			485.4	115.0	96.8	205.2	44.0	2.3
	CDO CRE		-147.1	22.0	-11.8	-138.6	-17.2	-1.5		-189.6	19.0	-11.8	-145.6	-28.8	-22.5			91.4	-12.1	6.5	86.3	8.4	2.3
	CDO Squared		-4.8	-4.8						-4.8	-4.8							1.8	1.8				
	CLO		-157.6	-41.5	-72.0	-20.7	-23.3			-157.6	-41.5	-72.0	-20.7	-23.3				69.3	11.8	34.6	11.0	11.9	
	HG CDO		-209.5	-66.6	-84.4	-58.5				-229.5	-66.5	-86.8	-74.2					79.3	24.8	31.1	23.5		
	Mezz CDO		-337.9	-209.1	-49.9	26.8	-105.8			-846.9	-203.1	-205.7	-332.9	-105.1				223.5	88.6	26.6	84.8	23.7	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693151

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report B3: Resi Loans/Securitization By Market, Sub Market and Product

Market	Sub Market	Type	Notional ($MM)*							Market Value ($MM)**								Spread DV01 ($k)					
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
Total			1,793.8	8,138.4	127.9	92.1	-131.9	253.9	1,978.6	-720.9	6,865.2	133.6	108.2	-92.1	142.5	1,082.7	106.1	-847.0	-1,881.7	-29.0	-26.4	11.2	-37.7
RMBS	Total		15,782.1	8,338.4	127.9	92.1	-131.9	253.9	1,378.6	13,626.8	7,066.6	133.6	108.2	-92.1	142.5	1,081.7	106.1	-3,972.7	-1,881.7	-29.0	-26.4	11.2	-37.7
	Subprime/2nds	Total	-337.9	-383.9	42.2	-50.6	-180.7	106.3	93.6	-323.2	-369.0	49.5	-21.7	-121.5	32.6	93.6	13.2	215.1	218.9	-9.5	16.1	32.9	-10.9
		Bond	94.3	[illegible]	42.1	26.3	14.6	8.3	[illegible]	67.5	[illegible]	41.5	25.2	12.8	8.0	[illegible]	[illegible]	-24.9	[illegible]	-13.7	-7.5	-3.1	-0.7
		Loans	426.4	311.1	40.0	21.6	12.5	9.1	[illegible]	390.9	310.7	40.0	18.0	6.7	2.2	[illegible]	13.2	-56.3	-34.9	-8.1	-5.2	-3.1	-2.4
		NIM Bond	197.7	[illegible]	[illegible]	71.5	57.3	68.9	[illegible]	80.4	[illegible]	[illegible]	[illegible]	49.9	13.3	17.2	[illegible]	-12.6	[illegible]	[illegible]	-3.6	-3.9	-5.1
		Residual	93.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	93.6	93.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	93.6	[illegible]	-30.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		ABX-Long	50.0	[illegible]	[illegible]	[illegible]	[illegible]	50.0	[illegible]	17.1	[illegible]	[illegible]	[illegible]	[illegible]	17.1	[illegible]	[illegible]	-4.4	[illegible]	[illegible]	[illegible]	[illegible]	-4.4
		ABX-Short	-1,155.0	-695.0	-40.0	-135.0	-260.0	-25.0	[illegible]	-954.1	-679.7	-32.0	-83.6	-150.2	-8.5	[illegible]	[illegible]	337.2	253.8	12.3	26.7	42.2	2.2
		CDS-Short	-45.0	[illegible]	[illegible]	-35.0	-5.0	-5.0	[illegible]	-38.6	[illegible]	[illegible]	-31.2	-4.1	-3.3	[illegible]	[illegible]	8.6	[illegible]	[illegible]	5.6	0.7	0.3
	Alt-A	Total	1,137.0	895.4	10.6	50.5	7.8	25.9	145.0	616.5	394.6	10.4	45.3	5.1	15.8	141.7	3.6	-168.7	-92.5	-5.0	-10.4	-3.1	-6.3
		Bond	535.5	600.9	2.5	13.4	5.1	9.9	2.6	121.5	100.2	2.4	10.6	3.1	5.1	0.0	[illegible]	-35.3	-20.6	-1.7	-7.0	-2.3	-3.6
		Loans	315.1	294.5	8.1	4.8	2.7	3.2	1.0	314.3	294.3	8.0	4.4	2.0	1.6	0.4	3.6	-78.9	-71.9	-3.4	-1.6	-0.8	-0.6
		NIM Bond	45.1	[illegible]	[illegible]	32.4	[illegible]	12.6	[illegible]	39.4	[illegible]	[illegible]	30.2	[illegible]	9.1	[illegible]	[illegible]	-3.8	[illegible]	[illegible]	-1.7	[illegible]	-2.1
		Residual	141.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	141.3	141.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	141.3	[illegible]	-50.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Prime	Total	13,744.2	7,697.8	47.2	17.1	-51.5	42.7	358.4	12,439.7	6,911.8	46.6	14.8	-52.1	35.8	323.7	78.8	-3,939.3	-1,998.0	-6.3	-9.3	-2.4	-6.8
		Agy CMO	2,306.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,924.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-665.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		Agy ARM	561.4	[illegible]	[illegible]	[illegible]	[illegible]	2.3	583.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.2	[illegible]	[illegible]	-116.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		Agy IO/PO/Drv	2,574.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,574.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1,054.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		Prime IO/PO/Drv	123.3	123.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	123.3	123.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-44.6	-44.6	[illegible]	[illegible]	[illegible]	[illegible]
		OA/Hyb WAC IO	84.1	1.1	[illegible]	[illegible]	[illegible]	[illegible]	83.0	84.1	1.1	[illegible]	[illegible]	[illegible]	[illegible]	83.0	[illegible]	-15.3	-0.0	[illegible]	[illegible]	[illegible]	[illegible]
		Prime Flx CMO	3,672.2	3,672.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,209.0	3,209.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1,265.3	-1,265.3	[illegible]	[illegible]	[illegible]	[illegible]
		Prime ARM CMO	2,461.1	2,441.7	[illegible]	[illegible]	[illegible]	[illegible]	19.4	2,355.0	2,336.0	[illegible]	[illegible]	[illegible]	[illegible]	19.0	[illegible]	-443.1	-437.8	[illegible]	[illegible]	[illegible]	[illegible]
		Prime Sub	247.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	247.6	213.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	213.5	[illegible]	-48.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		Prime Flx Loan	744.5	717.0	6.7	9.3	4.1	4.5	3.0	737.9	710.6	6.6	9.2	4.1	4.4	3.0	[illegible]	-245.3	-236.2	-2.2	-3.1	-1.3	-1.5
		Prime Arm Loan	130.8	125.6	2.0	1.3	0.7	1.0	0.3	127.8	122.7	1.9	1.3	0.6	1.0	0.3	[illegible]	-11.9	-11.4	-0.2	-0.1	-0.1	-0.1
		HOA/MTA Loan	627.1	416.9	13.7	6.9	4.8	9.8	2.8	524.9	409.0	13.4	6.7	4.7	9.4	2.7	78.8	-9.0	-2.7	-0.1	-0.0	-0.0	-0.1
		CDS-Long	115.7	[illegible]	29.9	20.0	34.4	31.5	[illegible]	103.2	[illegible]	29.6	18.0	30.9	24.7	[illegible]	[illegible]	-31.8	[illegible]	-6.8	-6.8	-10.6	-7.6
		CDS-Short	-124.6	[illegible]	-5.0	-20.4	-95.4	-3.8	[illegible]	-121.5	[illegible]	-5.0	-20.4	-92.4	-3.7	[illegible]	[illegible]	11.8	[illegible]	1.0	0.8	9.6	0.4
	Scratch & Dent	Total	1,238.9	129.1	27.8	75.1	92.4	79.0	781.7	893.8	129.2	27.1	69.8	76.3	58.3	522.6	10.5	-79.8	-10.1	-6.2	-22.6	-16.2	-12.6
		Bond	197.7	[illegible]	9.0	60.2	60.1	52.1	[illegible]	153.9	[illegible]	8.4	55.7	49.4	40.5	[illegible]	[illegible]	-43.8	[illegible]	-3.5	-20.7	-11.5	-8.1
		Loans	1,016.5	129.1	18.8	14.8	32.4	26.9	757.0	715.2	129.2	18.8	14.0	27.0	17.8	497.9	10.5	-27.3	-10.1	-2.7	-2.1	-4.7	-4.5
		Residual	24.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	24.7	24.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	24.7	[illegible]	-8.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

Confidential Treatment Requested by Goldman Sachs

GS MBS-E-013693152

Goldman Sachs Mortgage Strategies

Date: 25Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report C1: Resi Loans / Securitization Business By Product

Group	Type	Sub Type	Notional ($MM)*	Market Value ($MM)** Total	Agy	AAA	AA	A	BBB	BBB-	NR	Resid	Rate DV01 ($k)	Spread DV01 ($k) Agy	AAA	AA	A	BBB	BBB-	NR
Total			1,793.8	-720.9	5,080.2	6,865.2	133.6	108.2	-92.1	142.5	1,082.7	106.1	-637.8	-1,836.1	-1,881.7	-29.0	-26.4	11.2	-37.7	-160.3
	Loans	Total	3,260.4	2,810.9		1,976.6	88.8	53.7	45.1	36.4	504.2	106.1	-710.1		-367.1	-16.6	-12.1	-10.0	-9.1	-1.1
		Subprime Loan	426.4	390.9		310.7	40.0	18.0	6.7	2.2		13.2	-44.9		-34.9	-8.1	-5.2	-3.1	-2.4	
		S&D Loan	1,016.5	715.2		129.2	18.8	14.0	27.0	17.8	497.9	10.5	-17.6		-10.1	-2.7	-2.1	-4.7	-4.5	-0.0
		Alt-A Loan	315.1	314.3		294.3	8.0	4.4	2.0	1.6	0.4	3.6	-80.1		-71.9	-3.4	-1.6	-0.8	-0.6	-0.1
		2nds Loan	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	-0.0		-0.0	-0.0	-0.0	-0.0	-0.0	
		Prime Arm Loan	130.8	127.8		122.7	1.9	1.3	0.6	1.0	0.3		-15.5		-11.4	-0.2	-0.1	-0.1	-0.1	-0.0
		Prime Fix Loan	744.5	737.9		710.6	6.6	9.2	4.1	4.4	3.0		-366.0		-236.2	-2.2	-3.1	-1.3	-1.5	-1.0
		HOA/MTA Loan	627.1	524.9		409.0	13.4	6.7	4.7	9.4	2.7	78.8	-186.0		-2.7	-0.1	-0.0	-0.0	-0.1	-0.0
	Retained Bonds	Total	4,211.5	3,523.6	2,574.0	224.6	52.2	171.7	78.7	79.9	342.7		-2,245.8	-1,054.8	-65.3	-18.9	-40.6	-20.8	-19.5	-105.1
		Retained Bond	927.5	362.9		100.2	52.2	91.6	65.3	53.5	0.0		-84.4		-20.6	-18.9	-35.3	-16.9	-12.4	-0.0
		Retained NIM	242.9	119.8				80.1	13.3	26.3			-221.3				-5.3	-3.9	-7.2	
		OA/Hyb WAC IO	84.1	84.1		1.1					83.0		-80.8		-0.0					-15.2
		Subprime Resid	43.9	43.9							43.9		-95.8							-9.1
		S&D Resid	24.7	24.7							24.7		-3.8							-8.7
		Alt-A Resid	141.3	141.3							141.3		-450.2							-50.7
		2nd Resid	49.8	49.8							49.8		-49.1							-21.3
		Other	2,697.3	2,697.3	2,574.0	123.3							-1,260.4	-1,054.8	-44.6					
	Synthetics	Total	7,481.2	6,494.8	1,924.6	4,865.3	-7.4	-117.2	-215.8	28.3	19.0		-2,058.7	-665.0	-1,449.3	6.4	26.3	42.0	-9.1	-5.4
		ABX	-1,105.0	-937.0		-679.7	-32.0	-83.6	-150.2	8.5					253.8	12.3	26.7	42.2	-2.2	
		CDS (in Loans Bo	-53.9	-56.9			24.6	-33.6	-65.6	17.7						-5.8	-0.5	-0.2	-6.9	
		Other	8,640.1	7,488.6	1,924.6	5,545.0					19.0		-2,058.7	-665.0	-1,703.1					-5.4
[redacted]																				
	Other	Total	829.0	797.3	581.6						215.7		-89.7	-116.3						-48.6
		Other	829.0	797.3	581.6						215.7		-89.7	-116.3						-48.6

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

Confidential Treatment Requested by Goldman Sachs

Mortgage Dept Top Sheet -- Report E1: Department wide ABX Positions - Notional by Index, Rating and Desk

Rating	Index	Total Notional ($MM)*	Desk				
			ABS Secondary	CDO Warehouse	Correlation	Prime AltA	Subprime 2nd S&D
Total		4,515.5	-319.0	4,501.4	-645.0	-460.0	7,592.9
AAA	Total	2,400.4	0.0	100.0	-620.0	-75.0	1,805.4
	ABX.HE.06-1	184.9	0.0	100.0	-620.0	0.0	-335.1
	ABX.HE.06-2	795.5	0.0	0.0	0.0	-75.0	720.5
	ABX.HE.07-1	1,385.0	0.0	0.0	0.0	0.0	1,385.0
	ABX.HE.07-2	35.0	0.0	0.0	0.0	0.0	35.0
AA	Total	764.1	0.0	228.0	0.0	-40.0	952.1
	ABX.HE.06-1	210.0	0.0	228.0	0.0	0.0	438.0
	ABX.HE.06-2	231.0	0.0	0.0	0.0	0.0	231.0
	ABX.HE.07-1	243.1	0.0	0.0	0.0	-40.0	203.1
	ABX.HE.07-2	80.0	0.0	0.0	0.0	0.0	80.0
A	Total	252.8	-500.0	413.5	-25.0	-110.0	31.3
	ABX.HE.06-1	-24.0	-500.0	313.5	0.0	-30.0	-240.5
	ABX.HE.06-2	253.0	0.0	100.0	0.0	-55.0	298.0
	ABX.HE.07-1	-41.3	0.0	0.0	-25.0	-25.0	-91.3
	ABX.HE.07-2	65.0	0.0	0.0	0.0	0.0	65.0
BBB	Total	708.2	84.0	1,323.1	-50.0	-210.0	1,855.3
	ABX.HE.06-1	548.0	44.0	855.0	-50.0	-160.0	1,237.0
	ABX.HE.06-2	437.9	40.0	441.6	0.0	-50.0	869.4
	ABX.HE.07-1	-277.6	0.0	26.6	0.0	0.0	-251.1
BBB-	Total	390.1	97.0	2,436.8	50.0	-25.0	2,948.9
	ABX.HE.06-1	254.5	51.0	1,515.0	0.0	0.0	1,820.5
	ABX.HE.06-2	161.4	46.0	814.6	50.0	-25.0	1,047.0
	ABX.HE.07-1	-75.8	0.0	107.1	0.0	0.0	31.4
	ABX.HE.07-2	50.0	0.0	0.0	0.0	0.0	50.0

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values. **Market value of bonds/loans, bond equiv mkt val for synthetics.

GS MBS-E-013693153

Confidential Treatment Requested by Goldman Sachs

Mortgage Dept Top Sheet -- Report E2: Department wide ABX Positions - Market Value by Index, Rating and Desk

Rating	Index	Total Market Value ($MM)**	Desk				
			ABS Secondary	CDO Warehouse	Correlation	Prime AltA	Subprime 2nd S&D	Total
Total		3,720.2	-324.1	2,456.8	-633.3	-303.7	4,915.9
AAA	Total	2,280.2	0.0	98.0	-607.7	-72.0	1,698.6
	ABX.HE.06-1	181.2	0.0	98.0	-607.7	0.0	-328.5
	ABX.HE.06-2	763.8	0.0	0.0	0.0	-72.0	691.7
	ABX.HE.07-1	1,302.0	0.0	0.0	0.0	0.0	1,302.0
	ABX.HE.07-2	33.3	0.0	0.0	0.0	0.0	33.3
AA	Total	666.9	0.0	215.5	0.0	-32.0	850.4
	ABX.HE.06-1	198.5	0.0	215.5	0.0	0.0	414.0
	ABX.HE.06-2	203.3	0.0	0.0	0.0	0.0	203.3
	ABX.HE.07-1	194.5	0.0	0.0	0.0	-32.0	162.5
	ABX.HE.07-2	70.5	0.0	0.0	0.0	0.0	70.5
A	Total	162.5	-410.2	321.2	-11.9	-71.7	-10.0
	ABX.HE.06-1	-19.7	-410.2	257.2	0.0	-24.6	-197.3
	ABX.HE.06-2	162.0	0.0	64.0	0.0	-35.2	190.8
	ABX.HE.07-1	-19.6	0.0	0.0	-11.9	-11.9	-43.4
	ABX.HE.07-2	39.8	0.0	0.0	0.0	0.0	39.8
BBB	Total	427.7	43.8	719.4	-30.8	-119.4	1,040.6
	ABX.HE.06-1	337.7	27.1	526.9	-30.8	-98.6	762.2
	ABX.HE.06-2	182.1	16.6	183.7	0.0	-20.8	361.7
	ABX.HE.07-1	-92.1	0.0	8.8	0.0	0.0	-83.3
BBB-	Total	182.9	42.4	1,102.6	17.1	-8.5	1,336.4
	ABX.HE.06-1	132.9	26.6	791.1	0.0	0.0	950.5
	ABX.HE.06-2	55.2	15.7	278.6	17.1	-8.5	358.0
	ABX.HE.07-1	-23.4	0.0	33.0	0.0	0.0	9.6
	ABX.HE.07-2	18.2	0.0	0.0	0.0	0.0	18.2

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

GS MBS-E-013693154

Confidential Treatment Requested by Goldman Sachs

Mortgage Dept Top Sheet -- Report E3: Department wide ABX Positions - Spread DV01 by Index, Rating and Desk

Total Spread DV01 ($k)

Rating	Index	Desk: ABS Secondary	CDO Warehouse	Correlation	Prime AltA	Subprime 2nd S&D	Total
Total		-1,473.5	95.9	-678.9	232.0	100.8	-1,723.7
AAA	Total	-1,020.2	0.0	-36.1	224.0	29.8	-802.5
	ABX.HE.06-1	-66.8	0.0	-36.1	224.0	0.0	121.1
	ABX.HE.06-2	-316.1	0.0	0.0	0.0	29.8	-286.3
	ABX.HE.07-1	-620.9	0.0	0.0	0.0	0.0	-620.9
	ABX.HE.07-2	-16.3	0.0	0.0	0.0	0.0	-16.3
AA	Total	-226.9	0.0	-60.5	0.0	12.3	-275.1
	ABX.HE.06-1	-55.7	0.0	-60.5	0.0	0.0	-116.2
	ABX.HE.06-2	-68.8	0.0	0.0	0.0	0.0	-68.8
	ABX.HE.07-1	-74.5	0.0	0.0	0.0	12.3	-62.2
	ABX.HE.07-2	-27.9	0.0	0.0	0.0	0.0	-27.9
A	Total	-55.7	119.3	-96.4	3.9	22.9	-6.1
	ABX.HE.06-1	5.7	119.3	-74.8	0.0	7.2	57.4
	ABX.HE.06-2	-54.6	0.0	-21.6	0.0	11.9	-64.4
	ABX.HE.07-1	6.4	0.0	0.0	3.9	3.9	14.1
	ABX.HE.07-2	-13.2	0.0	0.0	0.0	0.0	-13.2
BBB	Total	-123.5	-12.5	-203.7	8.6	33.7	-297.4
	ABX.HE.06-1	-94.1	-7.6	-146.8	8.6	27.5	-212.4
	ABX.HE.06-2	-54.0	-4.9	-54.5	0.0	6.2	-107.3
	ABX.HE.07-1	24.7	0.0	-2.4	0.0	0.0	22.3
BBB-	Total	-47.2	-10.9	-282.2	-4.4	2.2	-342.5
	ABX.HE.06-1	-34.0	-6.8	-202.5	0.0	0.0	-243.3
	ABX.HE.06-2	-14.3	-4.1	-71.9	-4.4	2.2	-92.5
	ABX.HE.07-1	5.5	0.0	-7.8	0.0	0.0	-2.3
	ABX.HE.07-2	-4.5	0.0	0.0	0.0	0.0	-4.5

Books not currently captured: CRE Loans, SPG Syndicate. *Notional amounts for interest only bonds are mkt values.**Market value of bonds/loans, bond equiv mkt val for synthetics.

GS MBS-E-013693155

Confidential Treatment Requested by Goldman Sachs

From: Birnbaum, Josh
Sent: Friday, August 24, 2007 10:11 AM
To: Kao, Kevin J.
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Yes

From: Kao, Kevin J.
Sent: Friday, August 24, 2007 10:08 AM
To: Birnbaum, Josh
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

For ABS Base portfolio only, correct?

From: Birnbaum, Josh
Sent: Friday, August 24, 2007 10:07 AM
To: Kao, Kevin J.
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

We have a trader's meeting in 26L right now. Can you bring 8 color copies of the graph into the meeting and give to me when ready?

From: Kao, Kevin J.
Sent: Friday, August 24, 2007 10:05 AM
To: Birnbaum, Josh
Cc: Turok, Michael; Primer, Jeremy
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Yes, running it now ...

From: Birnbaum, Josh
Sent: Friday, August 24, 2007 9:40 AM
To: Kao, Kevin J.
Cc: Turok, Michael; Primer, Jeremy
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Kevin, can I get this updated through last night pls?

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:35 PM
To: Birnbaum, Josh
Cc: Turok, Michael
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Josh - as you requested here's the ABS base portfolio single name & index notional history. Numbers are in terms of risk exposure.

I'll look into correlation portfolio next, and then the mortgage department for fiscal year 2007. This can be done within the next hour or so.

Retrieving 2006 data may take quite a bit more time and may not be able to finish it by COB. Let me know if you need 2006 history after you review the 2007 data. Thanks.

<< File: ABS Base Notional History.xls >>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1864

Confidential Treatment Requested by Goldm

From: Birnbaum, Josh
Sent: Friday, August 17, 2007 2:27 PM
To: Kao, Kevin J.
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Understood.

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:25 PM
To: Birnbaum, Josh
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Understood. (Yes, the portfolio name is confusing. SPG portfolio in fact covers the entire mortgage department synthetic positions. "SPG Trading" Portfolio covers the spg trading desks, including ABS, correlation, and CMBS).

From: Birnbaum, Josh
Sent: Friday, August 17, 2007 2:22 PM
To: Kao, Kevin J.
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

No, not SPG Portfolio, the entire Mortgage Dept.

From: Kao, Kevin J.
Sent: Friday, August 17, 2007 2:19 PM
To: Birnbaum, Josh
Subject: RE: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

So we'll have three tables of RMBS subprime cds & index AAA, AA, A, BBB, BBB- notional history: one for ABS Base Portfolio, one for SPG Portfolio, and the other for Correlation Portfolio, correct?

It turns out to take more time to retrieve the data. I should have history for your portfolio for fiscal year 2007 shortly.

From: Birnbaum, Josh
Sent: Friday, August 17, 2007 2:08 PM
To: Kao, Kevin J.
Subject: In addition to ABS book, I need you to run that series on the whole dept and correlation desk

Confidential Treatment Requested by Goldman Sachs

Goldman Sachs | Mortgage Strategies

Date: 5Mar07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet

		Market Value(MM$)(Hedge Equiv MV for CDS)												Spread DV01(K$)					
									Loan	Sec Resid		Total	Rate						
Group	Sector	Total	AAA	AA	A	BBB	BBB-	NR	Resid	<2006	>=2006	Resid	DV01(k$)	AAA	AA	A	BBB	BBB-	NR
Dept	Total	-7,284.1	591.1	500.5	-6,358.9	-3,583.7	69.8	609.9	256.8	223.3	407.0	887.1	-502.7	772.5	-326.1	2,146.0	844.3	-142.6	-176.9
Prime/Alt-A	Total	2,656.6	2,266.9	118.5	-6.5	-6.0	-4.7	34.1	72.2	68.2	114.1	254.4	-406.6	-45.0	-33.5	3.0	0.4	-5.0	-57.7
	Alt-A	2,656.6	2,266.9	118.5	-6.5	-6.0	-4.7	34.1	72.2	68.2	114.1	254.4	-406.6	-45.0	-33.5	3.0	0.4	-5.0	-57.7
RMBS Subprime	Total	8.6	-743.3	14.7	-342.3	-232.8	103.7	575.9	184.6	155.1	292.9	632.7	-96.1	826.0	-6.0	85.9	38.9	-49.5	-119.2
	2nd Lien	358.0	229.2	67.3	-19.5	-25.9	-2.3	0.0	39.5	1.5	68.4	109.3	-82.2	83.1	-16.5	9.4	7.8	0.2	-19.2
	Scratch&Dent	675.7	214.3	-73.5	-144.9	-2.7	69.7	532.3	26.1	20.9	33.7	80.7	31.6	-21.5	28.8	43.9	-1.2	-18.1	-22.0
	Subprime 1st Lien	-1,025.1	-1,186.7	20.9	-177.8	-204.1	36.4	43.6	119.1	132.8	190.8	442.7	-45.5	764.5	-18.0	32.6	32.3	-31.6	-78.0
RMBS Synthetics	Total	-7,135.1	-698.4	321.5	-3,615.4	-3,113.6	-29.2						0.0	-106.2	-230.1	923.8	701.8	-88.0	
	CDO	-8,352.4	-1,356.7	-684.8	-1,802.3	-2,153.9	-2,354.7						0.0	107.7	118.4	420.9	439.3	449.0	
	Index	2,943.4	385.0	689.0	-956.5	-222.8	3,048.6						0.0	-197.3	-236.1	227.7	55.0	-664.0	
	Single Name	-1,726.0	273.3	317.3	-856.5	-736.9	-723.2						0.0	-16.6	-112.5	275.2	207.5	127.0	
RMBS CDO Syn	Total	-2,814.2	-234.1	45.9	-2,394.7	-231.3	0.0						0.0	97.8	-56.5	1,133.3	103.2	0.0	
	HG CDO	-374.8	-62.2	-58.0	-254.6	0.0	0.0						0.0	27.0	26.8	124.0	0.0	0.0	
	HG Single Name	19.0	10.0	20.0	8.9	-19.9	0.0						0.0	-4.6	-10.1	-11.9	10.2	0.0	
	Mezz CDO	-2,139.2	-181.9	-382.5	-1,488.8	-86.0	0.0						0.0	76.3	164.1	803.6	29.1	0.0	
	Mezz Single Name	-319.3	0.0	466.3	-660.2	-125.4	0.0						0.0	-1.0	-237.3	327.6	63.8	0.0	

Books not currently captured: Prime Hybrid, Prime Fixed, CMO, Cash CDO, CREL, CMBS, Cash ABS

Confidential Treatment Requested by Goldman Sachs

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1871

From: Dutta, Mitrajit

Sent: Tuesday, September 11, 2007 10:22 AM

To: Dutta, Mitrajit; Iqbal, Farrukh; Sparks, Daniel L; Gasvoda, Kevin; Swenson, Michael; Finck, Greg; Noh, Suok; McHugh, John; Pouraghabagher, Cyrus; Nestor, Genevieve; Cawthon, Michael; Mahoney, Justin; Kong, Sarah C.; Brosterman, Jonathan; Anasetti, Marco; Erbst, Jared R.; Gold, Erica; ficc-creditmgmt-admin; DeGiacinto, Clayton; Feingold, Jessica; Watson, Whitney E.; Rutherford, Malcolm; Heagle, Jonathan; Lehman, David A.; Kao, Kevin J.; gs-mra-mtg; Petersen, Bruce; Creed, Christopher J; Lee, Matthew; Gregory, Justin G.; Wicker, Devin

Cc: Wiesel, Elisha; Turok, Michael; Barrett, Tom; Chen, Xin; Li, Ji; Iqbal, Farrukh

Subject: Mtg Top Sheet Report for 10 Sep 2007

Attachments: Mtg Dept Top Sheet 10Sep07.pdf

Risk reports for Sep 10th close are attached.

Sincerely,
Mitrajit.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1871

Goldman Sachs

Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

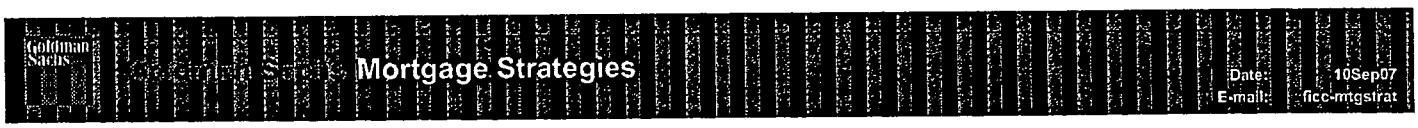
Mortgage Dept Top Sheet

Market	Sub Market	Notional ($MM) Total	Notional ($MM) Long	Notional ($MM) Short	Market Value ($MM)** Total	Market Value ($MM)** Long	Market Value ($MM)** Short	Spread DV01 ($ Total	Rate DV01 ($k)
Total		21,328.4	155,880.3	-134,560.8	-4,895.1	115,743.6	-120,338.7	587.6	-437.7
RMBS	Total	65,639.2	65,012.2	-39,373.0	12,575.4	41,519.3	-28,744.0	-3,992.4	-4,184.1
	Subprime/2nds	115.3	38,507.6	-38,392.3	-1,014.3	26,929.7	-27,944.1	-732.9	-352.3
	Alt-A	897.7	1,739.1	-841.4	506.8	1,170.7	-663.9	-122.0	-790.1
	Prime	63,369.9	13,509.2	-139.2	12,198.3	12,242.3	-136.0	-3,062.6	-2,992.9
	Scratch & Dent	1,233.8	1,233.8		864.2	864.2		-53.0	-49.0
	Other	22.6	22.6		22.4	22.4		-1.9	
ABS Non-Real	Total	1,417.3	2,333.2	-716.0	-69.6	645.6	-714.8	209.4	
	ABS	-840.1	75.0	-715.1	-630.2	74.7	-713.8	208.3	
	ABS Auto Prime	2,042.1	2,042.1		383.7	383.7		-46.5	
	ABS Credit Cards Pri	41.5	42.4	-1.0	34.9	35.8	-0.9	-10.4	
	ABS Other	63.8	63.8		86.4	86.4		-23.9	
	ABS Student Loans Pr	89.9	89.9		85.2	85.2		-17.0	
CMBS	Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
CDO	Total	8,448.9	16,943.1	-8,897.2	-1,960.1	2,499.3	-4,459.5	683.1	
	CDO CRE	-483.7	876.4	-1,140.1	-432.6	531.1	-963.6	285.3	
	CDO Squared	836.0	943.2	-5.2	213.2	218.4	-5.2	-98.4	
	CLO	-156.6	-	-156.6	-156.6	-	-156.6	89.1	
	HG CDO	9,978.4	10,572.9	-594.0	-278.4	196.6	-476.3	115.1	
	Mezz CDO	-750.2	4,151.1	-4,901.3	-1,905.8	1,553.0	-3,458.8	480.1	
Rate Hedges		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

Confidential Treatment Requested by Goldman Sachs



Mortgage Dept Top Sheet -- Report B: Dept Wide By Market, Sub Market and Product(All Desks Covered)

Market	Sub Market	Type	Notional ($MM) Total	AAA	AA	A	BBB	BBB-	NR	Market Value ($MM)** Total	AAA	AA	A	BBB	BBB-	NR	Resid	Spread DV01 ($k) Total	AAA	AA	A	BBB	BBB-
Total			31,328.4	10,641.6	1,196.4	1,960.9	1,948.4	969.8	14,805.0	4,995.1	10,239.5	765.4	-2,756.4	-1,895.7	-1,817.7	760.7	417.7	887.8	-2,798.6	395.9	1,418.8	982.7	833.8
FMBS	Total		16,639.2	10,905.1	1,293.0	729.0	1,678.8	815.2	530.8	12,676.4	9,604.2	1,044.0	831.3	-1,899.1	-1,982.3	606.7	417.7	3,892.4	-2,726.6	434.1	174.8	231.0	98.2
	Subprime/2nds	Total	115.3	1,578.5	1,181.8	-648.4	-1,693.5	-676.2	35.9	-1,014.3	1,367.4	935.1	-749.7	-1,637.8	-1,281.6	29.1	131.1	-733.9	-744.1	-388.0	145.1	185.8	123.1
		Bond	1,980.2	536.1	550.3	265.7	139.0	484.3	36.0	1,198.1	448.6	444.7	142.0	61.8	81.1	24.1	-	-323.4	-156.4	-136.1	-36.8	-14.5	-17.9
		Loans	416.9	902.9	38.1	20.5	13.9	9.3	-	396.2	300.8	57.8	19.9	12.5	6.3	-	19.1	-56.1	-31.8	-8.2	-5.0	-3.7	-2.7
		NIM Bond	206.2	-	-	79.1	56.1	69.9	-	81.4	-	-	68.3	16.3	-17.8	-	-	-12.8	-	-	-3.6	-3.6	-4.2
		Residual	112.0	-	-	-	-	-	-	112.0	-	-	-	-	-	-	112.0	-32.6	-	-	-	-	-
		ABX-Long	10,182.3	3,025.4	947.1	1,383.5	2,125.4	2,730.9	-	7,229.8	2,899.0	845.4	924.9	1,597.9	1,372.7	-	-	1,727.7	600.8	14.8	290.9	135.4	80.7
		ABX-Short	-4,483.4	-1,445.0	-50.0	-1,277.2	-982.7	-948.4	-	-3,463.0	-1,537.1	-50.0	-1,019.1	-643.4	-213.4	-	-	-96.8	-	-	-70.2	-7.8	-10.0
		TABX-Long	981.0	-	-	245.7	51.8	353.5	-	353.7	-	-	245.2	25.1	83.0	-	-	656.7	-	-	21.8	271.7	362.5
		TABX-Short	-2,825.1	-	-	75.8	-1,159.0	-1,896.8	-	-3,884.7	-	-	75.8	-1,068.4	-1,537.7	-	-	-4,007.2	-53.6	-156.4	-768.5	-1,664.1	-1,455.8
		CDS-Long	23,814.4	363.6	617.9	3,357.6	9,706.7	9,568.3	-	15,125.5	330.1	473.7	2,771.2	6,448.7	5,053.8	-	-	4,046.6	36.9	45.4	836.8	1,681.5	1,447.2
		CDS-Short	-35,016.0	-288.9	-206.0	-3,961.5	-10,382.9	-10,476.8	-	-15,835.7	-294.2	-200.9	-2,871.3	-6,491.8	-5,987.6	-	-	-353.5	-0.0	-	-	-324.8	-28.7
		Abacus-Long	1,373.8	-	-	-	1,239.1	134.7	-	1,373.8	-	-	-	1,239.1	134.7	-	-	1,002.5	96.7	118.4	182.8	468.8	135.7
		Abacus-Short	-5,911.2	-637.8	-615.6	-943.6	-2,322.2	-1,192.3	-	-5,911.2	-637.8	-615.6	-943.6	-2,322.2	-1,192.3	-	-	-	-	-	-	-	-
	Alt-A	Total	897.7	919.8	21.0	-188.6	-239.3	-28.9	41.5	506.8	704.7	21.0	-178.8	-193.1	-22.1	38.0	136.5	-122.0	-187.8	-10.1	84.7	65.0	2.0
		Bond	708.4	233.6	2.5	186.2	2.7	6.3	38.4	208.7	9.1	2.3	152.4	2.6	5.4	36.9	-	-96.3	-1.9	-1.5	-42.3	-2.0	-0.3
		Loans	732.6	686.2	18.5	10.1	8.9	7.3	3.1	736.3	695.6	18.7	9.2	4.4	3.6	1.1	3.8	-202.2	-186.8	-8.6	-3.8	-1.8	-1.2
		NIM Bond	54.6	-	-	37.8	-	16.7	-	46.4	-	-	35.2	-	11.2	-	-	-8.1	-	-	-2.4	-	-2.7
		Residual	132.6	-	-	-	-	-	-	132.6	-	-	-	-	-	-	132.6	49.7	-	-	-	-	-
		CDS-Long	62.2	-	-	10.0	18.0	36.2	-	45.4	-	-	9.7	13.1	22.6	-	-	-18.1	-	-	-3.8	-4.7	-7.5
		CDS-Short	-789.0	-	-	-429.2	-264.2	-95.6	-	-699.5	-	-	-381.2	-213.5	-84.8	-	-	204.2	-	-	115.0	73.6	16.7
		Abacus-Long	1.3	-	-	-	1.3	-	-	1.3	-	-	-	1.3	-	-	-	-0.3	-	-	-	-0.3	-
		Abacus-Short	-4.6	-	-	-3.6	-0.9	-	-	-4.6	-	-	-3.6	-0.9	-	-	-	1.4	-	-	1.2	0.2	-
	Prime	Total	13,589.9	8,155.8	62.1	30.7	39.6	84.3	8.8	12,106.3	7,381.0	66.4	53.6	-45.1	69.2	7.9	113.8	-3,452.6	-1,782.7	-16.0	-11.9	-3.1	-14.1
		Agy CMO	1,907.4							1,883.2								-554.7	-	-	-	-	-
		Agy ARM	0.0							-								-	-	-	-	-	-
		Agy IO/PO/Dly	2,778.3							2,770.3								-620.6	-	-	-	-	-
		Prime IO/PO/Dly	141.8							141.8								28.0	-	-	-	-	-
		CAA/Ayc WAC IO	85.1	70.4	7.1	-	0.0	5.9	1.9	85.2	70.4	7.1	-	0.0	5.9	1.9	-	-1.2	-0.3	-0.0	-	-0.0	-0.8
		Prime Fix CMO	3,895.5	3,895.5	-	-	-	-	-	3,253.5	3,253.5	-	-	-	-	-	-	-1,066.8	-1,066.8	-	-	-	-
		Prime ARM CMO	2,768.6	2,768.6	-	-	-	-	-	2,653.8	2,653.5	-	-	-	-	-	-	-455.1	-455.1	-	-	-	-
		Prime Sub	221.5	138.2	7.5	20.1	12.2	45.4	-	189.9	133.2	6.4	15.8	7.2	27.4	-	-	-41.6	-29.2	-1.9	-4.5	-1.2	-4.7
		Prime Fix Loan	768.9	740.5	5.9	9.6	4.2	4.8	3.1	765.4	737.1	5.9	9.6	4.2	4.8	3.3	-	-206.4	-198.7	-1.9	-2.9	-1.1	-1.2
		Prime Arm Loan	130.8	125.6	2.0	1.3	0.7	1.0	0.3	127.7	122.8	1.9	1.3	0.6	1.0	0.3	-	-10.3	-9.0	-0.2	-0.1	-0.1	-0.1
		HOA/MTA Loan	636.0	418.7	13.6	6.9	4.8	9.7	2.8	561.9	410.8	13.5	6.9	4.7	9.5	2.7	113.8	-39.8	-32.8	-0.1	-0.9	-2.0	-0.1
		CDS-Long	121.7	-	29.9	20.0	34.4	37.5	-	108.6	-	29.6	17.8	30.8	30.6	-	-	32.7	-	8.9	4.8	10.7	8.2
		CDS-Short	-138.4	-	-5.9	-27.7	-95.9	-8.8	-	-135.3	-	-5.0	-27.7	-92.8	-9.7	-	-	-14.2	-	1.0	2.3	10.1	0.9
	Scratch & Dent	Total	1,233.8	151.0	26.1	75.5	93.7	85.7	746.2	954.2	131.2	27.5	70.4	77.8	72.2	539.6	36.3	-53.6	-10.2	-6.4	-23.1	-16.5	-14.7
		Bond	168.8	-	0.0	60.3	80.8	66.4	-	168.3	-	0.1	58.1	49.6	54.2	-	-	-46.3	-	-3.8	-21.0	-11.7	-10.1
		Loans	1,009.7	151.0	19.1	15.1	12.9	27.3	746.2	760.4	131.2	19.1	14.3	27.4	18.1	539.6	10.8	-29.0	-10.2	-2.8	-2.1	-4.5	-4.8
		Residual	55.5	-	-	-	-	-	-	25.5	-	-	-	-	-	-	25.5	-8.7	-	-	-	-	-
	Other	Total	22.6	20.0	-	2.5	-	-	0.0	22.4	19.9	-	2.5	-	-	-	-	-1.9	-1.8	-	-0.1	-	-
		Bond	22.6	20.0	-	2.5	-	-	0.0	22.4	19.9	-	2.5	-	-	-	-	-1.9	-1.8	-	-0.1	-	-
ABS Non-Asset	Total		1,917.2	-1.3	37.0	-44.3	-140.4	0.0	1,793.4	-69.0	0.8	84.3	-80.7	140.5	-	121.3	-	209.5	8.8	-16.9	185.1	-80.8	-0.6
	ABS	Total	440.1	-19.0	-	-468.2	182.9	-	-	439.2	-19.0	-	-467.4	182.8	-	-	-	306.3	8.3	-	231.0	67.0	-
		CDS-Long	75.0	-	-	35.0	40.0	-	-	74.7	-	-	34.7	40.0	-	-	-	32.2	-	-	22.4	9.8	-
		CDS-Short	-175.0	-	-	-115.0	-60.0	-	-	-173.8	-	-	-113.9	-59.9	-	-	-	108.6	-	-	67.5	21.2	-
		Abacus-Long																0.0			-0.8		

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Market	Sub Market	Type	Notional ($MM) Total	AAA	AA	A	BBB	BBB-	NR	Market Value ($MM)** Total	AAA	AA	A	BBB	BBB-	NR	Resid	Spread DV01 ($k) Total	AAA	AA	A	BBB	BBB-
		Abacus-Short	-540.1	-19.0		-388.2	-132.9			-540.1	-19.0		-388.2	-132.9				229.8	8.3		165.9	55.6	
	ABS Auto Prime		2,842.1			338.2			1,703.9	383.7			341.1			42.6		-43.8			-37.0		
	ABS Credit Cards		41.8	16.1		18.7	12.5			34.8	10.2		12.5	12.2				-10.4	-1.6		-2.1	-6.5	
	ABS Other		63.8	9.3	27.0	47.1	0.0	0.0	0.3	56.4	5.7	24.3	33.2			0.3		-23.9	-1.7	-15.5	-5.0	-0.0	-0.0
	ABS Student Loa		89.8	0.8					88.2	88.3	0.7					84.4		-17.6	-0.1				
CMBS	Total		[redacted]																				
CDO	Total		9,445.9	563.6	-438.5	-1,072.7	-108.8	-76.0	10,578.4	-1,960.2	30.3	-624.6	-1,111.2	-189.5	-67.8	22.5		853.1	-12.2	242.8	496.8	-58.4	53.9
	CDO ERE		-463.7	123.8	-6.7	-454.2	-27.7	-101.0	2.0	-432.8	90.0	-6.5	-388.9	-40.8	-89.0	1.5		285.3	-42.8	7.4	247.2	19.4	54.1
	CDO Squared		838.0	612.7	163.3	8.1	31.9		22.1	213.2	178.1	25.2	0.4	3.7		5.8		-96.4	-80.5	-11.8	-0.2	-1.7	
	CLO		-156.6	-41.5	-71.8	-20.9	-22.6			-156.6	-41.5	-71.8	-20.9	-22.6				60.1	12.0	34.7	11.0	11.4	
	HG CDO		8,878.4	-37.6	190.8	28.4	48.9	14.0	10,117.4	-278.4	-62.9	-165.8	-87.4	5.7	0.9	10.8		116.1	34.8	74.8	24.2	-3.2	-0.4
	Mezz CDO		-780.3	-83.8	-332.7	-634.1	-137.3	11.0	438.9	-1,305.8	-153.4	-407.3	-634.4	-136.5	0.3	4.5		480.1	88.7	137.3	213.7	32.4	-0.1
Rate Hedges			[redacted]																				

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Investigations

Goldman Sachs

Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report B1: SPG Secondary (excluding Correlation) By Market, Sub Market and Product

Market	Sub Market	Type	Notional ($MM)							Market Value ($MM)**							Spread DV01 ($k)						
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
Total			24,486.6	12,875.1	1,556.5	-721.3	-1,668.6	-1,259.3	13,674.3	2,236.6	4,256.1	1,307.7	-1,537.7	-858.5	-114.6	164.1		-1,125.9	-1,694.1	-649.3	822.4	197.3	45.8
RMBS	Total		-127.2	3,141.0	1,226.2	-1,412.3	-1,668.6	-1,425.8	0.0	1,317.4	2,534.3	1,002.3	-1,236.1	-813.0	-575.0			-1,064.7	-1,284.3	-379.1	341.4	160.9	96.4
	Subprime/2nds	Total	322.3	3,119.2	1,226.2	-1,166.8	-1,418.3	-1,358.0		1,760.7	2,512.9	1,002.3	-999.4	-812.6	-534.6			-1,216.5	-1,282.3	-379.1	265.8	92.0	67.3
		Bond	1,653.4	536.1	506.1	239.4	124.3	445.4		1,068.8	446.6	403.1	117.7	48.7	72.6			-290.6	-106.4	-134.8	-29.2	-11.4	-16.8
		ABX-Long	5,565.8	2,625.4	719.1	880.0	703.9	227.2		4,376.4	2,706.3	627.8	653.1	369.0	120.4			-1,745.3	-1,201.5	-241.8	-187.8	-152.5	-32.3
		ABX-Short	-2,333.3			-1,092.2	-797.7	-623.4		-1,344.4			-744.1	-311.9	-288.4			404.8			232.7	94.0	77.9
		TABX-Long	314.0					314.0		66.7					66.7			-15.2					-15.2
		CDS-Long	20,116.8	44.6	205.0	2,342.5	8,812.2	8,712.3		13,329.1	84.3	172.4	1,910.2	5,746.0	5,456.2			-3,662.6	-8.3	-67.9	-581.3	-1,564.2	-1,370.9
		CDS-Short	-24,913.9	-286.9	-206.0	-3,626.8	-10,350.9	-10,443.5		-15,748.0	-284.2	-200.9	-2,836.3	-6,464.8	-6,962.1			4,032.8	32.9	46.4	831.0	1,675.9	1,444.4
	Alt-A	Total	-545.1	1.8		-340.9	-348.2	-57.7		-466.5	1.8		-226.3	-200.4	-41.4			152.3	-0.2		74.8	66.9	9.2
		Bond	181.7	1.8		-178.4		1.8		147.6	1.8		145.2		0.6			-37.6	-0.2		-37.5		-0.0
		CDS-Long	62.2			10.0	16.0	36.2		45.4			8.7	10.1	22.6			206.2			115.8	73.6	16.7
		CDS-Short	-789.0			-429.2	-364.2	-95.5		-659.6			-380.2	-210.5	-64.0			-90.1			-78.5	-6.7	-4.9
	Prime	Total	-77.0			-77.0				-77.0			-77.0		-0.0			1.4			1.4		-0.0
		CDS-Long	6.0					6.0		6.0					6.0			-0.5					-0.5
		CDS-Short	-13.0			-77.0		-6.0		-12.9			-7.0		-6.0			1.9			1.4		0.5
	Other	Total	22.6	20.0		2.6			0.0	22.4	19.9		2.5					-1.9	-1.8		-0.1		
		Bond	22.6	20.0		2.6			0.0	22.4	19.9		2.5					-1.9	-1.8		-0.1		
ABS Non-Real	Total		2,067.3	20.3	27.0	289.0	-32.5	0.9	1,793.4	411.4	19.8	24.3	272.8	-32.6		127.3		10.0	-4.5	-15.5	41.8	12.8	-0.0
	ABS	Total	-180.0			-116.0	-45.0			-156.5			-113.9	-44.6				106.8			87.8	19.3	
		CDS-Long	15.0				15.0			15.0				15.0				-1.9				1.9	
		CDS-Short	-175.0			-116.0	-60.0			-172.5			-113.9	-59.6				108.8			87.8	21.2	
		ABS Auto Prime	2,042.1			338.2			1,703.9	383.7			341.1		42.6			-45.5			-37.0		
		ABS Credit Cards	41.5	10.3		19.7	12.5			34.9	10.2		12.5	12.2				-10.4	-1.8		-3.5	-0.5	
		ABS Other	83.6	9.3	27.0	47.1	0.0	0.0	0.3	66.4	8.7	24.3	33.2		0.3			-23.2	-1.7	-15.5	-6.6	-0.0	-0.0
		ABS Student Loa	89.9	0.8					89.2	85.2	0.7				84.4			-17.5	-0.1				
[redacted]	Total		[redacted]																				
CDO	Total		10,324.7	963.1	-191.1	-885.8	24.8	-74.7	10,578.4	-491.0	330.8	-219.8	-829.8	-38.9	-65.1	22.8		364.6	-104.1	127.3	283.0	17.1	51.4
	CDO CRE		-282.7	101.0	22.8	-299.4	-10.0	-99.7	2.0	-214.6	71.0	17.7	-227.9	-11.5	-65.3	1.5		175.4	-30.6	-6.0	150.0	10.6	51.9
	CDO Squared		843.2	617.9	163.8	8.1	01.9		22.1	218.4	163.2	25.2	0.4	3.7		5.8		-98.4	-62.5	-11.5	-0.2	-1.7	
	HG CDO		10,190.3	30.7	-108.1	67.4	46.9	14.0	10,117.4	-46.8	7.3	-76.4	7.2	5.7	0.9	10.8		34.0	-1.0	43.1	0.3	-2.2	-0.4
	Mezz CDO		-426.1	112.8	-260.9	-661.8	-44.3	11.0	436.9	-448.3	69.0	-175.1	-310.1	-36.8	0.3	4.5		285.6	9.9	103.7	132.9	11.9	-0.1

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report B2: SPG Correlation By Market, Sub Market and Product

Market	Sub Market	Type	Notional ($MM) Total	AAA	AA	A	BBB	BBB-	NR	Market Value ($MM)** Total	AAA	AA	A	BBB	BBB-	NR	Resid	Spread DV01 ($k) Total	AAA	AA	A	BBB	BBB-
Total			-2,087.1	-996.3	-601.6	-343.9	-259.0	-36.3		-1,894.4	1,020.2	-680.5	-681.3	-896.3	-1,996.2			1,744.7	352.1	208.1	491.3	182.1	835.0
RMBS	Total		848.8	-398.7	-74.7	679.0	58.5	584.7		-1,477.3	-403.7	-96.6	436.2	-645.8	-769.7			-46.3	14.4	-11.8	-161.8	66.8	46.9
	Subprime/2nds	Total	852.0	-398.7	-74.7	682.8	58.1	584.7		-1,474.1	-403.7	-96.6	441.7	-645.8	-769.7			-46.4	14.4	-11.8	-163.1	66.8	46.9
		ABX-Long	4,686.8	100.0	226.0	463.8	1,421.5	2,453.8		2,723.7	98.0	217.8	357.1	616.5	1,232.3			-787.0	-37.0	-42.5	-140.1	-340.8	-336.5
		ABX-Short	-80.0				-40.0			-16.8				-16.5				5.8				5.0	
		TABX-Long	347.0			245.7	51.8	49.5		887.6			245.7	25.1	16.3			81.7			70.2	7.6	3.9
		TABX-Short	-2,925.1			-76.8	-1,159.6	-1,688.8		-2,884.7			-76.8	-1,068.4	-1,837.7			854.7			31.8	271.7	362.5
		CDS-Long	3,377.8	338.9	312.9	995.5	894.6	836.0		2,796.4	335.9	301.2	861.0	700.7	597.6			-494.8	-45.3	-47.5	-167.2	-109.9	-84.7
		CDS-Short	-57.1				-27.0	-30.1		-42.7				-22.1	-20.6			7.2				4.8	2.4
		Absca-Long	1,373.8				1,239.1	134.7		1,371.8				1,239.1	134.7			-333.8	0.0			-334.9	-26.7
		Absca-Short	-6,911.2	-637.6	-615.6	-943.8	-2,322.2	-1,192.3		-6,911.2	-637.6	-615.6	-943.6	-2,322.2	-1,192.3			1,003.8	96.7	116.4	182.8	466.8	135.7
	Alt-A	Total	-3.2			-3.6	0.4			-3.2			-3.6	0.4				1.1			1.2	-0.1	
		Absca-Long	1.3				1.3			1.3				1.3				-0.3				-0.3	
		Absca-Short	-4.5			-3.6	-0.9			-4.5			-3.6	-0.9				1.4			1.2	0.2	
ABS Non-Real	Total		-480.1	-19.0		-353.2	-107.9			-480.4	-19.0		-353.5	-107.9				199.5	8.3		143.5	47.7	
	ABS	Total	-480.1	-19.0		-353.2	-107.9			-480.4	-19.0		-353.5	-107.9				199.5	8.3		143.5	47.7	
		CDS-Long	90.0			36.0	25.0			59.7			34.7	25.0				30.3			22.4	7.9	
		Absca-Long																-0.6				-0.6	
		Absca-Short	-540.1	-19.0		-388.2	-132.9			-540.1	-19.0		-388.2	-132.9				229.8	8.3		165.8	55.6	
[redacted]	Total		[redacted]																				
CDO	Total		-878.8	-298.5	-257.4	-167.2	-135.3	-1.3		-1,469.2	-300.3	-413.9	-581.7	-150.6	-22.7			488.5	116.4	116.2	213.4	41.3	2.3
	CDO ERE		-161.0	-22.0	-29.3	-154.5	-17.7	-1.3		-218.0	-19.0	-23.0	-161.0	-29.3	-22.7			111.9	-12.2	15.4	97.7	8.8	2.3
	CDO Squared		-5.2	-5.2						-5.2	-5.2							2.0	2.0				
	CLO		-156.8	-41.5	-71.8	-20.9	-22.6			-156.8	-41.5	-71.8	-20.9	-22.6				69.1	12.0	34.7	11.0	11.4	
	HG CDO		-242.0	-66.3	-84.7	-59.0				-232.0	-70.2	-67.1	-74.7					91.3	25.7	31.6	23.9		
	Mezz CDO		-324.1	-208.8	-71.8	47.5	-93.1			-857.5	-202.4	-232.2	-324.2	-98.7				224.4	66.9	33.7	80.8	21.1	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

Confidential Treatment Requested by Goldman Sachs

Goldman Sachs

Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report B3: Resi Loans/Securitization By Market, Sub Market and Product

Market	Sub Market	Type	Notional ($MM)							Market Value ($MM)**								Spread DV01 ($k)					
			Total	AAA	AA	A	BBB	BBB-	NR	Total	AAA	AA	A	BBB	BBB-	NR	Resid	Total	AAA	AA	A	BBB	BBB-
Total			-1,041.1	8,062.6	141.5	4.3	70.6	325.9	630.8	-2,867.3	7,073.6	138.2	39.4	140.6	183.3	606.7	417.7	-55.2	-1,456.6	33.8	-4.7	3.3	-47.2
RMBS	Total		14,927.5	8,062.6	141.5	4.3	70.6	325.9	630.8	12,735.9	7,073.6	138.2	39.4	140.6	183.3	606.7	417.7	2,882.3	-1,456.6	33.8	-4.7	3.3	-47.2
	Subprime/2nds	Total	-1,129.1	-1,142.1	30.3	164.1	-133.4	107.1	35.0	-1,306.9	-1,141.8	28.3	-192.0	-179.4	22.7	25.1	131.1	530.1	523.8	-7.3	42.7	26.7	-11.1
		Bond	126.8		42.1	25.3	14.8	6.6	36.0	109.2		41.5	25.2	12.9	6.6	21.1		-32.7		-13.9	-7.8	-3.1	-0.7
		Loans	416.9	922.9	38.1	20.5	13.9	9.3		396.2	900.8	37.8	19.9	12.5	8.3		19.1	-66.1	-31.8	-8.2	-5.2	-3.7	-2.7
		NIM Bond	206.2			79.1	58.1	68.9		81.4			58.3	15.3	17.8			-12.8			-3.6	-4.6	-5.2
		Residual	112.8							112.8							112.8	-32.8					
		ABX-Long	170.0	100.0		20.0		50.0		129.8	94.8		14.7		20.0			-35.8	-45.2		-4.4		-5.7
		ABX-Short	-2,110.0	-1,845.0	-50.0	-275.0	-215.0	-35.0		-2,102.1	-1,837.1	-80.0	-275.0	-215.0	-35.0			713.1	600.8	14.8	58.2	36.4	2.8
		CDS-Short	-45.0			-45.0	-5.0	-5.0		-45.0			-45.0	-5.0	-5.0			6.8			5.6	0.8	0.4
	Alt-A	Total	1,445.9	916.0	21.0	65.7	8.6	28.8	41.5	978.4	703.1	21.0	61.8	7.8	19.3	38.9	136.5	-278.5	-167.6	-16.1	-11.0	-3.5	-7.8
		Bond	526.7	231.8	2.5	7.8	2.7	4.7	36.4	61.1	7.5	2.3	7.0	2.6	4.5	36.9		-18.5	-1.7	-1.5	-4.7	-2.0	-3.3
		Loans	723.0	684.2	18.5	-10.1	-6.9	-7.3	5.1	736.3	695.6	18.7	8.2	4.4	3.8	1.1	3.8	-102.2	-135.6	-8.6	-3.8	-1.8	-1.2
		NIM Bond	54.8			37.8		16.7		46.4			35.2		11.2			-5.1			-2.4		-2.7
		Residual	132.6							132.6							132.6	-49.7					
	Prime	Total	13,576.9	8,155.8	62.1	37.2	-39.8	54.2	8.0	12,113.3	7,381.0	88.4	36.6	-45.2	89.2	7.9	113.9	-1,654.0	-1,782.7	-16.0	13.3	-3.1	-14.1
		Agy CMO	1,967.4							1,983.2								-934.7					
		Agy ARM	6.0																				
		Agy IO/PO/Drv	2,770.3							2,770.3								420.6					
		Prime IO/PO/Drv	141.9							141.9								-28.6					
		DA/Hyb WAC IO	85.3	70.4	7.1		0.0	5.9	1.9	85.3	70.4	7.1		0.0	5.9	1.9		1.2	-0.3	-0.0		-0.0	-0.8
		Prime Fix CMO	3,895.5	3,895.5						3,283.5	3,283.5							-1,088.8	-1,088.8				
		Prime ARM CMO	2,768.9	2,768.9						2,853.5	2,853.5							-455.1	-455.1				
		Prime Sub	221.5	136.2	7.5	29.1	12.2	45.4		189.6	133.2	6.4	16.5	7.3	27.4			-41.4	-29.2	-1.9	-4.8	-1.2	-4.7
		Prime Fix Loan	768.9	740.5	6.9	9.6	4.2	4.6	1.1	765.4	737.1	6.9	9.6	4.2	4.6	3.1		-206.4	-196.7	-1.9	-2.8	-1.1	-1.2
		Prime Arm Loan	136.8	125.6	2.0	1.3	0.7	1.0	0.3	127.7	122.8	1.9	1.3	0.8	1.0	0.3		-10.3	-8.9	-0.2	-0.1	-0.1	-0.1
		HOA/MTA Loan	636.0	418.7	13.8	6.9	4.8	8.7	2.8	661.8	410.8	13.4	6.8	4.7	9.8	2.7	113.9	-29.8	-2.6	-0.1	-0.0	-0.0	-0.1
		CDS-Long	115.7		29.9	20.0	24.4	31.5		153.6		29.8	17.9	30.6	24.8			-32.2		-6.9	-6.9	-10.7	-7.7
		CDS-Short	-125.8		-4.0	-20.8	-66.9	-34		-122.5		-5.0	-20.7	-92.8	-3.7			12.2		1.0	6.9	10.1	0.4
	Scratch & Dent	Total	1,833.8	131.0	28.1	75.1	93.7	85.7	746.2	954.2	131.2	27.5	78.4	77.0	72.3	539.6	36.3	-83.9	-10.2	-6.4	-23.1	-16.5	-14.7
		Bond	198.8		9.0	-60.3	40.8	68.4		198.3		8.4	56.1	49.6	54.2			-48.5		-3.6	-21.8	-11.7	-10.3
		Loans	1,008.7	131.0	19.1	15.1	32.9	27.3	746.2	760.4	131.2	19.1	14.3	27.4	18.1	539.6	10.6	-28.8	-10.2	-2.8	-2.1	-4.8	-4.6
		Residual	25.8							25.8							25.8	-6.7					
Rate Hedges			[redacted]							[redacted]							[redacted]						

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Goldman Sachs

Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet -- Report C: Dept Wide By Product (All Desks Covered)

Group	Type	Sub Type	Notiona ($MM)	Market Value ($MM)** Total	Agy	AAA	AA	A	BBB	BBB-	NR	Resid	Rate DV01 ($k)	Spread DV01 ($k) Agy	AAA	AA	A	BBB	BBB-	NR
Total			21,328.4	-4,095.1	4,353.6	19,339.5	765.4	-2,758.4	-1,895.7	-1,317.7	760.7	417.7	-437.7	-1,175.3	-2,758.6	-395.0	1,419.9	383.7	533.8	-81.6
	Loans	Total	3,888.3	3,947.7		2,997.9	97.6	61.0	53.9	42.8	546.7	147.8	-439.6		-439.1	-21.7	-13.9	-11.5	-6.9	-1.2
		Subprime Loan	410.9	396.2		300.6	37.8	19.9	12.8	6.3		19.1	-49.1		-31.8	-5.2	-3.7	-2.7		
		S&D Loan	1,009.7	760.4		131.2	19.1	14.3	27.4	18.1	530.8	10.6	-18.1		-10.2	-2.5	-2.1	-4.8	-4.8	-0.0
		Alt-A Loan	732.0	736.3		695.6	18.7	9.2	4.8	3.5	1.1	3.6	-202.9		-185.8	-8.6	-3.9	-1.5	-1.2	-0.3
		2nds Loan	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	-0.0		-0.0	-0.0	-0.0	-0.0	-0.0	
		Prime Arm Loan	130.8	127.7		122.8	1.9	1.5	0.6	0.2			-14.7		-9.9	-0.2	-0.1	-0.1	-0.1	-0.0
		Prime Fix Loan	788.9	766.4		737.1	8.8	9.6	4.2	4.6	3.1		-362.0		-196.7	-1.9	-2.6	-1.1	-1.2	-0.8
		HOA/MTA Loan	836.0	561.9		410.8	13.5	6.8	4.7	9.5	2.7	113.6	-192.8		-2.6	-0.1	-0.0	-0.0	-0.1	-0.0
	Retained Bonds	Total	49,234.9	11,434.2	4,353.6	6,116.6	65.8	197.4	87.6	129.6	59.6	370.1	-3,344.6	-1,175.3	-1,873.1	-20.9	-44.6	-21.8	-27.5	-12.7
		Retained Bond	1,073.8	526.6		140.7	58.7	104.4	72.2	94.6	56.1		-2.6		-30.9	-20.9	-37.7	-16.0	-16.8	-12.7
		Retained NIM	260.8	137.8				93.4	15.3	29.1			-207.6				-6.3	-3.8	-7.9	
		CA/Hyb WAC IO	85.3	85.3		70.4	7.1		0.0	5.9	1.9		-78.1		-0.3	-0.0		-0.0	-0.8	-0.0
		Subprime Resid	58.2	58.2								58.2	-117.3							
		S&D Resid	25.6	25.6								25.6	-4.6							
		Alt-A Resid	132.6	132.6								132.6	-541.3							
		2nd Resid	53.8	53.8								53.8	-70.1							
		CMO	11,544.2	10,402.4	4,353.6	5,906.9							-2,925.0	-1,175.3	-1,841.9					
	Cash Secondary	Total	29,203.9	3,783.1		1,686.6	723.4	555.9	169.1	303.7	154.1				-664.7	-269.5	-216.8	-99.1	-69.4	-37.9
		RMBS Subprime	1,853.4	1,088.8		446.8	403.1	117.7	48.7	72.6					-108.4	-124.9	-29.2	-11.4	-16.8	
		RMBS Alt-A	181.7	147.6		1.8		145.8		0.9					-0.2		-37.5		-0.0	
		ABS Auto Prime	3,042.1	383.7				341.1			42.6						-37.0			-8.6
		ABS Credit Cards P	41.6	34.9		10.2		12.5	12.2						-1.6		-2.3	-6.5		-16.9
		ABS Student Loans	89.8	85.2		0.7					84.4				-0.1					-0.1
		ABS Other	83.8	68.4		8.2	24.3	33.2			0.3				-1.7	-15.5	-5.6	-0.0	-0.0	-2.6
		CDO Squared	843.2	218.4		183.2	25.2	0.4	3.7		5.8				-82.6	-11.6	-0.2	-1.7		-4.9
		HG CDO	10,364.8	77.3		35.4	12.4	8.0	9.8	0.9	10.8				-17.5	-5.7	-3.2	-4.3	-0.4	-2.0
		Mezz CDO	1,401.8	331.7		250.4	48.0	24.4	8.1	0.3	4.5				-97.8	-18.5	-10.8	-2.7	-0.1	-2.0
		CMBS	12,092.9	1,166.6		887.3	194.7	126.3	79.5	127.7	4.2				-241.6	-85.6	-83.3	-32.6	-41.7	-2.0
		CDO CRE	187.1	138.9		72.0	17.7	45.8		1.3	1.5				-31.3	-8.0	-20.8		-0.8	-0.7
		Other	22.6	22.4		19.9		2.5							-1.8		-0.1			-0.0
	Synthetics	Total	-8,829.8	-7,747.9		137.6	-121.6	-3,872.8	-2,197.1	-1,493.7					-291.7	-82.9	-1,687.6	478.2	846.4	
		ABX	5,709.0	3,766.6		1,361.9	795.4	94.2	644.2	1,059.3					-882.8	-280.3	-11.4	-217.5	-203.8	
		TABX	-2,264.2	-2,331.0				167.0	-1,043.4	-1,454.7							-46.8	264.1	343.4	
		RMBS Subprime	-6,993.8	-4,202.6		741.7	-342.8	-1,008.8	-1,123.0	-986.4					70.0	6.3	245.3	190.6	68.3	
		RMBS Alt-A	-729.9	-617.3				-375.6	-200.0	-42.2							118.2	68.8	9.2	
		RMBS Prime	-7.0	-7.0				-7.0		-0.0							1.4		-0.0	
		CDS (In Loans Book	-64.8	-64.3			24.8	-47.8	-67.0	-15.8						-5.9	-0.4	0.1	-5.9	
		ABS	-640.1	-639.2		-49.0		-467.4	-152.8						6.3		231.0	67.0		
		CDO Squared	-5.2	-5.2		-5.2									2.0					
		HG CDO	-396.5	-455.7		-96.3	-178.0	-75.4	-4.1						42.3	80.3	27.4	1.1		
		Mezz CDO	-2,151.0	-1,637.4		-353.8	-450.3	-656.6	-141.6						196.6	155.8	224.5	35.1		
		CMBX	4,063.5	4,270.0		1,636.8	434.8	-39.2	414.6	1,822.9					980.8	291.4	52.8	-279.5	-1,059.3	
		CMBS	-4,969.1	-4,405.0		-947.1	-306.0	-621.2	-510.5	-2,018.2					818.3	179.3	593.1	378.7	1,494.8	
		CDO CRE	-650.9	-570.8		16.0	-23.0	-434.7	-40.8	-90.3					-11.4	15.4	268.3	19.4	64.7	
		CLO	-158.8	-158.8		-41.5	-71.8	-20.9	-22.8						-12.0	54.7	11.0	11.4		
		TRS	-592.5	-592.5		-842.5			50.0						404.8			-33.8		
	Rate Hedges	[redacted]											[redacted]							

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

3-31-3

Goldman Sachs

Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Group	Type	Sub Type	Notiona ($MM)	Market Value ($MM)** Total	Agy	AAA	AA	A	BBB	BBB-	NR	Resid	Rate DV01 ($k)	Spread DV01 ($k) Agy	AAA	AA	A	BBB	BBB-	NR
[redacted]																				

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Goldman Sachs

Mortgage Strategies

Date: 10Sep07
E-mail: ficc-mtgstrat

Mortgage Dept Top Sheet – Report C1: Resi Loans / Securitization Business By Product

Group	Type	Sub Type	Notions ($MM)	Market Value ($MM)** Total	Agy	AAA	AA	A	BBB	BBB-	NR	Resid	Rate DV01 ($k)	Spread DV01 ($k) Agy	AAA	AA	A	BBB	BBB-	NR
Total			-1,041.1	-2,967.3	4,353.6	7,073.6	136.2	-39.4	140.6	183.3	606.7	-417.7	-437.7	-1,175.3	-1,456.6	-33.8	-4.7	3.3	-47.2	-13.9
	Loans	Total	3,688.3	3,947.7		2,997.9	97.5	61.0	53.9	42.8	548.7	147.8	-839.6		-439.1	-21.7	-13.9	-11.5	-6.9	-1.2
		Subprime Loan	410.9	396.2		300.6	37.8	19.9	12.8	6.3		19.1	-49.1		-31.8	-6.2	-5.2	-3.7	-2.2	
		S&D Loan	1,009.7	760.4		131.2	19.1	14.3	27.4	18.1	539.8	10.5	-16.1		-10.2	-2.8	-2.1	-1.6	-1.0	-0.0
		Alt-A Loan	732.0	736.3		695.6	18.7	0.2	4.4	3.5	1.1	3.8	-202.9		-185.8	-4.6	-3.9	-1.8	-1.2	-0.3
		2nds Loan	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0	-0.0		-0.0	-0.0	-0.0	-0.0	-0.0	
		Prime Amt Loan	130.8	127.7		122.8	1.9	1.3	0.9	1.0	0.5		-14.7		-8.8	-0.2	-0.1	-0.1	-0.1	-0.0
		Prime Fix Loan	768.9	766.4		737.1	8.0	0.8	4.2	4.8	3.1		-382.0		-196.7	-1.9	-2.6	-1.1	-1.2	-0.8
		HOAM/TA Loan	636.0	561.9		410.8	12.5	8.8	4.7	9.5	2.7	113.9	-192.8		-2.6	-0.1	-0.0	-0.0	-0.1	-0.0
	Retained Bonds	Total	18,234.0	11,424.3	4,353.6	4,118.0	65.2	197.3	87.5	126.6	59.0	370.1	-3,344.6	-1,175.3	-1,873.1	-30.9	-44.8	-21.8	-27.6	-12.7
		Retained Bond	1,073.8	528.6		140.7	58.7	104.4	72.2	94.6	56.1		-2.6		-30.9	-20.9	-37.7	-16.0	-18.8	-12.7
		Retained MM	260.8	137.8				93.4	15.3	29.1			-207.6				-6.3	-3.6	-7.9	
		CA/Hyb WAC IO	85.3	85.3		70.4	7.1		0.0	5.8	1.9		-76.1		-0.3	-0.0		-0.0	-0.6	-0.0
		Subprime Resid	58.2	58.2								58.2	-117.3							
		S&D Resid	25.6	25.6								25.6	-4.5							
		Alt-A Resid	132.6	132.6								132.6	-541.3							
		2nd Resid	53.8	53.8								53.8	-70.1							
		CMO	11,544.2	10,402.4	4,353.6	5,906.9							-2,325.0	-1,175.3	-1,841.9					
	Synthetics	Total	-1,994.9	-2,036.9		-1,442.4	-25.4	298.1	-282.0	11.0					835.6	8.8	53.2	36.8	-8.7	
		ABX	-1,940.0	-1,972.6		-1,442.4	-50.0	-260.3	+215.0	-5.0					555.6	14.6	52.8	36.4	-2.8	
		CDS (In Loans Book	-54.8	-64.3			24.6	-37.8	-67.0	-16.9						-6.9	-0.4	0.1	-5.9	
	Rate Hedges	[redacted]											[redacted]							

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

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Mortgage Dept Top Sheet Source Key

Group	Sector	Source
Prime/Alt-A	Hyb + ARMS Deriv	Mtg NYC Prime Hybrid Portfolio Mtg Agg Var Cache: 11Sep07 @Mtg RMBS Risk Result Utils::Get Risk Results() _New_Portfolio 6S
	Alt-A	@Mtg RMBS Risk Result Utils::Get Risk Results() _New_Portfolio 6U
Subprime/2nd/SAD	Subprime 1st Lien	@Mtg RMBS Risk Result Utils::Get Risk Results() _New_Portfolio 6T
	Scratch & Dent	@Mtg RMBS Risk Result Utils::Get Risk Results()
	2nd Lien	
Correlation	HG CDO	Mtg NYC Correlation Portfolio
	Mezz CDO	Mtg NYC Correlation Portfolio
	CDO Squared	Mtg NYC Correlation Portfolio
	CLO	Mtg NYC Correlation Portfolio
	CMBS	Mtg NYC Correlation Portfolio
	RMBS Alt-A	Mtg NYC Correlation Portfolio
	RMBS Subprime	Mtg NYC Correlation Portfolio
	CDO CRE	Mtg NYC Correlation Portfolio
	ABS	Mtg NYC Correlation Portfolio
CDO Warehouse	HG CDO	Mtg NYC CDO WH Trans Top Port
	Mezz CDO	Mtg NYC CDO WH Trans Top Port
	CDO Squared	Mtg NYC CDO WH Trans Top Port
	RMBS Subprime	Mtg NYC CDO WH Trans Top Port
	ABS	Mtg NYC CDO WH Trans Top Port
CMBS Secondary	CMBS	Mtg NYC CMBS Secondry Top Port
	CDO CRE	Mtg NYC CMBS Secondry Top Port
	ABS	Mtg NYC CMBS Secondry Top Port
	Other	Mtg NYC CMBS Secondry Top Port
ABS Secondary	HG CDO	Mtg NYC ABS Base Top Port
	Mezz CDO	Mtg NYC ABS Base Top Port
	RMBS Prime	Mtg NYC ABS Base Top Port
	RMBS Alt-A	Mtg NYC ABS Base Top Port
	RMBS Subprime	Mtg NYC ABS Base Top Port
	ABS	Mtg NYC ABS Base Top Port
	Other	Mtg NYC ABS Base Top Port

Books not currently captured: CRE Loans, SPG Syndicate. **Market value of bonds/loans, bond equiv mkt val for synthetics. *Notional amounts for interest only bonds are mkt values.

Confidential Treatment Requested by Goldman Sachs

From: Montag, Tom
Sent: Monday, March 05, 2007 8:31 AM
To: Sparks, Daniel L; Gmelich, Justin; Ruzika, Richard
Subject: Re:

How short

I thought justin had a different conclusion

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Gmelich, Justin; Ruzika, Richard
Sent: Mon Mar 05 08:27:00 2007
Subject: RE:

We think the overall business is net short, but there is a lot of basis.

Long risk positions:
Resi loans
Cash RMBS resids
CDO warehouse
CDO bonds
Commercial mortgage loans
CMBS bonds

Short risk positions:
ABX
RMBS CDS
CDO CDS
CMBS TROR

-----Original Message-----
From: Montag, Tom
Sent: Monday, March 05, 2007 8:21 AM
To: Sparks, Daniel L; Gmelich, Justin; Ruzika, Richard
Subject:

Do we think the business is net short long or flat right now

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Wall Street & The Financial Crisis
Report Footnote #1872

Confidential Treatment Requested by Goldm

From: Broderick, Craig
Sent: Thursday, March 08, 2007 7:12 AM
To: Sparks, Daniel L
Subject: RE: Mortgage risk

x-gs-classification: Internal-GS

I sent you a vmail but this answers it so no need to respond

-----Original Message-----
From: Sparks, Daniel L
Sent: Thursday, March 08, 2007 12:50 AM
To: Winkelried, Jon (EO 85B30); Montag, Tom; Viniar, David; Cohn, Gary (EO 85B30); Sherwood, Michael S; McMahon, Bill; Broderick, Craig
Cc: Ruzika, Richard
Subject: Mortgage risk

Just spent tonight negotiating with Accredited - they plan to send us $21mm in the morning, we have new information on loans in the warehouse line that allows us to feel comfortable raining the loan mark by $10mm, and we will buy $50mm of A-1 rated ABCP (Accredited vehicle) from accounts (we feel that the collateral is pretty good) that rolls Thursday which will prevent ABCP extension. Then all of our EPD claims in subprime would be resolved - we may have a small Alt A claims (probably under $1mm). If this happens, the outcome is good. New Century remains a problem on EPD.

Aside from the counterparty risks, the large risks I worry about are listed below:

(1) CDO and Residential loan securitization stoppage - either via buyer strike or dramatic rating agency change.

On the CDO front, we have been locking people at various parts of the capital structure (with a primary focus on the super-seniors - top 50% of the deal), and rushing to get deals rated. We have liquidated a few deals and could liquidate a couple more, and we are not adding risk (we had slowed down our business dramatically in the past 4 months). Our deals break down into 2 $1BB CDOs of A-CDOs (most risky, but good progress), 2 $1BB AA-diversified deals (less downside, less progress), and 4 other various smaller deals. We have various risk sharing arrangements, but deal unwinds are very painful.

For residential loans, we have not bought much lately and our largest pool to securitze is Alt A ($4.3BB). There is also $1.3BB subprime loans and $700mm seasoned seconds. This market is also very difficult to execute in.

(2) Dramatic credit environment downturn.

Scratch & dent loans ($900mm), residuals ($750mm), and less liquid bond positions - if the credit environment significantly worsens, these positions will be hurt by losses, further lack of liquidity and lower prices.

(3) Covering our shorts. We have longs against them, but we are still net short.

$4BB single name subprime split evenly between A, BBB, BBB- and $1.3BB of A-rated CDOs.

ABX index - overall the department has significant shorts against loan books and the CDO warehouse. The bulk of these shorts ($9BB) are on the AAA index, so the downside is limited as the index trades at 99.

Our shorts in (3) above have provided significant protection so far, and should be helpful for (1) and (2) in very bad times. However, there is real risk that in medium moves we get

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hurt in all 3 areas.

Therefore, we are trying to close everything down, but stay on the short side. But it takes time as liquidity is tough. And we will likely do some other things like buying puts on companies with exposures to mortgages.

-----Original Message-----
From: Winkelried, Jon (EO 85B30)
Sent: Wednesday, March 07, 2007 1:15 PM
To: Sparks, Daniel L; Montag, Tom; Viniar, David; Cohn, Gary (EO 85B30); Sherwood, Michael S; McMahon, Bill
Cc: Ruzika, Richard
Subject: Re: Originator exposures

Thanks for that summary. Not bad

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Viniar, David; Winkelried, Jon; Cohn, Gary; Sherwood, Michael S; McMahon, Bill
Cc: Ruzika, Richard
Sent: Wed Mar 07 12:09:03 2007
Subject: Originator exposures

Rich and I were catching up. I will send this group another message of our potential large risk areas as further stress happens, and our mitigation plans.

As for the big 3 originators - Accredited, New Century and Fremont, our real exposure is in the form of put-back claims. Basically, if we get nothing back we would lose around $60mm vs our loans on our books (we have a reserve of $30mm) and the loans in the trusts could lose around $60mm (we probably suffer about 1/3 of this in ongoing exposures). The reason it is not clear is that the loans are not worth 0, there is some value, so there are estimates as to what happens on those loans.

Rumor today is that the FBI is in Accredited.

Other big risk areas I will discuss later relate to CDO and loan execution (rating agency or market shutdown), covering single name and index shorts (liquidity), and retained residuals and loan positions (if collateral performance turns worse).

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From: Lehman, David A.
Sent: Sunday, August 05, 2007 1:17 PM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald
Subject: Mortgage dept summary

Residential Trading Summary (From Finck)

Week's P&L

Subprime	+27mm	(ABX wider)
Alt-A	+51mm	(ABX wider)
S&D	+4mm	(ABX wider)
Hybrids	+30mm	(ABX wider)
CMOs	-9mm	(Wider AAA spreads))
Derivatives	flat	
	+103mm	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Activity/Position Summary

Subprime:

Bid $1B C-Bass loans - did not trade as all bids were below warehouse marks
Current position: $1B loans
Primary Hedge: $1B AAA ABX (covered back ~$300mm AAAs this week)

Alt-A:

Bought $50mm Fixed Loans from Greenpoint 5.5pts behind Agency Pass-Thrus-> only bid they saw
Locked-in delivery of $375mm loans to Freddie Mac
Current Position: $1.25B loans (including $375mm agency delivery)
Primary Hedge: $1.65B AAA ABX (bought back $50mm this week)

S&D:

Bidding $1.3B loans out of WMC. Traded away around 80
Current Position: $600mm
Primary Hedge: $350mm ABX (mix of AAA, AA, A, and BBB)

Hybrids: AAAs -

25-30bps wider due to supply pressure / lack of liquidity
Bid $1.4B loans out of [redacted]. Traded away slightly higher
Current Position: ~$4.5B (roughly ~2.5B Non-agency, $1.5B Agency, $500mm Loans)
Primary Hedge: $1.6B ABX AAA (covered $400mm this week), Agency PTs

[redacted]

Derivatives:

Better buying of IOs, Inverse IOs -> high yield and low balance sheet usage

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Wall Street & The Financial Crisis
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Current Position: $4B
Primary Hedges: Agency PTs

ABS (From Swenson)

Market Summary:

- ABX 07-1 price changes for the week:

  AAA -4.5pts
  AA -9.0pts
  A -7.0pts
  BBB -4.0pts
  BBB- -3.0pts

  - Sellers, both new shorts and fast money, have moved up the capital structure to AAA, AA, and A's

  - dealers have been selling single-A (to hedge super senior longs) and originators have been selling triple-As.

Current Desk Position Summary:

- RMBS Single-As - net short 900mm 100% in single-name CDS
- RMBS BBB/BBB- - net short $3,000mm (80% in single-name CDS - 50% in 2005 vintage)
- Correlation Desk - net short $400mm of ABX 06-1 BBB and BBB-
- Mortgage Department short approx $4bb of AAA ABX

ABX Index Flow Summary for week ended August 3rd:

- In summary, a phenomenal week for covering our Index shorts on the week. The ABS Desk bought $3.3bb of ABX Index across various vintages and ratings over the past week. $1.5 billion was retained by the ABS desk to cover shorts in ABX ($900mm in ABX 06-1 As being the most significant) and $1.0 billion was sold to internal desks across the mortgage department ($925mm in triple-As).

- ABS and Correlation Desk Net ABX Position Change on the Week:

  AAA + 75mm
  AA + 280mm
  A +1,100mm (ABX 06-1 A short of 900mm at beginning of week is now ony -73mm)
  BBB + 70mm
  BBB- + 17mm

  Total +1,542mm

- Mortgage Department Net ABX Position Change on the Week

  AAA + 925mm
  AA + 25mm
  A + 75mm
  BBB + 0mm
  BBB- + 0mm

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Total +1,025mm

- Total ABX Indices by rating bought this week:

AAA $1,000mm
AA 365mm
A 1,653mm
BBB 110mm
BBB- 257mm

Total $3,385mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

CMBS [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

Customer Flows

- [redacted]
- [redacted]
- [redacted]
- [redacted]

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1857

1881

From: Kraus, Peter
Sent: Wednesday, September 26, 2007 10:15 PM
To: Blankfein, Lloyd
Subject: Re: Fortune: How Goldman Sachs defies gravity

I met with 10+ individual prospects and clients (and 5 instituti
earnings were announced. The institutions don't and I wouldn't e>
comments like ur good at making money for urself but not us. The
but while it requires the utmost humility from us in response I
binds clients even closer to the firm, because the alternative of take ur money to a
who is an under performer and not the best, just isn't reasonable. Client's ultimately
believe association with the best is good for them in the long run.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Blankfein, Lloyd (EO 85B30)
To: Winkelried, Jon (EO 85B30); van Praag, Lucas (EO PBC09); Cohn, Gary (EO 85B30); Viniar, David; Rogers, John F.W. (EO 85B30); Forst, Edward (FIN PBC009); Kraus, Peter; Spilker, Marc
Cc: Robinson, Samuel (EO CKC68); Miner, Heather (Kennedy); Raphael, Andrea (EO 85B07); Rachman, Andrea (EO 85B07); DuVally, Michael (EO 85B07); Canaday, Ed (EO 85B07); Williams, Christopher (EO 85B07); Horwitz, Russell (EO 85B30)
Sent: Wed Sep 26 13:46:18 2007
Subject: Re: Fortune: How Goldman Sachs defies gravity

Also, the short position wasn't a bet. It was a hedge. Ie, the avoidance of a bet. Which is why for a part it subtracted from var, not added to var.

----- Original Message -----
From: Winkelried, Jon
To: van Praag, Lucas; Blankfein, Lloyd; Cohn, Gary; Viniar, David; Rogers, John F.W.; Forst, Edward; Kraus, Peter; Spilker, Marc
Cc: Robinson, Samuel; Miner, Heather; Raphael, Andrea; Rachman, Andrea; DuVally, Michael; Canaday, Ed; Williams, Christopher (EO, 85B/07); Horwitz, Russell
Sent: Wed Sep 26 13:41:02 2007
Subject: RE: Fortune: How Goldman Sachs defies gravity

Once again they completely miss the franchise strength and attribute it all to positions and bets

---

From: van Praag, Lucas
Sent: Wednesday, September 26, 2007 1:37 PM
To: Blankfein, Lloyd; Winkelried, Jon; Cohn, Gary; Viniar, David; Rogers, John F.W.; Forst, Edward; Kraus, Peter; Spilker, Marc
Cc: Robinson, Samuel; Miner, Heather; Raphael, Andrea; Rachman, Andrea; DuVally, Michael; Canaday, Ed; Williams, Christopher (EO, 85B/07); Horwitz, Russell
Subject: Fortune: How Goldman Sachs defies gravity

How Goldman Sachs defies gravity
While the credit markets went sour, one investment bank made a huge, shrewd bet - and seems to have won big. Fortune's Peter Eavis explains the stunning strategy.
By Peter Eavis <mailto:peavis@fortunemail.com> , Fortune writer September 20 2007: 5:46 PM EDT NEW YORK (Fortune) -- It is one of the most stunning bets Wall Street has seen in decades.
As the credit markets fell apart over the summer, causing the prices of hundreds of billions of dollars of mortgage-backed bonds to plunge, Goldman Sachs <http://money.cnn.com/quote/quote.html?symb=GS&source=story_quote_link> (Charts

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Wall Street & The Financial Crisis
Report Footnote #1881

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<http://money.cnn.com/quote/chart/chart.html?symb=GS&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/575.html?source=story_f500_link>) had already positioned itself so that it would profit massively from a decline in those securities. Thursday, Goldman reported earnings for its fiscal third quarter that were far above expectations.

While several businesses were surprisingly strong in a difficult period, the chief contributor to the earnings blowout were trades that made money from price drops in mortgage-backed securities. Goldman indicated this in its press release when it said that "significant losses" on certain bonds were "more than offset by gains on short mortgage products." (In Wall Street parlance, being "short" a stock or bond means that you will make money if it goes down in price.) "Goldman Sachs showed an ability to not only protect itself from the problems in the market but also to capitalize on them," says Mike Mayo, banks analyst at Deutsche Bank (Mayo rates Goldman a buy.) When asked on a public conference call Thursday, Goldman's chief financial officer David Viniar declined to give a number for the amount of money Goldman made on its mortgage short in the third quarter.

Lehman sits on the hedge </2007/09/18/magazines/fortune/eavis_lehman.fortune/index.htm>

Goldman doesn't provide enough numbers in its public financials to come up with an informed guess, but the firm's statement that the short trades "more than offset" bond losses that were "significant" is a clear sign that it took time to deliberately set itself up for an expected crash in the market for mortgage-backed bonds. Indeed, Merrill Lynch analyst Guy Moszkowski said Goldman's trading results were $1.7 billion above his forecast in the third quarter, according to a research note released Thursday. (He rates Goldman a buy.) Amassing a large bearish position in mortgages would have required planning and direction from a senior level. On the conference call, Viniar said the bet was executed across the whole mortgage business, implying that it wasn't the work of one swashbuckling trader or trading desk. Of course, the prescience of the short sale would seem to confirm the view that Goldman is the nimblest, and perhaps smartest, brokerage on Wall Street. Morgan Stanley <http://money.cnn.com/quote/quote.html?symb=MS&source=story_quote_link> (Charts <http://money.cnn.com/quote/chart/chart.html?symb=MS&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/905.html?source=story_f500_link>), Goldman's biggest rival, wasn't as well hedged to bond losses, while Bear Stearns' <http://money.cnn.com/quote/quote.html?symb=BSC&source=story_quote_link> (Charts <http://money.cnn.com/quote/chart/chart.html?symb=BSC&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/1341.html?source=story_f500_link>) mortgage business suffered considerably in the quarter.

True, from third quarter numbers, it appears that Lehman Brothers <http://money.cnn.com/quote/quote.html?symb=LEH&source=story_quote_link> (Charts <http://money.cnn.com/quote/chart/chart.html?symb=LEH&source=story_charts_link> , Fortune 500 <http://money.cnn.com/magazines/fortune/fortune500/2007/snapshots/780.html?source=story_f500_link>) also benefited from a short position in mortgages, but its bet wasn't big enough to allow the bank to report earnings that grew from either the previous or year-ago quarters. Goldman's net third quarter profits of $2.8 billion were substantially higher than in both those two prior periods, a notable achievement during a very testing period.

While the short sale allowed Goldman to show outstandingly strong earnings in the quarter, it may actually cause problems for the bank in other ways. First, investors in Goldman's two large poorly performing hedge funds will want to know why the savvy deployed in trading for Goldman's own account was not deployed in their funds. If a strategic decision to be short certain bonds was made high up, why didn't this end up helping the Global Alpha hedge fund and the Global Equity Opportunities fund, which were down 30% and 20%, respectively, in the third quarter alone?

Subprime: Let the finger-pointing begin!

</galleries/2007/fortune/0709/gallery.subprime_blame.fortune//index.html>

Goldman spokesman Lucas van Praag responds: "We're always disappointed when we don't meet our clients' expectations. We're working hard to adjust our strategies to reflect the lessons we learned in August." In addition, the large gains from the mortgage trade will also deepen investors' desires to get a better handle on how brokerages like Goldman make money.

One of the figures that didn't seem to make sense in Goldman's earnings was a number that estimates the market risk on a broker's balance sheet. This indicator, called Value at Risk, or VaR, moved up only 5% in the third quarter from the second. If Goldman was placing big bets in volatile markets - like the short trade in mortgages - VaR might be expected to move up by more.

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In other words, Goldman seems implausibly immune from the general rule in investing that higher returns almost always carry higher levels of risk. Van Praag responds that VaR didn't go up by much because Goldman reduced positions as volatility in the markets went up.
Goldman does seem to have institutionalized a higher level of trading savvy - the third quarter numbers bear that out. The market recognizes that in awarding the broker a valuation that is higher than that of its peers. Quarter in, quarter out, Goldman posts a return on equity in excess of 30%, even though it's highly leveraged, like all brokers. The high leverage should translate into at least some rough quarters. That was the case for Goldman's ailing hedge funds in the third quarter. Why is it never the case for Goldman itself? \l "TOP" << OLE Object: Picture (Metafile) >> \l "TOP"

Goldman, Sachs & Co.
85 Broad Street, 7th Floor
New York, New York 10004
Phone: 212-855-0568
Fax: 212-902-3925
anna.leath@gs.com

Anna Leath
Executive Office

Goldman
Sachs

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From: Sparks, Daniel L
Sent: Monday, February 12, 2007 7:07 PM
To: Ruzika, Richard; Viniar, David; Montag, Tom; Smith, Sarah; McMahon, Bill; Lee, Brian-J (FI Controllers)
Cc: Winkelried, Jon (EO 85B30); Cohn, Gary (EO 85B30); Gasvoda, Kevin
Subject: Post today

(1) +$20mm P&L today.
Secondary trading desk is net short risk in form of single names and structured index vs index longs (some index shorts also). Large move down again today (A 40 bps wider, BBB/BBB- 80 bps wider).

(2) Possible significant upside in book.
The desk has been moving single names about 1/3 of what they feel the correct correlation is (around 70%). The team needs to work with controllers to demonstrate observability. As the market has moved so much one way, there is the potential for the book to currently have significant upside revenue embedded in it.

(3) Loan & resid books flat.
Loan and residual books have been marking down with movement of ABX hedges - will be reviewed for quarter end process.

(4) Resi warehouse OK.
All margin calls received. New Century moved $30mm off line today to [redacted] and plans to move $165mm off line Tuesday to [redacted], and they claim we are the only ones being harsh. [redacted] claims we are the only one margin calling. Our marks are appropriate for moves in the market. More margin calls are going out today.

(5) Quarter end mark process.
We continue to go through positions based on market moves, loan performance, and transitioning positions to secondary desks (Wednesday) to get set for month end.

(6) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1887

Confidential Treatment Requested by Gol

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 6:10 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

meeting scheduled for tuesday

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:55 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i do think that is a real concern. how quickly can you work with strats to get them to revise our VAR to a more realistic number?

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:47 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i just asked b/c i saw the note about mortgages dropping back down to a permanent limit of 35mm (which we are way over). this would mark a change of their recent policy to just keep increasing out limit. makes me a little nervous that we may be told to do something stupid.

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:43 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

no heat over the last 2 days...that said, im not sure how aware he is of it. we've actually bot a decent amount of single name protection this week. 300mm BBB/BBB- and 50mm A's

---

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:38 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

good, was that a "no" on the heat question?

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:37 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

we have waved in ~120mm in bbb and bbb- protection the last 2 days. almost all 2006 stuff (tier 1, 2, and 3).

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1891

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:34 PM
To: Salem, Deeb
Subject: FW: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

are you getting any more heat to cut/cover risk? these VAR numbers are ludicrous, btw. completely overestimated for SPG trading, underestimated for other mortgage desks.

From: Song, Scarlett
Sent: Thursday, August 09, 2007 3:08 PM
To: Montag, Tom; Sobel, Jonathan; Sparks, Daniel L; McHugh, John; Bohra, Bunty; Pouraghabagher, Cyrus; Finck, Greg; Gasvoda, Kevin; Turok, Michael; Brazil, Alan; Gallagher, Timothy (IB PBC07); Buono, Mark; Montag, Tom; Lehman, David A.; 'Ostrem, Peter L'; Rosenblum, David J.; Birnbaum, Josh; Swenson, Michael; 'Huang, Leo'; DeGiacinto, Clayton; Egol, Jonathan; Nichols, Matthew; Nestor, Genevieve; Cawthon, Michael; Iqbal, Farrukh; Holen, Margaret; Kamilla, Rajiv; Mahoney, Justin; Weinstein, Scott; Resnick, Mitchell R; Gao, Renyuan; Bristow, Andrew; DeNatale, Mark; Gold, Erica; Cannon, JeanMarie; Stern, Matt; Alexander, Lee; Andrea, Mireille N.
Cc: Berry, Robert; Dinias, Michael; Lee, Brian-J (FI Controllers); Leventhal, Robert; Pantow, Albert; Fredman, Sheara; Fortunato, Salvatore; Mazumdar, Sanjay; Chen, Benjamin; gs-mra-mtg
Subject: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

Temporary MTG SPG VaR limit of $110mm expired on 8/7/2007

MTG SPG is over its permanent VaR limit of $35 mm
Resi Prime is over its current stress test limit of $100mm

[redacted]

	95% VaR ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	95.0	97.6	35
	Stress Test ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	(257)	(238)	(650)
Deriv	(24)	(25)	(30)
Res Prime	(103)	(104)	(100)
Res Credit	(108)	(111)	(185)
Credit Resid	(80)	(80)	(170)
[redacted]			
SPG Trading	180	194	(160)
ABS/MBS CDO	(1)	(1)	(30)
Manager	0	0	
[redacted]			

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Montag, Tom
Sent: Tuesday, August 21, 2007 8:12 AM
To: Cohn, Gary (EO 85B30)
Subject: Fw: Trading VaR $165mm

We will get it down have been beating on him. Fyi

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Wed Aug 15 17:00:56 2007
Subject: Re: Trading VaR $165mm

Of course it is. When we focus and push we do better. That said I agree we have to choose where to spend our time and sometimes its on cbass and countrywide and not moving product. By definition u can't focus on everything. R u really arguing u have been?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Wed Aug 15 16:48:21 2007
Subject: RE: Trading VaR $165mm

We haven't taken a reserve hit yet. And I think your comment about focus is not correct.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, August 15, 2007 4:03 PM
To: Sparks, Daniel L; McMahon, Bill; Mullen, Donald
Subject: Re: Trading VaR $165mm

We just took big reserve hit to cover bid offer. How can it still be problem? Sometimes u have to pay the price or focus. Didn't sell a single gsc bond for 7 months until focus

----- Original Message -----
From: Sparks, Daniel L
To: McMahon, Bill; Montag, Tom; Mullen, Donald
Sent: Wed Aug 15 13:59:45 2007
Subject: RE: Trading VaR $165mm

Driving VAR solely off spread looses its accuracy at low dollar prices. Trading team is meeting with market risk team to improve method, and we are also looking at what specific trades would reduce the VAR.

-----Original Message-----
From: McMahon, Bill
Sent: Wednesday, August 15, 2007 1:55 PM
To: Montag, Tom; Mullen, Donald; Sparks, Daniel L
Subject: RE: Trading VaR $165mm

Volatility and correlations are driving the var numbers. We are working on a plan to reduce the book, but liquidity may prove to be difficult.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, August 15, 2007 1:52 PM
To: Mullen, Donald; Sparks, Daniel L; McMahon, Bill
Subject: Fw: Trading VaR $165mm

How do we keep going up in mtg with all the buybacks and sells of last two weeks? What

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can we do to lower it? To get this down seems important particularly in light of desire to put on even more risk

----- Original Message -----
From: Cohn, Gary (EO 85B30)
To: Dinias, Michael; Viniar, David; Montag, Tom; Sherwood, Michael S; Broderick, Craig; Berry, Robert; Mullen, Donald; Sparks, Daniel L; McMahon, Bill; Petersen, Bruce; Wilson, Edward
Sent: Wed Aug 15 13:43:10 2007
Subject: Re: Trading VaR $165mm

There is no room for debate - we must get down now

----- Original Message -----
From: Dinias, Michael
To: Viniar, David; Cohn, Gary; Montag, Tom; Sherwood, Michael S; Broderick, Craig; Berry, Robert; Mullen, Donald; Sparks, Daniel L; McMahon, Bill; Petersen, Bruce; Wilson, Edward (ED, 1NYP/042)
Sent: Wed Aug 15 13:41:22 2007
Subject: Trading VaR $165mm

Trading VaR increased $16mm, from $149mm to $165mm, versus $150mm limit.

Mortgage VaR increased $14mm, from $96mm to $110mm. Mortgage risk increase was driven almost entirely from wider spreads/markdowns on ABS CDOs.

Credit Trading VaR increased $2mm, from $79mm to $81mm.

Credit Origination VaR increased $1mm, from $62mm to $63mm.

Interest Rate Product VaR now stands at $144mm.

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From: Berry, Robert
Sent: Saturday, February 24, 2007 11:05 AM
To: Viniar, David; Broderick, Craig; McMahon, Bill
Cc: Dinias, Michael; Ng, Victor K
Subject: FW: Mortgage VaR

please see below.

'new prime' is the new matrix for friday cob (q/e). VaR for mortgages would jump from 66.8 to 101.2, firmwide from 146.6 to 166.8 (1st column, 'prod').

the data we have for the big short in "a" is very poor, exacerbating this result.

'test 1' (2nd column) shows the impact of mapping "a" to "bbb" scaled for volatility. mortgage VaR would then be 92.5.

'test 2' and 'test 3' (3rd and 4th) shows the impact of using single name data where we have it. even this "benchmark" data is very poor - marked approx 1 day in 3. the mortgage VaR goes down (diversification and slightly lower vols) but firmwide goes up (basis). the results are also very sensitive to the names we use.

at this point i would recommend mapping "a" to "bbb" appropriately scale, but not using the single name data, resulting in firmwide at 162.0 and interest rate category at 95.6. (i.e. 'test 1').

we expect position reduction in the past couple of days to be largely offset by further widening. (the basis point volatility increases as the level of the spread increases, increasing the risk).

we will perform the same analysis of the various approaches with friday's positions and matrix asap on monday.

From: Jha, Arbind
Sent: Friday, February 23, 2007 7:37 PM
To: Berry, Robert; Dinias, Michael; Ng, Victor K
Cc: Tolmach, Vladislav; McAndrew, Thomas R.; Zhang, Hui; Luo, Fei
Subject: Mortgage VaR

The VaR analysis below is based on positions cob 2/21. In last two business days including today, the desk have covered net ~$1.3bn (spread dv01 $400k/bp) of the shorts in BBB/BBB- sector. From VaR standpoint, this positional risk reduction will probably be offset by BBB and BBB- indices widening by 200 bps and 300 bps respectively in last two days.

From: Tolmach, Vladislav
Sent: Friday, February 23, 2007 7:11 PM
To: Jha, Arbind; McAndrew, Thomas R.
Subject: FW: mtg-sec-cds VaR (alternative model)

Date 2/21/2007

Environment	Portfolio	Current Prime Prod 95% VaR	Current Prime Test I 95% VaR	Current Prime Test II 95% VaR	Current Prime Test III 95% VaR
Prod	firmwide	-146.62	-144.82	-148.08	-150.26
Prod	IR Product Category	-76.89	-79.47	-69.54	-72.37
Prod	mbs-model	-66.80	-68.89	-58.47	-64.79
Prod	mtg-second	-65.89	-68.74	-57.26	-62.48
Prod	**mtg-sec-cds**	-56.17	-59.05	-51.28	-56.43

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Test I Uses BBB vector for AAA, AA, A, and BBB index benchmarks (current prime)
Test II Uses 39 benchmarks that even out spread level distribution (current prime)
Test III Uses 32 benchmarks that have 35% remarks or higher (current prime)

Environment	Portfolio	New Prime Prod 95% VaR	New Prime Test IV 95% VaR	New Prime Test V 95% VaR	New Prime Test VI 95% VaR
Prod	firmwide	-166.79	-162.03	-169.34	-168.74
Prod	IR Product Category	-105.97	-95.58	-91.56	-93.61
Prod	**mbs-model**	-101.21	-92.52	-85.31	-83.16
Prod	mtg-second	-98.49	-90.06	-81.85	-81.68
Prod	mtg-sec-cds	-81.90	-77.14	-65.22	-68.64

Test IV Uses BBB vector for AAA, AA, A, and BBB index benchmarks (new prime)
Test V Uses 39 benchmarks that even out spread level distribution (new prime)
Test VI Uses 32 benchmarks that have 35% remarks or higher (new prime)

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From: Primer, Jeremy
Sent: Wednesday, April 18, 2007 5:38 PM
To: Turok, Michael; Birnbaum, Josh
Subject: RE: Resolution from the MRMA meeting?

Arbind feels more fully educated on the issues.

We are expecting a slight decrease in VaR from the combination of duration effect and IO/duration cross effect.

For the vol of spread returns, MRMA came up with the idea of using the current time series for ABX spreads, and splicing on the new, lower spreads, while removing the one-day change that occurs the day we switch over. While this is not bad, Peng and I think that by modifying historical spreads to be consistent with the model and prepayment change, we will achieve something close to a 5% reduction in our vol of spread returns, leading to a 5% reduction in VaR. Ren will create such a modification to the series. He and I will discuss this approach with MRMA asap.

From: Turok, Michael
Sent: Wednesday, April 18, 2007 5:22 PM
To: Birnbaum, Josh; Primer, Jeremy
Subject: Resolution from the MRMA meeting?

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Wall Street & The Financial Crisis
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From: Berry, Robert
Sent: Monday, April 23, 2007 7:16 PM
To: Viniar, David
Subject: Re: Mortgage VaR

We will of course estimate and incorporate the impact on the q2 averages. The q1 averages and point in time are fine.

----- Original Message -----
From: Berry, Robert
To: Broderick, Craig; McMahon, Bill; Viniar, David
Sent: Mon Apr 23 19:03:29 2007
Subject: FW: Mortgage VaR

fyi

From: Jha, Arbind
Sent: Monday, April 23, 2007 6:18 PM
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Lehman, David A.; Pouraghabagher, Cyrus; Turok, Michael; Primer, Jeremy; Kao, Kevin J.
Cc: Berry, Robert; Dinias, Michael; McAndrew, Thomas R.; Luo, Fei
Subject: Mortgage VaR

Dan,

Starting cob last Friday, we have started using the risk analytics for cash ABS and CMBS bonds from Strategists and this has resulted in a ~ $7mm reduction in daily VaR for Mortgages - from $67mm to $60mm.

Please note that these cash positions previously had almost no risk analytics, however, VaR was being approximated using a portfolio level estimates of duration and spread levels.

We understand that Strategists have a plan to develop default models for these cash products, similar to mortgage synthetics and this will help us further enhance our risk measures. Meanwhile, we will continue to work with Michael Turok's group to refine our current VaR calculations on other cash products such as cash CDO and CDO Warehouse.

We have also estimated the impact of using above cash risk analytics as of Feb quarter end. At Feb'07, VaR reduction at mortgage desk level would have been close to $3mm, with no material impact to Trading and Rates product category VaRs (see table below for QE analysis). The risk reducing effect of cash bonds has significantly increased since the last quarter end, largely due to the fact that many of these bonds (RMBS cash) have been marked down and have much wider spreads now vs. Feb month-end, generating a bigger long hedge credit for current VaR (dominated by synthetic shorts).

<<Picture (Metafile)>>

Over the week (from cob 4/13 to cob 4/20) Mortgage desk VaR has come down from $70mm to $60mm: About $7mm of this is attributed to the availability of risk analytics on cash bonds as described above and the rest is roughly due to change in prepayment speeds for single name CDS on RMBS subprime sector.

Please let us know if you have any questions.

Thanks,
Arbind

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GS MBS-E-009708690

From: Dinias, Michael
Sent: Tuesday, August 21, 2007 1:54 PM
To: Viniar, David; Cohn, Gary; Montag, Tom; Sherwood, Michael S; Winkelried, Jon (EO 85B30); Mullen, Donald; Salame, Pablo; Sparks, Daniel L; Broderick, Craig; Berry, Robert; McMahon, Bill; Petersen, Bruce; Wilson, Edward
Subject: Trading VaR Analysis

Attachments: Picture (Metafile); Mortgage VaR Contribution.pdf; FW: Potential large subprime trade and impact on Firmwide VAR

The below table computes the Trading VaR impact of going long credit risk via CDX Investment Grade, CDX High Yield, Loan CDX, and ABX BBB. For example, going long $1.0mm/bp of ABX BBB results in $35mm reduction in Trading VaR (from $167mm to $132mm). Likewise going long $5.3mm/bp of CDX High Yield generates $33mm decrease in Trading VaR.

Its important to note that this analysis is based on the current VaR model and that the mortgage desk has questioned the size of the implied short exposure (i.e., desk believes they are less short than implied by the VaR model). We are reviewing the current VaR methodology with the mortgage traders/strategists and assessing the impact of various potential enhancements (e.g., price volatility versus spread volatility).

Trading VaR =	167					
	US CDX IG series 8	US CDX HY100 series 8	LCDX	ABX BBB 07-1	Resulting Trading VaR	Trading VaR Impact
Scenario 10	+$21.3mm/bp				142	-25
Scenario 11		+$5.3mm/bp			135	-33
Scenario 12			+$8.1mm/bp		143	-25
Scenario 13				+$1.0mm/bp	132	-35
Scenario 14	+$4.0mm/bp	+$4.6mm/bp			136	-32
Scenario 15	+$10.9mm/bp	+$7.1mm/bp	-$6.7mm/bp		133	-35
Scenario 16	+$7.8mm/bp	+$7.7mm/bp	-$8.4mm/bp	+$0.8mm/bp	98	-69

The attached pdf below shows Mortgage Trading VaR broken down by desk and the 3 columns from the right show marginal percentage contribution and total contribution to Firmwide VaR. Mortgage Trading has 41% marginal contribution to Firmwide VaR and adds $48mm to Firmwide VaR. This is primarily driven by mortgage shorts on the ABS Synthetics and Correlation desks.

Decreasing the long cash vs short derivative basis risk on the Mortgage desk would also reduce VaR (albeit much less than decreasing net short). The significant long cash positions are comprised of $900mm RMBS Suprime securities and $100mm CDO Squared positions on the ABS Securities desk, $115mm Cash CDOs on the Correlation desk, $320mm CDO Mezz and $100mm CDO Squared on the ABS/MBS CDO Origination desk. There is also $250mm BB/B bonds in the Subs book on the Residential Prime desk and $8.8B of loans/commitments in the Acquisition Commitments line.

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Mortgage VaR Contribution.pdf

In separate email (attached below) the desk has proposed purchasing $10B subprime AAAs in either cash or synthetic (ABX) form. If done in "synthetic" form this would result in $34mm reduction in Trading VaR. However if done in "cash" form Trading VaR would decrease $11mm. The smaller Trading VaR impact of cash is due to the increase in the long cash vs. short derivative basis risk.



FW: Potential large subprime t...

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From: Lehman, David A.
Sent: Wednesday, August 22, 2007 9:53 AM
To: Creed, Christopher J
Subject: FW: mortgage var contribution

Attachments: VaR analysis_08_14_v1.pdf

From: Dinias, Michael
Sent: Thursday, August 16, 2007 10:05 AM
To: McMahon, Bill; Sparks, Daniel L; Mullen, Donald; Petersen, Bruce; Birnbaum, Josh; Swenson, Michael; Lehman, David A.
Cc: Berry, Robert
Subject: mortgage var contribution

The attached pdf below shows Mortgage Trading VaR broken down by desk and the 3 columns from the right show marginal percentage contribution to Firmwide VaR and impact on Firmwide VaR if business or individual desk was removed. As requested we added more detail under SPG Trading.

Mortgage Trading has 53.8% marginal contribution to Firmwide VaR and removing the entire mortgage business reduces Firmwide VaR by $53mm (from $165mm to $112mm).

As expected SPG Trading desk dominates this risk with 56% contribution and adds $49mm to Firmwide VaR. This is primarily driven by ABS Synthetics and Correlation book which have the bulk of the mortgage shorts.



VaR
nalysis_08_14_v1.p

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From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:47 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

i just asked b/c i saw the note about mortgages dropping back down to a permanent limit of 35mm (which we are way over). this would mark a change of their recent policy to just keep increasing out limit. makes me a little nervous that we may be told to do something stupid.

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:43 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

no heat over the last 2 days...that said, im not sure how aware he is of it. we've actually bot a decent amount of single name protection this week. 300mm BBB/BBB- and 50mm A's

---

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:38 PM
To: Salem, Deeb
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

good, was that a "no" on the heat question?

From: Salem, Deeb
Sent: Thursday, August 09, 2007 5:37 PM
To: Birnbaum, Josh
Subject: RE: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

we have waved in ~120mm in bbb and bbb- protection the last 2 days. almost all 2006 stuff (tier 1, 2, and 3).

From: Birnbaum, Josh
Sent: Thursday, August 09, 2007 5:34 PM
To: Salem, Deeb
Subject: FW: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

are you getting any more heat to cut/cover risk? these VAR numbers are ludicrous, btw. completely overestimated for SPG trading, underestimated for other mortgage desks.

From: Song, Scarlett
Sent: Thursday, August 09, 2007 3:08 PM
To: Montag, Tom; Sobel, Jonathan; Sparks, Daniel L; McHugh, John; Bohra, Bunty; Pouraghabagher, Cyrus; Finck, Greg; Gasvoda, Kevin; Turok, Michael; Brazil, Alan; Gallagher, Timothy (IB PBC07); Buono, Mark; Montag, Tom; Lehman, David A.; 'Ostrem, Peter L'; Rosenblum, David J.; Birnbaum, Josh; Swenson, Michael; 'Huang, Leo'; DeGiacinto, Clayton; Egol, Jonathan; Nichols, Matthew; Nestor, Genevieve; Cawthon, Michael; Iqbal, Farrukh; Holen, Margaret; Kamilla, Rajiv; Mahoney, Justin;

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Weinstein, Scott; Resnick, Mitchell R; Gao, Renyuan; Bristow, Andrew; DeNatale, Mark; Gold, Erica; Cannon, JeanMarie; Stern, Matt; Alexander, Lee; Andrea, Mireille N.
Cc: Berry, Robert; Dinias, Michael; Lee, Brian-J (FI Controllers); Leventhal, Robert; Pantow, Albert; Fredman, Sheara; Fortunato, Salvatore; Mazumdar, Sanjay; Chen, Benjamin; gs-mra-mtg
Subject: MarketRisk: Mortgage Risk Report (cob 08/08/2007)

Temporary MTG SPG VaR limit of $110mm expired on 8/7/2007

MTG SPG is over its permanent VaR limit of $35 mm
Resi Prime is over its current stress test limit of $100mm
Acquisition Commitment is over its current stress test limit of $150mm

	95% VaR ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	95.0	97.6	35
	Stress Test ($MM)		
Desk	08/08	08/07	Limit
MTG SPG	(257)	(238)	(650)
Deriv	(24)	(25)	(30)
Res Prime	(103)	(104)	(100)
Res Credit	(108)	(111)	(185)
Credit Resid	(80)	(80)	(170)
Non-Resi Orig	4	4	(70)
CRE Loan	13	13	
ABS Loan	(10)	(10)	
SPG Trading	180	194	(160)
ABS/MBS CDO	(1)	(1)	(30)
Manager	0	0	
Commitment	(204)	(195)	(150)

From: Poc, Francois
Sent: Tuesday, February 13, 2007 5:50 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/12/2007

Attachments: Daily Trading Risk Summary20070212.pdf

95% VaR ($mm)

	Feb 12	Feb 09	%Contr.
Trading	128	133	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	49	46	10%
[redacted]	[redacted]	[redacted]	[redacted]
Equities	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% Product Category VaR ($mm)

	Feb 12	Feb 09	%Contr.
Trading	128	133	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($mm)

	Feb 12	Feb 09	Limit
Mortges.	(486)	(497)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

The decrease in Trading VaR was mainly driven by reduced Equity exposure in EPG. Equity raw delta across the Firm decreased from $12.1bn to $11.2bn.

[redacted] was granted a temporary [redacted] VaR limit until cob 02/12/07.
[redacted] has a temporary [redacted] VaR limit until cob 02/13/07.

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[redacted] VaR is over its [redacted] VaR limit.
Mortgages VaR is over its $35mm limit.
[redacted] VaR [redacted] above its [redacted] limit.
[redacted] is over its temporary [redacted] VaR limit.



Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Jha, Arbind
Sent: Wednesday, February 14, 2007 7:11 PM
To: Sparks, Daniel L; Pouraghabagher, Cyrus; Turok, Michael; Burchard, Paul; Iqbal, Farrukh
Cc: Berry, Robert; Dinias, Michael; Ng, Victor K; Luo, Fei; McAndrew, Thomas R.
Subject: Increase in Mortgage VaR

MTG SPG Desk VaR increased from $21mm to $48mm from cob Feb 6 to cob Feb 13, driven primarily by SPG Trading desk, with the following drivers:

+$14mm VaR increase due to increased market volatility and wider spreads
+$8mm VaR due to increase in our net short credit risk by $350k/bp in RMBS Subprime "BBB-" sector
+$5mm VaR increase due to an account (MTG95943) not being loaded into risk system

Please let us know if you have any questions.

Thanks,
Arbind

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Wall Street & The Financial Crisis
Report Footnote #1918

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From: Poc, Francois
Sent: Wednesday, February 14, 2007 6:37 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/13/2007

Attachments: Daily Trading Risk Summary20070213.pdf

95% VaR ($mm)

	Feb 13	Feb 12	%Contr.
Trading	132	128	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	48	49	8%
Equities	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% Product Category VaR ($mm)

	Feb 13	Feb 12	%Contr.
Trading	132	128	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($mm)

	Feb 13	Feb 12	Limit
Mortges.	(521)	(486)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

[redacted] VaR has a temporary [redacted] limit until cob 02/21/07.
[redacted] has a temporary [redacted] VaR limit until cob 02/13/07.

Mortgages VaR is over its $35mm limit. Temporary $50mm limit was granted until cob 02/20/07.
[redacted] is over its temporary [redacted] VaR limit.

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Report Footnote #1919

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From: Poc, Francois
Sent: Tuesday, February 20, 2007 6:21 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/16/2007

Attachments: Daily Trading Risk Summary20070216.pdf

95% VaR ($mm)

	Feb 16	Feb 15	%Contr.
Trading	136	155	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	63	57	16%
[redacted]	[redacted]	[redacted]	[redacted]
Equities	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% Product Category VaR ($mm)

	Feb 16	Feb 15	%Contr.
Trading	136	155	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($mm)

	Feb 16	Feb 15	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(533)	(527)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

The decrease in Trading VaR was mainly driven by reduced [redacted] exposure in [redacted] and [redacted]
Equity raw delta across the Firm decreased from $17.0bn to $12.9bn.

Mortgages VaR is over its temporary $60mm limit.
[redacted] over its [redacted] VaR limit.

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Mortgages VaR has a temporary $60mm limit until cob 02/27/07.
[redacted] temporary [redacted] limit until cob 02/21/07.


Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Poc, Francois
Sent: Thursday, February 22, 2007 6:02 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/21/2007

Attachments: Daily Trading Risk Summary20070221.pdf

95% VaR ($mm)

	Feb 21	Feb 20	%Contr.
Trading	147	147	100%
FICC	[redacted]		
Mortges	67	63	16%
[redacted]			
Equities	[redacted]		

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% Product Category VaR ($mm)

	Feb 21	Feb 20	%Contr.
Trading	147	147	100%
[redacted]			

Credit Scenario ($mm)

	Feb 21	Feb 20	Limit
[redacted]			
Mortges.	(522)	(565)	(800)
[redacted]			

Mortgages VaR is over its temporary $60mm limit.
[redacted] is over its [redacted] VaR limit.

Mortgages VaR has a temporary $60mm limit until cob 02/27/07.
[redacted] has a temporary [redacted] limit until cob 02/21/07.

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Daily Trading Risk Summary2007...

Confidential Treatment Requested by Goldman Sachs

From: Poc, Francois
Sent: Monday, February 26, 2007 8:04 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/23/2007

Attachments: Daily Trading Risk Summary20070223.pdf

95% VaR ($mm)

	Feb 23	Feb 22	%Contr.
Trading	154	142	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	85	64	23%
Equities	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% Product Category VaR ($mm)

	Feb 23	Feb 22	%Contr.
Trading	154	142	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($mm)

	Feb 23	Feb 22	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(531)	(585)	(800)

The increase in Trading VaR was mainly driven by Mortgages and the weekly update of our Market data.

Trading VaR is over its $150mm limit.
Mortgages VaR is over its temporary $60mm limit.
[redacted] is over its temporary [redacted] VaR limit.

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38-B

Mortgages VaR has a temporary $60mm limit until cob 02/27/07.
[redacted] has a temporary [redacted] limit until cob 02/28/07.


Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Poc, Francois
Sent: Tuesday, February 27, 2007 6:55 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/26/2007

Attachments: Daily Trading Risk Summary20070226.pdf

95% VaR ($mm)

	Feb 26	Feb 23	%Contr.
Trading	153	154	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	85	85	25%
[redacted]	[redacted]	[redacted]	[redacted]
Equities	[redacted]	[redacted]	[redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

95% Product Category VaR ($mm)

	Feb 26	Feb 23	%Contr.
Trading	153	154	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($mm)

	Feb 26	Feb 23	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(516)	(531)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

Trading VaR is over its $150mm limit. Temporary limit of $165mm granted until cob 03/07/07.

[redacted] is over its temporary [redacted] VaR limit.

Mortgages VaR has a temporary $90mm limit until cob 03/06/07.

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[redacted] VaR has a temporary [redacted] limit until cob 02/28/07.
Temporary limit extended to [redacted] until cob 03/07/07.



Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Poc, Francois
Sent: Wednesday, February 28, 2007 7:42 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/27/2007

Attachments: Daily Trading Risk Summary20070227.pdf

95% VaR ($mm)

	Feb 27	Feb 26	%Contr.
Trading	144	153	100%
FICC	[redacted]		
Mortges	83	85	27%
[redacted]			
Equities	[redacted]		

95% Product Category VaR ($mm)

	Feb 27	Feb 26	%Contr.
Trading	144	153	100%
[redacted]			

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Credit Scenario ($mm)

	Feb 27	Feb 26	Limit
[redacted]			
Mortges.	(506)	(516)	(800)
[redacted]			

The decrease in Trading VaR was mainly driven by [redacted]

[redacted] is over its [redacted] limit.

Trading VaR has a temporary $165mm limit until cob 03/07/07.

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Mortgages VaR has a temporary $90mm limit until cob 03/06/07.
[redacted] VaR has a temporary [redacted] limit until cob 03/07/07.


Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Poc, Francois
Sent: Thursday, March 01, 2007 6:02 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN 85B030); Evans, J. Michael (EO CKC68); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau
Subject: MarketRisk: End of Day Summary - cob 02/28/2007

Attachments: Daily Trading Risk Summary20070228.pdf

95% VaR ($mm)

	Feb 28	Feb 27	%Contr.
Trading	131	144	100%
FICC	[redacted]		
Mortges	81	83	29%
	[redacted]		
Equities	[redacted]		

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% Product Category VaR ($mm)

	Feb 28	Feb 27	%Contr.
Trading	131	144	100%
	[redacted]		

Credit Scenario ($mm)

	Feb 28	Feb 27	Limit
[redacted]			
Mortges.	(506)	(516)	(800)
	[redacted]		

The decrease in Trading VaR was mainly driven by Global IRP and Global Forex.

Trading VaR has a temporary $165mm limit until cob 03/07/07.
Mortgages VaR has a temporary $90mm limit until cob 03/06/07.
[redacted] has a temporary [redacted] limit until cob 03/07/07.

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Wall Street & The Financial Crisis
Report Footnote #1925

Confidential Treatment Requested by Goldm



Daily Trading Risk Summary2007...

Confidential Treatment Requested by Goldman Sachs

From: Winkelried, Jon (EO 85B30)
Sent: Thursday, August 16, 2007 7:54 PM
To: Sparks, Daniel L
Subject: Re: Mort P&L explanation

I think you should drop the micro manage theme in this environment
---
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Winkelried, Jon
Sent: Thu Aug 16 19:03:31 2007
Subject: RE: Mort P&L explanation

I try, but it is much harder than you would think with all the things we are dealing with - completely dislocated markets with little price transparency, systems/tools that are not where they should be, focused controllers (who I think are doing a very good job in a tough market) and many cooks in the kitchen who like to micro-manage.

But I hear the message.

-----Original Message-----
From: Winkelried, Jon (EO 85B30)
Sent: Thursday, August 16, 2007 6:59 PM
To: Sparks, Daniel L
Subject: Re: Mort P&L explanation

Good time to make sure we're conservative

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Winkelried, Jon
Sent: Thu Aug 16 18:54:37 2007
Subject: RE: Mort P&L explanation

I feel fine - but we will have up and down days, and we will have adjustments both ways.

-----Original Message-----
From: Winkelried, Jon (EO 85B30)
Sent: Thursday, August 16, 2007 6:53 PM
To: Sparks, Daniel L
Subject: Re: Mort P&L explanation

Thanks. Do you still feel we are being conservative with our marks
---
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Sherwood, Michael S; Mullen, Donald; McMahon, Bill; Salame, Pablo
Cc: Cohn, Gary; Winkelried, Jon; Viniar, David
Sent: Thu Aug 16 18:29:28 2007
Subject: Mort P&L explanation

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A number of you have asked about the +$121mm:

Large items:
Correlation $+145mm - detail below, but 94mm of it is from correlation adjustment in ABX (from 50 to 70%) as market observability better recently, rest is from outright shorts ([redacted]) with market move Resids/subs down $50mm, as we approach quarter/month end - resid mark on alt a has to come down and valuation showing at least this much (probably more to come down) Single name subprime shorts vs ABX longs (still net short) +$18mm

Remaining things for month end are (1) synthetics adjustment to mid and widening bid/offer reserve, (2) review on resids and scratch and dent, and (3) normal controller review which we have started but will require much focus with the significant moves

Correlation breakdown:
-- Up $94mm due to changes in correlation for mezz RMBS supersenior trades
-- Up [redacted] market wider
-- Up [redacted] market wider
-- Up $7mm on single-name RMBS wider
-- Up $10mm on ABX prices lower

[redacted] = Redacted by the Permanent Subcommittee on Investigations

FICC Mortgages - Daily P&L Estimate

I. SUMMARY

	TOTAL
Structured Products	121,050,000
- Resi Prime/Mtg Derivs	2,250,000
- Resi Credit	(43,000,000)
[redacted]	[redacted]
- ABS L&F	-
- SPG Trading	158,000,000
- CDO / CLO	4,000,000
- Other Structure Products	-
Europe	-
Other (Advisory, PFG, Managers/Other)	-
MORTGAGES	121,050,000
Mortgages WTD	185,524,003
Mortgages MTD	153,739,944

II. DETAIL

Business Strategy Desk	Daily Total	Comments
STRUCTURED PRODUCTS		
Mortgage Derivative	250,000	
Agency Derivatives	250,000	curve steeper
Whole Loan Derivs	-	
MSR	-	
Residential Prime	2,000,000	
FHA/VA - Primary	-	
FHA/VA - Secondary	-	
Prime Hybrid - Primary	-	
Prime Hybrid - Secondary	-	
Agency Hybrid	3,000,000	trading
Prime Fixed	-	
Agency CMO - Primary	(1,000,000)	trading
Agency CMO - Secondary	-	
Residential Credit	(43,000,000)	
Scratch and Dent	-	

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Subprime	-	
Alt-A	7,000,000	ABX hedge movement
2nd Liens	-	
Subs	(5,000,000)	
Residuals - Scratch & Dent	-	
Residuals - Subprime	-	
Residuals - Alt-A	(45,000,000)	
Residuals - 2nd Liens	-	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

CRE Loan Trading	[redacted]	
CMJV	[redacted]	
ABS Loans & Finance	[redacted]	
SPG Trading	158,000,000	
CMBS Trading	(5,000,000)	CMBS CDS
CRE CDO		
ABS Trading	18,000,000	ABS CDS
Property Derivatives		
Correlation	145,000,000	Correlation Mark Change, ABS CDS, CMBS CDS
CDO/CLO	4,000,000	
ABS / MBS CDO	4,000,000	
GSI SP Credit Warehouse	-	
US CLO	-	
EURO CLO	-	
CRE CDO	-	
Retained Principal Positions		-
Tax Related Securities		-
Non-economic residuals		-
Economic residuals		
Warehouse Lending		-
Residential	-	
Commercial	-	
Asset Backed		-
Syndicate		-
ABS	-	
CMBS	-	
CDO	-	
RMBS	-	
Other	-	
Total Structured Products	121,050,000	
EUROPE		
Acquisition Finance		-
Syndicate	-	
Trading	-	
European CMBS		-
Syndicate	-	
Trading	-	

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Total Europe	-
Total Advisory	-
Total PFG JV	-
Total Manager's Account / Other	-

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From: Lehman, David A.
Sent: Tuesday, August 28, 2007 9:00 AM
To: Sparks, Daniel L

Had breakfast with Montag

Went well, this was the time we set up to chat previously but had been re-scheduled

Talked a little bit about business, he wanted to know how the desk thought about him and mullen being very involved - I told him we understood the scrutiny on the business given the overall pressure on our market, large P+L and risk swings, etc.

I did tell them that continued clarity on what he and Mullen want to see done would be appreciated. (i.e. if they want to see trade spots in resids, super senior, etc, keep us focused on that vs all the other things we have going on)

Told him fresh perspectives are appreciated

I reiterated that while we have had (and have) some tough times/positions, I objectively thot GS had done a great job dealing with its issues early and righting the ship

Outside of that he asked about my career, I told him I was very happy in current role, interested in int'l @ some point to the extent the Firm needs me (told him Asia or Lat Am were most interesting)

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

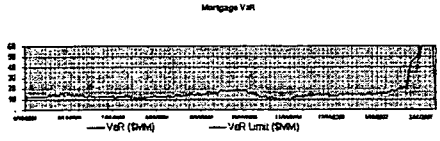
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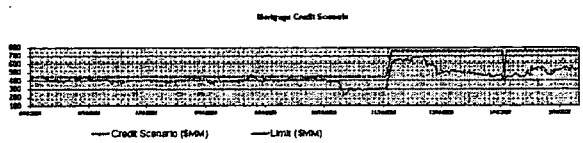
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Market Risk Report 2/20/07 Mortgage Portfolio Summary





Portfolio Name	VaR ($MM) 02/20/07	VaR ($MM) 02/23/07	Stress Test ($MM) 02/20/07	Stress Test ($MM) 02/23/07	Net MV[1] ($MM)	Rate DV01 ($MM)	OAS DV01 ($MM)	Vega ($MM/1%vol)	2yr/10yr Steepener ($MM)
Mortgage Structured Products	8.4	8.2	(214.7)	(221.4)	42,593	(43)	9,956	492	220
Mortgage Derivative	3.1	3.1	(27.4)	(26.9)	3,901	(174)	139	(88)	171
Inverse IO	2.8	2.8	(12.1)	(12.0)	318	(13)	(86)	1,569	187
Strip IO/PO	0.7	0.7	(6.5)	(5.0)	2,490	(125)	176	565	143
Agency Derivative	0.2	0.2	(4.6)	(4.9)	913	10	108	(2,973)	(230)
Whole Loan Derivative	0.3	0.3	(4.2)	(4.0)	177	(44)	(57)	1,063	76
Residential Prime	3.2	3.0	(83.6)	(84.2)	11,497	263	1,680	620	120
Agency CMOs	0.4	0.3	(6.7)	(6.8)	1,532	(4)	132	(664)	(93)
FHA/VA	0.9	0.8	(6.4)	(6.4)	389	84	59	(655)	(43)
Securities			(5.8)	(5.8)	290	92	103		
Loans			(0.6)	(0.6)	99	(9)	(44)		
Prime Hybrid	3.5	3.5	(30.6)	(30.8)	3,291	(819)	351	(256)	104
Prime Hyb 2ndary			(10.9)	(10.9)	1,213	(115)	200	0	0
Arms Deriv			(29.5)	(29.5)	295	(356)	34	(67)	106
Prime Hybrid			(1.6)	(1.6)	261	(72)	60	(151)	(5)
Hybrid Loans			11.4	11.2	1,532	(274)	58	(38)	3
Prime Fix	2.1	2.1	(18.3)	(18.1)	4,183	1,081	697	2,857	88
Prime Fix 2nd			(4.8)	(4.7)	282	(7)	90	(34)	(1)
Prime Fix			(1.4)	(1.4)	1,590	(66)	181	(648)	37
Fix Loans			(12.2)	(12.0)	2,310	1,154	336	3,437	62
ARMs	0.7	0.7	(3.9)	(4.3)	1,890	(79)	441	(762)	56
Subs [1]	0.0	0.0	(17.8)	(17.8)	213				
Residential Credit	5.8	5.6	(173.8)	(186.0)	6,009	(237)	572	-	-
Alt A	1.6	1.6	(8.0)	(8.2)	3,985	(247)	603		
Securities [1]			(6.0)	(6.0)	209				
Loans			(2.0)	(2.2)	3,756		603		
Subprime	4.1	5.3	14.7	14.7	1,672	10			
Securities [1]			(6.4)	(6.4)	165				
Loans			21.1	21.1	1,507		291		
Second Lien	0.8	0.8	0.8	0.8	730			-	-
Securities [1]			5.3	5.3	0			-	-
Loan			(4.7)	(4.7)	730		78		
Sub/Non-Performing [1]	0.4	0.4	(38.8)	(39.8)	941				
S&D Securities			(8.8)	(8.8)	148				
S&D Loans			(30.0)	(31.0)	795				
Credit Residuals [1]			(142.6)	(152.3)	701			-	-
Alt A			(63.6)	(68.7)	254				
Subprime First Lien			(58.9)	(63.4)	309				
Second Lien			(15.3)	(15.3)	88				
S&D			(5.0)	(5.0)	50				
[redacted]								-	-
								-	-
								-	-
								-	-
								-	-
								-	-
SPG Trading	90.2	89.9	68.4	70.9	3,291	9	1,237	-	(11)
CMBS Securities	2.5	2.4	(176.5)	(165.4)	1,387	-	3,894	-	-
Cash			(40.9)	(40.9)	1,387	31	891	-	-
CDS			(23.7)	(12.6)	(1,843)		(181)	-	-
TRR Swaps			(111.9)	(111.9)	4,549	-	3,184	-	-
ABS Securities	3.6	4.2	(34.3)	(34.3)	1,914	(22)	646	-	(11)
ABS Synthetics	69.8	70.1	169.5	169.2	(8,842.0)	0.0	(2,826.7)	0.0	
Correlation Book	21.4	21.3	110.8	101.4	591	-	(477)	-	-
CDS			116.5	107.3	-4,990	-	(477)	-	-
TRR swaps			0.0	0.0	-	-	-	-	-
Cash			(5.9)	(5.9)	591		-	-	-
CDO/CLO	13.2	13.2	(70.0)	(76.0)	3,728	-	-	-	-
Manager Account	0.0	0.0	0.0	0.0	0	(0)	0	-	-
[redacted]									
Europe Mortgage [1]	1.4	1.4	0.0	0.0	667				-
Warehouse	2.3	2.3	(147.6)	(147.6)	8,795				
CDO [4][1]			(66.0)	(66.0)	4,587				
CLO			(81.6)	(81.6)	4,208				
US CLO [4][1]			(27.0)	(27.0)	1,601				
Europe CLO			(54.6)	(54.6)	2,607				

Note [1]: On PNL VAR Note [4]: The stress test is estimated using leverage (duration and trading) on the portfolio and not being stressed by the overall Mortgage stress test results

	CF	NCF	Total
Resi Prime	73.5	43.5	117.0
Resi Credit	428	273	701

	CDO	CLO	total
Equities	86	9	95

Significant Risk Changes:

CLO stress test is over the limit of $70mm
MTG SPG desk VaR limit has been increased to $90mm until cob 3/05/2007
CDO/CLO Stress test is over the limit of $55mm

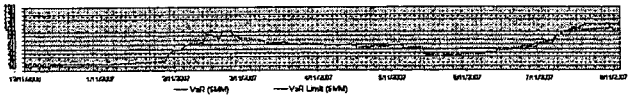
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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1937

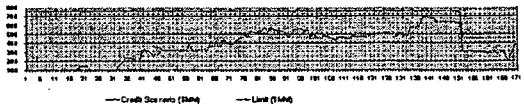
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Market Risk Report — **8/14/07** — **Mortgage Portfolio Summary**

Mortgage VaR



Mortgage Credit Scenario



Portfolio Name	VaR ($MM) 08/14/07	VaR ($MM) 08/13/07	Stress Test ($MM) 08/14/07	Stress Test ($MM) 08/13/07	Cash MV (2) ($MM)	OAS DV01 ($M/bp)
Mortgage Structured Products	110.1	96.2	(325.1)	(305.3)	37,883	
Mortgage Derivative	3.9	3.7	(22.4)	(22.4)	3,091	(122)
Inverse IO	3.2	3.2	(7.5)	(9.8)	561	(209)
Strip IO/PO	1.5	1.0	(8.0)	(7.1)	1,787	127
Agency Derivative	0.3	0.4	(5.5)	(4.1)	611	76
Whole Loan Derivative	0.3	0.3	(1.3)	(1.4)	132	(116)
Residential Prime	3.5	3.5	(99.0)	(102.5)	11,095	123
Agency CMOs	1.8	1.8	(9.9)	(10.3)	2,308	283
FHA/VA	0.5	0.5	(2.6)	(2.6)	188	47
Prime Hybrid	6.6	6.5	(46.3)	(46.6)	3,456	330
Prime Fix	5.9	5.8	(14.6)	(19.8)	4,485	(555)
ARMs	0.5	0.5	1.4	1.6	353	17
Subs[1]	8.9	8.9	(25.1)	(24.9)	306	
Residential Credit	7.2	8.2	(114.1)	(114.4)	3,098	
Alt A	2.4	1.9	0.1	(0.5)	793	
Subprime	4.5	3.9	(1.5)	(1.3)	1,148	
Second Lien			(1.2)	(1.2)	89	
Sub/Non-Performing	2.7	1.6	(31.2)	(31.1)	747	
Credit Reelduals[1]			(80.2)	(80.2)	320	
[redacted]						
SPG Trading	74.6	111.0	138.5	174.9	3,617	(1,468)
CMBS Securities	19.7	16.8	(47.8)	(47.1)	1,460	1,444
ABS Securities	36.8	46.4	(20.0)	(19.8)	1,958	398
ABS Synthetics	74.2	125.4	28.9	60.5		-962
Correlation Book	42.6	37.2	177.6	181.6	187	(2,348)
ABS/MBS CDO Origination	45.5	23.8	8.3	(5.5)	500	n/a
Manager Account	0.0	0.0	0.0	0.0	0	0
[redacted]						
Europe Mortgage [1]	0.5	0.5	0.0	0.0	1,147	-

Note (1) On PNL VAR (2) Exclude hedges

	CF	NCF	Total
Resi Prime	80.9	52.0	132.9
Resi Credit	161	159	320

CDO
25

Significant Risk Changes:

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Acquisition Commitment scenario limit has been changed to $250 until 8/21
Mtg SPG desk Stress test temproray limit is $750mm (vs. permanent $500mm)
MTG SPG desk VaR limit has been changed to $110mm until 8/21

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1951

Confidential Treatment Requested by Goldma

From: Mullen, Donald
Sent: Tuesday, August 21, 2007 7:47 PM
To: Cohn, Gary (EO 85B30); Viniar, David
Cc: Montag, Tom
Subject: FW: MarketRisk: End of Day Summary - cob 8/20/2007

Attachments: Daily Trading Risk Summary20070820.pdf

We will have a plan to reduce mortgage var tomorrow and will begin executing immediately

From: Walters, Kristen
Sent: Tuesday, August 21, 2007 7:44 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN PBC09); Evans, J. Michael (EO CKC68); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis)
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy
Subject: MarketRisk: End of Day Summary - cob 8/20/2007

Firmwide VaR was unchanged at $167mm (versus a $150mm limit) with decreased [redacted] risk offset by increases in Mortgages.

95% VaR by Business ($mm)

	20-Aug	17-Aug	% Contr
Trading	167	167	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	103	97	46%
[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

95% VaR by Product Category ($mm)

	20-Aug	17-Aug	% Contr
Trading	167	167	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($MM)

	Current	Prior	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(315)	(308)	(750)
[redacted]	[redacted]	[redacted]	[redacted]

1

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1951

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[redacted]

Limit Excesses
Firmwide VaR was over its limit of $150mm at a level of $167mm.
[redacted] scenario temporary limit of [redacted] at a level of [redacted]
[redacted] VaR limit of [redacted] (at a level of [redacted]

Temporary Limits
[redacted] VaR has a temporary limit of [redacted] until cob 8/29.
[redacted] a temporary VaR limit of [redacted] until cob 8/29.
Mortgages has a temporary VaR limit of $110mm until cob 8/29.
[redacted] temporary limit of [redacted] until cob 8/29.
Mortgage Trading widening scenario has a temporary limit of <$750mm> until cob 8/29.

Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

403-3

From: Walters, Kristen
Sent: Wednesday, August 29, 2007 3:35 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN PBC09); Evans, J. Michael (EO CKC68); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis)
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy
Subject: MarketRisk: End of Day Summary - cob 8/28/2007

Attachments: Daily Trading Risk Summary20070828.pdf

Firmwide VaR decreased $3mm to $135mm (relative to a $150mm limit).

95% VaR by Business ($mm)

	28-Aug	27-Aug	% Contr
Trading	135	138	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	85	84	42%
[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% VaR by Product Category ($mm)

	28-Aug	27-Aug	% Contr
Trading	135	138	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($mm)

	28-Aug	27-Aug	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(398)	(397)	(750)
[redacted]	[redacted]	[redacted]	[redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Orign. (2,327) (2,327) (2,250)

Limit Excesses
[redacted] scenario temporary limit of [redacted] at a level of [redacted]
[redacted] temporary VaR limit of [redacted] (at a level of [redacted].
[redacted] widening scenario temporary limit of [redacted] at a level of [redacted].

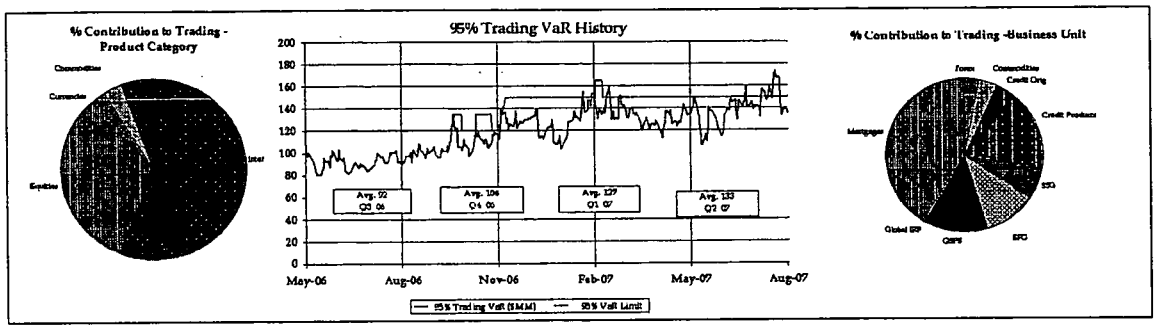
Temporary Limits
[redacted] VaR has a temporary limit of [redacted]m until cob 8/29.
[redacted] has a temporary VaR limit of [redacted] until cob 8/29.
Mortgages has a temporary VaR limit of $110mm until cob 8/29.
Mortgage Trading widening scenario has a temporary limit of <$750mm> until cob 8/29.
[redacted] has a temporary VaR limit of [redacted] (effective until 9/27).


Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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8/28/07 **Trading VaR Summary**



Business Unit 95% Confidence Level VaR

Portfolio	8/28/2007 VaR ($MM)	8/27/2007 VaR ($MM)	Limit	% Contrib Trading	12month rolling Average	12month rolling High	12month rolling Low	QTD Avg VaR ($MM)	2Qtr07 Avg VaR ($MM)	3Q06 Avg VaR ($MM)	YTD Avg VaR ($MM)
Trading	135	138	150	100%	127	174	90	140	133	92	133
FICC Division											
Mortgages	85	84	110	42%	42	114	10	67	63	13	51
Equities Division											

Product Category: 95% Confidence Level VaR

Portfolio	8/28/2007 VaR ($MM)	8/27/2007 VaR ($MM)	Limit	% Contrib Trading	12month rolling Average	12month rolling High	12month rolling Low	QTD Avg VaR ($MM)	2Qtr07 Avg VaR ($MM)	3Q06 Avg VaR ($MM)	YTD Avg VaR ($MM)
Trading	135	138	150	100%	127	174	90	140	133	92	133

Business Unit Limit Violations/Comments:

Credit Origination VaR is $65mm vs. a temporary limit of $50mm (effective until 8/29)
Interest Rate Product Category has a temporary VaR limit of $150mm effective until cob 8/29
Global Credit Products has a temporary VaR limit of $90mm (effective until 8/29)
GCP VaR includes an estimated adjustment to long credit exposure reflecting valuation adjustments in the global bespoke book
Mortgages has a temporary VaR limit of $110mm (effective until 8/29)
Money Markets has a temporary VaR limit of $8mm (effective until 9/27)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

COB: August 28, 2007

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8/28/07

	Commodities		Currencies		Equities		Rates		Total
	VaR	% Cont	VaR	% Cont	VaR	% Cont	VaR	% Cont	VaR
Trading	26	100%	24	100%	97	99%	109	100%	135
[redacted]	-	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mortgages	-	0%	-	0%	4	1%	84	63%	85
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

8/28/2007

	Equity Product VaR ($MM)			Equity Delta ($MM)		
Business Unit	8/28/2007	8/27/2007	Change	8/28/2007	8/27/2007	Change
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mortgages	4	4	-	(32)	(27)	(4)
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Equities Product Category	77	87	(10)	4,587	6,841	(2,255)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

08/28/07 Credit Widening Stress Test

(All values are in $millions)

	Current 8/28/2007	Prior 8/27/2007	Last Quarter 5/25/2007	Rolling 12 Month Average	Rolling 12 Month High	Rolling 12 Month Low	Limit
Global Interest Rate Products	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]							
Liquid Mortgage Products	(23)	(36)	(62)	(54)	(152)	(23)	(100)
[redacted]							
Mortgage Trading	(398)	(397)	(108)	(257)	(687)	77	(750)
Mortgage Derivatives	(28)	(28)	(29)	(23)	(37)	(8)	(30)
Residential Prime	(95)	(96)	(92)	(86)	(120)	(51)	(100)
Residential Credit	(97)	(97)	(111)	(136)	(194)	(47)	(185)
Credit Residuals	(63)	(63)	(122)	(120)	(160)	(63)	(170)
Non-Resi Origination	(41)	(41)	(62)	(32)	(91)	59	(70)
SPG Trading	135	143	300	84	(132)	409	(160)
ABS/MBS CDO Origination	(11)	(11)	(70)	(44)	(98)	8	(30)
Acquisition Commitment	(261)	(267)	(45)	(179)	(300)	(13)	(250)
Warehouse	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
CDO	0	0	0	(36)	(104)	1	(100)
[redacted]							
Emerging Markets	[redacted]	[redacted]	[redacted]				
[redacted]							
Credit Trading	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Flow							
Prop							
Structured Credit							
Credit CDO Origination							
Municipals							
Global SSG	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]							
Credit Origination: Loans & Hedges	(2,327)	(2,327)	(1,094)	(1,103)	(2,636)	(473)	(2,250)
Loans	(2,906)	(2,906)	(1,438)				
Hedges	579	579	344				
Syndication	(1,029)	(1,029)	(582)	(540)	(1,278)	(220)	(700)
Portfolio	(70)	(70)	(27)	(42)	(98)	(17)	(55)
Residual New Issue	(58)	(58)	(27)	(29)	(70)	(7)	(40)
Future Sale	(329)	(329)	(15)	(44)	(342)	(8)	
Workout	0	0	0	(0)	(0)	0	(2)
Bridge Loan	(748)	(748)	(357)	(295)	(846)	(27)	(400)
Liquidity Commitments	(12)	(12)	3	(4)	(44)	12	(10)
Commitment Letter Outstanding	(22)	(22)	(80)	(142)	(469)	(22)	(600)
Securities	(60)	(60)	(9)	(13)	(86)	6	(25)

Notes:

For Credit Origination: Impact includes single signature commitments; Absolute Fall '98 Spread Widening Impact is $3,063MM

COB: August 28, 2007

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Walters, Kristen
Sent: Friday, September 14, 2007 5:14 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN PBC09); Evans, J. Michael (ED CKC062); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis); Jammal, Shahnaz; Atkinson, David J (Market Risk Management and Analysis); McDade, Iain
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy
Subject: MarketRisk: End of Day Summary - cob 9/13/2007

Attachments: Daily Trading Risk Summary20070913.pdf

VaR increased by $2mm to $144mm reflecting an increase [redacted] VaR of $12mm as well as higher Mortgage VaR. Higher Mortgage VaR resulted in a Rate Product Category limit excess ($126mm relative to a limit of $125mm).

95% VaR by Business ($mm)

	13-Sep	12-Sep	% Contr
Trading	144	142	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	90	87	38%
[redacted]	[redacted]	[redacted]	[redacted]
Equities	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% VaR by Product Category ($mm)

	13-Sep	12-Sep	% Contr
Trading	144	142	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($MM)

	13-Sep	12-Sep	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(389)	(395)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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GS MBS-E-009714807

[redacted]. [redacted] [redacted] [redacted]

Limit Excesses
[redacted] scenario temporary limit of [redacted] at a level of [redacted]
[redacted] VaR limit of [redacted] (at a level of [redacted]).

Temporary Limits
[redacted] VaR has a temporary limit of [redacted] effective until cob 9/18.
[redacted] has a temporary VaR limit of [redacted] effective until cob 9/11.
Mortgages has a temporary VaR limit of $90mm effective until cob 9/18.
[redacted] has temporary limit of [redacted] until cob 9/28
Mortgage Trading widening scenario has a temporary limit of <$800mm> until 9/28.
[redacted] temporary VaR limit of [redacted] effective until cob 9/27.

Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Walters, Kristen
Sent: Thursday, September 27, 2007 7:56 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (FIN PBC009); Evans, J. Michael (ED CKC068); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis); Jammal, Shahnaz; Atkinson, David J (Market Risk Management and Analysis); McDade, Iain
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy; Shi, Chenggang; Bracco, Tom
Subject: MarketRisk: End of Day Summary - cob 9/26/2007

Attachments: Daily Trading Risk Summary20070926.pdf

VaR was $165mm relative to a permanent limit of $150mm.

95% VaR by Business ($mm)

	26-Sep	25-Sep	% Contr
Trading	165	167	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	77	77	17%
[redacted]	[redacted]	[redacted]	[redacted]
Equities	[redacted]	[redacted]	[redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

95% VaR by Product Category ($mm)

	26-Sep	25-Sep	% Contr
Trading	165	167	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($MM)

	26-Sep	25-Sep	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(375)	(387)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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GS MBS-E-009708872

Limit Excesses
Firmwide VaR exceeded its permanent limit of $150mm.
[redacted] VaR exceeded its permanent limit of [redacted]
[redacted] exceeded its permanent limit of [redacted]
[redacted] limit of [redacted] (at a level of [redacted].

Temporary Limits
[redacted] spread widening scenario temporary limit of [redacted] until cob 9/28
[redacted] has a temporary VaR limit of [redacted] until cob 10/2
[redacted] temporary VaR limit of [redacted] until 10/2.
Mortgages temporary VaR limit of $90mm effective until cob 10/2.
[redacted] temporary widening scenario limit of [redacted] until cob 9/28
Mortgage Trading widening scenario temporary limit of <$800mm> until 9/28.
[redacted] VaR limit of [redacted] effective until cob 9/27.


Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Walters, Kristen
Sent: Wednesday, October 03, 2007 5:55 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (IMD PBC009); Evans, J. Michael (ED CKC068); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis); Jammal, Shahnaz; Atkinson, David J (Market Risk Management and Analysis); McDade, Iain
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy; Shi, Chenggang; Bracco, Tom
Subject: MarketRisk: End of Day Summary - cob 10/2/2007

Attachments: Daily Trading Risk Summary20071002.pdf

VaR decreased by $8mm to $169mm (relative to a permanent limit of $150mm). A temporary limit of $185mm was granted and becomes effective for cob 10/3 through 10/30.

95% VaR by Business ($mm)

	2-Oct	1-Oct	% Contr
Trading	169	177	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	83	82	18%
[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% VaR by Product Category ($mm)

	2-Oct	1-Oct	% Contr
Trading	169	177	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($MM)

	Oct-2	Oct-1	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(404)	(388)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Confidential Treatment Requested by Goldmar

GHL-B

[redacted] [redacted] [redacted] [redacted]

Limit Excesses
Firmwide VaR exceeded its limit of $150mm. A temporary limit of $185mm becomes effective cob 10/3 through 10/30
[redacted] VaR exceeded its permanent limit of [redacted] Temporary limit of [redacted] becomes effective cob 10/3 through 10/30
[redacted] VaR exceeded its permanent limit of [redacted] Temporary limit of [redacted] becomes effective cob 10/3 through 10/30
[redacted] limit of [redacted] (at a level of [redacted].
[redacted] exceeded its temporary VaR limit of [redacted]. A temporary limit of [redacted] becomes effective cob 10/3 through 10/30.

Temporary Limits
[redacted] widening scenario temporary limit of [redacted] until cob 10/9
[redacted] temporary VaR limit of [redacted]m until 10/9.
Mortgages Temporary VaR limit of $85mm effective until cob 10/9.
[redacted] temporary widening scenario limit of [redacted] until cob 10/26
Mortgage Trading widening scenario temporary limit of <$800mm> until 10/26.
[redacted] temporary VaR limit of [redacted] effective until cob 10/26.



Daily Trading Risk Summary2007...

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Confidential Treatment Requested by Goldman Sachs

From: Walters, Kristen
Sent: Friday, October 19, 2007 5:15 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Forst, Edward (IMD PBC009); Evans, J. Michael (ED CKC068); McMahon, Bill; Viniar, David; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Young, Paul; Heller, Dave B; Agus, Raanan A; Schroeder, Jeff; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis); Jammal, Shahnaz; Atkinson, David J (Market Risk Management and Analysis); McDade, Iain
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy; Shi, Chenggang; Bracco, Tom
Subject: MarketRisk: End of Day Summary - cob 10/18/2007

Attachments: Daily Trading Risk Summary20071018.pdf

VaR increased by $9mm to $154mm driven by [redacted] reduced diversification benefit. [redacted] had a net reduction in equity delta, but an increase in [redacted] exposure which increased VaR. [redacted] had an overall delta increase (which included an increase in the [redacted] as well as a decrease in index short delta.

95% VaR by Business ($mm)

	18-Oct	17-Oct	% Contr
Trading	154	145	100%
FICC	[redacted]	[redacted]	[redacted]
Mortges	74	74	14%
[redacted]	[redacted]	[redacted]	[redacted]
Equities	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

95% VaR by Product Category ($mm)

	18-Oct	17-Oct	% Contr
Trading	154	145	100%
[redacted]	[redacted]	[redacted]	[redacted]

Credit Scenario ($MM)

	18-Oct	17-Oct	Limit
[redacted]	[redacted]	[redacted]	[redacted]
Mortges.	(381)	(440)	(800)
[redacted]	[redacted]	[redacted]	[redacted]

1

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Report Footnote #1954

[redacted]

Limit Excesses

[redacted] exceeded its widening scenario limit of [redacted] at an impact of [redacted].

Temporary Limits

Firmwide VaR has a temporary limit of $185mm through cob 10/30.
[redacted] VaR has a temporary limit of [redacted] through cob 10/30.
[redacted] has a temporary limit of [redacted] through cob 10/30.
[redacted] has a temporary VaR limit of [redacted] through cob 10/30.
[redacted] temporary VaR limit of [redacted] until 10/30.
Mortgages Temporary VaR limit of $85mm effective until cob 10/30.
[redacted] temporary widening scenario limit of [redacted] until cob 10/26.
Mortgage Trading widening scenario temporary limit of <$800mm> until 10/26.
[redacted] VaR limit of [redacted] effective until cob 10/26.



Daily Trading Risk Summary2007...

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Walters, Kristen
Sent: Thursday, December 13, 2007 6:32 PM
To: Viniar, David; Cohn, Gary (EO 85B30); Montag, Tom; Sherwood, Michael S; Evans, J. Michael (ED CKC068); McMahon, Bill; Ruzika, Richard; Mullen, Donald; Eisler, Ed; Sobel, Jonathan; Ealet, Isabelle; Heller, Dave B; Agus, Raanan A; Sparks, Daniel L; Broderick, Craig; Beshel, Liz; Berry, Robert; Petersen, Bruce; Wilson, Edward; Lahey, Brian; Lee, Brian-J (FI Controllers); Dinias, Michael; Pastro, Al; Ng, Victor K; Maretz, Andy; Johnson, Darau; Hughes, Jon O (Market Risk Management & Analysis); Jammal, Shahnaz; Atkinson, David J (Market Risk Management and Analysis); McDade, Iain
Cc: Shaw, Michael; Jha, Arbind; Kendrick, Richard; Filgueiras, Geraldo A.; Cumming, Caroline; Parker, Grant; Chodos, Jason E.; Haar, Robert; Yunger, Dalia (Kronenberg); McAndrew, Thomas R.; Walters, Kristen; Goh, Amy; Shi, Chenggang; Bracco, Tom; Chang, Gary; Cannon, JeanMarie; Gold, Erica
Subject: MarketRisk: End of Day Summary - cob 12/12/2007

Attachments: Daily Trading Risk Summary20071212.pdf

Trading VaR decreased $5mm to $146mm (relative to a $165mm temporary limit)

- [redacted] and [redacted] risk increased.
- [redacted] delta was higher by [redacted] (across [redacted] and [redacted].
- [redacted] were offset by [redacted] risk in the [redacted] and [redacted] businesses and [redacted].

Firmwide Limit Violations

- [redacted] exceeded its VaR limit of [redacted] at a level of [redacted].

Divisional Limit Violations

- Mortgage VaR exceeded its temporary VaR limit of $80mm at a level of $81mm.
- [redacted] credit spread widening limits were exceeded.

Daily Trading Risk Summary2007...

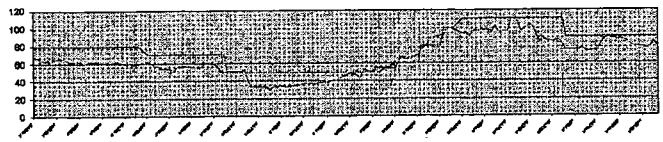
[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1954

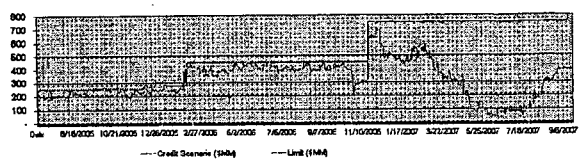
Confidential Treatment Requested by Goldma

Market Risk Report — 9/28/07 — **Mortgage Portfolio Summary**

Mortgage VaR



Mortgage Credit Scenario



Portfolio Name	VaR ($MM) 09/28/07	VaR ($MM) 09/27/07	%Contrib Mtg Desk	Stress Test ($MM) 09/28/07	Stress Test ($MM) 09/27/07	Cash MV (3) ($MM)	OAS DV01 ($M/bp)
Mortgage Structured Products	79.7	83.6	100%	(379.2)	(349.2)	34,593	
Mortgage Derivative	4.4	4.8	1%	(30.1)	(31.4)	2,656	(14)
Inverse IO	3.9	3.7		(8.8)	(8.8)	276	(243)
Strip IO/PO	5.3	2.4		(16.2)	(16.2)	1,614	316
Agency Derivative	2.2	0.9		(5.0)	(6.3)	639	19
Whole Loan Derivative	0.6	0.5		(0.1)	(0.1)	127	(106)
Residential Prime	7.0	5.7	-3%	(94.0)	(93.5)	9,607	859
Agency CMOs	2.2	2.0		(7.8)	(8.3)	1,720	40
FHA/VA	0.3	0.3		(1.8)	(1.7)	175	(17)
Prime Hybrid	2.8	3.0		(44.6)	(43.4)	3,202	237
Prime Fix	2.4	1.7		(16.8)	(16.8)	4,059	530
ARMs	0.5	0.6		(2.5)	(2.7)	387	70
Subs[1]	15.6	15.6		(20.6)	(20.6)	263	
Residential Credit	15.9	16.7	-5%	(68.1)	(69.7)	1,965	
Alt A	1.6	1.9		(0.3)	(0.3)	382	
Subprime	3.2	4.2		0.5	0.6	474	
Second Lien				(1.1)	(1.1)	88	
Sub/Non-Performing	1.7	1.6		(32.8)	(32.7)	867	
Credit Residuals[2]				(34.4)	(36.3)	155	
[redacted]							
SPG Trading	113.2	114.7	119%	184.5	198.5	3,486	983
CMBS Securities	14.6	16.0	9%	28.8	48.6	1,147	74
ABS Securities	25.8	25.8	-14%	(23.1)	(22.5)	2,135	529
ABS Synthetics	84.4	85.1	84%	24.5	22.3		498
Correlation Book	44.4	44.3	41%	154.7	150.5	191	(118)
ABS/MBS CDO Origination	24.6	25.4	-8%	(13.7)	(13.8)	453	n/a
Manager Account	0.0	0.0	0%	0.0	0.0	(20)	(7)
[redacted]							
Europe Mortgage[2]	0.5	0.5	0%	n/a	n/a	1,329	-

Note (1): Subs portfolio rolls up to Resi Credit for VaR. (2): On PNL VaR. (3): Represents MV or Cash exposure and Excludes hedges

	CF	NCF	Total
Resi Prime	47	49	96
Resi Credit	87	68	156

CDO Equity
29

Significant Risk Changes:

Acquisition Commitment scenario limit has been changed to $300 until cob 9/28
Mtg SPG desk Stress test temporary limit is $800mm (vs. permanent $500mm) until cob 9/28
MTG SPG desk VaR limit has been changed to $90mm until cob 10/5

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Goldman Sachs

Global Mortgages
Business Unit Townhall
Q3 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1967

Goldman Sachs

Agenda

I. Financial Performance
   a) Firmwide
   b) FICC
   c) Global Mortgages
II. Compliance
III. Business Initiatives
IV. Closing Remarks

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Firmwide Third Quarter Earnings

($ in Millions, Except Per Share Amounts)

	3Q07	2Q07	3Q06	% Change 3Q07 Versus 2Q07	% Change 3Q07 Versus 3Q06
Net Revenues	12,334	10,182	7,584	21	63
Pre-Tax Earnings	4,259	3,431	2,362	24	80
Net Earnings	2,854	2,333	1,594	22	79
Diluted EPS	6.13	4.93	3.26	24	88
ROE	31.6%	26.7%	20.9%		
ROTE	36.6%	31.2%	25.2%		
Book Value Per Share	84.65	81.30	67.87	4	25

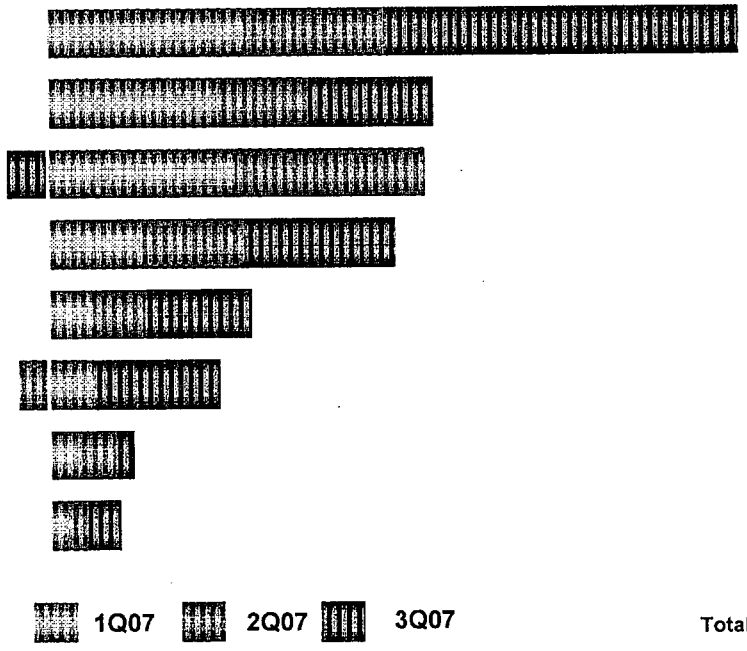
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FICC Business Unit

Q3 2007 Revenues by Business Unit (as internally reported)

- Record quarter, beating previous record set in 1Q07
- YTD 07 up 15% vs YTD 06

($ in mm)



1Q07 2Q07 3Q07

	3Q07 vs 2Q07	3Q07 vs 3Q06	YTD07 vs YTD06
	+155%	+183%	+69%
	+39%	+19%	-(28)%
	NM	NM	-(14)%
	+47%	+137%	+23%
	+106%	NM	+57%
	NM	+152%	+6%
	-(46)%	+53%	+82%
	+84%	+65%	+24%
Total Revenues	+51%	+83%	+15%

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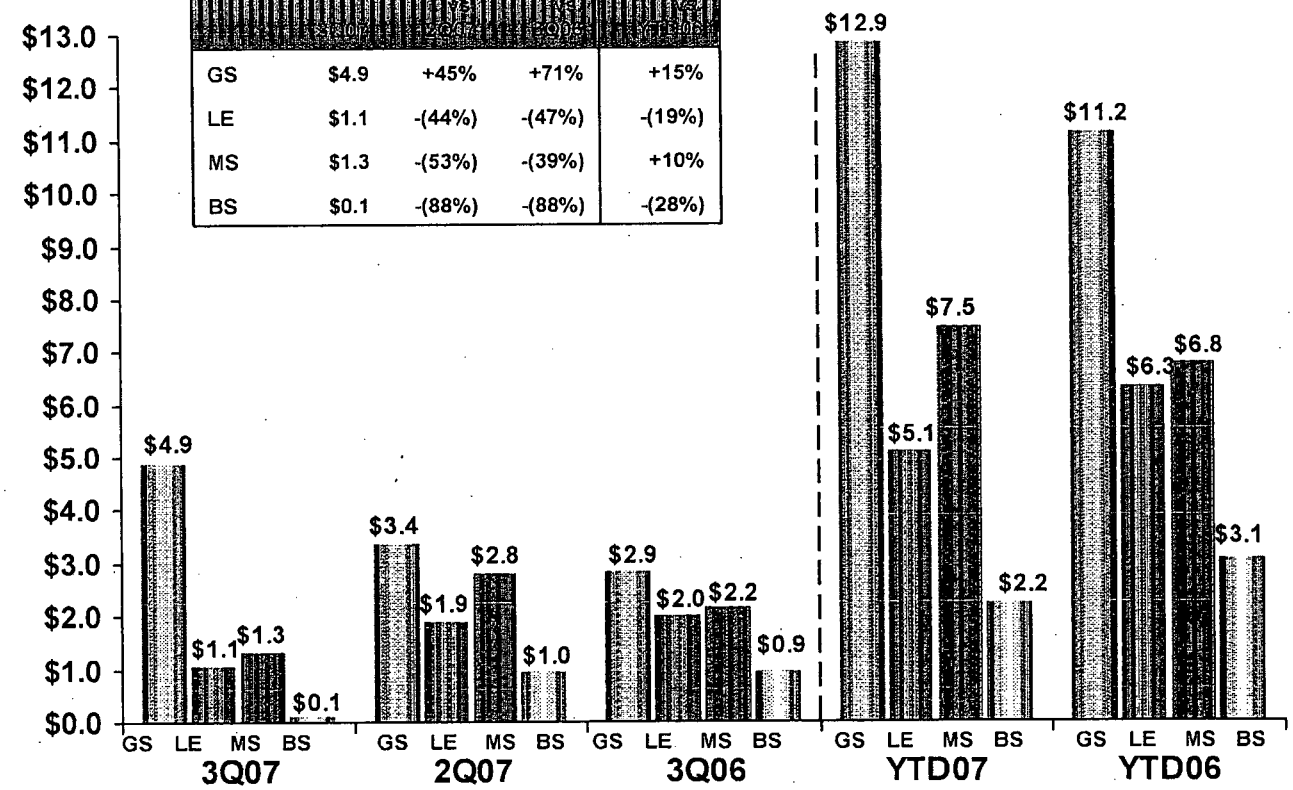
Goldman Sachs

Q3 2007 FICC Competitor Analysis

(as externally reported)

($ in bn)

	3Q07	3Q07 vs. 2Q07	3Q07 vs. 3Q06	YTD07 vs. YTD06
GS	$4.9	+45%	+71%	+15%
LE	$1.1	-(44%)	-(47%)	-(19%)
MS	$1.3	-(53%)	-(39%)	+10%
BS	$0.1	-(88%)	-(88%)	-(28%)

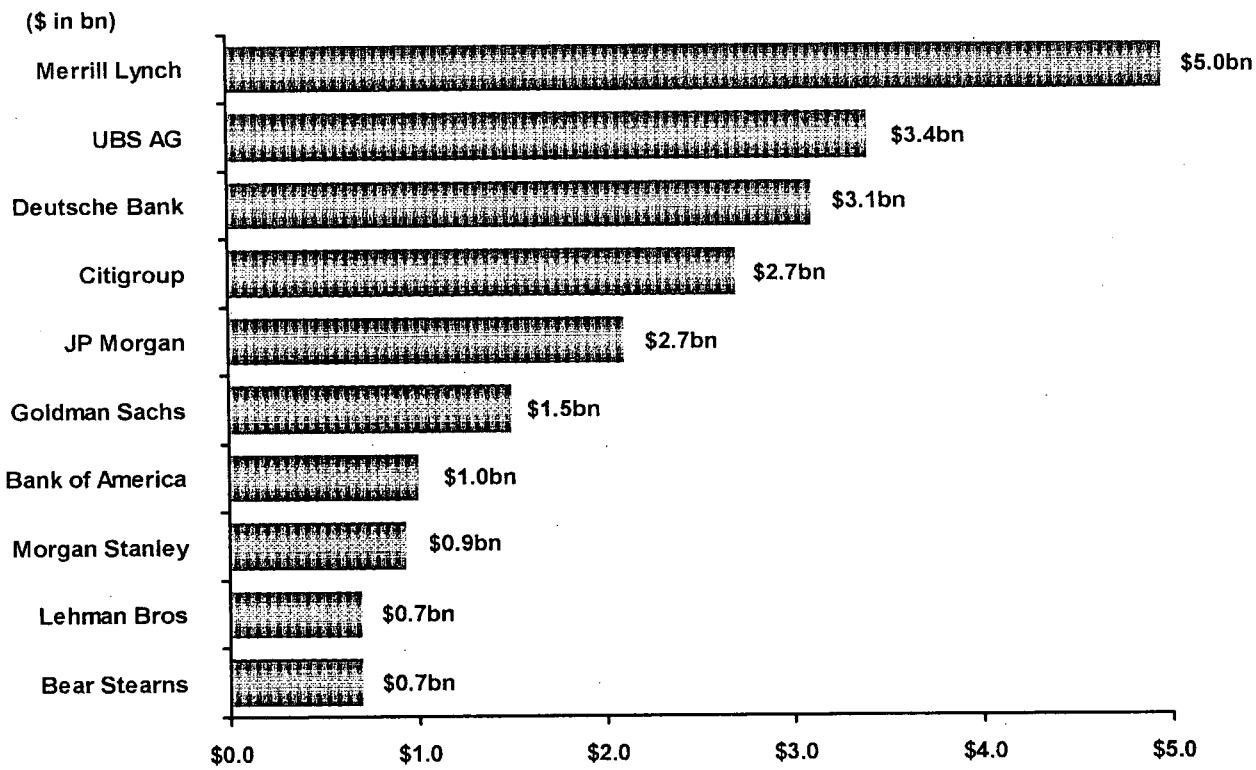


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Q3 2007 FICC Competitor Analysis

Write-downs (Net of Hedges)



Note: Reported Goldman Sachs, Morgan Stanley, Lehman Bros, Bear Steams; others based on company expectations, with the exception of JP Morgan, and Bank of America (based on study by Sanford Bernstein)

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Q3 2007 Mortgages Competitor Overview

GS Mortgages Outperformance vs. Competition

- Merrill Lynch
- UBS AG
- Deutsche Bank
- Citigroup
- JP Morgan
- Morgan Stanley
- Lehman Brothers
- Bear Stearns

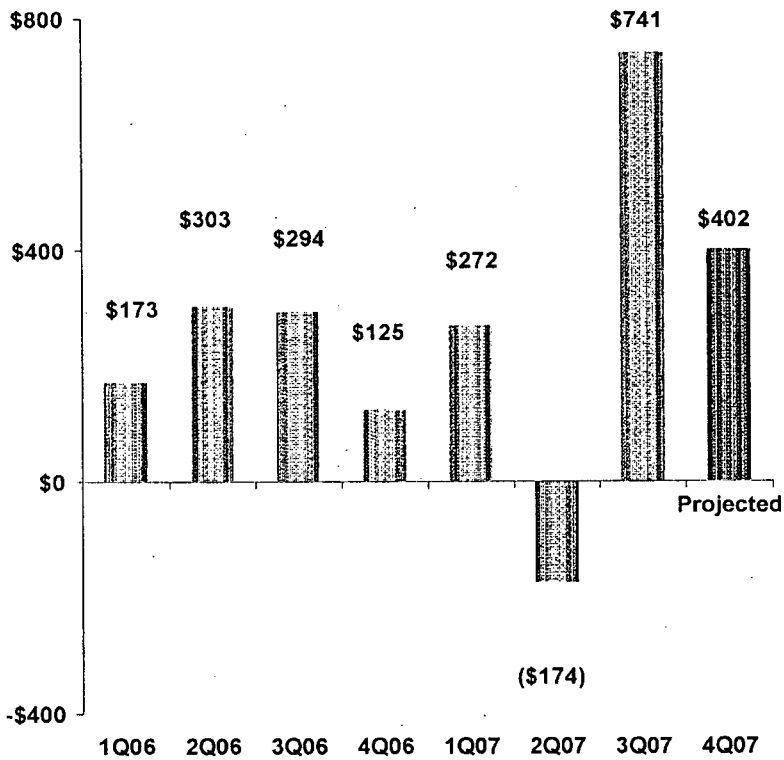
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Q3 2007 Global Mortgages Revenues

(Quarterly Performance)

($ in mm)

Quarterly Revenues



Q3 2007 Revenue Performance

Global Mortgages: ↑ 152% vs. Q3 2006

Q3 2007 Performance Drivers

SPG Trading:

- Strong results from trading long correlation and net short bias

CDO:

- Continued mark-downs of long positions

Residential Credit:

- Driven by write-downs across Sub Prime and Alt-A, partially offset by gains on short ABX positions

Residential Prime:

- Result of deterioration in deal performance and the lack of investor appetite for RMBS

[redacted]

- [redacted]

Goldman Sachs

Global Mortgages Performance

Tactical Positioning

- **The business has taken proactive steps to position the firm strategically in the ensuing mortgage credit and liquidity crisis**

Timing	Action
Q1 2007	■ Shut down residential mortgage warehouses ■ Reduced loan positions ■ Increased protection for disaster scenarios
Q2 2007	■ Shut down CDO warehouses ■ Took significant mark to market losses ■ Reduced loan purchases ■ Reduced counterparty exposure
Q2 2007 and Q3 2007	■ Positioned business tactically – Shorted synthetics – Reduced loan and security purchases – Shorted CDOs and RMBS – Increased long correlation position – Reduced long inventory
Q3 2007	■ Actively managed risk exposure to hedge funds
Q3 2007 and Q4 2007	■ Significant covering of short positions ■ Opportunistically looking to buy assets

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Looking Ahead

Global Mortgages Business Initiatives

- Litton Acquisition
- Home Price Derivatives
- Brazilian Mortgage Business
- European Residential Mortgage Business
- Synthetics & Correlation Trading
- Reverse Mortgages

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4

Goldman Sachs

Closing Remarks

Q4 2007

Finish Strong

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From: Horwitz, Russell
Sent: Tuesday, November 13, 2007 11:19 AM
To: Blankfein, Lloyd
Subject: Fw: Goldman Doesn't Plan Significant Writedown, CEO Blankfein Says

----- Original Message -----
From: Mason, Deborah
To: Horwitz, Russell
Cc: Clareman, Bart; Ohmer, Adrian
Sent: Tue Nov 13 10:58:39 2007
Subject: Goldman Doesn't Plan Significant Writedown, CEO Blankfein Says

Goldman Doesn't Plan Significant Writedown, CEO Blankfein Says
2007-11-13 10:49 (New York)

By Christine Harper

Nov. 13 (Bloomberg) -- Goldman Sachs Group Inc., the biggest U.S. securities firm by market value, doesn't plan to take any significant writedowns on mortgage-related assets, Chief Executive Officer Lloyd Blankfein said today.

Blankfein made his comment in response to a question today at a conference in New York hosted by Merrill Lynch & Co. He also said the firm is still betting that mortgage-backed securities and collateralized debt obligations will decline in value.

``As we said at the end of the third quarter, we continue to be net short in these markets,'' Blankfein said in response to a question about the firm's position. ``We said at that time we continue to be bearish on the sector.''

Goldman Sachs is on pace to post its fourth consecutive year of record profit, even as other securities firms and banks, including Merrill Lynch and Citigroup Inc., have written down more than $45 billion in mortgage-related assets this year.

Blankfein said his firm has ``a pretty good grip'' on the valuation of its so-called Level 3 assets, which are the most difficult to value. Assets that fall into the category include private equity and real estate investments, leveraged loans and mortgage-related securities.

``We're confident we have a grip on the valuation of these things,'' he said.

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Wall Street & The Financial Crisis
Report Footnote #1979

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Footnote Exhibits - Page 3881
= Redacted by the Permanent Subcommittee on Investigations

From: Horwitz, Russell
Sent: Sunday, September 23, 2007 9:42 PM
To: Blankfein, Lloyd; Winkelried, Jon; Cohn, Gary; Rogers, John F.W.
Cc: Becht, Julie; Leibowitz, Michelle; Whipple, Ellis; Jorgensen, Lissette; Won, Lina; Lipnick, Allison; Wilson, Natasha
Subject: Weekly Competitor, EM and Regulatory News -- Week Ending 9/21/07

Weekly Competitor, Regulatory and EM News - week ending Sept 21 2007

Competitors

- **LEH 3Q07:** Net Rev $4.3 bn, EQ $1.3 bn (down 19% vs 2Q07, up 64% vs 3Q06, YTD07 up 66%), 2nd best ever, strength in cash and derivatives, FICC $1.1 bn (down 44% vs 2Q07, down 47% vs 3Q06, YTD07 down 19%).
- **BSC 3Q07:** Net Rev $1.3 bn, EQ $1.1 bn (up 22% vs 2Q07, up 45% vs 3Q06, YTD07 up 15%), records in structured equity products and PB/clearing, FICC $0.1 bn (down 88% vs 2Q07, down 88% vs 3Q06, YTD07 down 28%).
- **MS 3Q07:** Net Rev $8.0 bn, EQ $1.8 bn (down 21% vs 2Q07, up 16% vs 3Q06, YTD07 up 28%), records in derivatives and PB, offset by $480M loss in quantitative strategies, FICC $1.3 bn (down 53% vs 2Q07, down 39% vs 3Q06, YTD07 up 10%).
- **Writedown Summary:**
  - **Lehman:** $700M: Loans and mortgages, net of hedges
  - **Morgan Stanley:** $940M: Loans, net of hedges, net of fees
  - **Bear:** $700M: $250M Loans, net of fees, and $450M Mortgages, net of fees and hedges
- Fitch downgraded its outlook for UBS from stable to negative, another sign that investors believe the worst of the U.S. subprime-mortgage crisis is yet to hit the bank.
- Three years after taking the top financial post at Lehman, Chris O'Meara is shifting to become the firm's global head of risk management, and will be succeeded by Erin Callan, who currently runs the firm's investment-banking practice for hedge funds.
- Deutsche Bank CEO Josef Ackerman said in a television interview that the bank will write down the value of leveraged loans and scale back hiring plans after making "mistakes" and "exaggerated commitments" during the credit boom.
- Deutsche Bank said it has opened two desks in Singapore to provide prime brokerage and financing services to hedge funds, joining Citigroup, Morgan Stanley and Merrill Lynch, which earlier this year set up their prime brokerage offices there.
- Merrill said it will cut jobs at its First Franklin Financial mortgage lending unit, although did not disclose the number. Lehman has already cut more than 2,000 positions in its mortgage-lending unit, and Bear about 240. An estimated 50,000 positions have been cut so far this year throughout the mortgage industry.
- Nomura said it would close its US futures brokerage as part of a broader restructuring of operations in the region after the heavy mortgage losses revealed this year. Nomura announced in July that it would pull out of the residential mortgage-backed securities business in the US.
- Carlyle Group is selling a 7.5% stake to the Mubadala investment arm of the Abu Dhabi government for $1.35 billion. The deal represents a 10% discount to a $20 billion valuation on the firm. Mubadala will also invest $500 million in Carlyle's latest flagship buyout fund.
- Carlyle hired David Marchick, a partner at Covington & Burling, as their first global head of regulatory affairs.

Emerging Markets / Other

- [redacted]
- [redacted]

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Report Footnote #1990

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GS MBS-E-009653853

Redacted By The Permanent Subcommittee on Investigations

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Horwitz, Russell
Sent: Sunday, October 21, 2007 1:34 PM
To: Blankfein, Lloyd; Winkelried, Jon; Cohn, Gary; Rogers, John F.W.
Cc: Becht, Julie; Jorgensen, Lissette; Whipple, Ellis; Lipnick, Allison; Wilson, Natasha
Subject: Weekly Competitor, EM & Regulatory News -- Week Ending 10/19/07

Weekly Competitor, EM and Regulatory News - week Ending October 19 2007

Competitors

- **Citi 3Q07:** Net Rev $22.7bn, EQ $1.0bn (down 35% vs 2Q07, up 19% vs 3Q06, up 37% YTD07 vs YTD06), strength in cash and derivatives and doubling of equity finance revenues, FICC $0.7bn (down 80% vs 2Q07, down 71% vs 3Q06, down 4% YTD07 vs YTD06). FICC includes $1.6bn in mortgage write-downs, net of hedges and a $636mm loss in credit trading. In addition, $900mm of loan losses, net of fees, was included in 3Q07 debt underwriting revenues (loss) of (-193mm). On Wednesday, Citi took the unusual step of publicly denying the rumor that Chuck Prince's resignation was imminent.
- **JPM 3Q07:** Net Rev $16.1bn, EQ $0.5bn (down 57% vs 2Q07, down 18% vs 3Q06, up 33% YTD07 vs YTD06), weaker trading results vs 3Q06, partially offset by strong client revenue and $150mm from CVA. FICC $0.7bn (down 72% vs 2Q07, down 72% vs 3Q06, down 14% YTD07 vs YTD06). FICC includes $1.3bn in loan write-downs, net of fees, $339mm in mortgages write-downs, net of hedges, and gains of $305mm from CVA. Very weak credit trading performance, significantly lower results in commodities and record performance in FX and rates.
- **BofA 3Q07:** FICC: loss of -$886mm, comprised of Credit loss of -885mm, Structured Products loss of -569mm, and Liquid products gain of 568mm. BofA signaled it could dramatically scale back its investment banking division after extremely poor performance in 3Q.
- **Morgan Stanley** said it is laying off about 300 bankers, traders and analysts, mainly in mortgages/other asset-backed, but also in equities trading and investment banking. The bulk of the layoffs are in the US, although about 75 are losing jobs in Europe and a handful in Asia.
- **Nomura** said Monday it expected to report a $622mm loss related to US mortgage business, in addition to a similar-sized loss accumulated over the previous two quarters – bringing its subprime-related losses to $1.25bn. Nomura confirmed its plans to withdraw from the US RMBS market and cut US headcount from about 1,300 at end of March to 900 people as part of a broad restructuring. Nomura said the subprime hit would wipe out 2Q profits (ending Sept), dragging it to a pre-tax loss of between ($340mm) and ($510mm) for the quarter.
- Citigroup said it has secured funding through year end for the $80bn in SIVs it manages after selling $20 billion in assets since the midsummer credit crunch.
- [redacted]
- [redacted]
- Morgan Stanley's Saxon Mortgage Services will buy rights to service home loans for $175 million from NovaStar Financial Inc., the subprime lender trying to survive a cash shortage.
- [redacted]

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1990

GS MBS-E-009631348

Redacted By The Permanent Subcommittee on Investigations

From: Birnbaum, Josh
Sent: Friday, July 20, 2007 3:10 PM
To: [redacted]
Subject: RE: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

That would have rocked for both of us

-----Original Message-----
From: [redacted]
Sent: Friday, July 20, 2007 3:08 PM
To: Birnbaum, Josh
Subject: RE: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

You should have moved to [redacted] and taken [redacted] of my promote on a few billsky

-----Original Message-----
From: Birnbaum, Josh [mailto:josh.birnbaum@gs.com]
Sent: Friday, July 20, 2007 3:08 PM
To: Daniel Loeb
Subject: RE: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

I'm a wuss too. I have a huge short, but I should have done it on the buy side.

-----Original Message-----
From: [redacted]
Sent: Friday, July 20, 2007 3:06 PM
To: Birnbaum, Josh
Subject: RE: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

Glad I had a taste of it...i am a [redacted] for not focusing.

-----Original Message-----
From: Birnbaum, Josh [mailto:josh.birnbaum@gs.com]
Sent: Friday, July 20, 2007 3:05 PM
To: [redacted]
Subject: RE: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

greatest trade ever

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: [redacted]
Sent: Friday, July 20, 2007 3:02 PM
To: Birnbaum, Josh
Subject: RE: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

That's my boy, Joshua...way to tend to my markets.

-----Original Message-----
From: Birnbaum, Josh [mailto:josh.birnbaum@gs.com]
Sent: Friday, July 20, 2007 3:01 PM
Subject: * ABX Markets 07-2, 07-1, 06-2, 06-1: 3:00pm

ABX.HE.07-2

	Cpn	Price	Ch	Spread	Ch	Size	SpDur
AAA	76	97-00 / 100-00	-0-26+	136 / 76	+16.5	25x 25	5.02
AA	192	94-16 / 97-16	-1-00	334 / 256	+25.8	25x 25	3.88
A	369	77-16 / 81-16	-2-141	989 / 879	+67.2	25x 25	

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Wall Street & The Financial Crisis
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3.63								
BBB	500	53-00 /	57-00	-1-19+	1854 / 1739	+46.4	10x	10
3.47								
BBB-	500	45-00 /	49-00	-3-10+	2099 / 1983	+96.8	10x	10
3.44								

ABX.HE.07-1

	Cpn	Price		Ch	Spread	Ch	Size	
SpDur								
AAA	9	94-16 /	96-16	-0-301	126 / 84	+20.0	50x	50
4.69								
AA	15	87-16 /	90-16	-1-301	376 / 290	+56.1	25x	25
3.46								
A	64	67-00 /	69-00	-2-13+	1070 / 1009	+73.8	25x	25
3.28								
BBB	224	44-16 /	46-16	-2-17	1969 / 1906	+79.6	10x	10
3.18								
BBB-	389	41-16 /	43-16	-2-11+	2276 / 2212	+76.1	10x	10
3.1								

ABX.HE.06-2

	Cpn	Price		Ch	Spread	Ch	Size	
SpDur								
AAA	11	96-00 /	98-00	-0-252	102 / 56	+17.9	50x	50
4.41								
AA	17	90-24 /	93-24	-1-056	325 / 225	+39.3	25x	25
3								
A	44	74-16 /	76-16	-1-296	920 / 852	+66.3	25x	25
2.91								
BBB	133	53-00 /	55-00	-2-09	1824 / 1752	+82.0	10x	10
2.78								
BBB-	242	46-16 /	48-16	-2-16	2216 / 2142	+92.3	10x	10
2.71								

ABX.HE.06-1

	Cpn	Price		Ch	Spread	Ch	Size	
SpDur								
AAA	18	98-00 /	100-00	-0-073	70 / 18	+5.9	50x	50
3.87								
AA	32	96-00 /	99-00	-0-11+	182 / 69	+13.5	25x	25
2.67								
A	54	87-08 /	89-08	-0-23	566 / 486	+28.9	25x	25
2.49								
BBB	154	77-00 /	79-00	-1-245	1124 / 1040	+74.7	10x	10
2.37								
BBB-	267	68-08 /	70-08	-1-243	1624 / 1538	+75.2	10x	10
2.34								

**Spreads computed from prices using a weighted average spread duration (generated at the base Bloomberg speed) for all 20 reference obligations in the index.

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MEMORANDUM

Goldman Sachs

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To:

Chris Cole
Michael Sherwood
Andy Chisholm
Alex Dibelius
Ed Forst
Richard Gnodde
Jon Sobel
Ken Wilson
Yoel Zaoui
David Solomon
Craig Broderick
Mike Esposito
John Rafter
Michael Daffey
Stefan Green
Matthew Westerman
Yusuf Aliredha
Chris Barter
Philip Holzer
Todd Leland

Cc:

Christoph Stanger
Luigi Rizzo
Peter Kimpel
Bernhard Herdes
Christoph Hansmeyer
Tilo Dresig

From:

IBD Financing
Raphael Heynold
Michael Poppel
Jörg Pietzner

FICC Sales
Christoph Gugelmann
Peter Biendarra

Credit
Philip Kahre
Martin Ettl

Date: 10 August 2007

Re: Summary of German Bank US Sub Prime Exposure

In light of recent events relating to Deutsche Industriebank AG ("IKB") and press reports on German banks' exposure to the US sub prime mortgage market, we wanted to provide Goldman Sachs' European and Financial Institutions Management with our understanding of the current situation, related financial and reputational risks as well as potential business opportunities.

Please note that it is very difficult to get a full picture of the issues and exposures at this point as information is not fully available. Our assessment is hence based on conversations with clients, public releases as well as internal discussions. It is not meant to be a complete assessment of all the issues or a recommendation to Management.

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I. Our Assessment of German Bank US Subprime Exposures

None of the German Banks have been direct lenders in the US subprime Real Estate market. Any exposure which they may have, will be the result of either:

1. On-balance sheet investments in asset-backed securities ("ABS") or CDOs of ABS ("CDOs")

2. Investments in ABS and/or CDOs through off-balance sheet investment vehicles including sponsored conduits and structured investment vehicles ("SIVs")

3. Liquidity lines provided by the German banks to third party investment vehicles

A number of German banks have been significant investors in ABS and CDOs over the past years. These investments have either happened on the bank's own balance sheets or trough off-balance sheet investment vehicles.

The investment vehicles have been either set-up as conduits or as SIVs and have reached significant sizes (see table below as well as Appendix). It is our understanding that only few of the investment vehicles are being consolidated on the banks' balance sheets, [redacted]

We have outlined below our assessment of the scale of ABS (mortgage) and CDO exposures of the major banks as well as the size of their conduits and liquidity lines. The assessment of their on-balance sheet exposures is principally based on publicly available information as well as discussions with our global FICC sales force.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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II. Overview of German Banks' Exposure to US Subprime

		Structured Credit Investments (€bn)				
Bank	On B/S[3]	Conduits	Vol[1]	Top Two Liquidity Providers	SIVs	Vol[2]	Comments on Subprime Exposure
[redacted]	○						
[redacted]	○						
		Aspen Funding Corp	2,897	Deutsche ($3.7bn)			
		Bilis Securitisation Ltd	68	Deutsche ($1.9bn)			
		Gemini Securitization Corp LLC	10,782	Deutsche ($19.4bn)			
Deutsche Bank	✓	Newport Funding Corp	3,400	Deutsche ($3.7bn)			According to press reports, Deutsche did not comment on their subprime exposures, but said since the first signs of an overheated market in 2002 they had "strongly reduced" their exposure to subprime.
		Rheingold Securitisation Ltd	6,818	Deutsche ($49.7bn)			
		Rhein-Main Securitisation Ltd	7,765	Deutsche ($17.5bn)			
		Sub Total	*31,731*				
[redacted]	✓						
[redacted]	○						
[redacted]	○						
[redacted]	○						
HVB	○						
IKB	✓	Rhineland Funding Capital Corp	17,923	KfW ($11.6bn), private banks ($8.8bn)	Rhinebridge plc	2,400	Was bailed out by KfW and bank consortium, which took over liquidity lines and provided guarantee fund.
[redacted]	○						
[redacted]	○						
[redacted]	○						
[redacted]	○						
[redacted]	✓						

Source: Annual reports, press reports.

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III. Our Understanding of the Issues

- Heavy Mark-to-Market losses on assets on-balance sheet (including junior notes serving as credit enhancement to conduits) have potentially lead to impairment treatment of the assets, requiring banks to mark them at current low levels even when currently treated as held-to-maturity, leading to substantial losses in the next income statements if the situation persists
- ABCP markets have dried out, leaving Asset Backed Conduits without funding on CP redemption dates such that the liquidity providers have to step in, effectively bringing the assets in the conduit onto the liquidity provider's balance sheet
  - As this transfer happens at par, this may, depending on accounting treatment, result in an immediate Mark-to-Market loss
  - The increase in Total RWAs on the balance sheet of the liquidity provider might stress their capital ratios further
  - As liquidity is currently very tough to get (so bad that the ECB had to provide extra liquidity in open market operations – €94bn on 9 August, €61bn on 10 August – while the Fed gave $69bn liquidity this week, up from average weekly levels of $50bn), the drawdown of a liquidity line might also create a liquidity issue
  - Irrespective of short-term accounting/consolidation changes, we believe that auditors will review all conduits/SIVs closely at year end and may change their consolidation opinion

IV. Goldman Sachs' Exposures to these Institutions

- **Direct exposures:**

Counterparty	T1 Equity (€ mm)	CCE ($ mm)	Max. CPE < 6 mths	Max. CPE > 6 mths	Comments
[redacted]					
IKB	2,106	7	10	4	GS calling for 5mm collateral
[redacted]					

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Indirect exposures:

— Reputational issues as a result of having placed some assets with those banks as well as conservative bids on ABCP

— We understand from clients that valuation marks provided by Goldman Sachs on ABS are substantially lower than the competition's valuations. As a result, clients are irritated by the valuation difference

V. Potential Business Opportunities

- Providing asset and risk analysis
- Potentially source cheap ABS assets or engage in ABS block trades, but possibly also source assets trading close to par to reduce overall size of assets/liquidity exposure for the banks; ABS assets could be bought by Goldman Sachs trading desks or GSAM Liquidity Partners III
- Offering alternatives to liquidity for banks, might be especially attractive for state backed situations like IKB or West LB (grandfathering of conduit)
- Recapitalizations through capital raising or relief
- Potentially provide M&A and/or restructuring advice to distressed banks

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From: Lehman, David A.
Sent: Tuesday, November 27, 2007 8:12 AM
To: Sparks, Daniel L
Cc: Williams, Geoffrey; Gerst, David
Subject: FW: ACA

From: Tourre, Fabrice
Sent: Monday, November 26, 2007 4:43 PM
To: Sparks, Daniel L
Cc: Williams, Geoffrey; Gerst, David; Lehman, David A.; Egol, Jonathan
Subject: ACA

Dan, as mentioned to Geoff and David, our desk (and to my knowledge, the corporate credit derivatives businesses) have never executed any derivatives trades with ACA. We have $2.3mm notional of net exposure on ACA CDS, and we have been discussing with Paul Huchro (the CDS trader for financials) and GS legal what would happen upon an ACA bankruptcy (which is the most likely scenario in our opinion). David Gerst or I can give you more color live on the credit, and next steps given our CDS exposure. Bigger issue in my view is the fact that our counterparties for all the supersenior trades we have indirectly executed with ACA (those counterparties are CIBC and ABN Amro) are most likely going to come back to us to ask us for MTM on the trades they are intermediating - some of these trades have been outright short trades for us, and some of them have been crosses for Paulson.

Goldman Sachs International
Peterborough Court | 133 Fleet Street | London EC4A 2BB
Tel: +44-20-7051-6588 | Fax: +1-212-493-0106 | Cell: +1-917-[redacted]
Email: fabrice.tourre@gs.com

Goldman Sachs

Fabrice Tourre
Structured Products Trading

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From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 7:17 PM
To: Montag, Tom
Subject: RE: Subprime volatility

Not giving me a hard time at all - this activity is the first time mortgage business has had stress years, and the stress is real.

GSC CDO was a high grade ($1.5 Billion AAA/AA/A structured products RMBS/ABS/CMBS/CDO) - full capital structure distribution, but we had a few unsold positions - $31mm AA'ss, $49mm A's, $21mm BBB's, $5mm equity. Not uncommon, and we take reserves against these and keep marketing. Senior debt went to [redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Montag, Tom
Sent: Thursday, December 07, 2006 7:09 PM
To: Sparks, Daniel L
Subject: RE: Subprime volatility

just trying to learn not give you a hard time--what is the GSC CDO--underlyer--full cap structure? who bought, manager etc

From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 7:08 PM
To: Montag, Tom
Subject: RE: Subprime volatility

Priced GSC CDO - $7mm in profit
Sold Alt A resid that we had marked at $1mm for $5mm (I can explain live)

From: Montag, Tom
Sent: Thursday, December 07, 2006 7:02 PM
To: Sparks, Daniel L
Subject: RE: Subprime volatility

yes but what were the deals--specifics please

thanks

From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 6:55 PM
To: Montag, Tom
Cc: Ruzika, Richard
Subject: RE: Subprime volatility

CDO and Alt A deals were new issues that we priced today (normal regular business)

Other risk areas with some relation to subprime loans are:
the loan book where we but loans, securitize and sell them
the residual book where we retain some equity positions from securitizations we do
the loan warehouse (detailed below)

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Wall Street & The Financial Crisis
Report Footnote #2009

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our CDO warehouse (ramp up for deals)

Likely fall-out - more originators close and spreads in related sectors widen (have been one-way tightening for a while)

From: Montag, Tom
Sent: Thursday, December 07, 2006 6:46 PM
To: Sparks, Daniel L
Cc: Ruzika, Richard
Subject: RE: Subprime volatility

do we have any securitized deals we have been working on over the last month since we closed last one? are we close?
do we have other positions that "hedge" this risk at all?
is the rest of desk correlated to this risk as well?
what were the CDO and Alt A deals?

From: Sparks, Daniel L
Sent: Thursday, December 07, 2006 6:07 PM
To: Montag, Tom; Ruzika, Richard; Viniar, David; McMahon, Bill
Cc: Cohn, Gary (EO 85B30)
Subject: Subprime volatility

Activity in ABX today started out muted, drifting a bit wider until mid-afternoon when rumors went around the market about an originator failure - MLN. Market widened, then tightened as MLN's CFO called each dealer and described situation (not closing). It felt like there was some spill over to swap spreads.

ABX/CDS position ended down around $9mm on the day; Mortgage Department should be net flat from CDO and Alt A deals.

On ABX position, no size reduction today but a few large accounts looking to buy outright and in levered form, and today was spent getting them information they needed. The large short (Paulsen) seems like they plan to keep selling the index over time.

On our mortgage loan warehouse, we have $185mm loan to MLN collateralized by mortgages and we are making a margin call to them based on our new loan mark from the updated loan information they sent us today to true up our margin cushion - right now the cushion is 0 based on new loan info, the margin call will be for around $5mm. MLN's problem is that they rolled out a new Alt A product, messed up the pricing, and did not figure it out for a week - costing them probably $15mm.

Generally, originators are struggling with EPDs (early payment defaults) which require them to buy back loans and take losses - thinly capitalized firms can't take much of it. Lower margins and volumes are also causing pain. Ownit ([redacted]) closed Monday. Premiums for these originators - all of whom are for sale - are rapidly falling.

Our other funded warehouse lines are $287mm funded to Accredited ($600mm mkt cap), $126MM TO New Century ($2BB mkt cap), $80mm to LownHome (GS equity investor in start-up/good info/on Board) and $40mm to Senderra (GS equity investor in start-up/good info/on Board).

I'm around 2-2914.

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Goldman Sachs

Date: December 13th, 2006

To: Firmwide Risk Committee

Re: December 13th FRC Minutes

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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The December 13th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Lloyd Blankfein, Tom Montag, Craig Broderick, [redacted], [redacted], and [redacted].

Divisional Reports

-



Dan Sparks

- Noted the stress in the subprime market.
- Concern around '06 subprime originators as two more failed last week.
- Concern around early payment defaults, $5BN in loans to subprime borrowers, warehouse lines to 6 subprime lenders, and $16MM in '06 residual positions and alt-a and subprime residual positions from '04-05.
- Street aggressively putting back early payment defaults to originators thereby affecting the originator's business. Rumors around more failures are in the market.
- All margin calls made by the 6 subprime lenders. Business more concerned with early default payments than warehouse lenders.

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From: Sparks, Daniel L
Sent: Wednesday, February 14, 2007 6:33 AM
To: Sparks, Daniel L
Subject: Risk

Over var due to massive spike in subprime volatility and we are working with bruce on that.
Over limit on cre loan scenario list but will correct next week with large securitization pricing.
Over limit on cdo risk but that will adjust as moving positions to desks.

Bad week in subprime

collateral performance on loans was poor - we took a write-down on second lien deals and on the scratch and dent book last week

News was bad - hsbc and new century announcements

Synthetics markets got hammered - around 150 wider

Trading desk had sold significant risk in the form of index, tranced index, and single names - so it has gotten on the short side.

Lag on the pricing of single name synthetics vs the index, and transparency is difficult with the volatility.

Trading desk feels like it is been very conservative in the mark and has significant work to do in getting transparency, working with controllers for upcoming quarter end, and covering the single names.

Loan books are hedged with abx so spread protection there.

Residuals have abx also, but that is much more monthly performance issue.

Loan preformance will play out for a long time.

Originators are really in a bad spot. Thinly capitalized, highly levered, dealing with significant loan put-backs, some with retained credit risk positions, now having trouble selling loans above par when it cost them 2 points to produce.

Will have to, and are, really tighten credit standards which will cut volume significantly.

Warehouse lines we have to originators - we are aggressively marking there positions which have resulted in 3 things:
Margin calls - which they have made
Clients moving loans to other dealers' lines Relationship damage

What is the next area of contagion.

Cdo's - which have been the buyer of most single name mezz subprime risk for the past year.
We significantly reduced our deal ramp up starting 2 months ago, but we do have warehouse risk and are doing 4 things:
Finding warehouse risk partners
Combining business with secondary trading desk so all risk housed and managed by traders
Buying protection on cdo's Executing deals

Portions of the alt a market - spending time on it.

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[redacted]

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From: Sparks, Daniel L
Sent: Monday, February 26, 2007 8:32 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Roughly 2 bb, and they are the deals to worry about. Focus is super- senior, which if we get done will make them work

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:43:29 2007
Subject: RE: Questions you had asked

cdo squared--how big and how dangerous

-----Original Message-----
From: Sparks, Daniel L
Sent: Monday, February 26, 2007 7:37 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Roughly 2 bb high grade deals and 2 bb cdo's squared

In client meeting in greenwich and can give more details in hour and half

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:31:49 2007
Subject: Re: Questions you had asked

So what is total of cdo warehouse after liquidation by sector

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Mon Feb 26 06:47:43 2007
Subject: Re: Questions you had asked

Still subprime, but only outright bbb subprime is in gsc deal we may liquidate. Other subprime in form of a, aa, aaa subprime and in form of a-rated cdo's (greywolf and dillon read).

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Sun Feb 25 22:49:48 2007
Subject: Re: Questions you had asked

Thanks. So no warehouse in subprime? What about greywolf-what is in that

----- Original Message -----
From: Sparks, Daniel L

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2015

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To: Montag, Tom
Cc: Ruzika, Richard
Sent: Sun Feb 25 20:34:19 2007
Subject: Questions you had asked

Last week the trading desks did the following:

(1) Cover around $1.5 billion single name subprime BBB- CDS and around $700mm single name subprime BBB CDS. The desk also net sold over $400mm BBB- ABX index. Desk is net short, but less than before. Shorts are in senior tranches of indexes sold and in single names. Plan is to continue to trade from short side, cover more single names and sell BBB- index outright.

(2) The CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). Business also began liquidation of $820mm [redacted] - all synthetics done, cash bonds will be sold in next few days. One more CDO warehouse may be liquidated this week - approximately $300mm with GSC as manager. That will leave us with 2 large CDOs of A-rated CDOs, 2 high grade deals with limited subprime mezz risk, and 2 other small warehouses that are on hold. Getting super-senior done on CDOs is the critical path, and that is where the focus is - for the CDOs of CDOs, NATIXIS (Paris) on Dillion Reed deal and Wincap (London) on Greywolf deal.

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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From: Sparks, Daniel L
Sent: Wednesday, March 07, 2007 7:21 AM
To: Sparks, Daniel L
Subject: Risk Comm

[redacted]

Alt A and mortgage CDOs widened

ABX over the week tightened 300 bps on light volume

After the close Friday 3 large subprime companies made announcements that really has accelerated the meltdown
Fremont, Accredited, New Century
Pretty much game over in subprime

Liquidations are beginning

The street is very exposed - put-back exposure, warehouse lines, servicing agreements, loans on books, CDO ramps

It is going to be very ugly for the street for a lond time

Not just mark-to-market, as many things aren't marked or are is dfficult to mark forms

Also in going forward business - the subprime revenue machine is over

There will be distressed opportunities and trading opportunities

We are trying to close down exposures, doing from the short side

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Wall Street & The Financial Crisis
Report Footnote #2017

From: Egol, Jonathan
Sent: Tuesday, January 30, 2007 12:15 AM
To: Tourre, Fabrice
Subject: Re: Finally got some time to look at P&L

LDL tomorrow

----- Original Message -----
From: Tourre, Fabrice
To: Egol, Jonathan
Sent: Mon Jan 29 23:03:39 2007
Subject: Re: Finally got some time to look at P&L

"The market is dead" ??? Ouahhh, what do you mean by that ? Do you have any insight I don't ?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Mon Jan 29 22:58:14 2007
Subject: Re: Finally got some time to look at P&L

I have been supportive of taking down the BBB long for some time. The mkt is dead.

----- Original Message -----
From: Tourre, Fabrice
To: ficc-mtgcorr-desk
Sent: Mon Jan 29 20:56:45 2007
Subject: FW: Finally got some time to look at P&L

Fyi, Jordan and Peng spent sometime looking at the variance. I think this makes sense.

Jordan, I am concerned about the basis risk in our single name book, can you look, for that day, at the 50 names that moved the most on Friday, and for these 50 names, let me know what hedge we have on (i.e. the exact ABACUS trade in the 95903 book, as well as its DV01 in 95902 and 95903 separately) that was the P&L incurred in the combined 95902/95903 books and related to these names ?

We are long outright approx $250mm of ABX.HE.BBB.06-2, currently trading at 92-20/93-20 (369/337). Do we like the risk there ? ABACUS 04-2 will help us reduce this exposure: we are short the 5-27% tranche ($220mm notional), we might want to use all our allowed substitutions (10% p.a. + reinvestments, so a combined $150mm I guestimate) to reinvest into that index. In theory we could use the small triple-B bucket we have available in ABACUS 05-2, but we have to think about the >95 price constraint a little bit… The alternative is for us to switch the CDO bucket in ABACUS 04-2, but in that case we should think about selling this ABX position if we don't like it at this price -- I am a seller there, we should take our loss and move on.

From: Yu, Peng
Sent: Monday, January 29, 2007 7:12 PM
To: Yu, Peng; Tourre, Fabrice; Kaufman, Jordan

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Confidential Treatment Requested by Goldma

Subject: RE: Finally got some time to look at P&L

BTW, nothing really new here. It was just as what we expected.

From: Yu, Peng
Sent: Monday, January 29, 2007 7:09 PM
To: Tourre, Fabrice; Kaufman, Jordan
Subject: Finally got some time to look at P&L

Here's the breakdown of spread DV01 by sector, rating and security type

	Mtg95903	Mtg95902 (Single Name)	Mtg95902 (Index)
Subprime BBB	171,533	-152,437	-105,284
Subprime BBB-	134,653	-141,734	-2,618

So in theory, 95903 and 95902 single names are almost perfectly hedged against parallell spread moves. But in reality, spreads were not changed in parallel on Friday, which resulted in a -1.3 mm for combined 95903 and 95902 (single name). This is mostly concentrated in the BBB- space. I took a brief look, some spreads blew out by 20, and some can jump by almost 100!

Now the BBB index exposure of 95902 is also a naked position. Assuming index moved by 20 bps in parallel, the P&L should be around 2 mm. IN reality, since spread didn't move in parallel, P&L was - 2.4 mm.

So the total for 95903 and 95902 was about - 4 mm. There're two take-away points here:

* Index position in 95902 is not hedged against 95903
* Non-parallel moves in spreads can cause P&L not easily reproducible by just looking at aggregated DV01s

Let me know if anything doesn't make sense here

Confidential Treatment Requested by Goldman Sachs

From: Egol, Jonathan
Sent: Monday, January 29, 2007 11:00 PM
To: Egol, Jonathan; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: Re: Finally got some time to look at P&L

This is not my personal opinion -- just a synopsis of the views of the customers we have seen today.

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Mon Jan 29 22:58:14 2007
Subject: Re: Finally got some time to look at P&L

I have been supportive of taking down the BBB long for some time. The mkt is dead.

----- Original Message -----
From: Tourre, Fabrice
To: ficc-mtgcorr-desk
Sent: Mon Jan 29 20:56:45 2007
Subject: FW: Finally got some time to look at P&L

Fyi, Jordan and Peng spent sometime looking at the variance. I think this makes sense.

Jordan, I am concerned about the basis risk in our single name book, can you look, for that day, at the 50 names that moved the most on Friday, and for these 50 names, let me know what hedge we have on (i.e. the exact ABACUS trade in the 95903 book, as well as its DV01 in 95902 and 95903 separately) that was the P&L incurred in the combined 95902/95903 books and related to these names ?

We are long outright approx $250mm of ABX.HE.BBB.06-2, currently trading at 92-20/93-20 (369/337). Do we like the risk there ? ABACUS 04-2 will help us reduce this exposure: we are short the 5-27% tranche ($220mm notional), we might want to use all our allowed substitutions (10% p.a. + reinvestments, so a combined $150mm I guestimate) to reinvest into that index. In theory we could use the small triple-B bucket we have available in ABACUS 05-2, but we have to think about the >95 price constraint a little bit… The alternative is for us to switch the CDO bucket in ABACUS 04-2, but in that case we should think about selling this ABX position if we don't like it at this price -- I am a seller there, we should take our loss and move on.

From: Yu, Peng
Sent: Monday, January 29, 2007 7:12 PM
To: Yu, Peng; Tourre, Fabrice; Kaufman, Jordan
Subject: RE: Finally got some time to look at P&L

BTW, nothing really new here. It was just as what we expected.

From: Yu, Peng
Sent: Monday, January 29, 2007 7:09 PM
To: Tourre, Fabrice; Kaufman, Jordan
Subject: Finally got some time to look at P&L

Here's the breakdown of spread DV01 by sector, rating and security type

	Mtg95903	Mtg95902 (Single Name)	Mtg95902 (Index)
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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2019

Confidential Treatment Requested by Go

So in theory, 95903 and 95902 single names are almost perfectly hedged against parallell spread moves. But in reality, spreads were not changed in parallel on Friday, which resulted in a -1.3 mm for combined 95903 and 95902 (single name). This is mostly concentrated in the BBB- space. I took a brief look, some spreads blew out by 20, and some can jump by almost 100!

Now the BBB index exposure of 95902 is also a naked position. Assuming index moved by 20 bps in parallel, the P&L should be around 2 mm. IN reality, since spread didn't move in parallel, P&L was - 2.4 mm.

So the total for 95903 and 95902 was about - 4 mm. There're two take-away points here:

* Index position in 95902 is not hedged against 95903
* Non-parallel moves in spreads can cause P&L not easily reproducible by just looking at aggregated DV01s

Let me know if anything doesn't make sense here

Confidential Treatment Requested by Goldman Sachs

From: Egol, Jonathan
Sent: Sunday, February 11, 2007 7:47 PM
To: Tourre, Fabrice
Subject: Re: Index Tranche Pricing Study - 08Feb07.xls

I actually heard from a customer they are blowing up on the resi side.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Tourre, Fabrice
To: Egol, Jonathan
Sent: Sun Feb 11 18:57:55 2007
Subject: RE: Index Tranche Pricing Study - 08Feb07.xls

I have color from [redacted]. I am actually very impressed with these guys, how diligently they have been operating this business, little to no retained positions, no CDO^2 in the pipeline, they are definitely on the smart side. And they are still placing mezz deals.

-----Original Message-----
From: Egol, Jonathan
Sent: Sunday, February 11, 2007 6:56 PM
To: Tourre, Fabrice
Subject: Re: Index Tranche Pricing Study - 08Feb07.xls

You know I love it all I'm saying is the cdo biz is dead we don't have a lot of time left

----- Original Message -----
From: Tourre, Fabrice
To: Egol, Jonathan
Sent: Sun Feb 11 18:55:10 2007
Subject: RE: Index Tranche Pricing Study - 08Feb07.xls

Don't think the Paulson trade is dead. Supersenior pretty much done with ACA, AAAs could be placed in 2 shots, this is sufficient. Remember we make $$$ per tranche placed...

-----Original Message-----
From: Egol, Jonathan
Sent: Sunday, February 11, 2007 6:54 PM
To: Tourre, Fabrice
Subject: Re: Index Tranche Pricing Study - 08Feb07.xls

Sure. As long as you realize the paulson trade may also already be dead (although given it is baa2 it may still have a decent shot).

----- Original Message -----
From: Tourre, Fabrice
To: Egol, Jonathan
Sent: Sun Feb 11 18:52:47 2007
Subject: RE: Index Tranche Pricing Study - 08Feb07.xls

I hear you. I agree on the single-As. Only concern is that we should push bespoke trades from every angle before showing transparent markets. I think we should show the single-A bespoke to IKB.

-----Original Message-----
From: Egol, Jonathan
Sent: Sunday, February 11, 2007 6:51 PM
To: Tourre, Fabrice
Subject: Re: Index Tranche Pricing Study - 08Feb07.xls

I absolutely agree. That is why I suggested we start shifting focus to single-As. This

product is already dead.

----- Original Message -----
From: Tourre, Fabrice
To: Egol, Jonathan
Sent: Sun Feb 11 18:48:40 2007
Subject: RE: Index Tranche Pricing Study - 08Feb07.xls

By the way I am not sure why we are spending some much strat time on something that will have NO flow. No street firm committed on this, and with the underlying market trading at distressed levels I doubt that customers will want to participate...

-----Original Message-----
From: Egol, Jonathan
Sent: Sunday, February 11, 2007 6:48 PM
To: Williams, Geoffrey; ficc-mtgcorr-desk; Birnbaum, Josh; Kamilla, Rajiv
Cc: Kao, Kevin J.; Yu, Peng
Subject: Re: Index Tranche Pricing Study - 08Feb07.xls

If the index gets to 75 the 15-25 will look less sensitive as well. :-)

----- Original Message -----
From: Williams, Geoffrey
To: ficc-mtgcorr-desk; Birnbaum, Josh; Kamilla, Rajiv
Cc: Kao, Kevin J.; Yu, Peng
Sent: Sun Feb 11 15:49:57 2007
Subject: FW: Index Tranche Pricing Study - 08Feb07.xls

In an effort to better understand how speeds / stepdown / etc should affect the market, Kevin and Peng ran the Baa3 pricing I put together Wed night through the model with each of the following toggles:

Speeds -- 80, 100 and 120 PPC
Step-down -- yes and no
Survival Curve Safe Period -- 0, 1, 2 and 3 years

Base correlations were calibrated for each iteration and a calculation of the "arb" versus the index was made.

<<Pricing Output from Strats.xls>>

Takeaways:
-- According to the model, step-down and speeds (to a lesser extent) have a significant effect on the tranche/index basis. For example, in the baseline 100 PPC w/ stepdown case, the basis is worth 1.75% versus 2.50% in the 80 PPC w/ stepdown case or 6.5% in the in the 80 PPC w/out stepdown case. Keeping an eye on stepdown likelihood will be important when evaluating the tranche/index basis although my guess is that most will overlook this initially.
-- When looking at base correlations, step-down and speeds have little to no effect on the lower attachment points but have significant impact on the 15%+ attachments. Conversely, the Survival Curve Safe Period (which takes into account the lack of jump risk) has a significant impact on the lowest attachment points (5% base correlation is 10% for a 3y lockout versus 40% for no lockout).

Thoughts / comments welcome.

From: Kao, Kevin J.
Sent: Friday, February 09, 2007 5:46 PM
To: Williams, Geoffrey
Cc: Yu, Peng
Subject: Index Tranche Pricing Study - 08Feb07.xls

There was one bad run (80 PPC with stepdown and 0 lockout).

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Here's the updated one (with two graphs).

Please use this one instead.

<<Index Tranche Pricing Study - 08Feb07.xls>>

Confidential Treatment Requested by Goldman Sachs

From: Tourre, Fabrice
Sent: Tuesday, February 20, 2007 12:10 PM
To: Egol, Jonathan
Subject: Re:

LDL

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice
Sent: Tue Feb 20 12:09:14 2007
Subject: RE:

who

-----Original Message-----
From: Tourre, Fabrice
Sent: Tuesday, February 20, 2007 12:09 PM
To: Egol, Jonathan
Subject:

By the way, quote from an ABS correlation trader (non-GS): "the mezz ABS CDO business is dead".

Sent from my BlackBerry Wireless Handheld

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2020

Confidential Treatment Requested by Goldm

From: Tse, Irene
Sent: Wednesday, March 28, 2007 8:03 AM
To: ficc-ratessales; ficc-gflow
Subject: Thoughts on FI - DO NOT FORWARD PLEASE!

The durable good number today, in my mind is 10 times more important than the Bernake's speech at 10:30 pm. In my opinion, Big Ben has already given the speech on A1 of WSJ yesterday. I just can't see what he says today would be relevant. A negative core durable good, however, is not on anybody's radar screen. The ex-trans, non-defense capital ex air, shipment data, backlog of non-defense capital were all extremely pathetic. The composition of the report is basically more inventories, and less demand. This reinforce the Fed's worry that business spending is going to zero as Ip referred to yesterday. The housing slowdown has the risk now not be offsetting by stronger capital spending. Both growth and the market are DEAD if that's the case.

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Wall Street & The Financial Crisis
Report Footnote #2020

Confidential Treatment Requested by G

From: Sobel, Jonathan
Sent: Wednesday, June 27, 2007 4:19 PM
To: Sparks, Daniel L; Gasvoda, Kevin
Subject: Fw: Citi feedback on debt mkts

Fyi

----- Original Message -----
From: Young, William (MB 85B14)
To: Sobel, Jonathan
Sent: Wed Jun 27 15:59:46 2007
Subject: Citi feedback on debt mkts

FYI - my notes from Citi

Just talked to Perlowitz who runs Mtg desk at Citi. He is very nervous -

1. Subprime issue not identified correctly - not a subprime problem, the street is suffering from an illiquid products problem. Once value moves on an illiquid product that carries high leverage, obviously you get significant downside. Very real issue is CDO/CLO bid. Some Citi people think CDO market is dead - a potential result of contagion.

2. On subprime, Citi sees significant additional downside - only issue that prevents a "catastrophe" is employment. Mkt is experiencing very high fraud rates, under estimated impact of mark to market for new loans (once person is unemployed, your are getting keys - no liquidity at decent price to liquidate collateral)

3. Concerned all financial institutions were underwriting everything based on extremely benign assumptions. All starting to come back now as banks pull in risk -

I told him it sounded like a good time to buy a subprime platform - he agreed . . . .

Second, talked with [redacted] who runs all [redacted] at Citi

1. Deals in mkt right now - three center of plate/attention.

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Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Thursday, August 30, 2007 8:27 PM
To: Eagle, Todd (IB 85B11); Aberg, Peter (FICC 85B27); Madhavan, Manju (FICC 85B27); Buono, Mark
Cc: Schanzer, Bruce (IB 85B11); Koester, Reinhard (IB 85B23); Spiro, Eli (IB 85B23)
Subject: Re: RAIT

We should not do anything that would get in the way of gs buying assets from them

----- Original Message -----
From: Eagle, Todd (IB 85B11)
To: Aberg, Peter (FICC 85B27); Madhavan, Manju (FICC 85B27); Sparks, Daniel L; Buono, Mark
Cc: Schanzer, Bruce (IB 85B11); Koester, Reinhard (IB 85B23); Spiro, Eli (IB 85B23)
Sent: Thu Aug 30 19:42:17 2007
Subject: Re: RAIT

Their business model is clearly highly levered, and growth will be constrained given lack of current CDO market, but I think if we had the opportunity to advise them on a capital raise we would be extremely interested. They have mostly termed out their existing financing and have little in the way of short term liabilities (which they are looking to pay down with capital raise). Investors/buyers might find value in assets without ascribing material value to platform/future growth. We will look to get a business selection call set up to discuss further.

Todd Eagle
Goldman, Sachs & Co.
212-902-8332
Cell 914-[redacted]

85 Broad Street, 11th Fl.
New York, NY 10004

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Aberg, Peter
To: Madhavan, Manju; Eagle, Todd; Sparks, Daniel L; Buono, Mark
Sent: Thu Aug 30 17:46:28 2007
Subject: RE: RAIT

We need to keep open the option to purchase assets if they begin to liquidate positions. If you do not believe that to be possible within the context of whatever advisory type assignment you would propose then we need to have a broader business selection call. My impression from a distance is that the business model pursued by these guys (taking junior parts of either a corporate or CRE capital structure and obtaining further leverage via the CDO market) is dead for the foreseeable future. Is there a large buyer universe for this business given the current market environment?

-----Original Message-----
From: Madhavan, Manju
Sent: Thursday, August 30, 2007 5:35 PM
To: Aberg, Peter
Subject: FW: RAIT

FYI

-----Original Message-----
From: Eagle, Todd
Sent: Thursday, August 30, 2007 5:31 PM
To: Madhavan, Manju
Cc: Schanzer, Bruce
Subject: Re: RAIT

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2022

Confidential Treatment Requested by Goldm

Manju- we'd like to call the co as soon as possible (ideally now; they were expecting to hear back from us re: our prinicipal interest today), and need to be clear when we call them to pitch business. We of course would keep you guys in mind, but we can't be restricted when we call the co. Can you either clear this for us or find Peter to get his input/clear now? Thx.

Todd Eagle
Goldman, Sachs & Co.
212-902-8332
Cell 914-400-6916

85 Broad Street, 11th Fl.
New York, NY 10004

----- Original Message -----
From: Madhavan, Manju
To: Eagle, Todd; Brooks, Adam; Kava, Alan
Cc: Schanzer, Bruce; Aberg, Peter
Sent: Thu Aug 30 17:22:57 2007
Subject: RE: RAIT

I think that is correct for Mortgages. May be interested in bidding on resi and cre assets, so would be good to keep that option open if possible depending on ultimate transaction that materializes. Defer to Peter if he has other thoughts.

-----Original Message-----
From: Eagle, Todd
Sent: Thursday, August 30, 2007 5:07 PM
To: Brooks, Adam; Kava, Alan; Madhavan, Manju
Cc: Schanzer, Bruce
Subject: RAIT

Hi. Can WH and resi mortgages pls confirm for me that you are ok with GS proceeding in trying to position us for another business opportunity with RAIT any way we can (including possible advisor to RAIT and/or buyside advisor to another principal), as it is my understanding that you decided to pass on the opportunity today. Thx.

Todd Eagle
Goldman, Sachs & Co.
212-902-8332
Cell 914-[redacted]

85 Broad Street, 11th Fl.
New York, NY 10004

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Confidential Treatment Requested by Goldman Sachs

From: Cohn, Gary (EO 85B30)
Sent: Friday, February 09, 2007 7:34 PM
To: Sparks, Daniel L; Ruzika, Richard; Viniar, David; Montag, Tom; Smith, Sarah; McMahon, Bill
Cc: Winkelried, Jon (EO 85B30); Gasvoda, Kevin
Subject: Re: Scratch & dent loan write down $30mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Thanks very helpful

----- Original Message -----
From: Sparks, Daniel L
To: Ruzika, Richard; Viniar, David; Montag, Tom; Smith, Sarah; McMahon, Bill
Cc: Winkelried, Jon; Cohn, Gary; Gasvoda, Kevin
Sent: Fri Feb 09 18:42:42 2007
Subject: RE: Scratch & dent loan write down $30mm

Additional P&L info for today - total for mort department was down $15mm.

Large moves today in market - general moves below:
ABX A 25 bp wider
ABX BBB 70 bp wider
ABX BBB- 100 bp wider

Scratch & dent $30mm down (as described) [redacted] SPG trading $21mm up - from market move CDO positions $5mm down - from market move CDO warehouse $7mm down - weekly update of mark to deal

SPG trading has significant single name shorts vs the ABX longs, and the desk used generally a 50-60% correlation for today's move which they believe is conservative. The desk is also short single A CDOs.

-----Original Message-----
From: Ruzika, Richard
Sent: Friday, February 09, 2007 4:28 PM
To: Sparks, Daniel L; Viniar, David; Montag, Tom; Smith, Sarah; McMahon, Bill
Cc: Winkelried, Jon (EO 85B30); Cohn, Gary (EO 85B30); Gasvoda, Kevin
Subject: Re: Scratch & dent loan write down $30mm

Ok, you've been communicating the write down was coming. Let's go through the residual risk and make sure we get to the correct number for the quarter.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Viniar, David; Montag, Tom; Ruzika, Richard; Smith, Sarah; McMahon, Bill
Cc: Winkelried, Jon (EO 85B30); Cohn, Gary (EO 85B30); Gasvoda, Kevin
Sent: Fri Feb 09 14:21:30 2007
Subject: Scratch & dent loan write down $30mm

Just finished meeting with Bill. $30mm loss will go into the estimate tonight. There is $300mm of the $800mm book that controllers needs to do additional work on with the desk, but the view is that the amounts are close enough to put the estimate in tonight.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2029

Confidential Treatment Requested by Goldr

From: Gasvoda, Kevin
Sent: Friday, June 08, 2007 11:59 AM
To: Madhavan, Manju (FICC 85B27); Pouraghabagher, Cyrus; Deming, Peter (FICC 85B27); Becker, Lee (FICC 85B27); Pondelik, Miles (FICC 85B27)
Cc: Aberg, Peter (FICC 85B27); Sparks, Daniel L
Subject: RE: Project Omega - Mortgages MTM of Resids (Preliminary)

Good job guys

From: Madhavan, Manju (FICC 85B27)
Sent: Friday, June 08, 2007 11:57 AM
To: Pouraghabagher, Cyrus; Deming, Peter (FICC 85B27); Becker, Lee (FICC 85B27); Pondelik, Miles (FICC 85B27)
Cc: Gasvoda, Kevin; Aberg, Peter (FICC 85B27)
Subject: FW: Project Omega - Mortgages MTM of Resids (Preliminary)

FYI

From: Dagtoglou, Ion
Sent: Friday, June 08, 2007 10:23 AM
To: Madhavan, Manju
Subject: RE: Project Omega - Mortgages MTM of Resids (Preliminary)

Manju, just wanted to thank you and your team for the call today. Roy, Stephan and I in ESSG found it very useful and appreciate the huge amount of work behind the analysis. The pieces are beginning to come together and the deal's just getting interesting.

Ion

From: Brennan, John (IB PBC01)
Sent: Friday, June 08, 2007 11:39 AM
To: Mateusz Szeszkowski; Enrico Grasso; Pla, Carlos (MB PBC04); Campbell, Tim (MB PBC04); Campbell, Roy; Dagtoglou, Ion; Ederer, Matthias; matthew.sebagmontefiore@oliverwyman.com; edward.freeman@freshfields.com; kieran.cooper@kpmg.co.uk; elisa.woods@kpmg.co.uk; andrew.walker@kpmg.co.uk
Cc: henry.brown@oakfieldpartners.com; mike.turner@oakfieldpartners.com; Rafter, John (IB PBC01); Geoghegan, Basil (IB PBC01); Frank, Karen (IB PBC01); Rasmussen, Matthias (IB PBC01); Madhavan, Manju (FICC 85B27); Becker, Lee (FICC 85B27); Deming, Peter (FICC 85B27); Pondelik, Miles (FICC 85B27)
Subject: Project Omega - Mortgages MTM of Resids (Preliminary)

Please find attached the preliminary back-book valuation document. Please note that this is highly preliminary and that the team have a number of questions for [redacted] that have not yet been answered.

<< File: 06 Summary of Securitization Valuation.pdf >>

Attached are the strats of the portfolio (These may be too detailed for most people on the call)

<< File: Master Strats.pdf >>

Thanks - John

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2031

Confidential Treatment Requested by Goldman

GS MBS-E-013411815

From: Sparks, Daniel L
Sent: Monday, January 08, 2007 7:55 AM
To: Gasvoda, Kevin; Gill, Michelle; Aberg, Peter (FICC 85B27)
Subject: Re: Color on the Sub Prime Market

I'm flying back from the (bull-market) cmbs conference. People here are talking about it - it reminds me so much of 98 in cmbs, only worse. I just can't see how any originator is worth a premium.

I'm also a bit scared of accredited and new century, and I'm not sure about taking on a bunch of new exposures.

Is it right that we have an alt a deal with 30 percent delinq?

----- Original Message -----
From: Gasvoda, Kevin
To: Sparks, Daniel L
Sent: Mon Jan 08 07:50:09 2007
Subject: RE: Color on the Sub Prime Market

Intersting, thanks. I need to call Keith, he left me a very nice vmail before the holidays. I'll get more direct color from him but nothing below surprises me.

-----Original Message-----
From: Sparks, Daniel L
Sent: Monday, January 08, 2007 7:28 AM
To: Gasvoda, Kevin
Subject: Fw: Color on the Sub Prime Market

----- Original Message -----
From: Keith Johnson <KJohnson@clayton.com>
To: Sparks, Daniel L
Sent: Sun Jan 07 22:32:46 2007
Subject: FW: Color on the Sub Prime Market

attachments were to big

From: Keith Johnson
Sent: Sunday, January 07, 2007 10:25 PM
To: dan.sparks@gs.com; Kevin Gasdova (kevin.gasdova@gs.com)
Subject: Color on the Sub Prime Market

Dan & Kevin

I want to thank you for all the business in 2006 -- but I want you to also be aware of what we are seeing at this side of the business.

1. Put Backs - I think we are working on over $7 billion of put backs "at this very moment". A couple of reasons why this has accelerated: First, it is yearend and the auditors are asking lots of questions of mortgage companies and bond funds. Second, we have some weak players who are selling their operations (Option One, Ameriquest, etc.).

We are seeing people holding and buying residuals (from weak shelfs) and then hiring us to find reasons to put back delinquent loans -- this enhances their residuals and also

Permanent Subcommittee on Investigations
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Report Footnote #2037

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puts pressure to sell these institutions at lower price.

2. Collection Issues - We are also being hired to review collection notes and histories (Servicing Reviews) looking for errors to create a "Put Back" – the benchmark is collection and foreclosure timelines that exceed the Fannie Mae standards – creating higher loss severities. Clayton does this on all securities it monitors via the Denver (old Murrayhill operations) - you should ask your Florida group to make sure they are on top of this.

Collection time-line is a common problem for sub prime shops that have grown fast and have not kept pace with servicing demands. The breach is that failure to liquidate in a timely manner creates excess servicing advances of principal & interest. These excess advances are great for the holders of the NIM bonds bad for residuals in later years-- during the excess advance residual & "B" piece holders may be valuing their positions to high (because no losses are being realized) -- when the final liquidation of problems occur HUGE loss severity happens and the residual "B" pieces take the hit.

3. Warehouse Lines - Assume you guys are all over any exposure -- we have been all over the country collecting and inventorying collateral on OWNit, MLN and there are some concerns for Ameriquest, ResMae, etc. Several Wall Street firms are doing a tighter control over collateral. We are not seeing fraud, such as selling the loans twice.

4. Look at the Attachements - I am attaching two documents that I think address some of these issues. The larger document has a detailed "Put Back" section that gives you are road map and sample reports we have found helpful in negotiations.

Hope all is well -- again thanks for the business.

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Confidential Treatment Requested by Goldman Sachs

From: Gething, Christopher
Sent: Tuesday, February 27, 2007 9:13 AM
To: Rubanowice, Ron; Trentler, Brandon D.; Braun, Michael; Gilkes, Leon; Winslow, Kurt; Chan, Lincoln
Cc: Kenney, John; Ruiz, Sandra M; Jivrajani, Jayesh; Conk, Brendan; Gasvoda, Kevin; Gill, Michelle; Sparks, Daniel L; Loreen, Kirsten; McHugh, John; Shell, Dave
Subject: Our Expansion

My (our) appreciation to you all for your work in connection with the expansion of the St. Petersburg office which was completed last week. The timing, execution and new technology are tremendous. I think the success was due to the extra hours that you put in. Thank you very much.

Goldman, Sachs & Co.
100 2nd Avenue South | Suite 200 S
Tel: 727.825.3832 | Fax: 212.256.5107
NY Tel: 212.902.1434 | Cell Phone: 516[redacted]
email: christopher.gething@gs.com

Christopher M. Gething
Fixed Income Currency and Commodities
Structured Products (Mortgages) Group
Goldman Sachs

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2039

Confidential Treatment Requested by Goldm

GS MBS-E-010387242

From: Morris, Loren
Sent: Wednesday, March 14, 2007 3:22 PM
To: Gasvoda, Kevin; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

x-gs-classification: Internal-GS

I like the idea of DQ patterns. I'd like to list all deals of a certain status and use it as an inclusive list for prioritization. Thanks

From: Gasvoda, Kevin
Sent: Wednesday, March 14, 2007 4:17 PM
To: Morris, Loren; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

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Great Loren, thanks. Delinq triggers may be one way to look at it but early deals are going to be so far from triggering I'd prefer, once we clear thru the emergency list, focusing on DQ pattern the first 4 months of a deal.

From: Morris, Loren
Sent: Wednesday, March 14, 2007 12:51 PM
To: Morris, Loren; Gasvoda, Kevin; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

Kelli informs us that the data is being loaded today for 06 FM 2 and then a sample can be pulled. Working with [redacted] on NC2 should not be distracting. Assuming the confidentiality agreement was signed, they can work more closely with Clayton. We're off to other vendors at this point. Bohan in next week.

Results of the Digital Risk review will be provided next Tuesday. Over 2,600 loans were reviewed, a significant amount of those are Long Beach and Fremont seconds. Seconds from FM1 are being re- reviewed internally. Contrary to Clayton's initial review, on average, about 50% of about 200 files look to be repurchase obligations. [redacted] is looking at the Long Beach loans that Long Beach rejected repurchase. He is finding fraud that had not initially been alleged. We'll forward those a flow basis to WaMu contact.

Looking to develop a comprehensive deal sheet, perhaps based on delinquency triggers to use for prioritization and status tracking. Envision this centralized in Repurchase Group. Let me know if you have any other questions or comments. Thanks

From: Morris, Loren
Sent: Wednesday, March 14, 2007 11:10 AM
To: Gasvoda, Kevin; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

Kevin, I'll be able to update you shortly. Thank You for sending along this information.

From: Gasvoda, Kevin
Sent: Wednesday, March 14, 2007 10:13 AM
To: Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael; Morris, Loren
Subject: RE: NC Visit

Yes and thank you regarding 2nd liens, I think priority s/b on Fremont and Long Beach vs. NC on 2nd lien deals. Fremont first since they still have cash but may not for long. Do we have any early returns on Fremont 2nd lien deal scrubs?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2040

W/[redacted] on NC2 we need to not halt that entirely but should pull back resources there. We should also move 06FM2 up the priority list.

From: Murray, Kelli
Sent: Wednesday, March 14, 2007 10:06 AM
To: Gasvoda, Kevin; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc
Subject: RE: NC Visit

As you know, we have an extensive re-underwrite review underway on 06 NC2, and also other NC loans in the 2nds deals that are in the pipeline for scrubs. Should we change course at all here given the fact NC can't pay? Keep in mind, we're spending ~ $250/loan for these scrubs. Please give us some guidance here.

Thanks.

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From: Gasvoda, Kevin
Sent: Tuesday, March 13, 2007 10:45 PM
To: Larson, Erika L.; Gething, Christopher; Murray, Kelli; Gill, Michelle
Cc: Knox, Deana C..; Flamino, Marc
Subject: RE: NC Visit

Good report, thanks. I spoke to [redacted] and he was very constructive and wants to be helpful.

Assume they will not be able to buy back any epd's so we need to work w/ them to make sure our loans are getting the epd attention.

Thanks

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Larson, Erika L.
Sent: Tuesday, March 13, 2007 9:31 PM
To: Gasvoda, Kevin; Gething, Christopher; Murray, Kelli; Gill, Michelle
Cc: Knox, Deana C..; Flamino, Marc
Subject: RE: NC Visit

On-Site Visit

- Very receptive & accommodating to my visit [redacted] & collection mgmt), in an office w/system access & freedom to come & go and to meet w/department managers
- Overall feeling I received on-site is "normal servicing environment". Per [redacted]
  +
- [redacted]
  - [redacted]
  - [redacted]
- [redacted]

- Also, going to setup details around special call campaign for our FPDs & EPDs
- Investor Acctg/Rpting -
  - Appears issue with the wires coming to GS are due to delays in moving loans into 07-NC1 inv code - loans did not get moved from GS to 07-NC1 until 3/8/07
  - Meeting w/mgr tomorrow afternoon to ensure all loans moved to appropriate investor code for rpting & remitting to Master Servicing going forward.
  - Also need to determine how we want to handle the rpting for the Dec15 group of loans that transferred to [redacted] - normally NC should be responsible for 1st rpting since they were servicing as of 2/28.

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DAILY DELINQUENCY REPORT BY INVESTOR
#133 - Goldman whole loans (Feb28 & Mar5) & dlq securitized loans (Dec28 & Jan30)
#437 - 07 NC1

As of 03/10/07	00133	133			00437	437
	#	$	% #	% $	#	$
0-30	808	169,890,640	20.35%	21.18%	3,310	685,713,
31-59	303	59,897,913	7.63%	7.47%		
60-89	91	19,215,315	2.29%	2.40%		
90+	20	4,512,134	0.50%	0.56%		
CUR	2,232	423,222,984	56.22%	52.77%	3,374	586,952,
FPD	516	125,248,513	13.00%	15.62%		
Total	3,970	801,987,499	2.40%	2.64%	6,684	1,272,666,

As of 03/12/07	00133	133			00437	437
	#	$	% #	% $	#	$
0-30	651	137,162,122	16.46%	17.17%	2692	565,147,
31-59	289	57,545,409	7.31%	7.21%	6	1773
60-89	92	19,288,271	2.33%	2.42%	2	161
90+	20	4,512,134	0.51%	0.56%		
CUR	2,498	480,767,979	63.16%	60.20%	3995	706935
FPD	405	99,407,179	10.24%	12.45%		
Total	3,955	798,683,093	2.40%	2.64%	6695	1,274,018,

Let me know if you have any questions or requests.

Thanks.

Erika Larson
Goldman, Sachs & Co
727-825-3844

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From: Gasvoda, Kevin
Sent: Tuesday, March 13, 2007 6:34 PM

To: Larson, Erika L.; Gething, Christopher; Murray, Kelli; Knox, Deana C..
Cc: Flamino, Marc; Gill, Michelle
Subject: RE: NC Visit

Terrific thanks. Since they are not going to pay our epd's we need to have fewer EPD's! Pls push them to make the special calls.

thnx

From: Larson, Erika L.
Sent: Tuesday, March 13, 2007 6:30 PM
To: Gething, Christopher; Murray, Kelli; Knox, Deana C..
Cc: Gasvoda, Kevin; Flamino, Marc; Gill, Michelle
Subject: RE: NC Visit

Deana,
I spoke with the FPD/EPD Collection VP & he can run a special campaign on our EPD loans. I know you're still working on a settlement for the DEC28 trade but it would be benefical to run these through. He's going to pull the loans he shows as EPD for GS but I would like to compare to our list. Can you send me the loan level for the Dec28 EPD's?
I'm also having him include the loans from the Jan30 trade that tentative qualify today - they have through Thursday (45 days) to pay.

All,
I'll send an update on other items regarding my visit later tonight.

Thanks.

Erika Larson
Goldman, Sachs & Co
727-825-3844

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From: Gething, Christopher
Sent: Saturday, March 10, 2007 8:45 AM
To: Murray, Kelli; Knox, Deana C..
Cc: Larson, Erika L.; Gasvoda, Kevin; Flamino, Marc; Gill, Michelle
Subject: RE: NC Visit

Thanks Kelli, keep these guys on all email in this regard

From: Murray, Kelli
Sent: Friday, March 09, 2007 9:41 PM
To: Knox, Deana C..
Cc: Gething, Christopher; Larson, Erika L.
Subject: NC Visit

Deana,

We're scheduled for Erika to be on site at NC Tues-Thurs of next week. Don't know if you have any EPD needs she can help you with while on site, but to the extent you need anything, we should get together first thing Mon morning.

From: Sparks, Daniel L
Sent: Saturday, March 10, 2007 9:51 AM
To: Gill, Michelle; Gasvoda, Kevin; Flamino, Marc; Dente, Michael
Subject: RE: priorities

What happened on loan bids today

From: Gill, Michelle
Sent: Friday, March 09, 2007 3:01 PM
To: Gasvoda, Kevin; Flamino, Marc; Dente, Michael
Cc: Sparks, Daniel L
Subject: RE: priorities

My updates below

From: Gasvoda, Kevin
Sent: Friday, March 09, 2007 8:52 AM
To: Gill, Michelle; Flamino, Marc; Dente, Michael
Cc: Sparks, Daniel L
Subject: priorities

Just writing what we discussed, let me know what I'm missing:

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NOVASTAR (Flamino point)
- Get Stieps on phone w/ their attrny to finalize settlement letter
- Get the $ today
- Make progress on 2nd claim settlement

FREMONT (Gasvoda point)
- Push on $40mm EPD resolution
- Get [redacted] letter to trustee, cc'ing Fremont on repurch oblig done today
- Dente to work on servicing amendment and backup plans
- Gasvoda checking to see if resids are for sale

NEW CENTURY (Gasvoda point)
- Close out TPO line
  - Determine if we have posession of all collateral
  - Determine how we make sure sales continue to happen and we trap cash
  - Compliance/legal on desk for 3pm pricing
- TRS resid valuations TODAY (may be near zero)
- Longer term - b/s valuation for DIP possibility
- Give EPD claims filed to Sang for documentation purposes

ACCREDITED (Gill point)
- Bid whole loans today, discuss holdback w/ company - DONE
- Gill to have reality securtization call w/ Accredited - DONE
- Gill to negotiate confi w/ Accredited - HAVE THE CONFI, WE HAVE NOT CLEARED CONFLICTS, DAN WILL CALL YOU
- Get updated Accredited b/s (loan and resid details) to begin valuation work - DON'T THINK WE CAN GET PRIOR TO SIGNING CONFI
- Begin discussions and set plan w/ Cerberus (Dan to confirm)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2041

From: Chavez, Ed
Sent: Friday, June 29, 2007 10:00 AM
To: Harris, Steve; Wicker, Devin; Nestor, Genevieve; Gill, Michelle; Gething, Christopher; Pohani, Anu N; Peterson, Linda; Ozment, Joseph; Hood, Kris; Annunziata, Michael L.; Shuey, William
Cc: Gallagher, Brian; Winslow, Thomas; Rivera, Jonathan X; Pascual, Alphonse
Subject: Countrywide Investigation Review Update

Attachments: CW Investigation Review 6-27.xls; Chavez, Ed.vcf

We have completed reviews on 43 of the 68 loans that scored between 600 to 699 in Basepoint. We have confirmed fraud on 23 (53.49%) of those reviews representing a total dollar amount of $16,445,388.40.

The Investigations team received a total of 150 loans to review from this trade and we have completed 125 of those reviews. We have identified fraud in 72 (48%) of the completed reviews which represents a total fraud exposure of $ 46,977,184.50.

On the attached spreadsheet, lines 86-153 represent the 68 loans currently being reviewed.

Below are some details regarding the primary misrep/fraud reason.

Bail-out	7
Employment	16
Flip	1
HUD1	1
Income	4
Non-Arms Length	1
Occupancy	1
Other	1
Straw	3
Undisclosed R/E	20
VOD	17

Please advise if you have any questions.

Ed



CW Investigation Review 6-27.x...

Goldman, Sachs & Co.
100 Second Avenue South, Suite 200S | St. Petersburg, FL 33701
Tel: 727.820.8519 | Fax: 917.977.3022 | Cell: 813[redacted]
E-mail: ed.chavez@gs.com

Goldman
Sachs

Edward B. Chavez
Fixed Income, Currency & Commodities

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2041

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Chavez, Ed.vcf

From: Sparks, Daniel L
Sent: Monday, March 12, 2007 8:04 AM
To: Forst, Edward (FIN 85B030)
Subject: RE: Subprime opportunities

When we buy loans from them, they have obligations to repurchase loans for 2 main reasons:
(1) EPD - early payment defaults. If the loans don't make the first payment when we own them, they repurchase at par.
This takes a while to negotiate and process.
(2) breach of reps & warranties - biggest one will be fraud (originator, broker, borrower). This will take a while to work through also.
These claims relate to loans on our books and in securitizations - most where we hold some amount of residual risk.

Settlement occurs either by the originator repurchasing the loans or by the GS giving them a new price for those loans - down 25ish points for example.

The street is aggressively putting things back, like a run on the bank before there is no money left to fulfill the obligations.

We have a $30mm reserve against the new century stuff, total loss exposure should be $25mm to $50mm.

-----Original Message-----
From: Forst, Edward (FIN 85B030)
Sent: Monday, March 12, 2007 3:46 AM
To: Sparks, Daniel L
Subject: Re: Subprime opportunities

Can you tell me just a bit more about "unfilled claims" at New Century?

Thx,
Ed

----- Original Message -----
From: Sparks, Daniel L
To: Sparks, Daniel L; Ruzika, Richard; Montag, Tom; Viniar, David; Cohn, Gary; Winkelried, Jon; Sherwood, Michael S; Forst, Edward; Broderick, Craig; Bermanzohn, Fran
Sent: Sun Mar 11 23:10:21 2007
Subject: RE: Subprime opportunities

We worked all weekend on investment opportunities relating to accredited, new century and fremont. We are looking at accredtied and new century with cerberus, and fremont with jerry ford (and maybe cerberus). All are long-shots. Expect new century to file in next few days, opportunity will be post bk. If we can, we may propose taking some resids to offset epd claims for new century. New century is the one where we are going to get hurt with respect to large unfulfilled claims.

Accredited could be interesting, but they may already have another proposal where they get $400mm this week in pref equity. They have to move quickly to avoid accounting issues/going concern issue Friday. Fremont is taking initial bids monday, so we will see what happens after they get feedback. We have not done much there yet.

From: Sparks, Daniel L
Sent: Friday, March 09, 2007 10:51 PM

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2044

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To: Ruzika, Richard; Montag, Tom; Viniar, David; Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Sherwood, Michael S; Forst, Edward (FIN 85B030)
Subject: Subprime opportunities

This weekend we are focused on the following:

(1) Accredited - will look at investment opportunity with Cerberus. GS team includes PIA, IBD and Mortgages. Sounds like another group is considering injecting $400mm of convertible prefferred capital into Accredited as early as mid-next week. Accredited needs capital by end of week or it will trip covenants.

(2) Fremont - Gerry Ford looking, we will try to tag along and are trying to get Cerberus included. Indicative bids for the company are due Monday. IBD and Mortgages.

(3) New Century - they are in worst shape, Cerberus is looking at something and may include us, but we don't think there is much there. GS is considering making proposals on buying/financing resids that could give them some cash and allow us to offfset EPD (unsecured) claims they owe us.

Things are very preliminary, and if/when we get anything close to real we will reach out to you.

We also continue to look at asset purchase opportunities - alone, with C-BASS, or maybe with others.

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From: Gething, Christopher
Sent: Sunday, April 15, 2007 11:21 AM
To: Winslow, Thomas; Gallagher, Brian; Morris, Loren; Cassidy, John
Cc: Gill, Michelle; Gasvoda, Kevin; Flamino, Marc; Hemphill, Lee; Katz, Brian; Bricker, Craig T
Subject: FW: March 2007 Counterparty Surveillance
Attachments: Goldman_March 2007 Counterparty Surveillance.XLS

John, pls have the above included in the monthly sends and to Tom and Brian, this is the monthly review of our counterparties that we need to factor into your efforts. To Credit, similarly we use this to monitor issues that pop up

---

From: Tallman, David [mailto:DTAllman@tpw.com]
Sent: Friday, April 13, 2007 6:32 PM
To: Tallman, David; john.cassidy@goldman.com; christopher.gething@goldman.com; Altarescu, Howard; Pohani, Anu N; joseph.durso@ny.email.gs.com; Marks, Aaron D.; Murray, Kelli; Gill, Michelle; Vargas, Jessica J.
Cc: Ornstein, Stephen F.; Yoon, Matthew S.; Holahan, John P.
Subject: March 2007 Counterparty Surveillance

Please find attached the March counterparty surveillance report (and boy, is it a doozy). Please call us at [redacted] if you have any questions.

Thanks,
David

[redacted] = Redacted by the Permanent Subcommittee on Investigations

****

David A. Tallman

Thacher Proffitt & Wood LLP
1700 Pennsylvania Avenue, Suite 800
Washington, DC 20006
Ph: (202) 626-5640
Fax: (202) 626-1930
dtallman@tpw.com

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2044

From: Sparks, Daniel L
Sent: Wednesday, March 21, 2007 1:56 PM
To: Montag, Tom
Subject: RE: FYI....

We did a good job cutting this down - our current number is about $300mm, none of which is to new century (we closed them out and took the loans).

Separately, our credit exposures are to new century, fremont and others and related to epd and other put back claims. About 2/3 of these loans are in deals where we own 50-100% of the resids - so the risk is not dollar for dollar. Gasvoda thinks our reserves are adequate.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, March 21, 2007 12:10 PM
To: Sparks, Daniel L
Subject: Fw: FYI....

What r our equiv numbers

----- Original Message -----
From: Viniar, David
To: Cohn, Gary (EO 85B30); Sparks, Daniel L; Ruzika, Richard; Montag, Tom
Sent: Wed Mar 21 12:06:34 2007
Subject: FW: FYI....

I like our position better

From: Andrews, John G
Sent: Wednesday, March 21, 2007 12:01 PM
To: Broderick, Craig
Cc: Viniar, David; Kennedy, Heather
Subject: FYI....

MS said on their call that they have $5.2 billion funding commitments to sub prime, of which $2.3 billion has been funded. Also said they had $2.5 billion funded to New Century.....

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2047

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From: Gill, Michelle
Sent: Friday, August 10, 2007 7:06 PM
To: Montag, Tom; Mullen, Donald
Cc: Viniar, David; Sparks, Daniel L; Gasvoda, Kevin
Subject: Fremont - Incremental Information

Tom / Don,

As per your voicemails, please find below the information requested
(1) Amount of exposure to Fremont via unsold allotments
(2) Need for sticker
(3) Fremont's repurchase claim relative to amount purchased / other sellers

The below represents unsold allotments where Fremont collateral is a substantial portion of the transaction:
In total across investment grade and non-investment grade, we have approximately $102mm of exposure of unsold allotments (most of which is in NIM / residual form)

Unsold Allotments

Bonds	Position Size	Price (as of 8/10/07)	% Fremont	Exposure
GSAMP 2007-FM2 (B1)	14,524,000	15.00	100%	
GSAMP 2007-FM2 (B2)	14,023,000	8.00	100%	
FHLT 2006-E (M9)	18,609,000	17.00	100%	
GSAMP 2006-S3 (M7)	9,885,000	0.00	54.0%	
GSAMP 2006-S5 (M6)	7,278,000	0.00	58.0%	
GSAMP 2006-S5 (B1)	6,451,000	0.00	58.0%	
GSAMP 2006-S5 (B2)	5,624,000	0.00	58.0%	
GSAMP 2006-S6 (M7) *	5,844,000	0.00	0.5%	
GSAMP 2006-S4 (B2) **	8,809,000	0.00	2.0%	
FHLT 2006-B (SLM8)	2,034,000	0.00	100.0%	
FHLT 2006-B (SLM9)	2,282,000	0.00	100.0%	
Total				

** Percentage Fremont is less than 10%*
*** Percentage Fremont is less than 10% however Fremont is a named originator in this deal*

NIMS and RESIDS

DEAL	M5 NAME	%owned	MV (as of 8/10/07)	% Fremon
GSAA 2004-3 and GSAA 2004-5	GSAA 04NIM2 CERT	100%	2,850,000	
GSAMP 2003-FM1	GSAMP 03FM1 X	51%	0	
GSAMP 2004-FM1	GSAMP 04FM1 NRES	19%	0	
GSAMP 2004-FM2	GSAMP 04FM2 NRES2	70%	0	
GSAMP 2005-HE1	GSAMP 05HE1 N R	70%	2,625,760	
GSAMP 2005-HE3	GSAMP 05HE3 NRES	70%	6,000,000	
GSAMP 2005-HE4	GSAMP 05HE4 N1	21%	3,628,497	
GSAMP 2005-HE4	GSAMP 05HE4 N2	100%	6,500,098	
GSAMP 2005-HE4	GSAMP 05HE4 NRES	70%	1,500,000	
GSAMP 2005-HE6	GSAMP 05HE6 NRES	70%	0	
GSAMP 2006-FM1	GSAMP 06FM1 N1	39%	293,108	
GSAMP 2006-FM2	GSAMP 06FM2N N1	9%	634,300	
GSAMP 2006-FM2	GSAMP 06FM2N N2	100%	1,432,200	
GSAMP 2006-FM3	GSAMP 06FM3N N2	97%	532,700	
GSAMP 2006-S3	GSAMP 06S3 P	100%	924,542	
GSAMP 2006-S3	GSAMP 06S3 P	100%	924,542	
GSAMP 2006-S4	GSAMP 06S4 X	100%	4,667,216	
GSAMP 2006-S4	GSAMP 06S4 P	100%	838,440	

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GSAMP 2006-S5	GSAMP 06S5 P	100%	425,976
GSAMP 2006-SD1	GSAMP 06SD1 X	100%	1,000,000
GSAMP 2006-SD3	GSAMP 06SD3 X	100%	1,000,000
GSAMP 2007-FM1	GSAMP 07FM1N N2	100%	2,425,500
GSAMP 2007-FM1	GSAMP 07FM1N N3	100%	875,560
GSAMP 2007-FM2	GSAMP 07FM2 N1	100%	14,811,159
GSRPM 2006-2	GSRPM 062 X	100%	1,606,293
Total			**95,826,451**

Tom, in answer to your question, the repurchase claims and disclosure about our potential are separate issues

The question is whether an investor in bonds backed by Fremont collateral would view Goldman's potential investment in Fremont as material

We have the disclosure drafted and are walking it around to the investment team and will confirm with Fremont / Jerry Ford's team that they are comfortable with verbiage

The external parties are comfortable in concept, but need to see the verbiage, pending your sign off conceptually on disclosing our potential investment

I have included the disclosure below:

In connection with the proposed minority investment by the Investor Group, an affiliate of the sponsor and Fremont General have reached an agreement in principle pursuant to which such affiliate of the sponsor will acquire a minority equity interest in Fremont General representing approximately 9.1% of the common stock of Fremont General Corporation upon conversion of certain convertible preferred shares and exercise of warrants to be purchased in the transaction. The consummation of the stock purchase is subject to bank regulatory approvals as well as customary closing conditions.

In terms of repurchase claims on Fremont collateral relative to our purchases, please find summarized below:

We have been told by Jerry's team that our claims represent 3 - 4 times the next nearest counterparty (and we were not the largest purchaser)

Fremont represents the largest counterparty to whom we have claims

I have included Long Beach as a comparison as they are the next largest counterparty (and we have also bought second liens from them; a large portion of our repurchase claims have been from second lien collateral)

We are in process of the scheduling a meeting with Fremont to discuss the repurchase claims, we have discussed the week of August 20th, hope to have confirmed by end of day today (Friday) or early next week

Bucket	Original Balance	90+ Balance (6/30/07)		Initial Scrub	Completed S
Whole Loan Sales	$15,733,189.00	$ 209,144		$ 209,144	
GSAMP 05HE1 R	$412,365,287.94	$ 21,697,495		$ 1,883,000	$
GSAMP 05HE3 R1	$279,031,942.50	$ 20,593,900		$ 384,000	
GSAMP 05HE4 R1	$707,339,913.90	$ 66,318,897			
GSAMP 05HE6 R1	$133,105,730.00	$ 20,988,277		$ 17,624,327	$ 4,
GSAMP 05SEA1 R1	$218,400.00	$ 218,400		$ 218,400	
GSAMP 06FM1 R	$895,892,074.60	$ 280,312,175		$ 192,204,928	$ 192,
GSAMP 06FM2 R	$966,808,111.10	$ 135,959,787		$ 29,472,196	$ 29,
GSAMP 06FM3 R	$718,560,453.10	$ 62,199,446			
GSAMP 06HE3 R	$102,013,313.00	$ 20,627,303			
GSAMP 06S3 R	$267,743,130.95	$ 70,248,154		$ 64,403,134	$ 33,
GSAMP 06S4 R	$14,952,241.00	$ 4,770,767		$ 4,032,112	$
GSAMP 06S5 R	$195,234,799.15	$ 54,358,487		$ 48,046,817	$ 14,
GSAMP 06S6 R	$1,862,590.00	$ 1,154,680		$ 1,066,890	$
GSAMP 06SD1 R1	$5,970,312.17	$ 1,615,359		$ 1,615,359	$
GSAMP 06SD2 R	$9,615,718.00	$ 4,669,068		$ 3,604,528	$
GSAMP 06SD3 R	$24,591,275.00	$ 14,036,369		$ 10,181,104	$
GSAMP 06SEA1 R	$2,077,500.00	$ 1,212,100		$ 996,350	
GSAMP 07FM1 R	$688,635,538.80	$ 55,793,129			
GSAMP 07FM2 R	$967,588,764.00	$ 57,435,552			
GSAMP 07HE2 R	$2,238,000.00	$ 1,655,500			
GSAMP 07SEA1 R	$8,893,864.00	$ 4,331,385		$ 1,959,185	$
GSRPM 061 R	$1,100,060.00	$ 527,160			

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GSRPM 062 R	$8,426,230.00	$	4,907,702				
GSRPM 071 R	$17,439,303.00	$	13,052,685				
Whole Loan	$1,347,423,432.88	$	127,364,744		$	1,811,345	$ 1,:
Grand Total	$7,794,861,174.09		$1,046,257,664.07			$379,712,819.00	$278,631
			13.42%			36.29%	

*GSAMP 2006-FM1 has a compliance issue with current loans = total balance of $113 mm

LONG BEACH / WASHINGTON MUTUAL

Deal	Orig Balance	90+ Bal (6/30/07)	Initial Scrub	Completed Scrub
Whole Loan Sales	$ 668,650	$ 668,650		
GSAMP 05S2 R	$ 438,796,866	$ 17,427,761		
GSAMP 05SEA1 R1	$ 99,800	$ 52,200	$ 52,200	
GSAMP 06S1 R	$ 518,392,557	$ 80,949,869	$ 38,481,705	$ 11,6
GSAMP 06S3 R	$ 175,750,380	$ 49,238,672	$ 44,615,104	$ 25,4
GSAMP 06SD1 R1	$ 2,207,191	$ 1,218,611	$ 973,800	$ 8
GSAMP 06SD2 R	$ 180,938,903	$ 95,705,802	$ 86,269,514	$ 5,8
GSAMP 06SD3 R	$ 6,504,536	$ 3,883,173	$ 3,573,173	$ 1,6
GSAMP 06SEA1 R	$ 37,332,617	$ 14,674,900	$ 12,466,885	$ 2
GSAMP 07SEA1 R	$ 1,329,443	$ 72,980		
GSRPM 061 R	$ 759,300	$ 30,000		
GSRPM 062 R	$ 3,401,919	$ 2,181,896	$ 2,156,696	$ 1
GSRPM 071 R	$ 5,485,349	$ 1,896,281		
LBMLT 06WL1 R	$ 1,907,889,166	$ 242,582,450		
whole loan	$ 337,661,479	$ 77,186,960		
Grand Total	$ 3,617,218,156	$ 587,770,204	$ 188,589,077	$ 45,8
		16.25%	32.09%	

Let me know if you would like any additional information
Thanks mg

Goldman, Sachs & Co.
85 Broad Street, New York, NY 10004
Tel: 212-357-8721 Fax: 212-493-0058
Email: michelle.gill@gs.com

Goldman
Sachs

Michelle Gill
Managing Director
Fixed Income, Currency & Commodities
Structured Products Group

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From: Bell, Janet
Sent: Monday, June 25, 2007 3:47 PM
To: Knox, Deana C..; Pohani, Anu N; Morris, Loren
Cc: Berger, Ann; Gasvoda, Kevin; Gill, Michelle; Sparks, Daniel L
Subject: RE: Option One

Great Job

From: Knox, Deana C..
Sent: Monday, June 25, 2007 2:51 PM
To: Bell, Janet; Pohani, Anu N; Morris, Loren
Cc: Berger, Ann
Subject: Option One

Option One has agreed to settle the entire claim, paying $2.5M (repurchase and monitor) and $3M will be rescinded. Putting all the pieces together now, expect funding early next week.

Let me know if you have questions.

Goldman Sachs & Co.
100 2nd Avenue South | Suite 200N |
St. Petersburg, FL 33701
Ph: 727-825-3809 | Fax: 727-825-3821
email: deana.knox@gs.com
Deana C. Knox - Vice President
Fixed Income Currency and Commodities
Goldman Sachs

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2053

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GS MBS-E-019645932

From: Morris, Loren
Sent: Thursday, June 07, 2007 12:29 PM
To: Gething, Christopher
Subject: FW: WFALT 05-2 Repurchase demand

FYI
-----Original Message-----
From: Moliski, William
Sent: Thursday, June 07, 2007 12:26 PM
To: Gill, Michelle; Morris, Loren
Cc: Nestor, Genevieve; Parkinson, David; Liepold, Christina; Hernandez, Sarah; Herrera, Lina M.
Subject: RE: WFALT 05-2 Repurchase demand

I had a conversation with Brad Davis at Wells last night concerning this issue. In the past, we have bought loans from a counterparty and then subsequently securitized them off the issuers shelf. To do this, we had them deposited into the trust by the shelf's depositor (in this case, Wells Fargo Mortgage). When that happens, the trade is considered a whole loan purchase by us, we have an MLPA, do 25% due diligence, close the trade and then effect the transfer back to the depositor by way of a transfer agreement, similar to the ones used for GSMC - GSMSC. In this case, we get a full set of reps and warranties as part of the whole loan trade and then the depositor makes reps and warranties to the trust. We would be able to demand repurchase in the event of a breach under the MLPA

However, normally, when we do 'underwritings', we generally just buy the AAAs, never accept ownership of the loans, do minimal due diligence, and get no MLPA reps/warrants. The depositor once again makes the reps and warranties, but we don't have any ability to demand breach.

With respect to this trade, we did 25% due diligence, stipped the MLPA as the governing document, but have no documentation of a MLPA signature page or any transfer agreements. Also, we bought the entire capital structure, including the resid (and took 100% structuring risk).

From Brad's view, the MLPA stip was a mistake on their part, but because there is no MLPA signature page, it is a moot point. Also, the lack of transfer agreements mean we never took possession of the loans. Therefore, this was an underwriting, there is no MLPA (or associated reps and warranties), the only reps that are germane are the ones made to the trust by the depositor

-----Original Message-----
From: Gill, Michelle
Sent: Thursday, June 07, 2007 11:16 AM
To: Morris, Loren
Cc: Nestor, Genevieve; Moliski, William; Parkinson, David; Liepold, Christina; Hernandez, Sarah; Herrera, Lina M.
Subject: RE: WFALT 05-2 Repurchase demand

Couple of questions
(1) When we buy loans, don't we typically assign the reps into the trust?
(2) If the answer to the above is no, I'd like to understand why
(3) Definitionally, then shouldn't the whole loan document and the securitization document be one and the same

Thanks mg

-----Original Message-----
From: Morris, Loren

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2054

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Sent: Thursday, June 07, 2007 12:14 PM
To: Gill, Michelle
Subject: FW: WFALT 05-2 Repurchase demand

Michelle, I could use your help on this issue. Attached is the email chain that indicates the discussion surrounding which was the controlling document. It was determined to be the whole agreement and we ran with it.

At this point, now that we have Wells asserting that it is not, but is the PSA, which affords us no useable reps and warranties, we seem to be waffling on our opinion. I don't know if legal was involved, but, perhaps they should be now to settle this once and for all. Thanks

-----Original Message-----
From: Parkinson, David
Sent: Thursday, June 07, 2007 11:58 AM
To: Morris, Loren
Subject: FW: WFALT 05-2 credit watch discussion

David Parkinson
Goldman, Sachs & Co.
100 2nd Ave. South, Suite 200S
St. Petersburg, FL 33701
Phone: (727) 825-3807
Fax: (212) 428-3600
Email: David.Parkinson@GS.com

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-----Original Message-----
From: Moliski, William
Sent: Monday, May 07, 2007 2:36 PM
To: Jordanov, Nasko; Parkinson, David; Nestor, Genevieve; Liepold, Christina; Gething, Christopher; Carter, Lauren; Murray, Kelli; Maglio, Robert
Cc: Deliiska, Asseneta N.
Subject: RE: WFALT 05-2 credit watch discussion

As Genevieve mentioned, these are the flow Wells agreements in place in October 2005

-----Original Message-----
From: Jordanov, Nasko
Sent: Monday, May 07, 2007 2:36 PM
To: Parkinson, David; Nestor, Genevieve; Liepold, Christina; Gething, Christopher; Carter, Lauren; Murray, Kelli; Maglio, Robert
Cc: Moliski, William; Deliiska, Asseneta N.
Subject: RE: WFALT 05-2 credit watch discussion

Assya, you were managing the trade from the Finance side. Please advise if you can help to get the deal docs with the R&W.

I checked my email and could not find any R&W doc.

Thank you!

Nasko Jordanov
Goldman, Sachs & Co
85 Broad Street, 27th floor
New York, NY 10004
Phone: (212) 357 6641
Fax: (212) 493 0452
E-mail: Nasko.Jordanov@gs.com

-----Original Message-----
From: Parkinson, David
Sent: Monday, May 07, 2007 1:13 PM
To: Nestor, Genevieve; Liepold, Christina; Gething, Christopher; Carter, Lauren; Murray, Kelli; Maglio, Robert; Jordanov, Nasko
Cc: Moliski, William
Subject: RE: WFALT 05-2 credit watch discussion

It looks like Nasko Jordanov worked on this deal as the Transaction Manager.

Nasko,
Do you by chance have or now where the agreements for this deal are? Will you double check your emails because I know you save everything and you have it there if you were ever copied on them. We are looking for the agreements with Reps and Warrants.

David Parkinson
Goldman, Sachs & Co.
100 2nd Ave. South, Suite 200S
St. Petersburg, FL 33701
Phone: (727) 825-3807
Fax: (212) 428-3600
Email: David.Parkinson@GS.com

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-----Original Message-----
From: Nestor, Genevieve
Sent: Monday, May 07, 2007 1:07 PM
To: Liepold, Christina; Gething, Christopher; Carter, Lauren; Parkinson, David; Murray, Kelli; Maglio, Robert
Cc: Moliski, William
Subject: RE: WFALT 05-2 credit watch discussion

It was a loan purchase. Same as any other loan purchase in terms of what Wells represents (from breach of rep/warranty perspective).

-----Original Message-----
From: Liepold, Christina
Sent: Monday, May 07, 2007 1:05 PM
To: Nestor, Genevieve; Gething, Christopher; Carter, Lauren; Parkinson, David; Murray, Kelli; Maglio, Robert
Cc: Moliski, William
Subject: RE: WFALT 05-2 credit watch discussion

WLEG doesn't handle these types of deals- I will reach out to finance.

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-----Original Message-----
From: Nestor, Genevieve
Sent: Monday, May 07, 2007 1:03 PM
To: Gething, Christopher; Liepold, Christina; Carter, Lauren; Parkinson, David; Murray, Kelli; Maglio, Robert
Cc: Moliski, William
Subject: RE: WFALT 05-2 credit watch discussion

Some combination of finance and WLEG must have it. I have the bid stips we sent with the original trade (entered into on Sept 20, 2005) but they don't mention breach of rep or warranty reps.

-----Original Message-----
From: Gething, Christopher
Sent: Monday, May 07, 2007 12:50 PM
To: Nestor, Genevieve; Liepold, Christina; Carter, Lauren; Parkinson, David; Murray, Kelli; Maglio, Robert
Cc: Moliski, William
Subject: RE: WFALT 05-2 credit watch discussion

Do we have a contract for the whole loans ? We must have reps we can process on

-----Original Message-----
From: Nestor, Genevieve
Sent: Monday, May 07, 2007 11:40 AM
To: Liepold, Christina; Carter, Lauren; Parkinson, David; Murray, Kelli; Gething, Christopher; Maglio, Robert
Cc: Moliski, William
Subject: RE: WFALT 05-2 credit watch discussion

Bill would be point person on what is in the securitization documents. For this deal we purchased loans from Wells but agreed to securitize off of their shelf with GS holding on to the residual and any unsold allotments of bonds.

-----Original Message-----
From: Liepold, Christina
Sent: Monday, May 07, 2007 11:26 AM
To: Carter, Lauren; Parkinson, David; Murray, Kelli; Gething, Christopher; Nestor, Genevieve; Maglio, Robert
Subject: RE: WFALT 05-2 credit watch discussion

Who is Finance handles these/ Who can we go to with questions?

-----Original Message-----
From: Carter, Lauren
Sent: Monday, May 07, 2007 11:22 AM
To: Parkinson, David; Murray, Kelli; Liepold, Christina; Gething, Christopher; Nestor, Genevieve; Maglio, Robert
Subject: RE: WFALT 05-2 credit watch discussion

They are in the folder on the repurchase drive. Please review, maybe I am missing something.

Lauren

-----Original Message-----
From: Parkinson, David
Sent: Monday, May 07, 2007 11:15 AM
To: Carter, Lauren; Murray, Kelli; Liepold, Christina; Gething, Christopher; Nestor, Genevieve; Maglio, Robert
Subject: RE: WFALT 05-2 credit watch discussion

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Although there may be no specific Whole Loan reps from a purchase, aren't there reps that are made to the trust when it is securitized? How do we get copies of those agreements?

David Parkinson
Goldman, Sachs & Co.
100 2nd Ave. South, Suite 200S
St. Petersburg, FL 33701
Phone: (727) 825-3807
Fax: (212) 428-3600
Email: David.Parkinson@GS.com

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-----Original Message-----
From: Carter, Lauren
Sent: Monday, May 07, 2007 11:09 AM
To: Murray, Kelli; Liepold, Christina; Gething, Christopher; Parkinson, David; Nestor, Genevieve; Maglio, Robert
Subject: RE: WFALT 05-2 credit watch discussion

Based on the documents that I have been given. We do not have a fraud rep, or any type of credit/underwriting reps. Please provide any additional information you have.

Thanks

Lauren

-----Original Message-----
From: Murray, Kelli
Sent: Friday, May 04, 2007 2:13 PM
To: Liepold, Christina; Gething, Christopher; Parkinson, David; Morris, Loren; Gething, Christopher; Shuey, William; Winslow, Thomas; Carter, Lauren; Gallagher, Brian
Subject: FW: WFALT 05-2 credit watch discussion

Christina - yesterday in our meeting we questioned the fact as to whether or not we have the right to putback loans in the above deal since we did not buy the loans and were not the Issuer. Per the below msg, Genevieve states as resid holder we do have the right to putback these loans (Lauren still needs to review the loan level detail from Bohan). If Lauren identifies a population to putback, do you have the applicable agreement to reference? I thought Lauren had said she couldn't find the reps, so thought you may not have the Purch Agmt.

Pls let me know.

Thanks.

-----Original Message-----
From: Maglio, Robert
Sent: Friday, May 04, 2007 1:00 PM
To: Carter, Lauren; Murray, Kelli
Subject: RE: WFALT 05-2 credit watch discussion

Lauren,

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Genevieve stated we are the Resid holder for these loans and have the right to put loans back for breaches. If possible Genevieve would like to touch base on Monday to discuss which loans we feel are put back opportunities.

Kelli,

I have reached out to Wells to discuss Special call campaigns around this deal. They are coordinating a call for later today or Monday to discuss. Thanks

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-----Original Message-----
From: Carter, Lauren
Sent: Friday, May 04, 2007 9:38 AM
To: Murray, Kelli; Maglio, Robert
Subject: Re: WFALT 05-2 credit watch discussion

I have not had a chance to review could we post pone til monday? Can we get confirmation on what our rights are?

Thanks

Lauren

----- Original Message -----
From: Murray, Kelli
To: Maglio, Robert; Carter, Lauren
Sent: Fri May 04 09:16:26 2007
Subject: Re: WFALT 05-2 credit watch discussion

Be careful here when giving this info to tje RA. There were conversations yesterday on this deal and seems were still unclear if GS has the right to putback since we did not purchase the loans.

What is the OC left on this deal vs. The dlq pipeline?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Maglio, Robert
To: Carter, Lauren
Cc: Murray, Kelli
Sent: Fri May 04 09:07:03 2007
Subject: RE: WFALT 05-2 credit watch discussion

Lauren Good Morning,

Can you give me any color on these 60 loans that are in the scrub pipeline? All are either in FC or REO. I have a call with finance at 11 today? Are you available to join

492-B

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in on the call?

Wondering if any of them are good possibilities for put backs? Thanks

<<Book16.xls>>

From: Carter, Lauren
Sent: Wednesday, May 02, 2007 6:07 PM
To: Maglio, Robert
Cc: Murray, Kelli
Subject: RE: WFALT 05-2 credit watch discussion

Bohan has completed the review, however we do not have a repurchase manager assigned to it. I can have someone review the deal, and I can look at the reports. Remember we have some issues here. 1) no fraud reps, 2) we bought the bonds not the loans

Lauren

From: Maglio, Robert
Sent: Wednesday, May 02, 2007 5:04 PM
To: Carter, Lauren
Cc: Murray, Kelli
Subject: FW: WFALT 05-2 credit watch discussion

Lauren,

Just spoke with Aduke regarding this deal. Where is Bohan in regards to the scrub?

Kelli,

Aduke wants to do a call Friday to discuss this deal. I will gather info. Thanks

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From: Thelwell, Aduke H.
Sent: Wednesday, May 02, 2007 4:51 PM
To: Maglio, Robert
Subject: WFALT 05-2 credit watch discussion

Rob, the WFALT 05-2 that we underwrote has been placed on credit watch. Are you available for a quick internal call on this deal and what cooperation/focus we need from Wells?

Please let me know if you're available tomorrow at 11am.

From: Nestor, Genevieve
Sent: Thursday, April 26, 2007 11:03 AM
To: Moliski, William; Wicker, Devin; Meinders, Kelly
Subject: RE: Daily rating change report (Apr 25, 2007)

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[T-Mail]

We need to start working on this deal with Wells – Rob has been doing work on it but we need to elevate to Wells' attention. Bill can you coordinate an internal call with Rob Maglio, Morgan and us?

Thanks

From: Moliski, William
Sent: Thursday, April 26, 2007 11:59 AM
To: Nestor, Genevieve; Wicker, Devin; Meinders, Kelly
Subject: FW: Daily rating change report (Apr 25, 2007) [T-Mail]

WFALT 05-2 is on negative watch

From: Choi, Woo J.
Sent: Thursday, April 26, 2007 8:47 AM
To: 'T-Mail Subscribers'
Subject: Daily rating change report (Apr 25, 2007) [T-Mail]

** INTERNAL USE ONLY **

April 25, 2007 rating changes:

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Permanent Subcommittee on Investigations

MEMORANDUM

Goldman Sachs

To: Members of the Mortgage Capital Committee

From: Martha Rocha / Kenneth Lakra

Date: 2/2/2007 8:13:56 pm

Re: **Agenda for Monday, February 5, 2007**

Date:	**Monday, February 5, 2007**
Time:	**01:00pm NY time**
Location:	**85 Broad / 27A in New York**
Bridge Number	**212-902-0990**

The following is a list of transactions scheduled for review on Monday, February 5, 2007:

1.

2.

3.

Redacted by the Permanent Subcommittee on Investigations

4. **GSAMP 2007-FM2**
Goldman Sachs to securitize approximately $1,008 million of subprime mortgage loans purchased by Goldman Sachs Mortgage Company from Fremont Investment and Loan. The securitization is scheduled to be completed by February 21, 2007, and will utilize a senior/subordinated OC structure.
Memo Delivery Status: To Follow
Contacts: Kelvin Teo x2-9063, Leland Ivy x7-8049

5. **GSAA Home Equity Trust 2007-3**
Goldman Sachs to securitize approximately $1.3 billion of Alt-A type, hybrid, first lien mortgage loans. Goldman Sachs Mortgage Company purchased the Mortgage Loans from GS Mortgage Conduit (30.88%), GreenPoint (28.54%), Countrywide (20.02%), FNBN (10.84%) and Indymac (9.72%) between April 2006 and January of this year. The securitization is scheduled to close on February 23 with a first distribution in March and will likely utilize an OC structure.
Memo Delivery Status: To Follow
Contacts: Bill Moliski: 2-4668, Aaron Marks: 2-7884

6. **Residual Portfolio Update Presentation**
Memo Delivery Status: Enclosed
Contacts: Jared Erbst x7-1701, Asseneta Deliiska x7-8179

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2056

Confidential Treatment Requested by Go

Mortgage Capital Committee Memorandum

$[1,007,881,000] (approximate)
GSAMP Trust 2007-FM2
Mortgage Pass Through Certificates, Series 2007-FM2

Features of the Transaction

- On December 28, 2006 we purchased approximately $1,030 million of subprime, first lien, second lien, fixed and adjustable rate residential mortgages originated and serviced by Fremont Investment and Loan ("Fremont").
- This offering consists of approximately $[1,008] million of bonds expected to be rated by S&P and Moody's. The offering is expected to consist of approximately $[799] million of AAA/Aaa rated securities, $[209] million of AA+/Aa1 down to BB/Ba2 rated securities, a Net Interest Margin ("NIM") Security (issued separately) and a Residual Security.
- It is expected that there will be 22.40% credit support for the AAA rated securities in this transaction.
- The deal is expected to contain a swap agreement which will be available to pay Basis Risk Carry Forward Amounts for the entire offering.
- Expected profit will be approximately $1.25 million for this transaction.

Preliminary Collateral Characteristics

Total Outstanding Principal Balance:	$1,030,027,300
Number of Mortgage Loans:	4,463
Average Principal Balance of the Mortgage Loans:	$230,793
Weighted Average Annual Mortgage Interest Rate:	8.42%
Weighted Average Stated Maturity (months):	357
Weighted Average Seasoning (months):	2
Weighted Average Original Loan-To-Value Ratio:	77.13%
Weighted Average Combined Original Loan-To-Value Ratio:	86.84%
Weighted Average FICO:	628
Owner Occupied:	93.43%
Purchase:	33.54%
1st Lien:	94.39%
Silent Seconds:	5.22%
Condos:	4.45%
Single-Family and PUD:	86.12%
Full Documentation:	62.30%
Interest Only:	5.10%
Geographic Distribution:	CA: 27.48% FL: 13.18% NY: 10.04%
40 Year Loans:	10.21%

Residual

- Goldman plans on monetizing the residual through a NIM transaction. The expected market value of the NIM security will be approximately $33.5 million.
- The market value of the post NIM residual will be approx. $12.9 million for this transaction which Goldman will retain at an expected after loss yield of 18%. It is expected that at the end of February, the total residual position held for investment will be:

Product	$mm
Prime/Hybrid	$153.0
Alt-A	$190.0
Subprime	$216.0
Seconds	$70.0
Scratch & Dent	$54.0
Total	**$683.0**

Key Terms and Counterparts

Issuer:	GSAMP Trust 2007-FM2
Underwriter:	Goldman, Sachs & Co.
Depositor	GS Mortgage Securities Corp.
Trustee:	Deutsche Bank
Custodian:	Deutsche Bank
Issuance Type:	Public
Tax Treatment:	REMIC
Structure:	Senior/Subordinate OC Structure
Rating Agencies:	S&P and Moody's
Counsel:	Cadwalader Wickersham & Taft
Accountants:	Ernst & Young
Originator:	Fremont Investment and Loan
Master Servicer:	[Wells Fargo Bank]
Servicer:	Fremont Investment and Loan
Issuer:	GSAMP Trust 2007-FM2

Time Table

Expected Settlement:	February 22, 2007
Cut-off Date:	February 1, 2007
First Distribution Date:	March 26, 2007
Distribution Date:	25th or next business day

Expected Structure

Exp. Rating (S&P/Moody's)	Exp. Credit Support	Expected Size	Expected Bond Balance ($)
AAA/Aaa	[22.40]%	[77.60]%	$799,301,185
AA+/Aa1	[18.65]%	[3.75]%	$38,626,024
AA/Aa2	[15.15]%	[3.50]%	$36,050,956
AA-/Aa3	[13.10]%	[2.05]%	$21,115,560
A+/A1	[11.35]%	[1.75]%	$18,025,478
A/A2	[9.60]%	[1.75]%	$18,025,478
A-/A3	[7.95]%	[1.65]%	$16,995,450
BBB+/Baa1	[6.40]%	[1.55]%	$15,965,423
BBB/Baa2	[5.00]%	[1.40]%	$14,420,382
BBB-/Baa3	[3.95]%	[1.05]%	$10,815,287
BB+/Ba1	[3.15]%	[0.80]%	$8,240,218
BB/Ba2	[2.15]%	[1.00]%	$10,300,273
OC (fully funded)	n/a	[2.15]%	$22,145,587
NIM Security	n/a	n/a	$33,475,000
Total Post NIM Residual	n/a	n/a	$12,875,000

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Report Footnote #2056

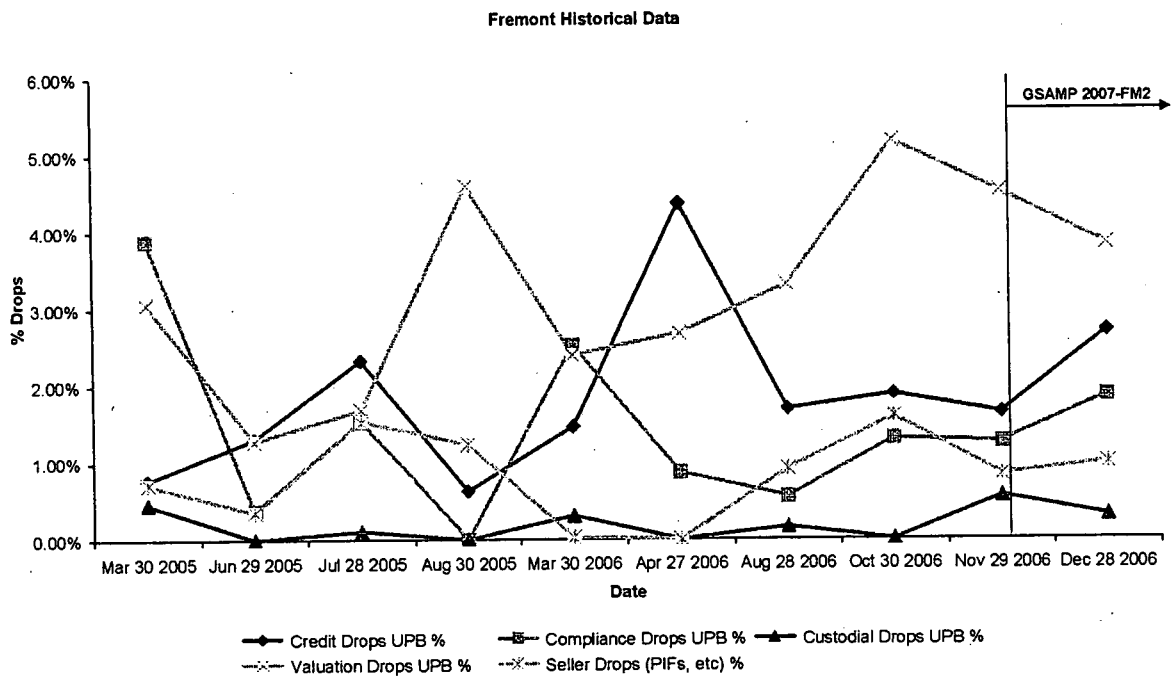
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Due Diligence Results

The table below summarizes the due diligence scope and results for the Fremont positions purchased on December 28, 2006.

		Drops as % of the Pool						Credit / Compliance Sampling			BPO Sampling	
Settlement	Deal %	Total	Credit	Compl.	Custodial	Value	Seller	Sample%	Credit Drops	Compl. Drops	Sample%	Drops
FM Dec 28 2006	100.0%	10.2%	2.7%	1.9%	0.3%	3.8%	1.0%	40.3%	6.7%	4.7%	33.6%	11.4%

Fremont Historical DD Results



NOTES

Value: Sampled 100% of pool; no systematic issues were found in relation to prior Fremont pools

Credit: No systematic issues found

Compliance: High-cost loans are Cook County and MA Safe Harbor declines; 100% of these loans were sampled, and no systemic issues were found. Fremont indicated that they will stop issuing loans in Cook County, or will exclude them from further GS packages

MEMORANDUM

To: Capital Committee

From: Matt Nichols
Michelle Gill
Michael Dente

CC: Dan Sparks
Kevin Gasvoda
David Stiepleman
Sang Kim
Joan Tom
Jay Friedman
Justin Mahoney
Nickolas Delikaris
Sarah Kong
Guy Solan
Insoo Lee
Brooke Stoddard
Christina House
Kelvin Teo
Leland Ivy

Re: Residential Mortgage Public Shelf Transaction Involving the Securitization of approximately $1,030 million of Subprime, First and Second Lien Mortgage Loans by GS Mortgage Securities Corp. in January 2007.

Date: February 5, 2007

Goldman Sachs' GSAMP FM Series Transactions

Closing Date	Deal	Collateral Type	Approximate Size ($ MM)	Fremont Percentage (%)
January 2004	GSAMP 2004-FM1	Subprime	$766	100%
March 2004	GSAMP 2004-FM2	Subprime	$1,006	100%
January 2005	GSAMP 2005-HE1	Subprime	$774	52%
June 2005	GSAMP 2005-HE3	Subprime	$1,256	21%
August 2005	GSAMP 2005-HE4	Subprime	$1,500	48%
April 2006	GSAMP 2006-FM1	Subprime	$949	100%
September 2006	GSAMP 2006-FM2	Subprime	$1,002	100%
December 2006	GSAMP 2006-FM3	Subprime	$691	100%
January 2007	GSAMP 2007-FM1	Subprime	$674	100%

Closing Date	Deal	Collateral Type	Approximate Size ($ MM)	GS Role
February 2005	FHLT 2005-A	Subprime	$1,176	Co-Manager
May 2005	FHLT 2005-B	Subprime	$964	Sole Lead
June 2005	FHLT 2005-B NIM	Subprime-NIM	$45	Sole Lead
July 2005	FHLT 2005-C	Subprime	$1,001	Co-Manager
November 2005	FHLT 2005-D	Subprime	$1,008	Co-Manager
May 2006	FHLT 2006-A	Subprime	$1,007	Co-Manager
July 2006	FHLT 2006-B II	Subprime	$250	Co-Manager
September 2006	FHLT 2006-C	Subprime	$1,799	Co-Manager
November 2006	FHLT 2006-D	Subprime	$1500	Co-Manager
December 2006	FHLT 2006-E	Subprime	$793	Lead-Manager

Originator & Servicer

Fremont Investment and Loan ("Fremont") is a subsidiary of Fremont General Corporation (NYSE:FMT), a financial services holding company. As of January 31, 2007, Fremont General has an equity market capitalization of $1.06 billion and senior unsecured ratings of B2/B+/B+ (M/S/F). Fremont maintains a "well capitalized" standard and is well in excess of the minimums required for that designation. Fremont originated $18 billion of loans in the first half of 2006 and obtained 5.4% of the market share. In the 2005 financial year, Fremont's sub-prime residential originations totaled $34.9 billion. Goldman Sachs has acted as both lead and co-manager on Fremont's securitization of its originations off its own shelf. All of the mortgage loans will be serviced by Fremont. As of 3Q 2006, Fremont serviced a portfolio of mortgage loans totaling approx. $25 billion. Its residential primary servicer ratings for subprime products is "Average" by S&P, "SQ3+" by Moody's and "RPS3" by Fitch.

Fremont, along with other subprime originators, had struggled in 2006. Most notable difficulties arose from EPDs along with valuation and premium recapture resulting in reserves totaling $250.7MM in November 2006 YTD vs. $67.0MM in all '05. Related to early loan performance issues, bonds issued off of two 2006 transactions with Fremont collateral (one off Fremont's shelf) and two 2005 transactions with Fremont collateral have been placed on negative watch due to higher than expected delinquencies and losses. In response to loan performance issues, Fremont undertook a major overhaul of its underwriting guidelines in 2Q and 3Q 2006, resulting in a 20%+ drop in production. Most notable targets for revisions included raising minimum FICOs on 80/20s (full to 600 and stated to 640), increase in the number (and quality) of trade lines for certain products, first time home buyers, stated-doc W2 wage earners and high LTV Michigan loans. Due to their exposure to the subprime residential mortgage market, Fremont was recently placed on a "negative" rating outlook from "stable" by Fitch Ratings.

[Master Servicer]

Wells Fargo Bank, N.A.,

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Permanent Subcommittee on Investigations

From: Davilman, Andrew
Sent: Wednesday, April 11, 2007 12:31 PM
To: Egol, Jonathan
Subject: Fw: GSAMP 2006-S3 -- Computational Materials for Wachovia (external)

Attachments: GSAMP 2006-S3 -- 2007.03.26 Remit Report.pdf; FINALGSAMP2006S3FWP.pdf

----- Original Message -----
From: Burke, James <james.burke1@wachovia.com>
To: Davilman, Andrew
Cc: Fiordaliso, Matthew <matthew.fiordaliso@wachovia.com>; Burke, James <james.burke1@wachovia.com>; McCarter, Susan <susan.mccarter1@wachovia.com>; Park, Woojung <woojung.park@wachovia.com>; Gilman, Yulia <yulia.gilman@wachovia.com>; Thorpe, Brendan <brendan.thorpe@wachovia.com>; Nash, Tom <tom.nash@wachovia.com>
Sent: Wed Apr 11 12:21:50 2007
Subject: FW: GSAMP 2006-S3 -- Computational Materials for Wachovia (external)

Andy,



FINALGSAMP2006S 3FWP.pdf

As you know, we own $10mm of the GSAMP 06-S3 M2 bond inside one of SAI's HG ABS CDOs. We are shocked by how poorly this bond has performed right "out of the gate" and had asked Liran to send us the attached ProSupp. After having read the ProSupp and compared it to the termsheet we have several concerns:

* According to the Prosupp, approximately $2.2mm (by my calculation using %'s from pp 58 and 60) of loans were delinquent when they were transferred to the trust. However, there is no mention of delinquent loans anywhere in the termsheet that was sent to investors when the deal was priced.
* According to the Prosupp, approximately $3.3mm (by my calculation using %'s from pp 31 and 32) are re-performing loans. However, there is no mention of reperforming loans anywhere in the ternsheet.
* Approx. 53.14% of the loans in the deal allow for a Prepayment Premium and that all Prepayment Premiums collected from borrowers are paid to the Class P certificateholders. None of this was disclosed in the termsheet and my concerns are two-fold: (1) The presence of Prepayment Premiums effects prepayment speeds which affects the excess spread in the deal (and ultimate build-up of OC); (2) Prepayment Premiums are not staying inside the deal for the benefit of all investors but are being earmarked for the Class P holder (which is not mentioned in the termsheet). Note that according to the most recent remittance report, $1.2mm in Prepayment Premiums has already been paid out to the Class P holder.
* According to page 83 of the Prosupp, the servicer must charge off any loan that becomes 180 days delinquent, giving rise to a Realized Loss inside the deal. Currently losses are at 9.71% of the original deal balance, or approximately $48mm despite the fact that the deal is only 11 months old (note that this figure already exceeds Moody's expection for cumulative losses for the deal over the ENTIRE LIFE of the deal). I will also note that there are an additional $57.5mm of loans in the delinquency pipeline. This seems to indicate significant fraud at either the borrower or lender level and I'm wondering what steps Goldman has taken to hire forensic accountants to investigate the deal.
* According to page 83 of the Prosupp, any subsequent recoveries on the charged-off loans do not inure to the benefit of all investors in the deal but ONLY to the Class X1 certificateholder. This is not mentioned anywhere in the termsheet. Who owns the Class X1 notes? Is that Goldman or an affiliate? How much has been recovered so far? This is

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a material fact to me especially considering that loss severities are coming in at around 105% on the charged-off loans.

At your earliest possible convenience I would like to speak with the senior people at Goldman involved in this transaction. Your help is greatly appreciated.

James Burke
Head of ABS Investment Management
Structured Funds Management
375 Park Ave., New York NY
work: 212-214-8601
cell: 917[redacted]
fax: 212-214-8971
james.burke1@wachovia.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Nehushtan, Liran [mailto:Liran.Nehushtan@gs.com]
Sent: Monday, April 09, 2007 8:41 AM
To: Burke, James
Cc: Fiordaliso, Matthew
Subject: FW: GSAMP 2006-S3 -- Computational Materials for Wachovia (external)

Hi Jim,

Attached are the remit report and FWP for GSAMP 06-S3. Please let me if there are any other docs that you would like to see.

Thanks,

Liran

Goldman, Sachs & Co.

One New York Plaza, 50th floor | New York, NY 10004

Phone: (212) 902-0416 Fax: (212) 256-2257

E-mail: liran.nehushtan@gs.com <mailto:liran.nehushtan@gs.com>

Liran Nehushtan

Structured Sales Goldman

Sachs

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From: Brocato, Russell
Sent: Monday, April 09, 2007 8:36 AM
To: Nehushtan, Liran
Subject: GSAMP 2006-S3 -- Computational Materials for Wachovia (external)

<<GSAMP 2006-S3 -- 2007.03.26 Remit Report.pdf>> <<FINALGSAMP2006S3FWP.pdf>>

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The Depositor has filed a registration statement (including the prospectus (the "Prospectus")) with the SEC for the offering to which this communication relates. Before you invest, you should read the Prospectus in the registration statement and other documents the Depositor has filed with the SEC for more complete information about the Depositor, the issuing trust and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov <file://www.sec.gov> . Alternatively, the Depositor or Goldman, Sachs & Co., the underwriter for this offering, will arrange to send the Prospectus to you if you request it by calling toll-free 1-866-471-2526.

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Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Friday, February 23, 2007 9:59 PM
To: Sparks, Daniel L; Montag, Tom; Ruzika, Richard; McMahon, Bill; Smith, Sarah; Lee, Brian-J (FI Controllers)
Cc: Cohn, Gary (EO 85B30); Winkelried, Jon (EO 85B30); Viniar, David; Gmelich, Justin; Gasvoda, Kevin
Subject: Mortgages today

Estimate was +23mm, but likely will be changed to down 7mm.
Market sold off (BBB 60 wider and BBB- indices 100 bps wider)
We sold $500mm of index and covered around $500mm single names.
We liquidated 3 CDO warehouses today and started the liquidation of another. We may liquidate one more next week.

Estimate today (but will need to be revised):

Single names	+26mm
Trading of single names	+10mm
Index	(16)mm
CDO CDS	+41mm
Correlation	+35mm
CDO positions	(33)mm
CDO warehouse	(52)mm
Prime	+4mm
Other	+8mm
Total	+23mm

Post-estimate adjustments (subject to controllers):

Increase in bid/offer reserve	(13mm)
CDO warehouse	(20mm)
Puts position	+3mm
Net	(30mm)

So with adjustments day would be (7mm).

Need to work with controllers on adjustments over weekend.
Will also be working through all books with controllers so could be further adjustments.
Controllers is being very helpful in this challenging and dislocated market.

As CDOs are getting hurt, the CDO warehouse is the position that is the one of potential concern. The key is to find super-senior protection providers for the remaining deals. The largest remaining deals are 2 CDOs of single A rated CDOs and 2 high grade CDOs (no subprime BBB exposure). We have CDO CDS shorts for protection, but deal execution is key.

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Daniel L. Sparks
Goldman, Sachs & Co.
(212) 902-2914 (o)
(917) [redacted]

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Wall Street & The Financial Crisis
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Confidential Treatment Requested by Goldma

From: Lehman, David A.
Sent: Friday, June 01, 2007 4:31 PM
To: Sparks, Daniel L
Cc: Birnbaum, Josh; Swenson, Michael; Egol, Jonathan
Subject: CDO update

1) We collapsed ~100mm of "A2/A" SP CDO risk b/w liquidated warehouses and the trading books on Tuesday. These trades were natural offsets and did not generate significant P&L.

2) GS sold $20mm TWOLF 07-1 A2 (AAA/Aaa) to Tokyo Star @ 83.90 on Wednesday

vs. our current mark of $80.00 this trade generated +780k of P&L

Remaining risk of TWOLF deal

Aaa/AAA 225mm
Aa2/AA 107mm
S Notes 17mm

3) GS will be selling $47mm of Altius 4 High Grade CDO to Aozora Bank in Japan Sunday night

$36mm of Aa2/AA risk @ 150 dm / px of ~98.5 / leaves us with 10mm
$11mm of A2/A risk @ 400 dm / px of ~92.5 / takes us out of the position

vs. our current marks these trades will have minimal P&L (~+10k)

Remaining risk off Altius deal -
Aa2/AA $10mm, likely will be traded to the First Commercial Bank of Taiwan next week
Baa2/BBB, $4mm
Equity $2.8mm

4) We did not trade any Point Pleasant CDO^2 positions on the week

Current Position in Point Pleasant

Aaa/AAA (A1) 128mm
Aaa/AAA (A2) 35mm
Aa2/AA 50mm
A2/A 10mm
Baa2/BBB 3mm
Equity 10mm
S Notes 6mm

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman
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David Lehman
Fixed Income, Currency & Commodities

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From: Lehman, David A.
Sent: Friday, June 22, 2007 2:30 PM
To: Lehman, David A.; Mullen, Donald; Sparks, Daniel L; Brafman, Lester R
Cc: Swenson, Michael; Birnbaum, Josh
Subject: RE: Few trade posts

Also - P+L from the sale of the ~50mm RMBS was ~ +1mm vs the marks

From: Lehman, David A.
Sent: Friday, June 22, 2007 2:28 PM
To: Mullen, Donald; Sparks, Daniel L; Brafman, Lester R
Cc: Swenson, Michael; Birnbaum, Josh
Subject: Few trade posts

Traded $20mm of the OCTAN 06-2 A3A mezz CDO bonds to [redacted] @ $82....we bot these bonds @ $80 from [redacted]..trying to upsize the ticket to 40mm @ $82 which will clean us out...Egol did a great job w/ [redacted] on this one.

Also, we have sold $40mm RMBS A3/A- out of the WH account to MS prop and another $10mm to [redacted]

Only 40mm RMBS A3/A- remain in the WH accounts, 1/2 of which is Long Beach paper - Edwin/Deeb continue to work.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

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David Lehman
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From: Lehman, David A.
Sent: Tuesday, March 13, 2007 5:56 AM
To: Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Kamilla, Rajiv; Salem, Deeb
Subject: FW: London - this is for you....INTERNAL** Three focus axes for SP CDOs/SPG Trading

x-gs-classification: Internal-GS

See below from Yusuf - Do we want to update and shoot over Deeb and Rajiv's trade ideas or just leave it w/ the below for now?

From: Aliredha, Yusuf
Sent: Tuesday, March 13, 2007 4:09 AM
To: Madoff, Paula; Faker, Carl; Zaimi, Sanaz; Wright, Neil
Cc: Lehman, David A.
Subject: RE: London - this is for you....INTERNAL** Three focus axes for SP CDOs/SPG Trading

This is helpful for traditional SP buyers.

I was hoping for more a list of trading opportunities for more trading accounts. Ie given the dislocation in the market what are the best risk/reward trades(obv those that we are axed to do).

From: Madoff, Paula
Sent: Monday, March 12, 2007 8:54 PM
To: Aliredha, Yusuf; Faker, Carl; Zaimi, Sanaz; Wright, Neil
Cc: Lehman, David A.
Subject: London - this is for you....INTERNAL** Three focus axes for SP CDOs/SPG Trading

Good morning, just wanted to make sure that you see David's message for you. Follow up from last week's call. thanks

From: Lehman, David A.
Sent: Monday, March 12, 2007 4:39 PM
To: Madoff, Paula; Gmelich, Justin; Cornacchia, Thomas; Street, Patrick; Ricciardi, Steven; Swenson, Michael; Birnbaum, Josh; Lehman, David A.; Rosenblum, David J.; Ostrem, Peter L; Bohra, Bunty; Gasvoda, Kevin; Wright, Neil; Faker, Carl; Zaimi, Sanaz; Aliredha, Yusuf; Sparks, Daniel L; Raz, Shlomi; Bash-Polley, Stacy; Wiesel, Elisha; McDonald, Ian (New York); Schwartz, Harvey
Cc: Bieber, Matthew G.; Wisenbaker, Scott; Case, Benjamin
Subject: **INTERNAL** Three focus axes for SP CDOs/SPG Trading

Internal only - As per Yusuf's suggestion last Friday, below are the three main focus areas for SP CDOs/SPG Trading.

Pls call the desk with any questions.

1) Anderson Mezz Funding

- We are axed across the capital structure save for the BBBs which have been preplaced to GSC
- Pls direct all questions/inquiry to Matt Bieber and/or Scott Wisenbaker

Anderson Mezz Funding 2007-1, Ltd. -- Launch (144a/RegS) (external)
Lead Manager & Sole Bookrunner: Goldman, Sachs & Co.
Liquidation Agent: Goldman, Sachs & Co.
$305mm Static Mezzanine Structured Product CDO

Class	Size($mm)	%Deal	Mdy/S&P	WAL(y)	Init OC	Launch
S	[]	N/A	Aaa/AAA	[ ]	N/A	1mL+20
A-1a	130.0	42.6%	Aaa/AAA	[3.0]	166.7%	1mL+32
A-1b	53.0	17.4%	Aaa/AAA	[5.0]	166.7%	1mL+65
A-2	30.5	10.0%	Aaa/AAA	[3.6]	142.9%	1mL+90
B	42.7	14.0%	Aa2/AA	[4.3]	119.0%	1mL+175

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C	16.8	5.5%	A2/A	[4.1]	111.7%	1mL+550
D	11.1	3.6%	Baa2/BBB	[5.3]	107.4%	Not Offered
Inc. Nts.	20.9	6.9%	NR	N/A	N/A	Call Desk

2) Timberwolf CDO^2

- We are axed from jr. AAA through BBB
- Pls direct all questions/inquiry to Matt Bieber and/or Scott Wisenbaker

Timberwolf I, Ltd. -- Price Guidance (144a/RegS) (external)
Lead Manager & Sole Bookrunner: Goldman, Sachs & Co.
Collateral Manager: Greywolf Capital Management LP
$1Bn Single-A focused Structured Product CDO

Class	Size($mm)	%Deal	Mdy/S&P	WAL(y)	Init OC	Guidance
S-1	$[ ]	N/A	Aaa/AAA	[ ]	N/A	CALL DESK
S-2	$[ ]	N/A	Aaa/AAA	[ ]	N/A	CALL DESK
A-1-a	$[100]	10.00%	Aaa/AAA	[3.1]	1000.0%	CALL DESK
A-1-b	$[400]	40.00%	Aaa/AAA	[6.7]	200.0%	CALL DESK
A-2	$[305]	30.50%	Aaa/AAA	[6.2]	124.2%	3mL+90a
B	$[107]	10.70%	Aa2/AA	[6.7]	109.6%	3mL+140a
C	$[36]	3.60%	A2/A	[6.8]	105.5%	3mL+450a
D	$[30]	3.00%	Baa2/BBB	[6.5]	102.2%	3mL+1000
Inc. Nts.	$[22]	2.20%	Not Rated	N/A	N/A	CALL DESK

3) Secondary CDO positions

- Pls direct all questions/inquiry to Ben Case

Deal name	Bloomberg ticker	Class	Mdys	S&P	Size (orig.)	Offer
Hudson Mezz 1						
Hudson Mz 06-1	HUDMZ 2006-1A	B	Aa2	AA	$35,000,000	300
Hudson Mz 06-1	HUDMZ 2006-1A	C	A2	A	$30,000,000	600
Hudson Mz 06-1	HUDMZ 2006-1A	D	Baa2	BBB	$27,000,000	1100
Hudson Mz 06-1	HUDMZ 2006-1A	E	Ba1	BB+	$10,000,000	1500
High grade BBBs						
Davis Square VII	DVSQ 2006-7A	D	Baa2	BBB	$13,000,000	400
GSC 2006-3g	GSCSF 2006-3GA	D	Baa2	BBB	$16,000,000	400
Lochsong	LOCH 2006-1A	D	Baa2	BBB	$14,000,000	500

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Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

Disclaimer:

This material has been prepared specifically for you by the Goldman Sachs Fixed Income Commercial Mortgage Backed Securities (CMBS) Trading Desk and is not the product of Fixed Income Research. We are not soliciting any action based upon this material. Opinions expressed are our present opinions only. The material is based upon public information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be

Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Thursday, September 27, 2007 11:37 AM
To: Montag, Tom
Subject: Re:

Really long story. Very unclear as to solution that is in best interest of getting axes and business done

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Thu Sep 27 08:59:44 2007
Subject: RE:

so you overpay? what should it have been--makes management information rather flimsy doesn't it

-----Original Message-----
From: Sparks, Daniel L
Sent: Thursday, September 27, 2007 8:38 AM
To: Montag, Tom
Subject: Re:

It was a very big ax, but sales credits have become such a contentious point that trading team doesn't debate it anymore. The politics around sales credits had become unbelievable and were a hinderance to business.

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Thu Sep 27 08:29:43 2007
Subject:

Did we really pay sixty million in gcs on the aaa short covering? Why so high?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2084

Confidential Treatment Requested by Goldman

From: Montag, Tom
Sent: Friday, May 11, 2007 10:29 AM
To: Sparks, Daniel L
Subject: Re:

But where would they buy the rest

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Cc: Mullen, Donald
Sent: Fri May 11 09:41:23 2007
Subject: RE:

They bought half the equity, all the BBBs and 20 of the single As. BSAM bought all the super seniors (50-90 attachment). We have also sold the super super senior (90-100 attachment) to 2 separate accounts.

Dillon Read took down half of everything with us (other than super senior from which natexis took) - plan has been joint sell downs. Remember that UBS shut down DR last week

-----Original Message-----
From: Montag, Tom
Sent: Friday, May 11, 2007 9:37 AM
To: Sparks, Daniel L
Subject: Re:

Does greywolf own any of this. Where would they buy it?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Cc: Mullen, Donald
Sent: Fri May 11 09:35:12 2007
Subject: RE:

Small number of sales (16 single A on Timberwolf, 20 junior AAA on each point pleasant and timberwolf). Gradual mark downs (bleeding) from marketing information and inability to move paper.

-----Original Message-----
From: Montag, Tom
Sent: Friday, May 11, 2007 9:25 AM
To: Sparks, Daniel L
Cc: Mullen, Donald
Subject: Re:

What have we done since march? Any price changes any sales?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Cc: Mullen, Donald
Sent: Fri May 11 09:22:44 2007
Subject: RE:

Timberwolf (Greywolf)
7/21/06 - engagement letter signed

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2085

Confidential Treatment Requested by Goldm

9/5/06 - warehouse begins ramping
12/13/06 - warehouse 50% ramped
3/2/07 - revision to engt letter - Greywolf commitment to purchase BBB and single A tranches
3/13/07 - pricing
3/27/07 - closing

Point Pleasant (Dillon Read)
6/2/06 - engagement letter signed
9/14/06 - warehouse begins ramping
12/14/07 - warehouse gets to 50% ramped
3/5/07 - commitment letter signed with Natixis for Super senior
4/10/07 - pricing
4/18/07 - closing

-----Original Message-----
From: Montag, Tom
Sent: Thursday, May 10, 2007 9:19 PM
To: Sparks, Daniel L
Cc: Mullen, Donald
Subject:

Sorry a bit more

Average purchase date of this stuff and why on greywold or dillon read after we sold a chunk and it just sat there didn't we move it to the traders-those were residuals and stuck at that time weren't they?

Confidential Treatment Requested by Goldman Sachs

From: Wiesel, Elisha
Sent: Tuesday, March 06, 2007 1:42 PM
To: Sparks, Daniel L
Cc: Bimbaum, Josh; Turok, Michael
Subject: Property derivs

Dan -

Met with Josh, Rajiv, Mike, Jeremy, Barrett on this topic.

Only big short for us here is that we'll re-broadcast to the rest of the Firm our lack of having fully delivered models relating HPA to subprime. That message may already (and appropriately) be fully delivered, but our moving out into the new product can and likely will generate questions from Monty on down.

If you're fine w that, and the fact that we won't be able to reflect this in VaR in a meaningful way for quite some time, then I'm ok with us finishing up the work and moving forward.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2088

Confidential Treatment Requested by Goldm

Mortgages Department

May 2007

GS MBS-E-001863651

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2090

EXHIBIT 3

Mortgages Department
Executive Summary

- The Mortgage Department is concerned about the following risks:
  - Retained Positions in the CDO Origination Business
    - Market Value of CDO Debt and Equity is $4.262bn
    - $2.6bn represents High Grade Super Senior
    - Desk is specifically concerned regarding CDO^2 positions which represent $637mm of Debt. The complex structure of these positions make them difficult to value and distribute.
  - Warehouse Collateral in the CDO Origination Business
    - Market Value of $1.458bn
    - Desk is specifically concerned regarding $742mm of Structured Product CDOs. Currently, there is limited liquidity and price transparency in this space.
  - Secondary SPG Trading Book
    - Short positon of $2.8bn of which $2.4bn is in single A or Lower Mezz tranches of CDOs
    - Desk is specifically concerned about the basis risk between the short in this book and the warehouse collateral. Although they are the same product, there is limited overlap between the two books.
  - Other Open Items

Mortgages Department

Retained Positions

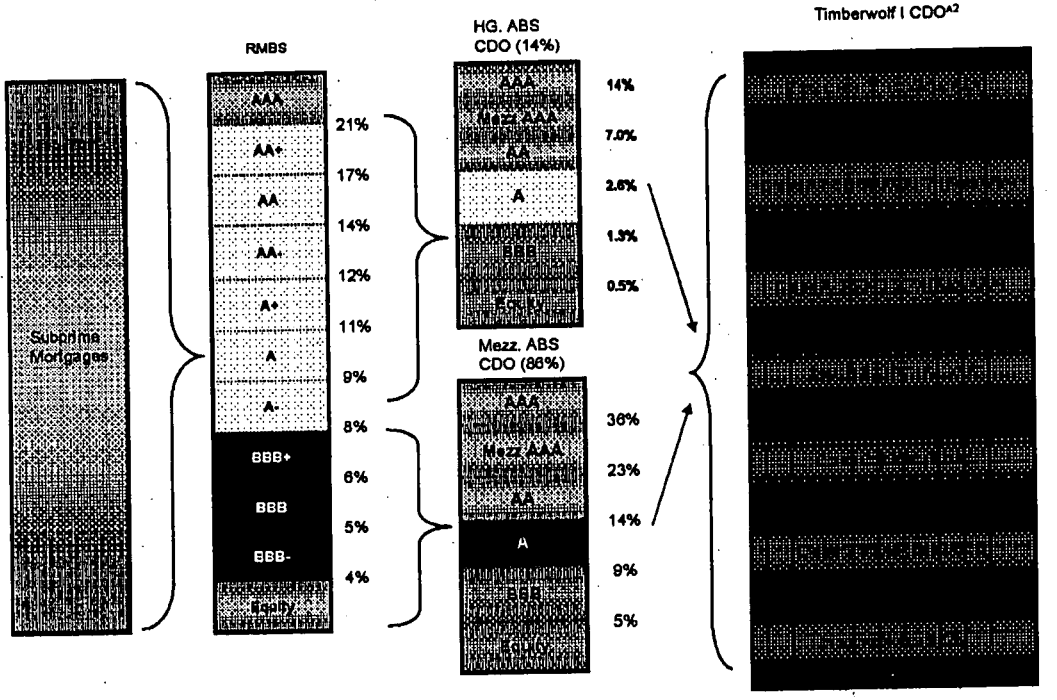
- The desk holds $4.262bn in Retained positions related to CDO Debt and Equity
- The desk is most concerned about the CDO^2 positions, which is comprised of the recent Timberwolf and Point Pleasant transactions. Details listed below:

Tranche	Deal	Mdys	Notional *	Mark	Mkt Value *
"S" tranche	Timberwolf	Aaa	9.0	100.00%	9.0
"S" tranche	Timberwolf	Aaa	8.3	100.00%	8.3
Mezz AAA	Timberwolf	Aaa	285.0	91.34%	260.3
AA	Timberwolf	Aa2	107.0	88.72%	94.9
Equity	Timberwolf		10.8	85.00%	9.1
		Total	420.1		381.7
Mezz AAA	Point Pleasant	Aaa	127.5	94.78%	120.8
Mezz AAA	Point Pleasant	Aaa	75.0	92.24%	69.2
AA	Point Pleasant	Aa2	50.0	89.41%	44.7
A	Point Pleasant	A2	10.1	71.88%	7.3
BBB	Point Pleasant	Baa2	10.5	76.72%	8.1
Equity	Point Pleasant		10.1	58.00%	5.8
		Total	283.2		255.9
		TOTAL	703.2		637.6

* Notional and Market Value in MMs

Mortgages Department

Timberwolf I CDO^2: Overview of Capital Structure

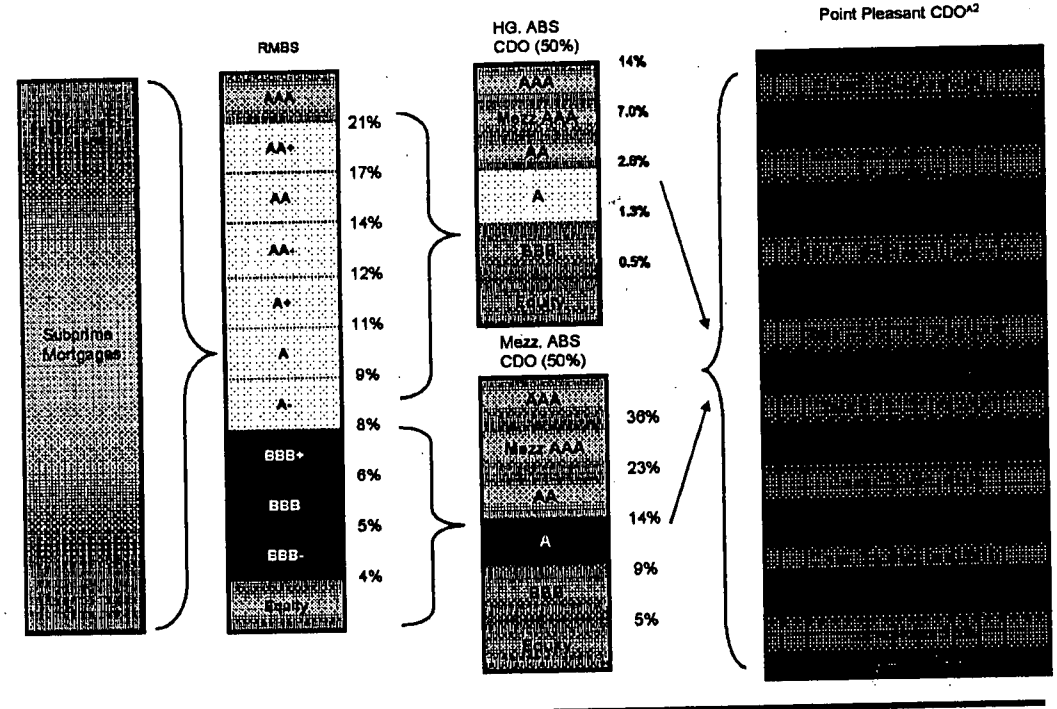


Note: Current RMBS enhancement levels are approximately 4 to 6% higher as a results of excess spread building up within the structure

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Mortgages Department

Point Pleasant CDO^2: Overview of Capital Structure



Note: Current RMBS enhancement levels are approximately 4 to 6% higher as a results of excess spread building up within the structure

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Mortgages Department

Warehouse Positions

- The desk holds $1.458bn in Warehouse Collateral related to 4 CDO transactions
- Current valuation policy is lower of mark to model or cost. As securitization is no longer a viable exit, the warehoused collateral will be marked to market on an individual basis.
- Biggest driver of the marked to market is the $742mm Structured Product CDO collateral which has limited price visibility
- Details of the Warehouse Collateral are represented below:

		SPG Trading		Controllers	
Sector	Market Value	Proposed Mark	Price Change	Proposed Mark	Price Change
[redacted]	[redacted]	[redacted]	[redacted]		
RMBS - Other	183.7	(15.8)	-9%		
RMBS - Subprime	341.3	(27.2)	-8%		
SP CDO	741.8	(169.6)	-23%		
Less: Warehouse mark-to-model reserves		82.0			
Less: SMBC Funding facility		12.0			
Total	1,458.1	(125.9)			

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Mortgages Department

Secondary SPG Trading

- Over the past year the Secondary trading desk has built a short positon of $2.4bn in Single A or below Structured Product CDOs
- During this time period, Single A CDO prices are ~20-25pts lower (from $100 to $75-80)
- As the market for securities in this space has declined, the desk has realized the followoing PnL:

	CDO PnL		SPG Trading
	CDO Origination/Retained	Warehouse	ABS / Correlation
MTD	(25.7)	(21.2)	14.7
QTD	(172.3)	(155.8)	196.8
YTD	(226.5)	(231.5)	262.8

* in MMs

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Mortgages Department

SPG Trading Valuation Methodology

- CDO^2
  - Use of rough modeling tools/frameworks such as risk neutral pricing and our approximate HPA/empirical analysis
  - Trader views of where risk should trade in the context of the market, incorporating the current fundamental and technical backdrop
  - Customer feedback/potential indications of interest
- Non - CDO^2
  - Market observables on debt securities (CDOs, CMBS, RMBS, CLOs)
  - Blended scenario analysis on retained SP CDO equity positions, incorporating downgrade triggers and cashflow waterfall structure

Mortgages Department

Mortgage Strats Modeling Procedure

- The asset model is a 2-layer correlation model designed for pricing synthetic CDOs of structured product securities. Correlations at each level are calibrated from the variation of market spreads across the capital structure. Underlying asset values driving the valuation are calibrated from market spreads at the second level; a basis in asset values may be inferred from market spreads at the top level.
- Advantages:
  - Simultaneously models 2 layers of structure, capturing interaction between 2 levels of correlation
  - A large number of correlated loss scenarios are simulated
  - Credit curves for underlying assets 2 layers down are based on a Merton-style asset value model, suitable for asset-backed loans typically at this level
  - Handles synthetic CDO waterfall features such as individual callability of blocks of tranches and modified sequential paydown
  - Handles key waterfall features of structured product underliers such as RMBS stepdown
- Disadvantages:
  - Designed for synthetic CDOs, does not currently capture some features of cash flow CDO waterfall such as oc/ic triggers and ratings downgrade triggers
  - Does not capture rate convexity for rate sensitive mortgage products

Mortgages Department

SCT Modeling Procedure

- Step 1: Value RMBS Underliers
  - Pricing feeds taken from 3rd party pricing service (IDC) first and the from GS ABS trading to backfill.
  - IDC pricing vs. ABS Trading were very close in most cases
- Step 2: Run Net Asset Value ("NAV") Analysis and Simulation Analysis on CDO residual position and CDO^2 underlying CDOs
  - NAV analysis prices a CDO's asset pool (using prices mentioned in Step #1) and then layers that aggregate asset value over the CDO's capital structure in a sequential fashion
  - Simulation analysis runs multiple possible outcomes with the goal of determining how a portfolio's aggregate value should be allocated across the tranches of a given CDO structure. Often value in a CDO is not allocated in a purely sequential fashion and simulation analysis can expose the relationship better in many cases than NAV analysis alone
- Step 3: Create a rule based system to choose simulation based valuation output vs. NAV based output & implement approximations for line items where simulations and / or NAVs could not be executed
  - For line items where simulation analysis and NAV analysis could both be run, a simulation based valuation was used
  - For line items where only NAV analysis could be run, NAV level was used subject to a valuation floor and cap
  - For line items where neither NAV nor simulation analysis could be run, the weighted average price of successfully priced line items with similar asset characteristics was used. If no comparable line items were available (approx 15% of the 250 line item portfolio), the desk used a degree of subjectivity in determining price
- Step 4: Based upon implied ATM spreads calculated in Step #3, run an additional simulation analysis and NAV analysis on both CDO^2 transactions (Point Pleasant and Timberwolf)

Mortgages Department

Alternative Valuations (in MMs)

- Still to fill out narrative – will talk about flaws in model approach

	Current Mark	SPG Trading			Model Approach		Controllers
		A	B	C	A	B	
Retained Positions	4,261.9	(128.3)	(216.3)	(303.4)			
- CDO Debt	*4,150.3*	*(117.0)*	*(187.3)*	*(257.8)*			
- CDO Equity	*111.6*	*(12.3)*	*(29.0)*	*(45.7)*			
Benchmark: *Timberwolf Mezz AAA*	280.9	(44.6)	(80.8)	(75.1)			
Warehouse Collateral	1,458.1	(107.2)	(125.9)	(144.6)			
TOTAL (Retained and Warehouse)	5,720.0	(235.5)	(342.2)	(448.0)			

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Mortgages Department
Next Steps

- Unwind the warehouses
- Independent teams to continue to value retained positions
  - David Lehman & Michael Swenson (SPG Trading)
  - Will Roberts, Jerry Ouderkirk, Doug Weaver (SCT Trading)
  - Dedicated Mortgage Strat support, led by Elisha Wiesel
- Distribution team to continue to work with targeted investors, led by Stacy Bash-Polley (Elisha Wiesel further working with legal on disseminating information to investors)
  - Basis Capital
  - Fortress
  - Polygon
  - Winchester Capital
- SPG Trading to gather observable prices on underliers to improve accuracy of valuation models
- Justin Gmelich will continue to work with Controllers to resolve discrepancies for non-CDO PnL items

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Mortgages Department

Other Risks

	SPG Trading Estimate	Controllers Estimate	Credit Estimate *
Subprime Residuals	(40) to (50)	(5)	(5)
Alt A Residuals	(25) to (30)	8	8
Second Lien Residuals	(21)	TBD	TBD
HELOC Residual	(5)	(5)	(5)
Scratch and Dent Residuals	(5)	(5)	(5)
Scratch and Dent Loans	TBD	TBD	TBD
CDS Duration	100 to 125	100 to 125	100 to 125

* Led by Justin Gmelich

Appendix

GS MBS-E-001863664

5/20/2007 2:58 PM

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Mortgages CDO Origination

CDO Debt - Retained Positions

Tranche	Deal	Class	Rating	Deal Type	Current Face ($mm)	Mark	Mkt Value ($millions)	WG Mark: Aaa A	Aaa B	Aaa C	Gross Partial Mark	Post Mark	Marked ($millions)	Recent Sales: Price	Trade Date	LTV
"S" tranche	Altius III	S	Aaa	High grade	16.7	[redacted]	[redacted]									
"S" tranche	Timberwolf	S1	Aaa	CDO-squared	9.0	100.00%	9.0									
"S" tranche	Timberwolf	S2	Aaa	CDO-squared	8.3	100.00%	8.3									
"S" tranche	Davis Square VII	S	Aaa	High grade	20.0	100.00%	20.0									
"S" tranche	Fort Denison	S	Aaa	Mezz	5.3	100.00%	5.3									
"S" tranche	Point Pleasant	S	Aaa	CDO-squared	6.0	100.00%	6.0									
Super Senior	Davis Square VII	A1-a	Aaa	High grade	1,570.0	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]						
Super Senior	GSC 2006-3g	A1-a	Aaa	High grade	1,085.0											
Super Senior	Hudson Mz 06-2	A1	Aaa	Mezz	115.0											
Super Senior	Summer Street 04-1	A1	Aaa	Mezz	40.0											
Super Senior	Anderson	A1-a	Aaa	Mezz	130.0											
Super Senior	Anderson	A1-b	Aaa	Mezz	51.0											
Mezz AAA	Adirondack 2005-1	A2	Aaa	High grade	1.8	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]						
Mezz AAA	Fortius II	A2	Aaa	Mezz	25.0											
Mezz AAA	Mainsail	A2	Aaa	High grade	30.5											
Mezz AAA	Bemsil	A2	Aaa	High grade	3.2											
Mezz AAA	Timberwolf	A2	Aaa	CDO-squared	285.0	91.34%	260.3	75.0%	70.0%	65.0%			20.0	87.79	4/23/2007	MONEYGRAM I
Mezz AAA	Point Pleasant	A1	Aaa	CDO-squared	127.5	94.78%	120.8	85.0%	80.0%	75.0%						
Mezz AAA	Point Pleasant	A2	Aaa	CDO-squared	75.0	92.24%	69.2	75.0%	70.0%	65.0%			20.0	91.30	4/24/2007	MONEYGRAM I
AA	Fortius II	B	Aa2	Mezz	40.0	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]						
AA	Altius 4	B	Aa2	High grade	46.0											
AA	Fort Denison	B	Aa2	Mezz	7.0											
AA	Summer Street 04-1	A3	Aa2	Mezz	5.5											
AA	Avebury	B	Aa1	High grade	10.0											
AA	Anderson	B	Aa2	Mezz	37.7											
AA	Timberwolf	B	Aa2	CDO-squared	107.0	88.72%	94.9	60.0%	50.0%	40.0%						
AA	Hudson Mz 05-1	B	Aa2	Mezz	51.0	77.50%	39.5	82.0%	80.0%	78.0%						
AA	Hudson Mz 06-2	B	Aa2	Mezz	24.5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]						
AA	Point Pleasant	B	Aa2	CDO-squared	50.0	89.41%	44.7	60.0%	50.0%	40.0%						

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Mortgages CDO Origination

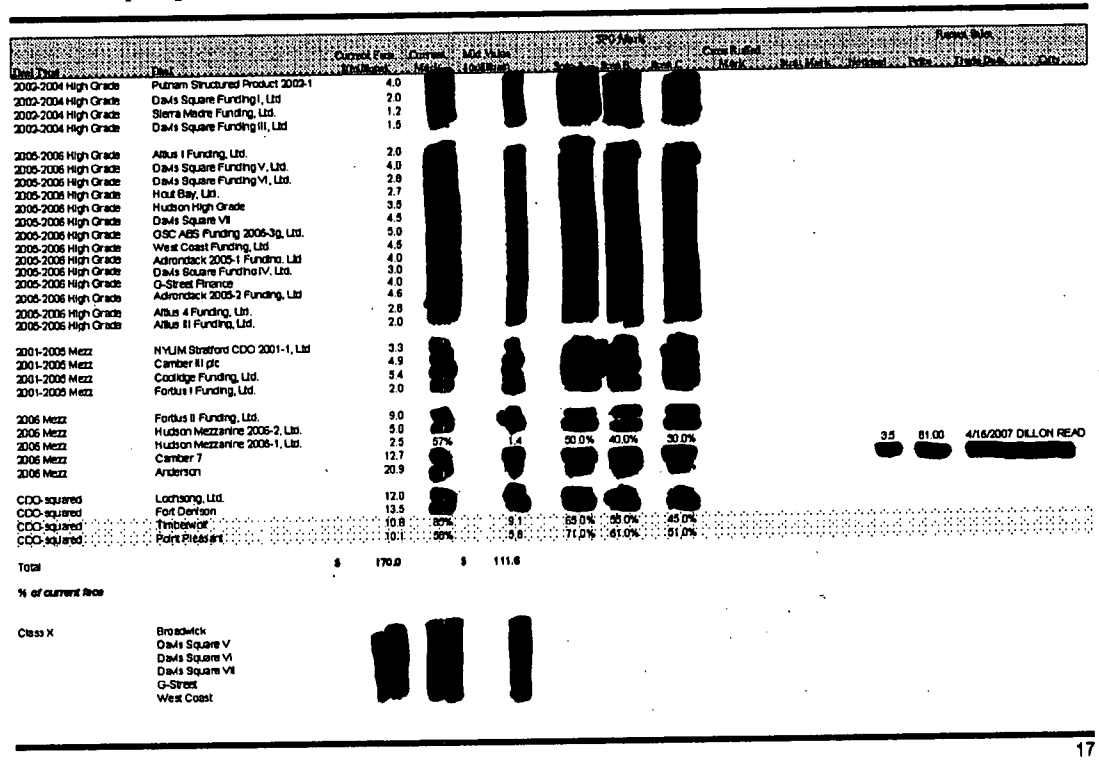
CDO Debt - Retained Positions (cont)

A	Altius I	C	A2	High grade	10.0														
A	Altius 4	C	A2	High grade	11.6														
A	Coolidge	C	A3	Mezz	0.9														
A	Davis Square VII	C	A2	High grade	8.0														
A	GSC 2006-3g	C	A2	High grade	24.6														
A	START 2006CA D	COHEN	A2	Mezz	8.2														
A	LEXN 20073A E	COHEN	A3	Mezz	10.0														
A	Anderson	C	A2	Mezz	8.8														
A	Hudson Mz 08-1	C	A2	Mezz	109.5														
A	Hudson Mz 08-2	C	A2	Mezz	8.0														
A	Point Pleasant	C	A2	CDO-squared	10.1	71.88%	7.3	55.0%	50.0%	45.0%							7.8	97.57	4/10/2007 PLENUM ASSE
BBB	Davis Square VII	D	Baa2	High grade	13.0														
BBB	Altius 4	D	Baa2	High grade	4.0														
BBB	GSC 2006-3g	D	Baa2	High grade	10.4														
BBB	Adirondack 2005-2	D	Baa2	High grade	4.7														
BBB	Altius III	D	Baa2	High grade	5.0														
BBB	Haut Bay	D	Baa2	High grade	1.9														
BBB	G-Street	D	Baa2	High grade	1.4														
BBB	Locheong	D	Baa2	CDO-squared	14.0														
BBB	Putnam 2001-1	C1	Baa2	Mezz	1.7														
BBB	TABS 20088A B2	COHEN	Baa2	Mezz	4.9														
BBB	GSFIN 20051A D	COHEN	Baa2	High Grade	5.0														
BBB	STAK 20062A B	COHEN	Baa2	Mezz	10.0														
BBB	COOL 20051A D	COHEN	Baa2	Mezz	8.9														
BBB	ACABS 20081A B1L	COHEN	Baa2	Mezz	10.0														
BBB	INDE 7 7A E	COHEN	Baa2	Mezz	10.0														
BBB	OVSO 20066A D	COHEN	Baa2	High Grade	3.7														
BBB	Hudson High Grade	D	Baa2	High grade	2.7														
BBB	Hudson Mz 08-1	D	Baa2	Mezz	58.9	60.00%	35.3	52.0%	47.0%	42.0%									
BBB	Hudson Mz 08-2	D	Baa1	Mezz	13.2														
BBB	Hudson Mz 08-2	E	Baa3	Mezz	2.0														
BBB	Point Pleasant	D	Baa2	CDO-squared	10.5	16.72%	8.1	50.0%	45.0%	40.0%									
BBB	TIAA Structured Finance	B	Baa1	Mezz	5.0														
BB	Camber 7	E	Ba1	Mezz	7.7														
BB	Glacier 2005-3	D	Ba1	Mezz	2.8														
BB	Hudson Mz 08-1	E	Ba1	Mezz	11.0	52.50%	5.8	47.0%	42.0%	37.0%									
BB	Phoenix 2	B	Ba2	Mezz	8.0														
Total						$ 4,421.8		$ 4,150.3											

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Mortgages CDO Origination

CDO Equity - Retained Positions



Deal Type	Deal Name	Current Face ($ Millions)	Current Mark	Mid Mark (Odd Bids)	IRR Mark			Cross Ref Mark	Recent Sale			
									Notional	Price	Trade Date	Date
2002-2004 High Grade	Putnam Structured Product 2002-1	4.0										
2002-2004 High Grade	Davis Square Funding I, Ltd	2.0										
2002-2004 High Grade	Sierra Madre Funding, Ltd.	1.2										
2002-2004 High Grade	Davis Square Funding III, Ltd	1.5										
2005-2006 High Grade	Altius I Funding, Ltd.	2.0										
2005-2006 High Grade	Davis Square Funding V, Ltd.	4.0										
2005-2006 High Grade	Davis Square Funding VI, Ltd.	2.8										
2005-2006 High Grade	Haut Bay, Ltd.	2.7										
2005-2006 High Grade	Hudson High Grade	3.5										
2005-2006 High Grade	Davis Square VII	4.5										
2005-2006 High Grade	GSC ABS Funding 2006-3g, Ltd.	5.0										
2005-2006 High Grade	West Coast Funding, Ltd	4.5										
2005-2006 High Grade	Adirondack 2005-1 Funding, Ltd	4.0										
2005-2006 High Grade	Davis Square Funding IV, Ltd.	3.0										
2005-2006 High Grade	G-Street Finance	4.0										
2005-2006 High Grade	Adirondack 2005-2 Funding, Ltd	4.6										
2005-2006 High Grade	Altius 4 Funding, Ltd.	2.8										
2005-2006 High Grade	Altius II Funding, Ltd.	2.0										
2001-2005 Mezz	NYUM Stratford CDO 2001-1, Ltd	3.3										
2001-2005 Mezz	Camber III plc	4.9										
2001-2005 Mezz	Coolidge Funding, Ltd.	5.4										
2001-2005 Mezz	Fortius I Funding, Ltd.	2.0										
2006 Mezz	Fortius II Funding, Ltd.	9.0										
2006 Mezz	Hudson Mezzanine 2006-2, Ltd.	5.0										
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.	2.5	57%	1.4	50.0%	40.0%	30.0%					
2006 Mezz	Camber 7	12.7										
2006 Mezz	Anderson	20.9										
CDO-squared	Lochsong, Ltd.	12.0										
CDO-squared	Fort Denison	13.5										
CDO-squared	Timberwolf	10.8	80%	9.1	65.0%	55.0%	45.0%					
CDO-squared	Point Pleasant	10.1	56%	5.8	71.0%	61.0%	51.0%					
Total		$ 170.0		$ 111.6								
% of current face												
Class X	Broadwick											
	Davis Square V											
	Davis Square VI											
	Davis Square VII											
	G-Street											
	West Coast											

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Mortgages CDO Origination

Timeline – Timberwolf & Point Pleasant

- **Timberwolf (Greywolf)**
  - 7/21/06 - Engagement letter signed
  - 9/5/06 - Warehouse begins ramping
  - 12/13/06 - Warehouse 50% ramped
  - 3/2/07 - Revision to engagement letter - Greywolf commitment to purchase BBB and single A tranches
  - 3/13/07 - Pricing
  - 3/27/07 - Closing
- **Point Pleasant (Dillon Read)**
  - 6/2/06 - Engagement letter signed
  - 9/14/06 - Warehouse begins ramping
  - 12/14/07 - Warehouse 50% ramped
  - 3/5/07 - Commitment letter signed with Natixis for Super senior
  - 4/10/07 - Pricing
  - 4/18/07 - Closing

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Mortgages CDO Origination
Distribution

Account	Sales	Deal	Tranche	Defcon	Comments
					Locking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is
Fortress	Davilman	Timberwdf I	Mezz AAA	1	difficult / Davilman still pushing
					Locking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is
Fortress	Davilman	Timberwdf I	AA-Rated	1	difficult / Davilman still pushing
					Locking on a financed basis - Indicative terms (5- [redacted] - concerned about
Stark	Gadd	Timberwdf I	Mezz AAA	1	correlation, our level, mgmt view / Back ended return profile
					Engaged and locking - has been offered bonds at 450 on A2, 700 on B / Deal elevated to Sr.
Winchester	Radtke	Point Pleasant 2007-1	Mezz AAA	1	Management / [redacted]
Basis	Maltezos	Timberwdf I	Mezz AAA	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
Basis	Maltezos	Timberwdf I	AA-Rated	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
					re-engaged - trying to get answer by GS qtr end. Asked/received additional information today / they are still
AIG	Penick	Timberwdf I	Mezz AAA	3	working / Penick to follow up early next week
Fidelity	Martin	Point Pleasant 2007-1	A-rated	3	Locking
					Locking at up to [redacted] remaining - Acct. asked for 7 bus days to do work, then left office and [redacted]
IS Plenum	Arslan	Point Pleasant 2007-1	A-Rated	3	will hear from them when they return
Miller Anderson	Brazil	Timberwdf I	Mezz AAA	3	Locking
Moneygram	Gilligan	Timberwdf I	AA-Rated	3	Potential interest on AAs (already own AAAs) / trying to see if they go down in cap. Structure (low Delta)
Old Lane	Grinstein	Timberwdf I		3	Need lockthru analysis / Strats are working on it
Pequot	brazil	Timberwdf I	Mezz AAA	3	Locking
					Checking - Twdf higher delta than Point Pleasant given headline risk wrt Dillon Read - want lockthru
Sandelman	Kelly			3	analysis on Timberwdf / Strats are working on it / potential size [redacted]
					Inherited Dillon Read's Point Pleasant Positions / locking at Twdf A-2, B Classes and Pt. Pleasant B
UBS Prop	Kelly	Timberwdf or Pt. Pleasant		3	Class
DeShaw	cohen	Point Pleasant 2007-1	Mezz AAA	3	Locking - asked for materials and raw data ([redacted] / had call / low delta
					Would look to trade against CLO Super Senior AAAs - will receive bid list for CLOs early next week (Pct.
Elliot	Grinstein	Timberwdf I	Mezz AAA	3	Size [redacted]
					potential interest - working to model existing exposure (own portion of single A class) - if they care expect
Polygon	Raazi	Timberwdf I	AA-Rated	3	size ~[redacted]

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Mortgages CDO Origination
Distribution (cont)

Account	Sales	Deal	Tranche	Defcon	Comments
Carlyle	Ruberti			4	Will go through look through analysis - go from there / Strats are working on it
DA Capital	Kreitman			4	Start work @ +800 - 1000dm for mezz AAA
Elliot	Grinstein			4	Focused on anderson Equity
					evaluating Pt Pleasant A-1 vs. [redacted] evaluating
Harvard	Radtke	Point Pleasant 2007-1	Mezz AAA	4	counter / Radtke to follow up next week
Highland	Ruberti			4	Low Delta - Need lookthru analysis / Strats are working on it
					Checking - need feedback on interest from account before showing wider offering levels - would only look
JPM Prop	Verrochi			4	vs. protection
Marathon	Kreitman			4	
MS Prop	Martin	Timberwolf I	Mezz AAA	4	will do work in the L+800-1000 context ($71-65) - passed on GS offer at 80-00
Nochu/SSG				4	Further analysis needed
Princeton	Fertel/Phillips			4	Low Delta - have never Bought CDO^2
Smith Breedan	martin			4	Start work @ +800 - 1000dm for mezz AAA
Zais	Grinstein	Point Pleasant 2007-1	Mezz AAA	4	potential - will likely be slower with feedback
Lehman A/M	Gadd	Timberwolf I	Mezz AAA	4	Need a look-through of the underlying vintages / strats are working on it
Providence	Reinstein	Point Pleasant 2007-1		4	Locking - sent final CC/Portfolio
					Locking - [redacted]
Vanderbilt	Gadd	Timberwolf I			[redacted] - small size if they care
Hyperion	Willing	Timberwolf I		4	Locking - Credit enhancement is thin / Concerned about rating Agency correlation report / likes discount
Paramax	Matthias	Point Pleasant 2007-1	Mezz AAA	4	Very Low Delta
Paramax	Matthias	Timberwolf I	Mezz AAA	4	Very Low Delta
Blackrock	Fertel/Phillips	Point Pleasant 2007-1		4.5	Unlikely, relocking at analysis from new issue, maybe ~[redacted] (look for feedback Friday)
Clinton	Verocchi	Point Pleasant 2007-1	Mezz AAA	4.5	Low Delta - Can't model CDO^2
Harding	Hornbeck	Point Pleasant 2007-1	A-rated	4.5	looked at single A's new issue - still need final feedback - low delta
					Checking - initial response was unlikely unless they can short the class below / they are checking for room
ML Bank	Willing			4.5	in vehicles, Timberwolf more likely than Point Pleasant given headline risk wrt Dillon Read
CBASS	Pinkos			5	Out - do not buy CDO^2
Ellington	Sue/Elaine	Timberwolf I	Mezz AAA	5	removed from list - have not been shown levels
Mariner	Matteoos	Timberwolf I	Mezz AAA	5	Out - too much overlap with Point Pleasant
TPG-Axon	Fertel/Phillips	Point Pleasant 2007-1	Mezz AAA	5	Out - do not care at any level - concerned with downgrade risk [redacted]

GS MBS-E-001863670

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Subject:	Mortgage Presentation to David Viniar - Follow up Meeting
Location:	Dial-In Information: 888-446-9291 code:756062
Start:	Sun 5/20/2007 9:00 PM
End:	Sun 5/20/2007 10:00 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Required Attendees:	Alexander, Lee; Mullen, Donald; Sparks, Daniel L; Brafman, Lester R; Kaprelian, Michael; Alexander, Lee
Resources:	Mullen, Donald; Sparks, Daniel L; Brafman, Lester R; Kaprelian, Michael; Alexander, Lee

Dial-In Information: 888-446-9291 code:756062

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Report Footnote #2090

From: Sparks, Daniel L
Sent: Sunday, May 20, 2007 8:36 PM
To: Dan and Helen Sparks
Subject: FW: Viniar Presentation - Updated

Attachments: Mortgages V4.ppt

From: Alexander, Lee
Sent: Sunday, May 20, 2007 8:31 PM
To: Mullen, Donald; Sparks, Daniel L
Cc: Brafman, Lester R; Kaprelian, Michael
Subject: Viniar Presentation - Updated

Please see attached for the Viniar Presentation. Don - We sent this to you via car ~15mins ago. Waiting to get a confirm from the driver that it has been dropped off.

Lester and I will dial into the call at 9pm.

Dial in information is:
Dial-In Information: 888-446-9291 code:756062



Mortgages V4.ppt

Thx

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Wall Street & The Financial Crisis
Report Footnote #2090

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From: Swenson, Michael
Sent: Thursday, March 01, 2007 10:52 AM
To: Cornacchia, Thomas
Subject: RE: names

Bill buckingham - Cardinali

From: Cornacchia, Thomas
Sent: Thursday, March 01, 2007 10:48 AM
To: Swenson, Michael
Subject: RE: names

Who covers passport

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From: Swenson, Michael
Sent: Thursday, March 01, 2007 10:44 AM
To: Gmelich, Justin; Cornacchia, Thomas
Cc: Birnbaum, Josh
Subject: RE: names

Our tiering on a 3 tier system

Most likely in the near term for size:

HBK [redacted]m to [redacted] - waiting for nicole
Passport - [redacted] - account likes Deeb - we just printed [redacted] with him

From: Gmelich, Justin
Sent: Thursday, March 01, 2007 10:12 AM
To: Swenson, Michael
Subject: names

Harbinger tier 1 you tell us

Passport tier 1 (already have stuff in front of him - he wants [redacted] names that are tight) - we just printed [redacted] wants to do [redacted] in near term (today) he will only print with us

Hayman tier 1 wants to [redacted] right now - working with perry - kyle bass is having a meetign to sign up the management agreement with Perry - BE PATIENT

Elliot tier 2.5 - uber comp - not active lately

Pennant tier 2 - whiner when trades don't work, would probably be open to adding [redacted]

Gweiss tier 3 - small, nothing to do

Baupost tier 2 - uber comp and smart, not active lately but [redacted] Has been in comp for the most part

Perry tier 1 potentially via HAYMAN - BE PATIENT

Canyon tier 2 - laborious bond pickers, [redacted] at time. Still looking to buy [redacted]

Fir tree tier 1 - [redacted] to [redacted] at a time, would probably be open to seeing a

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list, but prefer bad deals

Eton park tier 2.5 - backbidders not great bond pickers, nothing to do

Basswood tier 2 - smart, loose lips, nothing to do

Zais tier 2 - extremely smart and [redacted] in notionasl), have been [redacted] in comp lately

Harvard tier 2.5 - got creamed on [redacted] trade with us (they [redacted]) more likely to double down

Ellington tier 5 - no comment

Qvt tier 3 - uber comp very sophisticated name picking in early, nothing to do

Hbk tier 1 - we have engaged responding with their list of names to us this morning

Citadel tier 2 - uber comp much more likely to do [redacted] trades, nothing to do [redacted]

Oaktree tier 2 - [redacted] of index at [redacted]

Durham (cactus and crissy) - were looking to buy [redacted] before [redacted]. We showed them similar offering to what we showed Harbinger. They passed and indicated they would have been better [redacted] at those levels. [redacted] type

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From: Black, Robert N
Sent: Wednesday, February 14, 2007 7:00 PM
To: Bieber, Matthew G.
Cc: Kang, Connie; Chaudhary, Omar; Brocato, Russell
Subject: Timberwolf I, Ltd. - Target Account List

Matt,

Below is a broader list of US accounts that I think we should be directly targeting for the deal. We got some traction with most of these guys on ABACUS-HGSI (CDO^2). We will push the tri-state area guys for roadshow slots again tomorrow. And push the other accounts for conference calls.

If you have any additions let me know.

BSAM - Davilman
NIBC - Davilman
Koch - Romo
Vero - Romo
Security Benefit - Romo
Highland - romo
CSAM - Willing
DBAM - Willing
Declaration - Willing
Delaware - Willing
NIR - Herald
Vanderbilt - Gaddi
Moneygram - Ricciardi
Seneca - Taniguchi
Cambridge Place - Cag
Chotin - Cag
PAG - Matthias
Aladdin - Pinkos
Loews - Pinkos
Clinton - Verocchi
Ivy AM - Reich
E*Trade - Kreitman

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Report Footnote #2095

From: Lehman, David A.
Sent: Friday, March 02, 2007 2:56 PM
To: McDonald, Ian (New York)
Subject: RE: ABX/Mtg Credit Accts

THX

From: McDonald, Ian (New York)
Sent: Friday, March 02, 2007 2:36 PM
To: Lehman, David A.
Subject: RE: ABX/Mtg Credit Accts

Yes.

From: Lehman, David A.
Sent: Friday, March 02, 2007 2:36 PM
To: McDonald, Ian (New York)
Subject: RE: ABX/Mtg Credit Accts

I would add Josh/Swenny

From: McDonald, Ian (New York)
Sent: Friday, March 02, 2007 2:34 PM
To: Ficc-mtg-client-dialog
Subject: RE: ABX/Mtg Credit Accts

--Maybe a better term than macro is "multi-strategy" rather than "mortgage focused". But understood, III isn't a macro acct.
--Desk thought that we should treat Paulson as tier 1 acct.

We created the list ficc-mtg-client-dialog. I'll add people over time....

Was going to touch base with Shlomi and get his view on the credit side as well....

From: Bash-Polley, Stacy
Sent: Thursday, March 01, 2007 4:28 PM
To: McDonald, Ian (New York); Holen, Margaret; Radtke, Lorin; Primer, Jeremy; Lehman, David A.; Wiesel, Elisha
Subject: RE: ABX/Mtg Credit Accts

See my edits/ questions

From: McDonald, Ian (New York)
Sent: Thursday, March 01, 2007 2:30 PM
To: Bash-Polley, Stacy; Holen, Margaret; Bash-Polley, Stacy; Radtke, Lorin; Primer, Jeremy; Lehman, David A.
Subject: ABX/Mtg Credit Accts

Based on conversations with sales and trading, Lorin and I came up with a fairly lengthly list of accts that are considered to be "key".

We roughly tiered the accts out based on perception of business just to give some structure, but it shouldn't be taken as fixed.

1) First Tier Impact (already printing frequent high margin business, first call-type accts)

Macro
Convexity Capital (Houghton)

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Moore Capital (Houghton) & London (Faker)
III (Madoff) (they are not macro)
Paulson Capital (Raazi) (not sure desk would agree-also they are credit)

Mtg
Bank of America (Borst)-more likely
ACA (Kretiman)
Harvard (Radtke)
Winchester (Radtke)
Morgan Stanley Prop (Martin)
HBK (Martin)
DB Prop (Cagnassola)
UBS (Pinkos)
DEShaw (Cohen)
BSAM (Davilman)
Rabo Bank (Frasier/Lee)

Credit
Harbinger
Hayman

2) Second Tier Impact (printing less frequently, still important, or strong potential for increased profitability)

Macro
LDF (Houghton)
JWM Partners (Madoff)

Mtg
King Street (Radtke)
Alladin (Pinkos)
Clinton (Verocchi)
DA Capital (Verocchi)
JP Arb (Verocchi and Kretiman)
JPIM (Pinkos)
Citadel (Martin)

Credit
Grey wolf (Martin-and is a mortgage acct)
Bluemountain (lobou)
Passport
Balpost
Elliott
Pennant
Perry

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From: Brazil, Alan
Sent: Thursday, May 31, 2007 9:47 AM
To: Ruberti, Timothy; Lehman, David A.; Bash-Polley, Stacy; Egol, Jonathan
Subject: RE: CDO Boom Masks Subprime Losses

yep. The basic tenor of the article was that the rating agencies did not do a very good job on cdos because they were greedy for underwriting business. Their example of was that the rating agencies screwed up on a cdo issued by first boston in 2000 that lost a lot of money. It lost a lot of money because it included subprime and junk bonds. And of course they pulled in the American express debacle.

The timberwolf inclusion was pretty bad, bad for selling it, of course, but also a poor piece of analysis.

" That's more than double the return on corporate bonds with the"

same rating. Timberwolf's offering statement warns that the CDO may

include subprime mortgage debt.

``When you see something that's priced at a 1,000 basis point

spread, you know it's pretty risky,'' Partnoy says. ``The rating

agencies might not figure that out for a while.''

1. the understate the return difference, bbbs corp are more like 100 bp than 500 bp. So timber bbbs are 5 times the return.
2. The ratings agencies rate deals knowing full well what the underlying collateral is of all cdos, including timberwolf.

Pretty cheap shot I thought. But it is what it is....

-----Original Message-----
From: Ruberti, Timothy
Sent: Thursday, May 31, 2007 9:08 AM
To: Lehman, David A.; Bash-Polley, Stacy; Brazil, Alan
Subject: Fw: CDO Boom Masks Subprime Losses

Sure you saw this already..

----- Original Message -----
From: Joshua Powell <Joshua.Powell@cbwpartners.com>
To: Ruberti, Timothy
Sent: Thu May 31 08:59:32 2007
Subject: FW: CDO Boom Masks Subprime Losses

Timberwolf got a shout out in the article below.

From: Brad Welnick
Sent: Thursday, May 31, 2007 7:49 AM
To: Structured Products
Subject: CDO Boom Masks Subprime Losses

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Wall Street & The Financial Crisis
Report Footnote #2095

CDO Boom Masks Subprime Losses, Abetted by S&P, Moody's, Fitch

2007-05-31 00:08 (New York)

By Richard Tomlinson and David Evans

May 31 (Bloomberg) -- The numbers looked compelling. Buy this investment-grade collateralized debt obligation and you'll get a return of up to 10 percent, Credit Suisse Group said. That was almost 25 percent more than the average yield on a similarly rated corporate bond.

Investors snapped up the $340.7 million CDO, a collection of securities backed by bonds, mortgages and other loans, within days of the Dec. 12, 2000, offering. The CDO buyers had assurances of its quality from the three leading credit rating companies --Standard & Poor's, Moody's Investors Service and Fitch Group Inc. Each had blessed most of the CDO with the highest rating, AAA or Aaa.

Investment-grade ratings on 95 percent of the securities in the CDO gave no hint of what was in the debt package -- or that it might collapse. It was loaded with risky debt, from junk bonds to subprime home loans. During the next six years, the CDO plummeted as defaults mounted in its underlying securities. By the end of 2006, losses totaled about $125 million.

The failed Credit Suisse CDO may be an omen of far worse to come in the booming market for these investments.

Sales of CDOs worldwide have soared since 2004, reaching $503 billion last year, a fivefold increase in three years, according to data compiled by Morgan Stanley.

CDO holdings have already declined in value between $18 billion and $25 billion because of falling repayment rates by subprime U.S. mortgage holders, Lehman Brothers Holdings Inc. estimated on April 13. In many cases, investors don't even know that values have

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dropped.

`We Can't Get There'

In this secretive market, there is no easy way for them to find out what their CDOs are worth.

The uncharted slide of the Credit Suisse CDO points to the critical and little-understood-role played by rating companies in assessing risk and acting as de facto regulators in a market that has no official watchdogs.

Many of the world's CDOs are owned by banks and insurance companies, and the people who regulate those firms rely on the raters to police the CDOs.

``As regulators, we just have to trust that rating agencies are going to monitor CDOs and find the subprime,'' says Kevin Fry, chairman of the Invested Asset Working Group of the U.S. National Association of Insurance Commissioners. ``We can't get there. We don't have the resources to get our arms around it.''

The three leading rating companies, all based in New York, say that policing CDOs isn't their job. They just offer their educated opinions, says Noel Kirnon, senior managing director at Moody's.

`Little New Information'

``What we're saying is that many people have the tendency to rely on it, and we want to make sure that they don't,'' says Kirnon, whose firm commands 39 percent of the global credit rating market by revenue.

S&P, which controls 40 percent, asks investors in its published CDO ratings not to base any investment decision on its analyses. Fitch, which has 16 percent of the worldwide credit rating field, says its analyses are just opinions and investors shouldn't rely on them.

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The rating companies apply their usual disclaimer about the reliability of their analyses to CDOs. S&P says in small print: ``Any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision.''

Joseph Mason, a finance professor at Philadelphia's Drexel University and a former economist at the U.S. Treasury Department, says the ratings are undermined by the disclaimers. ``I laugh about Moody's and S&P disclaimers,'' he says. ``The ratings giveth and the disclaimer takes it away. Once you're through with the disclaimers, you're left with very little new information.''

Credit Raters Participate

When it comes to CDOs, rating companies actually do much more than evaluate them and give them letter grades. The raters play an integral role in putting the CDOs together in the first place.

Banks and other financial firms typically create CDOs by wrapping together 100 or more bonds and other securities, including debt investments backed by home loans.

Credit rating companies help the financial firms divide the CDOs into sections known as tranches, each of which gets a separate grade, says Charles Calomiris, the Henry Kaufman professor of financial institutions at Columbia University in New York.

Credit raters participate in every level of packaging a CDO, says Calomiris, who has worked as a consultant for Bank of America Corp., Citigroup Inc., UBS AG and other major banks. The rating companies tell CDO assemblers how to squeeze the most profit out of the CDO by maximizing the size of the tranches with the highest ratings, he says.

`Not a Passive Process'

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``It's important to understand that unlike in the corporate bond market, in the securitization market, the rating agencies run the show,'' he says. ``This is not a passive process of rating corporate debt. This is a financial engineering business.''

Credit raters consult with bankers in determining the makeup of a CDO, and banks make the final decisions, says Gloria Aviotti, Fitch's global head of structured finance.

As home buyers and investors grapple with the subprime mortgage crisis, many haven't yet realized the extent to which that turbulence is spilling into CDOs. Foreclosure filings in the U.S. surged to 147,708 in April, up 62 percent from April 2006, as subprime borrowers stopped making mortgage payments, research company RealtyTrac Inc. said on May 15.

As foreclosures increase, the subprime-backed securities in CDOs begin to crumble. Subprime mortgage securities make up about $100 billion of the $375 billion of CDOs sold in the U.S. in 2006, according to data from Moody's and Morgan Stanley.

Subprime Debt Holdings

Seventy-five percent of global CDO sales are in the U.S. Moody's reported in March that about half of the CDOs sold in the U.S. last year contained subprime debt. On average, 45 percent of the contents of those CDOs consisted of subprime home loans, Moody's said.

In a certain class of CDOs, the concentration of subprime is even higher. S&P and Fitch estimate that subprime mortgage securities make up more than 70 percent of the debt in so-called mezzanine asset-backed CDOs, a type of CDO that repackages bonds, mostly mortgage debt, with low credit ratings.

Investors bought $59.5 billion of these CDOs in 2006, according to Morgan Stanley. On average, as with all CDOs, more than 90

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percent of the value in them is rated investment grade.

Bankers call the bottom sections of a CDO -- the ones that are the most vulnerable to subprime and other junk -- the equity tranches. They also have another, more-emotive phrase for them: toxic waste.

`The First Loss'

As more home buyers default on their subprime loans, the waste in CDOs becomes more poisonous. ``If anything goes badly, the investors in toxic waste take the first loss,'' says Satyajit Das, a former Citigroup Inc. banker who has written 10 books on debt analysis.

``Let's put it this way,'' he says. ``There's a revolution. If you don't win, you're going to be the first one in line for the firing squad.''

Investors have little idea how toxic some of these CDOs are, Drexel's Mason says.

``We compose CDOs with a bunch of this stuff,'' he says. ``Now we just jack up the risk, jack up the misunderstanding. We're throwing our money to the wind. We now know the defaults are in the mortgage pools and it's only a matter of time before they accumulate to levels that will threaten the CDO market.''

In times of uncertainty, CDO ratings take on even less meaning, says Brian McManus, head of CDO research at Charlotte, North Carolina-based Wachovia Corp. Investors may not know what hit them because there won't be a sudden CDO crash, he predicts.

``They don't blow up,'' McManus says of CDOs. ``They just kind of melt.''

No Regulation

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This is not what investors envisioned in 2004 when they started the CDO bull run. In an era of low interest rates, CDOs offered juicy yields.

With defaults at historic lows, the risk of something going drastically wrong seemed remote. Why buy a corporate bond yielding 5 percent when you can invest in a CDO with the same credit rating and the promise of a return twice as high?

There are two caveats: It's nearly impossible to find out exactly what's in a CDO, and CDOs aren't regulated.

Almost all CDOs are sold in private placements, and their current values aren't posted anywhere. ``There is absolutely no transparency,'' Das says. ``It's difficult to get current values or information about the underlying assets in the CDO.''

Financial regulators have effectively outsourced the monitoring of CDOs to the rating companies. No less an authority than the U.S. Office of the Comptroller of the Currency, which regulates banks, depends on the rating firms to assess the quality of CDOs.

Bonanza for Raters

U.S. banks have invested as much as 10 percent of their assets in CDOs, and the OCC requires that all of those CDOs be investment grade, says Kathryn Dick, deputy comptroller for credit and market risk. ``We rely on the rating agencies to provide a rating,'' she says.

CDOs have been a bonanza for the rating companies. In the past three years, S&P, Moody's and Fitch have made more money from evaluating structured finance -- which includes CDOs and asset-backed securities -- than from rating anything else, including corporate or municipal bonds, according to their financial reports.

The companies charge as much as three times more to rate CDOs than to analyze bonds, published cost listings show. The companies say these fees are higher because CDOs are so complex compared with

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a single bond.

Structured finance is the largest and fastest-growing source of credit rating revenue. Moody's reported revenue of $1.52 billion in 2006 for credit rating. Structured finance accounted for 44 percent, or $667 million. Company credit ratings were the second-largest source of revenue, drawing $485 million.

`A Gold Mine'

In the first quarter of 2007, structured finance rose to 46 percent of Moody's rating revenue.

``CDOs are the cash cow for rating agencies,'' says Frank Partnoy, a former bond trader, now a University of San Diego law professor and author of `Infectious Greed: How Deceit and Risk Corrupted the Financial Markets' (Henry Holt & Co., 464 pages, $27.50). ``They're clearly a gold mine. Structured finance is making a lot of Moody's shareholders and managers wealthy.''

Shares of Moody's, which is the only stand-alone publicly traded rating company, have more than tripled to $68.60 on May 9 from $20.65 at the beginning of 2003.

S&P charges as much as 12 basis points of the total value of a CDO issue compared with up to 4.25 basis points for rating a corporate bond, company spokesman Chris Atkins says. (A basis point is 0.01 percentage point.)

Shares Almost Tripled

That means S&P charges as much as $600,000 to rate a $500 million CDO. Fitch charges 7-8 basis points to rate a CDO, more than its 3-7 basis point fee to rate a bond, based on the company's fee schedule. Moody's doesn't publish its pricing for any ratings.

Fitch, which is 80 percent owned by Paris-based Fimalac SA, a

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publicly listed investment company, says that rating structured finance accounted for 51 percent of total revenue of $480.5 million in the fiscal year ended on Sept. 30, 2006.

Fimalac's share price has almost tripled in value since the start of 2003, trading at 80 euros ($108.40) on May 9.

New York-based McGraw-Hill Cos., which owns S&P, reports that in 2006, the credit rating company's revenue rose by 20 percent to $2.7 billion. Almost half of that growth was from increased sales of structured finance ratings, it says.

McGraw-Hill's shares have more than doubled in value since 2003, trading at $68.97 on May 9.

The First CDOs

Michael Milken, the junk bond king, created the first CDO in 1987 at now-defunct Drexel Burnham Lambert Inc., says Das, author of `Credit Derivatives: CDOs & Structured Credit Products' (John Wiley & Sons Inc., 850 pages, $120). Until the mid-1990s, CDOs were little known in the global debt market, with issues valued at less than $25 billion a year, according to Morgan Stanley.

Drexel and other investment banks realized that by bundling high-yield bonds and loans and slicing them into different layers of credit risk, they could make more money than they could from holding or selling the individual assets.

Investment-grade CDOs that include subprime assets offer debt returns that exceed yields on junk bonds. In May, BBB-rated portions of CDOs -- the lowest investment grade -- paid 7-9 percentage points above the London interbank offered rate, according to Morgan Stanley.

That amounted to an annual return of about 13 percent, based on May bank lending rates.

Most CDO tranches promise returns at a fixed spread over Libor. That means their value isn't affected by changes in interest rates the way the value of a fixed-rate bond would be, says Arturo

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Cifuentes, a managing director at R.W. Pressprich & Co., a New York-based fixed income brokerage that buys and sells CDOs.

`A Happy One'

``CDOs offer you a possibility to invest in risk which you cannot do in any other way,'' he says. Cifuentes says CDOs have been good for investors and financial markets. ``For the most part, the CDO experience has been a happy one,'' he says.

That euphoria has blinded investors -- and the rating companies -- to the true risk of CDOs, Partnoy says.

A $1 billion CDO named Timberwolf, sold in March by New York-based Goldman Sachs Group Inc., included a $30 million tranche. It's rated investment grade, BBB, by S&P and Moody's and pays 1,000 basis points, or 10 percentage points, more than the three-month forward Libor.

That's more than double the return on corporate bonds with the same rating. Timberwolf's offering statement warns that the CDO may include subprime mortgage debt.

``When you see something that's priced at a 1,000 basis point spread, you know it's pretty risky,'' Partnoy says. ``The rating agencies might not figure that out for a while.''

CDO ratings may mislead investors because they can obscure the risk of default, especially compared with similar ratings for bonds, says Darrell Duffie, a professor of finance at Stanford Graduate School of Business in California, who's paid by Moody's to advise the company on credit risk.

`Can't Compare'

``You can't compare these CDO ratings with corporate bond ratings,'' Duffie says. ``These ratings mean something else --

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entirely.''

Corporate bonds rated Baa, the lowest Moody's investment rating, had an average 2.2 percent default rate over five-year periods from 1983 to 2005, according to Moody's. From 1993 to 2005, CDOs with the same Baa grade suffered five-year default rates of 24 percent, Moody's found.

Non-investment-grade CDOs, rated Ba, had an almost identical default rate of 25.3 percent in the same period. ``In CDO-land, there's almost no difference between Baa and Ba,'' says Cifuentes, a former Moody's vice president who helped develop the company's original method of rating CDOs in the late 1990s.

American Express Loss

Cifuentes highlighted this point when he ran a daylong seminar for 45 U.S. bank regulators in Washington on April 10.

American Express Co. learned about risky CDOs the hard way. The New York-based company invested in high-yield CDO transactions starting in 1998. By 2001, American Express reported losses of more than $1 billion from those investments.

Chief Executive Officer Kenneth Chenault told shareholders in a July 2001 conference call that the company didn't understand CDO risk. He said when his traders first bought CDOs, defaults were at historically low levels.

``Many of the structured investments were investment grade, so they thought they had a reasonable level of protection against loss,'' he told investors. ``It is now apparent that our analysis of the portfolio did not fully comprehend the risk underlying these structures during a period of persistently high default rates.''

As a result, he said, American Express would stop buying CDOs. Chenault declined to comment for this story.

Some investors have always been wary of CDOs. Joe Biernat, head of research at London-based European Credit Management Ltd., says he

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avoids CDOs. The investment firm, owned by Wachovia, specializes in mortgage- and asset-backed securities and manages about 21 billion euros for institutional clients.

`We Like Clarity'

``We have never invested in CDOs because we like clarity,'' Biernat says. ``You may be buying more of the worst stuff to get the kind of yield that you want.''

Because there are so many moving parts to a CDO, rating companies have to assess not only the chance that something may go wrong with one piece but also the possibility that multiple combinations of things could falter. To do that, S&P, Moody's and Fitch use a mathematical technique called Monte Carlo simulation, named after the Mediterranean gambling city.

The rating companies take all the data they have on a CDO, such as information about specific bonds and securitizations and the remaining types of loans to be purchased for the package.

The firm enters data into a software program, which calculates the probability that a CDO's assets will default in hypothetical situations of financial and commercial stress. The program effectively rolls the dice more than 100,000 times by running the information randomly.

`False Sense of Security'

The rating companies base their simulations and ratings of each tranche on assumptions about default and recovery rates that may be incorrect, Cifuentes says.

``The danger with Monte Carlo is that it gives you a false sense of security,'' he says. ``If the input data that you use is a little bit uncertain, your numbers are going to be trash, but they

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will look convincing.''

Credit rating companies may have miscalculated the potential toxicity of securities backed by subprime loans, McManus says. ``With CDOs, they underestimated the volatility of the subprime asset class in determining how much leverage was OK,'' he says.

The rating firms use irrelevant or incomplete data to calculate the probability, or so-called correlation risk, that various assets in a CDO will default at the same time, Das says.

``The models are fine,'' he says. ``But they have an input problem. It becomes a number we pluck out of the air. They could be wrong, and the ratings could be misleading. I'm not even sure we understand the networks of links between the subprime tranches.''

`Not an Exact Science'

Stephen McCabe, a London-based managing director at S&P in charge of rating structured finance, defends his firm's evaluations, which are based in part on Monte Carlo simulation. ``It's always an opinion, but it's based on some very deep mathematical analysis and some quite-complicated modeling.''

Kimberly Slawek, group managing director at Derivative Fitch, the subsidiary of Fitch that rates CDOs, says her firm does the best it can. ``It's not an exact science,'' she says. ``This is very much our opinion as to the creditworthiness.''

Kevin Kendra, London-based managing director at Derivative Fitch, says he runs a two-year training course on the rating firm's model for analyzing CDOs. In the first year, he teaches recruits about Monte Carlo simulation, including the use of correlation variables in determining risk.

Correlations mean, for example, that when a German auto company defaults, other German car manufacturers suffer a higher chance of failing.

`Understand the Strengths.'

``I spend the second year teaching them how to not believe the outputs of these models,'' Kendra says. ``I want them to understand the strengths of the model, but also why the model may or may not apply to the assets that they're trying to analyze.''

Kendra says he's not telling them to ignore the computer model; rather, he's suggesting that they should understand it and also use their own judgment.

S&P's McCabe says his company's model is valuable, even if it isn't perfect. ``There can be times when the model will spit out something and the people on our credit rating committee will just say, `We're not comfortable with that,''' he says.

Complicating the rating companies' challenges in evaluating CDOs is the unusual role they play in putting them together. Potential conflicts of interest in the ratings game aren't new. The three largest raters are always paid by the issuers of the debt they're rating.

Rating Conflicts

Conflicts in rating CDOs are more acute because the raters work with financial firms in creating these debt packages, says Karl Bergqwist, a senior manager at Gartmore Investment Management Plc in London.

``When you assign a traditional rating on a company or a bank, it is as it is, and you just make an assessment,'' says Bergqwist, who worked at Moody's until 1994. ``When you move into structured finance, the agencies are effectively involved in structuring these transactions.''

Fitch rates the top tranches AAA. The riskier mezzanine tranches usually get investment grades down to BBB-. The lowest

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portions, the toxic waste, which offer the highest potential return and biggest risk for investors, go unrated.

These sections are also known as equity because their holders are the first to suffer losses and the last in line to collect in the case of a collapse triggered by defaults of the underlying debt, just as shareholders stand behind bondholders when a public company goes bust.

`An Active Role'

Fitch's role in helping to put together a CDO came to light in a civil court case. American Savings Bank of Hawaii Inc. sued UBS PaineWebber Inc. in 2001, claiming that in 1999 UBS had incorrectly said a CDO it had sold was investment grade when it wasn't.

In the lawsuit, American Savings challenged Fitch's ratings of Zurich-based UBS's CDO. The 2nd U.S. Circuit Court of Appeals required Fitch to turn over internal documents. The court found in 2003 that Fitch had advised UBS on how to structure the CDO to get the ratings the bank wanted. Fitch itself was not a party to the lawsuit.

``Fitch played an active role in helping PaineWebber decide how to structure the transaction,'' the court found. ``Correspondence indicates a fairly active role on the part of the Fitch employee in commenting on proposed transactions and offering suggestions about how to model the transactions to reach the desired ratings.''

The case was settled out of court, says UBS spokesman Doug Morris. Fitch's Aviotti says that although her company talks with financial firms as they create CDOs, Fitch doesn't structure CDOs. ``We do as we do, which is not advise,'' she says.

`The Nirvana'

Yuri Yoshizawa, group managing director for structured finance

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at Moody's, says a credit rating company's close relationship with CDO issuers doesn't compromise objectivity.

``I think if we have the ratings wrong, we don't have a business,'' she says. ``If we put something out there just because the issuer wants it and it's wrong, then there's absolutely no reason for anybody to rely on or give voice to our opinions.''

The banks and rating companies have stretched the frontiers of CDOs with products known as CDO squareds and CDO cubeds.

As the names suggest, a CDO squared is formed by bundling together a bunch of CDOs, and a CDO cubed, which can contain thousands of different securities, is formed by lashing together a bunch of CDO squareds.

Some investors love these fat packages of CDOs because they offer even higher returns than plain CDOs. ``The nirvana is higher risk-adjusted returns,'' says Andrew Donaldson, CEO of CPM Advisers Ltd., a London-based credit investment firm that manages about $2 billion.

`Smoke and Mirrors'

CPM buys and sells CDOs, including CDO squareds. ``CDO squareds give another dimension to achieve portfolio diversification,'' Donaldson says.

Investors shouldn't put much credence in the risk that rating companies assign to CDO squareds and cubeds, says Stanford's Duffie. ``The complexity of analyzing that is beyond current methodology,'' he says.

The grades that rating companies give CDO squareds and cubeds are worthless, says Janet Tavakoli, founder of Chicago-based consulting firm Tavakoli Structured Finance Inc., which advises investors on CDO purchases.

``Ratings on these products are based on smoke and mirrors,''

Tavakoli says.

The inner workings of CDOs are normally invisible to the public. The demise of the $340.7 million CDO Credit Suisse sold in December 2000 was documented in a 38-page report dated March 26 that Moody's stamped as confidential.

CDO Collapse

The Enhanced Monitoring Report, which is written for clients who pay an extra $10,000 to $130,000 for such studies, provided further background about the CDO called SPA.

This ill-fated CDO included a collection of subprime mortgage-backed securities and junk bonds. S&P, Moody's and Fitch stamped 85 percent of the CDO with an AAA or Aaa rating because that portion was guaranteed by bond insurer MBIA Inc.

On April 24, Moody's withdrew its rating on the major part of SPA, saying in a two-sentence note that investors in this tranche had been paid in full.

What Moody's didn't say was that Armonk, New York-based MBIA paid the investors after the CDO had collapsed because many of its underlying securities had defaulted. MBIA spokesman Michael Ballinger says the insurer paid investors in the AAA or Aaa tranche $177 million.

The tranche had suffered about $73 million in losses, which MBIA covered. Moody's spokesman Anthony Mirenda and Credit Suisse spokesman Pen Pendleton declined to comment on SPA.

Total Loss

Moody's also didn't say what became of SPA's uninsured mezzanine tranches, which the credit rating company had rated as investment grade. Investors in these tranches lost all of their money, Ballinger says.

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The losses totaled $38.5 million including unpaid accrued interest, based on the numbers in the Moody's report. The unrated equity, or toxic tranches, also lost everything -- $17.2 million. Moody's estimated that SPA's remaining assets, which MBIA took over, were worth $104 million.

``Because of the difficulty in obtaining accurate and timely market prices, some of the prices may be inaccurate or stale,'' Moody's wrote in a footnote in the confidential report. Mirenda declined to comment on the report.

With no regulation and little transparency, the CDO market thrives, and credit raters are helping lead the way, the University of San Diego's Partnoy says.

Investors haven't been deterred by American Express's $1 billion loss. Nor have the March and April studies by Moody's and Lehman showing the concentration of subprime debt in CDOs slowed down CDO sales.

Former banker Das wonders why few people are probing the potential dangers for CDO investors. ``I think the regulators seem to be fairly sanguine about all of this,'' he says. ``The thing that I find quite bewildering is the lack of urgency and focus.''

He says subprime mortgage defaults have just started to soar. ``The fuse has been lit,'' Das says. ``Somebody should be trying to find where this wire is running to.''

--With reporting by Christine Richard in New York. Editor: Neumann.

Story illustration: To view a chart of worldwide CDO sales (in billions of dollars) for the past ten years, using data compiled by Morgan Stanley: {MCDOSALE Index GP <GO>}. Click on the word chart to see the shares of the three largest credit rating companies increase as CDO sales soar.

For data on delinquencies on subprime loans in residential mortgage-backed securities, type DQRP <Go>. Click on the arrow to the right of Sector and select Residential.

Brad Welnick

Carlyle - Blue Wave
brad.welnick@cbwpartners.com
1177 Avenue of the Americas
16th Floor
New York, NY 10036 <http://maps.yahoo.com/py/maps.py?Pyt=Tmap&addr=1177+Avenue+of+the+Americas&csz=New+York%2C+NY+10036&country=us>
tel: 212-938-2524 <http://www.plaxo.com/click_to_call?src=jj_signature&To=646-386-6391&Email=joshua_powell@yahoo.com>

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From: Sparks, Daniel L
Sent: Saturday, May 19, 2007 5:57 PM
To: Alexander, Lee; Kaprelian, Michael; Brafman, Lester R
Subject: FW: Mortgages CDO Origination Presentation

Attachments: Mortgages V3.ppt

Good job overall - comments on pages below:
p.2 second bullet pt. instead of mark to model, should say "securitization valuation to a individual position mark to market valuation."
P.3 break out 2 large high grade super senior positions
don't think numbers are correct (assumptions about timberwolf AAA looks wrong for 5/11), and it seems like too much detail for 5/11
P.4 again change to "marked to securitization execution"
not correct that all warehouse collateral at par - probably should just remove sentence or say at cost with securitization execution reserve
P.5 again "marked to securitization exit"
some A and BBB were sold on the deals
P.6 should note value of oc buildup typically makes current credit support for BBB 8-9% on RMBS deals
P10-12 can discuss live, but want to make sure you have all relevant sales

Thanks

From: Alexander, Lee
Sent: Saturday, May 19, 2007 12:32 AM
To: Sparks, Daniel L
Cc: Kaprelian, Michael
Subject: Mortgages CDO Origination Presentation

Dan - Please find an updated version of the presentation. Please let us know if you have any comments prior to the call on Sunday - and we will make the necessary changes.



Mortgages V3.ppt

Thx, Lee

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2097

559-3

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Mortgages CDO Origination

Retained Positions & Warehouse Collateral

May 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2098

Mortgages CDO Origination
Executive Summary

- Based upon the inability to place the liabilities of the Timberwolf and Point Pleasant CDO^2 transactions, the Mortgage trading desk assessed the current valuation of retained positions and the ability to securitize current CDO^2 warehouse collateral.
- The inability to securitize CDO^2 warehouse collateral will result in the unwind of the warehouse facilities, which will move the collateral from a mark to model valuation to a mark to market valuation.
- The initial estimate on May 11th of the mark-to-market P&L impact of this revaluation of retained positions and change in valuation methodology is shown as follows:

	Market Value ($mm)	A	B	C
Retained Positions:				
Debt - CDO	4,053	(121)	(196)	(273)
Equity - CDO	113	(12)	(24)	(36)
Warehouse Collateral	1,493	(116)	(160)	(202)
Total	**5,659**	**(248)**	**(380)**	**(511)**

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Mortgages CDO Origination
Retained Positions

- As of May 11th, the desk held $4.166bn in Retained positions related to CDO Debt and Equity. Breakout of this balance by type and the anticipated writedowns are shown below:

	Market Value($mm)	A	B	C
Debt - CDO				
CDO-squared	637	(111)	(166)	(221)
Mezz	622	(11)	(26)	(42)
High grade	2,793	1	(3)	(9)
Total	**4,053**	**(121)**	**(196)**	**(273)**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equity - CDO				
2001-2005 Mezz	11	(3)	(4)	(5)
2002-2004 High Grade	5	-	-	-
2005-2006 High Grade	33	(5)	(7)	(8)
2006 Mezz	32	(4)	(9)	(14)
CDO-squared	32	0	(4)	(9)
Total	**113**	**(12)**	**(24)**	**(36)**
TOTAL	**4,166**	**(132)**	**(220)**	**(309)**

- The anticipated writedowns are driven by Mezz AAA and AA tranches of Timberwolf and Point Pleasant CDO^2 structures ($(159.3)mm – Scenario B). These deals were priced the wk of 03/16 and the week of 04/13, respectively.
- Due to the lack of liquidity in the marketplace for these structures (i.e. Timberwolf and Point Pleasant last traded on 04/23 and 04/24, respectively), the desk has proposed writedowns to reflect current market conditions.

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgages CDO Origination
Warehouse Positions

- As of May 11th, the desk was in the midst of ramping up 4 CDO warehouses. At this time, the warehouse collateral was valued with the assumption that a CDO was a viable exit. Thus, inventory warehoused was marked to model by comparing asset and liability spreads, including the desired equity yield. To the extent that the current CDO liability spreads were wider than the cost on an aggregate basis, the estimated loss was reserved.
- As securitization is no longer a viable exit, the warehoused assets will be marked to market on an individual basis. Current market value of all warehouse collateral is par. Anticipated writedowns are as follows:

Sector	Market Value($mm)	A		B		C	
		Write down	Average Price	Write down	Average Price	Write down	Average Price
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
RMBS - Other	184	(15)	92%	(16)	91%	(17)	91%
RMBS - Subprime	341	(26)	93%	(27)	92%	(29)	92%
SP CDO	777	(145)	81%	(185)	76%	(222)	71%
Less: Warehouse mark-to-model reserves		75		75		75	
Total	**1,493**	**(116)**		**(160)**		**(202)**	

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Mortgages CDO Origination

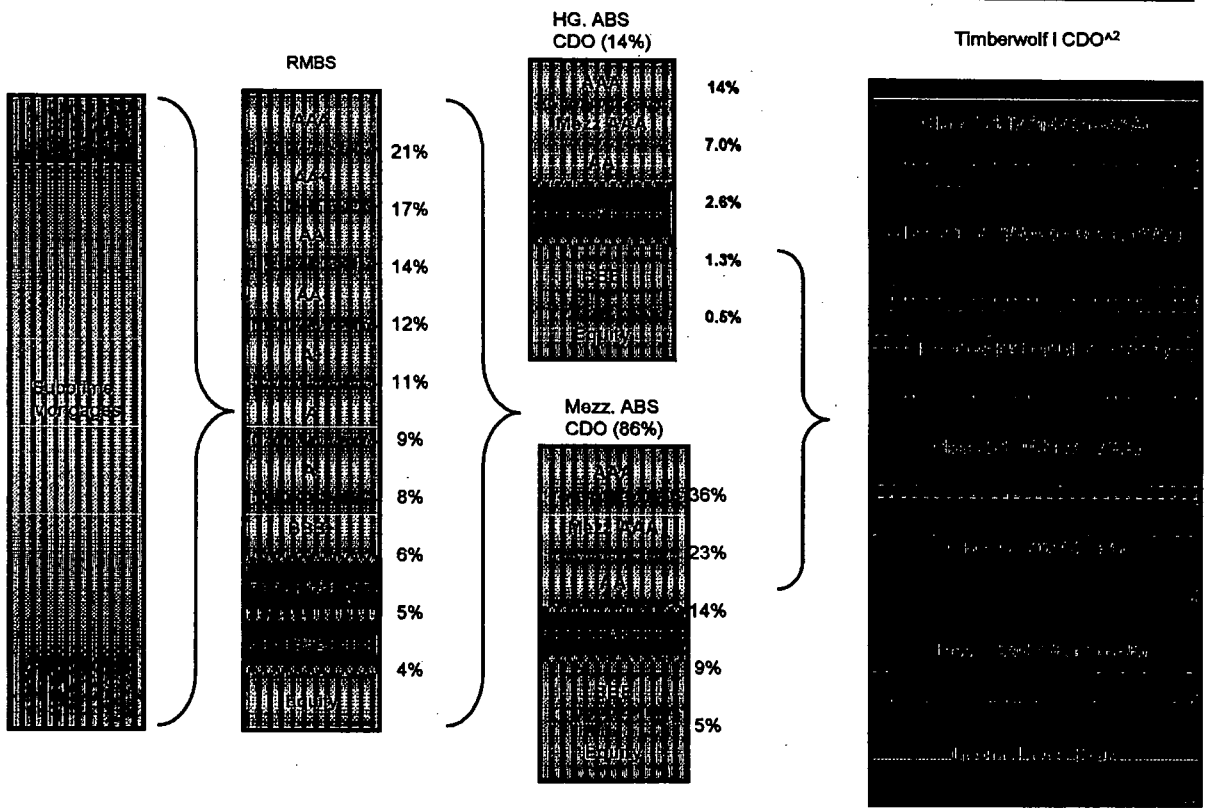
CDO Origination Risk vs. SPG Trading Risk

- Origination – Long 2.6bn of CDO Risk
  - Our CDO^2 collateral was ramped prior to the market widening and marked to model – average ramp period is 6-9 months
  - Our CDO^2 deals, Timberwolf and Point Pleasant, priced in March with demand only for the super senior tranche
  - The complexity of the CDO^2 product and the poor demand for CDOs in general has made this risk difficult to sell and the desk expects it to underperform
- SPG Trading – Short $2.8bn of CDO Risk
  - Over the past 6 months, Single A CDO prices are ~20-25pts lower (from $100 to $75-80)
  - SPG Trading Shorts were marked to market as prices declined

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Mortgages CDO Origination

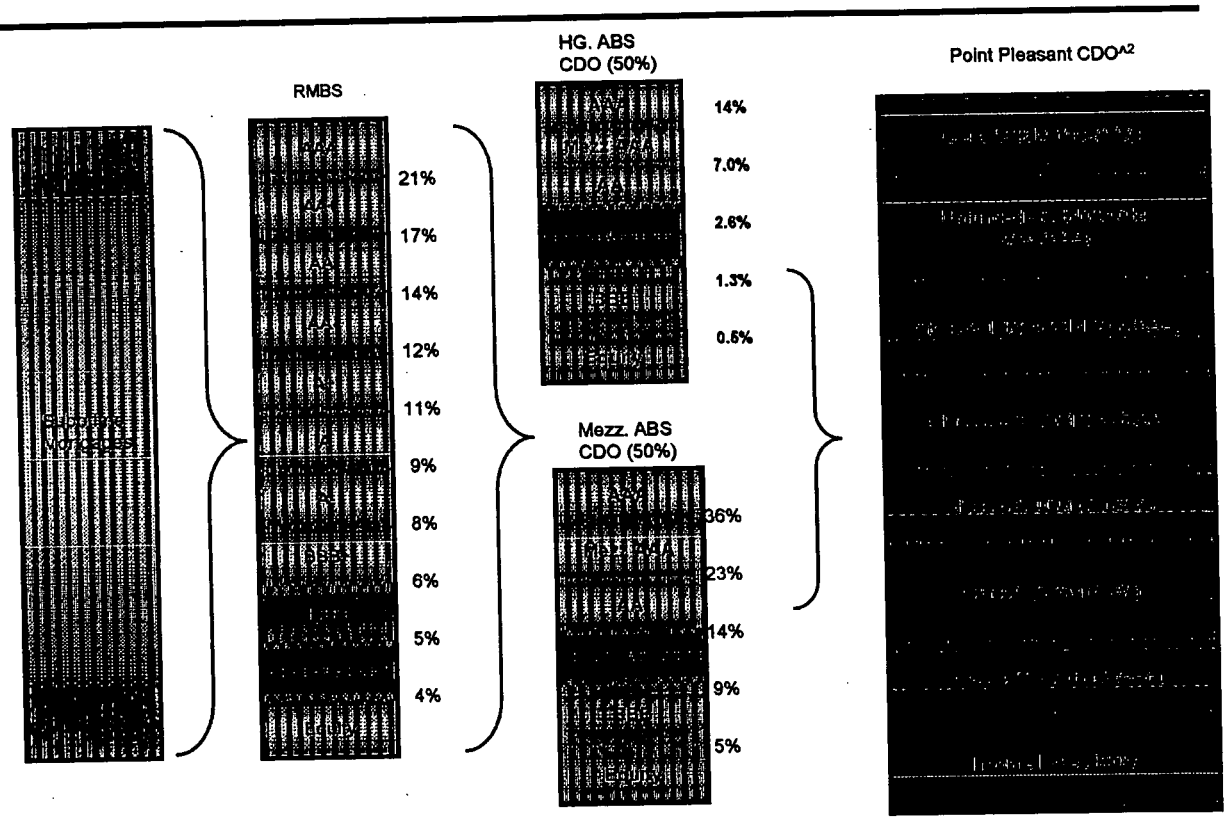
Timberwolf I CDO^2: Overview of Capital Structure



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Mortgages CDO Origination

Point Pleasant CDO^2: Overview of Capital Structure



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Mortgages CDO Origination
Action Steps – May 11th

- Unwind the warehouses
- Form three independent teams to value retained positions independently
  - David Lehman & Michael Swenson (SPG Trading)
  - Will Roberts, Gerald Ouderkirk, Doug Weaver (SCT Trading)
  - Dedicated strat support, led by Elisha Wiesel
- Distribution team headed by Stacy Bash-Polley and Scott Wisenbaker

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Mortgages CDO Origination
Anticipated Writedowns (in MMs)

	SPG A	SPG B	SPG C	Cross Run	Strat
Retained Positions	(117)	(187)	(258)		
Benchmark Timberwolf Mezz CMA	(47)	(61)	(75)		
Warehouse*	(126)	(126)	(126)	(126)	(126)
Total	**(243)**	**(313)**	**(384)**	**(126)**	**(126)**

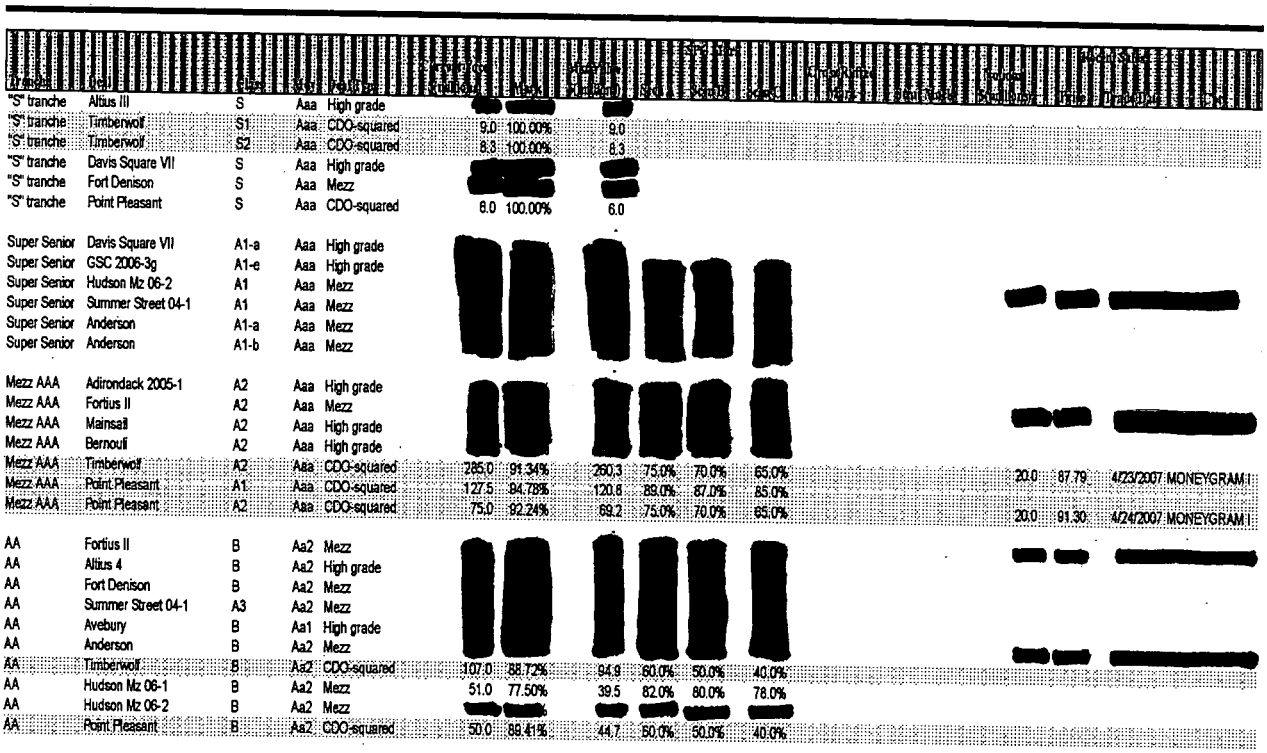
* Warehouse p&l shown using scenario B level of $126mm

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Mortgages CDO Origination

CDO Debt - Retained Positions



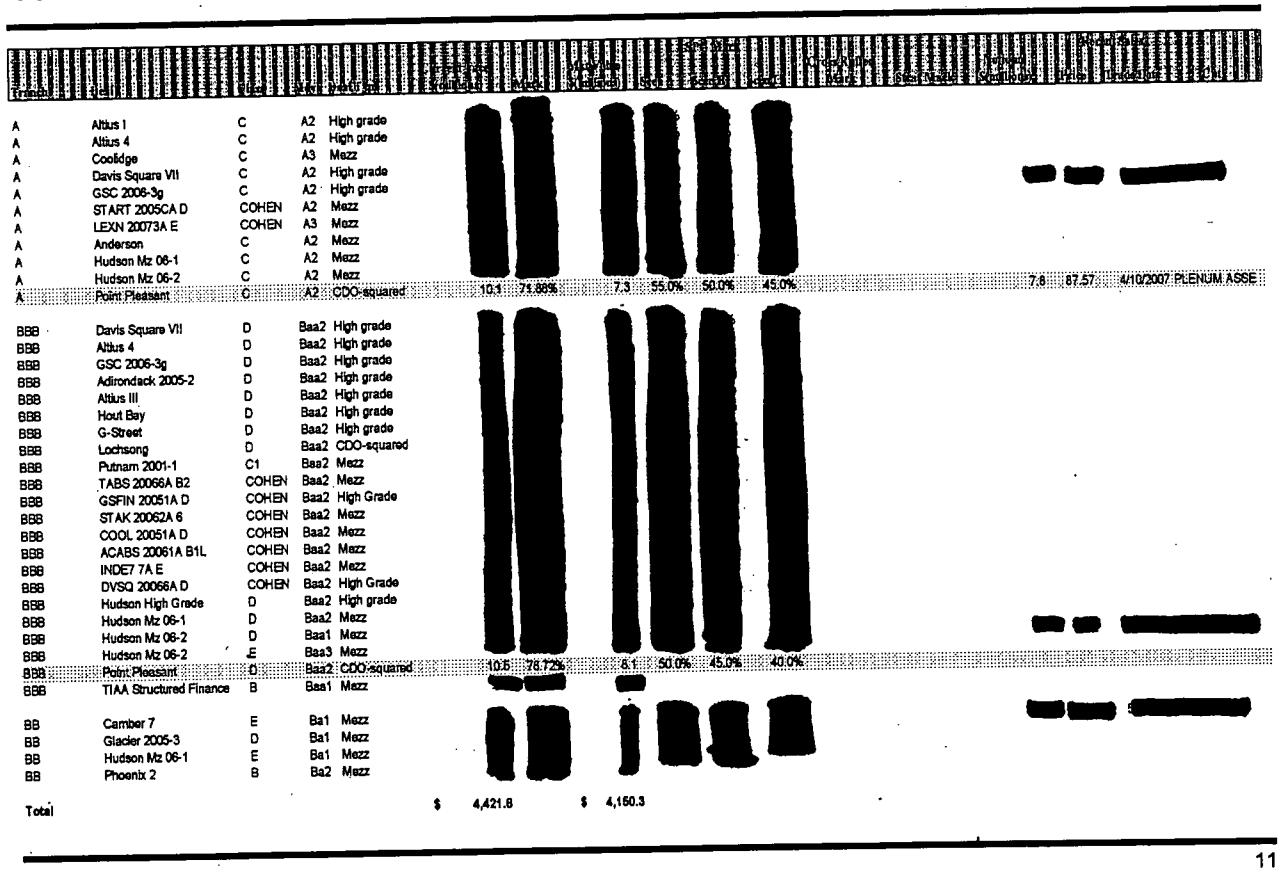
"S" tranche	Altius III	S	Aaa	High grade	[redacted]										
"S" tranche	Timberwolf	S1	Aaa	CDO-squared	9.0	100.00%	9.0								
"S" tranche	Timberwolf	S2	Aaa	CDO-squared	8.3	100.00%	8.3								
"S" tranche	Davis Square VII	S	Aaa	High grade	[redacted]										
"S" tranche	Fort Denison	S	Aaa	Mezz											
"S" tranche	Point Pleasant	S	Aaa	CDO-squared	6.0	100.00%	6.0								
Super Senior	Davis Square VII	A1-a	Aaa	High grade											
Super Senior	GSC 2006-3g	A1-e	Aaa	High grade											
Super Senior	Hudson Mz 06-2	A1	Aaa	Mezz											
Super Senior	Summer Street 04-1	A1	Aaa	Mezz											
Super Senior	Anderson	A1-a	Aaa	Mezz											
Super Senior	Anderson	A1-b	Aaa	Mezz											
Mezz AAA	Adirondack 2005-1	A2	Aaa	High grade											
Mezz AAA	Fortius II	A2	Aaa	Mezz											
Mezz AAA	Mainsail	A2	Aaa	High grade											
Mezz AAA	Bernoull	A2	Aaa	High grade											
Mezz AAA	Timberwolf	A2	Aaa	CDO-squared	285.0	91.34%	260.3	75.0%	70.0%	65.0%				20.0	87.79	4/23/2007 MONEYGRAM I
Mezz AAA	Point Pleasant	A1	Aaa	CDO-squared	127.5	84.78%	120.6	89.0%	87.0%	85.0%						
Mezz AAA	Point Pleasant	A2	Aaa	CDO-squared	75.0	92.24%	69.2	75.0%	70.0%	65.0%				20.0	91.30	4/24/2007 MONEYGRAM I
AA	Fortius II	B	Aa2	Mezz												
AA	Altius 4	B	Aa2	High grade												
AA	Fort Denison	B	Aa2	Mezz												
AA	Summer Street 04-1	A3	Aa2	Mezz												
AA	Avebury	B	Aa1	High grade												
AA	Anderson	B	Aa2	Mezz												
AA	Timberwolf	B	Aa2	CDO-squared	107.0	88.72%	94.9	60.0%	50.0%	40.0%						
AA	Hudson Mz 06-1	B	Aa2	Mezz	51.0	77.50%	39.5	82.0%	80.0%	78.0%						
AA	Hudson Mz 06-2	B	Aa2	Mezz												
AA	Point Pleasant	B	Aa2	CDO-squared	50.0	89.41%	44.7	60.0%	50.0%	40.0%						

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Mortgages CDO Origination

CDO Debt - Retained Positions (cont)



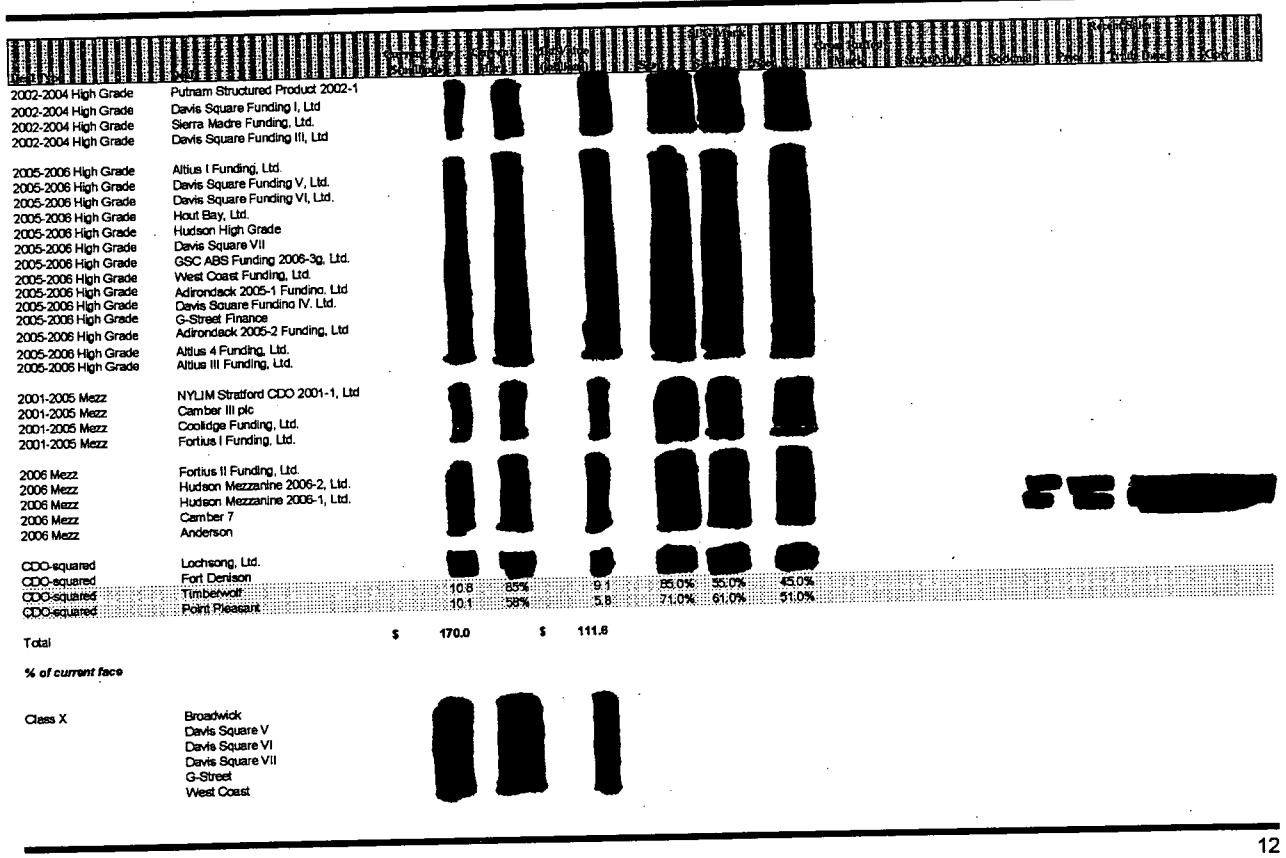
A	Altius I	C	A2	High grade										
A	Altius 4	C	A2	High grade										
A	Coolidge	C	A3	Mezz										
A	Davis Square VII	C	A2	High grade										
A	GSC 2006-3g	C	A2	High grade										
A	START 2005CA D	COHEN	A2	Mezz										
A	LEXN 20073A E	COHEN	A3	Mezz										
A	Anderson	C	A2	Mezz										
A	Hudson Mz 06-1	C	A2	Mezz										
A	Hudson Mz 06-2	C	A2	Mezz										
A	Point Pleasant	C	A2	CDO-squared	10.1	71.88%	7.3	55.0%	50.0%	45.0%		7.8	87.57	4/10/2007 PLENUM ASSE
BBB	Davis Square VII	D	Baa2	High grade										
BBB	Altius 4	D	Baa2	High grade										
BBB	GSC 2006-3g	D	Baa2	High grade										
BBB	Adirondack 2005-2	D	Baa2	High grade										
BBB	Altius III	D	Baa2	High grade										
BBB	Hout Bay	D	Baa2	High grade										
BBB	G-Street	D	Baa2	High grade										
BBB	Lochsong	D	Baa2	CDO-squared										
BBB	Putnam 2001-1	C1	Baa2	Mezz										
BBB	TABS 20066A B2	COHEN	Baa2	Mezz										
BBB	GSFIN 20051A D	COHEN	Baa2	High Grade										
BBB	STAK 20062A 6	COHEN	Baa2	Mezz										
BBB	COOL 20051A D	COHEN	Baa2	Mezz										
BBB	ACABS 20061A B1L	COHEN	Baa2	Mezz										
BBB	INDE7 7A E	COHEN	Baa2	Mezz										
BBB	DVSQ 20066A D	COHEN	Baa2	High Grade										
BBB	Hudson High Grade	D	Baa2	High grade										
BBB	Hudson Mz 06-1	D	Baa2	Mezz										
BBB	Hudson Mz 06-2	D	Baa1	Mezz										
BBB	Hudson Mz 06-2	E	Baa3	Mezz										
BBB	Point Pleasant	D	Baa2	CDO-squared	10.5	76.72%	6.1	50.0%	45.0%	40.0%				
BBB	TIAA Structured Finance	B	Baa1	Mezz										
BB	Camber 7	E	Ba1	Mezz										
BB	Glacier 2005-3	D	Ba1	Mezz										
BB	Hudson Mz 06-1	E	Ba1	Mezz										
BB	Phoenix 2	B	Ba2	Mezz										
Total					$ 4,421.8		$ 4,150.3							

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Mortgages CDO Origination

CDO Equity - Retained Positions



2002-2004 High Grade	Putnam Structured Product 2002-1	[redacted]						
2002-2004 High Grade	Davis Square Funding I, Ltd							
2002-2004 High Grade	Sierra Madre Funding, Ltd.							
2002-2004 High Grade	Davis Square Funding III, Ltd							
2005-2006 High Grade	Altius I Funding, Ltd.							
2005-2006 High Grade	Davis Square Funding V, Ltd.							
2005-2006 High Grade	Davis Square Funding VI, Ltd.							
2005-2006 High Grade	Hout Bay, Ltd.							
2005-2006 High Grade	Hudson High Grade							
2005-2006 High Grade	Davis Square VII							
2005-2006 High Grade	GSC ABS Funding 2006-3g, Ltd.							
2005-2006 High Grade	West Coast Funding, Ltd.							
2005-2006 High Grade	Adirondack 2005-1 Funding, Ltd							
2005-2006 High Grade	Davis Square Funding IV, Ltd.							
2005-2006 High Grade	G-Street Finance							
2005-2006 High Grade	Adirondack 2005-2 Funding, Ltd							
2005-2006 High Grade	Altius 4 Funding, Ltd.							
2005-2006 High Grade	Altius III Funding, Ltd.							
2001-2005 Mezz	NYLIM Stratford CDO 2001-1, Ltd							
2001-2005 Mezz	Camber III plc							
2001-2005 Mezz	Coolidge Funding, Ltd.							
2001-2005 Mezz	Fortius I Funding, Ltd.							
2006 Mezz	Fortius II Funding, Ltd.							
2006 Mezz	Hudson Mezzanine 2006-2, Ltd.							
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.							
2006 Mezz	Camber 7							
2006 Mezz	Anderson							
CDO-squared	Lochsong, Ltd.							
CDO-squared	Fort Denison							
CDO-squared	Timberwolf	10.8	85%	9.1	85.0%	55.0%	45.0%	
CDO-squared	Point Pleasant	10.1	58%	5.8	71.0%	61.0%	51.0%	
Total		$ 170.0		$ 111.8				
% of current face								
Class X	Broadwick							
	Davis Square V							
	Davis Square VI							
	Davis Square VII							
	G-Street							
	West Coast							

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Mortgages CDO Origination
Next Steps

- Continue working with targeted investors
  - Basis Capital
  - Fortress
  - Polygon
  - Winchester Capital
- Elisha Wiesel and SCT Trading will continue to refine models
- SPG Trading to gather observable prices on underliers to improve accuracy of valuation models

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Mortgages CDO Origination
Additional PnL Items

	Desk Estimate	Controller Estimate
Subprime Residuals	(40) to (50)	(5)
Alt A Residuals	(25) to (30)	8
Second Lien Residuals	(21)	TBD
HELOC Residual	(5)	(5)
Scratch and Dent Residuals	(5)	(5)
Scratch and Dent Loans	TBD	TBD
CDS Duration	100 to 125	100 to 125

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Appendix

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Mortgages CDO Origination

Market Value & Retained Positions as at May 18th

Warehouse Positions

Sector	Market Value($mm)	Anticipated Writedowns A	B	C
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
RMBS - Other	184	(15)	(16)	(17)
RMBS - Subprime	341	(26)	(27)	(29)
SP CDO	742	(155)	(170)	(184)
Less: Warehouse mark-to-model reserves		82	82	82
Less: SMBC Funding facility		12	12	12
Total	*1,458*	*(107)*	*(126)*	*(145)*

Retained Positions

	Market Value($mm)	Anticipated Writedowns A	B	C
Debt - CDO				
CDO-squared	637	(116)	(154)	(192)
Mezz	658	(4)	(25)	(45)
High grade	2,855	4	(9)	(21)
Total	*4,150*	*(117)*	*(187)*	*(258)*
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Equity - CDO				
2001-2005 Mezz	11	(4)	(5)	(6)
2002-2004 High Grade	5	(1)	(2)	(3)
2005-2006 High Grade	35	(7)	(12)	(17)
2006 Mezz	29	(1)	(6)	(11)
CDO-squared	32	0	(4)	(9)
Total	*112*	*(12)*	*(29)*	*(46)*
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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Mortgages CDO Origination
Distribution

Account	Sales	Deal	Tranche	Defcon	Comments
ortress	Davilman	Timberwolf I	Mezz AAA	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
ortress	Davilman	Timberwolf I	AA-Rated	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
ark	Gaddi	Timberwolf I	Mezz AAA	1	Looking on a financed basis - Indicative terms [redacted] - concerned about correlation, our level, mgmt view / Back ended return profile
Anchester	Radtke	Point Pleasant 2007-1	Mezz AAA		Engaged and looking - has been offered bonds at 450 on A2, 700 on B / [redacted]
asis	Maltezos	Timberwolf I	Mezz AAA	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
asis	Maltezos	Timberwolf I	AA-Rated	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
IG	Penick	Timberwolf I	Mezz AAA	3	re-engaged - trying to get answer by GS qtr end. Asked/received additional information today / they are still working / Penick to follow up early next week
idelity	Martin	Point Pleasant 2007-1	A-rated	3	Looking
Plenum	Arslan	Point Pleasant 2007-1	A-Rated	3	Looking at up to [redacted]m remaining - Acct. asked for 7 bus days to do work, then left office and is in [redacted] will hear from them when they return
iller Anderson	Brazil	Timberwolf I	Mezz AAA	3	Looking
oneygram	Gilligan	Timberwolf I	AA-Rated	3	Potential interest on AAs (already own AAAs) / trying to see if they go down in cap. Structure (low Delta)
ld Lane	Grinstein	Timberwolf I		3	Need lookthru analysis / Strats are working on it
equot	brazil	Timberwolf I	Mezz AAA	3	Looking
andelman	Kelly			3	Checking - Twolf higher delta than Point Pleasant given headline risk wrt Dillon Read - want lookthru analysis on Timberwolf / Strats are working on it / potential size [redacted]
JBS Prop	Kelly	Timberwolf or Pt. Pleasant		3	Inherited Dillon Read's Point Pleasant Positions / looking at Twolf A-2, B Classes and Pt. Pleasant B Class
eShaw	cohen	Point Pleasant 2007-1	Mezz AAA	3	Looking - asked for materials and raw data [redacted] / had call / low delta
lliot	Grinstein	Timberwolf I	Mezz AAA	3	Would look to trade against CLO Super Senior AAAs - will receive bid list for CLOs early next week (Pot. Size [redacted] potential interest - working to model existing exposure (own portion of single A class) - if they care expect
olygon	Raazi	Timberwolf I	AA-Rated	3	size ~[redacted]

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Mortgages CDO Origination
Distribution (cont)

Account	Sales	Deal	Tranche	Defcon	Comments
Carlyle	Ruberti			4	Will go through look through analysis - go from there / Strats are working on it
DA Capital	Kreitman			4	Start work @+800 - 1000dm for mezz AAA
Elliot	Grinstein			4	Focused on anderson Equity
					evaluating Pt Pleasant A-1 vs. [redacted]
Harvard	Radtke	Point Pleasant 2007-1	Mezz AAA	4	counter / Radtke to follow up next week
Highland	Ruberti			4	Low Delta - Need lookthru analysis / Strats are working on it
					Checking - need feedback on interest from account before showing wider offering levels - [redacted]
JPM Prop	Verrochi			4	[redacted]
Marathon	Kreitman			4	
MS Prop	Martin	Timberwolf I	Mezz AAA	4	will do work in the L+800-1000 context ($71-65) - passed on GS offer at 80-00
Nochu/SSG				4	Further analysis needed
Princeton	Fertel/Phillips			4	Low Delta - have never Bought CDO^2
Smith Breedan	martin			4	Start work @+800 - 1000dm for mezz AAA
Zais	Grinstein	Point Pleasant 2007-1	Mezz AAA	4	potential - will likely be slower with feedback
Lehman A/M	Gadd	Timberwolf I	Mezz AAA	4	Need a look-through of the underlying vintages / strats are working on it
Providence	Reinstein	Point Pleasant 2007-1		4	Looking - sent final CC/Portfolio
					Looking - may care for a small amount [redacted]
Vanderbilt	Gadd	Timberwolf I		4	[redacted] - small size if they care
Hyperion	Willing	Timberwolf I		4	Looking - Credit enhancement is thin / Concerned about rating Agency coorelation report / likes discount
Paramax	Matthias	Point Pleasant 2007-1	Mezz AAA	4	Very Low Delta
Paramax	Matthias	Timberwolf I	Mezz AAA	4	Very Low Delta
Blackrock	Fertel/Phillips	Point Pleasant 2007-1		4.5	Unlikely, relooking at analysis from new issue, [redacted] (look for feedback Friday)
Clinton	Verocchi	Point Pleasant 2007-1	Mezz AAA	4.5	Low Delta - Can't model CDO^2
Harding	Hornback	Point Pleasant 2007-1	A-rated	4.5	looked at single A's new issue - still need final feedback - low delta
					Checking - initial response was unlikely [redacted]
ML Bank	Willing			4.5	[redacted], Timberwolf more likely than Point Pleasant given headline risk wrt Dillon Read
CBASS	Pinkos			5	Out - do not buy CDO^2
Ellington	Sue/Elaine	Timberwolf I	Mezz AAA	5	removed from list - have not been shown levels
Mariner	Maltezos	Timberwolf I	Mezz AAA	5	Out - too much overlap with Point Pleasant
TPG-Axon	Fertel/Phillips	Point Pleasant 2007-1	Mezz AAA	5	Out - do not care at any level - [redacted]

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Mortgages CDO Origination

Retained Positions & Warehouse Collateral

May 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2098

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Mortgages CDO Origination
Executive Summary

- The Mortgage Department is concerned about the following risks:
  - Retained Positions in the CDO Origination Business
    - Market Value in CDO Debt is $4.150bn
    - Specifically concerned about $637mm of CDO^2 positions and $112mm in CDO Equity. The complex structure of these positions make them very difficult to value and distribute.
  - Warehouse Collateral in the CDO Origination Business
    - Market Value of $1.458bn
    - Specifically concerned about $742mm of Structured Product CDOs. There is currently limited liquidity and price transparency in this space.
  - Secondary SPG Trading Book
    - Short positon of $2.45bn of which $XX is in single A or Lower Mezz tranches of CDOs
    - We are specifically concerned about the basis risk between the short in this book and the warehouse collateral. Although they are the same product, there is limited overlap between the two books.
  - Various other risks

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Mortgages CDO Origination
Retained Positions

- The desk holds $4.262bn in Retained positions related to CDO Debt and Equity
- The desk is most concerned about the CDO^2 positions, which is comprised of the recent Timberwolf and Point Pleasant transactions. Details listed below:

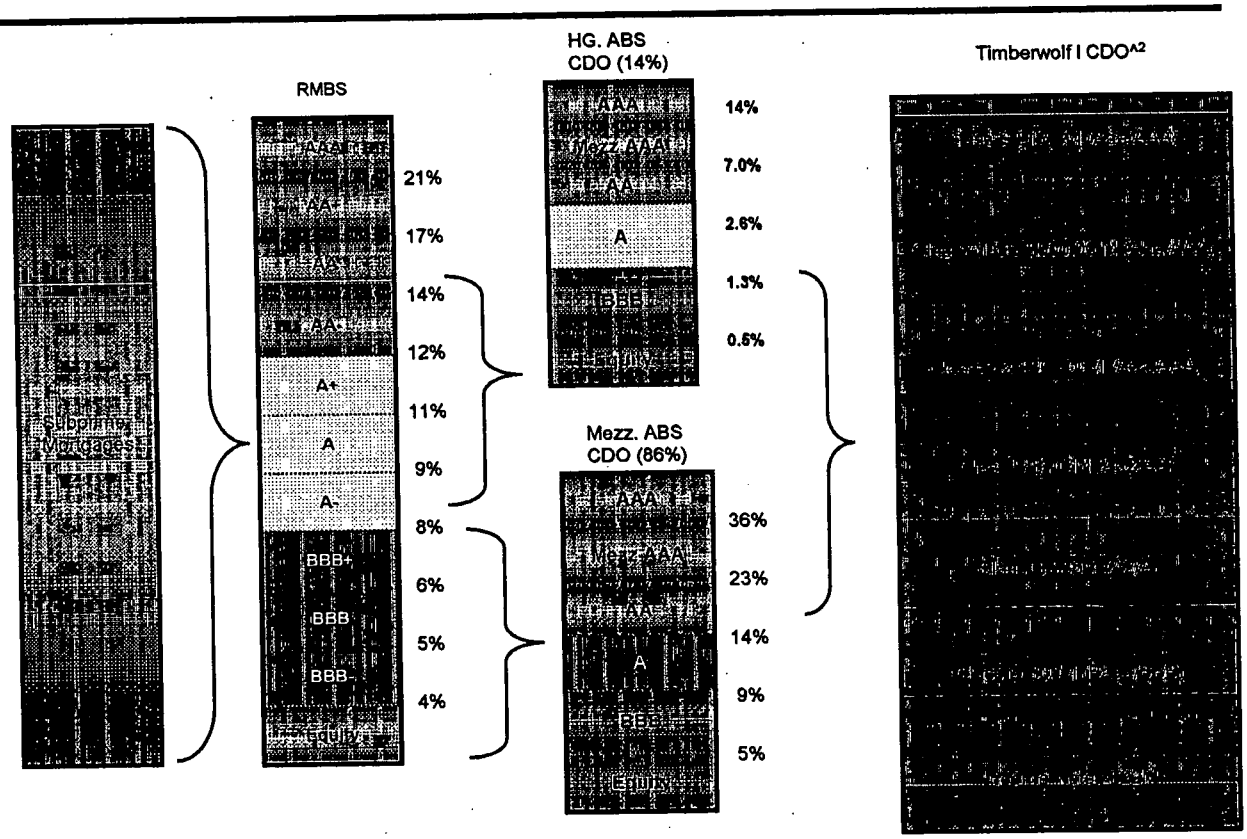
Tranche	Deal	Mdys	Notional	Mark	Mkt Value	Proposed Mark	PnL Impact
"S" tranche	Timberwolf	Aaa	9.0	100.00%	9.0		
"S" tranche	Timberwolf	Aaa	8.3	100.00%	8.3		
Mezz AAA	Timberwolf	Aaa	285.0	91.34%	260.3		
AA	Timberwolf	Aa2	107.0	88.72%	94.9		
Equity	Timberwolf		10.8	85.00%	9.1		
		Total	420.1		381.7		
Mezz AAA	Point Pleasant	Aaa	127.5	94.78%	120.8		
Mezz AAA	Point Pleasant	Aaa	75.0	92.24%	69.2		
AA	Point Pleasant	Aa2	50.0	89.41%	44.7		
A	Point Pleasant	A2	10.1	71.88%	7.3		
BBB	Point Pleasant	Baa2	10.5	76.72%	8.1		
Equity	Point Pleasant		10.1	58.00%	5.8		
		Total	283.2		255.9		
		TOTAL	703.2		637.6	-	-

* Notional and Market Value in MMs

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Mortgages CDO Origination

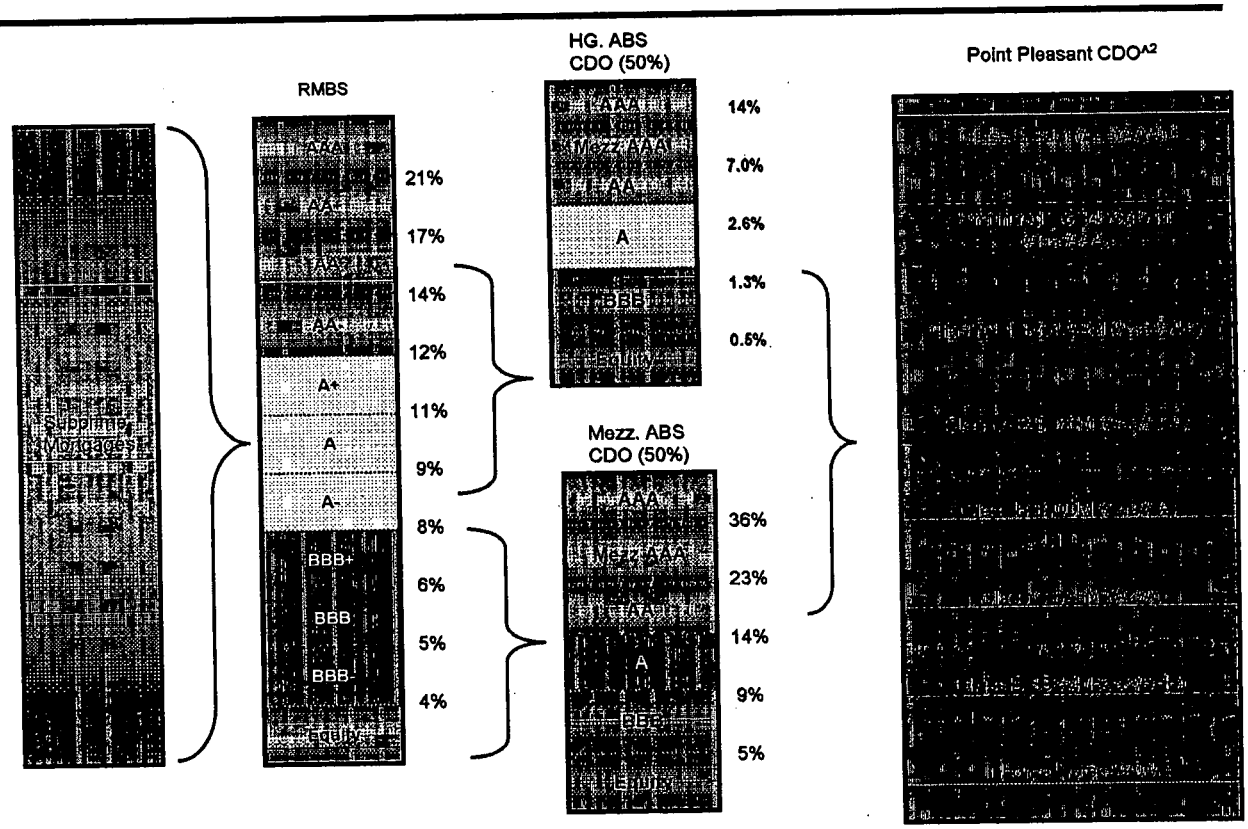
Timberwolf I CDO^2: Overview of Capital Structure



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Point Pleasant CDO^2: Overview of Capital Structure



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Mortgages CDO Origination
Warehouse Positions

- The desk holds $1.458bn in Warehouse Collateral related to 4 CDO transactions
- Current valuation policy is lower of mark to model or cost. As securitization is no longer a viable exit, the warehoused collateral will be marked to market on an individual basis.
- Biggest driver of the marked to market is the $742mm Special Product CDO collateral which has limited price visibility
- Details of the Warehouse Collateral are represented below:

Sector	Market Value	Proposed Mark	PnL Impact
[redacted]	[redacted]		
RMBS - Other	183.7		
RMBS - Subprime	341.3		
SP CDO	741.8		
Total	*1,458.1*		

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Mortgages CDO Origination
Secondary SPG Trading

- Over the past year the Secondary trading desk has built a short positon of 2.4bn in Single A or below Structured Product CDOs
- During this time period, Single A CDO prices are ~20-25pts lower (from $100 to $75-80)
- As the market for securities in this space has declined, the desk has realized a profit of $XX
  - Ytd - $XX
  - Mtd - $XX
  - Wtd - $XX

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Mortgages CDO Origination
Other Risks

	Desk Estimate	Controller Estimate
Subprime Residuals	(40) to (50)	(5)
Alt A Residuals	(25) to (30)	8
Second Lien Residuals	(21)	TBD
HELOC Residual	(5)	(5)
Scratch and Dent Residuals	(5)	(5)
Scratch and Dent Loans	TBD	TBD
CDS Duration	100 to 125	100 to 125

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Mortgages CDO Origination

CDO Origination Risk vs. SPG Trading Risk

- Origination – Long 2.6bn of CDO Risk
  - Our CDO^2 collateral was ramped prior to the market widening and marked to model – average ramp period is 6-9 months
  - Our CDO^2 deals, Timberwolf and Point Pleasant, priced in March with demand only for the super senior tranche
  - The complexity of the CDO^2 product and the poor demand for CDOs in general has made this risk difficult to sell and the desk expects it to underperform

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Mortgages CDO Origination
Action Steps

- Unwound the warehouses
- Formed three independent teams to value retained positions independently
  - David Lehman & Michael Swenson (SPG Trading)
  - Will Roberts, Gerald Ouderkirk, Doug Weaver (SCT Trading)
  - Dedicated strat support, led by Elisha Wiesel
- Distribution team headed by Stacy Bash-Polley and Scott Wisenbaker

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Mortgages CDO Origination

Overall Recommendations (in MMs)

	SPG A	SPG B	SPG C	Cross Ruff	Strats
Retained Positions	(129)	(216)	(303)		
- CDO Debt	(117)	(187)	(258)		
- CDO Equity	(12)	(29)	(46)		
Benchmark Timberwolf Mezz AAA	(47)	(61)	(75)		
Warehouse	(107)	(126)	(145)	(126)	(126)
Total	(237)	(342)	(448)	(126)	(126)

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Appendix

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Mortgages CDO Origination

CDO Debt - Retained Positions

"S" tranche	Altius III	S	Aaa	High grade	[redacted]										
"S" tranche	Timberwolf	S1	Aaa	CDO-squared	9.0	100.00%	9.0								
"S" tranche	Timberwolf	S2	Aaa	CDO-squared	8.3	100.00%	8.3								
"S" tranche	Davis Square VII	S	Aaa	High grade	[redacted]										
"S" tranche	Fort Denison	S	Aaa	Mezz											
"S" tranche	Point Pleasant	S	Aaa	CDO-squared	6.0	100.00%	6.0								
Super Senior	Davis Square VII	A1-e	Aaa	High grade	[redacted]										
Super Senior	GSC 2006-3g	A1-e	Aaa	High grade											
Super Senior	Hudson Mz 06-2	A1	Aaa	Mezz											
Super Senior	Summer Street 04-1	A1	Aaa	Mezz											
Super Senior	Anderson	A1-a	Aaa	Mezz											
Super Senior	Anderson	A1-b	Aaa	Mezz											
Mezz AAA	Adirondack 2005-1	A2	Aaa	High grade	[redacted]										
Mezz AAA	Fortius II	A2	Aaa	Mezz											
Mezz AAA	Mainsail	A2	Aaa	High grade											
Mezz AAA	Bernouli	A2	Aaa	High grade											
Mezz AAA	Timberwolf	A2	Aaa	CDO-squared	285.0	91.34%	260.3	75.0%	70.0%	65.0%			20.0	87.79	4/23/2007 MONEYGRAM I
Mezz AAA	Point Pleasant	A1	Aaa	CDO-squared	127.5	94.78%	120.8	88.0%	87.0%	85.0%					
Mezz AAA	Point Pleasant	A2	Aaa	CDO-squared	75.0	92.24%	69.2	75.0%	70.0%	65.0%			20.0	91.30	4/24/2007 MONEYGRAM I
AA	Fortius II	B	Aa2	Mezz	[redacted]										
AA	Altius 4	B	Aa2	High grade											
AA	Fort Denison	B	Aa2	Mezz											
AA	Summer Street 04-1	A3	Aa2	Mezz											
AA	Avebury	B	Aa1	High grade											
AA	Anderson	B	Aa2	Mezz											
AA	Timberwolf	B	Aa2	CDO-squared	107.0	88.72%	94.9	60.0%	50.0%	40.0%					
AA	Hudson Mz 06-1	B	Aa2	Mezz	51.0	77.50%	39.5	82.0%	80.0%	78.0%					
AA	Hudson Mz 06-2	B	Aa2	Mezz	[redacted]										
AA	Point Pleasant	B	Aa2	CDO-squared	50.0	89.41%	44.7	60.0%	50.0%	40.0%					

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgages CDO Origination

CDO Debt - Retained Positions (cont)

| Tranche | | Class | Moody's | | |

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgages CDO Origination

CDO Equity - Retained Positions

Deal Type	Deal							
2002-2004 High Grade	Putnam Structured Product 2002-1	[redacted]						
2002-2004 High Grade	Davis Square Funding I, Ltd							
2002-2004 High Grade	Sierra Madre Funding, Ltd.							
2002-2004 High Grade	Davis Square Funding III, Ltd							
2005-2006 High Grade	Altius I Funding, Ltd.							
2005-2006 High Grade	Davis Square Funding V, Ltd.							
2005-2006 High Grade	Davis Square Funding VI, Ltd.							
2005-2006 High Grade	Hout Bay, Ltd.							
2005-2006 High Grade	Hudson High Grade							
2005-2006 High Grade	Davis Square VII							
2005-2006 High Grade	GSC ABS Funding 2006-3g, Ltd.							
2005-2006 High Grade	West Coast Funding, Ltd.							
2005-2006 High Grade	Adirondack 2005-1 Funding, Ltd							
2005-2006 High Grade	Davis Square Funding IV, Ltd.							
2005-2006 High Grade	G-Street Finance							
2005-2006 High Grade	Adirondack 2005-2 Funding, Ltd							
2005-2006 High Grade	Altius 4 Funding, Ltd.							
2005-2006 High Grade	Altius III Funding, Ltd.							
2001-2005 Mezz	NYLIM Stratford CDO 2001-1, Ltd							
2001-2005 Mezz	Camber III plc							
2001-2005 Mezz	Coolidge Funding, Ltd.							
2001-2005 Mezz	Fortius I Funding, Ltd.							
2006 Mezz	Fortius II Funding, Ltd.							
2006 Mezz	Hudson Mezzanine 2006-2, Ltd.							
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.							
2006 Mezz	Camber 7							
2006 Mezz	Anderson							
CDO-squared	Lochsong, Ltd.							
CDO-squared	Fort Denison							
CDO-squared	Timberwolf		10.8	85%	9.1	85.0%	55.0%	45.0%
CDO-squared	Point Pleasant		10.1	58%	5.8	71.0%	61.0%	51.0%
Total			$ 170.0		$ 111.6			
% of current face								
Class X	Broadwick	[redacted]						
	Davis Square V							
	Davis Square VI							
	Davis Square VII							
	G-Street							
	West Coast							

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Mortgages CDO Origination
Timeline – Timberwolf & Point Pleasant

- **Timberwolf (Greywolf)**
  - 7/21/06 - Engagement letter signed
  - 9/5/06 - Warehouse begins ramping
  - 12/13/06 - Warehouse 50% ramped
  - 3/2/07 - Revision to engagement letter - Greywolf commitment to purchase BBB and single A tranches
  - 3/13/07 - Pricing
  - 3/27/07 - Closing
- **Point Pleasant (Dillon Read)**
  - 6/2/06 - Engagement letter signed
  - 9/14/06 - Warehouse begins ramping
  - 12/14/07 - Warehouse 50% ramped
  - 3/5/07 - Commitment letter signed with Natixis for Super senior
  - 4/10/07 - Pricing
  - 4/18/07 - Closing

Confidential Treatment Requested by Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgages CDO Origination
Distribution

Account	Sales	Deal	Tranche	Defcon	Comments
Fortress	Davilman	Timberwolf I	Mezz AAA	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
Fortress	Davilman	Timberwolf I	AA-Rated	1	Looking at package of A2 and B classes. Initially indicated low $80s on A2, 70's on B: modeling deal is difficult / Davilman still pushing
Stark	Gaddi	Timberwolf I	Mezz AAA	1	Looking on a financed basis - Indicative terms ([redacted]) - concerned about correlation, our level, mgmt view / Back ended return profile
Winchester	Radtke	Point Pleasant 2007-1	Mezz AAA	1	Engaged and looking - has been offered bonds at 450 on A2, 700 on B / [redacted]
Basis	Maltezos	Timberwolf I	Mezz AAA	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
Basis	Maltezos	Timberwolf I	AA-Rated	2	Potential $50mm A-2, $50mm B, subject to financing - account is out of the office / feedback w/o 5/21
AIG	Penick	Timberwolf I	Mezz AAA	3	re-engaged - trying to get answer by GS qtr end. Asked/received additional information today / they are still working / Penick to follow up early next week
Fidelity	Martin	Point Pleasant 2007-1	A-rated	3	Looking
IS Plenum	Arslan	Point Pleasant 2007-1	A-Rated	3	Looking at up to [redacted] remaining - Acct. asked for 7 bus days to do work, then left office and is in [redacted] will hear from them when they return
Miller Anderson	Brazil	Timberwolf I	Mezz AAA	3	Looking
Moneygram	Gilligan	Timberwolf I	AA-Rated	3	Potential interest on AAs (already own AAAs) / trying to see if they go down in cap. Structure (low Delta)
Old Lane	Grinstein	Timberwolf I		3	Need lookthru analysis / Strats are working on it
Pequot	brazil	Timberwolf I	Mezz AAA	3	Looking
Sandelman	Kelly			3	Checking - Twolf higher delta than Point Pleasant given headline risk wrt Dillon Read - want lookthru analysis on Timberwolf / Strats are working on it / potential size [redacted]
UBS Prop	Kelly	Timberwolf or Pt. Pleasant		3	Inherited Dillon Read's Point Pleasant Positions / looking at Twolf A-2, B Classes and Pt. Pleasant B Class
DeShaw	cohen	Point Pleasant 2007-1	Mezz AAA	3	Looking - asked for materials and raw data (potential size is [redacted] / had call / low delta
Elliot	Grinstein	Timberwolf I	Mezz AAA	3	Would look to trade against CLO Super Senior AAAs - will receive bid list for CLOs early next week (Pot. Size [redacted] potential interest - working to model existing exposure (own portion of single A class) - if they care expect
Polygon	Raazi	Timberwolf I	AA-Rated	3	size ~[redacted]

Confidential Treatment Requested by Goldman Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgages CDO Origination
Distribution (cont)

Account	Sales	Deal	Tranche	Defcon	Comments
Carlyle	Ruberti			4	Will go through look through analysis - go from there / Strats are working on it
DA Capital	Kreitman			4	Start work @+800 - 1000dm for mezz AAA
Elliot	Grinstein			4	Focused on [redacted]
					evaluating Ptl Pleasant A-1 vs. [redacted] need more spread - evaluating
Harvard	Radtke	Point Pleasant 2007-1	Mezz AAA	4	counter / Radtke to follow up next week
Highland	Ruberti			4	Low Delta - Need lookthru analysis / Strats are working on it
					Checking - need feedback on interest from account before showing wider offering levels - [redacted]
JPM Prop	Verrochi			4	[redacted]
Marathon	Kreitman			4	
MS Prop	Martin	Timberwolf I	Mezz AAA	4	will do work in the L+800-1000 context ($71-65) - passed on GS offer at 80-00
Nochu/SSG				4	Further analysis needed
Princeton	Fertel/Phillips			4	Low Delta - have never Bought CDO^2
Smith Breedan	martin			4	Start work @+800 - 1000dm for mezz AAA
Zais	Grinstein	Point Pleasant 2007-1	Mezz AAA	4	potential - will likely be slower with feedback
Lehman A/M	Gaddi	Timberwolf I	Mezz AAA	4	Need a look-through of the underlying vintages / strats are working on it
Providence	Reinstein	Point Pleasant 2007-1		4	Looking - sent final OC/Portfolio
					Looking - may care for a small amount [redacted]
Vanderbilt	Gaddi	Timberwolf I		4	[redacted] - small size if they care
Hyperion	Willing	Timberwolf I		4	Looking - Credit enhancement is thin / Concerned about rating Agency coorelation report / likes discount
Paramax	Matthias	Point Pleasant 2007-1	Mezz AAA	4	Very Low Delta
Paramax	Matthias	Timberwolf I	Mezz AAA	4	Very Low Delta
Blackrock	Fertel/Phillips	Point Pleasant 2007-1		4.5	Unlikely, relooking at analysis from new issue, maybe - [redacted] (look for feedback Friday)
Clinton	Verocchi	Point Pleasant 2007-1	Mezz AAA	4.5	Low Delta - Can't model CDO^2
Harding	Hornback	Point Pleasant 2007-1	A-rated	4.5	looked at single A's new issue - still need final feedback - low delta
					Checking - initial response was unlikely unless they [redacted]
ML Bank	Willing			4.5	[redacted], Timberwolf more likely than Point Pleasant given headline risk wrt Dillon Read
CBASS	Pinkos			5	Out - do not buy CDO^2
Ellington	Sue/Elaine	Timberwolf I	Mezz AAA	5	removed from list - have not been shown levels
Mariner	Maltezos	Timberwolf I	Mezz AAA	5	Out - too much overlap with Point Pleasant
TPG-Axon	Fertel/Phillips	Point Pleasant 2007-1	Mezz AAA	5	Out - do not care at any level - concerned with downgrade risk [redacted]

Confidential Treatment Requested by Goldman Sachs

From: Montag, Tom
Sent: Thursday, May 17, 2007 11:01 AM
To: Sparks, Daniel L
Subject: Re: Ostrem is resigning

I meant behind the times. No hedging incredibly long buildup times etc

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Thu May 17 10:19:31 2007
Subject: RE: Ostrem is resigning

We weren't elephants, but we were big participants

-----Original Message-----
From: Montag, Tom
Sent: Thursday, May 17, 2007 10:11 AM
To: Sparks, Daniel L
Subject: Re: Ostrem is resigning

Is that how others do it now? Were we an elephant?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Thu May 17 09:20:06 2007
Subject: RE: Ostrem is resigning

David runs secondary trading with josh and swenson - david's focus is cmbs and correlation.
I brought him I to run this.
This business will be much more opportunistic and bespoke than helping managers grow assets under mgmt and taking out arb profits

-----Original Message-----
From: Montag, Tom
Sent: Thursday, May 17, 2007 9:15 AM
To: Sparks, Daniel L
Subject: Re: Ostrem is resigning

I don't know lehman. Where was he is this. Also how r u changing how u run it

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Thu May 17 08:58:26 2007
Subject: RE: Ostrem is resigning

I told him this week he and his group now report to David Lehman. He feels his opportunity set is done here and wants to go to explore the buy side.
Rosie was involved overseeing structured product cdo business until first couple months of 2007, but I think the market and business have changed dramatically. I think having David Lehman run it in conjunction with correlation is the right thing to do at this time. Swenson will help. Coordination with rosie on deals contemplated will continue, but we will run the business very differently. At some point it could make sense to aggregate it.

-----Original Message-----
From: Montag, Tom

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2099

Confidential Treatment Requested by Goldman

Sent: Thursday, May 17, 2007 8:43 AM
To: Sparks, Daniel L
Subject: Re: Ostrem is resigning

Why shame or difference of opinion or..... Bring rosie back?

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Salame, Pablo
Sent: Thu May 17 08:06:18 2007
Subject: Ostrem is resigning

Confidential Treatment Requested by Goldman Sachs

From: Egol, Jonathan
Sent: Saturday, May 19, 2007 5:02 PM
To: Lehman, David A.
Subject: Re: congratulations, but seems like you have a lot ofwork ahead of you.

I should add altius 3 is a doozy as well. I'll spare you the detailed list.

----- Original Message -----
From: Egol, Jonathan
To: Lehman, David A.
Sent: Sat May 19 16:50:49 2007
Subject: Re: congratulations, but seems like you have a lot ofwork ahead of you.

I know what he means. If you talk to people knowledgeable about cdos, you will find that external perception of GS franchise in this space is much lower than Sparks and Sobel believed. Over last 2 years, GS is perceived to be a bottom quartile abs cdo underwriter and to have done several poor deals. There is a reason Pete didn't sell much paper. The fact that pete was basically giving money away in these no-fee principal deals and could still only get TCW, GSC (both street wh--e managers) and some start up managers to work with GS is a stain that will take time to remove. The HG deals in particular are very poor. I thought the aladdin deals had some potential but fortius 2 is going to be a real mess.

These are not just my views -- they are from customers whose views resonate in the market. Sales people have just been too timid internally or not engaged enough with their accounts to provide accurate feedback. It pains me to say it but citi, ubs, db, lehman and ms have much stronger franchises -- among large dealers only ML is more reviled than ostrem's business. Ironically citi corr (karman) tainted citi on the lacerta (magnetar) deal and ms/ubs tainted themselves with the ms prop non-amortizing cr-p. It's ironic that leh lost a lot of their senior guys given that they largely kept their noses clean. So there is an opportunity for us but it will not be business as usual for a LONG time. The problem is that the best perceived managers (ie ellington) are working with other houses.

----- Original Message -----
From: Lehman, David A.
To: Egol, Jonathan
Sent: Sat May 19 14:26:06 2007
Subject: Re: congratulations, but seems like you have a lot ofwork ahead of you.

What do u thk he means by "lot of work to do"?

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Egol, Jonathan
To: Lehman, David A.
Sent: Sat May 19 13:32:58 2007
Subject: Re: congratulations, but seems like you have a lot ofwork ahead of you.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2101

Confidential Treatment Requested by Gold

Why fwding? His was one of the emails I exchanged after pete left.

----- Original Message -----
From: Lehman, David A.
To: Egol, Jonathan
Sent: Sat May 19 09:29:50 2007
Subject: Fw: congratulations, but seems like you have a lot ofwork ahead of you.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Henriques, Michael <Michael.Henriques@magnetar.com>
To: Lehman, David A.
Sent: Fri May 18 13:33:54 2007
Subject: congratulations, but seems like you have a lot ofwork ahead of you.

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Thursday, May 24, 2007 8:32 AM
To: Aliredha, Yusuf; Sparks, Daniel L
Cc: Wisenbaker, Scott; Wiesel, Elisha; Salame, Pablo
Subject: RE: Priority Axes

Attachments: Final Offering Circular (disclaimed).pdf; Timberwolf I, Ltd. -- Marketing Points / Termsheet attached (INTERNAL ONLY) [T-Mail]; FINAL OC (Distribution).PDF

I'll call with levels...still have...

245mm Timberwolf junior AAA
107mm Timberwolf AA
127mm Point Pleasant AAA
35mm Point Pleasant junior AAA
50mm Point Pleasant AA

Final OC and internal mkting points below if needed

Scott Wisenbaker and myself are available to get on the phone with clients.

We are still working on some analysis/data cuts that we can provide externally.

TIMBERWOLF


Final Offering Circular (discl...


Timberwolf I, Ltd. -- Marketin...

POINT PLEASANT


FINAL OC (Distribution).PDF

From: Aliredha, Yusuf
Sent: Thursday, May 24, 2007 2:59 AM
To: Lehman, David A.; Sparks, Daniel L
Cc: Wisenbaker, Scott; Wiesel, Elisha; Salame, Pablo
Subject: RE: Priority Axes

Had two conversations yesterday.

Peleton. They have just raised another $1bln for their ABS fund and they are very short the ABX so are natural buyers of our axe.

LDF. Not experts in this space at all but made them a lot of money in correlation dislocation and will do as I suggest.

Would like to show stuff in today if possible.

Tks.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2106

Confidential Treatment Requested by Goldm

From: Lehman, David A.
Sent: Wednesday, May 23, 2007 10:45 PM
To: Aliredha, Yusuf; Sparks, Daniel L
Cc: Wisenbaker, Scott; Wiesel, Elisha
Subject: RE: Priority Axes

See responses below in RED

From: Aliredha, Yusuf
Sent: Wednesday, May 23, 2007 10:23 AM
To: Sparks, Daniel L
Cc: Lehman, David A.; Wisenbaker, Scott
Subject: RE: Priority Axes
Importance: High

Can I please get some analysis.

I would need breakeven analysis at whatever price you want to show these out.

I assume you will give me certain loss and recovery scenerios on the underlying RMBs bonds. Also what assumption are we using to base these scenerios based on underlying vintages, rating agencies, type of collateral.

Elisha's team is working on this, hope to have something by early next week that we can distribute...will revert ASAP

Also do we have equity we want to sell packaged with these debt tranches.

We have several very small pieces of equity but nothing substantial that we could want to package with the AAAs.

If customers have a specific axe we can address on a case by case basis.

What kind of leverage we can provide for a big macro hedge fund.

~10-15% HC on the AAA and AA positions, client dependent

Tks.

From: Sparks, Daniel L
Sent: Friday, May 18, 2007 4:37 PM
To: Aliredha, Yusuf
Cc: Lehman, David A.; Wisenbaker, Scott
Subject: Priority Axes

285mm Timberwolf junior AAA (40mm circled away)
107mm Timberwolf AA
127mm Point Pleasant AAA
75mm Point Pleasant junior AAA (40mm circled away)
50mm Point Pleasant AA

Call me to discuss levels

Confidential Treatment Requested by Goldman Sachs

From: Egol, Jonathan
Sent: Thursday, April 26, 2007 11:43 AM
To: Maltezos, George (GSJBW)
Cc: Chaudhary, Omar
Subject: RE: utopia

OK on LCM -- but can you please be more specific on their potential size in AUD?

From: Maltezos, George (GSJBW)
Sent: Thursday, April 26, 2007 11:42 AM
To: Egol, Jonathan
Cc: Chaudhary, Omar
Subject: RE: utopia

Size would be enough.
They don't like lion capital as manager

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61[redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Egol, Jonathan [mailto:jonathan.egol@gs.com]
Sent: Friday, 27 April 2007 1:40 AM
To: Maltezos, George
Cc: Chaudhary, Omar J - GS
Subject: RE: utopia

Very interesting -- what kind of size could they be in AUD? Have the given us any feedback on the LCM deal? Just curious...

From: Maltezos, George (GSJBW)
Sent: Thursday, April 26, 2007 10:15 AM
To: Egol, Jonathan
Cc: Chaudhary, Omar; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW)
Subject: utopia

Jon,

I think I found white elephant, flying pig and unicorn all at once.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2108

The material AAA-A buyer in Australia could be OAKVALE....but it must be in Aussie Dollars, so abacus is the answer. They also like Basis as a manager. They could underpin the deal.

They liked the two ideas:
1 – US ABS strategy, either CDO-sqd or Mezz ABS...I would say Basis can do CDO-sqd better
2 – US CLO and CRE strategy...again CLO and CRE CDO product only is my suggestion

Can you map out what the cap structure looks like?
I am assuming Basis and GS could take down equity.
I am assuming Basis could take down BB & BBB.
I am assuming other investors in Aus could take down A-BBB part of cap structure.

I have not spoken to Basis, yet, but I think they would be OK.

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

gm

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions
Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

Fixed Income, Currency and Commodities
Goldman Sachs JBWere Pty Ltd

Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.

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Redacted by the Permanent Subcommittee on Investigations

From: Lehman, David A.
Sent: Sunday, May 20, 2007 8:58 AM
To: Swenson, Michael; Sparks, Daniel L
Subject: Fw: T/wolf and Basis

Fyi

Dan, will give u a buzz to discuss after the 10:00 call

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Maltezos, George (GSJBW)
To: Lehman, David A.; Case, Benjamin
Cc: Chaudhary, Omar; Carrett, Paul (GSJBW); Rolleston, Jeremy (GSJBW); Harris, Kate (GSJBW)
Sent: Sun May 20 08:16:51 2007
Subject: T/wolf and Basis

Fyi-basis are back from their 2 week business trip on Monday. My focus will go to timberwolf 100mm AAA and AA block trade with them.

Pls confirm you are willing to trade this at 350dm and 450dm respectively and that you are not marking these bonds any wider at moment for month end for May.

Tks

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: 61 [redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2109

Confidential Treatment Requested by Goldm

From: Lehman, David A.
Sent: Wednesday, May 30, 2007 6:23 AM
To: Rosenblum, David J.
Cc: Sparks, Daniel L
Subject: Re: Timberwolf -- Order from Tokyo Star Bank

This was 100% tokyo - sugi, omar, + jay

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-863-4678
e-mail: david.lehman@gs.com

----- Original Message -----
From: Rosenblum, David J.
To: Lehman, David A.
Cc: Sparks, Daniel L
Sent: Wed May 30 06:08:20 2007
Subject: Re: Timberwolf -- Order from Tokyo Star Bank

Good job

----- Original Message -----
From: Lehman, David A.
To: Sugioka, Hirotaka; Bieber, Matthew G.; FICC-SPCDOGROUP
Cc: Sparks, Daniel L; Bohra, Bunty; ficc-spgsyn; Chaudhary, Omar; Wisenbaker, Scott
Sent: Wed May 30 05:54:22 2007
Subject: Re: Timberwolf -- Order from Tokyo Star Bank

Done

Great job

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2111

From: Sugioka, Hirotaka
To: Lehman, David A.; Bieber, Matthew G.; FICC-SPCDOGROUP
Cc: Sparks, Daniel L; Bohra, Bunty; ficc-spgsyn; Chaudhary, Omar; Wisenbaker, Scott
Sent: Wed May 30 04:53:35 2007
Subject: Timberwolf -- Order from Tokyo Star Bank

Tokyo Star Bank left an order on Timberwolf.

Class: A2
Notional: 20mm
Dollar Price: 83.90
Trade Date: May 30, 2007
Settlement: June 4, 2007

Please confirm we can trade.

Thanks,
Sugi

Confidential Treatment Requested by Goldman Sachs

From: Wisenbaker, Scott
Sent: Monday, June 11, 2007 7:10 AM
To: Lehman, David A.; Chaudhary, Omar
Subject: Re: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

Ok, let's clean up sizes - there has been some progress since the earlier version.

----- Original Message -----
From: Lehman, David A.
To: Wisenbaker, Scott; Chaudhary, Omar
Sent: Mon Jun 11 04:16:51 2007
Subject: Re: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

Fine - let's send to all Japan sales then...

Omar - do you know if Ozawa has had any success w/ mizuho and these positions?

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Wisenbaker, Scott
To: Chaudhary, Omar; Lehman, David A.
Sent: Mon Jun 11 03:31:28 2007
Subject: Re: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

We either need to send to sales in japan or help her understand why there is sensitivity re sending

----- Original Message -----
From: Chaudhary, Omar
To: Wisenbaker, Scott; Lehman, David A.
Sent: Mon Jun 11 03:20:50 2007
Subject: Re: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

We have been doing the targeted discussions but Ozawa-san is saying that we need it to go more broadly to all Sales at least in Japan. Given her request twice now and her help in getting focus, think we should at least push this in Japan.

Omar Chaudhary, Goldman Sachs Japan

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2112

Confidential Treatment Requested by G

Tel: +81 3 6437-7198
Mob: +81 90 9977-1190

----- Original Message -----
From: Wisenbaker, Scott
To: Lehman, David A.
Cc: Chaudhary, Omar
Sent: Mon Jun 11 16:14:52 2007
Subject: Fw: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

Know there was sensitivity w sending this out, but asia sales management asking again. Do you want to consider sending more broadly for asia sales or do you want to stick with the more targeted approach?

Omar, do you think the broader approach will result in additional interest? Or can we get the same results by having additional conversations with salespeople that cover accounts that could care?

I would lean towards the more targeted approach (share more info with sales and accounts when they tell us what risk they could have appetite for), but open to discussing.

----- Original Message -----
From: Chaudhary, Omar
To: Wisenbaker, Scott; Sugioka, Hirotaka
Cc: ficc-spgsyn
Sent: Mon Jun 11 02:58:21 2007
Subject: Re: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

Fumiko ozawa (pmd) on behalf of all japan sales

Omar Chaudhary, Goldman Sachs Japan
Tel: +81 3 6437-7198
Mob: +81 [redacted]

----- Original Message -----
From: Wisenbaker, Scott
To: Chaudhary, Omar; Sugioka, Hirotaka
Cc: ficc-spgsyn
Sent: Mon Jun 11 15:26:39 2007
Subject: Re: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

As of now, we can not send out. Who is asking for it? Who do they want to send to?

----- Original Message -----
From: Chaudhary, Omar
To: Wisenbaker, Scott; Sugioka, Hirotaka
Cc: ficc-spgsyn
Sent: Sun Jun 10 21:23:35 2007
Subject: Fw: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

Are we still restricted to send these out daily? Sales mgmt in japan asking for us to share this...

Omar Chaudhary, Goldman Sachs Japan
Tel: +81 3 6437-7198
Mob: +81 [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

----- Original Message -----
From: Sugioka, Hirotaka
To: Chaudhary, Omar
Sent: Mon Jun 11 10:20:45 2007
Subject: FW: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

From: Wisenbaker, Scott
Sent: Tuesday, May 15, 2007 10:00 PM
To: ficc-spgsyn
Subject: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

until posted otherwise, please do NOT send out the SP CDO axe positions.

we are working through distribution strategy given the new reporting lines for the mtg business and people want to be comfortable with the plan before pushing forward

---

From: GS Syndicate
Sent: Tuesday, May 15, 2007 3:41 AM
To: ficc-london-spgsales
Subject: GS Syndicate Structured Product CDO Axes (INTERNAL USE ONLY)

INTERNAL USE ONLY

Bloomberg ticker	Tranche	Deal	Manager // Surveillance / Liquidation Agent		Class		
	Mdys S&P	Deal Type	Size				
ANDY 07-1A A1A	SS AAA	Anderson Mezz Funding	Goldman Sachs		A-1a	Aaa	AAA
	Mezz	$130,000,000					
ANDY 07-1A A1B	SS AAA	Anderson Mezz Funding	Goldman Sachs		A-1b	Aaa	AAA
	Mezz	$51,000,000					
PTPLS 07-1A A1	Mezz AAA	Point Pleasant 2007-1	Dillon Read	A-1	Aaa	AAA	
	Single-A, CDO^2	$125,000,000					
TWOLF 07-1A A2	Mezz AAA	Timberwolf I	Greywolf Capital	A2	Aaa	AAA	
	Single-A, CDO^2	$100,000,000					
PTPLS 07-1A A2	Mezz AAA	Point Pleasant 2007-1	Dillon Read	A2	Aaa	AAA	
	Single-A, CDO^2	$75,000,000					
FORTS 06-2A A2	Mezz AAA	Fortius II	Aladdin Capital	A2	Aaa	AAA	Mezz
	$25,000,000						
TWOLF 07-1A B	AA-Rated	Timberwolf I	Greywolf Capital	B	Aa2	AA	
	Single-A, CDO^2	$107,000,000					
PTPLS 07-1A B	AA-Rated	Point Pleasant 2007-1	Dillon Read	B	Aa2	AA	
	Single-A, CDO^2	$50,000,000					
ANDY 07-1A B	AA-Rated	Anderson Mezz Funding	Goldman Sachs		B	Aa2	AA
	Mezz	$37,700,000					
FORTS 06-2A B	AA-Rated	Fortius II	Aladdin Capital	B	Aa2	AA	Mezz
	$40,000,000						
FORTD 07-1A B	AA-Rated	Fort Denison	Basis Capital	B	Aa2	AA	Mezz
	$7,000,000						
PTPLS 07-1A C	A-Rated	Point Pleasant 2007-1	Dillon Read	C	A2	A	
	Single-A, CDO^2	$10,100,000					
ANDY 07-1A C	A-Rated	Anderson Mezz Funding	Goldman Sachs		C	A2	A
	Mezz	$6,800,000					
GSCSF 06-3GA C	A-Rated	GSC ABS CDO 2006-3g	GSC	C	A2	A	High Grade
	$24,600,000						
ALTS 05-1A C	A-Rated	Altius I	Aladdin Capital	C	A2	A	High Grade
	$10,000,000						
DVSQ 06-7A C	A-Rated	Davis Square VII	TCW	C	A2	A	High Grade

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	$6,000,000								
COOL 05-1A C	A-Rated	Coolidge	Allianz Risk Transfer	C	A3	A-	Mezz		
	$660,000								
ALTS 05-2A C	A-Rated	Altius II	Aladdin Capital	C	A2	A	High Grade		
	$8,750,000								
PTPLS 07-1A D	BBB-Rated	Point Pleasant 2007-1	Dillon Read	D	Baa2	BBB			
	Single-A, CDO^2	$3,000,000							
DVSQ 06-7A D	BBB-Rated	Davis Square VII	TCW	D	Baa2	BBB	High Grade		
	$13,000,000								
GSCSF 06-3GA D	BBB-Rated	GSC ABS CDO 2006-3g	GSC	D	Baa2	BBB	High Grade		
	$16,400,000								
LOCH 06-1A D	BBB-Rated	Lochsong	Winchester Capital		D	Baa2	BBB		
	Single-A	$14,000,000							
ALTS 06-3A D	BBB-Rated	Altius III	Aladdin Capital	D	Baa2	BBB	High Grade		
	$5,000,000								
ADROC 05-2A D	BBB-Rated	Adirondack 2005-2	Clinton Group		D	Baa2	BBB	High	
Grade $4,930,000									
HOUT 06-1A D	BBB-Rated	Hout Bay	Investec	D	Baa2	BBB	High Grade		
	$2,000,000								
HUDHG 06-1A D	BBB-Rated	Hudson High Grade	Goldman Sachs		D	Baa2	BBB	High	
Grade $2,750,000									
ALTS 05-2A D	BBB-Rated	Altius II	Aladdin Capital	D	Baa2	BBB	High Grade		
	$7,250,000								
CAMBR 7A E	BB-Rated	Camber 7	Cambridge Place	E	Ba1	BB+	Mezz	$9,250,000	

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Confidential Treatment Requested by Goldman Sachs

From: Chaudhary, Omar
Sent: Thursday, June 14, 2007 1:42 AM
To: Montag, Tom
Subject: FYI -- Two Update Emails for Your Reference

Attachments: **GS SP CDO Axes** -- Asia Trade Update (INTERNAL USE ONLY); SPG Asia -- YTD Production Update (internal)

Tom:

Good seeing you on the desk today. Will be sure to stop by in late June when I am back in NY (will arrange with Iwata-san). We will continue to crank and will make sure that Sparks / Bunty are posting you with our progress in Asia on the axes.


GS SP CDO Axes -- Asia Tra...


SPG Asia -- YTD Production Upd...

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2115

From: Chaudhary, Omar
Sent: Wednesday, June 13, 2007 8:39 PM
To: Ozawa, Fumiko; Kengeter, Carsten; Cher, Martin; Rothery, Simon (GSJBW); ficc-tk-sales-nonflow; ficc-tk-regional; ficc-tk-corp-sales; FICC-AEJ-FISALES; ficc-spg-sydney
Cc: Sparks, Daniel L; Bohra, Bunty; Lehman, David A.; Lee, Jay; Sugioka, Hirotaka
Subject: **GS SP CDO Axes** -- Asia Trade Update (INTERNAL USE ONLY)

INTERNAL USE ONLY

Asia Sales:

We have moved over $250mm of SP CDO axes to accounts in Japan, Australia and Korea over the past 2+ weeks. These are HUGE orders for the firm as they have helped reduce our balance sheet risk and further exhibits the importance of the Asia franchise to the global Structured Product Group business. **Note that in line with these trades we have paid out over $14mm of gross credits** -- this is clearly the top focus for us now in SP CDO space.

Call the SPG Asia desk in Tokyo for updated axes and offer levels. We hope to trade another 20+mm of CDO^2 risk with a Japanese account in the coming week+. Thanks.

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Confidential Treatment Requested by Goldman Sachs

From: Chaudhary, Omar
Sent: Wednesday, June 13, 2007 11:23 PM
To: McTamaney, Robert; Ueda, Eiji
Cc: Sparks, Daniel L; Bohra, Bunty; Lee, Jay; Sugioka, Hirotaka
Subject: SPG Asia -- YTD Production Update (internal)

Quick update provided here on gross credit production across both the credit and rates sides of the SPG Asia business.

Bobby / Ueda-san: If you would like us to walk you through the numbers / key trades, please let us know.

- Total SPG Asia Gross Credits Paid (YTD 2006 to 6/13): **US$42.5mm (vs. 46mm in entire FY 2006)**
- By Region, GC's are dominated by Australia (~37%), Japan (~29%) and China (~19%)
- Japan's production is up strongly YTD at roughly 3x where we were in at FY end 2006 on a percentage contribution basis

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Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Wednesday, June 13, 2007 9:02 PM
To: Chaudhary, Omar
Subject: Re: **GS SP CDO Axes** -- Asia Trade Update (INTERNAL USE ONLY)

Thx for sending this out

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Chaudhary, Omar
To: Ozawa, Fumiko; Kengeter, Carsten; Cher, Martin; Rothery, Simon (GSJBW); ficc-tk-sales-nonflow; ficc-tk-regional; ficc-tk-corp-sales; FICC-AEJ-FISALES; ficc-spg-sydney
Cc: Sparks, Daniel L; Bohra, Bunty; Lehman, David A.; Lee, Jay; Sugioka, Hirotaka
Sent: Wed Jun 13 20:39:05 2007
Subject: **GS SP CDO Axes** -- Asia Trade Update (INTERNAL USE ONLY)

INTERNAL USE ONLY

Asia Sales:

We have moved over $250mm of SP CDO axes to accounts in Japan, Australia and Korea over the past 2+ weeks. These are HUGE orders for the firm as they have helped reduce our balance sheet risk and further exhibits the importance of the Asia franchise to the global Structured Product Group business. Note that in line with these trades we have paid out over $14mm of gross credits -- this is clearly the top focus for us now in SP CDO space.

Call the SPG Asia desk in Tokyo for updated axes and offer levels. We hope to trade another 20+mm of CDO^2 risk with a Japanese account in the coming week+. Thanks.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2116

From: Chaudhary, Omar
Sent: Monday, June 18, 2007 7:14 AM
To: Lehman, David A.
Subject: RE: $20mm Point Pleasant trade w/ TK Star Bank

Yes -- he made that clear when he spent almost 20 minutes on the desk with me in TKO last week going through every potential lead...

From: Lehman, David A.
Sent: Monday, June 18, 2007 8:14 PM
To: Chaudhary, Omar
Subject: RE: $20mm Point Pleasant trade w/ TK Star Bank

Montag vey involved in this fyi

From: Chaudhary, Omar
Sent: Monday, June 18, 2007 7:13 AM
To: Lehman, David A.
Subject: RE: $20mm Point Pleasant trade w/ TK Star Bank

Thx dude

From: Lehman, David A.
Sent: Monday, June 18, 2007 8:12 PM
To: Egol, Jonathan; Case, Benjamin; Bieber, Matthew G.; Creed, Christopher J; Chaudhary, Omar
Subject: FW: $20mm Point Pleasant trade w/ TK Star Bank

fyi

From: Lehman, David A.
Sent: Monday, June 18, 2007 7:09 AM
To: Montag, Tom; Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Brafman, Lester R
Subject: $20mm Point Pleasant trade w/ TK Star Bank

Great Job by Wada-san and Omar Chaudhary + team (again) on our CDO^2 axes

Tonight we will trade $20mm Point Pleasant A1s @ $90.7 to Tokyo Star Bank

We have 130mm bonds on our books currently priced @ $90.0 so this will be a modest 140k P&L event

We hope to trade another $20mm of these bonds next week w/ this account

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

Goldman
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David Lehman
Fixed Income, Currency & Commodities

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2117

Confidential Treatment Requested by Goldman

From: West, Ariane
Sent: Monday, June 18, 2007 7:41 PM
To: Lehman, David A.
Subject: FW: Point Pleasant 07-1 A1 // Tokyo Star Bank (internal use only)

Who is booking this trade? The account wants confirmation of some of the numbers.

From: Sugioka, Hirotaka
Sent: Monday, June 18, 2007 7:10 AM
To: West, Ariane; Lee, Jung H.
Subject: RE: Point Pleasant 07-1 A1 // Tokyo Star Bank (internal use only)

Thank you for all the support I received. You guys made this happen.

From: Lehman, David A.
Sent: Monday, June 18, 2007 7:59 PM
To: Chaudhary, Omar; Wada, Koji (FI); Ozawa, Fumiko; Muramatsu, Yasuhiro
Cc: Sparks, Daniel L; Bohra, Bunty; Lee, Jay; Sugioka, Hirotaka
Subject: RE: Point Pleasant 07-1 A1 // Tokyo Star Bank (internal use only)

Done - Great job!

Look forward to more trades in the near future

From: Chaudhary, Omar
Sent: Monday, June 18, 2007 6:57 AM
To: Wada, Koji (FI); Ozawa, Fumiko; Muramatsu, Yasuhiro
Cc: Sparks, Daniel L; Bohra, Bunty; Lehman, David A.; Lee, Jay; Sugioka, Hirotaka
Subject: Point Pleasant 07-1 A1 // Tokyo Star Bank (internal use only)

Wada-san:

GREAT JOB again in getting the CDO^2 trade done with Tokyo Star Bank. This is another huge success for the Japan team and one that we are very happy about (coordination with Sugi was again seamless). We plan to book the trade tomorrow as requested by the client and will supply necessary official details Tuesday morning Tokyo time.

To reward your strong effort and in hopes of the follow on 20mm order from the client on this deal, we plan on paying you a **total bonus GC payment of $40 / bond** (double our $20/bond for AAA's on our axes that are not lower mezz AAA).

We look forward to additional trades from Tokyo Star Bank on our CDO axes.
Thanks.

~~~~~~~~~~~~~~~~~~~~~~~~~
GS Sells US$20mm PTPLS 07-1 Class A-1 @ 90.70 to Tokyo Star Bank (GS Sales = Koji Wada)
Trade Date: June 19, 2007
Settle Date: June 26, 2007 (T+5)
Offering Form: Reg S
Ticker: PTPLS 2007-1X A1
CUSIPS (Reg S): G7150NAB1
[redacted]

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2119
~~~~~~~~~~~~~~~~~~~~~~~~~

From: Ricciardi, Steven
Sent: Monday, August 20, 2007 7:38 AM
To: Shimonov, Roman; Creed, Christopher J
Cc: ficc-spcdo-trading; Kang, Connie; Bieber, Matthew G.; Kleinert, Katelyn; Hornback, Joseph
Subject: RE: Twolf super seniors (internal)

Ready to pick this up this morning when you are. Give a ring - thanks

---

From: Ricciardi, Steven
Sent: Friday, August 17, 2007 4:49 PM
To: Shimonov, Roman; Creed, Christopher J
Cc: ficc-spcdo-trading; Kang, Connie; Bieber, Matthew G.; Kleinert, Katelyn; Hornback, Joseph
Subject: RE: Twolf super seniors (internal)

OK, so the A1B and A1C are no-PIK and the A1b basically has NAV of 100 (assuming $30 for assets) and A1c of pretty much nothing (an IO) regardless of rating agency timing (right?) ...
..until it goes EOD [what makes it go EOD, senior test < 1.0 ...or, is it not having enough I/C to cover a no-PIK bond ?] [what remedies an EOD ? }

So, effectively, is the way to look at the A1c as if it's equity and PV the cash flows of forward LIBOR +80 at the desired rate ? Granted, the call option may have value, but today it doesn't right?

From: Shimonov, Roman
Sent: Friday, August 17, 2007 4:17 PM
To: Creed, Christopher J; Ricciardi, Steven
Cc: ficc-spcdo-trading; Kang, Connie; Bieber, Matthew G.; Kleinert, Katelyn; Hornback, Joseph
Subject: RE: Twolf super seniors (internal)

Ratings- based haircuts apply to assets rated in the BB, B, and CCC ratings categories by S&P and to assets rated in the Ba, B, and Caa ratings categories by Moody's.

For this deal, all double-B rated are carried at 90% of par, all single-B rated assets are carried at 70% of par, and all triple-C rated assets are carried at 50% of par.

Attached file shows how much par of assets needs to be downgraded to double B, or single B, or triple C ratings categories before each of the OC tests would fail (internal use only. The way we derive the numbers may be explained verbally). For example, **$296,320,000** par of assets would need to be downgraded to double-B category before the Class A/B OC test would breach.

Finally, I added ratings info to the file Chris sent earlier.

<< File: Timberwolf I- OC Cushions Calcs 2007-08-17.xls >> << File: Timberwolf.xls >>

From: Creed, Christopher J
Sent: Friday, August 17, 2007 3:27 PM
To: Ricciardi, Steven
Cc: ficc-spcdo-trading; Kang, Connie; Shimonov, Roman; Bieber, Matthew G.; Kleinert, Katelyn; Hornback, Joseph
Subject: RE: Twolf super seniors (internal)

no - the A1B/C have their prorata share - it is the S, A-1A, A1B, A1C and A1D...

Yes - NPV as in mid-makret value (bidside value is 10. litereally.
Yes - we can show an NPV will send your way.

Romo - can you go over the rating based h/c and o/c tests pls?

From: Ricciardi, Steven

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2123

Confidential Treatment Requested by Goldm

Sent: Friday, August 17, 2007 3:26 PM
To: Creed, Christopher J
Cc: ficc-spcdo-trading; Kang, Connie; Shimonov, Roman; Bieber, Matthew G.; Kleinert, Katelyn; Hornback, Joseph
Subject: RE: Twolf super seniors (internal)

I think it helps, not sure though...

So, the A1B and A1C have no vote in EOD ?
When you say the NPV is 20-30, is that the breakup value today / is that why you say A1C has call option value ?
(can we show an NAV analysis/priced portfolio ?)

Save me the trouble of figuring this out....what are the ratings-based h/c to o/c tests ?

From: Creed, Christopher J
Sent: Friday, August 17, 2007 1:31 PM
To: Ricciardi, Steven
Cc: ficc-spcdo-trading; Kang, Connie; Shimonov, Roman; Bieber, Matthew G.
Subject: RE: Twolf super seniors (internal)

(1) Happy to provide analysis - we have sent out, as an example, different look through analysis, credit support analysis, and (I believe) M2M on the portfolio. Happy to provide some/all. The problem is that compliance has asked that we get exactly what the client wants run (i.e. this asset at this speed, w/ this default). I suggest we discuss best way to provide this info.

(2) Duration - Yes, we are looking at the price as the following, the sum of (1) and (2)
(1) Probability of Principal Repayment -> the NPV of the deal is something like 20-00/30-00. So, that deal has a good probability of some prin, and a good value on the call option; A1C has no Mkt Value coverage currently, but has some value to the call option.
(2) PV of interest payments - both are very high in the interest waterfall and covered by a PIK swap that covers the deal for 2 years after the assets begin to PIK - and since the deal is certainly not callable, the deal should continue to pay interest until (1) maturity or (2) an Event of Default offurs and the controlling class calls it and WANTS to liquidate the deal... (the controlling class is the S-1 and A-1A, B, C, and D) and the you need approval of 66.67% of the holders voting in aggregate to do this.

Does that help?

From: Ricciardi, Steven
Sent: Friday, August 17, 2007 1:20 PM
To: Creed, Christopher J; Williams, Geoffrey
Cc: Cornacchia, Thomas; Sparks, Daniel L
Subject: RE: Twolf super seniors

What analytics can we use in marketing this ?

What are you calling the duration...or, is it simply just evaluating an IO ?
Need a little guidance...thanks

From: Cornacchia, Thomas
Sent: Friday, August 17, 2007 11:37 AM
To: Ricciardi, Steven
Subject: FW: Twolf super seniors

From: Swenson, Michael
Sent: Friday, August 17, 2007 10:54 AM
To: Cornacchia, Thomas
Cc: Sparks, Daniel L; Creed, Christopher J; Williams, Geoffrey
Subject: Twolf super seniors

Description	Amount	Offer	Att/Dtch
TWOLF 07-1A A1B	200mm	60-00	70-90%

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TWOLF 07-1A A1C 100mm 45-00 60-70%

<< File: Timberwolf - Final Offering Circular (disclaimed).pdf >>

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] fax: +1 212 428 9761
e-mail: michael.swenson@gs.com

Goldman
Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

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From: Chaudhary, Omar
Sent: Thursday, August 23, 2007 4:22 AM
To: Lehman, David A.; Lee, Jay
Cc: Egol, Jonathan; Tourre, Fabrice
Subject: RE: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

Some chance this works for accounts like TMF or Sompo Japan (Jon - know we have spent a lot of time on the latter in the past). The only question in my mind is that we have not seen many accounts pushing hard to find ways to get short (typically they are long only). That being said, the reality of the current market may have finally sunk in and investors may be able to convince their boards how to put on this sort of trade.

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, August 23, 2007 5:16 AM
To: Chaudhary, Omar; Lee, Jay
Cc: Egol, Jonathan; Tourre, Fabrice
Subject: Fw: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

Your view?

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: [redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Egol, Jonathan
To: Kuga, Kentaro
Cc: Lehman, David A.; Tourre, Fabrice
Sent: Thu Aug 23 00:12:23 2007
Subject: Re: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

OK this could be a fit then if client is ready to do tranche cds with us. Can you please let us know what sort of information you would find helpful please? We can send on NY open. Thanks.

----- Original Message -----
From: Kuga, Kentaro
To: Egol, Jonathan
Sent: Thu Aug 23 00:08:58 2007
Subject: RE: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

believe there is hedge needs on Japanese client side.

-----Original Message-----
From: Egol, Jonathan
Sent: Thursday, August 23, 2007 1:04 PM
To: Kuga, Kentaro
Subject: Re: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2124

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GS MBS-E-011310717

We want to write protection, customer would be going short via cds. Does this fit your customers?

----- Original Message -----
From: Kuga, Kentaro
To: Egol, Jonathan
Sent: Wed Aug 22 23:59:16 2007
Subject: RE: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

money center bank+life insurance company, I think.

-----Original Message-----
From: Egol, Jonathan
Sent: Thursday, August 23, 2007 12:57 PM
To: Kuga, Kentaro
Subject: Re: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

To whom would you show this please?

----- Original Message -----
From: Kuga, Kentaro
To: Egol, Jonathan
Cc: ficc-tk-crederi
Sent: Wed Aug 22 23:54:44 2007
Subject: RE: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

Hello, Jonathan
can you send us externally-sendable material pls?
let's see reactions from tokyo.
thanks.
Ken

From: Egol, Jonathan
Sent: Thursday, August 23, 2007 12:31 PM
To: ficc-mtgsales; ficc-creditsales; ficc-cdsales-us; ficc-london-spgsales; ficc-spgasia; ficc-spgsyn; EUR Traders; ficc-creditmgmt; ficc-creditmgmt-admin; ficc-usspm; ficc-spgtrading; ficc-mtgtrd
Cc: ficc-spcdo-trading
Subject: *** SP CDO/Correlation Desk Super Senior Axes *** (INTERNAL USE ONLY)

INTERNAL USE ONLY

We are axed to write outright super senior tranched protection to customers on the following two trades:

* Up to $600mm of the 40-100% tranche off of equal-weighted 80-name portfolio consisting of ABX 06-1/06-2 BBB & BBB- ("ABX Quadrant")

* Up to $530mm of the 47-100% tranche off of the ABACUS 2007-18 pure CRE portfolio (see below)

See below for summary of key terms and marketing bullet points. This is a unique opportunity for customers to put on super senior shorts in this market environment.

Our axe is to trade these outright (i.e., desk gets long risk) however we will consider trades with deltas upon request.

Call the desk with any questions or for externally-sendable materials including detailed trade terms.

Thanks in advance for the focus.

ABX Quadrant 400-100

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GS offers up to $600mm of super senior protection on 40-100% tranche referencing ABX 06-1/06-2 BBB and BBB- (80-name portfolio with 40 distinct deals referenced).

Summary of key terms:
* GS writes protection on 40-100% tranche on ABX Quadrant @ 42% upfront, 0.30% running
* Standard TABX docs other than reference portfolio
* Non-call

Marketing points:
* Higher dollar price than TABX BBB- 40-100
* Good convexity
* Good fit for customers bearish on 06-1/late '05 vintage relative to the 2006 story largely priced in the market

ABACUS 2007-18 47-100

GS offers up to $530mm of super senior protection on a new-vintage static BB/BBB- CMBS & CRE CDO portfolio.

Summary of key terms:
* GS writes protection on 47-100% tranche in one of two formats:
  (a) 2.50% all running; or
  (b) 2.00% running + 3.50% upfront
* Protection callable by customer after 3 years
* TABX-style standard ISDA pay-as-you-go docs

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Reference portfolio summary:
* ~37% BB conduit CMBS
* ~53% BBB- conduit CMBS
* 10% A/A- CRE CDO/ReREMICs
* Majority of CRE exposure is '06/'07 vintage, everything is 2005 or later
* Significant portion of CMBS names are included in CMBX 06-1 and CMBX 06-2

Marketing points:
The offering gives accounts the opportunity to buy out-of-the-money protection in significant size on a leveraged CRE portfolio. Potential benefits:
* Good convexity
* Low negative carry compared to an outright CMBX short against similar vintage/ratings

Compare to CMBX 06-2 BBB- offered @ ~500 bps p.a. versus our protection offering for half the running cost.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman
Sachs

Jonathan M. Egol
Structured Products Trading

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From: Resnick, Mitchell R
Sent: Tuesday, August 21, 2007 8:18 PM
To: Lehman, David A.; Chaudhary, Omar; Creed, Christopher J; Williams, Geoffrey
Cc: Lee, Jay; Sugioka, Hirotaka; Sparks, Daniel L
Subject: RE: Do you have cdo secoudary inventory?

FYI - the committee name is Structured Investment Product Committee. I know Pablo is one of the heads of the committee, not sure of the other members.

-----Original Message-----
From: Lehman, David A.
Sent: Tuesday, August 21, 2007 2:17 PM
To: Chaudhary, Omar; Creed, Christopher J; Williams, Geoffrey
Cc: Resnick, Mitchell R; Lee, Jay; Sugioka, Hirotaka; Sparks, Daniel L
Subject: RE: Do you have cdo secoudary inventory?

Spoke with Sparks about this

Given the complexity of the product, we would like to handle this on a client by client basis

To the extent PWM has specific clients in mind, we would request the name of the client and a brief description (i.e. total assets, trades we have done in the past, etc)

We will then get the necessary sign-off

-----Original Message-----
From: Chaudhary, Omar
Sent: Tuesday, August 21, 2007 6:09 AM
To: Creed, Christopher J; Lehman, David A.; Williams, Geoffrey
Cc: Resnick, Mitchell R; Lee, Jay; Sugioka, Hirotaka
Subject: RE: Do you have cdo secoudary inventory?

Thank you

-----Original Message-----
From: Creed, Christopher J
Sent: Tuesday, August 21, 2007 11:09 AM
To: Chaudhary, Omar; Lehman, David A.; Williams, Geoffrey
Cc: Resnick, Mitchell R; Lee, Jay; Sugioka, Hirotaka
Subject: Re: Do you have cdo secoudary inventory?

It is an ficc committee. Will talk to compliance this am and revert back.

----- Original Message -----
From: Chaudhary, Omar
To: Creed, Christopher J; Lehman, David A.; Williams, Geoffrey
Cc: Resnick, Mitchell R; Lee, Jay; Sugioka, Hirotaka
Sent: Tue Aug 21 05:48:58 2007
Subject: RE: Do you have cdo secoudary inventory?

Eric Lane or Peter Kraus in GSAM?

-----Original Message-----
From: Creed, Christopher J
Sent: Tuesday, August 21, 2007 10:48 AM
To: Chaudhary, Omar; Lehman, David A.; Williams, Geoffrey
Cc: Resnick, Mitchell R; Lee, Jay; Sugioka, Hirotaka
Subject: Re: Do you have cdo secoudary inventory?

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Wall Street & The Financial Crisis
Report Footnote #2125

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My current understanding is we are prohibited from offering cdo paper to all pw clients, even reg-s pw clients.

I had this discussion with horvath last week. To change this, we would have to petition the committee that oversees such things (whose name escapes me right now).

-c

----- Original Message -----
From: Chaudhary, Omar
To: Lehman, David A.; Creed, Christopher J; Williams, Geoffrey
Cc: Resnick, Mitchell R; Lee, Jay; Sugioka, Hirotaka
Sent: Tue Aug 21 05:11:26 2007
Subject: FW: Do you have cdo secoudary inventory?

Secondary CDO Team:

See note below from the PMD who runs Corporate / PWM Sales in Japan. Can you let us know if we are ok to offer ABS CDO debt pieces to PWM clients that are ok under Reg S as QP's, if we need to follow up with Jordan Horvath in NY Compliance and if we are ok if you can share the latest fresh offering sheet. Thanks.

From: Yokote, Shinichi
Sent: Tuesday, August 21, 2007 9:58 AM
To: Chaudhary, Omar
Cc: Resnick, Mitchell R; Lee, Jay
Subject: RE: Do you have cdo secoudary inventory?

Thanks Omar
We will be clear that they are either QIB or QP eligible buyers of notes that are issued according to either Rule 144a or Reg S.

Do you tell me what is CDO's secondary market level?

From: Chaudhary, Omar
Sent: Tuesday, August 21, 2007 5:48 PM
To: Yokote, Shinichi
Cc: Resnick, Mitchell R; Lee, Jay
Subject: RE: Do you have cdo secoudary inventory?

Yokote-san:

Thank you for your email. We can share an a confidential basis some of our CDO axes. Before that, we need to confirm that the clients we are targeting for these products are clear to buy these (namely that they are either QIB or QP eligible buyers of notes that are issued according to either Rule 144a or Reg S).

We have some interesting offers of mainly ABS CDO's that we could consider; not sure we have 10pt GC trades but there is some chance we have some trades that are high margin and appropriate for your clients.

Note that I am in London this week and Jay is on holiday; my colleague Mitch Resnick is on the desk and can speak to you live on this matter.

From: Yokote, Shinichi
Sent: Tuesday, August 21, 2007 9:21 AM
To: Chaudhary, Omar
Subject: Do you have cdo secoudary inventory?

Pwm sales guys told me that if you have cdo secondary as inventory,they want to sell them to their clients.
Do you have cdo's inventory and is there distress sales in cdo's market?

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We want to trade 10pts profit.

ゴールドマン・サックス証券株式会社
法人営業本部長
横手　信一
TEL 03-6437-7221
FAX 03-6437-9705

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From: Lehman, David A.
Sent: Tuesday, August 28, 2007 7:05 AM
To: Creed, Christopher J
Subject: RE: Japan PWM Client Interest in ABS CDO (internal use only)

xoxo

-----Original Message-----
From: Creed, Christopher J
Sent: Tuesday, August 28, 2007 7:04 AM
To: Lehman, David A.
Subject: Re: Japan PWM Client Interest in ABS CDO (internal use only)

Ldl. Have info on this.

----- Original Message -----
From: Lehman, David A.
To: Horvath, Jordan
Cc: Lee, Jay; Sugioka, Hirotaka; Bohra, Bunty; Creed, Christopher J; Chaudhary, Omar; Williams, Geoffrey
Sent: Tue Aug 28 07:02:54 2007
Subject: RE: Japan PWM Client Interest in ABS CDO (internal use only)

Jordan - Would like to discuss ASAP

Japan PWM would like to show some CDO axes to select QIB investors (see detail below), two of which have traded this type of risk before

What do we need to do on our end to get this approved?

From: Chaudhary, Omar
Sent: Monday, August 27, 2007 7:31 PM
To: Horvath, Jordan; Creed, Christopher J; Lehman, David A.
Cc: Lee, Jay; Sugioka, Hirotaka; Bohra, Bunty
Subject: Japan PWM Client Interest in ABS CDO (internal use only)

FYI -- see notes below on both Japan PWM Compliance and the fact that at least 2 of the accounts have purchased ABS CDO equity away from GS in either debt or equity tranches. Thanks.

From: Kagawa, Yuichi
Sent: Tuesday, August 28, 2007 8:24 AM
To: Chaudhary, Omar
Cc: Lee, Jay; Sugioka, Hirotaka
Subject: RE: Do you have cdo secoudary inventory?

Yes, Emi Yoshibe is the official pwm compliance person in Tokyo.

ゴールドマン・サックス証券株式会社
プライベート・ウェルス・マネジメント部
香川 祐一
TEL 03-6437-9745
FAX 03-6437-5160

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From: Chaudhary, Omar
Sent: Tuesday, August 28, 2007 8:23 AM
To: Kagawa, Yuichi
Cc: Lee, Jay; Sugioka, Hirotaka
Subject: RE: Do you have cdo secoudary inventory?

Thank you -- very helpful.

Also, is Emi Yoshibe the official PWM Compliance person for Japan? Our NY contacts are telling us that they believe that Vivien Khoo in HK is the official PWM Compliance person. Please confirm.

From: Kagawa, Yuichi
Sent: Tuesday, August 28, 2007 8:19 AM
To: Chaudhary, Omar
Cc: Lee, Jay; Sugioka, Hirotaka
Subject: RE: Do you have cdo secoudary inventory?

Omar,
Shin Nihon Jitsugyo and Aishin have purchased ABS CDOs (debt and equity) with other firm in the past.

ゴールドマン・サックス証券株式会社
プライベート・ウェルス・マネジメント部
香川 祐一
TEL 03-6437-9745
FAX 03-6437-5160

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From: Chaudhary, Omar
Sent: Monday, August 27, 2007 6:49 PM
To: Kagawa, Yuichi
Cc: Lee, Jay; Sugioka, Hirotaka
Subject: RE: Do you have cdo secoudary inventory?

Have any of these clients purchased ABS CDO (either debt or equity) in the past?

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From: Kagawa, Yuichi
Sent: Monday, August 27, 2007 3:45 PM
To: Chaudhary, Omar; Lee, Jay; Sugioka, Hirotaka
Cc: Yoshibe, Emi (FICC Compliance); Yokote, Shinichi; Ninomiya, Toshio; Miyamoto, Masaaki; Takata, Jo
Subject: FW: Do you have cdo secoudary inventory?

Omar,

I got an ok from Yoshibe-san (compliance) to give client info but please be very careful not to distribute it to wide audience…recipients must be limited to those who must know.

Please note the following info of pwm clients who we like to offer cdo secondaries:

1) Shin Nihon Jitsugyo Co. Ltd
PWM client (since 1997), personal investment company. Net worth is about $250mio. Has traded various products including, PRDC, LTFX, derivatives, options, hedge funds, and private equity with GS.

2) Aishin Co. Ltd
PWM client (since 2003), personal investment company, Net worth is about $200mio. Has traded various products including, PRDC, LTFX, derivatives, options, hedge funds, and private equity with GS.

3) Ando International
PWM client (since 1999), personal investment company, Net worth is about $200mio. Has traded various products including, PRDC, LTFX, derivatives, options, hedge funds, and private equity with GS.

Please also note that we like to show it to several other pwm clients with relatively same investment objectives and experience. Thank you.

Regards,
Yuichi Kagawa

ゴールドマン・サックス証券株式会社
プライベート・ウェルス・マネジメント部
香川 祐一
TEL 03-6437-9745
FAX 03-6437-5160

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From: Cohn, Gary (EO 85B30)
Sent: Wednesday, September 05, 2007 5:20 PM
To: Sparks, Daniel L
Subject: RE: Refresh of Axe Priorities

Great to see

From: Sparks, Daniel L
Sent: Wednesday, September 05, 2007 3:06 PM
To: Cohn, Gary
Subject: FW: Refresh of Axe Priorities

From: Sparks, Daniel L
Sent: Wednesday, September 05, 2007 3:06 PM
To: Bash-Polley, Stacy; Pinkos, Steve; Radtke, Lorin; Kreitman, Gail; Cornacchia, Thomas
Cc: Schwartz, Harvey
Subject: FW: Refresh of Axe Priorities

Please let me know how these are going. I am personally going to work to do a better job making sure you understand the things we are trying to achieve as a business. In addition to this, the super-senior ABX trade egol sent around and general securities financing trades are priorities for us. Please call me with any questions or thoughts.

From: Swenson, Michael
Sent: Wednesday, September 05, 2007 10:38 AM
To: Bash-Polley, Stacy; Birnbaum, Josh; Lehman, David A.
Cc: Sparks, Daniel L; Schwartz, Harvey
Subject: RE: Refresh of Axe Priorities

Axes

1. Cyrus is putting together a list of resids (needs to find out from mortgage finance group on what resids we are not restricted on). Expect some offerings in the next couple of days.

2. AAA ABX both 06-1 and 06-2.

3. we would like to sell 2005 vintage single-A CDS protection - would like to print 250-500mm. We can provide lists that are customized to customer needs

4. cash inventory - unfortunately line items are numerous with small sizes so it is an involved process. We will engage Vivien and team to assist in those efforts.

5. Opportunistically seek BBB and BBB- single-name buyers of protection to help us reduce single-name CDS basis as well as to help facilitate the single-name short covering. We can provide lists that are customized to customer needs.

From: Bash-Polley, Stacy
Sent: Wednesday, September 05, 2007 9:45 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.
Cc: Sparks, Daniel L; Schwartz, Harvey
Subject: RE: Refresh of Axe Priorities

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Wall Street & The Financial Crisis
Report Footnote #2126

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Havent heard back from anyone--here..
Wld really like to focus the salesforce on the priorities-- plse post me on the axes how they stand now
I know abt the credit io..

From: Bash-Polley, Stacy
Sent: Tuesday, September 04, 2007 11:49 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.
Cc: Montag, Tom; Mullen, Donald; Sparks, Daniel L; Schwartz, Harvey; Cornacchia, Thomas
Subject: Refresh of Axe Priorities

Given that we have printed some/or part of the lists that were reviewd 2 weeks ago. .It would be very helpful to send another message out -with the top 5 axes.. And where we stand--size and or active dialogues.
I know there are a few irons in the fire on some--but want to see broadly how we stand--and add in any new axes that may have come to light (like resids)

Thx.

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From: Bohra, Bunty
Sent: Thursday, September 06, 2007 8:01 AM
To: Sparks, Daniel L
Subject: RE: Refresh of Axe Priorities

Will be in office shortly... Will grab you

-----Original Message-----
From: Sparks, Daniel L
Sent: Thursday, September 06, 2007 8:00 AM
To: Bohra, Bunty
Subject: RE: Refresh of Axe Priorities

Also, I spoke with cornac about syndicate/marketing - let's resolve. You should call him and me

-----Original Message-----
From: Bohra, Bunty
Sent: Thursday, September 06, 2007 7:54 AM
To: Sparks, Daniel L
Subject: Re: Refresh of Axe Priorities

Have raised my hand to be helpful on several occasions, so am happy to participate.

Let's discuss details this week.

V. Bunty Bohra
Managing Director

Goldman, Sachs & Co.
Structured Product Syndicate
Fixed Income, Currency & Commodities

----- Original Message -----
From: Sparks, Daniel L
To: Bohra, Bunty
Sent: Thu Sep 06 00:16:31 2007
Subject: FW: Refresh of Axe Priorities

Want to get you to send out daily 1-3 priority axes for department - let's discuss

From: Swenson, Michael
Sent: Wednesday, September 05, 2007 10:38 AM
To: Bash-Polley, Stacy; Birnbaum, Josh; Lehman, David A.
Cc: Sparks, Daniel L; Schwartz, Harvey
Subject: RE: Refresh of Axe Priorities

Axes

1. Cyrus is putting together a list of resids (needs to find out from mortgage finance group on what resids we are not restricted on). Expect some offerings in the next couple of days.

2. AAA ABX both 06-1 and 06-2.

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3. we would like to sell 2005 vintage single-A CDS protection - would like to print 250-500mm. We can provide lists that are customized to customer needs

4. cash inventory - unfortunately line items are numerous with small sizes so it is an involved process. We will engage Vivien and team to assist in those efforts.

5. Opportunistically seek BBB and BBB- single-name buyers of protection to help us reduce single-name CDS basis as well as to help facilitate the single-name short covering. We can provide lists that are customized to customer needs.

From: Bash-Polley, Stacy
Sent: Wednesday, September 05, 2007 9:45 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.
Cc: Sparks, Daniel L; Schwartz, Harvey
Subject: RE: Refresh of Axe Priorities

Havent heard back from anyone--here..
Wld really like to focus the salesforce on the priorities-- plse post me on the axes how they stand now
I know abt the credit io..

From: Bash-Polley, Stacy
Sent: Tuesday, September 04, 2007 11:49 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.
Cc: Montag, Tom; Mullen, Donald; Sparks, Daniel L; Schwartz, Harvey; Cornacchia, Thomas
Subject: Refresh of Axe Priorities

Given that we have printed some/or part of the lists that were reviewd 2 weeks ago. .It would be very helpful to send another message out -with the top 5 axes.. And where we stand--size and or active dialogues.
I know there are a few irons in the fire on some--but want to see broadly how we stand--and add in any new axes that may have come to light (like resids)

Thx.

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The Goldman Sachs Group, Inc. | One New York Plaza | New York, New York 10004
Tel: 212-902-4762 | Fax: 212-482-3966

Gregory K. Palm
Executive Vice President
and General Counsel

Goldman Sachs

March 1, 2010

Mr. Philip N. Angelides
Chairman
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW
Washington, D.C. 20006-4614

Dear Chairman Angelides:

Many of the questions during the first hearing of the Financial Crisis Inquiry Commission focused on issues with respect to residential mortgage-related products. In light of the Commission's interest in this area, we are submitting this letter in an effort to provide a more comprehensive overview of certain of the issues raised over the course of the hearing.

In this letter, we elaborate on the role Goldman Sachs plays as a market maker, how we manage the risk we assume through that role, especially within the context of residential mortgage-related products, our exposure to the housing market, investors in the market for residential mortgage-related products, the different roles and obligations of underwriters and market makers and the extent of our activities in the residential mortgage-related securitization markets in 2006 and 2007. We also discuss Goldman Sachs' due diligence practices and the disclosures that the firm made to the institutions that considered investing in securities that we underwrote.

Role as a Market Maker

Market makers or financial intermediaries are critical to the efficient functioning of the financial markets: their role is to stand ready to make an offer to buy or sell a given financial instrument whenever a seller or a buyer enters the market. As a market maker, we execute a variety of transactions each day with clients and others, buying and selling financial instruments, which may result in long or short risk exposures to thousands of different instruments at any given time. This does not mean that we know or even think that prices will fall every time we

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sell or are short, or rise when we buy or are long. In these cases, we are executing transactions in connection with our role of providing liquidity to markets. Clients come to us as a market maker because of our willingness and ability to commit our capital and to assume market risk. Indeed, during the fourth quarter of 2009, for example, our clients asked us to bid on approximately $7 billion (face amount) per week of mortgage- and asset-backed securities. Further, our clients typically have relationships with a number of other financial intermediaries and they compare the products, services and pricing offered by such other intermediaries and us prior to determining with whom to transact.

Without market makers that are ready, willing and able to take the other side of a transaction, a liquid market simply cannot exist. That is why financial intermediation is critical to the functioning of the capital markets and, ultimately, the financial system. Financial intermediaries connect buyers and sellers. When a buyer or seller is not readily available, financial intermediaries take the other side of a transaction and assume the risk of the trade on their own books. These transactions often are initiated by our clients, and when proposed by us are often in response to previously expressed investment interests of the client. We are responding to our clients' desire either to establish, or to increase or decrease, their exposure to a position based on their own investment views. We are not "betting against them."

How We Manage Our Risk

Our willingness to take on risk is fundamental to our role as a financial intermediary. The better we understand and can manage that risk, the more willing we are to transact with clients (regardless of our view on the market) and, thereby, to offer them better prices. Our clients expect us to be willing to transact in all market conditions. They often competitively bid positions, and execute with us depending on whether we satisfy their objectives – e.g., pricing, speed and certainty of full execution – better than competing market makers or other financial intermediaries.

The exposures created through transactions with clients are part of the overall "inventory" of instruments we generally carry as part of our business. This inventory is comprised of long and short positions. Its composition reflects the accumulation of customer trades and our judgments about supply and demand or market direction. If a client asks us to transact in an instrument we hold in inventory, we may be able to give the client a better price than it could find elsewhere in the market and to execute the order without potential delay and price movement. This inventory represents a risk position that we manage continuously.

In so doing, we must also manage the size of our inventory and keep exposures in line with risk limits. We believe that risk limits are an important tool in managing our firm. They are established by senior management, and scaled to be in line with our financial resources (capital, liquidity, etc.). They help ensure that regardless of the opinions of an individual or business unit about market direction, our risk remains within prescribed levels.

In addition to selling positions, we use other techniques to manage risk. These include establishing offsetting positions ("hedges") through the same or other instruments, which serve to reduce the firm's overall exposure. Hedges, however, may give rise to other risks. For example, the use of credit default swaps as hedges in turn results in a new credit risk: the ability of the writer of the credit default swap to perform on the obligation. In order to manage this risk,

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Goldman Sachs generally requires the writer of the credit default swap to post cash collateral against its obligations to the firm, or may structure other risk mitigants.

In this way, we are able to serve our clients and to maintain a robust client franchise while prudently limiting overall risk consistent with our financial resources.

Goldman Sachs' Exposure to, and Results from Business Relating to, the Residential Housing Market

With that background, we want to outline for you Goldman Sachs' exposure to, and results from business relating to, the residential housing market. While this has been the subject of much recent attention, it has always been a very small part of our overall business. For example, during the period 2003 to 2008, the firm's annual net revenues attributable to residential mortgage-related products never exceeded 2% of our overall net revenues. Through the end of 2006, Goldman Sachs generally was long in exposure to residential mortgages and mortgage-related products, such as residential mortgage-backed securities ("RMBS"), collateralized debt obligations ("CDOs") backed by residential mortgages and credit default swaps referencing residential mortgage products. In late 2006, we began to experience losses in our daily residential mortgage-related products P&L as we marked down the value of our inventory of various residential mortgage-related products to reflect lower market prices.

In response to those losses, we decided to reduce our overall exposure to the residential housing market. We wanted to get "closer to home" – i.e., to reduce our overall exposure to the residential housing market, consistent with our risk protocols – given the uncertainty of the future direction of the housing market and the increased volatility of mortgage-related product markets. Indeed, we reduced both our short positions and our long positions in these products over the course of 2007. For example, during the first quarter of 2007, we reduced various short positions in light of applicable risk limits even though (viewed in isolation) these positions had been profitable. Overall, our residential mortgage-related product positions had a negligible effect on the firm's net revenues or profits for fiscal year 2007. During fiscal year 2008, we had net losses of approximately $1.7 billion on residential mortgage-related product positions. As these results demonstrate, the firm did not generate enormous net revenues or profits by betting against residential mortgage-related products, as some have speculated; rather, our relatively early risk reduction resulted in our losing less money than we otherwise would have when the residential housing market began to deteriorate.

Investors in the Market for Residential Mortgage-Related Products in 2007

The markets for residential mortgage-related products, and subprime mortgage securities in particular, were volatile and unpredictable in the first half of 2007. Goldman Sachs had no "inside information" about the residential housing trends or macroeconomic factors that ultimately would drive market values. Investors in these markets held very different views of the future direction of the housing market based on their outlook on factors that were equally available to all market participants, including housing prices, interest rates and personal income and indebtedness data. Some investors, including some hedge funds, developed aggressively negative views on the residential mortgage market. Other investors, including other hedge funds, believed that any weakness in RMBS and the residential housing market would be relatively

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mild and temporary. Investors with both sets of views came to Goldman Sachs and other financial intermediaries to establish long and short exposures to the residential housing market, through RMBS, CDOs, credit default swaps and other types of instruments or transactions. We would also note that broadly-disseminated research from Goldman Sachs Economic Research ("Economic Research"), which is independent from other divisions of the firm, expressed consistently negative views on the residential housing market in 2006 and 2007. Indeed, our Economic Research expressed an increasing level of concern about the run up in housing prices in papers dating back to at least 2004. (See Appendix I) Various other firms' broadly-disseminated research reports from 2006 contained warnings of deteriorating residential housing market conditions.

The investors who transacted with Goldman Sachs in CDOs in 2007, as in prior years, were primarily large, global financial institutions, insurance companies and hedge funds (no pension funds invested in these products, with one exception: a corporate-related pension fund that had long been active in this area made a purchase of less than $5 million). These investors had significant resources, relationships with multiple financial intermediaries and access to extensive information and research flow, performed their own analysis of the data, formed their own views about trends, and many actively negotiated the structure and terms of transactions.

These investors entered into transactions having certain characteristics in order to achieve their desired long or short exposure. They were aware of and accepted the market risk they were assuming. For securities backed by residential mortgages, the characteristics of the underlying mortgages were disclosed in detail and investors knew what they were buying. The investment views of different participants in these markets depended on their respective assessments of macroeconomic trends, as well as their analysis of the disclosed characteristics of the mortgages. Neither their views on macroeconomic trends nor their analysis of loan characteristics depended on whether Goldman Sachs hedged or retained the initial exposure we took on as a result of the transaction.

It is also important to note that it is not just a belief in the absolute direction of prices but also the relative level of prices that drive investors' actions. For example, a particular security may trade at a distressed level. The institution holding that asset may nonetheless want to sell the security to remove what it believes is a source of further risk from its balance sheet or to free up capital for other investments. A buyer of that asset believes that the distressed pricing may potentially reflect good value and is willing to take on that risk for a price, even if other investors think otherwise. The process of being able to buy risk from those unwilling or unable to shoulder it is vital to a functioning market and economy.

Residential mortgage-related products issued or underwritten by numerous firms ultimately did not perform as expected because of unprecedented economic developments. Goldman Sachs, as well as the sophisticated investors who invested in these products, certainly did not envision the events that led to such poor performance. With the benefit of hindsight, it is apparent that most participants – including rating agencies, financial institutions and government agencies – put too much faith in historical performance, believing that most residential mortgage assets were highly resilient to downturns. It was clear, however, that many loans with the characteristics disclosed in offering documents for these products would perform poorly in a very rapidly deteriorating housing market and meaningful economic recession, but Goldman

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Sachs and most investors simply did not predict or anticipate how severe the contraction in the housing market would become.

Role of an Underwriter

The role of an underwriter differs from that of a market maker. As described above, a market maker is primarily engaged in the business of assisting clients in executing transactions. This business is client-driven, and Goldman Sachs strives to provide a fair price to our clients.

In contrast, an underwriter works with the issuer in connection with offering financial instruments to investors. In this context, the federal securities laws effectively impose a "gatekeeper" role on Goldman Sachs: as an underwriter we are expected to assist the issuer in providing an offering document to investors that discloses all material information relevant to the offering and, absent a showing that we conducted an appropriate review (so-called "due diligence") regarding the securities being offered, we are potentially liable to investors for any losses resulting from any material misstatements or omissions in the offering document. The same disclosure obligations do not apply to a market maker, including because a market maker must execute countless transactions in order to meet the demands of clients and other parties. If a market maker were required to perform extensive due diligence on each security in which it was asked to execute a transaction, and to update disclosures every time it bought or sold securities, real-time, liquid markets could not exist.

In connection with our underwriting of residential mortgage-related securities, Goldman Sachs had a process in place to examine the management, relevant policies and procedures, underwriting standards, creditworthiness and other aspects of each mortgage originator before the firm began purchasing loans for securitization. As a result of these reviews, we determined not to do business with dozens of originators. Goldman Sachs also emphasized maintaining regular contact with major loan originators to understand the issues that they faced and the steps they were taking to address them. We also employed internal and third-party resources to conduct due diligence on the individual loans in the pools backing the securities in its RMBS offerings, including reviewing selected loan files, verifying compliance with state and federal lending statutes, and selective review of property appraisals against comparable values. As a result of these reviews, Goldman Sachs did not accept loans that, based on its review and analysis, appeared to have potentially significant legal, regulatory compliance or other issues. Knowing what we know today, of course, we wish that we had done even more.

Regardless of the degree of due diligence performed by underwriters in connection with RMBS securitizations, however, they cannot guarantee payment, performance or any rate of return. Rather, it is up to the purchaser of securities to evaluate whether the securities are worthy of investment based on the purchaser's own view and analysis of the securities' value in light of the purchaser's expectations about the future of the housing market and the economy and, importantly, the disclosures set forth in the offering documents including, in the case of asset-backed securities, detailed descriptions of the underlying assets. The Securities and Exchange Commission's Regulation AB, which provides extensive requirements and guidance for disclosures in offerings of asset-backed securities, properly focuses on disclosure of the material characteristics of the assets on which investors rely for the cash flows that provide the basis for payment of interest and principal on the securities they are purchasing. Those disclosures for

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RMBS include detailed statistical information on the loans in the pool backing the RMBS, including the material originators of the loans, borrower credit scores, locations of the properties, loan to value percentages and the type of loans (e.g., second lien, adjustable rate, or option adjustable rate). The disclosures also included detailed descriptions of the policies and procedures used by the material loan originator or originators to evaluate and determine whether to make a loan. (See Appendix II)

In addition, Goldman Sachs, like other underwriters of RMBS, disclosed extensive data on every individual loan in its securitizations through "loan tapes," and other documents analyzing the underlying loans, which were publicly filed by the issuer with the Securities and Exchange Commission. These documents contained detailed information on each individual loan underlying the securitization, such as: (1) the original term of the loan; (2) the current balance; (3) the applicable interest rate; (4) the type of loan (e.g., adjustable rate or fixed rate); (5) whether the loan was a first or second lien; (6) the original loan-to-value ratio; (7) the property type (e.g., single family home); (8) the borrower's FICO score; (9) whether the property was owner-occupied; and (10) the due date and delinquency status. This information enabled the sophisticated investors that purchased these instruments to run their own models and make their investment decisions based on their views of relevant macroeconomic factors, market and housing trends, as well as the apparent credit of the borrowers whose mortgages backed the securities. (See Appendix III)

Nationally recognized law and accounting firms also were retained in connection with underwritings to assist in ensuring that the disclosures were complete, accurate and in compliance with the securities laws. These disclosures included numerous risk factors, which highlighted those characteristics of loans that increased risk (such as lower quality credit history, high loan-to-value ratio, and lack of documentation or independent verification). (See Appendix II)

Based on these disclosures, and publicly-available macroeconomic, housing and other data, investors could and did employ sophisticated analysis of the characteristics of the loan pool before deciding whether to invest in the transaction and which types of securities to purchase (from the highly rated senior securities that offered the most protection against deterioration of the asset pool and lowest return, to lower rated securities that offered less protection and a higher return).

In short, the securities being sold were as described – the investors purchased what they knowingly determined to buy. In view of what transpired in the housing market and the economy, the securities performed substantially as would have been expected in those unexpected circumstances. At the time of purchase, however, what participants in this market – including Goldman Sachs – could not know was how the housing market and the economy would perform in the future.

For non-synthetic CDOs – i.e., CDOs collateralized by cash securities – the offering materials contained detailed risk disclosures, and set forth each of the securities in the portfolio at or about the time of closing that determined the cash flows to investors. (See Appendix IV) We provided analyses to investors that highlighted how the securities would perform under certain scenarios and based upon stated assumptions, and these investors often had their own

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models to analyze the credit worthiness of the underlying cash securities. Investors then could (and did) refer to those disclosures in making investment decisions. Again, investors had detailed information that allowed them to analyze how the securities would perform under different assumptions and scenarios.

For CDOs containing predominantly or exclusively synthetic assets – i.e., credit default swaps referencing RMBS or CDO securities, rather than the RMBS or CDO securities themselves – one party (the counterparty to the credit default swap) necessarily has to assume a short position with respect to the synthetic assets in order for there to be a long position for investors to take – there was no "secret" short position. As part of our disclosures, we indicated that Goldman Sachs initially would take the short side of the transaction, where applicable. There was no limitation on our ability to sell some or all of the short position. (See Appendix V) The sophisticated institutions that bought CDO securities did not make their decisions based on whether Goldman Sachs or other firms entering into credit default swaps with the CDO issuer would keep or sell that short position; they made their investment decisions based on their fundamental analysis of the characteristics of the underlying referenced assets and their prediction of where the housing market and the economy would be in the future. In fact, Goldman Sachs' CDOs containing primarily residential mortgage-related synthetic assets were initially created in response to the request of a sophisticated institutional investor that approached the firm specifically seeking that particular exposure. Reverse inquiries from clients were a common feature of this market.

Participation in the Residential Mortgage-Related Securitization Markets

Goldman Sachs has never been a significant originator of mortgages.[1] And, in the context of the overall mortgage markets, we were neither a leading issuer[2] nor a leading underwriter of securitized residential mortgage-related products. During the period 2002 through 2007, our market shares as an issuer and underwriter of Non-Agency RMBS varied between 1.9% and 4.0% as an issuer and 4.7% and 6.7% as an underwriter.[3] In 2007, for example, the firm's market share as an issuer of Non-Agency RMBS was 3.0% and we were not among the top 10 underwriters of these securities.[4] For overall RMBS issuance, including agency securities, Goldman Sachs was ranked 12th as an issuer in 2006 with a market share of 2.3% and 18th as an issuer in 2007, with a market share of 1.2%.[5] Thus, although Goldman Sachs was a participant in the RMBS securitization business, it certainly did not dominate the market as either an issuer or underwriter.

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1 *In March 2007, Goldman Sachs acquired Senderra, a small mortgage originator.*

2 *An issuer is the legal entity that owns the pool of residential mortgages or RMBS, CDOs or combination thereof and "issues" securities representing various interests therein. For the purpose of compiling market share data, industry sources treated a firm as the issuer of RMBS if the securities were issued off of one of that firm's shelf registration statements, even though the issuing entity was often a separate legal entity.*

3 *Source: Inside Mortgage Finance. It was always the case that we were the underwriters of securities that we issued, so all securities issued off of Goldman Sachs' shelf registration statements would be counted in both categories.*

4 *Source: Inside Mortgage Finance. Rankings below the top ten were not published in 2007, so our market share is unavailable. We note, however, that the 10th ranked underwriter had a market share of 5.5%.*

5 *Source: Inside Mortgage Finance. Inside Mortgage Finance published overall RMBS market share information with respect to issuer participation only and did not publish such information for years prior to 2006.*

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This point is equally true if one focuses solely on the so-called "subprime" segment of the overall RMBS market. During the period 2002 to 2007, our market shares as an issuer and underwriter of subprime RMBS varied between 0.9% and 4.7% as an issuer and less than 4.2% and 6.5% as an underwriter.[6] In 2007, for example, the firm's market share as an issuer was 1.7% (we were ranked 21st) and we were not ranked in the top ten as an underwriter.[7]

Goldman Sachs also was not a dominant participant in new-issue residential mortgage-related CDO activity. During the period 2002 through the first three quarters of 2007 our market share as an underwriter of new-issue CDOs where the collateral consisted primarily of RMBS varied between 2.4% and 8.2%.[8] For example, Goldman Sachs' market share in the first three quarters of 2007 was approximately 5.6%.[9] As discussed above, substantially all CDOs were sold to sophisticated institutions that met the definition of Qualified Institutional Buyers under Securities and Exchange Commission Rule 144A.

Conclusion

Although Goldman Sachs held various positions in residential mortgage-related products in 2007, our short positions were not a "bet against our clients." Rather, they served to offset our long positions. Our goal was, and is, to be in a position to make markets for our clients while managing our risk within prescribed limits. Our predominant view of the risks arising from the residential housing market in early 2007 caused us to reduce our overall exposure to market movements in either direction consistent with established risk protocols.

We certainly did not know the future of the residential housing market in the first half of 2007 any more than we can predict the future of markets today. We also did not know whether the value of the instruments we sold would increase or decrease. It was well known that housing prices were weakening in early 2007, but no one – including Goldman Sachs – knew whether they would continue to fall or to stabilize at levels where purchasers of residential mortgage-related securities would have received their full interest and principal payments. Finally, we were not consistently or significantly overall net "short the market" in residential mortgage-related products, and, contrary to media speculation, we did not generate enormous net revenues or profits from our residential mortgage-related activities.

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6 *Source: Inside Mortgage Finance.*

7 *Source: Inside Mortgage Finance. Rankings below the top ten were not published in 2007 so our market share in unavailable. We note, however, that the 10th ranked underwriter had a market share of 4.2%.*

8 *Source: Asset-Backed Alert. No CDOs were issued off of Goldman Sachs' shelf registration statements and therefore issuer information is not applicable.*

9 *Source: Asset-Backed Alert. Market share data for the fourth quarter of 2007 is not available.*

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We hope that the information above is helpful to the continuing work of the Commission.

Very truly yours,

Gregory K. Palm

cc: Hon. Bill Thomas
(Commission Vice Chairman)

Brooksley Born
(Commissioner)

Byron S. Georgiou
(Commissioner)

Senator Bob Graham
(Commissioner)

Keith Hennessey
(Commissioner)

Douglas Holtz-Eakin
(Commissioner)

Heather H. Murren, CFA
(Commissioner)

John W. Thompson
(Commissioner)

Peter J. Wallison
(Commissioner)

Thomas Greene
(Executive Director)

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From: Smith, Sarah
Sent: Monday, February 12, 2007 2:32 PM
To: Sparks, Daniel L; Mass, Robert
Subject: RE: FYIs

x-gs-classification: Internal-GS

agreed

From: Sparks, Daniel L
Sent: Monday, February 12, 2007 2:27 PM
To: Mass, Robert; Smith, Sarah
Subject: RE: FYIs

For this book I think monthly is the right way as the data comes monthly on performance. Dramatic mkt moves could change things.

From: Mass, Robert
Sent: Monday, February 12, 2007 2:05 PM
To: Sparks, Daniel L; Smith, Sarah
Subject: RE: FYIs

Thanks.
Has the biz agreed with controllers about how frequently each book is to be marked? Daily? Weekly? Monthly? Quarterly?

From: Sparks, Daniel L
Sent: Monday, February 12, 2007 2:00 PM
To: Mass, Robert; Smith, Sarah
Subject: FW: FYIs

I did timeline recon and here is what I have found from discussion with Gasvoda and Cawthon:

1/31 e-mail below where Cawthon posted Gasvoda on need to mark down a particular position
2/1 Gasvoda posts Sal in controllers about a potential write-down in book
2/1 Sal and Cawthon speak and discuss work to be done - but don't speak much after that until 2/8
2/8 Cawthon and Gasvoda post Sparks on overall $22mm write-down

Based on this and the e-mail below, I don't think Cawthon was hiding things as he initiated discussion with Gasvoda. This appears to have been pre-controller discussion, but the breadth of the review needed was not complete. I think (and I've told him) that he needs to do a better job communicating with controllers early and throughout.

Let me know if there are additional thing you think I should check on

From: Cawthon, Michael
Sent: Monday, February 12, 2007 9:23 AM
To: Sparks, Daniel L
Subject: FW: FYIs

From: Cawthon, Michael
Sent: Wednesday, January 31, 2007 7:26 PM

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Wall Street & The Financial Crisis
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To: Gasvoda, Kevin
Subject: FYIs

- Concurrent with the resid reval, we're reviewing our MDWebb NPL position, the severities for which have begun to trend worse. We currently have 75MM marked at ~77.5, and which needs to come down 4MM to 5MM in value-- we're currently breaking even month to month and I don't like the pipeline. Prelim look at our resids indicates flat to modestly higher.

- not sure what level of involvement you're looking for out of me for the 2nds business at this point-- after some of the RA announcements, I looked at some sub positions in Intex-- they're worthy of a discussion

- sat down w/ Margaret Holen last Friday for a long visit. Stating the obvious: Strats are feeling squeezed betw our desk and ABS for project needs-- in spite of the fact that the risk set largely overlaps. I indicated that I need 1) a seasoned model and 2) some EPD analytics ASAP-- we are actively engaging Marschoun, & Akil, but would like to set a set of formal task objectives. Also significant angst about the seating chart...

- I've given Cyrus the download on some of the resid yield method thoughts/work and he's touched base w/ Arbind to get a running start on the background. Trying to focus on this- realized I've failed to deliver here in a big way

- want to revisit SBC strategy in wake of ASF. Michelle expressed concerns about the ownership for the guidelines we are drafting- I've not been worried about this thus far, but want to generally make sure we're on same page for strategy.

Michael Cawthon
Goldman, Sachs & Co.
Whole Loan Trading
85 Broad Street, 26th Floor
New York, NY 10004
michael.cawthon@gs.com

tel: 212.902.2854
fax: 212.902.1691

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From: Davilman, Andrew
Sent: Thursday, June 28, 2007 8:45 AM
To: ficc-ops-cdopricing; ficc-mtgcorr-desk; Harrop, Thomas
Subject: FW: Missing Marks (15).xls
Attachments: Missing Marks (15).xls; Disclaimer.txt

Pls mark these asap, and return to rcioffi@bear.com, pls cc. me as well for my records.

From: Cioffi, Ralph (Exchange) [mailto:rcioffi@bear.com]
Sent: Thursday, June 28, 2007 8:43 AM
To: Davilman, Andrew
Subject: Missing Marks (15).xls

Andy I need the 4 bonds marked for 5/31/07 we still need to report an NAV and I need these asap today.

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Wall Street & The Financial Crisis
Report Footnote #2133

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GS MBS-E-001965860

CUSIP	DESCRIPTION	S&P RATING	SPREAD	BRKR	SECTOR	Mark	Fair Valued Last Month
290908AA0	EMRLD 2.07875 05/24/2011 SER 144A	AAA	US006M+51.0	GSCO	CDO IG Corp		
83367A9Q5	GSCO ZOHAR 07-3A FXD TRS			GSCO	CLO Distressed		
88714PAD8	TWOLF 2007-1A A1C 6.127419 09/03/2044	AAA	LIB03+80	GSCO	CDO - CDO2		
88714PAE6	TWOLF 2007-1A A1D 6.627419 09/03/2044	AAA	LIB03M+130	GSCO	CDO - CDO2		

Cusip	REFERENCE	COUNTERPAR	INITIAL
17291K9L3	ACABS 2006-2A A2L	CITI	500
17291J9B8	COMMO 2006-5A B	CITI	390
25199K9X3	ABSHE 2005-HE3 M9	DB	330
37153F9F2	BSABS 2005-HE11 M8	GCM	450
48101N9O6	CBCL 16A C	LEH	225
48101N9M0	STAK 2007-1A A2	LEH	175
59018W9V9	JPMCC 2004-CB8 H	MER	190
59018V9X7	BSABS 2006-HE3 M9	MER	387
90258A9G4	Beach St V 16-17%	UBS	80
90263A9V4	Beach St V 17-21.3%	UBS	55
90263A9T9	Beach St V 21.3-26.3%	UBS	35
90260M9N9	BSABS 2006-EC2 M8	UBS	525
90260M9V1	FFML 2006-FF8 M9	UBS	775
90290D9B9	HEMT 2005-4 M9A	UBS	825
48100Z9G7	IXIS 2005-HE3 B2	UBS	525
90260K9J2	MABS 2006-WMC1 M9	UBS	245
90263B9D2	NCHET 2006-1 M9	UBS	850

Corporate

Cusip	REFERENCE	COUNTERPAR	INITIAL
07393F9Z1	ATT Corp	BS	45
07392T9E9	FTD BSKT1	BS	80
07393F9X6	SBC	BS	33
07392Y9B4	SLM Corp	BS	36
7891239A6	Mustang Offset 0.14	MER	14

From: Egol, Jonathan
Sent: Tuesday, June 19, 2007 7:44 PM
To: Brafman, Lester R
Subject: Re: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

No trades. LEH is offering it guys. Assume repo desk there got hosed.

----- Original Message -----
From: Brafman, Lester R
To: Egol, Jonathan
Sent: Tue Jun 19 19:38:20 2007
Subject: Re: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

Did this block trade

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Brafman, Lester R
Sent: Tue Jun 19 18:13:43 2007
Subject: RE: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

I don't know why Ralph decided to finance this away from us. I can ask Davilman if he recalls.

I got additional color on this from 2 accounts, can post you live.

-----Original Message-----
From: Brafman, Lester R
Sent: Tuesday, June 19, 2007 5:47 PM
To: Egol, Jonathan
Subject: RE: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

Did we bid this?? How come it wasn't financed here

-----Original Message-----
From: Egol, Jonathan
Sent: Tuesday, June 19, 2007 3:57 PM
To: Brafman, Lester R
Subject: Re: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

We mark them monthly. I have learned this is on lehman's repo line.

----- Original Message -----
From: Brafman, Lester R
To: Egol, Jonathan
Sent: Tue Jun 19 15:54:18 2007
Subject: RE: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

Have we been marking them. Do we know whose line.. Do we know where they have been marking them

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2133

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Egol, Jonathan
Sent: Tuesday, June 19, 2007 3:25 PM
To: Sparks, Daniel L
Cc: Brafman, Lester R; Swenson, Michael
Subject: We are being asked by BSAM to bid all $200+ mm ABACUS CDO^2 bonds that were on somebody else's repo line

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917 [redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman
Sachs

Jonathan M. Egol
Structured Products Trading

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From: Bash-Polley, Stacy
Sent: Thursday, August 02, 2007 3:30 PM
To: Montag, Tom; Mullen, Donald; Schwartz, Harvey; Sparks, Daniel L
Cc: Brafman, Lester R
Subject: Marks Summary

Attachments: FW: NYL mark issue ; FW: TWOLF 0701 A2s; Fw: GSAA NIMs; Marks

FW: NYL mark issue | FW: TWOLF 0701 A2s | Fw: GSAA NIMs | Marks

Below are select client issues that have come up related to marks - A lot of info.. Here is the bottom line -sounds like we were sticking out much more before july month end
- still the lowest -but the gap has narrowed -some clients would prefer a bid/offer vs us using bid side as the Mark. (we should discuss further -other dealers are impllying marks to be used as different spots- ie some midmkt/some where they see value/some bid levels - so not all "apples to apples"
-still collecting more data- but today's move should narrow gap further

(Tim Ruberti)
Carlyle- Timberwolf A2. See attached for mark history. Client and sales/trading have had several discussions throught marking process abt how we come up with number.. Without using any model discussions (ie used tabx/abx and underlying cdo markets as reference).. They have not agreed with our process and recently asked other dealers to analyze--say that we are off significantly from where other dealers are modeling this. (of course they didn't comment when asked where other dealers would bid the bonds).. We are following up (today) with all call - where Elisha will ask a bit more abt their methdology for valuing bond etc.

(Ryan Kelly)
UBS Prop - We took their mark on the Fort Denison from 93.16 to 40.00 They admit the AAA CDO mkt is off substantially but feel that this particular bond.. Being a front cashflow (shorter) AAA with a (3yr) ave life would perform better than the junior AAA market as a whole.
Meanwhile, we took Hudson Mezz 06-1A AF AAA from 80.4 to 65. They would like our thoughts as to why Fort Den was marked down so much more.

[redacted]
The Alt A marks were particularly punitive. [redacted] is one of the biggest players lower in the CAP structure. Our offerings are still 10-20 points higher than the marks. Look at GSAA 2007-7.
On financing, [redacted] said our HC on single A Nim (GSAMP 2006-HE8 NIM)(25%-our desk wanted to do it at 35%, maybe 50% in two weeks) were by far the most onerous of all dealers. (15-20%) It is simply the reality check of the market that people are not used to.

([redacted])
Our biggest issue has been with [redacted] and [redacted] marks over the course of July for [redacted]

	7/6/07	7/16/07	7/24/07	7/27/07	7/31/07
[redacted]	95.2	95	70	70	45
[redacted]	87.3	87	80	75	45

They bought AAA cdos [redacted] They have communicated to sales that GS is by far an outlier and they will never be able to buy another cdo from us based on their lack of confidence in understanding how we are coming up with marks. This disucssion was tabled--until they saw the month end marks others have provided. See attached for color on current situation wrt july month end (bottom line- others caught up but we stick out)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2136

Confidential Treatment Requested by G

[redacted] issues with their CDO marks. Said we were many many points behind where other dealers were marking similar positions. The triggers [redacted] are based on mark to markets, so when we send levels for their CDO positions, it actually impacts [redacted] They understand that we are providing bid-side marks, however they claim that the marks are not actual objective valuations of whether or not the bond will actually suffer losses, but rather a reflection of the lack of liquidity in the market right now. They have stated that other dealers have provided two sets of marks: 1) based on where that dealer would actually bid those bonds for positions and 2) based on where the bonds were trade if the market were currently not "broken", so more of a fair statement as to the intrinsic value of those bonds.

[redacted]
-were surprised at how low marks were on their [redacted] positions.. (GS submitting our marks later today) -one mark on a [redacted] deal essentially implied cash flow would be gone by summer '08

[redacted]

(Nicole Martin)
Greywolf-- see attached. Client traded them away at a much better price
[redacted] in discussion on a few sub pcs of Subprime deals that we partnered on in 06. I am calling partner there to discuss.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Winkelried, Jon (EO 85B30)
Sent: Thursday, August 02, 2007 8:12 AM
To: Schwartz, Harvey; Montag, Tom; Broderick, Craig; Mullen, Donald
Cc: Cornacchia, Thomas
Subject: RE: Aig collateral call

Wasn't aware but one thing we're not going to do is compromise on what we think the right marks are and our margin process.

-----Original Message-----
From: Schwartz, Harvey
Sent: Thursday, August 02, 2007 7:21 AM
To: Montag, Tom; Broderick, Craig; Mullen, Donald
Cc: Cornacchia, Thomas; Winkelried, Jon
Subject: Fw: Aig collateral call

Fyi

Also cc winks...just in case cassano reaches out to him direct
---
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Aliredha, Yusuf
To: Schwartz, Harvey
Sent: Thu Aug 02 06:49:55 2007
Subject: FW: Aig collateral call

I hope you are aware of this? I was not. Looking into it now.

-----Original Message-----
From: Wright, Neil
Sent: Thursday, August 02, 2007 10:44 AM
To: Sundaram, Ram; Davilman, Andrew; Sparks, Daniel L; Salame, Pablo; Sherwood, Michael S
Cc: Aliredha, Yusuf
Subject: Aig collateral call

I am on vacation but was called this morning by andrew forster. Jo Cassano (ceo of aig fp) is livid about the collateral call we have made on aig fp this week relating largely to the super senior they have written with us on subprime rmbs cdo's. We are the only dealer to have made such a call and they disagree our marks and our process, which they say under contract they have the right to obtain and use third party marks in a dispute situation.

Jo Cassano wants to come round and see Woody today about the issue and they are threatening to stop dealing with us across the board unless this is resolved today. I don't know who is around/contactable but we need to sort this out and get Woody or Pablo on the phone with joe cassano today pls.

Ram are you co-ordinating this? Can you arrange a conf call?

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Wall Street & The Financial Crisis
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GS MBS-E-010055302

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Derivative Collateral Dispute Summary

October 30, 2007

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2136

Goldman Sachs

Summary Breakdown (in millions)

Subprime Breakdown	% of total Disputes*	GSE runs All Disputes	Derivative/Collateral Disputes Mortgage	Mtg % of total
Prioritized disputes	45%	2,920	2,255	77%
Additional disputes in the top 15	35%	2,267	1,149	51%
Subtotal top 15	**79%**	**5,187**	**3,404**	**66%**
All other counterparties	21%	1,353	893	66%
Total	**100%**	**6,540**	**4,297**	**66%**

*** Overall dispute numbers adjusted with more recent information when available and material. Mortgage dispute numbers have been estimated.**

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Prioritized Disputes (in millions)

Counterparty	Reported Dispute Amount	Internal Marks	%	Comments
AIG FINANCIAL PRODUCTS CORP	985	985	100%	AIG dispute is on their long $16B super senior position. Business refreshing levels after recent market moves, resulting in substantially higher margin calls. Senior mgmt to post client prior to actual updated client call. We anticipate that recent mark downs at ML will help alleviate the dispute.
MORGAN STANLEY CAPITAL SERVICES INC.	485	359	74%	Primary variance attributable to 2 super senior trades ($1.8B Quadrant and $1.2B Hudson Mezz) for a difference of $908M. MS is currently posting $454M (1/2 of the difference on the 2 trades). Numerous conversations have taken place with traders and product controllers. For the quadrant trade, we have taken them through our marking methodology and shown them a trade in the exact structure with recent quotes for the same. They are choosing to ignore all of this information based on size vs trade (they think $60M trade tells them nothing about $1.8B trade). We have offered to trade in the context of our marks and they have declined.
[redacted]	416	94	23%	Primarily attributable to CDO Mezz CDS (difference of $75M on 10 trades) and one correlation trade [redacted] Historical issue that tends to reduce over time. Traders to get back on the phone with client. A large portion of the remaining non mortgage dispute appears to be related to other credit derivatives. Operations will have a list of the top 10 shortly.
[redacted]	540	361	67%	Current differences relate to [redacted] and CDO CDS ($54M). [redacted] systematic issues with pricing. Historically, they have remarked closer to our levels. Recent calls to their risk mgmt head have gone unanswered. The matter has been escalated to the [redacted]. He is supposed to give us a contact on their side to work through the issue.
[redacted]	495	455	92%	Primarily attributable to [redacted] and ABX Index ($105M). [redacted] acknowledged having difficultly marking their book on a regular basis. Historically they have remarked closer to our levels. The original trader is no longer [redacted]. The matter has been escalated to their head of product control. Our existing contact (CDO business mgr) has indicated that they will be marking their book for October month end and expects that they will come substantially more in line. He was not able to provide a trading contract for the position at this time.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Additional Disputes in the Top Fifteen (in millions)

Counterparty	MOS who Received Collateral Disputes	Number of Disputes	% Disputed	Comments
[redacted]	431	307	71%	[redacted]s make our reconciliation efforts more challenging. Recent discussions between operations and product controllers have uncovered many flaws on their side. Recent mortgage variance is primarily on [redacted]. We have a good contact [redacted] and should be able to get some traction now that their quarter announcement is over.
[redacted]	400	131	33%	[redacted] intermediating on the majority of these trades. Many transactions within bid/offer. CDO mezzanine and high grade deals. Mortgage trading desk is sending over revised levels on a regular basis. The balance of the non mortgage dispute is related to credit. Operations will have a list of the top 10 later today.
ABN AMRO BANK N.V.	384	334	87%	ABN dispute is on long $3 billion of super senior CDO. Most trades within bid/offer. The expectation being $900mm ABACUS 078-AC1 v2 off approximately 20 pts ($180mm). Trader to discuss with client again.
[redacted]	253	36	14%	Minimal differences related to mortgages. Balance of the dispute is equity and credit derivatives. Operations will have a list of the top 10 today.
[redacted]	171	77	45%	[redacted] tends to lag the market and come closer in line when markets settle. Expected to be within bid/offer for month end.
[redacted]	152	51	33%	Down to no dispute overall.
[redacted]	144	84	58%	Estimated to be down to within bid/offer.
[redacted]	135	54	40%	Incorporated [redacted] comments above.
BEAR STEARNS CREDIT PRODUCTS INC.	117	5	4%	Have not historically been a sizable issue. Operations currently researching the dispute.
[redacted]	80	70	88%	GS has offered to trade with them and they have declined and remarked. [redacted] did not appear to be active in the market.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

From: Swenson, Michael
Sent: Wednesday, July 25, 2007 7:41 PM
To: Kao, Kevin J.; Jha, Arbind
Cc: Turok, Michael; Lehman, David A.; Birnbaum, Josh; McAndrew, Thomas R.; Primer, Jeremy; Gao, Renyuan
Subject: Re: Cash bonds

Kevin -

Thank you

----- Original Message -----
From: Kao, Kevin J.
To: Jha, Arbind
Cc: Turok, Michael; Swenson, Michael; Lehman, David A.; Birnbaum, Josh; McAndrew, Thomas R.; Primer, Jeremy; Gao, Renyuan
Sent: Wed Jul 25 19:38:48 2007
Subject: RE: Cash bonds

Arbind - ABS cash bond durations are from Intex. So as long as the cash bonds are marked appropriately the spreads and durations should get reflected accordingly.

I will also watch the jobs closely tonight. Thanks.

-----Original Message-----
From: Jha, Arbind
Sent: Wednesday, July 25, 2007 7:11 PM
To: Kao, Kevin J.
Cc: Turok, Michael; Swenson, Michael; Lehman, David A.; Birnbaum, Josh; McAndrew, Thomas R.; Primer, Jeremy; Gao, Renyuan
Subject: Cash bonds

Kevin,
Given the huge changes in marks today, we expect Mortgage Trading VaR to shoot through the roof if we do not reflect mark/spread changes correctly on the cash ABS and CDO bonds in the risk feed tonite. Please let us know if we perceive this to a major problem tomorrow.
Thanks,
Arbind

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2146

Confidential Treatment Requested by Goldman

From: Sparks, Daniel L
Sent: Sunday, July 29, 2007 10:19 PM
To: Montag, Tom
Subject: RE: Problem

We are in an absolute war - been that way for awhile. We probably should have taken more time to put through the CDO monster remark and check it/filter it all the way through. But we rushed it because of Basis and a desire to protect ourselves against counter-parties.

-----Original Message-----
From: Montag, Tom
Sent: Sunday, July 29, 2007 10:05 PM
To: Wiesel, Elisha; Sparks, Daniel L
Cc: Mullen, Donald
Subject: Re: Problem

Why no problems before on marking? What procedures caught it before?

----- Original Message -----
From: Wiesel, Elisha
To: Sparks, Daniel L; Cohn, Gary (EO 85B30); Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Smith, Sarah; Avanessians, Armen
Cc: Viniar, David
Sent: Sun Jul 29 21:58:43 2007
Subject: RE: Problem

Slightly more color around Dan's message below:

There are two standard ways in which ABS CDO positions are currently marked. Either it's a cash bond, and the traders mark the price in M5, or it's a CDS, and the traders mark the CDS CDO price in SecDb. The system booking issue we're experiencing is because Hout Bay was booked using a different mechanism from either of these two ways.

Trade #1: When the Hout Bay mezz tranche was sold, GS bought back the risk in total return swap form. The trade was booked using a 3rd approach which is not widely used by the secondary desk. This approach was to create an underlying CDS-style credit market to represent Hout Bay Mezz, and to then book a generic TRS against that market in SecDb.

Trade #2: GS then did another trade, which was to buy protection on the top 2/3 of the mezzanine tranche, further tranching the position. This 3rd-order tranche trade was booked using the ABACUS tradable, which applies a SecDb-based model to an underlying. The underlying was specified as a CDS CDO (rather than the TRS actually used to book Hout Bay Mezz). So this means we now had two things in SecDb representing the same total return swap -- (a) a standard CDS CDO which the desk marked as part of it's usual sweep, which informed the model-based value of the protection purchase, and (b) a credit market to mark the TRS.

When CDS CDOs (but not the TRS) were re-marked in last week's sweep, pnl noise was created as Trade #2's value changed, but Trade #1's was not.

-----Original Message-----
From: Sparks, Daniel L
Sent: Sunday, July 29, 2007 9:10 PM
To: Cohn, Gary (EO 85B30); Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David
Subject: RE: Problem

Booked through TAP into secDB, but one leg of position is TROR swap format and one is in CDS format.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2147

Confidential Treatment Requested by Goldm

Traders are responsible to get it marked correctly and are working with right people to fix systematically going forward.

-----Original Message-----
From: Cohn, Gary (EO 85B30)
Sent: Sunday, July 29, 2007 9:01 PM
To: Sparks, Daniel L; Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David
Subject: Re: Problem

What system are they in

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Lee, Brian-J; McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary
Sent: Sun Jul 29 20:59:01 2007
Subject: RE: Problem

Our CDO trading team is. This week has had significant moves in CDOs, especially super-seniors, and activity has been crazy. We missed this position, and the form it's in and the systems issues we have make it challenging.
We're working hard to trade in this market and manage the position - and the team had a very good week.

That doesn't mean this error is acceptable, but we found it within a few days of the massive adjustment.

We are working to make the system better.

-----Original Message-----
From: Mullen, Donald
Sent: Sunday, July 29, 2007 8:26 PM
To: Sparks, Daniel L; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Subject: Re: Problem

We clearly need to have a stale mark report. Who was responsible to mark this?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Mullen, Donald; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Sent: Sun Jul 29 19:54:23 2007
Subject: RE: Problem

It's 2 positions: long $1.275BB, short $825mm. Net long is $450mm.
We're looking into the history on AIG mark Yes, mark had not been updated this month We don't have a stale mark report CDO origination book

-----Original Message-----
From: Montag, Tom
Sent: Sunday, July 29, 2007 7:42 PM
To: Sparks, Daniel L; Mullen, Donald; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Subject: Re: Problem

Confidential Treatment Requested by Goldman Sachs

Its a 1.2 billion dollar position? Is that correct? How have we been marking AIG ? Both controllers and the desk hadn't looked at it all month? Wouldn't there be a report of large positions where marks hadn't changed. Whose book was it in?

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Sent: Sun Jul 29 18:49:48 2007
Subject: Problem

One large synthetic position has not been marked since last month and has not been flowing through the position system, and the problem is large with the dramatic remark we made this week to CDOs. The trading team scrubbed everything this weekend with controllers and strat, and found this - Hout Bay 1 super senior (roughly $1.2BB off a CDO of AA-ish paper done in March 2006 and without much CDO^2). It's funded with another counterparty, and AIG wrote credit protection on the top 65%, GS has the remaining 35% credit risk), and a mark of 25 points needs to go through. There are various causes for our mistake (none good), but the form of the trade had a lot to do with it.

That's about $100mm loss that we need to take.

The team has gone through everything else and does not feel there is anything else like this not feeding through, although there is a $50mm senior pic swap the needs to be better analyzed in light of the market.

We can either put it in the estimate Monday, or put it in Friday as a large variance.

I'd rather I posted you live, but I just got the information and wanted to post this group quickly with month-end.

I'm around tonight 203-972-1346 or in the morning 2-2914.

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From: Sparks, Daniel L
Sent: Sunday, July 29, 2007 9:28 PM
To: Mullen, Donald
Subject: RE: Problem

He's overseeing cmbs, correlation and cdo's. There are responsible line people in each. There is a systems issue in how this was evaluated that when corrected will prevent this. We made massive mark adjustments this week, pushed them through because of basis and counterparty exposure, and probably should have waited to work through everything.

-----Original Message-----
From: Mullen, Donald
Sent: Sunday, July 29, 2007 9:23 PM
To: Sparks, Daniel L
Subject: Re: Problem

I am sympathetic to his scheduke but this can't happen. what exactly is he naking markets in?

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald
Sent: Sun Jul 29 21:19:33 2007
Subject: RE: Problem

Lehman, it is in retained cdo position

-----Original Message-----
From: Mullen, Donald
Sent: Sunday, July 29, 2007 9:14 PM
To: Sparks, Daniel L
Subject: Re: Problem

Who is the single person responsible to mark egol? And is it in his pnl?

----- Original Message -----
From: Sparks, Daniel L
To: Cohn, Gary (EO 85B30); Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David
Sent: Sun Jul 29 21:10:19 2007
Subject: RE: Problem

Booked through TAP into secDB, but one leg of position is TROR swap format and one is in CDS format.
Traders are responsible to get it marked correctly and are working with right people to fix systematically going forward.

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From: Cohn, Gary (EO 85B30)
Sent: Sunday, July 29, 2007 9:01 PM
To: Sparks, Daniel L; Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2148

Confidential Treatment Requested by Goldm

Subject: Re: Problem

What system are they in

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Lee, Brian-J; McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary
Sent: Sun Jul 29 20:59:01 2007
Subject: RE: Problem

Our CDO trading team is. This week has had significant moves in CDOs, especially super-seniors, and activity has been crazy. We missed this position, and the form it's in and the systems issues we have make it challenging.
We're working hard to trade in this market and manage the position - and the team had a very good week.

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We are working to make the system better.

-----Original Message-----
From: Mullen, Donald
Sent: Sunday, July 29, 2007 8:26 PM
To: Sparks, Daniel L; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Subject: Re: Problem

We clearly need to have a stale mark report. Who was responsible to mark this?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Mullen, Donald; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Sent: Sun Jul 29 19:54:23 2007
Subject: RE: Problem

It's 2 positions: long $1.275BB, short $825mm. Net long is $450mm.
We're looking into the history on AIG mark Yes, mark had not been updated this month We don't have a stale mark report CDO origination book

-----Original Message-----
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Sent: Sunday, July 29, 2007 7:42 PM
To: Sparks, Daniel L; Mullen, Donald; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)
Subject: Re: Problem

Its a 1.2 billion dollar position? Is that correct? How have we been marking AIG ? Both controllers and the desk hadn't looked at it all month? Wouldn't there be a report of large positions where marks hadn't changed. Whose book was it in?

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); McMahon, Bill; Wiesel, Elisha; Smith, Sarah
Cc: Viniar, David; Cohn, Gary (EO 85B30)

Confidential Treatment Requested by Goldman Sachs

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We can either put it in the estimate Monday, or put it in Friday as a large variance.

I'd rather I posted you live, but I just got the information and wanted to post this group quickly with month-end.

I'm around tonight 203-972-1346 or in the morning 2-2914.

Confidential Treatment Requested by Goldman Sachs

From: McHugh, John
Sent: Friday, July 13, 2007 11:11 PM
To: Swenson, Michael; Lehman, David A.
Cc: Sparks, Daniel L
Subject: RE: Talking Points Needed for Gary Cohn
Attachments: PMD speaking notes July 2007 for Gary Cohn.doc

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Talking points pasted below and attached...pls review

Market Commentary

- Subprime mortgage market continues to be dislocated and illiquid
- spreads tightened from March-May for technical reasons (supply & short covering)
- Increases in delinquencies, slower prepayment speeds and interest rates rising continued to weigh on the market in the face of weaker housing prices
- BSAM & other hedge fund managers (most recently Basis Capital) announced they were halting fund redemptions and/or liquidating holdings, with some likely to fail
- Rating agencies announced a series of downgrades and/or securities placed on negative watch. Agencies also adopted significant changes in rating and surveillance methodologies using more punitive stress assumptions which will result in more aggressive downgrade actions on existing deals and require greater credit enhancement on new deals.
- ABX prices dropped dramatically in reaction with new issue residential and CDO prices following suit. At Dec 31, 2006, ABX 06-2 BBB- synthetics tranche was trading at $95, it bottomed at $53 on July 13, 2007
- [redacted]

Subprime loan & securitization commentary:

- Industry wide, subprime loan origination is down 40% in 2007 and headed lower
- 7 of the top 10 subprime lenders in '06 are either out of business or have changed ownership
- Subprime loan bids began to stabilize in the mid-102s in late May and early June as dealers bid more aggressively to feed inventory into their securitization platforms but have since fallen more than a point in the face of worse fundamentals
- Spread volatility returned, loan and new issue pricing has come under pressure with dealers having particular difficulty placing lower rated securities
- Goldman's subprime loan purchases were less than $50mm for April and May, but in June we were successful in bidding on a $1bn subprime loan package from HSBC (seasoned loans ('05 production) so has some HPA embedded and strong payment histories)
- More stringent due diligence procedures resulted in lower pull-through rates, reduced market share and pushback from originators, but results are difficult to argue against
- CDO securitization market is coming to a standstill, GS has zero in warehouse
- Non-prime loan inventory is currently at $3bn, down from $12bn at fiscal year-end
- Warehouse secured lending in this space has been reduced from just under $1bn at fiscal year-end to $50mm currently

Permanent Subcommittee on Investigations
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($mm's)	07/01/06	11/25/06	05/15/07	Current
Loan Inventory:				
Subprime	5,525	6,200	156	1,175
Alt A	5,683	3,333	1,897	1,599
S&D	827	768	665	643
2nds	865	1,505	62	57
Resi Warehouse	852	848	51	53
CDO Warehouse	8,245	5,720	1,740	-
Retained CDO Bonds	200	360	4,570	2,530
ABX 06-2 BBB- dollar price	99	98	76	53

- ABX 06-2 and 07-1 series hit all-time lows of 53 and 49, respectively, on July 13th

-----Original Message-----
From: Sparks, Daniel L
Sent: Friday, July 13, 2007 7:37 PM
To: White, Eileen (EO 85B30); Scherr, Stephen (IB NYP48); Hickey, Steve; Lehman, David A.; Swenson, Michael; McHugh, John
Cc: Black, Jennifer (IB NYP48); Jannetti, Eileen; Bellcour, Dominique (DewAnn); Lipnick, Allison (EO 85B30)
Subject: Re: Talking Points Needed for Gary Cohn

John, please update what you had prepared for montag - shoot it by swenson and lehman, and address below

----- Original Message -----
From: White, Eileen (EO 85B30)
To: Scherr, Stephen (IB NYP48); Sparks, Daniel L; Hickey, Steve
Cc: Black, Jennifer (IB NYP48); Jannetti, Eileen; Bellcour, Dominique (DewAnn); Lipnick, Allison (EO 85B30)
Sent: Fri Jul 13 16:28:04 2007
Subject: Talking Points Needed for Gary Cohn

All,
Lloyd has asked Gary to provide a 5-minute update on credit markets at the Monthly Partner Meeting this Tuesday, July 17th.

Would you be able to provide talking points for Gary? I would be grateful if you might be able to forward to me as soon as possible. (Gary is traveling to Asia.)

Sorry for the last-minute request; this was just put on the agenda.

Best.
Eileen

Goldman, Sachs & Co.
85 Broad Street | 30th Floor | New York, NY | 10004
Tel 212 902 1163 | Fax 212 902 5445
email: Eileen.White@GS.com

Eileen M. White
Managing Director
Office of the Chairman

Goldman
Sachs

From: Blankfein, Lloyd (EO 85B30)
Sent: Tuesday, July 31, 2007 6:55 PM
To: Montag, Tom
Subject: Re: Mortgage Derivative Collateral Disputes - 7/31 Update (COB 7/27 marks)

Make sure they prioritize weaker credits where our risk is threatening.

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----- Original Message -----
From: Montag, Tom
To: Blankfein, Lloyd
Sent: Tue Jul 31 18:52:53 2007
Subject: Fw: Mortgage Derivative Collateral Disputes - 7/31 Update (COB 7/27 marks)

7 billion of collateral disputes!!!

----- Original Message -----
From: Simpson, Michael
To: Viniar, David; Montag, Tom; Mullen, Donald; Sparks, Daniel L; Smith, Sarah; Lee, Brian-J (FI Controllers); Broderick, Craig; Rapfogel, Alan; Vince, Robin
Cc: O'Connor, Gavin; Armstrong, Phil; Kane, Nicola; Brafman, Lester R
Sent: Tue Jul 31 18:51:04 2007
Subject: Mortgage Derivative Collateral Disputes - 7/31 Update (COB 7/27 marks)

Over the past week the market has experienced continued volatility. As a result, there were a significant number of mark updates.
The overall derivative collateral dispute amount is now $7.0 billion.

The following reflects a high level reconciliation from our last update:

Date	Amount (in billions)	Comments
7/24 GS calls	3.0	Previous total derivative dispute level on
	(0.9)	Resolved disputes
	1.2	New disputes
	3.7	Net increase in previous disputes
7/31 GS calls	7.0	Current total derivative dispute level on

The following table represents the 10 largest disputes and their respective increases/decreases since our last update. All numbers are in millions.

Risk Party	Current Dispute	Inc/(Dec)		
AIG FINANCIAL PRODUCTS CORP	1,891		1,770	
CANADIAN IMPERIAL BANK OF COMMERCE...	[redacted]	[redacted]	[redacted]	[redacted]
CALYON...	[redacted]	[redacted]	[redacted]	[redacted]
UBS AG...	[redacted]	[redacted]	[redacted]	[redacted]
MORGAN STANLEY CAPITAL SERVICES INC.		348		
	118			
IXIS CORPORATE & INVESTMENT BANK	[redacted]	[redacted]	[redacted]	[redacted]
DEUTSCHE BANK AKTIENGESELLSCHAFT...	[redacted]	[redacted]	[redacted]	[redacted]
ABN AMRO BANK N.V....		215		161
SOCIETE GENERALE...	[redacted]	[redacted]	[redacted]	[redacted]
CITIBANK, N.A....	[redacted]	[redacted]	[redacted]	[redacted]
Sub-Total on Top 10 disputes	4,855		3,665	

The team is focused on all of these. The bulk of the disputes have detailed

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reconciliations as of COB 7/27 and we are in the process of reaching out to each of the counterparties.

We will update this distribution as we make progress.

If there are any question, please contact me directly.

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Tuesday, August 28, 2007 9:37 AM
To: Sparks, Daniel L
Subject: RE: Mark changes which are greater than 5% / greater than 10%

[redacted]

= Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Sparks, Daniel L
Sent: Tuesday, August 28, 2007 8:44 AM
To: Lehman, David A.
Subject: Re: Mark changes which are greater than 5% / greater than 10%

Yes - say I reviewed and am ok, and show him and ask for sign off from him

----- Original Message -----
From: Lehman, David A.
To: Sparks, Daniel L
Sent: Tue Aug 28 07:28:52 2007
Subject: RE: Mark changes which are greater than 5% / greater than 10%

Do you want me to reach out to Don on the greater than 10% ones?

From: Sparks, Daniel L
Sent: Monday, August 27, 2007 11:30 PM
To: Lehman, David A.
Subject: RE: Mark changes which are greater than 5% / greater than 10%

I got your v-mail and I'm fine

From: Lehman, David A.
Sent: Monday, August 27, 2007 6:44 PM
To: Sparks, Daniel L
Subject: Mark changes which are greater than 5% / greater than 10%

RMBS Mark changes which are greater than 5%

Description	Price Chg	client
LBMLT 2005-[redacted]	(5.0)	boc beijing
GSR 2005-[redacted]	(8.0)	boc beijing
GSAMP 2007-[redacted]	(8.0)	CCB CN
GSAMP 2006-[redacted]	(9.0)	bochk
GSAMP 2006-[redacted]	(8.0)	boc beijing
GSAMP 07[redacted]	(9.0)	bochk
GSAA 2005-[redacted]	(9.5)	boc beijing
GSAA 2006-[redacted]	(9.0)	boc beijing
GSR 2005-[redacted]	(7.0)	boc beijing

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LBMLT 2006-[redacted]		(7.0)	boc beijing
GSAA 2006-[redacted]	(9.1)		CCB CN
GSAA 2006-[redacted]	(7.1)		boc beijing
GSAMP 2006-[redacted]		(5.5)	boc beijing
GSAMP 2006-[redacted]		(5.5)	boc beijing
GSAMP 2006-[redacted]		(5.0)	boc beijing
FNR 05-[redacted]	5.7	Chunghwa Post	
GSR 2005-[redacted]	(35)	State Street	
GSAA 2006-[redacted]	(22)	Axon Financial	
GSAA 2006-[redacted]	(20)	Calyon ABS	
FFML 2005-[redacted]	(20)	Hong Kong ME	
CBASS 2006-[redacted]	(15)	Aladdin Capital	
GSAMP 2006-[redacted]	(13)	Swiss Re	
GSAMP 2006-[redacted]	(12)	E-SEC Lending	
GSAMP 2006-[redacted]	10	*UBS 3	
CBASS 2006-[redacted]	10	Delaware	
GSAA 2007-[redacted]	15	FSA	
RFMS2 2006-[redacted]	15	AIG (ME)	
GSAMP 2005-[redacted]	(5)	ACA	
LBMLT 2006-[redacted]	(5)	Hong Kong ME	
NCHET 2006-[redacted]	(5)	HK Daily	
GSAA 2006-[redacted]	5	Hong Kong ME	
GSAMP 2006-[redacted]	7	AIG (ME)	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

RMBS Mark changes which are greater than 10%

Description	Price Chg	client
LBMLT 2006-[redacted]	(19)	boc beijing
GSAMP 2006-[redacted]	(20)	boc beijing
CWL 06-[redacted]	(18)	ICBC China
MSHEL 2006-[redacted]	(15)	ICBC China
CWL 06-[redacted]	(14)	ICBC China
CARR 2006-[redacted]	(14)	ICBC China
GSAMP 2006-[redacted]	(12)	ICBC China
GSAMP 2006-[redacted]	(12)	ICBC China
WFHET 06-[redacted]	(10)	ICBC China
INDX 2005-[redacted]	(17)	uob asset mgmt
LBMLT 2005-[redacted]	(15)	boc beijing
GSR 06-[redacted]	(17)	uob asset mgmt
GSAA 2006-[redacted]	(17)	CCB CN
RALI 2006-[redacted]	(16)	boc beijing
INDX 2005-[redacted]	(12)	uob asset mgmt
GSAA 2006-[redacted]	(13)	CCB CN
MABS 2005-[redacted]	(13)	ICBC China
INDX 2005-[redacted]	(12)	uob asset mgmt
GSAA 2006-[redacted]	(11)	boc beijing
GSAA 2005-[redacted]	(12)	CCB CN
BSABS 2005[redacted]	(10)	ICBC China
GSAA 2006-[redacted]	(10)	boc beijing

CDO mark changes (5 and 10pts)

Description	CLIENT	Prc Chg
ADROC 2005-[redacted]	HongKong	(10.0)
ADROC 2005-[redacted]	Winchester	(5.0)
CAMBR 7A [redacted]	CIBC	(5.0)
FORTD 2007-[redacted]	CIBC	(5.0)

ABACUS mark changes (5 and 10 pts)
ABAC 2006-10A J Win Cap (10pts)

From: Sparks, Daniel L
Sent: Thursday, June 21, 2007 7:53 AM
To: Brafman, Lester R
Subject: Re: Repo

Kind of stunning - but we are hearing it

----- Original Message -----
From: Brafman, Lester R
To: Sparks, Daniel L
Sent: Thu Jun 21 07:51:13 2007
Subject: Re: Repo

Would have thot that bsam event would provide reasonable explanation as to why our marking and haircuts r ok

---
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Lehman, David A.; Gasvoda, Kevin; Swenson, Michael; Brafman, Lester R
Sent: Thu Jun 21 07:46:50 2007
Subject: Re: Repo

There are a few positions where repo either feels a put was agreed to or the department actually has agreed to it. Whether we do it or money mkts does it - the firm still has it and we need to be diligent on marks and haircuts. We also finance people in the warehouse business - notably basis and cbass who we have been margin calling (appropriately) a fair amount lately.

For very important trades, we should consider it. Kevin, can you circulate the list of bonds to this group.

Also, sales is making significant noise about gs notable conservatism in marking and haircuts.

----- Original Message -----
From: Mullen, Donald
To: Lehman, David A.; Sparks, Daniel L; Gasvoda, Kevin; Swenson, Michael; Brafman, Lester R
Sent: Thu Jun 21 07:37:52 2007
Subject: Re: Repo

We should discuss. Wjat kind of cdo?

----- Original Message -----
From: Lehman, David A.
To: Sparks, Daniel L; Mullen, Donald; Gasvoda, Kevin; Swenson, Michael; Brafman, Lester R
Sent: Thu Jun 21 07:23:01 2007
Subject: Repo

Yesterday we asked the repo desk to finance a CDO position that we were looking to sell to a client. While the trade with the client did not happen, the repo desk would have wanted

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the mortgage department to write a "put" on the CDO bonds where we would own the bonds @ the mark price minus the haircut in the event the bonds went south and the risk was put back to GS.

I know this issue has come up in the past but we should discuss.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

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Disclaimer:

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From: Deng, Daniel
Sent: Monday, May 21, 2007 9:39 PM
To: Chaudhary, Omar; Chin, Edwin; Swenson, Michael; Gasvoda, Kevin; Lehman, David A.; Lee, Jay
Cc: Yang, Zhenyu; Shao, Wenbo; Deng, Daniel
Subject: RE: Mark to market prices

Dear comrades, thanks vm for help on this... cheers

-----Original Message-----
From: Chaudhary, Omar
Sent: Tuesday, May 22, 2007 9:38 AM
To: Deng, Daniel; Chin, Edwin; Swenson, Michael; Gasvoda, Kevin; Lehman, David A.; Lee, Jay
Cc: Yang, Zhenyu; Shao, Wenbo
Subject: RE: Mark to market prices

Will send to you in a second via FICC-opps

-----Original Message-----
From: Deng, Daniel
Sent: Tuesday, May 22, 2007 10:35 AM
To: Chin, Edwin; Swenson, Michael; Gasvoda, Kevin; Lehman, David A.; Lee, Jay; Chaudhary, Omar
Cc: Yang, Zhenyu; Shao, Wenbo; Deng, Daniel
Subject: RE: Mark to market prices

Thanks vm for the efforts and we do appreciate. Will make sure client understand we made great effort here.

And Cud u pls show indicative MTM price for the following bonds as well?

NCHET 06-[redacted]
GSAMP 06-[redacted]
GSAMP 06-[redacted]
CBASS 06-[redacted]
GSAMP 06-[redacted]

thanks

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Chin, Edwin
Sent: Tuesday, May 22, 2007 7:40 AM
To: Deng, Daniel; Swenson, Michael; Gasvoda, Kevin; Lehman, David A.; Lee, Jay; Chaudhary, Omar
Cc: Yang, Zhenyu; Shao, Wenbo
Subject: RE: Mark to market prices

After much discussion internally, we will improve our bid to 98-00 given the market color we have observed in the past two days. The markdown was mostly a reaction to the rating agency downgrade and partly reflected the illiquidity of the position, but upon further analysis we have gotten more comfortable with the risk position and agree it should be marked at a higher price. However, we reserve the right to revisit the valuation for month-end upon the full release of the May trustee report.

-----Original Message-----
From: Deng, Daniel
Sent: Monday, May 21, 2007 11:58 AM

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Wall Street & The Financial Crisis
Report Footnote #2164

Confidential Treatment Requested by Goldr

To: Chin, Edwin; Swenson, Michael; Gasvoda, Kevin; Lehman, David A.; Lee, Jay; Chaudhary, Omar
Cc: Yang, Zhenyu; Deng, Daniel; Shao, Wenbo
Subject: Fw: Mark to market prices

Pls see below request from BOC HK. We understand it s tough time for ABS trading, but as BOC HK is one of the key supporters for our ABS new business in the past, especially it bought second lien stuff mostly from GS with the belief that we have best asset/risk management in this area, can we try our best to show " better " indicative prices for them? As u can see in the the message below, client is under pressure of being questioned that they bought something looks really bad. I think we are not asking off the market price for them, but for a AAA bond with half year AVL, we showed a price of LBMLT 06 A A1 as of 95-00, it turns to be a spread of 1025 at 25 cpr, this is something hard for client to believe... It s hard time for both ABS investors and trading desk now, but for reputation and long run business relationship, we would like you to take these request seriously, we need them to think of GS as the best firm, and we need them to be our best client when next biz boom comes... Once again, we understand that market risk is always the key issue for trading desk, but PLS try to do something possible to make sure clients won't dissapointed on us when comparing us with our competitors. We discussed with Jay Lee and Omar on this, and also shared the key points with client this morning, seems client is still unhappy with our explanation... We would highly appreciate if a slightly aggressive price can be showed from trading desk. At least we can tell client that we tried our best we can for them in current market circumstance. Thanks vm and pls let us know how we can solve this more constructively... China team

----- Original Message -----
From: Yang, Zhenyu
To: Deng, Daniel
Sent: Mon May 21 23:06:48 2007
Subject: FW: Mark to market prices

Hi Zhenyu,

According to the instruction from our management, please kindly provide the following mark to market prices for our 2nd lien holdings (all GS as lead mgr):

NCHET 06-[redacted]
GSAMP 06-[redacted]
GSAMP 06-[redacted]
CBASS 06-[redacted]
GSAMP 06-[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

For the bid quote of LBMLT 06-A A1 your trader gave us earlier today, can you also ask for the 2-way bid-ask price for our reference?

Thanks and regards.

This is not a solicitation and does not take into account the investment objectives of individual clients. Prepared based upon info believed reliable. GS does not represent that this material is accurate/complete/up to date and accepts no liability if it is not. Views contained are solely those of the sender. GS and its affiliates, including persons involved in the preparation/issuance of this material, may have positions in, and buy/sell the securities/derivatives thereof, of companies mentioned in this material. GS PRICING IS PROPRIETARY; YOU AGREE NOT TO DISCLOSE & WE RELY ON THAT AGREEMENT WHEN FURNISHING (FULL TERMS: www.gs.com/disclaimer/pricinginfo).

From: Lehman, David A.
Sent: Monday, August 06, 2007 11:25 AM
To: Lee, Jay; Creed, Christopher J; Williams, Geoffrey
Cc: Chaudhary, Omar
Subject: RE: Tokyo Star

If we have not traded TWOLF or PTPLS recently (which we have not...), I think it makes the most sense for us to speak to the underlying portfolio moves. We have seen several "A" CDOs which back either deal trade since the past month.

I think it is important to point out that while our prices are actionable levels where they can buy/sell a specific amount if risk, other dealers do not price that way. In fact, we have been told by other accounts that other dealer's prices are not even indicative of the market

We cannot put this on paper - It concerns me that they want something specifically in writing

---

From: Lee, Jay
Sent: Monday, August 06, 2007 11:18 AM
To: Lehman, David A.; Creed, Christopher J; Williams, Geoffrey
Cc: Chaudhary, Omar
Subject: RE: Tokyo Star

Hm. If we have trade spots to point to, that's probably fine. However, if we just say "it's the market price, here's our bid for protection, step up or clam up", that will lead to a response along this vein:

1) Assuming Twolf itself hasn't traded recently and there are not markets on the security itself, what is the last CDO^2 price spot,
2) What characteristics do we focus on when comparing Twolf to the more transparent bond (eg, the number of underlying CDO's that have "tight triggers", the number of underlyers on the downgrade list and in risk of PIKing, market value coverage, attachment/detachment points, etc), and
3) Why do the other dealers all have higher marks on their CDO^2 if it's something as simple as "market price"?

From: Lehman, David A.
Sent: Tuesday, August 07, 2007 12:05 AM
To: Lee, Jay; Creed, Christopher J; Williams, Geoffrey
Cc: Chaudhary, Omar
Subject: RE: Tokyo Star

Our marking policy is a market price (bid and/or offer) -- We do not have a written methodology for pricing and we should tell them that

---

From: Lee, Jay
Sent: Monday, August 06, 2007 10:09 AM
To: Creed, Christopher J; Lehman, David A.; Williams, Geoffrey
Cc: Chaudhary, Omar
Subject: RE: Tokyo Star

I can ask, but I think other dealers have actually provided writeups on the specifics of the CDO^2, instead of general terms
We can ask for the general level of their marks from other dealers as well

---

From: Creed, Christopher J
Sent: Monday, August 06, 2007 11:07 PM
To: Lee, Jay; Lehman, David A.; Williams, Geoffrey
Cc: Chaudhary, Omar
Subject: RE: Tokyo Star

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Wall Street & The Financial Crisis
Report Footnote #2165

Confidential Treatment Requested by Gol

Will they share w/ us the written material given to them by the other banks?

What about the marks?

From: Lee, Jay
Sent: Monday, August 06, 2007 10:07 AM
To: Lehman, David A.; Creed, Christopher J; Williams, Geoffrey; ficc-spcdo
Cc: Chaudhary, Omar; Sugioka, Hirotaka
Subject: FW: Tokyo Star

FYI, Tokyo Star Bank continues to put a lot of pressure on us for something written on pricing methodology. They say they need something by **Tuesday NYC COB**, because they have a meeting on Wednesday morning with management.

We have made it clear that we cannot provide anything specifically related to Timberwolf or Point Pleasant, and that we can only provide methodology in general terms. We offered a conference call where we have the freedom to discuss the marks more specifically, but they insist that they need something written to show to their management when they provide their marks. They also say that other dealers have already sent information on their pricing methodology, and their marks are higher despite lower ratings.

From: Wada, Koji (FI)
Sent: Monday, August 06, 2007 11:13 AM
To: Lee, Jay; Chaudhary, Omar; Sugioka, Hirotaka
Cc: Ozawa, Fumiko
Subject: Tokyo Star

I talked with Mr. Lee today.

I proposed conference call with NY traders tomorrow morning but he denied and said they need our answer in writing first...

Tokyo Star will have their internal meeting with management side on this Wednesday, so pls push NY traders and compliance so that we can send it on **Wednesday morning Tokyo time**.

FYI, other dealers have already sent their pricing methods and MTMs.
Basically the prices were higher than ours even though the ratings are AA.
That is why they need our pricing method information as soon as possible.

I totally understand that this request is special and difficult for us to answer quickly but pls do your best.

Regards,

Koji Wada

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Wednesday, June 06, 2007 7:10 AM
To: Sugioka, Hirotaka
Subject: Re: Point Pleasant marks - request from Tokyo Star Bank

I can talk abt the credit tranches if need be. They are broadly off as well, as one woulkd expect.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Sugioka, Hirotaka
To: Lehman, David A.
Sent: Wed Jun 06 07:07:18 2007
Subject: RE: Point Pleasant marks - request from Tokyo Star Bank

Thanks

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, June 06, 2007 8:05 PM
To: Sugioka, Hirotaka
Subject: Re: Point Pleasant marks - request from Tokyo Star Bank

The other AAAs perhaps, I thk the credit bonds are too subjective.

The A2s were around 93 in April and 91 in May

Let me know if this is enough

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Sugioka, Hirotaka
To: Lehman, David A.
Sent: Wed Jun 06 06:58:13 2007
Subject: RE: Point Pleasant marks - request from Tokyo Star Bank

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2167

Confidential Treatment Requested by Goldm

Are we able to show our thoughts on market levels (April end and May end) for other tranches?

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, June 06, 2007 7:55 PM
To: Sugioka, Hirotaka
Subject: Re: Point Pleasant marks - request from Tokyo Star Bank

Let me know if u need anything else

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Sugioka, Hirotaka
To: Lehman, David A.
Sent: Wed Jun 06 06:41:22 2007
Subject: RE: Point Pleasant marks - request from Tokyo Star Bank

Thanks

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, June 06, 2007 7:40 PM
To: Sugioka, Hirotaka; Case, Benjamin
Cc: Chaudhary, Omar; Lee, Jay; Bieber, Matthew G.
Subject: Re: Point Pleasant marks - request from Tokyo Star Bank

Verbal only

Want to give them our thots on market levels, not "marks"

Ptpls A1s were valued +/- 95 @ the end of April and -/- 94 @ the end of May...similar to TWOLF, this bond has come off a bit

---

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Sugioka, Hirotaka
To: Case, Benjamin
Cc: Chaudhary, Omar; Lee, Jay; Lehman, David A.; Bieber, Matthew G.

Confidential Treatment Requested by Goldman Sachs

Sent: Wed Jun 06 06:17:58 2007
Subject: Point Pleasant marks - request from Tokyo Star Bank

Tokyo Star is requesting April-end and May-end marks on Point Pleasant.
Can you please provide what you can share?

Thanks.

-----Original Message-----
From: Case, Benjamin
Sent: Friday, May 25, 2007 9:30 AM
To: Sugioka, Hirotaka
Cc: Bieber, Matthew G.; Chaudhary, Omar; Lee, Jay; Lehman, David A.
Subject: RE: CDO spread request from Tokyo Star Bank

Sugi,

As requested, attached is a list of CDO-squared programs in the market over the past few years, along with the Bloomberg ticker for each deal:

Tricadia CDO - TRIC 2003-1A, TRIC 2004-2A, TRIC 2005-3A, TRIC 2005-4A, TRIC 2006-5A, TRIC 2006-6A, TRIC 2006-7A, TRIC 2007-8A Zais - ZING 1A, ZING 2A, ZING 3A, ZING 4A, ZING 5A, ZING 6A, ZING 7A, ZING 8A, ZING 9A Porter Square - PS 1A, PS 2A, PS 3A Stockbridge CDO - STKB 2004-1A Lenox CDO - LNX 2005-1A Class V Funding - CLSVF 2005-1A, CLSVF 2006-2A, CLSVF 2007-3A IMAC CDO - IMACC 2006-1A, IMACC 2007-2 Tahoma CDO - THOM 2006-1A, THOMA 2007-2A, THOM 2007-3A Visage CDO - VSGE 2006-1A, VSGE 2006-2A Centre Square - CENTS 2006-1A Mantoloking - MANTO 2006-1A Port Jackson - PORTJ 2007-1A Bantry Bay - BANTR 2007-1A Mars CDO - MARSC 2007-1A Neo CDO - NEOCD 2007-1A Squared CDO - SQRD 2007-1A

Also, here are the April month-end marks for the Timberwolf A1 tranches -- please relay verbally (only the valuations team is allowed to send valuations externally in email form):

TWOLF 2007-1A	A1A	100
TWOLF 2007-1A	A1B	100
TWOLF 2007-1A	A1C	99.7109375
TWOLF 2007-1A	A1D	99.69921875

Confidential Treatment Requested by Goldman Sachs

From: John.Nash@thomson.com
Sent: Tuesday, November 20, 2007 9:10 AM
Subject: ABS: Market Tense As Goldman Predicts RMBS CDO Problems To Drag On

New York, November 20. The US structured finance markets remained in a state of quasi paralysis with minimal liquidity and poor sentiment. The jitteriness of market participants was escalated by a report from Goldman Sachs analysts predicting that the mortgage markets crisis is likely to drag on and will have serious implications for a significant number of financial institutions.

"Write-downs and losses will continue to mount, fueling negative investor sentiment and keeping (equity) valuations under pressure," said William Tanona, Lori Applebaum and other GS analysts in a report to their clients. "Some companies will have to raise capital, others will have preserve capital, and managements will need to repair some seriously damaged balance sheets."

Citing the problems of the residential mortgage market and RMBS CDOs, Goldman downgraded Citigroup to SELL and recommended that investors avoid mortgage insurers and financial guarantors. The GS research staff estimated that industry-wide losses reflecting marking down of values in subprime mortgage CDO"s will approach $150 billion; reflecting $18bn of write-downs by financial firms for 2007.Q3; $22bn in Q4 and a remaining balance of $108bn in additional losses based on evaluations of current market prices.

The analysis assumes $221.4bn of subprime mortgage CDO exposure across the gamut of financial institutions: $82.1bn for US brokers plus C, JPM; $68.1bn financial guarantors, $35.9bn non-life insurers, $23.4bn US banks, $11.7bn mtge insurers and $0.2bn life insurers.

"The patient remains in the hospital," quipped a portfolio manager for a major buy-side shop. Asked by IFRmarkets if the ABS CDO sector will be able to retool, he said: "Sorry to say that the CDO market is dead." The ABX indices finished lower as market participants worried that the negative impact of the subprime debacle will be widespread. The closely followed [ABX 07-1 "BBB-" 389] lost 8.6/32nds to $17-27+. The [ABX 06-2 "BBB-" 242] declined 10.9/32nds to $17-16. Elsewhere, the [LCDX-9] leveraged loan index was down 0.33pt to $95.65, raising the yield by 11bp to 355bp. (John Nash).

****

John Nash
Senior Analyst
Thomson IFR - ABS
John.Nash@Thomson.com
Phone # : (646) 822 - 3575

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2169

Confidential Treatment Requested by Goldm

From: Lehman, David A.
Sent: Thursday, June 21, 2007 10:27 AM
To: Tourre, Fabrice; Gerst, David
Subject: RE: Post on ACA

great job getting this done

From: Tourre, Fabrice
Sent: Thursday, June 21, 2007 9:46 AM
To: Sparks, Daniel L; Cornacchia, Thomas; Bash-Polley, Stacy; Swenson, Michael; Lehman, David A.
Cc: ficc-mtgcorr-desk
Subject: Post on ACA

We are buying $5mm 10yr CDS protection on ACA Financial Guaranty Corp, monoline supplement, at 146bps. Thanks to Paul Mutter for the trade. This leaves us with $2.7mm of 3yr ACA CDS exposure following the large ABACUS 07-AC1 trade we executed last month.

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917[redacted]
Email: fabrice.tourre@gs.com

Goldman Sachs

Fabrice Tourre
Structured Products Group

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2173

From: Swenson, Michael
Sent: Friday, April 27, 2007 3:58 PM
To: Salem, Deeb
Subject: Re:

Yes

----- Original Message -----
From: Salem, Deeb
To: Swenson, Michael
Sent: Fri Apr 27 15:56:37 2007
Subject: RE:

are you available?

-----Original Message-----
From: Swenson, Michael
Sent: Friday, April 27, 2007 3:55 PM
To: Salem, Deeb; Chin, Edwin
Subject: Re:

Was that today?

----- Original Message -----
From: Salem, Deeb
To: Swenson, Michael; Chin, Edwin
Sent: Fri Apr 27 15:52:08 2007
Subject: RE:

6 of the BB's have been put on watch or downgraded by FITCH. many of the other deals such as CWL and BSABS are not rated by Fitch

sail, mabs, lbmlt, arsi, svhe, and heats

-----Original Message-----
From: Swenson, Michael
Sent: Friday, April 27, 2007 3:48 PM
To: Salem, Deeb; Chin, Edwin
Subject:

Is this true?

----- Original Message -----
From: kadler@bloomberg.net <kadler@bloomberg.net>
To: Swenson, Michael
Sent: Fri Apr 27 14:37:25 2007
Subject: IS IT TRUE THAT 5 OUT OF 20 DEALS IN ABX 06-1 HAVE HAD RATING A

IS IT TRUE THAT 5 OUT OF 20 DEALS IN ABX 06-1 HAVE HAD RATING AC TIONS BY FITCH?

Confidential Treatment Requested by Goldman

From: Bieber, Matthew G.
Sent: Tuesday, July 10, 2007 10:14 PM
To: Lin, Shelly
Subject: RE: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

Can you send me the list of names that gets you to 35%?

From: Lin, Shelly
Sent: Tuesday, July 10, 2007 10:14 PM
To: Sugioka, Hirotaka
Cc: Case, Benjamin; Bieber, Matthew G.
Subject: RE: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

Sugi -- Verbal only for now. We need to check with compliance tomorrow morning if they really want the spreadsheet.

From: Lin, Shelly
Sent: Tuesday, July 10, 2007 9:31 PM
To: Sugioka, Hirotaka
Cc: Case, Benjamin; Bieber, Matthew G.
Subject: RE: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

INTERNAL USE ONLY

TWolf actually has closer to 35% exposure to the list of CDOs in the SP Report.
Pt. Pleasant has around 21%.
Please see the attached spreadsheets. Do not forward externally.

<< File: INTERNAL ONLY - Timberwolf Closing Portfolio - SP Exposure.xls >> << File: INTERNAL ONLY Copy of SP exposure -Point Pleasant 2007-1 Warehouse AssetsClosing.xls >>

From: Sugioka, Hirotaka
Sent: Tuesday, July 10, 2007 8:53 PM
To: Lin, Shelly
Subject: FW: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

Found a new version on the web. Can you use this?

<< File: ArticlePDF.pdf >>

From: Sugioka, Hirotaka
Sent: Wednesday, July 11, 2007 9:39 AM
To: Lin, Shelly
Subject: FW: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

Can you provide the lists of CDOs (19% of Point Pleasant and 25% of Timberwolf mentioned below)?

From: Case, Benjamin
Sent: Wednesday, July 11, 2007 8:13 AM
To: Maltezos, George (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW)
Cc: Lehman, David A.; Egol, Jonathan; Bieber, Matthew G.; Chaudhary, Omar; Lee, Jay; Sugioka, Hirotaka
Subject: FW: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

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Wall Street & The Financial Crisis
Report Footnote #2186

George,

Below are some talking points for you related to today's price movements for Basis. Please note that the price moves sent to Basis (and the notes below) reflect the S&P actions that were announced this morning, but did not take into account the Moody's actions that were announced very late in the day here. We are still in the process of working through the Moody's actions.

Point Pleasant
- 19% of the total portfolio was listed in the attached S&P paper as having "material exposure" to the 612 RMBS that S&P placed on negative credit watch today (and stated on a conference call that they would be downgraded within days). If a portion of the assets with material exposure PIK (due to OC tests failing in the underlying CDOs from the RMBS downgrades and resulting OC haircuts), the Point Pleasant BBBs will be shut off from cashflow.

Timberwolf
- Approximately 25% of the total portfolio was listed in the attached S&P paper as having "material exposure" to the 612 RMBS that S&P placed on negative credit watch today (and stated on a conference call that they would be downgraded within days).

Fort Denison
- 17 RMBS assets (21% of the overall portfolio and 43% of the total RMBS component of the portfolio) were placed on negative credit watch today. In addition, 10 CDO assets (10% of the overall portfolio and 23% of the total CDO component of the portfolio) were on the list in the S&P paper. Asset downgrades in the Fort Denison portfolio cause a diversion of all principal proceeds and a portion (approximately 40%) of excess interest proceeds away from the equity to amortize down the Class C Loan. Depending on the amount of principal amortization on the asset portfolio in each period, this will cause an overall reduction of projected payments to the Fort Denison equity by 45-60%. Additionally, if/when the CDO assets in the portfolio PIK (due to OC tests failing in the underlying CDOs from to the RMBS downgrades and resulting OC haircuts), that will cause additional reduction in payments that will be borne by the equity.

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From: Egol, Jonathan
Sent: Tuesday, July 10, 2007 10:46 AM
To: ficc-mtgsales; ficc-fisales; ficc-creditsales
Cc: Mullen, Donald; Sparks, Daniel L; Brafman, Lester R; Saunders, Tim; ficc-mtgcdstrat; ficc-spgtrading; ficc-spcdo
Subject: INTERNAL USE ONLY: GS Cashflow/ABACUS CDOs Mentioned in S&P Report on CDO Exposure to Subprime RMBS

INTERNAL USE ONLY

From the tape:
*S&P IS REVIEWING "GLOBAL UNIVERSE" OF SUBPRIME CDOS
*S&P SAYS 218 CDOS HAVE SUBPRIME BONDS THAT MAY BE CUT
*S&P SAYS 168 RATED CDOS ARE BACKED BY BBB SUBPRIME BONDS

In connection with today's S&P report today on subprime RMBS criteria changes and associated credit review, the following Goldman Sachs CDO transaction have been flagged by S&P as having exposure to subprime RMBS. S&P has stated that is reviewing the global universe of CDOs for

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such exposure. Full report (PDF) attached.

<< File: ArticlePDF.pdf >>

Mezzanine ABS Cashflow CDOs:

- Fortius II
- Hudson Mezz I

High Grade ABS Cashflow CDOs:

- GSC ABS Funding 2006-3g
- West Coast Funding I

ABACUS Synthetic ABS CDOs:

- ABACUS 2006-11
- ABACUS 2006-14
- ABACUS 2007-AC1

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Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 357 3349 | mobile: +1 917[redacted] | fax: +1 212 428 1247
e-mail: jonathan.egol@gs.com

Goldman Sachs

Jonathan M. Egol
Structured Products Trading

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From: Gaddi, Robert
Sent: Friday, October 26, 2007 5:00 PM
To: Swenson, Michael
Subject: ABACUS 2007-AC1 -- Marketing Points (INTERNAL ONLY) [T-Mail]

This deal was number 1 in the universe of CDO's that were downgraded by Moodys and S&P. 99.89% of the underlying assets were downgraded.

INTERNAL ONLY

ABACUS 2007-AC1 - 2bn synthetic RMBS CDO

OVERVIEW
- Static portfolio consisting entirely of "Baa2"-rated midprime/subprime RMBS selected by ACA
- ACA is one of the largest and most experienced CDO managers in the world (see Overview of ACA below)
- Goldman's market-leading ABACUS program currently has $5.1bn in outstanding CLNs with strong secondary trading desk support

RELATIVE VALUE
- Reference Portfolio more conservative (360 WARF) than traditional mezz ABS CDOs (450-500 WARF)
- Capital Structure less aggressive than traditional mezz ABS CDOs (see comp below)
- Attractive spreads relative to ABS CDOs currently in the market (see comps below)

PORTFOLIO
- Granular portfolio of 90 equally-sized reference obligations selected by ACA
- Static reference portfolio fully-identified, with no reinvestment, removals, substitutions or discretionary trading
- 100% Baa2 Moody's-rated subprime/midprime (360 Moody's WARF)
- Diversified across 30 shelves and 24 servicers

STRUCTURE
- Tranches offered across the entire capital structure
- No IC/OC tests: ABACUS notes will be uncapped and non-deferrable
- Sequential Principal Paydown Sequence: no subordination is leaked to residual tranches under any circumstance
- No upfront structuring fees
- Investors will not bear WAC and/or available funds cap risk
- Projected 4- to 5- year tranche WALs at the reference portfolio pricing speed
- Tranches available in unfunded CDS format as well as in CLN format (in all major currencies)

OVERVIEW OF ACA MANAGEMENT LLC
- One of the largest CDO managers in the world
- Currently manages approximately $16bn in collateral assets across 22 CDOs
- No rated notes in any ACA's CDOs have ever been downgraded
- ACA team consists of 30 dedicated credit and portfolio management professionals with on average 13 years of relevant experience
- Portfolio Selection Fee structure aligns manager's incentive with investors'

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Wall Street & The Financial Crisis
Report Footnote #2188

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COMPs:

	ABACUS 2007-AC1	TABS 2007-7	Alpha Mezz CDO	Draco 2007-1
Pricing Date		Feb-07	Feb-07	Jan-07
Portfolio Advisor	ACA	Tricadia	Countrywide	
Declaration				
Underlying Portfolio				
WARF:	360	450	525	450
Lowest Moody's:	Baa2	Ba2	Ba2	
% NIG:	0%	5%	5%	0%
% ABS CDOs:	0%	22%	15%	3%
% RMBS:	100%	78%	85%	97%
Reinvestment Period:	N/A	4 years	4 years	5 years
Principal Repayments:	Sequential	Mod Pro-Rata	Mod Pro-Rata	Mod Pro-Rata
Interest Shorfalls:	N/A	Fixed Cap	Fixed Cap	Fixed Cap
Capital Structure				
Aaa/AAA C/E:	21.0%	25.7%	21.0%	23.4%
Aa2/AA C/E:	18.0%	15.0%	15.0%	17.4%
Aa3/AA- C/E:	13.0%		14.0%	
A2/A C/E:	10.0%	11.9%	9.4%	11.2%
Pricing				
Aaa/AAA Pricing:	L+[ ]	L+55	L+44	L+48
Aa2/AA Pricing:	L+[ ]	L+65	L+55	L+58
Aa3/AA- Pricing:	L+[ ]		L+62	
A2/A Pricing:	L+[ ]	L+275	L+160	L+225

Expected Timing:
Price Guidance & Red - w/o March 5, 2007

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Goldman Sachs

MEMORANDUM

To: Mortgage Capital Committee

From: Marc Flamino
Anthony Preisano
Erin Conroy

Cc: Jonathan Sobel, Dan Sparks, Kevin Gasvoda, Michelle Gill, Carey Baker, Robyn Huffman, David Stiepleman, Andrew Waskow, Patrick Welch, Dmitri Ponomarev

Date: February 13, 2006

Re: Request for renewal of the existing $1 billion ($500 committed, $500 uncommitted, 1-year, revolving warehouse facility secured by subprime residential mortgage loans for Fremont Investment and Loan

---

I. Transaction Summary

We are requesting approval for the renewal of the existing $1 billion ($500 committed, $500 uncommitted), 1-year, revolving warehouse facility secured by subprime residential mortgage loans (the "Facility") for a 1-year term for Fremont Investment and Loan ("Fremont"). The current Facility matures February 27, 2006. Fremont is an important relationship for Goldman Sachs ("GS"), and renewing the Facility will enable GS to lock in warehouse revenue and maintain our opportunities for purchasing whole loan packages and securitization mandates through 2006.

II. Economics

GS has generated revenue totaling $7.01 million in 2005 as detailed below. We generated $540,000 in warehouse usage and commitment fees in 2005. GS generated significant ancillary revenue throughout 2005 from 6 whole loans purchases and 5 deal mandates (2005-D revenue is recognized in 2006). We project increased revenue in 2006 of $9.54 million, attributable to the same warehouse commitment fee and a slightly lower usage fee, 3 securitization mandates (1 lead, 2 Co-Manager) and 5 to 7 whole loan package purchases. We anticipate average warehouse usage to be 5% to10% in 2006, consistent with the low usage (8% average) throughout 2005.

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Wall Street & The Financial Crisis
Report Footnote #2190

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Current Warehouse Facilities and Funded Balances

GS Warehouse Facilities

Current Outstanding as of 2/9/06

Commercial Clients

Client	Facility Size	Commitment Status	Current Outstanding

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Residential Clients

Client	Facility Size	Commitment Status	Current Outstanding
[redacted]	[redacted]	[redacted]	[redacted]
Countywide	1,000.00	Uncommitted	0.00
Fremont	1,000.00	$500 Committed	0.00
Long Beach	2,000.00	Committed	1,563.51
New Century (b)	350.00	Committed	0.00
[redacted]	150.00	Committed	0.00
[redacted]	50.00	Committed	0.00
Totals	**$6,560.00**		**$2,815.71**

ABS Clients

Client	Facility Size	Commitment Status	Current Outstanding
[redacted]	[redacted]	[redacted]	[redacted]
Totals			
Grand Totals	**$9,352.65**		**$3,792.27**

(a) Facility partially assigned to Commerzbank
(b) Facility approved by Capital Committee, not yet closed

Confidential Treatment Requested by Goldman Sachs GS MBS-E-001157940

From: Morris, Loren
Sent: Wednesday, March 14, 2007 3:22 PM
To: Gasvoda, Kevin; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

x-gs-classification: Internal-GS

I like the idea of DQ patterns. I'd like to list all deals of a certain status and use it as an inclusive list for prioritization. Thanks

From: Gasvoda, Kevin
Sent: Wednesday, March 14, 2007 4:17 PM
To: Morris, Loren; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

Great Loren, thanks. Delinq triggers may be one way to look at it but early deals are going to be so far from triggering I'd prefer, once we clear thru the emergency list, focusing on DQ pattern the first 4 months of a deal.

From: Morris, Loren
Sent: Wednesday, March 14, 2007 12:51 PM
To: Morris, Loren; Gasvoda, Kevin; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

Kelli informs us that the data is being loaded today for 06 FM 2 and then a sample can be pulled. Working with HBK on NC2 should not be distracting. Assuming the confidentiality agreement was signed, they can work more closely with Clayton. We're off to other vendors at this point. Bohan in next week.

Results of the Digital Risk review will be provided next Tuesday. Over 2,600 loans were reviewed, a significant amount of those are Long Beach and Fremont seconds. Seconds from FM1 are being re- reviewed internally. Contrary to Clayton's initial review, on average, about 50% of about 200 files look to be repurchase obligations. Tom Winslow is looking at the Long Beach loans that Long Beach rejected repurchase. He is finding fraud that had not initially been alleged. We'll forward those a flow basis to WaMu contact.

Looking to develop a comprehensive deal sheet, perhaps based on delinquency triggers to use for prioritization and status tracking. Envision this centralized in Repurchase Group. Let me know if you have any other questions or comments. Thanks

From: Morris, Loren
Sent: Wednesday, March 14, 2007 11:10 AM
To: Gasvoda, Kevin; Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael
Subject: RE: NC Visit

Kevin, I'll be able to update you shortly. Thank You for sending along this information.

From: Gasvoda, Kevin
Sent: Wednesday, March 14, 2007 10:13 AM
To: Murray, Kelli; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc; Dente, Michael; Morris, Loren
Subject: RE: NC Visit

Yes and thank you regarding 2nd liens, I think priority s/b on Fremont and Long Beach vs. NC on 2nd lien deals. Fremont first since they still have cash but may not for long. Do we have any early returns on Fremont 2nd lien deal scrubs?

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Wall Street & The Financial Crisis
Report Footnote #2199

Confidential Treatment Requested by Gol

W/ HBK on NC2 we need to not halt that entirely but should pull back resources there. We should also move 06FM2 up the priority list.

From: Murray, Kelli
Sent: Wednesday, March 14, 2007 10:06 AM
To: Gasvoda, Kevin; Gething, Christopher; Gill, Michelle
Cc: Flamino, Marc
Subject: RE: NC Visit

As you know, we have an extensive re-underwrite review underway on 06 NC2, and also other NC loans in the 2nds deals that are in the pipeline for scrubs. Should we change course at all here given the fact NC can't pay? Keep in mind, we're spending ~ $250/loan for these scrubs. Please give us some guidance here.

Thanks.

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From: Gasvoda, Kevin
Sent: Tuesday, March 13, 2007 10:45 PM
To: Larson, Erika L.; Gething, Christopher; Murray, Kelli; Gill, Michelle
Cc: Knox, Deana C..; Flamino, Marc
Subject: RE: NC Visit

Good report, thanks. I spoke to Richard Cimino (runs servicing) and he was very constructive and wants to be helpful.

Assume they will not be able to buy back any epd's so we need to work w/ them to make sure our loans are getting the epd attention.

Thanks

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Larson, Erika L.
Sent: Tuesday, March 13, 2007 9:31 PM
To: Gasvoda, Kevin; Gething, Christopher; Murray, Kelli; Gill, Michelle
Cc: Knox, Deana C..; Flamino, Marc
Subject: RE: NC Visit

On-Site Visit

- Very receptive & accommodating to my visit ([redacted] collection mgmt), in an office w/system access & freedom to come & go and to meet w/department managers
- Overall feeling I received on-site is "normal servicing environment". Per [redacted] let 100 + employees go about a month ago - decent amount of empty cubicles & offices…
  - Collection mgr trying to keep employees focused on job at hand - met in small groups today to let them ask their questions (most likely not get answers) so they can get back to focusing on collecting
- Front end collections (FPD & <31 day dlq) -
  - FPD - tenured collectors - overall cure ratio = 87%
  - At day 17 & no contact - Skip tracing data file out to vendor, Marketing dept contacting brokers for add'l contact info & Door Knocker campaign (NCCI) starts
- Delinquency/Collection #s - received some initial rpting numbers (see below). Meeting w/Default Rpting Wed morn to discuss specific rpting requests

- Also, going to setup details around special call campaign for our FPDs & EPDs
- Investor Acctg/Rpting -
  - Appears issue with the wires coming to GS are due to delays in moving loans into 07-NC1 inv code - loans did not get moved from GS to 07-NC1 until 3/8/07
  - Meeting w/mgr tomorrow afternoon to ensure all loans moved to appropriate investor code for rpting & remitting to Master Servicing going forward.
  - Also need to determine how we want to handle the rpting for the Dec15 group of loans that transferred to Avelo - normally NC should be responsible for 1st rpting since they were servicing as of 2/28.

DAILY DELINQUENCY REPORT BY INVESTOR
#133 - Goldman whole loans (Feb28 & Mar5) & dlq securitized loans (Dec28 & Jan30)
#437 - 07 NC1

As of 03/10/07

	00133	133			00437	437
	#	$	% #	% $	#	$
0-30	808	169,890,640	20.35%	21.18%	3,310	685,713,
31-59	303	59,897,913	7.63%	7.47%		
60-89	91	19,215,315	2.29%	2.40%		
90+	20	4,512,134	0.50%	0.56%		
CUR	2,232	423,222,984	56.22%	52.77%	3,374	586,952,
FPD	516	125,248,513	13.00%	15.62%		
Total	3,970	801,987,499	2.40%	2.64%	6,684	1,272,666,

As of 03/12/07

	00133	133			00437	437
	#	$	% #	% $	#	$
0-30	651	137,162,122	16.46%	17.17%	2692	565,147,
31-59	289	57,545,409	7.31%	7.21%	6	1773
60-89	92	19,288,271	2.33%	2.42%	2	161
90+	20	4,512,134	0.51%	0.56%		
CUR	2,498	480,767,979	63.16%	60.20%	3995	706935
FPD	405	99,407,179	10.24%	12.45%		
Total	3,955	798,683,093	2.40%	2.64%	6695	1,274,018,

Let me know if you have any questions or requests.

Thanks.

Erika Larson
Goldman, Sachs & Co
727[redacted]

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From: Gasvoda, Kevin
Sent: Tuesday, March 13, 2007 6:34 PM

To: Larson, Erika L.; Gething, Christopher; Murray, Kelli; Knox, Deana C..
Cc: Flamino, Marc; Gill, Michelle
Subject: RE: NC Visit

Terrific thanks. Since they are not going to pay our epd's we need to have fewer EPD's! Pls push them to make the special calls.

thnx

From: Larson, Erika L.
Sent: Tuesday, March 13, 2007 6:30 PM
To: Gething, Christopher; Murray, Kelli; Knox, Deana C..
Cc: Gasvoda, Kevin; Flamino, Marc; Gill, Michelle
Subject: RE: NC Visit

Deana,
I spoke with the FPD/EPD Collection VP & he can run a special campaign on our EPD loans. I know you're still working on a settlement for the DEC28 trade but it would be benefical to run these through. He's going to pull the loans he shows as EPD for GS but I would like to compare to our list. Can you send me the loan level for the Dec28 EPD's?
I'm also having him include the loans from the Jan30 trade that tentative qualify today - they have through Thursday (45 days) to pay.

All,
I'll send an update on other items regarding my visit later tonight.

Thanks.

Erika Larson
Goldman, Sachs & Co
727-[redacted]

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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From: Gething, Christopher
Sent: Saturday, March 10, 2007 8:45 AM
To: Murray, Kelli; Knox, Deana C..
Cc: Larson, Erika L.; Gasvoda, Kevin; Flamino, Marc; Gill, Michelle
Subject: RE: NC Visit

Thanks Kelli, keep these guys on all email in this regard

From: Murray, Kelli
Sent: Friday, March 09, 2007 9:41 PM
To: Knox, Deana C..
Cc: Gething, Christopher; Larson, Erika L.
Subject: NC Visit

Deana,

We're scheduled for Erika to be on site at NC Tues-Thurs of next week. Don't know if you have any EPD needs she can help you with while on site, but to the extent you need anything, we should get together first thing Mon morning.

Thanks.

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MEMORANDUM

To: Mortgage Capital Committee

From: Marc Flamino, Anthony Preisano, Ibrahim Majeed, Jin Kim, Matthew Viani

Cc: Dan Sparks, Kevin Gasvoda, Michelle Gill, Carey Baker, David Stiepleman, Andrew Waskow, Patrick Welch

Date: February 20, 2007

Re: Request for renewal of the existing $1 billion ($500 committed, $500 uncommitted), 1-year, revolving warehouse facility secured by subprime residential mortgage loans for Fremont Investment & Loan

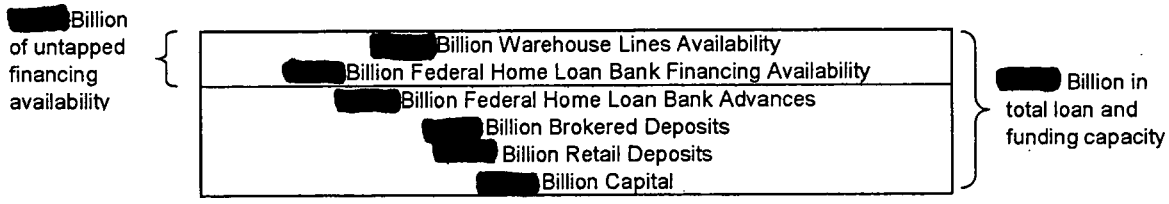
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I. Transaction Summary

We are requesting approval for the renewal of the existing $1 billion ($500 committed, $500 uncommitted), 1-year, revolving warehouse facility secured by subprime residential mortgage loans (the "Facility") for a 1-year term for Fremont Investment & Loan ("Fremont"). The current Facility matures February 26, 2007.

Fremont relies primarily on deposits and advances from Federal Home Loan Bank of San Francisco ("FHLB") to finance its originations. Because these sources offer less costly sources of funds compared to Fremont's existing warehouse facilities, Fremont uses the Facility as backup liquidity and does not expect to draw on the Facility in normal course of business to finance its loan originations. In the past, Fremont has used the Facility in cases where they have sold whole loans to Goldman Sachs Mortgage Company ("GSMC") by temporarily moving the purchased loans onto the Facility for a week or less prior to settlement of the loan purchase to facilitate the settlement process. In addition, Fremont has also used the Facility to move loans prior to transferring them to a securitization where GS is the lead underwriter. Below is a summary of Fremont's sources of funds as of September 30, 2006.

Capital and Liquidity Capacity (as of 9/30/06)



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Fremont is an important relationship for Goldman Sachs ("GS"), and renewing the Facility will enable GS to lock in warehouse revenue and maintain our opportunities for purchasing whole loan packages and securitization mandates through 2007.

II. Current Warehouse Facility Terms

Fremont will report origination volume of $32.6 billion for 2006. Their warehouse terms are below:

- Annual Commitment Fee: 10 bps on the committed amount of $500mm ($500K)
- Advance Rate: 90% of market value, capped at par (10% haircut is three times our normal level)
- Wet Funding: None
- Usage fee: L + 40 bps
- Recourse: Full recourse to Fremont Investment & Loan
- Mark-to-Market: GS has ability to mark collateral to market at its sole discretion

III. Economics

GS has generated revenues totaling $13.38 million in 2006 of which $620,000 came in the form of warehouse usage and commitment fees (see below). We project revenue in 2007 of $11.25 million, attributable to the same warehouse commitment fee and usage fee, as well as 3 securitization mandates (1 lead, 2 Co-Manager) and $3 billion in whole loan package purchases. We anticipate average warehouse usage to be 5% to10% in 2007, consistent with the low usage (9.2% average) throughout 2006.

2006 Warehouse & Ancillary Revenue

($mm) Warehouse	Revenue
Commitment Fees	[redacted]
Warehouse Usage [2]	[redacted]
Whole Loans [1]	
6 packages from GSAMP 2006-FM1 [redacted]	[redacted]
1 package from GSAMP 2006-FM3 ([redacted])	[redacted]
Securitizations	
FHLT 2006-A (Co-Manager)	[redacted]
FHLT 2006-C (Co-Manager)	[redacted]
FHLT 2006-B II (Co-Manager)	[redacted]
FHLT 2006-D (Co-Manager)	[redacted]
FHLT 2006-E (Lead-Manager)	[redacted]
Total	[redacted]

2007 Projected Warehouse & Ancillary Revenue

($mm) Warehouse	Revenue
Commitment Fees	[redacted]
Warehouse Usage [2]	[redacted]
Whole Loans [1]	
Projected Subprime/Second Lien Purchases ($3 billion)	[redacted]
Securitizations	
Projected: 1 Lead Manager mandate [3]	[redacted]
Projected: 2 Co-Manager mandates [3]	[redacted]
Total	[redacted]

(1) Assuming 0.25% revenue

(2) Average usage in 2006 was 9.2%, at a spread of L + 40 bps. Same usage and terms assumed for 2007

(3) Revenue assuming average size $1BN at 25 weighted average bps per deal and 12.5% allocation on co-manager deals

IV. Pull-Through Rates

Below is a summary of the pull-through rates for the last three pools GSMC has purchased from Fremont.

Pull Through Rates (3 packages):

	# of loans	Dollar Value ($MM)	Drops as % of the Pool					
M5 Name			Total	Credit	Compl.	Credit/Compl.	Value	Other
FMT NOV 292006 COLLAT	3,218	738.57	9.56%	1.65%	1.27%	2.79%	4.52%	2.42%
FMT Dec282006	3,573	766.27	9.93%	2.68%	1.97%	4.19%	3.64%	2.32%
FMT Dec282006 2	894	265.73	10.93%	2.79%	1.59%	4.18%	4.43%	2.67%

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Fremont's pull-through rates are within range of other sub-prime originators that we have purchased significant sub-prime pools from in the past 3-6 months. Below are some weighted average pull-through rates for different originators.

Pull-Through Rates ($ millions)

Fremont		LownHome		New Century		NovaStar		Senderra		SouthStar	
Size	Pull-Through	Size	Pull-Through	Size	Pull-Through	Size	Pull-Through	Size	Pull-Through	Size	Pull-Through
$1,771	90%	$140	98%	$2,017	89%	$678	77%	$157	94%	$328	93%

To address issues relating to pull-through rates and EPD rates, Fremont has proactively established programs and underwriting guideline changes to enhance the quality of the loans they originate. Some of these changes include:

- Tightening of underwriting criteria, including elimination of 80/20 loans and greater restrictions on first-time homebuyers.
- Fraud training for its underwriters and establishment of an underwriter certification program.
- Implementation of Core Logic's LoanSafe system to help detect fraud.
- Review and identification of brokers with higher default rates.
- Running of AVM's for each loan.
- In-house appraiser review and additional diligence.
- Use of lesser of purchase price or appraised value for properties owned less than 12 months.
- Greater restrictions on maximum allowable LTV for properties listed for sale for greater than 90 days.

As a result of these changes, Fremont hopes to realize a decreasing level of first payment defaults on its loans production, which will result in lower levels of loan repurchases in 2007.

V. Credit Review

	Fremont General Corporation	Fremont Investment & Loan	Recent Actions
S&P	B+ / Stable	BB- / Stable	Upgrade – Sept 20, 2005
Moody's	B2 Stable	B1 / Stable	Upgrade – Sept 20, 2005
Fitch	B+ / Negative	BB / Negative	Outlook Stable to Negative – Jan 25, 2007

Key credit strengths include:

- **Diversified sources funding.** The company has a more diversified funding mix relative to other warehouse borrowers given its access to FDIC-insured deposits and FHLB borrowings. Although jumbo (non-core) deposits comprise slightly higher portion of total deposits every year, the total amount of deposit funding has grown each year and reached $9.61bn as of 09/06 (or 76% of total funding).
- **High levels of capital.** Fremont holds substantially more capital against its operations than most peers [redacted] although capital levels have come down in recent periods. As of 09/06, Fremont Investment & Loan had a Tier 1 Leverage ratio of [redacted] (normal FDIC requirement for this ratio is [redacted]).
- **Regulatory oversight.** As an industrial bank Fremont Investment & Loan is regulated by the California Department of Financial Institutions and the FDIC.
- **Strong asset quality metrics.** [redacted] On the residential real estate side, interest-only loans declined to 7.6% of production from 25.7% in 09/05 and the 40/30 and 50/30 products were 21% and 20.6% of production respectively in 09/06. The average FICO score of their residential portfolio is 627, which is on the high side for a sub-prime lender.

Key concerns:

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- **Declining profitability.** Profitability metrics deteriorated significantly in 2006; return on average assets dropped to 0.87% for 09/06, from 3.63% in 09/05 and 4.20% in 2004. The company has informed us that they will post a loss of $27.7mm at the bank for 4Q2006 (results will be published on Feb 28) due primarily to a reserve build for EPD claims (there will be an additional loss posted on a consolidated basis due to write downs of residual values at the holding company). They have also informed us they expect to post a loss in 1Q07 because of low gain on sale margins. The company is forecasting to be modestly profitable again in 2Q07 but that is heavily dependent on a rebound in market pricing for loans.
- **Traditionally high risk lines of business.** Fremont operates in two traditionally high risk lines of business: commercial real estate (especially transition properties) and sub-prime residential real estate. Performance in these two business lines is somewhat correlated although the commercial side of the business remains profitable in the current market.
- **Minor geographic concentration in California and high single borrower concentrations in the CRE portfolio**. Although in the past years, commercial real estate loan concentration in California raised concern, portfolio has become more diversified recently with California accounting for 19%, Florida 15%, and New York 12%. Single borrower concentrations still exist as well; however they are somewhat less of a concern as Fremont's capital base has grown 30% since 2004 and over 90% since 2003.

VI. Recommendation

Based on the strong sponsorship, expected future revenues and GS' significant relationship with Fremont, we recommend Mortgage Capital Committee approve the renewal of the Facility.

Team Member	Department
Marc Flamino	FICC
Anthony Preisano	FICC
Ibrahim Majeed	FICC
Jin Kim	FICC
Matthew Viani	FICC

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From: Bruns, William
Sent: Wednesday, March 21, 2007 5:49 PM
To: Birnbaum, Josh
Subject: RMBS CDS Trade History 19Jan06 - 19Mar07 v3.xls
Attachments: RMBS CDS Trade History 19Jan06 - 19Mar07 v3.xls

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	Total Volume	GS Long Risk Volume	GS Short Risk Volume	Difference
AAA	2,505,000,000	700,000,000	-1,805,000,000	-1,105,000,000
AA	521,550,000	95,000,000	-426,550,000	-331,550,000
AA-	150,000,000	150,000,000	0	150,000,000
A+	155,800,000	0	-155,800,000	-155,800,000
A	3,427,190,000	1,843,020,000	-1,584,170,000	258,850,000
A-	1,953,152,000	724,652,000	-1,228,500,000	-503,848,000
BBB+	968,394,050	340,494,050	-627,900,000	-287,405,950
BBB	14,119,325,957	6,716,738,457	-7,402,587,500	-685,849,043
BBB-	19,414,222,469	9,122,937,500	-10,291,284,969	-1,168,347,469
BB+	62,500,000	8,000,000	-54,500,000	-46,500,000
BB	15,000,000	0	-15,000,000	-15,000,000
Total	**43,292,134,476**	**19,700,842,007**	**-23,591,292,469**	**-3,890,450,462**
Checks	43,292,134,476	19,700,842,007	-23,591,292,469	-3,890,450,462

Credit Market	External Trade ID	Risk Notional	GS Long Risk Notional	GS Short Risk Notional	Counterparty	CounterParty Ref	Denominated Effective	External Counterparty	External Counterparty Ref
GSAMP 2007-FM1 M8 / GSA07FM1 M8 (3622MAAN1)	SDB981372111A	-15000000	0	-15000000	Robert Gaddi (MTG Sales Book)	SLS GADDIR-MTG		BEAR STEARNS CREDIT (GSI, London, Bear Stearns Credit Products Inc.)	FIAM 00640502
GSAMP 2007-FM2 M9 / GSA07FM2 M9 (3622MHAP1)	SDB981611184A	-10000000	0	-10000000	Robert Gaddi (MTG Sales Book)	SLS GADDIR-MTG		RBS LDN (GSI, LONDON, The Royal Bank of Scotland Plc)	FIAM 00688283
GSAMP 2007-FM2 M8P / GSA07FM2 M8P (3622MHAY2)	SDB981611267A	-5000000	0	-5000000	Robert Gaddi (MTG Sales Book)	SLS GADDIR-MTG		BEAR STEARNS CREDIT (GSI, London, Bear Stearns Credit Products Inc.)	FIAM 00640502

Credit Market, continued	Matched Ext Trd Id	STP Id	Termination	Tradable Name	Tradable Type	Trade Date	comments	Rating	Sector
GSAMP 2007-FM1 M8 / GSA07FM1 M8 (3622MAAN1)	SDB981372111		25-Dec-36	TDS GSAMP07FM1M8 CYFB 00 2KC 0	Mtg Default Swap	18-Jan-07		BBB	RMBS S
GSAMP 2007-FM2 M9 / GSA07FM2 M9 (3622MHAP1)	SDB981611184		25-Jan-37	TDS GSAMP07FM2M9 X35X 00 JZJ 0	Mtg Default Swap	2Mar07		BBB	RMBS S
GSAMP 2007-FM2 M8P / GSA07FM2 M8P (3622MHAY2)	SDB981611267		25-Jan-37	TDS GSAMP07FM2M8P FNZ5 00 JZJ 0	Mtg Default Swap	2Mar07		BBB	RMBS S

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CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
West Coast Funding I, Ltd. - Issuer West Coast Funding I (Delaware) Corp. - Co-Issuer	6/30/2006	07/26/06	Initial Purchaser Synthetic Security Counterparty Calculation Agent under U.S. Dollar Cash Flow Swap Transaction II Collateral Agent Collateral Administrator Securities Intermediary Investment Advisor Trustee Principal Note Paying Agent Calculation Agent under Note Agency Agreement Note Transfer Agent Issuer Administrator Cashflow Swap Counterparty Interest Rate Swap Counterparty Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) TCW Asset Management Company Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Maples Finance Limited AIG Financial Products Corp AIG Financial Products Corp Moody's and S&P
Altius III Funding, Ltd. - Issuer Altius III Funding, Corp. - Co-Issuer	9/8/2006	09/28/06	Initial Purchaser Synthetic Security Counterparty Calculation Agent under U.S. Dollar Cash Flow Swap Transaction Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Collateral Manager Administrator and Share Trustee Mizuho International plc Rating Agencies Hedge Counterparty (Interest Rate Swap and Cashflow Swap)	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Bank of New York Trust Company (formerly JPMorgan Chase Bank, NA) Aladdin Capital Management LLC Maples Finance Limited Initial Purchaser Moody's and S&P Deutsche Bank AG, London Branch
Lochsong, Ltd. - Issuer Lochsong, Corp - Co-Issuer	9/8/2006	10/04/06	Initial Purchaser Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Rating Agencies Administrator and Share Trustee Synthetic Security Counterparty	Goldman Sachs & Co."GSCO" Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Moody's and S&P Maples Finance Limited Deutsche Bank AG, London Branch

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CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
Hudson High Grade Funding 2006-1, Ltd. - Issuer Hudson High Grade Funding 2006-1, Corp. - Co-Issuer	9/29/2006	11/01/06	Initial Purchaser Liquidation Agent Calculation Agent under U.S. Dollar Cash Flow Swap Transaction Synthetic Security Counterparty Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Income Notes Transfer Agent Administrator and Share Trustee Hedge Counterparty (Interest Rate Swap and Cashflow Swap) Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Maples Finance Limited UBS AG, London Branch S&P and Moody's
Hudson Mezzanine Funding 2006-1, Ltd. - Issuer Hudson Mezzanine Funding 2006-1, Corp - Co-Issuer	10/25/2006	12/05/06	Initial Purchaser Liquidation Agent Collateral Put Provider Senior Swap Counterparty Credit Protection Buyer Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Income Notes Transfer Agent Rating Agencies Administrator and Share Trustee	Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs International "GSI" Goldman Sachs International "GSI" Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Moody's and S&P Maples Finance Limited

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CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
Davis Square Funding VII, Ltd. - Issuer Davis Square Funding VII (Delaware) Corp. - Co-Issuer	11/3/2006	12/05/06	Initial Purchaser Calculation Agent under U.S. Dollar Cash Flow Swap Transaction Synthetic Security Counterparty Initial Purchaser Initial Purchaser Cashflow Swap Counterparty Interest Rate Swap Counterparty Trustee Collateral Agent Collateral Administrator Securities Intermediary Principal Note Paying Agent Investment Advisor Rating Agencies Issuer Administrator	Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" SG Americas Securities, L.L.C Societe Generale UBS AG, London Branch UBS AG, London Branch Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company TCW Asset Management Company Moody's and S&P Maples Finance Limited
Fortius II Funding, Ltd. - Issuer Fortius II Funding, Corp. - Co-Issuer	11/3/2006	12/07/06	Initial Purchaser Synthetic Security Counterparty Calculation Agent under U.S. Dollar Cash Flow Swap Transaction Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Collateral Manager Fiscal Agent Administrator and Share Trustee Hedge Counterparty (Interest Rate Swap and Cashflow Swap) Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Bank of New York Trust Company Aladdin Capital Management LLC Bank of New York Trust Company Maples Finance Limited UBS AG, London Branch Moody's and S&P

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CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
GSC ABS Funding 2006-3g, Ltd. - Issuer GSC ABS Funding 2006-3g (Delaware) Corp - Co-Issuer	12/7/2006	01/18/07	Initial Purchaser Synthetic Security Counterparty CP Note Placement Agent Calculation Agent under U.S. Dollar Cash Flow Swap Transaction II Calculation Agent under U.S. Dollar Cash Flow Swap Transaction I Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Collateral Manager Fiscal Agent Administrator and Share Trustee Hedge Counterparty (Interest Rate Swap and Cashflow Swap) CP Put Counterparty Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) GSCP (NJ) L.P Bank of America (formerly LaSalle Bank National Association) Maples Finance Limited AIG Financial Products Corp Nordea Bank Finland Plc Moody's and S&P
Hudson Mezzanine Funding 2006-2, Ltd. - Issuer Hudson Mezzanine Funding 2006-2, Corp - Co-Issuer	12/21/2006	02/08/07	Initial Purchaser Liquidation Agent Collateral Put Provider Credit Protection Buyer Rating Agencies Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Income Notes Transfer Agent Administrator and Share Trustee	Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs International "GSI" Moody's and S&P Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Maples Finance Limited

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CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
Fort Denison Funding, Ltd.- Issuer Fort Denison Funding, Corp. - Co-Issuer	2/10/2007	02/14/07	Initial Purchaser Calculation Agent under U.S. Dollar Cash Flow Swap Transaction Trustee Securities Intermediary Note Registrar Note Paying Agent Calculation Agent Note Authenticating Agent Custodian Collateral Manager Income Note Paying Agent Income Note Transfer Agent Administrator and Note Trustee Hedge Counterparty (Interest Rate Swap and Cashflow Swap) Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs & Co."GSCO" Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Basis Capital Securitisation Pty, Ltd. Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Maples Finance Limited AIG Financial Products Corp Moody's and S&P
Camber 7 plc - Issuer Camber 7 Corp - Co-Issuer		02/28/07	Initial Purchaser Portfolio CDS Counterparty CDS Put Provider Collateral Manager Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Income Note Transfer Agent Administrator Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs International "GSI" Cambridge Place Collateral Management LLC Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Wells Fargo Bank, National Association Deutsche International Corporate Services (Ireland) Limited Moody's and S&P

Confidential Treatment
Requested by Goldman Sachs

2/18/2008

GOLDMAN, SACHS & CO. - Goldman Sachs (MNY-07848)

CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
Anderson Mezzanine Funding 2007-1, Ltd. - Issuer	3/16/2007	03/20/07	Initial Purchaser	Goldman Sachs & Co."GSCO"
Anderson Mezzanine Funding 2007-1, Corp - Co-Issuer			Liquidation Agent	Goldman (transferred duties on 1/24/08 to another party)
			Credit Protection Buyer	Goldman Sachs International "GSI"
			Rating Agencies	Moody's and S&P
			Trustee	Bank of America (formerly LaSalle Bank National Association)
			Securities Intermediary	Bank of America (formerly LaSalle Bank National Association)
			Note Registrar	Bank of America (formerly LaSalle Bank National Association)
			Note Paying Agent	Bank of America (formerly LaSalle Bank National Association)
			Note Calculation Agent	Bank of America (formerly LaSalle Bank National Association)
			Note Authenticating Agent	Bank of America (formerly LaSalle Bank National Association)
			Custodian	Bank of America (formerly LaSalle Bank National Association)
			Fiscal Agent	Bank of America (formerly LaSalle Bank National Association)
			Income Note Transfer Agent	Bank of America (formerly LaSalle Bank National Association)
			Administrator and Share Trustee	Maples Finance Limited
Timberwolf I, Ltd. - Issuer	3/13/2007	03/27/07	Initial Purchaser	Goldman Sachs & Co."GSCO"
Timberwolf I, Ltd. - Co-Issuer			Synthetic Security Counterparty	Goldman Sachs International "GSI"
			Hedge Counterparty - Cashflow Swap	Goldman Sachs International "GSI"
			Trustee	Bank of New York
			Securities Intermediary	Bank of New York
			Collateral Administrator	Bank of New York
			Note Registrar	Bank of New York
			Note Paying Agent	Bank of New York
			Note Calculation Agent	Bank of New York
			Note Authenticating Agent	Bank of New York
			Custodian	Bank of New York
			Collateral Manager	Greywolf Capital Management LLC
			Fiscal Agent	Bank of New York
			Administrator and Share Trustee	Maples Finance Limited
			Rating Agencies	Moody's and S&P

Confidential Treatment
Requested by Goldman Sachs

2/18/2008

GOLDMAN, SACHS & CO. - Goldman Sachs (MNY-07848)

CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
Point Pleasant Funding 2007-1, Ltd. - Issuer Point Pleasant Funding 2007-1, Corp. - Co-Issuer	4/10/2007	04/18/07	Initial Purchaser Collateral Put Provider Initial Placement Agent Credit Protection Buyer Liquidation Agent Cashflow Swap Counterparty Rating Agencies Administrator and Share Trustee Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Fiscal Agent Income Notes Transfer Agent	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" DXS Corporate and Investment Bank DXS Corporate and Investment Bank Dillon Read Capital Management Rabobank Moody's and S&P Maples Finance Limited Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association)
Altius IV Funding, Ltd. - Issuer Altius IV Funding, Corp. - Issuer	4/27/2007	05/31/07	Initial Purchaser Synthetic Security Counterparty Calculation Agent under U.S. Dollar Cash Flow Swap Transaction Trustee Securities Intermediary Note Registrar Note Paying Agent Note Calculation Agent Note Authenticating Agent Custodian Collateral Manager Fiscal Agent Hedge Counterparty (Rate Swap and Cashflow Swap) Administrator and Share Trustee Rating Agencies	Goldman Sachs & Co."GSCO" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Bank of America (formerly LaSalle Bank National Association) Aladdin Capital Management LLC Bank of America (formerly LaSalle Bank National Association) AIG Financial Products Corp Maples Finance Limited Moody's and S&P
ABACUS 2005-1	03/02/05	5/2006	Initial Purchaser Protection Buyer Basis Swap Counterparty Collateral Put Provider Collateral Disposal Agent Notifying Party Credit Default Swap Calculation Agent Basis Swap Calculation Agent Trustee/Issuing & Paying Agent	Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Bank of America (formerly LaSalle Bank National Association)

Confidential Treatment
Requested by Goldman Sachs

2/18/2008

GOLDMAN, SACHS & CO. - Goldman Sachs (MNY-07848)

CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
ABACUS 2005-3	07/06/05	2,4,6,9/2006	Initial Purchaser Protection Buyer Basis Swap Counterparty Collateral Put Provider Collateral Disposal Agent Notifying Party Credit Default Swap Calculation Agent Basis Swap Calculation Agent Collateral Put Calculation Agent Trustee/Issuing & Paying Agent	Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" Bank of America (formerly LaSalle Bank National Association)
ABACUS 2005-CB1	11/10/05	4,8/2006	Initial Purchaser Protection Buyer Basis Swap Counterparty Collateral Put Provider Collateral Disposal Agent Notifying Party Credit Default Swap Calculation Agent Basis Swap Calculation Agent Collateral Put Calculation Agent Portfolio Advisor Trustee/Issuing & Paying Agent	Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" C-Bass Investment Management LLC Bank of America (formerly LaSalle Bank National Association)
ABACUS 2006-14	09/27/06	10/2006, 5/2007	Initial Purchaser Protection Buyer Basis Swap Counterparty Collateral Put Provider Collateral Disposal Agent Notifying Party Credit Default Swap Calculation Agent Basis Swap Calculation Agent Collateral Put Calculation Agent Trustee/Issuing & Paying Agent	Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" Goldman Sachs & Co."GSCO" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Capital Markets, L.P. "GSCM" Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP" Goldman Sachs International "GSI" Bank of America (formerly LaSalle Bank National Association)

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Requested by Goldman Sachs

2/19/2008

GOLDMAN, SACHS & CO. - Goldman Sachs (MNY-07848)

CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
ABACUS 2006-11	08/16/06	9/2006	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)
ABACUS 2006-15	09/20/06	10/2006	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)
ABACUS 2006-9	08/02/06	1/2007, 8/2006	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)

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2/18/2008

GOLDMAN, SACHS & CO. - Goldman Sachs (MNY-07848)

CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
ABACUS 2006-HGS1	11/03/06	11/2006	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Portfolio Advisor	Bear Stearns Asset Management Inc
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)
ABACUS 2006-12	04/05/06	4/2006	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)
ABACUS 2006-8	02/17/06	4/2006	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)

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Requested by Goldman Sachs

2/18/2008

GOLDMAN, SACHS & CO. - Goldman Sachs (MNY-07848)

CDO Transactions (July 1, 2006 - December 31, 2007) in which Goldman Sachs acted as underwriter

Deal Name	Pricing Date	Closing Date	Role	Party
ABACUS 2007-AC1	04/10/07	4/2007	Initial Purchaser	Goldman Sachs & Co."GSCO"
			Protection Buyer	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Counterparty	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Provider	Goldman Sachs International "GSI"
			Collateral Disposal Agent	Goldman Sachs & Co."GSCO"
			Notifying Party	Goldman Sachs Capital Markets, L.P. "GSCM"
			Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. "GSCM"
			Basis Swap Calculation Agent	Goldman Sachs Mitsui Marine Derivative Products, LP "GSMMDP"
			Collateral Put Calculation Agent	Goldman Sachs International "GSI"
			Trustee/Issuing & Paying Agent	Bank of America (formerly LaSalle Bank National Association)
			Portfolio Selection Agent	ACA Management

Confidential Treatment
Requested by Goldman Sachs

From: Jha, Arbind
Sent: Wednesday, September 20, 2006 4:32 PM
To: Birnbaum, Josh
Subject: Tried calling you

Sobel this morning mentioned in the Firmwide Risk Committee meeting that we are looking at CDO exit for our long ABX risk. Wanted to get some color on this, particularly in relation to how we are going to assemble/manufacture 80-100 names typically needed as CDO collateral (synthetic). Thanks.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2217

Goldman Sachs

Date: September 20th, 2006

To: Firmwide Risk Committee

Re: September 20th FRC Minutes

The September 20th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Lloyd Blankfein, Gary Cohn, Mark McGoldrick, Liz Beschel, Bob Litterman, Braham Cramer, Randy Cowen, and Don Mullen.

Divisional Reports

The businesses updated the committee on the [redacted]. A general discussion followed the updates.

Bill McMahon

- [redacted]

Rich Ruzika

- [redacted]

Jon Sobel

- ABX position underperforming by widening 50bp while single name BBB CDS are 10bp wider and cash is roughly flat. Divergence due to Macro Hedge Funds shorting the sector.
- Business working on first ever synthetic CDO with indices. May consist of 40 to 60 names.
- ABX risk down 30% to $1.6MM/bp. Business may increase position if arbitrage opportunity presents itself.
- Noted active securitization calendar.

Justin Gmelich

- [redacted]

Ed Eisler

- [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

GS MBS 0000004472

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2217

Dave Heller

- [redacted]

Marc Spilker

- [redacted]

Raanan Agus

- [redacted]

Any Other Business

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Sobel, Jonathan
Sent: Tuesday, October 24, 2006 6:26 PM
To: Sparks, Daniel L
Subject: Re:

I am upset by this email from Tom. Who do you think is feeding him the incorrect "chatter"?

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom; Sobel, Jonathan; Bash-Polley, Stacy
Sent: Tue Oct 24 18:07:00 2006
Subject: RE:

There's a lot more to it than the chatterers are factoring in. The team knows the mandate is to reduce, and that they better not miss trades by letting price get in the way. That said, there is an arb to cdo and we plan to be commercial about it.

From: Montag, Tom
Sent: Tuesday, October 24, 2006 6:03 PM
To: Sobel, Jonathan; Bash-Polley, Stacy; Sparks, Daniel L
Subject: RE:

there is always a trade missed on pricing :)

that said i just heard some chatter about people trying to make money out of the cdo and slowing down process etc and i think myself and others think we need to be less nickel and dime and more dollar based in reducing the risk

---

From: Sobel, Jonathan
Sent: Tuesday, October 24, 2006 4:28 PM
To: Montag, Tom; Bash-Polley, Stacy; Sparks, Daniel L
Subject: RE:

CDO should price tomorrow and is in good shape. P&L release should be in the neighborhood of $15mm. We also are starting to see some short covering, which we will sell into to further reduce our risk toward your 50% goal.

Is there something specific you're referring to in terms of our being too picky? Is there a trade we missed due to price?

From: Montag, Tom
Sent: Tuesday, October 24, 2006 4:19 PM
To: Bash-Polley, Stacy; Sobel, Jonathan; Sparks, Daniel L
Subject:

great on the this CDO getting rid of our ABX risk? when is the next one? lets be aggressive--when we are down 50% in risk then we can be pickier about making money

let me know

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2218

Confidential Treatment Requested by Goldm

Goldman Sachs

Date: **August 9th, 2006**

To: **Firmwide Risk Committee**

Re: **August 9th FRC Minutes**

The August 9th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Gary Cohn, Robert Litterman, Isabelle Ealet, Jacob Rosengarten, Rich Ruzika, Tom Riggs, Robin Vince, and Randy Cowen.

Divisional Reports

Ed Eisler

- [redacted]

Don Mullen

- [redacted]

Driss Ben-Brahim

- [redacted]

Jon Sobel

- ABX continues to perform well, but business feels it has run its course and so will reduce exposures.
- Business purchased $6BN prime residential loans and sold Alt-A residuals last week as well as CLO equity position.
- Business to come back to committee on 3 potential opportunities which include 2 European deals one a CMBS warehouse funding opportunity to both originators and purchasers, one a mortgage conduit, and the third a U.S. sale of commercial loans to REITS.

Dave Heller

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2220

onfidential Treatment Requested by Goldma

- [redacted]

Marc Spilker

- [redacted]

Raanan Agus

- [redacted]

Braham Cramer

- [redacted]

Any Other Business

None

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Viniar, David
Sent: Wednesday, September 20, 2006 4:18 PM
To: Montag, Tom
Subject: RE: ABX wider again today.

I believe $7mm

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, September 20, 2006 4:15 PM
To: Viniar, David
Subject: Fw: ABX wider again today.

Fyi. How much was global macro down today

----- Original Message -----
From: Sobel, Jonathan
To: Montag, Tom
Sent: Thu Sep 21 03:09:34 2006
Subject: RE: ABX wider again today.

I think most hedge funds have been right on this (i.e. they've been short), so it's a piling on effect that we're seeing rather than a risk unwind. We have reduced our risk by about 30% over the past week, but it's starting to feel overdone to me. The synthetic CDO seems like a viable takeout here; the feedback we've received has been positive thus far. To give you a perspective on relative performance over the past month or so:

--BBB- ABX index +55bp wider
--BBB- cash sub prime virtually unchanged with deals pricing and selling (similar to index)
--BBB- single name sub prime CDS +10 wider --Equities up --CMBS unchanged --Corp credit tighter

I believe the divergence has been caused by macro hedge funds shorting the index. A CDO would enable us to exploit the cheapening in the index vs. cash and single names.

-----Original Message-----
From: Montag, Tom
Sent: Wednesday, September 20, 2006 2:25 PM
To: Sobel, Jonathan
Subject: Re: ABX wider again today.

I thought u were selling

This will continue for awhile won't it

----- Original Message -----
From: Sobel, Jonathan
To: Montag, Tom
Sent: Thu Sep 21 02:11:39 2006
Subject: ABX wider again today.

Down about $10mm. I think this is getting overdone, and I will look to buy in the manager's account if this continues. Saw some buying from PIMCO yesterday, JPM Arb looking at some size now, CDO execution will take some time but seems quite reasonable.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2221

Confidential Treatment Requested by Goldma

GS MBS-E-009739145

Goldman Sachs

Date: September 9th, 2006

To: Firmwide Risk Committee

Re: September 9th FRC Minutes

The September 9th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Mark McGoldrick.

Divisional Reports

= Redacted by the Permanent Subcommittee on Investigations

Jon Sobel

- Risks at the lower end of their range.
- Securitization calendar picking up next week.
- Business continuing to reduce volatile ABX position.
- Business bid on $12BN sub-prime loans last week.

Don Mullen

- [redacted]

Rich Ruzika

- [redacted]

Ed Eisler

- [redacted]

Dave Heller

- [redacted]

Marc Spilker

- [redacted]

Confidential Treatment Requested by Goldman Sachs

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2221

Raanan Agus

- [redacted]

Any Other Business

Two presentations were given to the committee, one on High Risk Derivatives and one on the firm's [redacted]

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment
Requested by Goldman Sachs

From: Swenson, Michael
Sent: Tuesday, September 12, 2006 6:21 PM
To: Birnbaum, Josh
Subject: FW: ABX

From: Sobel, Jonathan
Sent: Tuesday, September 12, 2006 6:00 PM
To: Swenson, Michael
Cc: Sparks, Daniel L
Subject: ABX

The last post you gave me was this morning when you thought things were "firm". Now I find out that we're down $6mm on the day. I understand that things move, but you need to post me.

Also, I want to reduce this position.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2221

Confidential Treatment Requested by Gold

Goldman Sachs

Date: August 23rd, 2006

To: Firmwide Risk Committee

Re: August 23rd FRC Minutes

The August 23rd Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by Craig Broderick. Apologies were received from David Viniar, Jerry Corrigan, Sarah Smith, Raanan Agus, Braham Cramer, Bob Litterman, Jonathan Sobel, Marc Spilker and Robin Vince.

Divisional Reports

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Driss Ben-Brahim

- [redacted]

Bill McMahon

- Mortgages sold down another net 15% of their large ABX position. ABX liquidity has improved.
- Mortgages will bid on $12BN sub prime whole loans this week.
- [redacted]trade (whole loans) converted to agencies and sold.

Isabelle Ealet

- [redacted]

Rich Ruzika

- [redacted]

Don Mullen

- [redacted]

Dave Heller

- [redacted]

Confidential Treatment Requested by Goldman

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2221

- [redacted]

Robert Howard

- [redacted]

Jacob Rosengarten

- [redacted]

Any Other Business
None

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Sobel, Jonathan
Sent: Tuesday, September 19, 2006 4:16 PM
To: Swenson, Michael
Subject: ABX

We need to reach a conclusion on the viability of a structured exit.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2223

Confidential Treatment Requested by Gold

BEGBATES = GS MBS-E-012328194
ENDBATES = GS MBS-E-012328194
DOCTYPE : Email
FILEPATH : :\004\Michael_Swenson_060701-061231-part03_pst\Michael.Swenson_060701-061231 - Part 03\recovered
FILENAME : Updated ABX and Single -Name Opportunities.msg
FILEEXT : msg
SUBJECT : Updated: ABX and Single -Name Opportunities
AUTHOR : Swenson, Michael
RECIPIENT : Kamilla, Rajiv
Nagel, Kyle
Birnbaum, Josh
Salem, Deeb
Lehman, David A.
Egol, Jonathan
Rosenblum, David J.
Ostrem, Peter L
FILEMODDATE = 09/19/2006
FILEMODTIME = 13:46:42
EMAILSENDATE = 09/19/2006
EMAILSENIME = 13:23:36
EMAILRECDATE = 09/19/2006
EMAILRECTIME = 13:23:38
FULLTEXT : ï»¿Subject: Updated: ABX and Single -Name Opportunities
Location: TBD

Start: 9/19/2006 4:00:00 PM
End: 9/19/2006 4:30:00 PM

Show Time As: Tentative

Recurrence: (none)

Meeting Status: Not Responded

Required Attendees: Swenson, Michael; Kamilla, Rajiv; Nagel, Kyle
Optional Attendees:

Importance: Normal

ACCESSID = 1293
CREATEDATE = 02/01/2010
EDITTRAIL : 20100201 101213 Eas [5OHIZ1-1293] dg45782;

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2226

Subject:	Updated: ABX and Single -Name Opportunities
Location:	TBD
Start:	Tue 9/19/2006 4:00 PM
End:	Tue 9/19/2006 4:30 PM
Show Time As:	Tentative
Recurrence:	(none)
Meeting Status:	Not yet responded
Required Attendees:	Swenson, Michael; Birnbaum, Josh; Salem, Deeb; Lehman, David A.; Egol, Jonathan; Rosenblum, David J.; Ostrem, Peter L; Nagel, Kyle; Kamilla, Rajiv

Confidential Treatment Requested by Goldman Sachs

From: Swenson, Michael
Sent: Tuesday, September 19, 2006 9:35 PM
To: Sobel, Jonathan
Subject: ABX

Proceeding with the CDO solution, the CDO team has 60 single-names that they will be able to begin to build a deal around.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] | fax: +1 212 902 1691
e-mail: michael.swenson@gs.com

Goldman
Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2228

From: Li, John X
Sent: Monday, October 16, 2006 10:15 AM
To: Herrick, Darryl K
Subject: Call Arbind Jha 7-6356

Regarding Hudson Mezz risk issue

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2592 | Fax: 212-493-0251
e-mail: john.x.li@gs.com

John X. Li
Structured Products Group
Fixed Income, Currencies & Commodities

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2231

CDO *RatingFactors*
Inclusion of Tranched ABX Indices in ABS CDOs

AUTHORS[1]

Fei Fern Wang
AVP/Analyst
(212) 553-4621
FeiFern.Wang@moodys.com

Eric Kolchinsky
Team Managing Director
(212) 553-7882
Eric.Kolchinsky@moodys.com

CONTACTS:

New York

Yvonne Fu
Team Managing Director
(212) 553-7732
Yvonne.Fu@moodys.com

William May
Team Managing Director
(212) 553-3868
William.May@moodys.com

Jon Polansky
Team Managing Director
(212) 553-2657
john.polansky@ moodys.com

Brett Hemmerling
Investor Liaison
(212) 553-4796
Brett.Hemmerling@moodys.com

London

Gareth Levington
Team Managing Director
(44 20) 7772-5506
Gareth.Levington@moodys.com

Paris

Anne Le Henaff
Team Managing Director
(331) 5330-1067
Anne. LeHenaff@moodys.com

WEBSITE:

www.moodys.com

1 Jeremy Gluck contributed to this report as a research consultant.

CDO RatingFactors is a series of focused reports from Moody's Derivatives teams addressing Moody's views on important and evolving issues that arise in the CDO transactions rated by Moody's. Because of the complex and evolving nature of these transactions, Moody's believes there is a need for concise explanation of our views on specific matters, which these topical comments will provide on a regular basis.

INTRODUCTION

The advent of tranched ABS credit indices represents another milestone for the credit derivatives market. But while the trading of standardized tranches on a portfolio of ABS (exclusively Home Equity securities) provides new strategic opportunities for market participants, the inclusion of these new instruments in ABS CDO portfolios poses certain challenges.

These challenges revolve around the potential degree of overlap in ABS CDO collateral pools that can sharply increase pool-wide correlation. Coupled with the current environment, in which the new ABX-based tranches are trading at extremely wide spreads relative to similarly enhanced ABS CDO tranches, there is a risk that many ABS CDOs will see sharp increases in average pool-wide correlation through the purchase of the standardized ABX tranches in either synthetic or cash (credit-linked note) form.

What Are the New Tranched ABS Index Instruments?

The ABX credit indices were launched in January 2006. Each index includes 20 liquid Home Equity securities issued in the prior six months. The ABX 06-01 index is based on HE securities underwritten during the second half of 2005, the ABX 06-2 index on securities underwritten during the first half of 2006 and the ABX 07-1 index on securities underwritten during the second half of 2006. Unlike corporate credit indices, there is no overlap in underlying instruments between different series as each ABX series is associated with a single vintage.

The first tranched ABX indices ("TABX") began trading on February 14 of this year. At least initially, only the BBB and BBB- ABX sub-indices have been tranched. The standardized tranches reference the combination of the ABX 06-2 and ABX 07-1 collateral pools, for a total of 40 credits. The attachment/detachment points are set as follows:

Table 1
TABX Attachment/Detachment Points

BBB Reference Portfolio	BBB- Reference Portfolio
35-100	40-100
20-35	25-40
12-20	15-25
7-12	10-15
3-7	5-10
0-3	0-5

March 23, 2007

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2235

The Incentive to Include TABX in ABS CDOs

With the recent turmoil in the subprime mortgage market-the prices of the ABX indices have fallen dramatically over the past few months--the new TABX tranches are trading at very wide yields.

Given the yields at which the TABX tranches have been priced, CDO structurers and managers may perceive an opportunity to add the instruments to ABS CDO portfolios in order to enhance portfolio-average spreads. The tranches could potentially be added directly to synthetic and hybrid ABS CDOs in credit default swap form, or transformed into credit-linked notes for inclusion in cash-flow CDOs.

Moody's View About the Addition of TABX Tranches

So long as they are properly treated, the addition of TABX tranches to ABS CDO portfolios may not raise any concerns.

As with the inclusion of the ABX, our primary concern is with correlation. In the case of the TABX, our immediate focus is on capturing the correlation within the CDO. For example, Moody's wants to make sure that any CLNs that reference TABX are classified as being correlated to one another and to other related single name or index exposures in the CDO.

The key to capturing intra-CDO correlation is that any TABX exposure be properly identified. In general, collateral managers have wide discretion in classifying instruments that are incorporated into ABS CDO collateral pools. TABX tranches might, for example, simply be classified by the name of the vehicle which issued the CLN. Such a designation would fail to recognize that there could be other CLNs from other shelves which reference the same risk or that the CDO's portfolio could already be exposed to the names in the TABX, either through single name CDS or through direct exposure to the ABX.

Given the novelty of TABX, neither existing CDO indentures, nor Moody's CDOROM™ software that is used to model ABS CDO asset correlations, provides for a "TABX" category to address Moody's concerns on correlation. Thus even the most conscientious collateral manager may not have an existing mechanism to accurately characterize the correlations associated with TABX tranches.

Treatment in CDOs

In light of the potentially significant correlation impact of adding TABX tranches to ABS CDO collateral pools, Moody's will review such proposals on a case-by-case basis. The review will ensure that an appropriate set of asset correlations (e.g., 100% for TABX tranches based on the same collateral pools) is reflected in CDOROM. Therefore, Moody's asks that CDOs and other rated vehicles that wish to offer protection on the TABX either through a CLN or swap first come to Moody's to discuss the appropriate treatment within the CDO.

In the months ahead, we anticipate that we will modify CDOROM in order to facilitate the appropriate correlation treatment for TABX tranches. Until that time, we propose the following guidelines for existing and recent CDOs:

1. The aggregate exposure of the CDO to the TABX and the ABX should not exceed 2% for High Grade deals and 5% for Mezzanine deals. Additionally, the exposure to any vintage should not exceed 2%. The determination of vintage for the TABX should be on a look through basis. For example, a 2% exposure to the current TABX would imply a 1% exposure to each of the ABX 06-2 and the ABX 07-1.
2. To measure the correlation within the purchasing CDO:
   a. The TABX may be entered into CDOROM as a bespoke CDO (i.e., using a look-through approach in which each underlying HE tranche is entered into CDOROM individually) if such a CDO has the ability to add bespoke CDOs, or
   b. All products related to the ABX (TABX CLNs and swaps, ABX, single name CDS referenced in the various ABX) should use the term "ABX" in the "Transaction Name" field in CDOROM. (The Issue Date and the Key Agent fields may have to adjust to a single value in order for the CDOROM to function properly.)
3. All other indenture restrictions/rules, such as the discount purchase rules must apply.

Inter-CDO Correlations

In addition to intra-CDO correlations, Moody's is also concerned about the impact of the ABX and TABX on correlations between ABS CDOs (e.g., in a CDO squared or the CDO basket of an ABS CDO). The asset correlations assumed in CDOROM between ABS CDOs were developed using the data that was available at the time we performed the original correlation analysis - i.e., based on transactions backed by cash collateral, which is not easily replicated across deals.[2] More recently, with the growth of synthetics in ABS CDOs, it has become easier for multiple deals to have exposure to the same reference obligation. With the popularity of the ABX index, it comes as no surprise that Moody's has found that many recent transactions have exposure to the ABX in both index and single name form. Essentially, this means that inter-CDO correlations are increasing.

While intra-CDO correlation concerns can be treated using a look-through approach as mentioned earlier, addressing correlations between ABS CDOs is more difficult. When an ABS CDO contains both ABS-related positions as well as tranches of other actively managed CDOs, it is difficult to perform a look-through analysis on an ongoing basis because of the dynamic nature of each underlying CDO's portfolio. Moody's is currently undergoing a research project to study the overlaps in ABS CDOs and will adjust our ABS CDO correlations accordingly. Until the research project is completed, Moody's may consider look-through correlations for ABS CDOs in the initial rating process.

CONCLUSION

Moody's believes that the proliferation of standardized index products may increase the correlation within and between CDOs. Because the models currently used by Moody's do not contemplate products such as the ABX and TABX that may be infinitely replicated, we will shortly introduce refinements to our correlation framework and will solicit market comment on the proposal.

2 "Moody's Revisits its Assumptions Regarding Structured Finance Default (and Asset) Correlations for CDOs" June 27, 2005

Doc ID# SF95049

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4BL-5

From: Salem, Deeb
Sent: Sunday, April 29, 2007 2:33 PM
To: Swenson, Michael
Subject: Fw: AIG FP ABX basis trade

So annoying...its our book not his

Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Tourre, Fabrice
To: Swenson, Michael; Salem, Deeb; Chin, Edwin
Cc: ficc-mtgcorr-desk
Sent: Sun Apr 29 11:46:43 2007
Subject: RE: AIG FP ABX basis trade

Deeb/Ed/Mike: do you guys have any thought on this ? would like to be able to get back to AIG FP first thing Monday morning if possible. I think offering this trade at 1/2 point makes sense (can't imagine people would do a lot of work/go through this brain dammage for less than that), and just as an FYI, color from Andy Forster at AIG FP is the following (email that Neil forwarded to me on Friday, coming from Andy Forster and I quote):

"i think this is the basic version where you pay us like 50bps. the issue though is that this has some real risk and i wantto understand what the risks are. for example i think some bonds can step up but the index does not? also the single names all trade at different spreads so if a high spread name defaults we lose more in income than we stop paying on teh index etc etc . also something about delivery with the index only allowing one method?"

From: Tourre, Fabrice
Sent: Friday, April 27, 2007 5:40 PM
To: Swenson, Michael; Salem, Deeb; Chin, Edwin
Cc: ficc-mtgcorr-desk
Subject: AIG FP ABX basis trade

See attached the trade we could show to AIG FP to close the Hudson Mezz account. This account is long ABX and short single-name CDS. On a running basis, the account is net positive carry by 3bps -- however when looking closely at the combination of trades, the account is positive carry on 06-1 index and negative carry on 06-2 index. Question is at what price do we sell this position to remove the MtM vol risk of that account, as well as the basis risk -- the basis risks are the following:

-- positive basis: the single-name CDS are cancellable individually by the protection buyer at the step-up date
-- negative/positive basis: if 06-1 index amortizes / suffers writedowns faster than 06-2 index, the trade can become negative carry

I am suggesting we offer this trade to AIG at an upfront payment of $6mm to have AIG FP take the MtM risk (and we know it is a pretty big risk) as well as the amortization differential risk (pretty small in my mind).

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2239

Confidential Treatment Requested by Go

From: Herrick, Darryl K
Sent: Thursday, September 21, 2006 8:41 AM
To: Salem, Deeb; Swenson, Michael; Birnbaum, Josh; Ostrem, Peter L; Chin, Edwin
Subject: Locked Levels

We are close in talks with our counterparty on the super senior for the ABX CDO
Before we get execution, we need to show them levels on where we expect to lock in asset levels

So far we have levels from CMBS at +112

On ABX we want to show 1bp inside mids
ABX 2006-1 BBB @ +137
ABX 2006-1 BBB- @+250
ABX 2006-2 BBB @ +149
ABX 2006-2 BBB- @ +271

For the CDS given spread widening this week, we want to go with +120 for BBB flat and +220 for BBB-

Can you confirm we are good on the above levels?
This is key to complete our work today on the Super Senior tranche

DH

Darryl K. Herrick
CDO Structuring, Marketing and Principal Investments
Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004
Tel: 212-902-9305
Mobile: [redacted]
E-mail: darryl.herrick@gs.com

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Wall Street & The Financial Crisis
Report Footnote #2241

Confidential Treatment Requested by Gol

From: Herrick, Darryl K
Sent: Monday, October 02, 2006 2:15 PM
To: Swenson, Michael; Birnbaum, Josh; Salem, Deeb
Cc: Ostrem, Peter L; Sparks, Daniel L
Subject: RE: Hudson Mezz CDO: Agreed Upon Portfolio and Levels

That works
Given even composition between ABX 1 and 2, will get to the same spot from CDO investor's viewpoint

From: Swenson, Michael
Sent: Monday, October 02, 2006 1:53 PM
To: Herrick, Darryl K; Birnbaum, Josh; Salem, Deeb
Cc: Ostrem, Peter L; Sparks, Daniel L
Subject: RE: Hudson Mezz CDO: Agreed Upon Portfolio and Levels

Darryl we should use the 265 and 245 spread for ABX2 and ABX1 triple-B minus spreads and 145 and 130 for triple-B ABX2 and ABX1 triple-B spreads

From: Herrick, Darryl K
Sent: Monday, October 02, 2006 1:49 PM
To: Swenson, Michael; Birnbaum, Josh; Salem, Deeb
Cc: Ostrem, Peter L; Sparks, Daniel L
Subject: Hudson Mezz CDO: Agreed Upon Portfolio and Levels

<< File: Asset Portfolio 2006-10-2.xls >>
We plan to announce Hudson Mezzanine Funding tomorrow in the am for Europe, Asia and the US
I'm circulating around to everyone the CDO portfolio and spreads we will be showing investors and agencies, based on our agreed upon amounts and levels from last week
Please let me know if you have questions or comments
Darryl

Darryl K. Herrick
CDO Structuring, Marketing and Principal Investments
Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004
Tel: 212-902-9305
Mobile: 646-[redacted]
E-mail: darryl.herrick@gs.com

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2242

From: Swenson, Michael
Sent: Tuesday, September 19, 2006 9:31 PM
To: Cornacchia, Thomas
Cc: Birnbaum, Josh; Swenson, Michael
Subject: RE: Abx

Here are the points for your discussion:

On the ABX Side

1. Very crowded trade - guys talking their position in the media (ie Grants, NY Post). Could be very violent short covering rally because most of the shorts facing non-market to market vehicles (ie CDOs).

2. Expensive break-evens. Despite the recent sell-off most macro players are at best flat given the carry hurdle.

3. Relative Value - Underperform stocks, and corporate credit by 2 points/65bp in the past 6 weeks. Also, CMBX is 5bp tighter over the same period. The Philadelphia Housing Index is up approx 10% over this period.

4. Basis - Index to single-name basis is at the wides (ie 40bp at BBB- level). Index to cash is even more extreme at 70bp. Bids for cash deals remain strong and have barely widened.

5. CDO - we are going to price an innovative full capital structure $1+bb CDO deal with 60% of the risk in ABX (no one has done this before). At the current levels we produce equity at levels that are approximately 10% (in return) cheaper than a typical CDO.

6. Property Derivatives - press release tommorrow. More direct way for the macro community to express their negative views on house prices. We expect existing shorts to explore swapping out of ABX shorts into Prop Derivatives

Natural Buyers of Property Derivatives

1. Pension Funds

2. REITS

3. Insurance Companies

4. CDOs - we are going to create rated CDS-like contracts and do a CDO using these contracts - similar structure to CRISP

-----Original Message-----
From: Cornacchia, Thomas
Sent: Tuesday, September 19, 2006 5:20 PM
To: Swenson, Michael
Subject: Re: Abx

He wants to know who we believe will be natural buyer of new product

----- Original Message -----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2243

Confidential Treatment Requested by Goldm

From: Swenson, Michael
To: Cornacchia, Thomas; Birnbaum, Josh
Sent: Tue Sep 19 17:15:32 2006
Subject: RE: Abx

We are ready

-----Original Message-----
From: Cornacchia, Thomas
Sent: Tuesday, September 19, 2006 4:43 PM
To: Swenson, Michael; Birnbaum, Josh
Subject: Abx

I had conversation today - we have a 10 am call tomorrow morning - need to prep ahead of time

Confidential Treatment Requested by Goldman Sachs

From: Herrick, Darryl K
Sent: Sunday, October 08, 2006 1:12 PM
To: Shimonov, Roman; Chaudhary, Omar
Cc: Lee, Jay; Sugioka, Hirotaka; Mishra, Deva R.; Ganapathy, Mahesh; West, Ariane; Lee, Jung H.
Subject: RE: Hudson Mezz- VERBAL ONLY

Omar, I realize lack of manager may be tough hurdle for them. May be helpful to let Deeb and I get on a call with the investor and discuss our asset selection criteria and I can go through asset sale criteria. Let me know if that would be useful

From: Shimonov, Roman
Sent: Sunday, October 08, 2006 1:09 PM
To: Chaudhary, Omar
Cc: Lee, Jay; Sugioka, Hirotaka; Mishra, Deva R.; Herrick, Darryl K; Ganapathy, Mahesh; West, Ariane; Lee, Jung H.
Subject: Hudson Mezz- VERBAL ONLY

VERBAL ONLY

If we have not already responded to the inquiry below, the dollar price of the BBs assuming a spread of 600bps and a DM of 650bps is 98.30.

From: Chaudhary, Omar
Sent: Thursday, October 05, 2006 3:03 AM
To: Mishra, Deva R.; Herrick, Darryl K; Shimonov, Roman
Cc: Lee, Jay; Sugioka, Hirotaka
Subject: RE: Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (internal)

What is the approximate discount dollar price that equates to a par value coupon of L+600 on the Class E's with a DM of L+650?

Low delta chance we have interest from a private bank in Taiwan for this sort of security (though lack of manager is a big issue for them)...

From: GS Syndicate
Sent: Tuesday, October 03, 2006 10:54 AM
To: ficc-spgasia
Cc: ficc-spgsyn; Ostrem, Peter L; Herrick, Darryl K; Mishra, Deva R.
Subject: Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external)

Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external)
Lead Manager & Sole Bookrunner: Goldman Sachs
Liquidation Agent: Goldman, Sachs & Co.
$2.0bn Static Mezzanine Structured Product CDO

Class	Size($mm)	%Deal	Mdy/S&P	WAL(y)	Init OC	Guidance
S	[ ]	N/A	Aaa/AAA	[2.8]	N/A	N/A
Sen Swp	1,200	60.0%	Aaa/AAA	[3.7]	166.7%	N/A
A1	150	7.5%	Aaa/AAA	[2.0]	133.3%	1mL+TBD
A2	150	7.5%	Aaa/AAA	[6.0]	133.3%	1mL+TBD
B	160	8.0%	Aa2/AA	[5.1]	120.5%	1mL+TBD
C	100	5.0%	A2/A	[5.2]	113.6%	1mL+TBD
D	150	7.5%	Baa2/BBB	[5.2]	104.7%	1mL+TBD
E	30	1.5%	Ba1/BB+	[5.3]	103.1%	1ML+TBD
PS	60	3.0%	Not Rated	N/A	N/A	**CALL DESK**

Termsheet, Debt Marketing Book & Warehouse Portfolio - Attached

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2244

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<< File: Hudson Mezz Debt Book Announcement.pdf >> << File: Hudson Mezz Termsheet Announcement.pdf >> << File: Hudson Mezz Funding 2006-1 WH Asset Portfolio.xls >>

Expected Timing:
Price Guidance & Red - w/o Oct 16
Pricing - w/o Oct 23

GS Structured Products Global Syndicate
Asia: Omar Chaudhary, Jay Lee, & Hirotaka Sugioka +81 (3) 6437-7198
Europe: Mitch Resnick & Tets Ishikawa +44 (0)20 7774-3068
N. America: Bunty Bohra, Scott Wisenbaker, Scott Walter, Tony Kim & Malcolm Mui + 1 (212) 902-7645

Structured Product CDO Desk:
Peter Ostrem +1 (212) 357-4617 // Darryl Herrick +1 (212) 902-9305

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.

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From: Herrick, Darryl K
Sent: Tuesday, September 19, 2006 9:53 PM
To: Salem, Deeb; Ostrem, Peter L
Cc: Swenson, Michael; Birnbaum, Josh; Chin, Edwin; Kamilla, Rajiv; Lehman, David A.
Subject: Re: Ref Obs for Prop CDO

Deeb, we'll take at look these. On adding Alt A, I would suggest an initial bucket of around 10 - 15 names to start. We could add some more later on depending on appetite, but that will be a good start.
Thanks, Darryl

----- Original Message -----
From: Salem, Deeb
To: Ostrem, Peter L; Herrick, Darryl K
Cc: Swenson, Michael; Birnbaum, Josh; Chin, Edwin; Salem, Deeb; Kamilla, Rajiv; Lehman, David A.
Sent: Tue Sep 19 21:31:47 2006
Subject: Ref Obs for Prop CDO

<<Book6.xls>> Pete/Darryl,
Attached are 60 RMBS Ref Obs and 5 CMBS/CRE CDO ref obs for the CDO we're discussing. On the RMBS side, we chose 30 Baa2 and 30 Baa3 CUSIPs evenly split btw 2005 and 2006 vintage. We can add a few alt-a names as well. How many of those would you like?

Let us know what else you need

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RMBS

Ref Ob	CUSIP	Size	Moody	S&P	Fitch	Spread
ABSHE 2005-HE6 M8	04541GTS1	10,000,000	Baa2	BBB	BBB	110
ABSHE 2006-HE5 M8	04544PAN9	10,000,000	Baa2	BBB	BBB	110
AMIT 2005-2 M8	126673L75	10,000,000	Baa2	-	A	110
AMSI 2005-R3 M8	03072SA62	10,000,000	Baa2	BBB	BBB	110
BSABS 2006-EC1 M7	07387UAK7	10,000,000	Baa2	-	BBB	110
CARR 2005-FRE1 M8	144531EN6	10,000,000	Baa2	-	BBB+	110
CARR 2006-RFC1 M8	14453EAM4	10,000,000	Baa2	BBB+	A	110
CWL 2005-10 MV8	126670BC1	10,000,000	Baa2	-	BBB	110
FFML 2005-FF7 M8	32027NUT6	10,000,000	Baa2	BBB+	BBB+	110
FHLT 2006-1 M7	35729PPJ3	10,000,000	Baa2	-	BBB+	110
FHLT 2006-2 M7	35729PQF0	10,000,000	Baa2	-	BBB+	110
GSAMP 2005-AHL M5	36242D2E2	10,000,000	Baa2	-	BBB	110
GSAMP 2005-AHL2 B1	362341D30	10,000,000	Baa2	-	BBB+	110
GSAMP 2005-HE6 M8	362341H36	10,000,000	Baa2	-	A-	110
GSAMP 2006-HE1 M8	3623415A3	10,000,000	Baa2	-	A-	110
HASC 2006-OPT4 M7	40430KAP6	10,000,000	Baa2	BBB+	BBB	110
JPMAC 2006-ACC1 M8	46628RAN5	10,000,000	Baa2	BBB	BBB	110
JPMAC 2006-HE1 M8	46626LGP9	10,000,000	Baa2	BBB	BBB	110
MSHEL 2006-2 B2	61744CYX8	10,000,000	Baa2	BBB+	BBB+	110
NCHET 2005-C M8	64352VPG0	10,000,000	Baa2	-	BBB+	110
NHEL 2005-2 M8	66987WCU9	10,000,000	Baa2	A	BBB+	110
NHEL 2006-2 M7	66988VAM0	10,000,000	Baa2	A	A	110
OOMLT 2006-2 M8	68402CAN4	10,000,000	Baa2	-	BBB	110
OWNIT 2006-2 B2	69121PDP5	10,000,000	Baa2	-	A-	110
RASC 2006-EMX2 M8	75406AAL3	10,000,000	Baa2	-	A-	110
SABR 2005-EC1 B2	81375WDJ2	10,000,000	Baa2	-	BBB+	110
SABR 2005-OP1 B2	81375WCX2	10,000,000	Baa2	BBB+	BBB	110
SASC 2005-WMC1 M4	86359B6K2	10,000,000	Baa2	BBB	BBB	110
SAST 2005-2 B2	805564SK8	10,000,000	Baa2	BBB	BBB	110
SURF 2006-BC1 B2A	84751PKL2	10,000,000	Baa2	-	BBB+	110
ABSHE 2005-HE3 M9	04541GRC8	10,000,000	Baa3	BBB-	BBB-	210
ACCR 2006-2 M9	00437NAN2	10,000,000	Baa3	-	BBB-	210
ACE 2006-ASP2 M9	004421XQ1	10,000,000	Baa3	-	A	210
AMSI 2005-R8 M9	03072SM85	10,000,000	Baa3	BBB+	BBB	210
ARSI 2005-W3 M9	040104PL9	10,000,000	Baa3	BBB+	BBB+	210
BSABS 2005-EC1 M8	0738795K0	10,000,000	Baa3	-	BBB-	210
BSABS 2006-PC1 M8	07387UBE0	10,000,000	Baa3	-	BBB+	210
CARR 2005-OPT2 M8	144531CR9	10,000,000	Baa3	BBB+	BBB	210
CARR 2006-NC2 M9	14453FAN9	10,000,000	Baa3	BBB-	BBB-	210
CBASS 2006-CB4 B3	12498QAN6	10,000,000	Baa3	BBB-	BBB	210
CMLTI 2005-OPT4 M9	17307GUZ9	10,000,000	Baa3	BBB	BBB	210
ECR 2005-2 B	126673J94	10,000,000	Baa3	-	BBB-	210
EMLT 2005-1 M9	29445FCW6	10,000,000	Baa3	BBB-	BBB-	210
FFML 2005-FF3 M9	86359DBT3	10,000,000	Baa3	BBB	BBB	210
FFML 2006-FF8 M9	320278AN4	10,000,000	Baa3	-	BBB	210
FHLT 2005-B M10	35729PKE9	10,000,000	Baa3	-	BBB-	210
FMIC 2006-1 M9	31659TFJ9	10,000,000	Baa3	-	BBB	210
FMIC 2006-2 M9	31659EAN8	10,000,000	Baa3	-	BBB	210
GEWMC 2005-1 B3	367910AN6	10,000,000	Baa3	BBB+	BBB+	210
GSAMP 2006-NC2 M9	362463AP6	10,000,000	Baa3	-	BBB-	210
JPMAC 2005-FRE1 M9	46626LCL2	10,000,000	Baa3	BBB-	BBB-	210
JPMAC 2006-CW2 MV9	46629BBB4	10,000,000	Baa3	BBB-	BBB-	210
OOMLT 2006-1 M9	68389FKZ6	10,000,000	Baa3	A-	A	210
POPLR 2006-A M6	73316PKB5	10,000,000	Baa3	-	BBB	210
RAMP 2005-EFC2 M9	76112BVX5	10,000,000	Baa3	-	BBB	210
RAMP 2006-RZ2 M9	75156UAM9	10,000,000	Baa3	-	BBB+	210
RASC 2005-EMX2 M9	76110W2Q8	10,000,000	Baa3	-	BBB-	210
SASC 2006-WF2 M9	86360LAN6	10,000,000	Baa3	-	BBB-	210
SVHE 2006-OPT2 M8	83611MMU9	10,000,000	Baa3	-	BBB+	210
WFHET 2006-1 M9	9497EUAR8	10,000,000	Baa3	-	BBB+	210

CMBS

Ref Ob	CUSIP	Size	Moody	S&P	Fitch	Spread	WAL
GSMS 2006-RR2 J	36298JAU7	20,000,000	Baa2	BBB		105	11.71
JPMCC 2006-RR1A F	48123HAG8	20,000,000	Baa2	BBB		115	10.63
LNR 2006-1A FFX	53944MAT6	20,000,000	Baa2	BBB	BBB	185	9.42
MARRE 2006-1A G	565853AQ1	20,000,000	Baa2	BBB	BBB	115	7.7
RREF 2006-1A F	76122VAG9	20,000,000	Baa2	BBB	BBB	140	7.93

From: Young, Crystal D.
Sent: Wednesday, September 27, 2006 3:03 PM
To: Swenson, Michael
Subject: RE:

I you would like to stay on the 26th floor, There is 1hr available from 1-2pm... Maybe I can switch Egol's review and switch the meeting at from 1-2pm.e.

From: Young, Crystal D.
Sent: Wednesday, September 27, 2006 2:58 PM
To: Swenson, Michael
Subject: RE:

Unfortunately, the large conf room is booked most of the day.
The only time it is available tomorrow is, from11 -11:30am, or 2- 2:45pm: I can check the 27th will that work?

From: Swenson, Michael
Sent: Wednesday, September 27, 2006 2:46 PM
To: Young, Crystal D.
Subject:

Can set up a meeting for tomorrow at 10am in the 26th floor conference room?
The meeting should be titled the "Marketing Strategy for the ABX CDO Trade"

The invitees are:

Sparks
Sobel
Harvey Schwartz
Stacy Bash
Tom Cornacchia
Sarah Recktenwald
Sclomi Raz
Kyle Nagel
Steve Pinkos
Lorin Radtke
Bunty Bohra
Scott Wisenbaker
Steve Ricciardi
Josh Birnbaum
Pete Ostrem
David Rosenblum
Darryl Herrick
Deeb Salem

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917[redacted] fax: +1 212 902 1691
e-mail: michael.swenson@gs.com

Goldman
Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2251

From: Herrick, Darryl K
Sent: Thursday, September 28, 2006 10:04 AM
To: Swenson, Michael; Sparks, Daniel L; Sobel, Jonathan; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Raz, Shlomi; Nagel, Kyle; Pinkos, Steve; Radtke, Lorin; Bohra, Bunty; Wisenbaker, Scott; Ricciardi, Steven; Birnbaum, Josh; Ostrem, Peter L; Rosenblum, David J.; Salem, Deeb; Siegel, Mike
Subject: HUDSON - INTERNAL ONLY

Attachments: Hudson Mezz Termsheet 2006-09-27 Sales.doc; Hudson Mezz Overview.ppt


Hudson Mezz ermsheet 2006-09-.


Hudson Mezz Overview.ppt

INTERNAL ONLY

Please find the Term Sheet and Marketing Points for today's call at 10am. Please let me know if you have any questions

---

From: Young, Crystal D. **On Behalf Of** Swenson, Michael
Sent: Thursday, September 28, 2006 8:41 AM
To: Sparks, Daniel L; Sobel, Jonathan; Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Raz, Shlomi; Nagel, Kyle; Pinkos, Steve; Radtke, Lorin; Bohra, Bunty; Wisenbaker, Scott; Ricciardi, Steven; Birnbaum, Josh; Ostrem, Peter L; Rosenblum, David J.; Herrick, Darryl K; Salem, Deeb; Siegel, Mike
Subject: Updated: Marketing Strategy for the ABX CDO Trade
When: Thursday, September 28, 2006 10:00 AM-10:30 AM (GMT-05:00) Eastern Time (US & Canada).
Where: 26L/Call in details

```
Conference Details:
   Moderator Name:      Michael Swenson
   Company Name:        Goldman Sachs & Co./#58062 (Main)
   Client ID:           347235

Conference Passcodes:
   Moderator Passcode: 7488558
   Passcode:           748855

Conference Access:
  Toll free:   1-866-319-4553 International
  Toll:        1-212-902-4079 Domestic
```


Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2252

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Preliminary Termsheet

September [ ], 2006

Goldman Sachs

Hudson Mezzanine Funding 2006-1, LTD.

$2.0 Billion Static Mezzanine Structured Product CDO

Note: The Class S, Senior Swap, A, B, C, D and E Notes (the "Notes") have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being sold (a) in the United States only to qualified institutional buyers ("QIBs") in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A who are also qualified purchasers as defined in the Investment Company Act of 1940, and (b) outside the United States to non- U.S. persons in reliance on Regulation S.

Security	Expected Par Amount	% of Par	Initial Over-Collateralization	Expected Ratings (Moody's/S&P)	Coupon	Expected Avg Life
Class S	[ ]	N/A	N/A	Aaa/AAA	Not Offered	[2.8]
Senior Swap	$1,200.0 MM	60.00%	166.7%	Aaa/AAA	Not Offered	[3.7]
Class A1	$150.0 MM	7.50%	133.3%	Aaa/AAA	1mL+[ ] bps	[2.0]
Class A2	$150.0 MM	7.50%	133.3%	Aaa/AAA	1mL+[ ] bps	[6.0]
Class B	$160.0 MM	8.00%	120.5%	Aa2/AA	1mL+[ ] bps	[5.1]
Class C	$100.0 MM	5.00%	113.6%	A2/A	1mL+[ ] bps	[5.3]
Class D	$150.0 MM	7.50%	104.7%	Baa2/BBB	1mL+[ ] bps	[5.1]
Class E	$30.0 MM	1.50%	103.1%	Ba1/BB+	1mL+[ ]bps	[5.3]
Income Notes	$60.0 MM	3.00%	N/A	NR	N/A	N/A

Transaction Overview

- Hudson Mezzanine Funding 2006-1 will be a static $2.0 billion cashflow CDO consisting of a diversified portfolio of single-name credit default swaps on RMBS securities.
- Goldman Sachs, & Co. ("Goldman") selects the assets.
- 60% of the assets will be single name CDS referencing all forty obligors in ABX 2006-1 and ABX 2006-2.
- The portfolio consists of collateral which is rated at least Baa3 and BBB- with an average rating of Baa2/Baa3. 100% will be real-estate related securities.
- Low fee structure and less "bar-belled" portfolio than other mezzanine CDOs in the current market
- Goldman, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" within 12 months of said determination. Credit Risk assets will include:
  - Any asset downgraded by Moody's or S&P below Ba3 or BB-
  - Any asset that is defaulted or would be experiencing a credit event as defined by the PAUG confirm
- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" will be sold by the Liquidation Agent within one year of such determination.
- Goldman will invest in a portion of the Income Notes at closing.

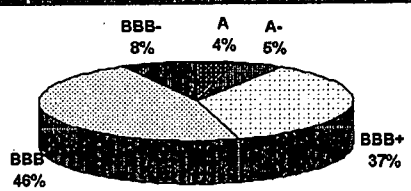
Structural Highlights

- Pure static structure eliminates reinvestment risk and shortens expected weighted average lives on liabilities
  - No reinvestment, substitution, or discretionary trading
  - Proceeds from credit-risk sales will be treated as principal paydowns or notional reduction of the Senior Swap
- Liquidation Agent Fees: 10 bps per annum
- 100% ramped at closing and 100% certainty of all assets in collateral portfolio to be included in transaction
- No fixed rate assets in the portfolio eliminates possibility of an interest rate swap hedge mismatch

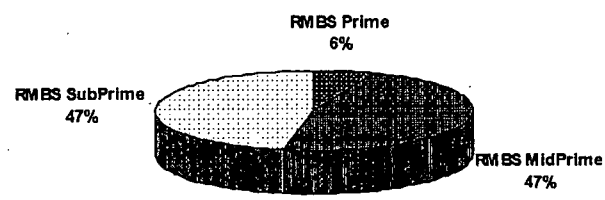
Current Portfolio Characteristics

Par Value of Collateral ($MM)	$2,000
Total Expected Portfolio Size ($MM)	$2,000
% Ramped	100%
Moody's Weighted Average Rating Factor	485
Weighted Average Life	[4.0] years
Number of Positions	140
Distinct Obligors	100
Duration Weighted DM	[184] bps

Ratings Composition of Target Warehouse Portfolio (1)



Sector Composition of Target Warehouse Portfolio



(1) Based on S&P Ratings

CDO Structuring, Marketing and Principal Investments

Peter Ostrem	+1 (212) 357-4617
Darryl Herrick	+1 (212) 902-9305

Syndicate

Bunty Bohra	+1 (212) 357 4617
Scott Wisenbaker	+1 (212) 902 2858
Mitch Resnick	+44 20 7774 3068
Omar Chaudhary	+81 3 6437 7198

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All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in the final Offering Circular for any securities actually sold to you. The securities have not been and will not be registered under the Securities Act of 1933, as amended, and the issuers will not be registered under the Investment Company Act of 1940, as amended. This Term Sheet is furnished to prospective investors on a confidential basis solely for the purposes of evaluating the investment offered hereby. The information contained herein may not be reproduced or used in whole or in part for any other purposes.

Transaction Details

Issuer:	Hudson Mezzanine Funding 2006-1, LTD, incorporated with limited liability in the Cayman Islands
Co-Issuer:	Hudson Mezzanine Funding 2006-1, Corp, corporation organized under the laws of the State of Delaware
Liquidation Agent:	Goldman, Sachs & Co.
Trustee:	[ ]
Initial Purchaser:	Goldman Sachs & Co.
Offering Type:	Reg S (Non-U.S. Persons only), Rule 144A. Rule 144A purchasers must be qualified purchasers under the Investment Company Act of 1940
Listing, Clearing & Settlement:	Application may be made to admit the securities on a stock exchange at the Issuer's choice, if practicable. There can be no assurance that any such application will be made and that any such admission will be granted. The Class S, A, B, C, D and E Notes will settle through Euroclear/Clearstream/DTC. Notes will settle with accrued interest, if any, from the Closing Date. The initial LIBOR Rate on the S, A, B, C, D and E Notes will be set two business days prior to the Closing Date
Reinvestment Period:	None
Non-Call Period:	Approximately three years. Callable in whole on or after April 2010 by a majority vote of the Income Notes
Auction Call Date:	Starting April 2015 and annually in April thereafter
Minimum Call Price:	Class S, A, B, C, D and E Notes (if issued) at par plus accrued interest. There is no call premium to the Income Notes
Legal Final Maturity:	April 2042 for the [Senior Swap], Class A, B, C, D and E Notes. April [2015] for the Class S
Payment Frequency:	The Senior Swap, Class S, A, B, C, D and E Notes will receive premium and interest payments monthly, commencing April 2007. The Senior Swap, Class S, A, B, C, D and E Notes will receive principal payments and reduce outstanding principal amounts monthly, commencing April 2007. Income Notes will receive distributions according to the payment waterfall quarterly, commencing April 2007
Liquidation Agent Fee:	10 bps per annum, payable senior to premium on the Senior Swap and payable monthly, commencing April 2007
ERISA Eligible:	The Class S, A, B, C, and D Notes are expected to be ERISA eligible, assuming that the purchase is not a prohibited transaction for the purchaser
Tax Treatment:	Class S, Senior Swap, A, B, C, and D Notes will be treated as debt
Controlling Class:	The Class S, Senior Swap and A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C, Class D and Class E Notes in that order until each Class is paid in full
Collateral:	Single name credit default swaps referencing RMBS securities

Coverage Tests

Coverage Test	Expected Closing Date Values	Target OC Coverage Required	Minimum Ongoing OC Coverage Requirement
Senior Overcollateralization Ratio[1]	[120.5]%	[122.5]%	[114.0]%
Class C Note Overcollateralization Ratio	[113.6]%	[115.0]%	[108.0]%
Class D Note Overcollateralization Ratio	[104.7]%	[106.1]%	[101.6]%
Class E Note Overcollateralization Ratio	[103.1]%	[104.3]%	[101.0]%[2]

[1] The Senior Swap, Class A and Class B ratios will be combined and known as Senior OC ratios

[2] Class E Interest Diversion Test set at 101.0%. After regular payments of premium, interest, amortization and principal to the Senior Swap, Class S, A, B, C, D and E Notes but before any payment to the Income Notes, if the Class E Note Overcollateralization Ratio is less than [101.0]%, then all excess interest proceeds will be paid to amortize the principal balance of the Class E Notes

Synthetic Securities

Synthetic Securities:	Pay-As-You-Go ("PAUG") ISDA
Interest Shortfall Basis:	Fixed Cap Applicable
Credit Events:	Writedown Failure to Pay Principal Distressed Ratings Downgrade
Default Swap Collateral:	Proceeds from the issuance of the securities deposited with Goldman Sachs in exchange for Default Swap Collateral. Default Swap Collateral will be delivered to Goldman, (i) to settle any Credit Events, (ii) to pay Physical Settlement Amounts, (iii) to pay certain Synthetic Security Termination Payments and in exchange for Synthetic Security Counterparty Principal Payments. If the Default Swap Collateral is not sufficient to settle any Credit Event, pay any Physical Settlement Amount, or to pay any such Synthetic Security Termination Payment, generally, the Senior Swap Counterparty will pay such amounts.

No securities are being offered by these summary materials. If the securities described herein or other securities are ultimately offered, they will be offered only pursuant to a definitive Offering Circular, and prospective investors who consider purchasing any such securities should make their investment decisions based only upon the information provided therein (including the "Risk Factors" section contained therein) and consultation with their own advisers. This material is for your private information and we are not soliciting any action based upon it. This material is not to be construed as an offer to sell or the solicitation of any offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This material is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. By accepting this material the recipient agrees that it will not distribute or provide the material to any other person. The information contained in this material may not pertain to any securities that will actually be sold. The information contained in this material may be based on assumptions regarding market conditions and other matters as reflected therein. We make no representations regarding the reasonableness of such assumptions or the likelihood that any of such assumptions will coincide with actual market conditions or events, and this material should not be relied upon for such purposes. We and our affiliates, officers, directors, partners and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities mentioned therein or derivatives thereof (including options). Information contained in this material is current as of the date appearing on this material only. Information in this material regarding any assets backing any securities discussed herein supersedes all prior information regarding such assets. All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in any final Offering Circular for any securities actually sold to you. Goldman Sachs does not provide accounting, tax or legal advice. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits expected to be claimed with respect to such transactions, and all materials of any kind (including tax opinions and other tax analyses) relating to those benefits, without Goldman Sachs imposing limitation of any kind.

Hudson Mezzanine Funding 2006-1

Transaction Overview

- Hudson CDO program was developed by the CDO Desk in 2006 to create a consistent, programmatic approach to invest in attractive relative value opportunities in the RMBS and structured product market
  - We successfully launched Hudson High Grade which is in the market now. This is a continuation of this program with mezzanine quality RMBS
- The CDO is an Alpha Generator / Term Non-recourse with other non-ABX names. 60% of the portfolio will consist of single name CDS from the ABX 2006-1 and ABX 2006-2 index to pass through the relative value pickup between the Index vs. single name CDS. Term non-recourse execution of Hudson will lock in the arbitrage for the benefit of debt and equity investors
- Goldman will buy equity and is long this risk via warehouse: 100% ramped
- This is not a tranched Index CDO. CDO will utilize a cashflow waterfall with traditional O/C tests
- Super Seniors are done with one large sophisticated Wall Street CDO buyer
- Focus will be on the BBBs and BBs

  - No CDOs
  - No negative convexity (fixed rate)
  - No BBs

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From: Herrick, Darryl K
Sent: Saturday, September 30, 2006 11:54 AM
To: Ostrem, Peter L; Case, Benjamin; Bieber, Matthew G.
Subject: Hudson Mezz

Attachments: Hudson Mezz Debt Book 2006-09-283.ppt; Hudson Mezz Termsheet 2006-09-27 Sales.doc


Hudson Mezz Debt Book 2006-09-...


Hudson Mezz ermsheet 2006-09-.

Team, We are planning to begin marketing Hudson Mezz this week

I have attached is the marketing book and term sheet as it currently stands (still updating stress runs)

Would appreciate any feedback/comments you have on this because it discusses the current CDO and more importantly what our desk's strategy is with Hudson program for the future. Be interested in getting everyone's color

I am in the office tomorrow so can talk then or whenever you get a chance can reach me on my cell (646) 526-8256
Darryl

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2253

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Hudson Mezzanine Funding 2006-1, LTD.

A $2.0 Billion Static Mezzanine Structured Product CDO

Goldman, Sachs & Co. – Liquidation, Structuring, and Placement Agent

September [ ], 2006

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular.

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- Portfolio Asset List
- Goldman Sachs Contact Information

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Disclaimer

The information contained herein is confidential information regarding securities that may in the future be offered by Hudson High Grade Funding 2006-1, LTD ("Hudson Funding" or the "Issuer"). The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use. By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with any applicable securities laws. For this purpose, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction.

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. The information contained herein is preliminary and material changes to the proposed terms of the securities described herein may be made at any time. If any offer of securities is made, it shall be made pursuant to a definitive offering circular (the "Offering Circular") prepared by or on behalf of the Issuer, which would contain material information not contained herein and which shall supersede, amend and supplement this information in its entirety. Any decision to invest in the securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary or appropriate and consulting the investor's own legal, accounting, tax, and other advisors in order to make an independent determination of the suitability and consequences of an investment in the securities.

The securities described herein will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular.

None of the Issuer, Goldman Sachs (as used herein, such term shall include Goldman, Sachs & Co. and all of its affiliates), nor any of their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. The information includes hypothetical illustrations and involves modeling components and assumptions that are required for purposes of such hypothetical illustrations. No representations are made as to the accuracy of such hypothetical illustrations or that all assumptions relating to such hypothetical illustrations have been considered or stated or that such hypothetical illustrations will be realized. The information contained herein does not purport to contain all of the information that may be required to evaluate such securities, and each recipient is encouraged to read the Offering Circular and should conduct its own independent analysis of the data referred to herein. The Issuer, Goldman Sachs, and their respective affiliates disclaim any and all liability relating to this information, including, without limitation, any express or implied representation or warranty for statements contained in and omissions from this information. None of the Issuer, Goldman Sachs, or any of their respective affiliates expects to update or otherwise revise the information contained herein except by means of the Offering Circular. Additional information may be available on request. The securities and obligations of the Issuer are not issued by, obligations of, or guaranteed by Goldman Sachs, or their respective affiliates, or other organizations. In particular, the obligations of the Issuer are not deposit obligations of any financial institution. The securities and obligations of the Issuer are complex, structured securities and there is no assurance that a secondary market for such securities will exist at any time. Accordingly, prospective investors should be prepared, and have the ability, to hold such securities until their respective stated maturities or stated redemption dates.

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HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions. Such potential outcomes are not a prediction by the Issuer, Goldman Sachs or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Goldman Sachs, or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Goldman Sachs or their respective affiliates assumes any duty to update any such statement. Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the collateral and the price at which such collateral is actually purchased by the Issuer, any defaults on the collateral, the timing of any defaults and subsequent recoveries, changes in interest rates, and any weakening of the specific credits included in the collateral, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein.

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer. Because of portfolio restrictions that apply to the Issuer and differences in market conditions, the investments selected by Goldman Sachs on behalf of the Issuer may differ substantially from prior investments made by Goldman Sachs. The Issuer has no operating history.

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Risk Factors

Note: The Offering Circular will include more extensive descriptions of the risks described herein as well as additional risks relating to, among other things, conflicts of interest. Any decision to invest in the securities described herein should be made after reviewing such Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the securities. The Offering Circular will supersede this document in its entirety.

- Limited Liquidity, Restrictions on Transfer and Limited Recourse
  - There is currently no market for the Secured Notes or Income Notes and it is unlikely that any secondary market will develop. The Secured Notes and the Income Notes should be viewed as a long-term investment, not as a trading vehicle. The value of the Secured Notes and the Income Notes may vary and the Secured Notes and the Income Notes, if sold, may be worth less than their original cost.
  - In addition, as the Secured Notes and the Income Notes will be sold in transactions exempt from SEC registration pursuant to Section 4(2), Rule 144A, and/or Reg S and the Issuer will not be registered under the Investment Company Act of 1940 pursuant to the Section 3(c)(7). Related restrictions, as well as other restrictions on transfer of the Income Notes will apply.
  - All liabilities are payable solely from the cash flow available from the collateral pledged by the Issuer to secure all classes of Notes. No other assets will be available for payment in the event of any deficiency. The Income Notes represent equity in the Issuer and as such are subordinated to the Secured Notes. The Income Notes are payable from the collateral (which represent the only assets of the Issuer) only after payment in full of amounts due on the Secured Notes.
- Leveraged Credit Risk
  - The Income Notes are in a first loss position with respect to defaults on the underlying collateral. The leveraged nature of the Income Notes magnifies the adverse impact of any collateral defaults.
- Subordination
  - The Income Notes are subordinated to the Class A, Class B, Class C, Class D and Class E Notes and certain payments of expenses. The Class E Notes are subordinated to the Class A, Class B, Class C and Class D Notes and certain payments of expenses. The Class D Notes are subordinated to the Class A, Class B and Class C Notes and certain payments of expenses. The Class C Notes are subordinated by the Class A and Class B Notes and certain payments of expenses. The Class B Notes are subordinated to the Class A Notes and certain payments of expenses. No distributions of interest proceeds received on the collateral will be made to the Income Notes until interest on the Secured Notes and certain other expenses have been paid. In addition, in the event of a default, holders of the most senior class of Secured Notes will generally be entitled to determine the remedies to be exercised; such remedies could include the sale and the liquidation of the collateral and have an adverse effect on the Income Notes. The Income Notes will not be able to exercise any remedies following an event of default and will not receive payments after an event of default until the Secured Notes are paid in full.

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Risk Factors

- Volatility of Collateral and of Secured Notes' and Income Notes' Market Value
  - The Income Notes represent a leveraged investment in the Collateral Assets. The use of leverage generally magnifies an issuer's opportunities for gain and risk of loss. Therefore, changes in the market value of the Secured Notes and the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity and, with respect to the fixed rate portion of the portfolio, interest rate risk.
  - Changes in the market value of issues from one sector or industry may impact the market value of issues from one or more of other sectors or industries included in the collateral.
- Collateral Risk
  - Collateral Assets inherently bear significant credit risks because issuers are primarily private entities.
  - The structure of Collateral Assets and the terms of the Issuer's interest in the collateral can vary widely depending on the type of collateral, investor sentiment and the use of credit enhancements.
  - Adverse changes in the financial condition of the collateral obligor or in general economic conditions may adversely affect the obligor's ability to pay principal and interest on its debt.
- Illiquidity of Collateral Assets
  - Some of the Collateral Assets purchased by the Issuer will have no, or only a limited, trading market. This illiquidity may restrict the Issuer's ability to dispose of investments in a timely fashion or for a fair price.
  - Illiquid debt securities may also trade at a discount to comparable, more liquid investments. In addition, the Issuer may invest in privately placed Collateral Assets that are non-transferable or are transferable only at prices less than the fair value or the original purchase price of the securities.
- Nature of Collateral
  - The Collateral Assets are subject to credit, liquidity and interest rate risk. In addition, the financial performance of the Issuer may be affected by the price and availability of Collateral Assets to be purchased.
  - Some or all of the Collateral Assets may be subordinated securities which may be subject to leveraged credit risk.
  - The ability of the Issuer to sell Collateral Assets prior to maturity is subject to certain restrictions and limitations under the Indenture.

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Risk Factors

- No Collateral Manager
  - The Issuer will not engage a Collateral Manager. As a result, (i) the Collateral Assets held by the Issuer on the Closing Date will be retained by the Issuer even if it would be in the best interests of the Issuer and the holders of the Income Notes and Secured Notes to dispose of certain Collateral Assets unless the Collateral Assets are required to be sold by the Liquidation Agent as described in the previous paragraph and (ii) the Indenture will eliminate the ability of the Issuer to exercise discretion in contexts where a collateral manager in a managed or static collateralized debt obligation transaction typically would have discretion to exercise such discretion on behalf of the Issuer and holders of Income Notes and Secured Notes. The inability of the Issuer to exercise discretion in these contexts could adversely impact the Issuer and the holders of the Income Notes and Secured Notes.
- Timing and Amount of Recoveries
  - Only Collateral Assets that meet the liquidation criteria (see page 12) may be sold. If a Collateral Asset meets the liquidation criteria, the Liquidation Agent is required to sell such affected collateral in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance as to the timing of the Liquidation Agent's sale of affected assets, or if there will be any market for such assets or as to the rates of recovery on such affected collateral. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to the Income Notes and Secured Notes as compared to the returns generated using the Modeling Assumptions.
- Impairment of Credit Quality and/or Defaults on the Collateral
  - Decline in credit quality of the collateral or defaults could result in losses which would adversely affect the Income Notes and Secured Notes. The Collateral Assets are expected to have a Moody's weighted average rating of at least Aa3/A1 at the Closing Date.
  - There may be certain industry or sector concentrations in the CDO, all of which could have a material adverse impact on the Income Notes in the event of economic downturns or other events affecting the credit quality of any of the collateral.

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Risk Factors

- Timing of Receipt of Accrued Interest Income
  - On an ongoing basis, the receipt by the Issuer of accrued interest income may affect the availability of cash which may be distributed to the Holders of Secured Notes and Income Notes.
- International Investing
  - Investing outside the U.S. may involve greater risks which may include (1) less publicly available information, (2) varying levels of governmental regulation and supervision, (3) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws, (4) less stringent accounting practices, (5) different clearance and settlement procedures, (6) economic and political conditions and instability, (7) exchange control and foreign currency risk, (8) insolvency and (9) expropriation risk.
  - A portion of the Collateral Assets may consist of obligations of an issuer organized under the laws of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, the Netherlands Antilles or other jurisdictions offering favorable tax treatment.
- Tax Treatment of Income Notes
  - Since the Issuer will be a passive foreign investment company, a U.S. person holding Income Notes may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Income Notes will be treated as equity for tax purposes.
  - Income Notes holders should consult their tax advisers about the special U.S. tax regimes that apply to shareholders of passive foreign investment companies, controlled foreign corporations and foreign personal holding companies.
  - Special tax considerations may apply to certain types of investors. Prospective investors should consult their own tax advisors regarding the tax implications of their investments.
- Material Tax Considerations
  - There is a possibility that the Issuer will be found to be engaging in a U.S. trade or business. In such a case, it would be subject to substantial U.S. income tax on its income.

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Risk Factors

- Hypothetical Illustrations and Estimates
  - Estimates of the weighted average lives of the Class S, A, B, C, D and E Notes and the returns and duration of the Income Notes included herein, together with any other hypothetical illustrations and estimates provided to prospective purchasers of the Class S, A, B, C, D and, E Notes, are forward-looking statements. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
  - The hypothetical illustrations are only estimates. Actual results may vary, and the variations may be material. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
- Yield Due to Prepayments
  - The yield to maturity on the Income Notes could be affected by the rate of prepayment of the Collateral Assets. Payments to the Income Notes at a rate slower than the rate anticipated by investors purchasing the Income Notes at a discount will result in an actual yield that is lower than anticipated by such investors. Conversely, payments to the Income Notes at a rate faster than the rate anticipated by investors purchasing the Income Notes at a premium will result in an actual yield that is lower than anticipated by such investors.
- Changes in Tax Laws
  - The Collateral Assets are not permitted to be subject to withholding tax at the time of purchase, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on the Income Notes and Secured Notes.
  - In case of a Withholding Tax Event (as defined in the Offering Circular), holders of more than 50% of any affected Note may require the issuer to liquidate the collateral on any Payment Date, and redeem the Class S, A, B, C, D and E Notes, prior to any distributions to holders of Income Notes.

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I. Transaction Overview

Note: The information in this section is preliminary and subject to change

Hudson Mezzanine Funding 2006-1

Transaction Overview

- Hudson CDO program was developed by Goldman Sachs in 2006 to create a consistent, programmatic approach to invest in attractive relative value opportunities in the RMBS and structured product market
  - We successfully launched Hudson High Grade in September. This is a continuation of the program using mezzanine quality RMBS
- Hudson CDOs are non-managed and static in nature and provide term non-recourse funding where Goldman Sachs acts as Liquidation Agent on an ongoing basis
- The portfolio composition of Hudson Mezzanine Funding 2006-1 will consist of 100% CDS on RMBS.
  - 60% of the RMBS will be single name CDS on all 40 obligors in ABX 2006-1 and ABX 2006-2
  - 40% of the will consist of single name CDS on 2005 and 2006 vintage RMBS
- ABX Baa2 and Baa3 tranches trade approximately 30bps wider than the single name CDS on the 40 obligors representing the ABX
  - Hudson Funding will capture this basis arbitrage and the single name CDS will be put in at current ABX market levels. Term non-recourse execution of Hudson will lock in the arbitrage for the benefit of debt and equity investors
- Goldman Sachs has aligned incentives with the Hudson program by investing in a portion of equity and playing the ongoing role of Liquidation Agent. The Liquidation Agent will be responsible for efficiently selling credit risk assets

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Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview

- Super Seniors have been executed with one large, sophisticated Wall Street investor in unfunded form
- This is a typical CASHFLOW CDO with O/C triggers. This is NOT a tranched Index CDO
- Goldman Sachs, in the role of Liquidation Agent, will:
  - Warehouse assets during the portfolio aggregation phase prior to closing
  - Liquidate any asset within one year after such asset performs below certain threshold levels determined prior to closing
- Goldman Sachs expects to invest in a portion of the Income Notes
- Goldman Sachs' objective is to develop a long term association with selected partners that can adapt to and take advantage of market opportunities
  - The goal is to create attractive proprietary investments by leveraging expertise of both Goldman Sachs CDO and Mortgage Desks while maintaining a consistent approach and creating a unified issuance program across multiple transactions

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Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview

- Hudson Funding is a "static" mezzanine structured product CDO with the following features:
  - No exposure to reinvestment spread risk or reliance on reinvestment to generate excess interest to cover debt
  - No fixed rate assets
  - 100% RMBS
  - No assets without an initial rating of at least Baa3 by Moody's or BBB- by S&P. Average WARF in the portfolio is expected to be 485
  - Overall transaction cost structure is significantly less than comparable mezzanine structured product CDOs in the market

- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" securities will be sold by the Liquidation Agent within one year of such determination

- Goldman Sachs will act as Structuring, Placement and Liquidation Agent for Hudson Funding and will warehouse the portfolio prior to closing
  - Goldman Sachs will charge 10 bps ongoing fee for its role as Liquidation Agent

- Goldman Sachs' portfolio selection process:
  - Assets sourced from the Street. Hudson Funding is **NOT** a Balance Sheet CDO
  - Goldman Sachs CDO desk pre-screens and evaluates non ABX related assets for portfolio suitability
  - Goldman Sachs CDO desk reviews individual assets in conjunction with respective mortgage trading desks (Subprime , Midprime, Prime, etc.) and makes decision to add or decline
  - All CDS use rating agency approved confirms (pay as you go)

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Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview - Asset Selection / Asset Liquidation

- Portfolio Aggregation Strategy:
  - 60% of portfolio will consist of the 40 obligors in ABX 2006-1 and ABX 2006-2
  - Select only assets rated explicitly Baa3/BBB- (Moody's / S&P) and above. No notched rating of below Baa3 in the portfolio
  - No Fixed rate assets allowed decreasing interest rate swap basis mismatch
  - Maximum obligor concentrations is 1.5% creating a very granular portfolio with 100 distinct obligors
  - Target portfolio with Weighted Average Rating Factor of 485 and duration weighted average spread of 184 bps

- Goldman Sachs, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" asset within 12 months of such determination. "Credit risk" assets will include:
  - Any asset downgraded by Moody's or S&P to below Ba3 or BB-
  - Any asset that is defaulted or would be experiencing a credit event as defined by the PAUG confirm

- Expected collateral quality statistics at closing
  - WARF: 485
  - Moody's Asset Correlation ("MAC") at closing: [23]
  - Duration weighted average portfolio spread: 184 bps
  - Weighted Average Duration: 4.0 years

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Hudson Mezzanine Funding 2006-1, LTD

Transaction Overview – Preliminary Capital Structure

Classes	Ratings (M/S)	Expected Principal Balance	% of Capital Structure	Coupon	Expected AL	Initial OC
Class S	Aaa/AAA	$12.10 MM	N/A	Not Offered	2.8 yrs	N/A
Senior Swap	Aaa/AAA	$1,200 MM	60.00%	Not Offered	3.9 yrs	166.7%
Class A-1	Aaa/AAA	$150 MM	7.5%	1M LIBOR + [ ]%	5.0 yrs	133.3%
Class A-2	Aaa/AAA	$150 MM	7.5%	1M LIBOR + [ ]%	5.1 yrs	133.3%
Class B	Aa2/AA	$160 MM	7.5%	1M LIBOR + [ ]%	5.1 yrs	120.5%
Class C	A2/A	$100 MM	8.0%	1M LIBOR + [ ]%	5.2 yrs	113.6%
Class D	Baa2/BBB	$150 MM	5.0%	1M LIBOR + [ ]%	5.1 yrs	104.7%
Class E	Ba1/BB+	$30 MM	7.5%	1M LIBOR + [ ]%	5.3 yrs	103.1%
Income Notes	N/A	$60 MM	1.5%	N/A	N/A	N/A

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Hudson Mezzanine Funding 2006-1

Transaction Overview

- Hudson Mezzanine CDO is a pure RMBS CDO and will look very different than most mezzanine deals currently in the market. Hudson will have none of the following:
  - CDO bucket
  - Negative convexity product (fixed rate RMBS)
  - BB bucket

	Cairn Mezz ABS CDO II	Octans CDO II	Gemstone VI	Longwood	Hudson Mezz CDO
Ongoing Fees (bps)	25	15		40	10
Max CDO bucket	10%	10%	5%	5%	NONE
Fixed rate bucket	5%	NONE	10%	10%	NONE
BB bucket	NONE	3%	8%	5%	NONE
Covenant/Expected WARF	525	500	520	450	485
Covenant/Expected Spread	1.64%	1.46%	1.80%	1.75%	1.84%

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II. Transaction Details

Note: The information in this section is preliminary and subject to change

Transaction Details

General Information

Issuers:	Hudson Mezzanine Funding 2006-1, LTD, and Hudson Mezzanine Funding 2006-1, Corp.
Liquidation Agent, Structuring and Placement Agent:	Goldman, Sachs & Co.
Trustee:	[ ]
Liquidation Agent Fee:	10 bps per annum payable senior to all the Notes
Reinvestment Period:	None
Discretionary Trading:	None. Liquidation Agent will sell credit-risk assets based on pre-determined rules and the clean proceeds will be treated as principal paydowns
Ramp-Up Period:	None
Non-Call Period:	Approximately 3 years. Callable in whole on or after April 2010 by a majority vote of the Income Notes
Auction Call:	Commences on April 2015. Conducted annually thereafter
Call Price:	Par plus all accrued for Secured Notes and unpaid principal balance of the equity. There is no call premium to the Income Notes
Payment Frequency:	Monthly on Class S, Senior Swap, Class A, B, C, D and Class E Notes, Quarterly for Income Notes
Controlling Class:	Class S, Senior Swap and Class A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C, D and Class E Notes in that order until each Class is paid in full

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Transaction Details

Collateral Profile

Moody's WARF	485
Purchased Collateral	All collateral assets can be classified as RMBS, CDO or CLO Securities
Ratings Profile	■ 100% of the assets are rated at least Baa3 and BBB- by Moody's and S&P
Target Obligor Concentration Profile	■ Maximum Obligor concentration: 1.5%
Collateral Haircuts:	■ 20% applied to Double-B Assets prior to sale ■ 40% applied to Single-B Assets prior to sale ■ 75% applied to Triple-C Assets prior to sale ■ 100% applied to Defaulted Obligations

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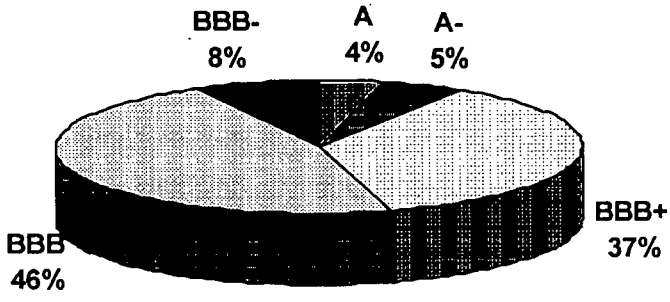
III. Portfolio Composition

Note: The information in this section is preliminary and subject to change

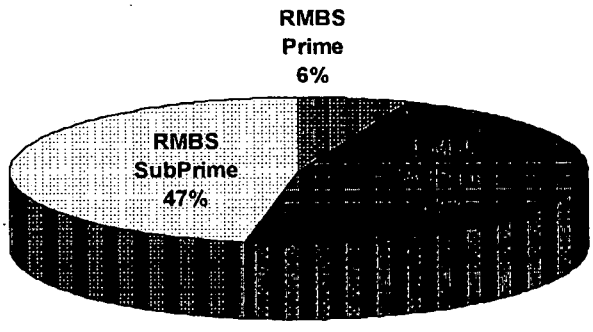
Portfolio Composition

Target Portfolio

Collateral[2]



Credit Ratings(1)[2]



1 *Based on higher of S&P and Moody's rating for each asset.*
2 *Represents the Current Portfolio as of September 26 2006. Please refer to the final Offering Circular for final portfolio details.*

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Portfolio Highlights

- Portfolio WARF is 485
- No CDOs
- All investment grade rated RMBS. No BBs
- No fixed rate assets
- No Option ARM assets

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IV. Scenario Analysis and Modeling Assumptions

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Scenario Analysis

Debt Breakeven Analysis

- REVISING

Note: Default Rate is assumed to be a percentage of outstanding collateral. Defaults begin occurring beginning of month 18 through the life of the transaction. See the "Modeling Assumptions" page in the marketing book for further details.

Potential investors should review the definitive Offering Circular relating to the Notes, including the descriptions of Risk Factors contained in such Offering Circular prior to making a decision to invest in the Notes. The definitive Offering Circular will supersede this document in its entirety.

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Scenario Analysis

Modeled CDO Paydown Structure

- REVISING

Note: Assumes no losses. See "Modeling Assumptions." Actual paydown may vary significantly from that shown. Assumes Auction call in year 8.

Potential investors should review the definitive Offering Circular relating to the Notes, including the descriptions of Risk Factors contained in such Offering Circular prior to making a decision to invest in the Notes. The definitive Offering Circular will supersede this document in its entirety.

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Modeling Assumptions [Revising]

Assumptions applicable to modeling runs (there can be no assurance that the transaction will reflect these assumptions):

Liability Structure	Par %	Initial OC	Target OC
Class S Notes	NA	NA	NA
Senior Swap	60.00%		
Class A-1 Notes	7.50%		
Class A-2 Notes	7.50%		
Class B Notes	4.05%		
Class C Notes	1.35%		
Class D Notes	60.00%		
Class E Notes	8.25%		
Income Notes	4.05%		

- LIBOR rates are based on the forward curve as of September 1, 2006.
- The deal's amortizing interest rate swap is put into place on the Closing Date.
- The Closing Date is November 1, 2006, and the first Payment Date on the Class S, A and B Notes is February 2, 2007 and the first Payment Date on the Class C and D Notes and Income Notes is March 2, 2007.
- The CDO is 100% invested on the Closing Date.
- Collateral average coupon and spread in each period are calculated based on the weighted average expected coupon and spread on each Collateral Asset outstanding during such period
- Coupon, margin over LIBOR, and fixed and floating rate percentages listed above are based on composition of actual warehouse assets as of September 5, 2006.

Potential investors should review the definitive Offering Circular relating to the Notes, including the descriptions of Risk Factors contained in such Offering Circular prior to making a decision to invest in the Notes. The definitive Offering Circular will supersede this document in its entirety.

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Modeling Assumptions

Assumptions applicable to modeling runs (there can be no assurance that the transaction will reflect these assumptions):

- Expenses are paid at the end of each period at 0.01% per annum of the outstanding collateral balance. Analysis also includes, among other things, structuring fees, surveillance fees, underwriting fees and upfront legal plus other expenses totaling approximately [ ]% of the total collateral pool payable upfront and [ ]% of the outstanding collateral pool payable ongoing
- Asset payments received in CDO payment month are paid in that same applicable payment period
- Any sale proceeds and scheduled and unscheduled Principal Proceeds will be used, first, to redeem the Class A Notes until the Class A Note Target Overcollateralization Ratio is met, second, to redeem the Class B Notes until the Class B Note Target Overcollateralization Ratio is met, third, to redeem the Class C Notes until the Class C Note Target Overcollateralization Ratio is met and then will be paid to the Class D Notes
- Pro-rata payment among classes is assumed once the Target Overcollateralization levels are met unless defaults reduce Overcollateralization Ratios below Target Overcollateralization levels or if the collateral balance falls below $450mm
- After current interest (including interest on deferred and capitalized interest) is paid, the Class D Notes receive a scheduled principal payment (the "Class D Amortizing Principal Payment") equal to $[75,000] per quarter for the first 12 months and $[50,000] per quarter thereafter
- OC Test Levels: Class A/B – 101.5[ ] made on the 2nd of each month, and all collateral payments are assumed to be received 7.5 days prior to each payment
- While held in cash, all interest and principal receipts are assumed to earn a per annum rate of 1m LIBOR minus 0.25%
- No trading gains or call premiums are assumed
- Defaults, if applicable, start 18 months after issuance and default rate is assumed to be a percentage of outstanding collateral, unless otherwise specified
- Recoveries are realized immediately upon default at a 60% recovery rate

Potential investors should review the definitive Offering Circular relating to the Notes, including the descriptions of Risk Factors contained in such Offering Circular prior to making a decision to invest in the Notes. The definitive Offering Circular will supersede this document in its entirety.

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Appendix A – Portfolio Asset List

Note: The information in this section is preliminary and subject to change

Portfolio Composition

Comprehensive CDO Collateral Asset List:

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Portfolio Composition

Comprehensive CDO Collateral Asset List:

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Portfolio Composition

Comprehensive CDO Collateral Asset List:

Confidential Treatment Requested by Goldman Sachs

Portfolio Composition

Comprehensive CDO Collateral Asset List:

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Appendix B – Goldman Sachs Contact Information

Hudson High Grade Funding 2006-1, LTD

Team Contact Information [TO REVISE]

Goldman, Sachs & Co. – Structuring, Placement and Liquidation Agent	
Structured Product CDOs – Structuring. Marketing and Principal Investments	
Peter Ostrem	(212) 357-4617
Darryl K. Herrick	(212) 902-9305
Deva Mishra	(212) 902-1376
Roman Shimonov	(212) 902-2592
Syndication	
Bunty Bohra	(212) 902-7645
Scott Wisenbaker	(212) 902-2858
Mitchell Resnick (London)	+44 (20) 7774-3068
Omar Chaudhary (Tokyo)	+81 (3) 6437-7198
Scott Walter	(212) 357-8910
Tetsuya Ishikawa(London)	+44 (20) 7774-1025

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All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in the final Offering Circular for any securities actually sold to you. The securities have not been and will not be registered under the Securities Act of 1933, as amended, and the issuers will not be registered under the Investment Company Act of 1940, as amended. This Term Sheet is furnished to prospective investors on a confidential basis solely for the purposes of evaluating the investment offered hereby. The information contained herein may not be reproduced or used in whole or in part for any other purposes.

Preliminary Termsheet

September [ ], 2006

Goldman Sachs

Hudson Mezzanine Funding 2006-1, LTD.

$2.0 Billion Static Mezzanine Structured Product CDO

Note: The Class S, Senior Swap, A, B, C, D and E Notes (the "Notes") have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being sold (a) in the United States only to qualified institutional buyers ("QIBs") in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A who are also qualified purchasers as defined in the Investment Company Act of 1940, and (b) outside the United States to non- U.S. persons in reliance on Regulation S.

Security	Expected Par Amount	% of Par	Initial Over-Collateralization	Expected Ratings (Moody's/S&P)	Coupon	Expected Avg Life
Class S	[ ]	N/A	N/A	Aaa/AAA	Not Offered	[2.8]
Senior Swap	$1,200.0 MM	60.00%	166.7%	Aaa/AAA	Not Offered	[3.7]
Class A1	$150.0 MM	7.50%	133.3%	Aaa/AAA	1mL+[ ] bps	[2.0]
Class A2	$150.0 MM	7.50%	133.3%	Aaa/AAA	1mL+[ ] bps	[6.0]
Class B	$160.0 MM	8.00%	120.5%	Aa2/AA	1mL+[ ] bps	[5.1]
Class C	$100.0 MM	5.00%	113.6%	A2/A	1mL+[ ] bps	[5.3]
Class D	$150.0 MM	7.50%	104.7%	Baa2/BBB	1mL+[ ] bps	[5.1]
Class E	$30.0 MM	1.50%	103.1%	Ba1/BB+	1mL+[ ]bps	[5.3]
Income Notes	$60.0 MM	3.00%	N/A	NR	N/A	N/A

Transaction Overview

- Hudson Mezzanine Funding 2006-1 will be a static $2.0 billion cashflow CDO consisting of a diversified portfolio of single-name credit default swaps on RMBS securities.
- Goldman Sachs, & Co. ("Goldman") selects the assets.
- 60% of the assets will be single name CDS referencing all forty obligors in ABX 2006-1 and ABX 2006-2.
- The portfolio consists of collateral which is rated at least Baa3 and BBB- with an average rating of Baa2/Baa3. 100% will be real-estate related securities.
- Low fee structure and less "bar-belled" portfolio than other mezzanine CDOs in the current market
- Goldman, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" within 12 months of said determination. Credit Risk assets will include:
  - Any asset downgraded by Moody's or S&P below Ba3 or BB-
  - Any asset that is defaulted or would be experiencing a credit event as defined by the PAUG confirm
- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" will be sold by the Liquidation Agent within one year of such determination.
- Goldman will invest in a portion of the Income Notes at closing.

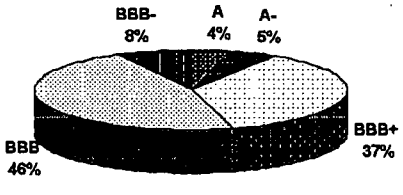
Structural Highlights

- Pure static structure eliminates reinvestment risk and shortens expected weighted average lives on liabilities
  - No reinvestment, substitution, or discretionary trading
  - Proceeds from credit-risk sales will be treated as principal paydowns or notional reduction of the Senior Swap
- Liquidation Agent Fees: 10 bps per annum
- 100% ramped at closing and 100% certainty of all assets in collateral portfolio to be included in transaction
- No fixed rate assets in the portfolio eliminates possibility of an interest rate swap hedge mismatch

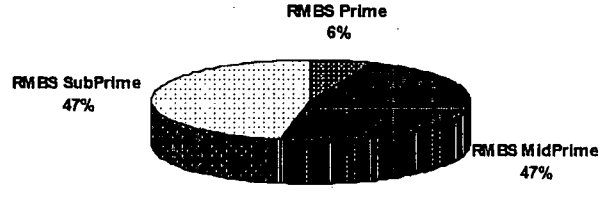
Current Portfolio Characteristics

Par Value of Collateral ($MM)	$2,000
Total Expected Portfolio Size ($MM)	$2,000
% Ramped	100%
Moody's Weighted Average Rating Factor	485
Weighted Average Life	[4.0] years
Number of Positions	140
Distinct Obligors	100
Duration Weighted DM	[184] bps

Ratings Composition of Target Warehouse Portfolio (1)



Sector Composition of Target Warehouse Portfolio



(1) Based on S&P Ratings

CDO Structuring, Marketing and Principal Investments

Peter Ostrem	+1 (212) 357-4617
Darryl Herrick	+1 (212) 902-9305

Syndicate

Bunty Bohra	+1 (212) 357 4617
Scott Wisenbaker	+1 (212) 902 2858
Mitch Resnick	+44 20 7774 3068
Omar Chaudhary	+81 3 6437 7198

No securities are being offered by these summary materials. If the securities described herein or other securities are ultimately offered, they will be offered only pursuant to a definitive Offering Circular, and prospective investors who consider purchasing any such securities should make their investment decisions based only upon the information provided therein (including the "Risk Factors" section contained therein) and consultation with their own advisers. This material is for your private information and we are not soliciting any action based upon it. This material is not to be construed as an offer to sell or the solicitation of any offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This material is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. By accepting this material the recipient agrees that it will not distribute or provide the material to any other person. The information contained in this material may not pertain to any securities that will actually be sold. The information contained in this material may be based on assumptions regarding market conditions and other matters as reflected therein. We make no representations regarding the reasonableness of such assumptions or the likelihood that any of such assumptions will coincide with actual market conditions or events, and this material should not be relied upon for such purposes. We and our affiliates, officers, directors, partners and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities mentioned therein or derivatives thereof (including options). Information contained in this material is current as of the date appearing on this material only. Information in this material regarding any assets backing any securities discussed herein supersedes all prior information regarding such assets. All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in any final Offering Circular for any securities actually sold to you. Goldman Sachs does not provide accounting, tax or legal advice. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits expected to be claimed with respect to such transactions, and all materials of any kind (including tax opinions and other tax analyses) relating to those benefits, without Goldman Sachs imposing limitation of any kind.

All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in the final Offering Circular for any securities actually sold to you. The securities have not been and will not be registered under the Securities Act of 1933, as amended, and the issuers will not be registered under the Investment Company Act of 1940, as amended. This Term Sheet is furnished to prospective investors on a confidential basis solely for the purposes of evaluating the investment offered hereby. The information contained herein may not be reproduced or used in whole or in part for any other purposes.

Transaction Details

Issuer:	Hudson Mezzanine Funding 2006-1, LTD, incorporated with limited liability in the Cayman Islands
Co-Issuer:	Hudson Mezzanine Funding 2006-1, Corp, corporation organized under the laws of the State of Delaware
Liquidation Agent:	Goldman, Sachs & Co.
Trustee:	[ ]
Initial Purchaser:	Goldman Sachs & Co.
Offering Type:	Reg S (Non-U.S. Persons only), Rule 144A. Rule 144A purchasers must be qualified purchasers under the Investment Company Act of 1940
Listing, Clearing & Settlement:	Application may be made to admit the securities on a stock exchange at the Issuer's choice, if practicable. There can be no assurance that any such application will be made and that any such admission will be granted. The Class S, A, B, C, D and E Notes will settle through Euroclear/Clearstream/DTC. Notes will settle with accrued interest, if any, from the Closing Date. The initial LIBOR Rate on the S, A, B, C, D and E Notes will be set two business days prior to the Closing Date
Reinvestment Period:	None
Non-Call Period:	Approximately three years. Callable in whole on or after April 2010 by a majority vote of the Income Notes
Auction Call Date:	Starting April 2015 and annually in April thereafter
Minimum Call Price:	Class S, A, B, C, D and E Notes (if issued) at par plus accrued interest. There is no call premium to the Income Notes
Legal Final Maturity:	April 2042 for the [Senior Swap], Class A, B, C, D and E Notes. April [2015] for the Class S
Payment Frequency:	The Senior Swap, Class S, A, B, C, D and E Notes will receive premium and interest payments monthly, commencing April 2007. The Senior Swap, Class S, A, B, C, D and E Notes will receive principal payments and reduce outstanding principal amounts monthly, commencing April 2007. Income Notes will receive distributions according to the payment waterfall quarterly, commencing April 2007
Liquidation Agent Fee:	10 bps per annum, payable senior to premium on the Senior Swap and payable monthly, commencing April 2007
ERISA Eligible:	The Class S, A, B, C, and D Notes are expected to be ERISA eligible, assuming that the purchase is not a prohibited transaction for the purchaser
Tax Treatment:	Class S, Senior Swap, A, B, C, and D Notes will be treated as debt
Controlling Class:	The Class S, Senior Swap and A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C, Class D and Class E Notes in that order until each Class is paid in full
Collateral:	Single name credit default swaps referencing RMBS securities

Coverage Tests

Coverage Test	Expected Closing Date Values	Target OC Coverage Required	Minimum Ongoing OC Coverage Requirement
Senior Overcollateralization Ratio[1]	[120.5]%	[122.5]%	[114.0]%
Class C Note Overcollateralization Ratio	[113.6]%	[115.0]%	[108.0]%
Class D Note Overcollateralization Ratio	[104.7]%	[106.1]%	[101.6]%
Class E Note Overcollateralization Ratio	[103.1]%	[104.3]%	[101.0]%[2]

[1] The Senior Swap, Class A and Class B ratios will be combined and known as Senior OC ratios

[2] Class E Interest Diversion Test set at 101.0%. After regular payments of premium, interest, amortization and principal to the Senior Swap, Class S, A, B, C, D and E Notes but before any payment to the Income Notes, if the Class E Note Overcollateralization Ratio is less than [101.0]%, then all excess interest proceeds will be paid to amortize the principal balance of the Class E Notes

Synthetic Securities

Synthetic Securities:	Pay-As-You-Go ("PAUG") ISDA
Interest Shortfall Basis:	Fixed Cap Applicable
Credit Events:	Writedown Failure to Pay Principal Distressed Ratings Downgrade
Default Swap Collateral:	Proceeds from the issuance of the securities deposited with Goldman Sachs in exchange for Default Swap Collateral. Default Swap Collateral will be delivered to Goldman, (i) to settle any Credit Events, (ii) to pay Physical Settlement Amounts, (iii) to pay certain Synthetic Security Termination Payments and in exchange for Synthetic Security Counterparty Principal Payments. If the Default Swap Collateral is not sufficient to settle any Credit Event, pay any Physical Settlement Amount, or to pay any such Synthetic Security Termination Payment, generally, the Senior Swap Counterparty will pay such amounts.

No securities are being offered by these summary materials. If the securities described herein or other securities are ultimately offered, they will be offered only pursuant to a definitive Offering Circular, and prospective investors who consider purchasing any such securities should make their investment decisions based only upon the information provided therein (including the "Risk Factors" section contained therein) and consultation with their own advisers. This material is for your private information and we are not soliciting any action based upon it. This material is not to be construed as an offer to sell or the solicitation of any offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This material is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. By accepting this material the recipient agrees that it will not distribute or provide the material to any other person. The information contained in this material may not pertain to any securities that will actually be sold. The information contained in this material may be based on assumptions regarding market conditions and other matters as reflected therein. We make no representations regarding the reasonableness of such assumptions or the likelihood that any of such assumptions will coincide with actual market conditions or events, and this material should not be relied upon for such purposes. We and our affiliates, officers, directors, partners and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities mentioned therein or derivatives thereof (including options). Information contained in this material is current as of the date appearing on this material only. Information in this material regarding any assets backing any securities discussed herein supersedes all prior information regarding such assets. All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in any final Offering Circular for any securities actually sold to you. Goldman Sachs does not provide accounting, tax or legal advice. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits expected to be claimed with respect to such transactions, and all materials of any kind (including tax opinions and other tax analyses) relating to those benefits, without Goldman Sachs imposing limitation of any kind.

From: Herrick, Darryl K
Sent: Saturday, September 30, 2006 7:17 PM
To: Bieber, Matthew G.
Subject: Re: Hudson Mezz

Thanks

----- Original Message -----
From: Bieber, Matthew G.
To: Herrick, Darryl K
Sent: Sat Sep 30 19:13:55 2006
Subject: RE: Hudson Mezz

Left some comments on your chair.

From: Herrick, Darryl K
Sent: Saturday, September 30, 2006 11:54 AM
To: Ostrem, Peter L; Case, Benjamin; Bieber, Matthew G.
Subject: Hudson Mezz

<< File: Hudson Mezz Debt Book 2006-09-283.ppt >> << File: Hudson Mezz Termsheet 2006-09-27 Sales.doc >>
Team, We are planning to begin marketing Hudson Mezz this week

I have attached is the marketing book and term sheet as it currently stands (still updating stress runs)

Would appreciate any feedback/comments you have on this because it discusses the current CDO and more importantly what our desk's strategy is with Hudson program for the future. Be interested in getting everyone's color

I am in the office tomorrow so can talk then or whenever you get a chance can reach me on my cell (646) 526-8256
Darryl

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2253

Confidential Treatment Requested by Goldm

From: Swenson, Michael
Sent: Wednesday, September 27, 2006 6:32 PM
To: Birnbaum, Josh
Subject: Abx cdo

I am concerned that the levels we put on the abx cdo for single-a and triple-bs do not compare favorably with the single-a off of a abx 1 + abx 2 trade.

We need a goog story as to why we think the risk is different.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2266

Confidential Treatment Requested by Goldm

(Multicurrency—Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of December 1, 2006

among

GOLDMAN SACHS INTERNATIONAL and HUDSON MEZZANINE FUNDING 2006-1, LTD.

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions. Accordingly, the parties agree as follows: —

1. Interpretation

(a) ***Definitions.*** The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) ***Inconsistency.*** In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) ***Single Agreement.*** All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) General Conditions.

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2267

Confidential Treatment Requested b

(b) *Change of Account*. Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) *Netting*. If on any date amounts would otherwise be payable:—

(i) in the same currency; and

(ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) *Deduction or Withholding for Tax.*

(i) *Gross-Up*. All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

(1) promptly notify the other party ("Y") of such requirement;

(2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;

(3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and

(4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

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(ii) ***Liability***. If: —

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) ***Default Interest; Other Amounts***. Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:—

(a) ***Basic Representations***.

(i) ***Status***. It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) ***Powers***. It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) ***No Violation or Conflict***. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) ***Consents***. All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) ***Obligations Binding***. Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

Confidential Treatment Requested by Goldman Sachs GS MBS-E-021822058

(b) ***Absence of Certain Events***. No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) ***Absence of Litigation***. There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) ***Accuracy of Specified Information***. All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) ***Payer Tax Representation***. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) ***Payee Tax Representations***. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) ***Furnish Specified Information***. It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:—

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) ***Maintain Authorisations***. It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) ***Comply with Laws***. It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) ***Tax Agreement***. It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) ***Payment of Stamp Tax***. Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

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organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. Events of Default and Termination Events

(a) *Events of Default*. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) *Failure to Pay or Deliver*. Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) *Breach of Agreement*. Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) *Credit Support Default*.

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) *Misrepresentation*. A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) *Default under Specified Transaction*. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) *Cross Default*. If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

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described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) ***Bankruptcy***. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party: —

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) ***Merger Without Assumption***. The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer: —

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) ***Termination Events***. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

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Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:—

(i) ***Illegality***. Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party): —

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) ***Tax Event***. Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) ***Tax Event Upon Merger***. The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) ***Credit Event Upon Merger***. If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) ***Additional Termination Event***. If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) ***Event of Default and Illegality***. If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

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6. **Early Termination**

(a) ***Right to Terminate Following Event of Default.*** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) ***Right to Terminate Following Termination Event.***

(i) ***Notice.*** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) ***Transfer to Avoid Termination Event.*** If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) ***Two Affected Parties.*** If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) ***Right to Terminate.*** If: —

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

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continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) ***Effect of Designation.***

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) ***Calculations.***

(i) ***Statement.*** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) ***Payment Date.*** An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) ***Payments on Early Termination.*** If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) ***Events of Default.*** If the Early Termination Date results from an Event of Default: —

(1) *First Method and Market Quotation.* If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) *First Method and Loss.* If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) *Second Method and Market Quotation.* If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

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Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) *Second Method and Loss.* If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) ***Termination Events.*** If the Early Termination Date results from a Termination Event: —

(1) *One Affected Party.* If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) *Two Affected Parties.* If there are two Affected Parties: —

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) ***Adjustment for Bankruptcy.*** In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) ***Pre-Estimate.*** The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

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7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that: —

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Contractual Currency

(a) ***Payment in the Contractual Currency***. Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) ***Judgments***. To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) ***Separate Indemnities***. To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) ***Evidence of Loss***. For tbe purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

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9. Miscellaneous

(a) ***Entire Agreement.*** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) ***Amendments.*** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) ***Survival of Obligations.*** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) ***Remedies Cumulative.*** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) ***Counterparts and Confirmations.***

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall he entered into as soon as practicable and may he executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) ***No Waiver of Rights.*** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) ***Headings.*** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. Offices; Multibranch Parties

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

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to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. Notices

(a) ***Effectiveness.*** Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:—

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) ***Change of Addresses.*** Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. Governing Law and Jurisdiction

(a) ***Governing Law.*** This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) ***Jurisdiction.*** With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) ***Service of Process.*** Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

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reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) *Waiver of Immunities*. Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:—

"Additional Termination Event" has the meaning specified in Section 5(b).

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"Affiliate" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Applicable Rate" means:—

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"Burdened Party" has the meaning specified in Section 5(b).

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

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"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and ***"lawful"*** and ***"unlawful"*** will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

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been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"***Non-default Rate***" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"***Non-defaulting Party***" has the meaning specified in Section 6(a).

"***Office***" means a branch or office of a party, which may be such party's head or home office.

"***Potential Event of Default***" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"***Reference Market-makers***" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"***Relevant Jurisdiction***" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"***Scheduled Payment Date***" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"***Set-off***" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"***Settlement Amount***" means, with respect to a party and any Early Termination Date, the sum of: —

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"***Specified Entity***" has the meanings specified in the Schedule.

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"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Currency" has the meaning specified in the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"Termination Event" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

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value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (h) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

Goldman Sachs International *(Party A)*	**Hudson Mezzanine Funding 2006-1, Ltd.** *(Party B)*
By: _____	By: _____
Name:	Name:
Title: Matthew Flett Authorised Signatory	Title:

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value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

Goldman Sachs International *(Party A)*	**Hudson Mezzanine Funding 2006-1, Ltd.** *(Party B)*
By: _____	By: _____
Name:	Name: Carrie Bunton
Title:	Title: Director

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SCHEDULE

to the

ISDA MASTER AGREEMENT

dated as of

December 1, 2006

between

GOLDMAN SACHS INTERNATIONAL,

a company organized under the law of England and Wales

("GSI"),

and

HUDSON MEZZANINE FUNDING 2006-1, LTD.,

a corporation incorporated under the laws of the Cayman Islands

("Counterparty")

Part 1. Termination Provisions

(a) **"Specified Entity"**

(i) means, in relation to GSI, Goldman, Sachs & Co., Goldman Sachs Capital Markets, L.P., J. Aron & Company, Goldman Sachs (Japan) Ltd., Goldman Sachs International Bank, Goldman Sachs (Asia) Finance, Goldman Sachs Financial Markets, L.P., Goldman Sachs Paris Inc. et Cie, Goldman Sachs Mitsui Marine Derivative Products, L.P., Goldman, Sachs & Co. oHG, and J. Aron & Company (Singapore) Pte. for the purpose of Section 5(a)(v), and shall not apply for purposes of Sections 5(a)(vi), 5(a)(vii) and 5(b)(iv); and

(ii) means, in relation to Counterparty, none for the purpose of Sections 5(a)(v), 5(a)(vi), 5(a)(vii) and 5(b)(iv).

(b) **"Specified Transaction"**. The term "Specified Transaction" in Section 14 of the Agreement is amended in its entirety as follows:

"***Specified Transaction***" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such

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party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) (i) which is a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, commodity spot transaction, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, weather swap, weather derivative, weather option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, securities lending transaction, or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any of these transactions) or (ii) which is a type of transaction that is similar to any transaction referred to in clause (i) that is currently, or in the future becomes, recurrently entered into the financial markets (including terms and conditions incorporated by reference in such agreement) and that is a forward, swap, future, option or other derivative on one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, or economic indices or measures of economic risk or value, (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this agreement or the relevant confirmation."

(c) The "**Breach of Agreement**" provisions of Section 5(a)(ii) will not apply to GSI and will not apply to Counterparty

(d) The "**Credit Support Default**" provisions of Section 5(a)(iii) will apply to GSI and will apply to Counterparty, but, in respect of Counterparty, shall be amended as follows:

(i) Section 5(a)(iii)(1) shall take effect with the words "relating to payment, delivery of collateral or the establishment or maintenance of, deposit to or withdrawal from the Collateral Account (as defined in the Indenture)" inserted after the words "any agreement or obligation" and by inserting the words " and, for the avoidance of doubt, a default in the payment of any interest on a Class E Note while the Senior Swap or a Class S Note, Class A Note, Class B Note, Class C Note or Class D Note is outstanding or, a default in the payment of any interest on a Class D Note while the Senior Swap or a Class S Note, Class A Note, Class B Note or Class C Note is outstanding or, a default in the payment of any interest on a Class C Note while the Senior Swap or a Class S Note, Class A Note or Class B Note is outstanding will not constitute a "Credit Support Default' hereunder" at the end of such Section 5(a)(iii)(1).

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(ii) Section 5(a)(iii)(2) shall be replaced in its entirety by the following: "the expiration or termination of such Credit Support Document or the failure or ceasing of such Credit Support Document, or any security interest granted by such party or such Credit Support Provider to the other party pursuant to any such Credit Support Document, to be in full force and effect for the purpose of this Agreement (in each case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or".

(e) The "**Misrepresentation**" provisions of Section 5(a)(iv) will not apply to GSI and will not apply to the Counterparty.

(f) The "**Default Under Specified Transaction**" provisions of Section 5(a)(v) will not apply to GSI and will not apply to the Counterparty.

(g) The "**Cross Default**" provisions of Section 5(a)(vi) will not apply to GSI and will not apply to Counterparty.

(h) The "**Bankruptcy**" provisions of Section 5(a)(vii) will apply to GSI and will apply to Counterparty, but, in respect of Counterparty, shall be amended as follows:

(i) Sections 5(a)(vii)(2) shall not apply,

(ii) Section 5(a)(vii)(3) shall take effect with the words "the Noteholders" substituted for "its creditors",

(iii) The words "(which, for the avoidance of doubt, shall not be construed as meaning the Trustee appointed pursuant to the issue of the Notes)" shall be added after the word "trustee" in Section 5(a)(vii)(6),

(iv) Section 5(a)(vii)(6) and (7) shall take effect with the words "its assets comprised in the Pledged Assets (as defined in the Indenture)" substituted for "all or substantially all its assets", and

(v) Section 5(a)(vii)(8) shall take effect with reference to the other clauses of Section 5(a)(vii) as amended by this Part 1(h) of the Schedule.

(i) The "**Credit Event Upon Merger**" provisions of Section 5(b)(iv) will not apply to GSI and will not apply to Counterparty.

(j) The "**Automatic Early Termination**" provision of Section 6(a) will not apply to GSI and will not apply to Counterparty.

(k) **Payments on Early Termination**. For the purpose of Section 6(e):

(i) Market Quotation will apply.

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(ii) The Second Method will apply.

(l) "**Termination Currency**" means United States Dollars.

(m) The parties agree to amend the following subsections of Section 5(a) as follows:

(i) clause (i): in the third line of this clause, delete the word "third" and insert the word "first;"

(ii) clause (ii): in the fifth line of this clause, delete the word "thirtieth" and insert the word "fifth;" and

(iii) clause (vii)(4): delete, following the word "liquidation" in line 9, the clause beginning with "and, in the case of" and ending with the word "thereof" in line 13; and in Clause (vii)(7): delete, following the word "assets" in line 19, the clause beginning with "and such secured party" and ending with the word "thereafter" in line 21, to eliminate the 30-day grace period.

(n) **Additional Termination Event** will apply.

(I) Each of the following shall constitute an Additional Termination Event with respect to Counterparty:

a. It shall be an Additional Termination if an Event of Default (as defined in the Indenture) with respect to the Notes occurs and is continuing and there has been a liquidation (in whole), or the commencement of a liquidation (in whole), of the assets of Counterparty as set forth in the Indenture.

b. It shall be an Additional Termination Event if Counterparty redeems the Secured Notes in full pursuant to the Indenture (from proceeds at least equal to the applicable Secured Redemption Price) or the outstanding principal balance of the Secured Notes amortizes down to zero.

c. It shall be an Additional Termination Event if, the Indenture is supplemented or amended without the consent of GSI and such supplement or amendment affects the provisions governing the rights of the Credit Protection Buyer (as such term is defined in the Indenture) and has, in the reasonable judgment of GSI, a material adverse effect on GSI, provided, however that such consent shall not be unreasonably withheld or delayed by GSI, provided further that GSI has notified the Counterparty that such supplement or amendment would have a material adverse effect on GSI after GSI has received notice of any such supplement or amendment in accordance with Section 8.1(g) of the Indenture.

d. It shall be an Additional Termination Event if GSI, in its capacity as Credit Protection Buyer is no longer a Secured Party under the Indenture

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or if the Trustee's security interest in the Collateral and the Collateral Account is impaired or no longer existing.

For the purpose of each of the foregoing Additional Termination Events, the Affected Party shall be the Counterparty.

(II) The following shall constitute an Additional Termination Event with respect to GSI.

Failure by GSI to take any action required under the ratings downgrade provision set forth below, unless the Rating Agency Condition (as defined herein) has been satisfied notwithstanding such failure.

(i) In the event that any Notes rated by S&P remain outstanding and the unsecured, unsubordinated debt rating of GSI or GSI's Credit Support Provider, whichever is higher, assigned by S&P at any time falls below "AA-" (or is on downgrade watch at "AA-") for its long term rating, and GSI shall fail to make the Expected Fixed Payment as set forth in the related Confirmation, GSI shall, or shall cause its Credit Support Provider to, within 30 days of the date of such downgrade:

(A) transfer all of its rights and obligations under this Agreement to another entity which has such required ratings; or

(B) cause an entity with such required ratings to guarantee or provide an indemnity in respect of GSI's or its Credit Support Provider's obligations under this Agreement in a manner which satisfies the Rating Agency Condition with respect to S&P.

(ii) In the event that any Notes rated by Moody's remain outstanding and the unsecured, unsubordinated debt rating of GSI or GSI's Credit Support Provider, whichever is higher, assigned by Moody's at any time falls below "Aa3" for its long term rating (or is on downgrade watch at "Aa3"), and GSI shall fail to make the Expected Fixed Payment as set forth in the related Confirmation, GSI shall, or shall cause its Credit Support Provider to within 30 days of the date of such downgrade:

(A) transfer all of its rights and obligations under this Agreement to another entity which has such required ratings; or

(B) cause an entity with such required ratings to guarantee or provide an indemnity in respect of GSI's or its Credit Support Provider's obligations under this Agreement in a manner which satisfies the Rating Agency Condition with respect to Moody's.

(iii) For the avoidance of doubt, GSI shall be responsible for:

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(i) locating a party with the required ratings to transfer (within 30 days and at its own cost) all its interest in and obligations under this Agreement or to guarantee or provide an indemnity in respect of, its obligations under this Agreement or to post collateral in accordance with the CSA; and

(ii) any cost incurred by it in complying with its obligations under this Part 1(n).

(iv) In the event that any Notes rated by S&P remain outstanding and the unsecured, unsubordinated debt rating of GSI or GSI's Credit Support Provider, whichever is higher, assigned by S&P at any time falls below "BBB+" for its long term rating and GSI or GSI's Credit Support Provider posts collateral under a CSA, GSI shall, or shall cause its Credit Support Provider to, within 30 days of the date of such downgrade to provide to Counterparty an opinion as to the enforceability of such CSA, subject to customary and usual assumptions, carveouts and exceptions.

For the purpose of each of the foregoing Additional Termination Events, the Affected Party shall be GSI and all Transactions shall be Affected Transactions.

(o) **Early Termination.** Notwithstanding anything to the contrary in Section 6(a) or Section 6(b), the parties agree that, except with respect to Transactions (if any) that are subject to Automatic Early Termination under Section 6(a), the Non-defaulting Party or the party that is not the Affected Party (in a case where a Termination Event under Section 5(b)(iv) has occurred) is not required to terminate the Transactions on a single day, but rather may terminate the Transactions over a commercially reasonable period of time (not to exceed ten days) (the "Early Termination Period"). The last day of the Early Termination Period shall be the Early Termination Date for purposes of Section 6; provided, however, that interest shall accrue on the Transactions terminated during the Early Termination Period prior to the Early Termination Date at the Non-default Rate.

Part 2. Tax Representations

(a) **Payer Tax Representations.** For the purposes of Section 3(e), GSI and Counterparty make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii), or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement contained in Section 4(a)(i) or 4(a)(iii) of this Agreement, and the accuracy and effectiveness of

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any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement, and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, provided that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(b) **Payee Tax Representations.** For the purpose of Section 3(f), GSI and Counterparty make the following representation: Not Applicable.

Part 3. Agreement to Deliver Documents

(a) For the purpose of Section 4(a), Tax forms, documents, or certificates to be delivered are:

none

(b) Other documents to be delivered are:

Party required to deliver	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
GSI and Counterparty	Evidence of authority of signatories	Upon or promptly following execution of this Agreement	Yes
GSI and Counterparty	Any Credit Support Document specified in Part 4(f) herein	Upon execution of this Agreement	No
GSI	Most recent annual audited and quarterly financial statements of the Credit Support Provider	Promptly following reasonable demand by the other party	Yes
Counterparty	Certified resolutions of its board of directors or other governing body	Upon execution of this Agreement	Yes
Counterparty	Legal opinion with respect to Counterparty	Upon execution of this Agreement	No
Counterparty	A copy of the Note Valuation Report (as defined in the Indenture)	Upon request from GSI	Yes

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Party required to deliver	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
Counterparty	A duly executed copy of the Indenture and a copy of the final Offering Memorandum	As soon as practicable after the execution of this Agreement	No

Part 4. Miscellaneous

(a) **Addresses for Notices.** For the purpose of Section 12(a):

(i) Address for notices or communications to GSI:

Address: Peterborough Court
133 Fleet Street
London EC4A 2BB

Fixed Income / Credit Derivatives: Facsimile No. 44-20-7774 5115
Equity Derivatives: Facsimile No. 44-20-7774 1500
Foreign Exchange Facsimile No. 44-20-7774 1201
Legal Department: Facsimile No. 44-20-7774 1313
Telephone No. 44-20-7774-1000

(ii) Address for notices or communications to Counterparty:

Hudson Mezzanine Funding 2006-1, Ltd.
Maples Finance Limited
P.O. Box 1093 GT
Queensgate House, South Church Street
George Town, Grand Cayman
Cayman Islands
Tel: (345) 945-7099
Fax: (345) 945-7100
Attention: Directors

with a copy to:

The Bank of New York Trust Company, National Association
601 Travis Street, 16th Floor
Houston, Texas 77002
Attention: Global Corporate Trust-Hudson
Mezzanine Funding 2006-1, Ltd.
Tel: (713) 483-6000
Fax: (713) 483-6001

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(b) **Process Agent**. For the purpose of Section 13(c):

GSI appoints as its Process Agent:

Not applicable.

Counterparty appoints as its Process Agent:

CT Corporation, 111 Eighth Avenue, New York, New York 10011

(c) **Offices**. The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party**. For the purpose of Section 10(c):

GSI is not a Multibranch Party.

Counterparty is not a Multibranch Party.

(e) **Calculation Agent**. The Calculation Agent is GSI.

(f) **Credit Support Document**. The Indenture shall constitute a Credit Support Document with respect to the obligations of Counterparty. Details of any other Credit Support Document, each of which is incorporated by reference in, and made part of, this Agreement and each Confirmation (unless provided otherwise in a Confirmation) as if set forth in full in this Agreement or such Confirmation:

(i) Each of the Guaranty by The Goldman Sachs Group, Inc. ("Goldman Group") in favor of Counterparty as beneficiary thereof, and, if a Credit Support Annex is entered into between Counterparty and GSI, such Credit Support Annex, shall constitute a Credit Support Document with respect to the obligations of GSI.

(g) **Credit Support Provider.**

Credit Support Provider means in relation to GSI, Goldman Group.

Credit Support Provider means in relation Counterparty, none.

(h) **Governing Law**. Section 13(a) is hereby replaced with the following:

(a) **Governing Law**. This Agreement and each Transaction entered into hereunder will be governed by, and construed and enforced in accordance with, the law of the State of New York.

(i) **Jurisdiction**. Section 13(b) is hereby amended by:

(i) deleting in the second line of subparagraph (i) thereof the word "non-"; and

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(ii) deleting the final paragraph thereof.

(j) **Netting of Payments.** Subparagraph (ii) of Section 2(c) will not apply to Transactions. Notwithstanding anything to the contrary in Section 2(c), unless otherwise expressly agreed by the parties, the netting provided for in Section 2(c) will not apply separately to any pairings of branches or Offices through which the parties make and receive payments or deliveries.

(k) "**Affiliate**" will have the meaning specified in Section 14 of this Agreement; provided that Counterparty shall be deemed to have no Affiliates other than Hudson Mezzanine Funding 2006-1, Corp.

(l) Notwithstanding any provision of this Agreement or any other existing or future agreement, each party irrevocably waives any and all rights it may have to set off, net, recoup or otherwise withhold or suspend or condition payment or performance of any obligation between it and the other party hereunder against any obligation between it and the other party under any other agreements.

Part 5. Other Provisions

(a) **Accuracy of Specified Information.** Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period, the phrase "or, in the case of audited or unaudited financial statements, a fair presentation of the financial condition of the relevant person."

(b) **[Reserved].**

(c) **Additional Representations.** The parties agree to amend Section 3 by adding new Sections 3(g), (h), and (i) as follows:

(g) **Non-Reliance.** It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(h) **Assessment and Understanding.** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

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(i) **Status of Parties.** The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction.

(d) **Non-Petition.** GSI agrees that it will not, prior to the date following the payment in full of all of the Notes and the expiration of a period of one year and one day thereafter and any additional applicable preference periods then in effect under the United States Bankruptcy Code or other applicable law relating to any such payment, acquiesce, petition or otherwise invoke the process of any governmental authority for the purpose of commencing a case (whether voluntary or involuntary) against Counterparty under any bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of Counterparty or any substantial part of its property or ordering the winding up or liquidation of the affairs of Counterparty; provided, however, that this shall not restrict or prohibit GSI from joining in any existing bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation proceedings or other analogous proceedings under applicable laws. This "Non-Petition" paragraph shall survive termination of this Agreement.

Limited Recourse to Counterparty. Notwithstanding anything to the contrary contained herein, the obligations of Counterparty under this Agreement will constitute limited recourse obligations of Counterparty payable solely from the Collateral in accordance with the Indenture and following realization of the Collateral any obligations of Counterparty and any claim against Counterparty under this Agreement shall be extinguished and shall not thereafter revive. None of the agents, partners, beneficiaries, officers, directors, employees, shareholders or any Affiliate of Counterparty or any of their respective successors or assigns shall be personally liable for any amounts payable, or performance due, under this Agreement. It is understood that the foregoing provisions of this paragraph shall not (i) prevent recourse to the Collateral for the sums due or to become due under any security, instrument or agreement which is part of the Collateral or (ii) constitute a waiver, release or discharge of any obligation under this Agreement until all such Collateral has been realized and applied in accordance with the Indenture, whereupon any outstanding obligation shall be extinguished and shall not thereafter revive. It is further understood that the foregoing provisions of this paragraph shall not limit the right of GSI to declare an Event of Default with respect to Counterparty or to name Counterparty as a party defendant in any action or suit or in the exercise of any other remedy under this Agreement, so long as no judgment in the nature of a deficiency judgment or seeking personal liability shall be asked for or (if obtained) enforced against Counterparty. This "Limited Recourse to Counterparty" paragraph shall survive termination of this Agreement.

(e) **No Transfer without Prior Satisfaction of the Rating Agency Condition.** Section 7 of this Agreement is hereby amended by inserting (i) the following immediately after the words "other party" and immediately before the words ", except that:" "and unless the Rating Agency Condition (as defined herein) is satisfied with respect to such transfer," (ii) in clause (a) the words "or

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reorganization, incorporation, reincorporation, reincorporation or reconstitution into or as," immediately before the word "another."

The last paragraph of Section 6(b)(ii) of this Agreement is hereby deleted in its entirety and replaced with the following paragraph:

"Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party and satisfaction of the Rating Agency Condition, which consent will not be withheld or delayed if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed."

(f) **Counterparty Pledge**. Notwithstanding Section 7 of this Agreement to the contrary, GSI acknowledges that Counterparty will pledge its rights under this Agreement to the Trustee (as defined herein) for the benefit of the Secured Parties (as defined in the Indenture) pursuant to the Indenture, agrees to such pledge and acknowledges and agrees that the Trustee may directly enforce the rights of Counterparty hereunder. GSI shall be entitled to conclusively rely (without independent investigation) on any notice or communication from the Trustee.

(g) **No Amendment without Prior Confirmation by Rating Agencies**. Section 9(b) of this Agreement is hereby amended by adding the following at the end of such Section: ", and the Rating Agency Condition is satisfied with respect to such amendment".

(h) **Additional Definitions**. All capitalized terms used but not otherwise defined in this Agreement shall have the means assigned to them in the Indenture.

"***Credit Support Annex***" or "***CSA***" means the credit support annex, if any, entered into between GSI and Counterparty pursuant to Part 1(n), which credit support annex shall satisfy the Rating Agency Condition.

"***Indenture***" means the Indenture dated as of December 5, 2006, among Hudson Mezzanine Funding 2006-1, Ltd., Hudson Mezzanine Funding 2006-1, Corp. and The Bank of New York Trust Company, National Association, as Trustee and Securities Intermediary, as the same may be amended, modified or supplemented from time to time in accordance with the terms thereof.

"***Moody's***" means Moody's Investors Service.

"***Notes***" means any Class of Notes issued pursuant to the Indenture rated by any Rating Agency.

"***Rating Agency Condition***" shall have the meaning assigned to it in the Indenture.

"***S&P***" means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

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"***Trustee***" means The Bank of New York Trust Company, National Association, as trustee, pursuant to the Indenture.

(i) **Consent to Recording.** Each party consents to the recording of telephone conversations between the trading, marketing and other relevant personnel of the parties, with or without the use of a warning tone, and their Affiliates in connection with this Agreement or any potential Transaction.

(j) **Definitions.** The definition of "Termination Currency Equivalent" in Section 14 is hereby amended by deleting in its entirety the text after the first three lines thereof and replacing it with the following:

> "by the party making the relevant determination in any commercially reasonable manner as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant amount determined in accordance with Section 6(e) is determined as of a later date, that later date, for value on the date the payment or settlement payment is due."

The definition of "Affected Transactions" in Section 14 is hereby amended by deleting in its entirety the text after the word "means" in the first line thereof and replacing it with the following:

> "with respect to any Termination Event, all Transactions which are Transactions under which such Termination Event occurs."

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IN WITNESS WHEREOF, the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

GOLDMAN SACHS INTERNATIONAL	HUDSON MEZZANINE FUNDING 2006-1, LTD.
Name:	Name:
Title: Matthew Flett Authorised Signatory	Title
Date:	Date:

Schedule to Credit Default Swap

IN WITNESS WHEREOF, the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

GOLDMAN SACHS INTERNATIONAL	HUDSON MEZZANINE FUNDING 2006-1, LTD.
Name:	Name: Carrie Bunton
Title:	Title Director
Date:	Date:

Schedule to Credit Default Swap

Execution Copy

- CONFIRMATION

DATE: December 1, 2006

TO: Hudson Mezzanine Funding 2006-1, Ltd.

FROM: Goldman Sachs International
Credit Derivatives Middle Office
Telephone No.: 1 212 357 2610
Facsimile No.: 1 212 428 9189

RE: Credit Derivative Transaction on Asset-Backed Securities with Pay-As-You-Go or Physical Settlement (RMBS)

REF NO: See Annex C

The purpose of this letter (the "Confirmation") is to confirm the terms and conditions of the Credit Derivative Transactions entered into on the Trade Date specified below (each, a Component Transaction, and collectively, the "Transaction") by Goldman Sachs International ("GSI"), guaranteed by The Goldman Sachs Group, Inc. ("Goldman Group"), and Hudson Mezzanine Funding 2006-1, Ltd. ("Counterparty"). This Confirmation constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

This Confirmation is subject to, and incorporates by reference, the 2003 ISDA Credit Derivatives Definitions (the "Credit Derivatives Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA"). This Confirmation supplements, forms a part of and is subject to the ISDA Master Agreement dated as of December 1, 2006 (the "Agreement") between GSI and Counterparty. All provisions contained in, or incorporated by reference to, the Agreement shall govern this Confirmation except as expressly modified below. In the event of any inconsistency between this Confirmation, the Credit Derivatives Definitions, or the Agreement, as the case may be, this Confirmation will control for purposes of each Component Transaction to which this Confirmation relates.

References in this Confirmation to a "Reference Obligation" shall be to the terms of such Reference Obligation (as defined below) set out in the related Underlying Instruments (as defined below) as amended from time to time unless otherwise specified below.

GSI and Counterparty agree that, by entering into this Transaction, they have entered into a separate and independent Credit Derivative Transaction (a "Component Transaction") in respect of each Reference Obligation listed in Annex C attached hereto. A confirmation in the form of this Confirmation shall be deemed to be entered into in respect of each such Component Transaction evidencing the provision of credit default protection with respect to a Credit Event of each such Reference Entity and each such Reference Obligation and that accordingly there may be more than one Credit Event, more than one Physical Settlement amount and more than one Physical Settlement Date and that the Definitions (and in particular the definition of "Termination Date") should, for the purposes of this Confirmation, be interpreted accordingly. Thus relevant sections of the Definitions (including but not limited to Sections 1.8, 3.2 and 7.8)

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shall be construed to apply separately with respect to each Reference Entity or Reference Obligation, as applicable, except as otherwise provided in this Confirmation.

Each Component Transaction (a) constitutes a separate and independent Credit Derivative Transaction between GSI and Counterparty with respect to a Reference Obligation listed in Annex C attached hereto, (b) shall not be affected by any other Credit Derivative Transaction between GSI and Counterparty and (c) shall operate independently of each other Component Transaction in all respects.

The terms of the each Component Transaction to which this Confirmation relates are as follows:

1. General Terms:

Trade Date:	December 1, 2006
Effective Date:	December 5, 2006
Scheduled Termination Date:	Subject to paragraph 5, for each Reference Obligation, the Legal Final Maturity Date set forth in Annex C attached hereto, subject to adjustment in accordance with the Following Business Day Convention.
Termination Date:	The last to occur of: (a) the fifth Business Day following the Effective Maturity Date; (b) the last Floating Rate Payer Payment Date; (c) the last Delivery Date; and (d) the last Additional Fixed Amount Payment Date.
Floating Rate Payer:	Counterparty (the "Seller").
Fixed Rate Payer:	GSI (the "Buyer").
Calculation Agent:	GSI
Calculation Agent City:	New York
Business Day:	New York, Houston and London

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Business Day Convention:	Following (which, with the exception of the Effective Date, the Final Amortization Date, each Reference Obligation Payment Date and the period end date of each Reference Obligation Calculation Period, shall apply to any date referred to in this Confirmation that falls on a day that is not a Business Day).
Reference Entity:	The relevant Reference Entity identified in Annex C attached hereto. References herein to "Issuer" shall mean the Reference Entity for the relevant Component Transaction.
Reference Obligation:	The obligation identified in Annex C attached hereto for the relevant Reference Entity. "Original Principal Amount" shall mean the amount set forth in Annex C hereto for the relevant Reference Obligation. "Initial Factor" shall mean the amount set forth in Annex C hereto for the relevant Reference Obligation. Insurer: Not Applicable. Section 2.30 of the Credit Derivatives Definitions shall not apply.
Reference Policy:	Not Applicable.
Reference Price:	100%
Applicable Percentage:	On any day, a percentage equal to A divided by B. "A" means the product of the Initial Face Amount and the Initial Factor as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Deliverable Obligations Delivered to Seller (as adjusted by the Relevant Amount, if any) divided by the Current Factor on such day multiplied by (b) the Initial Factor. "B" means the product of the Original Principal Amount and the Initial Factor: (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of

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the same legal series as the Reference Obligation; and

(b) as decreased by any cancellations of some or all of the Outstanding Principal Amount resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.

Initial Face Amount: For each Reference Obligation, the Initial Face Amount set forth in Annex C attached hereto.

Reference Obligation Notional Amount: On the Effective Date, the product of:

(a) the Original Principal Amount;

(b) the Initial Factor; and

(c) the Applicable Percentage.

Following the Effective Date, the Reference Obligation Notional Amount will be:

(i) decreased on each day on which a Principal Payment is made by the relevant Principal Payment Amount;

(ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount;

(iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and

(v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the amount determined pursuant to paragraph (b) of "Physical Settlement Amount" below, provided that if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such

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Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date;

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

Initial Payment: Not applicable

2. Fixed Payments:

Fixed Rate Payer: Buyer

Fixed Rate: The relevant Fixed Rate (expressed on a per annum basis) set forth in Annex C attached hereto corresponding to the relevant Reference Obligation; subject to adjustment in accordance with paragraph 5 below.

Fixed Rate Payer Period End Date: The first day of each Reference Obligation Calculation Period.

Fixed Rate Payer Payment Dates: Each day falling five Business Days after a Reference Obligation Payment Date; provided that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date.

Fixed Amount: (I) With respect to any Fixed Rate Payer Payment Date on which the senior unsecured debt ratings of GSI or the Goldman Group, whichever is higher, is at least "AA-" by S&P, (and, if rated "AA-" is not on downgrade watch) and at least "Aa3" by Moody's (and, if rated "Aa3", is not on downgrade watch), an amount equal to the product of:

(a) the Fixed Rate;

(b) an amount determined by the Calculation Agent equal to (i) the sum of the Reference Obligation Notional Amount at 5:00 p.m. in the Calculation Agent City on each day in the related Fixed Rate Payer Calculation Period divided by (ii) the actual number of days in the related Fixed Rate Payer Calculation Period; and

(c) the actual number of days in the related Fixed

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Rate Payer Calculation Period divided by 360.

(II) With respect to any Fixed Rate Payer Payment Date on which the senior unsecured debt ratings of GSI or the Goldman Group, whichever is higher, is below "AA-" by S&P (or, if rated "AA-", is on downgrade watch) or below "Aa3" by Moody's (or, if rated "Aa3", is on downgrade watch), an amount equal to the greater of (a) zero and (b) the Expected Fixed Amount with respect to such Fixed Rate Payer Payment Date.

(III) With respect to the Fixed Rate Payer Payment Date immediately following the downgrade of the senior unsecured debt ratings of GSI or the Goldman Group, whichever is higher, to lower than "AA-" by S&P or "Aa3" by Moody's (or if rated "AA-" or "Aa3", the placement on watch for possible downgrade by S&P or Moody's, respectively), the sum of the amounts calculated pursuant to (I) and (II) above shall be payable with respect to such Fixed Rate Payer Payment Date only.

Expected Fixed Amount: With respect to any Fixed Rate Payer Payment Date, an amount equal to (a) the Fixed Amount for the next succeeding Fixed Rate Payer Calculation Period as calculated pursuant to clause (I) under "Fixed Amount" above, assuming that the Reference Obligation Notional Amount on each day in such Fixed Rate Payer Calculation Period is equal to the Reference Obligation Notional Amount on the last day of the Fixed Rate Payer Calculation Period relating to the Fixed Rate Payer Payment Date on which the payment is being made, plus (b) the difference (which may be positive or negative) between the Expected Fixed Amount paid on the prior Fixed Rate Payer Payment Date, if any, over the Fixed Amount for such Fixed Rate Payer Payment Date as calculated pursuant to clause (I) under "Fixed Amount" above.

Additional Fixed Amount Payment Dates: (a) Each Fixed Rate Payer Payment Date; and

(b) in relation to each Additional Fixed Payment Event occurring after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day after Buyer has received notification

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	from Seller or the Calculation Agent of the occurrence of such Additional Fixed Payment Event.
Additional Fixed Payments:	Following the occurrence of an Additional Fixed Payment Event in respect of the Reference Obligation, Buyer shall pay the relevant Additional Fixed Amount to Seller on the first Additional Fixed Amount Payment Date falling at least two Business Days (or in the case of an Additional Fixed Payment Event that occurs after the second Business Day prior to the last Fixed Rate Payer Payment Date, the fifth Business Day) after the delivery of a notice by the Calculation Agent to the parties or by Seller to Buyer stating that the related Additional Fixed Amount is due and showing in reasonable detail how such Additional Fixed Amount was determined; provided that any such notice must be given on or prior to the fifth Business Day following the day that is one calendar year after the Effective Maturity Date.
Additional Fixed Payment Event:	The occurrence on or after the Effective Date and on or before the day that is one calendar year after the Effective Maturity Date of a Writedown Reimbursement, Principal Shortfall Reimbursement or an Interest Shortfall Reimbursement.
Additional Fixed Amount:	With respect to each Additional Fixed Amount Payment Date, an amount equal to the sum of: (a) the Writedown Reimbursement Payment Amount (if any); (b) the Principal Shortfall Reimbursement Payment Amount (if any); and (c) the Interest Shortfall Reimbursement Payment Amount (if any).
Writedown Reserve Requirement:	Upon receipt of any Writedown Amount, if the long-term rating of Buyer or any guarantor of Buyer's obligations under this Confirmation (whichever is higher) is below "AA-" by S&P (or such rating has been withdrawn), Buyer shall reserve with Seller the related Writedown Reserve Amount, if any.
Writedown Reserve Amounts:	With respect to any Writedown Amount received with respect to which there is a Writedown Reserve Requirement, the excess, if any, of (i) the product of

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(1) the related Reference Obligation Amortized Amount of such Reference Obligation and (2) the Current Market Price of such Reference Obligation over (ii) the Reference Obligation Notional Amount. If on any date Buyer shall be obligated to pay to Seller any Additional Fixed Amount in respect of such Reference Obligation but Buyer fails to do so, the Writedown Reserve Amount, if any, reserved with Seller shall be applied to pay such Additional Fixed Amounts..

3. Floating Payments:

Floating Rate Payer:	Seller
Floating Rate Payer Payment Dates:	In relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Buyer to Seller that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; provided that in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, such notice must be given on or prior to the fifth Business Day following the Legal Final Maturity Date or the Final Amortization Date, as applicable.
Floating Payments:	If a Floating Amount Event occurs, then on the relevant Floating Rate Payer Payment Date, Seller will pay the relevant Floating Amount to Buyer. For the avoidance of doubt, the Conditions to Settlement are not required to be satisfied in respect of a Floating Payment.
Floating Amount Event:	A Writedown, Failure to Pay Principal or an Interest Shortfall.
Floating Amount:	With respect to each Floating Rate Payer Payment Date, an amount equal to the sum of: (a) the relevant Writedown Amount (if any); (b) the relevant Principal Shortfall Amount (if any); and

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(c) the relevant Interest Shortfall Payment Amount (if any).

For the avoidance of doubt, each Writedown Amount, Principal Shortfall Amount or Interest Shortfall Payment Amount (as applicable) shall be calculated using the Applicable Percentage which takes into account the aggregate adjustment made to the Applicable Percentage in respect of all Delivery Dates that have occurred prior to the date of such calculation.

Conditions to Settlement:	Credit Event Notice
Notifying Party:	Buyer
	Notice of Physical Settlement
Notice of Publicly Available Information:	Applicable
Public Sources:	The public sources listed in Section 3.7 of the Credit Derivatives Definitions; provided that Servicer Reports in respect of the Reference Obligation and, in respect of a Distressed Ratings Downgrade Credit Event only, any public communications by any of the Rating Agencies in respect of the Reference Obligation shall also be deemed Public Sources.
Specified Number:	1

provided that if the Calculation Agent has previously delivered a notice to the parties or Buyer has previously delivered a notice to Seller pursuant to the definition of "Floating Rate Payer Payment Dates" above in respect of a Writedown or a Failure to Pay Principal, the only Condition to Settlement with respect to any Credit Event shall be a Notice of Physical Settlement.

The parties agree that with respect to each Component Transaction and notwithstanding anything to the contrary in the Credit Derivatives Definitions:

(a) the Conditions to Settlement may be satisfied on more than one occasion;

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(b) multiple Physical Settlement Amounts may be payable by Seller;

(c) Buyer, when providing a Notice of Physical Settlement, must specify an Exercise Amount and an Exercise Percentage;

(d) if Buyer has delivered a Notice of Physical Settlement that specifies an Exercise Amount that is less than the Reference Obligation Notional Amount as of the date on which such Notice of Physical Settlement is delivered (calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full), the rights and obligations of the parties under the Component Transaction shall continue and Buyer may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any additional Credit Event at any time thereafter; and

(e) any Notice of Physical Settlement shall be delivered no later than 30 calendar days after the fifth Business Day following the earlier of the Effective Maturity Date and the Optional Step-up Early Termination Date.

Section 3.2(d) of the Credit Derivatives Definitions is amended to delete the words "that is effective no later than thirty calendar days after the Event Determination Date".

Credit Events: The following Credit Events shall apply to each Component Transaction (and the first sentence of Section 4.1 of the Credit Derivatives Definition shall be amended accordingly):

Failure to Pay Principal

Writedown

Distressed Ratings Downgrade

Obligation: Reference Obligation Only

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4. Interest Shortfall

Interest Shortfall Payment Amount:	In respect of an Interest Shortfall, the relevant Interest Shortfall Amount; provided that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.
Interest Shortfall Cap:	Interest Shortfall Cap shall apply only in respect of those Component Transactions, if any, for which Interest Shortfall Cap is specified as being applicable on Annex C attached hereto.
Interest Shortfall Cap Amount:	As set out in Annex A attached hereto.
Actual Interest Amount:	With respect to any Reference Obligation Payment Date, payment by or on behalf of the Issuer of an amount in respect of interest due under the Reference Obligation including, without limitation, any deferred interest or defaulted interest, but excluding payments in respect of prepayment penalties or principal (except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) paid to the holder(s) of the Reference Obligation in respect of the Reference Obligation.
Expected Interest Amount:	With respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the Outstanding Principal Amount taking into account any reductions due to a principal deficiency balance or realized loss amount (howsoever described in the Underlying Instruments) that are attributable to the Reference Obligation, minus (b) the Aggregate Implied Writedown Amount (if any), and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in

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accordance with the Underlying Instruments.

Except as provided in (a) in the previous sentence, the Expected Interest Amount shall be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions, and in any case without regard to the effect of any provisions (however described) of the Underlying Instruments that otherwise permit the limitation of due payments or distributions of funds available from proceeds of the Underlying Assets, or that provide for the capitalization or deferral of interest on the Reference Obligation, or that provide for the extinguishing or reduction of such payments or distributions (but, for the avoidance of doubt, taking account of any Writedown within paragraph (i) of the definition of "Writedown" occurring in accordance with the terms of the Underlying Instruments).

Interest Shortfall: With respect to any Reference Obligation Payment Date, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

For the avoidance of doubt, the occurrence of an event within (a) or (b) shall be determined taking into account any payment made under the Reference Policy, if applicable.

Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) the amount equal to the product of:

(i) (A) the Expected Interest Amount;

minus

(B) the Actual Interest Amount; and

(ii) the Applicable Percentage;

provided that, with respect to the first Reference Obligation Payment Date only, the Interest Shortfall Amount shall be the amount determined in accordance with (a) and (b) above multiplied by a fraction equal to:

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(x) the number of days in the first Fixed Rate Payer Calculation Period; over

(y) the number of days in the first Reference Obligation Calculation Period.

Interest Shortfall Reimbursement:	With respect to any Reference Obligation Payment Date, the payment by or on behalf of the Issuer of an Actual Interest Amount in respect of the Reference Obligation (including, for the avoidance of doubt, any payment of principal representing capitalized interest) that is greater than the Expected Interest Amount.
Interest Shortfall Reimbursement Amount:	With respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount. If Interest Shortfall Cap is applicable, the amount determined pursuant to Annex A attached hereto.

5. Consequences of Step-up of the Reference Obligation Coupon

Step-up provisions:	The Step-up provisions shall apply only in respect of those Component Transactions, if any, for which the Step-up provisions are specified as being applicable on Annex C attached hereto. If the Step-up provisions are applicable, then the following provisions of this paragraph 5 shall apply.
Step-up:	On any day, an increase in the Reference Obligation Coupon due to the failure of the Issuer or a third party to redeem, cancel or terminate the Reference Obligation, as the case may be, in accordance with the Underlying Instruments.
Non-Call Notification Date:	The date of delivery by the Calculation Agent to the parties or by Buyer to Seller of a Non-Call Notice.

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Non-Call Notice:	A notice given by the Calculation Agent to the parties or by Buyer to Seller that the Reference Obligation has not been purchased, redeemed, cancelled or terminated by the issuer or a third party, in accordance with the Underlying Instruments, pursuant to a "clean-up call" or other right to purchase, redeem, cancel or terminate (however described in the Underlying Instruments) the Reference Obligation, which failure will result in the occurrence of a Step-up.
Increase of the Fixed Rate:	Subject to "Optional Step-up Early Termination" below, upon the occurrence of a Step-up, the Fixed Rate will be increased by the number of basis points by which the Reference Obligation Coupon is increased due to the Step-up, such increase to take effect as of the Fixed Rate Payer Payment Date immediately following the fifth Business Day after the Non-Call Notification Date.
Optional Step-up Early Termination:	No later than five Business Days after the Non-Call Notification Date, Buyer shall notify Seller (such notification, a "Buyer Step-up Notice") whether Buyer wishes to continue each affected Component Transaction at the increased Fixed Rate or to terminate such Component Transaction. If Buyer elects to terminate a Component Transaction pursuant to the above, the date of delivery of the Buyer Step-up Notice shall be the Scheduled Termination Date (such date, the "Optional Step-up Early Termination Date") and in such case "Increase of the Fixed Rate" in this paragraph 5 shall not apply. No amount shall be payable by either party in respect of the Optional Step-up Early Termination Date other than any Fixed Amount, Additional Fixed Amount, Floating Amount or Physical Settlement Amount due in respect of such date. For the avoidance of doubt, the obligation of a party to pay any amount that has become due and payable under a Component Transaction and remains unpaid as at the Optional Step-up Early Termination Date shall not be affected by the occurrence of the Optional Step-up Early Termination Date.

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If Buyer fails to deliver the Buyer Step-up Notice by the fifth Business Day after the Non-Call Notification Date, Buyer shall be deemed to have elected to continue each affected Component Transaction at the increased Fixed Rate as described under "Increase of the Fixed Rate".

If Buyer elects, or is deemed to have elected, to continue a Component Transaction at the increased Fixed Rate, such Component Transaction shall continue.

6. Settlement Terms

Settlement Method:	Physical Settlement
Terms Relating to Physical Settlement:	
Physical Settlement Period:	Five Business Days
Deliverable Obligations:	Exclude Accrued Interest
Deliverable Obligations:	Deliverable Obligation Category: Reference Obligation Only
Physical Settlement Amount:	An amount equal to:

(a) the product of the Exercise Amount and the Reference Price, minus

(b) the sum of:

(i) if the Aggregate Implied Writedown Amount is greater than zero, the product of (A) the Aggregate Implied Writedown Amount, (B) the Applicable Percentage, each as determined immediately prior to the relevant Delivery and (C) the Exercise Percentage; and

(ii) the product of (A) the aggregate of all Writedown Amounts in respect of Writedowns within paragraph (i)(B) of the definition of "Writedown", minus the aggregate of all Writedown Reimbursement Amounts in respect of

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Writedown Reimbursements within paragraph (ii)(B) of the definition of "Writedown Reimbursement" and (B) the Exercise Percentage;

provided that if the Physical Settlement Amount would exceed the product of:

(1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full; and

(2) the Exercise Percentage;

then the Physical Settlement Amount shall be deemed to be equal to such product.

Delayed Payment: With respect to a Delivery Date, if a Servicer Report that describes a Delayed Payment is delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date, Buyer will pay the applicable Delayed Payment Amount to Seller no later than five Business Days following such Delayed Payment.

Escrow: Applicable

Non-delivery by Buyer: If Buyer has delivered a Notice of Physical Settlement and

(a) Buyer does not Deliver in full the Deliverable Obligations specified in that Notice of Physical Settlement on or prior to the Physical Settlement Date, or

(b) the Effective Maturity Date occurs after delivery of the Notice of Physical Settlement but before Buyer Delivers the Deliverable Obligations specified in that Notice of Physical Settlement,

then such Notice of Physical Settlement shall be deemed not to have been delivered and any reference in this Confirmation to a previously delivered Notice of Physical Settlement shall exclude any Notice of Physical Settlement that is deemed not to have been

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delivered. Sections 9.2(c)(ii) (except for the first sentence thereof), 9.3, 9.4, 9.5, 9.6, 9.9 and 9.10 of the Credit Derivatives Definitions shall not apply.

7. Additional Provisions:

(a) *Delivery of Servicer Report*

If either party makes a reasonable request in writing, the Calculation Agent agrees to provide such party with a copy of the most recent Servicer Report promptly following receipt of such request, if and to the extent such Servicer Report is reasonably available to the Calculation Agent (whether or not the Calculation Agent is a holder of the Reference Obligation). In addition, if a Floating Payment or an Additional Fixed Payment is due hereunder, then the Calculation Agent or the party that notifies the other party that the relevant Floating Payment or Additional Fixed Payment is due, as applicable, (the "Notifying Party") shall deliver a copy of any Servicer Report relevant to such payment that is requested by the party that is not the Notifying Party or by either party where the Notifying Party is the Calculation Agent, if and to the extent that such Servicer Report is reasonably available to the Notifying Party (whether or not the Notifying Party is a holder of the Reference Obligation).

(b) *Calculation Agent and Buyer and Seller Determinations*

The Calculation Agent shall be responsible for determining and calculating (i) the Fixed Amount payable on each Fixed Rate Payer Payment Date; (ii) the occurrence of a Floating Amount Event and the related Floating Amount and (iii) the occurrence of an Additional Fixed Payment Event and the related Additional Fixed Amount; provided that notwithstanding the above, each of Buyer and Seller shall be entitled to determine and calculate the above amounts to the extent that Buyer or Seller, as applicable, has the right to deliver a notice to the other party demanding payment of such amount. The Calculation Agent or Buyer or Seller, as applicable, shall make such determinations and calculations based solely on the basis of the Servicer Reports, to the extent such Servicer Reports are reasonably available to the Calculation Agent or such party. The Calculation Agent or Buyer or Seller, as applicable, shall, as soon as practicable after making any of the determinations or calculations specified in (i) and (ii) above, notify the parties or the other party, as applicable, of such determinations and calculations.

(c) *Adjustment of Calculation Agent Determinations*

To the extent that a Servicer furnishes any Servicer Reports correcting information contained in previously issued Servicer Reports, and such corrections impact calculations pursuant to any Component Transaction, the calculations relevant to such Component Transaction shall be adjusted retroactively by the Calculation Agent to reflect the corrected information (provided that, for the avoidance of doubt, no amounts in respect of interest shall be payable by either party and provided that the Calculation Agent in performing the calculations pursuant to this paragraph will assume that no interest has accrued on any adjusted amount), and the Calculation Agent shall promptly

notify both parties of any corrected payments required by either party. Any required corrected payments shall be made within five Business Days of the day on which such notification by the Calculation Agent is effective.

(d) *Collateral*

On the Effective Date, Counterparty shall deposit Collateral Securities and Eligible Investments with a face value equal to $800,000,000 on the Effective Date to the Collateral Account. Counterparty hereby agrees to maintain any principal proceeds received with respect to the Collateral in the Collateral Account unless another disposition is otherwise authorized hereunder or under the Indenture.

The Counterparty agrees to pledge the Collateral (and the principal proceeds therefrom) deposited from time to time in the Collateral Account and its rights under the Senior Swap and the Collateral Put Agreement to GSI as security for its obligations under the Transaction and grants to GSI a first priority security interest in and lien on all Collateral (and the principal proceeds therefrom) in the Collateral Account in accordance with the Indenture. If at any time an Event of Default or Termination Event with respect to Counterparty has occurred and is continuing, GSI shall have all rights and remedies available to a secured party under applicable law with respect to the Collateral, including, without limitation, the right to direct the liquidation of Collateral and apply the proceeds from such liquidation to any amounts payable by Counterparty in respect of the Component Transactions hereunder.

Notwithstanding anything to the contrary in this Confirmation, GSI acknowledges and agrees that in accordance with the terms of the Indenture, Counterparty's obligations (other than any obligation of Counterparty to pay to GSI any Defaulted Swap Termination Payments) under each Component Transaction will be satisfied by the assets deposited to the Collateral Account. Amounts owing to the GSI will be due and payable in accordance with the terms of this Transaction and will be drawn (i) from the Collateral Account in accordance with the Collateral Liquidation Procedure, and with the benefit of Counterparty's rights under the Collateral Put Agreement, where applicable, and (ii) once the balance of the Collateral Account has been reduced to zero, by demanding payment under the Senior Swap in an amount equal to the lesser of Counterparty's obligations due and the Senior Swap Notional Amount. Counterparty's obligation to pay GSI any Defaulted Swap Termination Payment will not be paid in accordance with the foregoing, but instead will be satisfied only by Proceeds available therefor in accordance with the Priority of Payments. If the Collateral Assets and Counterparty's rights under the Senior Swap are insufficient to satisfy Counterparty's obligations in respect of any Component Transaction hereunder, any such residual obligations of Counterparty shall be extinguished and of no further force or effect.

(e) *Additional Tax Representations*

The parties hereto confirm that this Transaction is not intended to be and does not constitute a contract of surety, insurance, guarantee or indemnity. The parties acknowledge that the payments to be made by the Counterparty will be made

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independently and are not conditional upon GSI sustaining or being exposed to risk or loss and that the rights and obligations of the parties hereunder are not dependent upon GSI owning or having (and do not effectively require GSI to have) any legal, equitable or other interest in the Reference Obligations.

It is the intention of the parties that this Transaction be characterized as a notional principal contract (and not a surety bond, guarantee, insurance or similar contract) for all legal, regulatory and tax purposes. The terms of this Transaction shall be interpreted to further this intention of the parties. Further, each of the parties shall treat this Transaction accordingly for all legal, regulatory and tax reporting purposes and each party waives any right to assert any claim or defense that is inconsistent with this intention of the parties.

(f) *Additional Termination Events*

Subclause (ii) of Part 1(k) of the Schedule to the Master Agreement shall be replaced with the following: "With respect to any Event of Default or Termination Event under the terms of this Transaction where GSI is the Defaulting or Affected Party, the Market Quotation and First Method shall apply, otherwise, the Second Method will apply.

(g) *Failure to Pay*

Section 5(a)(i) of the Master Agreement shall be replaced by the following:

"(i) *Failure to Pay or Deliver*. Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party; *provided however*, that any such failure by the Counterparty to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it shall not constitute an Event of Default under this Section 5(a)(i) if such failure is a result of the Senior Swap Counterparty's failure to pay to the Counterparty any amount due under the Senior Swap."

8. Notice and Account Details:

Telephone, Telex and/or
Facsimile Numbers and
Contact Details for Notices:

Goldman Sachs International
Attention: Credit Derivatives Middle Office London
Tel: 1 212 357 0167
Fax: 1 212 428 9189

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Hudson Mezzanine funding 2006-1, Ltd.
c/o The Bank of New York Trust
Company, National Association
Attention: Global Corporate Trust/Hudson Mezzanine
Funding 2006-1, Ltd.
Tel: 713-483-6000
Fax: 713-483-6001

Account Details:

Account Details of GSI:

For the Account of: Goldman Sachs International
Name of Bank: CITIBANK, NEW YORK
Account No: 40616408
Fed ABA No: 021000089
SWIFT Code: CITIUS33

Account Details of Counterparty:

For the Account of:

Hudson Mezzanine Funding 2006-1, Ltd.
JPMorgan Chase Bank
ABA No.: 021000021
A/C: 00102619468
BNF Name: Asset Backed Structured #2
BNF Address: JPMorgan Chase Tower, Houston, Texas
FC: HUDSON MEZZANINE FUNDING 2006-1, Ltd.
/A/C#: 10228527.2
OBI: Jose Rodriguez / Ref.

9. Additional Definitions and Amendments to the Credit Derivatives Definitions

(a) References in Sections 4.1, 8.2, 9.1 and 9.2(a) of the Credit Derivatives Definitions as well as Section 3(a)(iv) of the form of Novation Agreement set forth in Exhibit E to the Credit Derivatives Definitions to the Reference Entity shall be deemed to be references to both the Reference Entity and the Insurer in respect of the Reference Policy, if applicable.

(b) (i) The definition of "Publicly Available Information" in Section 3.5 of the Credit Derivatives Definitions shall be amended by (i) inserting the words "the Insurer in respect of the Reference Policy, if applicable" at the end of subparagraph (a)(ii)(A) thereof, (ii) inserting the words "servicer, sub-servicer, master servicer" before the words "or paying agent" in subparagraph (a)(ii)(B) thereof and (iii) deleting the word "or" at the end of subparagraph (a)(iii) thereof and inserting at the end of subparagraph (a)(iv) thereof the following: "or (v) is information contained in a notice or on a website published by an internationally recognized rating agency that has at any time rated the Reference Obligation".

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(ii) The definition of "Physical Settlement" in Section 8.1 of the Credit Derivatives Definitions shall be amended by (i) deleting the words "Physical Settlement Amount" from the last line of the second paragraph thereof and (ii) inserting in lieu thereof the words "Exercise Amount".

(iii) The definition of "Physical Settlement Date" in Section 8.4 of the Credit Derivatives Definitions shall be amended by deleting the last sentence thereof.

(c) For the purposes of each Component Transaction only, the following terms have the meanings given below:

"Actual Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, payment on such day by or on behalf of the Issuer of an amount in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Aggregate Implied Writedown Amount" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts minus the aggregate of all Implied Writedown Reimbursement Amounts.

"Approved Dealer": Any of the Persons set forth below or their affiliates set forth below (including the successor to any such Person):

ABN AMRO Bank N.V.;

Banc of America Securities LLC;

Barclays Bank PLC;

Bear, Stearns & Co. Inc.;

BNP Paribas;

Canadian Imperial Bank of Commerce;

Citigroup, Inc.;

Commerzbank AG;

Countrywide Securities Corporation;

Credit Suisse Group;

Deutsche Bank AG;

Dresdner Bank AG;

First Tennessee Bank National Association;

Goldman, Sachs & Co.

Greenwich Capital Markets, Inc.;

HSBC Bank plc;

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JP Morgan Chase & Co.;

Legg Mason, Inc.;

Lehman Brothers, Inc.;

Merrill Lynch & Co., Inc.;

Morgan Stanley & Co., Inc.;

Nomura Securities Co., Ltd.;

Raymond James Financial, Inc.;

Société Generale Group;

TD Bank Financial Group;

UBS AG;

United Capital Markets Inc.;

Wachovia Securities, LLC;

Washington Mutual, Inc; or

WestLB AG.

"Collateral Account" has the meaning set forth in the Indenture.

"Collateral Liquidation Procedure" has the meaning set forth in the Indenture.

"Collateral Put Agreement" means the put agreement entered into by Counterparty and Goldman Sachs International on or prior to the Effective Date.

"Collateral Securities" has the meaning set forth in the Indenture.

"Collateral Securities Eligibility Criteria" has the meaning set forth in the Indenture.

"Current Factor" means the factor of the Reference Obligation as specified in the most recent Servicer Report; provided that if the Current Factor is not specified in the most recent Servicer Report, the Current Factor shall be the ratio equal to (i) the Outstanding Principal Amount as of such date, determined in accordance with the Servicer Report over (ii) the Original Principal Amount.

"Current Market Price" means, at any time of determination, with respect to a Reference Obligation, a percentage price determined by the Calculation Agent and confirmed by the Collateral Administrator by (a) using the pricing service used by the Collateral Administrator in its normal course of business for so long as the quote obtained from such pricing service has been provided by such pricing service within two Business Days of the time of such determination or (b) (1) if subclause (a) above is not applicable, asking five Approved Dealers to quote the offered-side price (excluding accrued interest) for such Reference Obligation (in an amount equal to its Reference Obligation Notional Amount) and (2) for so long as the Collateral Administrator is able to obtain one such quote from one such Approved Dealer, taking the arithmetic average of such quotation(s).

"Current Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of:

(i) zero; and

(ii) the product of:

(A) the Implied Writedown Percentage; and

(B) the greater of:

(1) zero; and

(2) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on the Reference Obligation (all such outstanding asset pool balances as obtained by the Calculation Agent from the most recently dated Servicer Report available as of such day), calculated based on the face amount of the assets in such pool, whether or not any such asset is performing

"Delayed Payment" means, with respect to a Delivery Date, a Principal Payment, Principal Shortfall Reimbursement or a Writedown Reimbursement within paragraph (i) of the definition of "Writedown Reimbursement" that is described in a Servicer Report delivered to holders of the Reference Obligation or to the Calculation Agent on or after such Delivery Date.

"Delayed Payment Amount" means, if persons who are holders of the Reference Obligation as of a date prior to a Delivery Date are paid a Delayed Payment on or after such Delivery Date, and amount equal to the product of (i) the sum of all such Delayed Payments, (ii) the Reference Price, (iii) the Applicable Percentage immediately prior to such Delivery Date and (iv) the Exercise Percentage.

"Distressed Ratings Downgrade" means that the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months of such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such

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Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months of such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; provided that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months of such withdrawal.

"Effective Maturity Date" means the earlier of (a) the Scheduled Termination Date and (b) the Final Amortization Date.

"Eligible Investments" has the meaning set forth in the Indenture.

"Exercise Amount" means, for purposes of a Component Transaction, an amount to which a Notice of Physical Settlement applies equal to the product of (i) the original face amount of the Reference Obligation to be Delivered by Buyer to Seller on the Physical Settlement Date; and (ii) the Current Factor. The Exercise Amount to which a Notice of Physical Settlement relates shall (A) be equal to or less than the Reference Obligation Notional Amount (determined, for this purpose, without regard to the effect of any Writedown or Writedown Reimbursement within paragraphs (i)(B) or (iii) of "Writedown" or paragraphs (ii)(B) or (iii) of "Writedown Reimbursement", respectively) as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though the Physical Settlement of all previously delivered Notices of Physical Settlement has occurred in full and (B) not be less than the lesser of (1) the Reference Obligation Notional Amount as of the date on which the relevant Notice of Physical Settlement is delivered calculated as though Physical Settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full and (2) USD100,000. The cumulative original face amount of Deliverable Obligations specified in all Notices of Physical Settlement shall not at any time exceed the Initial Face Amount.

"Exercise Percentage" means, with respect to a Notice of Physical Settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such Notice of Physical Settlement divided by an amount equal to (i) the Initial Face Amount minus (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the Legal Final Maturity Date, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount (if any) and

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(B) the net aggregate principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) that are attributable to the Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any limited recourse provisions (however described) of the Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch" means Fitch Ratings or any successor to the rating business thereof.

"Implied Writedown Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage" means (i) the Outstanding Principal Amount divided by (ii) the Pari Passu Amount.

"Implied Writedown Reimbursement Amount" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount over the Current Period Implied Writedown Amount, in each case in respect of the Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Legal Final Maturity Date" means the legal final maturity date for the relevant Reference Obligation set forth in Annex C attached hereto (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation),

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provided that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"Moody's" means Moody's Investors Service, Inc. or any successor to the rating business thereof.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(iv) all payments of principal;

(v) all writedowns or applied losses (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(vi) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(vii) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

(viii) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition).

"Pari Passu Amount" means, as of any date of determination, the aggregate of the Outstanding Principal Amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking pari passu in priority with the Reference Obligation.

"Previous Period Implied Writedown Amount" means, in respect of a Reference Obligation Calculation Period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Principal Payment Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Principal Payment on such date and (ii) the Applicable Percentage.

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"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of:

(ix) zero; and

(x) the amount equal to the product of:

(A) the Expected Principal Amount minus the Actual Principal Amount;

(B) the Applicable Percentage; and

(C) the Reference Price.

If the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Amount" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of occurrences of Failure to Pay Principal prior to such Additional Fixed Amount Payment Date.

"Rating Agencies" means Fitch, Moody's and Standard & Poor's.

"Reference Obligation Amortized Amount" means, with respect to a Reference Obligation and any date of determination, (i) the product of (a) the Original Principal Amount, the Initial Factor and the Applicable Percentage minus (ii) the aggregate of Principal Payment Amounts with respect to such Reference Obligation on or prior to such date of determination.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

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"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the Underlying Instruments as at the Effective Date, without regard to any subsequent amendment.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for the Reference Obligation occurring on or after the Effective Date and on or prior to the Scheduled Termination Date, determined in accordance with the Underlying Instruments and (ii) any day after the Effective Maturity Date on which a payment is made in respect of the Reference Obligation.

"Relevant Amount" means, with respect to any Reference Obligation, if a servicer report that described a Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of such Reference Obligation as of a date prior to a Delivery Date but such servicer report is delivered to holders of such Reference Obligation or to the Calculation Agent on or after such Delivery Date, an amount equal to the product of (i) the sum of any such Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage.

"Senior Amount" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

"Senior Swap" means the swap agreement entered into on the Effective Date between Counterparty and Goldman Sachs International with an initial notional amount of $1,200,000,000.

"Senior Swap Notional Amount" has the meaning set forth in the Senior Swap.

"Servicer" means any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the Underlying Instruments.

"Servicer Reports" means periodic statements or reports regarding the Reference Obligation provided by the Servicer to holders of the Reference Obligation.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc. or any successor to the rating business thereof.

"Underlying Assets" means the assets securing the Reference Obligation for the benefit of the holders of the Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of the Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"Underlying Instruments" means the indenture, trust agreement, pooling and servicing agreement or other relevant agreement(s) setting forth the terms of the Reference Obligation.

"Writedown" means the occurrence at any time on or after the Effective Date of:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (howsoever described in the Underlying Instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the Outstanding Principal Amount; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent, as applicable.

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of either:

(i) a payment by or on behalf of the Issuer of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the Issuer of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or

(B) a decrease in the principal deficiency balance or realized loss amounts (howsoever described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Calculation Agent.

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"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of:

(i) the sum of all Writedown Reimbursements on that day;

(ii) the Applicable Percentage; and

(iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to an Additional Fixed Amount Payment Date, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such Additional Fixed Amount Payment Date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by Seller in respect of Writedowns occurring prior to such Additional Fixed Amount Payment Date.

Counterparty hereby agrees (a) to check this Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing correctly sets forth the terms of the agreement between GSI and Counterparty with respect to the Component Transactions to which this Confirmation relates, by manually signing this Confirmation and providing the other information requested herein and immediately returning an executed copy to Swap Administration, Facsimile No.: 1 212 428 9189.

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Goldman Sachs International is authorized and regulated by The Financial Services Authority and has entered into this transaction as principal. The time at which the above transaction was executed will be notified to Counterparty on request.

Yours sincerely,

GOLDMAN SACHS INTERNATIONAL

By: _____
Name:
Title: **Matt Seager**
Executive Director

Agreed and Accepted by:

HUDSON MEZZANINE FUNDING 2006-1, LTD.

By: _____
Name:
Title:

Goldman Sachs International is authorized and regulated by The Financial Services Authority and has entered into this transaction as principal. The time at which the above transaction was executed will be notified to Counterparty on request.

Yours sincerely,

GOLDMAN SACHS INTERNATIONAL

By: _____
Name:
Title:

Agreed and Accepted by:

HUDSON MEZZANINE FUNDING 2006-1, LTD.

By: _____
Name: Carrie Bunton
Title: Director

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Annex A

If Interest Shortfall Cap is applicable, then the following provisions will apply:

Interest Shortfall Cap Basis:	Fixed Cap
Interest Shortfall Cap Amount:	If the Interest Shortfall Cap Basis is Fixed Cap, the Interest Shortfall Cap Amount in respect of an Interest Shortfall shall be the Fixed Amount calculated in respect of the Fixed Rate Payer Payment Date immediately following the Reference Obligation Payment Date on which the relevant Interest Shortfall occurred. If the Interest Shortfall Cap Basis is Variable Cap, the Interest Shortfall Cap Amount applicable in respect of a Floating Rate Payer Payment Date shall be an amount equal to the product of: (a) the sum of the Relevant Rate and the Fixed Rate applicable to the Fixed Rate Payer Calculation Period immediately preceding the Reference Obligation Payment Date on which the relevant Interest Shortfall occurs; (b) an amount determined by the Calculation Agent equal to: (i) the sum of the Reference Obligation Notional Amount as at 5:00 p.m. in the Calculation Agent City on each day in such Fixed Rate Payer Calculation Period divided by (ii) the actual number of days in such Fixed Rate Payer Calculation Period; and (c) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360.
Interest Shortfall Reimbursement Payment Amount:	If Interest Shortfall Cap is applicable, then with respect to the first Additional Fixed Amount Payment Date, zero, and with respect to any subsequent Additional Fixed Amount Payment Date and calculated as of the Reference Obligation Payment Date immediately preceding such Additional Fixed Amount Payment Date, as specified by the Calculation Agent in its notice to the parties or by Seller in its notice to Buyer of the existence of an Interest Shortfall Reimbursement, an amount equal to the greater

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of:

(a) zero; and

(b) the amount equal to:

(i) the product of:

(A) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Reference Obligation Payment Date; and

(B) the relevant Cumulative Interest Shortfall Payment Compounding Factor for the Fixed Rate Payer Calculation Period immediately preceding such Additional Fixed Amount Payment Date (or 1.0 in respect of any Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date);

minus

(ii) the Cumulative Interest Shortfall Amount as of such Reference Obligation Payment Date;

provided that if the Interest Shortfall Reimbursement Payment Amount on an Additional Fixed Amount Payment Date would exceed the Interest Shortfall Reimbursement Amount in respect of the related Reference Obligation Payment Date, then such Interest Shortfall Reimbursement Payment Amount shall be deemed to be equal to such Interest Shortfall Reimbursement Amount.

Cumulative Interest Shortfall Amount: With respect to any Reference Obligation Payment Date, an amount equal to the greater of:

(a) zero; and

(b) an amount equal to:

(i) the Cumulative Interest Shortfall Amount as of the Reference Obligation Payment Date

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immediately preceding such Reference Obligation Payment Date or, in the case of the first Reference Obligation Payment Date, zero; plus

(ii) the Interest Shortfall Amount (if any) in respect of such Reference Obligation Payment Date; plus

(iii) an amount determined by the Calculation Agent as the amount of interest that would accrue on the Cumulative Interest Shortfall Amount immediately preceding such Reference Obligation Payment Date during the related Reference Obligation Calculation Period pursuant to the Underlying Instruments or, in the case of the first Reference Obligation Payment Date, zero; minus

(iv) the Interest Shortfall Reimbursement Amount (if any) in respect of such Reference Obligation Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Amount:

The Cumulative Interest Shortfall Payment Amount with respect to any Fixed Rate Payer Payment Date and any Additional Fixed Amount Payment Date falling on such Fixed Rate Payer Payment Date shall be an amount equal to the greater of:

(a) zero; and

(b) the amount equal to:

(i) the sum of:

(A) the Interest Shortfall Payment Amount for the Reference Obligation Payment Date corresponding to such Fixed Rate Payer Payment Date; and

(B) the product of:

(1) the Cumulative Interest Shortfall Payment Amount as of the Fixed Rate Payer Payment Date immediately preceding such Fixed Rate Payer Payment Date (or zero in the case of the first Fixed Rate Payer Payment Date); and

(2) the relevant Cumulative Interest Shortfall Payment Compounding Factor;

minus

(ii) any Interest Shortfall Reimbursement Payment Amount paid on such Fixed Rate Payer Payment Date.

With respect to any Additional Fixed Amount Payment Date falling after the final Fixed Rate Payer Payment Date, the Cumulative Interest Shortfall Payment Amount shall be equal to:

(x) the Cumulative Interest Shortfall Payment Amount as of the Additional Fixed Amount Payment Date immediately preceding such Additional Fixed Amount Payment Date (or as of the final Fixed Rate Payer Payment Date in the case of the first Additional Fixed Amount Payment Date occurring after the final Fixed Rate Payer Payment Date); minus

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(y) any Interest Shortfall Reimbursement Payment Amount paid on such Additional Fixed Amount Payment Date.

Upon the occurrence of each Delivery, the Cumulative Interest Shortfall Payment Amount shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following such Delivery divided by (b) the Applicable Percentage immediately prior to such Delivery; provided, however, that if more than one Delivery is made during a Reference Obligation Calculation Period, the Cumulative Interest Shortfall Payment Amount calculated as of the Reference Obligation Payment Date occurring immediately after such Reference Obligation Calculation Period shall be multiplied by a fraction equal to (a) the Applicable Percentage immediately following the final Delivery made during such Reference Obligation Calculation Period and (b) the Applicable Percentage immediately prior to the first Delivery made during such Reference Obligation Calculation Period.

Cumulative Interest Shortfall Payment Compounding Factor:

With respect to any Fixed Rate Payer Calculation Period, an amount equal to the sum of:

(a) 1.0;

plus

(b) the product of:

(i) the sum of (A) the Relevant Rate plus (B) the Fixed Rate; and

(ii) the actual number of days in such Fixed Rate Payer Calculation Period divided by 360;

provided, however, that the Cumulative Interest Shortfall Payment Compounding Factor shall be deemed to be 1.0 during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Relevant Rate:

With respect to a Fixed Rate Payer Calculation Period, the Floating Rate, expressed as a decimal number with seven decimal places, that would be determined if:

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(a) the 2000 ISDA Definitions (and not the 2003 ISDA Credit Derivatives Definitions) applied to this paragraph;

(b) the Fixed Rate Payer Calculation Period were a "Calculation Period" for purposes of such determination; and

(c) the following terms applied:

(i) the Floating Rate Option were the Rate Source;

(ii) the Designated Maturity were the period that corresponds to the usual length of a Fixed Rate Payer Calculation Period; and

(iii) the Reset Date were the first day of the Calculation Period;

provided, however, that the Relevant Rate shall be deemed to be zero during the period from but excluding the Effective Maturity Date to and including the Termination Date.

Rate Source: USD-LIBOR-BBA

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Annex B – Additional Provisions

1. Credit Support Documents:

(a) Standard Guaranty of The Goldman Sachs Group, Inc.

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Annex C

CUSIP	Bloomberg ID	Reference Number	Legal Maturity Date	Fixed Rate	Reference Obligation Coupon	Original Outstanding Principal Amount	Initial Face Amount	Initial Factor	Payment Frequency	Payment Date	Step up provisions	Interest Shortfall Cap	WAC Cap Interest Provision
04541GRC8	ABSHE 2005-HE3 M9	SDB980877972	4/25/2035	2.10%	LIBOR01M + 1.85%	7,055,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
04541GTS1	ABSHE 2005-HE6 M8	SDB980877947	7/25/2035	1.15%	LIBOR01M + 1.53%	15,759,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
04544PAN9	ABSHE 2006-HE5 M8	SDB980877948	7/25/2036	1.15%	LIBOR01M + 1.00%	8,685,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
00437NAN2	ACCR 2006-2 M9	SDB980877973	9/25/2036	2.10%	LIBOR01M + 1.90%	21,700,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
004421UK7	ACE 2005-HE7 M8	SDB980877866	11/25/2035	1.30%	LIBOR01M + 1.70%	21,571,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
004421UL5	ACE 2005-HE7 M9	SDB980877886	11/25/2035	2.45%	LIBOR01M + 2.50%	19,774,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
004421XQ1	ACE 2006-ASP2 M9	SDB980877974	3/25/2036	2.10%	LIBOR01M + 2.00%	5,618,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
004421VB6	ACE 2006-NC1 M8	SDB980877906	12/25/2035	1.45%	LIBOR01M + 1.85%	16,553,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
004421VC4	ACE 2006-NC1 M9	SDB980877926	12/25/2035	2.65%	LIBOR01M + 2.50%	13,243,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
126673L75	AMIT 2005-2 M8	SDB980877949	7/25/2035	1.15%	LIBOR01M + 1.35%	14,479,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
03072SV85	AMSI 2005-R11 M8	SDB980877867	1/25/2036	1.30%	LIBOR01M + 2.50%	15,560,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
03072SV93	AMSI 2005-R11 M9	SDB980877887	1/25/2036	2.45%	LIBOR01M + 2.50%	14,640,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
03072SA62	AMSI 2005-R3 M8	SDB980877950	5/25/2035	1.15%	LIBOR01M + 1.42%	10,000,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
03072SM85	AMSI 2005-R8 M9	SDB980877975	10/25/2035	2.10%	LIBOR01M + 1.75%	10,620,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
040104NL1	ARSI 2005-W2 M8	SDB980877868	10/25/2035	1.30%	LIBOR01M + 1.45%	27,500,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
040104NM9	ARSI 2005-W2 M9	SDB980877888	10/25/2035	2.45%	LIBOR01M + 1.75%	16,500,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
040104RQ6	ARSI 2006-W1 M8	SDB980877907	3/25/2036	1.45%	LIBOR01M + 1.50%	31,850,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
040104RR4	ARSI 2006-W1 M9	SDB980877927	3/25/2036	2.65%	LIBOR01M + 2.50%	22,750,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
0738795K0	BSABS 2005-EC1 M8	SDB980877976	11/25/2035	2.10%	LIBOR01M + 2.00%	8,802,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
0738793U0	BSABS 2005-HE11 M7	SDB980877869	11/25/2035	1.30%	LIBOR01M + 1.50%	8,334,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
0738793V8	BSABS 2005-HE11 M8	SDB980877889	11/25/2035	2.45%	LIBOR01M + 2.15%	7,052,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
07387UHZ7	BSABS 2006-HE3 M8	SDB980877908	4/25/2036	1.45%	LIBOR01M + 1.40%	11,505,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
07387UJA0	BSABS 2006-HE3 M9	SDB980877928	4/25/2036	2.65%	LIBOR01M + 2.25%	9,124,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
07387UBE0	BSABS 2006-PC1 M8	SDB980877977	12/25/2035	2.10%	LIBOR01M + 1.75%	6,241,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
144531FF2	CARR 2006-NC1 M8	SDB980877909	1/25/2036	1.45%	LIBOR01M + 1.55%	15,852,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
144531FG0	CARR 2006-NC1 M9	SDB980877929	1/25/2036	2.65%	LIBOR01M + 2.65%	14,410,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
14453FAN9	CARR 2006-NC2 M9	SDB980877978	6/25/2036	2.10%	LIBOR01M + 1.85%	8,473,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
14453EAM4	CARR 2006-RFC1 M8	SDB980877951	5/25/2036	1.15%	LIBOR01M + 1.05%	10,758,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
12498QAN6	CBASS 2006-CB4 B3	SDB980877979	5/25/2036	2.10%	6.00%	5,206,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
17307GUZ9	CMLTI 2005-OPT4 M9	SDB980877980	7/25/2035	2.10%	LIBOR01M + 1.68%	7,776,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
126670BC1	CWL 2005-10 MV8	SDB980877952	2/25/2036	1.15%	LIBOR01M + 1.32%	6,000,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
126670NN4	CWL 2005-BC5 B	SDB980877890	1/25/2036	2.45%	LIBOR01M + 2.00%	11,875,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
126670NM6	CWL 2005-BC5 M8	SDB980877870	1/25/2036	1.30%	LIBOR01M + 2.00%	11,400,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
045427AM3	CWL 2006-8 M8	SDB980877910	1/25/2046	1.45%	LIBOR01M + 1.15%	22,000,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
045427AN1	CWL 2006-8 M9	SDB980877930	1/25/2046	2.65%	LIBOR01M + 2.15%	17,000,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
126673J94	ECR 2005-2 B	SDB980877981	11/25/2035	2.10%	LIBOR01M + 1.85%	14,000,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
29445FCW6	EMLT 2005-1 M9	SDB980877982	4/25/2035	2.10%	LIBOR01M + 1.9%	7,675,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
32027NYD7	FFML 2005-FF12 B2	SDB980877871	11/25/2036	1.30%	LIBOR01M + 1.75%	21,616,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
32027NYE5	FFML 2005-FF12 B3	SDB980877891	11/25/2036	2.45%	LIBOR01M + 1.75%	19,651,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable

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GS MBS-E-021822130

CUSIP	Bloomberg ID	Reference Number	Legal Maturity Date	Fixed Rate	Reference Obligation Coupon	Original Outstanding Principal Amount	Initial Face Amount	Initial Factor	Payment Frequency	Payment Date	Step up provisions	Interest Shortfall Cap	WAC Cap Interest Provision
86359DBT3	FFML 2005-FF3 M9	SDB980877983	4/25/2035	2.10%	LIBOR01M + 2.00%	7,703,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
32027NUT6	FFML 2005-FF7 M8	SDB980877953	7/25/2035	1.15%	LIBOR01M + 1.30%	10,728,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
32027GAP1	FFML 2006-FF12 M9	SDB980877995	9/25/2036	2.10%	LIBOR01M + 1.90%	6,823,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362334GJ7	FFML 2006-FF4 B1	SDB980877931	3/25/2036	2.65%	LIBOR01M + 2.8%	12,961,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362334GC2	FFML 2006-FF4 M8	SDB980877911	3/25/2036	1.45%	LIBOR01M + 1.35%	18,298,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
320278AN4	FFML 2006-FF8 M9	SDB980877984	7/25/2036	2.10%	LIBOR01M + 1.85%	5,934,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
35729PKE9	FHLT 2005-B M10	SDB980877985	4/25/2035	2.10%	LIBOR01M + 1.75%	13,269,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
35729PPJ3	FHLT 2006-1 M7	SDB980877954	4/25/2036	1.15%	LIBOR01M + 1.25%	13,635,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
35729PQF0	FHLT 2006-2 M7	SDB980877955	2/25/2036	1.15%	LIBOR01M + 1.15%	13,272,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
31659TFJ9	FMIC 2006-1 M9	SDB980877986	5/25/2036	2.10%	LIBOR01M + 2.30%	9,330,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
31659EAN8	FMIC 2006-2 M9	SDB980877987	7/25/2036	2.10%	LIBOR01M + 1.90%	8,000,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
367910AN6	GEWMC 2005-1 B3	SDB980877988	10/25/2035	2.10%	LIBOR01M + 1.70%	11,823,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
36242DWY5	GSAA 2005-3 B3	SDB980878001	12/25/2034	2.10%	LIBOR01M + 2.15%	1,918,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
36242D4C4	GSAA 2005-6 B2	SDB980877999	6/25/2035	1.15%	LIBOR01M + 1.30%	5,376,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362341CZ0	GSAA 2005-8 B2	SDB980878000	6/25/2035	1.15%	LIBOR01M + 1.33%	3,019,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362381AK1	GSAA 2006-12 B2	SDB980878004	8/25/2036	2.10%	LIBOR01M + 1.85%	5,177,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
36298YAJ9	GSAA 2006-14 B1	SDB980878005	9/25/2036	1.15%	LIBOR01M + 1.10%	12,661,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362256AL3	GSAA 2006-16 B2	SDB980878006	10/25/2036	2.10%	LIBOR01M + 1.85%	7,262,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362334CB8	GSAA 2006-3 B3	SDB980878002	3/25/2036	2.10%	LIBOR01M + 2.00%	5,038,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362348AJ3	GSAA 2006-8 B1	SDB980878003	5/25/2036	1.15%	LIBOR01M + 1.10%	7,828,000	15,500,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362341KK4	GSAMP 2005-HE4 B2	SDB980877872	8/25/2035	1.30%	LIBOR01M + 1.30%	18,316,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362341KL2	GSAMP 2005-HE4 B3	SDB980877892	8/25/2035	2.45%	LIBOR01M + 1.75%	19,782,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
36238I5A3	GSAMP 2006-HE1 M8	SDB980877956	1/25/2036	1.15%	LIBOR01M + 1.45%	13,528,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
36244KAN5	GSAMP 2006-HE3 M8	SDB980877912	5/25/2036	1.45%	LIBOR01M + 1.10%	22,348,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
36244KAP0	GSAMP 2006-HE3 M9	SDB980877932	5/25/2036	2.65%	LIBOR01M + 1.87%	19,156,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
362463AP6	GSAMP 2006-NC2 M9	SDB980877989	6/25/2036	2.10%	LIBOR01M + 2.05%	7,052,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
40430KAP6	HASC 2006-OPT4 M7	SDB980877957	3/25/2036	1.15%	LIBOR01M + 1.15%	13,435,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
437084QH2	HEAT 2005-8 B1	SDB980877893	2/25/2036	2.45%	LIBOR01M + 1.70%	12,750,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
437084QG4	HEAT 2005-8 M8	SDB980877873	2/25/2036	1.30%	LIBOR01M + 1.27%	15,000,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
437084VZ6	HEAT 2006-4 B1	SDB980877933	8/25/2036	2.65%	LIBOR01M + 2.25%	11,200,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
437084VY9	HEAT 2006-4 M8	SDB980877913	8/25/2036	1.45%	LIBOR01M + 1.20%	16,000,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46626LAM2	JPMAC 2005-OPT1 M8	SDB980877874	6/25/2035	1.30%	LIBOR01M + 1.40%	18,876,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46626LAN0	JPMAC 2005-OPT1 M9	SDB980877894	6/25/2035	2.45%	LIBOR01M + 1.85%	15,101,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46628RAN5	JPMAC 2006-ACC1 M8	SDB980877958	5/25/2036	1.15%	LIBOR01M + 1.05%	7,540,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46629BBB4	JPMAC 2006-CW2 MV9	SDB980877990	8/25/2036	2.10%	LIBOR01M + 1.80%	8,354,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46626LFV7	JPMAC 2006-FRE1 M8	SDB980877914	5/25/2035	1.45%	LIBOR01M + 1.45%	14,174,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46626LFW5	JPMAC 2006-FRE1 M9	SDB980877934	5/25/2035	2.65%	LIBOR01M + 2.35%	11,136,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
46626LGP9	JPMAC 2006-HE1 M8	SDB980877959	1/25/2036	1.15%	LIBOR01M + 1.50%	7,123,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
542514NJ9	LBMLT 2005-WL2 M8	SDB980877875	8/25/2035	1.30%	LIBOR01M + 1.40%	18,935,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
542514NK6	LBMLT 2005-WL2 M9	SDB980877895	8/25/2035	2.45%	LIBOR01M + 1.80%	27,557,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
542514RV8	LBMLT 2006-1 M8	SDB980877915	2/25/2036	1.45%	LIBOR01M + 1.45%	25,000,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
542514RW6	LBMLT 2006-1 M9	SDB980877935	2/25/2036	2.65%	LIBOR01M + 2.50%	20,000,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable

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GS MBS-E-021822131

CUSIP	Bloomberg ID	Reference Number	Legal Maturity Date	Fixed Rate	Reference Obligation Coupon	Original Outstanding Principal Amount	Initial Face Amount	Initial Factor	Payment Frequency	Payment Date	Step up provisions	Interest Shortfall Cap	WAC Cap Interest Provision
57643LMX1	MABS 2005-NC2 M8	SDB980877876	11/25/2035	1.30%	LIBOR01M + 1.95%	8,576,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
57643LMY9	MABS 2005-NC2 M9	SDB980877896	11/25/2035	2.45%	LIBOR01M + 2.50%	9,027,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
57643LNP7	MABS 2006-NC1 M8	SDB980877916	1/25/2036	1.45%	LIBOR01M + 1.40%	11,897,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
57643LNQ5	MABS 2006-NC1 M9	SDB980877936	1/25/2036	2.65%	LIBOR01M + 2.50%	7,778,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
59020UG58	MLMI 2005-AR1 B2	SDB980877877	6/25/2036	1.30%	LIBOR01M + 1.45%	10,528,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
5902DUG66	MLMI 2005-AR1 B3	SDB980877897	6/25/2036	2.45%	LIBOR01M + 1.80%	11,082,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
59020U3N3	MLMI 2006-HE1 B2A	SDB980877917	12/25/2036	1.45%	LIBOR01M + 1.45%	6,251,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
59020U3Q6	MLMI 2006-HE1 B3A	SDB980877937	12/25/2036	2.65%	LIBOR01M + 2.25%	5,079,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
61744CUZ7	MSAC 2005-HE5 B2	SDB980877878	9/25/2035	1.30%	LIBOR01M + 1.30%	19,333,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
61744CVA1	MSAC 2005-HE5 B3	SDB980877898	9/25/2035	2.45%	LIBOR01M + 1.75%	15,616,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
61749KAP8	MSAC 2006-WMC2 B2	SDB980877918	7/25/2036	1.45%	LIBOR01M + 1.05%	27,331,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
61749KAQ6	MSAC 2006-WMC2 B3	SDB980877938	7/25/2036	2.65%	LIBOR01M + 2.00%	26,030,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
617451FD6	MSC 2006-HE2 B2	SDB980877919	3/25/2036	1.45%	LIBOR01M + 1.20%	29,469,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
617451FE4	MSC 2006-HE2 B3	SDB980877939	3/25/2036	2.65%	LIBOR01M + 2.15%	23,802,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
61744CYX8	MSHEL 2006-2 B2	SDB980877960	2/25/2036	1.15%	LIBOR01M + 1.25%	14,446,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
64352VNB3	NCHET 2005-4 M8	SDB980877879	9/25/2035	1.30%	LIBOR01M + 1.30%	22,900,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
64352VNC1	NCHET 2005-4 M9	SDB980877899	9/25/2035	2.45%	LIBOR01M + 1.80%	22,900,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
64352VPG0	NCHET 2005-C M8	SDB980877961	12/25/2035	1.15%	LIBOR01M + 2.35%	23,034,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
66987WCU9	NHEL 2005-2 M8	SDB980877962	10/25/2035	1.15%	LIBOR01M + 1.27%	13,500,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
66988VAM0	NHEL 2006-2 M7	SDB980877963	6/25/2036	1.15%	LIBOR01M + 1.05%	6,127,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
68389FKZ6	OOMLT 2006-1 M9	SDB980877991	1/25/2036	2.10%	LIBOR01M + 2.30%	25,686,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
68402CAN4	OOMLT 2006-2 M8	SDB980877964	7/25/2036	1.15%	LIBOR01M + 1.25%	12,000,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
69121PDP5	OWNIT 2006-2 B2	SDB980877965	1/25/2037	1.15%	6.00%	9,961,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
73316PKB5	POPLR 2006-A M6	SDB980877992	2/25/2036	2.10%	LIBOR01M + 2.25%	3,300,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76112BVX5	RAMP 2005-EFC2 M9	SDB980877993	7/25/2035	2.10%	LIBOR01M + 1.80%	7,727,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76112BD31	RAMP 2005-EFC4 M8	SDB980877880	9/25/2035	1.30%	LIBOR01M + 1.29%	8,797,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76112BD49	RAMP 2005-EFC4 M9	SDB980877900	9/25/2035	2.45%	LIBOR01M + 1.75%	9,164,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
75156TAL4	RAMP 2006-NC2 M8	SDB980877920	2/25/2036	1.45%	LIBOR01M + 1.40%	7,600,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
75156TAM2	RAMP 2006-NC2 M9	SDB980877941	2/25/2036	2.65%	LIBOR01M + 2.45%	7,600,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
75156UAM9	RAMP 2006-RZ2 M9	SDB980877998	5/25/2036	2.10%	LIBOR01M + 2.20%	3,375,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76110W2Q8	RASC 2005-EMX2 M9	SDB980877994	7/25/2035	2.10%	LIBOR01M + 1.80%	6,419,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76110W7L4	RASC 2005-KS11 M8	SDB980877881	12/25/2035	1.30%	LIBOR01M + 1.80%	16,560,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76110W7M2	RASC 2005-KS11 M9	SDB980877901	12/25/2035	2.45%	LIBOR01M + 2.50%	15,180,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
75406AAL3	RASC 2006-EMX2 M8	SDB980877966	2/25/2036	1.15%	LIBOR01M + 1.55%	8,550,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76113ABT7	RASC 2006-KS3 M8	SDB980877921	4/25/2036	1.45%	LIBOR01M + 1.20%	12,650,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
76113ABU4	RASC 2006-KS3 M9	SDB980877942	4/25/2036	2.65%	LIBOR01M + 2.15%	11,500,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
81375WDJ2	SABR 2005-EC1 B2	SDB980877967	1/25/2035	1.15%	LIBOR01M + 1.35%	3,580,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
81375WGK6	SABR 2005-HE1 B2	SDB980877882	10/25/2035	1.30%	LIBOR01M + 2.00%	14,925,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
81375WGL4	SABR 2005-HE1 B3	SDB980877902	10/25/2035	2.45%	LIBOR01M + 2.25%	14,303,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
81375WCX2	SABR 2005-OP1 B2	SDB980877968	1/25/2035	1.15%	LIBOR01M + 1.30%	11,213,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
81375WJN7	SABR 2006-OP1 B2	SDB980877922	10/25/2035	1.45%	LIBOR01M + 1.40%	11,337,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
81375WJP2	SABR 2006-OP1 B3	SDB980877943	10/25/2035	2.65%	LIBOR01M + 1.90%	12,597,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable

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CUSIP	Bloomberg ID	Reference Number	Legal Maturity Date	Fixed Rate	Reference Obligation Coupon	Original Outstanding Principal Amount	Initial Face Amount	Initial Factor	Payment Frequency	Payment Date	Step up provisions	Interest Shortfall Cap	WAC Cap Interest Provision
86358EXE1	SAIL 2005-HE3 M8	SDB980877883	9/25/2035	1.30%	LIBOR01M + 1.40%	20,147,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
86358EXF8	SAIL 2005-HE3 M9	SDB980877903	9/25/2035	2.45%	LIBOR01M + 1.80%	18,962,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
86360WAM4	SAIL 2006-4 M7	SDB980877923	7/25/2036	1.45%	LIBOR01M + 1.20%	19,571,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
86360WAN2	SAIL 2006-4 M8	SDB980877944	7/25/2036	2.65%	LIBOR01M + 2.00%	18,348,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
863576DN1	SASC 2005-WF4 M8	SDB980877884	11/25/2035	1.30%	LIBOR01M + 1.75%	14,717,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
863576DP6	SASC 2005-WF4 M9	SDB980877904	11/25/2035	2.45%	LIBOR01M + 2.50%	14,717,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
86359B6K2	SASC 2005-WMC1 M4	SDB980877969	1/25/2035	1.15%	LIBOR01M + 1.35%	8,544,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
86360LAM8	SASC 2006-WF2 M8	SDB980877924	7/25/2036	1.45%	LIBOR01M + 1.05%	12,342,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
86360LAN6	SASC 2006-WF2 M9	SDB980877945	7/25/2036	2.65%	LIBOR01M + 1.90%	18,189,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
805564SK8	SAST 2005-2 B2	SDB980877970	10/25/2035	1.15%	LIBOR01M + 1.30%	9,800,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
84751PKL2	SURF 2006-BC1 B2A	SDB980877971	12/25/2036	1.15%	LIBOR01M + 1.45%	12,000,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
83611MKM9	SVHE 2005-4 M8	SDB980877885	3/25/2036	1.30%	LIBOR01M + 2.50%	11,921,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
83611MKN7	SVHE 2005-4 M9	SDB980877905	3/25/2036	2.45%	LIBOR01M + 2.50%	10,155,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
83611MMU9	SVHE 2006-OPT2 M8	SDB980877996	5/25/2036	2.10%	LIBOR01M + 2.15%	15,200,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
83612CAN9	SVHE 2006-OPT5 M8	SDB980877925	7/25/2036	1.45%	LIBOR01M + 1.10%	38,750,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
83612CAP4	SVHE 2006-OPT5 M9	SDB980877946	7/25/2036	2.65%	LIBOR01M + 2.00%	34,100,000	15,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable
9497EUAR8	WFHET 2006-1 M9	SDB980877997	5/25/2036	2.10%	LIBOR01M + 1.90%	5,481,000	13,000,000	1.0000	Monthly	25th	Applicable	Applicable	Not Applicable

GS MBS-E-021822132

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Reference Entity & Primary Obligor	Cusip	Reference Number
ASSET BACKED SECURITIES CORP HOME EQUITY LN TRST	04541GRC8	SDB980877972
ASSET BACKED SECURITIES CORP HOME EQUITY LN TRST	04541GTS1	SDB980877947
ASSET BACKED SECURITIES CORP HOME EQUITY LN TRST	04544PAN9	SDB980877948
ACCREDITED MORTGAGE LOAN TRUST	00437NAN2	SDB980877973
ACE SECURITIES CORP.	004421UK7	SDB980877866
ACE SECURITIES CORP.	004421UL5	SDB980877886
ACE SECURITIES CORP.	004421XQ1	SDB980877974
ACE SECURITIES CORP.	004421VB6	SDB980877906
ACE SECURITIES CORP.	004421VC4	SDB980877926
AAMES MORTGAGE INVESTMENT TRUST	126673L75	SDB980877949
AMERIQUEST MORTGAGE SECURITIES INC.	03072SV85	SDB980877867
AMERIQUEST MORTGAGE SECURITIES INC.	03072SV93	SDB980877887
AMERIQUEST MORTGAGE SECURITIES INC.	03072SA62	SDB980877950
AMERIQUEST MORTGAGE SECURITIES INC.	03072SM85	SDB980877975
ARGENT SECURITIES INC.	040104NL1	SDB980877868
ARGENT SECURITIES INC.	040104NM9	SDB980877888
ARGENT SECURITIES INC.	040104RQ6	SDB980877907
ARGENT SECURITIES INC.	040104RR4	SDB980877927
BEAR STEARNS ASSET BACKED SECURITIES, INC.	0738795K0	SDB980877976
BEAR STEARNS ASSET BACKED SECURITIES, INC.	0738793U0	SDB980877869
BEAR STEARNS ASSET BACKED SECURITIES, INC.	0738793V8	SDB980877889
BEAR STEARNS ASSET BACKED SECURITIES, INC.	07387UHZ7	SDB980877908
BEAR STEARNS ASSET BACKED SECURITIES, INC.	07387UJA0	SDB980877928
BEAR STEARNS ASSET BACKED SECURITIES, INC.	07387UBE0	SDB980877977
CARRINGTON MORTGAGE LOAN TRUST	144531FF2	SDB980877909
CARRINGTON MORTGAGE LOAN TRUST	144531FG0	SDB980877929
CARRINGTON MORTGAGE LOAN TRUST	14453FAN9	SDB980877978
CARRINGTON MORTGAGE LOAN TRUST	14453EAM4	SDB980877951
CREDIT-BASED ASSET SERVICING AND SECURITIZATION	12498QAN6	SDB980877979
CITIGROUP MORTGAGE LOAN TRUST, INC.	17307GUZ9	SDB980877980
COUNTRYWIDE ASSET-BACKED CERTIFICATES	126670BC1	SDB980877952
COUNTRYWIDE ASSET-BACKED CERTIFICATES	126670NN4	SDB980877890
COUNTRYWIDE ASSET-BACKED CERTIFICATES	126670NM6	SDB980877870
COUNTRYWIDE ASSET-BACKED CERTIFICATES	045427AM3	SDB980877910
COUNTRYWIDE ASSET-BACKED CERTIFICATES	045427AN1	SDB980877930
ENCORE CREDIT RECEIVABLES TRUST	126673J94	SDB980877981
EQUIFIRST MORTGAGE LOAN TRUST	29445FCW6	SDB980877982

GS MBS-E-021822133

Confidential Treatment Requested by Goldman Sachs

Reference Entity & Primary Obligor	Cusip	Reference Number
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	32027NYD7	SDB980877871
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	32027NYE5	SDB980877891
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	86359DBT3	SDB980877983
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	32027NUT6	SDB980877953
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	32027GAP1	SDB980877995
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	362334GJ7	SDB980877931
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	362334GC2	SDB980877911
FIRST FRANKLIN MTG LOAN ASSET BACKED CERTIFICATES	320278AN4	SDB980877984
FREMONT HOME LOAN TRUST	35729PKE9	SDB980877985
FREMONT HOME LOAN TRUST	35729PPJ3	SDB980877954
FREMONT HOME LOAN TRUST	35729PQF0	SDB980877955
FIELDSTONE MORTGAGE INVESTMENT CORP.	31659TFJ9	SDB980877986
FIELDSTONE MORTGAGE INVESTMENT CORP.	31659EAN8	SDB980877987
GE-WMC MORTGAGE SECURITIES LLC	367910AN6	SDB980877988
GSAA HOME EQUITY TRUST	36242DWY5	SDB980878001
GSAA HOME EQUITY TRUST	36242D4C4	SDB980877999
GSAA HOME EQUITY TRUST	362341CZ0	SDB980878000
GSAA HOME EQUITY TRUST	362381AK1	SDB980878004
GSAA HOME EQUITY TRUST	36298YAJ9	SDB980878005
GSAA HOME EQUITY TRUST	362256AL3	SDB980878006
GSAA HOME EQUITY TRUST	362334CB8	SDB980878002
GSAA HOME EQUITY TRUST	362348AJ3	SDB980878003
GSAMP TRUST	362341KK4	SDB980877872
GSAMP TRUST	362341KL2	SDB980877892
GSAMP TRUST	3623415A3	SDB980877956
GSAMP TRUST	36244KAN5	SDB980877912
GSAMP TRUST	36244KAP0	SDB980877932
GSAMP TRUST	362463AP6	SDB980877989
HSI ASSET SECURITIZATION CORPORATION TRUST	40430KAP6	SDB980877957
HOME EQUITY ASSET TRUST	437084QH2	SDB980877893
HOME EQUITY ASSET TRUST	437084QG4	SDB980877873
HOME EQUITY ASSET TRUST	437084VZ6	SDB980877933
HOME EQUITY ASSET TRUST	437084VY9	SDB980877913
JP MORGAN MORTGAGE ACQUISITION CORP	46626LAM2	SDB980877874
JP MORGAN MORTGAGE ACQUISITION CORP	46626LAN0	SDB980877894
JP MORGAN MORTGAGE ACQUISITION CORP	46628RAN5	SDB980877958
JP MORGAN MORTGAGE ACQUISITION CORP	46629BBB4	SDB980877990
JP MORGAN MORTGAGE ACQUISITION CORP	46626LFV7	SDB980877914
JP MORGAN MORTGAGE ACQUISITION CORP	46626LFW5	SDB980877934

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Confidential Treatment Requested by Goldman Sachs

Reference Entity & Primary Obligor	Cusip	Reference Number
JP MORGAN MORTGAGE ACQUISITION CORP	46626LGP9	SDB980877959
LONG BEACH MORTGAGE LOAN TRUST	542514NJ9	SDB980877875
LONG BEACH MORTGAGE LOAN TRUST	542514NK6	SDB980877895
LONG BEACH MORTGAGE LOAN TRUST	542514RV8	SDB980877915
LONG BEACH MORTGAGE LOAN TRUST	542514RW6	SDB980877935
MASTR ASSET BACKED SECURITIES TRUST	57643LMX1	SDB980877876
MASTR ASSET BACKED SECURITIES TRUST	57643LMY9	SDB980877896
MASTR ASSET BACKED SECURITIES TRUST	57643LNP7	SDB980877916
MASTR ASSET BACKED SECURITIES TRUST	57643LNQ5	SDB980877936
MERRILL LYNCH MORTGAGE INVESTORS TRUST	59020UG58	SDB980877877
MERRILL LYNCH MORTGAGE INVESTORS TRUST	59020UG66	SDB980877897
MERRILL LYNCH MORTGAGE INVESTORS TRUST	59020U3N3	SDB980877917
MERRILL LYNCH MORTGAGE INVESTORS TRUST	59020UJQ6	SDB980877937
MORGAN STANLEY ABS CAPITAL I	61744CUZ7	SDB980877878
MORGAN STANLEY ABS CAPITAL I	61744CVA1	SDB980877898
MORGAN STANLEY ABS CAPITAL I	61749KAP8	SDB980877918
MORGAN STANLEY ABS CAPITAL I	61749KAQ6	SDB980877938
MORGAN STANLEY CAPITAL I	617451FD6	SDB980877919
MORGAN STANLEY CAPITAL I	617451FE4	SDB980877939
MORGAN STANLEY HOME EQUITY LOANS	61744CYX8	SDB980877960
NEW CENTURY HOME EQUITY LOAN TRUST	64352VNB3	SDB980877879
NEW CENTURY HOME EQUITY LOAN TRUST	64352VNC1	SDB980877899
NEW CENTURY HOME EQUITY LOAN TRUST	64352VPG0	SDB980877961
NOVASTAR HOME EQUITY LOAN	66987WCU9	SDB980877962
NOVASTAR HOME EQUITY LOAN	66988VAM0	SDB980877963
OPTION ONE MORTGAGE LOAN TRUST	68389FKZ6	SDB980877991
OPTION ONE MORTGAGE LOAN TRUST	68402CAN4	SDB980877964
OWNIT MORTGAGE LOAN ASSET-BACKED CERTIFICATES	69121PDP5	SDB980877965
POPULAR ABS MORTGAGE PASS-THROUGH TRUST	73316PKB5	SDB980877992
RESIDENTIAL ASSET MORTGAGE PRODUCTS, INC.	76112BVX5	SDB980877993
RESIDENTIAL ASSET MORTGAGE PRODUCTS, INC.	76112BD31	SDB980877880
RESIDENTIAL ASSET MORTGAGE PRODUCTS, INC.	76112BD49	SDB980877900
RESIDENTIAL ASSET MORTGAGE PRODUCTS, INC.	75156TAL4	SDB980877920
RESIDENTIAL ASSET MORTGAGE PRODUCTS, INC.	75156TAM2	SDB980877941
RESIDENTIAL ASSET MORTGAGE PRODUCTS, INC.	75156UAM9	SDB980877998
RESIDENTIAL ASSET SECURITIES CORPORATION	76110W2Q8	SDB980877994
RESIDENTIAL ASSET SECURITIES CORPORATION	76110W7L4	SDB980877881
RESIDENTIAL ASSET SECURITIES CORPORATION	76110W7M2	SDB980877901
RESIDENTIAL ASSET SECURITIES CORPORATION	75406AAL3	SDB980877966

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Reference Entity & Primary Obligor	Cusip	Reference Number
RESIDENTIAL ASSET SECURITIES CORPORATION	76113ABT7	SDB980877921
RESIDENTIAL ASSET SECURITIES CORPORATION	76113ABU4	SDB980877942
SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST	81375WDJ2	SDB980877967
SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST	81375WGK6	SDB980877882
SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST	81375WGL4	SDB980877902
SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST	81375WCX2	SDB980877968
SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST	81375WJN7	SDB980877922
SECURITIZED ASSET BACKED RECEIVABLES LLC TRUST	81375WJP2	SDB980877943
STRUCTURED ASSET INVESTMENT LOAN TRUST	86358EXE1	SDB980877883
STRUCTURED ASSET INVESTMENT LOAN TRUST	86358EXF8	SDB980877903
STRUCTURED ASSET INVESTMENT LOAN TRUST	86360WAM4	SDB980877923
STRUCTURED ASSET INVESTMENT LOAN TRUST	86360WAN2	SDB980877944
STRUCTURED ASSET SECURITIES CORPORATION	863576DN1	SDB980877884
STRUCTURED ASSET SECURITIES CORPORATION	863576DP6	SDB980877904
STRUCTURED ASSET SECURITIES CORPORATION	86359B6K2	SDB980877969
STRUCTURED ASSET SECURITIES CORPORATION	86360LAM8	SDB980877924
STRUCTURED ASSET SECURITIES CORPORATION	86360LAN6	SDB980877945
SAXON ASSET SECURITIES TRUST	805564SK8	SDB980877970
SPECIALTY UNDERWRITING & RESIDENTIAL FINANCE	84751PKL2	SDB980877971
SOUNDVIEW HOME EQUITY LOAN TRUST	83611MKM9	SDB980877885
SOUNDVIEW HOME EQUITY LOAN TRUST	83611MKN7	SDB980877905
SOUNDVIEW HOME EQUITY LOAN TRUST	83611MMU9	SDB980877996
SOUNDVIEW HOME EQUITY LOAN TRUST	83612CAN9	SDB980877925
SOUNDVIEW HOME EQUITY LOAN TRUST	83611CAP4	SDB980877946
WELLS FARGO HOME EQUITY TRUST	9497EUAR8	SDB980877997

GS MBS-E-021822136

The Goldman Sachs Group, Inc. | One New York Plaza | New York, New York 10004
Tel. 212-902-4001 | Fax: 212-357 2227

Goldman Sachs

December 5, 2006

Hudson Mezzanine Funding 2006-1, Ltd.
c/o Maples Finance Limited
Queensgate House
South Church Street
George Town, Grand Cayman
Cayman Islands

Ladies and Gentlemen:

For value received, The Goldman Sachs Group, Inc. (the "Guarantor"), a corporation duly organized under the laws of the State of Delaware, hereby unconditionally guarantees the prompt and complete payment when due, whether by acceleration or otherwise, of all obligations and liabilities, whether now in existence or hereafter arising, of Goldman Sachs International, a subsidiary of the Guarantor and an unlimited liability company duly organized under the laws of England (the "Company"), to **Hudson Mezzanine Funding 2006-1, Ltd.** (the "Counterparty") arising out of or under the ISDA Master Agreement between the Company and the Counterparty dated as of December 1, 2006 (the "Obligations"). This Guaranty is one of payment and not of collection.

The Guarantor hereby waives notice of acceptance of this Guaranty and notice of the Obligations, and waives presentment, demand for payment, protest, notice of dishonour or non-payment of the Obligations, suit or the taking of other action by Counterparty against, and any other notice to, the Company, the Guarantor or others.

The Counterparty may at any time and from time to time without notice to or consent of the Guarantor and without impairing or releasing the obligations of the Guarantor hereunder: (1) agree with the Company to make any change in the terms of the Obligations; (2) take or fail to take any action of any kind in respect of any security for the Obligations; (3) exercise or refrain from exercising any rights against the Company or others in respect of the Obligations; or (4) compromise or subordinate the Obligations, including any security therefor. Any other suretyship defenses are hereby waived by the Guarantor.

This Guaranty shall continue in full force and effect until the opening of business on the fifth business day after Counterparty receives written notice of termination from the Guarantor. It is understood and agreed, however, that notwithstanding any such termination this Guaranty shall continue in full force and effect with respect to all Obligations which shall have been incurred prior to such termination.

The Guarantor may not assign its rights nor delegate its obligations under this Guaranty, in whole or in part, without prior written consent of the Counterparty, and any purported assignment or delegation absent such consent is void, except for an assignment and delegation of all of the Guarantor's rights and obligations hereunder in whatever form the Guarantor determines may be appropriate to a partnership, corporation, trust or other organization in whatever form that succeeds to all or substantially all of the Guarantor's assets and business and that assumes such obligations by contract, operation of law or otherwise. Upon any such delegation and assumption of obligations, the Guarantor shall be relieved of and fully discharged from all obligations hereunder, whether such obligations arose before or after such delegation and assumption.

THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW. GUARANTOR AGREES TO THE EXCLUSIVE JURISDICTION OF COURTS LOCATED IN THE STATE OF NEW YORK, UNITED STATES OF AMERICA, OVER ANY DISPUTES ARISING UNDER OR RELATING TO THIS GUARANTY.

Very truly yours,

THE GOLDMAN SACHS GROUP, INC.

By: _____
Authorized Officer

Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Monday, October 16, 2006 4:11 PM
To: Ostrem, Peter L
Cc: Rosenblum, David J.
Subject: Re: Cambridge Place deal

Poor client mgmt

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Ostrem, Peter L
To: Sparks, Daniel L
Cc: Rosenblum, David J.
Sent: Mon Oct 16 14:20:28 2006
Subject: Cambridge Place deal

Cambridge is upset that we are delaying their deal. They know that Hudson Mezz (GS prop deal) is pushing their deal back.
We are calling the PM at Cambridge ([redacted]) and [redacted] today to discuss their deal and timing.
Are you ok if we upsize their deal to $800mm from $600mm? This allows them to continue ramping and we take additional equity placement risk (beyond the 60% of equity going into ORCA). Deal is in good shape and we have pre-interest in the entire AA class and half the BBBs and a third of the super seniors. This will price in Dec. or January.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2270

GS MBS-E-010916991

Goldman Sachs

Date: September 27th, 2006

To: Firmwide Risk Committee

Re: September 27th FRC Minutes

The September 27th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar and Jerry Corrigan. Apologies were received from Isabelle Ealet, Raanan Agus, Mark McGoldrick, and Marc Spilker.

Divisional Reports

Driss Ben-Brahim

- [redacted]

Rich Ruzika

- [redacted]

Jon Sobel

- ABX stable since last week.
- Business progressing with synthetic ABX CDOs. Noted DB also working on synthetic ABX CDOs.
- Busy securitization calendar beginning tomorrow (e.g., [redacted] several CDO deals, etc.).
- [redacted]

Don Mullen

- [redacted]

Ed Eisler

- [redacted]

Ed Wilson

- [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2271

Ken Eberts

- [redacted]

Jacob Rosengarten

- [redacted]

Any Other Business

Credit Risk management presented the quarterly Credit Risk Profile.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman Sachs

Date: October 4th, 2006

To: Firmwide Risk Committee

Re: October 4th FRC Minutes

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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The October 4th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by Jerry Corrigan. Apologies were received from Lloyd Blankfein and David Viniar.

Divisional Reports

The committee discussed the general decrease in Hedge Fund activity and the potential implications.

Driss Ben-Brahim

- [redacted]

Ed Eisler

- [redacted]

Jon Sobel

- Business continuing to work on ABX CDO structure.
- VaR up due to stickiness of ABX position and as actual volatility is higher than expected. Business in discussion with Divisional Risk on possibly altering risk limits.
- Securitization calendar robust over the next 6 weeks.

Dave Heller

- [redacted]

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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Marc Spilker

- [redacted]

Raanan Agus

- [redacted]

Rich Ruzika

- [redacted]

Jacob Rosengarten

- [redacted]

Any Other Business

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman Sachs

Date: October 11th, 2006

To: Firmwide Risk Committee

Re: October 11th FRC Minutes

The October 11th Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by David Viniar. Apologies were received from Lloyd Blankfein, Jerry Corrigan, Dave Heller and Bob Litterman.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Divisional Reports

Driss Ben-Brahim

- [redacted]

Rich Ruzika

- [redacted]

Justin Gmelich

- [redacted]

Jon Sobel

- Noted Business has buyers line-up for various ABX CDO tranches.
- Cash deals will continue to do well over the next month.
- Noted diminished Hedge Fund activity.
- Business working on large commercial mortgage loan deal that may require increase in risk limit.

Ed Eisler

- [redacted]

Marc Spilker

- [redacted]

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Wall Street & The Financial Crisis
Report Footnote #2271



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Goldman Sachs

Date: November 1st, 2006

To: Firmwide Risk Committee

Re: November 1st FRC Minutes

The November 1st Firmwide Risk Committee meeting commenced at 7:30am. The meeting was chaired by Jerry Corrigan. Apologies were received from David Viniar, Lloyd Blankfein, Mark McGoldrick, Bob Zoellick, and Liz Beshel

Divisional Reports

Driss Ben-Brahim

- [redacted]

Ed Eisler

- [redacted]

Isabelle Ealet

- [redacted]

Jon Sobel

- ABX CDO priced last week with $1.6BN sold. Risks down from a high of $2.0MM/bp to $1.0MM/bp.
- Noted strong calendar over the next weeks as there is a demand for cash products.
- Noted risks to business if CDO market slows or if there is a material repricing of residuals.

Don Mullen

- [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Dave Heller

- [redacted]

Raanan Agus

- [redacted]

Jacob Rosengarten

- [redacted]

Any Other Business

None.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Jha, Arbind
Sent: Wednesday, October 11, 2006 9:14 AM
To: Birnbaum, Josh
Subject: RE: Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external) [T-Mail]

Josh,

Tried calling. Sobel this morning in the firmwide risk committee mentioned that we have circled up the junior and some of the equity tranches.

Would like to get an update on this and have some follow up questions.

Please let me know when is a good time to call.

Thanks.

-----Original Message-----
From: Birnbaum, Josh
Sent: Tuesday, October 03, 2006 9:22 AM
To: Jha, Arbind
Subject: FW: Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external) [T-Mail]

here is the info on the CDO

-----Original Message-----
From: GS Syndicate
Sent: Tuesday, October 03, 2006 7:24 AM
To: 'T-Mail Subscribers'
Subject: Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external) [T-Mail]

Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external)
Lead Manager & Sole Bookrunner: Goldman Sachs Liquidation Agent: Goldman, Sachs & Co.
$2.0bn Static Mezzanine Structured Product CDO

Class	Size($mm)	%Deal	Mdy/S&P	WAL(y)	Init OC	Guidance
S	[ ]	N/A	Aaa/AAA	[2.8]	N/A	N/A
Sen Swp	1,200	60.0%	Aaa/AAA	[3.7]	166.7%	N/A
A1	150	7.5%	Aaa/AAA	[2.0]	133.3%	1mL+TBD
A2	150	7.5%	Aaa/AAA	[6.0]	133.3%	1mL+TBD
B	160	8.0%	Aa2/AA	[5.1]	120.5%	1mL+TBD
C	100	5.0%	A2/A	[5.2]	113.6%	1mL+TBD
D	150	7.5%	Baa2/BBB	[5.2]	104.7%	1mL+TBD
E	30	1.5%	Ba1/BB+	[5.3]	103.1%	1ML+TBD
PS	60	3.0%	Not Rated	N/A	N/A	**CALL DESK**

Termsheet, Debt Marketing Book & Warehouse Portfolio - Attached

Expected Timing:
Price Guidance & Red - w/o Oct 16
Pricing - w/o Oct 23

GS Structured Products Global Syndicate
Asia: Omar Chaudhary, Jay Lee, & Hirotaka Sugioka +81 (3) 6437-7198
Europe: Mitch Resnick & Tets Ishikawa +44 (0)20 7774-3068 N. America: Bunty Bohra, Scott Wisenbaker, Scott Walter, Tony Kim & Malcolm Mui +1 (212) 902-7645

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2271

Confidential Treatment Requested by Gold

Structured Product CDO Desk:
Peter Ostrem +1 (212) 357-4617 // Darryl Herrick +1 (212) 902-9305

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.

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Confidential Treatment Requested by Goldman Sachs

From: Sobel, Jonathan
Sent: Wednesday, October 25, 2006 1:25 PM
To: Viniar, David; Cohn, Gary (EO 85B30)
Subject: ABX CDO will price this afternoon.

Gain today is $8mm, with another $16mm in various reserves ($24mm total vs $15mm total that we had discussed). $1.6bn of the $2bn sold, with the majority of the unsold bonds being investment grade. Equity more than 85% sold.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2272

Confidential Treatment Requested by Goldman

From: Swenson, Michael <Michael.Swenson@ny.email.gs.com>
Sent: Thursday, October 12, 2006 11:06 AM
To: Rosenblum, David J. <david.rosenblum@ny.email.gs.com>
Subject: RE: Polygon

we sell this at 70-00, 80-00 or 85-00 . . . i need to go raise a fund and buy the other half

---

From: Rosenblum, David J.
Sent: Thursday, October 12, 2006 11:04 AM
To: Swenson, Michael; Bohra, Bunty; Wisenbaker, Scott; Birnbaum, Josh
Cc: Sparks, Daniel L; Herrick, Darryl K; Ostrem, Peter L
Subject: FW: Polygon

fyi

From: Cornacchia, Thomas
Sent: Thursday, October 12, 2006 10:38 AM
To: Ostrem, Peter L; Rosenblum, David J.
Cc: Herrick, Darryl K
Subject: RE: Polygon

keep in mind the overall objective - this is not about one trade - having said that, i agree that 70 may be too low

---

From: Ostrem, Peter L
Sent: Thursday, October 12, 2006 10:19 AM
To: Cornacchia, Thomas; Rosenblum, David J.
Cc: Herrick, Darryl K
Subject: Polygon

70 is NOT going to work on Hudson Mezz equity. 90 would work.

100 is a no-loss yield of 22%
95 is a no-loss yield of 24%
90 is a no-loss yield of 26%.
85 is a no-loss yield of 29%

We have a 6mm of firm equity orders at par and we have only been marketing this equity for two weeks (60mm of total equity).

We see value in a large 30mm order and can offer 90 dollar price to help achieve that. We are reasonable and will listen to levels around 90.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2273

Confidential Treatment Requested by

From: Swenson, Michael <Michael.Swenson@ny.email.gs.com>
Sent: Thursday, October 26, 2006 10:54 AM
To: McMahon, Bill <bill.mcmahon@ny.email.gs.com>
Cc: Sobel, Jonathan <jonathan.sobel@ny.email.gs.com>; Sparks, Daniel L <dan.sparks@ny.email.gs.com>; Birnbaum, Josh <josh.birnbaum@ny.email.gs.com>; Swenson, Michael <Michael.Swenson@ny.email.gs.com>
Subject: ABX Update

Bill-

Since the pricing of the CDO yesterday we have moved a significant amount of risk:

BBB- DV01 is now down to $1.1mm/bp

In addition to $2bb of risk that was placed into the CDO, we have sold to retail since 4pm yesterday $2bb of BBB- risk.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917[redacted] | fax: +1 212 902 1691
e-mail: michael.swenson@gs.com

Goldman
Sachs

Michael J. Swenson
Fixed Income, Currency & Commodities

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Wall Street & The Financial Crisis
Report Footnote #2274

From: Egol, Jonathan
Sent: Thursday, October 19, 2006 6:52 AM
To: Tourre, Fabrice; Williams, Geoffrey
Subject: Fw: BBB RMBS

Pls get looped in in case they have anything

----- Original Message -----
From: Rosenblum, David J.
To: Resnick, Mitchell R; Egol, Jonathan; Herrick, Darryl K
Cc: Brazil, Alan; Marschoun, Michael; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Bieber, Matthew G.; Case, Benjamin; Ostrem, Peter L
Sent: Thu Oct 19 06:42:24 2006
Subject: Re: BBB RMBS

So amazing you should ask -- we had this convo for an hour last night-- brazil and marschoun and primer-- THIS IS WHAT WE'RE TALKING ABOUT! Can you come to the rescue here?

Thx
D

----- Original Message -----
From: Resnick, Mitchell R
To: Egol, Jonathan; Herrick, Darryl K
Cc: Rosenblum, David J.
Sent: Thu Oct 19 04:54:25 2006
Subject: BBB RMBS

do we have anything talking about how great the BBB sector of RMBS is at this point in time... a common response I am hearing on both Hudson & HGS1 is a concern about the housing market and BBB in particular?

We need to arm sales with a bit more - do we have anything?

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Wall Street & The Financial Crisis
Report Footnote #2276

Confidential Treatment Requested by Gold

From: Carrett, Paul (GSJBW)
Sent: Friday, October 20, 2006 6:40 PM
To: Herrick, Darryl K
Cc: Chaudhary, Omar; Maltezos, George (GSJBW)
Subject: Hudson Mezz - arguments required

The guy at Schroders looking at this deal has one main issue has has to get over:

He is worried about how he is going to convince his boss to invest in a pool of sub prime mortgages with probably their greatest exposures in California and Florida. He is nervous on US house prices.
Pretty fundamental question, but do we have a couple of key messages I shuld prepare him with?
I have some background material on the mortgage market from Gasvoda's team, but anything specific material beyond this we can offer?
I have made the point repeatedly (to the point where he should be able to repeat it verbatim to his boss) that he has structural protenction underneath each BBB secuity in the pool, and same again in the CDO. Also discussed the value of diversity and the fact that most property price crashes and mass mortgage defaults tend to be localised, which should give him further comfort.
Anything else you would offer? He is not a big believer in the Moody's data and ratings system.
I WANT THIS GUY THERE AND IN SIZE! Please help if you can – just three bullet points would help.

Cheers
Paul

Paul Carrett
Executive Director
Structured Asset Solutions
Telephone 612 9320 1241
Facsimile 612 9320 1222
Mobile 61 [redacted]
paul.carrett@gsjbw.com
www.gsjbw.com

Fixed Income, Currency and Commodities
Goldman Sachs JBWere Pty Ltd

Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2277

From: Rosenblum, David J. <david.rosenblum@ny.email.gs.com>
Sent: Thursday, October 12, 2006 7:07 AM
To: Swenson, Michael <Michael.Swenson@ny.email.gs.com>; Ostrem, Peter L <Peter.Ostrem@ny.email.gs.com>
Cc: Herrick, Darryl K <Darryl.Herrick@ny.email.gs.com>
Subject: RE: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

---

swennie/darryl can you come by this AM to walk through where we are on the whole cap structure and we can rope in pete by phone if he is avail

thanks
d

-----Original Message-----
From: Swenson, Michael
Sent: Thursday, October 12, 2006 7:05 AM
To: Rosenblum, David J.; Ostrem, Peter L
Subject: Fw: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

I am extremely impressed by darryl *nd the rest of your team.

Thanks

----- Original Message -----
From: Herrick, Darryl K
To: Swenson, Michael
Sent: Thu Oct 12 01:11:59 2006
Subject: RE: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

Thanks Mike. This is an awesome challenge, but excited about getting to the goal line

-----Original Message-----
From: Swenson, Michael
Sent: Wednesday, October 11, 2006 8:46 PM
To: Herrick, Darryl K; Lehman, David A.; Birnbaum, Josh
Subject: Re: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

Darryl you are doing an awesome job keep it up

----- Original Message -----
From: Herrick, Darryl K
To: Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Sent: Wed Oct 11 20:03:47 2006
Subject: FW: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

This clears the team of majority the senior risk Equity and BBs we are hammering away on and hope to get traction tomorrow/Friday

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-----Original Message-----
From: Kelly, Ryan
Sent: Wednesday, October 11, 2006 7:58 PM
To: Herrick, Darryl K
Subject: Fw: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

Darryl,
Please see ubs' feedback below. By the A1's.....they mean the 2.6yr. Hopeful <<Legal Disclaimer>> ly this helps. It's a start.

RK

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Joseph.Shropshire@ubs.com <Joseph.Shropshire@ubs.com>
To: Kelly, Ryan
Sent: Wed Oct 11 17:54:22 2006
Subject: RE: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

Called you back. We are interested in the A1. Think the size will be half the tranche. We can discuss tomorrow.

From: Kelly, Ryan [mailto:Ryan.Kelly@gs.com]
Sent: Wednesday, October 11, 2006 2:24 PM
To: Meneret, David; Shropshire, Joseph
Subject: Hudson Mezzanine Funding 2006-1 Ltd.: Computational Materials for UBS (144a/Reg S) (external)

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Attached is the portfolio with CUSIPs requested by UBS.

<<Hudson_Mezz_Investor_Port.xls>>

From: Tourre, Fabrice
Sent: Sunday, March 04, 2007 5:11 PM
To: Maltezos, George (GSJBW); Carrett, Paul (GSJBW); Egol, Jonathan; Williams, Geoffrey
Cc: Case, Benjamin
Subject: RE: Hedging

We should discuss this live, but I think their likelihood of getting principal back is almost zero, given market implied pricings for ABX:

-- ABX.HE.BBB.06-1 @ 91 px
-- ABX.HE.BBB-.06-1 @ 86 px
-- ABX.HE.BBB.06-2 @ 81 px
-- ABX.HE.BBB-.06-2 @ 71 px

The blended price of the ABX component of that portfolio (60% of the transaction) is approx 82, meaning that the equity has no NAV coverage. This piece of risk should trade like an IO, and the the main risk at this point is downgrade risk that could cause triggers to fail and cause their equity cashflows to shutoff for good.

Ben will give you more insight as to how the triggers are structured, and how much downgrades could cause those triggers to be activated...

-----Original Message-----
From: Maltezos, George (GSJBW)
Sent: Sunday, March 04, 2007 5:04 PM
To: Tourre, Fabrice; Carrett, Paul (GSJBW); Egol, Jonathan; Williams, Geoffrey
Subject: Re: Hedging

They own Hudson mezz 1 cdo equity.

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Tourre, Fabrice <Fabrice.Tourre@gs.com>
To: Carrett, Paul; Egol, Jonathan M - GS; Williams, Geoffrey - GS
Cc: Maltezos, George
Sent: Mon Mar 05 08:56:01 2007
Subject: RE: Hedging

can you remind us what they own ?

From: Carrett, Paul (GSJBW)
Sent: Sunday, March 04, 2007 4:36 PM
To: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey
Cc: Maltezos, George (GSJBW)
Subject: Hedging

Team

Mariner is interested in ideas for hedging their Hudson exposure. Could you please provide

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Wall Street & The Financial Crisis
Report Footnote #2289

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GS MBS-E-006638833

some thoughts on the following:

1. Putting aside current pricing, I would have thought a form of delta hedging their exposures to either troublesome single names, or the ABX indices as a whole might work to some extent. In "normal" conditions, what sorts of strategies would you suggest?

2. In the context of current pricing, is there some compromise or variation on the above that might be helpful to them. Their main objective is ensuring recovery of principal. Presumably very challenging in the context of current markets.

I should have prefaced the above with the fact that I do not believe that they are about to hedge this position – the horse has bolted in pricing terms. They are no doubt getting questions from the company's board as to what could be done, as a learning exercise, and potentially as a complete downside case.

We will also point out that if they put on a hedge on the ABX and the index started screaming in they would have a very serious mark to market issue on their hands.

All thoughts welcome.

Cheers

Paul

Paul Carrett
Executive Director
Structured Asset Solutions

Fixed Income, Currency and Commodities
Goldman Sachs JBWere Pty Ltd

Telephone 612 9320 1241
Facsimile 612 9320 1222
Mobile [redacted]
<mailto:paul.carrett@gsjbw.com> paul.carrett@gsjbw.com <blocked::http://www.gsjbw.com/>
www.gsjbw.com

Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

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Confidential Treatment Requested by Goldman Sachs

November 21, 2008

Via Fax, E-mail and Courier

To: Morgan Stanley Capital Services, Inc.
1585 Broadway
New York, New York 10036
Telephone: 212-761-2996
Facsimile: 212-507-4563
E-mail: msnyccreditevent@morganstanley.com

Re: Senior Swap Confirmation (Reference Number SDB980892555), dated as of October 25, 2006 (the "Senior Swap Confirmation") between Goldman Sachs Capital Markets, LP ("GSCM") and Morgan Stanley Capital Services, Inc. ("Counterparty")

Reference is made to the attached notice, dated November 21, 2008, from MSCS to GSCM. The Senior Swap Funding Payment was calculated by the Calculation Agent under the Senior Swap as the difference between (i) the payment due the Credit Protection Buyer under the Credit Default Swap of $931,628,133.63 and (ii) the proceeds from the liquidation of the remaining collateral of $627,883.65, resulting in the Senior Swap Funding Payment of $931,000,249.98.

Capitalized terms used but not defined herein have the respective meanings ascribed thereto in the Senior Swap Confirmation.

GOLDMAN SACHS CAPITAL MARKETS, LP

NY1 6802168v.2

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2291

MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Peter Ostrem
Matthew Bieber
Ariane West
Shelly Lin
Eric Siegel

Cc: Jonathan Sobel
Dan Sparks
David Rosenblum
Tim Saunders
Pat Welch

Date: September 25, 2006

Re: **Placing debt and equity on a static mezzanine structured prodoct CDO with GSC Partners ("GSC")**

I. Introduction

We have been asked to structure a $500 million mezzanine structured product CDO backed by a portfolio of RMBS, CMBS, CDO and ABS with an average rating of Baa2/Baa3 ("Hudson Mezzanine Funding II"). Goldman will be engaged by Hudson Mezzanine Funding II as Liquidation Agent and in this role will have the responsibility of liquidating "Credit Risk Assets" (defined below in section III). Goldman and GSC Partners ("GSC") will co-select the portfolio that will collateralize the CDO. GSC Eliot Bridge, a CDO equity fund managed by GSC, has pre-committed to purchase 50% of the equity in the CDO (total equity will be approx. $17.0 MM) upon closing of the transaction. GSC Eliot Bridge will share 50% of the warehouse risk on the first $20 MM of potential loss exposure during the portfolio ramp-up and will initially post $5.0 MM to collateralize this commitment, with additional posting up to $10.0 MM as the portfolio ramps.

We do not expect to charge any upfront fee and similarly, GSC will not charge any ongoing management fee. Without fees, the equity yield is expected to be approximately 35%. We expect to retain a senior IO security which will reduce the CDO equity's yield to approximately 20%. This is the level we intend to offer equity to third parties.

In return for our role as Liquidation Agent, Goldman will receive an ongoing fee of 0.10% of the CDOs par portfolio balance. Total economics to Goldman are expected to be $5.5 MM upfront (includes the premium sale on equity and net carry from the warehouse) and $500k per annum over a 4 duration (the ongoing P&L of 0.10% for acting as liquidation agent which we cannot recognize upfront).

As Liquidation agent, Goldman will liquidate assets determined by the Trustee to be "Credit Risk Assets" based on specific guidelines. Goldman will have 12 months to sell these assets. Sales will be made under a competitive bidding process whereby we will solicit three outside bids and select the highest. Goldman's role in this transaction is comparable to the role we currently assume in the Hout Bay and Hudson HG transactions. Prior to executing Hout Bay I, in which we also played the Liquidation Agent role, we spoke with multiple counterparties as to our role as Liquidation Agent. We received approval for our role in this transaction from legal and accounting. We spoke with outside counsel, Orrick Herrington, and they were comfortable providing true sale and non-consolidation opinions for the transaction. We spoke with Mary Marr in Accounting Policy and John Little in Product Control, and they in collaboration with PricewaterhouseCoopers were comfortable that the Hout Bay transaction met true sale and non-consolidation conditions from an accounting perspective. Finally, we spoke with outside counsel, Wilmer Cutler, about potential issues related to the Investment Advisor Act. They are of the opinion that our role of Liquidation Agent does not cause us to be deemed an Investment Advisor based on an exception to

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the Advisors Act for a "limited grant of discretion". For a more detailed account of Goldman's role as Liquidation Agent and related discussions with legal and accounting counterparts please see section III, "The Liquidation Agent: Goldman".

We expect to offer the subordinate triple-A, double-A, single-A and triple-B debt to the market through our syndicate. Goldman has no commitment on any of the offered notes, but Goldman may be subject to warehouse losses in the event the CDO does not close.

Goldman Sachs has a strong relationship with GSC. We closed a $300 MM middle market CLO with GSC in January 2006 (equity in the CLO was purchased by GSC Capital Corp.), earning $2.4 MM in structuring fees. We are currently marketing a high grade transaction with GSC and have a single-A focused structured product CDO ramping. In addition Goldman and GSC are working together on a CDO equity sponsorship vehicle, ORCA Funding. The head of the structured products team at GSC worked with us at [redacted] to moving to GSC, mandating us on the [redacted]high grade CDO transactions, totaling $6 billion in issuance and $40mm in fees to GS.

II. Transaction Overview

A Cayman Islands limited liability company (the "Issuer") will be established which will purchase the warehoused portfolio at closing and will issue the following notes and equity:

Class	Balance	% of Capital Structure	Expected Ratings (Moody's/S&P)	Expected Spread	Expected Average Life
Class A-1 Notes	$325.0 MM	65.0%	Aaa/AAA	L+30bp	5.0
Class A-2 Notes	50.0 MM	10.0%	Aaa/AAA	L+45bp	5.0
Class B Notes	40.0 MM	8.0%	Aa2/AA	L+60bp	5.5
Class C Notes	35.0 MM	7.0%	A2/A	L+145bp	6.0
Class D Notes	28.5 MM	5.7%	Baa2/BBB	L+325bp	7.0
Class E Notes	4.5 MM	0.9%	Ba2/BBB	L+650bp	7.8
Income Notes	17.0 MM	3.4%	NR	NA	NA
Portfolio	**$500.0 MM**	**100.0%**	**Avg. A1/A2**	**L+165bp**	**5.5**

The transaction will have a legal maturity of 35 years, however the expected average life of the Notes will be approximately 5-7 years. The equity will also have the option to call the transaction after a 3 year non-call period.

P&L to Goldman will be approximately $5.5 MM upfront and $500k per annum thereafter over a 4 duration. In return for fees and 50% of the net warehouse carry (50% of the net carry will be approx. $0.5 MM), Goldman will (a) take half of the warehouse risk on the first $40 MM of losses and 100% of the warehouse risk if losses exceed $40 MM and (b) place the Class A, B, C, D, and E Notes and may place a portion of the Income Notes (the Income Notes are the equity class) on a "best efforts" basis (Goldman has committed to purchase 50% of the Income Notes and GSC has committed to purchase the other 50%). GSC would like to hold only 25% of the Income Notes upon closing, but we have agreed to sell down our commitments pro-rata and equally purchase any remaining equity.

Collateral Description

- 100% of the CDO portfolio will be identified at closing.
- 100% of the portfolio will be rated at least Baa3 by Moody's or BBB- by S&P.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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- The portfolio is expected to be approximately 80% subprime RMBS, 15% prime and Alt-A RMBS, 5% CMBS and SP CDOs. Up to 100% of the portfolio may be single-name synthetic exposures.

III. Collateral Manager

GSC Partners was established in 1994 by Alfred C. Eckert, III, former Partner and Head of Private Equity/Distressed Debt Investing and Corporate Finance at Goldman Sachs. The team consists of 80 persons worldwide, 36 of whom are investment professionals.

GSC Partners has over $7.2bn in assets under management, with over $3.3bn invested in structured credit. Six CDO/CLO funds have been raised since 2000.

In early 2005, Frederick H. Horton joined GSC Partners from TCW to build a structured products platform at GSC. Since joining GSC, the structured products group has issued a private mortgage REIT, GSC Capital Corp, and two synthetic mezzanine structured product CDOs.

For GSC, this CDO is an opportunity to grow their existing structured product CDO platform. For Goldman, the CDO will provide an opportunity to enhance our strategic relationship with GSC and maintain our leadership in the high grade structured product CDO market.

IV. Underwriting Commitments:

Goldman Sachs will act as sole placement agent of the Class A, B, C, D, and E Notes and the Income Notes and will be working on a "best efforts" basis on all of the debt and has a firm commitment on 50% of the Income Notes. GSC Capital Corp. is pre-committed to purchase 50% of the Income Notes.

The primary demand for mezzanine notes / equity in these types of transactions comes from European, Australian, and Asian banking and insurance institutions, US asset managers, other structured investment vehicles, and CDO equity funds. These various accounts continue to express interest in gaining a leveraged exposure to the U.S. structured product market. The structured product CDO vehicle allows them to gain this exposure on a diversified basis.

We expect to purchase approximately $2-8 MM of the equity on the pricing date, but we will have no commitment to hold such position after closing.

Goldman's current portfolio of CDO and CLO equity held within the CDO group is detailed in Appendix B.

V. Portfolio Ramp-Up and Equity Marketing

Initially, Goldman will assume 50% of first loss risk in the warehouse on the first $40 MM of losses and 100% of second loss risk above $40 MM in the event the CDO fails to close. GSC Capital Corp. will be taking 50% of first loss risk in the warehouse on the first $40 MM and will initially post $5.0 MM to collateralize this commitment. Goldman will have full recourse to GSC Capital Corp. (currently $150-200 MM in capital) for losses in excess of the posted amount but not to exceed $20 MM and will have the right to liquidate the portfolio upon any material negative mark-to-market.

Additionally, we will continue to pursue early equity and mezzanine debt commitments from additional investors to reduce the risk of a failed closing. Appendix A details our current warehouse exposures across the CDO group.

The general terms of the portfolio ramp-up are as follows:

- GS has the right to veto all asset purchases and GSC has the right to veto all asset purchases;
- GS has unilateral right to liquidate an asset or the warehouse;
- All assets are sold-forward to the CDO at time of purchase and the forward price covers any hedge or trading gains/losses on assets during the warehouse phase;

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- 50% of positive carry will be paid to GS (positive carry is equal to any net income in excess of Goldman's cost of financing during the warehousing period). Net carry is expected to be approximately $1.0 MM which will be shared 50/50 between Goldman and GSC Capital Corp.
- Position sizes will be limited to $20 MM for assets rated single-A or higher and $10 MM for triple-B assets.

VI. Expected Fees

Goldman expects to recognize P&L equal to 1.0% times the par balance of the collateral portfolio. We expect a $500 MM transaction and the P&L, in that case, would be $5.0 MM. Additionally, Goldman expects to earn profits by selling assets into the CDO and from Goldman's share of warehouse net carry (which is estimated to be $0.5 MM) and from our ongoing role as liquidation agent (which will be $500k per annum on a 4 duration).

VII. Reasons to Pursue

We are pursuing this transaction for the following reasons:

1. Goldman is approving every asset going into the warehouse. The respective trading desks are posted on each asset offered into the CDO by GSC from the street and we do not accept any asset that is not approved by the respective trading desk. In addition, we expect that 30-40% of the portfolio by closing will come from Goldman's offerings.

2. Although we will be marketing a $500 MM transaction, Goldman can price the transaction earlier with a lower balance if we are concerned about future market conditions or we can upsize the transaction if there are reasons to merit that action.

3. We will be offering the equity to third party investors with a no-loss yield of 18-20% which is consistent with CDO equity from mezzanine structured product CDOs currently being sold into the market.

4. We expect to generally market the debt and equity once the transaction is approximately 70% ramped. We expect to offer the equity and debt on an early commitment basis (we will commence those discussions upon initial portfolio ramp).

5. GSC Capital Corp. is taking half of the first loss risk in the warehouse and is committed to half of the equity, Goldman has a "best efforts" underwriting commitment on the debt, and Goldman's expect's total P&L of approximately $5.5 MM.

VIII. Strengths / Issues to Consider

Strengths

- **Pre-Sold Equity:** GSC Capital Corp. has pre-committed to purchase half of the equity.
- **Repeat Collateral Manager:** This transaction would represent GSC's fourth CDO with Goldman in 2006 and GSC's third structured product CDO.
- **Collateral:** 100% of the portfolio will have a rating of investment grade.
- **Pre-Marketing:** We will begun discussions with numerous investors on early commitments on equity and debt (TCW Equity Fund, Commerzbank, Basis Capital, Sandelman, Magnetar, and Mariner).

Issues to Consider

- **Warehouse:** Goldman Sachs will be exposed to half of any first loss exposure on the first $40 MM and 100% of any second loss exposure above $40 MM if the deal fails to close. GSC Capital Corp. is

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initially posting $5.0 MM to collateralize its risk sharing commitment and will make additional posts up to $20 MM as the warehouse ramps.

IX. Recommendation

GSC is a repeat CDO issuer and is one of Goldman's strongest relationships in the structured product CDO market. Goldman Sachs will be involved in structuring the transaction, selling assets into the transaction, placing the Notes and the equity of the CDO and in return, will recognize P&L of approx. $5.5 MM.

In light of the above, we request that the Capital Committee approve our proposal to enter into a "best efforts" underwriting of the CDO debt, firm commitment on half the equity, and to move forward with the warehouse risk sharing arrangement with GSC.

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Appendix A: Current CDO Warehouses

Structured Product CDO Warehouses

Deal Name	Size / Current Warehouse	Collateral Description	GS Warehouse Risk	Cost of Financing	Expected Pricing	Approx. Fees
[redacted]	$1.5 Billion / $600 MM	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	Nordea: 50% to GS, all asset purchases funded [redacted]	LIBOR flat	Apr-06	$5.25 MM
[redacted]	$2.0 Billion/ $1.5 Billion	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	100% to GS	NA	Jul-06	$10 MM
[redacted]	$2.0 Billion/ $1.2 Billion	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	[redacted] 1st Loss – 50% up to $6 MM 2nd Loss – 100% above $6 MM	NA	Jul-06	$10 MM
[redacted]	$3.0 Billion/ $1.9 Billion	Aa2/Aa3 – Prime and Alt-A RMBS	100% to GS	NA	Aug-06	$10 MM
[redacted]	$2.0 Billion/ $127 Million	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	100% to GS	NA	Aug-06	$10 MM

CLO Warehouses

Deal Name	Size / Current Warehouse	Collateral Description	GS Warehouse Risk	Cost of Financing	Expected Pricing	Approx. Fees
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Appendix B: CDO Equity Positions

Transaction	Face ($MM)	Deal Type	Currency	Market Price	Market Value ($MM)
FC CBO III Limited	1.29	CLO	USD	-	-
FC CBO II Limited	1.66	CLO	USD	-	-
First Dominion Funding I	0.57	CLO	USD	45	0.26
First Dominion Funding III	1.04	CLO	USD	15	0.16
Halyard CBO I limited	0.77	CLO	USD	-	-
Pennant CBO Limited	0.63	CLO	USD	-	-
Ballyrock II	1.62	CLO	USD	75	1.21
Signature 7 LP	0.97	CLO	USD	60	0.58
Victoria Falls CLO, Ltd	3.00	CLO	USD	90	2.70
Ballyrock III	2.10	CLO	USD	90	1.89
Harch CLO Ltd.	6.00	CLO	USD	90	5.40
Ares VR	6.30	CLO	USD	90	5.67
Putnam Structured Product CDO 2002-1, Ltd	4.00	SP CDO	USD	75	3.00
Davis Square Funding I, Ltd	2.00	SP CDO	USD	75	1.50
NYLIM Stratford CDO 2001-1, Ltd	3.25	SP CDO	USD	1	0.03
Sierra Madre Funding, Ltd.	3.73	SP CDO	USD	67	2.49
Davis Square Funding III, Ltd	1.50	SP CDO	USD	75	1.13
Camber III plc	8.90	SP CDO	USD	75	6.68
Adirondack 2005-1 Funding, Ltd	3.95	SP CDO	USD	80	3.16
Coolidge Funding, Ltd.	2.40	SP CDO	USD	80	1.92
Altius I Funding, Ltd.	2.00	SP CDO	USD	80	1.60
Davis Square Funding V, Ltd.	4.00	SP CDO	USD	80	3.20
G Street Finance Ltd.	4.00	SP CDO	USD	80	3.20
Adirondack 2005-2 Funding, Ltd	4.64	SP CDO	USD	80	3.71
Winston Funding LTD	1.80	SP CDO	USD	25	0.45
Davis Square Funding IV, Ltd.	3.03	SP CDO	USD	80	2.43
Davis Square Funding VI, Ltd.	2.80	SP CDO	USD	80	2.24
Fortius I Funding, Ltd.	2.00	SP CDO	USD	80	1.60
Total	**79.95**				**56.21**

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From: Sparks, Daniel L
Sent: Sunday, May 14, 2006 1:01 PM
To: Willing, Curtis
Subject: RE: GSC - Prime Brokerage

I've run a bunch of traps for them in the past.

You should know what I need to be posted on, not leave it to the client to decide

-----Original Message-----
From: Willing, Curtis
Sent: Wednesday, May 10, 2006 8:47 AM
To: Sparks, Daniel L
Subject: RE: GSC - Prime Brokerage

I asked Ed and Josh early on if they wanted me to get you and Cornacchia involved to get this moving and they said it was more of an inquiry at that point. When I relayed to them that the team here had multiple points of contact with GSC already they asked me to just hold off until they had a better sense of who at Goldman was talking to various contacts at GSC. Yesterday they asked me to move forward again...I just received that response this morning.

-----Original Message-----
From: Sparks, Daniel L
Sent: Wednesday, May 10, 2006 8:40 AM
To: Willing, Curtis
Subject: Re: GSC - Prime Brokerage

Mistake not to involve me from early on

-----Original Message-----
From: Willing, Curtis <Curtis.Willing@ny.email.gs.com>
To: Sparks, Daniel L <dan.sparks@ny.email.gs.com>; Ostrem, Peter L <Peter.Ostrem@ny.email.gs.com>; Cornacchia, Thomas <Thomas.Cornacchia@ny.email.gs.com>
Sent: Wed May 10 08:37:42 2006
Subject: GSC - Prime Brokerage

Let me know if there is something more you think I could be doing here per Steffelin's request

-----Original Message-----
From: Solomon, David Z (GSS)
Sent: Wednesday, May 10, 2006 8:05 AM
To: Willing, Curtis; Holland, Dan
Subject: RE: GSC - Prime Brokerage

We don't work with ABS funds (no PB revs), what we can do is circulate their materials to the team (in case any investor inquire about ABS funds opportunistically), hope this will be helpful. Call either of us if you have any questions.

-----Original Message-----
From: Willing, Curtis
Sent: Wednesday, May 10, 2006 7:47 AM
To: Solomon, David Z (GSS); Holland, Dan
Subject: RE: GSC - Prime Brokerage

Ed Steffelin, Fred Horton and Josh Bissu would like to talk to us about raising money for them in their Elliot Bridge Fund. It's a fixed income arb fund focusing primarily on ABS

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using cash and synthetics, long/short strategies. 43mm currently looking to get to $150-200mm over the next 9-12 months. There is one investor and GSC in the fund. Please let me know how we could go about arranging a meeting.

Thanks

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Solomon, David Z (GSS)
Sent: Monday, April 17, 2006 5:31 PM
To: Willing, Curtis; Holland, Dan
Subject: Re: GSC - Prime Brokerage

Know them well, was just there with [redacted] their IBD coverage and a bunch of bankers including [redacted], [redacted] etc.

Also our team recently hosted a dry-run for their new credit fund.

Also introducing John Lipton to equities and PB folks iin Asia.

How can we help?

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Willing, Curtis <Curtis.Willing@ny.email.gs.com>
To: Holland, Dan <dan.holland@ny.email.gs.com>; Solomon, David Z (GSS) <David.Z.Solomon@ny.email.gs.com>
Sent: Mon Apr 17 17:24:48 2006
Subject: GSC - Prime Brokerage

Are either of you familiar with GSC Partners? Several Ex-Goldman Partners involved. They currently have ~$9.2Billion in AUM…..although the fund they would like us to have discussions on is currently $43mm in size. They are a strategic partner with the Synthetic desk and have handed us multiple CDO/CLO mandates. Please let me know if we can arrange a discussion on this account.

Thanks

Curt Willing

From: Kamilla, Rajiv
Sent: Monday, April 17, 2006 10:37 AM
To: Willing, Curtis; Egol, Jonathan; Tourre, Fabrice; Ostrem, Peter L
Cc: Holland, Dan; Solomon, David Z (GSS)
Subject: RE: GSC - Prime Brokerage

Ccing...Holland, Dan; Solomon, David Z (GSS)

From: Willing, Curtis
Sent: Monday, April 17, 2006 10:34 AM
To: Egol, Jonathan; Tourre, Fabrice; Ostrem, Peter L; Kamilla, Rajiv
Subject: GSC - Prime Brokerage

What is my best option for getting dialogue started on this front?

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From: Steffelin, Edward [esteffelin@gscpartners.com]
Sent: Tuesday, August 08, 2006 1:25 PM
To: Ostrem, Peter L; Bissu, Joshua
Cc: Bieber, Matthew G.; Case, Benjamin; Horton, Fred
Subject: RE: GS/GSC EB Prop deal

We concur.

Ed Steffelin
212-884-6190
GSC Partners

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From: Ostrem, Peter L [mailto:Peter.Ostrem@gs.com]
Sent: Tuesday, August 08, 2006 12:34 PM
To: Bissu, Joshua; Steffelin, Edward
Cc: Bieber, Matthew G.; Case, Benjamin; Horton, Fred
Subject: FW: GS/GSC EB Prop deal

Gentlemen,
Here is what we would do:
- $500mm deal
- 50/50 on the equity. Any equity sales reduce our allocation pro-rata.
- no OC/IC tests is ok. Suggest OC test diverting excess spread if BBB OC is less than 100.0% (no haircuts).
- No underwriting fee
- No cap on expenses (we share that risk). But agree we try to keep it low (will definitely be higher than $1mm given agencies alone)
- GS earns 10bp PA on the NOPCB as Asset Liquidation Agent
- 2% position size limit
- 3 yr non-call
- No reinvestment
- Offer to sell protection on BBBs to GSC at market for 0.75% times notional
- Happy to source assets via GSC
- Not sure we can leverage equity, but we will try to sell some BB debt if that helps

Let me know if that works.
Thanks.
Peter

Gentlemen,

Here's what we were thinking to make sure we are all on the same page, let us know what you think.

-500 million deal (~4.5% non-IG notes and equity)

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-No OC/IC tests
-GSC commits to 50% of the equity
-There is no underwriting fee on the deal
-Try to cap upfront expenses (legal, rating agencies, audit) at 1 million
-GS earns 10bps pa on the NOPCB as Asset Liquidation Agent
-Portfolio Composition

RMBS HEL/BC	Baa2	30.00%
RMBS HEL/BC	Baa3	30.00%
SP CDO	A2	20.00%
SP CDO	Baa2	20.00%

-1% target position size

-3 year non call
-No reinvestment
-GSC EB have the right will source up to 50 million of the Baa2 CDOs directly
-GS will use best efforts to source [12] million of the BBBs for GSC EB to short; GS will earn [0.75]% on the notional amount of the short paid upfront
(fixed cap, with implied writedown)
-GS will leverage the equity 50% forGSC

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From: Bieber, Matthew G.
Sent: Wednesday, September 27, 2006 9:36 AM
To: Bissu, Joshua
Cc: Case, Benjamin; Ostrem, Peter L; Steffelin, Edward; Shieh, Will
Subject: RE: Names for tomorrow.....

ok on list...$5mm per name.

From: Bissu, Joshua [mailto:jbissu@gscpartners.com]
Sent: Tuesday, September 26, 2006 10:24 PM
To: Bieber, Matthew G.
Cc: Case, Benjamin; Ostrem, Peter L; Steffelin, Edward; Shieh, Will
Subject: Names for tomorrow.....

Matt,

As discussed here are the names we wanted to send out for tomorrow's bid. Please let us know if you have any comments. thanks
Rgds,
Josh

Cusip	Name	Moody's	S&P
004375FE6	ACCR 2006-1 M8	Baa2	BBB
29445FCV8	EMLT 2005-1 M8	Baa2	BBB
362341QW2	FFML 2005-FF8 B2	Baa2	A
40430HEH7	HASC 2006-OPT2 M8	Baa2	BBB+
46626LBA7	JPMAC 2005-FLD1 M8	Baa2	BBB
59020U3N3	MLMI 2006-HE1 B2A	Baa2	BBB+
61744CMS2	MSAC 2005-NC1 B2	Baa2	BBB
64352VLA7	NCHET 2005-2 M8	Baa2	BBB
76112BZA1	RAMP 2005-EFC3 M8	Baa2	BBB+
04541GQH8	ABSHE 2005-HE2 M7	Baa3	BBB-
004375DM0	ACCR 2005-2 M9	Baa3	BBB
004421VC4	ACE 2006-NC1 M9	Baa3	BBB+

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03072SM85	AMSI 2005-R8 M9	Baa3	BBB
073879VL9	BSABS 2005-TC1 M6	Baa3	BBB
144531BK5	CARR 2005-NC1 M8	Baa3	BBB-
22237JAP2	CWL 2006-BC2 M9	Baa3	BBB-
61744CPQ3	MSAC 2005-NC2 B3	Baa3	BBB-
61744CYK6	MSAC 2006-NC1 B3	Baa3	BBB
64352VKJ9	NCHET 2005-1 M9	Baa3	BBB-
64352VLS8	NCHET 2005-3 M9	Baa3	BBB-
76112BD49	RAMP 2005-EFC4 M9	Baa3	BBB
76112BJ43	RAMP 2005-EFC5 M9	Baa3	BBB
76112BL24	RAMP 2005-EFC6 M9	Baa3	BBB
76110W6H4	RASC 2005-EMX4 M9	Baa3	BBB+

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From: Bieber, Matthew G.
Sent: Monday, March 05, 2007 7:45 PM
To: Bissu, Joshua
Subject: RE: Anderson Mezzanine Portfolio as of 3 2 07 (2).xls

we're going to need to execute remaining portfolio wider than 193

From: Bissu, Joshua [mailto:jbissu@gsc.com]
Sent: Monday, March 05, 2007 10:59 AM
To: Bieber, Matthew G.
Subject: Anderson Mezzanine Portfolio as of 3 2 07 (2).xls

some levels we did these names on friday for another trade

the index names will also probably trade

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From: Bieber, Matthew G.
Sent: Tuesday, March 06, 2007 2:56 PM
To: Chitson, Michele; Chitson, Michele; Lin, Shelly; Siegel, Eric
Subject: W: Talking Points on New Century

INTERNAL

From: Bissu, Joshua [mailto:jbissu@gsc.com]
Sent: Tuesday, March 06, 2007 2:26 PM
To: Bieber, Matthew G.; Ostrem, Peter L
Cc: Steffelin, Edward; Zhu, Wenbo; Savai, Rajiv
Subject: Talking Points on New Century

* Historically New Century has on average displayed much better performance in terms of delinq and default data
* Prepayments have tended to be higher lowering the extension risk
* Losses and REO are historically lower than the rest of the market
* Traditionally the structures have strong enhancement/subordination

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Report Footnote #2305

From: Shah, Poonam
Sent: Monday, September 18, 2006 2:46 PM
To: Shah, Poonam; Williams, Geoffrey; Ficc-cdmtg
Cc: ficc-mtgcorr-desk; Riso, Max
Subject: RE: Expected Tranche Trades with GSC on Monday

x-gs-classification: Internal-GS

Tranche trades renamed - pls see below for updated ref numbers:

$10.6250mm of 8.625-12.875% (Class B) @ 200bps upfront and 120bps running - NUUQ60914003
$6.2500mm of 6.125-8.625% (Class C) @ @ 200bps upfront 230bps running - NUUQ60915003
$5.9375mm of 3.750-6.125% (Class D) @ 200bps upfront and 405bps running - NUUQ60916003

Thanks.

From: Shah, Poonam
Sent: Monday, September 18, 2006 2:17 PM
To: Williams, Geoffrey; Ficc-cdmtg
Cc: ficc-mtgcorr-desk; Riso, Max
Subject: RE: Expected Tranche Trades with GSC on Monday

Will book the tranche trades now and rename in tap - willl let you know once completed - thanks.

From: Williams, Geoffrey
Sent: Monday, September 18, 2006 2:01 PM
To: Ficc-cdmtg
Cc: ficc-mtgcorr-desk; Riso, Max
Subject: FW: Expected Tranche Trades with GSC on Monday

GSC tranche trades booked in TAP. Also, have information on the ABX trades they did last week. Can you please rename and revert ASAP so we can get to collateral and have all the trades linked? Thanks.

GS sells 25 mm ABX 06-1 BBB index 9/13 @ 100-26 -- SDB2013041281
GS sells 15mm ABX 06-1 BBB index 9/13 @ 100-28 - SDB201304263

From: Williams, Geoffrey
Sent: Friday, September 15, 2006 4:48 PM
To: ficc-mtgcorr-tradeapproval
Subject: FW: Expected Tranche Trades with GSC on Monday

Follow-ups on tranched swaps with GSC / DB Prop / Magnetar; let us know if you have any questions or need anything else:

Strats -- I will send an updated TAP setup file for this portfolio (which is ABACUS 06-11) since this trade will not have reinvestment like the protection buy side.
Ops -- can we please discuss how to link GSC's ABX longs to their tranche shorts when booked so that they receive appropriate margin credit?
Credit -- please note updated sizes that GSC will do in their long/short strategy; can you please refresh the initial margin based on this?
Controllers -- can we please discuss what will be released on Mon?
Drafting -- find a draft confirm that we have sent to GSC / DB Prop / Magnetar below; we will let you know when we have finalized with GSC / DB Prop / Magnetar.

<< File: Draft GSC CDS Confirmation 20060830.doc >>

From: Williams, Geoffrey

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Sent: Friday, September 15, 2006 4:24 PM
To: ficc-mtgcorr-tradeapproval
Cc: Willing, Curtis
Subject: Expected Tranche Trades with GSC on Monday

We expect to write protection to GSC on each of the following tranches off of the static reference portfolio attached below; GSC will pay to GS the premiums detailed below:

$10.6250mm of 8.625-12.875% (Class B) @ 200bps upfront and 120bps running
$6.2500mm of 6.125-8.625% (Class C) @ @ 200bps upfront 230bps running
$5.9375mm of 3.750-6.125% (Class D) @ 200bps upfront and 405bps running

Against this, GSC has already bought $40mm of ABX.HE.BBB.06-1 from the ABS Trading desk; we need to link this trade to their tranche shorts so that they get margin credit for the long/short.

Other Key Terms:

Trade date: Monday, September 18, 2006
Effective date: Tuesday, September 26, 2006
Protection Seller: [Goldman Sachs International]
Protection Buyer: [GSC entity]
Termination Date: September 28, 2045
Non-Call Period: ends on September 28, 2009
Amortization Type: Modified Sequential

Reference portfolio:

<< File: Bespoke Portfolio 1 20060915.xls >>

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 357-0818 | Fax: (212) 493-9565
e-mail: geoffrey.williams@gs.com

Goldman
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Geoff Williams
Structured Products Trading

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From: Lin, Shelly
Sent: Tuesday, October 31, 2006 12:21 PM
To: Bissu, Joshua; Bieber, Matthew G.
Cc: Steffelin, Edward; Dial, Thomas; Shieh, Will
Subject: RE: Book3 (7).xls
Attachments: Book3 (7) (2).xls
x-gs-classification: External

Attached are the names/levels that our desk would like to trade.

CUSIP	Deal	Rating	GSC Hedge Amount	Amt For Bid	
040104TS0	ARSI 2006-W4 M9	Baa3	2,000,000	3,000,000	285
04541GRT1	ABSHE 2005-HE4 M9	Baa3	1,000,000	4,000,000	
04541GWQ1	ABSHE 2006-HE2 M9	Baa3	2,000,000	3,000,000	255
126670UD8	CWL 2006-1 MV8	Baa2		5,000,000	
144531FV7	CARR 2006-OPT1 M8	Baa2		5,000,000	
46602WAN4	IXIS 2006-HE2 B3	Baa3	1,000,000	4,000,000	225
57645FAS6	MABS 2006-AM2 M8	Baa2		5,000,000	
59021AAM0	MLMI 2006-FM1 B2	Baa2	1,000,000	4,000,000	170
64352VRB9	NCHET 2006-1 M9	Baa3	1,000,000	4,000,000	275
64360YAM7	NCHET 2006-2 M9	Baa2		5,000,000	
83611MEE4	SVHE 2005-DO1 M8	Baa2		5,000,000	110
86360PAR8	SASC 2006-NC1 M9	Baa3	1,000,000	4,000,000	245
86361KAM9	SAIL 2006-BNC3 M7	Baa2		5,000,000	170

From: Bissu, Joshua [mailto:jbissu@gscpartners.com]
Sent: Monday, October 30, 2006 7:11 PM
To: Bieber, Matthew G.; Lin, Shelly
Cc: Steffelin, Edward; Dial, Thomas; Shieh, Will
Subject: FW: Book3 (7).xls

Matt/Shelly -

Attached pls find the next list of names we wanted to ramp for Hudson Mezz. The amount we would like to short into the deal is noted in the GSC hedge amount column. The amount out for bid is noted in the following column (5M - GSC Hedge Amount).

We would love if your desk wanted to trade some of the ones we want to hedge as well.

Let us know what your levels are if you want to bid, and if we have approval to trade the names.

Thanks

Josh

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From: Willing, Curtis <curtis.willing@gs.com>
Sent: Tuesday, October 31, 2006 10:29 PM (GMT)
To: Ficc-cdmtg <Ficc-cdmtg@ny.email.gs.com>; Hancock, Samuel <Samuel.Hancock@gs.com>; Chin, Edwin <Edwin.Chin@gs.com>; Salem, Deeb <Deeb.Salem@gs.com>
Cc: SF_Confirms <confirms_sf@gscpartners.com>; Bissu, Joshua <jbissu@gscpartners.com>
Subject: GSC Trades

GSC ELIOT BRIDGE MASTER FUND I, Ltd., buys protection on the following facing GS (Goldman Sachs International)

040104TS0	ARSI 2006-W4 M9	Baa3	2,000,000	285
04541GWQ1	ABSHE 2006-HE2 M9	Baa3	2,000,000	255
46602WAN4	IXIS 2006-HE2 B3	Baa3	1,000,000	225
59021AAM0	MLMI 2006-FM1 B2	Baa2	1,000,000	170
64352VRB9	NCHET 2006-1 M9	Baa3	1,000,000	275
86360PAR8	SASC 2006-NC1 M9	Baa3	1,000,000	245

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
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FOIA Confidential Treatment Requested by G

From: Salem, Deeb
Sent: Tuesday, October 31, 2006 12:17 PM
To: Lin, Shelly; Chin, Edwin
Cc: Bieber, Matthew G.
Subject: RE: RE: GSC- Hudson Mezz 2

that is cool

From: Lin, Shelly
Sent: Tuesday, October 31, 2006 12:14 PM
To: Salem, Deeb; Chin, Edwin
Cc: Bieber, Matthew G.
Subject: RE: GSC- Hudson Mezz 2

Do you want to do up to $5mm? GSC wants to short into the deal the amounts listed below. They'd like to trade the ones they want to hedge with your desk as well. I think they also did this with your desk a few weeks ago.

CUSIP	Deal	Rating	GSC Hedge Amount	Amt For Bid	
040104TS0	ARSI 2006-W4 M9	Baa3	2,000,000	3,000,000	285
04541GRT1	ABSHE 2005-HE4 M9	Baa3	1,000,000	4,000,000	
04541GWQ1	ABSHE 2006-HE2 M9	Baa3	2,000,000	3,000,000	255
126670UD8	CWL 2006-1 MV8	Baa2		5,000,000	
144531FV7	CARR 2006-OPT1 M8	Baa2		5,000,000	
46602WAN4	IXIS 2006-HE2 B3	Baa3	1,000,000	4,000,000	225
57645FAS6	MABS 2006-AM2 M8	Baa2		5,000,000	
59021AAM0	MLMI 2006-FM1 B2	Baa2	1,000,000	4,000,000	170
64352VRB9	NCHET 2006-1 M9	Baa3	1,000,000	4,000,000	275
64360YAM7	NCHET 2006-2 M9	Baa2		5,000,000	
83611MEE4	SVHE 2005-DO1 M8	Baa2		5,000,000	110
86360PAR8	SASC 2006-NC1 M9	Baa3	1,000,000	4,000,000	245
86361KAM9	SAIL 2006-BNC3 M7	Baa2		5,000,000	170

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From: Broderick, Craig
Sent: Thursday, February 08, 2007 11:55 AM
To: Viniar, David; Forst, Edward (85B030)
Cc: Rapfogel, Alan; Wildermuth, David; Sparks, Daniel L
Subject: New Century - restatement of earnings, 4th qtr loss, , material control weakness, shares down 30%

Per the below, this is a materially adverse development. The issues involve inadequate EPD provisions and marks on residuals. The company reports substantial liquidity and the charges are non-cash in nature, but in a confidence sensitive industry it will be ugly even if all problems have been identified.

We have relatively significant exposure - $13mm in prospective losses from EPD claims alone, and $70mm or so in potential exposure, under substantial mortgage warehouse and whole loan trading lines to this entity. With $1.6bn in market cap and $2bn in book equity, they were considered one of the stronger sub-prime originators.

We have a call with the company in a few minutes (to be lead by Dan Sparks) and will follow up with a posting later today on our conclusions and action plan.

++

Feb. 8 (Bloomberg) -- Shares of New Century Financial Corp., the second-largest home lender to the riskiest borrowers, plunged 28 percent, the most since October 1998, when the Russian debt crisis was cutting off sales of such loans in securities.

Shares of the Irvine, California-based company tumbled $8.58 to $21.58 at 9:57 a.m. in New York Stock Exchange composite trading. New Century late yesterday said it probably lost money last quarter, will need to restate other 2006 earnings lower, and won't make as many loans this year as it had previously forecast.

Also today, HSBC Holdings PLC announced a management shake up and changes to lending policies, after saying it was setting aside 20 percent more for bad-loan provisions than analyst had estimated because of rising problems in its U.S. mortgage business. Problems with new subprime loans increased last year as a result of a slumping housing and looser lending standards.

``It's kind of a watershed moment where the magnitude of the problems really are starting to come to the surface,'' said Brian Horey, general partner at Aurelian Partners LP in New York, which has sold short shares of New Century. ``If you could fog a mirror, you could get a loan.''

Contributing to New Century's restatement and fourth-quarter loss are repurchases of previously sold loans, the company said.

Subprime loan buyers typically can force lenders to buy back the mortgages they sell if borrowers miss their first few payments, any type of fraud is discovered, or the loans otherwise fail to meet the guidelines laid out in a sales contract.

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Report Footnote #2315

From: Chin, Edwin
Sent: Saturday, February 24, 2007 2:41 PM
To: Swenson, Michael
Subject: RE: Hudson mezz

He is right next to me - going through the anderson marks now.

-----Original Message-----
From: Swenson, Michael
Sent: Saturday, February 24, 2007 2:39 PM
To: Chin, Edwin
Subject: Re: Hudson mezz

Deeb is there right?

----- Original Message -----
From: Chin, Edwin
To: Swenson, Michael
Sent: Sat Feb 24 14:35:59 2007
Subject: RE: Hudson mezz

In the office. Will go over it with Markowski.

-----Original Message-----
From: Swenson, Michael
Sent: Saturday, February 24, 2007 12:02 PM
To: Salem, Deeb; Chin, Edwin
Cc: Birnbaum, Josh
Subject: Hudson mezz

Here is what I am thinking on hudson mezz - we fix the marks that for the hudson mezz that did not get in. I have barret looking into how to get the npv's to flow downstream through it to controllers - that would eliminate variance which will get focused on big time.

At the same time mark anderson positions we are facing the warehouse at the right level.

What do you think?

Prefer to have the discussions over the phone.

----- Original Message -----
From: Salem, Deeb
To: Swenson, Michael; Chin, Edwin
Cc: Birnbaum, Josh
Sent: Sat Feb 24 11:06:01 2007
Subject: RE: Current Anderson Positions

Ran a few quick numbers...average is gonna be north of 800. which would imply a 60mm writedown im guessing

-----Original Message-----
From: Swenson, Michael
Sent: Saturday, February 24, 2007 9:40 AM
To: Salem, Deeb; Chin, Edwin
Cc: Birnbaum, Josh
Subject: Re: Current Anderson Positions

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Report Footnote #2320

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"Fair" is this better be marked at harbert levels in our book if not and we are forced to liquidate them on monday we really have no case.

We need to make sure all internal positions are marked appropriately because we will be asked to let people out of positions over the next few days

----- Original Message -----
From: Swenson, Michael
To: Salem, Deeb; Chin, Edwin
Cc: Birnbaum, Josh
Sent: Sat Feb 24 09:27:09 2007
Subject: Fw: Current Anderson Positions

Let's discuss we will need to be fair they are under water big time on this one

----- Original Message -----
From: Bieber, Matthew G.
To: Sparks, Daniel L; Ostrem, Peter L; Swenson, Michael; Birnbaum, Josh; Case, Benjamin; Salem, Deeb; Chin, Edwin
Sent: Fri Feb 23 22:20:02 2007
Subject: Current Anderson Positions

See attached. $140mm out of $305mm total are trades between the CDO warehouse and ABS trading.

<<Anderson WH.xls>>

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From: Ostrem, Peter L
Sent: Saturday, February 24, 2007 2:35 PM
To: Case, Benjamin; Swenson, Michael; Rosenblum, David J.; Sparks, Daniel L
Subject: Fw: Quarter End Marks

Any comments on below before I send to Sal per Dan's request?

CDO Warehouses Outstanding
- Each warehouse is marked by either (a) MTM on each asset or (b) mark to model which involves taking the portfolio through the expected CDO execution and calculating Goldman's P&L given current market yields on debt and equity. MTM is preferred if CDO execution is highly uncertain or portfolio is small. Both the MTM and the MTModel take into account risk sharing arrangements with 3rd parties.

As CDO execution has become more uncertain we have moved a couple warehouses closer to their MTM which has significantly increased our losses. Also, our MTModel results have shown losses as expected liability spreads have widened significantly and the overall strength of the CDO market has waned due to fundamental credit decline in 06/07 in RMBS subprime (90+% of assets) and increased coorelation between ABX/TABX levels and mezz debt levels in CDOs. We expect this coorelation to increase volatility in our warehouse marks for the a while (this series of events have happened quickly within the last month and the coorelation is getting closer to 1 as global markets get more familiar with fundamentals in subprime and trading levels in ABX/TABX).

Additional losses have also resulted from the liquidation of 3 warehouses. In each case, the realized loss from the sale of assets has been higher than our MTM or MTModel. This is attributable to both volatility in subprime markets and that our competitors are closing their CDO warehouse accounts from buying our subprime or CDO positions. The buyer base has suddenly shrunk significantly. As this continues, we expect this lack of liquidity to further weaken our MTMs and feeds into our losses in our remaining warehouse marks.

----- Original Message -----
From: Sparks, Daniel L
To: Fortunato, Salvatore
Cc: Lee, Brian-J (FI Controllers); Simpson, Michael; Leventhal, Robert; Gasvoda, Kevin; Swenson, Michael; Lehman, David A.; Rosenblum, David J.; Case, Benjamin; Ostrem, Peter L; Birnbaum, Josh; Nichols, Matthew; Pouraghabagher, Dariush; Pouraghabagher, Cyrus
Sent: Fri Feb 23 22:17:07 2007
Subject: RE: Quarter End Marks

OK, I suggest that Swenson, Case and ostrem work together on the CDO all CDO items. Guys, please provide a brief write-up this weekend as allocated and detailed below. I'd like to review each write-up.

Daniel L. Sparks
Goldman, Sachs & Co.
(212) 902-2914 (o)
(917) 680-4822 (m)
dan.sparks@gs.com

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contents to you.

From: Fortunato, Salvatore
Sent: Friday, February 23, 2007 10:11 PM
To: Sparks, Daniel L
Cc: Lee, Brian-J (FI Controllers); Simpson, Michael; Leventhal, Robert
Subject: Quarter End Marks

Dan,

Given the magnitude and frequency of market swings over the past few weeks, we'd like to request some assistance from your team with regard to quarter end pricing levels. Specifically, we'd like to get a write-up of the fundamental or quantitative analysis, coupled with the market technicals, that support today's closing levels for general groups of positions (for example, all BBB flats) for the following area's:

* CDO Warehouse (Ostrem)
* CDO Warehouse collapsed (Ostrem)
* Secondary cash positions (Swenson)
* Subprime whole loans (Nichols)
* Subprime retained (Nichols)
* CDO retained (Case)
* Subprime resids (Nichols)
* 2nds liquidity reserve (Swenson or Dariush)

This feedback will be extremely helpful for us, especially when you consider how many sectors are effected by the recent market events.

Thanks in advance for supporting this request.

Sal

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From: Davilman, Andrew
Sent: Thursday, May 31, 2007 2:15 PM
To: Bieber, Matthew G.
Subject: RE: Anderson Mezz Funding 2007-1 -- Final Offering Circular (144a/RegS) (external)

He knew that we have A1a, A1b and Bs. I'll check, but given the portfolio I suspect he's looking for a cleaner start.

From: Bieber, Matthew G.
Sent: Thursday, May 31, 2007 1:57 PM
To: Davilman, Andrew; Wisenbaker, Scott; Creed, Christopher J
Cc: Lehman, David A.
Subject: RE: Anderson Mezz Funding 2007-1 -- Final Offering Circular (144a/RegS) (external)

may be interesting for him to look at the A-1b's if he's concerned about downgrades. No triggers above the bonds. back-ended cash flow super senior risk (so trades wider than A-1a's) but the tranche gets paid pro-rata with the A-1a's in the event an OC test fails. Way to pick up wider spread super senior risk which is likely to prepay due to OC test failures/downgrades.

From: Davilman, Andrew
Sent: Thursday, May 31, 2007 1:43 PM
To: Wisenbaker, Scott; Bieber, Matthew G.; Creed, Christopher J
Cc: Lehman, David A.
Subject: Anderson Mezz Funding 2007-1 -- Final Offering Circular (144a/RegS) (external)

Jim Burke's feedback on Anderson. He is in the market for AAA and AA cashflows off of mezz ABS CDO deals. I'll try Fortius next, tho he isn't fond of the manager.

From: Burke, James [mailto:james.burke1@wachovia.com]
Sent: Thursday, May 31, 2007 1:38 PM
To: Davilman, Andrew
Cc: Burke, James
Subject: RE: Anderson Mezz Funding 2007-1 -- Final Offering Circular (144a/RegS) (external)

Andy,

We're going to pass on this deal for a number of reasons:

- Two bonds (FMIC 06-3 M8 and HASC 06-NC1 M9) have been downgraded or are on negative watch
- Another 12 bonds in the portfolio are negatively impacted by downgrades lower in the capital structure
- 28% of the portfolio is failing delinquency triggers
- We show that a lot of these bonds will take principal hits
- Not crazy about deal structure give the quality of the portfolio
  - Upon a breach of Class D OC test, interest is used to pay down Class D notes (I would rather see the A and B notes get paid down)
  - Upon a breach of the Class C OC test, interest is used to pay down Classes A, B, and C pro-rata until 50% factor. (again, I would prefer to see A and B notes get paid out first)
  - If Senior tests are in compliance, Class D and C interest shortfalls are paid from principal
  - Pro-rata paydown until 40% factor, not the standard 50%

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Report Footnote #2331

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James Burke
Head of ABS Investment Management
Structured Funds Management
375 Park Ave., New York NY
work: 212-214-8601
cell: 917[redacted]
fax: 212-214-8971
james.burke1@wachovia.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Davilman, Andrew [mailto:andrew.davilman@gs.com]
Sent: Thursday, May 31, 2007 9:53 AM
To: Burke, James
Subject: Anderson Mezz Funding 2007-1 -- Final Offering Circular (144a/RegS) (external)

Jim,

Here is a mezz deal we printed in March. We time-tranched the senior AAAs for pay-downs. They are pro-rata for losses. Static portfolio. Levels are:

Class	Coupon	DM
A1a	32	50
A1b	65	125
B	175	300

I'll send you the portfolio in XL format.

<<Anderson Mezzanine Funding 2007-1 OFFERING CIRCULAR With Notice.pdf>>

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Goldman Sachs

Anderson Mezzanine Funding 2007-1, Ltd.

A $500 Million Static Mezzanine Structured Product CDO

Goldman, Sachs & Co. – Liquidation, Structuring, and Placement Agent

Debt Marketing Book

February 2007

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular.

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GS MBS-E-000855352

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I. Executive Summary

Note: The information in this section is preliminary and subject to change

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Anderson Mezzanine Funding 2007-1, Ltd.

Executive Summary

- Anderson Mezzanine Funding 2007-1, Ltd. ("Anderson Funding") is a static $500 million cashflow CDO consisting of a diversified portfolio of RMBS and CDO securities.
- Anderson Funding will be a static, non-managed transaction. Anderson Funding will provide term non-recourse funding. Goldman Sachs will:
  - Warehouse assets during the portfolio aggregation phase prior to closing
  - In its role as Liquidation Agent, Goldman Sachs will liquidate any asset within one year after such asset performs below certain threshold levels determined prior to closing
- The portfolio consists of collateral which is rated at least Baa3 (if rated by Moody's) and BBB- (if rated by S&P) with an average rating of Baa2/Baa3. 100% of the portfolio will be real-estate related securities.
- Low fee structure and less "barbelled" portfolio than other mezzanine CDOs in the current market.
- Transaction co-sponsored by Goldman Sachs and GSC Eliot Bridge (an ABS and CDO hedge fund managed by GSC Group).

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II. Disclaimer and Risk Factors

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Disclaimer

The information contained herein is confidential information regarding securities that may in the future be offered by Anderson Mezzanine Funding 2007-1, Ltd. ("Anderson Funding," "Anderson" or the "Issuer"). The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use. By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with any applicable securities laws. For this purpose, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction.

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. The information contained herein is preliminary and material changes to the proposed terms of the securities described herein may be made at any time. If any offer of securities is made, it shall be made pursuant to a definitive offering circular (the "Offering Circular") prepared by or on behalf of the Issuer, which would contain material information not contained herein and which shall supersede, amend and supplement this information in its entirety. Any decision to invest in the securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary or appropriate and consulting the investor's own legal, accounting, tax, and other advisors in order to make an independent determination of the suitability and consequences of an investment in the securities.

The securities described herein will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular.

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HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions. Such potential outcomes are not a prediction by the Issuer, Goldman Sachs or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Goldman Sachs, or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Goldman Sachs or their respective affiliates assumes any duty to update any such statement. Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the collateral and the price at which such collateral is actually purchased by the Issuer, any defaults on the collateral, the timing of any defaults and subsequent recoveries, changes in interest rates, and any weakening of the specific credits included in the collateral, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein.

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer. Because of portfolio restrictions that apply to the Issuer and differences in market conditions, the investments selected by Goldman Sachs on behalf of the Issuer may differ substantially from prior investments made by Goldman Sachs. The Issuer has no operating history.

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Risk Factors

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- Limited Liquidity, Restrictions on Transfer and Limited Recourse
  - There is currently no market for the Secured Notes or Income Notes and it is unlikely that any secondary market will develop. The Secured Notes and the Income Notes should be viewed as a long-term investment, not as a trading vehicle. The value of the Secured Notes and the Income Notes may vary and the Secured Notes and the Income Notes, if sold, may be worth less than their original cost.
  - In addition, as the Secured Notes and the Income Notes will be sold in transactions exempt from SEC registration pursuant to Section 4(2), Rule 144A, and/or Reg S and the Issuer will not be registered under the Investment Company Act of 1940 pursuant to the Section 3(c)(7). Related restrictions, as well as other restrictions on transfer of the Income Notes will apply.
  - All liabilities are payable solely from the cash flow available from the collateral pledged by the Issuer to secure all classes of Notes. No other assets will be available for payment in the event of any deficiency. The Income Notes represent equity in the Issuer and as such are subordinated to the Secured Notes. The Income Notes are payable from the collateral (which represent the only assets of the Issuer) only after payment in full of amounts due on the Secured Notes.
- Leveraged Credit Risk
  - The Income Notes are in a first loss position with respect to defaults on the underlying collateral. The leveraged nature of the Income Notes magnifies the adverse impact of any collateral defaults.
- Subordination
  - The Secured Notes and the Income Notes are issued in a senior-subordinated structure, with the Class S Notes ranking the highest in the priority of payments and the Income Notes ranking the lowest in the priority of payments. In the event of a default, holders of the Class S and Class A Notes, will generally be entitled to determine the remedies to be exercised; such remedies could be adverse to the other Notes and the Income Notes. The Income Notes will not be able to declare an event of default and will not receive any payments after the occurrence of an event of default unless and until the Class S, A-1, A-2, B, C, and D Notes (the "Notes") are paid in full.
- Volatility of Collateral and of Secured Notes' and Income Notes' Market Value
  - The Income Notes represent a leveraged investment in the Collateral Assets. The use of leverage generally magnifies an issuer's opportunities for gain and risk of loss. Therefore, changes in the market value of the Secured Notes and the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity and, with respect to the fixed rate portion of the portfolio, interest rate risk.
  - Changes in the market value of issues from one sector or industry may impact the market value of issues from one or more of other sectors or industries included in the collateral.
- Collateral Risk
  - Collateral Assets inherently bear significant credit risks because issuers are primarily private entities.
  - The structure of Collateral Assets and the terms of the Issuer's interest in the collateral can vary widely depending on the type of collateral, investor sentiment and the use of credit enhancements.
  - Adverse changes in the financial condition of the collateral obligor or in general economic conditions may adversely affect the obligor's ability to pay principal and interest on its debt.

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Risk Factors

- Illiquidity of collateral assets
  - Some of the collateral assets purchased by the Issuer will have no, or only a limited, trading market. This illiquidity may restrict the Issuer's ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities.
  - Illiquid debt securities may also trade at a discount to comparable, more liquid investments. In addition, the Issuer may invest in privately placed collateral assets that are non-transferable or are transferable only at prices less than the fair value or the original purchase price of the securities.
- Nature of Collateral
  - The Collateral Assets are subject to credit, liquidity and interest rate risk. In addition, the financial performance of the Issuer may be affected by the price and availability of Collateral Assets to be purchased.
  - Some or all of the Collateral Assets may be subordinated securities which may be subject to leveraged credit risk.
  - The ability of the Issuer to sell Collateral Assets prior to maturity is subject to certain restrictions and limitations under the Indenture.
- No Collateral Manager
  - The Issuer will not engage a Collateral Manager. As a result, (i) the Collateral Assets held by the Issuer on the Closing Date will be retained by the Issuer even if it would be in the best interests of the Issuer and the holders of the Income Notes and Secured Notes to dispose of certain Collateral Assets unless the Collateral Assets are required to be sold by the Liquidation Agent as described in the previous paragraph and (ii) the Indenture will eliminate the ability of the Issuer to exercise discretion in contexts where a Collateral Manager in a managed or static collateralized debt obligation transaction typically would have discretion to exercise such discretion on behalf of the Issuer and holders of Income Notes and Secured Notes. The inability of the Issuer to exercise discretion in these contexts could adversely impact the Issuer and the holders of the Income Notes and Secured Notes.
- Timing and Amount of Recoveries
  - Only Collateral Assets that meet the liquidation criteria may be sold. If a Collateral Asset meets the liquidation criteria, the Liquidation Agent is required to sell such affected collateral in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance as to the timing of the Liquidation Agent's sale of affected assets, or if there will be any market for such assets or as to the rates of recovery on such affected collateral. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to the Income Notes and Secured Notes as compared to the returns generated using the Modeling Assumptions.
- Limited Activities of the Co-Issuers
  - The Co-Issuers are recently formed legal entities and have no prior operating history or prior business, other than warehousing the collateral assets and related financing arrangements. The Issuer will have no significant assets other than the collateral which will be pledged to secure the Issuer's obligations under the Notes. The Issuer will not engage in any business activity other than the issuance of the Notes, Co-Issuing the Income Notes, the acquisition, investment and reinvestment of the collateral and other prescribed activities relating to each of the foregoing. The Co-Issuer has and will not have any substantial assets. The Co-Issuer has no business activities other than the co-issuance of the Notes and its own common shares
- Impairment of Credit Quality and/or Defaults on the Collateral
  - Decline in credit quality of the collateral or defaults could result in losses which would adversely affect the Income Notes and Secured Notes.
  - There may be certain industry or sector concentrations in the CDO, all of which could have a material adverse impact on the Income Notes in the event of economic downturns or other events affecting the credit quality of any of the collateral.
- Yield Due to Prepayments
  - The yield to maturity on the Income Notes could be affected by the rate of prepayment of the Collateral Assets. Payments to the Income Notes at a rate slower than the rate anticipated by investors purchasing the Income Notes at a discount will result in an actual yield that is lower than anticipated by such investors. Conversely, payments to the Income Notes at a rate faster than the rate anticipated by investors purchasing the Income Notes at a premium will result in an actual yield that is lower than anticipated by such investors.

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Risk Factors

- Investment Decisions
  - In making an investment decision, investors must rely on consultations with their own legal, accounting and audit advisors to determine whether and to what extent they should invest in the Notes or the Income Notes.
- Changes in the rate of interest paid on the Class S, A-1, A-2, B, C, and D Notes
  - There will be a basis and timing mismatch between the Notes and the collateral assets, since the interest rates on such collateral assets may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rate on the Notes. The fixed rates and the margins over LIBOR or other floating rates borne by collateral assets may be lower than those on sold or amortized collateral assets which could cause a significant decline in interest coverage for the Notes.
  - The Issuer may enter into cashflow swap agreements to limit exposure to this risk, but no assurance can be given that such cashflow swap agreements will be executed or will be successful in reducing the exposure to this risk. However, there may be a termination payment related to one or more cashflow swap agreement in the event of a redemption of the deal prior to the expiration of the cashflow swap agreement.
- Credit Exposure to Portfolio of Reference Obligations
  - On the closing date, the Issuer will enter into pay-as-you-go credit default swaps (the "Synthetic Securities") with Goldman Sachs International, ("GSI" and in such capacity, the "Counterparty"), pursuant to which the Issuer will sell credit default protection with respect to a portfolio of Reference Obligations. If a credit event occurs with respect to any of the Reference Obligations, the Issuer will pay the Counterparty the amount of the write-down or principal loss, or if the Counterparty elects to deliver the reference obligation, the notional amount of the Synthetic Security times the reference price. In return for the credit default protection, the Counterparty will pay the Issuer a premium which may be reduced (but not below zero) if certain Reference Obligations experience interest shortfalls. Credit events and interest shortfalls may adversely affect the Issuer's ability to make payments on the Notes and the Income Notes.
  - All Notes and Income Notes are subordinated to credit default protection payments under the Synthetic Securities and to certain termination payments payable to the Counterparty in connection with a termination event. The magnitude of such losses will be affected by the number of credit events and the recovery amount of any delivered Reference Obligations and timing of such credit events.
- Nature of Reference Obligations
  - The Reference Obligations are expected to consist of RMBS and CDO securities. The Reference Obligations are subject to the credit, market, structural, legal, prepayment and interest rate risks associated with RMBS and CDO securities respectively. The economic return on the Synthetic Securities will depend substantially upon the performance of the related Reference Obligation.
- Termination of the Synthetic Securities
  - Pursuant to the Synthetic Securities, the Issuer or the Counterparty will each have the right to terminate the Synthetic Securities in specified circumstances. In such event, the Issuer also may be required to make substantial termination payments to the Counterparty and such payments will reduce the amounts available to make payments on the Notes and the Income Notes. As a result, the Issuer may not have sufficient funds to make payments when due on the Notes and Income Notes and may not have sufficient funds to redeem the Notes and Income Notes.
- Credit Exposure to Counterparty
  - The ability of the Issuer to meet its obligations under the Secured Notes and the Income Notes will be dependent on its receipt of payments from the Counterparty under the Synthetic Securities. Consequently, Noteholders will be exposed not only to the creditworthiness of the Reference Obligations but also to the creditworthiness of the Counterparty to perform its obligations under the Synthetic Securities. The insolvency of the Counterparty or a default by it under a Synthetic Security would adversely affect the ability of the Issuer to pay amounts when due under the Secured Notes and make distributions on the Income Notes and could result in a withdrawal or downgrade of the ratings on the Secured Notes.

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Risk Factors

- Tax Treatment of Income Notes
  - Since the Issuer will be a passive foreign investment company, a U.S. person holding Income Notes may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Issuer has agreed, and, by its acceptance of an Income Note, each holder of an Income Note will be deemed to have agreed, to treat the Income Notes as equity for tax purposes.
  - Income Note holders should consult their tax advisers about the special U.S. tax regimes that apply to shareholders of passive foreign investment companies and controlled foreign corporations.
  - Special tax considerations may apply to certain types of investors. Prospective investors should consult their own tax advisors regarding the tax implications of their investments.
- Subordination
  - The Income Notes are subordinated to the Class S, Class A, Class B, Class C and Class D Notes and certain payments of expenses. The Class D Notes are subordinated to the Class S, Class A, Class B and Class C Notes and certain payments of expenses. The Class C Notes are subordinated to the Class S, Class A and Class B Notes and certain payments of expenses. The Class B Notes are subordinated to the Class S Notes, Class A Notes and certain payments of expenses. No distributions of interest proceeds received on the collateral will be made to the Income Notes until interest on the Secured Notes and certain other expenses have been paid. In addition, in the event of a default, holders of the most senior class of Secured Notes will generally be entitled to determine the remedies to be exercised; such remedies could include the sale and the liquidation of the collateral and have an adverse effect on the Income Notes. The Income Notes will not be able to exercise any remedies following an event of default and will not receive payments after an event of default until the Secured Notes are paid in full.
- Impairment of Credit Quality and/or Defaults on the Collateral Assets
  - Decline in credit quality of the collateral or defaults could result in losses which would adversely affect the Notes and the Income Notes.
  - There may be certain industry or sector concentrations in the CDO, all of which could have a material adverse impact on the Notes and the Income Notes in the event of economic downturns or other events affecting the credit quality of any of the collateral.
- Redemption of Class S, A-1, A-2, B, C, and D Notes.
  - If certain over collateralization or interest coverage tests are not met, redemptions of the Class S, A-1, A-2, B, C, and D Notes would be required, which may effect the yields on more subordinated classes of Notes and the Income Notes and will be paid from amounts which otherwise be available for payment to holders of the Income Notes.
  - Mandatory redemption could result in an elimination, deferral or reduction in the amount paid to the Income Notes, which would adversely and materially affect their returns.
- Auction of the Collateral Assets
  - There can be no assurance that an auction of the collateral assets will be successful; a successful auction will shorten the duration of the Notes and the Income Notes and is not required to result in any proceeds for distribution to the holder of the Income Notes.

GS MBS-E-000855361

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Risk Factors

- Timing of Receipt of Accrued Interest Income
  - On an ongoing basis, the receipt by the Issuer of accrued interest income may affect the availability of cash which may be distributed to the Holders of Secured Notes and Income Notes.
- International Investing
  - Investing outside the U.S. may involve greater risks which may include (1) less publicly available information, (2) varying levels of governmental regulation and supervision, (3) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws, (4) less stringent accounting practices, (5) different clearance and settlement procedures, (6) economic and political conditions and instability, (7) exchange control and foreign currency risk, (8) insolvency and (9) expropriation risk.
  - A portion of the Collateral Assets may consist of obligations of an issuer organized under the laws of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, the Netherlands Antilles or other jurisdictions offering favorable tax treatment.
- Tax Treatment of Income Notes
  - Since the Issuer will be a passive foreign investment company, a U.S. person holding Income Notes may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Income Notes will be treated as equity for tax purposes.
  - Income Notes holders should consult their tax advisers about the special U.S. tax regimes that apply to shareholders of passive foreign investment companies, controlled foreign corporations and foreign personal holding companies.
  - Special tax considerations may apply to certain types of investors. Prospective investors should consult their own tax advisors regarding the tax implications of their investments.
- Material Tax Considerations
  - There is a possibility that the Issuer will be found to be engaging in a U.S. trade or business. In such a case, it would be subject to substantial U.S. income tax on its income.
- Hypothetical Illustrations and Estimates
  - Estimates of the weighted average lives of the Class S, A, B, C and D Notes and the returns and duration of the Income Notes included herein, together with any other hypothetical illustrations and estimates provided to prospective purchasers of the Class S, A, B, C and D Notes, are forward-looking statements. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
  - The hypothetical illustrations are only estimates. Actual results may vary, and the variations may be material. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
- Changes in Tax Laws
  - The Collateral Assets are not permitted to be subject to withholding tax at the time of purchase, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on the Income Notes and Secured Notes.
  - In case of a Withholding Tax Event (as defined in the Offering Circular), holders of more than 50% of any affected Note may require the issuer to liquidate the collateral on any Payment Date, and redeem the Class S, A, B, C and D Notes, prior to any distributions to holders of Income Notes

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Risk Factors

- Anti Money Laundering Provisions
  - Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), signed into law on and effective as of October 26, 2001, imposes anti money laundering obligations on different types of financial institutions, including banks, broker dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "Treasury") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti money laundering obligations. It is not clear whether Treasury will require entities such as the Issuer to enact anti money laundering policies. It is possible that Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service providers to the Issuers, in connection with the establishment of anti money laundering procedures, to share information with governmental authorities with respect to investors in the Notes and/or the Income Notes. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Notes and/or the Income Notes. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.
- Investment Company Act
  - Neither of the Issuers has registered with the United States Securities and Exchange Commission as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States whose investors resident in the United States are solely Qualified Purchasers and which do not make a public offering of their securities in the United States. Counsel for the Issuers will opine, in connection with the sale of the Securities by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Securities are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.
- ERISA Regulations
  - Investor must review the "ERISA Considerations" section of the Offering Circular to determine their eligibility to hold the Notes and the Income Notes for purposes of the ERISA restrictions. Prospective investors should consult their own advisors regarding the ERISA-related implications of their investments.
- European Securities Regulations
  - The listing of Notes or Income Notes on any European Union stock exchange would subject the Issuer to regulation under certain European regulations, although the requirements applicable to the Issuer are not yet fully clarified. The Indenture will not require the Issuer to apply for, list or maintain a listing for any Class of Notes or the Income Notes on a European Union stock exchange if compliance with these regulations becomes burdensome. Should the Notes or Income Notes be delisted from any exchange, the ability of the holders of such Notes or Income Notes to sell such Notes or Income Notes in the secondary market may be negatively impacted.
- Material Tax Considerations
  - The Issuer does not expect to be subject to net income taxation in the United States. If the Issuer were treated as engaged in a United States trade or business, it would be subject to substantial U.S. income tax on its income.

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III. Transaction Overview

Note: The information in this section is preliminary and subject to change

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Anderson Mezzanine Funding 2007-1, Ltd.

Transaction Overview

- Anderson Mezzanine Funding is a static mezzanine structured product CDO with the following features:
  - No exposure to reinvestment spread risk or reliance on reinvestment to generate excess interest to cover debt service
  - No fixed rate assets
  - No assets without an initial rating of at least Baa3 by Moody's and BBB- by S&P. Average WARF in the portfolio is expected to be 500
  - Overall fee structure is significantly less than comparable mezzanine structured product CDOs in the market

- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" securities will be sold by the Liquidation Agent within one year of such determination

- Goldman Sachs will act as Structuring, Placement and Liquidation Agent for Anderson Funding and will warehouse the portfolio prior to closing
  - Goldman Sachs will receive 5 bps ongoing fee for its role as Liquidation Agent

- Portfolio selection process:
  - Assets sourced from the Street at then market levels
  - Assets pre-screened and evaluated for portfolio suitability
  - Goldman Sachs CDO desk reviews individual assets in conjunction with respective mortgage trading desks
  - All CDS use rating agency approved confirms (pay as you go)

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Anderson Mezzanine Funding 2007-1, Ltd.

Transaction Overview - Asset Selection / Asset Liquidation

- Portfolio Aggregation Strategy:
  - Select only assets rated explicitly Baa3/BBB- (Moody's / S&P) and above. No notched rating of below Baa3 in the portfolio
  - No Fixed rate assets allowed, eliminating fixed/ floating basis mismatch
  - Maximum obligor concentration is 1.5%, creating a very granular portfolio with 100 distinct obligors
  - Target portfolio with Weighted Average Rating Factor of [475] and duration weighted average spread of [205] bps

- Goldman Sachs, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" asset within 12 months of such determination. "Credit risk" assets will include:
  - Any asset downgraded by Moody's or S&P to below B3 or B-
  - Any asset that is defaulted and experiences a credit event as defined by the PAUG confirm

- Expected collateral quality statistics at closing
  - WARF: [475]
  - [100] Distinct Obligors
  - Moody's Asset Correlation ("MAC") at closing: [26]
  - Duration weighted average portfolio spread: [205] bps
  - Weighted Average Duration: 3.1 years

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Anderson Mezzanine Funding 2007-1, Ltd.

Transaction Overview - Capital Structure[1]

Classes	Ratings (Moody's/S&P)	Principal Balance	% of Capital Structure	Coupon	Expected WAL	Initial OC
Class S	Aaa/AAA	[ ] MM	N/A	1M LIBOR + [ ]%	[3.0]	N/A
Class A-1	Aaa/AAA	$[300.0] MM	[60.00]%	1M LIBOR + [ ]%	[3.7]	[166.7]%
Class A-2	Aaa/AAA	$[75.0] MM	[15.00]%	1M LIBOR + [ ]%	[3.7]	[133.3]%
Class B	Aa2/AA	$[55.0] MM	[11.00]%	1M LIBOR + [ ]%	[4.5]	[116.3]%
Class C	A2/A	$[25.0] MM	[5.00]%	1M LIBOR + [ ]%	[4.8]	[109.9]%
Class D	Baa2/BBB	$[27.0] MM	[5.40]%	1M LIBOR + [ ]%	[4.3]	[103.7]%
Income Notes	NR	$[18.0] MM	[3.60]%	NA	NA	NA

1 *This information is preliminary and subject to change.*

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Anderson Mezzanine Funding 2007-1, Ltd.

Structural Overview

- Anderson Mezzanine Funding is a cashflow CDO with:
  - A fully issued capital structure
  - Traditional overcollateralization tests
- Structure has the ability to tailor average life profile of senior tranches upon investor request
- Class A-1 Notes may be issued either in funded form or as an unfunded swap, depending on investor preference
- The deal will use a "modified sequential" principal paydown structure
- No Minimum Income Note IRR required to effect an auction call
  - Increases the likelihood of a successful auction call or optional redemption
  - Mitigates the back ended pressure on transaction as costs of financing increases
- Turbo to Class D Notes from excess interest shortens the tranche's expected average life

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Transaction Details

General Information

Issuers:	Anderson Mezzanine Funding 2007-1, Ltd. and Anderson Mezzanine Funding 2007-1, Corp.
Liquidation Agent, Structuring and Placement Agent:	Goldman, Sachs & Co.
Liquidation Agent Fee:	5 bps per annum payable senior to all the Notes (other than the Class S Notes).
Reinvestment Period:	None.
Discretionary Trading:	None. Liquidation Agent will sell credit-risk assets based on pre-determined rules and the clean proceeds will be treated as principal paydowns.
Ramp-Up Period:	None. Transaction will be completely ramped at closing.
Non-Call Period:	3 years.
Auction Call:	8 years. There is no minimum IRR requirement for successful Auction Call.
Call Price:	Par plus all accrued for Class S, A-1, A-2, B, C and D Notes.
Payment Frequency:	Monthly for Class S, A-1, A-2 , B, C and D Notes, Quarterly for Income Notes.
Controlling Class:	Class S and Class A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C and Class D Notes in that order until each Class is paid in full.

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IV. Portfolio Composition and Highlights

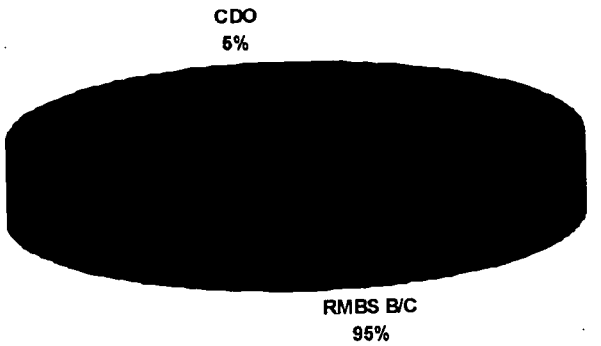
Note: The information in this section is preliminary and subject to change

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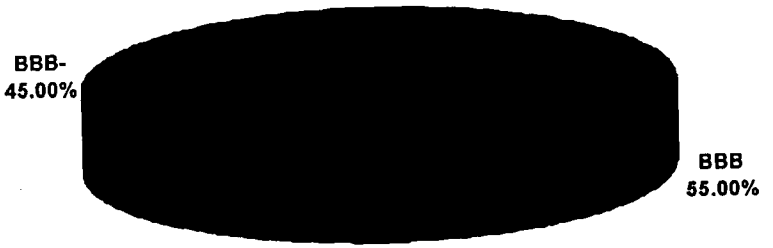
Portfolio Composition

Target Portfolio[1]

Collateral



Credit Ratings



[1] *This information is preliminary and subject to change.*

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Transaction Details

Target Collateral Profile[1]

Moody's WARF	[475]
Moody's Asset Correlation	[26]%
Ratings Profile	■ 100% of the assets are rated at least Baa3 and BBB- by Moody's and S&P
Target Obligor Concentration Profile	■ Maximum Obligor concentration: [1.5%]
Collateral Haircuts for Overcollateralization Tests:	■ 10% applied to Double-B Assets prior to sale ■ 20% applied to Single-B Assets prior to sale ■ 50% applied to Triple-C Assets prior to sale ■ 100% applied to Defaulted Obligations

1 *This information is preliminary and subject to change.*

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Transaction Overview

Current Warehouse Statistics[1]

Statistics	
Current Warehouse Size	$305.0 mm
WARF	506
WAL	3.64
Moody's Correlation	27%
WAS	2.00%
Number of Obligors	61
Moody's WA Recovery Rate	25.0%
S&P AAA WA Recovery Rate	30.8%
S&P AA WA Recovery Rate	35.7%
S&P A WA Recovery Rate	41.1%
S&P BBB WA Recovery Rate	46.8%
S&P BB WA Recovery Rate	52.8%
% Fixed	0.0%
% Floating	100.0%
% Cash	1.6%
% Synthetic	98.4%

Vintage Breakdown of RMBS Assets



1 *Represents the current portfolio as of February 22, 2007. Goldman Sachs does not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above.*

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Issue Date	Curr WALA	Curr Net WAC	FICO	LTV	Geo 1st	Geo 2nd	Fixed %	First Lien %	Vac/ Inv %	Purch %
ACCR 2006-1 M8	3/28/2006	12	7.23	633	78	CA 19%	FL 13%	33.0	100.0	7.9	33.2
HASC 2006-OPT2 M8	2/28/2006	16	7.00	625	79	CA 26%	FL 10%	27.9	100.0	6.7	36.4
MLMI 2006-HE1 B2A	2/7/2006	16	6.91	630	82	CA 36%	FL 12%	24.5	100.0	6.0	49.5
MSAC 2005-NC1 B2	2/25/2005	26	7.42	617	79	CA 22%	TX 10%	43.7	99.7	6.6	31.3
NCHET 2005-2 M8	4/22/2005	21	6.55	623	78	CA 32%	FL 9%	24.0	100.0	8.8	35.8
ACE 2006-NC1 M9	1/30/2006	16	6.80	627	81	CA 36%	FL 12%	25.0	100.0	9.8	49.5
AMSI 2005-R8 M9	9/28/2005	17	6.94	619	78	CA 13%	FL 13%	29.2	100.0	2.7	2.7
CARR 2005-NC1 M8	2/3/2005	25	7.19	635	79	CA 41%	FL 5%	21.4	99.8	4.2	43.2
CWL 2006-BC2 M9	5/30/2006	14	6.96	625	80	CA 35%	FL 9%	8.1	100.0	4.6	40.6
MSAC 2005-NC2 B3	4/29/2005	24	6.70	618	80	CA 31%	FL 8%	26.8	100.0	5.7	34.4
MSAC 2006-NC1 B3	1/27/2006	15	6.73	622	78	CA 37%	FL 11%	24.8	100.0	7.9	38.1
NCHET 2005-1 M9	2/25/2005	24	6.63	623	85	CA 32%	FL 8%	26.0	100.0	8.0	98.4
NCHET 2005-3 M9	6/24/2005	20	6.50	630	79	CA 32%	FL 9%	22.6	100.0	8.2	41.3
RAMP 2005-EFC6 M9	11/22/2005	15	6.52	632	82	CA 15%	FL 7%	14.2	100.0	1.9	43.7
NCHET 2005-4 M8	8/17/2005	18	6.58	626	81	CA 38%	FL 9%	21.6	100.0	8.6	44.0
ACE 2005-HE4 M9	6/29/2005	20	6.60	629	81	CA 36%	FL 10%	20.5	100.0	5.3	50.8
AMSI 2005-R10 M9	11/23/2005	15	6.88	631	78	CA 17%	NY 11%	30.9	100.0	3.2	4.2
AMSI 2005-R11 M9	12/20/2005	14	7.10	624	78	CA 14%	FL 11%	24.2	99.9	3.5	3.1
ABSHE 2005-HE2 M7	3/4/2005	24	6.70	621	78	CA 31%	FL 10%	24.1	100.0	5.5	93.4
CARR 2006-NC1 M9	2/8/2006	14	6.66	630	81	CA 32%	NY 7%	15.2	100.0	6.5	43.8
CMLTI 2005-OPT3 M9	7/7/2005	21	6.92	613	78	CA 19%	FL 10%	21.0	100.0	6.7	33.1
GSAMP 2006-NC2 M9	6/29/2006	8	7.70	626	80	CA 36%	FL 11%	13.0	100.0	9.2	43.7
HASC 2006-OPT1 M9	2/3/2006	15	6.68	644	79	CA 30%	NY 10%	32.2	100.0	9.8	36.2
HASC 2006-NC1 M9	3/7/2006	16	6.09	666	82	CA 43%	FL 7%	0.0	100.0	3.5	56.3
JPMAC 2006-HE1 M9	2/28/2006	15	7.38	641	73	CA 48%	IL 11%	19.5	100.0	7.5	64.1
JPMAC 2006-CW2 MV9	8/8/2006	9	7.67	615	78	CA 41%	FL 14%	25.4	100.0	1.4	66.1
MSAC 2005-HE1 B3	1/26/2005	28	7.85	614	79	CA 14%	NY 9%	40.0	99.6	6.4	29.6
MSAC 2005-HE2 B3	3/30/2005	26	7.87	616	79	CA 14%	NY 10%	38.4	99.6	7.0	31.3
NCMT 2006-1 M9	4/6/2006	17	6.98	612	78	CA 27%	FL 12%	35.7	99.4	0.5	22.5
CMLTI 2006-NC1 M8	6/29/2006	9	7.91	620	77	CA 34%	FL 10%	17.3	100.0	10.3	41.7

Source: Bloomberg, Intex, Prospectuses; Data as of February 22, 2007

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Issue Date	Curr WALA	Curr Net WAC	FICO	LTV	Geo 1st	Geo 2nd	Fixed %	First Lien %	Vac/ Inv %	Purch %
FHLT 2006-B M8	8/3/2006	7	8.72	627	76	CA 26%	FL 15%	19.3	100.0	4.4	50.2
SABR 2006-FR3 B2	8/3/2006	10	7.91	619	75	CA 25%	FL 17%	11.8	100.0	5.8	47.1
WMABS 2006-HE2 M9	5/25/2006	11	7.75	625	76	CA 36%	FL 14%	15.4	100.0	3.4	53.3
SVHE 2006-OPT2 M7	4/7/2006	11	8.07	622	79	CA 25%	FL 13%	16.9	100.0	10.9	35.8
CWL 2005-BC5 B	12/28/2005	18	6.53	620	78	CA 23%	FL 10%	31.9	100.0	2.3	35.3
CARR 2006-NC2 M9	6/21/2006	9	7.74	623	80	CA 32%	FL 11%	12.7	100.0	8.9	44.0
JPMAC 2006-NC1 M9	4/27/2006	12	7.54	623	78	CA 40%	FL 9%	21.2	100.0	10.8	42.1
JPMAC 2006-NC2 M9	8/23/2006	8	7.73	619	77	CA 30%	FL 11%	22.1	100.0	9.2	43.2
MABS 2005-NC2 M8	11/29/2005	17	6.01	657	94	CA 55%	FL 7%	0.0	100.0	5.7	64.7
NHELI 2006-HE2 M9	4/28/2006	13	7.12	617	79	CA 45%	FL 7%	25.9	95.8	4.9	36.8
MSAC 2005-HE6 B2	11/29/2005	18	6.71	633	77	CA 27%	FL 12%	26.8	100.0	4.5	46.5
ACE 2006-HE4 M9	9/28/2006	7	7.95	627	82	CA 35%	FL 14%	14.9	99.6	5.6	51.6
FHLT 2006-C M9	9/7/2006	6	7.97	628	76	CA 27%	FL 15%	23.7	100.0	6.9	42.2
ACE 2006-OP1 M8	5/25/2006	11	7.93	626	80	CA 30%	NY 12%	17.9	100.0	9.3	39.2
ARSI 2006-W4 M9	4/25/2006	10	7.72	616	80	CA 28%	FL 14%	14.7	100.0	9.2	47.4
ABSHE 2006-HE2 M9	3/24/2006	12	7.59	625	80	CA 30%	FL 13%	18.9	100.0	10.3	44.1
IXIS 2006-HE2 B3	5/25/2006	11	7.66	629	77	CA 34%	FL 21%	8.0	100.0	5.4	51.4
MLMI 2006-FM1 B2	6/30/2006	10	7.96	618	75	CA 26%	FL 15%	11.8	100.0	5.9	45.0
NCHET 2006-1 M9	3/30/2006	11	7.46	627	88	CA 37%	FL 9%	21.0	100.0	9.0	44.4
SVHE 2005-DO1 M8	5/13/2005	23	6.57	622	79	CA 10%	FL 9%	17.9	100.0	2.8	35.5
SASC 2006-NC1 M9	6/22/2006	11	7.63	617	81	CA 26%	FL 12%	23.5	100.0	8.3	37.9
CWL 2006-1 MV8	2/10/2006	13	6.75	618	78	CA 33%	FL 19%	0.0	100.0	5.4	38.5
MABS 2006-AM2 M8	7/28/2006	9	7.60	608	75	FL 31%	CA 19%	12.2	100.0	3.4	37.3
NCHET 2006-2 M9	6/29/2006	8	7.65	621	85	CA 29%	FL 9%	24.3	100.0	9.9	35.3
SAIL 2006-BNC3 M7	8/25/2006	7	7.73	618	74	CA 43%	FL 8%	18.5	100.0	9.4	35.2
CWL 2005-14 M8	12/21/2005	15	6.84	612	79	CA 26%	FL 9%	28.0	100.0	3.3	37.5
MSAC 2005-HE5 B2	10/28/2005	19	6.56	637	79	CA 33%	FL 7%	13.4	100.0	4.1	53.5
FMIC 2006-2 M8	7/6/2006	7	7.74	644	82	CA 37%	TX 12%	12.4	97.6	0.8	67.4
HEAT 2006-6 M8	8/1/2006	8	7.52	628	91	CA 29%	FL 12%	15.3	100.0	5.3	51.2
MLMI 2006-ML N1 B2	9/29/2006	7	7.91	619	77	FL 19%	NY 11%	18.7	100.0	5.9	48.8

Source: Bloomberg, Intex, Prospectuses; Data as of February 22, 2007

GS MBS-E-000855375

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Primary Servicer	Current Support(%)	Orig Support(%)	Bankrupt	REO	Foreclosure	Delinq 30-59	Delinq 60+	Delinq 90+
ACCR 2006-1 M8	Accredited	3.8	1.6	0.3	0.7	2.8	2.0	0.9	0.1
HASC 2006-OPT2 M8	OptionOne	7.2	5.4	0.5	0.5	3.8	2.7	2.1	0.8
MLMI 2006-HE1 B2A	Wilshire	8.8	6.8	1.2	1.3	3.0	5.2	4.4	2.3
MSAC 2005-NC1 B2	HomeEquity	13.4	4.5	2.7	2.5	4.0	3.4	2.8	1.6
NCHET 2005-2 M8	NewCentury	8.6	4.4	1.5	1.5	4.0	2.5	2.8	1.9
ACE 2006-NC1 M9	Saxon	5.96	4.35	0.83	1.26	3.82	2.93	2.17	0.82
AMSI 2005-R8 M9	Ameriquest	4.54	2.65	1.38	0.79	3.26	2.59	2.51	1.23
CARR 2005-NC1 M8	NewCentury	10.71	3.95	1.60	2.91	5.75	3.04	2.95	1.50
CWL 2006-BC2 M9	Countrywide	4.20	3.15	0.39	0.83	5.17	3.98	3.00	1.05
MSAC 2005-NC2 B3	Countrywide	7.65	3.05	1.65	2.89	4.38	3.99	2.73	1.41
MSAC 2006-NC1 B3	HomeEquity	6.1	4.4	1.0	1.5	3.9	3.8	1.8	0.9
NCHET 2005-1 M9	NewCentury	7.6	3.2	2.0	1.6	4.4	2.6	2.5	1.4
NCHET 2005-3 M9	NewCentury	7.2	4.2	1.3	1.3	3.9	3.2	2.8	1.6
RAMP 2005-EFC6 M9	HomeComings	3.9	3.1	0.7	1.1	3.7	4.2	1.6	0.6
NCHET 2005-4 M8	NewCentury	9.5	6.0	1.4	1.8	4.3	2.8	3.1	1.8
ACE 2005-HE4 M9	Countrywide	8.74	4.80	1.05	2.33	3.89	2.71	3.34	1.92
AMSI 2005-R10 M9	Ameriquest	5.18	3.50	0.53	0.85	2.55	1.75	1.84	0.92
AMSI 2005-R11 M9	Ameriquest	5.17	3.55	0.55	0.73	2.42	2.30	1.83	0.76
ABSHE 2005-HE2 M7	Saxon	9.56	3.85	1.96	1.59	4.30	2.61	2.36	1.19
CARR 2006-NC1 M9	NewCentury	7.55	5.80	0.79	1.17	4.27	3.25	2.77	1.34
CMLTI 2005-OPT3 M9	OptionOne	7.7	4.3	1.4	2.0	4.2	1.7	2.2	1.4
GSAMP 2006-NC2 M9	Ocwen	3.7	3.1	0.4	0.0	5.0	4.6	4.0	1.1
HASC 2006-OPT1 M9	OptionOne	5.0	3.8	0.8	0.6	3.0	2.2	2.1	1.0
HASC 2006-NC1 M9	Chase	3.1	2.4	0.5	0.5	2.7	3.2	1.0	0.0
JPMAC 2006-HE1 M9	Chase	6.9	5.1	0.5	1.0	6.1	5.6	2.7	0.4
JPMAC 2006-CW2 MV9	Countrywide	5.53	4.70	0.20	0.27	3.94	3.61	2.13	0.54
MSAC 2005-HE1 B3	HomeEquity	9.21	2.75	3.19	2.93	5.60	5.22	3.18	1.77
MSAC 2005-HE2 B3	OptionOne	8.27	2.95	2.38	2.26	6.48	4.30	3.60	1.67
NCMT 2006-1 M9	Centex	6.16	4.75	0.48	0.00	1.69	3.23	3.33	2.28
CMLTI 2006-NC1 M8	NewCentury	5.80	4.80	0.30	0.11	4.77	5.54	4.62	1.47

Source: Bloomberg, Intex, Prospectuses; Data as of February 22, 2007

GS MBS-E-000855376

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Primary Servicer	Current Support(%)	Orig Support(%)	Bankrupt	REO	Foreclosure	Delinq 30-59	Delinq 60+	Delinq 90+
FHLT 2006-B M8	Fremont	5.1	4.6	0.3	0.1	3.7	4.6	5.4	2.6
SABR 2006-FR3 B2	HomeEquity	6.4	5.2	0.4	0.4	7.9	6.0	4.2	2.0
WMABS 2006-HE2 M9	WaMu	4.9	4.1	n/a	n/a	3.8	4.6	4.7	1.6
SVHE 2006-OPT2 M7	OptionOne	6.0	4.6	0.3	0.2	3.4	3.3	3.5	1.9
CWL 2005-BC5 B	Countrywide	4.7	3.0	0.9	2.1	3.6	5.2	2.4	1.0
CARR 2006-NC2 M9	NewCentury	5.42	4.45	0.11	0.04	3.64	3.34	3.40	1.08
JPMAC 2006-NC1 M9	Chase	5.03	3.80	0.77	0.99	5.36	5.61	2.58	0.59
JPMAC 2006-NC2 M9	Chase	5.52	4.50	0.30	0.00	1.93	2.84	1.68	0.20
MABS 2005-NC2 M8	Ocwen	6.49	4.75	0.68	1.62	2.79	3.72	4.86	2.49
NHELI 2006-HE2 M9	Ocwen	6.72	5.25	0.51	0.59	5.62	6.60	7.59	3.37
MSAC 2005-HE6 B2	Chase	7.1	5.0	1.4	1.7	3.9	3.6	2.2	1.0
ACE 2006-HE4 M9	Ocwen	4.2	4.0	0.1	0.1	2.9	6.1	4.8	1.6
FHLT 2006-C M9	Fremont	4.3	4.0	0.2	0.0	2.4	3.6	3.2	1.0
ACE 2006-OP1 M8	OptionOne	5.9	4.7	0.3	0.4	3.0	4.2	3.5	1.9
ARSI 2006-W4 M9	Ameriquest	3.9	3.1	0.4	1.2	7.2	3.7	5.2	2.9
ABSHE 2006-HE2 M9	HomeEquity	3.96	3.10	1.04	1.22	5.61	4.83	3.27	1.17
IXIS 2006-HE2 B3	Saxon	3.54	2.90	0.44	1.60	6.39	2.97	3.87	1.34
MLMI 2006-FM1 B2	Wilshire	5.47	4.55	0.42	0.56	6.12	6.32	5.21	1.85
NCHET 2006-1 M9	NewCentury	3.44	2.80	0.70	0.68	5.38	3.17	3.98	2.22
SVHE 2005-DO1 M8	Countrywide	9.29	4.85	2.06	2.78	4.16	5.94	3.71	1.40
SASC 2006-NC1 M9	WellsFargo	3.9	3.2	0.5	0.9	5.2	4.3	4.5	1.7
CWL 2006-1 MV8	Countrywide	4.8	3.6	0.3	0.6	1.1	3.1	2.2	1.8
MABS 2006-AM2 M8	WellsFargo	6.0	5.2	0.9	0.4	5.9	5.4	3.9	1.1
NCHET 2006-2 M9	NewCentury	3.9	3.5	0.4	0.2	2.8	3.2	3.6	1.8
SAIL 2006-BNC3 M7	Chase	5.1	4.6	0.1	0.0	2.3	4.5	3.3	1.0
CWL 2005-14 M8	Countrywide	5.92	4.35	0.63	1.54	3.37	4.30	2.68	1.07
MSAC 2005-HE5 B2	Countrywide	7.62	4.97	1.59	2.13	4.59	4.84	2.56	1.04
FMIC 2006-2 M8	Chase	5.53	5.20	0.35	0.18	3.35	4.72	2.27	0.37
HEAT 2006-6 M8	SelectPortfolio	5.41	4.85	0.23	0.08	3.34	4.09	2.79	0.80
MLMI 2006-MLN1 B2	MortgageLenders	5.39	5.10	0.08	0.00	0.37	4.94	3.68	1.21

Source: Bloomberg, Intex, Prospectuses; Data as of February 22, 2007

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V. Levered RMBS Structural Alternatives

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Levered RMBS Structural Alternatives

Transaction Variant Summary

- Given that there are a variety of products allowing investors to take levered exposure to RMBS, it is important to understand structural similarities and differences
- Three distinct types of transactions are considered for this comparison:

NAME	GENERAL DESCRIPTION
Cashflow CDO	Fully issued transaction in which a selection agent or third party collateral manager selects the assets to be repackaged through CDO. Cash proceeds from collateral assets flow through a waterfall to pay the issued Notes and Income Notes, which are broadly syndicated.
Bespoke Transaction	Customized transaction negotiated between the correlation desk and a "sponsor" investor/ portfolio manager, who generally takes credit risk at one or more layers of the capital structure. Layers of risk not assumed by "sponsor" investor/ portfolio manager are either hedged by the structured product correlation desk or distributed in subsequent offerings.
Tranched ABX	Standardized ABX tranche trading referencing both the Baa2 and Baa3 variants of the on-the-run and immediately off-the-run ABX.HE indices. The product has sponsorship from all ABX dealers and uses a market standard confirm.

- Anderson Mezzanine Funding 2007-1, Ltd. is a cashflow CDO

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Levered RMBS Structural Alternatives

Transaction Variant Comparison

	Cashflow CDO	Bespoke Transaction	Tranched ABX
Type	Cashflow Structured Product CDO	Structured Product Correlation Trade	Structured Product Correlation Trade
Assets	Cash Bonds or Single-Name CDS	Tranched CDS	Tranched CDS
Amortizations	Modified Sequential	Varies	Sequential
Callability	NC3 @ Option of Majority of Equity Holders	NC3 @ Option of Protection Buyer	No Call Rights
Cashflow Waterfall / Triggers	Yes	No	No
Manager	Varies	Varies	No
PIKable	Single-A Debt and Below	No	No
Trading / Reinvestment Period or Static	*Managed Deals*: Trading/Reinvestment *Defensively Managed:* Trading (only credit sales) *Static:* Liquidation after an asset downgrade or credit event	Static / Revolving	Static
Standardized Documentation	No	No	Yes
Credit Enhancement	Excess spread/ subordination	Subordination	Subordination

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Levered RMBS Structural Alternatives

Transaction Variant Comparison (Continued)

	Cashflow CDO	Bespoke Transaction	Tranched ABX
Typical Number of Obligors in Collateral / Reference Portfolio	100+	70+	40
Non-Dollar Offerings	No	Yes	No
Customizability at Different Layers of Capital Structure	Yes	Yes	No
Factors Affecting First Dollar of Loss Breakeven	Losses, loss timing, interest rates, collateral ratings and other features	Losses Only	Losses Only
Deleveraging Risk, Intererest Rate Mismatch Risk and Interest Shortfall / Available Funds Cap Risk	Borne by Equity and Potentially Rated Debt If Severe	Borne by Structured Product Correlation Book	Borne by Structured Product Correlation Book

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Levered RMBS Structural Alternatives

Comparison of Key Structural Differences

Feature	Alternatives	Description
Portfolio Amortizations	Sequential	Amortizations allocated sequentially
	Modified Sequential	Amortizations allocated sequentially to each tranche until the target OC ratio (set at a level greater than initial OC ratio) is reached, then amortizations are allocated to subordinate tranche
	Modified Pro-Rata	Amortizations allocated in a pro-rata fashion until total portfolio amortizations total 50% of initial balance
Callability	No Call	Transaction may not be optionally terminated in part or in whole
	Equity Call	Transaction may be terminated in whole after the non-call period given a majority vote of the equity holders
	Tranche by Tranche	Transaction may be terminated either in part or in whole at the option of the protection buyer
Triggers	Yes	Built-in mechanism that diverts cashflows from equity and potentially junior debt to senior debt should overcollateralization and/or interest coverage metrics underperform initial expectations
	No	No cashflow diversion based on metric underperformance

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Appendix A – Portfolio Asset List

Note: The information in this section is preliminary and subject to change

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Portfolio Composition[1]

Comprehensive Collateral Asset List:

CUSIP	Asset Name	Original Face	Factor	Current Face	Moody's	S&P	Fitch	Avg Life	Asset Type
64352VLA7	NCHET 2005-2 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	2.53	RMBS Subprime
03072SM85	AMSI 2005-R8 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB+	3.48	RMBS Subprime
61744CPQ3	MSAC 2005-NC2 B3	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.61	RMBS Subprime
61744CYK6	MSAC 2006-NC1 B3	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.90	RMBS Subprime
64352VKJ9	NCHET 2005-1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.22	RMBS Subprime
03072SV93	AMSI 2005-R11 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	BBB	3.97	RMBS Subprime
04541GQH8	ABSHE 2005-HE2 M7	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.20	RMBS Subprime
17307GSS8	CMLTI 2005-OPT3 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.24	RMBS Subprime
46629BBB4	JPMAC 2006-CW2 MV9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.12	RMBS Subprime
61744CKW5	MSAC 2005-HE1 B3	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.17	RMBS Subprime
61744CNK8	MSAC 2005-HE2 B3	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.57	RMBS Subprime
65106AAW3	NCMT 2006-1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	-	4.32	RMBS Subprime
172983AN8	CMLTI 2006-NC1 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.67	RMBS Subprime
813765AH7	SABR 2006-FR3 B2	5,000,000	1.000	5,000,000	Baa2	BBB	BBB+	4.69	RMBS Subprime
83611MMT2	SVHE 2006-OPT2 M7	5,000,000	1.000	5,000,000	Baa2	A-	-	3.43	RMBS Subprime
126670NN4	CWL 2005-BC5 B	5,000,000	1.000	5,000,000	Baa3	BBB	-	3.76	RMBS Subprime
14453FAN9	CARR 2006-NC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.55	RMBS Subprime
46626LJZ4	JPMAC 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.97	RMBS Subprime
46629FAN0	JPMAC 2006-NC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.02	RMBS Subprime
65536MAN7	NHELI 2006-HE2 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB-	3.51	RMBS Subprime
040104TS0	ARSI 2006-W4 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.86	RMBS Subprime
59021AAM0	MLMI 2006-FM1 B2	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.67	RMBS Subprime
83611MEE4	SVHE 2005-DO1 M8	5,000,000	1.000	5,000,000	Baa2	A-	BBB+	3.00	RMBS Subprime
86360PAR8	SASC 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.06	RMBS Subprime
126670UD8	CWL 2006-1 MV8	5,000,000	1.000	5,000,000	Baa2	A-	-	3.74	RMBS Subprime
57645FAS6	MABS 2006-AM2 M8	5,000,000	1.000	5,000,000	Baa2	-	-	3.73	RMBS Subprime
64360YAM7	NCHET 2006-2 M9	5,000,000	1.000	5,000,000	Baa2	BBB-	-	4.03	RMBS Subprime
86361KAM9	SAIL 2006-BNC3 M7	5,000,000	1.000	5,000,000	Baa2	BBB	BBB	4.36	RMBS Subprime
126670LW6	CWL 2005-14 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.65	RMBS Subprime
59023AAN6	MLMI 2006-MLN1 B2	5,000,000	1.000	5,000,000	Baa2	BBB+	-	4.19	RMBS Subprime

[1] As of February 22, 2007. Goldman Sachs does not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above. All Face amounts listed above are US Dollar denominated.

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Portfolio Composition[1]

Comprehensive Collateral Asset List:

CUSIP	Asset Name	Original Face	Factor	Current Face	Moody's	S&P	Fitch	Avg Life	Asset Type
004375FE6	ACCR 2006-1 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.86	RMBS Midprime
40430HEH7	HASC 2006-OPT2 M8	5,000,000	1.000	5,000,000	Baa2	BBB+	BBB+	3.77	RMBS Midprime
59020U3N3	MLMI 2006-HE1 B2A	5,000,000	1.000	5,000,000	Baa2	BBB+	-	3.55	RMBS Midprime
004421VC4	ACE 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	-	3.58	RMBS Midprime
144531BK5	CARR 2005-NC1 M8	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.72	RMBS Midprime
22237JAP2	CWL 2006-BC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.61	RMBS Midprime
64352VLS8	NCHET 2005-3 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.77	RMBS Midprime
76112BL24	RAMP 2005-EFC6 M9	5,000,000	1.000	5,000,000	Baa3	BBB	-	4.40	RMBS Midprime
64352VNB3	NCHET 2005-4 M8	5,000,000	1.000	5,000,000	Baa2	BBB	BBB	2.99	RMBS Midprime
004421PY3	ACE 2005-HE4 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.13	RMBS Midprime
03072ST62	AMSI 2005-R10 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.99	RMBS Midprime
144531FG0	CARR 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	BBB-	3.77	RMBS Midprime
362463AP6	GSAMP 2006-NC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.66	RMBS Midprime
40430HDN5	HASC 2006-OPT1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	BBB+	3.67	RMBS Midprime
40430HFA1	HASC 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.10	RMBS Midprime
46626LGQ7	JPMAC 2006-HE1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.45	RMBS Midprime
35729QAN8	FHLT 2006-B M8	5,000,000	1.000	5,000,000	Baa2	BBB	BBB+	4.19	RMBS Midprime
93934JAN4	WMABS 2006-HE2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.67	RMBS Midprime
57643LMX1	MABS 2005-NC2 M8	5,000,000	1.000	5,000,000	Baa2	A+	BBB+	2.96	RMBS Midprime
61744CWE2	MSAC 2005-HE6 B2	5,000,000	1.000	5,000,000	Baa2	BBB+	BBB+	3.80	RMBS Midprime
00442BAP6	ACE 2006-HE4 M9	5,000,000	1.000	5,000,000	Baa3	BBB	-	4.70	RMBS Midprime
35729TAP7	FHLT 2006-C M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB	4.07	RMBS Midprime
00442PAP5	ACE 2006-OP1 M8	5,000,000	1.000	5,000,000	Baa2	BBB+	-	3.83	RMBS Midprime
04541GWQ1	ABSHE 2006-HE2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.54	RMBS Midprime
46602WAN4	IXIS 2006-HE2 B3	5,000,000	1.000	5,000,000	Baa3	BBB	BBB-	4.17	RMBS Midprime
64352VRB9	NCHET 2006-1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.69	RMBS Midprime
61744CUZ7	MSAC 2005-HE5 B2	5,000,000	1.000	5,000,000	Baa2	BBB+	BBB+	3.54	RMBS Midprime
31659EAM0	FMIC 2006-2 M8	5,000,000	1.000	5,000,000	Baa2	BBB+	-	3.35	RMBS Midprime
437097AP3	HEAT 2006-6 M8	5,000,000	1.000	5,000,000	Baa2	A-	A-	4.06	RMBS Midprime
61744CMS2	MSAC 2005-NC1 B2	5,000,000	1.000	5,000,000	Baa2	BBB	BBB	2.42	RMBS Subprime
92534FAE8	VRGO 2006-1A B1	5,000,000	1.000	5,000,000	Baa1	BBB+	-	6.61	RMBS CDO

[1] As of February 22, 2007. Goldman Sachs does not represent or provide any assurance that the actual portfolio on the Closing Date or any future date will have the same characteristics as provided above. All Face amounts listed above are US Dollar denominated.

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Appendix B – Goldman Sachs Contact Information

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Anderson Mezzanine Funding 2007-1, Ltd.

Team Contact Information

Goldman, Sachs & Co. – Structuring and Placement Agent

Structured Product CDOs – Structuring, Marketing, and Principal Investments

Peter Ostrem, Managing Director	(212) 357-4617
Matt Bieber, Vice President	(212) 357-9193
Michele Chitson, Vice President	(212) 902-2881
John X. Li, Associate	(212) 902-2592
Shelly Lin, Analyst	(212) 357-9944
Eric Siegel, Analyst	(212) 357-9753

Syndication

Bunty Bohra, Managing Director	(212) 902-7645
Scott Wisenbaker, Vice President	(212) 902-2858
Omar Chaudhary, Vice President	+81 (3) 6437-7198
Mitchell Resnick, Executive Director	+44 (20) 7774-3068
Tetsuya Ishikawa, Associate	+44 (20) 7774-1025

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2340

Goldman Sachs

Anderson Mezzanine Funding 2007-1, Ltd.

A $500 Million Static Mezzanine Structured Product CDO

Goldman, Sachs & Co. – Liquidation, Structuring, and Placement Agent

Equity Marketing Book

February 2007

The information contained herein is indicative only and the actual terms of any transaction will be set forth in the definitive Offering Circular.

GS MBS-E-000892557

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VI. Comparison of Levered RMBS Structures

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VIII. Modeling Assumptions

Appendix

A. Portfolio Asset List

B. Goldman Sachs Contact Information

GS MBS-E-000892558

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I. Executive Summary

Note: The information in this section is preliminary and subject to change

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Anderson Mezzanine Funding 2007-1

Executive Summary

- Anderson Mezzanine Funding 2007-1 ("Anderson Funding") will be a static $500 million cashflow CDO consisting of a diversified portfolio of RMBS and CDO securities.
- Goldman Sachs and GSC Group ("GSC") co-selected the assets.
- Anderson Funding will be non-managed and static in nature. Anderson Funding will provide term non-recourse funding. In its role as Liquidation Agent, Goldman Sachs will:
  - Warehouse assets during the portfolio aggregation phase prior to closing
  - Liquidate any asset within one year after such asset performs below certain threshold levels determined prior to closing
- The portfolio consists of collateral which is rated at least Baa3 (if rated by Moody's) and BBB- (if rated by S&P) with an average rating of Baa2/Baa3. 100% of the portfolio will be real-estate related securities.
- Low fee structure and less "barbelled" portfolio than other mezzanine CDOs in the current market.
- Transaction co-sponsored by Goldman and GSC Eliot Bridge (an ABS and CDO hedge fund managed by GSC Group). Goldman Sachs and GSC has aligned incentives with Anderson Funding by investing in a portion of equity.

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II. Disclaimer and Risk Factors

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Disclaimer

The information contained herein is confidential information regarding securities that may in the future be offered by Anderson Mezzanine Funding 2007-1, Ltd. ("Anderson Funding," "Anderson" or the "Issuer"). The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use. By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with any applicable securities laws. For this purpose, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction.

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. The information contained herein is preliminary and material changes to the proposed terms of the securities described herein may be made at any time. If any offer of securities is made, it shall be made pursuant to a definitive offering circular (the "Offering Circular") prepared by or on behalf of the Issuer, which would contain material information not contained herein and which shall supersede, amend and supplement this information in its entirety. Any decision to invest in the securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary or appropriate and consulting the investor's own legal, accounting, tax, and other advisors in order to make an independent determination of the suitability and consequences of an investment in the securities.

The securities described herein will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular.

None of the Issuer, Goldman Sachs (as used herein, such term shall include Goldman, Sachs & Co. and all of its affiliates), nor any of their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. The information includes hypothetical illustrations and involves modeling components and assumptions that are required for purposes of such hypothetical illustrations. No representations are made as to the accuracy of such hypothetical illustrations or that all assumptions relating to such hypothetical illustrations have been considered or stated or that such hypothetical illustrations will be realized. The information contained herein does not purport to contain all of the information that may be required to evaluate such securities, and each recipient is encouraged to read the Offering Circular and should conduct its own independent analysis of the data referred to herein. The Issuer, Goldman Sachs, and their respective affiliates disclaim any and all liability relating to this information, including, without limitation, any express or implied representation or warranty for statements contained in and omissions from this information. None of the Issuer, Goldman Sachs, or any of their respective affiliates expects to update or otherwise revise the information contained herein except by means of the Offering Circular. Additional information may be available on request. The securities and obligations of the Issuer are not issued by, obligations of, or guaranteed by Goldman Sachs, or their respective affiliates, or other organizations. In particular, the obligations of the Issuer are not deposit obligations of any financial institution. The securities and obligations of the Issuer are complex, structured securities and there is no assurance that a secondary market for such securities will exist at any time. Accordingly, prospective investors should be prepared, and have the ability, to hold such securities until their respective stated maturities or stated redemption dates.

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HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions. Such potential outcomes are not a prediction by the Issuer, Goldman Sachs or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Goldman Sachs, or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Goldman Sachs or their respective affiliates assumes any duty to update any such statement. Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the collateral and the price at which such collateral is actually purchased by the Issuer, any defaults on the collateral, the timing of any defaults and subsequent recoveries, changes in interest rates, and any weakening of the specific credits included in the collateral, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein.

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer. Because of portfolio restrictions that apply to the Issuer and differences in market conditions, the investments selected by Goldman Sachs on behalf of the Issuer may differ substantially from prior investments made by Goldman Sachs. The Issuer has no operating history.

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Risk Factors

Note: The Offering Circular will include more extensive descriptions of the risks described herein as well as additional risks relating to, among other things, conflicts of interest. Any decision to invest in the securities described herein should be made after reviewing such Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the securities. The Offering Circular will supersede this document in its entirety.

- Limited Liquidity, Restrictions on Transfer and Limited Recourse
  - There is currently no market for the Secured Notes or Income Notes and it is unlikely that any secondary market will develop. The Secured Notes and the Income Notes should be viewed as a long-term investment, not as a trading vehicle. The value of the Secured Notes and the Income Notes may vary and the Secured Notes and the Income Notes, if sold, may be worth less than their original cost.
  - In addition, as the Secured Notes and the Income Notes will be sold in transactions exempt from SEC registration pursuant to Section 4(2), Rule 144A, and/or Reg S and the Issuer will not be registered under the Investment Company Act of 1940 pursuant to the Section 3(c)(7). Related restrictions, as well as other restrictions on transfer of the Income Notes will apply.
  - All liabilities are payable solely from the cash flow available from the collateral pledged by the Issuer to secure all classes of Notes. No other assets will be available for payment in the event of any deficiency. The Income Notes represent equity in the Issuer and as such are subordinated to the Secured Notes. The Income Notes are payable from the collateral (which represent the only assets of the Issuer) only after payment in full of amounts due on the Secured Notes.
- Leveraged Credit Risk
  - The Income Notes are in a first loss position with respect to defaults on the underlying collateral. The leveraged nature of the Income Notes magnifies the adverse impact of any collateral defaults.
- Volatility of Collateral and of Secured Notes' and Income Notes' Market Value
  - The Income Notes represent a leveraged investment in the Collateral Assets. The use of leverage generally magnifies an issuer's opportunities for gain and risk of loss. Therefore, changes in the market value of the Secured Notes and the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity and, with respect to the fixed rate portion of the portfolio, interest rate risk.
  - Changes in the market value of issues from one sector or industry may impact the market value of issues from one or more of other sectors or industries included in the collateral.
- Collateral Risk
  - Collateral Assets inherently bear significant credit risks because issuers are primarily private entities.
  - The structure of Collateral Assets and the terms of the Issuer's interest in the collateral can vary widely depending on the type of collateral, investor sentiment and the use of credit enhancements.
  - Adverse changes in the financial condition of the collateral obligor or in general economic conditions may adversely affect the obligor's ability to pay principal and interest on its debt.

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Risk Factors

- Nature of Collateral
  - The Collateral Assets are subject to credit, liquidity and interest rate risk. In addition, the financial performance of the Issuer may be affected by the price and availability of Collateral Assets to be purchased.
  - Some or all of the Collateral Assets may be subordinated securities which may be subject to leveraged credit risk.
  - The ability of the Issuer to sell Collateral Assets prior to maturity is subject to certain restrictions and limitations under the Indenture.
- No Collateral Manager
  - The Issuer will not engage a Collateral Manager. As a result, (i) the Collateral Assets held by the Issuer on the Closing Date will be retained by the Issuer even if it would be in the best interests of the Issuer and the holders of the Income Notes and Secured Notes to dispose of certain Collateral Assets unless the Collateral Assets are required to be sold by the Liquidation Agent as described in the previous paragraph and (ii) the Indenture will eliminate the ability of the Issuer to exercise discretion in contexts where a collateral manager in a managed or static collateralized debt obligation transaction typically would have discretion to exercise such discretion on behalf of the Issuer and holders of Income Notes and Secured Notes. The inability of the Issuer to exercise discretion in these contexts could adversely impact the Issuer and the holders of the Income Notes and Secured Notes.
- Timing and Amount of Recoveries
  - Only Collateral Assets that meet the liquidation criteria may be sold. If a Collateral Asset meets the liquidation criteria, the Liquidation Agent is required to sell such affected collateral in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance as to the timing of the Liquidation Agent's sale of affected assets, or if there will be any market for such assets or as to the rates of recovery on such affected collateral. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to the Income Notes and Secured Notes as compared to the returns generated using the Modeling Assumptions.
- Impairment of Credit Quality and/or Defaults on the Collateral
  - Decline in credit quality of the collateral or defaults could result in losses which would adversely affect the Income Notes and Secured Notes.
  - There may be certain industry or sector concentrations in the CDO, all of which could have a material adverse impact on the Income Notes in the event of economic downturns or other events affecting the credit quality of any of the collateral.
- Yield Due to Prepayments
  - The yield to maturity on the Income Notes could be affected by the rate of prepayment of the Collateral Assets. Payments to the Income Notes at a rate slower than the rate anticipated by investors purchasing the Income Notes at a discount will result in an actual yield that is lower than anticipated by such investors. Conversely, payments to the Income Notes at a rate faster than the rate anticipated by investors purchasing the Income Notes at a premium will result in an actual yield that is lower than anticipated by such investors.
- Timing of Receipt of Accrued Interest Income
  - On an ongoing basis, the receipt by the Issuer of accrued interest income may affect the availability of cash which may be distributed to the Holders of Secured Notes and Income Notes.

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Risk Factors

- International Investing
  - Investing outside the U.S. may involve greater risks which may include (1) less publicly available information, (2) varying levels of governmental regulation and supervision, (3) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws, (4) less stringent accounting practices, (5) different clearance and settlement procedures, (6) economic and political conditions and instability, (7) exchange control and foreign currency risk, (8) insolvency and (9) expropriation risk.
  - A portion of the Collateral Assets may consist of obligations of an issuer organized under the laws of the Bahamas, Bermuda, the Cayman Islands, the Channel Islands, the Netherlands Antilles or other jurisdictions offering favorable tax treatment.
- Tax Treatment of Income Notes
  - Since the Issuer will be a passive foreign investment company, a U.S. person holding Income Notes may be subject to additional taxes unless it elects to treat the Issuer as a qualified electing fund and to recognize currently its proportionate share of the Issuer's income. The Income Notes will be treated as equity for tax purposes.
  - Income Notes holders should consult their tax advisers about the special U.S. tax regimes that apply to shareholders of passive foreign investment companies, controlled foreign corporations and foreign personal holding companies.
  - Special tax considerations may apply to certain types of investors. Prospective investors should consult their own tax advisors regarding the tax implications of their investments.
- Material Tax Considerations
  - There is a possibility that the Issuer will be found to be engaging in a U.S. trade or business. In such a case, it would be subject to substantial U.S. income tax on its income.
- Hypothetical Illustrations and Estimates
  - Estimates of the weighted average lives of the Class S, A, B, C, D and E Notes and the returns and duration of the Income Notes included herein, together with any other hypothetical illustrations and estimates provided to prospective purchasers of the Class S, A, B, C, D and, E Notes, are forward-looking statements. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
  - The hypothetical illustrations are only estimates. Actual results may vary, and the variations may be material. See "Hypothetical Illustrations and Pro Forma Information" on disclaimer page in the beginning of this book.
- Changes in Tax Laws
  - The Collateral Assets are not permitted to be subject to withholding tax at the time of purchase, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on the Income Notes and Secured Notes.
  - In case of a Withholding Tax Event (as defined in the Offering Circular), holders of more than 50% of any affected Note may require the issuer to liquidate the collateral on any Payment Date, and redeem the Class S, A, B, C, D and E Notes, prior to any distributions to holders of Income Notes

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Risk Factors

- Subordination
  - The Income Notes are subordinated to the Class S, Class A, Class B, Class C, Class D and Class E Notes and certain payments of expenses. The Class E Notes are subordinated to the Class A, Class B, Class C and Class D Notes and certain payments of expenses. The Class D Notes are subordinated to the Class A, Class B and Class C Notes and certain payments of expenses. The Class C Notes are subordinated by the Class A and Class B Notes and certain payments of expenses. The Class B Notes are subordinated to the Class A Notes and certain payments of expenses. No distributions of interest proceeds received on the collateral will be made to the Income Notes until interest on the Secured Notes and certain other expenses have been paid. In addition, in the event of a default, holders of the most senior class of Secured Notes will generally be entitled to determine the remedies to be exercised; such remedies could include the sale and the liquidation of the collateral and have an adverse effect on the Income Notes. The Income Notes will not be able to exercise any remedies following an event of default and will not receive payments after an event of default until the Secured Notes are paid in full.
- Credit Exposure to Portfolio of Reference Obligations
  - On the closing date, the Issuer will enter into pay-as-you-go credit default swaps (the "Synthetic Securities") with Goldman Sachs International, ("GSI" and in such capacity, the "Counterparty"), pursuant to which the Issuer will sell credit default protection with respect to a portfolio of Reference Obligations. If a credit event occurs with respect to any of the Reference Obligations, the Issuer will pay the Counterparty the amount of the write-down or principal loss, or if the Counterparty elects to deliver the reference obligation, the notional amount of the Synthetic Security times the reference price. In return for the credit default protection, the Counterparty will pay the Issuer a premium which may be reduced (but not below zero) if certain Reference Obligations experience interest shortfalls. Credit events and interest shortfalls may adversely affect the Issuer's ability to make payments on the Notes and the Income Notes.
  - All Notes and Income Notes are subordinated to credit default protection payments under the Synthetic Securities and to certain termination payments payable to the Counterparty in connection with a termination event. The magnitude of such losses will be affected by the number of credit events and the recovery amount of any delivered Reference Obligations and timing of such credit events

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III. Transaction Overview

Note: The information in this section is preliminary and subject to change

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Anderson Mezzanine Funding 2007-1, Ltd.

Transaction Overview

- Anderson Mezzanine Funding is a "static" mezzanine structured product CDO with the following features:
  - No exposure to reinvestment spread risk or reliance on reinvestment to generate excess interest to cover debt
  - No fixed rate assets
  - No assets without an initial rating of at least Baa3 by Moody's and BBB- by S&P. Average WARF in the portfolio is expected to be 500
  - Overall transaction cost structure is significantly less than comparable mezzanine structured product CDOs in the market

- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" securities will be sold by the Liquidation Agent within one year of such determination

- Goldman Sachs will act as Structuring, Placement and Liquidation Agent for Anderson Funding and will warehouse the portfolio prior to closing
  - Goldman Sachs will charge 10 bps ongoing fee for its role as Liquidation Agent

- Goldman Sachs and GSC's portfolio selection process:
  - Assets sourced from the Street at then market levels
  - GSC pre-screens and evaluates assets for portfolio suitability
  - Goldman Sachs CDO desk reviews individual assets in conjunction with respective mortgage trading desks (Subprime, Midprime, Prime, etc.) and makes decision to add or decline
  - All CDS use rating agency approved confirms (pay as you go)

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Anderson Mezzanine Funding 2007-1, Ltd.

Transaction Overview - Asset Selection / Asset Liquidation

- Portfolio Aggregation Strategy:
  - Select only assets rated explicitly Baa3/BBB- (Moody's / S&P) and above. No notched rating of below Baa3 in the portfolio
  - No Fixed rate assets allowed, eliminating interest rate swap basis mismatch
  - Maximum obligor concentration is 1.5%, creating a very granular portfolio with 100 distinct obligors
  - Target portfolio with Weighted Average Rating Factor of 500 and duration weighted average spread of 202 bps

- Goldman Sachs, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" asset within 12 months of such determination. "Credit risk" assets will include:
  - Any asset downgraded by Moody's or S&P to below Ba3 or BB-
  - Any asset that is defaulted and experiences a credit event as defined by the PAUG confirm

- Expected collateral quality statistics at closing
  - WARF: 500
  - 100 Distinct Obligors
  - Moody's Asset Correlation ("MAC") at closing: 27
  - Duration weighted average portfolio spread: 202 bps
  - Weighted Average Duration: 3.1 years

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Anderson Mezzanine Funding 2007-1, Ltd.

Transaction Overview - Capital Structure[1]

Classes	Ratings (Moody's/S&P)	Principal Balance	% of Capital Structure	Coupon	Expected WAL	Initial OC
Class S	Aaa/AAA	[ ] MM	N/A	1M LIBOR + [ ]%	[3.0]	N/A
Class A-1	Aaa/AAA	$300.0 MM	60.00%	1M LIBOR + [ ]%	[3.6]	166.7%
Class A-2	Aaa/AAA	$75.0 MM	15.00%	1M LIBOR + [ ]%	[4.1]	133.3%
Class B	Aa2/AA	$40.0 MM	8.00%	1M LIBOR + [ ]%	[4.5]	120.5%
Class C	A2/A	$35.0 MM	7.00%	1M LIBOR + [ ]%	[4.7]	111.1%
Class D	Baa2/BBB	$28.5 MM	5.70%	1M LIBOR + [ ]%	[4.5]	104.5%
Class E	Ba1/BB+	$6.0 MM	1.20%	1M LIBOR + [ ]%	[6.1]	103.2%
Income Notes	NR	$15.5 MM	3.10%	NA	NA	NA

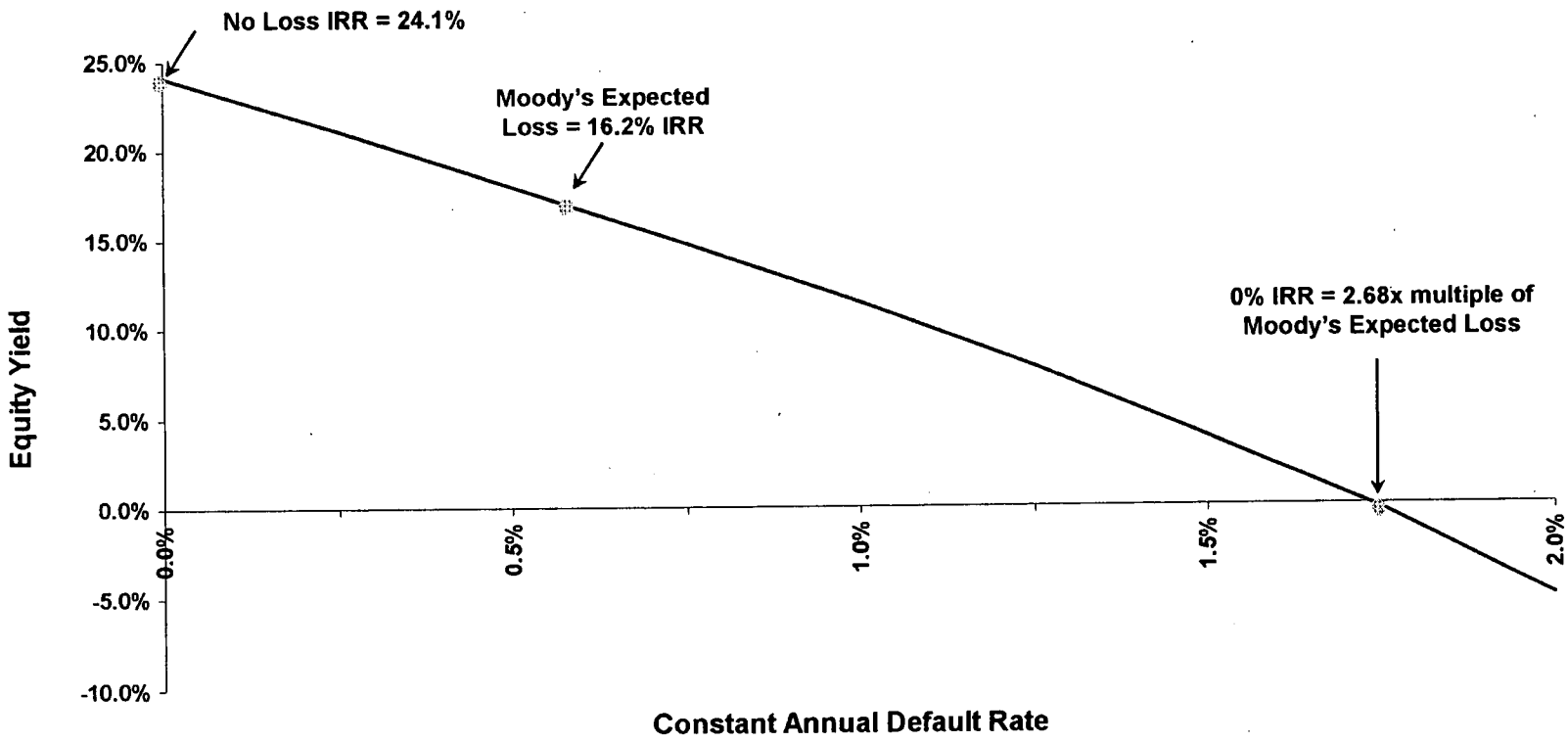
1 *This information is preliminary and subject to change.*

GS MBS-E-000892571

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Scenario Analysis

Equity Yield Profile



Note: See "Modeling Assumptions". Defaults commence at the end of month 12 and continue through the life of the transaction. Yields assume successful auction call at the end of year 8. Moody's expected loss rate of 1.0843% reflects a warehouse target weighted average rating factor of 506 and weighted average life of 4.15 years.

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IV. Transaction Details

Note: The information in this section is preliminary and subject to change

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Transaction Details

General Information

Issuers:	Anderson Mezzanine Funding 2007-1, Ltd, and Anderson Mezzanine Funding 2007-1, Corp.
Liquidation Agent, Structuring and Placement Agent:	Goldman, Sachs & Co.
Liquidation Agent Fee:	10 bps per annum payable senior to all the Notes
Reinvestment Period:	None
Discretionary Trading:	None. Liquidation Agent will sell credit-risk assets based on pre-determined rules and the clean proceeds will be treated as principal paydowns
Ramp-Up Period:	None
Non-Call Period:	3 years
Auction Call:	8 years. There is no minimum IRR requirement for successful Auction Call.
Call Price:	Par plus all accrued for Class S, A-1, A-2, B, C, D and E Notes
Payment Frequency:	Monthly for Class S, A-1, A-2 , B, C, D and Class E Notes, Quarterly for Income Notes
Controlling Class:	Class A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C, D and Class E Notes in that order until each Class is paid in full.

GS MBS-E-000892574

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V. Portfolio Composition

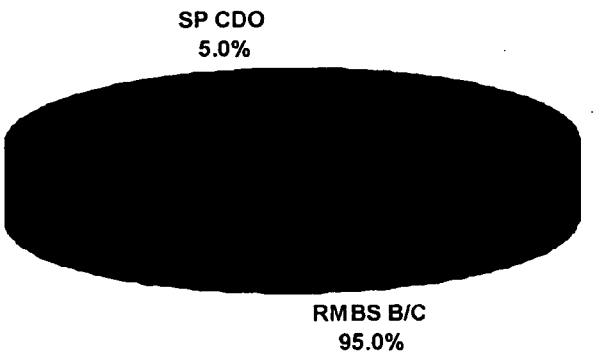
Note: The information in this section is preliminary and subject to change

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Portfolio Composition

Target Portfolio[1]

Collateral



Credit Ratings



[1] *This information is preliminary and subject to change.*

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Transaction Details

Collateral Profile

Moody's WARF	500
Moody's Asset Correlation	[27]%
Ratings Profile	■ 100% of the assets are rated at least Baa3 and BBB- by Moody's and S&P
Target Obligor Concentration Profile	■ Maximum Obligor concentration: 1.5%
Collateral Haircuts:	■ 10% applied to Double-B Assets prior to sale (20% for Senior Overcollateralization test) ■ 20% applied to Single-B Assets prior to sale (40% for Senior Overcollateralization test) ■ 50% applied to Triple-C Assets prior to sale (75% for Senior Overcollateralization test) ■ 100% applied to Defaulted Obligations

GS MBS-E-000892577

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Issue Date	Curr WALA	Curr Net WAC	FICO	LTV	Geo 1st	Geo 2nd	Fixed %	First Lien %	Vac/ Inv %	Purch %
ACCR 2006-1 M8	3/28/2006	12	7.23	633	78	CA 19%	FL 13%	33.0	100.0	7.9	33.2
HASC 2006-OPT2 M8	2/28/2006	16	7.00	625	79	CA 26%	FL 10%	27.9	100.0	6.7	36.4
MLMI 2006-HE1 B2A	2/7/2006	16	6.91	630	82	CA 36%	FL 12%	24.5	100.0	6.0	49.5
MSAC 2005-NC1 B2	2/25/2005	26	7.42	617	79	CA 22%	TX 10%	43.7	99.7	6.6	31.3
NCHET 2005-2 M8	4/22/2005	21	6.55	623	78	CA 32%	FL 9%	24.0	100.0	8.8	35.8
ACE 2006-NC1 M9	1/30/2006	16	6.80	627	81	CA 36%	FL 12%	25.0	100.0	9.8	49.5
AMSI 2005-R8 M9	9/28/2005	17	6.94	619	78	CA 13%	FL 13%	29.2	100.0	2.7	2.7
CARR 2005-NC1 M8	2/3/2005	25	7.19	635	79	CA 41%	FL 5%	21.4	99.8	4.2	43.2
CWL 2006-BC2 M9	5/30/2006	14	6.96	625	80	CA 35%	FL 9%	8.1	100.0	4.6	40.6
MSAC 2005-NC2 B3	4/29/2005	24	6.70	618	80	CA 31%	FL 8%	26.8	100.0	5.7	34.4
MSAC 2006-NC1 B3	1/27/2006	15	6.73	622	78	CA 37%	FL 11%	24.8	100.0	7.9	38.1
NCHET 2005-1 M9	2/25/2005	24	6.63	623	85	CA 32%	FL 8%	26.0	100.0	8.0	98.4
NCHET 2005-3 M9	6/24/2005	20	6.50	630	79	CA 32%	FL 9%	22.6	100.0	8.2	41.3
RAMP 2005-EFC6 M9	11/22/2005	15	6.52	632	82	CA 15%	FL 7%	14.2	100.0	1.9	43.7
NCHET 2005-4 M8	8/17/2005	18	6.58	626	81	CA 38%	FL 9%	21.6	100.0	8.6	44.0
ACE 2005-HE4 M9	6/29/2005	20	6.60	629	81	CA 36%	FL 10%	20.5	100.0	5.5	50.6
AMSI 2005-R10 M9	11/23/2005	15	6.88	631	78	CA 17%	NY 11%	30.9	100.0	3.2	4.2
AMSI 2005-R11 M9	12/20/2005	14	7.10	624	78	CA 14%	FL 11%	24.2	99.9	3.5	3.1
ABSHE 2005-HE2 M7	3/4/2005	24	6.70	621	78	CA 31%	FL 10%	24.1	100.0	5.5	33.4
CARR 2006-NC1 M9	2/8/2006	14	6.66	630	81	CA 32%	NY 7%	15.2	100.0	6.5	43.8
CMLTI 2005-OPT3 M9	7/7/2005	21	6.92	613	78	CA 19%	FL 10%	21.0	100.0	6.7	33.1
GSAMP 2006-NC2 M9	6/29/2006	8	7.70	626	80	CA 36%	FL 11%	13.0	100.0	9.2	43.7
HASC 2006-OPT1 M9	2/3/2006	15	6.68	644	79	CA 30%	NY 10%	32.2	100.0	9.8	36.2
HASC 2006-NC1 M9	3/7/2006	16	6.09	666	82	CA 43%	FL 7%	0.0	100.0	3.5	56.3
JPMAC 2006-HE1 M9	2/28/2006	15	7.38	641	73	CA 48%	IL 11%	19.5	100.0	7.5	64.1
JPMAC 2006-CW2 MV9	8/8/2006	9	7.67	615	78	CA 41%	FL 14%	25.4	100.0	1.4	66.1
MSAC 2005-HE1 B3	1/26/2005	28	7.85	614	79	CA 14%	NY 9%	40.0	99.8	6.4	29.6
MSAC 2005-HE2 B3	3/30/2005	26	7.87	616	79	CA 14%	NY 10%	38.4	99.8	7.0	31.3
NCMT 2006-1 M9	4/6/2006	17	6.98	612	78	CA 27%	FL 12%	35.7	99.4	0.5	22.5
CMLTI 2006-NC1 M8	6/29/2006	9	7.91	620	77	CA 34%	FL 10%	17.3	100.0	10.3	41.7

Source: Bloomberg, Intex, Prospectuses; Current data used where available

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Issue Date	Curr WALA	Curr Net WAC	FICO	LTV	Geo 1st	Geo 2nd	Fixed %	First Lien %	Vac/ Inv %	Purch %
FHLT 2006-B M8	8/3/2006	7	8.72	627	76	CA 26%	FL 15%	19.3	100.0	4.4	50.2
SABR 2006-FR3 B2	8/3/2006	10	7.91	619	75	CA 25%	FL 17%	11.8	100.0	5.8	47.1
WMABS 2006-HE2 M9	5/25/2006	11	7.75	625	76	CA 36%	FL 14%	15.4	100.0	3.4	53.3
SVHE 2006-OPT2 M7	4/7/2006	11	8.07	622	79	CA 25%	FL 13%	16.9	100.0	10.9	35.8
CWL 2005-BC5 B	12/28/2005	18	6.53	620	78	CA 23%	FL 10%	31.9	100.0	2.3	35.3
CARR 2006-NC2 M9	6/21/2006	9	7.74	623	80	CA 32%	FL 11%	12.7	100.0	8.9	44.0
JPMAC 2006-NC1 M9	4/27/2006	12	7.54	623	78	CA 40%	FL 9%	21.2	100.0	10.8	42.1
JPMAC 2006-NC2 M9	8/23/2006	8	7.73	619	77	CA 30%	FL 11%	22.1	100.0	9.2	43.2
MABS 2005-NC2 M8	11/29/2005	17	6.01	657	94	CA 55%	FL 7%	0.0	100.0	5.7	64.7
NHELI 2006-HE2 M9	4/28/2006	13	7.12	617	79	CA 45%	FL 7%	25.9	95.8	4.9	36.8
MSAC 2005-HE6 B2	11/29/2005	18	6.71	633	77	CA 27%	FL 12%	26.8	100.0	4.5	46.5
ACE 2006-HE4 M9	9/28/2006	7	7.95	627	82	CA 35%	FL 14%	14.9	99.6	5.6	51.6
FHLT 2006-C M9	9/7/2006	6	7.97	628	76	CA 27%	FL 15%	23.7	100.0	6.9	42.2
ACE 2006-OP1 M8	5/25/2006	11	7.93	626	80	CA 30%	NY 12%	17.9	100.0	9.3	39.2
ARSI 2006-W4 M9	4/25/2006	10	7.72	616	80	CA 28%	FL 14%	14.7	100.0	9.2	47.4
ABSHE 2006-HE2 M9	3/24/2006	12	7.59	625	80	CA 30%	FL 13%	18.9	100.0	10.3	44.1
IXIS 2006-HE2 B3	5/25/2006	11	7.66	629	77	CA 34%	FL 21%	8.0	100.0	5.4	51.4
MLMI 2006-FM1 B2	6/30/2006	10	7.96	618	75	CA 26%	FL 15%	11.8	100.0	5.9	45.0
NCHET 2006-1 M9	3/30/2006	11	7.46	627	88	CA 37%	FL 9%	21.0	100.0	9.0	44.4
SVHE 2005-DO1 M8	5/13/2005	23	6.57	622	79	CA 10%	FL 9%	17.9	100.0	2.8	35.5
SASC 2006-NC1 M9	6/22/2006	11	7.63	617	81	CA 26%	FL 12%	23.5	100.0	8.3	37.9
CWL 2006-1 MV8	2/10/2006	13	6.75	618	78	CA 33%	FL 19%	0.0	100.0	5.4	38.5
MABS 2006-AM2 M8	7/28/2006	9	7.60	608	75	FL 31%	CA 19%	12.2	100.0	3.4	37.3
NCHET 2006-2 M9	6/29/2006	8	7.65	621	85	CA 29%	FL 9%	24.3	100.0	9.9	35.3
SAIL 2006-BNC3 M7	8/25/2006	7	7.73	618	74	CA 43%	FL 8%	18.5	100.0	9.4	35.2
CWL 2005-14 M8	12/21/2005	15	6.84	612	79	CA 26%	FL 9%	28.0	100.0	3.3	37.5
MSAC 2005-HE5 B2	10/28/2005	19	6.56	637	79	CA 33%	FL 7%	13.4	100.0	4.1	53.5
FMIC 2006-2 M8	7/6/2006	7	7.74	644	82	CA 37%	TX 12%	12.4	97.6	0.8	67.4
HEAT 2006-6 M8	8/1/2006	8	7.52	628	91	CA 29%	FL 12%	15.3	100.0	5.3	51.2
MLMI 2006-MLN1 B2	9/29/2006	7	7.91	619	77	FL 19%	NY 11%	18.7	100.0	5.9	48.8

Source: Bloomberg, Intex, Prospectuses; Current data used where available

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Primary Servicer	Current Support(%)	Orig Support(%)	Bankrupt	REO	Foreclosure	Delinq 30-59	Delinq 60+	Delinq 90+
ACCR 2006-1 M8	Accredited	3.8	1.6	0.3	0.7	2.8	2.0	0.9	0.1
HASC 2006-OPT2 M8	OptionOne	7.2	5.4	0.5	0.5	3.8	2.7	2.1	0.8
MLMI 2006-HE1 B2A	Wilshire	8.8	6.8	1.2	1.3	3.0	5.2	4.4	2.3
MSAC 2005-NC1 B2	HomeEquity	13.4	4.5	2.7	2.5	4.0	3.4	2.8	1.6
NCHET 2005-2 M8	NewCentury	8.6	4.4	1.5	1.5	4.0	2.5	2.8	1.9
ACE 2006-NC1 M9	Saxon	5.96	4.35	0.83	1.26	3.82	2.93	2.17	0.82
AMSI 2005-R8 M9	Ameriquest	4.54	2.65	1.38	0.79	3.26	2.59	2.51	1.23
CARR 2005-NC1 M8	NewCentury	10.71	3.95	1.60	2.91	5.75	3.04	2.95	1.50
CWL 2006-BC2 M9	Countrywide	4.20	3.15	0.39	0.83	5.17	3.98	3.00	1.05
MSAC 2005-NC2 B3	Countrywide	7.65	3.05	1.65	2.89	4.38	3.99	2.73	1.41
MSAC 2006-NC1 B3	HomeEquity	6.1	4.4	1.0	1.5	3.9	3.8	1.8	0.9
NCHET 2005-1 M9	NewCentury	7.6	3.2	2.0	1.6	4.4	2.6	2.5	1.4
NCHET 2005-3 M9	NewCentury	7.2	4.2	1.3	1.3	3.9	3.2	2.8	1.6
RAMP 2005-EFC6 M9	HomeComings	3.9	3.1	0.7	1.1	3.7	4.2	1.6	0.6
NCHET 2005-4 M8	NewCentury	9.5	6.0	1.4	1.8	4.3	2.8	3.1	1.8
ACE 2005-HE4 M9	Countrywide	8.74	4.80	1.05	2.35	3.89	2.71	3.34	1.92
AMSI 2005-R10 M9	Ameriquest	5.18	3.50	0.53	0.85	2.55	1.75	1.84	0.92
AMSI 2005-R11 M9	Ameriquest	5.17	3.55	0.55	0.73	2.42	2.30	1.83	0.76
ABSHE 2005-HE2 M7	Saxon	9.56	3.85	1.96	1.59	4.30	2.61	2.36	1.19
CARR 2006-NC1 M9	NewCentury	7.55	5.80	0.79	1.17	4.27	3.25	2.77	1.34
CMLTI 2005-OPT3 M9	OptionOne	7.7	4.3	1.4	2.0	4.2	1.7	2.2	1.4
GSAMP 2006-NC2 M9	Ocwen	3.7	3.1	0.4	0.0	5.0	4.6	4.0	1.1
HASC 2006-OPT1 M9	OptionOne	5.0	3.8	0.8	0.6	3.0	2.2	2.1	1.0
HASC 2006-NC1 M9	Chase	3.1	2.4	0.5	0.5	2.7	3.2	1.0	0.0
JPMAC 2006-HE1 M9	Chase	6.9	5.1	0.5	1.0	6.1	5.6	2.7	0.4
JPMAC 2006-CW2 MV9	Countrywide	5.53	4.70	0.20	0.27	3.94	3.61	2.13	0.54
MSAC 2005-HE1 B3	HomeEquity	9.21	2.75	3.19	2.93	5.60	5.22	3.18	1.77
MSAC 2005-HE2 B3	OptionOne	8.27	2.95	2.38	2.26	6.48	4.30	3.60	1.67
NCMT 2006-1 M9	Centex	6.16	4.75	0.48	0.00	1.69	3.23	3.33	2.28
CMLTI 2006-NC1 M8	NewCentury	5.60	4.80	0.30	0.11	4.77	5.54	4.62	1.47

Source: Bloomberg, Intex, Prospectuses; Current data used where available

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Loan-Level Characteristics of RMBS Assets

Bloomberg Ticker	Primary Servicer	Current Support(%)	Orig Support(%)	Bankrupt	REO	Foreclosure	Delinq 30-59	Delinq 60+	Delinq 90+
FHLT 2006-B M8	Fremont	5.1	4.6	0.3	0.1	3.7	4.6	5.4	2.6
SABR 2006-FR3 B2	HomeEquity	6.4	5.2	0.4	0.4	7.9	6.0	4.2	2.0
WMABS 2006-HE2 M9	WaMu	4.9	4.1	n/a	n/a	3.8	4.6	4.7	1.6
SVHE 2006-OPT2 M7	OptionOne	6.0	4.6	0.3	0.2	3.4	3.3	3.5	1.9
CWL 2005-BC5 B	Countrywide	4.7	3.0	0.9	2.1	3.6	5.2	2.4	1.0
CARR 2006-NC2 M9	NewCentury	5.42	4.45	0.11	0.04	3.64	3.34	3.40	1.08
JPMAC 2006-NC1 M9	Chase	5.03	3.80	0.77	0.99	5.36	5.61	2.58	0.59
JPMAC 2006-NC2 M9	Chase	5.52	4.50	0.30	0.00	1.93	2.84	1.68	0.20
MABS 2005-NC2 M8	Ocwen	6.43	4.75	0.68	1.62	2.79	3.72	4.86	2.49
NHELI 2006-HE2 M9	Ocwen	6.72	5.25	0.51	0.59	5.62	6.60	7.59	3.37
MSAC 2005-HE6 B2	Chase	7.1	5.0	1.4	1.7	3.9	3.6	2.2	1.0
ACE 2006-HE4 M9	Ocwen	4.2	4.0	0.1	0.1	2.9	6.1	4.8	1.6
FHLT 2006-C M9	Fremont	4.3	4.0	0.2	0.0	2.4	3.6	3.2	1.0
ACE 2006-OP1 M8	OptionOne	5.9	4.7	0.3	0.4	3.0	4.2	3.5	1.9
ARSI 2006-W4 M9	Ameriquest	3.9	3.1	0.4	1.2	7.2	3.7	5.2	2.9
ABSHE 2006-HE2 M9	HomeEquity	3.96	3.10	1.04	1.22	5.61	4.83	3.27	1.17
IXIS 2006-HE2 B3	Saxon	3.54	2.90	0.44	1.60	6.39	2.97	3.87	1.34
MLMI 2006-FM1 B2	Wilshire	5.47	4.55	0.42	0.56	6.12	6.32	5.21	1.85
NCHET 2006-1 M9	NewCentury	3.44	2.80	0.70	0.68	5.36	3.17	3.98	2.22
SVHE 2005-DO1 M8	Countrywide	9.29	4.85	2.06	2.78	4.16	5.94	3.71	1.40
SASC 2006-NC1 M9	WellsFargo	3.9	3.2	0.5	0.9	5.2	4.3	4.5	1.7
CWL 2006-1 MV8	Countrywide	4.8	3.6	0.3	0.6	1.1	3.1	2.2	1.8
MABS 2006-AM2 M8	WellsFargo	6.0	5.2	0.9	0.4	5.9	5.4	3.9	1.1
NCHET 2006-2 M9	NewCentury	3.9	3.5	0.4	0.2	2.8	3.2	3.6	1.8
SAIL 2006-BNC3 M7	Chase	5.1	4.6	0.1	0.0	2.3	4.5	3.3	1.0
CWL 2005-14 M8	Countrywide	5.92	4.35	0.63	1.54	3.37	4.30	2.68	1.07
MSAC 2005-HE5 B2	Countrywide	7.62	4.97	1.59	2.13	4.59	4.84	2.56	1.04
FMIC 2006-2 M8	Chase	5.53	5.20	0.35	0.18	3.35	4.72	2.27	0.97
HEAT 2006-6 M8	SelectPortfolio	5.41	4.85	0.23	0.08	3.34	4.09	2.79	0.80
MLMI 2006-MLN1 B2	MortgageLenders	5.39	5.10	0.08	0.00	0.37	4.94	3.68	1.21

Source: Bloomberg, Intex, Prospectuses; Current data used where available

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VI. Comparison of Levered RMBS Structures

GS MBS-E-000892582

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Comparison of Levered RMBS Structures

Transaction Variant Summary

- Given that there are a variety of products allowing investors to take levered exposure to RMBS, it is important to understand structural similarities and differences
- We will consider three distinct types of transactions in this comparison:

NAME	GENERAL DESCRIPTION
Cashflow CDO	Fully issued transaction in which a selection agent or third party collateral manager selects the assets to be repackaged through CDO. Cash proceeds from collateral assets flow through a waterfall to pay the issued Notes, which are broadly syndicated.
Bespoke Transaction	Customized transaction negotiated between the correlation desk and a "sponsor" investor/ portfolio manager, who generally takes credit risk at one or more layers of the capital structure. Layers of risk not assumed by "sponsor" investor/ portfolio manager are either hedged by the structured product correlation desk or distributed in subsequent offerings.
Tranched ABX	Standardized ABX tranche trading referencing both the Baa2 and Baa3 variants of the on-the-run and immediately off-the-run ABX.HE indices. The product has sponsorship from all ABX dealers and uses a market standard confirm.

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Comparison of Levered RMBS Structures

Transaction Variant Comparison

- Anderson is a cashflow CDO

	Cashflow CDO	Bespoke Transaction	Tranched ABX
Type	Cashflow Structured Product CDO	Structured Product Correlation Trade	Structured Product Correlation Trade
Assets	Cash Bonds or Single-Name CDS	Tranched CDS	Tranched CDS
Amortizations	Modified Sequential	Varies	Sequential
Callability	NC3 @ Option of Majority of Equity Holders	NC3 @ Option of Protection Buyer	No Call Rights
Cashflow Waterfall / Triggers	Yes	No	No
Manager	Varies	Varies	No
PIKable	Single-A Debt and Below	No	No
Trading / Reinvestment Period or Static	*Managed Deals*:Trading/Reinvestment *Defensively Managed:* Trading (only credit sales) *Static:* Liquidation after an asset downgrade	Static / Revolving	Static
Standardized Documentation	No	No	Yes
Transparent Marking / Market Making	No	No	Yes

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Comparison of Levered RMBS Structures

Transaction Variant Comparison (Continued)

	Cashflow CDO	Bespoke Transaction	Tranched ABX
Typical Number of Obligors in Collateral / Reference Portfolio	100+	70+	40
Non-Dollar Offerings	No	Yes	No
Customizability at Different Layers of Capital Structure	No	Yes	No
Marking Policy	Bid for $1mm Original Face	Bid for $1mm Original Face	Mid-Market Based on Two-Way Flows
Factors Affecting First Dollar of Loss Breakeven	Losses, loss timing, interest rates, collateral ratings and other features	Losses Only	Losses Only
Deleveraging Risk, Intererest Rate Mismatch Risk and Interest Shortfall / Available Funds Cap Risk	Borne by Equity and Potentially Rated Debt If Severe	Borne by Structured Product Correlation Book	Borne by Structured Product Correlation Book

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Comparison of Levered RMBS Structures

Comparison of Key Structural Differences

Feature	Alternatives	Description	Comment*
Portfolio Amortizations	Sequential	Amortizations allocated sequentially	Best for senior debt holders, worst for equity holders
	Modified Sequential	Amortizations allocated sequentially to each tranche until the target OC ratio (set at a level greater than initial OC ratio) is reached, then amortizations are allocated to subordinate tranche	Generally used for non-sequential GS transactions
	Modified Pro-Rata	Amortizations allocated in a pro-rata fashion until total portfolio amortizations total 50% of initial balance	Worst for senior debt holders, best for equity holders
Callability	No Call	Transaction may not be optionally terminated in part or in whole	Best for debt holders
	Equity Call	Transaction may be terminated in whole after the non-call period given a majority vote of the equity holders	
	Tranche by Tranche	Transaction may be terminated either in part or in whole at the option of the protection buyer	Worst for debt holders
Triggers	Yes	Built-in mechanism that diverts cashflows from equity and potentially junior debt to senior debt should overcollateralization and/or interest coverage metrics underperform initial expectations	Generally good for repayment of debt; can be detrimental to junior debt holders if performance metrics deteriorate too quickly
	No	No cashflow diversion based on metric underperformance	Simple to model when compared to transactions with triggers; debt cashflows only reduced when subordination has fully eroded

*Assumes all else equal

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VII. Equity Yield Scenarios

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Equity Yield Profile – Interest Rate Sensitivity

LIBOR Interest Rate Sensitivity [1,2]
(Assuming 0.0% CDR, 8 Year Auction Call)

	-200 bps	-100 bps	Forward LIBOR	+100 bps	+200 bps
Equity Yield	21.3%	22.7%	24.1%	25.6%	27.0%

1 Interest rate shifts occur immediately upon Closing Date.
2 All assumptions are based on the Modeling Assumptions except for LIBOR rates as specified in the tables. See "Modeling Assumptions."

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Equity Yield Profile – Prepayment Sensitivity

Prepayment Rate Sensitivity [1,2,3,4]
(Assuming 0.0% CDR, 8 Year Auction Call)

	Fast Case Prepayment Scenario[2,4]	Base Case Prepayment Scenario[1,4]	Slow Case Prepayment Scenario[3,4]
Equity Yield	23.0%	24.1%	27.8%

1 Base Case Prepayment Scenario assumes: pricing prepayment speed
2 Fast Case Prepayment Scenario assumes: 150% of the pricing prepayment speed
3 Slow Case Prepayment Scenario assumes: 50% of the pricing prepayment speed
4 See "Modeling Assumptions" for additional assumptions used.

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Equity Yield Profile – Option Call Sensitivity

Option Call Sensitivity [1]
(Assuming 0.0% CDR)

Call Year:	3	4	5	6	7	8
Equity Yield (Assets called at 0 bps tighter)	28.1%	28.4%	27.3%	25.8%	24.5%	24.1%
Equity Yield (Assets called at 20 bps tighter)	29.4%	28.9%	27.5%	25.8%	24.5%	24.1%
Equity Yield (Assets called at 40 bps tighter)	30.8%	29.4%	27.6%	25.9%	24.5%	24.1%
Equity Yield (Assets called at 60 bps tighter)	32.1%	29.9%	27.8%	25.9%	24.5%	24.1%
Equity Yield (Assets called at 80 bps tighter)	33.3%	30.3%	28.0%	25.9%	24.5%	24.1%
Equity Yield (Assets called at 100 bps tighter)	34.6%	30.8%	28.1%	26.0%	24.5%	24.1%

[1] All assumptions are based on the Modeling Assumptions except for call dates and spread tightening as specified in the tables. See "Modeling Assumptions."

GS MBS-E-000892590

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VII. Modeling Assumptions

Note: The information in this section is preliminary and subject to change

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Modeling Assumptions

Assumptions applicable to modeling runs (there can be no assurance that the transaction will reflect these assumptions):

Liability Structure	Par
Class S Notes	$3.9 MM
Class A-1 Notes	$300.0 MM
Class A-2 Notes	$75.0 MM
Class B Notes	$40.0 MM
Class C Notes	$35.0 MM
Class D Notes	$28.5 MM
Class E Notes	$6.0 MM
Income Notes	$15.0 MM

- LIBOR rates are based on the forward curve as of February 20, 2007.
- The Equity yields are calculated using the XIRR function in Microsoft Excel.
- The Closing Date is May 12, 2007; the first Payment Date is October 12, 2007.
- The CDO is 100% invested at the Closing Date.
- Coupon and margin over LIBOR are based on the portfolio composition as of February 20, 2007 and are calculated based on the weighted average expected coupon and spread on the projected remaining asset pool outstanding during each period.
- Expenses are paid at the end of each period at 4.125 bps per annum of the outstanding collateral balance.

Potential investors should review the final Offering Circular relating to the Preferred Shares, including the descriptions of Risk Factors contained in such Offering Circular prior to making a decision to invest in the Income Notes. The Offering Circular will supersede this document in its entirety.

GS MBS-E-000892592

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Modeling Assumptions

Assumptions applicable to modeling runs (there can be no assurance that the transaction will reflect these assumptions):

- Any sale proceeds and scheduled and unscheduled Notional Reductions will be used, first, to redeem the Class A Notes until the Senior Overcollateralization ratio reaches [136.7%], second, to redeem the Class B Notes until the Class B Note Overcollateralization reaches [122.5%], third, to redeem the Class C Notes until the Class C Note Overcollateralization reaches [112.2%], fourth, to redeem the Class D Notes until Class D Note Overcollateralization reaches [105.8%], fifth to redeem the Class E notes until the Class E Note Overcollateralization reaches [103.8%]. Once each respective target overcollateralization level is reached, proceeds are passed to the Income Notes. When the principal balance of Collateral Assets reaches $[200,000,000], the Notes remaining at that point are amortized sequentially.
- Class A/B OC Test level is [116.0%], Class C OC Test level is [107.2%], the Class D OC Test level is [103.00%], and the Class E OC Test level is [101.4%].
- Payments to the Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes are made on the 12th of each month; payments to the Income Notes are made on the 12th day of every April, July, October, and January.
- All proceeds from collateral are assumed to be received 12 days prior to each payment date.
- While held in cash, all proceeds from collateral are assumed to earn a per annum rate of 1mL-25bps.
- No trading gains or call premiums are assumed.
- Defaults commence at the end of month 12 and continue through the life of the transaction.
- Recoveries are realized immediately upon default. The assumed recovery rate is 35%

Potential investors should review the Offering Circular relating to the Preferred Shares, including the descriptions of Risk Factors contained in such Offering Circular prior to making a decision to invest in the Income Notes. The Offering Circular will supersede this document in entirety.

GS MBS-E-000892593

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Appendix A – Portfolio Asset List

Note: The information in this section is preliminary and subject to change

GS MBS-E-000892594

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Portfolio Composition[1]

Comprehensive Collateral Asset List:

CUSIP	Asset Name	Original Face	Factor	Current Face	Moody's	S&P	Fitch	Avg Life	Asset Type
64352VLA7	NCHET 2005-2 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	2.53	RMBS Subprime
03072SM85	AMSI 2005-R8 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB+	3.48	RMBS Subprime
61744CPQ3	MSAC 2005-NC2 B3	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.61	RMBS Subprime
61744CYK6	MSAC 2006-NC1 B3	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.90	RMBS Subprime
64352VKJ9	NCHET 2005-1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.22	RMBS Subprime
03072SV93	AMSI 2005-R11 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	BBB	3.97	RMBS Subprime
04541GQH8	ABSHE 2005-HE2 M7	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.20	RMBS Subprime
17307GSS8	CMLTI 2005-OPT3 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.24	RMBS Subprime
46629BBB4	JPMAC 2006-CW2 MV9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.12	RMBS Subprime
61744CKW5	MSAC 2005-HE1 B3	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.17	RMBS Subprime
61744CNK8	MSAC 2005-HE2 B3	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.57	RMBS Subprime
65106AAW3	NCMT 2006-1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	-	4.32	RMBS Subprime
172983AN8	CMLTI 2006-NC1 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.67	RMBS Subprime
813765AH7	SABR 2006-FR3 B2	5,000,000	1.000	5,000,000	Baa2	BBB	BBB+	4.69	RMBS Subprime
83611MMT2	SVHE 2006-OPT2 M7	5,000,000	1.000	5,000,000	Baa2	A-	-	3.43	RMBS Subprime
126670NN4	CWL 2005-BC5 B	5,000,000	1.000	5,000,000	Baa3	BBB	-	3.76	RMBS Subprime
14453FAN9	CARR 2006-NC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.55	RMBS Subprime
46626LJZ4	JPMAC 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.97	RMBS Subprime
46629FAN0	JPMAC 2006-NC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.02	RMBS Subprime
65536MAN7	NHELI 2006-HE2 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB-	3.51	RMBS Subprime
040104TS0	ARSI 2006-W4 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.86	RMBS Subprime
59021AAM0	MLMI 2006-FM1 B2	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.67	RMBS Subprime
83611MEE4	SVHE 2005-DO1 M8	5,000,000	1.000	5,000,000	Baa2	A-	BBB+	3.00	RMBS Subprime
86360PAR8	SASC 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.06	RMBS Subprime
126670UD8	CWL 2006-1 MV8	5,000,000	1.000	5,000,000	Baa2	A-	-	3.74	RMBS Subprime
57645FAS6	MABS 2006-AM2 M8	5,000,000	1.000	5,000,000	Baa2	-	-	3.73	RMBS Subprime
64360YAM7	NCHET 2006-2 M9	5,000,000	1.000	5,000,000	Baa2	BBB-	-	4.03	RMBS Subprime
86361KAM9	SAIL 2006-BNC3 M7	5,000,000	1.000	5,000,000	Baa2	BBB	BBB	4.36	RMBS Subprime
126670LW6	CWL 2005-14 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.65	RMBS Subprime
59023AAN6	MLMI 2006-MLN1 B2	5,000,000	1.000	5,000,000	Baa2	BBB+	-	4.19	RMBS Subprime

[1] Portfolio as of February 22, 2007

GS MBS-E-000892595

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Portfolio Composition[1]

Comprehensive Collateral Asset List:

CUSIP	Asset Name	Original Face	Factor	Current Face	Moody's	S&P	Fitch	Avg Life	Asset Type
004375FE6	ACCR 2006-1 M8	5,000,000	1.000	5,000,000	Baa2	BBB	-	3.86	RMBS Midprime
40430HEH7	HASC 2006-OPT2 M8	5,000,000	1.000	5,000,000	Baa2	BBB+	BBB+	3.77	RMBS Midprime
59020U3N3	MLMI 2006-HE1 B2A	5,000,000	1.000	5,000,000	Baa2	BBB+	-	3.55	RMBS Midprime
004421VC4	ACE 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	-	3.58	RMBS Midprime
144531BK5	CARR 2005-NC1 M8	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.72	RMBS Midprime
22237JAP2	CWL 2006-BC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.61	RMBS Midprime
64352VLS8	NCHET 2005-3 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	2.77	RMBS Midprime
76112BL24	RAMP 2005-EFC6 M9	5,000,000	1.000	5,000,000	Baa3	BBB	-	4.40	RMBS Midprime
64352VNB3	NCHET 2005-4 M8	5,000,000	1.000	5,000,000	Baa2	BBB	BBB	2.99	RMBS Midprime
004421PY3	ACE 2005-HE4 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.13	RMBS Midprime
03072ST62	AMSI 2005-R10 M9	5,000,000	1.000	5,000,000	Baa3	BBB	BBB	3.99	RMBS Midprime
144531FG0	CARR 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	BBB-	3.77	RMBS Midprime
362463AP6	GSAMP 2006-NC2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.66	RMBS Midprime
40430HDN5	HASC 2006-OPT1 M9	5,000,000	1.000	5,000,000	Baa3	BBB+	BBB+	3.67	RMBS Midprime
40430HFA1	HASC 2006-NC1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.10	RMBS Midprime
46626LGQ7	JPMAC 2006-HE1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	4.45	RMBS Midprime
35729QAN8	FHLT 2006-B M8	5,000,000	1.000	5,000,000	Baa2	BBB	BBB+	4.19	RMBS Midprime
93934JAN4	WMABS 2006-HE2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	-	3.67	RMBS Midprime
57643LMX1	MABS 2005-NC2 M8	5,000,000	1.000	5,000,000	Baa2	A+	BBB+	2.96	RMBS Midprime
61744CWE2	MSAC 2005-HE6 B2	5,000,000	1.000	5,000,000	Baa2	BBB+	BBB+	3.80	RMBS Midprime
00442BAP6	ACE 2006-HE4 M9	5,000,000	1.000	5,000,000	Baa3	BBB	-	4.70	RMBS Midprime
35729TAP7	FHLT 2006-C M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB	4.07	RMBS Midprime
00442PAP5	ACE 2006-OP1 M8	5,000,000	1.000	5,000,000	Baa2	BBB+	-	3.83	RMBS Midprime
04541GWQ1	ABSHE 2006-HE2 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.54	RMBS Midprime
46602WAN4	IXIS 2006-HE2 B3	5,000,000	1.000	5,000,000	Baa3	BBB	BBB-	4.17	RMBS Midprime
64352VRB9	NCHET 2006-1 M9	5,000,000	1.000	5,000,000	Baa3	BBB-	BBB-	3.69	RMBS Midprime
61744CUZ7	MSAC 2005-HE5 B2	5,000,000	1.000	5,000,000	Baa2	BBB+	BBB+	3.54	RMBS Midprime
31659EAM0	FMIC 2006-2 M8	5,000,000	1.000	5,000,000	Baa2	BBB+	-	3.35	RMBS Midprime
437097AP3	HEAT 2006-6 M8	5,000,000	1.000	5,000,000	Baa2	A-	A-	4.06	RMBS Midprime
61744CMS2	MSAC 2005-NC1 B2	5,000,000	1.000	5,000,000	Baa2	BBB	BBB	2.42	RMBS Subprime
92534FAE8	VRGO 2006-1A B1	5,000,000	1.000	5,000,000	Baa1	BBB+	-	6.61	RMBS CDO

[1] *Portfolio as of February 22, 2007*

GS MBS-E-000892596

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Appendix B – Goldman Sachs Contact Information

Confidential Treatment Requested by Goldman Sachs

Anderson Mezzanine Funding 2007-1, Ltd.

Team Contact Information

Goldman, Sachs & Co. – Structuring and Placement Agent

Structured Product CDOs – Structuring, Marketing, and Principal Investments

Peter Ostrem, Managing Director	(212) 357-4617
Matt Bieber, Vice President	(212) 357-9193
Michele Chitson, Vice President	(212) 902-2881
John X. Li, Associate	(212) 902-2592
Shelly Lin, Analyst	(212) 357-9944
Eric Siegel, Analyst	(212) 357-9753

Syndication

Bunty Bohra, Managing Director	(212) 902-7645
Scott Wisenbaker, Vice President	(212) 902-2858
Omar Chaudhary, Vice President	+81 (3) 6437-7198
Mitchell Resnick, Executive Director	+44 (20) 7774-3068
Tetsuya Ishikawa, Associate	+44 (20) 7774-1025

GS MBS-E-000892598

From: Bieber, Matthew G.
Sent: Wednesday, March 28, 2007 3:49 PM
To: Steffelin, Edward
Subject: RE: ACA Meeting

"ANDY" is Bberg ticker for Anderson. Let me come back with a few times on Monday. Would be good to have Wenbo there.

-----Original Message-----
From: Steffelin, Edward [mailto:esteffelin@gsc.com]
Sent: Wednesday, March 28, 2007 4:37 PM
To: Bieber, Matthew G.
Subject: Re: ACA Meeting

Who is ANDY - monday we are pretty open and wenbo is out on friday

---
Edward Steffelin - esteffelin@gscpartners.com GSC Group
12 East 49th Street, Suite 3200
New York, New York 10017
212-884-6190
212-884-6184 FAX

-----Original Message-----
From: Bieber, Matthew G. <matthew.bieber@gs.com>
To: Steffelin, Edward
Sent: Wed Mar 28 15:36:03 2007
Subject: ACA Meeting

They came back and asked to do meeting in person. Doesn't have to be this Friday, if that's no good for you - they can also do early next week. Questions on ANDY - but also want to do manager due diligence. They've heard the GSC team shows well - so want to meet you in person.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2344

Confidential Treatment Requested by Goldm

GS MBS-E-014419176

From: Lin, Shelly
Sent: Thursday, January 03, 2008 6:08 PM
To: Case, Benjamin
Subject: RE: LAA Deal Summary for Dan

Attachments: Deal Summary.xls

Please use this version -- the other one had external links to the TAP output. This version is saved in the folder.



Deal Summary.xls

From: Lin, Shelly
Sent: Thursday, January 03, 2008 6:06 PM
To: Case, Benjamin
Subject: LAA Deal Summary for Dan

See attached. It's also saved in the Liquidation Agent Information Folder:
V:\FICCS\Market_Research_NT\Mortgage Credit Derivatives\Liquidation Agent Information\Deal Summary

I'm still trying to get marks for the cash bonds in the Hout Bay and Hudson High Grade. I'll send you an updated spreadsheet when I have the levels.

<< File: Deal Summary.xls >>

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2353

Permanent Subcommittee on Investigations
Document originally produced in excel format; reformatted/margins modified for readability and printing purposes by the Subcommittee.
Original document retained in the Subcommittee files.

Deal Summary

Deal Name	Original Asset Balance	Current Asset Balance	Credit Risk Assets (#)	Credit Risk Assets ($)	Credit Risk Assets (%)	Credit Risk Definition
Anderson Mezzaning Funding 2007-1	305,000,000	305,000,000	17	85,000,000	27.87%	Below B- or B3
Hout Bay 2006-1	1,500,000,000	1,448,848,456	9	41,799,000	2.88%	Below BBB- or Baa3
Hudson High Grade Funding 2006-1	1,500,000,000	1,474,567,149	10	71,397,000	4.84%	Below BBB- or Baa3
Hudson Mezzanine Funding 2006-1	2,000,000,000	1,990,828,749	44	625,000,000	31.39%	Below BB- or Ba3
Hudson Mezzanine Funding 2006-2	400,000,000	400,000,000	24	120,000,000	30.00%	Below BB- or Ba3

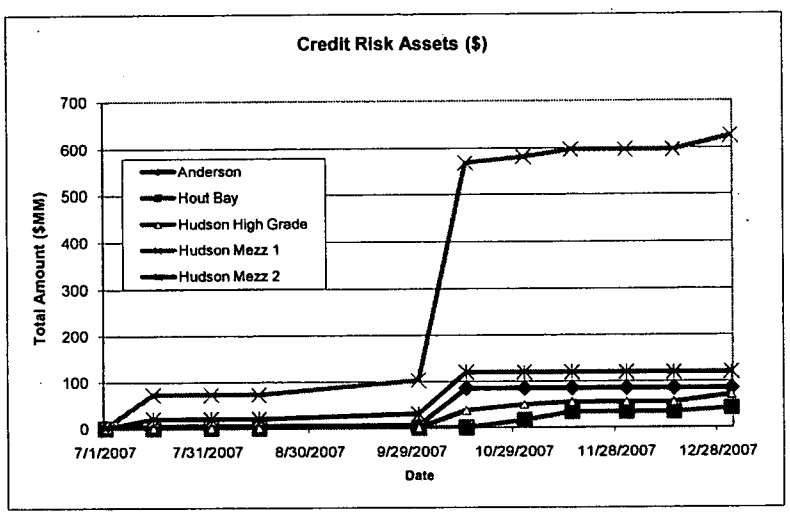
Credit Risk Assets ($) - Time Series

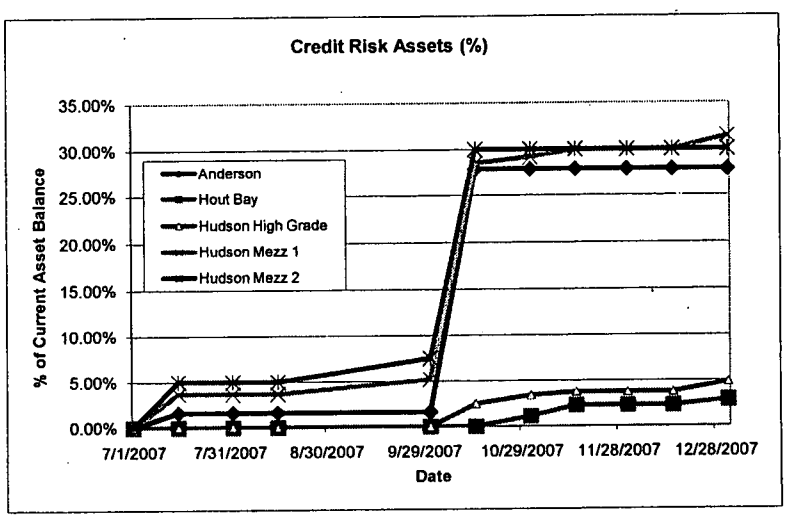
As of:	Anderson	Hout Bay	Hudson High Grade	Hudson Mezz 1	Hudson Mezz 2
1-Jul-07	0	0	0	0	0
15-Jul-07	5,000,000	0	0	73,000,000	20,000,000
1-Aug-07	5,000,000	0	0	73,000,000	20,000,000
15-Aug-07	5,000,000	0	0	73,000,000	20,000,000
1-Oct-07	5,000,000	0	0	103,000,000	30,000,000
15-Oct-07	85,000,000	0	37,000,000	568,000,000	120,000,000
1-Nov-07	85,000,000	16,000,000	50,050,000	581,000,000	120,000,000
15-Nov-07	85,000,000	33,375,000	55,434,000	596,500,000	120,000,000
1-Dec-07	85,000,000	33,375,000	55,434,000	596,500,000	120,000,000
15-Dec-07	85,000,000	33,375,000	55,434,000	596,500,000	120,000,000
1-Jan-08	85,000,000	41,799,000	71,397,000	625,000,000	120,000,000

Credit Risk Assets (%) - Time Series

As % of current asset balance

As of:	Anderson	Hout Bay	Hudson High Grade	Hudson Mezz 1	Hudson Mezz 2
1-Jul-07	0.00%	0.00%	0.00%	0.00%	0.00%
15-Jul-07	1.64%	0.00%	0.00%	3.67%	5.00%
1-Aug-07	1.64%	0.00%	0.00%	3.67%	5.00%
15-Aug-07	1.64%	0.00%	0.00%	3.67%	5.00%
1-Oct-07	1.64%	0.00%	0.00%	5.17%	7.50%
15-Oct-07	27.87%	0.00%	2.51%	28.53%	30.00%
1-Nov-07	27.87%	1.10%	3.39%	29.18%	30.00%
15-Nov-07	27.87%	2.30%	3.76%	29.96%	30.00%
1-Dec-07	27.87%	2.30%	3.76%	29.96%	30.00%
15-Dec-07	27.87%	2.30%	3.76%	29.96%	30.00%
1-Jan-08	27.87%	2.88%	4.84%	31.39%	30.00%





Permanent Subcommittee on Investigations
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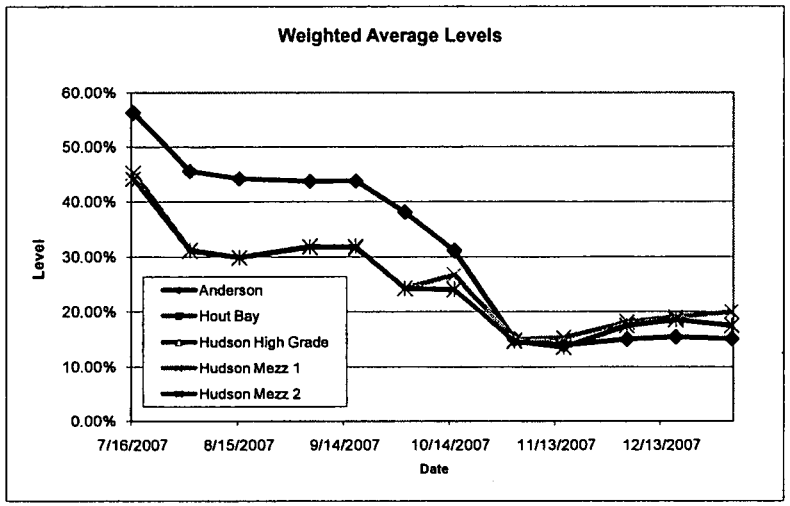
Moody's Recovery Rates

Residential Mortgage Backed Securities

Tranche %	Aa	A	Baa	Ba	B
5<x<=10	55.00%	45.00%	40.00%	30.00%	20.00%
2<x<=5	45.00%	40.00%	35.00%	25.00%	15.00%
x<=2	35.00%	30.00%	25.00%	15.00%	10.00%

Time Series - Weighted Average Levels

As of:	Anderson	Hout Bay	Hudson High Grade	Hudson Mezz 1	Hudson Mezz 2
16-Jul-07	56.30%			45.36%	44.19%
1-Aug-07	45.61%			31.24%	31.08%
15-Aug-07	44.20%			29.89%	29.84%
4-Sep-07	43.71%			31.89%	31.75%
17-Sep-07	43.78%			31.54%	31.80%
1-Oct-07	38.05%			24.33%	24.29%
15-Oct-07	31.05%			26.67%	24.08%
1-Nov-07	15.05%			15.02%	14.65%
15-Nov-07	14.01%			15.34%	13.57%
3-Dec-07	15.05%			18.15%	17.53%
17-Dec-07	15.43%			19.07%	18.55%
2-Jan-08	15.10%			19.97%	17.49%



= Redacted by the Permanent Subcommittee on Investigations
Footnote Exhibit 8 Page 1 of 8

Deal Name	CUSIP	Name	Orig Face	Factor	Cur Face	Closing Mdy	Closing SP	Cur Mdy	Cur SP	1st Cr. Risk Rtg	MDY Credit Risk Date	SP Credit Risk Date	Credit Risk Date	CDS External Trade Id	10-Jul	16-Jul	1-Aug	15-Aug	5-Sep	17-Sep						
Anderson Mezzanine Funding 2007-1	040104TB0	ARSI 2006-W4 M9	5,000,000	1.00	5,000,000	Baa3	BBB	C	CCC		10/11/2007	7/12/2007	7/13/2007	SDB98164	57.39%	56.30%	45.61%	44.20%	43.71%	43.78%	38.05%	32.60%	13.76%	13.24%	13.74%	13.94%	13.99%
Anderson Mezzanine Funding 2007-1	46802WAN4	IXIS 2006-HE2 B3	5,000,000	1.00	5,000,000	Baa3	BBB	C	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98164	64.29%	62.93%	50.99%	49.16%	38.85%	38.97%	33.35%	28.06%	10.13%	9.62%	10.11%	10.29%	10.29%
Anderson Mezzanine Funding 2007-1	64352VRB9	NCHET 2006-1 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	C	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98164	65.66%	64.29%	52.08%	50.37%	50.05%	50.21%	42.01%	38.60%	15.66%	15.02%	16.24%	16.56%	16.46%
Anderson Mezzanine Funding 2007-1	86360PAR8	SASC 2006-NC1 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	C	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98164	63.57%	62.15%	49.62%	48.06%	34.35%	34.43%	28.78%	23.43%	10.31%	9.80%	10.28%	10.47%	10.50%
Anderson Mezzanine Funding 2007-1	362463AP6	GSAMP 2006-NC2 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Ca	B		10/11/2007		10/11/2007	SDB98164	65.30%	63.92%	51.66%	50.13%	38.50%	38.66%	30.44%	25.00%	8.55%	7.92%	9.13%	9.46%	9.38%
Anderson Mezzanine Funding 2007-1	172983AN8	CMLTI 2006-NC1 M8	5,000,000	1.00	5,000,000	Baa2	BBB	Ca	B		10/11/2007		10/11/2007	SDB98164	66.34%	64.80%	54.54%	52.14%	47.60%	45.27%	36.92%	31.35%	16.63%	8.95%	10.44%	12.03%	9.90%
Anderson Mezzanine Funding 2007-1	35729QAN8	FHLT 2006-B M8	5,000,000	1.00	5,000,000	Baa2	BBB	Ca	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98164	73.07%	71.22%	59.18%	56.83%	45.61%	45.91%	43.47%	27.66%	17.63%	17.58%	18.68%	19.05%	18.39%
Anderson Mezzanine Funding 2007-1	004425AP6	ACE 2006-HE4 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Ca	B		10/11/2007		10/11/2007	SDB98164	63.68%	62.26%	49.64%	47.93%	38.48%	38.16%	36.19%	33.81%	14.33%	11.19%	11.62%	11.74%	11.63%
Anderson Mezzanine Funding 2007-1	35729TAP7	FHLT 2006-C M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Ca	BB		10/11/2007		10/11/2007	SDB98164	66.34%	64.83%	51.69%	50.22%	43.46%	43.11%	41.12%	38.73%	16.28%	16.46%	16.88%	17.00%	16.87%
Anderson Mezzanine Funding 2007-1	04541GWQ1	ABSHE 2006-HE2 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Ca	BB		10/11/2007		10/11/2007	SDB98164	63.64%	62.37%	50.82%	49.22%	48.55%	48.68%	43.01%	37.64%	12.41%	11.89%	12.38%	12.58%	12.60%
Anderson Mezzanine Funding 2007-1	59021AAM0	MLMI 2006-FM1 B2	5,000,000	1.00	5,000,000	Baa2	BBB	Ca	B		10/11/2007		10/11/2007	SDB98164	72.64%	71.13%	59.93%	57.74%	39.31%	37.39%	30.67%	26.13%	13.38%	13.13%	14.11%	15.21%	13.82%
Anderson Mezzanine Funding 2007-1	64360YAM7	NCHET 2006-2 M9	5,000,000	1.00	5,000,000	Baa2	BBB-	Ca	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98164	62.74%	61.38%	49.40%	47.74%	38.44%	38.64%	42.07%	36.80%	16.67%	15.22%	17.41%	17.71%	17.58%
Anderson Mezzanine Funding 2007-1	65536MAN7	NHELI 2006-HE2 M9	5,000,000	1.00	5,000,000	Baa3	BBB	Caa1	BBB		10/11/2007		10/11/2007	SDB98164	70.87%	69.41%	57.87%	56.27%	38.86%	39.04%	30.90%	25.54%	19.37%	18.72%	19.93%	20.24%	20.15%
Anderson Mezzanine Funding 2007-1	93934JAN4	WMABS 2006-HE2 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Caa2	BBB-		10/11/2007		10/11/2007	SDB98164	77.86%	76.20%	62.25%	59.72%	46.84%	33.86%	25.78%	32.06%	19.08%	18.42%	19.64%	19.94%	19.84%
Anderson Mezzanine Funding 2007-1	40430HFA1	NASC 2006-NC1 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Caa3	B+		10/11/2007		10/11/2007	SDB98164	60.46%	59.28%	47.91%	46.34%	43.83%	44.05%	35.97%	30.67%	14.14%	13.50%	18.30%	18.60%	16.50%
Anderson Mezzanine Funding 2007-1	81376SAH7	SABR 2006-FR3 B2	5,000,000	1.00	5,000,000	Baa2	BBB	Caa3	B		10/11/2007		10/11/2007	SDB98164	77.37%	75.49%	63.55%	61.21%	39.87%	40.18%	37.75%	34.77%	20.30%	20.24%	21.35%	21.71%	21.04%
Anderson Mezzanine Funding 2007-1	14453FAN9	CARR 2006-NC2 M9	5,000,000	1.00	5,000,000	Baa3	BBB-	Caa3	B		10/11/2007		10/11/2007	SDB98164	69.25%	67.99%	56.56%	54.61%	48.58%	40.35%	32.30%	27.02%	17.00%	16.35%	17.55%	17.85%	17.74%
Hout Bay 2006-1	[redacted]		6,000,000	1.00	6,000,000	A2	A	B2	BBB+		11/12/2007		11/12/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			4,000,000	1.00	4,000,000	A3	A	B2	BBB+		11/8/2007		11/8/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			3,150,000	1.00	3,150,000	A2	A	B3	A		11/12/2007		11/12/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			2,300,000	1.00	2,300,000	A3	A-	Ba1	BBB+		11/12/2007		11/12/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			4,424,000	1.00	4,424,000	A3	A	Ba1	BB			12/19/2007	12/19/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			4,000,000	1.00	4,000,000	A2	A	Ba1	BB			12/19/2007	12/19/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			1,925,000	1.00	1,925,000	A3	A-	Caa3	BBB-		11/12/2007		11/12/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hout Bay 2006-1			10,000,000	1.00	10,000,000	A3	A-	A3	BB			10/19/2007	10/19/2007	SDB20129	91.86%	90.87%	69.75%	68.80%	78.30%	78.58%	77.09%	72.31%	53.30%	52.62%	0.00%	53.42%	48.94%
Hout Bay 2006-1			8,000,000	1.00	8,000,000	A1	A+	Baa2	BB			10/19/2007	10/19/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			1,961,000	1.00	1,961,000	A3	A-	Ba3	BB+		11/8/2007	12/19/2007	11/8/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			15,000,000	1.00	15,000,000	A3	A-	Ba2	BB		10/11/2007	10/19/2007	10/11/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			10,000,000	1.00	10,000,000	A3	A	Ba2	A		10/11/2007		10/11/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			2,000,000	1.00	2,000,000	A2	AA	Ba1	AA		10/11/2007		10/11/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			1,961,000	1.00	1,961,000	A2	A	Ba1	A-		11/8/2007		11/8/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			1,462,000	1.00	1,462,000	A2	A	Ba1	BB		11/12/2007	12/19/2007	11/12/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			10,000,000	1.00	10,000,000	A2	AA-	B3	AA-		10/11/2007		10/11/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			3,155,000	1.00	3,155,000	Aa2	AA	Aa2*-	BB+			12/19/2007	12/19/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			13,050,000	1.00	13,050,000	A3	A+	A3	BB			10/19/2007	10/19/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson High Grade Funding 2006-1			12,808,000	1.00	12,808,000	Aa1	AA+	Aa3*-	B			12/20/2007	12/20/2007	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hudson Mezzanine Funding 2006-1	14453FAN9	CARR 2006-NC2 M9	13,000,000	1.00	13,000,000	Baa3	BBB-	Caa3	B		10/11/2007	10/19/2007	10/11/2007	SDB98087	69.09%	67.83%	56.42%	54.47%	48.45%	40.24%	32.20%	26.94%	16.93%	16.29%	17.48%	17.78%	17.67%
Hudson Mezzanine Funding 2006-1	12498QAN8	CBASS 2006-CB4 B3	13,000,000	1.00	13,000,000	Baa3	BBB	Caa3	BBB		10/11/2007		10/11/2007	SDB98087	86.71%	84.81%	69.55%	66.86%	57.07%	57.33%	47.65%	42.36%	21.96%	21.08%	22.06%	22.38%	22.24%
Hudson Mezzanine Funding 2006-1	316S9EAN8	FMIC 2006-2 M9	13,000,000	1.00	13,000,000	Baa3	BBB	Caa3	BBB		10/11/2007		10/11/2007	SDB98087	73.04%	71.49%	59.20%	57.36%	35.84%	35.50%	33.16%	30.42%	15.59%	15.82%	16.63%	16.73%	16.43%
Hudson Mezzanine Funding 2006-1	32027QAP1	FFML 2006-FF12 M9	13,000,000	1.00	13,000,000	Baa3	BBB-	Caa3	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98087	63.88%	62.28%	44.94%	42.99%	32.88%	32.52%	32.05%	27.62%	12.12%	12.30%	13.03%	13.15%	12.85%
Hudson Mezzanine Funding 2006-1	542514RW6	LBMLT 2006-1 M9	15,000,000	1.00	15,000,000	Baa3	BBB+	Ca	B	B1/B	7/10/2007	7/12/2007	7/10/2007	SDB98087	47.64%	46.15%	32.59%	31.52%	26.97%	26.90%	20.73%	16.91%	11.99%	11.62%	12.47%	12.83%	12.71%
Hudson Mezzanine Funding 2006-1	316S9TFJ9	FMIC 2006-1 M9	13,000,000	1.00	13,000,000	Baa3	BBB	Ca	BB		10/11/2007		10/11/2007	SDB98087	72.09%	70.87%	59.04%	57.27%	41.59%	41.78%	33.71%	28.45%	12.03%	11.40%	12.59%	20.06%	19.97%
Hudson Mezzanine Funding 2006-1	362463AP6	GSAMP 2006-NC2 M9	13,000,000	1.00	13,000,000	Baa3	BBB-	Ca	B		10/11/2007	10/19/2007	10/11/2007	SDB98087	63.36%	62.00%	49.97%	48.44%	37.04%	37.24%	29.21%	23.95%	8.09%	7.48%	8.64%	8.93%	8.62%
Hudson Mezzanine Funding 2006-1	61749KAP6	MSAC 2006-WMC2 B2	15,000,000	1.00	15,000,000	Baa2	BBB	C	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98087	47.73%	45.65%	32.90%	31.09%	29.02%	27.13%	19.94%	15.45%	11.17%	10.97%	14.60%	16.41%	13.97%
Hudson Mezzanine Funding 2006-1	86360WAM4	SAIL 2006-4 M7	15,000,000	1.00	15,000,000	Baa2	BBB	C	CCC		10/11/2007	7/12/2007	7/12/2007	SDB98087	42.22%	40.11%	27.66%	25.92%	26.01%	24.12%	16.93%	12.43%	11.16%	10.98%	14.61%	16.42%	13.98%
Hudson Mezzanine Funding 2006-1	61749KAQ6	MSAC 2006-WMC2 B3	15,000,000	1.00	15,000,000	Baa3	BBB-	C	CCC	B3/B	7/10/2007	7/12/2007	7/10/2007	SDB98087	45.78%	42.61%	30.74%	29.63%	23.99%	23.90%	14.25%	10.40%	6.91%	6.55%	12.47%	12.83%	12.71%
Hudson Mezzanine Funding 2006-1	86380WAN2	SAIL 2006-4 M8	15,000,000	1.00	15,000,000	Baa3	BBB-	C	CCC	B1/B	7/10/2007	8/9/2007	7/10/2007	SDB98087	40.69%	39.21%	26.38%	25.39%	20.95%	20.67%	14.69%	10.85%	6.92%	6.55%	12.49%	12.84%	12.73%
Hudson Mezzanine Funding 2006-1	86402CAN4	OOMLT 2006-2 M8	13,000,000	1.00	13,000,000	Baa2	BBB-	C	CCC	B	10/11/2007	7/12/2007	7/12/2007	SDB98087	62.25%	60.79%	40.00%	38.07%	39.11%	37.25%	30.65%	26.24%	15.80%	15.52%	16.50%	17.55%	16.17%
Hudson Mezzanine Funding 2006-1	542514RV8	LBMLT 2006-1 M8	15,000,000	1.00	15,000,000	Baa2	A-	B3*-	BBB-		10/11/2007		10/11/2007	SDB98087	53.72%	47.63%	35.47%	33.84%	29.01%	27.12%	19.93%	15.44%	11.17%	10.97%	14.60%	16.41%	13.97%
Hudson Mezzanine Funding 2006-1	045427AN1	CWL 2006-8 M9	15,000,000	1.00	15,000,000	Baa3	BBB-	B3*-	B+		10/11/2007	10/19/2007	10/11/2007	SDB98087	69.19%	63.26%	39.58%	38.28%	38.61%	38.46%	29.62%	24.20%	12.57%	11.94%	13.20%	13.55%	13.43%
Hudson Mezzanine Funding 2006-1	3623340J7	FFML 2006-FF4 B1	15,000,000	1.00	15,000,000	Baa3	BBB+	B3*-	BBB+		10/11/2007		10/11/2007	SDB98087	67.30%	61.37%	42.46%	41.03%	38.58%	38.43%	29.54%	24.16%	15.60%	14.97%	17.74%	18.10%	17.93%
Hudson Mezzanine Funding 2006-1	36244KAP0	GSAMP 2006-HE3 M9	15,000,000	1.00	15,000,000	Baa3	BBB+	B3*-	BBB+		10/11/2007		10/11/2007	SDB98087	64.41%	61.98%	43.11%	42.64%	40.56%	40.43%	31.60%	26.19%	17.61%	16.96%	19.38%	19.73%	19.61%
Hudson Mezzanine Funding 2006-1	04544PAN9	ABSHE 2006-HE5 M8	13,000,000	1.00	13,000,000	Baa2	BBB	B3*-	BBB		10/11/2007		10/11/2007	SDB98087	63.75%	62.24%	70.14%	67.72%	52.32%	52.80%	49.48%	45.46%	18.06%	17.81%	19.71%	20.25%	19.11%
Hudson Mezzanine Funding 2006-1	35729PPJ3	FHLT 2006-1 M7	13,000,000	1.00	13,000,000	Baa2	BBB+	B3*-	B		10/11/2007	10/19/2007	10/11/2007	SDB98087	73.79%	72.12%	61.25%	59.06%	48.11%	48.26%	39.65%	35.23%	20.80%	20.52%	21.50%	22.55%	21.17%
Hudson Mezzanine Funding 2006-1	40430KAP6	HASC 2006-OPT4 M7	13,000,000	1.00	13,000,000	Baa2	BBB	B3*-	BBB		10/11/2007		10/11/2007	SDB98087	67.11%	65.63%	55.41%	53.42%	48.09%	48.24%	39.63%	35.21%	15.83%	15.56%	16.53%	17.58%	16.21%
Hudson Mezzanine Funding 2006-1	320278AN4	FFML 2006-FF8 M9	13,000,000	1.00	13,000,000	Baa3	BBB-	B3*-	BB		10/11/2007		10/11/2007	SDB98087	67.05%	65.50%	49.51%	47.72%	43.43%	43.62%	35.58%	30.32%	13.95%	13.31%	14.50%	14.79%	14.69%
Hudson Mezzanine Funding 2006-1	9497EUAR6	WFHET 2006-1 M9	13,000,000	1.00	13,000,000	Baa3	BBB+	B3*-	BBB+		10/11/2007		10/11/2007	SDB98087	76.68%	68.52%	56.13%	53.75%	57.53%	57.78%	48.10%	42.62%	19.84%	19.08%	20.37%	20.71%	20.56%
Hudson Mezzanine Funding 2006-1	040104RR4	ARSI 2006-W1 M9	15,000,000	1.00	15,000,000	Baa3	BBB+	B3	BB+		10/11/2007		10/11/2007	SDB98087	52.37%	49.67%	37.55%	36.21%	36.57%	38.42%	29.59%	24.16%	13.58%	12.95%	21.92%	22.27%	22.15%
Hudson Mezzanine Funding 2006-1	07387UJA0	BSABS 2006-HE3 M9	15,000,000	1.00	15,000,000	Baa3	BBB-	B3	BBB-		10/11/2007		10/11/2007	SDB98087	67.33%	61.36%	43.22%	41.62%	45.63%	45.48%	38.68%	31.25%	16.62%	15.98%	20.90%	21.25%	21.13%
Hudson Mezzanine Funding 2006-1	617451FE4	MSC 2006-HE2 B3	15,000,000	1.00	15,000,000	Baa3	BBB	B3	BB		10/11/2007		10/11/2007	SDB98087	61.10%	55.49%	39.12%	37.69%	35.46%	35.40%	26.55%	21.15%	11.55%	10.92%	13.69%	14.04%	13.92%
Hudson Mezzanine Funding 2006-1	00437NAN2	ACCR 2006-2 M9	13,000,000	1.00	13,000,000	Baa3	BBB-	B3	BBB-		10/11/2007		10/11/2007	SDB98087	77.92%	76.09%	61.05%	58.96%	48.31%	48.51%	40.45%	35.19%	24.69%	24.00%	25.24%	25.54%	25.39%
Hudson Mezzanine Funding 2006-1	004421XQ1	ACE 2006-ASP2 M9	13,000,000	1.00	13,000,000	Baa3	A	B3	A		10/11/2007		10/11/2007	SDB98087	68.73%	67.24%	55.55%	53.66%	42.99%	43.19%	35.15%	29.88%	13.00%	12.36%	13.56%	13.85%	13.74%
Hudson Mezzanine Funding 2006-1	045427AM3	CWL 2006-8 M8	15,000,000	1.00	15,000,000	Baa2	BBB	B2	BBB-		10/11/2007		10/11/2007	SDB98087	70.70%	65.63%	47.54%	45.28%	42.98%	40.84%	31.65%	26.06%	12.17%	11.79%	15.32%	17.13%	14.69%
Hudson Mezzanine Funding 2006-1	3623340C2	FFML 2006-FF4 M8	15,000,000	1.00	15,000,000	Baa2	A-	B2	A-		10/11/2007		10/11/2007	SDB98087	76.01%	64.60%	46.15%	43.87%	42.97%	40.63%	31.84%	26.05%	16.70%	16.31%	19.84%	21.65%	19.21%
Hudson Mezzanine Funding 2006-1	437084VZ6	HEAT 2006-4 B1	15,000,000	1.00	15,000,000	Baa3	BBB	B2	BBB		10/11/2007		10/11/2007	SDB98087	68.51%	59.06%	44.03%	42.64%	45.62%	45.47%	36.65%	31.24%	17.62%	16.98%	20.90%	21.25%	21.12%
Hudson Mezzanine Funding 2006-1	751587AM2	RAMP 2006-NC2 M9	15,000,000	1.00	15,000,000	Baa3	BBB-	B2	BB		10/11/2007		10/11/2007	SDB98087	48.49%	44.77%	32.78%	31.69%	24.00%	23.85%	17.69%	13.85%	6.69%	6.53%	12.44%	12.80%	12.68%
Hudson Mezzanine Funding 2006-1	83812CAP4	SVHE 2006-OPT3 M9	15,000,000	1.00	15,000,000	Baa3	BBB-	B2	BB+		10/11/2007		10/11/2007	SDB98087	74.31%	68.11%	48.49%	47.23%	38.57%	38.43%	29.60%	24.18%	13.57%	12.94%	19.76%	20.12%	20.00%
Hudson Mezzanine Funding 2006-1	362334CB8	GSAA 06-3 B3	15,500,000	1.00	15,500,000	Baa3	BBB-	B2	B+		11/13/2007	12/19/2007	11/13/2007	SDB98087	90.41%	90.51%	75.75%	73.11%	68.98%	72.87%	72.95%	75.42%	68.35%	58.33%	62.14%	61.71%	54.30%
Hudson Mezzanine Funding 2006-1	57843LAE9	MABS 2005-NC2 M9	15,000,000	1.00	15,000,000	Baa3	A	B1	BBB		8/23/2007		8/23/2007	SDB98087	74.39%	68.69%	46.27%	44.54%	50.27%	50.64%	41.55%	35.75%	22.09%	17.95%	17.82%	18.66%	17.30%
Hudson Mezzanine Funding 2006-1	36244KAN5	GSAMP 2006-HE3 M8	15,000,000	1.00	15,000,000	Baa2	A-	B1	A-		10/11/2007		10/11/2007	SDB98087	72.28%	67.47%	50.41%	49.03%	45.97%	43.63%	34.64%	29.05%	18.70%	18.31%	21.84%	23.65%	21.21%
Hudson Mezzanine Funding 2006-1	617451FD6	MSC 2006-HE2 B2	15,000,000	1.00	15,000,000	Baa2	BBB+	B1	BBB+		10/11/2007		10/11/2007	SDB98087	63.31%	60.25%	42.89%	40.76%	39.94%	37.61%	28.62%	23.03%	12.67%	12.28%	15.81%	17.63%	15.18%
Hudson Mezzanine Funding 2006-1	46829LFW5	JPMAC 2006-FRE1 M9	15,000,000	1.00	15,000,000	Baa3	BBB-	B1	BBB-		10/11/2007		10/11/2007	SDB98087	70.33%	64.14%	49.31%	48.97%	40.40%	40.37%	31.51%	26.16%	15.57%	14.94%	20.87%	21.22%	21.10%
Hudson Mezzanine Funding 2006-1	57643LNC5	MABS 2006-NC1 M9	15,000,000	1.00	15,000,000	Baa3	BBB	B1	BB		10/11/2007		10/11/2007	SDB98087	63.14%	57.71%	41.33%	40.36%	35.51%	35.36%	26.47%	21.12%	13.55%	12.92%	17.13%	17.48%	17.36%
Hudson Mezzanine Funding 2006-1	63121PDP5	OWNIT 2006-2 B2	13,000,000	1.00	13,000,000	Baa2	A-	B1	A-		10/11/2007		10/11/2007	SDB98087	82.25%	80.57%	68.01%	65.23%	47.74%	45.45%	37.18%	31.67%	16.89%	16.47%	17.95%	19.52%	17.41%
Hudson Mezzanine Funding 2006-1	83611MMU9	SVHE 2006-OPT2 M8	13,000,000	1.00	13,000,000	Baa3	BBB+	B1	BBB+		10/11/2007		10/11/2007	SDB98087	77.76%	76.03%	63.23%	60.70%	53.04%	53.30%	43.61%	38.33%	19.90%	19.15%	20.43%	20.76%	20.62%
Hudson Mezzanine Funding 2006-1	38242D4C4	GSAA 2005-6 B2	15,500,000	1.00	15,500,000	Baa2	BBB	Baa2	B-			12/19/2007	12/19/2007	SDB98087	94.13%	94.18%	86.65%	84.00%	83.35%	87.57%	87.54%	89.69%	80.74%	80.76%	82.72%	80.77%	72.80%
Hudson Mezzanine Funding 2006-1	126673J94	ECR 2005-2 B	13,000,000	1.00	13,000,000	Baa3	BBB-	Baa3	B			12/21/2007	12/21/2007	SDB98087	90.90%	90.06%	77.96%	76.61%	72.05%	73.86%	66.26%	60.17%	51.81%	49.80%	48.05%	48.14%	46.27%
Hudson Mezzanine Funding 2006-1	86358EXE1	SAIL 2005-HE3 M8	15,000,000	1.00	15,000,000	Baa2	BBB+	Baa2	B			10/15/2007	10/15/2007	SDB98087	61.10%	56.85%	42.70%	40.50%	42.42%	44.81%	38.83%	33.64%	19.51%	11.39%	15.84%	19.86%	15.96%
Hudson Mezzanine Funding 2006-1	46829BBB4	JPMAC 2006-CW2 MV9	13,000,000	1.00	13,000,000	Baa3	BBB-	Ba3	B			10/19/2007	10/19/2007	SDB98087	80.66%	79.03%	65.64%	63.43%	47.63%	47.25%	44.37%	41.07%	21.94%	22.25%	23.35%	23.47%	23.06%
Hudson Mezzanine Funding 2006-1	86358EXF8	SAIL 2005-HE3 M9	15,000,000	1.00	15,000,000	Baa3	BBB	Ba2	B			8/23/2007	8/23/2007	SDB98087	58.28%	54.91%	40.87%	39.47%	38.93%	38.83%	32.37%	27.69%	16.69%	13.01%	11.92%	12.76%	11.40%
Hudson Mezzanine Funding 2006-2	[redacted]		5,000,000	1.00	5,000,000	Baa3	BBB+	Ca	B	B1/B	7/10/2007	7/12/2007	7/10/2007	SDB98148	49.87%	48.34%	34.37%	33.29%	28.37%	28.50%	22.12%	18.07%	12.90%	12.54%	13.44%	13.82%	13.76%
Hudson Mezzanine Funding 2006-2			5,000,000	1.00	5,000,000	Baa2	BBB	C	CCC		10/11/2007	10/19/2007	10/11/2007	SDB98148	49.95%	47.81%	34.67%	32.83%	30.52%	28.72%	21.27%	16.51%	11.99%	11.82%	15.82%	17.55%	15.04%
Hudson Mezzanine Funding 2006-2			5,000,000	1.00	5,000,000	Baa2	BBB	C	CCC		10/11/2007	7/12/2007	7/12/2007	SDB98148	44.37%	42.18%	29.31%	27.53%	27.46%	25.66%	18.16%	13.38%	12.05%	11.87%	15.70%	17.62%	15.11%
Hudson Mezzanine Funding 2006-2			5,000,000	1.00	5,000,000	Baa3	BBB-	C	CCC	B3/B	7/10/2007	7/12/2007	7/10/2007	SDB98148	48.11%	44.84%	32.57%	31.44%	25.33%	25.47%	15.36%	11.25%	7.51%	7.15%	13.44%	13.83%	13.76%
Hudson Mezzanine Funding 2006-2			5,000,000	1.00	5,000,000	Baa3	BBB-	C

From: Lee, Jay
Sent: Wednesday, August 22, 2007 9:27 PM
To: Bieber, Matthew G.; Lehman, David A.; Creed, Christopher J; Williams, Geoffrey; ficc-spcdo
Cc: Chaudhary, Omar; Resnick, Mitchell R; Sugioka, Hirotaka
Subject: Re: Asia requests

For #2, let's get whatever marks we provided on any tranches on The Wolf and Point Pleasant in the below time range (doesn't have to be on those precise dates) and we will go from there.

----- Original Message -----
From: Bieber, Matthew G.
To: Lee, Jay; Lehman, David A.; Creed, Christopher J; Williams, Geoffrey; ficc-spcdo
Cc: Chaudhary, Omar; Resnick, Mitchell R; Sugioka, Hirotaka
Sent: Thu Aug 23 03:13:18 2007
Subject: RE: Asia requests

1) All the WARF's for each deal were pulled from Intex. Spot checked a few that were missing from the attached spreadsheet and was unable to pull them up manually - looks like we're going to have to go with what was sent.

2) LDL

3) I took a look back at the total number of CUSIPs from a look through back in May - and I still see approximately 4500 CUSIPs. They may be looking at total CUSIPs rather than unique CUSIPs. If that's the case, then the 7000 number sounds close to correct - although I think the number back in May was 8050. The marketing book for the deal also mentions approx 4200 unique CUSIPS (though I don't recall whether this was sent to them)

4) Shelly is sending

From: Lee, Jay
Sent: Wednesday, August 22, 2007 1:45 PM
To: Lehman, David A.; Creed, Christopher J; Williams, Geoffrey; ficc-spcdo
Cc: Chaudhary, Omar; Resnick, Mitchell R; Sugioka, Hirotaka
Subject: Asia requests

Apologies for any requests that have already been sent over separately --

1) HK Life asking again on Timberwolf whether we can get WARF's for deals that were not sent in the triggers file. Please see attached on the "WARF" tab to see what I sent. There were WARF's for 40 of the 55 CDO deals. I originally told them we could not when I first sent the file, but they want to check again.
<< File: Timberwolf CDO Data 2007-08-08.xls >>
2) Tokyo Star wants historical offer-side DM's on Point Pleasant and Timberwolf for the following dates across the capital structure. The purpose is to get more color on how the CDO^2 market has changed since when we marketed the deals to them, and we've already rejected their request to provide generic DM's on all CDO^2 deals on the grounds that the market is too differentiated. Regarding this request, we have already told them the following: a) we might be able to provide anything in writing (verbal only), b) if we can provide levels they will probably be dollar prices (not DM's) and they can use Bloomberg to estimate DM's on a no-loss basis if that's what they really want, c) we might not be able to provide offer-side levels for all dates.
Can we do the best we can to get them what they want?
<Offer DM on Timberwolf>

	1-Apr	15-Apr	30-Apr	1-May	15-May	30-May	1-Jun	15-Jun	30-Jun
AAA(senior)									
AAA(junior)									

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AA
A
BBB
BB

<Offer DM of Point Pleasant>

	15-May	30-May	1-Jun	15-Jun	30-Jun
AAA(senior)					
AAA(junior)					
AA					
A					
BBB					
BB					

3) Tokyo Star is asking why there is such a big discrepency between CUSIP counts from May (before they bought) and August (after they bought) on Timberwolf. May's CUSIP counts were much higher (7000+) compared to the data we are now providing (4000+). We told them there is changes in data from third party sources as well as our own techniques for exploding the data. Was wondering if there was any incremental information that you have on this -- if not, we should be able to handle.

4) Orix Life, who is looking at GSC 06-3HG, is asking if we can show the updated ratings on the underlying portfolio (given the recent rating changes, especially the ones announced August 16th on Alt-A downgrades)

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From: Sparks, Daniel L
Sent: Monday, February 26, 2007 8:48 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Dillon read: 1 bb deal, 50/50 risk.
Greywolf: 1 bb deal, now basically gs risk because losses thru the greywolf upfront 50 percent first loss

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 08:33:46 2007
Subject: Re: Questions you had asked

Is that our half of the warehouse. Who is doing them with us or is it all ours

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Sent: Mon Feb 26 08:32:06 2007
Subject: Re: Questions you had asked

Roughly 2 bb, and they are the deals to worry about. Focus is super- senior, which if we get done will make them work

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:43:29 2007
Subject: RE: Questions you had asked

cdo squared--how big and how dangerous

-----Original Message-----
From: Sparks, Daniel L
Sent: Monday, February 26, 2007 7:37 AM
To: Montag, Tom
Subject: Re: Questions you had asked

Roughly 2 bb high grade deals and 2 bb cdo's squared

In client meeting in greenwich and can give more details in hour and half

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Mon Feb 26 07:31:49 2007
Subject: Re: Questions you had asked

So what is total of cdo warehouse after liquidation by sector

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2369

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Sent: Mon Feb 26 06:47:43 2007
Subject: Re: Questions you had asked

Still subprime, but only outright bbb subprime is in gsc deal we may liquidate. Other subprime in form of a, aa, aaa subprime and in form of a-rated cdo's (greywolf and dillon read).

----- Original Message -----
From: Montag, Tom
To: Sparks, Daniel L
Sent: Sun Feb 25 22:49:48 2007
Subject: Re: Questions you had asked

Thanks. So no warehouse in subprime? What about greywolf-what is in that

----- Original Message -----
From: Sparks, Daniel L
To: Montag, Tom
Cc: Ruzika, Richard
Sent: Sun Feb 25 20:34:19 2007
Subject: Questions you had asked

Last week the trading desks did the following:

(1) Cover around $1.5 billion single name subprime BBB- CDS and around $700mm single name subprime BBB CDS. The desk also net sold over $400mm BBB- ABX index. Desk is net short, but less than before. Shorts are in senior tranches of indexes sold and in single names. Plan is to continue to trade from short side, cover more single names and sell BBB- index outright.

(2) The CDO business liquidated 3 warehouses for deals of $530mm (about half risk was subprime related). Business also began liquidation of [redacted] - all synthetics done, cash bonds will be sold in next few days. One more CDO warehouse may be liquidated this week - approximately $300mm with GSC as manager. That will leave us with 2 large CDOs of A-rated CDOs, 2 high grade deals with limited subprime mezz risk, and 2 other small warehouses that are on hold. Getting super-senior done on CDOs is the critical path, and that is where the focus is - for the CDOs of CDOs, NATIXIS (Paris) on Dillion Reed deal and Wincap (London) on Greywolf deal.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Egol, Jonathan
Sent: Monday, May 14, 2007 8:20 AM
To: Wiesel, Elisha
Subject: RE: Gameplan - asset model analysis

Of course -- will you be circulating a draft of the email for Gary?

-----Original Message-----
From: Wiesel, Elisha
Sent: Monday, May 14, 2007 8:08 AM
To: Egol, Jonathan
Subject: Re: Gameplan - asset model analysis

Tks. Would value your taking a close look at the email to Gary, want to be 100pct in sync w trading desk in our description of how we think w're going to value the portfolios.

----- Original Message -----
From: Egol, Jonathan
To: Wiesel, Elisha; Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Sent: Mon May 14 08:05:33 2007
Subject: RE: Gameplan - asset model analysis

I think we can look at the 2x CDO CDS scenario Paul provided below as a proxy.

-----Original Message-----
From: Wiesel, Elisha
Sent: Monday, May 14, 2007 7:57 AM
To: Egol, Jonathan; Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: RE: Gameplan - asset model analysis

Can we not incorporate the cds bid/offer by running Paul's analysis on #2 below at shocked RMBS cds levels?

-----Original Message-----
From: Egol, Jonathan
Sent: Monday, May 14, 2007 5:28 AM
To: Burchard, Paul; Wiesel, Elisha; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: Re: Gameplan - asset model analysis

This correlation analysis does not incorporate 2 things:
- cds bid/offer
- cashflow triggers (underlying level)

For names where the underlying longs were externalized, the cdo cds offered side spread is going to be close to 2x the current marked spread for many underliers. It will be important to use the cdo cds trading franchise to source hedges at the bid side of the market.

The downgrade sensitivity of the underlying cdo cashflow triggers means that there is some (hard to quantify) probability that some or all names essentially jump to default.

----- Original Message -----
From: Burchard, Paul

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Wall Street & The Financial Crisis
Report Footnote #2386

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GS MBS-E-003361238

To: Wiesel, Elisha; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Sent: Mon May 14 00:45:22 2007
Subject: Re: Gameplan - asset model analysis

One point of this correlation analysis is that it provides a relative value argument about how to hedge the cdo^2 risk. It indicates (as the desk is aware) that it is currently cheaper to buy protection against the cdo^2 at the cdo level than at the rmbs level. To the extent that we can put on this hedge, we can recover the higher (72 cent) price, no matter how bad rmbs looks.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Wiesel, Elisha
To: Burchard, Paul; Lehman, David A.; Sparks, Daniel L; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Sent: Mon May 14 00:01:17 2007
Subject: RE: Gameplan - asset model analysis

David - We spoke briefly to Ben and Edwin earlier this evening and asked them if it would be possible to come up with CDS marks for any missing BBB/BBB- RMBS deals as well as a heuristic for marking any high-grade tranches by vintage. As Paul says below, this would really help us run results through the asset model (as well as through the NAV analysis we'd discussed doing) for CDOs. I realize this might be painful (several thousand underlying RMBS deals might need to be marked) but we'd like to come back to you when we have some stats on what we're missing and brainstorm on a good way to do this.

From: Burchard, Paul
Sent: Sunday, May 13, 2007 11:05 PM
To: Lehman, David A.; Sparks, Daniel L; Wiesel, Elisha; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Turok, Michael
Cc: Brafman, Lester R
Subject: RE: Gameplan - asset model analysis

We can estimate the value of the Timberwolf CDO^2 by applying a correlation model (the asset model). We have three questions to answer:

1. Based on marks for the single-A CDOs under the CDO^2, what should be the value of the Timberwolf CDO^2?
2. Based on marks for the RMBS under the single-A CDOs, what should be the marks on the CDOs that went into (1)?
3. In both (1) and (2), what market evidence do we have for the correlation that takes us from underlier valuation to the valuation one level up?

In brief, the answers we find are:

1. Based on current single-A CDO marks, the A2 tranche of Timberwolf would have a price of 72 cents on the dollar. The price is not sensitive to correlation at these levels.
2. Based on a small sample of single-A CDOs for which we have complete underlier marks, we believe that the risks of the RMBS underliers are frequently not fully reflected in the marks on the CDOs. If the trends in this small sample are extrapolated, the fair spreads on the CDOs could even be double where they are marked now; if that were the case, the price of the A2 tranche of Timberwolf would actually be 35-41 cents on the dollar, depending on the correlation.
3. Recent Abacus CDOs and CDO^2 have been marked with correlations in the 30-50% range. Median sector marks for mezzanine CDOs imply a correlation of 22%.

Clearly, the next step is to get marks on more of the RMBS underliers in order to be

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able to run more of the CDOs in Timberwolf through a model.

For (1), we find the following relationship between price of the A2 tranche of Timberwolf, and the correlation. The results are also shown when all the underlier spreads are multiplied by a factor of two, based on the results of (2).

CDO	Underlier Spread Multiple	Model Price 30%	Model Price 50%	Model Price 70%	Model Price 100%
TWOLF 2007-1 A2	1	72	72	72	73
TWOLF 2007-1 A2	2	37	41	44	48

For (2), we have the following comparison between current spread marks on single-A CDOs, and Gaussian copula model spreads computed from the current spread marks on their underliers (mostly RMBS). The first three CDOs are Timberwolf underliers. In general, this analysis shows that at current underlier marks, single-A CDOs are equity-like (long correlation). However, per (3), market-implied correlations are low, in the range 20-50%.

CDO	Sector	Mark	Model 30%	Model 50%	Model 70%	Model 100%
ABAC 2006-HG1A C	CDO^2 Mezzanine	520	1667	1336	1077	710
ADROC 2005-2A C	CDO High Grade	275	185	201	192	140
CAMBR 7A C	CDO Mezzanine	665	1096	938	804	579
FORTS 2006-1A C	CDO Mezzanine	440	527	527	499	425
HUDMZ 2006-1A C	CDO Mezzanine	160*	1643	1378	1168	880
HUDMZ 2006-2A C	CDO Mezzanine	250*	2209	1794	1490	1105

*No trades currently on these ref obs, so marks may be stale.

From: Lehman, David A.
Sent: Friday, May 11, 2007 7:37 PM
To: Sparks, Daniel L; Wiesel, Elisha; Swenson, Michael; Birnbaum, Josh; Egol, Jonathan; Primer, Jeremy; Burchard, Paul; Turok, Michael
Cc: Brafman, Lester R; Lehman, David A.
Subject: Gameplan

Following up from this afternoon's meeting -

We are going to better evaluate the CDO^2 risk using three distinct frameworks

1) Blended scenario analysis using HPA (Primer)
2) Risk neutral/correlation framework, consistent with our current synthetic ABS CDOs (Burchard)
3) Simplistic loss assumptions on underlyings / Market Value Coverage (Turok)

Let's look to have something on #1 and #2 to discuss Monday. # 3 will likely take some more time give the low coverage…Turok, pls let us know if you can cuff #3 with our current coverage.

To quote Elisha -

"Am thinking we want a concise write-up of each methodology (one paragraph), with a rank-ordered list of assumptions that show directionality and estimated impact of each assumption. Also think we want to see results of bounding analysis in writing using each methodology, with a description of what knobs we turned, and how far, to come up the bounding analysis."

In addition, the specific trading desks are taking a more detailed look @ the ABS/CMBS/CLO/Option Arm/SP CDO assets in the warehouse and in the retained position account (outside of the CDO^2).

Pls add/comment if there is anything I missed

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004

Confidential Treatment Requested by Goldman Sachs

Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman Sachs

David Lehman
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Confidential Treatment Requested by Goldman Sachs

From: Burchard, Paul
Sent: Sunday, May 20, 2007 1:08 AM
To: Swenson, Michael; Birnbaum, Josh; Lehman, David A.; Egol, Jonathan
Cc: Wiesel, Elisha; Turok, Michael; Primer, Jeremy
Subject: FW: Materials for meeting

FYI - business has asked us for some model prices as part of the discussion about CDO^2 marking.

From: Burchard, Paul
Sent: Sunday, May 20, 2007 1:03 AM
To: Brafman, Lester R; Kaprelian, Michael; Alexander, Lee
Cc: Wiesel, Elisha; Turok, Michael; Primer, Jeremy
Subject: Materials for meeting

Here are some model prices for the CDO^2 trades based on two different replication strategies, one hedging one level down at the CDO level, the other hedging two levels down at the RMBS level. The model is a correlation model (the asset model), and we are assuming 30% correlation at the RMBS level and 30% correlation at the CDO level. For tranches this low in the capital structure (except perhaps PTPLS 07-1 A1), given expected losses, a lower correlation like this is appropriate.

	Price based on CDO Marks	Price based on RMBS Marks
TWOLF 2007-1 A2	66	24
TWOLF 2007-1 B	38	15
PTPLS 2007-1 A1	90	
PTPLS 2007-1 A2	65	
PTPLS 2007-1 B	43	
PTPLS 2007-1 C	43	
PTPLS 2007-1 D	43	

(We will supply PTPLS RMBS numbers on Sunday.)

Initial results from other modeling approaches based on RMBS marks or fundamentals are generally consistent with the much lower RMBS marks found for Timberwolf.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2393

From: Ostrem, Peter L
Sent: Monday, January 15, 2007 2:27 PM
To: Bieber, Matthew G.
Subject: Re: Basis Cap

In an hour. Boarding to Canberra now.

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Mon Jan 15 14:26:55 2007
Subject: Re: Basis Cap

I'm on the train - will call your cell

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Mon Jan 15 14:25:49 2007
Subject: Re: Basis Cap

Let's discuss. Are you in office?

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Mon Jan 15 14:24:47 2007
Subject: Re: Basis Cap

Did you have a chance to talk to george about sales credits? I've gotten a few inquiries so far [redacted] and think people are expecting something this week.

As it is right now - we're paying out around 100% in gross p&l, but in light of Dans pushback on friday, I'm not sure what I should pay - or tell salespeople when they ask what they're getting paid.

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.
Sent: Mon Jan 15 14:09:55 2007
Subject: Re: Basis Cap

Wambulance. They even tried to claim we never covered the 1mm loss. These guys are paranoid and not very sharp. Let's be nice and just sell them stuff going forward.

----- Original Message -----
From: Bieber, Matthew G.
To: Ostrem, Peter L
Sent: Mon Jan 15 13:45:57 2007
Subject: Re: Basis Cap

What happened in the meeting? I take it that it did not go well.

Confidential Treatment Requested by G

----- Original Message -----
From: Ostrem, Peter L
To: Bieber, Matthew G.; Rosenblum, David J.; Herrick, Darryl K; Case, Benjamin; Wisenbaker, Scott
Sent: Mon Jan 15 13:43:34 2007
Subject: Basis Cap

They are acting very unprofessional. Disappointed in their inability to comprehend simple math. Anyways, not a good principal partner for near term. However, they are very interested in TCW managed index equity and want meeting at ASF.

Let's discuss this account when I return.

Confidential Treatment Requested by Goldman Sachs

From: Swenson, Michael
Sent: Saturday, May 26, 2007 6:03 PM
To: Chin, Edwin; Salem, Deeb; Bruns, William; Kaufman, Jordan
Subject: Fw: ABS Sec_0525.xls v1.xls

Attachments: ABS Sec_0525.xls v1.xls

P and l looks a little low we expected at least 90 but let's call it good for qtr end - I say we are approved

----- Original Message -----
From: Fredman, Sheara
To: Swenson, Michael; Bruns, William; Chin, Edwin; Kaufman, Jordan; Case, Benjamin
Cc: Vodola, Matthew
Sent: Sat May 26 17:57:04 2007
Subject: ABS Sec_0525.xls v1.xls



ABS Sec_0525.xls v1.xls

<<ABS S c_0525.xls v1.xls>>

Attached is ABS PNL - PNL is +$89M

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2403

Confidential Treatment Requested by Goldm

05/25/07

ABS Secondary

		Daily Profit / (Loss) in 000's					Month to Date Profit / (Loss) in 000's					Year to Date Profit / (Loss) in 000's				
		Mkt	Pd	Trade	Carry	Total	Mkt	Pd	Trade	Carry	Total	Mkt	Pd	Trade	Carry	Total
[redacted]	76004011	-	-	-	(45,937)	(45,937)	-	-	-	0	0	-	-	-	0	0
[redacted]	76002316	(1,250)	-	-	48,280	47,030	(132,974,530)	(514,960)	134,383,161	352,432	1,246,102	(136,466,966)	(2,351,807)	134,681,238	2,645,318	(1,492,217)
[redacted]	76002317	46,367	-	-	32,784	79,151	677,323	(809,708)	2,593	936,917	807,125	(1,472,270)	(2,941,162)	145,330	5,901,138	1,633,036
[redacted]	76002318	-	-	-	44	44	-	3,900	(3,109)	2,448	3,239	-	76,858	(32,138)	72,893	117,613
[redacted]	76002399	11,210	-	(4,034)	(166)	7,009	(229,578)	101,837	231,249	(2,351)	101,158	(2,460,659)	79,250	718,623	482,853	1,656,638
[redacted]	76002823	-	-	-	5,412	5,412	19,531	(59,684)	(21,456)	152,897	91,288	19,531	(206,034)	(36,343)	758,884	483,288
[redacted]	76001856	-	-	-	(5,810)	(5,810)	2,987,400	(2,185,912)	(947,257)	1,234,263	1,088,494	7,722,422	(16,048,229)	(837,712)	10,829,627	1,666,109
[redacted]	76003611	-	-	-	(7)	(7)	-	-	-	(188)	(188)	-	(76)	(227)	(2,642)	(2,946)
		29,174	(4,529)	-	5,477	30,122	908,271	(124,102)	(17,087)	155,557	922,639	702,347	168,715	(384,415)	949,612	1,436,259
ABS FINANCE SUBTOTAL		**85,501**	**(4,529)**	**(4,034)**	**40,076**	**117,014**	**(128,611,583)**	**(3,588,629)**	**133,628,094**	**2,831,976**	**4,259,857**	**(131,955,595)**	**(21,222,486)**	**134,254,356**	**21,637,683**	**5,497,780**
[redacted]		-	-		(263,592)	(263,592)	-	-	-	(263,592)	(263,592)	-	-	507,998	(263,592)	244,407
[redacted]	76004010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ABS PROP	76001853	(10,185)	198,362	-	13,571	201,747	(3,882,990)	198,621	15,129	117,756	(3,551,484)	(12,269,856)	520,009	(110,707)	990,449	(10,870,105)
ABS HEDGE	76001818	26,144	-	-	1,532	27,676	1,269,812	-	(13,112)	40,318	1,297,017	3,932,613	-	301,014	481,837	4,715,464
ABS TRADING	76001822	(50,814)	763,728	(925,594)	145,315	(67,365)	(13,888,678)	786,678	6,602,255	1,725,813	(4,773,932)	(293,470,048)	4,139,174	135,647,621	8,728,209	(144,955,045)
ABS Index-Hudson Mez	76095989	(1,597,051)	-	-	1,925	(1,595,126)	(1,597,051)	-	27,498	1,655	(1,567,898)	(46,081,775)	-	(9,989,306)	373,827	(55,697,254)
ABS single name swaps - GSCM	76002123	344,003	-	-	2,448	346,450	(16,638,071)	-	976,141	43,992	(15,617,938)	(62,321,938)	-	(4,513,636)	612,382	(66,223,192)
ABS single name swaps	76189040	5,234,005	-	-	(6,744)	5,227,261	(4,623,287)	-	(2,369,334)	(168,431)	(7,161,052)	2,436,062	-	(16,942,109)	(1,119,040)	(15,625,087)
ABS single name CDS-GSCM 4	76095943	(95,434,073)	-	53,078,882	(96,571)	(42,451,762)	47,223,645	-	85,273,690	(2,926,933)	129,570,402	733,501,202	-	59,693,705	(10,006,478)	783,188,429
ABS single name CDS 2	76095987	140,071,737	-	-	(107,105)	139,964,632	(43,569,569)	-	14,232,439	(2,968,340)	(32,305,469)	709,780,391	-	(25,248,785)	(14,737,387)	669,794,220
ABS CDS Ldn	76187712	110,812	-	-	(21)	110,791	(893,744)	-	(595)	(519)	(894,857)	(892,728)	-	2,641	(1,857)	(891,943)
ABS Synthetic Hedge	76001817	(26)	-	-	17	(9)	(41)	-	-	469	428	111,407	-	(116,278)	4,887	16
ABS Index - GSCM	76002130	(6,026,685)	-	(1,822,109)	8,835	(7,839,959)	(44,227,364)	-	63,224,376	78,211	19,075,222	104,221,611	(13,482,300)	(635,564,431)	4,485,522	(540,339,598)
TABX/CDS on CDO	76095949	(4,852,115)	-	-	1,993	(4,850,122)	(23,948,172)	-	25,017,981	259,882	1,329,691	(116,407,341)	-	122,868,631	694,449	7,155,739
ABS Prop Deriv	76095990	(276)	-	-	(13)	(289)	92,378	-	-	(243)	92,135	182,694	-	-	(379)	182,315
ABS Index - Strategic (GSCO)	76001858	-	-	-	-	-	-	-	-	-	-	4,183,695	-	(3,864,457)	-	319,238
CDO Equity	76004001	-	-	-	(86)	(86)	-	-	-	(2,420)	(2,420)	0	-	(0)	(15,389)	(15,389)
Equity	76004003	108,756	-	-	(617)	108,139	(70,760)	-	30,844	(17,134)	(57,050)	30,270,977	-	(1,461,127)	(146,041)	28,663,808
Equities-Derivatives Error	76004008	-	-	-	-	-	-	-	-	-	-					
ABS CDO	76004009	-	-	-	4,776	4,776	221,719	-	(271)	82,238	303,686	443,437	-	335	118,945	562,718
RMBS Transition Hedge	76004004	11,544	-	-	(56)	11,487	451,069	-	(17,146)	29	433,951	510,375	-	37,472	2,003	549,850
RMBS Transition	76004005	(199,392)	(3,133)	-	(49,999)	(252,525)	(5,245,829)	(3,133)	-	412,741	(4,836,222)	(51,001,397)	(241,714)	79	1,927,699	(49,315,334)
CDO Transition	76004007	(75,000)	-	(107,881,800)	5,922,190	(101,784,610)	5,657,051	946,730	(107,357,04)	5,834,452	(95,397,472)	(96,606,594)	2,382,716	(128,528,739)	6,997,197	(215,755,419)
CDO Transition Hedge	76095948	(8,141,969)	-	874	(19,153)	8,123,690	4,947,797	-	(10,220,887)	(485,206)	(5,758,295)	(121,060,078)	-	(222,288,951)	(1,841,798)	(103,070,671)
CDO warehouse transition synt	76009860	(64,120,575)			14,069	(64,106,506)	(96,473,732)		396,208	45,824	(96,031,701)	(128,826,890)		792,416	77,578	(127,956,896)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

		Daily Profit / (Loss) in 000's					Month to Date Profit / (Loss) in 000's					Year to Date Profit / (Loss) in 000's				
		Mkt	Pd	Trade	Carry	Total	Mkt	Pd	Trade	Carry	Total	Mkt	Pd	Trade	Carry	Total
CDO warehouse transition cash	76009861	395,117	-	(2,539,123)	(37,187)	(2,181,193)	13,054,130	-	(2,540,112)	321,299	10,835,317	25,713,144	-	(2,541,102)	679,786	23,851,828
[redacted]	76001855	58,347	(9,057)	-	10,954	60,244	1,816,542	(248,204)	(34,175)	311,114	1,845,278	1,404,694	337,429	(768,830)	1,899,224	2,872,517
[redacted]		(29,174)	4,529	-	(5,477)	(30,122)	(908,271)	124,102	17,087	(155,557)	(922,639)	(702,347)	(168,715)	384,415	(949,612)	(1,436,259)
[redacted]		187,848	3,133	-	50,056	241,037	4,794,760	3,133	17,146	(412,770)	4,402,270	50,491,022	241,714	(37,551)	(1,929,702)	48,765,484
Transfer to CDO		(8,316,969)	-	107,880,926	(5,903,037)	93,660,920	(10,604,848)	(946,730)	118,056,591	(5,349,246)	101,155,767	(24,453,485)	(2,382,716)	350,817,690	(5,155,399)	318,826,091
Transfer to CDO warehouse		63,725,457	-	2,539,123	23,118	66,287,699	83,419,602	-	2,143,904	(367,123)	85,196,383	103,113,747	-	1,748,686	(757,364)	104,105,068
SPG SUBTOTAL		37,953,404	957,561	50,331,180	(288,860)	88,953,285	(103,623,902)	861,197	192,999,954	(3,841,720)	86,395,529	1,058,322,751	(8,654,403)	(379,173,306)	(8,850,044)	661,644,998
Grand Totals		38,038,905	953,033	50,327,145	(248,784)	89,070,299	(232,235,486)	(2,727,432)	326,628,048	(1,009,745)	90,655,386	926,367,156	(29,876,889)	(244,918,950)	12,787,639	667,142,778

P L DATE	Mkt	Pd	Trade	Carry	Total	Comments
5/1/2007	(12,295,038)	(18,411)	17,970,628	(278,051)	5,379,129	
5/2/2007	(42,900,022)	39,639	49,363,099	(158,158)	6,344,557	
5/4/2007	5,339,293	(56,766)	(5,203,515)	(77,722)	1,290	
5/7/2007	1,386,584	3,369	955	(251,755)	1,139,152	
5/8/2007	(2,291,046)	177	2,886,288	(78,289)	517,129	
5/9/2007	(6,946,233)	29,587	4,921,546	(53,569)	(2,048,669)	
5/10/2007	(2,443,787)	(7,161)	2,929,609	(149,220)	329,441	
5/11/2007	(2,443,787)	(7,161)	2,929,609	(149,220)	329,441	
5/14/2007	10,415,914	19,482	(10,248,655)	(208,729)	(21,987)	
5/15/2007	328,321	(174,646)	72,348	(285,718)	(59,694)	
5/16/2007	14,234,993	(6,412)	(14,160,819)	1,314,368	1,382,130	
5/17/2007	7,534,333	12,839	(7,108,252)	(133,050)	305,871	
5/18/2007	(20,850,965)	16,524	20,868,006	(18,796)	14,769	
5/23/2007	(104,125,436)	18,172	78,776,733	(390,200)	(6,672,052)	
5/24/2007	(8,296,105)	10,149	1,163,787	(101,686)	(7,223,854)	
Grand Totals	(163,352,981)	(120,618)	145,161,367	(1,019,795)	(283,347)	

60
97.2938
91.5821
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Retained & Warehouse - Risk

7/12/2007

Current Face

	Sector	5/25/2007 Notionals ($mm)	Today	Difference
Retained CDOs	"S" tranche	65	49	17
	Super Senior	1,421	1,421	-
	Mezz AAA	458	291	167
	AA	379	274	105
	A	185	164	22
	BBB	146	146	-
	BB	29	29	-
	Equity	159	156	3
	Total - Retained	**2,843**	**2,530**	**313**
Warehouse Transition	WH Assets - SP CDO cash + CDS	742	599	143
	WH Assets - RMBS	390	67	323
	WH Assets - CMBS	119	-	119
	WH Assets - CLO	70	-	70
	Total - WH Transition	**1,320**	**666**	**654**
Hedges	Hedges - SP CDO CDS	153	341	(188)
	Hedges - ABX AAA	1,550	1,550	-
	Hedges - ABX AA and A	1,109	662	447
	Hedges - ABX BBB/BBB-	649	219	430
	Hedges - CMBX BBB	50	-	50
	Total - Hedges	**3,511**	**2,772**	**739**

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2406

B/S	Qty ($mm)	Bond	Price	Trade Date	Ctr Prty Client	
S	1.7	TWOLF 0701 B REGS	78.25	7/11/2007	BANK HAPOAL/	
S	6.8	TWOLF 0701 B REGS	78.25	7/5/2007	BANK HAPOAL/	
S	20	PTPLS 0701 A1 REGS	90.70	6/19/2007	TOKYO STAR /	
S	50	TWOLF 0701 A2 144A	84.33	6/13/2007	BASIS CAPITAL	* in CDS format
S	50	TWOLF 0701 B 144A	77.31	6/13/2007	BASIS CAPITAL	* in CDS format
S	3	COOLIDGE EQUITY	87.00	6/11/2007	[redacted]	
S	20	TWOLF 0701 A2 144A	84.00	6/11/2007	CARLYLE BLU/	
S	10	ALTIUS I C REGS	94.00	6/11/2007	[redacted]	
S	56	TWOLF 0701 A2 REGS	84.50	6/11/2007	HUNGKUK LIFE	
S	17.5	ALTIUS III S 144A	100.07	6/8/2007	[redacted]	
S	10	ALTIUS IV B REGS	100.00	6/5/2007	[redacted]	
S	11.625	ALTIUS IV C REGS	92.68	6/4/2007	[redacted]	
S	36	ALTIUS IV B REGS	98.41	6/4/2007	[redacted]	
S	1.4	BNLI 061A A2	96.93	6/1/2007	[redacted]	
S	20	TWOLF 0701 A2 REGS	83.90	5/30/2007	TOKYO STAR /	
S	11	TWOLF 0701 INCOME NOTE REGS	70.00	5/24/2007	GREYWOLF CA/	
S	40	PTPLS 0701 A2 144A	91.00	5/24/2007	PARAMAX CAP/	
S	40	TWOLF 0701 A2 144A	87.00	5/24/2007	PARAMAX CAP/	
S	10	FORTIUS II A2 144A	92.60	5/23/2007	[redacted]	
S	800	DSQF VII A1A 144A	99.37	5/22/2007	[redacted]	
S	620	DSQF VII A1A 144A	99.45	5/22/2007	[redacted]	
S	150	DSQF VII A1A 144A	99.50	5/18/2007	[redacted]	
S	30	ALTIUS IV A2B 144A	99.765	5/16/2007	[redacted]	
S	20	ALTIUS IV B 144A	100	5/16/2007	[redacted]	
S	3	ALTIUS IV D REGS	100	5/16/2007	[redacted]	
S	2	ALTIUS IV INC NOTES REGS	100	5/16/2007	[redacted]	
S	50	ALTIUS IV A2A REGS	100	5/15/2007	[redacted]	
S	13	ALTIUS IV A2B 144A	100	5/15/2007	[redacted]	
S	13	ALTIUS IV A2B 144A	100	5/15/2007	[redacted]	
S	5	ALTIUS IV C 144A	97.131	5/15/2007	GM PENSION	
S	3	ALTIUS IV C REGS	97.131	5/15/2007	[redacted]	
S	5	ALTIUS IV D 144A	88.939	5/15/2007	[redacted]	
S	3	ALTIUS IV INC NOTES 144A	100	5/15/2007	[redacted]	
S	10	WESTC 061A B	95.85	5/11/2007	[redacted]	
S	1.6	CAMBER 7 E REGS	54.95	5/10/2007	[redacted]	
S	13	CAMBER 7 INC NOTES REGS	48.00	5/10/2007	[redacted]	
S	2	GSC 063G C 144A	85.50	5/9/2007	[redacted]	
S	50	TWOLF 0701 A1A 144A	99.47	5/2/2007	RABOBANK -	
S	20	PTPLS 0701 A2 144A	91.3	4/24/2007	MONEYGRAM I	
S	6	DSQF VII A3 144A	95.39	4/24/2007	[redacted]	
S	20	TWOLF 0701 A2 144A	87.79	4/23/2007	MONEYGRAM I	
S	15	PTPLS 0701 D REGS	81.72	4/19/2007	BASIS CAPIT	
S	4	HUDMZ 061 INCOME NOTES REGS	81	4/16/2007	DILLON READ	
S	3	ANDY 0701 S 144A	100	4/13/2007	MBIA CAPITA	
S	7	GSC 063G C 144A	84.79	4/12/2007	[redacted]	
S	128	PTPLS 0701 A1 144A	100	4/11/2007	DILLON READ	
S	85	PTPLS 0701 A2 144A	100	4/11/2007	DILLON READ	
S	50	PTPLS 0701 B 144A	100	4/11/2007	DILLON READ	
S	14	PTPLS 0701 C 144A	100	4/11/2007	DILLON READ	
S	16	PTPLS 0701 D REGS	100	4/11/2007	DILLON READ	
S	10	PTPLS 0701 INCOME NOTES REGS	100	4/11/2007	DILLON READ	
S	8	PTPLS 0701 C REGS	87.57	4/10/2007	PLENUM ASSE	
S	11	PTPLS 0701 D REGS	88.39	4/10/2007	MARINER BRI	
S	15	LOCH 0601 B 144A	90	4/6/2007	[redacted]	
S	20	TWOLF 0701 C REGS	95.15	4/4/2007	GREYWOLF CA	
S	2	ANDY 0701 A1B 144A	97.39	4/3/2007	BENEFICIAL	
S	16	TWOLF 0701 C REGS	72.5	3/28/2007	POLYGON INV	
S	4	FORTIUS II D REGS	83.11	3/28/2007	[redacted]	

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S	5	HUDMZ 061 D REGS	83.23	3/28/2007	MARINER BRI
S	5	COOL C 144A	87.45	3/27/2007	[redacted]
S	11	ANDY 0701 A2 144A	97.24	3/26/2007	PRINCETON A
S	3	BNLI 061A A2	96.93	3/22/2007	[redacted]
S	5	ANDY 0701 A2 144A	96.23	3/21/2007	PIMCO - USA
S	10	ANDY 0701 C 144A	92.38	3/21/2007	GREYWOLF CA
S	9	BNLI 061A A2	96.93	3/21/2007	[redacted]
S	15	ANDY 0701 A2 144A	96.54	3/20/2007	MONEYGRAM I
S	5	ANDY 0701 B 144A	95.5	3/20/2007	MONEYGRAM I
S	50	TWOLF 0701 A1A 144A	99.45	3/13/2007	MBIA CAPITA
S	200	TWOLF 0701 A1B 144A	100	3/13/2007	BEAR STEARN
S	100	TWOLF 0701 A1C 144A	99.71	3/13/2007	BEAR STEARN
S	100	TWOLF 0701 A1D 144A	99.7	3/13/2007	BEAR STEARN
S	30	TWOLF 0701 D REGS	92.41	3/13/2007	GREYWOLF CA
S	11	TWOLF 0701 INCOME NOTE REGS	100	3/13/2007	GREYWOLF CA
S	11	ANDY 0701 D REGS	108.21	3/12/2007	GSCP (NJ) L
S	32	GSC 063G A1B 144A	99.07	3/9/2007	[redacted]
S	40	DSQF VII A2 144A	99.01	3/8/2007	[redacted]
S	15	FORTIUS II A2 144A	97.91	3/2/2007	[redacted]
S	5	FORTIUS II B 144A	94.24	3/2/2007	[redacted]
S	1	CAMBER 7 INC NOTES REGS	100	2/28/2007	[redacted]
S	4	DSQF VII A3 144A	99.44	2/28/2007	[redacted]
S	125	HUDMZ 062 A1 144A	98.51	2/21/2007	[redacted]
S	1	DSQF VII E 144A	90	2/20/2007	[redacted]
S	365	CAMBER 7 A1 144A	100	2/16/2007	[redacted]
S	8	HUDMZ 061 C 144A	93.9	2/14/2007	DILLON READ

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Hedges - ABX AAA	1,550	100.13	1,552		
Hedges - ABX AA and A	662	92.75	614		
Hedges - ABX BBB/BBB-	219	68.24	149	68.237	
Hedges - CMBX BBB	-				
Hedges - ABX BBB/BBB- Bkdown			06-2 BBB	60	63
			06-2 BBB-	54	54.75
			06-1 BBB	56	82.25
			06-1 BBB-	49	73.5

SP CDO Debt

48.5

Tranche	CUSIP	Deal	Class	Mdys	S&P	Deal Type	5/25/07 Face	Current Face	Change	Scen A 5/25/07 Mark	Current Mark	Change	Market Value 5/25	Current Mkt Value	
"S" tranche	[redacted]	[redacted]	S	Aaa	AAA	High grade	16.7	-	(16.7)	100.0%	0.0%	n/a	16.72	-	"S" tranche High grade
"S" tranche	88714PAA4	Timberwolf	S1	Aaa	AAA	CDO-squared	9.0	9.0	-	100.0%	99.5%	(0.01)	9.00	9.0	"S" tranche CDO-squared
"S" tranche	88714PAK2	Timberwolf	S2	Aaa	AAA	CDO-squared	8.3	8.3	-	100.0%	99.5%	(0.01)	8.30	8.3	"S" tranche CDO-squared
"S" tranche	[redacted]	[redacted]	S	Aaa	AAA	High grade	20.0	20.0	-	100.0%	99.5%	(0.01)	20.00	19.9	"S" tranche High grade
"S" tranche	[redacted]	[redacted]	S	Aaa	AAA	Mezz	5.3	5.3	-	100.0%	99.5%	(0.01)	5.30	5.3	"S" tranche Mezz
"S" tranche	730594AA6	Point Pleasant	S	Aaa	AAA	CDO-squared	6.0	6.0	-	100.0%	99.5%	(0.01)	6.00	6.0	"S" tranche CDO-squared
									-						
Super Senior	[redacted]	[redacted]	A1-e	Aaa	AAA	High grade	1,085.0	1,085.0	-	99.5%	96.5%	(0.03)	1079.58	1,047.0	Super Senior High grade
Super Senior	[redacted]	[redacted]	A1	Aaa	AAA	Mezz	115.0	115.0	-	95.0%	85.0%	(0.10)	109.25	97.8	Super Senior Mezz
Super Senior	[redacted]	[redacted]	A1	Aaa	AAA	Mezz	40.0	40.0	-	99.8%	99.0%	(0.01)	39.92	39.6	Super Senior Mezz
Super Senior	[redacted]	[redacted]	A1-a	Aaa	AAA	Mezz	130.0	130.0	-	98.7%	90.0%	(0.09)	128.31	117.0	Super Senior Mezz
Super Senior	[redacted]	[redacted]	A1-b	Aaa	AAA	Mezz	51.0	51.0	-	94.8%	84.0%	(0.11)	48.35	42.8	Super Senior Mezz
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	High grade	1.8	1.8	-	97.5%	91.0%	(0.06)	1.75	1.6	Mezz AAA High grade
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	Mezz	15.0	15.0	-	89.8%	70.0%	(0.20)	13.47	10.5	Mezz AAA Mezz
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	High grade	30.5	30.5	-	93.5%	76.0%	(0.18)	28.52	23.2	Mezz AAA High grade
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	High grade	3.2	1.9	(1.4)	95.0%	80.0%	(0.15)	3.09	1.5	Mezz AAA High grade
Mezz AAA	88714PAF3	Timberwolf	A2	Aaa	AAA	CDO-squared	245.0	99.0	(146.0)	80.0%	60.0%	(0.20)	196.00	59.4	Mezz AAA CDO-squared
Mezz AAA	730594AB4	Point Pleasant	A1	Aaa	AAA	CDO-squared	127.5	107.5	(20.0)	90.0%	77.0%	(0.13)	114.72	82.8	Mezz AAA CDO-squared
Mezz AAA	730594AC2	Point Pleasant	A2	Aaa	AAA	CDO-squared	35.0	35.0	-	82.5%	65.0%	(0.18)	28.88	22.8	Mezz AAA CDO-squared
AA	[redacted]	[redacted]	B	Aa2	AA	Mezz	40.0	40.0	-	80.0%	62.5%	(0.18)	32.00	25.0	AA Mezz
AA	[redacted]	[redacted]	B	Aa2	AA	High grade	46.0	-	(46.0)	98.0%	30.0%	(0.68)	45.08	-	AA High grade
AA	[redacted]	[redacted]	B	Aa2	AA	Mezz	7.0	7.0	-	78.3%	57.5%	(0.21)	5.48	4.0	AA Mezz
AA	[redacted]	[redacted]	A3	Aa2	AA	Mezz	5.5	5.5	-	95.0%	90.0%	(0.05)	5.23	5.0	AA Mezz
AA	[redacted]	[redacted]	B	Aa1	AA	High grade	10.0	10.0	-	89.5%	62.5%	(0.27)	8.95	6.3	AA High grade
AA	[redacted]	[redacted]	B	Aa2	AA	Mezz	37.7	37.7	-	87.8%	70.0%	(0.18)	33.10	26.4	AA Mezz
AA	[redacted]	Timberwolf	B	Aa2	AA	CDO-squared	107.0	48.5	(58.5)	65.0%	55.0%	(0.10)	69.55	26.7	AA CDO-squared
AA	443860AD3	Hudson Mz 06-1	B	Aa2	AA	Mezz	51.0	51.0	-	82.0%	60.0%	(0.22)	41.82	30.6	AA Mezz
AA	[redacted]	[redacted]	B	Aa2	AA	Mezz	24.5	24.5	-	71.0%	50.0%	(0.21)	17.40	12.3	AA Mezz
AA	730594AD0	Point Pleasant	B	Aa2	AA	CDO-squared	50.0	50.0	-	65.0%	50.0%	(0.15)	32.50	25.0	AA CDO-squared
A	[redacted]	[redacted]	C	A2	A	High grade	10.0	-	(10.0)	93.5%	0.0%	n/a	9.35	-	A High grade
A	[redacted]	[redacted]	C	A2	A	High grade	11.6	-	(11.6)	93.8%	0.0%	n/a	10.90	-	A High grade
A	[redacted]	[redacted]	C	A3	A-	Mezz	0.6	0.6	-	92.5%	80.0%	(0.13)	0.58	0.5	A Mezz
A	[redacted]	[redacted]	C	A2	A	High grade	6.0	6.0	-	84.0%	50.0%	(0.34)	5.04	3.0	A High grade
A	[redacted]	[redacted]	C	A2	A	High grade	24.6	24.6	-	87.0%	50.0%	(0.37)	21.40	12.3	A High grade
A	[redacted]	[redacted]	C	A2	A	Mezz	6.8	6.8	-	91.7%	12.0%	(0.80)	6.21	0.8	A Mezz
A	443860AE1	Hudson Mz 06-1	C	A2	A	Mezz	109.5	109.5	-	60.0%	10.0%	(0.50)	65.70	11.0	A Mezz
A	[redacted]	[redacted]	C	A2	A	Mezz	6.0	6.0	-	55.0%	25.0%	(0.30)	3.30	1.5	A Mezz
A	730594AE8	Point Pleasant	C	A2	A	CDO-squared	10.1	10.1	-	55.0%	30.0%	(0.25)	5.56	3.0	A CDO-squared
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	12.9	12.9	-	70.7%	40.0%	(0.31)	9.13	5.2	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	3.9	3.9	-	89.0%	30.0%	(0.59)	3.47	1.2	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	16.4	16.4	-	75.0%	40.0%	(0.35)	12.30	6.6	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	4.7	4.7	-	85.5%	65.0%	(0.21)	3.99	3.0	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	5.0	5.0	-	80.2%	30.0%	(0.50)	3.98	1.5	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	1.9	1.9	-	81.5%	65.0%	(0.17)	1.59	1.3	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	1.4	1.4	-	83.0%	55.0%	(0.28)	1.18	0.8	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	CDO-squared	14.0	14.0	-	67.6%	45.0%	(0.23)	9.46	6.3	BBB CDO-squared
BBB	[redacted]	[redacted]	C1	Baa2	BBB	Mezz	1.7	1.7	-	55.0%	45.0%	(0.10)	0.93	0.8	BBB Mezz
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	2.7	2.7	-	86.5%	65.0%	(0.22)	2.31	1.7	BBB High grade
BBB	443860AF8	Hudson Mz 06-1	D	Baa2	BBB	Mezz	58.6	58.6	-	52.0%	10.0%	(0.42)	30.49	5.9	BBB Mezz
BBB	[redacted]	[redacted]	D	Baa1	BBB+	Mezz	13.2	13.2	-	45.0%	10.0%	(0.35)	5.94	1.3	BBB Mezz
BBB	[redacted]	[redacted]	E	Baa3	BBB-	Mezz	2.0	2.0	-	40.0%	10.0%	(0.30)	0.80	0.2	BBB Mezz
BBB	730591AA2	Point Pleasant	D	Baa2	BBB	CDO-squared	3.0	3.0	-	50.0%	25.0%	(0.25)	1.50	0.8	BBB CDO-squared
BBB	[redacted]	[redacted]	B	Baa1		Mezz	5.0	5.0	-	15.0%	15.0%	-	0.75	0.8	BBB Mezz
BB	[redacted]	[redacted]	E	Ba1	BB+	Mezz	7.7	7.7	-	50.0%	10.0%	(0.40)	3.83	0.8	BB Mezz
BB	[redacted]	[redacted]	D	Ba1	BB+	Mezz	2.8	2.8	-	56.0%	30.0%	(0.26)	1.56	0.8	BB Mezz
BB	443860AG6	Hudson Mz 06-1	E	Ba1	BB+	Mezz	11.0	11.0	-	47.0%	10.0%	(0.37)	5.17	1.1	BB Mezz
BB	[redacted]	[redacted]	B	Ba2	BBB	Mezz	8.0	8.0	-	0.5%	0.5%	-	0.04	0.0	BB Mezz
Total / Weighted Avg							2,684.1	2,373.9							

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SP CDO Equity

	Transaction	5/25/07 Face	Current Face	Change	Scen A 5/25/07 Mark	Current Mark	Change	5/25/07 Market Value	Current Mkt Value	Comments
2002-2004 High Grade	[redacted]	4.0	4.0	-	50.0%	40.0%	(0.1)	2.0	1.6	2002-2004 vintage high grade - seasoned portfolio in good shape
2002-2004 High Grade		2.0	2.0	-	50.0%	40.0%	(0.1)	1.0	0.8	2002-2004 vintage high grade - seasoned portfolio in good shape
2002-2004 High Grade		1.2	1.2	-	60.0%	48.6%	(0.1)	0.7	0.5589	2002-2004 vintage high grade - seasoned portfolio in good shape
2002-2004 High Grade		1.5	1.5	-	60.0%	45.0%	(0.2)	0.9	0.675	2002-2004 vintage high grade - seasoned portfolio in good shape
2005-2006 High Grade		2.0	2.0	-	70.0%	56.7%	(0.1)	1.4	1.134	2005 vintage high grade - no exposure to 2006 subprime
2005-2006 High Grade		4.0	4.0	-	59.0%	45.0%	(0.1)	2.4	1.8	2005 vintage high grade - no exposure to 2006 subprime
2005-2006 High Grade		2.8	2.8	-	55.0%	30.0%	(0.3)	1.5	0.84	2005-2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		2.7	2.7	-	55.0%	44.0%	(0.1)	1.5	1.18976	2005-2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		3.5	3.5	-	55.0%	44.0%	(0.1)	1.9	1.54	2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		4.5	4.5	-	59.0%	20.0%	(0.4)	2.6	0.894	2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		5.0	5.0	-	52.0%	25.0%	(0.3)	2.6	1.25	2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		4.5	4.5	-	86.0%	10.0%	(0.8)	3.9	0.45	2006 vintage high grade - 100% prime and Alt-A RMBS
2005-2006 High Grade		4.0	4.0	-	60.0%	48.6%	(0.1)	2.4	1.9197	2004-2005 vintage high grade - credit is in good shape, but has experienced cashflow problems
2005-2006 High Grade		3.0	3.0	-	20.0%	30.0%	0.1	0.6	0.9099	2004-2005 vintage high grade - credit is in good shape, but has experienced cashflow problems
2005-2006 High Grade		4.0	4.0	-	20.0%	16.2%	(0.0)	0.8	0.648	2005 vintage high grade - credit is in good shape, but has experienced cashflow problems related to
2005-2006 High Grade		4.6	4.6	-	60.0%	48.6%	(0.1)	2.8	2.25504	2005 vintage high grade - credit is in good shape, but has experienced cashflow problems related to
2005-2006 High Grade		2.8	2.8	-	81.6%	15.0%	(0.7)	2.2	0.4125	
2005-2006 High Grade		2.0	2.0	-	55.0%	15.0%	(0.4)	1.1	0.3	2006 vintage high grade -- portfolio has 0.5% in single-A second liens
				-						
2001-2005 Mezz		3.3	3.3	-	1.0%	0.8%	(0.0)	0.0	0.026325	2001 vintage mezz deal -- likely no further distributions to equity
2001-2005 Mezz		4.9	4.9	-	59.0%	10.0%	(0.5)	2.9	0.49	2004-2005 vintage mezz deal -- seasoned portfolio in good shape
2001-2005 Mezz		5.4	2.4	(3.0)	57.0%	46.2%	(0.1)	3.1	1.10808	2004-2005 vintage mezz deal -- seasoned portfolio in good shape
2001-2005 Mezz		2.0	2.0	-	58.0%	47.0%	(0.1)	1.2	0.9396	2004-2005 vintage mezz deal -- seasoned portfolio in good shape
2006 Mezz		9.0	9.0	-	56.0%	1.0%	(0.6)	5.0	0.09	2006 vintage mezz deal -- 40% RMBS double-B
2006 Mezz		5.0	5.0	-	67.0%	5.0%	(0.6)	3.4	0.25	2006 vintage mezz deal -- 100% ABX 06-1 and 06-1 BBB and BBB-
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.	2.5	2.5	-	50.0%	5.0%	(0.5)	1.3	0.125	2006 vintage mezz deal -- 60% ABX 06-1 and 06-1 BBB and BBB-
2006 Mezz	[redacted]	12.4	12.4	-	50.0%	20.0%	(0.3)	6.2	2.484	2006 vintage mezz deal -- 100% RMBS portfolio
2006 Mezz	Anderson	20.9	20.9	-	57.0%	10.0%	(0.5)	11.9	2.0935	2006 vintage mezz deal -- 100% RMBS portfolio
				-						
CDO-squared	[redacted]	12.0	12.0	-	68.0%	50.0%	(0.2)	8.2	6	2005-2006 vintage single-A deal -- quasi-CDO squared with 40% single-A CDOs in portfolio
CDO-squared		13.5	13.5	-	71.0%	20.0%	(0.5)	9.6	2.7	2005-2006 vintage mezz deal -- quasi-CDO squared with 40% triple-B CDOs in portfolio
CDO-squared	Point Pleasant	10.1	10.1	-	71.0%	15.0%	(0.6)	7.2	1.51275	2005-2006 vintage 100% single-A CDO-squared
Total / Weighted Avg		159.0	156.0		92.2	37.0				

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Footnote Exhibits - Page 4469
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Warehouse Transition Account

CUSIP	NAME	Sector	Original Face	Current F	Current Face	Moody's	S&P	Warehouse	Synthetic?	Coupon / Premium / Margin	Current Mark
00389PAC9	ACABS 2006-2A A2L	SP CDO	8,500,000	1.00	8,475,953	Aa2	AA		no	0.53%	60.00%
11838WAC8	BUCK 2006-3A D	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	1.25%	44.00%
13189BAF8	Camber 7 Plc C	SP CDO	10,000,000	1.00	10,000,000	A2	A		no	2.00%	30.00%
13189BAF8	CAMBR 7A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	2.00%	30.00%
13189BAF8	CAMBR 7A C	SP CDO	6,000,000	1.00	6,000,000	A2	A		no	2.00%	30.00%
12777CAE9	CRNMZ 2006-2A C	SP CDO	2,750,000	1.00	2,750,000	A2	A		no	1.35%	30.00%
26442AAD0	DUKEF 2006-12A A3	SP CDO	15,000,000	1.00	15,000,000	A2	A		no	1.50%	50.00%
23911AAE7	DVSQ 2006-7A B	SP CDO	11,000,000	1.00	11,000,000	Aa2	AA		no	0.50%	73.00%
38521TAJ5	GRAND 2006-2A B	SP CDO	6,000,000	1.00	6,000,000	Aa2	AA		no	0.53%	62.00%
40536UAC6	HLCDO 2006-1A B	SP CDO	8,400,000	1.00	8,400,000	Aa2	AA		no	0.54%	63.00%
443860AD3	HUDMZ 2006-1A B	SP CDO	15,000,000	1.00	15,000,000	Aa2	AA		no	0.62%	60.00%
443860AE1	HUDMZ 20061A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		no	1.60%	10.00%
46603EAD5	IXCBO 2006-3A A3L	SP CDO	9,000,000	1.00	9,000,000	A2	A		no	1.40%	47.00%
487520AJ7	KEFT 2006-1A 5	SP CDO	6,000,000	1.00	6,000,000	A2	A		no	1.35%	37.00%
53959PAB0	LOCH 2006-1A A	SP CDO	5,000,000	0.99	4,949,468	Aaa	AAA		no	0.45%	80.00%
53959PAC8	LOCH 2006-1A B	SP CDO	15,000,000	0.99	14,840,889	Aa2	AA		no	0.55%	62.00%
59802RAL0	MIDOR 2006-1A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	1.30%	30.00%
62864UAL2	MYSPT 061A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	1.45%	30.00%
68630QAF4	ORIN 20062 C1	SP CDO	10,000,000	1.00	10,000,000	A2	A		no	1.50%	25.00%
74732AAD9	PYXIS 2006-1A C	SP CDO	14,000,000	1.00	14,000,000	A2	A		no	1.40%	30.00%
87337YAD8	TABS CDO 066 A3	SP CDO	15,000,000	1.00	15,000,000	A2	A		no	1.40%	30.00%
89054BAE3	TOPG 062A B	SP CDO	12,000,000	1.00	12,000,000	A2	A		no	1.45%	30.00%
216444AE9	COOL D 144A	SP CDO	2,000,000	0.90	1,802,966	Baa2	BBB		no	2.75%	45.00%
23910WAA8	DSQF VI D 144A	SP CDO	3,125,000	0.99	3,096,875	Baa2	BBB		no	3.00%	43.00%
36293XAH0	GSTREET D 144A	SP CDO	5,000,000	0.94	4,722,483	Baa2	BBB		no	3.00%	60.00%
52902YAN5	LEXN 073A E	SP CDO	5,000,000	1.00	5,000,000	A3	A-		no	2.00%	42.00%
85234AAJ5	STACK 062A VI	SP CDO	5,000,000	1.00	5,000,000	Baa2	BBB		no	4.00%	21.00%
85768TAG4	START 05CA D	SP CDO	5,000,000	0.98	4,923,175	A2	A-		no	2.40%	57.00%
053500AG9	AVNTI 2006-1A B	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.00%	
12777CAE9	CRNMZ 2006-2A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.85%	
13189BAF8	CAMBR 7A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	2.55%	
13189TAE2	CAMBR 6A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.16%	
362470AC0	GSCSF 2005-1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.01%	
46426RAE9	ICM 2005-2A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.75%	
49916RAE0	KNOLL 2006-2A C	SP CDO	10,000,000	1.00	9,976,220	A2	A		yes	2.20%	
530150AL5	LBRTS 2006-1A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.65%	
53160QAC1	LBRAC 2006-1A C	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.60%	
578325AD4	MAYF 2006-1A A3L	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.10%	
59802RAL0	MIDOR 2006-1A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.20%	
612181AJ6	MNPT 2006-2A A4	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.05%	
62864UAL2	MYSPT 2006-1A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	1.75%	
83743LAJ0	SCF 8A C	SP CDO	10,000,000	0.96	9,613,457	A2	A		yes	2.10%	
89643PAD2	TRNTY 2005-1A B	SP CDO	10,000,000	1.00	10,000,000	A3	A-		yes	2.20%	
925338AD7	VERT 2006-2A A3	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	2.00%	
000829AD3	ACABS 2006-AQA A3	SP CDO	30,000,000	1.00	30,000,000	A2	A		yes	1.70%	
142146AE9	CACDO 2006-1A C1	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.55%	
26139UAD4	DRACO 2007-1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.85%	
53160QAC1	LBRAC 2006-1A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.70%	
65882WAE5	NCOVE 2006-3A C	SP CDO	7,500,000	0.98	7,335,668	A3	A-		yes	1.85%	
68626VAC6	ORIN 2006-1 C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.70%	
74732AAD9	PYXIS 2006-1A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.70%	
11838WAC8	BUCK 2006-3A D	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	1.50%	
13189LAD1	CAMBR 5A B	SP CDO	10,000,000	1.00	10,000,000	A3	A-		yes	2.26%	
12777CAE9	CRNMZ 2006-2A C	SP CDO	7,750,000	1.00	7,750,000	A2	A		yes	1.62%	
17305CAD1	CTIUS 2006-1A C	SP CDO	10,000,000	0.91	9,072,767	A2	A		yes	1.61%	
23910VAH5	DVSQ 2006-6A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.47%	
361068AD1	FRLNG 2006-1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.76%	
38521TAL0	GRAND 2006-2A C	SP CDO	10,000,000	1.00	10,000,000	A3	A-		yes	1.51%	
464267AD5	ICM 2006-HG1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.52%	
46265BAJ7	IPSW 2006-1A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.75%	
490562AG0	KENT 2006-2A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.80%	
59802RAL0	MIDOR 2006-1A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	1.67%	
68619PAA2	ORPT 2006-1A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.35%	
89054BAE3	TOPG 2006-2A B	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.00%	
87337YAF3	TABS 2006-6A B2	SP CDO	5,000,000	1.00	5,000,000	BBB	Baa2		yes	4.55%	
CDS that have been unwound:											
53160QAC1	LBRAC 2006-1A C	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.60%	
925338AD7	Vertical ABS CDO 2006-2 A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.91%	
925345AE0	Vertical ABS CDO 2006-1 A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.91%	
13189TAE2	CAMBR 6A D	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.73%	
12776YAD4	CRNMZ 2006-1A 5	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.67%	
26441NAD3	DUKEF 06-10A A3	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.47%	
37638NAD3	GLCR 2006-4A C	SP CDO	15,000,000	0.99	14,904,457	A2	A		yes	1.67%	
45072HAJ9	IXCBO 2006-2A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.67%	
13189TAE2	CAMBR 6A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.13%	
12776YAD4	CRNMZ 2006-1A 5	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.86%	
46426YAC8	ICM 2006-S2A-A3L	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.30%	
487520AJ7	KEFT 2006-1A 5	SP CDO	4,000,000	1.00	4,000,000	A2	A		yes	1.89%	
62864UAL2	MYSPT 2006-1A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.27%	
85233TAD8	STAK 2006-1A 5	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.20%	
87337YAC0	TABS 2006-6A A2	SP CDO	10,000,000	1.00	10,000,000	Aa2	AA		yes	0.66%	
94769WAG8	WEBS 2006-1A A3L	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.82%	

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Footnote Exhibits - Page 4470
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WH Summary RMBS

Bond	Pos (MM)	C/F (MM)	Spread Bid	Cusip	Mkt Value
ACCR 071 M6	3	3	65	00438QAK0	1.95
JPMAC 06RM1 M6	7.278	7.278	65	46629NAM5	4.7307
LBMLT 067 M6	10.378	10.378	60	54251TAL3	6.2268
LBMLT 068 M6	3.33	3.33	60	54251UAL0	1.998
LBMLT 069 M6	6	6	60	54251WAL6	3.6
MLMI 06MLN1 M6	4	4	72	59023AAL0	2.88
SABR 06NC3 M5	2	2	82	81377CAH1	1.64
SAST 063 M6	4	4	62	80556AAK3	2.48
BLTN 061A A1	27	27	98	058521AA3	26.46
		66.986			**51.9655**

77.57666

66.966

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SP CDO Hedges

CUSIP	NAME	Sector	Original Face	Current Factor	Current Face	Coupon / Premium / Margin
88714PAF3	TWOLF 2007-1A A2	CDO Squared	$ 50,000,000.00	1	$ 50,000,000.00	90
88714PAG1	TWOLF 2007-1A B	CDO Squared	$ 50,000,000.00	1	$ 50,000,000.00	140
878046AE1	TAZ 2006-1A B	CDO Mezzanine	$ 15,000,000.00	1	$ 15,000,000.00	305
08861KAB2	BFCSL 2006-1A C	CDO Mezzanine	$ 15,000,000.00	1	$ 15,000,000.00	260
464267AC7	ICM 2006-HG1A A2	CDO Mezzanine	$ 15,000,000.00	1	$ 15,000,000.00	125
413358AC6	HARP 2006-1A B	CDO High Grade	$ 15,000,000.00	1	$ 15,000,000.00	50
296605AD0	ESPF 2006-1A A4	CDO High Grade	$ 15,000,000.00	1	$ 15,000,000.00	350
26450BAC9	DUKEF 2006-HG5A I	CDO High Grade	$ 15,000,000.00	1	$ 15,000,000.00	250
068325AB5	BARM 2006-1A A2	CDO Mezzanine	$ 12,500,000.00	1	$ 12,500,000.00	177
13189TAE2	CAMBR 6A D	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	145
92534FAD0	VRGO 2006-1A A3	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	274
80918HAE5	SCORP 2006-1A B	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	65
402552AE3	GSATL 2007-1A B	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	375
53160QAC1	LBRAC 2006-1A C	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	645
13189BAE1	CAMBR 7A B	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	275
62864UAL2	MYSPT 2006-1A C	CDO Mezzanine	$ 7,500,000.00	1	$ 7,500,000.00	575
02076YAC4	ALPHA 2007-1A 3	CDO Mezzanine	$ 7,500,000.00	1	$ 7,500,000.00	400
00081NAC5	ACABS 2005-1A A2	CDO Mezzanine	$ 7,500,000.00	1	$ 7,500,000.00	102
26441EAE1	DUKEF 2005-HG1A I	CDO High Grade	$ 7,500,000.00	1	$ 7,500,000.00	185
02076YAA8	ALPHA 2007-1A 2	CDO Mezzanine	$ 6,250,000.00	1	$ 6,250,000.00	231
26450AAA5	DUKEF 2005-9A A1	CDO Mezzanine	$ 6,250,000.00	1	$ 6,250,000.00	102
45072HAJ9	IXCBO 2006-2A C	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	132
45072HAJ9	IXCBO 2006-2A C	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	132
26442AAD0	DUKEF 2006-12A A3	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	202
45072HAJ9	IXCBO 2006-2A C	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	145
50011PAC0	KDIAK 2006-1A B	CDO High Grade	$ 5,000,000.00	1	$ 5,000,000.00	65
925338AC9	VERT 2006-2A A2	CDO Mezzanine	$ 4,776,000.00	1	$ 4,776,000.00	137
053500AE4	AVNTI 2006-1A A3	CDO Mezzanine	$ 4,776,000.00	1	$ 4,776,000.00	77
13189BAE1	CAMBR 7A B	CDO Mezzanine	$ 4,776,000.00	1	$ 4,776,000.00	77
49916RAD2	KNOLL 2006-2A B	CDO Mezzanine	$ 4,350,000.00	0.997621988	$ 4,339,655.65	213
925338AC9	VERT 2006-2A A2	CDO Mezzanine	$ 3,000,000.00	1	$ 3,000,000.00	137
13189BAE1	CAMBR 7A B	CDO Mezzanine	$ 3,000,000.00	1	$ 3,000,000.00	77
053500AE4	AVNTI 2006-1A A3	CDO Mezzanine	$ 3,000,000.00	1	$ 3,000,000.00	77
00082NAC4	ACABS 2005-2A A2V	CDO Mezzanine	$ 2,500,000.00	0.876414657	$ 2,191,036.64	312
068325AC3	BARM 2006-1A B	CDO Mezzanine	$ 2,500,000.00	1	$ 2,500,000.00	312
12777CAC3	CRNMZ 2006-2A B1	CDO Mezzanine	$ 2,500,000.00	1	$ 2,500,000.00	312
85233XAB3	STAK 2005-2A C	CDO Mezzanine	$ 2,500,000.00	1	$ 2,500,000.00	312
00082NAC4	ACABS 2005-2A A2V	CDO Mezzanine	$ 2,500,000.00	0.876414657	$ 2,191,036.64	312
053500AE4	AVNTI 2006-1A A3	CDO Mezzanine	$ 2,500,000.00	1	$ 2,500,000.00	312
14167CAC7	CABAY 2006-1A A2	CDO Mezzanine	$ 2,500,000.00	1	$ 2,500,000.00	312
12498YAC3	CBCL 16A B	CDO Mezzanine	$ 2,500,000.00	1	$ 2,500,000.00	312
925338AC9	VERT 2006-2A A2	CDO Mezzanine	$ 2,224,000.00	1	$ 2,224,000.00	137
13189BAE1	CAMBR 7A B	CDO Mezzanine	$ 2,224,000.00	1	$ 2,224,000.00	77
053500AE4	AVNTI 2006-1A A3	CDO Mezzanine	$ 2,224,000.00	1	$ 2,224,000.00	77
49916RAD2	KNOLL 2006-2A B	CDO Mezzanine	$ 2,025,000.00	0.997621988	$ 2,020,184.53	213
62864UAL2	MYSPT 2006-1A C	CDO Mezzanine	$ 2,000,000.00	1	$ 2,000,000.00	575
49916RAD2	KNOLL 2006-2A B	CDO Mezzanine	$ 1,125,000.00	0.997621988	$ 1,122,324.74	213
05539MAD2	BFCGE 2006-1A A3L	CDO Mezzanine	$ 500,000.00	0.99088516	$ 495,442.58	225
085558AE4	BNLI 2006-1A A2	CDO High Grade	$ 5,000,000.00	0.977047155	$ 4,885,235.77	250
85768PAB3	START 2005-AA B	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	407
74956AAC0	RFCCD 2005-3A C	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	585
61239QAD9	MONT 2006-1A A3	CDO Mezzanine	$ 5,000,000.00	0.978072085	$ 4,890,360.42	250
13189BAE1	CAMBR 7A B	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	572
92534EAD3	VERT 2005-1A C	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	445
85233VAC5	STACK 2004-1A C	CDO Mezzanine	$ 5,000,000.00	1	$ 5,000,000.00	405
722694AD8	PINEM 2005-A C	CDO Mezzanine	$ 10,000,000.00	1	$ 10,000,000.00	175
417214AC7	HARTS 2007-1A A2	CLO	$ 1,600,000.00	1	$ 1,599,642.12	380
					$ 340,734,919.09	

From: ficc-ops-cdopricing
Sent: Thursday, July 05, 2007 12:08 PM
To: jkrause@moneygram.com; njones@moneygram.com
Cc: ficc-ops-cdopricing; Gilligan, Brendan [Sec Div]
Subject: MoneyGram Marks from GS as of 06/29/07

Description	Identifier	Cash Bid Price	Bid for Protection	Size
ANDY 2007-1A A2	034050AD6	90.16295	91.91295	3mm
ANDY 2007-1A B	034050AE4	82.15	85.15	3mm
[redacted]	[redacted]	92.14	93.64	3mm
[redacted]	[redacted]	86.3	88.3	3mm
[redacted]	[redacted]	80.2052	83.2052	3mm
PTPLS 2007-1A A2	730594AC2	81	84	3mm
[redacted]	[redacted]	98.3125	NA	3mm
TWOLF 2007-1A A2	88714PAF3	83	86	3mm
[redacted]	[redacted]	80.32	83.32	3mm
[redacted]	[redacted]	70.37	73.37	3mm

Disclaimer: The attached information regarding the valuation of instruments is being provided at your request for your consideration and internal use only and not for the purpose of soliciting or recommending any action by you. You should carefully review the explanations that are included with the attached information and ensure that you understand the information that is being provided. Any questions regarding the nature of this information should be raised promptly with your Goldman Sachs contact person. The valuation listed in the attached information represents (i) the bid price at which Goldman, Sachs or one of its affiliates ("Goldman Sachs") would have been prepared to buy the specified instrument; and, (ii) if applicable, the price at which Goldman Sachs would have been prepared to enter into a credit default product by which Goldman Sachs would buy protection on the specified instrument. In each case, the valuation is valid only as of the open of business in New York on the date of the information; such valuation is not applicable at any other time. Moreover, such valuation may be affected by orders entered or transactions executed by us or other market participants after the time of the valuation. In addition, the valuations listed in the attached information are expressed in terms of a position in the relevant instrument of a specified size, which is not necessarily the size of any actual position, and the valuation is applicable only with respect to the specified size. The valuation does not indicate a price at which Goldman Sachs would be willing to enter into a transaction with respect to any other size, nor does it reflect a valuation that relates to (or may be extrapolated to) a position or transaction of any other size. In the future, Goldman Sachs may change the transaction size for which valuations are provided without notice. Because the valuations included in the attached information relate to different types of instruments, these valuations should not be used as the basis for determining a mid-market valuation. The valuations listed in the attached information do not necessarily reflect your entire portfolio. In determining the valuation of an instrument, Goldman Sachs might not take into account certain factors, including, without limitation, liquidity adjustments appropriate given the position size. In addition, the considerations and approach utilized in preparing such valuations may differ from those utilized by Goldman Sachs in valuing positions for purposes of its own books and records. Without limitation of the foregoing, Goldman Sachs may utilize valuation models for its own books to generate mid-market valuations that differ from the mid-point between bids and offers used to value client positions.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2406

Permanent Subcommittee on Investigations

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Footnote Exhibit - Page 4173

Retained & Warehouse - Risk

6/29/2007

Current Face

	Sector	5/25/2007 Notionals ($mm)	Today Notionals ($mm)	Difference
Retained CDOs	"S" tranche	65	49	17
	Super Senior	1,421	1,421	-
	Mezz AAA	458	291	167
	AA	379	283	96
	A	185	164	22
	BBB	146	146	-
	BB	29	29	-
	Equity	159	156	3
	Total - Retained	**2,843**	**2,538**	**305**
Warehouse Transition	WH Assets - SP CDO cash + CDS	742	600	142
	WH Assets - RMBS	390	67	323
	WH Assets - CMBS	119	-	119
	WH Assets - CLO	70	-	70
	Total - WH Transition	**1,320**	**667**	**653**
Hedges	Hedges - SP CDO CDS	153	341	(188)
	Hedges - ABX AAA	1,550	1,550	-
	Hedges - ABX AA and A	1,109	662	447
	Hedges - ABX BBB/BBB-	649	359	290
	Hedges - CMBX BBB	50	-	50
	Total - Hedges	**3,511**	**2,912**	**599**

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Retained & Warehouse - Risk

6/29/2007

Market Value

	Sector	5/25/2007 Notionals ($mm)	Today	Difference
Retained CDOs	"S" tranche	65	49	17
	Super Senior	1,405	1,389	16
	Mezz AAA	386	237	150
	AA	291	200	92
	A	128	89	39
	BBB	88	66	22
	BB	11	8	3
	Equity	92	71	21
	Total - Retained	**2,467**	**2,108**	**359**
Warehouse Transition	WH Assets - SP CDO cash + CDS	518	407	111
	WH Assets - RMBS	341	49	291
	WH Assets - CMBS	104	-	104
	WH Assets - CLO	54	-	54
	Total - WH Transition	**1,016**	**456**	**560**
Hedges	Hedges - SP CDO CDS	142	301	(160)
	Hedges - ABX AAA	1,553	1,553	-
	Hedges - ABX AA and A	1,094	631	464
	Hedges - ABX BBB/BBB-	530	262	267
	Hedges - CMBX BBB	52	-	
	Total - Hedges	**3,371**	**2,748**	**571**

SP CDO Debt

Scen A

Tranche	CUSIP	Deal	Class	Mdys	S&P	Deal Type	5/25/07 Face	Current Face	Change	5/25/07 Mark	Current Mark	Change	Market Value 5/25	Current Mkt Value	
"S" tranche	[redacted]	[redacted]	S	Aaa	AAA	High grade	16.7	-	(16.7)	100.0%	100.0%	-	16.72	-	"S" tranche High grade
"S" tranche	88714PAA4	Timberwolf	S1	Aaa	AAA	CDO-squared	9.0	9.0	-	100.0%	100.0%	-	9.00	9.0	"S" tranche CDO-squared
"S" tranche	88714PAK2	Timberwolf	S2	Aaa	AAA	CDO-squared	8.3	8.3	-	100.0%	100.0%	-	8.30	8.3	"S" tranche CDO-squared
"S" tranche	[redacted]	[redacted]	S	Aaa	AAA	High grade	20.0	20.0	-	100.0%	100.0%	-	20.00	20.0	"S" tranche High grade
"S" tranche	[redacted]	[redacted]	S	Aaa	AAA	Mezz	5.3	5.3	-	100.0%	100.0%	-	5.30	5.3	"S" tranche Mezz
"S" tranche	730594AA6	Point Pleasant	S	Aaa	AAA	CDO-squared	6.0	6.0	-	100.0%	100.0%	-	6.00	6.0	"S" tranche CDO-squared
									-				0.00	-	
Super Senior	[redacted]	[redacted]	A1-e	Aaa	AAA	High grade	1,085.0	1,085.0	-	99.5%	98.5%	(0.01)	1079.58	1,069.1	Super Senior High grade
Super Senior	[redacted]	[redacted]	A1	Aaa	AAA	Mezz	115.0	115.0	-	95.0%	92.5%	(0.03)	109.25	106.3	Super Senior Mezz
Super Senior	[redacted]	[redacted]	A1	Aaa	AAA	Mezz	40.0	40.0	-	99.8%	99.3%	(0.01)	39.92	39.7	Super Senior Mezz
Super Senior	034050AB0	Anderson	A1-a	Aaa	AAA	Mezz	130.0	130.0	-	98.7%	97.3%	(0.01)	128.31	126.4	Super Senior Mezz
Super Senior	034050AC8	Anderson	A1-b	Aaa	AAA	Mezz	51.0	51.0	-	94.8%	93.0%	(0.02)	48.35	47.4	Super Senior Mezz
													0.00	-	
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	High grade	1.8	1.8	-	97.5%	96.0%	(0.01)	1.75	1.7	Mezz AAA High grade
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	Mezz	15.0	15.0	-	89.8%	83.3%	(0.06)	13.47	12.5	Mezz AAA Mezz
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	High grade	30.5	30.5	-	93.5%	86.4%	(0.07)	28.52	26.4	Mezz AAA High grade
Mezz AAA	[redacted]	[redacted]	A2	Aaa	AAA	High grade	3.2	1.9	(1.4)	95.0%	92.4%	(0.03)	3.09	1.7	Mezz AAA High grade
Mezz AAA	[redacted]	Timberwolf	A2	Aaa	AAA	CDO-squared	245.0	99.0	(146.0)	80.0%	75.0%	(0.05)	196.00	74.3	Mezz AAA CDO-squared
Mezz AAA	730594AB4	Point Pleasant	A1	Aaa	AAA	CDO-squared	127.5	107.5	(20.0)	90.0%	87.0%	(0.03)	114.72	93.5	Mezz AAA CDO-squared
Mezz AAA	730594AC2	Point Pleasant	A2	Aaa	AAA	CDO-squared	35.0	35.0	-	82.5%	76.0%	(0.06)	28.88	26.6	Mezz AAA CDO-squared
													0.00	-	
AA	[redacted]	[redacted]	B	Aa2	AA	Mezz	40.0	40.0	-	80.0%	72.1%	(0.08)	32.00	28.8	AA Mezz
AA	[redacted]	[redacted]	B	Aa2	AA	High grade	46.0	-	(46.0)	98.0%	0.0%	(0.98)	45.08	-	AA High grade
AA	347203AE1	Fort Denison	B	Aa2	AA	Mezz	7.0	7.0	-	78.3%	68.4%	(0.10)	5.48	4.8	AA Mezz
AA	[redacted]	[redacted]	A3	Aa2	AA	Mezz	5.5	5.5	-	95.0%	90.4%	(0.05)	5.23	5.0	AA Mezz
AA	[redacted]	[redacted]	B	Aa1	AA	High grade	10.0	10.0	-	89.5%	75.9%	(0.14)	8.95	7.6	AA High grade
AA	034050AE4	Anderson	B	Aa2	AA	Mezz	37.7	37.7	-	87.8%	82.9%	(0.05)	33.10	31.2	AA Mezz
AA	88714PAG1	Timberwolf	B	Aa2	AA	CDO-squared	107.0	57.0	(50.0)	65.0%	66.3%	0.01	69.55	37.8	AA CDO-squared
AA	443860AD3	Hudson Mz 06-1	B	Aa2	AA	Mezz	51.0	51.0	-	82.0%	74.2%	(0.08)	41.82	37.9	AA Mezz
AA	[redacted]	[redacted]	B	Aa2	AA	Mezz	24.5	24.5	-	71.0%	63.2%	(0.08)	17.40	15.5	AA Mezz
AA	730594AD0	Point Pleasant	B	Aa2	AA	CDO-squared	50.0	50.0	-	65.0%	62.0%	(0.03)	32.50	31.0	AA CDO-squared
													0.00	-	
A	[redacted]	[redacted]	C	A2	A	High grade	10.0	-	(10.0)	93.5%	0.0%	(0.94)	9.35	-	A High grade
A	[redacted]	[redacted]	C	A2	A	High grade	11.6	-	(11.6)	93.8%	0.0%	n/a	10.90	-	A High grade
A	[redacted]	[redacted]	C	A3	A-	Mezz	0.6	0.6	-	92.5%	92.5%	-	0.58	0.6	A Mezz
A	[redacted]	[redacted]	C	A2	A	High grade	6.0	6.0	-	84.0%	67.0%	(0.17)	5.04	4.0	A High grade
A	[redacted]	[redacted]	C	A2	A	High grade	24.6	24.6	-	87.0%	67.2%	(0.20)	21.40	16.5	A High grade
A	034050AF1	Anderson	C	A2	A	Mezz	6.8	6.8	-	91.7%	78.8%	(0.13)	6.21	5.3	A Mezz
A	443860AE1	Hudson Mz 06-1	C	A2	A	Mezz	109.5	109.5	-	60.0%	50.8%	(0.09)	65.70	55.6	A Mezz
A	[redacted]	[redacted]	C	A2	A	Mezz	6.0	6.0	-	55.0%	40.9%	(0.14)	3.30	2.5	A Mezz
A	730594AE8	Point Pleasant	C	A2	A	CDO-squared	10.1	10.1	-	55.0%	48.0%	(0.07)	5.56	4.8	A CDO-squared
													0.00	-	
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	12.9	12.9	-	70.7%	56.4%	(0.14)	9.13	7.3	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	3.9	3.9	-	89.0%	74.6%	(0.14)	3.47	2.9	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	16.4	16.4	-	75.0%	55.7%	(0.19)	12.30	9.1	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	4.7	4.7	-	85.5%	83.3%	(0.02)	3.99	3.9	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	5.0	5.0	-	80.2%	36.4%	(0.44)	3.98	1.8	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	1.9	1.9	-	81.5%	73.7%	(0.08)	1.59	1.4	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	1.4	1.4	-	83.0%	69.8%	(0.13)	1.18	1.0	BBB High grade
BBB	[redacted]	[redacted]	D	Baa2	BBB	CDO-squared	14.0	14.0	-	67.6%	53.1%	(0.15)	9.46	7.4	BBB CDO-squared
BBB	[redacted]	[redacted]	C1	Baa2	BBB	Mezz	1.7	1.7	-	55.0%	55.0%	-	0.93	0.9	BBB Mezz
BBB	[redacted]	[redacted]	D	Baa2	BBB	High grade	2.7	2.7	-	86.5%	72.2%	(0.14)	2.31	1.9	BBB High grade
BBB	443860AF5	Hudson Mz 06-1	D	Baa2	BBB	Mezz	58.6	58.6	-	52.0%	37.3%	(0.15)	30.49	21.9	BBB Mezz
BBB	[redacted]	[redacted]	D	Baa1	BBB+	Mezz	13.2	13.2	-	45.0%	30.3%	(0.15)	5.94	4.0	BBB Mezz
BBB	[redacted]	[redacted]	E	Baa3	BBB-	Mezz	2.0	2.0	-	40.0%	26.4%	(0.14)	0.80	0.5	BBB Mezz
BBB	730591AA2	Point Pleasant	D	Baa2	BBB	CDO-squared	3.0	3.0	-	50.0%	40.0%	(0.10)	1.50	1.2	BBB CDO-squared
BBB	[redacted]	[redacted]	B	Baa1		Mezz	5.0	5.0	-	15.0%	15.0%	-	0.75	0.8	BBB Mezz
											0.0%		0.00	-	
BB	[redacted]	[redacted]	E	Ba1	BB+	Mezz	7.7	7.7	-	50.0%	31.9%	(0.18)	3.83	2.4	BB Mezz
BB	[redacted]	[redacted]	D	Ba1	BB+	Mezz	2.8	2.8	-	56.0%	50.4%	(0.06)	1.56	1.4	BB Mezz
BB	443860AG8	Hudson Mz 06-1	E	Ba1	BB+	Mezz	11.0	11.0	-	47.0%	33.4%	(0.14)	5.17	3.7	BB Mezz
BB	[redacted]	[redacted]	B	Ba2	BBB	Mezz	8.0	8.0	-	0.5%	0.5%	-	0.04	0.0	BB Mezz
Total / Weighted Avg							2,684.1	2,605.0							

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations

Footnote Exhibits - Page 4476

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Warehouse Transition Account

67.78%

CUSIP	NAME	Sector	Original Face	Current F	Current Face	Moody's	S&P	Warehouse	Synthetic?	Coupon / Premium / Margin		Current Mark	MV
00389PAC9	ACABS 2006-2A A2L	SP CDO	8,500,000	1.00	8,500,000	Aa2	AA		no	0.53%		70.84%	$ 6,021,255.03
11838WAC8	BUCK 2006-3A D	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	1.25%		67.24%	$ 3,361,979.17
13189BAF8	Camber 7 Plc C	SP CDO	10,000,000	1.00	10,000,000	A2	A		no	2.00%		60.28%	$ 6,028,375.00
13189BAF8	CAMBR 7A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	2.00%		60.28%	$ 3,014,187.50
13189BAF8	CAMBR 7A C	SP CDO	6,000,000	1.00	6,000,000	A2	A		no	2.00%		60.28%	$ 3,617,025.00
12777CAE9	CRNMZ 2006-2A C	SP CDO	2,750,000	1.00	2,750,000	A2	A		no	1.35%		55.98%	$ 1,539,447.71
26442AAD0	DUKEF 2006-12A A3	SP CDO	15,000,000	1.00	15,000,000	A2	A		no	1.50%		74.46%	$ 11,169,421.88
23911AAE7	DVSQ 2006-7A B	SP CDO	11,000,000	1.00	11,000,000	Aa2	AA		no	0.50%		75.83%	$ 8,340,860.00
38521TAJ5	GRAND 2006-2A B	SP CDO	6,000,000	1.00	6,000,000	Aa2	AA		no	0.53%		72.24%	$ 4,334,549.10
40536UAC6	HLCDO 2006-1A B	SP CDO	8,400,000	1.00	8,400,000	Aa2	AA		no	0.54%		68.40%	$ 5,745,812.10
443860AD3	HUDMZ 2006-1A B	SP CDO	15,000,000	1.00	15,000,000	Aa2	AA		no	0.62%		76.32%	$ 11,448,000.00
443860AE1	HUDMZ 20061A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		no	1.60%		49.70%	$ 7,455,000.00
46603EAD5	IXCBO 2006-3A A3L	SP CDO	9,000,000	1.00	9,000,000	A2	A		no	1.40%		54.77%	$ 4,929,456.25
487520AJ7	KEFT 2006-1A 5	SP CDO	6,000,000	1.00	6,000,000	A2	A		no	1.35%		48.17%	$ 2,890,296.25
53959PAB0	LOCH 2006-1A A	SP CDO	5,000,000	1.00	4,990,245	Aaa	AAA		no	0.45%		89.43%	$ 4,463,000.39
53959PAC8	LOCH 2006-1A B	SP CDO	15,000,000	0.99	14,871,158	Aa2	AA		no	0.55%		71.84%	$ 10,683,576.37
59802RAL0	MIDOR 2006-1A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	1.30%		51.89%	$ 2,594,263.89
62864UAL2	MYSPT 061A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		no	1.45%		50.46%	$ 2,523,015.00
68630QAF4	ORIN 20062 C1	SP CDO	10,000,000	1.00	10,000,000	A2	A		no	1.50%		34.07%	$ 3,407,305.56
74732AAD9	PYXIS 2006-1A C	SP CDO	14,000,000	1.00	14,000,000	A2	A		no	1.40%		50.52%	$ 7,072,381.94
87337YAD8	TABS CDO 066 A3	SP CDO	15,000,000	1.00	15,000,000	A2	A		no	1.40%		45.18%	$ 6,776,285.42
89054BAE3	TOPG 062A B	SP CDO	12,000,000	1.00	12,000,000	A2	A		no	1.45%		48.74%	$ 5,848,564.17
216444AE9	COOL D 144A	SP CDO	2,000,000	0.91	1,821,457	Baa2	BBB		no	2.75%		54.50%	$ 992,694.02
23910WAA8	DSQF VI D 144A	SP CDO	3,125,000	0.99	3,096,875	Baa2	BBB		no	3.00%		58.90%	$ 1,823,990.56
36293XAH0	GSTREET D 144A	SP CDO	5,000,000	0.95	4,743,317	Baa2	BBB		no	3.00%		69.50%	$ 3,296,804.99
52902YAN5	LEXN 073A E	SP CDO	5,000,000	1.00	5,000,000	A3	A-		no	2.00%		47.50%	$ 2,375,000.00
85234AAJ5	STACK 062A VI	SP CDO	5,000,000	1.00	5,000,000	Baa2	BBB		no	4.00%		32.48%	$ 1,624,083.33
85768TAG4	START 05CA D	SP CDO	5,000,000	0.98	4,923,175	A2	A-		no	2.40%		73.50%	$ 3,618,533.82
053500AG9	AVNTI 2006-1A B	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.00%		72.75%	$ 7,275,349.00
12777CAE9	CRNMZ 2006-2A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.85%		68.58%	$ 6,858,491.61
13189BAF8	CAMBR 7A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	2.55%		67.37%	$ 3,368,264.00
13189TAE2	CAMBR 6A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.16%		80.56%	$ 8,056,015.00
362470AC0	GSCSF 2005-1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.01%		89.23%	$ 8,923,144.00
46426RAE9	ICM 2005-2A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.75%		82.15%	$ 8,215,018.00
49916RAE0	KNOLL 2006-2A C	SP CDO	10,000,000	1.00	9,997,415	A2	A		yes	2.20%		76.81%	$ 7,679,055.66
530150AL5	LBRTS 2006-1A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.65%		80.68%	$ 8,067,963.00
53160QAC1	LBRAC 2006-1A C	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.60%		74.29%	$ 5,571,699.00
578325AD4	MAYF 2006-1A A3L	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.10%		59.86%	$ 5,986,196.00
59802RAL0	MIDOR 2006-1A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.20%		63.02%	$ 6,301,738.00
612181AJ6	MNPT 2006-2A A4	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.05%		67.78%	$ 6,778,442.00
62864UAL2	MYSPT 2006-1A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	1.75%		66.01%	$ 3,300,420.00
83743LAJ0	SCF 8A C	SP CDO	10,000,000	0.99	9,855,262	A2	A		yes	2.10%		86.56%	$ 8,530,831.90
89643PAD2	TRNTY 2005-1A B	SP CDO	10,000,000	1.00	10,000,000	A3	A-		yes	2.20%		89.59%	$ 8,958,684.00
925338AD7	VERT 2006-2A A3	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	2.00%		68.18%	$ 3,408,838.00
000829AD3	ACABS 2006-AQA A3	SP CDO	30,000,000	1.00	30,000,000	A2	A		yes	1.70%		65.14%	$ 19,541,254.00
142146AE9	CACDO 2006-1A C1	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.55%		58.75%	$ 8,812,389.00
26139UAD4	DRACO 2007-1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.85%		68.25%	$ 6,824,978.00
53160QAC1	LBRAC 2006-1A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.70%		74.32%	$ 11,147,536.00
65882WAE5	NCOVE 2006-3A C	SP CDO	7,500,000	0.99	7,396,666	A3	A-		yes	1.85%		86.08%	$ 6,367,346.62
68626VAC6	ORIN 2006-1 C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.70%		59.14%	$ 8,870,946.00
74732AAD9	PYXIS 2006-1A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.70%		65.41%	$ 9,811,163.00
11838WAC8	BUCK 2006-3A D	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	1.50%		69.46%	$ 3,472,848.00
13189LAD1	CAMBR 5A B	SP CDO	10,000,000	1.00	10,000,000	A3	A-		yes	2.26%		88.56%	$ 8,855,578.00
12777CAE9	CRNMZ 2006-2A C	SP CDO	7,750,000	1.00	7,750,000	A2	A		yes	1.62%		68.58%	$ 5,315,331.00
17305CAD1	CTIUS 2006-1A C	SP CDO	10,000,000	0.94	9,398,698	A2	A		yes	1.81%		88.58%	$ 8,325,227.32
23910VAH5	DVSQ 2006-6A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.47%		76.92%	$ 7,691,850.00
361068AD1	FRLNG 2006-1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.76%		70.58%	$ 7,057,598.00
38521TAL0	GRAND 2006-2A C	SP CDO	10,000,000	1.00	10,000,000	A3	A-		yes	1.51%		69.43%	$ 7,103,838.00
464267AD5	ICM 2006-HG1A A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.52%		76.46%	$ 7,646,396.00
46265BAJ7	IPSW 2006-1A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.75%		77.62%	$ 7,761,952.00
490562AG0	KENT 2006-2A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.80%		79.71%	$ 7,970,999.00
59802RAL0	MIDOR 2006-1A C	SP CDO	5,000,000	1.00	5,000,000	A2	A		yes	1.67%		63.05%	$ 3,152,369.00
68619PAA2	ORPT 2006-1A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.35%		77.80%	$ 7,780,081.00
89054BAE3	TOPG 2006-2A B	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.00%		64.97%	$ 6,496,625.00
87337YAF3	TABS 2006-6A B2	SP CDO	5,000,000	1.00	5,000,000	BBB	Baa2		yes	4.55%		51.30%	$ 2,565,245.00
CDS that have been unwound:													
53160QAC1	LBRAC 2006-1A C	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.60%	700	80.43%	
925338AD7	Vertical ABS CDO 2006-2 A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.91%	650	80.22%	
925345AE0	Vertical ABS CDO 2006-1 A3	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.91%	550	84.57%	
13189TAE2	CAMBR 6A D	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.73%	625	87.00%	
12776YAD4	CRNMZ 2006-1A 5	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.67%	550	76.58%	
26441NAD3	DUKEF 06-10A A3	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.47%	350	92.60%	
37638NAD3	GLCR 2006-4A C	SP CDO	15,000,000	0.99	14,904,457	A2	A		yes	1.67%	500	90.95%	
45072HAJ9	IXCBO 2006-2A C	SP CDO	15,000,000	1.00	15,000,000	A2	A		yes	1.67%	700	84.31%	
13189TAE2	CAMBR 6A D	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.13%	625	82.22%	
12776YAD4	CRNMZ 2006-1A 5	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.88%	550	84.53%	
48426YAC8	ICM 2006-S2A-A3L	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.30%	725	78.24%	
487520AJ7	KEFT 2006-1A 5	SP CDO	4,000,000	1.00	4,000,000	A2	A		yes	1.89%	825	65.37%	
62864UAL2	MYSPT 2006-1A C	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	2.27%	700	77.30%	
85233TAD8	STAK 2006-1A 5	SP CDO	7,500,000	1.00	7,500,000	A2	A		yes	2.20%	850	61.68%	
87337YAC0	TABS 2006-6A A2	SP CDO	10,000,000	1.00	10,000,000	Aa2	AA		yes	0.66%	500	81.17%	
94769WAG8	WEBS 2006-1A A3L	SP CDO	10,000,000	1.00	10,000,000	A2	A		yes	1.82%	825	71.14%	

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SP CDO Equity

Scen A

	Transaction	5/25/07 Face	Current Face	Change	5/25/07 Mark	Current Mark	Change	5/25/07 Market Value	Current Mkt Value	Comments
2002-2004 High Grade	[redacted]	4.0	4.0	-	50.0%	40.5%	(0.1)	2.0	1.6	2002-2004 vintage high grade - seasoned portfolio in good shape
2002-2004 High Grade		2.0	2.0	-	50.0%	40.5%	(0.1)	1.0	0.81	2002-2004 vintage high grade - seasoned portfolio in good shape
2002-2004 High Grade		1.2	1.2	-	60.0%	48.6%	(0.1)	0.7	0.5589	2002-2004 vintage high grade - seasoned portfolio in good shape
2002-2004 High Grade		1.5	1.5	-	60.0%	48.6%	(0.1)	0.9	0.729	2002-2004 vintage high grade - seasoned portfolio in good shape
2005-2006 High Grade		2.0	2.0	-	70.0%	56.7%	(0.1)	1.4	1.134	2005 vintage high grade - no exposure to 2006 subprime
2005-2006 High Grade		4.0	4.0	-	59.0%	47.8%	(0.1)	2.4	1.9116	2005 vintage high grade - no exposure to 2006 subprime
2005-2006 High Grade		2.8	2.8	-	55.0%	44.6%	(0.1)	1.5	1.2474	2005-2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		2.7	2.7	-	55.0%	44.6%	(0.1)	1.5	1.204632	2005-2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		3.5	3.5	-	55.0%	44.6%	(0.1)	1.9	1.55925	2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		4.5	4.5	-	59.0%	47.8%	(0.1)	2.6	2.136213	2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		5.0	5.0	-	52.0%	42.1%	(0.1)	2.6	2.106	2006 vintage high grade - single-A minimum, no problems in portfolio
2005-2006 High Grade		4.5	4.5	-	86.0%	36.5%	(0.5)	3.9	1.64025	2006 vintage high grade - 100% prime and Alt-A RMBS
2005-2006 High Grade		4.0	4.0	-	60.0%	48.6%	(0.1)	2.4	1.9197	2004-2005 vintage high grade - credit is in good shape, but has experienced cashflow problems
2005-2006 High Grade		3.0	3.0	-	20.0%	16.2%	(0.0)	0.6	0.491346	2004-2005 vintage high grade - credit is in good shape, but has experienced cashflow problems
2005-2006 High Grade		4.0	4.0	-	20.0%	16.2%	(0.0)	0.8	0.648	2005 vintage high grade - credit is in good shape, but has experienced cashflow problems related to
2005-2006 High Grade		4.6	4.6	-	60.0%	48.6%	(0.1)	2.8	2.25504	2005 vintage high grade - credit is in good shape, but has experienced cashflow problems related to
2005-2006 High Grade		2.8	2.8	-	81.6%	66.1%	(0.2)	2.2	1.81764	
2005-2006 High Grade		2.0	2.0	-	55.0%	16.2%	(0.4)	1.1	0.324	2006 vintage high grade -- portfolio has 0.5% in single-A second liens
				-						
2001-2005 Mezz		3.3	3.3	-	1.0%	0.8%	(0.0)	0.0	0.026325	2001 vintage mezz deal -- likely no further distributions to equity
2001-2005 Mezz		4.9	4.9	-	59.0%	47.8%	(0.1)	2.9	2.34171	2004-2005 vintage mezz deal -- seasoned portfolio in good shape
2001-2005 Mezz		5.4	2.4	(3.0)	57.0%	46.2%	(0.1)	3.1	1.10808	2004-2005 vintage mezz deal -- seasoned portfolio in good shape
2001-2005 Mezz		2.0	2.0	-	58.0%	47.0%	(0.1)	1.2	0.9396	2004-2005 vintage mezz deal -- seasoned portfolio in good shape
2006 Mezz		9.0	9.0	-	56.0%	45.4%	(0.1)	5.0	4.0824	2006 vintage mezz deal -- 40% RMBS double-B
2006 Mezz		5.0	5.0	-	67.0%	54.3%	(0.1)	3.4	2.7135	2006 vintage mezz deal -- 100% ABX 06-1 and 06-1 BBB and BBB-
2006 Mezz	Hudson Mezzanine 2006-1, Ltd.	2.5	2.5	-	50.0%	40.5%	(0.1)	1.3	1.0125	2006 vintage mezz deal -- 60% ABX 06-1 and 06-1 BBB and BBB-
2006 Mezz	[redacted]	12.4	12.4	-	50.0%	40.5%	(0.1)	6.2	5.0301	2006 vintage mezz deal -- 100% RMBS portfolio
2006 Mezz	Anderson	20.9	20.9	-	57.0%	46.2%	(0.1)	11.9	9.6656895	2006 vintage mezz deal -- 100% RMBS portfolio
				-						
CDO-squared	[redacted]	12.0	12.0	-	68.0%	55.1%	(0.1)	8.2	6.6096	2005-2006 vintage single-A deal -- quasi-CDO squared with 40% single-A CDOs in portfolio
CDO-squared		13.5	13.5	-	71.0%	57.5%	(0.1)	9.6	7.76385	2005-2006 vintage mezz deal -- quasi-CDO squared with 40% triple-B CDOs in portfolio
CDO-squared	Point Pleasant	10.1	10.1	-	71.0%	57.5%	(0.1)	7.2	5.7998835	2005-2006 vintage 100% single-A CDO-squared
Total / Weighted Avg		159.0	156.0		92.2	71.2				

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WH Summary RMBS

Bond	Pos (MM)	C/F (MM)	Spread Bid	Cusip	Mkt Value
ACCR 071 M6	3	3	65	00438QAK0	1.95
JPMAC 06RM1 M6	7.278	7.278	65	46629NAM5	4.7307
LBMLT 067 M6	10.378	10.378	45	54251TAL3	4.6701
LBMLT 068 M6	3.33	3.33	45	54251UAL0	1.4985
LBMLT 069 M6	6	6	45	54251WAL6	2.7
MLMI 06MLN1 M6	4	4	72	59023AAL0	2.88
SABR 06NC3 M5	2	2	62	81377CAH1	1.24
SAST 063 M6	4	4	82	80556AAK3	3.28
BLTN 061A A1	27	27	98	058521AA3	26.46
		66.986			**49.4093**

73.76064

66.966

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Hedges - ABX AAA	1,550	100.22	1,553		
Hedges - ABX AA and A	662	95.25	631		
Hedges - ABX BBB/BBB-	359	73.08	262	73.08	
Hedges - CMBX BBB	-				
Hedges - ABX BBB/BBB- Bk			**06-2 BBB**	90	70
			06-2 BBB-	94	60.5
			06-1 BBB	86	85.5
			06-1 BBB-	89	77.5

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B/S	Qty ($mm)	Bond	Price	Trade Date	Ctr Prty Client	
S	20	PTPLS 0701 A1 REGS	90.70	6/19/2007	TOKYO STAR /	
S	50	TWOLF 0701 A2 144A	84.33	6/13/2007	BASIS CAPITAL	* in CDS format
S	50	TWOLF 0701 B 144A	77.31	6/13/2007	BASIS CAPITAL	* in CDS format
S	3	COOLIDGE EQUITY	87.00	6/11/2007	[redacted]	
S	20	TWOLF 0701 A2 144A	84.00	6/11/2007	CARLYLE BLU/	
S	10	ALTIUS I C REGS	94.00	6/11/2007	[redacted]	
S	56	TWOLF 0701 A2 REGS	84.50	6/11/2007	HUNGKUK LIFE	
S	17.5	ALTIUS III S 144A	100.07	6/8/2007	[redacted]	
S	10	ALTIUS IV B REGS	100.00	6/5/2007	[redacted]	
S	11.625	ALTIUS IV C REGS	92.68	6/4/2007	[redacted]	
S	36	ALTIUS IV B REGS	98.41	6/4/2007	[redacted]	
S	1.4	BNLI 061A A2	96.93	6/1/2007	[redacted]	
S	20	TWOLF 0701 A2 REGS	83.90	5/30/2007	TOKYO STAR /	
S	11	TWOLF 0701 INCOME NOTE REGS	70.00	5/24/2007	GREYWOLF CA/	
S	40	PTPLS 0701 A2 144A	91.00	5/24/2007	PARAMAX CAP/	
S	40	TWOLF 0701 A2 144A	87.00	5/24/2007	PARAMAX CAP/	
S	10	FORTIUS II A2 144A	92.60	5/23/2007	[redacted]	
S	800	DSQF VII A1A 144A	99.37	5/22/2007	[redacted]	
S	620	DSQF VII A1A 144A	99.45	5/22/2007	[redacted]	
S	150	DSQF VII A1A 144A	99.50	5/18/2007	[redacted]	
S	30	ALTIUS IV A2B 144A	99.765	5/16/2007	[redacted]	
S	20	ALTIUS IV B 144A	100	5/16/2007	[redacted]	
S	3	ALTIUS IV D REGS	100	5/16/2007	[redacted]	
S	2	ALTIUS IV INC NOTES REGS	100	5/16/2007	[redacted]	
S	50	ALTIUS IV A2A REGS	100	5/15/2007	[redacted]	
S	13	ALTIUS IV A2B 144A	100	5/15/2007	[redacted]	
S	13	ALTIUS IV A2B 144A	100	5/15/2007	[redacted]	
S	5	ALTIUS IV C 144A	97.131	5/15/2007	GM PENSION	
S	3	ALTIUS IV C REGS	97.131	5/15/2007	[redacted]	
S	5	ALTIUS IV D 144A	88.939	5/15/2007	[redacted]	
S	3	ALTIUS IV INC NOTES 144A	100	5/15/2007	[redacted]	
S	10	WESTC 061A B	95.85	5/11/2007	[redacted]	
S	1.6	CAMBER 7 E REGS	54.95	5/10/2007	[redacted]	
S	13	CAMBER 7 INC NOTES REGS	48.00	5/10/2007	[redacted]	
S	2	GSC 063G C 144A	85.50	5/9/2007	[redacted]	
S	50	TWOLF 0701 A1A 144A	99.47	5/2/2007	RABOBANK -	
S	20	PTPLS 0701 A2 144A	91.3	4/24/2007	MONEYGRAM I	
S	6	DSQF VII A3 144A	95.39	4/24/2007	[redacted]	
S	20	TWOLF 0701 A2 144A	87.79	4/23/2007	MONEYGRAM I	
S	15	PTPLS 0701 D REGS	81.72	4/19/2007	BASIS CAPIT	
S	4	HUDMZ 061 INCOME NOTES REGS	81	4/16/2007	DILLON READ	
S	3	ANDY 0701 S 144A	100	4/13/2007	MBIA CAPITA	
S	7	GSC 063G C 144A	84.79	4/12/2007	[redacted]	
S	128	PTPLS 0701 A1 144A	100	4/11/2007	DILLON READ	
S	85	PTPLS 0701 A2 144A	100	4/11/2007	DILLON READ	
S	50	PTPLS 0701 B 144A	100	4/11/2007	DILLON READ	
S	14	PTPLS 0701 C 144A	100	4/11/2007	DILLON READ	
S	16	PTPLS 0701 D REGS	100	4/11/2007	DILLON READ	
S	10	PTPLS 0701 INCOME NOTES REGS	100	4/11/2007	DILLON READ	
S	8	PTPLS 0701 C REGS	87.57	4/10/2007	PLENUM ASSE	
S	11	PTPLS 0701 D REGS	88.39	4/10/2007	MARINER BRI	
S	15	LOCH 0601 B 144A	90	4/6/2007	[redacted]	
S	20	TWOLF 0701 C REGS	95.15	4/4/2007	GREYWOLF CA	
S	2	ANDY 0701 A1B 144A	97.39	4/3/2007	BENEFICIAL	
S	16	TWOLF 0701 C REGS	72.5	3/28/2007	POLYGON INV	
S	4	FORTIUS II D REGS	83.11	3/28/2007	[redacted]	
S	5	HUDMZ 061 D REGS	83.23	3/28/2007	MARINER BRI	
S	5	COOL C 144A	87.45	3/27/2007	[redacted]	

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S	11	ANDY 0701 A2 144A	97.24	3/26/2007	PRINCETON A
S	3	BNLI 061A A2	96.93	3/22/2007	[redacted]
S	5	ANDY 0701 A2 144A	96.23	3/21/2007	PIMCO - USA
S	10	ANDY 0701 C 144A	92.38	3/21/2007	GREYWOLF CA
S	9	BNLI 061A A2	96.93	3/21/2007	[redacted]
S	15	ANDY 0701 A2 144A	96.54	3/20/2007	MONEYGRAM I
S	5	ANDY 0701 B 144A	95.5	3/20/2007	MONEYGRAM I
S	50	TWOLF 0701 A1A 144A	99.45	3/13/2007	MBIA CAPITA
S	200	TWOLF 0701 A1B 144A	100	3/13/2007	BEAR STEARN
S	100	TWOLF 0701 A1C 144A	99.71	3/13/2007	BEAR STEARN
S	100	TWOLF 0701 A1D 144A	99.7	3/13/2007	BEAR STEARN
S	30	TWOLF 0701 D REGS	92.41	3/13/2007	GREYWOLF CA
S	11	TWOLF 0701 INCOME NOTE REGS	100	3/13/2007	GREYWOLF CA
S	11	ANDY 0701 D REGS	108.21	3/12/2007	GSCP (NJ) L
S	32	GSC 063G A1B 144A	99.07	3/9/2007	[redacted]
S	40	DSQF VII A2 144A	99.01	3/8/2007	[redacted]
S	15	FORTIUS II A2 144A	97.91	3/2/2007	[redacted]
S	5	FORTIUS II B 144A	94.24	3/2/2007	[redacted]
S	1	CAMBER 7 INC NOTES REGS	100	2/28/2007	[redacted]
S	4	DSQF VII A3 144A	99.44	2/28/2007	[redacted]
S	125	HUDMZ 062 A1 144A	98.51	2/21/2007	[redacted]
S	1	DSQF VII E 144A	90	2/20/2007	[redacted]
S	365	CAMBER 7 A1 144A	100	2/16/2007	[redacted]
S	8	HUDMZ 061 C 144A	93.9	2/14/2007	DILLON READ

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From: Fredman, Sheara
Sent: Wednesday, June 06, 2007 4:51 PM
To: Finck, Greg; Gasvoda, Kevin; Swenson, Michael; Lehman, David A.; Birnbaum, Josh
Cc: Sparks, Daniel L; Simpson, Michael; Fortunato, Salvatore; gs-mtgctrlrs
Subject: Tonight's Estimate to Reflect Changes in Bid Offer Spreads

Importance: High

Attachments: Book19.xls

Traders-

We have decided to adjust bid offer spreads based upon where we are currently trading. This will impact the trading desks as follows. Please incorporate into your estimates tonight. We've attached the new bid offer spreads.

Thanks,
S

Correlation	+2.9M
CDO	-3.5M
ABS	-1.6M
Resi Prime	-4.0M
Resi Credit	-8.1M
Managers	+3.1M



Book19.xls

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10005
Tel: (212) 357-3579 | e-mail: sheara.fredman@gs.com

Sheara Fredman
Vice President
Finance Division

Goldman
Sachs

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2406

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Combo	Sector	Rating	spread
ABS Auto Prime A	ABS Auto Prime	A	7.50 bps
ABS Auto Subprime A	ABS Auto Subprime	A	7.50 bps
ABS Auto Subprime BBB	ABS Auto Subprime	BBB	7.50 bps
ABS Credit Card Prime AAA	ABS Credit Card Prime	AAA	5.00 bps
ABS Credit Card Prime A	ABS Credit Card Prime	A	7.50 bps
ABS Credit Card Prime BBB	ABS Credit Card Prime	BBB	7.50 bps
ABS Credit Cards Subprime AAA	ABS Credit Cards Subprime	AAA	5.00 bps
ABS Credit Cards Subprime A	ABS Credit Cards Subprime	A	7.50 bps
ABS Credit Cards Subprime BBB	ABS Credit Cards Subprime	BBB	7.50 bps
ABS Student Loans Private A	ABS Student Loans Private	A	7.50 bps
ABS Student Loans Private BBB	ABS Student Loans Private	BBB	7.50 bps
CDO Commercial Real Estate AAA	CDO Commercial Real Estate	AAA	1.00 bps
CDO Commercial Real Estate AA	CDO Commercial Real Estate	AA	1.50 bps
CDO Commercial Real Estate A	CDO Commercial Real Estate	A	2.00 bps
CDO Commercial Real Estate A-	CDO Commercial Real Estate	A-	2.50 bps
CDO Commercial Real Estate BBB	CDO Commercial Real Estate	BBB	12.50 bps
CDO Commercial Real Estate BBB-	CDO Commercial Real Estate	BBB-	12.50 bps
CDO Commercial Real Estate BBB+	CDO Commercial Real Estate	BBB+	12.50 bps
CDO High Grade AAA	CDO High Grade	AAA	3.00 bps
CDO High Grade AA+	CDO High Grade	AA+	5.00 bps
CDO High Grade AA	CDO High Grade	AA	5.00 bps
CDO High Grade A	CDO High Grade	A	12.50 bps
CDO High Grade A-	CDO High Grade	A-	12.50 bps
CDO Mezzanine SS	CDO Mezzanine	SS	5.00 bps
CDO Mezzanine AAA	CDO Mezzanine	AAA	5.00 bps
CDO Mezzanine AA	CDO Mezzanine	AA	4.00 bps
CDO Mezzanine A	CDO Mezzanine	A	12.50 bps
CDO Mezzanine A-	CDO Mezzanine	A-	12.50 bps
CDO Mezzanine BBB	CDO Mezzanine	BBB	20.00 bps
CDO Mezzanine BBB-	CDO Mezzanine	BBB-	20.00 bps
CLO AAA	CLO	AAA	3.00 bps
CLO AA	CLO	AA	5.00 bps
CLO A	CLO	A	12.50 bps
CLO BBB	CLO	BBB	12.50 bps
CMBS AAA	CMBS	AAA	0.50 bps
CMBS AA+	CMBS	AA+	1.00 bps
CMBS AA-	CMBS	AA-	1.00 bps
CMBS AA	CMBS	AA	1.00 bps
CMBS A	CMBS	A	1.00 bps
CMBS A-	CMBS	A-	1.00 bps
CMBS BBB+	CMBS	BBB+	2.50 bps
CMBS BBB	CMBS	BBB	2.50 bps
CMBS BBB-	CMBS	BBB-	3.50 bps
CMBS BB+	CMBS	BB+	10.00 bps
CMBS BB	CMBS	BB	10.00 bps
GTR AMBAC ASSURANCE CORPORATION AAA	GTR AMBAC ASSURANCE CORPORATION	AAA	3.00 bps
GTR FINANCIAL GUARANTY INSURANCE COMPANY AAA	GTR FINANCIAL GUARANTY INSURANCE COMPANY	AAA	5.00 bps
GTR FINANCIAL SECURITY ASSURANCE INC. AAA	GTR FINANCIAL SECURITY ASSURANCE INC.	AAA	3.00 bps
GTR MBIA INSURANCE CORPORATION AAA	GTR MBIA INSURANCE CORPORATION	AAA	3.00 bps
GTR XL CAPITAL ASSURANCE INC. AAA	GTR XL CAPITAL ASSURANCE INC.	AAA	3.00 bps
RMBS Prime A	RMBS Prime	A	4.00 bps
RMBS Prime AA	RMBS Prime	AA	5.00 bps
RMBS Prime AA-	RMBS Prime	AA-	5.00 bps

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RMBS Prime BBB	RMBS Prime	BBB	10.00	bps
RMBS Prime BBB+	RMBS Prime	BBB+	10.00	bps
RMBS Prime BBB-	RMBS Prime	BBB-	10.00	bps
RMBS Subprime AAA	RMBS Subprime	AAA	3.00	bps
RMBS SubprimeLCF AAA	RMBS SubprimeLCF	AAA	3.00	bps
RMBS Subprime AA+	RMBS Subprime	AA+	5.00	bps
RMBS Subprime AA-	RMBS Subprime	AA-	5.00	bps
RMBS Subprime AA	RMBS Subprime	AA	5.00	bps
RMBS Subprime A+	RMBS Subprime	A+	8.00	bps
RMBS Subprime A-	RMBS Subprime	A-	8.00	bps
RMBS Subprime A	RMBS Subprime	A	8.00	bps
RMBS Subprime BBB+	RMBS Subprime	BBB+	8.00	bps
RMBS Subprime BBB	RMBS Subprime	BBB	8.00	bps
RMBS Subprime BBB-	RMBS Subprime	BBB-	9.00	bps
RMBS Subprime BB+	RMBS Subprime	BB+	50.00	bps
RMBS Subprime BB	RMBS Subprime	BB	50.00	bps
RMBS Alt-A A-	RMBS Alt-A	A-	2.50	bps
RMBS Alt-A BBB+	RMBS Alt-A	BBB+	7.50	bps
RMBS Alt-A A	RMBS Alt-A	A	2.50	bps
RMBS Alt-A BBB	RMBS Alt-A	BBB	10.00	bps
RMBS Alt-A BBB-	RMBS Alt-A	BBB-	10.00	bps
CMBS Index AAA	CMBS Index	AAA	0.50	bps
CMBS Index AA	CMBS Index	AA	1.00	bps
CMBS Index A	CMBS Index	A	1.00	bps
CMBS Index BBB	CMBS Index	BBB	1.50	bps
CMBS Index BBB-	CMBS Index	BBB-	1.50	bps
RMBS Subprime Index AAA	RMBS Subprime Index	AAA	6.0000	Tics
RMBS Subprime Index AA	RMBS Subprime Index	AA	8.0000	Tics
RMBS Subprime Index A	RMBS Subprime Index	A	8.0000	Tics
RMBS Subprime Index BBB	RMBS Subprime Index	BBB	8.0000	Tics
RMBS Subprime Index BBB-	RMBS Subprime Index	BBB-	8.0000	Tics
RMBS Subprime Index T AAA	RMBS Subprime Index T	AAA	0.5000	Tics
RMBS Subprime Index T AA	RMBS Subprime Index T	AA	1.0000	Tics
RMBS Subprime Index T A	RMBS Subprime Index T	A	1.0000	Tics
RMBS Subprime Index T BBB	RMBS Subprime Index T	BBB	2.0000	Tics
RMBS Subprime Index T BBB-	RMBS Subprime Index T	BBB-	2.0000	Tics
CDO High Grade BBB	CDO High Grade	BBB	20.0000	bps
CMBS Index BB	CMBS Index	BB	10.00	bps
RMBS Subprime Index TABX BBB SuperSenior	RMBS Subprime Index TABX	BBB SuperSenior	48.0000	Tics
RMBS Subprime Index TABX BBB	RMBS Subprime Index TABX	BBB	96.0000	Tics
RMBS Subprime Index TABX BBB- SuperSenior	RMBS Subprime Index TABX	BBB- SuperSenior	16.0000	Tics
RMBS Subprime Index TABX BBB- Junior	RMBS Subprime Index TABX	BBB- Junior	16.0000	Tics
RMBS Subprime Index TABX BBB-	RMBS Subprime Index TABX	BBB-	32.0000	Tics
Euro CMBS United Kingdom A	Euro CMBS United Kingdom	A	1	bps
Euro CMBS United Kingdom BBB-	Euro CMBS United Kingdom	BBB-	3.5	bps
Euro RMBS United Kingdom Subprime BBB	Euro RMBS United Kingdom Subprime	BBB	10.00	bps
Euro RMBS United Kingdom Subprime BBB-	Euro RMBS United Kingdom Subprime	BBB-	10.00	bps
CMBS Index T BBB-	CMBS Index T	BBB-	1.50	bps
RMBS Alt-A AA	RMBS Alt-A	AA	2.50	bps
Euro RMBS BBB	Euro RMBS	BBB	10.00	bps
CMBS BB-	CMBS	BB-	10.00	bps
CMBS B+	CMBS	B+	10.00	bps
CMBS A+	CMBS	A+	1.00	bps

From: Lehman, David A.
Sent: Wednesday, June 06, 2007 9:04 PM
To: Swenson, Michael; Mullen, Donald
Cc: Sparks, Daniel L
Subject: Re: Moneygram marks

Not @ all - This is our shot to get this done - we want to stay on the offer and be aggressive

Thk abt this - if we establish a defined + healthy supply/demand dynamic in this product we can always CREATE more CDO^2 at a significant profit vs current levels

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald; Lehman, David A.
Cc: Sparks, Daniel L
Sent: Wed Jun 06 20:41:19 2007
Subject: Re: Moneygram marks

No pause evryone else is afraid to execute at these levels and they will be wishing for these prices by the end of the summer

----- Original Message -----
From: Mullen, Donald
To: Lehman, David A.
Cc: Swenson, Michael; Sparks, Daniel L
Sent: Wed Jun 06 20:28:44 2007
Subject: Re: Moneygram marks

Does that give any one pause about our selling prices?

----- Original Message -----
From: Lehman, David A.
To: Mullen, Donald
Cc: Swenson, Michael; Sparks, Daniel L
Sent: Wed Jun 06 18:42:48 2007
Subject: Re: Moneygram marks

This is consistent with what we hear - maybe not the only offer, but certainly the most aggressive

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2409

Confidential Treatment Requested by Goldm

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Mullen, Donald
To: Lehman, David A.
Sent: Wed Jun 06 18:26:02 2007
Subject: Re: Moneygram marks

Sounds like we are the only offer

----- Original Message -----
From: Lehman, David A.
To: Mullen, Donald; Brafman, Lester R
Sent: Wed Jun 06 17:41:18 2007
Subject: FW: Moneygram marks

fyi

From: Wisenbaker, Scott
Sent: Wednesday, June 06, 2007 4:24 PM
To: Case, Benjamin; Bieber, Matthew G.; Lehman, David A.
Subject: RE: Moneygram marks

have heard from others on the street that citi and ml in particular are holding on to stuff... and that the market feels that GS is being more aggressive than other dealers moving CDO^2 paper

From: Case, Benjamin
Sent: Wednesday, June 06, 2007 4:22 PM
To: Wisenbaker, Scott; Bieber, Matthew G.; Lehman, David A.
Subject: FW: Moneygram marks

Brendan Gilligan called and said Moneygram may be interested in buying more Timberwolf A2 and Point Pleasant A2 in the context of their marks. He said Moneygram knows the market has moved wider from when they bought these bonds, so they were expecting their marks to be down (these are down 4-5 points from where they purchased). Also, interestingly he said Moneygram have been trying to get offer levels from other dealers on CDO^2 debt the other dealers own in inventory, but he said most won't give them offering levels and seem to want to hold the paper instead.

From: Case, Benjamin
Sent: Wednesday, June 06, 2007 4:17 PM
To: Gilligan, Brendan
Subject: Moneygram marks

INTERNAL/VERBAL ONLY - please relay verbally (can be send by email externally only from the valuations group)

Timberwolf A2 - 83.5 - 450 dm
Point Pleasant A2 - 86.0 - 420 dm

Confidential Treatment Requested by Goldman Sachs

From: Sparks, Daniel L
Sent: Wednesday, June 06, 2007 8:58 PM
To: Swenson, Michael; Mullen, Donald; Lehman, David A.
Subject: Re: Moneygram marks

There is real market meltdown potential (although far from certain). The market isn't yet pricing it in - but the scenario is liquidity gets worse, downgrades/losses occur, and forced liquidations begin to happen - spiral down that has steep drops.

Flip side is liquidity and demand for risk and cheap assets overwhelm concerns. These are pretty much the only distressed assets out there in size.

But the upside/downside makes it seem way to early - especially for us mark-to market types.

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald; Lehman, David A.
Cc: Sparks, Daniel L
Sent: Wed Jun 06 20:41:19 2007
Subject: Re: Moneygram marks

No pause evryone else is afraid to execute at these levels and they will be wishing for these prices by the end of the summer

----- Original Message -----
From: Mullen, Donald
To: Lehman, David A.
Cc: Swenson, Michael; Sparks, Daniel L
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----- Original Message -----
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Sent: Wed Jun 06 18:42:48 2007
Subject: Re: Moneygram marks

This is consistent with what we hear - maybe not the only offer, but certainly the most aggressive

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2410

----- Original Message -----
From: Mullen, Donald
To: Lehman, David A.
Sent: Wed Jun 06 18:26:02 2007
Subject: Re: Moneygram marks

Sounds like we are the only offer

----- Original Message -----
From: Lehman, David A.
To: Mullen, Donald; Brafman, Lester R
Sent: Wed Jun 06 17:41:18 2007
Subject: FW: Moneygram marks

fyi

From: Wisenbaker, Scott
Sent: Wednesday, June 06, 2007 4:24 PM
To: Case, Benjamin; Bieber, Matthew G.; Lehman, David A.
Subject: RE: Moneygram marks

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From: Case, Benjamin
Sent: Wednesday, June 06, 2007 4:22 PM
To: Wisenbaker, Scott; Bieber, Matthew G.; Lehman, David A.
Subject: FW: Moneygram marks

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From: Case, Benjamin
Sent: Wednesday, June 06, 2007 4:17 PM
To: Gilligan, Brendan
Subject: Moneygram marks

INTERNAL/VERBAL ONLY - please relay verbally (can be send by email externally only from the valuations group)

Timberwolf A2 - 83.5 - 450 dm
Point Pleasant A2 - 86.0 - 420 dm

Confidential Treatment Requested by Goldman Sachs

Unknown

From: Maltezos, George [george.maltezos@gsjbw.com]
Sent: 22 May 2007 06:50
To: John Murphy
Subject: FW: leveraged AAAs and AAs
Attachments: oledata.mso; 20070313_TIMBERWOLF I, mgd by Greywolf Capital.zip; 20070424_ROI calcs__AAA and AAs.xls; 070501_TS_Basis Cap.doc

I appreciate you are flat chat at the moment, but pls keep in mind GS is an aggressive seller of risk for QTR end purposes (last day of quarter is this Friday).

We would certainly appreciate your support, and equally help create something where the **return on invested capital for Basis is over 60%** (assume AAAs at 400dm; AAs at 500dm; 7.5% haircut and L+30bps funding).

George

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61[redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Maltezos, George
Sent: Tuesday, 22 May 2007 3:11 PM
To: 'John Murphy'
Cc: Stuart Fowler
Subject: FW: leveraged AAAs and AAs

Murph – I hope you are getting your legs back. When are you free to re-visit this trade with the Greywolf deal?

As indicated, I have been able to obtain approvals for a 6mth evergreen financing facility for this trade, which sits separate to the US$100mm facility we set up last year (and hence leaves some powder dry for other things).

Tks,
gm

From: Maltezos, George
Sent: Tuesday, 24 April 2007 4:02 PM
To: John Murphy
Cc: Stuart Fowler
Subject: leveraged AAAs and AAs

Murph,

Further to our email traffic yesterday, I wanted to discover what might be possible in the levered AAA space.

To that end, I spoke with Dan Sparks and Peter Ostrem about potentially offering Basis a block of cheap highly rated ABS CDOs on a levered basis.

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They were constructive with the enquiry & supportive to help structure something that should offer Basis an attractive risk-adjusted return on capital proposition. We are still mapping through the terms, but I wanted to highlight some broad thoughts on a trade idea.

Are you free to discuss this?

CDO Transaction Details:
Deal: Timberwolf I, Ltd
CDO Manager: Greywolf Capital Management LP
Description: US$1bn Single-A Structured Product CDO
(see attached zipped file containing final OC, term sheet, presentation, portfolio, cashflows, etc)

Indicative Financing Terms:
Haircut: 5-10%
Funding Rate: Libor plus 35-50bps
Return on Capital is in the 40-55% area
(see attached indicative calculations I prepared)

Investment Details:
Notional: US$100,000,000 (hence capital invested by Basis is $5 to $10mm)
Split across two tranches:
Class A2 (Aaa/AAA) +400dm (traded half the tranche originally at 100dm)
Class B (Aa2/AA) +300dm (traded half the tranche originally at 200dm)
(deal was originally priced 13 March)

***

Timberwolf, a $1bln Single-A SP CDO Squared

- Portfolio selected and to be defensively managed by Greywolf (Greg Mount).
- Goldman and Greywolf each took half the equity.
- Higher in credit trade (portfolio is 100% rated at least single-A) with a focus on Mezz and High Grade SP CDO debt.
- No reinvestment risk. Greywolf has ability to sell assets that they feel are underperforming vs. expectations but all principal proceeds paydown debt.
- The two main portfolio managers have outstanding experience in the structured products markets: **Greg Mount**: Previously a Partner at Goldman Sachs who founded Goldman Sachs' CDO business in 1996 and initiated their proprietary CDO investing activity; & **Joe Marconi**: Previously a Managing Director and co-head of ABS Finance at Goldman Sachs.

Other transaction highlights

- Structural features
  - Legal maturity of [14] years
  - Non-call period of [3] years
  - Auction call at [8] years
- Greywolf has the discretion to sell "credit risk" and "defaulted" assets and the proceeds will be treated as principal paydowns.
- The portfolio is expected to be [100]% ramped at closing
- Fees:
  - Collateral Management Fee: [4] bps pa
  - Deferred Structuring Fee: [4] bps pa

Greywolf Capital Management

[redacted] = Redacted by the Permanent Subcommittee on Investigations

- Founded in 2003, now with 50 employees, including 27 investment professionals
- Greywolf principals previously held senior positions in credit trading at various sell-side institutions
- Greywolf has approximately $3.5bn AUM, including approximately $1bn in structured product exposures

Timberwolf I Break-Evens

Assumptions:
Defaults are assumed to commence in September 2008; Recoveries occur immediately upon default.
Loss of interest and principal (discounted).

	CDR	Cum Default	Cum Loss- 60% Severity	CDR	Cum Default	Cum Loss- 60% Severity	CDR
A-2	8.2672%	33.9138%	19.7003%	9.1307%	35.8362%	21.5017%	13.7200%
B	4.5900%	19.7891%	11.5736%	5.0600%	21.3948%	12.9569%	8.4800%
C	2.5600%	12.8561%	7.6957%	3.0051%	14.6522%	9.7913%	5.7400%
D	1.3400%	8.2010%	5.1736%	1.4726%	9.3868%	6.0331%	2.4139%

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions
Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

Fixed Income, Currency and Commodities
Goldman Sachs JBWere Pty Ltd

Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.

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Goldman Sachs JBWere Group 1300 366 790 or (61 3) 9679 1534

From: Maltezos, George
Date Sent: Wednesday, 30 May 2007 09:34:26
Date Received: Wednesday, 30 May 2007 09:34:26
To: John Murphy
CC: Stuart Fowler
BCC:
Subject: RE:
Attachment Count: 0
Attachment: None

We have been working on a SIV-lite structure for structured product CDO product, but this still requires a great deal of work from here....not to mention upfront expenses to establish such vehicles. The key guy working on this from our end is Rajiv Kamilla, who is actually going to be in Sydney next week. Rajiv is a senior and experienced structuring and trading guy devoted to new product development. Perhaps we should set up a meeting when he is here next week to discuss such broader exotic solutions. At this stage, however, this is still in design mode and the agencies are still non committal. The money market desks/repo counterparts for this sort of thing are also in early stages. I'm just trying to be realistic on this side....

We also looked at a non-par swap and found issues from a credit and extension / tail risk perspective, hence not a no-brainer.

On your question below about taking the AAA paper in isolation, the issue we face (from a trading and risk management perspective) is on being able to properly model, mark, & value this jump risk. I think the current market environment is suggesting clarity on this is not there. I can tell you Goldman is not doing any non-recourse financing at the moment on structured product CDOs.

From a pricing perspective, we have been trading Timberwolf AAA and AA bonds. 550dm on AAAs and north of 700dm on AAs is considered too wide for Timberwolf. We appreciate you are seeing other stuff, and keen to know which deals these are, but in this case I don't think the trading desk shares the sentiment with regard to such spread levels. To be constructive, however, I know the desk is entertaining block size trades at the moment from real money accounts in the US and Asia at wide levels (much wider than what they have traded before). To give you a sense, I think these represent 400-450dm and 650-700dm respectively (for size) at the widest level of such enquiries.

Overall, the 6mth evergreen financing proposal with recourse to the funds is the most efficient way I can see Goldman play here (at this point in time). As you can see from above, some flexibility on price can be afforded, which should help create a very positively convex & buffered position for you.

Again, I appreciate your focus....I just don't want to lead you up the garden path.

Your thoughts?

George
9320 1431

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile [redacted]
george.maltezos@gsjbw.com <mailto:george.maltezos@gsjbw.com>
www.gsjbw.com <http://www.gsjbw.com/>

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---

From: John Murphy [mailto:jmurphy@basiscap.com.au]
Sent: Tuesday, 29 May 2007 6:05 PM
To: Maltezos, George

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2413

Cc: Stuart Fowler
Subject: Re:

From our side we want to look at this like a conduit or SIV type arrangement.
If you take the AAA paper in isolation, what is the volatility of the mark to market (from current levels) that needs to be covered ?? And what equity sizing would be needed?? Would a non-par swap help bring forward the DM and convert it into current cash flow ??
John Murphy
Sent from my BlackBerry
Disclaimer:
This message is subject to the Disclaimer on <http://www.basiscap.com.au/emaildisclaimer.htm>
----- Original Message -----
From: Maltezos, George <george.maltezos@gsjbw.com>
To: John Murphy
Cc: Stuart Fowler
Sent: Tue May 29 17:55:42 2007
Subject: RE:
I have taken a look at this, and can ask again, but on earlier discussions internally "non-recourse" was far worse than what was shown with recourse.
Two key drivers:
1 – the work done by the business unit and credit department to get comfortable with Basis Capital [redacted NR] is thrown out the window, and as such you are treated no better than a $2 bucket shop....hence, credit terms worsen significantly.
2 – the excess cash here is actually minimal. The AAA has a L+90bps coupon, so if funding is L+35bps, you end up with 55bps of excess income. Assuming you sweep all of this to build excess credit support, this could potentially build an extra 5% in 3 years. That's clearly not a lot of buffer.
I'm just trying to highlight the issues, rather than over-promise. Any and all feedback is welcome.
George
George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile [redacted]
george.maltezos@gsjbw.com <<mailto:george.maltezos@gsjbw.com>>
www.gsjbw.com <<http://www.gsjbw.com/>>

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: John Murphy [<mailto:jmurphy@basiscap.com.au>]
Sent: Tuesday, 29 May 2007 5:35 PM
To: Maltezos, George
Cc: Stuart Fowler
Subject: RE:
we are very keen to explore a vehicle where we fund these bonds on a non-recourse basis
off the top of my head I look at it as 5% "equity" upfront and then trap the excess income each period to build extra credit support over time
can you and the team put your thinking hats on and see what is do-able?
John Murphy
Director - Funds Management
Direct: 02 - 8234 5514
Mobile: [redacted]
www.basiscap.com.au
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From: Maltezos, George [<mailto:george.maltezos@gsjbw.com>]
Sent: Tuesday, 29 May 2007 4:38 PM
To: John Murphy
Subject: RE:
Wow...
This is obviously good colour, but clearly illustrates the sporadic nature of the market.
Can you mention which deal? I am happy to go back to NY and force a response.
Do you think 550 and 700+ are the right levels for this trade?

From: John Murphy [<mailto:jmurphy@basiscap.com.au>]
Sent: Tuesday, 29 May 2007 4:32 PM
To: Maltezos, George
Subject: RE:
the reason I ask is we are seeing similar paper at much wider levels ...we are seeing, in equivalent managers 550DM on AAA and north of 700 on AA.. thoughts plse
John Murphy
Director - Funds Management
Direct: 02 - 8234 5514
Mobile: [redacted]
www.basiscap.com.au
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From: Maltezos, George [<mailto:george.maltezos@gsjbw.com>]
Sent: Tuesday, 29 May 2007 4:23 PM
To: John Murphy
Subject: RE:
As of quarter end (end of last week), they were: AAAs at 400dm; and AAs at 500dm.
We last traded a block at 350 and 450 respectively.
What do you think? I can double check tonight.

From: John Murphy [<mailto:jmurphy@basiscap.com.au>]
Sent: Tuesday, 29 May 2007 4:18 PM
To: Maltezos, George
Subject: RE:
what are the refreshed offer levels on the AAA and AA notes??
John Murphy
Director - Funds Management
Direct: 02 - 8234 5514
Mobile: [redacted]
www.basiscap.com.au
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From: Maltezos, George [<mailto:george.maltezos@gsjbw.com>]
Sent: Tuesday, 29 May 2007 3:12 PM
To: John Murphy
Subject: RE:
Ok mate - thanks
George Maltezos, CFA

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 403 189 116
george.maltezos@gsjbw.com <<mailto:george.maltezos@gsjbw.com>>
www.gsjbw.com <<http://www.gsjbw.com/>>

From: John Murphy [<mailto:jmurphy@basiscap.com.au>]
Sent: Tuesday, 29 May 2007 3:04 PM
To: Maltezos, George
Subject: RE:
I got our guys looking at the repo terms to see if that causes them any grief
other than that nothing to discuss as yet
John Murphy
Director - Funds Management
Direct: 02 - 8234 5514
Mobile: [redacted]
www.basiscap.com.au
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From: Maltezos, George [<mailto:george.maltezos@gsjbw.com>]
Sent: Tuesday, 29 May 2007 3:03 PM
To: John Murphy
Subject:
Murph – shall we set a time aside to discuss the levered Timberwolf AAA and AA trade idea?
George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions
Fixed Income, Currency and Commodities
Goldman Sachs JBWere Pty Ltd

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com
Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.
Disclaimer: This material has been prepared specifically for you and contains indicative terms only. All material contained herein, including proposed terms and conditions are for discussion purposes only. Finalized terms and conditions are subject to further discussion and negotiation. Goldman Sachs shall have no liability, contingent or otherwise, to the user or to third parties, for the quality, accuracy, timeliness, continued availability or completeness of the data and information. Goldman Sachs does not provide accounting, tax or legal advice; such matters should be discussed with your advisors and or counsel. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of this material that are necessary to support any U.S. federal income tax benefits, without Goldman Sachs imposing any limitation of

From: Molloy, Macdara
Sent: Wednesday, May 02, 2007 3:37 AM
To: Maltezos, George (GSJBW)
Cc: Hammatt, Julie; Cao, Joanna J
Subject: RE: Updated Calls and reports

In that case it seems we were fed the wrong price. We will follow up.

From: Maltezos, George (GSJBW)
Sent: Wednesday, May 02, 2007 8:35 AM
To: Molloy, Macdara
Cc: Hammatt, Julie; Cao, Joanna J
Subject: RE: Updated Calls and reports

Not sure I agree. The desk had confirmed marking this at the 81.72 level. Not sure when it was lower.

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61[redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

From: Molloy, Macdara [mailto:macdara.molloy@gs.com]
Sent: Wednesday, 2 May 2007 5:30 PM
To: Maltezos, George
Cc: Hammatt, Julie - GS; Cao, Joanna J - GS
Subject: RE: Updated Calls and reports

Thanks George.

That's fine we can update the reports today with the new prices.

They should really meet the original call as the price dropped creating the call and has now gone back up to the 81.72 level decreasing the call.
We will apply the new prices today and see where we are which should reduce the call.

Regards,

Macdara

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2415

Confidential Treatment Requested by Gold

From: Maltezos, George (GSJBW)
Sent: Wednesday, May 02, 2007 8:25 AM
To: Molloy, Macdara
Cc: Hammatt, Julie; Cao, Joanna J
Subject: RE: Updated Calls and reports

I did, but I think they want to see it confirmed in the reports....

Call me if its helpful.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

From: Molloy, Macdara [mailto:macdara.molloy@gs.com]
Sent: Wednesday, 2 May 2007 5:23 PM
To: Maltezos, George
Cc: Hammatt, Julie - GS; Cao, Joanna J - GS
Subject: RE: Updated Calls and reports

Thanks George,

Were you able to pass this information on to Basis?

Regards,

Macdara

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From: Maltezos, George (GSJBW)
Sent: Wednesday, May 02, 2007 8:21 AM
To: Molloy, Macdara
Cc: Hammatt, Julie; Cao, Joanna J
Subject: RE: Updated Calls and reports

This is what I have from NY....Ben Case.

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61[redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Molloy, Macdara [mailto:macdara.molloy@gs.com]
Sent: Wednesday, 2 May 2007 4:54 PM
To: Maltezos, George
Cc: Hammatt, Julie - GS; Cao, Joanna J - GS
Subject: FW: Updated Calls and reports

George,

Not sure if you have been involved with this price query but have you spoken to anyone in NY on this?
If not we will follow up.

Regards,

Macdara

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From: John Murphy [mailto:jmurphy@basiscap.com.au]
Sent: Wednesday, May 02, 2007 7:52 AM
To: Molloy, Macdara; Phillipa Chen
Cc: Sahil Sachdev; Hammatt, Julie; Maltezos, George (GSJBW); Fei An; Trades; Peter Dobson; Cao, Joanna J
Subject: RE: Updated Calls and reports

Macdara

For you guide we did flag this discrepancy with your Sydney office yesterday (Tue) morning.

Regards

John

John Murphy
Director - Funds Management

Direct: 02 - 8234 5514

Mobile: 04[redacted]

www.basiscap.com.au

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Molloy, Macdara [mailto:macdara.molloy@gs.com]
Sent: Wednesday, 2 May 2007 4:48 PM
To: Phillipa Chen
Cc: Sahil Sachdev; Hammatt, Julie; Maltezos, George (GSJBW); Fei An; Trades; John Murphy; Peter Dobson; Cao, Joanna J
Subject: RE: Updated Calls and reports

Phillipa,

Thanks we will book to receive the $280,000 on Pac Rim for value 3rd of May.

We will investigate the price move on the Point Pleasant however as the traders/valuations are in New York we will have to speak to them later today.

Regards,

Macdara

Margin Valuations & Pricing
Goldman Sachs International
Christchurch Court | 10-15 Newgate Hill | London EC1A 7HD
T: +44 (0) 207 774 6829
F: +44 (0) 207 552 7323
E: Macdara.Molloy@gs.com

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From: Phillipa Chen [mailto:pchen@basiscap.com.au]
Sent: Wednesday, May 02, 2007 12:50 AM
To: Molloy, Macdara
Cc: Sahil Sachdev; Hammatt, Julie; Maltezos, George (GSJBW); Fei An; Trades; John Murphy; Peter Dobson
Subject: RE: Updated Calls and reports

Hi Macdara, Julie and George,

Thanks a lot for your emails and clarifications.

We agree with Pac-Rim's Margin call USD $280,000 and will instruct our custodian to pay in the morning.

As to Yield Alpha I still have further concerns (sorry):

It seems that nearly $600,000 out of the $720,000 can be attributed to the mark down of our recent purchase Point Pleasant (which was marked from 81.72 down to 76.72). However, the end of month price mark that we just received from GS indicated that the price of the security remains at 81.72 --Please see attached the end of month mark.

Could you please kindly and urgently check this for us?

Many thanks.

Kind Regards,

Phillipa Chen

Basis

P: +61-(0) 2-8234 5500
D: +61-(0) 2-8234 5553
F: +61-(0) 2-8234 5501
E: pchen@basiscap.com.au
W: www.basiscap.com.au

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From: Molloy, Macdara [mailto:macdara.molloy@gs.com]
Sent: Tuesday, May 01, 2007 3:19 AM
To: Phillipa Chen
Cc: Sahil Sachdev; Hammatt, Julie; Maltezos, George (GSJBW); Peter O'Donnell; Fei An; Trades
Subject: Updated Calls and reports

Phillipa,

I thought it would be helpful to send updated reports and calls for both funds.

We have updated the 25% HC for Yield Alpha and hopefully you are happy with George's explanation of the new price on the NYFLAT attached.

We now see the following calls with details attached:

BASIS PAC-RIM OPPORTUNITY FUND (MASTER) - $280,000

BASIS YIELD ALPHA FUND (MASTER) - $720,000

Please let me know if you agree and the value date you will be paying the funds for.

Regards,

Macdara

Margin Valuations & Pricing
Goldman Sachs International
Christchurch Court | 10-15 Newgate Hill. | London EC1A 7HD
T: +44 (0) 207 774 6829
F: +44 (0) 207 552 7323
E: Macdara.Molloy@gs.com

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From: Hammatt, Julie
Sent: Monday, April 30, 2007 2:43 PM
To: Maltezos, George (GSJBW); Phillipa Chen; Peter O'Donnell; Fei An; Trades
Cc: Molloy, Macdara; ssachdev@basiscap.com.au
Subject: RE: BASIS YIELD ALHA MARGIN CALL 25 APR 07

Phillipa,

Do you agree with the below, if so please can you confirm your proposed margin movement.

Thanks
Julie

From: Maltezos, George (GSJBW)
Sent: Monday, April 30, 2007 8:53 AM
To: Phillipa Chen; Hammatt, Julie; Peter O'Donnell; Fei An; Trades
Cc: Molloy, Macdara; ssachdev@basiscap.com.au
Subject: RE: BASIS YIELD ALHA MARGIN CALL 25 APR 07

Hi Phillipa,

I checked with the secondary trader (Philip Ha) in NY and he confirmed the mark on NYFLAT. He said this was due to the 6.7% distribution on April 20.

I hope this helps.

Rgds,
George

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Phillipa Chen [mailto:pchen@basiscap.com.au]
Sent: Monday, 30 April 2007 4:42 PM
To: Hammatt, Julie - GS; Peter O'Donnell; Fei An; Maltezos, George; Trades
Cc: Molloy, Macdara - GS
Subject: RE: BASIS YIELD ALHA MARGIN CALL 25 APR 07

Thank you very much for that Julie.

We'll be grateful if you could come back with the price for NYFLAT and will meet the call as soon as we hear back from you.

Thank you and have a nice day.

Kind Regards,

Phillipa Chen
Basis
P: +61-(0) 2-8234 5500
D: +61-(0) 2-8234 5553
F: +61-(0) 2-8234 5501
E: pchen@basiscap.com.au
W: www.basiscap.com.au

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From: Hammatt, Julie [mailto:julie.hammatt@gs.com]
Sent: Friday, April 27, 2007 11:26 PM
To: Phillipa Chen; Peter O'Donnell; Fei An; Maltezos, George (GSJBW); Trades
Cc: Molloy, Macdara
Subject: RE: BASIS YIELD ALHA MARGIN CALL 25 APR 07

Hi Phillipa,

The haircut for Pleasant Point has been amended to 25%, resulting in a margin call to you for USD 700,000. I have attached the PDF file containing the new marks, please confirm your agreement.

We are continuing to investigate the price query for Pac Rim.

Best regards
Julie

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From: Phillipa Chen [mailto:pchen@basiscap.com.au]
Sent: Friday, April 27, 2007 12:55 AM
To: Hammatt, Julie; Peter O'Donnell; Fei An; Maltezos, George (GSJBW); Trades
Subject: RE: BASIS YIELD ALHA MARGIN CALL 25 APR 07

Hi Julie,

Hope you are well.

We have some questions regarding the call amount: the major contribution for the US 3.2m call is our recent purchase, Pleasant Point (3.091million call amount); We only recently bought this security and the haircut amount should be 25% instead of 50% as shown in the margin call statement. Could you please double check for us?

Also could you please kindly review the price for NYFLAT [redacted]? As of the end of March the price was 74 and it is now priced at 67. Could you please kindly review this price with your pricing team and advise?

Many thanks.

Kind Regards,

Phillipa Chen
Basis
P: +61-(0) 2-8234 5500
D: +61-(0) 2-8234 5553
F: +61-(0) 2-8234 5501
E: pchen@basiscap.com.au
W: www.basiscap.com.au

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From: Hammatt, Julie [mailto:julie.hammatt@gs.com]
Sent: Friday, April 27, 2007 2:24 AM
To: Peter O'Donnell; Phillipa Chen; Fei An; Maltezos, George (GSJBW); Trades
Cc: Hammatt, Julie
Subject: BASIS YIELD ALHA MARGIN CALL 25 APR 07

Hello,

We are exposed by USD 3,200,000 today – please see attached for trade details and advise if you are able to meet our call.

From: Sharma, Nityanand
Sent: Wednesday, May 16, 2007 9:24 AM
To: Lehman, David A.; ficc-spcdo
Subject: RE: Yld tables

Attachments: Timberwolf I, Price-DM Table 05-16-2007.xls

Attached is a price DM table for Timberwolf I.



Timberwolf I, Price-DM Table 0...

From: Lehman, David A.
Sent: Wednesday, May 16, 2007 8:41 AM
To: ficc-spcdo
Subject: Yld tables

Would it be possible to get px/dm tables for the following positions:

TWOLF A2	Centered @ +500 DM, up and down 10 pts by 2 pt increments
TWOLF B	Centered @ +750 DM, up and down 10 pts by 2 pt increments
PTPLS A1	Centered @ +250 DM, up and down 5 pts by 1 pt increments
PTPLS A2	Centered @ +400 DM, up and down 10 pts by 2 pt increments
PTPLS B	Centered @ +600 DM, up and down 10 pts by 2 pt increments

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman Sachs

David Lehman
Fixed Income, Currency & Commodities

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Wall Street & The Financial Crisis
Report Footnote #2417

Timberwolf I, Ltd.

For illustrative purposes only. These cashflow projections are based solely upon the current expected liability structure and current market conditions. No assurances can be made as to the actual performance of the portfolio. The actual composition of the collateral to be acquired and the structure of the notes being issued, which will be the basis for an equity return analysis, will be determined at or around the time of pricing of the notes based upon market conditions and other applicable factors at that time.

No securities are being offered by these summary materials. If the securities described herein or other securities are ultimately offered, they will be offered only pursuant to a definitive Offering Circular, and prospective investors who consider purchasing any such securities should make their investment decisions based only upon the information provided therein (including the "Risk Factors" section contained therein) and consultation with their own advisers. This material is for your private information and we are not soliciting any action based upon it. This material is not to be construed as an offer to sell or the solicitation of any offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This material is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. By accepting this material the recipient agrees that it will not distribute or provide the material to any other person. The information contained in this material may not pertain to any securities that will actually be sold. The information contained in this material may be based on assumptions regarding market conditions and other matters as reflected therein. We make no representations regarding the reasonableness of such assumptions or the likelihood that any of such assumptions will coincide with actual market conditions or events, and this material should not be relied upon for such purposes. We and our affiliates, officers, directors, partners and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities mentioned therein or derivatives thereof (including options). Information contained in this material is current as of the date appearing on this material only. Information in this material regarding any assets backing any securities discussed herein supersedes all prior information regarding such assets. All information in these materials, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in any final Offering Circular for any securities actually sold to you. Goldman Sachs does not provide accounting, tax or legal advice. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits expected to be claimed with respect to such transactions, and all materials of any kind (including tax opinions and other tax analyses) relating to those benefits, without Goldman Sachs imposing limitation of any kind.

Permanent Subcommittee on Investigations

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Timberwolf I, Ltd.

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Modeling Assumptions

Liability-Related Assumptions

- Modeling assumes a $1,000,000,000 transaction with the following capital structure:

Classes	Expected Ratings (Moody's/S&P)	Beginning Balance	% of Capital Structure at Issuance	Stated Margin	Initial OC	Target OC
Class S-1	Aaa / AAA	$9.00 MM	N/A	3mL + 0.20%	N/A	N/A
Class S-2	Aaa / AAA	$8.30 MM	N/A	3mL + 0.35%	N/A	N/A
Class A-1-a	Aaa / AAA	$100.0 MM	10.0%	3mL + 0.05%	1000.0%	N/A
Class A-1-b	Aaa / AAA	$200.0 MM	20.0%	3mL + 0.50%	333.3%	N/A
Class A-1-c	Aaa / AAA	$100.0 MM	10.0%	3mL + 0.80%	250.0%	N/A
Class A-1-d	Aaa / AAA	$100.0 MM	10.0%	3mL + 1.30%	200.0%	N/A
Class A-2	Aaa / AAA	$305.0 MM	30.5%	3mL + 0.90%	124.2%	126.7%
Class B	Aa2/AA	$107.0 MM	10.7%	3mL + 1.40%	109.6%	110.6%
Class C	A2/A	$36.0 MM	3.6%	3mL + 4.00%	105.5%	106.0%
Class D	Baa2/BBB	$30.0 MM	3.0%	3mL + 10.00%	102.2%	102.7%
Income Notes	NR	$22.0 MM	2.2%	N/A	N/A	NA

- The payment date for each class of notes takes place on the 3rd day of each March, June, September, and December, commencing on September 2007
- Ongoing Fees and Expenses:
  - Base Collateral Management Fee - 4 bps p.a.
  - Deferred Structuring Expense - 4bps p.a.
  - Trustee and Administrative Fees & Expenses - for each Payment Date, the sum of (i) $35,500 and (ii) the maximum of (a) 0.00725% p.a. of the outstanding collateral balance and (b) $48,252 p.a.
- The transaction is expected to have a Cash Flow Swap (PIK Swap) with a maximum notional amount of $50mm and a commitment fee equal to 26 bps p.a.

- OC Tests

Classes	OC Test
Class A/B	**106.4%**
Class C	**103.3%**
Class D	**101.1%**

Asset-Related Assumptions

- The spreads / coupons on the assets in the portfolio used for modeling purposes in every period are based on the expected spreads / coupons for each asset in the warehouse, based on such asset's expected amortization profile (and net of the 5 bps p.a. fee to GS as put provider)
- Default Swap Collateral is assumed to accrue interest at 1m L + 10 bps
- No trading gains or call premiums are assumed
- All interest proceeds are held in cash for 30 days, and all principal proceeds are held in cash for 50 days, each earning a rate of 1 month LIBOR minus 30 bps prior to distribution on each quarterly payment date
- All principal proceeds are used to pay down the liabilities; there is no reinvestment period in this transaction
- Defaults (if any) commence in September 2008; Recoveries are 40% and take place immediately upon default

Other Assumptions

-Runs assume Auction Call in Pd 97

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Timberwolf I, Ltd

Price/DM Table

Class A2

DM	Price
71.65%	7.78%
73.65%	7.18%
75.65%	6.61%
77.65%	6.05%
79.65%	5.52%
81.65%	5.00%
83.65%	4.50%
85.65%	4.01%
87.65%	3.54%
89.65%	3.08%
91.65%	2.63%

Class B

DM	Price
62.68%	10.52%
64.68%	9.87%
66.68%	9.24%
68.68%	8.64%
70.68%	8.06%
72.68%	7.50%
74.68%	6.96%
76.68%	6.44%
78.68%	5.94%
80.68%	5.45%
82.68%	4.97%

From: Montag, Tom
Sent: Wednesday, June 13, 2007 9:06 PM
To: Lehman, David A.
Cc: Sparks, Daniel L; Mullen, Donald
Subject: RE: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

great

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, June 14, 2007 10:06 AM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald
Subject: Re: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

If u assume cds = cash, we have 99mm Twolf AAAs and 57mm AAs in cash bond left

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.
Cc: Sparks, Daniel L; Mullen, Donald
Sent: Wed Jun 13 21:02:19 2007
Subject: RE: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

how much is left of each now?

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, June 14, 2007 10:00 AM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald
Subject: Re: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

$65

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2417

Confidential Treatment Requested by Gold

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.
Sent: Wed Jun 13 20:10:28 2007
Subject: Re: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

Where did we have AA marked?

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald
Sent: Wed Jun 13 05:25:19 2007
Subject: Re: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

Basis Capital is an AUS (sydney) account which has been both a CDO buyer and CDO issuer/sponsor

They are big and real in the sector

Trading prices imply appr 84 on the AAAs and 76 on the AAs assuming 0bp cash/cds basis

Acct wanted to trade in CDS b/c of the term "funding" GS is supplying through buying protection vs. taking the month-to-month financing risk in the repo market if they owned the bonds

We pushed them towards cash but this was their preferred format

---

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.
Sent: Wed Jun 13 05:15:59 2007
Subject: Re: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

Is it from basis? I don't know them
Why would they write protection vs buying the underlyer What price does this imply

----- Original Message -----
From: Lehman, David A.
To: Swenson, Michael; Mullen, Donald; Brafman, Lester R; Sparks, Daniel L; Montag, Tom
Sent: Wed Jun 13 04:14:54 2007
Subject: Basis - done on 50mm Twolf AAA and 50mm Twolf AA in CDS format

Great job by george maltezos - we have bot 50mm of TWOLF AAA protection @ 450 and 50mm of TWOLF AA protection @ 650, fixed cap w/ implied writedown

Confidential Treatment Requested by Goldman Sachs

From: Maltezos, George (GSJBW)
Sent: Tuesday, June 12, 2007 8:31 AM
To: Lehman, David A.; Egol, Jonathan
Cc: Chaudhary, Omar; Bohra, Bunty; Sparks, Daniel L
Subject: Re: Point Pleasant mark

Tks David.

I have been exchanging messages with Stuart Fowler over the last hour or so.

Indeed they need to be synched with GS on such issues. He claims we have marked point pleasant down 3 times since they bought the bonds. I believe he is mistaken. I feel I have been progressing things, to get to a resolution, but not officially there as yet. I have oferred them time on the phone with you/trading to clariffy all but no word back from Stuart. Its now 1030pm here.

Let's get the final legal issue (re isda) resolved and hit them back.

Rgds
George

[redacted] = Redacted by the Permanent Subcommittee on Investigations

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: 61[redacted]

----- Original Message -----
From: Lehman, David A. <david.lehman@gs.com>
To: Maltezos, George; Egol, Jonathan M - GS
Cc: Chaudhary, Omar J - GS; Bohra, Bunty B - GS; Sparks, Dan L - GS
Sent: Tue Jun 12 21:21:58 2007
Subject: Re: Point Pleasant mark

They need to be comfortable with their mark

Mkt has moved since their purchase, as evidenced by the pricing we r showing them on the offered side of the timberwolf AAA and AA

I am happy to get on the phone and discuss

Should be no disconnect here b/w basis and the desk

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2418

Confidential Treatment Requested by Go

----- Original Message -----
From: Maltezos, George (GSJBW)
To: Lehman, David A.; Egol, Jonathan
Cc: Chaudhary, Omar; Bohra, Bunty
Sent: Tue Jun 12 06:47:39 2007
Subject: FW: Point Pleasant mark

For Mr. Lehman….tks

From: Maltezos, George
Sent: Tuesday, 12 June 2007 8:46 PM
To: 'Stuart Fowler'
Cc: John Murphy; Sahil Sachdev
Subject: RE: Point Pleasant mark

Stuart – I assure you no foul here.

You bought these bonds at 1200dm / 81.75 dollar price on April 19 and the 75 mark for end-May is the first adjustment we've made since you bought the bonds.

I can also confirm we traded an original large block at 1000dm/88.33 dollar price at time of pricing the deal (April 10).

At just a week after the official pricing of the Pt Pleasant deal, we deemed 1200dm to be fair & reasonable – reflecting a "fair & reasonable" premium for the lack of liquidity for a block trade, and I can assure you each of John Niblo, Dan Sparks & I sincerely appreciated your support.

I want to offer you some 1-on-1 time with the trading desk at your earliest convenience to walk through their trading activities and how the MTM movements have been reflected. This can also be used to discuss the Timberwolf paper.

Please let me know how I can help address these issues.

gm

George Maltezos, CFA

Executive Director

Head of Structured Asset Solutions

Telephone 612 9320 1431

Facsimile 612 9320 1222

Mobile 61 [redacted]

<mailto:george.maltezos@gsjbw.com> george.maltezos@gsjbw.com

<http://www.gsjbw.com/> www.gsjbw.com

From: Stuart Fowler [mailto:sfowler@basiscap.com.au]
Sent: Tuesday, 12 June 2007 7:41 PM
To: Maltezos, George
Cc: John Murphy; Sahil Sachdev
Subject: Re: Point Pleasant mark

George why is this happening each month?

Did we buy the bonds over a GS mark and that keeps coming back at us?

Is there some sort of internal price wedge between us, GS NY and through you?

I need to be very clear on this and are we going to see a similar problem on timberwolf?

Stuart

-
Stuart Fowler
Managing Director
Basis Capital
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From: Sahil Sachdev [mailto:ssachdev@basiscap.com.au]
Sent: Tuesday, 12 June 2007 5:47 PM
To: Maltezos, George
Cc: Carrett, Paul; John Murphy; Chris Collins; Peter Dobson
Subject: Point Pleasant mark

Hey GM,

Our Point Pleasant bonds have been marked down from a purchase price of 81.7 to 75 (for month end marks and for margin call).
Considering we just bought this, why the significant move?!
Also what should we do about the margin call whist this issue is pending?

Regards,
Sahil Sachdev

Structured Credit
Level 37, Gateway Building,
1 Macquarie Place
Sydney, Australia
+ 61 2 8234 5513
ssachdev@basiscap.com.au <mailto:ssachdev@basiscap.com.au>
www.basiscap.com.au <http://www.basiscap.com.au/>

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From: george.maltezos@gsjbw.com
To: sfowler@basiscap.com.au
Cc: jmurphy@basiscap.com.au; ssachdev@basiscap.com.au
Subject: Re: Point Pleasant mark

Ok. It is my understanding it only got marked down once, but this should be easy to clear up.

I want to be constructive Stuart. I know its getting late, and I apologise for chewing up your evening. I still think a conversation with the trading desk should clariffy all. Let me know when it suits you to do this call.

I am at your disposal.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: 61[redacted]

----- Original Message -----
From: Stuart Fowler <sfowler@basiscap.com.au>
To: Maltezos, George
Cc: John Murphy <jmurphy@basiscap.com.au>; Sahil Sachdev <ssachdev@basiscap.com.au>
Sent: Tue Jun 12 21:42:56 2007
Subject: Re: Point Pleasant mark

We saw a reval in the first week of buying them - down - then April month end and now May month end. - I recall each time taking the bonds under 90.

Maybe the Basia guys can confirm this?

-
Stuart Fowler
Managing Director
Basis Capital
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----- Original Message -----
From: Maltezos, George <george.maltezos@gsjbw.com>
To: Stuart Fowler
Cc: John Murphy; Sahil Sachdev
Sent: Tue Jun 12 21:30:04 2007
Subject: Re: Point Pleasant mark

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2419

I'm not sure I understand what you mean by 3 times since you bought the bonds. point pleasant BBB have been marked down once since you've bought....reflecting overall softness in the market.

I want to resolve this Stuart.

We don't want to have a disconnect between Basis and GS. Let's do a call with our trading desk. Ok? This can happen now if you are free, or first thing in the morning.

Let me know how we can resolve.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: 61 [redacted]

----- Original Message -----
From: Stuart Fowler <sfowler@basiscap.com.au>
To: Maltezos, George
Cc: John Murphy <jmurphy@basiscap.com.au>; Sahil Sachdev <ssachdev@basiscap.com.au>
Sent: Tue Jun 12 21:11:33 2007
Subject: Re: Point Pleasant mark

Why have we seen this happen 3 times now since buying them at 'fair' price?

Surely the market has generally improved - not backed up 6 points - every time we get to a pricing date?

I am still not convinced nor happy.

-

Stuart Fowler
Managing Director
Basis Capital
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----- Original Message -----
From: Maltezos, George <george.maltezos@gsjbw.com>
To: Stuart Fowler
Cc: John Murphy; Sahil Sachdev

Sent: Tue Jun 12 20:45:31 2007
Subject: RE: Point Pleasant mark

Stuart – I assure you no foul here.

You bought these bonds at 1200dm / 81.75 dollar price on April 19 and the 75 mark for end-May is the first adjustment we've made since you bought the bonds.

I can also confirm we traded an original large block at 1000dm/88.33 dollar price at time of pricing the deal (April 10).

At just a week after the official pricing of the Pt Pleasant deal, we deemed 1200dm to be fair & reasonable – reflecting a "fair & reasonable" premium for the lack of liquidity for a block trade, and I can assure you each of John Niblo, Dan Sparks & I sincerely appreciated your support.

I want to offer you some 1-on-1 time with the trading desk at your earliest convenience to walk through their trading activities and how the MTM movements have been reflected. This can also be used to discuss the Timberwolf paper.

Please let me know how I can help address these issues.

gm

George Maltezos, CFA

Executive Director

Head of Structured Asset Solutions

Telephone 612 9320 1431

Facsimile 612 9320 1222

Mobile 61 403 189 116

george.maltezos@gsjbw.com <mailto:george.maltezos@gsjbw.com>

www.gsjbw.com <http://www.gsjbw.com/>

From: Stuart Fowler [mailto:sfowler@basiscap.com.au]
Sent: Tuesday, 12 June 2007 7:41 PM
To: Maltezos, George
Cc: John Murphy; Sahil Sachdev
Subject: Re: Point Pleasant mark

George why is this happening each month?

Did we buy the bonds over a GS mark and that keeps coming back at us?

Is there some sort of internal price wedge between us, GS NY and through you?

I need to be very clear on this and are we going to see a similar problem on timberwolf?

Stuart

-
Stuart Fowler
Managing Director
Basis Capital
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----- Original Message -----
From: Sahil Sachdev
To: Stuart Fowler
Sent: Tue Jun 12 18:14:21 2007
Subject: Fw: Point Pleasant mark

FYI

Sahil Sachdev

Basis Capital

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----- Original Message -----
From: Maltezos, George <george.maltezos@gsjbw.com>
To: Sahil Sachdev
Cc: Carrett, Paul <paul.carrett@gsjbw.com>; John Murphy; Chris Collins; Peter Dobson
Sent: Tue Jun 12 18:11:09 2007
Subject: RE: Point Pleasant mark

Hi Sahil – there has certainly been further softening in the market since the Point Pleasant trade was put on 8 weeks ago. We have infact traded some Point Pleasant BBBs at this level in the last 2 weeks, as compared to much worse levels we are hearing/seeing being done in the market on other AA-CDOsqd deals. This is regarded consistent with the marked down Timberwolf paper, and the current offer (to Basis) at ~84% (for AAAs) and ~77% (for AAs).

I hope this is helpful.

Tks,

George

George Maltezos, CFA

Executive Director

Head of Structured Asset Solutions

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Telephone 612 9320 1431

Facsimile 612 9320 1222

Mobile 61[redacted]

george.maltezos@gsjbw.com <mailto:george.maltezos@gsjbw.com>

www.gsjbw.com <http://www.gsjbw.com/>

From: Sahil Sachdev [mailto:ssachdev@basiscap.com.au]
Sent: Tuesday, 12 June 2007 5:47 PM
To: Maltezos, George
Cc: Carrett, Paul; John Murphy; Chris Collins; Peter Dobson
Subject: Point Pleasant mark

Hey GM,

Our Point Pleasant bonds have been marked down from a purchase price of 81.7 to 75 (for month end marks and for margin call).

Considering we just bought this, why the significant move?!

Also what should we do about the margin call whist this issue is pending?

Regards,

--

Sahil Sachdev

Structured Credit

Level 37, Gateway Building,

1 Macquarie Place

Sydney, Australia

' + 61 2 8234 5513

. ssachdev@basiscap.com.au <mailto:ssachdev@basiscap.com.au>

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Goldman Sachs JBWere Group 1300 366 790 or (61 3) 9679 1534

From: Maltezos, George (GSJBW)
Sent: Tuesday, June 12, 2007 6:27 AM
To: Lehman, David A.; Egol, Jonathan
Cc: Chaudhary, Omar
Subject: for David Lehman

Basis questioning the 75 mark on their Pt Pleasant BBBs.
As you know they bought 15mm at 81.75 (1200dm) and Mariner bought 11mm at 88.33(1000dm).
I am curious – where did you trade the last 6mm? (there were 32mm in the BBB class)

Does the 75 mark reflect actual trading or overall softness in the market?
I know you had indicated 70 was more like the number.

I would really appreciate your urgent attention here as Basis are crying foul...we may need to get on the phone with them NOW

Tks,
Gm
+61 403 189 116

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions
Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

Fixed Income, Currency and Commodities
Goldman Sachs JBWere Pty Ltd

Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2419

From: Rothery, Simon (GSJBW)
Sent: Wednesday, June 13, 2007 7:11 AM
To: Maltezos, George (GSJBW); Sparks, Daniel L; Lehman, David A.
Cc: Egol, Jonathan; Bohra, Bunty; Case, Benjamin
Subject: Re: URGENT: Basis

Awesome job George

----- Original Message -----
From: Maltezos, George
To: Sparks, Dan L - GS; Lehman, David A - GS
Cc: Egol, Jonathan M - GS; Bohra, Bunty B - GS; Rothery, Simon; Case, Benjamin C - GS
Sent: Wed Jun 13 18:09:59 2007
Subject: RE: URGENT: Basis

We are done!

I have just spoken to Stuart Fowler.

100mm trade is confirmed with Basis.

Thank you to all for your enormous focus & help to get this trade over the line.

Tks,
George

-----Original Message-----
From: Sparks, Daniel L [mailto:dan.sparks@gs.com]
Sent: Wednesday, 13 June 2007 10:38 AM
To: Maltezos, George; Lehman, David A - GS
Cc: Egol, Jonathan M - GS; Bohra, Bunty B - GS
Subject: Re: URGENT: Basis

Let me know if you need help tonight - or feel free to wake up the boys in spain. I'd love to tell the senior guys on 30 at risk comm wednesday morning that you moved 100mm

----- Original Message -----
From: Maltezos, George (GSJBW)
To: Sparks, Daniel L; Lehman, David A.
Cc: Egol, Jonathan; Bohra, Bunty
Sent: Tue Jun 12 18:58:03 2007
Subject: RE: URGENT: Basis

Dan - from what I can tell, we have credit & legal approvals in place.
We will document under Long Form Confo.

I have sent to Basis an update of all the trade details & will look to execute today for 18/June settlement.

The only pending issue is related to Point Pleasant marks and helping them get comfortable with this.

I will post you on any & all updates.

George
612 9320 1431

-----Original Message-----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2424

Confidential Treatment Requested by Goldr

From: Sparks, Daniel L [mailto:dan.sparks@gs.com]
Sent: Wednesday, 13 June 2007 8:32 AM
To: Maltezos, George; Lehman, David A - GS; Purswani, Hema--GS
Cc: Egol, Jonathan M - GS; Chan, Joanna - GS; Koblihova, Olga - GS
Subject: RE: URGENT: Basis

How's it going

-----Original Message-----
From: Maltezos, George (GSJBW)
Sent: Tuesday, June 12, 2007 4:58 PM
To: Lehman, David A.; Purswani, Hema
Cc: Egol, Jonathan; Chan, Joanna; Koblihova, Olga - GS; Sparks, Daniel L
Subject: RE: URGENT: Basis

Hema,
As you know, this language is standard for Basis on all their ISDAs, including the one we currently have with their other fund.

This language is a "must have" for Basis. They will not sign an ISDA otherwise. To give you an idea, this point was negotiated for about 3 months last year.

Given the above, and David's comments below, the only solution I see is to trade under Long Form Confirmation.

Can we pls move forward on that basis please?

Rgds,
George
612 9320 1431

-----Original Message-----
From: Lehman, David A. [mailto:david.lehman@gs.com]
Sent: Wednesday, 13 June 2007 2:29 AM
To: Purswani, Hema - GS
Cc: Egol, Jonathan M - GS; Maltezos, George; Chan, Joanna - GS; Koblihova, Olga - GS; Sparks, Dan L - GS
Subject: Re: URGENT: Basis

We r fine with the below language for the current trades, but not sure we want to commit to this language for the ISDA @ this time

Can we carve these trades out and document under a LFC?

George, can u also pls push the client to agree to standard MQ where they get unwound @ the appropriate side of the mkt? If not, as stated, we agree to the mid language for these trades, but need to think abt it more for the ISDA.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]

Confidential Treatment Requested by Goldman Sachs

e-mail: david.lehman@gs.com

----- Original Message -----
From: Purswani, Hema
To: Lehman, David A.
Cc: Egol, Jonathan; Maltezos, George (GSJBW); Chan, Joanna; Koblihova, Olga
Sent: Tue Jun 12 11:31:27 2007
Subject: URGENT: Basis

David,

I refer to the below correspondence re: the ISDA with Basis Yield Alpha Fund (Master), and your email which George has kindly forwarded to us for reference.

As we understand that this is fairly urgent for tomorrow morning Sydney time, in order to facilitate the process, we would just like to clarify that the Market Quotation applied in the existing ISDA with Basis Pac-Rim and also for this Fund is not the standard MQ per 1992 ISDA, but the amended version of MQ (copied below for your reference). I also attach for your reference the previous discussions about this from late last year.

"The Market Quotation will apply; provided that where an Early Termination Date is designated due to the occurrence of any Additional Termination Event, any quotation from a Reference Market-maker shall be a Mid-market Quotation. For these purposes, a "Mid-market Quotation"
means a quotation from a Reference Market-maker that has been adjusted to exclude any spread; provided that, if the Reference Market-maker will not reveal the spread included in its quotation, the Calculation Agent shall determine the appropriate adjustment in good faith and a commercially reasonable manner."

Accordingly, we would appreciate if you could kindly confirm that you are OK with the above amended version of Market Quotation to apply for the ISDA with Basis Yield Alpha Fund (Master) as well.

Many thanks, Hema

Goldman Sachs (Asia) L.L.C.
68/F Cheung Kong Center | 2 Queen's Road Central | Hong Kong
Tel: 852-2978 1662 | Fax: 852-2978 1966
email: hema.purswani@gs.com

Hema Purswani Goldman
Legal Department Sachs

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-----Original Message-----
From: Maltezos, George (GSJBW)
Sent: Tuesday, June 12, 2007 9:58 PM
To: Purswani, Hema; Koblihova, Olga - GS
Subject: FW: Basis

Hema - as per a vmail, please find below the OK from the business (David LEHMAN is Jon EGOL's boss).

I am keen to hear from you how to translate this to a GREEN LIGHT to trade the risk with Basis Capital.

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Pls email/call me with your advice.

Tks,
gm
612 9320 1431

-----Original Message-----
From: Lehman, David A. [mailto:david.lehman@gs.com <mailto:david.lehman@gs.com>]
Sent: Tuesday, 12 June 2007 11:56 PM
To: Maltezos, George
Cc: Sparks, Dan L - GS; Egol, Jonathan M - GS
Subject: Basis

As discussed, we r comfortable with "market quotation" for the ISDA with Basis Yield Alpha and the CDO^2 trade we r discussung.

Pls trade in the a.m. Syndey time @ the agreed upon levels

Don't hesitate to call me if things change.

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Maltezos, George (GSJBW)
Sent: Wednesday, June 13, 2007 2:24 AM
To: John Murphy; Stuart Fowler
Cc: Lehman, David A.; Sahil Sachdev
Subject: Timberwolf

Murph & Stuart - I just wanted to mention David LEHMAN is in Barcelona and available for the next 60minutes to discuss the trading activities of Goldman and more specifically the Point Pleasant BBB notes.

He is en route to the airport, after which he will be flying to NY.

I wanted to ensure you had the opportunity to speak with him while he was available on any outstanding issues.

Pls call/email me your thoughts re next steps to help finalise the Timberwolf trade.

George
+612 9320 1431

-----Original Message-----
From: Stuart Fowler [mailto:sfowler@basiscap.com.au]
Sent: Wednesday, 13 June 2007 10:07 AM
To: Maltezos, George
Subject: RE: Stuart - are you free to talk?

No - I am going into a 2 hour DD session ....it will have to be late this afternoon..

-----Original Message-----
From: Maltezos, George [mailto:george.maltezos@gsjbw.com]
Sent: Wednesday, 13 June 2007 10:05 AM
To: Stuart Fowler
Subject: Stuart - are you free to talk?

From: Maltezos, George
Sent: Wednesday, 13 June 2007 7:24 AM
To: 'Stuart Fowler'; John Murphy; Sahil Sachdev
Cc: Lehman, David A - GS; Carrett, Paul; Harris, Kate; Rolleston, Jeremy
Subject: Timberwolf I, Ltd. -- PAUG trade with Basis Cap (YIELD ALPHA FUND)

Good Morning Stuart.

Not sure how you want to deal with the Point Pleasant marks/discussion.
FYI - David Lehman (cc:ed above), who runs our CDO trading business in NY is currently in Barcelona (conference) and available this morning to take your call to clarify any and all questions you have on the marking policy of Goldman, the actual marking of Point Pleasant, and the overall trading that has been seen by the GS desk in the last 1-6 months.

Please find below and attached updated trade details and cashflows on the $100mm Timberwolf PAUG trade. We are looking to trade this under Long Form Confirmation, incorporating all of the negotiated terms with Peter Dobson (which obviously reflects the standard language used by Basis on all of its ISDAs with the street).

Following the resolution of docs & credit, these are FIRM LEVELS (BID SIDE PROTECTION).

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2425

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We would look to agree & trade this with Basis today for settlement Mon June 18, 2007.

You can reach me (at any time) on 0403 189 116 / (02) 9320 1431.

TWOLF 07-1 A2 Trade Details ("AAA" notes):
* Protection Seller: Basis Capital (Yield Alpha Fund)
* Protection Buyer: GSI
* Trade Date: June 13, 2007
* Effective Date: June 18, 2007
* Reference Obligation: TWOLF 2007-1A A2
* CUSIP: 88714PAF3
* Legal Final Maturity: December 3, 2047
* Fixed Rate: 0.90%
* Initial Payment: 15.67% (as per attachment) from Buyer to Seller (held until final payment date)
* Reference Obligation Coupon: LIBOR 03M + 0.90%
* Initial Face: USD 50,000,000
* Initial Factor: 1.0000
* Reference Obligation Payment Date: 3rd
* Credit Events: Failure to Pay Principal; Writedown; Failure to Pay Interest; Distressed Ratings Downgrade
* Implied Writedown: Applicable
* Interest Shortfall Cap: Applicable
* Interest Shortfall Cap Basis: Fixed Cap
* Interest Shortfall Compounding: Applicable
* Reference Entity: Timberwolf Ltd
* Scheduled Termination Date: December 3, 2047
* Calculation Agent: Protection Buyer
* Notifying Party: Protection Buyer
* Initial Margin Amount: 7.5% of Initial Face

TWOLF 07-1 B Trade Details ("AA" notes):
* Protection Seller: Basis Capital (Yield Alpha Fund)
* Protection Buyer: GSI
* Trade Date: June 13, 2007
* Effective Date: June 18, 2007
* Reference Obligation: TWOLF 2007-1A B
* CUSIP: 88714PAG1
* Legal Final Maturity: December 3, 2047
* Fixed Rate: 1.40%
* Initial Payment: 22.69% (as per attachment) from Buyer to Seller (held until final payment date)
* Reference Obligation Coupon: LIBOR 03M + 1.40%
* Initial Face: USD 50,000,000
* Initial Factor: 1.0000
* Reference Obligation Payment Date: 3rd
* Credit Events: Failure to Pay Principal; Writedown; Failure to Pay Interest; Distressed Ratings Downgrade
* Implied Writedown: Applicable
* Interest Shortfall Cap: Applicable
* Interest Shortfall Cap Basis: Fixed Cap
* Interest Shortfall Compounding: Applicable
* Reference Entity: Timberwolf Ltd
* Scheduled Termination Date: December 3, 2047
* Calculation Agent: Protection Buyer
* Notifying Party: Protection Buyer
* Initial Margin Amount: 15% of Initial Face

Tks,

Produced by Goldman Sachs

George

[redacted] = Redacted by the Permanent Subcommittee on Investigations

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions
Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61[redacted]
george.maltezos@gsjbw.com
www.gsjbw.com <http://www.gsjbw.com/>

From: Sharma, Nityanand [mailto:Nityanand.Sharma@gs.com]
Sent: Wednesday, 13 June 2007 2:40 AM
To: Maltezos, George
Cc: Case, Benjamin C - GS; Bieber, Matthew G - GS; Lehman, David A - GS; Chaudhary, Omar J - GS; Bohra, Bunty B - GS; Carrett, Paul; Rolleston, Jeremy; Harris, Kate; Creed, Christopher J - GS; Egol, Jonathan M - GS
Subject: Timberwolf I, Ltd. -- Computational Materials for Basis Cap (144a/Reg S) (external) -- confidential

Strictly Confidential and Proprietary

Attached are the Price/DM/Avg. Life/Duration on the Class A2 and Class B notes of the Timberwolf I transaction assuming the trade settle on 06/18/2007. Also are attached the base case cash flows. Runs assume that trade settles on 06/18/2007.

<<Timberwolf I Cash Flows 06-12-2007.xls>> <<Final Offering Circular (disclaimed).pdf>>

Risk Factors: An investment in the securities presents certain risks, please see the Final Offering Circular for a description of certain risk factors.

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From: Maltezos, George
To: Sahil Sachdev; John Murphy; Stuart Fowler;
CC:
Subject: RE: Point Pleasant mark
Date: Wednesday, June 13, 2007 3:32:37 AM
Attachments: image001.jpg

Stuart,
Please accept my sincerest apologies for the mis-information below.
As David mentioned, the 75 mark on Pt Pleasant BBB was more relfective of an interpretation of softer AAA-AA rated CDO-sqd paper translating to BBB part of the curve.

George

From: Maltezos, George
Sent: Tuesday, 12 June 2007 6:11 PM
To: 'Sahil Sachdev'
Cc: Carrett, Paul; John Murphy; Chris Collins; Peter Dobson
Subject: RE: Point Pleasant mark

Hi Sahil – there has certainly been further softening in the market since the Point Pleasant trade was put on 8 weeks ago. We have infact traded some Point Pleasant BBBs at this level in the last 2 weeks, as compared to much worse levels we are hearing/seeing being done in the market on other AA-CDOsqd deals. This is regarded consistent with the marked down Timberwolf paper, and the current offer (to Basis) at ~84% (for AAAs) and ~77% (for AAs).

I hope this is helpful.

Tks,
George

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2426

George Maltezos, CFA
Executive Director
Head of Structured Asset Solutions

Telephone 612 9320 1431
Facsimile 612 9320 1222
Mobile 61 [redacted]
george.maltezos@gsjbw.com
www.gsjbw.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Sahil Sachdev [mailto:ssachdev@basiscap.com.au]
Sent: Tuesday, 12 June 2007 5:47 PM
To: Maltezos, George
Cc: Carrett, Paul; John Murphy; Chris Collins; Peter Dobson
Subject: Point Pleasant mark

Hey GM,

Our Point Pleasant bonds have been marked down from a purchase price of 81.7 to 75 (for month end marks and for margin call).

Considering we just bought this, why the significant move?!

Also what should we do about the margin call whist this issue is pending?

Regards,

Sahil Sachdev

Structured Credit

Basis

Level 37, Gateway Building,

1 Macquarie Place

Sydney, Australia

+ 61 2 8234 5513

ssachdev@basiscap.com.au

www.basiscap.com.au

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From: Case, Benjamin
Sent: Wednesday, July 11, 2007 8:22 PM
To: Bieber, Matthew G.
Subject: FW: Basis

-----Original Message-----
From: Sparks, Daniel L
Sent: Wednesday, July 11, 2007 8:20 PM
To: Sheppard, Shaun; Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

It they default, can we apply any excess from repo to swaps?

-----Original Message-----
From: Sheppard, Shaun
Sent: Wednesday, July 11, 2007 4:54 PM
To: Sheppard, Shaun; Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

Update following conf call trading/legal(Ldn&NY)/Ops (credit unable to join - have left an update v-m for Greg):

-Estimated clean funds available to meet call requirements approx USD13.5mm if Basis accepts GS bids.
-estimated surplus after meeting repo margin requirement USD5mm approx
- documentation does not allow us to automatically use this to cover swaps collateral requirement. Client agreement/authorisation would be required.
-agreed to make client's agreement to this a condition of trade - ldn legal (Michaela) to draft suitable authorisation for David to send on.
- Ops will need to hand hold all events to make sure no external settlement made and funds applied to calls. Brian has reached out to give settlement groups a heads up.
- David to George on situation
- George to update this group on outcome of communication with Basis and how they plan to meet the calls either by accepting GS bids, or delivery of cash value tomorrow.

Shaun

-----Original Message-----
From: Sheppard, Shaun
Sent: Wednesday, July 11, 2007 7:25 PM

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2430

To: Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

Have just spoken to David Lehman and we have just left a v-m with Tom Riggs:

Update:

Gerry Oudekirk and David Lehman are to meet with Dan Sparks and Don Mullen to agree bid pricing this in the next 90 minutes or so. David will revert to this group with an update following this. We should get an idea of the clean funds which might be available to Basis if they accept our bids. Clearly preference would be for Basis to meet calls with free cash.

David and I will circle back with legal/credit/ops to establish next steps re netting margin requirements vs proceeds to make sure we don't inadvertently release funds/securities to the client.

David has a 5pmNY/7am Sydney call with George to update and agree approach with client.

Shaun

-----Original Message-----
From: Messina, Michaela Leti
Sent: Wednesday, July 11, 2007 6:38 PM
To: Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John
Subject: RE: Basis

Copying Robyn, Andy and John in NY and London Legal.

Goldman Sachs International
Peterborough Court | 133 Fleet Street | London EC4A 2BB Tel + 44 (0) 20 7552 2303 | Fax + 44 (0) 20 7774 1989 E-mail MichaelaLeti.Messina@gs.com

Michaela Leti Messina
Executive Director and Counsel
Legal Department

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-----Original Message-----
From: Tamman, Maurice
Sent: Wednesday, July 11, 2007 1:06 PM

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To: Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul
Subject: RE: Basis

Conversation this morning between George Maltezos, Jean-Marc Morel, Desiree Lam, Shaun Sheppard and I to confirm and agree expectations and timeline/actions around Basis meeting the three calls we issued last night London time:

- Gerald Ouderkik's desk to provide bid pricing on CLO to Basis for Australia start of business – David /George please can you confirm to Gerald the positions to be priced if not already done so?
- George to speak to Basis tomorrow, Sydney AM, to agree how client will honour the margin call.
- Basis to agree calls by 12 Jul COB Sydney time/SOB London time
- Funds due to meet all calls by COB 12 Jul

Thanks,
Maurice

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-----Original Message-----
From: Tamman, Maurice
Sent: Tuesday, July 10, 2007 9:22 PM
To: Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; 'paul.carrett@gsjbw.com'; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom
Subject: Re: Basis

All,

These margin calls have been issued late in the London day on instruction from David Lehman, with the intention of ensuring the client has time to review and respond to the margin call by CoB Australia T+1.

Thanks,
Maurice

----- Original Message -----
From: Hammatt, Julie
To: Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (

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GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom
Sent: Tue Jul 10 21:13:07 2007
Subject: RE: Basis

Hi,

Using the marks received by the desk, we see the following calls on BASIS.

These calls have been issued this evening London time for BASIS to receive first thing tomorrow morning.

REPO

Basis Pac Rim Opportunity	$4,130,000
Basis Yield Alpha	$4,270,000

OTC

Basis Yield Alpha	$5,100,000

We will await the client's response and will keep you updated tomorrow.

Regards

Julie

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 05, 2007 11:27 AM
To: Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom
Subject: RE: Basis

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Adding Tom Riggs and Robin Vince into the chain for completeness

Nicola

-----Original Message-----

From: Molloy, Macdara

Sent: Thursday, July 05, 2007 10:43 AM

To: Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Kane, Nicola; Sheppard, Shaun

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Yes Desiree I think another call is necessary to take them through the marks, they will have left the office in Sydney by the time New York get in.

Regards,

Macdara

-----Original Message-----

From: Lam, Desiree

Sent: Thursday, July 05, 2007 10:38 AM

To: Molloy, Macdara; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Kane, Nicola; Sheppard, Shaun

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Thanks Macdara. Does it mean that they'd need to see the full break down of the marks and

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talk to David again (earliest NY time tonight) before they'd decide whether they agree on the marks? And there'll be at least 1 day delay for their margin?

Regards,

Desiree

-----Original Message-----

From: Molloy, Macdara

Sent: Thursday, July 05, 2007 4:32 PM

To: Maltezos, George (GSJBW); Lam, Desiree; Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Kane, Nicola; Sheppard, Shaun

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Despite giving the impression that they agreed the CDO marks as discussed on the call with the Trading desk, Basis have now stated that they want further clarification on these marks before they are happy to meet the two Repo calls.

David - they are looking for a line by line breakdown of the changes for each mark.

The OTC has been agreed in full with a payment of $5.04mm paid for value today, we are checking with Treasury to see when these funds hit our account.

Regards,

Macdara

-----Original Message-----

From: Maltezos, George (GSJBW)

Sent: Thursday, July 05, 2007 8:17 AM

To: Lam, Desiree; Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara;

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Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: Re: Basis

Update:

There was a constructive call between basis and trading (Lehman, Case, Egol) re marks at 8PM EST Wednesday.

Natalie Witt and I just spoke to John Murphy at basis. It seems the marks have been accepted and we are awaiting confirmation of basis's plans to meet the margin call.

Will revert ASAP.

George Maltezos

Structured Asset Solutions

Tel: 612 9320 1431

Mob: 61 [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----

From: Lam, Desiree <desiree.lam@gs.com>

To: Sparks, Dan L - GS; Lim, Sonia - GS; Benkert, Oliver B - GS; Maltezos, George; Lehman, David A - GS; Viani, Matthew L - GS; Ng, Chris - GS; Morel, Jean-Marc - GS; Yamamoto, Yumi - GS; Witt, Natalie - GS; Molloy, Macdara - GS; Preisano, Anthony P - GS; Tamman, Maurice - GS; Hammatt, Julie - GS; Bury, Jonathan P - GS; Rapfogel, Alan M - GS; Armstrong, Phil S - GS; Young, Gregory - GS

Cc: Case, Benjamin C - GS; Carrett, Paul; Harris, Kate; Rolleston, Jeremy; Swenson, Michael J - GS; Egol, Jonathan M - GS; Wang, Josh - GS; Chan, Joanna - GS; Dausch, Andrew W - GS; Ireland, Alan - GS; Anderson, James A - GS; Messina, Michaela Leti - GS; Pynt, Benjamin - GS

Sent: Wed Jul 04 22:33:51 2007

Subject: RE: Basis

Copying Greg Young in the conversation. Thx.

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-----Original Message-----

From: Sparks, Daniel L

Sent: Wednesday, July 04, 2007 8:31 PM

To: Lim, Sonia; Benkert, Olly; Maltezos, George (GSJBW); Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Please keep me posted and involved if decisions get difficult

-----Original Message-----

From: Lim, Sonia

Sent: Wednesday, July 04, 2007 6:27 AM

To: Benkert, Olly; Maltezos, George (GSJBW); Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Desiree, thanks for the heads up on this. As dsicussed, please can you arrange for the documents for the outstanding transactions to be forwarded to us ? Please can you also keep Ben Pynt copied on this as he will assist with any input which is required from legal ?

Thanks, Sonia

-----Original Message-----

From: Benkert, Olly

Sent: Wednesday, July 04, 2007 6:18 PM

To: Maltezos, George (GSJBW); Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris;

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Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Lim, Sonia; Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti

Subject: RE: Basis

I am following up with ops on the corporate actions to confirm if we can agree as soon as possible what the amounts are we owe them - I understand from ops (copied on this) that there is some clarification required from Basis.

To their question about netting the corporate action payments with the repo margin calls we are in now way obliged to do that. If they don't meet our margin calls by cob tomorrow we will be within our rights to close them out under the facility agreement and gmra.

That said, we should discuss the approach especially given the (fair?) reponse from Basis with a view to agreeing the marks on the repos as soon as possible and we may take the decision to agree to net the 2 amounts but we would need resolution on the corporate actions before cob tomorrow to do so and that may not be practical.

First up I think is to agree the marks then we can work out how we want to move on the margin vs the corporate action.

-----Original Message-----

From: Maltezos, George (GSJBW)

Sent: Wednesday, July 04, 2007 10:18 AM

To: Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Lim, Sonia; Chan, Joanna

Subject: RE: Basis

Maurice and I just finished the call with Peter Dobson (Basis).

1 - Basis have plenty of cash to make the full margin call, but the approach by Goldman has been viewed to be very aggressive and unwarranted & is hurting the relationship

2 - Basis will arrange for v/d 5 July the Timberwolf margin (USD5.04mm) subj to them receiving a note confirming the OTC swap would pay them any MTM improvement.

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3 - Basis is not prepared to pay the margin call on the Repos (USD3.72mm

+ USD4.43mm) until the discussion re: revals has been made. David -

lets do this Thu morning SYD / Wed evening NY time. This is the case despite numerous suggestions for Basis to make a payment now and get a refund if the margin call was overstated.

4 - Basis cannot see any justification for the massive mark down in the securities (under the REPO), and are interpreting our revals as a way to reduce the repo financing line.

5 - They are disappointed Goldman have not paid to Basis the equity distributions under the REPO/GMRA. We potentially owe Basis approx USD5mm here. Can this be netted against the margin call? Olly - can you double check this pls?

6 - Basis claim Goldman have not cared to check in with Basis (from a credit perspective) to see how they are doing and instead are acting like the world is falling over with irrational behaviour.

George

+612 9320 1431

-----Original Message-----

From: Lam, Desiree [mailto:desiree.lam@gs.com]

Sent: Wednesday, 4 July 2007 6:35 PM

To: Lehman, David A - GS; Viani, Matthew L - GS; Maltezos, George; Ng, Chris - GS; Morel, Jean-Marc - GS; Yamamoto, Yumi - GS; Witt, Natalie - GS; Molloy, Macdara - GS; Benkert, Oliver B - GS; Preisano, Anthony P - GS; Tamman, Maurice - GS; Hammatt, Julie - GS

Cc: Case, Benjamin C - GS; Carrett, Paul; Harris, Kate; Rolleston, Jeremy; Sparks, Dan L - GS; Swenson, Michael J - GS; Egol, Jonathan M - GS; Wang, Josh - GS; Lim, Sonia - GS; Chan, Joanna - GS

Subject: RE: Basis

Importance: High

Even client disagrees on the marks, they are obligated to meet the call amount as provided

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by the calculator, GS. But they have the right to go through the prices with us. If they don't meet the call today, they are

in danger of defaulting margin payment. George is trying to explain to

client that if they have cash available, they are encouraged to first meet the call and continue the marks discussion throughout the next 2 days.

Copying Sonia Lim from Legal to confirm the legal proceedings, as we may potentially need to issue demand note tomorrow.

George, Maurice, how was the discussion with client? If necessary, we'd need to trouble David to be on call with client to understand what exactly they want to clarify in terms of the marks.

Desiree

-----Original Message-----

From: Lehman, David A.

Sent: Wednesday, July 04, 2007 4:22 PM

To: Viani, Matthew; Lam, Desiree; Maltezos, George (GSJBW); Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan

Subject: Re: Basis

I can get on the phone this morning NY time to discuss (ie Wed works) w the client

I would like to know what the precedent there is here - does GS need (outside of the client issues) to provide the below info to justify our prices???

For example, on the TWOLF CDS, GS is willing to deal (bid and offer) in the context of our prices

On the equity securities, this is an illquid mkt where there are not a lot of recent trade spots, but it is clear that 1) other parts of the CDO cap structure are materially wider 2) the underlying assets w/i the CDO are materially wider

If credit can speak to the above ASAP it would be appreciated

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David A. Lehman

Goldman, Sachs & Co.

85 Broad Street | New York, NY 10004

Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]

e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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----- Original Message -----

From: Viani, Matthew

To: Lam, Desiree; Maltezos, George (GSJBW); Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie

Cc: Lehman, David A.; Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Molloy, Macdara

Sent: Wed Jul 04 03:32:44 2007

Subject: Re: Basis

Technically basis should have already satisfied the call by the time the NY folks get back into the office thursday morning NY time. Would obviously still be happy to have a call / provide any additional color at that time.

----- Original Message -----

From: Lam, Desiree

To: Maltezos, George (GSJBW); Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Viani, Matthew; Tamman, Maurice; Hammatt, Julie

Cc: Lehman, David A.; Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW);

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Rolleston, Jeremy (GSJBW)

Sent: Wed Jul 04 02:51:29 2007

Subject: RE: Basis

It's NY holiday today, would we be able to reach the right person in NY in time? Thanks.

Desiree

From: Maltezos, George (GSJBW)

Sent: Wednesday, July 04, 2007 2:47 PM

To: Lam, Desiree; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Viani, Matthew; Tamman, Maurice; Hammatt, Julie

Cc: Lehman, David A.; Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW)

Subject: Basis

I just spoke with Peter Dobson at Basis (430pm SYD time).

He is not concerned with the $$ of the margin call, but very concerned about the marks - they are contesting these levels, ie seeking clarity before agreeing to pay the margin.

They want to see:-

- the comparable market data point for the Timberwolf marks

- more info for each of the ABS CDO marks like IRRs, CDR, CPR, reinvestment profile, WAL, cashflows, etc

- the market data point for those marks, & actual trade examples done at these levels

- any other colour specific to these deals which helps Basis understand the marks

I will be arranging a call b/wn Basis and the NY traders asap

Rgds,

George

+612 9320 1431

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From: Lam, Desiree [mailto:desiree.lam@gs.com]

Sent: Wednesday, 4 July 2007 4:30 PM

To: Maltezos, George

Cc: Ng, Chris - GS; Morel, Jean-Marc - GS; Yamamoto, Yumi - GS; Witt, Natalie - GS; Molloy, Macdara - GS

Subject: RE: Basis

HI George, please help confirm client's plan to meet the margin call.

Thanks.

Copying Ops as well.

Desiree

From: Maltezos, George (GSJBW)

Sent: Wednesday, July 04, 2007 8:56 AM

To: Lam, Desiree

Cc: Ng, Chris; Morel, Jean-Marc

Subject: RE: Basis

Good morning - basis has received the margin calls. I have not heard back. Will revert asap.

From: Lam, Desiree [mailto:desiree.lam@gs.com]

Sent: Wednesday, 4 July 2007 10:53 AM

To: Maltezos, George

Cc: Ng, Chris - GS; Morel, Jean-Marc - GS

Subject: Basis

Confidential Treatment Requested by Goldman Sachs

Hi George, good morning.

Not sure if you have a chance to talk to the client this morning, are they ok to arrange funding today? Kindly keep us posted.

Many thanks,

Desiree Lam
Credit Risk Management & Advisory
Tel: 852.29781203 I Fax: 852.29780242
Email: desiree.lam@gs.com

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Friday, July 13, 2007 10:13 AM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald
Subject: FW: Basis

Tom - As discussed

-----Original Message-----
From: Lehman, David A.
Sent: Friday, July 13, 2007 6:50 AM
To: Lehman, David A.; Riggs, Tom; Schick, Sharon; Egol, Jonathan; Kane, Nicola; Young, Greg; Tota, Frank; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco; 'Seth GROSSHANDLER'; Hammatt, Julie; Witt, Natalie; Mullen, Donald; Brafman, Lester R
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Update

George Maltezos spoke with Basis late afternoon SYD time

In short, the client is communicating that the PAC RIM fund is OK and the YLD ALPHA fund is in real trouble

Basis indicated that GS was the first to send them default notices

Basis is still not signing the 2-page netting agreement

Basis has indicated that they will entertain a portfolio trade for all the assets (CDS and Cash) in YLD ALPHA

Basis has asked for "breathing space" w/r/t what they owe us, and claim 4 other financing CPs are giving them some grace time

I hope to get on with Basis in the next 1hr

Either way, let's circle up internally @ 8:00 NYT

Domestic: 1-888-446-9294
International: 1-719-884-8863
Passcode: 891254

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, July 12, 2007 5:54 PM
To: Riggs, Tom; Schick, Sharon; Egol, Jonathan; Kane, Nicola; Young, Greg; Tota, Frank; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco; 'Seth GROSSHANDLER'; Hammatt, Julie; Witt, Natalie
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

OK - for the swaps, yesterday we were owed 5.1mm USD, today we are calling for an add'l

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2433

Confidential Treatment Requested by Gold

8.18mm, so 13.28mm all-day in YLD ALPHA

Can GSI pls bifurcate for the client ASAP?

-----Original Message-----
From: Riggs, Tom
Sent: Thursday, July 12, 2007 5:42 PM
To: Lehman, David A.; Schick, Sharon; Egol, Jonathan; Kane, Nicola; Young, Greg; Tota, Frank; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco; 'Seth GROSSHANDLER'
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Then we will mess up the timing for delivery....we need to track the due dates for grace period, at least for the swaps

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, July 12, 2007 5:40 PM
To: Riggs, Tom; Schick, Sharon; Egol, Jonathan; Kane, Nicola; Young, Greg; Tota, Frank; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

No - to be clear, this is inclusive of what they owe us from y'day

-----Original Message-----
From: Riggs, Tom
Sent: Thursday, July 12, 2007 5:39 PM
To: Lehman, David A.; Schick, Sharon; Egol, Jonathan; Kane, Nicola; Young, Greg; Tota, Frank; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

These are in addition to the missed calls yesterday, right?

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, July 12, 2007 5:38 PM
To: Schick, Sharon; Egol, Jonathan; Kane, Nicola; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Tonight we have sent the below margin calls to Basis

REPO - Basis Pac Rim Opportunity $415,000

REPO - Basis Yield Alpha $5,850,000

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CDS - Basis Yield Alpha $13,280,000

We'll get on the with account ASAP and circle back to the group with color

-----Original Message-----
From: Schick, Sharon
Sent: Thursday, July 12, 2007 4:02 PM
To: Egol, Jonathan; Kane, Nicola; Lehman, David A.; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Cafagna, Francesco
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

please include frankie cafagna (ny repo desk head) on all future Basis related emails.

-----Original Message-----
From: Egol, Jonathan
Sent: Thursday, July 12, 2007 3:55 PM
To: Kane, Nicola; Lehman, David A.; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Attached please find updated marks for COB 12 July 2007 (see column N highlighted in yellow).

Please apply these marks to generate the margin call for Sydney open.

Also, for purposes of the TWOLF CDS versus Yield Alpha, we have input the follow marks for COB 12th July 2007:

TWOLF A2 = $17.5mm in favor of GSI (ie, 65 price) TWOLF B = $20.0mm in favor of GSI (ie, 60 price)

Please call David Lehman or Jonathan Egol with questions.

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 12, 2007 3:43 PM
To: Lehman, David A.; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

As per our call the collateral numbers based upon COB Wed 11th July are:

REPO

Basis Pac Rim Opportunity

Loan Amount	$23,132,400
Offset by securities plus cash held (pre-haircut)	$37,255,400 (this includes the $4.13 received today)

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Call issued to client (COB 10th)	$4,130,000 - FUNDS RECEIVED
Basis Yield Alpha	
Loan Amount	$22,356,689
Offset by securities plus cash held (pre-haircut)	$25,740,000
Call issued to client (COB 10th)	$4,280,000
OTC	
Basis Yield Alpha	
Total exposure	$29,169,682
Collateral Held	$35,471,850
Call issued to client (COB 10th)	$5,100,000

We will send revised numbers based on today's marks.

Nicola

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, July 12, 2007 7:20 PM
To: Kane, Nicola; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

The client has been unresponsive for the past 60 minutes

As of now Basis has not committed to make the repo or CDS margin call in Yld Alpha

In addition, we have not traded the CLO equity or executed the netting agreement

Let's get on the phone @ 2:30 to discuss next steps and thoughts

Domestic: 1-888-446-9294
International: 1-719-884-8863
Passcode: 891254

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 12, 2007 2:15 PM
To: Young, Greg; Tota, Frank; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

ccing Denise and Phil

-----Original Message-----
From: Young, Greg
Sent: Thursday, July 12, 2007 7:05 PM
To: Tota, Frank; Kane, Nicola; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen,

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Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Given that Basis must consent to this, and given we are in ongoing discussions with Basis on meeting margin calls, I suspect that a recall effort would not be successful. David, I know you've been in ongoing discussion with them. What's your assessment?

-----Original Message-----
From: Tota, Frank
Sent: Thursday, July 12, 2007 1:57 PM
To: Kane, Nicola; Young, Greg; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

[redacted]

We have the ability to initiate a recall of the funds through [redacted], but it would be accomplished with the consent of Basis allowing [redacted] to take back the funds, which is standard practice. I had a quick conversation with [redacted] and we thought it would be wise to present this option to the distribution to determine if we want to take this course of action.

Many thx
Frank Tota

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 12, 2007 1:06 PM
To: Young, Greg; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Tota, Frank
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent
Subject: RE: Basis

I have spoken to Frank Tota who runs Treasury Ops and asked him to investigate this.
-----Original Message-----
From: Young, Greg
Sent: Thursday, July 12, 2007 5:47 PM
To: Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Kane, Nicola; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent
Subject: RE: Basis

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Tom,

I do not know any of the details behind this - I've asked for them.

-----Original Message-----
From: Riggs, Tom
Sent: Thursday, July 12, 2007 12:42 PM
To: Young, Greg; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Kane, Nicola; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent
Subject: RE: Basis

I thought that couldn't happen?

-----Original Message-----
From: Young, Greg
Sent: Thursday, July 12, 2007 12:41 PM
To: Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Young, Greg; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Riggs, Tom; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Kane, Nicola; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent
Subject: FW: Basis

I've just been informed that this payment was inadvertently released without approval.

-----Original Message-----
From: Young, Greg
Sent: Thursday, July 12, 2007 12:15 PM
To: Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Young, Greg; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Riggs, Tom; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Kane, Nicola; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent
Subject: FW: Basis

Per the attached, GS has a reverse repo trade with Basis Yield Alpha on GSN 8R0ER0. This repo was open over a record date of a coupon payment. Consequently GSIL received the coupon that, under the repo terms is due back to Basis. Upon a claim from Merrill Lynch (custodian for Basis) Asset Services submitted this $327k payment. This payment has now hit the high risk payments system for release.

Subject to comments from the group, we are not releasing these funds. If there are factors we should consider with respect to releasing payment, please let us know.

Thanks

Greg

-----Original Message-----
From: Lepis, Brendan
Sent: Thursday, July 12, 2007 11:09 AM
To: Olson, Matthew (Credit); Young, Greg; Schick, Sharon
Cc: Buckholz, Keith; Chen, Vincent
Subject: FW: Basis

Thanks for forwarding this email.

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I want to bring everyone involved, ie Greg, the repo team and high risk team, up to speed that there is a $327,292 high risk payment pending. The attached email gives background on this payment.

Based on the email below we are obviously not releasing this money until we receive guidance from Greg.

Let me know if there are any questions.

Please forward to others as necessary.

Thanks very much.

-----Original Message-----
From: Olson, Matthew (Credit)
Sent: Thursday, July 12, 2007 10:55 AM
To: Lepis, Brendan
Subject: FW: Basis

FYI

-----Original Message-----
From: Schick, Sharon
Sent: Thursday, July 12, 2007 10:51 AM
To: Olson, Matthew (Credit)
Subject: FW: Basis

fyi

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, July 12, 2007 3:04 AM
To: Huffman, Robyn; Sparks, Daniel L; Sheppard, Shaun; Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Lim, Sonia; Benkert, Olly; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald; Sobel, Jonathan; Mullen, Donald; Brafman, Lester R
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian; Cafagna, Francesco
Subject: RE: Basis

We have had several calls with Basis tonight

Gerry Ouderkirk provided the client with bid levels on $20mm face of CLO equity to free up capital to be applied against their margin call

Basis informed us that despite the net monies freed by the proposed CLO sale (~7mm), they are unable or unwilling to provide add'l cash or collateral to meet our margin call

Our bids for the CLO equity are contingent upon Basis signing a netting agreement which CGSH and GS Legal drafted

Our bids are also subject to material mkt moves as well as Basis executing by NY open

At this time the client is reviewing the netting agreement

After discussing with GS legal, we have informed the client that a formal notice will be sent to them by GS Legal by EOD Thursday Sydney time w/r/t their deficiency on meeting margin to preserve Goldman's rights and remedies

-----Original Message-----
From: Huffman, Robyn

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Sent: Wednesday, July 11, 2007 8:22 PM
To: Sparks, Daniel L; Sheppard, Shaun; Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

Not without consent of Basis, which is being drafted right now by LDN legal and Cleary. Jerry's bid will be subject to their agreeing to that.

-----Original Message-----
From: Sparks, Daniel L
Sent: Wednesday, July 11, 2007 8:20 PM
To: Sheppard, Shaun; Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

It they default, can we apply any excess from repo to swaps?

-----Original Message-----
From: Sheppard, Shaun
Sent: Wednesday, July 11, 2007 4:54 PM
To: Sheppard, Shaun; Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

Update following conf call trading/legal(Ldn&NY)/Ops (credit unable to join – have left an update v-m for Greg):

-Estimated clean funds available to meet call requirements approx USD13.5mm if Basis accepts GS bids.
-estimated surplus after meeting repo margin requirement USD5mm approx
- documentation does not allow us to automatically use this to cover swaps collateral requirement. Client agreement/authorisation would be required.
-agreed to make client's agreement to this a condition of trade – ldn legal (Michaela) to draft suitable authorisation for David to send on.
- Ops will need to hand hold all events to make sure no external settlement made and funds applied to calls. Brian has reached out to give settlement groups a heads up.
- David to George on situation
- George to update this group on outcome of communication with Basis and how they plan to meet the calls either by accepting GS bids, or delivery of cash value tomorrow.

Shaun

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-----Original Message-----
From: Sheppard, Shaun
Sent: Wednesday, July 11, 2007 7:25 PM
To: Messina, Michaela Leti; Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Ouderkirk, Gerald
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John; Lamb, Rob; Swann, Brian
Subject: RE: Basis

Have just spoken to David Lehman and we have just left a v-m with Tom Riggs:

Update:

Gerry Oudekirk and David Lehman are to meet with Dan Sparks and Don Mullen to agree bid pricing this in the next 90 minutes or so. David will revert to this group with an update following this. We should get an idea of the clean funds which might be available to Basis if they accept our bids. Clearly preference would be for Basis to meet calls with free cash.

David and I will circle back with legal/credit/ops to establish next steps re netting margin requirements vs proceeds to make sure we don't inadvertently release funds/securities to the client.

David has a 5pmNY/7am Sydney call with George to update and agree approach with client.

Shaun

-----Original Message-----
From: Messina, Michaela Leti
Sent: Wednesday, July 11, 2007 6:38 PM
To: Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul; Huffman, Robyn; Waskow, Andrew; Tribolati, John
Subject: RE: Basis

Copying Robyn, Andy and John in NY and London Legal.

Goldman Sachs International
Peterborough Court | 133 Fleet Street | London EC4A 2BB Tel + 44 (0) 20 7552 2303 | Fax + 44 (0) 20 7774 1989 E-mail MichaelaLeti.Messina@gs.com

Michaela Leti Messina
Executive Director and Counsel
Legal Department

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Confidential Treatment Requested by Goldman Sachs

-----Original Message-----
From: Tamman, Maurice
Sent: Wednesday, July 11, 2007 1:06 PM
To: Tamman, Maurice; Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom; Carrett, Paul
Subject: RE: Basis

Conversation this morning between George Maltezos, Jean-Marc Morel, Desiree Lam, Shaun Sheppard and I to confirm and agree expectations and timeline/actions around Basis meeting the three calls we issued last night London time:

- Gerald Ouderkik's desk to provide bid pricing on CLO to Basis for Australia start of business – David /George please can you confirm to Gerald the positions to be priced if not already done so?
- George to speak to Basis tomorrow, Sydney AM, to agree how client will honour the margin call.
- Basis to agree calls by 12 Jul COB Sydney time/SOB London time
- Funds due to meet all calls by COB 12 Jul

Thanks,
Maurice

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-----Original Message-----
From: Tamman, Maurice
Sent: Tuesday, July 10, 2007 9:22 PM
To: Hammatt, Julie; Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; 'paul.carrett@gsjbw.com'; Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom
Subject: Re: Basis

All,

These margin calls have been issued late in the London day on instruction from David Lehman, with the intention of ensuring the client has time to review and respond to the margin call by CoB Australia T+1.

Thanks,
Maurice

----- Original Message -----
From: Hammatt, Julie
To: Kane, Nicola; Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel,

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Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom
Sent: Tue Jul 10 21:13:07 2007
Subject: RE: Basis

Hi,

Using the marks received by the desk, we see the following calls on BASIS.

These calls have been issued this evening London time for BASIS to receive first thing tomorrow morning.

REPO

Basis Pac Rim Opportunity	$4,130,000
Basis Yield Alpha	$4,270,000

OTC

Basis Yield Alpha	$5,100,000

We will await the client's response and will keep you updated tomorrow.

Regards

Julie

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 05, 2007 11:27 AM
To: Molloy, Macdara; Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Sheppard, Shaun
Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch,

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Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin; Vince, Robin; Riggs, Tom
Subject: RE: Basis

Adding Tom Riggs and Robin Vince into the chain for completeness

Nicola

-----Original Message-----

From: Molloy, Macdara

Sent: Thursday, July 05, 2007 10:43 AM

To: Lam, Desiree; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Kane, Nicola; Sheppard, Shaun

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Yes Desiree I think another call is necessary to take them through the marks, they will have left the office in Sydney by the time New York get in.

Regards,

Macdara

-----Original Message-----

From: Lam, Desiree

Sent: Thursday, July 05, 2007 10:38 AM

To: Molloy, Macdara; Maltezos, George (GSJBW); Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Kane, Nicola; Sheppard, Shaun

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

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Thanks Macdara. Does it mean that they'd need to see the full break down of the marks and talk to David again (earliest NY time tonight) before they'd decide whether they agree on the marks? And there'll be at least 1 day delay for their margin?

Regards,

Desiree

-----Original Message-----

From: Molloy, Macdara

Sent: Thursday, July 05, 2007 4:32 PM

To: Maltezos, George (GSJBW); Lam, Desiree; Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg; Wong, June C.; Kane, Nicola; Sheppard, Shaun

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Despite giving the impression that they agreed the CDO marks as discussed on the call with the Trading desk, Basis have now stated that they want further clarification on these marks before they are happy to meet the two Repo calls.

David - they are looking for a line by line breakdown of the changes for each mark.

The OTC has been agreed in full with a payment of $5.04mm paid for value today, we are checking with Treasury to see when these funds hit our account.

Regards,

Macdara

-----Original Message-----

From: Maltezos, George (GSJBW)

Sent: Thursday, July 05, 2007 8:17 AM

Confidential Treatment Requested by Goldman Sachs

To: Lam, Desiree; Sparks, Daniel L; Lim, Sonia; Benkert, Olly; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil; Young, Greg

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: Re: Basis

Update:

There was a constructive call between basis and trading (Lehman, Case, Egol) re marks at 8PM EST Wednesday.

Natalie Witt and I just spoke to John Murphy at basis. It seems the marks have been accepted and we are awaiting confirmation of basis's plans to meet the margin call.

Will revert ASAP.

George Maltezos

Structured Asset Solutions

Tel: 612 9320 1431

Mob: 61 [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----

From: Lam, Desiree <desiree.lam@gs.com>

To: Sparks, Dan L - GS; Lim, Sonia - GS; Benkert, Oliver B - GS; Maltezos, George; Lehman, David A - GS; Viani, Matthew L - GS; Ng, Chris - GS; Morel, Jean-Marc - GS; Yamamoto, Yumi - GS; Witt, Natalie - GS; Molloy, Macdara - GS; Preisano, Anthony P - GS; Tamman, Maurice - GS; Hammatt, Julie - GS; Bury, Jonathan P - GS; Rapfogel, Alan M - GS; Armstrong, Phil S - GS; Young, Gregory - GS

Cc: Case, Benjamin C - GS; Carrett, Paul; Harris, Kate; Rolleston, Jeremy; Swenson, Michael J - GS; Egol, Jonathan M - GS; Wang, Josh - GS; Chan, Joanna - GS; Dausch, Andrew W - GS; Ireland, Alan - GS; Anderson, James A - GS; Messina, Michaela Leti - GS; Pynt, Benjamin - GS

Sent: Wed Jul 04 22:33:51 2007

Subject: RE: Basis

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Copying Greg Young in the conversation. Thx.

-----Original Message-----

From: Sparks, Daniel L

Sent: Wednesday, July 04, 2007 8:31 PM

To: Lim, Sonia; Benkert, Olly; Maltezos, George (GSJBW); Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan; Rapfogel, Alan; Armstrong, Phil

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Please keep me posted and involved if decisions get difficult

-----Original Message-----

From: Lim, Sonia

Sent: Wednesday, July 04, 2007 6:27 AM

To: Benkert, Olly; Maltezos, George (GSJBW); Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti; Pynt, Benjamin

Subject: RE: Basis

Desiree, thanks for the heads up on this. As dsicussed, please can you arrange for the documents for the outstanding transactions to be forwarded to us ? Please can you also keep Ben Pynt copied on this as he will assist with any input which is required from legal ?

Thanks, Sonia

-----Original Message-----

From: Benkert, Olly

Confidential Treatment Requested by Goldman Sachs

Sent: Wednesday, July 04, 2007 6:18 PM

To: Maltezos, George (GSJBW); Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie; Bury, Jonathan

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Lim, Sonia; Chan, Joanna; Dausch, Andrew; Ireland, Alan; Anderson, James; Messina, Michaela Leti

Subject: RE: Basis

I am following up with ops on the corporate actions to confirm if we can agree as soon as possible what the amounts are we owe them - I understand from ops (copied on this) that there is some clarification required from Basis.

To their question about netting the corporate action payments with the repo margin calls we are in now way obliged to do that. If they don't meet our margin calls by cob tomorrow we will be within our rights to close them out under the facility agreement and gmra.

That said, we should discuss the approach especially given the (fair?) reponse from Basis with a view to agreeing the marks on the repos as soon as possible and we may take the decision to agree to net the 2 amounts but we would need resolution on the corporate actions before cob tomorrow to do so and that may not be practical.

First up I think is to agree the marks then we can work out how we want to move on the margin vs the corporate action.

-----Original Message-----

From: Maltezos, George (GSJBW)

Sent: Wednesday, July 04, 2007 10:18 AM

To: Lam, Desiree; Lehman, David A.; Viani, Matthew; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan; Wang, Josh (HK Credit); Lim, Sonia; Chan, Joanna

Subject: RE: Basis

Maurice and I just finished the call with Peter Dobson (Basis).

1 - Basis have plenty of cash to make the full margin call, but the approach by Goldman has been viewed to be very aggressive and unwarranted & is hurting the relationship

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2 - Basis will arrange for v/d 5 July the Timberwolf margin (USD5.04mm) subj to them receiving a note confirming the OTC swap would pay them any MTM improvement.

3 - Basis is not prepared to pay the margin call on the Repos (USD3.72mm

+ USD4.43mm) until the discussion re: revals has been made. David -

lets do this Thu morning SYD / Wed evening NY time. This is the case despite numerous suggestions for Basis to make a payment now and get a refund if the margin call was overstated.

4 - Basis cannot see any justification for the massive mark down in the securities (under the REPO), and are interpreting our revals as a way to reduce the repo financing line.

5 - They are disappointed Goldman have not paid to Basis the equity distributions under the REPO/GMRA. We potentially owe Basis approx USD5mm here. Can this be netted against the margin call? Olly - can you double check this pls?

6 - Basis claim Goldman have not cared to check in with Basis (from a credit perspective) to see how they are doing and instead are acting like the world is falling over with irrational behaviour.

George

+612 9320 1431

-----Original Message-----

From: Lam, Desiree [mailto:desiree.lam@gs.com]

Sent: Wednesday, 4 July 2007 6:35 PM

To: Lehman, David A - GS; Viani, Matthew L - GS; Maltezos, George; Ng, Chris - GS; Morel, Jean-Marc - GS; Yamamoto, Yumi - GS; Witt, Natalie - GS; Molloy, Macdara - GS; Benkert, Oliver B - GS; Preisano, Anthony P - GS; Tamman, Maurice - GS; Hammatt, Julie - GS

Cc: Case, Benjamin C - GS; Carrett, Paul; Harris, Kate; Rolleston, Jeremy; Sparks, Dan L - GS; Swenson, Michael J - GS; Egol, Jonathan M - GS; Wang, Josh - GS; Lim, Sonia - GS; Chan, Joanna - GS

Subject: RE: Basis

Importance: High

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Even client disagrees on the marks, they are obligated to meet the call amount as provided by the calculator, GS. But they have the right to go through the prices with us. If they don't meet the call today, they are

in danger of defaulting margin payment. George is trying to explain to

client that if they have cash available, they are encouraged to first meet the call and continue the marks discussion throughout the next 2 days.

Copying Sonia Lim from Legal to confirm the legal proceedings, as we may potentially need to issue demand note tomorrow.

George, Maurice, how was the discussion with client? If necessary, we'd need to trouble David to be on call with client to understand what exactly they want to clarify in terms of the marks.

Desiree

-----Original Message-----

From: Lehman, David A.

Sent: Wednesday, July 04, 2007 4:22 PM

To: Viani, Matthew; Lam, Desiree; Maltezos, George (GSJBW); Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie

Cc: Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Sparks, Daniel L; Swenson, Michael; Egol, Jonathan

Subject: Re: Basis

I can get on the phone this morning NY time to discuss (ie Wed works) w the client

I would like to know what the precedent there is here - does GS need (outside of the client issues) to provide the below info to justify our prices???

For example, on the TWOLF CDS, GS is willing to deal (bid and offer) in the context of our prices

On the equity securities, this is an illquid mkt where there are not a lot of recent trade spots, but it is clear that 1) other parts of the CDO cap structure are materially wider 2) the underlying assets w/i the CDO are materially wider

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If credit can speak to the above ASAP it would be appreciated

---

David A. Lehman

Goldman, Sachs & Co.

85 Broad Street | New York, NY 10004

Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]

e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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----- Original Message -----

From: Viani, Matthew

To: Lam, Desiree; Maltezos, George (GSJBW); Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Tamman, Maurice; Hammatt, Julie

Cc: Lehman, David A.; Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW); Molloy, Macdara

Sent: Wed Jul 04 03:32:44 2007

Subject: Re: Basis

Technically basis should have already satisfied the call by the time the NY folks get back into the office thursday morning NY time. Would obviously still be happy to have a call / provide any additional color at that time.

----- Original Message -----

From: Lam, Desiree

To: Maltezos, George (GSJBW); Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Viani, Matthew; Tamman,

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Maurice; Hammatt, Julie

Cc: Lehman, David A.; Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW)

Sent: Wed Jul 04 02:51:29 2007

Subject: RE: Basis

It's NY holiday today, would we be able to reach the right person in NY in time? Thanks.

Desiree

From: Maltezos, George (GSJBW)

Sent: Wednesday, July 04, 2007 2:47 PM

To: Lam, Desiree; Ng, Chris; Morel, Jean-Marc; Yamamoto, Yumi; Witt, Natalie; Molloy, Macdara; Benkert, Olly; Preisano, Anthony; Viani, Matthew; Tamman, Maurice; Hammatt, Julie

Cc: Lehman, David A.; Case, Benjamin; Carrett, Paul (GSJBW); Harris, Kate (GSJBW); Rolleston, Jeremy (GSJBW)

Subject: Basis

I just spoke with Peter Dobson at Basis (430pm SYD time).

He is not concerned with the $$ of the margin call, but very concerned about the marks - they are contesting these levels, ie seeking clarity before agreeing to pay the margin.

They want to see:-

- the comparable market data point for the Timberwolf marks

- more info for each of the ABS CDO marks like IRRs, CDR, CPR, reinvestment profile, WAL, cashflows, etc

- the market data point for those marks, & actual trade examples done at these levels

- any other colour specific to these deals which helps Basis understand the marks

I will be arranging a call b/wn Basis and the NY traders asap

Rgds,

George

+612 9320 1431

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From: Lam, Desiree [mailto:desiree.lam@gs.com]

Sent: Wednesday, 4 July 2007 4:30 PM

To: Maltezos, George

Cc: Ng, Chris - GS; Morel, Jean-Marc - GS; Yamamoto, Yumi - GS; Witt, Natalie - GS; Molloy, Macdara - GS

Subject: RE: Basis

HI George, please help confirm client's plan to meet the margin call.

Thanks.

Copying Ops as well.

Desiree

From: Maltezos, George (GSJBW)

Sent: Wednesday, July 04, 2007 8:56 AM

To: Lam, Desiree

Cc: Ng, Chris; Morel, Jean-Marc

Subject: RE: Basis

Good morning - basis has received the margin calls. I have not heard back. Will revert asap.

From: Lam, Desiree [mailto:desiree.lam@gs.com]

Sent: Wednesday, 4 July 2007 10:53 AM

To: Maltezos, George

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Cc: Ng, Chris - GS; Morel, Jean-Marc - GS

Subject: Basis

Hi George, good morning.

Not sure if you have a chance to talk to the client this morning, are they ok to arrange funding today? Kindly keep us posted.

Many thanks,

Desiree Lam

Credit Risk Management & Advisory

Tel: 852.29781203 I Fax: 852.29780242

Email: desiree.lam@gs.com

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Thanks
Julie

Julie Hammatt
Collateral Management
Goldman Sachs International
Tel: 0207-774-8150 Fax: 0207-552-7323
julie.hammatt@gs.com

This message may contain information that is confidential or privileged. If you are not the intended recipient, please advise the sender immediately and delete this message. See http://www.gs.com/disclaimer/email for further information on confidentiality and the risks inherent in electronic communication.

From: Riggs, Tom
Sent: Monday, July 16, 2007 12:58 PM
To: Egol, Jonathan; Kane, Nicola; Lehman, David A.; Young, Greg; Tota, Frank; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil; Littlejohn, Darren
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

here is the language:

"Nothing in this notice shall be deemed to constitute a waiver of any Potential Event of Default, Event of Default or similar event (including on the basis of any prior margin call), and GSI hereby reserves all rights and remedies that it may have under any agreement between GSI or any of its affiliates and Counterparty or any of its affiliates and under applicable law."

-----Original Message-----
From: Egol, Jonathan
Sent: Monday, July 16, 2007 12:48 PM
To: Egol, Jonathan; Kane, Nicola; Lehman, David A.; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan; Riggs, Tom
Subject: RE: Basis

As discussed on this morning's internal call we are changing some marks on ABS CDO positions for COB 16 July 2007 to be processed immediately for today's call. Note this does not include any mark changes from Gerry Ouderkirk's desk on the CLO positions.

Note from Tom Riggs -- we should include no waiver language in these margin calls, Tom said he would follow up to this group shortly.

Please contact me if there are any questions/comments.

Yield Alpha:

PTPLS 07-1X D (USG71503AA78) 10.00% (from 15.00%)
[redacted] 45.00% (from 50.00%)
350 (from 400)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Pac-Rim:

FORTD 07-1X INC (UG36395AF10) 8.00% (from 10.00%)
[redacted] 350 (from 400)
500 (from 550)
550 (from 600)

We will also be inputting in our systems the following mark changes on the 2 TWOLF CDS vs Yield Alpha:

TWOLF A2 (Trade ID SDB981814615A) to 55% (from 65%) TWOLF B (Trade ID DB981814981A) to 45% (from 60%)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2436

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-----Original Message-----
From: Egol, Jonathan
Sent: Thursday, July 12, 2007 3:55 PM
To: Kane, Nicola; Lehman, David A.; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Attached please find updated marks for COB 12 July 2007 (see column N highlighted in yellow).

Please apply these marks to generate the margin call for Sydney open.

Also, for purposes of the TWOLF CDS versus Yield Alpha, we have input the follow marks for COB 12th July 2007:

TWOLF A2 = $17.5mm in favor of GSI (ie, 65 price) TWOLF B = $20.0mm in favor of GSI (ie, 60 price)

Please call David Lehman or Jonathan Egol with questions.

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 12, 2007 3:43 PM
To: Lehman, David A.; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

As per our call the collateral numbers based upon COB Wed 11th July are:

REPO

Basis Pac Rim Opportunity

Loan Amount	$23,132,400
Offset by securities plus cash held (pre-haircut)	$37,255,400 (this includes the $4.13 received today)
Call issued to client (COB 10th)	$4,130,000 - FUNDS RECEIVED

Basis Yield Alpha

Loan Amount	$22,356,689
Offset by securities plus cash held (pre-haircut)	$25,740,000
Call issued to client (COB 10th)	$4,280,000

OTC

Basis Yield Alpha

Total exposure	$29,169,682
Collateral Held	$35,471,850

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Call issued to client (COB 10th) $5,100,000

We will send revised numbers based on today's marks.

Nicola

-----Original Message-----
From: Lehman, David A.
Sent: Thursday, July 12, 2007 7:20 PM
To: Kane, Nicola; Young, Greg; Tota, Frank; Riggs, Tom; Waskow, Andrew; Pynt, Benjamin; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

The client has been unresponsive for the past 60 minutes

As of now Basis has not committed to make the repo or CDS margin call in Yld Alpha

In addition, we have not traded the CLO equity or executed the netting agreement

Let's get on the phone @ 2:30 to discuss next steps and thoughts

Domestic: 1-888-446-9294
International: 1-719-884-8863
Passcode: 891254

-----Original Message-----
From: Kane, Nicola
Sent: Thursday, July 12, 2007 2:15 PM
To: Young, Greg; Tota, Frank; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit); Wyllie, Denise; Armstrong, Phil
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

ccing Denise and Phil

-----Original Message-----
From: Young, Greg
Sent: Thursday, July 12, 2007 7:05 PM
To: Tota, Frank; Kane, Nicola; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela Leti; Sparks, Daniel L; Sheppard, Shaun; Morel, Jean-Marc; Wang, Josh (HK Credit)
Cc: Rapfogel, Alan; Broderick, Craig; Lepis, Brendan; Olson, Matthew (Credit); Schick, Sharon; Buckholz, Keith; Chen, Vincent; Balogh, Susan
Subject: RE: Basis

Given that Basis must consent to this, and given we are in ongoing discussions with Basis on meeting margin calls, I suspect that a recall effort would not be successful. David, I know you've been in ongoing discussion with them. What's your assessment?

-----Original Message-----
From: Tota, Frank
Sent: Thursday, July 12, 2007 1:57 PM
To: Kane, Nicola; Young, Greg; Riggs, Tom; Lehman, David A.; Waskow, Andrew; Pynt, Benjamin; Lehman, David A.; Maltezos, George (GSJBW); Ouderkirk, Gerald; Jacobsen, Glade; Egol, Jonathan; Huffman, Robyn; Saunders, Tim; Bowden, Tricia; Messina, Michaela

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From: Lehman, David A.
Sent: Tuesday, July 24, 2007 10:45 AM
To: Lehman, David A.; Bermanzohn, Fran; Mullen, Donald; Sparks, Daniel L; sgrosshandler@cgsh.com; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; nhume@cgsh.com; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Subject: RE: Basis update - 9:30

Basis Hires Blackstone to Limit Losses on Hedge Funds (Update6)
2007-07-24 10:43 (New York)

(Adds Basis Capital assets in second paragraph.)

By Laura Cochrane
July 24 (Bloomberg) -- Basis Capital Fund Management Ltd., the Australian hedge fund manager battered by losses in the U.S. subprime mortgage market, hired Blackstone Group LP as an adviser to help avoid a fire sale of assets.

Blackstone, already helping Bear Stearns Cos. liquidate two hedge funds, will advise Basis Capital ``to prevent adverse pricing and selling of assets,'' the Sydney-based firm said in a statement today. Basis Capital, which had assets of $1 billion as recently as May, said July 18 that the value of its Yield Alpha fund may fall more than 50 percent if assets are sold at distressed prices.

The losses at the fund, which recorded an average annual return of 15.5 percent for the past five years, underscores the global impact of the subprime shakeout. Federal Reserve Chairman Ben S. Bernanke said July 19 that there will be ``significant financial losses'' from risky mortgages, pointing to estimates as high as $100 billion.

``The fallout from subprime is likely to impact most asset classes and investment strategies over the next couple of years because the ratings agencies completely goofed up,'' said Peter Douglas, founder of Singapore-based hedge fund research firm GFIA Pte. ``Basis Capital is viewed as a bellwether.''

Basis Capital's Aust-Rim Opportunity Fund and the Yield Alpha fund lost 9 percent and 14 percent respectively in June. The funds ran into trouble by investing in the unrated, riskiest portions of collateralized debt obligations. These portions, also known by bankers as ``toxic waste,'' are first in line for any losses when borrowers fall short on mortgage payments.

Delinquencies Rise

Sophia Harrison, a spokeswoman for Blackstone in London, declined to comment about the firm's role with Basis Capital.

The Australian firm was founded by Steve Howell and Stuart Fowler, who worked together at County NatWest, in 1999. It was named ``Fund of the Year'' at the 2005 AsiaHedge awards and Macquarie Bank Ltd.'s ``Skilled Manager of the Year'' in 2004.

Delinquencies on U.S. subprime mortgages -- home loans to people with poor credit -- surged to a 10-year high this year after borrowing costs rose.

While sales of CDOs -- used to pool bonds, loans and their derivatives into new debt -- rose fivefold to $503 billion last year from 2003, investor appetite for the securities is now waning. Analysts at New York-based JPMorgan Chase & Co. said yesterday that CDO sales dwindled to $3.7 billion in the U.S. this month from $42 billion in June.

Credit Markets

The extent of the asset declines such as those at Basis Capital and Bear Stearns Cos. is masked by the reluctance of investors to buy or sell the illiquid securities, said Sarah Percy-Dove, the Sydney-based head of credit research at Australia & New Zealand Banking Group Ltd.

``Every single CDO is very different,'' she said. ``To get somebody to price a CDO at all can be difficult because people won't price something they don't understand.''

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2438

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Bear Stearns, the fifth-largest U.S. securities firm, said July 18 that investors in its two failed hedge funds will get little if any money back after ``unprecedented declines'' in the value of securities used to bet on subprime mortgages.

The losses triggered a selloff across credit markets because of concerns that CDO declines would mean losses for holders of even the least risky debt and that fewer sales of new CDOs would reduce demand for bonds and loans.

S&P Downgrades

The Basis Capital funds, which were open to individual and institutional investors, had the highest five-star ratings from Standard & Poor's before the ranking was put ``on hold'' July 17.
This means the rating is being reviewed because ``issues potentially affecting the management of the fund have emerged,''
according to S&P's Web site.

David Erdonmez, a fund analyst at S&P, said the revaluation of Basis's assets had triggered margin calls from investment banks that have seized and begun to sell off assets. S&P today kept the funds on hold after meeting with management.

Investors have criticized S&P, Fitch Ratings and Moody's Investors Service, saying their ratings on bonds backed by U.S.
mortgages to people with limited credit didn't reflect the rising default rate. They often gave top ratings to the securities. Some bonds have lost more than 50 cents on the dollar this year while their credit ratings haven't changed.

Australian Market

``This won't be the last fund in Australia or overseas to find itself in financial difficulty because of U.S. subprime,''
said Mark Bayley, a Sydney-based director in credit and structuring at ABN Amro Holding NV.

Mariner Bridge Investments Ltd., another Sydney-based asset manager, wrote down its U.S. residential mortgage-backed securities portfolio on July 20 to 26 percent below face value on subprime losses. Mariner said A$36 million of its A$302 million in assets was invested in U.S. residential mortgage-backed securities.

Australian investors, mostly individuals, had A$675 million in the two Basis funds, the Australian Financial Review said July 19. Hedge funds in Australia are open to retail investors, unlike in the U.S. where the largely unregulated pools of capital are generally limited to institutions and wealthy individuals. The funds' managers participate substantially in any gains on the money invested.

--With reporting by Bei Hu in Hong Kong and Stuart Kelly in Sydney. Editor: Miller (phl/pdv/tbq)

Story illustration: For an index of hedge-fund returns, see {HEDGNAV <Index> GP <GO>}. For more news on hedge funds, see {NI HEDGE <GO>} and subprime loses see {NI SUBPRIME <GO>}. For Bloomberg's hedge-fund home page see {HFND <GO>}.

To contact the reporter on this story:
Laura Cochrane in Melbourne at +61-3-9228-8732 or cochranel3bloomberg.net.

To contact the editor responsible for this story:
Netty Ismail at +65-9782-2410 or nismail3@bloomberg.net

[TAGINFO]

BX US <Equity> CN
BSC US <Equity> CN

NI SUBPRIME
NI HEDGE
NI ASIA

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GS MBS-E-013449642

NI FND
NI FIN
NI AUD
NI AUB
NI CRA
NI ANZ
NI BON
NI COS
NI FIN
NI MOR
NI DRV
NI CDRV
NI CMO
NI CDO

#<536369.3815268.1.0.38.15369.25>#
#<825420.162376.1.0.38.15369.25>#

#<582190.4087.1.0.38.15369.25>#
-0- Jul/24/2007 14:43 GMT

-----Original Message-----
From: Lehman, David A.
Sent: Tuesday, July 24, 2007 10:38 AM
To: Lehman, David A.; Bermanzohn, Fran; Mullen, Donald; Sparks, Daniel L; 'sgrosshandler@cgsh.com'; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'nhume@cgsh.com'; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Subject: RE: Basis update - 9:30

Spoke with Simon Davies @ Blackstone again

Told him we needed to understand where we are on PacRim ASAP

He was familiar with the notices which GSI sent, the 2 day delay period, and that we reserved our cross-termination rights under the GMRA

-----Original Message-----
From: Lehman, David A.
Sent: Tuesday, July 24, 2007 9:08 AM
To: Bermanzohn, Fran; Mullen, Donald; Sparks, Daniel L; 'sgrosshandler@cgsh.com'; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'nhume@cgsh.com'; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Subject: RE: Basis update - 9:30

Swap and cash bids due @ 4:00 today from LEH/BS/DB/MS

-----Original Message-----
From: Bermanzohn, Fran
Sent: Tuesday, July 24, 2007 9:06 AM
To: Lehman, David A.; Mullen, Donald; Sparks, Daniel L; 'sgrosshandler@cgsh.com'; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'nhume@cgsh.com'; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Subject: Re: Basis update - 9:30

What happens now?

----- Original Message -----
From: Lehman, David A.

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To: Lehman, David A.; Mullen, Donald; Sparks, Daniel L; Bermanzohn, Fran; 'sgrosshandler@cgsh.com' <sgrosshandler@cgsh.com>; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'nhume@cgsh.com' <nhume@cgsh.com>; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Sent: Tue Jul 24 08:51:08 2007
Subject: RE: Basis update - 9:30

I called Blackstone this morning

I told them I was very surprised not to have heard back from them (either way) last night

I asked for specific feedback on our proposal and why that did not work

Their only comment was "Basis could not get legal advice last night" and that they went to bed

Disappointing to say the least

They were aware we sent our notices

-----Original Message-----
From: Lehman, David A.
Sent: Monday, July 23, 2007 9:50 PM
To: Mullen, Donald; Sparks, Daniel L; Bermanzohn, Fran; 'sgrosshandler@cgsh.com'; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'nhume@cgsh.com'; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Subject: RE: Basis update - 9:30

Yes, I reiterated our 12:00 timeline

-----Original Message-----
From: Mullen, Donald
Sent: Monday, July 23, 2007 9:50 PM
To: Lehman, David A.; Sparks, Daniel L; Bermanzohn, Fran; 'sgrosshandler@cgsh.com'; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'nhume@cgsh.com'; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Subject: Re: Basis update - 9:30

Are they coming back tonight???

----- Original Message -----
From: Lehman, David A.
To: Lehman, David A.; Sparks, Daniel L; Mullen, Donald; Bermanzohn, Fran; 'Seth GROSSHANDLER' <sgrosshandler@cgsh.com>; Young, Greg; Messina, Michaela Leti; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'Nathan Hume' <nhume@cgsh.com>; Rapfogel, Alan; Brafman, Lester R
Cc: Egol, Jonathan
Sent: Mon Jul 23 21:44:13 2007
Subject: Basis update - 9:30

Just got off a 30 minute call with Martin and Simon from Blackstone

They discussed two things -

1) PacRim vs. Yld Alpha. Age old question, I reiterated our desire to holistically come to closure with Basis. I assured them we were sensitive to the two distinct funds as is our proposed agreement.

2) Swap pricing. Sounds like the directors are concerned with committing to trading the

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swaps as there has been no "third party verification." I told them our auction mechanism afforded them the best price in the market and walked them through our rationale. I told them if there was a way to get a higher actionable bid tomorrow it would be better for both GS and Basis and we should have that conversation.

They are touching base with Sydney and coming back

From: Lehman, David A.
Sent: Monday, July 23, 2007 3:18 PM
To: Sparks, Daniel L; Mullen, Donald; Bermanzohn, Fran; 'Seth GROSSHANDLER'; Young, Greg; Messina, Michaela Leti; Egol, Jonathan; Saunders, Tim; Littlejohn, Darren; Waskow, Andrew; 'Nathan Hume'; Rapfogel, Alan; Brafman, Lester R
Subject: FW: Basis / GSI

Response below

Interesting to note -- Three new names on the e-mail list (The 3 Yld Alpha Directors? I think so...)

1) Steve Howell, Basis, he is the other main principal w/ S. Fowler, he is in Sydney (showell@basiscap.com.au)
2) David Mapley, SHIMODA CAPITAL ADVISORS in London (mapley@shimoda-ltd.com)
3) Zahid Ullah, Antaeus Capital, location unknown (ullah@antaeuscapital.com)

From: Davies, Simon [mailto:Davies@Blackstone.com]
Sent: Monday, July 23, 2007 3:11 PM
To: Lehman, David A.; Stuart Fowler; John Murphy
Cc: Gudgeon, Martin; nick.reeves@mallesons.com; Mark.Byers@gtuk.com; Steve Howell; David Mapley; Zahid Ullah
Subject: RE: Basis / GSI

David,

Thanks very much for the note. As we mentioned on the phone earlier, we will be speaking with our client and the other advisers later on (a call which is currently penciled in for midnight UK time) and you will be a priority for discussion. Thanks for taking the time to discuss matters with us earlier and for keeping us updated as to decisions and process from your side. With the aim of creating as transparent and open a process as possible, we will commit to do the same from our side.

Kind regards

Simon
Simon Davies
The Blackstone Group International Limited
Tel: +44 20 7451 4397
Fax: +44 20 7451 4132
Mob: +44 [redacted]
Email: davies@blackstone.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Lehman, David A. [mailto:david.lehman@gs.com]
Sent: 23 July 2007 19:41
To: Stuart Fowler; John Murphy
Cc: Gudgeon, Martin; Davies, Simon; nick.reeves@mallesons.com; Mark.Byers@gtuk.com
Subject: Basis / GSI

Team Basis -

Over approximately the past 5 days, GSI has been working with Basis in good faith towards a consensual agreement regarding our repo and swap exposure

After repeated attempts from GSI to continue our dialogue, GSI has not heard (e-mail or phone) from Basis over the past 60 hours

As GSI and Basis previously maintained a good dialogue working towards a common end, GSI is concerned by the lack of communication given the current situation

If the execution of a binding agreement cannot be reached by 12:00 New York Time tonight (2:00 p.m. Sydney Time), GSI expects to close out our repo and swap exposure

GSI's strong preference is a consensual resolution along the lines negotiated with Basis, but the lack of communication and inability to move our bilateral agreement forward leaves GSI little choice

Please note that GSI has postponed the security and swap bid lists scheduled for this afternoon which were contemplated in our consensual agreement

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs..com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Disclaimer:

This material has been prepared specifically for you by the Goldman Sachs Fixed Income Structured Product Group (SPG) Trading Desk and is not the product of Fixed Income Research. We are not soliciting any action based upon this material. Opinions expressed are our present opinions only. The material is based upon public information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Additionally, the material is based on certain factors and assumptions as the SPG Trading Desk may in its absolute discretion have considered appropriate. There can be no assurance that these factors and assumptions are accurate or complete, that estimated returns or projections can be realized, or that actual returns or results will not be materially different than those presented. Certain transactions, including those involving ABS, CMBS, and CDOs, may give rise to substantial risk and are not suitable for all investors. The SPG Trading Desk may have accumulated long or short positions in, and buy or sell, the securities that are the basis of this analysis. The SPG Trading Desk does not undertake any obligation to update this material.

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Basis Yield Alpha Fund (Master) (*Yield Alpha*)
C/o Basis Capital Group
Level 37, Gateway Building
1 Macquarie Place
Sydney NSW 2000
Australia

Attention: Stuart Fowler

31 July 2007 3:00 a.m. (London time)

VIA HAND DELIVERY AND EMAIL:

Dear Sirs

EVENT OF DEFAULT UNDER ISDA MASTER AGREEMENT

1. Further to our letter dated 24 July 2007 in which we notified you of the occurrence of an Event of Default under the Agreement (as defined in that letter) we write to confirm that, as the Non-defaulting Party, we have calculated the resulting termination amount payable under Section 6(e) of the Agreement in respect of outstanding Transactions.

2. As required pursuant to the Agreement, we have designated U.S. Dollars as the Termination Currency. Accordingly, such termination amount is expressed in U.S. Dollars.

3. The termination amount payable by Yield Alpha to us as of the date hereof is U.S.$36,950,578.81, consisting of the Settlement Amount, Unpaid Amounts and expenses pursuant to Section 11 of the Agreement for our reasonable out-of-pocket expenses, including legal fees, incurred as at the date hereof by reason of the enforcement and protection of our rights under the Agreement and by reason of the early termination of the Transaction, each as detailed in the schedule hereto. Please send your payment by close of business on 31 July 2007 to the following account:

ABA #: [redacted]

BANK NAME: [redacted]

CITY: NEW YORK

A/C #: [redacted]

ACCOUNT NAME: GOLDMAN SACHS INTERNATIONAL

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

4. The Settlement Amount was calculated on the basis of Loss as detailed in the schedule hereto as soon as reasonably practicable after the Early Termination Date as we were unable to obtain the required number of Market Quotations.

5. We reserve the right to exercise from time to time any additional rights, powers, privileges and remedies we have or to which we are entitled under the

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2439

Agreement or otherwise, including the right to seek additional legal fees, incurred by reason of the enforcement and protection of our rights under the Agreement and by reason of the early termination of the Transaction and recovery of amounts due to us in the Courts of England.

Yours faithfully

Goldman Sachs International

Schedule

Transaction Reference Number	Reference Obligation	CUSIP	USD Notional	CDS Premium (per annum)	Levels for Loss Determination	GSI Determination of Loss (US$)
SDB981814981.0.0.0/ 00647077701	TWOLF 2007-1A A2	88714PAF3	50,000,000	0.90%	70.00%	35,000,000.00
SDB981814615.0.0.0/ 0064707770	TWOLF 2007-1A B	88714PAG1	50,000,000	1.40%	75.00%	37,500,000.00

Settlement Amount	**72,500,000.00**
Credit Support Balance	(35,471,850.00)
Accrued Interest	(162,571.19)
Unpaid Amount	**(35,634,421.19)**
Expenses	**85,000.00**
GSI Claim	**US$36,950,578.81**

From: Case, Benjamin
Sent: Tuesday, June 05, 2007 9:28 AM
To: Lehman, David A.
Subject: SP CDO positions - gameplan

Order of priority in terms of risk:

1. CDO-squareds
2. Hudson Mezz
3. All other positions - traditional-style CDOs with collateral managers

Gameplan for distribution:

1. CDO-squareds
- target real money institutional buyers that can take larger bite size than traditional CDO buyers and are focused on yield pick-up vs. other investments -- for example, Asian banks and insurance companies
- target European banks focused on new Basel 2 regulatory capital framework that achieve significant regulatory capital benefit for investing in highly rated assets vs. the previous system
- offer CDO CDS protection on a portfolio of names in the Timberwolf and Point Pleasant portfolios to buyers looking at cash liabilities from the two deals as a long/short pair trade -- for example, AIG is currently focused on this trade idea. GS is currently long CDS protection on 51 CDO names in the two portfolios and we have been aggressively sourcing further protection in the CDS market on names in the two portfolios recently.
- target hedge funds that can put on this type of relative value long/short trade with short-term financing to achieve returns attractive relative to CDO equity

2. Hudson Mezz
- focus on institutional buyers that can take larger bite size than traditional CDO buyers
- focus on buyers that are currently long ABX risk and can get comfortable with the Hudson Mezz underlying portfolios without needing the benefit of a collateral manager - for example, US insurance companies like Progressive.
- offer RMBS CDS protection to buyers looking at cash liabilities as a long/short pair trade
- offer CDO CDS protection to buyers looking at cash liabilities as a long/short pair trade
- pitch Hudson Mezz as a means to express long 06-1/06-2 vs. short 07-1 trade
- target hedge funds that can put on these relative value long/short trades with short-term financing to achieve returns attractive relative to CDO equity

3. Other positions
- GSC super-senior AAAs - Dresdner is nearing completion of their work on $500mm of our $1.085mm position. Other options for the remaining size: CIFG, Radian, FGIC
- continue to focus on CDO managers ramping new deals and reinvesting principal paydowns in existing reinvestable deals for smaller cash pieces (examples in the last 2 weeks - sales to Terwin, Oppenheimer, Deerfield, and Vector Capital)
- target buying protection in CDS format on the same names we are currently long in cash if there continues to be more liquidity in CDS vs. cash due to market technicals, and when we reach critical mass ($50-100mm), compile a package of cash positions that we've bought protection on and offer the package as a negative basis trade

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2442

From: Sparks, Daniel L
Sent: Monday, June 04, 2007 7:17 AM
To: Chaudhary, Omar
Subject: RE: Timberwolf and Hungkuk Life

Good job - keep going

From: Chaudhary, Omar
Sent: Monday, June 04, 2007 6:27 AM
To: Lehman, David A.; Creed, Christopher J; Bieber, Matthew G.; Case, Benjamin
Cc: Sparks, Daniel L; ficc-spgsyn; Lee, Jay; Sugioka, Hirotaka
Subject: RE: Timberwolf and Hungkuk Life

We received the following verbal order from Hungkuk Life on Timberwolf: **US$36mm TWOLF 2007-1A A2 (85+% delta)**. Few comments:

- **Timing**: We expect to receive the 100% firm order by Friday as we need to receive formal BOK approval and an internal stamp / senior manager approval (these are both not expected to be a problem). Once we have formal approval, we will be able to trade date the ticket
- **Price Level**: Hungkuk Life will confirm shortly but currently they are in the 84-85 context per our offer

Thanks.

From: Lee, Jay
Sent: Friday, June 01, 2007 9:26 PM
To: Lehman, David A.; Bieber, Matthew G.; Case, Benjamin; Creed, Christopher J
Cc: ficc-spgsyn; Wisenbaker, Scott; Black, Robert N; Chaudhary, Omar; Lee, Jay
Subject: Timberwolf and Hungkuk Life

Next week Hungkuk Life will submit an approval form on Timberwolf A2's. Their size will be 20mm-40mm, depending on offer price.

The largest hurdle from the client's perspective is whether or not they can get the mandate to buy something backed by synthetically sourced CDO's, as they have never bought CDO^2 before. Both the account's GM and Bank of Korea (Korea's Central Bank) can DK them on this.

The largest hurdle from sales' perspective is MTM. It is an important client, and if the mark widens out more than 1pt immediately after selling the asset to them, sales cannot sell it. Understanding that it is a volatile asset, sales wants to know that where we sell it to the client will not be more than 1pt less than where the mark would be, provided no new market information.

Please provide the following by **Sunday 7pm NYC** (Monday morning Asia):

Base Case DM: Offer DM such that the price is 1/2pt above where we intend to mark it (provided no market changes)
Show Price/DM table centered around the Base Case DM as defined above, and +/- 30bp dm by 10 DM (eg, 7 scenarios total). Assume a settle of June 14th.

If there are any questions, please contact me at +81-90-3523-0936, or email at jay.lee@ezweb.ne.jp

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2445

Confidential Treatment Requested by Goldma

From: Sparks, Daniel L
Sent: Sunday, June 10, 2007 5:38 PM
To: Chaudhary, Omar
Cc: Bohra, Bunty
Subject: RE: SP CDO Axes - Summary

Get these done - and then keep going

You boys are awesome - and many people are noticing

-----Original Message-----
From: Chaudhary, Omar
Sent: Sunday, June 10, 2007 10:24 AM
To: Sparks, Daniel L
Cc: Bohra, Bunty
Subject: SP CDO Axes - Summary

Dan:

Per our conversation on Friday, wanted to make sure you had the complete update/summary of where are on the CDO axes in Asia. Total firm bids for risk $186mm with another potential 20mm this week.

*Tokyo Star Bank (Japan) -- 20mm TWOLF AAA's. Sugi on our desk worked personally on this daily for 3+ weeks.

*Hungkuk Life (Korea) -- 36mm TWOLF AAA's firm as of Friday; expect firm order on 20mm more by mid next week (need to book as single ticket). Jay and Sugi working with entire Korea team (including JH Park) to get this through. Wehave leveraged our personal relationship / time investment to date with the Korea team to push them on this.

*Basis Capital (Australia) -- 50mm AAA and 50mm AA TWOLF firm order in swap form as of last week (as you know, just finalizing last few internal credit / doc issues). George has totally come through on this and again proves how invaluable he is to the business (we should keep this in mind as we continue to think about important personnel to global SPG as we expand the trading/syndicate side of the business).

*Tokyo Star Bank (Japan) -- Appr. 20mm indication for Point Pleasant AAA's. PM's taking deal to their risk committee on Tuesday of this week in Tokyo. Again, Sugi has been driving this process and getting it done.

Let me or Bunty know if you need further clarification on any of these. In Barcelona Monday/Tuesday. Thanks.

Omar Chaudhary, Goldman Sachs Japan
Tel: +81 3 6437-7198
Mob: +81 90 [redacted]

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2452

Confidential Treatment Requested by Goldma

From: Sparks, Daniel L
Sent: Monday, June 11, 2007 6:31 AM
To: Lehman, David A.
Subject: Re: Hungkuk Life/TWOLF

Who is entering trades - and how many t-wolfs left

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom; Mullen, Donald; Brafman, Lester R; Swenson, Michael
Cc: Sparks, Daniel L; Chaudhary, Omar
Sent: Mon Jun 11 04:35:57 2007
Subject: Re: Hungkuk Life/TWOLF

Just confirmed - will be TD today - 56mm @ 84.5

Great job by Omar and his team and JH Park in sales.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.; Mullen, Donald; Brafman, Lester R; Swenson, Michael
Cc: Sparks, Daniel L; Chaudhary, Omar
Sent: Mon Jun 11 04:30:26 2007
Subject: RE: Hungkuk Life/TWOLF

incredible job---just incredible

-----Original Message-----
From: Lehman, David A.
Sent: Monday, June 11, 2007 5:20 PM
To: Mullen, Donald; Montag, Tom; Brafman, Lester R; Swenson, Michael
Cc: Sparks, Daniel L; Chaudhary, Omar
Subject: Fw: Hungkuk Life/TWOLF

Will be 56mm w/ HK Life of TWOLF A2. TD today or tomorrow, expect $84 or 85 price.

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2453

Confidential Treatment Requested by Gold

From: Sparks, Daniel L
Sent: Monday, June 25, 2007 11:02 AM
To: Montag, Tom; Mullen, Donald; Lee, Brian-J (FI Controllers); Salame, Pablo
Subject: RE: CDO marks

Focus will be on the 300mm from bsam - but many people are in watch (voyeur) mode so could take time

-----Original Message-----
From: Montag, Tom
Sent: Monday, June 25, 2007 10:22 AM
To: Sparks, Daniel L; Mullen, Donald; Lee, Brian-J (FI Controllers); Salame, Pablo
Subject: Re: CDO marks

Tks. How are twolf sales doing?

----- Original Message -----
From: Sparks, Daniel L
To: Mullen, Donald; Montag, Tom; Lee, Brian-J (FI Controllers); Salame, Pablo
Sent: Mon Jun 25 10:13:31 2007
Subject: CDO marks

CDOs have widened a lot (BSAM situation, other) and we probably need to widen things/lower prices - next few days.

The effect on us will probably be a net positive, with retained CDO positions lower, CDS protection and correlation having gains. We are still doing work. We are also thinking through client mark issues including speaking to compliance about using mids.

Also, monthly subprime remittances are out today, and early read is performance is poor and speeds are slow.

Also, Moody's wants to speak (as our corporate rater), NYSE has questions, and I spoke with the SEC Thursday - all off the BSAM and related stuff.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2458

Confidential Treatment Requested by Gold

From: Salem, Deeb
Sent: Tuesday, June 26, 2007 8:42 AM
To: Swenson, Michael
Subject: RE: fyi

wow

-----Original Message-----
From: Swenson, Michael
Sent: Tuesday, June 26, 2007 8:31 AM
To: Salem, Deeb; Birnbaum, Josh
Subject: fyi

-----Original Message-----
From: Turok, Michael
Sent: Monday, June 25, 2007 9:29 PM
To: Swenson, Michael
Subject: RE: Mortgages Estimate

Were strats helpful/useful anywhere in this?

-----Original Message-----
From: Swenson, Michael
Sent: Monday, June 25, 2007 9:28 PM
To: Turok, Michael
Subject: Re: Mortgages Estimate

Partially cdos going wider street admitting it is a problem

----- Original Message -----
From: Turok, Michael
To: Swenson, Michael
Sent: Mon Jun 25 21:14:51 2007
Subject: FW: Mortgages Estimate

Big numbers! Motivated by Bear?

From: Zuckerman (Stoner), Sara J.
Sent: Monday, June 25, 2007 6:13 PM
To: ficc-eod
Subject: Mortgages Estimate

FICC Mortgages - Daily P&L Estimate

I. SUMMARY

	TOTAL
Structured Products	42,530,000
- Resi Prime/Mtg Derivs	(150,000)
- Resi Credit	5,750,000
- CRE LT	430,000
- ABS L&F	-
- SPG Trading	120,500,000
- CDO / CLO	(84,000,000)
- Other Structure Products	-
Europe	-
Other (Advisory, PFG, Managers/Other)	-

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2459

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MORTGAGES	42,530,000		
Mortgages WTD	42,530,000		
Mortgages MTD	173,988,512		

II. DETAIL

Business Strategy Desk	Daily Total		Comments
STRUCTURED PRODUCTS			
Mortgage Derivative		100,000	
Agency Derivatives		100,000	
Whole Loan Derivs		-	
MSR	-		
Residential Prime	(250,000)		
FHA/VA - Primary		-	
FHA/VA - Secondary			-
Subs	-		
Prime Hybrid - Primary			-
Prime Hybrid - Secondary		(250,000)	Arms wider
Agency Hybrid		-	
Prime Fixed	-		
Agency CMO - Primary			-
Agency CMO - Secondary			-
Residential Credit		5,750,000	
Scratch and Dent		700,000	07-1 A & 06-1 A & BBB spread widening
Subprime	1,000,000		06-2 BBB & BBB- spread widening
Alt-A	3,500,000		2mm GSAA 07-7, 1.5mm on 06-2 A & BBB spread widening
2nd Liens	550,000		06-2 A & BBB spread widening
Residuals - Scratch & Dent			-
Residuals - Subprime			-
Residuals - Alt-A		-	
Residuals - 2nd Liens			-

[redacted]

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SPG Trading	120,500,000		
CMBS Trading		8,500,000	CMBS CDS/CRE CDO
CRE CDO			
ABS Trading	81,000,000		ABS CDO CDS, Equities
Property Derivatives			
Correlation	31,000,000		ABS CDS, CDO CDS, CMBS CDS, TABX, Rates
CDO/CLO	(84,000,000)		
ABS / MBS CDO		(84,000,000)	CDO mark to market/hedges
GSI SP Credit Warehouse			-
US CLO		-	
EURO CLO		-	
CRE CDO		-	
Retained Principal Positions			-
Tax Related Securities			-

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Non-economic residuals		-
Economic residuals		
Warehouse Lending		-
Residential	-	
Commercial	-	
Asset Backed		-
Syndicate		-
ABS	-	
CMBS	-	
CDO	-	
Other	-	
Total Structured Products	42,530,000	
EUROPE		
Acquisition Finance		-
Syndicate	-	
Trading	-	
European CMBS		-
Syndicate	-	
Trading	-	
Total Europe		-
Total Advisory		-
Total PFG JV		-
Total Manager's Account / Other		-

Goldman, Sachs & Co.
180 Maiden Lane | New York, NY 10038
Tel: (212) 357-5917
e-mail: sara.stoner@gs.com

Sara Zuckerman
Finance Division

Goldman
Sachs

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Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Friday, July 06, 2007 6:28 AM
To: Resnick, Mitchell R
Subject: RE: Trade with Leor Ceder / London

Can you call me if you are around? I'm on the desk

We have paid 6pts for AAAs and on the one 50mm AA trade we paid 8pts

-----Original Message-----
From: Resnick, Mitchell R
Sent: Friday, July 06, 2007 6:06 AM
To: Lehman, David A.
Subject: Re: Trade with Leor Ceder / London

How much are you paying for a sale at the offer at 700?

----- Original Message -----
From: Lehman, David A.
To: Resnick, Mitchell R
Sent: Fri Jul 06 00:33:50 2007
Subject: RE: Trade with Leor Ceder / London

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7 pts OK?

-----Original Message-----
From: Resnick, Mitchell R
Sent: Thursday, July 05, 2007 7:34 PM
To: Lehman, David A.
Subject: Re: Trade with Leor Ceder / London

I want to pay him well on this please

----- Original Message -----
From: Lehman, David A.
To: Ficc-CDO-MO
Cc: Case, Benjamin; Resnick, Mitchell R; Reis, Jessica
Sent: Thu Jul 05 15:29:49 2007
Subject: Trade with Leor Ceder / London

We traded 6.8mm TWOLF 07-1A B @ $78.25

Pls convert to Reg S for T+5 settlment

Booked in M5

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

Disclaimer:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2462

From: Egol, Jonathan
Sent: Monday, May 07, 2007 3:45 PM
To: Turok, Michael
Subject: RE: Timberwolf analysis

Let's discuss live. Happy to look at his spreadsheet.

From: Turok, Michael
Sent: Monday, May 07, 2007 3:43 PM
To: Egol, Jonathan
Subject: FW: Timberwolf analysis

FYI....i can also email you this analysis.

From: Brazil, Alan
Sent: Monday, May 07, 2007 1:08 PM
To: Wiesel, Elisha
Cc: Raz, Shlomi; Turok, Michael; Primer, Jeremy; Huang, Vivien
Subject: RE: Timberwolf analysis

1. Number should be 23%,I am assuming a 50% severity of the single-a cdo that has a writedown.
2. At the timberwolf level, OC triggers provide support in the case of a ratings downgrade, and prior to a writedown of the underlying single-as. In those cases, cashflow is directed towards the senior bonds allowing more oc to build at the jr levels. However, in many of the underlying single-a cdos, these same triggers could hurt timberwolf. On balance, it probably helps rather than hurts timberwolf mez triple-as.
3. I came up with level after talking to egol. Having said that it is largely subjective and have not used it in discussing it with clients other than to say the attachment point for the a2 understates the protection for the a2.

As an aside, the results look even better if you break the 2006 production home equity into buckets based on fico. Without bucketing, roughly 27% of the underlying ref obis going all the way down through to the cdo of the cdo of the cdo, ect, are homeequity of 2006 or later production based on our weighting framework. This is better than the original analysis, which had that number at 34%. Even better is that only 14% on a weighted basis of the ref are truly subprime (fico 625 and lower). So, defaulting all of these does not hit the a2 attachment point.

In terms of telling customers. I prefer to give them the general idea of the trade. Then give them the excel spread sheet with our info on ref obs and let them draw their own conclusions.

From: Wiesel, Elisha
Sent: Monday, May 07, 2007 12:53 PM
To: Brazil, Alan
Cc: Raz, Shlomi; Turok, Michael; Primer, Jeremy; Huang, Vivien
Subject: RE: Timberwolf analysis

Thanks Alan, this is a really good contribution to analysis we're doing internally as well regarding the pricing of Timberwolf and our structured product positions.

A couple of questions:

1) Can you explain how you got to 24% writedown based on 25/55 names defaulting?
2) What do you mean when you say that oc triggers could provide added support beyond excess interest?
3) How did you come up with 4% enhancement at the Timberwolf and underlying CDO levels?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2464

Confidential Treatment Requested by Goldman

The trickiest part about sharing this analysis with custies is that it shows just how rudimentary our own understanding of these positions actually is. Are other dealers running cashflows for clients on this type of product? (Including Vivien for her thoughts on what Lehman does).

From: Brazil, Alan
Sent: Friday, May 04, 2007 12:06 PM
To: Wiesel, Elisha; Raz, Shlomi
Subject: Timberwolf analysis

<< File: timberwolf ana 2.xls >>
Here is a spread sheet with our latest info on timberwolf plus some simple analysis. I basically default every 2006 vintage subprime regardless of rating, and assume losses of 50% of face. I then look at those losses verses an adjusted cdo credit support to see if there are losses. This brute force approach defaults 25 of the 55 names, or 45%. This results in a writedown at the timberwolf level of 24%. Although the attachment point of the a2 is 20%, the effective attachment is higher, again using another 4% or 24% of ce or attachment for the a2. (BTW this 4% only reflects the value of the excess interest, the oc triggers would also give added support).

This is pretty much the same results before. Just hitting the low fico 2006 and just the baa1 and below would look better. Of course if you start getting complete writedowns of 2006, 2005s will take some hits as well. However, I think assuming all 2006 vintage baa1 and below get written down offsets that factor. However, this framework can provide some rudimentary analysis for us and for customers. Once we send them the spreadsheet with the information they can do this them selves.

Confidential Treatment Requested by Goldman Sachs

From: Bieber, Matthew G.
Sent: Sunday, May 20, 2007 1:28 PM
To: Wiesel, Elisha
Subject: RE: CDO^2 EOD Update - Feedback from today

Just a heads up - it is MUCH less comprehensive than the look through data we're now discussing.

From: Wiesel, Elisha
Sent: Sunday, May 20, 2007 1:27 PM
To: Bieber, Matthew G.
Cc: Siegel, Eric
Subject: RE: CDO^2 EOD Update - Feedback from today

tks

From: Bieber, Matthew G.
Sent: Sunday, May 20, 2007 1:27 PM
To: Wiesel, Elisha
Cc: Siegel, Eric
Subject: RE: CDO^2 EOD Update - Feedback from today

Will have one of the analysts on the team send to you this afternoon. Look for an email from Eric Siegel.

From: Wiesel, Elisha
Sent: Sunday, May 20, 2007 1:25 PM
To: Bieber, Matthew G.
Subject: RE: CDO^2 EOD Update - Feedback from today

Can you please fwd me (do you have accessible) electronic copies of the E+Y-"approved" materials for Timberwolf that went out at initial marketing?

From: Bieber, Matthew G.
Sent: Sunday, May 20, 2007 1:18 PM
To: Wiesel, Elisha
Subject: RE: CDO^2 EOD Update - Feedback from today

Agreed on the likelihood of the fully comforted letter. Not sure what a "big boy" letter is - accountant letter typically covers OM materials - not info put together after, so we're somewhat in uncharted territory.

From: Wiesel, Elisha
Sent: Sunday, May 20, 2007 12:48 PM
To: Bieber, Matthew G.
Subject: RE: CDO^2 EOD Update - Feedback from today

Given how complex the data is for a CDO^2, there's little chance we'll ever get "fully" comfortable beyond the shadow of a doubt that there's nothing materially misleading in the data cuts we provide. Is best outcome in this situation to just get a big-boy letter drafted? Have you seen any similar situations?

From: Bieber, Matthew G.
Sent: Sunday, May 20, 2007 11:20 AM
To: Wiesel, Elisha
Subject: RE: CDO^2 EOD Update - Feedback from today

Happy to help. These issues come up at least once or twice for every transaction we do.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2464

From: Wiesel, Elisha
Sent: Saturday, May 19, 2007 12:32 PM
To: Wisenbaker, Scott; Bieber, Matthew G.
Subject: RE: CDO^2 EOD Update - Feedback from today

I am corresponding with Saunders on what's involved in disclaiming the lookthru analysis -- we're doing as much as we can to independently audit the lookthru machinery by another group in Strats, but at some point we're going to have to bite the bullet and send the best we have at whatever confidence level we're currently at.

If either of you have experience in the "what can we show" thought process, I may need your help.

From: Wisenbaker, Scott
Sent: Friday, May 18, 2007 6:03 PM
To: Schwartz, Harvey; Bash-Polley, Stacy; Cornacchia, Thomas; Brazil, Alan; Wiesel, Elisha; Sparks, Daniel L; Bohra, Bunty; Lehman, David A.; Swenson, Michael; Brafman, Lester R; Roberts, William; Ouderkirk, Gerald; Weaver, Douglas; Gmelich, Justin
Cc: Wisenbaker, Scott; Bieber, Matthew G.; Creed, Christopher J; Black, Robert N
Subject: CDO^2 EOD Update - Feedback from today

INTERNAL

Fortress - have continued working and are having trouble modeling the deal in enough detail to be comfortable providing a level. Davilman continuing to push - planning to have a call to address their questions and concerns early next week - pushing to have call Monday, but might happen Tuesday - also still need lookthru analysis that strats are working on

Winchester - have not come back with an answer - deal has been elevated to senior management - they are debating appetite for additional sector exposure, if comfortable adding risk they will come back with what levels work. continuing to push early next week

Stark - still looking, but concerned about correlation and recent report from moody's. also concerned with back ended return profile given lower coupon. Gaddi setting up call with the account Monday to address concerns.

Paramax - very low delta at this point

UBS prop - started work on Timberwolf A2, B and Point Pleasant B class this AM - they have inherited the bonds that Dillon Read took down when the deal was priced.

Elliot - looking at Timberwolf mezz AAA's for a vehicle - would be vs senior CLOs - they are going to give us a list of CLOs to bid on vs Timberwolf early next week - potential size 10-15mm.

AIG - asked for and received additional information on Timberwolf today - they currently have all the information they have asked for - they are working - Penick to follow up early next week

DeShaw - had call to discuss Timberwolf mezz AAA - asked for and received additional information on underlying deals - working - if they care, potential size would be 25-50mm - low delta

Harvard - evaluating Pt Pleasant A1's vs 40-100 ABX - GS offered at pick 50bps - account needs more spread and is evaluating counter - Radtke to push next week

Polygon - continuing to work - evaluating structure - Raazi to continue pushing next week

Vanderbilt - evaluating for CDO bucket of their deal - very limited room in bucket so would be small (5-10mm) if they care

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Hyperion - looking - concerned with amount of credit support and moody's report on correlation and CDO^2 - like discount dollar price - Willing continuing to push

Carlyle - still need lookthru analysis that strats are working on

Highland - still need lookthru analysis that strats are working on

Old Lane - still need lookthru analysis that strats are working on

Sandelman - still need lookthru analysis that strats are working on

Lehman AM - still need lookthru analysis that strats are working on

Updated Feedback sheet below:
<< File: Book1.xls >>

Confidential Treatment Requested by Goldman Sachs

From: Ruberti, Timothy
Sent: Monday, July 16, 2007 1:59 PM
To: Bash-Polley, Stacy; Lehman, David A.
Subject: Carlyle

I've been speaking with scott at carlyle about junior AAA CDO paper and he is starting to see value here - will show him the GSC deal and walk through it - he seems to have an appetite for risk at these levels which is good but the flip side is he thinks the market is "unhinged" wrt to valuations, i.e. everything trading on technicals and no one talking about fundamentals - one point, he is going to want to look at the TWOLF trade on a fundamental basis with a lot of supporting runs to back up any additional mark downs we have - telling him we are busy when it comes to month end and we can't run that analysis because we are resource-constrained will not be good enough fyi

This should be a double-edged sword that we can use to move risk however, so I hope we see this approach as a net positive

Timothy Ruberti
Goldman, Sachs & Co.
Fixed Income, Currency & Commodities
85 Broad Street | New York, NY 10004
Tel: 212-357-4663 | Cell: 917[redacted]
e-mail: timothy.ruberti@gs.com

Goldman Sachs

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2465

Confidential Treatment Requested by Goldman

GS MBS-E-011050254

From: Huang, Vivien
Sent: Monday, May 07, 2007 1:58 PM
To: Brazil, Alan; Wiesel, Elisha
Cc: Raz, Shlomi; Turok, Michael; Primer, Jeremy
Subject: RE: Timberw1. Number should be 23%,I am assuming a 50% severity of the single-a cdo that has a writedown. olf analysis

Just want to give a little color, at Lehman (internal strictly), the analysis is more bottom-up: what I mean is that the individual subprime or other class bonds are analyzed under typical HPA scenarios, then the cashflow gets sum up:
1. usually, the implied HPA of the worst priced ABX index will be used as a "market implied mean HPA" to reflect the market price
2. a standard deviation (historical national) will be applied on top of the implied HPA assuming very simplistic normal distribution
3. individual bonds are calling sector models (subprime bonds call up subprime, CMBS bonds call up CMBS), cashflows are ran under the multiple HPA scenarios. So triggers are ran operational, the curves are based on model projection (and the tweaks on top ie., originator, vintage, etc.)
4. cashflow summed up based on the CDO structure - this is in development and mannual and not fully scalable the last time I heard it
5. CDO cashflow under HPA scenariosThat's roughly how the mortgage side go about it.

From: Brazil, Alan
Sent: Monday, May 07, 2007 1:08 PM
To: Wiesel, Elisha
Cc: Raz, Shlomi; Turok, Michael; Primer, Jeremy; Huang, Vivien
Subject: RE: Timberw1. Number should be 23%,I am assuming a 50% severity of the single-a cdo that has a writedown. olf analysis

As an aside, the results look even better if you break the 2006 production home equity into buckets based on fico. Without bucketing, roughly 27% of the underlying ref obis going all the way down through to the cdo of the cdo of the cdo, ect, are homeequity of 2006 or later production based on our weighting framework. This is better than the original analysis, which had that number at 34%. Even better is that only 14% on a weighted basis of the ref are truly subprime (fico 625 and lower). So, defaulting all of these does not hit the a2 attachment point.

In terms of telling customers. I prefer to give them the general idea of the trade. Then give them the excel spread sheet with our info on ref obs and let them draw their own conclusions.

From: Wiesel, Elisha
Sent: Monday, May 07, 2007 12:53 PM
To: Brazil, Alan
Cc: Raz, Shlomi; Turok, Michael; Primer, Jeremy; Huang, Vivien
Subject: RE: Timberwolf analysis

Thanks Alan, this is a really good contribution to analysis we're doing internally as well regarding the pricing of Timberwolf and our structured product positions.

A couple of questions:

1) Can you explain how you got to 24% writedown based on 25/55 names defaulting?
2) What do you mean when you say that oc triggers could provide added support beyond excess interest?
3) How did you come up with 4% enhancement at the Timberwolf and underlying CDO levels?

The trickiest part about sharing this analysis with custies is that it shows just how rudimentary our own understanding of these positions actually is. Are other dealers running cashflows for clients on this type of product? (Including Vivien for her thoughts on what Lehman does).

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2466

Confidential Treatment Requested by Goldm

GS MBS-E-004735378

From: Brazil, Alan
Sent: Friday, May 04, 2007 12:06 PM
To: Wiesel, Elisha; Raz, Shlomi
Subject: Timberwolf analysis

<< File: timberwolf ana 2.xls >>
Here is a spread sheet with our latest info on timberwolf plus some simple analysis. I basically default every 2006 vintage subprime regardless of rating, and assume losses of 50% of face. I then look at those losses verses an adjusted cdo credit support to see if there are losses. This brute force approach defaults 25 of the 55 names, or 45%. This results in a writedown at the timberwolf level of 24%. Although the attachment point of the a2 is 20%, the effective attachment is higher, again using another 4% or 24% of ce or attachment for the a2. (BTW this 4% only reflects the value of the excess interest, the oc triggers would also give added support).

This is pretty much the same results before. Just hitting the low fico 2006 and just the baa1 and below would look better. Of course if you start getting complete writedowns of 2006, 2005s will take some hits as well. However, I think assuming all 2006 vintage baa1 and below get written down offsets that factor. However, this framework can provide some rudimentary analysis for us and for customers. Once we send them the spreadsheet with the information they can do this them selves.

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Sunday, July 08, 2007 7:05 PM
To: Maltezos, George (GSJBW)
Subject: Re: Basis conference call follow-ups

Also, when u talk to john/stuart, it wud be good to know what (if anything) they r getting away

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Maltezos, George (GSJBW)
To: Lehman, David A.
Sent: Sun Jul 08 18:52:36 2007
Subject: RE: Basis conference call follow-ups

thanks

-----Original Message-----
From: Lehman, David A. [mailto:david.lehman@gs.com]
Sent: Monday, 9 July 2007 12:20 AM
To: Maltezos, George
Subject: Fw: Basis conference call follow-ups

I'm going to elevate to Sparks, legal and compliance to take their temp on what we can/cannot provide

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Stuart Fowler <sfowler@basiscap.com.au>
To: Maltezos, George (GSJBW); John Murphy <jmurphy@basiscap.com.au>; Peter Dobson <pdobson@basiscap.com.au>; Sahil Sachdev <ssachdev@basiscap.com.au>
Cc: Case, Benjamin; Egol, Jonathan; Lehman, David A.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2467

Confidential Treatment Requested by Goldm

Sent: Sat Jul 07 21:08:26 2007
Subject: Re: Basis conference call follow-ups

George

How many times do we have to request data points and scenarios by email.

These were read out to us on the call and it was agreed that GS would send them through.

I am getting weary of continually hearing about transparency and yet an obvious avoidance of 'putting things to paper'.

-

Stuart Fowler
Managing Director
Basis Capital
Disclaimer:
This message is subject to the Disclaimer on
http://www.basiscap.com.au/emaildisclaimer.htm

----- Original Message -----
From: Maltezos, George <george.maltezos@gsjbw.com>
To: John Murphy; Peter Dobson; Stuart Fowler; Sahil Sachdev
Cc: Case, Benjamin C - GS <Benjamin.Case@gs.com>; Egol, Jonathan M - GS <jonathan.egol@gs.com>; Lehman, David A - GS <david.lehman@gs.com>
Sent: Sun Jul 08 00:39:13 2007
Subject: Re: Basis conference call follow-ups

Hi John,

Thanks for your notes.

As represented on the call on thu morning, we want to be as helpful as possible here. However, as per the call, the trading desk does not necessarily use a single scenario to determine the marks. To that end, I would recommend doing a follow up call to go through the marking methodology for the remaining securities (and/or go over the securities discussed on thu again).

Does Monday morning SYD time work? If not, pls indicate a time / day that does.

Thanks and kind regards,
George

[redacted] = Redacted by the Permanent Subcommittee on Investigations

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: 61 [redacted]

----- Original Message -----
From: John Murphy <jmurphy@basiscap.com.au>
To: Maltezos, George; Peter Dobson <pdobson@basiscap.com.au>; Stuart Fowler <sfowler@basiscap.com.au>; Sahil Sachdev <ssachdev@basiscap.com.au>
Cc: Case, Benjamin C - GS; Egol, Jonathan M - GS; Lehman, David A - GS
Sent: Fri Jul 06 23:26:51 2007

Confidential Treatment Requested by Goldman Sachs

Subject: RE: Basis conference call follow-ups

George

Further to my previous email....can you double check with your guys in NY that they are preparing the balance of the information requested.

Regards
John

[redacted] = Redacted by the Permanent Subcommittee on Investigations

John Murphy
Director - Funds Management

Direct: 02 - 8234 5514
Mobile: 0418 [redacted]

www.basiscap.com.au

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-----Original Message-----
From: Maltezos, George [mailto:george.maltezos@gsjbw.com]
Sent: Friday, 6 July 2007 7:49 AM
To: Peter Dobson; Stuart Fowler; Sahil Sachdev; John Murphy
Cc: Case, Benjamin C - GS; Egol, Jonathan M - GS; Lehman, David A - GS
Subject: Fw: Basis conference call follow-ups

Pls find attached some analysis prepared by the trading desk following the call yesterday.

We would like to discuss this further with you this morning, including next steps regarding the margin call. Does 8am SYD time work?

George

George Maltezos
Structured Asset Solutions
Tel: 612 9320 1431
Mob: 61 [redacted]

----- Original Message -----
From: Case, Benjamin <Benjamin.Case@gs.com>
To: Maltezos, George
Cc: Lehman, David A - GS; Egol, Jonathan M - GS
Sent: Fri Jul 06 07:38:15 2007
Subject: Basis conference call follow-ups

Attached is the information requested by Basis on our call last night.
<<Materials for Basis.xls>>
<<Materials for Basis.xls>>

Confidential Treatment Requested by Goldman Sachs

From: Bieber, Matthew G.
Sent: Tuesday, July 31, 2007 7:29 AM
To: Lehman, David A.
Subject: FW: Requesting Compliance Approval

Attachments: ABX_TABX Price Movements.ppt; Timberwolf Report Final v3.xls

This is what we plan on sending across - in addition to the public press releases from bloomberg. The column that has marks/npv is being removed.

From: Ganapathy, Mahesh
Sent: Monday, July 30, 2007 10:54 PM
To: Horvath, Jordan
Cc: Bieber, Matthew G.; Sharma, Nityanand
Subject: Requesting Compliance Approval

Jordan,

Please find attached Timberwolf materials we were intending to send to HunKuk Life Bank in response to their request by EOB tomorrow. Please let us know if you had any comments(I will follow up with you tomorrow) .


ABX_TABX Price Movements.ppt


Timberwolf Report Final v3.xls...

Thanks,

Mahesh Ganapathy
CDO Structuring,Marketing & Principal Investments
Fixed Income,Currency and Commodities Division
Goldman, Sachs & Co.
Ph: 212-902-6265
Fax:212-256-6570
mahesh.ganapathy@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2468

Confidential Treatment Requested by Goldman

From: Lehman, David A.
Sent: Tuesday, August 07, 2007 7:19 AM
To: Lee, Jay
Subject: RE: Tokyo star

And we should be clear that the information we are providing is not our pricing methodology but rather some thots on the current market

-----Original Message-----
From: Lee, Jay
Sent: Tuesday, August 07, 2007 7:17 AM
To: Ozawa, Fumiko
Cc: Lehman, David A.; Chaudhary, Omar; Sugioka, Hirotaka
Subject: RE: Tokyo star

Ozawa-san,

To clarify, we understand there is urgency from the client's end to see something in writing by this Wednesday morning, and we are working to provide something.

However, under no circumstances are we going to be able to provide materials specific to Timberwolf and Point Pleasant, or even use the word "mark" in written materials. Instead, what we are working to provide is an introduction to some of the frameworks that can be used to analyze different types of CDO's. Everything will be described in general terms, and if what we provide is too vague or general, the medium for further clarification must be oral, not written.

-----Original Message-----
From: Lehman, David A.
Sent: Tuesday, August 07, 2007 7:51 PM
To: Ozawa, Fumiko
Cc: Chaudhary, Omar; Lee, Jay; Sugioka, Hirotaka
Subject: RE: Tokyo star

Our marking policy is a market price (bid and/or offer) -- We do not have a written methodology for pricing and we should tell Tokyo Star as much

We are able to provide context to our prices verbally, including any CDO trades we have done (in the underlying deals or the CDO^2 itself if we have traded), and the move in the underlying portfolio MTM, etc

Also important to note that our marks are actionable bid and offer prices for cash (bid) or cds (offer) whereas it is not clear if our competitors marks are indicative of the current market prices

Is there a reason Tokyo Star wants something in writing vs getting on the phone or discussing verbally?

Can discuss more live

-----Original Message-----
From: Ozawa, Fumiko
Sent: Tuesday, August 07, 2007 5:37 AM
To: Lehman, David A.
Subject: Tokyo star

As jay has asked you before, we really appreciate if you can provide us some explanatory script about mtm. Thank you always !

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2469

Confidential Treatment Requested by Goldma

From: Mullen, Donald
Sent: Wednesday, July 11, 2007 9:40 AM
To: Lehman, David A.; Sparks, Daniel L
Cc: Swenson, Michael
Subject: Re: CDO Marks

Please notify me if this is a problem to execute in a timely manner

----- Original Message -----
From: Lehman, David A.
To: Sparks, Daniel L; Mullen, Donald
Cc: Swenson, Michael
Sent: Wed Jul 11 09:22:34 2007
Subject: FW: CDO Marks

From: Lehman, David A.
Sent: Wednesday, July 11, 2007 9:13 AM
To: ficc-ops-cdopricing; ficc-tk-intlops-mtm
Cc: Saunders, Tim; Horvath, Jordan; Lin, Shelly; Ouderkirk, Gerald; Ha, Philip; Swenson, Michael; ficc-mtgcorr-traders
Subject: CDO Marks

Given the current market environment, we would like our bid for size for CDO valuations to be MAX $3mm for AAA to AA, and $1mm for A and below

No valuations should go out with a bid for $10mm

Call me with any questions

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-493-9681 | Mob: 917[redacted]
e-mail: david.lehman@gs.com

Goldman
Sachs

David Lehman
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2472

Confidential Treatment Requested by Goldma

From: Bieber, Matthew G.
Sent: Monday, July 16, 2007 2:24 PM
To: Lehman, David A.; Case, Benjamin
Cc: Swenson, Michael
Subject: RE: PTPLS and TWOLF

Confirmed

-----Original Message-----
From: Lehman, David A.
Sent: Monday, July 16, 2007 1:28 PM
To: Bieber, Matthew G.; Case, Benjamin
Cc: Swenson, Michael
Subject: PTPLS and TWOLF

Ben/Matt - We need to create an "unwind" spreadsheet for these deals...one where we can input CDS spds/prices and liability prices so we can determine if unwinding these deals makes sense

GS internal desk use only

Can you run point? Thk Deva has worked on this before, maybe him w Connie and Nitya?

Pls confirm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2473

From: Lehman, David A.
Sent: Tuesday, July 17, 2007 10:27 PM
To: Sparks, Daniel L
Cc: Swenson, Michael
Subject: FW: Timberwolf Analysis

Attachments: TWOLF Analysis Sheet 2007-07-16.xls



TWOLF Analysis Sheet 2007-07-1...

Work-in-progress on TWOLF unwind sheet

-----Original Message-----
From: Mishra, Deva R.
Sent: Tuesday, July 17, 2007 7:20 PM
To: Lehman, David A.; Case, Benjamin; Bieber, Matthew G.; Egol, Jonathan
Cc: Swenson, Michael; Creed, Christopher J
Subject: Timberwolf Analysis

Attached is an updated version of the call analysis. I approximated the upfront on the assets using the spread information in TAP. Let me know if you have any comments/changes. Will discuss with team tomorrow.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2474

Confidential Treatment Requested by Goldm

Permanent Subcommittee on Investigations

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Footnote Exhibits - Page 45 of 52

Tranche	Rating	% Cap Str		Tranche Size	Premium	Amount GS Long	GS Mark		Acquire Notional	Approx Dirty BID Price
Class S-1	AAA		$	9,000,000	0.25%	9,000,000	99.50%	$	-	100.00%
Class S-2	AAA		$	8,300,000	0.30%	8,300,000	99.50%	$	-	100.00%
Class A-1a	AAA	10.0%	$	100,000,000	0.05%	0	0.00%	$	100,000,000	90.00%
Class A-1b	AAA	20.0%	$	200,000,000	0.50%	200,000,000	88.00%	$	-	88.00%
Class A-1c	AAA	10.0%	$	100,000,000	0.80%	100,000,000	82.00%	$	-	82.00%
Class A-1d	AAA	10.0%	$	100,000,000	1.30%	0	0.00%	$	100,000,000	75.00%
Class A-2	AAA	30.50%	$	305,000,000	0.90%	149,000,000	55.00%	$	156,000,000	55.00%
Class B	AA	10.70%	$	107,000,000	1.40%	98,500,000	45.00%	$	8,500,000	45.00%
Class C	A	3.60%	$	36,000,000	4.00%	0	0.00%	$	36,000,000	40.00%
Class D	BBB	3.00%	$	30,000,000	10.00%	0	0.00%	$	30,000,000	30.00%
Equity	NR	2.2%	$	22,000,000		0	0.00%	$	22,000,000	20.00%
Total Liabilities:				1,000,000,000						
Fees to Unwind				500,000						

	Asset Proceeds	Liability Proceeds
ARB Calculator (excluding GS Shorts):	837,427,883	683,913,500
GS Termination Payments on Shorts	(140,904,752)	
Include GS Termination Payments (YES/NO)	YES	
Trigger:	HOLD OFF	

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CUSIP	Name	Current Face	Upfront Cost	Premium	Approx Unwind Cost/Proceeds	Counterparty	Asset Type	TRID
23910VAH5	DVSO 2006-6A C	15,000,000	25.25%	2.80%	(3,787,500)	Bear	HG SP CDO	SDB981529818
131888AF8	CAMBR 7A C	20,000,000	29.75%	6.55%	(5,950,000)	Goldman Sachs	MEZZ SP CDO	SDB981648426
12776YAD4	CRNMZ 2006-1A 5	15,000,000	35.25%	5.20%	(5,287,500)	Morgan Stanley	MEZZ SP CDO	SDB981648417
239156AD4	DVSO 2005-5A C	15,000,000	39.45%	1.48%	(5,917,500)	Bear Stearns	HG SP CDO	SDB980168366
078451AD3	BLHV 2005-1A C	15,000,000	33.76%	1.50%	(5,062,500)	Goldman Sachs	HG SP CDO	SDB980411471
824377AD0	SHERW 2005-2A C	20,000,000	38.00%	1.65%	(7,600,000)	Goldman Sachs	HG SP CDO	SDB981363907
38222QAC5	GSCSF 2006-1A B	20,000,000	46.00%	2.05%	(9,200,000)	Goldman Sachs	HG SP CDO	SDB981495291
007022AD8	ADROC 2005-2A C	20,000,000	16.25%	1.75%	(3,250,000)	Morgan Stanley	HG SP CDO	SDB981363942
38521PAE4	GRAND 2005-1A C	20,000,000	12.50%	1.75%	(2,500,000)	Morgan Stanley	HG SP CDO	SDB981363981
28441NAD3	DUKEF 2006-10A A3	15,000,000	44.20%	1.41%	(6,630,000)	Bank America Sec	MEZZ SP CDO	SDB980135389
722694AD8	PINEM 2005-A C	10,000,000	38.95%	1.46%	(3,895,000)	Bank America Sec	MEZZ SP CDO	SDB980135401
768277AD7	RIVER 2005-1A C	10,000,000	39.25%	1.40%	(3,925,000)	Bank America Sec	MEZZ SP CDO	SDB980135402
925345AE0	VERT 2006-1A A3	15,000,000	46.70%	1.41%	(7,005,000)	Bank America Sec	MEZZ SP CDO	SDB980135403
08861KAC0	BFCSL 2006-1A D	7,500,000	61.75%	1.40%	(4,631,250)	Barclays Capital	MEZZ SP CDO	SDB980190221
142148AE9	CACDO 2006-1A C1	5,000,000	67.40%	1.77%	(2,870,000)	Bear	MEZZ SP CDO	SDB980958568
3622X4AH6	GSCSF 2006-2A D	15,000,000	66.00%	1.55%	(9,900,000)	Bear Stearns	MEZZ SP CDO	SDB980146558
13189LAD1	CAMBR 5A B	15,000,000	37.85%	1.43%	(5,677,500)	Bear Stearns	MEZZ SP CDO	SDB980154129
362470AC0	GSCSF 2005-1A A3	10,000,000	35.75%	2.10%	(3,575,000)	Credit Suisse	MEZZ SP CDO	SDB981567094
87337UAD6	TABS 2005-4A D	10,000,000	44.00%	1.45%	(4,400,000)	CSFB	MEZZ SP CDO	SDB980157379
48426XAE8	ICM 2006-3A C	10,000,000	59.90%	1.45%	(5,900,000)	CSFB	MEZZ SP CDO	SDB980188510
362479AD9	GSCSF 2006-4A A3	10,000,000	65.00%	1.75%	(6,500,000)	CSFB	MEZZ SP CDO	SDB980867286
006368AC8	ADMSQ 2006-1A C	20,000,000	64.00%	2.45%	(10,800,000)	CSFB	MEZZ SP CDO	SDB981388127
48426XAE8	ICM 2006-3A C	10,000,000	55.40%	2.17%	(5,540,000)	CSFB	MEZZ SP CDO	SDB981018031
362479AD9	GSCSF 2006-4A A3	5,000,000	62.50%	2.25%	(3,125,000)	CSFB	MEZZ SP CDO	SDB981018220
12777CAE9	CRNMZ 2006-2A C	7,000,000	56.85%	1.58%	(3,909,500)	CSFB	MEZZ SP CDO	SDB980523304
89054BAE3	TOPG 2006-2A B	5,000,000	52.50%	1.75%	(2,625,000)	CSFB	MEZZ SP CDO	SDB980866004
89054BAE3	TOPG 2006-2A B	5,000,000	51.50%	1.95%	(2,575,000)	CSFB	MEZZ SP CDO	SDB981507464
83743LAJ0	SCF 8A C	9,855,262	48.20%	1.71%	(4,454,579)	Deutsche Bank	MEZZ SP CDO	SDB980412232
86585MAD9	SMSTR 2005-1A B	10,000,000	35.75%	1.35%	(3,575,000)	Goldman Sachs	MEZZ SP CDO	SDB2013046833
89643PAD2	TRNTY 2005-1A B	10,000,000	34.50%	1.35%	(3,450,000)	Goldman Sachs	MEZZ SP CDO	SDB2013046834
00082NAE0	ACABS 2005-2A A3	4,580,127	39.15%	1.42%	(1,785,290)	Goldman Sachs	MEZZ SP CDO	SDB980135385
28441NAD3	DUKEF 2006-10A A3	5,000,000	44.20%	1.41%	(2,210,000)	Goldman Sachs	MEZZ SP CDO	SDB980135386
36868BAE0	GEMST 2005-4A C	5,000,000	47.10%	1.33%	(2,355,000)	Goldman Sachs	MEZZ SP CDO	SDB980135389
768277AD7	RIVER 2005-1A C	5,000,000	39.25%	1.40%	(1,962,500)	Goldman Sachs	MEZZ SP CDO	SDB980135391
85233TAD8	STAK 2006-1A 5	5,000,000	68.25%	1.60%	(3,412,500)	Goldman Sachs	MEZZ SP CDO	SDB980135392
925345AE0	VERT 2006-1A A3	5,000,000	46.70%	1.41%	(2,335,000)	Goldman Sachs	MEZZ SP CDO	SDB980135393
00082NAE0	ACABS 2005-2A A3	13,680,381	39.15%	1.42%	(5,355,869)	Goldman Sachs	MEZZ SP CDO	SDB980135404
64069PAJ7	NEPTN 2006-3A B	15,000,000	55.75%	1.35%	(8,362,500)	Goldman Sachs	MEZZ SP CDO	SDB980137924
3622X4AH6	GSCSF 2006-2A D	6,000,000	66.00%	1.55%	(3,300,000)	Goldman Sachs	MEZZ SP CDO	SDB980146600
347199AC5	FTDRB 2005-1A A3L	15,000,000	38.50%	1.55%	(5,775,000)	Goldman Sachs	MEZZ SP CDO	SDB980411735
48426RAE9	ICM 2005-2A C	15,000,000	37.85%	1.68%	(5,677,500)	Goldman Sachs	MEZZ SP CDO	SDB980411906
83743LAJ0	SCF 8A C	4,927,631	48.20%	1.71%	(2,227,289)	Goldman Sachs	MEZZ SP CDO	SDB980412000
925338AD7	VERT 2006-2A A3	5,000,000	60.65%	1.62%	(3,032,500)	Goldman Sachs	MEZZ SP CDO	SDB980412390
00082WAD2	ACABS 2006-1A A3L	4,984,902	57.60%	2.23%	(2,871,303)	Goldman Sachs	MEZZ SP CDO	SDB981015918
08861KAC0	BFCSL 2006-1A D	5,000,000	56.85%	2.36%	(2,847,500)	Goldman Sachs	MEZZ SP CDO	SDB981015922
12777CAE9	CRNMZ 2006-2A C	10,000,000	52.70%	2.21%	(5,270,000)	Goldman Sachs	MEZZ SP CDO	SDB981015926
34957YAE7	FORTS 2006-2A C	20,000,000	57.40%	2.27%	(11,480,000)	Goldman Sachs	MEZZ SP CDO	SDB981015961
362479AD9	GSCSF 2006-4A A3	5,000,000	62.50%	2.25%	(3,125,000)	Goldman Sachs	MEZZ SP CDO	SDB981016018
45377MAL5	INDE7 7A D	5,000,000	56.75%	2.40%	(2,837,500)	Goldman Sachs	MEZZ SP CDO	SDB981016126
543175AJ2	LSTRT 2006-1A D	5,000,000	60.00%	2.25%	(2,500,000)	Goldman Sachs	MEZZ SP CDO	SDB981016199
87337UAD6	TABS 2005-4A D	5,000,000	39.90%	2.27%	(1,995,000)	Goldman Sachs	MEZZ SP CDO	SDB981016217
553129AD9	MKP 6A C	10,000,000	48.00%	2.15%	(4,800,000)	Goldman Sachs	MEZZ SP CDO	SDB981495272
82442VAD7	SHERW 2006-3A A3	10,000,000	61.00%	2.30%	(6,100,000)	Goldman Sachs	MEZZ SP CDO	SDB981495285
74732AAD9	PYXIS 2006-1A C	10,000,000	51.50%	2.45%	(5,150,000)	Goldman Sachs	MEZZ SP CDO	SDB981495289
578325AD4	MAYF 2006-1A A3L	10,000,000	60.00%	2.25%	(6,000,000)	Goldman Sachs	MEZZ SP CDO	SDB981507369
89643PAD2	TRNTY 2005-1A B	10,000,000	33.00%	1.65%	(3,300,000)	Goldman Sachs	MEZZ SP CDO	SDB981507425
87337UAD6	TABS 2005-4A D	5,000,000	39.90%	2.27%	(1,995,000)	Lehman	MEZZ SP CDO	SDB981016225
722694AD8	PINEM 2005-A C	10,000,000	38.90%	1.47%	(3,890,000)	Lehman	MEZZ SP CDO	SDB980135396
00082WAD2	ACABS 2006-1A A3L	14,954,705	57.60%	2.23%	(8,613,910)	Lehman	MEZZ SP CDO	SDB981016218
142148AE9	CACDO 2006-1A C1	15,000,000	64.65%	2.32%	(8,197,500)	Lehman	MEZZ SP CDO	SDB981016219
45377MAL5	INDE7 7A D	15,000,000	56.75%	2.40%	(8,512,500)	Lehman	MEZZ SP CDO	SDB981016222
543175AJ2	LSTRT 2006-1A D	15,000,000	50.00%	2.25%	(7,500,000)	Lehman	MEZZ SP CDO	SDB981016223
25454XAD7	DGCDO 2006-2A C	20,000,000	55.25%	2.20%	(11,050,000)	Lehman	MEZZ SP CDO	SDB981364105
157197AC8	CETUS 2006-1A B	20,000,000	56.75%	2.40%	(11,350,000)	Lehman	MEZZ SP CDO	SDB981390938
15719MAC5	CETUS 2006-2A B	20,000,000	53.95%	2.46%	(10,790,000)	Lehman	MEZZ SP CDO	SDB981391007
37638NAD3	GLCR 2006-4A C	9,936,305	49.25%	1.90%	(4,893,630)	Lehman	MEZZ SP CDO	SDB981503861
08861KAC0	BFCSL 2006-1A D	7,500,000	56.85%	2.36%	(4,271,250)	Merrill	MEZZ SP CDO	SDB981016229
553129AD9	MKP 6A C	10,000,000	48.00%	2.15%	(4,800,000)	Morgan Stanley	MEZZ SP CDO	SDB981497486
82442VAD7	SHERW 2006-3A A3	10,000,000	61.00%	2.30%	(6,100,000)	Morgan Stanley	MEZZ SP CDO	SDB981497489
74732AAD9	PYXIS 2006-1A C	10,000,000	51.50%	2.45%	(5,150,000)	Morgan Stanley	MEZZ SP CDO	SDB981497564
055398AD2	BFCGE 2006-1A A3L	9,926,160	36.50%	5.45%	(3,623,048)	Morgan Stanley	MEZZ SP CDO	SDB981648424
85233TAD8	STAK 2006-1A 5	15,000,000	68.25%	1.60%	(10,237,500)	Morgan Stanley	MEZZ SP CDO	SDB980135394
85234AAG1	STAK 2006-2A 5	20,000,000	56.75%	2.15%	(11,350,000)	Morgan Stanley	MEZZ SP CDO	SDB981364016
64069PAJ7	NEPTN 2006-3A B	5,000,000	52.50%	2.00%	(2,625,000)	Morgan Stanley	MEZZ SP CDO	SDB981364018
055398AD2	BFCGE 2006-1A A3L	9,926,160	54.25%	1.90%	(5,384,942)	Morgan Stanley	MEZZ SP CDO	SDB981364019
578325AD4	MAYF 2006-1A A3L	10,000,000	59.75%	2.30%	(5,975,000)	Morgan Stanley	MEZZ SP CDO	SDB981369193
615120AE2	MNTRS 2006-1A C	10,000,000	51.25%	2.00%	(5,125,000)	Morgan Stanley	MEZZ SP CDO	SDB981383147
615120AE2	MNTRS 2006-1A C	10,000,000	51.25%	2.00%	(5,125,000)	Morgan Stanley	MEZZ SP CDO	SDB981383196
925338AD7	VERT 2006-2A A3	5,000,000	40.25%	5.70%	(2,012,500)	Morgan Stanley	MEZZ SP CDO	SDB981648420
92534FAD0	VRGO 2006-1A A3	15,000,000	64.25%	1.40%	(9,637,500)	Other	MEZZ SP CDO	SDB980168415
36868BAE0	GEMST 2005-4A C	15,000,000	47.10%	1.33%	(7,065,000)	RBSGC	MEZZ SP CDO	SDB980135395
89053XAE8	TOPG 2005-1A B	15,000,000	44.50%	1.35%	(6,675,000)	RSC	MEZZ SP CDO	SDB980135682
362470AC0	GSCSF 2005-1A A3	10,000,000	38.35%	1.58%	(3,835,000)	Wachovia	MEZZ SP CDO	SDB980411775
925338AD7	VERT 2006-2A A3	10,000,000	60.65%	1.62%	(6,065,000)	Wachovia	MEZZ SP CDO	SDB980412297

CUSIP	Name	Current Face	Mid-Market Price	
89054BAE3	TOPG 2006-2A B	10,000,000	50.00%	5,000,000
87337WAD2	TABS 2006-5A A3	20,000,000	50.00%	10,000,000
53959PAD6	LOCH 2006-1A C	12,000,000	50.00%	6,000,000
12777CAE9	CRNMZ 2006-2A C	3,000,000	50.00%	1,500,000
002581AE8	ABAC 2006-HG1A D	9,000,000	50.00%	4,500,000
002581AD0	ABAC 2006-HG1A C	6,000,000	50.00%	3,000,000
48426XAE8	ICM 2006-3A C	10,000,000	50.00%	5,000,000

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CUSIP	Name	Current Face	Dirty Sale Price	Approx Sale Proceeds
14454AAB5	CARR 2006-FRE2 A2	12,754,000	97.00%	12,371,380
23245CAC4	CWL 2007-1 2A2	11,000,000	97.00%	10,670,000
35729QAC2	FHLT 2006-B 2A2	3,031,462	97.00%	2,940,518
35729VAB3	FHLT 2006-D 2A1	12,612,256	97.00%	12,233,888
3622ELAA4	GSAA 2006-18 AV1	14,164,638	97.00%	13,739,699
55275TAC2	MABS 2007-WMC1 A3	26,850,000	97.00%	26,044,500
59022QAD4	MLMI 2006-HE5 A2C	22,000,000	97.00%	21,340,000
61750FAE0	MSAC 2006-HE6 A2C	15,000,000	97.00%	14,550,000
617463AC8	MSIX 2006-2 A3	11,470,000	97.00%	11,125,900
643529AA8	NCAMT 2006-ALT2 AV1	11,351,132	97.00%	11,010,598
3622EAAX8	GSAA 2007-3 1A1B	14,298,278	97.00%	13,869,330
3622EAAD2	GSAA 2007-3 2A1B	5,705,204	97.00%	5,534,048
12668YAA1	CWL 2006-S10 A1	4,194,315	97.00%	4,068,485
40051CAA5	GSAA 2006-S1 1A1	18,127,171	97.00%	17,583,356
66988RAC1	NHEL 2006-6 A2B	5,550,000	97.00%	5,383,500
126673MY5	CWHEL 2004-Q 2A	10,383,695	97.00%	10,072,185
144531AY6	CARR 2005-NC1 A1C1	1,813,949	97.00%	1,759,530
362334QF4	GSRPM 2006-1 A2	1,284,943	97.00%	1,246,394
76110WF35	RASC 2004-KS9 AII4	2,445,712	97.00%	2,372,341
46626LEJ5	JPMAC 2005-OPT2 A3	1,000,000	97.00%	970,000
362341L49	GSAMP 2005-WMC3 A2B	1,000,000	97.00%	970,000
362439AD3	GSAMP 2006-HE4 A2C	5,368,000	97.00%	5,206,960
04544NAD6	ABSHE 2006-HE6 A4	1,000,000	97.00%	970,000
71085PBX0	PCHLT 2005-2 A3	6,322,000	97.00%	6,132,340
1248MKAB1	CBASS 2007-SL1A A2	36,881,539	97.00%	35,775,093
86362YAC0	SASC 2007-BC2 A3	26,814,000	97.00%	26,009,580
69121PBT9	OWNIT 2005-5 A2B	31,727,500	97.00%	30,775,675
61749NAC1	MSAC 2006-HE5 A2B	32,000,000	97.00%	31,040,000
64352VNW7	NCHET 2005-C A2B	32,000,000	97.00%	31,040,000
31659XAA4	FMIC 2006-S1 A	42,889,865	97.00%	41,603,169
07400YAA4	BSMF 2006-SL2 A1	18,234,323	97.00%	17,687,293
78577RAA7	SACO 2006-9 A1	28,918,202	97.00%	28,050,656
76113ABH3	RASC 2006-KS3 AI3	10,000,000	97.00%	9,700,000
14453MAB0	CARR 2006-NC4 A2	20,000,000	97.00%	19,400,000
64352VLG4	NCHET 2005-3 A2C	11,570,000	97.00%	11,222,900
144531DL1	CARR 2005-NC5 A2	46,313,106	97.00%	44,923,713
144531CV0	CARR 2005-NC3 A1C	29,719,775	97.00%	28,828,182
12668TAB0	CWL 2007-BC1 2A1	14,391,428	97.00%	13,959,685
34957YAA5	FORTS 2006-2A S	6,768,562	97.00%	6,565,505
44386QAA2	HUDMZ 2006-2A S	4,300,000	97.00%	4,171,000
144528AC0	CARR 2006-NC3 A3	20,000,000	97.00%	19,400,000
12668UAE1	CWL 2007-3 2A1	45,211,070	97.00%	43,854,738
12668UAF8	CWL 2007-3 2A2	18,000,000	97.00%	17,460,000
12668UAG6	CWL 2007-3 2A3	17,000,000	97.00%	16,490,000
3622EBAA6	GSAA 2007-4 A1	75,850,948	97.00%	73,575,420
3622EBAB4	GSAA 2007-4 A2	45,788,000	97.00%	44,414,360
452570AA2	IMSA 2007-2 1A1A	77,778,941	97.00%	75,445,573
52521MAB8	LEHMAN ABS MTG LN TR 2007-1	20,000,000	97.00%	19,400,000

From: Tourre, Fabrice
Sent: Thursday, April 05, 2007 9:06 AM
To: Maltezos, George (GSJBW); Carrett, Paul (GSJBW); Rolleston, Jeremy (GSJBW)
Subject: RE: ABACUS 07-AC1

Georges, Paul, Jeremy, any thoughts on this ? We can swap into AUD if needed. Please let me know if you have accounts we can show this to, thanks

From: Tourre, Fabrice
Sent: Monday, April 02, 2007 10:27 AM
To: Maltezos, George (GSJBW); Carrett, Paul (GSJBW); Rolleston, Jeremy (GSJBW)
Cc: ficc-mtgcorr-desk
Subject: ABACUS 07-AC1

Gentlemen, we are getting good traction on the ABACUS 2007-AC1 transaction, the $2bn notional mezz ABS CDO transaction with a portfolio consisting of 100% Baa2 rated RMBS bonds selected by ACA. We have gotten orders for approx $200mm of mezz AAA CLNs and expect to price a first tap of this transaction early next week. This transaction should be a good product to show your customers, to the extent they are not participating in Anderson Mezz, Timberwolfe or Point Pleasant. I have attached below some key selling points for this trade, as well as price thoughts below:

Supersenior tranche (45-100 tranche, funded or unfunded): 45bps
Aaa/AAA (35-45 tranche, funded or unfunded): L+85bps
Aaa/AAA (21-35 tranche, funded or unfunded): L+110bps
Aa2/AA (18-21 tranche, funded or unfunded): L+175bps
Aa3/AA- (13-18 tranche, funded or unfunded): L+225bps
A2/A (10-13 tranche, funded or unfunded): L+500bps

Below are some key marketing points for the trade. Let's discuss what customer we can show this transaction to, thanks.

INTERNAL ONLY

ABACUS 2007-AC1 - 2bn synthetic RMBS CDO

OVERVIEW
- Static portfolio consisting entirely of "Baa2"-rated midprime/subprime RMBS selected by ACA
- ACA is one of the largest and most experienced CDO managers in the world (see Overview of ACA below)
- Goldman's market-leading ABACUS program currently has $5.1bn in outstanding CLNs with strong secondary trading desk support

RELATIVE VALUE
- Reference Portfolio more conservative (360 WARF) than traditional mezz ABS CDOs (450-500 WARF)
- Capital Structure less aggressive than traditional mezz ABS CDOs (see comp below)
- Attractive spreads relative to ABS CDOs currently in the market (see comps below)

PORTFOLIO
- Granular portfolio of 90 equally-sized reference obligations selected by ACA
- Static reference portfolio fully-identified, with no reinvestment, removals, substitutions or discretionary trading
- 100% Baa2 Moody's-rated subprime/midprime (360 Moody's WARF)
- Diversified across 30 shelves and 24 servicers
- Portfolio attached below

<< File: Portfolio Information 20070328.xls >>

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Report Footnote #2483

STRUCTURE

- Tranches offered across the entire capital structure
- No IC/OC tests: ABACUS notes will be uncapped and non-deferrable
- Sequential Principal Paydown Sequence: no subordination is leaked to residual tranches under any circumstance
- No upfront structuring fees
- Investors will not bear WAC and/or available funds cap risk
- Projected 4- to 5- year tranche WALs at the reference portfolio pricing speed
- Tranches available in unfunded CDS format as well as in CLN format (in all major currencies)
- Termsheet attached below

<< File: ABACUS 2007-AC1 Preliminary Term Sheet 20070326.pdf >>

OVERVIEW OF ACA MANAGEMENT LLC

- One of the largest CDO managers in the world
- Currently manages approximately $16bn in collateral assets across 22 CDOs
- No rated notes in any ACA's CDOs have ever been downgraded
- ACA team consists of 30 dedicated credit and portfolio management professionals with on average 13 years of relevant experience
- Portfolio Selection Fee structure aligns manager's incentive with investors'

COMPs:

	ABACUS 2007-AC1	TABS 2007-7	Alpha Mezz CDO	Draco 2007-1
Pricing Date		Feb-07	Feb-07	Jan-07
Portfolio Advisor	ACA	Tricadia	Countrywide	Declaration
Underlying Portfolio				
WARF:	360	450	525	450
Lowest Moody's:	Baa2	Ba2	Ba2	
% NIG:	0%	5%	5%	0%
% ABS CDOs:	0%	22%	15%	3%
% RMBS:	100%	78%	85%	97%
Reinvestment Period:	N/A	4 years	4 years	5 years
Principal Repayments:	Sequential	Mod Pro-Rata	Mod Pro-Rata	Mod Pro-Rata
Interest Shorfalls:	N/A	Fixed Cap	Fixed Cap	Fixed Cap
Capital Structure				
Aaa/AAA C/E:	21.0%	25.7%	21.0%	23.4%
Aa2/AA C/E:	18.0%	15.0%	15.0%	17.4%
Aa3/AA- C/E:	13.0%		14.0%	
A2/A C/E:	10.0%	11.9%	9.4%	11.2%
Pricing				
Aaa/AAA Pricing:	L+[ ]	L+55	L+44	L+48
Aa2/AA Pricing:	L+[ ]	L+65	L+55	L+58
Aa3/AA- Pricing:	L+[ ]		L+62	
A2/A Pricing:	L+[ ]	L+275	L+160	L+225

Expected Timing:
Price Guidance & Red - w/o March 5, 2007

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From: Steffelin, Edward [esteffelin@gsc.com]
Sent: Tuesday, February 27, 2007 9:33 AM
To: Ostrem, Peter L
Subject: FW: ABACUS 2007-AC1, Ltd. -- New Issue Announcement (144a/RegS)
Attachments: Portfolio Information 20070215 (6).xls; ABACUS 2007-AC1 Preliminary Term Sheet 20070226.pdf; ABACUS 2007-AC1 Flipbook 20070226.pdf

I do not have to say how bad it is that you guys are pushing this thing.

Ed Steffelin
212-884-6190
GSC Partners

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From: Willing, Curtis [mailto:curtis.willing@gs.com]
Sent: Tuesday, February 27, 2007 9:22 AM
Subject: ABACUS 2007-AC1, Ltd. -- New Issue Announcement (144a/RegS)

ABACUS 2007-AC1, Ltd. -- New Issue Announcement (144a/RegS) (external)
Sole Bookrunner & Lead Manager: Goldman, Sachs & Co.
Portfolio Selection Agent: ACA Management, LLC
$2.0Bn Structured Product Synthetic Resecuritization
(Portfolio of 90 Mdys Baa2 rated midprime and subprime RMBS Reference Obligations)

Tranche	Mdys/S&P	Size(mm)	WAL(y)	%CapStr	%Subord	Guidance
SS	N/A	[1,100.00]	[3.9]	[55.00%]	[45.00%]	Call Desk
A	[Aaa/AAA]	[480.00]	[4.4]	[24.00%]	[21.00%]	1mL+TBD
B	[Aa2/AA]	[60.00]	[4.6]	[3.00%]	[18.00%]	1mL+TBD
C	[Aa3/AA-]	[100.00]	[4.7]	[5.00%]	[13.00%]	1mL+TBD
D	[A2/A]	[60.00]	[4.9]	[3.00%]	[10.00%]	1mL+TBD
First Loss	[NR/NR]	[200.00]	N/A	[10.00%]	[0.00%]	Call Desk

Attached - Termsheet, Debt Marketing Book, Initial Reference Portfolio

<<Portfolio Information 20070215 (6).xls>> <<ABACUS 2007-AC1 Preliminary Term Sheet 20070226.pdf>>
<<ABACUS 2007-AC1 Flipbook 20070226.pdf>>

Expected Timing:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2485

Preliminary OC - w/o March 5th
Price Guidance - w/o March 5th
Pricing - w/o March 26th

GS Structured Products Global Syndicate
Asia: Omar Chaudhary, Jay Lee & Hirotaka Sugioka +81 (3) 6437-7198
Europe: Mitch Resnick, Tets Ishikawa & Jessica Reis +44 (0)20 7774-3068
N. America: Bunty Bohra, Scott Wisenbaker, Robert Black, Scott Walter, Tony Kim, Malcolm Mui & Russell Brocato +1 (212) 902-7645

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.

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Wall Street & The Financial Crisis
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Structured Credit Investments

July 2006

GS MBS-E-002055378

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Agenda

Executive Summary I

Evaluating Asset Classes II

Cash CDO Overview III
- Cash Collateralized Debt Obligations (CDOs)
- Cash Collateralized Loan Obligations (CLOs)

Synthetic CDO Overview IV
- Corporate Credit
- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors V

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Executive Summary

- Structured products may represent an opportunity for banks to enhance yield, improve capital efficiency and diversify risk exposures
- Financial institutions have begun to recognize the value of structured products and have been directing asset and resource allocation accordingly
- Implementation of product efforts has been slow due to several factors
  - Lack of internal product expertise
  - Balance sheet viewed as containing sufficient risk
  - Regulatory capital issues
  - Mark-to-market earnings volatility concerns



Internal

External

- Increasingly structured products are viewed as an efficient and effective vehicle to access credit
  - Systemic exposures and managed transactions minimize need for intensive research capability while maximizing portfolio diversity
  - Attractive alternative for overly concentrated portfolios
  - Existing knowledge of MBS and ABS CDO's transferable to synthetic CDO's
  - Environment for structured products has become progressively more balance sheet and income statement friendly

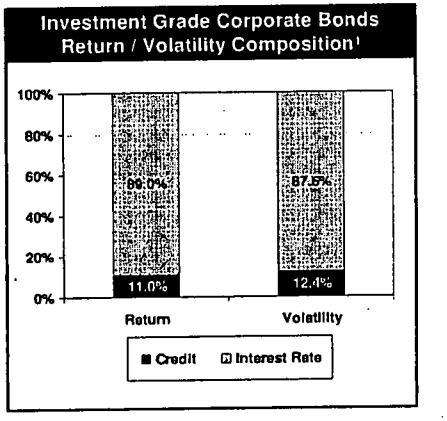
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Traditional Bank Portfolios

- Banks seek to maximize investment portfolio returns subject to certain risk guidelines: liquidity, market risk, principal risk and regulatory capital
- Banks have attempted to meet these goals through exposure to Treasuries, Agencies, Mortgage-Backed Securities (MBS), Asset-Backed Securities (ABS), Municipals and Corporates
- Historically, banks have limited credit exposure in their investment portfolio
  - MBS and ABS contain some consumer credit risk
  - Agency products contain limited credit risk
  - Corporate bond investment overall has been limited
- Consequently, interest rate risk has been the primary portfolio risk
  - Upward sloping yield curves have provided alpha
  - Convexity in mortgage portfolios has enhanced yields but exposed banks to the increased volatility inherent in these products
  - Corporate bonds fail to diversify rate risk because:
    - Limited component of bank investment portfolios
    - Only 11% of corporate bond coupon results from credit risk
    - Corporate bonds are not a source of reg cap relief (100% risk weighting)



[1] This analysis is for illustrative purposes only, and is based solely on historical performance which may differ from actual performance. Dow Jones 5yr CDX.NA.IG.4 index of Credit Default Swaps used for investment grade credit spreads. 5yr interest rate swap rate and 5yr CDX.NA.IG.4 spread as of 04/26/05 used in combination with historic volatilities of 5yr interest rate swap rates and CDX.NA.IG spreads to generate valuation volatility compositions.

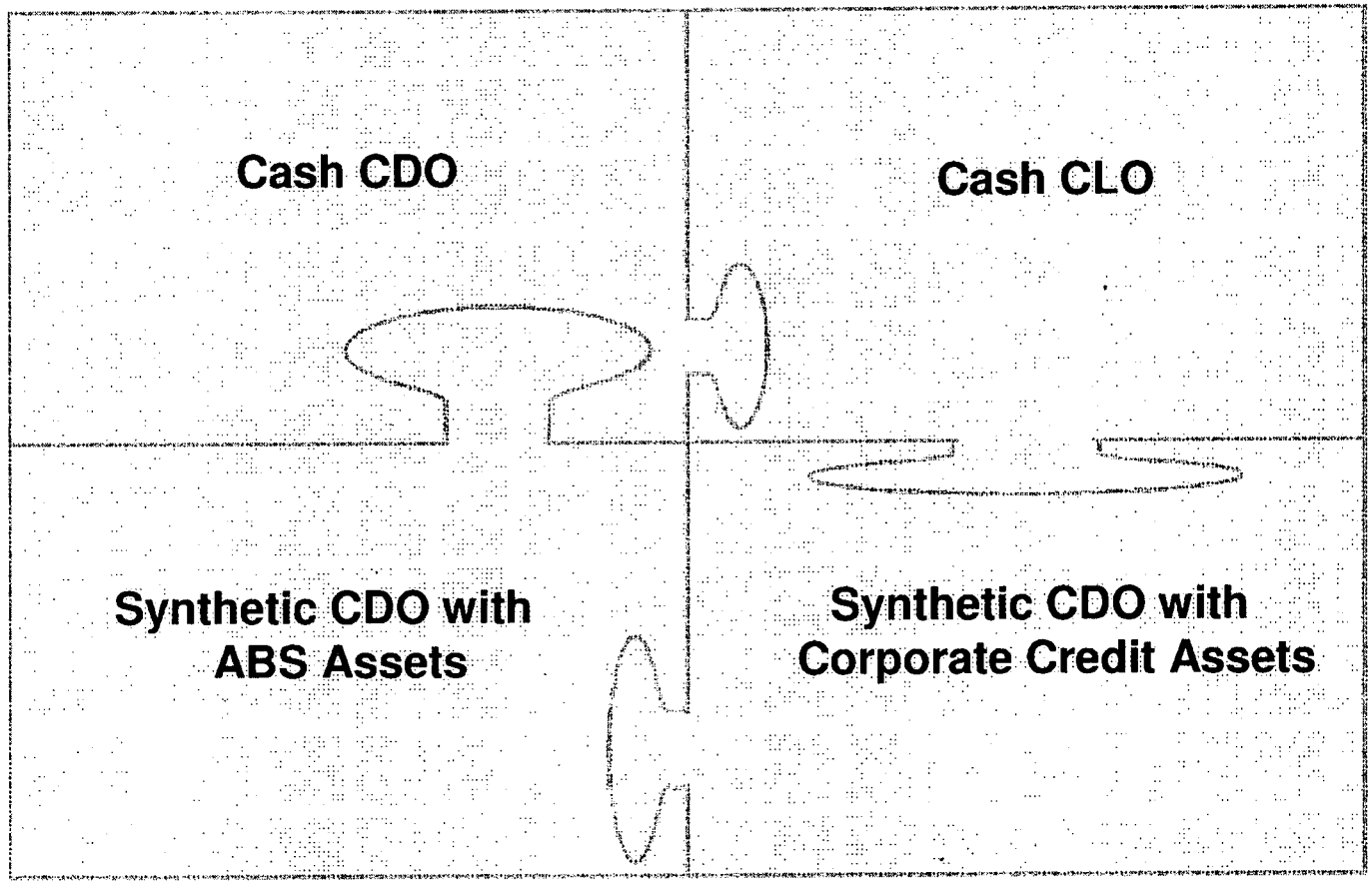
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CDO Product Overview

- As the structured products universe continues to expand, mortgage and corporate credit products as well as cash and synthetic CDO structures have continued to converge



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Traditional Cash Flow CDO versus Synthetic CDO

Traditional Cash CDO	Synthetic CDO
■ Reference portfolio typically selected and managed by third party	■ Reference portfolio can be selected and managed by third party, investor selected or index based
■ Collateral is cash assets	■ Reference portfolio comprised of CDS
■ Full capital structure placement	■ Investor/client driven - no supply or secondary market constraints
■ Supply-driven distribution	■ Single tranche placement or full capital structure
■ Long only investments	■ Can be used to articulate long, short and long/short views
■ Cash flow waterfall	■ Direct cash flow through credit default swap
■ Unwind triggers	■ No unwind triggers
■ Executable in note-format only	■ Investment in note or swap form

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- Cashflow CDOs
- Cashflow Collateralized Loan Obligations (CLOs)

Synthetic CDO Overview IV
- Corporate CDSs
- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors V

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Evaluating Asset Classes
Overview

- Evaluating asset classes is a multi-step process that incorporates evaluation of:
  - Current yields of underlying asset class
  - Risk/return profile of underlying asset class
  - Correlation between asset classes in structured portfolio
  - Diversification/Overlap of exposure between structured credit portfolio and holdings in other portfolios

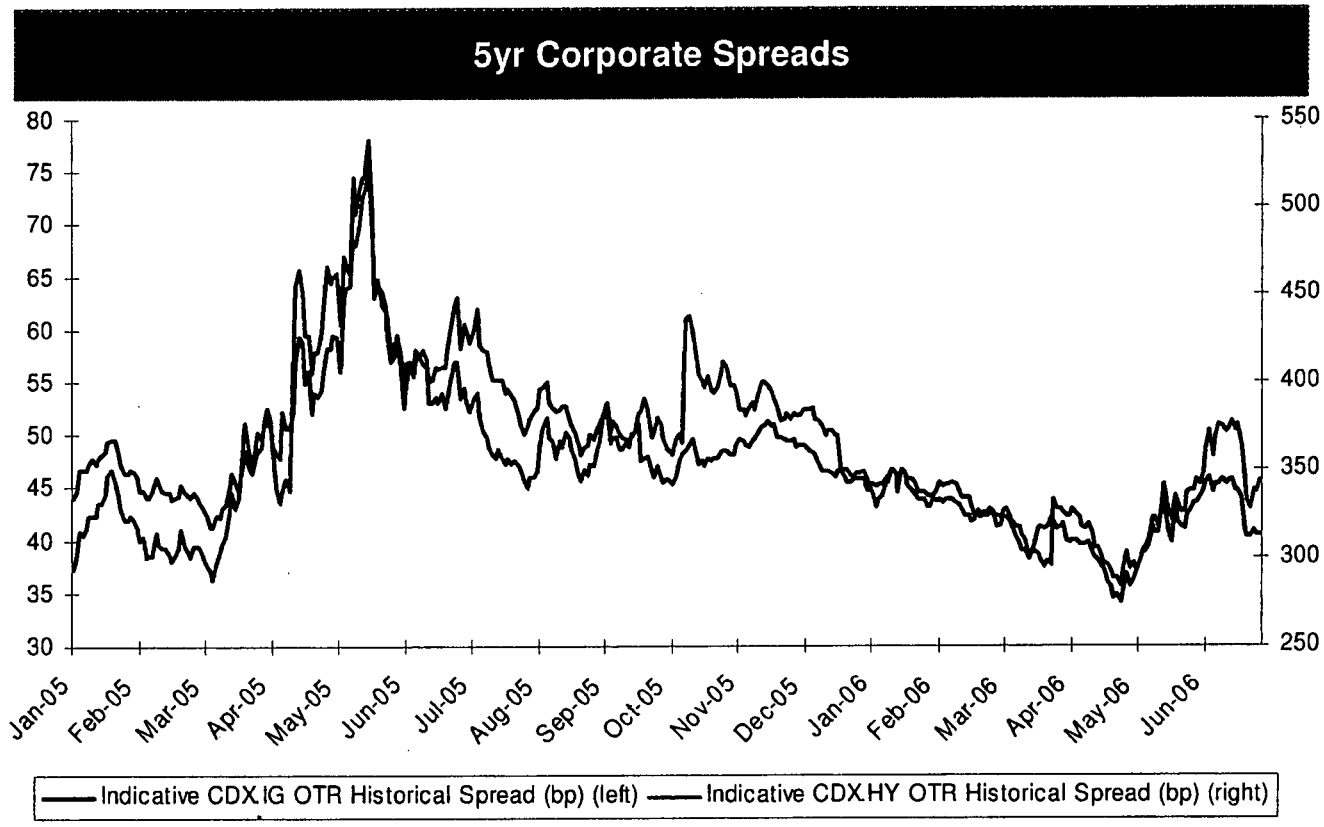
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Current Yields of Underlying Asset Classes

Identifying Relative Value Opportunities



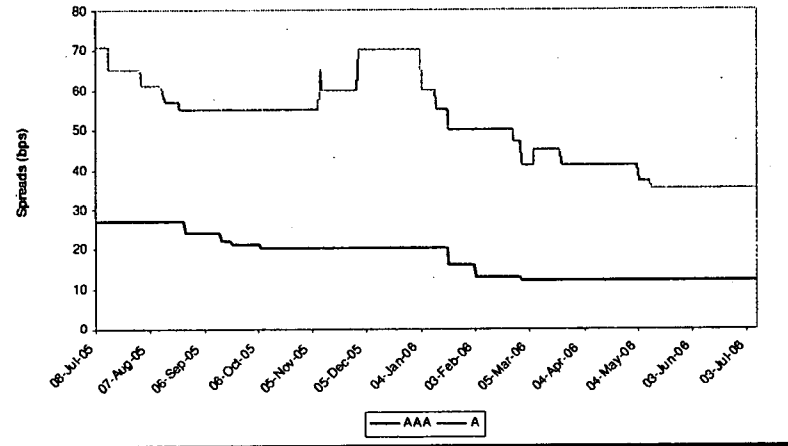
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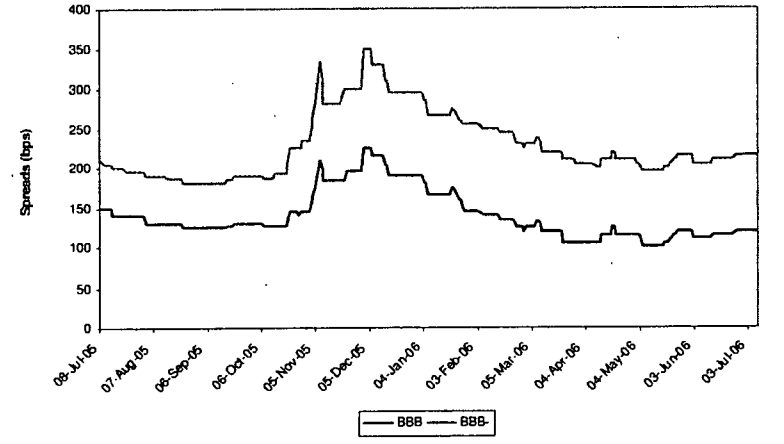
Current Yields of Underlying Asset Classes

Indicative Historical RMBS Spreads

RMBS [AAA] and [A] CDS Spreads (bp)[1]



RMBS [BBB] and [BBB-] CDS Spreads (bp)[1]



[1] Source: Goldman Sachs

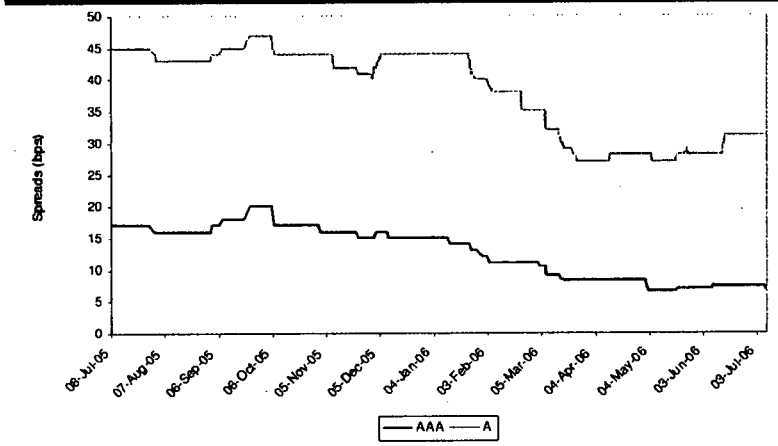
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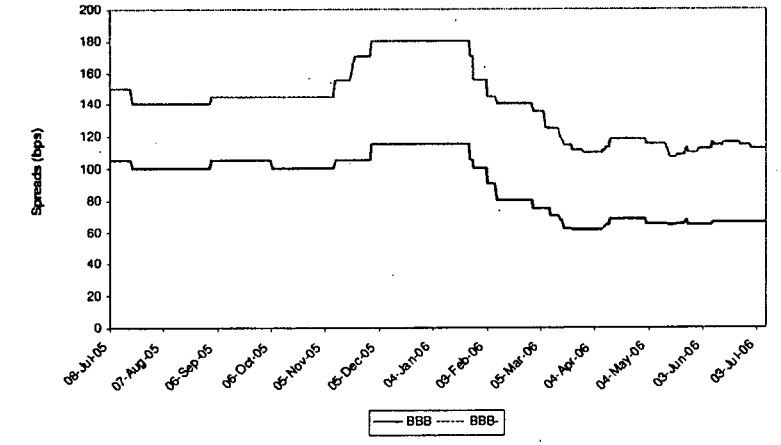
Current Yields of Underlying Asset Classes

Indicative Historical CMBS Spreads

CMBS [AAA] and [A] CDS Spreads (bp)[1]



CMBS [BBB] and [BBB-] CDS Spreads (bp)[1]



[1] Source: Goldman Sachs

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- Cash Collateralized Loan Obligations (CLOs)

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- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors V

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CDO Product Overview

Managed Investment Options

	CDO	Separate Account	Hedge Fund	Mutual Fund (Open-End)
Degree of Possible Customization	Highest, with respect to portfolio and structure	Some, with respect to portfolio	Little	None
Target Yields	Highest	Unlevered asset yield	High	Unlevered asset yield
Use of Leverage	Significant, term non-recourse	Generally none	Significant, Repo	None
Mark-to-Market Risk	None	Yes	Repo, Leverage magnifies market movements	Yes
Liquidity	Low	Can usually redeem with some notice	Can usually redeem with some notice	Most liquid
Ongoing Management Fees	Lowest	Moderate	Highest, with significant incentive fee	Moderate
Upfront Costs	1.0% - 2.0%	None	None	None

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CDO Product Overview

Investment Decision

The decision to invest in a CDO consists of three primary considerations

Asset Class

- Risk/return characteristic
- Diversification
- Timing
- Volatility
- Overall portfolio allocation and correlation with rest of portfolio

Manager

- Degree of management activity
- Experience
- Strategy
- Investor communication
- Infrastructure
- Depth of management team

Structure

- Use of leverage
- Position in capital structure
- Fee arrangement
- Liquidity
- Desired risk/return profile

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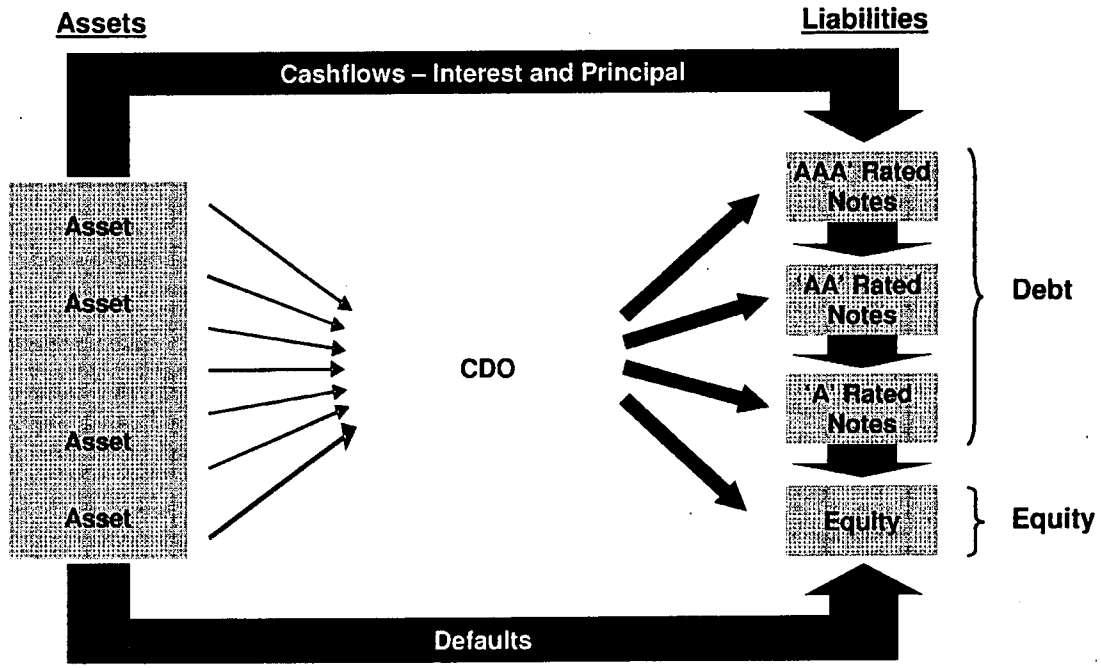
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Cashflow Collateralized Debt Obligations (Cash CDOs)

Structure

- CDOs are not an asset class, but rather a vehicle for investing in a given asset class
- A cash CDO finances the purchase of a portfolio of assets by the issuance of several different rated tranches of debt and a tranche of equity (the "liabilities")
- Interest and principal payments on the liabilities are financed by income from the assets
- CDOs provide value as a customized investment format that allows an investor to control the amount of risk and return that they are seeking from the underlying assets



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Overview
Why Do CDOs Exist?

A successful CDO serves the objectives of three constituencies

Debt Investors

- Exposure to asset classes that may not otherwise be available or practical
- Customized risk profile
- Attraction yields relative to comparably rated securities
- Underlying portfolios selected and underwritten by Goldman and respected collateral managers or investors

Equity Investors

- Arbitrage between asset yield and financing cost
- Non-recourse, term financing
- High current cash flow
- Low correlation with other alternative investments
- Lower management fees than other managed vehicles

Collateral Manager

- Assets under management
- Longer term mandate than typical accounts
- Access to different investor base

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Overview
Investment Decision

The decision to invest in a CDO consists of three primary considerations

Asset Class

- Risk/return characteristic
- Diversification
- Timing
- Volatility
- Overall portfolio allocation and correlation with rest of portfolio

Structure

- Use of leverage
- Position in capital structure
- Fee arrangement
- Liquidity
- Desired risk/return profile
- Actively managed or static pool monitored for credit migration

Manager

- Degree of management activity
- Experience
- Strategy
- Investor communication
- Infrastructure
- Depth of management team

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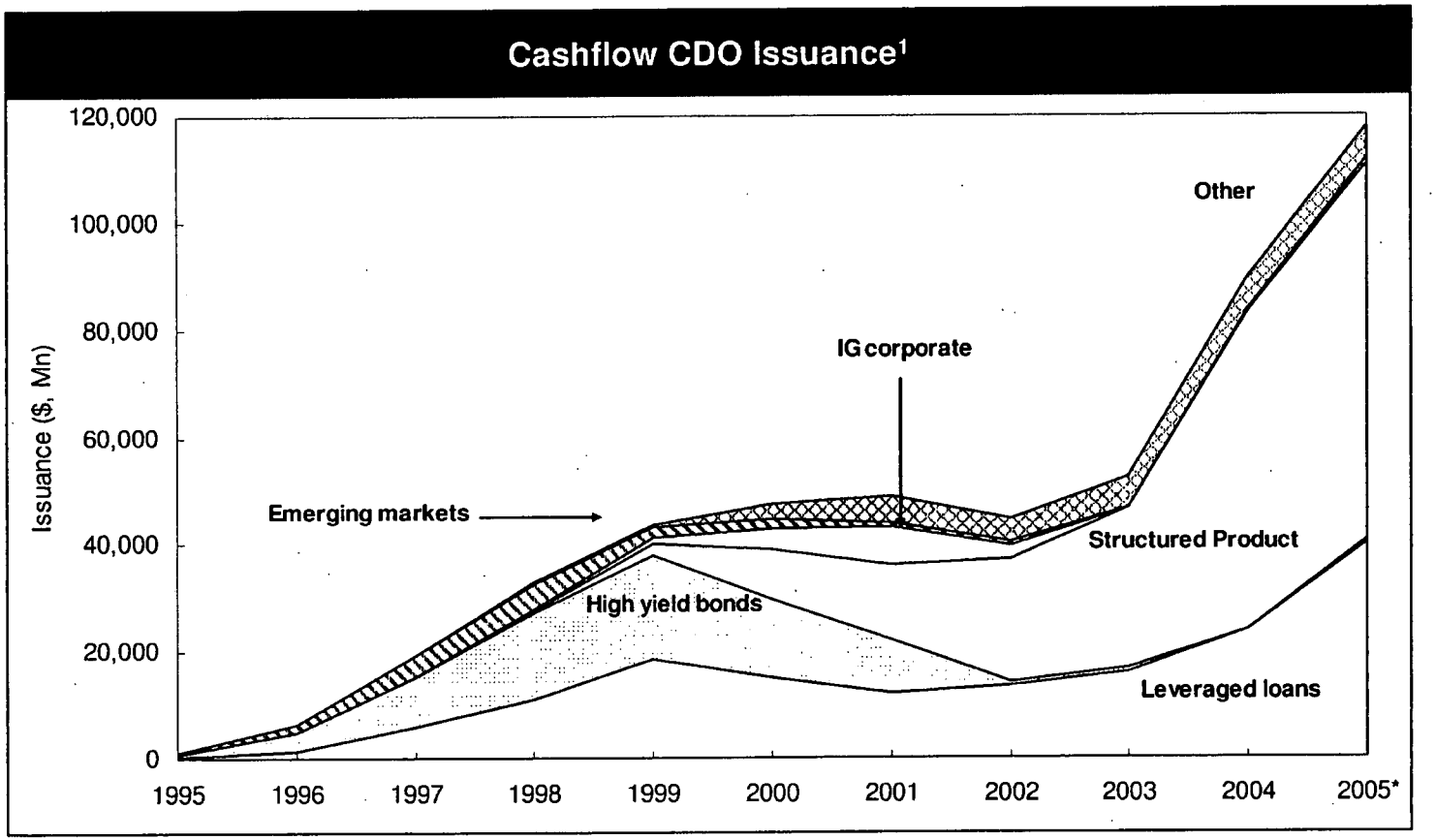
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Cashflow CDO Overview

Many CDOs have been substantially upsized, reflecting strong demand technicals

Structured Finance CDOs have grown to dominate cashflow CDO issuance with leveraged loan CDOs continuing to be a stable 33% of the market



(1) Source: Goldman Sachs

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CDO Product Overview

CDO Participants

Equity Investors

Investment Objectives

- Arbitrage between asset yield and financing cost
- High current cash flow
- Low correlation with other alternative investments
- Lower management fees than other managed vehicles
- Deliver manage alpha in chosen Asset Class

Participants

- Pension Funds
- Hedge Funds
- High Net Worth Clients
- Insurance Companies
- Structured Credit Funds

Debt Investors

Investment Objectives

- Diversification; exposure to asset classes that may not otherwise be available or practical
- Customized risk profile
- Attraction yields relative to comparably rated securities

Participants

- Insurance companies
- Asset Managers
- Conduits
- Hedge Funds

Underwriters

- Goldman Sachs CDO Group
- Originates, structures and places transactions backed by diversified portfolios of bank loans (Collateralized Loan Obligations) or RMBS, CMBS CDOs and ABS (Structured Product CDOs)
- Franchise record year for both CLO and SP CDO issuances in 2005

Collateral Managers

- Assets under management
- Longer term mandate than typical accounts
- Access to different investor base
- Names include: Carlyle Investment Management, New York Life Investment Management, Ballyrock Investment Advisors, Katonah Debt Advisors, Trust Company of the West

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Cashflow CDO Overview

CDO Investor Base

As the CDO market has grown, the investor base for CDO securities has increased significantly

Class(es)	Types of Investors
Senior Securities (generally floating rate)	■ Commercial Paper Conduits/SIV ■ U.S. and Non-U.S. Banks ■ Funded Monoline
Mezzanine Securities	■ U.S. and Non U.S. Insurance Companies ■ U.S. and Non U.S. Banks ■ U.S. and Non U.S. Money Managers ■ Hedge Funds ■ CDOs of CDOs
Subordinate/Equity Securities	■ U.S. and Non U.S. Insurance Companies ■ Pension Funds/Endowments ■ Bank Prop Books ■ High Net Worth Individuals ■ Hedge Funds

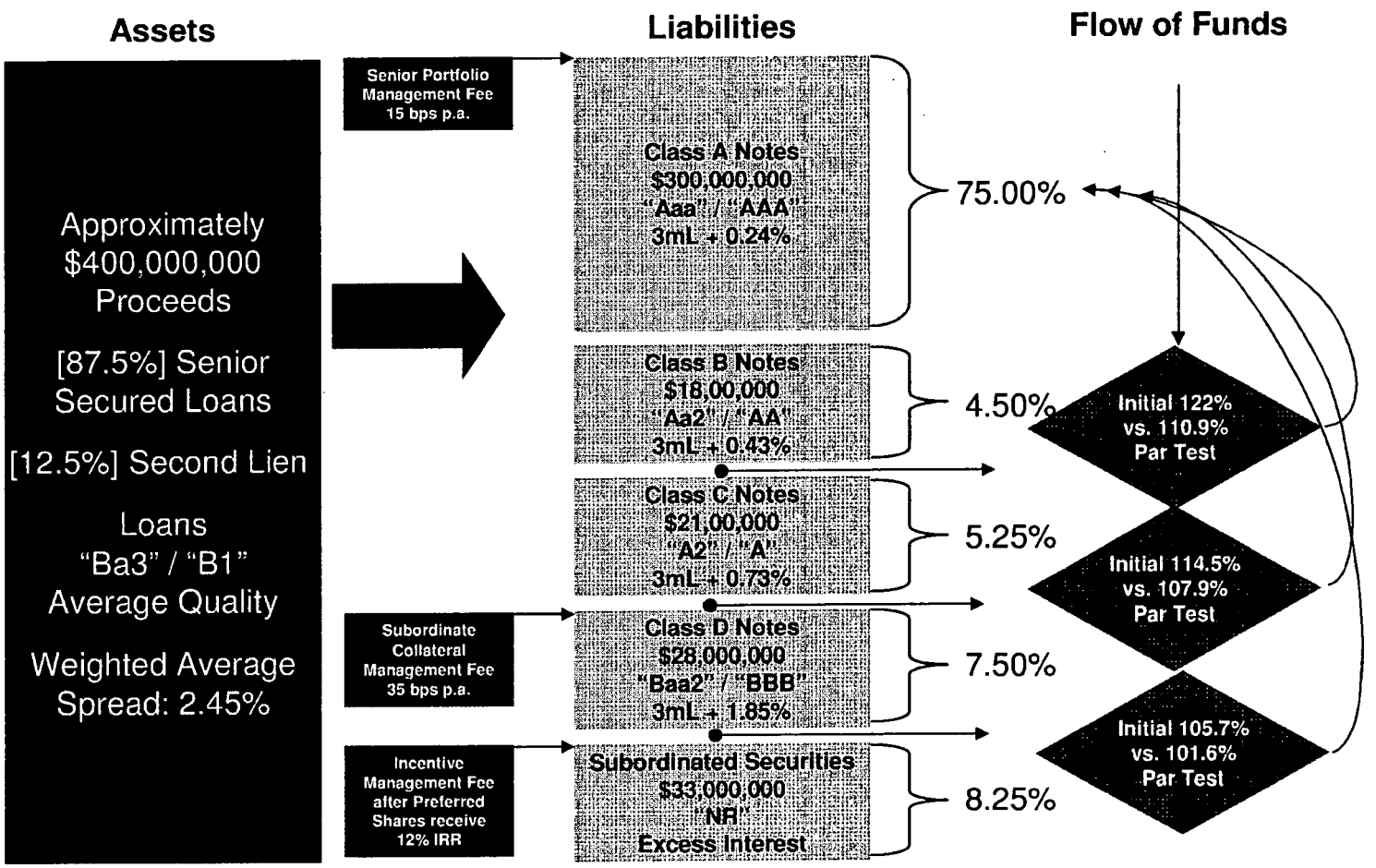
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Cashflow CDO Overview

Structural Diagram of a Typical Cash Flow CDO[1]



(1) Indicative only.

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Growth of Primary Market Issuance

Overview and Motivation for the Bank Loan Asset Class

- The collateral for a CLO consists primarily of leveraged loans
  - Leveraged loans are syndicated bank loans made to borrowers with non-investment grade credit ratings
  - The US leveraged loan market has matured into a major capital market with strong liquidity
  - Spreads over LIBOR on B-rated leveraged loans have averaged approximately 300 bps over the last seven years
  - Default rates for leveraged loans have historically tracked significantly lower than default rates for high yield bonds
  - Recovery rates for leveraged loans have historically tracked significantly higher than recovery rates for high yield bonds
- Since its development in 1996, the US cash flow arbitrage CLO market has developed into a major market
  - US Cash flow arbitrage CLO issuance reached approximately $42 billion in the first 3 quarters of 2005
  - CLOs own an estimated 65% of the US dollar institutional leveraged loan market

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Synthetic CDO Overview IV
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- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors V

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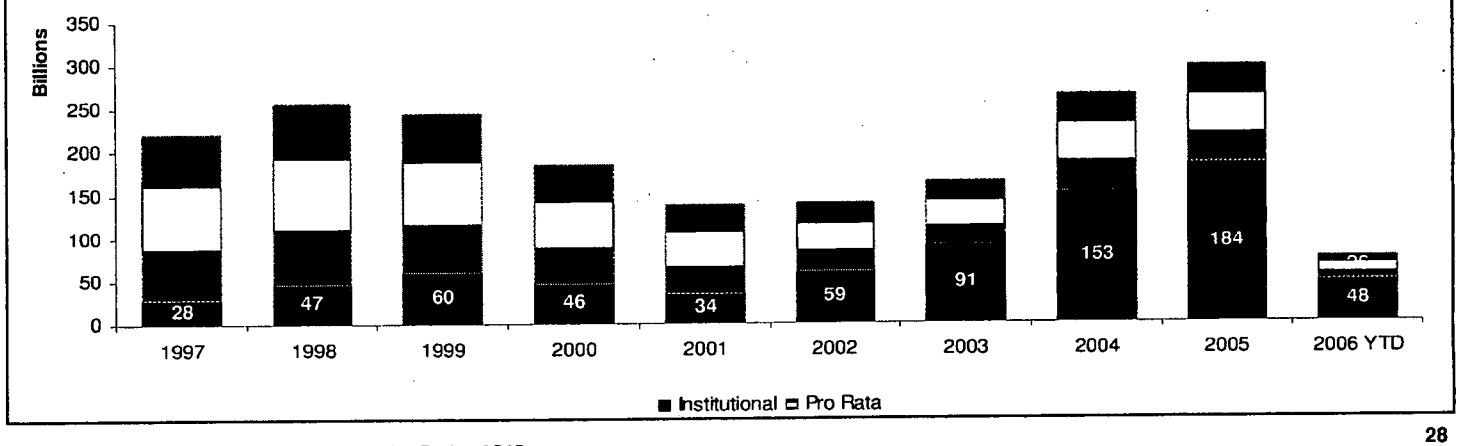
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Growth of Primary Market Issuance

Broadly Syndicated Loans

- A syndicated leveraged loan is one that is provided by a group of commercial or investment banks to a non-investment grade company
- A syndicated loan typically consists of:
  - A revolving credit facility (pro-rata) which allows a borrower to draw down, repay, and reborrow
  - An amortizing loan with a progressive repayment schedule
  - One or more institutional term loan tranches that have longer maturities and back-ended repayment
- As the syndicated loan market has evolved, the banks that arrange loans have increasingly sold loans to institutional investors such as CLOs and prime funds
- US dollar denominated annual new issue volume for leveraged loans

New Issue Leveraged Loan Volume



Source: Standard & Poor's, LCD Leveraged Lending Review 2Q05

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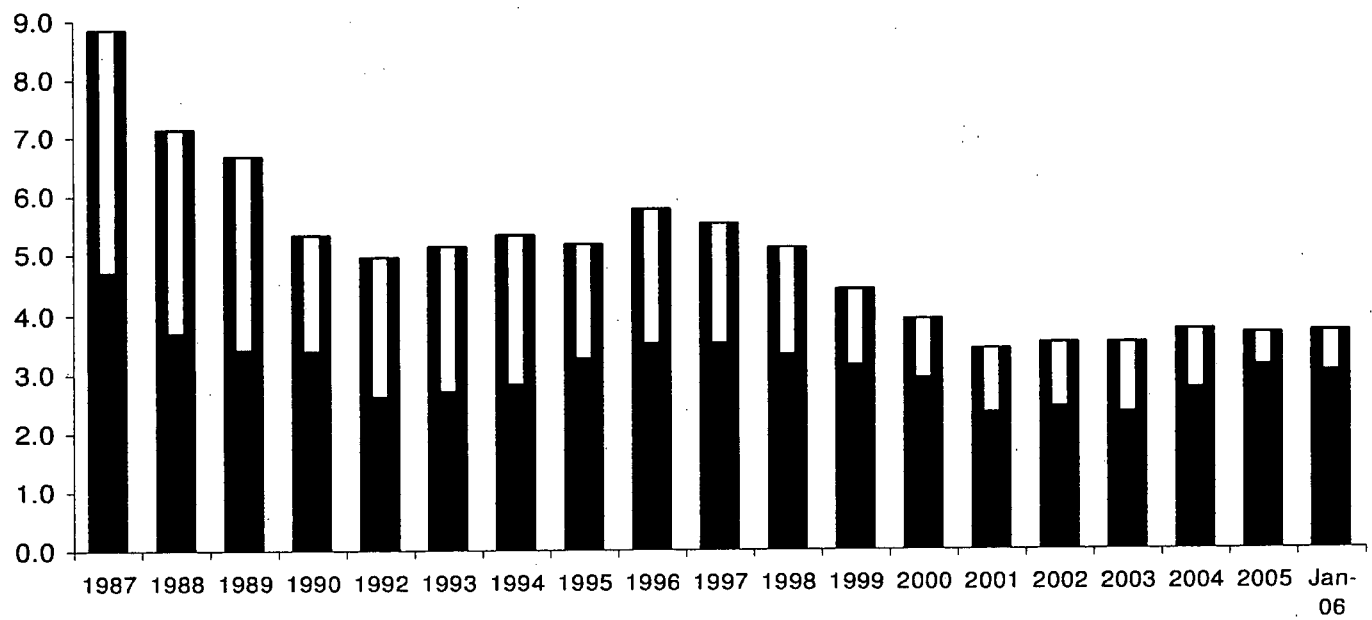
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Growth of Primary Market Issuance

Historical Leverage Multiples

Average Debt Multiples of Highly Leveraged Loans



Source: Standard & Poor's, LCD Loan Stats Weekly, February 2, 2006

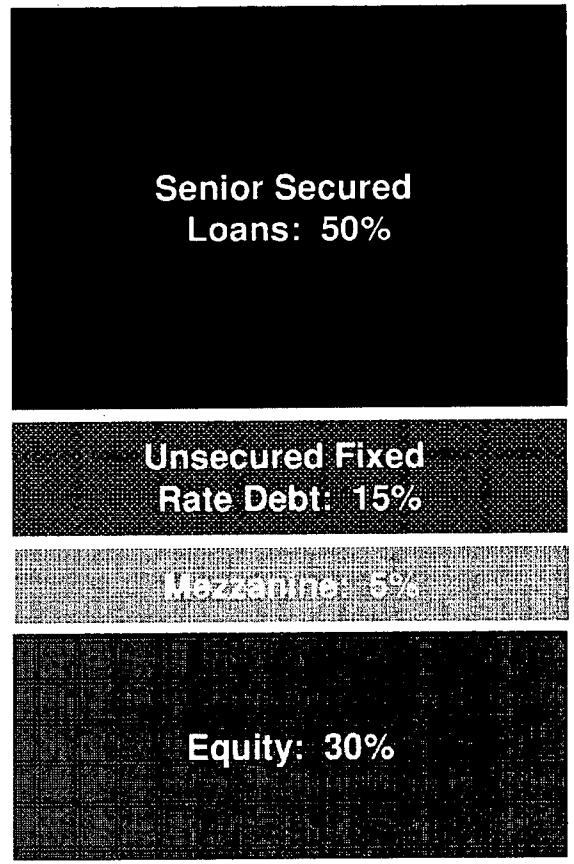
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Growth of Primary Market Issuance

Bank Loan Structural Features

- Loans possess inherent structural and credit protections that make them attractive to own in a leveraged vehicle
  - Capital structure seniority
  - Covenant and security package
- As shown in this diagram for a hypothetical company's capital structure, loans typically represent a company's most senior source of capital



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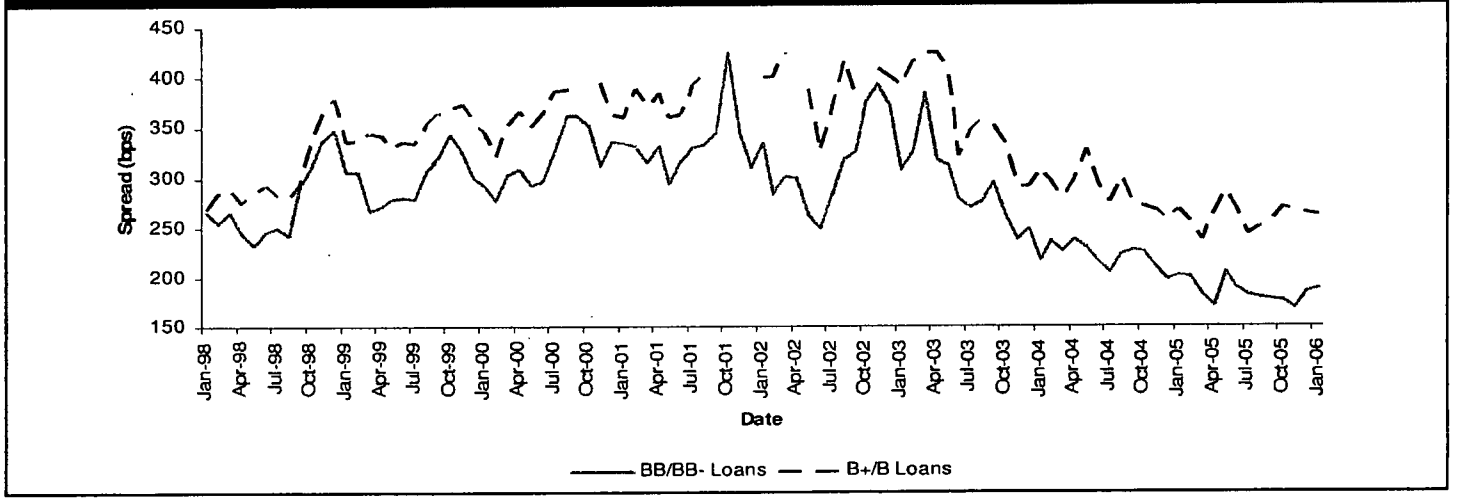
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Growth of Primary Market Issuance

Spread Averages

- Loans have demonstrated characteristics over the long-term that make them attractive to own in a leveraged vehicle like a CLO
  - Attractive risk-adjusted returns
  - Low volatility
  - Low total return correlation with other asset classes
  - High recovery rates

S&P/LSTA Leveraged Loans Index, Average Spreads by Rating, January 1998 to 2006



Source: Standard & Poor's, LCD Loan Stats Weekly, Feb 2, 2006

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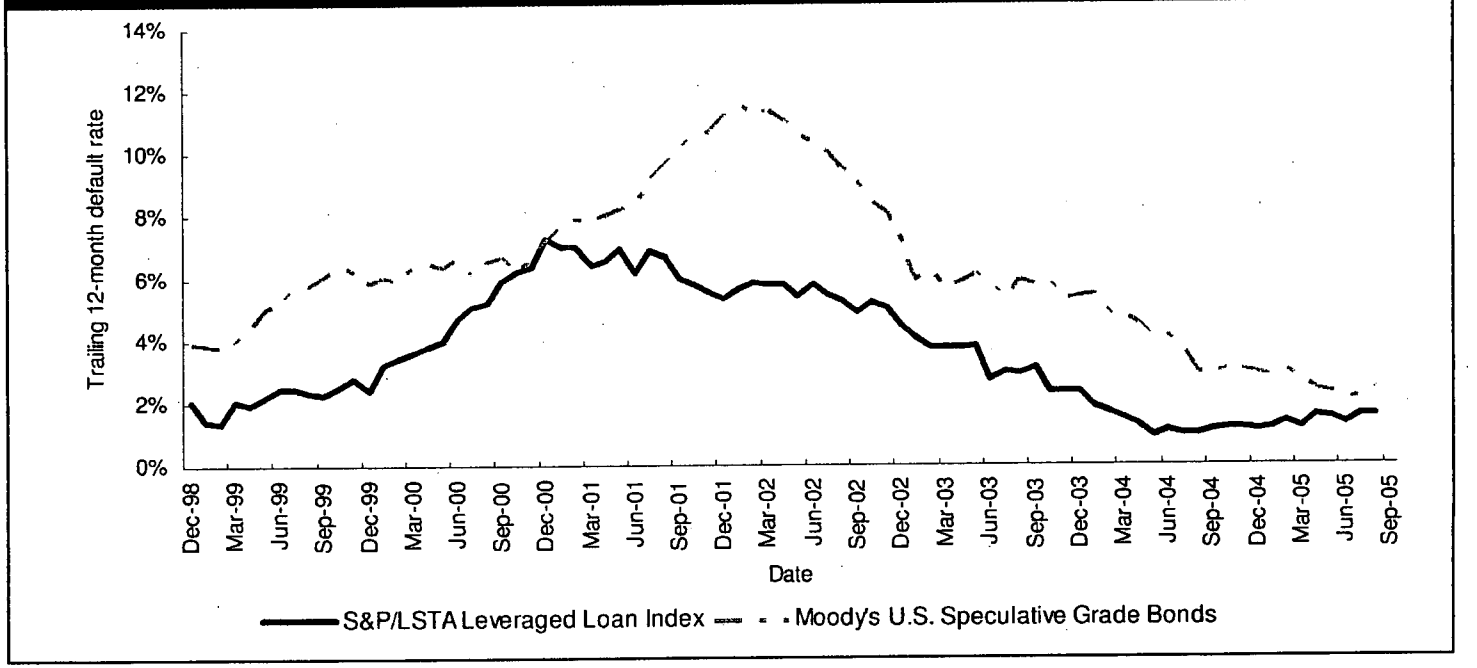
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Growth of Primary Market Issuance

Historical Default Rates

- Exhibit below shows the trailing 12-month default rates for bank loans and high-yield bonds
  - Default rates have been significantly lower in the bank loan market vs the high-yield market

Trailing 12-Month Issuer-Based Default Rates, December 1998 to September 2005



Source: S&P/LSTA, Moody's

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Transaction Features
Cash Flow CLO Deal

	Cash Flow CLO Deal
Objective	Cash Flow CLO deals depend on the ability of the collateral to generate sufficient current cash to pay interest and principal on rated notes issued by the CLO.
Rating Focus	The ratings are based on the effect of collateral defaults and recoveries on the timely payment of interest and principal from the collateral.
Manager Focus	Manager focuses on controlling defaults and recoveries.
Structural Protection	Overcollateralization is measured on the basis of the portfolio's par value. If overcollateralization tests are failed, then cash flow is diverted from the mezzanine and subordinated classes to pay down senior notes, or cash flow is trapped in a reserve account. There are no forced collateral liquidations.
Diversity and Concentration Limits	Very strict – often no more than 2% per obligor and no more than 10% per industry category.
Trading Limitations	There are limitations on portfolio trading (20% discretionary per year). No restrictions on selling credit risk or credit improved Collaterals.
Typical Collatera	Bank loans, with small baskets for high-yield bonds, structured finance bonds, etc with predictable, steady interest payments.

Sources: Collateralized Debt Obligations: Structures and Analysis by Laurie S. Goodman and Frank J. Fabozzi John Wiley & Sons *© 2002, Goldman Sachs.*

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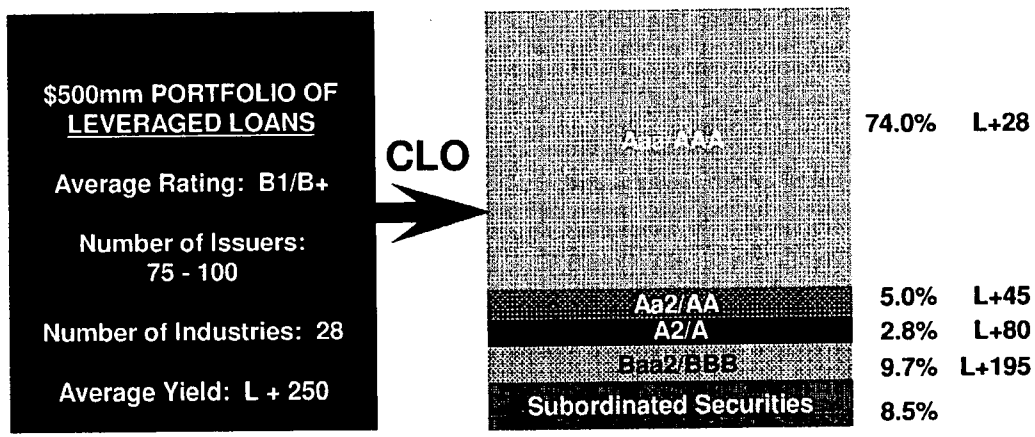
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Transaction Features

Working Example: Funding Arbitrage of a Cash Flow CLO

- High current cash flow for the equity is generated by the leveraged spread differential between the portfolio return and the cost of financing and management fees



Portfolio Spread	2.50%
Financing Spread	-0.48%
Current Pay Management Fee	-0.50%
Expected Losses	-0.50%
Amortized Issuance Expenses	-0.25%
Ongoing Expenses	-0.05%
Spread Differential	**0.72%**
Leverage Multiple (0.92/0.08)	10.7X
Leveraged Spread	**7.70%**
Unleveraged Investment	L+1.20%*
Current Cash Pay	**L+8.90%**

**: Unleveraged Investment = Spread Differential + Financing Spread*

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Transaction Features

Example of Managed Cash Flow CLO with 5yr Reinvestment

Portfolio Characteristics	
% Senior Secured Loans	> 80.0%
% 2nd Lien or Sr. Unsecured Loans	< 20.0%
Par Value of Collateral ($MM)	$490,000,000
% Ramped on Closing Date	> 70.0%
Moody's Weighted Average Rating Factor	2400 (B1/B2)
Diversity Score	> 55
Weighted Average Spread	> 2.50%
Asset Weighted Average Life	< 9.0 yrs

Security	Expected Par Amount ($MM)	% of Par	Expected Ratings (Moody's/S&P)	Coupon
Class A	370.0	74.0%	Aaa/AAA	3mL+[ ] bps
Class B	25.0	5.0%	Aa2/AA	3mL+[ ] bps
Class C	14.0	2.8%	A2/A	3mL+[ ] bps
Class D	48.5	9.7%	Baa2/BBB	3mL+[ ] bps
Equity	42.5	8.5%	NR	Residual
Total	**500.0**	**100.0%**		

Transaction Overview

- [XYZ CLO Ltd]. will be a $500 million CLO consisting of a diversified portfolio of senior secured and second lien loans
- The portfolio consists of collateral which is rated at least B3 or B-, with an average rating of B1/B2
- Senior Fee: [15] bps of Portfolio Balance, paid senior to the Class A Notes
- Subordinated Fee: [35] bps of the Portfolio Balance, paid senior to the Equity. Unpaid amount accrues at LIBOR + 3%
- Incentive Fee: [25] bps of the Portfolio Balance, but payable only after the Subordinated Securities have achieved an internal rate of return of 12%

Structural Highlights

- The transaction will feature a matrix of Diversity Score/Rating Factor/ Spread combinations that the Collateral Manager will have the flexibility to select
- 12-year legal final maturity, 5-year reinvestment period, 3-year non-call period
- Class D PIK Protection - During the Reinvestment Period, if deal proceeds are insufficient to pay the coupon on the Class D Notes, such coupon payments will be advanced by a PIK protection provider. As deal proceeds become available, repayment of the advances will be subordinate to payments on the Class D Notes. Amounts advanced by the PIK protection provider accrue at LIBOR + 3.0%
- Turbo Paydown – Failure of the Class D Par Value Test will be remedied by using Interest Proceeds to pay down the principal of the Class D Notes directly
- The Collateral Manager will select the portfolio and has the discretion for:
  - Up to 20% discretionary trading per year
  - Unlimited selling of potential "credit risk" assets
  - Unlimited selling of "credit improved" assets

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Transaction Overview

- [XYZ CLO Ltd]. will be a $500 million CLO consisting of a diversified portfolio of senior secured and second lien loans
- The portfolio consists of collateral which is rated at least B3 or B-, with an average rating of B1/B2
- Senior Fee: [15] bps of Portfolio Balance, paid senior to the Class A Notes
- Subordinated Fee: [35] bps of the Portfolio Balance, paid senior to the Equity. Unpaid amount accrues at LIBOR + 3%
- Incentive Fee: [25] bps of the Portfolio Balance, but payable only after the Subordinated Securities have achieved an internal rate of return of 12%

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Agenda

Executive Summary — I

Evaluating Asset Classes — II

Cash CDO Overview — III
- Cash Collateralized Debt Obligations (CDOs)
- Cash Collateralized Loan Obligations (CLOs)

Synthetic CDO Overview — IV
- Corporate Credit
- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors — V

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Synthetic CDO Overview

- CDOs are not an asset class.
- CDOs are a **technology** – a combination of derivatives and structured finance technology – **applied** to an asset class.
- CDO technology enables market participants to build customized investments to meet return objectives subject to risk tolerance.
- Credit portfolios tend to have asymmetric risk/return profiles due to idiosyncratic risk
- Structured credit investments create systemic based risk/return profiles as credit events decrease subordination before resulting in actual losses
- Highly rated structured credit investments may provide for more efficient use of regulatory capital than comparably rated single name investments
- Structured credit investments provide exposure to a variety of asset classes and may serve as a good source of diversification
- Synthetic structured credit investments enable instant ramp up of assets and are not subject to supply constraints of the cash market

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Synthetic CDO Overview

- A synthetic CDO is an arrangement whereby the losses on a portfolio of CDS are allocated among various participants according to specified priorities
- Synthetic CDOs are a derivative extension of cash CDOs and have seen a large increase in volume over the past several years
  - A synthetic CDO combines the cash CDO securitization technology with credit derivative hedging technology
- Like a cash CDO, the performance of a synthetic CDO is directly linked to the performance of the reference portfolio
- They can be structured unfunded (as derivatives or guaranty policies) or funded (as Notes or bonds), rated or unrated
- Similar to a cash CDO, we can create tailored risk profiles by allowing different tranches to assume losses in a given order:
  - The Equity tranche assumes the first losses on the reference portfolio, up to its tranche size. It is the riskiest part of the capital structure and receives the highest coupon.
  - A mezzanine tranche assumes subsequent losses up to its tranche size. It is less risky and receives a lower coupon.
  - The Senior tranche assumes any remaining losses on the reference portfolio. It is therefore the safest part of the capital structure and receives the lowest coupon.
- Transactions are documented using standard ISDA terms and credit losses on the reference portfolio are determined in accordance with ISDA credit derivative definitions

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Diversification

- Structured credit/product investments are available on a variety of asset classes:
  - Corporate credit
    - Investment grade
    - High yield
  - Emerging markets
  - Residential Real Estate Securities (RMBS)
  - Asset-Backed Securities (ABS)
  - Commercial Real Estate Securities (CMBS)
  - Collateralized Debt Obligations (CDOs)

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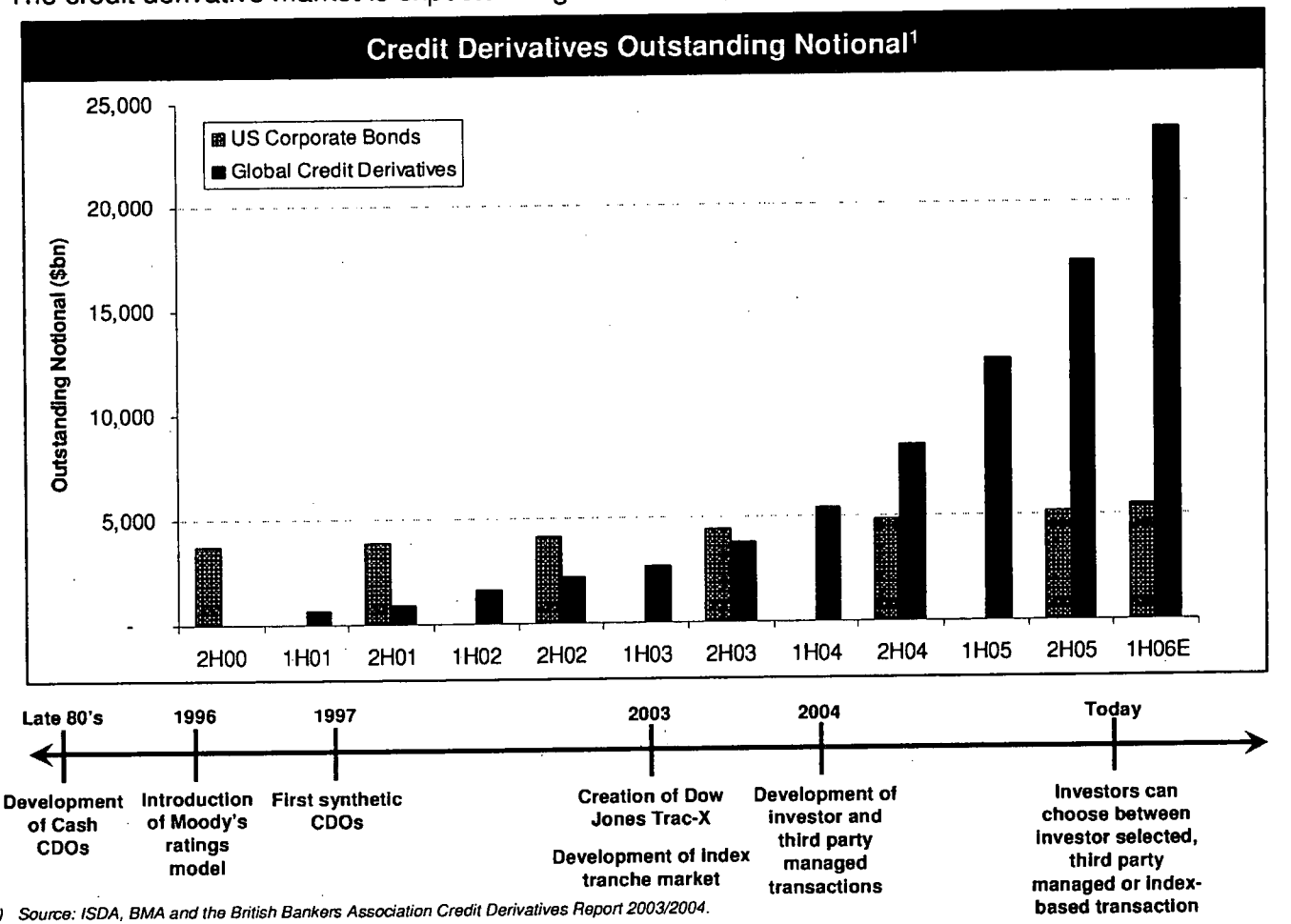
Credit Derivatives Market Evolution

103% Growth in 2005

Growth of the Credit Derivative Market

- ISDA has reported steady growth in the global credit derivatives market
- Drivers of future growth:
  - Increased liquidity
  - Greater client understanding
  - Improved standardization within the market
  - A wider product base attracting more players

- The credit derivative market is expected to grow to over $23.5 trillion in 2006



(1) *Source: ISDA, BMA and the British Bankers Association Credit Derivatives Report 2003/2004.*

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Credit Default Swaps

Most Frequently Used Credit Products

- Not surprisingly, the most actively used credit derivative products are credit default swaps
- The introduction of credit derivative indices has been a major development and now account for 11% of the market

Product Type	Proportion of notional value
Credit default swaps	51%
Synthetic CDOs (partial and full capital)	16%
Index Trades	11%
Credit Linked Notes	6%
Asset Swaps	4%
Total Return Swaps	4%
Credit Spread Options & Swap Options	3%
Basket Products	4%
Equity Linked Credit Products	1%

Source: BBA Credit Derivatives Report 2003/2004

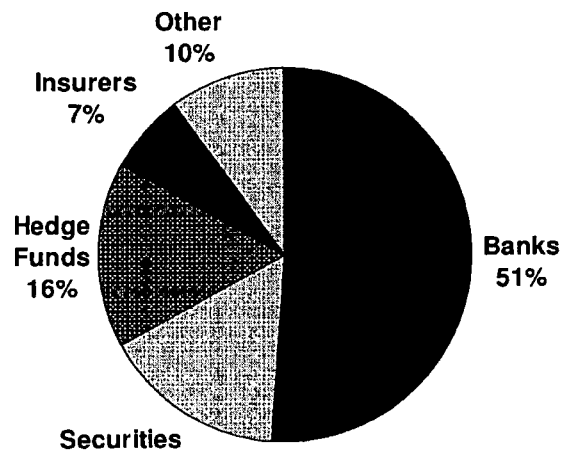
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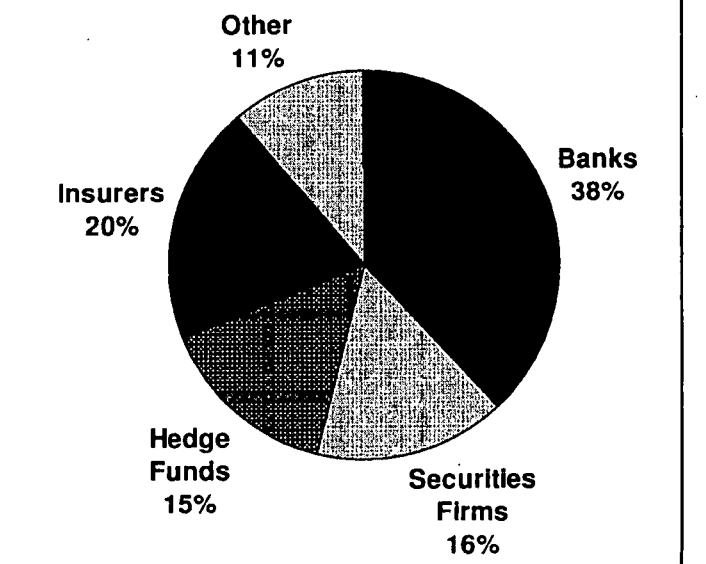
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Market Participants

Buyers of Credit Protection



Sellers of Credit Protection



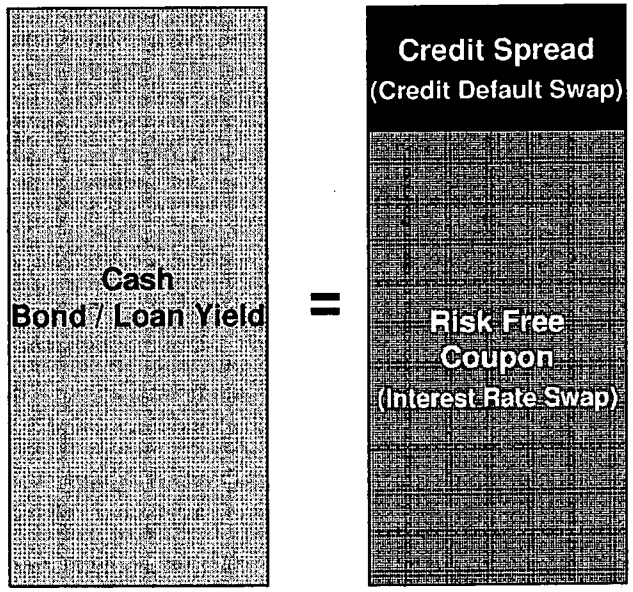
(1) Source: Goldman Sachs. "Other" includes corporations, mutual funds, pension funds and government agencies.

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Credit Default Swaps
Disaggregating Credit-Risky Bonds

- Given lack of development of a corporate repo market, cash credit markets have always been "sticky"
  - Long/less long mentality
- Cash credit products embed several risks, including interest rate and credit risk
- Credit derivatives enable market participants to isolate the components of credit risk
- A credit default swap (CDS) allows investors to express long and short views on single-name credits and serves as the fundamental building block in structured credit



Illustrative only – diagram not to scale

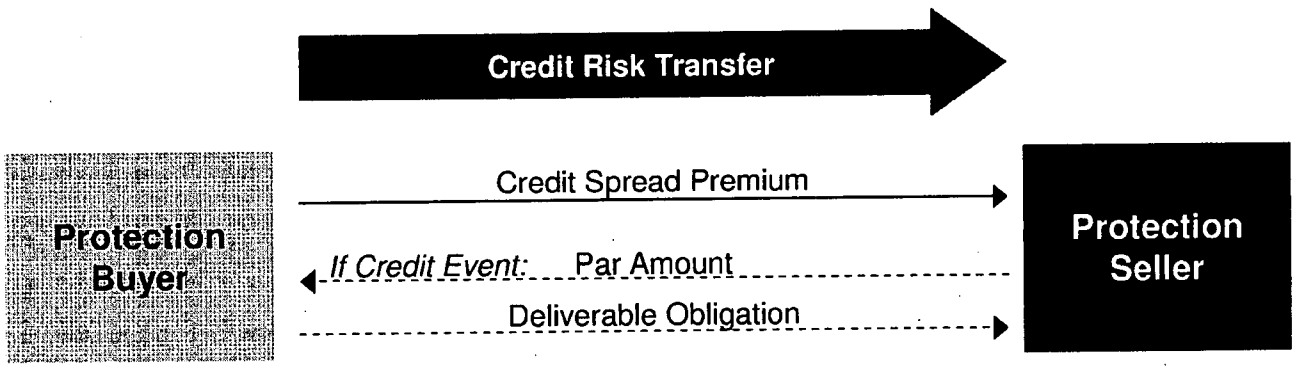
- Bonds/loans are physical IOUs
- Government bonds are considered credit risk free
- Credit risky bonds, therefore, trade at a yield premium to government bonds to compensate for risk of default
- The CDS market focuses on trading the credit default risk premium

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Credit Default Swaps
Example Mechanics



- Buyer of protection pays a quarterly credit spread premium to the seller of protection
- Credit Events may include[1]
  - Failure to pay
  - Bankruptcy
- If no credit event occurs, the only cash flow is the quarterly premium paid by the buyer to the seller
- If a credit event occurs, the premium payments stop and the transaction is settled either physically or through a cash valuation mechanism
  - Physical: The buyer delivers to the seller Deliverable Obligation and the seller delivers 100% of the notional of the transaction to the buyer. Physical settlement is the market standard
  - Cash: A valuation mechanism is used to determine a "Final Price" for the defaulted obligations (generally a dealer poll) and the seller delivers the notional of the transaction x (100% - Final Price) to the buyer

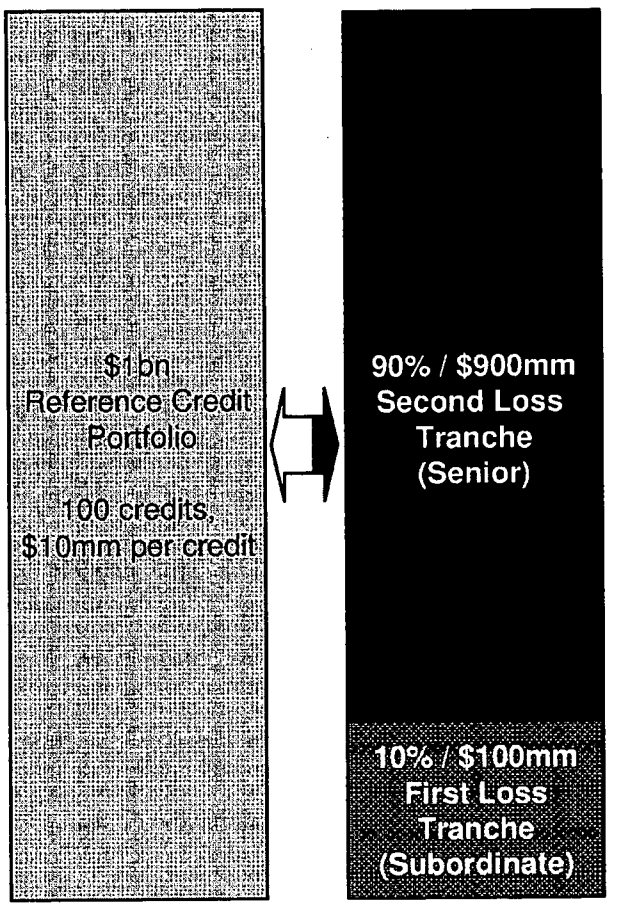
(1) Please see appendix "Indicative Reference Portfolios & Definitions" for more details on Credit Event definitions.

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Structured Credit Tranches
Subordination and Tranche Size



Indicative structure– diagram not to scale

- Structured credit relies on two key principles:
  - **Subordination**
    - The measure of losses that must occur within a portfolio before a tranche is at risk to loss
  - **Tranche size**
    - Reflects the notional (value-at-risk) of a structured credit investment
- In this example, the first loss tranche size is $100mm
  - $100mm of reference portfolio losses would need to occur before the second-loss tranche is subject to loss
  - Investors can thus create "credit enhanced" credit exposure through the use of subordination
- Tranche size is also a measure of leverage
  - For example, an investor may wish to invest $200mm into the same 10% first loss tranche - and thus would reference a portfolio of $2bn rather than $1bn
- Combined with tranche size, varying levels of subordination enable investors to tailor both the structural leverage and the risk/return profile of their investment

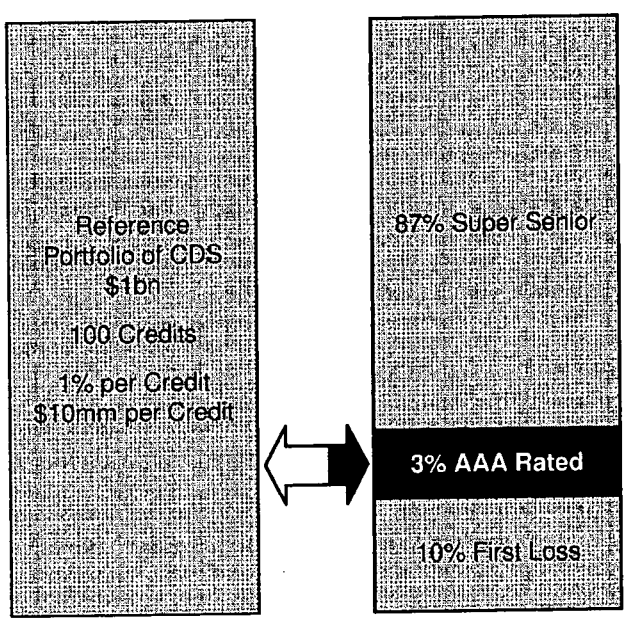
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Synthetic CDOs
Structure

- Investors customize tranche risk/ return profile by specifying tranche subordination and tranche size
- Investors can create rated "credit enhanced" credit exposure through the use of subordination
  - In this example, the AAA rated tranche subordination is 10% ($100mm)
  - $100mm of reference portfolio losses would need to occur before the AAA tranche is subject to loss
- Tranche size is a measure of leverage
  - In this example, the AAA rated tranche size is 3% ($30mm)
  - Once portfolio losses reach 10% ($100mm), the tranche can withstand an additional 3% ($30mm) portfolio losses before exhaustion



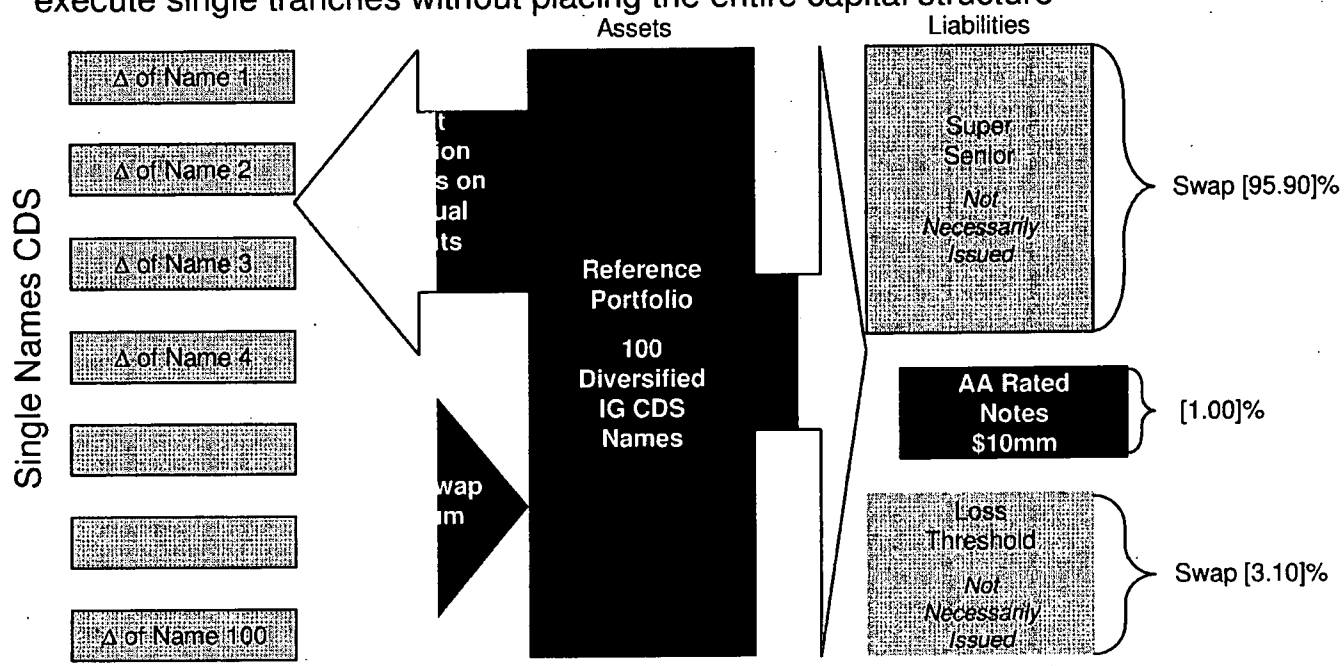
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Synthetic CDOs

How can we sell a single tranche?

- What happens to the rest of the capital structure? Who owns the equity?
- When a dealer executes a single tranche deal, they decompose the risk into a sensitivity to each of the underlying credits (the "delta")
  - Dealers will execute delta hedges on each of the names in the reference portfolio at the time they trade the tranche
  - By only ramping up the risk associated with the tranche we place, we are able to execute single tranches without placing the entire capital structure

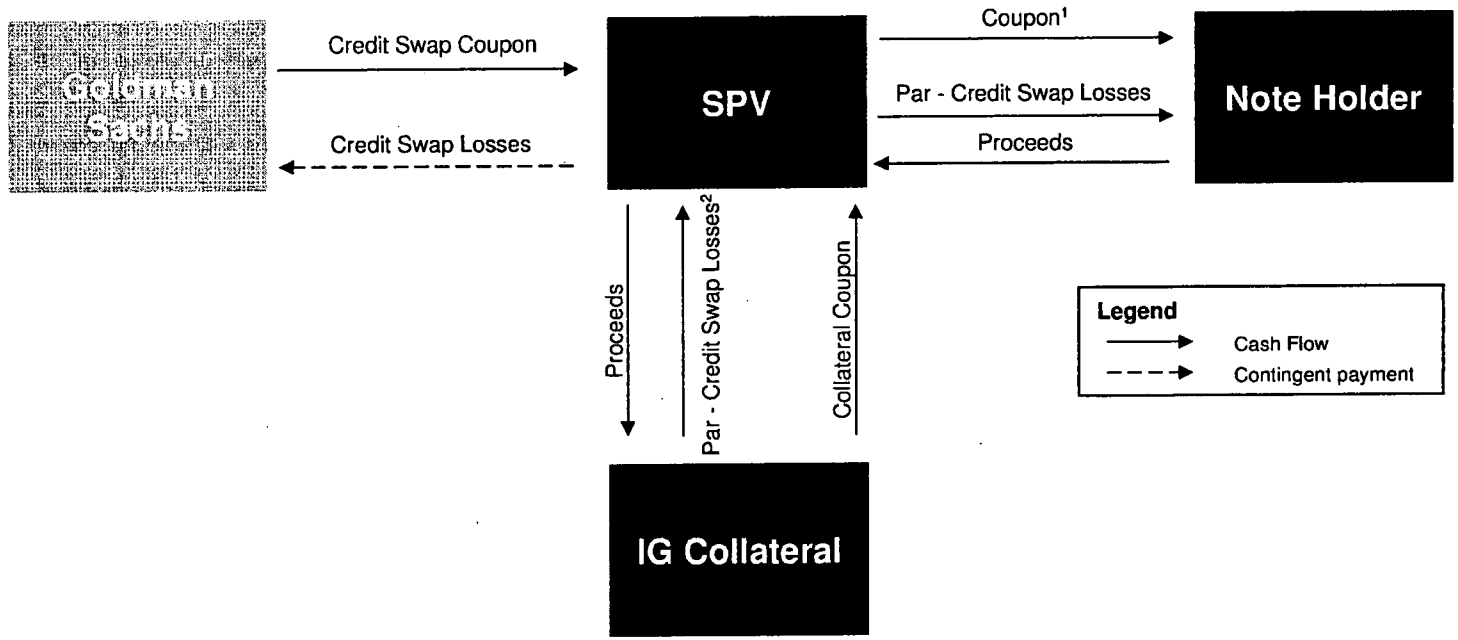


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Credit-Linked Notes

Transaction Structure Overview



- A special purpose vehicle (SPV) issues notes to the investor
- The SPV uses the proceeds of the notes to purchase investment-grade (IG) collateral and receives the Collateral Coupon
- The SPV enters into a credit swap with Goldman Sachs (GS)

(1) All coupons are accrued and payable on outstanding notional.
(2) Credit swap losses are paid to Goldman Sachs as incurred through redemption of collateral at par

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Concerns Around Credit Resolved

Traditional reasons to limit credit exposure		Structured credit resolves past issues
Lack of internal expertise and infrastructure required for corporate credit analysis	→	Systemic risk exposure achieved utilizing existing knowledge of structures
View balance sheet as already containing sufficient credit risk	→	Negative correlation to mortgage products may provide needed asset class diversity
Regulatory capital requirements have traditionally limited the ability to efficiently gain systemic credit exposure (corporate bonds 100% risk weighting)	→	Capital efficiency achieved through ability to invest in rated securities with enhanced returns
Introducing credit to portfolio may cause earnings-based mark-to-market volatility	→	FASB amendments may allow tranche notes to be classified as Available for Sale securities[1]

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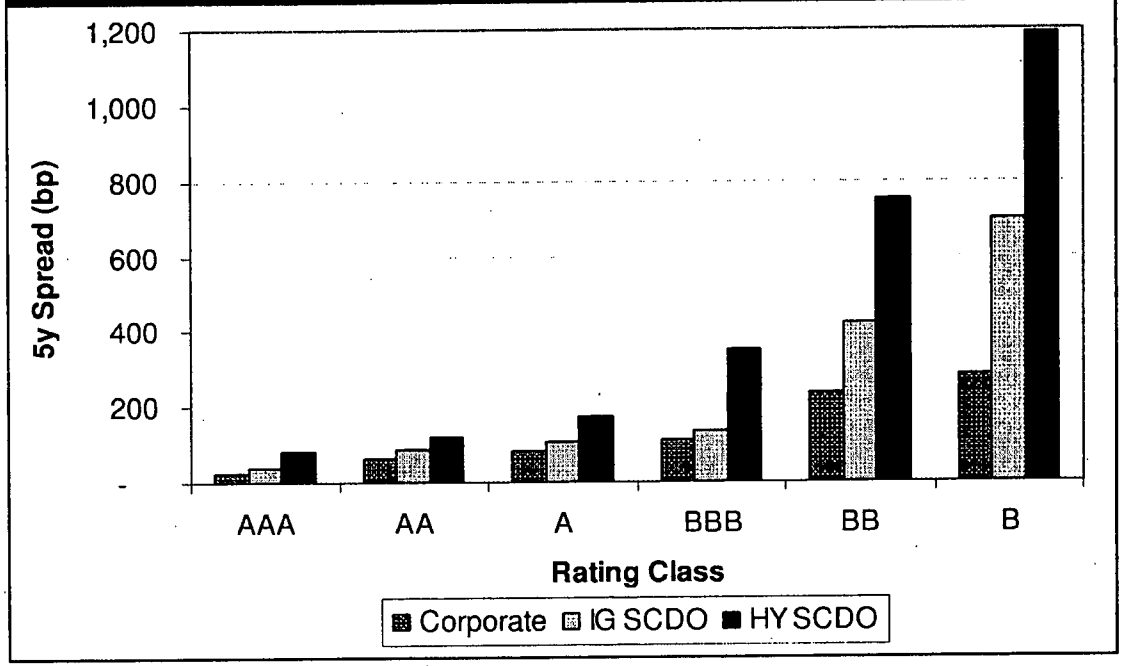
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Synthetic CDOs

Relative Value & Yield Enhancement

- Structured credit/product investments produce higher yields than comparably rated single name investments through structural leverage and exposure to "systemic" rather than idiosyncratic risk
- Structured credit market may enable managers to articulate views without taking as much idiosyncratic credit risk and may potentially generate benefits from these non-economic driven technicals

Corporate Bonds, Synthetic Investment Grade & High Yield Spreads[1]
Indicative Spreads: LIBOR + [bp]

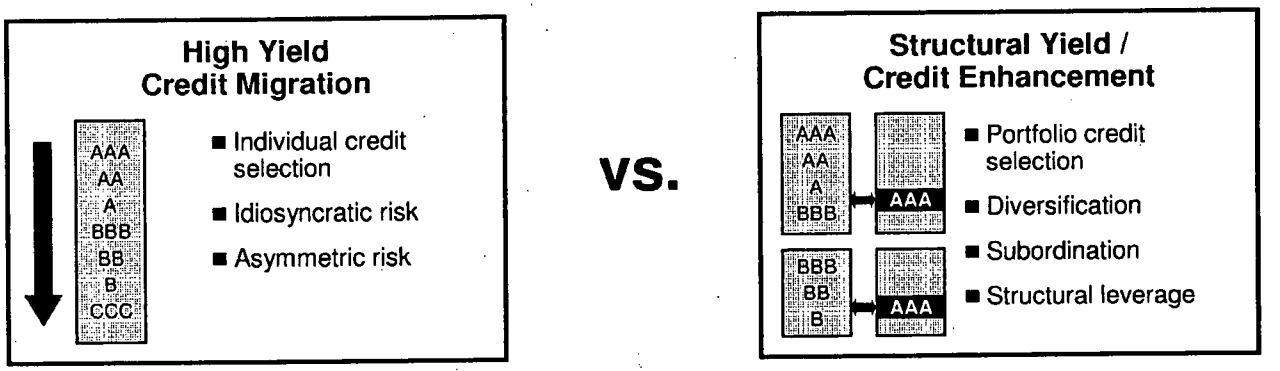


(1) Indicative only. Source: Goldman Sachs June 1, 2006.

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Systemic vs. Idiosyncratic Risk



- Tight spread and yield environment has triggered an extensive search for yield
- Increased single name exposure to higher yielding credits may increase idiosyncratic and asymmetric risk
- Structured credit/product investments rely on two key principles:
  - Subordination: measure of losses that must occur within a portfolio before a tranche is at risk to loss
  - Tranche size: reflects the notional (value-at-risk) of a structured credit investment
- Through the use of subordination investors can take highly rated exposure to lower rated collateral and articulate a systemic as opposed to idiosyncratic view on credit

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Trading Flexibility

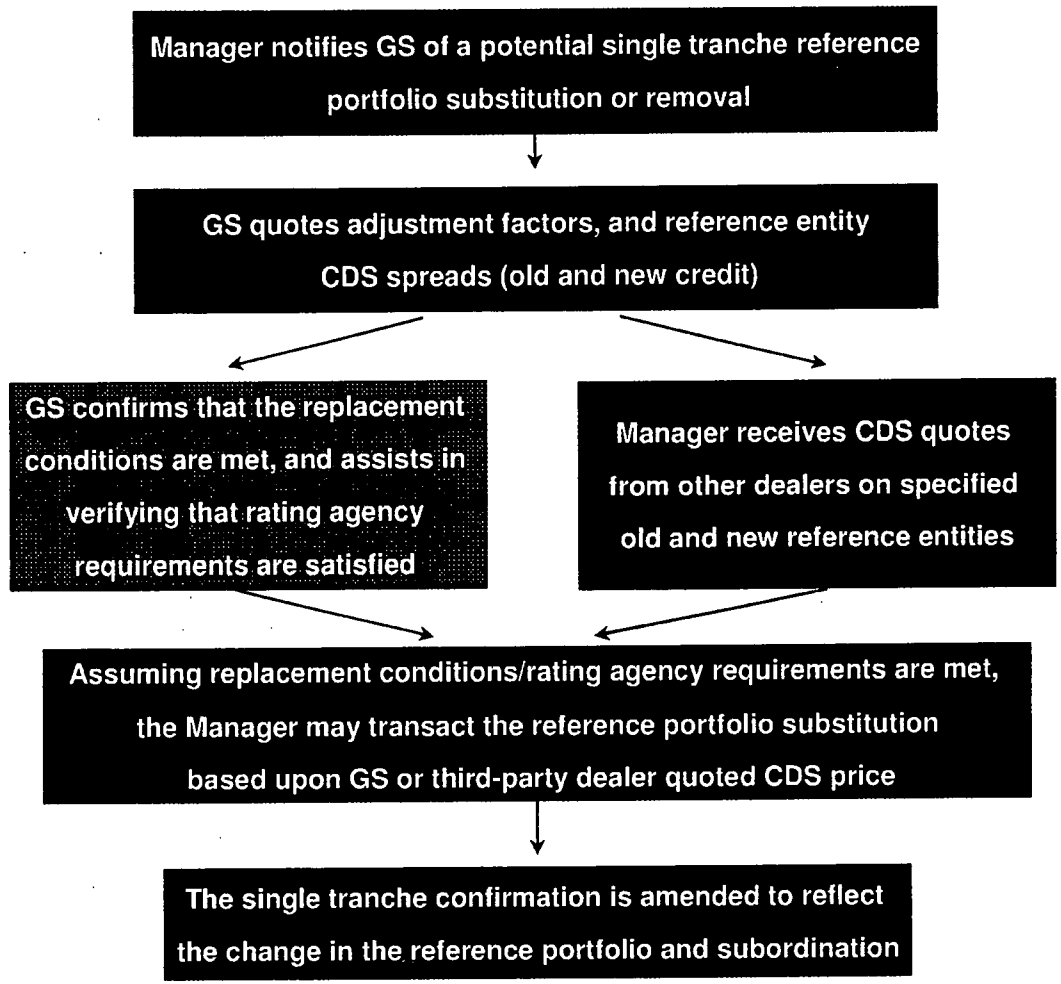
- The Manager will have the flexibility to trade the underlying Reference Portfolio – and trading will affect the subordination of the tranches
  - Typical trading is defensive – taking out wide spread names and replacing them with tighter names. These trades will results in a reduction in subordination
  - Manager can also take a view on the credit by taking out a tight spread name and replacing with a wider name for credits where the Manager believes that the new credit is trading wider than is reflected by the fundamental credit risk
    - These trades will result in an increase in subordination
- Trades will be subject to the following restrictions
  - Turnover Limit
  - Regional and industrial diversity requirements, spread distribution test. These are designed to ensure that the overall correlation and spread distribution of the portfolio remain broadly the same
  - S&P CDO Monitor Test – S&P require the S&P CDO Monitor to be run before each trade to ensure that the rating of each tranche is not adversely affected by the trade
  - Minimum Subordination for the lowest rated tranche of [2.0%]
  - Maximum increase in subordination from spread widening trades equal to [1.0%]
- There will <u>not</u> be any coverage tests as the Manager's incentives are aligned with those of Investors through ownership of the notes
- Typical Trade Flow
  - Manager will have the ability to price check the levels quoted by GS with other dealers and trade at best market prices

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Replacement Procedure Flow Chart



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Effect of Trading on Subordination

- Any change in subordination will be determined by the change in spread of the Reference Entity being removed, and the new Reference Entity (determined at the time of switch), obligor percentage and an adjustment factor:

  Subordination reduction = (Spread Old – Spread New) x Adjustment Factor x Obligor Percentage

- What is the rationale behind Adjustment Factors?
  - When Manager trades a name, this changes the value of the portfolio credit default swap
  - In order for the substitution cost to be zero, the value of the portfolio credit default swap must remain the same – hence subordination must be changed
  - The Adjustment Factor is determined at the time of trading such that the net change in value is zero
- What determines the Adjustment Factor?
  - Adjustment Factors are determined by a number of variables that also determine the value of a tranche:
    - Time to Maturity
    - Absolute spreads and distribution of spreads in portfolio
    - Subordination of tranches
    - Recovery rates and recovery volatilities
    - Correlation between credits
- Since Adjustment Factors depend on a number of variables, it will be impossible for GS to predict what the Adjustment Factors will be at the outset of the transaction - this will be driven by the market conditions at the time of trading - hence, Adjustment Factors will be quoted at the time of the trade

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Trading Example

- One year after the Effective Date, the spread of a Reference Entity has widened significantly since the original inclusion of that Reference Entity in the Portfolio. Manager is concerned about the increased potential for that Reference Entity to suffer a Credit Event and so wishes to replace that Reference Entity for a new Reference Entity which is trading at a much tighter spread
- The following conditions exist:
  - Offered side spread of Reference Entity to be replaced = 600 basis points
  - Bid side spread of Replacement Reference Entity = 100 basis points
  - Let the Adjustment Factor = [5.1]
  - All trading tests are satisfied
  - The average spread of the portfolio is [1.00]%
  - No defaults nor earlier trading since transaction start, hence subordination of mezzanine tranches = 5.1%
- Given the above, all the conditions necessary for Replacement have been met. The adjustment to the subordination is then calculated as follows:
  - **SpreadOld'** = 600 basis points
  - **SpreadNew'** = 100 basis points
  - **Adjustment Factor** = [5.1]
  - **Adjustment Percentage** = (6.00% - 1.00%) x [5.1] x 0.67% = 0.17%
  - **New Subordination for mezzanine** = 5.10% - 0.17% = 4.93%

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Case Study: Yankee Bank

- **Account Profile:** Yankee bank looking to purchase assets for securities arbitrage vehicle
- **Organizational Structure:**
  - Pre-transaction: Two synthetic CDO investments at home office level
  - Post-transaction: Decision making capabilities assumed by regional office assuming transactions fall within predetermined guidelines designed by credit committtee
- **Portfolio:**
  - 188 name, 100% IG, globally diversified portfolio
  - Trade executed with significant subordination above Moody's AAA for purposes of improved ratings stability
- **Process:**
  - GS worked with regional and home office teams and gained CFO approval
  - Client did not apply fundamental analysis to specific credits but rather worked within predefined parameters for portfolio characteristics
  - Client sought wider spectrum of decision making authority for future transactions
- **Conclusion:** Client has now executed the first in a series of trades for 2006

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Agenda

Executive Summary I

Evaluating Asset Classes II

Cash CDO Overview III
- Cash Collateralized Debt Obligations (CDOs)
- Cash Collateralized Loan Obligations (CLOs)

Synthetic CDO Overview IV
- Corporate Credit
- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors V

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Overview of Structured Product Synthetics

- Structured product synthetics are credit derivatives referenced to a single underlying structured product security or to a basket of underlying structured product securities
  - Prime, Alt-A and Subprime RMBS
  - CMBS
  - Consumer ABS
  - Cash CDOs
- Market activity has been concentrated in real estate-related sectors of the structured finance market (i.e., RMBS and CMBS)
- The structured product synthetics market is expected to continue to exhibit rapid growth over the next few years, consistent with the trend line in the corporate credit derivatives market
- Structured product synthetics consist of:
  - **Single-name CDS:** Credit default swap (CDS) on a single reference obligation allowing investors to go long or short credit risk on a specific structured finance security synthetically
  - **Basket/Index Trades:** CDS on an unlevered basket of underlying reference obligations – equivalent to a basket of single-name CDS
  - **Levered Synthetics:** single tranche synthetic structured product CDOs backed by a portfolio of single-name structured product CDS, enabling investors to gain exposure to structured product cashflows in a levered synthetic fashion

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Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Overview of Structured Product Synthetics
The Basics

- Basics of structured product synthetics
  - Long credit (sell protection) or short credit (buy protection)
  - CDS trade references a specific CUSIP or basket of CUSIP's
  - Trades generally remain outstanding to the term of the underlying reference obligation
  - Notional balance is not constrained by the size of the cash security, and amortizes in parallel with the reference security
- Trade details are documented in a confirmation
  - Confirm details credit events, settlement mechanics, etc. of trade
  - ISDA released a standardized confirm for trading RMBS and CMBS reference obligations in June 2005 (updated in January 2006)
- Documents needed to trade
  - Legal
    - ISDA Master Agreement for derivative trades and related supporting documents
    - Credit Support Annex
    - CDS confirm (for each trade)
  - Credit
    - Credit lines: Margin is required initially and ongoing based on the mark-to-market of the contract
    - Counterparty suitability

Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Overview of Structured Product Synthetics

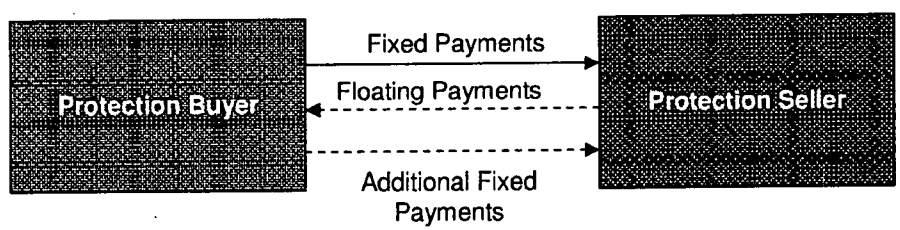
Structured Product Single Name CDS Sample Terms

Underlying

- Designated specific reference obligations along with the initial face amount

Payments

- Fixed payments (paid by protection buyer): CDS premium, Act/360 basis, paid monthly / quarterly
- Floating payments (paid by protection seller): Upon the occurrence of a credit event, the applicable settlement amount
- Additional fixed payments (paid by protection buyer): Upon the occurrence of a reimbursement of any prior floating payments, the applicable reimbursement amount



Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Overview of Structured Product Synthetics

Structured Product Single Name CDS Sample Terms (cont)

Notional Balance

- Notional balance is adjusted as follows:
  - Reduced by amortizations on the reference obligations
  - Reduced by writedown amounts and principal shortfalls
  - Reduced by physical settlement
  - Increased by writedown reimbursements

Credit Events	Settlement Amount
■ Failure to pay principal	Percent of class principal not paid x notional
■ Writedown	Percent of class written down x notional
■ Downgrade to CCC / Caa3	Physical settlement only

- Optional physical settlement after any credit event

  The PAUG includes a provision for giving an option to the protection buyer to terminate the contract in part or in whole by delivering the reference obligation. This feature, called the "Physical Settlement Option," is triggered by any credit event

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Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Overview of Structured Product Synthetics

Structured Product Single Name CDS Sample Terms (cont)

Interest Shortfalls

Should the reference obligation experience interest shortfalls, the CDS premium payable by potential buyer will be offset in part or in whole by such shortfall; unpaid CDS premium can be reimbursed should deferred interest on reference obligation be repaid

Coupon Step-up

A coupon step-up can be triggered for certain securities if such security is not called before a certain date before its final maturity. If the Step-up provisions in a PAUG CDS are elected, the protection buyer is given the option to terminate the contract if the coupon step-up occurs on the reference obligation to avoid paying higher premium. If the option is not exercised, the CDS contract will continue and the premium will be raised by an amount equal to the related step-up

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Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Overview of Structured Product Synthetics

What is an Interest Shortfall?

- An interest shortfall occurs when current scheduled interest is not paid on the reference obligation
- Interest shortfalls can be driven by either credit problems on the assets underlying the reference obligation or by caps embedded in the structure
- For subprime RMBS and CMBS reference obligations, coverage of interest shortfalls by the protection seller can take the form of one of the following options:
  - **Cap Applicable – Fixed Cap:** Interest shortfall capped at the amount of CDS premium owed by the protection buyer in any period. Under this option, protection seller will not have to go out-of-pocket to cover interest shortfalls.
  - **Cap Applicable – Variable Cap:** Interest shortfall capped at an amount equal to LIBOR plus the CDS premium owed by the protection buyer in any period. Under this option, protection seller may have to go out-of-pocket to cover interest shortfalls.
  - **Cap Not Applicable:** Interest shortfall uncapped at the full coupon on the reference obligation. This trade can only be executed at a CDS premium rate equal to the margin above LIBOR or the associated benchmark rate in the coupon and therefore would likely involve upfront payments by either buyer or seller. Under this option, protection seller may have to go out-of-pocket to cover interest shortfalls.
- The specific form of the interest shortfall reimbursement amount can be selected by the 2 parties in the CDS transaction
  - Subject to pricing differences, based on the amount of interest shortfall risk covered
- GS has observed meaningful two-way flows under the Fixed Cap option
- Both the ABX.HE and CMBX indices are Fixed Cap Applicable

Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

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Overview of Structured Product Synthetics

Credit Events and Settlement Mechanics

Credit Event	Settlement Method	Applicable Structured Product Ref Obs
Failure to Pay Principal (FTPP): Usually occurs at the final maturity date of the reference obligation or upon liquidation of the related deal	Cash Settlement of principal shortfall; Optional Physical Settlement	All
Writedown: Occurs when the reference obligation is written down (or implicitly written down), often from realized losses	Cash Settlement of write-down amount; Optional Physical Settlement	RMBS, CMBS, CDO
Distressed Ratings Downgrade: Either Moody's, S&P, or Fitch downgrades the reference obligation to CCC (or its equivalent) or lower, or removes its public rating	Optional Physical Settlement	All excluding CMBS
Failure to Pay Interest (FTPI): Failure to pay scheduled interest for a specified number of months (i.e., 3 months for credit cards, 24 months for CDOs)	Cash Settlement equal to loss amount determined via dealer poll; Optional Physical Settlement	All excluding RMBS, CMBS

Please see the draft transaction Confirmation for full details of trade mechanics. All materials contained herein are for discussion purposes only and will be superseded by full legal documentation in the event the parties decide to enter into any transaction

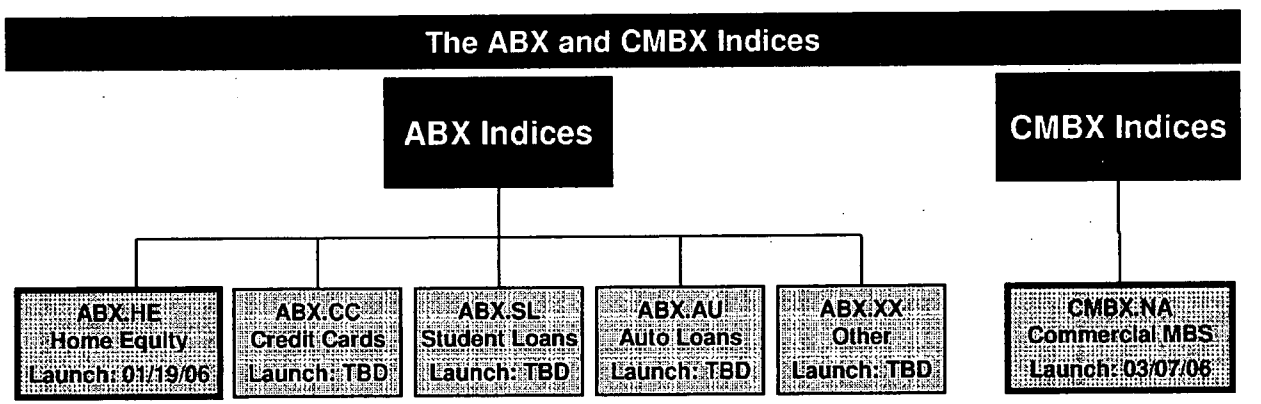
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The New ABX/CMBX Indices

- CDS IndexCo
  - Owns and maintains the DJ CDX family of credit default swap (CDS) indices
  - Between $25 and $50 billion of CDX notional volume traded daily
  - Introduced second generation products such as index tranches and index options
- CDS IndexCo will apply a defined set of rules in order to construct a portfolio representative of each structured product sector's current market
  - ABX.HE began trading on January 19, 2006, and CMBX.NA on March 7, 2006



Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo LLC)

Notes:

1. ABX, ABX.HE, and CMBX.NA are service marks of CDS IndexCO LLC and have been licensed by Goldman, Sachs & Co.
2. The ABX.HE and CMBX.NA Indices referenced herein is the property of CDS IndexCO LLC and is used under license. The transactions described herein are not sponsored, endorsed or promoted by CDS IndexCO LLC or any of its members, other than Goldman, Sachs & Co.

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The ABX.HE and CMBX Indices
Highlights

- ABX.HE references 20 HEL ABS obligations and CMBX references 25 CMBS obligations
- The Indices comprise five subindices: AAA, AA, A, BBB and BBB-
- Each subindex, in turn, includes 20 Subprime Home Equity bonds or 25 CMBS securities
  - The reference obligations in each subindex comprise bonds at different rating levels
  - Bonds in each subindex are selected from the same set of reference entities
- Every six months, the Indices will be reconstituted using the same criteria
- On January 19, 2006, the ABX.HE began trading
  - As of March 27, we estimate that more than $30.0bn of trade notional has been executed on the ABX.HE indices
  - Goldman has executed more than $17.0bn of trade notional
- On March 7, 2006, the CMBX Index began trading

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The ABX.HE and CMBX Indices

Participants

Hedge Funds
- Relative value trades
- Directional trading / macro view

Prop Trading Desks
- Relative value trades
- Directional trading

Asset Managers
- Quick credit exposure / hedging
- Liquidity management tool

Research
- Source of credit spread data

Asset Originators
- Quick credit exposure / hedging
- Credit diversification tool

Variety of investors looking for diversified sub-prime home equity ABS or CMBS exposure

Dealers
- Benchmark for product innovation
- Flow trading

Correlation Trading Desks
- Suitable for portfolio hedging
- Easy ramp-up

Corporate Treasury
- Easy access to diversified US subprime home-equity exposure

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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The ABX.HE and CMBX Indices

Construction Criteria

	ABX.HE	CMBX.NA
Portfolio:	20 deals in basket, with a new ABX.HE series expected to be launched approximately every 6 months	25 deals in basket, with a new CMBX series expected to be launched approximately every 6 months
Credit score:	Each deal must have a maximum average FICO equal to 660	
Age:	Each tranche must have settled within 6 months of the roll date	Each tranche must have settled within 2 years of the roll date
Weighting:	Reference obligations equally weighted by initial par amount, with subsequent weightings evolving as a function of prepayment and credit experience of underlying transactions	Reference obligations equally weighted by initial par amount, with subsequent weightings evolving as a function of prepayment and credit experience of underlying transactions
Lien type:	The pool must consist of at least 90% first lien loans	
Diversification:	–Limits same originator to 4 deals –Limits master servicer to 6 deals	–Limits same state to 40% –Limits same property type to 60%
Minimum deal size:	$500mm	$700mm
Average life:	Each tranche must have a weighted average life of 4-6 years as of the issuance date (except AAAs which must be greater than 5 years)	With respect to CMBX.NA.AAA only, expected weighted average life must be greater than 8y and less than 12y calculated using a 0% CPY

Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Reference Entities for the ABX.HE 06-1 Series of Indices

Reference Entities for the ABX.HE 06-1
1. ACE SECURITIES CORP. SERIES 2005-HE7
2. AMERIQUEST MORTGAGE SECURITIES INC., SERIES 2005-R11
3. ARGENT SECURITIES INC SERIES 2005-W2
4. BEAR STEARNS ASSET BACKED SECURITIES 2005-HE11
5. CWABS ASSET-BACKED CERTIFICATES TRUST 2005-BC5
6. FIRST FRANKLIN MORTGAGE LOAN TRUST SERIES 2005-FF12
7. GSAMP TRUST 2005-HE4
8. HOME EQUITY ASSET TRUST 2005-8
9. J.P. MORGAN MORTGAGE ACQUISITION CORP. 2005-OPT1
10. LONG BEACH MORTGAGE LOAN TRUST 2005-WL2
11. MASTR ASSET BACKED SECURITIES TRUST 2005-NC2
12. MORGAN STANLEY ABS CAPITAL 2005-HE5
13. MERRILL LYNCH MORTGAGE INVESTORS TRUST, SERIES 2005-AR1
14. NEW CENTURY HOME EQUITY LOAN TRUST 2005-4
15. RASC SERIES 2005-KS11 TRUST
16. RESIDENTIAL ASSET MORTGAGE PRODUCTS SERIES 2005-EFC4
17. SECURITIZED ASSET BACKED RECEIVABLES 2005-HE1
18. SOUNDVIEW HOME LOAN TRUST 2005-4
19. STRUCTURED ASSET INVESTMENT LOAN TRUST 2005-HE3
20. STRUCTURED ASSET SECURITIES CORPORATION SERIES 2005-WF4

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Reference Entities for the CMBX.NA.1 Series of Indices

Reference Entities for the CMBX.NA.1
1. Banc of America Commercial Mortgage Inc., Series 2005-4
2. Banc of America Commercial Mortgage Inc., Series 2005-5
3. Banc of America Commercial Mortgage Inc., Series 2005-6
4. BEAR STEARNS COMMERCIAL MORTGAGE SECURITIES TRUST 2005-PWR10
5. Bear Stearns Commercial Mortgage Securities Trust 2005-PWR9
6. BEAR STEARNS COMMERCIAL MORTGAGE SECURITIES TRUST 2005-TOP20
7. CD 2005-CD1 COMMERCIAL MORTGAGE TRUST COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2005-CD1
8. COMMERCIAL MORTGAGE TRUST 2005-GG5
9. CSFB Commercial Mortgage Trust 2005-C5
10. CSFB Commercial Mortgage Trust 2005-C6
11. GE Commercial Mortgage Corp. Series 2005-C4
12. GMAC Commercial Mortgage Securities, Inc. Series 2006-C1 Trust
13. J.P. MORGAN CHASE COMMERCIAL MORTGAGE SECURITIES CORP., SERIES 2005-CIBC13
14. J.P. MORGAN CHASE COMMERCIAL MORTGAGE SECURITIES CORP., SERIES 2005-LDP4
15. J.P. MORGAN CHASE COMMERCIAL MORTGAGE SECURITIES CORP., SERIES 2005-LDP5
16. LB-UBS COMMERCIAL MORTGAGE TRUST 2005-C5
17. LB-UBS COMMERCIAL MORTGAGE TRUST 2005-C7
18. LB-UBS COMMERCIAL MORTGAGE TRUST 2006-C1
19. MORGAN STANLEY CAPITAL I TRUST 2005-HQ7
20. MORGAN STANLEY CAPITAL I TRUST 2005-IQ10
21. MORGAN STANLEY CAPITAL I TRUST 2006-TOP21
22. WACHOVIA BANK COMMERCIAL MORTGAGE TRUST COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES SERIES 2005-C21
23. WACHOVIA BANK COMMERCIAL MORTGAGE TRUST COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES SERIES 2005-C22
24. MERRILL LYNCH MORTGAGE TRUST 2005-LC1
25. MERRILL LYNCH MORTGAGE TRUST 2005-CKI1

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Trading the ABX.HE
The Mechanics

Index at 100.00 Assumes Market Spread Equals Index Fixed Rate		
Trade Date	Index at 98.00 ■ Implies spreads have widened	Index at 102.00 ■ Implies spreads have tightened
Trade Initiation	■ Buyer pays Seller 2% x (Notional) x (Factor) ■ Seller pays Buyer accrued premium from the end of the last accrual period until the trade effective date	■ Seller pays Buyer 2% x (Notional) x (Factor) ■ Seller pays Buyer accrued premium from the end of the last accrual period until the trade effective date
Trade Termination	■ Seller pays Buyer 2% x (Notional) x (Factor) ■ Buyer pays Seller accrued premium from the end of the last accrual period until the trade effective date	■ Buyer pays Seller 2% x (Notional) x (Factor) Buyer pays ■ Buyer pays Seller accrued premium from the end of the last accrual period until the trade effective date

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction
Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Trading the CMBX Index

The Mechanics

Each CMBX Has a Fixed Rate		
Trade Date	Index quoted higher than Fixed Rate ■ Implies spreads have widened	Index quoted lower than Fixed Rate ■ Implies spreads have tightened
Trade Initiation	■ Buyer of protection (Index Buyer) pays the Seller of protection the difference in market value ■ Buyer of protection receives accrued premium from the Seller of protection for the period from the end of the last accrual period until the trade effective date	■ Seller of protection (Index Seller) pays Buyer of protection the difference in market value ■ Seller of protection pays Buyer of protection the accrued premium for the period from the end of the last accrual period until the trade effective date
Trade Termination	■ Seller of protection pays the Buyer of protection the difference in market value ■ Seller of protection receives the accrued premium from the end of the last accrual period until the trade effective date from the buyer of protection	■ Buyer of protection pays the Seller of protection the difference in market value ■ Buyer of protection pays the Seller of protection the accrued premium for the period from the end of the last accrual period until the trade effective date

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction
Source: Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

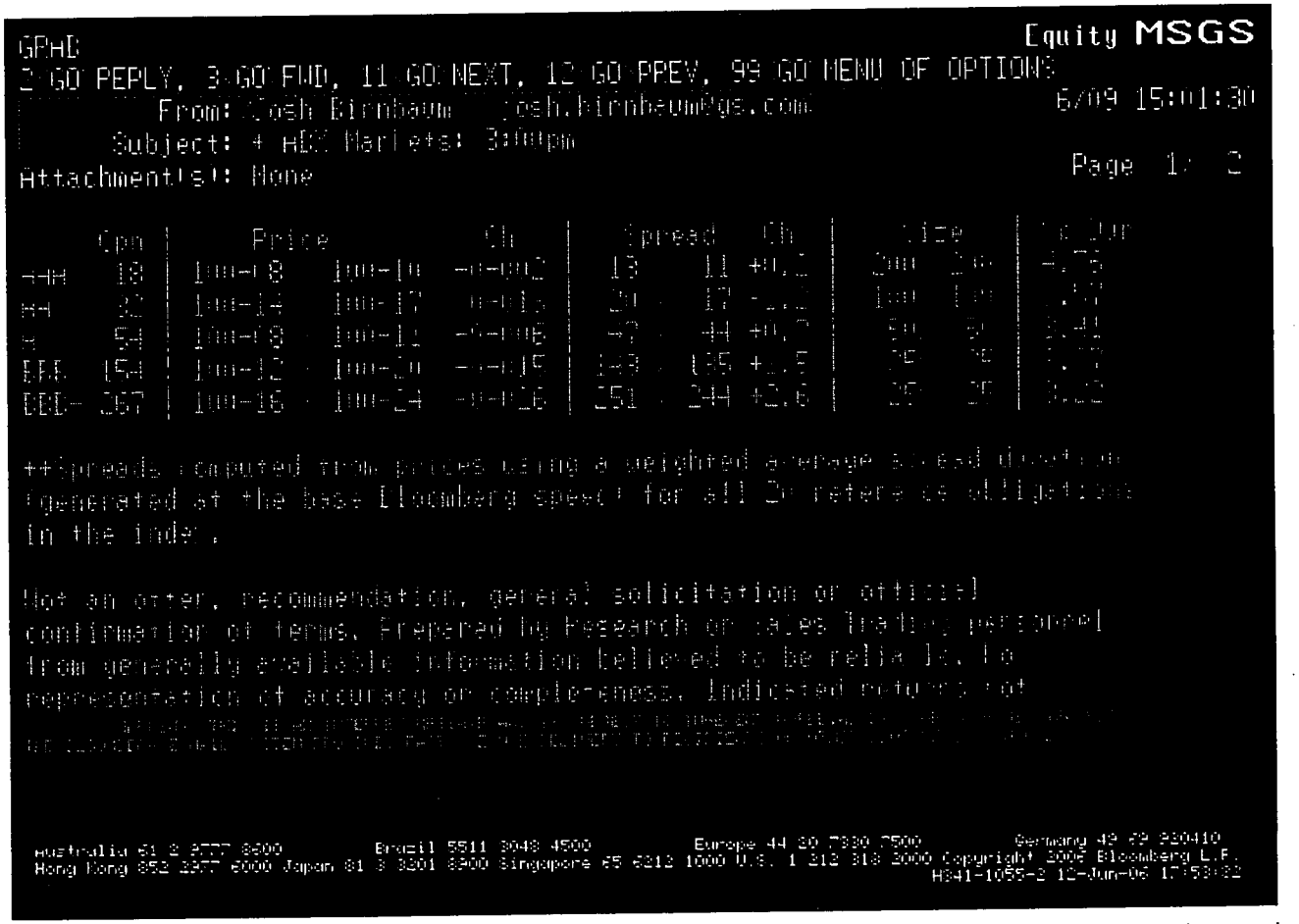
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ABX.HE Markets

Indicative Run on Bloomberg (as of 06/09/06)



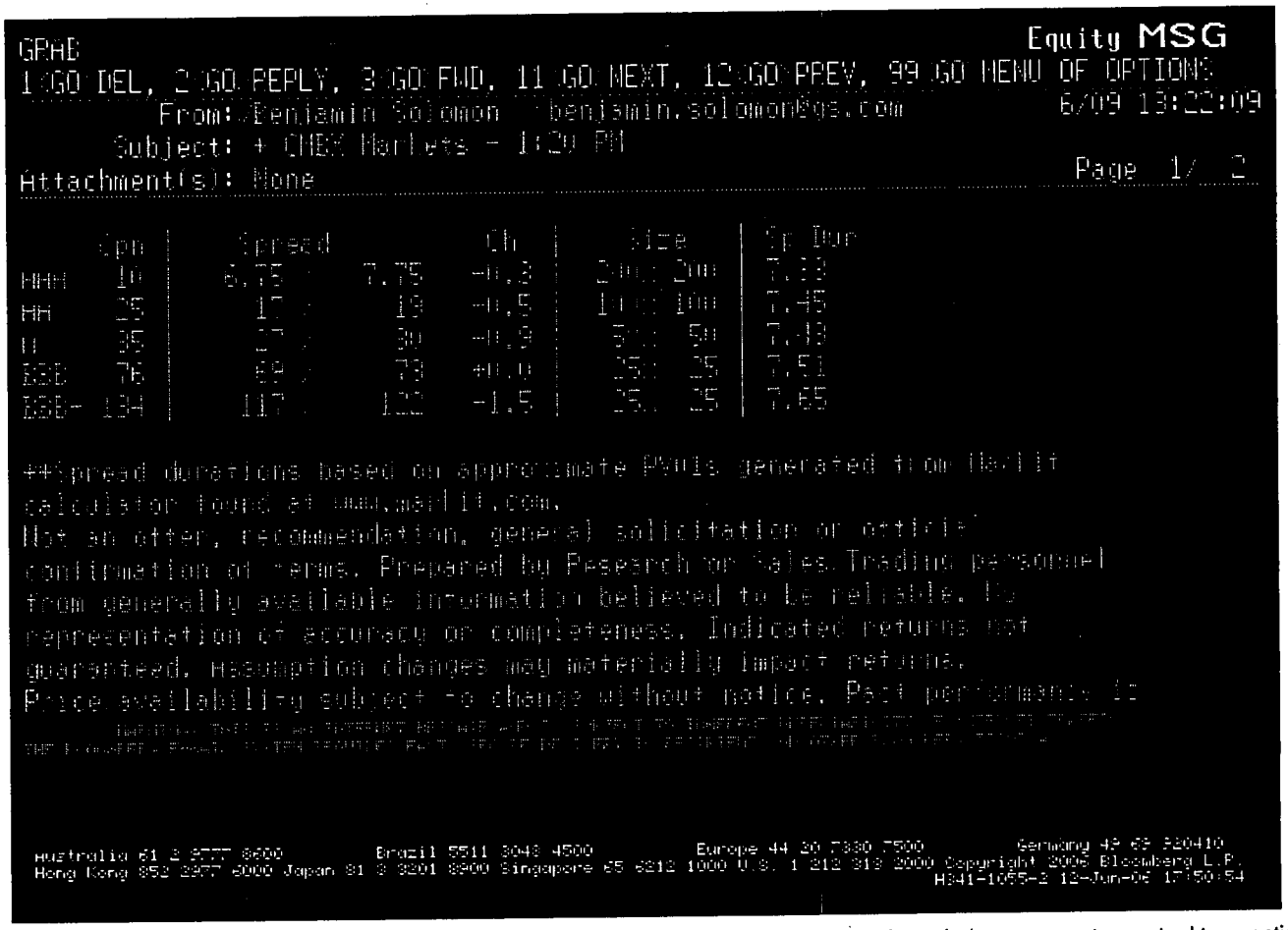
Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

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CMBX Markets

Indicative Run on Bloomberg (as of 06/09/06)



GRAB Equity MSG
1 GO DEL, 2 GO REPLY, 3 GO FWD, 11 GO NEXT, 12 GO PREV, 99 GO MENU OF OPTIONS
From: Benjamin Solomon <benjamin.solomon@gs.com> 6/09 13:22:09
Subject: + CMBX Markets - 1:29 PM
Attachments(s): None Page 1/ 2

	Cpn	Spread		Ch	Size	Sp Dur
AAA	10	6.75	7.75	-0.2	2mm 2mm	7.33
AA	25	17	19	-0.5	1mm 10m	7.45
A	35	27	30	-0.9	5m 5m	7.49
BBB	76	69	73	+0.0	25m 25	7.51
BBB-	134	117	122	-1.5	25m 25	7.65

**Spread durations based on approximate PVBIs generated from Markit calculator found at www.markit.com.
Not an offer, recommendation, general solicitation or offering confirmation of terms. Prepared by Research or Sales Trading personnel from generally available information believed to be reliable. No representation of accuracy or completeness. Indicated returns not guaranteed. Assumption changes may materially impact returns. Price availability subject to change without notice. Past performance is

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Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

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Trading the ABX.HE and CMBX Indices

XYZ Sells Protection on $100mm on ABX.HE.A.06-1

- The Fixed Rate on ABX.HE.A.06-1 Index is 54bp per annum, payable monthly
- The mechanics described below work similarly for the ABX.HE and CMBX Indices

Fixed Rate Payer (Protection Buyer)

- Pays 54bp per annum monthly to counterparty on notional amount
  - Notional amount will decline over time based on the reference obligations amortization
- Receives payments from the Floating Rate Payer in the event of the following:
  - Interest Shortfall (capped at fixed rate)
  - Principal Shortfall
  - Writedown
- Pays in the event of the following:
  - Interest Shortfall Reimbursement Amount
  - Principal Shortfall Reimbursement Amount
  - Writedown Reimbursement Amount

Floating Rate Payer (Protection Seller)

- Receives 54bp per annum monthly to counterparty on notional amount
  - Notional amount will decline over time based on the reference obligation's amortization
- Pays Fixed Rate Payer in the event of the following:
  - Interest Shortfall (capped at fixed rate)
  - Principal Shortfall
  - Writedown
- Receives payment in the event of the following:
  - Interest Shortfall Reimbursement Amount
  - Principal Shortfall Reimbursement Amount
  - Writedown Reimbursement Amount

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction
Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo); Goldman Sachs, CMBX Launch Presentation: *CMBX Indices: The New US Commercial Mortgage Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

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Index vs. Single Name Trades

Comparing a few features

	CMBS		Subprime ABS	
	Index	Single-Name	Index	Single-Name
Credit Events	FTPP, Writedown	FTPP, Writedown	FTPP, Writedown	FTPP, Writedown, Distressed Ratings Downgrade
Settlement	PAYG	PAYG, Optional Physical	PAYG	PAYG, Optional Physical
Interest Shortfall	Fixed Cap Applicable	Fixed Cap, Variable Cap, or Cap N/A	Fixed Cap Applicable	Fixed Cap, Variable Cap, or Cap N/A
Coupon Step-up	None	None	None	If clean-up call not exercised w/ Buyer's option to terminate
Trading Quotation	Spread	Spread	Price	Spread
Accruals	Act / 360	Act / 360	Act / 360	Act / 360
Effective Date	T + 0	T + 3 (generally)	T + 0	T + 3 (generally)
Settlement Date	T + 3	T + 3	T + 5	T + 3

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Key Features of Trade Mechanics[1]

Important Definitions, Valuable Dates and Margin Requirements

Important Definitions

- **Trade Date** – the day the trader says "done" and trade is executed
- **Effective date of trade** – same as trade date: when protection begins
- **Effective date of index (i.e. annex date)** – date the annex was initially published or revised
- **Settlement date** – date on which the premium is exchanged
- **Premium** – fee exchanged when trade is initially done comprising the market value of the trade and accrued interest since last payment date
- **Accrued Interest** (in terms of premium) – interest accumulated from and including last payment date but excluding effective date of trade
- **Factor** – A change in the outstanding principal issuance i.e. % of principal unpaid on the reference obligation
- **Initial Fixed rate Payer Calculation period** – from and including last payment date but excluding the next payment date of the bond

Margin Requirements

GS Buys Protection

Rating	Initial Margin
AAA	0.75%
AA	1.25%
A	1.75%
BBB	3.25%
BBB-	4.50%
Speculative Grade	Case-by-case

GS Sells Protection

- Investment Grade underlier: no initial margin
- Speculative Grade: case-by-case basis

(key considerations: fund's quality, liquidity of underlier)

Valuable Dates

- **Trade date** – T
- **Effective date of trade** – T+ 0
- **MarkIt Publish date** - 24 hours or less after trustee report is published (25th)

	COUPONS		FEES	
	Accrual Dates	**Payment Delay**	**Upfront**	**Termination**
ABX	25th - 25th	5 Business Day after 25th	T+5	T + 3
CMBX	25th - 25th	No payment delay	T + 3	T + 3

(1) Source: Goldman Sachs

Note : All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction

GS MBS-E-002055451

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Credit Event (Writedown)

XYZ Sells Protection on $100mm on ABX.HE.A.06-1

Credit Event – Writedown

- Reference Obligation Original Factor = 1.0; Current Factor = 0.7
- A Writedown occurs on a Reference Obligation, for example, in year 3, in the amount of 1% of its current principal balance
  - (Current Factor * Weighting * Loss) = (0.70 * .05 * .01) = .00035 = 0.035%
- Protection Seller pays to Protection Buyer a floating amount (0.035% x 100MM)= $35,000
- Index notional amount on which premium is paid reduces by an additional 0.035%, in addition to the principal payments of the month
- Following the Credit Event, protection seller receives premium of [70] bps on the remaining index notional amount until the earlier of the next credit event or scheduled termination
- The mechanics described above work similarly for the ABX.HE and CMBX Indices

Note: All financial information and other data shown are for illustrative purposes only and are not intended to represent an actual transaction
Source: Goldman Sachs, ABX.HE Launch Presentation: *ABX Indices: The New US Asset Backed Credit Default Swap Benchmark Indices* (CDS IndexCo)

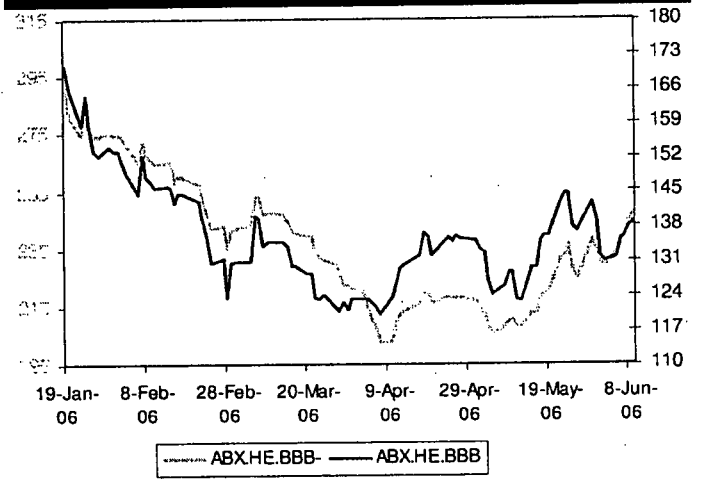
GS MBS-E-002055452

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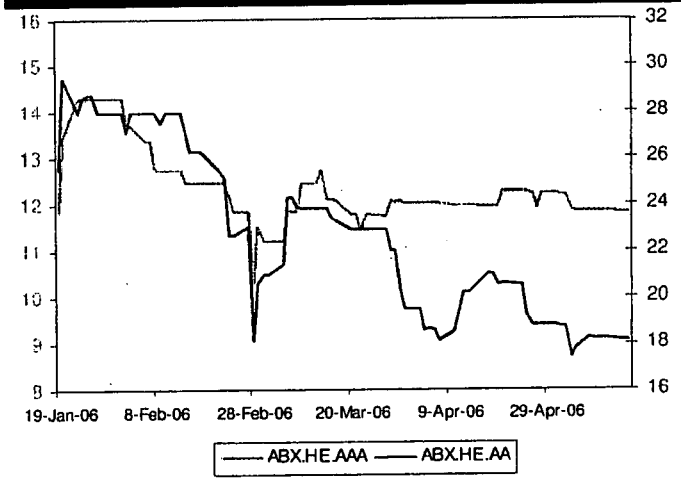
Evolution of Spreads for the ABX.HE Subindices[1]

From 01/19/2006 to 06/09/2006

ABX.HE BBB and BBB-



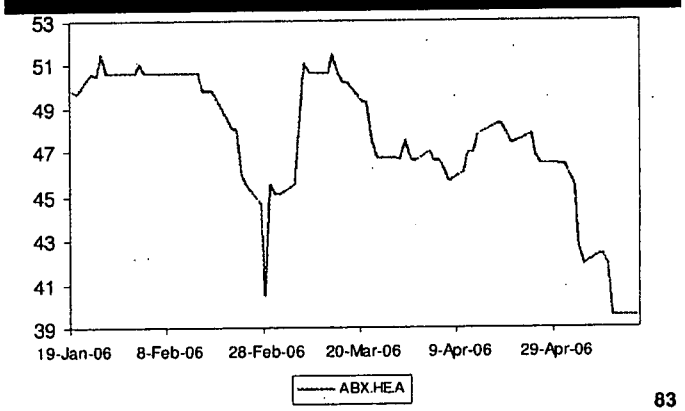
ABX.HE AAA and AA



ABX.HE 06-1 Spread Stats

	Open	High	Low	Avg	Curr
AAA	18	14	10	12	12
AA	32	29	17	22	19
A	54	51	40	47	44
BBB	154	171	120	136	139
BBB-	267	292	202	237	248

ABX.HE A



(1) Source: Goldman Sachs. Indicative as of COB 9Jun06.

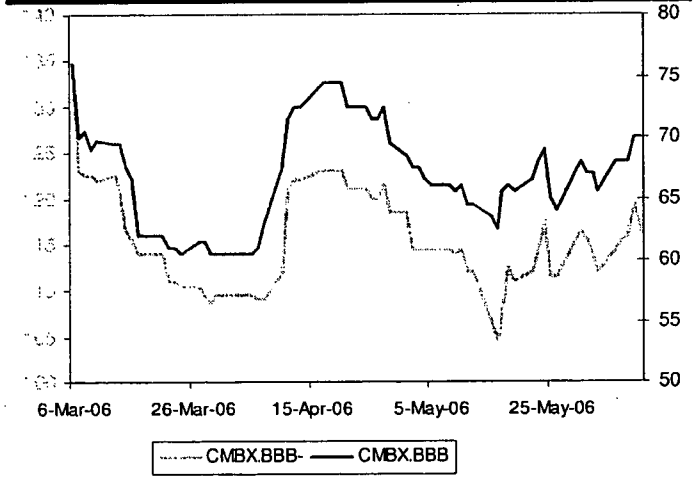
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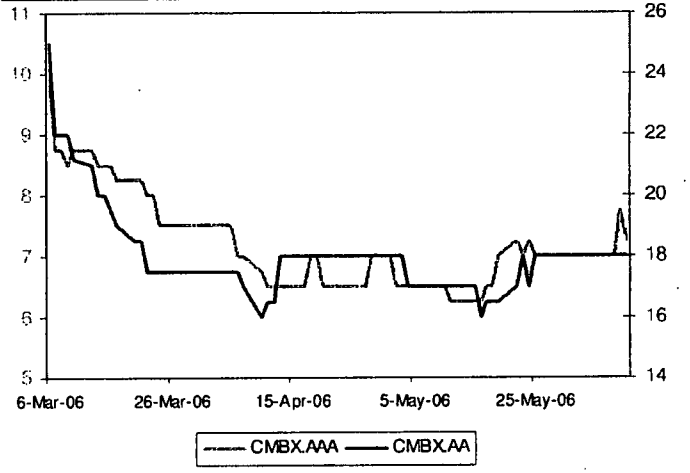
Evolution of Spreads for the CMBX Subindices[1]

From 03/06/2006 to 06/09/2006

CMBX BBB and BBB-



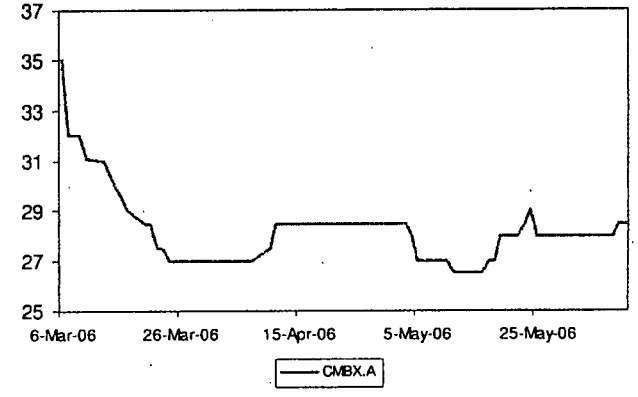
CMBX AAA and AA



CMBX Spread Stats

	Open	High	Low	Avg	Curr
AAA	10	10	6	7	7
AA	25	25	16	18	18
A	35	35	27	28	29
BBB	76	76	61	67	70
BBB-	134	134	105	115	117

CMBX A



(1) Source: Goldman Sachs. Indicative as of COB 9-Jun-06.

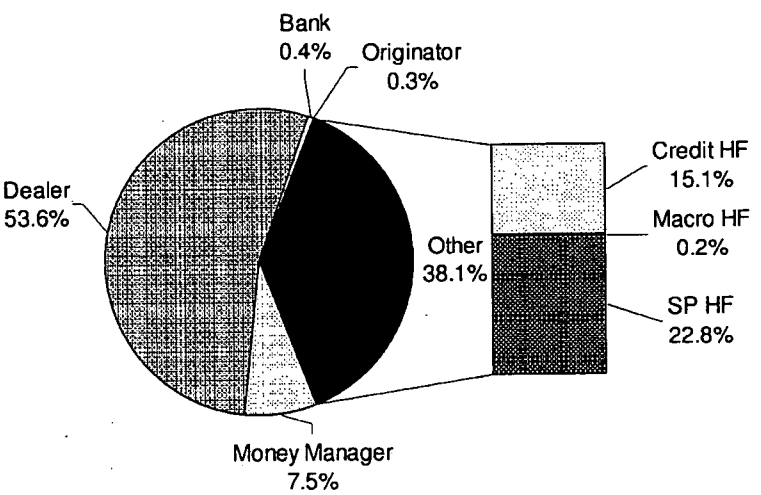
GS MBS-E-002055454

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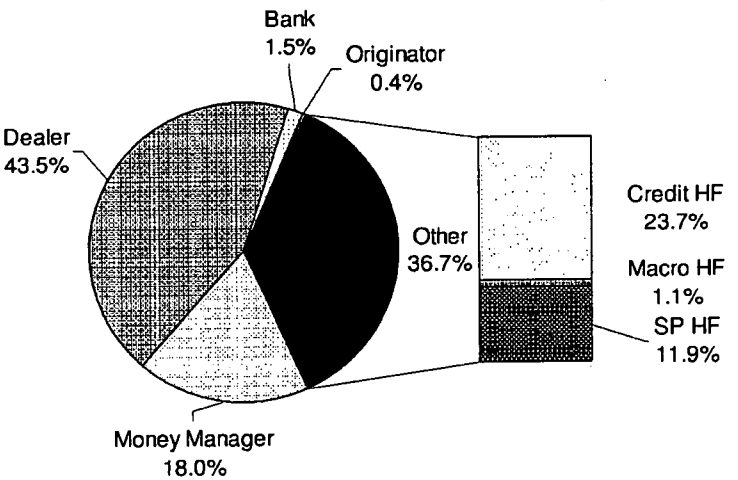
GS Transactions in ABX.HE Indices[1]

From 01/19/2006 to 05/11/2006

GS Trade Volume by Participant Type



GS Number of Trades by Participant Type



(1) Source: Goldman Sachs

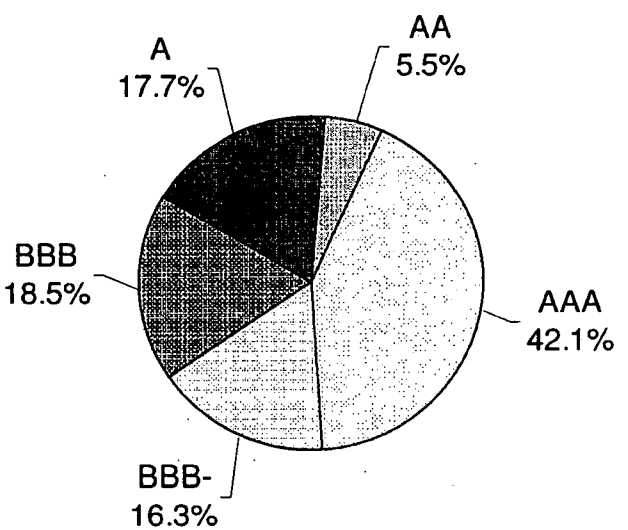
GS MBS-E-002055455

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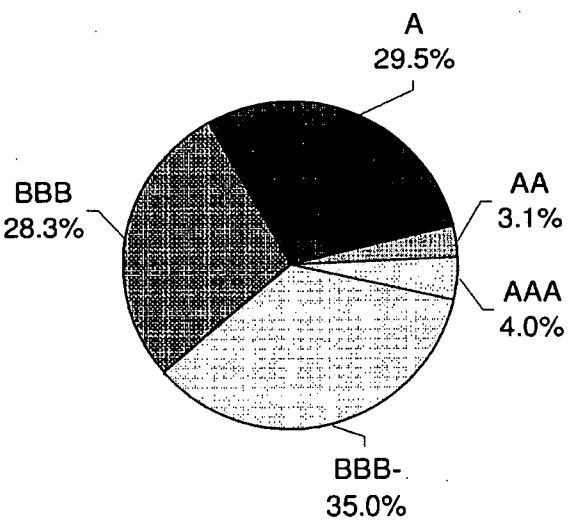
GS Transactions in ABX.HE Indices[1]

From 01/19/2006 to 05/11/2006

GS Trade Volume by Rating



GS Number of Trades by Rating



(1) Source: Goldman Sachs

GS MBS-E-002055456

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Trade Ideas using the ABX.HE Indices

- Bearish view on housing/consumers:
  - Customers with this view have been selling the Index (shorting credit; buying protection) at the A, BBB, and BBB- level
- Credit steepener trades:
  - View is that credit curve will steepen with adverse developments for subprime credits
  - Fund shorts by selling protection higher in the capital structure
  - Most common: BBB- vs BBB, BBB vs AAA
- Transition Management:
  - Investors with cash to invest (or risk to add) have used the index to gain exposure to home equity spreads while they ramp up single-name or cash positions
  - Investors can scale out of the index as they put new cash to work (or add risk)
- ABS Basis trades:
  - Trading single names or cash vs the Index
  - Can structure positive carry trades or express leveraged views on particular names
  - Index arbitrage

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Note: Past results are not indications of future performance.

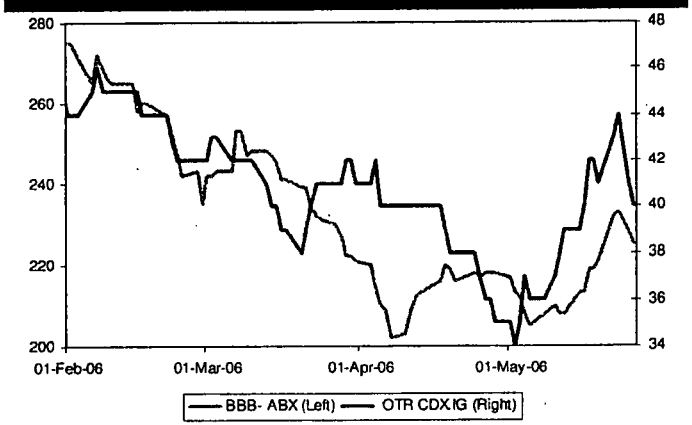
GS MBS-E-002055457

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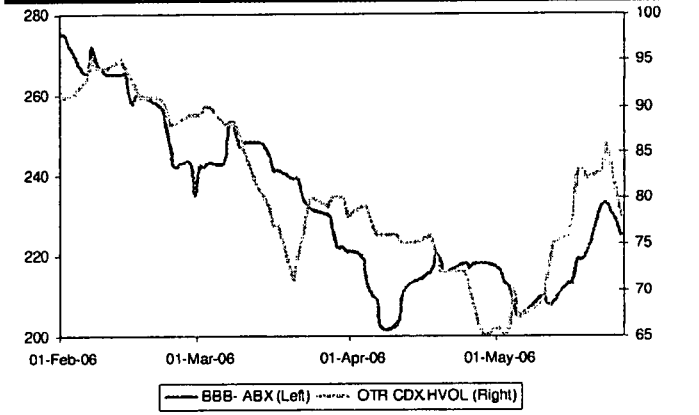
Trade Ideas using the ABX.HE Indices
Continued

- Hedging mortgage credit risk:
  - Originators have sold the index across the capital structure to hedge their origination pipelines
  - Originators or investors with positions in residuals have sold the BBB and BBB- Indexes to mitigate risk
  - Some originators view BBB/BBB- protection as cheap to mortgage insurance
- ABX vs corporate credit:
  - Hedge funds have traded BBB/BBB- vs correlated corporate credit such as consumer portion of CDX or HVOL

ABX.HE BBB- vs OTR CDX.IG[1]



ABX.HE BBB- vs OTR CDX.HVOL[1]



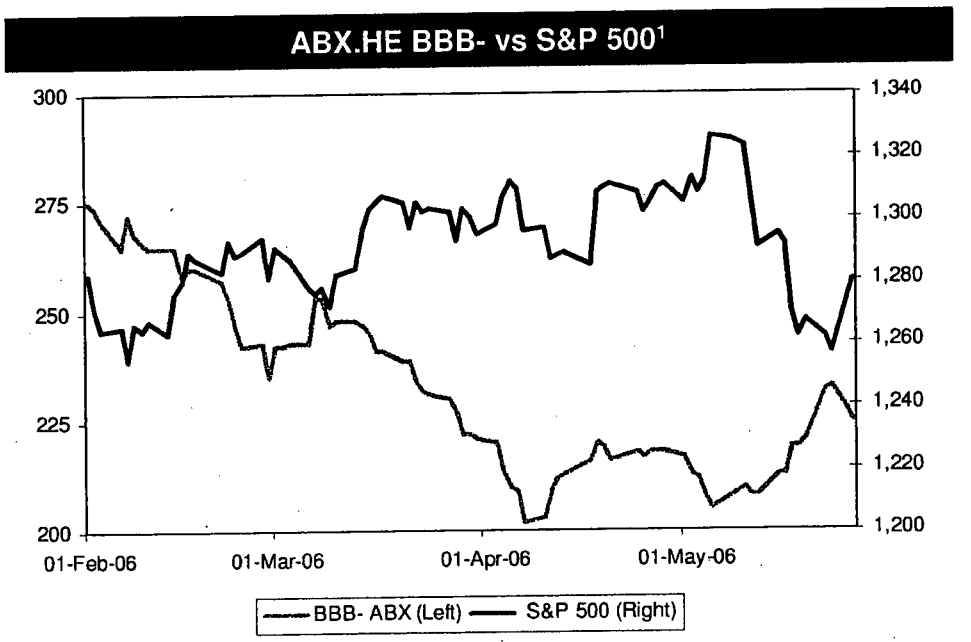
(1) Note: Past results are not indications of future performance. Indicative as of 6-Jun-06.

GS MBS-E-002055458

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Trade Ideas using the ABX.HE Indices
Continued

- ABX vs. Equities:
  - Equity accounts and macro hedge funds have used the Index (primarily BBB and BBB-) to hedge the residual risk in originator stocks
  - Short is funded by high dividend yield
  - ABX and equity housing indices such as the Philadelphia Housing Index (HGX <Index>) have become more correlated



(1) Note: Past results are not indications of future performance. Indicative as of 6-Jun-06.

GS MBS-E-002055459

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Trade Ideas using the ABX.HE Indices
Continued

- Tranching:
  - Significant interest/inquiry in tranches
  - Standardization, pricing, and liquidity should take time to evolve
- Options:
  - Hedgers have expressed interest in options strategies to mitigate risk
  - Similar in construction to options on CDX currently traded

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Note: Past results are not indications of future performance.

GS MBS-E-002055460

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Update on the ABX.HE Bases[1]

As of 06/09/06

Indicative Basis Report[1]

Subindex	Index - CDS	CDS - Cash
AAA	0	-11
AA	1	-10
A	9	-3
BBB	30	10
BBB-	40	15

Reference Entities			Index - CDS Basis for BBB-
ACE	05-HE7	M9	15
AMSI	05-R11	M9	-10
ARSI	05-W2	M9	-15
BSABS	05-HE11	M8	0
CWL	05-BC5	B	-5
FFML	05-FF12	B3	35
GSAMP	05-HE4	B3	10
HEAT	05-8	B1	-35
JPMAC	05-OPT1	M9	40
LBMLT	05-WL2	M9	-10
MABS	05-NC2	M9	10
MLMI	05-AR1	B3	10
MSAC	05-HE5	B3	5
NCHET	05-4	M9	-10
RAMP	05-EFC4	M9	5
RASC	05-KS11	M9	-45
SABR	05-HE1	B3	15
SAIL	05-HE3	M9	-75
SASC	05-WF4	M9	35
SVHE	05-4	M9	15

(1) Source: Goldman Sachs
Note: Past results are not indications of future performance.

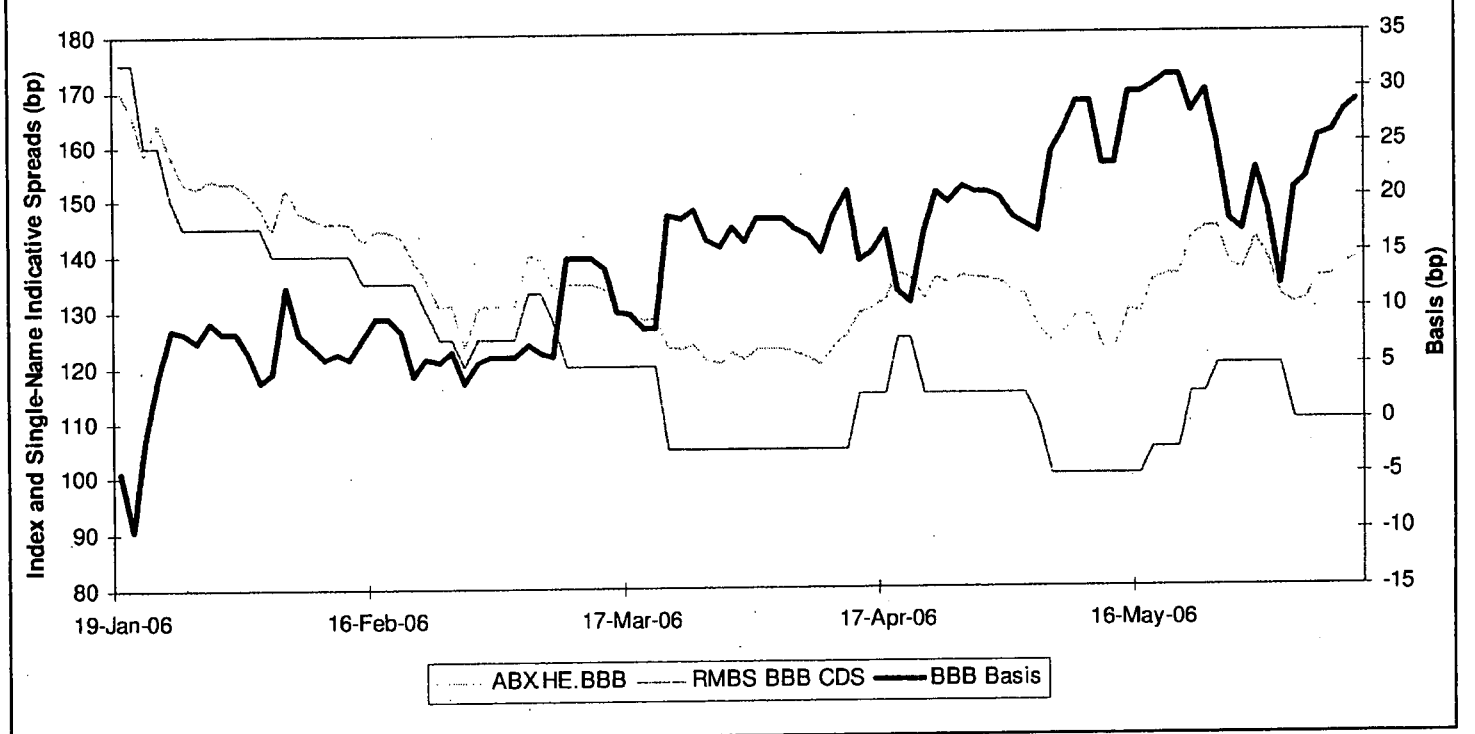
GS MBS-E-002055461

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ABX.HE BBB Basis[1]

As of 06/09/06

Indicative ABX.HE BBB Historical Basis[1]



(1) Note: Past results are not indications of future performance. Indicative as of 6-Jun-06.

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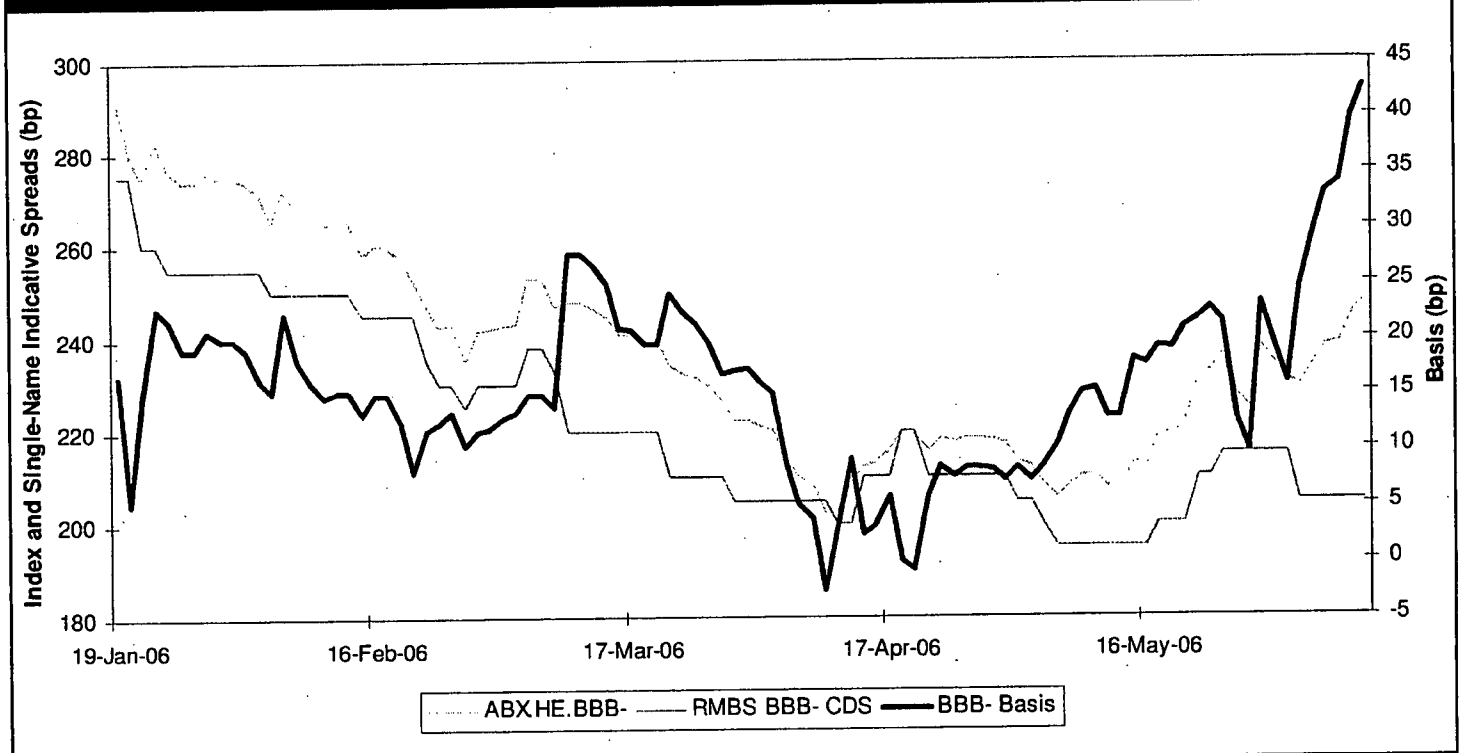
GS MBS-E-002055462

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ABX.HE BBB- Basis[1]

As of 06/09/06

Indicative ABX.HE BBB- Historical Basis[1]



(1) Note: Past results are not indications of future performance. Indicative as of 6-Jun-06.

GS MBS-E-002055463

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Update on the CMBX Bases[1]

As of 06/09/06

Indicative Basis Report[1]

Subindex	Index - CDS	CDS - Cash
AAA	0	-20
AA	0	-15
A	1	-14
BBB	3	-6
BBB-	4	0

Reference Entities			Index - CDS Basis for BBB-
BACM	2005-4	H	8
BACM	2005-5	H	8
BACM	2005-6	K	4
BSCMS	2005-PW10	K	0
BSCMS	2005-PWR9	J	3
BSCMS	2005-T20	J	0
CD	2005-CD1	J	9
CSFB	2005-C5	K	6
CSFB	2005-C6	J	4
GCCFC	2005-GG5	H	9
GECMC	2005-C4	J	4
GMACC	2006-C1	J	4
JPMCC	2005-CB13	H	0
JPMCC	2005-LDP4	H	3
JPMCC	2005-LDP5	K	4
LBUBS	2005-C5	K	-1
LBUBS	2005-C7	K	4
LBUBS	2006-C1	K	3
MLMT	2005-CKI1	H	1
MLMT	2005-LC1	H	6
MSC	2005-HQ7	K	5
MSC	2005-IQ10	H	1
MSC	2006-T21	H	3
WBCMT	2005-C21	H	6
WBCMT	2005-C22	J	6

(1) Source: Goldman Sachs
Note: Past results are not indications of future performance.

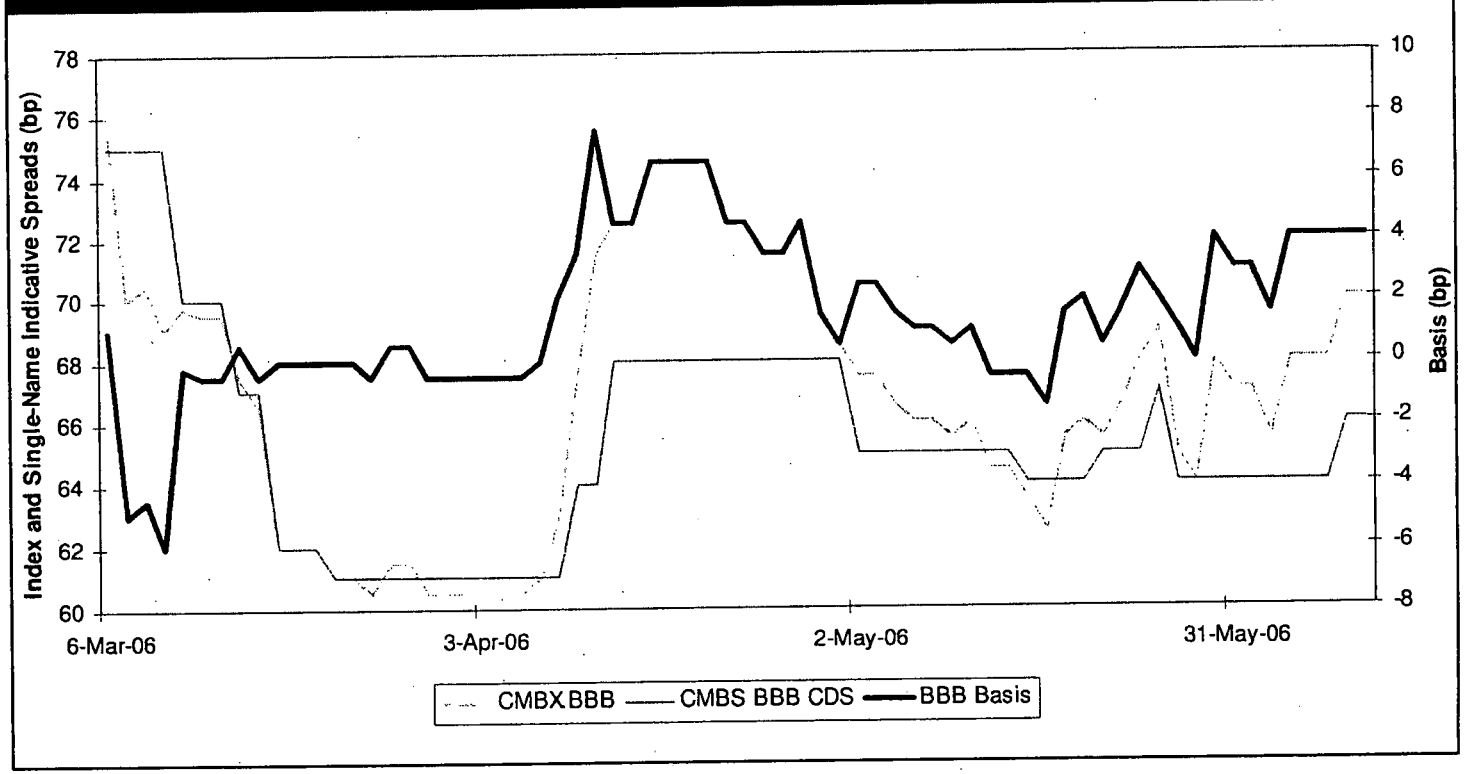
GS MBS-E-002055464

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CMBX BBB Basis[1]

As of 06/09/06

Indicative CMBX BBB Historical Basis[1]



(1) Note: Past results are not indications of future performance. Indicative as of 6-Jun-06.

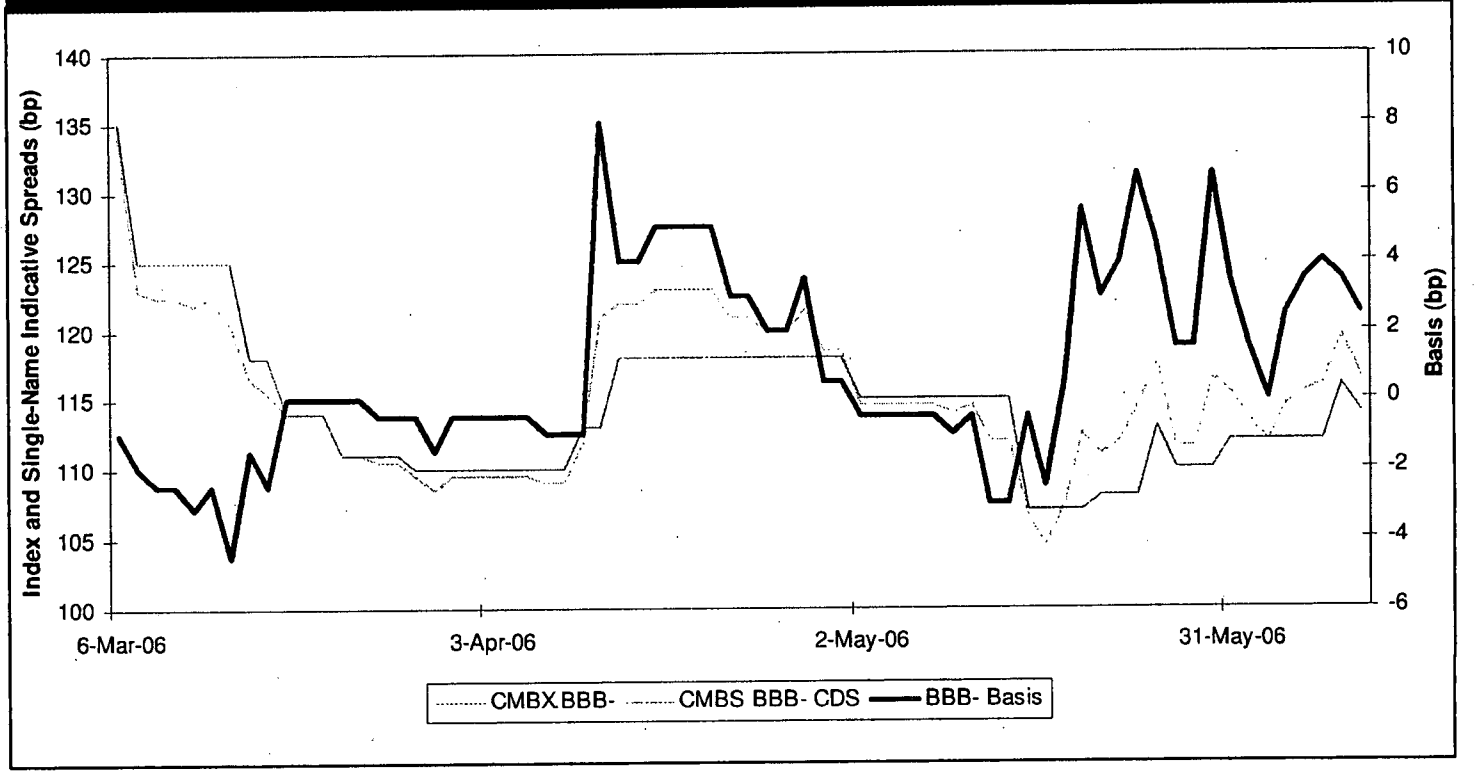
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CMBX BBB- Basis[1]

As of 06/09/06

Indicative CMBX BBB- Historical Basis[1]



(1) Note: Past results are not indications of future performance. Indicative as of 6-Jun-06.

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Structured Credit Tranches

Benefits of Single-Tranche Synthetic Securitizations

- Increasing liquidity in the single name CDS market enables creation of pure bespoke synthetic structured product CDOs
- Investors can build customized synthetic structured product portfolios
  - Not limited by new issuance calendar and bond allocations
  - Not limited by cash bonds in dealer inventory
  - Customized by sector (e.g., RMBS, CMBS, ABS), rating, vintage, servicer, etc.
- Investors can tranche synthetic portfolio to meet various investment objectives
  - Rating of investment
  - Degree of term leverage
  - Spread
  - Currency denomination
- Credit-linked notes issued in such synthetic transactions are usually uncapped and cannot defer interest, even though many of the underlying reference obligations may have embedded caps and/or may be permitted to defer interest

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Structured Credit Tranches
Portfolio Selection Considerations

- Synthetic transactions have tended to focus on the sectors of the US structured products market that have either experienced or are expected to experience the heaviest activity in the single-name structured product CDS market
  - Prime, Alt-A and Subprime RMBS
  - US CMBS Conduits
  - Structured Product Cashflow CDOs and CLOs
  - Consumer ABS
- Most transactions are diversified across sectors
  - It is possible to structure single-sector transactions (i.e., 100% subprime RMBS)
- Portfolios referencing AAA through BB securities can be created, although the best liquidity is in the double-A through triple-B rated layer
- Most synthetic transactions focus on 2004, 2005 and 2006 vintage structured finance
- Reference portfolio can be static or dynamic, subject to constraints customized to investor requirements

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Structured Credit Tranches

Tranche and Structural Considerations

- After selecting a reference portfolio (or appropriate rules in the case of a dynamic portfolio), ratings can be assigned to particular risk layers ("tranches")
- Investors can select the tranche which best meets their investment guidelines with respect to ratings and leverage
- Structure and cash flow mechanics are very similar to corporate single-tranche synthetics
- Transactions run to the legal final of the underlying reference obligations (typically 40 yrs)
  - Most tranches will have a 7-12 year expected weighted average life
  - The actual principal amortization of the transaction tracks that of the reference portfolio
  - The average life will reflect any borrower prepayments/extensions, credit performance, and the underlying structure of the reference obligations
- Tranches are usually not subject to caps which may be embedded in the underlying reference obligations, although the cost of such caps and other embedded options will be reflected in the spread of each tranche
- Most transactions include an optional call exercisable after a non-call period
- For a customized rated transaction, investment size generally needs to be $50 million or more to justify the fixed costs incurred
- Goldman can offer tranches in liquid currencies other than US dollars

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Structured Credit Tranches

Overview of Credit-Linked Note Structure

- Investor purchases a credit-linked note (CLN) issued by an SPV issuer (the "Issuer"), the proceeds of which are used to collateralize the notional amount of a credit default swap (CDS) referencing layers of risk of the reference portfolio
- GS acts as protection buyer, while the Issuer (and indirectly, the investor) acts as protection seller
- Under the CDS, Goldman pays a running premium which covers the spread paid to the investor as well as upfront and ongoing expenses of the CLN issuer
- Investor earns current interest at the stated floating coupon, accrued on the outstanding principal balance of the CLN
- The junior-most tranche of CLN may have credit enhancement via a subordinated first loss amount
- If a credit event occurs in respect of a reference obligation, a loss amount is calculated
- Any such loss amount is deducted from the first loss amount remaining, if any, after which:
  - The principal of the junior-most CLN is written down
  - Investor loses principal by the amount of such write down
  - Goldman is paid protection under the CDS equal to the amount of such write down
- CLN tranches are written-down by loss amounts in reverse sequential order of priority
- Principal amortization (in the absence of credit events) tracks that of the reference portfolio

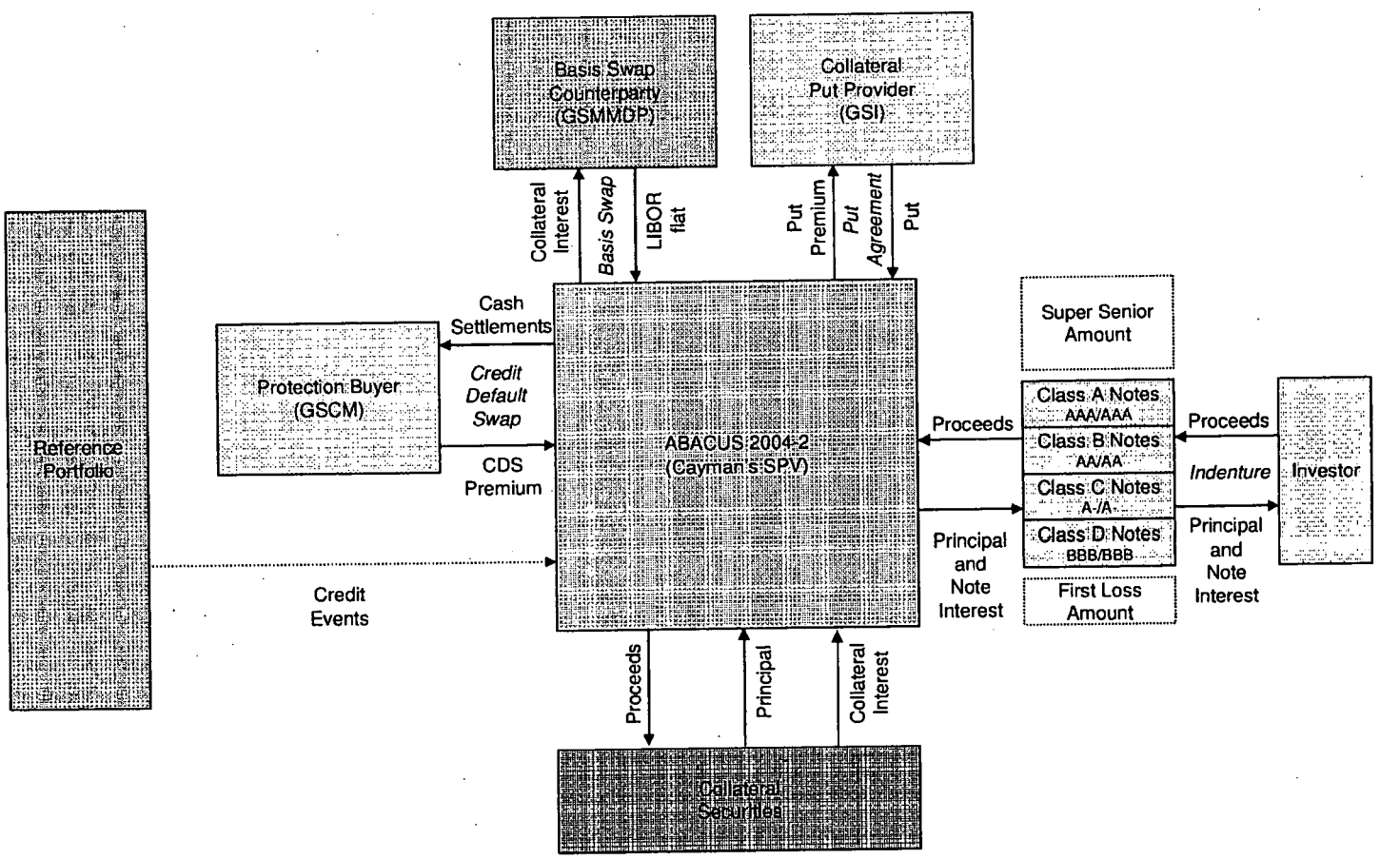
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Structured Credit Tranches

Example Credit-Linked Note Structure Diagram



GS MBS-E-002055471

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ABACUS Program

Overview of ABACUS Transactions

- ABACUS is the GS brand name for single-tranche CLN issuances referencing portfolios comprised entirely of structured products
- GS completed 12 pure bespoke single-tranche structured product synthetics since 2004
- Since 2004, GS has distributed globally approximately $3.5bn of single-tranche CLNs to a variety of buy-and-hold investors seeking customized exposures to the US structured product market
- Through CLN issuance and tranched CDS trading, GS traded approximately $21bn notional amount of structured product credit risk
- Select sample transactions:
  - ABACUS 2005-4: $6.0bn AAA CMBS transaction
  - ABACUS 2005-2: $1.25bn single-A multi-sector transaction
  - ABACUS 05-CB1: $750mm third party managed transaction
  - ABACUS 2005-7: $100mm levered supersenior transaction

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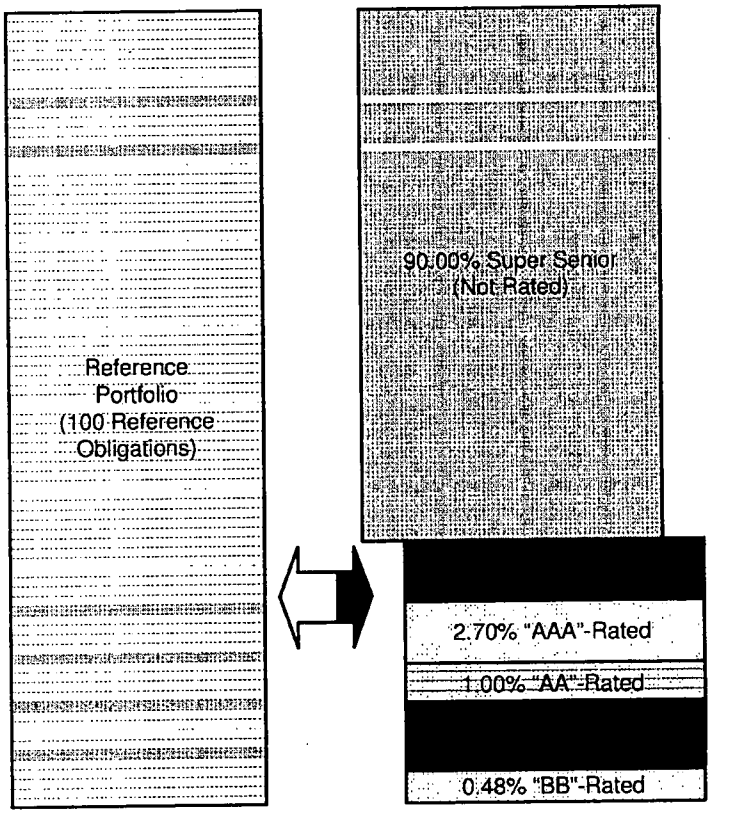
GS MBS-E-002055472

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ABACUS Program

ABACUS 2005-4: a Static "AAA" CMBS Transaction

- $6.0 billion static portfolio of 30 equally sized triple-A CMBS reference obligations
- GS issued $600mm of CLNs in six bespoke tranches rated by S&P and Moody's
- Transaction illustrates a recurring theme of taking levered exposure to a portfolio of low leverage credit risks
- Transaction that enables investors to take exposure to the AAA US CMBS conduit market on a floating rate basis at attractive spreads compared to the underlying risk
- GS is currently working on similar transactions referencing portfolios of junior "AAA" CMBS securities and "AA" CMBS securities



Illustrative only – diagram not to scale

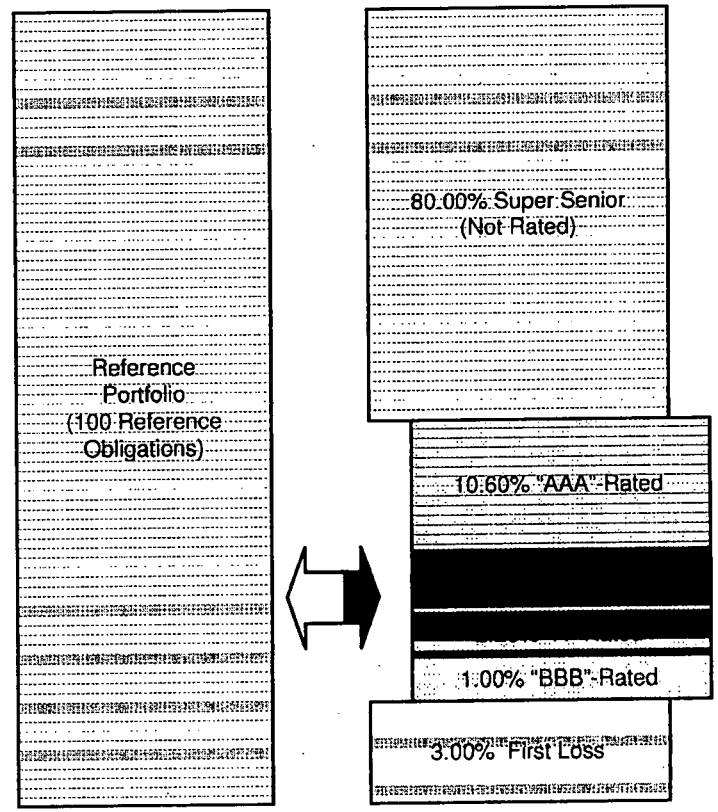
GS MBS-E-002055473

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ABACUS Program

ABACUS 2005-2: a Diversified Single-A Multi-Sector Transaction

- $1.25 billion portfolio with 100 reference obligations
- GS issued $212.5mm of CLNs in five bespoke tranches rated by S&P and Moody's
- "A2" reference portfolio weighted average rating
- Portfolio composed of Asset-Backed (10%), CMBS (20%), RMBS (55%) and CDO Cashflow securities (15%)
- Investors take levered exposure to a diversified portfolio of single-A rated structured product securities with credit enhancement protection. Such exposure is rarely available in the cash ABS CDO market
- Protection buyer has the right to substitute reference obligations in the reference portfolio subject to strictly defined rules customized by investors
- Substitution flexibility enables (a) GS to more easily manage its correlation book and (b) GS to pay significantly more spread to investors compared to the benchmark cash ABS CDO market



Illustrative only – diagram not to scale

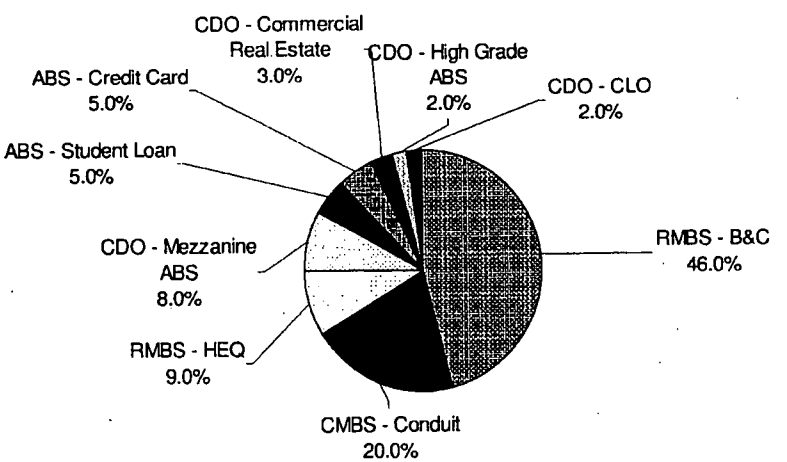
GS MBS-E-002055474

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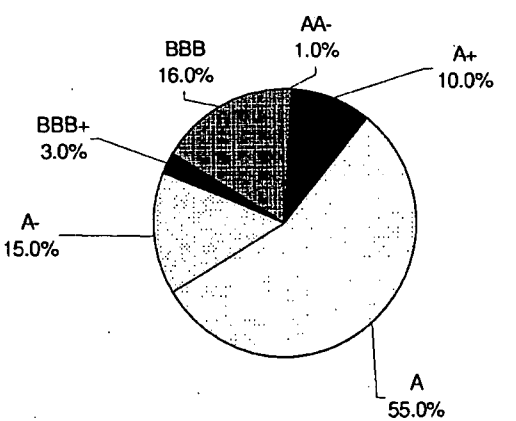
ABACUS Program

ABACUS 2005-2: a Diversified Single-A Multi-Sector Transaction

Collateral Distribution



Rating Distribution



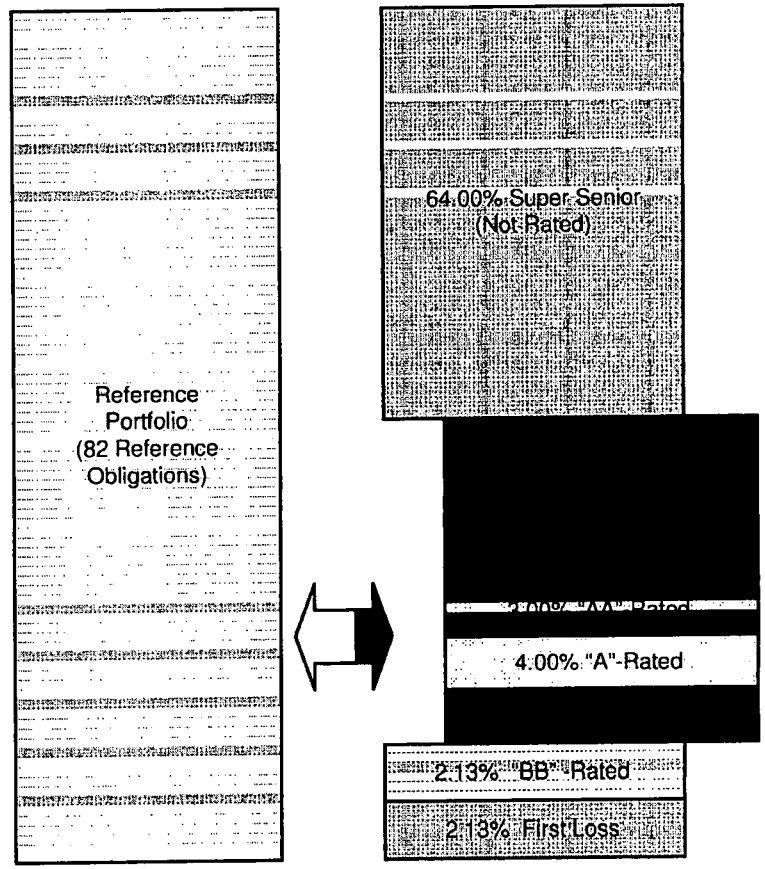
GS MBS-E-002055475

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ABACUS Program

ABACUS 2005-CB1: a Managed Subprime RMBS Transaction

- $750 million reference portfolio
- GS issued $238mm of CLNs in eight bespoke tranches rated by S&P and Fitch (excluding Super Senior, BB – rated and first loss tranches that were not offered)
- 481 WARF Reference Portfolio (Baa2/Baa3)
- C-BASS serves as Portfolio Advisor
- The Portfolio Advisor selects, monitors the Reference Portfolio and has defensive management rights with respect to the reference portfolio
- GS is working with first tier portfolio managers to bring pure bespoke managed structured product synthetic CDO transactions in a format similar to the ABACUS 2005-CB1 transaction



Illustrative only – diagram not to scale

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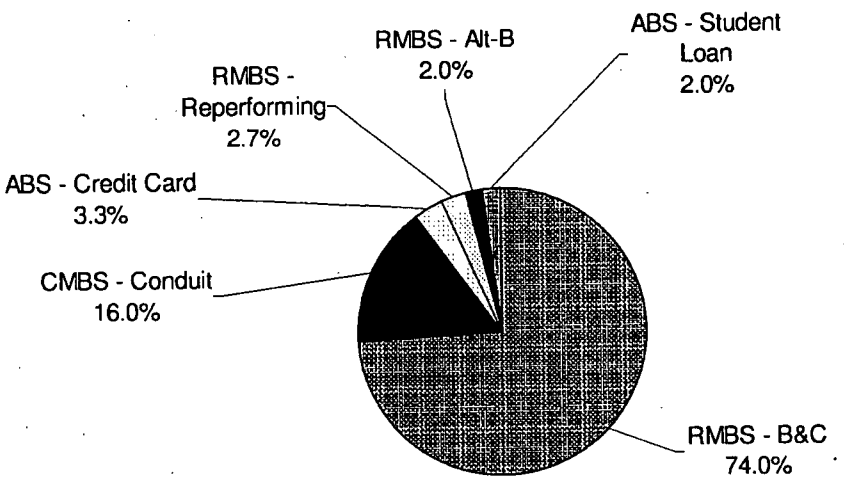
GS MBS-E-002055476

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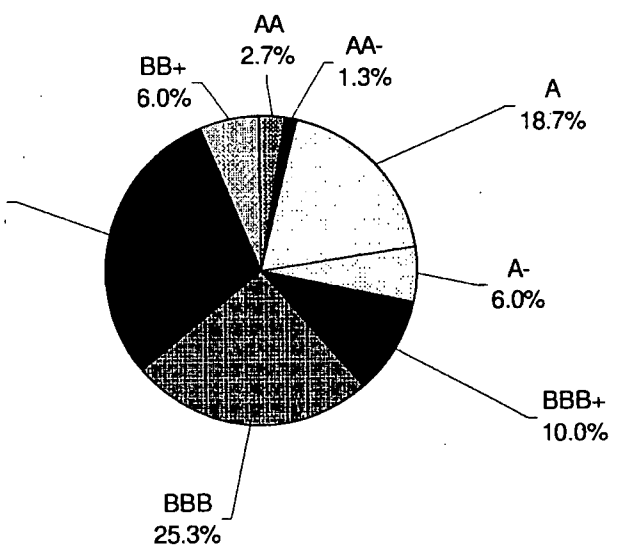
ABACUS Program

ABACUS 2005-CB1: a Managed Subprime RMBS Transaction

Collateral Distribution



Rating Distribution



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GS MBS-E-002055477

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ABACUS Program

ABACUS 2005-7: a Levered Super-Senior Transaction

- First ever rated levered supersenior transaction referencing structured product credit risk
- Transaction referencing the 10% - 100% supersenior tranche off a portfolio consisting of 30 equally sized triple-A CMBS reference obligations
- AAA/AAA (S&P/Fitch)
- GS issued $130mm credit linked notes with a 10x leverage multiple, transferring the credit and spread risk of $1.3bn notional supersenior tranche
- Transaction uses spread triggers referencing the reference portfolio average CDS spread
  - If the average reference portfolio spread breaches an unwind trigger, investor can either
    - Unwind the transaction at market, or
    - Purchase additional CLNs in order not to crystallize its mark to market loss
  - Several triggers structured, which are "AAA" remote, with gradual deleveraging
- ABACUS 05-7 enables a broad set of capital market investors to access supersenior credit risk, which used to be a risk available only to insurance companies
- GS is working with rating agencies to standardize the approach in order to replicate the levered supersenior format to other asset classes and other rating categories

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GS MBS-E-002055478

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Case Study: Super Regional

- **Account Profile:** Super Regional creating billion dollar structured products portfolio
- **Organizational Structure:** Asset purchasing decisions centralized under structured products portfolio management team
- **Portfolio:**
  - Purchased AAA tranche of ABACUS 2005-04
    - Static triple-A CMBS transaction
    - 30 equally weighted triple-A reference obligations
- **Process:** Decision subject to committee review
- **Transaction:**
  - Identified need to incorporate commercial real estate assets to concentrate residential exposure
  - Looked to take levered exposure to portfolio of high quality credits
- **Conclusion:** Unwound trade to capture gains via roll down benefit

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Agenda

Executive Summary [redacted]

Evaluating Asset Classes [redacted]

Cash CDO Overview [redacted]
- Cash Collateralized Debt Obligations (CDOs)
- Cash Collateralized Loan Obligations (CLOs)

Synthetic CDO Overview [redacted]
- Corporate Credit
- Asset Backed Securities (ABS)

Appendix – Disclaimers & Risk Factors V

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GS MBS-E-002055480

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Disclaimer

The information contained herein is confidential information regarding securities that may in the future be offered by ABACUS (the "Issuer"). The information is being delivered to a limited number of sophisticated prospective institutional investors in order to assist them in determining whether they have an interest in the type of securities described herein and is solely for their internal use. By accepting this information, the recipient agrees that it will use and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the securities described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Notwithstanding the foregoing, each recipient (and each employee, representative, or other agent of such recipient) may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the Issuer, the securities described herein and any future offering thereof and the ownership and disposition of such securities and all materials of any kind (including opinions or other tax analyses) that are provided to such recipient relating to such tax treatment and tax structure. However, any such information relating to such tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with any applicable securities laws. For this purpose, the tax treatment of a transaction is the purported or claimed U.S. federal income tax treatment of the transaction, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of the transaction.

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The securities described herein will not be registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction and neither the Issuer nor the pool of securities held by the Issuer will be registered under the Investment Company Act of 1940, as amended. The securities offered herein will not be recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense. The securities described herein will be subject to certain restrictions on transfers as described in the Offering Circular.

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Disclaimer

HYPOTHETICAL ILLUSTRATIONS AND PRO FORMA INFORMATION

These materials contain statements that are not purely historical in nature. These include, among other things, hypothetical illustrations, sample or pro forma portfolio structures or portfolio composition, scenario analysis of returns and proposed or pro forma levels of diversification or sector investment. These hypothetical illustrations of returns illustrate a range of potential outcomes based upon certain assumptions. Such potential outcomes are not a prediction by the Issuer, Goldman Sachs or their respective affiliates of the performance of the securities described herein. Actual events are difficult to predict and are beyond the control of the Issuer, Goldman Sachs or their respective affiliates. Actual events may differ from those assumed and such differences may be material. There can be no assurance that illustrated returns will be realized or materialized or that actual returns or results will not be materially lower than those presented. All statements included are based on information available on the date hereof, and none of the Issuer, Goldman Sachs or their respective affiliates assumes any duty to update any such statement. Some important factors which could cause actual results to differ materially from those in any statements contained herein include the actual composition of the reference portfolio, any Credit Events on the reference portfolio, the timing of any Credit Events and subsequent recoveries, changes in interest rates, any weakening of the specific credits included in the reference portfolio, and the circumstances under which the Portfolio Advisor elects to remove any Credit Risk Reference Obligations, among others. The Offering Circular will contain other risk factors, which an investor should also consider in connection with an investment in the securities described herein.

PRIOR INVESTMENT RESULTS

Any prior investment results or returns are presented for illustrative purposes only and are not indicative of the future returns on the securities and obligations of the Issuer.

Under no circumstances is this presentation to be used or considered as an offer to sell, or a solicitation of any offer to buy, any security. Any such offering may be made only by the Offering Circular. The information contained herein is in summary form for convenience of presentation. It is not complete and it should not be relied upon as such.

No person has been authorized to give any information or to make any representations other than those to be contained in the Offering Circular regarding the offering of any securities described herein. An investment in the securities described herein, when and if offered, will involve substantial risk. Prior to investing, prospective investors should carefully consider the risks, which will be described in the Offering Circular, and should consult their own investment advisors, and tax, legal, accounting and other regulatory advisors. Due to the risks involved in the Securities, investors should be prepared to suffer a loss of their entire investment.

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Risk Factors

PROSPECTIVE INVESTORS SHOULD READ THE OFFERING CIRCULAR FOR A MORE COMPLETE DESCRIPTION OF RISK FACTORS RELEVANT TO A PARTICULAR INVESTMENT

- Purchasing the Securities involves certain risks. Prospective investors should carefully consider the following factors, as well as the risk factors included in the final Offering Circular, prior to purchasing the Securities. The following is not intended to be an exhaustive list of the risks involved in the Transaction.
- The final Offering Circular will include more complete descriptions of the risks described below as well as additional risks. Any decision to invest in the Securities described herein should be made after reviewing the Offering Circular, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the Securities.

Leveraged Credit Exposure to Reference Entities

- Investors will have leveraged exposure to the credit of a number of Reference Entities because the notional amount of the Reference Portfolio is significantly larger than the principal amount of the Notes. Following either (1) the delivery of a Credit Event Notice by Goldman Sachs in relation to a Credit Event with respect to a Reference Entity and the satisfaction of the other Conditions to Settlement or (2) removal of a Credit Risk Reference Obligation by the Portfolio Advisor and the determination of a related Discount Amount, the outstanding principal amount of the investment may be reduced. Investors in the Securities may suffer significant reductions in their outstanding principal amounts. The maximum loss for investors is the full principal amount.

No Legal or Beneficial Interest in Obligations of Reference Entities

- Participation in the Transaction does not constitute a purchase or other acquisition or assignment of any interest in any obligation of any Reference Entity. Neither the Issuer nor investors will have recourse against any Reference Entities. Neither the investors nor any other entity will have any rights to acquire from Goldman Sachs any interest in any obligation of any Reference Entity, notwithstanding any reduction in the principal of the relevant class with respect to such Reference Entity. Neither the Issuer nor any investor will have the benefit of any collateral delivered by any Reference Entity nor any right to enforce any remedies against any Reference Entity.

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Risk Factors

Tax/Regulatory Impact

- There may be a tax or regulatory impact of investing in the Notes. Goldman Sachs does not provide any opinion on these issues. Any investor should consult with its own advisors prior to investing in the Notes.

Limited Liquidity of the Transaction

- There is currently no market for the Securities. There can be no assurance that a secondary market for the Securities will develop or, if a secondary market does develop, that it will provide the holder of the Securities with liquidity, or that it will continue for the life of the Securities. Moreover, the limited scope of information available to the investors regarding the Reference Entities, the nature of any Credit Event, including uncertainty as to the extent of any reduction to be applied to the notional amount of each class if a Credit Event has occurred but the amount of the relevant reduction in the notional amount has not been determined, and the uncertainty regarding any Credit Risk Reference Obligation, including the ability of the Portfolio Advisor to remove such obligations from the reference portfolio at any time and the extent of any reduction to be applied to the notional amount of each class if and when such Credit Risk Reference Obligations is removed, may further affect the liquidity of the Securities. Consequently, any investor in the Securities must be prepared to hold such Securities for an indefinite period of time or until final maturity.

Mark-to-Market Risk

- Investors are exposed to considerable mark-to-market volatility following changes in any of the following: spreads of the credits in the Reference Portfolio, comparable CDO spreads, ratings migration in the reference portfolio, ratings migration of the Securities, ratings migration of the Collateral or issuers or providers thereof, and Credit Events in the Reference Portfolio (and hence reduction of subordination). These will be reflected in mark-to-market valuations which are likely to be more volatile than an equivalently rated unleveraged investment.

Credit Events may vary from Defaults

- Historical default statistics may not capture events that would trigger a Credit Event as specified under the Notes. All Credit Event definitions will be defined in the final legal documents and will be governed by the 2003 ISDA Credit Derivatives Definitions and any amendment or supplement thereto.

Credit Ratings

- Credit ratings represent the rating agencies' *opinions* regarding credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and/or interest payments and do not evaluate the risks of fluctuations in market value. Accordingly, the credit ratings may not fully reflect the true risks of the Transaction. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates.

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Risk Factors

Rating Volatility

- Rating agencies may from time to time change the ratings of the Notes (or the Reference Entities in the portfolio) even if no losses have been incurred under the Notes due to changes in rating methodology or rating migration of the Reference Entities in the portfolio. Due to the leveraged nature of the transaction, the rating may be significantly more volatile than corporate debt with an equivalent credit rating.

Certain conflicts of interest relating to Goldman Sachs and its Affiliates; No reliance

- Goldman Sachs does not provide investment, accounting, tax or legal advice and shall not have a fiduciary relationship with any investor. In particular, Goldman Sachs does not make any representations as to (a) the suitability of purchasing Securities, (b) the appropriate accounting treatment or possible tax consequences of the transaction as described herein (the "Transaction") or (c) the future performance of the Transaction either in absolute terms or relative to competing investments. Investors should obtain their own independent accounting, tax and legal advice and should consult their own professional investment advisor to ascertain the suitability of the Transaction, including such independent investigation and analysis regarding the risks, security arrangements and cash-flows associated with the Transaction as they deem appropriate to evaluate the merits and risks of the Transaction.
- Goldman Sachs may, by virtue of its status as an underwriter, advisor or otherwise, possess or have access to non-publicly available information relating to the Collateral, the issuer(s) thereof, the Reference Entities and/or the obligations of the Reference Entities and has not undertaken, and does not intend, to disclose, such status or non-public information in connection with the Transaction. Accordingly, this presentation may not contain all information that would be material to the evaluation of the merits and risks of purchasing the Securities.
- Goldman Sachs does not make any representation, recommendation or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained herein or in any further information, notice or other document which may at any time be supplied in connection with the Transaction and accepts no responsibility or liability therefore. Goldman Sachs is currently and may be from time to time in the future an active participant on both sides of the market and have long or short positions in, or buy and sell, Securities, commodities, futures, options or other derivatives identical or related to those mentioned herein. Goldman Sachs may have potential conflicts of interest due to present or future relationships between Goldman Sachs and any Collateral, the issuer thereof, any Reference Entity or any obligation of any Reference Entity.
- Goldman Sachs will act as the initial purchaser for all classes of Notes, and affiliates of Goldman Sachs will act as the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider and the Collateral Disposal Agent.

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Risk Factors

Risks Associated with Responsibilities of the Portfolio Advisor

- The exercise of responsibilities of the Portfolio Advisor by the Portfolio Advisor, particularly in the form of credit risk removals affecting the subordination of the Notes, can potentially (a) increase the risk of the investment by reducing the subordination and hence increase the probability of suffering an actual loss from a subsequent removal of a Credit Risk Reference Obligation or a Credit Event, (b) cause a rating downgrade of the Notes or (c) increase the mark-to-market volatility of the Notes.

Certain conflicts of interest relating to the Portfolio Advisor and its Affiliates

- The Portfolio Advisor and its Affiliates may invest or invest for the account of others in debt obligations that would be appropriate as Reference Obligations and/or Collateral Securities and have no duty in making such investments or to act in a way that is favorable to the Issuer or the Noteholders. The Portfolio Advisor and its Affiliates may have economic interests in, or other relationships with, issuers in whose obligations or securities are Reference Obligations and/or Collateral Securities.
- The Portfolio Advisor, its Affiliates or any account managed by any of the foregoing may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of the Portfolio Advisor, its Affiliates or any account managed by any of the foregoing serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer.

Reliance on Creditworthiness of the Collateral

- The ability of the Issuer of the Notes to meet its obligations under the Notes will depend on, amongst other things, the receipt by it of payments of interest and principal from the Collateral. Consequently, investors are exposed not only to the occurrence of Credit Events in relation to any of the Reference Entities and/or the removal of Credit Risk Reference Obligations from the reference portfolio, but also to the ability of the Collateral or the issuer or provider thereof, to perform its obligations to make payments to the Issuer of the Notes. Although at the time of purchase, such Collateral will be highly rated, there is no assurance that such rating will not be reduced or withdrawn in the future, nor is a rating a guarantee of future performance.

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Risk Factors

Creditworthiness of Goldman Sachs

- Premium payments will be required to be made by Goldman Sachs throughout the life of the transaction. Consequently, investors are exposed not only to the occurrence of Credit Events in relation to any of the Reference Entities, but also to the ability of Goldman Sachs to perform its obligations to make payments to the Issuer of the Notes, amongst other secured parties.

Historical Performance does not Predict Future Performance of Transaction

- Individual Reference Entities may not perform as indicated by historical performance for similarly rated credits. Furthermore, even if future credit performance is similar to that of historic performance for the entire market, investors must make their own determination as to whether the Reference Portfolio will reflect the experience of the universe of rated credits. Hence, the frequency of Credit Events experienced under the Notes may be higher than that of historical Credit Event rates, and that of future Credit Event rates for the entire market.
- The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the part investments of any such persons or entities.

Projections, Forecasts and Estimates

- Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions that the Issuer considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Goldman Sachs

GS MBS-E-002055488

From: Tourre, Fabrice
Sent: Wednesday, December 20, 2006 7:19 AM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Paulson

Remember Paulson doesn't really care abt us placing bbb risk. They are mostly looking at higher rated layers of risk

---
Sent from my BlackBerry Wireless Handheld

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Wed Dec 20 07:14:13 2006
Subject: Re: Paulson

Guys I think we need to be more mindful of distribution effectiveness if our goal is to place further down. So not sure aladdin or drcm rank highly. We know that if we show us with gsc or hbk (to name 2) [redacted] is in for 15mm single-As on the wire plus maybe triple-Bs. This does not cannibalize our other distribution because they like those two managers so much. Perhaps we should focus on hbk since we have lower chance to do other stuff with them.

----- Original Message -----
From: Tourre, Fabrice
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Wed Dec 20 06:39:28 2006
Subject: RE: Paulson

Am thinking also Aladdin, DRCM, Greywolf, and... Well, why don't we try GSC as well, I think it's a low delta but might be worth trying. Let's brainstorm so that we can identify a couple of managers that:

-- will be ok acting as portfolio selection agent
-- will not need to take risk
-- will be flexible w.r.t. portfolio selection (i.e. ideally we will send them a list of 200 Baa2-rated 2006-vintage RMBS bonds that fit certain criteria, and the portfolio selection agent will select 100 out of the 200 bonds)
-- will be ok working for at most $[750]k p.a. for 3 years, given a $2bn transaction where we distribute CLNs between 9% attach and 35% detach

-----Original Message-----
From: Tourre, Fabrice
Sent: Wednesday, December 20, 2006 11:31 AM
To: ficc-mtgcorr-desk
Subject: RE: Paulson

Agreed. Do we want to talk to Investec or TCW about this ? Trying to figure out what manager it makes sense to talk to... If you guys are ok, Gerstie and I will flash this idea by Loggins and/or Lalou/Pentreath to see if this makes sense

-----Original Message-----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2496

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From: Williams, Geoffrey
Sent: Tuesday, December 19, 2006 5:48 PM
To: Tourre, Fabrice; Egol, Jonathan; Gerst, David; ficc-mtgcorr-desk
Subject: RE: Paulson

There are more managers out there than just GSC / Faxtor. The way I look at it, the easiest managers to work with should be used for our own axes. Managers that are a bit more difficult should be used for trades like Paulson given how axed Paulson seems to be (i.e. I'm betting they can give on certain terms and overall portfolio increase).

-----Original Message-----
From: Tourre, Fabrice
Sent: Monday, December 18, 2006 5:30 PM
To: Egol, Jonathan; Williams, Geoffrey; Gerst, David; ficc-mtgcorr-desk
Subject: Re: Paulson

Do you think gsc is easier to work with than faxtor ? They will never agree to the type of names paulson want to use, I don't think steffelin will be willing to put gsc's name at risk for small economics on a weak quality portfolio whose bonds are distributed globally

---
Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Williams, Geoffrey; Gerst, David; ficc-mtgcorr-desk
Sent: Mon Dec 18 16:49:15 2006
Subject: Re: Paulson

Guys -- we should be suggesting GSC

----- Original Message -----
From: Williams, Geoffrey
To: Gerst, David; ficc-mtgcorr-desk
Sent: Mon Dec 18 12:48:00 2006
Subject: RE: Paulson

We already have a portfolio in front of Faxtor; they probably will be willing to structure a short that I believe we would want to keep for ourselves...not sure if this is the best fit.

From: Gerst, David
Sent: Monday, December 18, 2006 12:44 PM
To: Gerst, David; ficc-mtgcorr-desk
Subject: RE: Paulson

Spoke with Fabrice about this - he suggested Faxtor as a potential portfolio selection agent since they are relatively inexpensive and easy to work with.

From: Gerst, David
Sent: Monday, December 18, 2006 9:33 AM
To: ficc-mtgcorr-desk
Subject: Paulson

Paolo called to check in; he was concerned that his comments to the engagement letter had delayed us. I told him that the delay was still related to market conditions and deals in the pipelines and that we still needed to discuss his proposals with legal and rating agencies.

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Paolo also suggested that he was open to the use of a manager to select a portfolio and including some higher-rated names in the portfolio.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

Goldman

S

achs

David Gerst
Structured Products Trading

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

0001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. HO-10911-A
ABACUS 2007 AC-1)

WITNESS: Fabrice Tourre
PAGES: 1 through 177
PLACE: Securities and Exchange Commission
100 F Street, NE, Room 4280
Washington, D.C. 20549
DATE: Tuesday, March 3, 2009

The above-entitled matter came on for hearing, pursuant to notice, at 10:18 a.m.

Diversified Reporting Services, Inc.
(202) 467-9200

0002

APPEARANCES:

On behalf of the Securities and Exchange Commission:
CREOLA KELLY, ESQ.
JASON M. ANTHONY, ESQ.
JEFF LEASURE
REID MUOIO
Division of Enforcement
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549
(202) 551-4408

On behalf of the Witness:
RICHARD KLAPPER, ESQ.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2497

[redacted]

Sullivan & Cromwell, LLP
125 Broad Street
New York, New York 10004-2498
(215) 558-3555

JANET BROECKEL, ESQ.
Goldman, Sachs & Co.
One New York Plaza
New York, New York 10004
(212) 902-9690

0003

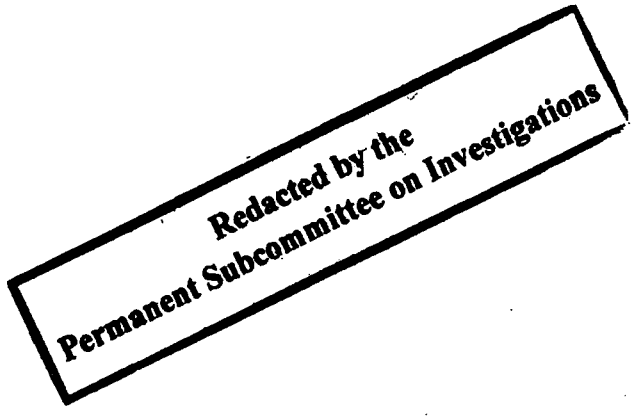
APPEARANCES (Cont.):

Also Present:
Jay Lee, SEC Intern

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

[redacted]



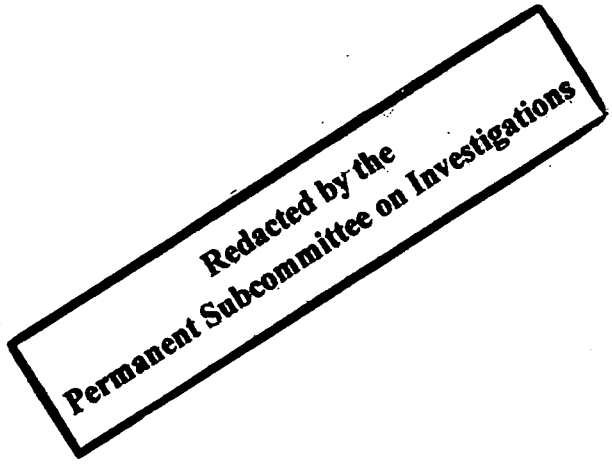
Q Could you again just tell us how those names were pulled together?
A Okay. They were pulled together by, you know, through discussions, through a variety of discussions between our desk, myself specifically, and Paulson and Paolo Pelligrini and Sihan, looking at, you know, securities issued, you know, since the beginning of 2006, which had specific, you know, criteria or specific concentrations in mortgages from, you know, interest-only mortgages to, you know, mortgages with a certain loan-to-value ratio, et. cetera.

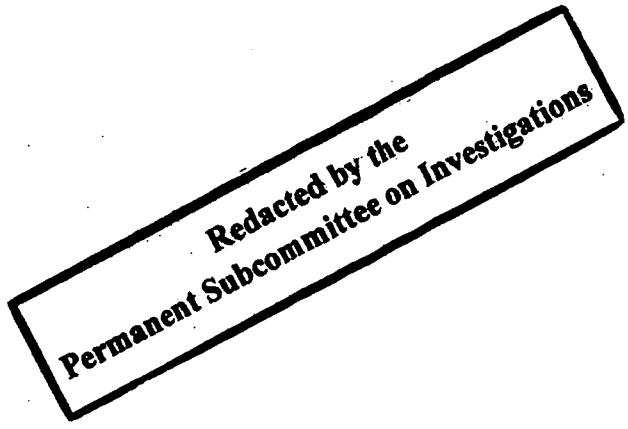
BY MR. ANTHONY:

Q And in trying to sort of narrow this universe down, what were you looking for? Sort of what was the ultimate end to try to use these characteristics to find?
A We didn't narrow it down. We basically took the entire universe of subprime RMBS and applied a couple filters and that was it.
Q Okay.
A There was no narrow down.
Q And these filters were designed to do what?
A Well, I believe at that time that Paulson felt that these obligations or these type of characteristics may, you

[redacted]

know, be, you know, weaker from the credit quality standpoint than other obligations that did not have those characteristics.





Q In this introductory paragraph, I guess you summarize the transaction and the offering to Paulson as protection, and the last sentence reads, Through this arrangement, Goldman is effectively working an order for Paulson to buy protection on specific AC-1 capital structure at or inside specific spread levels.

What did you mean by that?

A I m sorry. Where did you --

Q The last sentence.

A Last sentence. I think the order here is not used as a sort of legal concept but more the fact that Paulson had given us the inquiry to actually buy protection on layers of risk so that it would lead to our obligations and we were working towards, you know, hedging our risk by, you know, reoffering that risk in the market.

Q It says, At or inside specific spread levels. What s that mean?

A That means that Paulson had, you know, pricing

objectives. They were comfortable buying protection only to the extent that the spreads they were paying were less than a certain level.

BY MR. LEASURE:

Q So did you have to match the spreads that Paulson was willing to pay with the spreads at which the CDO liabilities would be priced?

A No. In fact, I think the -- I mean, we bought protection at certain spread levels and we reoffered at different spread levels to --

BY MR. ANTHONY:

Q But your profit was the difference between those two, right?

A The profit was the difference between those two. I want to say no, because, as I mentioned, Goldman Sachs was not losing money on these transactions.

Q Well, I mean conceivably, right? And I think that point, you know, I think we ve yet to establish that definitively, but it s your testimony.

But, I mean, you obviously didn t go into this transaction with the intention of losing money, right? So the way in which you believed you would make money on this transaction was by offering a protection to Paulson at one spread and offering the protection in the market at a higher spread and keeping the difference, is that right?

A The opposite way around. I think, you know, when you say offering protection --

Q I m sorry. Yes, you re right.

A Yes, so there was -- as far as I remember, when we were buying protection from the market, you know, we were hoping to reoffer that protection to Paulson at a wider spread. It may have been at some point some, you know, formula at which, you know, we were discussing at which level we were going to reoffer that protection, but I don t remember the specifics of that.

Redacted by the
Permanent Subcommittee on Investigations

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)

) File No. HO 10911 A

ABACUS CDO 2007 AC)

WITNESS: Paolo Pellegrini

PAGES: 1 through 207

PLACE: Securities and Exchange Commission

3 World Financial Center

New York, New York 10281

DATE: Wednesday, December 3, 2008

The above entitled matter came on for hearing, pursuant to notice, at 10:11 a.m.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2501

Diversified Reporting Services, Inc.

(202) 467 9200

APPEARANCES:

On behalf of the Securities and Exchange Commission:

JASON ANTHONY, Branch Chief

REID A. MUOIO, ESQ.

JEFFREY LEASURE, ESQ.

N. CREOLA KELLY, ESQ.

Division of Enforcement

Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549

On behalf of the Witness:

BENITO ROMANO, ESQ.

MEILIN KWUN GETT, ESQ.

Wilkie, Farr & Gallagher

787 7th Avenue, #2

New York, New York 10019

(212) 728 8574

STUART L. MERZER, ESQ.

Senior Vice President

Paulson & Co., Inc.

1251 Avenue of the Americas

50th Floor

New York, New York 10020

(212) 956 2054

Also Appearing:

THANUS STEVENSON, Notary Public

Unsigned

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Permanent Subcommittee on Investigations

Q Well, we've alluded to the Abacus earlier. I wanted to sort of see if you could just tell us about the Abacus 2007 AC 1 deal. Just walk us through how it started and what you know about it.

A I mean essentially it's the same idea. We had Credit Opportunity II, and we needed to sort of buy protection for Credit Opportunities II. We looked at what was available in the market and what Goldman told us what they would be able to do; a deal similar to the deal we had done in 2006. But they needed to have a collateral selection agent.

And essentially the idea was that even though we didn't want to have the type of sort of expense and sort of complication of a managed deal, Goldman felt that they would be more comfortable if there was a CDO manager who selected the initial portfolio with us so that there was a little more sort of due diligence done rather than simply relying on the blanket criteria that we had been able to rely on in the past.

BY MR. ANTHONY:

Q What difference did it make to Goldman? Why did they want this?

A Well I think it was a marketing issue. So it was a matter of from what I understood, sort of investors feeling more comfortable if they had a collateral selection agent than if they didn't.

BY MS. KELLY:

Q How did you come to that understanding?

A Because the told me.

Q Who?

A I presume Fabrice.

Q Did he mention any particular investors or just generally investors would want an agent? A portfolio selection agent.

A He never mentioned any particular investors. So let's say it was a matter of sort of investors at that point in time given market conditions. So it would be a general statement.

BY MR. ANTHONY:

Q What was it about how the market had changed that sort of made this more important?

A Well people were sort of not as sure that subprime was going to do as well as they thought it was going to do sort of a few months earlier. So it was harder with the

securities.

Q Then how did the inclusion of a collateral selection agent change that?

A Well because essentially having a collateral selection agent would mean that there is somebody with a reputation in the business looking at the securities and essentially agreeing to the composition of the portfolio. So I assume if you were an investor, you would take some comfort in that.

BY MR. MUOIO:

Q Now Fabrice's last name is Tourre.

A T O U R R E.

Q And did you discuss with Mr. Tourre how you and the collateral selection agent would sort of collaborate in choosing the reference portfolio? What that process would be?

A Not sort of in any formal way.

Q In any way? I mean how the two of you would work together?

A I mean basically I think we had already submitted a target portfolio. So they would comment, say what they wanted to take out, take their comments and make counterproposals. It would be like an interview process until we got a portfolio that we were all satisfied with.

Q Is this the first time you sort of done something

like that?

A Yes.

Q And again, this was an idea that you came up with or that Mr. Tourre came up with?

A I think it was an idea that he came up with. I think it was just a general sort of trend in the market. Because people kind of liked the idea of sort of portfolio of subprime mortgages, liked the idea of static portfolios and sort of like felt that there was still some value that could be provided by traditional sort of CDO managers by helping select the initial portfolio.

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Q I get that. But then at some point I think, if I understood you correctly this morning, Mr. Tourre suggested that it would be easier to market or to find sort of a counterparty to your short trade if there was a portfolio selection agent involved. Right?

A Right.

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Permanent Subcommittee on Investigations

Q Did you ever have any sort of engagement letter with Goldman that described the mechanism for your short position?

A Yes. So I happened to have seen recently the engagement letter for the first Abacus trade. I don't believe there was an engagement letter for the second Abacus trade.

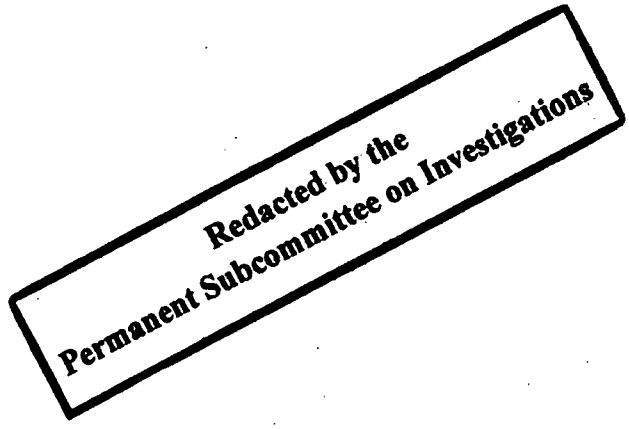
Q Why is that?

A Because Goldman got sort of comfortable that sort of it would execute. You know, they sort of didn't feel the need to formalize an engagement letter.

Q So did Goldman and Paulson & Co. have any discussions about or back and forth in terms of the language of an engagement letter at all with respect to the ACA AC 1 deal?

A Sort of for the ACA transaction I'm not sure. I'm not sure. I mean we definitely discussed the parameters of their compensation. So we had sort of a strike level for the sort of premium that we would pay on the different traunches. And there was sort of a formula that tied their compensation to sort of kind of the spread that they sort of presented to or that they would present to us. Frankly, whether they did achieve those spreads or different spreads. So once we kind of agreed on those parameters, I think they were containing some Excel files. I think that that was pretty much all that

was involved in the sort of discussion of fees for Goldman on this transaction.





Q You've just been handed what's been marked Exhibit 29. For the record, I'll identify it as a one page document Bates stamped Paulson Abacus 254458. It's an e mail from you to Sihan Shu and Rob Lerner. The subject line is "Priority Task". What is this e mail? Or what is Exhibit 29?

(Exhibit No. 29 was marked for identification.)

A It's just sort of asking them to come up with a portfolio, as I described to you earlier, of RMBS securities issued in 2006 with more than 80% adjustable rate mortgages and with a weighted average FICO score between 600 and 650. And finally, with a deal size in excess of $750 million. And

the previous comment is that we got 111 million of subscriptions, so we needed to sort of buy protection to essentially invest that 111 million. And so we needed to put out a list of offers wanted in competition in addition to sending out the sort of list of obligation for sort of potential CDO similar to the one with that was later done with ACA and send them to Cohen. They are sort of three CDO managers.

Q So was this for a different deal than the one that ACA ended up being the portfolio selection agent? Or were they intentioned to be the portfolio selection agent for the Abacus deal?

A To tell you the truth, I forget now. Because I think that Cohen is actually both a broker dealer and a CDO manager. And sort of there was some sort of conversation to each of us following up. I think that Petra is one of the CDO managers to whom we were introduced by Merrill Lynch. And finally Tricadia is a unit of Mariner where I worked. And so I sent them sort of a proposed portfolio.

BY MR. ANTHONY:

Q Now this $111 million I think that you had talked about a number of times on the Opportunity Fund II was. With this much money would you be doing one CDO? Two CDOs?

A I think that this was kind of like you know, basically the idea is that with the $111 million we would be

able to spend approximately 12% of that. So there would be $13 million. So sort of any kind of transaction where the cost of protection was less than $50 million a year would sort of be feasible with this kind of money.

Q And just for the you know, a billion dollars at 120 something basis points was your average cost of protection I think Abacus. Is that right? Roughly.

A I don't remember. It sounds like a reasonable number.

Q You know, 10, $12 million a year for a billion dollars of protection?

A Yes.

Q So then this implies that there is enough is subscriptions for only one billion dollar CDO?

A Yes.

Q So is it fair to then say that here you're looking for someone it roughly looks like it was the same time that you were talking to Goldman. So you're talking to a number of people about doing one CDO?

A Yes.

Q And then what was it that had you go with Goldman and ACA over Cohen, Petra, Tricadia, Merrill Lynch, Morgan Stanley, Deutsche Bank?

A As I said, ACA was the only one that kept going. These kind of fell by the wayside.

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Q You had testified earlier that it was Goldman's idea to have a portfolio selection agent, correct?

A Right.

Q And you just as well could have done without one. Correct?

A Absolutely. Yes.

Q So why would you care if ACA relied on your analysis as opposed to their own?

A Well because I think that if they sort of relied on our analysis essentially it would place some responsibility on us.

BY MR. MUOIO:

Q Your portfolio analysis was designed in large part to identify bonds that weren't going to perform, right?

A Right.

Q Because you wanted to short those bonds?

A Right.

Q And as far as you were aware, the focus of ACA's analysis of the portfolio was different, right?

A Exactly.

Q In fact, their aim was in many ways opposite your's?

A It was exactly opposite our's.

Q They were trying to identify bonds that in their view were going to perform.

A Exactly.

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From: Tourre, Fabrice
Sent: Wednesday, December 20, 2006 6:39 AM
To: Tourre, Fabrice; ficc-mtgcorr-desk
Subject: RE: Paulson

Am thinking also Aladdin, DRCM, Greywolf, and... Well, why don't we try GSC as well, I think it's a low delta but might be worth trying. Let's brainstorm so that we can identify a couple of managers that:

-- will be ok acting as portfolio selection agent
-- will not need to take risk
-- will be flexible w.r.t. portfolio selection (i.e. ideally we will send them a list of 200 Baa2-rated 2006-vintage RMBS bonds that fit certain criteria, and the portfolio selection agent will select 100 out of the 200 bonds)
-- will be ok working for at most $[750]k p.a. for 3 years, given a $2bn transaction where we distribute CLNs between 9% attach and 35% detach

-----Original Message-----
From: Tourre, Fabrice
Sent: Wednesday, December 20, 2006 11:31 AM
To: ficc-mtgcorr-desk
Subject: RE: Paulson

Agreed. Do we want to talk to Investec or TCW about this ? Trying to figure out what manager it makes sense to talk to... If you guys are ok, Gerstie and I will flash this idea by Loggins and/or Lalou/Pentreath to see if this makes sense

-----Original Message-----
From: Williams, Geoffrey
Sent: Tuesday, December 19, 2006 5:48 PM
To: Tourre, Fabrice; Egol, Jonathan; Gerst, David; ficc-mtgcorr-desk
Subject: RE: Paulson

There are more managers out there than just GSC / Faxtor. The way I look at it, the easiest managers to work with should be used for our own axes. Managers that are a bit more difficult should be used for trades like Paulson given how axed Paulson seems to be (i.e. I'm betting they can give on certain terms and overall portfolio increase).

-----Original Message-----
From: Tourre, Fabrice
Sent: Monday, December 18, 2006 5:30 PM
To: Egol, Jonathan; Williams, Geoffrey; Gerst, David; ficc-mtgcorr-desk
Subject: Re: Paulson

Do you think gsc is easier to work with than faxtor ? They will never agree to the type of names paulson want to use, I don't think steffelin will be willing to put gsc's name at risk for small economics on a weak quality portfolio whose bonds are distributed globally

---
Sent from my BlackBerry Wireless Handheld

----- Original Message -----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2502

Confidential Treatment Requested by Gol

From: Egol, Jonathan
To: Williams, Geoffrey; Gerst, David; ficc-mtgcorr-desk
Sent: Mon Dec 18 16:49:15 2006
Subject: Re: Paulson

Guys -- we should be suggesting GSC

----- Original Message -----
From: Williams, Geoffrey
To: Gerst, David; ficc-mtgcorr-desk
Sent: Mon Dec 18 12:48:00 2006
Subject: RE: Paulson

We already have a portfolio in front of Faxtor; they probably will be willing to structure a short that I believe we would want to keep for ourselves...not sure if this is the best fit.

From: Gerst, David
Sent: Monday, December 18, 2006 12:44 PM
To: Gerst, David; ficc-mtgcorr-desk
Subject: RE: Paulson

Spoke with Fabrice about this - he suggested Faxtor as a potential portfolio selection agent since they are relatively inexpensive and easy to work with.

From: Gerst, David
Sent: Monday, December 18, 2006 9:33 AM
To: ficc-mtgcorr-desk
Subject: Paulson

Paolo called to check in; he was concerned that his comments to the engagement letter had delayed us. I told him that the delay was still related to market conditions and deals in the pipelines and that we still needed to discuss his proposals with legal and rating agencies.

Paolo also suggested that he was open to the use of a manager to select a portfolio and including some higher-rated names in the portfolio.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

Goldman

S

achs

David Gerst
Structured Products Trading

Confidential Treatment Requested by Goldman Sachs

From: Tourre, Fabrice
Sent: Tuesday, January 09, 2007 6:21 PM
To: Kreitman, Gail
Cc: Gerst, David; ficc-mtgcorr-desk
Subject: For ACA

Gail: just a summary of ACA's role as "Portfolio Selection Agent" for the transaction that would be sponsored by Paulson (the "Transaction Sponsor"). Feel free to let David and I know if you have any questions.

-- CDO Transaction Size: between $1bn and $2bn notional
-- Reference Portfolio: static, fully identified upfront, and consisting of approx 100 equally-sized mezzanine subprime RMBS names issued between Q4 2005 and today. Starting portfolio would be ideally what the Transaction Sponsor shared, but there is flexibility around the names.
-- Portfolio monitoring required: none
-- Portfolio reinvestments required: none
-- Portfolio Selection Agent would be disclosed as having selected the Reference Portfolio
-- Portfolio Selection Agent would not be required to retain any risk in the CDO transaction, although it would have the option to buy CDO notes/unfunded swaps that will be distributed in the market.
-- Most likely no BWICs required to be run by the Portfolio Selection Agent
-- Timing: the Transaction Sponsor is working under the assumption that Goldman be in the market with this transaction early February

Contemplated Capital Structure -- subject to Reference Portfolio:

- [34]% - [100]%: unfunded supersenior tranche distributed to a supersenior protection writer
- [22]% - [34]%: Aaa/AAA class A tranche distributed broadly on a best efforts' basis by Goldman
- [15]% - [22]%: Aa2/AA class B tranche distributed broadly on a best efforts' basis by Goldman
- [9]% - [15]%: A2/A class C tranche distributed broadly on a best efforts' basis by Goldman
- [0]% - [9]%: pre-committed first loss

-- Economics: for transactions like this, where the Portfolio Selection Agent is not required to retain any risk, we have seen fees in the order of 15bps to 20bps paid on the portfolio notional amount. For example, for the Magnetar-sponsored trade (ACABS 2006-AQA) for which ACA acted as portfolio manager, ACA was paid 10bps senior and 10bps subordinated (i.e. at risk fees, just above the equity) on the portfolio notional amount. In the context of this transaction, ACA should be thinking about getting paid fees in the lower end of what they have received in the past for Magnetar-like transactions, since there is no management requirement and the transaction size is likely going to be larger than for a Magnetar transaction. In the context of this transaction, the portfolio selection fees will be paid in the form of a spread on the outstanding amount of the class A through class C tranches. For example, if the Portfolio Selection Agent was asking to be paid:

- Class A Portfolio Management Fee: 0.25% p.a. (the tranche is [12]% thick)
- Class B Portfolio Management Fee: 0.50% p.a. (the tranche is [7]% thick)
- Class C Portfolio Management Fee: 1.00% p.a. (the tranche is [6]% thick)

This would mean that if Goldman is able to distribute 100% of the class A, class B and class C notes, the Portfolio Selection Agent would, on a blended basis, receive 0.125% p.a. on the portfolio notional. This compensation structure aligns everyone's incentives: the Transaction Sponsor, the Portfolio Selection Agent and Goldman.

-- The Transaction Sponsor is in discussions with a couple of potential CDO managers, and will work with the manager who will provide the most appealing economic proposal and will be able to address all the stated objectives.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2503

From: Tourre, Fabrice
Sent: Thursday, January 04, 2007 8:32 PM
To: Sparks, Daniel L
Cc: Lehman, David A.; Ostrem, Peter L; Gerst, David
Subject: Paulson post

Dan -- per our discussion, we reached out GSC, Greywolf and ACA today re: acting as portfolio selection agent for a Paulson-sponsored trade.

1- GSC: Ed Steffelin and Josh Bissu at GSC are interested in meeting with the Paulson guys, this is likely going to happen tomorrow afternoon.

2- Greywolf: Mount and Marconi need to discuss whether the opportunity we are presenting to them is something they are interested in looking at, they are supposed to get back to me tomorrow.

3- ACA: Laura Schwartz at ACA is also interested in meeting them, this is likely going to happen early next week

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2507

Confidential Treatment Requested by Gold

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

In the Matter of:)

) File No. HO-10911-A

ABACUS CDO 2007-AC)

WITNESS: Sihan Shu

PAGES: 1 through 123

PLACE: Securities and Exchange Commission

3 World Financial Center

New York, New York 10281

DATE: Thursday, December 4, 2008

The above-entitled matter came on for hearing, pursuant to notice, at 10:07 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

APPEARANCES:

On behalf of the Securities and Exchange Commission:

JASON ANTHONY, Branch Chief
REID A. MUOIO, ESQ.
JEFFREY LEASURE, ESQ.
N. CREOLA KELLY, ESQ.
Division of Enforcement
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

On behalf of the Witness:

MEILIN KWUN-GETT, ESQ.
Wilkie, Farr & Gallagher
787 7th Avenue -- #2
New York, New York 10019
(212) 728-8574
STUART L. MERZER, ESQ.
Senior Vice President
Paulson & Co., Inc.
1251 Avenue of the Americas
50th Floor
New York, New York 10020
(212) 956-2054

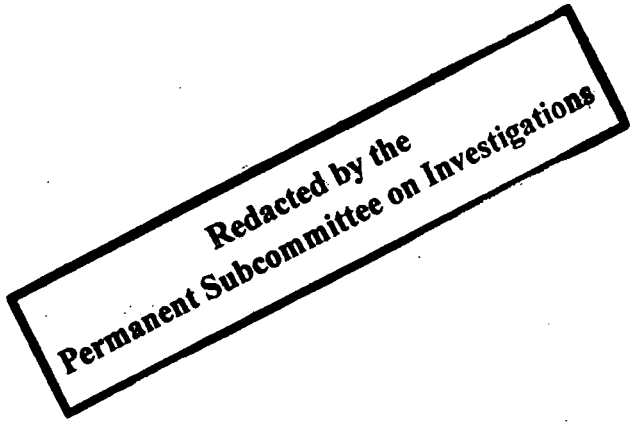
Also Appearing:

THANUS STEVENSON, Notary Public

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Q And who selected the 90 reference credits?

A We worked with Goldman in selecting, negotiating what mortgage backed securities we'd like to buy protection on.

Q And what was your role in that?

A I performed a collateral analysis on those reference obligations.

Q Can you explain that a little bit further?

A I basically used the same database I mentioned earlier-- Bloomberg, Loan Performance and Index -- to look at the collateral characteristics and collateral performance of these mortgage backed securities and to make selections to

decide on which mortgage credit we believe will under perform in the future is subject to higher default rates in the future.

Q And what were the primary criteria that you were looking for?

A The primary criteria (1) we would like to buy protection on mortgage bonds with higher concentration in California, Florida, Arizona, Nevada which we believe are a bigger housing bubble than other areas in the country. We'd like to buy protection on mortgage bonds with a higher hybrid mortgage percentage. Because we believe these borrowers when their mortgage resets there will be a payment chunk.

Q Are you talking about adjustable rate mortgages?

A Adjustable rate mortgages. Yes.

Q You called them something else.

A It's called hybrid because it's fixed for a couple of years and then becomes floating.

Q Okay.

A So it's also called hybrid. But it is adjustment rate mortgages. Yes.

Q We'd like to buy protection on mortgage bonds with high percentage of limited documentation. Some borrowers can prove their income when they apply for the mortgage, some borrowers cannot. So we like to buy protection on mortgage

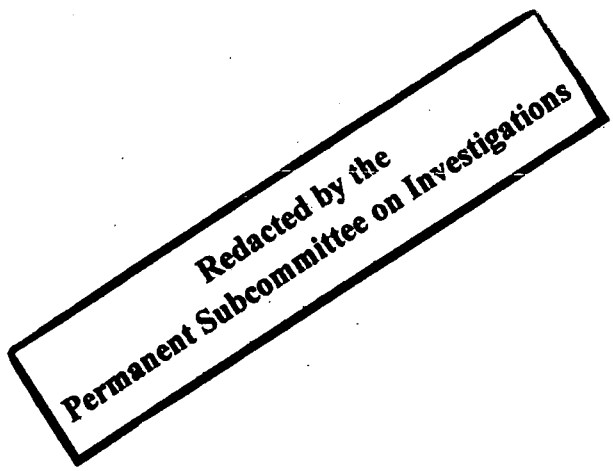
bonds where you have a higher limited documentation percentage.

Q. And what was the end result of this analysis?

A The end result of the analysis is we picked some bonds we'd like to protection on.

Q How many?

A In Abacus CDO we have 90 bonds.



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DRAFT 1/3/2007

CONFIDENTIAL

Deleted: December [ ], 2006¶

January [ ], 2007

Paulson Credit Opportunities Master Ltd.
c/o Paulson & Co. Inc.
590 Madison Avenue, 29th Floor
New York, NY 10022

Dear Sirs:

This letter (the "**Letter Agreement**"), when countersigned by you, will confirm that Paulson Credit Opportunities Master Ltd. (Paulson Credit Opportunities Master Ltd., together with its affiliates, "**PCO**") has retained Goldman, Sachs & Co. to (1) purchase credit protection on the Targeted Tranches of a portfolio of residential mortgage backed securities (each, a "**Reference Obligation**", and collectively, the "**Reference Portfolio**"), through one or more credit default swaps (each a "**Back-to-Back CDS**") between Goldman and certain counterparties (each such counterparty, a "**Back-to-Back Protection Seller**") and/or through the offering of multiple tranches of secured securities (such securities, the "**Notes**") of a synthetic resecuritization (the "**CDO**") that are expected to be issued from a special purpose company (the "**Issuer**") and (2) simultaneously sell to PCO, subject to the provisions of Paragraph 10, credit protection through one or more credit default swaps between PCO and Goldman (each, a "**PCO CDS**") matching each Back-to-Back CDS and/or Issuer CDS (except to the extent described in this Letter Agreement). For the purpose of this Letter Agreement, "**Goldman**" means Goldman, Sachs & Co. or any of its affiliates, provided however, that Goldman Sachs & Co. will guaranty the performance of this agreement by any such affiliate. Capitalized terms used herein and not otherwise defined have the meanings assigned to such terms in Annex B attached hereto.

The final terms and conditions of any Notes issued in connection with the CDO and the final terms and conditions of any Back-to-Back CDS will be set forth in complete documentation suitable in form and substance to Goldman and PCO.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2515

FOIA Confidential Treatment Requested by

1. Services of Goldman. It is currently contemplated that, in connection with the CDO, the Issuer will undertake one or more offerings and/or placements of securities (each an "**Offering**", the first such Offering, the "**Initial Offering**", and the securities placed, the "**Notes**"), pursuant to Regulation S and/or Rule 144A, as the case may be, under the Securities Act of 1933, as amended, in the United States or otherwise. It is agreed that Goldman, subject to the conditions herein, will be offered the right to act as the sole book-running lead manager and/or lead placement agent in each Offering. If Goldman agrees to act in such capacity, the Issuer and Goldman will enter into an appropriate form of underwriting, placement agency or other agreement relating to the type of transaction involved and containing customary terms and conditions, including provisions relating to our indemnity. Except to the extent that Goldman may separately commit in such an underwriting, placement agency or other agreement to purchase securities, there is no understanding or obligation, expressed or implied, on Goldman's part of a commitment by Goldman to act as underwriter or placement agent with respect to an Offering or to purchase or place any securities in connection therewith and that any securities will be placed on a best efforts basis. Goldman's execution of such underwriting, placement agency or other agreement will be subject in its complete discretion to, among other things, mutual agreement as to the underwriting and offering documentation and terms, satisfactory completion of its due diligence investigation, its internal approval processes and, of course, market conditions.

   In addition, there is no understanding or obligation, expressed or implied, on Goldman's part of a commitment by Goldman to enter into any Back-to-Back CDS and Goldman will only enter into such Back-to-Back CDS on a best efforts basis. Goldman's execution of any documentation related to a Back-to-Back CDS will be subject in its complete discretion to, among other things, mutual agreement as to the documentation and terms, its internal approval processes and, of course, market conditions.

   Subject to paragraph 8 of this Letter Agreement, the timing, amount and other terms of any issuance of the Notes or Goldman's entry into any Back-to-Back CDS shall be determined by Goldman in its sole discretion. Goldman agrees to consult with PCO regarding the timing of such issuance of the Notes or Goldman's entry into any Back-to-Back CDS. PCO agrees to promptly provide Goldman with all relevant information regarding the timing, status or other aspects of any other CDO transactions which may have a bearing on the marketing of the Notes or Goldman's ability to enter into any Back-to-Back CDS.

2. Contemplated Offering. We understand, in connection with the CDO, that when the Issuer offers Goldman the right to act as the sole underwriter and/or sole placement agent in accordance with Paragraph 1 of this Letter Agreement, Goldman expects, subject to, among other things, the satisfactory completion of due diligence and the terms and conditions set forth in one or more placement agency agreements or other appropriate form of documentation, that it will purchase the securities issued as part of the Offering and offer them to prospective purchasers at a price to be agreed upon at the time of execution of such agreement.

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FOIA Confidential Treatment Requested by Paulson & Co.

The appointment of any co-managers in respect of any Offering will be subject to prior consent by Goldman.

As stated in Paragraph 1 above, PCO understands that until any such related placement or other agreement is signed, Goldman is not under any obligation, express or implied, to purchase or place securities in connection herewith. Goldman understands that the Issuer is under no obligation, express or implied, to complete an Offering until any such related placement or other agreement is signed.

In addition, as stated in Paragraph 1, PCO understands that until any such related documentation is signed, Goldman is not under any obligation, express or implied, to enter into any Back-to-Back CDS in connection herewith.

3. Issuer and its Structure; Additional Roles of Goldman. In connection with the Initial Offering of the CDO, it is anticipated that Goldman will enter into several agreements with the Issuer, including (i) a credit derivative transaction (the "**Issuer CDS**"), (ii) a basis swap transaction (the "**Basis Swap**"), (iii) a collateral put agreement (the "**Collateral Put**"), (iv) a collateral disposal agreement (the "**Collateral Disposal Agreement**") and (v) a portfolio selection agency agreement (if any).

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Pursuant to the Issuer CDS, it is anticipated, among other things, that:

- Goldman Sachs Capital Markets (or an affiliate thereof) will act as protection buyer (the "**Protection Buyer**"), buying protection on all or a portion of the Targeted Tranches;

- The Protection Buyer will make premium payments to the Issuer on an actual/360 day count convention on the notional amount of such Issuer CDS corresponding to the stated spread over the benchmark index for each Class of Notes, as reduced from time to time upon (1) principal repayments on any Reference Obligation (to the extent the cumulative principal repayments exceed one minus the Exhaustion Point (as set forth in Annex B) of the related Targeted Tranche immediately prior to such determination), (2) Credit Events with respect to any Reference Obligation (to the extent the cumulative Loss Amounts exceed the related Targeted Tranche Attachment Point (as set forth in Annex B) immediately prior to such determination), and (3) any Partial Optional Redemption or optional redemption in whole of the Notes);

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- The notional amount of each tranche will be reduced in sequential order of priority in connection with the amortization of the Reference Portfolio and the notional amount of each tranche will be reduced in reverse sequentially order of priority in connection with Credit Events related to the Reference Portfolio;

FOIA Confidential Treatment Requested by Paulson & Co.

- The Protection Buyer will make an upfront payment to the Issuer in order to cover, among other things, upfront expenses as described in paragraph 6 of this agreement;

- The Issuer will use the proceeds received from the issuance of the Notes to invest in senior triple-A structured product securities (the "**Collateral Securities**") and eligible investments ("**Eligible Investments**") (collectively, the "**Collateral**") selected by the Protection Buyer. Any principal repayments on Collateral will be reinvested into replacement Collateral selected by the Protection Buyer and meeting the applicable criteria specified in the Issuer CDS;

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- The Protection Buyer will make ongoing payments to the Issuer covering ongoing transaction administrative expenses and any Portfolio Selection Agent Fees;

- "Failure to Pay Principal" and "Writedown" (as defined in a manner consistent with the current form of the Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Dealer Form**")) will be the sole credit events (the "**Credit Events**") under the CDO governing documents;

- A loss amount (a "Loss Amount") shall be determined following the occurrence of a Credit Event. Such Loss Amount will be equal to (a) the related "Writedown Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Writedown and (b) the related "Principal Shortfall Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Failure to Pay Principal;

- Following a Credit Event, the Protection Buyer will receive a cash settlement amount equal to the amount by which the related Loss Amount reduces the notional amount of the Targeted Tranche;

- There will be no discretionary substitution, reinvestment or replacement of Reference Obligations;

- The Protection Buyer will be sole notifying party of a Credit Event;

- The Protection Buyer, in its sole discretion, will have the right to terminate (with no termination payment payable by the Protection Buyer) portions of the Issuer CDS related to the classes of Notes on any Payment Date occurring after the date that is specified in the indenture or related pricing supplement (in each case, the "**Applicable Non-Call Period**" and any such redemption, a "**Partial Optional Redemption**"), and the Notes redeemed in connection with any such Partial Optional Redemption will be redeemed at par; for the avoidance of doubt, based on market conditions, Goldman, in its

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sole discretion, will have the right to cause the Issuer to issue Notes with Non-Call Periods longer than the Non-Call Period described above;

- The Protection Buyer shall be the calculation agent; and
- Termination payments payable to the Protection Buyer will be subordinated to payment of principal of the related Notes solely in the event of a termination of the Issuer CDS (i) in respect of which the Protection Buyer is the "Defaulting Party" (as such term is defined in the Issuer CDS) or (ii) for which the Protection Buyer was the sole "Affected Party" (as such term is defined in the Issuer CDS) (other than in connection with a "Tax Event" or "Illegality", in each case as defined in the Issuer CDS).

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The Reference Obligations is expected to be selected according to the following criteria (the "**Portfolio Selection Criteria**") and the final Reference Portfolio will be subject to the mutual agreement of Goldman and PCO:

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(i) each Reference Obligation will have the same initial reference obligation notional amount;

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(ii) the Reference Portfolio will contain at least [100] distinct Reference Obligations;

(iii) each Reference Obligation must have been issued after [March 1], 2006;

(iv) as of the time of selection, each Reference Obligation must have an explicit rating of "Baa2" by Moody's;

(v) as of the time of selection, each Reference Obligation must have an actual public rating by Moody's and S&P, and such actual public rating by S&P must be no lower than ["BBB"];

(vi) no Reference Obligation may have been issued by the same Reference Entity as any other Reference Obligation included in the Reference Portfolio;

(vii) the weighed average FICO score of the aggregate original collateral pool securing such Reference Obligation must be (a) greater than or equal to [600] and (b) less than or equal to [675];

(viii) the original aggregate principal amount of collateral securing such Reference Obligation must be greater than or equal to $[500,000,000]; and

(ix) the original aggregate principal amount of adjustable rate mortgage collateral securing such Reference Obligation must be at least [80]% of the original aggregate principal amount of collateral securing such Reference Obligation;

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A preliminary Reference Portfolio is identified in Annex C. Upon mutual agreement, Goldman and PCO may appoint a party (such party, a "**Portfolio Selection Agent**") to help select the final Reference Portfolio in return for the payment of an ongoing fee based on the aggregate outstanding amount of Notes of each Targeted Tranche (such fee, a "**Portfolio Selection Agent Fee**"). The Reference Portfolio selected may be modified upon the mutual agreement of Goldman, PCO and the Portfolio Selection Agent (if any).

"**Moody's**" means Moody's Investors Service, Inc. and any successor or successors thereto.

"**S&P**" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any successor to the ratings business thereof.

Pursuant to the Basis Swap, it is anticipated, among other things, that:

- Goldman Sachs Mitsui Marine Derivatives Product Inc. (or an affiliate thereof) will act as basis swap counterparty (the "**Basis Swap Counterparty**");
- Each payment period, the Issuer will swap with the Basis Swap Counterparty the total interest proceeds received on the Collateral held by the Issuer in exchange for the benchmark index of the Notes, based upon the aggregate outstanding amount of the Notes, as reduced from time to time by principal amortization of the Reference Portfolio, Credit Events, and/or Partial Optional Redemption or optional redemption in whole of the Notes;
- The Basis Swap Counterparty shall be the calculation agent; and
- Termination payments payable to the Basis Swap Counterparty will be subordinated to payment of principal of the related Notes solely in the event of a termination of the Basis Swap (i) in respect of which the Basis Swap Counterparty is the "Defaulting Party" (as such term is defined in the Basis Swap), (ii) resulting from a downgrade of the Basis Swap Counterparty's credit rating or (iii) in which the Basis Swap Counterparty was the sole "Affected Party" (as such term is defined in the Basis Swap) (other than in connection with a "Tax Event" or "Illegality", in each case as defined in the Basis Swap).

Pursuant to the Collateral Put, it is anticipated, among other things, that:

- Goldman Sachs International (or an affiliate thereof) will act as collateral put provider (the "**Collateral Put Provider**") and as compensation for acting as Collateral Put Provider will receive a fee of [0.06]% per annum accrued on an actual/360 day count convention on a notional amount equal to the aggregate outstanding amount of the Notes at the beginning of the related accrual period;

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- The Collateral Put Provider will cover any shortfall to par plus accrued interest arising from the liquidation of Collateral Securities and certain Eligible Investments held by the Issuer solely in connection with (i) principal amortization of the Reference Portfolio, (ii) recoveries on Reference Obligations following Credit Events, in the case of (i) and (ii) leading to principal amortization of one or more Classes of Notes, (iii) a Partial Optional Redemption or optional redemption in whole of the Notes and (iv) a redemption of the Notes at maturity;

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- The Collateral Put Provider will not cover any shortfalls in paying cash settlement amounts to Goldman following Credit Events if the Collateral Securities and certain Eligible Investments liquidated to make such payment is liquidated at a price of below 100% (in which case such market value risk will be borne by the Protection Buyer for such aforementioned Collateral who will be deemed to have been paid the related cash settlement amount in full) and (ii) with respect to the liquidation of Collateral in connection with a mandatory redemption (following a default of any Collateral Security, a default of Goldman, an adverse tax event, an event of default (as defined in the related CDO indenture) or other mandatory redemption events);

- The Collateral Put Provider shall be the calculation agent; and

- No termination payment will be payable under any circumstances in connection with the Collateral Put.

Pursuant to the Collateral Disposal Agreement, it is anticipated, among other things, that:

- Goldman, Sachs & Co. (or an affiliate thereof) will act as collateral disposal agent (the "**Collateral Disposal Agent**"); and

- In connection with any liquidation of Collateral Securities held by the Issuer that may be required from time to time, whether in connection with (i) a Credit Event or (ii) principal amortization of the Notes (including pursuant to an Optional Redemption in part), the Collateral Disposal Agent shall select in its sole discretion which Collateral Security or Collateral Securities shall be liquidated to satisfy such requirement.

4. Back-to-Back CDS.

Goldman will, subject to the terms of this Letter Agreement, purchase credit protection from swap counterparties of its choice under one or more Back-to-Back CDS.

Pursuant to each Back-to-Back CDS, it is anticipated, among other things, that:

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- The Protection Buyer will buy protection on all or a portion of the Targeted Tranches;

- The Protection Buyer will make premium payments to the related Back-to-Back Protection Seller on an actual/360 day count convention on the notional amount of such Back-to-Back CDS, as reduced from time to time upon (1) principal repayments on any Reference Obligation (to the extent the cumulative principal repayments exceed one minus the Exhaustion Point (as set forth in Annex B) of the related Targeted Tranche immediately prior to such determination, (2) Credit Events with respect to any Reference Obligation (to the extent the cumulative Loss Amounts exceed the related Targeted Tranche Attachment Point (as set forth in Annex B) immediately prior to such determination), and (3) any optional termination of the Back-to-Back CDS following the expiration of its Applicable Non-Call Period (as defined below);

- The notional amount of each tranche will be reduced in sequential order of priority in connection with the amortization of the Reference Portfolio and the notional amount of each tranche will be reduced in reverse sequentially order of priority in connection with Credit Events related to the Reference Portfolio;

- "Failure to Pay Principal" and "Writedown" (as defined in a manner consistent with the ISDA Dealer Form) will be the sole Credit Events;

- A loss amount (a "Loss Amount") shall be determined following the occurrence of a Credit Event. Such Loss Amount will be equal to (a) the related "Writedown Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Writedown and (b) the related "Principal Shortfall Amount" (as defined in the ISDA Dealer Form) following the occurrence of a Failure to Pay Principal;

- Following a Credit Event, the Protection Buyer will receive a cash settlement amount equal to the amount by which the related Loss Amount reduces the notional amount of the Targeted Tranche;

- There will be no substitution, reinvestment or replacement of Reference Obligations;

- The Protection Buyer will be sole notifying party of a Credit Event;

- The Protection Buyer, in its sole discretion, will have the right to terminate (with no termination payment payable by the Protection Buyer) a Back-to-Back CDS on any Payment Date occurring after the date that is specified for such Back-to-Back CDS (in each case, the "**Applicable Non-Call Period**"); and

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- The Protection Buyer shall be the calculation agent.

5. Breakage. If this Letter Agreement is terminated prior to the completion of the distribution of a notional amount of each Targeted Tranche equal to the Maximum Notional Amount of such Targeted Tranche by notification from PCO (in such capacity, the "**Terminating Party**") to Goldman (in such capacity, the "**Non-Terminating Party**") of such termination, then the Non-Terminating Party will be entitled to payment in an amount equal to the aggregate of any reasonable and documented out-of-pocket expenses (including, without limitation, attorneys, rating agency and accounting fees and printing costs) borne by the Non-Terminating Party in connection with its activities under this agreement and submitted to the Terminating Party, provided however that (i) no payment shall be due to the extent that such out of pocket expenses are less than the total amount paid by PCO to Goldman under Paragraph 6 hereof and (ii) if such out of pocket expenses exceed the total amount paid by PCO to Goldman under Paragraph 6 hereof, PCO shall be liable to Goldman only as to the amount of such excess. Any such amounts payable pursuant to this paragraph will be paid in immediately available funds to the Non-Terminating Party by the Terminating Party.

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6. Fees; Expenses. On the closing date of the CDO (the "**Closing Date**") or as promptly as practicable after such closing date, the Issuer shall pay (using proceeds received from an upfront payment (the "**Upfront Payment**") made by the Protection Buyer at the Closing Date), without duplication, (i) reasonable fees and expenses of Goldman's outside counsel incurred in connection with the CDO, (ii) reasonable fees and expenses of counsel to the Issuer (if different from outside counsel to Goldman) and any other agents or professionals engaged by Goldman in structuring the CDO (other than the Portfolio Selection Agent) and executing the Initial Offering including local legal counsel, trustee, accountant, local administrator, printer, rating agency and their respective counsels, and other fees and expenses, plus any sales, use or similar taxes (including additions to such taxes, if any) arising in connection with any matter referred to in this Letter Agreement and (iii) the cost (in excess of par) of any Collateral Securities acquired by the Issuer on the Closing Date.

Each Back-to-Back CDS or Issuer CDS, as the case may be, and the matching PCO CDS shall be executed simultaneously (such date of execution, an "Effective Date"). On each Effective Date, PCO will make a payment to Goldman equal to, for each Targeted Tranche for which an Issuer CDS or Back-to-Back CDS was executed on such Effective Date, the product of (a) the Upfront Fee Rate for such Targeted Tranche, as defined in Annex B, and (b) the notional amount of the PCO CDS for such Targeted Tranche. In addition, on the later of (i) the Closing Date and (ii) the first Effective Date on which cumulatively at least $[500,000,000] aggregate notional amount of the Targeted Tranches have been distributed on or prior to such date, PCO will make a payment to Goldman equal to $[2,000,000].

PCO will also pay all fees and expenses of PCO's outside counsel incurred in connection with each PCO CDS and the arrangements contemplated hereby.

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The Notes may be issued in US Dollars or other currencies at Goldman's sole discretion. If Goldman elects to place any Notes in a currency other than US Dollars, PCO shall have the option to either (i) bear the currency risk associated with such non-US Dollar placement or (ii) allow Goldman to bear such risk, in which case PCO will pay the Strike Spread associated with such notional amount of the related tranche on the US Dollar equivalent of such issued notional amount.

7. Reserved.

8. Term of Letter Agreement. This Letter Agreement shall terminate on the earlier of (i) [March 31], 2007 (the "**Expiration Date**") and (ii) the pricing date on which, for each Targeted Tranche, the aggregate notional amount of the PCO CDS is at least equal to the Maximum Notional Amount of the Targeted Tranche (the earlier of (i) and (ii), the "**Final Date**"), or such earlier date upon receipt by either party hereto of written notice of the other party's desire to terminate the Letter Agreement. Notwithstanding the foregoing, the provisions of Paragraphs 4, 5, 9 and 19 shall survive any such termination hereof.

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9. Nature of Relationship. As you know, Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates in various activities, including securities trading, investment management, financing and brokerage activities and financial planning and benefits counseling for both companies and individuals. In the ordinary course of these activities, Goldman Sachs may actively trade the debt and equity securities (or related derivative securities) of PCO and other companies which may be the subject of the matters contemplated by this Letter Agreement for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities.

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PCO recognizes that pursuant to this Letter Agreement Goldman Sachs will rely upon and assume the accuracy and completeness of all of the financial, accounting, tax and other information discussed with or reviewed by Goldman Sachs for such purposes, and it does not assume responsibility for the accuracy or completeness thereof. Goldman Sachs will have no obligation to conduct any independent evaluation or appraisal of the assets or liabilities of PCO or any other party or to advise or opine on any related solvency issues. It is understood and agreed that Goldman Sachs will act under this Letter Agreement as an independent contractor and nothing in this letter or the nature of our services shall be deemed to create a fiduciary, advisory or agency relationship between Goldman Sachs and PCO or their respective stockholders, employees or creditors. Nothing in this Letter Agreement is intended to confer upon any other person (including stockholders, employees or creditors of PCO) any rights or remedies hereunder or by reason hereof.

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In connection with any transaction contemplated in this Letter Agreement, Goldman Sachs is acting as arms'-length counterparty to PCO. Goldman Sachs is not acting as agent or advisor to PCO with respect to any such transaction or the terms thereof.

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PCO, together with its legal, accounting and independent financial advisors, if any, must determine whether to accept the terms of any such transaction.

10. Agreement to Trade. On each Effective Date, PCO will enter into one or more PCO CDS under which PCO will purchase from Goldman credit protection on a Targeted Tranche, in an amount equal to the notional amount of the Back-to-Back CDS executed on such Effective Date or Notes sold on such date with respect to the same Targeted Tranche, in each case only if (1) the Pricing Spread for such Back-to-Back CDS or such Notes is less than or equal to the Strike Spread for the Targeted Tranche as described in Annex B, (2) the Applicable Non-Call Period is three years from the first Payment Date, (3) the aggregate notional amount of Back-to-Back CDS and Issuer CDS for such Targeted Tranche (taking into account the Back-to-Back CDS or Issuer CDS for such Targeted Tranche executed on such Effective Date) is less than or equal to the Maximum Notional Amount of the Targeted Tranche and (4) such Effective Date occurs prior to the Expiration Date; provided that, in its discretion, PCO may waive the requirements set forth in clauses (2) and (3) with respect to any Back-to-Back CDS or Notes and any Effective Date. The terms and conditions of the each PCO CDS shall be identical to the terms and conditions of the related Back-to-Back CDS or Issuer CDS, as the case may be, as summarized in this Letter Agreement (except for Goldman's role as calculation agent under each such CDS, terms related to the Collateral Securities and in connection with any amounts payable pursuant to Paragraph 6 of this Letter Agreement) unless such terms and conditions are revised subject to mutual agreement by Goldman and PCO.

11. Disclosure of Transaction. Without the prior consent of Goldman, PCO may not discuss or disclose any information about the Offering, any Back-to-Back CDS, any PCO CDS or any transaction relating thereto with any third party other than (i) to its legal, tax, accounting and other professional advisors and (ii) to the extent required by any applicable law. After the closing of the Offering, Goldman may publish a notice of the transaction in such format, in such publications and at such times as Goldman may deem appropriate and consistent with its customary practices. Communication of an approval or disapproval of any such notice referred to in this paragraph shall be made by the end of the second business day following the date such notice is submitted for approval.

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12. Reserved.

13. Amendments. This Letter Agreement may not be amended or modified or any term hereof waived except in a writing executed by each of the parties hereto.

14. Assignments. Goldman may, in the performance of its services hereunder, delegate the performance of all or certain of such services as it may select to other Goldman affiliates or any affiliated entities; provided, however, that no such delegation by Goldman shall in any respect affect the terms hereof, and Goldman shall be responsible for any acts or omissions by any of its affiliated entities in the performance of any services delegated hereunder to such entity. In connection

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therewith, Goldman may direct with reasonable advance notice, prior to the payment of any amount to be made to it hereunder, that payment of such amount be made, in whole or in part, to a Goldman affiliated entity in satisfaction of the payment of such amount due to Goldman hereunder.

15. Enforceability of Provisions. The invalidity or enforceability of any provisions of this Letter Agreement shall not affect the validity or enforceability of any other provisions of this Letter Agreement, which shall remain in full force and effect.

16. Reserved.

17. Choice of Law; Waiver of Jury Trial; Submission to Jurisdiction. This Letter Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of laws provisions thereof. ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM OR ACTION ARISING OUT OF THIS LETTER AGREEMENT OR CONDUCT IN CONNECTION WITH THIS LETTER AGREEMENT IS HEREBY WAIVED. The parties hereto submit to the exclusive jurisdiction of the federal and New York State courts located in the Borough of Manhattan of the City of New York in connection with any dispute related to this Letter Agreement or any of the matters contemplated hereby.

18. No Third Party Beneficiaries. There are no beneficiaries of this Letter Agreement other than the named parties.

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19. Miscellaneous. Goldman does not provide accounting, tax or legal advice. Notwithstanding anything herein to the contrary, PCO is authorized to disclose to any person, the U.S. federal and state income tax treatment and tax structure of the potential transaction and all materials of any kind (including tax opinions and other tax analyses) provided to PCO relating to that treatment and structure, without Goldman imposing any limitation of any kind. However, any information relating to the tax treatment and tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent necessary to enable any person to comply with securities laws. For this purpose, "tax structure" is limited to any facts that may be relevant to that treatment.

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If this Letter Agreement correctly sets forth PCO's understanding, please so confirm by countersigning and returning the enclosed copy. Upon receipt of the copy by Goldman, this Letter Agreement shall be deemed a binding agreement.

We are delighted to accept this agreement and look forward to working with you on this assignment.

Very truly yours,

_____
(GOLDMAN, SACHS & CO.)

PAULSON CREDIT OPPORTUNITIES MASTER LTD.

By: _____

Name: _____

Title: _____

Date: _____

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Annex A

Reserved

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Annex B

"**Targeted Tranche**" means each of the Super Senior, Class A, Class B, Class C and Class D tranche that Goldman will distribute on a best efforts basis, as set forth in the column "Tranche" in the table below.

"**Distributed Tranche**" means, with respect to an Effective Date, a tranche that has been distributed (through Goldman's purchase of credit protection through a Back-to-Back CDS) on such Effective Date.

"**Executed Spread**" means, with respect to a PCO CDS, the Pricing Spread of the related Distributed Tranche.

"**Minimum Fee Rate**" means for each Distributed Tranche the rate as set forth in the table below in the column "Minimum Fee Rate" corresponding to the row related to such tranche.

"**Payment Date**": With respect to any Back-to-Back CDS or Issuer CDS, the [28]th of each month or if such day is not a Business Day, the next succeeding Business Day, commencing on the month following the Effective Date and ending on the date specified in the related documentation.

"**Pricing Spread**" means, (i) for each Class of Notes, the sum of (a) the stated spread above or below the index stated for the Notes of such Class issued on the Closing Date, as set forth in the indenture or issuing and paying agency agreement relating to the Notes, as applicable, and on the related Notes; provided that, with respect to any Class of Notes issued at a discount or premium to par, the amount determined pursuant to this subclause (a) shall be the discount margin (to maturity) to the index stated for the Notes of such Class, (b) [0.06]% per annum related to the Collateral Put Provider fee and (c) the rate per annum of the Portfolio Selection Agent Fee with respect to such Class (if any) and (ii) for each Back-to-Back CDS, the stated fixed rate spread with respect to such tranche.

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"**Initial Reference Portfolio Notional Amount**" means $[2,000,000,000]

"**Strike Spread**" means, with respect to each Distributed Tranche, the percentage corresponding to such tranche as set forth in the column "Strike Spread" in the table below.

"**Maximum Notional Amount**": For each Targeted Tranche, the product of (i) the percentage corresponding to such tranche as set forth in the column "Tranche Notional Amount (%)" in the table below and (ii) the Initial Reference Portfolio Notional Amount.

"**Upfront Fee Rate**" means, for each Distributed Tranche, the sum of (A) the Minimum Fee Rate for such tranche and (B) the product of (i) 50%, (ii) 3 and (iii) the greater of (a) zero and (b) the difference between (x) the Strike Spread and (y) the Executed Spread.

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Tranche	Target Ratings (Moody's/S&P)	Attachment Point (% of Initial Reference Portfolio Notional Amount)*	Exhaustion Point (% of Initial Reference Portfolio Notional Amount)*	Notional Amount (% of Initial Reference Portfolio Notional Amount)	Maximum Notional Amount of Targeted Tranche ($mm)	Strike Spread	Minimum Fee Rate
Super Senior	*	[35.00]%	[100.00]%	[65.00]%	[1,300.00]	[0.32]%	[0.20]%
Class A	[Aaa]/[AAA]	[23.00]%	[35.00]%	[12.00]%	[240.00]	[0.70]%	[1.00]%
Class B	[Aa2]/[AA]	[18.00]%	[23.00]%	[5.00]%	[100.00]	[0.95]%	[2.00]%
Class C	[Aa3]/[AA-]	[14.00]%	[18.00]%	[4.00]%	[80.00]	[1.20]%	[2.50]%
Class D	[A2]/[A]	[9.00]%	[14.00]%	[5.00]%	[100.00]	[3.25]%	[3.00]%
Class E	[Baa2]/[BBB]	[6.00]%	[9.00]%	[3.00]%	[60.00]	[6.50]%	[4.00]%
Class F	[Ba2]/[BB]	[2.00]%	[6.00]%	[4.00]%	[80.00]	NA	NA
Class FL	[NR]/[NR]	[0.00]%	[2.00]%	[2.00]%	[40.00]	NA	NA

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*The Super Senior Tranche may be shadow rated by Moody's and/or S&P.

The capital structure is subject to change upon feedback from the rating agencies.

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Annex C

Reference Portfolio*

CUSIP	Reference Obligation	Moody's Rating	S&P Rating	Fitch Rating	Reference Obligation Notional Amount
00075QAM4	ABFC 2006-OPT1 M8	Baa2	BBB	BBB	20,000,000
00075XAP2	ABFC 2006-OPT2 M8	Baa2	BBB	BBB	20,000,000
04541GWP3	ABSHE 2006-HE2 M8	Baa2	BBB	BBB	20,000,000
04544PAN9	ABSHE 2006-HE5 M8	Baa2	BBB	BBB	20,000,000
004421XP3	ACE 2006-ASP2 M8	Baa2	A+		20,000,000
00442VAN7	ACE 2006-ASP3 M8	Baa2	BBB		20,000,000
00441UAN0	ACE 2006-ASP4 M8	Baa2	A		20,000,000
004422AP6	ACE 2006-ASP5 M8	Baa2	A		20,000,000
00441VAN8	ACE 2006-FM1 M8	Baa2	BBB		20,000,000
00442CAN9	ACE 2006-FM2 M8	Baa2	BBB		20,000,000
004421ZD8	ACE 2006-HE2 M8	Baa2	BBB+	BBB	20,000,000
00441TAN3	ACE 2006-HE3 M8	Baa2	A		20,000,000
00442PAP5	ACE 2006-OP1 M8	Baa2	BBB+		20,000,000
03072S2E4	AMSI 2006-R2 M8	Baa2	BBB+	BBB	20,000,000
04012MAJ8	ARSI 2006-M1 M8	Baa2	A-	BBB	20,000,000
040104TA9	ARSI 2006-W3 M8	Baa2	BBB+	BBB	20,000,000
040104TR2	ARSI 2006-W4 M8	Baa2	BBB+	BBB	20,000,000
04012XAN5	ARSI 2006-W5 M8	Baa2	A-	BBB	20,000,000
07387UHZ7	BSABS 2006-HE3 M8	Baa2	BBB		20,000,000
14454AAN9	CARR 2006-FRE2 M8	Baa2	BBB+		20,000,000
14453FAM1	CARR 2006-NC2 M8	Baa2	BBB	BBB	20,000,000
144531FV7	CARR 2006-OPT1 M8	Baa2	A-	BBB+	20,000,000
14453EAM4	CARR 2006-RFC1 M8	Baa2	A	BBB+	20,000,000
17307G5D6	CMLTI 2006-HE1 M8	Baa2	BBB	BBB	20,000,000
172983AN8	CMLTI 2006-NC1 M8	Baa2	BBB		20,000,000
12667AAM8	CWL 2006-12 M8	Baa2	BBB		20,000,000
22237JAN7	CWL 2006-BC2 M8	Baa2	BBB		20,000,000
23242HAM4	CWL 2006-BC3 M8	Baa2	BBB		20,000,000
32028HAQ6	FFML 2006-FF10 M8	Baa2	BBB	BBB	20,000,000
32028PAP0	FFML 2006-FF11 M8	Baa2	BBB	BBB	20,000,000
32027GAN6	FFML 2006-FF12 M8	Baa2	BBB	BBB	20,000,000
32027LAP0	FFML 2006-FF14 M8	Baa2	BBB	BBB	20,000,000
362334GC2	FFML 2006-FF4 M8	Baa2	A-		20,000,000
32027EAQ4	FFML 2006-FF5 M8	Baa2	BBB	BBB	20,000,000
320277AP1	FFML 2006-FF7 M8	Baa2	BBB	BBB	20,000,000
320278AM6	FFML 2006-FF8 M8	Baa2	A-		20,000,000
320276AP3	FFML 2006-FF9 M8	Baa2	BBB+	BBB+	20,000,000
35729PPJ3	FHLT 2006-1 M7	Baa2	BBB+		20,000,000
35729PQF0	FHLT 2006-2 M7	Baa2	BBB+		20,000,000
35729RAN6	FHLT 2006-A M7	Baa2	BBB	BBB+	20,000,000
35729QAN8	FHLT 2006-B M8	Baa2	BBB	BBB+	20,000,000
31659TFH3	FMIC 2006-1 M8	Baa2	A-		20,000,000
31659EAM0	FMIC 2006-2 M8	Baa2	BBB+		20,000,000
316599AN9	FMIC 2006-3 M8	Baa2	BBB+		20,000,000
36245DAN0	GSAMP 2006-FM2 M8	Baa2	BBB+		20,000,000
36244KAN5	GSAMP 2006-HE3 M8	Baa2	A-		20,000,000
362439AN1	GSAMP 2006-HE4 M8	Baa2	A-		20,000,000
362463AN1	GSAMP 2006-NC2 M8	Baa2	BBB		20,000,000
40430KAP6	HASC 2006-OPT4 M7	Baa2	BBB	BBB+	20,000,000
437084UZ7	HEAT 2006-3 M8	Baa2	BBB+	BBB+	20,000,000

437084VY9	HEAT 2006-4 M8	Baa2	BBB+	BBB+	20,000,000
437096AQ3	HEAT 2006-5 M8	Baa2	BBB+	BBB+	20,000,000
437097AP3	HEAT 2006-6 M8	Baa2	A-	A-	20,000,000
542514UU6	LBMLT 2006-3 M8	Baa2	A-		20,000,000
54251MAN4	LBMLT 2006-4 M8	Baa2	A-		20,000,000
54251PAN7	LBMLT 2006-5 M8	Baa2	BBB+		20,000,000
54251RAN3	LBMLT 2006-6 M8	Baa2	BBB+	BBB+	20,000,000
54251TAN9	LBMLT 2006-7 M8	Baa2	A-	BBB+	20,000,000
57643GAN7	MABS 2006-FRE2 M8	Baa2	BBB		20,000,000
57644UAP0	MABS 2006-HE2 M8	Baa2	BBB		20,000,000
57645JAM1	MABS 2006-HE3 M8	Baa2	BBB		20,000,000
57643LRU2	MABS 2006-WMC1 M8	Baa2	BBB+		20,000,000
59020VBE2	MLMI 2006-AR1 B2	Baa2	BBB+		20,000,000
59020VAM5	MLMI 2006-HE2 B2	Baa2	BBB+		20,000,000
590212AM6	MLMI 2006-HE3 B2	Baa2	BBB+		20,000,000
59023EAQ1	MLMI 2006-HE4 B2	Baa2	BBB		20,000,000
59023AAN6	MLMI 2006-MLN1 B2	Baa2	BBB+		20,000,000
590216AP2	MLMI 2006-RM2 B2	Baa2	BBB+		20,000,000
590217AP0	MLMI 2006-RM3 B2	Baa2	BBB+		20,000,000
59020U6W0	MLMI 2006-WMC2 B2A	Baa2	BBB+		20,000,000
61749KAP8	MSAC 2006-WMC2 B2	Baa2	BBB	BBB	20,000,000
617451FD6	MSC 2006-HE2 B2	Baa2	BBB+	BBB	20,000,000
61749QAN0	MSIX 2006-1 B2	Baa2	BBB	BBB	20,000,000
65537FAN1	NHELI 2006-FM2 M8	Baa2	BBB+	BBB+	20,000,000
65536QAN8	NHELI 2006-HE3 M8	Baa2	BBB+	BBB+	20,000,000
68402CAN4	OOMLT 2006-2 M8	Baa2	BBB		20,000,000
71103XAM6	PFRMS 2006-1 M8	Baa2	BBB+	BBB	20,000,000
754065AM2	RASC 2006-EMX6 M8	Baa2	BBB		20,000,000
76113ABT7	RASC 2006-KS3 M8	Baa2	A-		20,000,000
75406EAM3	RASC 2006-KS4 M8	Baa2	BBB		20,000,000
81376VAH0	SABR 2006-FR2 B2	Baa2	BBB	BBB+	20,000,000
813765AH7	SABR 2006-FR3 B2	Baa2	BBB	BBB+	20,000,000
81376YAK7	SABR 2006-HE1 B2	Baa2	BBB	BBB+	20,000,000
81377AAM4	SABR 2006-HE2 B2	Baa2	BBB	BBB+	20,000,000
86358EF68	SAIL 2006-2 M7	Baa2	BBB	BBB	20,000,000
86360WAM4	SAIL 2006-4 M7	Baa2	BBB	BBB	20,000,000
86358GAN1	SAIL 2006-BNC2 M7	Baa2	BBB	BBB	20,000,000
86359XAN3	SASC 2006-AM1 M8	Baa2	BBB	BBB	20,000,000
86359UAN9	SASC 2006-OPT1 M7	Baa2	BBB	BBB	20,000,000
863576FQ2	SASC 2006-WF1 M8	Baa2	BBB	BBB	20,000,000
81879MBE8	SGMS 2006-FRE1 M8	Baa2	BBB+	A-	20,000,000
784208AN0	SGMS 2006-FRE2 M8	Baa2	BBB	A-	20,000,000
84751PLX5	SURF 2006-BC2 B2	Baa2	BBB+		20,000,000
83612HAM0	SVHE 2006-3 M8	Baa2	BBB		20,000,000
83611MMT2	SVHE 2006-OPT2 M7	Baa2	A-		20,000,000
83611MPR3	SVHE 2006-OPT3 M7	Baa2	BBB		20,000,000
83611YAM4	SVHE 2006-OPT4 M7	Baa2	BBB+		20,000,000
83612CAN9	SVHE 2006-OPT5 M8	Baa2	BBB		20,000,000
9497EUAQ0	WFHET 2006-1 M8	Baa2	A-		20,000,000
9497EAAM3	WFHET 2006-2 M8	Baa2	BBB	BBB	20,000,000

*The Reference Portfolio may be modified upon the mutual agreement of Goldman, PCO and the Portfolio Selection Agent (if any).

Deleted: PCO.

FOIA Confidential Treatment Requested by Paulson & Co.

From: Tourre, Fabrice
Sent: Saturday, January 06, 2007 5:14 PM
To: esteffelin@gsc.com; jbissu@gsc.com
Cc: Gerst, David
Subject: RE: Paulson Portfolio
x-gs-classification: External

Ed, Josh, thanks for coming to the meeting on Friday. To give you some background on the portfolio that the Paulson guys are starting from, this is a portfolio that was selected using some of the following criteria:

- start from the universe of RMBS transactions available in Intex
- focus only on the 2006 vintage, bonds underwritten after March 1, 2006
- Baa2 rated bonds
- Average FICO between 600 and 675
- RMBS transaction size greater than $500mm
- %age ARM greater than 80%

We should discuss live on Monday when you get a chance.

Fabrice

From: Sihan Shu [mailto:Sihan.Shu@paulsonco.com]
Sent: Friday, January 05, 2007 6:13 PM
To: esteffelin@gsc.com; jbissu@gsc.com
Cc: Tourre, Fabrice; Gerst, David; Paolo Pellegrini; Brad Rosenberg; Rob Lerner
Subject: Paulson Portfolio

Ed,

As discussed, here is a portfolio of 123 Baa2 tranches of recent subprime deals. Please provide us with feedback/comments.

Regards,
Sihan

Sihan Shu
Paulson & Co.
590 Madison Avenue, 29th Floor
New York, NY 10022
Tel: 212 813 6819
Fax: 212 977 9505
sihan.shu@paulsonco.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2515

From: Kreitman, Gail
Sent: Tuesday, January 09, 2007 2:18 PM
To: lschwartz@aca.com
Subject: Paulson Portfolio
Attachments: Paulson Portfolio.xls

Subject: Paulson Portfolio

Laura,
Paulson is trying to get a sense, for the 2006 RMBS transactions identified by Paulson, for the level of the capital structure of these transactions that ACA has been comfortable investing in the past, whether for its own account or for a CDO of your own...

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2517

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-OPT1 M8	00075QAM4	Baa2	BBB
2	ABFC 2006-OPT2 M8	00075XAP2	Baa2	BBB
3	ABFC 2006-OPT3 M8	00075VAN1	Baa2	
4	ABSHE 2006-HE3 M7	04541GXK3	Baa2	BBB
5	ABSHE 2006-HE4 M7	04544GAP4	Baa2	BBB
6	ABSHE 2006-HE5 M8	04544PAN9	Baa2	BBB
7	ACE 2006-ASP5 M8	00442QAP6	Baa2	A
8	ACE 2006-FM1 M8	00441VAN8	Baa2	BBB
9	ACE 2006-FM2 M8	00442CAN9	Baa2	BBB
10	ACE 2006-HE1 M8	004421WY5	Baa2	A-
11	ACE 2006-HE2 M8	004421ZD8	Baa2	BBB+
12	ACE 2006-HE3 M8	00441TAN3	Baa2	A
13	ACE 2006-NC2 M9	00441XAP8	Baa2	BBB-
14	ACE 2006-OP1 M8	00442PAP5	Baa2	BBB+
15	ACE 2006-OP2 M9	00441YAP7	Baa2	BBB-
16	AMSI 2006-R1 M8	03072SY33	Baa2	BBB
17	AMSI 2006-R2 M8	03072S2E4	Baa2	BBB+
18	ARSI 2006-M1 M8	04012MAJ8	Baa2	A-
19	ARSI 2006-M2 M8	04013BAM4	Baa2	BBB
20	ARSI 2006-W1 M8	040104RQ6	Baa2	BBB+
21	ARSI 2006-W2 M8	040104SE2	Baa2	BBB
22	ARSI 2006-W3 M8	040104TA9	Baa2	BBB+
23	ARSI 2006-W4 M8	040104TR2	Baa2	BBB+
24	ARSI 2006-W5 M8	04012XAN5	Baa2	A-
25	BSABS 2006-HE3 M8	07387UHZ7	Baa2	BBB
26	CARR 2006-FRE1 M8	144538AM7	Baa2	A+
27	CARR 2006-FRE1 M9	144538AN5	Baa2	A
28	CARR 2006-FRE2 M8	14454AAN9	Baa2	BBB+
29	CARR 2006-NC1 M8	144531FF2	Baa2	BBB+
30	CARR 2006-NC2 M8	14453FAM1	Baa2	BBB
31	CARR 2006-NC3 M9	144528AN6	Baa2	BBB-
32	CARR 2006-OPT1 M8	144531FV7	Baa2	A-
33	CARR 2006-RFC1 M8	14453EAM4	Baa2	A
34	CMLTI 2006-AMC1 M8	17309PAL0	Baa2	BBB
35	CMLTI 2006-NC1 M8	172983AN8	Baa2	BBB
36	CMLTI 2006-WFH2 M9	17309MAN3	Baa2	BBB-
37	CMLTI 2006-WMC1 M8	17307G2F4	Baa2	BBB+
38	CWL 2006-12 M8	12667AAM8	Baa2	BBB
39	FFML 2006-FF11 M8	32028PAP0	Baa2	BBB
40	FFML 2006-FF12 M8	32027GAN6	Baa2	BBB
41	FFML 2006-FF14 M8	32027LAP0	Baa2	BBB
42	FFML 2006-FF5 M8	32027EAQ4	Baa2	BBB
43	FFML 2006-FF7 M8	320277AP1	Baa2	BBB
44	FHLT 2006-1 M7	35729PPJ3	Baa2	BBB+
45	FHLT 2006-2 M7	35729PQF0	Baa2	BBB+
46	FHLT 2006-A M7	35729RAN6	Baa2	BBB
47	FHLT 2006-B M8	35729QAN8	Baa2	BBB
48	FMIC 2006-1 M8	31659TFH3	Baa2	A-
49	FMIC 2006-2 M8	31659EAM0	Baa2	BBB+
50	GSAMP 2006-FM2 M8	36245DAN0	Baa2	BBB+
51	GSAMP 2006-HE1 M8	3623415A3	Baa2	A-
52	GSAMP 2006-HE3 M8	36244KAN5	Baa2	A-
53	GSAMP 2006-HE4 M8	362439AN1	Baa2	A-
54	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
55	HASC 2006-OPT4 M7	40430KAP6	Baa2	BBB
56	HEAT 2006-3 M8	437084UZ7	Baa2	BBB+
57	HEAT 2006-4 M8	437084VY9	Baa2	BBB+
58	HEAT 2006-5 M8	437096AQ3	Baa2	BBB+
59	HEAT 2006-6 M8	437097AP3	Baa2	A-
60	HEAT 2006-7 M8	43709NAP8	Baa2	BBB+
61	INABS 2006-C M8	43709BAP4	Baa2	BBB
62	JPMAC 2006-FRE1 M8	46626LFV7	Baa2	BBB
63	LBMLT 2006-1 M8	542514RV8	Baa2	A-
64	LBMLT 2006-2 M8	542514UC6	Baa2	BBB+
65	LBMLT 2006-3 M8	542514UU6	Baa2	A-
66	LBMLT 2006-4 M8	54251MAN4	Baa2	A-
67	LBMLT 2006-5 M8	54251PAN7	Baa2	BBB+
68	LBMLT 2006-6 M8	54251RAN3	Baa2	BBB+
69	LBMLT 2006-7 M8	54251TAN9	Baa2	A-
70	LBMLT 2006-WL1 M8	542514RD8	Baa2	BBB
71	LBMLT 2006-WL2 M8	542514SM7	Baa2	BBB
72	LBMLT 2006-WL3 M8	542514TE4	Baa2	BBB
73	MABS 2006-FRE2 M8	57643GAN7	Baa2	BBB
74	MABS 2006-NC2 M9	55275BAP2	Baa2	BBB-
75	MABS 2006-WMC1 M8	57643LRU2	Baa2	BBB+
76	MABS 2006-WMC2 M8	57644TAN8	Baa2	BBB
77	MLMI 2006-MLN1 B2	59023AAN6	Baa2	BBB+
78	MLMI 2006-OPT1 B2	59022VAN1	Baa2	BBB
79	MLMI 2006-RM2 B2	590216AP2	Baa2	BBB+
80	MLMI 2006-RM3 B2	590217AP0	Baa2	BBB+
81	MLMI 2006-WMC1 B2A	59020U4H5	Baa2	BBB+
82	MLMI 2006-WMC2 B2A	59020U6W0	Baa2	BBB+
83	MLMI 2006-WMC2 B2B	59020U6X8	Baa2	BBB+
84	MSAC 2006-NC4 B2	61748LAN2	Baa2	BBB
85	MSAC 2006-WMC1 B2	61744CXV3	Baa2	A-
86	MSAC 2006-WMC2 B2	61749KAP8	Baa2	BBB
87	MSC 2006-HE1 B2	617451DZ9	Baa2	A-
88	MSC 2006-HE2 B2	617451FD6	Baa2	BBB+
89	MSIX 2006-1 B2	61749QAN0	Baa2	BBB
90	NCHET 2006-1 M8	64352VRA1	Baa2	BBB
91	NHELI 2006-FM1 M8	65536HCF3	Baa2	BBB+
92	NHELI 2006-FM2 M8	65537FAN1	Baa2	BBB+
93	NHELI 2006-HE1 M8	65536HCZ9	Baa2	BBB
94	NHELI 2006-HE3 M8	65536QAN8	Baa2	BBB+
95	OOMLT 2006-2 M8	68402CAN4	Baa2	BBB
96	RASC 2006-EMX9 M9	74924VAP4	Baa2	BBB-
97	RASC 2006-KS1 M8	76113AAP6	Baa2	A-
98	RASC 2006-KS2 M8	75406BAM9	Baa2	BBB+
99	RASC 2006-KS3 M8	76113ABT7	Baa2	A-
100	SABR 2006-FR1 B2	81375WJY3	Baa2	A-
101	SABR 2006-FR3 B2	813765AH7	Baa2	BBB
102	SABR 2006-HE1 B2	81376YAK7	Baa2	BBB
103	SABR 2006-HE2 B2	81377AAM4	Baa2	BBB
104	SABR 2006-OP1 B2	81375WJN7	Baa2	BBB+
105	SAIL 2006-2 M7	86358EF68	Baa2	BBB
106	SAIL 2006-3 M8	863587AP6	Baa2	BBB
107	SAIL 2006-4 M7	86360WAM4	Baa2	BBB
108	SAIL 2006-BNC1 M7	86358ED86	Baa2	BBB
109	SAIL 2006-BNC2 M7	86358GAN1	Baa2	BBB
110	SASC 2006-WF1 M8	863576FQ2	Baa2	BBB
111	SGMS 2006-FRE1 M8	81879MBE8	Baa2	BBB+
112	SGMS 2006-FRE2 M8	784208AN0	Baa2	BBB
113	SURF 2006-BC1 B2A	84751PKL2	Baa2	BBB+
114	SURF 2006-BC2 B2	84751PLX5	Baa2	BBB+
115	SVHE 2006-1 M7	83611MLG1	Baa2	A-
116	SVHE 2006-3 M8	83612HAM0	Baa2	BBB
117	SVHE 2006-OPT1 M7	83611MMF2	Baa2	BBB
118	SVHE 2006-OPT2 M7	83611MMT2	Baa2	A-
119	SVHE 2006-OPT3 M7	83611MPR3	Baa2	BBB
120	SVHE 2006-OPT4 M7	83611YAM4	Baa2	BBB+
121	SVHE 2006-OPT5 M8	83612CAN9	Baa2	BBB
122	WFHET 2006-1 M8	9497EUAQ0	Baa2	A-
123	WFHET 2006-2 M8	9497EAAM3	Baa2	BBB

From: Sihan Shu [Sihan.Shu@paulsonco.com]
Sent: Thursday, March 22, 2007 7:16 PM
To: Tourre, Fabrice; Gerst, David
Cc: Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: Re: Substitutions for ABACUS 2007-AC1

That looks good to me.

----- Original Message -----
From: Tourre, Fabrice <Fabrice.Tourre@gs.com>
To: Sihan Shu; Gerst, David <David.Gerst@gs.com>
Cc: Raazi, Cactus <Cactus.Raazi@gs.com>; Paolo Pellegrini; Brad Rosenberg
Sent: Thu Mar 22 20:08:15 2007
Subject: RE: Substitutions for ABACUS 2007-AC1

ok, so we will have the 3 following reference obligations:

BNCMT 2007-1 M8
MSHEL 2007-1 B2
HEAT 2007-2 M8

As replacements for the 3 CARR - New Century serviced bonds.

From: Sihan Shu [mailto:Sihan.Shu@paulsonco.com]
Sent: Thursday, March 22, 2007 6:00 PM
To: Gerst, David; Tourre, Fabrice
Cc: Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

We can take BNCMT 07-1 M8.

From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Thursday, March 22, 2007 5:57 PM
To: Sihan Shu; Tourre, Fabrice
Cc: Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

Sihan,

That name is included in the current portfolio as well. Are there any other proposed names that are acceptable?

Thanks,

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2519

Confidential Treatment Requested by Goldm

David

From: Sihan Shu [mailto:Sihan.Shu@paulsonco.com]
Sent: Thursday, March 22, 2007 4:55 PM
To: Tourre, Fabrice
Cc: Gerst, David; Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

We'd like to take MSAC 07-HE2 B2.

From: Tourre, Fabrice [mailto:Fabrice.Tourre@gs.com]
Sent: Thursday, March 22, 2007 4:13 PM
To: Sihan Shu
Cc: Gerst, David; Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

Actually, David Gerst just realized that HEAT 07-1 is already in the portfolio... Is there any other bond in the list ACA proposed that you care about ?

From: Sihan Shu [mailto:Sihan.Shu@paulsonco.com]
Sent: Thursday, March 22, 2007 4:01 PM
To: Tourre, Fabrice
Cc: Gerst, David; Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

Fabrice, we'd like to accept HEAT 07-1 M8 and HEAT 07-2 M8.

From: Tourre, Fabrice [mailto:Fabrice.Tourre@gs.com]
Sent: Thursday, March 22, 2007 8:49 AM
To: Sihan Shu
Cc: Gerst, David; Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

Sihan, ACA is ok with the MSHEL 07-1 B2, but is not ok with the HASC 2007-OPT1 M8 bond. We are going to send you later today the loan tapes for the 8 replacement deals they are proposing.

From: Sihan Shu [mailto:Sihan.Shu@paulsonco.com]
Sent: Wednesday, March 21, 2007 2:24 PM
To: Tourre, Fabrice

Cc: Gerst, David; Raazi, Cactus; Paolo Pellegrini; Brad Rosenberg
Subject: RE: Substitutions for ABACUS 2007-AC1

Fabrice,

We have already picked 3 names we'd like to use to replace those NC serviced bonds. Please forward them to ACA, and let us know if they have any questions.

HASC 07-OPT1 M8

MSHEL 07-1 B2

GSAMP 07-FM1 M8

Thanks,

Sihan

From: Tourre, Fabrice [mailto:Fabrice.Tourre@gs.com]
Sent: Wednesday, March 21, 2007 2:09 PM
To: Paolo Pellegrini; Sihan Shu
Cc: Gerst, David; Raazi, Cactus
Subject: Substitutions for ABACUS 2007-AC1

Paolo, Sihan, in order to replace the New Century serviced bonds in the ABACUS 2007-AC1 portfolio (CARR 2006-NC1 M8, CARR 2006-NC2 M8 and CARR 2006-NC3 M9), ACA is proposing the following substitute bonds:

HEAT 2007-2 M8

BNCMT 2007-1 M8

MLMI 2007-HE1 B2

MSAC 2007-HE2 B2

SURF 2007-BC1 B2

CMLTI 2007-AMC2 M8

CWL 2007-2 M8

HEAT 2007-1 M8

I asked ACA to send loan tapes for these bonds in order to help you select the names that fit you...

Rgds,

Abacus 2007-AC1 Reference Portfolio

Proposed By	Security	Reference Document	Moody's Initial Rating	First Downgrade	Downgrade Date	Current Moody's Rating
Paulson	ABFC 2006-OPT1 M8	1	Baa2	Ba2	10/11/2007	C
Paulson	ABFC 2006-OPT2 M8	1	Baa2	B1	10/11/2007	C
Paulson	ABSHE 2006-HE3 M7	1	Baa2	Ba3	10/11/2007	C
Paulson	ABSHE 2006-HE4 M7	1	Baa2	B3	10/11/2007	C
Paulson	ACE 2006-FM2 M8	1	Baa2	Ba2	7/10/2007	C
Paulson	ACE 2006-OP2 M9	1	Baa2	B3	10/11/2007	C
Paulson	ARSI 2006-W1 M8	1	Baa2	Ba3	10/11/2007	C
Paulson	CARR 2006-FRE1 M9	1	Baa2	Ba2	10/11/2007	C
Paulson	CARR 2006-FRE2 M8	1	Baa2	Caa1	10/11/2007	C
Paulson	CARR 2006-OPT1 M8	1	Baa2	Baa3	10/11/2007	C - junk status on 4/16/2008
Paulson	CMLTI 2006-AMC1 M8	1	Baa2	Ba1	10/11/2007	C
Paulson	CMLTI 2006-NC1 M8	1	Baa2	Ba1	7/10/2007	C
Paulson	CMLTI 2006-WFH2 M9	1	Baa2	Baa3	10/11/2007	C - junk status on 4/21/2008
Paulson	CMLTI 2006-WMC1 M8	1	Baa2	B3	10/11/2007	Withdrawn
Paulson	FFML 2006-FF11 M8	1	Baa2	Caa3	10/11/2007	C
Paulson	FFML 2006-FF12 M8	1	Baa2	B3	10/11/2007	C
Paulson	FFML 2006-FF14 M8	1	Baa2	B3	10/11/2007	C
Paulson	FFML 2006-FF7 M8	1	Baa2	Baa3	7/10/2007	C - junk status on 10/11/2007
Paulson	FHLT 2006-A M7	1	Baa2	Ba1	7/10/2007	C
Paulson	FHLT 2006-B M8	1	Baa2	Ba2	7/10/2007	C
Paulson	FMIC 2006-2 M8	1	Baa2	B3	10/11/2007	C
Paulson	GSAMP 2006-FM2 M8	1	Baa2	Caa3	10/11/2007	C
Paulson	HEAT 2006-3 M8	1	Baa2	Ba1	10/11/2007	C
Paulson	HEAT 2006-5 M8	1	Baa2	B3	10/11/2007	C
Paulson	HEAT 2006-6 M8	1	Baa2	B3	10/11/2007	C
Paulson	HEAT 2006-7 M8	1	Baa2	Ca	10/11/2007	Withdrawn
Paulson	JPMAC 2006-FRE1 M8	1	Baa2	Ba2	10/11/2007	C
Paulson	LBMLT 2006-4 M8	1	Baa2	Ba1	7/10/2007	Withdrawn
Paulson	LBMLT 2006-6 M8	1	Baa2	Caa2	10/11/2007	Withdrawn
Paulson	LBMLT 2006-7 M8	1	Baa2	Caa2	10/11/2007	Withdrawn
Paulson	LBMLT 2006-WL1 M8	1	Baa2	Baa3	10/11/2007	C - junk status on 4/7/2008
Paulson	MABS 2006-NC2 M9	1	Baa2	Caa2	10/11/2007	C
Paulson	MLMI 2006-WMC1 B2A	1	Baa2	Ba3	10/11/2007	C
Paulson	MSAC 2006-NC4 B2	1	Baa2	Ba1	7/10/2007	C
Paulson	MSAC 2006-WMC1 B2	1	Baa2	Baa3	10/11/2007	C - junk status on 4/16/2008
Paulson	MSAC 2006-WMC2 B2	1	Baa2	Ba3	7/10/2007	Withdrawn
Paulson	MSC 2006-HE2 B2	1	Baa2	Ba1	7/10/2007	C
Paulson	NHELI 2006-FM1 M8	1	Baa2	B1	10/11/2007	C
Paulson	NHELI 2006-FM2 M8	1	Baa2	Ca	10/11/2007	C
Paulson	NHELI 2006-HE3 M8	1	Baa2	B3	10/11/2007	C
Paulson	SABR 2006-FR1 B2	1	Baa2	Caa2	4/21/2008	C
Paulson	SABR 2006-FR3 B2	1	Baa2	Ba2	7/10/2007	Withdrawn
Paulson	SABR 2006-HE2 B2	1	Baa2	B3	10/11/2007	C
Paulson	SAIL 2006-4 M7	1	Baa2	Ba2	7/10/2007	Withdrawn
Paulson	SVHE 2006-OPT1 M7	1	Baa2	Ba1	10/11/2007	C
Paulson	SVHE 2006-OPT2 M7	1	Baa2	Ba2	10/11/2007	C
Paulson	SVHE 2006-OPT3 M7	1	Baa2	Ba1	10/11/2007	C
Paulson	SVHE 2006-OPT4 M7	1	Baa2	Caa3	10/11/2007	C
Paulson	SVHE 2006-OPT5 M8	1	Baa2	Ba3	10/11/2007	C
Total: 49						

Abacus 2007-AC1 Reference Portfolio

Proposed By	Security	Reference Document	Moody's Initial Rating	First Downgrade	Downgrade Date	Current Moody's Rating
ACA	ABSHE 2006-HE7 M9	4	Baa2	Caa1	10/11/2007	C
ACA	BNCMT 2007-1 M8	7	Baa2	Ba2	12/5/2007	C
ACA	CMLTI 2007-AMC1 M8	3	Baa2	C	12/7/2007	C
ACA	CMLTI 2007-WFH1 M9	2	Baa2	Ba2	12/7/2007	C
ACA	CWL 2006-24 M8	2	Baa2	Caa1	10/11/2007	C
ACA	CWL 2007-2 M8	6	Baa2	Caa3	12/10/2007	C
ACA	FFML 2006-FF15 M8	2	Baa2	Caa2	10/11/2007	C
ACA	FFML 2006-FF16 M8	2	Baa2	Caa2	10/11/2007	C
ACA	FFML 2006-FF17 M8	2	Baa2	Caa2	10/11/2007	C
ACA	FFML 2006-FF9 M8	5	Baa2	Baa3	7/10/2007	C - junk status on 10/11/2007
ACA	FFML 2007-FF1 B2	4	Baa2	Caa1	12/10/2007	C
ACA	FFML 2007-FF2 B2	6	Baa2	C	12/10/2007	C
ACA	FMIC 2006-3 M8	5	Baa2	B3	10/11/2007	C
ACA	HASC 2006-HE2 M8	4	Baa2	Ca	10/11/2007	C
ACA	HEAT 2006-8 M8	5	Baa2	Caa1	10/11/2007	C
ACA	HEAT 2007-1 M8	2	Baa2	Ca	12/10/2007	C
ACA	HEAT 2007-2 M8	7	Baa2	Caa2	12/10/2007	C
ACA	IXIS 2006-HE3 B2	5	Baa2	Caa3	10/11/2007	C
ACA	JPMAC 2006-CW2 MV8	2	Baa2	Ba1	10/11/2007	C
ACA	JPMAC 2006-WMC3 M8	2	Baa2	Caa3	10/11/2007	Withdrawn
ACA	LBMLT 2006-11 M8	5	Baa2	Caa1	10/11/2007	Withdrawn
ACA	LBMLT 2006-8 M8	4	Baa2	B3	10/11/2007	Withdrawn
ACA	LBMLT 2006-9 M8	4	Baa2	Ca	10/11/2007	Withdrawn
ACA	MABS 2006-HE5 M9	2	Baa2	Caa1	10/11/2007	C
ACA	MABS 2006-WMC4 M8	2	Baa2	Ca	10/11/2007	Withdrawn
ACA	MSAC 2006-HE7 B2	2	Baa2	Ca	10/11/2007	C
ACA	MSAC 2006-HE8 B2	2	Baa2	Caa2	10/11/2007	C
ACA	MSAC 2006-NC5 B3	2	Baa2	Caa2	10/11/2007	C
ACA	MSAC 2007-HE1 B2	4	Baa2	B3	12/4/2007	C
ACA	MSAC 2007-HE2 B2	6	Baa2	B3	12/4/2007	C
ACA	MSAC 2007-NC1 B2	5	Baa2	Caa2	12/4/2007	C
ACA	MSHEL 2007-1 B2	6	Baa2	B3	12/4/2007	C
ACA	MSIX 2006-2 B2	2	Baa2	Caa2	10/11/2007	C
ACA	NHEL 2006-5 M8	2	Baa2	Ba3	10/11/2007	C
ACA	OOMLT 2006-3 M9	4	Baa2	Caa3	10/11/2007	C
ACA	OOMLT 2007-1 M8	2	Baa2	B3	12/6/2007	C
ACA	SASC 2006-EQ1A M8	2	Baa2	B3	10/11/2007	C
ACA	SASC 2006-OPT1 M7	5	Baa2	B3	10/11/2007	C
ACA	SASC 2006-WF3 M9	3	Baa2	Baa3	10/11/2007	C - junk status on 4/23/2008
ACA	SURF 2007-BC1 B2	2	Baa2	B3	12/12/2007	C
ACA	SVHE 2006-EQ2 M8	2	Baa2	B3	10/11/2007	C
Total: 41						

Reference Document Key

1 Email on 1/5/2007 at 6:13pm, GS MBS-E-002483408 with attachment GS MBS-E-002483409; Email on 1/6/2007 at 5:14pm, GS MBS-E-002754054; Email on 1/9/2007 at 2:18pm, GS MBS-E-007974381 with attachment GS MBS-E-007974382

2 Email on 1/22/2007 at 1:52pm, GS MBS-E-002522389 with attachment GS MBS-E-002480563; Email on 1/22 /2007 2:11pm, GS MBS-E-002480574 with attachment GS MBS-E-002480575

3 Email on 2/1/2007 at 9:30am, GS MBS-E-003026086

4 Email on 1/28/2007 at 8:56am and 1/28/2007 at 12:32pm, GS MBS-E-002444359; Email on 1/31/2007 at 5:42pm, GS MBS-E-002620419 with attachment GS MBS-E-002620420; and Email on 2/2/2007 at 11:10am, GS MBS-E-002483499; Email on 2/2/2007 at 11:23am, GS MBS-E-002483496 with attachment GS MBS-E-002483498

5 Email on 2/2/2007 at 11:10am, GS MBS-E-002483499; Email on 2/2/2007 at 11:23am, GS MBS-E-002483496 with attachment GS MBS-E-002483498

6 Email on 2/26/2007 at 3:39pm and at 3:51pm, GS MBS-E-002444961

7 Email on 3/21/2007 at 2:09pm and 3/22/2007 at 4:01pm, GS MBS-E-003010587

From: Sihan Shu [Sihan.Shu@paulsonco.com]
Sent: Friday, January 05, 2007 6:13 PM
To: esteffelin@gsc.com; jbissu@gsc.com
Cc: Tourre, Fabrice; Gerst, David; Paolo Pellegrini; Brad Rosenberg; Rob Lerner
Subject: Paulson Portfolio
Attachments: Paulson Portfolio.xls

Ed,

As discussed, here is a portfolio of 123 Baa2 tranches of recent subprime deals. Please provide us with feedback/comments.

Regards,
Sihan

Sihan Shu
Paulson & Co.
590 Madison Avenue, 29th Floor
New York, NY 10022
Tel: 212 813 6819
Fax: 212 977 9505
sihan.shu@paulsonco.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-OPT1 M8	00075QAM4	Baa2	BBB
2	ABFC 2006-OPT2 M8	00075XAP2	Baa2	BBB
3	ABFC 2006-OPT3 M8	00075VAN1	Baa2	
4	ABSHE 2006-HE3 M7	04541GXK3	Baa2	BBB
5	ABSHE 2006-HE4 M7	04544GAP4	Baa2	BBB
6	ABSHE 2006-HE5 M8	04544PAN9	Baa2	BBB
7	ACE 2006-ASP5 M8	004422AP6	Baa2	A
8	ACE 2006-FM1 M8	00441VAN8	Baa2	BBB
9	ACE 2006-FM2 M8	00442CAN9	Baa2	BBB
10	ACE 2006-HE1 M8	004421WY5	Baa2	A-
11	ACE 2006-HE2 M8	004421ZD8	Baa2	BBB+
12	ACE 2006-HE3 M8	00441TAN3	Baa2	A
13	ACE 2006-NC2 M9	00441XAP9	Baa2	BBB-
14	ACE 2006-OP1 M8	00442PAP5	Baa2	BBB+
15	ACE 2006-OP2 M9	00441YAP7	Baa2	BBB-
16	AMSI 2006-R1 M8	03072SY33	Baa2	BBB
17	AMSI 2006-R2 M8	03072S2E4	Baa2	BBB+
18	ARSI 2006-M1 M8	04012MAJ8	Baa2	A-
19	ARSI 2006-M2 M8	04013BAM4	Baa2	BBB
20	ARSI 2006-W1 M8	040104RQ6	Baa2	BBB+
21	ARSI 2006-W2 M8	040104SE2	Baa2	BBB
22	ARSI 2006-W3 M8	040104TA9	Baa2	BBB+
23	ARSI 2006-W4 M8	040104TR2	Baa2	BBB+
24	ARSI 2006-W5 M8	04012XAN5	Baa2	A-
25	BSABS 2006-HE3 M8	07387UHZ7	Baa2	BBB
26	CARR 2006-FRE1 M8	144538AM7	Baa2	A+
27	CARR 2006-FRE1 M9	144538AN5	Baa2	A
28	CARR 2006-FRE2 M8	14454AAN9	Baa2	BBB+
29	CARR 2006-NC1 M8	144531FF2	Baa2	BBB+
30	CARR 2006-NC2 M8	14453FAM1	Baa2	BBB
31	CARR 2006-NC3 M9	14452BAN6	Baa2	BBB-
32	CARR 2006-OPT1 M8	144531FV7	Baa2	A-
33	CARR 2006-RFC1 M8	14453EAM4	Baa2	A
34	CMLTI 2006-AMC1 M8	17309PAL0	Baa2	BBB
35	CMLTI 2006-NC1 M8	172983AN8	Baa2	BBB
36	CMLTI 2006-WFH2 M9	17309MAN3	Baa2	BBB-
37	CMLTI 2006-WMC1 M8	17307G2F4	Baa2	BBB+
38	CWL 2006-12 M8	12667AAM8	Baa2	BBB
39	FFML 2006-FF11 M8	32028PAP0	Baa2	BBB
40	FFML 2006-FF12 M8	32027GAN6	Baa2	BBB
41	FFML 2006-FF14 M8	32027LAP0	Baa2	BBB
42	FFML 2006-FF5 M8	32027EAQ4	Baa2	BBB
43	FFML 2006-FF7 M8	320277AP1	Baa2	BBB
44	FHLT 2006-1 M7	35729PPJ3	Baa2	BBB+
45	FHLT 2006-2 M7	35729PQF0	Baa2	BBB+
46	FHLT 2006-A M7	35729RAN6	Baa2	BBB
47	FHLT 2006-B M8	35729QAN8	Baa2	BBB
48	FMIC 2006-1 M8	31659TFH3	Baa2	A-
49	FMIC 2006-2 M8	31659EAM0	Baa2	BBB+
50	GSAMP 2006-FM2 M8	36245DAN0	Baa2	BBB+
51	GSAMP 2006-HE1 M8	3623415A3	Baa2	A-
52	GSAMP 2006-HE3 M8	36244KAN5	Baa2	A-
53	GSAMP 2006-HE4 M8	362439AN1	Baa2	A-
54	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
55	HASC 2006-OPT4 M7	40430KAP6	Baa2	BBB
56	HEAT 2006-3 M8	437084UZ7	Baa2	BBB+
57	HEAT 2006-4 M8	437084VY9	Baa2	BBB+
58	HEAT 2006-5 M8	437096AQ3	Baa2	BBB+
59	HEAT 2006-6 M8	437097AP3	Baa2	A-
60	HEAT 2006-7 M8	43709NAP6	Baa2	BBB+
61	INABS 2006-C M8	43709BAP4	Baa2	BBB
62	JPMAC 2006-FRE1 M8	46626LFV7	Baa2	BBB
63	LBMLT 2006-1 M8	542514RV8	Baa2	A-
64	LBMLT 2006-2 M8	542514UC6	Baa2	BBB+
65	LBMLT 2006-3 M8	542514UU6	Baa2	A-
66	LBMLT 2006-4 M8	54251MAN4	Baa2	A-
67	LBMLT 2006-5 M8	54251PAN7	Baa2	BBB+
68	LBMLT 2006-6 M8	54251RAN3	Baa2	BBB+
69	LBMLT 2006-7 M8	54251TAN9	Baa2	A-
70	LBMLT 2006-WL1 M8	542514RD8	Baa2	BBB
71	LBMLT 2006-WL2 M8	542514SM7	Baa2	BBB
72	LBMLT 2006-WL3 M8	542514TE4	Baa2	BBB
73	MABS 2006-FRE2 M8	57643GAN7	Baa2	BBB
74	MABS 2006-NC2 M9	55275BAP2	Baa2	BBB-
75	MABS 2006-WMC1 M8	57643LRU2	Baa2	BBB+
76	MABS 2006-WMC2 M8	57644TAN8	Baa2	BBB
77	MLMI 2006-MLN1 B2	59023AAN6	Baa2	BBB+
78	MLMI 2006-OPT1 B2	59022VAN1	Baa2	BBB
79	MLMI 2006-RM2 B2	590216AP2	Baa2	BBB+
80	MLMI 2006-RM3 B2	590217AP0	Baa2	BBB+
81	MLMI 2006-WMC1 B2A	59020U4H5	Baa2	BBB+
82	MLMI 2006-WMC2 B2A	59020U6W0	Baa2	BBB+
83	MLMI 2006-WMC2 B2B	59020U6X8	Baa2	BBB+
84	MSAC 2006-NC4 B2	61748LAN2	Baa2	BBB
85	MSAC 2006-WMC1 B2	61744CXV3	Baa2	A-
86	MSAC 2006-WMC2 B2	61749KAP8	Baa2	BBB
87	MSC 2006-HE1 B2	617451DZ9	Baa2	A-
88	MSC 2006-HE2 B2	617451FD6	Baa2	BBB+
89	MSIX 2006-1 B2	61749QAN0	Baa2	BBB
90	NCHET 2006-1 M8	64352VRA1	Baa2	BBB
91	NHELI 2006-FM1 M8	65536HCF3	Baa2	BBB+
92	NHELI 2006-FM2 M8	65537FAN1	Baa2	BBB+
93	NHELI 2006-HE1 M8	65536HCZ9	Baa2	BBB
94	NHELI 2006-HE3 M8	65536QAN8	Baa2	BBB+
95	OOMLT 2006-2 M8	68402CAN4	Baa2	BBB
96	RASC 2006-EMX9 M9	74924VAP4	Baa2	BBB-
97	RASC 2006-KS1 M8	76113AAP6	Baa2	A-
98	RASC 2006-KS2 M8	75406BAM9	Baa2	BBB+
99	RASC 2006-KS3 M8	76113ABT7	Baa2	A-
100	SABR 2006-FR1 B2	81375WJY3	Baa2	A-
101	SABR 2006-FR3 B2	813765AH7	Baa2	BBB
102	SABR 2006-HE1 B2	81376YAK7	Baa2	BBB
103	SABR 2006-HE2 B2	81377AAM4	Baa2	BBB
104	SABR 2006-OP1 B2	81375WJN7	Baa2	BBB+
105	SAIL 2006-2 M7	86358EF68	Baa2	BBB
106	SAIL 2006-3 M8	863587AP6	Baa2	BBB
107	SAIL 2006-4 M7	86360WAM4	Baa2	BBB
108	SAIL 2006-BNC1 M7	86358EDB6	Baa2	BBB
109	SAIL 2006-BNC2 M7	86359GAN1	Baa2	BBB
110	SASC 2006-WF1 M8	863576FQ2	Baa2	BBB
111	SGMS 2006-FRE1 M8	81679MBE8	Baa2	BBB+
112	SGMS 2006-FRE2 M8	784208AN0	Baa2	BBB
113	SURF 2006-BC1 B2A	84751PKL2	Baa2	BBB+
114	SURF 2006-BC2 B2	84751PLX5	Baa2	BBB+
115	SVHE 2006-1 M7	83611MLG1	Baa2	A-
116	SVHE 2006-3 M8	83612HAM0	Baa2	BBB
117	SVHE 2006-OPT1 M7	83611MMF2	Baa2	BBB
118	SVHE 2006-OPT2 M7	83611MMT2	Baa2	A-
119	SVHE 2006-OPT3 M7	83611MPR3	Baa2	BBB
120	SVHE 2006-OPT4 M7	83611YAM4	Baa2	BBB+
121	SVHE 2006-OPT5 M8	83612CAN9	Baa2	BBB
122	WFHET 2006-1 M8	9497EUAQ0	Baa2	A-
123	WFHET 2006-2 M8	9497EAAM3	Baa2	BBB

From: Laura Schwartz [lschwartz@aca.com]
Sent: Monday, January 22, 2007 1:52 PM
To: Tourre, Fabrice; Kreitman, Gail; Gerst, David
Cc: Keith Gorman
Subject: proposed Paulson Portfolio
Attachments: Paulson Portfolio 1-22-07.xls

Attached please find a worksheet with 86 sub-prime mortgage positions that we would recommend taking exposure to synthetically. Of the 123 names that were originally submitted to us for review, we have included only 55. We do not recommend including the other 68 names because either: 1) we did not like them at the recommended attachment point; 2) there are lower rated tranches that are already on negative watch; and 3) some names (i.e. Long Beach and Fremont) are very susceptible to investor push back.

The 31 new names are heavily weighted to new issue since we believe the underlying collateral to be of better quality.

We provided a total of 86 names to give us some room since the term-sheet mentioned 80 names at 1.25% each.

Please let me know if you have any questions.

****

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

ACA OVERLAP

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-OPT1 M8	00075QAM4	Baa2	BBB
2	ABFC 2006-OPT2 M8	00075XAP2	Baa2	BBB
3	ABFC 2006-OPT3 M8	00075VAN1	Baa2	
4	ABSHE 2006-HE4 M7	04544GAP4	Baa2	BBB
5	ACE 2006-FM2 M8	00442CAN9	Baa2	BBB
6	ACE 2006-OP2 M9	00441YAP7	Baa2	BBB-
7	ARSI 2006-W1 M8	040104RQ6	Baa2	BBB+
8	CARR 2006-FRE1 M8	144538AM7	Baa2	A+
9	CARR 2006-FRE1 M9	144538AN5	Baa2	A
10	CARR 2006-FRE2 M8	14454AAN9	Baa2	BBB+
11	CARR 2006-NC1 M8	144531FF2	Baa2	BBB+
12	CARR 2006-NC2 M8	14453FAM1	Baa2	BBB
13	CARR 2006-NC3 M9	144528AN6	Baa2	BBB-
14	CARR 2006-OPT1 M8	144531FV7	Baa2	A-
15	CMLTI 2006-AMC1 M8	17309PAL0	Baa2	BBB
16	CMLTI 2006-NC1 M8	172983AN8	Baa2	BBB
17	CMLTI 2006-WMC1 M8	17307G2F4	Baa2	BBB+
18	FFML 2006-FF11 M8	32028PAP0	Baa2	BBB
19	FFML 2006-FF12 M8	32027GAN6	Baa2	BBB
20	FFML 2006-FF14 M8	32027LAP0	Baa2	BBB
21	FFML 2006-FF7 M8	320277AP1	Baa2	BBB
22	FHLT 2006-A M7	35729RAN6	Baa2	BBB
23	FHLT 2006-B M8	35729QAN8	Baa2	BBB
24	FMIC 2006-2 M8	31659EAM0	Baa2	BBB+
25	GSAMP 2006-FM2 M8	36245DAN0	Baa2	BBB+
26	HEAT 2006-3 M8	437084UZ7	Baa2	BBB+
27	HEAT 2006-5 M8	437096AQ3	Baa2	BBB+
28	HEAT 2006-6 M8	437097AP3	Baa2	A-
29	HEAT 2006-7 M8	43709NAP8	Baa2	BBB+
30	JPMAC 2006-FRE1 M8	46626LFV7	Baa2	BBB
31	LBMLT 2006-4 M8	54251MAN4	Baa2	A-
32	LBMLT 2006-6 M8	54251RAN3	Baa2	BBB+
33	LBMLT 2006-7 M8	54251TAN9	Baa2	A-
34	LBMLT 2006-WL1 M8	542514RD8	Baa2	BBB
35	MABS 2006-NC2 M9	55275BAP2	Baa2	BBB-
36	MLMI 2006-WMC1 B2A	59020U4H5	Baa2	BBB+
37	MSAC 2006-NC4 B2	61748LAN2	Baa2	BBB
38	MSAC 2006-WMC1 B2	61744CXV3	Baa2	A-
39	MSAC 2006-WMC2 B2	61749KAP8	Baa2	BBB
40	MSC 2006-HE2 B2	617451FD6	Baa2	BBB+
41	NHELI 2006-FM1 M8	65536HCF3	Baa2	BBB+
42	NHELI 2006-FM2 M8	65537FAN1	Baa2	BBB+
43	NHELI 2006-HE3 M8	65536QAN8	Baa2	BBB+
44	SABR 2006-FR1 B2	81375WJY3	Baa2	A-
45	SABR 2006-FR3 B2	813765AH7	Baa2	BBB
46	SABR 2006-HE2 B2	81377AAM4	Baa2	BBB
47	SABR 2006-OP1 B2	81375WJN7	Baa2	BBB+
48	SAIL 2006-4 M7	86360WAM4	Baa2	BBB
49	SAIL 2006-BNC1 M7	86358ED86	Baa2	BBB
50	SAIL 2006-BNC2 M7	86358GAN1	Baa2	BBB
51	SVHE 2006-OPT1 M7	83611MMF2	Baa2	BBB
52	SVHE 2006-OPT2 M7	83611MMT2	Baa2	A-
53	SVHE 2006-OPT3 M7	83611MPR3	Baa2	BBB
54	SVHE 2006-OPT5 M8	83612CAN9	Baa2	BBB
55	CMLTI 2006-WFH2 M9	17309MAN3	Baa2	BBB-

ACA KICKOUT

No.	Deal	CUSIP	Moody's	S&P
1	ABSHE 2006-HE3 M7	04541GXK3	Baa2	BBB
2	ABSHE 2006-HE5 M8	04544PAN9	Baa2	BBB
3	ACE 2006-ASP5 M8	004422AP6	Baa2	A
4	ACE 2006-FM1 M8	00441VAN8	Baa2	BBB
5	ACE 2006-HE1 M8	004421WY5	Baa2	A-
6	ACE 2006-HE2 M8	004421ZD8	Baa2	BBB+
7	ACE 2006-HE3 M8	00441TAN3	Baa2	A
8	ACE 2006-NC2 M9	00441XAP9	Baa2	BBB-
9	ACE 2006-OP1 M8	00442PAP5	Baa2	BBB+
10	AMSI 2006-R1 M8	03072SY33	Baa2	BBB
11	AMSI 2006-R2 M8	03072S2E4	Baa2	BBB+
12	ARSI 2006-M1 M8	04012MAJ8	Baa2	A-
13	ARSI 2006-M2 M8	04013BAM4	Baa2	BBB
14	ARSI 2006-W2 M8	040104SE2	Baa2	BBB
15	ARSI 2006-W3 M8	040104TA9	Baa2	BBB+
16	ARSI 2006-W4 M8	040104TR2	Baa2	BBB+
17	ARSI 2006-W5 M8	04012XAN5	Baa2	A-
18	BSABS 2006-HE3 M8	07387UHZ7	Baa2	BBB
19	CARR 2006-RFC1 M8	14453EAM4	Baa2	A
21	CWL 2006-12 M8	12667AAM8	Baa2	BBB
22	FFML 2006-FF5 M8	32027EAQ4	Baa2	BBB
23	FHLT 2006-1 M7	35729PPJ3	Baa2	BBB+
24	FHLT 2006-2 M7	35729PQF0	Baa2	BBB+
25	FMIC 2006-1 M8	31659TFH3	Baa2	A-
26	GSAMP 2006-HE1 M8	3623415A3	Baa2	A-
27	GSAMP 2006-HE3 M8	36244KAN5	Baa2	A-
28	GSAMP 2006-HE4 M8	362439AN1	Baa2	A-
29	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
30	HASC 2006-OPT4 M7	40430KAP6	Baa2	BBB
31	HEAT 2006-4 M8	437084VY9	Baa2	BBB+

32	INABS 2006-C M8	43709BAP4	Baa2	BBB
33	LBMLT 2006-1 M8	542514RV8	Baa2	A-
34	LBMLT 2006-2 M8	542514UC6	Baa2	BBB+
35	LBMLT 2006-3 M8	542514UU6	Baa2	A-
36	LBMLT 2006-5 M8	54251PAN7	Baa2	BBB+
37	LBMLT 2006-WL2 M8	542514SM7	Baa2	BBB
38	LBMLT 2006-WL3 M8	542514TE4	Baa2	BBB
39	MABS 2006-FRE2 M8	57643GAN7	Baa2	BBB
40	MABS 2006-WMC1 M8	57643LRU2	Baa2	BBB+
41	MABS 2006-WMC2 M8	57644TAN8	Baa2	BBB
42	MLMI 2006-MLN1 B2	59023AAN6	Baa2	BBB+
43	MLMI 2006-OPT1 B2	59022VAN1	Baa2	BBB
44	MLMI 2006-RM2 B2	590216AP2	Baa2	BBB+
45	MLMI 2006-RM3 B2	590217AP0	Baa2	BBB+
46	MLMI 2006-WMC2 B2A	59020U6W0	Baa2	BBB+
47	MLMI 2006-WMC2 B2B	59020U6X8	Baa2	BBB+
48	MSC 2006-HE1 B2	617451DZ9	Baa2	A-
49	MSIX 2006-1 B2	61749QAN0	Baa2	BBB
50	NCHET 2006-1 M8	64352VRA1	Baa2	BBB
51	NHELI 2006-HE1 M8	65536HCZ9	Baa2	BBB
52	OOMLT 2006-2 M8	68402CAN4	Baa2	BBB
53	RASC 2006-EMX9 M9	74924VAP4	Baa2	BBB-
54	RASC 2006-KS1 M8	76113AAP6	Baa2	A-
55	RASC 2006-KS2 M8	75406BAM9	Baa2	BBB+
56	RASC 2006-KS3 M8	76113ABT7	Baa2	A-
57	SABR 2006-HE1 B2	81376YAK7	Baa2	BBB
58	SAIL 2006-2 M7	86358EF68	Baa2	BBB
59	SAIL 2006-3 M8	863587AP6	Baa2	BBB
60	SASC 2006-WF1 M8	863576FQ2	Baa2	BBB
61	SGMS 2006-FRE1 M8	81879MBE8	Baa2	BBB+
62	SGMS 2006-FRE2 M8	784208AN0	Baa2	BBB
63	SURF 2006-BC1 B2A	84751PKL2	Baa2	BBB+
64	SURF 2006-BC2 B2	84751PLX5	Baa2	BBB+
65	SVHE 2006-1 M7	83611MLG1	Baa2	A-
66	SVHE 2006-3 M8	83612HAM0	Baa2	BBB
67	SVHE 2006-OPT4 M7	83611YAM4	Baa2	BBB+
68	WFHET 2006-1 M8	9497EUAQ0	Baa2	A-
69	WFHET 2006-2 M8	9497EAAM3	Baa2	BBB

ACA SUBSTITUTIONS

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-HE1 M8	00075WAM1	Baa2	BBB
2	CMLTI 2007-WFH1 M9	17311CAM3	Baa2e	BBB-
3	CWL 2006-21 M8	12667LAN2	Baa2	BBB+
4	CWL 2006-22 M8	12666BAN5	Baa2	BBB+
5	CWL 2006-23 M8	12666CAN3	Baa2	BBB
6	CWL 2006-24 M8	23243HAN1	Baa2	BBB
7	FFML 2006-FF15 M8	32028GAP0	Baa2	BBB
8	FFML 2006-FF16 M8	320275AN0	Baa2	BBB+
9	FFML 2006-FF17 M8	32028KAP1	Baa2	BBB
10	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
11	HEAT 2007-1 M8	43710LAN4	Baa2e	BBB+
12	JPMAC 2006-CW2 MV8	46629BBA6	Baa2	BBB
13	JPMAC 2006-NC1 M8	46626LJY7	Baa2	BBB
14	JPMAC 2006-WMC3 M8	46629KAP4	Baa2	BBB
15	MABS 2006-HE5 M9	576455AN9	Baa2	BBB-
16	MABS 2006-NC1 M8	57643LNP7	Baa2	BBB+
17	MABS 2006-WMC4 M8	57645MAP7	Baa2	BBB+
18	MSAC 2006-HE7 B2	61750MAP0	Baa2	BBB
19	MSAC 2006-HE8 B2	61750SAP7	Baa2	BBB
20	MSAC 2006-NC5 B3	61749BAQ6	Baa2	BBB-
21	MSIX 2006-2 B2	617463AM6	Baa2	BBB
22	NHEL 2006-5 M8	66988YAN2	Baa2	BBB+
23	OOMLT 2007-1 M8	68400DAP9	Baa2e	BBB
24	SABR 2007-NC1 B2	81378AAM3	Baa2e	BBB
25	SAIL 2006-BNC3 M7	86361KAM9	Baa2	BBB
26	SASC 2006-BC4 M8	86359RAN6	Baa2	BBB
27	SASC 2006-BC6 M9	86362VAP7	Baa2e	BBB-
28	SASC 2006-EQ1A M8	86360RAN3	Baa2	BBB
29	SURF 2007-BC1 B2	84752BAQ2	Baa2e	BBB
30	SVHE 2006-EQ2 M8	83611XAM6	Baa2	BBB
31	WMHE 2007-HE1 M8	933631AN3	Baa2	BBB

From: Gerst, David
Sent: Monday, January 22, 2007 2:11 PM
To: 'Paolo Pellegrini'; 'Sihan Shu'
Cc: Tourre, Fabrice; Raazi, Cactus
Subject: ACA feedback

Attachments: Paulson Portfolio 1-22-07.xls

Paolo, Sihan:

Attached is the feedback we received from ACA on the list of 123 names that you had provided. They have broken down your list into names that they would recommend including in the portfolio (55) and names that they would recommend excluding from the portfolio (68). In addition, they have included a separate list of 31 names for you to review that they would recommend for inclusion, with the objective of creating a portfolio with 80+ names.

Are you available for a quick call this afternoon to discuss these lists?

Thanks,

David

Paulson Portfolio 1-22-07.xls

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

Goldman
Sachs

David Gerst
Structured Products Trading

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

ACA OVERLAP

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-OPT1 M8	00075QAM4	Baa2	BBB
2	ABFC 2006-OPT2 M8	00075XAP2	Baa2	BBB
3	ABFC 2006-OPT3 M8	00075VAN1	Baa2	
4	ABSHE 2006-HE4 M7	04544GAP4	Baa2	BBB
5	ACE 2006-FM2 M8	00442CAN9	Baa2	BBB
6	ACE 2006-OP2 M9	00441YAP7	Baa2	BBB-
7	ARSI 2006-W1 M8	040104RQ6	Baa2	BBB+
8	CARR 2006-FRE1 M8	144538AM7	Baa2	A+
9	CARR 2006-FRE1 M9	144538AN5	Baa2	A
10	CARR 2006-FRE2 M8	14454AAN9	Baa2	BBB+
11	CARR 2006-NC1 M8	144531FF2	Baa2	BBB+
12	CARR 2006-NC2 M8	14453FAM1	Baa2	BBB
13	CARR 2006-NC3 M9	144528AN6	Baa2	BBB-
14	CARR 2006-OPT1 M8	144531FV7	Baa2	A-
15	CMLTI 2006-AMC1 M8	17309PAL0	Baa2	BBB
16	CMLTI 2006-NC1 M8	172983AN8	Baa2	BBB
17	CMLTI 2006-WMC1 M8	17307G2F4	Baa2	BBB+
18	FFML 2006-FF11 M8	32028PAP0	Baa2	BBB
19	FFML 2006-FF12 M8	32027GAN6	Baa2	BBB
20	FFML 2006-FF14 M8	32027LAP0	Baa2	BBB
21	FFML 2006-FF7 M8	320277AP1	Baa2	BBB
22	FHLT 2006-A M7	35729RAN6	Baa2	BBB
23	FHLT 2006-B M8	35729QAN8	Baa2	BBB
24	FMIC 2006-2 M8	31659EAM0	Baa2	BBB+
25	GSAMP 2006-FM2 M8	36245DAN0	Baa2	BBB+
26	HEAT 2006-3 M8	437084UZ7	Baa2	BBB+
27	HEAT 2006-5 M8	437096AQ3	Baa2	BBB+
28	HEAT 2006-6 M8	437097AP3	Baa2	A-
29	HEAT 2006-7 M8	43709NAP8	Baa2	BBB+
30	JPMAC 2006-FRE1 M8	46626LFV7	Baa2	BBB
31	LBMLT 2006-4 M8	54251MAN4	Baa2	A-
32	LBMLT 2006-6 M8	54251RAN3	Baa2	BBB+
33	LBMLT 2006-7 M8	54251TAN9	Baa2	A-
34	LBMLT 2006-WL1 M8	542514RD8	Baa2	BBB
35	MABS 2006-NC2 M9	55275BAP2	Baa2	BBB-
36	MLMI 2006-WMC1 B2A	59020U4H5	Baa2	BBB+
37	MSAC 2006-NC4 B2	61748LAN2	Baa2	BBB
38	MSAC 2006-WMC1 B2	61744CXV3	Baa2	A-
39	MSAC 2006-WMC2 B2	61749KAP8	Baa2	BBB
40	MSC 2006-HE2 B2	617451FD6	Baa2	BBB+
41	NHELI 2006-FM1 M8	65536HCF3	Baa2	BBB+
42	NHELI 2006-FM2 M8	65537FAN1	Baa2	BBB+
43	NHELI 2006-HE3 M8	65536QAN8	Baa2	BBB+
44	SABR 2006-FR1 B2	81375WJY3	Baa2	A-
45	SABR 2006-FR3 B2	813765AH7	Baa2	BBB
46	SABR 2006-HE2 B2	81377AAM4	Baa2	BBB
47	SABR 2006-OP1 B2	81375WJN7	Baa2	BBB+
48	SAIL 2006-4 M7	86360WAM4	Baa2	BBB
49	SAIL 2006-BNC1 M7	86358ED86	Baa2	BBB
50	SAIL 2006-BNC2 M7	86358GAN1	Baa2	BBB
51	SVHE 2006-OPT1 M7	83611MMF2	Baa2	BBB
52	SVHE 2006-OPT2 M7	83611MMT2	Baa2	A-
53	SVHE 2006-OPT3 M7	83611MPR3	Baa2	BBB
54	SVHE 2006-OPT5 M8	83612CAN9	Baa2	BBB
55	CMLTI 2006-WFH2 M9	17309MAN3	Baa2	BBB-

ACA KICKOUT

No.	Deal	CUSIP	Moody's	S&P
1	ABSHE 2006-HE3 M7	04541GXK3	Baa2	BBB
2	ABSHE 2006-HE5 M8	04544PAN9	Baa2	BBB
3	ACE 2006-ASP5 M8	004422AP6	Baa2	A
4	ACE 2006-FM1 M8	00441VAN8	Baa2	BBB
5	ACE 2006-HE1 M8	004421WY5	Baa2	A-
6	ACE 2006-HE2 M8	004421ZD8	Baa2	BBB+
7	ACE 2006-HE3 M8	00441TAN3	Baa2	A
8	ACE 2006-NC2 M9	00441XAP9	Baa2	BBB-
9	ACE 2006-OP1 M8	00442PAP5	Baa2	BBB+
10	AMSI 2006-R1 M8	03072SY33	Baa2	BBB
11	AMSI 2006-R2 M8	03072S2E4	Baa2	BBB+
12	ARSI 2006-M1 M8	04012MAJ8	Baa2	A-
13	ARSI 2006-M2 M8	04013BAM4	Baa2	BBB
14	ARSI 2006-W2 M8	040104SE2	Baa2	BBB
15	ARSI 2006-W3 M8	040104TA9	Baa2	BBB+
16	ARSI 2006-W4 M8	040104TR2	Baa2	BBB+
17	ARSI 2006-W5 M8	04012XAN5	Baa2	A-
18	BSABS 2006-HE3 M8	07387UHZ7	Baa2	BBB
19	CARR 2006-RFC1 M8	14453EAM4	Baa2	A
21	CWL 2006-12 M8	12667AAM8	Baa2	BBB
22	FFML 2006-FF5 M8	32027EAQ4	Baa2	BBB
23	FHLT 2006-1 M7	35729PPJ3	Baa2	BBB+
24	FHLT 2006-2 M7	35729PQF0	Baa2	BBB+
25	FMIC 2006-1 M8	31659TFH3	Baa2	A-
26	GSAMP 2006-HE1 M8	3623415A3	Baa2	A-
27	GSAMP 2006-HE3 M8	36244KAN5	Baa2	A-
28	GSAMP 2006-HE4 M8	362439AN1	Baa2	A-
29	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
30	HASC 2006-OPT4 M7	40430KAP6	Baa2	BBB
31	HEAT 2006-4 M8	437084VY9	Baa2	BBB+

32	INABS 2006-C M8	43709BAP4	Baa2	BBB
33	LBMLT 2006-1 M8	542514RV8	Baa2	A-
34	LBMLT 2006-2 M8	542514UC6	Baa2	BBB+
35	LBMLT 2006-3 M8	542514UU6	Baa2	A-
36	LBMLT 2006-5 M8	54251PAN7	Baa2	BBB+
37	LBMLT 2006-WL2 M8	542514SM7	Baa2	BBB
38	LBMLT 2006-WL3 M8	542514TE4	Baa2	BBB
39	MABS 2006-FRE2 M8	57643GAN7	Baa2	BBB
40	MABS 2006-WMC1 M8	57643LRU2	Baa2	BBB+
41	MABS 2006-WMC2 M8	57644TAN8	Baa2	BBB
42	MLMI 2006-MLN1 B2	59023AAN6	Baa2	BBB+
43	MLMI 2006-OPT1 B2	59022VAN1	Baa2	BBB
44	MLMI 2006-RM2 B2	590216AP2	Baa2	BBB+
45	MLMI 2006-RM3 B2	590217AP0	Baa2	BBB+
46	MLMI 2006-WMC2 B2A	59020U6W0	Baa2	BBB+
47	MLMI 2006-WMC2 B2B	59020U6X8	Baa2	BBB+
48	MSC 2006-HE1 B2	617451DZ9	Baa2	A-
49	MSIX 2006-1 B2	61749QAN0	Baa2	BBB
50	NCHET 2006-1 M8	64352VRA1	Baa2	BBB
51	NHELI 2006-HE1 M8	65536HCZ9	Baa2	BBB
52	OOMLT 2006-2 M8	68402CAN4	Baa2	BBB
53	RASC 2006-EMX9 M9	74924VAP4	Baa2	BBB-
54	RASC 2006-KS1 M8	76113AAP6	Baa2	A-
55	RASC 2006-KS2 M8	75406BAM9	Baa2	BBB+
56	RASC 2006-KS3 M8	76113ABT7	Baa2	A-
57	SABR 2006-HE1 B2	81376YAK7	Baa2	BBB
58	SAIL 2006-2 M7	86358EF68	Baa2	BBB
59	SAIL 2006-3 M8	863587AP6	Baa2	BBB
60	SASC 2006-WF1 M8	863576FQ2	Baa2	BBB
61	SGMS 2006-FRE1 M8	81879MBE8	Baa2	BBB+
62	SGMS 2006-FRE2 M8	784208AN0	Baa2	BBB
63	SURF 2006-BC1 B2A	84751PKL2	Baa2	BBB+
64	SURF 2006-BC2 B2	84751PLX5	Baa2	BBB+
65	SVHE 2006-1 M7	83611MLG1	Baa2	A-
66	SVHE 2006-3 M8	83612HAM0	Baa2	BBB
67	SVHE 2006-OPT4 M7	83611YAM4	Baa2	BBB+
68	WFHET 2006-1 M8	9497EUAQ0	Baa2	A-
69	WFHET 2006-2 M8	9497EAAM3	Baa2	BBB

ACA SUBSTITUTIONS

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-HE1 M8	00075WAM1	Baa2	BBB
2	CMLTI 2007-WFH1 M9	17311CAM3	Baa2e	BBB-
3	CWL 2006-21 M8	12667LAN2	Baa2	BBB+
4	CWL 2006-22 M8	12666BAN5	Baa2	BBB+
5	CWL 2006-23 M8	12666CAN3	Baa2	BBB
6	CWL 2006-24 M8	23243HAN1	Baa2	BBB
7	FFML 2006-FF15 M8	32028GAP0	Baa2	BBB
8	FFML 2006-FF16 M8	320275AN0	Baa2	BBB+
9	FFML 2006-FF17 M8	32028KAP1	Baa2	BBB
10	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
11	HEAT 2007-1 M8	43710LAN4	Baa2e	BBB+
12	JPMAC 2006-CW2 MV8	46629BBA6	Baa2	BBB
13	JPMAC 2006-NC1 M8	46626LJY7	Baa2	BBB
14	JPMAC 2006-WMC3 M8	46629KAP4	Baa2	BBB
15	MABS 2006-HE5 M9	576455AN9	Baa2	BBB-
16	MABS 2006-NC1 M8	57643LNP7	Baa2	BBB+
17	MABS 2006-WMC4 M8	57645MAP7	Baa2	BBB+
18	MSAC 2006-HE7 B2	61750MAP0	Baa2	BBB
19	MSAC 2006-HE8 B2	61750SAP7	Baa2	BBB
20	MSAC 2006-NC5 B3	61749BAQ6	Baa2	BBB-
21	MSIX 2006-2 B2	617463AM6	Baa2	BBB
22	NHEL 2006-5 M8	66988YAN2	Baa2	BBB+
23	OOMLT 2007-1 M8	68400DAP9	Baa2e	BBB
24	SABR 2007-NC1 B2	81378AAM3	Baa2e	BBB
25	SAIL 2006-BNC3 M7	86361KAM9	Baa2	BBB
26	SASC 2006-BC4 M8	86359RAN6	Baa2	BBB
27	SASC 2006-BC6 M9	86362VAP7	Baa2e	BBB-
28	SASC 2006-EQ1A M8	86360RAN3	Baa2	BBB
29	SURF 2007-BC1 B2	84752BAQ2	Baa2e	BBB
30	SVHE 2006-EQ2 M8	83611XAM6	Baa2	BBB
31	WMHE 2007-HE1 M8	933631AN3	Baa2	BBB

From: Tourre, Fabrice
Sent: Sunday, January 28, 2007 2:50 PM
To: Kreitman, Gail; Gerst, David
Subject: RE: ABACUS - Initial Draft Engagement Letter for ACA

Any time during the day works. David and I should be there

-----Original Message-----
From: Kreitman, Gail
Sent: Sunday, January 28, 2007 1:31 PM
To: Tourre, Fabrice; Gerst, David
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

What time works on the 5th to have a paulson discussion who should be there?

----- Original Message -----
From: Tourre, Fabrice
To: 'lschwartz@aca.com' <lschwartz@aca.com>; Gerst, David
Cc: Kreitman, Gail; ficc-mtgcorr-desk; 'kgorman@aca.com' <kgorman@aca.com>
Sent: Sun Jan 28 12:32:01 2007
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

Thanks Laura for your email, this is confirming my initial impression that Paolo wanted to proceed with you subject to agreement on portfolio and compensation structure. Let's meet on Feb 5th to discuss this transaction.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Laura Schwartz <lschwartz@aca.com>
To: Tourre, Fabrice; Gerst, David
Cc: Kreitman, Gail; ficc-mtgcorr-desk; Keith Gorman <kgorman@aca.com>
Sent: Sun Jan 28 08:56:00 2007
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

So I met with Paolo last night. We first talked about the collateral - why only 55 names from the first list and why the Baa3 and A3 names. He had summary performance and credit statistics on each piece of collateral on a spreadsheet (he may as much of a nerd as I am since he brought a laptop to the bar and he also seemed to have a worksheet from DB and another manager). I don't think he wants the A3 names and wasn't too keen on the Baa3 names. Let's do the Baa3 names at Baa2. He also wanted to know if we had to have so many names - I said Goldman needed 100 to help sell the debt. He also wanted to talk about the super senior - I said we would definitely look at it if Goldman planned on placing it. We also talked about the auction call - he wants a 2 year. This may be tough to sell without a makewhole. We left it that we would both work on our respective engagement letters this week - I certainly got the impression the he wanted to go forward on this with us. He is also headed to ASF. Can we meet sometime on Feb 5th to discuss mechanics of this deal?

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

-----Original Message-----

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

From: Laura Schwartz
To: 'Fabrice.Tourre@gs.com' <Fabrice.Tourre@gs.com>; 'David.Gerst@gs.com' <David.Gerst@gs.com>
CC: 'Gail.Kreitman@gs.com' <Gail.Kreitman@gs.com>; 'ficc-mtgcorr-desk@ny.email.gs.com' <ficc-mtgcorr-desk@ny.email.gs.com>; Keith Gorman; 'melanie.herald@gs.com' <melanie.herald@gs.com>
Sent: Sat Jan 27 14:38:04 2007
Subject: Re: ABACUS - Initial Draft Engagement Letter for ACA

I am in Jackson Hole and Paolo is out here [redacted] for a week and we ran into each other last night. He called me this morning and wants to meet for a drink and discuss the deal this afternoon. Will keep you informed.

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Tourre, Fabrice <Fabrice.Tourre@gs.com>
To: Laura Schwartz; Gerst, David <David.Gerst@gs.com>
CC: Kreitman, Gail <Gail.Kreitman@gs.com>; ficc-mtgcorr-desk <ficc-mtgcorr-desk@ny.email.gs.com>; Keith Gorman; Herald - Granoff, Melanie <Melanie.Herald@gs.com>
Sent: Fri Jan 26 09:32:35 2007
Subject: RE: ABACUS - Initial Draft Engagement Letter for ACA

Laura -- all good questions. Some thoughts:

1- What expenses do you envision would be incurred in connection with the transaciton ? I think we/Paulson can envision paying your expenses in connection with marketing the transaction, subject to a reasonable cap.

2- In the engagement letter, the Portfolio Selection Fee is structured such that you get paid a spread (the "Portfolio Selection Fee Rate") on the tranches that are issued, subject to a floor of $1mm per annum. The Portfolio Selection Fee Rate is equal to 0.25% p.a. for the "AAA" tranche, 0.50% for the "AA" and "AA-" tranches, and 1.00% for the "A" tranche. Using our draft capital structure for a $1bn transaction and assuming we issue all the "AAA" through "A" notes, the aggregate Portfolio Selection Fees would be approx $1.25mm p.a. If we are able to upsize for a $2bn transaction and if we are able to issue all the "AAA" through "A" notes, the aggregate Portfolio Selection Fees would be approx $2.50mm p.a.

3- We are using McKee Nelson as deal counsel since they have a deep knowledge of the ABACUS transaction documents. I am afraid that if we use counsel not familiar with our deal structure, legal expenses might be significantly higher than otherwise, and the transaction execution might take more time.

4- Paolo at Paulson is out of the office until Wednesday of next week. We are trying to get his feedback on the target portfolio you have in mind, as well as on the compensation structure we have been discussing with you. Subject to Paolo being comfortable with those 2 aspects, it sounds like we will be in a position to engage you on this transaction.

From: Laura Schwartz [mailto:lschwartz@aca.com]
Sent: Friday, January 26, 2007 9:03 AM
To: Gerst, David
Cc: Kreitman, Gail; Tourre, Fabrice; ficc-mtgcorr-desk; Keith Gorman; Herald - Granoff, Melanie
Subject: RE: ABACUS - Initial Draft Engagement Letter for ACA

Confidential Treatment Requested by Goldman Sachs

Just a few questions before I send it to my counsel:

1. it says that any expenses we incur are for our account - I think the issuer/deal should pay our out of pocket in connection with this transaction (such as any travel etc)
2. the fee rate is set at $1 million - is this regardless of the ultimate size?
3. we generally like our counsel (Schulte) to be deal counsel 4. do you believe that we have this deal? do we need to do the work on the engagement letter before we know if we have the deal?

From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Thursday, January 25, 2007 10:53 AM
To: Laura Schwartz
Cc: Kreitman, Gail; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: ABACUS - Initial Draft Engagement Letter for ACA

Laura,

Attached is an initial draft of an Engagement Letter for the proposed ABACUS transaction. Please let us know your availability to discuss the draft and answer any questions you may have.

Thanks,

David

<<ABACUS ACA Engagement Letter 20070124.pdf>>

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

Goldman

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achs

David Gerst
Structured Products Trading

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From: Gerst, David
Sent: Wednesday, January 31, 2007 5:42 PM
To: Laura Schwartz
Cc: Kreitman, Gail; Herald - Granoff, Melanie; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: ABACUS Transaction - update

Attachments: Paulson Portfolio 1-22-07 (2) (2).xls

Laura,

We wanted to provide you with an update on the transaction:

From the 100 name portfolio that you had agreed to with Paolo (attached hereto), we would like to exclude SAIL 2006-BNC1 M7 and SAIL 2006-BNC2 M7, which are both on negative credit watch by Moody's. This leaves us with a portfolio of 98 names, for which we have been updating our model to refresh the capital structure. In addition, we have been working on a flipbook and termsheet in anticipation of marketing the transaction.

We will continue our discussions with Paolo to confirm his agreement with the proposed transaction as structured and look forward to discussing the transaction and draft Engagement Letter on Monday. In the meantime, can you please send us recent ACA marketing materials that we can include in our draft flipbook and termsheet.

Thanks,

David



Paulson Portfolio 1-22-07 (2) ...

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

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David Gerst
Structured Products Trading

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

ACA OVERLAP

No.	Deal	CUSIP	Moody's	S&P	
1	ABFC 2006-OPT1 M8	00075QAM4	Baa2	BBB	
2	ABFC 2006-OPT2 M8	00075XAP2	Baa2	BBB	
3	ABFC 2006-OPT3 M8	00075VAN1	Baa2		
4	ABSHE 2006-HE4 M7	04544GAP4	Baa2	BBB	
5	ACE 2006-FM2 M8	00442CAN9	Baa2	BBB	
6	ACE 2006-OP2 M9	00441YAP7	Baa2	BBB-	
7	ARSI 2006-W1 M8	040104RQ6	Baa2	BBB+	
8	CARR 2006-FRE1 M8	144538AM7	Baa2	A+	
9	CARR 2006-FRE1 M9	144538AN5	Baa2	A	
10	CARR 2006-FRE2 M8	14454AAN9	Baa2	BBB+	
11	CARR 2006-NC1 M8	144531FF2	Baa2	BBB+	
12	CARR 2006-NC2 M8	14453FAM1	Baa2	BBB	
13	CARR 2006-NC3 M9	144528AN8	Baa2	BBB-	
14	CARR 2006-OPT1 M8	144531FV7	Baa2	A-	
15	CMLTI 2006-AMC1 M8	17309PAL0	Baa2	BBB	
16	CMLTI 2006-NC1 M8	172983AN8	Baa2	BBB	
17	CMLTI 2006-WMC1 M8	17307G2F4	Baa2	BBB+	
18	FFML 2006-FF11 M8	32028PAP0	Baa2	BBB	
19	FFML 2006-FF12 M8	32027GAN6	Baa2	BBB	
20	FFML 2006-FF14 M8	32027LAP0	Baa2	BBB	
21	FFML 2006-FF7 M8	320277AP1	Baa2	BBB	
22	FHLT 2006-A M7	35729RAN6	Baa2	BBB	
23	FHLT 2006-B M8	35729QAN8	Baa2	BBB	
24	FMIC 2006-2 M8	31659EAM0	Baa2	BBB+	
25	GSAMP 2006-FM2 M8	36245DAN0	Baa2	BBB+	
26	HEAT 2006-3 M8	437084UZ7	Baa2	BBB+	
27	HEAT 2006-5 M8	437096AQ3	Baa2	BBB+	
28	HEAT 2006-6 M8	437097AP3	Baa2	A-	
29	HEAT 2006-7 M8	43709NAP8	Baa2	BBB+	
30	JPMAC 2006-FRE1 M8	46626LFV7	Baa2	BBB	
31	LBMLT 2006-4 M8	54251MAN4	Baa2	A-	
32	LBMLT 2006-6 M8	54251RAN3	Baa2	BBB+	
33	LBMLT 2006-7 M8	54251TAN9	Baa2	A-	
34	LBMLT 2006-WL1 M8	542514RD8	Baa2	BBB	
35	MABS 2006-NC2 M9	55275BAP2	Baa2	BBB-	
36	MLMI 2006-WMC1 B2A	59020U4H5	Baa2	BBB+	
37	MSAC 2006-NC4 B2	61748LAN2	Baa2	BBB	
38	MSAC 2006-WMC1 B2	61744CXV3	Baa2	A-	
39	MSAC 2006-WMC2 B2	61749KAP8	Baa2	BBB	
40	MSC 2006-HE2 B2	617451FD6	Baa2	BBB+	
41	NHELI 2006-FM1 M8	65536HCF3	Baa2	BBB+	
42	NHELI 2006-FM2 M8	65537FAN1	Baa2	BBB+	
43	NHELI 2006-HE3 M8	65536QAN8	Baa2	BBB+	
44	SABR 2006-FR1 B2	81375WJY3	Baa2	A-	
45	SABR 2006-FR3 B2	813765AH7	Baa2	BBB	
46	SABR 2006-HE2 B2	81377AAM4	Baa2	BBB	
47	SABR 2006-OP1 B2	81375WJN7	Baa2	BBB+	
48	SAIL 2006-4 M7	86360WAM4	Baa2	BBB	
49	SAIL 2006-BNC1 M7	86358ED86	Baa2	BBB	(exclude)
50	SAIL 2006-BNC2 M7	86358GAN1	Baa2	BBB	(exclude)
51	SVHE 2006-OPT1 M7	83611MMF2	Baa2	BBB	
52	SVHE 2006-OPT2 M7	83611MMT2	Baa2	A-	
53	SVHE 2006-OPT3 M7	83611MPR3	Baa2	BBB	
54	SVHE 2006-OPT5 M8	83612CAN9	Baa2	BBB	
55	CMLTI 2006-WFH2 M9	17309MAN3	Baa2	BBB-	

ACA SUBSTITUTIONS

No.	Deal	CUSIP	Moody's	S&P
1	ABFC 2006-HE1 M8	00075WAM1	Baa2	BBB
2	CMLTI 2007-WFH1 M9	17311CAM3	Baa2e	BBB-
3	CWL 2006-21 M8	12667LAN2	Baa2	BBB+
4	CWL 2006-22 M8	12666BAN5	Baa2	BBB+
5	CWL 2006-23 M8	12666CAN3	Baa2	BBB
6	CWL 2006-24 M8	23243HAN1	Baa2	BBB
7	FFML 2006-FF15 M8	32028GAP0	Baa2	BBB
8	FFML 2006-FF16 M8	320275AN0	Baa2	BBB+
9	FFML 2006-FF17 M8	32028KAP1	Baa2	BBB
10	GSAMP 2006-NC2 M8	362463AN1	Baa2	BBB
11	HEAT 2007-1 M8	43710LAN4	Baa2e	BBB+
12	JPMAC 2006-CW2 MV8	46629BBA8	Baa2	BBB
13	JPMAC 2006-NC1 M8	46626LJY7	Baa2	BBB
14	JPMAC 2006-WMC3 M8	46629KAP4	Baa2	BBB
15	MABS 2006-HE5 M9	576455AN9	Baa2	BBB-
16	MABS 2006-NC1 M8	57643LNP7	Baa2	BBB+
17	MABS 2006-WMC4 M8	57645MAP7	Baa2	BBB+
18	MSAC 2006-HE7 B2	61750MAP0	Baa2	BBB
19	MSAC 2006-HE8 B2	61750SAP7	Baa2	BBB
20	MSAC 2006-NC5 B3	61749BAQ6	Baa2	BBB-
21	MSIX 2006-2 B2	617463AM6	Baa2	BBB
22	NHEL 2006-5 M8	66988YAN2	Baa2	BBB+
23	OOMLT 2007-1 M8	68400DAP9	Baa2e	BBB
24	SABR 2007-NC1 B2	81378AAM3	Baa2e	BBB
25	SAIL 2006-BNC3 M7	86361KAM9	Baa2	BBB
26	SASC 2006-BC4 M8	86359RAN6	Baa2	BBB
27	SASC 2006-BC6 M9	86362VAP7	Baa2e	BBB-
28	SASC 2006-EQ1A M8	86360RAN3	Baa2	BBB
29	SURF 2007-BC1 B2	84752BAQ2	Baa2e	BBB
30	SVHE 2006-EQ2 M8	83611XAM6	Baa2	BBB
31	WMHE 2007-HE1 M8	933631AN3	Baa2	BBB

ACA ADDITIONAL NAMES

No.	Deal	CUSIP	Moody's	S&P
1	ABSHE 2006-HE3 M8	04541GXL1	Baa3	BBB-
2	CARR 2006-NC4 M9	14453MAP9	Baa3	BBB-
3	FMIC 2006-3 M9	316599AP4	Baa3	BBB
4	IXIS 2006-HE3 B3	46602UAN8	Baa3	BBB-
5	LBMLT 2006-11 M9	542512AP3	Baa3	BBB-
6	MSAC 2007-NC1 B3	617505AP7	Baa3e	BBB-
7	OOMLT 2007-1 M9	68400DAQ7	Baa3e	BBB-
8	SVHE 2006-WF1 M9	83612LAN9	Baa3	BBB-
9	SASC 2006-OPT1 M8	86359UAP4	Baa3	BBB-
10	FFML 2006-FF18 B3	32029AAP2	Baa3	BBB-
11	CWL 2006-14 M9	23243LAN2	Baa3	BBB-
12	CWL 2006-17 M9	12666VAN1	Baa3	BBB-
13	HEAT 2006-8 B1	43709QAQ9	Baa3	BBB
14	FFML 2006-FF9 M9	320276AQ1	Baa3	BBB

From: Laura Schwartz [lschwartz@aca.com]
Sent: Thursday, February 01, 2007 9:30 AM
To: Gerst, David
Cc: Kreitman, Gail; Herald - Granoff, Melanie; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: RE: ABACUS Transaction - update

Paolo called me this morning. We plan on sitting down tomorrow to try to finalize the portfolio. I suggested 3 alternates –
SASC 2006-WF3, Class M-9 and above
CMLTI 2006-WFHE3, Class M-9 and above
CMLTI 2007-AMC1, Class M8 and above

From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Wednesday, January 31, 2007 5:42 PM
To: Laura Schwartz
Cc: Kreitman, Gail; Herald - Granoff, Melanie; Tourre, Fabrice; ficc-mtgcorr-desk
Subject: ABACUS Transaction - update

Laura,

We wanted to provide you with an update on the transaction:

From the 100 name portfolio that you had agreed to with Paolo (attached hereto), we would like to exclude SAIL 2006-BNC1 M7 and SAIL 2006-BNC2 M7, which are both on negative credit watch by Moody's. This leaves us with a portfolio of 98 names, for which we have been updating our model to refresh the capital structure. In addition, we have been working on a flipbook and termsheet in anticipation of marketing the transaction.

We will continue our discussions with Paolo to confirm his agreement with the proposed transaction as structured and look forward to discussing the transaction and draft Engagement Letter on Monday. In the meantime, can you please send us recent ACA marketing materials that we can include in our draft flipbook and termsheet.

Thanks,

David

<<Paulson Portfolio 1-22-07 (2) (2).xls>>

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: (212) 902-4311 | Fax: (212) 256-2442
e-mail: david.gerst@gs.com

Goldman
Sachs

David Gerst
Structured Products Trading

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

From: Paolo Pellegrini [Paolo.Pellegrini@paulsonco.com]
Sent: Friday, February 02, 2007 11:10 AM
To: Laura Schwartz; Sihan Shu
Cc: Tourre, Fabrice; Gerst, David; Gail Kreitman; Lucas Westreich; Keith Gorman
Subject: RE: portfolio

Laura,

Thank you for meeting with me, Sihan and Fabrice this morning on such short notice. Coming into the meeting, I had not realized that you might have migrated the reference obligations on some of our original reference entities from the Baa2 to the A3 rating category. I apologize for not explaining more clearly that we had taken the whole portfolio to the Baa2 level, i.e., migrated both A3 and Baa3 to Baa2, assuming that the migration in opposite directions would have a neutral overall result. We then took the deals with ARM % > 75 and produced the list that we gave you this morning. If we take out the Baa2 bonds listed below, I am not sure that the result is neutral relative to the starting point. However, if you are absolutely adamant about excluding each of the bonds listed below, I hope that you will be able to come up with recent names that fit our criteria. If so, getting loan data on such names becomes critical.

Best,

Paolo

From: Laura Schwartz [mailto:lschwartz@aca.com]
Sent: Friday, February 02, 2007 10:07 AM
To: Paolo Pellegrini; Sihan Shu
Cc: Tourre, Fabrice; david.gerst@gs.com; Gail Kreitman; Lucas Westreich; Keith Gorman
Subject: portfolio

Thank you for coming down this morning to discuss the portfolio and portfolio strategy. In comparing our two worksheets, it appears that 9 positions that we kicked out made it back onto your second sheet. We are not willing to include the following 9 positions at the Baa2 level:

ARSI 2006-W3
ARSI 2006-W4
BSABS 2006-HE3
CMLTI 2006-NC2
FHLT 2006-D
LBMLT 2006-WL2
LBMLT 2006-WL3
MLMI 2006-OPT1
SURF 2006-BC1

We will provide substitutes for this as well as additional names.

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

From: Laura Schwartz [lschwartz@aca.com]
Sent: Friday, February 02, 2007 11:23 AM
To: Paolo Pellegrini; Sihan Shu
Cc: Tourre, Fabrice; Gerst, David; Gail Kreitman; Lucas Westreich; Keith Gorman
Subject: RE: portfolio
Attachments: Paulson Portfolio with performance 2-1-07.xls

Attached please find an updated file with the names we concur on as well as 21 replacement names at the bottom of the file. Let me know if these work for you at the Baa2 level. Thanks

---

From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Friday, February 02, 2007 11:10 AM
To: Laura Schwartz; Sihan Shu
Cc: Tourre, Fabrice; david.gerst@gs.com; Gail Kreitman; Lucas Westreich; Keith Gorman
Subject: RE: portfolio

Laura,

Thank you for meeting with me, Sihan and Fabrice this morning on such short notice. Coming into the meeting, I had not realized that you might have migrated the reference obligations on some of our original reference entities from the Baa2 to the A3 rating category. I apologize for not explaining more clearly that we had taken the whole portfolio to the Baa2 level, i.e., migrated both A3 and Baa3 to Baa2, assuming that the migration in opposite directions would have a neutral overall result. We then took the deals with ARM % > 75 and produced the list that we gave you this morning. If we take out the Baa2 bonds listed below, I am not sure that the result is neutral relative to the starting point. However, if you are absolutely adamant about excluding each of the bonds listed below, I hope that you will be able to come up with recent names that fit our criteria. If so, getting loan data on such names becomes critical.

Best,

Paolo

From: Laura Schwartz [mailto:lschwartz@aca.com]
Sent: Friday, February 02, 2007 10:07 AM
To: Paolo Pellegrini; Sihan Shu
Cc: Tourre, Fabrice; david.gerst@gs.com; Gail Kreitman; Lucas Westreich; Keith Gorman
Subject: portfolio

Thank you for coming down this morning to discuss the portfolio and portfolio strategy. In comparing our two worksheets, it appears that 9 positions that we kicked out made it back onto your second sheet. We are not willing to include the following 9 positions at the Baa2 level:

ARSI 2006-W3
ARSI 2006-W4
BSABS 2006-HE3
CMLTI 2006-NC2
FHLT 2006-D
LBMLT 2006-WL2
LBMLT 2006-WL3
MLMI 2006-OPT1
SURF 2006-BC1

We will provide substitutes for this as well as additional names.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

ACA OVERLAP

							Original	Current							WA																		IO Loans	
CUSIP	Name	Moody's	S&P	Fitch	Settle Date	WALA	CE	CE	OC	fc	bk	60-90 dq	reo	CNL	FICO	liens	600	ltv> 80	Pool Balance	Avg Prin Balance	WAC	fixed and balloons	WA OLTV	WA DTI	purchase	cash out	Rate-Term Refi %	Owner	Investor	full doc	%	Servicer
000750AM4	1 ABFC 2006-OPT1 M8	Baa2	BBB	BBB	8/10/2006	7	6.5	7.44	100%	0.94	0.03	1.28	0	0	610	3.17	40.91	46.78	$ 988,027,917.00	$ 205,564.00	8.58	3.18	82.37	43.00	38.62	56.80	6.58	92.91	5.93	62.34	12.37	Option One
000755XAP2	2 ABFC 2006-OPT2 M8	Baa2	BBB	BBB	10/12/2006	5	4.25	4.69	100%	0	0.05	0.06	0	0	607	1.58	46.97	34.74	$ 1,099,263,982.03	$ 217,569.86	8.67	16.23	79.53	43.05	29.80	64.02	8.18	92.70	5.93	58.23	12.56	Option One
00075VAN1	3 ABFC 2006-OPT3 M8	Baa2		BBB	11/14/2006	5	6.1	6.66	100%	0	0.02	0	0	0	640	0.00	16.90	100.00	$ 844,159,460.73	$ 246,426.33	8.79	8.61	98.13	43.77	62.89	30.86	6.25	94.52	4.57	74.38	19.76	Option One
04544GAP4	4 ABSHE 2006-HE4 M7	Baa2	BBB	BBB	4/28/2006	11	4.95	6.44	100%	6.53	0.54	2.93	0.2	0.02	618	5.15	37.13	44.01	$ 909,199,781.50	$ 192,382.52	8.27	19.11	82.08	42.24	39.50	52.45	8.04	92.38	4.47	57.54	5.07	Select Portfolio Servicing
00442CAN9	5 ACE 2006-FM2 M8	Baa2	BBB		10/30/2006	7	4.4	4.74	100%	1.47	0	3.04	0	0	627	6.55	28.69	33.21	$ 901,626,555.00	$ 217,417.00	8.49	18.73	81.67	43.09	55.27	43.66	1.07	93.97	5.28	53.85	13.00	Countrywide
00441YAP7	6 ACE 2006-OP2 M9	Baa2	BBB-		10/30/2006	7	4.65	5.05	100%	0.94	0.01	1.62	0.06	0	610	3.06	40.41	46.23	$ 892,105,501.00	$ 199,487.00	8.63	3.06	82.19	44.00	36.85	56.90	6.25	93.20	6.14	62.93	12.60	Option One
040104RQ6	7 ARSI 2006-W1 M8	Baa2	BBB+	BBB+	2/7/2006	14	4.9	6.57	100%	6.32	0.6	2.02	1.71	0.06	623	1.25	33.27	47.08	$ 2,273,538,631.06	$ 217,730.19	7.73	13.22	82.48	39.86	45.29	51.26	3.45	90.58	8.20	57.17	28.42	Ameriquest
1440538AM7	8 CARR 2006-FRE1 M8	Baa2	A+	BBB+	6/28/2006	9	7.85	9.75	100%	3.2	0.21	2.27	0.05	0.03	609	0.73	38.67	27.48	$ 1,222,172,681.48	$ 258,825.26	8.38	8.03	78.19	40.90	46.43	52.34	1.23	93.33	6.02	52.26	15.47	Fremont
1440538AN5	9 CARR 2006-FRE1 M9	Baa2	A	BBB+	6/28/2006	9	6.7	8.32	100%	3.2	0.21	2.27	0.05	0.03	609	0.73	38.67	27.48	$ 1,222,172,681.48	$ 258,825.26	8.38	8.03	78.19	40.90	46.43	52.34	1.23	93.33	6.02	52.26	15.47	Fremont
14454AAN9	10 CARR 2006-FRE2 M8	Baa2	BBB+		10/18/2006	5	4.6	4.89	100%	1.61	0.11	1.41	0	0	608	1.47	38.35	28.28	$ 981,604,848.97	$ 253,827.52	8.51	10.86	78.86	0.00	39.53	59.24	1.23	93.06	5.78	55.38	11.43	Fremont
144531FF2	11 CARR 2006-NC1 M8	Baa2	BBB+	BBB	2/8/2006	14	6.8	8.86	100%	4.27	0.79	1.43	1.17	0.01	630	0.63	27.01	38.25	$ 1,463,348,009.01	$ 211,741.86	7.24	13.62	81.17	0.00	42.41	47.83	9.76	93.24	3.55	59.16	62.61	New Century
14453FAM1	12 CARR 2006-NC2 M8	Baa2	BBB+	BBB	6/21/2006	9	5.35	6.51	100%	3.84	0.11	2.33	0.04	0	623	1.01	34.75	37.77	$ 943,090,875.57	$ 211,076.74	8.32	11.60	80.82	40.64	43.24	48.42	8.34	90.61	6.71	51.98	13.68	New Century
144528AN8	13 CARR 2006-NC3 M9	Baa2	BBB-	BBB-	6/10/2006	7	3.65	3.93	100%	2.39	0.19	1.8	0.03	0	621	0.99	34.76	37.09	$ 1,620,590,236.26	$ 214,704.59	8.24	16.84	80.32	41.21	40.60	49.78	9.42	92.22	5.07	59.51	21.59	New Century
144531FV7	14 CARR 2006-OPT1 M8	Baa2	A-	BBB+	3/14/2006	13	6.5	8.95	100%	3.43	0.41	1.78	0.39	0	609	1.03	40.29	34.00	$ 1,015,025,383.08	$ 214,321.24	8.02	16.29	78.15	39.10	29.85	64.05	6.10	95.03	3.57	52.95	16.95	Option One
17309PAL0	15 CMLTI 2006-AMC1 M8	Baa2	BBB		9/28/2006	7	5.15	5.86	100%	0.3	0.06	1.32	0	0.01	619	1.16	33.87	45.12	$ 1,300,516,001.59	$ 192,043.12	8.40	18.36	81.37	40.53	37.81	57.70	4.49	90.77	6.13	60.65	15.26	Ameriquest
172983AN8	16 CMLTI 2006-NC1 M8	Baa2	BBB		6/29/2006	8	4.8	5.68	100%	3.67	0.1	2.53	0.03	0	620	5.60	35.60	40.42	$ 973,489,501.84	$ 204,300.00	8.50	16.55	81.22	41.81	41.16	50.21	8.61	89.33	6.91	50.77	10.16	Wells Fargo
17307G2F4	17 CMLTI 2006-WMC1 M8	Baa2	BBB+	A-	1/31/2006	15	4.95	6.6	98%	6.11	0.83	2.48	2.11	0.45	642	10.96	21.10	31.33	$ 982,227,716.83	$ 200,005.64	7.30	17.36	82.00	41.81	54.97	42.57	2.47	96.06	1.12	32.00	17.17	Wells Fargo
32028PAP0	18 FFML 2006-FF11 M8	Baa2	BBB	BBB	9/6/2006	7	3.1	3.29	100%	2.5	0.24	2.04	0.03	0	647	0.00	13.07	28.30	$ 1,923,547,923.14	$ 187,608.30	7.98	14.92	82.61	41.49	70.68	25.86	3.25	96.31	3.03	67.57	37.01	Wells Fargo
32027GAN6	19 FFML 2006-FF12 M8	Baa2	BBB	BBB	8/30/2006	6	2.8	2.97	100%	1	0.12	1.13	0	0	650	0.00	13.00	26.68	$ 1,049,677,646.00	$ 186,910.00	8.00	16.90	82.90	43.00	72.80	24.30	3.00	96.60	2.60	68.20	33.72	National City
32027GAP5	20 FFML 2006-FF14 M8	Baa2	BBB	BBB	9/25/2006	5	2.9	3	100%	0.77	0.06	1.26	0	0.00	650	0.00	13.23	30.26	$ 1,162,896,245.00	$ 189,891.00	8.10	17.50	83.30	43.20	71.70	25.50	2.80	96.60	2.70	65.10	29.20	National City
32027LAP0	21 FFML 2006-FF7 M8	Baa2	BBB	BBB	5/31/2006	10	2.75	3.14	100%	3.48	0.2	1.92	0.55	0.04	647	0.00	18.77	33.88	$ 1,184,741,228.59	$ 193,458.72	7.98	18.44	82.55	42.84	57.50	38.19	4.31	96.25	2.62	59.54	40.60	Wells Fargo
320277AP1	22 FHLT 2006-A M7	Baa2	BBB	BBB+	5/10/2006	9	5.55	6.75	100%	5.11	0.62	2.33	0.49	0.01	621	4.27	35.89	31.84	$ 1,033,549,219.00	$ 231,946.00	8.52	9.71	80.52	43.09	48.09	50.85	1.05	93.15	5.81	52.72	9.96	Fremont
35729RAN6	23 FHLT 2006-B M8	Baa2	BBB	BBB+	8/3/2006	7	4.6	5.14	81%	3.71	0.3	2.78	0.13	0.03	627	7.06	30.94	34.27	$ 1,014,751,723.00	$ 212,959.00	8.60	19.06	81.43	43.78	49.44	45.59	1.28	95.53	3.58	56.42	9.31	Fremont
316599EAM0	24 FMIC 2006-2 M8	Baa2	BBB+		7/6/2006	7	5.2	5.53	100%	3.35	0.35	1.9	0.18	0.03	644	2.11	21.12	60.16	$ 600,031,745.00	$ 191,153.79	8.26	10.03	84.14	41.59	65.06	34.50	0.42	99.08	0.92	43.60	42.91	Chase
36245DAN0	25 GSAMP 2005-FM2 M8	Baa2	BBB+		9/29/2006	6	3.75	4.22	100%	0.76	0.05	1.43	0	0	628	6.17	28.50	32.40	$ 1,021,776,222.00	$ 224,222.00	8.54	18.10	76.30	43.37	51.62	47.89	0.69	94.21	4.94	54.57	9.33	Fremont
437084UZ7	26 HEAT 2006-3 M8	Baa2	BBB+	BBB+	3/30/2006	13	3.75	4.77	100%	3.16	0.52	1.47	0.73	0.03	627	4.00	30.24	35.80	$ 1,385,458,952.00	$ 165,586.00	7.71	16.80	80.30	40.79	37.20	57.00	5.80	96.60	2.70	74.30	22.20	Select Portfolio Servicing
437096AQ3	27 HEAT 2006-5 M8	Baa2	BBB+	BBB+	7/5/2006	10	3.9	4.5	100%	3.35	0.46	1.96	0.25	0.03	631	1.90	28.60	27.50	$ 824,907,838.00	$ 197,877.00	7.93	13.40	79.50	41.30	46.70	47.70	5.60	92.50	6.90	55.70	19.50	Select Portfolio Servicing
437097AP3	28 HEAT 2006-6 M8	Baa2	A-	A-	8/1/2006	8	4.85	5.41	100%	3.34	0.23	1.99	0.06	0.02	628	3.70	28.45	24.30	$ 824,187,591.00	$ 173,003.00	8.08	15.10	79.50	42.90	49.30	44.50	6.10	94.70	4.80	62.00	10.00	Select Portfolio Servicing
43709NAP6	29 HEAT 2006-7 M8	Baa2	BBB+	BBB+	10/3/2006	6	4	4.23	100%	0.67	0.03	2.94	0.03	0.00	632	0.00	29.30	29.70	$ 1,095,034,662.00	$ 196,666.00	8.26	19.60	79.40	0.00	46.10	48.40	5.50	94.70	4.60	54.10	15.30	Select Portfolio Servicing
46626LFV7	30 JPMAC 2006-FRE1 M8	Baa2	BBB	BBB	1/27/2006	14	7	9.94	100%	8.11	1.06	2.6	2.49	0.32	627	6.02	29.30	32.62	$ 1,012,403,168.00	$ 204,278.00	7.64	12.03	81.80	42.89	55.12	43.95	0.94	93.09	5.90	58.42	14.26	Chase
542511MAN4	31 LBMLT 2006-4 M8	Baa2	A-		5/9/2006	8	5.35	6.23	100%	3.52	0.27	3.05	0.07	0.01	635	4.98	20.00	21.36	$ 1,972,676,788.00	$ 193,292.33	8.55	14.13	80.73	41.68	67.71	29.25	3.05	90.67	6.32	44.48	7.14	Long Beach
542511RAN3	32 LBMLT 2006-6 M8	Baa2	BBB+	BBB+	7/26/2006	7	5.1	5.67	100%	1.51	0.14	2.71	0	0.01	638	4.78	18.68	26.18	$ 1,686,107,488.00	$ 211,728.02	8.39	16.15	80.88	41.62	56.45	39.22	4.32	91.47	7.29	50.51	6.36	Long Beach
542511TAN9	33 LBMLT 2006-7 M8	Baa2	A-	BBB+	8/30/2006	6	4.55	4.88	100%	0.11	0.01	2.66	0	0	636	5.30	18.95	26.51	$ 1,596,611,028.00	$ 208,761.90	8.39	16.07	80.71	41.49	52.30	43.84	3.88	91.66	6.94	53.67	6.29	WAMU
542514RD8	34 LBMLT 2006-WL1 M8	Baa2	BBB		2/8/2006	16	6.75	9.21	100%	4.52	0.75	2.05	1.3	0.12	636	3.98	25.00	24.58	$ 2,081,150,970.00	$ 204,495.00	7.49	10.01	81.17	42.30	65.13	32.61	2.07	91.79	7.46	37.26	6.79	Long Beach
55275BAP2	35 MABS 2006-NC2 M9	Baa2	BBB-	BBB	9/28/2006	7	4.45	4.84	100%	3.7	0.25	1.6	0	0.00	620	5.90	35.93	41.71	$ 900,289,511.00	$ 184,902.00	8.52	17.54	81.29	0.00	42.83	49.58	7.58	90.08	6.49	52.91	11.35	HomeEq
59020U4H5	36 MLMI 2006-WMC1 B2A	Baa2	BBB+		2/14/2006	13	5.85	7.69	100%	4.11	0.61	2.01	0.91	0.32	639	10.43	22.46	33.66	$ 1,266,138,649.00	$ 196,668.00	7.58	15.39	82.36	41.66	50.33	46.82	2.85	96.40	1.28	32.52	17.16	Wilshire
61748LAN2	37 MSAC 2006-NC4 B2	Baa2	BBB	BBB	6/23/2006	10	4.1	4.89	100%	7	0.33	2.63	0.08	0.14	621	4.09	34.50	40.99	$ 2,157,140,044.00	$ 196,467.20	8.31	16.41	81.06	40.94	39.90	51.91	8.19	90.21	6.36	51.01	10.39	Wells Fargo
61744CXV3	38 MSAC 2006-WMC1 B2	Baa2	A-	BBB+	1/26/2006	16	5.65	7.63	100%	4.07	0.85	1.92	1.11	0.29	641	9.88	20.74	31.58	$ 1,142,646,601.92	$ 198,238.79	7.22	27.28	82.21	41.26	54.42	42.94	2.64	95.37	1.71	48.63	17.28	Chase
61749KAP6	39 MSAC 2006-WMC2 B2	Baa2	BBB	BBB	6/28/2006	9	3.75	4.2	100%	5.54	0.34	2.77	0.35	0.15	643	8.76	18.56	28.90	$ 2,602,867,087.00	$ 207,839.91	8.09	18.74	82.03	42.32	58.90	38.99	2.12	95.74	1.48	42.32	13.62	Wells Fargo
617451FD6	40 MSC 2006-HE2 B2	Baa2	BBB+	BBB	4/28/2006	13	4.55	5.57	100%	5.26	0.85	2.14	1.25	0.22	630	7.28	27.24	32.28	$ 2,266,849,639.35	$ 184,147.01	7.75	14.10	81.63	42.20	48.73	45.74	5.52	96.60	1.42	51.09	10.21	Wells Fargo
65536HCF3	41 NHELI 2006-FM1 M8	Baa2	BBB	BBB	1/30/2006	15	5.9	8.23	100%	6.54	0.06	2.43	1.03	0.07	625	5.72	33.69	32.37	$ 933,771,934.00	$ 209,931.00	7.55	11.62	81.42	42.55	53.73	43.89	2.28	93.50	5.74	51.72	23.61	Equity One
65537FAN1	42 NHELI 2006-FM2 M8	Baa2	BBB+	BBB+	10/31/2006	8	5.35	5.79	100%	0	0	3	0	0	626	7.02	26.69	24.73	$ 1,228,042,426.00	$ 214,916.17	8.45	16.57	81.14	42.56	52.97	45.53	1.51	94.26	5.23	54.99	12.48	Equity One
65536QAN8	43 NHELI 2006-HE3 M8	Baa2	BBB+	BBB+	8/31/2006	10	6	6.84	100%	3.81	0.34	3.49	0.13	0	618	3.37	38.23	37.55	$ 1,057,399,752.00	$ 186,260.00	8.18	17.20	79.64	41.00	36.33	60.27	3.41	92.42	6.33	51.62	19.40	Wells Fargo
81375WJY3	44 SABR 2006-FR1 B2	Baa2	A-	BBB+	2/23/2006	15	6.5	8.62	100%	6.46	0.81	1.29	2.06	0.24	627	5.48	32.35	33.62	$ 989,194,089.00	$ 214,855.00	7.50	11.77	81.73	42.53	53.90	45.87	0.23	93.51	5.76	58.98	23.36	HomeEq
813765AH7	45 SABR 2006-FR3 B2	Baa2	BBB	BBB+	8/3/2006	10	5.2	6.36	100%	7.88	0.36	2.19	0.4	0.03	619	6.42	33.85	32.82	$ 967,602,652.00	$ 215,493.00	8.47	10.84	80.62	43.00	44.25	55.36	0.38	94.00	5.33	53.43	9.98	HomeEq
81377AAM4	46 SABR 2006-HE2 B2	Baa2	BBB	BBB+	9/28/2006	8	4.35	4.85	100%	2.47	0.12	1.63	0.02	0.03	624	6.23	31.84	35.85	$ 1,024,802,507.00	$ 183,821.00	8.37	18.41	80.94	41.00	41.94	55.00	3.05	92.76	5.79	54.91	13.22	HomeEq
81375WJN7	47 SABR 2006-OP1 B2	Baa2	BBB+	BBB+	1/26/2006	18	4.35	6.47	100%	2.88	0.75	1.08	0.69	0.03	622	0.07	37.05	36.85	$ 1,258,700,972.00	$ 180,888.00	7.43	15.67	79.75	40.44	36.30	58.44	5.26	93.48	4.98	57.94	22.65	Option One
86360WAM4	48 SAIL 2006-4 M7	Baa2	BBB	BBB	6/30/2006	10	2.45	2.92	100%	5.39	0.5	2.79	0.41	0.03	621	4.20	34.61	47.51	$ 2,500,187,875.00	$ 195,495.00	8.40	17.10	82.10	42.00	40.00	54.20	5.80	87.50	9.60	51.00	19.00	Aurora
83611MMF2	49 SVHE 2006-OPT1 M7	Baa2	BBB	BBB+	3/10/2006	12	4.6	6.1	100%	4.75	0.45	1.34	0.57	0.02	622	4.39	36.27	41.07	$ 1,046,774,019.00	$ 194,857.00	8.35	18.51	80.50	42.77	33.78	59.81	8.41	91.67	6.49	54.42	17.45	Option One
83611MMT2	50 SVHE 2006-OPT2 M7	Baa2	A-		4/7/2006	11	4.55	6	100%	3.37	0.28	1.61	0.2	0.01	622	3.84	34.87	27.86	$ 1,500,000,000.00	$ 203,473.00	8.47	15.14	77.60	42.69	31.43	64.03	4.54	89.22	8.45	47.83	16.05	Option One
83611MPR3	51 SVHE 2006-OPT3 M7	Baa2	BBB		5/12/2006	10	5.35	6.83	100%	2.96	0.31	1.98	0.17	0.00	602	4.60	46.18	43.53	$ 2,000,000,000.00	$ 193,630.00	8.58	15.06	80.38	42.27	29.25	64.60	6.15	94.01	4.07	59.26	9.25	Option One
83612CAN9	52 SVHE 2006-OPT5 M8	Baa2	BBB	BBB+	6/19/2006	9	4.75	5.72	100%	1.94	0.12	1.74	0.02	0.00	605	4.43	45.27	39.72	$ 3,096,773,890.00	$ 196,798.00	8.45	16.76	80.56	42.00	30.88	61.99	7.13	93.43	5.15	62.11	8.79	Option One
17309MAN3	53 CMLTI 2006-WFH2 M9	Baa2	BBB-		6/30/2006	7	4	4.4	100%	1.7	0.12	0.34	0	0	619	1.71	36.62	45.97	$ 972,062,509.00	$ 157,600.93	8.16	19.31	81.72	42.47	42.00	51.23	6.77	92.85	5.82	90.99	10.91	Wells Fargo
17311CAM3	54 CMLTI 2007-WFH1 M9	Baa2e	BBB-		2/8/2007	2	4.45	4.45	100%	–	–	–		–	617	2.67	36.01	52.97	$ 447,648,559.00	$ 147,495.41	8.63	18.88	83.84	42.49	47.75	43.70	8.55	92.11	6.07	69.68	10.36	Wells Fargo
23243HAN1	55 CWL 2006-24 M8	Baa2	BBB		12/29/2006	1	3.45	3.45	100%	–	–	–		–	613	0.00	40.86	37.49	$ 700,068,561.00	$ 197,096.44	8.18	20.71	80.14	0.00	34.10	59.70	6.20	93.95	5.07	57.83	31.19	Countrywide
32028GAP0	56 FFML 2006-FF15 M8	Baa2	BBB	BBB	10/30/2006	4	2.9	2.96	100%	0.76	0.06	0.44	0	0	646	0.00	12.60	29.84	$ 2,290,192,214.00	$ 180,010.00	8.12	19.87	83.07	42.88	70.24	26.64	3.13	96.83	2.58	68.64	31.12	National City
320275AN0	57 FFML 2006-FF16 M8	Baa2	BBB+		11/30/2006	3	3	3.04	100%	0.1	0.01	0.07	0	0	649	0.00	11.92	30.84	$ 1,203,955,585.00	$ 199,034.00	8.08	23.00	83.39	43.13	70.03	27.05	2.92	97.07	2.35	65.14	24.19	National City
32028KAP1	58 FFML 2006-FF17 M8	Baa2	BBB	BBB	11/27/2006	3	2.85	2.89	100%	0.08	0.04	0.09	0	0	649	0.00	11.67	31.62	$ 805,386,585.00	$ 193,416.00	8.10	23.10	83.65	43.00	71.94	25.27	2.79	96.20	3.41	65.00	25.10	National City
46629BBA8	59 JPMAC 2006-CW2 MV6	Baa2	BBB	BBB	8/8/2006	9	5.65	6.65	100%	3.94	0.2	1.59	0.27	0	615	2.94	36.95	32.56	$ 1,054,461,878.56	$ 174,089.79	8.22	36.86	79.32	40.37	39.79	55.68	4.33	96.92	2.55	62.59	29.36	Countrywide
46629KAP4	60 JPMAC 2006-WMC3 M8	Baa2	BBB	BBB	9/14/2006	6	4.95	5.23	100%	3.33	0.1	1.62	0.01	0	642	10.88	20.13	27.30	$ 959,177,770.00	$ 200,413.00	8.19	20.44	82.22	42.77	60.26	37.41	2.34	95.31	1.35	26.24	11.63	Chase
576455AN9	61 MABS 2006-HE5 M9	Baa2	BBB-		12/28/2006	3	4.35	4.35	100%	–	–	–		–	624	6.27	30.50	69.98	$ 915,984,549.00	$ 177,688.56	8.52	24.13	87.31	41.29	42.11	50.34	7.55	92.33	5.80	60.21	12.48	
57645MAP7	62 MABS 2006-WMC4 M8	Baa2	BBB+		11/30/2006	4	4.15	4.15	100%	–	–	–		–	643	11.14	17.83	27.15	$ 982,796,262.00	$ 195,077.00	8.19	18.78	82.26	42.77	61.92	36.24	1.84	96.04	1.26	24.95	11.66	Chase
81750MAP0	63 MSAC 2006-HE7 B2	Baa2	BBB+		10/31/2006	8	4.1	4.3	100%	1.57	0.12	1.75	0	0	625	5.32	30.58	40.02	$ 1,285,069,013.00	$ 188,810.44	8.27	17.14	81.99	41.32	47.39	46.12	6.49	94.34	4.04	54.60	16.55	Countrywide
81750SAP7	64 MSAC 2006-HE8 B2	Baa2	BBB		11/29/2006	5	4.25	4.37	100%	0.19	0.06	1.87	0	0	626	4.74	31.58	42.78	$ 1,512,888,751.00	$ 192,798.00	8.29	21.66	81.53	0.00	39.71	51.80	6.48	93.50	4.23	58.88	18.48	Saxon
81749AQ8	65 MSAC 2006-NC5 B3	Baa2	BBB-		11/28/2006	5	4.3	4.45	100%	0.06	0.07	1.14	0	0	626	5.50	31.62	41.94	$ 1,392,187,337.24	$ 201,095.96	8.37	22.23	81.43	41.13	42.36	49.40	8.23	91.33	5.61	55.36	20.63	Countrywide
617483AM6	66 MSIX 2006-2 B3	Baa2	BBB-		11/28/2006	4	4.65	4.65	100%	–	–	–		–	633	4.55	26.63	40.80	$ 1,385,620,442.00	$ 205,155.00	8.43	17.25	82.12	42.36	42.32	54.95	2.73	94.73	4.49	42.97	18.48	Saxon
66988YAN2	67 NHEL 2006-5 M8	Baa2	BBB+		9/28/2006	4	3.5	3.84	100%	1.65	0.52	1.43	0.32	0.00	616	4.68	43.25	50.06	$ 748,606,624.00	$ 165,401.00	9.36	18.98	79.18	42.00	41.77	54.57	3.68	92.26	4.30	45.54	12.11	Novastar
68400DAP9	68 OOMLT 2007-1 M8	Baa2e	BBB		1/24/2007										607	3.99	45.31	44.15	$ 1,781,034,907.00	$ 193,632.84	8.76	3.99	80.25	42.35	33.14	59.63	7.22	90.63	8.12	57.48	11.45	Option One
86360RAN3	69 SASC 2006-EQ1A M8	Baa2	BBB		7/17/2006	8	5.05	5.81	100%	2.05	0.22	2.42	0.12	0	624	4.90	32.82	45.58	$ 1,520,803,162.00	$ 158,648.00	8.30	14.60	83.30	41.70	42.90	55.30	1.90	93.50	5.10	59.90	12.60	Aurora
84752BAQ2	70 SURF 2007-BC1 B2	Baa2e	BBB		1/24/2007	2	5.7	5.7	100%	–	–	–		–	613	6.38	38.74	47.57	$ 901,517,296.00	$ 174,374.72	8.45	24.26	83.09	42.51	36.62	67.66	5.72	95.91	3.38	45.10	14.10	Wilshire
83611XAM6	71 SVHE 2006-EQ2 M8	Baa2	BBB	BBB	12/28/2006	1	4.25	4.25	100%	–	–	–		–	631	5.49	25.75	50.05	$ 834,869,979.00	$ 168,865.29	8.36	24.96	84.25	41.07	41.81	56.45	1.75	94.07	4.97	55.93	11.52	Ocwen
04541GXK3	72 ABSHE 2006-HE3 M7	Baa2	BBB	BBB	4/17/2006	12	3.6	4.69	100%	3.17	0.54	1.3	0.42	0.01	623	4.27	36.18	40.28	$ 965,369,483.31	$ 198,191.23	8.10	18.64	80.43	42.57	33.98	59.62	6.39	92.23	6.08	54.81	17.56	Option One
316599AN9	73 FMIC 2006-3 M8	Baa2	BBB+		10/27/2006	7	4.15	4.31	100%	0.68	0.16	1.18	0	0	650	0.00	17.51	72.67	$ 859,062,170.00	$ 215,981.00	8.42	13.87	84.63	41.65	60.91

From: Paolo Pellegrini [Paolo.Pellegrini@paulsonco.com]
Sent: Monday, February 05, 2007 2:55 PM
To: Laura Schwartz
Cc: Tourre, Fabrice; Gerst, David; Sihan Shu
Subject: Revised Portfolio

Attachments: ABACUS ACA Portfolio 2.5.07.xls



ABACUS ACA Portfolio 2.5.07.xl...

Laura,

I attach the portfolio you proposed with eight deletions. Two are duplicates and the others are either too seasoned or have some other characteristics that make them too risky from our perspective. I understand from Fabrice that 92 names provide sufficient diversification and hope that you will find our counter-proposal acceptable.

Best regards.

Paolo M. Pellegrini
Vice President
Paulson & Co. Inc.
590 Madison Avenue, 29th Floor
New York, NY 10022
Phone: (212) 956-4129 (direct)
(212) 956-2221 (main)
(212) 977-9505 (fax)

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

Footnote Exhibits - Page 4808

CUSIP	Old Number	New Number	Name	Moody's	S&P	Fitch	Settle Date	WALA	Original CE	Current CE	OC	fo	bk	60-90 dq	reo	CNL	WA FICO	2nd liens	FICO < 600	fhr> 80	Pool Balance	Avg Prin Balance	WAC	fixed and balloons	WA OLTV	WA DTI	purchase	cash out	Rate-Term Refi %	Owner	Investor	full doc	%	Servicer	
Overlap with ACA Excluding Old # 70																																		
00075QAM4	1	1	ABFC 2006-OPT1 M8	Baa2	BBB	BBB	06/10/06	7	6.50	7.44	100%	0.94	0.03	1.26	-	-	610	3.17	40.91	46.78	968,027,917	205,564	8.56	3.18	82.37	43.00	38.62	58.60	6.58	92.91	6.93	62.34	12.37	Option One	06/10/06
00075XAP2	2	2	ABFC 2006-OPT2 M8	Baa2	BBB	BBB	10/12/06	5	4.25	4.69	100%	-	0.05	0.06	-	-	607	1.58	46.97	34.74	1,099,263,982	217,590	8.67	16.23	79.53	43.05	29.80	64.02	6.16	92.70	5.93	56.23	12.56	Option One	10/12/06
00075VAN1	3	3	ABFC 2006-OPT3 M8	Baa2		BBB	11/14/06	5	6.10	6.68	100%	-	0.02	-	-	-	640	0.00	16.90	100.00	844,159,461	248,426	8.79	8.61	98.13	43.77	62.89	30.86	6.25	94.52	4.57	74.36	19.76	Option One	11/14/06
04541GXK3	4	4	ABSHE 2006-HE3 M7	Baa2	BBB	BBB	04/17/06	12	3.60	4.69	100%	3.17	0.54	1.30	0.42	0.01	623	4.27	36.18	40.28	965,389,463	196,191	8.10	18.84	80.43	42.57	33.98	59.62	6.39	92.23	6.08	54.81	17.56	Option One	04/17/06
04544GAP4	5	5	ABSHE 2006-HE4 M7	Baa2	BBB	BBB	04/28/06	11	4.95	6.44	100%	6.53	0.54	2.93	0.20	0.02	618	5.15	37.13	44.01	909,199,782	192,383	8.27	19.11	82.06	42.24	39.50	52.45	8.04	92.38	4.47	67.54	5.07	Select Portfolio Servicing	04/28/06
00442CAN9	6	6	ACE 2006-FM2 M8	Baa2			10/30/06	7	4.40	4.74	100%	1.47	-	3.04	-	-	627	6.55	28.69	33.21	901,626,555	217,417	8.49	16.73	81.67	43.09	55.27	43.66	1.07	93.97	5.26	53.85	13.00	Countrywide	10/30/06
00441YAP7	7	7	ACE 2006-OP2 M9	Baa2	BBB-		10/30/06	7	4.85	5.05	100%	0.94	0.01	1.82	0.06	-	610	3.06	40.41	46.23	892,105,501	199,487	8.63	3.06	82.19	44.00	36.85	56.90	6.25	93.20	6.14	62.93	12.60	Option One	10/30/06
040104RQ6	8	8	ARSI 2006-W1 M8	Baa2	BBB+	BBB+	02/07/06	14	4.90	6.57	100%	6.32	0.60	2.02	1.71	0.06	623	1.25	33.27	47.08	2,273,538,631	217,730	7.73	13.22	82.48	39.98	45.29	51.26	3.45	90.58	8.20	57.17	28.42	Ameriquest	02/07/06
144536AM7	9	9	CARR 2006-FRE1 M8	Baa2	A+	BBB+	06/28/06	9	7.65	9.75	100%	3.20	0.21	2.27	0.05	-	609	0.73	38.67	27.48	1,222,172,881	258,825	8.38	8.03	78.19	40.90	46.43	52.34	1.23	93.33	6.02	62.26	18.47	Fremont	06/28/06
144536AN5	10	10	CARR 2006-FRE1 M9	Baa2	A	BBB+	06/28/06	9	6.70	8.32	100%	3.20	0.21	2.27	0.05	-	609	0.73	38.67	27.48	1,222,172,881	258,825	8.38	8.03	78.19	40.90	46.43	52.34	1.23	93.33	6.02	62.26	15.47	Fremont	06/28/06
14454AAN9	11	11	CARR 2006-FRE2 M8	Baa2	BBB+		10/18/06	5	4.60	4.69	100%	1.61	0.11	1.41	-	-	606	1.47	38.35	28.28	981,804,849	253,826	8.51	10.86	78.86	0.00	39.53	59.24	1.23	93.06	5.78	55.38	11.43	Fremont	10/18/06
144531FF2	12	12	CARR 2006-NC1 M8	Baa2	BBB+	BBB	02/06/06	14	6.80	8.68	100%	4.27	0.79	1.43	1.17	0.01	630	0.63	27.01	38.25	1,483,348,009	211,742	7.24	13.62	81.17	0.00	42.41	47.83	9.76	93.24	3.55	59.16	52.61	New Century	02/06/06
14453FAM1	13	13	CARR 2006-NC2 M8	Baa2	BBB	BBB	05/31/06	9	5.35	6.51	100%	3.64	0.11	2.33	0.04	-	625	1.01	34.75	37.77	943,090,876	211,077	8.32	11.60	80.62	40.84	43.24	48.42	8.34	90.81	6.71	61.98	13.66	New Century	05/31/06
144528AN8	14	14	CARR 2006-NC3 M9	Baa2	BBB-	BBB-	08/10/06	7	3.65	3.93	100%	2.39	0.19	1.60	0.03	-	621	0.99	34.78	37.09	1,620,590,236	214,705	8.24	16.84	80.32	41.21	40.80	49.78	9.42	92.22	5.07	59.51	21.59	New Century	08/10/06
144531FV7	15	15	CARR 2006-OPT1 M8	Baa2	A-	BBB+	03/14/06	13	6.50	8.95	100%	3.43	0.41	1.78	0.39	-	609	1.03	40.29	34.00	1,015,025,383	214,321	8.02	18.25	78.15	39.10	29.85	64.05	6.10	95.03	3.57	52.95	16.95	Option One	03/14/06
17309PAL0	16	16	CMLTI 2006-AMC1 M8	Baa2	BBB		09/28/06	7	5.15	5.68	100%	0.30	0.06	1.32	-	0.01	619	1.18	33.87	45.12	1,300,516,002	192,043	8.40	18.36	81.37	40.53	37.81	57.70	4.49	90.77	8.13	60.65	15.26	Ameriquest	09/28/06
172983AN6	17	17	CMLTI 2006-NC1 M8	Baa2	BBB		06/29/06	8	4.80	5.68	100%	3.67	0.10	2.53	0.03	-	620	5.60	35.60	40.42	973,489,502	204,300	8.50	16.55	81.22	41.81	41.18	50.21	8.61	89.33	6.91	50.77	10.16	Wells Fargo	06/29/06
17309MAN3	18	18	CMLTI 2006-WFH2 M9	Baa2	BBB-		06/30/06	7	4.00	4.40	100%	1.70	0.12	0.34	-	-	619	1.71	36.62	45.97	972,082,509	157,601	8.16	19.31	81.72	42.47	42.00	51.23	8.77	92.85	5.82	90.99	10.91	Wells Fargo	06/30/06
17307G2F4	19	19	CMLTI 2006-WMC1 M8	Baa2	BBB+	A-	01/31/06	15	4.95	6.60	98%	6.11	0.83	2.48	2.11	0.48	642	10.96	21.10	31.33	982,227,717	200,006	7.30	17.36	82.00	41.81	54.97	42.57	2.47	96.06	1.12	32.00	17.17	Wells Fargo	01/31/06
17311CAM3	20	20	CMLTI 2007-WFH1 M9	Baa2e	BBB-		02/09/07	2	4.45	4.45	100%						617	2.87	36.01	52.97	447,648,559	147,495	8.63	18.88	83.84	42.49	47.75	43.70	6.55	92.11	6.07	69.66	10.36	Wells Fargo	02/09/07
23243HAN1	21	21	CWL 2006-24 M8	Baa2	BBB		12/29/06	1	3.45	3.45	100%						613	0.00	40.88	37.49	700,086,561	197,096	8.18	20.71	80.14	0.00	34.10	59.70	6.20	93.95	5.07	57.83	31.19	Countrywide	12/29/06
32028PAP0	22	22	FFML 2006-FF11 M8	Baa2	BBB	BBB	09/06/06	7	3.10	3.29	100%	2.50	0.24	2.04	0.03	-	647	0.00	13.07	28.30	1,923,547,923	187,606	7.98	14.92	82.61	41.49	70.88	25.66	3.25	96.31	3.03	67.57	37.01	Wells Fargo	09/06/06
32027GAN6	23	23	FFML 2006-FF12 M8	Baa2	BBB	BBB	08/30/06	6	2.60	2.97	100%	1.00	0.12	1.13	-	-	650	0.00	13.00	28.68	1,049,877,646	186,810	8.00	16.90	82.90	43.00	72.60	24.30	3.00	96.60	2.60	66.20	33.72	National City	08/30/06
32027LAP0	24	24	FFML 2006-FF14 M8	Baa2	BBB	BBB	09/25/06	5	2.90	3.00	100%	0.77	0.06	1.26	-	-	650	0.00	13.23	30.26	1,162,896,245	189,891	8.10	17.50	83.30	43.20	71.70	25.50	2.80	96.60	2.70	65.10	29.20	National City	09/25/06
32028GAP0	25	25	FFML 2006-FF15 M8	Baa2	BBB	BBB	10/30/06	4	2.90	2.98	100%	0.76	0.06	0.44	-	-	648	0.00	12.60	29.84	2,290,192,214	190,010	8.12	19.87	83.07	42.86	70.24	26.84	3.13	96.83	2.58	66.64	31.12	National City	10/30/06
320275AN0	26	26	FFML 2006-FF16 M8	Baa2	BBB+		11/30/06	3	3.00	3.04	100%	0.10	0.01	0.07	-	-	649	0.00	11.92	30.84	1,203,955,585	199,034	8.06	23.09	83.39	43.13	70.03	27.05	2.92	97.07	2.35	65.14	24.19	National City	11/30/06
32028KAP1	27	27	FFML 2006-FF17 M8	Baa2	BBB	BBB	11/27/06	3	2.85	2.89	100%	0.06	0.04	0.09	-	-	649	0.00	11.67	31.62	805,386,585	193,416	8.10	23.10	83.65	43.00	71.94	25.27	2.79	96.20	3.41	65.00	25.10	National City	11/27/06
320277AP1	28	28	FFML 2006-FF7 M8	Baa2	BBB	BBB	05/31/06	10	2.75	3.14	100%	3.48	0.20	1.92	0.55	0.04	647	0.00	16.77	33.88	1,184,741,229	193,459	7.96	16.44	82.55	42.84	57.50	38.19	4.31	98.25	2.82	59.54	40.60	Wells Fargo	05/31/06
320276AP3	29	29	FFML 2006-FF9 M8	Baa2	BBB+	BBB+	07/07/06	9	2.05	2.26	100%	3.07	0.15	2.18	0.27	0.02	653	0.00	14.87	27.66	1,720,538,691	184,627	7.91	17.25	82.09	42.90	66.13	29.59	4.28	96.47	2.92	69.65	38.42	National City	07/07/06
35729RAN6	30	30	FHLT 2006-A M7	Baa2	BBB	BBB+	05/10/06	9	5.55	6.75	100%	5.11	0.62	2.33	0.49	0.01	621	4.27	35.89	31.84	1,033,549,219	231,945	8.52	9.71	80.52	43.09	46.09	50.85	1.05	93.15	5.81	52.72	9.96	Fremont	05/10/06
35729QAN8	31	31	FHLT 2006-B M8	Baa2	BBB	BBB+	06/03/06	7	4.60	5.14	81%	3.71	0.30	2.78	0.13	0.03	627	7.08	30.94	34.27	1,014,751,723	212,959	8.60	19.08	81.43	43.78	49.44	45.59	1.28	95.53	3.58	58.42	9.31	Fremont	06/03/06
31659EAM0	32	32	FMIC 2006-2 M8	Baa2	BBB+		07/06/06	7	5.20	5.53	100%	3.35	0.35	1.90	0.18	0.03	644	2.11	21.12	60.16	600,031,745	191,154	8.26	10.03	84.14	41.59	65.06	34.50	0.42	99.06	0.92	43.60	42.91	Chase	07/06/06
316599AN9	33	33	FMIC 2006-3 M8	Baa2	BBB+		10/27/06	7	4.15	4.31	100%	0.66	0.18	1.18	-	-	650	0.00	17.51	72.87	859,082,170	215,981	8.42	13.87	84.63	41.65	60.91	36.58	2.53	97.36	2.37	38.30	51.82	Chase	10/27/06
36245DAN0	34	34	GSAMP 2006-FM2 M8	Baa2	BBB+		09/29/06	6	3.75	4.22	100%	0.76	0.05	1.43	-	-	628	6.17	28.50	32.40	1,021,778,222	224,222	8.54	18.10	76.30	43.37	51.62	47.69	0.69	94.21	4.94	54.57	9.33	Fremont	09/29/06
437064UZ7	35	35	HEAT 2006-3 M8	Baa2	BBB+	BBB+	03/30/06	13	3.75	4.77	100%	3.16	0.52	1.47	0.73	0.03	627	4.00	30.24	35.80	1,385,458,952	185,588	7.71	16.80	80.30	40.79	37.20	57.00	5.80	96.60	2.70	74.30	22.20	Select Portfolio Servicing	03/30/06
437066AQ3	36	36	HEAT 2006-5 M8	Baa2	BBB+	BBB+	07/05/06	10	3.90	4.50	100%	3.35	0.48	1.96	0.25	0.03	631	1.90	26.60	27.50	824,907,636	197,677	7.93	13.40	79.50	41.30	46.70	47.70	5.60	92.50	6.90	55.70	19.50	Select Portfolio Servicing	07/05/06
437097AP3	37	37	HEAT 2006-6 M8	Baa2	A-	A-	08/01/06	8	4.85	5.41	100%	3.34	0.23	1.99	0.08	0.02	628	3.70	28.45	24.30	824,187,591	173,003	8.08	15.10	79.50	42.90	49.30	44.50	6.10	94.70	4.80	62.00	10.00	Select Portfolio Servicing	08/01/06
43709NAP8	38	38	HEAT 2006-7 M8	Baa2	BBB+	BBB+	10/03/06	6	4.00	4.23	100%	0.67	0.03	2.94	0.03	-	632	0.00	29.30	29.70	1,095,034,662	198,666	8.26	19.60	79.40	0.00	48.10	48.40	5.50	94.70	4.80	62.00	15.30	Select Portfolio Servicing	10/03/06
43709QAP1	39	39	HEAT 2006-8 M8	Baa2	BBB+	BBB+	12/01/06	5	3.45	3.52	100%	0.06	0.06	0.77	-	-	629	4.60	31.30	33.50	1,145,444,769	188,365	8.33	24.60	80.10	42.00	40.90	52.80	6.30	96.00	3.20	59.50	14.30	Select Portfolio Servicing	12/01/06
46602UAM0	40	40	IXIS 2006-HE3 B2	Baa2	BBB	BBB	09/29/06	6	3.65	3.86	100%	1.43	-	2.28	-	-	628	3.29	29.72	31.56	834,934,301	198,403	8.48	14.10	80.13	0.00	42.77	52.45	4.78	92.54	5.95	61.02	19.48	Saxon	09/29/06
46629BBA6	41	41	JPMAC 2006-CW2 MV6	Baa2	BBB	BBB	06/06/06	9	5.65	6.65	100%	3.94	0.20	1.59	0.27	-	615	2.94	36.95	32.58	1,054,481,879	174,090	8.22	36.16	79.32	40.37	39.79	55.88	4.33	98.92	2.55	62.59	29.36	Countrywide	06/06/06
46626LFV7	42	42	JPMAC 2006-FRE1 M8	Baa2	BBB	BBB	01/27/06	14	7.00	9.94	100%	8.11	1.06	2.60	2.49	0.32	627	6.02	29.30	32.62	1,012,403,168	204,278	7.64	12.00	81.80	42.89	55.12	43.95	0.94	93.09	5.90	56.42	14.26	Chase	01/27/06
46629KAP4	43	43	JPMAC 2006-WMC3 M8	Baa2	BBB	BBB	08/14/06	6	4.95	5.23	100%	3.33	0.10	1.62	0.01	-	642	10.88	20.13	27.30	959,177,770	200,413	8.19	20.44	82.22	42.77	60.26	37.41	2.34	96.31	1.35	26.24	11.63	Chase	08/14/06
542512AN8	44	44	LBMLT 2006-11 M8	Baa2			12/14/06	1	3.65	3.65	100%						639	6.25	21.09	35.79	1,500,000,158	235,110	8.20	24.15	81.31	39.28	40.14	52.31	7.55	91.36	7.34	50.30	8.75	WAMU	12/14/06
54251MAN4	45	45	LBMLT 2006-4 M8	Baa2	A-		05/09/06	8	5.35	6.23	100%	3.52	0.27	3.05	0.07	0.01	635	4.96	20.00	21.36	1,922,678,788	193,292	8.55	14.13	80.73	41.68	67.71	29.25	3.05	90.87	8.32	44.48	7.14	Long Beach	05/09/06
54251RAN3	46	46	LBMLT 2006-8 M8	Baa2	BBB+	BBB+	07/26/06	7	5.10	5.67	100%	1.51	0.14	2.71	-	0.01	638	4.78	18.68	26.18	1,888,107,488	211,728	8.39	16.15	80.66	41.62	56.45	39.22	4.32	91.47	7.29	50.51	6.36	Long Beach	07/26/06
54251TAN9	47	47	LBMLT 2006-7 M8	Baa2	A-	BBB+	08/30/06	6	4.55	4.86	100%	0.11	0.01	2.66	-	-	638	5.30	18.95	26.51	1,596,611,028	208,762	8.39	16.07	80.71	41.49	52.30	43.64	3.66	91.66	6.84	53.87	6.29	WAMU	08/30/06
542514RD8	48	48	LBMLT 2006-WL1 M8	Baa2	BBB		02/06/06	16	6.75	9.21	100%	4.52	0.75	2.05	1.30	0.12	638	3.98	25.00	24.58	2,061,150,970	204,495	7.49	10.01	81.17	42.30	65.13	32.61	2.07	91.79	7.46	37.26	6.79	Long Beach	02/06/06
57645SAN9	49	49	MABS 2006-HE5 M9	Baa2	BBB-		12/28/06	3	4.35	4.35	100%						624	6.27	30.50	69.96	915,984,549	177,689	8.52	24.13	87.31	41.29	42.11	50.34	7.55	92.33	5.60	60.21	12.48		12/28/06
55275BAP2	50	50	MABS 2006-NC2 M9	Baa2	BBB-	BBB	09/28/06	7	4.45	4.84	100%	3.70	0.25	1.60	-	-	620	5.90	35.93	41.71	900,289,511	184,902	8.52	17.04	81.29	0.00	42.83	49.58	7.58	90.08	6.49	52.91	11.35	HomeEq	09/28/06
57645MAP7	51	51	MABS 2006-WMC4 M8	Baa2	BBB+		11/30/06	4	4.15	4.15	100%						643	11.14	17.83	27.15	982,796,262	195,077	8.19	18.76	82.26	42.77	61.92	36.24	1.84	98.04	1.26	24.95	11.86	Chase	11/30/06
59020U4H5	52	52	MLMI 2006-WMC1 B2A	Baa2	BBB+		02/14/06	13	5.85	7.69	100%	4.11	0.61	2.01	0.91	0.32	639	10.43	22.46	33.58	1,266,138,649	196,666	7.58	15.39	82.36	41.68	50.33	46.62	2.65	96.40	1.28	32.52	17.16	Wilshire	02/14/06
61750MAP0	53	53	MSAC 2006-HE7 B2	Baa2	BBB		10/31/06	6	4.10	4.30	100%	1.57	0.12	1.75	-	-	625	5.32	30.58	40.02	1,285,069,013	186,810	8.27	17.14	81.99	41.32	47.39	46.12	6.49	84.34	4.04	54.60	16.55	Countrywide	10/31/06
61750SAP7	54	54	MSAC 2006-HE8 B2	Baa2	BBB		11/29/06	5	4.25	4.37	100%	0.19	0.06	1.67	-	-	626	4.74	31.58	42.76	1,512,658,751	192,796	8.29	21.98	81.53	0.00	39.71	51.60	8.45	93.50	4.23	58.68	18.48	Saxon	11/29/06
61746LAN2	55	55	MSAC 2006-NC4 B2	Baa2	BBB	BBB	06/23/06	10	4.10	4.89	100%	7.00	0.33	2.83	0.08	0.14	621	4.09	34.50	40.99	2,157,140,044	196,467	8.31	16.41	81.06	40.94	39.90	51.91	8.19	90.21	6.36	51.01	10.39	Wells Fargo	06/23/06
61749BAQ6	56	56	MSAC 2006-NC5 B3	Baa2	BBB-		11/28/06	5	4.30	4.45	100%	0.06	0.07	1.14	-	-	626	5.50	31.62	41.94	1,392,187,337	201,096	8.37	22.23	81.43	41.13	42.38	49.40	8.23	91.33	5.61	55.36	20.63	Countrywide	11/28/06
61744CXV3	57	57	MSAC 2006-WMC1 B2	Baa2	A-	BBB+	01/26/06	16	5.65	7.63	100%	4.07	0.85	1.92	1.11	0.29	641	9.86	20.74	31.58	1,142,648,602	196,239	7.22	27.28	82.21	41.26	54.42	42.94	2.84	95.37	1.71	46.63	17.26	Chase	01/26/06
61749KAP8	58	58	MSAC 2006-WMC2 B2	Baa2	BBB	BBB	06/28/06	9	3.75	4.20	100%	6.54	0.34	2.77	0.35	0.15	643	8.78	18.58	28.90	2,602,987,087	207,840	8.09	18.74	82.03	42.32	56.90	38.89	2.12	95.74	1.48	42.32	13.82	Wells Fargo	06/28/06
617505AN2	59	59	MSAC 2007-NC1 B2	Baa2e	BBB		01/26/07	4	3.70	3.70	100%						625	5.80	31.66	42.28	1,250,008,034	181,896	8.37	22.36	81.04	41.51	37.31	52.78	9.93	90.68	6.53	56.34	19.11	Saxon	01/26/07
61745TFD6	60	60	MSC 2006-HE2 B2	Baa2	BBB+	BBB	04/28/06	13	4.55	5.57	100%	5.26	0.85	2.14	1.25	0.22	630	7.28	27.24	32.28	2,266,849,839	184,147	7.75	14.10	81.63	42.20	48.73	43.74	5.53	96.66	1.42	51.09	10.21	Wells Fargo	04/28/06
617463AM6	61	61	MSIX 2006-2 B2	Baa2	BBB		11/28/06	4	4.65	4.65	100%						633	4.55	26.31	40.90	1,365,820,442	205,155	8.43	17.25	82.12	42.38	42.32	54.95	2.73	94.73	4.49	42.97	18.46	Saxon	11/28/06
66966YAN2	62	62	NHEL 2006-5 M8	Baa2	BBB+		09/28/06	4	3.50	3.64	100%	1.65	0.52	1.43	0.32	-	616	4.66	43.25	50.06	748,606,824	165,401	9.38	18.98	79.18	42.00	41.77	54.57	3.66	92.28	4.30	45.54	12.11	Novastar	09/28/06
65536HCF3	63	63	NHELI 2006-FM1 M8	Baa2	BBB+		01/30/06	15	5.90	8.23	100%	6.54	0.06	2.43	1.03	0.07	625	5.72	33.69	32.37	933,771,934	209,931	7.55	11.82	81.42	42.55	53.73	43.99	2.28	93.50	5.74	51.72	23.61	Equity One	01/30/06
65537FAN1	64	64	NHELI 2006-FM2 M8	Baa2	BBB+	BBB+	10/31/06	8	5.35	5.79	100%	-	-	3.00	-	-	628	7.02	28.69	24.73	1,228,042,426	214,918	8.45	18.57	81.14	42.56	52.97	45.53	1.61	94.26	5.23	54.99	12.46	Equity One	10/31/06
65536DAN5	65	65	NHELI 2006-HE3 M8	Baa2	BBB+	BBB+	08/31/06	10	6.00	6.84	100%	3.81	0.34	3.49	0.13	-	618	3.37	38.23	37.55	1,057,399,752	186,260	8.18	17.20	79.94	41.00	36.33	60.27	3.41	92.42	6.33	51.62	19.40	Wells Fargo	08/31/06
68400DAP9	66	66	OOMLT 2007-1 M8	Baa2e	BBB		01/24/07										607	3.98	45.31	44.15	1,781,034,907	193,633	8.76	3.99	80.25	42.35	33.14	59.63	7.22	90.63	6.12	57.48	11.45	Option One	01/24/07
81375WJY3	67	67	SABR 2006-FR1 B2	Baa2	A-	BBB+	02/23/06	15	6.50	8.82	100%	6.46	0.91	1.29	2.06	0.24	627	5.48	32.35	33.62	969,194,069	214,855	7.50	11.77	81.73	42.53	53.90	45.87	0.23	93.51	5.76	58.96	23.36	HomeEq	02/23/06
81378SAH7	68	68	SABR 2006-FR3 B2	Baa2	BBB	BBB+	06/03/06	10	5.20	6.38	100%	7.88	0.36	2.19	0.40	0.03	619	8.42	33.85	32.82	987,602,652	215,493	8.47	10.94	80.82	43.00	44.25	55.36	0.38	94.00	5.33	53.43	9.96	HomeEq	06/03/06
81377AAM4	69	69	SABR 2006-HE2 B2	Baa2	BBB	BBB+	09/28/06	6	4.35	4.85	100%	2.47	0.12	1.83	0.02	0.03	624	6.23	31.84	35.85	1,024,602,507	183,821	8.37	18.41	80.94	41.00	41.94	55.00	3.05	92.78	5.79	54.91	13.22	HomeEq	09/28/06
66360WAM4	71	70	SAIL 2006-4 M7	Baa2	BBB	BBB	06/30/06	10	2.45	2.92	100%	6.39	0.50	2.79	0.41	0.03	621	4.20	34.61	47.51	2,500,187,875	195,495	8.40	17.10	82.10	42.00	40.00	54.20	5.80	87.50	9.60	51.00	19.00	Aurora	06/30/06
66360RAN3	72	71	SASC 2006-EQ1A M8	Baa2	BBB		07/17/06	8	5.05	5.81	100%	2.05	0.22	2.42	0.12	-	624	4.90	32.82	45.58	1,520,803,162	158,648	8.30	14.60	83.30	41.70	42.90	55.30	1.90	93.50	5.10	59.90	12.60	Aurora	07/17/06
86359UAN9	73	72	SASC 2006-OPT1 M7	Baa2	BBB	BBB	04/28/06	12	3.00	3.66	100%	3.21	0.30	1.26	0.64	0.04	624	4.00	34.53	40.81	968,512,945	196,669	8.30	16.40	80.70	42.00	34.00	59.90	6.10	91.40	6.50	53.66	17.80	Option One	04/28/06

From: Laura Schwartz [lschwartz@aca.com]
Sent: Monday, February 05, 2007 4:28 PM
To: Paolo Pellegrini
Cc: Tourre, Fabrice; Gerst, David; Sihan Shu; Kreitman, Gail; Keith Gorman
Subject: RE: Revised Portfolio

We are good with this 92 name portfolio. Fabrice/David, can you rerun the downgrade analysis given the structure you will get with an entire Baa2 portfolio? Thanks

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

From: Paolo Pellegrini
Sent: Tuesday, February 06, 2007 10:40 AM
To: Tourre, Fabrice
Subject: RE: ABACUS Reference Portfolio
Entendu ...

From: Tourre, Fabrice [mailto:Fabrice.Tourre@gs.com]
Sent: Tuesday, February 06, 2007 10:31 AM
To: Paolo Pellegrini; Gerst, David; Sihan Shu
Cc: Raazi, Cactus
Subject: RE: ABACUS Reference Portfolio

yes we are doing our own due diligence, and would like to compare your results with ours -- just want to make sure we compate "apple to apple"

From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Tuesday, February 06, 2007 10:06 AM
To: Tourre, Fabrice; Gerst, David; Sihan Shu
Cc: Raazi, Cactus
Subject: RE: ABACUS Reference Portfolio

Fabrice, I assume you are doing your independent due diligence on the portfolio, correct? Does ACA have any fiduciary duties with respect to due diligence and disclosure? Please let me know. Thanks.
Paolo

From: Tourre, Fabrice [mailto:Fabrice.Tourre@gs.com]
Sent: Tuesday, February 06, 2007 9:50 AM
To: Paolo Pellegrini; Gerst, David; Sihan Shu
Cc: Raazi, Cactus
Subject: RE: ABACUS Reference Portfolio

Sihan, Paolo, just to make sure, the data you have collected (C/E, foreclosure %, BK %) is coming from loan performance, correct ? As of when is the data ?

From: Paolo Pellegrini [mailto:Paolo.Pellegrini@paulsonco.com]
Sent: Tuesday, February 06, 2007 7:41 AM
To: Gerst, David; Sihan Shu
Cc: Tourre, Fabrice; Raazi, Cactus
Subject: RE: ABACUS Reference Portfolio

We are ok removing ABFC 2006-OPT3 M8. However, we prefer removing the M8 tranche of CARR 2006-FRE1 (rated A+ by S&P) rather than the M9 tranche (rated A by S&P). Done?

From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Monday, February 05, 2007 10:43 PM
To: Paolo Pellegrini; Sihan Shu
Cc: Tourre, Fabrice; Raazi, Cactus
Subject: ABACUS Reference Portfolio

Paolo, Sihan:

We believe we can create a more efficient capital structure by removing two of the proposed 92 names from the reference portfolio. We propose removing CARR 2006-FRE1 M9 (since we are currently referencing two obligations of the same issuer) and ABFC 2006-OPT3 M8 (since it is not explicitly rated by S&P and needs to be notched to BB+ for purposes of the transaction).

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2522

From: Tourre, Fabrice
Sent: Monday, February 26, 2007 3:54 PM
To: 'Keith Gorman'
Cc: Laura Schwartz; Gerst, David; Kreitman, Gail
Subject: RE: ABACHUS 2007-AC1 substitutions

Thanks Keith, let us take a look at these names.
Rgds,
Fabrice

From: Keith Gorman [mailto:kgorman@aca.com]
Sent: Monday, February 26, 2007 3:51 PM
To: Tourre, Fabrice
Cc: Laura Schwartz; Gerst, David; Kreitman, Gail
Subject: RE: ABACHUS 2007-AC1 substitutions

Fabrice,

Let me know about these:

FFML 2007-FF2 B2	32029GAN4
MSHEL 2007-1 B2	61751QAM7
CWL 2007-2 M8	12668NAN7
SABR 2007-NC2 B2	81378GAM0
MSAC 2007-HE2 B2	61753EAM2
CBASS 2007-CB1 M8	1248MGAA2

Keith X Gorman
Director
ACA Capital
212-375-2421

From: Tourre, Fabrice [mailto:Fabrice.Tourre@gs.com]
Sent: Monday, February 26, 2007 3:39 PM
To: Keith Gorman
Cc: Laura Schwartz; Gerst, David; Kreitman, Gail
Subject: RE: ABACHUS 2007-AC1 substitutions

Thanks Keith, these names don't work that well. Would you mind showing us 2007-vintage names that you would be ok including ? 4-5 names to pick from would be helpful. Thanks a lot !
Rgds,
Fabrice

From: Keith Gorman [mailto:kgorman@aca.com]
Sent: Monday, February 26, 2007 2:24 PM
To: Tourre, Fabrice
Cc: Laura Schwartz
Subject: ABACHUS 2007-AC1 substitutions

Fabrice,

As Laura mentioned to you earlier today, there are 3 positions we would like to substitute in ABACHUS 2007-AC1. They

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are:
07389MAP2 BSABS 2006-HE9 M9
59023XAN6 MLMI 2006-HE6 B3
59022VAN1 MLMI 2006-OPT1 B2

Some recommendations for substitutes are:
126670NM6 CWL 2005-BC5 M8
61744CWE2 MSAC 2005-HE6 B2
863576DN1 SASC 2005-WF4 M8
86359RAN6 SASC 2006-BC4 M8
17309SAN0 CMLTI 2006-WFH4 M9

Please let me know if these work or if I need to look for more names.

Keith X Gorman
Director
ACA Capital
212-375-2421

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(Incorporated with limited liability in the Cayman Islands)

ABACUS 2007-AC1, INC.

Class SS Variable Rate Notes
U.S.$50,000,000 Class A-1 Variable Rate Notes, Due 2038
U.S.$142,000,000 Class A-2 Variable Rate Notes, Due 2038
Class B Variable Rate Notes
Class C Variable Rate Notes
Class D Variable Rate Notes
Class FL Variable Rate Notes

ACA Management, L.L.C.

Portfolio Selection Agent

Secured Primarily by (i) the Collateral and (ii) the Issuer's rights under (a) the Collateral Put Agreement, (b) the Basis Swap and (c) as Protection Seller, the Credit Default Swap referencing a pool of Residential Mortgage-Backed Securities

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The Notes are being offered hereby by Goldman, Sachs & Co. to Qualified Institutional Buyers in the United States in reliance on Rule 144A under the Securities Act. In addition to the offering of the Notes in the United States, Goldman, Sachs & Co., selling through its agent, Goldman Sachs International is concurrently offering the Notes outside the United States to non-U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act. See "Underwriting".

The Notes of any Class may be issued in more than one Series due to differences in one or more of the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue.

See "Risk Factors" beginning on page 21 to read about factors you should consider before buying the Notes.

There is no established trading market for the Notes. Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that any such admission will be sought, granted or maintained.

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See "Underwriting" for a discussion of the terms and conditions of the purchase of the Notes by the Initial Purchaser.

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The Notes are offered by the Initial Purchaser or its agent as specified herein, subject to its right to reject any order in whole or in part. It is expected that the Global Notes will be ready for delivery in book-entry form only in New York, New York, on or about April 26, 2007, through the facilities of DTC (or Euroclear, with respect to Notes issued in Approved Currencies other than Dollars, if any), against payment therefor in immediately available funds. The Notes will have the minimum denominations set forth in "Summary—Notes".

Goldman, Sachs & Co.

Offering Circular dated April 26, 2007.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2529

THIS OFFERING CIRCULAR SUPERSEDES IN ALL RESPECTS ALL EARLIER DATED OFFERING CIRCULARS.

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The information contained in this Offering Circular has been provided by the Issuers and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchaser, the Protection Buyer or the Portfolio Selection Agent (except, with respect to the Protection Buyer only, the information set forth under the heading "The Protection Buyer" and except, with respect to the Portfolio Selection Agent only, the information set forth under the heading "The Portfolio Selection Agent") as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser, the Protection Buyer or the Portfolio Selection Agent (except, with respect to the Protection Buyer only, the information set forth under the heading "The Protection Buyer" and except, with respect to the Portfolio Selection Agent only, the information set forth under the heading "The Portfolio Selection Agent").

The Issuers (and, with respect to the information contained in this Offering Circular under the heading "The Protection Buyer", the Protection Buyer and, with respect to the information contained in this Offering Circular under the heading "The Portfolio Selection Agent", the Portfolio Selection Agent), having made all reasonable inquiries, confirm that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make any of such information or the expression of any such opinions or intentions misleading. The Issuers (and, with respect to the information contained in this Offering Circular under the heading "The Protection Buyer", the Protection Buyer and, with respect to the information contained in this Offering Circular under the heading "The Portfolio Selection Agent", the Portfolio Selection Agent) take responsibility accordingly.

The Initial Collateral Security set forth in this Offering Circular in the table under the heading "The Collateral Securities—Initial Collateral Securities" that is a CLO Security is described in the offering circular attached hereto, and prospective purchasers of the Notes should refer to such offering circular for a description of the terms of such Initial Collateral Security.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Notes.

The delivery of this Offering Circular at any time does not imply that the information herein is correct at any time subsequent to the date of this Offering Circular.

Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuers or the Initial Purchaser specified herein shall have any responsibility therefor. Persons into whose possession this Offering Circular comes are required by the Issuers and the Initial Purchaser to inform themselves about and to observe such applicable laws and regulations. For a further description of certain restrictions on offering and sales of the Notes, see "Transfer Restrictions" and "Underwriting". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful.

No invitation may be made to the public in the Cayman Islands to subscribe for the Notes.

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INFORMATION APPLICABLE TO NON–U.S. INVESTORS

NOTICE TO RESIDENTS OF UNITED KINGDOM

There are restrictions on the offer and sale of the Notes in the United Kingdom. No action has been taken to permit the Notes to be offered to the public in the United Kingdom. This document may only be issued or passed on in or into the United Kingdom to any person to whom the document may lawfully be issued or passed on by reason of, or of any regulation made under, section 21 of the Financial Services and Markets Act 2000 of the United Kingdom. It is the responsibility of all persons under whose control or into whose possession this document comes to inform themselves about and to ensure observance of all applicable provisions of the Public Offers of Securities Regulations 1995 and the Financial Services and Markets Act 2000 in respect of anything done in relation to the Notes in, from or otherwise involving the United Kingdom. See "Underwriting".

NOTICE TO RESIDENTS OF GERMANY

The Notes will not be offered or sold in the Federal Republic of Germany other than in accordance with the German Securities Sales Prospectus Act of December 13, 1990 of the Federal Republic of Germany, as amended (Wertpapierverkaufsprospektgesetz), the German Investment Act of December 15, 2003 of the Federal Republic of Germany, as amended (Investmentgesetz) and any other legal or regulatory requirements applicable in the Federal Republic of Germany governing the issue, offer and sale of securities. Upon the request of a German investor, the Issuer will (i) make available to the German investors the information required pursuant to § 5 (1) sentence 1 nos. 1 and 2 in connection with sentence 2, § 5 (1) sentence 1 no. 4 and § 5 (3) sentence 1 of the Investmentsteuergesetz (the "German Investment Tax Act"), (ii) furnish to the German Federal Tax Office (Bundesamt für Finanzen) upon its request within three months proof of the correctness of the information referred to under clause (i) above in accordance with § 5 (1) sentence 1 no. 5 of the German Investment Tax Act and (iii) make the publication in the electronic edition of the Federal Gazette (elektronischer Bundesanzeiger) required pursuant to § 5 (1) sentence 1 no. 3 of the German Investment Tax Act in the German language. All prospective German investors are urged to seek independent tax advice. The Initial Purchaser does not give tax advice.

NOTICE TO RESIDENTS OF NETHERLANDS

The Notes may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

NOTICE TO RESIDENTS OF HONG KONG

The Notes may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

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NOTICE TO RESIDENTS OF SINGAPORE

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Notes to the public in Singapore.

NOTICE TO RESIDENTS OF JAPAN

The Notes have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (2) in compliance with any other applicable requirements of Japanese law.

INFORMATION APPLICABLE TO U.S. INVESTORS

This Offering Circular is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Notes described herein. Except as otherwise authorized under the following paragraph, any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

EACH PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF SUCH PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATIONS OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. HOWEVER, ANY SUCH INFORMATION RELATING TO THE TAX TREATMENT OR TAX STRUCTURE IS REQUIRED TO BE KEPT CONFIDENTIAL TO THE EXTENT REASONABLY NECESSARY TO COMPLY WITH APPLICABLE FEDERAL OR STATE SECURITIES LAWS. FOR PURPOSES OF THIS PARAGRAPH, THE TERMS "TAX TREATMENT", "TAX STRUCTURE", AND "TAX ANALYSES" HAVE THE MEANING GIVEN TO SUCH TERMS UNDER UNITED STATES TREASURY REGULATION SECTION 1.6011-4(c) AND APPLICABLE STATE OR LOCAL LAW.

THE NOTES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (THE "RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY

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REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with the Securities Act in connection with the sale of the Notes in reliance on Rule 144A, the Issuer will be required under the Indenture and the Issuing and Paying Agency Agreement to furnish upon request to a Holder or beneficial owner who is a Qualified Institutional Buyer of a Note sold in reliance on Rule 144A or a prospective investor who is a Qualified Institutional Buyer designated by such Holder or beneficial owner the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g-3-2(b) under the Exchange Act.

In accordance with the Indenture and the Issuing and Paying Agency Agreement, the Trustee and the Issuing and Paying Agent, as applicable, also will make available for inspection by Holders of the Notes certain reports or communications received from the Issuers.

Prior to making an investment decision, prospective investors should ensure that they have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in the Notes and should carefully consider the nature of the Notes, the matters set forth elsewhere in this Offering Circular and the extent of their exposure to the risks described in "Risk Factors".

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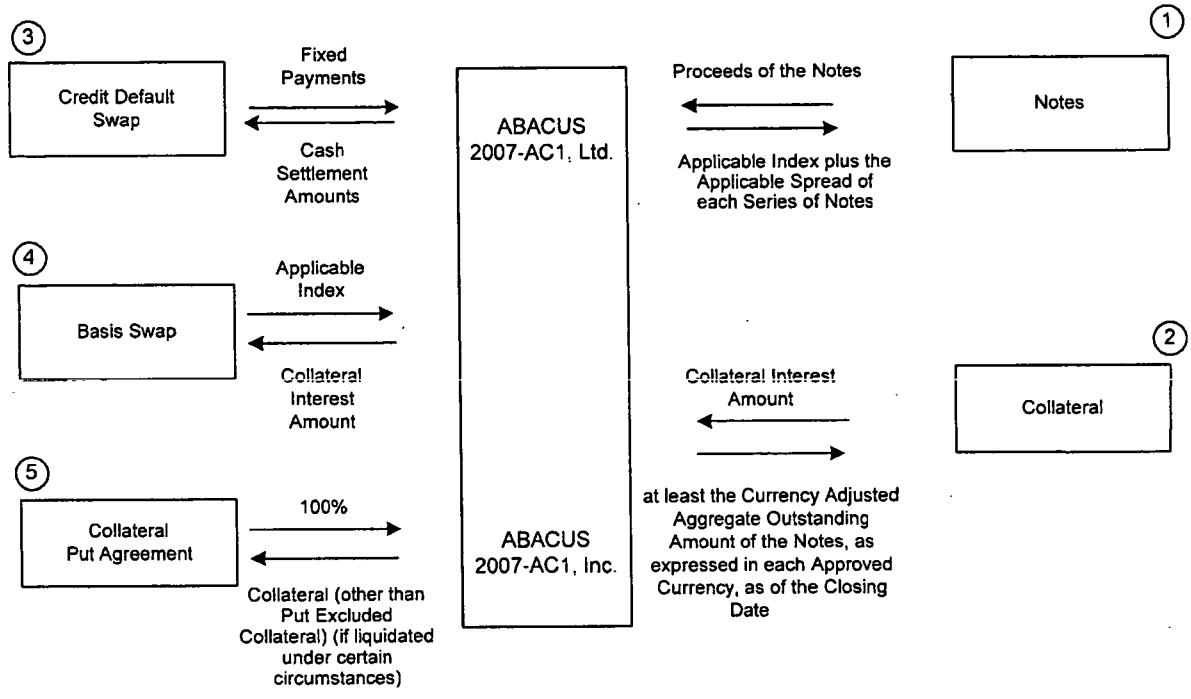
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TRANSACTION OVERVIEW

This overview is not complete and is qualified in its entirety by reference to (i) the detailed information appearing elsewhere in this Offering Circular, (ii) the terms and conditions of the Notes and (iii) the provisions of the documents referred to in this Offering Circular.



On or prior to the Closing Date, the Initial Reference Portfolio will be selected by the Portfolio Selection Agent.

1 On the Closing Date, the Notes will be issued in the Original Principal Amount set forth in the "Summary—Notes". From time to time following the Closing Date, additional Notes of any Class may be issued.

2 The Issuer will use the net proceeds of the offering of the Notes, together with part or all of the Upfront Payment, to purchase the Initial Collateral Securities and Eligible Investments selected by the Protection Buyer; *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.

3 On the Closing Date, the Issuer and Goldman Sachs Capital Markets, L.P., as the Protection Buyer, will enter into the Credit Default Swap whereby the Issuer (a) sells credit protection to the Protection Buyer with respect to a Reference Portfolio of RMBS and (b) receives from the Protection Buyer (i) an Upfront Payment on the Closing Date and (ii) a Fixed Payment on the Closing Date and each Payment Date. Following the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, the Issuer will pay to the Protection Buyer an amount equal to any Cash Settlement Amount. For a description of all payments to be made under the Credit Default Swap, see "The Credit Default Swap—Payments".

4 On the Closing Date, the Issuer and Goldman Sachs Capital Markets, L.P., as the Basis Swap Counterparty, will enter into the Basis Swap whereby the Issuer (a) pays to the Basis Swap Counterparty any Collateral Interest Amount and (b) receives an amount from the Basis Swap Counterparty equal to the sum of the products for each Approved Currency in which Outstanding Notes are denominated of: (i) the Applicable Index for the Applicable Period; (ii) the average daily Currency Adjusted Aggregated Outstanding Amount of such Notes during the preceding Basis Swap Calculation Period; and (iii) the actual number of days in the preceding Basis Swap Calculation Period in which a payment is made *divided by* 360.

5 On the Closing Date, the Issuer and Goldman Sachs International, as the Collateral Put Provider, will enter into the Collateral Put Agreement whereby the Issuer will have the right to put Collateral (other than Put Excluded Collateral) to the Collateral Put Provider in return for a payment of 100% of the principal amount of such Collateral if the Collateral cannot be liquidated for an amount equal to at least 100% of par in connection with (i) the payment by the Issuer to the applicable Noteholders of any Currency Adjusted Notional Principal Adjustment Amount, (ii) an Optional Redemption in Whole or a Partial Optional Redemption and/or (iii) a Stated Maturity.

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SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For a discussion of certain factors to be considered in connection with an investment in the Notes, see "Risk Factors".

Capitalized terms used herein but not defined shall have the meanings set forth under "Glossary of Defined Terms".

The Issuers .....

ABACUS 2007-AC1, Ltd. (the "**Issuer**"), a company incorporated under the laws of the Cayman Islands for the sole purpose of issuing the Notes, acquiring the Collateral, entering into the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Portfolio Selection Agreement and engaging in certain related transactions.

The Issuer will not have any material assets other than (i) the Collateral, (ii) its rights under the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Portfolio Selection Agreement and (iii) certain other assets.

ABACUS 2007-AC1, Inc. (the "**Co-Issuer**" and, together with the Issuer, the "**Issuers**"), a company incorporated under the laws of the State of Delaware for the sole purpose of co-issuing the Co-Issued Notes.

The Co-Issuer will not have any assets (other than $10 of equity capital) and will not pledge any assets to secure the Notes. The Co-Issuer will have no claim against the Issuer in respect of the Issuer Assets.

The authorized share capital of the Issuer consists of 300 ordinary shares, par value $1.00 per share (the "**Issuer Ordinary Shares**"), 300 of which will be issued on or prior to the Closing Date. The Issuer Ordinary Shares that have been issued will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands and any successor thereto (the "**Administrator**"), as the trustee pursuant to the terms of a charitable trust (the "**Share Trustee**"). The common stock of the Co-Issuer will be held by the Issuer.

The Portfolio Selection Agent.....

The Initial Reference Portfolio will be selected by ACA Management, L.L.C. ("**ACA Management**" and in such capacity, the "**Portfolio Selection Agent**") pursuant to the terms of the Portfolio Selection Agreement, dated as of the Closing Date (the "**Portfolio Selection Agreement**"), between the Issuer and the Portfolio Selection Agent. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral. See "The Portfolio Selection Agent" and "The Portfolio Selection Agreement".

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Notes

Class Designation	SS	A-1	A-2	B	C	D	FL
Original Principal Amount (as expressed in Dollars)[1]	$0	$50,000,000	$142,000,000	$0	$0	$0	$0
Initial Class Notional Amount (as expressed in Dollars)	$1,100,000,000	$200,000,000	$280,000,000	$60,000,000	$100,000,000	$60,000,000	$200,000,000
Class Series	Series 1	Series 1	Series 1	Series 1	Series 1	Series 1	Series 1
Stated Maturity	March 1, 2038						
Average Life (in years)[2]	3.5	4.0	4.2	4.3	4.4	4.6	5.1
Minimum Denomination (Integral Multiples):							
Rule 144A	$250,000, ($1)						
Reg S	$100,000, ($1); €100,000, (€1); £100,000, (£1); ¥10,000,000, (¥1); A$100,000, (A$1); C$100,000, (C$1); NZ$100,000, (NZ$1)						
Applicable Investment Company Act of 1940 Exemption	3(c)(7)						
Initial Ratings:							
S&P		AAA	AAA				
Moody's		Aaa	Aaa				
Pricing Date	April 10, 2007						
Closing Date	April 26, 2007						
Issue Price	The Notes will be offered for sale from time to time in negotiated transactions, or otherwise, at various prices to be determined at the time of such sale						
Series Interest Rate for Series Issued on Closing Date[3]		LIBOR + 0.85%	LIBOR + 1.10%				
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	Floating
Interest Accrual Period	Each period from and including the preceding Payment Date (or, the Closing Date, with respect to the first Payment Date) to but excluding the current Payment Date (or, in the case of the Payment Date preceding the Stated Maturity, to but excluding the Stated Maturity)						
Payment Date	On the 28th calendar day of each month (or if such day is not a Business Day, the next succeeding Business Day) and at Stated Maturity						
First Payment Date	May 29, 2007						
Record Date	15 days prior to the applicable Payment Date						
Frequency of Payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360
Co-Issued Notes or Issuer Notes	Co-Issued Notes	Co-Issued Notes	Issuer Notes	Issuer Notes	Issuer Notes	Issuer Notes	Issuer Notes
Form of Notes:							
Global	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CUSIPS Rule 144A	00256UAA2	00256UAB0	00256YAA4	00256YAB2	00256YAC0	00256YAD8	00256YAE6
CUSIPS Reg S	G0010JAA7	G0010JAB5	G0010AAA6	G0010AAB4	G0010AAC2	G0010AAD0	G0010AAE8
ISIN Reg S	USG0010JAA72	USG0010JAB55	USG0010AAA63	USG0010AAB47	USG0010AAC20	USG0010AAD03	USG0010AAE85
Common Code	029629897	029630569	029630780	029630941	029631026	029631174	029631662
Clearing Method:							
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	DTC
Reg S	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/	Euroclear/ Clearstream	Euroclear/ Clearstream	Euroclear/ Clearstream
Certificated	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Pursuant to the Indenture (in the case of the Co-Issued Notes) and the Issuing and Paying Agency Agreement (in the case of the Issuer Notes), the Notes of any Class may be issued from time to time following the Closing Date. See "Description of the Notes—The Indenture—Additional Issuance" and "Description of the Notes—The Issuing and Paying Agency Agreement—Additional Issuance."

2 Under a hypothetical scenario in which (i) each Reference Obligation will make a repayment of principal in full on a single date corresponding to the projected weighted average life of such Reference Obligation determined on the basis of a 30/360 day-count convention, whether or not such date falls on a Business Day or a Payment Date, (ii) principal payments on the Notes will occur on Payment Dates in accordance with the applicable cut-off dates, (iii) the Notes will be repaid in accordance with the Priority of Payments and (iv) no Credit Events will have occurred with respect to the Reference Portfolio. The assumptions set forth above are not predictive or a forecast, nor do they necessarily reflect historical performance and defaults.

3 The Series Interest Rate with respect to any Series of a Class will be determined at the time of issuance of such Series, and will equal the Applicable Index for such Series plus or minus the Applicable Spread to such Applicable Index. The Series Interest Rate with respect to different Series of a Class may vary. The Notes of any Class may be issued in more than one Series due to differences in one or more of the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue. See "Additional Issuance" herein.

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The Issuer Notes	The Issuer Notes will be issued in accordance with one or more deeds of covenant (each, a "**Deed of Covenant**") and will be subject to the Issuing and Paying Agency Agreement, dated as of the Closing Date including the terms and conditions of such Notes contained therein (the "**Issuing and Paying Agency Agreement**"), between the Issuer and LaSalle Bank National Association, as Issuing and Paying Agent (in such capacity, the "**Issuing and Paying Agent**"). See "Description of Notes—The Issuing and Paying Agency Agreement".
Status and Subordination	The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer. On (i) each Payment Date and (ii) any other Business Day on which Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Noteholders, the Class SS Notes will be senior in right of payment to the Class A-1 Notes, the Class A-1 Notes will be senior in right of payment to the Class A-2 Notes, the Class A-2 Notes will be senior in right of payment to the Class B Notes, the Class B Notes will be senior in right of payment to the Class C Notes, the Class C Notes will be senior in right of payment to the Class D Notes and the Class D Notes will be senior in right of payment to the Class FL Notes.
Use of Proceeds	The aggregate net proceeds of the offering of the Notes are expected to equal approximately $192,000,000 (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). The Issuer will use such net proceeds, together with part or all of the Upfront Payment, to purchase Collateral Securities and Eligible Investments that will have an aggregate principal amount of at least $192,000,000 (including the USD Equivalent of the Collateral Securities denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.
Distributions of Interest Proceeds	Interest Proceeds will be distributable monthly to Holders of the Notes in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments".
Non-Call Period	With respect to each Series of Notes issued on the Closing Date, the period from the Closing Date to and including the Business Day immediately preceding the April 2009 Payment Date and, with respect to any Series of Notes issued after the Closing Date, the period designated for such Series at the time of issuance in the related offering circular supplement (the "**Non-Call Period**"). So long as the Non-Call Period for each Series of Notes Outstanding has expired, the Notes will be redeemed in full at

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the option of the Protection Buyer if the Protection Buyer elects to terminate the Credit Default Swap prior to the Scheduled Termination Date and certain conditions are satisfied. See "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date and Mandatory Redemption Date" and "The Credit Default Swap—Credit Default Swap Early Termination—Credit Default Swap Termination Events".

After the applicable Non-Call Period, one or more Series of Notes may be redeemed in full if the Protection Buyer, in its sole discretion, elects to redeem such Series prior to its Stated Maturity and certain conditions are satisfied. In addition, if the Protection Buyer and/or one or more Affiliates thereof acquires any Notes prior to the end of the related Series' applicable Non-Call Period (such Notes, "**Protection Buyer Notes**"), such Notes may be redeemed notwithstanding that any such redemption may occur during the applicable Non-Call Period. See "Description of the Notes—Optional Redemption in Whole and Partial Optional Redemption", "Description of the Notes—Priority of Payments—Principal Proceeds—Other Payment Dates" and "The Credit Default Swap—Payments—Payment on a Partial Optional Redemption Date".

Principal Payments on the Notes .....

The following table sets forth the general circumstances and dates upon which Holders of the Notes will receive principal payments on their Notes prior to the Stated Maturity:

Event	Date of Payment	Amounts Payable in accordance with the Priority of Payments
Payment of Currency Adjusted Notional Principal Adjustment Amounts	The Payment Date immediately following the Due Period in which such amounts were determined by the Credit Default Swap Calculation Agent	Notional Principal Adjustment Amounts
Optional Redemption in Whole due to an optional termination of the Credit Default Swap by the Protection Buyer	Any Payment Date after the expiration of the Non-Call Period for each Series of Notes Outstanding	Currency Adjusted Aggregate Outstanding Amount *plus*, if the consent of each Holder of Notes of a Reversible Loss Series has not been obtained, with respect to each such Reversible Loss Series, the Optional Redemption Reimbursement Amount

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Event	Date of Payment	Amounts Payable in accordance with the Priority of Payments
Partial Optional Redemption due to the election by the Protection Buyer to redeem one or more Series of Notes in full	Any Payment Date after the applicable Non-Call Period	Currency Adjusted Aggregate Outstanding Amount of each Series of Notes being redeemed *plus*, if any such Series is a Reversible Loss Series and the consent of each Holder of such Reversible Loss Series has not been obtained, the Optional Redemption Reimbursement Amount for any such Reversible Loss Series
Partial Optional Redemption due to the election by the Protection Buyer to redeem Protection Buyer Notes	Any Payment Date	Currency Adjusted Aggregate Outstanding Amount of the Protection Buyer Notes being redeemed
Mandatory Redemption (other than a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (iii) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, for which there would be insufficient liquidation proceeds to pay (a) items (i) through (iii) of the Priority of Payments and (b) with respect to each of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes of such Class and accrued interest thereon (if any))	Any Business Day	Principal Proceeds
Mandatory Redemption (other than as described above)	Any Business Day	Principal Proceeds and/or delivery of Collateral Securities subject to Special Termination Liquidation Procedure

See "Description of the Notes—Principal", "Description of the Notes—Optional Redemption in Whole and Partial Optional

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	Redemption", "Description of the Notes—Mandatory Redemption", "Description of the Notes—Priority of Payments" and "Description of the Notes—The Indenture—Events of Default".
Decrease in the Class Notional Amount of each Class of Notes	The Class Notional Amount of each Class of Notes will be decreased by an amount (as expressed in Dollars) equal to: (i) on the fifth Business Day following the calculation of any Loss Amount, if greater than zero, the lesser of (a)(i) the aggregate Loss Amount determined on the related Credit Default Swap Calculation Date *less* (ii) the Class Notional Amount of all Classes of Notes that are subordinated to such Class immediately prior to such determination and (b) the Class Notional Amount of such Class immediately prior to such determination (such amount, the "**Unscaled Credit Event Adjustment Amount**"); and (ii) on the Payment Date immediately following the Due Period in which such Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), if greater than zero, the lesser of (x) (A) the aggregate Notional Principal Amount allocable on such date *less* (B) the Class Notional Amount of all Classes of Notes that are senior to such Class immediately prior to such determination, and (y) the Class Notional Amount of such Class immediately prior to such determination (such amount, the "**Unscaled Notional Principal Adjustment Amount**"). On any date of determination, increases and decreases to the Class Notional Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate Loss Amount (if any), (ii) aggregate Reference Obligation Reimbursement Amount (if any), and (iii) aggregate Notional Principal Amount (if any). See "Description of Notes—Principal".
Increase in the Class Notional Amount of each Class of Notes	On the Payment Date immediately following the Due Period during which a Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent with respect to one or more Reference Obligation(s), and so long as such Reference Obligation(s) remains in the Reference Portfolio at the time of such Reference Obligation Reimbursement, the Class Notional Amount of each Class of Notes will be increased by an amount (as expressed in Dollars) equal to, if greater than zero, the lesser of (i) such Reference Obligation Reimbursement Amount *less* the sum of the ICE Class Notional Amount

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Differentials for the Classes of Notes that are senior to such Class immediately prior to such determination, and (ii) the ICE Class Notional Amount Differential of such Class immediately prior to such determination (such amount, the "**Unscaled Reinstatement Adjustment Amount**") (if any).

On any date of determination, increases and decreases to the Class Notional Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate Loss Amount (if any), (ii) aggregate Reference Obligation Reimbursement Amount (if any) and (iii) aggregate Notional Principal Amount (if any).

See "Description of Notes—Principal".

Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes .....

The Aggregate USD Equivalent Outstanding Amount of each Class of Notes will be decreased by an amount (as expressed in Dollars) equal to:

(i) on the fifth Business Day following the calculation of any Loss Amount, without paying any principal on such Class of Notes, the product of (a) the related Unscaled Credit Event Adjustment Amount and (b) the related Note Scaling Factor (such amount determined under this subclause (i), the "**Credit Event Adjustment Amount**");

(ii) on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), a payment of principal representing the product of (a) the related Unscaled Notional Principal Adjustment Amount and (b) the related Note Scaling Factor (such amount determined under this subclause (ii), the "**Notional Principal Adjustment Amount**");

(iii) on any Stated Maturity related to a Series of such Class, after giving effect to clauses (i) and (ii) above, the Aggregate USD Equivalent Outstanding Amount of each such Series maturing on such date; and

(iv) on a Partial Optional Redemption Date, after giving effect to clauses (i) through (iii) above, with respect to a Class of Notes for which (A) one or more Series of such Class is redeemed in full on such date or (B) Protection Buyer Notes are redeemed, in each case in connection with a Partial Optional Redemption, a payment of principal representing the Aggregate USD Equivalent Outstanding Amount of the Notes of such Class redeemed in connection with such Partial Optional Redemption.

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For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclauses (i) through (iv) above will be based on the Aggregate USD Equivalent Outstanding Amount of each applicable Series of such Class, as expressed in Dollars.

On any date of determination, increases and decreases to the Aggregate USD Equivalent Outstanding Amount of any Class of Notes will be determined by giving effect, in the following order, to (i) the aggregate related Unscaled Credit Event Adjustment Amount (if any), (ii) the aggregate related Unscaled Reinstatement Adjustment Amount (if any) and (iii) the aggregate related Unscaled Notional Principal Adjustment Amount (if any).

See "Description of Notes—Principal".

Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes .....

The Aggregate USD Equivalent Outstanding Amount of each Class of Notes will be increased by an amount (as expressed in Dollars) equal to:

(i) on the Payment Date immediately following the Due Period during which a Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent (with the related Currency Adjusted Reinstatement Adjustment Amount (other than with respect to that portion of Reference Obligation Repayment Amount which will be applied to make principal payments on the Notes on such Payment Date) to be invested in Collateral Securities, or pending such investment, in Eligible Investments, as described under "—The Collateral Securities"), the product of (a) the related Unscaled Reinstatement Adjustment Amount and (b) the related Note Scaling Factor with respect to such Class of Notes (such amount, the "**Reinstatement Adjustment Amount**"); *provided* that the Aggregate USD Equivalent Outstanding Amount of each Class of Notes may only be increased by an amount less than or equal to the ICE Aggregate USD Equivalent Outstanding Amount Differential of such Class; and

(ii) on any day on which additional Notes of such Class are issued, the principal amount of such additional issuance (or the USD Equivalent of such principal amount if issued in an Approved Currency other than Dollars).

For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclause (i) above will be based on the Aggregate USD Equivalent Outstanding Amount of each Series of such Class, as expressed in Dollars.

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	See "Description of Notes—Principal".
Decrease in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes	The Currency Adjusted Aggregate Outstanding Amount of any Series of Notes will be decreased, with respect to (A) any event described under clauses (i) and (ii) of "—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", by an amount equal to the quotient of (a) such Notes' allocation of any related Credit Event Adjustment Amount or Notional Principal Adjustment Amount, as applicable, *divided by* (b) the Applicable Series Foreign Exchange Rate (such quotient, the **"Currency Adjusted Credit Event Adjustment Amount"** or the **"Currency Adjusted Notional Principal Adjustment Amount"**, as applicable), (B) on the Stated Maturity with respect to a Series of Notes, the Currency Adjusted Aggregate Outstanding Amount of such Notes maturing on such date, after giving effect to any reductions pursuant to subclause (A) above and (C) a Partial Optional Redemption of such Notes, by the Currency Adjusted Aggregate Outstanding Amount of such Notes, after giving effect to any reductions pursuant to subclauses (A) and (B) above.
Increase in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes	The Currency Adjusted Aggregate Outstanding Amount of any Series of Notes will be increased, with respect to any event described under clause (i) of "—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", by an amount equal to the quotient of (a) such Notes' allocation of any related Reinstatement Adjustment Amount *divided by* (b) the Applicable Series Foreign Exchange Rate (such quotient, the **"Currency Adjusted Reinstatement Adjustment Amount"**).
Cancellation of Notes	A Class of Notes will be deemed to be cancelled and no longer Outstanding on the date that the ICE Class Notional Amount of such Class has been reduced to zero.
The Credit Default Swap	
Credit Default Swap	On or prior to the Closing Date, the Issuer will enter into a credit default swap transaction (the **"Credit Default Swap"**) with Goldman Sachs Capital Markets, L.P. (in such capacity, the **"Protection Buyer"**) pursuant to which the Issuer will sell credit protection to the Protection Buyer with respect to a portfolio of Reference Obligations consisting of RMBS.
Documentation	The Credit Default Swap will be documented by a confirmation that will be governed by, form part of and be subject to a 1992 Master Agreement (Multicurrency-Cross Border) (the **"ISDA Master Agreement"**) published by the International Swaps and Derivatives Association, Inc. (**"ISDA"**), and Schedule thereto. The definitions and provisions of the ISDA Credit Derivatives Definitions will be incorporated into the Credit Default Swap by reference (as supplemented by the May 2003 Supplement to such definitions published by ISDA), subject to certain

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	amendments as set out in the Credit Default Swap. The Credit Default Swap will be governed by New York law.
Reference Portfolio	On the Closing Date, it is expected that the Credit Default Swap will reference 90 Reference Obligations (collectively, the "**Reference Portfolio**"). See Schedule A. The Protection Buyer is not required to have any credit exposure to any Reference Entity or any Reference Obligation.
Modification of the Reference Portfolio	The Reference Portfolio is static and no replacement Reference Obligations may be included in the Reference Portfolio. Following the redemption or amortization in full of a Reference Obligation, the Reference Obligation that has been redeemed or amortized in full, will be removed from the Reference Portfolio. Subject to the foregoing, if the Reference Obligation Notional Amount of a Reference Obligation that suffered one or more Credit Events is reduced to zero at any time on or prior to the Scheduled Termination Date and remains at zero for a period of one calendar year, such Reference Obligation shall be removed from the Reference Portfolio as of the last day of such one calendar year period; *provided* that, if such Reference Obligation that suffered one or more Credit Events experiences a Reference Obligation Reimbursement for which the Reference Obligation Repayment Amount equals the ICE Reference Obligation Notional Amount Differential of such Reference Obligation immediately prior to such determination, the Reference Obligation shall be removed from the Reference Portfolio immediately following the determination of such Reference Obligation Repayment Amount by the Credit Default Swap Calculation Agent.
Credit Events	The following Credit Events (each a "**Credit Event**") shall apply with respect to each Reference Obligation: (i) Failure to Pay Principal; or (ii) Writedown. See "The Credit Default Swap—Credit Events".
Conditions to Settlement	The "**Conditions to Settlement**" will be satisfied upon delivery to the Issuer and the Trustee of a Credit Event Notice and a Notice of Publicly Available Information.
Notifying Party	The Protection Buyer.
Credit Default Swap Calculation Agent	Goldman Sachs Capital Markets, L.P. will be the calculation agent (in this capacity the "**Credit Default Swap Calculation Agent**") under the Credit Default Swap.
Settlement Method	Cash.

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Loss Amount	On the Business Day on which the Protection Buyer satisfied the Conditions to Settlement (in each case, a **"Credit Default Swap Calculation Date"**), the Credit Default Swap Calculation Agent will determine the loss amount (a **"Loss Amount"**) with respect to the related Credit Event as follows: (i) with respect to a Writedown, the Loss Amount will be an amount equal to the related Writedown Amount; and (ii) with respect to a Failure to Pay Principal, the Loss Amount will be an amount equal to the related Principal Shortfall Amount.
Cash Settlement Amount	On the fifth Business Day following a Credit Default Swap Calculation Date (a **"Credit Default Swap Settlement Date"**), subject to the provision described in the following paragraph, the Issuer will pay to the Protection Buyer an amount (a **"Cash Settlement Amount"**) equal to the aggregate of any Currency Adjusted Credit Event Adjustment Amounts determined on such day payable in the currencies of such Currency Adjusted Credit Event Adjustment Amounts. Pursuant to the terms of the Credit Default Swap, if the liquidation proceeds of Eligible Investments and Collateral Securities would have been sufficient to pay a Cash Settlement Amount had such Collateral (other than Put Excluded Collateral) been liquidated at least at 100% of par (instead of below 100% of par), the Issuer will be deemed to have paid such Cash Settlement Amount in full upon the Protection Buyer's receipt of the actual related liquidation proceeds. See "The Credit Default Swap—Payments".
Reimbursement following a Credit Event	If, after the occurrence of a Credit Event, a Reference Obligation Reimbursement occurs with respect to the related Reference Obligation, and so long as such Reference Obligation remains in the Reference Portfolio at the time of such Reference Obligation Reimbursement, the Protection Buyer will pay to the Issuer, on the Payment Date immediately following the Due Period during which the related Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent, an amount equal to the aggregate of: (i) the Currency Adjusted Reinstatement Adjustment Amounts payable on such date; and (ii) the ICE Currency Adjusted Interest Reimbursement Amounts payable on such date.
Credit Default Swap Early Termination.....	The Credit Default Swap may be terminated by the Issuer or by the Protection Buyer (**"Credit Default Swap Early Termination"**) at the option of the non-defaulting or non-affected party, as applicable, upon the occurrence of a Credit Default Swap Event of Default or a Credit Default Swap Termination Event. Upon the Trustee becoming aware of the occurrence of

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	any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Basis Swap or the Collateral Put Agreement, the Trustee or the Issuing and Paying Agent, as applicable, will as promptly as practicable notify the Noteholders of such event and will terminate any such agreement on behalf of the Issuer at the direction of (i) in the case of the Credit Default Swap or the Basis Swap, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes and (ii) in the case of the Collateral Put Agreement, 100% of the Aggregate USD Equivalent Outstanding Amount of the Notes, in each case voting as a single class. In connection with any Noteholder vote to terminate the Collateral Put Agreement, any Notes held by or on behalf of the Collateral Put Provider or any of its Affiliates will have no voting rights and will be deemed not to be Outstanding in connection with any such vote. See "The Credit Default Swap—Credit Default Swap Early Termination".
The Collateral Securities	
The Initial Collateral Securities...	On the Closing Date, the Issuer will use part of the proceeds of the offering to purchase at least $192,000,000 principal amount of Collateral Securities and Eligible Investments selected by the Protection Buyer as described in "The Collateral Securities—The Initial Collateral Securities" (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.
Supplemental Collateral Securities	
Substitution	Any Noteholder may request that the Issuer substitute one or more Collateral Securities in accordance with the terms of the Indenture. See "Collateral Securities—Substitution of Collateral Securities".
Purchase of Supplemental Collateral Securities.....	Upon or subsequent to: (i) the redemption or amortization, in whole or in part, of a Collateral Security (an "**Amortized Collateral Security**" and the principal amount of such redemption or amortization, the "**Collateral Security Amortization Amount**"), (ii) the additional issuance of Notes from time to time on any Payment Date after the Closing Date (the principal amount of such issuance, the "**Additional Issuance Principal Amount**"),

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(iii) the receipt of Disposition Proceeds in connection with the liquidation of any principal amount of a Collateral Security in excess of the amount necessary to pay any Cash Settlement Amount, Currency Adjusted Notional Principal Adjustment Amount or in connection with a Partial Optional Redemption or a Stated Maturity (for the avoidance of doubt, excluding any Excess Disposition Proceeds) (such excess principal amount, the "**Excess Principal Amount**"), or

(iv) the Issuer's receipt of a Currency Adjusted Reinstatement Adjustment Amount (other than with respect to that portion of any Reference Obligation Repayment Amount which shall be applied to make principal payments on the Notes on such Payment Date),

the Protection Buyer may, in its sole discretion, direct the Issuer to purchase (and the Issuer shall so purchase) one or more replacement Collateral Securities or additional Collateral Securities (together, the "**Supplemental Collateral Securities**"), as the case may be, subject to (a) the Collateral Security Eligibility Criteria, (b) the Collateral Weighted Average Life Test and (c) the Collateral Security Quantity Constraint (in each case as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent);

provided that (1) in the case of clauses (i) and (iii) above, such Supplemental Collateral Securities will be denominated in the same Approved Currency as the Collateral Security that has been amortized, redeemed, or otherwise disposed of and (2) in the case of clauses (ii) and (iv) above, such Supplemental Collateral Securities will be denominated in the same currency as such Notes that are issued or reinstated. See "The Collateral Securities—Supplemental Collateral Securities". Pending any such reinvestment, the Issuer will invest the Collateral Security Amortization Amount, Additional Issuance Principal Amount, Excess Principal Amount or Currency Adjusted Reinstatement Adjustment Amount, as the case may be, in Eligible Investments.

If the Issuer liquidates a Collateral Security in order to pay a Cash Settlement Amount, a Currency Adjusted Notional Principal Adjustment Amount or in connection with a Partial Optional Redemption or a Stated Maturity, as the case may be, and the Issuer receives Disposition Proceeds in respect of such Collateral Security which exceed 100% of the principal amount of such Collateral Security (the excess proceeds described above, excluding any accrued and unpaid interest, "**Excess Disposition Proceeds**"), the Protection Buyer may, in its sole discretion, direct the Issuer to use such Excess Disposition Proceeds to purchase (and the Issuer shall so purchase) one or more Supplemental Collateral Securities in any Approved Currency, subject to clauses (iv), (v) and (vii) through (xiii) of the Collateral Security Eligibility Criteria (as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent). See

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"The Collateral Securities—Supplemental Collateral Securities". Pending any such reinvestment, the Issuer will invest such Excess Disposition Proceeds in Eligible Investments.

Liquidation of Collateral Securities ..... The Collateral Securities will only be liquidated in connection with the events described below:

(i) on a Credit Default Swap Calculation Date, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay the Protection Buyer the Cash Settlement Amount on the related Credit Default Swap Settlement Date;

(ii) five Business Days prior to the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined, in each case by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), if any Currency Adjusted Notional Principal Adjustment Amount will be paid to any Noteholders by the Issuer on the related Payment Date, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than in connection with any Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay to the applicable Noteholders such Currency Adjusted Notional Principal Adjustment Amount on the related Payment Date (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to a price of 100% for any such Selected Collateral Security, *plus* accrued and unpaid interest thereon);

(iii) after the occurrence and continuation of an Event of Default, if the Trustee is directed to liquidate the Collateral Securities in accordance with the terms of the

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Indenture, the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities;

(iv) in connection with any Optional Redemption in Whole, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, *plus* accrued and unpaid interest thereon);

(v) in connection with any Partial Optional Redemption, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay to the applicable Noteholders the principal amount of such Notes redeemed in connection with such Partial Optional Redemption (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, *plus* accrued and unpaid interest thereon);

(vi) in connection with a Mandatory Redemption other than a Mandatory Redemption caused by a (a) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (b) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (c) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities;

(vii) in connection with a Mandatory Redemption other than as described in subclause (vi) above, Collateral Securities will be selected for liquidation and/or delivery to Noteholders pursuant to the Special Termination Liquidation Procedure;

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(viii) in connection with the Stated Maturity of any Series of Notes, the Issuer or Trustee will notify the Collateral Disposal Agent to liquidate Collateral Securities in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral) that, when added to the proceeds from the liquidation of any Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), would be sufficient to pay the applicable Noteholders the principal amount of such Notes maturing on the related Stated Maturity (*provided* that if the Issuer will not receive at least 100% of par for a Selected Collateral Security, such Selected Collateral Security (other than Put Excluded Collateral) will not be liquidated but the Trustee will instead deliver such Selected Collateral Security to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Selected Collateral Security, *plus* accrued and unpaid interest thereon); and

(ix) in connection with the satisfaction of the Replacement Counterparty Procedures, the Issuer, or the Trustee on behalf of the Issuer, will notify the Collateral Disposal Agent to liquidate all Collateral Securities.

Determination of Compliance of Reference Obligations and Collateral Securities with the Requirements under the Credit Default Swap and Certain Calculations pursuant to the Indenture and the Credit Default Swap .....

The Credit Default Swap Calculation Agent will supply information and calculations to (i) the Collateral Administrator for use in the Collateral Administrator's confirmation of compliance of the Collateral (after the proposed addition of a Collateral Security) with any of the Collateral Security Eligibility Criteria, the Collateral Weighted Average Life Test and the Collateral Security Quantity Constraint, and (ii) the Trustee for use in the Trustee's confirmation of the BIE Collateral Security Eligibility Criteria.

To the extent there is any difference between any of the Collateral Administrator's or the Trustee's (as the case may be) and the Credit Default Swap Calculation Agent's determination of the satisfaction of any of the Collateral Security Eligibility Criteria, the Collateral Weighted Average Life Test or the Collateral Security Quantity Constraint, the Collateral Administrator will use commercially reasonable efforts to resolve such difference.

For the avoidance of doubt, the obligations of the Collateral Administrator under the Collateral Administration Agreement are

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	solely the obligations of the Collateral Administrator and not those of the Credit Default Swap Calculation Agent, the Protection Buyer or any of its Affiliates.
The Basis Swap	
The Basis Swap	On or prior to the Closing Date, the Issuer will enter into a basis swap transaction (the "**Basis Swap**") with Goldman Sachs Capital Markets, L.P. (in such capacity, the "**Basis Swap Counterparty**").
Terms	On each Payment Date, the Issuer will pay to the Basis Swap Counterparty an amount (the "**Basis Swap Payment**") equal to the Collateral Interest Amount. "**Collateral Interest Amount**" means, with respect to any Payment Date (including the Optional Redemption Date and the Stated Maturity) or the Mandatory Redemption Date, without duplication (i) all interest payments that are scheduled to be paid by obligors of Collateral in accordance with the Underlying Instruments of such Collateral during the preceding Due Period, *plus* (ii) all amendment and waiver fees, late payment fees, make-whole premiums and other fees that are either (a) scheduled to be paid by obligors of Collateral during the preceding Due Period or (b) obligors of such Collateral have agreed to pay to holders of such Collateral during the preceding Due Period, *plus* (iii) all accrued and unpaid amounts described in subclause (i) and (ii) above that a buyer of such Collateral has agreed to pay to the Issuer upon the sale of such Collateral during the preceding Due Period, less any Purchased Accrued Interest Amount that the Issuer used in connection with the purchase of a Supplemental Collateral Security during the preceding Due Period, which in each of clauses (i) through (iii) above, for the avoidance of doubt, includes (a) amounts actually received by the Issuer and (b) amounts due and payable to the Issuer but not received by the Issuer. On each Payment Date, the Basis Swap Counterparty will pay to the Issuer the Monthly Basis Swap Payment. See "The Basis Swap" and "Description of the Notes—Priority of Payments—Interest Proceeds".
The Collateral Put Agreement	
The Collateral Put Agreement	On or prior to the Closing Date, the Issuer will enter into a put agreement (the "**Collateral Put Agreement**") with Goldman Sachs International ("**GSI**" or in such capacity, the "**Collateral Put Provider**").
Terms	With respect to the Issuer's liquidation of Collateral (other than Put Excluded Collateral) in connection with (i) the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the applicable Noteholders, (ii) an Optional Redemption in Whole or a Partial Optional Redemption or (iii) a Stated Maturity of any Series of Notes, if (x) the Collateral

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	Disposal Agent is unable to obtain at least 100% of par for a Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above). The Trustee will then, on behalf of the Issuer, exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Trustee will deliver such Collateral (other than Put Excluded Collateral) to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider of an amount equal to 100% of par for such Collateral (*plus* accrued and unpaid interest). See "The Collateral Put Agreement".
The Collateral Disposal Agreement	
The Collateral Disposal Agreement.....	On or prior to the Closing Date, the Issuer will enter into a collateral disposal agreement (the "**Collateral Disposal Agreement**") with Goldman, Sachs & Co. (in such capacity, the "**Collateral Disposal Agent**").
Terms.....	Pursuant to the terms of the Collateral Disposal Agreement, the Collateral Disposal Agent will (i) subject to subclause (iii) below in connection with any partial liquidation of the portfolio of Collateral Securities, choose the Selected Collateral Securities to be liquidated (*provided* that any such Selected Collateral Securities will be denominated in the same currency as the Notes, the Currency Adjusted Aggregate Outstanding Amount of which is reduced by the related Credit Event Adjustment Amount, Notional Principal Adjustment Amount, Partial Optional Redemption or Stated Maturity), (ii) in connection with any liquidation of any Collateral Security, solicit bids on behalf of the Issuer and (iii) in connection with any liquidation of Collateral Securities as described in subclause (vii) under "—The Collateral Securities—Liquidation of Collateral Securities", perform the acts described under "Description of the Notes—Mandatory Redemption", including, but not limited to, those acts described in the Special Termination Liquidation Procedure.
Additional Issuance	The Notes of any Class may be issued from time to time following the Closing Date. See "Description of the Notes—The Indenture—Additional Issuance" and "Description of the Notes—The Issuing and Paying Agency Agreement—Additional Issuance".
Governing Law	The Co-Issued Notes, the Indenture, the Issuing and Paying Agency Agreement, the Credit Default Swap, the Basis Swap, the Collateral Put Agreement, the Collateral Disposal Agreement and the Portfolio Selection Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Notes, the terms and conditions of the Issuer Notes (as set forth in the Issuing and Paying Agency Agreement) and each Deed of Covenant will be governed by, and construed in accordance with, the laws of the Cayman Islands.

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Listing and Trading	There is no established trading market for the Notes. Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained. See "Listing and General Information".
Tax Status	See "Income Tax Considerations".
ERISA Considerations	See "ERISA Considerations".

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RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Notes. Although the Initial Purchaser has advised the Issuers that it intends to make a market in the Notes, the Initial Purchaser is not obligated to do so, and any such market-making with respect to the Notes may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the Holders of such Notes with liquidity of investment or that it will continue for the life of such Notes. Consequently, a purchaser must be prepared to hold the Notes for an indefinite period of time or until Stated Maturity. In addition, no sale, assignment, participation, pledge or transfer of the Notes may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Notes will not be registered under the Securities Act or any state securities laws, and the Issuer has no plans, and is under no obligation, to register the Notes under the Securities Act. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Transfer Restrictions". Such restrictions on the transfer of the Notes may further limit their liquidity. See "Transfer Restrictions". Application will be made to list the Notes on a stock exchange of the Issuer's choice, if practicable, but there can be no assurance that such admission will be sought, granted or maintained.

Limited Recourse Obligations. The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer, payable solely from the Issuer Assets pledged by the Issuer to secure the Notes. None of the Noteholders, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Portfolio Selection Agent, the Trustee, the Issuing and Paying Agent, the Administrator, the Share Trustee or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Notes. Consequently, Holders of the Notes must rely solely on distributions on the Issuer Assets pledged to secure the Notes for the payment of principal and interest thereon. If distributions on the Issuer Assets are insufficient to make payments on the Notes, no other assets (and, in particular, no assets of the Noteholders, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Portfolio Selection Agent, the Trustee, the Issuing and Paying Agent, the Administrator, the Share Trustee or any affiliates of any of the foregoing) will be available for payment of the deficiency and following realization of the Issuer Assets pledged to secure the Notes, the obligations of the Issuers to pay such deficiency shall be extinguished and shall not thereafter revive. Each Holder of a Note by its acceptance of such Note will agree or be deemed to have agreed not to take any action or institute any proceedings against the Issuers under any insolvency law applicable to the Issuers or which would be likely to cause the Issuers to be subject to, or to seek the protection of, any insolvency law applicable to the Issuers, subject to certain limited exceptions.

Subordination of the Notes. The rights of the Holders of the Notes with respect to the Issuer Assets will be subject to prior claims of the Trustee, the Issuing and Paying Agent, the Portfolio Selection Agent, the Protection Buyer, the Basis Swap Counterparty and the Collateral Put Provider, and may be subject to the claims of any other creditor of the Issuer that is entitled to priority as a matter of law or by virtue of any nonconsensual lien that such creditor has on the Issuer Assets or pursuant to the Priority of Payments.

The Class A-1 Notes are subordinated to the Class SS Notes, Class A-2 Notes are subordinated to the Class A-1 Notes, the Class B Notes are subordinated to the Class A-2 Notes, the Class C Notes are subordinated to the Class B Notes, the Class D Notes are subordinated to the Class C Notes and the Class FL Notes are subordinated to the Class D Notes, in each case as described under "Summary—

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Notes—Status and Subordination". No payments of interest from Interest Proceeds will be made on any Class of Notes on any Payment Date until current and defaulted interest on the Notes of each Class to which such Class is subordinated has been paid, and no payments of principal will be made on any such Class of Notes (i) on any Payment Date or (ii) any other Business Day on which payments of Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Noteholders, until principal of the Notes of each Class to which such Class is subordinated has been paid in accordance with the Priority of Payments described herein. See "Description of the Notes—Priority of Payments".

In addition, if an Event of Default occurs, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will be entitled to determine the remedies to be exercised under the Indenture including the sale and liquidation of the Collateral in accordance with the procedures set forth in the Indenture. Remedies pursued by a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class could be adverse to the interests of the Holders of a particular Class or Classes of Notes. See "Description of the Notes—The Indenture—Events of Default".

Mandatory Redemption and the Special Termination Liquidation Procedure. If a Mandatory Redemption occurs and the Special Termination Liquidation Procedure is applied, the Holders of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes voting as a single class will be entitled to determine whether Collateral Securities allocated to such Classes of Notes will be liquidated or delivered to such Noteholders in accordance with the Special Termination Liquidation Procedure. With respect to any of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, such determination through voting as a single class could be adverse to the interests of the Holders of the Classes of Notes subordinated to such senior Classes, as the case may be, as Holders of any such senior Classes of Notes may elect to receive Collateral Securities with a market value in excess of the Aggregate USD Equivalent Outstanding Amount of such senior Classes of Notes (*plus* accrued and unpaid interest thereon) rather than have the Collateral Securities allocated to such senior Classes liquidated, which would allow Holders of subordinated Classes of Notes to benefit from the liquidation of such Collateral Securities at a premium. See "Description of the Notes—Mandatory Redemption".

Leverage. The Aggregate USD Equivalent Outstanding Amount of the Notes will be $192,000,000 on the Closing Date (including, for the avoidance of doubt, the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). However, the Reference Portfolio Notional Amount will equal $2,000,000,000 on the Closing Date, which amount represents the aggregate Reference Obligation Notional Amount on the Closing Date. Through the Credit Default Swap, investors in the Notes will be effectively providing the Protection Buyer loss protection with respect to each Reference Obligation up to the Reference Obligation Notional Amount of such Reference Obligation. Losses incurred will be borne by the Noteholders. Since the Reference Portfolio Notional Amount for the Reference Portfolio exceeds the Aggregate USD Equivalent Outstanding Amount of the Notes, investors in the Notes are providing such loss protection to the Protection Buyer on a leveraged basis.

Volatility. Because investors in the Notes are providing loss protection to the Protection Buyer on a leveraged basis, the market value of the Notes may be subject to changes that are greater than the changes in market value that might occur to the Reference Portfolio. The market value of the Notes may vary over time and could be significantly less than par (or even zero) in certain circumstances.

Credit Linkage of the Notes. The Credit Default Swap will be linked to the credit of the Reference Entities. The amount payable in respect of principal of the Notes will depend upon, among other factors, whether and to the extent Credit Events have occurred under the Credit Default Swap. Under the Credit Default Swap, upon the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, the Issuer will be obligated to pay the Protection Buyer a Cash Settlement Amount in an amount equal to any Currency Adjusted Credit Event Adjustment Amounts. Any Cash Settlement Amount paid by the Issuer will reduce the Aggregate USD Equivalent Outstanding Amount of the Notes (in reverse order of

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seniority). See "Summary—Notes—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes". Except in the limited circumstances as described under "Summary—Notes—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", a decrease in the Aggregate USD Equivalent Outstanding Amount of the Notes will be permanent and irreversible and the Noteholders will never receive a payment of principal in the amount of such decrease and from and after the date of such decrease, no interest will accrue on the amount of such decrease. See "—Subordination of the Notes" and "Description of the Notes—Priority of Payments".

Cash Available to Make Payments on the Notes. The ability of the Issuer to make payments on the Notes will depend primarily on several factors. To the extent (i) one or more Credit Events occur, (ii) the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider or the Collateral Disposal Agent fails to perform its obligations or (iii) there is a default in payments due in respect of any Collateral, the amount of available cash to make payments on the Notes in accordance with the Priority of Payments will be reduced. In addition, in the event that an Event of Default occurs in respect of the Notes or on the Mandatory Redemption Date, the Issuer may not be able to pay the principal of the Notes as a result of (a) paying unpaid Credit Default Swap Termination Payments, if any, owing to the Protection Buyer, (b) paying unpaid Basis Swap Termination Payments, if any, owing to the Basis Swap Counterparty, (c) amounts owed to the Collateral Put Provider pursuant to the Collateral Put Agreement and (d) the then applicable market value of the Collateral Securities being less than their principal amount. In the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

Retention of a Portfolio Selection Agent. The Issuer will retain a portfolio selection agent to select the Initial Reference Portfolio, but following the Closing Date the Reference Portfolio will be static, subject to modification only in connection with the amortization of the Reference Portfolio. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral.

Interest Payments Dependent Primarily upon the Protection Buyer's Performance under the Credit Default Swap and the Basis Swap Counterparty's Performance under the Basis Swap. Payments made by the Protection Buyer under the Credit Default Swap and payments made by the Basis Swap Counterparty under the Basis Swap are the Issuer's primary sources of funds to make interest payments on the Notes. Since the ability of the Issuer to make interest payments on the Notes prior to the occurrence of a Credit Default Swap Early Termination or a Basis Swap Early Termination will be dependent on its receipt of payments from the Protection Buyer under the Credit Default Swap and the Basis Swap Counterparty under the Basis Swap, the Noteholders are relying on the Protection Buyer to perform its obligations under the Credit Default Swap and the Basis Swap Counterparty to perform its obligations under the Basis Swap. Accordingly, if a Credit Default Swap Early Termination or a Basis Swap Early Termination occurs prior to a Payment Date, the Issuer may not have sufficient funds to make interest payments on all Classes of Notes.

The insolvency of the Protection Buyer will be a Credit Default Swap Event of Default under the Credit Default Swap. In the event of the insolvency of the Protection Buyer, the Issuer will be treated as a general creditor of the Protection Buyer. Additionally, certain events with respect to a Credit Default Swap Early Termination (which can occur due to the insolvency of the Protection Buyer) will result in a Mandatory Redemption. Upon the occurrence of a Mandatory Redemption, the Trustee will liquidate all or a portion of the Collateral and will make any payments due to the Protection Buyer pursuant to the Credit Default Swap (other than a Protection Buyer Default Termination Payment), the Basis Swap Counterparty pursuant to the Basis Swap (other than a Basis Swap Counterparty Default Termination Payment) and the Collateral Put Provider pursuant to the Collateral Put Agreement prior to making

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payments to the Noteholders. Under such circumstances, Noteholders may not receive sufficient funds to repay the principal of the Notes and, as a result, Noteholders should expect to lose a substantial part, if not all, of their principal investment in the Notes and to receive no interest on the Notes. In addition, in the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

The insolvency of the Basis Swap Counterparty will be a Basis Swap Event of Default under the Basis Swap. In the event of the insolvency of the Basis Swap Counterparty, the Issuer will be treated as a general creditor of the Basis Swap Counterparty. Additionally, certain events with respect to a Basis Swap Early Termination (which can occur due to the insolvency of the Basis Swap Counterparty) will result in a Mandatory Redemption. Upon the occurrence of a Mandatory Redemption, the Trustee will liquidate the Collateral and will make any payments due to the Protection Buyer pursuant to the Credit Default Swap (other than a Protection Buyer Default Termination Payment), the Basis Swap Counterparty pursuant to the Basis Swap (other than a Basis Swap Counterparty Default Termination Payment) and the Collateral Put Provider pursuant to the Collateral Put Agreement prior to making payments to the Noteholders. Under such circumstances, Noteholders may not receive sufficient funds to repay the principal of the Notes and, as a result, Noteholders should expect to lose a substantial part, if not all, of their principal investment in the Notes and to receive no interest on the Notes. In addition, in the case of a Mandatory Redemption, the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

Collateral Put Provider Default. In connection with an Optional Redemption in Whole, a Partial Optional Redemption, a Stated Maturity of any Series of Notes or the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the Noteholders, if (x) the Collateral Disposal Agent is unable to obtain at least 100% of par for a Selected Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above), who will then direct the Issuer to exercise the Issuer's rights under the Collateral Put Agreement pursuant to which the Issuer will deliver such Selected Collateral Security and/or such Eligible Investment to the Collateral Put Provider in exchange for 100% of the principal amount of such Selected Collateral Security and/or such Eligible Investments (*plus* accrued and unpaid interest). If a Collateral Put Provider defaults in its obligations under the Collateral Put Agreement, the Collateral Disposal Agent will be required to liquidate the Collateral in an amount which may be insufficient to pay such Currency Adjusted Notional Principal Adjustment Amount or to redeem the Notes in full (in connection with an Optional Redemption in Whole) or in part (in connection with a Partial Optional Redemption) or the Holders of any subordinated Class of Notes could be adversely affected as described under "—Mandatory Redemption and the Special Termination Liquidation Procedure". See "Description of the Notes—Mandatory Redemption".

No Claims on the Reference Entities. The Credit Default Swap does not constitute a purchase or other acquisition or assignment of any interest in any obligation of any Reference Entity. The Issuer will have a contractual relationship only with the Protection Buyer and not with any Reference Entity, and generally will have no rights to enforce directly compliance by any Reference Entity with the terms of its obligations that are referred to in the Credit Default Swap, no rights of set-off against a Reference Entity, and no voting rights with respect to any Reference Entity. The Issuer will not directly benefit from any collateral securing the obligations of the Reference Entities, and the Issuer will not have the benefit of the remedies that would normally be available to a holder of such secured obligation.

To the extent that the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates holds any obligation of a Reference Entity, neither the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent nor any of their affiliates

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will be, or will be deemed to be acting as, the Issuer's agent or trustee in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates arising under or in connection with its or their holding of any such obligation. None of the Issuer, the Trustee, the Issuing and Paying Agent, nor any Holder of any Note will have any right to acquire from the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates (or to require the Protection Buyer, the Credit Default Swap Calculation Agent or any of their affiliates to transfer, assign or otherwise dispose of) any interest in any Reference Obligation or other obligation of any Reference Entity pursuant to the Credit Default Swap. Furthermore, to the extent that the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent or any of their affiliates holds any obligation of a Reference Entity, none of the Protection Buyer, the Credit Default Swap Calculation Agent, the Portfolio Selection Agent nor any of their affiliates will grant the Issuer, the Trustee or the Issuing and Paying Agent any security interest in such obligation.

In addition, in the event of the bankruptcy or insolvency of the Protection Buyer, the Issuer will be treated as a general creditor of the Protection Buyer and will not have any claim with respect to the Reference Entities. Consequently, the Issuer will be subject to the credit risk of the Protection Buyer as well as that of the Reference Entities.

Limited Provision of Information about Reference Obligations/Reference Entities. This Offering Circular does not provide any information with respect to any Reference Obligation or Reference Entity other than that contained in a description of the Reference Portfolio set forth under "The Credit Default Swap—The Reference Portfolio". As the occurrence of a Credit Event may result in a permanent decrease in the amounts payable in respect of the Notes, investors should review the list of Reference Obligations set forth herein and conduct their own investigation and analysis with respect to the creditworthiness of each Reference Obligation and the likelihood of the occurrence of a Credit Event with respect to each Reference Entity and Reference Obligation.

The Protection Buyer or its affiliates and/or the Portfolio Selection Agent or its affiliates may have information, including material, non-public information, regarding the Reference Obligations and the Reference Entities. Neither the Protection Buyer nor the Portfolio Selection Agent will provide the Issuer, the Trustee, the Issuing and Paying Agent, any Noteholder or any other Person with any such non-public information. In addition, neither the Protection Buyer nor the Portfolio Selection Agent will provide the Issuer, the Trustee, the Issuing and Paying Agent, any Holder of any Note or any other Person with any such information that is public (including financial information or notices), except in the case of information pertaining to one or more Credit Events with respect to each Reference Entity and one or more Reference Obligation(s) of such Reference Entity in connection with which the Protection Buyer is seeking payment of one or more Cash Settlement Amounts.

The Issuer will be required pursuant to the Indenture to provide the Noteholders with periodic reports. See "Description of the Notes—The Indenture—Reports Prepared Pursuant to the Indenture." None of the Initial Purchaser, the Protection Buyer, the Portfolio Selection Agent or any of their respective affiliates has any obligation to keep the Issuer, the Trustee, the Issuing and Paying Agent or the Noteholders informed as to any other matters with respect to any Reference Entity or any Reference Obligation, including whether or not circumstances exist that give rise to the possibility of the occurrence of a Credit Event with respect to any Reference Obligation or a Reference Entity.

None of the Issuer, the Trustee, the Issuing and Paying Agent or the Noteholders will have the right to inspect any records of the Initial Purchaser, the Protection Buyer, the Portfolio Selection Agent or any of their respective affiliates. Except for the information contained in this Offering Circular, none of the Initial Purchaser, the Protection Buyer, the Portfolio Selection Agent nor any of their respective affiliates will have any obligation to disclose any information or evidence regarding the existence or terms of any obligation of any Reference Entity or any matters arising in relation thereto or otherwise regarding any Reference Entity, any guarantor or any other person.

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Concentration Risk. The concentration of the Reference Obligations in the Reference Portfolio in any one particular type of Structured Product Security subjects the Notes to a greater degree of risk with respect to credit defaults within such type of Structured Product Security. Investors should review the list of Reference Obligations set forth herein and conduct their own investigation and analysis with regard to each Reference Obligation. See "The Credit Default Swap—The Reference Portfolio".

Collateral Default. To the extent that defaults occur with respect to any Collateral, a Mandatory Redemption will occur and the Collateral Disposal Agent will be required to liquidate the Collateral Securities. Thereafter, liquidation proceeds will be applied in accordance with "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". Depending on the market value of the remaining Collateral and the value of the Credit Default Swap and the Basis Swap at such time, the proceeds of such liquidation may not be sufficient to pay the unpaid principal of and interest on all of the Notes.

Assets included in the Reference Portfolio or held as Collateral Securities. The risks generally described below under Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities, CDO Cashflow Securities and Asset-Backed Securities could affect payments on the Notes to the extent any such asset is (i) included in the Reference Portfolio as a Reference Obligation and experiences a Credit Event or (ii) held by the Issuer as a Collateral Security and subsequently experiences a Collateral Default.

Commercial Mortgage-Backed Securities. The Collateral Securities may include Commercial Mortgage-Backed Securities.

CMBS bear various risks, including credit, market, interest rate, structural and legal risks. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, self-storage, nursing homes and senior living centers. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real

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estate. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of commercial mortgage-backed securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of CMBS servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation. The failure of the performance of such CMBS servicers or special servicers could result in cash flow delays and losses on the related issue of CMBS.

At any one time, a portfolio of CMBS may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Mortgage loans underlying a CMBS issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of CMBS could experience delays in cash flow and losses.

In addition, interest payments on CMBS may be subject to an available funds-cap and/or a weighted average coupon cap (which cap will, in each case, have the practical effect of deferring part or all of such interest payments) if interest rate rises substantially.

Residential Mortgage-Backed Securities. The Reference Obligations will include and the Collateral Securities may include Residential Mortgage-Backed Securities.

RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by Agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a

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residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

In addition, interest payments on RMBS may be subject to an available funds-cap and/or a weighted average coupon cap (which cap will, in each case, have the practical effect of deferring part or all of such interest payments) if interest rate rises substantially.

Structural and Legal Risks of CMBS and RMBS. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

In addition, structural and legal risks of CMBS and RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of CMBS or RMBS.

It is not expected that CMBS or RMBS (other than the RMBS Agency Securities) will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on CMBS and RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Some of the CMBS may, and the RMBS referenced in the Initial Reference Portfolio will, be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of CMBS and certain RMBS, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of

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securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

CDO Cashflow Securities. The Collateral Securities may include CDO Cashflow Securities. CDO Cashflow Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer (**"CDO Collateral"**) or proceeds thereof. Consequently, CDO Cashflow Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Cashflow Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer to pay such deficiency shall be extinguished.

CDO Cashflow Securities are subject to credit, liquidity and interest rate risks. CDO Collateral may consist of high yield debt securities, loans, structured finance securities and other debt instruments. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The below investment grade ratings of high yield securities reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative.

Issuers of CDO Cashflow Securities may acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

CDO Cashflow Securities are subject to interest rate risk. The CDO Collateral of an issuer of CDO Cashflow Securities may bear interest at a fixed (floating) rate while the CDO Cashflow Securities issued by such issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Cashflow Securities and CDO Collateral which bears interest at a fixed rate and there may be a timing mismatch between the CDO Cashflow Securities and assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Cashflow Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Cashflow Securities.

In addition, certain CDO Cashflow Securities may by their terms defer payment of interest or pay interest "in-kind".

Asset-Backed Securities. The Collateral Securities may include Asset-Backed Securities. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing, acquiring synthetic exposure through the Credit Default Swap or holding Asset-Backed Securities include the relative seniority or subordination of the class of Asset-Backed Securities, the relative allocation of principal and interest payments in the priorities by which such payments are made under the governing documents, how credit losses affect the issuing vehicle and the return on the different classes, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to any of the classes of securities. With respect to some types of Asset-Backed Securities, the risk is more closely correlated with the default risk on corporate bonds of similar terms and maturities than with the performance of a pool of receivables. In

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addition, certain Asset-Backed Securities (particularly subordinated Asset-Backed Securities) provide that the non-payment of interest in cash on such securities will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies.

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the issuer's or servicer's failure to perform. These two elements may be related, as, for example, in the case of a servicer which does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Market risk arises from the cash flow characteristics of the security, which for most Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to holders of securities and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. For the holder of the security, interest rate risk depends on the expected life of the Asset-Backed Securities which may depend on prepayments on the underlying assets or the occurrence of wind-down or termination events.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with non-standard receivables or receivables originated by private retailers who collect many of the payments at their stores. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the Issuer could be treated as never having been truly sold by the originator to the Issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions on the Asset-Backed Securities. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's other assets.

Recent Developments in Subprime Residential Mortgage Lending. Recently, delinquencies, defaults and losses on residential mortgage loans have increased and may continue to increase, which may affect the performance of RMBS, in particular RMBS Residential B/C Mortgage Securities which are backed by subprime mortgage loans. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, mortgage loans backing RMBS Residential B/C Mortgage Securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. Market interest rates have been increasing and accordingly, with respect to adjustable rate mortgage loans and hybrid mortgage loans that have or will enter their adjustable-rate period, borrowers are likely to experience increases in their monthly payments and become increasingly likely to default on their payment obligations. Discovery of fraudulent mortgage loan applications in connection with rising default rates with respect to subprime mortgage loans may indicate that the risks with respect to these mortgage loans are particularly acute at this time. Such risks may result in further increases in default rates by subprime borrowers as it becomes more difficult for them to obtain refinancing.

These economic trends have been accompanied by a recent downward trend or stabilization of property values after a sustained period of increase in property values. Because subprime mortgage loans generally have higher loan-to-value ratios, recoveries on defaulted mortgage loans are more likely not to result in payment in full of amounts owed under such mortgage loans, resulting in higher net losses than would have been the case had property values remained the same or increased. A decline in property values will particularly impact recoveries on second lien mortgage loans that may be included in the mortgage pools backing RMBS Residential B/C Mortgage Securities.

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Structural features of RMBS may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS structured to limit interest payable to investors based on a weighted average coupon cap. Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS. In addition, delinquencies, defaults and lower recoveries on underlying mortgage loans will reduce interest and principal actually paid to investors to less than the amounts owed to investors in accordance with the terms of their RMBS. RMBS may not be structured with significant or any overcollateralization, so performance will be sensitive to delays or reductions in payments, particularly in the case of subordinated tranches of RMBS. To the extent that RMBS provide for writedowns of principal, interest will cease to accrue on the portion of principal of an RMBS that has been written down.

RMBS may provide that the servicer is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

Recently, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding loan quality. Such financial difficulties may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. The inability of the originator to repurchase such mortgage loans in the event of early payment defaults and other loan representation breaches may also affect the performance of RMBS backed by those mortgage loans.

Under certain circumstances, including a failure to perform its servicing obligations or a bankruptcy of the servicer, investors will be entitled to remove and replace the existing servicer. There is no guarantee, however, that a suitable servicer could be found to assume the obligations of the existing servicer, and the transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and a resulting increase in delinquencies and losses and decreases in recoveries.

Transfers of mortgage loans by the originator or seller will be characterized in the applicable sale agreement as a sale transaction. Nevertheless, in the event of a bankruptcy of the originator or seller, the trustee in bankruptcy could attempt to recharacterize the sale of the mortgage loans as a borrowing secured by a pledge of the mortgage loans. If such attempt were successful, the trustee in bankruptcy could prevent the trustee for the RMBS from exercising any of the rights of the owner of the mortgage loans and also could elect to liquidate the mortgage loans. Investors may suffer a loss to the extent that the proceeds of the liquidation of the underlying mortgage loans would not be sufficient to pay amounts owed in respect of their investments. If this occurs, investors would lose the right to future payments of interest and may fail to recover their initial investment. Regardless of whether a trustee elects to foreclose on the underlying mortgage loan pool, delays in payments on their investments and possible reductions in the amount of these payments could occur.

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These adverse changes in market conditions may reduce the cashflow which the Issuer receives from RMBS held by the Issuer (or a Credit Default Swap that reference RMBS), decrease the market value of such RMBS and increase the incidence and severity of Credit Events under the Credit Default Swap.

Currency Exchange Risk. The Reference Portfolio may include non-Dollar denominated Reference Obligations. At the time that such non-Dollar denominated Reference Obligation is included in the Reference Portfolio, the Credit Default Swap Calculation Agent will determine the Notional Foreign Exchange Rate with respect to such non-Dollar denominated Reference Obligation. This Notional Foreign Exchange Rate will not change during the time such non-Dollar denominated Reference Obligation is in the Reference Portfolio, and, as such, will protect the Issuer from any unfavorable fluctuation of the applicable currency rate (which would increase the amount of any Cash Settlement Amount and/or Notional Principal Adjustment Amount relating to such non-Dollar denominated Reference Obligation). However, because the Notional Foreign Exchange Rate is fixed, the Issuer will not benefit from any favorable fluctuation of the applicable currency exchange rate (which would reduce the amount of any Cash Settlement Amount and/or Notional Principal Adjustment Amount relating to such non-Dollar denominated Reference Obligation).

In addition, in connection with a Mandatory Redemption, Collateral Securities may be liquidated and the proceeds of such liquidation may be insufficient to pay the Currency Adjusted Aggregate Outstanding Amount of each Series in full. To the extent that a Series of Notes is denominated in an Approved Currency for which there is insufficient proceeds in such Approved Currency (at the applicable level of priority) to pay the Currency Adjusted Aggregate Outstanding Amount of such Series of Notes in full, available proceeds denominated in other Approved Currencies will be exchanged for such needed Approved Currency at the applicable currency exchange rates at such time. Other Notes of such Class denominated in any such other Approved Currency and Notes junior to such Class may experience losses due to any adverse fluctuation of the applicable exchange currency rates. In addition, to the extent there would be insufficient Principal Proceeds after giving effect to any such exchange to make all principal payments on the Notes in connection with a Mandatory Redemption, with respect to any Class in which Notes are denominated in more than one Approved Currency, such shortfall shall be borne *pro rata* by Holders of such Class based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, rather than the Applicable Series Foreign Exchange Rate for each related Series.

Average Life and Prepayment Considerations. The Stated Maturity of the Notes issued on the Closing Date is March 1, 2038. The Stated Maturity may vary with respect to any additional issuance of Notes; however, the average life of each Series of Notes is expected to be shorter than the number of years until the Stated Maturity.

The approximations of the average life of each Class of Notes set forth in the table in "Summary—Notes" with respect to the average life of each Class of Notes are not predictive and do not necessarily reflect historical performance of the Reference Obligations. Such approximations will also be affected by any Optional Redemption in Whole, Partial Optional Redemption, Mandatory Redemption or the characteristics of the Reference Obligations, including the existence and frequency of exercise of any optional redemption, mandatory prepayment or sinking fund features, the prevailing level of interest rates and the actual default rate.

Certain Conflicts of Interest Relating to the Initial Purchaser and its Affiliates. Various potential and actual conflicts of interest may nevertheless arise from the activities of the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their affiliates. The following, together with "—Limited Provision of Information about Reference Obligations/Reference Entities", briefly summarize some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

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It is expected that the Initial Purchaser and/or its respective affiliates will have placed or underwritten certain of the Reference Obligations and/or Collateral Securities at original issuance and/or will have provided investment banking services, advisory, banking and other services to issuers of Reference Obligations and/or Collateral Securities. The Initial Purchaser may not have completed its resale of the Notes by any date certain, which may affect the liquidity of the Notes as well as the ability, if any, of the Initial Purchaser to make a market in the Notes. From time to time, the Issuer may purchase or sell Collateral Securities from and/or through Goldman, Sachs & Co. and/or any of its affiliates (collectively, "**Goldman Sachs**"). The Issuer may invest in money market funds that are managed by Goldman Sachs or for which the Trustee or its affiliates provides services, provided that such money market funds otherwise qualify as Eligible Investments.

The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and certain of their respective affiliates are acting in a number of capacities in connection with the transactions described herein. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and each of their respective affiliates acting in such capacities will have only the duties and responsibilities expressly agreed to by such entity in the relevant capacity and will not, by virtue of acting in any other capacity, be deemed to have other duties or responsibilities, other than as expressly provided with respect to each such capacity. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates in their various capacities may enter into business dealings from which they may derive revenues and profits in addition to the fees stated in the various transaction documents, without any duty to account therefor. In such dealings, the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may act in the same manner as if the Notes had not been issued, regardless of whether any such action (including without limitation, any action that might constitute or give rise to a Credit Event) might have an adverse effect on a Reference Entity, a Reference Obligation or any guarantor in respect thereof or otherwise.

The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may hold long or short positions with respect to Reference Obligations and/or other securities or obligations of related Reference Entities and may enter into credit derivative or other derivative transactions with other parties pursuant to which it sells or buys credit protection with respect to one or more related Reference Entities and/or Reference Obligations. The Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and their respective affiliates may act with respect to such transactions and may exercise or enforce, or refrain from exercising or enforcing, any or all of its rights and powers in connection therewith as if it had not entered into the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Collateral Disposal Agreement, and without regard to whether any such action might have an adverse effect on the Issuer, the Noteholders, a related Reference Entity or any Reference Obligation. If the Initial Purchaser, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or their respective affiliates, holds claims against a Reference Entity or a Reference Obligation other than in connection with the transactions contemplated in this Offering Circular, such party's interest as a creditor may be in conflict with the interests of the Issuer.

Certain Conflicts of Interest Relating to the Portfolio Selection Agent and its Affiliates. Various potential and actual conflicts of interest may arise from the overall investment activities of the Portfolio Selection Agent and its Affiliates. The Portfolio Selection Agent and its Affiliates will select the Initial Reference Portfolio. The Portfolio Selection Agent, its Affiliates and accounts managed by any of the foregoing may invest or invest for the account of others in debt obligations that would be appropriate for inclusion in the Reference Portfolio and have no duty in making such investments or in acting in a way that is favorable to the Issuer and to the Noteholders. Such investments may be different from those debt obligations included in the Reference Portfolio. The Portfolio Selection Agent, its Affiliates and accounts managed by any of the foregoing may have economic interests in, or other relationships with, Reference

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Entities or Reference Obligations. The Portfolio Selection Agent, its Affiliates or any account managed by any of the foregoing may make and/or hold an investment in an issuer's securities, sell credit protection under a credit default swap referencing securities or issue financial guaranty insurance policies covering securities (or make loans) that may be *pari passu*, senior or junior in ranking to a Reference Obligation or in which partners, security holders, officers, directors, agents or employees of the Portfolio Selection Agent, its Affiliates or any account managed by any of the foregoing serve on boards of directors or otherwise have ongoing relationships. In such instances, the Portfolio Selection Agent and its Affiliates may in their discretion make investment recommendations and decisions (on behalf of itself or an account managed by it) that may be the same as or different from those made with respect to the Issuer's investments. Accordingly, the Portfolio Selection Agent or any Affiliate of the Portfolio Selection Agent may be seeking, on behalf of itself or accounts for which it serves as manager, to acquire or dispose of securities which are included in the Initial Reference Portfolio (or securities of Reference Entities whose securities constitute Reference Obligations in the Initial Reference Portfolio) at the same time that the Issuer enters into the Credit Default Swap to sell protection with respect to the Initial Reference Portfolio.

The Portfolio Selection Agent and its Affiliates may also serve as managers or co-managers of one or more other companies organized to invest in, or sell or buy credit protection with respect to, RMBS, CMBS, CDO Cashflow Securities or other types of Asset-Backed Securities. The Portfolio Selection Agent and its Affiliates may pursue its own interests as an issuer or servicer of obligations which are Reference Obligations or as an owner of, or seller of credit protection with respect to, other securities issued by an issuer of Reference Obligations, without considering the effect of its actions or omissions on the Issuer.

The Portfolio Selection Agent, its Affiliates and client accounts for which the Portfolio Selection Agent or its Affiliates act as investment advisor may at times own Notes. Any Notes owned by the Portfolio Selection Agent or its Affiliates are subject to disposition by such parties in their discretion. At any given time the Portfolio Selection Agent and its Affiliates will be entitled to vote with respect to any Notes held by them and by such accounts with respect to all other matters. The ownership of Notes by the Portfolio Selection Agent or its Affiliates may give the Portfolio Selection Agent an incentive to take actions that vary from the interests of other holders of the Notes.

Relation to Prior Investment Results. The prior investment results of Portfolio Selection Agent and the persons associated with the Portfolio Selection Agent or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Evolving Nature of the Credit Default Swap Market. Credit default swaps are relatively new instruments in the market. While ISDA has published and supplemented the ISDA Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the ISDA Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. There can be no assurance that changes to the ISDA Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Amendments or supplements to the ISDA Credit Derivatives Definitions that are published by ISDA will only apply to the Credit Default Swap if the Credit Default Swap is amended. Therefore, in addition to the credit risk of Reference Obligations, Reference Entities and the credit risk of the Protection Buyer, the Issuer is also subject to the risk that the ISDA Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

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DESCRIPTION OF THE NOTES

The Co-Issued Notes will be issued pursuant to an Indenture (the "**Indenture**"), dated as of the Closing Date, among the Issuers and LaSalle Bank National Association, as Trustee. Each Class of Issuer Notes will be issued in accordance with a Deed of Covenant and will be subject to the Issuing and Paying Agency Agreement including the terms and conditions of such Notes contained therein. The following summary describes certain provisions of the Notes, the Indenture and the Issuing and Paying Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Issuing and Paying Agency Agreement, copies of which may be obtained as described under "Listing and General Information".

Status and Security

The Co-Issued Notes will be limited recourse obligations of the Issuers and the Issuer Notes will be limited recourse obligations of the Issuer, secured as described below. Accordingly, payments of interest on and principal of the Notes will be made solely from the proceeds of the Issuer Assets, in accordance with the priorities described under "—Priority of Payments" and in certain circumstances described under "—Mandatory Redemption" subject to the Special Termination Liquidation Procedure.

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit of the Secured Parties, a security interest in the Issuer Assets that is of first priority (subject to the Trustee's lien described under "Description of the Notes—The Indenture—Events of Default"), free of any adverse claim or the legal equivalent thereof, as applicable, to secure the Issuers' obligations with respect to the Secured Parties.

Interest

The Notes will bear interest from the Closing Date at the annual rates set forth under "Summary—Notes", payable, in each case, monthly in arrears on each Payment Date commencing May 29, 2007 and ending on the Stated Maturity.

Interest will cease to accrue on each Note, or, in the case of a partial repayment, write-down, or Partial Optional Redemption on such part, from the date of such repayment, write-down, Partial Optional Redemption of such Series or Protection Buyer Notes or Stated Maturity unless payment of principal is improperly withheld or unless a default is otherwise made with respect to such payments of principal. See "—Principal". To the extent lawful and enforceable, interest on any Defaulted Interest on the Notes will accrue at the interest rate applicable to such Notes, until paid as provided herein.

The interest rate per annum payable on the Notes will be calculated based on the applicable Day Count Fraction, commencing on the Closing Date. In the event that the date of any Payment Date or the Stated Maturity, as the case may be, shall not be a Business Day, then payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Payment Date or the Stated Maturity, as the case may be, and, other than with respect to any Interest Accrual Period for a Series of Notes ending on the Stated Maturity of such Series of Notes, no interest shall accrue on such payment of interest for the period from and after any such nominal date; *provided* that interest shall accrue from and including the immediately preceding Payment Date or, in the case of the first Payment Date, the Closing Date to but excluding the following Payment Date or the Stated Maturity, as applicable.

For purposes of calculating the Series Interest Rates, the Issuers will appoint as calculation agent LaSalle Bank National Association (solely in such capacity, the "**Note Calculation Agent**"). Absent manifest error, the Note Calculation Agent will determine each Series Interest Rate using the determination of each Applicable Index made by the Basis Swap Calculation Agent under the Basis Swap. The Basis Swap Calculation Agent will determine each Applicable Index in accordance with the

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provisions set forth under the definitions of "LIBOR", "EURIBOR", "GBP-LIBOR", "AUD-LIBOR", "CAD-LIBOR", "JPY-LIBOR" and "NZD-BBR"; *provided* that such determinations will be made only with respect to any Applicable Index for which Notes denominated in the related Approved Currency are Outstanding in such Applicable Period.

The Note Calculation Agent may be removed by the Issuers at any time. If the Note Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, or if the Note Calculation Agent fails to determine the Series Interest Rates and the Series Interest Amounts for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Note Calculation Agent a leading bank which is engaged in transactions in deposits in the Euro-zone interbank market and the London interbank market and which does not control or is not controlled by or under common control with the Issuers or their Affiliates. The Note Calculation Agent may not resign its duties without a successor having been duly appointed. For so long as any of the Notes remain Outstanding, there will at all times be a Note Calculation Agent for the purpose of calculating the Series Interest Rates. In addition, for so long as any of the Notes are listed on any stock exchange and the rules of such exchange so require, the Issuer will notify such stock exchange of the appointment, termination or change in the office of such Note Calculation Agent.

The Note Calculation Agent will cause the Series Interest Rates, the Series Interest Amounts and Payment Date to be communicated to Euroclear, Clearstream and if any Class of Notes is listed on any stock exchange, notify such stock exchange by the Business Day immediately following each Applicable Index Determination Date. The determination of the Series Interest Rates and the Series Interest Amounts by the Note Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

Principal will not be payable on the Notes prior to the Stated Maturity, except in connection with (i) payment of any Currency Adjusted Notional Principal Adjustment Amount, (ii) an Optional Redemption in Whole or Partial Optional Redemption and/or (iii) a Mandatory Redemption. See "—Optional Redemption in Whole and Partial Optional Redemption", "—Mandatory Redemption", "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and "—Priority of Payments—Other Payment Dates".

The Aggregate USD Equivalent Outstanding Amount of each Class of Notes and the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes will be adjusted from time to time in accordance with the methodologies described in "Summary—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", "Summary—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", "Summary—Decrease in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes" and "Summary—Increase in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes".

From and after the date on which the Currency Adjusted Aggregate Outstanding Amount of any Series of Notes is reduced, no interest will accrue with respect to such reduced amount. From and after the date on which the principal amount of any Class of Notes is increased, interest will accrue with respect to such increased amount.

Optional Redemption in Whole and Partial Optional Redemption

The Notes will be redeemed in whole on any Payment Date after the latest Non-Call Period of any Series of Notes by the Issuer if (i) the Protection Buyer elects to terminate the Credit Default Swap prior to the Scheduled Termination Date (an "**Optional Redemption in Whole**") and (ii) the Collateral Put Agreement has not been terminated at such time; *provided*, *however*, that if one or more Credit Events have caused the Aggregate USD Equivalent Outstanding Amount of one or more Classes of Notes to be

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reduced, (i) Noteholders of each Reversible Loss Series must consent in writing to such redemption or (ii) the Protection Buyer must have agreed to pay the Issuer, prior to the Optional Redemption Date, for each Reversible Loss Series, an amount equal to the Optional Redemption Reimbursement Amount (and the Issuer shall pay such Optional Redemption Reimbursement Amount to Holders of any such Series of Notes in accordance with the Priority of Payments on the Optional Redemption Date).

Notwithstanding the foregoing sentence, the Issuer may not sell any Collateral unless, after giving effect to such sale, there will be sufficient funds to pay the amounts described in "—Optional Redemption in Whole Procedures" below (when taking into consideration the exercise of the Issuer's rights under the Collateral Put Agreement and whether the Protection Buyer will make any End Payment to the Issuer).

Any Optional Redemption in Whole of the Notes will be made at a price of, with respect to Notes denominated in any Approved Currency, 100% of the Currency Adjusted Aggregate Outstanding Amount of such Notes (including accrued and unpaid interest) *plus*, under the circumstances described above with respect to each Series of Notes of each Reversible Loss Series, the Optional Redemption Reimbursement Amount.

(a) The Notes of one or more Series will be redeemed in whole on any Payment Date after the applicable Non-Call Period or (b) any Protection Buyer Notes will be redeemed on any Payment Date, in each case by the Issuer if (i) the Protection Buyer elects to optionally redeem such Series or Protection Buyer Notes, as applicable, prior to the Scheduled Termination Date (a "**Partial Optional Redemption**"), (ii) the Collateral Put Agreement has not been terminated at such time and (iii) in the case of a Partial Optional Redemption of any of the Issuer Notes, the Issuer receives an opinion of counsel on or prior to such Partial Optional Redemption Date to the effect that the tax analysis of the Co-Issued Notes contained herein will not be affected by such Partial Optional Redemption; *provided*, *however*, that with respect to a Partial Optional Redemption pursuant to clause (a) above, if one or more Credit Events have caused the Aggregate USD Equivalent Outstanding Amount of one or more Series of Notes to be redeemed on such Payment Date to be reduced, (i) Noteholders of each such Reversible Loss Series must consent in writing to such redemption or (ii) the Protection Buyer must have agreed to pay the Issuer, prior to the Partial Optional Redemption Date, with respect to each such Reversible Loss Series, an amount equal to the Optional Redemption Reimbursement Amount (and the Issuer shall pay such Optional Redemption Reimbursement Amount to Holders of such Notes in accordance with the Priority of Payments on the Partial Optional Redemption Date). Notwithstanding the foregoing sentence, the Issuer may not sell any Collateral unless, after giving effect to such sale, there will be sufficient funds to pay the amounts described in "—Partial Optional Redemption Procedures" below (when taking into consideration the exercise of the Issuer's rights under the Collateral Put Agreement and whether the Protection Buyer will make any Partial Optional Redemption End Payment to the Issuer).

Any Partial Optional Redemption of the Notes will be made at a price of 100% of the Currency Adjusted Aggregate Outstanding Amount of such Notes (including accrued and unpaid interest) *plus*, under the circumstances described above with respect to each Reversible Loss Series being redeemed, the Optional Redemption Reimbursement Amount.

Optional Redemption in Whole Procedures. In connection with an Optional Redemption in Whole, if the Protection Buyer wishes to terminate the Credit Default Swap after the Non-Call Period of each Series of Notes Outstanding has expired, and therefore requires the Issuer to optionally redeem the Notes in whole, the Protection Buyer shall notify the Issuer, the Portfolio Selection Agent, the Trustee and the Issuing and Paying Agent in writing no less than 15 Business Days prior to the proposed redemption date (which date must be a Payment Date). If one or more Reversible Loss Series exist at such time, the Trustee or the Issuing and Paying Agent, as applicable, shall deliver a notice to each Noteholder of each such Reversible Loss Series, (i) notifying each such Noteholder (1) that the Protection Buyer has sought to terminate the Credit Default Swap prior to the Scheduled Termination Date, (2) of the proposed Optional Redemption Date and (3) that the consent of each such Noteholder is required under the Indenture or else Holders of each such Reversible Loss Series must receive the Optional Redemption

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Reimbursement Amount allocable to each Series of such Class, (ii) providing any other information that the Trustee or the Issuing and Paying Agent, as applicable, may deem appropriate in its sole discretion and (iii) soliciting the consent of each such Noteholder. If the Trustee or the Issuing and Paying Agent, as applicable, does not receive the consent of each such Noteholder within ten Business Days of the transmittal of such notice, the consent of each such Noteholder will be deemed not to have been obtained and an Optional Redemption in Whole may occur only if the Protection Buyer agrees to pay to the Issuer, for each Reversible Loss Series, the Optional Redemption Reimbursement Amount prior to the Optional Redemption Date.

The Trustee and the Issuing and Paying Agent, as applicable, will then provide notice of Optional Redemption in Whole by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the scheduled redemption date, to each Noteholder at such Holder's address in the Note Register or the Issuer Note Register, as applicable, and for so long as any Class of Notes is listed on a stock exchange and the rules of such stock exchange shall so require, provide notice of an Optional Redemption in Whole to the Listing, Paying and Transfer Agent for such stock exchange.

The Notes shall not be optionally redeemed in whole unless the Trustee has determined (based on the advice of the Collateral Disposal Agent with respect to Collateral Securities) that the proceeds expected to be received upon the liquidation of the Collateral, together with any other amounts available to be used for such optional redemption (including any End Payment, Optional Redemption Reimbursement Amount and/or termination payments to be received by the Issuer under the Credit Default Swap and the Basis Swap), are equal to an amount sufficient to pay the amounts specified under subclauses (i) through (vii) in "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". See "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". In determining whether sufficient proceeds will be available to redeem the Notes in whole under the preceding sentence, the Issuer's right under the Collateral Put Agreement to require the Collateral Put Provider to purchase Collateral (other than Put Excluded Collateral) at 100% of par of such Collateral and the Issuer's ability to enter into a currency exchange (if necessary) shall be taken into consideration.

Partial Optional Redemption Procedures. In connection with a Partial Optional Redemption, if the Protection Buyer elects to have the Issuer redeem one or more Series of Notes after the applicable Non-Call Period(s) (or, with respect to any Protection Buyer Notes, on any Payment Date), the Protection Buyer shall notify the Issuer, the Portfolio Selection Agent, the Trustee and the Issuing and Paying Agent in writing no less than 15 Business Days prior to the proposed redemption date (which date must be a Payment Date). If one or more Reversible Loss Series exist and will be redeemed at such time, the Trustee or the Issuing and Paying Agent, as applicable, shall deliver a notice to each Noteholder of each such Reversible Loss Series, (i) notifying each such Noteholder (1) that the Protection Buyer has sought to redeem such Series of Notes prior to the Stated Maturity, (2) of the proposed Partial Optional Redemption Date and (3) that the consent of each such Noteholder is required under the Indenture or else Holders of such Reversible Loss Series must receive the Optional Redemption Reimbursement Amount allocable to such Series, (ii) providing any other information that the Trustee or the Issuing and Paying Agent, as applicable, may deem appropriate in its sole discretion and (iii) soliciting the consent of each such Noteholder. If the Trustee or the Issuing and Paying Agent, as applicable, does not receive the consent of each such Noteholder within 10 Business Days of the transmittal of such notice, the consent of each such Noteholder will be deemed not to have been obtained and a Partial Optional Redemption of such Series may occur only if the Protection Buyer agrees to pay to the Issuer, for each such Reversible Loss Series, the Optional Redemption Reimbursement Amount prior to the Partial Optional Redemption Date.

Neither the Notes of any Series nor any Protection Buyer Notes shall be optionally redeemed in connection with a Partial Optional Redemption unless the Trustee has determined (based on the advice of the Collateral Disposal Agent with respect to Collateral Securities) that the proceeds expected to be received upon the liquidation of the Eligible Investments and Selected Collateral Securities, together with

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any other amounts available to be used for such optional redemption (including any Partial Optional Redemption End Payment and/or Optional Redemption Reimbursement Amount), are equal to an amount sufficient to pay the principal amount of such Series of Notes and any Series senior to such Series under subclause (iii) in "—Priority of Payments—Principal Proceeds—Other Payment Dates". See "—Priority of Payments—Principal Proceeds—Other Payment Dates". In determining whether sufficient proceeds will be available to redeem the Notes in part under the preceding sentence, the Issuer's right under the Collateral Put Agreement to require the Collateral Put Provider to purchase Collateral (other than Put Excluded Collateral) at 100% of the principal amount of such Collateral Security and the Issuer's ability to enter into a currency exchange (if necessary) shall be taken into consideration.

The Trustee and the Issuing and Paying Agent, as applicable, will then provide notice of a Partial Optional Redemption by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the scheduled redemption date, to each Holder of a Note to be redeemed at such Holder's address in the Note Register or the Issuer Note Register, as applicable, and for so long as any Class of Notes is listed on any stock exchange and the rules of such stock exchange shall so require, provide notice of a Partial Optional Redemption to the Listing, Paying and Transfer Agent for such stock exchange.

Mandatory Redemption

The occurrence of (i) either a termination event or an event of default (as such term is defined in the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable) for which the Protection Buyer, Basis Swap Counterparty or Collateral Put Provider is the sole defaulting party or Affected Party (as such term is defined in the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable) under the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable, (ii) any termination event (other than a termination event triggered by an Event of Default or an event described in subclause (i) or, after the Non-Call Period for each Series of Notes Outstanding has expired, the Protection Buyer's election to terminate the Credit Default Swap prior to its scheduled termination date) or (iii) any event of default (other than an event described in subclause (i)), in each case under the Credit Default Swap, the Basis Swap or the Collateral Put Agreement where (x) in the case of subclause (i) the Replacement Counterparty Procedures are not satisfied within 30 days of the termination of the swaps or (y) in the case of subclause (ii) or (iii) the party entitled to terminate such agreement has exercised such right shall constitute a "**Mandatory Redemption**".

Upon the occurrence of a Mandatory Redemption other than a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (iii) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, the Trustee will liquidate all Eligible Investments and the Issuer or the Trustee will notify the Collateral Disposal Agent to liquidate all Collateral Securities and apply such proceeds as described under "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date".

In the case of a Mandatory Redemption caused by a (i) termination of the Credit Default Swap pursuant to which the Protection Buyer is the defaulting party, (ii) termination of the Collateral Put Agreement pursuant to which the Collateral Put Provider is the defaulting party or (iii) termination of the Basis Swap pursuant to which the Basis Swap Counterparty is the defaulting party, the Trustee will request that the Collateral Disposal Agent solicit bids for all of the Collateral Securities and take the actions described below.

If the Trustee determines that the expected liquidation proceeds of the Collateral Securities (as advised by the Collateral Disposal Agent) and the Eligible Investments will be an amount equal to or greater than the aggregate of (i) the amounts required to be paid under subclauses (i) through (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and (ii) with respect to the Class SS Notes, the Class A Notes, the Class B Notes and

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the Class C Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of such Classes of Notes plus any accrued interest thereon, the Trustee will liquidate the Eligible Investments and will notify the Collateral Disposal Agent to liquidate all Collateral Securities and, thereafter, apply such liquidation proceeds in accordance with the Priority of Payments.

If the Trustee determines that the expected liquidation proceeds of the Collateral Securities (as advised by the Collateral Disposal Agent) and the Eligible Investments cannot be sold in an amount equal to or greater than the aggregate of (i) the amounts required to be paid under subclauses (i) through (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and (ii) with respect to the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes, the Currency Adjusted Aggregate Outstanding Amount of each Series of such Classes of Notes plus any accrued interest thereon, the Trustee will notify (such notice, the "**Special Termination Notice**") Holders of the Class SS Notes, the Class A Notes, the Class B Notes and Class C Notes (a) of such occurrence, (b) that such Noteholders have the following options: (1) with the consent of 100% of such Noteholders, the Issuer will direct the Collateral Disposal Agent to liquidate all Collateral Securities distributable to such Classes of Notes pursuant to the Special Termination Liquidation Procedure and (2) if such consent is not obtained, each such Noteholder will have the option of either requesting the Issuer to (A) deliver to it the Collateral Securities distributable to such Noteholder pursuant to the Special Termination Liquidation Procedure or (B) direct the Collateral Disposal Agent to liquidate the Collateral Securities distributable to such Noteholder pursuant to the Special Termination Liquidation Procedure and (c) of the identity of any Collateral Securities distributable to such Noteholders pursuant to the Special Termination Liquidation Procedure.

Each Holder of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes may, within ten Business Days of receipt of a Special Termination Notice, notify (such notice, a "**Special Termination Request Notice**") the Trustee the option(s) that it chooses to exercise under the Special Termination Notice and the delivery instructions for such Noteholder with respect to any Collateral Securities to be delivered to such Noteholder pursuant to the Special Termination Liquidation Procedure. If a Noteholder fails to so notify the Trustee within 10 Business Days of receipt of such Special Termination Notice, such Noteholder will be deemed to have selected option (1) of the Special Termination Notice.

Following the period in which the Trustee may receive timely Special Termination Request Notices, the Trustee and the Collateral Disposal Agent, at the direction of the Issuer, will follow the procedures described below (such procedure, the "**Special Termination Liquidation Procedure**"):

(i) the Trustee will liquidate all Eligible Investments;

(ii) to the extent the liquidation proceeds of Eligible Investments are insufficient to make the payment described in this subclause (ii), the Collateral Disposal Agent will liquidate the highest-priced Collateral Security in the smallest principal amount that, when added to the proceeds obtained pursuant to subclause (i), will be sufficient to provide the Issuer with funds to pay amounts owed pursuant to subclause (ii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date", subject to the Administrative Expense Cap on the Mandatory Redemption Date (and the Issuer shall make such payment); *provided*, that if more than one Collateral Security has received the highest bid price, the Collateral Disposal Agent will liquidate any of such Collateral Securities that it determines in a commercially reasonable manner would maximize the liquidation proceeds received on all Collateral Securities;

(iii) (A) if less than 100% of the Aggregate USD Equivalent Outstanding Amount of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes voting as a single class provide the Trustee with an effective Special Termination Request Notice exercising option (1) under the related Special Termination Notice, the Trustee will cause the remaining

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Collateral Securities to be delivered (in the case of the Notes) or liquidated (in the case of amounts owed pursuant to subclause (ii) or (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date") on the Mandatory Redemption Date through the appropriate settlement method, in descending order of bid level as determined by the Collateral Disposal Agent, in a principal amount (subject in each case to any required minimum denomination of such Collateral Security) to the extent necessary to satisfy subclauses (1) through (5) below in the following order of priority:

(1) *first* (A) to any parties that are owed any amounts pursuant to subclause (ii) or (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date", liquidation proceeds from Collateral Securities with an aggregate par amount equal to any amounts owed pursuant to subclause (ii) or (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and *second* (B) to the Holders of each Series of the Class SS Notes (after giving effect to the payment of any principal of and/or interest on the Class SS Notes with any remaining proceeds obtained pursuant to subclause (i) and (ii) above), a par amount of Collateral Securities (or, with respect to Collateral Securities denominated in any Approved Currency other than Dollars, the Dollar equivalent of such par amount as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date) equal to the Dollar equivalent principal amount of the Class SS Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, *plus* any accrued and unpaid interest thereon (*provided* that determination of any *pro rata* allocations of such payments to any Series of Notes of such Class will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date);

(2) to the Holders of each Series of the Class A-1 Notes (after giving effect to the payment of any principal of and/or interest on the Class A-1 Notes with any remaining proceeds obtained pursuant to subclause (i) and (ii) above), a par amount of Collateral Securities (or, with respect to Collateral Securities denominated in any Approved Currency other than Dollars the Dollar equivalent of such par amount as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date) equal to the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, *plus* any accrued and unpaid interest thereon (*provided* that determination of any *pro rata* allocations of such payments to any Series of Notes of such Class will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date);

(3) to the Holders of each Series of the Class A-2 Notes (after giving effect to the payment of any principal of and/or interest on the Class A-2 Notes with any remaining proceeds obtained pursuant to subclause (i) and (ii) above), a par amount of Collateral Securities (or, with respect to Collateral Securities denominated in any Approved Currency other than Dollars the Dollar equivalent of such par amount as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date) equal to the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, *plus* any accrued and unpaid interest thereon (*provided* that determination of any *pro rata* allocations of such payments to any Series of Notes of such Class will be based on the Dollar equivalent

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principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date);

(4) to the Holders of each Series of the Class B Notes (after giving effect to the payment of any principal of and/or interest on the Class B Notes with any remaining proceeds obtained pursuant to subclause (i) and (ii) above), a par amount of Collateral Securities (or, with respect to Collateral Securities denominated in any Approved Currency other than Dollars the Dollar equivalent of such par amount as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date) equal to the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, *plus* any accrued and unpaid interest thereon (*provided* that determination of any *pro rata* allocations of such payments to any Series of Notes of such Class will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date); and

(5) to the Holders of each Series of the Class C Notes (after giving effect to the payment of any principal of and/or interest on the Class C Notes with any remaining proceeds obtained pursuant to subclause (i) and (ii) above), a par amount of Collateral Securities (or, with respect to Collateral Securities denominated in any Approved Currency other than Dollars the Dollar equivalent of such par amount as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date) equal to the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date, *plus* any accrued and unpaid interest thereon (*provided* that determination of any *pro rata* allocations of such payments to any Series of Notes of such Class will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date);

provided that if any Holder of the Class SS Notes, the Class A Notes, the Class B Notes or the Class C Notes has selected option (2)(B) in the related Special Termination Request Notice, the Trustee will, in lieu of distributing the relevant principal amount of Collateral Securities to such Noteholder pursuant to this subclause (A), notify the Collateral Disposal Agent which will liquidate the Collateral Securities deliverable to such Noteholders and the Trustee will pay the proceeds thereof to such Noteholder on the Mandatory Redemption Date (or, if such proceeds are denominated in an Approved Currency other than the Approved Currency in which such Holder's Notes are denominated, the Trustee will enter a currency exchange on behalf of the Issuer and pay such Holder in the Approved Currency in which such Holder's Notes are denominated); and

(B) if 100% of the Aggregate USD Equivalent Outstanding Amount of the Class SS Notes, the Class A Notes, the Class B Notes and the Class C Notes voting as a single class provide the Trustee with an effective Special Termination Request Notice exercising option (1) under the Special Termination Notice, the Trustee will notify the Collateral Disposal Agent which will liquidate the Collateral Securities distributable to such Noteholders and as payments (in the case of amounts owed pursuant to subclause (ii) or (iii) of "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date") and apply the liquidation proceeds of the Collateral Securities distributable to such Noteholders (after giving consideration to any currency exchange, if necessary) and as payments (in the case of amounts owed pursuant to subclause (ii) or (iii) of "—Priority of Payments—Principal Proceeds—

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Stated Maturity, Optional Redemption Date or Mandatory Redemption Date") in the same priority as described in subclause (A) above; and

(iv) the Issuer will instruct the Collateral Disposal Agent to liquidate the remaining Collateral Securities and the liquidation proceeds thereof will be distributed in accordance with subclause (iv) (with respect to the Class D Notes and Class FL Notes only (*provided* that determination of any *pro rata* allocations of such payments with respect to any Series of Notes of such Class will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date)) (after giving consideration to any currency exchange, if necessary) through (ix) of the "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date".

On the earliest of the Credit Default Swap Early Termination Date, the Basis Swap Early Termination Date and/or the Collateral Put Agreement Early Termination Date (the **"Mandatory Redemption Date"**), the Trustee shall apply Principal Proceeds in accordance with "—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date". Notwithstanding any provision to the contrary contained herein, even if there will be insufficient proceeds on the Mandatory Redemption Date to repay the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes (*plus* accrued and unpaid interest), the Notes will be deemed to have been paid in full so long as (i) funds are properly applied in accordance with the Priority of Payments and/or (ii) funds and/or Collateral Securities are properly applied and/or distributed as described above on such Mandatory Redemption Date.

Payments

Payments in respect of principal and interest on a Note will be made to the person in whose name the relevant Note is registered on the applicable record date. Payments on the Notes will be payable by wire transfer in immediately available funds to an account maintained by DTC or its nominee (in the case of the Global Notes) or each Noteholder (in the case of individual definitive Notes) to the extent practicable or otherwise by check drawn on a bank sent by mail either to DTC or its nominee (in the case of the Global Notes), or to each Holder of a Note at the Noteholder's address appearing in the applicable register (in the case of individual definitive Notes).

Final payments in respect of principal of the Notes will be made only against surrender of the Notes, at the office of any paying agent. None of the Issuers, the Trustee or any paying agent will have any responsibility or liability for any aspects of the records maintained by DTC or its nominee or any of its participants relating to, or for payments made thereby on account of beneficial interests in, a Global Note.

The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note held by DTC or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Note as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

For so long as the Notes are listed on any stock exchange and the rules of such exchange so require, the Issuers will have a listing agent, a paying agent and a transfer agent (which shall be the **"Listing, Paying and Transfer Agent"**) for the Notes and will give prompt written notice to each Holder of the appointment, termination or change in the location of any such office or agency.

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Priority of Payments

The Issuer will only make payments, subject to the final paragraph under "Summary—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", in accordance with priorities described below under "—Interest Proceeds", "—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and "—Principal Proceeds—Other Payment Dates" (collectively, the "**Priority of Payments**").

Interest Proceeds.

On each Payment Date, the Optional Redemption Date, the Mandatory Redemption Date and/or the Stated Maturity, Interest Proceeds will be applied in the following order of priority:

(i) to the payment of Administrative Expenses, which, with respect to the sum of those amounts listed in subclauses (iii), (v) and (vi) of the definition of "Administrative Expenses", will be subject to the Administrative Expense Cap;

(ii) to the payment to the Portfolio Selection Agent of any accrued but unpaid Portfolio Selection Fees in accordance with the terms of the Portfolio Selection Agreement;

(iii) (a) to the payment of the Basis Swap Payment and (b) thereafter, to the payment of the Collateral Put Provider Fee Amount;

(iv) to the payment of the Class Interest Distribution Amounts of each Class of Notes in sequential order of priority by Class; *provided* that, to the extent there are insufficient proceeds to pay all amounts payable under this clause (iv) with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations of such payments with respect to any Series of Notes of such Class will be based on the Aggregate USD Equivalent Outstanding Amount of each such Series; *provided, further*, that with respect to each Class of the Issuer Notes, such payment will be made to the Issuing and Paying Agent, for distribution to the Holders of such Class of Notes;

(v) to the payment of any Administrative Expenses not covered in subclause (i) above; and

(vi) the balance of Interest Proceeds (if any) will be distributed to the Protection Buyer.

In addition, if the Issuer purchases a Supplemental Collateral Security at the direction of the Protection Buyer, the Issuer may use Interest Proceeds on any Business Day to pay for the portion of the purchase price of a Supplemental Collateral Security constituting accrued and unpaid interest thereon (such amount, the "**Purchased Accrued Interest Amount**").

To the extent there is a sufficient amount of Interest Proceeds in each Approved Currency, the Trustee shall use Interest Proceeds in each such Approved Currency to make payments described in this section; *provided* that no payment is made toward any item until all higher ranking items have been paid in full.

If on any Determination Date (or, in connection with a Mandatory Redemption Date, the third Business Day immediately prior to such Mandatory Redemption Date) the Issuer determines that there would be an insufficient amount of Interest Proceeds in any Approved Currency on the related Payment Date or the Mandatory Redemption Date, as the case may be, to make the payments described in clauses (i) through (v) above, then the Issuer shall provide for the relevant items by exchanging any excess Interest Proceeds (as determined by the Protection Buyer after giving effect to the application of Interest Proceeds to make all payments of a higher priority) in any Approved Currency for proceeds in

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such other Approved Currency for which such shortfall existed at the relevant Spot FX Rate determined on such Determination Date (or, in connection with a Mandatory Redemption Date, the third Business Day immediately prior to such Mandatory Redemption Date); *provided* that to the extent there would be insufficient Interest Proceeds after giving effect to any such exchange to make all payments required under clause (iv) above with respect to any Class in which Notes are denominated in more than one Approved Currency, such distributions shall be made *pro rata* to Holders of such Class based on the Aggregate USD Equivalent Outstanding Amount of each Series of such Class (or, in connection with a Mandatory Redemption Date, *pro rata* to Holders of such Class based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date).

Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date.

On the Stated Maturity of any Series of Notes, the Optional Redemption Date or the Mandatory Redemption Date, as the case may be, Principal Proceeds (together with, in the case of the Optional Redemption Date, any End Payment) will be applied, subject to the provisions described under "—Mandatory Redemption", in the following order of priority:

(i) (a) to the payment of amounts referred to in subclause (i) and (ii) of "—Interest Proceeds" above, but only to the extent not paid in full thereunder and then (b) in connection with an Optional Redemption in Whole, to the payment to the Portfolio Selection Agent of any Makewhole Amount pursuant to the Portfolio Selection Agreement;

(ii) to the payment of all amounts due to the Basis Swap Counterparty pursuant to the terms of the Basis Swap, other than a Basis Swap Counterparty Default Termination Payment (including, for the avoidance of doubt, any Basis Swap Payment not paid in full under subclause (iii)(a) of "—Interest Proceeds" above);

(iii) (a) to the payment of all amounts due to the Collateral Put Provider pursuant to the terms of the Collateral Put Agreement, and (b) *thereafter*, in the case of the Stated Maturity of any Series of Notes, the Optional Redemption Date or the Mandatory Redemption Date (other than in connection with a Collateral Default), to the payment of all amounts due to the Protection Buyer pursuant to the terms of the Credit Default Swap, other than a Protection Buyer Default Termination Payment;

(iv) (a) to the payment of amounts referred to in subclause (iv) of "—Interest Proceeds" above, but only to the extent not paid in full thereunder and then

(b) (1) in the case of the Stated Maturity of any Series of Notes, (A) to the payment of the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes maturing on such date, at par, in each case, pursuant to the Note Payment Sequence (but only with respect to Classes in which any Series of Notes matures on such date) (*provided* that in each case determination of any *pro rata* allocations of such payments within any Class issued in more than one Series maturing on such date will be based on the Aggregate USD Equivalent Outstanding Amount of such Notes) and (B) if a Redemption Writedown Refund is received by the Issuer in connection with such Stated Maturity to the payment, from any available Redemption Writedown Refund only, of an amount equal to the ICE Currency Adjusted Aggregate Outstanding Amount Differential of each Series for which a Redemption Writedown Refund has been calculated, in each case pursuant to the Note Payment Sequence (but only with respect to Classes in which a Series of Notes with an ICE Currency Adjusted Aggregate Outstanding Amount Differential greater than zero matures on such date), (*provided* that in each case determination of any *pro rata* allocations of such

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payments within any Class issued in more than one Series maturing on such date with ICE Currency Adjusted Aggregate Outstanding Amount Differentials greater than zero will be based on the Aggregate USD Equivalent Outstanding Amount of such Notes); or

(2) in the case of the Optional Redemption Date, to the payment of the Currency Adjusted Aggregate Outstanding Amount of the Notes, at par, pursuant to the Note Payment Sequence (*provided* that in each case determination of any *pro rata* allocations of such payments within any Class issued in more than one Series will be based on the Aggregate USD Equivalent Outstanding Amount of such Notes) *plus*, in the limited circumstances as described in "—Optional Redemption in Whole and Partial Optional Redemption", with respect to any Reversible Loss Series, the Optional Redemption Reimbursement Amount; or

(3) in the case of a Mandatory Redemption (other than in connection with a Collateral Default), (A) to the payment of the Currency Adjusted Aggregate Outstanding Amount of the Notes, at par, pursuant to the Note Payment Sequence (*provided* that in each case determination of any *pro rata* allocations of such payments within any Class issued in more than one Series will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date) and (B) if a Redemption Writedown Refund is received by the Issuer in connection with such Mandatory Redemption to the payment, from any available Redemption Writedown Refund only, of an amount equal to the ICE Currency Adjusted Aggregate Outstanding Amount Differential of each Series for which a Redemption Writedown Refund has been calculated, in each case pursuant to the Note Payment Sequence, (*provided* that in each case determination of any *pro rata* allocations of such payments within any Class issued in more than one Series being redeemed on such date in connection with such Mandatory Redemption with ICE Currency Adjusted Aggregate Outstanding Amount Differentials greater than zero will be based on the Dollar equivalent of such Notes (calculated using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date);

(4) in the case of the Mandatory Redemption Date in connection with a Collateral Default, in the following priority: (A) *first* to the payment, *pro rata*, (i) of all amounts due to the Protection Buyer pursuant to the terms of the Credit Default Swap, other than a Protection Buyer Default Termination Payment and (ii) *pro rata* to the payment of the Currency Adjusted Aggregate Outstanding Amount of the Class SS Notes, the Class A-1 Notes and the Class A-2 Notes, at par, not to exceed, in the case of this subclause (A), $400,000,000 (such limit to be determined, with respect to subclause (4)(A)(ii), based on the Dollar equivalent of such amounts paid (calculated using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date)), (B) *second* to the payment, *pro rata*, of the remaining Currency Adjusted Aggregate Outstanding Amount of the Class SS Notes, Class A-1 Notes and Class A-2 Notes, at par, (after giving effect to subclause 4(A)), (C) *third* to the payment of all remaining amounts due to the Protection Buyer pursuant to the terms of the Credit Default Swap, other than a Protection Buyer Default Termination Payment, such amount not to exceed the Currency Adjusted Aggregate Outstanding Amount of the Notes immediately prior to the distribution of Principal Proceeds on such Payment Date *less* amounts paid under subclause (4)(A)(i) and (D) *fourth* with respect to the Class B Notes, the Class C Notes, the Class D Notes and the Class FL Notes, to the payment of the Currency Adjusted

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Aggregate Outstanding Amount of each Series of such Class of Notes, at par, in accordance with the Note Payment Sequence; *provided* that in each case determination of any *pro rata* allocations of such payments within any Class issued in more than one Series will be based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date; *provided, further*, that with respect to each Class of Issuer Notes, any such payment will be made to the Issuing and Paying Agent, for payment to the Holders of such Class of Notes;

(v) to the payment of the Basis Swap Counterparty Default Termination Payment, if any;

(vi) to the payment of the Protection Buyer Default Termination Payment, if any;

(vii) to the payment of any Administrative Expenses not covered in subclause (i) above;

(viii) on the Stated Maturity of any Series of Notes other than the final Stated Maturity with respect to any Series of Notes, for reinvestment in Collateral Securities at the direction of the Protection Buyer and, pending such reinvestment, to be invested in Eligible Investments; and

(ix) the balance of Principal Proceeds (if any) will be distributed to the Protection Buyer.

To the extent there is a sufficient amount of Principal Proceeds in each Approved Currency, the Trustee shall use Principal Proceeds in each such Approved Currency to make payments described in this section; *provided* that no payment is made toward any item until all higher ranking items have been paid in full.

If on any Determination Date (or, in connection with a Mandatory Redemption Date, as of the third Business Day immediately prior to such Mandatory Redemption Date) the Issuer determines that there would be an insufficient amount of Principal Proceeds in any Approved Currency on the related Payment Date or the Mandatory Redemption Date, as the case may be, to make the payments described in clauses (i) through (vii) above, then the Issuer shall provide for the relevant items by exchanging any excess Principal Proceeds (as determined by the Protection Buyer after giving effect to the application of Principal Proceeds to make all payments of a higher priority in the Priority of Payments) in any Approved Currency for proceeds in such other Approved Currency for which such shortfall existed at the relevant Spot FX Rate determined on such Determination Date (or, in connection with a Mandatory Redemption Date, as of the third Business Day immediately prior to such Mandatory Redemption Date); *provided* that to the extent there would be insufficient Principal Proceeds after giving effect to any such exchange to make all payments required under clause (iv) above with respect to any Class in which Notes are denominated in more than one Approved Currency, such shortfall shall be borne *pro rata* by Holders of such Class based on the Dollar equivalent principal amount of such Notes as determined using the Spot FX Rate as of the Determination Date (or, in connection with a Mandatory Redemption Date, as of the third Business Day immediately prior to such Mandatory Redemption Date).

Principal Proceeds—Other Payment Dates.

On each Business Day (other than the Stated Maturity of any Series of Notes, the Optional Redemption Date or the Mandatory Redemption Date), Principal Proceeds (together with, in the case of any Partial Optional Redemption Date, any Partial Optional Redemption End Payment) will be applied in the following order of priority:

(i) on a Credit Default Swap Settlement Date, to the payment of all Cash Settlement Amounts payable on such date; *provided* that Principal Proceeds representing Put

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Proceeds shall not be applied to the payment of any amount described in this subclause (i);

(ii) on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent, if any Collateral was liquidated to pay any Currency Adjusted Notional Principal Adjustment Amount on such date relating to any such Reference Obligation Amortization Amount, to the payment of the principal of the Notes, at par, of the Currency Adjusted Notional Principal Adjustment Amounts allocable on such date, pursuant to the Note Payment Sequence; *provided* that, for the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made pursuant to this subclause will be based on the Aggregate USD Equivalent Outstanding Amount of each Series of such Class;

(iii) on each Partial Optional Redemption Date and with respect to the Notes to be redeemed on such date, to the payment of principal of such Notes, at par, in accordance with the Note Payment Sequence; *provided* that, for the avoidance of doubt, with respect to a Class with more than one Series Outstanding being redeemed at such time of determination (including but not limited to, the redemption of an entire Series and the redemption of Protection Buyer Notes), any *pro rata* allocations made pursuant to this subclause between Notes of any such Class being redeemed will be based on the Aggregate USD Equivalent Outstanding Amount of such Notes of such Class being redeemed at such time of determination; *plus*, in the limited circumstances as described in "—Optional Redemption in Whole and Partial Optional Redemption", with respect to any Reversible Loss Series, the Optional Redemption Reimbursement Amount; and

(iv) for reinvestment in Collateral Securities at the direction of the Protection Buyer and, pending such reinvestment, to be invested in Eligible Investments.

To the extent there is a sufficient amount of Principal Proceeds in each Approved Currency, the Trustee shall use Principal Proceeds in each such Approved Currency to make payments described in this section; *provided* that no payment is made toward any item until all higher ranking items have been paid in full.

If on any Determination Date the Issuer determines that there would be an insufficient amount of Principal Proceeds in any Approved Currency on the related Payment Date, then the Issuer shall provide for the relevant items by exchanging any excess Principal Proceeds (as determined by the Protection Buyer after giving effect to the application of Principal Proceeds to make all payments of a higher priority in the Priority of Payments) in any Approved Currency for proceeds in such other Approved Currency for which such shortfall existed at the relevant Spot FX Rate determined on such Determination Date; *provided* that to the extent there would be insufficient Principal Proceeds after giving effect to any such exchange to make all payments required under clause (ii) above with respect to any Class in which Notes are denominated in more than one Approved Currency, such shortfall shall be borne *pro rata* by Holders of such Class based on the Aggregate USD Equivalent Outstanding Amount of such Notes in each such Approved Currency.

Form of the Notes

Each Class of Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more Regulation S Global Notes deposited with the Trustee or the Issuing and Paying Agent, as applicable, as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream. Interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

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Each Class of Notes sold in reliance on Rule 144A under the Securities Act will be represented by one or more Rule 144A Global Notes deposited with the Trustee or the Issuing and Paying Agent, as applicable, as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes will be subject to certain restrictions on transfer as set forth under "Transfer Restrictions".

Any interest in one of the Regulation S Global Notes and the Rule 144A Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such interest.

Except in the limited circumstances described herein, owners of beneficial interests in either the Regulation S Global Notes or the Rule 144A Global Notes will not be entitled to receive physical delivery of certificated Notes. The Notes are not issuable in bearer form.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default. An "**Event of Default**" is defined in the Indenture as:

(i) a default in the payment of principal on any Note at its Stated Maturity or the Optional Redemption Date;

(ii) the failure on any Payment Date to disburse amounts available in the Payment Account in accordance with the Priority of Payments and continuation of such failure for a period of five Business Days;

(iii) a circumstance in which either of the Issuers or the Issuer Assets becomes an investment company required to be registered under the Investment Company Act;

(iv) a default in the performance, in a material respect, or breach, in a material respect, of any covenant, representation, warranty or other agreement of the Issuers in the Indenture (other than a covenant or agreement which is specifically addressed elsewhere therein) or in any certificate or other writing delivered pursuant thereto or in connection therewith or if any representation or warranty of the Issuers in the Indenture, the Issuing and Paying Agency Agreement or in any certificate or writing delivered pursuant thereto proves to be incorrect in any material respect when made, and the continuance of such default or breach for a period of 30 days after written notice thereof shall have been given to the Issuers and the Portfolio Selection Agent by the Trustee or the Issuing and Paying Agent, as applicable, or to the Issuers, the Portfolio Selection Agent, the Trustee and the Issuing and Paying Agent by the Holders of at least 25% of the Aggregate USD Equivalent Outstanding Amount of the Notes, specifying such default, breach or failure and requiring it to be remedied and stating that such notice is a "**Notice of Default**" under the Indenture or the Issuing and Paying Agency Agreement, as applicable;

(v) the entry of a decree or order by a court having competent jurisdiction adjudging either of the Issuers as bankrupt or insolvent or granting an order for relief or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition

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of or in respect of either of the Issuers under the Bankruptcy Code, the bankruptcy or insolvency laws of the Cayman Islands or any other applicable law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of either of the Issuers or of any substantial part of its property, or ordering the winding up or liquidation of its affairs; or an involuntary case or proceeding shall be commenced against either of the Issuers seeking any of the foregoing and such case or proceeding shall continue in effect for a period of 60 consecutive days; or

(vi) the institution by either of the Issuers of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by either of the Issuers of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Code, the bankruptcy and insolvency laws of the Cayman Islands or any other applicable law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of either of the Issuers or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of any action by either of the Issuers in furtherance of any such action.

If an Event of Default shall have occurred and be continuing, the Trustee by notice to the Issuers at the direction of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class, may, subject to the Indenture, declare the principal of and accrued and unpaid interest on all the Notes to be immediately due and payable (except that, in the case of an Event of Default described in subclause (v) or (vi) above, such an acceleration will occur automatically and shall not require any action by the Trustee or any Noteholder).

At any time after such a declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as provided in accordance with the terms of the Indenture, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class, by written notice to the Issuers and the Trustee or the Issuing and Paying Agent, as applicable, may rescind and annul such declaration and its consequences if:

(i) the Issuer or the Co-Issuer has paid or deposited with the Trustee a sum sufficient to pay, and shall pay:

(A) all overdue installments of interest on and principal of the Notes (other than amounts due solely as a result of such acceleration);

(B) to the extent that payment of such interest is lawful, interest upon any Defaulted Interest at the applicable Series Interest Rate;

(C) all unpaid taxes and Administrative Expenses and other sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel; and

(D) all unpaid Portfolio Selection Fees;

(ii) the Trustee has determined that all Events of Default, other than the non-payment of the interest on or principal of Notes that have become due solely by such acceleration, have been cured and a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class by written notice to the Trustee or the Issuing and Paying Agent, as applicable, has agreed with such determination or waived such Event of Default as provided in the Indenture; and

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(iii) each of the Credit Default Swap, the Basis Swap, the Collateral Put Agreement and the Collateral Disposal Agreement has not been terminated or any such termination has been rescinded.

If an Event of Default should occur and be continuing, the Trustee will make payments to the Holders of the Notes only in the manner described in "Description of the Notes—Priority of Payments", except that if acceleration has occurred in accordance with the terms of the Indenture, or if a Payment Default has occurred and has not been cured or waived, no interest shall be payable on any Class of Notes until the Currency Adjusted Aggregate Outstanding Amount of each Series of all Classes of Notes that are senior to such Class, if any, have been repaid in full.

If an Event of Default should occur and be continuing, the Trustee will retain the Issuer Assets securing the Notes intact and continue making payments in the manner described above under "—Priority of Payments" unless:

(i) the Trustee determines that the anticipated proceeds of a sale or liquidation of the Collateral (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to discharge in full the aggregate of the amounts referred to in subclause (i) through (vii) of "Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" and a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class agrees with such determination; or

(ii) the Holders of at least 66-2/3% of the Aggregate USD Equivalent Outstanding Amount of each Class of Notes (voting separately by Class), subject to the provisions of the Indenture, direct the sale and liquidation of the Collateral.

As soon as practicable following the occurrence of either condition specified in subclause (i) or (ii) above, the Trustee will liquidate all Eligible Investments and the Issuer or the Trustee shall notify the Collateral Disposal Agent to liquidate all Collateral Securities.

A Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will have the right to direct the Trustee in conducting any proceedings or in the sale of any or all of the Collateral, but only if (i) such direction will not conflict with any rule of law or the Indenture and (ii) the Trustee determines that such action will not involve it in liability (unless the Trustee has, in its opinion, received satisfactory indemnity against any such liability).

Pursuant to the Indenture, as security for the payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer, the Issuer has granted the Trustee a senior lien on the Issuer Assets, which is senior to the lien of the Holders of the Notes on the Issuer Assets. The Trustee's lien is exercisable by the Trustee only if the Notes have become due and payable following an Event of Default.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in the event that an Event of Default with respect to the Notes occurs and is continuing, the Trustee is under no obligation to exercise any of the rights or powers under the Indenture at the request of any Holders of Notes, unless such Holders have offered to the Trustee reasonable security or indemnity in the opinion of the Trustee.

A Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class may, in certain cases, waive any default with respect to such Notes, except (a) a default specified in subclause (i), (ii), (v) or (vi) of the definition of "Events of Default" or (b) a default in respect of a covenant or provision of the Indenture that cannot be modified or amended without the waiver or consent of the Holder of each Outstanding Note adversely affected thereby.

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No Holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (i) such Holder previously has given to the Trustee or the Issuing and Paying Agent, as applicable, written notice of a continuing Event of Default; (ii) except in the case of a default in the payment of principal, the Holders of at least 25% of the Aggregate USD Equivalent Outstanding Amount of the Notes have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such Holders have offered the Trustee reasonable indemnity; (iii) the Trustee has for 30 days failed to institute any such proceeding; and (iv) no direction inconsistent with such written request has been given to the Trustee or the Issuing and Paying Agent, as applicable, during such 30-day period by a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class.

See "Glossary of Defined Terms—Outstanding" for determining whether the Holders of the requisite percentage of Notes have given any direction, notice or consent.

Notices. Notices to the Holders of the Notes shall be given by first class mail, postage prepaid, to each Holder at the address appearing in the Note Register or the Issuer Note Register, as applicable. In addition, for so long as any Series of Notes is listed on any stock exchange and the rules of such stock exchange so require, notice given to the Holders of any such Series of Notes shall also be given to the stock exchange in accordance with its procedures.

Modification of Indenture. The Issuers and the Trustee may also enter into one or more supplemental indentures, without obtaining the consent of Holders of the Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or the Portfolio Selection Agent (x) so long as the S&P Rating Condition and the Moody's Rating Condition have been satisfied and if such supplemental indenture would have no material adverse effect on any of the Holders of the Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent (as evidenced by an opinion of counsel or an officer's certificate of the Issuer) or the Portfolio Selection Agent or (y) for any of the following purposes:

(i) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-issuer in the Notes and the Indenture;

(ii) to add to the covenants of the Issuers or the Trustee for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuers;

(iii) to convey, transfer, assign, mortgage or pledge any property to or with the Trustee, or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Notes;

(iv) to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(v) to correct or amplify the description of any property at any time subject to the lien of the Indenture, or to correct, amplify or otherwise improve upon any pledge, assignment or conveyance to the Trustee of any property subject to or required to be subject to the lien of the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or subject to the lien of the Indenture any additional property;

(vi) subject to clause (xiv) below, to modify the restrictions on and procedures for resales and other transfers of Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or to enable the Co-Issuers to rely upon any exemption from

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registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(vii) to otherwise correct any inconsistency, mistake or cure any ambiguity (a) arising under the Indenture or (b) in connection with the final offering circular or any other transaction document;

(viii) to take any action necessary or advisable to prevent the Issuer or the Trustee from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated for United States federal income tax purposes as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis;

(ix) to facilitate the issuance of additional Notes of any Class pursuant to the Indenture or the Issuing and Paying Agency Agreement, as applicable;

(x) to modify certain representations and warranties relating to the Trustee's security interest in the Issuer Assets in order to maintain or strengthen security interests in response to changes in applicable law or regulation (or the interpretation thereof) relating thereto;

(xi) to facilitate the listing of any of the Notes on any exchange;

(xii) to facilitate the issuance of combination securities or other similar securities;

(xiii) to change the minimum denomination of the Notes; or

(xiv) to modify the applicable ERISA restrictions on and procedures for resales and other transfers of Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) upon the receipt by the Issuer and the Trustee of satisfactory evidence, which may include an opinion of counsel, that such modified restrictions and/or modified procedures for resales and transfers are in compliance with applicable ERISA requirements.

The Trustee shall, consistent with the written advice of counsel, in its discretion determine whether or not the Holders of Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or the Portfolio Selection Agent would be materially adversely affected by any supplemental indenture (after giving notice of such change to the Holders of Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and the Portfolio Selection Agent), and such determination shall be conclusive on all present and future Holders.

With the consent of a Majority of the Aggregate USD Equivalent Outstanding Amount of Notes of each Class of Notes materially and adversely affected thereby, and, if materially and adversely affected thereby, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or the Portfolio Selection Agent, as the case may be, the Trustee and the Issuers may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the Holders of the Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and the Portfolio Selection Agent; *provided* that, without the consent of each Holder of each Outstanding Note of each Class (or, in the case of subclause (i), each Series) materially adversely affected thereby no supplemental indentures may be entered into which:

(i) change the Stated Maturity of any Note, or the date on which any installment of principal or interest on any Note is due and payable, reduce the principal amount of any Note or

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the Series Interest Rate or the redemption price with respect to any Note, change the earliest specified date on which any Note may be redeemed, change the provisions of the Indenture for the application of Proceeds of any Issuer Assets to the payment of principal of or interest on the Notes or change any place where, or the coin or currency in which, any Note or the principal thereof or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of a redemption of a Note, on or after the Optional Redemption Date, the applicable Partial Optional Redemption Date or the Mandatory Redemption Date);

(ii) reduce the percentage of the Aggregate USD Equivalent Outstanding Amount of Notes of each Class the consent of the Holders of which is required for the authorization of any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences;

(iii) impair or adversely affect the Issuer Assets except as otherwise permitted by the Indenture;

(iv) except as expressly provided in the Indenture and other than the lien of the Indenture, permit the creation of any lien with respect to any part of the Issuer Assets or terminate such lien on any property at any time subject thereto or deprive the Holder of any Note or the Trustee of the security afforded by the lien of the Indenture;

(v) reduce the percentage of Holders of the Notes of each Class whose consent is required to request the Trustee to preserve the Issuer Assets or rescind the Trustee's election to preserve the Issuer Assets or to sell or liquidate the Issuer Assets pursuant to the Indenture;

(vi) modify any of the provisions of the Indenture with respect to any supplemental indenture except to increase the percentage of the Aggregate USD Equivalent Outstanding Amount of Notes whose Holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Note adversely affected thereby;

(vii) modify the definition in the Indenture of the term "Outstanding";

(viii) modify any of the provisions of the Indenture in such a manner as to (i) affect the calculation of the amount of any payment of interest on or principal of any Note or (ii) affect the right of the Holders of the Notes to the benefit of any provisions for the redemption of the Notes contained therein;

(ix) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated hereby relating to the institution of proceedings for the Issuer or the Co-Issuer to be adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing with respect to the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under the Bankruptcy Code or any similar laws, or the consent of the Issuer or the Co-Issuer to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or any substantial part of its property, respectively; or

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(x) amend any limited recourse provision of the Indenture or any limited recourse provision of any other agreement entered into by the Issuer with respect to the transactions contemplated hereby (which limited recourse provision provides that the obligations of the Issuer are limited recourse obligations of the Issuer payable solely from the Issuer Assets in accordance with the terms of the Indenture).

The Trustee shall, consistent with the written advice of counsel, in its discretion determine whether or not the Holders of the Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent or the Portfolio Selection Agent would be adversely or materially adversely affected by any supplemental indenture (after giving notice of such change to the Holders of Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and the Portfolio Selection Agent), and such determination shall be conclusive on all present and future Holders.

Unless the Portfolio Selection Agent has been given prior written notice of such amendment and has consented thereto in writing, no supplemental indenture may (a) affect the obligations or rights of the Portfolio Selection Agent including, without limitation, expanding or restricting the Portfolio Selection Agent's rights or obligations or (b) affect the amount, timing or priority of any fees payable to the Portfolio Selection Agent under the Portfolio Selection Agreement and the Indenture.

Under the Indenture, the Trustee will, for so long as the Notes are Outstanding and rated by the Rating Agencies, deliver a copy of any proposed supplemental indenture to the Rating Agencies not later than (i) 10 Business Days prior to the execution of such proposed supplemental indenture if such proposed supplemental indenture requires the S&P Rating Condition and the Moody's Rating Condition to be satisfied or (ii) at any time prior to the execution of such proposed supplemental indenture if such proposed supplemental indenture does not require the S&P Rating Condition or the Moody's Rating Condition to be satisfied, and no such supplemental indenture shall be entered into unless the S&P Rating Condition and the Moody's Rating Condition have been satisfied (other than a supplemental indenture entered into in accordance with clause (y) of the first paragraph of this section).

Notwithstanding anything to the contrary herein, any such supplemental indenture shall not alter the characterization of the Co-Issued Notes as debt for United States federal income tax purposes.

Additional Issuance. With respect to the Co-Issued Notes, a Series of any such Class may be issued from time to time following the Closing Date. Such additional issuance of such Series must satisfy the following conditions:

(a) the proceeds from any such additional issuance shall be used by the Issuer to purchase Collateral Securities at the direction of the Protection Buyer in a principal amount not less than the principal amount of such additional issuance or, pending such investment, deposited in the Principal Collection Account and invested in Eligible Investments; *provided* that the Collateral Securities and Eligible Investments purchased with the proceeds of such additional issuance will be denominated in the same Approved Currency in which such additional Series is denominated;

(b) the sum of the proceeds received from the issuance of such Series *plus* any Additional Issuance Upfront Payment received by the Issuer from the Protection Buyer in connection with such additional issuance must equal the principal amount of such Notes;

(c) the terms (other than the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period, and the date from which interest will accrue) of any Series of Notes will be identical to the terms of any previously issued Notes of the relevant Class of such Series, if any;

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(d) the Protection Buyer must notify the Rating Agencies of such additional issuance prior to such additional issuance;

(e) the S&P Rating Condition and the Moody's Rating Condition must be satisfied; and

(f) if the additional issuance will cause the Aggregate USD Equivalent Outstanding Amount of any Class of Co-Issued Notes to exceed the Initial Class Notional Amount set forth in "Summary—Notes", the Issuer will receive written advice of counsel that, following such additional issuance, the Co-Issued Notes issued pursuant to such additional issuance will be treated as debt for U.S. federal income tax purposes and any Co-Issued Notes outstanding prior to such additional issuance would have received an opinion that such Co-Issued Notes will be treated as debt for U.S. federal income tax purposes after such additional issuance.

In connection with any such additional issuance, the Issuer shall, to the extent required by the rules thereof, provide any applicable stock exchange with a listing circular or an offering circular supplement, relating to such Notes.

Each Series of a given Class shall be *pari passu* with respect to Credit Event Adjustment Amounts, Notional Principal Adjustment Amounts and Reinstatement Adjustment Amounts as described herein.

For the avoidance of doubt, following a Partial Optional Redemption of any Series of Co-Issued Notes or Protection Buyer Notes that are Co-Issued Notes, additional Series of such Class may be issued in accordance with the requirements set forth in this section.

Jurisdictions of Incorporation. Under the Indenture, the Issuer and the Co-Issuer will be required to maintain their rights and franchises as a company and a corporation incorporated under the laws of the Cayman Islands and the State of Delaware, respectively, to comply with the provisions of their respective organizational documents and to obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validation and enforceability of the Indenture, the Notes or any of the Issuer Assets; *provided, however*, that the Issuer shall be entitled to change its jurisdiction of incorporation from the Cayman Islands to any other jurisdiction reasonably selected by the Issuer and approved by the common shareholder of the Issuer so long as (a) such change is not disadvantageous in any material respect to the Issuer, the Holders of any Class of Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent and the Portfolio Selection Agent, (b) written notice of such change shall have been given by the Issuer to the Trustee, the Issuing and Paying Agent, the Holders of any Class of Notes, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Portfolio Selection Agent and each of the Rating Agencies at least 30 Business Days prior to such change of jurisdiction, (c) the S&P Rating Condition shall have been satisfied and (d) on or prior to the 15th Business Day following such notice the Trustee or the Issuing and Paying Agent, as applicable, shall not have received written notice from a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider or the Collateral Disposal Agent objecting to such change.

Petitions for Bankruptcy. The Indenture will provide that neither (i) the Trustee, in its own capacity, or on behalf of any Noteholder nor (ii) the Noteholders may, prior to the date which is one year and one day (or, if longer, the applicable preference period) after the payment in full of all Notes institute against, or join any other person in instituting against, the Issuer or Co-Issuer any bankruptcy, reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under federal or state bankruptcy or similar laws, including under Cayman Islands law.

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Satisfaction and Discharge of the Indenture. The Indenture will be discharged with respect to the Issuer Assets securing the Notes upon delivery to the Trustee or the Issuing and Paying Agent, as applicable, for cancellation of all of the Notes, or, within certain limitations (including the obligation to pay principal and interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Indenture.

Trustee. LaSalle Bank National Association will be the Trustee under the Indenture for the Notes. The Issuers and their Affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee relating to the Notes is solely the obligation of the Issuers. The Trustee and/or its Affiliates may receive compensation in connection with the Trustee's investment of trust assets in certain Eligible Investments as provided in the Indenture and in connection with the Trustee's administration of any securities lending activities of the Issuer.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture.

Reports Prepared Pursuant to the Indenture. Upon the written request in the form of Exhibit A hereto, any Noteholder may request that the Trustee or the Issuing and Paying Agent, as applicable, provide to such Noteholder the monthly reports and certain other reports prepared by or on behalf of the Issuer in accordance with the Indenture.

Governing Law. The Indenture and the Co-Issued Notes will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein.

The Notes will be in book-entry form. Persons acquiring beneficial ownership interests in the Notes will hold their interests through DTC if such Persons are direct participants in DTC, or indirectly through organizations that are participants in DTC. Therefore, a Person who holds a beneficial ownership interest in the Notes will only be permitted to exercise their rights through DTC and participants of DTC. DTC or its nominee shall be the registered holder of the Notes and DTC will only take action with respect to such rights at the instruction or the direction of the participants. Similarly, if the Trustee or the Issuing and Paying Agent, as applicable, has to provide any notice to Noteholders or to solicit the consent of any Noteholder, the Trustee or the Issuing and Paying Agent, as applicable, will only act through DTC (which in turn will notify its relevant participants, which in turn will notify Persons holding beneficial ownership interests in the Notes).

From time to time following the Closing Date, any Noteholder may submit to the Trustee, or the Issuing and Paying Agent, as applicable, in writing, a Noteholder Communication Notice requesting the contents of such communication be sent to all other Noteholders. Within three Business Days of receiving such Noteholder Communication Notice, the Trustee or Issuing and Paying Agent, as applicable, will deliver to all Noteholders a Trustee Noteholder Communication Notice.

The Issuing and Paying Agency Agreement

Pursuant to the Issuing and Paying Agency Agreement, LaSalle Bank National Association will be appointed as the Issuing and Paying Agent. The Issuer may at any time and from time to time terminate the appointment of the Issuing and Paying Agent and appoint one or more additional Issuing and Paying Agents. The Issuer will give prompt notice to the Trustee of the appointment or termination of the Issuing and Paying Agent and of the location and any change in the location of the Issuing and Paying Agent's office or agency. The Issuing and Paying Agent will provide notice to the Holders of the Issuer Notes of any such change of which it receives notice.

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Pursuant to the Issuing and Paying Agency Agreement, LaSalle Bank National Association will be appointed as the Issuer Note Registrar. The Issuer Note Registrar will keep the note register and provide for the registration and transfer of the Issuer Notes. The Issuer may at any time and from time to time terminate the appointment of the Issuer Note Registrar and appoint one or more additional Issuer Note Registrars. The Issuer will give prompt notice to the Issuing and Paying Agent of the appointment or termination of the Issuer Note Registrar and of the location and any change in the location of the Issuer Note Registrar's office. The Issuer Note Registrar will provide notice to the Holders of the Issuer Notes of any such change of which it receives notice.

The Issuing and Paying Agent will make distributions on the Issuer Notes and perform various fiscal services on behalf of the Issuer. On or prior to the Closing Date, the Issuing and Paying Agent will establish a segregated bank account designated as the "**Issuer Notes Distribution Account**". The Issuing and Paying Agent will deposit any funds received from the Trustee pursuant to the Indenture (including, without limitation, all distributions of Interest Proceeds and Principal Proceeds on each Payment Date, any other Business Day on which Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Holders of the Issuer Notes or on the Stated Maturity for, or date of redemption of, the applicable Issuer Notes, made by the Trustee to the Issuing and Paying Agent pursuant to the Indenture as described herein under "—Priority of Payments") into the Issuer Notes Distribution Account.

Pursuant to the Issuing and Paying Agency Agreement, the Issuing and Paying Agent, on behalf of the Issuer, will promptly give notice of the amount distributed thereunder for the relevant Payment Date to the Holders of the Issuer Notes and to the Issuer. The Issuing and Paying Agent will also make such information available to Holders of the Issuer Notes at its offices. Distributions to Holders of the Issuer Notes, if any, will be paid on each Payment Date, any other Business Day on which Currency Adjusted Notional Principal Adjustment Amounts are paid by the Issuer to the Holders of the Issuer Notes or on the Stated Maturity for, or date of redemption of, a Class of the Issuer Notes, as applicable, to the persons in whose names such Issuer Notes are registered in the Issuer Note Register at the close of business on the Record Date for such Payment Date. Pursuant to the Issuing and Paying Agency Agreement, distributions to Holders of any Class of Issuer Notes will be paid *pro rata* to Holders of such Class; *provided* that such *pro rata* allocation will be based on the Aggregate USD Equivalent Outstanding Amount of such Class of Notes held by each such Holder but will be payable to each such Holder in the applicable Approved Currency with respect to each such Holder's Currency Adjusted Aggregate Outstanding Amount of such Notes.

The Issuing and Paying Agency Agreement also provides for the terms of transfer and exchange of the Issuer Notes described herein under "Transfer Restrictions". The payment of the fees and expenses of the Issuing and Paying Agent and the Issuer Note Registrar is solely the obligation of the Issuer. The Issuing and Paying Agency Agreement contains provisions for the indemnification of the Issuing and Paying Agent and the Issuer Note Registrar against any and all liabilities, costs and expenses (including reasonable legal fees and expenses) relating to or arising out of or in connection with their performance under the Issuing and Paying Agency Agreement, except to the extent that such liabilities, costs and expenses are caused by the negligence, willful misconduct or bad faith of the Issuing and Paying Agent or the Issuer Note Registrar, as the case may be.

Additional Issuance. With respect to the Issuer Notes, a Series of any such Class may be issued from time to time following the Closing Date. Such additional issuance of such Series must satisfy the following conditions:

(a) the proceeds from any such additional issuance shall be used by the Issuer to purchase Collateral Securities at the direction of the Protection Buyer in a principal amount not less than the principal amount of such additional issuance or, pending such investment, deposited in the Principal Collection Account and invested in Eligible Investments; *provided* that the Collateral Securities and Eligible Investments purchased with the

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proceeds of such additional issuance will be denominated in the same Approved Currency in which such additional Series is denominated;

(b) the sum of the proceeds received from the issuance of such Series *plus* any Additional Issuance Upfront Payment received by the Issuer from the Protection Buyer in connection with such additional issuance must equal the principal amount of such Notes;

(c) the terms (other than the date of issuance, the Series Interest Rate, the Approved Currency in which such Notes are denominated, the Stated Maturity, the Non-Call Period and the date from which interest will accrue) of any Series of Notes will be identical to the terms of any previously issued Notes of the relevant Class of such Series, if any;

(d) the Protection Buyer must notify the Rating Agencies of such additional issuance prior to such additional issuance; and

(e) the S&P Rating Condition and the Moody's Rating Condition must be satisfied.

In connection with any such additional issuance, the Issuer shall, to the extent required by the rules thereof, provide any applicable stock exchange with a listing circular or an offering circular supplement, relating to such Notes.

For the avoidance of doubt, following a Partial Optional Redemption of any Series of Issuer Notes or Protection Buyer Notes that are Issuer Notes, additional Series of such Class may be issued in accordance with the requirements set forth in this section.

Governing Law. The Issuer Notes and each Deed of Covenant will be governed by, and construed in accordance with, the laws of the Cayman Islands. The Issuing and Paying Agency Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein without regard to the conflict of laws principles thereof.

Reports Prepared Pursuant to the Indenture. Upon the written request in the form of Exhibit A hereto, any Holder of the Issuer Notes may request that the Issuing and Paying Agent provide to such Holder the monthly reports and certain other reports prepared by or on behalf of the Issuer in accordance with the terms of the Indenture.

USE OF PROCEEDS

The aggregate net proceeds of the offering of the Notes are expected to equal approximately $192,000,000 (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars). The Issuer will use such net proceeds, together with part or all of the Upfront Payment, to purchase Collateral Securities and Eligible Investments that will have an aggregate principal amount of at least $192,000,000 (including the USD Equivalent of the Collateral Securities denominated in Approved Currencies other than Dollars); *provided* that, for each Approved Currency, the aggregate principal amount of Collateral Securities and Eligible Investments denominated in such Approved Currency and purchased with the proceeds of the offering will equal or exceed the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date.

RATINGS OF THE NOTES

It is a condition to the issuance of the Notes issued on the Closing Date that the Notes of each such Class receive from the Rating Agencies the minimum rating indicated under "Summary—Notes". A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

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THE CREDIT DEFAULT SWAP

The following description of the Credit Default Swap is a summary of certain provisions of the Credit Default Swap. The following summary does not purport to be complete, and is qualified in its entirety by reference to the detailed provisions of the Credit Default Swap.

The Notes do not represent an obligation of the Protection Buyer. Noteholders will not have any right to proceed directly against the Protection Buyer in respect of the Protection Buyer's obligations under the Credit Default Swap. However, the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will have the right to direct the Issuer with respect to the enforcement of any claims that it may have against the Protection Buyer. Notwithstanding the foregoing, if the Protection Buyer is the sole defaulting party or Affected Party under the Credit Default Swap, then the Issuer will have 30 days to enter into a replacement credit default swap and basis swap (otherwise a Mandatory Redemption will occur). See "—Replacement".

Effective Date and Termination Date

The effective date of the Credit Default Swap will be the Closing Date.

Unless terminated prior to its scheduled termination date, or unless an Extended Termination Date as described in this section occurs, the Credit Default Swap will terminate on February 22, 2038 (the **"Scheduled Termination Date"**).

Credit Event Notices may be given (the **"Notice Delivery Period"**) during the period from and including the Closing Date to and including the earlier of the Scheduled Termination Date or a Credit Default Swap Early Termination Date.

If, on the Scheduled Termination Date a Credit Event has occurred with respect to which the Conditions to Settlement have been satisfied, but with respect to which the Credit Default Swap Settlement Date has not occurred, the termination date of the Credit Default Swap will extend up to the day that is the last Credit Default Swap Settlement Date (such day, the **"Extended Termination Date"**).

The **"Termination Date"** of the Credit Default Swap will be the later of (i) the Scheduled Termination Date and (ii) the Extended Termination Date.

Payments

Upfront Payment by the Protection Buyer to the Issuer.

On the Closing Date, the Protection Buyer will make an upfront payment (the **"Upfront Payment"**) to the Issuer in an amount with respect to each Approved Currency, if greater than zero, equal to:

(i) the sum of (a) the amount needed to purchase the Initial Collateral Securities denominated in such Approved Currency (with an aggregate principal amount of at least the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency) and (b) expenses incurred on or prior to the Closing Date in such Approved Currency in connection with the offering of the Notes and the transactions contemplated hereby; *less*

(ii) the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency.

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Periodic Payments by the Protection Buyer to the Issuer.

(I) On the Closing Date and each Payment Date prior to the earliest to occur of (a) the final Stated Maturity of all Series of Notes, (b) an Optional Redemption in Whole or (c) a Mandatory Redemption, the Protection Buyer will pay to the Issuer an amount equal to the aggregate of:

(i) the product, with respect to each Series of Notes Outstanding, of:

(a) the Applicable Spread for such Series;

(b) the Currency Adjusted Aggregate Outstanding Amount of such Series of Notes on such date; and

(c) the applicable Day Count Fraction for the Interest Accrual Period commencing on such date;

(ii) the product, with respect to each Class of Notes Outstanding, of:

(a) the Aggregate USD Equivalent Outstanding Amount of such Class on such date;

(b) the Applicable Class Portfolio Selection Fee Rate with respect to such Class of Notes; and

(c) the actual number of days in the Interest Accrual Period (or, if on such date the Protection Buyer has a long-term rating below "AA-" by S&P, the actual number of days in the next two Interest Accrual Periods) commencing on such date *divided by* 360;

(iii) an amount equal to the Collateral Put Provider Fee Amount due on the immediately succeeding Payment Date to the Collateral Put Provider pursuant to the Collateral Put Agreement; and

(iv) an amount equal to the Administrative Expenses expected to be paid pursuant to clause (i) of the "Description of the Notes—Priority of Payments—Interest Proceeds" on the immediately succeeding Payment Date (or, if on such date the Protection Buyer has a long-term rating below "AA-" by S&P, the amount determined to be due on the following two Payment Dates as determined by the Credit Default Swap Calculation Agent in a commercially reasonable manner) (excluding, for the avoidance of doubt, any indemnities payable by the Issuer); *plus*

(II) on each Payment Date, an amount, if greater than zero, equal to:

(i) the amount required to be paid pursuant to clauses (i) through (v) of "Description of the Notes—Priority of Payments—Interest Proceeds" on such Payment Date (excluding, for the avoidance of doubt, any indemnities payable by the Issuer); less

(ii) the amount on deposit on such Payment Date in the CDS Issuer Fixed Payment Subaccount *plus* the Monthly Basis Swap Payment due on such Payment Date (each payment made under (I) and (II) above, a "**Fixed Payment**").

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Cash Settlement Amounts paid by the Issuer to the Protection Buyer.

On a Credit Default Swap Calculation Date, the Credit Default Swap Calculation Agent will determine the Cash Settlement Amount that will need to be paid by the Issuer on the related Credit Default Swap Settlement Date. See "Summary—The Credit Default Swap".

In addition, on a Credit Default Swap Calculation Date, the Trustee will direct the liquidation of any Eligible Investments held by the Issuer and denominated in the Approved Currency in which such Cash Settlement Amount is payable (assuming that the Issuer will receive at least 100% of par for such Eligible Investments in any such liquidation, other than Put Excluded Collateral) in an amount sufficient to pay the related Cash Settlement Amount on the Credit Default Swap Settlement Date.

If such liquidation proceeds are insufficient to pay such Cash Settlement Amount, the Issuer or Trustee will direct the Collateral Disposal Agent to attempt to sell a par amount of Collateral Securities (rounded up, if necessary, to reflect minimum denominations) in an amount (assuming that the Issuer will receive at least 100% of par for such Collateral Securities in any such liquidation, other than Put Excluded Collateral), when added to the amount of proceeds expected to be received by the Issuer from liquidation of Eligible Investments (assuming that the Issuer will receive at least 100% of par for such Eligible Investments, other than Put Excluded Collateral), sufficient to pay a Cash Settlement Amount (the par amount of Collateral Securities to be liquidated in connection with any liquidation of the Collateral Securities, the "**Collateral Securities Principal Amount**"), for settlement on the Credit Default Swap Settlement Date. The Collateral Disposal Agent shall select in its sole discretion the particular Collateral Securities to be liquidated in an aggregate principal amount equal to the Collateral Securities Principal Amount (the Collateral Securities selected by the Collateral Disposal Agent to be liquidated in connection with any liquidation of Collateral Securities, the "**Selected Collateral Securities**"); *provided* that any such Selected Collateral Securities will be denominated in the same currency as the Notes, the Currency Adjusted Aggregate Outstanding Amount of which is reduced by the related Currency Adjusted Credit Event Adjustment Amount. The Collateral Disposal Agent will then attempt to solicit bids for the sale of each such Selected Collateral Security. The Collateral Disposal Agent may, in its sole discretion, bid up to 100% for such Selected Collateral Security (excluding any accrued interest) if the Collateral Disposal Agent is not able to procure a third-party bid of at least 100%. A Selected Collateral Security will be sold to the highest bidder for settlement on the Credit Default Swap Settlement Date. Pursuant to the terms of the Credit Default Swap, if the liquidation proceeds of Eligible Investments and Collateral Securities would have been sufficient to pay a Cash Settlement Amount had such Collateral (other than Put Excluded Collateral) been liquidated at least at 100% of par (instead of below 100% of par), the Issuer will be deemed to have paid such Cash Settlement Amount in full upon the Protection Buyer's receipt of the actual related liquidation proceeds.

See "Summary—The Credit Default Swap—Cash Settlement Amount".

Payment by the Protection Buyer to the Issuer in connection with a Reference Obligation Reimbursement.

On the Payment Date immediately following the Due Period during which a Reference Obligation Reimbursement Amount is determined by the Credit Default Swap Calculation Agent with respect to one or more Reference Obligation(s), and so long as such Reference Obligation(s) remains in the Reference Portfolio at the time of such Reference Obligation Reimbursement, the Protection Buyer will pay to the Issuer an amount equal to the aggregate of (i) the Currency Adjusted Reinstatement Adjustment Amounts payable on such date and (ii) the ICE Currency Adjusted Interest Reimbursement Amounts payable on such date.

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Payments by the Protection Buyer to the Issuer in connection with an additional issuance of Notes.

Following the Closing Date, on or prior to the date on which the Issuer issues additional Notes, the Protection Buyer will (in the event such additional issuance occurs) make a payment to the Issuer (in the Approved Currency in which such additional Notes are denominated) equal to the product of (i) the par amount of such additional Notes and (ii) the greater of (a) 100% *less* the issuance price of such additional Notes (expressed as a percentage of the par amount thereof) and (b) zero (any such payment, an "**Additional Issuance Upfront Payment**").

Payments by the Protection Buyer to the Issuer in connection with the Issuer's purchase of Collateral Securities.

Following the Closing Date, on or prior to the date on which the Issuer purchases a Collateral Security, the Protection Buyer shall (in the event the Issuer actually purchases a Collateral Security) make a payment to the Issuer equal to the product of (i) the par amount of such Collateral Security and (ii) the greater of (a) the purchase price (including accrued and unpaid interest) of such Collateral Security (expressed as a percentage of the par amount thereof) less 100.00% and (b) zero.

Payment on the Stated Maturity, the Optional Redemption Date or the Mandatory Redemption Date.

On the Stated Maturity, the Optional Redemption Date or the Mandatory Redemption Date, in addition to any Credit Default Swap Termination Payment, the Protection Buyer may, to the extent of available Principal Proceeds, receive from the Issuer an amount as described under subclause (ix) of "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date".

On the Stated Maturity for any Series of Notes or a Mandatory Redemption caused by a termination of the Credit Default Swap as a result of a default by the Protection Buyer, a termination of the Collateral Put Agreement as a result of a default by the Collateral Put Provider or a termination of the Basis Swap as a result of a default by the Basis Swap Counterparty, the Protection Buyer will make a payment to the Issuer in an amount equal to the aggregate of the Currency Adjusted Redemption Refund Adjustment Amounts determined with respect to such date (any such payment, a "**Redemption Writedown Refund**").

Payment in Connection with a Replacement Credit Default Swap.

On the date a replacement credit default swap is entered into with a Replacement Counterparty, the Protection Buyer may receive a termination payment from the Issuer.

Payment on a Partial Optional Redemption Date.

In the case of a Partial Optional Redemption, at the sole discretion of the Protection Buyer, the Protection Buyer may pay to the Issuer an amount (the "**Partial Optional Redemption End Payment**") equal to (a) the aggregate amount required to be paid by the Issuer on the Partial Optional Redemption Date in accordance with subclause (iii) of "Description of the Notes—Priority of Payments—Principal Proceeds—Other Payment Dates" *less* (b) the Principal Proceeds that are expected to be available on the Partial Optional Redemption Date to pay the amount described in subclause (a) after giving consideration to any currency exchange; *provided*, *however*, that a Partial Optional Redemption will be effected only in accordance with the Indenture.

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Payment by the Protection Buyer to the Issuer in connection with Collateral denominated in Approved Currencies.

On each Credit Default Swap Settlement Date and with respect to each Approved Currency, the Protection Buyer will pay to the Issuer the difference, if greater than zero, between (i) the Currency Adjusted Aggregate Outstanding Amount of all Notes denominated in such Approved Currency and (ii) the principal balance of Collateral (including Cash) held by the Issuer in the Collateral Account and denominated in such Approved Currency (for the avoidance of doubt, such amounts as determined after giving effect to the payment of any Cash Settlement Amount on such date) so long as such difference arises in connection with the liquidation of Collateral in order to pay a Cash Settlement Amount (any such payment, an "**Approved Currency Collateral Payment**").

Credit Events

"**Failure to Pay Principal**" means, with respect to any Reference Obligation (i) a failure by the related Reference Entity (or any Insurer thereof) to pay the Expected Principal Amount of such Reference Obligation on the applicable Final Amortization Date or the applicable Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount of such Reference Obligation; *provided* that the failure by such Reference Entity (or such Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the related Underlying Instruments or, if no such grace period is applicable, within three Business Days after the day on which such Expected Principal Amount was scheduled to be paid.

"**Writedown**" means with respect to any Reference Obligation, the occurrence at any time on or after the Closing Date of:

(i) (a) a writedown or applied loss (however described in the related Underlying Instruments) resulting in a reduction in the Reference Obligation Outstanding Principal Amount with respect to such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal); or

(b) the attribution of a principal deficiency or realized loss (however described in the related Underlying Instruments) to such Reference Obligation resulting in a reduction or subordination of the current interest payable on such Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of such Reference Obligation pursuant to an amendment to the related Underlying Instruments resulting in a reduction in the related Reference Obligation Outstanding Principal Amount; or

(iii) if the related Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in subclause (i) above to occur in respect of such Reference Obligation, an Implied Writedown Amount being determined in respect of such Reference Obligation by the Credit Default Swap Calculation Agent.

The Reference Portfolio

The Reference Portfolio is set out in Schedule A and will not be modified other than as described under "—Removal of Reference Obligations from the Reference Portfolio".

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Removal of Reference Obligations from the Reference Portfolio

Following a Credit Event and the satisfaction of the Conditions to Settlement relating thereto, the Reference Obligation that is the subject of such Credit Event will not be removed from the Reference Portfolio, and in the case of a Reference Obligation that suffered a Writedown, such Reference Obligation may experience one or more subsequent Credit Events (including a subsequent Writedown).

Following the redemption or amortization in full of a Reference Obligation, the Reference Obligation that has been redeemed or amortized in full will be removed from the Reference Portfolio. Subject to the foregoing, if the Reference Obligation Notional Amount of a Reference Obligation that suffered one or more Credit Events is reduced to zero at any time on or prior to the Scheduled Termination Date and remains at zero for a period of one calendar year, such Reference Obligation shall be removed from the Reference Portfolio as of the last day of such one calendar year period; *provided* that if such Reference Obligation that suffered one or more Credit Events experiences a Reference Obligation Reimbursement for which the Reference Obligation Repayment Amount equals the ICE Reference Obligation Notional Amount Differential of such Reference Obligation immediately prior to such determination, the Reference Obligation shall be removed from the Reference Portfolio immediately following the determination of such Reference Obligation Repayment Amount by the Credit Default Swap Calculation Agent.

Credit Default Swap Early Termination

Credit Default Swap Event of Default.

The occurrence of any of the following events will constitute a **"Credit Default Swap Event of Default"**:

(i) failure by the Issuer, the Protection Buyer or the Protection Buyer Credit Support Provider to make, when due, any payment under the Credit Default Swap, and the continuance of such failure for three Business Days after notice of such failure is given to such party;

(ii) (a) failure by the Protection Buyer or the Protection Buyer Credit Support Provider to comply with or perform any agreement or obligation to be complied with or performed by it, as the case may be, in accordance with any Protection Buyer Credit Support Document if such failure is continuing after any applicable grace period has elapsed; (b) the expiration or termination of any Protection Buyer Credit Support Document or the failing or ceasing of such Protection Buyer Credit Support Document to be in full force and effect for the purpose of the Credit Default Swap (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of the Protection Buyer under the Credit Default Swap without the written consent of the Issuer; and (c) the Protection Buyer or the Protection Buyer Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Protection Buyer Credit Support Document; or

(iii) the occurrence of certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization with respect to the Protection Buyer or the Protection Buyer Credit Support Provider.

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Credit Default Swap Termination Events.

The occurrence of any of the following events will constitute a **"Credit Default Swap Termination Event"**:

(i) it becomes unlawful for the Protection Buyer, the Protection Buyer Credit Support Provider or the Issuer to perform its obligation to make a payment or delivery or to receive a payment or delivery under the Credit Default Swap or to comply with any other material provision thereof or for the Protection Buyer or the Protection Buyer Credit Support Provider to perform its obligations under any Protection Buyer Credit Support Document and no party is able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply;

(ii) because of (a) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the Closing Date (regardless of whether such action is taken or brought with respect to the Issuer or the Protection Buyer) or (b) a change in tax law, such party will, or there is a substantial likelihood that it will, on the next succeeding payment date be required to (x) make a "gross-up" payment to the other party in respect of an indemnifiable tax or (y) receive a payment from the other party subject to withholding or deduction of a tax for which the other party is not required to make a "gross-up" payment;

(iii) as a result of the Issuer's or the Protection Buyer's consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to another entity, the Issuer or the Protection Buyer is required to (a) make a "gross-up" payment to the other party or (b) receive a payment from which an amount has been deducted or withheld for or on account of any indemnifiable tax;

(iv) a Collateral Default;

(v) the Notes becoming due and payable in accordance with the Indenture at any time prior to their Stated Maturity after the occurrence of an Event of Default;

(vi) an Adverse Tax Event;

(vii) an Optional Redemption in Whole;

(viii) the designation of a Basis Swap Early Termination Date; or

(ix) the designation of a Collateral Put Agreement Early Termination Date.

Upon the Trustee or the Issuing and Paying Agent becoming aware of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Basis Swap or the Collateral Put Agreement, the Trustee or the Issuing and Paying Agent, as applicable, will as promptly as practicable notify the Noteholders of such event and the Trustee will terminate any such agreement on behalf of the Issuer at the direction of (i) in the case of the Credit Default Swap or the Basis Swap, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes and (ii) in the case of the Collateral Put Agreement, 100% of the Aggregate USD Equivalent Outstanding Amount of the Notes, in each case voting as a single class. In addition, if an Event of Default or a Termination Event (as such term is defined in the Credit Default Swap) for which the Protection Buyer is the sole defaulting party or Affected Party under the Credit Default Swap (as such term is defined in the Credit Default Swap), then the Issuer will have 30 days to enter into a replacement credit default swap. See "—Replacement".

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Payments on Credit Default Swap Early Termination

Payment by the Issuer. Upon the occurrence of a Credit Default Swap Early Termination, the Issuer will be required to pay to the Protection Buyer the following amounts:

(i) any Cash Settlement Amounts owed by the Issuer to the Protection Buyer for any Credit Events that occur on or prior to the Credit Default Swap Early Termination Date for which the Conditions to Settlement have been satisfied; and

(ii) any Credit Default Swap Termination Payment.

Payment by the Protection Buyer. Upon the occurrence of a Credit Default Swap Early Termination, the Protection Buyer will be required to pay to the Issuer the following amounts:

(i) any accrued but unpaid Fixed Payments;

(ii) any Credit Default Swap Termination Payment; and

(iii) in the case of an Optional Redemption in Whole, at the sole discretion of the Protection Buyer, an amount (the "**End Payment**") equal to (a) the aggregate amount required to be paid by the Issuer on the Optional Redemption Date in accordance with subclauses (i) through (vii) of "Description of the Notes—Priority of Payments—Principal Proceeds—Stated Maturity, Optional Redemption Date or Mandatory Redemption Date" *less* (b) the Principal Proceeds that are expected to be available on the Optional Redemption Date to pay the amount described in subclause (a) (after giving consideration to any currency exchange, if necessary); *provided, however*, that an Optional Redemption in Whole will be effected only in accordance with the Indenture.

As used herein, "**Credit Default Swap Termination Payment**" means the replacement cost or gain for a portfolio credit default swap with the financial terms of the Credit Default Swap, calculated in accordance with the terms of the Credit Default Swap; *provided, however*, that no Credit Default Swap Termination Payment shall be payable by the Protection Buyer in connection with a Credit Default Swap Early Termination caused by an Optional Redemption in Whole.

Amendment

The Credit Default Swap may be amended at any time without satisfying the S&P Rating Condition or the Moody's Rating Condition or obtaining the consent of the Noteholders so long as such amendment would not have a material adverse effect on any Holders of the Notes. Otherwise, the Credit Default Swap may be amended only with the satisfaction of the S&P Rating Condition and the Moody's Rating Condition and with the consent of the Noteholders (in a percentage as would have been required had such amendment been taken pursuant to the Indenture).

Unless the Portfolio Selection Agent has been given prior written notice of such amendment and has consented thereto in writing, no amendment to the Credit Default Swap may (a) affect the obligations or rights of the Portfolio Selection Agent including, without limitation, expanding or restricting the Portfolio Selection Agent's discretion, rights or obligations or (b) affect the amount, timing or priority of any fees payable to the Portfolio Selection Agent under the Portfolio Selection Agreement and the Credit Default Swap.

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Transfer

Neither the Issuer nor the Protection Buyer may transfer its rights and obligations under the Credit Default Swap without the prior written consent of the other party, which consent will not be unreasonably withheld or delayed, except that, and in any case subject to the S&P Rating Condition:

(i) a party may make such a transfer of its rights and obligations pursuant to a consolidation or amalgamation with, or merger into, or transfer of all or substantially all its assets to or reorganization, incorporation, reincorporating or reconstitution into or as, another entity;

(ii) a party may make such a transfer of all or any part of its interest in certain amounts payable to it from a defaulting party under the Credit Default Swap; and

(iii) the Protection Buyer may, without recourse, transfer the Credit Default Swap (in whole and not in part only) to any of the Protection Buyer's Affiliates so long as:

(a) GS Group (or another entity with a credit rating at least equal to that of GS Group) guarantees such transferred obligations of the transferee pursuant to a guaranty in substantially the form of the guaranty of GS Group specified in the Credit Default Swap or such transferee has a credit rating at least equal to that of GS Group;

(b) the Issuer will not have to make any tax gross-up payments to such Affiliate in an amount greater than what the Issuer would have been required to pay to the Protection Buyer in the absence of such transfer;

(c) any payment paid by such Affiliate to the Issuer will not be subject to any withholding tax in excess of what the Protection Buyer would have been required to so withhold or deduct in the absence of such transfer;

(d) it does not become unlawful for either party to perform any obligation under the Credit Default Swap as a result of such transfer; and

(e) a Credit Default Swap Early Termination does not occur as a result of such transfer.

Replacement

If an Event of Default or a Termination Event (as such term is defined in the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable) for which the Protection Buyer, Basis Swap Counterparty or Collateral Put Provider is the sole defaulting party or Affected Party (as such term is defined in the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable) under the Credit Default Swap, Basis Swap and/or Collateral Put Agreement, as applicable, then the Issuer will automatically terminate the Credit Default Swap, Basis Swap and Collateral Put Agreement and shall, within 30 days following such termination, enter into a replacement credit default swap and basis swap with a party nominated by the Protection Buyer, Basis Swap Counterparty and/or Collateral Put Provider, as applicable, (the "**Replacement Counterparty**"), subject to satisfaction of the following (the "**Replacement Counterparty Procedures**") on or prior to the completion of such 30 day period:

(i) all of the Collateral (other than Put Excluded Collateral) will be liquidated (and the Collateral Put Agreement will not be exercisable in the case of such liquidation), and the proceeds thereof, after giving effect to any termination payments payable by the Issuer to the Protection Buyer and the Basis Swap Counterparty will be used by the Issuer to acquire Put Excluded Collateral. If the aggregate principal amount of the Collateral denominated in each Approved Currency following such reinvestment is not at least equal to the Currency Adjusted Aggregate Outstanding Amount of the Notes denominated in

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such Approved Currency, the Replacement Counterparty will pay as an upfront payment to the Issuer under the replacement credit default swap an amount sufficient to cause the aggregate principal amount of the Collateral denominated in each Approved Currency to at least equal the Currency Adjusted Aggregate Outstanding Amount of the Notes denominated in such Approved Currency, and the Issuer will use such funds to purchase additional Put Excluded Collateral;

(ii) the Replacement Counterparty will enter into a replacement credit default swap with the Issuer on substantially similar terms to the Credit Default Swap entered into on the Closing Date, with the effective date being the day on which the Credit Default Swap is terminated;

(iii) pursuant to the terms of a replacement credit default swap, any failure to maintain Put Excluded Collateral denominated in each Approved Currency in an amount at least equal to the Currency Adjusted Aggregate Outstanding Amount of the Notes denominated in such Approved Currency will be deemed an election by the Replacement Counterparty to terminate the replacement credit default swap and will cause an Optional Redemption in Whole;

(iv) on the date that a replacement credit default swap is entered into between the Replacement Counterparty and the Issuer and on any date of determination thereafter, the Replacement Counterparty will post to the Issuer (a) the fixed payment due for all Payment Dates ending on the later of (1) the sixth Payment Date from the date of determination or (2) the end of the Non-Call Period, (*provided* that such payment will be calculated based on the Currency Adjusted Aggregate Outstanding Amount of the Notes denominated in each Approved Currency on the date of payment) and (b) any ICE Currency Adjusted Interest Reimbursable Amounts at such time of determination;

(v) pursuant to the terms of the replacement credit default swap, any failure to post the amounts specified in clause (iv) will be deemed an election by the Replacement Counterparty to terminate the replacement credit default swap and will cause an Optional Redemption in Whole;

(vi) the Replacement Counterparty will enter into a replacement basis swap with the Issuer on substantially similar terms to the Basis Swap entered into on the Closing Date, with the effective date being the day on which the Basis Swap is terminated;

(vii) on the date that a replacement basis swap is entered into between the Replacement Counterparty and the Issuer and on any date of determination thereafter, the Replacement Counterparty will post to the Issuer (a) the monthly basis swap payment due for all Payment Dates ending on the later of (1) the sixth Payment Date from the date of determination or (2) the end of the Non-Call Period, (*provided* that such payment will be calculated based on the Currency Adjusted Aggregate Outstanding Amount of the Notes denominated in each Approved Currency on the date of payment);

(viii) any failure to post the amounts specified in clause (vii) will be deemed an election by the Replacement Counterparty to terminate the replacement credit default swap and will cause an Optional Redemption in Whole;

(ix) all interest accrued on the Put Excluded Collateral will be paid by the Issuer to the Replacement Counterparty as a basis swap payment pursuant to the terms of the replacement basis swap;

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(x) the payment of any unpaid Portfolio Selection Fees by the Issuer to the Portfolio Selection Agent following a corresponding payment by the Replacement Counterparty to the Issuer; and

(xi) in all cases, any related opinions (including an opinion of nationally recognized tax counsel experienced in such matters to the effect that such replacement credit default swap or basis swap will not cause the Issuer to be treated as engaged in a United States trade or business which must be received in order to enter into any replacement credit default swap or basis swap), documentation and agreements will be subject to review by the Rating Agencies, in the case of documentation or agreements, for the sole purpose of establishing that such documentation or agreements are consistent with the Replacement Counterparty Procedures and such documentation and agreements shall be subject to the satisfaction of the S&P Rating Condition.

Subject to the foregoing, Goldman Sachs has separately agreed to nominate a replacement counterparty under the circumstances described above.

If the Replacement Counterparty Procedures are not complied with within such 30 day period, then a Mandatory Redemption will occur.

For the avoidance of doubt, any termination payments payable by either the Issuer or the Protection Buyer under the Credit Default Swap or to the Basis Swap Counterparty under the Basis Swap will not be payable until the earlier to occur of (a) the date that all of the Replacement Counterparty Procedures are satisfied and (b) the Mandatory Redemption Date, which payments in the case of clause (b) will be subject to the Priority of Payments.

Guarantee

GS Group will guarantee the obligations of the Protection Buyer under the Credit Default Swap.

THE PROTECTION BUYER

The Protection Buyer is Goldman Sachs Capital Markets, L.P. As described above, GS Group will guarantee the obligations of Goldman Sachs Capital Markets, L.P. as the Protection Buyer under the Credit Default Swap. Goldman Sachs Capital Markets, L.P. is an Affiliate of GS Group.

GS Group, together with its subsidiaries, is a leading global investment banking, securities and investment management firm that provides a wide range of financial services worldwide to a substantial and diversified clientbase that includes corporations, financial institutions, governments and high net-worth individuals. GS Group is required to file annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (the "**SEC**"). GS Group's filings with the SEC are also available to the public through the SEC's Internet site at http://www.sec.gov and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which GS Group's common stock is listed.

Investors in Notes are hereby informed that the reports and other information with respect to GS Group on file with the SEC to which investors are referred above are not and will not be "incorporated by reference" herein.

The Notes do not represent an obligation of, and will not be insured or guaranteed by, GS Group or any of its subsidiaries and investors will have no rights or recourse against GS Group or any of its subsidiaries.

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THE COLLATERAL SECURITIES

The Initial Collateral Securities

On the Closing Date, the Issuer will use the net proceeds of the offering and part or all of the Upfront Payment to purchase the securities described in the table below (the "**Initial Collateral Securities**", together with Supplemental Collateral Securities and any BIE Collateral Securities purchased by the Issuer, the "**Collateral Securities**") at the direction of the Protection Buyer. Such Initial Collateral Securities and any Eligible Investments purchased by the Issuer on the Closing Date will have a USD Equivalent aggregate principal amount of at least $192,000,000; *provided* that the aggregate principal amount of the Collateral Securities and Eligible Investments purchased with the proceeds of the offering denominated in any Approved Currency will equal the Currency Adjusted Aggregate Outstanding Amount of Notes denominated in such Approved Currency on the Closing Date. The issuers of the Collateral Securities are subject to certain requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the SEC. Reports and other information filed by the issuers of the Collateral Securities with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 or can be obtained from the SEC through its website at www.sec.gov. With respect to the Initial Collateral Security that is a CLO Security, the related offering circular has been attached to this Offering Circular and provides a description of the terms of such Initial Collateral Security.

Original Principal Amount	Current Principal Amount	Security	CUSIP	Coupon	Type	Legal Maturity	Moody's Rating	S&P Rating	Fitch Rating
192,000,000	192,000,000	GWOLF 2007-1A A	398078AB1	L+ 0.245%	CLO Security	2/18/2021	Aaa	AAA	
Aggregate	$192,000,000								

Supplemental Collateral Securities

The Protection Buyer shall direct the Issuer to purchase a Supplemental Collateral Security only if it satisfies the following criteria at the time of purchase (the "**Collateral Security Eligibility Criteria**") (in each case as confirmed by the Collateral Administrator based on information and calculations supplied by the Credit Default Swap Calculation Agent); *provided*, *however*, that in the case of a Supplemental Collateral Security purchased with Excess Disposition Proceeds, such Collateral Security need only satisfy the criteria described in clauses (iv), (v) and (vii) through (xiii) below:

(i) other than with respect to an RMBS Agency Security, it has (a) an Actual Rating by S&P of "AAA" and (b) an Actual Rating by Moody's of "Aaa";

(ii) (a) it is the senior-most class of securities issued by its obligor, it being acknowledged and agreed that such senior class may be paid *pro rata* with other senior classes of such securities issued by such obligor with respect to the payment of interest but must be senior to any other classes of such securities issued by such obligor with respect to the allocation of losses and (b) the aggregate notional amount of such class of securities at the time of issuance, together with the aggregate notional amount of any *pro rata* classes described in subclause (a) at the time of issuance, is greater than 10% of the initial aggregate notional amount of securities issued by such obligor;

(iii) the obligor of such Supplemental Collateral Security is not a Reference Entity in respect of any Reference Obligation in the Reference Portfolio;

(iv) it is denominated in an Approved Currency;

(v) it provides for the payment of interest at a floating rate determined by reference to LIBOR, EURIBOR, GBP-LIBOR, JPY-LIBOR, AUD-LIBOR, CAD-LIBOR or NZD-BBR;

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(vi) it is either (a) an ABS Credit Card Security, (b) an ABS Student Loan Security, (c) an ABS Automobile Security, (d) an ABS Car Rental Receivable Security, (e) a Residential Mortgage-Backed Security (other than an Excluded Specified Type), (f) a Commercial Mortgage-Backed Security (other than an Excluded Specified Type) or (g) a CLO Security (other than an Excluded Specified Type);

(vii) it must have been offered by an underwriter, a placement agent or any Person acting in a similar capacity through a public prospectus, a private placement memorandum or any other similar document;

(viii) it must be acquired from a party acting in its capacity as broker-dealer in the ordinary course of business, or in an arm's-length open market transaction, and if not, is approved by S&P;

(ix) it must not be a United States real property interest within the meaning of Section 897 of the Internal Revenue Code of 1986, as amended (the "**Code**");

(x) it must not provide for delayed funding or is not a revolving loan;

(xi) it is treated as debt for U.S. tax purposes or the Alternative Debt Test is satisfied;

(xii) it is Registered; and

(xiii) if such obligation or security is subject to any withholding tax, the obligor of the obligation or security is required to make "gross-up" payments that cover the full amount of such withholding tax on an after-tax basis pursuant to the Underlying Instrument with respect thereto.

In addition to satisfying the Collateral Security Eligibility Criteria, a Supplemental Collateral Security or BIE Collateral Security will be eligible for inclusion in the Collateral only if, after the inclusion of such Supplemental Collateral Security or BIE Collateral Security in the Collateral, the Weighted Average Life of the Collateral would not exceed 7.0 years, with such maximum declining by approximately 0.25 years each year from the Payment Date in April 2008; *provided* that such maximum shall not be reduced to less than 2.0 years. Such Weighted Average Life, calculated in terms of years, shall in each case be rounded to one decimal place prior to the determination of compliance with the constraint referred to in the previous sentence. For example, a Weighted Average Life of 7.05 years will be rounded to 7.1 years (the test described in this paragraph, the "**Collateral Weighted Average Life Test**").

In addition to satisfying the Collateral Security Eligibility Criteria and the Collateral Weighted Average Life Test, including following the purchase of any Supplemental Collateral Securities, the Issuer may hold Collateral Securities issued by no more than 15 obligors at any one time (the "**Collateral Security Quantity Constraint**").

In addition to satisfying the Collateral Security Eligibility Criteria, the Collateral Weighted Average Life Test and the Collateral Security Quantity Constraint, a Supplemental Collateral Security must be denominated in a certain Approved Currency if so required as described under "Summary—The Collateral Securities—Supplemental Collateral Securities—Purchase of Supplemental Collateral Securities".

Substitution of Collateral Securities

From time to time following the Closing Date, any Noteholder may submit to the Trustee or the Issuing and Paying Agent, as applicable, in writing, a Collateral Security Substitution Request Notice requesting the substitution of one or more BIE Collateral Securities for one or more existing Collateral

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Securities, in whole or in part. The Trustee or the Issuing and Paying Agent, as applicable, will promptly forward such Collateral Security Substitution Request Notice to the Protection Buyer. Within five Business Days of receiving such Collateral Security Substitution Request Notice, the Protection Buyer will determine whether each Proposed New BIE Collateral Security identified in the Collateral Security Substitution Request Notice is a BIE Collateral Security and will provide information and calculations in such respect to the Trustee. The Trustee will review and confirm such calculations and, if the BIE Collateral Security Eligibility Criteria are satisfied, the Trustee will determine the BIE Transaction Cost and (b) request the Basis Swap Calculation Agent to determine the BIE Basis Swap Payment. Upon such determination by the Trustee (or the Basis Swap Calculation Agent), the Trustee or the Issuing and Paying Agent, as applicable, will deliver either (1) a Collateral Security Substitution Information Notice or (2) a Collateral Security Substitution Refusal Notice to the Originating Noteholder with respect to each Collateral Security Substitution Request Notice, as applicable; *provided*, *however*, if the Trustee or the Issuing and Paying Agent, as applicable, delivers a Collateral Security Substitution Refusal Notice to the Originating Noteholder, the related Collateral Security Substitution Request Notice will be deemed to be void and of no further effect.

Within five Business Days of receiving a Collateral Security Substitution Information Notice relating to a Collateral Security Substitution Request Notice, the Originating Noteholder must (i) notify the Trustee or the Issuing and Paying Agent, as applicable, and the Protection Buyer whether it wishes to proceed with the proposed substitution and, if so (ii) agree to pay any BIE Transaction Cost (regardless of whether the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class consent to such proposed substitution) and, if the proposed substitution occurs, any applicable BIE Basis Swap Payment (the occurrence of subclauses (i) and (ii), a "**Substitution Confirmation**"). If a Substitution Confirmation is not received by the Trustee or the Issuing and Paying Agent, as applicable, within the time period specified above, the related Collateral Security Substitution Request Notice will be deemed to be void and of no further effect. Upon the receipt of a Substitution Confirmation, the Trustee or the Issuing and Paying Agent, as applicable, will deliver a BIE Consent Solicitation to the Portfolio Selection Agent and all Noteholders, including the Originating Noteholder. Upon receipt of such BIE Consent Solicitation, each Noteholder may, on or prior to the BIE Notification Date, submit written notice to the Trustee or the Issuing and Paying Agent, as applicable, indicating either (1) approval or (2) disapproval of the Proposed New BIE Collateral Security. If the Trustee determines that (1) the BIE Consent Solicitation failed to receive the approval of the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class by the BIE Notification Date, the Trustee or the Issuing and Paying Agency Agreement will deliver a Collateral Security Substitution Noteholder Refusal Notice to the Originating Noteholder and the related Collateral Security Substitution Request Notice will be deemed void and of no further effect or (2) the BIE Consent Solicitation received the approval of Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class, it will deliver a BIE Acceptance Notice to the Originating Noteholder.

Upon receiving confirmation (1) from the Basis Swap Counterparty that the Originating Noteholder has paid the BIE Basis Swap Payment to the Basis Swap Counterparty, (2) that the Originating Noteholder has paid the BIE Transaction Cost to the Issuer and (3) that the relevant BIE Collateral Securities have been delivered to the Issuer, and the par amount of such delivered BIE Collateral Securities is equal to the par amount of the existing Collateral Securities to be substituted, the Trustee shall release its lien on the par amount of the relevant existing Collateral Securities to be substituted and deliver the par amount of such substituted Collateral Securities to such Originating Noteholder.

If (i) any BIE Collateral Security is not delivered to the Issuer, (ii) the Issuer is not paid the BIE Transaction Cost or (iii) the Basis Swap Counterparty is not paid the BIE Basis Swap Payment, in each case by the end of the BIE Exercise Period identified in the BIE Acceptance Notice, the BIE Acceptance Notice and the Collateral Security Substitution Request Notice will be deemed void and of no further effect.

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Voting and Other Matters Relating to Collateral Securities

If the Issuer has the right to vote or give consent in respect of any amendment, modification, waiver under any document relating to any Collateral Security or receives any other solicitation for any action with respect to any Collateral Security, the Trustee or the Issuing and Paying Agent, as applicable, shall give each Noteholder notice of such proposed action, including a description thereof, requesting instructions from each Noteholder as to whether or not to take such action, and, after receiving instruction from each Noteholder, the Trustee shall cause the Issuer to give such vote, consent or withhold consent, as the case may be, making such determination based on decision of Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class.

Notwithstanding the preceding paragraph, the Collateral Disposal Agent will have the right to direct the Trustee to take certain actions with respect to Collateral Securities. See "The Collateral Disposal Agreement—Exercise of Put, Repurchase or Similar Right".

THE BASIS SWAP

The following description of the Basis Swap is a summary of certain provisions of the Basis Swap. The following summary does not purport to be complete, and is qualified in its entirety by reference to the detailed provisions of the Basis Swap.

The Notes do not represent an obligation of the Basis Swap Counterparty. Noteholders will not have any right to proceed directly against the Basis Swap Counterparty in respect of the Basis Swap Counterparty's obligations under the Basis Swap. However, the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will have the right to direct the Issuer with respect to the enforcement of any claims that it may have against the Basis Swap Counterparty. Notwithstanding the foregoing, if the Basis Swap Counterparty is the sole defaulting party or Affected Party under the Basis Swap, then the Issuer will have 30 days to enter into a replacement credit default swap and basis swap (otherwise a Mandatory Redemption will occur). See "The Credit Default Swap—Replacement".

Effective Date and Scheduled Termination

The effective date of the Basis Swap will be the Closing Date.

Unless terminated prior to its scheduled termination date, the Basis Swap will terminate on March 1, 2038.

Payments

Periodic Payments by the Basis Swap Counterparty to the Issuer.

On each Payment Date, the Basis Swap Counterparty will pay to the Issuer the aggregate of (each aggregate with respect to any Payment Date, a "**Monthly Basis Swap Payment**"), for each Approved Currency in which Outstanding Notes are denominated, the products of:

(i) the Applicable Index for the Applicable Period;

(ii) the average daily Currency Adjusted Aggregate Outstanding Amount of such Notes during the preceding Basis Swap Calculation Period; and

(iii) the applicable Day Count Fraction.

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The Basis Swap Counterparty shall be the calculation agent, as defined under the Basis Swap (the "**Basis Swap Calculation Agent**").

Periodic Payments by the Issuer to the Basis Swap Counterparty.

Pursuant to the Basis Swap, the Issuer is obligated to pay to the Basis Swap Counterparty the Basis Swap Payment on each Payment Date. See "Summary—The Basis Swap—Terms" and "Priority of Payments—Interest Proceeds".

Basis Swap Early Termination

Basis Swap Event of Default.

The occurrence of any of the following events will constitute a "**Basis Swap Event of Default**":

(i) failure by the Issuer, the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider to make, when due, any payment under the Basis Swap, and the continuance of such failure for three Business Days after notice of such failure is given to such party;

(ii) (a) failure by the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Basis Swap Counterparty Credit Support Document if such failure is continuing after any applicable grace period has elapsed; (b) the expiration or termination of any Basis Swap Counterparty Credit Support Document or the failing or ceasing of any such Basis Swap Counterparty Credit Support Document to be in full force and effect for the purpose of the Basis Swap (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of the Basis Swap Counterparty under the Basis Swap without the written consent of the Issuer; and (c) the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Basis Swap Counterparty Credit Support Document; or

(iii) the occurrence of certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization with respect to the Issuer or the Basis Swap Counterparty.

Basis Swap Termination Events.

The occurrence of any of the following events will constitute a "**Basis Swap Termination Event**":

(i) it becomes unlawful for either the Basis Swap Counterparty, any Basis Swap Counterparty Credit Support Provider or the Issuer to perform its obligation to make a payment or delivery or to receive a payment or delivery under the Basis Swap or to comply with any other material provision thereof or for the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider to perform its obligations under any Basis Swap Counterparty Credit Support Document and neither party is able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply;

(ii) because of (a) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the Closing Date (regardless of whether such action is taken or brought with respect to the Issuer, the Basis Swap Counterparty, or any Basis Swap Counterparty Credit Support Provider) or (b) a change in tax law, the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider will, or there is a substantial likelihood that it will, on the next succeeding payment date be required to

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(1) make a "gross-up" payment in respect of an indemnifiable tax or (2) receive a payment subject to withholding or deduction of a tax for which the other party is not required to make a "gross-up" payment;

(iii) as a result of the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to another entity, such party is required to (a) make a "gross-up" payment to the other party or (b) receive a payment from which an amount has been deducted or withheld for or on account of any indemnifiable tax, and neither party is able to transfer such obligation to a different jurisdiction or substitute another entity in its place such that the withholding or deduction does not apply;

(iv) the Notes becoming due and payable in accordance with the Indenture at any time prior to their Stated Maturity after the occurrence of an Event of Default;

(v) an Adverse Tax Event;

(vi) the Basis Swap Counterparty or the Basis Swap Counterparty Credit Support Provider do not satisfy the Required Basis Swap Counterparty Rating and at least one of the following events has not occurred: (1) within the time period specified in the Basis Swap with respect to such downgrade, the Basis Swap Counterparty shall transfer the Basis Swap, in whole, but not in part, to a counterparty that satisfies the Required Basis Swap Counterparty Rating, (2) within the time period specified in the Basis Swap with respect to such downgrade, the Basis Swap Counterparty, so long as it has a long-term rating of at least "BBB+" by S&P, shall collateralize its exposure to the Issuer, subject to the satisfaction of the S&P Rating Condition or the Moody's Rating Condition, as applicable, (3) within the time period specified in the Basis Swap with respect to such downgrade, the obligations of the Basis Swap Counterparty under the Basis Swap shall be guaranteed by a person or entity that satisfies the Required Basis Swap Counterparty Rating, subject to the satisfaction of the S&P Rating Condition or the Moody's Rating Condition, as applicable, or (4) within the time period specified in the Basis Swap with respect to such downgrade, the Basis Swap Counterparty shall take such other steps, if any, as each of the Rating Agencies that has downgraded the Basis Swap Counterparty may require in order to be able to confirm to the Issuer in writing that the Basis Swap Counterparty's obligations under the Basis Swap will be treated by such Rating Agency as if such obligations were owed by a counterparty that satisfies the Required Basis Swap Counterparty Rating; *provided* that in the case of subclause (2) above, or if the Basis Swap Counterparty has previously posted collateral due to a failure to satisfy the Required Basis Swap Counterparty Rating, the Basis Swap Counterparty (based on consultation with S&P) may be required to provide an opinion of counsel regarding the Issuer's ability to terminate the Basis Swap, liquidate the posted collateral and make amounts owed to it free of any stay or other delay due to a bankruptcy of the Basis Swap Counterparty; *provided* that in the case of any of subclauses (1) through (4) above, such actions shall be at the sole expense of the Basis Swap Counterparty.

(vii) the designation of a Credit Default Swap Early Termination Date;

(viii) the designation of a Collateral Put Agreement Early Termination Date; or

(ix) a Collateral Default.

Upon the Trustee becoming aware of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Basis Swap or the Collateral Put Agreement, the Trustee or the Issuing and Paying Agent, as applicable, will as promptly as practicable notify the

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Noteholders of such event and the Trustee will terminate any such agreement on behalf of the Issuer at the direction of (i) in the case of the Credit Default Swap or the Basis Swap, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes and (ii) in the case of the Collateral Put Agreement, 100% of the Aggregate USD Equivalent Outstanding Amount of the Notes, in each case voting as a single class. In addition, if an Event of Default or a Termination Event (as such term is defined in the Basis Swap) for which the Basis Swap Counterparty is the sole defaulting party or Affected Party (as such term is defined in the Basis Swap) under the Basis Swap, then the Issuer will have 30 days to enter into a replacement credit default swap and basis swap (otherwise a Mandatory Redemption will occur). See "The Credit Default Swap—Replacement".

Payments on Basis Swap Early Termination.

Payment by the Issuer. Upon the occurrence of a Basis Swap Early Termination, the Issuer will be required to pay to the Basis Swap Counterparty the following amounts:

(i) any accrued but unpaid Basis Swap Payment; and

(ii) any Basis Swap Termination Payment.

Payment by the Basis Swap Counterparty. Upon the occurrence of a Basis Swap Early Termination, the Basis Swap Counterparty will be required to pay to the Issuer the following amounts:

(i) any accrued but unpaid Monthly Basis Swap Payments; and

(ii) any Basis Swap Termination Payment.

As used herein, **"Basis Swap Termination Payment"** means the replacement cost or gain for a cash-flow swap with the financial terms of the Basis Swap, calculated in accordance with the terms of the Basis Swap.

Amendment

The Basis Swap may be amended at any time without satisfying the S&P Rating Condition or the Moody's Rating Condition, or obtaining the consent of the Noteholders so long as such amendment would not have a material adverse effect on any Holders of the Notes. Otherwise, the Basis Swap may be amended only with the satisfaction of the S&P Rating Condition and the Moody's Rating Condition and the consent of the Noteholders (in a percentage as would have been required had such amendment been taken pursuant to the Indenture).

Transfer

Neither the Issuer nor the Basis Swap Counterparty may transfer its rights and obligations under the Basis Swap without the prior written consent of the other party, which consent will not be unreasonably withheld or delayed, except that, and in any case subject to the S&P Rating Condition:

(i) a party may make such a transfer of its rights and obligations pursuant to a consolidation or amalgamation with, or merger into, or transfer of all or substantially all its assets to or reorganization, incorporation, reincorporating or reconstitution into or as, another entity;

(ii) a party may make such a transfer of all or any part of its interest in certain amounts payable to it from a defaulting party under the Basis Swap; and

(iii) the Basis Swap Counterparty may, without recourse, transfer the Basis Swap (in whole and not in part only) to any of the Basis Swap Counterparty's Affiliates so long as:

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(a) (1) such Affiliate has a long-term, unsecured, unsubordinated debt obligation rating or financial program rating (or other similar ratings) by S&P and Moody's which are equal to or greater than the comparable long-term, unsecured, unsubordinated debt obligation rating or financial program rating (or other similar ratings) of the Basis Swap Counterparty immediately prior to such transfer, or (2) the obligations transferred to such transferee must be guaranteed by the Basis Swap Counterparty pursuant to a guaranty in substantially the form of the guaranty of any Basis Swap Counterparty Credit Support Provider or other agreement or instrument consented to by the Issuer or other agreement or instrument mutually agreed upon by both parties and satisfactory to S&P;

(b) the Issuer will not have to make any tax gross-up payments to such Affiliate in an amount greater than what the Issuer would have been required to pay to the Basis Swap Counterparty in the absence of such transfer;

(c) any payment paid by such Affiliate to the Issuer will not be subject to any withholding tax in excess of what the Basis Swap Counterparty would have been required to so withhold or deduct in the absence of such transfer;

(d) it does not become unlawful for either party to perform any obligation under the Basis Swap as a result of such transfer; and

(e) a Basis Swap Early Termination does not occur as a result of such transfer.

Replacement

See "The Credit Default Swap—Replacement".

Guarantee

GS Group will guarantee the obligations of the Basis Swap Counterparty under the Basis Swap.

THE COLLATERAL PUT AGREEMENT

The following description of the Collateral Put Agreement is a summary of certain provisions of the Collateral Put Agreement. The following summary does not purport to be complete, and is qualified in its entirety by reference to the detailed provisions of the Collateral Put Agreement.

The Notes do not represent an obligation of the Collateral Put Provider. Noteholders will not have any right to proceed directly against the Collateral Put Provider in respect of the Collateral Put Provider's obligations under the Collateral Put Agreement. However, the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will have the right to direct the Issuer with respect to the enforcement of any claims that it may have against the Collateral Put Provider. Notwithstanding the foregoing, if the Collateral Put Provider is the sole defaulting party or Affected Party under the Collateral Put Agreement, then the Issuer will have 30 days to enter into a replacement credit default swap and basis swap (otherwise a Mandatory Redemption will occur). See "The Credit Default Swap—Replacement".

On each Payment Date, the Issuer will pay to the Collateral Put Provider an amount, in Dollars, (each, a "**Collateral Put Provider Fee Amount**") equal to the product of:

(i) a rate of 0.06% per annum; and

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(ii) the Aggregate USD Equivalent Outstanding Amount of the Notes on the first day of the preceding Interest Accrual Period; and

(iii) the actual number of days in the preceding Interest Accrual Period *divided by* 360.

Effective Date and Scheduled Termination

The effective date of the Collateral Put Agreement will be the Closing Date.

Unless terminated prior to its scheduled termination date, the Collateral Put Agreement will terminate on March 1, 2038.

Payments and Delivery

In connection with any liquidation of the Collateral (other than Put Excluded Collateral) in connection with (i) the payment of any Currency Adjusted Notional Principal Adjustment Amount by the Issuer to the applicable Noteholders, (ii) an Optional Redemption in Whole or a Partial Optional Redemption or (iii) a Stated Maturity of any Series of Notes, if (x) the Collateral Disposal Agent is unable to obtain at least 100% of par for a Collateral Security and/or (y) the Trustee is unable to obtain at least 100% of par for Eligible Investments (in each case (i) other than Put Excluded Collateral and (ii) excluding any accrued and unpaid interest), the Collateral Disposal Agent will inform the Trustee and the Issuer (in the case of (x) above) and the Trustee will inform the Issuer (in the case of (y) above). The Trustee will then, on behalf of the Issuer, exercise the Issuer's right under the Collateral Put Agreement pursuant to which the Trustee will deliver such Collateral (other than Put Excluded Collateral) to the Collateral Put Provider in exchange for the payment by the Collateral Put Provider to the Issuer of an amount equal to 100% of par for such Collateral (*plus* accrued and unpaid interest).

The Collateral Put Agreement will not apply to the liquidation of Collateral to fund the payment of (i) Cash Settlement Amounts to the Protection Buyer or (ii) principal of the Notes in connection with a Mandatory Redemption.

Collateral Put Agreement Early Termination

Upon the occurrence of an early termination of the Collateral Put Agreement, (i) the Issuer will be required to pay to the Collateral Put Provider any accrued but unpaid Collateral Put Provider Fee Amount, (ii) the Collateral Put Provider will be required to pay the Issuer any unpaid amounts with respect to its purchase of Collateral Securities from the Issuer pursuant to the Collateral Put Agreement and (iii) no other amounts will be payable pursuant to the Collateral Put Agreement.

Collateral Put Agreement Event of Default.

The occurrence of any of the following events will constitute a "**Collateral Put Agreement Event of Default**":

(i) failure by the Issuer, the Collateral Put Provider or the Collateral Put Provider Credit Support Provider to make, when due, any payment under the Collateral Put Agreement, and the continuance of such failure for three Business Days after notice of such failure is given to such party;

(ii) (a) failure by the Collateral Put Provider or the Collateral Put Provider Credit Support Provider to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with the Collateral Put Provider Credit Support Document if such failure is continuing after any applicable grace period has elapsed; (b) the expiration or termination of the Collateral Put Provider Credit Support Document or the failing or ceasing of such Collateral Put Provider Credit Support Document to be in full

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force and effect for the purpose of the Collateral Put Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of the Collateral Put Provider under the Collateral Put Agreement without the written consent of the Issuer; and (c) the Collateral Put Provider or the Collateral Put Provider Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, the Collateral Put Provider Credit Support Document; or

(iii) the occurrence of certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization with respect to the Issuer, the Collateral Put Provider or the Collateral Put Provider Credit Support Provider.

Collateral Put Agreement Termination Events.

The occurrence of any of the following events will constitute a **"Collateral Put Agreement Termination Event"**:

(i) it becomes unlawful for either the Collateral Put Provider, the Collateral Put Provider Credit Support Provider or the Issuer to perform its obligation to make a payment or delivery or to receive a payment or delivery under the Collateral Put Agreement or to comply with any other material provision thereof or for the Collateral Put Provider or any Collateral Put Provider Credit Support Provider to perform its obligations under the Collateral Put Provider Credit Support Document and neither party is able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply;

(ii) because of (a) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the Closing Date (regardless of whether such action is taken or brought with respect to the Issuer, the Collateral Put Provider, or the Collateral Put Provider Credit Support Provider) or (b) a change in tax law, the Collateral Put Provider or the Collateral Put Provider Credit Support Provider will, or there is a substantial likelihood that it will, on the next succeeding payment date be required to (1) make a "gross-up" payment in respect of an indemnifiable tax or (2) receive a payment subject to withholding or deduction of a tax for which the other party is not required to make a "gross-up" payment;

(iii) as a result of the Collateral Put Provider or the Collateral Put Provider Credit Support Provider consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to another entity, such party is required to (a) make a "gross-up" payment to the other party or (b) receive a payment from which an amount has been deducted or withheld for or on account of any indemnifiable tax, and neither party is able to transfer such obligation to a different jurisdiction or substitute another entity in its place such that the withholding or deduction does not apply;

(iv) the Notes becoming due and payable in accordance with the Indenture at any time prior to their Stated Maturity after the occurrence of an Event of Default;

(v) an Adverse Tax Event;

(vi) the designation of a Credit Default Swap Early Termination Date;

(vii) the designation of a Basis Swap Early Termination Date;

(viii) a Collateral Default; or

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(ix) if (a) the Collateral Put Provider no longer satisfies the Replacement Counterparty Rating and (b) none of the following events has occurred:

(1) within five Business Days of such failure to satisfy the Replacement Counterparty Rating, GSI, a replacement counterparty or an entity that guarantees the obligations of GSI or such replacement counterparty, as the case may be, posts eligible collateral, pursuant to a credit support annex (the "**Credit Support Annex**"), to the Issuer in an amount that satisfies the S&P Rating Condition and the Moody's Rating Condition; or

(2) within 30 days of such Collateral Put Provider failing to satisfy the Replacement Counterparty Rating, if GSI, a replacement counterparty or an entity that guarantees the obligations of GSI or such replacement counterparty, as the case may be, does not elect to post eligible collateral to the Issuer in accordance with subclause (i) above:

(A) GSI or a replacement counterparty, as the case may be, transfers the Collateral Put Agreement, in whole, but not in part, to a counterparty that satisfies the Replacement Counterparty Rating, subject to "—Transfer" below;

(B) the obligations of GSI, a replacement counterparty or an entity that guarantees the obligations of GSI or such replacement counterparty, as the case may be, under the Collateral Put Agreement are guaranteed by a Person that satisfies the Replacement Counterparty Rating;

(C) (I) GSI, a replacement counterparty or an entity that guarantees the obligations of GSI or such replacement counterparty, as the case may be, purchases from the Issuer at a price of 100% any Collateral Security that has a market value of 95% or less, as determined by the Collateral Disposal Agent and (II) after giving effect to the purchase described in the preceding subclause, the S&P Rating Condition and the Moody's Rating Condition will be satisfied; or

(D) GSI, a replacement counterparty or an entity that guarantees the obligations of GSI or such replacement counterparty, as the case may be, takes such other steps, if any, as S&P or Moody's, as the case may be, may require in order to be able to confirm to the Issuer in writing that GSI's, a replacement counterparty's or an entity's that guarantees the obligations of GSI or such replacement counterparty, as the case may be, obligations under the Collateral Put Agreement will be treated by such Rating Agency as if such obligations were owed by a counterparty that satisfies the Replacement Counterparty Rating.

Upon the Trustee becoming aware of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Basis Swap or the Collateral Put Agreement, the Trustee or the Issuing and Paying Agent, as applicable, will as promptly as practicable notify the Noteholders of such event and the Trustee will terminate any such agreement on behalf of the Issuer at the direction of (i) in the case of the Credit Default Swap or the Basis Swap, a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes and (ii) in the case of the Collateral Put Agreement, 100% of the Aggregate USD Equivalent Outstanding Amount of the Notes, in each case voting as a single class. In addition, if an Event of Default or a Termination Event (as such term is defined in the Collateral Put Agreement) for which the Collateral Put Provider is the sole defaulting party or Affected Party (as such term is defined in the Collateral Put Agreement) under the Collateral Put Agreement, then

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the Issuer will have 30 days to enter into a replacement credit default swap and basis swap (otherwise a Mandatory Redemption will occur). See "The Credit Default Swap—Replacement". In connection with any Noteholder vote to terminate the Collateral Put Agreement, any Notes held by or on behalf of the Collateral Put Provider or any of its Affiliates will have no voting rights and will be deemed not to be Outstanding in connection with any such vote.

Amendment

The Collateral Put Agreement may be amended at any time without satisfying the S&P Rating Condition and the Moody's Rating Condition or obtaining the consent of the Noteholders so long as such amendment would not have a material adverse effect on any Holders of the Notes. Otherwise, the Collateral Put Agreement may be amended only with the satisfaction of the S&P Rating Condition and the Moody's Rating Condition and the consent of the Noteholders (in a percentage as would have been required had such amendment been taken pursuant to the Indenture).

Transfer

Neither the Issuer nor the Collateral Put Provider may transfer its rights and obligations under the Collateral Put Agreement without the prior written consent of the other party, which consent will not be unreasonably withheld or delayed, except that, and in any case subject to the S&P Rating Condition:

(i) a party may make such a transfer of its rights and obligation pursuant to a consolidation or amalgamation with, or merger into, or transfer of all or substantially all its assets to or reorganization, incorporation, reincorporating or reconstitution into or as, another entity;

(ii) a party may make such a transfer of all or any part of its interest in certain amounts payable to it from a defaulting party under the Collateral Put Agreement; and

(iii) the Collateral Put Provider may, without recourse, transfer the Collateral Put Agreement (in whole and not in part only) to any of the Collateral Put Provider's Affiliates so long as:

(a) GS Group (or another entity with a credit rating at least equal to that of GS Group) guarantees such transferred obligations of the transferee pursuant to a guaranty in substantially the form of the guaranty of GS Group specified in the Collateral Put Agreement, or such transferee must have a credit rating at least equal to that of GS Group;

(b) the Issuer will not have to make any tax gross-up payments to such Affiliate in an amount greater than what the Issuer would have been required to pay to the Collateral Put Provider in the absence of such transfer;

(c) any payment paid by such Affiliate to the Issuer will not be subject to any withholding tax in excess of what the Collateral Put Provider would have been required to so withhold or deduct in the absence of such transfer;

(d) it does not become unlawful for either party to perform any obligation under the Collateral Put Agreement or the Credit Support Annex, if any, as a result of such transfer; and

(e) a Collateral Put Agreement Early Termination does not occur as a result of such transfer.

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Replacement

See "The Credit Default Swap—Replacement".

Guarantee

GS Group will guarantee the obligations of the Collateral Put Provider under the Collateral Put Agreement.

THE COLLATERAL DISPOSAL AGREEMENT

On the Closing Date, the Issuer will enter into the Collateral Disposal Agreement (the "**Collateral Disposal Agreement**") with Goldman, Sachs & Co. (in such capacity, the "**Collateral Disposal Agent**"). The following description of the Collateral Disposal Agreement is a summary of certain provisions of the Collateral Disposal Agreement. The following summary does not purport to be complete, and is qualified in its entirety by reference to the detailed provisions of the Collateral Disposal Agreement.

The Notes do not represent an obligation of the Collateral Disposal Agent. Noteholders will not have any right to proceed directly against the Collateral Disposal Agent in respect of the Collateral Disposal Agent's obligations under the Collateral Disposal Agreement. However, the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class will have the right to direct the Issuer with respect to the enforcement of any claims that it may have against the Collateral Disposal Agent.

Liquidation

In connection with any liquidation in part of the portfolio of Collateral Securities for any of the circumstances described in subclauses (i), (ii), (v) and (viii) under "Summary—The Collateral Securities—Supplemental Collateral Securities—Liquidation of Collateral Securities", the Collateral Disposal Agent will determine the Selected Collateral Securities to be liquidated (if applicable, after taking into consideration any proceeds from the liquidation of any Eligible Investments); *provided* that any such Selected Collateral Securities will be denominated in the same currency as the Notes for which the Currency Adjusted Aggregate Outstanding Amount is reduced by the related Currency Adjusted Credit Event Adjustment Amount, Currency Adjusted Notional Principal Adjustment Amount, Partial Optional Redemption or a Stated Maturity, as applicable.

In connection with any liquidation of any Collateral Securities, the Collateral Disposal Agent will use commercially reasonable efforts to solicit bids on behalf of the Issuer. The Collateral Disposal Agent may, in its sole discretion, bid up to 100% of the principal amount of a Collateral Security (excluding any accrued interest) if the Collateral Disposal Agent is not able to procure a third-party bid of at least 100%. If such liquidation is in connection with the payment by the Issuer of a Currency Adjusted Notional Principal Adjustment Amount to the applicable Noteholders or an Optional Redemption in Whole or Partial Optional Redemption, the Issuer will have the benefit of the Collateral Put Agreement and no Collateral Security will be liquidated at less than 100% of par. See "The Collateral Put Agreement".

In connection with any liquidation of Collateral Securities as described in subclause (vii) under "Summary—The Collateral Securities—Supplemental Collateral Securities—Liquidation of Collateral Securities", the Collateral Disposal Agent will perform the acts described under "Description of the Notes—Mandatory Redemption", including, but not limited to, those acts described in the Special Termination Liquidation Procedure.

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Early Termination

The Collateral Disposal Agreement will terminate on the earlier of (i) the final Stated Maturity of any Series of Notes, (ii) the Optional Redemption Date, (iii) the Mandatory Redemption Date, (iv) a liquidation of all Collateral Securities following the occurrence of an Event of Default and (v) the termination of the Indenture in accordance with its terms.

Exercise of Put, Repurchase or Similar Right

Notwithstanding any provision to the contrary contained herein, the Collateral Disposal Agent will direct the Trustee to exercise any put right, right under repurchase agreement or other similar right that the Issuer has under any Collateral Security within the applicable time period.

Credit Support Amount Due and Payable

If a Credit Support Annex has been entered into by the Collateral Put Provider and the Issuer and any credit support amount becomes due and payable pursuant to the terms thereof, the Collateral Disposal Agent will (i) calculate the market value of each Collateral Security and (ii) notify the Collateral Put Provider of any such Collateral Security that has a market value of 95% or less.

Amendment

The Collateral Disposal Agreement may be amended only (i) if the S&P Rating Condition and the Moody's Rating Condition have been satisfied and (ii) with the consent of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class and the Protection Buyer. However, the Collateral Disposal Agreement may be amended at any time without the consent of the Noteholders so long as such amendment will not (i) reduce in any manner the amount of, or delay the timing of, payments which are required to be made to the Issuer or (ii) materially adversely affect the Noteholders (as evidenced by a failure of a Majority of the Noteholders to object to such amendment within 10 Business Days of the Issuer's delivering a notice of such amendment to all Noteholders).

THE PORTFOLIO SELECTION AGENT

The information appearing in this section (other than the information contained under the heading "General") has been prepared by the Portfolio Selection Agent and has not been independently verified by the Issuers, the Initial Purchaser or any other person or entity. None of the Issuers or the Initial Purchaser assumes any responsibility for the accuracy, completeness or applicability of such information. Accordingly, the Portfolio Selection Agent assumes sole responsibility for the accuracy, completeness or applicability of such information. The Portfolio Selection Agent does not assume responsibility for any other information in this Offering Circular.

General

The Portfolio Selection Agent will, pursuant to the terms of the Portfolio Selection Agreement, (a) select the Initial Reference Portfolio and (b) have the right to review the calculations of the Credit Default Swap Calculation Agent and the Trustee on any Determination Date. The Portfolio Selection Agent will not be responsible for producing or providing reports, notices or other information relating to the Notes or the Reference Portfolio. The Portfolio Selection Agent will not provide any other services to the Issuer or act as the "collateral manager" for the Collateral. The Portfolio Selection Agent will not have any fiduciary duties or other duties to the Issuer or to the holders of the Notes and will not have any ability to direct the Trustee to dispose of any items of Collateral.

The Portfolio Selection Agent is not permitted under the terms of the Credit Default Swap to remove or replace any Reference Obligations at any time.

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The Portfolio Selection Agent, its Affiliates or client accounts for which the Portfolio Selection Agent or its Affiliates act as investment advisor may at times own Notes. Any Notes owned by the Portfolio Selection Agent or its Affiliates are subject to disposition by such parties in their discretion. At any given time the Portfolio Selection Agent and its Affiliates will be entitled to vote with respect to any Notes held by them and by such accounts with respect to all other matters. See "Risk Factors—Certain Conflicts of Interest Relating to the Portfolio Selection Agent and its Affiliates".

ACA Management, L.L.C.

ACA Management, L.L.C. ("**ACA Management**"), a Delaware limited liability company formed on May 4, 2001 to provide asset management services to affiliated and non-affiliated investors, will be the portfolio selection agent under the Portfolio Selection Agreement (in such capacity, together with any successor, the "**Portfolio Selection Agent**").

ACA Management is registered as an "investment adviser" under the U.S. Investment Advisers Act of 1940, as amended (the "**Advisers Act**").

ACA Management is an indirect wholly-owned subsidiary of ACA Capital Holdings, Inc. ("**ACA Capital Holdings**"). ACA Capital Holdings is a publicly traded company listed on the New York Stock Exchange under the ticker "ACA." Shareholders owning more than 5% of ACA Capital Holdings' outstanding common stock include Bear Stearns Merchant Banking, GCC Investments, Inc., S.F. Holding Corp., Third Avenue Value Fund and Perry Corp. In addition to ACA Management, ACA Capital Holdings' significant subsidiaries include ACA Risk Solutions, L.L.C. ("**ACA Risk Solutions**"), ACA Management's direct parent corporation, ACA Service, L.L.C. ("**ACA Service**"), the holding company for the ACA Capital Holding's U.S. structured finance businesses and direct parent corporation of ACA Risk Solutions, and ACA Financial Guaranty Corporation ("**ACA Guaranty**"), a financial guaranty insurance corporation and the direct parent corporation of ACA Service. Both ACA Risk Solutions and ACA Service are Delaware limited liability corporations and ACA Guaranty is a Maryland stock insurance company. ACA Capital Holdings and its subsidiaries, including ACA Management, are referred to herein as "**ACA Capital**". The offices of ACA Capital and all of its U.S. domiciled subsidiaries are located at 140 Broadway, 47th Floor, New York, New York 10005.

ACA Service will assist the Portfolio Selection Agent in selecting the Initial Reference Portfolio.

ACA Guaranty has "A" financial strength and financial enhancement ratings from S&P. The S&P rating reflects S&P's current assessment of the creditworthiness of ACA Guaranty and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the S&P's rating may be obtained only from S&P. The S&P rating is not a recommendation to buy, sell or hold any securities, and such rating may be subject to revision or withdrawal at any time by S&P.

THE PORTFOLIO SELECTION AGREEMENT

The following summary describes certain provisions of the Portfolio Selection Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Portfolio Selection Agreement.

The Portfolio Selection Agent will, pursuant to the Portfolio Selection Agreement, select the Initial Reference Portfolio and have the right to review the calculations of the Credit Default Swap Calculation Agent and the Trustee on any Determination Date.

As compensation for the performance of its obligations as Portfolio Selection Agent under the Portfolio Selection Agreement, the Portfolio Selection Agent will receive a fee (the "**Portfolio Selection Fee**"), to the extent of the funds available for such purpose in accordance with the Priority of Payments. The Portfolio Selection Fee will accrue daily from the Closing Date and will be an amount equal to the sum of (x) with respect to each Payment Date, the sum of the quotients determined for each Class of

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Notes on each day of the related Interest Accrual Period of (i) the product of (a) the average daily Aggregate USD Equivalent Outstanding Amount of such Class during the preceding Interest Accrual Period, (b) the Applicable Class Portfolio Selection Fee Rate with respect to such Class of Notes and (c) the actual number of days in the preceding Interest Accrual Period divided by (ii) 360, payable in arrears on each Payment Date and (y) on the Payment Date occurring in April 2008 and occurring in each successive April to and including the Payment Date immediately following the end of the Non-Call Period, an amount equal to the excess (if any) of (1) $1,000,000 over (2) the aggregate of all Portfolio Selection Fees payable to the Portfolio Selection Agent from and excluding the Payment Date occurring in April of the immediately preceding year (or in the case of the Payment Date occurring in April 2008, from the Closing Date) and the Portfolio Selection Fee that is payable by the Issuer to the Portfolio Selection Agent pursuant to clause (x) on such date.

To the extent not paid on any Payment Date when due, any accrued Portfolio Selection Fee will be deferred and will be payable on the next subsequent Payment Date on which funds are available for the payment thereof in accordance with the Priority of Payments. Any unpaid Portfolio Selection Fee that is deferred due to the operation of the Priority of Payments will not accrue interest.

The Portfolio Selection Agent will be responsible for its own expenses and costs incurred in the course of performing its obligations under the Portfolio Selection Agreement.

The Portfolio Selection Agent will not be liable to the Issuers, the Trustee, the Initial Purchaser, the Noteholders, the Protection Buyer, the Collateral Put Provider, the Basis Swap Counterparty, the Collateral Disposal Agent or any of their respective Affiliates, partners, shareholders, officers, directors, employees, agents, accountants and attorneys for any losses, damages, claims, liabilities, costs or expenses (including attorney's fees) incurred as a result of the actions taken or recommended by or on behalf of the Portfolio Selection Agent under the Portfolio Selection Agreement, the Credit Default Swap or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties and obligations thereunder.

The Portfolio Selection Agent and any of its Affiliates may engage in other businesses and may furnish investment management and advisory services to related entities whose investment policies may differ from or be similar to those followed by the Portfolio Selection Agent on behalf of the Issuer, as required by the Portfolio Selection Agreement. The Portfolio Selection Agent and its Affiliates will be free, in their sole discretion, to make recommendations to others, or effect transactions on behalf of themselves or others which may be the same as or different from those effected with respect to the Reference Portfolio. In addition, the Portfolio Selection Agent and its Affiliates may, from time to time, cause, direct or recommend that their clients buy or sell securities of the same or different kind or class of the same issuer as securities that are part of the Reference Portfolio and that the Portfolio Selection Agent directs to be included in or removed from the Reference Portfolio. See "Risk Factors—Certain Conflicts of Interest Relating to the Portfolio Selection Agent and its Affiliates."

Neither the Portfolio Selection Agent nor any of its Affiliates are under any obligation to maintain any investment in the Notes.

ACCOUNTS

Interest Collection Account and Principal Collection Account

Interest Proceeds and interest payments received on the Collateral Securities (which interest payments shall be paid to the Basis Swap Counterparty pursuant to the Basis Swap) shall be deposited into a segregated trust account (within which related subaccounts may be created to deposit such amounts in different Approved Currencies) held in the name of the Issuer for the benefit of the Holders of the Notes (the "**Interest Collection Account**"). Amounts deposited in the Interest Collection Account will be available, together with reinvestment earnings thereon, for application to the payment of the amounts set forth under "Description of the Notes—Priority of Payments".

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Principal Proceeds shall be deposited into a segregated trust account (within which related subaccounts may be created to deposit such amounts in different Approved Currencies) designated as the "**Principal Collection Account**". Amounts deposited in the Principal Collection Account will be invested in Eligible Investments until such Principal Proceeds are (i) reinvested in Collateral Securities (or pending such reinvestment, reinvested in Eligible Investments) or (ii) applied in accordance with the Priority of Payments. See "Description of the Notes—Priority of Payments".

Payment Account

On or prior to each Payment Date and on or prior to any other Business Day on which any other payment is required to be made by the Issuer, the Trustee will deposit into a separate account (within which related subaccounts may be created to deposit such amounts in different Approved Currencies) held in the name of the Issuer for the benefit of the Holders of the Notes and designated as the "**Payment Account**" as set forth in the Indenture, the applicable amount of funds from the Interest Collection Account and/or the Principal Collection Account, as applicable, for payment of amounts described in accordance with the priorities described under "Description of the Notes—Priority of Payments".

Closing Date Expense Account

The Trustee will establish and maintain a segregated trust account (the "**Closing Date Expense Account**") for the payment of Closing Date expenses. On the Closing Date, the Trustee will deposit into the Closing Date Expense Account part of the Upfront Payment, and such amount will be used to pay expenses associated with the Closing Date. Any amount deposited in the Closing Date Expense Account and not required for payment of such expenses shall be transferred by the Trustee at the direction of the Protection Buyer.

Collateral Put Provider Account

If a Credit Support Annex has been entered into by the Collateral Put Provider and the Issuer, Posted Collateral pledged pursuant to the terms thereof shall be deposited into a segregated trust account or trust accounts so designated and established pursuant to the Indenture and held there pursuant to the Collateral Put Agreement (such account, the "**Collateral Put Provider Account**").

CDS Issuer Account

On the Closing Date, the Trustee will establish and maintain a segregated trust account (the "**CDS Issuer Account**") with respect to the Credit Default Swap, into which all required amounts received by the Trustee from the Protection Buyer shall be deposited by the Trustee (as directed by the Issuer). The Trustee will deposit each Fixed Payment received from the Protection Buyer pursuant to clauses (I)(i) through (iii) of the definition of "Fixed Payment" into a subaccount of the CDS Issuer Account (such subaccount, the "**CDS Issuer Fixed Payment Subaccount**"). On each succeeding Payment Date, amounts previously on deposit in the CDS Issuer Fixed Payment Subaccount will be released by the Trustee and designated as Interest Proceeds. If a Replacement Counterparty enters into a replacement credit default swap and replacement basis swap pursuant to the Replacement Counterparty Procedures, the Trustee will establish a subaccount of the CDS Issuer Account in which amounts to be paid by such Replacement Counterparty shall be deposited.

THE ISSUERS

General

The Issuer was incorporated on March 1, 2007 in the Cayman Islands under the Companies Law (2004 Revision) of the Cayman Islands with the registration number 183063. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church

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Street, George Town, Grand Cayman, Cayman Islands. The Issuer was incorporated for the specific purpose of carrying out the transactions described in this Offering Circular, which primarily consists of issuing the Notes, acquiring the Collateral, entering into the Credit Default Swap, the Basis Swap and the Collateral Put Agreement and engaging in certain related transactions, as set forth in Clause 3 of its Memorandum and Articles of Association. Prior to the date hereof, the Issuer has not engaged in any activities other than in connection with the acquisition of certain of the Collateral Securities to be held on the Closing Date.

The Co-Issuer was incorporated on February 27, 2007 in the State of Delaware under the General Corporation Law of the State of Delaware with the registration number 4308559. The registered office of the Co-Issuer is at 850 Library Avenue, Suite 204, Newark, Delaware 19711. The Co-Issuer was organized for the specific purpose of carrying out the transactions described in this Offering Circular, which primarily consists of co-issuing the Co-Issued Notes, as set forth in Article Third of its Certificate of Incorporation. The Co-Issuer has no prior operating history.

The Co-Issued Notes are obligations only of the Issuers and not of the Trustee, the Issuing and Paying Agent, the Initial Purchaser, the Portfolio Selection Agent, the Administrator, the Share Trustee or any directors or officers of the Issuers or any of their respective Affiliates. The Issuer Notes are obligations only of the Issuer and not of the Co-Issuer, the Trustee, the Issuing and Paying Agent, the Initial Purchaser, the Portfolio Selection Agent, the Administrator, the Share Trustee or any directors or officers of the Issuers or any of their respective Affiliates.

At the Closing Date, the authorized share capital of the Issuer will consist of 300 ordinary shares, $1.00 par value per share (the **"Issuer Ordinary Shares"**), all of which shares will be issued prior to the Closing Date. The authorized common stock of the Co-Issuer consists of 1,000 shares of common stock, $.01 par value (the **"Co-Issuer Common Stock"**), all of which shares will be issued prior to the Closing Date. All of the outstanding Issuer Ordinary Shares will be held by the Share Trustee under the terms of a declaration of trust, which provides that the shares and other amounts held on trust thereunder shall be divided into three equal parts and be held for the benefit of three mutually exclusive groups of corporations and companies whose objects are exclusively charitable and which provides that the Share Trustee shall not, as shareholder, give directions in relation to the management of the business of the Issuer without the prior written consent of the Trustee. The Co-Issuer Common Stock will be held by the Issuer. For so long as any of the Notes are Outstanding, no beneficial interest in the Issuer Ordinary Shares or the Co-Issuer Common Stock shall be registered to a U.S. Person.

Capitalization of the Issuer

The initial proposed capitalization (including the USD Equivalent of the Notes denominated in Approved Currencies other than Dollars) of the Issuer as of the Closing Date after giving effect to the issuance of the Notes and the Issuer Ordinary Shares (before deducting expenses of the offering) is as set forth below.

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	Amount
Class SS Notes	$ 0
Class A-1 Notes	$ 50,000,000
Class A-2 Notes	$ 142,000,000
Class B Notes	$ 0
Class C Notes	$ 0
Class D Notes	$ 0
Class FL Notes	$ 0
Total Debt	$ 192,000,000
Issuer Ordinary Shares	$ 300
Total Equity	$ 300
Total Capitalization	$ 192,000,300

Capitalization of the Co-Issuer

The Co-Issuer will be capitalized only to the extent of common equity of $10, will have no assets other than its equity capital and will have no debt other than as Co-Issuer of the Co-Issued Notes.

The Co-Issuer has agreed to co-issue the Co-Issued Notes as an accommodation to the Issuer, and the Co-Issuer is receiving no remuneration for so acting. Because the Co-Issuer has no assets, and is not permitted to have any assets, Noteholders will not be able to exercise their rights with respect to the Notes against any assets of the Co-Issuer. Noteholders must rely on the Issuer Assets held by the Issuer and pledged to the Trustee for the benefit of the Noteholders (and certain service providers) for payment on their respective Notes, in accordance with the Priority of Payments.

Business

The Issuers will not undertake any business other than the issuance of the Co-Issued Notes and, in the case of the Issuer, the issuance of the Issuer Notes and the Issuer Ordinary Shares, the acquisition of the Collateral and entering into the Credit Default Swap, the Portfolio Selection Agreement, the Basis Swap and the Collateral Put Agreement and, in each case, other related transactions. The Issuer will not have any subsidiaries other than the Co-Issuer. The Co-Issuer will not have any subsidiaries.

In addition, pursuant to the terms of the Collateral Administration Agreement, the Issuer will retain the Collateral Administrator to compile certain reports with respect to the Issuer Assets. The compensation paid by the Issuer for such services will be in addition to the fees paid to LaSalle Bank National Association in its capacity as Trustee, and will be treated as an expense of the Issuer and will be subject to the Priority of Payments.

The Administrator will act as the administrator of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement, dated April 25, 2007, between the Administrator and the Issuer relating to the administration of the Issuer in the Cayman Islands, and as amended from time to time in accordance with the terms thereof (the "**Administration Agreement**"), the Administrator will perform various management functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until the termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The directors of the Issuer listed below are also officers and/or employees of the Administrator.

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The Administrator will be subject to the overview of the Issuer's Board of Directors. The Administration Agreement may be terminated by either the Issuer or the Administrator upon three months' written notice.

The Administrator's principal office is: P.O. Box 1093 GT, Queensgate House, South Church Street, Grand Cayman, Cayman Islands.

Directors

The Directors of the Issuer are Wendy Ebanks and Carrie Bunton.

The Director of the Co-Issuer is Donald Puglisi.

INCOME TAX CONSIDERATIONS

General

Purchasers of Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price of each Note.

Potential purchasers who are in any doubt about their tax position on purchase, ownership, transfer or exercise of any Note should consult their own tax advisers. **In particular, no representation is made as to the manner in which payments under the Notes would be characterized by any relevant taxing authority.** Potential investors should be aware that the relevant fiscal rules or their interpretation may change, possibly with retrospective effect, and that this summary is not exhaustive. This summary does not constitute legal or tax advice or a guarantee to any potential investor of the tax consequences of investing in the Notes.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

The following is a general summary of Cayman Islands taxation in relation to the Notes.

Under existing Cayman Islands laws:

(i) payments of principal and interest in respect of, or distributions on, the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(ii) no stamp duty is payable in respect of the issue of the Notes. The Notes themselves will be stampable if they are executed in or brought into the Cayman Islands.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

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"THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of the Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with:

ABACUS 2007-AC1, Ltd. ("the Company")

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of THIRTY years from the 13th day of March 2007.

GOVERNOR IN CABINET"

The Cayman Islands does not have an income tax treaty arrangement with the United States or any other country. The Cayman Islands has entered into an information exchange agreement with the United States.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN TAX IMPLICATIONS OF AN INVESTMENT IN THE NOTES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

United States Federal Income Taxation

General.

The following summary describes the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes to investors that acquire the Notes at original issuance for an amount equal to the "Issue Price" of the relevant Class of Notes (for purposes of this section, with respect to each such Class of Notes, the first price at which a substantial amount of Notes of such Class are sold to the public (excluding bond houses, brokers, underwriters, placement agents, and wholesalers) is referred to herein as the **"Issue Price"**). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular investor's decision to purchase the Notes. In addition, this summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the United States federal income tax laws. In general, the summary assumes that a holder holds a Note as a capital asset and not as part of a hedge, straddle, or conversion transaction, within the meaning of Section 1258 of the Code.

The advice below was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding United States federal income tax penalties that may be imposed. The

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advice is written to support the promotion or marketing of the transaction. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The foregoing disclaimer is provided to satisfy obligations under Circular 230 governing standards of practice before the Internal Revenue Service.

This summary is based on the U.S. tax laws, regulations (final, temporary and proposed), administrative rulings and practice and judicial decisions in effect or available on the date of this Offering Circular. All of the foregoing are subject to change or differing interpretation at any time, which change or interpretation may apply retroactively and could affect the continued validity of this summary.

This summary is included herein for general information only, and there can be no assurance that the U.S. Internal Revenue Service (the "**IRS**") will take a similar view of the U.S. federal income tax consequences of an investment in the Notes as described herein. ACCORDINGLY, PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, AND THE POSSIBLE APPLICATION OF STATE, LOCAL, FOREIGN OR OTHER TAX LAWS. IN PARTICULAR, NO REPRESENTATION IS MADE AS TO THE MANNER IN WHICH PAYMENTS UNDER THE NOTES WOULD BE CHARACTERIZED BY ANY RELEVANT TAXING AUTHORITY.

As used in this section, the term "U.S. Holder" includes a beneficial owner of a Note that is, for U.S. federal income tax purposes, a citizen or individual resident of the United States of America, an entity treated for United States federal income tax purposes as a corporation or a partnership created or organized in or under the laws of the United States of America or any state thereof or the District of Columbia, an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source, or a trust if, in general, a court within the United States of America is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, and certain eligible trusts that have elected to be treated as United States persons. This summary assumes that a U.S. Holder has a U.S. Dollar functional currency and the Issuer has a non-U.S. Dollar functional currency. This summary also does not address the rules applicable to certain types of investors that are subject to special U.S. federal income tax rules, including but not limited to, dealers in securities or currencies, traders in securities, financial institutions, U.S. expatriates, tax-exempt entities, charitable remainder trusts and their beneficiaries, insurance companies, persons or their qualified business units ("**QBUs**") whose functional currency is not the U.S. Dollar, persons that own (directly or indirectly) equity interests in holders of Notes and subsequent purchasers of the Notes.

For U.S. federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Co-Issued Notes.

Tax Treatment of the Issuer

The Code and the Treasury regulations promulgated thereunder provide a specific exemption from net income-based U.S. federal income tax to non-U.S. corporations that restrict their activities in the United States to trading in stocks and securities (and any other activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees or through a resident broker, commission agent, custodian or other agent. This particular exemption does not apply to non-U.S. corporations that are engaged in activities in the United States other than trading in stocks and securities (and any other activity closely related thereto) for their own account or that are dealers in stocks and securities.

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The Issuer intends to rely on the above exemption and does not intend to operate so as to be subject to U.S. federal income taxes on its net income. In this regard, on the Closing Date, the Issuer will receive an opinion from McKee Nelson LLP, special U.S. tax counsel to the Issuer and the Co-Issuer ("**Special U.S. Tax Counsel**") to the effect that, although no activity closely comparable to that contemplated by the Issuer has been the subject of any Treasury regulation, administrative ruling or judicial decision, under current law and assuming compliance with the Issuer's relevant governing documents, the Indenture, the Issuing and Paying Agency Agreement, the Portfolio Selection Agreement and other related documents (the "**Documents**"), the Issuer's permitted activities will not cause it to be engaged in a trade or business in the United States, and consequently, the Issuer's profits will not be subject to U.S. federal income tax on a net income basis. The opinion of Special U.S. Tax Counsel will be based on the Code, the Treasury regulations (final, temporary and proposed) thereunder, the existing authorities, and Special U.S. Tax Counsel's interpretation thereof and judgment concerning their application to the Issuer's permitted activities, and on certain factual assumptions and representations as to the Issuer's permitted activities. The Issuer intends to conduct its affairs in accordance with the Documents and such assumptions and representations, and the remainder of this summary assumes such result. In addition, in complying with the Documents and such assumptions and representations, the Issuer is entitled to rely upon the advice and/or opinions of their selected counsel, and the opinion of Special U.S. Tax Counsel will assume that any such advice and/or opinions are correct and complete. However, the opinion of Special U.S. Tax Counsel and any such other advice or opinions are not binding on the IRS or the courts, and no ruling will be sought from the IRS regarding this, or any other, aspect of the U.S. federal income tax treatment of the Issuer. Accordingly, in the absence of authority on point, the U.S. federal income tax treatment of the Issuer is not entirely free from doubt, and there can be no assurance that positions contrary to those stated in the opinion of Special U.S. Tax Counsel or any such other advice or opinions may not be asserted successfully by the IRS.

If, notwithstanding the Issuer's intention and the aforementioned opinion of Special U.S. Tax Counsel or any such other advice or opinions, it were nonetheless determined that the Issuer were engaged in a United States trade or business and the Issuer had taxable income that was effectively connected with such U.S. trade or business, the Issuer would be subject under the Code to the regular U.S. corporate income tax on such effectively connected taxable income (and possibly to the 30% branch profits tax as well). The imposition of such taxes would materially affect the Issuer's financial ability to make payments with respect to the Notes and could materially affect the yield of the Notes. In addition, the imposition of such taxes could constitute an Adverse Tax Event.

Legislation recently proposed in the U.S. Senate would, for tax years beginning at least two years after its enactment, tax a corporation as a U.S. corporation if the equity of that corporation is regularly traded on an established securities market and the management and control of the corporation occurs primarily within the United States. It is unknown whether this proposal will be enacted in its current form and, whether if enacted, the Issuer would be subject to its provisions. However, upon enactment of this or similar legislation, the Issuer will be permitted, with an opinion of counsel, to take such action as it deems advisable to prevent the Issuer from being subject to such legislation. These actions could include removing some classes of Notes from listing on a stock exchange.

Generally, foreign currency gains are sourced to the residence of the recipient. Thus, foreign currency gains of a non-U.S. corporation are generally treated as foreign source income. However, if for this purpose a non-United States corporation has a principal place of business in the United States (the "**U.S. business**"), even if the corporation has another principal place of business outside the United States, generally any foreign currency gain properly reflected as income of the U.S. business is treated as U.S. source income. Any U.S. source foreign currency gains that are not derived from the sale of property are subject to U.S. withholding tax. A non-U.S. corporation could be considered to have a U.S. business for this purpose even if it does not have any income effectively connected to a United States trade or business for purposes of being subject to U.S. taxation on its net income. The Issuer intends to take the position that none of its foreign currency gains will be subject to U.S. withholding tax. However, the application of these rules is unclear and the activities of the Issuer could cause it to have foreign

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currency gains subject to U.S. withholding tax. In addition, the imposition of such taxes could constitute an Adverse Tax Event.

United States Withholding Taxes. Although, based on the foregoing, the Issuer is not expected to be subject to U.S. federal income tax on a net income basis, income derived by the Issuer may be subject to withholding taxes imposed by the United States or other countries. Generally, U.S. source interest income received by a foreign corporation not engaged in a trade or business within the United States is subject to U.S. withholding tax at the rate of 30% of the amount thereof. The Code provides an exemption (the "**portfolio interest exemption**") from such withholding tax for interest paid with respect to certain debt obligations issued after July 18, 1984, unless the interest constitutes a certain type of contingent interest or is paid to a 10% shareholder of the payor, to a controlled foreign corporation related to the payor, or to a bank with respect to a loan entered into in the ordinary course of its business. In this regard, the Issuer is permitted to acquire a particular Collateral Security only if the payments thereon are exempt from U.S. withholding taxes at the time of purchase or commitment to purchase or the obligor is required to make "gross-up" payments that offset fully any such tax on any such payments. The Issuer does not anticipate that it will derive material amounts of any other items of income that would be subject to U.S. withholding taxes. Accordingly, assuming compliance with the foregoing restrictions and subject to the foregoing qualifications, interest income derived by the Issuer will be free of or fully "grossed up" for any material amount of U.S. withholding tax. As for the Credit Default Swap, payments under the Credit Default Swap do not constitute interest for purposes of U.S. withholding taxes. The Issuer intends to treat the Credit Default Swap as either a "notional principal contract" or an option for U.S. federal income tax purposes. Generally, payments made pursuant to a notional principal contract or an option are not subject to U.S. withholding. However, the IRS may seek to characterize the Credit Default Swap in a manner that would make payment under it subject to U.S. withholding. Furthermore, there can be no assurance that income derived by the Issuer will not generally become subject to U.S. withholding tax as a result of a change in U.S. tax law or administrative practice, procedure, or interpretations thereof. Any change in U.S. tax law or administrative practice, procedure, or interpretations thereof resulting in the income of the Issuer becoming subject to U.S. withholding taxes could constitute an Adverse Tax Event. It is also anticipated that the Issuer will acquire Collateral Securities that consist of obligations of non-U.S. issuers. In this regard, the Issuer may only acquire a particular Collateral Security if either the payments thereon are not subject to foreign withholding tax or the obligor of the Collateral Security is required to make "gross-up" payments.

Prospective investors should be aware that, under certain Treasury Regulations, the IRS may disregard the participation of an intermediary in a "conduit" financing arrangement and the conclusions reached in the immediately preceding paragraph assume that such Treasury Regulations do not apply. Those Treasury Regulations could require withholding of U.S. federal income tax from payments to the Issuer. In order to prevent "conduit" classification, each Non-U.S. Holder and beneficial owner of an Issuer Note that is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate USD Equivalent Outstanding Amount of any such Class of Issuer Notes, as applicable, will make or be deemed to make a representation to the effect that it is not an Affected Bank. "**Affected Bank**" means a "bank" for purposes of Section 881 of the Code or an entity affiliated with such a bank that neither (x) meets the definition of a U.S. Holder nor (y) is entitled to the benefits of an income tax treaty with the United States under which withholding taxes on interest payments made by obligors resident in the United States to such bank are reduced to 0%.

Tax Treatment of U.S. Holders of the Co-Issued Notes

Treatment of the Co-Issued Notes. Although there is no authority directly on point, and as a result, the opinion cannot be free from doubt, in the opinion of Special U.S. Tax Counsel, the Co-Issued Notes will be treated as debt for U.S. federal income tax purposes when issued. Although the Issuer Notes are denominated as debt, based on the capital structure of the Issuer and the characteristics of the Issuer Notes, it is unlikely that all the Issuer Notes, when issued, would be treated as debt of the Issuer for U.S. federal income tax purposes. However, it is possible that the IRS could assert that the Notes

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should be treated as the issuance of credit-linked debt by the Protection Buyer. The Holder of such Notes would have accrued income under the contingent debt rules which could affect the timing of such income. Any gain and certain losses from the sale of such Notes would result in ordinary income or loss because such Notes would be treated as contingent debt. This summary assumes that the treatment of the Co-Issued Notes as debt and the Issuer Notes as equity of the Issuer for U.S. federal income tax purposes is correct. The Issuer Notes are discussed below under "—Tax Treatment of U.S. Holders of Issuer Notes". Further, the Issuer will treat, and each holder and beneficial owner of Co-Issued Notes (by acquiring such Notes or an interest in such Notes) will agree to treat, the Co-Issued Notes as debt for U.S. federal income tax purposes except (x) as otherwise required by applicable law, (y) to the extent a Holder of such Co-Issued Notes makes a protective QEF election (as described below under "—Tax Treatment of U.S. Holders of Issuer Notes—Investment in a Passive Foreign Investment Company") or (z) to the extent that the Holder files certain United States tax information returns required of only certain equity owners with respect to various reporting requirements under the Code (as described below under "—Transfer Reporting Requirements" and "—Tax Return Disclosure and Investor List Requirements"). The determination of whether a Co-Issued Note will be treated as debt for United States federal income tax purposes is based on the applicable law and facts and circumstances existing at the time such Note is issued. Material changes from those existing on the Closing Date (e.g. a material decline in the value of the Issuer's assets and/or, a material change in the likelihood a Note will be repaid in full) may adversely affect the characterization of any Co-Issued Notes issued after (but not before) such changes. However, the opinion of Special U.S. Tax Counsel is based on current law and certain representations and assumptions (including the assumption that any subsequent opinion with respect to the tax characterization of the Co-Issued Notes is correct) and is not binding on the IRS or the courts, and no ruling will be sought from the IRS regarding this, or any other, aspect of the U.S. federal income tax treatment of the Notes. Accordingly, there can be no assurance that the IRS will not contend, and that a court will not ultimately hold, that one or more Classes of the Co-Issued Notes are properly treated as equity in the Issuer for U.S. federal income tax purposes. Recharacterization of a Class of Notes, particularly the Class C Notes because of their place in the capital structure, may be more likely if a single investor or a group of investors that holds all of the Issuer Notes also holds all of the more senior Class of Notes in the same proportion as the Issuer Notes are held. If any Class of the Co-Issued Notes were treated as equity in, rather than debt of, the Issuer for U.S. federal income tax purposes, U.S. Holders of such Class would be subject to taxation under rules substantially the same as those set forth below under "—Tax Treatment of U.S. Holders of Issuer Notes" which could cause adverse tax consequences for such U.S. Holders upon the sale, exchange, redemption, retirement or other taxable disposition of, or the receipt of certain types of distributions on, such Notes.

In this regard, any U.S. Holder of a Co-Issued Note that treats such Note as equity in the Issuer for U.S. federal income tax purposes, inconsistently with the Issuer's treatment of such Notes for such purposes, is required to disclose such treatment on its U.S. federal income tax return. Additionally, if a U.S. Holder of a Co-Issued Note treats such Note as debt of the Issuer for U.S. federal income tax purposes, consistently with the Issuer's treatment of such Note for such purposes, it is unclear whether such U.S. Holder will be able to make a protective QEF election (described below in "—Tax Treatment of U.S. Holders of Issuer Notes—Investment in a Passive Foreign Investment Company") in anticipation of any possible recharacterization of such Note as equity in the Issuer.

Interest or Discount on the Co-Issued Notes. The Co-Issued Notes may be subject to the rules applicable to contingent payment debt instruments because the timing of their principal repayment is contingent on the principal payments of the Reference Obligations rather than obligations held by the Issuer. If these Notes are not treated as contingent payment debt obligations and subject to the discussion below, U.S. Holders of these Notes generally should include in gross income payments of stated interest received, in accordance with their usual method of accounting for U.S. federal income tax purposes, as ordinary interest income from sources outside the United States.

If the Issue Price of the Co-Issued Notes is less than such Note's respective "stated redemption price at maturity" by more than a *de minimis* amount, U.S. Holders will be considered to have purchased

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such Notes with original issue discount ("**OID**"). The respective stated redemption price at maturity of the Co-Issued Notes will be the sum of all payments to be received on such Notes, other than payments of stated interest which is unconditionally payable in money at least annually during the entire term of a debt instrument ("**Qualified Stated Interest**"). Interest can be considered unconditionally payable if nonpayment is sufficiently remote under the terms of the obligations or reasonable legal remedies exist to compel timely payment. Prospective U.S. Holders of the Co-Issued Notes should note that if any interest is not unconditionally payable in money on each Payment Date (and, therefore, not Qualified Stated Interest), all of the stated interest payments may be included in the stated redemption prices at maturity, and required to be accrued by U.S. Holders pursuant to the rules described below.

A U.S. Holder of a Co-Issued Note issued with OID will be required to accrue and include in gross income the sum of the daily portions of total OID for each day during the taxable year on which the U.S. Holder held the Co-Issued Note, generally under a constant yield method, regardless of such U.S. Holder's usual method of accounting for U.S. federal income tax purposes. In addition, if a Co-Issued Note is not treated as issued with OID a U.S. Holder should include any *de minimis* OID in gross income proportionately as stated principal payments are received. Such *de minimis* OID should be treated as gain from the sale or exchange of property and may be eligible as capital gain if the Co-Issued Note is a capital asset in the hands of the U.S. Holder.

Because the Co-Issued Notes provide for a floating rate of interest, the amount of OID to be accrued over the term of each Co-Issued Note will be based initially on the assumption that the floating rate in effect for the first Interest Accrual Period will remain constant throughout the term. To the extent such rate varies with respect to any Interest Accrual Period, such variation will be reflected in an increase or decrease of the amount of OID accrued for such period. Under the foregoing method, if stated interest on a class of Co-Issued Notes is required to be accrued under the OID rules, U.S. Holders may be required to include in gross income increasingly greater amounts of OID and may be required to include OID in advance of the receipt of cash attributable to such income.

Unless the contingent payment obligation rules apply each Class of Co-Issued Notes issued with more than de minimis OID may be subject to rules requiring the use of an assumption as to the prepayments, as discussed below under "—OID on the Co-Issued Notes". A prepayment assumption applies to debt instruments if payment under such debt instruments may be accelerated by reason of prepayments of other obligations securing such debt instruments. Application of a prepayment assumption is uncertain because prepayments on the Co-Issued Notes are generally dependent on prepayments on the Reference Portfolio rather than the Collateral Securities.

OID on the Co-Issued Notes. The Treasury regulations governing the calculation of OID on instruments having contingent interest payments specifically do not apply for purposes of calculating OID on debt instruments required to use a prepayment assumption. The Issuer intends to base its computations on a prepayment assumption for the Reference Portfolio, although, as noted above, it is uncertain whether such assumption is required or permitted. In addition, no regulatory guidance currently exists under the Code for prepayment assumptions. Accordingly, there can be no assurance that this methodology represents the correct manner of calculating OID. If the IRS were to successfully contend that another method of accruing OID with respect to the Co-Issued Notes is appropriate, the U.S. federal income tax consequences to a U.S. Holder of the Co-Issued Notes could be adverse or more favorable. If the Co-Issued Notes are deemed to be contingent debt obligations, then U.S. Treasury regulations may apply to the Co-Issued Notes that would apply the non-contingent bond method to non-U.S. Dollar denominated debt instruments that provide for certain contingent payments.

A subsequent purchaser of a Co-Issued Note issued with OID who purchases that Note at a cost less than the remaining stated redemption price at maturity will also be required to include in gross income the sum of the daily portions of OID on the Co-Issued Note. In computing the daily portions of OID for a subsequent purchaser of a Co-Issued Note (as well as an initial purchaser that purchases at a price higher than the adjusted Issue Price, but less than the stated redemption price at maturity),

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however, the daily portion is reduced by the amount that would be the daily portion for the day (computed in accordance with the rules set forth above) *multiplied by* a fraction, the numerator of which is the amount, if any, by which the price paid by the U.S. Holder for the Co-Issued Note exceeds the difference between (a) the sum of the Issue Price *plus* the aggregate amount of OID that would have been able to be included in the gross income of an original U.S. Holder (who purchased the Co-Issued Note at the Issue Price) and (b) any prior payments included in the stated redemption price at maturity, and the denominator of which is the sum of the daily portions for the Co-Issued Note for all days beginning on the date after the purchase date and ending on the maturity date computed under the prepayment assumption.

A U.S. Holder who pays a premium for a Co-Issued Note (i.e., purchases the Co-Issued Note for an amount greater the stated redemption price at maturity) may elect to amortize such premium under a constant yield method over the life of the Co-Issued Note. The amortizable amount for any Interest Accrual Period would offset the amount of interest that must be included in the gross income of a U.S. Holder in such Interest Accrual Period. The U.S. Holder's basis in the Co-Issued Note would be reduced by the amount of amortization. It is not clear whether the prepayment assumption would be taken into account in determining the life of the for the timing of the amortization of such premium for this purpose.

If the U.S. Holder acquires a Co-Issued Note at a discount to the adjusted Issue Price of the Co-Issued Note that is greater than a specified *de minimis* amount, such discount is treated as market discount. Absent an election to accrue into income currently, the amount of accrued market discount on a Co-Issued Note is included in income as ordinary income when principal payments are received or the U.S. Holder disposes of the Co-Issued Note. Market discount is accrued ratably unless the U.S. Holder elects to use a constant yield method for accrual. For this purpose, the term "rateably" may be based on the term of the Co-Issued Note or a U.S. Holder may be permitted to accrue market discount in proportion to interest on Co-Issued Notes issued without OID or in proportion to OID on Co-Issued Notes issued with OID.

As a result of the complexity of the OID rules, each U.S. Holder of any Co-Issued Notes should consult its own tax advisor regarding the impact of the OID rules on its investment in such Notes.

Election to Treat All Interest as OID. The OID rules permit a U.S. Holder of a Co-Issued Note to elect to accrue all interest, discount (including *de minimis* market or original issue discount) and premium in income as interest, based on a constant yield method. If an election to treat all interest as OID were to be made with respect to a Co-Issued Note with market discount, the U.S. Holder of such Note making such election would be deemed to have made an election to include in income currently market discount with respect to all other debt instruments having market discount that such U.S. Holder acquires during the year of the election or thereafter. Similarly, a U.S. Holder that makes this election for a Note that is acquired at a premium will be deemed to have made an election to amortize bond premium with respect to all debt instruments having amortizable bond premium that such U.S. Holder owns or acquires. The election to accrue interest, discount and premium on a constant yield method with respect to a Co-Issued Note cannot be revoked without the consent of the IRS.

Disposition of the Co-Issued Notes. In general, a U.S. Holder of a Co-Issued Note initially will have a basis in such Note equal to the cost of such Note to such U.S. Holder, (i) increased by any amount includable in income by such U.S. Holder as OID with respect to such Note, and (ii) reduced by any amortized premium and by payments on the Co-Issued Note, other than payments of stated interest on the Co-Issued Note. Upon a sale, exchange, redemption, retirement or other taxable disposition of a Co-Issued Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (other than amounts attributable to accrued interest on a Co-Issued Note, which will be taxable as described above) and the U.S. Holder's tax basis in such Note. Except to the extent of accrued interest or market discount not previously included in income, or unless the rules applicable to contingent payment debt obligations apply, gain or loss from the disposition of a Co-Issued Note generally will be long-term capital gain or loss if the U.S. Holder held the Co-Issued Note for more than one year at the time of disposition, provided that

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the Co-Issued Note is held as a "capital asset" (generally, property held for investment) within the meaning of Section 1221 of the Code, except to the extent of accrued market discount not previously included in income.

However, if the IRS or a court determines that any Class of the Co-Issued Notes constitute contingent payment debt obligations subject to the non-contingent bond method, then a U.S. Holder generally will have a basis in such Co-Issued Note equal to the cost of such Co-Issued Note to such U.S. Holder (i) increased by OID accrued with respect to the Co-Issued Notes (determined without regard to adjustments made to reflect the differences between actual and projected payments), and (ii) reduced by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Co-Issued Notes. Any gain recognized on the sale, exchange, redemption, retirement or other taxable disposition of the Co-Issued Note will be treated as ordinary interest income. Further, in such a case, any loss will be treated as ordinary loss to the extent of prior interest inclusions with respect to the Co-Issued Notes, reduced by the total net negative adjustments that the U.S. Holder has taken into account as ordinary loss with respect to the Co-Issued Notes; any remaining loss will be a capital loss.

In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Any gain recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of a Co-Issued Note generally will be treated as from sources within the United States assuming that such Co-Issued Note is not held by a U.S. Holder through a non-U.S. branch.

Alternative Characterization of the Co-Issued Notes. Notwithstanding special U.S. tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Co-Issued Notes. It is possible, for example, that the IRS may contend that a Class of Co-Issued Notes should be treated as equity interests (or as part debt, part equity) in the Issuer. Such a recharacterization might result in material adverse U.S. federal income tax consequences to U.S. Holders. If U.S. Holders of a Class of the Co-Issued Notes were treated as owning equity interests in the Issuer, the U.S. federal income tax consequences to U.S. Holders of such recharacterized Co-Issued Notes would be as described under "—Tax Treatment of U.S. Holders of Issuer Notes", "—Transfer Reporting Requirements" and "—Tax Return Disclosure and Investor List Requirements". In order to avoid the application of the PFIC rules, each U.S. Holder of a Note should consider making a qualified electing fund election provided in Section 1295 of the Code on a "protective" basis (although such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). See "Tax Treatment of U.S. Holders of Issuer Notes—Investment in a Passive Foreign Investment Company". Further, U.S. Holders of any Class of Co-Issued Notes that may be recharacterized as equity in the Issuer should consult with their own tax advisors with respect to whether, if they owned equity in the Issuer, they would be required to file information returns in accordance with sections 6038, 6038B, and 6046 of the Code (and, if so, whether they should file such returns on a protective basis).

Payments of Interest and OID in Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen. A U.S. Holder with a U.S. Dollar functional currency that uses the cash method of accounting for U.S. federal income tax purposes and receives a payment of interest on a Co-Issued Note (other than OID) denominated in Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, will be required to include in gross income the U.S. Dollar value of the payment in Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the date such payment is received (based on the U.S. Dollar spot rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the date such payment is received) regardless of whether the payment is in fact converted to U.S. Dollars at that time. No exchange gain or loss will be recognized with respect to the receipt of such payment.

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A U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes, or that otherwise is required to accrue interest prior to receipt, will be required to include in gross income the U.S. Dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to a Co-Issued Note during an accrual period. The U.S. Dollar value of such accrued interest income will be determined by translating such interest income at the average U.S. Dollar exchange rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, in effect during the accrual period or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest income using the U.S. Dollar spot rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the U.S. Dollar spot rate on the date of receipt. The above election must be applied consistently to all debt instruments from year to year and may not be changed without the consent of the IRS. Prior to making such an election, a U.S. Holder should consult its own tax advisor.

A U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes may recognize exchange gain or loss with respect to accrued interest income on the date the payment of such income is received. The amount of any such exchange gain or loss recognized will equal the difference, if any, between the U.S. Dollar value of the payment in the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, received (based on the U.S. Dollar spot rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the date such payment is received) with respect to such accrued interest and the U.S. Dollar value of the income inclusion with respect to such accrued interest (computed as determined above). Any such exchange gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income, and will generally be treated as U.S. source income or loss, respectively.

The Issuer intends to take the position that OID for any accrual period on a Co-Issued Note will be determined in Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. As described above, however, the treatment of Co-Issued Notes issued with OID is subject to uncertainty, and it is possible that different rules would apply. Applying this method, all payments on a Co-Issued Note (other than payments of Qualified Stated Interest) will generally be viewed first as payments of previously-accrued OID (to the extent thereof), with payments attributed first to the earliest-accrued OID, and then as payments of principal. Upon receipt of a payment attributable to OID (whether in connection with a payment of interest or on the sale, exchange, redemption, retirement or other taxable disposition of a Co-Issued Note), a U.S. Holder may recognize exchange gain or loss as described above with respect to accrued interest income. Any such exchange gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income, and will generally be treated as U.S. source income or loss, respectively.

Receipt of Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen. Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, received as payment on a Co-Issued Note or on a sale, exchange, redemption, retirement or other taxable disposition of a Co-Issued Note will have a tax basis equal to its U.S. Dollar value at the time such payment is received or at the time of such sale, exchange, redemption, retirement or other taxable disposition, as the case may be. Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, that are purchased will generally have a tax basis equal to the U.S. Dollar value of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the date of purchase. Any exchange gain or loss recognized on a sale, exchange, redemption, retirement or other taxable disposition of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen (including their use to purchase Co-Issued Notes or upon exchange

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for U.S. Dollars), as applicable, will be ordinary income or loss and will generally be treated as U.S. source income or loss, respectively.

Foreign Currency Gain or Loss on Purchase or Disposition. A U.S. Holder that purchases the Co-Issued Notes with Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, generally will recognize exchange gain or loss in an amount equal to the difference (if any) between the U.S. Dollar fair market value of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, used to purchase the Co-Issued Notes determined at the spot rate of exchange in effect on the date of purchase of the Co-Issued Notes and such U.S. Holder's tax basis in the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable. If a U.S. Holder receives Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on a sale, exchange, redemption, retirement or other taxable disposition of a Co-Issued Note, the amount realized will be based on the U.S. Dollar value of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the date the payment is received or the date of disposition of the Co-Issued Note. Any gain or loss realized upon the sale, exchange, redemption, retirement or other taxable disposition of a Co-Issued Note that is attributable to fluctuations in currency exchange rates will be exchange gain or loss. Any gain or any loss attributable to fluctuations in exchange rates will equal the difference between the U.S. Dollar value of the principal amount of the Co-Issued Note, determined on the date such payment is received or such Co-Issued Note is disposed based on the U.S. Dollar spot rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on such date and the U.S. Dollar value of principal amount of such Co-Issued Note, determined on the date the U.S. Holder acquired such Co-Issued Note based on the U.S. Dollar spot rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on such date. Such exchange gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of such Co-Issued Note. Any exchange gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income, and will generally be treated as U.S. source income or loss, respectively.

As a result of the uncertainty regarding the U.S. federal income tax consequences to U.S. Holders with respect to the Co-Issued Notes and the complexity of the foregoing rules, each U.S. Holder of a Co-Issued Note is urged to consult its own tax advisor regarding the U.S. federal income tax consequences to the Holder of the purchase, ownership and disposition of such Co-Issued Note.

Tax Treatment of U.S. Holders of Issuer Notes

Investment in a Passive Foreign Investment Company. The Issuer will constitute a passive foreign investment company ("**PFIC**"). By treating the Issuer Notes, when issued, as equity in the Issuer, U.S. Holders of Issuer Notes (other than certain U.S. Holders that are subject to the rules pertaining to a controlled foreign corporation with respect to the Issuer, described below) will be considered U.S. shareholders in a PFIC. In general, a U.S. Holder of a PFIC may desire to make an election to treat the Issuer as a qualified electing fund ("**QEF**") with respect to such U.S. Holder. Generally, a QEF election should be made with the filing of a U.S. Holder's federal income tax return for the first taxable year for which it held the Issuer Notes. If a timely QEF election is made for the Issuer, an electing U.S. Holder will be required in each taxable year to include in gross income (i) as ordinary income, such holder's *pro rata* share of the Issuer's ordinary earnings and (ii) as long-term capital gain, such holder's *pro rata* share of the Issuer's net capital gain, whether or not distributed and translated into U.S. Dollars using the average U.S. Dollar exchange rate for the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, for the Issuer's taxable year. In determining the Issuer's ordinary earnings, the OID interest that accrues on the Co-Issued Notes may be expensed by the Issuer (whether or not the OID is *de minimis*). For purposes of calculating the income of the Issuer, the deduction for interest paid to certain related parties may be deferred and ultimately denied. Related parties generally include a person owning more than 50% of the aggregate value of all Classes of Notes treated as equity of the Issuer (with special rules for partnerships) and any real estate investment trust that treats the Issuer as a

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taxable REIT subsidiary. A U.S. Holder will not be eligible for the dividends received deduction with respect to such income or gain. In addition, any losses of the Issuer in a taxable year will not be available to such U.S. Holder and may not be carried back or forward in computing the Issuer's ordinary earnings and net capital gain in other taxable years. An amount included in an electing U.S. Holder's gross income should be treated as income from sources outside the United States for U.S. foreign tax credit limitation purposes. However, if U.S. Holders collectively own (directly or constructively) 50% or more (measured by vote or value) of the Issuer Notes, such amount will be treated as income from sources within the United States for such purposes to the extent that such amount is attributable to income of the Issuer from sources within the United States. If applicable to a U.S. Holder of Issuer Notes, the rules pertaining to a controlled foreign corporation, discussed below, generally override those pertaining to a PFIC with respect to which a QEF election is in effect.

In certain cases in which a QEF does not distribute all of its earnings in a taxable year, U.S. shareholders may also be permitted to elect to defer payment of some or all of the taxes on the QEF's income subject to an interest charge on the deferred amount. As a result, the Issuer may have in any given year substantial amounts of earnings for U.S. federal income tax purposes that are not distributed on the Issuer Notes. Thus, absent an election to defer payment of taxes, U.S. Holders that make a QEF election with respect to the Issuer may owe tax on significant "phantom" income.

Moreover, there is no direct authority dealing with the tax treatment of financial instruments like the Credit Default Swap. The Issuer intends to treat the Credit Default Swap as a "notional principal contract" for U.S. federal income tax purposes, in which case the Issuer's earnings for any period would be determined by taking into account the Credit Default Swap payments to the Issuer attributable to that period. In a statement in its preamble to recently proposed guidance regarding the tax accounting for contingent nonperiodic payments under notional principal contracts, the U.S. Department of Treasury indicated that certain persons, such as the Issuer, would be required under current law to take such payments into account for income tax purposes over the life of the contract under a reasonable amortization method. Although the application of this rule to the Credit Default Swap is not entirely clear, the income of the Issuer may need to be determined by taking into account an adjustment for any such contingent payments which the Issuer may be required to make under the Credit Default Swap. It is possible, however, that a Credit Default Swap could be characterized for tax purposes as an option written by the Issuer. Because payments received for writing an option are generally taken into account only upon the termination of the transaction, characterizing the Credit Default Swap as an option may concentrate the Issuer's positive earnings, as determined for U.S. federal income tax purposes, into one or more taxable periods, which may result in the recognition of income in excess of any cash distributed on the Issuer Notes by the Issuer. U.S. Holders of the Issuer Notes should consult their tax advisors regarding the U.S. federal income tax consequences of holding any of the Issuer Notes.

The Issuer will provide, upon request, all information and documentation that a U.S. Holder making a QEF election is required to obtain for U.S. federal income tax purposes.

A U.S. Holder of Issuer Notes (other than certain U.S. Holders that are subject to the rules pertaining to a controlled foreign corporation with respect to the Issuer, described below) that does not make a timely QEF election will be required to report any gain on disposition of any Issuer Notes as if it were an excess distribution, rather than capital gain, and to compute the tax liability on such gain and any excess distribution received with respect to the Issuer Notes as if such items had been earned ratably over each day in the U.S. Holder's holding period (or a certain portion thereof) for the Issuer Notes. The U.S. Holder will be subject to tax on such items at the highest ordinary income tax rate for each taxable year, other than the current year of the U.S. Holder, in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. Holder. Further, such U.S. Holder will also be liable for an additional tax equal to interest on the tax liability attributable to income allocated to prior years as if such liability had been due with respect to each such prior year. For purposes of these rules, gifts, exchanges pursuant to corporate reorganizations and use of the Issuer Notes as security for a loan may be treated as a taxable disposition of the Issuer Notes. Very generally, an "excess distribution" is the amount by which distributions during a taxable year with respect to an Issuer Note exceed 125% of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter,

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the U.S. Holder's holding period for the Issuer Note). In addition, a stepped-up basis in the Issuer Note upon the death of an individual U.S. Holder may not be available.

In many cases, application of the tax on gain on disposition and receipt of excess distributions will be substantially more onerous than the treatment applicable if a timely QEF election is made. ACCORDINGLY, U.S. HOLDERS OF ISSUER NOTES SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO THE ISSUER NOTES AND THE CONSEQUENCES OF NOT MAKING SUCH AN ELECTION.

Furthermore, in order to avoid the application of the PFIC rules, each U.S. Holder of a Note should consider making a qualified electing fund election on a "protective" basis (although such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular protective election). Further, U.S. Holders of any Class of Notes that may be recharacterized as equity in the Issuer should consult with their own tax advisors with respect to whether, if they owned equity in the Issuer, they would be required to file information returns in accordance with sections 6038, 6038B, and 6046 of the Code (and, if so, whether they should file such returns on a protective basis).

Investment in a Controlled Foreign Corporation. The Issuer may be classified as a controlled foreign corporation ("**CFC**"). In general, a foreign corporation will be classified as a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, is owned (actually or constructively) by "U.S. Shareholders". A U.S. Shareholder, for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power (generally the right to vote for directors of the corporation) of all classes of shares of a corporation. Although Issuer Notes do not vote for directors of the Issuer, it is possible that the IRS would assert that the Issuer Notes are de facto voting securities and that U.S. Holders possessing (actually or constructively) 10% or more of the total stated amount of outstanding Issuer Notes are U.S. Shareholders. If this argument were successful and Issuer Notes representing more than 50% of the voting power or value of the Issuer's equity are owned (actually or constructively) by such U.S. Shareholders, the Issuer would be treated as a CFC.

If the Issuer were treated as a CFC, a U.S. Shareholder of the Issuer would be treated, subject to certain exceptions, as receiving a deemed dividend at the end of the taxable year of the Issuer in an amount equal to that person's *pro rata* share of the subpart F income (as defined below) of the Issuer. Such deemed dividend would be treated as income from sources within the United States for U.S. foreign tax credit limitation purposes to the extent that it is attributable to income of the Issuer from sources within the United States. Among other items, and subject to certain exceptions, subpart F income includes dividends, interest, annuities, gains from the sale or exchange of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is likely that, if the Issuer were to constitute a CFC, all or most of its income would be subpart F income and, in general, if the Issuer's subpart F income exceeds 70% of its gross income, the entire amount of the Issuer's income will be subpart F income. For purposes of calculating the income of the Issuer, the deduction for interest paid to certain related parties may be deferred and ultimately denied. Related parties generally include a person owning more than 50 percent of the aggregate value of all Classes of Notes treated as equity of the Issuer (with special rules for partnerships) and any real estate investment trust that treats the Issuer as a taxable REIT subsidiary. In addition, special rules apply to determine the appropriate exchange rate to be used to translate such amounts treated as a dividend and the amount of any foreign currency gain or loss with respect to distributions of previously taxed amounts attributable to movements in exchange rates between the times of deemed and actual distributions. U.S. Holders should consult their tax advisors regarding these special rules.

If the Issuer were treated as a CFC, a U.S. Shareholder of the Issuer which made a QEF election with respect to the Issuer would be taxable on the subpart F income of the Issuer under rules described in the preceding paragraph and not under the QEF rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the U.S. Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be reserved under the QEF rules.

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Furthermore, if the Issuer were treated as a CFC and a U.S. Holder were treated as a U.S. Shareholder therein, the Issuer would not be treated as a PFIC or a QEF with respect to such U.S. Holder for the period during which the Issuer remained a CFC and such U.S. Holder remained a U.S. Shareholder therein (the "qualified portion" of the U.S. Holder's holding period for the Issuer Notes). If the qualified portion of such U.S. Holder's holding period for the Issuer Notes subsequently ceased (either because the Issuer ceased to be a CFC or the U.S. Holder ceased to be a U.S. Shareholder), then solely for purposes of the PFIC rules, such U.S. Holder's holding period for the Issuer Notes would be treated as beginning on the first day following the end of such qualified portion, unless the U.S. Holder had owned any of such Class of Issuer Notes for any period of time prior to such qualified portion and had not made a QEF election with respect to the Issuer. In that case, the Issuer would again be treated as a PFIC which is not a QEF with respect to such U.S. Holder and the beginning of such U.S. Holder's holding period for the Issuer Notes would continue to be the date upon which such U.S. Holder acquired such Issuer Notes, unless the U.S. Holder made an election to recognize gain with respect to such Issuer Notes and a QEF election with respect to the Issuer.

Credit Default Swap, Basis Swap and Collateral Put Agreement. The IRS may argue that the Issuer does not own the Collateral Securities because the Credit Default Swap, the Basis Swap and the Collateral Put Agreement transfer the benefits and burdens of the ownership of the Collateral Securities to Goldman Sachs. Under such characterization, the Issuer would hold an obligation of Goldman Sachs to pay to the Issuer principal equal to the par value of the Collateral Securities and interest equal to the excess, if any, of interest payments on the Notes and the interest received on the Collateral Securities. Thus, under the PFIC or CFC rules discussed above, the timing of the income that that a U.S. Holder reports may differ from the timing of such income if the Credit Default Swap, the Basis Swap and the Collateral Put Agreement are respected. Alternatively, the IRS could argue that the Credit Default Swap, the Basis Swap and the Collateral Put Agreement create a contingent payment debt obligation subject to the non-contingent bond method. Under such characterization, the Issuer generally will have a basis in the contingent debt obligation equal to the cost of such obligation to the Issuer (i) increased by OID accrued with respect to such obligation (determined without regard to adjustments made to reflect the differences between actual and projected payments), and (ii) reduced by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on such obligation. Any gain recognized on the sale, exchange, redemption, retirement or other taxable disposition of the obligation will be treated as ordinary interest income. Further, in such a case, any loss will be treated as ordinary loss to the extent of prior interest inclusions with respect to the contingent debt obligation, reduced by the total net negative adjustments that the Issuer has taken into account as ordinary loss with respect to such obligation; any remaining loss will be a capital loss. Such characterization would affect the timing and character of the income that that a U.S. Holder reports. U.S. Holders of the Issuer Notes should consult their own tax advisors regarding the tax issues associated with the Credit Default Swap, the Basis Swap and the Collateral Put Agreement.

Distributions on the Issuer Notes. The treatment of actual distributions of cash on each Class of Issuer Notes, in very general terms, will vary depending on whether a U.S. Holder has made a timely QEF election as described above. See "—Investment in a Passive Foreign Investment Company". If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent will not be taxable to U.S. Holders. Distributions in excess of amounts previously taxed pursuant to a QEF election (or pursuant to the CFC rules, if applicable) will be taxable to U.S. Holders as ordinary income upon receipt to the extent of any remaining amounts of untaxed current and accumulated earnings and profits of the Issuer. Distributions in excess of any current and accumulated earnings and profits will be treated first as a non-taxable reduction to the U.S. Holder's tax basis for such Issuer Notes to the extent thereof and then as capital gain.

In the event that a U.S. Holder does not make a timely QEF election, then except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the Issuer Notes may constitute excess distributions, taxable as previously described. See "—Investment in a Passive Foreign Investment Company". In that event,

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except to the extent that distributions may be attributable to amounts previously taxed to the U.S. Holder pursuant to the CFC rules or are treated as excess distributions, distributions on the Issuer Notes generally would be treated as dividends to the extent paid out of the Issuer's current or accumulated earnings and profits not allocated to any excess distributions, then as a non-taxable reduction to the U.S. Holder's tax basis for the Issuer Notes to the extent thereof and then as capital gain. Dividends received from a foreign corporation generally will be treated as income from sources outside the United States for U.S. foreign tax credit limitation purposes. However, if U.S. Holders collectively own (directly or constructively) 50% or more (measured by vote or value) of the Class of Issuer Notes, a percentage of the dividend income equal to the proportion of the Issuer's earnings and profits from sources within the United States generally will be treated as income from sources within the United States for such purposes.

Distributions paid in Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, will be translated into a U.S. Dollar amount based on the spot rate of exchange in effect on the date of receipt whether or not the payment is converted into U.S. Dollars at that time. A U.S. Holder will recognize exchange gain or loss with respect to distributions of previously taxed amounts attributable to movements in exchange rates between the times of the deemed distributions and actual distributions, and any such exchange gain or loss will be treated as ordinary income from the same source as the associated income inclusion. The tax basis of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, received by a U.S. Holder generally will equal the U.S. Dollar value of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, determined at the spot rate of exchange in effect on the date the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, are received, regardless of whether the payment is converted into U.S. Dollars at that time. Any gain or loss recognized on a subsequent conversion of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, for U.S. Dollars, in an amount equal to the difference between the U.S. Dollars received and the U.S. Holder's tax basis in the Euro, Sterling, Canadian Dollars, Australian Dollars. New Zealand Dollars or Yen, as applicable, generally will be U.S. source ordinary income or loss.

Purchase or Disposition of the Issuer Notes. A U.S. Holder that purchases the Issuer Notes with Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, generally will recognize U.S. source ordinary income or loss in an amount equal to the difference (if any) between the U.S. Dollar fair market value of the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, used to purchase the Issuer Notes determined at the spot rate of exchange in effect on the date of purchase of the Issuer Notes and such U.S. Holder's tax basis in the Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable. In general, a U.S. Holder of an Issuer Note will recognize a gain or loss upon the sale, exchange, redemption, retirement or other taxable disposition of an Issuer Note equal to the difference between the amount realized and such U.S. Holder's adjusted tax basis in the Issuer Note. Except as discussed below (or if the applicable Class of Issuer Notes were characterized as a contingent debt instrument), such gain or loss will be a capital gain or loss and will be a long-term capital gain or loss if the U.S. Holder held such Class of Issuer Notes for more than one year at the time of the disposition. In certain circumstances, U.S. Holders who are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited. Any gain or loss recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of an Issuer Note (other than, in the case of a U.S. Holder treated as a "U.S. Shareholder", any such gain characterized as a dividend, as discussed below) generally will be treated as from sources within the United States.

Initially, a U.S. Holder's tax basis for an Issuer Note will equal the cost of such Issuer Note to such U.S. Holder. The cost of an Issuer Note to a U.S. Holder will be the U.S. Dollar value of the Euro, Sterling, Canadian Dollar, Australian Dollar, New Zealand Dollars or Yen purchase price, as applicable, based on the spot rate of exchange in effect on the date of purchase. Such basis will be increased by amounts taxable to such U.S. Holder by virtue of a QEF election, or by virtue of the CFC rules, as applicable, and decreased by actual distributions from the Issuer that are deemed to consist of such

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previously taxed amounts or are treated as a non-taxable reduction to the U.S. Holder's tax basis for such Issuer Note (as described above). If a U.S. Holder receives Euro, Sterling, Canadian Dollars, Australian Dollars, New Zealand Dollars or Yen, as applicable, on the sale or other taxable disposition of an Issuer Note, the amount realized in U.S. Dollars generally will be based on the spot rate of exchange in effect on the date of the sale or other taxable disposition.

If a U.S. Holder does not make a timely QEF election as described above, any gain realized on the sale, exchange, redemption, retirement or other taxable disposition of an Issuer Note (or any gain deemed to accrue prior to the time a non-timely QEF election is made) will be taxed as ordinary income and subject to an additional tax reflecting a deemed interest charge under the special tax rules described above. See "—Investment in a Passive Foreign Investment Company".

Subject to a special exception applicable to individuals, if the Issuer were treated as a CFC and a U.S. Holder were treated as a "U.S. Shareholder" therein, then any gain realized by such U.S. Holder upon the disposition of Issuer Notes, other than gain constituting an excess distribution under the PFIC rules, if applicable, would be treated as ordinary income to the extent of the U.S. Holder's share of the current or accumulated earnings and profits of the Issuer. In this regard, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules, as applicable.

Transfer Reporting Requirements

A U.S. Holder of Issuer Notes that owns (actually or constructively) at least 10% by vote or value of the Issuer (and each officer or director of the Issuer that is a U.S. citizen or resident) may be required to file an information return on IRS Form 5471. A U.S. Holder of Issuer Notes generally is required to provide additional information regarding the Issuer annually on IRS Form 5471 if it owns (actually or constructively) more than 50% by vote or value of the Issuer. U.S. Holders should consult their own tax advisors regarding whether they are required to file IRS Form 5471.

A U.S. Person that purchases the Issuer Notes for cash will be required to file a Form 926 or similar form with the IRS if (i) such person owned, directly or by attribution, immediately after the transfer at least 10% by voting power or value of the Issuer or (ii) if the transfer, when aggregated with all transfers made by such person (or any related person) within the preceding 12 month period, exceeds U.S.$100,000. In the event a U.S. Holder fails to file any such required form, the U.S. Holder could be required to pay a penalty equal to 10% of the gross amount paid for such Issuer Notes subject to a maximum penalty of U.S.$100,000, except in cases involving intentional disregard). U.S. Persons should consult their tax advisors with respect to this or any other reporting requirement that may apply with respect to their acquisition of the Issuer Notes.

Tax Return Disclosure and Investor List Requirements

Any person that files a U.S. federal income tax return or U.S. federal information return and participates in a reportable transaction in a taxable year is required to disclose certain information on IRS Form 8886 (or its successor form) attached to such person's U.S. tax return for such taxable year (and also file a copy of such form with the IRS's Office of Tax Shelter Analysis) and to retain certain documents related to the transaction. In addition, under these regulations, under certain circumstances, certain organizers and sellers of a reportable transaction will be required to maintain lists of participants in the transaction containing identifying information, retain certain documents related to the transaction, and furnish those lists and documents to the IRS upon request. There are significant penalties for failure to comply with these disclosure and list keeping requirements. The definition of reportable transaction is highly technical. However, in very general terms, a transaction may be a "reportable transaction" if, among other things, it is offered under conditions of confidentiality or it results in the claiming of a loss for U.S. federal income tax purposes in excess of certain threshold amounts.

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In this regard, in order to prevent the transactions described herein from being treated as offered under conditions of confidentiality, the Issuer and the Holders and beneficial owners of the Notes (and each of their respective employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transactions described herein and all materials of any kind (including opinions or other tax analyses) that are provided to them relating to such U.S. tax treatment and U.S. tax structure. However, any such disclosure of the tax treatment, tax structure and other tax-related materials shall not be made for the purpose of offering to sell the Notes offered hereby or soliciting an offer to purchase any such Notes. For purposes of this paragraph, the terms "tax treatment" and "tax structure" have the meaning given to such terms under Treasury regulation section 1.6011-4(c) and applicable state or local tax law. In general, the tax treatment of a transaction is the purported or claimed U.S. tax treatment of the transaction under applicable U.S. federal, state or local tax law, and the tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. tax treatment of the transaction under applicable U.S. federal, state or local tax laws.

In addition, under these Treasury regulations, if the Issuer participates in a reportable transaction, a U.S. Holder of the Issuer Notes that is a "reporting shareholder" of the Issuer will be treated as participating in the transaction and will be subject to the rules described above. Although most of the Issuer's activities generally are unlikely to give rise to "reportable transactions", it is nonetheless possible that the Issuer will participate in certain types of transactions that could be treated as reportable transactions. A U.S. Holder of Issuer Notes will be treated as a reporting shareholder of the Issuer if (i) such U.S. Holder owns 10% or more of the Issuer Notes and makes a QEF election with respect to the Issuer or (ii) the Issuer is treated as a CFC and such U.S. Holder is a U.S. Shareholder (as defined above) of the Issuer.

Prospective investors in the Notes should consult their own tax advisors concerning any possible disclosure obligations with respect to their ownership or disposition of the Notes in light of their particular circumstances.

Tax Treatment of Non-U.S. Holders of Notes

In general, payments on the Notes to a Holder that is not, for U.S. federal income tax purposes, a U.S. Holder (a "**non-U.S. Holder**") and gain realized on the sale, exchange, redemption, retirement or other taxable disposition of the Notes by a non-U.S. Holder, will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such non-U.S. Holder in the United States, or (ii) in the case of gain, such non-U.S. Holder is a non-resident alien individual who holds the Notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale, exchange, redemption, retirement or other taxable disposition and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires "information reporting", and may require "backup withholding" with respect to certain payments made on the Notes and the payment of the proceeds from the disposition of the Notes. Backup withholding generally will not apply to corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. Backup withholding will apply to a U.S. Holder if the U.S. Holder fails to provide certain identifying information (such as the U.S. Holder's taxpayer identification number) or otherwise comply with the applicable requirements of the backup withholding rules. The application for exemption from backup withholding for a U.S. Holder is available by providing a properly completed IRS Form W-9.

A non-U.S. Holder of the Notes generally will not be subject to these information reporting requirements or backup withholding with respect to payments of interest or distributions on the Notes if (1) it certifies to the Trustee or the Issuing and Paying Agent, as applicable, its status as a non-U.S. Holder under penalties of perjury on the appropriate IRS Form W-8, and (2) in the case of a non-U.S.

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Holder that is a "nonwithholding foreign partnership", "foreign simple trust" or "foreign grantor trust" as defined in the applicable Treasury regulations, the beneficial owners of such non-U.S. Holder also certify to the Trustee or the Issuing and Paying Agent, as applicable, their status as non-U.S. Holders under penalties of perjury on the appropriate IRS Form W-8.

The payments of the proceeds from the disposition of a Note by a non-U.S. Holder to or through the U.S. office of a broker generally will not be subject to information reporting and backup withholding if the non-U.S. Holder certifies its status as a non-U.S. Holder (and, if applicable, its beneficial owners also certify their status as non-U.S. Holders) under penalties of perjury on the appropriate IRS Form W-8, satisfies certain documentary evidence requirements for establishing that it is a non-U.S. Holder or otherwise establishes an exemption. The payment of the proceeds from the disposition of a Note by a non-U.S. Holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker has certain specific types of relationships to the United States, in which case the treatment of such payment for such purposes will be as described in the following sentence. The payment of proceeds from the disposition of a Note by a non-U.S. Holder to or through a non-U.S. office of a U.S. broker or to or through a non-U.S. broker with certain specific types of relationships to the United States generally will not be subject to backup withholding but will be subject to information reporting unless the non-U.S. Holder certifies its status as a non-U.S. Holder (and, if applicable, its beneficial owners also certify their status as non-U.S. Holders) under penalties of perjury or the broker has certain documentary evidence in its files as to the non-U.S. Holder's foreign status and the broker has no actual knowledge to the contrary.

Backup withholding is not an additional tax and may be refunded (or credited against the U.S. Holder's or non-U.S. Holder's U.S. federal income tax liability, if any); *provided* that certain required information is furnished to the IRS. The information reporting requirements may apply regardless of whether withholding is required.

ERISA CONSIDERATIONS

The advice below was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding United States federal income tax penalties that may be imposed. The advice is written to support the promotion or marketing of the transaction. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The foregoing disclaimer is provided to satisfy obligations under Circular 230 governing standards of practice before the Internal Revenue Service.

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "employee benefit plans" (as defined in and subject to Section 3(3) of ERISA), including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans and on those persons who are fiduciaries with respect to such plans. Investments by the plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that a plan's investments be made in accordance with the documents governing the plan. The prudence of a particular investment must be determined by the responsible fiduciary of a plan by taking into account the plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of plans and arrangements subject to ERISA (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (the "**Plans**"))

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and certain persons (referred to as "**parties in interest**" or "**disqualified persons**") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

The U.S. Department of Labor has promulgated regulations, 29 C.F.R. Section 2510.3-101 (the "**Plan Asset Regulations**"), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA and Section 4975 of the Code, including the fiduciary responsibility provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Asset Regulations, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or, as further discussed below, that equity participation in the entity by "benefit plan investors" is not "significant."

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired with the assets of a Plan with respect to which the Issuer, the Initial Purchaser, the Trustee, the Issuing and Paying Agent, any seller of Collateral Securities to the Issuer, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider or any of their respective Affiliates, is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption ("**PTCE**") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers), ("**Investor-Based Exemptions**"). There is also a statutory exemption that may be available under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code to a party in interest that is a service provider to a Plan investing in the Securities for adequate consideration, provided such service provider is not (i) the fiduciary with respect to the Plan's assets used to acquire the Securities or an affiliate of such fiduciary or (ii) an affiliate of the employer sponsoring the Plan (the "**Service Provider Exemption**"). Adequate consideration means fair market value as determined in good faith by the Plan fiduciary pursuant to regulations to be promulgated by the U.S. Department of Labor. There can be no assurance that any of these Investor-Based Exemptions or the Service Provider Exemption or any other administrative or statutory exemption will be available with respect to any particular transaction involving the Notes.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state, local or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Any insurance company proposing to invest assets of its general account in the Notes should consider the extent to which such investment would be subject to the requirements of Title I of ERISA and Section 4975 of the Code in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA on August 20, 1996. In particular, such an insurance company should consider (i) the exemptive relief granted by the U.S. Department of Labor for transactions involving insurance company general accounts in PTCE 95-60 and (ii) if such exemptive relief is not available, whether its purchase of the Notes will be permissible under the final regulations issued under Section 401(c) of ERISA. The final regulations provide guidance on which assets held by an insurance company constitute "plan assets" for purposes of the fiduciary responsibility provisions of ERISA and Section 4975 of the Code. The regulations do not exempt the assets of insurance company general accounts from treatment

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as "plan assets" to the extent they support certain participating annuities issued to Plans after December 31, 1998.

The Co-Issued Notes

The Plan Asset Regulations define an "equity interest" as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. As noted above in Income Tax Considerations, it is the opinion of tax counsel to the Issuer that the Co-Issued Notes will be treated as debt for U.S. income tax purposes. Although there is little guidance on the subject, at the time of their issuance, the Co-Issued Notes should be treated as indebtedness without substantial equity features for purposes of the Plan Asset Regulations. This determination is based in part upon (i) tax counsel's opinion that the Co-Issued Notes will be classified as debt for U.S. federal income tax purposes when issued and (ii) the traditional debt features of the Co-Issued Notes, including the reasonable expectation of purchasers of the Co-Issued Notes that they will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. Based upon the foregoing and other considerations, subject to the considerations described below, the Co-Issued Notes may be purchased by a Plan. Nevertheless, without regard to whether the Co-Issued Notes are considered equity interests, prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Co-Issued Notes are acquired with the assets of a Plan with respect to which the Issuer, the Initial Purchaser or the Trustee and the Issuing and Paying Agent or in certain circumstances, any of their respective affiliates, is a party in interest or a disqualified person. The Investor-Based Exemptions or the Service Provider Exemption may be available to cover such prohibited transactions.

By its purchase of any Co-Issued Notes, each purchaser and subsequent transferee thereof will be deemed to have represented and warranted, at the time of its acquisition and throughout the period it holds such Co-Issued Note, either that (a) it is neither a Plan nor any entity whose underlying assets include "plan assets" (within the meaning of the Plan Asset Regulations) by reason of such Plan's investment in the entity, nor a governmental, church, non-U.S. or other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase, holding and disposition of a Co-Issued Note will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church, non-U.S. or other plan, a non-exempt violation under any substantially similar law).

The Issuer Notes

Equity participation in the Issuer of the Notes by "benefit plan investors" is "significant" and will cause the assets of the Issuer to be deemed the assets of an investing Plan (in the absence of another applicable Plan Asset Regulations exception) if 25% or more of the value of any Class of equity interest in the Issuer is held by "benefit plan investors". Recently, Section 3(42) of ERISA, as enacted under the Pension Protection Act of 2006, effectively amended, by statute, the definition of "benefit plan investors" in the Plan Asset Regulations. Employee benefit plans that are not subject to Title I of ERISA and plans that are not subject to Section 4975 of the Code, such as U.S. governmental and church plans or non-U.S. plans, are no longer considered "benefit plan investors." Accordingly, only employee benefit plans subject to Title I of ERISA or Section 4975 of the Code or an entity whose underlying assets include plan assets by reason of such plan's investment in the entity are considered in determining whether investment by "benefit plan investors" represents 25% or more of any class of equity of the Issuer. Therefore, the term "benefit plan investor" includes (a) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to the fiduciary responsibility provisions of ERISA, (b) a plan as defined in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, (c) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity or (d) as such term is otherwise defined in any regulations promulgated by the U.S. Department of Labor under Section 3(42) of ERISA (collectively, "**ERISA Plans**").

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The Issuer Notes would likely be considered to have substantial equity features under the Plan Asset Regulations. In order to not exceed the 25 percent. limit referred to above, no ERISA Plans shall be permitted to acquire the Issuer Notes in the initial offering or thereafter. Therefore, the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code should not be applicable to the Issuer. An unlimited number of other types of employee benefit plans, such as governmental or non-U.S. plans may invest in the Issuer Notes as their investment is disregarded for these purposes.

BY ITS PURCHASE OR HOLDING OF AN ISSUER NOTE, OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT, AT THE TIME OF ITS ACQUISITION, AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AN ERISA PLAN; AND IF AFTER ITS INITIAL ACQUISITION OF AN ISSUER NOTE OR ANY INTEREST THEREIN, THE INVESTOR DETERMINES, OR IT IS DETERMINED BY ANOTHER PARTY, THAT SUCH INVESTOR IS AN ERISA PLAN, THE INVESTOR WILL DISPOSE OF ALL OF ITS ISSUER NOTES IN A MANNER CONSISTENT WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE, AND (2) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF THE ISSUER NOTES WILL NOT CAUSE A NON-EXEMPT VIOLATION OF ANY U.S. FEDERAL, STATE OR LOCAL LAW OR ANY NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE AS A RESULT OF THE TRANSACTIONS CONTEMPLATED HEREIN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST THEREIN TO ANY PERSON WHO IS UNABLE TO SATISFY THE SAME FOREGOING REPRESENTATIONS AND WARRANTIES.

There can be no assurance that, despite the transfer restrictions relating to purchases by ERISA Plans, ERISA Plans will not in actuality own 25% or more of such value.

If for any reason the assets of the Issuer are deemed to be "plan assets" of an ERISA Plan because one or more ERISA Plans is an owner of Issuer Notes (or of a Note characterized as an "equity interest" in the Issuer), certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of its business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded at significant cost to the Issuer. The Issuer may be prevented from engaging in certain investments (as not being deemed consistent with the ERISA prudent investment standards) or engaging in certain transactions or fee arrangements because they might be deemed to cause non-exempt prohibited transactions. It also is not clear that Section 403(a) of ERISA, which generally requires that all of the assets of a plan or arrangement subject to ERISA be held in trust and limits delegation of investment management responsibilities by fiduciaries of such plans or arrangements, would be satisfied. In addition, it is unclear whether Section 404(b) of ERISA, which generally provides that no fiduciary may maintain the indicia of ownership of any assets of a plan outside the jurisdiction of the district courts of the United States, would be satisfied or any of the exceptions to the requirement set forth in 29 C.F.R. Section 2550.404b-1 would be available.

Any fiduciary of a benefit plan investor or other person who proposes to use assets of any benefit plan investor to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of any Note to a benefit plan investor, or to a person using assets of any benefit plan investor to effect its purchase of any Note, is in no respect a representation by the Issuer or the Initial Purchaser that such an investment meets all relevant legal requirements with respect to investments by

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benefit plan investors generally or any particular benefit plan investor, or that such an investment is appropriate for benefit plan investors generally or any particular benefit plan investor.

SETTLEMENT AND CLEARING

Global Notes

Upon the issuance of the Global Notes denominated in Dollars, DTC or its custodian will credit, on its internal system, the respective aggregate original principal amount of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with DTC. Upon the issuance of the Global Notes denominated in Approved Currencies other than Dollars, Euroclear or its nominee will credit, on their internal system, the respective aggregate original principal amount of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with Euroclear. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in Global Notes denominated in Dollars will be limited to persons who have accounts with DTC or Euroclear, as the case may be, ("**participants**") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or Euroclear, as the case may be, or their nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

With respect to Notes denominated in Dollars, so long as DTC, or its nominee, is the registered owner or Holder of the Global Notes, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Notes represented by such Global Notes for all purposes under the Indenture and the Issuing and Paying Agency Agreement, as applicable, and such Notes. With respect to Notes denominated in Approved Currencies other than Dollars, so long as the Common Depository, or a nominee thereof, is the registered owner or Holder of the Global Notes, the Common Depository or its nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Notes represented by such Global Notes for all purposes under the Indenture and the Issuing and Paying Agency Agreement, as applicable, and such Notes. Unless (a) DTC notifies the Issuers that it is unwilling or unable to continue as depositary for a global note or ceases to be a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act, or (b) Euroclear notifies the Issuers that it is unwilling or unable to continue as depositary for a global note or ceases to be a Clearing Agency, owners of the beneficial interests in the Global Notes will not be entitled to have any portion of such Global Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered to be the owners or Holders of any Notes under the Indenture or the Issuing and Paying Agency Agreement, as applicable. The owner of a beneficial interest in a Global Note will also be entitled to receive a certificated Note in exchange for such interest if an Event of Default has occurred and is continuing. In addition, no beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in Regulation S Global Notes directly through Clearstream or Euroclear, if they are participants in these systems, or indirectly through organizations that are participants in these systems. With respect to Notes denominated in Dollars, Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Rule 144A Global Note directly through DTC if they are participants in the system, or indirectly through organizations that are participants in the system.

With respect to Notes denominated in Dollars, payments of the principal of and interest or distributions on such Global Notes will be made to DTC or its nominee, as the registered owner thereof.

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With respect to Notes denominated in an Approved Currency other than Dollars, payments of the principal of and interest or distributions on such Global Notes will be made to the Common Depository, as the registered owner thereof. None of the Issuers, the Trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments or distributions made on account of beneficial ownership interests in the Global Notes or for any notice permitted or required to be given to Holders of Notes or any consent given or actions taken by DTC or Euroclear, as applicable, as Holder of Notes. The Issuers expect that DTC or Euroclear or their nominee, as the case may be, upon receipt of any payment of principal, interest or distributions, as the case may be, in respect of a Global Note representing any Notes held by it or its nominee, will immediately credit participants' accounts, in the currency in which the Note is denominated, with payments in amounts proportionate to their respective interests in the principal amount of such Note in global form as shown on the records of DTC or Euroclear, as the case may be, or a nominee thereof. The Issuers also expect that payments by participants to owners of interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants. Payments of the principal of and interest or distributions on the Regulation S Global Notes denominated in Dollars will be made to Clearstream or Euroclear, as applicable, as indirect participants in DTC, in accordance with their respective rules and operating procedures. Payments of the principal of and interest or distributions on the Regulation S Global Notes denominated in Approved Currencies other than Dollars will be made directly to the nominee of Clearstream or Euroclear, as applicable, in accordance with their respective rules and operating procedures.

Transfers between participants of the same Clearing Agency will be effected in the ordinary way in accordance with such Clearing Agency's rules and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Global Notes to these persons may be limited. Because the Clearing Agencies can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in Global Notes to pledge its interest to persons or entities that do not participate in the DTC or Euroclear system, or otherwise take actions in respect of its interest, may be affected by the lack of a physical certificate of the interest. Transfers between participants or account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

With respect to Notes denominated in Dollars, subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC participants, on the one hand, and, directly or indirectly through Euroclear or Clearstream account holders, on the other, will be effected in DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for a same-day funds settlement applicable to DTC. Clearstream and Euroclear account holders may not deliver instructions directly to the depositaries for Clearstream or Euroclear. Notes denominated in Approved Currencies other than Dollars may only be transferred through nominees of Euroclear and Clearstream and may not be transferred through DTC.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and the credit of any transactions in interests in a Global Note settled during the processing day will be reported to the relevant Euroclear or

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Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of the Notes (including the presentation of the applicable Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in a Global Note are credited and only in respect of that portion or number of the aggregate principal amount of the Notes as to which the participant or participants has or have given direction.

The giving of notices and other communications by any Clearing Agency to participants, by participants to persons who hold accounts with them and by such persons to Holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised the Issuers as follows: DTC is a limited purpose trust company principally located under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("**indirect participants**").

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream if they are accountholders therein ("**direct participants**") or as indirect participants through organizations that are direct or indirect accountholders in direct participants.

Although the Clearing Agencies have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Notes among participants of the Clearing Agencies, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. Neither the Issuers, the Trustee nor the Issuing and Paying Agent will have any responsibility for the performance by the Clearing Agencies or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Each Regulation S Global Note denominated in an Approved Currency other than Dollars will have an ISIN and a Common Code and will be registered in the name of ABN AMRO GSTS NOMINEES LIMITED as nominee for ABN AMRO Bank N.V. (London Branch) as common depository for Clearstream and Euroclear, and deposited with the Common Depository.

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Each Global Note denominated in Dollars will have a CUSIP number and will be registered in the name of Cede & Co. as nominee of, and deposited with LaSalle Bank National Association, as custodian (the "**DTC Custodian**") for, DTC. The DTC Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Individual Definitive Securities

If (i)(a) DTC or any successor to DTC advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Notes" and a successor depositary is not appointed by the Issuer within 90 days or (b) Euroclear or its nominee or any successor to Euroclear or its nominee advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Notes" and a successor depositary is not appointed by the Issuer within 90 days, (ii) as a result of any amendment to or change in the laws or regulations of the Cayman Islands or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after the Closing Date, the issuer or the paying agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive form or (iii) upon the written request of any beneficial owner of an interest in a Global Note following the occurrence of an Event of Default, the Issuer will issue individual definitive Notes in registered form in exchange for the Global Notes. Upon receipt of such notice from any Clearing Agency, the Issuer will use its best efforts to make arrangements with such Clearing Agency for the exchange of interests in the Global Notes for individual definitive Notes and cause the requested individual definitive Notes to be executed and delivered to the Note Registrar or Issuer Note Registrar, as applicable, in sufficient quantities and authenticated by or on behalf of the Trustee or the Issuing and Paying Agent, as applicable, for delivery to Holders of the Notes. Persons exchanging interests in a Global Note for individual definitive Notes will be required to provide to the Trustee or the Issuing and Paying Agent, as applicable, through DTC, Clearstream or Euroclear, (i) written instructions and other information required by the Issuer and the Trustee or the Issuing and Paying Agent, as applicable, to complete, execute and deliver such individual definitive Notes, (ii) in the case of an exchange of an interest in a Rule 144A Global Note, such certification as to "Qualified Institutional Buyer" status, and that such Holder is a Qualified Purchaser, as the Issuer shall require and (iii) in the case of an exchange of an interest in a Regulation S Global Note, such certification as the Issuer shall require as to non-U.S. Person status. In all cases, individual definitive Notes delivered in exchange for any Note in global form or beneficial interests therein will be registered in the names, and issued in denominations in compliance with the minimum denominations specified for the applicable Notes in global form, requested by the applicable Clearing Agency.

Individual definitive Notes will bear, and be subject to, such legend as the Issuer requires in order to assure compliance with any applicable law. Individual definitive Notes will be transferable subject to the minimum denomination applicable to such Notes, in whole or in part, and exchangeable for individual definitive Notes of the same kind at the office of the Trustee or the Issuing and Paying Agent, as applicable, or the office of any transfer agent, upon compliance with the requirements set forth in the Indenture. Individual definitive Notes may be transferred through any transfer agent, upon the delivery and duly completed assignment of such Notes. Upon a partial transfer of any Notes represented by the applicable definitive notes therefor, the Trustee or the Issuing and Paying Agent, as applicable, will issue in exchange therefor to the transferee one or more individual definitive Notes representing the amount being so transferred and will issue to the transferor one or more individual definitive Notes representing the remaining amount not being transferred. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge may be required. The Holder of a restricted individual definitive Note may transfer such Note, subject to compliance with the provisions of the legend thereon. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, the Issuer will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on

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transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Payments of principal and interest on individual definitive Notes shall be payable by wire transfer in immediately available funds to an account maintained by the Holder thereof or its nominee or, if appropriate instructions are not received at least fifteen days prior to the relevant Payment Date, by check drawn on a bank and sent by mail to the Registered holder thereof or, for so long as any of the Notes are listed on any stock exchange and the rules of such stock exchange shall so require, at the office of the listing, paying and transfer agent.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes. Any purchase or transfer of the Notes will be subject to the minimum denomination set forth in "Summary—Notes".

Rule 144A Global Notes

Each purchaser of a beneficial interest in a Rule 144A Global Note will be deemed to have represented and agreed with the Issuer as follows:

(i) (A) The purchaser is a Qualified Institutional Buyer and a Qualified Purchaser, (B) the purchaser is purchasing the Notes for its own account or the account of another Qualified Purchaser that is also a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, (C) the purchaser and any such account is acquiring the Notes as principal for its own account for investment and not for sale in connection with any distribution thereof, (D) the purchaser and any such account was not formed solely for the purpose of investing in the Notes (except when each beneficial owner of the purchaser or any such account is a Qualified Purchaser), (E) to the extent the purchaser (or any account for which it is purchasing the Notes) is a private investment company formed on or before April 30, 1996, the purchaser and each such account has received the necessary consent from its beneficial owners, (F) neither the purchaser nor any such account is a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made, (G) the purchaser agrees that it and each such account shall not hold such Notes for the benefit of any other Person and shall be the sole beneficial owner thereof for all purposes and that it shall not sell participation interests in the Notes or enter into any other arrangement pursuant to which any other Person shall be entitled to a beneficial interest in the distributions on the Notes, (H) the Notes purchased directly or indirectly by the purchaser or any account for which it is purchasing the Notes constitute an investment of no more than 40% of the purchaser's and each such account's assets (except when each beneficial owner of the purchaser and each such account is a Qualified Purchaser), (I) the purchaser and each such account is purchasing the Notes in a principal amount of not less than the minimum denomination requirement for the purchaser and each such account, (J) the purchaser will provide notice of the transfer restrictions set forth in the Indenture (including the exhibits thereto) to any transferee of its Notes, (K) the purchaser understands and agrees that the Issuer may receive a list of participants in the Notes from one or more book-entry depositories and (L) the purchaser understands and agrees that any purported transfer of the Notes to a purchaser that does not comply with the requirements of this paragraph (i) shall be null and void *ab initio*.

(ii) If any U.S. Person that is not both a Qualified Institutional Buyer and a Qualified Purchaser at the time it acquires an interest in a Note shall become the beneficial owner of any Note, (any such Person, a "**Non-Permitted Holder**"), the Trustee or the Issuing and Paying Agent, as applicable, shall, promptly after discovery that such Person is a Non-Permitted Holder by the Issuer, the Co-Issuer, the Trustee or the Issuing and Paying Agent, as applicable (and notice by the Trustee, the Issuing and Paying Agent or the Co-Issuer to the Issuer, if any of them makes the discovery), send notice to such Non-Permitted Holder demanding that such Non-Permitted Holder transfer its interest to a Person that is not a Non-Permitted Holder within 14 days of the date of such notice. If such Non-Permitted Holder fails to transfer its Notes, the Issuer shall have the right, without further notice to the Non-

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Permitted Holder, to sell such Notes or interest in Notes to a purchaser selected by the Issuer that is not a Non-Permitted Holder on such terms as the Issuer may choose. The Issuer, or the Trustee or the Issuing and Paying Agent, as applicable, acting on behalf of the Issuer, may select the purchaser by soliciting one or more bids from one or more brokers or other market professionals that regularly deal in securities similar to the Notes, and selling such Notes to the highest such bidder. However, the Issuer or the Trustee or the Issuing and Paying Agent, as applicable, may select a purchaser by any other means determined by it in its sole discretion and the Trustee or the Issuing and Paying Agent, as applicable, may, at the expense of the Issuer, engage an independent investment bank to assist in such sale. The Holder of each Note, the Non-Permitted Holder and each other Person in the chain of title from the Holder to the Non-Permitted Holder, by its acceptance of an interest in the Notes, agrees to cooperate with the Issuer and the Trustee or the Issuing and Paying Agent, as applicable, to effect such transfers. The proceeds of such sale, net of any commissions, expenses and taxes due in connection with such sale shall be remitted to the Non-Permitted Holder. The terms and conditions of any sale under this paragraph shall be determined in the sole discretion of the Issuer, and neither the Issuer nor the Trustee or Issuing and Paying Agent, as applicable, shall be liable to any Person having an interest in the Notes sold as a result of any such sale or the exercise of such discretion.

If (1) an ERISA Plan or (2) a governmental, church, non-U.S. or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code whose purchase, holding or disposition of an Issuer Note or any beneficial interest therein will result in a non-exempt violation of any federal, state, local or non-U.S. law substantially similar to Section 406 of ERISA or Section 4975 of the Code (any such person described in clause (1) or (2) a "**Non-Permitted ERISA Plan Holder**") becomes the owner of Issuer Notes, the Issuer shall, promptly after discovery that such person is a Non-Permitted ERISA Plan Holder by the Issuer or the Issuing and Paying Agent (and notice by the Issuing and Paying Agent to the Issuer, if the Issuing and Paying Agent makes the discovery), send notice to such Non-Permitted ERISA Plan Holder demanding that such Non-Permitted ERISA Plan Holder transfer its Issuer Notes to a Person that is eligible to purchase such Issuer Notes hereunder within 14 days of the date of such notice. If such Non-Permitted ERISA Plan Holder fails to so transfer such Issuer Notes, the Issuer shall have the right, without further notice to the Non-Permitted ERISA Plan Holder, to sell such Issuer Notes to a purchaser selected by the Issuer that is eligible to purchase such Issuer Notes hereunder on such terms as the Issuer may choose. The Issuer, or the Issuing and Paying Agent acting on behalf of the Issuer, may select the purchaser by soliciting one or more bids from one or more brokers or other market professionals that regularly deal in securities similar to the Issuer Notes and selling such Issuer Notes to the highest such bidder. However, the Issuer or the Issuing and Paying Agent acting on behalf of the Issuer may select a purchaser by any other means determined by it in its sole discretion. The Holder of each Issuer Note, the Non-Permitted ERISA Plan Holder and each other Person in the chain of title from the Holder to the Non-Permitted ERISA Plan Holder, by its acceptance of Issuer Notes agrees to cooperate with the Issuer and the Issuing and Paying Agent to effect such transfers. The proceeds of such sale, net of any commissions, expenses and taxes due in connection with such sale shall be remitted to the Non-Permitted ERISA Plan Holder. The terms and conditions of any sale under this paragraph shall be determined in the sole discretion of the Issuer, and the Issuer shall not be liable to any Person having an interest in the Issuer Notes sold as a result of any such sale or the exercise of such discretion.

(iii) The purchaser understands and agrees that the Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and the sale of the Notes to the purchaser is being made in reliance on an exemption from registration under the Securities Act, and may be reoffered, resold, pledged or otherwise transferred only (A)(i) to a Person whom the purchaser reasonably believes is a Qualified Institutional Buyer purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A or (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and (B) in accordance with all applicable securities laws of the states of the United States. The Issuer, the Co-Issuer and the Issuer Assets have not been registered under the Investment Company Act and, therefore, no transfer

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having the effect of causing the Issuer, the Co-Issuer or the Issuer Assets to be required to be registered as an investment company under the Investment Company Act will be recognized. The Notes are subject to the restrictions on transfer set forth herein and in the Indenture and the Notes. The purchaser understands and agrees that any purported transfer of the Notes to a purchaser that does not comply with the requirements of this paragraph (iii) shall be null and void *ab initio*.

(iv) The purchaser is not a member of the public of the Cayman Islands.

(v) The purchaser is not purchasing the Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands and agrees that an investment in the Notes involves certain risks, including the risk of loss of its entire investment in the Notes under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuer and the Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Notes, including an opportunity to ask questions of, and request information from, the Issuer.

(vi) In connection with the purchase of the Notes: (A) none of the Issuers, the Initial Purchaser, the Trustee, the Issuing and Paying Agent, the Protection Buyer, the Basis Swap Counterparty, the Collateral Put Provider, the Collateral Disposal Agent, the Portfolio Selection Agent, the Administrator or the Share Trustee (or any of their respective Affiliates) is acting as a fiduciary or financial or investment adviser for the purchaser; (B) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Trustee, the Issuing and Paying Agent, the Portfolio Selection Agent, the Administrator or the Share Trustee (or any of their respective Affiliates) other than in the final offering circular for such Notes and any representations expressly set forth in a written agreement with such party; (C) none of the Issuers, the Initial Purchaser, the Trustee, the Issuing and Paying Agent, the Portfolio Selection Agent, the Administrator or the Share Trustee (or any of their respective Affiliates) has given to the purchaser (directly or indirectly through any other Person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Notes; (D) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Trustee, the Issuing and Paying Agent, the Portfolio Selection Agent, the Administrator or the Share Trustee (or any of their respective Affiliates); (E) the purchaser has evaluated the terms and conditions of the purchase and sale of the Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming, and willing to assume (financially and otherwise) those risks; (F) the purchaser is a sophisticated investor; and (G) if acquiring the Notes for any account, the purchaser has not made any disclosure, assurance, guarantee or representation not consistent with the provisions and the requirements contained herein.

(vii) In the case of the Co-Issued Notes, at the time of its acquisition and throughout the period it holds such Co-Issued Note, either (A) the purchaser is not a Plan nor any entity whose underlying assets include "plan assets" (within the meaning of the Plan Asset Regulations) by reason of such Plan's investment in the entity, nor a governmental, church, non-U.S. or other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (B) if the purchaser is an entity described in (A), the purchase, holding and disposition of a Co-Issued Note, as the case may be, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. or other plan, a non-exempt violation under any substantially similar federal, state, local or non-U.S. law). Any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph (vii) shall be null and void *ab initio*.

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(viii) In the case of the Issuer Notes, each purchaser and subsequent transferee of a beneficial interest in any such Note will be deemed to represent that the purchaser or transferee, as the case may be, from the date on which it acquires its interest in such Notes through and including the date on which such purchaser or transferee disposes of its interest in such Notes (1) it is not an ERISA Plan; and if after its initial acquisition of any such Note or any interest therein, the investor determines, or it is determined by another party, that such investor is an ERISA Plan, the investor will dispose of all of its Issuer Notes in a manner consistent with the restrictions set forth in the Indenture, and (2) if it is a governmental, church, non-U.S. or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of any such Notes will not cause a non-exempt violation of any U.S. federal, state or local law or any non-U.S. law which is substantially similar to Title I of ERISA or Section 4975 of the Code as a result of the transactions contemplated herein and (3) it will not sell or otherwise transfer any such Note or interest therein to any person who is unable to satisfy the same foregoing representations and warranties.

(ix) To the extent required by the Issuer, as determined by the Issuer, the Issuer may, upon notice to the Trustee and the Issuing and Paying Agent, impose additional transfer restrictions on the Notes to comply with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act) and other similar laws or regulations, including, without limitation, requiring each transferee of a beneficial interest in a Note to make representations to the Issuer in connection with such compliance.

(x) The Co-Issued Notes will bear a legend substantially to the following effect:

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1) IN A PRINCIPAL AMOUNT OF NOT LESS THAN [$250,000][1] [$100,000][2] [€100,000][£100,000][¥10,000,000][A$100,000][C$100,000][NZ$100,000][3] FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING TO A PURCHASER THAT (W) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (X) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (Y) UNDERSTANDS AND AGREES THAT THE ISSUERS MAY RECEIVE A LIST OF PARTICIPANTS IN THE NOTES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (Z) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED ON OR BEFORE APRIL 30, 1996, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION OR EXCLUSION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. ANY TRANSFER IN

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[1] Applicable to the Rule 144A Global Notes.

[2] Applicable to Regulation S Global Notes denominated in Dollars.

[3] Applicable to Regulation S Global Notes denominated in Approved Currencies other than Dollars, as applicable.

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VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO RESELL NOTES PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

[ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO HEREIN.][1]

[ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, ABN AMRO GSTS NOMINEES LIMITED AS NOMINEE FOR ABN AMRO BANK N.V. (LONDON BRANCH), HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE EUROCLEAR SYSTEM ("EUROCLEAR"), TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF ABN AMRO GSTS NOMINEES LIMITED AS NOMINEE FOR ABN AMRO BANK N.V. (LONDON BRANCH) OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR (AND ANY PAYMENT HEREON IS MADE TO ABN AMRO BANK N.V. (LONDON BRANCH)).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF EUROCLEAR OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO HEREIN.][2]

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE TRUSTEE.

THE FAILURE TO PROVIDE THE ISSUER, THE TRUSTEE AND ANY PAYING AGENT WITH THE APPLICABLE U.S. FEDERAL INCOME TAX CERTIFICATIONS (GENERALLY, AN INTERNAL REVENUE SERVICE FORM W-9 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30)

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[1] Applicable to the Dollar-denominated Notes.

[2] Applicable to the Notes denominated in Approved Currencies other than Dollars.

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OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") OR AN APPROPRIATE INTERNAL REVENUE SERVICE FORM W-8 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE) MAY RESULT IN U.S. FEDERAL BACK-UP WITHHOLDING FROM PAYMENTS TO THE HOLDER IN RESPECT OF THIS NOTE.

THIS NOTE MAY NOT BE TRANSFERRED TO AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA) OR A PLAN (AS DEFINED IN SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE) OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" (WITHIN THE MEANING OF 29 C.F.R. § 2510.3-101) BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE IF THE PURCHASE, HOLDING AND DISPOSITION OF THE NOTE WILL CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN, A NON-EXEMPT VIOLATION UNDER ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL OR NON-U.S. LAW). ANY PURPORTED TRANSFER OF THIS NOTE TO A PURCHASER THAT DOES NOT COMPLY WITH THE ABOVE REQUIREMENTS SHALL BE NULL AND VOID *AB INITIO*.

(xi) The Issuer Notes will bear a legend substantially to the following effect:

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1) IN A PRINCIPAL AMOUNT OF NOT LESS THAN [$250,000][1] [$100,000][2] [€100,000][£100,000][¥10,000,000][A$100,000][C$100,000][NZ$100,000][3] FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING TO A PURCHASER THAT (W) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (X) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (Y) UNDERSTANDS AND AGREES THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS IN THE NOTES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (Z) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED ON OR BEFORE APRIL 30, 1996, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION OR EXCLUSION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. ANY TRANSFER IN

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[1] Applicable to the Rule 144A Global Notes.

[2] Applicable to Regulation S Global Notes denominated in Dollars.

[3] Applicable to Regulation S Global Notes denominated in Approved Currencies other than Dollars, as applicable.

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VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE ISSUING AND PAYING AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE ISSUING AND PAYING AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO RESELL NOTES PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE ISSUING AND PAYING AGENCY AGREEMENT) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE ISSUING AND PAYING AGENCY AGREEMENT.

[ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE ISSUING AND PAYING AGENCY AGREEMENT REFERRED TO HEREIN.][1]

[ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, ABN AMRO GSTS NOMINEES LIMITED AS NOMINEE FOR ABN AMRO BANK N.V. (LONDON BRANCH), HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE EUROCLEAR SYSTEM ("EUROCLEAR"), TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF ABN AMRO GSTS NOMINEES LIMITED AS NOMINEE FOR ABN AMRO BANK N.V. (LONDON BRANCH) OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR (AND ANY PAYMENT HEREON IS MADE TO ABN AMRO BANK N.V. (LONDON BRANCH)).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF EUROCLEAR OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE ISSUING AND PAYING AGENCY AGREEMENT REFERRED TO HEREIN.][2]

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE ISSUING AND PAYING AGENT.

THE FAILURE TO PROVIDE THE ISSUER, THE ISSUING AND PAYING AGENT AND ANY PAYING AGENT WITH THE APPLICABLE U.S. FEDERAL INCOME TAX CERTIFICATIONS

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[1] Applicable to the Dollar-denominated Notes.

[2] Applicable to the Notes denominated in Approved Currencies other than Dollars.

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(GENERALLY, AN INTERNAL REVENUE SERVICE FORM W-9 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") OR AN APPROPRIATE INTERNAL REVENUE SERVICE FORM W-8 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE) MAY RESULT IN U.S. FEDERAL BACK-UP WITHHOLDING FROM PAYMENTS TO THE HOLDER IN RESPECT OF THIS NOTE.

BY ITS PURCHASE OR HOLDING OF AN ISSUER NOTE, OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT, AT THE TIME OF ITS ACQUISITION, AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT (A) AN EMPLOYEE BENEFIT PLAN AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA, (B) A PLAN AS DEFINED IN SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR (D) A "BENEFIT PLAN INVESTOR" AS SUCH TERM IS OTHERWISE DEFINED IN ANY REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR UNDER SECTION 3(42) OF ERISA (AN "ERISA PLAN"); AND IF AFTER ITS INITIAL ACQUISITION OF AN ISSUER NOTE OR ANY INTEREST THEREIN, THE INVESTOR DETERMINES, OR IT IS DETERMINED BY ANOTHER PARTY, THAT SUCH INVESTOR IS AN ERISA PLAN, THE INVESTOR WILL DISPOSE OF ALL OF ITS ISSUER NOTES IN A MANNER CONSISTENT WITH THE RESTRICTIONS SET FORTH IN THE ISSUING AND PAYING AGENCY AGREEMENT, AND (2) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF THE ISSUER NOTES WILL NOT CAUSE A NON-EXEMPT VIOLATION OF ANY U.S. FEDERAL, STATE OR LOCAL LAW OR ANY NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE AS A RESULT OF THE TRANSACTIONS CONTEMPLATED HEREIN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST THEREIN TO ANY PERSON WHO IS UNABLE TO SATISFY THE SAME FOREGOING REPRESENTATIONS AND WARRANTIES.

(xii) Each purchaser or subsequent transferee of Rule 144A Issuer Notes that (i) is not a "United States person" (as defined in Section 7701(a)(30) of the Code) and (ii) is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate USD Equivalent Outstanding Amount of any Class of Issuer Notes, as applicable, will be deemed to make a representation to the effect that it is not an Affected Bank.

Regulation S Global Notes

Each purchaser of a beneficial interest in a Regulation S Global Note will be deemed to have represented and agreed with the Issuer:

(i) as set forth in paragraphs (iii), (iv), (v), (vi), (vii) (in the case of the Co-Issued Notes), (viii) (in the case of the Issuer Notes), (ix), (x) (in the case of the Co-Issued Notes) and (xi) (in the case of the Issuer Notes) under "—Rule 144A Global Notes";

(ii) that the purchaser is a non-U.S. Person acquiring the Notes in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S and in a principal amount of not less than the applicable minimum denomination requirement; and

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(iii) each purchaser or subsequent transferee of Regulation S Global Notes that (i) is not a "United States person" (as defined in Section 7701(a)(30) of the Code) and (ii) is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate USD Equivalent Outstanding Amount of any Class of Issuer Notes will be deemed to make a representation to the effect that it is not an Affected Bank.

UNDERWRITING

Subject to the terms and conditions set forth in the Purchase Agreement, the Issuers, with respect to the Co-Issued Notes issued on the Closing Date and the Issuer, with respect to the Issuer Notes issued on the Closing Date have agreed to sell, on the Closing Date, and Goldman, Sachs & Co. has agreed to purchase all of such Notes.

Under the terms and conditions of the Purchase Agreement, the Initial Purchaser is committed to take and pay for all the Notes to be offered to the Initial Purchaser, not if any are taken. Under the terms and conditions of the Purchase Agreement, Goldman, Sachs & Co. will be entitled to an underwriting discount. After the Notes are released for sale, the Initial Purchaser may change the offering price and other selling terms.

The Notes have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. Person or a U.S. resident (as determined for purposes of the Investment Company Act, a **"U.S. Resident"**) except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuers have been advised by the Initial Purchaser that (a) the Initial Purchaser proposes to resell the Notes outside the United States through its agent, Goldman Sachs International, in offshore transactions in reliance on Regulation S and in accordance with applicable law, and (b) the Initial Purchaser proposes to resell the Notes in the United States in reliance on Rule 144A under the Securities Act only to Qualified Institutional Buyers purchasing for their own accounts or for the accounts of Qualified Institutional Buyers each of which purchasers or accounts is a Qualified Purchaser. The offering price and the Initial Purchaser's underwriting discount will be the same for the Regulation S Global Notes and the Rule 144A Global Notes within each Class of Notes. Any offer or sale of Rule 144A Global Notes in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act will be made by broker-dealers who are registered as such under the Exchange Act. After the Notes are released for sale, the offering price and other selling terms may from time to time be varied by the Initial Purchaser.

The Initial Purchaser has acknowledged and agreed that it will not offer, sell or deliver any Notes sold pursuant to Regulation S to, or for the account or benefit of, any U.S. Person or U.S. Resident (as determined for purposes of the Investment Company Act) as part of its distribution at any time and that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Notes pursuant to Regulation S a confirmation or other notice setting forth the prohibition on offers and sales of Notes sold pursuant to Regulation S within the United States or to, or for the account or benefit of, any U.S. Person or U.S. Resident.

With respect to the Notes initially sold pursuant to Regulation S, until the expiration of 40 days after the commencement of the distribution of the offering of Notes by the Initial Purchaser, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

In connection with the offering, the Initial Purchaser may purchase and sell the Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover

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positions created by short sales. Short sales involve the sale by the Initial Purchaser of a greater amount of Notes than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

The Initial Purchaser also may impose a penalty bid. This occurs when the Initial Purchaser repays a portion of the underwriting discount received by it because such Initial Purchaser or its Affiliates have repurchased Notes sold by or for the account of such Initial Purchaser in stabilizing or short covering transactions.

These activities by the Initial Purchaser may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Initial Purchaser at any time. These transactions may be effected in the over-the-counter market or otherwise.

in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

(i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(iii) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The Initial Purchaser has represented and agreed that:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise

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constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and the Initial Purchaser has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

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The Initial Purchaser has agreed that it has not made and will not make any invitation to the public in the Cayman Islands to purchase any of the Notes.

Buyers of Notes pursuant to Regulation S sold by Goldman Sachs International, as the agent of Goldman, Sachs & Co., may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuers or the Notes, in any jurisdiction where action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Notes are a new issue of securities with no established trading market. The Issuers have been advised by the Initial Purchaser that the Initial Purchaser intends to make a market in the Notes but is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes. See "Risk Factors—Certain Conflicts of Interest".

Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that any admission will be sought, granted or maintained.

The Issuers have agreed to indemnify the Initial Purchaser, the Portfolio Selection Agent, the Administrator, the Trustee and the Issuing and Paying Agent against certain liabilities, including, but not limited to, liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof. In addition, the Issuers have agreed to reimburse the Initial Purchaser for certain of its expenses.

LISTING AND GENERAL INFORMATION

1. Application will be made to admit the Notes on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that any such admission will be sought, granted or maintained.

2. For fourteen days following the date of this Offering Circular, copies of the Memorandum and Articles of Association of the Issuer, the By-Laws of the Co-Issuer, the Indenture, the Issuing and Paying Agency Agreement, each Deed of Covenant, the Credit Default Swap, the Basis Swap, the Collateral Put Agreement, the Collateral Administration Agreement, the Portfolio Selection Agreement and the Administration Agreement (such agreements collectively, the "**Material Contracts**") will be available for inspection at the registered office of the Issuer and the offices of any Listing, Paying and Transfer Agent, and copies thereof may be obtained upon request. In addition, copies of any reports (including, without limitation, monthly reports) prepared under the Indenture may be obtained upon request from any Listing, Paying and Transfer Agent.

3. Copies of the Certificate of Incorporation and Memorandum and Articles of Association of the Issuer, the Certificate of Incorporation and By-laws of the Co-Issuer, the Administration Agreement, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes, the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes, will be available for inspection at the office of the Trustee and the Issuing and Paying Agent, as applicable, and at the office of any Listing, Paying and Transfer Agent.

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4. Since the date of establishment, there has been no significant change in the financial or trading position of the Issuer and no annual report or accounts have been prepared as of the date hereof.

5. The Issuers are not involved in any litigation or arbitration proceedings relating to claims on amounts which are material in the context of the issue of the Notes, nor, so far as each of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

6. The issuance of the Notes is expected to be authorized by the Board of Directors of the Issuer by resolution passed on or prior to the Closing Date. The issuance of the Notes is expected to be authorized by the sole Director of the Co-Issuer by resolution on or about April 25, 2007.

7. The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act represented by Regulation S Global Notes have been accepted for clearance through Clearstream and Euroclear. The Co-Issued Notes sold to U.S. Persons that are Qualified Institutional Buyers/Qualified Purchasers under the Securities Act represented by Rule 144A Global Notes have been accepted for clearance through DTC. The CUSIP Numbers, Common Codes and International Securities Identification Numbers (ISIN) for the Co-Issued Notes represented by Rule 144A Global Notes and Regulation S Global Notes are as indicated in the chart "Summary—Notes", as applicable.

8. For so long as any of the Notes are listed on any stock exchange and the rules of such stock exchange shall so require, the Issuer will inform such stock exchange in accordance with its procedures, if the ratings assigned to any of the Notes are reduced or withdrawn.

9. The Issuers do not intend to publish annual reports and accounts. The Indenture, however, requires the Issuers to provide written confirmation to the Trustee on an annual basis that no Event of Default or other matter which is required to be brought to the Trustee's attention has occurred.

LEGAL MATTERS

Certain legal matters will be passed upon for the Issuers and the Initial Purchaser by McKee Nelson LLP, New York, New York. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder, George Town, Grand Cayman, Cayman Islands. Certain legal matters will be passed upon for the Portfolio Selection Agent by Schulte Roth & Zabel LLP, New York, New York.

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GLOSSARY OF DEFINED TERMS

"ABS Aircraft Securities": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from leases and subleases of aircraft, vessels and telecommunications equipment to businesses for use in the provisions of goods or services to consumers, the military or the government, generally having the following characteristics: (1) the leases and subleases having varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by an contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party or the underlying equipment; (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of the lease term for excess usage or wear and tear; and (5) the obligations of the lessors or sublessors may be secured not only by the leased equipment but also by other assets of the lessee, sublessee or guarantees granted by third parties; *provided* that any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"ABS Automobile Securities": Securities, other than ABS Subprime Auto Securities, that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on:

(1) the cash flow from installment sale loans made to finance the purchase of, or from leases of, automobiles or light duty trucks or medium duty trucks, generally having the following characteristics:

  (i) the loans or leases may have varying contractual maturities;

  (ii) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a diversified pool of obligor credit risk;

  (iii) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and

  (iv) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value and are subject to payments at the end of lease term for excess mileage or use in the event that the lessee does not exercise such purchase option; or

(2) the cash flow from loans or leases made to finance the purchase of an automobile dealer's inventory, generally having the following characteristics:

  (i) the loans or leases may have varying contractual maturities;

  (ii) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and

  (iii) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value and are subject to payments at the end of lease term for excess mileage or use in the event that the lessee does not exercise such purchase option.

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"ABS Car Rental Receivable Securities": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from leases and subleases of vehicles to car rental companies and their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the vehicle for its stated residual value and are subject to payments at the end of lease term for excess mileage or use in the event that the lessee or sublessee does not exercise such purchase option.

"ABS Credit Card Securities": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from balances outstanding under revolving consumer credit card accounts, generally having the following characteristics:

(i) the accounts have standardized payment terms and require minimum monthly payments;

(ii) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; and

(iii) the repayment stream on such balances does not depend upon a contractual payment schedule, with repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"ABS Future Flow Securities": Securities that are financings by companies that export products and involve securitizations of offshore U.S. Dollar-denominated receivables under contracts with foreign buyers or from sale through an established market pursuant to which cash generated from the existing and future receivables is captured, typically paid to a trust or collateral account in the United States and is used to service the debt evidenced by such securities. In a typical existing and future receivables transaction, the originator of the receivables establishes a limited purpose financing vehicle that issues such securities. The originator receives the issuance proceeds and may use these funds for general corporate purposes. ABS Future Flow Securities are generally backed by one or more contracts requiring the originator to generate the receivables backing the securities. In such a situation, if the receivables are not generated or if insufficient amounts of receivables are generated, holders of such securities may not receive the payments they are owed. Sellers of receivables in future receivables transactions are frequently in countries with low credit ratings. ABS Future Flow Securities may achieve a rating above the foreign currency sovereign rating of such company's country of domicile, thereby enabling the originator to obtain financing at a relatively lower cost than traditional loans or direct issuance of bonds by the originator. The determination of whether an ABS Future Flow Security shall be classified as an Excluded Specified Type shall be made by reference to the types of receivables expected to be generated. Any ABS Future Flow Security so classified as an Excluded Specified Type will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"ABS Health Care Receivable Securities": Securities (other than ABS Small Business Loan Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from leases and subleases of equipment to hospitals, non-hospital medical facilities, physicians and physician groups for use in the provision of healthcare services, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an

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undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value; *provided* that any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"**ABS Mutual Fund Fee Securities**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from a pool of brokerage fees and costs relating to various mutual funds, generally having the following characteristics: (1) the brokerage fees and costs have standardized terms; (2) the brokerage fees and costs arise out of numerous mutual funds and accordingly represent a diversified pool of credit risk; and (3) the collection of brokerage fees and costs can vary substantially from the contractual payment schedule (if any), with the collection depending on numerous factors specific to the particular mutual funds and general economic matters; *provided* that any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"**ABS Other Security**": A Structured Finance Security that (i) cannot reasonably be classified as a Commercial Mortgage-Backed Security, Residential Mortgage-Backed Security, CDO Cashflow Security, Wrapped Security, ABS Automobile Security, ABS Car Rental Receivable Security, ABS Credit Card Security, ABS Small Business Loan Security or ABS Student Loan Security and (ii) is not an Excluded Specified Type.

"**ABS Small Business Loan Securities**": Securities that entitle holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from general purpose loans made to "small business concerns" (generally within the meaning given to such term by regulations of the United States Small Business Administration), including but not limited to those (a) made pursuant to Section 7(a) of the United States Small Business Act, as amended, and (b) partially guaranteed by the United States Small Business Administration, generally have the following characteristics:

(i) the loans have payment terms that comply with any applicable requirements of the United States Small Business Act, as amended;

(ii) the loans are obligations of a relatively limited number of borrowers and accordingly represent an undiversified pool of obligor credit risk; and

(iii) repayment thereof can vary substantially from the contractual payment schedule (if any), with early repayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"**ABS Structured Settlement Securities**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from receivables representing the right of litigation claimants to receive future settlement payments under a settlement agreement that are funded by an annuity contract; *provided* that any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"**ABS Student Loan Securities**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of

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proceeds to holders of such securities) on the cash flow from loans made to students (or their parents) to finance educational needs.

"**ABS Subprime Auto Securities**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from subprime installment sale loans made to finance the acquisition of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessees and accordingly represent a diversified pool of obligor credit risk; (3) the borrowers or lessees under the loans or leases generally have a poor credit rating; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value and are subject to payments at the end of the lease term for excess mileage or use in the event that the lessee does not exercise such purchase option; *provided* that any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"**ABS Tax Lien Securities**": Securities that entitle the holders thereof to receive payment that depend (except for rights or other assets designed to assure the servicing or timely distribution or proceeds to holders of such securities) on the cash flow from a pool of tax obligations owed by businesses and individuals to state and municipal governmental taxing authorities, generally having the following characteristics: (1) the tax obligations are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; and (2) the repayment stream on the obligation is primarily determined by a payment schedule entered into between the relevant tax authority and obligor, with early repayment on such obligation predominantly dependent upon interest rates and the income of the obligor following the commencement of amortization; *provided* that any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"**ABS Timeshare Securities**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from borrowers under timeshare mortgage loans. Timeshare mortgage loans are generally fixed rate, fully amortizing loans that are secured by first mortgage liens on timeshare estates. A timeshare estate consists of an interval (generally measured in weeks) in vacation ownership of fully furnished vacation units or apartments. Usage and ownership is generally divided into 52 one-week intervals, with one or two weeks reserved for maintenance. Ownership can also be through undivided fee simple interests ("UDIs") in a group of units. Owners become tenants in common with other owners of undivided interests, with "use" rights which allow more flexibility in terms of length and timing of stay than fixed week intervals, as purchasers are not restricted to fixed fee usage. Any security falling within this definition will be excluded from the definition of "Structured Product Security" (unless it is a Wrapped Security) and each other Excluded Specified Type.

"**Actual Principal Amount**": With respect to any Reference Obligation and its applicable Final Amortization Date or Legal Final Maturity Date, an amount paid on such day by or on behalf of the related Reference Entity in respect of principal (excluding any amounts representing capitalized interest that relates to the term of the Credit Default Swap) to the holder(s) of such Reference Obligation in respect of such Reference Obligation.

"**Actual Rating**": With respect to any Obligation, the actual expressly monitored outstanding rating assigned by a Rating Agency, without reference to any other rating by another Rating Agency and which rating by its terms addresses the full scope of the payment promise of the obligor on such Obligation, after taking into account any applicable guarantee or insurance policy or if no such rating is available from a Rating Agency, any "credit estimate" or "shadow rating" assigned by such Rating

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Agency, as applicable. For purposes of this definition, the rating of a RMBS Agency Security shall be the rating assigned by a Rating Agency to the agency that guarantees such RMBS Agency Security.

"Administrative Expense Cap": On any Payment Date, $20,000.

"Administrative Expenses": Amounts due or accrued with respect to any Payment Date (which shall be payable in the following order) to:

(i) any Person not listed in subclause (ii) through (vi) below in respect of any governmental fee, including all filing, registration and annual return fees payable to the Cayman Islands government and registered office fees, charge or tax (other than withholding taxes);

(ii) the Trustee, its fees pursuant to the Indenture;

(iii) to the Trustee, its expenses pursuant to the Indenture;

(iv) to the Issuing and Paying Agent, its fees pursuant to the Issuing and Paying Agency Agreement;

(v) to the Issuing and Paying Agent, its expenses pursuant to the Issuing and Paying Agency Agreement;

(vi) *pro rata* to:

(a) the Collateral Administrator under the Collateral Administration Agreement;

(b) the Independent accountants, agents and counsel of the Issuer for fees, including retainers, and expenses;

(c) the Rating Agencies for fees and expenses in connection with ratings of the Notes, on-going surveillance of such ratings and the provision of credit estimates; and

(d) any other Person in respect of any other reasonable fees, costs, indemnities or expenses of the Issuer not prohibited under the Indenture (including, without limitation, any monies owed to the Portfolio Selection Agent under the Portfolio Selection Agreement and the Administrator under the Administration Agreement and registered office fees) and any reports and documents delivered pursuant to or in connection with the Indenture and the Notes.

"Adverse Tax Event": The adoption of, or a change in, any tax statute (including the Code), treaty, regulation (whether proposed, temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in (a) reducing monies received by the Issuer from the Issuer Assets or (b) the payments due on the Notes or pursuant to the Basis Swap, the Collateral Put Agreement or the Credit Default Swap becoming properly subject to the imposition of U.S. or other withholding tax.

"Affiliate" or "Affiliated": With respect to a Person, (i) any other Person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such Person or (ii) any other Person who is a director, officer or employee (a) of such Person, (b) of any subsidiary or parent company of such Person or (c) of any Person described in subclause (i) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (i) to vote more than 50% of the securities having ordinary voting power for the election of directors of any such Person or (ii) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise. With respect

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to the Issuers, this definition shall exclude the Administrator and any other special purpose vehicle to which the Administrator is or will be providing administrative services or acting as share trustee.

"**Agency**": The Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Government National Mortgage Association.

"**Aggregate Implied Writedown Amount**": With respect to any Reference Obligation, the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts with respect to such Reference Obligation minus the aggregate of all Implied Writedown Reimbursement Amounts with respect to such Reference Obligation.

"**Aggregate USD Equivalent Outstanding Amount**": When used with respect to any or all of the Notes the aggregate principal amount of such Notes Outstanding on the date of determination; *provided* that, with respect to any Notes denominated in any Approved Currency other than Dollars, the Aggregate USD Equivalent Outstanding Amount of such Notes will equal the USD Equivalent of the Currency Adjusted Aggregate Outstanding Amount of such Notes.

"**Alternative Debt Test**": A test that is satisfied with respect to a Collateral Security if, on the date such Collateral Security is included in the Collateral, each of the following is satisfied: (i) such Collateral Security is in the form of a note or other debt instrument and is treated as debt for corporate law purposes in the jurisdiction of the issuer of such Collateral Security, (ii) the documents pursuant to which such Collateral Security was offered, if any, do not require that any holder thereof treat such Collateral Security other than as debt for tax purposes, (iii) such Collateral Security bears interest at a fixed rate per annum or at a rate based upon a customary floating rate index plus or minus a spread, (iv) such Collateral Security has a fixed maturity occurring no later than the earliest Stated Maturity of any Series of Notes, (v) such Collateral Security has an Actual Rating or Implied Rating of at least "Baa3" by Moody's, of at least "BBB-" by S&P or at least "BBB-" by Fitch as to ultimate payment of principal and interest and (vi) the issuer of such Collateral Security is treated as a corporation or grantor trust for U.S. federal income tax purposes; *provided* that, in the case of a Collateral Security, in the form of a beneficial interest in a trust that is treated (as evidenced by an opinion of counsel or a reference to an opinion of counsel in documents pursuant to which such Collateral Security was offered) as a grantor trust for U.S. federal income tax purposes (and not as a partnership or association taxable as a corporation), any of the conditions specified in clauses (i), (ii), (iii) and (iv) may be satisfied by reference to each asset held pursuant to such grantor trust arrangement rather than by reference to such beneficial ownership interests.

"**Applicable Class Portfolio Selection Fee Rate**": With respect to (i) the Class A-1 Notes, 0.25%; (ii) the Class A-2 Notes, 0.25%; (iii) the Class B Notes, 0.50%; (iv) the Class C Notes, 0.50%; and (v) the Class D Notes, 1.00%.

"**Applicable Collateral Security Foreign Exchange Rate**": With respect to (i) a Collateral Security acquired with the proceeds of the offering of the Notes, or the receipt by the Issuer of an Additional Issuance Principal Amount or Currency Adjusted Reinstatement Adjustment Amount, the Applicable Series Foreign Exchange Rate of the related Notes issued or reinstated, as applicable and (ii) a Supplemental Collateral Security acquired with any Collateral Security Amortization Amount, Excess Principal Amount or Excess Disposition Proceeds, the Applicable Collateral Security Foreign Exchange Rate of the Collateral Security with respect to which such Collateral Security Amortization Amount, Excess Principal Amount or Excess Disposition Proceeds was received by the Issuer.

"**Applicable Index**": With respect to the Notes denominated in (i) AUD, AUD-LIBOR, (ii) CAD, CAD-LIBOR, (iii) Dollars, LIBOR, (iv) Euro, EURIBOR, (v) NZD, NZD-BBR, (vi), Sterling, GBP-LIBOR and (vii) Yen, JPY-LIBOR.

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"Applicable Index Determination Date": With respect to the determination of (i) LIBOR, JPY-LIBOR and NZD-BBR, the second Business Day prior to the commencement of an Interest Accrual Period; (ii) GBP-LIBOR, the first day of an Interest Accrual Period; (iii) EURIBOR, the second TARGET Settlement Day prior to the commencement of an Interest Accrual Period; and (iv) CAD-LIBOR and AUD-LIBOR, the second London Banking Day prior to an Interest Accrual Period.

"Applicable Percentage": With respect to any Reference Obligation on any date, the ratio of (A) the product of (x) the Initial Face Amount related to such Reference Obligation and (y) the Initial Factor related to such Reference Obligation and (B) the product of (x) the Original Principal Amount related to such Reference Obligation and (y) the Initial Factor related to such Reference Obligation (a) as increased by the outstanding principal balance of any further issues by the related Reference Entity that are fungible with and form part of the same legal series as such Reference Obligation; and (b) as decreased by any cancellations of some or all of the Reference Obligation Outstanding Principal Amount resulting from purchases of such Reference Obligation by or on behalf of the related Reference Entity.

"Applicable Period": With respect to (i) the first Interest Accrual Period, the period from and including the Closing Date to but excluding the first Payment Date and (ii) each Interest Accrual Period thereafter, one month (except with respect to the last Applicable Period, to but excluding the Stated Maturity).

"Applicable Series Foreign Exchange Rate": With respect to any Series of Notes denominated in (i) an Approved Currency other than Dollars, the Spot FX Rate at the time of issuance of such Series of Notes, as determined by the Credit Default Swap Calculation Agent and confirmed by the Collateral Administrator and (ii) Dollars, 100%.

"Applicable Spread": With respect to any Series of Notes issued on the Closing Date, the stated spread above or below the related Applicable Index as set forth in the Indenture or the Issuing and Paying Agency Agreement, as applicable, and on the related Notes, and with respect to any Series of Notes issued after the Closing Date, as set forth in the related offering circular supplement and on the related Notes.

"Approved Currency": Any of Australian Dollar, Canadian Dollar, Dollar, Euro, New Zealand Dollar, Sterling or Yen.

"Approved Dealer": Any of the Persons set forth below or their affiliates (including the successor to any such Person):

ABN AMRO Bank N.V.;

Banc of America Securities LLC;

Barclays Bank PLC;

Bear, Stearns & Co. Inc.;

BNP Paribas;

Canadian Imperial Bank of Commerce;

Citigroup, Inc.;

Commerzbank AG;

Countrywide Securities Corporation;

Credit Suisse Group;

Deutsche Bank AG;

Dresdner Bank AG;

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First Tennessee Bank National Association;

Goldman, Sachs & Co.;

Greenwich Capital Markets, Inc.;

HSBC Bank plc;

JP Morgan Chase & Co.;

Legg Mason, Inc.;

Lehman Brothers, Inc.;

Merrill Lynch & Co., Inc.;

Morgan Stanley & Co., Inc.;

Nomura Securities Co., Ltd.;

Raymond James Financial, Inc.;

Société Generale Group;

TD Bank Financial Group;

UBS AG;

United Capital Markets Inc.;

Wachovia Securities, LLC;

Washington Mutual, Inc; or

WestLB AG.

The list of Approved Dealers may be modified at any time by the Protection Buyer and the Portfolio Selection Agent upon mutual consent to such modification.

"**Asset-Backed Securities**" or "**ABS**": ABS Credit Card Securities, ABS Automobile Securities, ABS Car Rental Receivable Securities, ABS Small Business Loan Securities, ABS Student Loan Securities or ABS Other Securities, excluding, in each case, any securities that belong to an Excluded Specified Type.

"**AUD-LIBOR**": An amount determined only with respect to any Applicable Period for which Notes denominated in Australian Dollars are Outstanding. For purposes of calculating the Series Interest Rates for each Applicable Period, AUD-LIBOR shall equal AUD-LIBOR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, AUD-LIBOR shall be calculated by the Basis Swap Calculation Agent as follows:

(a) On each Applicable Index Determination Date, AUD-LIBOR shall equal the rate, as obtained by the Basis Swap Calculation Agent, for deposits in Australian Dollars for the Applicable Period which appears on the Telerate Page 3740 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or such page as may replace Telerate Page 3740, as of 11:00 a.m. (London time) on such Applicable Index Determination Date.

(b) If, on any Applicable Index Determination Date, such rate does not appear on Telerate Page 3740, or such page as may replace Telerate Page 3740, the Basis Swap Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for deposits in Australian Dollars for the Applicable Period in an amount determined by the Basis Swap Calculation

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Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the Applicable Index Determination Date made by the Basis Swap Calculation Agent to the Reference Banks. If, on any Applicable Index Determination Date, at least two of the Reference Banks provide such quotations, AUD-LIBOR shall equal the arithmetic mean of such quotations. If, on any Applicable Index Determination Date, only one or none of the Reference Banks provides such quotations, AUD-LIBOR shall be deemed to be the arithmetic mean of the rates quoted by major banks in Sydney selected by the Basis Swap Calculation Agent, at approximately 11:00 a.m. (Sydney time) are quoting on the relevant Applicable Index Determination Date for loans in Australian Dollars for the Applicable Period in an amount determined by the Basis Swap Calculation Agent equal to an amount that is representative for a single transaction in such market at such time to leading European banks; *provided, however,* that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, AUD-LIBOR shall be AUD-LIBOR as determined on the most recent date AUD-LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Basis Swap Calculation Agent.

(c) The Basis Swap Calculation Agent shall provide AUD-LIBOR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Series Interest Rates for the next Interest Accrual Period and the Series Interest Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Series Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Series Interest Rates and the Series Interest Amounts, together with its reasons therefor.

"**Australian Dollar**", "**A$**" and "**AUD**": The lawful currency of Australia.

"**Bank**": LaSalle Bank National Association, a national banking association organized and existing under the laws of the United States of America, but in its individual capacity and not as Trustee or Issuing and Paying Agent, and any successor thereto.

"**Bankruptcy Code**": The United States Bankruptcy Code, Title 11 of the United States Code, as amended.

"**Basis Swap Calculation Period**": An Interest Accrual Period.

"**Basis Swap Counterparty Credit Support Document**": The meaning assigned to the term "Credit Support Document" in the Basis Swap and initially, the Guaranty dated as of the Closing Date by GS Group in favor of the Issuer as beneficiary thereof with respect to the obligations of the Basis Swap Counterparty under the Basis Swap.

"**Basis Swap Counterparty Credit Support Provider**": The meaning assigned to the term "Credit Support Provider" in the Basis Swap and initially, GS Group.

"**Basis Swap Counterparty Default Termination Payment**": Any Basis Swap Termination Payment required to be made by the Issuer to the Basis Swap Counterparty pursuant to the Basis Swap

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in the event of a termination of the Basis Swap (i) in respect of which the Basis Swap Counterparty is the defaulting party, (ii) resulting from a downgrade of such Basis Swap Counterparty's credit rating or (iii) in which the Basis Swap Counterparty was the sole "Affected Party" (as such term is defined in the Basis Swap) (other than in connection with a "Tax Event" or "Illegality", in each case as defined in the Basis Swap).

"Basis Swap Early Termination": The occurrence of either a Basis Swap Event of Default or a Basis Swap Termination Event.

"Basis Swap Early Termination Date": An early termination date under the Basis Swap (other than as triggered by the Credit Default Swap or the Collateral Put Agreement).

"BIE Acceptance Notice": A notice from the Trustee or the Issuing and Paying Agent, as applicable, to an Originating Noteholder specifying (i) the BIE Collateral Security that will be substituted for an existing Collateral Security, (ii) each such Collateral Security to be substituted, (iii) the BIE Exercise Period, (iv) the BIE Transaction Cost, (v) the BIE Basis Swap Payment, (vi) account information of the Issuer for such Originating Noteholder to deliver such BIE Collateral Security to the Issuer and to present payment of the BIE Transaction Cost to the Issuer and (vii) account information for such Originating Noteholder to present payment of the BIE Basis Swap Payment to the Basis Swap Counterparty.

"BIE Basis Swap Payment": An amount equal to the greater of (i) the present value of (1) the Basis Swap Payments that the Basis Swap Counterparty would receive (assuming no such substitution(s) described in subclause (2) below occurred) less (2) the Basis Swap Payments that the Basis Swap Counterparty would receive (assuming that BIE Collateral Securities identified in any related Collateral Security Substitution Request Notice have been substituted for the existing Collateral Securities identified therein) and (ii) zero.

"BIE Collateral Security": A Collateral Security that a Noteholder proposes to substitute for part or all of an existing Collateral Security pursuant to the Indenture.

"BIE Collateral Security Eligibility Criteria": (i) The Collateral Security Eligibility Criteria, (ii) the consent of each of the Basis Swap Counterparty, the Collateral Put Provider and the Protection Buyer (which consent not to be unreasonably withheld in each case), (iii) the Collateral Weighted Average Life Test, (iv) the par amount of all BIE Collateral Securities described in the related Collateral Security Substitution Request Notice must equal or exceed the par amount of all existing Collateral Securities proposed to be substituted, (v) the Collateral Security Quantity Constraint and (vi) the Approved Currency in which such BIE Collateral Security is denominated must be the same as the Approved Currency in which the existing Collateral Securities proposed to be substituted are denominated.

"BIE Consent Solicitation": A notice from the Trustee or the Issuing and Paying Agent, as applicable, to each Noteholder, including the originating Noteholder, specifying (i) each Proposed New BIE Collateral Security and its par amount, (ii) each Collateral Security to be substituted and its par amount, and (iii) the BIE Notification Date.

"BIE Exercise Period": The period from and including the delivery of a BIE Acceptance Notice to but excluding the day that is three Business Days thereafter.

"BIE Notification Date": The Business Day by which a Noteholder must respond to a BIE Consent Solicitation, which date shall be 20 Business Days from the date of such BIE Consent Solicitation.

"BIE Transaction Cost": An amount, as determined by the Trustee equal to the aggregate amount of the expenses of the Issuer and the Trustee that would be incurred as a result of the proposed substitution of each BIE Collateral Security for part or all of an existing BIE Collateral Security.

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"**Business Day**": Any day other than (i) Saturday or Sunday or (ii) a day on which commercial banking institutions are authorized by law, regulation or executive order to close in New York, New York, in Chicago, Illinois or if a Listing, Paying and Transfer Agent has been appointed and action is required of the Listing, Paying and Transfer Agent, the location of the Listing, Paying and Transfer Agent (with respect to the obligations of such Listing, Paying and Transfer Agent only); *provided, however*, that for the sole purpose of calculating the Series Interest Rates for the relevant place of presentation, "Business Day" shall be defined as (i) with respect to the determination of LIBOR, any day on which dealings in deposits in Dollars are transacted in the London interbank market, (ii) with respect to the determination of EURIBOR, a day on which the TARGET System is available for settlement of Euro payments, (iii) with respect to the determination of GBP-LIBOR, any day on which dealings in deposits in Sterling are transacted in the London interbank market, (iv) with respect to the determination of JPY-LIBOR, any day on which dealings in deposits in Yen are transacted in the London interbank market, (v) with respect to the determination of AUD-LIBOR, any day on which dealings in deposits in AUD are transacted in the London interbank market, (vi) with respect to the determination of CAD-LIBOR, any day on which dealings in CAD are transacted in the London interbank market and (vii) with respect to the determination of NZD-BBR, any day on which dealings in deposits of NZ$ are transacted in the London interbank market.

"**CAD-LIBOR**": An amount determined only with respect to any Applicable Period for which Notes denominated in Canadian Dollars are Outstanding. For purposes of calculating the Series Interest Rates for each Applicable Period, CAD-LIBOR shall equal CAD-LIBOR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, CAD-LIBOR shall be calculated by the Basis Swap Calculation Agent as follows:

(a) On each Applicable Index Determination Date, CAD-LIBOR shall equal the rate, as obtained by the Basis Swap Calculation Agent, for deposits in Canadian Dollars for the Applicable Period which appears on the Telerate Page 3740 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or such page as may replace Telerate Page 3740, as of 11:00 a.m. (London time) on such Applicable Index Determination Date.

(b) If, on any Applicable Index Determination Date, such rate does not appear on Telerate Page 3740, or such page as may replace Telerate Page 3740, the Basis Swap Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for deposits in Canadian Dollars for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the Applicable Index Determination Date made by the Basis Swap Calculation Agent to the Reference Banks. If, on any Applicable Index Determination Date, at least two of the Reference Banks provide such quotations, CAD-LIBOR shall equal the arithmetic mean of such quotations. If, on any Applicable Index Determination Date, only one or none of the Reference Banks provides such quotations, CAD-LIBOR shall be the arithmetic mean of the rates quoted by major banks in Toronto selected by the Basis Swap Calculation Agent, at approximately 11:00 a.m. (Toronto time) are quoting on the relevant Applicable Index Determination Date for loans in Canadian Dollars for the Applicable Period in an amount determined by the Basis Swap Calculation Agent equal to an amount that is representative for a single transaction in such market at such time to leading European banks; *provided, however,* that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, CAD-LIBOR shall be CAD-LIBOR as determined on the most recent date CAD-LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Basis Swap Calculation Agent.

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(c) The Basis Swap Calculation Agent shall provide CAD-LIBOR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Series Interest Rates for the next Interest Accrual Period and the Series Interest Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Series Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Series Interest Rates and the Series Interest Amounts, together with its reasons therefor.

"**Canadian Dollar**", "**C$**" or "**CAD**": The legal currency of Canada.

"**Cash**": Such coin or currency of the United States of America, countries of the European Economic and Monetary Union who have adopted the Euro currency, Great Britain, Japan, Australia, New Zealand or Canada, as the case may be, as at the time shall be legal tender for payment of all public and private debts.

"**CDO Cashflow Securities**": Collateralized debt obligations, collateralized bond obligations or CLO Securities, including CDO Structured Product Securities, CDO Mortgage-Backed Securities and CDO Commercial Real Estate Securities, but, in each case, excluding any securities that belong to an Excluded Specified Type.

"**CDO Commercial Real Estate Securities**": CDO Cashflow Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of CMBS and/or REIT Debt Securities.

"**CDO Corporate Bond Securities**": CDO Cashflow Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from (and not the market value of) a portfolio of primarily high yield or investment grade bonds.

"**CDO Emerging Market Securities**": CDO Cashflow Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from (and not the market value of) a portfolio of investments, of which more than 20% are issued by issuers located in Emerging Market Countries.

"**CDO Market Value Securities**": Collateralized debt obligations, whose overcollateralization is measured with reference to the market value of the collateral portfolio securing such collateralized debt obligations.

"**CDO Mortgage-Backed Securities**": CDO Cashflow Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of Mortgage-Backed Securities.

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"CDO Single-Tranche Synthetic Securities": Any CDO Structured Product Security for which (i) the spread component of the interest payment related to such security is generally provided for by a tranched credit default swap with attachment and exhaustion points under which the related obligor has written credit protection and (ii) the obligor of which issues an aggregate principal amount of liabilities less than the reference portfolio notional amount under the related tranched credit default swap.

"CDO Structured Product Securities": CDO Cashflow Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from a portfolio diversified among categories of REIT Debt Securities, Asset-Backed Securities, Commercial Mortgage-Backed Securities, Residential Mortgage-Backed Securities or CDO Cashflow Securities or any combination of more than one of the foregoing, where exposure to such asset classes in the portfolio is either actual or synthetic, or solely of CDO Cashflow Securities (and which in any such case may include limited amounts of Corporate Securities), generally having the following characteristics:

(i) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium, and

(ii) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans and/or debt securities.

"CDO Trust Preferred Securities": Collateralized debt obligations backed primarily by a pool of either (a) bank trust preferred securities, (b) insurance trust preferred securities or (c) REIT Debt Securities that are trust preferred securities.

"Class": All of the Notes having the same priority.

"Class A Notes": Collectively, the Class A-1 Notes and the Class A-2 Notes.

"Class A-1 Notes": The Class A-1 Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Indenture and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class A-1 Notes issued on the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class A-1 Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"Class A-2 Notes": The Class A-2 Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Issuing and Paying Agency Agreement and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class A-2 Notes issued on the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class A-2 Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"Class B Notes": The Class B Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Issuing and Paying Agency Agreement and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class B Notes issued on the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class B Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"Class C Notes": The Class C Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Issuing and Paying Agency Agreement and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class C Notes issued on

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the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class C Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"**Class D Notes**": The Class D Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Issuing and Paying Agency Agreement and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class D Notes issued on the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class D Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"**Class FL Notes**": The Class FL Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Issuing and Paying Agency Agreement and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class FL Notes issued on the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class FL Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"**Class SS Notes**": The Class SS Variable Rate Notes, including any additional such Notes issued pursuant to the terms of the Indenture and having the applicable Series Interest Rate and Stated Maturity, in each case (with respect to any Series of Class SS Notes issued on the Closing Date) as set forth under "Summary—Notes" or (with respect to any Series of Class SS Notes issued after the Closing Date) as set forth in the related offering circular supplement.

"**Class Interest Distribution Amount**": With respect to any Class of Notes on any Payment Date, the aggregate of the Interest Distribution Amounts with respect to such Payment Date for each Series of Notes of such Class.

"**Class Notional Amount**": With respect to any Class of Notes on the Closing Date, the Initial Class Notional Amount of such Class of Notes; thereafter it will be increased or decreased as described under "Summary—Decrease in the Class Notional Amount of each Class of Notes" and "Summary—Increase in the Class Notional Amount of each Class of Notes".

"**Clearing Agencies**": Collectively, DTC, Euroclear and Clearstream.

"**Clearstream**": Clearstream Banking, société anonyme, a corporation organized under the laws of the Grand Duchy of Luxembourg.

"**CLO Securities**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from (and not the market value of) a portfolio of primarily loans.

"**Closing Date**": April 26, 2007.

"**CMBS Conduit Securities**": Commercial Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from a pool of commercial mortgage loans, generally having the following characteristics:

(i) the commercial mortgage loans have varying contractual maturities;

(ii) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used);

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(iii) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; and

(iv) repayment thereof can vary substantially from the contractual payment schedule (if any), with early repayment of individual loans depending on numerous factors specific to the particular obligors; however, in the case of loans bearing interest at a fixed rate, such loans or securities typically include significant or complete prepayment protection.

"CMBS Credit Tenant Lease Securities": Commercial Mortgage-Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases), generally have the following characteristics:

(i) the commercial mortgage loans or leases have varying contractual maturities;

(ii) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used);

(iii) the leases are secured by leasehold interests;

(iv) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk;

(v) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; and

(vi) the creditworthiness of such corporate tenants is an important factor in any decision to invest in these securities.

"CMBS Franchise Securities": Commercial Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from (a) a pool of franchise loans made to operators of franchises that provide oil, gasoline, restaurant or food services and provide other services related thereto and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. Such securities generally have the following characteristics:

(i) the loans, leases or subleases have varying contractual maturities;

(ii) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used);

(iii) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate;

(iv) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk;

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(v) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium;

(vi) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, a sublessee or third party of the underlying equipment; and

(vii) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value.

"CMBS Large Loan Securities": Commercial Mortgage-Backed Securities (other than CMBS Conduit Securities and CMBS Credit Tenant Lease Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage-Backed Securities) on the cash flow from a commercial mortgage loan or a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties, generally having the following characteristics:

(i) the commercial mortgage loans have varying contractual maturities;

(ii) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used);

(iii) the commercial mortgage loans are obligations of a limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk (including in comparison to CMBS Conduit Securities);

(iv) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium;

(v) the valuation of individual properties securing the commercial mortgage loans is the primary factor in any decision to invest in these securities; and

(vi) the commercial mortgage loans have relatively large average balances (including in comparison to RMBS).

"CMBS RE-REMIC Securities": Securities that represent an interest in a real estate mortgage investment conduit backed by CMBS.

"Co-Issued Notes": Collectively, the Class SS Notes and the Class A-1 Notes.

"Collateral": Collectively, the Collateral Securities and the Eligible Investments.

"Collateral Account": The segregated trust account into which the Issuer shall, from time to time, deposit Issuer Assets.

"Collateral Administration Agreement": The Collateral Administration Agreement, dated as of the Closing Date, between the Issuer and the Collateral Administrator.

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"**Collateral Administrator**": LaSalle Bank National Association, solely in its capacity as Collateral Administrator under the Collateral Administration Agreement, until a successor Person shall have become the Collateral Administrator pursuant to the applicable provisions of the Collateral Administration Agreement, and thereafter "Collateral Administrator" shall mean such successor Person.

"**Collateral Default**": An event of default (as defined in the relevant Underlying Instruments) which has (i) occurred and is continuing with respect to any of the Collateral (other than a Collateral Security that has been purchased with Excess Disposition Proceeds only and which at the time of its acquisition did not satisfy the requirements set forth in the Collateral Security Eligibility Criteria) and (ii) if the relevant Underlying Instruments require an acceleration to occur following an event of default (as defined in the relevant Underlying Instruments) in order to liquidate the related underlying collateral, resulted in such acceleration.

"**Collateral Put Agreement Early Termination**": The occurrence of either a Collateral Put Agreement Event of Default or a Collateral Put Agreement Termination Event.

"**Collateral Put Agreement Early Termination Date**": An early termination date under the Collateral Put Agreement (other than as triggered by the Credit Default Swap or the Basis Swap).

"**Collateral Put Provider Credit Support Document**": The meaning assigned to the term "Credit Support Document" in the Collateral Put Agreement and initially, the guaranty dated as of the Closing Date by GS Group with respect to the obligations of the Collateral Put Provider under the Collateral Put Agreement.

"**Collateral Put Provider Credit Support Provider**": The meaning assigned to the term "Credit Support Provider" in the Collateral Put Agreement and initially, GS Group.

"**Collateral Security Substitution Information Notice**": A notice from the Trustee or the Issuing and Paying Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder that (i) each Proposed New BIE Collateral Security identified in the related Collateral Security Substitution Request Notice is an Eligible BIE Collateral Security and (ii) the BIE Transaction Cost and the BIE Basis Swap Payment relating to such Proposed New BIE Collateral Security.

"**Collateral Security Substitution Noteholder Refusal Notice**": A notice from the Trustee or the Issuing and Paying Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder that the Holders of a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class did not approve the Proposed New BIE Collateral Security by the BIE Notification Date.

"**Collateral Security Substitution Refusal Notice**": A notice from the Trustee or the Issuing and Paying Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder that (i) one or more Proposed New BIE Collateral Securities identified in the related Collateral Security Substitution Request Notice is not an Eligible BIE Collateral Security, (ii) the identity of each Eligible BIE Collateral Security and (iii) the identity of each Proposed New BIE Collateral Security that is not an Eligible BIE Collateral Security.

"**Collateral Security Substitution Request Notice**": A notice from an Originating Noteholder to the Trustee or the Issuing and Paying Agent, as applicable, (i) requesting the substitution of one or more Proposed New BIE Collateral Securities for one or more existing Collateral Securities, (ii) identifying each Collateral Security and the par amount to be substituted, (iii) identifying each Proposed New BIE Collateral Security and the par amount and (iv) any other information that such Originating Noteholder deems relevant.

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"**Commercial Mortgage-Backed Securities**" or "**CMBS**": Securities that represent interests in, or enable holders thereof to receive payments that depend on the cashflow primarily from credit default swaps that reference, in each case, obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers and shall include, without limitation, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Franchise Securities, CMBS Large Loan Securities or CMBS RE-REMIC Securities, excluding, in each case, any securities that belong to an Excluded Specified Type.

"**Common Depository**": ABN AMRO Bank N.V. (London Branch) on behalf of Euroclear.

"**Corporate Securities**": Publicly issued or privately placed debt obligations of corporate issuers which are not REIT Debt Securities or Wrapped Securities.

"**Credit Default Swap Early Termination Date**": An early termination date under the Credit Default Swap (other than as triggered by the Basis Swap or the Collateral Put Agreement).

"**Credit Default Swap Fixed Rate Payer Calculation Period**": An Interest Accrual Period.

"**Credit Event Notice**": An irrevocable notice that describes a Credit Event.

"**Currency Adjusted Aggregate Outstanding Amount**": When used with respect to any or all of the Notes, the aggregate principal amount of such Notes when issued, as expressed in its currency of denomination and thereafter adjusted as described in "Summary—Decrease in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes" and "Summary—Increase in the Currency Adjusted Aggregate Outstanding Amount of each Series of Notes".

"**Currency Adjusted Redemption Refund Adjustment Amount**": Any Series of Notes' allocation of any Redemption Refund Adjustment Amount *divided by* the Applicable Series Foreign Exchange Rate.

"**Current Dollar Price**": For each Reference Obligation and at any time of determination, the product of (a) the Current Market Price for such Reference Obligation at such time and (b) the ICE Reference Obligation Notional Amount of such Reference Obligation at such time.

"**Current Market Price**": At any time of determination, with respect to a Reference Obligation, a percentage price determined by the Credit Default Swap Calculation Agent and confirmed by the Collateral Administrator by (a) using the pricing service used by the Collateral Administrator in its normal course of business for so long as the quote obtained from such pricing service has been provided by such pricing service within two Business Days of the time of such determination or (b) (1) if subclause (a) above is not applicable, asking five Approved Dealers to quote the offered-side price (excluding accrued interest) for such Reference Obligation (in an amount equal to its Reference Obligation Notional Amount) and (2) for so long as the Collateral Administrator is able to obtain one such quote from one such Approved Dealer, taking the arithmetic average of such quotation(s).

"**Current Period Implied Writedown Amount**": For each Reference Obligation, with respect to any Reference Obligation Calculation Period for such Reference Obligation, an amount determined as of the last day of such Reference Obligation Calculation Period equal to the greater of (i) zero and (ii) the product of (A) the Implied Writedown Percentage and (B) the greater of (1) zero and (2) the lesser of (x) the Pari Passu Amount and (y) the Pari Passu Amount plus the Senior Amount minus the aggregate outstanding asset pool balance securing the payment obligations on such Reference Obligation (all such outstanding asset pool balances as obtained by the Credit Default Swap Calculation Agent from the most

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recently dated Servicer Report available as of such day), calculated based on the face amount of the assets then in such pool, whether or not any such asset is performing.

"Day Count Fraction": With respect to Notes (x) denominated in Australian Dollars, Canadian Dollars, New Zealand Dollars and Sterling, calculations will be based on the actual number of days in the calculation period in respect of which payment is being made *divided by* 365 (or, if any portion of that calculation period falls in a leap year, the sum of (i) the actual number of days in that portion of the calculation period falling in a leap year *divided by* 366 and (ii) the actual number of days in that portion of the calculation period falling in a non-leap year *divided by* 365) and (y) denominated in Dollars, Euro, Francs, Krona and Yen, calculations will be based on the actual number of days in the calculation period in respect of which payment is being made *divided by* 360.

"Defaulted Interest": Any interest due and payable in respect of any Note which is not punctually paid or duly provided for on the applicable Payment Date or at the Stated Maturity, as the case may be.

"Determination Date": With respect to a Payment Date, the last Business Day of the immediately preceding Due Period.

"Disposition Proceeds": All Sale Proceeds and Put Proceeds.

"Distribution": Any payment of principal or interest or any dividend, premium or fee payment made on, or any other distribution in respect of, a security or obligation.

"Dollar": A dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for all debts, public and private.

"DTC": The Depository Trust Company, its nominees, and their respective successors.

"Due Period": With respect to any Payment Date or the Mandatory Redemption Date, the period commencing on the day immediately following the fifth Business Day prior to the preceding Payment Date (or, in the case of the Due Period relating to the first Payment Date, beginning on the Closing Date) and ending on (and including) the fifth Business Day prior to such Payment Date (or, in the case of a Due Period that is applicable to the Payment Date relating to the Stated Maturity of any Note, the Optional Redemption Date, a Partial Optional Redemption Date or the Mandatory Redemption Date, as the case may be, ending on (and including) the Business Day immediately preceding such Payment Date or Mandatory Redemption Date, as the case may be).

"Eligible BIE Collateral Security": A Proposed New BIE Collateral Security that satisfies the BIE Collateral Security Eligibility Criteria.

"Eligible Country": Any country of the European Economic and Monetary Union that has adopted the Euro currency that has long-term sovereign debt obligations rated at least "Aa2" by Moody's (or "Aa3" in the case of Italy) and for which such country has been assigned a foreign currency issuer credit rating of "AAA" by S&P.

"Eligible Investment": Any investment denominated in an Approved Currency that, at the time it is delivered to the Trustee, is one or more of the following obligations or securities:

(i) direct (and, in the case of investments denominated in Dollars, Registered) obligations of, and (and, in the case of investments denominated in Dollars, Registered) obligations fully guaranteed by, the United States, any Eligible Country, Great Britain, Japan, Canada or Australia or any agency or instrumentality of the United States, any Eligible Country, Great Britain, Japan, Canada or Australia the obligations of which are expressly backed

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by the full faith and credit of the United States, any Eligible Country, Great Britain, Japan, Canada or Australia, so long as the related obligor or guarantor is rated "AAA" or "A-1+" by S&P;

(ii) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by, any depository institution or trust company incorporated in the United States or any state thereof or any Eligible Country, Great Britain, Japan, Canada or Australia, which depository institution or trust company is subject to supervision and examination by federal or state authorities (or, in the case of investments denominated in Approved Currencies other than Dollars, governmental banking authorities) so long as (a) in the case of demand and time deposits, such deposits (x) are held by banks rated "P-1" by Moody's and "A-1+" by S&P (or at least "A-1" by S&P in the case of demand and time deposits in LaSalle Bank National Association for so long as it is the Trustee hereunder) and (y) are payable on demand daily without any restrictions and (b) in the case of certificates of deposit or banker's acceptances, the related depository institution or trust company is rated at least "A3" or "P-1" by Moody's and "AAA" or "A-1+" by S&P;

(iii) repurchase obligations with respect to (a) any security described in clause (i) above or (b) any other security issued or guaranteed by an agency or instrumentality of the United States, any Eligible Country, Great Britain, Japan, Canada or Australia, entered into with a depository institution or trust company described in clause (ii) above or entered into with a corporation whose long-term senior unsecured rating is at least "A1" by Moody's and "AA-" by S&P and whose short-term credit rating is "P-1" by Moody's and "A-1+" by S&P at the time of such investment, with a term not in excess of 91 days; *provided* that if the term is greater than 30 days from the time of delivery, it has a long-term rating of "AAA" by S&P;

(iv) commercial paper or other short-term obligations of a corporation, partnership, limited liability company or trust, or any branch or agency thereof located in the United States or any of its territories or any Eligible Country, Great Britain, Japan, Canada or Australia, such commercial paper or other short-term obligations having a credit rating of "P-1" by Moody's and "A-1+" by S&P, and that are Registered (in the case of investments denominated in Dollars) and either are interest bearing or are sold at a discount from the face amount thereof and have a maturity of not more than 91 days from their date of issuance in the case of S&P and Moody's; *provided* that if the term is greater than 30 days from the time of delivery, it has a long-term rating of "AAA" by S&P;

(v) offshore money market funds which have a credit rating of not less than "Aaa/MR1+" by Moody's and "AAA" or "AAAm" or "AAAm-G" by S&P;

(vi) Cash; and

(vii) any other investments subject to satisfaction of the S&P Rating Condition and the Moody's Rating Condition;

which, in any case, (A) is acquired from a party acting in its capacity as broker-dealer in the ordinary course of business, or in an arm's length open market transaction, and if not, is approved by S&P, (B) is acquired at a price of no more than 100% of par and (C) if such obligation or security is subject to any withholding tax, the obligor of the obligation or security is required to make "gross-up" payments that cover the full amount of such withholding tax on an after-tax basis pursuant to the Underlying Instrument with respect thereto.

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"**Emerging Market Country**": Any jurisdiction that is not the United States or does not have a foreign currency issuer rating of at least "AA-" by S&P and a long-term sovereign debt rating of at least "Aa3" by Moody's.

"**Enhanced Equipment Trust Certificate**": An enhanced equipment trust certificate.

"**EURIBOR**": An amount determined only with respect to any Applicable Period for which Notes denominated in Euros are Outstanding. For purposes of calculating the Series Interest Rates for each Applicable Period, EURIBOR shall equal EURIBOR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, EURIBOR shall be calculated by the Basis Swap Calculation Agent as follows:

(a) On the Applicable Index Determination Date, the Basis Swap Calculation Agent will determine EURIBOR, expressed per annum, for deposits in Euro for the Applicable Period by reference to offered quotation on Telerate Page 248 (or through a successor information service providing interest rates comparable thereto) as at 11:00 a.m. (Brussels time) on such Applicable Index Determination Date. In the event that the offered rate shown on the Telerate monitor is replaced by corresponding interest rates of more than one bank, the Basis Swap Calculation Agent shall determine the arithmetic mean of such interest rates (at least two) so displayed (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards). "Telerate" means the Associated Press-Dow Jones Telerate Service.

(b) In the event that the Telerate Page 248 is not available or if no quotation appears thereon on the Applicable Index Determination Date, the Basis Swap Calculation Agent shall request the principal offices within the Euro-zone of four leading banks in the Euro-zone as selected by the Basis Swap Calculation Agent (the "Euro Reference Banks") to provide the Basis Swap Calculation Agent with its offered quotation (expressed as a percentage per annum) for deposits in Euros for the Applicable Period to leading banks in the Euro-zone interbank market at approximately 11:00 a.m. (Brussels time) on the Applicable Index Determination Date. If at least two such quotations are provided, the EURIBOR for such Interest Accrual Period shall be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards) of such offered quotations, all as determined by the Basis Swap Calculation Agent. If, on the Applicable Index Determination Date only one or none of the Euro Reference Banks provides the Basis Swap Calculation Agent with such offered quotations, the EURIBOR for the relevant Interest Accrual Period shall be the rate per annum which the Basis Swap Calculation Agent determines to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005% being rounded upwards) of the rates, as communicated to (and at the request of) the Basis Swap Calculation Agent by leading banks in the Euro-zone as selected by the Basis Swap Calculation Agent, as at 11:00 a.m. (Brussels time) on the relevant Interest Determination Date, for loans in Euros for a period equal to the Applicable Period to leading banks in the Euro-zone; *provided, however*, that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with one of the procedures provided above, EURIBOR shall be EURIBOR as determined on the most recent date EURIBOR was available. As used herein, "Reference Banks" means four major banks in the European interbank market selected by the Basis Swap Calculation Agent.

(c) The Basis Swap Calculation Agent shall provide EURIBOR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Series Interest Rates for the next Interest Accrual Period and the Series Interest

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Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Series Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Series Interest Rates and the Series Interest Amounts, together with its reasons therefor.

"Euro", "Euros" and **"€"**: The currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time.

"Euroclear": The Euroclear System.

"Exchange Act": The U.S. Securities Exchange Act of 1934, as amended.

"Excluded Specified Types": Shall include: (i) ABS Aircraft Securities, (ii) ABS Future Flow Securities, (iii) ABS Health Care Receivable Securities, (iv) ABS Mutual Fund Fee Securities, (v) ABS Structured Settlement Securities, (vi) ABS Subprime Auto Securities, (vii) ABS Tax Lien Securities, (viii) ABS Timeshare Securities, (ix) CDO Corporate Bond Securities, (x) CDO Emerging Market Securities, (xi) CDO Market Value Securities, (xii) CMBS Credit Tenant Lease Securities, (xiii) CMBS Franchise Securities, (xiv) Corporate Securities, (xv) Enhanced Equipment Trust Certificates, (xvi) RMBS Manufactured Housing Securities, (xvii) CDO Trust Preferred Securities and (xviii) CDO Single-Tranche Synthetic Securities.

"Expected Principal Amount": With respect to any Reference Obligation and its Final Amortization Date or Legal Final Maturity Date, an amount equal to (i) the Reference Obligation Outstanding Principal Amount of such Reference Obligation payable on such day (excluding any amount representing capitalized interest that relates to the term of the Credit Default Swap) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the related Underlying Instruments, minus (ii) the sum of (A) the Aggregate Implied Writedown Amount with respect to such Reference Obligation (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the related Underlying Instruments) that are attributable to such Reference Obligation. The Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the related Underlying Instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Final Amortization Date": With respect to any Reference Obligation, the first to occur of (i) the date on which the Reference Obligation Notional Amount of such Reference Obligation is reduced to zero and (ii) the date on which the assets securing such Reference Obligation or designated to fund amounts due in respect of such Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Fitch": Fitch, Inc. and its subsidiaries and any successor or successors thereto.

"GBP-LIBOR": An amount determined only with respect to any Applicable Period for which Notes denominated in Sterling are Outstanding. For purposes of calculating the Series Interest Rates for each Applicable Period, GBP-LIBOR shall equal GBP-LIBOR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, GBP-LIBOR shall be calculated by the Basis Swap Calculation Agent as follows:

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(a) On each Applicable Index Determination Date, GBP-LIBOR shall equal the rate, as obtained by the Basis Swap Calculation Agent, for Sterling deposits in Europe for the Applicable Period which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or such page as may replace Telerate Page 3750, as of 11:00 a.m. (New York time) on such Applicable Index Determination Date.

(b) If, on any Applicable Index Determination Date, such rate does not appear on Telerate Page 3750, or such page as may replace Telerate Page 3750, the Basis Swap Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for Sterling deposits in Europe for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (New York time) on the Applicable Index Determination Date made by the Basis Swap Calculation Agent to the Reference Banks. If, on any Applicable Index Determination Date, at least two of the Reference Banks provide such quotations, GBP-LIBOR shall equal such arithmetic mean of such quotations. If, on any Applicable Index Determination Date, only one or none of the Reference Banks provides such quotations, GBP-LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Basis Swap Calculation Agent are quoting on the relevant Applicable Index Determination Date for Eurodollar deposits for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to the principal London offices of leading banks in the London interbank market; *provided*, *however*, that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, GBP-LIBOR shall be GBP-LIBOR as determined on the most recent date GBP-LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Basis Swap Calculation Agent.

(c) The Basis Swap Calculation Agent shall provide GBP-LIBOR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Series Interest Rates for the next Interest Accrual Period and the Series Interest Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Series Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Series Interest Rates and the Series Interest Amounts, together with its reasons therefor.

"**Global Notes**": Collectively, the Rule 144A Global Notes and the Regulation S Global Notes.

"**GS Group**": The Goldman Sachs Group, Inc.

"**Holder**" or "**Noteholder**": With respect to any Note, the Person in whose name such Note is registered in the Note Register or Issuer Note Register, as applicable.

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"ICE Aggregate USD Equivalent Outstanding Amount": When used with respect to any or all of the Notes, initially, the Aggregate USD Equivalent Outstanding Amount of such Class on the Closing Date; thereafter, it will be:

(a) decreased by an amount equal to:

(i) on the fifth Business Day following the calculation of any ICE Loss Amount, the product of (a) the related ICE Unscaled Credit Event Adjustment Amount and (b) the related Note Scaling Factor (such amount determined under this subclause (i), the **"ICE Credit Event Adjustment Amount"**);

(ii) on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), the Notional Principal Adjustment Amount with respect to such Class of Notes on such date;

(iii) on any Stated Maturity with respect to a Series of such Class, after giving effect to clauses (i) and (ii) above, the ICE Aggregate USD Equivalent Outstanding Amount of the Notes maturing on such date; and

(iv) on a Partial Optional Redemption Date, after giving effect to clauses (i) through (iii) above, the ICE Aggregate USD Equivalent Outstanding Amount of the Notes of such Class that are redeemed in connection with such Partial Optional Redemption; and

(b) increased on any day on which additional Notes of such Class are issued by the principal amount of such additional issuance (or the USD Equivalent of such principal amount if issued in an Approved Currency other than Dollars).

For the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations made on such date pursuant to subclauses (a)(i) through (iv) above will be based on the ICE Aggregate USD Equivalent Outstanding Amount of each Series of such Class, as expressed in Dollars.

On any date of determination, decreases to the ICE Aggregate USD Equivalent Outstanding Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate related ICE Credit Event Adjustment Amount (if any) and (ii) aggregate related Notional Principal Adjustment Amount (if any).

"ICE Aggregate USD Equivalent Outstanding Amount Differential": An amount equal to, with respect to any Class of Notes, at any time of determination, the greater of (i) the ICE Aggregate USD Equivalent Outstanding Amount of such Class at such time *less* the Aggregate USD Equivalent Outstanding Amount of such Class at such time and (ii) zero.

"ICE Class Notional Amount": With respect to any Class of Notes on the Closing Date, the Initial Class Notional Amount of such Class of Notes; thereafter it will be decreased by an amount (as expressed in Dollars) equal to:

(i) on the fifth Business Day following the calculation of any ICE Loss Amount, if greater than zero, the lesser of (a)(i) the related ICE Loss Amount *less* (ii) the ICE Class Notional Amount of all Classes of Notes that are subordinated to such Class immediately prior to such determination and (b) the ICE Class Notional Amount of such Class immediately prior to such determination (such amount, the **"ICE Unscaled Credit Event Adjustment Amount"**); and

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(ii) on the Payment Date immediately following the Due Period in which a Reference Obligation Amortization Amount is determined by the Credit Default Swap Calculation Agent on one or more Reference Obligation(s), the Unscaled Notional Principal Adjustment Amount with respect to such Class of Notes on such date.

On any date of determination, decreases to the ICE Class Notional Amount of any Class of Notes will be determined by giving effect, in the following order, to the (i) aggregate related ICE Unscaled Credit Event Adjustment Amount (if any) and (ii) aggregate related Unscaled Notional Principal Adjustment Amount (if any).

"ICE Class Notional Amount Differential": An amount equal to, with respect to a Class of Notes, at any time of determination, the greater of (i) the ICE Class Notional Amount of such Class at such time *less* the Class Notional Amount of such Class at such time and (ii) zero.

"ICE Currency Adjusted Accrued Interest Amount": With respect to any Series of Notes, an amount equal to the aggregate amount of interest accrued, at the applicable Series Interest Rate, during the related Interest Accrual Period on the average daily ICE Currency Adjusted Aggregate Outstanding Amount of such Series of Notes during the preceding Interest Accrual Period.

"ICE Currency Adjusted Aggregate Outstanding Amount": When used with respect to any or all of the Notes, the aggregate principal amount of such Notes when issued, as expressed in their currency of denomination and thereafter decreased:

(i) with respect to any ICE Credit Event Adjustment Amount or Notional Principal Adjustment Amount, by an amount equal the product of (a) such Notes' allocation of any ICE Credit Event Adjustment Amount or Notional Principal Adjustment Amount, as described in the definition of "ICE Aggregate USD Equivalent Outstanding Amount", as applicable, and (b) the Applicable Series Foreign Exchange Rate;

(ii) on the Stated Maturity with respect to a Series of Notes, after giving effect to any reductions pursuant to subclause (i) above, by the ICE Currency Adjusted Aggregate Outstanding Amount of such Notes; and

(iii) in connection with a Partial Optional Redemption of such Notes, after giving effect to any reductions pursuant to subclauses (i) and (ii) above, by the ICE Currency Adjusted Aggregate Outstanding Amount of such Notes redeemed in connection with such Partial Optional Redemption.

"ICE Currency Adjusted Aggregate Outstanding Amount Differential": An amount equal to, with respect any Series of Notes, at any time of determination, the greater of (i) the ICE Currency Adjusted Aggregate Outstanding Amount of such Series at such time *less* the Currency Adjusted Aggregate Outstanding Amount of such Series at such time and (ii) zero.

"ICE Currency Adjusted Interest Differential": With respect to any Series of Notes of any Class, an amount equal to (i) the ICE Currency Adjusted Accrued Interest Amount *less* (ii) the Interest Distribution Amount (other than with respect to clause (d) of the definition thereof) with respect to such Series of Notes.

"ICE Currency Adjusted Interest Reimbursement Amount": On any Payment Date, an amount equal to the aggregate of, with respect to any Series of Notes, the products of:

(i) the ICE Currency Adjusted Reimbursable Interest Amount relating to such Series of Notes on such Payment Date (prior to giving effect to subclause (D) in the definition thereof on such Payment Date); and

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(ii) the lesser of (a) 1 or (b) a fraction, the numerator of which is, if greater than zero, (1) the aggregate Unscaled Reinstatement Adjustment Amount of the Class related to such Series determined by the Credit Default Swap Calculation Agent during the related Due Period *less* (2) the aggregate Unscaled Credit Event Adjustment Amount of the Class related to such Series with respect to Credit Events determined by the Credit Default Swap Calculation Agent during the related Due Period, and the denominator of which is the ICE Class Notional Amount Differential of the Class related to such Series on the Determination Date immediately prior to the previous Payment Date; *provided*, *however*, that if such ICE Class Notional Amount Differential on the Determination Date immediately prior to the previous Payment Date is zero, then this subclause (ii) will be deemed to have a value of zero.

"**ICE Currency Adjusted Reimbursable Interest Amount**": On the Closing Date and with respect to any Series of Notes, zero. On any Payment Date thereafter, the ICE Currency Adjusted Reimbursable Interest Amount with respect to any Series shall equal the sum of:

(A) the product of (i) the ICE Currency Adjusted Reimbursable Interest Amount with respect to such Series on the immediately preceding Payment Date (or, in the case of the first Payment Date, the Closing Date) (after giving effect to any adjustments on the preceding Payment Date or the Closing Date, as the case may be, in accordance with this definition) and (ii) one *plus* the product of (a) the Series Interest Rate with respect to such Series and (b) the applicable Day Count Fraction; *plus*

(B) the ICE Currency Adjusted Interest Differential related to the immediately preceding Interest Accrual Period; *minus*

(C) with respect to any Reference Obligation that was removed from the Reference Portfolio during the preceding Due Period (if any), any ICE Currency Adjusted Reimbursable Interest Amount corresponding to the sum of any Loss Amounts determined with respect to such Reference Obligation that have not been subsequently reimbursed; *provided* that, for the avoidance of doubt, this section (C) will only be applicable if an ICE Loss Amount with respect to such Series has been calculated in connection with such removal; *minus*

(D) any ICE Currency Adjusted Interest Reimbursement Amount (including, for the avoidance of doubt, as a component of any Optional Redemption Reimbursement Amount) paid to such Series of Notes of such Class on such Payment Date.

"**ICE Loss Amount**": On (i) any Credit Default Swap Calculation Date, with respect to a Credit Event, the ICE Loss Amount will be zero; and (ii) any Business Day on which a Reference Obligation for which one or more Credit Events has occurred is removed from the Reference Portfolio, the sum of any Loss Amounts that have not been subsequently reimbursed with respect to such Reference Obligation prior to such removal; *provided* that, with respect to any Reference Obligation not denominated in Dollars, the ICE Loss Amount shall equal the product of (a) the ICE Loss Amount denominated in such other currency determined under subclauses (i) and (ii) above and (b) the applicable Notional Foreign Exchange Rate.

"**ICE Reference Obligation Notional Amount**": With respect to any Reference Obligation, an amount equal to the Initial Reference Obligation Notional Amount on the Closing Date and that will be decreased on each day on which a Principal Payment or a Reference Obligation Repayment Amount is determined by the Credit Default Swap Calculation Agent, by the relevant Reference Obligation Amortization Amount.

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"ICE Reference Obligation Notional Amount Differential": With respect to any Reference Obligation, the (i) ICE Reference Obligation Notional Amount of such Reference Obligation less (ii) the Reference Obligation Notional Amount of such Reference Obligation.

"Implied Rating": In the case of a rating of a Reference Obligation by a Rating Agency, a rating that is determined by reference to any publicly available, fully monitored rating by another rating agency that, by its terms, addresses the full scope of the payment promise of the obligor.

"Implied Writedown Amount": For each Reference Obligation, (i) if the related Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in clause (i) of the definition of "Writedown" to occur in respect of such Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Credit Default Swap Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of such Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero.

"Implied Writedown Percentage": For each Reference Obligation, the ratio of (i) the related Reference Obligation Outstanding Principal Amount *divided by* (ii) the related Pari Passu Amount.

"Implied Writedown Reimbursement Amount": With respect to any Reference Obligation, (i) if the related Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of such Reference Obligation, on any Reference Obligation Payment Date for such Reference Obligation, an amount determined by the Credit Default Swap Calculation Agent equal to the excess, if any, of the Previous Period Implied Writedown Amount for such Reference Obligation over the Current Period Implied Writedown Amount for such Reference Obligation, in each case in respect of the related Reference Obligation Calculation Period to which such Reference Obligation Payment Date relates, and (ii) in any other case, zero; *provided* that the aggregate of all Implied Writedown Reimbursement Amounts at any time with respect to a Reference Obligation shall not exceed the Reference Obligation Outstanding Principal Amount.

"Independent": As to any Person, any other Person (including a firm of accountants or lawyers and any member thereof) who (i) does not have and is not committed to acquire any material direct or any material indirect financial interest in such Person or in any Affiliate of such Person, (ii) is not connected with such Person as an officer, employee, promoter, underwriter, voting trustee, partner, director or Person performing similar functions and (iii) is not Affiliated with a firm that fails to satisfy the criteria set forth in (i) and (ii). "Independent" when used with respect to any accountant may include an accountant who audits the books of any Person if in addition to satisfying the criteria set forth above the accountant is independent with respect to such Person within the meaning of Rule 101 of the Code of Ethics of the American Institute of Certified Public Accountants.

"Initial Class Notional Amount": With respect to: (i) the Class SS Notes, $1,100,000,000; (ii) the Class A-1 Notes, $200,000,000; (iii) the Class A-2 Notes, $280,000,000; (iv) the Class B Notes, $60,000,000; (v) the Class C Notes, $100,000,000; (vi) the Class D Notes, $60,000,000; and (vii) the Class FL Notes, $200,000,000; in each case denominated in Dollars or the USD Equivalent of any Approved Currency other than Dollars.

"Initial Face Amount": For each Reference Obligation, an amount as specified in the Reference Obligation Registry at the time of inclusion of such Reference Obligation in the Reference Portfolio, or, if such Reference Obligation is not denominated in Dollars, the product of (i) such amount and (ii) the applicable Notional Foreign Exchange Rate.

"Initial Factor": For each Reference Obligation, the factor for such Reference Obligation on the Closing Date, as specified in the Reference Obligation Registry.

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"**Initial Purchaser**": Goldman, Sachs & Co.

"**Initial Reference Obligation Notional Amount**": For (i) each Dollar denominated Reference Obligation, the notional amount of such Reference Obligation as recorded in the Reference Obligation Registry, and (ii) each Reference Obligation denominated in a currency other than Dollars, the product of (a) the notional amount of such Reference Obligation denominated in such other currency as recorded in the Reference Obligation Registry and (b) its Notional Foreign Exchange Rate, in each case as of the time of inclusion of such Reference Obligation in the Reference Portfolio.

"**Initial Reference Portfolio**": The portfolio of Reference Obligations on the Closing Date.

"**Initial Reference Portfolio Notional Amount**": The aggregate Reference Obligation Notional Amount of the Initial Reference Portfolio.

"**Insurer**": With respect to any Reference Obligation, the Insurer set out in Schedule A with respect to such Reference Obligation.

"**Interest Accrual Period**": The period from and including the Closing Date to but excluding the first Payment Date, and each successive period from and including each Payment Date to but excluding the following Payment Date (except with respect to the Payment Date preceding the Stated Maturity or the Mandatory Redemption Date, as the case may be, to but excluding the Stated Maturity or the Mandatory Redemption Date, as the case may be).

"**Interest Distribution Amount**": With respect to any Payment Date and with respect to any Series of Notes, the sum of:

(a) the aggregate amount of interest accrued, at the applicable Series Interest Rate, during the related Interest Accrual Period on the average daily Currency Adjusted Aggregate Outstanding Amount of such Series of Notes during the preceding Interest Accrual Period;

(b) the aggregate amount of interest accrued, at the applicable Series Interest Rate, during the related Interest Accrual Period, on any Defaulted Interest relating to such Series of Notes;

(c) any Defaulted Interest relating to such Series of Notes; and

(d) any ICE Currency Adjusted Interest Reimbursement Amount allocable to such Series.

"**Interest Proceeds**": With respect to any Payment Date (including the Optional Redemption Date or any Partial Optional Redemption Date, the Mandatory Redemption Date and/or the Stated Maturity), without duplication:

(i) the portion of the Collateral Interest Amount actually received during the related Due Period;

(ii) the Monthly Basis Swap Payment received on such Payment Date;

(iii) the Fixed Payment (for the avoidance of doubt, excluding those related amounts deposited in the CDS Issuer Fixed Payment Subaccount on such Payment Date but including those related amounts released from the CDS Issuer Fixed Payment Subaccount on such Payment Date) with respect to such Payment Date;

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(iv) any ICE Currency Adjusted Interest Reimbursement Amounts received during the related Due Period;

(v) after an event of default, as such term is defined under the Collateral Put Agreement, any interest payment received by the Issuer from the Posted Collateral during the related Due Period (but not to exceed the amount of the Collateral Put Provider's obligations owed to the Issuer); and

(vi) all payments of principal on Eligible Investments purchased with the proceeds of any of items (i), (ii), (iii), (iv) and (v) of this definition (without duplication) received during the related Due Period;

provided, that, prior to an event of default, as such term is defined in the Collateral Put Agreement, any payments received by the Issuer under the Posted Collateral shall not constitute "Interest Proceeds" and such amounts shall be deposited in the Collateral Put Provider Account and be treated in accordance with the Credit Support Annex, if any.

"**Investment Company Act**": The U.S. Investment Company Act of 1940, as amended.

"**ISDA Credit Derivatives Definitions**": The 2003 Credit Derivative Definitions published by the International Swap and Derivatives Association, Inc., as supplemented by the May 2003 Supplement to the 2003 Credit Derivatives Definitions.

"**Issuer Assets**": All money (except for money, securities, investments and agreements in the Issuer's bank account in the Cayman Islands), instruments and other property and rights, including, without limitation, the Collateral and the Issuer's rights under the Credit Default Swap, the Basis Swap, the Collateral Put Agreement, the Collateral Disposal Agreement and the Portfolio Selection Agreement, subject to or intended to be subject to the lien of the Indenture for the benefit of the Secured Parties as of any particular time, including all Proceeds thereof and the rights, title and interest granted by the Issuer to the Trustee under the Indenture.

"**Issuer Note Register**": The register maintained by the Issuing and Paying Agent or any Issuer Note Registrar with respect to the Issuer Notes under the Issuing and Paying Agency Agreement.

"**Issuer Note Registrar**": The agent appointed by the Issuer under the Issuing and Paying Agency Agreement to act as note registrar for the purpose of registering and recording in the Issuer Note Register the Issuer Notes and transfers of such Notes.

"**Issuer Notes**": Collectively, the Class A-2 Notes, the Class B Notes, the Class C Note, the Class D Notes and the Class FL Notes.

"**JPY-LIBOR**": An amount determined only with respect to any Applicable Period for which Notes denominated in Yen are Outstanding. For purposes of calculating the Series Interest Rates for each Applicable Period, JPY-LIBOR shall equal JPY-LIBOR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, JPY-LIBOR shall be calculated by the Basis Swap Calculation Agent as follows:

(a) On each Applicable Index Determination Date, JPY-LIBOR shall equal the rate, as obtained by the Basis Swap Calculation Agent, for deposits in Yen for the Applicable Period which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or such page as may replace Telerate Page 3750, as of 11:00 a.m. (New York time) on such Applicable Index Determination Date.

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(b) If, on any Applicable Index Determination Date, such rate does not appear on Telerate Page 3750, or such page as may replace Telerate Page 3750, the Basis Swap Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for deposits in Yen for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (New York time) on the Applicable Index Determination Date made by the Basis Swap Calculation Agent to the Reference Banks. If, on any Applicable Index Determination Date, at least two of the Reference Banks provide such quotations, JPY-LIBOR shall equal such arithmetic mean of such quotations. If, on any Applicable Index Determination Date, only one or none of the Reference Banks provides such quotations, JPY-LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in Tokyo selected by the Basis Swap Calculation Agent are quoting on the relevant Applicable Index Determination Date for loans in Yen for the Applicable Period in an amount determined by the Basis Swap Calculation Agent equal to an amount that is representative for a single transaction in such market at such time to leading European banks; *provided, however*, that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, JPY-LIBOR shall be JPY-LIBOR as determined on the most recent date JPY-LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Basis Swap Calculation Agent.

(c) The Basis Swap Calculation Agent shall provide JPY-LIBOR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Series Interest Rates for the next Interest Accrual Period and the Series Interest Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Series Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Series Interest Rates and the Series Interest Amounts, together with its reasons therefor.

"Legal Final Maturity Date": With respect to any Reference Obligation, the "Rated Final Maturity Date" set out in Schedule A with respect to such Reference Obligation (subject, for the avoidance of doubt, to any business day convention applicable to the legal final maturity date of the Reference Obligation), *provided* that if the legal final maturity date of the Reference Obligation is amended, the Legal Final Maturity Date shall be such date as amended.

"LIBOR": An amount determined only with respect to any Applicable Period for which Notes denominated in Dollars are Outstanding. For purposes of calculating the Series Interest Rates for each Applicable Period, LIBOR shall equal LIBOR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, LIBOR shall be calculated by the Basis Swap Calculation Agent as follows:

(a) On each Applicable Index Determination Date, LIBOR shall equal the rate, as obtained by the Basis Swap Calculation Agent, for Eurodollar deposits for the Applicable Period which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or

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such page as may replace Telerate Page 3750, as of 11:00 a.m. (New York time) on such Applicable Index Determination Date.

(b) If, on any Applicable Index Determination Date, such rate does not appear on Telerate Page 3750, or such page as may replace Telerate Page 3750, the Basis Swap Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for Eurodollar deposits for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (New York time) on the Applicable Index Determination Date made by the Basis Swap Calculation Agent to the Reference Banks. If, on any Applicable Index Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any Applicable Index Determination Date, only one or none of the Reference Banks provides such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Basis Swap Calculation Agent are quoting on the relevant Applicable Index Determination Date for Eurodollar deposits for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to the principal London offices of leading banks in the London interbank market; *provided, however*, that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be LIBOR as determined on the most recent date LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Basis Swap Calculation Agent.

(c) The Basis Swap Calculation Agent shall provide LIBOR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Series Interest Rates for the next Interest Accrual Period and the Series Interest Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Series Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Series Interest Rates and the Series Interest Amounts, together with its reasons therefor.

"**London Banking Day**": A day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"**Majority**": With respect to the Notes or any Class thereof, the Holders of more than 50% of the Aggregate USD Equivalent Outstanding Amount of the Notes or of such Class, as the case may be.

"**Makewhole Amount**": In connection with an Optional Redemption in Whole prior to the Payment Date in April 2010, an amount calculated by the Trustee equal to the net present value of a stream of fixed payments, such fixed payments being the Portfolio Selection Fees related to the Notes being redeemed, that would have been payable to the Portfolio Selection Agent from the redemption date to the Payment Date in April 2010, discounted from and including the date of calculation to but excluding the Payment Date in April 2010, (x) at the applicable rate (the "**LIBOR Swap Rate**") on London interbank offered rate swap agreements ("**LIBOR Swaps**") (determined, if necessary, by interpolating linearly between the LIBOR Swap and the term closest to and greater than the time from the redemption date to

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the Payment Date in April 2010 and the LIBOR Swap with the term closest to and less than the time from the redemption date to the Payment Date in April 2010 as reported on page 19901 on the Telerate Access Service (or any successor page on such service) as of 10:00 a.m. (New York time) on the tenth Business Day preceding the related redemption date or (y) if such LIBOR Swap Rates are not reported or are not ascertainable, the LIBOR Swap Rate as determined by the Calculation Agent in accordance with the calculation of LIBOR.

"**Maximum Redemption Refund Amount**": With respect to the Stated Maturity of any Series of Notes or in connection with a Mandatory Redemption caused by a termination of the Credit Default Swap as a result of a default by the Protection Buyer, a termination of the Collateral Put Agreement as a result of a default by the Collateral Put Provider or a termination of the Basis Swap as a result of a default by the Basis Swap Counterparty, if an ICE Reference Obligation Notional Amount Differential is greater than zero with respect to one or more Reference Obligations (a) that remain in the Reference Portfolio at such time of determination, (b) with respect to which the ICE Reference Obligation Notional Amount Differential was equal to zero on the day that was one calendar year prior to such time of determination, (c) that, at the time of such determination, has an Actual Rating above (1) if rated by Moody's, "Ca" or (2) if rated by S&P, "CC" and (d) with respect to which no Credit Event (other than a Writedown) has occurred at any time on or prior to such time of determination, an amount, if greater than zero, equal to the aggregate of the differences, determined for each such Reference Obligation, of (i) the ICE Reference Obligation Notional Amount Differential of such Reference Obligation and (ii) if greater than zero, the ICE Reference Obligation Notional Amount of such Reference Obligation less the related Current Dollar Price.

"**Moody's**": Moody's Investors Service, Inc. and any successor or successors thereto.

"**Moody's Rating**": The following definition of "Moody's Rating" has been provided to the Issuer by Moody's and capitalized terms used therein with respect to types of securities have the meanings ascribed thereto by Moody's. With respect to an Obligation, a rating to be determined as follows:

(1) if such Obligation has an expressly monitored outstanding rating assigned by Moody's, which rating by its terms addresses the full scope of the payment promise of the obligor of such Obligation, the Moody's Rating shall be such rating, or if such Obligation is not rated by Moody's, but a request has been made to Moody's for a rating to such Obligation, the Moody's Rating shall be the rating so assigned by Moody's; *provided* that for purposes of this definition,

(i) the rating assigned by Moody's to an Obligation placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by two subcategories, and

(ii) the rating assigned by Moody's to an Obligation placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by two subcategories; *provided* that an Obligation rated "Aa1" by Moody's that is placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by one rating subcategory; and

(2) (i) if such Obligation is not rated by Moody's but is rated by S&P, then the Moody's Rating of such Obligation may be an Implied Rating determined by subtracting the number of subcategories from the Moody's equivalent rating according to the following table ("notching"):

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ASSET CLASS	AAA to AA-	A+ to BBB-	Below BBB-
Asset Backed			
Agricultural and Industrial Equipment loans	1	2	3
Aircraft and Auto leases	2	3	4
Arena and Stadium Financing	1	2	3
Auto loan	1	2	3
Boat, Motorcycle, RV, Truck	1	2	3
Computer, Equipment and Small-ticket item leases	1	2	3
Consumer Loans	1	3	4
Credit Card	1	2	3
Cross-border transactions	1	2	3
Entertainment Royalties	1	2	3
Floor Plan	1	2	3
Franchise Loans	1	2	4
Future Receivables	1	1	2
Health Care Receivables	1	2	3
Manufactured Housing	1	2	3
Mutual Fund Fees	1	2	4
Small Business Loans	1	2	3
Stranded Utilities	1	2	3
Structured Settlements	1	2	3
Student Loan	1	2	3
Tax Liens	1	2	3
Trade Receivables	2	3	4
	AAA	**AA+ to BBB-**	**Below BBB-**
Residential Mortgage Related			
Jumbo A	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential B&C)	1	2	3

(ii) if such Obligation is dual-rated Jumbo A or Alt-A, the Moody's Rating shall be the rating determined in subclause (i) above, *plus* one-half of a subcategory;

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(iii) if such Obligation is not rated by Moody's but is rated by S&P and is a Commercial Mortgage-Backed Security, the Moody's Rating of such Obligation may be determined by subtracting the number of subcategories from the Moody's equivalent rating according to the following table:

	Tranche rated by S&P; no tranche in deal rated by Moody's	Tranche rated by S&P; at least one other tranche in deal rated by Moody's
Commercial Mortgage Backed Securities		
Conduit[1]	2 notches from S&P	1.5[2] notches from S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	No notching permitted	

[1] For purposes of the "Moody's Rating", conduits are defined as fixed rate, sequential pay, multi-borrower transactions having a Herfindahl score of 40 or higher at the loan level with all collateral including conduit loans, A notes, large loans, Credit Tenant Leases and any other real estate collateral factored in.

[2] A 1.5 notch haircut implies, for example, that if the S&P rating were BBB, then the Moody's Rating would be halfway between the Baa3 and Ba1 rating factors.

(iv) if such Obligation is a CDO Cashflow Security, no notching is permitted and the Moody's Rating shall be the rating so assigned by Moody's;

provided that (1) any ratings by S&P used to determined a Moody's Ratings shall (a) address the full return of interest and principal; (b) be for the benefit of multiple investors and remain valid if the Obligation is transferred to subsequent investors; (c) be actually expressly monitored ratings rather than any "credit estimate" or "shadow rating" and (d) be monitored through the life of the Obligation and (2) no notching is permitted based upon a rating by S&P with an "r", "t" or "Pi" subscript; and *provided, further*, that the aggregate Reference Obligation Notional Amount of Reference Obligations that may be given a Moody's Rating based on Reference Obligations rated by only S&P may not exceed 7.5% of the Initial Reference Portfolio Notional Amount; and *provided, further*, that Asset-Backed Securities or Mortgage-Backed Securities, other than those listed in this paragraph (2) and any RMBS Agency Securities, shall have the rating assigned by Moody's.

"Moody's Rating Condition": With respect to any proposed action to be taken under the Indenture or any other document contemplated by the Indenture, a condition that is satisfied when Moody's has confirmed in writing to the Issuer and/or the Trustee that an immediate withdrawal or reduction with respect to any then-current rating by Moody's of any Class of Notes will not occur as a result of such proposed action.

"Mortgage-Backed Securities": Any Residential Mortgage-Backed Securities or Commercial Mortgage-Backed Securities.

"New Zealand Dollar", "NZD" or **"NZ$"**: The official currency of New Zealand.

"Non-U.S. Obligor": An issuer or obligor of a Reference Obligation that (i) is not a Special Purpose Vehicle and (ii) is organized in a sovereign jurisdiction other than the United States of America.

"Note Payment Sequence": The application, in accordance with the Priority of Payments, of Principal Proceeds, in the following order: to the payment of principal of the Class SS Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class A-1 Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class A-2 Notes until redeemed or

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otherwise paid in full, then to the payment of principal of the Class B Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class C Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class D Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class FL Notes until redeemed or otherwise paid in full; *provided* that (i) with respect to any Class of Notes issued in more than one Series, allocation of principal to Notes of each related Series will be made *pro rata* based on (a) the Aggregate USD Equivalent Outstanding Amount of such Notes (other than in connection with a Mandatory Redemption) and (b) the Dollar equivalent principal amount of such Notes determined using the Spot FX Rate as of the third Business Day immediately prior to such Mandatory Redemption Date (in connection with a Mandatory Redemption) and (ii) principal will be applied to Notes in the Approved Currency in which such Notes are denominated up to the Currency Adjusted Aggregate Outstanding Amount of such Notes.

"**Note Register**": The register maintained by the Trustee or any Note Registrar with respect to the Co-Issued Notes under the Indenture.

"**Note Registrar**": The agent appointed by the Issuer under the Indenture to act as note registrar for the purpose of registering and recording in the Note Register the Co-Issued Notes and transfers of such Notes.

"**Note Scaling Factor**": On any date of determination, with respect to any Class of Notes, a fraction equal to (i) the Aggregate USD Equivalent Outstanding Amount of such Class of Notes on such Date *divided by* (ii) the Class Notional Amount of such Class of Notes on such date. For the avoidance of doubt, the Note Scaling Factor may exceed 1.

"**Noteholder**": A Holder of the Notes of any Class.

"**Noteholder Communication Notice**": A notice from an Originating Noteholder to the Trustee or the Issuing and Paying Agent, as applicable, the contents of which are to be delivered by the Trustee or the Issuing and Paying Agent, as applicable to all other Noteholders in accordance with the Indenture or the Issuing and Paying Agency Agreement, as applicable.

"**Notes**": Collectively, the Class SS Notes, the Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class FL Notes.

"**Notice of Publicly Available Information**": An irrevocable notice from the Protection Buyer to the Trustee (which shall forward such notice to the Issuers, the Rating Agencies and the Collateral Disposal Agent) (which may be by telephone) that cites Publicly Available Information confirming the occurrence of a Credit Event. The notice must contain a copy, or a description in reasonable detail, of the relevant Publicly Available Information.

"**Notional Foreign Exchange Rate**": The Spot FX Rate determined as of the Closing Date.

"**Notional Principal Amount**": On any date of determination, the Reference Obligation Amortization Amounts.

"**NZD-BBR**": NZD-BBR will be an amount determined only with respect to any Applicable Period for which Notes denominated in New Zealand Dollars are Outstanding. For purposes of calculating the Issuance Interest Rates for each Applicable Period, NZD-BBR shall equal NZD-BBR as used in the calculation of the Monthly Basis Swap Payment for such Applicable Period. For purposes of calculating the Monthly Basis Swap Payment for each Applicable Period, NZD-BBR shall be calculated by the Basis Swap Calculation Agent as follows:

(a) On each Applicable Index Determination Date, NZD-BBR shall equal the rate, as obtained by the Basis Swap Calculation Agent, for deposits in New Zealand Dollar bills of

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exchange for the Applicable Period which appears on the Telerate Page 2484 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or such page as may replace Telerate Page 2484, as of 11:00 a.m. (Wellington time) on such Applicable Index Determination Date.

(b) If, on any Applicable Index Determination Date, such rate does not appear on Telerate Page 2484, or such page as may replace Telerate Page 2484, the Basis Swap Calculation Agent shall determine the arithmetic mean on the basis of the bid and offered rates of the Reference Banks for New Zealand Dollar bills of exchange for the Applicable Period in an amount determined by the Basis Swap Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (Wellington time) on the Applicable Index Determination Date made by the Basis Swap Calculation Agent to the principal New Zealand office of each of the Reference Banks. If, on any Applicable Index Determination Date, at least two of the Reference Banks provide sets of bid and offered rate quotations, NZD-BBR shall equal the arithmetic mean of such quotations. If, on any Applicable Index Determination Date, only one or none of the Reference Banks provides such bid and offered rate quotations, NZD-BBR shall be the arithmetic mean of the rates quoted by major banks in New Zealand selected by the Basis Swap Calculation Agent, at approximately 11:00 a.m. (Wellington time) are quoting on the relevant Applicable Index Determination Date for New Zealand Dollar bills of exchange for the Applicable Period in an amount determined by the Basis Swap Calculation Agent equal to an amount that is representative for a single transaction in such market at such time; *provided, however,* that if the Basis Swap Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, NZD-BBR shall be NZD-BBR as determined on the most recent date NZD-BBR was available. As used herein, "Reference Banks" means four major banks in the New Zealand money market selected by the Basis Swap Calculation Agent.

(c) The Basis Swap Calculation Agent shall provide NZD-BBR to the Note Calculation Agent as promptly as practicable following the determination thereof. As soon as possible after 11:00 a.m. (New York time) on each Applicable Index Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each Applicable Index Determination Date, the Note Calculation Agent will cause notice of the Issuance Interest Rates for the next Interest Accrual Period and the Issuance Interest Amounts (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, the Issuing and Paying Agent, if applicable, Euroclear, Clearstream and the paying agents. The Note Calculation Agent will also specify to the Issuers the quotations upon which the Issuance Interest Rates are based, and in any event the Note Calculation Agent shall notify the Issuers before 5:00 p.m. (New York time) on each Applicable Index Determination Date if it has not determined and is not in the process of determining the Issuance Interest Rates and the Issuance Interest Amounts, together with its reasons therefor.

"Obligation": A Reference Obligation, a Collateral Security or an Eligible Investment, as the case may be.

"Optional Redemption Date": Any Payment Date specified for an Optional Redemption in Whole.

"Optional Redemption Reimbursement Amount": With respect to any Reversible Loss Series, the aggregate of the following amounts:

(i) the ICE Currency Adjusted Aggregate Outstanding Amount Differential with respect to such Series; and

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(ii) the ICE Currency Adjusted Reimbursable Interest Amount with respect to such Series.

"**Original Principal Amount**": For each Reference Obligation, the outstanding principal balance of such Reference Obligation as of the issuance date of such Reference Obligation, as recorded in the Reference Obligation Registry.

"**Originating Noteholder**": With respect to (i) any Collateral Security Substitution Request Notice, the Noteholder(s) submitting such Collateral Security Substitution Request Notice and (ii) any Noteholder Communication Notice, the Noteholder(s) submitting such Noteholder Communication Notice.

"**Outstanding**": With respect to the principal amount of any Note of any Class, as of any time of determination, the principal amount of such Note after giving effect to (i) each reduction (if any) in the principal amount of such Note as described in "Summary—Notes—Decrease in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", (ii) each increase (if any) in the principal amount of such Note as described in "Summary—Notes—Increase in the Aggregate USD Equivalent Outstanding Amount of each Class of Notes", (iii) each payment (if any) of the principal amount of such Note and (iv) any additional Notes of such Class issued pursuant to the Indenture, in each case prior to such time of determination; except:

(a) Notes theretofore cancelled by the Note Registrar or the Issuer Note Registrar, as applicable or delivered to the Note Registrar or the Issuer Note Registrar, as applicable, for cancellation;

(b) Notes or, in each case, portions thereof for whose payment or redemption funds in the necessary amount have been theretofore irrevocably deposited with the Trustee or any Paying Agent in trust for the Holders of such Notes; *provided* that if such Notes or portions thereof are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or the Issuing and Paying Agency Agreement, as applicable or provision therefor satisfactory to the Trustee or the Issuing and Paying Agent, as applicable, has been made;

(c) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture or the Issuing and Paying Agency Agreement, as applicable, unless proof satisfactory to the Trustee or the Issuing and Paying Agent, as applicable, is presented that any such original Notes are held by a holder in due course;

(d) Notes alleged to have been mutilated, destroyed, lost or stolen for which replacement Notes have been issued as provided in the Indenture;

(e) in determining whether the Holders of the requisite Aggregate USD Equivalent Outstanding Amount have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Issuer or the Co-Issuer shall be disregarded and deemed not to be Outstanding, except that in determining whether the Trustee or Issuing and Paying Agent, as applicable, shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that a Trust Officer of the Trustee or the Issuing and Paying Agent, as applicable, knows to be so owned shall be so disregarded;

(f) for the avoidance of doubt, any Notes held by, or with respect to which discretionary voting rights are held by, the Initial Purchaser and/or its Affiliates or its respective employees will have voting rights with respect to all matters as to which the Holders of Notes are entitled to vote;

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(g) for the avoidance of doubt, any Notes held by, or with respect to which discretionary voting rights are held by, the Portfolio Selection Agent and/or its Affiliates or by any account or fund for which the Portfolio Selection Agent or any Affiliate has discretionary authority will have voting rights with respect to all matters as to which the Holders of Notes are entitled to vote; and

(h) Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee or the Issuing and Paying Agent, as applicable, that the pledgee has the right so to act with respect to such Notes and the pledgee is not the Issuer, the Co-Issuer or any other obligor upon the Notes or any Affiliate of the Issuer, the Co-Issuer or such other obligor.

"Pari Passu Amount": For each Reference Obligation, as of any date of determination, the aggregate of the Reference Obligation Outstanding Principal Amount of such Reference Obligation and the aggregate outstanding principal balance of all obligations of the related Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with such Reference Obligation.

"Partial Optional Redemption Date": Any Payment Date specified for a Partial Optional Redemption.

"Payment Date": The 28th of each month or if such day is not a Business Day, the next succeeding Business Day, commencing May 29, 2007 and ending on the Stated Maturity.

"Payment Default": Any Event of Default specified in subclauses (i), (ii), (v) or (vi) of the definition of such term.

"Person": An individual, corporation (including a business trust), partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), bank, unincorporated association or government or any agency or political subdivision thereof or any other entity of a similar nature.

"Portfolio Selection Agreement": An agreement dated as of the Closing Date, between the Issuer and the Portfolio Selection Agent relating to the Portfolio Selection Agent's performance on behalf of the Issuer of certain investment management duties with respect to the Reference Portfolio, as amended from time to time in accordance with its terms and the terms of the Indenture.

"Posted Collateral": Any collateral posted by the Collateral Put Provider to the Issuer pursuant to the Credit Support Annex, if any.

"Previous Period Implied Writedown Amount": For each Reference Obligation, with respect to any Reference Obligation Calculation Period, the Current Period Implied Writedown Amount, as determined in relation to the last day of the immediately preceding Reference Obligation Calculation Period.

"Principal Payment": With respect to any Reference Obligation, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest that relates to the term of the Credit Default Swap, excluding, for the avoidance of doubt, any Writedown Reimbursement.

"Principal Payment Amount": With respect to any Reference Obligation and in connection with a Principal Payment on such Reference Obligation, an amount equal to the product of (i) the amount of any such Principal Payment on such date, (ii) the Applicable Percentage and (iii) if such Reference Obligation is not denominated in Dollars, the applicable Notional Foreign Exchange Rate.

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"**Principal Proceeds**": Without duplication (in each case for so long as it has not been previously applied):

(i) Disposition Proceeds;

(ii) all payments of principal (including optional or mandatory redemptions or prepayments) received on the Collateral;

(iii) all proceeds received from any additional issuance of Notes pursuant to the Indenture not previously invested in Collateral Securities;

(iv) any termination payments paid to the Issuer under the Credit Default Swap and the Basis Swap;

(v) any Currency Adjusted Reinstatement Adjustment Amount paid to the Issuer by the Protection Buyer (including from amounts available in the CDS Issuer Account (but not including amounts on deposit in the CDS Issuer Fixed Payment Subaccount));

(vi) any Optional Redemption Reimbursement Amount paid to the Issuer by the Protection Buyer (including from amounts available in the CDS Issuer Account (but not including amounts on deposit in the CDS Issuer Fixed Payment Subaccount));

(vii) any Approved Currency Collateral Payment paid to the Issuer by the Protection Buyer;

(viii) any Redemption Writedown Refund paid to the Issuer by the Protection Buyer (including from amounts available in the CDS Issuer Account (but not including amounts on deposit in the CDS Issuer Fixed Payment Subaccount)); and

(ix) all payments of principal on Eligible Investments purchased with the proceeds of any of items (i) through (viii) of this definition (without duplication) and not applied during the related Due Period;

provided, that, prior to an event of default, as such term is defined under the Collateral Put Agreement, any payment received by the Issuer under the Posted Collateral shall not constitute Principal Proceeds and such amounts shall be deposited in the Collateral Put Provider Account and be treated in accordance with the Credit Support Annex, if any.

"**Principal Shortfall Amount**": With respect to any Reference Obligation that suffered a Failure to Pay Principal Credit Event, the greater of (i) zero and (ii) the amount equal to the product of (A) the Expected Principal Amount for such Reference Obligation minus the Actual Principal Amount for such Reference Obligation, (B) the Applicable Percentage and (C) if such Reference Obligation is not denominated in Dollars, the applicable Notional Foreign Exchange Rate.

"**Principal Shortfall Reimbursement**": With respect to any day and any Reference Obligation, the payment by or on behalf of the related Reference Entity of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal with respect to such Reference Obligation.

"**Principal Shortfall Reimbursement Amount**": With respect to any day and any Reference Obligation, the product of (i) the amount of any Principal Shortfall Reimbursement related to such Reference Obligation on such day and (ii) the related Applicable Percentage.

"**Proceeds**": (i) Any property (including but not limited to cash and securities) received as a Distribution on the Issuer Assets or any portion thereof, (ii) any property (including but not limited to cash

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and securities) received in connection with the sale, liquidation, exchange or other disposition of the Issuer Assets or any portion thereof, and (iii) all proceeds (as such term is defined in the UCC) of the Issuer Assets or any portion thereof.

"**Proposed New BIE Collateral Security**": The Proposed New BIE Collateral Securities set forth in the related Collateral Security Substitution Request Notice.

"**Protection Buyer Credit Support Document**": The meaning assigned to the term "Credit Support Document" in the Credit Default Swap and initially, the Guaranty dated as of the Closing Date by GS Group in favor of the Issuer as beneficiary thereof with respect to the obligations of the Protection Buyer under the Credit Default Swap.

"**Protection Buyer Credit Support Provider**": The meaning assigned to the term "Credit Support Provider" in the Credit Default Swap and initially, GS Group.

"**Protection Buyer Default Termination Payment**": Any Credit Default Swap Termination Payment required to be made by the Issuer to the Protection Buyer pursuant to the Credit Default Swap (i) in the event of a termination of the Credit Default Swap in respect of which the Protection Buyer is the defaulting party or (ii) in which the Protection Buyer was the sole "Affected Party" (as such term is defined in the Credit Default Swap) (other than in connection with a "Tax Event" or "Illegality", in each case as defined in the Credit Default Swap).

"**Protection Buyer Notes**": Notes acquired by the Protection Buyer and/or one or more Affiliates thereof.

"**Publicly Available Information**": Any information that reasonably confirms any of the facts relevant to the determination that the Credit Event described in a Credit Event Notice has occurred and which (i) has been published in not less than two internationally recognized published or electronically displayed news sources (it being understood that each of Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun, Asahi Shinbun, Yomiuri Shinbun, Financial Times, La Tribune, Les Echos or The Australian Financial Review (or successor publications) shall be deemed to be an internationally recognized published or electronically displayed news source); *provided* that if either of the parties to the Credit Default Swap or any of their respective affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless such party or its affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Reference Obligation, (ii) is information received from (a) a Reference Entity, (b) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Reference Obligation or a Person which was a party to the offering or distribution of the related Reference Obligation or is a party to any agreement relating to the related Reference Obligation, in each case other than the Protection Buyer or any of its affiliates, (c) a master servicer, a primary servicer, a special servicer or the servicer (or any successor servicer) or any other person acting in a similar capacity for a Reference Obligation, (d) Moody's, S&P or Fitch or any successor thereto, in each case generally made available to the public, (e) Trepp, LLC, Conquest®, Intex Solutions, Inc., Realpoint[sm], Wall Street Analytics or any of their respective successors and assigns or (f) any internationally recognized stock exchange on which the related Reference Obligation is listed, (iii) is information contained in any petition or filing instituting a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights against or by a Reference Entity or a petition is presented for the winding-up or liquidation of a Reference Entity, (iv) is information contained in any order, decree or notice, however described, of a court, tribunal, regulatory authority or similar administrative or judicial body, (v) is information published in Asset-Backed Alert, International Securitization and Structured Finance Report, BondWeek, Derivatives Week, Asset Securitization Report, Securitization News, Commercial Mortgage Alert, Creditflux, Euromoney or International Financing Review (or successor publications) or (vi) subject to the confirmation of the Rating Agencies, is

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information contained in a certificate of the Credit Default Swap Calculation Agent signed by a Managing Director or other equivalently senior officer of the Credit Default Swap Calculation Agent specifically authorized to provide such certification.

In relation to any information of the type described in (ii), (iii), (iv) or (v), the party receiving such information may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the party delivering such information has not taken any action or entered into any agreement or understanding with the Reference Entity or any affiliate thereof that would be breached by, or would prevent, the disclosure of such information to third parties.

"**Purchase Agreement**": The purchase agreement, dated as of April 10, 2007, among the Issuers and the Initial Purchaser.

"**Put Excluded Collateral**": As of any time of determination, collectively, (i) demand and time deposits that are Eligible Investments as described in clause (ii) of the definition thereof, (ii) Cash, (iii) any Collateral acquired with Excess Disposition Proceeds and/or (iv) any other Eligible Investments subject to satisfaction of the S&P Rating Condition and the Moody's Rating Condition, in each case, as of such date.

"**Put Proceeds**": All amounts received by the Issuer from the Collateral Put Provider in accordance with the Collateral Put Agreement.

"**Qualified Institutional Buyer**": Any Person that, at the time of its acquisition, purported acquisition or proposed acquisition of the Notes, is a qualified institutional buyer as defined in Rule 144A.

"**Qualified Purchaser**": Any Person that, at the time of its acquisition, purported acquisition or proposed acquisition of the Notes, is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act.

"**Rating Agencies**": S&P and Moody's (each, a "**Rating Agency**") or, with respect to the issuer Assets generally, if at any time S&P or Moody's ceases to provide rating services generally, any other nationally recognized statistical rating agency selected by the Issuer and reasonably satisfactory to a Majority of the Aggregate USD Equivalent Outstanding Amount of the Notes voting as a single class. In the event that at any time the Rating Agencies do not include S&P or Moody's, references to rating categories of S&P or Moody's in the Indenture shall be deemed instead to be references to the equivalent categories of such other rating agency as of the most recent date on which such other rating agency and S&P or Moody's published ratings for the type of security in respect of which such alternative rating agency is used. References to Rating Agencies with respect to any Class of Notes issued on the Closing Date shall apply only to Rating Agencies that assigned a rating (public or confidential) to such Class of the Notes on the Closing Date. Reference to Rating Agencies with respect to Classes of Notes that are not issued on the Closing Date shall apply only to any nationally recognized statistical rating agency selected by the Issuer that rates such Classes of Notes, as the case may be, upon any issuance of such Notes.

"**Redemption Refund Adjustment Amount**": With respect to each Class of Notes on a Mandatory Redemption Date caused by a termination of the Credit Default Swap as a result of a default by the Protection Buyer, a termination of the Collateral Put Agreement as a result of a default by the Collateral Put Provider or a termination of the Basis Swap as a result of a default by the Basis Swap Counterparty or a Stated Maturity of any Series of such Class, the product of (i) the Unscaled Redemption Refund Adjustment Amount related to such Class and (ii) the related Note Scaling Factor immediately prior to such determination; *provided* that, for the avoidance of doubt, with respect to a Class with more than one Series Outstanding at such time of determination, any *pro rata* allocations of any Redemption Refund Adjustment Amount will be based on the Aggregate USD Equivalent Outstanding Amount of each applicable Series of such Class, as expressed in Dollars.

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"Reference Entity": The issuer of a Reference Obligation as set forth in the Reference Obligation Registry and, as determined by the Credit Default Swap Calculation Agent, any entity that succeeds to the obligations of such Reference Entity relating to such Reference Obligation.

"Reference Obligation": Each obligation listed as such in the Reference Obligation Registry on the Closing Date.

"Reference Obligation Amortization Amount": With respect to the redemption or amortization in whole or in part, of a Reference Obligation, the sum of (i) any Principal Payment Amounts and (ii) Reference Obligation Repayment Amounts on such date.

"Reference Obligation Calculation Period": For each Reference Obligation, with respect to each Reference Obligation Payment Date for such Reference Obligation, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to the Underlying Instruments.

"Reference Obligation Notional Amount": Initially, with respect to any Reference Obligation, the Initial Reference Obligation Notional Amount, and that in each case will be:

(i) decreased on each day on which a Principal Payment is determined by the Credit Default Swap Calculation Agent, by the relevant Principal Payment Amount;

(ii) decreased on the day, if any, on which a Failure to Pay Principal is determined by the Credit Default Swap Calculation Agent, by the relevant Principal Shortfall Amount;

(iii) decreased on each day on which a Writedown is determined by the Credit Default Swap Calculation Agent, by the relevant Writedown Amount; and

(iv) increased on each day on which a Writedown Reimbursement is determined by the Credit Default Swap Calculation Agent, by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement";

provided that if the Reference Obligation Notional Amount would be less than zero, it shall be deemed to be zero.

For the avoidance of doubt, the Reference Obligation Notional Amount shall not be increased by any deferral or capitalization of interest that relates to the term of the Credit Default Swap or decreased by payment of any portion of the principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the term of the Credit Default Swap.

"Reference Obligation Outstanding Principal Amount": As of any date of determination with respect to any Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the related Underlying Instruments) resulting in a reduction in the outstanding principal balance of such Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

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(iii) forgiveness of any amount by the holders of such Reference Obligation pursuant to an amendment to the related Underlying Instruments resulting in a reduction in the outstanding principal balance of such Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition;

(v) any increase in the outstanding principal balance of such Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition; and

(vi) any increase in the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest prior to the Closing Date.

For the avoidance of doubt, the Reference Obligation Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the term of the Credit Default Swap.

"Reference Obligation Payment Date": For each Reference Obligation, each scheduled distribution date for such Reference Obligation occurring on or after the Closing Date.

"Reference Obligation Registry": A registry, maintained by the Credit Default Swap Calculation Agent in accordance with the Credit Default Swap, that records, among other things, the identity of each Reference Obligation, the related Reference Entity, the Reference Obligation Notional Amount and certain other related information, which registry will be updated by the Credit Default Swap Calculation Agent to reflect any applicable changes.

"Reference Obligation Reimbursement": A Principal Shortfall Reimbursement or Writedown Reimbursement.

"Reference Obligation Reimbursement Amount": A Principal Shortfall Reimbursement Amount or a Writedown Reimbursement Amount.

"Reference Obligation Repayment Amount": With respect to a Reference Obligation, an amount equal to the sum of all Writedown Reimbursement Amounts related to such Reference Obligation on that day with respect to one or more Writedown Reimbursements pursuant to clause (i) of the definition of Writedown Reimbursement and/or Principal Shortfall Reimbursements related to such Reference Obligation on that day.

"Reference Portfolio Notional Amount": At any time of calculation, the aggregate Reference Obligation Notional Amount of all Reference Obligations at such time.

"Registered": A debt obligation that is issued after July 18, 1984 and that is in registered form within the meaning of Section 881(c)(2)(B)(i) of the Code and the Treasury regulations promulgated thereunder.

"Regulation S" or "Reg S": Regulation S under the Securities Act.

"Regulation S Global Notes": One or more global notes for each Class of Notes in fully registered form without interest coupons sold in reliance on the exemption from registration under Regulation S.

"REIT": A real estate investment trust.

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"REIT Debt Security": A security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision).

"Replacement Counterparty Rating": With respect to a counterparty or entity guaranteeing the obligations of such counterparty, (x) a long-term senior, unsecured debt obligation rating, financial program rating or other similar rating (as the case may be, the "long-term rating") of at least "Aa3" by Moody's and (y) a long-term rating of at least "AA-" by S&P.

"Required Basis Swap Counterparty Rating": With respect to the Basis Swap Counterparty or any Basis Swap Counterparty Credit Support Provider, (x) if the Basis Swap Counterparty or Basis Swap Counterparty Credit Support Provider has a long-term rating by Moody's, a long-term senior, unsecured debt obligation rating, financial program rating or other similar rating (as the case may be, the "long-term rating") of at least "Aa3" by Moody's and if rated "Aa3" by Moody's is not on negative credit watch by Moody's and (y) if the Basis Swap Counterparty or Basis Swap Counterparty Credit Support Provider has a long-term rating by S&P, a long-term rating of at least "AA-" by S&P.

"Residential Mortgage-Backed Securities" or **"RMBS"**: Securities that represent interests in, or enable holders thereof to receive payments that depend on the cashflow primarily from credit default swaps that reference, in each case, pools of residential mortgage loans secured by one- to four-family residential mortgage loans and shall include, without limitation, RMBS Residential A Mortgage Securities, RMBS Residential B/C Mortgage Securities, RMBS Home Equity Loan Securities or RMBS Agency Securities, excluding, in each case, any securities that belong to an Excluded Specified Type; *provided* that any RMBS whose underlying collateral does not consist of 20.0% or more of subordinate liens at the time of its issuance shall be deemed to be any of the aforementioned types of RMBS as determined by the Protection Buyer in accordance with common market practice.

"Reversible Loss Series": A Series of Notes for which if, at such time of determination, following the occurrence of one or more Writedowns with respect to Reference Obligations that have not subsequently been removed from the Reference Portfolio, the Aggregate USD Equivalent Outstanding Amount of such Series is less than the ICE Aggregate USD Equivalent Outstanding Amount of such Series; *provided* that, for the avoidance of doubt, the determination of whether any Series of Notes is a Reversible Loss Series will be made at the time of election to redeem such Series in connection with a Partial Optional Redemption and not at the time of issuance of such Series.

"RMBS Agency Security": A security issued or fully and unconditionally guaranteed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or the Government National Mortgage Association.

"RMBS Home Equity Loan Securities": Residential Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from balances (including revolving balances) outstanding under lines of credit secured by a first and/or subordinate lien on residential real estate (single or multi-family properties), the proceeds of which lines of credit are not used to purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics:

(i) the balances have standardized payment terms and require minimum monthly payments;

(ii) the balances are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk;

(iii) the repayment of such balances may be based on a fixed scheduled payment or, alternatively, may not depend upon a contractual payment schedule, with early

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repayment depending primarily on interest rates, availability of credit against a maximum line of credit and general economic matters; and

(iv) the combined loan-to-value ratios are higher than customary in the primary mortgage markets;

provided that any RMBS whose underlying collateral consists of 20.0% or more of subordinate liens at the time of its issuance shall be deemed to be an RMBS Home Equity Loan Security.

"RMBS Manufactured Housing Loan Securities": Residential Mortgage-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from manufactured housing (also known as mobile homes and prefabricated homes) installment sales contracts and installment loan agreements, generally having the following characteristics:

(i) the contracts and loan agreements have varying, but typically lengthy contractual maturities;

(ii) the contracts and loan agreements are secured by the manufactured homes and, in certain cases, by mortgages and/or deeds of trust on the real estate to which the manufactured homes are deemed permanently affixed;

(iii) the contracts and/or loans are obligations of a large number of obligors and accordingly represent a relatively diversified pool of obligor credit risk;

(iv) repayment thereof can vary substantially from the contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and

(v) in some cases, obligations are fully or partially guaranteed by a governmental agency or instrumentality.

"RMBS Residential A Mortgage Securities": Residential Mortgage-Backed Securities (other than RMBS Residential B/C Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or multi-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics:

(i) the mortgage loans have generally been underwritten to the standards of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association (without regard to the size of the loan);

(ii) the mortgage loans have standardized payment terms and require minimum monthly payments;

(iii) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; and

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(iv) the repayment of such mortgage loans is subject to a contractual payment schedule, with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling.

"RMBS Residential B/C Mortgage Securities": Residential Mortgage-Backed Securities (other than RMBS Residential A Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate (single or multi-family properties) the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used), generally having the following characteristics:

(i) the mortgage loans have generally not been underwritten to the standards of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association (without regard to the size of the loan);

(ii) the mortgage loans have standardized payment terms and require minimum monthly payments;

(iii) the mortgage loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; and

(iv) the repayment of such mortgage loans is subject to a contractual payment schedule, with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling.

"Rule 144A": Rule 144A under the Securities Act.

"Rule 144A Global Notes": One or more global notes for each Class of Notes in fully registered form without interest coupons sold in reliance on exemption from registration under Rule 144A.

"S&P": Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor to the ratings business thereof.

"S&P Rating": With respect to any Obligation, a rating determined as follows:

(a) (1) if S&P has assigned a rating to such Obligation either publicly or privately, the S&P Rating shall be the rating assigned thereto by S&P; *provided, however*, that if the rating assigned to such Obligation by S&P is on the then-current credit rating watch list with negative implications, then the rating of such Obligation will be one subcategory below the rating then assigned to such Obligation by S&P and if the rating assigned to such Obligation by S&P is on the then-current credit rating watch list with positive implications, then the rating of such Obligation will be one subcategory above the rating then assigned to such Obligation by S&P;

(2) if such Obligation is not rated by S&P (other than an RMBS Agency Security), then an application may be made to S&P for a confidential credit estimate, which shall be the S&P Rating of such Obligation; *provided* that pending receipt from S&P of such estimate, such Obligation shall have an S&P Rating of "CCC-" if the Issuer believes that such estimate will be at least "CCC-"; or

(3) if such Obligation is not rated by S&P and no application has been made to obtain an S&P Rating for such Obligation pursuant to subclause (2) above, then

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the S&P Rating of such Obligation may be implied only by reference to the chart set forth below so long as such referenced rating is a publicly monitored rating; *provided* that if such Obligation is not rated by S&P, and the Issuer does not obtain an S&P Rating for such Obligation pursuant to this subclause (a) then no more than 20% of the Initial Reference Portfolio Notional Amount or the aggregate principal amount of Collateral Securities, as the case may be, may imply an S&P Rating pursuant to this subclause (a)(3).

Asset classes are eligible for notching if they are not first loss tranches or combination securities. If an Obligation is publicly rated by two agencies, notch down as shown below will be based on the lowest rating. If publicly rated only by one agency, then notch down what is shown below *minus* one additional notch based on the public rating.

		Issued prior to 8/1/01 and the current rating is investment grade	Issued prior to 8/1/01 and the current rating is non investment grade	Issued after 8/1/01 and the current rating is investment grade	Issued after 8/1/01 and the current rating is non investment grade
1.	CONSUMER ABS	-1	-2	-2	-3
	Automobile Loan Receivable Securities				
	Automobile Lease Receivable Securities				
	Car Rental Receivable Securities				
	Credit Card Securities				
	Healthcare Securities				
	Student Loan Securities				
2.	COMMERCIAL ABS	-1	-2	-2	-3
	Cargo Securities				
	Equipment Leasing Securities				
	Aircraft Leasing Securities				
	Small Business Loan Securities				
	Restaurant and Food Services Securities				
	Tobacco Litigation Securities				
3.	Non-RE-REMIC RMBS	-1	-2	-2	-3
	Manufactured Housing Loan Securities				
4.	Non-RE-REMIC CMBS	-1	-2	-2	-3
	CMBS – Conduit				
	CMBS – Credit Tenant Lease				
	CMBS – Large Loan				
	CMBS – Single Borrower				
	CMBS – Single Property				

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		Issued prior to 8/1/01 and the current rating is investment grade	Issued prior to 8/1/01 and the current rating is non investment grade	Issued after 8/1/01 and the current rating is investment grade	Issued after 8/1/01 and the current rating is non investment grade
5.	CDO/CLO CASH FLOW SECURITIES*	-1	-2	-2	-3
	Cash Flow CDO – at least 80% High Yield				
	Cash Flow CDO – at least 80% Investment Grade				
	Cash Flow CLO – at least 80% High Yield				
	Cash Flow CLO – at least 80% Investment Grade				
6.	REITs	-1	-2	-2	-3
	REIT – Multifamily and Mobile Home Park				
	REIT – Retail				
	REIT – Hospitality				
	REIT – Office				
	REIT – Industrial				
	REIT – Healthcare				
	REIT – Warehouse				
	REIT – Self Storage				
	REIT – Mixed Use				
7.	RESIDENTIAL MORTGAGES	-1	-2	-2	-3
	Residential "A"				
	Residential "B/C"				
	Home equity loans				

* No notching permitted with respect to CDO Cashflow Securities.

The information contained in the table above has been provided to the Issuer by S&P and the asset classes and related capitalized terms have the meanings ascribed thereto by S&P.

"S&P Rating Condition": With respect to any proposed action to be taken under the Indenture or any other document contemplated by the Indenture, a condition that is satisfied when S&P has confirmed in writing to the Issuer and/or the Trustee that an immediate withdrawal or reduction with respect to any then-current rating by S&P of any Class of Notes will not occur as a result of such proposed action.

"Sale Proceeds": All amounts representing (i) proceeds from the sale or other disposition (other than Put Proceeds) of any Collateral, excluding any Collateral Interest Amount and (ii) any proceeds from liquidating Posted Collateral after an event of default, as such term is defined under the Collateral Put Agreement, has occurred and is continuing under the Collateral Put Agreement (but not to exceed the amount of the Collateral Put Provider's obligations owed to the Issuer).

"Secured Parties": (i) The Trustee, (ii) the Noteholders, (iii) the Issuing and Paying Agent (iv) the Protection Buyer, (v) the Basis Swap Counterparty, (vi) the Collateral Put Provider and (vii) the Portfolio Selection Agent.

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"**Securities Act**": The U.S. Securities Act of 1933, as amended.

"**Securities Intermediary**": The meaning specified in Section 8-102(a)(14) of the UCC.

"**Senior Amount**": For any Reference Obligation, as of any date of determination, the aggregate outstanding principal balance of all obligations of the related Reference Entity secured by the related Underlying Assets and ranking senior in priority to such Reference Obligation.

"**Series**": All of the Notes of a Class issued (i) in the same Approved Currency, (ii) on the same date of issuance, (iii) with the same Series Interest Rate, (iv) with the same date from which interest will accrue, (v) with the same Non-Call Period, and (vi) with the same Stated Maturity.

"**Series Interest Amount**": With respect to any Series of Notes, as to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $1,000, £1,000, €1,000, ¥1,000, A$1,000, C$1,000 or NZ$1,000 principal amount of such Series of Notes.

"**Series Interest Amounts**": Collectively, the Series Interest Amount for each Class of Notes.

"**Series Interest Rate**": With respect to any Series of Notes of any Class, the annual rate at which interest accrues on such Series of Notes, as specified, with respect to Notes issued on the Closing Date, in "Summary—Notes" and on the related Notes, and with respect to any Series of Notes of any Class issued after the Closing Date, at the applicable rate specified in the related offering circular supplement and on the related Notes.

"**Series Interest Rates**": Collectively, the Series Interest Rate for each Class of Notes.

"**Servicer**": For each Reference Obligation, any trustee, servicer, sub servicer, master servicer, fiscal agent, paying agent or other similar entity responsible for calculating payment amounts or providing reports pursuant to the related Underlying Instruments.

"**Servicer Reports**": For each Reference Obligation, periodic statements or reports regarding such Reference Obligation provided by the related Servicer to holders of such Reference Obligation.

"**Share Trustee**": The Administrator as the trustee pursuant to the terms of a charitable trust.

"**Spot FX Rate**": A rate of exchange determined on any measurement date by the Credit Default Swap Calculation Agent as the prevailing rate of exchange (expressed as a number rounded to four decimal places) of Australian Dollars, Canadian Dollars, Euro, New Zealand Dollars, Sterling, Yen or other Approved Currencies, as the case may be, for Dollars at such time.

"**Stated Maturity**": With respect to any security or debt obligation, including a Note, the date specified in such security or debt obligation as the fixed date on which the final payment of principal of such security or debt obligation is due and payable or, if such date is not a Business Day, the next following Business Day. The Stated Maturity of the Notes issued on the Closing Date is March 1, 2038.

"**Sterling**" or "**£**": The lawful currency of the United Kingdom.

"**Structured Corporate Security**": A security that represents the debt of a corporate obligor through the creation of a trust and the pledge of specific corporate assets.

"**Structured Finance Security**": Any security that is an asset-backed security, mortgage-backed security, enhanced equipment trust certificate, collateralized debt obligation, collateralized bond obligation, collateralized loan obligation or similar instrument.

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"**Structured Product Security**": Any of the following types of securities: ABS Future Flow Securities not classified as an Excluded Specified Type in accordance with the definition thereof, CDO Cashflow Securities, RMBS, CMBS, Wrapped Securities, REIT Debt Securities or Asset-Backed Securities.

"**Synthetic CDO Security**": Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Securities) on the cash flow from (and not the market value of) a portfolio of primarily credit default swaps and, if applicable, related securities.

"**TARGET Settlement Day**": Any day on which the TARGET System is open.

"**TARGET System**": The Trans-European Automated Real-Time Gross Settlement Express Transfer System or any successor thereto.

"**Trustee**": LaSalle Bank National Association, solely in its capacity as Trustee for the Noteholders, unless a successor Person shall have become the Trustee pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean such successor Person.

"**Trustee Noteholder Communication Notice**": A notice from the Trustee to the Noteholders that includes the contents of a Noteholder Communication Notice that an Originating Noteholder has requested to be communicated to all other Noteholders; *provided* that the Trustee will not under any circumstances be required to include the identity of such Originating Noteholder in the related Trustee Noteholder Communication Notice.

"**U.S. Person**": The meaning specified under Regulation S.

"**U.S. Resident**": The meaning specified under the Investment Company Act.

"**Underlying Assets**": For each Reference Obligation, the assets securing such Reference Obligation for the benefit of the holders of such Reference Obligation and which are expected to generate the cashflows required for the servicing and repayment (in whole or in part) of such Reference Obligation, or the assets to which a holder of such Reference Obligation is economically exposed where such exposure is created synthetically.

"**Underlying Instruments**": The indenture and any credit agreement, assignment agreement, participation agreement, pooling and servicing agreement, trust agreement, instrument or other agreement pursuant to which an Obligation was issued and/or created and each other agreement that governs the terms of or secures such Obligation or of which holders of such Obligation are the beneficiaries, and any instrument evidencing or constituting such Obligation.

"**Unscaled Redemption Refund Adjustment Amount**": With respect to the Class Notional Amount of each Class of Notes on a Mandatory Redemption Date caused by a termination of the Credit Default Swap as a result of a default by the Protection Buyer, a termination of the Collateral Put Agreement as a result of a default by the Collateral Put Provider or a termination of the Basis Swap as a result of a default by the Basis Swap Counterparty or a Stated Maturity of any Series of such Class, the lesser of (i) the applicable Maximum Redemption Refund Amount determined on such date *less* the sum of the ICE Class Notional Amount Differentials for the Classes of Notes that are senior to such Class immediately prior to such determination and (ii) the ICE Class Notional Amount Differential of such Class immediately prior to such determination.

"**USD Equivalent**": An amount expressed in Dollars which is equal to (i) with respect to any Notes, the quotient of (a) the Currency Adjusted Aggregate Outstanding Amount of such Notes *divided by* (b) the Applicable Series Foreign Exchange Rate and (ii) with respect to any Collateral Securities, the

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quotient of (a) the principal amount of such Collateral Security as expressed in its Approved Currency of denomination *divided by* (b) the Applicable Collateral Security Foreign Exchange Rate.

"**Weighted Average Life**": As of any measurement date, the number obtained by the Credit Default Swap Calculation Agent and confirmed by the Collateral Administrator with respect to the Collateral by (i) for each Collateral Security and each Eligible Investment, multiplying the USD Equivalent of each scheduled principal payment by the number of years (rounded to the nearest hundredth) from such measurement date until such scheduled principal payment is due; (ii) summing all of the products calculated pursuant to subclause (i); and (iii) dividing the sum calculated pursuant to subclause (ii) by the sum of the USD Equivalent of all scheduled principal payments due on all the Collateral Securities and Eligible Investments as of such measurement date; *provided* that for purposes of determining the Weighted Average Life of the Collateral, the number calculated under clause (i) with respect to Eligible Investments shall equal zero.

"**Wrapped Securities**": Securities (other than RMBS Agency Securities) that (i) have the benefit of a financial guarantee insurance policy or surety bond provided by a monoline or multiline insurer and (ii) are rated "AAA" by S&P or "Aaa" by Moody's, which ratings may take into consideration such financial guarantee insurance policy or surety bond.

"**Writedown Amount**": On any day, with respect to any Reference Obligation that suffered a Writedown Credit Event, the product of (i) the amount of such Writedown with respect to such Reference Obligation on such day, (ii) the Applicable Percentage with respect to such Reference Obligation and (iii) if such Reference Obligation is not denominated in Dollars, the applicable Notional Foreign Exchange Rate.

"**Writedown Reimbursement**": For any Reference Obligation, at any time on or after the Closing Date, the occurrence of:

(i) a payment by or on behalf of the related Reference Entity of an amount in respect of the Reference Obligation in reduction of any prior Writedowns;

(ii) (A) an increase by or on behalf of the related Reference Entity of the Reference Obligation Outstanding Principal Amount to reflect the reversal of any prior Writedowns or (B) a decrease in the principal deficiency balance or realized loss amounts (however described in the Underlying Instruments) attributable to the Reference Obligation; or

(iii) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an Implied Writedown Reimbursement Amount being determined in respect of the Reference Obligation by the Credit Default Swap Calculation Agent.

"**Writedown Reimbursement Amount**": For any Reference Obligation, an amount equal to the product of (i) the sum of all Writedown Reimbursements related to such Reference Obligation on that day, (ii) the Applicable Percentage with respect to such Reference Obligation and (iii) if such Reference Obligation is not denominated in Dollars, the applicable Notional Foreign Exchange Rate.

"**Yen**": The lawful currency of Japan.

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EXHIBIT A: FORM OF NOTE OWNER CERTIFICATE

LaSalle Bank National Association
181 West Madison Street, 32nd Floor
Chicago, Illinois 60602
Attention: CDO Trust Services Group – ABACUS 2007-AC1, Ltd.
as Trustee and Issuing and Paying Agent

ABACUS 2007-AC1, Ltd.
P.O. Box 1093, GT
Queensgate House
South Church Street
George Town, Grand Cayman
Cayman Islands

ABACUS 2007-AC1, Inc.
850 Library Avenue, Suite 204
Newark, Delaware 19711

Re: Reports Prepared Pursuant to the Indenture, dated as of April 26, 2007 among ABACUS 2007-AC1, Ltd., ABACUS 2007-AC1, Inc. and LaSalle Bank National Association (the "Indenture").

Ladies and Gentlemen:

The undersigned hereby certifies that it is the beneficial owner of U.S.$_____ in principal amount of the (Please check all that apply.):

_____ Class SS Notes
_____ Class A-1 Notes
_____ Class A-2 Notes
_____ Class B Notes
_____ Class C Notes
_____ Class D Notes
_____ Class FL Notes

and hereby requests the Trustee or the Issuing and Paying Agent, as applicable, to provide to it (or its designated nominee set forth below) at the following address or with respect to certain monthly accounting reports or certain other accounting reports, grant access to such information at the Trustee's website the:

_____ notice after the occurrence of any Default (specified in Section 6.2 of the Indenture)
_____ information with respect to certain tax matters (specified in Section 7.19 of the Indenture)
_____ certain monthly accounting reports with respect to the Issuer Assets (specified in Section 10.5(a) of the Indenture)
_____ certain accounting reports determined as of the Determination Date (specified in Section 10.5(b) of the Indenture).

Please return form to the Trustee.

IN WITNESS WHEREOF, the undersigned has caused this certificate to be duly executed this ____ day of _____, ____.

[NAME OF NOTE OWNER]

By:_____
Authorized Signatory

_____
Print Name Here

Address: _____
_____
_____

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Schedule A

Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
1	22,222,222	ABFC 2006-OPT1 M8	ABFC 2006-OPT1	00075QAM4	Residential B/C Mortgage Security	22,222,222	12,445,000	1.0000000000	BBB	Baa2	BBB	9/25/2036	3.4	Option One Mortgage Corp	
2	22,222,222	ABFC 2006-OPT2 M8	ABFC 2006-OPT2	00075XAP2	Residential B/C Mortgage Security	22,222,222	10,443,000	1.0000000000	BBB	Baa2	BBB	10/25/2036	3.7	Option One Mortgage Corp	
3	22,222,222	ABSHE 2006-HE3 M7	ABSHE 2006-HE3	04541GXK3	Residential B/C Mortgage Security	22,222,222	11,585,000	1.0000000000	BBB	Baa2	BBB	3/25/2036	3.3	Option One Mortgage Corp	
4	22,222,222	ABSHE 2006-HE4 M7	ABSHE 2006-HE4	04544GAP4	Residential B/C Mortgage Security	22,222,222	6,819,000	1.0000000000	BBB	Baa2	BBB	5/25/2036	3.3	Select Portfolio Servicing, Inc	
5	22,222,222	ABSHE 2006-HE7 M9	ABSHE 2006-HE7	04544QAP2	Residential B/C Mortgage Security	22,222,222	11,891,000	1.0000000000	BBB-	Baa2	BBB-	11/25/2036	3.9	Select Portfolio Servicing, Inc	
6	22,222,222	ACE 2006-FM2 M8	ACE 2006-FM2	00442CAN9	Residential B/C Mortgage Security	22,222,222	6,582,000	1.0000000000		Baa2	BBB	8/25/2036	4.0	Wells Fargo Bank	
7	22,222,222	ACE 2006-OP2 M9	ACE 2006-OP2	00441YAP7	Residential B/C Mortgage Security	22,222,222	11,597,000	1.0000000000		Baa2	BBB-	8/25/2036	3.8	Wells Fargo Bank	
8	22,222,222	ARSI 2006-W1 M8	ARSI 2006-W1	040104RQ6	Residential B/C Mortgage Security	22,222,222	31,850,000	1.0000000000	BBB+	Baa2	BBB+	3/25/2036	3.3	Ameriquest Mortgage Company	
9	22,222,222	BNCMT 2007-1 M8	BNCMT 2007-1	05569GAN6	Residential B/C Mortgage Security	22,222,222	8,305,000	1.0000000000	BBB	Baa2	BBB	3/25/2037	4.3	Aurora Loan Services Inc	
10	22,222,222	CARR 2006-FRE1 M9	CARR 2006-FRE1	144538AN5	Residential B/C Mortgage Security	22,222,222	13,476,000	1.0000000000	BBB+	Baa2	A	7/25/2036	3.3	Fremont Investment And Loan	
11	22,222,222	CARR 2006-FRE2 M8	CARR 2006-FRE2	14454AAN9	Residential B/C Mortgage Security	22,222,222	12,805,000	1.0000000000		Baa2	BBB+	10/25/2036	3.6	Fremont Investment And Loan	
12	22,222,222	CARR 2006-OPT1 M8	CARR 2006-OPT1	144531FV7	Residential B/C Mortgage Security	22,222,222	12,954,000	1.0000000000	BBB+	Baa2	A-	2/25/2036	3.1	Option One Mortgage Corp	
13	22,222,222	CMLTI 2006-AMC1 M8	CMLTI 2006-AMC1	17309PAL0	Residential B/C Mortgage Security	22,222,222	9,366,000	1.0000000000		Baa2	BBB	9/25/2036	3.6	Ameriquest Mortgage Company	
14	22,222,222	CMLTI 2006-NC1 M8	CMLTI 2006-NC1	172983AN8	Residential B/C Mortgage Security	22,222,222	6,814,000	1.0000000000		Baa2	BBB	8/25/2036	3.3	Wells Fargo Bank	
15	22,222,222	CMLTI 2006-WFH2 M9	CMLTI 2006-WFH2	17309MAN3	Residential B/C Mortgage Security	22,222,222	11,666,000	1.0000000000		Baa2	BBB-	8/25/2036	3.6	Wells Fargo Bank	
16	22,222,222	CMLTI 2006-WMC1 M8	CMLTI 2006-WMC1	17307G2F4	Residential B/C Mortgage Security	22,222,222	10,313,000	1.0000000000	A-	Baa2	BBB+	12/25/2035	3.2	Wells Fargo Bank	
17	22,222,222	CMLTI 2007-AMC1 M8	CMLTI 2007-AMC1	17311BAL7	Residential B/C Mortgage Security	22,222,222	16,661,000	1.0000000000		Baa2	BBB	12/25/2036	4.2	Countrywide Home Loans, Inc	
18	22,222,222	CMLTI 2007-WFH1 M9	CMLTI 2007-WFH1	17311CAM3	Residential B/C Mortgage Security	22,222,222	4,465,000	1.0000000000		Baa2	BBB-	1/25/2037	4.0	Wells Fargo Bank	
19	22,222,222	CWL 2006-24 M8	CWL 2006-24	23243HAN1	Residential B/C Mortgage Security	22,222,222	9,408,000	1.0000000000		Baa2	BBB	5/25/2037	4.5	Countrywide Home Loans, Inc	
20	22,222,222	CWL 2007-2 M8	CWL 2007-2	12668NAN7	Residential B/C Mortgage Security	22,222,222	12,480,000	1.0000000000		Baa2	BBB	8/25/2037	4.8	Countrywide Home Loans, Inc	
21	22,222,222	FFML 2006-FF11 M8	FFML 2006-FF11	32028PAP0	Residential B/C Mortgage Security	22,222,222	20,600,000	1.0000000000	BBB	Baa2	BBB	8/25/2036	3.6	Wells Fargo Bank	
22	22,222,222	FFML 2006-FF12 M8	FFML 2006-FF12	32027GAN6	Residential B/C Mortgage Security	22,222,222	8,397,000	1.0000000000	BBB	Baa2	BBB	9/25/2036	4.1	Aurora Loan Services Inc	
23	22,222,222	FFML 2006-FF14 M8	FFML 2006-FF14	32027LAP0	Residential B/C Mortgage Security	22,222,222	7,559,000	1.0000000000	BBB	Baa2	BBB	10/25/2036	4.1	Aurora Loan Services Inc	
24	22,222,222	FFML 2006-FF15 M8	FFML 2006-FF15	32028GAP0	Residential B/C Mortgage Security	22,222,222	15,612,000	1.0000000000	BBB	Baa2	BBB	11/25/2036	4.2	Aurora Loan Services Inc	
25	22,222,222	FFML 2006-FF16 M8	FFML 2006-FF16	320275AN0	Residential B/C Mortgage Security	22,222,222	8,428,000	1.0000000000		Baa2	BBB+	12/25/2036	4.0	Home Loan Services, Inc.	
26	22,222,222	FFML 2006-FF17 M8	FFML 2006-FF17	32028KAP1	Residential B/C Mortgage Security	22,222,222	4,663,000	1.0000000000	BBB	Baa2	BBB	12/25/2036	4.2	Aurora Loan Services Inc	
27	22,222,222	FFML 2006-FF7 M8	FFML 2006-FF7	320277AP1	Residential B/C Mortgage Security	22,222,222	8,701,000	1.0000000000	BBB	Baa2	BBB	5/25/2036	3.3	Wells Fargo Bank	

[1] Source: Bloomberg. As of April 10, 2007.

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Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
28	22,222,222	FFML 2006-FF9 M8	FFML 2006-FF9	320276AP3	Residential B/C Mortgage Security	22,222,222	13,478,000	1.0000000000	BBB+	Baa2	BBB+	6/25/2036	3.4	Wells Fargo Bank	
29	22,222,222	FFML 2007-FF1 B2	FFML 2007-FF1	32028TAN7	Residential B/C Mortgage Security	22,222,222	15,254,000	1.0000000000		Baa2	BBB	1/25/2038	4.4	Home Loan Services, Inc.	
30	22,222,222	FFML 2007-FF2 B2	FFML 2007-FF2	32029GAN4	Residential B/C Mortgage Security	22,222,222	19,500,000	1.0000000000		Baa2	BBB	3/25/2037	4.4	Home Loan Services, Inc.	
31	22,222,222	FHLT 2006-A M7	FHLT 2006-A	35729RAN6	Residential B/C Mortgage Security	22,222,222	13,264,000	1.0000000000	BBB+	Baa2	BBB	5/25/2036	3.4	Wells Fargo Bank	
32	22,222,222	FHLT 2006-B M8	FHLT 2006-B	35729QAN8	Residential B/C Mortgage Security	22,222,222	12,544,000	1.0000000000	BBB+	Baa2	BBB	8/25/2036	3.8	Wells Fargo Bank	
33	22,222,222	FMIC 2006-2 M8	FMIC 2006-2	31659EAM0	Residential B/C Mortgage Security	22,222,222	10,800,000	1.0000000000		Baa2	BBB+	7/25/2036	3.1	Wells Fargo Bank	
34	22,222,222	FMIC 2006-3 M8	FMIC 2006-3	316599AN9	Residential B/C Mortgage Security	22,222,222	12,026,000	1.0000000000		Baa2	BBB	11/25/2036	3.3	Wells Fargo Bank	
35	22,222,222	GSAMP 2006-FM2 M8	GSAMP 2006-FM2	36245DAN0	Residential B/C Mortgage Security	22,222,222	11,750,000	1.0000000000		Baa2	BBB+	9/25/2036	3.6	Wells Fargo Bank	
36	22,222,222	HASC 2006-HE2 M8	HASC 2006-HE2	44328BAP3	Residential B/C Mortgage Security	22,222,222	14,484,000	1.0000000000	BBB+	Baa2	BBB+	12/25/2036	5.2	CitiMortgage, Inc.	
37	22,222,222	HEAT 2006-3 M8	HEAT 2006-3	437084UZ7	Residential B/C Mortgage Security	22,222,222	14,700,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.1	Select Portfolio Servicing, Inc	
38	22,222,222	HEAT 2006-5 M8	HEAT 2006-5	437096AQ3	Residential B/C Mortgage Security	22,222,222	10,625,000	1.0000000000	BBB+	Baa2	BBB+	10/25/2036	3.4	Select Portfolio Servicing, Inc	
39	22,222,222	HEAT 2006-6 M8	HEAT 2006-6	437097AP3	Residential B/C Mortgage Security	22,222,222	10,200,000	1.0000000000	A-	Baa2	A-	11/25/2036	3.5	Select Portfolio Servicing, Inc	
40	22,222,222	HEAT 2006-7 M8	HEAT 2006-7	43709NAP8	Residential B/C Mortgage Security	22,222,222	11,000,000	1.0000000000	BBB+	Baa2	BBB+	1/25/2037	3.7	Select Portfolio Servicing, Inc	
41	22,222,222	HEAT 2006-8 M8	HEAT 2006-8	43709QAP1	Residential B/C Mortgage Security	22,222,222	10,350,000	1.0000000000	BBB	Baa2	BBB+	3/25/2037	4.0	Select Portfolio Servicing, Inc	
42	22,222,222	HEAT 2007-1 M8	HEAT 2007-1	43710LAN4	Residential B/C Mortgage Security	22,222,222	10,500,000	1.0000000000	BBB	Baa2	BBB+	5/25/2037	4.0	Select Portfolio Servicing, Inc	
43	22,222,222	HEAT 2007-2 M8	HEAT 2007-2	43710KAN6	Residential B/C Mortgage Security	22,222,222	14,400,000	1.0000000000	BBB	Baa2	BBB	7/25/2037	4.3	Select Portfolio Servicing, Inc	
44	22,222,222	IXIS 2006-HE3 B2	IXIS 2006-HE3	46602UAM0	Residential B/C Mortgage Security	22,222,222	12,837,000	1.0000000000	BBB	Baa2	BBB	1/25/2037	4.3	Wells Fargo Bank	
45	22,222,222	JPMAC 2006-CW2 MV8	JPMAC 2006-CW2	46629BBA6	Residential B/C Mortgage Security	22,222,222	11,432,000	1.0000000000	BBB	Baa2	BBB	8/25/2036	3.8	Countrywide Home Loans, Inc	
46	22,222,222	JPMAC 2006-FRE1 M8	JPMAC 2006-FRE1	46626LFV7	Residential B/C Mortgage Security	22,222,222	14,174,000	1.0000000000	BBB	Baa2	BBB	5/25/2035	3.0	JPMorgan Chase Bank	
47	22,222,222	JPMAC 2006-WMC3 M8	JPMAC 2006-WMC3	46629KAP4	Residential B/C Mortgage Security	22,222,222	11,510,000	1.0000000000	BBB	Baa2	BBB	8/25/2036	3.8	JPMorgan Chase Bank	
48	22,222,222	LBMLT 2006-11 M8	LBMLT 2006-11	542512AN8	Residential B/C Mortgage Security	22,222,222	11,250,000	1.0000000000		Baa2	BBB	12/25/2036	4.2	Washington Mutual Bank, FA.	
49	22,222,222	LBMLT 2006-4 M8	LBMLT 2006-4	54251MAN4	Residential B/C Mortgage Security	22,222,222	22,111,000	1.0000000000		Baa2	A-	5/25/2036	3.4	Washington Mutual Bank, FA.	
50	22,222,222	LBMLT 2006-6 M8	LBMLT 2006-6	54251RAN3	Residential B/C Mortgage Security	22,222,222	19,413,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.6	Washington Mutual Bank, FA.	
51	22,222,222	LBMLT 2006-7 M8	LBMLT 2006-7	54251TAN9	Residential B/C Mortgage Security	22,222,222	15,966,000	1.0000000000	BBB+	Baa2	A-	8/25/2036	3.7	Washington Mutual Bank, FA.	
52	22,222,222	LBMLT 2006-8 M8	LBMLT 2006-8	54251UAN6	Residential B/C Mortgage Security	22,222,222	11,046,000	1.0000000000		Baa2	A-	9/25/2036	3.9	Washington Mutual Bank, FA.	
53	22,222,222	LBMLT 2006-9 M8	LBMLT 2006-9	54251WAN2	Residential B/C Mortgage Security	22,222,222	15,961,000	1.0000000000		Baa2	BBB+	10/25/2036	4.0	Washington Mutual Bank, FA.	
54	22,222,222	LBMLT 2006-WL1 M8	LBMLT 2006-WL1	542514RD8	Residential B/C Mortgage Security	22,222,222	23,864,000	1.0000000000		Baa2	BBB	1/25/2036	3.0	Long Beach Mortgage Company	
55	22,222,222	MABS 2006-HE5 M9	MABS 2006-HE5	576455AN9	Residential B/C Mortgage Security	22,222,222	10,393,000	1.0000000000		Baa2	BBB-	11/25/2036	4.1	Wells Fargo Bank	
56	22,222,222	MABS 2006-NC2 M9	MABS 2006-NC2	55275BAP2	Residential B/C Mortgage Security	22,222,222	11,214,000	1.0000000000	BBB	Baa2	BBB-	8/25/2036	3.7	Wells Fargo Bank	
57	22,222,222	MABS 2006-WMC4 M8	MABS 2006-WMC4	57645MAP7	Residential B/C Mortgage Security	22,222,222	11,399,000	1.0000000000		Baa2	BBB+	10/25/2036	4.1	Wells Fargo Bank	

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Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
58	22,222,222	MLMI 2006-WMC1 B2A	MLMI 2006-WMC1	59020U4H5	Residential B/C Mortgage Security	22,222,222	13,953,000	1.0000000000		Baa2	BBB+	1/25/2037	3.1	Wilshire Credit Corp	
59	22,222,222	MSAC 2006-HE7 B2	MSAC 2006-HE7	61750MAP0	Residential B/C Mortgage Security	22,222,222	12,851,000	1.0000000000		Baa2	BBB	9/25/2036	4.5	Countrywide Home Loans, Inc	
60	22,222,222	MSAC 2006-HE8 B2	MSAC 2006-HE8	61750SAP7	Residential B/C Mortgage Security	22,222,222	17,398,000	1.0000000000		Baa2	BBB	10/25/2036	4.9	Wells Fargo Bank	
61	22,222,222	MSAC 2006-NC4 B2	MSAC 2006-NC4	61748LAN2	Residential B/C Mortgage Security	22,222,222	23,729,000	1.0000000000	BBB	Baa2	BBB	6/25/2036	4.1	Wells Fargo Bank	
62	22,222,222	MSAC 2006-NC5 B3	MSAC 2006-NC5	61749BAQ6	Residential B/C Mortgage Security	22,222,222	18,795,000	1.0000000000		Baa2	BBB-	10/25/2036	4.9	Countrywide Home Loans, Inc	
63	22,222,222	MSAC 2006-WMC1 B2	MSAC 2006-WMC1	61744CXV3	Residential B/C Mortgage Security	22,222,222	14,285,000	1.0000000000	BBB+	Baa2	A-	12/25/2035	3.6	JPMorgan Chase Bank	
64	22,222,222	MSAC 2006-WMC2 B2	MSAC 2006-WMC2	61749KAP8	Residential B/C Mortgage Security	22,222,222	27,331,000	1.0000000000	BBB	Baa2	BBB	7/25/2036	4.3	Wells Fargo Bank	
65	22,222,222	MSAC 2007-HE1 B2	MSAC 2007-HE1	617526AP3	Residential B/C Mortgage Security	22,222,222	9,779,000	1.0000000000		Baa2	BBB	11/25/2036	5.0	Saxon Mortgage	
66	22,222,222	MSAC 2007-HE2 B2	MSAC 2007-HE2	61753EAM2	Residential B/C Mortgage Security	22,222,222	9,830,000	1.0000000000		Baa2	BBB	1/25/2037	5.2	Saxon Mortgage	
67	22,222,222	MSAC 2007-NC1 B2	MSAC 2007-NC1	617505AN2	Residential B/C Mortgage Security	22,222,222	9,375,000	1.0000000000		Baa2	BBB	11/25/2036	5.1	Saxon Mortgage	
68	22,222,222	MSAC 2006-HE2 B2	MSAC 2006-HE2	617451FD6	Residential B/C Mortgage Security	22,222,222	29,469,000	1.0000000000	BBB	Baa2	BBB+	3/25/2036	4.0	Wells Fargo Bank	
69	22,222,222	MSHEL 2007-1 B2	MSHEL 2007-1	61751QAM7	Residential B/C Mortgage Security	22,222,222	8,601,000	1.0000000000		Baa2	BBB	12/25/2036	5.1	Saxon Mortgage	
70	22,222,222	MSIX 2006-2 B2	MSIX 2006-2	617463AM6	Residential B/C Mortgage Security	22,222,222	12,472,000	1.0000000000		Baa2	BBB	11/25/2036	4.9	Saxon Mortgage	
71	22,222,222	NHEL 2006-5 M8	NHEL 2006-5	66988YAN2	Residential B/C Mortgage Security	22,222,222	9,100,000	1.0000000000		Baa2	BBB+	11/25/2036	3.6	Novastar Mortgage, Inc	
72	22,222,222	NHELI 2006-FM1 M8	NHELI 2006-FM1	65536HCF3	Residential B/C Mortgage Security	22,222,222	12,139,000	1.0000000000		Baa2	BBB+	11/25/2035	2.9	Wells Fargo Bank	
73	22,222,222	NHELI 2006-FM2 M8	NHELI 2006-FM2	65537FAN1	Residential B/C Mortgage Security	22,222,222	15,964,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.7	Wells Fargo Bank	
74	22,222,222	NHELI 2006-HE3 M8	NHELI 2006-HE3	65536QAN8	Residential B/C Mortgage Security	22,222,222	15,048,000	1.0000000000	BBB+	Baa2	BBB+	7/25/2036	3.5	Wells Fargo Bank	
75	22,222,222	OOMLT 2006-3 M9	OOMLT 2006-3	68389BAM5	Residential B/C Mortgage Security	22,222,222	17,250,000	1.0000000000		Baa2	BBB-	2/25/2037	3.6	Option One Mortgage Corp	
76	22,222,222	OOMLT 2007-1 M8	OOMLT 2007-1	68400DAP9	Residential B/C Mortgage Security	22,222,222	20,482,000	1.0000000000		Baa2	BBB	1/25/2037	3.9	Option One Mortgage Corp	
77	22,222,222	SABR 2006-FR1 B2	SABR 2006-FR1	81375WJY3	Residential B/C Mortgage Security	22,222,222	14,343,000	1.0000000000	BBB+	Baa2	A-	11/25/2035	3.9	Homeq Servicing Corp	
78	22,222,222	SABR 2006-FR3 B2	SABR 2006-FR3	813765AH7	Residential B/C Mortgage Security	22,222,222	12,839,000	1.0000000000	BBB+	Baa2	BBB	5/25/2036	4.3	Homeq Servicing Corp	
79	22,222,222	SABR 2006-HE2 B2	SABR 2006-HE2	81377AAM4	Residential B/C Mortgage Security	22,222,222	7,686,000	1.0000000000	BBB+	Baa2	BBB	7/25/2036	3.7	Homeq Servicing Corp	
80	22,222,222	SAIL 2006-4 M7	SAIL 2006-4	86360WAM4	Residential B/C Mortgage Security	22,222,222	19,571,000	1.0000000000	BBB	Baa2	BBB	7/25/2036	4.0	Aurora Loan Services Inc	
81	22,222,222	SASC 2006-EQ1A M8	SASC 2006-EQ1A	86360RAN3	Residential B/C Mortgage Security	22,222,222	20,587,000	1.0000000000		Baa2	BBB	7/25/2036	5.0	Aurora Loan Services Inc	
82	22,222,222	SASC 2006-OPT1 M7	SASC 2006-OPT1	86359UAN9	Residential B/C Mortgage Security	22,222,222	12,749,000	1.0000000000	BBB	Baa2	BBB	4/25/2036	3.5	Aurora Loan Services Inc	
83	22,222,222	SASC 2006-WF3 M9	SASC 2006-WF3	86361EAP6	Residential B/C Mortgage Security	22,222,222	16,901,000	1.0000000000	BBB-	Baa2	BBB-	9/25/2036	4.2	Aurora Loan Services Inc	
84	22,222,222	SURF 2007-BC1 B2	SURF 2007-BC1	84752BAQ2	Residential B/C Mortgage Security	22,222,222	8,250,000	1.0000000000		Baa2	BBB	1/25/2038	4.4	Wilshire Credit Corp	
85	22,222,222	SVHE 2006-EQ2 M8	SVHE 2006-EQ2	83611XAM6	Residential B/C Mortgage Security	22,222,222	6,262,000	1.0000000000	BBB	Baa2	BBB	1/25/2037	4.1	Wells Fargo Bank	
86	22,222,222	SVHE 2006-OPT1 M7	SVHE 2006-OPT1	83611MMF2	Residential B/C Mortgage Security	22,222,222	13,085,000	1.0000000000	BBB+	Baa2	BBB	3/25/2036	3.1	Option One Mortgage Corp	
87	22,222,222	SVHE 2006-OPT2 M7	SVHE 2006-OPT2	83611MMT2	Residential B/C Mortgage Security	22,222,222	18,400,000	1.0000000000		Baa2	A-	5/25/2036	3.1	Option One Mortgage Corp	

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Obligor	Initial Reference Obligation Notional Amount	Reference Obligation	Reference Entity	CUSIP	Type	Initial Face Amount	Original Principal Amount	Initial Factor[1]	Fitch Actual Rating	Moody's Actual Rating	S&P Actual Rating	Rated Final Maturity Date	Remaining Average Life	Servicer/CDO Manager	Insurer
88	22,222,222	SVHE 2006-OPT3 M7	SVHE 2006-OPT3	83611MPR3	Residential B/C Mortgage Security	22,222,222	27,000,000	1.0000000000		Baa2	BBB	6/25/2036	3.2	Option One Mortgage Corp	
89	22,222,222	SVHE 2006-OPT4 M7	SVHE 2006-OPT4	83611YAM4	Residential B/C Mortgage Security	22,222,222	10,000,000	1.0000000000		Baa2	BBB+	6/25/2036	3.3	Option One Mortgage Corp	
90	22,222,222	SVHE 2006-OPT5 M8	SVHE 2006-OPT5	83612CAN9	Residential B/C Mortgage Security	22,222,222	38,750,000	1.0000000000		Baa2	BBB	7/25/2036	3.7	Option One Mortgage Corp	

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REGISTERED OFFICES OF THE ISSUERS

ABACUS 2007-AC1, Ltd.
P.O. Box 1093 GT
Queensgate House
South Church Street
George Town, Grand Cayman
Cayman Islands

ABACUS 2007-AC1, Inc.
850 Library Avenue
Suite 204
Newark, Delaware 19711

TRUSTEE, PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

LaSalle Bank National Association
181 West Madison Street, 32nd Floor
Chicago, Illinois 60602

LEGAL ADVISORS

To the Issuers

As to matters of United States Law

McKee Nelson LLP
One Battery Park Plaza
New York, New York 10004

To the Issuer

As to matters of Cayman Islands Law

Maples and Calder
P.O. Box 309 GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

To the Initial Purchaser

McKee Nelson LLP
One Battery Park Plaza
New York, New York 10004

To the Portfolio Selection Agent

Schulte Roth & Zabel LLP
919 Third Avenue
New York, New York 10022

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this Offering Circular. You must not rely on any unauthorized information or representations. This Offering Circular is an offer to sell only the Notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Offering Circular is current only as of its date.

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Class SS Variable Rate Notes

U.S.$50,000,000 Class A-1
Variable Rate Notes, Due 2038

U.S.$142,000,000 Class A-2
Variable Rate Notes, Due 2038

Class B Variable Rate Notes

Class C Variable Rate Notes

Class D Variable Rate Notes

Class FL Variable Rate Notes

ABACUS 2007-AC1, LTD.

ABACUS 2007-AC1, INC.

Secured Primarily by (i) the Collateral and (ii) the Issuer's rights under (a) the Collateral Put Agreement, (b) the Basis Swap and (c) as Protection Seller, the Credit Default Swap referencing a pool of Residential Mortgage-Backed Securities

OFFERING CIRCULAR

Goldman, Sachs & Co.

GREYWOLF CLO I, LTD.

(Incorporated with limited liability in the Cayman Islands)

GREYWOLF CLO I, CORP.

U.S.$2,000,000 Class S Floating Rate Notes, Due 2014
U.S.$365,000,000 Class A Floating Rate Notes, Due 2021
U.S.$22,500,000 Class B Floating Rate Notes, Due 2021
U.S.$25,000,000 Class C Deferrable Floating Rate Notes, Due 2021
U.S.$30,000,000 Class D Deferrable Floating Rate Notes, Due 2021
U.S.$17,500,000 Class E Deferrable Floating Rate Notes, Due 2021
U.S.$40,000,000 Subordinated Securities, Due 2021

Secured (With Respect to the Secured Notes) Primarily by a Portfolio of Loans that are Senior Secured Loans

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The Securities are being offered hereby by Goldman, Sachs & Co. (the "**Initial Purchaser**") in the United States to Qualified Institutional Buyers in reliance on Rule 144A or another exemption under the Securities Act and, solely in the case of the Subordinated Securities, to Accredited Investors in transactions exempt from registration under the Securities Act. In addition to the offering of such Securities by Goldman, Sachs & Co. in the United States, Goldman, Sachs & Co., selling through its agents, is concurrently offering the Securities outside the United States to non-U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act.

See "Risk Factors" beginning on page 16 to read about factors you should consider before buying any Security.

There is no established trading market for the Securities. Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for this Offering Circular (the "**Offering Circular**") to be approved. Application has been made to the Irish Stock Exchange for the Securities to be admitted to the Official List and to trading on its regulated market. Such approval relates only to Securities which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. This document is considered an advertisement for purposes of applicable measures implementing E.U. Directive 2003/71/EC. Upon listing on the Irish Stock Exchange being granted, a "prospectus" prepared pursuant to the Prospectus Directive will be published, which can be obtained from the Issuer. There can be no assurance that such listing will be approved or maintained.

It is a condition of the issuance of the Securities that the Class S Notes and the Class A Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("**Moody's**") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"), that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A2" by Moody's and at least "A" by S&P, that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P and that the Class E Notes be issued with a rating of at least "Ba2" by Moody's and at least "BB" by S&P. The Subordinated Securities will not be rated by any credit rating agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Rating of the Securities".

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Securities by the Initial Purchaser.

CERTAIN PLEDGED ASSETS OF THE ISSUER ARE THE SOLE SOURCE OF PAYMENTS ON THE SECURITIES. THE SECURITIES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE SECURITIES, THE COLLATERAL MANAGER, GOLDMAN, SACHS & CO., ANY HEDGE COUNTERPARTY, THE ADMINISTRATOR, THE COLLATERAL ADMINISTRATOR, THE TRUSTEE, THE SHARE TRUSTEE, OR ANY OF THEIR RESPECTIVE AFFILIATES. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, AND NEITHER OF THE ISSUERS WILL BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE SECURITIES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO PERSONS WHO ARE (1)(A) QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS PROVIDED BY RULE 144A UNDER THE SECURITIES ACT OR (B) SOLELY IN THE CASE OF THE SUBORDINATED SECURITIES, ACCREDITED INVESTORS (AS DEFINED IN REGULATION D UNDER THE SECURITIES ACT) IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (2)(A) QUALIFIED PURCHASERS (FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT) OR (B) SOLELY IN THE CASE OF THE SUBORDINATED SECURITIES, KNOWLEDGEABLE EMPLOYEES FOR PURPOSES OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT, AND IN ACCORDANCE WITH ANY OTHER APPLICABLE LAW. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE SECURITIES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. THE SECURITIES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "TRANSFER RESTRICTIONS".

The Securities are offered by Goldman, Sachs & Co. and/or its agents, subject to their rights to reject any order in whole or in part. It is expected that the Global Securities will be ready for delivery in book-entry form only in New York, New York, on or about January 18, 2007, through the facilities of DTC, against payment therefor in immediately available funds. It is expected that delivery of the physical certificates representing the U.S. Subordinated Securities will be made in New York, New York on or about January 18, 2007, against payment therefor in immediately available funds. The Securities will have the minimum denomination requirements set forth in "Summary—The Offering—Securities Issued".

Goldman, Sachs & Co.

Offering Circular dated January 17, 2007.

GENERAL NOTICE

The information contained in this Offering Circular has been provided by the Issuers and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchaser or the Collateral Manager (except with respect to the Collateral Manager only, the information set forth under the heading "The Collateral Manager") as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser or the Collateral Manager (except with respect to the Collateral Manager only, the information set forth under the heading "The Collateral Manager").

The Issuers accept responsibility for the information contained in this Offering Circular (other than the information contained in this Offering Circular under the heading "The Collateral Manager", for which information only the Collateral Manager accepts responsibility) and, having made all reasonable inquiries, confirm that, to the best knowledge and belief of the Issuers, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuers (and with respect to the information contained in this Offering Circular under the heading "The Collateral Manager" only, the Collateral Manager) take responsibility accordingly.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Securities.

The delivery of this Offering Circular at any time does not imply that the information herein is correct at any time subsequent to the date of this Offering Circular.

Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Securities or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required for the purchase, offer or sale by it of such Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuers, the Collateral Manager or the Initial Purchaser shall have any responsibility therefor. Persons into whose possession this Offering Circular comes are required by the Issuers and the Initial Purchaser to inform themselves about and to observe such applicable laws and regulations. For a further description of certain restrictions on offering and sales of the Securities, see "Transfer Restrictions" and "Underwriting". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Securities in any jurisdiction in which such offer or invitation would be unlawful.

No invitation may be made to the public in the Cayman Islands to subscribe for the Securities and this document may not be issued or passed to any such person.

Notwithstanding anything to the contrary herein, except as necessary to comply with securities laws, each prospective investor (and each of their respective employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S tax structure of the transactions described herein and all materials of any kind (including opinions or other tax analyses) that are provided to them relating to such U.S. tax treatment and U.S. tax structure under applicable U.S. federal, state or local tax law. Any such disclosure of the tax treatment, tax structure and other tax-related materials shall not be made for the purpose of offering to sell the Securities offered hereby or soliciting an offer to purchase any such Securities.

Any purchaser of Secured Notes who is not a bank (as defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System ("**Regulation U**")) and is not required to register with the Federal Reserve will not be subject to any provisions of Regulation U as a result of an investment in the Secured Notes. Any purchaser of the Securities who is a bank or who is already registered with the Federal Reserve as a Regulation U lender, generally must obtain from any person to whom it extends credit secured by Margin Stock (as such term is defined in Regulation U) a Federal Reserve Form U-1 (for bank lenders) or Form G-3 (for non-bank lenders). Each purchaser of Secured Notes will be responsible for its own compliance with Regulation U, including the filing by the purchaser of any required registration or annual

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filings under Regulation U. Purchasers of Secured Notes should consult with their own legal advisors as to Regulation U and its application to them, including in relation to their investment in the Securities. Purchasers of Secured Notes not otherwise exempt from registering with the Federal Reserve will be deemed to have covenanted and agreed that if such purchaser is not registered with the Federal Reserve on or prior to the date of their purchase, such purchaser will, within the required time period, register with the Federal Reserve. Certain information regarding Margin Stock, if any, owned by the Issuer will be available through the Trustee upon written request by a Securityholder.

INFORMATION APPLICABLE TO NON U.S. INVESTORS

THIS OFFERING CIRCULAR COMPRISES A PROSPECTUS FOR THE PURPOSE OF LISTING THE SECURITIES ON THE IRISH STOCK EXCHANGE. A COPY OF THIS PROSPECTUS SHALL BE FILED WITH THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY AND SHALL BE AVAILABLE AT THE OFFICES OF THE PAYING AGENT IN IRELAND AND THE IRISH STOCK EXCHANGE FROM THE DATE OF LISTING. COPIES OF THIS PROSPECTUS ARE AVAILABLE FREE OF CHARGE FROM THE IRISH STOCK EXCHANGE AND THE PAYING AGENT IN IRELAND.

INFORMATION APPLICABLE TO U.S. INVESTORS

This Offering Circular is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Securities described herein. Except as otherwise authorized herein, any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Securities is prohibited. Each offeree of the Securities, by accepting delivery of this Offering Circular, agrees to the foregoing.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (THE "RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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AVAILABLE INFORMATION

To permit compliance with the Securities Act in connection with the sale of the Securities in reliance on Rule 144A, the Issuer will be required under the Indenture to furnish upon request to a Holder or beneficial owner who is a Qualified Institutional Buyer of a Security sold in reliance on Rule 144A or a prospective investor who is a Qualified Institutional Buyer designated by such Holder or beneficial owner the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g-3-2(b) under the Exchange Act. Neither of the Issuers expects to become such a reporting company or to be so exempt from reporting.

In accordance with the Indenture, the Trustee also will make available for inspection by Holders of the Securities certain reports or communications received from the Issuers.

Prior to making an investment decision, prospective investors should ensure that they have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in the Securities and should carefully consider the nature of the Securities, the matters set forth elsewhere in this Offering Circular and the extent of their exposure to the risks described in "Risk Factors".

FORWARD LOOKING STATEMENTS

Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain reasonable assumptions. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, any Hedge Counterparty, the Collateral Administrator, the Initial Purchaser or any of their respective Affiliates or any other person or entity of the results that will actually be achieved by the Issuer. None of the Issuer, the Co-Issuer, the Trustee, the Collateral Administrator, the Collateral Manager, the Initial Purchaser, any Hedge Counterparty, and their respective Affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

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SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For a discussion of certain factors to be considered in connection with an investment in the Securities, see "Risk Factors".

Capitalized terms used herein but not defined shall have the meanings set forth under "Glossary of Defined Terms".

The Issuers and the Collateral Manager

The Issuers ..... Greywolf CLO I, Ltd. (the "**Issuer**"), an exempted company with limited liability incorporated under the laws of the Cayman Islands for the sole purpose of acquiring the Collateral Obligations and Eligible Investments, entering into, and performing its obligations under, any Hedge Agreements, the Purchase Agreement and the Collateral Management Agreement, issuing the Securities and engaging in certain related transactions.

The Issuer will not have any material assets other than: (i) a portfolio of assets consisting primarily of Dollar-denominated loans (including Assignments or Participations), along with high yield debt securities, Finance Leases, Synthetic Securities and Structured Finance Securities; (ii) Eligible Investments; (iii) any Hedge Agreements as determined to be appropriate by the Collateral Manager and satisfactory to Moody's and S&P; (iv) its rights under any Securities Lending Agreements; (v) its rights under the Collateral Management Agreement; (vi) its rights under the Purchase Agreement; and (vii) certain other assets.

Greywolf CLO I, Corp. (the "**Co-Issuer**" and, together with the Issuer, the "**Issuers**"), a company incorporated under the laws of the State of Delaware for the sole purpose of co-issuing the Co-Issued Notes, as described below.

The Co-Issuer will not have any assets (other than $10 of equity capital) and will not pledge any assets to secure the Co-Issued Notes. The Co-Issuer will have no claim against the Issuer in respect of the Collateral Obligations or otherwise.

The authorized share capital of the Issuer consists of 50,000 ordinary shares, par value $1.00 per share (the "**Issuer Ordinary Shares**"), 250 of which will be issued on or prior to the Closing Date. The Issuer Ordinary Shares that have been issued and the common stock of the Co-Issuer will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands and any successor thereto (the "**Administrator**"), as the trustee pursuant to the terms of a declaration of trust (the "**Share Trustee**").

The Collateral Manager ..... Greywolf Capital Management LP ("**Greywolf**") or any successor thereto (the "**Collateral Manager**"), will perform certain advisory and administrative functions with respect to the Collateral for the Issuer as collateral manager. The Collateral Manager and the Issuer will enter into a Collateral Management Agreement, dated as of the Closing Date (the "**Collateral Management Agreement**").

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	One or more funds managed by Greywolf will commit to purchase up to 100% of the initial notional amount of the Subordinated Securities. Thereafter, such funds may transfer or sell any such Subordinated Securities held thereby at any time or from time to time.
The Trustee	The Bank of New York Trust Company, National Association solely in its capacity as trustee (the "**Trustee**") for the Securityholders, unless a successor Person shall have become the Trustee pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean such successor Person.

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The Offering

Securities Issued

Class Designation	S	A	B	C	D	E	Subordinated Securities
Original Principal Amount[1]	$2,000,000	$365,000,000	$22,500,000	$25,000,000	$30,000,000	$17,500,000	$40,000,000
Stated Maturity	February 18, 2014	February 18, 2021					
Expected Average Life[2]	3.7 years	8.4 years	10.1 years	10.4 years	10.9 years	11.4 years	N/A
Minimum Denomination (Integral Multiples):							
Rule 144A	$500,000 ($1,000)	$500,000 ($1,000)	$500,000 ($1,000)	$250,000 ($1,000)	$250,000 ($1,000)	$500,000 ($1,000)	$100,000 ($1,000)[3]
Reg S	$100,000 ($1,000)	$100,000 ($1,000)	$100,000 ($1,000)	$100,000 ($1,000)	$100,000 ($1,000)	$100,000 ($1,000)	$100,000 ($1,000)[3]
Reg D	N/A	N/A	N/A	N/A	N/A	N/A	$100,000 ($1,000)[3]
Applicable Investment Company Act of 1940 Exemption	3(c)(7) and, solely in the case of the Subordinated Securities, Rule 3c-5						
Initial Ratings:							
Moody's	Aaa	Aaa	Aa2	A2	Baa2	Ba2	N/A
S&P	AAA	AAA	AA	A	BBB	BB	N/A
Deferred Interest	No	No	No	Yes	Yes	Yes	N/A
Pricing Date	December 8, 2006						
Closing Date	January 18, 2007						
Interest Rate	LIBOR + 0.20%	LIBOR + 0.245%	LIBOR + 0.43%	LIBOR + 0.70%	LIBOR + 1.50%	LIBOR + 3.95%	N/A
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	N/A
Accrual Period[4]	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	N/A
Payment Date	(i) each February 18, May 18, August 18 and November 18 (or if such day is not a Business Day, the next succeeding Business Day), Stated Maturity (each, a "Scheduled Payment Date") and (ii) any Redemption Date						
First Payment Date	August 18, 2007						
Record Date	15 days prior to the applicable Payment Date						
Frequency of Payments	Quarterly: February, May, August and November						
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	N/A
Form of Securities:							
Global	Yes	Yes	Yes	Yes	Yes	Yes	Reg S only
Certificated	No	No	No	No	No	No	Rule 144A/ Reg D
CUSIPS Rule 144A	398078AA3	398078AB1	398078AC9	398078AD7	398078AE5	398076AA7	398076AB5
CUSIPS Reg D	N/A	N/A	N/A	N/A	N/A	N/A	398076AC3
CUSIPS Reg S	G41213AA0	G41213AB8	G41213AC6	G41213AD4	G41213AE2	G41212AA2	G41212AB0
ISIN Reg S	USG41213AA07	USG41213AB89	USG41213AC62	USG41213AD46	USG41213AE29	USG41212AA24	USG41212AB07
Euroclear Common Codes	28152434	28152469	28152485	28152493	28152507	28152604	28152655
Clearing Method:							
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	Physical
Reg S	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear
Certificated	N/A	N/A	N/A	N/A	N/A	N/A	Rule 144A/Reg D

1. In the case of the Subordinated Securities, the amount indicated is the initial notional amount.
2. Under a hypothetical scenario in which, as of the Effective Date, (i) the Collateral Portfolio consists of not less than 80.0% senior secured loans, (ii) the weighted average life of the Collateral Portfolio is 8.7 years, (iii) 2.0% per annum by par amount of the Collateral Obligations experience defaults, (iv) 75.0% of the defaulted par amount on loans is recovered immediately and (v) 25.0% prepayments on the loans occurs, the average life of each Class of the Co-Issued Notes will be as set forth in this table. The assumptions set forth above are not predictive or a forecast. They may not necessarily reflect historical performance and defaults. The actual average lives may vary from the foregoing approximations. See "Risk Factors—Average Life and Prepayment Considerations".
3. Except in limited circumstances as set forth in the Indenture (but in no event less than a Dollar amount equivalent to at least €50,000).
4. "Floating Period" means, with respect to any Payment Date, each period from and including the preceding Payment Date (or, the Closing Date, with respect to the first Payment Date) to but excluding the current Payment Date (or, in the case of the Payment Date preceding the Stated Maturity, to but excluding the Stated Maturity).

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Status and Subordination	The Co-Issued Notes will be limited recourse secured obligations of the Issuers, the Class E Notes will be limited recourse secured obligations of the Issuer and the Subordinated Securities will be limited recourse unsecured obligations of the Issuer. Except as provided in the succeeding paragraph, with respect to both payment of interest and principal, the Class S Notes will be senior in right of payment on each Payment Date to the Class A Notes, Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Subordinated Securities; with respect to both payment of interest and principal, the Class A Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Subordinated Securities; with respect to both payment of interest and principal, the Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes, the Class E Notes and the Subordinated Securities; with respect to both payment of interest and principal, the Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes, the Class E Notes and the Subordinated Securities; with respect to both payment of interest and principal, the Class D Notes will be senior in right of payment on each Payment Date to the Class E Notes and the Subordinated Securities; and, with respect to both payment of interest and principal, the Class E Notes will be senior in right of payment on each Payment Date to the Subordinated Securities. Subject to the Priority of Payments, the right of the senior most Class of Secured Notes to be paid prior to a subordinated Class of Secured Notes does not apply if: (i) Interest Proceeds and Principal Proceeds are applied to the repayment of Deferred Interest of any Class of Secured Notes; or (ii) Interest Proceeds are applied to repay Class E Notes as a result of the failure of the Class E Par Value Test, as described in subclause (xvii) under "Description of the Securities—Priority of Payments—Interest Proceeds".
Use of Proceeds	The aggregate proceeds of the offering of the Securities are expected to equal approximately $502,000,000. Such proceeds will be used by the Issuer (i) to pay expenses related to the offering of the Securities, (ii) to satisfy the Issuer's obligations under certain warehouse arrangements with respect to a portfolio of Collateral Obligations acquired during the Accumulation Period or to purchase additional Collateral Obligations, (iii) to enter into one or more Hedge Agreements on or after the Closing Date, (iv) to deposit an amount equal to the Expense Reserve Amount in the Expense Reserve Account and (v) to deposit into the Revolving Credit Facility Reserve Account an amount equal to the Future Drawdown Amount as of the Closing Date. On the Effective Date, so long as the Minimum Par Value Ratio is satisfied as of such date, the Collateral Manager may, in its sole discretion, instruct the Trustee in writing to utilize up to $1,000,000 of Principal Proceeds and unused proceeds of the offering of the Securities for application as either Interest Proceeds or Principal Proceeds in accordance with the Priority of Payments and/or transfer to the Discretionary Reserve Account for future application of such funds as either Interest Proceeds or Principal Proceeds in accordance with the Priority of Payments, in each case on or before

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	the Payment Date in February 2008. See "Security for the Secured Notes—Principal Collection Account" and "—Discretionary Reserve Account". On the Closing Date, the proceeds of the issuance of the Class S Notes in an amount equal to approximately $2,000,000 will be deposited in the Interest Collection Account. On or before the first Payment Date the Collateral Manager may (in its sole discretion) instruct the Trustee in writing to transfer all or a portion of funds in the Interest Collection Account (representing proceeds of the issuance of the Class S Notes) to the Principal Collection Account for application as Principal Proceeds. It is expected that approximately $491,966,875 of the aggregate proceeds of the offering of the Securities will be available to the Issuer to satisfy its obligations under certain warehouse arrangements with respect to a portfolio of Collateral Obligations acquired during the Accumulation Period and to purchase additional Collateral Obligations.
Distributions of Interest Proceeds and Deferred Interest	Interest Proceeds will be distributable to Holders of the Securities in accordance with the Priority of Payments. See "Description of the Securities—Priority of Payments". With respect to any Class C Notes, Class D Notes or Class E Notes, for so long as any senior Class or Classes of Secured Notes are Outstanding, to the extent that funds are not available to pay the full amount of interest on such Class C Notes, Class D Notes or Class E Notes in accordance with the Priority of Payments, as described herein, the cumulative amount of interest not paid on such Class C Notes, Class D Notes or Class E Notes on any Payment Date and all Payment Dates preceding such Payment Date (the "**Deferred Interest**"), will be deferred and added to the principal amount of such Class C Notes, Class D Notes or Class E Notes, as applicable, and will bear interest at the interest rate applicable to such Class C Notes, Class D Notes or Class E Notes, as applicable, to the extent lawful and enforceable. The failure to pay interest on any such Class of Securities due to insufficient funds being available therefor in accordance with the Priority of Payments will not be an Event of Default under the Indenture so long as any senior Class or Classes of Secured Notes are Outstanding. See "Description of the Securities—Interest" and "—Priority of Payments".
Non-Call Period	The period from the Closing Date to and including the Business Day immediately preceding the February 2010 Scheduled Payment Date (the "**Non-Call Period**").
Reinvestment Period	The period from the Closing Date to and including the Business Day immediately preceding the February 2014 Scheduled Payment Date (the "**Reinvestment Period**").
Principal Payments on the Secured Notes	The following table sets forth the circumstances and dates upon which Holders of the Secured Notes will receive principal payments on their Secured Notes (in all cases, pursuant to the Priority of Payments):

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Event	Eligible Payment Date	Amount Payable in Accordance with the Priority of Payments
The payment of principal on the Secured Notes pursuant to the Note Payment Sequence, to the extent of available funds therefor, if the Collateral Manager determined, in its sole judgment (which judgment shall not be subject to question as a result of subsequent events), that it was impractical or not beneficial to reinvest Principal Proceeds by the end of the Investment Due Period	Any Scheduled Payment Date during the Reinvestment Period	Applicable Secured Note Redemption Price
Application of Principal Proceeds (other than with respect to Eligible Post Reinvestment Proceeds that the Collateral Manager elects, in its sole judgment (which judgment shall not be subject to question as a result of subsequent events), to reinvest in Collateral Obligations or Eligible Investments) to pay principal of the Secured Notes in accordance with the Priority of Payments	Any Scheduled Payment Date after the Reinvestment Period	Applicable Secured Note Redemption Price
Repayment of Deferred Interest	Any Payment Date	Amount of Deferred Interest
Effective Date Ratings Downgrade Event	The Payment Date after the Effective Date	Applicable Secured Note Redemption Price
Mandatory redemption of the Secured Notes to satisfy Coverage Tests	Any Scheduled Payment Date (or in the case of the Interest Coverage Tests any Scheduled Payment Date on or after the second Scheduled Payment Date)	Applicable Secured Note Redemption Price
Optional redemption following a Withholding Tax Event	Any Business Day	Applicable Secured Note Redemption Price

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Event	Eligible Payment Date	Amount Payable in Accordance with the Priority of Payments
Optional Redemption by a Majority of the Subordinated Securities	Any Business Day after the Non-Call Period	Applicable Secured Note Redemption Price
Redemption by Refinancing by a Majority of the Subordinated Securities	Any Scheduled Payment Date after the Non-Call Period	Applicable Secured Note Redemption Price

See "Description of the Securities—Principal," "—Priority of Payments," "—Optional Redemption", "—Redemption by Refinancing" and "—The Indenture— Events of Default".

Redemption by Refinancing ..... Subject to the satisfaction of certain conditions described in "Description of the Securities—Redemption by Refinancing" and "—The Indenture" the Holders of at least a Majority of the Subordinated Securities may direct the redemption of any Class of Secured Notes in whole but not in part on any Payment Date after the Non-Call Period by directing the Issuer to issue Replacement Notes, the proceeds of which will be used to fully redeem such Class or Classes of Secured Notes, as applicable. See "Description of the Securities—Redemption by Refinancing".

Security for the Secured Notes ..... The Secured Notes will be secured by (a) Collateral Obligations that are expected to be rated below investment grade, (b) Eligible Investments, (c) the Issuer's rights under the Collateral Management Agreement, any Hedge Agreements, the Purchase Agreement and any Securities Lending Agreements, (d) any proceeds held in the Issuer Accounts and (e) certain other assets of the Issuer as set forth in the Indenture. See "Risk Factors—Limited Recourse Obligations".

The Subordinated Securities will not be secured.

Collateral Obligations..... An obligation will constitute a collateral obligation (a "**Collateral Obligation**") and will be eligible for purchase if, at the time it is purchased or entered into (or a commitment is made to purchase or enter into such Collateral Obligation), it satisfies the following criteria ("**Eligibility Criteria**"):

(i) it is (1) an Assignment or Participation of a loan; (2) a debt security (including, subject to clause (x) below, a debt security that provides for conversion to an Equity Security or has equity features attached); (3) a Finance Lease which has a Moody's Recovery Rate and an S&P Recovery Rate that is the same as or higher than the Moody's Recovery Rate and S&P Recovery Rate that Moody's and S&P, respectively, currently assigns to Senior Secured Loans; (4) a Structured Finance Security; (5) a Synthetic Security; or (6) a Senior Secured Floating Rate Note, in all cases the

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payments with respect to which are not by the terms of such obligation payable in a currency other than Dollars;

(ii) other than an Exchanged Defaulted Obligation, (1) if it is a Structured Finance Security, it (A) has a Moody's Default Probability Rating of at least "Ba2", (B) has an S&P Rating of at least "BB" and (C) if such Structured Finance Security is a CDO Security collateralized by CDO Securities, such collateral is not managed by the Collateral Manager or an Affiliate of the Collateral Manager and (2) for any other type of Collateral Obligation, it has a Moody's Default Probability Rating of at least "Caa2" and has an S&P Rating of at least "CCC," which S&P Rating in the case of the foregoing clauses (1) and (2) does not have a "t," "p," "q," "pi" or an "r" subscript;

(iii) (1) it is issued by an issuer organized in the United States of America or in a sovereign jurisdiction the long-term foreign currency rating of which is at least "AA" by S&P and at least "Aa2" by Moody's, (2) it is a Tax Haven Collateral Obligation, (3) it is a Maritime Collateral Obligation or (4) it is issued by a Special Purpose Vehicle;

(iv) it is eligible to be entered into by, sold, assigned or participated to, the Issuer;

(v) it provides for periodic payments of interest thereon in cash at least semi-annually, other than a Zero-Coupon Security or a Step-Up Coupon Security during a period for which no interest is payable;

(vi) it is an obligation or a credit default swap upon which no payments are subject to withholding tax imposed by any jurisdiction unless the obligor thereof or counterparty with respect thereto is required to make "gross-up" payments that cover the full amount of any such withholding tax on an after-tax basis (other than withholding taxes with respect to any amendment fees, extension fees and consent fees on a Collateral Obligation, any lending fees received under a Securities Lending Agreement or any commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities or Delayed Funding Term Loans);

(vii) it is not a Defaulted Obligation (other than an Exchanged Defaulted Obligation);

(viii) it is not a CDO Security managed by the Collateral Manager or an Affiliate of the Collateral Manager, or a CDO Security the payments upon which are based on the market value of the underlying portfolio;

(ix) it is not a Credit Risk Obligation;

(x) it is not an obligation that at the time of purchase or commitment to purchase provides for conversion into an

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Equity Security (1) automatically after a specified period of time or (2) at the option of the issuer thereof at any time;

(xi) it is not the subject of an Offer other than (a) an offer of publicly registered securities with equal or greater face value and substantially identical terms issued in exchange for securities issued under Rule 144A or (b) a Permitted Offer;

(xii) it is not an obligation the interest payments of which are scheduled to decrease (although interest payments may decrease due to unscheduled events such as a decrease of the index relating to a Floating Rate Collateral Obligation, the change from a default rate of interest to a non-default rate or an improvement in the obligor's financial condition);

(xiii) it is not an obligation pursuant to which future advances or future payment obligations may be required, except for future advances under a Revolving Credit Facility or a Delayed Funding Term Loan or future payment obligations under a Synthetic Security, in each case, for which the Issuer has deposited funds in the Revolving Credit Facility Reserve Account or a Synthetic Security Collateral Account, as applicable, in an amount sufficient to meet such future advances or future payment obligations, as applicable;

(xiv) it is not a security whose repayment is subject to the non-occurrence of certain catastrophes specified in the documents governing such security;

(xv) it is not a Deferrable Interest Obligation that is currently deferring interest or paying interest "in kind," which interest is otherwise payable in cash, unless the S&P Rating Condition has been satisfied with respect to the purchase of such obligation (for the avoidance of doubt, this subclause shall not be interpreted to prohibit the inclusion of an Exchanged Defaulted Obligation in the Collateral Portfolio in accordance with the provisions described herein);

(xvi) if such obligation provides for the payment of interest at a floating rate, such floating rate is determined by reference to (1) the Dollar prime rate, LIBOR, Euro rate or similar interbank offered rate or commercial deposit rate or (2) any other index so long as at the time such index was first referenced each of the Moody's Rating Condition and the S&P Rating Condition was satisfied;

(xvii) it provides for payment of principal in cash on or prior to its stated maturity; and

(xviii) it is not any of the Securities.

Purchase of Collateral Obligations by the Closing Date..... It is expected, that, by the Closing Date, the Issuer will have purchased or executed, or entered into agreements to purchase or execute, with the net proceeds of the issuance of the Securities, a

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portfolio of Collateral Obligations selected by the Collateral Manager constituting approximately 87% of the Aggregate Principal Amount of Collateral Obligations to be purchased or entered into by the Issuer, representing approximately $430,000,000 in Aggregate Principal Amount of the Collateral Obligations.

Effective Date Ratings Confirmation ..... The Issuer will request that each of the Rating Agencies confirm the initial ratings of the Secured Notes on the Effective Date. Such confirmation will be deemed to have been obtained from Moody's, so long as certain tests are met and Moody's has received delivery of certain documents specified in the Indenture. A failure to obtain (or to be deemed to have obtained, in the case of Moody's only) the Rating Agencies' confirmation of the initial ratings of the Secured Notes on the Effective Date will result in an Effective Date Ratings Downgrade Event.

It is very unlikely that the Rating Agencies will confirm their initial ratings of the Secured Notes if any of the Collateral Quality Tests, the Par Value Tests, the Concentration Limitations or the Minimum Par Value Ratio is not satisfied on the Effective Date. Accordingly, the Issuer will seek to purchase additional Collateral Obligations during the Initial Investment Period so that the Collateral Quality Tests, the Par Value Tests, the Concentration Limitations and the Minimum Par Value Ratio will be satisfied on the Effective Date. The occurrence of an Effective Date Ratings Downgrade Event will not cause an Event of Default with respect to the Securities. See "Risk Factors—Effective Date Ratings Downgrade Event".

Concentration Limitations ..... Collateral Obligations acquired for the Collateral Portfolio will be subject to the concentration limitations set forth in the table below (the "**Concentration Limitations**").

		By Principal Balance (as an amount or a percentage of the Aggregate Principal Amount of the Collateral Portfolio)
(i)	Senior Secured Loans (including Assignments and Participations), Eligible Investments, Senior Secured Floating Rate Notes and Synthetic Securities with (1) Senior Secured Loans or (2) Senior Secured Floating Rate Notes as Reference Obligations	≥ 80.0%
(ii)	Collateral Obligations other than Senior Secured Loans	≤ 20.0%
(iii)	Senior unsecured debt securities and subordinate debt securities	≤ 5.0%
(iv)	Floating Rate Collateral Obligations*	≥ 95.0%
(v)	Single Obligor	≤ the greater of 2.0% or $10.0 million
	except that Collateral Obligations issued by up to five obligors may, with respect to each of such five obligors, constitute up to the greater of the percentage of the Collateral Portfolio and the dollar amount, in each case, as specified in the right column	≤ the greater of 2.5% or $12.5 million
(vi)	Same Moody's Industry Category;	≤ the greater of 8.0% or $40.0 million
	except that Collateral Obligations belonging to three Moody's Industry Categories may each constitute up to the greater of the percentage of the Collateral Portfolio and the dollar amount, in each case, as specified in the right column	≤ the greater of 12.0%, 10.0% or 10.0%, respectively, or $60 million, $50 million or $50 million, respectively.
(vii)	Collateral Obligations with a Moody's Rating below "B3"	≤ 7.5%
(viii)	Participations	≤ 10.0%
(ix)	Synthetic Securities**	≤ 20.0%
(x)	DIP Loans	≤ 7.5%
(xi)	Revolving Credit Facilities or Delayed Funding Term Loans	≤ 10.0%
(xii)	Zero-Coupon Securities	≤ 5.0%

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		By Principal Balance (as an amount or a percentage of the Aggregate Principal Amount of the Collateral Portfolio)
(xiii)	Structured Finance Securities	≤ 7.5%
(xiv)	Deferrable Interest Obligations	≤ 2.0%
(xv)	Step-Up Coupon Securities	≤ 2.0%
(xvi)	Current Pay Obligations	≤ 5.0%
(xvii)	Provide for optional conversion by the holder or have equity features attached that may be considered Margin Stock	≤ 0.1%
(xviii)	Finance Leases	≤ 0.0%
(xix)	Exchanged Defaulted Obligations	≤ 2.0%
(xx)	Non-U.S. Obligors	≤ 25.0%
(xxi)	Non-U.S. Obligors organized in any single European I country***	≤ 10.0%
(xxii)	Non-U.S. Obligors organized in any single European II country****	≤ 7.5%
(xxiii)	Non-U.S. Obligors organized in any jurisdiction other than Canada, any European I country***, or any European II country****	≤ 10.0%
(xxiv)	Maritime Collateral Obligations*****	≤ 3.0%
(xxv)	Tax Haven Collateral Obligations*****	≤ 3.0%
(xxvi)	Bivariate Risk Obligations******	≤ 20.0%
(xxvii)	Provide for payment of interest less frequently than quarterly (other than Zero-Coupon Securities and Step-Up Coupon Securities)	≤ 5.0%
(xxviii)	Deferrable Interest Obligations, Zero-Coupon Securities, Step-Up Coupon Securities and Collateral Obligations that provide for payment of interest less frequently than quarterly (other than Zero Coupon Securities and Step-Up Coupon Securities)	≤ 15.0%
(xxix)	Mature after the Stated Maturity of the Securities, but in no event later than two years after such Stated Maturity of the Securities	≤ 2.0%
(xxx)	DIP Loans issued by any single obligor	≤ 2.0%

* The principal balance of Principal Proceeds and Sale Proceeds on deposit in the Principal Collection Account and Eligible Investments purchased with such funds, shall be deemed to be Floating Rate Collateral Obligations that are Senior Secured Loans for purposes of calculating the Concentration Limitations.

** For Synthetic Securities, the Concentration Limitations shall be calculated with respect to the Reference Obligations.

*** European I country means Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Liechtenstein, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and any other European country subject to the satisfaction of the Moody's Rating Condition and the S&P Rating Condition.

**** European II country means Greece, Italy, and Portugal.

***** The jurisdiction of organization of the obligor of a Maritime Collateral Obligation or a Tax Haven Collateral Obligation shall be deemed to be any jurisdiction, where at least 60% (by reference to the latest available consolidated financial statements) of (A) its (or its guarantor's) business operations or (B) its (or its guarantor's) assets primarily responsible for generating its (or its guarantor's) revenue, are located.

****** Subject to increase upon satisfaction of S&P Rating Condition.

Coverage Tests and the Reinvestment Test ..... The following tables set forth the Coverage Tests and the Reinvestment Test (which is not part of the Coverage Tests), and with respect to each such Coverage Test and the Reinvestment Test, where applicable, the minimum values at which such Coverage Test and the Reinvestment Test is satisfied and the expected values (in the case of the Par Value Ratios) on the Effective Date.

PAR VALUE TESTS AND REINVESTMENT TEST

Class	Required Par Value Ratio*,**	Par Value Ratio Expected Upon Effective Date****
A/B	114.0%	126.5%
C	109.1%	118.9%
D	103.6%	110.8%
E	101.5%	106.6%
Reinvestment Test	102.5%	106.6%

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INTEREST COVERAGE TESTS

Class	Required Interest Coverage Ratio*,***
A/B	114.0%
C	109.1%
D	103.6%

* Should be equal to or greater than the stated percentages.

** Applicable as of the Effective Date and any Measurement Date thereafter.

*** Applicable as of the Second Determination Date and any Measurement Date thereafter.

**** The percentages specified herein are based on certain assumptions relating to the Collateral Portfolio as of the date hereof and such assumptions may change in the future. Therefore, there can be no assurances that the actual Par Value Ratios and the Reinvestment Test, as the case may be, on the Effective Date, will be the same as the expected ratios specified herein.

Collateral Quality Tests..... The following table sets forth the Collateral Quality Tests, and with respect to each Collateral Quality Test, where applicable, the values at which such Collateral Quality Test is satisfied and the expected values upon the Effective Date.

THE COLLATERAL QUALITY TESTS

Test	Value at which Test is Satisfied	Expected Effective Date Value*
Diversity Test	Based on the table set forth below (the "**Ratings Matrix**")	≥ 50

	Minimum Diversity				
Minimum Weighted Average Spread	**40**	**45**	**50**	**55**	**60**
2.10%	2075	2150	2200	2255	2285
2.20%	2108	2183	2258	2313	2353
2.30%	2167	2242	2317	2382	2422
2.40%	2225	2288	2400	2453	2485
2.50%	2283	2346	2450	2513	2550
2.60%	2341	2404	2490	2553	2610
2.70%	2380	2463	2535	2603	2660
2.80%	2425	2508	2575	2643	2690
2.90%	2465	2543	2620	2678	2735
	Maximum Rating Factor				

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Notwithstanding the row/column combinations set forth above, the Collateral Manager on behalf of the Issuer may (in its sole discretion) determine a combination of values that is not set forth above using linear interpolation between values set forth above in accordance with the Indenture. Upon determination of a combination of values using linear interpolation, the Collateral Manager shall identify such combination to the Trustee and such combination shall be deemed a "row/column combination" for purposes of the Ratings Matrix.

Test	Value at which Test is Satisfied	Expected Effective Date Value*
Maximum Rating Factor Test	Based on the Ratings Matrix, as modified by the addition of the Rating Factor Modifier. "**Rating Factor Modifier**," as of any Measurement Date, will equal the number as calculated in the table below:	≤ 2450

Moody's Weighted Average Recovery Rate as of such Measurement Date	Rating Factor Modifier
Less than 60.00%	the product of (i) the Moody's Weighted Average Recovery Rate as of such Measurement Date minus 43.00% and (ii) 5500

provided that, if the Moody's Weighted Average Recovery Rate shall be (1) greater than or equal to 60.00%, then solely for purposes of the calculation of the Rating Factor Modifier, the Moody's Weighted Average Recovery Rate shall equal 60.00% or (2) less than or equal to 43.00%, then solely for purposes of the calculation of the Rating Factor Modifier, the Moody's Weighted Average Recovery Rate shall equal 43.00%.

Minimum Weighted Average Coupon Test	The Weighted Average Spread must equal or exceed the Minimum Weighted Average Spread set forth in the Ratings Matrix based upon the option chosen by the Collateral Manager as currently applicable to the Collateral Obligations. See "Security for the Secured Notes—The Collateral Quality Tests—Minimum Weighted Average Coupon Test".	

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Maximum Average Life Test	See "Security for the Secured Notes—The Collateral Quality Tests—Maximum Average Life Test".	≤ 10.0 Years
Moody's Minimum Weighted Average Recovery Rate Test	Equal to or greater than 43.00%.	44.50%
S&P Minimum Weighted Average Recovery Rate Test	A test satisfied if, as of any Measurement Date, (i) the S&P Weighted Average Recovery Rate determined with respect to the Class S Notes is greater than or equal to 52.80%, (ii) the S&P Weighted Average Recovery Rate determined with respect to the Class A Notes is greater than or equal to 52.80%, (iii) the S&P Weighted Average Recovery Rate determined with respect to the Class B Notes is greater than or equal to 56.40%, (iv) the S&P Weighted Average Recovery Rate determined with respect to the Class C Notes is greater than or equal to 60.00%, (v) the S&P Weighted Average Recovery Rate determined with respect to the Class D Notes is greater than or equal to 63.60% and (vi) the S&P Weighted Average Recovery Rate determined with respect to the Class E Notes is greater than or equal to 65.60%.	With respect to (i) the Class S Notes 65.00%, (ii) the Class A Notes 65.00%, (iii) the Class B Notes 70.00%, (iv) the Class C Notes 73.50%, (v) the Class D Notes 75.50% and (vi) the Class E Notes 78.00%
S&P CDO Monitor Test	Positive Class S Loss Differential, positive Class A Loss Differential, positive Class B Loss Differential, positive Class C Loss Differential, positive Class D Loss Differential and positive Class E Loss Differential.	Pass

* The values specified herein are based on certain assumptions relating to the Collateral Portfolio as of the date hereof and such assumptions may change in the future. Therefore, there can be no assurances that the actual values for the Collateral Quality Tests on the Effective Date will be the same as the values specified herein. The expected value shown for the Maximum Rating Factor Test is the expected value unadjusted by the Rating Factor Modifier.

See "Security for the Secured Notes—The Coverage Tests" and "—The Collateral Quality Tests".

Reinvestment in Collateral Obligations ..... During the Reinvestment Period, other than as described under "Description of the Securities—Priority of Payments—Principal Proceeds," Principal Proceeds received in respect of the Collateral Obligations will be applied, at the sole discretion of the Collateral Manager (i) to purchase Collateral Obligations so long as the Reinvestment Criteria are satisfied and/or (ii) if the Collateral Manager determines, in its sole discretion, that it is impractical or

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	not beneficial to reinvest Principal Proceeds prior to the end of an Investment Due Period, to the payment of principal on the Co-Issued Notes pursuant to the Note Payment Sequence. In addition, during the Reinvestment Period, Interest Proceeds remaining prior to the payment of certain unpaid subordinated expenses and unpaid hedge termination payments, the distribution to the Collateral Manager in respect of the Incentive Collateral Management Fee and the distributions in respect of the Subordinated Securities will be used to reinvest in Collateral Obligations (or deposited into the Principal Collection Account or, if required under the terms of the Indenture, the Subordinated Securities Principal Collection Account, for investment in Eligible Investments pending investment in additional Collateral Obligations prior to the end of the Reinvestment Period) up to the amount necessary to satisfy the Reinvestment Test (but not to exceed 50% of such Interest Proceeds available). See "Description of the Securities—Priority of Payments—Interest Proceeds". Any Eligible Post Reinvestment Proceeds may also be used, in the sole discretion of the Collateral Manager, after the Reinvestment Period, but no later than the end of the applicable Investment Due Period, to purchase Collateral Obligations, so long as the Reinvestment Criteria are satisfied and, if not so used, shall be applied in accordance with the Priority of Payments. See "Description of the Securities—Priority of Payments".
Additional Issuance	Additional Securities of all existing Classes may be issued and sold, and the Issuer may use the proceeds to purchase additional Collateral Obligations and, if applicable, enter into Hedge Agreements, subject to the terms and conditions set forth herein. See "Description of the Securities—The Indenture—Additional issuance".
Governing Law	The Securities, the Indenture, the Collateral Management Agreement, any Hedge Agreements, the Collateral Administration Agreement and the Securities Account Control Agreement will be governed by, and construed in accordance with, the laws of the State of New York.
Listing and Trading	There is currently no trading market for the Securities and there can be no assurance that such a market will develop. See "Risk Factors—Limited Liquidity and Restrictions on Transfer". Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for this Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Securities to be admitted to the *Official List* and to trading on its regulated market. There can be no assurance that such listing will be approved or maintained. Such listing, if obtained, may be discontinued in certain circumstances. See "Risk Factors—Irish Stock Exchange Listing" and "Listing and General Information".
Tax Status	See "Income Tax Considerations".
ERISA Considerations	See "ERISA Considerations".

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RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Securities. Although Goldman, Sachs & Co. has advised the Issuers that it intends to make a market in the Securities, Goldman, Sachs & Co. is not obligated to do so, and any such market-making with respect to the Securities may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Securities will develop, or, if a secondary market does develop, that it will provide the Holders of such Securities with liquidity of investment or that it will continue for the life of such Securities. Consequently, a purchaser must be prepared to hold the Securities for an indefinite period of time or until Stated Maturity. In addition, no sale, assignment, participation, pledge or transfer of the Securities may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their respective officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Securities will not be registered under the Securities Act or any state securities laws, and the Issuer has no plans, and is under no obligation, to register the Securities under the Securities Act. The Securities are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Transfer Restrictions". Such restrictions on the transfer of the Securities may further limit their liquidity. See "Transfer Restrictions". Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for this Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Securities to be admitted to the *Official List* and to trading on its regulated market. There can be no assurance that such listing will be approved or maintained.

Limited Recourse Obligations. The Co-Issued Notes will be limited recourse secured obligations of the Issuers, the Class E Notes will be limited recourse secured obligations of the Issuer and the Subordinated Securities will be limited recourse unsecured obligations of the Issuer. None of the Collateral Manager, the Securityholders, the Initial Purchaser, the Trustee, any Hedge Counterparty, the Administrator, the Share Trustee or any Affiliates of any of the foregoing or any other person or entity will be obligated to make payments on the Securities. Consequently, Holders of the Securities must rely solely on distributions on the Collateral for the payment of principal, interest and premium, if any, thereon. If distributions on the Collateral are insufficient to make payments on the Securities, no other assets (and, in particular, no assets of the Collateral Manager, the Securityholders, the Initial Purchaser, the Trustee, any Hedge Counterparty, the Administrator, the Share Trustee or any directors or officers of the Issuers or any Affiliates of any of the foregoing) will be available for payment of the deficiency and following realization of the Collateral, the obligations of the Issuers or, in the case of the Class E Notes and Subordinated Securities, the Issuer, to pay such deficiency shall be extinguished and shall not thereafter revive. Each Securityholder by its acceptance of such Security will agree or be deemed to have agreed not to take any action or institute any proceedings against the Issuers under any insolvency law applicable to the Issuers or which would be likely to cause the Issuers to be subject to, or to seek the protection of, any insolvency law applicable to the Issuers, subject to certain limited exceptions.

Subordination of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Subordinated Securities. Except as described in "Summary—Status and Subordination," the Class A Notes are subordinated on each Payment Date to the Class S Notes, the Class B Notes are subordinated on each Payment Date to the Class A Notes, the Class C Notes are subordinated on each Payment Date to the Class B Notes, the Class D Notes are subordinated on each Payment Date to the Class C Notes, the Class E Notes are subordinated on each Payment Date to the Class D Notes and the Subordinated Securities are subordinated on each Payment Date to the Class E Notes. Except as described in "Summary—Status and Subordination," no payments of interest or distributions from Interest Proceeds will be made on any Class of Securities on any Payment Date until current or Deferred Interest on the Securities of each Class to which such Class is subordinated has been paid, and no payments of principal or distributions from Principal Proceeds will be made on any such Class of Securities on any Payment Date until principal of the Securities of each Class to which such Class is subordinated has been paid in full, in each case in accordance with the Priority of Payments described herein. No distributions of Principal

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Proceeds to the Holders of the Subordinated Securities will be made until the Secured Notes have been repaid in full. See "Description of the Securities—Priority of Payments".

In addition, if an Event of Default occurs, as long as any Securities of the Controlling Class are Outstanding, the Holders of the Controlling Class will be entitled to determine the remedies to be exercised under the Indenture including the sale and liquidation of the Collateral (except that the Collateral may be sold and liquidated only if, among other things, the Trustee determines (and the Majority of the Controlling Class agrees with such determination) that the anticipated proceeds of such sale or liquidation (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to pay in full the Aggregate Outstanding Amount of the Secured Notes, plus accrued and unpaid interest, and certain other amounts, or the Holders of at least 66 2/3% of the Aggregate Outstanding Amount of the Secured Notes of each Class (with each such Class voting separately) direct, subject to the provisions of the Indenture, such sale and liquidation). Remedies pursued by the Holders of the Controlling Class could be adverse to the interests of the Holders of the subordinated Classes of Securities. See "Description of the Securities—The Indenture—Events of Default".

Unsecured Subordinated Securities. The Subordinated Securities are not secured by the Collateral Obligations or the other Collateral securing the Secured Notes. As such, the Holders of the Subordinated Securities will rank behind all of the secured creditors, whether known or unknown, of the Issuer, including, without limitation, the Holders of the Secured Notes and any Hedge Counterparties. No person or entity other than the Issuer will be required to make any distributions on the Subordinated Securities. Except with respect to the obligations of the Issuer to make payments pursuant to the Priority of Payments, the Issuer does not expect to have any creditors. Any distributions on the Subordinated Securities will be payable only to the extent funds are available in accordance with the Priority of Payments.

Optional Redemption of Securities. An optional redemption of Securities could require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the securities sold. In addition, the optional redemption requirements in the Indenture may require the Collateral Manager to aggregate securities to be sold together in one block transaction, thereby possibly resulting in a lower realized value for the securities sold.

Redemption by Refinancing. The Secured Notes are subject to Redemption by Refinancing. The Holders of at least a Majority of the Subordinated Securities may direct the redemption of any Class of Secured Notes in whole but not in part on any Scheduled Payment Date occurring after the Non-Call Period, in connection with a Redemption by Refinancing by directing the Issuer to issue Replacement Notes (which may accrue interest at a floating rate or fixed rate as described herein), the proceeds of which will be used to fully redeem such Class or Classes of Secured Notes, as applicable. A Redemption by Refinancing will be required to result in the redemption of all of the Secured Notes of the affected Class or Classes but need not result in the redemption of all Classes of Secured Notes. There is no assurance that the Holders of any Class of Secured Notes refinanced will be able to invest the proceeds thereof in comparable securities earning a comparable rate of return.

Mandatory Redemption of Secured Notes in Case of Failure of the Coverage Tests. If any Par Value Test (excluding the Class E Par Value Test) with respect to the applicable Class or Classes of Co-Issued Notes is not met on the Determination Date immediately preceding a Scheduled Payment Date or if any Interest Coverage Test with respect to any Class or Classes of Co-Issued Notes is not met on any Determination Date on or after the Second Determination Date, Principal Proceeds and, thereafter, Interest Proceeds that would have been paid to the Holders of each Class of Securities that is subordinated to such Class or Classes will be used to redeem the Securities of the most senior Class or Classes then Outstanding to the extent necessary to restore the applicable Coverage Test to the minimum required level as described under "Security for the Secured Notes—The Coverage Tests" or cause any Class of Securities to which such unsatisfied test relates to be redeemed in full. If the Class E Par Value Test is not met on the Determination Date immediately preceding a Scheduled Payment Date, Interest Proceeds that otherwise would have been paid to the Holders of the Subordinated Securities will be used to redeem the Class E Notes, to the extent necessary to restore the Class E Par Value Test to the minimum required level. The foregoing could result in an elimination, deferral or reduction in the funds available to make interest payments or principal repayments to the Holders of the Class C Notes, the Class D Notes and the Class E Notes and distributions to the

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Holders of the Subordinated Securities. See "Description of the Securities—Priority of Payments" and "Security for the Secured Notes—The Coverage Tests".

Effective Date Ratings Downgrade Event. Although Collateral Obligations with an Aggregate Principal Amount equal to approximately 87% of the Collateral Portfolio to be purchased by the Issuer will be purchased (or the Issuer will have entered into agreements to purchase) as of the Closing Date, a portion of the Collateral Portfolio will be purchased after the Closing Date and the price and availability of Collateral Obligations may be adversely affected by volatility in the market for Collateral Obligations. Consequently, the ability of the Issuer to purchase Collateral Obligations by the Effective Date at desirable prices and meeting the requirements set forth herein may be compromised. The Issuer will request that each of the Rating Agencies confirm (or, in the case of Moody's, submit information such that Moody's may be deemed to have confirmed) the initial ratings of the Secured Notes on the Effective Date. The inability of the Issuer to purchase a suitable portfolio prior to the Effective Date may result in an Effective Date Ratings Downgrade Event. If an Effective Date Ratings Downgrade Event occurs, the Issuer is required to, in accordance with the Priority of Payments, apply Interest Proceeds and, to the extent the application of Interest Proceeds is insufficient, Principal Proceeds to pay principal of the Secured Notes (other than the Class S Notes) pursuant to the Note Payment Sequence until the Secured Notes (other than the Class S Notes) are paid in full or until such Effective Date Ratings Downgrade Event no longer exists. See "Description of the Securities—Priority of Payments". The occurrence of an Effective Date Ratings Downgrade Event will not cause an Event of Default.

Use of Interest Proceeds to Purchase Collateral Obligations. During the Reinvestment Period, Interest Proceeds remaining on each Payment Date prior to the payment of certain unpaid subordinated expenses and unpaid hedge termination payments, the distribution to the Collateral Manager in respect of the Incentive Collateral Management Fee and distributions in respect of the Subordinated Securities will be used to reinvest in Collateral Obligations up to the amount necessary to satisfy the Reinvestment Test (but not to exceed 50% of such Interest Proceeds available on such Payment Date). As a result, distributions to the Holders of Subordinated Securities will be reduced to the extent of the portion of Interest Proceeds used during the Reinvestment Period to reinvest in Collateral Obligations. See "Description of the Securities—Priority of Payments—Interest Proceeds".

Nature of Non-Investment Grade Collateral; Defaults; Loans. The Collateral is subject to credit, liquidity and interest rate risks. The Collateral Obligations pledged to secure the Secured Notes will consist of a portfolio of assets which consist primarily of Dollar denominated loans (including Assignments or Participations) and high yield debt securities, primarily rated below investment grade (or of equivalent credit quality), Structured Finance Securities and Synthetic Securities, the Reference Obligations of which will likely be rated below investment grade, all of which will have greater credit and liquidity risk than investment grade sovereign or corporate bonds or loans.

High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower rating of high yield securities and below investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or obligor or in general economic conditions or both may impair the ability of the issuer or obligor to make payments of principal or interest. Such investments may be speculative. See "The Loan Market".

A portion of the Collateral Portfolio may consist of middle market loans and second lien loans. Issuance sizes and lending syndicates for middle market loans are usually smaller than those for widely syndicated leveraged loans and thus less liquid given their smaller loan sizes. The Issuer's right to the proceeds on the liquidation of the collateral for a second lien loan will be subordinate to the rights of the holders of the first lien on the related collateral, and consequently, the Issuer's recovery on such a loan may be reduced. Collateral Obligations that are second lien loans may be less liquid than loans secured by a first lien.

The Issuer will acquire interests in loans and other debt obligations directly by way of sale, Assignment or Participation. The purchaser of an Assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. In

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purchasing Participations, the Issuer generally has only a contractual relationship with the Selling Institution and will have no right to directly enforce compliance by the borrower with the terms of the loan agreement. See "—Assignments of and Participations in Loans".

Purchasers of loans are predominantly commercial banks, investment funds and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Loans are not purchased or sold as easily as publicly traded securities are purchased or sold because, among other things, the holders of such loans are provided confidential information relating to the borrower, the loan agreement with respect to such loans is unique and customized and such loans are privately syndicated. In addition, historically the trading volume in the loan market has been small relative to the high yield debt market. See "The Loan Market".

The market value of the Collateral Obligations will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets (including, particularly, the market for high yield debt obligations), international political events, developments or trends in any particular industry and the financial condition of the issuers of the Collateral Obligations. The public market for high yield debt obligations, in particular, has experienced periods of volatility and periods of reduced liquidity.

The offering of the Securities has been structured to withstand certain assumed losses relating to defaults on the underlying Collateral Obligations. See "Rating of the Securities". There is no assurance that actual losses will not exceed such assumed losses over any given time period. If any losses exceed such assumed levels, however, payments or distributions on the Securities could be adversely affected by defaults. To the extent that a default occurs with respect to any Collateral Obligation and the Trustee sells or otherwise disposes of such Collateral Obligation, it is not likely that the proceeds of such sale or disposition will be equal to the unpaid principal and interest thereon and such default and/or sale/disposition may reduce, if not eliminate, the availability of funds that would otherwise be distributable to the Holders of the Securities.

Concentration Risk. The Issuer will invest in a portfolio of Collateral Obligations consisting of Assignments or Participations of loans, high yield debt securities, Synthetic Securities, Finance Leases and Structured Finance Securities. Although no significant concentration with respect to any particular obligor, industry or country (other than the United States) is expected to exist at the Effective Date, the concentration of the portfolio in any one obligor would subject the Securities to a greater degree of risk with respect to defaults by such obligor, and the concentration of the portfolio in any one industry would subject the Securities to a greater degree of risk with respect to economic downturns relating to such industry. See "Security for the Secured Notes".

International Investing. A portion of the Collateral may consist of Collateral Obligations that are obligations of non-U.S. obligors. Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information, (ii) varying levels of governmental regulation and supervision and (iii) the difficulty of enforcing legal rights in a non- U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, non- U.S. obligors may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. Moreover, if the sovereign rating of a country in which an obligor on a Collateral Obligation is located is downgraded, the ratings applicable to such Collateral Obligation may decline as well.

Synthetic Securities. Synthetic Securities expose the Issuer to the credit risks associated with the Reference Obligations consisting of high yield debt securities and non-investment grade loans. However, the Issuer will usually have a contractual relationship only with the counterparty of such Synthetic Security, and not with the Reference Obligor. Generally, the Issuer will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off against the Reference Obligor. The Issuer may be subject to set-off rights exercised by the Reference Obligor against the counterparty. The Issuer will not have any voting rights with respect to the Reference Obligation. The

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Issuer will not directly benefit from any collateral that may support the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the counterparty, the Issuer will be treated as a general creditor of such counterparty, and will not have any claim with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities in any one counterparty subject the Securities to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor. The Collateral Manager will not perform independent credit analyses of the counterparties. However, any such counterparty, or an entity guaranteeing such counterparty, individually and in the aggregate shall satisfy the required ratings set forth in the definition of "Synthetic Security Counterparty". The Rating Agencies may downgrade any of the Co-Issued Notes if a Synthetic Security Counterparty has been downgraded by either of the Rating Agencies such that the Issuer is not in compliance with the Synthetic Security Counterparty rating requirements. The Initial Purchaser and/or one or more of its Affiliates, with acceptable credit support arrangements, if necessary, may act as counterparty with respect to all or a portion of the Synthetic Securities, which may create certain conflicts of interest. See "—Certain Conflicts of Interest".

Structured Finance Securities. A portion of the Collateral Obligations may consist of Structured Finance Securities. Structured Finance Securities may present risks similar to those of the other types of Collateral Obligations in which the Issuer may invest and, in fact, such risks may be present to a greater degree in the case of Structured Finance Securities. Moreover, investing in Structured Finance Securities may entail a variety of unique risks. Among other risks, Structured Finance Securities may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a Structured Finance Security changes based on changes in interest rates or inversely in relation to changes in interest rates). In addition, certain Structured Finance Securities may provide that non-payment of interest will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies. During such period of non-payment, such non-paid interest will generally be capitalized and added to the outstanding principal balance of the related security. Furthermore, (i) the performance of a Structured Finance Security will be affected by a variety of factors, including its priority in the capital structure of its issuer, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the competence of the servicer of the underlying assets and (ii) the price of a Structured Finance Security, if required to be sold, may also be subject to certain market and liquidity risks for securities of its type at the time of sale. The Issuer will be subject to restrictions on the amount of Structured Finance Securities it may hold.

Securities Lending. The Collateral Obligations may be loaned to one or more Securities Lending Counterparties. See "Security for the Secured Notes—Securities Lending". In the event that a Securities Lending Counterparty defaults on its obligation to return such loaned Collateral Obligation because of insolvency or otherwise, the Issuer could experience delays and costs in gaining access to the collateral posted by the borrower (and in extreme circumstances could be restricted from selling the collateral). In the event that the borrower defaults, the Holders of the Securities could suffer a loss to the extent that the realized value of the cash or securities securing the obligation of the borrower to return a loaned Collateral Obligation (less expenses) is less than the amount required to purchase such Collateral Obligation in the open market. This shortfall could be due to, among other things, discrepancies between the mark-to-market and actual transaction prices for the loaned Collateral Obligations arising from limited liquidity or availability of the loaned Collateral Obligations (and, in extreme circumstances, the loaned Collateral Obligations being unavailable at any price). The Rating Agencies may downgrade any of the Co-Issued Notes if a borrower of a Collateral Obligation or, if applicable, the entity guaranteeing the performance of such borrower, does not satisfy the Securities Lending Counterparty rating requirements. The Initial Purchaser and/or one or more of its Affiliates, with acceptable credit support arrangements, if necessary, may borrow Collateral Obligations, which may create certain conflicts of interest. In addition, the Issuer may be required to indemnify a collateral agent or any other person acting in a similar capacity in connection with a Securities Lending Agreement (any such indemnity payments will constitute Administrative Expenses and will only be paid on a subordinated basis, subject to the Priority of Payments). See "—Certain Conflicts of Interest".

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Insolvency Considerations with Respect to Issuers of Collateral Obligations. In the event of the insolvency of an issuer or obligor of a Collateral Obligation, payments made on such Collateral Obligation could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency. The Collateral Obligations consisting of obligations of non-U.S. issuers or obligors may be subject to various laws enacted in the countries of their issuance for the protection of creditors. These insolvency considerations will differ depending on the country in which each issuer is located or domiciled and may differ depending on whether the issuer or obligor is a non-sovereign or a sovereign entity.

Various laws enacted for the protection of creditors may apply to the Collateral Obligations. The information in this and the following paragraph is applicable with respect to U.S. issuers or obligors subject to United States federal bankruptcy law. Insolvency considerations may differ with respect to other issuers. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer or obligor of a Collateral Obligation, such as a trustee in bankruptcy, were to find that the issuer or the obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Collateral Obligation and, after giving effect to such indebtedness, the issuer or obligor (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of such issuer or obligor, or to recover amounts previously paid by such issuer or obligor in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer or obligor would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation, or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer or obligor was "insolvent" after giving effect to the incurrence of the indebtedness constituting the Collateral Obligation or that, regardless of the method of valuation, a court would not determine that the issuer was "insolvent" upon giving effect to such incurrence.

In general, if payments on a Collateral Obligation are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Issuer) or from subsequent transferees of such payments (such as the Holders of the Securities). To the extent that any such payments are recaptured from the Issuer, the resulting loss will be borne first by the Holders of the Subordinated Securities, then by the Holders of the Class E Notes, then by the Holders of the Class D Notes, then by the Holders of the Class C Notes, then by the Holders of the Class B Notes, then by the Holders of the Class A Notes and finally by the Holders of the Class S Notes (only to the extent such Note is outstanding at such time). However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a Holder of Securities only to the extent that such court has jurisdiction over such Holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from a Holder that has given value in exchange for its Security, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to structured securities such as the Securities, there can be no assurance that a Holder of the Securities will be able to avoid recapture on this or any other basis. See also "—Assignments of and Participations in Loans".

The Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon fraudulent conveyance, preference or equitable subordination. There can be no assurance, however, that such a successful cause of action against the Issuer will not occur, or as to whether any lending institution or other investor from which the Issuer acquired the Collateral Obligations engaged in any such conduct (or any other conduct that would subject the Collateral Obligations and the Issuer to insolvency laws) and, if it did, as to whether such creditor claims could be asserted in a U.S. court (or in the courts of any other country) against the Issuer.

Lender Liability Considerations; Equitable Subordination. A number of judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (collectively, termed **"lender liability"**). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good

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faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Although it would be a novel application of the lender liability theories, the Issuer may be subject to allegations of lender liability. However, the Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, such remedy called "equitable subordination". Because of the nature of the Collateral Obligations, the Issuer may be subject to claims from creditors of an obligor that Collateral Obligations issued by such obligor that are held by the Issuer should be equitably subordinated. However, the Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine.

The preceding discussion is based upon principles of United States federal and state laws. Insofar as Collateral Obligations that are obligations of non-United States obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under United States federal and state laws.

Volatility of Collateral Market Value and the Securities. The market value of the Collateral Obligations will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the issuers of the Collateral Obligations. The markets for high yield corporate debt securities and loans have in the past experienced periods of volatility and periods of reduced liquidity. A decrease in the market value of the Collateral Obligations would adversely affect the Sale Proceeds that could be obtained upon the sale of the Collateral Obligations and could ultimately affect the ability of the Issuers to effect an optional redemption of the Securities, pay the principal of the Secured Notes or make distributions on the Subordinated Securities.

The financial markets have experienced substantial fluctuations in prices for loans and high yield debt securities and limited liquidity for such obligations. No assurance can be made that the conditions giving rise to such price fluctuations and limited liquidity will not continue or become more acute following the Closing Date. During periods of limited liquidity and higher price volatility, the Issuer's ability to acquire or dispose of Collateral Obligations at a price and time that the Issuer deems advantageous may be impaired. As a result, in periods of rising market prices, the Issuer may be unable to participate in price increases fully to the extent that it is unable to acquire desired positions quickly; and the Issuer's inability to dispose fully and promptly of positions in declining markets will conversely cause its net asset value to decline as the value of unsold positions is marked to lower prices.

There can be no assurance that current economic conditions and the effects of increased interest rates and corresponding price volatility will not adversely impact the investment returns ultimately realized by investors or continued compliance with, among other things, the Coverage Tests.

Assignments of, and Participations in, Loans. The Issuer may purchase an interest in loans comprising Collateral Obligations either directly (by way of sale or Assignment) or indirectly (by way of Participation), subject to certain limitations set forth in the Indenture.

The purchaser of an Assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the loan agreement with respect to the loan. The Issuer as an assignee will generally have the right to receive directly from the borrower all payments of principal and interest to which it is entitled under the Assignment. As a purchaser of an Assignment, the Issuer typically will have the same voting rights as other lenders under the applicable loan agreement and will have the right

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to vote to waive enforcement of breaches of covenants. The Issuer will also have the same rights as other lenders to enforce compliance by the borrower with the terms of the loan agreement, to set-off claims against the borrower and to have recourse to collateral supporting the loan. As a result, in cases of Assignments, the Issuer will generally not assume the credit risk of the assigning institution, and the insolvency of an assigning institution should have little effect on the ability of the Issuer to continue to receive payments of principal or interest from the borrower. The Issuer will, however, assume the credit risk of the borrower.

In purchasing Participations, the Issuer will usually have a contractual relationship only with the Selling Institution, and not the borrower. When the Issuer holds a Participation in a loan it generally will not have the right to enforce compliance by the borrower with the terms of the loan agreement or have the right to vote to waive enforcement of any restrictive covenant breached by a borrower. However, most participation agreements provide that the Selling Institution may not vote in favor of any amendment, modification or waiver that forgives principal or interest, reduces principal or interest that is payable, postpones any payment of principal (whether a scheduled payment or a mandatory prepayment) or interest or releases any material guarantee or security without the consent of the participant (at least to the extent that the participant would be affected by any such amendment, modification or waiver). Selling Institutions voting in connection with a potential waiver of a restrictive covenant may have interests different from those of the Issuer as such Selling Institutions are not required to consider the interests of the Issuer in connection with their votes. In addition, the Issuer will have no rights of set-off against the borrower. The Issuer may not directly benefit from the collateral supporting the related loan and generally will have no right to enforce directly compliance by the borrower under the loan agreements. The Issuer may purchase a Participation from a Selling Institution that does not itself retain any portion of the loan and, therefore, may have limited interest in monitoring the terms of the loan agreement and the continuing creditworthiness of the borrower.

In addition, depending upon the circumstances, in the event of the insolvency of the Selling Institution, under the laws of the United States of America and the States thereof, the Issuer may experience delays in receiving payments made to the Selling Institution by the borrower or may be treated as a general creditor of the Selling Institution with respect to certain payments and the Issuer may suffer a loss to the extent the borrower may set-off claims against the Selling Institution or, if it is treated as a general creditor of the Selling Institution it may not have any exclusive or senior claim with respect to the Selling Institution's interest in, or the collateral with respect to, the loan. Consequently, the Issuer may be subject to the credit risk of the Selling Institution as well as that of the borrower. The Collateral Manager has not and will not perform independent credit analyses of the Selling Institutions.

Certain of the loans or Participations may be governed by the law of a jurisdiction other than a United States jurisdiction. The Issuer is unable to provide any information with respect to the risks associated with purchasing a Participation under an agreement governed by the laws of a jurisdiction other than a United States jurisdiction, including characterization under such laws of such Participation or sub-Participation in the event of the insolvency of the institution from whom the Issuer purchases such Participation or sub-Participation or the insolvency of the institution from whom the grantor of the sub-Participation purchased its Participation.

Collateral Reinvestment Provisions; Restrictions on Acquisition and Disposition. During the Reinvestment Period and, to the limited extent described more fully herein, after the Reinvestment Period, so long as certain requirements are met, the Collateral Manager will have sole discretion to reinvest Principal Proceeds and in some cases Interest Proceeds, in additional Collateral Obligations, and dispose of Credit Risk Obligations, Credit Improved Obligations and certain Collateral Obligations and to reinvest the Sale Proceeds thereof in Substitute Collateral Obligations, in each case in compliance with the Reinvestment Criteria, and certain other requirements set forth herein and in the Indenture. The exercise by the Collateral Manager of its discretion in disposing of such Collateral Obligations and purchasing Substitute Collateral Obligations in compliance with the Reinvestment Criteria and such other requirements will expose the Issuer to the market conditions prevailing at the time of such sale and reinvestment. Such actions during periods of adverse market conditions may result in unfavorable changes in the characteristics and quality of the Collateral Portfolio and may result in a decrease in the overall yield on the Collateral Portfolio, adversely affecting the Issuer's ability to make payments on the Securities. Further, due to the significant restrictions imposed by the Indenture on the Collateral Manager's ability to buy and sell Collateral Obligations, during certain periods or in certain circumstances, the Collateral Manager may be unable as a result of such

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restrictions to buy or sell securities or to take other actions which it might consider to be in the best interests of the Issuer and the Holders of the Securities. See "Security for the Secured Notes—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria".

Prepayment of Loans. Loans are generally prepayable, in whole or in part, at any time at the option of the obligor thereof at par plus accrued and unpaid interest thereon. Prepayments on loans may be caused by a variety of factors which are difficult to predict. Accordingly, there exists a risk that loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment. In addition, Principal Proceeds received upon such a prepayment are subject to reinvestment risk as described in the preceding paragraph. Any inability of the Issuer to reinvest payments or other proceeds in Collateral Obligations with comparable interest rates that satisfy the Reinvestment Criteria may adversely affect the timing and amount of payments and distributions received by the Holders of the Securities and the yield to maturity of the Securities. There can be no assurance that the Issuer will be able to reinvest proceeds in Collateral Obligations with comparable interest rates that satisfy the Reinvestment Criteria or (if it is able to make such reinvestments) as to the length of any delays before such investments are made.

Recoveries. To the extent that defaults occur with respect to any Collateral Obligation and the Issuer sells or otherwise disposes of such Collateral Obligations, it is unlikely that the proceeds of such sales or dispositions, together with the value of the remaining Collateral, will be equal to the unpaid principal of and interest on all of the Secured Notes and the purchase price of the Subordinated Securities. In addition, the Issuer may incur additional expenses to the extent it is required to seek recovery upon a default on a Collateral Obligation or participate in the restructuring of such Collateral Obligation. Moreover, there can be no assurance on the timing of any recoveries.

Average Life and Prepayment Considerations. The Stated Maturity of each Class of Securities (other than the Class S Notes) is the Payment Date in February 2021 and, with respect to the Class S Notes, February 2014; however, the average life of each Class is expected to be shorter than the number of years until the Stated Maturity. See "Summary—The Offering" and "Maturity and Prepayment Considerations".

The approximations of the average life of each Class of Secured Notes set forth in the table in "Summary—The Offering" with respect to the average life of each Class of Secured Notes are not predictive and do not necessarily reflect historical performance and defaults for loans and high yield debt securities; in fact, the average life of the Secured Notes will be affected by the ability of the Issuer to reinvest Principal Proceeds in Collateral Obligations during the Permitted Reinvestment Period (and to the extent of Eligible Post Reinvestment Proceeds, after the Reinvestment Period). Such approximations will also be affected by the financial condition of the issuers of the underlying Collateral Obligations and the characteristics of such securities, including the existence and frequency of exercise of any optional redemption, mandatory prepayment or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Obligations, the frequency of tender or exchange offers for the Collateral Obligations and on any sales of Collateral Obligations. In addition, if principal payments on the Secured Notes occur under the circumstances described under "Summary—The Offering—Principal Payments on the Secured Notes," the average life of the Secured Notes will also be affected. See "Maturity and Prepayment Considerations" and "Security for the Secured Notes—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria".

Distribution of Principal Proceeds Prior to the End of the Reinvestment Period. On each Scheduled Payment Date during the Reinvestment Period, Principal Proceeds will be distributed to the Holders of the Secured Notes in accordance with the Priority of Payments, if the Collateral Manager determines, in its sole judgment (which judgment shall not be subject to question as a result of subsequent events), that it is impractical or not beneficial to reinvest Principal Proceeds by the end of the applicable Investment Due Period. Distribution of Principal Proceeds to Holders of the Secured Notes prior to the end of the Reinvestment Period may shorten the expected lives of the Secured Notes and affect the timing and amount of distributions on the Subordinated Securities. See "Maturity and Prepayment Considerations".

Interest Rate Risk; Floating Rate Indices for Collateral Obligations. The Concentration Limitations require that not less than a certain percentage of the Collateral Portfolio will bear interest based on LIBOR or another floating rate index. See "Summary—Concentration Limitations". Principal Proceeds and Sale

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Proceeds may be reinvested in Collateral Obligations, subject to certain limitations specified herein, or, together with Interest Proceeds, invested in Eligible Investments pending application in accordance with the Priority of Payments. There is no requirement that such Eligible Investments bear interest at LIBOR, and the interest rates available for such Eligible Investments are inherently uncertain. The Floating Rate Notes will bear interest at a rate based on LIBOR for Eurodollar deposits for the Applicable Period, as determined on each LIBOR Determination Date. As a result, there may be a floating/fixed rate or basis mismatch between the Floating Rate Notes and any underlying Fixed Rate Collateral Obligations and there may be a basis or timing mismatch between such Floating Rate Notes and the Floating Rate Collateral Obligations as the interest rate on such Floating Rate Collateral Obligations may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the Floating Rate Notes. As a result of such mismatches, an increase in the level of LIBOR could adversely impact the ability to make payments on the Secured Notes, as well as the ability to make distributions on the Subordinated Securities. The Issuer may purchase one or more Hedge Agreements (which may be interest rate swap agreements or interest rate cap agreements) in order to reduce the impact of the interest rate mismatch. However, despite the Issuer having the option of purchasing one or more Hedge Agreements and although distribution of Interest Proceeds to the Holders of the Subordinated Securities will be subordinated to the payment of interest on the Secured Notes, there can be no assurance that the Collateral Obligations and the Eligible Investments will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Secured Notes or amounts subordinated thereto including distributions to the Holders of the Subordinated Securities. The Initial Purchaser and/or one or more of its Affiliates, with acceptable credit support arrangements, if necessary, may act as counterparty with respect to all or some of such Hedge Agreements, which could create certain conflicts of interest. See "—Certain Conflicts of Interest".

In the event of the insolvency of a Hedge Counterparty, the Issuer would be treated as a general creditor of such Hedge Counterparty.

Changes in Tax Law; No Gross-Up. A Collateral Obligation will be eligible for purchase by the Issuer if, at the time it is purchased (or committed for purchase), either the payments thereon are not subject to withholding taxes (except for withholding taxes with respect to fees received under a Securities Lending Agreement and commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities or Delayed Funding Term Loans) imposed by any jurisdiction or the obligor is required to make "gross-up" payments that cover the full amount of any such withholding taxes. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on certain Collateral Obligations (such as Finance Leases, if they were to be treated as leases rather than debt) would not become or be treated as subject to withholding taxes imposed by any jurisdiction. In addition, the Internal Revenue Service and Treasury have requested comments on the appropriate treatment of credit default swaps, which often are included as Synthetic Securities, and possible alternative treatments could result in withhold on payments received by the Issuer. In that event, if the obligors of such Collateral Obligations were not then required to make or in fact failed to make "gross-up" payments that cover the full amount of any such withholding taxes, the amounts available to make payments on, or distributions to, the Holders of the Securities would accordingly be reduced. There can be no assurance that remaining payments on the Collateral would be sufficient to make timely payments of interest on and payment of principal at the Stated Maturity of each Class of Secured Notes and, consequently, to make distributions to the Holders of the Subordinated Securities. For additional tax considerations, see "Income Tax Considerations".

In the event that any withholding tax is imposed on payments on the Securities, the Holders of such Securities will not be entitled to receive "gross-up" amounts to compensate for such withholding tax. In addition, upon the occurrence of a Withholding Tax Event, the Issuer may on any Business Day, whether during or after the Non-Call Period, simultaneously redeem in whole but not in part, at redemption prices specified herein, the Securities in accordance with the procedures described under "Description of the Securities—Optional Redemption—Optional Redemption Procedures" below.

Additional Tax. The Issuer expects to conduct its affairs so that its net income will not become subject to U.S. federal income tax. There can be no assurance, however, that its net income will not become subject to United States federal income tax as the result of unanticipated activities by the Issuer, changes in law, contrary conclusions by the U.S. tax authorities or other causes. Investors should note that the

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Treasury and the Internal Revenue Service recently announced that they are considering taxpayer requests for specific guidance on, among other things, whether a foreign person may be treated as engaged in a trade or business in the United States by virtue of entering into credit default swaps. However, the Treasury and the Internal Revenue Service have not yet provided any guidance on whether they believe entering into credit default swaps may cause a foreign person to be treated as engaged in a trade or business in the United States and if so, what facts and circumstances must be present for this conclusion to apply. Any future guidance issued by the Treasury and/or the Internal Revenue Service may have an adverse impact on the tax treatment of the Issuer. See discussion under the heading "Income Tax Considerations—Tax Treatment of the Issuer" below.

Legislation and Regulations In Connection With the Prevention of Money Laundering. The Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "**USA PATRIOT Act**"), signed into law on and effective as of October 26, 2001, imposes anti-money laundering obligations on different types of financial institutions, including banks, broker-dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "**Treasury**") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti-money laundering obligations. It is not clear whether the Treasury will require entities such as the Issuer to enact anti-money laundering policies. It is possible that the Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service providers to the Issuers, in connection with the establishment of anti-money laundering procedures, to share information with governmental authorities with respect to investors in the Securities. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Securities. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.

Regulation U Requirements. Regulation U governs certain extensions of credit that are secured by Margin Stock by persons other than securities broker-dealers (such persons, "**Regulation U Lenders**"). Under current interpretations of Regulation U by the Board of Governors of the Federal Reserve System ("**FRB**") and its staff, the purchase of a debt security such as the Securities in a private placement may constitute an extension of credit. Among other things, Regulation U generally imposes certain limits on the amount of credit that Regulation U Lenders may extend which is used to purchase or carry Margin Stock ("**Purpose Credit**"). The provisions of the Indenture and the Collateral Management Agreement are intended to ensure that (i) the purchasers of the Subordinated Securities (which are not secured by Margin Stock) are not Regulation U Lenders and (ii) the credit extended by purchasing the Secured Notes (which is secured by the Collateral, which may include Margin Stock) is not Purpose Credit. Regulation U Lenders are not subject to the Regulation U credit limits with respect to extensions of credit that are not Purpose Credit.

Regulation U also generally requires Regulation U Lenders (other than persons that are banks within the meaning of Regulation U) who are not otherwise exempted from the registration requirements to register with the FRB. Under an interpretation of Regulation U by the FRB staff, Qualified Institutional Buyers purchasing debt securities in a transaction in compliance with Rule 144A are not required to register with the FRB where the proceeds of the securities are not Purpose Credit. Non-U.S. Persons purchasing Secured Notes in reliance on Regulation S who do not have their principal place of business in a Federal Reserve District of the FRB are also not required to register with the FRB. However, other purchasers of Secured Notes should consider whether they are required to register with the FRB. In addition, purchasers of Secured Notes subject to the registration requirements of Regulation U, as well as any purchasers of the Secured Notes that are banks within the meaning of Regulation U, may also be subject to certain additional requirements under Regulation U. If the registration or other requirements of Regulation U are applicable to a purchaser of Secured Notes and such purchaser does not comply with such requirements, such failure may affect the enforceability of such purchaser's Secured Notes. See "Security for the Secured Notes—Margin Stock". Purchasers of the Secured Notes should consult their own legal advisors as to Regulation U and its application to them.

Under the Indenture, each purchaser of an interest in a Secured Note will be deemed to have represented that either (x) such purchaser's principal place of business is not located within any Federal Reserve District of the United States Federal Reserve Bank or (y) such purchaser has satisfied and will

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satisfy any applicable registration or other requirements of the FRB including, without limitation, Regulation U, in connection with its acquisition of the Secured Notes.

Dependence on the Collateral Manager and its Investment Professionals. The success of the Issuer will be highly dependent on the managerial expertise of the Collateral Manager. As a result, the Issuer will be highly dependent on the managerial expertise of certain individuals comprising the Collateral Manager's management team. There is no requirement that there be employment arrangements with those individuals for the benefit of the Collateral Manager. The individuals comprising the Collateral Manager's management team are also actively involved in other investment activities and will not be able to devote their full time and attention to the Issuer's business and affairs. The loss of any of these individuals could have a material adverse effect on the performance of the Issuer. See "The Collateral Manager—Key Personnel".

Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, its Affiliates and/or any funds managed by the Collateral Manager and their respective clients and employees and from the conduct by the Initial Purchaser and its Affiliates of other transactions with the Issuer, including, without limitation, acting as counterparty with respect to the Hedge Agreements, the Securities Lending Agreements and Synthetic Securities. The following briefly summarizes some of these conflicts but is not intended to be an exhaustive list of all such conflicts.

Conflicts of Interest Involving the Collateral Manager and Affiliates. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates and their respective clients and employees. The Collateral Manager and its Affiliates may invest, on behalf of themselves and other clients, in securities that would be appropriate as Collateral Obligations. The Collateral Manager and its Affiliates may give advice or take action for their own account or their other client accounts with similar strategies which may differ from advice given or action taken for the Issuers. The Collateral Manager and its Affiliates may also have ongoing relationships with companies whose securities are Collateral Obligations, and may own, directly or through other funds that they manage, equity or debt securities issued by obligors of Collateral Obligations or other Collateral. The Collateral Manager and its Affiliates may also provide certain services for a negotiated fee to companies whose obligations or other securities are pledged to secure the Secured Notes. In addition, the Collateral Manager, its Affiliates and their respective clients and employees may invest, or have already invested, in obligations and/or other securities that are identical to or senior to, or have interests different from or adverse to, the Collateral Obligations. In addition, the Collateral Manager and/or the Initial Purchaser or any of their respective Affiliates may serve as a general partner, adviser, officer, director, sponsor or manager of partnerships or companies organized to issue collateralized bond or loan obligations secured by non-investment grade bank loans. The Collateral Manager may at certain times be engaged in seeking investments to purchase for the Issuer while at the same time the Collateral Manager or one or more Affiliates is also seeking to purchase or has already purchased similar or identical investments for its own account or clients or affiliates or another entity for which it serves as a general partner, adviser, officer, director, sponsor, manager or collateral manager. By reason of the various activities of the Collateral Manager and its Affiliates, the Collateral Manager and such Affiliates may acquire confidential or material non-public information or be restricted from effecting transactions in certain Collateral Obligations or other Collateral that otherwise might have been initiated or prevented from liquidating a position. At times, the Collateral Manager, in an effort to avoid restrictions for the Issuer and its other clients, may elect not to receive information that other market participants or counterparties are eligible to receive or have received.

Neither the Collateral Manager nor any Affiliate thereof has any obligation (affirmative or otherwise) to offer any investments to the Issuer or to inform the Issuer of any investments before offering any investments to other funds or accounts that the Collateral Manager or any of its Affiliates manage or advise. The Collateral Manager and its Affiliates may also make investments on their own behalf without offering such investment opportunities to the Issuer. Furthermore, the Collateral Manager and its Affiliates may be bound by affirmative obligations at present or in the future, whereby it or they are obligated to offer certain investments to funds or accounts that it or they manage or advise before or without the Collateral Manager or its Affiliates offering those investments to the Issuer. Alternatively, the Collateral Manager and its Affiliates may offer certain investments to funds or accounts that it or they manage or advise simultaneously with or in

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addition to offering those investments to the Issuer. Thus, other funds or accounts that it or they manage or advise could become co-investors with the Issuer.

The Collateral Manager will endeavor to resolve conflicts with respect to investment opportunities in a manner which it deems equitable (in its sole discretion) to the extent possible under the facts and circumstances. Further, the Collateral Manager will be prohibited under the terms of the Collateral Management Agreement from directing the acquisition of Collateral Obligations from, or disposition of Collateral Obligations to, its Affiliates or any other account managed by the Collateral Manager or any of its Affiliates except in a transaction conducted on terms as favorable to the Issuer as would apply if such person were not so affiliated.

On each Payment Date, the Collateral Manager will be paid the Incentive Collateral Management Fee to the extent of funds available in accordance with the Priority of Payments if the holders of the Subordinated Securities have earned the Specified Internal Rate of Return as of such Payment Date. See "The Collateral Management Agreement—Compensation of the Collateral Manager". The manner in which the Incentive Collateral Management Fee is determined could create an incentive for the Collateral Manager to make more speculative investments in the Collateral Obligations than would otherwise be the case in order to increase the likelihood that the holders of the Subordinated Securities receive the Specified Internal Rate of Return for the Collateral Manager to be paid the Incentive Collateral Management Fee. Speculative investments in Collateral Obligations could lead to a higher level of defaults on the Collateral Obligations than initially expected, which could result in reductions or delays in payments on the Securities.

Upon the removal or resignation of the Collateral Manager, the holders of a majority of the Subordinated Securities may direct the Issuer to appoint a replacement collateral manager in the manner provided in the Collateral Management Agreement. Subordinated Securities and Secured Notes held by the Collateral Manager or any of its Affiliates will have no voting rights with respect to any vote on the removal or replacement of the Collateral Manager and will be deemed not to be outstanding in connection with any such vote; *provided*, *however*, that Subordinated Securities and Secured Notes held by the Collateral Manager or any of its Affiliates will have voting rights with respect to all other matters as to which the holders of Subordinated Securities or holders of the Secured Notes are entitled to vote, including, without limitation, any vote to direct an optional redemption of the Securities or a redemption following a Withholding Tax Event and any vote to appoint a replacement collateral manager that is not an Affiliate of the Collateral Manager pursuant to the Collateral Management Agreement. See "The Collateral Management Agreement" and "Description of the Securities—Optional Redemption".

Under the Collateral Management Agreement, the Collateral Manager is permitted to recommend or effect direct trades between the Issuer and the Collateral Manager or an Affiliate or funds or accounts for which the Collateral Manager or an Affiliate serve as collateral manager, acting as principal or agent, subject to applicable legal requirements. The Collateral Manager, its Affiliates, and their respective clients may invest in obligations that would be appropriate as Collateral. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and its Affiliates may also have ongoing relationships with, render services to or engage in transactions with, companies whose obligations are included in the Collateral and may own equity or debt securities issued by issuers of and other obligors of Collateral Obligations. As a result, officers or Affiliates of the Collateral Manager may possess information relating to obligors of Collateral Obligations which is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral and performing the other obligations under the Collateral Management Agreement. The possession of this information by the Collateral Manager (even if such information is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral and performing the other obligations under the Collateral Management Agreement) may restrict the Collateral Manager from purchasing or selling securities of those obligors. In addition, Affiliates and clients of the Collateral Manager may invest in obligations that are senior to, or have interests different from or adverse to, the Collateral Obligations. The Collateral Manager and/or its Affiliates may at certain times be simultaneously seeking to purchase or dispose of investments for its respective account, the Issuer, any similar entity for which it serves as manager or advisor and for its clients or Affiliates. It is the intention of the Collateral Manager that all Collateral Obligations will be purchased and sold by the Issuer on terms prevailing in the market. Neither the Collateral Manager nor any of its Affiliates is under any obligation to offer investment opportunities of which they become aware to the Issuer or to account to the Issuer (or share with the Issuer or inform the

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Issuer of) any such transaction or any benefit received by them from any such transaction. Furthermore, the Collateral Manager and/or its Affiliates may make an investment on behalf of any account that they manage or advise without offering the investment opportunity or making an investment on behalf of the Issuer. The Collateral Manager and/or its Affiliates have no affirmative obligation to offer any investments to the Issuer or to inform the Issuer of any investments before offering any investments to other funds or accounts that the Collateral Manager and/or its Affiliates manage or advise. Furthermore, Affiliates of the Collateral Manager may make an investment on their own behalf without offering the investment opportunity to the Issuer. Affirmative obligations may exist, or may arise in the future, whereby Affiliates of the Collateral Manager are obligated to offer certain investments to funds or accounts that such Affiliates manage or advise before or without the Collateral Manager offering those investments to the Issuer. Affiliates of the Collateral Manager have no affirmative obligations to offer those investments to the Issuer or to inform the Issuer of any investments before engaging in any investments for themselves. The Collateral Manager will endeavor to resolve conflicts with respect to investment opportunities in a manner that it deems equitable (in its sole discretion) to the extent possible under the prevailing facts and circumstances. Although the professional staff of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate (in its sole discretion), the staff may have conflicts in allocating its time and services among the Issuer and the Collateral Manager's other accounts.

Funds managed by Greywolf will commit to purchase up to 100% of the initial notional amount of the Subordinated Securities. Thereafter, such funds may transfer or sell any such Subordinated Securities held thereby at any time and from time to time. As a Holder of Subordinated Securities, such funds may have interests adverse to the other Holders of Securities.

Members of the board of directors of the Issuer who are not affiliated with the Collateral Manager or their delegates or other authorized representatives of the Issuer will have the responsibility for approving any transactions between the Issuer and the Collateral Manager or its Affiliates involving significant conflicts of interest (including principal trades). More particularly, directors unaffiliated with the Collateral Manager or any delegate designated by such directors will be responsible for approving any principal transactions for which Issuer consent is required pursuant to Section 206(3) of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**").

In addition, with the prior authorization of the Issuer, which has been given and can be revoked at any time, the Collateral Manager and/or its Affiliates may enter into agency cross-transactions where the Collateral Manager and/or its Affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted under applicable law, in which case the Collateral Manager or any such Affiliate will receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to the transaction.

The Collateral Manager and its Affiliates are not required to obtain approval for any transaction unless such approval is required by law.

Conflicts of Interest Involving the Initial Purchaser and Affiliates. The Initial Purchaser and/or its Affiliates may have placed or underwritten certain of the Collateral Obligations at original issuance and may have provided investment banking services, advisory, banking and other services to issuers of Collateral Obligations. The Initial Purchaser may, from time to time as principal or through one or more investment funds that it manages make investments in the equity securities of one or more of the issuers of Collateral Obligations with the result that one or more of such issuers may be or may become controlled by the Initial Purchaser. The Initial Purchaser may not have completed its resale of the Securities by any date certain, which may affect the liquidity of the Securities as well as the ability of the Initial Purchaser to make a market in the Securities. From time to time, the Collateral Manager on behalf of the Issuer may purchase or sell Collateral Obligations through the Initial Purchaser and/or any of its Affiliates (collectively, "**Initial Purchaser Entities**"). The Issuer may invest in the securities of companies affiliated with the Initial Purchaser Entities or in which the Initial Purchaser Entities have an equity or participation interest. The purchase, holding and sale of such investments by the Issuer may enhance the profitability of the Initial Purchaser Entities' own investments in such companies. In addition, it is expected that an Initial Purchaser Entity may also act as counterparty with respect to one or more Synthetic Securities or Securities Lending Agreements and may act as Hedge Counterparty with respect to one or more Hedge Agreements. In connection with the resale of the

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Securities, a Initial Purchaser Entity expects to enter into one or more hedging arrangements relating to a portion of the Securities. Such hedging arrangements will be entered into by such Initial Purchaser Entity with one or more purchasers of the Securities or with one or more counterparties to such Initial Purchaser Entity. The Issuer may invest in money market funds that are managed by Greywolf or its Affiliates or the Initial Purchaser Entities or for which the Trustee or its Affiliates provides services; *provided* that such money market funds otherwise qualify as Eligible Investments.

The Issuer's purchase of Collateral Obligations, at the direction of the Collateral Manager, prior to the Closing Date was financed through the sale of participation interests therein to one or more Affiliates of Goldman, Sachs & Co. pursuant to a master participation agreement. Any gains or losses realized by the Issuer in respect of Collateral Obligations that are sold or otherwise disposed of prior to the Closing Date will be for the Issuer's account. Collateral Obligations owned by the Issuer on the Closing Date were purchased in the open market, and the purchase price paid by the Issuer for such Collateral Obligations is the prevailing price at the time such Collateral Obligations were purchased. Because the purchase price of Collateral Obligations owned by the Issuer on the Closing Date is determined prior to such date, the prevailing market price of such Collateral Obligations on the Closing Date may be higher or lower than such purchase price. Accordingly, any unrealized losses or gains experienced by the Issuer in respect of the Collateral Obligations acquired by the Issuer prior to, and owned by the Issuer on, the Closing Date will be for the Issuer's account.

Irish Stock Exchange Listing. Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for this Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Securities to be admitted to the *Official List* and to trading on its regulated market. There can be no assurance that such admission will be approved or maintained. The Indenture provides that, if the Collateral Manager or the Issuers determine that the maintenance of the listing of any of the Securities on the Irish Stock Exchange is unduly onerous or burdensome, including, but not limited to, circumstances in which the obtaining or maintenance of a listing on such securities exchange would require preparation of management reports or of financial statements, or in any circumstances where the requirements of the European Union Transparency Obligations Directive would apply to either of the Issuers, the Issuers will have the right to de-list (and will de-list at the sole direction of the Collateral Manager) such Securities. The Issuers will use reasonable endeavors to obtain a listing of such Securities on another securities exchange as the Issuers may choose, except that no obligation to obtain such alternative listing shall exist if the alternative listing or maintenance of the alternative listing would itself be unduly onerous and burdensome in the judgment of the Collateral Manager in its sole discretion.

DESCRIPTION OF THE SECURITIES

The Securities will be issued pursuant to the Indenture. The following summary describes certain provisions of the Securities and the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Copies of the Indenture may be obtained as described under "Listing and General Information".

Status and Security

The Co-Issued Notes will be limited recourse secured obligations of the Issuers, the Class E Notes will be limited recourse secured obligations of the Issuer and the Subordinated Securities will be limited recourse unsecured obligations of the Issuer. Payments of interest on and principal of the Secured Notes and distributions to the Holders of the Subordinated Securities will be made solely from the proceeds of the Collateral, in accordance with the priorities described under "—Priority of Payments". The Subordinated Securities will not be secured obligations of the Issuer and will be entitled to receive amounts available for distribution only after payment of all amounts payable prior thereto under the Priority of Payments.

All Securities of a single Class rank *pari passu* with all other Securities of the same Class. See "—Priority of Payments." The right of payment with respect to the Securities is described in the "The Offering—Summary—Status and Subordination". The right of payment with respect to the Securities is described in the "Summary—The Offering—Status and Subordination".

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The entire principal amount of the Secured Notes will be issued and Outstanding on the Closing Date.

Under the terms of the Indenture, the Issuer will grant to the Trustee, on behalf of the Secured Parties, a perfected security interest in the Collateral that is of first priority, free of any adverse claim or the legal equivalent thereof, as applicable, to secure the Issuers' obligations with respect to the Secured Parties. See "Security for the Secured Notes".

Interest

The Secured Notes will bear interest from the Closing Date at the per annum rates set forth under "Summary—The Offering—Securities Issued," payable, in each case, quarterly in arrears on each Payment Date commencing August 18, 2007 and on the Stated Maturity. The Holders of the Subordinated Securities will be entitled to receive any excess Interest Proceeds in accordance with and subject to the Priority of Payments, to the extent funds are available therefor.

During the Reinvestment Period, Interest Proceeds remaining on each Scheduled Payment Date prior to the payment of certain unpaid subordinated expenses and any unpaid hedge termination payments, distribution to the Collateral Manager in respect of the Incentive Collateral Management Fee and distributions in respect of the Subordinated Securities will be used to reinvest in Collateral Obligations up to the amount necessary to satisfy the Reinvestment Test (but not to exceed 50% of such remaining Interest Proceeds available on such Scheduled Payment Date). As a result, distributions to the Holders of Subordinated Securities will be reduced to the extent of the portion of Interest Proceeds used during the Reinvestment Period to reinvest in Collateral Obligations. See "—Priority of Payments—Interest Proceeds".

For so long as any senior Class or Classes of Securities are Outstanding, to the extent that funds are not available to pay the full amount of interest on the Class C Notes, the Class D Notes or the Class E Notes on any Payment Date in accordance with the Priority of Payments, the amount of Deferred Interest with respect to each such Class of Securities will be deferred and added to the principal amount of such Class of Securities and will bear interest at the interest rate applicable to such Class of Securities to the extent lawful and enforceable, and the failure to pay the Deferred Interest of each such Class of Securities will not be an Event of Default under the Indenture. See "—Priority of Payments" and "—The Indenture—Events of Default".

Interest will cease to accrue on each Secured Note, or, in the case of a partial repayment, on such part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless there is otherwise a default with respect to such payments of principal. See "—Principal". To the extent lawful and enforceable, interest on any Defaulted Interest on the Secured Notes will accrue at the interest rate applicable to such Secured Notes, until paid as provided herein.

Interest on the Floating Rate Notes will be calculated on the basis of the actual number of days elapsed in the applicable Interest Accrual Period divided by 360, commencing on the Closing Date.

For purposes of determining any Interest Accrual Period, if any Payment Date or the Stated Maturity, as the case may be, is not a Business Day, then the Interest Accrual Period ending on such Payment Date or the Stated Maturity, as the case may be, shall be extended to but excluding the date on which payment is required to be made pursuant to the Indenture and the succeeding Interest Accrual Period shall begin on and include such date. In the event that the date of any Payment Date or the Stated Maturity, as the case may be, shall not be a Business Day, then payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Payment Date or the Stated Maturity, as the case may be, and, other than with respect to any Interest Accrual Period for a Class of Secured Notes ending on the Stated Maturity of such Class of Secured Notes, no interest shall accrue on such payment for the period from and after any such nominal date; *provided* that, in the case of the Floating Rate Notes only, interest shall accrue from and including the immediately preceding Payment Date or, in the case of the first Payment Date, the Closing Date to but excluding the following Payment Date or the Stated Maturity, as applicable.

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For purposes of calculating the Floating Rate Note Interest Rates, the Issuers will appoint the Trustee as calculation agent (solely in such capacity, the "**Calculation Agent**"). LIBOR shall be determined by the Calculation Agent in accordance with the provisions set forth under the definition of "LIBOR".

The Calculation Agent may be removed by the Issuers at any time. If the Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, or if the Calculation Agent fails to determine the Floating Rate Note Interest Rates and the Floating Rate Note Interest Amounts for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market and which does not control or is not controlled by or under common control with the Issuers or their Affiliates. The Calculation Agent may not resign its duties without a successor having been duly appointed. For so long as any of the Floating Rate Notes remain Outstanding, there will at all times be a Calculation Agent for the purpose of calculating the Floating Rate Note Interest Rates. In addition, for so long as any of the Securities are listed on the Irish Stock Exchange and the rules of such Exchange so require, the Issuer will publish in the Irish Stock Exchange's *Official List* notice of the appointment, termination or change in the office of such Calculation Agent.

The Calculation Agent will cause the Floating Rate Note Interest Rates, the Floating Rate Note Interest Amounts and the Payment Date to be communicated to, in the case of the Secured Notes, Euroclear, Clearstream, the Collateral Manager and the Irish Paying Agent for delivery to the Irish Stock Exchange (as long as any of the Securities are listed thereon) by the Business Day immediately following each LIBOR Determination Date. The determination of the Floating Rate Note Interest Rates and the Floating Rate Note Interest Amounts by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Principal

Principal will not be payable on the Secured Notes and Principal Proceeds will not be distributed to the Holders of the Subordinated Securities prior to the end of the Non-Call Period, except (i) as a result of a mandatory redemption as described in "—Mandatory Redemption," (ii) upon the occurrence of an optional redemption following a Withholding Tax Event as described under "—Optional Redemption" and (iii) as described in the next two paragraphs.

On each Scheduled Payment Date during the Reinvestment Period, Principal Proceeds will be distributed to the Holders of the Secured Notes in accordance with the Priority of Payments, if the Collateral Manager determines, in its sole judgment (which judgment shall not be subject to question as a result of subsequent events), that it is impractical or not beneficial to reinvest such Principal Proceeds by the end of the applicable Investment Due Period.

Principal will be payable on the Class S Notes in accordance with the Priority of Payments on each Payment Date in an amount equal to the Class S Principal Distribution Amount with respect to such Payment Date.

On each Scheduled Payment Date after the Reinvestment Period and on the Stated Maturity, principal will be payable on the Secured Notes and, after the Secured Notes have been paid in full, Principal Proceeds will be distributable to the Holders of the Subordinated Securities in accordance with the Priority of Payments to the extent of Principal Proceeds received in the related Due Period; *provided* that the Collateral Manager may elect to reinvest Eligible Post Reinvestment Proceeds received after the Reinvestment Period in Collateral Obligations or hold them for reinvestment in Collateral Obligations prior to the end of the Investment Due Period, subject to the exceptions described herein. See "Security for the Secured Notes—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria". The Collateral Manager will exercise its sole discretion in determining whether to reinvest Eligible Post Reinvestment Proceeds received after the Reinvestment Period. Payments of principal or notional amount, as applicable, of the Securities described in the first sentence of this paragraph will be at the applicable Secured Note Redemption Price and will not constitute an optional redemption.

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Sale of Collateral Prior to Stated Maturity

On or prior to the date that is two Business Days prior to the Stated Maturity of the last Outstanding Security, the Collateral Manager on behalf of the Issuer shall direct the Trustee in writing to sell all Collateral Obligations to the extent necessary such that no Collateral Obligations will be held by the Issuer on or after such date. The settlement dates for any such sales of Collateral Obligations shall be no later than two Business Days prior to the Stated Maturity of the last Outstanding Security. The proceeds of such sale shall be applied in accordance with the Priority of Payments.

Optional Redemption

The Securities may be redeemed by the Issuer at the written direction of, or with the written consent of the Majority of the Subordinated Securities, in whole but not in part, from Liquidation Proceeds (a) on any Business Day after the Non-Call Period and (b) on any Business Day upon the occurrence of a Withholding Tax Event, as more fully described below. If the Holders of the Majority of the Subordinated Securities elect to cause the redemption of the Securities as described herein, the Subordinated Securities will in any such case be redeemed simultaneously with all other Classes of Securities. In connection with an optional redemption, the Trustee shall notify the Collateral Manager of such optional redemption and the Collateral Manager on behalf of the Issuer shall direct the Trustee, in writing, to sell in the manner directed by the Collateral Manager in its sole discretion, and in accordance with the Indenture, any Collateral Obligation and upon any such sale the Trustee shall release the lien upon such Collateral Obligation pursuant to the Indenture.

Notwithstanding the foregoing provisions, the Issuer may not direct the Trustee to sell any Collateral Obligation unless, after giving effect to such sale, there will be sufficient funds to pay the amounts described in "—Optional Redemption Procedures" below.

Any optional redemption of the Secured Notes pursuant to subclause (a) or (b) of the second preceding paragraph will be made at the applicable Secured Note Redemption Prices plus accrued and unpaid interest.

Optional Redemption Procedures. If any Holder of the Subordinated Securities desires to direct the Issuers to optionally redeem the Securities, such Holder shall notify the Trustee in writing no less than 45 days (or such shorter period as may be acceptable to the Trustee) prior to the proposed redemption date (which date must be a Business Day). The Trustee will promptly notify the Issuers, the Collateral Manager and all other Holders of the Subordinated Securities of the receipt of such notice. Each other Holder of the Subordinated Securities that also wishes to direct the Issuers to optionally redeem the Securities must so notify the Trustee (who shall promptly notify the Issuers and the Collateral Manager, of such direction) within 15 Business Days after the date of such notice. If a Majority of the Subordinated Securities have directed the Issuers to optionally redeem the Securities, the Issuer shall effect a redemption in whole of the Securities pursuant to the procedures described herein.

The Trustee will provide notice of any optional redemption by first-class mail, postage prepaid, mailed not less than ten Business Days prior to the scheduled redemption date, to each Securityholder at such Holder's address in the Register and for so long as the Securities are listed on the Irish Stock Exchange and the rules of such Exchange shall so require, a publication shall be made in the *Official List* by the Irish Listing Agent.

The Securities shall not be optionally redeemed unless either (1) at least seven Business Days before the scheduled redemption date, the Collateral Manager on behalf of the Issuer shall have furnished to the Trustee evidence, in form reasonably satisfactory to the Trustee, that the Issuer or the Collateral Manager on behalf of the Issuer has entered into a binding agreement or agreements (including in the form of a confirmation of sale) with a financial institution or institutions whose short-term unsecured debt obligations have a credit rating of at least "A-1" from S&P or with a Person that the Collateral Manager in its sole discretion has determined to be appropriate (including, without limitation, a CDO issuer that is managed or to be managed by the Collateral Manager) to purchase, not later than the Business Day immediately preceding the scheduled redemption date, in immediately available funds, all or part of the Collateral

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Obligations and terminate any Hedge Agreements at a purchase price at least equal to an amount sufficient, together with any other amounts available to be used for such optional redemption, to pay (i) in the case of an optional redemption of the Securities at the request of a Majority of the Subordinated Securities on any Business Day after the Non-Call Period, the amounts specified under subclauses (i) through (iii) in "—Priority of Payments—Liquidation Proceeds"; *provided*, that the Issuer shall not terminate any Hedge Agreements in connection with an optional redemption of the Securities as specified herein until the notice of redemption may no longer be withdrawn; or (ii) in the case of an optional redemption following the occurrence of a Withholding Tax Event, the amounts specified under subclauses (i) and (ii) (but excluding Defaulted Hedge Termination Payments) in "—Priority of Payments—Liquidation Proceeds," or (2) at least ten Business Days prior to the scheduled redemption date and prior to selling any Collateral Obligations, the Collateral Manager on behalf of the Issuer shall certify to the Trustee and to each of the Rating Agencies that the expected proceeds from such sale (calculated as provided in the next succeeding paragraph) together with any other amounts available to be used for such optional redemption will be delivered to the Trustee two Business Days prior to (but in no event later than the Business Day immediately preceding) the scheduled redemption date, in immediately available funds, and will equal or exceed 100% of all amounts specified in the immediately preceding subclause (1). See "—Priority of Payments—Liquidation Proceeds".

For purposes of determining the expected proceeds from a sale for purposes of subclause (2) of the immediately preceding paragraph, the expected proceeds shall be deemed to be (1) the Market Value of the Eligible Investments and, if Collateral Obligations are to be sold on the Business Day of the certification, the Market Value of the Collateral Obligations; or (2) the percentage of the Market Value of the Collateral Obligations set forth in the applicable column of the table below based upon the period of time between certification and the expected date of sale.

	Number of Business Days Between Certification and Expected Sale		
Collateral Type	1 to 2	3 to 5	6 or more
Loans (other than loans with a Market Value of less than 90% of the Principal Balance thereof)	93%	92%	88%
Loans with a Market Value of less than 90% of the Principal Balance thereof	80%	73%	60%
Bonds having a Moody's Rating "B3" or higher (other than bonds with a Market Value of less than 90% of the Principal Balance thereof)	89%	85%	75%
Bonds having a Moody's Rating "Caa1" or lower and bonds having a Moody's Rating "B3" or higher with a Market Value of less than 90% of the Principal Balance thereof	75%	65%	45%

For the avoidance of doubt, the Issuer may, in effecting a sale contemplated by clause (1) of the preceding paragraph, enter into one or more participation agreements or similar arrangements with the purchaser of the Collateral Obligations whereby, in connection with the Issuer's receipt of the purchase price with respect to all or a portion of the Collateral Obligations, the Issuer shall grant to such purchaser a participation interest in all or a portion of such Collateral Obligations and agree to use commercially reasonable efforts (or such other efforts as shall be specified) to complete the transfer of such Collateral Obligations to such purchaser thereafter.

Any notice of redemption may be withdrawn by the Issuers on or prior to the sixth Business Day prior to the scheduled redemption date by written notice from the Issuer to the Trustee, the Holders of the Subordinated Securities requesting or consenting to such optional redemption and the Collateral Manager, if (i) the Collateral Manager shall be unable to cause the delivery of such sale agreement or agreements or certifications, as the case may be, in form satisfactory to the Trustee or (ii) the Majority of the Subordinated

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Securities direct such notice be withdrawn; *provided*, *however*, that the Majority of the Subordinated Securities may not direct such notice be withdrawn if the conditions set forth in the third paragraph under "—Optional Redemption Procedures" have been satisfied. Notice of withdrawal having been given as aforesaid, the Trustee shall provide notice of such withdrawal to each Holder at the address appearing in the Register by overnight courier (when possible) guaranteeing next day delivery (unless the address provided in the Register is insufficient for such purposes, in which event such notice shall be given by first class mail, postage prepaid) and, to the extent required, provide notice to the Irish Paying Agent which shall cause notice of such withdrawal to be published in the Irish Stock Exchange's *Official List*, in each case, not later than the third Business Day prior to the scheduled redemption date.

Redemption by Refinancing

The Holders of at least a Majority of the Subordinated Securities may direct (subject to the approval of the Collateral Manager as specified in the next paragraph) the redemption of any Class of Secured Notes in whole but not in part on any Payment Date occurring after the Non-Call Period, in connection with a Redemption by Refinancing by directing the Issuer (with a copy of such direction to the Trustee and the Collateral Manager) to issue additional notes (the "**Replacement Notes**"), the proceeds of which will be used to fully redeem such Class or Classes of Secured Notes, as applicable (a "**Redemption by Refinancing**"). A Redemption by Refinancing will be required to result in the redemption of all of the Secured Notes of the affected Class or Classes but need not result in the redemption of all Classes of Secured Notes. The Replacement Notes issued pursuant to a Redemption by Refinancing would have such terms and priorities as are negotiated at the time and that are set forth in a supplemental indenture, subject to the conditions set forth below.

Upon receipt of a Notice of Redemption by Refinancing (as defined below), the Issuer and the Collateral Manager will cause the Issuer and the Co-Issuer to issue Replacement Notes having the terms, priorities and conditions set forth in a proposed amendment to the Indenture approved by the Holders of at least a Majority of the Subordinated Securities and approved by the Collateral Manager. The issue of the Replacement Notes, and the redemption of the applicable Class or Classes of Secured Notes, will be contingent on receipt by the Issuer of sufficient funds from the issuance of the Replacement Notes to redeem the applicable Classes of Secured Notes at the Secured Note Redemption Price plus accrued interest and pay the applicable expenses of the Issuer, and the conditions in the paragraph below being satisfied at the time of such redemption. If the conditions below are not met, the Replacement Notes will not be issued and the applicable Classes of Secured Notes will not be redeemed unless the Holders of a Majority of the Subordinated Securities then elect to effect an optional redemption.

If one or more Classes of Secured Notes will remain Outstanding following a Redemption by Refinancing, the following additional conditions must be satisfied: (i) the Aggregate Outstanding Amount of each Class of Replacement Notes equals the Aggregate Outstanding Amount of the corresponding Class of Secured Notes that is redeemed; (ii) the applicable interest rate for each Class of Replacement Notes shall either (A) be computed on the basis of the same interest rate index as, and with a spread to such index that does not exceed the spread of, the corresponding Class of Secured Notes that is redeemed or (B) be a fixed rate of interest (such fixed rate of interest not to exceed the then floating interest rate applicable to the corresponding Class of Secured Notes being redeemed); (iii) the stated maturity of the Replacement Notes is not stated to occur earlier than the Stated Maturity of the corresponding Class of Secured Notes that is redeemed; (iv) the priority level in the Priority of Payments of each class of Replacement Notes is the same as the priority level in the Priority of Payments of the corresponding Class of Secured Notes that is redeemed; (v) the voting rights, consent rights, redemption rights and all other rights of each class of Replacement Notes are the same as the rights of the corresponding Class of Secured Notes that is redeemed in all material respects; (vi) each of the Moody's Rating Condition and S&P Rating Condition is satisfied in respect of the Class or Classes of Secured Notes that are not redeemed (it being agreed that, with respect to the satisfaction of the S&P Rating Condition, S&P may apply the ratings criteria then in existence); (vii) the delivery to the Trustee of an opinion of a nationally recognized law firm with substantial expertise in such matters that the Redemption by Refinancing will not adversely affect the conclusions reached in the opinion of McKee Nelson LLP, as expressed at the time of the issuance of the Securities on the Closing Date, regarding the U.S. federal income tax characterization of the Secured Notes that are not redeemed; and (viii) any expenses incurred in connection with the issuance of any Replacement Notes shall

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be paid from the proceeds of the issuance of such Replacement Notes. In addition to the foregoing, any issuance of Replacement Notes will require the delivery to the Trustee of the following opinions of a nationally recognized law firm with substantial expertise in such matters: (A) that neither the Issuer nor the Co-Issuer will be required, as a result of the issuance of the Replacement Notes (assuming such Replacement Notes are offered and sold in the manner and only to the eligible persons contemplated by this Offering Circular, the Indenture and the Purchase Agreement, as applicable), to be registered as an investment company under the Investment Company Act, as amended and (B) the issuance of the Replacement Notes will not result in the Issuer being subject to U.S. federal income taxation with respect to its net income.

Notice of a Redemption by Refinancing (any such notice, a **"Notice of a Redemption by Refinancing"**) will be given by the Issuer to the Trustee and by the Trustee to each Holder of Securities, the Collateral Manager, the Administrator and each Rating Agency. Failure to give Notice of a Redemption by Refinancing to any Holder of any Securities selected for redemption or any defect therein will not impair or affect the validity of the redemption of any other Securities. In addition, for so long as any Securities are listed on the Irish Stock Exchange and so long as the rules of such exchange so require, Notice of a Redemption by Refinancing will also be given by the Trustee to the Irish Paying Agent for delivery to the Irish Stock Exchange. Any definitive Securities called for redemption must be surrendered at the place specified in the notice of such redemption in order for the Holder to receive the Secured Note Redemption Price.

The Issuer, at the direction of Holders of at least of a Majority of the Subordinated Securties, will have the option to withdraw any Notice of Redemption by Refinancing up to the second Business Day prior to the scheduled redemption date by written notice to the Trustee and the Collateral Manager. If any Notice of Redemption by Refinancing is withdrawn or the Issuers are otherwise unable to complete a Redemption by Refinancing, the proceeds received from any sale of the Collateral in contemplation of such Redemption by Refinancing may during the Reinvestment Period, at the Collateral Manager's discretion, be reinvested in accordance with the Reinvestment Criteria. For the avoidance of doubt, the withdrawal of such Notice of Redemption by Refinancing or the inability of the Issuers to complete redemption of the Secured Notes will not constitute an Event of Default under the Indenture. No Hedge Agreement may be terminated in connection with any Redemption by Refinancing until such time as such Notice of Redemption by Refinancing can no longer be withdrawn by the Issuer.

Mandatory Redemption

Principal Proceeds and Interest Proceeds, in the case of the Secured Notes other than the Class E Notes, or Interest Proceeds only, in the case of the Class E Notes, that are available will be used to redeem the Secured Notes (other than the Class S Notes) as described under "—Priority of Payments" (i) on any Scheduled Payment Date on which any Par Value Test was not satisfied on the immediately preceding Determination Date or (ii) on any Scheduled Payment Date on or after the Second Determination Date on which any Interest Coverage Test was not satisfied on the immediately preceding Determination Date.

The Collateral Manager will not be required to sell Collateral Obligations if the Principal Proceeds and Interest Proceeds, in the case of the Secured Notes other than the Class E Notes, or Interest Proceeds only, in the case of the Class E Notes, available would be insufficient to cause any Coverage Test to be satisfied.

In addition, Principal Proceeds and Interest Proceeds that are available will be used to redeem the Secured Notes (other than the Class S Notes) as described under "—Priority of Payments" on any Scheduled Payment Date following an Effective Date Ratings Downgrade Event.

The Subordinated Securities are not subject to mandatory redemption.

Cancellation

All Securities that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

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Payments

Payments in respect of principal and interest on a Secured Note and distributions to Holders of Subordinated Securities will be made to the person in whose name the relevant Security is registered on the applicable record date. Payments on the Securities will be payable by wire transfer in immediately available funds to a Dollar account maintained by DTC or its nominee (in the case of the Global Securities) or each Securityholder (in the case of individual definitive Securities) to the extent practicable or otherwise by Dollar check drawn on a bank in the United States sent by mail either to DTC or its nominee (in the case of the Global Securities), or to each Securityholder at the Holder's address appearing in the Register (in the case of individual definitive Securities).

Final payments in respect of the Securities will be made only against surrender of such Securities at the office of any paying agent. None of the Issuers, the Trustee or any paying agent will have any responsibility or liability for any aspects of the records maintained by DTC or its nominee or any of its participants relating to, or for payments made thereby on account of beneficial interests in, a Global Security.

The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Security held by DTC or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Securities as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of beneficial interests in such Global Securities held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

For so long as the Securities are listed on the Irish Stock Exchange and the rules of such Exchange so require, the Issuers will have a paying agent and a transfer agent in Ireland and will give prompt written notice to each Holder and publish in an authorized newspaper, which is expected to be the *Official List*, notice of the appointment, termination or change in the location of any such office or agency.

The Indenture provides that, as a condition to the payment of distributions on any Subordinated Security without withholding U.S. federal backup withholding tax imposed under the U.S. Treasury regulations, the Issuer or any paying agent may require the delivery of properly completed and signed applicable U.S. federal income tax certifications (generally, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a person that is a "United States person" within the meaning of section 7701(a)(30) of the Code) or an appropriate Internal Revenue Service Form W-8 (or applicable successor form) in the case of a person that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code) and/or such other certification reasonably acceptable to them in order to enable the Issuer, the Trustee or any paying agent to determine their duties and liabilities with respect to any taxes or other charges that they may be required to deduct or withhold from payments in respect of such Subordinated Security under any present or future law or regulation of the United States or any present or future law or regulation of any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation.

Priority of Payments

On each Payment Date and on the Stated Maturity, the Issuer shall only make payments in accordance with the priorities (the "**Priority of Payments**") described below under "—Interest Proceeds" and "—Principal Proceeds," and, if such Payment Date is a Redemption Date, in accordance with the priorities described below under "—Liquidation Proceeds".

Interest Proceeds. Without limiting any other applicable provision regarding the payment of Interest Proceeds, on each Payment Date and on the Stated Maturity, Interest Proceeds will be distributed in the following order of priority:

(i) (a) to the payment of taxes of the Issuers, if any, and (b) thereafter, to the retention in the Interest Collection Account of an amount equal to (x) the Interest Reserve Amount for such

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Payment Date minus (y) the Aggregate Interest Reserve Distribution Amount for such Payment Date;

(ii) to the payment of accrued and unpaid Administrative Expenses constituting (x) fees of the Trustee and reimbursement of expenses of the Trustee pursuant to the terms of the Indenture and (y) fees and reimbursement of expenses of the Collateral Administrator under the Collateral Administration Agreement; *provided*, *however*, that total payments pursuant to this subclause (ii) shall not exceed, on any Payment Date other than the initial Payment Date, an amount equal to a percentage of the Aggregate Principal Amount of the Collateral Portfolio equal to an annual rate of 0.0275%, measured as of the beginning of the Due Period preceding such Payment Date (and, with respect to the initial Payment Date, 0.0164% (not annualized) of the Aggregate Principal Amount of the Collateral Portfolio, measured as of the beginning of the Due Period preceding such Payment Date);

(iii) to the payment, (in the order set forth in the definition of Administrative Expenses), of (a) *first*, remaining accrued and unpaid Administrative Expenses (other than indemnity payments) of the Issuers including other amounts payable by the Issuer to the Collateral Manager under the Collateral Management Agreement (excluding any Collateral Management Fee), and to the Trustee and the Collateral Administrator constituting Administrative Expenses not paid pursuant to subclause (ii) above, and (b) *second*, remaining accrued and unpaid Administrative Expenses of the Issuers constituting indemnity payments; *provided*, *however*, that such payments pursuant to this subclause (iii), shall not exceed (v) in the case of the initial Payment Date, together with all other Administrative Expenses of the Issuers paid from Interest Proceeds during the immediately preceding Due Period, $150,000, (w) in the case of the second Payment Date, together with all other Administrative Expenses of the Issuers paid from Interest Proceeds during the two immediately preceding Due Periods, $225,000,, (x) in the case of the third Payment Date, together with all other Administrative Expenses of the Issuers paid from Interest Proceeds during the three immediately preceding Due Periods, $300,000, (y) in the case of the fourth Payment Date, together with all other Administrative Expenses of the Issuers paid from Interest Proceeds during the four immediately preceding Due Periods, $375,000, and (z) in the case of any other Payment Date, the greater of (i) the excess, if any, of (a) $300,000 over (b) all other Administrative Expenses of the Issuers paid from Interest Proceeds during the four immediately preceding Due Periods and (ii) $75,000, in each case, not including amounts paid pursuant to subclause (ii) above;

(iv) to the payment, *pari passu*, (1) to each Hedge Counterparty of the applicable Hedge Payment Amount; (2) of the Class S Interest Distribution Amount; and (3) of the Class S Principal Distribution Amount;

(v) to the payment to the Collateral Manager of, *first*, the current Senior Collateral Management Fee in accordance with the terms of the Collateral Management Agreement and, *then*, any accrued and previously unpaid Senior Collateral Management Fee;

(vi) to the payment of the Class A Interest Distribution Amount;

(vii) to the payment of the Class B Interest Distribution Amount;

(viii) in the event that either the Class A/B Par Value Test is not satisfied on the immediately preceding Determination Date or the Class A/B Interest Coverage Test is not satisfied on the immediately preceding Determination Date on or after the Second Determination Date after giving effect to the payment of any Interest Proceeds prior to this subclause (viii) and the payment of Principal Proceeds, if any, as described in subclause (iii) of "—Principal Proceeds" below, to the mandatory redemption of the Class A Notes and then the Class B Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence, to the extent necessary to satisfy the Class A/B Par Value Test and the Class

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A/B Interest Coverage Test, as applicable, or until the Class A Notes and the Class B Notes have been paid in full;

(ix) to the payment of the Class C Interest Distribution Amount (other than the related Deferred Interest);

(x) to the payment of the portion of the Class C Interest Distribution Amount that represents the related Deferred Interest;

(xi) in the event that either the Class C Par Value Test is not satisfied on the immediately preceding Determination Date or the Class C Interest Coverage Test is not satisfied on the immediately preceding Determination Date on or after the Second Determination Date after giving effect to the payment of any Interest Proceeds prior to this subclause (xi) and the payment of Principal Proceeds, if any, as described in subclause (iii) of "—Principal Proceeds" below, to the mandatory redemption of the Class A Notes, then the Class B Notes and then the Class C Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence, to the extent necessary to satisfy the Class C Par Value Test and the Class C Interest Coverage Test, as applicable, or until the Class A Notes, the Class B Notes and the Class C Notes have been paid in full;

(xii) to the payment of the Class D Interest Distribution Amount (other than the related Deferred Interest);

(xiii) to the payment of the portion of the Class D Interest Distribution Amount that represents the related Deferred Interest;

(xiv) in the event that either the Class D Par Value Test is not satisfied on the immediately preceding Determination Date or the Class D Interest Coverage Test is not satisfied on the immediately preceding Determination Date on or after the Second Determination Date after giving effect to the payment of any Interest Proceeds prior to this subclause (xiv) and the payment of Principal Proceeds, if any, as described in subclause (iii) of "—Principal Proceeds" below, to the mandatory redemption of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence, to the extent necessary to satisfy the Class D Par Value Test and the Class D Interest Coverage Test, as applicable, or until the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes have been paid in full;

(xv) to the payment of the Class E Interest Distribution Amount (other than the related Deferred Interest);

(xvi) to the payment of the portion of the Class E Interest Distribution Amount that represents the related Deferred Interest;

(xvii) in the event that the Class E Par Value Test is not satisfied on the immediately preceding Determination Date after giving effect to the payment of any Interest Proceeds prior to this subclause (xvii) and the payment of any Principal Proceeds under "—Principal Proceeds" below, to the mandatory redemption of the Class E Notes, at the applicable Secured Note Redemption Price, to the extent necessary to satisfy the Class E Par Value Test or until the Class E Notes have been paid in full;

(xviii) in the event an Effective Date Ratings Downgrade Event has occurred and is continuing, to the payment of principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence, until such Effective Date Ratings Downgrade Event no longer exists;

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(xix) (a) to the payment to the Collateral Manager of, *first*, the current Subordinated Collateral Management Fee in accordance with the terms of the Collateral Management Agreement and, *then*, any accrued and previously unpaid Subordinated Collateral Management Fee *plus* interest thereon accrued at a rate of LIBOR for the Applicable Period *plus* 3.00% per annum to the extent not paid above; then

(b) during the Reinvestment Period, the amount necessary to satisfy the Reinvestment Test (but not to exceed 50% of the remaining Interest Proceeds available on such Payment Date) shall be used to reinvest in Collateral Obligations or shall be deposited into the Principal Collection Account (or, if required under the terms of the Indenture, the Subordinated Securities Principal Collection Account) for investment in Eligible Investments pending investment in such additional Collateral Obligations prior to the end of the Reinvestment Period; then

(c) to the payment, *first, pari passu*, of any accrued and unpaid fees and expenses of the Trustee and the Collateral Administrator, and *second*, in the order set forth in the definition of Administrative Expenses, of any accrued and unpaid Administrative Expenses of the Issuers (including, for the avoidance of doubt and without limitation, (1) indemnities and amounts payable by the Issuer to the Trustee and the Collateral Administrator, (2) indemnities and amounts payable by the Issuer to the Collateral Manager under the Collateral Management Agreement (other than the Collateral Management Fee) and (3) indemnities and amounts payable by the Issuer pursuant to any Securities Lending Agreement or related collateral arrangement), in each case to the extent not paid pursuant to subclauses (ii) and (iii) above; then

(d) to the payment of any termination payments (including any Defaulted Hedge Termination Payments) due to any Hedge Counterparty payable by the Issuer pursuant to any Hedge Agreements, to the extent not paid from the proceeds of an upfront payment to the Issuer under a replacement Hedge Agreement and after giving effect to the payment of Principal Proceeds as provided for under subclauses (ii) and (vi)(b) under "—Principal Proceeds" below; and then

(xx) the balance of Interest Proceeds shall be allocated, *pro rata*, to each subclass of Subordinated Securities (based on the Aggregate Outstanding Amounts of each subclass of Subordinated Securities) and the amount so allocated to each such subclass of Subordinated Securities shall be applied to the payment of:

(a) if such subclass of Subordinated Securities is an Included Subclass, the amount, if any, necessary to cause such Included Subclass to have realized an Internal Rate of Return of 12.0%; then

(b) the amount of the Incentive Collateral Management Fee with respect to such subclass of Subordinated Securities payable on such Payment Date; then

(c) to the Holders of the Subordinated Securities of such subclass as a distribution thereon, the balance of the Interest Proceeds so allocated to such subclass of Subordinated Securities.

On each Scheduled Payment Date, after the application of Interest Proceeds as provided above, any Interest Reserve Amount will be applied to the payment of the amounts referred to in subclauses (ii) through (xvii) above, in such order of priority, to the extent such amounts are not paid in full with Interest Proceeds as described above.

Interest Proceeds may be applied to the payment of Administrative Expenses of the Issuers on days other than Payment Dates; *provided* that, in any Due Period such payments shall not exceed (v) in the case of the Due Period immediately prior to the first Scheduled Payment Date, together with all other

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Administrative Expenses of the Issuers paid from Interest Proceeds during the immediately preceding Due Period, $150,000, (w) in the case of the second Scheduled Payment Date, together with all other Administrative Expenses of the Issuers paid from Interest Proceeds during the two immediately preceding Due Periods, $225,000, (x) in the case of the third Scheduled Payment Date, together with all other Administrative Expenses of the Issuers paid from Interest Proceeds during the three immediately preceding Due Periods, $300,000 and (y) in the case of fourth Scheduled Payment Date, together with all other Administrative Expenses of the Issuers, paid from Interest Proceeds during the four immediately preceding Due Periods, $375,000 and (z) in the case of any other Scheduled Payment Date, the greater of (i) the excess, if any, of (a) $300,000 over (b) all other Administrative Expenses of the Issuers paid from Interest Proceeds during the four immediately preceding Due Periods and (ii) $75,000; *provided, further*, that (a) such payments do not exceed the amounts permitted to be paid on the related Scheduled Payment Date pursuant to subclause (iii) above and (b) sufficient Interest Proceeds have theretofore been received to cover such payments.

Principal Proceeds. Without limiting any other applicable provision regarding the payment of Principal Proceeds, on each Payment Date and on the Stated Maturity, Principal Proceeds will be distributed in the following order of priority:

(i) to the payment of the amounts referred to in subclauses (i)(a) and (ii) through (iv) of "—Interest Proceeds" above (in the order of priority set forth therein), but only to the extent not paid in full thereunder;

(ii) to the payment of (A) any net termination payments (other than the amount of any Defaulted Hedge Termination Payments) payable by the Issuer pursuant to any Hedge Agreements and (B) any amounts payable into a collateral account for the benefit of the related Hedge Counterparty (any such account, a "**Counterparty Account**"), if any, in accordance with the Indenture and the Hedge Agreements;

(iii) *first*, to the payment of the amounts referred to in subclauses (v) through (xvi) of "—Interest Proceeds" above, in such order of priority, but, with respect to subclauses (v), (vi), (vii), (ix), (x), (xii), (xiii), (xv) and (xvi), only to the extent not paid in full thereunder and, with respect to subclauses (viii), (xi) and (xiv), prior to giving effect to the payment of any Interest Proceeds, if any, as described in such subclauses; and second, to the payment of the amounts referred to in subclause (xviii) of "—Interest Proceeds" above with respect to the Secured Notes (other than the Class S Notes), at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence, to the extent necessary to cure an Effective Date Ratings Downgrade Event and only to the extent that the payment of Interest Proceeds thereunder for such purpose is not sufficient;

(iv) during the Reinvestment Period, at the sole discretion of the Collateral Manager:

  (a) to the purchase or funding of Collateral Obligations or to the Principal Collection Account or the Revolving Credit Facility Reserve Account (or, if required under the terms of the Indenture, the Subordinated Securities Principal Collection Account) for investment in Eligible Investments pending purchase or funding of Collateral Obligations at a later date in accordance with the Reinvestment Criteria; and/or

  (b) to the payment of principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence, to the extent of available funds therefor, if the Collateral Manager determined, in its sole judgment, (which judgment shall not be subject to question as a result of subsequent events), that it was impractical or not beneficial to reinvest such Principal Proceeds by the end of the applicable Investment Due Period;

(v) after the Reinvestment Period,

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(a) in the case of Eligible Post Reinvestment Proceeds, at the sole discretion of the Collateral Manager (i) to the purchase or funding of Collateral Obligations or to the Principal Collection Account or the Revolving Credit Facility Reserve Account (or, if required under the terms of the Indenture, the Subordinated Securities Principal Collection Account) for investment in Eligible Investments pending purchase or funding of Collateral Obligations at a later date, in accordance with the Reinvestment Criteria, and in the case of additional Collateral Obligations, prior to the end of the applicable Investment Due Period or (ii) to the payment of principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence; and

(b) in the case of Principal Proceeds other than Eligible Post Reinvestment Proceeds, to the payment of principal of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, at the applicable Secured Note Redemption Price, pursuant to the Note Payment Sequence;

(vi) after the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes have been paid in full,

(a) to the payment (i) *first*, *pari passu*, of any accrued and unpaid fees, expenses and indemnities of the Trustee and the Collateral Administrator and (ii) *second*, in the order set forth in the definition of Administrative Expenses, any other accrued and unpaid expenses of the Issuers (including, for the avoidance of doubt, Administrative Expenses, indemnities and amounts payable by the Issuer under the Collateral Management Agreement (other than the Collateral Management Fee)) to the extent not paid pursuant to subclause (xix)(c) of "—Interest Proceeds" above; then

(b) to the termination of any outstanding Hedge Agreements; then

(c) to the payment to the Collateral Manager of, *first*, the current Subordinated Collateral Management Fee in accordance with the terms of the Collateral Management Agreement and, then, any accrued and previously unpaid Subordinated Collateral Management Fee *plus* interest thereon accrued at a rate of LIBOR for the Applicable Period plus 3.00% per annum, in each case, to the extent not paid pursuant to subclause (xix)(a) of "—Interest Proceeds" above; and then

(vii) the balance of Principal Proceeds shall be allocated, *pro rata*, to each subclass of Subordinated Securities (based on the Aggregate Outstanding Amounts of each subclass of Subordinated Securities) and the amount so allocated to each such subclass of Subordinated Securities shall be applied to the payment of:

(a) if such subclass of Subordinated Securities is an Included Subclass, the amount, if any, necessary to cause such Included Subclass to have realized an Internal Rate of Return of 12.0%; then

(b) the amount of the Incentive Collateral Management Fee with respect to such subclass of Subordinated Securities payable on such Payment Date; then

(c) to the Holders of the Subordinated Securities of such subclass as a distribution thereon, the balance of the Principal Proceeds so allocated to such subclass of Subordinated Securities.

The calculation of any Par Value Test on any Measurement Date shall be made by giving effect to all payments to be made pursuant to all subclauses of the Priority of Payments, as applicable, payable on the Payment Date following such Measurement Date. In addition no Principal Proceeds will be used to pay a subordinated Class on a Payment Date if, after giving effect to such payment, any Par Value Test of a more

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senior Class of Secured Notes is failing on such Payment Date or would fail as a result of such application of the Principal Proceeds on such Payment Date. See "Security for the Secured Notes—The Coverage Tests".

Depending on the requirements of the entity that acts as Hedge Counterparty, the terms of a Hedge Agreement may grant the Hedge Counterparty the option to require the Issuer to post collateral into a Counterparty Account if the Issuer fails the Class C Par Value Test, as specified in subclause (ii) under "—Principal Proceeds". If such posting requirements exist, the related Hedge Counterparty may be required to make certain payments to the Issuer to compensate the Issuer for the effect of such posting.

On a Business Day other than a Payment Date, Principal Proceeds (and to the extent there are insufficient Principal Proceeds, Interest Proceeds) may be applied to the payment of (a) any upfront payments due to any Hedge Counterparty or any replacement hedge counterparty, as the case may be, and (b) any net termination payments (other than the amount of any Defaulted Hedge Termination Payments) payable by the Issuer pursuant to any Hedge Agreements.

Liquidation Proceeds. On any Payment Date on which an optional redemption is occurring pursuant to the procedures described herein, Liquidation Proceeds will be distributed in the following order of priority:

(i) to the payment of the amounts referred to in subclauses (i), (ii)(A), (iii) (without giving any consideration to subclauses (viii), (xi), (xiv) and (xviii) of "—Interest Proceeds" above which would otherwise be incorporated by reference) and (vi)(a) (without giving any consideration to the lead-in language to such subclause (vi) of "—Principal Proceeds" above) of "—Principal Proceeds" above, in such order of priority;

(ii) without duplication of the amounts paid above, to the payment of the Secured Notes then Outstanding at the applicable Secured Note Redemption Price plus accrued and unpaid interest and then to any due and unpaid Defaulted Hedge Termination Payments;

(iii) to the payment to the Collateral Manager of, *first*, the current Subordinated Collateral Management Fee in accordance with the terms of the Collateral Management Agreement and, *then*, any accrued and previously unpaid Subordinated Collateral Management Fee *plus* interest thereon accrued at a rate of LIBOR for the Applicable Period plus 3.00% per annum; and

(iv) the balance of Liquidation Proceeds shall be allocated, *pro rata*, to each subclass of Subordinated Securities (based on the Aggregate Outstanding Amounts of each subclass of Subordinated Securities) and the amount so allocated to each such subclass of Subordinated Securities shall be applied to the payment of:

(a) if such subclass of Subordinated Securities is an Included Subclass, the amount, if any, necessary to cause such Included Subclass to have realized an Internal Rate of Return of 12.0%; then

(b) the amount of any Incentive Collateral Management Fee with respect to such subclass of Subordinated Securities payable on such Payment Date; then

(c) to the Holders of the Subordinated Securities of such subclass as a distribution thereon, the balance of the Liquidation Proceeds so allocated to such subclass of Subordinated Securities.

Form of the Secured Notes

Each Class of Secured Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more Regulation S Global Secured Notes deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream. Interests in a Regulation S Global Secured Note may be held only through Euroclear or Clearstream.

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The Secured Notes sold in reliance on Rule 144A or another exemption under the Securities Act will be represented by one or more Rule 144A Global Secured Notes deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Secured Notes will be subject to certain restrictions on transfer as set forth under "Transfer Restrictions".

Except in the limited circumstances described herein, owners of beneficial interests in either the Regulation S Global Secured Notes or the Rule 144A Global Secured Notes will not be entitled to receive physical delivery of certificated Secured Notes. The Secured Notes are not issuable in bearer form.

Form of the Subordinated Securities

The Subordinated Securities sold in offshore transactions in reliance on Regulation S will be represented by one or more Regulation S Global Subordinated Securities deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC, for the respective accounts of Euroclear and Clearstream. Interests in a Regulation S Global Subordinated Security may be held only through Euroclear or Clearstream.

The Subordinated Securities sold to Accredited Investors or Qualified Institutional Buyers will each be issued in the form of one or more certificated Subordinated Securities in fully registered form, registered in the name of the owner thereof.

The Subordinated Securities will be subject to certain restrictions on transfer as set forth under "Transfer Restrictions".

Except in the limited circumstances described herein, owners of beneficial interests in the Regulation S Global Subordinated Securities will not be entitled to receive physical delivery of certificated Subordinated Securities. The Subordinated Securities are not issuable in bearer form.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default. An "**Event of Default**" is defined in the Indenture as:

(a) a default in the payment, when due and payable, of any interest on any Class S Note, on any Class A Note or Class B Note, or if there are no Class S Notes, Class A Notes or Class B Notes Outstanding, any Class C Note, or if there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes Outstanding, any Class D Note, or if there are no Class S Notes, Class A Notes, Class B Notes, Class C Notes or Class D Notes Outstanding, any Class E Note, which default in each case shall continue for a period of five Business Days (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any paying agent or the Registrar, such default continues for a period of five or more Business Days after the Trustee receives written notice of or has actual knowledge of such administrative error or omission);

(b) a default in the payment of principal on any Secured Note at its Stated Maturity or Redemption Date (unless notice of such redemption has been timely withdrawn);

(c) the failure on any Payment Date to disburse amounts available in the Payment Account in excess of $1,000 in accordance with the Priority of Payments and continuation of such failure for a period of ten Business Days (*provided*, if such failure results solely from an administrative error or omission by the Trustee, such default continues for a period of ten or

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more Business Days after the Trustee receives written notice of or has actual knowledge of such administrative error or omission);

(d) as of any Measurement Date after the Initial Investment Period, so long as the Class A Notes are Outstanding, the Class A Par Value Ratio is less than 100%;

(e) a circumstance in which either of the Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act;

(f) a default in the performance, in a material respect, or breach, in a material respect, of any covenant, representation, warranty or other agreement of the Issuers in the Indenture (other than a covenant or agreement which is specifically addressed elsewhere in the Indenture) (it being understood that a failure to satisfy a Collateral Quality Test, a Coverage Test, the Reinvestment Test or a Concentration Limitation does not constitute a default or breach) or in any certificate or other writing delivered pursuant hereto or in connection herewith or if any representation or warranty of the Issuers in the Indenture or in any certificate or writing delivered pursuant hereto proves to be incorrect in any material respect when made, and, in each case, the continuance of such default or breach for a period of 30 days after written notice thereof shall have been given to the Issuers and the Collateral Manager by the Trustee or to the Issuers, the Collateral Manager and the Trustee by the Holders of at least 25% of the Aggregate Outstanding Amount of the Controlling Class, specifying such default, breach or failure and requiring it to be remedied and stating that such notice is a **"Notice of Default"** under the Indenture;

(g) the entry of a decree or order by a court having competent jurisdiction adjudging either of the Issuers as bankrupt or insolvent or granting an order for relief or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of either of the Issuers under the Bankruptcy Code, the bankruptcy or insolvency laws of the Cayman Islands (with respect to the Issuer) or any other applicable law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of either of the Issuers or of any substantial part of its property, or ordering the winding up or liquidation of its affairs; or an involuntary case or proceeding shall be commenced against either of the Issuers seeking any of the foregoing and such case or proceeding shall continue in effect for a period of 60 consecutive days; or

(h) the institution by either of the Issuers of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by either of the Issuers of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Code, the bankruptcy and insolvency laws of the Cayman Islands (with respect to the Issuer) or any other applicable law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of either of the Issuers or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of any action by either of the Issuers in furtherance of any such action.

If an Event of Default shall have occurred and be continuing, the Trustee may, by notice to the Issuers and the Collateral Manager or shall, at the written direction of a Majority of the Controlling Class by notice to the Issuers (and the Trustee shall in turn provide notice to the Holders of all Securities then Outstanding and the Collateral Manager), subject to the Indenture, declare the principal of and accrued and unpaid interest on all the Secured Notes to be immediately due and payable (except that, in the case of an Event of Default described in subclause (g) or (h) above, such an acceleration will occur automatically and shall not require any action by the Trustee or any Securityholder).

At any time after such a declaration of acceleration of the Stated Maturity of the Secured Notes has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as provided in accordance with the terms of the Indenture, a Majority of the Controlling Class, by

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written notice to the Issuers, the Collateral Manager and the Trustee, may rescind and annul such declaration and its consequences if:

(i) the Issuer or the Co-Issuer has paid or deposited with the Trustee a sum sufficient to pay, and shall pay:

(A) all overdue installments of interest on and principal of the Secured Notes (other than amounts due solely as a result of such acceleration);

(B) to the extent that payment of such interest is lawful, interest upon any Deferred Interest and Defaulted Interest at the applicable Note Interest Rates;

(C) all unpaid taxes and Administrative Expenses and other sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel; and

(D) all amounts then due and payable to any Hedge Counterparty; and

(ii) the Trustee has determined that either (1) all Events of Default, other than the non-payment of the interest on or principal of Secured Notes that have become due solely by such acceleration, have been cured and a Majority of the Controlling Class by written notice to the Trustee has agreed with such determination or (2) a Majority of the Controlling Class by written notice to the Trustee has waived such Event of Default as provided in the Indenture.

If an Event of Default shall have occurred and be continuing and an acceleration has occurred, the Trustee shall retain the Collateral, collect and cause the collection of the proceeds thereof and make and apply all payments and deposits in the manner described under "Description of the Securities—Priority of Payments" unless:

(a) the Trustee determines, and a Majority of the Controlling Class agrees with such determination, that the anticipated proceeds of a sale or liquidation of the Collateral (after deducting the expenses of such sale or liquidation) would be sufficient to pay in full the sum of:

(i) the principal and accrued interest with respect to all the Outstanding Secured Notes,

(ii) (A) all Administrative Expenses; (B) the net amount, if any, then payable to Hedge Counterparties by the Issuer; and (C) all other items prior in the Priority of Payments to payments on the Secured Notes, and

(iii) up to 15% of the sum of the amounts described in subclause (i) and (ii) above based on the time elapsed between the confirmation of such determination by an Independent certified public accountant and the sale of the Collateral Obligations and Eligible Investments; or

(b) the Holders of at least 66 2/3% of the Aggregate Outstanding Amount of each Class of Secured Notes (each Class voting separately) direct the sale and liquidation of the Collateral.

Notwithstanding any provision to the contrary contained herein, if an Event of Default should occur and be continuing, the Trustee will make payments to the Holders of the Securities only in the manner described in "Description of the Securities—Priority of Payments," except that if acceleration has occurred in accordance with the terms of the Indenture, or if a Payment Default has occurred and has not been cured or waived, no interest (including any Deferred Interest) shall be payable on any Class of Securities until the Aggregate Outstanding Amount of all Classes of Securities that are senior to such Class of Securities, if any, have been repaid in full.

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A Majority of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings or in the sale of any or all of the Collateral, but only if (i) such direction will not conflict with any rule of law or the Indenture (including the limitations described in the paragraph above), (ii) the Trustee determines that such action will not involve it in liability or expense (unless the Trustee has, in its opinion, received reasonably satisfactory indemnity against any such liability and expense) and (iii) any such sale of any or all of the Collateral is at market prices.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in the event that an Event of Default occurs and is continuing, the Trustee is under no obligation to exercise any of the rights or powers under the Indenture at the request of any Holders of Securities, unless such Holders have offered to the Trustee reasonable security or indemnity in the opinion of the Trustee. A Majority of the Controlling Class may, in certain cases, waive any default with respect to such Securities, except (i) a Payment Default or (ii) a default in respect of a covenant or provision of the Indenture that cannot be modified or amended without the waiver or consent of the Holder of each Outstanding Security adversely affected thereby or (iii) a default in respect of a covenant or provision for the individual protection or benefit of the Trustee, without its consent.

No Securityholder will have the right to institute any proceeding with respect to the Indenture unless (i) such Holder previously has given to the Trustee written notice of a continuing Event of Default; (ii) except in the case of a default in the payment of principal or interest, the Holders of at least 25% of the Aggregate Outstanding Amount of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such Holders have offered the Trustee reasonable indemnity; (iii) the Trustee has for 30 days failed to institute any such proceeding; and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by a Majority of the Controlling Class.

The Issuer shall not terminate any Hedge Agreements in connection with the liquidation of Collateral pursuant to the Indenture, unless and until the conditions set forth in the Indenture and described above for liquidation of the Collateral have been satisfied.

See "Glossary of Defined Terms—Outstanding" for determining whether the Holders of the requisite percentage of Securities have given any direction, notice or consent.

Notices. Notices to the Holders of the Securities shall be given by first class mail, postage prepaid, to each Holder of Securities at the address appearing in the Register. In addition, for so long as the Securities are listed on the Irish Stock Exchange and so long as the rules of such Exchange so require, as determined by the Irish Listing Agent, notices to the Holders of the Securities shall also be given by publication in the *Official List*.

Modification of Indenture. The Issuers and the Trustee may enter into one or more supplemental indentures without obtaining the consent of Holders of the Securities if either: (x) such supplemental indenture would have no material adverse effect on any of the Holders of the Securities (as evidenced by an opinion of counsel (which may be supported as to factual (including financial and capital markets) matters by a certificate of an officer of the Collateral Manager and other documents necessary or advisable in the judgment of counsel delivering the opinion) or (y) such supplemental indenture is for any of the following purposes:

(i) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Securities and the Indenture;

(ii) to add to the covenants of the Issuers or the Trustee for the benefit of the Holders of the Securities or to surrender any right or power conferred upon the Issuers;

(iii) to convey, transfer, assign, mortgage or pledge any property to or with the Trustee, or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Securities;

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(iv) to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(v) to correct or amplify the description of any property at any time subject to the lien of the Indenture, or to correct, amplify or otherwise improve upon any pledge, assignment or conveyance to the Trustee of any property subject to or required to be subject to the lien of the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in applicable law or regulations) or to cause any additional property to be subject to the lien of the Indenture;

(vi) to modify the restrictions on and procedures for resales and other transfers of Securities to reflect any changes in applicable law or regulation (or the interpretation thereof) or to enable the Issuers to rely upon any exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(vii) to otherwise correct any inconsistency or mistake or cure any ambiguity (a) arising under the Indenture or (b) in connection with the final offering circular or any other transaction document;

(viii) to take any action necessary or advisable to prevent the Issuer or the Trustee from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis;

(ix) to facilitate the issuance of additional Securities or Replacement Notes pursuant to the Indenture;

(x) to modify certain representations and warranties relating to the Trustee's security interest in the Collateral;

(xi) to facilitate (A) the listing of any of the Securities on any exchange and/or (B) compliance with the rules of such exchange;

(xii) to facilitate the issuance of combination securities or other similar securities;

(xiii) to change the minimum denomination of the Securities, but in no event may denominations be less than the amount of the Dollar equivalent of €50,000;

(xiv) to facilitate securities lending (*provided* that no Securityholders are materially adversely affected thereby);

(xv) to accommodate the acquisition of Synthetic Securities so long as the related changes are administrative or mechanical in nature;

(xvi) to accommodate the issuance of any Securities in book-entry form through the facilities of DTC or otherwise;

(xvii) to amend the definition of "Eligible Investment" (and the related definitions) to include such other Eligible Investments that S&P has confirmed in writing to the Trustee or the Collateral Manager at the time of investment therein will not cause it to reduce or withdraw its then current rating of any Class of Secured Notes;

(xviii) to amend the definition of "Synthetic Security" (other than subclause (i), (ii), or (iii) of such definition) or "Reference Obligation" if any of the Rating Agencies changes its methodologies with respect to Synthetic Securities;

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(xix) to take any action necessary or advisable in the reasonable judgment of the Issuer or the Collateral Manager for the Issuer to comply with the European Union Transparency Obligations Directive or to permit the Issuers to de-list any listed Class of Securities in accordance with the Indenture;

(xx) to evidence any waiver by any Rating Agency as to any requirement or condition, as applicable, of the Rating Agency in the Indenture;

(xxi) to facilitate hedging transactions;

(xxii) to modify any provision to facilitate an exchange of one security for another security of the same issuers that has substantially identical terms except transfer restrictions, including to effect any serial designation relating to the exchange; or

(xxiii) with the consent in writing of the Collateral Manager, and upon certification in writing from, the Collateral Manager:

1. to modify the restrictions on the sales of the Collateral Obligations (and the related definitions); and

2. to enter into any additional agreement not expressly prohibited by the Indenture as well as any amendment, modification, or waiver;

provided, that, in each case above in this item (xxiii), the Issuer has determined that the amendment, modification, supplemental indenture or waiver would not be materially adverse to holders of any Class of Securities, as evidenced by an opinion of counsel (which may be supported as to factual (including financial and capital markets) matters by a certificate of an officer of the Collateral Manager and other documents necessary or advisable in the judgment of counsel delivering the opinion).

The Trustee may, based upon an officer's certificate and an opinion of counsel provided to the Trustee by the party requesting such amendment, determine whether or not the Holders of Securities would be materially adversely affected by any supplemental indenture (after giving notice of such change to the Holders of Securities), and such determination shall be conclusive on all present and future Holders. In executing any such supplemental indenture, the Trustee shall be entitled to rely upon such officer's certificate and opinion of counsel.

The Issuers and the Trustee may also enter into one or more supplemental indentures, without obtaining the consent of Holders of the Securities, whether or not adversely affected thereby, but with the consent of the Collateral Manager, so long as each of the S&P Rating Condition and the Moody's Rating Condition has been satisfied, for any of the following purposes:

(i) to change any of the components of the Ratings Matrix;

(ii) to change the Moody's Minimum Weighted Average Recovery Rate Test;

(iii) to change the S&P Minimum Weighted Average Recovery Rate Test; or

(iv) to reflect changes in Rating Agency methodologies.

With the consent of a Majority of the Outstanding Securities of each Class of Securities materially and adversely affected thereby, the Trustee and the Issuers may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the Holders of the Securities; *provided* that, without the consent of each Holder of each Outstanding Security of each Class adversely affected thereby, no supplemental indentures may be entered into which:

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(i) change the Stated Maturity of the principal of any Secured Note, or the date on which any installment of principal or interest on any Secured Note is due and payable, change the date of any scheduled distribution on the Subordinated Securities, reduce the principal amount of any Secured Note or the Note Interest Rate or the redemption price with respect to any Secured Note, change the earliest specified date on which any Security may be redeemed, change the provisions of the Indenture for the application of Proceeds of any Collateral to the payment of principal of or interest on the Secured Notes or to the payment of distributions on the Subordinated Securities or change any place where, or the coin or currency in which, any Secured Note or the principal thereof or interest thereon is payable or any Subordinated Security or distributions thereon are payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption of a Security, on or after the applicable Redemption Date of such Security);

(ii) reduce the percentage of the Aggregate Outstanding Amount of Securities of each Class the consent of the Holders of which is required for the authorization of any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences;

(iii) impair or adversely affect the Collateral except as otherwise permitted by the Indenture;

(iv) except as expressly provided in the Indenture and other than the lien of the Indenture, permit the creation of any lien with respect to any part of the Collateral or terminate such lien on any property at any time subject thereto or deprive any Holder of a Secured Note or the Trustee of the security afforded by the lien of the Indenture;

(v) reduce the percentage of Holders of the Secured Notes of each Class whose consent is required to request the Trustee to preserve the Collateral or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture;

(vi) modify any of the provisions of the Indenture with respect to any supplemental indenture except to increase the percentage of Outstanding Securities whose Holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security adversely affected thereby;

(vii) modify the definition in the Indenture of the term "Outstanding";

(viii) modify any of the provisions of the Indenture in such a manner as to (a) affect the calculation of the amount of any payment of interest on or principal of any Secured Note, (b) modify any amount distributable to the Holders of the Subordinated Securities on any Payment Date or (c) affect the right of the Holders of the Securities to the benefit of any provisions for the redemption of the Securities contained therein;

(ix) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated hereby relating to the institution of proceedings for the Issuer or the Co-Issuer to be adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing with respect to the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under the Bankruptcy Code or any similar laws, or the consent of the Issuer or the Co-Issuer to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or any substantial part of its property, respectively; or

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(x) amend any limited recourse provision of the Indenture or any limited recourse provision of any other agreement entered into by the Issuer or the Co-Issuer with respect to the transactions contemplated hereby (which limited recourse provision provides that the obligations of the Issuer or the Co-Issuer, as the case may be, are limited recourse obligations of the Issuer or the Co-Issuer, as the case may be, payable solely from the Collateral in accordance with the terms of the Indenture).

Unless the Collateral Manager has been given prior written notice of such amendment and has consented thereto in writing, such consent being in the sole discretion of the Collateral Manager, no supplemental indenture may (a) affect the obligations or rights of the Collateral Manager including, without limitation, modifying the restrictions on the purchases or sales of Collateral Obligations or the Eligibility Criteria, the Collateral Quality Tests, the Coverage Tests or the Concentration Limitations or expanding or restricting the Collateral Manager's discretion or (b) affect the amount or priority of any fees or other amounts payable to the Collateral Manager under the Collateral Management Agreement and the Indenture.

Under the Indenture, in connection with any supplemental indenture, the Trustee will, for so long as the Secured Notes are Outstanding and rated by the Rating Agencies, mail a copy of any proposed supplemental indenture to the Rating Agencies not later than 15 Business Days prior to the execution of such proposed supplemental indenture, and no such supplemental indenture shall be entered into unless S&P shall confirm in writing that such proposed supplemental indenture would not cause the rating of any Class of Secured Notes to be reduced or withdrawn.

Additional Issuance. The Indenture will provide that additional Securities of all existing Classes of Securities may be issued and the Issuer may use the proceeds to purchase additional Collateral Obligations and, if applicable, enter into additional Hedge Agreements if the following conditions are satisfied:

(a) such additional issuances may not exceed 100% in the aggregate of the original principal or notional amount of each applicable Class of Securities;

(b) such additional Securities must be issued for a cash sales price;

(c) additional Securities of the existing Secured Notes must be issued in a *pro rata* amount (based on the then Aggregate Outstanding Amount of each Class of Securities), other than the Class S Notes which may or may not be issued in a *pro rata* amount;

(d) the terms (other than the date of issuance, the issue price, the CUSIP and the date from which interest will accrue or, in the case of the Subordinated Securities, the date from which the Holders of Subordinated Securities are entitled to receive Interest Proceeds and Principal Proceeds as distributions thereon) of such additional Securities must be identical to the terms of the previously issued Securities of the Class of which such additional Securities, as applicable, are a part;

(e) the Moody's Rating Condition and the S&P Rating Condition must be satisfied with respect to such additional issuance;

(f) the Holders of the Subordinated Securities shall have been notified in writing at least 30 days prior to such issuance and shall have been afforded the first opportunity to purchase additional Subordinated Securities in an amount equal to the percentage of the Aggregate Outstanding Amount of Subordinated Securities each Holder held immediately prior to such issuance (the "**Subordinated Securities Anti-Dilution Percentage**") of such additional Subordinated Securities and on the same terms offered to investors generally and a Majority of the Subordinated Securities consent to such additional issuance;

(g) the Collateral Manager shall have consented in writing to such additional issuance;

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(h) an opinion of counsel will be delivered to the Trustee to the effect that none of the Issuer, the Co-Issuer or the pool of Collateral will be required, as a result of such issuance, to be registered as an investment company under the Investment Company Act;

(i) an opinion of tax counsel of nationally recognized standing in the United States experienced in such matters must be delivered to the Trustee to the effect that (x) such additional issuance will not result in the Issuer becoming subject to U.S. federal income taxation with respect to its net income, (y) such additional issuance would not cause Holders or beneficial owners of the Securities previously issued to be deemed to have sold or exchanged such Securities under Section 1001 of the Code and (z) any additional Co-Issued Notes will be debt for U.S. federal income tax purposes;

(j) such additional Securities shall be issued in a manner that will allow the Issuer to accurately provide the information described in United States Treasury Regulation Section 1.1275-3(b)(1)(i) if such additional securities are not publicly offered and are issued with original issue discount within the meaning of such regulation;

(k) any Administrative Expenses incurred with respect to such issuance will be paid from the proceeds of such issuance; and

(l) the Issuer shall deliver an officer's certificate to the Trustee certifying that the conditions precedent to such issuance set forth under this section "—Additional Issuance" have been satisfied.

In addition, the Issuer may issue and sell additional Subordinated Securities (without issuing additional Secured Notes of any Class); *provided* that the following conditions are satisfied:

(a) the subordination terms of such Subordinated Securities must be identical to the terms specified in the Indenture;

(b) the dates on which such additional Subordinated Securities receive any distribution from the issuer must be the same dates as all other Subordinated Securities;

(c) each other term of such Subordinated Securities (other than the issue price thereof and the date from which the Holders of the Subordinated Securities are entitled to receive Interest Proceeds and Principal Proceeds as distributions thereon) must be no more favorable to the purchasers thereof than the corresponding term of the previously issued Subordinated Securities;

(d) such additional Subordinated Securities must be issued for a cash sales price;

(e) the Holders of the Subordinated Securities shall have been notified in writing at least 30 days prior to such issuance and shall have been afforded the first opportunity to purchase additional Subordinated Securities in an amount equal to the Subordinated Securities Anti-Dilution Percentage of such additional Subordinated Securities and on the same terms offered to investors generally (which right to purchase additional Subordinated Securities shall expire if not exercised prior to the end of business on the date 20 days after the date of receipt of notice of such issuance of such additional Subordinated Securities);

(f) the Collateral Manager shall have consented in writing to such additional issuance and S&P shall have been given prior written notice of such additional issuance;

(g) an opinion of counsel must be delivered to the Trustee to the effect that none of the Issuer, the Co-Issuer or the pool of Collateral will be required, as a result of such issuance, to be registered as an investment company under the Investment Company Act;

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(h) an opinion of tax counsel of nationally recognized standing in the United States experienced in such matters must be delivered to the Trustee to the effect that (x) such additional issuance will not result in the Issuer becoming subject to U.S. federal income taxation with respect to its net income and (y) such additional issuance would not cause Holders or beneficial owners of the Securities previously issued to be deemed to have sold or exchanged such Securities under Section 1001 of the Code;

(i) the Issuer shall deliver an officer's certificate to the Trustee certifying that the conditions precedent to such issuance set forth under this section "—Additional Issuance" have been satisfied; and

(j) any Administrative Expenses incurred with respect to such issuance will be paid from the proceeds of such issuance.

The proceeds from such additional issuance of Securities shall be applied in accordance with the time period and in the manner set forth in the table below (the "**Treatment of Additional Issuances of Securities**").

	When Proceeds from Additional Issuances of Securities can be used	
Issuance occurs prior to the end of the Reinvestment Period	At or before the end of the Reinvestment Period.	
Issuance occurs after the Reinvestment Period	At or before the end of the related Investment Due Period.	
	How Proceeds from Additional Issuances of Securities can be used	
	Additional Issuance of Secured Notes and Subordinated Securities	**Additional Issuance of Subordinated Securities only**
If there is an Effective Date Ratings Downgrade Event	On any Determination Date after the Effective Date Ratings Downgrade Event, treat as Principal Proceeds and apply in accordance with "—Priority of Payments—Principal Proceeds".	Treat as Interest Proceeds or Principal Proceeds, in the Collateral Manager's sole discretion evidenced in a writing delivered to the Trustee, and apply in accordance with "—Priority of Payments—Interest Proceeds" or "—Priority of Payments—Principal Proceeds".
Any Determination Date on which any of the Par Value Tests are not satisfied, or on any Determination Date on or after the Second Determination Date on which any of the Interest Coverage Tests are not satisfied	Treat as Principal Proceeds and apply in accordance with "—Priority of Payments—Principal Proceeds".	Treat as Interest Proceeds or Principal Proceeds, in the Collateral Manager's sole discretion evidenced in a writing to the Trustee, and apply in accordance with "—Priority of Payments—Interest Proceeds" or "—Priority of Payments—Principal Proceeds".
In all other cases	Invest in additional Collateral Obligations or additional Hedge Agreements, and, to the extent not invested in accordance with the time period set forth in the preceding table, treat such proceeds as Principal Proceeds and apply in accordance with clause (vii) of the definition thereof.	In the Collateral Manager's sole discretion evidenced in a writing to the Trustee: (i) invest in additional Collateral Obligations or additional Hedge Agreements; (ii) treat as Interest Proceeds and apply in accordance with "—Priority of Payments—Interest Proceeds" or (iii) treat such proceeds as Principal Proceeds and apply in accordance with "—Priority of Payments—Principal Proceeds".

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In connection with any additional issuance of Securities, the Issuer shall, to the extent required by the rules thereof, provide the Irish Stock Exchange with a Listing Circular or an Offering Circular Supplement, relating to such additional Securities.

In addition, each additional issuance of Subordinated Securities shall be issued as a separate subclass of Subordinated Securities. In connection with the issuance of such subclass of Subordinated Securities, the Issuer shall designate whether the applicable subclass will be an "Included Subclass" or an "Excluded Subclass" (as those terms are used in the calculation and payment of Incentive Collateral Management Fees). For the avoidance of doubt, the Subordinated Securities issued on the Closing Date will be deemed an Included Subclass.

Jurisdictions of Incorporation. Under the Indenture, the Issuer and the Co-Issuer will be required to maintain their rights and franchises as a company and a corporation incorporated under the laws of the Cayman Islands and the State of Delaware, respectively, to comply with the provisions of their respective organizational documents and to obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validation and enforceability of the Indenture, the Securities or any of the Collateral; *provided*, *however*, that the Issuer shall be entitled to change its jurisdiction of incorporation and principal place of business from the Cayman Islands to any other jurisdiction reasonably selected by the Issuer and approved by the ordinary shareholder of the Issuer, so long as (a) such change is not disadvantageous in any material respect to the Issuer, the Holders of any Class of Securities or the Collateral Manager; (b) written notice of such change shall have been given by the Issuer to the Trustee, the Holders, the Collateral Manager and each of the Rating Agencies at least 30 Business Days prior to such change of jurisdiction and (c) on or prior to the 15th Business Day following such notice the Trustee shall not have received written notice from a Majority of the Controlling Class objecting to such change.

Petitions for Bankruptcy. The Indenture will provide that neither (i) the Trustee, in its own capacity, or on behalf of any Securityholder nor (ii) the Securityholders may, prior to the date which is one year and one day (or, if longer, the applicable preference period) after the payment in full of all Securities institute against, or join any other person in instituting against, the Issuer or Co-Issuer any bankruptcy, reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under Cayman Islands, United States federal or state bankruptcy or similar laws.

Satisfaction and Discharge of the Indenture. The Indenture will be discharged with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Securities, or, within certain limitations (including the obligation to pay principal and interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Indenture.

Trustee. The Bank of New York Trust Company, National Association will be the Trustee under the Indenture for the Securities. The Issuers and their Affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee relating to the Securities is solely the obligation of the Issuers. The Trustee and/or its Affiliates may receive compensation in connection with the Trustee's investment of trust assets in certain Eligible Investments as provided in the Indenture and in connection with the Trustee's administration of any securities lending activities of the Issuer.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. The Trustee may be removed at any time by a Majority of the Secured Notes voting together as a single class, or may be removed at any time when an Event of Default shall have occurred and be continuing, by a Majority of the Controlling Class. No resignation or removal of the Trustee shall be effective until a successor trustee has been appointed pursuant to the terms of the Indenture.

Reports Prepared Pursuant to the Indenture. Upon the written request in the form of Exhibit A hereto, any Securityholder (or its designee) may request that the Trustee provide to such Securityholder (or

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its designee) the monthly reports and certain other reports prepared by or on behalf of the Issuer in accordance with the Indenture.

Governing Law. The Indenture and the Securities will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein without regard to the conflict of laws principles thereof.

USE OF PROCEEDS

The aggregate proceeds of the offering of the Securities are expected to equal approximately $502,000,000. Such proceeds will be used by the Issuer (i) to pay expenses related to the offering of the Securities, (ii) to satisfy the Issuer's obligations under certain warehouse arrangements with respect to a portfolio of Collateral Obligations acquired during the Accumulation Period, (iii) to enter into one or more Hedge Agreements on or after the Closing Date, (iv) to deposit an amount equal to the Expense Reserve Amount in the Expense Reserve Account and (v) to deposit into the Revolving Credit Facility Reserve Account an amount equal to the Future Drawdown Amount.

On the Effective Date, so long as the Minimum Par Value Ratio is satisfied as of such date, the Collateral Manager may, in its sole discretion, instruct the Trustee in writing to utilize up to $1,000,000 of Principal Proceeds and unused proceeds of the offering of the Securities for application as either Interest Proceeds or Principal Proceeds in accordance with the Priority of Payments and/or transfer to the Discretionary Reserve Account for future application of such funds as either Interest Proceeds or Principal Proceeds in accordance with the Priority of Payments, in each case on or before the Payment Date in February 2008. See "Security for the Secured Notes—Principal Collection Account" and "—Discretionary Reserve Account".

On the Closing Date, the proceeds of the issuance of the Class S Notes in an amount equal to approximately $2,000,000 will be deposited in the Interest Collection Account. On or before the first Payment Date the Collateral Manager may (in its sole discretion) instruct the Trustee in writing to transfer all or a portion of funds in the Interest Collection Account (representing proceeds of the issuance of the Class S Notes) to the Principal Collection Account for application as Principal Proceeds.

It is expected that approximately $491,966,875 of the aggregate proceeds of the offering of the Securities will be available to the Issuer to satisfy its obligations under certain warehouse arrangements with respect to a portfolio of Collateral Obligations acquired during the Accumulation Period and to purchase additional Collateral Obligations.

RATING OF THE SECURITIES

It is a condition to the issuance of the Securities that the Secured Notes of each Class receive from the Rating Agencies the minimum rating indicated under "Summary—The Offering". A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. The Subordinated Securities will not be rated by any credit rating agency.

SECURITY FOR THE SECURED NOTES

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit of the Holders of the Secured Notes and certain other parties but not the Holders of the Subordinated Securities, a perfected security interest in the Collateral, including the Collateral Obligations, that is of first priority, free of any adverse claim or the legal equivalent thereof, as applicable, to secure the Issuer's obligations under the Indenture, the Secured Notes and each Hedge Agreement. The Subordinated Securities are not secured.

Purchase of Collateral Obligations

It is expected that, by the Closing Date, the Issuer will have purchased, or entered into agreements to purchase, with the net proceeds of the issuance of the Securities, a portfolio of Collateral Obligations selected by the Collateral Manager constituting approximately 87% of the Aggregate Principal Amount of

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Collateral Obligations expected to be purchased by the Issuer representing approximately $430,000,000 in Aggregate Principal Amount of Collateral Obligations.

On or prior to the 10th Business Day after the Interim Targets Date, the Collateral Manager shall submit to Moody's (with a copy to the Trustee) (x) a statement showing compliance with the Interim Targets or (y) if the Interim Targets are not satisfied, a plan certified by the Collateral Manager as sufficient, in its judgment, to attain compliance as of the Effective Date with each of the Collateral Quality Tests (other than the S&P CDO Monitor Test), the Par Value Tests, the Minimum Par Value Ratio and the Concentration Limitations.

At the Effective Date, the Aggregate Principal Amount of the Collateral Obligations and the amount of cash and Eligible Investments deposited in the Issuer Accounts are expected to be approximately $493,500,000.

An obligation will be eligible for purchase by the Issuer if it meets the Eligibility Criteria. See "Summary—The Offering—Collateral Obligations".

The Collateral Quality Tests

The "**Collateral Quality Tests**" will consist of the Diversity Test, the Maximum Rating Factor Test, the Minimum Weighted Average Coupon Test, the Maximum Average Life Test, the Moody's Minimum Weighted Average Recovery Rate Test, the S&P Minimum Weighted Average Recovery Rate Test and the S&P CDO Monitor Test.

On and after the Effective Date, measurement of the degree of compliance with the Collateral Quality Tests will be required as of each Measurement Date.

The values at which each of the Collateral Quality Tests is satisfied and the expected value of each Collateral Quality Test upon the Effective Date are set forth in the table presented under "Summary—The Offering—Collateral Quality Tests".

Ratings Matrix. Subject to the provisions provided below, the Collateral Manager on behalf of the Issuer will have the option (in its sole discretion) to elect which combination of Maximum Rating Factor, Minimum Weighted Average Spread and Minimum Diversity set forth in the Ratings Matrix shall be applicable for purposes of the Diversity Test, the Minimum Weighted Average Coupon Test and the Maximum Rating Factor Test. On the Effective Date, the Collateral Manager on behalf of the Issuer, by notice in writing to the Trustee and Moody's, will elect (in its sole discretion) which "row/column combination" shall apply initially.

Thereafter, on two Business Days' written notice prior to any Measurement Date to the Trustee and Moody's, the Collateral Manager on behalf of the Issuer may elect (in its sole discretion) to have a different "row/column combination" apply. In no event will the Collateral Manager on behalf of the Issuer be obligated to elect to have a different "row/column combination" apply or to elect to have the same "row/column combination" apply.

Diversity Test. The "**Diversity Test**" is a test that will be satisfied if, as of any Measurement Date, the Diversity Score (rounded to the nearest whole number) equals or exceeds the number set forth in the column entitled "Minimum Diversity" in the Ratings Matrix based upon the "row/column combination" chosen by the Collateral Manager as currently applicable to the Collateral Obligations in accordance with the Indenture. For purposes of the Diversity Test, (a) any Synthetic Security that has a single underlying Reference Obligor shall be included as a Collateral Obligation having the characteristics of the related Reference Obligation and not of the Synthetic Security and any Synthetic Security that has more than one underlying Reference Obligor shall not be included in the Diversity Test, (b) any Collateral Obligation loaned to a Securities Lending Counterparty shall be included in the Diversity Test so long as such Securities Lending Counterparty is not in default under the related agreement governing the loan of such Collateral Obligations (a "**Securities Lending Agreement**") and (c) any CDO Security that is a collateralized loan obligation shall be excluded from the Diversity Test.

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Maximum Rating Factor Test. The "**Maximum Rating Factor Test**" will be satisfied as of any Measurement Date if the Moody's Weighted Average Rating Factor of the Collateral Obligations is equal to or less than (i) the number set forth in the column entitled "Maximum Rating Factor" in the Ratings Matrix based upon the "row/column combination" chosen by the Collateral Manager as currently applicable to the Collateral Obligations in accordance with the Indenture plus (ii) the Rating Factor Modifier. For purposes of the Maximum Rating Factor Test, (a) unless otherwise specified, a Synthetic Security shall be included as a Collateral Obligation having a Moody's Rating Factor determined as described under "Security for the Secured Notes—Certain Matters Relating to Synthetic Securities" and having the other characteristics of the Synthetic Security (and not of the Reference Obligations) and (b) any Collateral Obligation loaned to a Securities Lending Counterparty shall be included in the Maximum Rating Factor Test so long as such Securities Lending Counterparty is not in default under the related Securities Lending Agreement.

Maximum Average Life Test. The "**Maximum Average Life Test**" will be satisfied if, as of any Measurement Date, the Weighted Average Life of the Collateral Obligations is less than or equal to the number of years applicable to the period in which such Measurement Date occurs, as set forth in a schedule to the Indenture. On the Effective Date, the Maximum Average Life Test shall be met if the Weighted Average Life of the Collateral Obligations is 10 years or less.

Minimum Weighted Average Coupon Test. The "**Minimum Weighted Average Coupon Test**" will be satisfied if, as of any Measurement Date, the Weighted Average Spread as of such Measurement Date equals or exceeds the Minimum Weighted Average Spread.

The "**Minimum Weighted Average Spread**" as of any Measurement Date will equal or be greater than the percentage set forth in the row entitled "Minimum Weighted Average Spread" in the Ratings Matrix set forth in "Summary—The Offering—Collateral Quality Tests" based upon the "row/column combination" chosen by the Collateral Manager as currently applicable to the Collateral Obligations in accordance with the terms of the Indenture.

Moody's Minimum Weighted Average Recovery Rate Test. The "**Moody's Minimum Weighted Average Recovery Rate Test**" will be satisfied as of any Measurement Date if the Moody's Weighted Average Recovery Rate is equal to or greater than the percentage set forth in "Summary—The Offering—Collateral Quality Tests".

S&P Minimum Weighted Average Recovery Rate Test. The "**S&P Minimum Weighted Average Recovery Rate Test**" will be satisfied as of any Measurement Date if the S&P Weighted Average Recovery Rate is equal to or greater than the percentage set forth in "Summary—The Offering—Collateral Quality Tests".

S&P CDO Monitor Test. The "**S&P CDO Monitor Test**" will be satisfied as of any Measurement Date after the Effective Date if, after giving effect to any purchase or sale (or both, if applicable) of a Collateral Obligation, as the case may be, each of the Class S Loss Differential, the Class A Loss Differential, the Class B Loss Differential, the Class C Loss Differential, the Class D Loss Differential and the Class E Loss Differential of the Proposed Portfolio is positive. The S&P CDO Monitor Test will be considered to be improved if each of the Class S Loss Differential, the Class A Loss Differential, the Class B Loss Differential, the Class C Loss Differential, the Class D Loss Differential and the Class E Loss Differential of the Proposed Portfolio is greater than each of the Class S Loss Differential, the Class A Loss Differential, the Class B Loss Differential, the Class C Loss Differential, the Class D Loss Differential and the Class E Loss Differential, respectively, of the Current Portfolio. For the calculation of the Class S Loss Differential, the Class A Loss Differential, the Class B Loss Differential, the Class C Loss Differential, the Class D Loss Differential and the Class E Loss Differential, the appropriate S&P CDO Monitor determined pursuant to the Indenture will be used.

After the Effective Date, S&P shall provide nine (9) different S&P CDO Monitors to the Issuer, the Collateral Manager, the Collateral Administrator and the Trustee, such S&P CDO Monitors corresponding to portfolios with weighted average spreads of 2.10%, 2.20%, 2.30%, 2.40%, 2.50%, 2.60%, 2.70%, 2.80% and 2.90%, respectively. The Collateral Manager on behalf of the Issuer will have the option to elect (in its sole discretion) from time to time which S&P CDO Monitor shall apply for purposes of application under the

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Indenture. After the Effective Date, the Collateral Manager on behalf of the Issuer, by written notice to the Collateral Administrator, the Trustee and S&P, will elect (in its sole discretion) which S&P CDO Monitor shall apply initially and, thereafter, on two Business Days written notice prior to the Measurement Date to the Collateral Administrator, Trustee and S&P, the Collateral Manager on behalf of the Issuer may elect (in its sole discretion) to have a different S&P CDO Monitor apply; *provided*, that such elected S&P CDO Monitor must correspond to a portfolio with a weighted average spread that is equal to or lower than the Weighted Average Spread of the Floating Rate Collateral Obligations in the Collateral Portfolio at the time of such election; *provided, further*, that if the Weighted Average Spread of the Floating Rate Collateral Obligations in the Collateral Portfolio at the time of such election is less than 2.10%, then the S&P CDO Monitor that corresponds to a portfolio with a weighted average spread of 2.10% shall be used. In no event shall the Collateral Manager be obligated to elect a different S&P CDO Monitor or to retain the current S&P CDO Monitor election. For the avoidance of doubt, the selection of an S&P CDO Monitor as described in this paragraph shall be separate and independent of any election of the Collateral Manager on behalf of the Issuer (in its sole discretion) with respect to the Ratings Matrix pursuant to "—Ratings Matrix" above.

In calculating the Class S Scenario Default Rate, the Class A Scenario Default Rate, the Class B Scenario Default Rate, the Class C Scenario Default Rate, the Class D Scenario Default Rate and the Class E Scenario Default Rate, the S&P CDO Monitor considers each obligor's S&P Rating, the number of obligors in the portfolio, the obligor and industry concentrations in the portfolio and the remaining weighted average life of the Collateral Obligations and Eligible Investments and calculates a cumulative default rate based on the statistical probability of distributions of defaults on the Collateral Obligations and Eligible Investments.

The Coverage Tests

The Coverage Tests will be used primarily to determine whether (i) interest may be paid on the Secured Notes, (ii) Interest Proceeds will be distributed to the Holders of the Subordinated Securities, (iii) Principal Proceeds may be reinvested in Collateral Obligations and (iv) Principal Proceeds and, to the extent needed, Interest Proceeds must be used to make mandatory redemptions of the Secured Notes (other than the Class S Notes) in accordance with the Priority of Payments. See "—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria", "Description of the Securities—Principal" and "—Priority of Payments".

"**Coverage Tests**" means the Par Value Tests and the Interest Coverage Tests.

For purposes of the Coverage Tests:

(i) unless otherwise specified, a Synthetic Security shall be treated as set forth in "Security for the Secured Notes—Certain Matters Relating to Synthetic Securities";

(ii) (a) after the occurrence of an "event of default" (as such term is defined under the related Securities Lending Agreement), all Securities Lending Collateral deposited by the related Securities Lending Counterparty in the Securities Lending Account shall be deemed to be part of the Collateral Portfolio (but not to exceed the amount of the Securities Lending Counterparty's obligations owed to the Issuer); and (b) any Collateral Obligation loaned to a Securities Lending Counterparty shall be included in the Coverage Tests for so long as an "event of default" (as such term is defined under the related Securities Lending Agreement), shall not have occurred and be continuing under the related Securities Lending Agreement;

(iii) amounts deposited in the Expense Reserve Account shall be excluded; and

(iv) amounts on deposit in each Synthetic Security Collateral Account shall be excluded (unless (a) the Collateral Manager notifies the Trustee in writing that it has determined that the amount deposited in such Synthetic Security Collateral Account exceeds the amount owed by the Issuer to the related Synthetic Security Counterparty, in which case such excess portion shall be included or (b) a termination event or an event of default has occurred under the related Synthetic Security, in which case the amount by which the amount deposited in

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the related Synthetic Security Collateral Account exceeds the amount owed by the Issuer to the related Synthetic Security Counterparty shall be included).

Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria

Sales of Collateral Obligations—Generally. The Collateral Obligations may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Obligations. In addition, at any time, the Collateral Manager (in its sole discretion) on behalf of the Issuer may direct the Trustee in writing to (1) sell, and the Trustee shall sell, in the manner directed by the Collateral Manager (in its sole discretion) on behalf of the Issuer (i) any Equity Security, (ii) any Defaulted Obligation, (iii) any Withholding Tax Security or (iv) any Credit Risk Obligation (subject to, in the case of a Credit Risk Obligation, subclauses (i) and (ii) described under "Sale of Credit Improved Obligations and Credit Risk Obligations and Discretionary Sales of Collateral Obligations—Sales of Credit Risk Obligations and Credit Improved Obligations in cases of Co-Issued Notes' Ratings Withdrawal or Downgrade") or (2) exchange a Defaulted Obligation for an Exchanged Defaulted Obligation in accordance with the limitations described herein. For so long as no Event of Default has occurred and is continuing, the Collateral Manager (in its sole discretion) on behalf of the Issuer may direct the Trustee to sell, and the Trustee shall sell, in the manner directed by the Collateral Manager (in its sole discretion) on behalf of the Issuer (i) any Credit Improved Obligation or (ii) any other Collateral Obligation in addition to those described in the preceding sentence, in each case subject to the limitations on amounts and other requirements set forth in the Indenture and described herein.

Sale of Credit Improved Obligations and Credit Risk Obligations and Discretionary Sales of Collateral Obligations

Credit Risk Obligations

A Credit Risk Obligation may be sold during or after the Reinvestment Period. If the proposed sale occurs:

(i) during the Reinvestment Period, the Collateral Manager on behalf of the Issuer will seek to direct the reinvestment of the Sale Proceeds of such Credit Risk Obligation in one or more Substitute Collateral Obligations on or prior to the end of the Permitted Reinvestment Period; or

(ii) after the Reinvestment Period, if the Collateral Manager (in its sole discretion) on behalf of the Issuer elects to reinvest the Sale Proceeds of such Credit Risk Obligation, the Collateral Manager on behalf of the Issuer will seek to direct the reinvestment of the Sale Proceeds of such Credit Risk Obligation in one or more Substitute Collateral Obligations on or prior to the end of the Investment Due Period.

Credit Improved Obligations

A Credit Improved Obligation may be sold during or after the Reinvestment Period so long as:

(i) if the proposed sale occurs during the Reinvestment Period, the Collateral Manager on behalf of the Issuer will seek to direct the reinvestment of the Sale Proceeds of such Credit Improved Obligation in one or more Substitute Collateral Obligations within 30 Business Days of settlement of such sale (and such 30 Business Day period may extend beyond the end of the Reinvestment Period if the end of the Reinvestment Period occurs prior to the end of such 30 Business Day period); or

(ii) if the proposed sale occurs after the Reinvestment Period, if the Collateral Manager (in its sole discretion) on behalf of the Issuer elects to reinvest the Sale Proceeds of

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such Credit Improved Obligation, the Collateral Manager on behalf of the Issuer will seek to direct the reinvestment of the Sale Proceeds of such Credit Improved Obligation in one or more Substitute Collateral Obligations within 30 Business Days of settlement of such sale.

Sales of Credit Risk Obligations and Credit Improved Obligations in cases of Co-Issued Notes' Ratings Withdrawal or Downgrade

During or after the Reinvestment Period, if Moody's has withdrawn its rating on any of the Secured Notes (other than the Class E Notes), or reduced its rating, in the case of the Class S Notes, the Class A Notes and the Class B Notes, below the initial rating as in effect on the Closing Date or, in the case of the Class C Notes and the Class D Notes, two subcategories below the initial rating as in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn rating to the initial rating in the case of the Class S Notes, the Class A Notes and the Class B Notes and to a level not more than one subcategory below the initial rating in the case of the Class C Notes and the Class D Notes, as applicable), the Collateral Manager on behalf of the Issuer may only instruct the Trustee to sell a Credit Risk Obligation or a Credit Improved Obligation, as the case may be, if:

(i) one or more of the Credit Improved Criteria or Credit Risk Criteria, as the case may be, has been satisfied with respect to such Collateral Obligation; or

(ii) prior to such sale, a Majority of the Controlling Class consents to such sale; or

(iii) prior to or following each such downgrade, a Majority of each Class of Secured Notes, voting separately by Class, has consented to all or a specified lesser amount of sales of Credit Risk Obligations or Credit Improved Obligations, as the case may be (notwithstanding such downgrade), it being acknowledged and agreed that such consent will be valid for one or more such sales for each one such downgrade and that after any further downgrade, the consent of a Majority of each Class of Secured Notes, voting separately by Class, will need to be obtained again.

Discretionary Sales of Collateral Obligations

Any Collateral Obligation (other than a Defaulted Obligation, a Credit Risk Obligation, a Credit Improved Obligation, an Equity Security or a Withholding Tax Security) may be sold during the Reinvestment Period so long as:

(i) the Collateral Manager on behalf of the Issuer will seek to direct the reinvestment of the Sale Proceeds of such Collateral Obligation in one or more Substitute Collateral Obligations the Aggregate Principal Amount of which is not less than the Aggregate Principal Amount of the Collateral Obligations sold within 30 Business Days of settlement of such sale (and such 30 Business Day period may extend beyond the end of the Reinvestment Period if the end of the Reinvestment Period occurs prior to the end of such 30 Business Day period); and

(ii) the Aggregate Principal Amount of Collateral Obligations (other than a Defaulted Obligation, a Credit Risk Obligation, a Credit Improved Obligation, an Equity Security or a Withholding Tax Security) sold in the 12 months prior to such sale (or, if the date of such sale is less than 12 months after the Effective Date, from the Effective Date to the date of such sale) does not exceed 20% of the Aggregate Principal Amount of the Collateral Portfolio, measured as of the beginning of each such twelve month period (or, if applicable, the Effective Date); *provided* that, for purposes of calculating the limitation under this subclause, (1) the Issuer shall be deemed to have sold any Collateral Obligation that has been loaned to a Securities

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Lending Counterparty but that the Securities Lending Counterparty has failed to return to the Issuer as of the date that such Securities Lending Counterparty notifies the Issuer of its inability to make such return; *provided*, *further*, that, in the event the Issuer is able to purchase a Collateral Obligation that a Securities Lending Counterparty has failed to return to the Issuer, the aforesaid deemed sale shall be deemed not to have occurred and (2) the amount of any Collateral Obligation sold shall be reduced to the extent of any purchases of Collateral Obligations of the same obligor (that are *pari passu* with such sold Collateral Obligation) occurring within 20 Business Days of such sale (determined based upon the date of any relevant trade confirmation or commitment letter).

Discretionary Sales of Collateral Obligations in cases of Co-Issued Notes' Ratings Downgrade

During or after the Reinvestment Period, if Moody's has withdrawn its rating of any of the Secured Notes (other than the Class E Notes), or, in the case of the Class S Notes, the Class A Notes and the Class B Notes, reduced its rating below the initial rating as in effect on the Closing Date or, in the case of the Class C Notes and the Class D Notes, reduced its rating to a rating two subcategories below the initial rating as in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded or reinstated any such reduced or withdrawn rating to at least the initial rating in the case of the Class S Notes, the Class A Notes and the Class B Notes and to a level not more than one subcategory below the initial rating in the case of the Class C Notes and the Class D Notes, as applicable), the Collateral Manager on behalf of the Issuer may only instruct the Trustee to sell a Collateral Obligation pursuant to "—Discretionary Sales of Collateral Obligations" if (i) a Majority of the Controlling Class consents to such sale or (ii) prior to or following each such downgrade, a Majority of each Class of Secured Notes, voting separately by Class, has consented to all or a specified lesser amount of sales of Collateral Obligations (notwithstanding such downgrade), it being acknowledged and agreed that such consent will be valid for one or more such sales for each one such downgrade and that after any further downgrade, the consent of a Majority of each Class of Secured Notes, voting separately by Class, will need to be obtained again.

Sale of Equity Securities and Withholding Tax Securities

An Equity Security or a Withholding Tax Security may be sold during or after the Reinvestment Period. If the proposed sale occurs:

(i) during the Reinvestment Period, for so long as no Event of Default has occurred and is continuing, the Collateral Manager on behalf of the Issuer will seek to direct the reinvestment of the Sale Proceeds in one or more Substitute Collateral Obligations prior to the end of the Permitted Reinvestment Period; or

(ii) after the Reinvestment Period or after an Event of Default has occurred and is continuing, the Issuer or the Collateral Manager on behalf of the Issuer will instruct the Trustee to apply the Sale Proceeds thereof in accordance with the Priority of Payments.

Conversion into Equity Securities and Sale of Exchanged Equity Securities

A Collateral Obligation that is a convertible security may be voluntarily converted into an Equity Security by the Issuer only if (1) all Par Value Tests are satisfied following such conversion and (2) on any Determination Date on or after the Second Determination Date, all Interest Coverage Tests are satisfied following such conversion and, in each case, the Issuer, makes a good faith effort to enter into an agreement to sell such Equity Security in accordance with the timing specified in subclause (I) of the immediately following paragraph. For the avoidance of doubt, this paragraph will not be applicable to a purchase or exchange of an Exchanged Equity Security in accordance with "—Exchange of Defaulted Obligations".

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Unless acquired in connection with a default or unless the Moody's Rating Condition is satisfied, the Collateral Manager on behalf of the Issuer shall seek to sell, and direct the Trustee in writing to sell, any Exchanged Equity Security within (I) in the case of an Exchanged Equity Security received in connection with an optional conversion at the option of the holder thereof, ten Business Days of the later of (A) the first date on which the Issuer may, in compliance with applicable laws, legally sell, assign or transfer such Exchanged Equity Security and (B) notice of receipt thereof, (II) in the case of an Exchanged Equity Security not subject to subclause (I) and in the event that any of the Coverage Tests are not met on any Measurement Date following the receipt by the Issuer of such Exchanged Equity Security, 60 days after the first date following such Measurement Date on which the Issuer may, in compliance with applicable laws, legally sell, assign or transfer such Exchanged Equity Security or (III) in all other cases, one year after the first date on which the Issuer may, in compliance with applicable laws, legally sell, assign or transfer such Exchanged Equity Security.

Sale of Defaulted Obligations

The Collateral Manager on behalf of the Issuer may, if it believes such to be practicable in its judgment, instruct the Trustee in writing to sell, and the Trustee shall sell, any Defaulted Obligation at any time; *provided*, *however*, that during the Reinvestment Period the Collateral Manager on behalf of the Issuer will seek to purchase (on behalf of the Issuer) within 90 Business Days after the settlement date for such sale of a Defaulted Obligation, one or more additional Collateral Obligations having an Aggregate Principal Amount at least equal to the Disposition Proceeds (as defined herein) received from such sale (excluding Disposition Proceeds that constitute Interest Proceeds). After the Reinvestment Period, the Collateral Manager on behalf of the Issuer will instruct the Trustee to apply the Sale Proceeds of Defaulted Obligations in accordance with the Priority of Payments. For the avoidance of doubt, (A) the exchange of a Defaulted Obligation for an Exchanged Defaulted Obligation shall not be deemed to be a sale of a Defaulted Obligation and (B) the Issuer shall be under no obligation to sell a Defaulted Obligation at any time.

Exchange of Defaulted Obligations

Notwithstanding the provisions described under "—Conversion into Equity Securities and Sale of Exchanged Equity Securities," at any time, the Collateral Manager (in its sole discretion) on behalf of the Issuer may instruct the Trustee in writing to exchange a Defaulted Obligation for (i) another Defaulted Obligation (an "**Exchanged Defaulted Obligation**") or (ii) an Exchanged Equity Security for so long as at the time of or in connection with such exchange:

(a) such Exchanged Defaulted Obligation or Exchanged Equity Security is issued by the same obligor as the Defaulted Obligation (or an Affiliate of or successor to such obligor or an entity that succeeds to substantially all of the assets of such obligor) and, in the case of such Exchanged Defaulted Obligation, ranks in right of payment no more junior than the Defaulted Obligation for which it was exchanged; *provided* that if the Issuer is also required to pay an amount for such Exchanged Defaulted Obligation or Exchanged Equity Security, the Issuer may use Interest Proceeds to effect such payment for so long as, after giving effect to such purchase, there would be sufficient proceeds in the Interest Collection Account or the Subordinated Securities Interest Collection Account to pay all amounts required to be paid pursuant to the Priority of Payments prior to any distributions to Holders of the Subordinated Securities on the next succeeding Payment Date;

(b) in the case of an Exchanged Defaulted Obligation, (1) if any Par Value Test is not satisfied following such exchange, then such Par Value Test is at least as close to being satisfied after such exchange as prior to such exchange and (2) on any Determination Date on or after the Second Determination Date, if any Interest Coverage Test is not satisfied following such exchange, then such Interest Coverage Test is at least as close to being satisfied after such exchange as prior to such exchange;

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(c) in the case of an Exchanged Defaulted Obligation, if rated by the Rating Agencies and if each of the Maximum Rating Factor Test or the S&P CDO Monitor Test is not satisfied following such exchange, then each such Maximum Rating Factor Test or the S&P CDO Monitor Test is at least as close to being satisfied following such exchange as prior to such exchange;

(d) in the case of an Exchanged Defaulted Obligation, the expected total recovery proceeds of such Exchanged Defaulted Obligation, as determined by the Collateral Manager, must be no less than the expected total recovery proceeds of the Defaulted Obligation for which it was exchanged; and

(e) as determined by the Collateral Manager on behalf of the Issuer, in the case of an Exchanged Defaulted Obligation, if any Concentration Limitation is not satisfied following such exchange, then any such Concentration Limitation is at least as close to being satisfied as prior to such exchange.

Reinvestment in Collateral Obligations

Reinvestment shall be subject to market conditions and the availability and suitability of available investments.

Reinvestment Criteria

The Reinvestment Criteria will be measured immediately before the Issuer commits to purchase or purchases a Collateral Obligation, and are designed to compare (i) the Collateral Portfolio before the proposed addition of a Collateral Obligation to the Collateral Portfolio and (ii) the Collateral Portfolio immediately after such Collateral Obligation is added to the Collateral Portfolio. Accordingly, when used with respect to the Reinvestment Criteria, the phrase "prior to such reinvestment" shall mean the following:

(i) immediately prior to the sale of the related Collateral Obligation, with respect to the reinvestment of the Sale Proceeds of a Credit Improved Obligation or a Collateral Obligation other than a Credit Risk Obligation, an Equity Security, a Withholding Tax Security or a Defaulted Obligation; or

(ii) immediately prior to the reinvestment of the Sale Proceeds of a Credit Risk Obligation, an Equity Security, a Withholding Tax Security or a Defaulted Obligation.

(A) Notwithstanding the foregoing discussion, but subject to subclause (B) below, if the Reinvestment Criteria would not be satisfied upon the proposed purchase of a single Collateral Obligation but the Reinvestment Criteria would be satisfied upon the proposed purchase of a number of Collateral Obligations (including such single Collateral Obligation), testing the Reinvestment Criteria as described below in subclause (ii), then the Reinvestment Criteria will be deemed to be satisfied for all such Collateral Obligations if the following conditions are met:

(i) such Collateral Obligations have been acquired or will be acquired by the Issuer in accordance with a Trading Plan;

(ii) as evidenced by an officer's certificate of the Collateral Manager delivered to the Trustee on or prior to the earliest event specified in such Trading Plan, the Reinvestment Criteria are expected to be satisfied as of the trade date relating to the last Collateral Obligation that will be purchased pursuant to such Trading Plan or, if not expected to be satisfied as of such trade date, are expected to be maintained or improved as of such trade date;

(iii) the ratings by Moody's on the Class S Notes, the Class A Notes and the Class B Notes at the time of acquisition are not one or more rating subcategories, and the ratings by Moody's on the Class C Notes and the Class D Notes are not two or more rating subcategories, in

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each case, below the applicable ratings in effect on the Closing Date or withdrawn by Moody's; and

(iv) no more than one Trading Plan may be in effect at any time.

(B) Subject to (C) below, as measured on the last applicable trade date, if a Trading Plan that was implemented results in either (i) if the Reinvestment Criteria were satisfied before the execution of such Trading Plan, the failure to satisfy such Reinvestment Criteria or (ii) if the Reinvestment Criteria were not satisfied before the execution of such Trading Plan, the Issuer's failure to maintain or improve its level of compliance with the Reinvestment Criteria, the Issuer will be prohibited from entering into any additional Trading Plan notwithstanding that such Trading Plan was implemented in good faith unless the events specified in clauses (i) or (ii) were due to (x) a failure of a counterparty or issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or issuer for reasons beyond the control of the Issuer or any other terms that were agreed with the Issuer at or prior to the commencement of such Trading Plan or (y) an error or omission of an administrative or operational nature made by any bank, broker-dealer, clearing corporation or other similar financial intermediary holding funds, securities or other property directly or indirectly for the account of the Issuer. S&P will be notified of any failed Trading Plan.

(C) Notwithstanding subclause (B) above, following a prohibition to enter additional Trading Plans due to the circumstances described in subclauses (B)(i) or (B)(ii) above, if the Issuer or the Collateral Manager, on behalf of the Issuer, notifies each of the Rating Agencies of its intention to implement an additional Trading Plan, upon satisfaction of the S&P Rating Condition and the Moody's Rating Condition, the Issuer may implement such additional Trading Plan in accordance with the limitations set forth in the Indenture. Upon satisfaction of the conditions set forth in the preceding sentence, any prohibition shall be lifted until a subsequent Trading Plan would otherwise cause the Issuer to be prohibited from entering additional Trading Plans.

A Collateral Obligation (other than an Exchanged Defaulted Obligation, which need not satisfy these tests to be included) will be eligible for inclusion in the Collateral only if subclause (a) or (b) is satisfied, as applicable (collectively, the **"Reinvestment Criteria"**). The Reinvestment Criteria are not required to be satisfied during the Initial Investment Period.

(a) During the Reinvestment Period after the Initial Investment Period:

(i) with respect to any reinvestment of Principal Proceeds (other than those amounts described in subclause (ii) of the definition thereof), (1) if any Par Value Test is not satisfied following such reinvestment, then such Par Value Test is at least as close to being satisfied after such reinvestment as prior to such reinvestment, (2) on the Second Determination Date and any subsequent Measurement Date, if any Interest Coverage Test is not satisfied following such reinvestment, then such Interest Coverage Test is at least as close to being satisfied after such reinvestment as prior to such reinvestment and (3) if the Minimum Par Value Ratio is not satisfied following such reinvestment, then either: (x) the Minimum Par Value Ratio is no lower after such reinvestment than prior to such reinvestment, or (y) any of the Moody's Weighted Average Rating Factor, Diversity Score or Weighted Average Life is improved after giving effect to such reinvestment;

(ii) with respect to any reinvestment of Principal Proceeds described in subclause (ii) of the definition thereof, (1) the Par Value Tests are satisfied following such reinvestment and (2) on the Second Determination Date and any subsequent Measurement Date, the Interest Coverage Tests are satisfied following such reinvestment;

(iii) if the Diversity Test is not satisfied following such reinvestment, then such Diversity Test is at least as close to being satisfied after such reinvestment as prior to such reinvestment;

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(iv) if the Maximum Rating Factor Test is not satisfied following such reinvestment, then the Moody's Weighted Average Rating Factor is no higher after such reinvestment than prior to such reinvestment;

(v) if the Minimum Weighted Average Coupon Test is not satisfied following such reinvestment, then the Weighted Average Spread is no lower after such reinvestment than prior to such reinvestment;

(vi) if the Maximum Average Life Test is not satisfied following such reinvestment, then the Weighted Average Life is no longer after such reinvestment than prior to such reinvestment;

(vii) if the Moody's Minimum Weighted Average Recovery Rate Test is not satisfied following such reinvestment, then the Moody's Weighted Average Recovery Rate is no lower after such reinvestment than prior to such reinvestment;

(viii) if the S&P Minimum Weighted Average Recovery Rate Test is not satisfied following such reinvestment, then the S&P Weighted Average Recovery Rate determined with respect to each Class of Secured Notes is no lower after such reinvestment than prior to such reinvestment;

(ix) if the S&P CDO Monitor Test is satisfied prior to such reinvestment, then the S&P CDO Monitor Test is satisfied after such reinvestment or if the S&P CDO Monitor Test is not satisfied prior to such reinvestment and the S&P CDO Monitor Test is not satisfied following such reinvestment, then (1) the Class S Loss Differential, the Class A Loss Differential, the Class B Loss Differential, the Class C Loss Differential, the Class D Loss Differential and the Class E Loss Differential are no lower after such reinvestment than prior to such reinvestment and (2) the Issuer shall notify S&P of the Class S Loss Differential, the Class A Loss Differential, the Class B Loss Differential, the Class C Loss Differential, the Class D Loss Differential and the Class E Loss Differential immediately prior to, and immediately after, such reinvestment; *provided*, *however*, that this subclause (ix) shall not apply to the reinvestment of Sale Proceeds from the sale of Credit Risk Obligations, Defaulted Obligations, Withholding Tax Securities and Equity Securities;

(x) no Event of Default exists at the time such Reinvestment Criteria are applied; and

(xi) with respect to the Collateral Portfolio, if any Concentration Limitation is not satisfied following such reinvestment, then any such Concentration Limitation is at least as close to being satisfied after such reinvestment as prior to such reinvestment.

For the avoidance of doubt, Sale Proceeds may be invested in Eligible Investments, each with a maturity date not to exceed the date that is one Business Day prior to the Scheduled Payment Date next succeeding the Due Period in which such Sale Proceeds are received, pending investment in Collateral Obligations.

(b) After the Reinvestment Period:

(i) the Class A/B Par Value Test, the Class C Par Value Test, the Class D Par Value Test and the Interest Coverage Tests must be satisfied;

(ii) if the Minimum Par Value Ratio is not satisfied following such reinvestment, then either: (x) the Minimum Par Value Ratio is no lower after such reinvestment than prior to such reinvestment, or (y) any of the Moody's Weighted Average Rating Factor, Diversity Score or Weighted Average Life is improved after giving effect to such reinvestment;

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(iii) if the Diversity Test is not satisfied following such reinvestment, then such Diversity Test is at least as close to being satisfied after such reinvestment as prior to such reinvestment;

(iv) the Maximum Rating Factor Test is satisfied after such reinvestment;

(v) if the Minimum Weighted Average Coupon Test is not satisfied following such reinvestment, then the Weighted Average Spread is no lower after such reinvestment than prior to such reinvestment;

(vi) if the Moody's Minimum Weighted Average Recovery Rate Test is not satisfied following such reinvestment, then the Moody's Weighted Average Recovery Rate is no lower after such reinvestment than prior to such reinvestment;

(vii) if the S&P Minimum Weighted Average Recovery Rate Test is not satisfied following such reinvestment, then the S&P Weighted Average Recovery Rate determined with respect to each Class of Secured Notes is no lower after such reinvestment than prior to such reinvestment;

(viii) no Event of Default exists at the time such Reinvestment Criteria are applied;

(ix) the Aggregate Principal Amount of Caa/CCC Collateral Obligations represents less than 7.5% of the Aggregate Principal Amount of the Collateral Portfolio;

(x) with respect to the Collateral Portfolio, if any Concentration Limitation is not satisfied following such reinvestment, then such Concentration Limitation is at least as close to being satisfied after such reinvestment as prior to such reinvestment;

(xi) the S&P CDO Evaluator Test is satisfied;

(xii) the Maximum Average Life Test is satisfied following such reinvestment; and

(xiii) the ratings assigned to the Secured Notes (other than the Class E Notes) by Moody's as of the Closing Date have not been reduced by two or more subcategories (in the case of the Class C Notes and the Class D Notes) or by one or more subcategories (in the case of the Class S Notes, the Class A Notes and the Class B Notes) since the Closing Date and have not been withdrawn by Moody's (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded or reinstated any such reduced or withdrawn rating to at least the initial rating in effect as of the Closing Date (in the case of the Class S Notes, the Class A Notes and the Class B Notes) or to a level not more than one subcategory below the initial rating in effect as of the Closing Date (in the case of the Class C Notes and the Class D Notes)).

Purchase of Equity Securities

Except in connection with the purchase or exchange of an Exchanged Equity Security as described under "—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria—Exchange of Defaulted Obligations," if the Collateral Manager directs the Trustee to purchase any Collateral Obligation which is convertible into an equity security or which has equity features attached, the Collateral Manager on behalf of the Issuer shall determine the portion of the purchase price of such Collateral Obligation that is attributable to the value of the option to convert such Collateral Obligation into an equity security or to the value of equity features, as applicable. If the Collateral Manager determines (in its sole discretion) that there is any Excess Equity Feature Value or the Collateral Manager decides (in its sole discretion) on behalf of the Issuer to exercise any warrants received in respect of any Collateral Obligations, the Collateral Manager shall instruct the Trustee in writing to apply Interest Proceeds allocable to the Subordinated Securities Interest Collection Account to pay such Excess Equity Feature Value or to

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exercise any such warrants; *provided* that the Collateral Manager shall not direct the Trustee to make such purchase or to exercise any such warrants if, after giving effect to such purchase or exercise, as applicable, there would be insufficient proceeds in the Interest Collection Account or the Subordinated Securities Interest Collection Account to pay all amounts required to be paid pursuant to the Priority of Payments prior to distributions to Holders of the Subordinated Securities on the next succeeding Payment Date.

No equity security may be acquired unless it is either (i) an Equity Security or (ii) an Exchanged Equity Security.

Certain Matters Relating to Synthetic Securities

General. Synthetic Securities will be purchased or entered into by the Issuer for such purposes as (but not limited to):

(i) structuring an investment in Reference Obligations with a desired maturity, currency or interest rate which otherwise may be inconsistent with the criteria for purchasing Collateral Obligations;

(ii) achieving yield enhancement based on the coupon payments by a Reference Obligor; or

(iii) establishing recovery floors or other means of credit protection as a result of defaults on Reference Obligations.

The Issuer's exposure to a particular Synthetic Security Counterparty will be subject to the limitations described in "Glossary of Defined Terms—Synthetic Security Counterparty".

As part of the purchase of a Synthetic Security, the Issuer may be required to purchase or post Synthetic Security Collateral. See "—Synthetic Security Collateral Account".

Treatment of Synthetic Securities (including Form Approved Synthetic Securities)

	Treatment
For all purposes	Unless otherwise specified, a Synthetic Security will be deemed to be a Collateral Obligation having the characteristics of such Synthetic Security and not that of the related Reference Obligation or Reference Obligor
Principal Balance	See definition of "Principal Balance"
For purposes of determining compliance with the Concentration Limitations, any Synthetic Security with an S&P Recovery Rate and a Moody's Recovery Rate equivalent to the S&P Recovery Rate and Moody's Recovery Rate of a Senior Secured Loan, Senior Unsecured Loan or a Subordinated Loan (taking into account any recovery floors with respect to any Reference Obligation subject to such Synthetic Security)	Treat as a Senior Secured Loan, Senior Unsecured Loan or a Subordinated Loan (in each case except for determining Moody's Default Probability Rating, Moody's Rating Factor, Moody's Rating or S&P Rating)
Moody's Default Probability Rating	As provided by Moody's
Moody's Rating	As provided in the definition of "Moody's Rating"
Moody's Rating Factor	As provided by Moody's
Moody's Recovery Rate	As provided in the definition of "Moody's Recovery Rate"

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	Treatment
S&P Rating	As provided by S&P
S&P Recovery Rate	As provided in the definition of "S&P Weighted Average Recovery Rate"
Concentration Limitations (other than for determining compliance with the Concentration Limitation relating to Floating Rate Collateral Obligations)	Look to the Reference Obligor
Concentration Limitations (for determining compliance with the Concentration Limitation relating to Floating Rate Collateral Obligations)	Look to the rate at which periodic payments payable to the Issuer are based
For purposes of determining compliance with subclause (iii) of the definition of "Collateral Obligation"	Look to the Reference Obligor
Diversity Score	Look to the Reference Obligor (*provided* that Synthetic Securities that specify an index shall be disregarded for the purposes of calculating the Diversity Score)

Hedge Agreements

On or after the Closing Date, the Issuer may, subject to the conditions described herein, enter into one or more Hedge Agreements with one or more Hedge Counterparties.

After the Closing Date, the Issuer is authorized to and may enter into Hedge Agreements from time to time but solely for the purpose of managing interest rate and other risks in connection with the Issuer's issuance of, and making of payments on, the Securities and the Issuer's ownership and disposition of the Collateral Obligations and with such Hedge Counterparties as it may elect in its sole discretion, subject in all cases to the Moody's Rating Condition and the S&P Rating Condition having been satisfied. All payments due to any Hedge Counterparty under any Hedge Agreement shall be paid in accordance with the Priority of Payments; *provided*, *however*, that to the extent any payments are received by the Issuer as a result of entering into replacement transaction(s), the Hedge Counterparty that is being replaced shall have first priority as to such payments versus all other creditors of the Issuer, and the Issuer shall pay (or cause the Trustee to pay) such amounts equal to the termination payments over to the Hedge Counterparty that is being replaced immediately upon receipt. See "Description of the Securities—Priority of Payments".

Except to the extent otherwise approved by the Rating Agencies, if either of the Rating Agencies downgrades the applicable Hedge Counterparty below the Required Hedge Counterparty Rating, an Additional Termination Event (as defined in the Hedge Agreement) (a "**Downgrade Terminating Event**") shall occur unless (x) such Hedge Counterparty has a short-term rating of at least "A-3" by S&P or, if no such short-term rating exists, a long-term senior unsecured debt rating, financial program rating, derivatives counterparty rating, counterparty risk rating or similar rating of at least "BBB-" by S&P and (y) at least one of the following events has occurred:

(i) within the time period specified in the Hedge Agreement with respect to such downgrade, such Hedge Counterparty shall transfer the Hedge Agreement, in whole, but not in part, to a counterparty that satisfies the Required Hedge Counterparty Rating, subject to the satisfaction of the Moody's Rating Condition or the S&P Rating Condition, as applicable;

(ii) within the time period specified in the Hedge Agreement with respect to such downgrade, such Hedge Counterparty, shall collateralize (pursuant to a credit support annex to be entered into at such time) its exposure to the Issuer, subject to the satisfaction of the Moody's Rating Condition or the S&P Rating Condition, as applicable;

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(iii) within the time period specified in the Hedge Agreement with respect to such downgrade, the obligations of such Hedge Counterparty under the Hedge Agreement shall be guaranteed by a person or entity that satisfies the Required Hedge Counterparty Rating, subject to the satisfaction of the Moody's Rating Condition or the S&P Rating Condition, as applicable; or

(iv) within the time period specified in the Hedge Agreement with respect to such downgrade, such Hedge Counterparty shall take such other steps, if any, to enable the Issuer to satisfy the Moody's Rating Condition or the S&P Rating Condition, as applicable.

It shall also be an Additional Termination Event (as defined in the Hedge Agreement) if a Hedge Counterparty has a short-term rating of at least "A-3" by S&P or, if no such short-term rating exists, a long-term senior unsecured debt rating, financial program rating, derivatives counterparty rating, counterparty risk rating or similar rating of less than "BBB-" by S&P and within the time period specified in the Hedge Agreement, such Hedge Counterparty, while collateralizing its exposure to the Issuer, fails to transfer the Hedge Agreement, in whole, but not in part, to a counterparty that satisfies the Required Hedge Counterparty Rating, subject to satisfaction of the Moody's Rating Condition or the S&P Rating Condition, as applicable.

The Hedge Counterparties may be Affiliates of the Initial Purchaser and/or Affiliates of the Collateral Manager, which arrangements may create certain conflicts of interest. See "Risk Factors—Certain Conflicts of Interest".

Hedge Agreements may be terminated in accordance with their terms, whether or not the Secured Notes have been paid in full or redeemed prior to such termination, upon the earliest to occur of (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer or the related Hedge Counterparty, (ii) failure on the part of the Issuer or the related Hedge Counterparty to make any payment under the Hedge Agreement within the applicable grace period, (iii) a change in law making it illegal for either the Issuer or the related Hedge Counterparty to be a party to, or perform an obligation under, the Hedge Agreement; (iv) an optional redemption of the Securities as described in "Description of the Securities—Optional Redemption" or (v) certain other events specified in the relevant Hedge Agreement; *provided*, *however*, that (x) no Hedge Agreement may be terminated by any party thereto in connection with an event specified in clause (iv) above until the requirements set forth in the third paragraph under "Description of the Securities—Optional Redemption—Optional Redemption Procedures" have been satisfied and following the expiration of any right of the Issuer to withdraw the related notice of redemption, and (y) if the occurrence or continuance of an Event of Default (other than any Event of Default which is also an event specified in clauses (i) or (ii) above) is a termination event under a Hedge Agreement, then such Hedge Agreement may not be terminated by any party thereto for so long as a Majority of the Controlling Class may rescind and annul the declaration of the related Event of Default in accordance with the provisions of the Indenture.

If the Issuer is unable to or, if applicable, chooses not to obtain a substitute Hedge Agreement in the event that a Hedge Agreement is terminated, interest due on the Secured Notes will be paid from amounts received on the Collateral Obligations without the benefits of a Hedge Agreement or a substitute Hedge Agreement. If the Indenture obligates the Issuer to seek a replacement upon termination of the Hedge Agreement and the Issuer is unable to find a suitable replacement Hedge Agreement, there can be no assurance that the Moody's Rating Condition and the S&P Rating Condition will be satisfied in respect of the Secured Notes. There can be no assurance that such amounts will be sufficient to provide for the full payment of interest on the Secured Notes at the applicable Note Interest Rate or that amounts that would otherwise be distributable to the Holders of the Subordinated Securities will not be reduced in such case.

A termination of a Hedge Agreement does not constitute an Event of Default under the Indenture.

The occurrence of any optional redemption of the Securities will cause the termination of any Hedge Agreement in place at such time. Such termination may require the Issuer to make a termination payment to the Hedge Counterparty, and the Holders may be unable to effect an optional redemption (other than in connection with an optional redemption following a Withholding Tax Event) despite having sufficient proceeds prior to making such termination payment to pay or redeem the Secured Notes and certain

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expenses in full. In addition, in order to liquidate the Collateral following an Event of Default, the Hedge Agreement must be terminated and proceeds from such liquidation must be sufficient to pay any termination payment owing to the Hedge Counterparty in addition to any amounts owing under the Secured Notes. As a result, as set forth in the Indenture, the Holders of the Secured Notes may be unable to effect a liquidation of the Collateral following an Event of Default despite having sufficient proceeds prior to the payment of such termination payment to pay the Secured Notes and certain expenses in full.

Depending on the requirements of the entity that acts as Hedge Counterparty, the Issuer may be required to post collateral to such Hedge Counterparty if the Class C Par Value Test is not satisfied on any Determination Date or the Class C Interest Coverage Test is not satisfied on any Determination Date on or after the Second Determination Date, as specified in subclause (ii) under "Description of the Securities—Priority of Payments—Principal Proceeds". If such posting requirements exist, the related Hedge Counterparty may be required to make certain payments to the Issuer to compensate the Issuer for the effect of such posting. See "Description of the Securities—Priority of Payments—Principal Proceeds".

With respect to any Hedge Agreement, (i) the Issuer may, with the consent of the applicable Hedge Counterparty, assign or transfer all or a portion of any Hedge Agreement, (ii) a Hedge Counterparty may assign its obligations under a Hedge Agreement to any institution (with the consent of the Issuer, if so required by the terms of the applicable Hedge Agreement), (iii) the Issuer and the Hedge Counterparty may amend a Hedge Agreement and/or (iv) the Issuer may terminate a Hedge Agreement and replace a Hedge Counterparty; *provided*, *however*, that in the case of (iii) each of the Moody's Rating Condition and the S&P Rating Condition has been satisfied and in each such case (i), (ii) or (iv), the Moody's Rating Condition has been satisfied and, if the Issuer will be required to make a payment in connection with such assignment, transfer or termination, the S&P Rating Condition has been satisfied; *provided*, *further*, that the Issuer may terminate a Hedge Agreement without satisfaction of the Moody's Rating Condition or the S&P Rating Condition in conjunction with an optional redemption of the Securities if all conditions applicable to such optional redemption set forth in the Indenture have been satisfied.

Any Hedge Agreements will be governed by, and construed in accordance with, the laws of the State of New York without regard to the conflict of laws principles thereof and shall contain appropriate limited recourse and non-petition provisions as against the Issuer equivalent (*mutatis mutandis*) to those contained in the Indenture.

Securities Lending

Provided that no Event of Default has occurred and is continuing, the Collateral Manager on behalf of the Issuer, may from time to time, in its sole discretion, instruct the Trustee in writing to lend Collateral Obligations to Securities Lending Counterparties (which Securities Lending Counterparties may be Affiliates of the Initial Purchaser and/or Affiliates of the Collateral Manager) pursuant to one or more Securities Lending Agreements.

Such Securities Lending Agreements may create certain conflicts of interest. See "Risk Factors—Certain Conflicts of Interest". The duration of any Securities Lending Agreement, and the Collateral Portfolio loaned thereunder, shall not exceed the Stated Maturity of the Securities.

Each Securities Lending Agreement shall be on market terms (except as may be required below), as determined by the Collateral Manager on behalf of the Issuer, in its sole judgment and shall:

(i) require that, in the first instance, the Securities Lending Counterparty return to the Issuer debt obligations that are identical (in terms of issue and class) to the loaned Collateral Obligations; *provided* that if the Issuer and the Trustee have received an opinion or advice of tax counsel of nationally recognized standing in the United States experienced in such matters to the effect that the failure of the Securities Lending Counterparty to return such loaned Collateral Obligations will not cause the Issuer to be engaged, or deemed to be engaged, in a trade or business in the United States for United States federal income tax purposes or otherwise to be subject to United States federal income tax on a net basis, the Issuer may accept an alternative other than such loaned Collateral Obligations from the

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Securities Lending Counterparty (for so long as the failure of the Securities Lending Counterparty to provide such alternative will not constitute an event of default under such Securities Lending Agreement);

(ii) require that the Securities Lending Counterparty pay to the Issuer such amounts as are equivalent to all interest and other payments that the owner of the loaned Collateral Obligation is entitled to for the period during which the Collateral Obligation is loaned and such payments shall not be subject to any withholding tax imposed by any jurisdiction unless the Securities Lending Counterparty is required under the Securities Lending Agreement to make "gross-up" payments to the Issuer that cover the full amount of such withholding tax on an after-tax basis;

(iii) require that the Moody's Rating Condition and the S&P Rating Condition be satisfied;

(iv) be governed by the laws of New York; and

(v) permit the Issuer to assign its rights thereunder to the Trustee pursuant to the Indenture.

In addition, the Issuer may indemnify a collateral agent or any other person acting in a similar capacity in connection with a Securities Lending Agreement (although any such indemnity payments will constitute Administrative Expenses and will be subject to the Priority of Payments).

A Securities Lending Counterparty will be required to post with the Trustee, or any Securities Intermediary, Securities Lending Collateral to secure its obligation to return the Collateral Obligations. **"Securities Lending Collateral"** means any cash or direct Registered debt obligations of the United States of America that have a maturity of five years or less and that are pledged by a Securities Lending Counterparty as collateral pursuant to a Securities Lending Agreement.

Such collateral will be maintained at all times with the Trustee or any Securities Intermediary in an amount equal to an agreed upon percentage (no less than 100% and in accordance with the relevant Securities Lending Agreement) of the current market value (determined daily by the related Securities Lending Counterparty and monitored by the Collateral Manager on behalf of the Issuer) of the loaned securities. Such collateral will not constitute Collateral Obligations and will not be available to support payments on the Secured Notes or for distribution to the Holders of the Subordinated Securities unless the related Securities Lending Counterparty defaults in its obligation to return the loaned Collateral Obligations to the Issuer.

If either of the Rating Agencies downgrades a Securities Lending Counterparty such that the Securities Lending Agreement or Securities Lending Agreements to which the Securities Lending Counterparty is a party are no longer in compliance with the requirements relating to the credit ratings of the Securities Lending Counterparty, then the Issuer, within 10 days thereof, will (i) terminate its Securities Lending Agreement or Securities Lending Agreements with such Securities Lending Counterparty; (ii) obtain a guarantor that meets the rating requirements of the definition of "Securities Lending Counterparty" for the Securities Lending Counterparty's obligations under the Securities Lending Agreement or Securities Lending Agreements; (iii) reduce the percentage of the Aggregate Principal Amount of the Collateral Portfolio loaned to such downgraded Securities Lending Counterparty so that the Securities Lending Agreement or Securities Lending Agreements to which such Securities Lending Counterparty is a party, together with all other Securities Lending Agreements, are in compliance with the requirements relating to the credit ratings of Securities Lending Counterparties; or (iv) take such other steps as each Rating Agency that has downgraded such Securities Lending Counterparty may require to satisfy each of the Moody's Rating Condition and the S&P Rating Condition.

The Issuer's exposure to a particular Securities Lending Counterparty will be subject to the limitations described in "Glossary of Defined Terms—Securities Lending Counterparty".

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Collection and Payment Accounts

Interest Proceeds shall be deposited into a segregated trust account held in the name of the Issuer for the benefit of the Secured Parties (the "**Interest Collection Account**") (which may be a subaccount of the Collection Account); *provided* that any such amounts which are Interest Proceeds of assets whose acquisition is attributed to funds raised from the issuance of the Subordinated Securities will be deposited in a segregated trust account designated as the "**Subordinated Securities Interest Collection Account**" (which may be a subaccount of the Subordinated Securities Collection Account). Amounts deposited in the Interest Collection Account and the Subordinated Securities Interest Collection Account will be available, together with reinvestment earnings thereon, for application to the payment of the amounts set forth under "Description of the Securities—Priority of Payments" and for the acquisition of Substitute Collateral Obligations under the circumstances and pursuant to the requirements described herein and in the Indenture.

On or about the first Business Day prior to each Payment Date, the Trustee will deposit into a separate account held in the name of the Issuer for the benefit of the Secured Parties and designated as the "**Payment Account**" as set forth in the Indenture, all funds in the Interest Collection Account, the Subordinated Securities Interest Collection Account, the Principal Collection Account and the Subordinated Securities Principal Collection Account (other than amounts that the Issuer is entitled to retain in the Interest Collection Account, the Subordinated Securities Interest Collection Account, the Principal Collection Account or the Subordinated Securities Principal Collection Account for subsequent reinvestment in accordance with the Reinvestment Criteria, if the Issuer so elects as set forth in the Indenture) and any Reinvestment Income required for payments to Holders of the Securities and payments of fees and expenses in accordance with the priorities described under "Description of the Securities—Priority of Payments".

On or before the first Payment Date the Collateral Manager may (in its sole discretion) instruct the Trustee in writing to transfer all or a portion of funds in the Interest Collection Account (representing proceeds of the issuance of the Class S Notes and deposited therein pursuant to the Indenture) to the Principal Collection Account for application as Principal Proceeds.

Amounts retained in the Interest Collection Account, the Subordinated Securities Interest Collection Account, the Principal Collection Account, the Subordinated Securities Principal Collection Account and the Revolving Credit Facility Reserve Account during a Due Period will be invested in Eligible Investments. All proceeds from the Eligible Investments will be retained in the Interest Collection Account, the Subordinated Securities Interest Collection Account, the Principal Collection Account or the Subordinated Securities Principal Collection Account, as applicable, unless used to purchase Substitute Collateral Obligations in accordance with the Reinvestment Criteria, or used as otherwise permitted under the Indenture (including, to make any required deposit into the Revolving Credit Facility Reserve Account in connection with the purchase of a Revolving Credit Facility or Delayed Funding Term Loan). See "—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria" and "Description of the Securities—Priority of Payments".

Principal Collection Account

Principal Proceeds and proceeds from the issuance and sale of the Securities and any initial payments from one of the Hedge Agreements described above (see "—Hedge Agreements") shall be deposited into a segregated trust account designated as the "**Principal Collection Account**" (which may be a subaccount of the Collection Account) or the Subordinated Securities Principal Collection Account, as applicable, provided that any such amounts which are Principal Proceeds of assets whose acquisition is attributed to funds raised from the issuance of the Subordinated Securities will be deposited in a separate segregated trust account designated as the "**Subordinated Securities Principal Collection Account**" (which may be a subaccount of the Subordinated Securities Collateral Account). Amounts deposited in the Principal Collection Account and the Subordinated Securities Principal Collection Account will be invested in Eligible Investments until such Principal Proceeds are reinvested in Collateral Obligations in accordance with the Reinvestment Criteria, deposited in the Revolving Credit Facility Reserve Account in connection with the purchase of a Revolving Credit Facility or Delayed Funding Term Loan or applied in accordance with the Priority of Payments. See "Description of the Securities—Priority of Payments".

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Any unused proceeds from the offering will remain in the Principal Collection Account and the Subordinated Securities Principal Collection Account until the earlier of (a) the day on which such proceeds are used to purchase or fund Collateral Obligations and (b) the end of the Reinvestment Period; *provided*, that on the Effective Date, so long as the Minimum Par Value Ratio is satisfied, the Collateral Manager may, in its sole discretion, instruct the Trustee in writing to utilize up to $1,000,000 of Principal Proceeds and unused proceeds remaining in the Principal Collection Account and the Subordinated Securities Principal Collection Account for (i) transfer to the Interest Collection Account for application as Interest Proceeds in accordance with the Priority of Payments, (ii) application as Principal Proceeds in accordance with the Priority of Payments or (iii) transfer to the Discretionary Reserve Account for future transfer and/or application of such funds according to (i) or (ii) above as further described in "—Discretionary Reserve Account" below, in each case on or before the Payment Date in February 2008. Any such unused proceeds remaining in the Principal Collection Account and the Subordinated Securities Principal Collection Account at the end of the Reinvestment Period (other than Reinvestment Income (which shall be treated as Interest Proceeds)) shall be applied as Principal Proceeds on the first Scheduled Payment Date following the end of the Reinvestment Period. On any Determination Date on which any of the Par Value Tests are not satisfied or on any Determination Date on or after the Second Determination Date on which any of the Interest Coverage Tests are not satisfied, all such unused proceeds (other than Reinvestment Income (which shall be treated as Interest Proceeds)) shall be applied as Principal Proceeds in accordance with the Priority of Payments on the next succeeding Scheduled Payment Date. See "Description of the Securities—Priority of Payments".

From time to time after the Closing Date, at the written direction of the Collateral Manager, Principal Proceeds in an amount equal to the Future Drawdown Amount may be transferred from the Principal Collection Account to the Revolving Credit Facility Reserve Account.

Discretionary Reserve Account

If and to the extent that the Collateral Manager (in its sole discretion) instructs the Trustee in writing on the Effective Date to transfer amounts on deposit in the Principal Collection Account or the Subordinated Securities Principal Collection Account to a discretionary reserve account as set forth in "—Principal Collection Account" above, the Trustee shall establish a segregated trust account for such purpose (such account, the "**Discretionary Reserve Account**") into which the Trustee will deposit such amounts as the Collateral Manager so instructs. As directed by the Collateral Manager (in its sole discretion) in writing from time to time until the Payment Date in February 2008, the Trustee shall withdraw funds deposited in the Discretionary Reserve Account for transfer to the Interest Collection Account for application as Interest Proceeds or the Principal Collection Account for application as Principal Proceeds, all as set forth in "—Principal Collection Account" above. Amounts in the Discretionary Reserve Account will be invested in Eligible Investments in accordance with the written instructions of the Collateral Manager (which may be in the form of standing instructions). On the Payment Date in February 2008, the Trustee shall transfer any amount remaining in the Discretionary Reserve Account to the Interest Collection Account for application as Interest Proceeds or the Principal Collection Account for application as Principal Proceeds, as directed by the Collateral Manager in its sole discretion in writing, and close the Discretionary Reserve Account.

Expense Reserve Account

On the Closing Date, the Issuer will deposit the Expense Reserve Amount into the "**Expense Reserve Account**". At the written direction of the Collateral Manager (in its sole discretion) or the Issuer, the Trustee may at any time withdraw funds deposited in the Expense Reserve Account solely to pay for any fees or expenses incurred by or on behalf of the Issuer in connection with (i) the structuring and consummation of the offering and the issuance of the Securities or (ii) the Effective Date ((i) or (ii) above, the "**Reserved Expenses**"). Amounts in the Expense Reserve Account will be invested in overnight funds that are Eligible Investments in accordance with the written instructions of the Collateral Manager (in its sole discretion) (which may be in the form of standing instructions) and will, for the avoidance of doubt, not be included in the Collateral Quality Tests and the Coverage Tests. At the written direction of the Collateral Manager (in its sole discretion), the Trustee may at any time transfer amounts deposited in the Expense Reserve Account to the Principal Collection Account so long as the Collateral Manager has confirmed to the Trustee that there are sufficient funds remaining in the Expense Reserve Account after such transfer to pay

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for all accrued but unpaid Reserved Expenses. On the earlier of (i) the first Scheduled Payment Date and (ii) the Business Day that the Collateral Manager has confirmed to the Trustee that all Reserved Expenses have been paid by the Issuer, the Trustee shall transfer any amount remaining in the Expense Reserve Account to the Principal Collection Account and close the Expense Reserve Account. Any amounts transferred from the Expense Reserve Account to the Principal Collection Account will be treated as Principal Proceeds.

Revolving Credit Facility Reserve Account

Upon the purchase of any Collateral Obligation that is a Revolving Credit Facility or a Delayed Funding Term Loan, funds from the Principal Collection Account or the Subordinated Securities Principal Collection Account, as applicable (including any Revolving Credit Facility Net-Backs), will be deposited in the **"Revolving Credit Facility Reserve Account"** such that the amount of funds on deposit in the account will be equal to or greater than the Aggregate Underlying Undrawn Amount. After the initial purchase, all principal payments received on any Revolving Credit Facility will be deposited into the Revolving Credit Facility Reserve Account (and will not be available for distribution as Principal Proceeds) until the amount held in such account is equal to the Future Drawdown Amount; *provided*, *however*, that at the written direction of the Collateral Manager (in its sole discretion), amounts deposited in the Revolving Credit Facility Reserve Account may be transferred to the Principal Collection Account from time to time so long as, immediately after such transfer, the amount on deposit in the Revolving Credit Facility Reserve Account is greater than or equal to the Aggregate Underlying Undrawn Amount. If a loan consists of a combination of a Revolving Credit Facility and a term loan, only that portion of the loan that constitutes a Revolving Credit Facility will be treated as a Revolving Credit Facility. Amounts in the Revolving Credit Facility Reserve Account will be invested in Eligible Investments and will be included in the Coverage Tests as described above under "—The Collateral Quality Tests" and "—The Coverage Tests". For the avoidance of doubt, the Issuer shall not be deemed to have violated the restriction set forth in subclause (xiii) of the definition of "Collateral Obligation" by satisfying the Issuer's funding obligations under any Revolving Credit Facilities or Delayed Funding Term Loans.

Synthetic Security Collateral Account

If and to the extent that any Synthetic Security requires the Issuer to secure its obligations with respect to such Synthetic Security, the Issuer shall establish a segregated trust account for such Synthetic Security (such account, the **"Synthetic Security Collateral Account"**) into which, as directed by the Collateral Manager (in its sole discretion), the Issuer will deposit all amounts which are required to secure the obligations of the Issuer in accordance with the terms of any and all Synthetic Securities entered into between the Issuer and the related Synthetic Security Counterparty.

As directed by the Collateral Manager (in its sole discretion) on behalf of the Issuer in writing, amounts on deposit in a Synthetic Security Collateral Account on behalf of a Synthetic Security Counterparty shall be invested in Eligible Investments which are permitted by the applicable Synthetic Securities and any related credit support documents. Income received on amounts on deposit in each Synthetic Security Collateral Account may, as directed by the Collateral Manager (in its sole discretion) on behalf of the Issuer in writing, either (x) be retained in such Synthetic Security Collateral Account if the Aggregate Principal Amount of all remaining Eligible Investments in such account is not in excess of the Aggregate Principal Amount of any and all outstanding Synthetic Securities entered into between the Issuer and such Synthetic Security Counterparty and such Synthetic Security so provides and may, if so provided, be used to pay amounts owing to such Synthetic Security Counterparty or (y) be withdrawn from such account and deposited in the Interest Collection Account (or, if the amounts on deposit were, or are the proceeds of, Subordinated Securities Collateral Obligations, the Subordinated Securities Interest Collection Account) for distribution as Interest Proceeds. Principal payments received on amounts on deposit in each Synthetic Security Collateral Account prior to the release of the Synthetic Security Collateral will, (1) if so required under the terms of the applicable Synthetic Security and any related credit support documents, be reinvested and maintained as Synthetic Security Collateral in accordance with the terms of such Synthetic Security and any related credit support documents, or, (2) if not so required, be withdrawn from such account and deposited in the Principal Collection Account (or, if the amounts on deposit were, or are, the proceeds of, Subordinated Securities Collateral Obligations, the Subordinated Securities Principal Collection Account) for distribution as Principal Proceeds. For the avoidance of doubt, any cash received from the liquidation of

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Synthetic Security Collateral and not paid to the Synthetic Security Counterparty will be deposited into the Principal Collection Account or the Subordinated Securities Principal Collection Account, as the case may be, and be treated as: (i) a recovery on a Defaulted Obligation in the event that the Synthetic Security was terminated as a result of a credit event, an event of default or a termination event (each as defined in the applicable Synthetic Security); (ii) Unscheduled Principal Payments in the event that the Synthetic Security was subject to an agreed-upon termination prior to its scheduled termination; or (iii) Principal Proceeds in the event that the Synthetic Security was terminated at its scheduled maturity or at the sole discretion of the Collateral Manager on behalf of the Issuer. Such cash will be deposited in the Principal Collection Account.

Amounts contained in any Synthetic Security Collateral Account shall not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Coverage Tests (except as provided in subclause (ii) of the definition of "Coverage Test"), but the Synthetic Security which relates to such Synthetic Security Collateral Account shall be so considered an asset of the Issuer. If and to the extent that any Synthetic Securities or any related credit support documents so provide, upon the occurrence of a credit event or an event of default or a termination event (each as defined in the applicable Synthetic Security), amounts contained in the related Synthetic Security Collateral Account shall be liquidated and the proceeds thereof paid to the related Synthetic Security Counterparty, in any such case, only to the extent necessary to satisfy the obligations of the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Synthetic Security. For the avoidance of doubt, the payment by the Issuer of the proceeds of any liquidation of Eligible Investments contained in the Synthetic Security Collateral Account to a Synthetic Security Counterparty to the extent necessary to satisfy the obligations of the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Synthetic Security, shall not be deemed to be a violation of the restriction set forth in subclause (xiii) of the definition of "Eligibility Criteria".

Securities Lending Account

Securities Lending Collateral pledged pursuant to a related Securities Lending Agreement shall be deposited into a segregated trust account or trust accounts (for Securities Lending Collateral that constitutes Financial Assets (as defined in Section 8-102(a)(9) of the UCC)) and a demand deposit account or demand deposit accounts (for Securities Lending Collateral that constitutes cash) so designated and established pursuant to the Indenture, and held there pursuant to the related Securities Lending Agreement (such account, the "**Securities Lending Account**").

Upon an event of default by any Securities Lending Counterparty under the related Securities Lending Agreement, the Issuer or the Trustee, as the case may be, as permitted in the Securities Lending Agreement and in consultation with the Collateral Manager, shall promptly exercise its remedies under such Securities Lending Agreement, including liquidating, or causing the liquidation of, the related Securities Lending Collateral in accordance with written instructions from the Collateral Manager, in its sole discretion. Proceeds of any such liquidation shall be deposited in the Principal Collection Account and the Subordinated Securities Principal Collection Account, as applicable.

Margin Stock

The Collateral Portfolio may consist of securities that, at the time of purchase (or when a commitment to purchase is entered into), provide for conversion at the option of the holder or have equity features attached. Debt securities that are convertible into Margin Stock may be also considered Margin Stock and securities with equity features may be considered Margin Stock. The Concentration Limitations limit the amount of such securities that can be purchased by the Issuer. See "Summary—The Offering—Concentration Limitations". Accordingly, the ability of the Issuer to acquire any types of convertible securities and securities with equity features will be restricted by the limitations imposed on the Issuer's ability to acquire Margin Stock. For instance, only proceeds of Subordinated Securities Collateral Obligations and funds on deposit in the Subordinated Securities Interest Collection Account and the Subordinated Securities Principal Collection Account may be used to purchase Collateral Obligations that constitute Margin Stock.

Regulation U governs certain extensions of credit by Regulation U Lenders. Under current interpretations of Regulation U by the FRB and its staff, the purchase of debt securities such as the

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Securities in a private placement may constitute an extension of credit. Among other things, Regulation U generally imposes certain limits on the amount of Purpose Credit that Regulation U Lenders may extend that is secured directly or indirectly by Margin Stock. The provisions of the Indenture and the Collateral Management Agreement are intended to ensure that (i) the purchasers of the Subordinated Securities (which are not secured by Margin Stock) are not Regulation U Lenders and (ii) the credit extended by purchasing the Secured Notes (which is secured by the Collateral, which may include Margin Stock) is not Purpose Credit. Regulation U Lenders are not subject to the Regulation U credit limits with respect to extensions of credit that are not Purpose Credit.

Regulation U also generally requires Regulation U Lenders (other than Persons that are banks within the meaning of Regulation U) to register with the FRB. Under an interpretation of Regulation U by the FRB staff, Qualified Institutional Buyers purchasing debt securities secured by Margin Stock in a transaction in compliance with Rule 144A are not required to register with the FRB where the proceeds of the securities are not used for Purpose Credit. Non-U.S. Persons purchasing Secured Notes in reliance on Regulation S who do not have their principal place of business in a Federal Reserve District of the FRB are also not required to register with the FRB.

Any purchaser of Secured Notes who is not a bank (as defined in Regulation U) and is not required to register with the FRB will not be subject to any provisions of Regulation U. Any purchaser of the Secured Notes who is a bank or who is already registered with the FRB as a Regulation U lender generally must obtain from any person to whom they extend credit secured by Margin Stock a Federal Reserve Form U-1 (for bank lenders) or Form G-3 (for non-bank lenders). Purchasers of the Secured Notes may obtain a Form U-1 or G-3, as applicable, executed by the Issuer or the Issuers, as applicable, from the Issuer, for execution and retention by such purchaser on or prior to the Closing Date. Each purchaser of Secured Notes will be responsible for its own compliance with Regulation U, including the filing by the purchaser of any required registration or annual filings under Regulation U, and purchasers of Secured Notes should consult with their own legal advisors as to Regulation U and its application to them. Purchasers of Secured Notes not otherwise exempt from registering with the FRB will be deemed to have covenanted and agreed that if such purchaser is not registered with the FRB on or prior to the date of the purchaser's purchase, such purchaser will, within the required time period, register with the FRB.

Under the Indenture, each purchaser of an interest in a Regulation S Global Secured Note will be deemed to have represented that either (x) such purchaser's principal place of business is not located within any Federal Reserve District of the United States Federal Reserve Bank or (y) such purchaser has satisfied and will satisfy any applicable registration or other requirements of the FRB including, without limitation, Regulation U, in connection with its acquisition of the Secured Notes.

The accounts established by, and the maintenance of funds and securities under, the Indenture have been structured with the intent that the proceeds of the Secured Notes not be treated as constituting Purpose Credit; however, such result is not guaranteed.

MATURITY AND PREPAYMENT CONSIDERATIONS

The Stated Maturity of the Securities (other than the Class S Notes) is the Payment Date in February 2021 and, with respect to the Class S Notes, February 2014; however, the principal of the Secured Notes is expected to be paid in full prior to Stated Maturity. Average life refers to the average amount of time that will elapse from the date of delivery of a security until each Dollar of the principal of such security will be paid to the investor. The average lives of the Secured Notes will be determined by the amount and frequency of principal payments, which are dependent upon, among other things, the amount of sinking fund payments and any other payments received at or in advance of the scheduled maturity of Collateral Obligations (whether through sale, maturity, redemption, default or other liquidation or disposition). The actual average lives and actual maturities of the Secured Notes will be affected by the financial condition of the issuers of the underlying Collateral Obligations and the characteristics of such securities, including the existence and frequency of exercise of any optional or mandatory redemption features, the prevailing level of interest rates, the redemption price, the actual default rate, the actual level of recoveries on any Defaulted Obligations and the timing of defaults and recoveries, and the frequency of tender or exchange offers for such Collateral Obligations. Substantially all of the Collateral Obligations are expected to be subject to sinking fund

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payments or optional redemption or prepayment by the issuer of such securities. In addition, if principal payments on the Secured Notes occur under the circumstances described under "Summary—The Offering—Principal Payments on the Secured Notes," the average life of the Secured Notes will also be affected.

Any disposition of a Collateral Obligation may change the composition and characteristics of the Collateral Obligations and the rate of payment thereon, and, accordingly, may affect the actual average lives of the Secured Notes. The rate of and timing of future defaults and the amount and timing of any cash realization from Defaulted Obligations also will affect the maturity and average lives of the Secured Notes. The ability of the Collateral Manager to reinvest any Principal Proceeds in the manner described under "Security for the Secured Notes—Sale of Collateral Obligations; Substitute Securities; Exchange of Defaulted Obligations and Reinvestment Criteria" and the decisions of the Collateral Manager regarding whether or not to reinvest such proceeds will also affect the average lives of the Secured Notes. For so long as any of the Securities are listed on the Irish Stock Exchange and the rules of such Exchange shall so require, notice of the Maturity of any Class of Securities shall be made in the Irish Stock Exchange's *Official List*.

THE COLLATERAL MANAGER

The information appearing in this section has been prepared by the Collateral Manager and has not been independently verified by the Initial Purchaser or either of the Issuers. The Initial Purchaser and the Issuers assume no responsibility for the accuracy, completeness or applicability of such information.

Greywolf Capital Management LP

The Collateral Manager for Greywolf CLO I, Ltd. is Greywolf Capital Management LP (the "**Collateral Manager**").

Greywolf Capital Management LP is an SEC- registered investment adviser and currently manages over $2 billion in capital. Greywolf was founded in 2003 by a team of former employees of Goldman Sachs' fixed income trading division and now has 29 investment professionals with extensive experience in distressed, high yield and structured product investing.

Key Personnel

Jonathan Savitz, *Partner*: Mr. Savitz co-founded Greywolf in February 2003 and is the Firm's Chief Executive Officer and the Funds' Chief Investment Officer. Prior to co-founding Greywolf, Mr. Savitz worked at Goldman Sachs for over 15 years from which he retired as a Partner of the firm in 2002. From 1998 – 2002, Mr. Savitz led Goldman's global distressed trading, sales and research effort and was a primary decision maker and risk manager in Goldman's proprietary investing activities across the fixed income markets. From 1995 - 1998, Mr. Savitz managed the high yield trading desk and prior thereto held positions in distressed proprietary investing and corporate bond trading. Mr. Savitz joined Goldman in 1987 after graduating with a B.A., with honors, from The Johns Hopkins University.

James Gillespie, *Partner:* Mr. Gillespie is a co-founder of Greywolf and is a Portfolio Manager of the Special Situations Funds. Prior to founding Greywolf, Mr. Gillespie worked at Goldman Sachs for six years. Mr. Gillespie was head of Distressed Bond Investing where he ran Goldman's proprietary distressed bond portfolio on the trading desk. Prior thereto, Mr. Gillespie was director of distressed bond research after having been a distressed analyst for Goldman's bank loan and bond desks. Mr. Gillespie has significant experience in analyzing, valuing and investing in distressed securities as well as managing a large portfolio of distressed investments. He also has experience actively participating in the workout process as both a committee member and large creditor. Prior to Goldman, Mr. Gillespie worked at Salomon Brothers in high yield capital markets. Mr. Gillespie received a Bachelor of Commerce degree, with honors, from the University of British Columbia in 1995 and is a Leslie Wong Fellow. Mr. Gillespie is a CFA charterholder.

Robert Miller, *Partner*: Mr. Miller is a co-founder of Greywolf and a Portfolio Manager for the Greywolf High Yield Funds. Prior to founding Greywolf, Mr. Miller worked at Goldman Sachs for 10 years and ran Goldman's high yield trading desks in New York and London from 1998 – 2000. After retiring from Goldman, Mr. Miller was retained by the firm for almost two years as a consultant on electronic bond trading platforms. Prior to heading the high yield trading desk, Mr. Miller was a high yield and corporate bond trader

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for Goldman and prior thereto was a credit analyst for PNC Bank. During his career, Mr. Miller has traded and analyzed most major industry sectors and held proprietary positions in straight debt, common and preferred stock, futures, convertibles, trust preferred, and credit derivatives. Mr. Miller received a B.A. *magna cum laude* from Franklin and Marshall College in 1983 and an M.B.A., with honors, from UNC-Chapel Hill in 1989.

Gregory Mount, *Partner*: Mr. Mount joined Greywolf in September 2005 as a Partner and is responsible for structured product investments. Prior to joining Greywolf, Mr. Mount worked at Goldman Sachs for 9 years from which he retired as a Partner of the firm in 2005. Mr. Mount founded Goldman's CDO business in 1996 and later held numerous senior positions in credit derivatives and structured products, including co-head of the Structured Products Group, which consisted of the CMBS, RMBS, ABS and CDO businesses and head of Portfolio Credit Derivatives which encompassed cash and synthetic CDOs. Mr. Mount also initiated Goldman's proprietary CDO investment activity in 2003 and was the primary decision-maker for that portfolio at its inception. Mr. Mount received a B.S. in Electrical Engineering from M.I.T. in 1987, and an M.B.A., with high honors, from The University of Chicago Graduate School of Business in 1992.

Cevdet Samikoglu, *Partner*: Mr. Samikoglu is a co-founder of Greywolf and a Portfolio Manager of the Special Situations Funds. Prior to founding Greywolf, Mr. Samikoglu worked at Goldman Sachs for ten years where he was one of three portfolio managers in the Special Situations Investing Group, a Goldman Sachs' proprietary internal hedge fund. Prior to assuming his portfolio management role in 2000, Mr. Samikoglu held numerous positions in distressed investing at Goldman including director of research in both the US and Europe. Mr. Samikoglu joined Goldman in 1992 as a corporate finance generalist before moving to the distressed investing business as a credit analyst in 1998 after returning from business school. Mr. Samikoglu has extensive experience investing in all layers of levered capital structures both on the long and short side and, at times, participating actively in steering and creditors' committees. Mr. Samikoglu received a B.A. *cum laude* from Hamilton College in 1992 and an M.B.A. from Harvard Business School in 1997.

William Troy, *Partner*: Mr. Troy is a co-founder of Greywolf and a Portfolio Manager of the High Yield Funds, as well has having responsibility for firmwide risk management. Prior to founding Greywolf, Mr. Troy was the key manager for JP Morgan's High Yield business, which he joined following the merger of Smith Barney with Salomon Brothers. At JP Morgan, Mr. Troy was a member of the Senior Trader's Committee, the Underwriting Committee, the Risk Committee and the Credit Committee. Prior to JP Morgan, Mr. Troy joined Smith Barney in 1996 as a Managing Director to co-head the High Yield business, overseeing sales, trading, research and syndicate. Prior to Smith Barney, Mr. Troy joined Goldman Sachs in 1986 as a senior corporate bond trader where he was responsible for risk taking activities with a further mandate to expand the business and develop new trading personnel. He was later asked to join the High Yield department in 1991 as the senior trader. Prior to Goldman Sachs, Mr. Troy joined Salomon Brothers in 1978 as a manager for the international business in cashiering operations and subsequently as a trader on the corporate bond trading desk. Mr. Troy began his 37-year Wall Street career in 1969 at Dean Witter.

Jeff Fergus, *Vice President:* Mr. Fergus joined Greywolf in March 2005 as a Vice President in the High Yield Group. Mr. Fergus will be the co-portfolio manager of Greywolf CLO I with Bob Miller. Prior to joining Greywolf Capital, Mr. Fergus was a Vice President of Goldman Sachs working in the European Special Situations Group in London where he set up and acted as Chief Investment Officer of a privately-placed €2 billion CDO for Goldman's bank loan and high yield investments. From 1999 until 2003, he was based in Hong Kong as a senior member of Goldman Sachs' Asian Special Situations Group and co-Head of the ex-Japan corporate business where he focused on investing in distressed loans and bonds in various countries of Southeast Asia, Korea and China, including portfolios of defaulted loans packaged by various government agencies and AMCs. Mr. Fergus joined Goldman Sachs in 1998 in New York as Head of Bank Loan Research. In this capacity, Mr. Fergus worked with Messrs. Gillespie and Samikoglu who were research professionals in the same group. From 1993 until 1998, Mr. Fergus worked at ING Capital in New York in the proprietary investment group focusing on high yield and distressed investments. Prior to ING, Mr. Fergus worked at Prudential Capital and prior thereto for Continental Bank. Mr. Fergus received a B.A. in 1978 and an M.B.A. in 1980 from Indiana University.

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Joe Marconi, *Vice President*: Mr. Marconi joined Greywolf in April 2006 and is responsible for structured product investments. Prior to joining Greywolf, Mr. Marconi was a Managing Director in the Structured Products Group at Goldman Sachs where he was co-head of ABS Finance and a member of the Mortgage Capital Committee (which is responsible for approving capital commitments across the CMBS, RMBS, ABS and CDO businesses). Mr. Marconi joined Goldman Sachs in 1993 and became a Managing Director in 2003. Prior to joining Goldman Sachs, from 1984 to 1993, Mr. Marconi was an attorney with Cravath, Swaine & Moore in New York and London. Mr. Marconi received a B.A. in Economics, *summa cum laude*, from Columbia College in 1983 and was elected to *Phi Beta Kappa*. Mr. Marconi also received a J.D. from Columbia Law School in 1984 and was a Harlan Fiske Stone Scholar each of his three years.

THE COLLATERAL MANAGEMENT AGREEMENT

General

Certain advisory and administrative functions with respect to the Issuer and the Collateral will be performed by the Collateral Manager under the agreement to be entered into between the Issuer and the Collateral Manager (the "**Collateral Management Agreement**"). Pursuant to the terms of the Collateral Management Agreement, and in accordance with the requirements set forth in the Indenture, the Collateral Manager will perform certain collateral management functions, including directing the purchase and sale of Collateral and performing certain administrative functions on behalf of the Issuer. The Collateral Manager will be authorized to, among other things, (i) select the Collateral Obligations to be acquired and sold by the Issuer, (ii) monitor the portfolio of Collateral Obligations on an ongoing basis and advise the Issuer as to which Collateral Obligations to sell and which Collateral Obligations to acquire, (iii) instruct the Trustee with respect to any disposition or tender of a Collateral Obligation or Eligible Investment or other Collateral by the Issuer, (iv) advise the Issuer with respect to interest rate risk, cash flow timing and selecting and negotiating Hedge Agreements and (v) assist the Issuer in the preparation of reports, orders and other documents required pursuant to the Indenture.

The Collateral Manager shall use reasonable care in rendering its services under the Collateral Management Agreement, using a degree of skill and attention no less than that which the Collateral Manager exercises with respect to comparable assets that it manages for clients in substantially similar transactions in accordance with its practices and procedures which the Collateral Manager reasonably believes to be consistent with those followed by institutional managers of national standing relating to assets of the nature and character of the Collateral Obligations. Neither the Collateral Manager nor its Affiliates will be liable to the Issuer, the Trustee, the holders of the Securities, or any other Person for any loss incurred as a result of the actions taken by or recommended by the Collateral Manager under the Collateral Management Agreement or the Indenture, except by reason of acts or omissions constituting bad faith, fraud, willful misconduct, gross negligence or reckless disregard, of its obligations thereunder. Subject to the above mentioned standard of liability, the Collateral Manager, its members, manager, officers, agents, employees and Affiliates will be entitled to indemnification by the Issuer for any losses or liabilities, including legal or other expenses, relating to the issuance of the Securities, the transactions contemplated by the Indenture or the performance of the Collateral Manager's obligations under the Collateral Management Agreement, which will be payable as Administrative Expenses in accordance with the Priority of Payments.

The Collateral Manager may assign its rights or responsibilities under the Collateral Management Agreement (even where such assignment would be deemed an "assignment" for purposes of Section 205(a)(2) of the Investment Advisers Act of 1940, as amended) by, (i) so long as any Securities rated by S&P are Outstanding, satisfying the S&P Rating Condition, (ii) so long as any Securities rated by Moody's are Outstanding, satisfying the Moody's Rating Condition and (iii) obtaining the consent of the Issuer as directed by a Majority of the Controlling Class and a Majority of the Subordinated Securities. The Collateral Manager may delegate to an agent selected with reasonable care any or all of the duties (other than its asset selection or trade execution duties) assigned to the Collateral Manager under the Collateral Management Agreement, provided that no delegation by the Collateral Manager of any of its duties under the Collateral Management Agreement shall relieve the Collateral Manager of any of its duties under the Collateral Management Agreement nor relieve the Collateral Manager of any liability with respect to the performance of such duties. The Collateral Manager may resign upon 90 days' prior written notice to the Issuer, the Trustee and each Rating Agency.

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Notwithstanding the preceding paragraph, the Collateral Manager will be permitted, with the consent of a Majority of the Subordinated Securities, to assign any or all of its rights and delegate any or all of its obligations to an Affiliate.

The Collateral Manager may be removed for cause by the Issuer, acting upon the direction of (x) 66-2/3% of the Controlling Class, or (y) 66-2/3% of the Subordinated Securities (excluding any Securities owned by the Collateral Manager or its Affiliates) upon 10 Business Days' prior written notice. For purposes of the Collateral Management Agreement, "cause" will mean: (a) any willful violation in bad faith or willful breach in bad faith by the Collateral Manager of any provision of the Collateral Management Agreement or the Indenture applicable to it; (b) any violation by the Collateral Manager of any provision of the Collateral Management Agreement or the Indenture applicable to it (other than as covered by the preceding clause (a)) (it being understood that the failure of any Coverage Test or Collateral Quality Test, which is not caused by a breach described in clause (a) of this definition of "cause", is not such a violation) which violation (1) has a material adverse effect on the Holders of any Class of Securities and (2) if capable of being cured, is not cured within 30 days of the Collateral Manager receiving notice from the Issuer or the Trustee of such violation (or such longer period as is reasonably required to correct any such breach, provided that the Collateral Manager promptly commences and diligently continues to effectuate a cure, but in any event within 90 days after receipt of written notice thereof); (c) the failure of any representation, warranty, certification or statement made or delivered by the Collateral Manager, in or pursuant to the Collateral Management Agreement or the Indenture, to be correct in any material respect when made which failure could reasonably be expected to have a material adverse effect on the Holders of any Class of Securities and is not corrected within 30 days of the Collateral Manager receiving notice of the occurrence of such breach; (d) certain events of bankruptcy, insolvency, conservatorship, or receivership in respect of the Collateral Manager; (e) the occurrence of any Event of Default that results from a breach by the Collateral Manager of its duties under the Indenture or the Collateral Management Agreement; and (f) the occurrence of an act by the Collateral Manager or its officers having direct responsibility over the Issuer's investment activities that constitutes fraud or criminal activity in the performance of its obligations under the Collateral Management Agreement or its indictment for a criminal offense materially related to its business of providing asset management services.

The Collateral Management Agreement will be automatically terminated if it is determined in good faith that the Issuer or the Co-Issuer or the pool of Collateral has become required to register under the Investment Company Act, and the Issuer so notifies the Collateral Manager.

If the Collateral Manager is removed (but not yet replaced by a successor Collateral Manager) pursuant to one of the previous two paragraphs, the Collateral Manager shall give written notice thereof to the Issuer, the Trustee, and the holders of all Outstanding Securities promptly upon the Collateral Manager's becoming aware of the occurrence of such event.

Notwithstanding anything to the contrary set forth above, no resignation or termination of the Collateral Manager shall become effective until each of the Moody's Rating Condition and the S&P Rating Condition is satisfied with respect to a successor collateral manager selected by the Issuer with the approval of the holders of a Majority of the Subordinated Securities; *provided* that the holders of a Majority of each Class of Secured Notes do not object within 60 days after notice of such proposed action (in each case, excluding in the event of a removal for cause or with respect to the appointment of an Affiliate as successor, any Securities owned by the Collateral Manager or its Affiliates).

In the event of a resignation by or termination of the Collateral Manager, if no successor Collateral Manager has been appointed or an instrument of acceptance by a successor Collateral Manager has not been delivered to the Collateral Manager within 120 days after the date of notice of resignation by or termination of the Collateral Manager, the resigned or terminated Collateral Manager may petition any court of competent jurisdiction for the appointment of a successor Collateral Manager subject to the satisfaction of the Moody's Rating Condition and the S&P Rating Condition but without the approval of the Issuer or Holders of the Securities.

There is no limitation or restriction on the Collateral Manager or any of its Affiliates with regard to acting as collateral manager (or in a similar role) to other parties or persons. This and other future activities

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of the Collateral Manager and/or their Affiliates may give rise to additional conflicts of interest. The Collateral Manager and its Affiliates currently serve, and will continue to serve, as Collateral Manager for, invest in or be Affiliated with, other entities organized to issue collateralized debt obligations secured by high yield loans and bonds.

One or more funds managed by the Collateral Manager will commit to purchase up to 100% of the initial notional amount of the Subordinated Securities. Thereafter, such funds may, from time to time, transfer or sell all or any part of such Subordinated Securities held thereby.

Compensation of the Collateral Manager

As compensation for the performance of its obligations as Collateral Manager under the Collateral Management Agreement, the Collateral Manager will be entitled to receive from the Issuer the Senior Collateral Management Fee, the Subordinated Collateral Management Fee and the Incentive Collateral Management Fee.

The "**Senior Collateral Management Fee**" is payable in arrears on each Payment Date (subject to availability of funds and to the Priority of Payments) in an amount equal to 0.15% per annum of the Aggregate Principal Amount of the Collateral Portfolio measured as of the beginning of the Due Period preceding such Payment Date. The Senior Collateral Management Fee will be payable before any interest payments or distributions of Interest Proceeds on the Securities and will be calculated on the basis of a calendar year consisting of 360 days and the actual number of days elapsed.

The "**Subordinated Collateral Management Fee**" is payable in arrears on each Payment Date (subject to availability of funds and to the Priority of Payments) in an amount equal to 0.35% per annum of the Aggregate Principal Amount of the Collateral Portfolio measured as of the beginning of the Due Period preceding such Payment Date. The Subordinated Collateral Management Fee will be payable before any payments of distributions on the Subordinated Securities and will be calculated on the basis of a calendar year consisting of 360 days and the actual number of days elapsed. In addition, on any Payment Date that any part of the Subordinated Collateral Management Fee is not paid, it shall be carried over, will accrue interest at a rate of LIBOR for the applicable period plus 3.00% per annum and will be payable to the Collateral Manager on future Payment Dates in accordance with the Priority of Payments.

On each Payment Date, in accordance with the Priority of Payments, the Collateral Manager will be eligible to receive an incentive collateral management fee with respect to each subclass of Subordinated Securities (each, an "**Incentive Collateral Management Fee**"). On any Payment Date, the Incentive Collateral Management Fee with respect to each subclass of Subordinated Securities will equal 20% of the amount of Interest Proceeds and Principal Proceeds remaining available for distribution to such subclass at the steps in the Priority of Payments at which the Incentive Collateral Management Fee may be paid. The Incentive Collateral Management Fee with respect to each Included Subclass will be payable on any Payment Date to the Collateral Manager in accordance with the Priority of Payments if the amount paid to such Included Subclass of Subordinated Securities has been sufficient for the holders of such Included Subclass of Subordinated Securities to have received an annualized internal rate of return (calculated on the basis of a 360-day year consisting of twelve 30-day months) of at least 12.0% on a deemed invested amount of $1,000 per Subordinated Security (the "**Specified Internal Rate of Return**") for the period from the Closing Date to such Payment Date. The Incentive Collateral Management Fee with respect to each Excluded Subclass, if any, will be payable on any Payment Date to the Collateral Manager in accordance with the Priority of Payments even if the Holders of such Excluded Subclass have not received an Internal Rate of Return of at least 12.0%.

The Incentive Collateral Management Fee, the Senior Collateral Management Fee, and the Subordinated Collateral Management Fee are collectively referred to herein as the "**Collateral Management Fees**".

One or more funds managed by Greywolf will commit to purchase up to 100% of the initial notional amount of the Subordinated Securities. For so long as Greywolf is the Collateral Manager and any funds managed by Greywolf continue to hold any Subordinated Securities, any Collateral Management Fees

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otherwise payable to the Collateral Manager hereunder shall be paid by the Issuer in the following order: (i) first, to such funds managed by Greywolf (on a *pro rata* basis among such funds), in an amount equal to the product of (x) such Collateral Management Fees and (y) a fraction the numerator of which is the notional amount of the Subordinated Securities held by such funds managed by Greywolf and the denominator of which is the aggregate notional amount of all the Subordinated Securities and (ii) second, the remainder, if any, to Greywolf.

Any Subordinated Collateral Management Fees to which the Collateral Manager is entitled on any Payment Date that are not paid to the Collateral Manager, whether as a result of proceeds of the Collateral being insufficient therefor in accordance with the Priority of Payments or because the Collateral Manager, in its sole discretion, has instructed the Trustee that it wishes to defer payment of the fees until a subsequent Payment Date, will accrue interest at a rate of LIBOR for the applicable period plus 3.00%, and the fees, together with any interest accrued on them, will be payable on the next Payment Date specified by the Collateral Manager on which funds are available therefor in accordance with the Priority of Payments.

The Collateral Manager, in its sole discretion, may, from time to time, waive all or any portion of the Collateral Management Fees, and may defer all or any portion of the Collateral Management Fees. Any deferred Collateral Management Fees will become payable on the next Payment Date (and, if not paid on such Payment Date, on one or more subsequent Payment Dates) in the same manner and priority as their original characterization would have required unless deferred again.

The Collateral Management Fees will be payable from Interest Proceeds, and, if Interest Proceeds are not sufficient, from Principal Proceeds, in accordance with the Priority of Payments. If on any Payment Date there are insufficient funds to pay the Senior Collateral Management Fee then due in full, the amount not so paid shall be deferred and shall be payable on the first succeeding Payment Date on which any funds are available therefor, as provided in the Indenture.

THE ISSUERS

General

The Issuer was incorporated on August 14, 2006 in the Cayman Islands under the Companies Law (2004 Revision) of the Cayman Islands with the registration number 172443. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The telephone number of the registered office is (345) 945-7099. The Issuer was incorporated as a special purpose vehicle for the specific purpose of carrying out the transactions described in this Offering Circular, which primarily consists of purchasing the Collateral Obligations and any Eligible Investments that comprise the Collateral Portfolio, issuing the Securities and the Issuer Ordinary Shares and performing other activities related thereto. Prior to the date hereof, the Issuer has not engaged in any activities other than in connection with the acquisition of certain of the Collateral Obligations to be held on the Closing Date.

The Co-Issuer was incorporated on January 12, 2007, in the State of Delaware under the General Corporation Law of the State of Delaware with the registration number 4284547. The registered office of the Co-Issuer is at 850 Library Avenue, Suite 204, Newark, Delaware 19711. The telephone number of the registered office is (302) 738-6680. The Co-Issuer was incorporated as a special purpose vehicle for the specific purpose of carrying out the transactions described in this Offering Circular, which primarily consists of issuing the Co-Issued Notes and performing other activities related thereto, as set forth in Article Third of its Certificate of Incorporation. The Co-Issuer has no prior operating history.

The Co-Issued Notes are obligations only of the Issuers and the Class E Notes and the Subordinated Securities are obligations only of the Issuer, and not of the Trustee, the Collateral Manager, the Initial Purchaser, the Administrator, the Share Trustee or any directors or officers of the Issuers or any of their respective Affiliates.

At the Closing Date, the authorized share capital of the Issuer will consist of 50,000 ordinary shares, $1.00 par value per share (the "**Issuer Ordinary Shares**"), 250 of which shares have been issued. The

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authorized common stock of the Co-Issuer consists of 1,000 shares of common stock, $.01 par value (the "**Co-Issuer Common Stock**"), all of which shares will be issued prior to the Closing Date. All of the outstanding Issuer Ordinary Shares and Co-Issuer Common Stock will be held by the Share Trustee under the terms of a declaration of trust. For so long as any of the Securities are Outstanding, no beneficial interest in the Issuer Ordinary Shares of the Co-Issuer Common Stock shall be registered to a U.S. Person.

Capitalization of the Issuer

The initial proposed capitalization of the Issuer as of the Closing Date after giving effect to the issuance of the Securities and the Issuer Ordinary Shares (before deducting expenses of the Offering) is as set forth below.

	Amount
Class S Notes	$ 2,000,000
Class A Notes	$ 365,000,000
Class B Notes	$ 22,500,000
Class C Notes	$ 25,000,000
Class D Notes	$ 30,000,000
Class E Notes	$ 17,500,000
Subordinated Securities	$ 40,000,000
Total Debt	$ 502,000,000
Issuer Ordinary Shares	$ 250
Total Equity	$ 250
Total Capitalization	$ 502,000,250

Capitalization of the Co-Issuer

The Co-Issuer will be capitalized only to the extent of common equity of $10, will have no assets other than its equity capital and will have no debt other than as Co-Issuer of the Co-Issued Notes.

The Co-Issuer has agreed to co-issue the Co-Issued Notes as an accommodation to the Issuer, and the Co-Issuer is receiving no remuneration for so acting. Because the Co-Issuer has no assets, and is not permitted to have any assets, Securityholders will not be able to exercise their rights with respect to the Co-Issued Notes against any assets of the Co-Issuer. Holders of the Co-Issued Notes must rely on the Collateral held by the Issuer and pledged to the Trustee for the benefit of the Holders of the Co-Issued Notes (and certain service providers) for payment on their respective Co-Issued Notes, in accordance with the Priority of Payments.

Business

The Issuers will not undertake any substantial business other than the issuance of the Co-Issued Notes, entering and performing their respective obligations under certain transaction documents and, in the case of the Issuer, the issuance of the Class E Notes, the Subordinated Securities and the Issuer Ordinary Shares, the acquisition and management of the Collateral and, in each case, other related transactions. Neither of the Issuers will have any subsidiaries.

In addition, pursuant to the terms of the Collateral Administration Agreement, the Issuer will retain the Collateral Administrator to compile certain reports with respect to the Collateral Obligations. The compensation paid by the Issuer for such services will be in addition to the fees paid to the Collateral Manager and will be treated as an expense of the Issuer and will be subject to the Priority of Payments.

The Administrator will act as the administrator of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement between the Administrator and the Issuer relating to the administration of the Issuer in the Cayman Islands, and as amended from time to time in accordance with the terms thereof (the "**Administration Agreement**"),

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the Administrator will perform various administrative functions on behalf of the Issuer, including communications with shareholders, and the provision of certain clerical, administrative and other services until the termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The directors of the Issuer listed below are also officers and/or employees of the Administrator.

The Administrator's activities will be subject to the overview of the Issuer's Board of Directors. The appointment of the Administrator under the Administration Agreement shall continue until the termination of such agreement in accordance with its terms, at which time a replacement administrator may be appointed. The Administration Agreement may be terminated by either the Issuer or the Administrator upon three months' written notice or, upon the occurrence of certain events as specified in the Administration Agreement, upon 14 days' written notice.

The Administrator's principal office is: P.O. Box 1093 GT, Queensgate House, South Church Street, Grand Cayman, Cayman Islands.

Directors

The Directors of the Issuer are Guy Major and Carrie Bunton. The Directors may be contacted at the address of the Issuer or by telephone at (345) 945-7099.

The Director of the Co-Issuer is Donald Puglisi. He may be contacted at the address of the Co-Issuer or by telephone at (302) 738-6680.

THE LOAN MARKET

A substantial portion, by principal amount, of the Collateral Obligations is expected to consist of corporate loans rated below investment grade extended to U.S. and other borrowers located in countries whose long-term debt rating with respect to Dollar denominated obligations backed by the full faith and credit (or the local equivalent thereof) of such country or its central bank is at least "Aa2" by Moody's and "AA" by S&P. Such loans are typically negotiated by one or more commercial banks or other financial institutions and syndicated among a group of commercial banks and financial institutions.

Corporate loans are typically at the most senior level of the capital structure, and are often secured by specific collateral, including but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred stock of the obligor and its subsidiaries. Some loans may be unsecured, subordinated to other obligations of the obligor and may have greater credit and liquidity risk than is typically associated with senior secured corporate loans. The corporate loans expected to secure the Secured Notes are of a type generally incurred by the borrowers thereunder in connection with a highly leveraged transaction, often to finance internal growth, acquisitions, mergers, stock purchases, or for other reasons. As a result of the additional debt incurred by the borrower in the course of the transactions, the borrower's creditworthiness is often judged by the rating agencies to be below investment grade. In order to induce the banks and institutional investors to invest in a borrower's loan facility, and to offer a favorable interest rate, the borrower often provides the banks and institutional investors with extensive information about its business, which is not generally available to the public. Because of the provision of confidential information, the unique and customized nature of a loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high yield bond market.

Corporate loans often provide for restrictive covenants designed to limit the activities of the borrower in an effort to protect the right of lenders to receive timely payments of interest on and repayment of principal of the loans. Such covenants may include restrictions on dividend payments, specific mandatory minimum financial ratios, limits on total debt and other financial tests. A breach of covenant (after giving effect to any cure period) in a loan which is not waived by the lending syndicate normally is an event of acceleration which allows the syndicate to demand immediate repayment in full of the outstanding loan. Loans usually have

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shorter terms than more junior obligations and may require mandatory prepayments from excess cash flow, asset dispositions and offerings of debt and/or equity securities.

A majority of loans bear interest based on a floating rate index, e.g., LIBOR, the certificate of deposit rate, a prime or base rate (each as defined in the applicable loan agreement) or other index, which may reset daily (as most prime or base rate indices do) or offer the borrower a choice of one, two, three, six, nine or twelve month interest and rate reset periods. The purchaser of a loan may receive certain syndication or participation fees in connection with its purchase. Other fees payable in respect of a loan, which are separate from interest payments on such loan, may include facility, commitment, amendment and prepayment fees.

Purchasers of loans are predominantly investment and commercial banks, who have applied their experience in high yield securities to the commercial and industrial loan market, acting as both principal and broker. The range of investors for loans has broadened to include money managers, insurance companies, arbitrageurs, bankruptcy investors and mutual funds seeking increased potential total returns and portfolio managers of trusts or special purpose companies issuing collateralized bond and loan obligations. As secondary market trading volumes increase, new loans are frequently adopting more standardized documentation to facilitate loan trading, which should improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide the degree of liquidity that currently exists in the market.

INCOME TAX CONSIDERATIONS

General

The following summary describes the principal U.S. federal income tax and Cayman Islands tax consequences of the purchase, ownership and disposition of the Securities to investors that acquire the Securities at original issuance and, in the case of the Secured Notes, for an amount equal to the Issue Price of the relevant Class of Secured Notes (for purposes of this section, with respect to each Class of Secured Notes, the first price at which a substantial amount of Secured Notes of such Class are sold to the public (excluding bond houses, brokers, underwriters, placement agents, and wholesalers) is referred to herein as the "**Issue Price**"). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular investor's decision to purchase the Securities. In addition, this summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. federal income tax laws and Cayman Islands tax laws. In general, the summary assumes that a beneficial owner of a Security holds the Security as a capital asset and not as part of a hedge, straddle or conversion transaction, within the meaning of Section 1258 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**").

The advice below was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding United States federal income tax penalties that may be imposed. The advice is written to support the promotion or marketing of the transaction. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The foregoing disclaimer is provided to satisfy obligations under Circular 230 governing standards of practice before the Internal Revenue Service.

This summary is based on the U.S. and Cayman Islands tax laws, regulations (final, temporary and proposed), administrative rulings and practice and judicial decisions in effect or available on the date of this Offering Circular. All of the foregoing are subject to change or differing interpretation at any time, which change or interpretation may apply retroactively and could affect the continued validity of this summary.

This summary is included herein for general information only, and there can be no assurance that the U.S. Internal Revenue Service (the "**IRS**") will take a similar view of the U.S. federal income tax consequences of an investment in the Securities as described herein. ACCORDINGLY, PROSPECTIVE

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PURCHASERS OF THE SECURITIES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO U.S. FEDERAL INCOME TAX AND CAYMAN ISLANDS TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SECURITIES, AND THE POSSIBLE APPLICATION OF STATE, LOCAL, FOREIGN OR OTHER TAX LAWS.

As used in this section, the term "**U.S. Holder**" includes a beneficial owner of a Security that is, for U.S. federal income tax purposes, a citizen or individual resident of the United States of America, an entity treated for United States federal income tax purposes as a corporation or a partnership created or organized in or under the laws of the United States of America or any state thereof or the District of Columbia, an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source, or a trust if, in general, a court within the United States of America is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust and certain eligible trusts that have elected to be treated as U.S. persons. This summary also does not address the rules applicable to certain types of investors that are subject to special U.S. federal income tax rules which are not discussed herein, including but not limited to, dealers in securities or currencies, traders in securities, financial institutions, U.S. expatriates, tax-exempt entities (except with respect to specific issues discussed herein), charitable remainder trusts and their beneficiaries, persons whose functional currency is not the Dollar, insurance companies, persons that own (directly or indirectly) equity interests in beneficial owners of Securities and subsequent purchasers of the Securities.

For U.S. federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Securities.

Tax Treatment of the Issuer

United States Federal Income Tax Consequences. The Code and the U.S. Department of Treasury regulations promulgated thereunder ("**Treasury Regulations**") provide a specific exemption from net income-based U.S. federal income tax to non-U.S. corporations that restrict their activities in the United States to trading in stocks and securities (and any other activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees or through a resident broker, commission agent, custodian or other agent. This particular exemption does not apply to non-U.S. corporations that are engaged in activities in the United States other than trading in stocks and securities (and any other activity closely related thereto) for their own accounts or that are dealers in stocks and securities.

The Issuer intends to rely on the above exemption and does not intend to operate so as to be subject to U.S. federal income taxes on its net income. In this regard, on the Closing Date, the Issuer will receive an opinion from McKee Nelson LLP, special U.S. tax counsel to the Issuers ("**Special U.S. Tax Counsel**") to the effect that, although no activity closely comparable to that contemplated by the Issuer has been the subject of any Treasury Regulation, administrative ruling or judicial decision, under current law and assuming compliance with the Issuer's Amended and Restated Memorandum and Articles of Association of the Issuer, the Indenture, the Collateral Management Agreement, and other related documents (the "**Documents**") by all parties thereto, the Issuer's permitted activities will not cause it to be engaged in a trade or business in the United States under the Code and, consequently, the Issuer will not be subject to U.S. federal income tax on a net income basis (or the branch profits tax described below). The opinion of Special U.S. Tax Counsel will be based on the Code, the Treasury Regulations (final, temporary and proposed) thereunder, the existing authorities, and Special U.S. Tax Counsel's interpretation thereof and judgment concerning their application to the Issuer's permitted activities, and on certain factual assumptions and representations as to the Issuer's permitted activities. The Issuer intends to conduct its affairs in accordance with the Documents and such assumptions and representations, and the remainder of this summary assumes such result. In addition, in complying with the Documents and such assumptions and representations, the Issuer and the Collateral Manager are entitled to rely upon the advice and/or opinions of their selected counsel, and the opinion of Special U.S. Tax Counsel will assume that any such advice and/or opinions are correct and complete. However, the opinion of Special U.S. Tax Counsel and any such other advice or opinions are not binding on the IRS or the courts, and no ruling will be sought from the IRS regarding this, or any other, aspect of the U.S. federal income tax treatment of the Issuer. Accordingly, in the absence of authority on point, the U.S. federal income tax treatment of the Issuer is not entirely free from doubt, and there can be no assurance that

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positions contrary to those stated in the opinion of Special U.S. Tax Counsel or any such other advice or opinions may not be asserted successfully by the IRS.

If, notwithstanding the Issuer's intention and the aforementioned opinion of Special U.S. Tax Counsel or any such other advice or opinions, it were nonetheless determined that the Issuer were engaged in a trade or business in the United States (as defined in the Code), and the Issuer had taxable income that was effectively connected with such U.S. trade or business, the Issuer would be subject under the Code to the regular U.S. corporate income tax on such effectively connected taxable income (and possibly to the 30% branch profits tax as well). The imposition of such taxes would materially affect the Issuer's financial ability to make payments with respect to the Securities and could materially affect the yield of the Secured Notes and the return on the Subordinated Securities.

Legislation recently proposed in the U.S. Senate would, for tax years beginning at least two years after its enactment, tax a corporation as a U.S. corporation if the equity of that corporation is regularly traded on an established securities market and the management and control of the corporation occurs primarily within the United States. It is unknown whether this proposal will be enacted in its current form and, whether if enacted, the Issuer would be subject to its provisions. However, upon enactment of this or similar legislation, the Issuer will be permitted, with an opinion of counsel, to take such action as it deems advisable to prevent the Issuer from being subject to such legislation. These actions could include removing some classes of Securities from listing on the Irish Stock Exchange.

With respect to Cayman Islands taxation, see the discussion below in "—Cayman Islands Tax Considerations".

United States Withholding Taxes. Although, based on the foregoing, the Issuer is not expected to be subject to U.S. federal income tax on a net income basis, income derived by the Issuer may be subject to withholding taxes imposed by the United States or other countries. Generally, U.S. source interest income received by a foreign corporation not engaged in a trade or business within the United States is subject to U.S. withholding tax at the rate of 30% of the amount thereof. The Code provides an exemption (the "portfolio interest exemption") from such withholding tax for interest paid with respect to certain debt obligations issued after July 18, 1984, unless the interest constitutes a certain type of contingent interest or is paid to a 10% shareholder of the payor, to a controlled foreign corporation related to the payor, or to a bank with respect to a loan entered into in the ordinary course of its business. In this regard, the Issuer is permitted to acquire a particular Collateral Obligation only if the payments thereon are exempt from U.S. withholding taxes at the time of purchase or commitment to purchase (with the exception of commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities or Delayed Funding Term Loans) or the obligor is required to make "gross-up" payments that offset fully any such tax on any such payments. Any commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities or Delayed Funding Term Loans and any lending fees received under a Securities Lending Agreement may be subject to U.S. withholding tax, which would reduce the Issuer's net income from such activities. However, the Issuer does not anticipate that it will otherwise derive material amounts of any other items of income that would be subject to U.S. withholding taxes. Accordingly, assuming compliance with the foregoing restrictions and subject to the foregoing qualifications, income derived by the Issuer will be free of or fully "grossed up" for any material amount of U.S. withholding tax. It is possible that, as a result of a workout of a defaulted Collateral Debt Obligation, the Issuer could receive an asset subject to withholding. However, there can be no assurance that income derived by the Issuer will not generally become subject to U.S. withholding tax as a result of a change in U.S. tax law or administrative practice, procedure, or interpretations thereof. See "Risk Factors – Changes in Tax Law; No Gross-Up". Any change in U.S. tax law or administrative practice, procedure, or interpretations thereof resulting in the income of the Issuer becoming subject to U.S. withholding taxes could constitute a Withholding Tax Event. See "Description of the Securities—Optional Redemption". It is also anticipated that the Issuer will acquire Collateral Obligations that consist of obligations of non-U.S. issuers. In this regard, the Issuer may only acquire a particular Collateral Obligation if either the payments thereon are not subject to foreign withholding tax (with the exception of commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities and Delayed Funding Term Loans) or the obligor of the Collateral Obligation is required to make "gross-up" payments.

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Prospective investors should be aware that, under certain Treasury Regulations, the IRS may disregard the participation of an intermediary in a "conduit" financing arrangement and the conclusions reached in the immediately preceding paragraph assume that Affected Banks will not, as a result of holding Securities, influence the selection of Collateral Obligations and that such Treasury Regulations do not apply. Those Treasury Regulations could require withholding of U.S. federal income tax from payments to the Issuer of interest on the Collateral Obligations. In order to prevent "conduit" classification, each holder and beneficial owner of a Class E Note or Subordinated Security that (i) is not a "United States person" (as defined in Section 7701(a)(30) of the Code) and (ii) is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate Outstanding Amount of any such Class of Securities will be deemed to make a representation to the effect that it is not an Affected Bank. "**Affected Bank**" means a "bank" for purposes of Section 881 of the Code or an entity affiliated with such a bank that neither (x) meets the definition of a U.S. Holder nor (y) is entitled to the benefits of an income tax treaty with the United States under which withholding taxes on interest payments made by obligors resident in the United States to such bank are reduced to 0%.

Tax Treatment of U.S. Holders of the Secured Notes

Status of the Secured Notes. On the Closing Date, the Issuer will receive an opinion from Special U.S. Tax Counsel to the effect that the Co-Issued Notes will be, and the Class E Notes should be, treated as debt for U.S. federal income tax purposes when issued, and this summary assumes such treatment. Further, the Issuer and each U.S. Holder and beneficial owner of a Secured Note, by acquiring such Secured Note or an interest in such Secured Note, will agree to treat such Secured Note as debt for U.S. federal income tax purposes, except (x) as otherwise required by applicable law, (y) to the extent a Noteholder makes a protective QEF election (as described below under "—Investment in a Passive Foreign Investment Company"), or (z) to the extent that the holder files certain United States tax information returns required of only certain equity owners with respect to various reporting requirements under the Code (as described below under "—Certain Reporting Requirements" and "—Tax Return Disclosure and Investor List Requirements"). The determination of whether a Secured Note will be treated as debt for United States federal income tax purposes is based on the applicable law and facts and circumstances existing at the time the Secured Note is issued. However, the opinion of Special U.S. Tax Counsel is based on current law and certain representations and assumptions and is not binding on the IRS or the courts, and no ruling will be sought from the IRS regarding this, or any other, aspect of the U.S. federal income tax treatment of the Secured Notes. Accordingly, there can be no assurance that the IRS will not contend, and that a court will not ultimately hold, that one or more Classes of the Secured Notes are properly treated as equity in the Issuer for U.S. federal income tax purposes. Recharacterization of a Class of Secured Notes, particularly the Class E Notes because of their place in the capital structure, may be more likely if a single investor or a group of investors that holds all of the Subordinated Securities also holds all of the more senior Class of Secured Notes in the same proportion as the Subordinated Securities are held. If a Class of the Secured Notes were treated as equity in, rather than debt of, the Issuer for U.S. federal income tax purposes, U.S. Holders of Secured Notes of such Class would be subject to taxation under rules substantially the same as those set forth below under "—Tax Treatment of U.S. Holders of Subordinated Securities" which could cause adverse tax consequences for such U.S. Holders upon the sale, exchange, redemption, retirement or other taxable disposition of, or the receipt of certain types of distributions on, such Secured Notes.

Interest or Discount on the Secured Notes. Subject to the discussion below, U.S. Holders of each Class of Secured Notes generally will include in gross income payments of stated interest received on such Class of Secured Notes, in accordance with their usual method of accounting for U.S. federal income tax purposes as ordinary interest income from sources outside the United States.

If the Issue Price of a Class of Secured Notes is less than the "stated redemption price at maturity" of such Class of Secured Notes by more than a *de minimis* amount, U.S. Holders of Secured Notes of such Class will be considered to have purchased such Secured Notes with original issue discount ("**OID**"). The stated redemption price at maturity of a Class of Secured Notes will be the sum of all payments to be received on Secured Notes of such Class, other than payments of "**qualified stated interest**" (i.e., generally, stated interest which is unconditionally payable in money at least annually during the entire term of a debt instrument; interest is unconditionally payable only if reasonable legal remedies exist to compel timely

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payment or the debt instrument otherwise provides terms and conditions that make the likelihood of late payment or nonpayment a remote contingency). Prospective U.S. Holders of the Class C Notes, the Class D Notes or the Class E Notes should note that, because interest on these Secured Notes can be deferred, the Issuer intends to treat interest on these Classes as not unconditionally payable in money on each Payment Date (and, therefore, not "qualified stated interest"), and as a result include all of the stated interest payments on these Secured Notes in the stated redemption prices at maturity of these Secured Notes, and must therefore be accrued by U.S. Holders pursuant to the OID rules described below. Such OID inclusion on such Secured Notes generally will be treated as income from sources outside the United States.

A U.S. Holder of such Class of Secured Notes issued with OID will be required to accrue and include in gross income the sum of the "daily portions" of total OID on such Secured Notes for each day during the taxable year on which the U.S. Holder held such Secured Notes, generally under a constant yield method, regardless of such U.S. Holder's usual method of accounting for U.S. federal income tax purposes. If a Secured Note is issued with only a *de minimis* amount of OID, such discount is not subject to accrual under the OID rules and should be included in gross income proportionately as stated principal payments are received. Such *de minimis* OID should be treated as gain from the sale or exchange of property and may be eligible to be treated as a capital gain if the Secured Note is a capital asset in the hands of the U.S. Holder.

In the case of such Class of Secured Notes that provides for a floating rate of interest, the amount of OID to be accrued over the term of such Secured Notes will be based initially on the assumption that the floating rate in effect for the first accrual period of such Secured Notes will remain constant throughout their term. To the extent such rate varies with respect to any accrual period, such variation will be reflected in an increase or decrease of the amount of OID accrued for such period. Under the foregoing method, U.S. Holders of the Class C Notes, the Class D Notes or the Class E Notes may be required to include in gross income increasingly greater amounts of OID and may be required to include OID in advance of the receipt of cash attributable to such income.

The Issuer intends to treat each Class of Secured Notes issued with more than *de minimis* OID as being subject to the rules prescribed by Section 1272(a)(6) of the Code using an assumption as to the prepayments on such Class of Secured Notes, as discussed below under "—OID on the Secured Notes". A prepayment assumption applies to debt instruments if payments under such debt instruments may be accelerated by reason of prepayments of other obligations securing such debt instruments.

OID on the Secured Notes. The following discussion will apply to a Class of Secured Notes if it is issued with more than de minimis OID. Because principal repayments on such Secured Notes are subject to acceleration, the method by which OID on such Secured Notes is required to be accrued is uncertain. For purposes of accruing OID on these Secured Notes under such circumstances, the Issuer intends to treat these Secured Notes as being subject to the "prepayment assumption method". These rules require that the amount and rate of accrual of OID be calculated based on a prepayment assumption and the anticipated reinvestment rate, if any, relating to the Secured Notes and prescribe a method for adjusting the amount and rate of accrual of the discount where the actual prepayment rate differs from the prepayment assumption. Under the Code, the prepayment assumption must be determined in the manner prescribed by the Treasury Regulations, which have not yet been issued. The legislative history provides, however, that Congress intended the Treasury Regulations to require that the prepayment assumption be the prepayment assumption that is used in determining the initial offering price of the Secured Notes. Solely for purposes of determining OID, market discount and bond premium, the Issuer intends to assume that the Collateral Obligations will either not prepay or any prepayments will be reinvested. No representation is made that the Secured Notes will prepay at the prepayment assumption or at any other rate.

It is possible the IRS could contend that another method of accruing OID with respect to these Secured Notes is appropriate and, if successful, could apply rules that may result in adverse or more favorable U.S. federal income tax consequences to a U.S. Holder of such Secured Notes. One such alternative method of accruing OID may be the noncontingent bond method that governs contingent payment debt obligations. Such method could affect the amount and character of the gain or loss recognized upon a disposition of a Secured Note.

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A purchaser of a Secured Note issued with OID who purchases such Secured Note at a price other than the adjusted Issue Price but at a cost less than the remaining stated redemption price at maturity will also be required to include in gross income the sum of the daily portions of OID on such Secured Note. In computing the daily portions of OID for a purchaser of a Secured Note that purchases at a price higher than the adjusted issue price, but less than the stated redemption price at maturity, however, the daily portion is reduced by the amount that would be the daily portion for the day (computed in accordance with the rules set forth above) multiplied by a fraction, the numerator of which is the amount, if any, by which the price paid by the U.S. holder for such Secured Note exceeds the following amount:

- The sum of the Issue Price *plus* the aggregate amount of OID that would have been includible in the gross income of an original U.S. Holder (who purchased the Secured Note at the Issue Price), less

- Any prior payments included in the stated redemption price at maturity,

and the denominator of which is the sum of the daily portions for such Secured Note for all days beginning on the date after the purchase date and ending on the maturity date computed under the prepayment assumption.

As a result of the complexity of the OID rules, each U.S. Holder of Secured Notes should consult its own tax advisor regarding the impact of the OID rules on its investment in such Secured Notes.

Premium. A U.S. Holder who pays a premium (an amount in excess of the Secured Note's stated redemption price at maturity) for a Secured Note may elect to amortize such premium under a constant yield method over the life of such Secured Note. The amortizable amount for any accrual period would offset the amount of OID that must be included in the gross income of a U.S. Holder in such accrual period. The U.S. Holder's basis in such Secured Note would be reduced by the amount of amortization. It is not clear whether the prepayment assumption would be taken into account in determining the life of such Secured Note for this purpose.

Market Discount. If a U.S. Holder acquires a Secured Note at a discount to the adjusted issue price of the Secured Note that is greater than a statutorily defined de minimis amount, such discount is treated as market discount. Absent an election to accrue into income currently, the amount of accrued market discount on a Secured Note is included in income as ordinary income when principal payments are received or the U.S. Holder disposes of the Secured Note. Market discount is included ratably unless a U.S. Holder elects to use a constant yield method for accrual. For this purpose, the term "ratably" may be based on the term of the Secured Note, or a U.S. Holder may be permitted to accrue market discount in proportion to interest on Secured Notes issued without OID or in proportion to OID on Secured Notes issued with OID.

Election to Treat All Interest as OID. The OID rules permit a U.S. Holder of a Secured Note to elect to accrue all interest, discount (including de minimis market or original issue discount) and premium in income as interest, based on a constant yield method. If an election to treat all interest as OID were to be made with respect to a Secured Note with market discount, the U.S. Holder of such Secured Note would be deemed to have made an election to include in income currently market discount with respect to all other debt instruments having market discount that such U.S. Holder acquires during the year of the election or thereafter. Similarly, a U.S. Holder that makes this election for a Secured Note that is acquired at a premium will be deemed to have made an election to amortize bond premium with respect to all debt instruments having amortizable bond premium that such U.S. Holder owns or acquires. The election to accrue interest, discount and premium on a constant yield method with respect to a Secured Note cannot be revoked without the consent of the IRS.

Disposition of the Secured Notes. In general, a U.S. Holder of a Secured Note initially will have a basis in such Secured Note equal to the cost of such Secured Note to such U.S. Holder, (i) increased by any amount includable in income by such U.S. Holder as OID (or accrued market discount such U.S. Holder previously included in income) with respect to such Secured Note, and (ii) reduced by amortized premium and by any payments on such Secured Note, other than payments of qualified stated interest on such Secured Note. Upon a sale, exchange, redemption, retirement or other taxable disposition of a Secured

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Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the disposition (other than amounts attributable to accrued qualified stated interest on such Secured Note, which will be taxable as described above) and the U.S. Holder's tax basis in such Secured Note. Except to the extent of accrued interest or market discount not previously included in income, gain or loss from the disposition of a Secured Note generally will be long term capital gain or loss if the U.S. Holder held the Secured Note for more than one year at the time of disposition, provided that such Secured Note is held as a "capital asset" (generally, property held for investment) within the meaning of Section 1221 of the Code.

In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Gain recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of a Secured Note generally will be treated as from sources within the United States and loss so recognized generally will offset income from sources in the United States.

Alternative Characterization of the Secured Notes. Notwithstanding special U.S. tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Secured Notes. It is possible, for example, that the IRS may contend that a Class of Secured Notes should be treated as equity interests (or as part debt, part equity) in the Issuer. Such a recharacterization might result in material adverse U.S. federal income tax consequences to U.S. Holders. If U.S. Holders of a Class of the Secured Notes were treated as owning equity interests in the Issuer, the U.S. federal income tax consequences to U.S. Holders of such recharacterized Secured Notes would be as described under "—Tax Treatment of U.S. Holders of Subordinated Notes", "—Certain Reporting Requirements" and "—Tax Return Disclosure and Investor List Requirements." In order to avoid the application of the PFIC rules, each U.S. Holder of a Note should consider making a qualified electing fund election provided in Section 1295 of the Code on a "protective" basis (although such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). See "—Investment in a Passive Foreign Investment Company. Further, U.S. Holders of any Class of Secured Notes that may be recharacterized as equity in the Issuer should consult with their own tax advisors with respect to whether, if they owned equity in the Issuer, they would be required to file information returns in accordance with sections 6038, 6038B, and 6046 of the Code (and, if so, whether they should file such returns on a protective basis

Tax Treatment of U.S. Holders of Subordinated Securities

Although not denominated as equity, based on the capital structure of the Issuer and the terms of the Subordinated Securities, it is likely the Subordinated Securities will be treated as equity for United States federal income tax purposes. The following discussion is based on the Subordinated Securities being treated as equity of the Issuer.

Investment in a Passive Foreign Investment Company. The Issuer will constitute a "passive foreign investment company" ("**PFIC**"). Accordingly, U.S. Holders of Subordinated Securities (other than certain U.S. Holders that are subject to the rules pertaining to a "controlled foreign corporation", described below) will be considered U.S. shareholders in a PFIC and will be required to file annual information returns on IRS Form 8621 with their U.S. federal income tax returns. In general, a U.S. Holder of a PFIC may desire to make an election to treat the Issuer as a "qualified electing fund" ("**QEF**") with respect to such U.S. Holder. Generally, a QEF election should be made with the filing of IRS Form 8621 with a U.S. Holder's federal income tax return for the first taxable year for which it held Subordinated Securities. If a timely QEF election is made for the Issuer, an electing U.S. Holder generally will be required in each taxable year to include in gross income (i) as ordinary income, such holder's *pro rata* share of the Issuer's ordinary earnings and (ii) as long term capital gain, such holder's *pro rata* share of the Issuer's net capital gain, whether or not distributed. A U.S. Holder will not be eligible for the preferential income tax rate on "qualified dividend income" (as defined in the Code) or the dividends received deduction with respect to any such income or gain. In addition, any losses of the Issuer in a taxable year will not be available to such U.S. Holder and may not be carried back or forward in computing the Issuer's ordinary earnings and net capital gain in other taxable

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years. An amount included in an electing U.S. Holder's gross income should be treated as income from sources outside the United States for U.S. foreign tax credit limitation purposes. However, if U.S. Holders collectively own (directly or constructively) 50% or more (measured by vote or value) of the Subordinated Securities, such amount will be treated as income from sources within the United States for such purposes to the extent that such amount is attributable to income of the Issuer from sources within the United States. If applicable to a U.S. Holder of Subordinated Securities, the rules pertaining to a "controlled foreign corporation", discussed below, generally override those pertaining to a PFIC with respect to which a QEF election is in effect.

In certain cases in which a QEF does not distribute all of its earnings in a taxable year, U.S. shareholders may also be permitted to elect to defer payment of some or all of the taxes on the QEF's income subject to an interest charge on the deferred amount. In this respect, prospective purchasers of Subordinated Securities should be aware that it is possible that the Collateral Obligations may be purchased by the Issuer with substantial OID, the cash payment of which may be deferred, perhaps for a substantial period of time, and the Issuer may use interest and other income from the Collateral Obligations to purchase additional Collateral Obligations or to retire Securities. As a result, the Issuer may have in any given year substantial amounts of earnings for U.S. federal income tax purposes that are not distributed on the Subordinated Securities. Thus, absent an election to defer payment of taxes, U.S. Holders that make a QEF election with respect to the Issuer may owe tax on significant "phantom" income.

In addition, it should be noted that if the Issuer invests in obligations that are not in registered form, a U.S. Holder making a QEF election (a) may not be permitted to take a deduction for any loss attributable to such obligations when calculating its share of the Issuer's earnings and (b) may be required to treat income attributable to such obligations as ordinary income even though the income would otherwise constitute capital gains. It is possible that some portion of the investments of the Issuer will constitute obligations that are not in registered form.

The Issuer will provide, upon request, all information and documentation that a U.S. Holder making a QEF election is required to obtain for U.S. federal income tax purposes.

A U.S. Holder of Subordinated Securities (other than certain U.S. Holders that are subject to the rules pertaining to a "controlled foreign corporation", described below) that does not make a timely QEF election will be required to report any gain on disposition (including gain recognized upon a redemption) of any Subordinated Securities as if it were an excess distribution, rather than capital gain, and to compute the tax liability on such gain and any excess distribution received with respect to the Subordinated Securities as if such items had been earned ratably over each day in the U.S. Holder's holding period (or a certain portion thereof) for the Subordinated Securities. The U.S. Holder will be subject to tax on such items at the highest ordinary income tax rate for each taxable year, other than the current year of the U.S. Holder, in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. Holder. Further, such U.S. Holder will also be liable for an additional tax equal to interest on the tax liability attributable to income allocated to prior years as if such liability had been due with respect to each such prior year. For purposes of these rules, gifts, exchanges pursuant to corporate reorganizations and use of the Subordinated Securities as security for a loan may be treated as a taxable disposition of such Subordinated Securities. Very generally, an "excess distribution" is the amount by which distributions during a taxable year with respect to a Subordinated Security exceed 125 percent of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period for the Subordinated Security). In addition, a stepped-up basis in the Subordinated Securities upon the death of an individual U.S. Holder may not be available.

In many cases, application of the tax on gain on disposition and receipt of excess distributions will be substantially more onerous than the treatment applicable if a timely QEF election is made. ACCORDINGLY, U.S. HOLDERS OF SUBORDINATED SECURITIES SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO THE SUBORDINATED SECURITIES AND THE CONSEQUENCES OF NOT MAKING SUCH AN ELECTION.

Investment in a Controlled Foreign Corporation. The Issuer may be classified as a controlled foreign corporation (**"CFC"**). In general, a foreign corporation will be classified as a CFC if more than 50% of the

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shares of the corporation, measured by reference to combined voting power or value, is owned (actually or constructively) by "U.S. Shareholders". A U.S. Shareholder, for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power (generally the right to vote for directors of the corporation) of all classes of shares of a corporation. Although the Subordinated Securities do not vote for directors of the Issuer, it is possible that the IRS would assert that the Subordinated Securities are de facto voting securities and that U.S. Holders possessing (actually or constructively) 10% or more of the total combined voting power of all classes of stock entitled to vote (including the Subordinated Securities) are U.S. Shareholders. If this argument were successful and more than 50% of the Subordinated Securities (determined with respect to aggregate value or combined voting power) are owned (actually or constructively) by such U.S. Shareholders, the Issuer would be treated as a CFC.

If the Issuer were treated as a CFC, a U.S. Shareholder of the Issuer would be treated, subject to certain exceptions, as receiving a deemed dividend at the end of the taxable year of the Issuer in an amount equal to that person's *pro rata* share of the "subpart F income" of the Issuer (which may include any subpart F income of the Issuer during the warehousing of the Collateral Obligations). Such deemed dividend would be treated as income from sources within the United States for U.S. foreign tax credit limitation purposes to the extent that it is attributable to income of the Issuer from sources within the United States. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, gains from the sale or exchange of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is likely that, if the Issuer were to constitute a CFC, all or most of its income would be subpart F income and, in general, if the Issuer's subpart F income exceeds 70% of its gross income for a taxable year, the entire amount of the Issuer's income for such taxable year will be treated as subpart F income.

If the Issuer were treated as a CFC, a U.S. Shareholder of the Issuer which made a QEF election with respect to the Issuer would be taxable on the subpart F income of the Issuer under rules described in the preceding paragraph and not under the QEF rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the U.S. Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the QEF rules.

Furthermore, if the Issuer were treated as a CFC and a U.S. Holder were treated as a U.S. Shareholder therein, the Issuer would not be treated as a PFIC or a QEF with respect to such U.S. Holder for the period during which the Issuer remained a CFC and such U.S. Holder remained a U.S. Shareholder therein (the "qualified portion" of the U.S. Holder's holding period for the Subordinated Securities). If the qualified portion of such U.S. Holder's holding period for the Subordinated Securities subsequently ceased (either because the Issuer ceased to be a CFC or the U.S. Holder ceased to be a U.S. Shareholder), then solely for purposes of the PFIC rules, such U.S. Holder's holding period for the Subordinated Securities would be treated as beginning on the first day following the end of such qualified portion, unless the U.S. Holder had owned any Subordinated Securities for any period of time prior to such qualified portion and had not made a QEF election with respect to the Issuer. In that case, the Issuer would again be treated as a PFIC which is not a QEF with respect to such U.S. Holder and the beginning of such U.S. Holder's holding period for the Subordinated Securities would continue to be the date upon which such U.S. Holder acquired the Subordinated Securities, unless the U.S. Holder made an election to recognize gain with respect to the Subordinated Securities and a QEF election with respect to the Issuer.

Indirect Interests in PFICs and CFCs. If the Issuer owns a Collateral Obligation or an Equity Security issued by a non-U.S. corporation that is treated as equity for U.S. federal income tax purposes, U.S. Holders of Subordinated Securities could be treated as owning an indirect equity interest in a PFIC or a CFC and could be subject to certain adverse tax consequences.

In particular, if the Issuer owns equity interests in PFICs ("**Lower-Tier PFICs**"), a U.S. Holder of Subordinated Securities would be treated as owning directly the U.S. Holder's proportionate amount (by value) of the Issuer's equity interests in the Lower-Tier PFICs. A U.S. Holder's QEF election with respect to the Issuer would not be effective with respect to such Lower-Tier PFICs. However, a U.S. Holder would be able to make QEF elections with respect to such Lower-Tier PFICs if the Lower-Tier PFICs provide certain

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information and documentation to the Issuer in accordance with applicable Treasury Regulations. However, there can be no assurance that the Issuer would be able to obtain such information and documentation from any Lower-Tier PFIC, and thus there can be no assurance that a U.S. Holder would be able to make or maintain a QEF election with respect to any Lower-Tier PFIC. If a U.S. Holder does not have a QEF election in effect with respect to a Lower-Tier PFIC, as a general matter, the U.S. Holder would be subject to the adverse consequences described above under "—Investment in a Passive Foreign Investment Company" with respect to any excess distributions made by such Lower-Tier PFIC to the Issuer, any gain on the disposition by the Issuer of its equity interest in such Lower-Tier PFIC treated as indirectly realized by such U.S. Holder, and any gain treated as indirectly realized by such U.S. Holder on the disposition of its equity in the Issuer (which may arise even if the U.S. Holder realizes a loss on such disposition). Such amount would not be reduced by expenses or losses of the Issuer, but any income recognized may increase a U.S. Holder's tax basis in its Subordinated Securities. Moreover, if the U.S. Holder has a QEF election in effect with respect to a Lower-Tier PFIC, the U.S. Holder would be required to include in income the U.S. Holder's *pro rata* share of the Lower-Tier PFIC's ordinary earnings and net capital gain as if the U.S. Holder's indirect equity interest in the Lower-Tier PFIC were directly owned, and it appears that the U.S. Holder would not be permitted to use any losses or other expenses of the Issuer to offset such ordinary earnings and/or net capital gains, but recognition of such income may increase a U.S. Holder's tax basis in its Subordinated Securities.

Accordingly, if any of the Collateral Obligations or Equity Securities are treated as equity interests in a PFIC, such U.S. Holders could experience significant amounts of phantom income with respect to such interests. Other adverse tax consequences may arise for such U.S. Holders that are treated as owning indirect interests in CFCs. U.S. Holders should consult their own tax advisors regarding the tax issues associated with such investments in light of their own individual circumstances.

Distributions on Subordinated Securities. The treatment of actual distributions of cash on the Subordinated Securities, in very general terms, will vary depending on whether a U.S. Holder has made a timely QEF election as described above. See "—Investment in a Passive Foreign Investment Company". If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent will not be taxable to U.S. Holders. Distributions in excess of amounts previously taxed pursuant to a QEF election (or pursuant to the CFC rules, if applicable) will be treated as dividends (but not eligible for the reduced tax rate applicable to "qualified dividend income") and taxable to U.S. Holders as ordinary income upon receipt to the extent of any remaining amounts of untaxed current and accumulated earnings and profits of the Issuer. Distributions in excess of any current and accumulated earnings and profits will be treated first as a nontaxable reduction to the U.S. Holder's tax basis for the Subordinated Securities to the extent thereof and then as capital gain.

In the event that a U.S. Holder does not make a timely QEF election, then except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the Subordinated Securities may constitute "excess distributions", taxable as previously described. See "—Investment in a Passive Foreign Investment Company". In that event, except to the extent that distributions may be attributable to amounts previously taxed to the U.S. Holder pursuant to the CFC rules or are treated as "excess distributions", distributions on the Subordinated Securities generally would be treated as dividends to the extent paid out of the Issuer's current or accumulated earnings and profits not allocated to any "excess distributions", then as a nontaxable reduction to the U.S. Holder's tax basis for the Subordinated Securities to the extent thereof and then as capital gain. Dividends on the Subordinated Securities would not be "qualified dividend income" and therefore would be taxable to individuals, trusts and estates as ordinary income rather than at the 15% net capital gain rate. Dividends received from a foreign corporation generally will be treated as income from sources outside the United States for U.S. foreign tax credit limitation purposes. However, if U.S. Holders collectively own (directly or constructively) 50% or more (measured by vote or value) of the Subordinated Securities, a percentage of the dividend income equal to the proportion of the Issuer's earnings and profits from sources within the United States generally will be treated as income from sources within the United States for such purposes.

Disposition of the Subordinated Securities. In general, a U.S. Holder of a Subordinated Security will recognize gain or loss upon the sale, exchange, redemption, retirement or other taxable disposition of a

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Subordinated Security equal to the difference between the amount realized and such U.S. Holder's adjusted tax basis in the Subordinated Security. Except as discussed below, such gain or loss will be long-term capital gain or loss if the U.S. Holder held the Subordinated Security for more than one year at the time of the disposition. In certain circumstances, U.S. Holders who are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited. Gain recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of a Subordinated Security (other than, in the case of a U.S. Holder treated as a "U.S. Shareholder", any such gain characterized as a dividend, as discussed below) generally will be treated as from sources within the United States and loss so recognized generally will offset income from sources within the United States.

Initially, a U.S. Holder's tax basis for a Subordinated Security will equal the amount paid for the Subordinated Security. Such basis will be increased by amounts taxable to such U.S. Holder by virtue of a QEF election, or by virtue of the CFC rules, as applicable, and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as a nontaxable reduction to the U.S. Holder's tax basis for the Subordinated Security (as described above).

If a U.S. Holder does not make a timely QEF election as described above, any gain realized on the sale, exchange, redemption, retirement or other taxable disposition of a Subordinated Security (or any gain deemed to accrue prior to the time a non-timely QEF election is made) will be taxed as ordinary income and subject to an additional tax reflecting a deemed interest charge under the special tax rules described above. See "—Investment in a Passive Foreign Investment Company".

Except for a limited exception applicable to individuals, if the Issuer were treated as a CFC and a U.S. Holder were treated as a "U.S. Shareholder" therein, then any gain realized by such U.S. Holder upon the disposition of Subordinated Securities, other than gain constituting an excess distribution under the PFIC rules, if applicable, would be treated as a dividend to the extent of the U.S. Holder's share of the current or accumulated earnings and profits of the Issuer. In this regard, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

Certain Reporting Requirements

A U.S. Holder of Subordinated Securities that owns (actually or constructively) at least 10% by vote or value of the Issuer (and each officer or director of the Issuer that is a U.S. citizen or resident) may be required to file an information return on IRS Form 5471. A U.S. Holder of Subordinated Securities generally is required to provide additional information regarding the Issuer annually on IRS Form 5471 if it owns (actually or constructively) more than 50% by vote or value of the Issuer. U.S. Holders should consult their own tax advisors regarding whether they are required to file IRS Form 5471.

A U.S. person (including a tax exempt entity) that purchases the Subordinated Securities for cash will be required to file an IRS Form 926 or similar form with the IRS if (a) such person owned, directly or by attribution, immediately after the transfer at least 10% by vote or value of the Issuer or (b) if the transfer, when aggregated with all transfers made by such person (or any related person) within the preceding 12 month period, exceeds $100,000. In the event a U.S. Holder fails to file any such required form, the U.S. Holder could be required to pay a penalty equal to 10% of the gross amount paid for such Subordinated Securities (subject to a maximum penalty of $100,000, except in cases involving intentional disregard). U.S. persons should consult their tax advisors with respect to this or any other reporting requirement which may apply with respect to their acquisition of the Subordinated Securities.

Tax Treatment of Tax-Exempt U.S. Holders of Securities

U.S. Holders which are tax-exempt entities ("**Tax-Exempt U.S. Holders**") will not be subject to the tax on unrelated business taxable income ("**UBTI**") with respect to interest and capital gains income derived from an investment in the Co-Issued Notes or the Class E Notes (assuming that the Class E Notes are treated as debt of the Issuer). However, a Tax-Exempt U.S. Holder that also acquires the Subordinated Securities (or, if recharacterized as equity in the Issuer, the Class E Notes) should consider whether interest

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it receives with respect to the Securities may be treated as UBTI under rules governing certain payments received from controlled entities.

A Tax-Exempt U.S. Holder generally will not be subject to the tax on UBTI with respect to regular distributions or "excess distributions" (defined above under "—Tax Treatment of U.S. Holders of Subordinated Securities—Investment in a Passive Foreign Investment Company") on the Subordinated Securities. A Tax-Exempt U.S. Holder which is not subject to tax on UBTI with respect to "excess distributions" may not make a QEF election. In addition, a Tax-Exempt U.S. Holder which is subject to the rules relating to "controlled foreign corporations" with respect to the Subordinated Securities (or, if recharacterized as equity in the Issuer, the Class E Notes) generally should not be subject to the tax on UBTI with respect to income from such Subordinated Securities (or the Class E Notes).

Notwithstanding the discussion in the preceding two paragraphs, a Tax-Exempt U.S. Holder which incurs "acquisition indebtedness" (as defined in Section 514(c) of the Code) with respect to the Securities may be subject to the tax on UBTI with respect to income from the Securities to the extent that the Securities constitute "debt-financed property" (as defined in Section 514(b) of the Code) of the Tax-Exempt U.S. Holder. A Tax-Exempt U.S. Holder subject to the tax on UBTI with respect to income from the Subordinated Securities (or, if recharacterized as equity in the Issuer, the Class E Notes) will be taxed on "excess distributions" in the manner discussed above under "—Tax Treatment of U.S. Holders of Subordinated Securities—Investment in a Passive Foreign Investment Company". Such a Tax-Exempt U.S. Holder will be permitted, and should consider whether, to make a QEF election with respect to the Issuer as discussed above.

Tax-Exempt U.S. Holders should consult their own tax advisors regarding an investment in the Securities.

Tax Return Disclosure and Investor List Requirements

Any person that files a U.S. federal income tax return or U.S. federal information return and participates in a "reportable transaction" in a taxable year is required to disclose certain information on IRS Form 8886 (or its successor form) attached to such person's U.S. tax return for such taxable year (and also file a copy of such form with the IRS's Office of Tax Shelter Analysis) and to retain certain documents related to the transaction. In addition, under these regulations, under certain circumstances, certain organizers and sellers and other advisors with respect to a "reportable transaction" will be required to file reports with the IRS and maintain lists of participants in the transaction containing identifying information, retain certain documents related to the transaction, and furnish those lists and documents to the IRS upon request. There are significant penalties for failure to comply with these disclosure and list keeping requirements. The definition of "reportable transaction" is highly technical. However, in very general terms, a transaction may be a "reportable transaction" if, among other things, it is offered under conditions of confidentiality or it results in the claiming of a loss or losses for U.S. federal income tax purposes in excess of certain threshold amounts.

In this regard, in order to prevent the investors' purchase of Securities in this offering from being treated as offered under conditions of confidentiality, the Collateral Manager, the Issuer and the holders and beneficial owners of the Securities (and each of their respective employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transactions described herein and all materials of any kind (including opinions or other tax analyses) that are provided to them relating to such U.S. tax treatment and U.S. tax structure. For this purpose, the U.S. tax treatment of a transaction is the purported or claimed U.S. tax treatment of the transaction under applicable U.S. federal, state or local tax law, and the U.S. tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed U.S. tax treatment of the transaction under applicable U.S. federal, state or local tax law.

If the Issuer participates in a "reportable transaction", a U.S. Holder of Subordinated Securities that is a "reporting shareholder" of the Issuer will be treated as participating in the transaction and will be subject to the rules described above. Although most of the Issuer's activities generally are not expected to give rise to "reportable transactions", the Issuer nevertheless may participate in certain types of transactions that

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could be treated as "reportable transactions". A U.S. Holder of Subordinated Securities will be treated as a "reporting shareholder" of the Issuer if (i) such U.S. Holder owns 10% or more of the Subordinated Securities and makes a QEF election with respect to the Issuer or (ii) the Issuer is treated as a CFC and such U.S. Holder is a "U.S. Shareholder" (as defined above) of the Issuer. The Issuer will make reasonable efforts to make such information available.

Prospective investors in the Securities should consult their own tax advisors concerning any possible disclosure obligations under these Treasury Regulations with respect to their ownership or disposition of the Securities in light of their particular circumstances.

Tax Treatment of Non-U.S. Holders of Securities

In general, payments on the Securities to a Holder that is not, for U.S. federal income tax purposes, a U.S. Holder (a "**Non-U.S. Holder**") and gain realized on the sale, exchange, redemption, retirement or other disposition of the Securities by a Non-U.S. Holder, will not be subject to U.S. federal income or withholding tax, unless (a) such income is effectively connected with a trade or business conducted by such Non-U.S. Holder in the United States, or (b) in the case of gain, such Non-U.S. Holder is a nonresident alien individual who holds the Securities as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale, exchange, redemption, retirement or other disposition of the Securities and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires "information reporting", and may require "backup withholding", with respect to certain payments made on the Securities and the payment of the proceeds from the disposition of the Securities. Backup withholding generally will not apply to corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. Backup withholding will apply to a U.S. Holder if the U.S. Holder fails to provide certain identifying information (such as the U.S. Holder's taxpayer identification number) or otherwise comply with the applicable requirements of the backup withholding rules. The application for exemption from backup withholding for a U.S. Holder is available by providing a properly completed IRS Form W-9.

A Non-U.S. Holder of the Securities generally will not be subject to these information reporting requirements or backup withholding with respect to payments of interest or distributions on the Securities if (a) it certifies to the Trustee its status as a Non-U.S. Holder under penalties of perjury on the appropriate IRS Form W-8, and (b) in the case of a Non-U.S. Holder that is a "nonwithholding foreign partnership", "foreign simple trust" or "foreign grantor trust" as defined in the applicable U.S. Treasury Regulations under the Code, the beneficial owners of such Non-U.S. Holder also certify their status as Non-U.S. Holders under penalties of perjury on the appropriate IRS Form W-8.

The payments of the proceeds from the disposition of a Security by a Non-U.S. Holder to or through the U.S. office of a broker generally will not be subject to information reporting and backup withholding if the Non-U.S. Holder certifies its status as a Non-U.S. Holder (and, if applicable, its beneficial owners also certify their status as Non-U.S. Holders) under penalties of perjury on the appropriate IRS Form W-8, satisfies certain documentary evidence requirements for establishing that it is a Non-U.S. Holder, or otherwise establishes an exemption. The payment of the proceeds from the disposition of a Security by a Non-U.S. Holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker has certain specific types of relationships to the United States, in which case the treatment of such payment for such purposes will be as described in the following sentence. The payment of proceeds from the disposition of a Security by a Non-U.S. Holder to or through a non-U.S. office of a U.S. broker or to or through a non-U.S. broker with certain specific types of relationships to the United States generally will not be subject to backup withholding but will be subject to information reporting unless the Non-U.S. Holder certifies its status as a Non-U.S. Holder (and, if applicable, its beneficial owners also certify their status as Non-U.S. Holders) under penalties of perjury or the broker has certain documentary evidence in its files as to the Non-U.S. Holder's foreign status and the broker has no actual knowledge to the contrary.

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Backup withholding is not an additional tax and may be credited against the U.S. Holder's or Non-U.S. Holder's U.S. federal income tax liability, and then refunded to the extent of any excess thereon; provided that certain required information is furnished to the IRS. The information reporting requirements may apply regardless of whether withholding is required.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Securities is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

The following is a general summary of Cayman Islands taxation in relation to the Securities.

Under existing Cayman Islands laws:

(i) payments of principal and interest in respect of, or distributions on, the Securities will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Secured Note and gains derived from the sale of Securities will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(ii) certificates evidencing the Securities, in registered form, to which title is not transferable by delivery, will not attract Cayman Islands stamp duty. However, an instrument transferring title to a Security, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and expects to obtain an undertaking from the Governor in Cabinet of the Cayman Islands substantially in the following form:

"THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of the Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with:

Greywolf CLO I, Ltd. ("the Company")

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from the 29th day of August 2006.

GOVERNOR IN CABINET"

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The Cayman Islands does not have an income tax treaty arrangement with the United States or any other country. The Cayman Islands has entered into an information exchange agreement with the United States.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN TAX IMPLICATIONS OF AN INVESTMENT IN THE SECURITIES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

ERISA CONSIDERATIONS

The advice below was not written and is not intended to be used and cannot be used by any taxpayer for purposes of avoiding United States federal income tax penalties that may be imposed. The advice is written to support the promotion or marketing of the transaction. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The foregoing disclaimer is provided to satisfy obligations under Circular 230 governing standards of practice before the Internal Revenue Service.

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of, and that are subject to Title I of ERISA), including entities such as collective investment funds and insurance company separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Securities.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "**parties in interest**" or "**disqualified persons**") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

Governmental plans, certain church plans and non-U.S. plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state, local or other federal and non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Securities.

The U.S. Department of Labor has promulgated regulations, 29 C.F.R. Section 2510.3-101 (the "**Plan Asset Regulations**"), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA and Section 4975 of the Code, including the fiduciary responsibility provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Asset Regulations, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying

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assets, unless it is established that the entity is an "operating company" or, as further discussed below, that equity participation in the entity by "benefit plan investors" is not "significant".

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if Securities are acquired with the assets of a Plan with respect to which the Issuer, the Co-Issuer, the Initial Purchaser, the Trustee, the Collateral Manager, any seller of Collateral Obligations to the Issuer and the Co-Issuer or any of their respective Affiliates, is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Security and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption ("**PTCE**") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), and PTCE 96-23 (relating to transactions effected by in-house asset managers) ("**Investor-Based Exemptions**"). There is also a statutory exemption that may be available under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code to a party in interest that is a service provider to a Plan investing in the Securities for adequate consideration, provided such service provider is not (i) the fiduciary with respect to the Plan's assets used to acquire the Securities or an affiliate of such fiduciary or (ii) an affiliate of the employer sponsoring the Plan (the "**Service Provider Exemption**"). Adequate consideration means fair market as determined in good faith by the Plan fiduciary pursuant to regulations to be promulgated by the U.S. Department of Labor. There can be no assurance that any of these Investor-Based Exemptions or the Service Provider Exemption or any other administrative or statutory exemption will be available with respect to any particular transaction involving the ERISA Offered Securities.

Any insurance company proposing to invest assets of its general account in Securities should consider the extent to which such investment would be subject to the requirements of Title I of ERISA and Section 4975 of the Code in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA on August 20, 1996. In particular, such an insurance company should consider (i) the exemptive relief granted by the U.S. Department of Labor for transactions involving insurance company general accounts in PTCE 95-60 and (ii) if such exemptive relief is not available, whether its purchase of Securities will be permissible under the final regulations issued under Section 401(c) of ERISA. The final regulations provide guidance on which assets held by an insurance company constitute "plan assets" for purposes of the fiduciary responsibility provisions of ERISA and Section 4975 of the Code. The regulations do not exempt the assets of insurance company general accounts from treatment as "plan assets" to the extent they support certain participating annuities issued to Plans after December 31, 1998.

The Co-Issued Notes

The Plan Asset Regulations define an "equity interest" as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. As noted above in Income Tax Considerations, it is the opinion of tax counsel to the Issuer and the Co-Issuer that the Co-Issued Notes will be treated as debt for U.S. income tax purposes. Although there is little guidance on the subject, at the time of their issuance, the Co-Issued Notes should be treated as indebtedness without substantial equity features for purposes of the Plan Asset Regulations. This determination is based in part upon (i) tax counsel's opinion that the Co-Issued Notes will be classified as debt for U.S. federal income tax purposes when issued and (ii) the traditional debt features of the Co-Issued Notes, including the reasonable expectation of purchasers of the Co-Issued Notes that they will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. Based upon and subject to the foregoing and other considerations, and subject to the considerations described below, the Co-Issued Notes may be purchased by a Plan. Nevertheless, without regard to whether the Co-Issued Notes are considered equity interests, prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Co-Issued Notes are acquired with the assets of an ERISA Plan with respect to which the Issuer, the Co-Issuer, the Initial Purchaser or the Trustee or, in certain circumstances, any of their respective Affiliates, is a party in interest or a disqualified person. The Investor-

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Based Exemptions or the Service Provider Exemption may be available to cover such prohibited transactions.

By its purchase of any Co-Issued Notes, each purchaser and subsequent transferee thereof will be deemed to have represented and warranted, at the time of its acquisition and throughout the period it holds such Co-Issued Note, either that (a) it is neither a Plan nor any entity whose underlying assets include "plan assets" (within the meaning of the Plan Asset Regulations) by reason of such Plan's investment in the entity, nor a governmental, church, non-U.S. or other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase, holding and disposition of a Co-Issued Note will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church, non-U.S. or other plan, a non-exempt violation of any substantially similar law).

The Subordinated Securities and the Class E Notes

Equity participation in an issuer of Securities by "benefit plan investors" is "significant" and will cause the assets of the Issuer to be deemed the assets of an investing Plan (in the absence of another applicable Plan Asset Regulations exception) if 25% or more of the value of any class of equity interest in the Issuer is held by "benefit plan investors". Recently, the Pension Protection Act of 2006 effectively amended, by statute, the definition of "benefit plan investors" in the Plan Asset Regulations. Employee benefit plans that are not subject to Title I of ERISA and plans that are not subject to Section 4975 of the Code, such as U.S. governmental and most U.S. church plans or non-U.S. plans, are no longer considered "benefit plan investors". Accordingly, only employee benefit plans subject to Title I of ERISA or Section 4975 of the Code or an entity whose underlying assets include plan assets by reason of such plan's investment in the entity are considered in determining whether investment by "benefit plan investors" represents 25% or more of any class of equity of the Issuer. Hence, the term "benefit plan investor" includes (a) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to the provisions of Title I of ERISA, (b) a plan as defined in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code, (c) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity or (d) as such term is otherwise defined in any regulations promulgated by the U.S. Department of Labor under Section 3(42) of ERISA (collectively, "**Benefit Plan Investors**"). For purposes of making the 25% determination, the value of any equity interests held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the Issuer or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such person (each, a "**Controlling Person**"), is disregarded. Under the Plan Asset Regulations, an "affiliate" of a person includes any person, directly or indirectly through one or more intermediaries, controlling, controlled by or under common control with the person, and "control" with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person. The Subordinated Securities and the Class E Notes are considered equity investments for the purposes of applying Title I of ERISA and Section 4975 of the Code. Accordingly, purchases of (i) Subordinated Securities by Benefit Plan Investors from the Initial Purchaser or the Issuer and any subsequent purchaser will be limited to less than 25% of the value of each of all Outstanding Subordinated Securities by requiring each such purchaser to make certain representations and/or to agree to certain transfer restrictions regarding their status as Benefit Plan Investors or Controlling Persons and (ii) the Class E Notes by Benefit Plan Investors will not be permitted. Subordinated Securities either (i) held as principal by the Collateral Manager, the Trustee, any of their respective affiliates, employees of the Collateral Manager, the Trustee or any of their affiliates and any charitable foundation of any such employees (other than any of such interests held as a Benefit Plan Investor) or (ii) held by persons that have represented that they are Controlling Persons (to the extent that such a Controlling Person is not a Benefit Plan Investor), will be disregarded and will not be treated as Outstanding for purposes of determining compliance with such 25% limitation.

With respect to the U.S. Subordinated Securities or any beneficial interest therein, a purchaser will be required to represent and warrant, at the time of its acquisition and throughout the period it holds such Subordinated Security, (1) whether or not the purchaser is a Benefit Plan Investor, (2) whether or not the purchaser is a Controlling Person and (3) (a) if it is a Benefit Plan Investor, its purchase, holding and disposition of Subordinated Securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or (b) if it is a governmental, church, non-U.S. or

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other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of Subordinated Securities will not constitute or result in non-exempt violation under any such substantially similar law.

With respect to the purchase of a beneficial interest in the Regulation S Global Subordinated Securities from the Initial Purchaser or the Issuer, as the case may be, a purchaser will be required to represent and warrant , at the time of its acquisition and throughout the period it holds such Subordinated Security, (1) whether or not the purchaser is a Benefit Plan Investor, (2) whether or not the purchaser is a Controlling Person and (3) (a) if it is a Benefit Plan Investor, its purchase, holding and disposition of Subordinated Securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or (b) if it is a governmental, church, non-U.S. or other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of Subordinated Securities will not constitute or result in non-exempt violation under any such substantially similar law. Each purchaser and subsequent transferee of a beneficial interest in a Regulation S Global Subordinated Security purchased from persons other than the Initial Purchaser or the Issuer, as the case may be, will be deemed to represent that the purchaser or transferee, as the case may be, from the date on which it acquires its interest in such Subordinated Securities through and including the date on which such purchaser or transferee disposes of its interest in such Subordinated Securities, (a) is not a Benefit Plan Investor or a Controlling Person and (b) if it is a governmental, church, non-U.S. or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of Subordinated Securities will not constitute or result in a non-exempt violation under any such substantially similar law

By its purchase of any Class E Notes, each purchaser and subsequent transferee thereof will be deemed to have represented and warranted that it, from the date on when it acquires its interest in such Class E Notes through and including the date on which such purchaser or transferee disposes of its interest in such Class E Notes, (a) is not a Benefit Plan Investor and (b) if it is a governmental, church, non-U.S. or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of Class E Notes will not constitute or result in a non-exempt violation under any such substantially similar law

There can be no assurance that, despite the transfer restrictions relating to purchases by Benefit Plan Investors and Controlling Persons and the procedures to be employed by the Issuer to attempt to limit ownership by Benefit Plan Investors of the Class E Notes and the Subordinated Securities to less than 25%, Benefit Plan Investors will not in actuality own 25% or more of the outstanding Class E Notes or Subordinated Securities.

If for any reason the assets of the Issuer are deemed to be "plan assets" of a Plan subject to ERISA or Section 4975 of the Code because one or more Plans is an owner of Class E Notes or Subordinated Securities (or of a Co-Issued Note characterized as an "equity interest" in the Issuer), certain transactions that the Collateral Manager might enter into, or may have entered into, on behalf of the Issuer in the ordinary course of its business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded at significant cost to the Issuer. The Collateral Manager could be deemed to be an ERISA fiduciary and may be prevented from engaging in certain investments (as not being deemed consistent with the ERISA prudent investment standards) or engaging in certain transactions or fee arrangements because they might be deemed to cause non-exempt prohibited transactions. It also is not clear that Section 403(a) of ERISA, which limits delegation of investment management responsibilities by fiduciaries of ERISA Plans, would be satisfied.

Any Plan fiduciary or other person who proposes to use assets of any Plan to purchase any Securities should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

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The sale of any Security to a Plan, or to a person using assets of any Plan to effect its purchase, is in no respect a representation by the Issuer, the Initial Purchaser or the Collateral Manager that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

CERTAIN LEGAL INVESTMENT CONSIDERATIONS

None of the Issuer, the Co-Issuer, the Collateral Manager and the Initial Purchaser make any representation as to the proper characterization of the Securities for legal investment or other purposes, as to the ability of particular investors to purchase Securities for legal investment or other purposes or as to the ability of particular investors to purchase Securities under applicable investment restrictions. Without limiting the generality of the foregoing, none of the Issuer, the Co-Issuer, the Collateral Manager and the Initial Purchaser make any representation as to the characterization of the Securities as a U.S. domestic or foreign (non-U.S.) investment under any state insurance code or related regulations, and they are not aware of any published precedent that addresses such characterization. Notwithstanding the foregoing, the Issuers understand that certain state insurance regulators, in response to a request for guidance, may be considering the characterization (as U.S. domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any guidance or other action that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Securities) may affect the liquidity of the Securities. Accordingly, all institutions the activities of which are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Securities are subject to investment, capital or other restrictions.

SETTLEMENT AND CLEARING

Global Securities

Upon the issuance of the Global Securities, DTC or its custodian will credit, on its internal system, the respective aggregate original principal amount or number, as the case may be, of the individual beneficial interests represented by such Global Securities to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in Global Securities will be limited to persons who have accounts with DTC ("**participants**") or persons who hold interests through participants. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or Holder of the Global Securities, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Securities represented by such Global Securities for all purposes under the Indenture and such Securities. Unless DTC notifies the Issuers that it is unwilling or unable to continue as depositary for a global security or ceases to be a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act, owners of the beneficial interests in the Global Securities will not be entitled to have any portion of such Global Securities registered in their names, will not receive or be entitled to receive physical delivery of Securities in certificated form and will not be considered to be the owners or Holders of any Securities under the Indenture. The owner of a beneficial interest in a Global Security will also be entitled to receive a certificated Security in exchange for such interest if an Event of Default has occurred and is continuing. In addition, no beneficial owner of an interest in the Global Securities will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in Regulation S Global Securities directly through Clearstream or Euroclear, if they are participants in these systems, or indirectly through organizations that are participants in these systems. Clearstream and Euroclear will hold interests in the Regulation S Global Securities on behalf of their participants through their respective depositaries, which in turn will hold the interests in the

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Regulation S Global Securities in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Rule 144A Global Secured Note directly through DTC if they are participants in the system, or indirectly through organizations that are participants in the system.

Payments of the principal of and interest or distributions on Global Securities will be made to DTC or its nominee, as the registered owner thereof. None of the Issuers, the Trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments or distributions made on account of beneficial ownership interests in the Global Securities or for any notice permitted or required to be given to Holders of Securities or any consent given or actions taken by DTC as Holder of Securities. The Issuers expect that DTC or its nominee, upon receipt of any payment of principal, interest or distributions, as the case may be, in respect of a Global Security representing any Securities held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective interests in the principal amount of such Security in global form as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of interests in such Global Security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants. Payments of the principal of and interest or distributions on the Regulation S Global Securities will be made to Clearstream or Euroclear, as applicable, as indirect participants in DTC, in accordance with their respective rules and operating procedures.

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Global Securities to these persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in Global Securities to pledge its interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of its interest, may be affected by the lack of a physical certificate of the interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Securities described above, cross-market transfers between DTC participants, on the one hand, and, directly or indirectly through Euroclear or Clearstream account holders, on the other, will be effected in DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Security in DTC, and making or receiving payment in accordance with normal procedures for a same-day funds settlement applicable to DTC. Clearstream and Euroclear account holders may not deliver instructions directly to the depositaries for Clearstream or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Security from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and the credit of any transactions in interests in a Global Security settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Security by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of the Securities (including the presentation of the applicable Securities for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in a Global Security are

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credited and only in respect of that portion of the aggregate principal amount or aggregate notional amount, as applicable, of the Securities as to which the participant or participants has or have given direction.

The giving of notices and other communications by DTC to participants, by participants to persons who hold accounts with them and by such persons to Holders of beneficial interests in a Global Security will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised the Issuers as follows: DTC is a limited purpose trust company principally located under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("**indirect participants**").

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Securities among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. Neither the Issuers nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Individual Definitive Securities

If (i) DTC or any successor to DTC advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Securities" and a successor depositary is not appointed by the Issuer within 90 days, (ii) as a result of any amendment to or change in the laws or regulations of the Cayman Islands or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after the Closing Date, the Issuer or the paying agent is, or will be, required to make any deduction or withholding from any payment in respect of the Securities which would not be required if the Securities were in definitive form or (iii) upon the written request of any beneficial owner of an interest in a Global Security following the occurrence of an Event of Default, the Issuer will issue individual definitive Securities in registered form in exchange for the Global Securities. Upon receipt of such notice from DTC, the Issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the Global Securities for individual definitive Securities and cause the requested individual definitive Securities to be executed and delivered to the Registrar in sufficient quantities and authenticated by or on behalf of the Trustee for delivery to Holders of the Global Securities. Persons exchanging interests in a Global Security for individual definitive Securities will be required to provide to the Trustee, through DTC, Clearstream or Euroclear, (i) written instructions and other information required by the Issuer and the Trustee to complete, execute and deliver such individual definitive Securities, (ii) in the case of an exchange of an interest in a Rule 144A Global Secured Note, such certification as to "Qualified Institutional Buyer" status, and that such Holder is a Qualified Purchaser, as the Issuer shall require and (iii) in the case of an exchange of an interest in a Regulation S Global Security, such certification as the Issuer shall require as to non-U.S. Person status. In all cases, individual definitive Securities delivered in exchange for any Security in global form or beneficial interests therein will be registered in the names, and issued in denominations in compliance with the minimum denominations specified for the applicable Securities in global form, requested by DTC.

Individual definitive Securities will bear, and be subject to, such legend as the Issuer requires in order to assure compliance with any applicable law. Individual definitive Securities will be transferable subject to the minimum denomination applicable to such Securities, in whole or in part, and exchangeable for individual definitive Securities of the same kind, at the office of the Trustee or the office of any transfer agent, including the transfer agent in Ireland, upon compliance with the requirements set forth in the Indenture.

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Individual definitive Securities may be transferred through any transfer agent, including the transfer agent in Ireland, upon the delivery and duly completed assignment of such Securities. Upon a partial transfer of any Securities represented by the applicable definitive notes, the Trustee will issue in exchange therefor to the transferee one or more individual definitive Securities representing the amount being so transferred and will issue to the transferor one or more individual definitive Securities representing the remaining amount not being transferred. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge may be required. The Holder of a restricted individual definitive Security may transfer such Security subject to compliance with the provisions of the legend thereon. Upon the transfer, exchange or replacement of Securities bearing the legend, or upon specific request for removal of the legend on a Security, the Issuer will deliver only Securities that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Payments of principal and interest on individual definitive Secured Notes and Subordinated Securities shall be payable by wire transfer in immediately available funds to a Dollar account maintained by the Holder thereof or its nominee or, if appropriate instructions are not received at least fifteen days prior to the relevant Payment Date, by Dollar check drawn on a bank in the United States of America and sent by mail to the Registered holder thereof or, for so long as any of the Securities are listed on the Irish Stock Exchange and the rules of such Exchange shall so require, at the office of the paying agent in Ireland.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Securities. Any purchase or transfer of the Securities will be subject to the minimum denomination requirements set forth in "Summary—The Offering—Securities Issued" (except in the limited circumstances set forth in the Indenture).

Rule 144A Global Secured Notes

Each purchaser of a beneficial interest in a Rule 144A Global Secured Note will be deemed to have represented and agreed with the Issuer as follows:

(i) (A) The purchaser is a Qualified Institutional Buyer and a Qualified Purchaser, (B) the purchaser is purchasing the Secured Notes for its own account or the account of another Qualified Purchaser that is also a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, (C) the purchaser and any such account is acquiring the Secured Notes as principal for its own account for investment and not for sale in connection with any distribution thereof, (D) the purchaser and any such account was not formed solely for the purpose of investing in the Secured Notes (except when each beneficial owner of the purchaser or any such account is a Qualified Purchaser), (E) to the extent the purchaser (or any account for which it is purchasing the Secured Notes) is a private investment company formed on or before April 30, 1996, the purchaser and each such account has received the necessary consent from its beneficial owners, (F) the purchaser is not a broker-dealer that owns and invests on a discretionary basis less than $25,000,000 in securities of unaffiliated issuers, (G) the purchaser is not a pension, profit-sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants or affiliates may designate the particular investment to be made, (H) the purchaser agrees that it and each such account shall not hold such Secured Notes for the benefit of any other Person and shall be the sole beneficial owner thereof for all purposes and that it shall not sell participation interests in the Secured Notes or enter into any other arrangement pursuant to which any other Person shall be entitled to a beneficial interest in the distributions on the Secured Notes (except when each beneficial owner of the purchaser or any such account is a Qualified Purchaser), (I) the Secured Notes purchased directly or indirectly by the purchaser or any account for which it is purchasing the Secured Notes constitute an investment of no more than 40% of the purchaser's and each such account's assets (except when each beneficial owner of the purchaser or any such account is a Qualified Purchaser), (J) the purchaser and each such account is purchasing the Secured Notes in a principal amount of not less than the minimum denomination requirement for the purchaser and each such account, (K) the purchaser will provide notice of the transfer restrictions set forth in the Indenture (including the exhibits thereto) to any transferee of its

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Secured Notes, (L) the purchaser understands and agrees that the Issuer may receive a list of participants in the Secured Notes from one or more book-entry depositories and (M) the purchaser understands and agrees that any purported transfer of the Secured Notes to a purchaser that does not comply with the requirements of this paragraph (i) shall be null and void *ab initio*.

(ii) If any U.S. Person that is not both a Qualified Institutional Buyer and a Qualified Purchaser at the time it acquires an interest in a Secured Note shall become the beneficial owner of any Secured Note, (any such Person, a **"Non-Permitted Holder"**), the Issuer shall, promptly after discovery that such Person is a Non-Permitted Holder by the Issuer, the Co-Issuer or the Trustee (and notice by the Trustee or the Co-Issuer to the Issuer, if either of them makes the discovery), send notice to such Non-Permitted Holder demanding that such Non-Permitted Holder transfer its interest to a Person that is not a Non-Permitted Holder within 30 days of the date of such notice. If such Non-Permitted Holder fails to transfer its Secured Notes, the Issuer shall have the right, without further notice to the Non-Permitted Holder, to sell such Secured Notes or interest in Secured Notes to a purchaser selected by the Issuer that is not a Non-Permitted Holder on such terms as the Issuer may choose. The Issuer, an investment bank selected by the Issuer, or the Trustee at the written direction of the Issuer (and approved by the Collateral Manager) may select the purchaser by soliciting one or more bids from one or more brokers or other market professionals that regularly deal in securities similar to the Secured Notes, and selling such Secured Notes to the highest such bidder. However, the Issuer or the Trustee, at the written direction of the Issuer, may select a purchaser by any other means determined by it in its sole discretion. The Holder of each Secured Note, the Non-Permitted Holder and each other Person in the chain of title from the Holder to the Non-Permitted Holder, by its acceptance of an interest in the Secured Notes, agrees to cooperate with the Issuer and the Trustee to effect such transfers. The proceeds of such sale, net of any commissions, expenses, including fees of attorneys and agents, and taxes due in connection with such sale shall be remitted to the Non-Permitted Holder. The terms and conditions of any sale under this paragraph shall be determined in the sole discretion of the Issuer, and neither the Issuer nor the Trustee shall be liable to any Person having an interest in the Secured Notes sold as a result of any such sale or the exercise of such discretion (including for the price of such sale).

(iii) The purchaser understands and agrees that the Secured Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and the sale of the Secured Notes to the purchaser is being made in reliance on an exemption from registration under the Securities Act, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a Person whom the purchaser reasonably believes is a Qualified Institutional Buyer purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A or (ii) to a person that is not a U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and (B) in accordance with all applicable securities laws of the states of the United States. The Issuer, the Co-Issuer and the Collateral have not been registered under the Investment Company Act and, therefore, no transfer having the effect of causing the Issuer, the Co-Issuer or the Collateral to be required to be registered as an investment company under the Investment Company Act will be recognized. The Secured Notes are subject to the restrictions on transfer set forth herein and in the Indenture and the Secured Notes. The purchaser understands and agrees that any purported transfer of the Secured Notes to a purchaser that does not comply with the requirements of this paragraph (iii) shall be null and void *ab initio*.

(iv) The purchaser is not purchasing the Secured Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands and agrees that an investment in the Secured Notes involves certain risks, including the risk of loss of its entire investment in the Secured Notes under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuer, the Co-Issuer and the Secured Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Secured Notes, including an opportunity to ask questions of, and request information from, the Issuer and the Co-Issuer.

(v) In connection with the purchase of the Secured Notes: (A) none of the Issuers, the Initial Purchaser, the Trustee, the Collateral Manager, the Collateral Administrator, the Administrator or the

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Registrar (or any of their respective Affiliates) is acting as a fiduciary or financial or investment adviser for the purchaser; (B) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Trustee, the Collateral Manager, the Collateral Administrator, the Administrator or the Registrar (or any of their respective Affiliates) other than the Issuers and the Collateral Manager (with respect to the sections entitled "The Collateral Manager", and "Risk Factors—Conflicts of Interest Involving the Collateral Manager and Affiliates" in the final offering circular for such Secured Notes and any representations expressly set forth in a written agreement with such party; (C) none of the Issuers, the Initial Purchaser, the Trustee, the Collateral Manager, the Collateral Administrator, the Administrator or the Registrar (or any of their respective Affiliates) has given to the purchaser (directly or indirectly through any other Person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Secured Notes; (D) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Collateral Manager, the Trustee, the Collateral Administrator, the Administrator or the Registrar (or any of their respective Affiliates); (E) the purchaser has evaluated the terms and conditions of the purchase and sale of the Secured Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming, and willing to assume (financially and otherwise) those risks; (F) the purchaser is a sophisticated investor; and (G) if acquiring the Secured Notes for any account, the purchaser has not made any disclosure, assurance, guarantee or representation not consistent with the provisions and the requirements contained herein.

(vi) With respect to Rule 144A Global Secured Notes (other than Rule 144A Global Class E Notes), at the time of its acquisition and throughout the period it holds such Rule 144A Global Secured Note (other than a Rule 144A Global Class E Note), either (A) the purchaser is not a Plan or an entity whose underlying assets include "plan assets" (within the meaning of 29 C.F.R. § 2510.3-101) by reason of such Plan's investment in the entity or a governmental, church, non-U.S. or other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (B) if the purchaser is an entity described in (A), the purchase, holding and disposition of a Secured Note, as the case may be, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church, non-U.S. or other plan, a non-exempt violation under any substantially similar federal, state, local or non-U.S. law). Any purported transfer of a Secured Note to a purchaser that does not comply with the applicable requirements of this subclause (vi) shall be null and void *ab initio*.

(vii) The Secured Notes will bear a legend substantially to the following effect:

THE SECURED NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE SECURED NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE SECURED NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A PERSON THAT IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), THAT (U) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (V) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS

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A QUALIFIED PURCHASER), (W) UNDERSTANDS AND AGREES THAT THE ISSUERS MAY RECEIVE A LIST OF PARTICIPANTS IN THE SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES, (X) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (Y) IS NOT A PENSION, PROFIT-SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS OR AFFILIATES MAY DESIGNATE THE PARTICULAR INVESTMENT TO BE MADE AND (Z) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED ON OR BEFORE APRIL 30, 1996, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION OR EXCLUSION, (B) IN A PRINCIPAL AMOUNT OF NOT LESS THAN THE MINIMUM DENOMINATION SET FORTH IN THE INDENTURE AND (C) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO RESELL SECURITIES PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO HEREIN.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE TRUSTEE.

THE FAILURE TO PROVIDE THE ISSUER, THE TRUSTEE AND ANY PAYING AGENT WITH THE APPLICABLE U.S. FEDERAL INCOME TAX CERTIFICATIONS (GENERALLY, AN INTERNAL REVENUE SERVICE FORM W-9 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") OR AN APPLICABLE INTERNAL REVENUE SERVICE FORM W-8 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE) MAY RESULT IN U.S. FEDERAL BACK-UP WITHHOLDING FROM PAYMENTS TO THE HOLDER IN RESPECT OF THIS NOTE.

(viii) The Co-Issued Notes will also bear the following legend:

EACH HOLDER OF THIS NOTE OR INTERESTS HEREIN WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE, INCLUDING THE REPRESENTATION AND AGREEMENT THAT IF IT IS AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) WHICH IS SUBJECT TO TITLE I OF ERISA OR A PLAN (AS DEFINED IN SECTION 4975(e)(1)

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OF THE CODE AND SUBJECT TO SECTION 4975 OF THE CODE) OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" (WITHIN THE MEANING OF 29 C.F.R. § 2510.3-101) BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF THE NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH, NON U.S. OR OTHER PLAN, A NON-EXEMPT VIOLATION OF ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL OR FOREIGN LAW). ANY PURPORTED TRANSFER OF THIS NOTE TO A PURCHASER THAT DOES NOT COMPLY WITH THE ABOVE REQUIREMENTS SHALL BE NULL AND VOID *AB INITIO*.

(ix) The Class E Notes will also bear the following legend:

THIS NOTE MAY NOT BE TRANSFERRED TO (1) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA, (2) A "PLAN" AS DEFINED IN SECTION 4975(E)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (3) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR (4) A "BENEFIT PLAN INVESTOR" AS SUCH TERM IS OTHERWISE DEFINED IN ANY REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR UNDER SECTION 3(42) OF ERISA. IF A PURCHASER IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, SUCH PURCHASER SHALL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION UNDER ANY SUCH SUBSTANTIALLY SIMILAR LAW. ANY PURPORTED TRANSFER OF THIS NOTE TO A PURCHASER THAT DOES NOT COMPLY WITH THE ABOVE REQUIREMENTS SHALL BE NULL AND VOID *AB INITIO*.

(x) The purchaser understands that Executive Orders issued by the President of the United States of America, Federal regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**") and other federal laws prohibit, among other things, U.S. persons or persons under the jurisdiction of the United States from engaging in certain transactions with certain foreign countries, territories, entities and individuals, and that the lists of prohibited countries, territories, entities and individuals can be found on, among other places, the OFAC website at www.treas.gov/ofac. Neither the purchaser nor any of its Affiliates, owners, directors or officers is, or is acting on behalf of, a country, territory, entity or individual named on such lists, nor is the purchaser or any of its Affiliates, owners, directors or officers a natural person or entity with whom dealings are prohibited under any OFAC regulation or other applicable federal law or acting on behalf of such a natural person or entity.

(xi) The purchaser represents that it is not a member of the public in the Cayman Islands.

(xii) Each purchaser and subsequent transferee of a Class E Note or any interest therein shall be deemed to represent and warrant, at the time of its acquisition and throughout the period that it holds a Class E Note or any interest therein, that (A) either (1) it is not a Benefit Plan Investor, and if after its initial acquisition of a Class E Note or any interest therein, such beneficial owner determines, or it is determined by another party, that such beneficial owner is a Benefit Plan Investor, such beneficial owner will dispose of all of its Class E Notes in a manner consistent with the restrictions set forth in the applicable agreements or (2) if it is a governmental, church, non-U.S. or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of Class E Notes will not constitute or result in a non-exempt violation under any such substantially similar law and (B) it will not sell or otherwise transfer a Class E Note or interest therein to any person who is unable to satisfy the same foregoing representations in (A) above. The purchaser acknowledges that a transfer of the Class E Notes to a Benefit Plan Investor will not be permitted, and no

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such transfer will be registered under the Indenture. Any purported transfer of a Class E Note in violation of the requirements set forth in this paragraph shall be null and void *ab initio* and will not operate to transfer any rights to the transferee, notwithstanding any instructions to the contrary to the Issuers, the Trustee or any intermediary. In addition to the foregoing, the Issuer maintains the right to resell any Class E Note previously transferred to non-permitted holders in accordance with and subject to the terms of the Indenture.

(xiii) Each purchaser and each transferee of Class E Notes that (i) is not a "United States person" (as defined in Section 7701(a)(30) of the Code) and (ii) is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate Outstanding Amount of the Class E Notes will be deemed to make a representation to the effect that it is not an Affected Bank.

Regulation S Global Secured Notes

Each purchaser of a beneficial interest in a Regulation S Global Secured Note will be deemed to have represented and agreed with the Issuer (A) as set forth in paragraphs (ii) through (viii), (x) and (xi) (other than paragraphs (vi) and (viii) in the case of the Class E Notes) and solely in the case of the Class E Notes, paragraphs (ix), (xii) and (xiii), under "—Rule 144A Global Secured Notes," *mutatis mutandis*, (B) that the purchaser is not a U.S. Person and is acquiring the Secured Notes in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S and in a principal amount of not less than the applicable minimum denomination requirement and (C) either (1) such purchaser's principal place of business is not located within any Federal Reserve District of the United States Federal Reserve Bank or (2) such purchaser has satisfied and will satisfy any applicable registration or other requirements of the Board of Governors of the Federal Reserve System including Regulation U in connection with its acquisition of the Secured Notes.

U.S. Subordinated Securities

Each purchaser of a U.S. Subordinated Security will be required to represent and agree with the Issuer as follows:

(i) Subject to the last sentence of subclause (ii) below, the purchaser is (a) either (x) a Qualified Institutional Buyer or (y) an Accredited Investor and (b) (1) a Qualified Purchaser or (2) a Knowledgeable Employee.

(ii) (A) The purchaser is purchasing the Subordinated Securities for its own account or for the account of another Qualified Purchaser or Knowledgeable Employee that is also a Qualified Institutional Buyer or, subject to the last sentence of this subclause (ii), an Accredited Investor as to which the purchaser exercises sole investment discretion, (B) each of the purchaser and any such account is acquiring the Subordinated Securities as principal for its own account for investment and not for sale in connection with any distribution thereof, (C) neither the purchaser nor any such account was formed solely for the specific purpose of investing in the Subordinated Securities (except when each beneficial owner of the purchaser or each such account is a Qualified Purchaser or a Knowledgeable Employee), (D) to the extent the purchaser (or any account for which it is purchasing the Subordinated Securities) is a private investment company formed on or before April 30, 1996, the purchaser and each such account has received the necessary consent from its beneficial owners, (E) the purchaser agrees that it and each such account shall not hold such Subordinated Securities for the benefit of any other Person and shall be the sole beneficial owner thereof for all purposes and that it shall not sell participation interests in the Subordinated Securities or enter into any other arrangement pursuant to which any other Person shall be entitled to a beneficial interest in the distributions on the Subordinated Securities (except when such Person is a Qualified Purchaser), (F) the Subordinated Securities purchased directly or indirectly by the purchaser or any account for which it is purchasing the Subordinated Securities constitute an investment of no more than 40% of the purchaser's and each such account's assets (except when each beneficial owner of the purchaser and each such account is a Qualified Purchaser or a Knowledgeable Employee), (G) the purchaser and each such account is purchasing the Subordinated Securities in a notional amount of not less than the minimum denomination requirement for the purchaser and each such account (except in the limited circumstances set forth in the

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Indenture), (H) the purchaser will provide notice of the transfer restrictions set forth in the Indenture (including the exhibits thereto) to any transferee of its Subordinated Securities and (I) the purchaser understands and agrees that any purported transfer of the Subordinated Securities to a purchaser that does not comply with the requirements of the immediately preceding paragraph (i) and this paragraph (ii) shall be null and void ab initio. Notwithstanding the foregoing, in limited circumstances approved by Goldman, Sachs & Co., Subordinated Securities may be sold to Qualified Purchasers for purposes of Section 3(c)(7) of the Investment Company Act who are not Accredited Investors, provided that such purchasers have purchaser representatives (as such term is defined in Regulation D).

(iii) Other than with respect to the circumstances described in the last sentence of subclause (ii) above, if any U.S. Person that is not (i)(a) a Qualified Purchaser or (b) a Knowledgeable Employee and (ii)(a) a Qualified Institutional Buyer or (b) an Accredited Investor, shall become the owner of any Subordinated Securities (any such person, a "**Non-Permitted Holder**"), the Issuer shall, promptly after discovery that such Person is a Non-Permitted Holder by the Issuer or the Trustee (and notice by the Trustee to the Issuer, if the Trustee makes the discovery), send notice to such Non-Permitted Holder demanding that such Non-Permitted Holder transfer its interest to a Person that is not a Non-Permitted Holder within 30 days of the date of such notice. If such Non-Permitted Holder fails to transfer its Subordinated Securities, the Issuer shall have the right, without further notice to the Non-Permitted Holder, to sell such Subordinated Securities to a purchaser selected by the Issuer that is not a Non-Permitted Holder on such terms as the Issuer may choose. The Issuer, an investment bank selected by the Issuer, or the Trustee at the written direction of the Issuer (and approved by the Collateral Manager) may select a purchaser by any means determined by it in its sole discretion. The Holder of each Subordinated Security, the Non-Permitted Holder and each other Person in the chain of title from the Holder to the Non-Permitted Holder, by its acceptance of an interest in the Subordinated Securities, agrees to cooperate with the Issuer and the Trustee to effect such transfers. The proceeds of such sale, net of any commissions, expenses, including fees of attorneys and agents, and taxes due in connection with such sale shall be remitted to the Non-Permitted Holder. The terms and conditions of any sale under this paragraph shall be determined in the sole discretion of the Issuer, and neither the Issuer nor the Trustee shall be liable to any Person having an interest in the Subordinated Securities sold as a result of any such sale or the exercise of such discretion (including for the price of such sale).

(iv) The purchaser will not, at any time, offer to buy or offer to sell the Subordinated Securities by any form of general solicitation or advertising, including, but not limited to, any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over the television or radio or seminar or meeting whose attendees have been invited by general solicitations or advertising.

(v) The purchaser understands and agrees that the Subordinated Securities have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and the sale of the Subordinated Securities to the purchaser is being made in reliance on an exemption from registration under the Securities Act, and may be reoffered, resold, pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a Qualified Institutional Buyer purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A, (ii) to a person that is not a U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) to an Accredited Investor for its own account or for the account of an Accredited Investor, and in the case of subclauses (i) and (iii), to a transferee that is either (a) a Qualified Purchaser or (b) a Knowledgeable Employee and (B) in accordance with all applicable securities laws of the states of the United States. The Issuer and the Collateral have not been registered under the Investment Company Act and, therefore, no transfer having the effect of causing the Issuer or the Collateral to be required to be registered as an investment company under the Investment Company Act will be recognized. The Subordinated Securities are subject to the restrictions on transfer set forth herein, in the Indenture and in the Subordinated Securities. Before any interest in a U.S. Subordinated Security may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Issuer and the Trustee with a written certificate as to compliance with the transfer restrictions described herein. The purchaser understands and agrees that any purported transfer of the Subordinated Securities to a purchaser that does not comply with the requirements of this paragraph (v) shall be null and void *ab initio*.

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(vi) The purchaser is not purchasing the Subordinated Securities with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands and agrees that an investment in the Subordinated Securities involves certain risks, including the risk of loss of its entire investment in the Subordinated Securities under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuer and the Subordinated Securities as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Subordinated Securities, including an opportunity to ask questions of, and request information from, the Issuer.

(vii) In connection with the purchase of the Subordinated Securities: (A) none of the Issuers, the Initial Purchaser, the Trustee, the Collateral Manager (except such representation is not made by advisory clients of the Collateral Manager that purchase any Subordinated Securities, with respect to the Collateral Manager), the Collateral Administrator, the Administrator, or the Registrar (or any of their respective Affiliates) is acting as a fiduciary or financial or investment adviser for the purchaser; (B) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Trustee, the Collateral Manager, the Collateral Administrator, the Administrator or the Registrar (or any of their respective Affiliates) other than the Issuers and the Collateral Manager (with respect to the sections entitled "The Collateral Manager", and "Risk Factors—Conflicts of Interest Involving the Collateral Manager and Affiliates") in the final offering circular and any representations expressly set forth in a written agreement with such party; (C) none of the Issuers, the Initial Purchaser, the Trustee, the Collateral Manager, the Collateral Administrator, the Administrator or the Registrar (or any of their respective Affiliates) has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Subordinated Securities; (D) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Collateral Manager, the Trustee, the Collateral Administrator, the Administrator or the Registrar (or any of their respective Affiliates); (E) the purchaser has evaluated the terms and conditions of the purchase and sale of the Subordinated Securities with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and is willing to assume (financially and otherwise) those risks; (F) the purchaser is a sophisticated investor; and (G) if acquiring the Subordinated Securities for any account, the purchaser has not made any disclosure, assurance, guarantee or representation not consistent with the provisions and the requirements contained herein.

(viii) It is (or is not, as applicable) a Benefit Plan Investor or a Controlling Person. No Benefit Plan Investor or Controlling Person will be permitted to purchase Subordinated Securities, unless its purchase, holding and disposition of such Subordinated Securities, (i) will not cause participation by Benefit Plan Investors to be "significant" within the meaning of the Plan Asset Regulations and (ii) if the purchaser is a Benefit Plan Investor, the acquisition, holding and disposition of such Subordinated Securities, or any interest therein will not constitute or result in a non-exempt prohibited transaction under Title I of ERISA or Section 4975 of the Code. If the purchaser is a governmental, church or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, such purchaser shall represent and warrant that its purchase, holding and disposition of a U.S. Subordinated Security will not constitute or result in a non-exempt violation under any such substantially similar law.

In determining whether participation by Benefit Plan Investors is "significant", Subordinated Securities beneficially held by (i) the Collateral Manager, the Trustee, any of their respective Affiliates, employees of the Collateral Manager, or any of their respective Affiliates and any charitable foundation of any such employees or (ii) persons that have represented that they are Controlling Persons, will be disregarded and will not be treated as Outstanding for purposes of whether participation by Benefit Plan Investors is "significant" to the extent that persons listed in (i) or (ii) are not Benefit Plan Investors.

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The purchaser acknowledges that a transfer of the Subordinated Securities will not be permitted, and no such transfer or exchange will be registered under the Indenture, to the extent that the transfer or exchange would result in Benefit Plan Investors owning 25% or more of the Aggregate Outstanding Amount of the Subordinated Securities immediately after such transfer or exchange (determined in accordance with the Plan Asset Regulations and the Indenture).

(ix) The purchaser understands and agrees that, in order for the Issuer to satisfy its obligations to provide certain United States federal income tax information to beneficial owners of the Subordinated Securities that are United States persons within the meaning of Section 7701(a)(30) of the Code, the Initial Purchaser or any respective Affiliates thereof, the Issuer or the Trustee may provide to the Issuer's accountants information concerning the purchaser's name and address, the notional amount of Subordinated Securities owned by the purchaser and the date of such purchaser's purchase, and the information related to the tax status of the purchaser as provided by the purchaser to the Issuer pursuant to the certifications required in the Indenture.

(x) The purchaser understands and agrees that the Issuer will treat the Subordinated Securities as equity in the Issuer for United States federal, state and local income tax purposes, and the purchaser and the registered holder of the Subordinated Securities (if different from the purchaser), by acceptance of its Subordinated Securities or its interests in the Subordinated Securities, agrees to treat the Subordinated Securities as equity in the Issuer for United States federal, state and local income tax purposes.

(xi) Each purchaser or subsequent transferee of U.S. Subordinated Securities that (i) is not a "United States person" (as defined in Section 7701(a)(30) of the Code) and (ii) is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate Outstanding Amount of the Subordinated Securities will be deemed to make a representation to the effect that it is not an Affected Bank.

(xii) To the extent required by the Issuer, as determined by the Issuer or the Collateral Manager on behalf of the Issuer, the Issuer may, upon written notice to the Trustee and the Registrar, impose additional transfer restrictions on the Subordinated Securities to comply with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act) and other similar laws or regulations, including, without limitation, requiring each transferee of a beneficial interest in a Subordinated Security to make representations to the Issuer in connection with such compliance.

(xiii) Each U.S. Subordinated Security will bear a legend substantially to the following effect:

THE SUBORDINATED SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE SUBORDINATED SECURITIES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH SUBORDINATED SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN REGULATION D UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF AN ACCREDITED INVESTOR, IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A PERSON THAT IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN EACH CASE, IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING (EXCEPT AS OTHERWISE SET FORTH IN THE INDENTURE) AND, IN THE CASE OF SUBCLAUSES (1) AND (2), TO A PURCHASER THAT (X) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT OR A

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KNOWLEDGEABLE EMPLOYEE WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT, (Y) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT OR A KNOWLEDGEABLE EMPLOYEE WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT) AND (Z) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED ON OR BEFORE APRIL 30, 1996, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION OR EXCLUSION, AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO RESELL ANY SUBORDINATED SECURITIES PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

EACH PURCHASER OF THIS SUBORDINATED SECURITY ACQUIRING SUCH SUBORDINATED SECURITY FROM THE INITIAL PURCHASER OR THE ISSUER, AS THE CASE MAY BE, AND EACH SUBSEQUENT TRANSFEREE ACQUIRING SUCH SUBORDINATED SECURITY FROM PERSONS OTHER THAN THE INITIAL PURCHASER OR THE ISSUER, AS THE CASE MAY BE, WILL BE REQUIRED TO REPRESENT, WITH RESPECT TO EACH DAY IT HOLDS SUCH SUBORDINATED SECURITY OR ANY BENEFICIAL INTEREST HEREIN, (1) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA, A "PLAN" AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR A "BENEFIT PLAN INVESTOR" AS SUCH TERM IS OTHERWISE DEFINED IN ANY REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR UNDER SECTION 3(42) OF ERISA (COLLECTIVELY, "BENEFIT PLAN INVESTORS") OR (B) A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR ANY PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATE OF SUCH A PERSON AND (2) (A) IF IT IS A BENEFIT PLAN INVESTOR, ITS PURCHASE, HOLDING AND DISPOSITION OF SUBORDINATED SECURITIES WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (B) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF SUBORDINATED SECURITIES WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION UNDER ANY SUCH SUBSTANTIALLY SIMILAR LAW AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH SUBORDINATED SECURITIES OR INTERESTS THEREIN TO ANY PERSON WHO IS UNABLE TO SATISFY THE SAME FOREGOING REPRESENTATION AND WARRANTIES. NO TRANSFER OF ANY INTEREST IN THIS SUBORDINATED SECURITY WILL BE EFFECTIVE, AND THE TRUSTEE WILL NOT RECOGNIZE ANY SUCH TRANSFER IF IT WOULD RESULT IN 25% OR MORE OF THE VALUE OF THE SUBORDINATED SECURITIES BEING HELD BY BENEFIT PLAN INVESTORS. ANY PURPORTED TRANSFER OF THE SUBORDINATED SECURITIES IN VIOLATION OF THE REQUIREMENTS SET FORTH IN THIS PARAGRAPH SHALL BE NULL AND VOID *AB INITIO*.

DISTRIBUTIONS OF PRINCIPAL PROCEEDS AND INTEREST PROCEEDS TO THE HOLDER OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY ARE SUBORDINATE, IN THE CASE OF THE SUBORDINATED SECURITIES TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF

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AND INTEREST ON THE SECURED NOTES AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE REFERRED TO HEREIN.

THE FAILURE TO PROVIDE THE ISSUER, THE TRUSTEE AND ANY PAYING AGENT WITH THE APPLICABLE U.S. FEDERAL INCOME TAX CERTIFICATIONS (GENERALLY, AN INTERNAL REVENUE SERVICE FORM W-9 (OR APPLICABLE SUCCESSOR FORM) IN THE CASE OF A PERSON THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE OR AN APPLICABLE INTERNAL REVENUE SERVICE FORM W-8 (OR APPLICABLE SUCCESSOR FORM) IN THE CASE OF A PERSON THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE) MAY RESULT IN U.S. FEDERAL BACK-UP WITHHOLDING FROM PAYMENTS TO THE HOLDER IN RESPECT OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY.

(xiv) The purchaser understands that Executive Orders issued by the President of the United States of America, Federal regulations administered by OFAC and other federal laws prohibit, among other things, U.S. persons or persons under the jurisdiction of the United States from engaging in certain transactions with certain foreign countries, territories, entities and individuals, and that the lists of prohibited countries, territories, entities and individuals can be found on, among other places, the OFAC website at www.treas.gov/ofac. Neither the purchaser nor any of its Affiliates, owners, directors or officers is, or is acting on behalf of, a country, territory, entity or individual named on such lists, nor is the purchaser or any of its Affiliates, owners, directors or officers a natural person or entity with whom dealings are prohibited under any OFAC regulation or other applicable federal law or acting on behalf of such a natural person or entity.

(xv) The purchaser represents that it is not a member of the public in the Cayman Islands.

Regulation S Global Subordinated Securities

(i) Each purchaser of a beneficial interest in a Regulation S Global Subordinated Security will be deemed to have represented and agreed with the Issuer (A) as set forth in paragraphs (iii), (iv), (v), (vi), (vii), (ix) and (xi) under "—U.S. Subordinated Securities", *mutatis mutandis,* and (B) that the purchaser is not a U.S. Person and is acquiring the Subordinated Securities in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S.

(ii) The purchaser understands and agrees that the Issuer will treat the Subordinated Securities as equity in the Issuer for United States federal, state and local income tax purposes, and the purchaser and the registered Holder of the Subordinated Securities (if different from the purchaser), by acceptance of its Subordinated Securities or its interests in the Subordinated Securities, agrees to treat the Subordinated Securities as equity in the Issuer for United States federal, state and local income tax purposes.

Each purchaser or subsequent transferee of a Regulation S Global Subordinated Security that (i) is not a "United States person" (as defined in Section 7701(a)(30) of the Code) and (ii) is acquiring, directly or in conjunction with affiliates, more than 33 1/3% of the Aggregate Outstanding Amount of the Subordinated Securities will be deemed to make a representation to the effect that it is not an Affected Bank.

(iii) With respect to the purchase of Regulation S Global Subordinated Securities from the Initial Purchaser or the Issuer, as the case may be, the purchaser will be required to represent that (a) it is (or is not, as applicable) a Benefit Plan Investor or a Controlling Person and (b) (1) if it is a Benefit Plan Investor, its purchase, holding and disposition of Subordinated Securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or (2) if it is a governmental, church, non-U.S. or other plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, its purchase, holding and disposition of Subordinated Securities will not constitute or result in non-exempt violation under any such substantially similar law.

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No Benefit Plan Investor or Controlling Person will be permitted to purchase Regulation S Global Subordinated Securities from the Initial Purchaser or the Issuer, as the case may be, unless its purchase, holding and disposition of such Subordinated Securities (i) will not cause participation by Benefit Plan Investors to be "significant" within the meaning of the Plan Asset Regulations and (ii) if the purchaser is a Benefit Plan Investor, the acquisition, holding and disposition of such Securities or any interest therein will not constitute or result in a non-exempt, prohibited transaction under Title I of ERISA or Section 4975 of the Code. If a purchaser is a governmental, church, non-U.S. or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code, such purchaser shall represent and warrant or be deemed to have represented and warranted that its purchase, holding and disposition of a Regulation S Global Subordinated Security will not constitute or result in a non-exempt violation under any such substantially similar law.

In determining whether participation by Benefit Plan Investors is "significant", Subordinated Securities beneficially held by (i) the Collateral Manager, the Trustee, any of their respective Affiliates, employees of the Collateral Manager, or any of their respective Affiliates and any charitable foundation of any such employees or (ii) persons that have represented that they are Controlling Persons will be disregarded and will not be treated as Outstanding for purposes of whether participation by Benefit Plan Investors is "significant" to the extent that persons listed in (i) or (ii) are not Benefit Plan Investors.

EACH SUBSEQUENT TRANSFEREE OF A BENEFICIAL INTEREST IN A REGULATION S GLOBAL SUBORDINATED SECURITY PURCHASED FROM PERSONS OTHER THAN THE INITIAL PURCHASER OR THE ISSUER, AS THE CASE MAY BE, WILL BE DEEMED TO REPRESENT THAT THE TRANSFEREE FROM THE DATE ON WHICH IT ACQUIRES ITS INTEREST IN SUCH SUBORDINATED SECURITIES THROUGH AND INCLUDING THE DATE ON WHICH SUCH TRANSFEREE, AS THE CASE MAY BE, DISPOSES OF ITS INTEREST IN SUCH SUBORDINATED SECURITIES, (A) IS NOT A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON AND (B) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF SUBORDINATED SECURITIES WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION UNDER ANY SUCH SUBSTANTIALLY SIMILAR LAW. The transferee acknowledges that a transfer of the Subordinated Securities will not be permitted, and the Trustee will not register any such transfer of which it has actual knowledge, to the extent that the transfer would result in Benefit Plan Investors owning 25% or more of the Aggregate Outstanding Amount of the Subordinated Securities immediately after such transfer (determined in accordance with the Plan Asset Regulations and the Indenture). Any purported transfer of a beneficial interest in a Regulation S Global Subordinated Security in violation of the requirements set forth in this paragraph shall be null and void *ab initio*.

(iv) Each Regulation S Global Subordinated Security will bear a legend substantially to the following effect:

THE SUBORDINATED SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE SUBORDINATED SECURITIES IN RESPECT OF WHICH THIS SECURITY HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE SUBORDINATED SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN REGULATION D UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF AN ACCREDITED INVESTOR, IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A PERSON THAT IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE

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TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN EACH CASE, IN A NOTIONAL AMOUNT OF NOT LESS THAN $100,000 FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING (EXCEPT AS OTHERWISE SET FORTH IN THE INDENTURE) AND, IN THE CASE OF SUBCLAUSES (1) AND (2), TO A PURCHASER THAT (W) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT OR A KNOWLEDGEABLE EMPLOYEE WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT, (X) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT OR A KNOWLEDGEABLE EMPLOYEE WITHIN THE MEANING OF RULE 3c-5 OF THE INVESTMENT COMPANY ACT), (Y) UNDERSTANDS AND AGREES THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS IN THE SUBORDINATED SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (Z) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED ON OR BEFORE APRIL 30, 1996, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION OR EXCLUSION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO RESELL SUBORDINATED SECURITIES PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

EACH PURCHASER OF THIS SUBORDINATED SECURITY ACQUIRING SUCH SUBORDINATED SECURITY FROM THE INITIAL PURCHASER OR THE ISSUER, AS THE CASE MAY BE, WILL BE REQUIRED TO REPRESENT, WITH RESPECT TO EACH DAY IT HOLDS SUCH SUBORDINATED SECURITY OR ANY BENEFICIAL INTEREST HEREIN, (1) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA, A "PLAN" AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") THAT IS SUBJECT TO SECTION 4975 OF THE CODE, ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR A "BENEFIT PLAN INVESTOR" AS SUCH TERM IS OTHERWISE DEFINED IN ANY REGULATIONS PROMULGATED BY THE U.S. DEPARTMENT OF LABOR UNDER SECTION 3(42) OF ERISA (COLLECTIVELY, "BENEFIT PLAN INVESTORS") OR (B) A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR ANY PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO SUCH ASSETS, OR ANY AFFILIATE OF SUCH A PERSON AND (2) (A) IF IT IS A BENEFIT PLAN INVESTOR, ITS PURCHASE, HOLDING AND DISPOSITION OF SUBORDINATED SECURITIES WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR (B) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF SUBORDINATED SECURITIES WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION UNDER ANY SUCH SUBSTANTIALLY SIMILAR LAW AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH SUBORDINATED SECURITIES OR INTERESTS THEREIN TO ANY PERSON WHO IS UNABLE TO SATISFY THE SAME FOREGOING REPRESENTATION AND WARRANTIES. EACH PURCHASER OF THIS SUBORDINATED SECURITY FROM PERSONS OTHER THAN THE INITIAL PURCHASER OR THE ISSUER, AS THE CASE MAY BE, WILL BE DEEMED TO REPRESENT AND WARRANT THAT, FROM THE DATE ON WHICH IT ACQUIRES ITS INTEREST IN SUCH SUBORDINATED SECURITY THROUGH

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AND INCLUDING THE DATE ON WHICH SUCH PURCHASER DISPOSES OF ITS INTEREST IN SUCH SUBORDINATED SECURITY, (I) IT IS NOT (A) A BENEFIT PLAN INVESTOR OR (B) A CONTROLLING PERSON AND (II) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE, ITS PURCHASE, HOLDING AND DISPOSITION OF THIS SUBORDINATED SECURITY WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION UNDER ANY SUCH SUBSTANTIALLY SIMILAR LAW. NO TRANSFER OF ANY INTEREST IN THIS SUBORDINATED SECURITY WILL BE EFFECTIVE, AND THE TRUSTEE WILL NOT RECOGNIZE ANY SUCH TRANSFER IF IT WOULD RESULT IN 25% OR MORE OF THE VALUE OF THE SUBORDINATED SECURITIES BEING HELD BY BENEFIT PLAN INVESTORS. EACH BENEFICIAL OWNER OF THIS SUBORDINATED SECURITY WILL BE REQUIRED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE. ANY PURPORTED TRANSFER OF THE SUBORDINATED SECURITIES IN VIOLATION OF THE REQUIREMENTS SET FORTH IN THIS PARAGRAPH SHALL BE NULL AND VOID *AB INITIO*.

ANY TRANSFER, PLEDGE OR OTHER USE OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY SUBORDINATED SECURITIES ISSUED ARE REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

DISTRIBUTIONS OF PRINCIPAL PROCEEDS AND INTEREST PROCEEDS TO THE HOLDER OF THE SUBORDINATED SECURITIES REPRESENTED HEREBY ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE REFERRED TO HEREIN.

THE FAILURE TO PROVIDE THE ISSUER, THE TRUSTEE AND ANY PAYING AGENT WITH THE APPLICABLE U.S. FEDERAL INCOME TAX CERTIFICATIONS (GENERALLY, AN INTERNAL REVENUE SERVICE FORM W-9 (OR APPLICABLE SUCCESSOR FORM) IN THE CASE OF A PERSON THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE OR AN APPROPRIATE INTERNAL REVENUE SERVICE FORM W-8 (OR APPLICABLE SUCCESSOR FORM) IN THE CASE OF A PERSON THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE) MAY RESULT IN U.S. FEDERAL BACK-UP WITHHOLDING FROM PAYMENTS TO THE HOLDER IN RESPECT OF THIS SECURITY.

LISTING AND GENERAL INFORMATION

1. Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for this Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Securities to be admitted to the *Official List* and to trading on its regulated market. Such approval relates only to Securities which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC. This document is considered an advertisement for purposes of applicable measures implementing E.U. Directive 2003/71/EC. Upon listing on the Irish Stock Exchange being granted, a "prospectus" prepared pursuant to the Prospectus Directive will be published, which can be obtained from the Issuer. There can be no assurance that such listing will be approved or maintained. See "Risk Factors—

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Irish Stock Exchange Listing". The Issuers have been advised by Arthur Cox Listing Services Limited (in such capacity, the "**Irish Listing Agent**") that the estimated upfront fees and expenses for obtaining such listing will be approximately €15,190 and the estimated ongoing expenses for maintaining such listing will be approximately €2,250 per annum.

2. Copies of the Certificate of Incorporation and Memorandum and Articles of Association of the Issuer, the Certificate of Incorporation and By-laws of the Co-Issuer, the Administration Agreement, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Securities, the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Co-Issued Notes, the Indenture, the Collateral Management Agreement and any Hedge Agreements will be available in electronic form for inspection in the City of Houston, Texas at the office of the Trustee and at the office of the paying agent for the Securities in Ireland for so long as the Securities are listed on the Irish Stock Exchange.

3. Since the date of establishment, there has been no significant change in the financial or trading position of the Issuer or the Co-Issuer and no annual report or accounts have been prepared as of the date of this document. Since incorporation, the Issuers have not commenced trading, established any accounts or declared any dividends, except for the transactions described herein.

4. The Issuers are not involved in any legal, arbitration or governmental proceedings relating to claims on amounts which are material in the context of the issue of the Securities, nor, so far as each of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

5. The issuance of the Securities will be authorized by the Board of Directors of the Issuer by resolution passed on or before the Closing Date. The issuance of the Co-Issued Notes will be authorized by the sole Director of the Co-Issuer by resolution on or before the Closing Date.

6. The Securities sold to Persons that are not U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act represented by Regulation S Global Securities are expected to be accepted for clearance through Clearstream and Euroclear. The Secured Notes sold to Persons that are Qualified Institutional Buyers/Qualified Purchasers under the Securities Act and represented by Rule 144A Global Secured Notes have been accepted for clearance through DTC. The CUSIP Numbers, Common Codes and International Securities Identification Numbers (ISIN) for the Securities represented by Rule 144A Global Secured Notes and Regulation S Global Securities are as indicated in the chart "Summary—The Offering—Securities Issued," as applicable.

7. For so long as any of the Securities are listed on the Irish Stock Exchange and the rules of such Exchange shall so require, the Issuer will inform the Irish Stock Exchange and publish a notice in an authorized newspaper, which is expected to be on the *Official List*, if the ratings assigned to any of the Securities are reduced or withdrawn.

8. The Securities representing the U.S. Subordinated Securities will bear the identification numbers as indicated in the chart "Summary—The Offering—Securities Issued," as applicable.

9. The Issuers do not intend to publish annual reports and accounts. The Indenture, however, requires the Issuers to provide written confirmation to the Trustee on an annual basis that no Event of Default or other matter which is required to be brought to the Trustee's attention has occurred. Copies of such confirmation will be available for inspection at the offices of the Issuer and Co-Issuer and in the City of Houston, Texas at the office of the Trustee and at the office of the paying agent for the Securities in Ireland for so long as the Securities are listed on the Irish Stock Exchange.

10. References to website addresses herein do not form part of the Offering Circular for the purposes of listing the Securities on the Irish Stock Exchange.

UNDERWRITING

Subject to the terms and conditions set forth in the Purchase Agreement, the Issuers, with respect to the Co-Issued Notes, and the Issuer, with respect to the Subordinated Securities, have agreed to sell, on the

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Closing Date, and the Initial Purchaser has agreed to purchase $2,000,000 in Aggregate Outstanding Amount of the Class S Notes, $365,000,000 in Aggregate Outstanding Amount of the Class A Notes, $22,500,000 in Aggregate Outstanding Amount of the Class B Notes, $25,000,000 in Aggregate Outstanding Amount of the Class C Notes, $30,000,000 in Aggregate Outstanding Amount of the Class D Notes, $17,500,000 in Aggregate Outstanding Amount of the Class E Notes and $40,000,000 in Aggregate Outstanding Amount of the Subordinated Securities.

Under the terms and conditions of the Purchase Agreement, the Initial Purchaser is committed to take and pay for all the Securities to be offered by it, if any are taken. Under the terms and conditions of the Purchase Agreement, the Initial Purchaser will be entitled to (i) an underwriting discount on the Securities, and (ii) a fixed structuring fee based upon the aggregate principal or notional amount, as applicable, of the Securities. After the Securities are released for sale, the Initial Purchaser may change the offering price and other selling terms. The Initial Purchaser may allow a concession, not in excess of their respective underwriting discounts, to certain brokers or dealers.

The Securities have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. Person or a U.S. resident (as determined for purposes of the Investment Company Act, a **"U.S. Resident"**) except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuers have been advised by the Initial Purchaser that it proposes to resell the Securities, in each case outside the United States through their agents to Persons that are not U.S. Persons in offshore transactions in reliance on Regulation S and in accordance with applicable law. In addition, the Issuers have been advised by the Initial Purchaser that it proposes to resell the Securities to U.S. Persons and in the United States in reliance on Rule 144A or another exemption under the Securities Act, but only to Qualified Institutional Buyers (or, with respect to the U.S. Subordinated Securities, Accredited Investors) purchasing for their own accounts or for the accounts of Qualified Institutional Buyers (or, with respect to the U.S. Subordinated Securities, Accredited Investors) each of which purchasers or accounts is a Qualified Purchaser (or, with respect to the U.S. Subordinated Securities, a Knowledgeable Employee). Notwithstanding the foregoing, in limited circumstances approved by the Initial Purchaser, Subordinated Securities may be sold to Qualified Purchasers for purposes of Section 3(c)(7) of the Investment Company Act who are not Accredited Investors, provided that such purchasers have purchaser representatives (as such term is defined in Regulation D). The offering price and the Initial Purchaser's underwriting discount will be the same for the Regulation S Global Securities, the Rule 144A Global Secured Notes and the U.S. Subordinated Securities, as applicable, within each Class of Securities. Any offer or sale of Rule 144A Global Secured Notes or U.S. Subordinated Securities in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act will be made by broker-dealers who are registered as such under the Exchange Act. After the Securities are released for sale, the offering price and other selling terms may from time to time be varied by the Initial Purchaser.

The Initial Purchaser has acknowledged and agreed that it will not offer, sell or deliver any Securities sold pursuant to Regulation S to, or for the account or benefit of, any U.S. Person or a U.S. Resident as part of their distribution at any time and that the Initial Purchaser will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which they sell Securities pursuant to Regulation S a confirmation or other notice setting forth the prohibition on offers and sales of Securities sold pursuant to Regulation S within the United States or to, or for the account or benefit of, any U.S. Person or a U.S. Resident.

With respect to the Securities initially sold pursuant to Regulation S, until the expiration of 40 days after the commencement of the distribution of the offering of Securities by the Initial Purchaser, an offer or sale of such Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

In connection with the issue of the Securities, the Initial Purchaser (the **"Stabilising Manager"**) (or persons acting on behalf of the Stabilising Manager) may over-allot Securities (*provided* that the aggregate

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principal amount of Securities allotted does not exceed 105 per cent. of the aggregate principal amount of the Securities) or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Closing Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities.

The Initial Purchaser has represented, warranted and agreed that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of FSMA does not apply to the Issuers; and (ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by them in relation to the Securities in, from or otherwise involving the United Kingdom.

The Securities may not be offered, sold or transferred to the public in a Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") prior to the publication of a prospectus in relation to the Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, make an offer of Securities to the public in that Relevant Member State at any time: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this paragraph, the expression an "offer of Securities to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The Initial Purchaser has acknowledged and agreed that the Securities have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

The Initial Purchaser has agreed that it has not made and will not make any invitation to the public in the Cayman Islands to purchase any of the Securities.

Buyers of Securities pursuant to Regulation S sold by Goldman Sachs International, as the agent of the Initial Purchaser, may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuers or the Securities, in any jurisdiction where action for such purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Securities may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

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The Securities are a new issue of securities with no established trading market. The Issuers have been advised by the Initial Purchaser that the Initial Purchaser intends to make a market in the Securities but the Initial Purchaser is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Securities. See "Risk Factors—Certain Conflicts of Interest".

Material portions of certain Classes of Securities may be purchased by other structured vehicles, which may result in less liquidity in such Classes in the secondary market.

Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC, for this Offering Circular to be approved. Application has been made to the Irish Stock Exchange for the Securities to be admitted to the *Official List* and to trading on its regulated market. There can be no assurance that such listing will be approved or maintained.

The Issuers have agreed to indemnify the Initial Purchaser, the Collateral Manager, the Administrator and the Trustee against certain liabilities, including, but not limited to, liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof. In addition, the Issuers have agreed to reimburse the Initial Purchaser for certain of its expenses.

LEGAL MATTERS

Certain legal matters will be passed upon for the Issuers and the Initial Purchaser by McKee Nelson LLP, New York, New York. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder. Certain legal matters will be passed upon for the Collateral Manager by Sidley Austin LLP, New York, New York.

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GLOSSARY OF DEFINED TERMS

"Accredited Investor": An "accredited investor" as defined in Regulation D.

"Accrued Interest Collateral Obligation": Any Collateral Obligation whose sale price customarily includes accrued but unpaid interest.

"Accumulation Period": The period prior to the Closing Date during which the Issuer acquires Collateral Obligations.

"Additional Issuance Date": In respect of each subclass of additional Subordinated Securities as set forth under "Description of the Securities—The Indenture—Additional Issuance", the date on which such subclass of Subordinated Securities is issued.

"Administrative Expenses": Amounts (other than any Reserved Expenses) due or accrued with respect to any Payment Date to:

(i) the Trustee pursuant to the Indenture;

(ii) the Collateral Administrator under the Collateral Administration Agreement;

(iii) any fees, costs, or expenses (including without limitation, any indemnity payments but excluding the Collateral Management Fee) under the Collateral Management Agreement;

(iv) the Independent accountants, agents and counsel of the Issuers for fees, including retainers, and expenses;

(v) the Rating Agencies for fees and expenses in connection with rating the Secured Notes, for conducting on-going surveillance of the Secured Note ratings, and for providing and maintaining credit estimates for certain Collateral Obligations included in the Collateral Portfolio;

(vi) the Irish Paying Agent under the Irish Paying Agency Agreement;

(vii) any other Person in respect of any governmental fee, including all filing, registration and annual return fees payable to the Cayman Islands government and registered office fees, charges or taxes (other than withholding taxes);

(viii) without duplication, any Person in respect of any other reasonable fees or expenses of the Issuer (including in respect of any indemnity obligations, if applicable) not prohibited under the Indenture (including, without limitation, any monies owed to the Administrator under the Administration Agreement) and any reports and documents delivered pursuant to or in connection with the Indenture and the Securities;

(ix) any fees, costs or expenses (including, without limitation, any indemnity payments) in connection with any Securities Lending Agreement; and

(x) any fees, costs or expenses (including, without limitation, any indemnity payments, but excluding any Hedge Payment Amount or any applicable termination payments) in connection with any Hedge Agreement.

"Affiliate" or **"Affiliated"**: With respect to a Person, (i) any other Person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such Person or (ii) any other Person who is a director, officer or employee (a) of such Person, (b) of any subsidiary or parent company of such Person or (c) of any Person described in subclause (i) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (i) to vote more than 50% of the securities having ordinary voting power for the election of directors of any such Person or (ii) to direct or cause the direction of the management and

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policies of such Person whether by contract or otherwise. With respect to the Issuers, this definition shall exclude the Administrator, its Affiliates and any other special purpose vehicle to which the Administrator is or will be providing administrative services and/or acting as Share Trustee, as a result solely of the Administrator acting in such capacity or capacities.

"**Aggregate Funded Spread**": As of any date of determination, the sum of the products obtained by multiplying (as applicable):

(i) (a) in the case of each Floating Rate Collateral Obligation (excluding any Defaulted Obligation and any Deferrable Interest Obligation to the extent of any non-cash interest and the unfunded portion of any Revolving Credit Facility or Delayed Funding Term Loan) that bears interest at a spread over a London interbank offered rate-based index, the stated interest rate spread on such Floating Rate Collateral Obligation above such index;

(b) in the case of each Floating Rate Collateral Obligation (excluding any Defaulted Obligation and any Deferrable Interest Obligation to the extent of any non cash interest and the unfunded portion of any Revolving Credit Facility or Delayed Funding Term Loan) that bears interest at a spread over an index other than a London interbank offered rate based index, the excess of the sum of such spread and such index then in effect as of such date over LIBOR calculated with respect to the Secured Notes then in effect as of such date; and

(c) in the case of each Fixed Rate Collateral Obligation (excluding any Defaulted Obligation and any Deferrable Interest Obligation to the extent of any non cash interest and the unfunded portion of any Revolving Credit Facility or Delayed Funding Term Loan), the excess of the coupon rate on such Fixed Rate Collateral Obligation above LIBOR calculated with respect to the Secured Notes then in effect as of such date (which spread or excess in the case of clause (b) or (c) may be expressed as a negative percentage); by

(ii) the Aggregate Principal Amount of each such Collateral Obligation that is not a Revolving Credit Facility or Delayed Funding Term Loan and the funded portion of each such Revolving Credit Facility or Delayed Funding Term Loan, in each case as of such date.

"**Aggregate Interest Reserve Distribution Amount**": With respect to any Payment Date, the sum of all Interest Reserve Distribution Amounts as of such Payment Date; *provided* that the Aggregate Interest Reserve Distribution Amount on any Payment Date shall not exceed the Interest Reserve Amount as of such Payment Date.

"**Aggregate Outstanding Amount**": When used with respect to any or all of the Securities, (i) the aggregate principal or notional amount of such Securities Outstanding on the date of determination plus (ii) in the case of the Class C Notes, the Class D Notes and the Class E Notes, for purposes other than determining whether a sufficient principal amount of the Class C Notes, the Class D Notes or the Class E Notes has voted with respect to matters relating to the Indenture or the Collateral Management Agreement, any related Deferred Interest.

"**Aggregate Principal Amount**": When used with respect to any or all of the Collateral Obligations, Eligible Investments or cash, the aggregate of the Principal Balances of such Collateral Obligations, Eligible Investments or cash on the date of determination.

"**Aggregate Underlying Undrawn Amount**": At any time of determination, the unfunded portion of all Revolving Credit Facilities and Delayed Funding Term Loans held by the Issuer at such time.

"**Aggregate Unfunded Spread**": As of any date of determination, the products obtained by multiplying (i) for each Revolving Credit Facility or Delayed Funding Term Loan (other than a Revolving Credit Facility or Delayed Funding Term Loan that is a Defaulted Obligation), the commitment fee and/or facility fee then in effect as of such date and (ii) the undrawn commitments of each such Revolving Credit Facility or Delayed Funding Term Loan as of such date.

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"**Applicable Period**": For the first Interest Accrual Period, the period from and including the Closing Date to but excluding the first Scheduled Payment Date and for each Interest Accrual Period thereafter, three months (except with respect to the last Applicable Period, the period from and including the immediately preceding Scheduled Payment Date to but excluding the Stated Maturity or the Redemption Date, as applicable).

"**Assignment**": An interest in a loan acquired directly by way of sale or assignment.

"**Bank**": The Bank of New York Trust Company, National Association, a limited purpose national banking association with trust powers, but in its individual capacity and not as Trustee, and any successor thereto.

"**Bankruptcy Code**": The United States Bankruptcy Code, as set forth in Title 11 of the United States Code, as amended.

"**Bivariate Risk Obligation**": (i) A Collateral Obligation that is loaned pursuant to a Securities Lending Agreement, (ii) a Synthetic Security, (iii) a Participation or (iv) an obligation of a Non-U.S. Obligor organized under the laws of a sovereign jurisdiction, the foreign currency rating of which is below "AA" by S&P.

"**Business Day**": Any day other than (i) Saturday or Sunday or (ii) a day on which commercial banking institutions are authorized by law, regulation or executive order to close in (a) New York, New York, (b) Houston, Texas, (c) solely with respect to the calculation of LIBOR, London, England, and (d) with respect to matters relating solely to the Irish Stock Exchange, Dublin, Ireland.

"**Caa/CCC Collateral Obligation**": Any Collateral Obligations with a Moody's Default Probability Rating of "Caa1" or lower or with an S&P Rating of "CCC+" or lower; it being understood and agreed that, notwithstanding any provision of the Indenture, the foregoing definition of "Caa/CCC Collateral Obligation" shall specifically exclude any Defaulted Obligation or Discount Collateral Obligation.

"**CDO Security**": Any collateralized debt obligation (cashflow or synthetic or a combination thereof), whose underlying collateral consists primarily of bank loans or any other similar collateral.

"**Class**": All of the Securities having the same priority and the same Stated Maturity.

"**Class A Break-even Default Rate**": As of any Measurement Date, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, as determined through application by the Collateral Manager of the S&P CDO Monitor, which, after giving effect to S&P's assumptions on recoveries on defaulted securities and timing of such recoveries and to the Priority of Payments, will result in sufficient funds remaining for the payment of the Class A Notes in full by their Stated Maturity and the timely payment of interest on the Class A Notes.

"**Class A Interest Distribution Amount**": With respect to any Payment Date, an amount equal to the sum of:

(a) the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period on the Aggregate Outstanding Amount of the Class A Notes as of the first day of such Interest Accrual Period;

(b) to the extent lawful and enforceable, the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period, on any unpaid Defaulted Interest relating to the Class A Notes; and

(c) any unpaid Defaulted Interest relating to the Class A Notes.

"**Class A Loss Differential**": As of any Measurement Date, the rate calculated by subtracting the Class A Scenario Default Rate at such time from the Class A Break-even Default Rate at such time.

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"**Class A Note Interest Amount**": As to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $1,000 principal amount of the Class A Notes.

"**Class A Notes**": The Class A Floating Rate Notes having the applicable Note Interest Rate and Stated Maturity as set forth under "Summary—The Offering—Securities Issued," including any additional Class A Notes issued as set forth under "Description of the Securities—The Indenture—Additional Issuance".

"**Class A Par Value Ratio**": On any Measurement Date, the Par Value Ratio as calculated with respect to the Class A Notes.

"**Class A Scenario Default Rate**": As of any Measurement Date, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with a rating of "AAA" by S&P as determined by application of the S&P CDO Monitor at such time.

"**Class A/B Interest Coverage Ratio**": On the Second Determination Date and any subsequent Measurement Date, the Interest Coverage Ratio as calculated with respect to the Class A Notes and the Class B Notes.

"**Class A/B Interest Coverage Test**": A test satisfied as of the Second Determination Date and any subsequent Measurement Date if the Class A/B Interest Coverage Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

"**Class A/B Par Value Ratio**": On any Measurement Date, the Par Value Ratio as calculated with respect to the Class A Notes and the Class B Notes.

"**Class A/B Par Value Test**": A test satisfied as of the Effective Date and any subsequent Measurement Date if the Class A/B Par Value Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

"**Class B Break-even Default Rate**": As of any Measurement Date, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, as determined through application by the Collateral Manager of the S&P CDO Monitor, which, after giving effect to S&P's assumptions on recoveries on defaulted securities and timing of such recoveries and to the Priority of Payments, will result in sufficient funds remaining for the payment of the Class B Notes in full by their Stated Maturity and the timely payment of interest on the Class B Notes.

"**Class B Interest Distribution Amount**": With respect to any Payment Date, an amount equal to the sum of:

(a) the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period on the Aggregate Outstanding Amount of the Class B Notes as of the first day of such Interest Accrual Period;

(b) to the extent lawful and enforceable, the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period, on any unpaid Defaulted Interest relating to the Class B Notes; and

(c) any unpaid Defaulted Interest relating to the Class B Notes.

"**Class B Loss Differential**": As of any Measurement Date, the rate calculated by subtracting the Class B Scenario Default Rate at such time from the Class B Break-even Default Rate at such time.

"**Class B Note Interest Amount**": As to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $1,000 principal amount of the Class B Notes.

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"**Class B Notes**": The Class B Floating Rate Notes having the applicable Note Interest Rate and Stated Maturity as set forth under "Summary—The Offering—Securities Issued," including any additional Class B Notes issued as set forth under "Description of the Securities—The Indenture—Additional Issuance".

"**Class B Scenario Default Rate**": As of any Measurement Date an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with a rating of "AA" by S&P as determined by application of the S&P CDO Monitor at such time.

"**Class C Break-even Default Rate**": As of any Measurement Date, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, as determined through application by the Collateral Manager of the S&P CDO Monitor, which, after giving effect to S&P's assumptions on recoveries on defaulted securities and timing of such recoveries and to the Priority of Payments, will result in sufficient funds remaining for the payment of the Class C Notes in full by their Stated Maturity and the ultimate payment of interest on the Class C Notes.

"**Class C Interest Coverage Ratio**": On the Second Determination Date and any subsequent Measurement Date, the Interest Coverage Ratio as calculated with respect to the Class C Notes.

"**Class C Interest Coverage Test**": A test satisfied as of the Second Determination Date and any subsequent Measurement Date if the Class C Interest Coverage Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

"**Class C Interest Distribution Amount**": With respect to any Payment Date, an amount equal to the sum of:

(a) the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period on the Aggregate Outstanding Amount of the Class C Notes as of the first day of such Interest Accrual Period;

(b) any Deferred Interest relating to the Class C Notes;

(c) to the extent lawful and enforceable, the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period, on any unpaid Defaulted Interest relating to the Class C Notes; and

(d) any unpaid Defaulted Interest relating to the Class C Notes.

"**Class C Loss Differential**": As of any Measurement Date, the rate calculated by subtracting the Class C Scenario Default Rate at such time from the Class C Break-even Default Rate at such time.

"**Class C Note Interest Amount**": As to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $1,000 principal amount of the Class C Notes.

"**Class C Notes**": The Class C Deferrable Floating Rate Notes having the applicable Note Interest Rate and Stated Maturity as set forth under "Summary—The Offering—Securities Issued," including any additional Class C Notes issued as set forth under "Description of the Securities—The Indenture—Additional Issuance".

"**Class C Par Value Ratio**": On any Measurement Date, the Par Value Ratio as calculated with respect to the Class C Notes.

"**Class C Par Value Test**": A test satisfied as of the Effective Date and any subsequent Measurement Date if the Class C Par Value Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

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"Class C Scenario Default Rate": As of any Measurement Date an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with a rating of "A" by S&P as determined by application of the S&P CDO Monitor at such time.

"Class D Break-even Default Rate": As of any Measurement Date, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, as determined through application by the Collateral Manager of the S&P CDO Monitor, which, after giving effect to S&P's assumptions on recoveries on defaulted securities and timing of such recoveries and to the Priority of Payments, will result in sufficient funds remaining for the payment of the Class D Notes in full by their Stated Maturity and the ultimate payment of interest on the Class D Notes.

"Class D Interest Coverage Ratio": On the Second Determination Date and any subsequent Measurement Date, the Interest Coverage Ratio as calculated with respect to the Class D Notes.

"Class D Interest Coverage Test": A test satisfied as of the Second Determination Date and any subsequent Measurement Date if the Class D Interest Coverage Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

"Class D Interest Distribution Amount": With respect to any Payment Date, an amount equal to the sum of:

(a) the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period on the Aggregate Outstanding Amount of the Class D Notes as of the first day of such Interest Accrual Period;

(b) any Deferred Interest relating to the Class D Notes;

(c) to the extent lawful and enforceable, the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period, on any unpaid Defaulted Interest relating to the Class D Notes; and

(d) any unpaid Defaulted Interest relating to the Class D Notes.

"Class D Loss Differential": As of any Measurement Date, the rate calculated by subtracting the Class D Scenario Default Rate at such time from the Class D Break-even Default Rate at such time.

"Class D Note Interest Amount": As to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $1,000 principal amount of the Class D Notes.

"Class D Notes": The Class D Deferrable Floating Rate Notes having the applicable Note Interest Rate and Stated Maturity as set forth under "Summary—The Offering—Securities Issued," including any additional Class D Notes issued as set forth under "Description of the Securities—The Indenture—Additional Issuance".

"Class D Par Value Ratio": On any Measurement Date, the Par Value Ratio as calculated with respect to the Class D Notes.

"Class D Par Value Test": A test satisfied as of the Effective Date and any subsequent Measurement Date if the Class D Par Value Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

"Class D Scenario Default Rate": As of any Measurement Date, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with a rating of "BBB" by S&P as determined by application of the S&P CDO Monitor at such time.

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"**Class E Break-even Default Rate**": As of any Measurement Date, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, as determined through application by the Collateral Manager of the S&P CDO Monitor, which, after giving effect to S&P's assumptions on recoveries on defaulted securities and timing of such recoveries and to the Priority of Payments, will result in sufficient funds remaining for the payment of the Class E Notes in full by their Stated Maturity and the ultimate payment of interest on the Class E Notes.

"**Class E Interest Distribution Amount**": With respect to any Payment Date, an amount equal to the sum of:

(a) the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period on the Aggregate Outstanding Amount of the Class E Notes as of the first day of such Interest Accrual Period;

(b) any Deferred Interest relating to the Class E Notes;

(c) to the extent lawful and enforceable, the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period, on any unpaid Defaulted Interest relating to the Class E Notes; and

(d) any unpaid Defaulted Interest relating to the Class E Notes.

"**Class E Loss Differential**": As of any Measurement Date, the rate calculated by subtracting the Class E Scenario Default Rate at such time from the Class E Break-even Default Rate at such time.

"**Class E Note Interest Amount**": As to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $1,000 principal amount of the Class E Notes.

"**Class E Notes**": The Class E Deferrable Floating Rate Notes having the applicable Note Interest Rate and Stated Maturity as set forth under "Summary—The Offering—Securities Issued," including any additional Class E Notes issued as set forth under "Description of the Securities—The Indenture—Additional Issuance".

"**Class E Par Value Ratio**": On any Measurement Date, the Par Value Ratio as calculated with respect to the Class E Notes.

"**Class E Par Value Test**": A test satisfied as of the Effective Date and any subsequent Measurement Date if the Class E Par Value Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test".

"**Class E Scenario Default Rate**": As of any Measurement Date, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with a rating of "BB" by S&P as determined by application of the S&P CDO Monitor at such time.

"**Class S Break-even Default Rate**": As of any Measurement Date, the maximum percentage of defaults which the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, as determined through application by the Collateral Manager of the S&P CDO Monitor, which, after giving effect to S&P's assumptions on recoveries on defaulted securities and timing of such recoveries and to the Priority of Payments, will result in sufficient funds remaining for the payment of the Class S Notes in full by their Stated Maturity and the timely payment of interest on the Class S Notes.

"**Class S Interest Distribution Amount**": With respect to any Payment Date, an amount equal to:

(a) the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period on the Aggregate Outstanding Amount of the Class S Notes as of the first day of such Interest Accrual Period;

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(b) to the extent lawful and enforceable, the aggregate amount of interest accrued, at the applicable Note Interest Rate, during the related Interest Accrual Period, on any unpaid Defaulted Interest relating to the Class S Notes; and

(c) any unpaid Defaulted Interest relating to the Class S Notes.

"Class S Loss Differential": As of any Measurement Date, the rate calculated by subtracting the Class S Scenario Default Rate at such time from the Class S Break-even Default Rate at such time.

"Class S Note Interest Amount": As to each Interest Accrual Period, the amount of interest for such Interest Accrual Period payable in respect of each $100,000 principal amount of the Class S Notes.

"Class S Notes": The Class S Floating Rate Notes having the applicable Note Interest Rate and Stated Maturity as set forth under "Summary—The Offering— Securities Issued", including any additional such Class S Notes issued as set forth under "Description of the Securities—The Indenture—Additional Issuance".

"Class S Principal Distribution Amount": With respect to any Payment Date, the amount set forth on Annex I hereto.

"Class S Scenario Default Rate": As of any Measurement Date an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with a rating of "AAA" by S&P as determined by application of the S&P CDO Monitor at such time.

"Clearstream": Clearstream Banking, société anonyme, a corporation organized under the laws of the Grand Duchy of Luxembourg.

"Closing Date": January 18, 2007.

"Co-Issued Notes": Collectively, the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes.

"Collateral": All money, instruments, investment property and other property and rights and all Proceeds thereof that have been granted by the Issuer to the Trustee under the Indenture. For the avoidance of doubt, Collateral will not include any Warehouse Accrued Interest.

"Collateral Account": The segregated trust account or accounts into which the Issuer shall, from time to time, deposit Collateral.

"Collateral Administration Agreement": An agreement dated as of the Closing Date, among the Issuer, the Collateral Manager and the Collateral Administrator.

"Collateral Administrator": The Bank, solely in its capacity as Collateral Administrator under the Collateral Administration Agreement, until a successor Person shall have become the Collateral Administrator pursuant to the applicable provisions of the Collateral Administration Agreement, and thereafter "Collateral Administrator" shall mean such successor Person.

"Collateral Interest Amount": As of any date of determination, an amount, determined in accordance with the Indenture, equal to (i) the aggregate amount of Interest Proceeds that have been received by the Issuer or are expected by the Collateral Manager to be received by the Issuer (other than Interest Proceeds with respect to Collateral Obligations that pay interest less frequently than quarterly) in each case during the Due Period in which such date of determination occurs plus (ii) the Aggregate Interest Reserve Distribution Amount for the immediately following Payment Date, minus (iii) the amounts payable in respect of subclauses (i)(a), (ii), (iii), (iv) and (v) of "Description of the Securities—Priority of Payments—Interest Proceeds" on the following Payment Date.

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"**Collateral Management Agreement**": An agreement dated as of the Closing Date, between the Issuer and the Collateral Manager relating to the Collateral Manager's performance on behalf of the Issuer of certain investment management duties with respect to the Collateral, as amended from time to time in accordance with its terms and the terms of the Indenture.

"**Collateral Portfolio**": On any date of determination, (i) all Pledged Obligations and all cash held in any Issuer Accounts (excluding Eligible Investments and cash constituting in each case Interest Proceeds), (ii) after the occurrence of an event of default, as such term is defined under a Securities Lending Agreement, Securities Lending Collateral deposited by the related Securities Lending Counterparty in the Securities Lending Account (but not to exceed the amount of the Securities Lending Counterparty's obligations owed to the Issuer) and (iii) the amount by which the amounts deposited in the Synthetic Security Collateral Accounts exceed the amounts owed by the Issuer to Synthetic Security Counterparties.

"**Controlling Class**": The Class S Notes and the Class A Notes (voting together as a single class), until the Class S Notes and the Class A Notes have been paid in full, then the Class B Notes until the Class B Notes have been paid in full, then the Class C Notes until the Class C Notes have been paid in full, then the Class D Notes until the Class D Notes have been paid in full, and then the Class E Notes until the Class E Notes have been paid in full, and then the Subordinated Securities.

"**Corporate Family Rating**": With respect to any Collateral Obligation and the issuer or obligor thereof, (i) as of any date of determination, the "corporate family rating" as published by Moody's as of such date of determination, if applicable and available; or (ii) if Moody's has not published a "corporate family rating" for the issuer or obligor of the Collateral Obligation as of such date of determination, but has published a "corporate family rating" for a parent company or another affiliate under the management control of the entity to which it is assigned, such rating.

"**Credit Improved Criteria**": With respect to any Collateral Obligation, the occurrence of any of the following:

(i) if such Collateral Obligation has been upgraded or put on a watch list for possible upgrade above the rating in effect on the date on which such Collateral Obligation was purchased by the Issuer by either of the Rating Agencies; or

(ii) if such Collateral Obligation is a Structured Finance Security (a) it has experienced an increase of at least 1.00% in its par value ratio and an increase of at least 5.00% of the weighted average rating factor after the date on which such Structured Finance Security was purchased by the Issuer or (b) the issuer thereof has since first (1) failing any of its coverage tests (which failure must have occurred after the date on which such Structured Finance Security was purchased by the Issuer), begun passing all of its coverage tests or (2) paying interest "in kind" (which payment "in kind" must have occurred after the date on which such Structured Finance Security was purchased by the Issuer), begun making interest payments in cash; or

(iii) if such Collateral Obligation is a Collateral Obligation other than a Structured Finance Security, (X) in the case of a loan, (1) the interest rate spread over the applicable reference rate for such Collateral Obligation has been decreased since the date of purchase by 0.25% or more due to an improvement in the related borrower's financial ratios or financial results in accordance with the underlying Collateral Obligation or (2) the percentage change in price of such Collateral Obligation during the period from the date on which it was acquired by the Issuer to the date of determination is either more positive, or less negative, as the case may be, than 0.50% *plus* the percentage change in the average price of, or average price specified in, an Eligible Loan Index in respect of the same period or (Y) in the case of a bond, such Collateral Obligation changed in price during the period from the date on which it was purchased by the Issuer to the date of determination by a percentage either more positive, or less negative, as the case may be, than the percentage change in the Merrill Lynch High Yield Index, Bloomberg ticker JOAO, Average Price Option *plus* 3.00%, over the same period.

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"**Credit Improved Obligation**": Any Collateral Obligation that has significantly improved in credit quality (as determined by the Collateral Manager in its sole judgment, which judgment shall not be subject to question as a result of subsequent events).

"**Credit Risk Criteria**": With respect to any Collateral Obligation, the occurrence of any of the following:

(i) if such Collateral Obligation has been downgraded or put on a watch list for possible downgrade below the rating in effect on the date on which such Collateral Obligation was purchased by the Issuer by either of the Rating Agencies; or

(ii) if such Collateral Obligation is a Structured Finance Security (a) it has experienced a decrease of at least 1.00% in its par value ratio and a decrease of at least 5.00% of the weighted average rating factor after the date on which such Structured Finance Security was purchased by the Issuer or (b) the issuer thereof has since first (1) passing all of its coverage tests (which such issuer must have been passing on the date on which such Structured Finance Security was purchased by the Issuer), begun failing any of its coverage tests or (2) making interest payments in cash (which payments in cash such issuer must have been making on the date on which such Structured Finance Security was purchased by the Issuer), begun paying interest "in kind"; or

(iii) if such Collateral Obligation is a Collateral Obligation other than a Structured Finance Security, (X) in the case of a loan, (1) the interest rate spread over the applicable reference rate for such Collateral Obligation has been increased since the date of purchase by 0.25% or more due to a deterioration in the related borrower's financial ratios or financial results in accordance with the underlying Collateral Obligation or (2) the percentage change in price of such Collateral Obligation during the period from the date on which it was acquired by the Issuer to the date of determination is either more negative, or less positive, as the case may be, than 0.50% below the percentage change in the average price of, or average price specified in, an Eligible Loan Index in respect of the same period or (Y) in the case of a bond, such Collateral Obligation changed in price during the period from the date on which it was purchased by the Issuer to the date of determination by a percentage either more negative, or less positive, as the case may be, than the percentage change in the Merrill Lynch High Yield Index, Bloomberg ticker JOAO, Average Price Option *less* 3.00%, over the same period.

"**Credit Risk Obligation**": Any Collateral Obligation that has a significant risk of declining in credit quality or, with the lapse of time, becoming a Defaulted Obligation (as determined by the Collateral Manager in its sole judgment, which judgment shall not be subject to question as a result of subsequent events).

"**Current Pay Obligation**": A Collateral Obligation (other than a DIP Loan, a Structured Finance Security or a Finance Lease):

(i) as to which no interest or principal payments are due and unpaid;

(ii) that pays interest at least quarterly;

(iii) that would satisfy subclauses (ii), (iii) or (iv) of the definition of "Defaulted Obligation" (without giving effect to the proviso in subclauses (ii), (iii) and (iv) relating to Current Pay Obligations);

(iv) that has a rating of at least "Caa2" by Moody's (if rated by Moody's) (provided that if such rating is "Caa2," such rating must not be on watch for possible downgrade by Moody's); and

(v) if the issuer of such Collateral Obligation is subject to a bankruptcy proceeding, a bankruptcy court has authorized the payment of interest, principal and/or amounts that would constitute adequate protection to the lender due and payable on such Collateral Obligation.

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A Collateral Obligation may not be designated as a Current Pay Obligation if doing so would cause more than 5.0% in Aggregate Principal Amount of the Collateral Portfolio to consist of Current Pay Obligations. For the avoidance of doubt, as specified in subclause (viii) of the definition of "Defaulted Obligation," the portion of any Collateral Obligation that would otherwise satisfy the definition of "Current Pay Obligation" but the inclusion of which would cause more than 5.0% in Aggregate Principal Amount of the Collateral Portfolio to consist of Current Pay Obligations shall be treated as a Defaulted Obligation.

"**Current Portfolio**": At any time, the Collateral Portfolio held by the Issuer.

"**Defaulted Hedge Termination Payment**": Any termination payment required to be made by the Issuer to a Hedge Counterparty pursuant to a Hedge Agreement as a result of an "Event of Default" with respect to which the Hedge Counterparty is the "Defaulting Party" or a "Termination Event" (other than "Illegality" or "Tax Event") (each as defined in the Hedge Agreement) with respect to which the Hedge Counterparty is the sole "Affected Party" or with respect to a termination resulting from a Downgrade Terminating Event.

"**Defaulted Interest**": Any interest due and payable in respect of any Class A Note or Class B Note (or in respect of any Class C Note after the Class A Notes and the Class B Notes have been paid in full, or in respect of any Class D Note, after the Class A Notes, the Class B Notes and the Class C Notes have been paid in full, or in respect of any Class E Note, after the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes have been paid in full), which is not punctually paid or duly provided for on the applicable Payment Date or at the Stated Maturity, as the case may be.

"**Defaulted Obligation**": Any Collateral Obligation shall constitute a "Defaulted Obligation" if:

(i) there has occurred and is continuing, (x) without regard to any waiver, for the lesser of five Business Days and any applicable grace period (as the case may be, the "**Cure Period**") a default with respect to the payment of interest or principal or (y) any other default under the related underlying instrument in respect of such Collateral Obligation and an acceleration of such Collateral Obligation by the holders thereof; *provided*, *however*, that, (A) for purposes of clause (x) above, a Collateral Obligation shall constitute a Defaulted Obligation only until such default has been cured or the existence of such default has been eliminated in connection with a restructuring and a Cure Period shall only be available if the Collateral Manager has certified to the Trustee in writing that, in the judgment of the Collateral Manager, such default resulted from non-credit related causes and (B) for purposes of clause (y) above, a Collateral Obligation shall constitute a Defaulted Obligation only until such default has been cured or waived;

(ii) (x) any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer of such Collateral Obligation and is unstayed and undismissed; *provided* that if such proceeding is an involuntary proceeding, the condition of this subclause (ii)(x) will not be satisfied until the earliest of the following: (I) the issuer consents to such proceeding, (II) an order for relief under the Bankruptcy Code, or any substantially similar order under a proceeding not taking place under the Bankruptcy Code, has been entered, and (III) such proceeding remains unstayed and undismissed for 90 days; *provided*, *further*, that a Current Pay Obligation or a DIP Loan shall not constitute a Defaulted Obligation under this subclause (ii)(x) notwithstanding such bankruptcy, insolvency or receivership proceeding; or (y) as to which there has been proposed or effected any distressed exchange or other distressed debt restructuring where the issuer of such Collateral Obligation has offered the debt holders a new security or package of securities that, in the judgment of the Collateral Manager, amounts to a diminished financial obligation; *provided* that a Collateral Obligation that was determined to be a Defaulted Obligation pursuant to this subclause (ii)(y), shall not be considered to be a Defaulted Obligation if, as a result of subsequent events, the new security or package of securities received in connection with any distressed exchange or restructuring, in the judgment of the Collateral Manager, no longer amounts to a diminished financial obligation;

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(iii) the Collateral Manager has actual knowledge that the issuer thereof is in default as to payment of principal and/or interest on another obligation (and such default has not been cured), but only if one of the following conditions (I) or (II) is met: (I) both such other obligation and the Collateral Obligation are unsecured obligations with the same recourse and the other obligation is senior to or *pari passu* with the Collateral Obligation in right of payment or (II) all of the following conditions (A), (B) and (C) are satisfied: (A) both such other obligation and the Collateral Obligation are full recourse secured obligations secured by identical collateral, (B) the security interest securing the other obligation is senior to or *pari passu* with the security interest securing the Collateral Obligation and (C) the other obligation is senior to or *pari passu* with the Collateral Obligation in right of payment; provided that a Collateral Obligation shall not constitute a Defaulted Obligation under this subclause (iii) if it is a Current Pay Obligation or a DIP Loan, as the case may be;

(iv) (1) such Collateral Obligation (x) has been rated "D" or "SD" (or, with respect to a Collateral Obligation that is a Structured Finance Security, "CC" or below) by S&P or (y) is a Structured Finance Security rated "Ca" or below by Moody's or (2) S&P has withdrawn its rating on such Collateral Obligation for negative credit related reason(s) and immediately prior to such withdrawal by S&P, such Collateral Obligation was rated "CC" or below by S&P; *provided* that (A) a Collateral Obligation shall not constitute a Defaulted Obligation pursuant to subclause (2) above if the S&P Rating Condition has been satisfied and (B) a Collateral Obligation shall not constitute a Defaulted Obligation under this subclause (iv) if it is a Current Pay Obligation or a DIP Loan, as the case may be;

(v) such Collateral Obligation is a Synthetic Security, and (1) there has occurred a "credit event" (as such term is defined in the related Synthetic Security) with respect to a Reference Obligation or a Reference Obligor specified in such Synthetic Security, or (2) the related Synthetic Security Counterparty fails to make payments to the Issuer in accordance with the terms of such Synthetic Security;

(vi) such Collateral Obligation is an obligation that is delivered to the Issuer under a Synthetic Security that does not satisfy the definition of "Collateral Obligation";

(vii) such Collateral Obligation is a Participation and the related Selling Institution fails to make payments to the Issuer in accordance with the terms of such Participation; or

(viii) such Collateral Obligation or the portion of any such Collateral Obligation that would otherwise satisfy the definition of "Current Pay Obligation" but the inclusion of which in the definition of "Current Pay Obligation" would cause more than 5.0% in Aggregate Principal Amount of the Collateral Portfolio to consist of Current Pay Obligations.

For the avoidance of doubt, the Collateral Manager shall be deemed to have knowledge of all information of which the analysts and portfolio managers involved in the management of the Collateral Portfolio under the Collateral Management Agreement have actual knowledge.

Notwithstanding the foregoing definition, the Collateral Manager may declare any Collateral Obligation to be a Defaulted Obligation if, in the Collateral Manager's sole judgment, the credit quality of the issuer of such Collateral Obligation (or, in the case of a Synthetic Security, the credit quality of the Synthetic Security Counterparty or Reference Obligor with respect thereto, as applicable) has significantly deteriorated such that there is a reasonable expectation of payment default as of the next scheduled payment date with respect to such Collateral Obligation; *provided* that a Collateral Obligation that has been declared to be a Defaulted Obligation pursuant to this paragraph, shall cease to be considered as a Defaulted Obligation if, in the Collateral Manager's sole judgment, the circumstances supporting such declaration no longer exist.

"Deferrable Interest Obligation": Any Collateral Obligation that is a debt security or a loan (including a Finance Lease) that is permitted, at the time of its purchase or commitment to purchase, under its terms in certain (but not all) circumstances to make interest payments due thereon, which are otherwise payable in cash, on a deferred basis "in kind".

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"Delayed Funding Term Loan": A loan that requires one or more future advances to be made to the borrower but which, once all such advances have been made, has the characteristics of a term loan; *provided* that such loan shall only be considered a Delayed Funding Term Loan for so long as any future funding obligations remain in effect and only with respect to any portion which constitutes a future funding obligation.

"Deliverable Obligation": A debt obligation or other security that is delivered to the Issuer upon the occurrence of certain "credit events" under a Synthetic Security (if physical settlement is permitted thereunder) that satisfies the definition of "Collateral Obligation" at the time it is delivered to the Issuer, except that such debt obligation or other security (i) may be a Defaulted Obligation or a Credit Risk Obligation at the time delivered to the Issuer and (ii) does not have to satisfy the requirements set forth in subclause (ii) of the definition of "Collateral Obligation".

Notwithstanding any provision to the contrary contained herein, the Issuer may accept the delivery of a Deliverable Obligation that does not meet the requirements set forth in the definition of "Deliverable Obligation" if (i) the terms of the related Synthetic Security otherwise satisfy the definition of "Deliverable Obligation" at the time it is purchased by or entered into by the Issuer and (ii) it would be impractical or impossible for the Synthetic Security Counterparty to deliver a Deliverable Obligation that satisfies the requirements set forth in the definition of "Deliverable Obligation" and cash settlement is not permitted; *provided*, *however*, the Issuer may accept a Deliverable Obligation that does not meet the requirements of this definition (a **"Substitute Deliverable Obligation"**), notwithstanding the foregoing, if the Collateral Manager has obtained written advice of a nationally recognized tax counsel experienced in such matters that the Issuer's taking delivery of the "deliverable obligation" will not cause the Issuer to be treated as engaged in a United States trade or business for U.S. federal income tax purposes or to otherwise be subject to tax on a net income basis and that payments on such "deliverable obligation" are not subject to withholding tax. The Issuer shall notify S&P of the acquisition of any Substitute Deliverable Obligation.

"Determination Date": With respect to a Payment Date, the last Business Day of the immediately preceding Due Period.

"DIP Loan": A loan made to a debtor in possession as described in Section 1107 of the Bankruptcy Code (or a trustee if appointment of a trustee has been ordered) that is:

(i) paying interest on a current basis; and

(ii) approved by an order of the United States Bankruptcy Court, the United States District Court or any other court of competent jurisdiction, the enforceability of which order is not subject to any pending contested matter or proceeding, which order must provide that:

(1) such loan is secured by liens on the debtor's otherwise unencumbered assets pursuant to either section 364(c) or 364(d) (or any combination thereof) of the Bankruptcy Code;

(2) such loan is secured by liens of equal or senior priority on property of the debtor's estate that is otherwise subject to a lien pursuant to either section 364(c) or 364(d) (or any combination thereof) of the Bankruptcy Code;

(3) such loan is secured by junior liens on the debtor's encumbered assets and is fully secured based upon a current valuation or appraisal report; or

(4) if such loan or any portion thereof is unsecured, the repayment of such loan retains priority over all other administrative expenses pursuant to either section 364(c) or 364(d) (or any combination thereof) of the Bankruptcy Code;

provided, *however*, that (a)(i) such loan shall be rated by S&P or S&P shall have provided in writing an estimated rating of such loan to the Issuer, and (ii) such loan shall be explicitly rated by Moody's or

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Moody's shall have provided in writing an estimated rating of such loan to the Issuer, or (b) in either case, the Collateral Manager has applied for such rating within five Business Days of its purchase of the loan;

provided, further, that if such loan or any portion thereof is unsecured, (a) either (x) the acquisition of such loan shall be subject to the satisfaction of the Moody's Rating Condition or (y) such loan must have (i) a rating from Moody's of at least "Caa1" and a market value of at least 80% of par or (ii) a rating from Moody's of at least "Caa2" and a market value of at least 85% of par and, in the case of any rating of under this clause (y), such rating must not be on watch for possible downgrade by Moody's, and (b) the acquisition of such loan shall be subject to the satisfaction of the S&P Rating Condition.

If the DIP Loan has an S&P Rating pursuant to (v)(2)(a) or (v)(2)(b) of the definition thereof, then the Issuer (or the Collateral Manager on behalf of the Issuer), upon receipt thereof, shall cause to be forwarded to S&P any notice of restructuring or amendments relating to any DIP Loans held by the Issuer.

"Discount Collateral Obligation": A Collateral Obligation

(i) that is purchased at a price of less than 80% of par if the Collateral Obligation is a loan and has a Moody's Rating of "B3" or higher (including a DIP Loan and a Synthetic Security that has a Reference Obligation that is a loan that, at the time of the purchase of such Synthetic Security, has a Market Value of less than 80% of the principal balance of the Reference Obligation as defined under such Synthetic Security and has a Moody's Rating of "B3" or higher);

(ii) that is purchased at a price of less than 85% of par if the Collateral Obligation is a loan and has a Moody's Rating of "Caa1" or lower (including a DIP Loan and a Synthetic Security that has a Reference Obligation that is a loan that, at the time of the purchase of such Synthetic Security, has a Market Value of less than 85% of the principal balance of the Reference Obligation as defined under such Synthetic Security and has a Moody's Rating of "Caa1" or lower); or

(iii) that is purchased at a price of less than 80% of par if the Collateral Obligation is not a loan and has a Moody's Rating below "B3" (including a Synthetic Security that has a Reference Obligation that is a bond that, at the time of the purchase of such Synthetic Security, has a Market Value of less than 80% of the principal balance of the Reference Obligation as defined under such Synthetic Security and has a Moody's Rating below "B3");

(iv) that is purchased at a price of less than 75% of par if the Collateral Obligation is not a loan and has a Moody's Rating of "B3" or higher (including a Synthetic Security that has a Reference Obligation that is a bond that, at the time of the purchase of such Synthetic Security, has a Market Value of less than 75% of the principal balance of the Reference Obligation as defined under such Synthetic Security and has a Moody's Rating of "B3" or higher); or

(v) that is purchased at a price of less than 75% of par if the Collateral Obligation is a Structured Finance Security or a Finance Lease;

provided, however, that with respect to any Measurement Date on or after the 30th consecutive day on which the Market Value of a Discount Collateral Obligation (including for the avoidance of doubt, the Market Value of a Reference Obligation with respect to a Synthetic Security that is a Discount Collateral Obligation) has been equal to or greater than 90% of par (or, in the case of a Synthetic Security, the principal balance or notional amount of the Reference Obligation as defined under such Synthetic Security), such Collateral Obligation will cease to be a Discount Collateral Obligation.

"Disposition Proceeds": Proceeds received with respect to sales of Collateral Obligations, Eligible Investments or Equity Securities and the termination of any Hedge Agreement, in each case, net of reasonable out-of-pocket expenses and disposition costs in connection with such sales.

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"**Distribution**": Any payment of principal or interest or any dividend, premium or fee payment made on, or any other distribution in respect of, a security or obligation.

"**Diversity Score**": A single number that indicates Collateral concentration in terms of both issuer and industry concentration. The Diversity Score for the Collateral Obligations is calculated by summing each of the Industry Diversity Scores, which are calculated as follows:

(i) An "**Obligor Par Amount**" is calculated for each obligor represented in the Collateral Obligations by summing the Principal Balance of all Collateral Obligations in the Collateral issued by that obligor.

(ii) An "**Average Par Amount**" is calculated by summing the Obligor Par Amounts and dividing by the number of obligors represented.

(iii) An "**Equivalent Unit Score**" is calculated for each obligor by taking the lesser of (A) one and (B) the Obligor Par Amount for each obligor divided by the Average Par Amount.

(iv) An "**Aggregate Industry Equivalent Unit Score**" is then calculated for each of the Moody's Industry Category groups by summing the Equivalent Unit Scores for each obligor in the industry.

(v) An "**Industry Diversity Score**" is then established by reference to the Diversity Score Table shown below for the related Aggregate Industry Equivalent Unit Score; provided that if any Aggregate Industry Equivalent Unit Score falls between any two such scores then the applicable Industry Diversity Score will be the lower of the two Industry Diversity Scores in the Diversity Score Table.

For purposes of calculating the Diversity Score, an affiliate of an obligor that is in a different industry from such obligor shall be treated as a separate obligor from such obligor if such treatment satisfies the Moody's Rating Condition.

In the event Moody's modifies its industrial classification groups, the Collateral Manager may elect to have each Collateral Obligation reallocated among such modified industrial classification groups for purposes of determining the Industry Diversity Score and the Diversity Score; provided that (i) the Collateral Manager shall have provided written notice of such election to Moody's, the Trustee and the Collateral Administrator and (ii) the Moody's Rating Condition has been satisfied.

Diversity Score Table

Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score
0.0000	0.0000	5.0500	2.7000	10.1500	4.0200	15.2500	4.5300
0.0500	0.1000	5.1500	2.7333	10.2500	4.0300	15.3500	4.5400
0.1500	0.2000	5.2500	2.7667	10.3500	4.0400	15.4500	4.5500
0.2500	0.3000	5.3500	2.8000	10.4500	4.0500	15.5500	4.5600
0.3500	0.4000	5.4500	2.8333	10.5500	4.0600	15.6500	4.5700
0.4500	0.5000	5.5500	2.8667	10.6500	4.0700	15.7500	4.5800
0.5500	0.6000	5.6500	2.9000	10.7500	4.0800	15.8500	4.5900
0.6500	0.7000	5.7500	2.9333	10.8500	4.0900	15.9500	4.6000
0.7500	0.8000	5.8500	2.9667	10.9500	4.1000	16.0500	4.6100
0.8500	0.9000	5.9500	3.0000	11.0500	4.1100	16.1500	4.6200
0.9500	1.0000	6.0500	3.0250	11.1500	4.1200	16.2500	4.6300
1.0500	1.0500	6.1500	3.0500	11.2500	4.1300	16.3500	4.6400
1.1500	1.1000	6.2500	3.0750	11.3500	4.1400	16.4500	4.6500
1.2500	1.1500	6.3500	3.1000	11.4500	4.1500	16.5500	4.6600
1.3500	1.2000	6.4500	3.1250	11.5500	4.1600	16.6500	4.6700
1.4500	1.2500	6.5500	3.1500	11.6500	4.1700	16.7500	4.6800
1.5500	1.3000	6.6500	3.1750	11.7500	4.1800	16.8500	4.6900

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Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score
1.6500	1.3500	6.7500	3.2000	11.8500	4.1900	16.9500	4.7000
1.7500	1.4000	6.8500	3.2250	11.9500	4.2000	17.0500	4.7100
1.8500	1.4500	6.9500	3.2500	12.0500	4.2100	17.1500	4.7200
1.9500	1.5000	7.0500	3.2750	12.1500	4.2200	17.2500	4.7300
2.0500	1.5500	7.1500	3.3000	12.2500	4.2300	17.3500	4.7400
2.1500	1.6000	7.2500	3.3250	12.3500	4.2400	17.4500	4.7500
2.2500	1.6500	7.3500	3.3500	12.4500	4.2500	17.5500	4.7600
2.3500	1.7000	7.4500	3.3750	12.5500	4.2600	17.6500	4.7700
2.4500	1.7500	7.5500	3.4000	12.6500	4.2700	17.7500	4.7800
2.5500	1.8000	7.6500	3.4250	12.7500	4.2800	17.8500	4.7900
2.6500	1.8500	7.7500	3.4500	12.8500	4.2900	17.9500	4.8000
2.7500	1.9000	7.8500	3.4750	12.9500	4.3000	18.0500	4.8100
2.8500	1.9500	7.9500	3.5000	13.0500	4.3100	18.1500	4.8200
2.9500	2.0000	8.0500	3.5250	13.1500	4.3200	18.2500	4.8300
3.0500	2.0333	8.1500	3.5500	13.2500	4.3300	18.3500	4.8400
3.1500	2.0667	8.2500	3.5750	13.3500	4.3400	18.4500	4.8500
3.2500	2.1000	8.3500	3.6000	13.4500	4.3500	18.5500	4.8600
3.3500	2.1333	8.4500	3.6250	13.5500	4.3600	18.6500	4.8700
3.4500	2.1667	8.5500	3.6500	13.6500	4.3700	18.7500	4.8800
3.5500	2.2000	8.6500	3.6750	13.7500	4.3800	18.8500	4.8900
3.6500	2.2333	8.7500	3.7000	13.8500	4.3900	18.9500	4.9000
3.7500	2.2667	8.8500	3.7250	13.9500	4.4000	19.0500	4.9100
3.8500	2.3000	8.9500	3.7500	14.0500	4.4100	19.1500	4.9200
3.9500	2.3333	9.0500	3.7750	14.1500	4.4200	19.2500	4.9300
4.0500	2.3667	9.1500	3.8000	14.2500	4.4300	19.3500	4.9400
4.1500	2.4000	9.2500	3.8250	14.3500	4.4400	19.4500	4.9500
4.2500	2.4333	9.3500	3.8500	14.4500	4.4500	19.5500	4.9600
4.3500	2.4667	9.4500	3.8750	14.5500	4.4600	19.6500	4.9700
4.4500	2.5000	9.5500	3.9000	14.6500	4.4700	19.7500	4.9800
4.5500	2.5333	9.6500	3.9250	14.7500	4.4800	19.8500	4.9900
4.6500	2.5667	9.7500	3.9500	14.8500	4.4900	19.9500	5.0000
4.7500	2.6000	9.8500	3.9750	14.9500	4.5000		
4.8500	2.6333	9.9500	4.0000	15.0500	4.5100		
4.9500	2.6667	10.0500	4.0100	15.1500	4.5200		

"Dollar" or **"$"**: A dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for all debts, public and private.

"DTC": The Depository Trust Company, its nominees, and their respective successors.

"Due Period": With respect to any Payment Date, the period commencing on the day immediately following the seventh Business Day prior to the preceding Payment Date (or in the case of the Due Period relating to the first Payment Date, beginning on the Closing Date) and ending on (and including) the seventh Business Day prior to such Payment Date (or, in the case of a Due Period that is applicable to the Payment Date relating to the Stated Maturity of any Security or a Redemption Date, ending on (and including) the Business Day immediately preceding such Payment Date).

"Effective Date": The earlier of (i) the date designated by the Collateral Manager by notice to the Trustee pursuant to the Indenture and (ii) the Business Day immediately preceding the Payment Date in August 2007.

"Effective Date Ratings Downgrade Event": The event that results from (i) the reduction or withdrawal of the initial ratings assigned to the Secured Notes by any of the Rating Agencies by the Effective Date or (ii) the failure of the Issuer (or the Collateral Manager on behalf of the Issuer) to obtain from the Rating Agencies confirmation of the initial ratings of such Secured Notes by the Effective Date; *provided* that (A) in the case of (ii) and with respect to Moody's only, the Issuer shall not be considered to have failed to obtain such confirmation if all of the Collateral Quality Tests (other than the S&P CDO Monitor Test), the Par Value Tests, the Minimum Par Value Ratio and the Concentration Limitations were satisfied as of the

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Effective Date; *provided* that such deemed confirmation from Moody's shall no longer be effective (and thereby an Effective Date Ratings Downgrade Event will be deemed to have occurred) if the Issuer has failed to deliver to Moody's the accountant's certificate required to be delivered under the Indenture, and (B) the Issuer (or the Collateral Manager on behalf of the Issuer) shall have made the request (and delivered all the necessary information) to S&P no later than 30 days prior to the Effective Date.

"Effective Spread": With respect to any Floating Rate Collateral Obligation, the current per annum rate at which it pays interest in excess of three-month LIBOR or, if such Floating Rate Collateral Obligation bears interest based on a non-LIBOR based floating rate index, the Effective Spread shall be the then-current base rate applicable to such Floating Rate Collateral Obligation plus the rate at which such Floating Rate Collateral Obligation pays interest in excess of such base rate minus three-month LIBOR, which number may be less than zero.

"Eligibility Criteria": The requirements specified in subclause (i) through (xviii) of the definition of "Collateral Obligation" in "Summary—Collateral Obligations".

"Eligible Investment": Any Dollar-denominated investment that, at the time it, or evidence of it, is delivered to the Trustee (directly or through a Clearing Corporation, Securities Intermediary, bailee or through book-entry crediting to a securities account in the name of, or under the "control" (as defined in Section 8-106 of the UCC) of, the Trustee), is one or more of the following obligations or securities:

(i) direct Registered debt obligations of, and Registered debt obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States of America or any agency or instrumentality of the United States of America the obligations of which are expressly backed by the full faith and credit of the United States of America;

(ii) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by any depository institution or trust company incorporated under the laws of the United States of America (including the Bank) or any state thereof, which depository institution or trust company is subject to supervision and examination by federal or state authorities, so long as the commercial paper and/or the debt obligations of such depositary institution or trust company (or, in the case of the principal depositary institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have been assigned a credit rating of at least "Aa3" by Moody's and "AAA" by S&P in the case of long-term senior unsecured debt obligations, or "P-1" by Moody's and "A-1+" by S&P in the case of commercial paper, time deposits and short-term debt obligations; *provided* that in the case of commercial paper, time deposits and short-term debt obligations with a maturity of 91 days or less, at the time of such investment, the issuer thereof must also have been assigned a rating of at least "A1" by Moody's; *provided, further*, that in the case of commercial paper and short-term debt obligations with a maturity of longer than 91 days, at the time of such investment, the issuer thereof must have been assigned a rating of at least "Aa3" by Moody's and "AAA" by S&P and; *provided, further*, that any investment in commercial paper or banker's acceptances shall not have a maturity in excess of 183 days;

(iii) unleveraged repurchase obligations with respect to (a) any security described in subclause (i) above or (b) any other security issued or guaranteed by an agency or instrumentality of the United States of America entered into with a depository institution or trust company (acting as principal) described in subclause (ii) above or entered into with a corporation (acting as principal) whose long-term senior unsecured rating is at least "Aa3" by Moody's and "AAA" by S&P and whose short-term credit rating is "P-1" by Moody's and "A-1+" by S&P at the time of such investment (except that investments with a term not exceeding 30 days may be made in unleveraged repurchase obligations with corporations whose short term credit rating is "P-1" by Moody's and at least "A-1" by S&P; *provided* that the amount of such repurchase obligations, when combined with the amount of (x) all other Eligible Investments issued by institutions that have a short term credit rating of "P-1" by Moody's and at least "A-1" by S&P and (y) all other Eligible Investments that have a short term credit

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rating of "P-1" by Moody's and at least "A-1" by S&P, does not at such time exceed 20% of the Aggregate Outstanding Amount of the Secured Notes); *provided* that if such repurchase obligation has a maturity of 91 days or less, at the time of such investment, the obligor thereunder must also have been assigned a long-term credit rating of at least "A1" by Moody's; *provided* that if such repurchase obligation has a maturity of longer than 91 days, at the time of such investment, the obligor thereunder must also have been assigned a long-term credit rating of at least "Aa3" by Moody's and "AAA" by S&P, respectively; *provided, further*, that the value of the securities transferred by the obligor under any such repurchase agreement must equal or exceed the proceeds received by the obligor and provided that no such repurchase agreement shall extend for a term in excess of 183 days;

(iv) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of (x) the United States of America or (y) any state thereof, which Registered debt securities have a credit rating of at least "Aa3" by Moody's and "AAA" by S&P, in the case of long-term senior unsecured debt obligations, and "P-1" by Moody's and "A-1+" by S&P in the case of commercial paper and short-term debt obligations, at the time of such investment or contractual commitment providing for such investment (except that investments with a term not exceeding 30 days may be made in Registered debt securities having a short term credit rating of "P-1" by Moody's and at least "A-1" by S&P; *provided* that the amount of such Registered debt securities, when combined with the amount of all other Eligible Investments that have a short term credit rating of "P-1" by Moody's and at least "A-1" by S&P, does not at such time exceed 20% of the Aggregate Outstanding Amount of the Secured Notes); and *provided, further*, that in the case of commercial paper and short-term debt obligations, at the time of such investment or contractual commitment providing for such investment, the issuer thereof has a rating of at least "Aa3" by Moody's with respect to such issuer's senior unsecured debt obligations;

(v) commercial paper (including, without limitation, any asset-backed commercial paper) or other short-term debt obligations of a corporation, partnership, limited liability company or trust, or any branch or agency thereof, principally located, incorporated or otherwise located in the United States of America or any of its territories, such commercial paper or other short-term obligations (I) having been assigned at the time of such investment a rating of "P-1" by Moody's and "A-1+" by S&P (except that investments with a term not exceeding 30 days may be made in commercial paper or other short-term debt obligations having a short term credit rating of "P-1" by Moody's and at least "A-1" by S&P; *provided* that the amount of investments in such commercial paper and short-term obligations, when combined with the amount of (x) all other Eligible Investments entered into with institutions that have a short term credit rating of "P-1" by Moody's and at least "A-1" by S&P and (y) all other Eligible Investments that have a short term credit rating of "P-1" by Moody's and at least "A-1" by S&P, does not at such time exceed 20% of the Aggregate Outstanding Amount of the Secured Notes), and (II) being Registered and either (x) are interest bearing or (y) are sold at a discount from the face amount thereof and have a maturity of not more than 183 days from their date of issuance; *provided* that if such debt security has a maturity of 91 days or less, at the time of such investment, the issuer thereof must also have been assigned a long-term senior unsecured rating of at least "A1" by Moody's; and *provided, further*, that if such debt security has a maturity of longer than 91 days, at the time of such investment, the issuer thereof must also have been assigned a long-term senior unsecured rating of at least "Aa3" by Moody's and "AAA" by S&P; and

(vi) non-U.S. money market funds which have, at the time of such reinvestment, a credit rating of "Aaa" and "MR1+" by Moody's and "AAAm" or "AAAm-G" by S&P;

and, in each case, matures (giving effect to any applicable grace period) no later than the second Business Day (or, in the case of direct Registered debt obligations described in subclause (i) above, no later than one Business Day) prior to the Payment Date next following the Due Period in which the date of investment occurs, unless such Eligible Investment is issued by the Bank, in which event such Eligible Investment may mature (giving effect to any applicable grace period) on the Business Day preceding such Payment Date;

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provided, *however*, that Eligible Investments shall not include any mortgage-backed security, interest-only security, any security purchased at a price in excess of 100% of par, any security that is the subject of an Offer other than an offer of publicly registered securities with equal or greater face value and substantially identical terms issued in exchange for securities issued under Rule 144A or a Permitted Offer, any security that is subject to withholding or similar taxes unless the issuer or obligor thereof is required to make "gross-up" payments that cover the full amount of such taxes on an after-tax basis or any security whose repayment is subject to substantial non-credit related risk as determined by the Collateral Manager in its sole judgment (which judgment shall not be subject to question as a result of subsequent events); and *provided*, *further*, that the maturity of an investment shall be the date on which the holder of such a security will put (at par) the security to the issuer thereof for redemption if each put (at par) is either to the issuer of such security or to another entity rated "P-1" by Moody's and "A-1+" by S&P. Eligible Investments may include those investments with respect to which the Trustee, the Bank or the Collateral Manager or an Affiliate of the Trustee, the Bank or the Collateral Manager is an obligor or provides services. As used in this definition, ratings may not include ratings with a "t," "p," "q," "pi" or an "r" subscript. For purposes of the rating requirements contained in this definition, each investment on negative credit watch by Moody's shall be treated as having been downgraded one rating subcategory by Moody's and each investment on credit watch for possible upgrade by Moody's shall be treated as having been upgraded one rating subcategory by Moody's.

"**Eligible Loan Index**": With respect to each Collateral Obligation that is a loan, the S&P/LSTA Leveraged Loan Index and its sub-indices, the Credit Suisse Leveraged Loan Index and its sub-indices, the Lehman Brothers U.S. High Yield Loan Index and its sub-indices and the Goldman Sachs/LPC Liquid Leveraged Loan Index or any other loan index selected by the Collateral Manager at the relevant time of determination (subject to the satisfaction of the Moody's Rating Condition).

"**Eligible Post Reinvestment Proceeds**": Any Unscheduled Principal Payments or Sale Proceeds of Credit Improved Obligations or Credit Risk Obligations, in each case received after the Reinvestment Period.

"**Equity Security**": (a) Any equity security or any other security that is not eligible for purchase by the Issuer under the Indenture and is received with respect to a Collateral Obligation or (b) any security purchased as part of a "unit" with a Collateral Obligation and that itself is not eligible for purchase by the Issuer under the Indenture.

"**Euroclear**": The Euroclear System.

"**European I Country**": Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Liechtenstein, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland and United Kingdom and any other European country subject to the satisfaction of the Moody's Rating Condition and the S&P Rating Condition.

"**European II Country**": Greece, Italy and Portugal.

"**Excess Equity Feature Value**": In respect of any Collateral Obligation which either has equity features attached or which is convertible into an Equity Security, the portion of the acquisition price thereof which, in the sole judgment of the Collateral Manager, is attributable to the value of such equity feature or conversion option of such Equity Security and which is in excess of 2% of the total purchase price of such Collateral Obligation.

"**Exchange Act**": The U.S. Securities Exchange Act of 1934, as amended.

"**Exchanged Defaulted Obligation**": Any Defaulted Obligation exchanged for another Defaulted Obligation.

"**Exchanged Equity Security**": Any equity security or any other security that is not eligible for purchase by the Issuer under the definition of "Collateral Obligation" and received in exchange for a Collateral Obligation.

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"**Excluded Subclass**": Any subclass of Subordinated Securities issued under "Description of the Securities—The Indenture—Additional Issuance" which shall be excluded for purposes of calculating the Incentive Collateral Management Fee payable pursuant to the Collateral Management Agreement.

"**Expense Reserve Amount**": $1,800,000.

"**Finance Lease**": A lease agreement or other agreement entered into in connection with and evidencing a Leasing Finance Transaction.

"**Fitch**": Fitch Ratings and any successor or successors thereto.

"**Fixed Rate Collateral Obligations**": Collateral Obligations (other than Defaulted Obligations) that, at the time of determination, bear interest at a fixed rate, including (i) any Step-Up Coupon Securities that (1) bear interest at a fixed rate at the time of determination or (2) do not bear any interest at the time of determination but whose interest rate will increase to a fixed rate and (ii) Synthetic Securities that provide for a payment to the Issuer based on a fixed rate.

"**Floating Rate Collateral Obligations**": Collateral Obligations (other than Defaulted Obligations) that, at the time of determination, bear interest at a floating rate, including (i) any Step-Up Coupon Securities that (1) bear interest at a floating rate at the time of determination or (2) do not bear any interest at the time of determination but whose interest rate will increase to a floating rate and (ii) Synthetic Securities that provide for a payment to the Issuer based solely on a floating rate.

"**Floating Rate Note Interest Amounts**": Collectively, the Class S Note Interest Amount, the Class A Note Interest Amount, the Class B Note Interest Amount, the Class C Note Interest Amount, the Class D Note Interest Amount and the Class E Note Interest Amount.

"**Floating Rate Note Interest Rates**": Collectively, the Note Interest Rate for the Class S Notes, the Note Interest Rate for the Class A Notes, the Note Interest Rate for the Class B Notes, the Note Interest Rate for the Class C Notes, the Note Interest Rate for the Class D Notes and the Note Interest Rate for the Class E Notes.

"**Floating Rate Notes**": Collectively, the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes.

"**Form-Approved Synthetic Security**": A Synthetic Security:

(a) the Reference Obligation of which (or the relevant obligation(s) of the Reference Obligor), if it were a Collateral Obligation, could be purchased by the Issuer without any required action by the Rating Agencies or which would not cause either the Moody's Rating Condition or the S&P Rating Condition to be not satisfied in the reasonable judgment of the Collateral Manager;

(b) the documentation of which conforms (but for the amount and timing of periodic payments, the name of the Reference Obligation and/or Reference Obligor, the notional amount, the premium, the effective date, the termination date or maturity and other similarly necessary changes) to a form (it being understood that such documentation may incorporate by reference the Syndicated Secured Loan Credit Default Swap Standard Terms Supplement as published by ISDA as of June 8, 2006) (1) with respect to S&P, previously approved and not subsequently revoked by S&P for use in this transaction, and (2) with respect to Moody's, for which the Issuer or the Collateral Manager on behalf of the Issuer had previously obtained certification that the Moody's Rating Condition was satisfied; and

(c) which provides that any "credit event" thereunder shall be limited to either "bankruptcy" or "failure to pay" or both.

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The Issuer or the Collateral Manager on behalf of the Issuer shall promptly notify the Rating Agencies after any acquisition of a Form- Approved Synthetic Security and cause the delivery of any documentation relating to such Form-Approved Synthetic Security to S&P within ten Business Days of such acquisition; *provided*, *however*, that in the event the Collateral Manager fails to deliver any documentation within ten Business Days as required above, such failure shall not constitute a breach of any material terms under the Indenture or the Collateral Management Agreement; *provided* that if S&P or Moody's notifies the Trustee and the Collateral Manager that it has withdrawn form-approved status with respect to a particular Form-Approved Synthetic Security, then the Issuer shall no longer use such form as a Form-Approved Synthetic Security.

"Future Drawdown Amount": At any time of determination, an amount equal to the greater of (A) zero and (B) (i) the Aggregate Underlying Undrawn Amount at such time less (ii) the amount of funds in the Revolving Credit Facility Reserve Account at such time.

"Global Class E Notes": Collectively, the Rule 144A Global Class E Notes and the Regulation S Global Class E Notes.

"Global Securities": Collectively, the Rule 144A Global Secured Notes, the Regulation S Global Secured Notes and the Regulation S Global Subordinated Securities.

"Hedge Agreement": Any interest rate exchange, cap or protection agreement or agreements entered into between the Issuer and a Hedge Counterparty, as amended from time to time, including any confirmations evidencing the transactions thereunder.

"Hedge Counterparty": One or more institutions entering into or guaranteeing a Hedge Agreement with the Issuer (i) satisfying the Required Hedge Counterparty Rating or (ii) if not so rated by both of the Rating Agencies, the Moody's Rating Condition and the S&P Rating Condition (as applicable to any Rating Agency that has not so rated such institution) have been satisfied with respect to any given Hedge Agreement, including any successor under any Hedge Agreement satisfying the foregoing rating requirements at the time of such succession.

"Hedge Payment Amount": With respect to a Hedge Agreement and any Payment Date, the positive amount, if any, then payable to the Hedge Counterparty by the Issuer (excluding any applicable termination payments) net of all amounts (excluding any applicable termination payments) then payable to the Issuer by the Hedge Counterparty.

"Holder" or **"Securityholder"**: With respect to any Security, the Person in whose name such Security is registered in the Register, or for purposes of voting and determinations hereunder, as long as such Security is in global form, a beneficial owner thereof.

"Included Subclass": (i) The subclass of Subordinated Securities issued on the Closing Date and (ii) any subclass of Subordinated Securities issued under "Description of the Securities—The Indenture—Additional Issuance" which shall be included for purposes of calculating the Incentive Collateral Management Fee payable pursuant to the Collateral Management Agreement.

"Indenture": The indenture, dated as of January 18, 2007, among the Issuer, the Co-Issuer and the Trustee.

"Independent": As to any Person, any other Person (including a firm of accountants or lawyers and any member thereof or an investment bank and any member thereof) who (i) does not have and is not committed to acquire any material direct or any material indirect financial interest in such Person or in any Affiliate of such Person, (ii) is not connected with such Person as an officer, employee, promoter, underwriter, voting trustee, partner, director or Person performing similar functions and (iii) is not Affiliated with a firm that fails to satisfy the criteria set forth in (i) and (ii). "Independent" when used with respect to any accountant may include an accountant who audits the books of any Person if in addition to satisfying the criteria set forth above the accountant is independent with respect to such Person within the meaning of Rule 101 of the Code of Ethics of the American Institute of Certified Public Accountants.

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"Initial Investment Period": The period from, and including, the Closing Date to, but excluding, the Effective Date.

"Interest Accrual Period": The period from and including the Closing Date to but excluding the first Scheduled Payment Date, and each successive period from and including each Scheduled Payment Date to but excluding the following Scheduled Payment Date (except with respect to the Scheduled Payment Date preceding the Stated Maturity or the Redemption Date, to but excluding the Stated Maturity or the Redemption Date, as the case may be).

"Interest Coverage Ratio": On any Measurement Date and as to any applicable Class of Secured Notes, the ratio (expressed as a percentage), after giving effect to clauses (i) through (iv) as described under "Security for the Secured Notes—The Coverage Tests", obtained by dividing:

(a) the Collateral Interest Amount as of such date; by

(b) the sum of the scheduled interest payments due on the Securities of such Class (excluding the Class S Notes) and each senior Class (excluding the Class S Notes) on the following Payment Date; *provided*, *however*, the Class A Notes and the Class B Notes shall constitute one Class of Secured Notes for purposes of the Interest Coverage Ratio determined for the Class A/B Interest Coverage Test.

For purposes of calculating the Interest Coverage Ratio:

(1) distributions in the Due Period in which such Measurement Date occurs (but not yet paid) with respect to a Collateral Obligation which, in accordance with its terms, has an outstanding deferred interest balance, shall be included in such calculation only if (x) such Collateral Obligation paid all interest then currently due in cash on its immediately preceding payment date (including interest due on deferred interest, if any) and (y) the Collateral Manager believes (in its sole judgment) such Collateral Obligation will not defer interest or make a payment "in kind" on its next succeeding payment date;

(2) distributions on the Collateral Obligations and the Eligible Investments will not include any scheduled interest payments as to which the Issuer or the Collateral Manager has actual knowledge that such payment will not be made during the applicable Due Period; and

(3) the expected interest income on Floating Rate Collateral Obligations and Eligible Investments and the expected interest payable on the applicable Class of Secured Notes will be calculated using the then-current interest rates applicable thereto.

"Interest Coverage Tests": The Class A/B Interest Coverage Test, the Class C Interest Coverage Test and the Class D Interest Coverage Test.

"Interest Proceeds": With respect to any Payment Date and the Stated Maturity, without duplication:

(i) all payments of interest and dividends, commitment fees and facility fees received during the related Due Period on the Pledged Obligations (including Reinvestment Income, if any), other than any payment of interest received on any Defaulted Obligation if the outstanding principal amount thereof then due and payable has not been received by the Issuer after giving effect to the receipt of such payments of interest;

(ii) to the extent not included in the definition of "Sale Proceeds," if so designated by the Collateral Manager (in its sole discretion) and notice thereof is conveyed in writing to the Trustee, any portion of the accrued interest received during the related Due Period in connection with the sale of any Pledged Obligations (excluding accrued interest received in connection with the sale of (x) Defaulted Obligations if the outstanding principal amount

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thereof has not been received by the Issuer after giving effect to such sale or (y) Pledged Obligations in connection with an optional redemption of the Securities);

(iii) unless otherwise designated by the Collateral Manager (in its sole discretion) as Principal Proceeds and notice thereof is conveyed in writing to the Trustee, all amendment and waiver fees, all late payment fees, all securities lending fees (net of administration fees paid in connection with securities lending) and all other fees received during such Due Period in connection with the Pledged Obligations, excluding (A) fees received in connection with Defaulted Obligations (but only to the extent that the outstanding principal amount thereof has not been received by the Issuer); (B) fees received in connection with the purchase of Pledged Obligations and any Revolving Credit Facility Net-Backs; and (C) premiums (including prepayment premiums) constituting Principal Proceeds in accordance with subclause (iii) of the definition thereof);

(iv) all net payments (other than (w) termination payments, (x) payments constituting Liquidation Proceeds, (y) upfront payments by a replacement Hedge Counterparty that are to be paid to a replaced Hedge Counterparty in accordance with the relevant Hedge Agreements, which payments shall, if received by the Issuer, be paid directly to such replaced Hedge Counterparty and not be subject to the Priority of Payments and (z) upfront payments by a replacement Hedge Counterparty that constitute Principal Proceeds in accordance with subclause (vi)(B) or (C) of the definition thereof) received pursuant to Hedge Agreements during the related Due Period or on the related Payment Date or the Business Day preceding the related Payment Date;

(v) any recoveries on Defaulted Obligations in excess of the outstanding principal amount thereof (including, without limitation, any payments received by the Issuer upon the occurrence of a "credit event" under a Synthetic Security in excess of the Principal Balance of such Synthetic Security);

(vi) proceeds received from any additional issuance of Securities if treated as Interest Proceeds in accordance with the Treatment of Additional Issuances of Securities;

(vii) (x) any amounts remaining on deposit in the Interest Collection Account from the immediately preceding Payment Date and (y) any Principal Proceeds and unused proceeds transferred to the Interest Collection Account for application as Interest Proceeds as set forth in "Security for the Secured Notes—Principal Collection Account";

(viii) after an event of default, as such term is defined under the related Securities Lending Agreement, any interest payment received by the Issuer from the related Securities Lending Collateral during the related Due Period (but not to exceed the amount of the Securities Lending Counterparty's obligations owed to the Issuer);

(ix) (x) any amounts transferred from the Synthetic Security Collateral Account that are deposited in the Interest Collection Account during the related Due Period and (y) all fixed payments received by the Issuer on Synthetic Securities; and

(x) all payments of principal and interest on Eligible Investments purchased with the proceeds of any of items (i) through (ix) of this definition (without duplication);

provided, *however*, that in connection with the final Payment Date, Interest Proceeds shall include any amount referred to in subclauses (i) through (ix) above that is received from the sale of Collateral Obligations or the additional issuance of the Subordinated Securities on or prior to the day immediately preceding the final Payment Date.

For the avoidance of doubt, if the Issuer receives any payment from a Securities Lending Counterparty that relates to a Collateral Obligation that has been loaned to such Securities Lending Counterparty pursuant to a related Securities Lending Agreement, the portion of such payment that

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would have constituted Interest Proceeds had such payment been paid from the issuer of such loaned Collateral Obligation to the Issuer shall constitute "Interest Proceeds," and prior to an event of default, as such term is defined under the related Securities Lending Agreement, any payment received by the Issuer under the related Securities Lending Collateral shall not constitute "Interest Proceeds" and such amounts shall be deposited in the Securities Lending Account.

"Interest Reserve Amount": With respect to any Scheduled Payment Date, (i) the sum of all interest payments received on Collateral Obligations which pay scheduled interest less frequently than quarterly during all previous Due Periods (including, for the avoidance of doubt, the Due Period corresponding to such Scheduled Payment Date), less (ii) the sum of the Aggregate Interest Reserve Distribution Amounts on all prior Scheduled Payment Dates, less (iii) all amounts applied pursuant to the penultimate paragraph in "Description of the Securities—Priority of Payments—Interest Proceeds".

"Interest Reserve Distribution Amount": For a Collateral Obligation that pays scheduled interest less frequently than quarterly, an amount equal to:

(i) if such Collateral Obligation is a Fixed Rate Collateral Obligation, the product of (1) the actual number of days in the related Due Period on a 30/360 basis, divided by 360, (2) the annual coupon on such Collateral Obligation as of the immediately preceding Determination Date and (3) the Principal Balance of such Collateral Obligation, or

(ii) if such Collateral Obligation is a Floating Rate Collateral Obligation, the product of (1) the actual number of days in the related Due Period divided by 360, (2) the sum of (I) three-month LIBOR, as of the immediately preceding Determination Date, and (II) the Effective Spread, as of the immediately preceding Determination Date, on such Collateral Obligation and (3) the Principal Balance of such Collateral Obligation.

"Interim Targets": With respect to the Collateral Portfolio on the Interim Targets Date, (i) a Minimum Par Value Ratio equal to or greater than 96%, (ii) a Diversity Score equal to or greater than 48, (iii) a Moody's Weighted Average Rating Factor less than or equal to 2500, (iv) a Weighted Average Spread equal to or greater than 2.40% and (v) a Moody's Weighted Average Recovery Rate equal to or greater than 43.00%.

"Interim Targets Date": April 18, 2007.

"Internal Rate of Return": With respect to each Payment Date, the rate of return that would result in a net present value of zero, assuming: (i) an aggregate purchase price of par for the Subordinated Securities issued on the Closing Date or any related Additional Issuance Date as the negative cash flow and all distributions on the Subordinated Securities on each Payment Date after the Closing Date or any related Additional Issuance Date as positive cash flows, (ii) the initial date for the calculation as the Closing Date or the related Additional Issuance Date, as applicable, and (iii) the number of days to each Payment Date after the Closing Date or related Additional Issuance Date, as applicable, being calculated on the basis of a 360-day year consisting of twelve 30-day months. Such rate of return shall be expressed on a semi-annual bond equivalent basis and take into account any payments of the Incentive Collateral Management Fee on such Payment Date.

"Investment Company Act": The U.S. Investment Company Act of 1940, as amended.

"Investment Due Period": The first Due Period following the Due Period of receipt of any Principal Proceeds, Sale Proceeds of Credit Improved Obligations or Credit Risk Obligations, Unscheduled Principal Payments or proceeds from additional issuances of the Securities, as applicable.

"Irish Paying Agency Agreement": An agreement between the Irish Paying Agent and the Issuer, as amended from time to time in accordance with the terms thereof.

"Irish Paying Agent": Custom House Administration & Corporate Services Ltd. in Ireland, until a successor Person shall have been appointed by the Issuer, and thereafter "Irish Paying Agent" shall mean such successor person.

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"**Issuer Accounts**": The Interest Collection Account, the Subordinated Securities Interest Collection Account, the Payment Account, the Subordinated Securities Collateral Account, the Collateral Account, the Principal Collection Account, the Subordinated Securities Principal Collection Account, the Expense Reserve Account, the Discretionary Reserve Account and the Revolving Credit Facility Reserve Account.

"**Knowledgeable Employee**": A "knowledgeable employee" within the meaning of Rule 3c-5 of the Investment Company Act.

"**Leasing Finance Transaction**": Any transaction pursuant to which the obligations of the lessee to pay rent or other amounts on a triple net basis under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, are required to be classified and accounted for as a capital lease on a balance sheet of such lessee under generally accepted accounting principles in the United States; but only if (a) such lease or other transaction provides for the unconditional obligation of the lessee to pay a stated amount of principal no later than a stated maturity date, together with interest thereon, and the payment of such obligation is not subject to any material non-credit related risk as determined by the Collateral Manager, (b) the obligations of the lessee in respect of such lease or other transaction are fully secured, directly or indirectly, by the property that is the subject of such lease and (c) the interest held in respect of such lease or other transaction is treated as debt for U.S. federal income tax purposes.

"**LIBOR**": The London Interbank Offered Rate. For purposes of calculating the Floating Rate Note Interest Rates for each Applicable Period, LIBOR shall, as more fully described in a schedule to the Indenture, be calculated as follows:

(i) On each LIBOR Determination Date, LIBOR shall equal the rate, as obtained by the Calculation Agent, for Eurodollar deposits for the Applicable Period which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions), or such page as may replace Telerate Page 3750, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750, or such page as may replace Telerate Page 3750, the Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for Eurodollar deposits for the Applicable Period in an amount determined by the Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provides such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for Eurodollar deposits for the Applicable Period in an amount determined by the Calculation Agent by reference to the principal London offices of leading banks in the London interbank market; *provided, however*, that if the Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be LIBOR as determined on the most recent date LIBOR was available. As used herein, "**Reference Banks**" means four major banks in the London interbank market selected by the Calculation Agent.

(iii) LIBOR for the first Applicable Period shall be determined based on the actual number of days in the Applicable Period using straight-line interpolation of two rates calculated in accordance with the above procedure, except that instead of using three-month deposits, one rate shall be determined using the period for which rates are obtainable next shorter than the Applicable Period and the other rate shall be determined using the period for which rates are obtainable next longer than the Applicable Period.

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As soon as possible after 11:00 a.m. (London time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (London time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will, with respect to any Scheduled Payment Date, cause notice of the Floating Rate Note Interest Rates for the next Interest Accrual Period and the Class A Note Interest Amount, the Class B Note Interest Amount, the Class C Note Interest Amount, the Class D Note Interest Amount and the Class E Note Interest Amount (rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date to be communicated to the Issuers, the Trustee, Euroclear, Clearstream, the Collateral Manager and the paying agents. The Calculation Agent will also specify to the Issuers the quotations upon which the Floating Rate Note Interest Rates are based, and in any event the Calculation Agent shall notify the Issuers, or the Collateral Manager on behalf of the Issuers, before 5:00 p.m. (London time) on each LIBOR Determination Date that either: (i) it has determined or is in the process of determining the applicable Floating Rate Note Interest Rate(s) and the applicable Floating Rate Note Interest Amount(s); or (ii) it has not determined and is not in the process of determining the applicable Floating Rate Note Interest Rate(s) and the applicable Floating Rate Note Interest Amount(s), together with its reasons therefor.

"**LIBOR Determination Date**": The second London Business Day prior to the commencement of an Interest Accrual Period.

"**Liquidation Proceeds**": With respect to any optional redemption include, without duplication: (i) all Sale Proceeds from Collateral Obligations sold in connection with such redemption; (ii) the aggregate amount received by the Issuer on or prior to the Business Day immediately preceding the relevant Payment Date from the termination or reduction of any Hedge Agreement in connection with such optional redemption; and (iii) all cash and Eligible Investments (other than Principal Proceeds and Interest Proceeds that will be paid pursuant to the Priority of Payments on such Redemption Date) on deposit in the Issuer Accounts.

"**London Business Day**": A day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"**Majority**": With respect to the Securities or any Class thereof, the Holders of more than 50% of the Aggregate Outstanding Amount of the Securities or of such Class, as the case may be.

"**Margin Stock**": The meaning specified under Regulation U.

"**Maritime Collateral Obligation**": An obligation, other than a Structured Finance Security, in which the issuer thereof (i) is organized in a Maritime Jurisdiction and (ii) is determined by the Collateral Manager to be in the shipping industry and to have (or whose relevant obligations are guaranteed by an entity that the Collateral Manager has determined to have) at least 60% (by reference to the latest available consolidated financial statements) of (A) its business operations or (B) its assets primarily responsible for generating its revenue located in (1) the United States of America, Canada, Australia, (2) a European I Country or European II Country (so long as, in each case, at the time of the acquisition by the Issuer, the foreign currency rating of such country is rated at least "AA" by S&P) or (3) upon the satisfaction of each of the Moody's Rating Condition and the S&P Rating Condition, any other jurisdiction.

"**Maritime Jurisdiction**": (i) Australia, the Bahamas, Bermuda, the Cayman Islands, Norway, or, (ii) upon the satisfaction of each of the Moody's Rating Condition and the S&P Rating Condition, any other jurisdiction; *provided* that, if any of the countries listed in subclause (i) have a foreign currency rating of less than "AA" by S&P at the time of purchase of the related Maritime Collateral Obligation, the Collateral Manager shall notify S&P in writing of such fact; *provided, further,* that, none of the countries listed in subclause (i) shall have a foreign currency rating of less than "Aa2" by Moody's.

"**Market Value**": With respect to any Collateral Obligations, the amount determined by the Collateral Manager equal to: (i) the product of the principal amount and the average of the average bid and average ask price value determined by the Loan Pricing Corporation, Mark-It Partners Inc. or any other loan pricing service that is Independent of the Collateral Manager and acceptable to S&P; (ii) if any such service is not available or applicable then the average of at least three firm bids obtained from dealers (that are Independent of the Collateral Manager and Independent of each other) that the Collateral Manager

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determines (in its sole discretion) to be reasonably representative of the Collateral Obligation's current market value and reasonably reflective of current market conditions; (iii) if only two such bids can be obtained, the lower of such two bids shall be the Market Value of the Collateral Obligation; (iv) if only one such bid can be obtained, such bid shall be the Market Value of the Collateral Obligation; and (v) if no such bids can be obtained, then, the Market Value of such Collateral Obligation shall be:

(A) so long as the Collateral Manager is registered as an investment adviser under the Advisers Act, the outstanding principal amount of such Collateral Obligation multiplied by the lesser of (x) 70% and (y) its market value (expressed as a percentage) of such Collateral Obligation as determined by the Collateral Manager consistent with the procedures used by the Collateral Manager to determine the market value for assets included in other funds managed by the Collateral Manager; or

(B) if the Collateral Manager is no longer registered as an investment adviser under the Advisers Act, the outstanding principal amount of such Collateral Obligation multiplied by the least of (x) 70%, (y) its Moody's Recovery Rate and (z) its fair market value (expressed as a percentage of par) determined by the Collateral Manager; *provided* that so long as the Collateral Manager is not registered as an investment adviser under the Advisers Act, if the Market Value of a Collateral Obligation cannot be calculated in accordance with any of subclauses (i) through (iv) above for a period of 30 consecutive days, then from the 31st such consecutive day until the first day on which the Market Value of such Collateral Obligation can be calculated in accordance with any of subclauses (i) through (iv) above, the Market Value of such Collateral Obligation shall be deemed to be zero.

"**maturity**": With respect to any Collateral Obligation, the date on which such obligation shall be deemed to mature (or its maturity date) shall be the earlier of (x) the Stated Maturity of such obligation and (y) if the Issuer has a right to require the issuer or obligor of such Collateral Obligation to purchase, redeem or retire such Collateral Obligation (at par) on any one or more dates prior to its Stated Maturity (a "**put right**") and the Collateral Manager determines (in its sole discretion) that it shall exercise such put right on any such date, the maturity date shall be the date specified in such certification.

"**Maturity**": With respect to any Security, the date on which any unpaid principal or notional amount, as applicable, of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"**Maximum Rating Factor**": As of any Measurement Date the number set forth in the Ratings Matrix corresponding to the "row/column combination" chosen by the Collateral Manager as currently applicable to the Collateral Obligations in accordance with the terms of the Indenture.

"**Measurement Date**": On and after the Effective Date, (i) each date the Reinvestment Criteria apply in connection with a sale, purchase or substitution of a Collateral Obligation (giving effect to such sale, purchase or substitution), (ii) each Determination Date, (iii) the 20th day of each month for purposes of producing monthly reports provided by the Issuer pursuant to the Indenture summarizing the performance of the Collateral Portfolio and (iv) any Business Day specified as a Measurement Date, with not less than two Business Days' notice, by either of the Rating Agencies.

"**Minimum Diversity**": As of any Measurement Date the number set forth in the column entitled "Minimum Diversity" in the Ratings Matrix set forth in "Summary—The Offering—Collateral Quality Tests" based upon the "row/column combination" chosen by the Collateral Manager as currently applicable to the Collateral Obligations in accordance with the terms in the Indenture.

"**Minimum Par Value Ratio**": The Minimum Par Value Ratio will be satisfied, as of any Measurement Date if, the Class D Par Value Ratio is equal to or greater than 110.34%; *provided* that in calculating the Minimum Par Value Ratio, any portion of principal due on a Collateral Obligation after the Stated Maturity of the Securities will be treated as a Collateral Obligation that matures prior to or on the Stated Maturity.

"**Moody's**": Moody's Investors Service, Inc. and any successor or successors thereto.

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"**Moody's Default Probability Rating**": With respect to any Collateral Obligation as of any date of determination, the rating determined as follows:

(i) With respect to a Collateral Obligation (other than a DIP Loan) that is a Senior Secured Loan or Participation in a Senior Secured Loan, if the obligor of such Collateral Obligation has a Corporate Family Rating, then such Corporate Family Rating.

(ii) With respect to a Collateral Obligation (other than a DIP Loan) that is a Senior Secured Loan or Participation in a Senior Secured Loan, if not determined pursuant to subclause (i) above, if such Collateral Obligation (A) is publicly rated by Moody's, such public rating, or (B) is not publicly rated by Moody's but a rating or rating estimate has been assigned by Moody's upon the request of the Issuer or the Collateral Manager, such rating or the rating estimate, as applicable.

(iii) With respect to a Collateral Obligation other than a Synthetic Security or a DIP Loan, if not determined pursuant to subclause (i) or (ii) above, (A) if the obligor of such Collateral Obligation has one or more senior unsecured obligations publicly rated by Moody's, then the Moody's public rating on any such obligation as selected by the Collateral Manager or, if no such rating is available, then (B) if such Collateral Obligation is publicly rated by Moody's, such public rating or, if no such rating is available, then (C) if a rating or rating estimate has been assigned to such Collateral Obligation by Moody's upon the request of the Issuer or the Collateral Manager, such rating or, in the case of a rating estimate, the applicable rating estimate for such obligation.

(iv) With respect to a DIP Loan, (i) one rating subcategory below the facility rating (whether public or private) of such DIP Loan rated by Moody's or (ii) if such DIP Loan does not have a facility rating assigned by Moody's, (a) if Moody's has provided a ratings estimate with respect to such DIP Loan, one rating subcategory below the ratings estimate provided by Moody's, (b) if Moody's has been requested by the Issuer or the Collateral Manager to assign a rating or ratings estimate with respect to such DIP Loan but such rating or ratings estimate has not been received, pending receipt of such estimate, "B3" if the Collateral Manager believes that such estimate will be at least "B3" and if the Aggregate Principal Amount of Collateral Obligations determined pursuant to this clause (iv), together with the Aggregate Principal Amount of Collateral Obligations the Moody's Derived Rating of which is determined pursuant to subclause (B)(1) of the definition of "Moody's Derived Rating", does not exceed 10% of the Aggregate Principal Amount of all Collateral Obligations or (c) otherwise, "Caa1".

(v) With respect to a Collateral Obligation other than a Synthetic Security, if not determined pursuant to subclause (i), (ii), (iii) or (iv) above, the Moody's Derived Rating.

(vi) With respect to a Synthetic Security, as determined as set forth in "Security for the Secured Notes—Certain Matters Relating to Synthetic Securities".

For purposes of calculating a Moody's Default Probability Rating, each applicable rating on credit watch by Moody's with positive or negative implication at the time of calculation will be treated as having been upgraded or downgraded by one rating subcategory, as the case may be; except that, with respect to ratings issued for Structured Finance Securities, each applicable rating will be treated as having been upgraded or downgraded by two rating subcategories.

"**Moody's Derived Rating**": With respect to a Collateral Obligation whose Moody's Rating or Moody's Default Probability Rating cannot otherwise be determined pursuant to the definitions thereof, such Moody's Rating or Moody's Default Probability Rating shall be determined as set forth below:

(i) If the obligor of such Collateral Obligation has a long-term issuer rating by Moody's, then such long-term issuer rating.

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(ii) If not determined pursuant to subclause (i) above, if another obligation of the obligor is rated by Moody's, then by adjusting the rating of the related Moody's rated obligation of the related obligor by the number of rating sub-categories according to the table below:

Obligation Category of Rated Obligation	Rating of Rated Obligation	Number of Subcategories Relative to Rated Obligation Rating
Senior secured obligation	greater than or equal to B2	-1
Senior secured obligation	less than B2	-2
Subordinated obligation	greater than or equal to B3	+1
Subordinated obligation	less than B3	0

(iii) If not determined pursuant to subclause (i) or (ii) above, if the obligor of such Collateral Obligation has a Corporate Family Rating, then one subcategory below such Corporate Family Rating.

(iv) If not determined pursuant to subclause (i), (ii) or (iii) above, then by using any one of the methods provided below:

(A) (1) If such Collateral Obligation is rated by S&P, then by adjusting the S&P Rating by the number of rating sub-categories according to the table below:

S&P Rating	Collateral Obligation Rated by S&P	Number of Subcategories Relative to Moody's Equivalent of S&P Rating
≥BBB-	Not a Loan or Participation	-1
≤BB+	Not a Loan or Participation	-2
	Loan or Participation Interest in Loan	-2

(2) if such Collateral Obligation is not rated by S&P but another security or obligation of the obligor is rated by S&P (a "**parallel security**"), then the rating of such parallel security will at the election of the Collateral Manager be determined in accordance with the table set forth in subclause (A)(1) above, and the Moody's Rating or Moody's Default Probability Rating of such Collateral Obligation will be determined in accordance with the methodology set forth in subclause (i) above (for such purposes treating the parallel security as if it were rated by Moody's at the rating determined pursuant to this subclause (A)(2)); or

(3) if such Collateral Obligation is a DIP Loan, no Moody's Rating or Moody's Default Probability Rating may be determined based on a rating by S&P or any other rating agency;

provided, *however*, that the Aggregate Principal Amount of Collateral Obligations the Moody's Default Probability Rating of which is determined pursuant to this clause (iv)(A) shall not exceed 10% of the Aggregate Principal Amount of all Collateral Obligations;

(B) if such Collateral Obligation is not rated by Moody's or S&P and no other security or obligation of the issuer of such Collateral Obligation is rated by Moody's or S&P, and if Moody's has been requested by the Issuer or the Collateral Manager to assign a rating or rating estimate with respect to such Collateral Obligation but such rating or rating estimate has not been received, pending receipt of such estimate, (1) "B3" if the Collateral Manager believes that such estimate will be at least "B3" and if the Aggregate Principal Amount of Collateral Obligations determined pursuant to this subclause (B)(1), together with the Aggregate Principal Amount of Collateral Obligations the Moody's Default Probability Rating of which is determined pursuant to clause (iv) of the definition of

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"Moody's Default Probability Rating", does not exceed 10% of the Aggregate Principal Amount of all Collateral Obligations or (2) otherwise, "Caa1";

(C) if the obligor of such Collateral Obligation is a U.S. obligor and if such Collateral Obligation is a senior secured obligation of the obligor and (1) neither the obligor nor any of its Affiliates is subject to reorganization or bankruptcy proceedings, (2) no debt securities or obligations of the obligor are in default, (3) neither the obligor nor any of its Affiliates have defaulted on any debt during the past two years, (4) the obligor has been in existence for the past five years, (5) the obligor is current on any cumulative dividends, (6) the fixed-charge ratio for the obligor exceeds 125% for each of the past two fiscal years and for the most recent quarter, (7) the obligor had a net profit before tax in the past fiscal year and the most recent quarter and (8) the annual financial statements of the obligor are unqualified and certified by a firm of Independent accountants of national reputation, and quarterly statements are unaudited but signed by a corporate officer, "Caa1";

(D) if the obligor of such Collateral Obligation is a U.S. obligor and if such Collateral Obligation is a senior secured or senior unsecured obligation of the obligor and (1) neither the obligor nor any of its Affiliates is subject to reorganization or bankruptcy proceedings and (2) no debt security or obligation of the obligor has been in default during the past two years, "Caa3"; or

(E) if a debt security or obligation of the obligor has been in default during the past two years, "Ca".

For purposes of calculating a Moody's Derived Rating, each applicable rating on credit watch by Moody's with positive or negative implication at the time of calculation will be treated as having been upgraded or downgraded by one rating subcategory, as the case may be; except that, with respect to ratings issued for Structured Finance Securities, each such applicable rating will be treated as having been upgraded or downgraded by two rating subcategories.

"**Moody's Industry Category**": Any of the industry categories set forth in the Indenture, including any such modifications that may be made thereto or such additional categories that may be subsequently established by Moody's and provided by the Collateral Manager or Moody's to the Trustee.

"**Moody's Rating**": With respect to any Collateral Obligation as of any date of determination, the rating determined as follows:

(i) With respect to a Collateral Obligation (including a Synthetic Security) that (A) is publicly rated by Moody's, such public rating, or (B) is not publicly rated by Moody's but for which a rating or rating estimate has been assigned by Moody's upon the request of the Issuer or the Collateral Manager, such rating or, in the case of a rating estimate, the applicable rating estimate for such obligation.

(ii) With respect to a Collateral Obligation that is a Senior Secured Loan or Participation in a Senior Secured Loan, if not determined pursuant to subclause (i) above, if the obligor of such Collateral Obligation has a Corporate Family Rating, then such Corporate Family Rating.

(iii) With respect to a Collateral Obligation other than a Synthetic Security, if not determined pursuant to subclause (i) or (ii) above, if the obligor of such Collateral Obligation has one or more senior unsecured obligations publicly rated by Moody's, then the Moody's public rating on any such obligation as selected by the Collateral Manager.

(iv) With respect to a Collateral Obligation other than a Synthetic Security, if not determined pursuant to subclause (i), (ii) or (iii) above, the Moody's Derived Rating.

(v) With respect to a Synthetic Security, if not determined pursuant to subclause (i) above, as provided by Moody's.

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For purposes of calculating a Moody's Rating, each applicable rating on credit watch by Moody's with positive or negative implication at the time of calculation will be treated as having been upgraded or downgraded by one rating subcategory, as the case may be; except that, with respect to ratings issued for Structured Finance Securities, each such applicable rating will be treated as having been upgraded or downgraded by two rating subcategories.

"**Moody's Rating Condition**": With respect to any proposed action to be taken under the Indenture or any other document contemplated by the Indenture, a condition that is satisfied when Moody's has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that an immediate withdrawal or reduction with respect to any then-current rating by Moody's of any Class of Co-Issued Notes will not occur as a result of such proposed action.

"**Moody's Rating Factor**": With respect to any Collateral Obligation, is the number set forth in the table below opposite the rating of such Collateral Obligation, which may be adjusted from time to time by Moody's:

Moody's Default Probability Rating	Moody's Rating Factor	Moody's Default Probability Rating	Moody's Rating Factor
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,766
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

Solely for purposes of determining the Maximum Rating Factor Test:

(i) any Collateral Obligation issued or guaranteed as to the payment of principal and interest by the United States of America or any agency or instrumentality thereof, the obligations of which are expressly backed by the full faith and credit of the United States of America, shall be assigned a Moody's Rating Factor of 1;

(ii) any Collateral Obligation with only a short-term rating of "P-1" by Moody's shall be assigned a Moody's Rating Factor equivalent to that of the senior unsecured rating of the issuer;

(iii) any Collateral Obligation with only a short-term rating of "P-1" by Moody's of an issuer that does not have a senior unsecured rating shall be assigned a Moody's Rating Factor of 180; and

(iv) if a Collateral Obligation is not rated by Moody's and no other security or obligation of the issuer is rated by Moody's, and such Collateral Obligation does not have a Moody's Derived Rating, then the Moody's Rating Factor of such Collateral Obligation will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer or the Collateral Manager; *provided, however*, that until such rating estimate is made, the Moody's

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Rating Factor of such security shall be deemed to be the lower of the Moody's Rating Factor corresponding to such security's rating as determined pursuant to the definition of "Moody's Default Probability Rating" and 10,000.

"Moody's Recovery Rate": With respect to any Collateral Obligation, as of any Measurement Date, the recovery rate specified in Table I below corresponding to such type of Collateral Obligation:

Table I

Moody's Recovery Rates

Type of Collateral Obligation	Recovery Rate
Senior Secured Loans and Senior Secured Floating Rate Notes	The recovery rate determined by reference to Table II below
Senior Unsecured Loans and Subordinated Loans	The recovery rate determined by reference to Table III below
bonds	The recovery rate determined by reference to Table IV below
Synthetic Securities	Pending assignment by Moody's on a case-by-case basis, 25.00% and, thereafter, as provided by Moody's
DIP Loans	50.00%
Finance Leases	Pending assignment by Moody's on a case-by-case basis, 10.00% and, thereafter, as provided by Moody's

Table II

Moody's Recovery Rates for Senior Secured Loans and Senior Secured Floating Rate Notes

Number of rating sub-categories by which the Moody's Rating exceeds the Moody's Default Probability Rating	Recovery Rate
-3 or less	20%
-2	30%
-1	40%
0	45%
1	50%
2	60%
3	60% or such higher recovery rate as provided by Moody's due to changes in its rating methodology
4 or more	60% or such higher recovery rate as provided by Moody's due to changes in its rating methodology

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Table III

Moody's Recovery Rates For Senior Unsecured Loans and Subordinated Loans

Number of rating sub-categories by which the Moody's Rating exceeds the Moody's Default Probability Rating	Recovery Rate
-3 or less	10.0%
-2	15.0%
-1	30.0%
0	40.0%
1	42.5%
2	45.0%
3	45.0% or such higher recovery rate as provided by Moody's due to changes in its rating methodology
4 or more	45.0% or such higher recovery rate as provided by Moody's due to changes in its rating methodology

Table IV

Moody's Recovery Rates For Bonds

Number of rating sub-categories by which the Moody's Rating exceeds the Moody's Default Probability Rating	Recovery Rate
-3 or less	2%
-2	10%
-1	15%
0	30%
1	35%
2 or more	40%

* The recovery rate for a subordinated debt security shall be 15% if its Moody's Rating has been determined by reference to the definition of "Moody's Derived Rating".

"**Moody's Weighted Average Rating Factor**": As of any Measurement Date, will equal the number obtained by summing the products obtained by multiplying the Principal Balance of each Collateral Obligation by its Moody's Rating Factor, dividing such sum by the Aggregate Principal Amount of all such Collateral Obligations and rounding the result up to the nearest whole number.

"**Moody's Weighted Average Recovery Rate**": As of any Measurement Date, the number (expressed as a percentage) obtained by summing the product of the Moody's Recovery Rate of each Collateral Obligation and the Principal Balance of such Collateral Obligation, and dividing such sum by the Aggregate Principal Amount of all such Collateral Obligations.

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"**Non-U.S. Obligor**": An issuer or obligor of a Collateral Obligation (i) that is not a Special Purpose Vehicle and (ii) that is organized in a sovereign jurisdiction other than the United States of America.

"**Note Interest Rate**": With respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, the annual rate at which interest accrues thereon, as specified in "Summary—The Offering—Securities Issued".

"**Note Payment Sequence**": The application, in accordance with the Priority of Payments, of Interest Proceeds or Principal Proceeds, as applicable, in the following order: to the payment of principal of the Class A Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class B Notes until redeemed or otherwise paid in full, then to the payment of principal of the Class C Notes until redeemed or otherwise paid in full, and then to the payment of principal of the Class D Notes until redeemed or otherwise paid in full and then to the payment of principal of the Class E Notes until redeemed or otherwise paid in full.

"**Offer**": (i) With respect to any Collateral Obligation or Eligible Investment, any offer by the issuer of such security or borrower with respect to such debt obligation or by any other Person made to all of the holders of such security or debt obligation to purchase or otherwise acquire such security or debt obligation (other than pursuant to any redemption in accordance with the terms of any related Reference Instrument or for the purpose of registering the security or debt obligation) or to exchange such security or debt obligation for any other security, debt obligation, cash or other property or (ii) with respect to any Collateral Obligation or Eligible Investment that constitutes a bond, any solicitation by the issuer of such security or borrower with respect to such debt obligation or any other Person to amend, modify or waive any provision of such security or debt obligation or any related Reference Obligation.

"**Offering**": The offering of the Securities on the Closing Date.

"**Outstanding**": With respect to a Class of Securities or all of the Securities, as of any date of determination, all of such Class of Securities or all of the Securities, theretofore authenticated and delivered under the Indenture, except:

(a) Securities theretofore cancelled by the Registrar or delivered to the Registrar for cancellation;

(b) Securities or, in each case, portions thereof for whose payment or redemption funds in the necessary amount have been theretofore irrevocably deposited with the Trustee or any paying agent in trust for the Holders of such Securities; provided that if such Securities or portions thereof are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;

(c) Securities in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any such original Securities are held by a holder in due course;

(d) Securities alleged to have been mutilated, destroyed, lost or stolen for which replacement Securities have been issued as provided in the Indenture;

(e) in determining whether the Holders of the requisite Outstanding amount have given any request, demand, authorization, direction, notice, consent or waiver hereunder:

(i) Securities owned by the Issuer or the Co-Issuer shall be disregarded and deemed not to be Outstanding;

(ii) (1) with respect to any vote in connection with the removal and replacement of the Collateral Manager, any Securities held by, or with respect to which discretionary voting rights are held by, the Collateral Manager and/or its Affiliates, shall be disregarded and deemed not to be Outstanding, except that, with respect to

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subclause (i) above and this subclause (ii)(1), in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities that a Trust Officer of the Trustee knows to be so owned shall be so disregarded; and

(2) except as otherwise provided in the immediately preceding subclause (ii)(1), any Securities held by, or with respect to which discretionary voting rights are held by, the Collateral Manager and/or its Affiliates or their respective employees will have voting rights with respect to all matters as to which the Holders of Securities are entitled to vote;

(f) for the avoidance of doubt, any Securities held by, or with respect to which discretionary voting rights are held by, the Initial Purchaser and/or its Affiliates or its employees will have voting rights with respect to all matters as to which the Holders of Securities are entitled to vote; and

(g) Securities so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee that the pledgee has the right so to act with respect to such Securities and the pledgee is not the Issuer, the Co-Issuer or any other obligor upon the Securities or any Affiliate of the Issuer, the Co-Issuer or such other obligor.

"Par Value Ratio": With respect to any applicable Class of Secured Notes, the ratio determined as of any Measurement Date (expressed as a percentage), after giving effect to the definition of "Coverage Tests" and "Principal Balance", obtained by dividing:

(a) the sum of (without duplication):

(i) the Aggregate Principal Amount of the Collateral Obligations (other than Defaulted Obligations) minus any Securities Lending Collateral Losses;

(ii) the principal amount of any cash and Eligible Investments together with any uninvested amounts on deposit in the Issuer Accounts (excluding amounts deposited in the Revolving Credit Facility Reserve Account) representing Principal Proceeds or Liquidation Proceeds (in each case excluding Reinvestment Income); and

(iii) the sum of the Principal Balances of all Defaulted Obligations; by

(b) (i) the Aggregate Outstanding Amount of the Secured Notes of such Class and each Class senior to it (excluding the Class S Notes); *provided, however*, the Class A Notes and the Class B Notes shall constitute one Class of Secured Notes for purposes of the Par Value Ratio determined for the Class A/B Par Value Test plus (ii) an amount equal to the Aggregate Underlying Undrawn Amount at such time less the amounts deposited in the Revolving Credit Facility Reserve Account.

"Par Value Tests": The Class A/B Par Value Test, the Class C Par Value Test, the Class D Par Value Test and the Class E Par Value Test.

"Participation": An interest in a loan acquired indirectly by way of participation from a Selling Institution.

"Payment Date": Each Scheduled Payment Date and any Redemption Date.

"Payment Default": Any Event of Default specified in subclauses (a), (b), (c), (g) or (h) of the definition of such term.

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"Permitted Offer": An offer (i) pursuant to the terms of which the offeror offers to acquire a debt obligation (including a Collateral Obligation) in exchange for consideration consisting solely of cash in an amount equal to or greater than the full face amount of such debt obligation plus any accrued and unpaid interest and (ii) as to which the Collateral Manager has determined in its judgment that the offeror has sufficient access to financing to consummate the offer.

"Permitted Reinvestment Period": With respect to Principal Proceeds received during a Due Period, the period beginning on the day such Principal Proceeds are received by the Issuer and ending the later of the last day of (i) the Reinvestment Period and (ii) the Investment Due Period.

"Person": An individual, corporation (including a business trust), partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), bank, unincorporated association or government or any agency or political subdivision thereof or any other entity of a similar nature.

"Plan": An employee benefit plan that is defined in Section 3(3) of ERISA and subject to Title I of ERISA or a plan that is defined in Section 4975(e)(1) of the Code and subject to Section 4975 of the Code.

"Pledged Obligations": On any date of determination, the Collateral Obligations and the Eligible Investments owned by the Issuer that have been granted to the Trustee.

"Principal Allocated Accrued Interest": With respect to any date of determination after the Effective Date, the aggregate cumulative amount of accrued interest received in connection with sales of Accrued Interest Collateral Obligations that constitutes Sale Proceeds pursuant to subclauses (ii) and (iii) of the definition thereof.

"Principal Balance": As of any date of determination, with respect to any Collateral Obligation, Eligible Investment or cash, the outstanding principal amount of such Collateral Obligation, Eligible Investment or cash; *provided*, *however*, that:

(i) the Principal Balance of a Synthetic Security (a) as to which a credit event has not occurred thereunder shall be the notional amount or the outstanding principal amount, as the case may be, specified in such Synthetic Security and (b) as to which a credit event has occurred thereunder, for purposes of calculating (A) the Par Value Ratios, shall be as determined under subclause (iii) below, (B) the Collateral Quality Tests, shall be zero; and (C) the amounts payable to the Trustee and the Collateral Management Fee, shall be the notional amount or the outstanding principal amount specified in such Synthetic Security;

(ii) the Principal Balance of a Collateral Obligation received upon acceptance of an Offer (as described in subclause (i) of the definition thereof) (other than a Permitted Offer) to exchange a Collateral Obligation for such Collateral Obligation shall, until such time as Interest Proceeds or Principal Proceeds, as applicable, are first received when due with respect to such Collateral Obligation, be deemed to be the lesser of (x) a percentage of the outstanding principal amount equal to the Moody's Recovery Rate for such Collateral Obligation and (y) a percentage of the outstanding principal amount equal to the S&P Recovery Rate for such Collateral Obligation (determined with respect to each Class of Secured Notes and the relevant Par Value Ratio for such Class of Secured Notes; it being agreed that, with respect to the Class A/B Par Value Ratio, the S&P Recovery Rate shall be determined by reference to the Class A Notes only); *provided* that, for the purpose of calculating (1) the Collateral Quality Tests and the Concentration Limitations, the Principal Balance of such Collateral Obligation shall be zero, (2) the amounts payable to the Trustee pursuant to the Indenture, the Principal Balance of such Collateral Obligation shall be the outstanding principal amount thereof and (3) the Collateral Management Fee, the Principal Balance of such Collateral Obligation shall be the outstanding principal amount thereof;

(iii) the Principal Balance of each Defaulted Obligation shall be deemed to be zero; *provided* that (1) for the purpose of calculating the amounts payable to the Trustee pursuant to the

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Indenture, the Principal Balance of a Defaulted Obligation shall be the outstanding principal amount of such Defaulted Obligation, (2) for the purpose of calculating the Collateral Management Fee, the Principal Balance of a Defaulted Obligation shall be the outstanding principal amount of such Defaulted Obligation and (3) for the purpose of calculating the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied), the Principal Balance of a Defaulted Obligation (A) that has been held by the Issuer for less than three years (or, if held by the Issuer for more than three years, such Collateral Obligation does not constitute those Defaulted Obligations in excess of 2.0% of the Aggregate Principal Amount of the Collateral Portfolio) shall be the product of (i) the least of the Moody's Recovery Rate, the S&P Recovery Rate (determined with respect to each Class of Secured Notes and the relevant Par Value Ratio for such Class of Secured Notes; it being agreed that, with respect to the Class A/B Par Value Ratio, the S&P Recovery Rate shall be determined by reference to the Class A Notes only) and the Market Value (expressed as a percentage) for such Defaulted Obligation and (ii) the principal amount of such Defaulted Obligation (or, in the case of a Defaulted Obligation that is a Step-Up Coupon Security during a period for which no interest is payable or a Zero-Coupon Security, the accreted value thereof at the time of default) or (B) that has been held by the Issuer for three years or more and that constitutes those Defaulted Obligations in excess of 2.0% of the Aggregate Principal Amount of the Collateral Portfolio, shall be deemed to have a Principal Balance of zero;

(iv) the Principal Balance of each Equity Security and Exchanged Equity Security shall be deemed to be zero;

(v) the Principal Balance of any Zero-Coupon Security which, by its terms, does not at any time, pay interest thereon or any Step-Up Coupon Security during a period for which no interest is payable shall be deemed to be the accreted value of such Pledged Obligation as at the date of determination and any Deferrable Interest Obligation which, by its terms, does not at any time or from time to time pay interest thereon, shall be deemed to exclude capitalized interest;

(vi) the Principal Balance of any Collateral Obligations and any Eligible Investments in which the Trustee does not have a first priority perfected security interest shall be deemed to be zero (other than Collateral Obligations loaned to a Securities Lending Counterparty for so long as an event of default, as such term is defined under the related Securities Lending Agreement, shall not have occurred and be continuing under the related Securities Lending Agreement); *provided* that for the purpose of calculating the Collateral Management Fee and the amounts payable to the Trustee pursuant to the Indenture, the Principal Balance of such Collateral Obligation or Eligible Investment shall be the outstanding principal amount thereof;

(vii) for the purpose of calculating the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied), the Principal Balance of any Deferrable Interest Obligation that is in accordance with its terms deferring interest or making payments due thereon "in kind" for (i) with respect to securities with a Moody's Rating of "Ba1" or lower, the lesser of 6 months or one payment period and (ii) with respect to securities with a Moody's Rating of "Baa3 or higher, the lesser of one year or two consecutive payment periods, shall be the product of (x) the least of the Moody's Recovery Rate, the S&P Recovery Rate (determined with respect to each Class of Secured Notes and the relevant Par Value Ratio for such Class of Secured Notes; it being agreed that, with respect to the Class A/B Par Value Ratio, the S&P Recovery Rate shall be determined by reference to the Class A Notes only) and the Market Value (expressed as a percentage) for such Deferrable Interest Obligation and (y) the principal amount of such Deferrable Interest Obligation;

(viii) the Principal Balance of any Revolving Credit Facility or Delayed Funding Term Loan shall be the sum of the funded portion of such Revolving Credit Facility or Delayed Funding Term

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Loan and the unfunded portion of such Revolving Credit Facility or Delayed Funding Term Loan;

(ix) subject to subclause (xii) below, the Principal Balance of a Current Pay Obligation for purposes of calculating the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied) shall be (i) if the Market Value of such Current Pay Obligation is 85% or more of its Aggregate Principal Amount and such Collateral Obligation is rated Caa2, the outstanding principal amount thereof, (ii) if the Market Value of such Current Pay Obligation is less than 85% of its Aggregate Principal Amount and such Collateral Obligation is rated Caa2, 95% of its Market Value; (iii) if the Market Value of such Current Pay Obligation is 80% or more of its Aggregate Principal Amount and such Collateral Obligation is rated Caa1 or above, the outstanding principal amount thereof and (iv) if the Market Value of such Current Pay Obligation is less than 80% of its Aggregate Principal Amount and such Collateral Obligation is rated Caa1 or above, 95% of its Market Value;

(x) subject to subclause (xii) below, the Principal Balance of a Caa/CCC Collateral Obligation for purposes of calculating the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied) shall be determined as follows: If on any date (without duplication) the Aggregate Principal Amount of all Caa/CCC Collateral Obligations exceeds 7.5% of the Aggregate Principal Amount (as calculated without taking into consideration this subclause (x)) of the Collateral Portfolio, the Principal Balance of each Caa/CCC Collateral Obligation (or portion of a Caa/CCC Collateral Obligation) in excess of 7.5% of the Aggregate Principal Amount (as calculated without taking into consideration this subclause (x)) of the Collateral Portfolio will be included in the calculation of compliance with the Par Value Tests at each Collateral Obligation's Market Value, it being understood that for purposes of determining the Caa/CCC Collateral Obligations (or portion of a Caa/CCC Collateral Obligation) comprising the excess of 7.5% of the Aggregate Principal Amount (as calculated without taking into consideration this subclause (x)) of the Collateral Portfolio, the Caa/CCC Collateral Obligations (or portion of a Caa/CCC Collateral Obligation) that have the lowest Market Value shall be deemed to comprise such excess;

(xi) subject to subclause (xii) below, the Principal Balance of a Discount Collateral Obligation for purposes of calculating the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied) shall be the lesser of its Market Value and 90% of its outstanding principal amount;

(xii) for purposes of calculating the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied), the Principal Balance of a Collateral Obligation that has the characteristics of a Current Pay Obligation, a Caa/CCC Collateral Obligation (without giving effect to the proviso in the definition thereof) and/or a Discount Collateral Obligation shall be the lowest value of the values that corresponds to the relevant type of Collateral Obligations (as determined by subclause (ix), (x) and/or (xi) above);

(xiii) for purposes of calculating each of the Par Value Ratios (including the calculation of the Class E Par Value Ratio for purposes of determining whether the Reinvestment Test has been satisfied but not including calculating the Minimum Par Value Ratio), the Principal Balance of the portion of principal due on a Collateral Obligation after the Stated Maturity shall be (a) with respect to any such portion of principal due in one year or less following the Stated Maturity, (1) if such Collateral Obligation is a loan, 80% of the amount of such principal due in one year or less following the Stated Maturity and (2) if such Collateral Obligation is a bond, 75% of the amount of such principal due in one year or less following the Stated Maturity, or (b) with respect to any such portion of principal due after one year following the Stated Maturity, the amount of such portion of principal multiplied by the lower of its Moody's Recovery Rate and its S&P Recovery Rate (determined with respect to each

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Class of Secured Notes and the relevant Par Value Ratio for such Class of Secured Notes; it being agreed that, with respect to the Class A/B Par Value Ratio, the S&P Recovery Rate shall be determined by reference to the Class A Notes only);

(xiv) for the avoidance of doubt, the Principal Balance of a DIP Loan will be the outstanding principal amount thereof; and

(xv) for the avoidance of doubt, the Principal Balance of any Substitute Deliverable Obligation will be deemed to be zero.

"Principal Payments": With respect to any Payment Date, an amount equal to the sum of any payments of principal (including optional or mandatory redemptions or prepayments) received on the Pledged Obligations during the related Due Period, including payments of principal received in respect of exchange offers and tender offers and recoveries on Defaulted Obligations up to the outstanding principal amount thereof (including, without limitation, any payments received by the Issuer upon the occurrence of a "credit event" under a Synthetic Security up to the Principal Balance of such Synthetic Security), but not including Sale Proceeds received during the Reinvestment Period.

"Principal Proceeds": With respect to any Payment Date and the Stated Maturity, without duplication:

(i) all Principal Payments, including Unscheduled Principal Payments, received during the related Due Period on the Pledged Obligations;

(ii) any amounts, distributions or proceeds (including resulting from any sale) received on any Defaulted Obligations (other than proceeds that constitute Interest Proceeds under subclause (ii) of the definition thereof) during the related Due Period if the outstanding principal amount thereof then due and payable has not been received by the Issuer after giving effect to the receipt of such amounts, distributions or proceeds, as the case may be;

(iii) all premiums (including prepayment premiums) received during the related Due Period on the Collateral Obligations;

(iv) (A) any amounts constituting unused proceeds remaining in the Principal Collection Account and the Subordinated Securities Principal Collection Account from the Offering (1) at the end of the Reinvestment Period or (2) on any Determination Date on which any of the Par Value Tests are not satisfied or on any Determination Date on or after the Second Determination Date on which any of the Interest Coverage Tests are not satisfied, other than Reinvestment Income (which shall be treated as Interest Proceeds), (B) all amounts transferred to the Principal Collection Account from the Expense Reserve Account during the related Due Period and (C) any Principal Proceeds and unused proceeds designated for application as Principal Proceeds as set forth in "Security for the Secured Notes—Principal Collection Account";

(v) Sale Proceeds received during the related Due Period (excluding any Sale Proceeds received in connection with an optional redemption of the Securities);

(vi) (A) any net termination payments paid to the Issuer under any Hedge Agreement during the related Due Period (excluding any amounts received in connection with an optional redemption of the Securities);

(B) any upfront payment made by a Hedge Counterparty during the related Due Period that is not a replacement Hedge Counterparty if so designated by the Collateral Manager; and

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(C) any upfront payment made by a replacement Hedge Counterparty during the related Due Period in excess of any hedge termination payment required to be paid by the Issuer to the replaced Hedge Counterparty;

(vii) proceeds received from any additional issuance of Securities if treated as Principal Proceeds in accordance with the Treatment of Additional Issuances of Securities;

(viii) Revolving Credit Facility Net-Backs received during the related Due Period;

(ix) any amounts transferred from the Synthetic Security Collateral Account that are deposited in the Principal Collection Account during the related Due Period;

(x) any up-front payments received in connection with the purchase of a Synthetic Security;

(xi) any amounts transferred to the Principal Collection Account from the Revolving Credit Facility Reserve Account; and

(xii) all other payments received during the related Due Period on the Collateral not included in Interest Proceeds;

provided that any of the amounts referred to in subclauses (i) through (xii) above shall be excluded from Principal Proceeds to the extent such amounts were previously reinvested in Collateral Obligations or are designated by the Collateral Manager as retained for investment or funding in accordance with the Reinvestment Criteria and certain other restrictions set forth in the Indenture; *provided*, *however*, that with respect to the final Payment Date, "Principal Proceeds" shall include any amounts referred to in subclauses (i) through (xiii) above that are received from the sale of Collateral Obligations on or prior to the day immediately preceding the final Payment Date.

For the avoidance of doubt, if the Issuer receives any payment from a Securities Lending Counterparty that relates to a Collateral Obligation that has been loaned to such Securities Lending Counterparty pursuant to a related Securities Lending Agreement, the portion of such payment that would have constituted Principal Proceeds had such payment been paid from the issuer of such loaned Collateral Obligation to the Issuer shall constitute Principal Proceeds, and prior to an event of default, as such term is defined under the related Securities Lending Agreement, any other payment received by the Issuer under the related Securities Lending Collateral shall not constitute Principal Proceeds and such amounts shall be deposited in the Securities Lending Account.

"Proceeds": (i) Any property (including but not limited to cash and securities) received as a Distribution on the Collateral or any portion thereof, (ii) any property (including but not limited to cash and securities) received in connection with the sale, liquidation, exchange or other disposition of the Collateral or any portion thereof, including any amounts resulting from the sale or disposition of any security pledged as collateral pursuant to a Securities Lending Agreement and (iii) all proceeds (as such term is defined in the UCC) of the Collateral or any portion thereof.

"Proposed Portfolio": The Collateral Portfolio resulting from the sale, maturity or other disposition of a Collateral Obligation or a proposed reinvestment of Principal Proceeds or Interest Proceeds, as the case may be, in a Substitute Collateral Obligation, as the case may be.

"Purchase Agreement": The purchase agreement, dated as of December 8, 2006, among the Issuer, the Co-Issuer and Goldman, Sachs & Co., as the Initial Purchaser.

"Qualified Institutional Buyer": A qualified institutional buyer as defined in Rule 144A.

"Qualified Purchaser": Any Person that, at the time of its acquisition, purported acquisition or proposed acquisition of the Securities, is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act.

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"**Rating Agencies**": Moody's and S&P (each, a "Rating Agency") or, with respect to Collateral Obligations generally, if at any time Moody's or S&P ceases to provide rating services generally, any other nationally recognized investment rating agency selected by the Issuer and reasonably satisfactory to a Majority of the Controlling Class. In the event that at any time the Rating Agencies do not include Moody's or S&P, references to rating categories of Moody's or S&P in the Indenture shall be deemed instead to be references to the equivalent categories of such other rating agency as of the most recent date on which such other rating agency and Moody's or S&P published ratings for the type of security in respect of which such alternative rating agency is used; *provided* that, with respect to S&P, the ratings of such other rating agency may not be used for notching purposes without S&P's written approval. References to Rating Agencies with respect to a Class of Secured Notes shall apply only to Rating Agencies that assigned a rating (public or confidential) to such Class of Secured Notes on the Closing Date.

"**Redemption Date**": Any date specified for a redemption of Securities pursuant to the Indenture or if such date is not a Business Day, the next following Business Day.

"**Reference Instrument**": The indenture, credit agreement or other agreement pursuant to which a Collateral Obligation has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Collateral Obligation or of which the holders of such Collateral Obligation are the beneficiaries.

"**Reference Obligation**": An obligation upon which a Synthetic Security is based; *provided* that such debt security or other obligation:

(i) is not itself a Synthetic Security or a Structured Finance Security;

(ii) satisfies (and, if owned by the Issuer, would satisfy) the definition of "Collateral Obligation" except for subclauses (iv), (v), (vi), (xi), (xii), (xiii) and (xvi) of the definition of "Collateral Obligation"; and

(iii) is not an Equity Security.

"**Reference Obligor**": An obligor on (i) a Reference Obligation (if a Reference Obligation is specified) or (ii) a reference entity (if no Reference Obligation is specified).

"**Register**": The register maintained by the Trustee or any Registrar with respect to the Securities under the Indenture.

"**Registered**": A debt obligation that is issued after July 18, 1984 and that is in registered form within the meaning of Section 881(c)(2)(B)(i) of the Code and the Treasury regulations promulgated thereunder, provided that an interest in a grantor trust will be considered to be Registered if such interest is in registered form and each of the obligations or securities held by such trust was issued after July 18, 1984.

"**Registrar**": The agent appointed by the Issuer under the Indenture to act as registrar for the purpose of registering and recording in the Register the Securities and transfers of such Securities.

"**Regulation D**" or "**Reg D**": Regulation D under the Securities Act.

"**Regulation S**" or "**Reg S**": Regulation S under the Securities Act.

"**Regulation S Global Class E Notes**": One or more permanent global notes for the Class E Notes in fully registered form without interest coupons sold in reliance on exemption from registration under Regulation S with the applicable legends set forth in the exhibit to the Indenture added to the form of such Class E Notes.

"**Regulation S Global Secured Notes**": One or more permanent global notes for the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes in fully registered form without interest coupons sold in reliance on exemption from registration under

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Regulation S with the applicable legends set forth in the exhibit to the Indenture added to the form of such Secured Notes.

"**Regulation S Global Securities**": Collectively, the Regulation S Global Secured Notes and the Regulation S Global Subordinated Securities.

"**Regulation S Global Subordinated Securities**": One or more permanent global securities for the Subordinated Securities in fully registered form without interest coupons sold in reliance on exemption from registration under Regulation S.

"**Regulation U**": Regulation U issued by the Board of Governors of the Federal Reserve System.

"**Reinvestment Income**": Any interest or other earnings on unused proceeds deposited in the Principal Collection Account or the Subordinated Securities Principal Collection Account, as the case may be.

"**Reinvestment Test**": A test satisfied as of any Measurement Date during the Reinvestment Period if the Class E Par Value Ratio is equal to or greater than the applicable amount set forth under "Summary—The Offering—Coverage Tests and the Reinvestment Test". The Reinvestment Test is calculated using the same methodology as the Class E Par Value Test.

"**Repository**": The internet-based password protected electronic repository of transaction documents relating to privately offered and sold collateralized debt obligation securities located at "www.cdolibrary.com" operated by The Bond Market Association and Intex or any other CDO modeling service selected by the Collateral Manager (provided that the delivery requirements of any such other CDO modeling service selected by the Collateral Manager shall be reasonably acceptable to the Trustee and Collateral Administrator).

"**Required Hedge Counterparty Rating**": Except to the extent otherwise approved by the Rating Agencies, with respect to a counterparty or entity guaranteeing the obligations of such counterparty, (x) either (i) if such counterparty or entity has only a long-term rating by Moody's, a long-term senior unsecured debt rating, financial program rating, derivatives counterparty rating, counterparty risk rating or similar rating (as the case may be, the "**long-term rating**") of at least "Aa3" by Moody's and if rated "Aa3" by Moody's is not on negative credit watch by Moody's or (ii) if such counterparty or entity has a long-term rating and a short-term rating by Moody's, a long-term rating of at least "A1" by Moody's and a short-term rating of "P-1" by Moody's and, in each case, such rating is not on negative credit watch by Moody's and (y) (i) a short-term rating of at least "A-1" by S&P or (ii) if such counterparty or entity does not have a short-term rating by S&P, a long-term rating of at least "A+" by S&P.

"**Revolving Credit Facility**": A debt instrument that provides the borrower with a line of credit against which one or more borrowings may be made to the stated principal amount of such facility and which provide that such borrowed amount may be repaid and reborrowed from time to time; *provided* that such debt instrument shall only be considered a Revolving Credit Facility for so long as any future funding obligations remain in effect and only with respect to any portion which constitutes a future funding obligation.

"**Revolving Credit Facility Net-Back**": An amount representing a purchase price adjustment received by the Issuer in connection with the acquisition of a Revolving Credit Facility.

"**Revolving Credit Facility Reserve Account**": The trust account or accounts so designated and established pursuant to the Indenture.

"**Rule 144A**": Rule 144A under the Securities Act.

"**Rule 144A Global Class E Notes**": One or more permanent global notes for the Class E Notes in fully registered form without interest coupons sold in reliance on exemption from registration under Rule 144A with the applicable legends set forth in the exhibit to the Indenture added to the form of such Class E Notes.

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"Rule 144A Global Secured Notes": One or more permanent global notes for the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Rule 144A Global Class E Notes in fully registered form without interest coupons sold in reliance on exemption from registration under Rule 144A with the applicable legends set forth in the exhibit to the Indenture added to the form of such Secured Notes.

"S&P": Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor to the ratings business thereof.

"S&P CDO Evaluator": A dynamic, analytical computer program developed by S&P to determine the credit risk of a portfolio of Collateral Obligations, which will be provided to the Collateral Manager and the Issuer after the Effective Date, and which may be modified by S&P from time to time.

"S&P CDO Evaluator Test": A test satisfied, as of any Measurement Date after the Reinvestment Period if, after giving effect to any purchase or sale (or both, if applicable) of a Collateral Obligation, as the case may be, each of the Class S Scenario Default Rate, the Class A Scenario Default Rate, the Class B Scenario Default Rate, the Class C Scenario Default Rate, the Class D Scenario Default Rate and the Class E Scenario Default Rate is maintained or improved.

"S&P CDO Monitor": A dynamic, analytical computer program developed by S&P to determine the credit risk of a portfolio of Collateral Obligations and which may be modified by S&P from time to time which is used to determine the credit risk of a portfolio of underlying instruments, and which will be provided to the Collateral Manager, the Trustee and the Issuer (together with all assumptions and instructions necessary for running such program) after the Effective Date.

"S&P Priority Category": The meaning ascribed to such term in the table that is included under clause (b) in the definition of "S&P Weighted Average Recovery Rate".

"S&P Rating": With respect to a Collateral Obligation, the rating determined as follows (for the issuer or the obligation, as applicable):

(i) if there is an issuer credit rating by S&P of the issuer of such Collateral Obligation, or the guarantor who unconditionally and irrevocably guarantees such Collateral Obligation, then the S&P Rating of such issuer, or the guarantor, shall be such rating (regardless of whether there is a published rating by S&P on the Collateral Obligation of such issuer held by the Issuer);

(ii) if there is not an issuer credit rating by S&P but there is a rating by S&P on a senior unsecured obligation of the issuer, then the S&P Rating of such Collateral Obligation shall be such rating;

(iii) if such Collateral Obligation is a senior secured or senior unsecured obligation of the issuer:

(a) if there is not an issuer credit rating or a rating on a senior unsecured obligation of the issuer by S&P, but there is a rating by S&P on a senior secured obligation of the issuer, then the S&P Rating of such Collateral Obligation shall be one subcategory below such rating; and

(b) if there is not an issuer credit rating or a rating on a senior unsecured or senior secured obligation of the issuer by S&P, but there is a rating by S&P on a subordinated obligation of the issuer, then the S&P Rating of such Collateral Obligation shall be one subcategory above such rating if such rating is higher than "BB+" and will be two subcategories above such rating if such rating is "BB+" or lower;

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(iv) with respect to any Collateral Obligation that is a Synthetic Security, the S&P Rating of such Synthetic Security shall be determined in accordance with the table set forth in "Security for the Secured Notes—Certain Matters Relating to Synthetic Securities";

(v) (1) with respect to a DIP Loan that has an S&P issue rating, the S&P Rating of such DIP Loan will be such S&P issue rating, (2) with respect to a DIP Loan that has no S&P issue rating, (a) if S&P has provided an estimated rating with respect to such DIP Loan, the S&P rating of such DIP Loan will be the estimated rating of such DIP Loan as provided by S&P, (b) if the Issuer or the Collateral Manager on behalf of the Issuer has applied to S&P for a rating estimate, pending receipt from S&P of such estimate, such DIP Loan shall have an S&P Rating of "B-" if the Collateral Manager believes that such estimate will be at least "B-" and if the Aggregate Principal Amount of Collateral Obligations that have an S&P Rating by reason of this subclause (v)(2)(b), together with the Aggregate Principal Amount of Collateral Obligations that have an S&P Rating by reason of the first proviso to subclause (ix)(b) below, does not exceed 10% of the Aggregate Principal Amount of all Collateral Obligations; *provided, however*, that, if the rating estimate subsequently provided by S&P for any such DIP Loan is below "B-", then the Collateral Manager shall no longer have the ability to assign ratings to any DIP Loans pursuant to this subclause (v)(2)(b), and (c) in all other cases, such DIP Loan shall have an S&P Rating of "CCC+";

(vi) (1) with respect to a Current Pay Obligation that has an S&P issue rating, the S&P Rating of such Current Pay Obligation will be such S&P issue rating and (2) with respect to a Current Pay Obligation that is rated "D", "SD" or has no S&P issue rating, the S&P Rating of such Current Pay Obligation will be the greater of (a) "CCC-" or (b) one subcategory below the S&P Rating of any related DIP Loan;

(vii) if such Collateral Obligation is a Structured Finance Security, the S&P Rating of such Collateral Obligation shall be determined as follows:

(a) if S&P has assigned a rating to such Collateral Obligation either publicly or privately (in the case of a private rating, with the appropriate consents for the use of such private rating), the S&P Rating shall be the rating assigned thereto by S&P;

(b) if such Collateral Obligation is not rated by S&P but the Issuer or the Collateral Manager on behalf of the Issuer has requested that S&P assign a rating to such Collateral Obligation, the S&P Rating shall be the rating so assigned by S&P; *provided* that pending receipt from S&P of such rating, if such Collateral Obligation is not eligible for notching in accordance with a certain schedule ("Schedule H") to the Indenture, such Collateral Obligation shall have an S&P Rating of "CCC-", otherwise such S&P Rating shall be the rating assigned according to another schedule ("Schedule G") to the Indenture until such time as S&P shall have assigned a rating thereto; or

(c) if any Collateral Obligation is a Collateral Obligation that has not been assigned a rating by S&P and is not a Collateral Obligation listed in Schedule H to the Indenture, as identified by the Collateral Manager, the S&P Rating of such Collateral Obligation shall be determined in accordance with Schedule G to the Indenture; *provided* that if any Collateral Obligation shall, at the time of its purchase by the Issuer, be listed for a possible upgrade or downgrade on either Moody's or Fitch then current credit rating watch list, then the S&P Rating of such Collateral Obligation shall be one subcategory above or below, respectively, the rating then assigned to such item in accordance with Schedule G to the Indenture; *provided, further*, that the aggregate Principal Balance of the Collateral Obligation that may be given a rating based on this subparagraph (c) may not exceed 10% of the Aggregate Principal Amount of Collateral Obligations;

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(viii) if such Collateral Obligation is a Finance Lease that is cancelable or does not have a "hell or highwater" provision, then the S&P Rating of such Finance Lease shall be (1) with respect to a Finance Lease that has an S&P facility rating, such S&P facility rating and (2) with respect to a Finance Lease that has no S&P facility rating, the estimated rating of such Finance Lease as provided by S&P;

(ix) if subclauses (i) through (viii) above do not apply, then the S&P Rating for such Collateral Obligation may be determined using any one of the methods below:

(a) if an obligation of the issuer has a published rating from Moody's, then the S&P Rating will be determined in accordance with the methodologies for establishing the Moody's Rating, except that the S&P Rating of such obligation shall be (1) one subcategory below the S&P equivalent of the Moody's Rating if such security has a Moody's Rating of "Baa3" or higher and (2) two subcategories below the S&P equivalent of the Moody's Rating if such security has a Moody's Rating of "Ba1" or lower; *provided* that no more than 15% of the Collateral Obligations, by Aggregate Principal Amount, may be given an S&P Rating based on a rating given by Moody's as provided in this subclause (a);

(b) if no security or obligation of the issuer or obligor is rated by S&P or Moody's, then the Issuer or the Collateral Manager on behalf of the Issuer may apply to S&P for a rating estimate, which shall be its S&P Rating; *provided*, that pending receipt from S&P of such estimate, such Collateral Obligation shall have an S&P Rating of "CCC" if the Collateral Manager believes that such estimate will be at least "B-" and if no more than 10% of the Collateral Obligations, by Aggregate Principal Amount, have such S&P Rating by reason of this proviso or subclause (v)(2)(b) above; *provided, further*, that the Trustee, the Issuer and the Collateral Manager will not disclose any such estimated rating received from S&P; or

(c) if a security or obligation is not otherwise rated by S&P or Moody's and the Issuer or the Collateral Manager on behalf of the Issuer elects not to apply to S&P for a rating estimate, which would otherwise be its S&P Rating, such security or obligation shall have an S&P Rating of "CCC-";

(x) notwithstanding the foregoing, so long as any of the Secured Notes remain Outstanding and are rated by S&P, prior to or immediately following the acquisition of any Collateral Obligation not publicly rated by S&P and on or prior to each one-year anniversary of the acquisition of any such Collateral Obligation, the Issuer shall submit to S&P a request to perform a credit estimate on such Collateral Obligation, together with all information reasonably required by S&P to perform such estimate.

Notwithstanding anything to the contrary in any of the foregoing:

(1) if such Collateral Obligation is (a) on S&P's then current watchlist for upgrade, it shall be treated as upgraded by one rating subcategory or (b) on watchlist for downgrade, it shall be treated as downgraded by one rating subcategory unless S&P has notified the Collateral Manager that such downgrade treatment is no longer required;

(2) if the obligor (or guarantor, as applicable) of a Collateral Obligation is not organized in the United States or its territories, then any reference to the S&P issuer credit rating in this definition shall mean the S&P foreign currency issuer credit rating of such obligor (or guarantor, as applicable);

(3) any reference in this definition to an S&P credit rating shall mean the public S&P credit rating unless (I) the obligor of a Collateral Obligation and any relevant parties have provided written authorization to S&P (which form of authorization shall be

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satisfactory to S&P) for the use of such private or confidential credit rating in this transaction and (II) such private or confidential credit rating is continuously monitored by S&P;

(4) any S&P credit rating that contains a qualifier, including "p", "pi", "t", "r" or "q", shall not be a valid credit rating for use in this definition unless such use by the Issuer or the Collateral Manager satisfies the S&P Rating Condition; and

(5) any reference in this definition to an S&P rating estimate or estimated rating must be such rating provided by S&P in writing and any such rating shall expire after one year of its provision by S&P.

"**S&P Rating Condition**": With respect to any proposed action to be taken under the Indenture or any other document contemplated by the Indenture, a condition that is satisfied when S&P has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that an immediate withdrawal or reduction with respect to any then-current rating by S&P of any Class of Secured Notes will not occur as a result of such proposed action.

"**S&P Recovery Rate**": The meaning ascribed to such term in the table that is included in the definition of "S&P Weighted Average Recovery Rate".

"**S&P Recovery Rating**": The S&P recovery rating assigned to a Collateral Obligation and used in the tables included under clause (a) in the definition of "S&P Weighted Average Recovery Rate".

"**S&P Weighted Average Recovery Rate**": As of any Measurement Date, the number (expressed as a percentage) obtained by summing the products obtained by multiplying the Principal Balance of each Collateral Obligation by its S&P Recovery Rate (as set forth below in clause (a) or, if clause (a) is not applicable, then clause (b) or (c), as applicable), dividing such sum by the Aggregate Principal Amount of all such Collateral Obligations.

(a) (i) If a Collateral Obligation has an S&P Recovery Rating, the S&P Recovery Rate for such Collateral Obligation shall be determined as follows:

	S&P Rating of Secured Notes						
S&P Recovery Rating of a Collateral Obligation	S&P Recovery Rate for Secured Notes rated "AAA"	S&P Recovery Rate for Secured Notes rated "AA"	S&P Recovery Rate for Secured Notes rated "A"	S&P Recovery Rate for Secured Notes rated "BBB"	S&P Recovery Rate for Secured Notes rated "BB"	S&P Recovery Rate for Secured Notes rated "B"	S&P Recovery Rate for Secured Notes rated "CCC"
1+	100%	100%	100%	100%	100%	100%	100%
1	92%	93%	94%	96%	98%	100%	100%
2	84%	86%	88%	90%	92%	94%	94%
3	60%	63%	65%	69%	72%	74%	74%
4	40%	42%	44%	46%	48%	48%	48%
5	16%	17%	19%	21%	23%	24%	24%

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	S&P Recovery Rate* *The S&P Recovery Rate will be the applicable rate set forth above based on the applicable Class of Secured Notes and the current rating thereof at the time of determination.

(ii) If (x) a Collateral Obligation does not have an S&P Recovery Rating and such Collateral Obligation belongs to any one of the following S&P Priority Categories (as described in clause (b) below): Senior Unsecured Loans, Second Lien Loans or senior unsecured debt securities and (y) the issuer of such Collateral Obligation has issued another debt instrument that is outstanding and senior to such Collateral Obligation, belongs to any one of the following S&P Priority Categories (as described in clause (b) below): Senior Secured Loans, Senior Secured Floating Rate Notes or senior secured debt securities, and has an S&P Recovery Rating (such other debt instrument, a "**Senior Debt Instrument**"), the S&P Recovery Rate for such Collateral Obligation shall be determined as follows:

	S&P Rating of Secured Notes					
S&P Recovery Rating of the Senior Debt Instrument	S&P Recovery Rate for Secured Notes rated "AAA"	S&P Recovery Rate for Secured Notes rated "AA"	S&P Recovery Rate for Secured Notes rated "A"	S&P Recovery Rate for Secured Notes rated "BBB"	S&P Recovery Rate for Secured Notes rated "BB"	S&P Recovery Rate for Secured Notes rated "B" and "CCC"
1+	53%	55%	57%	59%	61%	61%
1	48%	50%	52%	54%	56%	56%
2	43%	45%	47%	49%	51%	51%
3	39%	41%	43%	45%	47%	47%
4	20%	20%	20%	20%	20%	20%
5	10%	10%	10%	10%	10%	10%
	S&P Recovery Rate* *The S&P Recovery Rate will be the applicable rate set forth above based on the applicable Class of Secured Notes and the current rating thereof at the time of determination.					

(iii) If (x) a Collateral Obligation does not have an S&P Recovery Rating and such Collateral Obligation belongs to any one of the following S&P Priority Categories (as described in clause (b) below): Subordinated Loans or subordinated debt securities and (y) the issuer of such Collateral Obligation has issued another debt instrument that is outstanding and senior to such Collateral Obligation, belongs to any one of the following S&P Priority Categories (as described in clause (b) below): Senior Secured Loans, Senior Secured Floating Rate Notes or senior secured debt securities, and has an S&P Recovery Rating (such other debt instrument, a "**Senior Debt Instrument**"), the S&P Recovery Rate for such Collateral Obligation shall be determined as follows:

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	S&P Rating of Secured Notes					
S&P Recovery Rating of the Senior Debt Instrument	S&P Recovery Rate for Secured Notes rated "AAA"	S&P Recovery Rate for Secured Notes rated "AA"	S&P Recovery Rate for Secured Notes rated "A"	S&P Recovery Rate for Secured Notes rated "BBB"	S&P Recovery Rate for Secured Notes rated "BB"	S&P Recovery Rate for Secured Notes rated "B" and "CCC"
1+	25%	25%	25%	25%	25%	25%
1	22%	22%	22%	22%	22%	22%
2	20%	20%	20%	20%	20%	20%
3	20%	20%	20%	20%	20%	20%
4	10%	10%	10%	10%	10%	10%
5	5%	5%	5%	5%	5%	5%
	S&P Recovery Rate* *The S&P Recovery Rate will be the applicable rate set forth above based on the applicable Class of Secured Notes and the current rating thereof at the time of determination.					

(b) If clause (a) is not applicable, the S&P Recovery Rate shall be determined as follows:

S&P Priority Category	**S&P Rating of Secured Notes**					
	S&P Recovery Rate for Secured Notes rated "AAA"	S&P Recovery Rate for Secured Notes rated "AA"	S&P Recovery Rate for Secured Notes rated "A"	S&P Recovery Rate for Secured Notes rated "BBB"	S&P Recovery Rate for Secured Notes rated "BB"	S&P Recovery Rate for Secured Notes rated "B" and "CCC"
Senior Secured Loans	56%	60%	64%	67%	70%	70%
(a) Senior Unsecured Loans and (b)Second Lien Loans not exceeding 15% of the Aggregate Principal Amount of the Collateral Portfolio	40%	42%	44%	46%	48%	48%

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(a) Subordinated Loans and (b) Second Lien Loans in excess of 15% of the Aggregate Principal Amount of the Collateral Portfolio	22%	22%	22%	22%	22%	22%
Senior Secured Floating Rate Notes	56%	60%	64%	67%	70%	70%
Senior secured debt securities	48%	49%	50%	51%	52%	52%
Senior unsecured debt securities	38%	41%	42%	44%	45%	45%
Subordinated debt securities	19%	19%	19%	19%	19%	19%
DIP Loans	56%	60%	64%	67%	70%	70%
Structured Finance Securities	See S&P Weighted Average Structured Finance Matrix or, at the election of the Collateral Manager, as assigned by S&P on a case-by-case basis					
	S&P Recovery Rate* *The S&P Recovery Rate will be the applicable rate set forth above based on the applicable Class of Secured Notes and the current rating thereof at the time of determination.					

(c) If the rating of any Class of Secured Notes by S&P is below "CCC-" or has been withdrawn by S&P, the S&P Recovery Rate relating to such Class of Secured Notes with respect to any Collateral Obligations shall be as assigned by S&P on a case-by-case basis.

"**S&P Weighted Average Structured Finance Matrix**": The following information has been provided to the Issuer by S&P and the asset classes and related capitalized terms, to the extent not defined in the Indenture, have the meanings ascribed thereto by S&P.

(a) Subject to subclause (c) through (f) below, if a Structured Finance Security is the senior-most tranche of securities issued by the relevant obligor, the S&P Recovery Rate shall be as set forth below:

	If current rating of senior CLO tranche is "AAA"	**If current rating of senior CLO tranche is "AA"**	**If current rating of senior CLO tranche is "A"**	**If current rating of senior CLO tranche is "BBB"**	**If current rating of senior CLO tranche is "BB"**	**If current rating of senior CLO tranche is "B"**	**If current rating of senior CLO tranche is "CCC"**
S&P Rating at the time of determination							
AAA	80.00%	85.00%	90.00%	90.00%	90.00%	90.00%	90.00%
AA	70.00%	75.00%	85.00%	90.00%	90.00%	90.00%	90.00%

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A	60.00%	65.00%	75.00%	85.00%	90.00%	90.00%	90.00%
BBB	50.00%	55.00%	65.00%	75.00%	85.00%	85.00%	85.00%

(b) Subject to subclause (c) through (f) below, if a Structured Finance Security is not the senior-most tranche of securities issued by the relevant obligor, the S&P Recovery Rate shall be as set forth below:

	If current rating of senior CLO tranche is "AAA"	**If current rating of senior CLO tranche is "AA"**	**If current rating of senior CLO tranche is "A"**	**If current rating of senior CLO tranche is "BBB"**	**If current rating of senior CLO tranche is "BB"**	**If current rating of senior CLO tranche is "B"**	**If current rating of senior CLO tranche is "CCC"**
S&P Rating at the time of determination							
AAA*	65.00%	70.00%	80.00%	85.00%	85.00%	85.00%	85.00%
AA	55.00%	65.00%	75.00%	80.00%	80.00%	80.00%	80.00%
A	40.00%	45.00%	55.00%	65.00%	80.00%	80.00%	80.00%
BBB	30.00%	35.00%	40.00%	45.00%	50.00%	60.00%	70.00%
BB	10.00%	10.00%	10.00%	25.00%	35.00%	40.00%	50.00%
B	2.50%	5.00%	5.00%	10.00%	10.00%	20.00%	25.00%
CCC	0.00%	0.00%	0.00%	0.00%	2.50%	5.00%	5.00%

* Applies only to Junior AAA tranche that are not *pari passu* with the Senior AAA tranche after an Event of Default is triggered.

(c) if such Structured Finance Security is a CDO of ABS, CDO of CDOs or a Market Value CDO, the recovery rate will be determined by S&P on a case by case basis.

(d) If such Structured Finance Security is a REIT Debt Security, the recovery rate will be 40.00%.

(e) If such Structured Finance Security has its payment obligations guaranteed by a primary monoline insurer, then the recovery rate will be 50.00%.

(f) If such Structured Finance Security is a Non-FER Company Guaranteed Security, the recovery rate will be 40.00%.

"**Sale Proceeds**": All amounts representing:

(i) proceeds from the sale or other disposition of any Collateral Obligation (other than Defaulted Obligations) or an Equity Security (including any accrued interest thereon, as provided for in subclauses (ii) and (iii) below);

(ii) to the extent that the sale of the Accrued Interest Collateral Obligation occurs on any date on which the Minimum Par Value Ratio is not satisfied, accrued interest received in connection with the sale of such Accrued Interest Collateral Obligation up to an amount equal to the greater of the amount of Unreplenished Principal Proceeds as of such date and zero;

(iii) at the Collateral Manager's sole discretion, any accrued interest received in connection with the sale of any Collateral Obligation not included in subclause (ii) above or any Eligible Investment purchased with any proceeds described in subclause (i);

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(iv) any proceeds from liquidating Securities Lending Collateral after an event of default, as such term is defined under the related Securities Lending Agreement, has occurred and is continuing under a Securities Lending Agreement (but not to exceed the amount of the Securities Lending Counterparty's obligations owed to the Issuer); and

(v) any proceeds of the foregoing, including from the sale of Eligible Investments purchased with any proceeds described in subclause (i) above (including any accrued interest thereon, but only to the extent so provided in subclause (iii) above).

In the case of each of subclauses (i) through (v), Sale Proceeds (a) shall only include proceeds received on or prior to the last day of the relevant Due Period (or with respect to the final Payment Date, the day immediately preceding the final Payment Date) and (b) shall be net of any reasonable amounts incurred by the Collateral Manager or the Trustee in connection with such sale or other disposition.

"Scheduled Payment Date": Each February 18, May 18, August 18, and November 18 each year (or, if such day is not a Business Day, then the next succeeding Business Day), commencing August 18, 2007 and ending on the Stated Maturity.

"Second Determination Date": With respect to the second Scheduled Payment Date to occur after the Closing Date, the last Business Day of the immediately preceding Due Period.

"Second Lien Loan": A Loan that (i) is not (and by its terms is not permitted to become) subordinate in right of payment to any other debt for borrowed money incurred by the obligor under the Loan, other than a Senior Secured Loan, and (ii) is secured by a valid and perfected security interest or lien on specified collateral securing the obligor's obligations under such Loan, which security interest or lien is not subordinate to the security interest or lien securing any other debt for borrowed money other than a Senior Secured Loan on such specified collateral; provided, however, that with respect to clauses (i) and (ii) above, such right of payment, security interest or lien may be subordinate to customary permitted liens, such as, but not limited to, tax liens.

"Secured Note Redemption Price": With respect to the Secured Notes, an amount equal to the Aggregate Outstanding Amount thereof on a Redemption Date.

"Secured Notes": Collectively, the Co-Issued Notes and the Class E Notes.

"Secured Parties": (i) The Trustee, (ii) the Holders of the Secured Notes, (iii) the Hedge Counterparties, (iv) the Collateral Manager, (v) any Synthetic Security Counterparty in respect of a Synthetic Security which requires the Issuer to place funds in a Synthetic Security Collateral Account pursuant to the Indenture (but, in the case of subclause (v), only with respect to the applicable Synthetic Security Collateral Account) and (vi) the Collateral Administrator.

"Securities": Collectively, the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Subordinated Securities.

"Securities Account Control Agreement": The agreement dated January 18, 2007, by and among the Issuer, the Trustee and the Bank, as Securities Intermediary.

"Securities Act": The U.S. Securities Act of 1933, as amended.

"Securities Intermediary": The meaning specified in Section 8-102(a)(14) of the UCC.

"Securities Lending Agreement": An agreement pursuant to which, for a term of 90 days or less, the Issuer agrees to loan any Securities Lending Counterparty one or more Collateral Obligations and such Securities Lending Counterparty agrees to post Securities Lending Collateral with the Trustee or a Securities Intermediary to secure its obligation to return to the Issuer the Collateral Obligations.

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"**Securities Lending Collateral Losses**": With regard to any collateral posted by a Securities Lending Counterparty to the Issuer to secure the Securities Lending Counterparty's obligations under a Securities Lending Agreement, the positive difference, if any, between the value of the Collateral Obligations lent pursuant to the terms of a Securities Lending Agreement and the value of such collateral from the date such collateral was posted until the applicable date of determination; *provided, however*, that the amount of such difference will not be Securities Lending Collateral Losses unless the Issuer invests such collateral and is obligated, under the applicable Securities Lending Agreement, to return collateral the value of which is equal to the value of the posted collateral as of the date of the posting of such collateral to such Securities Lending Counterparty.

"**Securities Lending Counterparty**": Any bank, broker-dealer or other financial institution that has a short-term senior unsecured debt rating or a guarantor with a rating of "P-1" from Moody's (and not placed on credit watch by Moody's) and "A-1" from S&P (and if so rated by S&P, must not be placed on credit watch by S&P); or, if no such short-term ratings are available, a long-term rating of at least "A1" by Moody's and a long-term rating of at least "A+" by S&P. No more than 20% of the Aggregate Principal Amount of the Collateral Portfolio may be loaned pursuant to Securities Lending Agreements regardless of duration.

"**Selling Institution**": Each institution from which a Participation is acquired. Immediately following the time a Participation is acquired by the Issuer, the percentage of the Aggregate Principal Amount of the Collateral Portfolio that represents Participations entered into by the Issuer with a single Selling Institution (or, if applicable, its guarantor), when combined with the Synthetic Securities entered into by the Issuer with a single Synthetic Securities Counterparty that is also a Selling Institution (or, if applicable, its guarantor) and the Securities Lending Agreements entered into by the Issuer with a single Securities Lending Counterparty that is also a Selling Institution (or, if applicable, its guarantor), will not exceed the individual percentage set forth below for the credit rating of such Selling Institution (or its Affiliates and, if applicable, guarantors), and the percentage of the Aggregate Principal Amount of the Collateral Portfolio that represents Participations entered into by the Issuer with the Selling Institutions (or their Affiliates and, if applicable, guarantors) having the same credit rating will not exceed the aggregate percentage set forth below for such credit rating:

Long Term Senior Unsecured Debt Rating***		Individual Synthetic Security Counterparty Limit/Selling Institution Limit/Securities Lending Counterparty Limit	Aggregate Selling Institution Limit
Moody's	S&P		
Aaa	AAA	20.0%	10.0%
Aa1	AA+	10.0%	10.0%
Aa2	AA	10.0%	10.0%
Aa3	AA-	10.0%	10.0%
A1	A+	5.0%	5.0%
A2*	A**	5.0%	5.0%

* Applies only so long as Moody's short-term unsecured debt rating is "P-1".

** Applies only so long as the S&P short-term unsecured debt rating is "A-1".

*** For purposes of determining compliance with this credit rating requirement, if the Moody's long-term senior unsecured debt rating of a Selling Institution (or, if applicable, its guarantor) or Synthetic Security Counterparty has been put on a watch list for possible downgrade, such credit rating shall be one subcategory below its then current Moody's rating or, if such credit rating has been put on a watch list for possible upgrade, one subcategory above its then current Moody's rating.

provided that the Issuer may enter into a Participation with a Selling Institution (or, if applicable, its guarantor) having, at such time, a long-term senior unsecured debt rating below "A2" by Moody's and "A" by S&P if the Moody's Rating Condition and the S&P Rating Condition have been satisfied.

"**Senior Secured Floating Rate Note**": Any dollar-denominated senior secured note issued pursuant to an indenture by a corporation, partnership or other person that (i) has a stated coupon that bears a floating rate of interest and (ii) is secured by a first priority, perfected security interest or lien to or on specified collateral securing the issuer's obligations under such note and if the obligation is rated by Moody's, such rating is not lower than the Corporate Family Rating of such issuer.

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"Senior Secured Loan": Any Assignment of or Participation in or other interest (including a Synthetic Security) in a loan (i) that is not (and cannot by its terms become) subordinate (except with respect to (1) liquidation preferences with respect to pledged collateral and (2) any super-priority lien imposed by operation of law) in right of payment to any obligation of the obligor in any bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation proceedings, (ii) that is secured by the pledge of collateral and (iii) unless secured by a first priority security interest in such collateral, (a) with respect to which the Collateral Manager determines in its reasonable business judgment (which shall not be subject to question as a result of subsequent events) that the value of the collateral securing the loan on or about the time of origination equals or exceeds the outstanding principal balance of the loan plus the aggregate outstanding balances of all other loans of equal or higher seniority secured by the same collateral, and (b) the facility rating is not lower than the Corporate Family Rating of such issuer; *provided* that for purposes of the definition of "S&P Recovery Rate," subclause (iii) shall not apply.

"Senior Unsecured Loan": Any Assignment of or Participation in or other interest (including a Synthetic Security) in a loan that is not subordinated in right of payment and is not a Senior Secured Loan.

"Share Trustee": The Administrator as the trustee pursuant to the terms of a declaration of trust.

"Special Purpose Vehicle": Any special purpose vehicle organized under the laws of (i) any sovereign jurisdiction that is commonly used as the place of organization for an entity for the purpose of reducing or eliminating tax liabilities for such entity, which shall be limited to: the Cayman Islands, Bermuda, the British Virgin Islands, the Netherlands Antilles, the Netherlands, Luxembourg or the Channel Islands or (ii) upon the satisfaction of each of the Moody's Rating Condition and the S&P Rating Condition, any other jurisdiction; *provided* that, if any of the countries listed in subclause (i) have a foreign currency rating of less than "Aa2" by Moody's or "AA" by S&P at the time of purchase, the Collateral Manager shall notify Moody's or S&P, as applicable, in writing of such fact.

"Stated Maturity": With respect to any security or debt obligation, including a Security, the date specified in such security or debt obligation as the fixed date on which the final payment of principal of such security or debt obligation is due and payable or, if such date is not a Business Day, the next following Business Day. The Stated Maturity with respect to the Securities (other than the Class S Notes) will be February 18, 2021 and, with respect to the Class S Notes, February 18, 2014.

"Step-Up Coupon Security": A security (i) that does not pay interest over a specified period of time ending prior to its maturity, but which does provide for the payment of interest after the expiration of such specified period or (ii) the interest rate of which increases over a specified period of time other than due to the increase of the index relating to a Floating Rate Collateral Obligation.

"Structured Finance Security": Any obligation secured directly by, referenced to or representing ownership of, a pool consisting primarily of bank loans or similar security or repackaged security, but not including any Synthetic Security.

"Subordinated Loan": Any Assignment of or Participation in or other interest (including a Synthetic Security) in a loan that is subordinated in right of payment.

"Subordinated Securities": The U.S.$40,000,000 Subordinated Securities having the Stated Maturity as set forth under "Summary—The Offering—Securities Issued".

"Subordinated Securities Collateral Obligations": Collateral Obligations that (i) were purchased on or prior to the Closing Date and that were designated by the Collateral Manager in a writing delivered to the Trustee as Collateral Obligations the distributions on which, and the proceeds received in respect of which, are to be deposited in the Subordinated Securities Interest Collection Account or the Subordinated Securities Principal Collection Account, as applicable; *provided, however*, that the amount of the Collateral Obligations (measured by the Issuer's acquisition cost, including any purchased interest) to be designated as Subordinated Securities Collateral Obligations by the Collateral Manager on the Closing Date, plus any amount deposited in the Subordinated Securities Principal Collection Account on the Closing Date, shall not

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exceed $500,000 or (ii) are purchased after the Closing Date with funds from the Subordinated Securities Principal Collection Account or the Subordinated Securities Interest Collection Account.

"Substitute Collateral Obligation": A Collateral Obligation that is acquired by the Issuer in accordance with the Reinvestment Criteria in connection with the sale or other disposal of another Collateral Obligation.

"Substitute Deliverable Obligation": The meaning specified in the definition of Deliverable Obligation.

"Synthetic Security": Any derivative financial instrument with respect to a loan or a collateralized loan obligation, whether in the form of a swap transaction, credit-linked note, structured bond investment or otherwise (which derivative financial instrument is not a security backed by more than one credit default swap or more than one reference entity (unless such derivative financial instrument references an index) or a synthetic collateralized debt obligation, which, for the avoidance of doubt, shall, in each case, be treated as a Structured Finance Security), purchased, or entered into, by the Issuer with or from a Synthetic Security Counterparty which investment may contain (A) a maturity, interest rate, currency and other non-credit characteristics and recovery rates that may be different from that of the Reference Obligation (or the relevant obligation(s) of the Reference Obligor) to which the credit risk of the Synthetic Security relates or (B) terms that require the Issuer to make payments to a Synthetic Security Counterparty upon the occurrence of a credit event, an event of default or a termination event (each as defined in such Synthetic Security); *provided* that:

(i) the Issuer shall at no time during any taxable year of the Issuer hold a Synthetic Security which is not either (a) a credit default swap or treated as debt for U.S. federal income tax purposes, or (b) a security (as defined in Section 2(a)(36) of the Investment Company Act) other than any security which represents an interest in an entity treated as a grantor trust or a partnership for U.S. federal income tax purposes, unless, the Issuer has obtained an opinion or advice of tax counsel of nationally recognized standing in the United States experienced in such matters to the effect that the acquisition, disposition or ownership by the Issuer of such Synthetic Security will not cause the Issuer to be treated as engaged in a United States trade or business or subject to United States income tax on a net basis;

(ii) each Synthetic Security shall provide that no Deliverable Obligation may be delivered to the Issuer in settlement of the Synthetic Security if delivery thereof to the Issuer or transfer thereof by the Issuer to a third party would require or cause the Issuer to assume, or to subject the Issuer to, any obligation or liability (other than immaterial, nonpayment obligations);

(iii) each Synthetic Security contains appropriate limited recourse and non-petition provisions (to the extent that the Issuer has contractual payment or other obligations to the Synthetic Security Counterparty) equivalent (mutatis mutandis) to those contained in the Indenture;

(iv) each of Moody's or S&P may revoke its consent to the documentation underlying a Form-Approved Synthetic Security upon 30 days' prior written notice (which revocation shall only take effect prospectively and not retroactively with respect to any Form-Approved Synthetic Securities then included in the Collateral Portfolio);

(v) unless the Synthetic Security is a Form-Approved Synthetic Security, the S&P Rating Condition shall have been satisfied (and upon the satisfaction of the S&P Rating Condition, S&P shall provide the Issuer with the S&P Rating and the S&P Recovery Rate for such Synthetic Security) and, in the case of a Form-Approved Synthetic Security, the Issuer shall have requested that S&P provide the S&P Recovery Rate for such Synthetic Security; *provided*, that:

(a) Moody's has been provided with notice of such proposed Synthetic Security and the documents relating to such Synthetic Security;

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(b) Moody's has acknowledged in a written confirmation (such written confirmation to be signed by an authorized officer of Moody's) that the documentation received in connection with such Synthetic Security is adequate for rating purposes (*provided* that if Moody's fails to provide such acknowledgement within five Business Days, it will be deemed to have provided such acknowledgement);

(c) Moody's has not indicated (orally or in writing) within ten Business Days of such acknowledgment that the inclusion of such proposed Synthetic Security will, at that time, cause it to downgrade, withdraw or qualify any of its then current ratings of any of the Co-Issued Notes; and

(d) Moody's has provided to the Issuer the Moody's Rating Factor and the Moody's Recovery Rate for such Synthetic Security;

(vi) a Synthetic Security shall not be used as a means of making future advances to a Synthetic Security Counterparty;

(vii) for the avoidance of doubt, a Synthetic Security need not specify a Reference Obligation and may specify an index;

(viii) the only "credit events" which a Synthetic Security may include are "failure to pay" and "bankruptcy"; and

(ix) a Synthetic Security whose Reference Obligation is a senior secured obligation shall provide that any Deliverable Obligation must be a senior secured obligation and rank *pari passu* with the Reference Obligation.

"**Synthetic Security Collateral**": Collateral required to be pledged to a Synthetic Security Counterparty as collateral pursuant to the terms of a Synthetic Security, which collateral shall consist of Eligible Investments.

"**Synthetic Security Collateral Account**": The trust account or accounts established pursuant to the Indenture.

"**Synthetic Security Counterparty**": An entity required to make payments on a Synthetic Security pursuant to the terms of such Synthetic Security or any guarantee thereof to the extent that a Reference Obligor makes payments on a related Reference Obligation, (a) which counterparty, or the long-term senior unsecured debt of such counterparty (or its secured debt if such counterparty is a trust and its debt is secured by a reference obligation), shall individually and, together with all other Synthetic Security Counterparties, in the aggregate satisfy the required debt ratings set forth in the table below, and (b) with respect to which, the S&P Rating Condition is satisfied. At the time a Synthetic Security is acquired by the Issuer, the percentage of the Aggregate Principal Amount of the Collateral Portfolio that represents Synthetic Securities entered into by the Issuer with a single Synthetic Security Counterparty, when combined with the Participations entered into by the Issuer with such Synthetic Security Counterparty, if such Synthetic Security Counterparty is also a Selling Institution, and the Securities Lending Agreements entered into by the Issuer with a single Securities Lending Counterparty, if such Synthetic Security Counterparty is also a Securities Lending Counterparty, will not exceed the individual percentage set forth below for the credit rating of such Synthetic Security Counterparty and/or Selling Institution (or its Affiliates), and the percentage of the Aggregate Principal Amount of the Collateral Portfolio that represents Synthetic Securities entered into by the Issuer with counterparties having the same credit rating will not exceed the aggregate percentage set forth below for such credit rating:

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Long Term Senior Unsecured Debt Rating***		Individual Synthetic Security Counterparty Limit/Selling Institution Limit/Securities Lending Counterparty Limit	Aggregate Synthetic Security Counterparty Limit
Moody's	S&P		
Aaa	AAA	20.0%	20.0%
Aa1	AA+	10.0%	10.0%
Aa2	AA	10.0%	10.0%
Aa3	AA-	10.0%	10.0%
A1	A+	5.0%	5.0%
A2*	A**	5.0%	5.0%

* Applies only so long as Moody's short-term unsecured debt rating is "P-1".

** Applies only so long as the S&P short-term unsecured debt rating is "A-1".

*** For purposes of determining compliance with this credit rating requirement, if the Moody's long-term senior unsecured debt rating of a Selling Institution (or, if applicable, its guarantor) or Synthetic Security Counterparty has been put on a watch list for possible downgrade, such credit rating shall be one subcategory below its then current Moody's rating or, if such credit rating has been put on a watch list for possible upgrade, one subcategory above its then current Moody's rating.

provided that the Issuer may enter into a Synthetic Security with a Synthetic Security Counterparty having at such time a long-term senior unsecured debt rating below "A2" by Moody's and "A" by S&P, if the S&P Rating Condition has been satisfied.

Notwithstanding any provision to the contrary contained herein, if Moody's or S&P notifies the Issuer that it deems a Structured Finance Security to be subject to counterparty risk at the time such Structured Finance Security is purchased by the Issuer, the percentage limitations set forth in the above table of the preceding paragraph shall be applicable to the entity which is required to make payments on such Structured Finance Security pursuant to the terms of such Structured Finance Security (as if such entity were a Synthetic Security Counterparty).

"**Tax Haven Collateral Obligation**": An obligation, other than a Structured Finance Security, in which the issuer thereof (i) is organized in a Tax Haven Jurisdiction and (ii) is determined by the Collateral Manager in its sole judgment (which judgment shall not be subject to question as a result of subsequent events) to have (or whose relevant obligations are guaranteed by an entity that the Collateral Manager has determined to have) at least 60% (by reference to the latest available consolidated financial statements) of (A) its business operations or (B) its assets primarily responsible for generating its revenue located in (1) the United States of America, Canada, Australia, (2) a European I Country or a European II Country (so long as, in each case, at the time of the acquisition by the Issuer, the foreign currency rating of such country is rated at least "AA" by S&P) or (3) upon the satisfaction of each of the Moody's Rating Condition and the S&P Rating Condition, any other jurisdiction.

"**Tax Haven Jurisdiction**": (i) Any sovereign jurisdiction that is commonly used as the place of organization for an entity for the purpose of reducing or eliminating tax liabilities for such entity, which shall be limited to: the Cayman Islands, Bermuda, the British Virgin Islands, the Netherlands Antilles, the Netherlands, Luxembourg or the Channel Islands or (ii), upon the satisfaction of each of the Moody's Rating Condition and the S&P Rating Condition, any other jurisdiction; *provided* that, if any of the countries listed in subclause (i) have a foreign currency rating of less than "AA" by S&P at the time of purchase, the Collateral Manager shall notify S&P in writing of such fact; *provided, further,* that, none of the countries listed in subclause (i) shall have a foreign currency rating of less than "Aa2" by Moody's.

"**Trading Plan**": Any written trading plan delivered to the Trustee (a) pursuant to which the Collateral Manager believes all trades contemplated thereby will be entered into within ten calendar days, (b) specifying certain (i) amounts received or expected to be received as Principal Proceeds in connection with such Trading Plan, (ii) Collateral Obligations related to such Principal Proceeds and (iii) Collateral Obligations acquired or intended to be acquired as a result of such Trading Plan, (c) for which the Collateral Manager believes (in its sole judgment) such plan can be executed according to its terms and (d) as to which the Aggregate Principal Amount of the Collateral Obligations expected to be acquired thereunder constitute

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no more than 5% of the Aggregate Principal Amount of the Collateral Portfolio. The time period for such Trading Plan shall be measured from the earliest trade date to the latest trade date of any such amounts.

"**Treasury**": The U.S. Department of the Treasury.

"**Trust Officer**": When used with respect to the Trustee, any officer within the Corporate Trust Office (or any successor group of the Trustee) including any director, managing director, vice president, assistant vice president, associate or officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, having direct responsibility for the administration of the Indenture or to whom any corporate trust matter is referred at the Corporate Trust Office because of his knowledge of and familiarity with the particular subject.

"**Trustee**": The Bank of New York Trust Company, National Association solely in its capacity as Trustee for the Securityholders, unless a successor Person shall have become the Trustee pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean such successor Person.

"**U.S. Person**": The meaning specified under Regulation S.

"**U.S. Subordinated Securities**": Subordinated Securities in fully registered, certificated, form without interest coupons sold to Qualified Institutional Buyers or Accredited Investors in reliance on exemption from registration under Rule 144A or another applicable exemption from registration under the Securities Act, respectively, registered in the name of the owner thereof.

"**UCC**": The Uniform Commercial Code as in effect in the state of the United States that governs the relevant security interest as amended from time to time.

"**Unreplenished Principal Proceeds**": As of any date of determination after the Effective Date, an amount (which may be negative) equal to (a) the aggregate cumulative amount of accrued interest purchased after the Effective Date that was purchased with Principal Proceeds or Sale Proceeds less (b) the aggregate cumulative amount of Principal Allocated Accrued Interest to such date.

"**Unscheduled Principal Payments**": All Principal Payments received with respect to a Collateral Obligation as a result of optional redemptions, exchange offers, tender offers or other payments or prepayments made at the option of the issuer thereof.

"**Warehouse Accrued Interest**": Interest on Collateral Obligations that has accrued on or prior to the Closing Date but paid on or after the Closing Date, which interest shall not at any time be included as Interest Proceeds or part of the Collateral.

"**Weighted Average Life**": As of any Measurement Date, the number obtained by (i) for each Collateral Obligation (other than Defaulted Obligations), multiplying each scheduled Principal Payment by the number of years (rounded to the nearest hundredth) from the Measurement Date until such scheduled Principal Payment is due; (ii) summing all of the products calculated pursuant to subclause (i); and (iii) dividing the sum calculated pursuant to subclause (ii) by the sum of all scheduled Principal Payments due on all the Collateral Obligations as of such Measurement Date. For purposes of determining the Weighted Average Life of a Collateral Obligation that matures after the Stated Maturity, such Collateral Obligation shall be deemed to mature at the Stated Maturity of the Securities.

"**Weighted Average Spread**": As of any Measurement Date, a fraction (expressed as a percentage) obtained by dividing (A) the sum of (i) the Aggregate Funded Spread and (ii) the Aggregate Unfunded Spread *by* (B) the Aggregate Principal Amount of all of the Collateral Obligations (excluding Defaulted Obligations) held by the Issuer as of such Measurement Date.

"**Withholding Tax Event**": The adoption of, or a change in, any tax statute (including the Code), treaty, regulation (whether proposed, temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in payments due from the obligors of Collateral Obligations representing in excess of 5% of the Aggregate Principal Amount of Collateral Obligations becoming properly

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subject to the imposition of U.S. or other withholding tax as of the next scheduled payment date under such Collateral Obligations (other than withholding taxes with respect to commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities or Delayed Funding Term Loans) with respect to which such obligors are not required to make gross-up payments that cover the full amount of such withholding taxes on an after-tax basis.

"**Withholding Tax Security**": A Collateral Obligation if (a) any payments thereon to the Issuer are subject to withholding tax imposed by any jurisdiction (other than U.S. backup withholding tax or other similar withholding tax and other than withholding tax with respect to commitment fees associated with Collateral Obligations constituting Revolving Credit Facilities or Delayed Funding Term Loans), and (b) under the Reference Instrument with respect to such Collateral Obligation, the issuer of or counterparty with respect to such Collateral Obligation is not required to make "gross-up" payments to the Issuer that cover the full amount of such withholding tax on an after-tax basis.

"**Zero-Coupon Security**": A security (other than a Step-Up Coupon Security) that, at the time of determination, does not make periodic payments of interest.

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ANNEX I: CLASS S PRINCIPAL DISTRIBUTION AMOUNTS

Period	Payment Date	Class S Principal Distribtion Amount
1	18-Aug-07	142,857.18
2	18-Nov-07	71,428.57
3	18-Feb-08	71,428.57
4	18-May-08	71,428.57
5	18-Aug-08	71,428.57
6	18-Nov-08	71,428.57
7	18-Feb-09	71,428.57
8	18-May-09	71,428.57
9	18-Aug-09	71,428.57
10	18-Nov-09	71,428.57
11	18-Feb-10	71,428.57
12	18-May-10	71,428.57
13	18-Aug-10	71,428.57
14	18-Nov-10	71,428.57
15	18-Feb-11	71,428.57
16	18-May-11	71,428.57
17	18-Aug-11	71,428.57
18	18-Nov-11	71,428.57
19	18-Feb-12	71,428.57
20	18-May-12	71,428.57
21	18-Aug-12	71,428.57
22	18-Nov-12	71,428.57
23	18-Feb-13	71,428.57
24	18-May-13	71,428.57
25	18-Aug-13	71,428.57
26	18-Nov-13	71,428.57
27	18-Feb-14	71,428.57
28	18-May-14	0.00
29	18-Aug-14	0.00
30	18-Nov-14	0.00
31	18-Feb-15	0.00
32	18-May-15	0.00
33	18-Aug-15	0.00
34	18-Nov-15	0.00
35	18-Feb-16	0.00
36	18-May-16	0.00
37	18-Aug-16	0.00
38	18-Nov-16	0.00
39	18-Feb-17	0.00
40	18-May-17	0.00
41	18-Aug-17	0.00
42	18-Nov-17	0.00
43	18-Feb-18	0.00
44	18-May-18	0.00
45	18-Aug-18	0.00
46	18-Nov-18	0.00
47	18-Feb-19	0.00

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Period	Payment Date	Class S Principal Distribtion Amount
48	18-May-19	0.00
49	18-Aug-19	0.00
50	18-Nov-19	0.00
51	18-Feb-20	0.00
52	18-May-20	0.00
53	18-Aug-20	0.00
54	18-Nov-20	0.00
55	18-Feb-21	0.00

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EXHIBIT A: FORM OF SECURITY OWNER CERTIFICATE

The Bank of New York Trust Company, National Association
as Trustee
601 Travis Street, 16th Floor
Houston, Texas 77002
Attn: Global Corporate Trust—Greywolf CLO I, Ltd.

Greywolf CLO I, Ltd.
P.O. Box 1093 GT
Queensgate House
South Church Street
George Town
Grand Cayman, Cayman Islands

Greywolf CLO I, Corp.
850 Library Avenue, Suite 204
Newark, Delaware 19711

Re: Reports Prepared Pursuant to the Indenture, dated as of January 18, 2007 among Greywolf CLO I, Ltd., Greywolf CLO I, Corp. and The Bank of New York Trust Company, National Association (the "Indenture").

Ladies and Gentlemen:

The undersigned hereby certifies that it is the beneficial owner of U.S.$_____ in principal/notional amount of the (Please check all that apply.):

_____ Class S Notes
_____ Class A Notes
_____ Class B Notes
_____ Class C Notes
_____ Class D Notes
_____ Class E Notes
_____ Subordinated Securities

and hereby requests the Trustee to provide to it (or its designated nominee set forth below) at the following address or with respect to certain monthly accounting reports or certain other accounting reports, grant access to such information at the Trustee's website the:

_____ notice after the occurrence of any Default (specified in Section 6.2 of the Indenture)
_____ information with respect to certain tax matters (specified in Section 7.19 of the Indenture)
_____ certain monthly accounting reports with respect to the Collateral (specified in Section 10.5(a) of the Indenture)
_____ certain accounting reports determined as of the Determination Date (specified in Section 10.5(b) of the Indenture).

Please return form via facsimile to the Trustee at (713) 216-2101.

IN WITNESS WHEREOF, the undersigned has caused this certificate to be duly executed this ____ day of _____, ____.

[NAME OF SECURITY OWNER]

By: _____
Authorized Signatory

_____
Print Name Here

Address: _____
_____
_____
_____

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REGISTERED OFFICES OF THE ISSUERS

Greywolf CLO I, Ltd
P.O. Box 1093 GT
Queensgate House
South Church Street
George Town, Grand Cayman
Cayman Islands

Greywolf CLO I, Corp.
850 Library Avenue
Suite 204
Newark, Delaware 19711

TRUSTEE, PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

The Bank of New York Trust Company, National Association
as Trustee
601 Travis Street, 16th Floor
Houston, Texas 77002

IRISH LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

IRISH PAYING AGENT

Custom House Administration & Corporate Services Ltd.
25 Eden Quay
Dublin 1
Ireland

LEGAL ADVISORS

To the Issuers

As to matters of United States Law

McKee Nelson LLP
One Battery Park Plaza
New York, New York 10004

To the Issuer

As to matters of Cayman Islands Law

Maples and Calder
P.O. Box 309 GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

To the Initial Purchaser

McKee Nelson LLP
One Battery Park Plaza
New York, New York 10004

To the Collateral Manager

Sidley Austin LLP
787 Seventh Avenue
New York, New York 10019

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U.S.$2,000,000 Class S
Floating Rate Notes, Due 2014

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Floating Rate Notes, Due 2021

U.S.$22,500,000 Class B
Floating Rate Notes, Due 2021

U.S.$25,000,000 Class C
Deferrable Floating Rate Notes, Due 2021

U.S.$30,000,000 Class D
Deferrable Floating Rate Notes, Due 2021

U.S.$17,500,000 Class E
Deferrable Floating Rate Notes, Due 2021

U.S.$40,000,000 Subordinated Securities,
Due 2021

GREYWOLF CLO I, LTD.

GREYWOLF CLO I, CORP.

Secured (with respect to the Secured Notes)
Primarily by a Portfolio of Loans that are Senior
Secured Loans

OFFERING CIRCULAR

Goldman, Sachs & Co.

From: Tourre, Fabrice
Sent: Monday, March 12, 2007 1:47 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Abacus ACA

As discussed with Nartey, we are taking his feedback into account and once we have gotten more feedback from accounts accross the cap structure we will decide what the best cours of action is.

Gerstie, we need to have a follow up call with Paulson to see how they feel about the strike spreads and upfront fees we mentioned to them. When is this call happening ?

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: Tourre, Fabrice; ficc-mtgcorr-desk
Sent: Mon Mar 12 14:32:55 2007
Subject: RE: Abacus ACA

So what do you suggest we say to Joerg?

-----Original Message-----
From: Tourre, Fabrice
Sent: Monday, March 12, 2007 2:29 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Abacus ACA

I suggest to hold off for the time being. Paulson will likely not agree to this unless we tell them that nobody will buy these bonds if we don't make that change.

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Egol, Jonathan
To: ficc-mtgcorr-desk
Sent: Mon Mar 12 14:18:07 2007
Subject: FW: Abacus ACA

I suggest we ask Gail to relay. Thoughts?

From: Zimmermann, Jörg [mailto:joerg.zimmermann@ikb-cam.de]
Sent: Monday, March 12, 2007 1:51 PM
To: Nartey, Michael
Cc: Egol, Jonathan; Tourre, Fabrice
Subject: Abacus ACA

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2530

M,

did you hear something on my request to remove Fremont and New Cenutry serviced bonds ? I would like to try to the advisory comitee this week and would need consent on it.

Rgds

J

Jörg Zimmermann

Vice President – Portfolio Investments

IKB Credit Asset Management GmbH

Uerdinger Straße 90

40474 Düsseldorf

Tel.: +49 (0)211 8221-6283

Fax: +49 (0)211 8221-6383

E-Mail: joerg.zimmermann@ikb-cam.de

Internet: www.ikb-cam.de

Rechtsform Gesellschaft mit beschränkter Haftung

Sitz Düsseldorf

Handelsregister Amtsgericht Düsseldorf B Nr. 54720

Geschäftsführer: Winfried Reinke

Vorsitzender des Beirats: Stefan Ortseifen

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From: Lehman, David A.
Sent: Monday, March 12, 2007 1:30 PM
To: Tourre, Fabrice; Egol, Jonathan; ficc-mtgcorr-desk
Subject: RE: Abacus ACA

[redacted]

-----Original Message-----
From: Tourre, Fabrice
Sent: Monday, March 12, 2007 2:29 PM
To: Egol, Jonathan; ficc-mtgcorr-desk
Subject: Re: Abacus ACA

I suggest to hold off for the time being. Paulson will likely not agree to this unless we tell them that nobody will buy these bonds if we don't make that change.

Sent from my BlackBerry Wireless Handheld

[redacted] = Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Egol, Jonathan
To: ficc-mtgcorr-desk
Sent: Mon Mar 12 14:18:07 2007
Subject: FW: Abacus ACA

I suggest we ask Gail to relay. Thoughts?

From: Zimmermann, Jörg [mailto:joerg.zimmermann@ikb-cam.de]
Sent: Monday, March 12, 2007 1:51 PM
To: Nartey, Michael
Cc: Egol, Jonathan; Tourre, Fabrice
Subject: Abacus ACA

M,

did you hear something on my request to remove Fremont and New Cenutry serviced bonds ? I would like to try to the advisory comitee this week and would need consent on it.

Rgds

J

Jörg Zimmermann

Vice President - Portfolio Investments

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2531

Confidential Treatment Requested by Gold

IKB Credit Asset Management GmbH

Uerdinger Straße 90

40474 Düsseldorf

Tel.: +49 (0)211 8221-6283

Fax: +49 (0)211 8221-6383

E-Mail: joerg.zimmermann@ikb-cam.de

Internet: www.ikb-cam.de

Rechtsform Gesellschaft mit beschränkter Haftung

Sitz Düsseldorf

Handelsregister Amtsgericht Düsseldorf B Nr. 54720

Geschäftsführer: Winfried Reinke

Vorsitzender des Beirats: Stefan Ortseifen

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2/12/07

Joe Pimbley
Nora Dahlman
Alan Roseman
Ted Gilpin

CDO Asset "Management" Proposal For ABACUS 2007-AC1

Commitments Committee
February 12, 2007

non-voting members
Keith Gorman
Vincent Ingato
Laura Schwartz

Submitted by:
Keith Gorman

Discussion on
- portfolio selection work with the equity investor
- meetings with the investor to win mandate

Commitments Committee Votes

Member	Approve	Decline	Signature
Alan Roseman	X		
Ted Gilpin	X		
Joseph Pimbley	X		
Nora Dahlman	X		
Credit Committee Decision			Approval Date:

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2535

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by Fried Frank Harris Shriver & Jacobson LLP

PROPOSAL

We are seeking Senior Credit Committee's approval for: (1) ACA Management to act as Portfolio Selection Agent (an upfront role only) to a synthetic CDO backed by approximately 90 Baa2 subprime mortgage reference entities, by which we would receive ongoing asset management fees for identifying (but not managing) the portfolio; and (2) working with Goldman Sachs, the underwriter, to assist in their marketing efforts to sell Aaa/AAA through A2/A rated notes. This transaction was structured as a result of a "beauty pageant" whereby a New York City hedge fund did due diligence on several CDO managers and selected us as the Portfolio Selection Agent for a reverse equity inquiry CDO. The hedge fund is taking the 0-9% tranche. Structured Credit will have the opportunity to look at the super senior tranche as well. This is our first ABS CDO with Goldman Sachs (we are currently in ramp-up with them on a U.S. CLO).

Key Transaction Metrics

Transaction Type:	$1 billion to $2 billion static synthetic mezzanine ABS CDO Liabilities will be modified sequential pay (target notional o/c based)
ACA Management's (ACA) Role:	Portfolio Selection Agent only
Underwriter:	Goldman Sachs
ACA Required Investment:	None
Asset Class:	Underlying collateral will be 100% synthetic Baa2 subprime residential mortgage positions.
Expected WAL of Underlying Assets:	4 years
Management Fees to ACA per annum:	As per tranche schedule on page 3 below with a minimum annual fee of $1 million.
Warehouse:	ACA is not taking any warehouse risk/return or any ongoing risk (no equity investment).
Non-Call Period:	3 years

The hedge fund equity investor wanted to invest in the 0-9% tranche of a static mezzanine ABS CDO backed 100% by subprime residential mortgage securities. Over the past 3 weeks we have worked with the investor to construct a portfolio that meets their needs as well as ours. Our requirements for the portfolio were that all of the positions had been reviewed and approved by ACA's ABS credit committee and that all seasoned positions were performing within expectations for the vintage. Since there is no ongoing management function (no ability to defensively sell credit risk securities), we proposed a portfolio that was 100% Baa2 to potentially minimize the downgrade risk versus Baa3 underlying bonds. The risk to ACA in this transaction is one of reputation but even this is limited since we acted solely as the portfolio selection advisor and have no ongoing management role (we may need to discuss our ongoing credit opinions on the underlying positions with investors upon request by investors).

What we have done in terms of minimizing our reputation risk is look at stressing the portfolio to determine what downgrades (and defaults) can be sustained before the issued tranches are downgraded. Attached to the back of this write-up is the analysis provided by Goldman Sachs. We are working with our quant team on verifying this work.

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Key Portfolio Metrics

We are seeking approval to build a portfolio of asset backed securities which would have the ratings and sector characteristics as shown below.

Number of Reference Obligations:	Approximately 90
Average Size of Each Underlying Position:	1.1%
Moody's WARF:	360 (Baa2)
Expected WAS:	Approximately 250 bps
Sector Concentrations:	100% Baa2 subprime mortgage positions

Transaction Overview

The following is the expected transaction capitalization structure:

Class	Rating	Size	Management Fee
Unfunded super senior	Aaa/AAA	35-100%	n/a
Class A	Aaa/AAA	21-35%	25 bps
Class B	Aa2/AA	18-21%	50 bps
Class C	Aa3/AA-	13-18%	50 bps
Class D	A2/A	9.5-13%	100 bps
Equity	Not rated	0-9.5%	

The rationale for this ABACUS transaction is our ongoing core, ABS CDO platform and the fact that this is new business with both a significant hedge fund and Goldman Sach's ABS platform. We anticipate pricing and closing this transaction in March (once our current exclusive on ACA ABS 2007-1 expires).

STRENGTHS AND RISKS/MITIGATING FACTORS

Strengths	**Risks/Mitigants**
Incremental Fee Income: ♦ ACA's revenue from the deal will come in the form of ongoing portfolio selection advisory fees. • Expected initial management fees will be approximately $1,000,000 per annum.	Potentially adverse credit environment: • Multiple portfolio defaults and downgrades could adversely affect ACA's reputation in the market as a CDO manager should the portfolio experience realized losses and/or tranche downgrades. This is mitigated by the fact that we are not the manager to the CDO (no ongoing responsibility) and that there is cushion to withstand downgrades to positions in the portfolio before the model indicates that the ratings on any tranche would be affected. *Mitigants:* + All credits in the portfolio have been reviewed under ACA's ABS credit and committee guidelines. + ACA will not take any warehouse or equity exposure to this transaction.
Incremental Revenue from Existing Platform: • Since our role was only as portfolio selection agent, there is no specific ongoing monitoring or surveillance work that will need to be done.	

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Abacus 2007-AC1, non-equity "GAAP" Projection (was not in business plan)

REVENUES	2007 Business Plan (1)	2007 (estimate) (2)	2008 Business Plan	2008 (per engagement letter)
Warehouse Income	$0	$0	$0	$0
Structuring Fee	$0	$0	$0	$0
Asset Mgt Fees	$0	$650,000	$0	$1,000,000
Equity Investment	$0	$0	$0	$0
Equity Return	n/a	n/a	n/a	n/a
AUM at year end	$0	$1,000,000,000	$0	$1,000,000,000

(1) ABACUS was not in the business plan.
(2) Assumes a $1 billion transaction closing 4/30/07, $1 million minimum management fee.

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Moody's Metric Results as Provided by Goldman Sachs

Closing Date - all Reference Obligations rated Baa2

	T1	T2	T3	T4
Notional Size %	**14.00%**	**3.00%**	**5.00%**	**3.50%**
[illegible]	280,000,000.00	60,000,000.00	100,000,000.00	70,000,000.00
CE (Attachment Point)	**21.00%**	**16.00%**	**13.00%**	**9.50%**
[illegible]	420,000,000.00	360,000,000.00	260,000,000.00	190,000,000.00
Initial / Target Rating	**Aaa**	**Aa2**	**Aa3**	**A2**
EL	0.00157%	0.01414%	0.05619%	0.22319%
[illegible]	0.0006%	0.0118%	0.0411%	0.1772%
[illegible]	0.0075%	0.0229%	0.1183%	0.3783%
[illegible]	0.00175%	0.01494%	0.05768%	0.22629%
Additional EL	0.00200%	0.01500%	0.01500%	0.01500%
Discounted EL	**0.00329%**	**0.02605%**	**0.06276%**	**0.20096%**
Rating	**Aaa**	**Aa2**	**Aa3**	**A2**
Moody's Metric (MM)	**0.7852**	**2.7235**	**3.8486**	**5.6531**
Spread	**0.50%**	**0.70%**	**0.90%**	**2.00%**
Tranche Life	**4.44**	**4.57**	**4.65**	**4.84**
Default Date (year)	2.67	2.74	2.79	2.90

10 downgrades, 0.5 year decrease to WAL

	T1	T2	T3	T4
Notional Size %	**14.00%**	**3.00%**	**5.00%**	**3.50%**
[illegible]	280,000,000.00	60,000,000.00	100,000,000.00	70,000,000.00
CE (Attachment Point)	**21.00%**	**16.00%**	**13.00%**	**9.50%**
[illegible]	420,000,000.00	360,000,000.00	260,000,000.00	190,000,000.00
Initial / Target Rating	**Aaa**	**Aa2**	**Aa3**	**A2**
EL	0.00125%	0.01167%	0.04784%	0.19372%
[illegible]	0.0004%	0.0097%	0.0349%	0.1537%
[illegible]	0.0061%	0.0191%	0.1020%	0.3281%
[illegible]	0.00140%	0.01239%	0.04922%	0.19661%

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Additional EL	0.00200 %	0.01500 %	0.01500 %	0.01500%
Discounted EL	**0.00306 %**	**0.02460 %**	**0.05755 %**	**0.18869%**
Rating	Aaa	Aa2	Aa3	A2
Moody's Metric (MM)	**0.9363**	**2.8999**	**3.9679**	**5.7993**
Spread				
Tranche Life	3.94	4.07	4.15	4.34
Default Date (year)	2.37	2.44	2.49	2.60

20 downgrades, 0.5 year decrease to WAL

	T1	T2	T3	T4
Notional Size %	**14.00%**	**3.00%**	**5.00%**	**3.50%**
	280,000,000.00	60,000,000.00	100,000,000.00	70,000,000.00
CE (Attachment Point)	**21.00%**	**18.00%**	**13.00%**	**9.50%**
	420,000,000.00	360,000,000.00	260,000,000.00	190,000,000.00
Initial / Target Rating	**Aaa**	**Aa2**	**Aa3**	**A2**
EL	0.00168 %	0.01508 %	0.06024 %	0.23800%
	0.0006 %	0.0126 %	0.0441 %	0.1896%
	0.0081 %	0.0245 %	0.1268 %	0.3993%
	0.00186 %	0.01591 %	0.06179 %	0.24120%
Additional EL	0.00200 %	0.01500 %	0.01500 %	0.01500%
Discounted EL	**0.00348 %**	**0.02776 %**	**0.06881 %**	**0.22846%**
Rating	Aa1	Aa3	A1	A3
Moody's Metric (MM)	**1.0501**	**3.0531**	**4.2478**	**6.1611**
Spread				
Tranche Life	3.94	4.07	4.15	4.34
Default Date (year)	2.37	2.44	2.49	2.60

30 downgrades, 0.5 year decrease to WAL

	T1	T2	T3	T4
Notional Size %	**14.00%**	**3.00%**	**5.00%**	**3.50%**
	280,000,000.00	60,000,000.00	100,000,000.00	70,000,000.00
CE (Attachment Point)	**21.00%**	**18.00%**	**13.00%**	**9.50%**
	420,000,000.00	360,000,000.00	260,000,000.00	190,000,000.00
Initial / Target	**Aaa**	**Aa2**	**Aa3**	**A2**

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Rating				
EL	0.00213 %	0.01815 %	0.07197 %	0.27977%
[illegible]	0.0008 %	0.0151 %	0.0528 %	0.2231%
Frequency	0.0099 %	0.0293 %	0.1501 %	0.4683%
EL + Std Error	0.00233 %	0.01905 %	0.07366 %	0.28325%
Additional EL	0.00200 %	0.01500 %	0.01500 %	0.01500%
Discounted EL	**0.00391 %**	**0.03058 %**	**0.07945 %**	**0.26595%**
Rating	**Aa1**	**Aa3**	**A1**	**A3**
Moody's Metric (MM)	**1.1441**	**3.1801**	**4.4785**	**6.5007**
Spread				
Tranche Life	**3.94**	**4.07**	**4.15**	**4.34**
Default Date (year)	2.37	2.44	2.49	2.60

40 downgrades, 0.5 year decrease to WAL

	T1	T2	T3	T4
Notional Size %	**14.00%**	**3.00%**	**5.00%**	**3.50%**
[illegible]	280,000,000.00	60,000,000.00	100,000,000.00	70,000,000.00
CE (Attachment Point)	**21.00%**	**18.00%**	**13.00%**	**9.50%**
[illegible]	420,000,000.00	360,000,000.00	260,000,000.00	190,000,000.00
Initial / Target Rating	**Aaa**	**Aa2**	**Aa3**	**A2**
EL	0.00265 %	0.02190 %	0.08576 %	0.32839%
[illegible]	0.0010 %	0.0183 %	0.0632 %	0.2623%
[illegible]	0.0118 %	0.0354 %	0.1777 %	0.5482%
EL + Std Error	0.00289 %	0.02289 %	0.08761 %	0.33216%
Additional EL	0.00200 %	0.01500 %	0.01500 %	0.01500%
Discounted EL	**0.00440 %**	**0.03403 %**	**0.09195 %**	**0.30956%**
Rating	**Aa1**	**Aa3**	**A1**	**A3**
Moody's Metric (MM)	**1.2412**	**3.3203**	**4.7130**	**6.8401**
Spread				
Tranche Life	**3.94**	**4.07**	**4.15**	**4.34**
Default Date (year)	2.37	2.44	2.49	2.60

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ABACUS AC-1

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2536

0

Goldman Trade

2/9/2007 Spoke to Mel. $2B deal – static del, portfolio selected by ACA.
2 yr optional call – told Mel no – we need 3 or 4 yr call.
- BBB Plat portfolio.
- 35% attachment
- Sequential pay
- Any OC/IC triggers? No.
- Purely synthetic?
- Pricing? High teens
- Similar to Corvina (need to compare spreads)
Pricing – 18 net to us.
WAS is 270 vs 115MM bps for Grenache.

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Redacted by Permanent Subcommittee on Investigations

2/23 Call w/ Med) - Counterparty motivation - reverse inquiry from Paulson who interviewed several collateral management teams - one being ACA. Paulson taking 0-10 ¼. ACA getting fees on subordinate tranches. Goldman gets makes $ on bid-ask spread.

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Permanent Subcommittee on Investigations

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By Fried, Frank, Harris, Shriver & Jacobson LLP

Redacted By The Permanent Subcommittee on Investigations

From: Laura Schwartz [lschwartz@aca.com]
Sent: Tuesday, April 10, 2007 4:12 PM
To: Alan Roseman; Ted Gilpin; Joseph Pimbley; Nora Dahlman; James Rothman; Brad Larson
Subject: Abacus 2007-AC1

We did price $192 million in total of Class A1 and A2 today to settle April 26th. Paulson took down a proportionate amount of equity (0-10% tranche). Goldman does expect to issue more over the next 2 weeks as well.

Laura Schwartz
ACA Capital
(212) 375 2011
Lschwartz@aca.com

Confidential Treatment Requested Under FOIA
by Fried Frank Harris Shriver & Jacobson LLP

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2537

From: Tourre, Fabrice
Sent: Wednesday, January 10, 2007 11:54 AM
To: lschwartz@aca.com
Cc: Gerst, David; Kreitman, Gail; ficc-mtgcorr-desk
Subject: Transaction Summary

Laura: we wanted to summarize ACA's proposed role as "Portfolio Selection Agent" for the transaction that would be sponsored by Paulson (the "Transaction Sponsor"). Feel free to let David and I know if you have any questions.

-- CDO Transaction Size: between $1bn and $2bn notional
-- Reference Portfolio: static, fully identified upfront, and consisting of approx 100 equally-sized mezzanine subprime RMBS names issued between Q4 2005 and today. Starting portfolio would be ideally what the Transaction Sponsor shared, but there is flexibility around the names.
-- Portfolio monitoring required: none
-- Transaction reporting: on a monthly basis, done by trustee (trustee expected to be Lasalle)
-- Portfolio reinvestments required: none
-- Portfolio Selection Agent would be disclosed as having selected the Reference Portfolio
-- Portfolio Selection Agent would not be required to retain any risk in the CDO transaction, although it would have the option to buy CDO notes/unfunded swaps that will be distributed in the market.
-- Portfolio Selection Agent would be asked to facilitate the marketing of the notes (including putting together marketing materials on ACA, discussing with customers on conference calls). No roadshow is expected; no travel is expected.
-- No BWICs required to be run by the Portfolio Selection Agent
-- Timing: the Transaction Sponsor is working under the assumption that Goldman be in the market with this transaction early February

Contemplated Capital Structure -- subject to Reference Portfolio:

- [34]% - [100]%: unfunded supersenior tranche distributed to a supersenior protection writer
- [22]% - [34]%: Aaa/AAA class A tranche distributed broadly on a best efforts' basis by Goldman
- [15]% - [22]%: Aa2/AA class B tranche distributed broadly on a best efforts' basis by Goldman
- [9]% - [15]%: A2/A class C tranche distributed broadly on a best efforts' basis by Goldman
- [0]% - [9]%: pre-committed first loss

-- Economics: for transactions like this, where the Portfolio Selection Agent is not required to retain any risk, we have seen fees in the order of 15bps to 20bps paid on the portfolio notional amount (that's what we have been seeing for most of the Magnetar-sponsored transactions). In the context of this transaction, the portfolio selection fees will be paid in the form of a spread on the outstanding amount of the class A through class C tranches. For example, if you are asking to be paid:

- Class A Portfolio Management Fee: 0.25% p.a. (the tranche is [12]% thick)
- Class B Portfolio Management Fee: 0.50% p.a. (the tranche is [7]% thick)
- Class C Portfolio Management Fee: 1.00% p.a. (the tranche is [6]% thick)

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2540

This would mean that if Goldman is able to distribute 100% of the class A, class B and class C notes, the Portfolio Selection Agent would, on a blended basis, receive 0.125% p.a. on the portfolio notional. This compensation structure aligns everyone's incentives: the Transaction Sponsor, the Portfolio Selection Agent and Goldman.

-- The Transaction Sponsor is in discussions with a couple of potential CDO managers, and will work with the manager who will provide the most appealing economic proposal and will be able to address all the stated objectives.

We will send to you later today a termsheet that outlines the transaction structure. What would be constructive is for you to think about the fees that you would need to get paid to act as Portfolio Advisor, and also a draft portfolio that you would select, based upon the preliminary work you mentioned to us during the call.

Thanks,

Regards,

Fabrice

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917[redacted]
Email: fabrice.tourre@gs.com

Fabrice Tourre
Structured Products Group

Goldman Sachs

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From: Tourre, Fabrice
Sent: Thursday, January 18, 2007 9:59 AM
To: Lehman, David A.; Swenson, Michael; Ostrem, Peter L; Rosenblum, David J.
Cc: Wisenbaker, Scott; ficc-mtgcorr-desk
Subject: ACA/Paulson post

ACA is going to be ok acting as portfolio selection agent for Paulson, in exchange for a portfolio advisory fee of at least $1mm per year. We will have to distribute supersenior through single-A rated notes off a static portfolio of mezzanine subprime RMBS obligations selected by ACA.

The transaction will not be broadly marketed until February 23 since ACA is already locked with another investment bank until that date. If everyone agrees, the idea is to quietly show this trade to a select number of accounts, and broadly announce the transaction on Feb 23 if it fits with the overall CDO pipeline and if we feel ok with our existing Baa2 RMBS risk position.

We are trying to get Paulson to give us an order on the following tranches:

-- Up to $1,300mm of supersenior @ a strike spread of 34bps. Distribution fee of 0.20% + 1/2 the upside vs. the strike spread
-- Up to $240mm of Aaa/AAA @ an all-in strike spread (including portfolio advisory fees) of 100bps. Distribution fee of 1.00% + 1/2 the upside vs. the strike spread
-- Up to $100mm of Aa2/AA @ an all-in strike spread (including portfolio advisory fees) of 150bps. Distribution fee of 2.00% + 1/2 the upside vs. the strike spread
-- Up to $80mm of Aa3/AA- @ an all-in strike spread (including portfolio advisory fees) of 175bps. Distribution fee of 2.50% + 1/2 the upside vs. the strike spread
-- Up to $100mm of A2/A @ an all-in strike spread (including portfolio advisory fees) of 425bps. Distribution fee of 3.00% + 1/2 the upside vs. the strike spread

My assumption is that we can execute at the levels below, and P&L in that case would be up to $15mm for this trade ($7.5mm for a $1bn trade):

-- supersenior @ 25bps
-- Aaa/AAA @ L+60bps (+20bps of portfolio advisory fees) = 85bps
-- Aa2/AA @ L+80bps (+50bps of portfolio advisory fees) = 130bps
-- Aa3/AA- @ L+95bps (+50bps of portfolio advisory fees) = 145bps
-- A2/A @ L+275bps (+100bps of portfolio advisory fees) = 375bps

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2548

From: Paolo Pellegrini
Sent: Wednesday, March 14, 2007 9:16 AM
To: Sihan Shu

Attachments: ACA ABACUS Paulson Fee Illustration 20070306.xls

Paolo M. Pellegrini
Managing Director
Paulson & Co. Inc.
590 Madison Avenue
New York, NY 10022
Phone: (212) 956-4129 (direct)
(212) 956-2221 (main)
(212) 977-9505 (fax)

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2548

FOIA Confidential Treatment Requested by Paulson & Co.

Incentive Based Fee Schedule

Tranche
Super Senior
Class A-1
Class A-2
Class B
Class C
Class D
First Loss

* Annual Cost to Paulson for each Distributed Tranche represents the sum of (a) the Executed Spread for such Tranche and (b) the ratio of (i) the Upfront Fee Rate for such Distributed Tranche and (ii) 2

Disclaimer:

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PAULSON-ABACUS 0250402

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	C	D	E	F	G	H	I	J	K
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5		Reference Portfolio Notional Amount	2,000.00						
6		Paulson/GS Upside Sharing	50%						
7									
8	Attachment Point	Detachment Point	Notional (%)	Notional ($mm)	Distributed Tranches	Moody's	S&P	Strike Spreads	Pricing Spreads
9	45.00%	100.00%	55.00%	1,100.00	1,100.00			0.95%	0.60%
10	35.00%	45.00%	10.00%	200.00	200.00	Aaa	AAA	1.50%	0.80%
11	21.00%	35.00%	14.00%	280.00	280.00	Aaa	AAA	1.75%	1.00%
12	18.00%	21.00%	3.00%	60.00	60.00	Aa2	AA	2.90%	1.75%
13	13.00%	18.00%	5.00%	100.00	100.00	Aa3	AA-	3.40%	2.50%
14	10.00%	13.00%	3.00%	60.00	60.00	A2	A	6.75%	5.00%
15	0.00%	10.00%	10.00%	200.00					
16				2,000.00	1,800.00				
17									
18		Duration Assumption For Paulson Cost of Protection:	2	(years)					
19		Upfront Deal Expenses:	2	($mm)					
20		Annual Cost to Paulson, including upfront expenses:	2.02%						
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PAULSON-ABACUS 0250403

FOIA Confidential Treatment Requested by Paulson & Co.

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8	Portfolio Advisory Fees	Put Fee (if applicable)	Executed Spreads	Minimum Fee Rate	Upfront Fee Rate	Annual Cost to Paulson*
9			0.60%	0.375%	0.90%	1.05%
10	0.25%	0.06%	1.11%	1.500%	2.09%	2.15%
11	0.25%	0.06%	1.31%	1.500%	2.16%	2.39%
12	0.50%	0.06%	2.31%	2.500%	3.39%	4.00%
13	0.50%	0.06%	3.06%	3.500%	4.01%	5.07%
14	1.00%	0.06%	6.06%	4.500%	5.54%	8.83%
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PAULSON-ABACUS 025040

From: Tourre, Fabrice
Sent: Friday, September 08, 2006 8:23 PM
To: Sparks, Daniel L
Cc: Swenson, Michael; Egol, Jonathan; Lehman, David A.; Gerst, David
Subject: Paulson Post

Attachments: ABACUS Engagement Letter, Paulson Execution Copy 20060908.pdf



ABACUS
Jagement Letter, Pa

Dan,

We have been working with Paulson (Cactus and Kyle have done a great job at covering the account) over the past few weeks to help them short the RMBS market at a macro level through a $1.32bn supersenior swap trade referencing a portfolio of 100 equally sized 2006-vintage Baa2-rated RMBS bonds. The engagement letter attached is a letter according to which Goldman agrees to work an order for Paulson on this trade, and Goldman gets compensated according to a incentive-based schedule - I will come by on Monday and ask you to sign the letter.

In a nutshell, if we are able to place $1.32bn of supersenior risk at a spread inside 30bps running, we get paid 20bps upfront (on the trade notional) plus half the upside vs. the strike spread of 30bps. In other words:

- if we are able to source supersenior protection @ 30bps on the $1.32bn size, our P&L will be approx $2.6mm

- if we are able to source supersenior protection @ 20bps on the $1.32bn size, our P&L will be approx $4.6mm

We have had dialogue with a couple of accounts who are interested in taking the risk at a spread around 20bps, we will post you next week when the trade materializes.

Fabrice

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2548

Confidential Treatment Requested by Gold

May 31, 2007

ACA Credit Products – ABN AMRO, L.L.C.
C/o ACA Service L.L.C.
140 Broadway, 47th Floor
New York, New York 10005

Re: **Credit Default Swap Insurance Policy No. SF0507-58 dated May 31, 2007, together with Endorsement No. 1 attached thereto and dated the date thereof (together, the "Policy")**

Reference is hereby made to that certain ISDA Master Agreement (Multicurrency—Cross Border) and Schedule thereto dated as of May 31, 2007 (the "Master Agreement") between ABN AMRO BANK, N.V. (the "Bank") and you and the Confirmation with a trade date of May 31, 2007 between the Bank and you (the "Confirmation" and, together with the Master Agreement, the "Transaction Agreement").

In connection with and in consideration for the issuance by ACA Financial Guaranty Corporation ("ACAFG") of the Policy, you hereby agree to pay to ACAFG a premium (the "Premium") equal to 95% of the Fixed Amount payable under the Transaction Agreement. The Premium will be paid to ACAFG promptly upon receipt of payment of any Fixed Amount under the Transaction Agreement.

This agreement (i) shall be governed by and construed in accordance with New York law, (ii) sets forth the entire understanding with respect to the subject matter hereof and cancels any prior communications, understanding and agreements between the parties, (iii) may be amended only by a writing executed by each of the parties hereto, and (iv) may be executed and delivered in counterparts (including facsimile transmission), each of which will be deemed an original.

Please confirm your agreement with the foregoing by executing this letter agreement in the space provided below.

ACA Financial Guaranty Corporation

By: _____
Name: Peter G. Trenschy
Title: Associate G.C.

ACCEPTED AND AGREED:

ACA Credit Products – ABN AMRO, L.L.C.

By: _____
Name: Eric J. Tadelson
Title: Assistant Secretary and Associate General Counsel

Confidential Treatment Requested Under FOIA by Fried Frank Harris Shriver & Jacobson L

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2549

ACA Financial Guaranty Corporation
140 Broadway, 47th Floor
New York, NY 10005
For information, contact:
(212) 375-2000
(888) 427-2833

ACA Capital

CREDIT DEFAULT SWAP INSURANCE POLICY

Policy Number: SF0507-58 **Effective Date: May 31, 2007**

Obligor: ACA Credit Products – ABN AMRO, L.L.C.

Counterparty: ABN AMRO BANK, N.V.

Agreement: (1) ISDA Master Agreement dated as of May 31, 2007 between Counterparty and Obligor including the Schedule thereto dated as of May 31, 2007 (together, the "Master"); (2) the Confirmation entered into thereunder with a trade date of May 31, 2007(the "Confirmation", and together with the Master, the "Agreement")

ACA FINANCIAL GUARANTY CORPORATION ("ACA"), a Maryland stock insurance company, in consideration of the payment of the premium and subject to the terms and conditions contained in this Policy (which includes each exhibit and endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the Counterparty that portion of each Insured Payment which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

ACA will make such payments to the Counterparty on the later of the day on which such Insured Payment becomes Due for Payment or the Business Day next following the Business Day on which ACA shall have received a Notice of Nonpayment in the form of Exhibit A hereto, properly completed and duly executed by an authorized officer of the Counterparty, together with a properly completed instrument of assignment in the form of Exhibit B hereto. Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. New York time on such Business Day; otherwise, it will be deemed received on the next Business Day. A Notice of Nonpayment may be given to ACA by prepaid telegram, telecopy, telex, certified mail, or express courier service (in all cases with return receipt or the equivalent thereof). Upon disbursement in respect of any portion of an Insured Payment, ACA shall become the owner of the right to payment of such portion of such Insured Payment and shall be fully subrogated to all of the Counterparty's rights with respect thereto under the Agreement, including the Counterparty's right to payment thereof to the extent of any payment by ACA hereunder.

This Policy is non-cancelable for any reason, including, without limitation, non-payment of premium, and the premium on this Policy is not refundable for any reason, including the payment of any amount payable by or on behalf of the Obligor pursuant to the Agreement. This Policy shall expire upon the termination of the Agreement.

The following terms shall have the meanings specified for all purposes of this Policy. The terms "Obligor" and "Counterparty" mean the respective entities identified as such above. The term "Agreement" means the Agreement identified as such above, together with any supplement, amendment and modification thereof consented to in writing by ACA. "Insured Payment" means (i) each net floating payment payable by the Obligor under the Agreement, to the extent payable thereunder, after giving effect to any applicable adjustments, netting and set-off thereunder (each, a "Floating Payment"), and (ii) each termination payment payable by the Obligor under Section 6(e) of the Master upon the designation of an Early Termination Date in connection with an Event of Default involving the Obligor as the Defaulting Party or as a result of a Termination Event involving the Obligor as the Affected Party, to the extent payable thereunder, after giving effect to any applicable adjustments, netting and set-off thereunder (an "Termination Payment"). "Insured Payment" shall never include any amounts (including, without limitation, taxes, withholdings, fees, expenses, indemnification, penalty payments or default rates) other than Floating Payments and Termination Payments. "Due for Payment" means (a) when referring to a Floating Payment or Termination Payment, the date on which such payment is due under the Agreement. "Nonpayment" with respect to any Insured Payment means the failure of the Obligor to have provided sufficient funds to the Counterparty for payment of such Insured Payment. "Nonpayment" shall also include that portion of any Insured Payment made to the Counterparty by the Obligor which has been rescinded or recovered from the Counterparty pursuant to a final, non-appealable order of a court of competent jurisdiction that such payment constitutes an avoidable preference to the Counterparty within the meaning of any applicable bankruptcy law. "Business Day" means any day other than a Saturday, Sunday or a day on which banking institutions in the States of Maryland, New York, or the Insurer's Fiscal Agent are authorized or required by law to remain closed.

ACA may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Counterparty specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Counterparty (a) copies of all notices required to be delivered to ACA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to ACA and shall not be deemed received until received by both and (b) all payments required to be made by ACA under this Policy may be made directly by ACA or by the Insurer's Fiscal Agent on behalf of ACA. The Insurer's Fiscal Agent is the agent of ACA only and the Insurer's Fiscal Agent shall in no event be liable to the Counterparty for any act of the Insurer's Fiscal Agent or any failure of ACA to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

IN WITNESS WHEREOF, ACA has caused this Policy to be attested with its corporate seal and to be executed on its behalf by its duly authorized representative.

ACA FINANCIAL GUARANTY CORPORATION

ACA FINANCIAL GUARANTY CORPORATION CORPORATE SEAL 1986 MARYLAND

Authorized Representative

Confidential Treatment Requested Under FOIA
by Fried Frank Harris Shriver & Jacobson LLP

CREDIT DEFAULT SWAP INSURANCE POLICY

Policy Number: SF0507-58

Exhibit A

NOTICE OF NONPAYMENT

ACA Financial Guaranty Corporation
140 Broadway, 47th Floor
New York, New York 10005
Attention: General Counsel

Ladies and Gentlemen:

We refer to Credit Default Swap Insurance Policy No. SF0507-58 (the "Policy") issued by ACA Financial Guaranty Corporation ("ACA"). Capitalized terms used herein have the meanings assigned to them in the Policy or the Agreement, as the case may be, unless the context clearly requires otherwise.

By our duly authorized officers named below, we hereby certify that we are the Counterparty referred to in the Policy and further certify as follows:

[FOR NONPAYMENT OF FLOATING PAYMENT:

1. Pursuant to the [IDENTIFY CONFIRMATION] Confirmation under the Master, the Obligor is required to make a Floating Payment in the amount of $[INSERT FULL AMOUNT OF FLOATING PAYMENT] on [INSERT PAYMENT DUE DATE].

2. The Counterparty has received $[INSERT 0 OR PARTIAL AMOUNT PAID BY OBLIGOR] from or on behalf of the Obligor in respect of the Floating Payment referred to in paragraph 1 above. Accordingly, by reason of Nonpayment by the Obligor, the Floating Payment referred to in paragraph 1 above is unpaid in the amount of $[INSERT AMOUNT BY WHICH OBLIGOR HAS FAILED TO MAKE FLOATING PAYMENT] (such unpaid amount being referred to as the "Deficiency").]

[FOR NONPAYMENT OF TERMINATION PAYMENT:

1. Pursuant to the Agreement, an Early Termination Date has been designated. As a result of such termination, the Obligor is required to make an Termination Payment in the amount of $[INSERT FULL AMOUNT OF TERMINATION PAYMENT] on [INSERT DATE ON WHICH TERMINATION PAYMENT IS DUE]. There are attached the quotations, calculations and other information required under the Agreement supporting the determination of the amount of such Termination Payment.

2. The Counterparty has received $[INSERT 0 OR PARTIAL AMOUNT PAID BY OBLIGOR] from or on behalf of the Obligor in respect of the Termination Payment referred to in paragraph 1 above. Accordingly, by reason of Nonpayment by the Obligor, the Termination Payment referred to in paragraph 1 above is unpaid in the amount of $[INSERT AMOUNT BY WHICH OBLIGOR HAS FAILED TO MAKE TERMINATION PAYMENT] (such unpaid amount being referred to as the "Deficiency").]

3. The Deficiency does not include any taxes, withholdings, fees, expenses, indemnification, penalty payments or default rates.

4. There are attached hereto the instruments of assignment referred to in the second paragraph of the Policy.

5. We hereby request that ACA make payment of the Deficiency to us in accordance with the Policy by wire transfer of immediately available funds to the following account: [INSERT COUNTERPARTY'S WIRE INSTRUCTIONS].

IN WITNESS WHEREOF, we have executed and delivered this Notice of Nonpayment as of the date set forth below.

ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD ANY INSURANCE COMPANY OR OTHER PERSON FILES A STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION, OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT INSURANCE ACT, WHICH IS A CRIME, AND SHALL ALSO BE SUBJECT TO A CIVIL PENALTY.

[NAME OF COUNTERPARTY]

By: _____
Print Name:
Print Title:

By: _____
Print Name:
Print Title:

Confidential Treatment Requested Under FOIA
by Fried Frank Harris Shriver & Jacobson LLP

CREDIT DEFAULT SWAP INSURANCE POLICY **Policy Number: SF0507-58**

Exhibit B

Form of Assignment
(Credit Default Swap Insurance Policy No. SF0507-58

Reference is hereby made to the Credit Default Swap Insurance Policy No. _____ dated _____, 200_ (together with the Endorsement attached thereto, and any amendments thereof, the "Policy") issued by ACA Financial Guaranty Corporation ("ACA") relating to the (i) ISDA Master Agreement dated as of ____ between the Counterparty and Obligor (each as defined therein) including the Schedule thereto dated as of _____ (the "Master") and (ii) Confirmation dated _____entered into by such parties under the Master (the "Confirmation" and together with the "Master", the "Agreement"). Unless otherwise defined herein, capitalized terms used herein shall have the meanings assigned to them in the Policy.

1. In connection with the Insured Payment which is not an Avoided Payment of $_____ paid by ACA to the Counterparty pursuant to a claim therefore on _____under the Policy in accordance with the terms thereof; [and/or]

2. In connection with the Avoided Payment of $_____ made by the Obligor to the Counterparty under the Agreement and the payment by ACA in respect of such Avoided Payment pursuant to a claim therefore on _____under the Policy in accordance with the terms thereof:

the Counterparty hereby irrevocably and unconditionally, without recourse, representation or warranty (except as provided below), sells, assigns, transfers, conveys and delivers to ACA all of its rights, title and interest in and to any rights or claims, whether accrued, contingent or otherwise, which the Counterparty now has or may hereafter acquire under the Agreement, at law or otherwise, against any person (including, but not limited to, the Obligor) relating to, arising out of or in connection with such Insured Payment or Avoided Payment, as the case may be, subject to the limitation that the rights acquired by ACA hereunder are and shall be subordinate and junior in right of payment to the prior indefeasible payment in full of all amounts due and owing to the Counterparty under the Agreement. The Counterparty represents and warrants to ACA that such claims and rights are free and clear of any lien or encumbrance created or incurred by the Counterparty[1].

IN WITNESS WHEREOF, the Counterparty has duly executed and delivered this Assignment as of _____, 200_.

[NAME OF COUNTERPARTY]

By: _____
Name:
Title:

[1] In the event that the terms of this form of assignment are reasonably determined to be insufficient solely as a result of a change of law or applicable rules after the date of the Policy to fully vest all of the Counterparty's right, title and interest in such rights and claims, the Counterparty and ACA shall agree on such other form as is reasonably necessary to affect such assignment, which assignment shall be without recourse, representation or warranty except as provided above.

Confidential Treatment Requested Under FOIA
by Fried Frank Harris Shriver & Jacobson LLP

From: Birnbaum, Josh
Sent: Tuesday, May 08, 2007 9:24 PM
To: Tourre, Fabrice; Egol, Jonathan; Williams, Geoffrey
Cc: Swenson, Michael; Lehman, David A.
Subject: RE: Post on Paulson and ABACUS 07-AC1
x-gs-classification: Internal-GS

Ok, thanks. LDL in the morning.

From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 9:22 PM
To: Birnbaum, Josh; Salem, Deeb
Subject: RE: Post on Paulson and ABACUS 07-AC1

2006 vintage. Tier 2/Tier 3 names. Avg spread of approx 450bps mid-market. We already executed a few trades on 21-35 tranche (got that done at 110bps $150mm notional, VERY good level), also traded 35-45 (got that done at 85bps $50mm notional, also good level, more to be printed over the next few weeks). Give me a buzz if you want to discuss live.

From: Birnbaum, Josh
Sent: Tuesday, May 08, 2007 9:19 PM
To: Tourre, Fabrice; Salem, Deeb
Subject: RE: Post on Paulson and ABACUS 07-AC1

vintage? tier?

what do we think is the portfolio spread?

From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 9:17 PM
To: Birnbaum, Josh
Subject: RE: Post on Paulson and ABACUS 07-AC1

100% Baa2 RMBS selected by ACA/Paulson

From: Birnbaum, Josh
Sent: Tuesday, May 08, 2007 9:17 PM
To: Tourre, Fabrice; Sparks, Daniel L
Cc: Egol, Jonathan; Lehman, David A.; Gerst, David; Williams, Geoffrey; Swenson, Michael
Subject: RE: Post on Paulson and ABACUS 07-AC1

Remind me, what is the ref portfolio?

From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 8:35 PM
To: Sparks, Daniel L
Cc: Egol, Jonathan; Lehman, David A.; Gerst, David; Williams, Geoffrey; Swenson, Michael; Birnbaum, Josh

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2551

Subject: Post on Paulson and ABACUS 07-AC1

Dan,

As you know we have been working on the ABACUS 07-AC1 trade, the RMBS CDO short that we are brokering for Paulson. The supersenior tranche off that portfolio is most likely going to be executed with ACA, through ABN Amro as intermediation counterparty. The exact trade would be the following: GS would buy protection on $1bn notional of 50-100 tranche off the reference portfolio at an all-in level 67bps. Paulson was initially expecting to short the 45-100 tranche, and at this point we are not 100% sure they would want to execute on 50-100. Here are the options we are going to walk them through:

Option 1: we offer them protection on 50-100 @ 80bps running, 1pt upfront, $1bn notional. We would make risk-free approx $14mm

Option 2: we offer them protection on 45-100 @ 80bps running, 1.50pt upfront, $1.1bn notional. We would be at risk on $100mm of the 45-50 tranche, but assuming we can trade that tranche at approx 100bps spread (which i am confident we can do), we would make $18mm.

Let me know if you have any questions on this.

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917-[redacted]
Email: fabrice.tourre@gs.com

Goldman Sachs

Fabrice Tourre
Structured Products Group

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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From: Remnant, Charlie
Sent: Friday, April 13, 2007 1:10 PM
To: Tourre, Fabrice
Subject: RE: ABACUS 07-AC1

Hey Fab, I just caught up with Wade. He has confirmed he has lines for ACA and is interested in the trade. He has to wait to get the amount of capital it will use from Amsterdam on early Monday and then if all still ok will call us and haggle over price as he thinks there is a lot of money in the deal for GS. This seems to be moving in the right direction I have set up lunch for you with him on Thursday next week

Have a good weekend

Charlie

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman Sachs International
Peterborough Court | 133 Fleet Street | London EC4A 2BB
Tel: +44 (0)20 7552 0296 | Mobile: +44 [redacted]
E-mail: charles.remnant@gs.com
Goldman
Sachs

Charlie Remnant CFA
Executive Director
Fixed Income, Currency & Commodities

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-----Original Message-----
From: Tourre, Fabrice
Sent: Friday, April 13, 2007 5:25 AM
To: 'wade.newmark@uk.abnamro.com'
Cc: Remnant, Charlie; stephen.potter@uk.abnamro.com
Subject: RE: ABACUS 07-AC1

Wade, sorry for the late response I was travelling yesterday and today. Here are my thoughts on your question:

1) the total credit spread of this 45-100 supersenior tranche is going to be approx 55bps

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(the tranche below, 35-45, just traded at 85bps). As you said this total spread is to be split intermediation/end credit risk.

2) As intermediary, you are getting paid for taking the supersenior tranche credit risk contingent on ACA defaulting. Therefore the fee intermediaries are traditionally paid is often directly proportional to the maximum potential exposure of a trade - a measure of how volatile the MtM of the trade can be. The fact that the spread on that supersenior tranche is wide can not directly be translated into higher MtM volatility than trades done at tighter spread levels. Note also that this transaction has been built with a full sequential paydown sequence (i.e. fast amortization of the supersenior tranche, roll down pretty significant, and short projected average life of the trade), which is going to rapidly reduce your counterparty risk.

3) I am sure we can discuss collectively with ACA and come up with an arrangement that can be satisfactory to all parties. We used to trade with a couple of other counterparties in the past at a cost of approx 4-5 bps running for similar underlying risks. Those intermediaries have slowly gotten full on ACA's name and that is why we are now trading at the 8-10bps wider level for ACA intermediation.

Let Charlie and I know if you are available tomorrow, we would love to get on the phone and discuss this with you. Thanks,

Regards,

Fabrice

-----Original Message-----
From: wade.newmark@uk.abnamro.com [mailto:wade.newmark@uk.abnamro.com]
Sent: Wednesday, April 11, 2007 12:20 PM
To: Tourre, Fabrice
Cc: Remnant, Charlie; stephen.potter@uk.abnamro.com
Subject: RE: ABACUS 07-AC1

Thanks for your note.

We may have issues on the economics.

It seems that GS have agreed 50 for ACA. This is troubling on two counts:

- Normally on intermediation the risk taker economics are shared 1/3 2/3 Bank and Insurer. On this calculation we should be seeing around 17 bp to us and 43 to ACA if ACA was AAA.
- However there is the additional challenge that ACA is a worse credit rating than us which to be honest should flip round the ratios.

Considering the above a figure of 8 to 10 is way off the mark.

Thoughts please?

Wade R. Newmark
+44 (0) 207 678 6424 (office)
+44 (0) 20 7857 9607 (fax)
+44 (0) [redacted] (mobile)

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Thabe, Tim
Sent: Wednesday, May 09, 2007 1:29 PM
To: Tourre, Fabrice
Cc: ficc-mtgcorr-desk; Remnant, Charlie; Singh, Niharika; Nartey, Michael; Friedman, Nicolas B.; Bartie, James M.; Lutkin, Kerry; Gunhold, Tiffany
Subject: RE: ABN Amro

Fabrice,

This is approved for GSI assuming that the trade will be covered under the existing ISDA/CSA with ABN AMRO BANK N.V.

Thanks
Tim

From: Tourre, Fabrice
Sent: Wednesday, May 09, 2007 1:26 PM
To: Thabe, Tim
Cc: ficc-mtgcorr-desk; Remnant, Charlie; Singh, Niharika; Nartey, Michael; Friedman, Nicolas B.; Bartie, James M.
Subject: RE: ABN Amro

Tim, please check with Nico Friedman in GS Credit New York how the potential exposure calculation has been done in the past for these trades. Nico, we are talking about trading the 50-100 tranche ($1bn notional) @ 67bps p.a., portfolio details attached below.

<< File: ABACUS 2007-AC1 Reference Portfolio (GS Credit) 20070508.xls >>

Please call me if you have any questions.

From: Thabe, Tim
Sent: Wednesday, May 09, 2007 5:05 AM
To: Tourre, Fabrice
Cc: ficc-mtgcorr-desk; Remnant, Charlie; Singh, Niharika; Nartey, Michael; Friedman, Nicolas B.; Bartie, James M.
Subject: RE: ABN Amro

Fabrice,

Could you give us an estimate of the spread volatility and expected maturity/duration of the tranche? Could you also please confirm that this trade would fall under the existing ISDA/CSA we have with GSI.

Thanks
Tim

From: Tourre, Fabrice
Sent: Tuesday, May 08, 2007 11:57 PM
To: Thabe, Tim; Friedman, Nicolas B.
Cc: ficc-mtgcorr-desk; Remnant, Charlie; Singh, Niharika; Nartey, Michael
Subject: ABN Amro

Tim, Nico,

We are close to executing with ABN AMRO Bank NV London Branch (acting as protection seller) a $1bn supersenior swap referencing the 50-100 tranche off a portfolio of Baa2 RMBS obligation -- see the trade details below. We wanted to make sure we have capacity to take ABN's counterparty risk for this trade. Please let me

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know if you have any questions or issues, thanks.

Summary of Terms

- Trade Date: [ ]
- Reference Portfolio: ABACUS 2007-AC1

<< File: Portfolio Information 20070328.xls >>

- Counterparty: ABN AMRO Bank NV London Branch
- Protection Buyer: GSI
- Counterparty ("Seller") writes protection to Goldman Sachs International ("GSI" or "Buyer") on tranched CDS with specified attachment point and specified exhaustion point. Seller receives premium on the related Notional Amount (payable on a monthly basis by Buyer, Actual/360 daycount convention).
- Initial Reference Portfolio Notional Amount: USD 2,000,000,000
- Initial Swap Notional Amount: USD 1,000,000,000
- Attachment Point: 50%
- Exhaustion Point: 100%
- Senior Amount: (1 - Exhaustion Point) x Initial Reference Portfolio Notional Amount
- First Loss Amount: (Attachment Point) x Initial Reference Portfolio Notional Amount
- Tranche Thickness: Exhaustion Point - Attachment Point
- Tranche Notional Amount: (Tranche Thickness) x Initial Reference Portfolio Notional Amount; as reduced by (a) Amortizations on the Reference Portfolio after the Senior Amount has been reduced to zero, and (b) Loss Amounts after the First Loss Amount has been reduced to zero.
- Tranche Spread: 0.67%
- Non-Call Period: 3 years (Buyer has the right to cancel the CDS at no cost at any time after the end of the Non-Call Period)
- Credit Events/Settlement Mechanics: Writedown and Failure to Pay Principal; Cash Settlement only. Definitions consistent with the current form of Standard Terms Supplement for a Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form) and Form of Confirmation.
- Premium Payments: monthly, ACT/360, accrued on the notional amount of the Tranche Notional Amount.
- Scheduled Termination Date: May 28, 2037
- CDS Calculation Agent: Protection Buyer
- Notifying Party: Protection Buyer only

<< File: GS-Intermediary Tranche CDS Confirmation template (ACA) 20070226.pdf >>

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From: Tourre, Fabrice
Sent: Tuesday, April 10, 2007 7:51 AM
To: Friedman, Nicolas B.; Gerst, David
Cc: Raazi, Cactus
Subject: RE: ABACUS 07-AC1

Nico -- smaller list -- can you call me when you get a chance ? This is the first trades i believe we are doing with this specific entity, would love to try to figure out a way to do more business with Paulson -- happy to discuss that P&L opportunity as well. thanks Nico

---

From: Friedman, Nicolas B.
Sent: Monday, April 09, 2007 7:44 PM
To: Gerst, David; Tourre, Fabrice; ficc-mtgcorr-tradeapprovai
Cc: Raazi, Cactus; CDS approvals
Subject: RE: ABACUS 07-AC1

Approved

Cactus - please not that we do not have any additional risk appetite with this fund. No more derivative business with this fund, unless offsetting from risk perspective. Are you ok with this?

From: Gerst, David
Sent: Monday, April 09, 2007 5:13 PM
To: Friedman, Nicolas B.; Tourre, Fabrice; ficc-mtgcorr-tradeapproval
Cc: Raazi, Cactus; CDS approvals
Subject: RE: ABACUS 07-AC1

Nico,

We were just informed that the entity we will face is "Paulson Credit Opportunities Master II Ltd." rather than "Paulson Credit Opportunities Master Ltd.". Can you confirm approval and margin, if any.

Thanks,

David

From: Friedman, Nicolas B.
Sent: Wednesday, April 04, 2007 2:05 PM
To: Tourre, Fabrice; ficc-mtgcorr-tradeapproval
Cc: Raazi, Cactus; CDS approvals
Subject: RE: ABACUS 07-AC1

You have credit approval - no IA required

From: Tourre, Fabrice
Sent: Tuesday, April 03, 2007 2:37 PM
To: ficc-mtgcorr-tradeapproval
Cc: Raazi, Cactus
Subject: ABACUS 07-AC1

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In connection with the ABACUS 07-AC1 transaction which is expected to price on Tuesday, April 10, 2007, we expect, on that same day, to execute the following tranched CDS with Paulson (entity would be Paulson Credit Opportunities):

-- GS sells protection on $50mm notional of 35%-45% tranche off ABACUS 07-AC1 reference portfolio at a price of 2.30% upfront, 1.16% p.a. - 2 year non-call
-- GS sells protection on $142mm notional of 21%-35% tranche off ABACUS 07-AC1 reference portfolio at a price of 2.30% upfront, 1.41% p.a. - 2 year non-call

See attached reference portfolio.

GS Strat: can you include this portfolio in TAP ?

GS Credit: can you please confirm that we are ok with those trades, and confirm the margin, if any, associated with those trades.

Goldman, Sachs & Co.
85 Broad Street | 26th Floor | New York, NY 10004
Tel: 212-902-5891 | Fax: 212-493-0106 | Cell: 917-[redacted]
Email: fabrice.tourre@gs.com

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Fabrice Tourre
Structured Products Group

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Subject: GS Liquidation Agent Role in ABS CDOs

Start: Thu 7/19/2007 9:00 AM
End: Thu 7/19/2007 10:00 AM
Show Time As: Tentative

Recurrence: (none)

Meeting Status: Not yet responded

Required Attendees: Lehman, David A.; Egol, Jonathan; Bieber, Matthew G.; Case, Benjamin; Kang, Connie; West, Ariane; Gerst, David; Sharma, Nityanand; Mishra, Deva R.; Lin, Shelly; Ganapathy, Mahesh; Saunders, Tim; Kim, Sang; Zack, David; Horvath, Jordan

Here are some notes we put together so far relating to Goldman's liquidation agent role. We can discuss and add on to this list during the meeting tomorrow.

Below is a summary of transactions wherein Goldman Sachs serves as Liquidation Agent and Goldman's responsibilities in the event any asset in these portfolios experiences rating downgrades and/or other distress:

Goldman currently serves as Liquidation Agent for the following transactions:
Hout Bay 2006-1
Hudson High Grade Funding 2006-1
Hudson Mezzanine Funding 2006-1
Hudson Mezzanine Funding 2006-2
Anderson Mezzanine Funding 2007-1

In all of these transactions, Goldman, upon receiving notice from the Trustee or other designated parties, shall within 12 months sell/assign a combination of Credit Risk Obligations, Directed Sale Securities and Delivered Obligations as applicable.

The following assets are currently identified as Credit Risk Obligations based on our calculation, however, we have not received notifications from respective trustees to sell these asset as of yet. This list needs be to refreshed again to incorporate yesterday and today's rating actions:

Hudson Mezz 06-1:

Name	*Par*	*Moody's*	*S&P*
LBMLT 2006-1 M9	15,000,000.00	B1	B
MSAC 2006-WMC2 B3	15,000,000.00	B3	B
OOMLT 2006-2 M8	13,000,000.00	Ba1	B
SAIL 2006-4 M7	15,000,000.00	Ba2	CCC
SAIL 2006-4 M8	15,000,000.00	B1	CCC

Hudson Mezz 06-2:

Name	*Par*	*Moody's*	*S&P*
SAIL 2006-4 M7	5,000,000.00	Ba2	CCC
LBMLT 2006-1 M9	5,000,000.00	B1	B
MSAC 2006-WMC2 B3	5,000,000.00	B3	B
SAIL 2006-4 M8	5,000,000.00	B1	CCC

In Hudson High Grade, Anderson Mezzanine Funding, and Hout Bay, no asset is currently identified as Credit Risk Obligations

Sales Price Determination
Prior to any assignment, termination or other disposition of a Directed Sale Security, a Credit Risk Obligation or a

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Delivered Obligation, the Liquidation Agent shall use commercially reasonable efforts to solicit bids with respect to such security from at least three (3) independent dealers then making a market in such security (no more than one of which is the Liquidation Agent or an Affiliate thereof) on the Business Day on which the Indenture requires the Liquidation Agent to arrange such sale. If the Liquidation Agent obtains three (3) or more bids in accordance with the preceding sentence, then the Liquidation Agent shall use its commercially reasonable efforts to arrange for the sale of the applicable security at the highest bid price. If the Liquidation Agent obtains fewer than three (3) bids as provided above, then the Liquidation Agent, consistent with the other provisions of this Agreement and the Indenture, shall use its commercially reasonable efforts to arrange for the assignment, termination or other disposition of the applicable security at the higher of two (2) bid prices received and, if only one (1) bid is received, at the price so bid. Assuming at least one bid is received in accordance with the preceding sentence, the applicable security shall be disposed of at the highest bid price.

One exception in Anderson Mezz:
In the case of a disposition of a CDS Transaction, such CDS Transaction shall only be disposed of if the Market Quotation (as such term is defined in the Credit Default Swap) obtained pursuant to the terms of the Credit Default Swap expressed as a percentage of the related initial Reference Obligation Notional Amount shall be equal to or less than 60%. (checking with deal counsel currently on what this means exactly)

What constitutes a Credit Risk Obligation varies from transaction to transaction:
Hout Bay 2006-1
A "Credit Risk Obligation" is a Collateral Asset (i) the rating of which has been (a) downgraded to below "BBB-" or "Baa3" by any Rating Agency (but not including any Collateral Assets which are rated "BBB-" or "Baa3" and on credit watch for possible downgrade) or (b) withdrawn or, (ii) that is a Defaulted Obligation, (iii) that is a PIK Bond that has been deferring interest for at least twelve consecutive months or (iv) identified in Appendix B as Collateral Asset FHR 3050 KF, FHR 3120 FG, FNR 2005 79 FA or FNR 2005 79 GF and one-month LIBOR exceeds 6.30% for at least twelve consecutive months. ("PIK Bond" means a CDO Security on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

Hudson High Grade Funding 2006-1
A "Credit Risk Obligation" is a Collateral Asset (i) the rating of which has been (a) downgraded to below "BBB-" or "Baa3" by any Rating Agency (but not including any Collateral Assets which are rated "BBB-" or "Baa3" and on credit watch for possible downgrade) or (b) withdrawn or, (ii) that is a Defaulted Obligation or (iii) that is a PIK Bond that has been deferring interest for at least twelve consecutive months. The proceeds from the disposition of a Collateral Asset may not be reinvested in other Collateral Assets. ("PIK Bond" means a CDO Security on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

Hudson Mezzanine Funding 2006-1 and 2006-2
A "Credit Risk Obligation" is a Reference Obligation (i) the rating of which has been (a) downgraded to below "BB-" or "Ba3" by any Rating Agency (but not including any Reference Obligations which are rated "BB-" or "Ba3" and on credit watch for possible downgrade) or (b) withdrawn or, (ii) that is a Defaulted Obligation or (iii) that is a PIK Bond that has been deferring interest for at least twelve consecutive months. ("PIK Bond" means a Reference Obligation or Delivered Obligation on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior
debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

Anderson Mezzanine Funding 2007-1
A "Credit Risk Obligation" is a Reference Obligation (i) the rating of which has been (a) downgraded to below "B-" or "B3" by any Rating Agency (but not including any Reference Obligations which are rated "B-" or "B3" and on credit watch for possible downgrade) or (b) withdrawn or, (ii) that is a Defaulted Obligation or (iii) that is a PIK Bond that has been deferring interest for at least twelve consecutive month. ("PIK Bond" means a Reference Obligation or Delivered Obligation on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

Other Notes:
In the event that the Liquidation Agent is terminating a CDS contract on behalf of the CDO and a termination payment is owed to the Credit Protection Buyer (GSI), the Credit Protection Buyer will be paid first from cash and eligible investments on deposit in the CDS collateral account (to the extent available), and then from the proceeds of liquidation of the Collateral Securities.

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MEMORANDUM

Goldman Sachs

To: Mortgage Capital Committee

From: Peter L. Ostrem
Darryl K. Herrick
Deva Mishra
John X. Li

Cc: Jonathan Sobel
Danial L. Sparks
David J. Rosenblum
Tim Saunders

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Date: July 17, 2006

Re: **Placing debt and equity on a static high grade structured product CDO Squared with [redacted]**

I. Introduction

Investec has engaged Goldman with respect to a $1.0 billion static high grade structured product CDO Squared ("Hout Bay II") backed by a $1.0 billion portfolio of primarily double-A and single-A rated CDO assets with remaining assets consisting of A3/A- and higher rated RMBS, ABS, and CMBS with an average rating on the portfolio of Aa3/A1. Goldman will be engaged by Hout Bay II as Liquidation Agent and in this role will have the responsibility of liquidating "Credit Risk Assets" (defined below in section III). Goldman and Investec will co-select the portfolio that will collateralize the CDO. Goldman will be lead placement agent for the debt and equity. [redacted] will be co-placement agent with respect to the equity and has pre-committed to purchase half of the equity, subject to a cap of $7MM, with greater commitment subject to their credit committee's prior approval (expected size of equity tranche is $10 to $14MM), upon closing of the transaction. Investec will share 50% of warehouse risk, subject to a cap of $10 MM, during the portfolio ramp-up.

In return for warehousing, structuring, its role as Liquidation Agent for, and placing the transaction, Goldman will receive a 0.25% fee ($2.5MM on a $1.0 billion deal) from the CDO at closing, and an ongoing fee of 0.04% of the CDO's par portfolio balance. Total economics for Goldman are expected to be approx. $6.2 MM (includes $2.5 mm upfront fee, 0.04% ongoing fee, and approx. $1.2 MM net carry). We will be offering equity to third parties with a no-loss yield of approximately 17% and expected return of approximately 15% to 16%. In return for co-placing the equity and pre-committing to 50% of the equity, [redacted] will receive a 0.25% fee ($2.5MM on a $1.0 billion deal) from the CDO at closing.

As Liquidation Agent, Goldman will liquidate assets determined by the Trustee to be "Credit Risk Assets" based on specific guidelines. Goldman will have 12 months to sell these assets. Sales will be made under a competitive bidding process whereby we will solicit three outside bids and select the highest. Prior to executing Hout Bay I, in which we also played the Liquidation Agent role, we spoke with multiple counterparties as to our role as Liquidation Agent. We received approval for our role in this transaction from legal and accounting. We spoke with outside counsel, Orrick Harrington, and they were comfortable providing true sale and non-consolidation opinions for the transaction. We spoke with Mary Marr in Accounting Policy and John Little in Product Control, and they in collaboration with PricewaterhouseCoopers are comfortable that the transaction meets true sale and non-consolidation conditions from an accounting perspective. Finally, we spoke with outside counsel, Wilmer Cutler, about potential issues related to the Investment Advisor Act. They are of the opinion that our role of Liquidation Agent does not cause us to be deemed an Investment Advisor based on an exception to the Advisors Act for a "limited grant of discretion". For a more detailed account of Goldman's role as Liquidation Agent and

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related discussions with legal and accounting counterparts please see section III, "The Liquidation Agent: Goldman".

So long as Goldman holds no more than half of the expected losses in the transaction, accounting is comfortable that Goldman will not have to consolidate the CDO on balance sheet. We will hold no more than half of this risk in this transaction at closing.

We expect at least 30% of the portfolio upon closing will have been acquired from our various structured product trading desks in both cash and synthetic form.

We are currently discussing preliminary debt and equity commitments with third party investors on this transaction and we will be conducting a debt and equity roadshow with Investec in December 2006 in Europe and Asia.

For the subordinate triple-A, double-A debt and single-A, we expect to offer it to the market through our syndicate. The double-A and single-A debt from our most recent high grade structured product CDOs was oversubscribed. For single-A and triple-B debt, we will be pursuing early commitments from investors in exchange for more customized debt tranches and/or commitment fees, similar to Hout Bay I.

II. Transaction Overview

A Cayman Islands limited liability company (the "Issuer") will be established which will purchase the warehoused portfolio at closing and will issue the following notes and equity:

Class	Balance	% of Capital Structure	Expected Ratings (Moody's/S&P)	Expected Spread	Expected Average Life
Class A-1 Notes	$850.0 MM	85.0%	Aaa/AAA	L+28bp	6.0yr
Class A-2 Notes	40.0 MM	4.0%	Aaa/AAA	L+48bp	6.0yr
Class B Notes	50.0 MM	5.0%	Aa2/AA	L+58bp	6.2yr
Class C Notes	26.0 MM	2.6%	A2/A	L+150bp	6.4yr
Class D Notes	20.0 MM	2.0%	Baa2/BBB	L+350bp	6.8yr
Class E Shares	14.0 MM	1.4%	NR	NA	NA
Portfolio	**$1,000.0 MM**	**100.0%**	**Avg. Aa3**	**L+41bp**	**6.2yr**

The transaction will have a legal maturity of 35 years. However, the expected average life of the notes will be approximately 6 years respectively. The CDO equity will also have the option to call the transaction after 3 years.

Structuring, placement and Liquidation Agent fees to Goldman will be approximately $5 MM ($2.5 MM Upfront plus 0.04% of the CDO's portfolio balance per annum). In return for fees and 70% of the net warehouse carry (70% of the net carry will be approx. $1.2 MM), Goldman will take half of the warehouse risk on the first $20mm of loss, Goldman will take all of the warehouse risk above $20MM in losses, and Goldman will place the Class A, B, C and D Notes on a "best efforts" basis. While [redacted] has pre-committed to purchase half of the equity, we have agreed to reduce their allocation pro-rata vs. Goldman with third party equity sales. [redacted] will fund their warehouse risk share upfront by initially depositing the entire $5MM with Goldman and subsequently depositing another $5MM once the deal is 50% ramped.

Collateral Description

- 100% of the Hout Bay II portfolio will be identified at closing. There will be no discretionary trading of the portfolio and Goldman's role as Liquidation Agent will be to liquidate assets determined to be

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credit risk assets (such determination will be made by the trustee pursuant to the Indenture). The liquidation proceeds from any credit risk sales will be used to pay down the CDO notes.

- 15% of the portfolio will be rated Aaa by Moody's or AAA by S&P. 50% of the portfolio will be rated at least Aa3 by Moody's or AA- S&P. 100% of the portfolio will be rated at least A3 by Moody's or A- by S&P.
- The Hout Bay II portfolio is expected to be approximately 10% subprime RMBS, 10% prime RMBS, 10% Commercial Real Estate CDOs, 55% Structured Products CDOs, 10% CLOs, and 5% ABS. Approximately 20-40% of the portfolio will be single-name synthetic exposures that will be collateralized with triple-A credit card or money market notes.

III. The Liquidation Agent: Goldman

Goldman will be engaged by the CDO at closing as the Liquidation Agent (same as Hout Bay I role). As Liquidation Agent, Goldman will be responsible with selling any asset that is determined to be a "Credit Risk Asset." Whether an asset is a Credit Risk Asset will be solely determined by the trustee to the CDO based on specific rules (see Credit Risk Rules below). Once an asset is determined to be a Credit Risk Asset, Goldman is responsible with liquidating that asset within 12 months of such determination and any liquidation proceeds will be remitted to the CDO bond holders according to the cashflow waterfall. The liquidation price of any Credit Risk Asset must be in the context of "Market Value" as determined by a three-bid process. For acting as Liquidation Agent, Goldman will receive an ongoing fee equal to 4bp of the total portfolio par balance.

Credit Risk Assets:
- Any asset that is downgraded by Moody's or S&P below Ba2
- Any asset that is defaulted

Traditionally, structured product CDO's have engaged Collateral Managers to trade and sell assets in the CDO portfolio. Any decisions to trade or sell an asset are made solely by the Collateral Manager, but such decisions are constrained by various covenants of the CDO (e.g. maximum trading limitations of 15% per annum, generic rules for credit improved or credit impaired sales). For a static high grade structured product CDO, Collateral Managers typically receive an 8-10bp ongoing collateral management fee. However, for high grade portfolios (double-A avg. credit quality), there is substantially less credit risk in the assets vs. a mezzanine structured product CDO portfolio (triple-B avg. credit quality). Also, the static nature of the portfolio eliminates reinvestment risk in the CDO portfolio while substantially limiting the ability of any Collateral Manager to add value through ongoing surveillance of the portfolio. Given the limited value of such a Collateral Manager in this case, [redacted] and Goldman have agreed to eliminate the Collateral Manager role in this transaction and instead, we will create the role of Liquidation Agent where Goldman will receive part of the ongoing fees that would otherwise be paid to a Collateral Manager. Also, since the all-in fees are less than a CDO which engages a Collateral Manager, the equity yield will be higher when compared to a similar transaction with a higher fee structure if we assume that expected portfolio losses will be comparable (we assume losses will be 0.2% or less).

We have discussed Goldman's role as Liquidation Agent internally with Tim Saunders and externally with outside counsel, Wilmer Cutler. One concern about that role was whether Goldman would be viewed as an Investment Advisor. We specifically crafted Goldman's role in Hout Bay I and in this case to eliminate both internal and external counsel's concern about Goldman being treated as an Investment Advisor. The main factors that made Tim Saunders and Wilmer Cutler comfortable that Goldman will not be treated as an Investment Advisor were:

- Goldman's role is Liquidation Agent and not Collateral Manager. Goldman is engaged by the CDO to liquidate Credit Risk Assets and will receive an ongoing Liquidation Agent Fee for such services;
- Goldman does not determine whether an asset is a Credit Risk Asset. Such determination is made by the CDO based on specific rules (LaSalle will provide reporting on a monthly basis that shows whether an asset has become a Credit Risk Asset);
- Goldman must liquidate such Credit Risk Assets within 12 months of such determination and the price received on such liquidation must be in the context of a three-bid process;

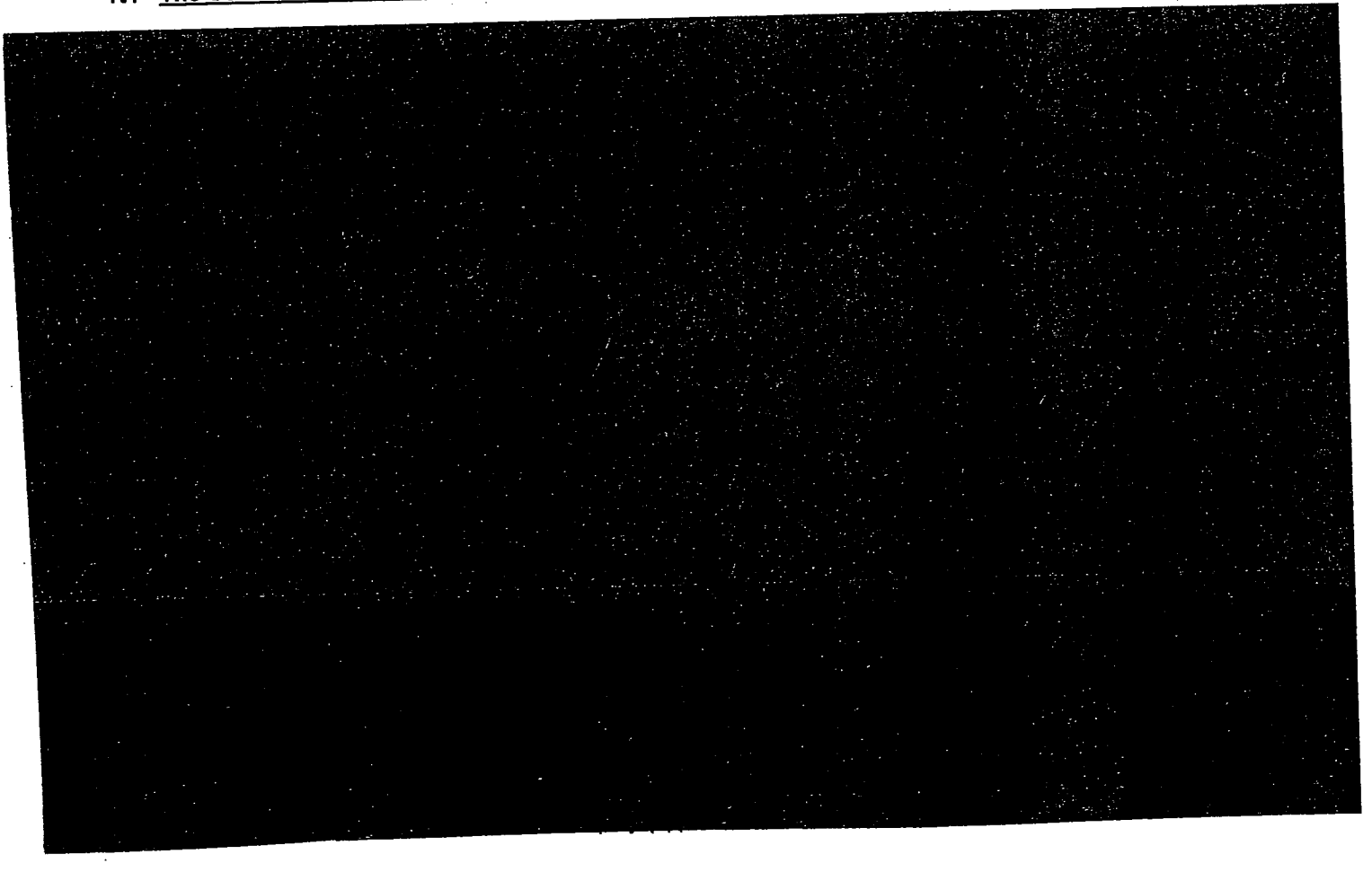
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- Goldman does not receive any additional compensation and or control of the CDO for acting as Liquidation Agent.

We have discussed Goldman's role as Liquidation Agent in Hout Bay I with internal accounting, Matt Schroeder, Mary Marr and John Little. One concern about this transaction was whether Goldman will receive a true sale of warehoused assets to the CDO once the transaction closes. Accounting was specifically concerned that the CDO's inability to trade / rehypothecate the underlying assets may cause problems based on FASB 140 rules. They argued that a CDO's independence needs to be demonstrated by either (a) being a QSPE or (b) ability to rehypotheticate the underlying portfolio. Otherwise, the sale of our warehoused assets to the CDO may not receive true sale. We have agreed with accounting that we will structure the CDO such that the investors in the CDO will have the ability to perform a Beneficial Interest Exchange ("BIE") on any asset in the portfolio. In addition, investors will also have the ability to perform a BIE on any security held in the funded collateral account for any single-name synthetic exposures in the portfolio ("CDS Collateral Account"). Under the BIE rules, a majority of each tranche of the CDO may request an exchange of a certain asset in the portfolio / a certain security in the CDS Collateral Account, with a similar third party asset / security so long as the exchange is at market, the cost of such exchange is covered by such investors, and the exchange will not violate the covenants of the CDO. On Hout Bay 2006-1, we worked together with accounting and agreed on parameters for the BIE option. By structuring the BIE option into the CDO, accounting was comfortable that Goldman will receive a true sale.

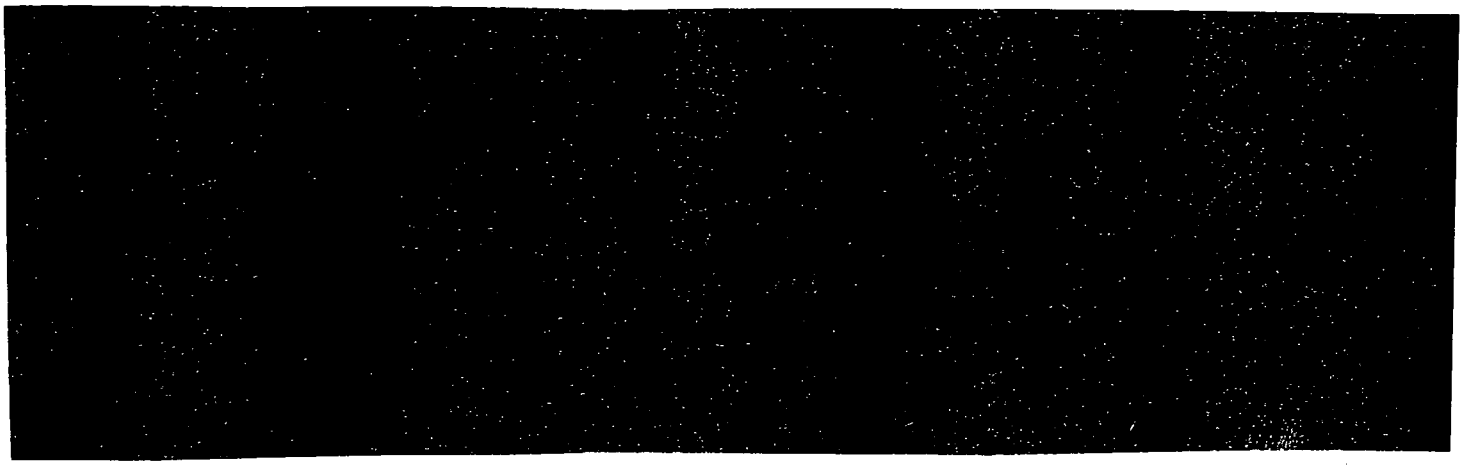
We will build a provision into the deal documents to allow Goldman to resign as Liquidation Agent if appropriate notice is given and a replacement Liquidation Agent is in place.

IV. **The Co-Placement Agent:** [redacted]



[redacted] = Redacted by the Permanent Subcommittee on Investigations

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For [redacted], Hout Bay II represents an opportunity to continue to expand their role in a CDO beyond investor, and to build upon the static CDO platform built together with Goldman Sachs in the first Hout Bay CDO. [redacted] also committing to 50% of the equity.

V. Underwriting Commitments:

Goldman Sachs will act as sole placement agent of the Class A, B, C and D Notes, and up to 50% of the Class E Shares, and will be working on a "best efforts" basis on all of the debt. [redacted] is pre-committed to 50% of the equity, but third party equity sales can reduce Goldman and [redacted] equity retention pro-rata.

The primary demand for mezzanine notes / equity in these types of transactions comes from other structured investment vehicles and CDOs of CDOs, Asian investment funds, high net worth individuals, and CDO equity funds. These various accounts continue to express interest in gaining a leveraged exposure to the U.S. high grade structured product market. The static high grade structured product CDO allows them to gain this exposure on a diversified basis without having to pay the significantly higher management fees associated with managed CDO transactions.

Goldman's current portfolio of CDO and CLO equity held within the CDO group is detailed in Appendix B.

VI. Portfolio Ramp-Up and Equity Marketing

Goldman will assume half of the first loss risk (first $20MM of risk) and all of the second loss risk (losses in excess of $20MM) in the warehouse in the event the CDO fails to close. [redacted] will be taking the other half of the first loss risk in the warehouse [redacted] will deposit [redacted] into the warehouse account upon opening of the warehouse).

Additionally, we will continue to pursue early equity and mezzanine debt commitments from additional investors to reduce the risk of a failed closing. Appendix A details our current warehouse exposures across the CDO group.

The general terms of the portfolio ramp-up are as follows:

- GS selects assets for purchase and Investec has the right to veto certain asset purchases;
- GS has unilateral right to liquidate an asset or the warehouse;
- All assets are sold-forward to the CDO at time of purchase and the forward price covers any hedge or trading gains/losses on assets during the warehouse phase;
- 70% of positive carry will be paid to GS (positive carry is equal to any net income in excess of Goldman's cost of financing during the warehousing period). Net carry is expected to be approximately $1.75 MM which will be shared 70/30 between Goldman and Investec;
- Position sizes will be limited to $30 MM for assets rated triple-A, $20 MM for double-A, and $15 MM for single-A;

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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- 100% of the collateral for the transaction will be identified at closing.

VII. Expected Fees

Goldman will earn a structuring, placement and Liquidation Agent fee equal to 0.25% times the par balance of the collateral portfolio at closing plus 0.04% per annum times the par balance of the collateral portfolio. We expect a $1.0 billion transaction and the fees, in that case, would be $2.5 MM plus 0.04% per annum of the par balance of the collateral. Additionally, Goldman expects to earn profits by selling assets into the CDO and from Goldman's share of warehouse net carry (which is estimated to be $1.2 MM).

Separately, [redacted] will earn a co-placement fee equal to 0.25% of the par balance of the collateral portfolio at closing.

VIII. Reasons to Pursue

We are pursuing this transaction for the following reasons:

1. The respective trading desks are posted on each asset offered into the CDO from the Street. In addition, we expect that 30% of the portfolio by closing will come from Goldman's offerings.
2. Although we will be marketing a $1.0 billion Hout Bay II transaction, Goldman can price the transaction earlier with a lower balance if we are concerned about future market conditions or we can upsize the transaction if there are reasons to merit that action.
3. We will be offering the equity to third party investors with an expected return of approx. 15%.
4. [redacted] is taking a portion of the warehouse risk, [redacted] is committed to 50% of the equity, Goldman has a "best efforts" underwriting commitment on the debt and remaining equity, and Goldman's fees are 0.25% upfront ($2.5 MM on a $1.0 billion deal) plus 0.04% per annum of the CDO's portfolio balance plus approx. $1.2 MM in net warehouse carry.

IX. Strengths / Issues to Consider

Strengths

- **Pre-sold Equity:** [redacted] has pre-committed to purchase half of the equity.
- **Sponsorship Opportunity:** [redacted] has asked Goldman to structure and place Hout Bay II and act as Liquidation Agent for the portfolio. [redacted] will sponsor the CDO through their warehouse risk sharing and equity commitment. In addition to the Hout Bay II mandate and the Hout Bay I equity purchase, [redacted] has invested in or plans to invest in other SP CDO and CLO transactions underwritten by Goldman, and we expect our ongoing relationship with them to result in continued sponsorship of CDOs brought to market by Goldman.
- **Efficient Fee Structure:** Lower overall fees in this transaction (vs. other high grade CDO squared deals in the market) allow more flexibility to select higher quality assets and ramp-up the portfolio quickly and reduces execution risk to Goldman and Investec.

Issues to Consider

- **Warehouse:** Goldman Sachs will be exposed to half of the first $20MM of any net losses and all of the risk above $20MM if the deal fails to close. [redacted] is depositing $[redacted] when the warehouse opens to cover their entire risk exposure in the warehouse.

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- **"Best Efforts" Underwriting Obligation:** Goldman Sachs will make a "best efforts" obligation to distribute all of the Class A, B, C and D Notes.

X. Recommendation

Goldman Sachs will be involved in ramping and warehousing the portfolio for the transaction, structuring the transaction, placing the notes and the equity of the CDO, and in return will earn a $2.5 MM fee at closing, an ongoing fee of 0.04% per annum of the CDO's portfolio balance and approximately $1.2 MM in net carry in the warehouse. [redacted] has committed to half of the equity in the transaction, to 50% of the first $20MM in warehouse losses in the event the CDO does not close, will collaborate with Goldman to ramp the portfolio for the CDO prior to the closing, and will be an ongoing surveillance agent after the CDO closes.

In light of the above, we request that the Capital Committee approve our proposal to enter into a "best efforts" underwriting of the CDO debt and commitment to 50% of the equity and to move forward with the warehouse risk sharing arrangement with Investec.

Appendix A: Current CDO Warehouses

Structured Product CDO Warehouses

Deal Name	Size / Current Warehouse	Collateral Description	GS Warehouse Risk	Expected Pricing	Approx. Fees
Hudson	$1.5 Billion / $777.6 MM	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	[redacted] 1st Loss – 50% up to $16 MM 2nd Loss – 100% above $16 MM	Apr-06	$5.25 MM
Highland	$500 Million / $110 MM	Baa2/Baa3 – RMBS, CDO	[redacted] 1st Loss – 50% up to $20 MM 2nd Loss – 100% above $20 MM	Oct-06	$6 MM
GSC High Grade (GSC Partners)	$1.5 Billion / $1.47 Billion	A1/A2 – RMBS, CMBS, ABS, CDO	[redacted] 1st Loss – 100% on fixed rate assets 2nd Loss – 100% above $50 MM losses on floating rate collateral	Sept-06	$6 MM
[redacted]	$1.5 Billion/ $841 Million	Aa2/Aa3 – RMBS, CMBS, CDO	100% to GS on first $500mm in ramped assets [redacted]	Jul-06	$7.5 MM
Davis Square VII [redacted]	$2.0 Billion/ $1.79 Billion	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	100% to GS	Sept-06	$10 MM
Altius III [redacted]	$2.0 Billion/ $1.84 Billion	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	[redacted] 1st Loss – 50% up to $6 MM 2nd Loss – 100% above $6 MM	Aug-06	$10 MM
West Coast [redacted]	$2.7 Billion/ $2.67 Billion	Aa2/Aa3 – Prime and Alt-A RMBS	Priced	June-06	$13 MM
[redacted]	$2.0 Billion/ $178 Million	Aa2/Aa3 – RMBS, CMBS, ABS, CDO	100% to GS	Dec-06	$10 MM
[redacted]	$1.0 Billion/$0	CDO	1st $20mm of Losses - 50/50 Additional Losses - 100% to GS	Jan-07	$9 MM

[redacted] = Redacted by the Permanent Subcommittee on Investigations

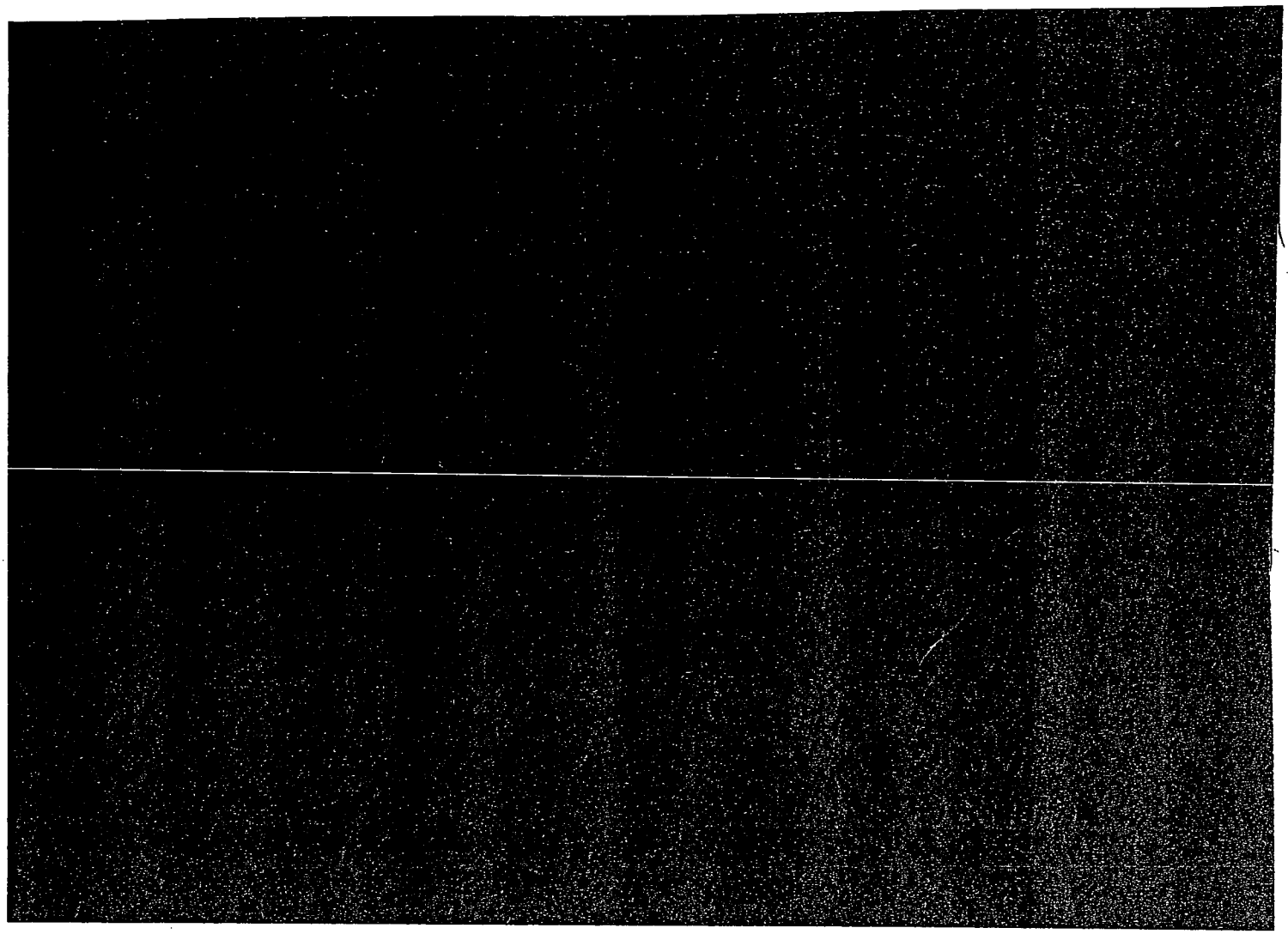
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CLO Warehouses

Deal Name	Size / Current Warehouse	Collateral Description	GS Warehouse Risk	Cost of Financing	Expected Pricing	Approx. Fees
[redacted]	$400 MM / $291 MM	90% Loans 10% Bonds	Priced	L + 75 bps	Priced Jun 24	$5.0 MM
[redacted]	$475 MM / $188 MM	90% Loans 10% Bonds	50% to GS [redacted]	Fed + 37.5 bps	July 2006	$7.0 MM
[redacted]	$500 MM / $366 MM	100% Loans	100% to GS	L + 75 bps	July 2006	$6.5 MM
[redacted]	$500 MM / $219 MM	90% Loans 10% Bonds	50% to GS [redacted]	Fed + 37.5 bps	3Q 2006	$6.0 MM
[redacted]	$400 MM / $138 MM	100% Loans	100% to GS	L + 75 bps	4Q 2006	$5.0 MM
[redacted]	$400 MM / $0 MM	90% Loans 10% Bonds	[redacted] 50% to GSAM	L + 75 bps	4Q 2006	$5.0 MM
[redacted]	$400 MM / $0 MM	100% Loans	50% to GS [redacted]	L + 75 bps	4Q 2006	$5.0 MM

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Case, Benjamin
Sent: Monday, July 23, 2007 3:12 PM
To: Bieber, Matthew G.
Subject: CDO Liquidation Agent Role - Draft Talking Points - INTERNAL USE ONLY

INTERNAL USE ONLY

Liquidation Agent Role -- Talking Points

Liquidation Agent Process
- our goal as Liquidation Agent is to attempt to maximize proceeds on the unwind of credit risk assets pursuant to the liquidation process governed by the CDO documents, rather than to liquidate at an arbitrary pre-specified time without regard to market conditions
- original goal of the rating agencies in structuring the 12 month time period was to avoid forcing the CDO to liquidate in the immediate time period after significant ratings downgrades (which the rating agencies were concerned may be the worst time to liquidate due to decreased market liquidity)
- although we are required to ask for unwind levels from three independent dealers, our intention is to go out to more than three dealers in order to increase possible number of bidders to try to get the best level available in the market
- Liquidation Agent role is run by GS CDO team (independent from the ABS flow secondary trading desk), with access to full resources and market color from ABS trading desk, Mortgage Strategies, and external resources (including color and credit views from third party CDO collateral managers)

Fundamentals
- current credit performance data on the six Credit Risk Obligations between Hudson Mezz 1, Hudson Mezz 2, and Anderson:

Name	Current Face	Moody's	S&P	Current Credit Support	Foreclosure + REO	90+ Delinq.	60+ Delinq.	30+ D
LBMLT 2006-1 M9	15,000,000	B1	B	5.91	14.98	19.83	23.13	
MSAC 2006-WMC2 B3	15,000,000	B3	B	3.07	11.78	14.34	16.94	
OOMLT 2006-2 M8	13,000,000	Ba1	B	3.72	10.43	15.64	18.23	
SAIL 2006-4 M7	15,000,000	Ba2	CCC	3.25	11.48	14.96	17.21	
SAIL 2006-4 M8	15,000,000	B1	CCC	2.26	11.48	14.96	17.21	

Technicals
- current indicative unwind levels on the six current Credit Risk Obligations range from 75-83 points upfront
- recent flows in these types of names have been driven by hedge funds covering shorts, with dealers willing to take the other side (given length of IO remaining and out-of-the-money option value)
- no significant new initiation of trades on these names (in either direction) -- hedge funds have preferred to initiate new shorts up the capital structure and on cleaner names - trades with more upside to short side of trade

Current strategy -- wait and continue to evaluate market conditions, rather than liquidating now
- upside is that continued short-covering by hedge funds anxious to monetize profits could cause minor rally (5-10 points)
- downside is that a speed up of foreclosure process vs. current timeline expected by market could decrease IO value, or significant forced selling of similar names by CDO vehicles could push levels wider

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All information in this Term Sheet, whether regarding the assets backing any securities discussed herein or otherwise, will be superseded by the information contained in the final Offering Circular for any securities actually sold to you. The securities have not been and will not be registered under the Securities Act of 1933, as amended, and the issuers will not be registered under the Investment Company Act of 1940, as amended. This Term Sheet is furnished to prospective investors on a confidential basis solely for the purposes of evaluating the investment offered hereby. The information contained herein may not be reproduced or used in whole or in part for any other purposes.

October 20, 2006

Preliminary Termsheet

Goldman Sachs

Hudson Mezzanine Funding 2006-1, LTD.

$2.0 Billion Static Mezzanine Structured Product CDO

Note: The Class S, Senior Swap, A, B, C, D and E Notes (the "Notes") have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being sold (a) in the United States only to qualified institutional buyers ("QIBs") in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A who are also qualified purchasers as defined in the Investment Company Act of 1940, and (b) outside the United States to non- U.S. persons in reliance on Regulation S.

Security	Par Amount	% of Par	Initial Over-Collateralization	Target Over-Collateralization	Ratings (Moody's/S&P)	Coupon	Avg Life
Class S	37.0 MM	N/A	N/A	N/A	Aaa/AAA	1mL+15 bps	3.1
Senior Swap	$1,200.0 MM	60.0%	166.7%	N/A	Aaa/AAA	Not Offered	3.9
Class A-1	$110.0 MM	5.5%	139.9%	143.8%	Aaa/AAA	1mL+ 26 bps	2.6
Class A-2	$120.0 MM	6.0%	139.9%	143.8%	Aaa/AAA	1mL+ 50 bps	6.8
Class B	$230.0 MM	11.5%	120.5%	122.5%	Aa2/AA	1mL+ 62 bps	5.3
Class C	$170.0 MM	8.5%	109.3%	110.2%	A2/A	1mL+160 bps	5.6
Class D	$84.0 MM	4.2%	104.5%	105.8%	Baa2/BBB	1mL+375 bps	5.1
Class E	$26.0 MM	1.3%	103.1%	104.2%	Ba1/BB+	1mL+ 675 bps	5.8
Income Notes	$60.0 MM	3.0%	N/A	N/A	NR	N/A	N/A

Transaction Overview

- Hudson Mezzanine Funding 2006-1 will be a static $2.0 billion cashflow CDO consisting of a diversified portfolio of single-name credit default swaps on RMBS securities.
- Goldman Sachs, & Co. ("Goldman") selects the assets.
- 60% of the assets will be single name CDS referencing all forty obligors in ABX 2006-1 and ABX 2006-2.
- The portfolio consists of collateral which is rated at least Baa3 and BBB- with an average rating of Baa2/Baa3. 100% will be real-estate related securities.
- Low fee structure and less "bar-belled" portfolio than other mezzanine CDOs in the current market
- Goldman, as Liquidation Agent, will liquidate any asset determined to be a "credit risk" within 12 months of said determination. Credit Risk assets will include:
  - Any asset downgraded by Moody's or S&P below Ba3 or BB-
  - Any asset that is defaulted or would be experiencing a credit event as defined by the PAUG confirm
- There will be no reinvestment, substitution, discretionary trading or discretionary sales. After closing, assets that are determined to be "credit risk" will be sold by the Liquidation Agent within one year of such determination.
- Goldman will invest in a portion of the Income Notes at closing.

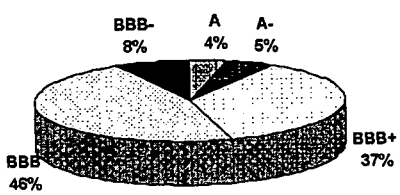
Structural Highlights

- Pure static structure eliminates reinvestment risk and shortens expected weighted average lives on liabilities
  - No reinvestment, substitution, or discretionary trading
  - Proceeds from credit-risk sales will be treated as principal paydowns or notional reduction of the Senior Swap
- Liquidation Agent Fees: 10 bps per annum
- 100% ramped at closing and 100% certainty of all assets in collateral portfolio to be included in transaction
- No fixed rate assets in the portfolio eliminates possibility of an interest rate swap hedge mismatch

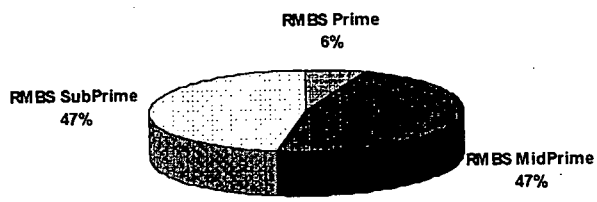
Current Portfolio Characteristics

Par Value of Collateral ($MM)	$2,000
Total Expected Portfolio Size ($MM)	$2,000
% Ramped	100%
Moody's Weighted Average Rating Factor	486
Weighted Average Life	4.25 years
Number of Positions	140
Distinct Obligors	100
Duration Weighted DM	183 bps

Ratings Composition of Target Warehouse Portfolio (1)



Sector Composition of Target Warehouse Portfolio



(1) Based on S&P Ratings

CDO Structuring, Marketing and Principal Investments

Peter Ostrem	+1 (212) 357-4617
Darryl Herrick	+1 (212) 902-9305
Deva Mishra	+1 (212) 902-7002
Roman Shimonov	+1 (212) 902-6964
Ariane West	+1 (212) 902-3665
Mahesh Ganapathy	+1 (212) 902-6265

Syndicate

Bunty Bohra	+1 (212) 357-4617
Scott Wisenbaker	+1 (212) 902-3665
Mitch Resnick	+44 20 7774 3068
Omar Chaudhary	+81 3 6437 7198
Malcolm Mui	+1 (212) 902-3689

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2574

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Transaction Details

Issuer:	Hudson Mezzanine Funding 2006-1, LTD, incorporated with limited liability in the Cayman Islands
Co-Issuer:	Hudson Mezzanine Funding 2006-1, Corp, corporation organized under the laws of the State of Delaware
Liquidation Agent:	Goldman, Sachs & Co.
Initial Purchaser:	Goldman, Sachs & Co.
Offering Type:	Reg S (Non-U.S. Persons only), Rule 144A. Rule 144A purchasers must be qualified purchasers under the Investment Company Act of 1940
Listing, Clearing & Settlement:	Application may be made to admit the securities on a stock exchange at the Issuer's choice, if practicable. There can be no assurance that any such application will be made and that any such admission will be granted. The Class S, A, B, C, D and E Notes will settle through Euroclear/Clearstream/DTC. Notes will settle with accrued interest, if any, from the Closing Date. The initial LIBOR Rate on the S, A, B, C, D and E Notes will be set two business days prior to the Closing Date
Reinvestment Period:	None
Non-Call Period:	Approximately three years. Callable in whole on or after April 2010 by a majority vote of the Income Notes
Auction Call Date:	Starting April 2015 and annually in April thereafter
Minimum Call Price:	Class S, A, B, C, D and E Notes (if issued) at par plus accrued interest. There is no call premium to the Income Notes
Legal Final Maturity:	April 2042 for the Senior Swap, Class A, B, C, D and E Notes. [August] 2012 for the Class S Notes
Payment Frequency:	The Senior Swap, Class S, A, B, C, D and E Notes will receive premium and interest payments monthly, commencing April 2007. The Senior Swap, Class S, A, B, C, D and E Notes will receive principal payments and reduce outstanding principal amounts monthly, commencing April 2007. Income Notes will receive distributions according to the payment waterfall monthly, commencing April 2007
Liquidation Agent Fee:	10 bps per annum, payable senior to premium on the Senior Swap and payable monthly, commencing April 2007
ERISA Eligible:	The Class S, A, B, C, and D Notes are expected to be ERISA eligible, assuming that the purchase is not a prohibited transaction for the purchaser
Tax Treatment:	Class S, Senior Swap, A, B, C, and D Notes will be treated as debt
Controlling Class:	The Class S, Senior Swap and A Notes (the "Senior Notes") voting in the aggregate until paid in full, then Class B, Class C, Class D and Class E Notes in that order until each Class is paid in full
Collateral:	Single name credit default swaps referencing RMBS securities

Coverage Tests

Coverage Test	Expected Closing Date Values	Minimum Ongoing OC Coverage Requirement
Senior Overcollateralization Ratio [1]	120.5%	116.5%
Class C Note Overcollateralization Ratio	109.3%	106.5%
Class D Note Overcollateralization Ratio	104.5%	102.4%
Class E Note Overcollateralization Ratio [2]	103.1%	101.4%

[1] The Senior Swap, Class A and Class B ratios will be combined and known as Senior OC ratios

[2] After regular payments of premium, interest, amortization and principal to the Senior Swap, Class S, A, B, C, D and E Notes but before any payment to the Income Notes, if the Class E Note Overcollateralization Ratio is less than [101.4]%, then all excess interest proceeds will be paid to amortize the principal balance of the Class E Notes

Synthetic Securities

Synthetic Securities:	Pay-As-You-Go ("PAUG") ISDA
Interest Shortfall Basis:	Fixed Cap Applicable
Credit Events:	Writedown Failure to Pay Principal Distressed Ratings Downgrade
Default Swap Collateral:	Proceeds from the issuance of the securities deposited with Goldman Sachs in exchange for Default Swap Collateral. Default Swap Collateral will be delivered to Goldman, (i) to settle any Credit Events, (ii) to pay Physical Settlement Amounts, (iii) to pay certain Synthetic Security Termination Payments and in exchange for Synthetic Security Counterparty Principal Payments. If the Default Swap Collateral is not sufficient to settle any Credit Event, pay any Physical Settlement Amount, or to pay any such Synthetic Security Termination Payment, generally, the Senior Swap Counterparty will pay such amounts.

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Priority of Payments

i. to the payment of taxes and filing and registration fees (including, without limitation, annual return fees) owed by the Issuers, if any;

ii. to the payment of accrued and unpaid fees of the Trustee up to a maximum amount on any Payment Date equal to the greater of U.S.$ [ ] and [ ]% of the Monthly Asset Amount for the related Due Period (or, in the case of the first Due Period, as such amounts are adjusted based on the number of days in such Due Period);

iii. (a) *first*, to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers, excluding any indemnities (and legal expenses related thereto) payable by the Issuers *first*, to the Trustee, the Collateral Administrator and the Fiscal Agent and second, *pro rata*, to any other parties entitled thereto; (b) *second*, to the payment of any indemnities (and legal expenses related thereto) payable by the Issuers *first*, to the Trustee, the Collateral Administrator and the Fiscal Agent and *second*, *pro rata*, to any other parties entitled thereto; and (c) *third*, to the Expense Reserve Account the lesser of U.S.$ [ ] and the amount necessary to bring the balance of such account to U.S.$ [ ]; *provided*, *however*, that the aggregate payments pursuant to subclauses (a) through (c) of this clause (iii) on any Payment Date shall not exceed U.S.$[ ] and the aggregate payments pursuant to subclauses (a) and (b) of this clause (iii) and the prior 11 Payment Dates shall not exceed U.S.$ [ ];

iv. to the payment of, (a) *first*, *pro rata* (based on amounts due) and *pari passu* (i) accrued and unpaid Collateral Put Provider Fee Amounts, (ii) accrued and unpaid interest on the Class S Notes (including Defaulted Interest and interest thereon) and (iii) beginning with the Payment Date occurring in [April] 2007, principal of the Class S Notes in an amount equal to the Class S Notes Amortizing Principal Amount until the Class S Notes are paid in full, and (b) *second*, if an Event of Default or Tax Event shall have occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, to the payment of principal to the Class S Notes until the Class S Notes are paid in full prior to any distributions to any other Notes;

v. to the payment to the Liquidation Agent of the accrued and unpaid Liquidation Agent Fee;

vi. to the payment of, *pro rata* (based on the amounts due) (i) the Senior Swap Premium and (ii) accrued and unpaid interest on the Class A Notes (including any Defaulted Interest and interest thereon);

vii. to the payment of accrued and unpaid interest on the Class B Notes (including any Defaulted Interest and any interest thereon);

viii. if the Senior Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to this clause (viii) or clauses (x), (xii) and (xiii) below), then *first*, to reduce the Outstanding Notional Amount of the Senior Swap until amortized in full, *second*, to the payment of principal of the Class A Notes until the Class A Notes are paid in full, and *third*, to the payment of principal of the Class B Notes until the Class B Notes are paid in full; *provided* that, as long as the Senior Swap is outstanding on such date, any remaining Interest Proceeds will be deposited in the Collateral Account for investment in Collateral Securities and Eligible Investments, and the Outstanding Notional Amount of the Senior Swap shall be reduced by the same amount;

ix. to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon but not including Class C Deferred Interest);

x. if the Class C Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and the reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to this clause (x) or clauses (xii) and (xiii) below), then if the Senior Overcollateralization Test was satisfied on each Determination Date with respect to each preceding Payment Date and the Aggregate Outstanding Portfolio Amount is greater than or equal to U.S.$[1,050,000,000] on the Determination Date with respect to the related Payment Date, Principal Proceeds will be applied, *pro rata* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, (ii) to the payment of principal of the Class B Notes and (iii) to the payment of principal of the Class C Notes, until the Outstanding Notional Amount of the Senior Swap is reduced to zero and the Class A Notes, the Class B Notes and the Class C Notes are paid in full and, any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$[1,050,000,000] on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, Principal Proceeds will be applied *first* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date, *second* (ii) to the payment of principal of the Class A Notes until the Class A Notes are paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and then to the Class A-b Notes until the Class A-b Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the Class B Notes are paid in full and *fourth* (iv) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full;

xi. to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon but not including Class D Deferred Interest);

xii. if the Class D Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal and the reduction of the Outstanding Notional Amount of the Senior Swap on such Payment Date (without giving effect to any payments or notional reduction pursuant to this clause (xii) or clause (xiii) below), then if the Senior Overcollateralization Test was satisfied on each Determination Date with respect to each preceding Payment Date and the Aggregate Outstanding Portfolio Amount is greater than or equal to U.S.[1,050,000,000] on the Determination Date with respect to the related Payment Date, Principal Proceeds will be applied *pro rata* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior

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Swap Reduction Amount for such Payment Date and to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, (ii) to the payment of principal of the Class B Notes, (iii) to the payment of principal of the Class C Notes and (iv) to the payment of principal of the Class D Notes, until the Outstanding Notional Amount of the Senior Swap is reduced to zero and the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes are paid in full and, any remaining Proceeds to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$[1,050,000,000] on the Determination Date with respect to the related Payment Date or if the Senior Overcollateralization Test was not satisfied on any Determination Date with respect to any preceding Payment Date, Principal Proceeds will be applied, *first* (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date, *second* (ii) to the payment of principal of the Class A Notes until the Class A Notes are paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and second to the Class A-b Notes until the Class A-b Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the Class B Notes are paid in full, *fourth* (iii) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and *fifth* (iv) to the payment of principal of the Class D Notes until the Class D Notes are paid in full; and any remaining Proceeds to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xiii. *first*, (i) to reduce the Outstanding Notional Amount of the Senior Swap by the Senior Swap Reduction Amount for such Payment Date and (ii) to the payment of principal of the Class A Notes pursuant to the Senior Principal Allocation, up to the amount specified in clause (b)(1) below, *second*, to the payment of principal of the Class B Notes up to the amount specified in clause (b)(2) below, *third*, to the payment of principal of the Class C Notes up to the amount specified in clause (b)(3) below, and *fourth*, to the payment of principal of the Class D Notes up to the amount specified in clause (b)(4) below, in an aggregate amount equal to the lesser of (a) the Principal Proceeds for the related Due Period, and (b) the sum of (1) the amount necessary to increase the Class A Adjusted Overcollateralization Ratio to or maintain it at [143.8]%, plus (2) the amount necessary to increase the Class B Adjusted Overcollateralization Ratio to or maintain it at [122.5]%, plus (3) the amount necessary to increase the Class C Adjusted Overcollateralization Ratio to or maintain it at [110.2]%, plus (4) the amount necessary to increase the Class D Adjusted Overcollateralization Ratio to or maintain it at [105.8]%; *provided* that, if the Aggregate Outstanding Portfolio Amount is less than U.S.$[1,050,000,000] on the Determination Date with respect to the related Payment Date, then only the amount described in sub-clause (a) of this clause (xiii) will be applied, *first*, to reduce the Outstanding Notional Amount of the Senior Swap, *second*, to the payment of principal of the Class A Notes until the Class A Notes are paid in full, *provided* that, if the Senior Overcollateralization Test has been satisfied on each Determination Date, including the Determination Date related to the current Payment Date, the amount allocated to the Class A Notes will be paid first to the Class A-f Notes until the Class A-f Notes are paid in full and then to the Class A-b Notes until the Class A-b Notes are paid in full, *third*, to the payment of principal of the Class B Notes until the Class B Notes are paid in full, *fourth*, to the payment of principal of the Class C Notes until the Class C Notes are paid in full and *fifth*, to the payment of principal of the Class D Notes until the Class D Notes are paid in full;

xiv. *first*, to the payment of principal of the Class C Notes in an amount equal to that portion of the principal of the Class C Notes comprised of Class C Deferred Interest unpaid after giving effect to payments under the clauses above (amounts will be considered unpaid for this purpose if the principal balance of the Class C Notes after giving effect to the clauses above exceeds any previous lowest amount outstanding) and *second*, to the payment of principal of the Class D Notes in an amount equal to that portion of the principal of the Class D Notes comprised of the Class D Deferred Interest unpaid after giving effect to payments under the clauses above (amounts will be considered unpaid for this purpose if the principal balance of the Class D Notes after giving effect to the clauses above exceeds any previous lowest amount outstanding);

xv. to the payment of accrued and unpaid interest on the Class E Notes (including Defaulted Interest and any interest thereon but not including Class E Deferred Interest);

xvi. to the payment of principal of the Class E Notes, in an amount necessary to increase the Class E Adjusted Overcollateralization Ratio to or maintain at [104.2]%;

xvii. if the Class E Interest Diversion Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date, then to the payment of principal of all outstanding Class E Notes until paid in full;

xviii. after the Payment Date occurring in [April] 2015, *first*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full, *second*, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full and, *third*, to the payment of principal of all outstanding Class E Notes until the Class E Notes are paid in full;

xix. to the payment of principal of the Class E Notes in an amount equal to that portion of the principal of the Class E Notes comprised of Class E Deferred Interest unpaid after giving effect to payments under the clauses above (amounts will be considered unpaid for this purpose if the principal balance of the Class E Notes after giving effect to the clauses above exceeds any previous lowest amount outstanding);

xx. to the payment of, *pro rata*, (based on the amount due) any unpaid Defaulted Credit Default Swap Termination Payments;

xxi. *first* (a) to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers not paid pursuant to clauses (ii) and (iii) above (as the result of the limitations on amounts set forth therein) in the same order of priority set forth above in clause (iii) excluding any indemnities (and legal expenses related thereto) payable by the Issuers; *second*, (b) to the payment, *pro rata*, of any indemnities (and legal expenses related thereto) payable by the Issuers not paid pursuant to clause (iii) above (as the result of the limitation on amounts set forth therein) in the same order or priority set forth above in clause (iii); and *third*, (c) to the Expense Reserve Account until the balance of such account reaches U.S.$[ ] (after giving effect to any deposits made therein on such Payment Date under clause (iii) above); *provided, however*, that the aggregate payments pursuant to subclause (c) of this clause (xxi) and subclause (c) of clause (iii) on any Payment Date shall not exceed U.S.$[ ];

xxii. to the payment of *first* (i) the Class D Notes Amortizing Principal Amount, and *second* (ii) the Class E Notes Amortizing Principal Amount;

xxiii. any remaining amount to the Fiscal Agent for deposit into the Income Note Payment Account for payment to the Holders of the Income Notes;

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From: Herrick, Darryl K
Sent: Thursday, October 12, 2006 7:15 PM
To: Lee, Lira; Shimonov, Roman; Mishra, Deva R.
Cc: Fraser, Bridget; Ha, Olivia; Mui, Malcolm H; Wisenbaker, Scott; Ostrem, Peter L; Recktenwald, Sara
Subject: RE: RABO Bank on Hudson - please read - IMPORTANT

Lira, like always we appreciate the focus Glad Mike is being patient with his need for a response Absolutely happy to get on this call tomorrow Want to make certain if we go down this route (which will be fairly long), Mike has approval to execute given the synthetic nature of the collateral.
We can discuss with Mike tomorrow if that works and get a better feel for his ability to participate Tomorrow, my schedule is calls at 8, 9, 1, 3 and 3:30 and can get on the call at a time other than that Thank you

-----Original Message-----
From: Lee, Lira
Sent: Thursday, October 12, 2006 6:06 PM
To: Herrick, Darryl K; Shimonov, Roman; Mishra, Deva R.
Cc: Fraser, Bridget; Ha, Olivia; Mui, Malcolm H; Wisenbaker, Scott; Ostrem, Peter L; Recktenwald, Sara
Subject: RABO Bank on Hudson - please read - IMPORTANT
Importance: High

Just had a really good heart-to-heart with Michael Halevi, who was very understanding of our inability to provide him with a written response thus far to his questions below. Rather than focussing on buying a tranche GS is not focussed on selling, Halevi wanted to know what part of the capital structure GS was going to be focussed on because he didn't want to go through the process [redacted]

Bottom line:
He will focus on getting approvals to buy a chunk of Class B (Aa2/AA rated) tranch as his conduit can buy down to single A rated notes but he was uncomfortable focussing on Class Cs since this was synthetic underlyer which would be difficult for him to get approvals on single A on the first go around.

Next steps:
He has made himself available for a call any time tomorrow. I need to email him with availability for Darryl or someone on his team to answer his below questions verbally so he can get business committee approval process in place to potentially buy the [redacted] Please come back to me asap with a firm time for us to give him a call tomorrow. Once this call is in place, he will try submit for business committee approval, and if it passes, he will need to have another due dilligence call with his credit committee approval. We are working on a very tight timetable with Rabo because [redacted]

Darryl - Ideally we would like you to be on the call since you already know Mike Halevi well. Can you please get back to me asap with available time slots for us to have a call with him tomorrow? Tjamls

-----Original Message-----
From: Halevi, M (Michael) [mailto:Michael.Halevi@rabobank.com]
Sent: Friday, October 06, 2006 5:45 PM
To: Ha, Olivia
Cc: Lee, Lira; Fraser, Bridget; Bazoian, J (Jeff); O'Keefe, M (Mark); Asadi, EK (Eraj)
Subject: Hudson Mezzanine Funding 2006-1

Olivia,

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2578

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Before we can determine whether the A2 note is a suitable investment for Nieuw Amsterdam, it would be helpful if your structuring team could provide answers to the following 'big picture' questions.

A) It is understood that Goldman Sachs will act as liquidation agent and as such is required to liquidate any asset that is downgraded below Ba3 or BB-. What I'd like more clarity on is how transitional risk can be quantified. It seems as if we'd have to assess the historical transitional ratings of mezz RMBS against market spreads alongside the adequacy of loss/default coverage. Do you have a 'worst case' example(s) of how much subordination can be lost from a deteriorating, but non-defaulted mezz tranche. Further, why is Goldman afforded up to 12 months to sell a credit risk asset?

B) How is the 'tail' risk on the A2 note mitigated as all subordinate notes may be paid down prior to our note?

C) Explain how "credit risk" trading occurs for an index. The PAUG structure for single-name CDS is understood.

Enjoy the holiday weekend,

Regards,
Michael Halevi
Rabobank International
245 Park Avenue
New York, NY 10017
Ph 212 808 6962
Fax 212 309-5120

-----Original Message-----
From: Ha, Olivia [mailto:Olivia.Ha@gs.com]
Sent: Thursday, October 05, 2006 1:30 PM
To: Asadi, EK (Eraj); Halevi, M (Michael); O'Keefe, M (Mark)
Cc: Lee, Lira; Fraser, Bridget
Subject: GS: Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement (144a/RegS) (external) [T-Mail]

Hudson Mezzanine Funding, 2006-1 Ltd. -- New Issue Announcement
(144a/RegS) (external)
Lead Manager & Sole Bookrunner: Goldman Sachs Liquidation Agent:
Goldman, Sachs & Co.
$2.0bn Static Mezzanine Structured Product CDO

Class	Size($mm)	%Deal	Mdy/S&P	WAL(y)	Init OC	Guidance
S	[ ]	N/A	Aaa/AAA	[2.8]	N/A	N/A
Sen Swp	1,200	60.0%	Aaa/AAA	[3.7]	166.7%	N/A
A1	150	7.5%	Aaa/AAA	[2.0]	133.3%	1mL+TBD
A2	150	7.5%	Aaa/AAA	[6.0]	133.3%	1mL+TBD
B	160	8.0%	Aa2/AA	[5.1]	120.5%	1mL+TBD
C	100	5.0%	A2/A	[5.2]	113.6%	1mL+TBD
D	150	7.5%	Baa2/BBB	[5.2]	104.7%	1mL+TBD
E	30	1.5%	Ba1/BB+	[5.3]	103.1%	1ML+TBD
PS	60	3.0%	Not Rated	N/A	N/A	**CALL DESK**

Termsheet, Debt Marketing Book & Warehouse Portfo <<Hudson Mezz Debt Book Announcement.pdf>> l <<Hudson Mezz Termsheet Announcement.pdf>> i <<Hudson Mezz Funding 2006-1 WH Asset Portfolio.xls>> o - Attached

Expected Timing:
Price Guidance & Red - w/o Oct 16
Pricing - w/o Oct 23

GS Structured Products Global Syndicate
Asia: Omar Chaudhary, Jay Lee, & Hirotaka Sugioka +81 (3) 6437-7198

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Europe: Mitch Resnick & Tets Ishikawa +44 (0)20 7774-3068 N. America: Bunty Bohra, Scott Wisenbaker, Scott Walter, Tony Kim & Malcolm Mui +1 (212) 902-7645

Structured Product CDO Desk:
Peter Ostrem +1 (212) 357-4617 // Darryl Herrick +1 (212) 902-9305

Risk Factors: An investment in the securities presents certain risks, please see the Preliminary Offering Circular for a description of certain risk factors.

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From: Kalavar, Naina
Sent: Monday, October 15, 2007 2:06 PM
To: Lee, Lira; Fraser, Bridget; Case, Benjamin; Shimonov, Roman
Subject: NAB//Hudson Mezz Update 2

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Conference Call - round 2 , Hudson Mezz
Ben Case
Naina Kalavar
[redacted]

NAB -How will the most recent downgrades affect the position?
Ben -About 27%-28% is now at credit risk obligation overall a total 43% of the portfolio affected by ratings actions
The majority names that look the worst have been downgraded except a handful of Alt A (moodys said this would be their next focus)
The timing of the agency action is always uncertain, but otherwise this is not a huge surprise - actually surprising that market has traded off on higher ratings rather than BBB

Management update -
Starting to talk about transferring liquidation rights to 3rd party experienced ABS CDO collateral manager -
Think it will be in best interest of investors -The credit obligation term was originally written in with expectations that it was unlikely to happen
Liquidity has dried up so market priced in before rating change, so automatic sale feature was not able to get these assets out before market priced in the decline
Good for deal for several reasons:
1.Large institutional asset mngr will be able to access more liquidity b/c they can access other broker dealers and get good pricing
2. even keeping the deal the way it is, the decision of when in the 12 month period to liquidate could be better handled by an experienced manager
3. Potential amendment could be made to benefit the deal by giving more flexibility to agent
NAB - what is the cost of this
Ben - they get transferred over the fees. No increase in fees - if an increase was needed, this would influence our decision about how to proceed.
NAB - will they be able trade into new names
Ben - unlikely to amend the deal to add new names, but may be able to make an amendment to give them greater discretion to add value to the deal and to loosen other restrictions - ie the 12 month mandatory sale requirement
NAB - do we have a choice, as an investor, on this decision. Do we have a say in the choice of the manager?
Ben - Not yet able to speak about specific names
NAB - What role would GS have? We don't want to see GS disappear from transaction
Ben - the liquidation agent duties would be assigned - we would not have discretion in the process. GS is involved on ongoing basis in terms of working with manger and trustee to make sure it is being administered properly, structural advice, strategic advice - to at least the same level as with any other GS structured CDO.

NAB seems to doubt the idea that GS would not be able to get as good bid/offers as a 3rd party would.
Ben - brokers will prefer to deal with clients and give them much more consideration than they would another broker
NAB - are there any credit assets that the trading desk considers to be worthless?
Ben - no - generally they all at least pay interest
NAB - What % of portfolio is being priced as IO?

NAB - Could all investors come together and come up with a repackaging plan?
Ben- All options that would benefit the deal are being considered. Not a clear way to restructure that would benefit equally all investors - so tough to get unanimous consent.

NAB What is the recovery on sale today - weighted avg price of the 28% in credit risk?
Ben -80-90 bps up front -average recovery will be 15%
NAB -GS holds equity piece. have you written that off completely
Ben -Looks unlikely that equity would ever receive another payment.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2583

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NAB If sold off all 28% of credit risk would that break our tranche
Ben - Your tranche is at around 28.5% - this sale would probably result in 23% loss and the Alt A that is not in credit risk yet also assuming 15% recovery, but there is a little extra cushion b/c of excess spread trapped due to credit risk provision- this tranche is probably right on the cusp

NAB - what are other investors saying?
Ben -Variety of sentiments- pessimistic, wait and see, nothing too different than what NAB is saying, Limited feedback on transfer of liquidation agent has been positive
NAB - GS view on the rest (remaining 65% of portfolio)
Ben - If we continue to see home price declines, these could decline in value. If home prices recover - we may see a better scenario

Next step - let them know what happens with the liquidity agent change. They are most interested in removing the 12 month forced liquidation term.

From: Kalavar, Naina
Sent: Wednesday, October 10, 2007 5:42 PM
To: Kalavar, Naina
Subject: FW: NAB//Hudson Mezz Update

[redacted] = Redacted by the Permanent Subcommittee on Investigations

NAB: [redacted]
GS: Ben Case, Roman Shimonov, Bridget Fraser, Naina Kalavar

This is the structure giving them the most trouble, interested in whether it will be restructure. Last spoke in July. Senior OC test continues to fail. None of underlying securities have experienced amortization - locked out for 3 yrs from origination on each security

Based on the definition credit risk obligation in the doc (if 7 asset (5%) of portf have been down graded below BBB) GS as liquidation would have to sell with in 12 months of the down grade to cred risk obligation status

NAB - are you currently waiting to see when to sell? When do you think will be good time to sell these assets?
CB - Monitoring market conditions and the assets - current distressed nature of the assets has been fully priced in and has not moved over the past 2 months - if unwound those cds it would be at 80-90 points, that is % points to be paid up front to unwind swap - equiv of 20 cents to dollar in cash bond terms
Across entire universe of loans already in liquidation - been generally seen 50-60-70% recovery rates. Rates are not coming back high enough to make the market optomistic that bonds will come back to recover principle and on the second piece of the pricing, the option value of return of principle - mrkt pricing that option at way out of money.

NAB 50-70% recover is after fees?
CB Yes, it is ultimate recovery net of servicer fees and costs

NAB - is it tough or does it create a conflct for GS to try to get info from the servicer since this it is a synthetic?
CB - We have cash info for many of these - a lot is released pubically - we use databases like loan performance, or generall averages across similar loan portfolios. It is harder to get specific bond and underlier info. The aggregate stats show even bleaker outlook - that we are expecting

NAB When is the right time to liquidate the assets? F
CB - We are focusseed on fundamentals and mrtk technicals. Lots of hedgefunds have shorts on these names - the names the mrkt is pricing as most distressed were driven dramatically lower even before ratings down grade - mainly by repeated shorting and protection buying from HF.
Our view that there is upside in waiting anf evaluating mtkt conditions before liquidating. Based on technicals - floor or IO value is stable. We think that the shorts may get impatient - minor rallies from short covering - domino effect/momentum creates a rally b/c shorts get nervous at little rally --- this provides potential upside to waiting to liquidate.
Downside of waiting - if foreclosure timelines shorten across country and IO losses value - media and govt and regulation seems to be pushing to slow the forecosure process, which skews away from this downside risk

MM underlying secties locked out for 3 year - possibility to amending deal to extend the liquidation period

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BC -talked briefly, if we thoguth could get investor consent would be a good option - would need somewhere between majority (15-20 investors) of each class (41 investors)and unanimous depending on how material the change is judged to be

[redacted] does GS hold any of this
Yes - def own equity and different pieces of various tranches no sure exactly, but decent size and number of clsses on our books

[redacted] no physical settlement if a default even?
No writedown or default is a very unlikely to have phyical settlement = prob cash

[redacted] could we expect to have impairement
Don't have current mark - but looking at fundamentals high degree of uncertainty about whether NAB will be paid off in full - hard to say - range of scenarios

[redacted] is significant risk premium priced in b.c of liquididty - what is the risk we are facing by holding out vs liquidation at market price?
BC - hard to say b/c market conditions are uncertain - different types of == overall large amount of current and future sellers of risk and not a lot of buyers - so this influences current mark to market

Range of reasonable assumptions - a number of scenarios and outcomes

[redacted] what is surveilance/monitoring process- have loss pools?
BC-- liquidation agent duties are run by CDO team , Ben and roman et al - work with mortgage dept to get best resources to fulfil duties - trading desk to understand technicals of the markets, mortgage research and strat groups focussed on funda and quant analysis of mortgage credits includiong BBB names like these, other inteplay with mort. Group = loan orignitors and serivicers for color
Use all of these inputs and resources to be most effective in making liquidation decsions

[redacted] have you applied your loss curves to this portfolio - setting liquidation aside
BC - don't have one base case loss curve for each pool - much more complex given number of moving parts and number of drivers of loss curves

[redacted] what if we wanted to break the analysis based on specific HPAs? What would breajk the deal in terms of HPA?

BC - dispersion of home price appreciation vs average HPA makes
[redacted] can you set up my major city/location and use blanket for rest?
BC - we don't apply standardized HPA across multiple areas - our analysis goes down to individual loan level and looks at different scenarios

[redacted] timing - when would we know if we would experience wite down of principle
BC - when the assets get to the point that the assets that are going to be writen down are, and the one going to return prin have - and have gone through waterfuall - will see how it affects your payments -- given the 3 yr lock, this would take at least 4 years OR - in a worse case
assets going through foreclosure could result in earlier write downs - event of default -shortfall of interest to AAA and AA - could come signif earlier than the return of principal would affect a write down

How would shortfall of interst occur?
Would happen if actual write downs of cash underlier assets - administered by servicers - loating rate payment on CDS due to write down and prot seller has to make payment to prot buyer

If keep failing - the cash will be diverted to senior holders and there will not be cash for rest of
Write downs will only be triggered by

Next steps - monitoring? Or others?
BC - actively monitorign the performance of assets and market conditions/potential for liquidation
Potential amendment to max liquidation pd or other beneficial structural change - looking for those as well, but nothing that is imenent now - not a lot of great options yet. Actively seeking possible structural changes

[redacted] watchlist of potential risky assets?

Watch headline numbers Roll rate of loans from currentt o 30 day deli 30-60 60-90 and how many go into foreclosure

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and what recovery is, prepayment
Harder to predict rating agency downgrade decisions

[redacted] - so basically a 50% chance of impairment to our class?
BC- that is hard to pin down but that does not sound unreasonable

[redacted] if impairment do you think it will be all or nothing or somewhere inbetween?
BC - thick trannche possible for some but not total impairmnt

[redacted] - At what point do you try to get votes for an amendment?
Are considerng that - would be something we would want to do as soon as we believe we can gather critical mass

[redacted] - is it possible to take a poll of the investors and regroup
We are trying to do that and we will reach back out to you when we have other info

Minor vs material amendment - how long would that deternination take?
That is in deal counsels hands, relatively quick
Are their fees paid out of the waterfall?
Yes - but that should not impact whether or not to do amendment - not a material amount

[redacted] What about rating agencies - how would they view the ammendment
BC -They would have to consent but are likely to do so based on the way they model cash flows on a CDO

[redacted] when do you think you will be ready to discuss options?
Few weeks to talk to all investors to get sense of whether could make a change to structure -

[redacted] Could you please follow up with what GS holds?
BC for what purpose?
Want to make sure you are making restructuring decisions for the right reasons - make sure serving the right intersts

Our intended goal of liquidation agent is to serve the best interests of the CDO - that is the duty of liquidation agent - it is a policy and process

Did GS write the super senior swap?
BC - no we don't hold risk - did back to back swaps transferring voting rights etc

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From: Fraser, Bridget
Sent: Wednesday, October 10, 2007 9:13 AM
To: Case, Benjamin; Shimonov, Roman
Cc: Lee, Lira; Kalavar, Naina
Subject: NAB//Hudson Mezz Update

Natalie Rutzell called in. She would like to have a follow up conf call (from the last one in July) at 4pm. Hudson Mezz is the deal giving them the most trouble and they are preparing an update for Credit.

She would like to cover the following:
- Where is it now? Any updates? How is it performing?
- Are we still considering to sell the assets?
- Any good news possible if govt comes through package - how will it perform in this case. They know it is lightly managed
- Any possible downgrades?

Please let me know if 4pm works for you.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Bridget Fraser
Vice President
Derivative Products
Fixed Income, Currencies & Commodities

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GOLDMAN, SACHS & CO.
1 New York Plaza | 50th Floor | New York, NY 10004
Ph: 212 902 4960 Fax 212 493 9616
Email: bridget.fraser@gs.com

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From: Case, Benjamin
Sent: Friday, November 09, 2007 5:36 PM
To: Lehman, David A.
Subject: RE: What r next steps re: liq agent?

Just a post, I received the transfer and amendment docs from Sidley, but at this point I'm going to wait until Monday morning to send to [redacted] for their sign-off.

-----Original Message-----
From: Lehman, David A.
Sent: Friday, November 09, 2007 4:40 PM
To: Case, Benjamin
Subject: Re: What r next steps re: liq agent?

Sounds good thx

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Case, Benjamin
To: Lehman, David A.
Sent: Fri Nov 09 15:11:56 2007
Subject: RE: What r next steps re: liq agent?

Sidley is working on the various documents related to both the Liquidation Agent transfer and an amendment to remove the 12-month forced sale (discussed with [redacted] and that's the amendment they want to pursue). When we get the first drafts of the docs (I spoke to Sidley this morning and they said later today, so should be soon), we'll send them to [redacted], get their sign-off, and then collect the consents from investors and rating agencies. Once [redacted] signs off on the investor consent forms, I'll begin speaking to investors - first, equity and super-senior for the Liquidation Agent transfer, and then after that, the other investors for the removal of forced sale amendment. Will need to discuss with you how to approach MS Prop on Hudson Mezz 1. Susan Helfrick in legal has already reviewed the first draft of the Liquidation Agent transfer docs.

-----Original Message-----
From: Lehman, David A.
Sent: Friday, November 09, 2007 3:00 PM
To: Case, Benjamin
Subject: What r next steps re: liq agent?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2590

Confidential Treatment Requested by Goldman

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Confidential Treatment Requested by Goldman Sachs

1221 Ave of the Americas
New York, NY 10020

Morgan Stanley

February 29, 2008

Mr. Pablo Salame
Goldman Sachs & Co.
85 Broad Street
New York, NY 10004

Dear Mr. Salame:

We are writing because Goldman, Sachs & Co. ("GS") has breached (and continues to breach) its contractual obligations by exercising investment discretion in connection with its role as Liquidation Agent for Hudson Mezzanine Funding 2006-1, Ltd. ("Hudson"), a synthetic CDO transaction structured and offered by GS in late 2006.[1]

As Liquidation Agent, GS is currently responsible for liquidating approximately $1,000,000,000 of Credit Risk Obligations. The transaction documents clearly state that GS would not exercise investment discretion in its role as Liquidation Agent. GS has not yet liquidated a single Credit Risk Obligation, notwithstanding that some date back to August 2007. The GS employee handling the liquidation has explained this by stating that he believes the price for these obligations will increase in the future and it is better for the deal to liquidate these obligations at a later date.

We believe GS has breached the terms of the Liquidation Agency Agreement and that its actions as Liquidation Agent are contrary to the disclosures contained in the OC. In addition, as a result of GS taking on the role of an "investment adviser", as defined under the Investment Adviser's Act of 1940 ("Adviser's Act"), the Credit Default Swap with Hudson constitutes a violation under the Advisers Act, as GS never secured informed consent to act as Credit Default Swap Counterparty while exercising investment discretion.

As a result of GS's actions, Morgan Stanley and Hudson have already suffered approximately $150 million in incremental losses, and these losses are continuing to increase. We demand that GS immediately cease exercising investment discretion regarding when to liquidate the Credit Risk Obligations and proceed to liquidate these obligations forthwith as required by the Liquidation Agency Agreement.

[1] Capitalized terms used but not defined in this letter have the meanings ascribed thereto in the Offering Circular for the Hudson transaction dated December 3, 2006 (the "OC").

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The Transaction

GS offered the Hudson transaction as an unmanaged synthetic ABS CDO in which Hudson, among other things, was to:

- issue approximately $800,000,000 in various Notes;
- sell credit protection to Goldman Sachs International ("GSI") under a "pay as you go" credit default swap transaction with an initial notional amount of $2,000,000,000 relating to a portfolio of 140 RMBS securities (the "Credit Default Swap", and each underlying component swap on a particular RMBS security, a "CDS Transaction"); and
- buy credit protection from GSI under another "pay as you go" swap transaction with an initial notional amount of $1,200,000,000 to fund payments that could be due under the Credit Default Swap in the event amounts available from the proceeds of the Notes pursuant to the Collateral Liquidation Procedure had been exhausted (the "Senior Swap").

The Hudson transaction closed on December 5, 2006. As of that date, Morgan Stanley Capital Services Inc. ("MSCS") purchased the Senior Swap through Goldman Sachs Capital Markets, LP ("GSCM") by entering into a swap transaction with GSCM explicitly linked and exactly mirroring the terms of the Senior Swap, under which GSCM, among other things, passed through to MSCS all rights of the Senior Swap Counterparty to act in its capacity as a member of the Controlling Class or otherwise. GS provided the OC to Morgan Stanley in connection with its marketing of the Senior Swap.

Amongst various other roles, GS was engaged by Hudson to act as Liquidation Agent pursuant to a Liquidation Agency Agreement dated December 5, 2006. Under the relevant terms of the Liquidation Agency Agreement, GS is obligated to assign, terminate or otherwise dispose of the CDS Transactions relating to Reference Obligations which become Credit Risk Obligations within twelve months after receiving notification thereof.

Exercise of Investment Discretion Prohibited

The Hudson transaction documents make it clear that GS is prohibited from providing investment advisory services or exercising investment discretion in connection with its role as Liquidation Agent. The Liquidation Agency Agreement states that "the Liquidation Agent (i) shall arrange for the assignment, termination or other disposition of Pledged Assets, by following the procedures in Section 7 hereof, but shall have no ability or authority to direct the assignment, termination or other disposition of any Pledged Assets; (ii) **shall not provide investment advisory services to the Issuer or act as the "collateral manager" for the Pledged Assets** and (iii) shall not have fiduciary duties to the Issuer or the Holders of the Notes." (Section 2(g) (emphasis added).)

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Similarly, the OC states that "[t]he Liquidation Agent **will not have** the right, or the obligation, to exercise **any discretion** with respect to the method or price of any assignment, termination or disposition of a CDS Transaction that references a Reference Obligation that is ... a Credit Risk Obligation; the sole obligation of the Liquidation Agent will be to execute the assignment, termination or disposition of such CDS Transaction in accordance with the terms of the Liquidation Agency Agreement." (OC p. 46 (emphasis added).) The OC reinforces this point in a section titled "No Collateral Manager" which states that"[t]he Issuer has not engaged, and will not engage, a collateral manager to select the Pledged Assets ... to monitor the Pledged Assets ... or to consult with the Issuer with respect to the Pledged Assets, including the advisability, **timing** or terms of any disposition thereof. **None of the Liquidation Agent or any of their [sic] affiliates will provide investment advisory services to or act as an advisor to or an agent of the Issuer or the Holders of the Notes ...**". (OC p. 48 (emphasis added).)[2]

The Current Dispute

During the month of October 2007, thirty-eight Reference Obligations became Credit Risk Obligations, leaving the Hudson transaction with approximately $568,000,000 original notional amount of CDS Transactions classified as Credit Risk Obligations. Reference Obligations have continued to become Credit Risk Obligations over time, including twenty-six more in January 2008. There are currently approximately $1,000,000,000 original notional amount of CDS Transactions that are Credit Risk Obligations.

Morgan Stanley learned in December 2007 that GS had appointed Ben Case as the GS employee responsible for handling the Liquidation Agent function for GS. Since that time, our trader John Pearce has consistently requested that GS, in its role as Liquidation Agent, assign, terminate or otherwise dispose of the relevant CDS Transactions forthwith. Mr. Case has consistently resisted Mr. Pearce's requests, asserting that according to his analysis, the optimal time for the Hudson transaction to exit the positions had not yet come. This is clearly an exercise of investment discretion, which renders GS a collateral manager and a fiduciary, in each case a violation of the provisions of the Liquidation Agency Agreement.[3]

As stated above, Morgan Stanley believes that GS has breached the Liquidation Agency Agreement by exercising investment discretion over the liquidation timing of the relevant CDS Transactions. Also, since the OC makes it clear that the Liquidation Agent cannot and will not be acting as a collateral manager or exercising investment discretion,

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[2] While the Liquidation Agency Agreement provides that the Liquidation Agent must complete the process of liquidating the relevant assets within twelve months, it does not provide the Liquidation Agent with any right to delay the liquidation process based on the exercise of investment discretion. To the contrary, the Liquidation Agency Agreement and the OC clearly state that no discretion or investment advisory services are ever to be provided by the Liquidation Agent.

[3] Mr. Case has indicated that he is employing technical and fundamental analysis and his trading judgment in an attempt to maximize recovery for Hudson. On his most recent call with Mr. Pearce, Mr. Case explained his refusal to liquidate the CDS Transactions at this time by stating that he believes RMBS markets will rally as short positions are covered.

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Morgan Stanley believes the OC, upon which we relied in making our decision to enter into the Senior Swap, contains material misstatements.

Furthermore, Morgan Stanley believes Mr. Case's actions have resulted in GS becoming an "investment adviser" as defined under the Adviser's Act. While GS did disclose and receive consent to act in the dual roles of Liquidation Agent and Credit Default Swap Counterparty, that consent and disclosure was predicated upon GS not acting as a collateral manager or exercising the sort of investment discretion that Mr. Case has undertaken. Therefore, Morgan Stanley believes that the informed consent required under Section 206(3) of the Adviser's Act for GS to act as an investment adviser and for an affiliate to act as Credit Default Swap Counterparty was never granted, making the Credit Default Swap an unlawful transaction pursuant to Section 206.[4]

As a result of GS's breach of contract and violation of laws, Morgan Stanley and Hudson have suffered significant incremental losses. These incremental losses have already reached approximately $150 million and could increase substantially in the future.[5]

Conclusion

At this time, Morgan Stanley is demanding only that GS fulfill its contractual duties as required by the Liquidation Agency Agreement and assign, terminate or otherwise dispose of the relevant CDS Transactions forthwith. However, Morgan Stanley reserves all rights and remedies arising from the various contractual breaches and violations of law by GS arising from or in connection with the Hudson transaction. We look forward to discussing this situation and how best to resolve these issue with you in the near future.

Sincerely,

John Faulkner
Managing Director and
General Counsel of Institutional Securities

cc: Ms. Fran Bermanzohn, Goldman Sachs

[4] The level of investment discretion currently being exercised by Mr. Case also raises regulatory questions, such as whether Mr. Case is subject to GS's compliance procedures applicable to persons acting as investment advisers, whether GS's form ADV discloses the sort of advisory services provided to Hudson, and whether (and when) GS's form ADV was delivered to Hudson.

[5] Our calculation is based on looking at the level of the relevant vintage and rating category of ABX on the first trading day a Reference Obligation became a Credit Risk Obligation and comparing that level to the relevant ABX level on February 27, 2008. In all cases, the relevant ABX index had dropped between the two measurement dates.

Confidential Treatment Requested

From: Rosenblum, David J.
Sent: Thursday, November 29, 2007 7:50 PM
To: Case, Benjamin
Subject: RE: TCW - Liquidation Agent

tx for post

From: Case, Benjamin
Sent: Thursday, November 29, 2007 7:04 PM
To: Rosenblum, David J.
Subject: FW: TCW - Liquidation Agent

Just wanted to make you aware of this, since it might come up in your dealings with TCW -- we're going to assign our Liquidation Agent duties to TCW on the 5 static ABS CDOs that we issued last year (Hudson Mezz 1, Hudson Mezz 2, Hudson High Grade, Anderson, and Hout Bay), and as part of the agreement they're going to share 30% of the fees back to us. Win-win for both sides.

From: Case, Benjamin
Sent: Thursday, November 29, 2007 6:52 PM
To: Lehman, David A.; Bieber, Matthew G.; Sparks, Daniel L; Bash-Polley, Stacy; Egol, Jonathan; Swenson, Michael; Saunders, Tim
Subject: TCW - Liquidation Agent

Dick Loggins and I just spoke to Lou Lucido about the Liquidation Agent opportunity and offered him the opportunity at the 2nd best economic proposal shown to us -- sharing 30% of the fees back to us on a running basis ($1.1mm annually to GS). Lou sounded excited, ran it by Jeffrey, and called back to say they'd like to agree on those terms, subject to sign-off by his legal (they looked at the docs during the first round, but he wants them to review again -- he understands the docs are on an "as is" basis).

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2594

Confidential Treatment Requested by Goldman

From: Lee, Lira
Sent: Tuesday, December 18, 2007 2:43 PM
To: Case, Benjamin
Cc: Fraser, Bridget; Kalavar, Naina
Subject: FW: Rabo Enquiry

Specific questions from Doreen:
Why TCW vs other liquidation agent potentials, specifically why not RABO?
What fees will TCW receive?

Can you please call me when you have a second?

From: Lee, Lira
Sent: Tuesday, December 18, 2007 5:01 PM
To: Fraser, Bridget; Kalavar, Naina
Subject: RE: Rabo Enquiry

Spoke to Ben Case.
GS is soliciting consent to assign GS role as liquidation agent to TCW bec when liquidation agent role was designed, it was very "out of the money"; now when the risk is very real, it is much more efficient to have a sophisticated collateral manager bec
(i) TCW can access better liquidity than GS, ie get bids from the entire street
(ii) real asset manager can pursue further amendments to the doc to make liquidation more efficient bec GS is not an asset mgr under the investment act in 1940 and cannot act investment advisory services and can't act with optimal discretion

Requires approvals of:
both rating agencies Moody's and S&P
Simple majority (51%) of the controlling class (SS holders) and equity

He will also send the TW OM.

From: Lee, Lira
Sent: Tuesday, December 18, 2007 4:42 PM
To: Case, Benjamin; Bieber, Matthew G.
Cc: Fraser, Bridget; Kalavar, Naina
Subject: Rabo Enquiry

Doreen Crawford from Rabo called asking
1 - Hudson Mezz - whether GS was potentially seeking an amendment on indenture
wrt If there is an impairment on the asset, there is a forced liquidation, which may not be the best for the deal
Is GS the other 50% controlling class of the SS?

2 - Also, Rabo needs the indenture for TW, she has OM but missing indenture

---

Lira Lee
FICC Derivative Products
Fixed Income, Currencies & Commodities

GOLDMAN, SACHS & CO.
1 NY Plaza | New York, NY 10004
Voice: 212.902.4960 || Fax : 212.346.4287
Email: lira.lee@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2596

Confidential Treatment Requested by Goldman

From: Case, Benjamin
Sent: Wednesday, December 19, 2007 4:54 PM
To: Martin, Nicole
Cc: Lin, Shelly
Subject: Hudson Mezz 2006-1 - Morgan Stanley consent

Attachments: (Assignment of LAA) Majority of Controlling Class - Notice and Request for Consent.pdf; (Assignment of LAA) Senior Swap Counterparty - Notice and Request for Consent.pdf; MSCI Swap - Written Direction.pdf

Nicole,

Attached please find:

- the Notice and Request for Consent forms discussing the proposed Liquidation Agent assignment, which are addressed to Goldman Sachs International (who faces the CDO)
- a direction letter related to the swap we have with Morgan Stanley, which Morgan Stanley can use to direct us if they would like to consent to the proposed assignment

Please ask Morgan Stanley to sign the direction letter and fax a signed copy to me at 212-428-1211.

If they have any questions or would like to discuss, please let me know and we'd be happy to discuss with them.

Regards,
Ben


(Assignment of LAA) Majority o...


(Assignment of LAA) Senior Swa...


MSCI Swap - Written Direction....

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Permanent Subcommittee on Investigations
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Report Footnote #2598

From: Martin, Nicole
Sent: Wednesday, January 16, 2008 9:38 AM
To: Lehman, David A.
Subject: FW: Tried calling with david

want me to push for today....looks like he would rather do friday as he is in london.

From: Pearce, John (FID) [mailto:John.Pearce@morganstanley.com]
Sent: Wednesday, January 16, 2008 12:36 PM
To: Martin, Nicole
Subject: Re: Tried calling with david

Fine if early. 9:30?

----- Original Message -----
From: Martin, Nicole <Nicole.Martin@gs.com>
To: Pearce, John (FID)
Cc: Lehman, David A. <David.Lehman@gs.com>; Fertel-Kramer, Sue <sue.fertel@gs.com>
Sent: Wed Jan 16 12:34:56 2008
Subject: RE: Tried calling with david

ok...david out tomorrow..friday?

From: Pearce, John (FID) [mailto:John.Pearce@morganstanley.com]
Sent: Wednesday, January 16, 2008 11:46 AM
To: Martin, Nicole
Subject: Re: Tried calling with david

Will be back in office tomorrow. Assume this is Hudson related.

Happy to do a call today if we need to discuss liquidation strategy. If non execution related, let's do it tomorrow when I'm back in NY.

----- Original Message -----
From: Martin, Nicole <Nicole.Martin@gs.com>
To: Pearce, John (FID)
Cc: Lehman, David A. <David.Lehman@gs.com>; Fertel-Kramer, Sue <sue.fertel@gs.com>
Sent: Tue Jan 15 16:45:29 2008
Subject: Tried calling with david

Understand you are in london...want to try to do a call from london tomorrow?

Goldman, Sachs & Co.
One New York Plaza - 47th Floor | New York, NY 10004
Tel: 212-902-4570 | Fax: 212-493-0511 | Mob: 201-[redacted]
e-mail: nicole.martin@gs.com
Goldman
Sachs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2603

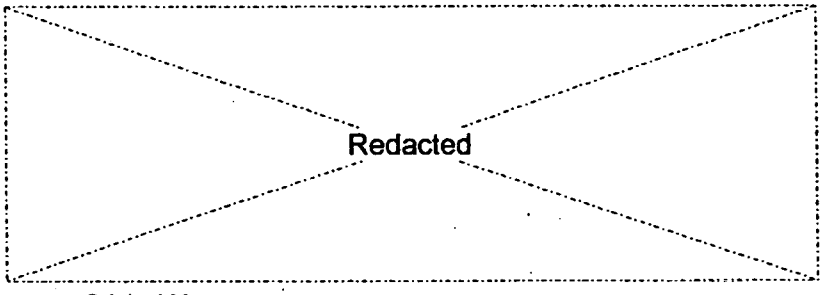
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Nicole Martin
Managing Director
Fixed Income, Currency & Commodities

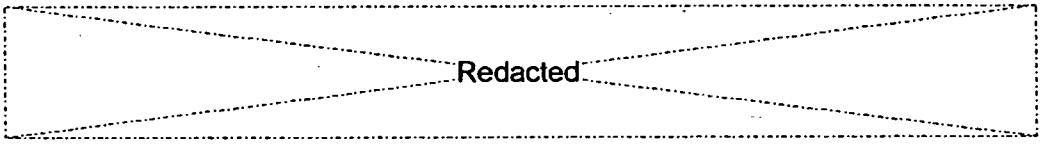
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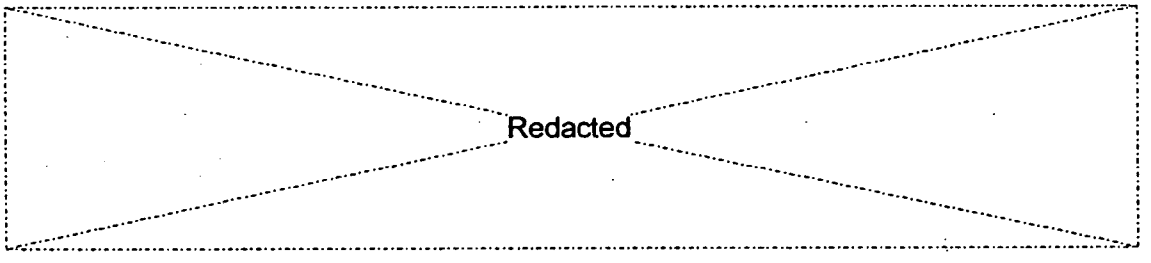
To: Pearce, John (FID)[John.Pearce@morganstanley.com]
Subject: RE: Updates
Sent: Wed 1/16/2008 6:42:49 PM
From: Petrick, Michael (FID)



-----Original Message-----
From: Pearce, John (FID)
Sent: Wednesday, January 16, 2008 1:31 PM
To: Petrick, Michael (FID)
Subject: Updates



GS:
Had another call with their sr. trader about GS's liquidation agent role in the $1.2bb HUDSON deal. They insist they are NOT acting as a fiduciary per the docs in this deal. Will discuss further with R. Ostrander tomm.



Permanent Subcommittee on Investigations
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Report Footnote #2605

To: Lehman, David A.[David.Lehman@gs.com]
Cc: Martin, Nicole[Nicole.Martin@gs.com]
Subject: Hudson
Sent: Tue 2/5/2008 5:44:32 PM
From: Pearce, John (FID)

please call when possible - $969mm now eligible to be liqudated post S&P doewngrades.

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Permanent Subcommittee on Investigations
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Report Footnote #2606

FEMALE AUTOMATED VOICE	WEDNESDAY, 2/13/2008 AT 11:30 A.M.
[redacted]	Morgan Stanley
Ben Case	[redacted] it's Ben Case.
[redacted]	Hey, Ben, How you doing, man?
Ben Case	Good, How you doing?
[redacted]	Oh, hanging in. Hanging in. Just, you know, just another, I wanted to sorta follow up, I don't know, you know, how obviously we talked in the past, and, going through these things, just basically calling to see, you know, what if any updates, you know, from your front, how you see the market, how you're thinking about, this trade, the eligible assets, the timing, the state of the market, you know, kinda, kinda similar to what we talked about last week.
Ben Case	Sure. Well let me give you my current thoughts. I mean I'd say, in general I'd say not a lot of new, new developments or new information -
[redacted]	Yep.
Ben Case	- that's, that's affecting our current strategy, from the markets, since our last conversation, um, you know, in terms of the timing of the liquidations which I know is the point that you're most specifically focused on -
[redacted]	Yep.
Ben Case	I, you know, I'd say, kind of consistent with, with, with, uh, the conversation that, kind of, uh, topics we walked in our last, and my kind of thought process that we walked in the last conversation, I mean I do see the, the wave of short covering in the market kind of continuing to proceed -
[redacted]	Yep.
Ben Case	- and, you know, if, you know kind of as expected, kind of helping hold up valuations for these kind of assets, even where the ultimate, you know, fundamental, you know, write down amount, looks bleak, but, you know not causing, an actual uptick in prices due to kind of a variety of, of other market forces that are, are holding levels down. And, you know, the farther we get into the short covering wave, the more the, the balance between the upside of holding longer, versus the downside of holding longer -

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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Wall Street & The Financial Crisis
Report Footnote #2609

HUD-CDO-00006894

[redacted]	Right.
Ben Case	- you know, the risk balance in holding rather than liquidating, you know, changes to the downside -
[redacted]	Um hum.
Ben Case	So I think, as we see the short covering wave kind of continue to proceed to, you know, far enough along where we feel like that balance shifts further enough down, you know, it's gonna get to the point where it's in the best interest of the deal to start liquidating them -
[redacted]	Yep.
Ben Case	You know, I know we've talked about this twelve month period, you know, I can't give you a ton of specifics or predictions cause, as you know, we're constantly re-evaluating, but I can give you my current thought is, you know, it doesn't seem like it's gonna take till late in the twelve month process for the majority of these assets to get to that point -
[redacted]	Okay.
Ben Case	- you know, as we see the market moving along, it does seem to be, you know, coming noticeably sooner than that, so, you know, we do see that in progress we do see it moving along, and I think it's, you know, I think that's gonna mean the liquidatings are gonna come, you know, kind of sooner rather than later within the twelve month period or the remaining period for, you know, each asset, but exactly what time frame that is, you know, how quickly that is, you know, will be governed by those market conditions, it's tough for me to put an exact, specific answer on that -
[redacted]	Right. Well, I mean, look, okay, so now we're, we're what, basically a billion dollars now of eligible assets, right? A lot of it, you know, there have been fits and starts, a lot of it came on in October, and then a significant, you know, big, you know, another big chunk, you know, but, you know, sort of sixty percent October, forty percent, you know, at the end of January here, you know, we don't need to get into, you know, sort of my feelings about, you know, what, you know, what from an economic, cost standpoint that's meant for our position, because I do think it's significant -
Ben Case	I, I understand that, I -
[redacted]	And that's, and it's unfortunate -
Ben Case	- understand that.

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[redacted]	So, so, and look, we've gone back and forth a lot, I wanna try to keep these discussions, you know, constructive, cause I wanna, you know, I don't want you to be dreading, dreading these conversations every week, or whatever, but, you know, I think that, as they, as they come in, right, give me, if you can, you know, one, sort of a way that you've sort of thought about, you know, kinda, kind of the market from October till now, you know, it's hard for me to, you know, looking at, let's just look when I talk to my management, for example, about, you know, the trends in the ABX, and the price movements since October, it's difficult for me to just sorta go back, and hindsight's always twenty-twenty, and I respect that. But it's, it's difficult to go back and sorta, sort of break that down, so, you know, just in general, clearly prices are down from, from where they were when these assets first got downgraded, right, so clearly the strategy, if it is centered on short covering, hasn't, at least thus far paid off, of course it certainly could, you know, we can start to see a massive short covering rally in the market, no one would welcome it more than I would, but it may or may not happen, and then second, so that's part one, it's sort of, you know, your overall thought process, so I can get a feel if you can't give me specifics on liquidation, at least I can get a feel for, for your thoughts. And then two, if you've given any sort of thought to, from, when you do get to the liquidation point, if you've given any thought to how you would actually execute the liquidation. In other words, I don't think it makes sense to wait to the very last day of eligibility and then sell the things on that day, right, that's not gonna be a price optimization exercise any more than selling it on the first day of eligibility would. So, you know, those, I think those two things right now would be most helpful in terms of me thinking about kinda, where you guys are coming from, in terms of thinking about this role.
Ben Case	Sure, okay, well let me go, let me address both of those things, I mean, certainly, you know, since I, on the first part, kind of what we've seen since October, and, you know, how we think about our strategy and how it's developed, you know, I mean, certainly, you know, it's pretty, pretty transparent to see just what the ABX, oh six two and oh six one -
[redacted]	Yep.
Ben Case	- kind of [inaudible] minus, indices you know, it's cover, a good portion of the portfolio, you know, what the price action has looked like over that time. You know, yeah, I think it's, you know, your characterization is right that, you know, over the course of this time and starting at, you know, kind of, you know, the beginning of the time, you know, sort of say, starting in October for the majority of assets that were, you know, were downgraded and became credit risk obligations -
[redacted]	Yep.
Ben Case	- at that point -

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[redacted]	Um hum.
Ben Case	You know, our strategy at that point was, you know, given expected market technicals and given, you know, weighing the, you know, the presented probability prices were gonna stay the same, which, you know, is, you know, kinda flat to the deal, I mean I'd say it's, you know our goal is sort of, is to, you know, execute this in as responsible a manner as possible, relative to the goal that, or excuse me, relative to the chance that the prices were gonna go up, versus the prices were gonna go down -
[redacted]	Sure. You know, I understand, you guys don't have a crystal ball.
Ben Case	Eliminating the, eliminating the percentage chance, you know, the probability chance that the assets were gonna stay the same, and comparing kind of the up versus the down -
[redacted]	Yep.
Ben Case	- you know, we do think there was more upside than downside, and it, you know, specifically, you know, was driven by our expectation of, you know, our view on market technical flows, which, you know, it's interesting, cause it's kind of, come to pass and it hasn't, I mean, if you looked at, you know, the flows we see, and exactly these kind of names that were, are credit risk obligations, these kind of CUSIPS -
[redacted]	Um hum.
Ben Case	- you know, it has to come to pass that, the vast majority of flows are from short covering rather than, you know, either, either new long initiation or new short initiation -
[redacted]	Yep.
Ben Case	You know, however, it did not cause upward price action, you know, due to, you know, the overall downward trend in prices related to, you know, all forms of residential credit -
[redacted]	Um hum.
Ben Case	- particularly up the capital structure, you know, it certainly, driven to some degree, you know, particularly when you get up this capital structure by the new remittance report and housing prices and other fundamental, data that's come out-
[redacted]	Sure.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Ben Case	- over the time.
[redacted]	Yep.
Ben Case	It's driven, you know, to some degree by other kind of technical market factors such as, rating agency downgrades and, you know, the S&P actions in January -
[redacted]	Right. And throughout this, hold on one second, and I don't mean to cut you off, I appreciate, obviously all this color, I definitely, you know, I definitely want to try to get, you know, into, into what's how you're thinking about it, but through this time, you were, you know, getting pri-, like when these assets become eligible, do you get prices on them? Like how do you, like how do you judge kind of where the market is, and where it is, cause you're not, right I know, cause we've talked about this before too, I know you're not part of the trading desk, right? Your are separate, cordoned off from that -
Ben Case	Right.
[redacted]	So, how do you get, like, what is the process from which you continue to evaluate the market, are you just looking at ABX, or -
Ben Case	Sure, well to be clear I have access to the resources and color of, the trading desk is also part of -
[redacted]	Okay.
Ben Case	- the mortgage department here, so, it is, it is not, it is not accurate to say I, don't talk to those guys, or I'm, I'm segregated with it, a function that's independent -
[redacted]	Yep.
Ben Case	It is, independent in its decision making, but all, everything they can offer as an input -
[redacted]	Yep.
Ben Case	I have access to. So I'd say, yeah, my color on market pricing and, and levels, comes primarily on a day-to-day basis from, our trading desk.
[redacted]	Okay, [inaudible] cool.
Ben Case	You know, I say secondarily from other market sources you know, people I talk to in the market, you know, other, you know, other stuff we see from, from, you know, either clients or other dealers or other parties in the market,

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	you know, that's, that, adds color as well, but the primary source would be -
[redacted]	Would be your guy. Now, but you don't have like I do, you don't have street coverage, right, you're not sitting there talking everyday to sales people at other firms, and to traders at other firms, or are you?
Ben Case	That's correct.
[redacted]	You're not. Okay, cool. All right. So I mean look, going forward, we're, you know, kinda, gonna, you know I guess take under advisement, I, just so you know, my opinion stays the same, I'd like to see a bid list before three o'clock today -
Ben Case	OK.
[redacted]	We're gonna, I guess take it under advisement, right, and consider it to evaluate. Not what are looking sort of, you know, we talked the last time about, we hear, you know, we feel like, all right, we're at least partway through this short covering, there may or may not be more of these deals liquidating as we go into event of default, it will be sort of a tug of war between those two guys, you know, I don't want to put words in your mouth, I, you know, that's kind of what I'm thinking, would you agree generally with that statement?
Ben Case	Yeah, I, I do, I mean I think the, the majority of the flows, you know, that we estimate we will see on a going forward basis, is continued short covering, and then, you know, also, to whatever extent there are in the market, you know, CDO liquidations -
[redacted]	Yep.
Ben Case	And, yeah, I, the balance between those two, you know, kind of technically it's probably gonna be the biggest driver of pricing, given -
[redacted]	Yep.
Ben Case	- you know, we expect those two phenomenons to be the vast majority of flows in these exact types of CUSIPS. Yeah, and I say the short covering wave is, you know, it's far enough along that it, you know, it feels like it's closer to the end than the beginning -
[redacted]	Sure.
Ben Case	- I think last week I, you know, as I tried to amass, kind of across, you know the big macro guys, how much of, you know, their position that they want to get out of relatively in the future, have they already gotten out of?

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[redacted]	Yeah.
Ben Case	And I think it's probably beyond half, I mean, I think it's somewhere between fifty and sixty percent -
[redacted]	Yep. So that's kinda where it was last week when we talked, right?
Ben Case	Yeah, I mean, maybe, you know, maybe it's marginally -
[redacted]	Little bit more.
Ben Case	Farther, you know, we haven't seen this huge amount of activity in the last week -
[redacted]	Yeah that's a good point
Ben Case	obviously the conference last week kept things slow -
[redacted]	Yep.
Ben Case	So, you know, as that gets closer to the end, it's, you know, the upside down, down side balance changes, I would also say, you know, yes there are, I think at last count something like seventy-nine ABS CDOs in event of default -
[redacted]	Yep.
Ben Case	- and we've seen a handful, but it's certainly a single digit number -
[redacted]	Yep.
Ben Case	- proceeding with liquidations -
[redacted]	Okay.
Ben Case	And it's, you know, the greater the likelihood that a bigger number of magnitudes of move forward with liquidations, certainly is a big factor in changing the upside, downside balance -
[redacted]	Sure.
Ben Case	- holding versus liquidating -
[redacted]	Yep.
Ben Case	I, you know, I'd say it is not my expectation that imminently, we see -
[redacted]	-a bunch of liquidations.

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Ben Case	- you know, a lot more of, the seventy-nine, that have not started liquidation -
[redacted]	Okay.
Ben Case	immediately starting -
[redacted]	All right.
Ben Case	But I do think the farther time goes -
[redacted]	Sure.
Ben Case	you know, on the margin, the percentage chance of, that happening goes up, and the percentage chance that the short covering will affect pricing goes down, which is why, you know, I, right now, given all that, I don't see it, you know, being the best decision to wait until, very late in the twelve months -
[redacted]	Right.
Ben Case	I think it's, you know, it's gonna be noticeably sooner than that. And it'll be, you know, how those two phenomenons develop whether it's, you know, two weeks, a month, two months, whatever.
[redacted]	We'll see. Now what about fundamentals side, have you spent, you know, any time, either internally or externally or just for your own purposes, thinking about, you know, things like this lifeline thing, that we heard yesterday, or, you know, the fact that the HOPE NOW is kind of up and running and actually executing stuff, I mean, do you have any expectations for, you know, maybe, not for this particular set of assets but for the market more generally, you know, any hope really of any fundamental, you know, given the, given that we're working with this limited time frame for the documents, do you feel there's anything beyond sort of the technical nature of the markets that we've talked about in the past, that might help, or is that sort of, you know, like we're playing with technicals, and that's the nature of the beast at this point?
Ben Case	You know, the one thing, I mean, I think there is some chance, and I wouldn't necessarily call it a very high chance -
[redacted]	Yep.
Ben Case	- but I think there is some, you know, some non-zero chance that, through these kind of programs, there will be, you know, a reasonable expectation of the market, of some lengthening of the foreclosure process -
[redacted]	Okay.

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Ben Case	- and for the IO value on these kind of assets -
[redacted]	Okay.
Ben Case	- separate from technicals moving the price up and down, you know, all this stuff in terms of, loan modifications, and, you know, moratoriums on foreclosures, and, you know, pressuring, you know, servicers to, push for home retention -
[redacted]	Yep.
Ben Case	- programs as a bigger priority rela-
[redacted]	Have you thought about interest rates, you know, does that, is that enough to offset the lower liable running, you know, the points up front, you get paid to sell the protection here, what's your view kinda on the forward curve?
Ben Case	Yeah, I mean, look, you know, obviously, you know, the Fed has done what it's done, you know, it's down, significant from where it was, you know, there's more of that priced in, I'm somewhat agnostic, you know, kind of up or down on the forward curve from what's already priced in -
[redacted]	Okay.
Ben Case	- in terms of future Fed action, but, you know, the future Fed action, I mean, the expectations what's already priced in, you know I think it's real, and I'm not -
[redacted]	So you like the forward curve. You don't think it's been -
Ben Case	Yeah, I don't
[redacted]	- bent out of shape.
Ben Case	There's not a, I don't have a, strong view yeahthat the forward curve is bent of shape in one direction or the other -
[redacted]	Okay.
Ben Case	- that would affect us.
[redacted]	All right. So last thing is, okay, let's say, all right, that's all great, you know, we can agree, I mean, there's a lot of that I agree with you with, I'm probably a little, obviously a little less optimistic about, you know, at least the short term prospects for any significant return of principal from, you know, from some of these initiatives for, at least this pool of assets.

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Ben Case	I agree with that, by the way, when I talk about lengthening the IO, it's really, you know, the biggest or only possible factor, you know, when you talk about these kind of programs looking at, you know, what chance they're gonna affect increased principal levels -
[redacted]	Well, especially for these bonds, right?
Ben Case	Yeah, exactly. First you gotta look at the loan pool, and it's, you know, maybe it's marginal, but, you know, whatever effects it have I think are, gonna take much farther off the time for the market to get comfortable with, and incorporate in the pricing, it's not a, you know, immediate next few months -
[redacted]	Yep.
Ben Case	- phenomenon, and yeah, particularly with, you know, what kind of, you know, marginal effects it'll have at the loan pool level relative to these kind of securities, yeah, I don't think there's much or any impact in terms of changing expectations for principal recovery or the lack thereof on these securities,
[redacted]	Which is really, I mean that would be, if that, I mean that's really the key to the, of a big change in price, right, I mean, that's, you know, you can, we can move up in a plus or minus, three or four or five point range on technicals and IO but, to get any kind of real pop, would you agree that we need some sort of, you know, some sort of assumption by the market that, hey, wait a minute, we might be missing something here, maybe losses aren't as bad as we think they're gonna be? And that just seems pretty farfetched as this point.
Ben Case	Yeah, you know, yeah, I think that's right, that's obviously gonna be much bigger magnitude than, you know, the IO, or the technicals, you know, yeah, and it's, I mean, to some extent if you have a given security in the markets, pricing in, you know, zero probability of any principal recovery?
[redacted]	Yep.
Ben Case	Then there's only one direction it could go, but I, the chance that it could move in that direction, at least in the next few months, you know, I mean, we're not talking about, we have the choice here to wait, you know, five years or sell now -
[redacted]	Right.
Ben Case	- is de minimis I'd say.
[redacted]	Okay. All right. So let's switch gears now, just in terms of, you know, all right, let's see now, I don't know whether it's a week, or two weeks, or a month, or whenever we get to the point where you, you know, start to initiate this process, you kinda decide that it's the right time, what, have you thought

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	about the actual execution at all, you know, is it one big list, are you gonna react to, you know, maybe actions you're seeing from a customer base, you know, are there certain rules regarding the publicness of the execute, like how does it, have you thought about, you know, from an execution standpoint how you think you'd optimize value once you decide it's the right time?
Ben Case	Sure. Let me give you the automated process -
[redacted]	Yep.
Ben Case	- that we're required to file, and then I'll give you a couple of other thoughts related to the questions you've just asked.
[redacted]	Yep.
Ben Case	We, the process will be, we'll go out with, you know, one or more lists to a minimum of three nationally recognized broker dealers -
[redacted]	Okay.
Ben Case	- making markets in these kind of assets -
[redacted]	Yep.
Ben Case	- at the time we go out with it -
[redacted]	Yep.
Ben Case	- you know, I'd say, right now my expectation is, there's no reason to limit it to three, you know, that's, you know, why not go to as many guys as possible -
[redacted]	Sure.
Ben Case	- as many guys as we think could give us a price -
[redacted]	Um hum.
Ben Case	- to, you know, maximize the deal's chances of getting the best levels -
[redacted]	Right.
Ben Case	- so, you know, it's not that we do it in, you know, kind of one off negotiate a private transactions, it has to be done through that auction process, we have to -
[redacted]	Okay.

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Ben Case	- get the best levels of all we get, which are, you know, a minimum of three solicitations but, you know, more are permitted -
[redacted]	Right. But just like any manager you'd wanna try to broaden the net as wide as possible -
Ben Case	Yeah, yeah, absolutely, that -
[redacted]	Okay.
Ben Case	- it's in the best interest of the deal, I think.
[redacted]	Okay.
Ben Case	You know, in terms of whether it'd be driven by, you know, kind of, you know, flows we see from our clients on the flows of the market, I, yeah, I'd say that's, you know, just in terms of the, you know, exact implementation of this process, you know, kind of all the color that we see and that's at our disposal, you know, will be used to try to do it in the most responsible manner -
[redacted]	Now the reserve levels apply, like do you have, you know, do you have ability, okay, so there's a decision about, okay, we're gonna do it on this day, and then as we get the prices in, like how much, you know, in terms of evaluating the prices themselves, I don't imagine that I, as a participant in the deal, you know, just like the equity or triple A's or anybody else, but, would be able to opine on whether or not you should hit bids, or lift off or some protection, how, have you thought about, you know, reserve levels apply in sort of your decision making process in regard to the actual bids when they come back?
Ben Case	Sure. You know, I'd say, there is no formal process built in to the deal by which we, you know, go out as if we're starting the official liquidation process for assets -
[redacted]	Okay.
Ben Case	- and then evaluate the reserve level and then pull back. You know, the formal process is, you know, we go out and we trade at the best level we get -
[redacted]	Okay.
Ben Case	- now I think, you know, we'll want to implement that as responsibly as possible, and certainly we, you know, we do have the ability, to outside of, whatever is the formal, official, you know, sale process -
[redacted]	Yep.

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Ben Case	- prior to that, go out and solicit levels and decide not to trade, so, you know, we, I don't, I think when it makes sense for the deal, we're gonna want to implement it in, you know, just as straightforward a manner as possible -
[redacted]	Yep.
Ben Case	- you know, but we're gonna be responsible about it, too, and it's, you know, we have some amount of, you know, decision in terms of, is this the formal last process that we're going out with, in which case we're required to sell at the best level, or is this a precursor to that, in which case -
[redacted]	Right.
Ben Case	- you know, there's no requirement on what we do.
[redacted]	So there could be some level, even at the individual line item asset of, you know, decision making that you could put into, okay, you know, gees, you know, we're not gonna sell protection on this thing, you know, or buy protection on this thing at ninety-nine and a half points up front, or something like that.
Ben Case	Yeah, I, you know, yeah, we're gonna want to be responsible about it, absolutely, and, you know, the other thing I'd say is in terms of how much do we put out at once, you know, one option is the whole thing in one, one slug -
[redacted]	Yep.
Ben Case	- but we certainly also have the ability to do it in, you know, multiple phases, you know, I don't have a final decision on that for you, and that'll certainly be, you know, kind of, due to our valuation of market conditions this at the time, and we'll see how things go in the future, but my feeling is right now that, you know, a billion is a big list to put out in one day -
[redacted]	Yeah.
Ben Case	- and -
[redacted]	Didn't have to get to a billion, baby.
Ben Case	No, well, I hear ya. But it's, in terms of maximizing the -
[redacted]	Yeah, at this point it is what it is.
Ben Case	returns, in terms of maximizing the levels we get back -
[redacted]	Yep.

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Ben Case	- it's not clear to me that putting out a billion or frankly anything close to that, is going to get us the highest levels back, so in terms of legging into with some kind of responsible manner, and certainly, we can put it out, and -
[redacted]	But if the deal doesn't restrict you necessarily from, but if the deal doesn't necessarily restrict you from executing on price X, Y or Z, why wouldn't you get as much information back as you possibly could about the widest net of asset.
Ben case	Agree, other than if the size of the list initially affects the levels the guys are willing to give us.
[redacted]	Okay. So, sort of, you know, along the lines here, it sounds like I have, you know, you guys are gonna be involved in deciding not only when, but at the time when you decide it's sort of, you know, how, in terms of list size, and then even at the line item level there may be some level of decision about, you know, about price points.
Ben Case	Yeah, and I'd say, you know, look, if we're, you know, if we wanna do it in a couple of phases -
[redacted]	Yep.
Ben Case	- I, you know, my thought is obviously that, you know, the different line items that are gonna be at the highest dollar prices or lowest points up front -
[redacted]	Yep.
Ben Case	- have the, you know, most additional downside to waiting on them -
[redacted]	Right.
Ben Case	- versus the ones that are, you know, as close to zero or a hundred -
[redacted]	Sure.
Ben Case	points up front
[redacted]	- yeah, I mean, you know -
Ben Case	there's less you know, if you're putting those worst names out on a list of a hundred million or billion, there's only so much worse the price can get.
[redacted]	Not that much proceeds.
Ben Case	Right.

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[redacted]	A billion doesn't get so scary at ninety-nine and a half up.
Ben Case	So if we're going to, you know, do it in phases rather than all at once, it would make sense to me to try to maximize value where there's the most value to -
[redacted]	Okay.
Ben Case	- to be maximized.
[redacted]	Yeah.
Ben Case	In the you know, early part of that rather than later part of it.
[redacted]	Okay.
Ben Case	And I, you know -
[redacted]	All right.
Ben Case	- certainly give me, you know, any thoughts you have on anything specific I'm giving you like that, I know some of it is just, you know, we'll evaluate it and be as responsible as possible at, you know, as we do it, but if you have other thoughts I'm happy to hear your thoughts too.
[redacted]	Yeah, I mean look, I think the key first step is, you know, I need to know, you know, when you guys, when you guys decide, or when you decide that this is the time, you know, I'm more than happy to engage in discussions with you about, you know, the execution side. I want to get a feel for it today, because we haven't really spent a lot of time on that, and, it does sound like you guys are, it's not there, at least getting closer to being there, you know, which is obviously given my stance, kind of music to my ears, and again, just for the record I, you know, I'd be happy if you, if you'd call me later today and told me it was this week, and at that time, again, more than happy to sort of talk about, you know, the execution strategy that we would prefer given that, you know, look, we still, we do that, we've been selling a lot of stuff lately, we've gotten pretty good at that, so, that's it, but this is, look man, this is helpful.
Ben Case	Okay.
[redacted]	All right.
Ben Case	Cool.
[redacted]	So we'll, touch base with you again next week.
Ben Case	Sounds good.

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John Pearce	All right, man.
Ben Case	[redacted]
John Pearce	Bye.
Ben Case	Bye.
	HANG UP

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From: Case, Benjamin
Sent: Thursday, February 28, 2008 9:59 PM
To: Fertel-Kramer, Sue
Cc: Martin, Nicole; Lehman, David A.
Subject: Re: MS Prop - want to arrange a call for tomorrow AM

9:30

----- Original Message -----
From: Fertel-Kramer, Sue
To: Case, Benjamin
Cc: Martin, Nicole; Lehman, David A.
Sent: Thu Feb 28 21:50:39 2008
Subject: Re: MS Prop - want to arrange a call for tomorrow AM

Let's do it after your 8:30 call. What time do you estimate that to be over?

----- Original Message -----
From: Case, Benjamin
To: Fertel-Kramer, Sue
Cc: Martin, Nicole; Lehman, David A.
Sent: Thu Feb 28 20:34:51 2008
Subject: Re: MS Prop - want to arrange a call for tomorrow AM

I have calls at 8:30am and 11am tomorrow morning - happy to do a call with JD in between or anytime in the afternoon.

----- Original Message -----
From: Fertel-Kramer, Sue
To: Case, Benjamin
Cc: Martin, Nicole; Lehman, David A.
Sent: Thu Feb 28 17:56:19 2008
Subject: MS Prop - want to arrange a call for tomorrow AM

Ben,

JD from MS Prop would like to set up a conference call with you for early tomorrow morning are you available? He'd like to get updates on the following:

1. With Quarter end approaching - sensitivity on all SS positions - he wants to update everyone internally (particularly on Hudson) 2. In wake of recent market volatility with unwind of Peloton, wants to hear your market view at this point (remember last call we discussed our thought that market was going to rebound) 3. JD will give us an update on where they stand at this point

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2609

Confidential Treatment Requested by Goldman S

To: Vanacker, Vanessa (FID)[Vanessa.Vanacker@morganstanley.com]
Subject: Re: Updates
Sent: Thur 2/21/2008 10:05:36 PM
From: Pearce, John (FID)

Perfect. Do we have a spreadsheet summary of this?

---- Original Message ----
From: Vanacker, Vanessa (FID)
To: Pearce, John (FID); Feeney, Ryan (FID)
Sent: Thu Feb 21 16:47:49 2008
Subject: RE: Updates

Hudson: 999.00mm are now credit ref obs.
Using ABX changes from downgrade date to today's close it is 130.5mm.

-----Original Message-----
From: Pearce, John (FID)
Sent: Thursday, February 21, 2008 8:34 AM
To: Feeney, Ryan (FID); Vanacker, Vanessa (FID)
Subject: Updates

Redacted

2. Hudson: we need to determine exactly when the refobs became "credit risk obs". I believe that EMay did some work here. Once we do this, we'll pick a relevant ABX benchmark to calculate the damages we've suffered by GS not liquidating.

Redacted

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2612

Goldman, Sachs & Co | One New York Plaza | New York, New York 10004
Tel: 212-902-2609 | Fax: 212-428-1780 | e-mail: fran.bermanzohn@gs.com

Frances R. Bermanzohn
Managing Director
Deputy General Counsel

Goldman Sachs

March 10, 2008

John Faulkner, Esq.
Managing Director and
General Counsel of Institutional Securities
Morgan Stanley
1221 Avenue of the Americas
New York, New York 10020

Dear John:

I am responding to your letter of February 29, 2008 to Pablo Salame of Goldman Sachs regarding Goldman's role as Liquidation Agent for Hudson Mezzanine Funding 2006-1, Ltd. ("Hudson") pursuant to a Liquidation Agency Agreement between Hudson and Goldman Sachs.

As a preliminary matter, we were surprised and disappointed to receive a letter containing such serious accusations, without any prior dialogue among our respective legal professionals. We have always tried to maintain a professional working relationship between our institutions, and our firms have many communication channels that could have been employed constructively before such a letter was sent. It would also not be our custom to have our lawyers initiate contact through your business professionals.

As to its substance, your letter is entirely mistaken in its suggestion that Goldman Sachs has somehow breached its obligations under the Liquidation Agency Agreement. As Mr. Faulkner's letter recognizes, Section 2(b) of the Liquidation Agency Agreement specifically provides that Goldman, acting as Liquidation Agent, has up to twelve months in which to assign, terminate or otherwise dispose of Credit Risk Obligations assigned to it for that purpose. Obviously, establishment of a liquidation period of that duration contemplates -- and, indeed, embodies Hudson's informed consent -- that the Liquidation Agent will necessarily exercise judgment in determining when and how to dispose of Credit Risk Obligations assigned to it for that purpose. Had the parties intended to require disposition in some kind of mechanical manner without regard to any market judgments or timing, the heavily lawyered contract would have read very differently and Goldman Sachs may well have declined to undertake such a constrained role.

MAR-10-2008 17:27 From: To:Goldman Sachs Co P.1/2

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2615

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Nor does this expressly intended contractual latitude transform Goldman Sachs into a *de facto* "investment adviser" to Hudson, as you suggest. The Agreement (Section 8) in fact categorically disclaims that Goldman Sachs or its affiliates will be providing investment advisory services or otherwise acting as an adviser or fiduciary to Hudson by virtue of its liquidation services. That disclaimer is perfectly consistent with discretion routinely accorded to securities brokers in seeking to fulfill their obligation to obtain the best execution possible for their clients without making them "investment advisers." We assume that across Morgan Stanley's diverse broker/dealer businesses, including to the extent Morgan Stanley plays similar roles as a liquidation agent, your firm does not register as an investment adviser and follow the Investment Advisers Act simply by virtue of exercising such judgment and limited discretion.

In all events, we respectfully reject any suggestion that Goldman Sachs has failed to act in a commercially reasonable manner or in good faith in attempting to achieve an orderly liquidation of the Credit Risk Obligations in a challenging market environment. To the contrary, Goldman Sachs has exercised its best judgment based on its experience and the available information affecting these volatile markets. We note that although you clearly disagree with Goldman Sachs' judgments, you do not appear to contend that those judgments are not genuine or have been arrived at for a bad faith purpose.

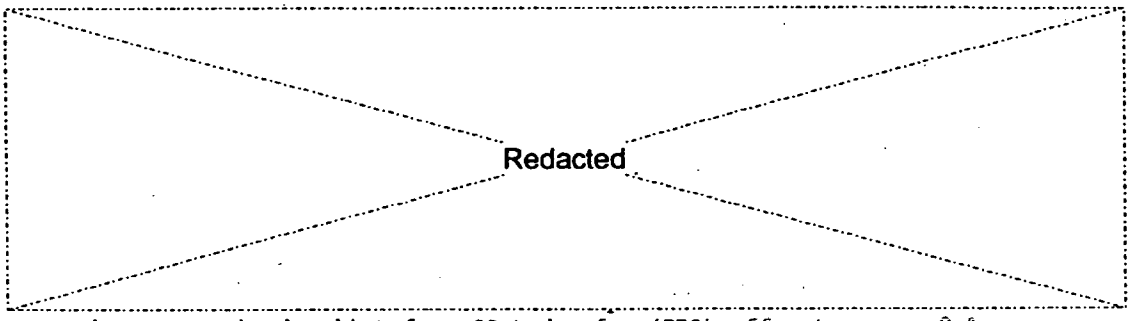
Finally, we see no purpose at this time in addressing at length other matters raised by your letter, including its significant mischaracterization of Mr. Case's statements. Morgan Stanley's lack of standing even to advance many positions that are within the exclusive province of Hudson, and the preclusive effect on Morgan Stanley's contentions of the Agreement's broad exculpation and conflict waiver provisions provide sufficient response. Suffice it to say that Goldman Sachs will continue to perform its role in good faith, and we truly hope that Morgan Stanley will not escalate this matter into a needless legal dispute that will simply increase the costs for Hudson and the holders, given the Agreement's indemnification provisions. We are, of course, open to the views of Morgan Stanley and all other interested parties in this transaction. However, while it is obviously easy to criticize any judgment with hindsight, we believe that it would be more productive in the future if Morgan Stanley simply shares its own informed views about these markets and their directions.

Sincerely,

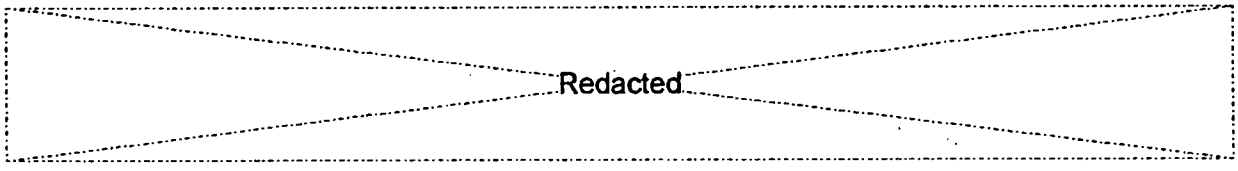
Frances R. Bermanzohn
Managing Director
Deputy General Counsel

MAR-10-2008 17:27 From: To:Goldman Sachs Co P.2/2

From: Pearce, John (FID) [John.Pearce@morganstanley.com],
Sent: Thursday, March 27, 2008 6:10 PM
To: Petrick, Michael (FID)
Subject: 3/27 recap



Hudson: received a list from GS today for (PRO) offer tomorrow @ 1pm. $112mm notional. Although this is the first list we've seen, this will bring the total liquidated to $321mm/$1bb eligible. Great job by Rick O here...



John Pearce, Managing Director
Morgan Stanley | Fixed Income
1585 Broadway, 10th Floor | New York, NY 10036
Phone: +1 212 761-2100
John.Pearce@morganstanley.com

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2616

From: Ostrander, Richard (LEGAL) [Richard.Ostrander@morganstanley.com]
Sent: Monday, March 24, 2008 12:20 PM
To: Littlejohn, Darren
Subject: Re: Hudson

Darren:

Let's proceed with the liquidation. Pls let us know the expected timing. Thanks,

Rick

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Littlejohn, Darren <Darren.Littlejohn@gs.com>
To: Ostrander, Richard (LEGAL)
Cc: Bermanzohn, Fran <fran.bermanzohn@gs.com>
Sent: Mon Mar 24 13:58:04 2008
Subject: Hudson

Rick:

Notwithstanding our conversation on Thursday, I am forwarding details of an unwind level which our traders put together today (the email from our trading desk is pasted immediately below). Please let me know if you have any questions.

Kind regards,

Darren

$9-00 bid flat for the hudson mezzanine 1 super senior swap ($91 points upfront, no accrued)

No delta exchange

Subject to market moves, please call desk to trade 212 902 2927

T+3 settlement

NOTICE: If received in error, please destroy and notify sender. Sender does not intend to waive confidentiality or privilege. Use of this email is prohibited when received in error.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2616

From: Tarantino, Jason
Sent: Thursday, March 20, 2008 2:11 PM
To: eric.vasquez@bnymellon.com
Cc: Lin, Shelly; Ficc-CDO-MO; Case, Benjamin; Epshteyn, Faina
Subject: Re: Hudson Mezz 2006-1 - Liquidation Agent trades

Eric,

I just left a VM, we've yet to receive any of the novation requests. Please send as soon as possible, especially it being an early close.

Thanks

----- Original Message -----
From: Tarantino, Jason
To: 'eric.vasquez@bnymellon.com' <eric.vasquez@bnymellon.com>
Cc: Lin, Shelly; Ficc-CDO-MO; Case, Benjamin; Epshteyn, Faina
Sent: Thu Mar 20 13:47:41 2008
Subject: RE: Hudson Mezz 2006-1 - Liquidation Agent trades

Eric,

If you can please send the novation requests as soon as possible, if you have not already, thanks.

Jason

From: Case, Benjamin
Sent: Thursday, March 20, 2008 1:00 PM
To: 'eric.vasquez@bnymellon.com'
Cc: Lin, Shelly; Ficc-CDO-MO
Subject: Hudson Mezz 2006-1 - Liquidation Agent trades

Eric,

Attached are details on today's liquidations of Credit Risk Obligations from Hudson Mezz 2006-1. Trades listed with Lehman and Deutsche Bank will be novations -- please follow the same novation protocal as last time. Trades with GS will be terminations. Trade levels are listed as the percentage of the notional amount that Hudson Mezz 2006-1 pays to the counterparties to novate or terminate, before adjusting for accrued interest.

Please let us know if you have any questions or need any more information.

Regards,
Ben

<< File: ABS CDS OWIC 3-20-08 - trade details.xls >>

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2617

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Goldman, Sachs & Co., as Liquidation Agent
85 Broad Street
New York NY 10004

June 6, 2008

To: The Issuers
The Trustee
(Each as defined in the Indenture referred to below)

Re: Hudson Mezzanine Funding 2006-1, Ltd. – Certain Dispositions

Ladies and Gentlemen:

Reference is made to the Indenture dated as of December 5, 2006 among Hudson Mezzanine Funding 2006-1, Ltd., Hudson Mezzanine Funding 2006-1, Corp. and The Bank of New York Trust Company, National Association, as Trustee (as the same may be amended, supplemented or otherwise modified from time to time, the "Indenture"). Capitalized terms used but not defined herein are used as defined in the Indenture.

The undersigned is the Liquidation Agent under the Liquidation Agency Agreement. The first sentence of Section 2(b) of the Liquidation Agency Agreement provides that the Liquidation Agent will, on behalf of the Issuer, pursuant to the terms of the Liquidation Agency Agreement, assign, terminate or otherwise dispose of (i) CDS Transactions held by the Issuer the Reference Obligations of which are determined by the Collateral Administrator, on behalf of the Issuer, pursuant to the Collateral Administration Agreement, to be Credit Risk Obligations and (ii) Delivered Obligations.

Attached hereto is a schedule of transactions effected pursuant to the first sentence of Section 2(b) of the Liquidation Agency Agreement during the period referred to in the schedule, together with certain related information.

The Liquidation Agent is providing this letter to the Issuers and the Trustee with the understanding that the Issuer is requesting that the Trustee promptly deliver a copy of this letter to each Noteholder.

Very truly yours,

Goldman, Sachs & Co., as Liquidation Agent

Confidential Treatment Requested

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2618

Hudson Mezzanine Funding 2006-1, Ltd. – Certain Assignments, Terminations and Other Dispositions Pursuant to Section 2(a) of the Liquidation Agency Agreement

CUSIP of Collateral Obligation	Name of Collateral Obligation	Principal Amount of CDO Investment	Moody's Rating of Collateral Obligation on Trade Date	S&P Rating of Collateral Obligation on Trade Date	Fitch Rating of Collateral Obligation on Trade Date	Moody's Rating of Collateral Obligation on CDO Issuance Date	S&P Rating of Collateral Obligation on CDO Issuance Date	Fitch Rating of Collateral Obligation on CDO Issuance Date	Moody's Rating of Collateral Obligation on Settlement Date	S&P Rating of Collateral Obligation on Settlement Date	Fitch Rating of Collateral Obligation on Settlement Date
12867JAB4	ECA 2005-2 B	13,000,000	84.50%	3/7/08	3/12/08	Baa3	B	2.10%	14	7	3	84.50%	90.00%
07387LBE0	BSABS 2006-PC1 M8	13,000,000	87.50%	3/7/08	3/12/08	Baa3	CCC	2.10%	14	7	4	87.50%	91.00%
81375WJN7	SABR 2006-OP1 B2	15,000,000	77.00%	3/7/08	3/12/08	Baa2	CCC	1.45%	14	7	5	77.00%	92.00%
81375WJP2	SABR 2006-OP1 B3	15,000,000	80.00%	3/7/08	3/12/08	Baa3	CCC	2.65%	14	7	4	80.00%	91.00%
00437NAN2	ACCR 2006-2 M9	13,000,000	90.00%	3/7/08	3/12/08	B3	CCC	2.10%	14	7	4	90.00%	97.50%
66989FKZ8	ODMLT 2006-1 M9	5,000,000	91.00%	3/7/08	3/12/08	Baa3	CC	2.10%	14	7	5	91.00%[1]	96.00%
66989FKZ8	ODMLT 2006-1 M9	8,000,000	92.50%	3/7/08	3/12/08	Baa3	CC	2.10%	14	7	5	91.00%[1]	95.00%
617446CY8	MSHEL 2006-2 B2	13,000,000	90.00%	3/7/08	3/12/08	Ba2	CCC	1.15%	14	7	4	90.00%	95.00%
84751PKL2	SURF 2006-BC1 B2A	13,000,000	88.00%	3/7/08	3/12/08	Baa3	B	1.15%	14	7	5	88.00%	90.50%
35725PKE9	FHLT 2005-B M10	13,000,000	90.50%	3/20/08	3/27/08	Baa3	B	2.10%	13	9	7	90.50%	95.50%
004421VB8	ACE 2006-NC1 M8	15,000,000	87.90%	3/20/08	3/27/08	Ba1	CCC	1.45%	13	9	6	87.90%	98.00%
004421VB8	ACE 2006-NC1 M8	13,000,000	87.50%	3/20/08	3/27/08	Ba1	CCC	2.65%	13	9	7	87.50%	91.00%
144531F00	CARR 2006-NC1 M9	13,000,000	89.00%	3/20/08	3/27/08	Ba3	CCC	2.65%	13	9	7	89.00%	95.50%
59020LBQ6	MLMI 2006-HE1 B3A	15,000,000	92.00%	3/20/08	3/27/08	Ba1	B+	2.45%	13	9	8	92.00%	95.50%
004421UL8	ACE 2005-HE7 M9	15,000,000	92.00%	3/20/08	3/27/08	Baa2	B-	1.15%	13	9	2	91.00%	90.00%
36242DWC4	GSAA 2005-6 B2	15,500,000	81.00%	3/20/08	3/27/08	Ba1	CCC	1.15%	13	9	6	90.50%	92.50%
46628RAN5	JPMAC 2005-ACC1 M8	13,000,000	90.50%	3/20/08	3/27/08	Ba2	CCC	1.15%	13	11	7	89.50%	97.00%
35725PQF0	FHLT 2006-2 M7	13,000,000	89.50%	3/28/08	4/2/08	Ba2	CCC	2.65%	13	11	10	87.50%	97.50%
004421VC4	ACE 2006-NC1 M9	15,000,000	87.50%	3/28/08	4/2/08	Ba1	B	1.15%	13	11	7	92.00%	97.50%
75408AAL3	RASC 2006-EMX2 M8	13,000,000	92.00%	3/28/08	4/2/08	Ba2	B	1.45%	13	11	8	82.50%	97.00%
144531FF2	CARR 2006-NC1 M8	15,000,000	82.50%	3/28/08	4/2/08	B3*	CCC	2.65%	13	11	6	92.00%	97.00%
045427AN1	CWL 2006-8 M9	15,000,000	92.00%	3/28/08	4/2/08	Ba3	CCC	2.10%	13	11	9	87.50%	97.00%
46629BBB4	JPMAC 2006-CW2 MV9	13,000,000	87.50%	3/28/08	4/2/08	B2	CCC	1.45%	13	11	8	87.00%	97.00%
362334GC2	FFML 2006-FF4 M8	13,000,000	87.00%	3/28/08	4/2/08	Caa3	CC	2.10%	13	11	6	94.00%	97.00%
12498QAN6	CBASS 2006-CB4 B3	13,000,000	94.00%	3/28/08	4/2/08	Baa3	B	2.10%	13	11	7	84.50%	98.00%
07387BKK0	BSABS 2005-EC1 M8	12,000,000	84.50%	4/4/08	4/9/08	Baa3	B	2.45%	13	11	8	89.50%	94.00%
07387B3V8	BSABS 2005-HE11 M8	15,000,000	89.50%	4/4/08	4/9/08	Baa3	B+	2.45%	13	11	8	90.00%[1]	95.50%
83611MKN7	SVHE 2005-4 M9	6,000,000	90.00%	4/4/08	4/9/08	Baa3	B+	2.45%	13	11	8	90.00%[1]	88.50%
83611MKN7	SVHE 2005-4 M9	9,000,000	91.00%	4/4/08	4/9/08	Ba2	CC	2.10%	13	11	7	90.50%	97.50%
36818QAN6	GEMMC 2005-1 B3	13,000,000	90.50%	4/4/08	4/9/08	B3*	CCC	2.65%	13	11	7	90.90%	97.50%
362334GJ7	FFML 2006-FF4 B1	15,000,000	90.90%	4/4/08	4/9/08	B3*	CCC	1.15%	13	11	8	91.00%	98.00%
40430KAP6	HASC 2006-OPT4 M7	13,000,000	91.00%	4/4/08	4/9/08	Ba3	CCC	1.45%	13	11	9	90.90%[1]	97.00%
437084VY9	HEAT 2006-4 M8	10,000,000	90.90%	4/4/08	4/9/08	Ba3	CCC	1.45%	13	11	8	90.90%[1]	97.00%
437084VY9	HEAT 2006-4 M8	5,000,000	82.50%	4/4/08	4/9/08	C	CC	1.15%	13	11	8	95.50%[1]	98.00%
68402CAN4	OOMLT 2006-2 M8	10,000,000	95.50%	4/4/08	4/9/08	C	CC	1.15%	13	11	8	95.50%[1]	98.00%
68402CAN4	OOMLT 2006-2 M8	2,500,000	96.00%	4/4/08	4/9/08	B1	BBB	1.15%	13	10	7	50.00%	96.30%
81375WDJ2	SABR 2005-EC1 B2	3,549,070	50.00%	4/25/08	4/30/08	Caa2	BBB-	2.10%	13	10	6	70.00%	92.00%
86359DBT3	FFML 2005-FF3 M9	13,000,000	70.00%	4/25/08	4/30/08	B1	BBB	2.10%	13	10	5	60.00%	91.00%
17307GUZ9	CMLTI 2005-OPT4 M9	13,000,000	60.00%	4/25/08	4/30/08	B3*	BBB	2.45%	13	10	6	87.45%	93.00%
60920UG46	MLMI 2005-AR1 B3	15,000,000	87.45%	4/25/08	4/30/08	Caa1	BBB	2.45%	13	10	7	85.50%	94.00%
126670NN4	CWL 2005-BC5 B	15,000,000	85.50%	4/25/08	4/30/08	Caa1	BBB	2.45%	13	10	8	85.50%	94.00%
362341KL2	GSAMP 2005-HE4 B3	15,000,000	85.50%	4/25/08	4/30/08	B3*	BB	2.45%	13	10	7	88.50%	92.00%
64352VNC1	NCHET 2005-4 M9	15,000,000	88.50%	4/25/08	4/30/08	Caa3	BB	2.45%	13	10	6	90.25%	92.50%
81375WGL4	SABR 2005-HE1 B3	15,000,000	90.25%	4/25/08	4/30/08	Baa3	B+	2.10%	13	11	8	81.50%[1]	96.00%
76112BVX5	RAMP 2005-EFC2 M9	5,000,000	81.50%	5/14/08	5/19/08	Baa3	B+	2.10%	13	11	8	81.50%[1]	96.00%
76112BVX5	RAMP 2005-EFC2 M9	8,000,000	85.50%	5/14/08	5/19/08	Ba2	CCC	2.10%	13	11	8	83.50%	93.90%
04541GRC8	ABSHE 2005-HE9 M9	13,000,000	83.50%	5/14/08	5/19/08	Ba1	CCC	1.15%	13	11	9	80.50%	95.00%
04541GTS1	ABSHE 2005-HE8 M8	13,000,000	80.50%	5/14/08	5/19/08	B3*	BBB	2.10%	13	11	7	79.50%[1]	98.00%
03072SM85	AMSI 2005-R9 M9	3,000,000	79.50%	5/14/08	5/19/08	B3*	BBB	2.10%	13	11	7	79.50%[1]	98.00%
03072SM85	AMSI 2005-R9 M9	10,000,000	80.00%	5/14/08	5/19/08	B1	BBB	1.45%	13	11	5	80.00%	92.00%
86360LAM8	SASC 2004-WF2 M8	15,000,000	80.00%	5/14/08	5/19/08	Caa2	BBB	2.45%	13	11	6	90.00%	97.00%
61744CVA1	MSAC 2005-HE3 B3	15,000,000	90.00%	5/14/08	5/19/08	Caa1	BB-	2.45%	13	11	5	89.75%	94.00%
32027NYE5	FFML 2005-FF12 B3	15,000,000	89.75%	5/14/08	5/19/08	B2*	BB	2.65%	13	11	5	84.00%	86.00%
86360LAN6	SASC 2004-WF2 M9	15,000,000	84.00%	5/14/08	5/19/08	B2*	BBB+	1.15%	13	10	6	81.00%	93.90%
32027NJT6	FFML 2005-FF7 M8	13,000,000	81.00%	5/21/08	5/27/08	Caa1	B	2.45%	13	10	8	89.95%[1]	96.25%
76112BD49	RAMP 2005-EFC4 M9	6,000,000	89.95%	5/21/08	5/27/08								

CDS#	Reference Obligation	Amount of CDS Transaction	Percentage Sold	Trade Date	Maturity Date	Moody's Rating of Reference Obligation	S&P Rating of Reference Obligation	Fitch Rating of Reference Obligation	Number of Dealers Responding	Number of Responses Received	Number of Dealers Trading	Lowest Offer	Highest Offer
76117BD49	RAMP 2005-EFC4 M9	9,000,000	91.50%	5/21/08	5/27/08	Caa1	B	2.45%	13	10	8	89.95%[1]	98.25%
040104NM9	ARSI 2005-W2 M9	10,000,000	88.90%	5/21/08	5/27/08	Caa1	BBB	2.45%	13	10	9	88.90%[2]	98.00%
040104NM9	ARSI 2005-W2 M9	5,000,000	92.40%	5/21/08	5/27/08	Caa1	BBB	2.45%	13	10	8	88.90%[3]	98.00%
542514NK6	LBMLT 2005-WL2 M9	15,000,000	90.00%	5/21/08	5/27/08	Caa1	CCC	2.45%	13	10	7	90.00%	97.00%
542514RW6	LBMLT 2006-1 M9	15,000,000	94.00%	5/21/08	5/27/08	C	CC	2.65%	13	10	7	94.00%	98.00%
86360WAM4	SAIL 2006-4 M7	4,000,000	97.40%	5/21/08	5/27/08	C	CC	1.45%	13	10	5	97.40%[4]	99.00%
86360WAM4	SAIL 2006-4 M7	3,000,000	97.75%	5/21/08	5/27/08	C	CC	1.45%	13	10	6	97.40%[5]	99.00%
86360WAM4	SAIL 2006-4 M7	8,000,000	98.00%	5/21/08	5/27/08	C	CC	1.45%	13	10	5	97.40%[6]	99.00%
86362WAN2	SAIL 2006-4 M8	5,000,000	98.75%	5/21/08	5/27/08	C	CC	2.65%	13	10	6	98.75%[7]	99.75%
86362WAN2	SAIL 2006-4 M8	3,250,000	98.75%	5/21/08	5/27/08	C	CC	2.65%	13	10	6	98.75%[8]	99.75%
86362WAN2	SAIL 2006-4 M8	6,750,000	99.00%	5/21/08	5/27/08	C	CC	2.65%	13	10	6	98.75%[9]	99.75%
61748XAC8	MSAC 2006-WMC2 B3	15,000,000	95.90%	5/21/08	5/27/08	C	CC	2.65%	13	10	9	95.90%	99.50%
362341KK4	GSAMP 2005-HE4 B2	15,000,000	90.75%	6/6/08	6/11/08	B2*-	BBB-	1.30%	13	11	8	90.75%	95.00%
126670NM6	CWL 2005-BC5 M8	15,000,000	86.00%	6/6/08	6/11/08	B2*-	BBB-	1.30%	13	11	9	86.00%	97.50%
362341SA3	GSAMP 2006-HE1 M8	13,000,000	89.50%	6/6/08	6/11/08	B2*-	BBB	1.15%	13	11	7	89.50%	98.00%
57643LMY9	MABS 2005-NC2 M9	15,000,000	96.50%	6/6/08	6/11/08	Ca	BBB	2.45%	13	11	5	96.50%	99.00%
86358EXF6	SAIL 2005-HE3 M9	15,000,000	96.50%	6/6/08	6/11/08	Caa3	B	2.45%	13	11	5	96.50%	99.00%

1 Reflects the percentage of the notional amount of the CDS Transaction paid by the CDO to assign, terminate or otherwise dispose of the CDS Transaction (without giving effect to any settlement of any interim accruals).
2 Number of dealers to respond with trading levels on full or partial lots of that day's list of CDS transactions.
3 Lowest offer of 91.0% was for a maximum size of $5,000,000. The remaining $8,000,000 size was executed at the next lowest offer, which was 92.5%.
4 Lowest offer of 90.0% was for a maximum size of $6,000,000. The remaining $9,000,000 size was executed at the next lowest offer, which was 91.0%.
5 Lowest offer of 90.9% was for a maximum size of $10,000,000. The remaining $5,000,000 size was executed at the next lowest offer, which was 97.5%.
6 Lowest offer of 95.9% was for a maximum size of $10,500,000. The remaining $2,500,000 size was executed at the next lowest offer, which was 96.0%.
7 Lowest offer of 81.5% was for a maximum size of $5,000,000. The remaining $8,000,000 size was executed at the next lowest offer, which was 85.5%.
8 Lowest offer of 79.5% was for a maximum size of $3,000,000. The remaining $10,000,000 size was executed at the next lowest offer, which was 80.0%.
9 Lowest offer of 89.53% was for a maximum size of $6,000,000. The remaining $9,000,000 size was executed at the next lowest offer, which was 91.3%.
10 Lowest offer of 88.9% was for a maximum size of $10,000,000. The remaining $5,000,000 size was executed at the next lowest offer, which was 92.4%.
11 Lowest offer of 97.4% was for a maximum size of $4,000,000. The next lowest offer of 97.75% was for a maximum size of $3,000,000. The remaining $8,000,000 size was executed at the next lowest offer, which was 98.0%.
12 Lowest offer of 99.75% was for a maximum size of $5,000,000 from one counterparty and $3,250,000 from another counterparty. The remaining $6,750,000 size was executed at the next lowest offer, which was 99.0%.

EXECUTION COPY

TIMBERWOLF I, LTD.
Issuer

AND

TIMBERWOLF I (DELAWARE) CORP.
Co-Issuer

AND

THE BANK OF NEW YORK
Trustee and Securities Intermediary

INDENTURE

Dated as of March 27, 2007

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2622

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and under the exclusive control of the Trustee, to be held in trust for the benefit of the Secured Parties, as described herein. To the extent monies deposited in a trust account exceed amounts insured by the Federal Deposit Insurance Corporation, or any agencies succeeding to the insurance functions thereof, and are not fully collateralized by direct obligations of the United States of America, such excess shall be invested in Eligible Investments pursuant to an Issuer Order.

ARTICLE 12

DISPOSITION OF COLLATERAL ASSETS

Section 12.1 Sale and Removal of Credit Risk Obligations and Defaulted Obligations.

(a) Provided that no Event of Default has occurred and is continuing and subject to the satisfaction of the conditions specified in Section 10.5 as applicable, and the remainder of this Section 12.1, the Collateral Manager may direct the Issuer to sell Credit Risk Obligations, Defaulted Obligations or equity securities or assign or terminate Synthetic Securities the Reference Obligations of which are Credit Risk Obligations, Defaulted Obligations or equity securities.

(b) The assignment, termination or disposition price for any such sale or removal of a Collateral Asset will equal the fair market value of such Collateral Asset. The fair market value of any such Collateral Asset will be the highest bid received by the Collateral Manager after attempting to solicit a bid from up to three independent third parties making a market in such Collateral Asset, at least one of which is not from the Collateral Manager; *provided* that, if upon commercially reasonable efforts of the Collateral Manager, bids from three independent third parties making a market in such Collateral Asset are not available, the higher of the bids from two such third parties may be used; *provided, further* that, if upon commercially reasonable efforts of the Collateral Manager, bids from two independent third parties making a market in such Collateral Asset are not available, one such bid may be used so long as it is not from the Collateral Manager. The proceeds from any such sale of Collateral Asset will be applied as Principal Proceeds on the next succeeding Payment Date and may not be reinvested in other Collateral Assets. The proceeds from the disposition of a Collateral Asset may not be reinvested in any other Collateral Asset.

(c) Equity securities received in exchange offers shall be sold as soon as commercially practicable in the Collateral Manager's reasonable business judgment. Subject to applicable law, the Issuer shall use commercially reasonable efforts to sell any Margin Stock acquired by it by a date not later than 45 days after the date of the Issuer's acquisition of such Margin Stock. The limits and time periods provided in this Section 12.1(c) may be extended subject to satisfaction of the Rating Agency Condition.

(d) If no Event of Default has occurred and is continuing, a Synthetic Security, if eligible for sale in accordance with Section 12.1(a) hereof, shall be assigned, terminated or sold (treating such assignment or termination as a sale for purposes of this Article 12) as directed by the Collateral Manager on behalf of the Issuer. Any cash received in payment of principal on or

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upon the liquidation of Default Swap Collateral or Synthetic Security Collateral (net of any amounts payable to the Synthetic Security Counterparty) shall be deemed to be Principal Proceeds.

(e) The Issuer may also,

(i) in the case of an Optional Redemption by Liquidation, at the direction of the Collateral Manager, direct the Trustee to sell, terminate or assign and the Trustee shall sell, terminate or assign in the manner directed by the Collateral Manager in writing, the Collateral Assets without respect to the limitations of Section 12.1(a), (b), (c) or (d) hereof and the remaining Collateral; *provided* that the requirements set forth in Sections 9.1(a) and 9.2 hereof can be demonstrably met prior to any such sale, and that the proceeds from such sale, determined in accordance with the criteria for an Optional Redemption by Liquidation, will equal or exceed the Total Redemption Amount, and upon such sale the Trustee shall release such Collateral from the lien of this Indenture;

(ii) in the case of a Tax Redemption, at the direction, or with the consent, of the Collateral Manager on any Payment Date, direct the Trustee to sell, terminate or assign, and the Trustee shall sell, terminate or assign in the manner directed by the Collateral Manager in writing, the Collateral Assets without respect to the limitations of Section 12.1(a), (b), (c) or (d) above and the remaining Collateral; *provided* that the requirements set forth in Sections 9.1(b) and 9.2 hereof can be demonstrably met prior to any such sale, and that the proceeds from such sale will equal or exceed the Total Redemption Amount, and upon such sale the Trustee shall release such Collateral from the lien of this Indenture; and

(iii) if, in connection with an Auction, the Collateral Manager receives timely bids (which are each "firm offers") that are, in the aggregate, at least equal to the Minimum Bid Amount, at the direction of the Collateral Manager, direct the Trustee to sell, terminate or assign and the Trustee shall sell, terminate or assign the Collateral Assets in the manner directed by the Collateral Manager in writing; *provided further* that, the procedures set forth in this Indenture and in Schedule E of this Indenture, as applicable, are satisfied.

Section 12.2 General Cashflow Swap Agreement Provisions.

(a) On the Closing Date, the Issuer shall enter into a Cashflow Swap Agreement with Goldman Sachs International as initial Cashflow Swap Counterparty, *provided* that the Issuer may replace the Cashflow Swap Agreement but shall not enter into any additional hedge agreements after the Closing Date.

Pursuant to the Cashflow Swap Agreement, on each Payment Date occurring through the termination of the Cashflow Swap Agreement in accordance with the Priority of Payments, the Issuer will pay certain amounts due to the Cashflow Swap Counterparty in accordance with the Cashflow Swap Agreement and the Cashflow Swap Counterparty will make advances to the Issuer in accordance with the Cashflow Swap Agreement.

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(b) The Issuer shall ensure that the Cashflow Swap Agreement shall provide that the Cashflow Swap Counterparty will agree (a) that the Issuer's obligations under the Cashflow Swap Agreement are limited recourse obligations of the Issuer payable solely from the Collateral and subordinated as set forth in the Priority of Payments, (b) to a standard non-petition clause, and (c) such Cashflow Swap Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(c) Pursuant to the initial Cashflow Swap Agreement, the Issuer may terminate the initial Cashflow Swap Agreement if (A) Moody's First Rating Trigger Requirements apply and 30 or more local business days have elapsed since the last time the Moody's First Rating Trigger Requirements did not apply and Goldman Sachs International has failed to comply with or perform any obligation to be complied with or performed under the Credit Support Annex, and (B) (x) the Moody's Second Rating Trigger Requirements apply and 30 or more local business days have elapsed since the last time the Moody's Second Rating Trigger Requirements did not apply and (y) (i) an Eligible Replacement has not become the transferee of a transfer made in accordance with Part 5(b)(i) of the Cashflow Swap Agreement, subject to satisfaction of the Rating Agency Condition and/or (ii) an entity with the Moody's First Trigger Required Ratings has not provided an Eligible Guarantee in respect of all of the initial Cashflow Swap Counterparty's present and future obligations under the Cashflow Swap Agreement;

(d) The Collateral Manager may cause the Issuer, promptly following the early termination of the Cashflow Swap Agreement (other than on a Final Payment Date) and to the extent possible through application of funds available in the Cashflow Swap Termination Receipts Account, to enter into a replacement Cashflow Swap agreement (a "Replacement Cashflow Swap") which may have different terms; *provided* that the Rating Agency Condition is satisfied.

(i) If (A) the funds available in the Cashflow Swap Termination Receipts Account exceed the costs of entering into a Replacement Cashflow Swap, (B) the Collateral Manager determines not to replace the terminated Cashflow Swap Agreement and the Rating Agency Condition is satisfied, or (C) the termination is occurring with respect to a Final Payment Date, then amounts in the Cashflow Swap Termination Receipts Account (after providing for the costs of entering into a Replacement Cashflow Swap, if any) shall be transferred to the Collection Account on the next following Transfer Date and shall be treated as Principal Proceeds and distributed in accordance with the Priority of Payments on the next Payment Date (or on such Final Payment Date, in the event the Notes are redeemed).

(ii) If the Cashflow Swap Agreement is terminated and the costs of entering into a Replacement Cashflow Swap exceed the funds credited to and available therefor in the Cashflow Swap Termination Receipts Account, then, after using the funds in the Cashflow Swap Termination Receipts Account, the Issuer may enter into a Replacement Cashflow Swap with such Cashflow Swap Replacement Amount payable to the replacement Cashflow Swap Counterparty in accordance with Section 11.1(a)(iv) hereof on subsequent Payment Dates or, if such termination would result in a Defaulted Cashflow Swap Termination Payment, in accordance with Section 11.1(a)(xviii) hereof on subsequent Payment Dates.

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(e) The amounts in the Cashflow Swap Replacement Account shall be applied directly to the payment of termination payments owing to the Cashflow Swap Counterparty, if any. To the extent not fully paid from Cashflow Swap Replacement Proceeds, such amounts shall be payable to the Cashflow Swap Counterparty in accordance with Section 11.1(a)(iv) hereof on subsequent Payment Dates or, if such termination payment is a Defaulted Cashflow Swap Termination Payment, in accordance with Section 11.1(a)(xviii) hereof on subsequent Payment Dates. To the extent that the funds available in the Cashflow Swap Replacement Account exceed any such termination payments (or if there are no termination payments), the excess amounts in the Cashflow Swap Replacement Account shall be transferred to the Collection Account on the next Transfer Date and shall be treated as Principal Proceeds and distributed in accordance with the Priority of Payments on the next Payment Date. If the termination amounts owing to the Cashflow Swap Counterparty exceed the Cashflow Swap Replacement Proceeds for such agreements, then, unless such amounts represent Defaulted Cashflow Swap Termination Payments, they will be paid before funds are applied to pay principal or interest on any Notes (except the Class S-1 Notes) in accordance with the Priority of Payments.

(f) The Issuer shall ensure that the Cashflow Swap Agreement may be terminated, whether or not the Notes have been paid in full on or prior to such termination, upon, among other things, (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer or the Cashflow Swap Counterparty, (ii) failure on the part of the Issuer or the Cashflow Swap Counterparty to make any payment under the Cashflow Swap Agreement within the applicable grace period, (iii) certain withholding or other taxes being imposed on payments to be made under the Cashflow Swap Agreement as set forth in Sections 5(b)(ii) and (iii) of the ISDA Master Agreement incorporated in the Cashflow Swap Agreement, (iv) a change in law making it illegal for either the Issuer or the Cashflow Swap Counterparty to be a party to, or perform an obligation under, the Cashflow Swap Agreement, (v) an Event of Default under the Indenture occurs and is continuing and there has been a liquidation (in whole), or the commencement of a liquidation (in whole) of assets of the Issuer, (vi) the Indenture is supplemented or amended without the consent of the Cashflow Swap Counterparty as described therein, (vii) the Cashflow Swap Counterparty is no longer a Secured Party under the Indenture or (viii) the aggregate Principal Balance of the Collateral Assets becoming less than U.S.$50,000,000. Notwithstanding the foregoing, the Issuer will not optionally terminate any Cashflow Swap Agreement unless the Rating Agency Condition is satisfied in connection with such termination.

(g) In the event of the occurrence of an Optional Redemption by Liquidation, Tax Redemption or a successful Auction, if the Cashflow Swap Agreement is terminated in accordance with the terms thereof, the Collateral Manager, on behalf of the Issuer, shall furnish to the Trustee evidence in form and substance satisfactory to the Trustee that the Collateral Manager on behalf of the Issuer has entered into one or more binding agreements (i) for the purchase of the Collateral with purchasers or counterparties whose short term debt ratings are "P-1" by Moody's and "A-1+" by S&P and (ii) for the pricing of termination payments under the Cashflow Swap Agreement, and which agreements provide for the purchase of the Collateral Assets and the termination of the Cashflow Swap Agreement in 10 days or less from the date thereof and that such redemption is non-revocable.

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(h) The Trustee shall credit to the Cashflow Swap Collateral Account all amounts, securities and other collateral that are received from the Cashflow Swap Counterparty to secure the obligations of the Cashflow Swap Counterparty in accordance with the terms of such Cashflow Swap Agreement. Each item of collateral credited to the Cashflow Swap Collateral Account will be credited to a separate sub-account relating to the Cashflow Swap Counterparty which pledged such collateral. Except for investment earnings, the Cashflow Swap Counterparty shall not have any legal, equitable or beneficial interest in any Cashflow Swap Collateral Account other than in accordance with this Indenture, the applicable Cashflow Swap Agreement and applicable law.

As directed by an Issuer Order executed by the Collateral Manager in writing and in accordance with the Cashflow Swap Agreement (which may be in the form of standing instructions), amounts credited to a Cashflow Swap Collateral Account shall be invested in investments meeting the criteria of "Eligible Investments" unless otherwise specified in the Cashflow Swap Agreement (*provided*, for the avoidance of doubt, that such investments shall not constitute "Eligible Investments" for purposes of the Coverage Tests). Income received on amounts credited to the Cashflow Swap Collateral Account shall be withdrawn from such account and paid to the Cashflow Swap Counterparty in accordance with the applicable Cashflow Swap Agreement.

Section 12.3 Reserved.

Section 12.4 Reserved.

Section 12.5 Synthetic Securities.

(a) Under certain conditions described in the Synthetic Securities, each Synthetic Security Counterparty may be required to post Synthetic Security Collateral under the circumstances and as described in the Synthetic Securities. The Synthetic Security Collateral pledged by such Synthetic Security Counterparty will be credited by the Trustee to the Synthetic Security Collateral Account and held therein pursuant to the terms of the related Synthetic Security. Each item of collateral credited to the Synthetic Security Collateral Account will be credited to a separate subaccount relating to the Synthetic Security for which the related Synthetic Security Counterparty has pledged such collateral.

(b) The Synthetic Securities shall be structured as "pay-as-you-go" credit default swaps. As part of the purchase of each Synthetic Security on or before the Closing Date, the Issuer will be required to purchase Default Swap Collateral which satisfies the Default Swap Collateral Eligibility Criteria set forth in the related Synthetic Security and the inclusion of which has been consented to by the Synthetic Security Counterparty in the amount required to secure the obligations of the Issuer in accordance with the terms of the related Synthetic Security which shall be in at least an amount equal to the Aggregate Reference Obligation Notional Amount. The Synthetic Security Counterparty shall have consent rights with respect to the Default Swap Collateral and no Default Swap Collateral objected to by the Synthetic Security Counterparty may be purchased by the Issuer. Default Swap Collateral shall be credited to the Default Swap Collateral Account. The amount payable by the Issuer to the Synthetic Security Counterparty under a Synthetic Security shall not exceed the Default Swap Collateral.

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Interest payments and redemption premiums, dividend distributions or investment earnings on and any fees paid with respect to the Default Swap Collateral shall constitute property of the Issuer and shall be paid to the Trustee and credited to the Collection Account and treated as Proceeds unless such amounts are required to be paid to the related Synthetic Security Counterparty under the terms of the related Synthetic Security. Principal payments on the Default Swap Collateral prior to the termination of the Synthetic Security shall be held in accordance with such Synthetic Security in the Default Swap Collateral Account and invested in Eligible Investments until reinvested in Default Swap Collateral at the direction of the Collateral Manager on behalf of the Issuer with the consent of the Synthetic Security Counterparty.

In the event a Synthetic Security is terminated prior to its scheduled maturity without the occurrence of a Credit Event or a Floating Amount Event, the Collateral Manager on behalf of the Issuer shall cause such portion of the related Default Swap Collateral chosen by the Synthetic Security Counterparty as may be required to make any Synthetic Security Termination Payments, to be liquidated and any such Synthetic Security Termination Payments to be paid directly to the Synthetic Security Counterparty; provided that, in the case of Defaulted Synthetic Security Termination Payments, such amounts will be deposited to the Collection Account and paid in accordance with the Priority of Payments. The Synthetic Security Counterparty will bear any market risk on the liquidation of the Default Swap Collateral. The remaining related Default Swap Collateral to the extent not required to remain credited to the Default Swap Collateral Account and pledged to the Trustee for the benefit and security of the related Synthetic Security Counterparty shall be credited to the Collection Account. In the event that no Credit Event or Floating Amount Event under a Synthetic Security has occurred prior to the termination or scheduled maturity of the Synthetic Security, upon the termination or scheduled maturity of the Synthetic Security, the Collateral Manager on behalf of the Issuer shall cause such Default Swap Collateral to be credited to the Collection Account.

The Synthetic Securities provide for cash settlement or physical settlement upon the occurrence of a Credit Event or Floating Amount Event under a Synthetic Security at the Synthetic Security Counterparty's choice. If the Synthetic Security Counterparty has chosen cash settlement, the item of Default Swap Collateral chosen by the Synthetic Security Counterparty after the application of any cash and Eligible Investments credited to the Default Swap Collateral Account will be sold by the Trustee in a sale arranged by the Collateral Manager and any amounts owed to the Synthetic Security Counterparty will be paid by the Issuer from the liquidation proceeds of such Default Swap Collateral. In the event such liquidation proceeds are less than par, the Synthetic Security Counterparty will accept the liquidation proceeds applicable to the face amount of Default Swap Collateral sold which is equal to the amount due to the Synthetic Security Counterparty. Any Proceeds net of purchased accrued interest or interest payments received upon the maturity or liquidation of a Deliverable Obligation shall be deposited to the Default Swap Collateral Account. In the event a Credit Event has occurred and the Issuer is required to liquidate Default Swap Collateral and deliver cash to the Synthetic Security Counterparty, the Synthetic Security Counterparty will bear any market risk on the liquidation of the Default Swap Collateral. If the Synthetic Security Counterparty has chosen physical settlement, the Default Swap Collateral chosen by the Synthetic Security Counterparty will be delivered to the Synthetic Security Counterparty in exchange for the related Reference Obligation.

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Any Default Swap Collateral credited to the Collection Account and any related Reference Obligation delivered to the Issuer whether either of such satisfies the definition of an Eligible Investment or qualifies as a Collateral Asset in the business judgment of the Collateral Manager may be retained or sold by the Issuer at the direction of and in the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation or a Credit Risk Obligation. Any Proceeds net of purchased accrued interest or interest payments received upon the maturity or liquidation of the Default Swap Collateral credited to the Collection Account shall be deposited to the Default Swap Collateral Account.

Upon the occurrence of any Interest Shortfall with respect to any Reference Obligation, the Fixed Amount payable under the related Synthetic Security by the Synthetic Security Counterparty to the Issuer will be reduced by an amount equal to the related Interest Shortfall Payment Amount, such reduction amount not to exceed the Fixed Amount, if "fixed cap" is applicable, or such reduction amount not to exceed the applicable floating cap, if "variable cap" is applicable, as described in each Synthetic Security. If any amount in satisfaction of the Interest Shortfall which gave rise to any Interest Shortfall Payment Amount, including interest accrued thereon, is later paid with respect to a Reference Obligation, the Synthetic Security Counterparty will pay such amount, or in certain circumstances a portion of such amount to the Issuer as an Interest Shortfall Reimbursement. Interest Shortfall Reimbursement Amounts will not exceed the cumulative Interest Shortfall Amounts (including any interest thereon) previously determined in relation to such Reference Obligation.

So long as the long-term ratings of the Synthetic Security Counterparty or any guarantor of the Synthetic Security Counterparty's obligation under a Synthetic Security are equal to or higher than (i) "Aa3" by Moody's (and, if rated "Aa3" by Moody's, is not on watch for possible downgrade) and (ii) "AA-" by S&P (and, if rated "AA-" by S&P, is not on watch for possible downgrade), the Fixed Amount due by the Synthetic Security Counterparty will be payable in arrears. However, if the long-term ratings of the Synthetic Security Counterparty or any guarantor fall below any such levels, the Synthetic Security Counterparty will be required to pay the Fixed Amount due under the Synthetic Securities in advance. The failure of the Synthetic Security Counterparty to pay the Fixed Amount in advance if such rating levels are no longer satisfied will constitute an "event of default" under the terms of the Synthetic Securities with the Synthetic Security Counterparty as the sole "Defaulting Party" under such Synthetic Security.

With respect to any Writedown Amount or Interest Shortfall Amounts received after the long-term rating of the Synthetic Security Counterparty is below "AA-" by S&P, the Synthetic Security Counterparty will be required to reserve the related Writedown Reserve Amount and the related Interest Shortfall Reserve Amount in the Synthetic Security Collateral Account in accordance with the terms of the Synthetic Security.

The Issuer will pay certain Floating Amounts to the Synthetic Security Counterparty following the occurrence of a Floating Amount Event with respect to a Reference Obligation. The Issuer will pay Floating Amounts to the Synthetic Security Counterparty on the Floating Rate Payer Payment Date following the occurrence of a Floating Amount Event with respect to the related Reference Obligation.

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Following the occurrence of a Credit Event with respect to a Reference Obligation, the Synthetic Security Counterparty may deliver such Reference Obligation as a Deliverable Obligation to the Issuer, in exchange for which the Issuer will pay to the Synthetic Security Counterparty an amount (a "Physical Settlement Amount"), which amount shall be calculated in accordance with the related Synthetic Security and paid on the related Physical Settlement Date. The Synthetic Security Counterparty may elect to physically settle a Synthetic Security only in part, in which case, there may be more than one Physical Settlement Amount payable by the Issuer with respect to such Synthetic Security.

Any Deliverable Obligation delivered to the Issuer may be retained or sold by the Issuer at the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation or a Credit Risk Obligation. The proceeds of such sale will be deposited by the Trustee into the Default Swap Collateral Account net of purchased accrued interest or interest payments thereon. In addition, any principal proceeds or interest received on such Deliverable Obligations prior to such sale will be deposited by the Trustee into the Collateral Account.

In connection with any early termination or assignment of a Synthetic Security, the Issuer may owe a Synthetic Security Termination Payment. Synthetic Security Termination Payments will generally be paid directly and outside of the Priority of Payment; provided that Defaulted Synthetic Security Termination Payments will be paid in accordance with the Priority of Payments.

The Issuer shall satisfy the Rating Agency Condition prior to any (i) replacement of the Synthetic Security Counterparty or (ii) assignment of the Synthetic Securities.

The Synthetic Securities may be amended only with (i) the satisfaction of the Rating Agency Condition and (ii) the consent of the Collateral Manager (which consent shall not be unreasonably withheld); provided however, that with respect to (i), such condition need not be satisfied with respect to any amendment that corrects a manifest error.

All principal payments on the Default Swap Collateral in the Default Swap Collateral Account will be invested in Eligible Investments at the direction of the Trustee until invested in Default Swap Collateral satisfying the Default Swap Collateral Eligibility Criteria at the direction of the Collateral Manager with the consent of the Synthetic Security Counterparty. Notwithstanding the foregoing, if and so long as the unsecured, unsubordinated debt rating of the Synthetic Security Counterparty or the credit support provider for the Synthetic Security Counterparty, whichever is higher, assigned by Moody's is below "A1", all principal payments on the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account will be maintained in Cash and Eligible Investments (unless otherwise required to be applied, in accordance with the terms of this Indenture, to either (i) the payment of the Notes or other amounts in accordance with the Priority of Payments or (ii) the payment of Credit Protection Amounts) until such time as the Balance of the Cash and Eligible Investments in the Default Swap Collateral Account is equal to the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes. Furthermore, all principal payments on the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account will be maintained in Cash and Eligible Investments (unless otherwise required to be applied, in accordance with the terms of

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From: Bentami, Slim
Sent: Friday, June 29, 2007 2:19 PM
To: Sparks, Daniel L
Subject: RE: Potential trade booking issues

will do. will have to convince ourselves obviously that it is not a violation.

From: Sparks, Daniel L
Sent: Friday, June 29, 2007 1:59 PM
To: Bentami, Slim
Subject: RE: Potential trade booking issues

Sure - speak with turok and john mchugh

It sounds like the issue that started all this may not be a violation after all (based on preliminary discussion with controllers and strat). In any case - we need to identify all potential items so there is good awareness.

From: Bentami, Slim
Sent: Friday, June 29, 2007 1:57 PM
To: Sparks, Daniel L
Subject: RE: Potential trade booking issues

thanks. if i may ask:

- what business areas do you think we should focus on and who would be the trading contacts.
- ok if i mention your sponsorship or at least agreement to get people around the table? `dan asked me to ..' is a bit strong but would do wonders. "after talking to dan ..." would do the trick i think.

best meanwhile,

slim

From: Sparks, Daniel L
Sent: Friday, June 29, 2007 12:13 PM
To: Bentami, Slim
Subject: RE: Potential trade booking issues

I think that would be helpful. I thought a scrub occurred at the end of the first quarter to identify the open items. I am aware of a number of them. You should coordinate with John McHugh who already has put together a list. Also, talk to Turok who I think was involved in the Q1 scrub.
Thanks, and please keep me posted and informed real time on how it progresses.

From: Bentami, Slim
Sent: Friday, June 29, 2007 11:51 AM
To: Sparks, Daniel L
Subject: RE: Potential trade booking issues

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thanks dan,
in some sense, this is even more concerning to me. our processes have failed in a deeper way if some ops & controllers etc... were aware but (as seems to be the case) none of the pople in this email list knew.
awaiting for john's list which i suppose will be a survey of what various constituencies know.
in my opinion a reconciliation is warranted here. by this i mean reviewing all trades in areas that with your help we can identify as potentially having such issues and going through the chain. I think this would give us comfort and also be the opportunity to get everyone on the same page.
i'd be very happy to coordinate such an effort. having representatives from ops/controllers/trading/strats & ourselves work together to that effect.
pls let me know your thoughts,

slim

From: Sparks, Daniel L
Sent: Thursday, June 28, 2007 8:12 PM
To: Bentami, Slim; Mullen, Donald; Petersen, Bruce; Wiesel, Elisha; Lee, Brian-J (FI Controllers)
Subject: Potential trade booking issues

John McHugh is putting together a list of outstanding items to make sure people (trading, strats, ops, risk) are aware of the situations that need to be addressed.

As you can see below, the put issue is not a new one and the topic has been outstanding for over a year.

From: Little, John
Sent: Wednesday, April 12, 2006 3:14 PM
To: Bieber, Matthew G.; Ostrem, Peter L; Turok, Michael
Cc: Pantow, Albert
Subject: RE: Peloton pricing today

Peter/Matt - will spreads on the AAA default swap collateral be easily observable? how wide is the range of eligible assets (in terms of sectors, etc.)?

Mike - do you expect any difficulties with modelling the put (that may include collateral from various sectors, of which the makeup could change, etc.)? would you expect the value of the collateral puts to be material (or at least materially off from the -200K estimate below)?

Eventhough the ABACUS puts are different, we are trying to stay consistent in terms of P&L recognition - I believe those puts are modelled based on the actual collateral spreads (which are assessed for observability) and strats was asked their opinion on the materiality of the put value

thanks

From: Bieber, Matthew G.
Sent: Wednesday, April 12, 2006 1:00 PM
To: Little, John
Cc: Pantow, Albert
Subject: RE: Peloton pricing today

yes, because we we're taking market value risk on the collateral securing the synthetics. I think that is the whole point.

From: Little, John
Sent: Wednesday, April 12, 2006 1:00 PM

To: Bieber, Matthew G.
Cc: Pantow, Albert
Subject: RE: Peloton pricing today

does the termination arrangement match on your sell side? is there a chance you would incur unwind costs in excess of what you received from the CDO?

From: Bieber, Matthew G.
Sent: Wednesday, April 12, 2006 12:27 PM
To: Little, John; Ostrem, Peter L
Cc: Turok, Michael; Pantow, Albert
Subject: RE: Peloton pricing today

1. If the deal is called and there are termination payments payable to GS - those would come from default swap collateral

2. The default swap collateral is managed by the collateral manager, with approval rights by goldman. there is predetermined criteria as to the composition of the account, so as assets in the account may pre-pay, they will still be subject to the criteria established in the indenture

3. Investors.

From: Little, John
Sent: Wednesday, April 12, 2006 11:47 AM
To: Ostrem, Peter L
Cc: Turok, Michael; Bieber, Matthew G.; Pantow, Albert
Subject: RE: Peloton pricing today

Peter/matt - a few questions:
1. If the equity investor calls the deal in 3 years - are there agreed upon unwind costs and what happens in terms of your sell trades (trying to determine what type of risk you have there)?
2. After default swap collateral is transferred to the CDO, how much ability do you have to change the makeup and do you decide where principal paydowns are reinvested?
3. Who gets the benefit if the default swap collateral is sold above par - GS or investors?

We are currently discussing modelling/obervability with the appropriate people on our end.

thanks

From: Ostrem, Peter L
Sent: Wednesday, April 12, 2006 7:56 AM
To: Little, John; Leventhal, Robert
Cc: Turok, Michael; Bieber, Matthew G.
Subject: Peloton pricing today

Can we agree on how we want to treat P&L on Peloton relative to the put swap? We expect P&L of over $1mm for the 5bp reduction in the CDS premiums. I propose we

separately book the put swap at close to zero (contingent MTM risk on 2 yr AAA diversified portfolio where Goldman retains selection optionality seems low), but we are open to booking 1bp in negative put cost (i.e., -$200k).

Need to have an approved view here until Turok can model the put risk for these trades going forward.

Please advise.

From: Scales, Carly
Sent: Friday, June 29, 2007 11:35 AM
To: Bieber, Matthew G.
Subject: RE: Unbooked CDO Put issue

Sure...give me 15 min or so...I'm on 5th floor right now

From: Bieber, Matthew G.
Sent: Friday, June 29, 2007 11:35 AM
To: Scales, Carly
Subject: RE: Unbooked CDO Put issue

Swing by when you have a sec.

From: Scales, Carly
Sent: Friday, June 29, 2007 11:33 AM
To: Bieber, Matthew G.
Cc: Tarantino, Jason
Subject: FW: Unbooked CDO Put issue

Hey Bieber, this is what J and I sent out on our end. Let me know if anything is misstated or if you have any additional color to add.
Thx
c

From: Scales, Carly
Sent: Thursday, June 28, 2007 7:33 PM
To: Armstrong, Phil; Schultz, Steve
Cc: Murphy, Rohan; O'Mahony, Kerrill; Godfrey, John; Tarantino, Jason
Subject: Unbooked CDO Put issue

Hi Phil, Steve,

Wanted to come back with more color on the issue that was raised yesterday with regards to unbooked CDO puts.
Below is a high level summary of the issue, current process, and proposed solution. This was vetted today with Strats and the desk (Sparks was part of the conversation as well).
This is being bumped up the Strats priority list in terms of getting a tradable in place for this. There is a follow up meeting next week which my team will attend as well.
I believe some of the email correspondence forwarded by Steve indicated that there were upwards of 2 dozen trades potentially unbooked. This number is actually 18- Steve we should probably log these as violations until the tradable is in place.

The bottom line on this is for the trades where this put option was not booked, Ops were not aware there was a put. It seems that although it has now come to light that this is a feature of all synthetic CDO's that we do - each Deal team on the GS CDO desk documented and communicated this differently.

Please let me know if you'd like to discuss live at some point. Apologies, I realize this is a lot of information, but wanted you to have all the facts. It might be easier for us to put together a simple diagram for you to speak to.

Mechanics of CDO Put Option:

- For **all** GS underwritten Cash CDO's that have MTG Credit Default swaps in them -- GS CDO desk is Buying Protection from the SPV/CDO
- The CDO Desk/Manager selects the **cash bond** default swap collateral (1-3 year duration & AAA rated) to coincide/match the total notional of MTG CDS trades that GS is buying protection on.
- The SPV writes the Put Option with the GS CDO desk which effectively means:
  -In the event of a CDS Credit Event, the GS trading desk will instruct the Trustee/SPV to liquidate a specific default swap collateral asset (if cash is not available) to pay GS as protection buyer on the CDS

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- Ex: 1mm Credit Event has occurred then 1mm of Default Swap Collateral will need to be liquidated to cover the CE payment.

-The risk the desk is bearing is the difference the default swap collateral par value compared to the current market level. **I think the risk here in terms of asset quality is low, we're basically writing a put to liquidate AAA rated securities at Par.**

Current Put Option Booking State: 22 Deals with the Put Option Feature

- **4 Deals that do have a Put Option Booked**
  - For these trades, Ops knew about the Put as there was a confirmation and a trade booked.
  - The confirm went through our ETR process and was executed by both the SPV and GS

- **18 Deals that do not have a Put Option Booked:**
  - For these deals, there was no mention of a Put at all at the time of closing.
  - There was no derivative confirmation
  - The Put option was embedded into the deal documents (Indenture, Offering Circular, etc ---both of which are reviewed by outside counsel and GS legal as normal course of business -- but are not reviewed by Operations .)

-For these trades, an intermediation fee was being taken on the CDS trades, but no specific Put was booked in our systems.

- The original explanation from the desk was the intermediation fee was being taken for the risks associated with standing in between the Street and the deal with no mention of the Put

Proposed Solution (draft):

-A new model will need to be created (***Projected Time Frame by this Quarter's End***)

-Strats & CDO Desk will assign one designated person on the project

-Once model is approved the un-booked Puts from past deals will be booked in Mtg TAP

-The un-booked Puts would be booked to reflect the risk but with 0 bps fee since the fee is already taken on the single names (mentioned above)

-Amend the existing 4 Put Options booked to the new calculator

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
tel: +1 212 855 6991 | fax: +1 212 428 1847
e-mail: carly.scales@gs.com

Goldman
Sachs

Carly Scales
Vice President
Structured Products Group, Middle Office

Confidential Treatment Requested by Goldman Sachs

From: Bieber, Matthew G.
Sent: Wednesday, June 20, 2007 11:19 AM
To: Lehman, David A.
Subject: RE: Default Swap Collateral

AAA paper held in trust that collateralizes CDS contracts. GS writes put on these in situation where there's a credit event.

-----Original Message-----
From: Lehman, David A.
Sent: Wednesday, June 20, 2007 11:18 AM
To: Bieber, Matthew G.
Subject: Re: Default Swap Collateral

What do u mean?

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Bieber, Matthew G.
To: Chitson, Michele; Creed, Christopher J; Ganapathy, Mahesh; Kang, Connie; Lee, Jung H.; Lehman, David A.; Lin, Shelly; Mishra, Deva R.; Sharma, Nityanand; Shimonov, Roman; Siegel, Eric; West, Ariane
Cc: Egol, Jonathan
Sent: Wed Jun 20 11:16:57 2007
Subject: Default Swap Collateral

Below are the deals I recall us having significant exposure to in terms of default swap collateral. Who is responsible for each of the deals? We need to get Dan a list this morning. If there are any I'm missing, please let me know.

Adirondack 1
Adirondack 2
Coolidge Funding Bieber
Broadwick Bieber
Hudson HG
Hudson Mezz I
Hudson Mezz II
Fortius I
Fortius II
Camber 7
Hout Bay
Point Pleasant
Timberwolf
Anderson Mezz
Altius I
Altius III
Altius IV

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Report Footnote #2630

From: Lehman, David A.
Sent: Thursday, July 19, 2007 10:44 PM
To: Bieber, Matthew G.
Subject: RE: Structured product CDO collateral

np

The cover bid for me is doing month end pricing so it fits

-----Original Message-----
From: Bieber, Matthew G.
Sent: Thursday, July 19, 2007 10:43 PM
To: Lehman, David A.
Subject: Re: Structured product CDO collateral

I didn't tell him you were responsible - only "now responsible for the overall business"

----- Original Message -----
From: Lehman, David A.
To: Welch, Patrick
Cc: Kiflu, Alpha; Bieber, Matthew G.
Sent: Thu Jul 19 22:34:32 2007
Subject: RE: Structured product CDO collateral

I am not responsible for the pricing of the collateral securities, but Bieber and I are going to appoint someone to monitor the collat security MTM on a regular basis and provide you with updated pricing

Agree we need to monitor these on a regular basis

We will come back to you on this shortly

From: Welch, Patrick
Sent: Thursday, July 19, 2007 3:53 PM
To: Lehman, David A.
Cc: Kiflu, Alpha
Subject: FW: Structured product CDO collateral

David
We understand that you are responsible for marking the collateral in relation to the below CDO's. Is that true? If so can you please put us on your distribution list for these. We have some sizeable in the money swap positions (i.e. cdo owes GS) and Credit needs to monitor these positions vs. collateral market value.
Thanks.
Pat

From: Kiflu, Alpha
Sent: Wednesday, July 18, 2007 9:55 PM
To: Bieber, Matthew G.
Cc: Welch, Patrick
Subject: Structured product CDO collateral

Hi Matt,

From our discussion earlier today, we were able to verify the MTM exposures on the below CDOs against what we have in our credit systems (they are in fact as large as we

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Confidential Treatment Requested by Gol

mentioned). Our next step is understanding how the collateral pools are performing in each of the deals. Would you be able to give us a summary of the current marks and default writedowns for the below deals? This would help us in monitoring the collateralization in relation to our exposure from CDS.

Thanks

Hudson Mezz Funding 2006-1
Timberwolf I
Camber 7 PLC
Hudson Mezz Funding 2006-2
GSC ABS Funding 2006-3G
Anderson Mezz Funding 2007-1

Goldman, Sachs & Co.
85 Broad Street | 9th Floor | New York, NY 10004
Tel: 212-902-0276 | Fax: 212-256-5813
Email: Alpha.Kiflu@gs.com

Alpha Kiflu
Credit Risk Management & Advisory
Goldman Sachs

C.

ıtial Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Thursday, July 19, 2007 1:13 PM
To: Bieber, Matthew G.
Cc: Swenson, Michael
Subject: RE: Credit would like ABS desk to mark all default swap collateral in CDOs

Yes - What do you think swenny? Bruns?

From: Bieber, Matthew G.
Sent: Thursday, July 19, 2007 12:59 PM
To: Lehman, David A.
Cc: Swenson, Michael
Subject: RE: Credit would like ABS desk to mark all default swap collateral in CDOs

I like Connie.

Possible to have someone on abs trading desk be point of contact for her w/r/t the collateral? Bruns or kaufman?

From: Lehman, David A.
Sent: Thursday, July 19, 2007 11:59 AM
To: Bieber, Matthew G.
Cc: Swenson, Michael
Subject: RE: Credit would like ABS desk to mark all default swap collateral in CDOs

Let's put someone in charge of AAA collateral (including MTM each month)

Nitya and Connie ?

From: Bieber, Matthew G.
Sent: Thursday, July 19, 2007 11:34 AM
To: Lehman, David A.
Cc: Swenson, Michael
Subject: RE: Credit would like ABS desk to mark all default swap collateral in CDOs

I don't think it needs to be daily. They are looking at counterparty MTM exposure- and are seeing hudson mezz 1 as largest ~$411. Credit understands the mechanics of the lien GS has on these assets, etc. but wants to get a sense of the MV supporting the deals obligation to pay us, if necessary.

From: Lehman, David A.
Sent: Thursday, July 19, 2007 11:31 AM
To: Bieber, Matthew G.
Cc: Swenson, Michael
Subject: RE: Credit would like ABS desk to mark all default swap collateral in CDOs

I think that makes sense - Daily? Or as part of the month-end mark process?

From: Bieber, Matthew G.
Sent: Thursday, July 19, 2007 11:29 AM
To: Lehman, David A.
Subject: Credit would like ABS desk to mark all default swap collateral in CDOs

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Report Footnote #2634

From: Bieber, Matthew G.
Sent: Wednesday, July 25, 2007 6:31 PM
To: Tourre, Fabrice; Egol, Jonathan; Lehman, David A.
Cc: Ganapathy, Mahesh
Subject: RE: Timberwolf Report

CDS across all of our transactions are in the money. We've had conversations at length with credit regarding our exposure to the default swap collateral and are setting ourselves up for weekly monitoring/pricing of the default swap collateral across the cdo business.

We have discretionary approval over default swap collateral, however, it will be difficult for us to take the non-reinvestment approach.

From: Tourre, Fabrice
Sent: Wednesday, July 25, 2007 6:17 PM
To: Egol, Jonathan; Lehman, David A.; Bieber, Matthew G.
Cc: Ganapathy, Mahesh
Subject: FW: Timberwolf Report

We need to start monitoring MtM of the CDS collateral for the Wolf, given how much in the money the CDS are -- right now, average bid side for the AAA cash bonds is approx 96.89 - per Mahesh analysis below. Matt/Mahesh -- maybe we should look at the collateral reinvestment provisions in this deal - ideally principal proceeds on the CDS collateral should not be reinvested but I guess Greywolfe has discretion on this, right ?

From: Ganapathy, Mahesh
Sent: Wednesday, July 25, 2007 6:08 PM
To: Stanley, Michael
Cc: Tourre, Fabrice
Subject: Timberwolf Report

INTERNAL ONLY

Please find the requested details on the Timberwolf transaction attached.

Timberwolf 1

Original Deal Size	$1,000,000,000.00
Original CDS Notional	$930,000,000.00
Current Deal Size	$998,358,100.36
Current CDS Notional	$928,595,280.00
Original Default Swap Collateral Balance	$930,000,000.00
Current Default Swap Par	$881,163,827.51
Cash in Default Swap Collateral Acct	$47,431,452.49
Book	MTG02124
Total Mark($) on CDS facing the deal**	$204,141,014.00
Wt Avg Mark on Default Swap Collateral*	$96.89

*Source : ABS trading Desk
**As of 07/25/07

<< File: Timberwolf Report.xls >>

Permanent Subcommittee on Investigations
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Thanks,

Mahesh Ganapathy
CDO Structuring,Marketing & Principal Investments
Fixed Income,Currency and Commodities Division
Goldman, Sachs & Co.
Ph: 212-902-6265
Fax:212-256-6570
mahesh.ganapathy@gs.com

Confidential Treatment Requested by Goldman Sachs

From: Lin, Shelly
Sent: Thursday, July 26, 2007 9:19 AM
To: Shieh, Will; Siegel, Eric; Ganapathy, Mahesh; Scales, Carly; Mishra, Deva R.; Tarantino, Jason; Kang, Connie; Bieber, Matthew G.
Subject: RE: *NEW ISSUE* $642.197mm CBASS 2007-CB7 **TALK**

We are going to pass on this bond. Given current market conditions, we'd like to keep some cash in the default swap account.

-----Original Message-----
From: Shieh, Will [mailto:wshieh@gsc.com]
Sent: Thursday, July 26, 2007 8:46 AM
To: Siegel, Eric; Ganapathy, Mahesh; Scales, Carly; Mishra, Deva R.; Tarantino, Jason; Kang, Connie; Lin, Shelly; Bieber, Matthew G.
Subject: FW: *NEW ISSUE* $642.197mm CBASS 2007-CB7 **TALK**

Following up on approval of the 3.5mm of the A1 for the 2006-3g default swap collateral. Updated status is below.

Will Shieh
GSC Group
12 E 49th St., Suite 3200
New York, NY 10017
E: wshieh@gsc.com
T: 212-583-4477

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NEW ISSUE $642.197mm CBASS 2007-CB7 **TALK**
LEAD/BOOKS: Barclays Capital Co's: GS, HSBC, ML
SERVICER: Litton Loan Servicing

Cls	$Amt-mm	M/S&P/F	WAL	Window	C/E%	Bench+Talk
A-1	383.142	Aaa/AAA/AAA	1.00	1-26	30.75	1mL+20A
A-2	88.962	Aaa/AAA/AAA	2.54	26-36	30.75	1mL+L/M30'S
M-1	33.064	Aa1/AA+/AA+	5.98	36-72	25.90	1mL+75A
M-2	28.974	Aa2/AA/AA	5.44	57-72	21.65	1mL+85A
M-3	17.725	Aa3/AA-/AA-	4.90	52-72	19.05	1mL+105/110
M-4	16.021	A1/A+/A+	4.68	48-72	16.70	1mL+150A
M-5	14.998	A2/A/A	4.53	46-72	14.50	1mL+200A
M-6	13.976	A3/A-/A-	4.43	44-72	12.45	1mL+250A
SUBJ						
M-7	13.294	Baa1/BBB+/BBB+	4.36	42-72	10.50	1mL+400A
M-8	11.589	Baa2/BBB/BBB	4.30	41-72	8.80	1mL+500A
M-9	10.226	Baa3/BBB-/BBB-	4.26	40-72	7.30	1mL+800A
B-1	10.226	Ba1/BBB-/BBB-	4.22	**** ****	NOT OFFERED	****
****						

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2639

Confidential Treatment Requested by Goldm

GS MBS-E-015232129

==========
SETTLE: July 31

Intexnet name: A7XJ

Password: barcbass2007cb7

Originators >4%: Fieldstone 52.01%, Household Bank 33.69%. all others < than 4%.

Confidential Treatment Requested by Goldman Sachs

From: Lehman, David A.
Sent: Monday, July 30, 2007 8:58 PM
To: Bieber, Matthew G.
Subject: RE: Catch up on Default Swap Collateral

10 mins

From: Bieber, Matthew G.
Sent: Monday, July 30, 2007 4:48 PM
To: Lehman, David A.
Subject: Catch up on Default Swap Collateral

Have gotten several requests today for reinvestment (Greywolf on TWOLF and TCW on DS7). Would like to sit down this evening to discuss how we're going to respond as this comes up. Connie been chasing tim down - but has yet to connect.

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Permanent Subcommittee on Investigations
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Report Footnote #2640

From: Bieber, Matthew G.
Sent: Monday, August 06, 2007 7:22 PM
To: Egol, Jonathan
Subject: FW: Default Swap Collateral

Attachments: Default Swap Collateral Master File 08.03.07.xls

fyi

From: Kang, Connie
Sent: Monday, August 06, 2007 6:20 PM
To: Lehman, David A.
Cc: Bieber, Matthew G.; Ganapathy, Mahesh
Subject: Default Swap Collateral

David,

Please find attached calculations of IC ratios with and without investing in AAA securities for CDS Collateral. Let us know when you have some time to discuss. Aladdin is asking for approval on another purchase of assets for CDS collateral. Would like to discuss with you and finalize our approach before getting back to them.

Thanks,
Connie



Default Swap Collateral Master...

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2641

Default Swap Collateral
Summary

Acc. Days

By Deal

Deal Name	Face of AAA ratedcollateral	Cash in Acct	WAS Spread	Interest on Cash	LIBOR	Spread to LIBOR	Model CDS Collateral Spread	Cash %	Rating Agency %
Hout Bay	$ 98,302,805.42	$ 740,306.90	15.33	4.985	5.321	-0.336	L	L-0.25	L-0.25
Altius 2005-1	$ 121,643,454.49	$ 2,347,914.01	7.30	4.985	5.321	-0.336	L	L-0.25	L-1
Altius IV	$ 378,046,168.59	$ 6,496,933.36	18.42	4.985	5.321	-0.336		L-0.25	
Broadwick	$ 492,367,096.06	$ 14,200,713.91	20.12	4.985	5.321	-0.336			
Hudson HG	$ 94,642,294.57	$ 629,293.15	11.84	4.910	5.321	-0.411			
Hudson Mezz 06-1	$ 749,005,576.36	$ 16,199,471.06	10.95	4.910	5.321	-0.411			
Hudson Mezz 06-2	$ 392,129,110.51	$ 1,958,179.78	10.14	4.985	5.321	-0.336			
Anderson Mezz 2007-1	$ 297,777,252.96	$ 1,109,279.81	10.24	4.985	5.321	-0.336			
Point Pleasant Funding 2007-1	$ 551,539,388.07	$ 28,454,270.10	12.33	4.985	5.321	-0.336			
GSC ABS 2006-3g	$ 297,452,754.79	$ 5,116,599.01	16.19	4.985	5.321	-0.336			
Davis Square 7	$ 109,646,825.46	$ 1,829,151.62	9.63	4.860	5.321	-0.461			
Adirondack 2005-1	$ 166,174,523.84	$ 3,887,099.16	15.08	4.985	5.321	-0.336			
Adirondack 2005-2	$ 122,029,924.94	$ 4,386,734.77	12.27	4.985	5.321	-0.336			
Davis Square 6	$ 9,284,993.03	$ 690,622.23	4.49	4.860	5.321	-0.461			
Camber 7	$ 863,192,746.40	$ 5,188,050.77	25.84	4.930	5.321	-0.391			
Coolidge	$ 82,355,717.71	$ 9,719,060.40	1.51	4.985	5.321	-0.336			
Timberwolf	$ 861,069,305.20	$ 47,431,452.49	27.82	5.170	5.321	-0.151			
Fortius II	$ 175,942,675.64	$ 3,630,497.29	6.26	5.110	5.321	-0.211			
Fortius I	$ 463,833,055.70	$ 8,178,395.54	20.02	5.110	5.321	-0.211			
Altius III	$ 106,681,696.31	$ 4,316,991.17	7.52	5.110	5.321	-0.211			
West Coast	$ 329,153,286.14	$ 5,634,878.42	24.17	4.910	5.321	-0.411			

Default Swap Collateral Summary 90.00

By Deal

Drag Caused by 100% Cash in Default Swap Collateral Account

Deal Name	100% Cash Case ($ difference)	Name of Test	IC Denominator	Cushion (Old)	Cushion (New)	Trigger	Name of Test
Hout Bay	$ 120,306.89	Class A/B	$ 6,631,698.23	11.37%	9.56%	105.00%	Class C
Altius 2005-1	$ 124,458.85	Class A/B	$ 8,929,071.98	18.75%	17.36%	101.00%	Class C/D
Altius IV	$ 491,875.60	Class A/B	$ 6,993,619.22	37.00%	29.97%	101.00%	Class C
Broadwick	$ 661,601.21	No IC Test					No IC Test
Hudson HG	$ 125,318.77	Class A/B	$ 7,612,008.34	10.44%	8.79%	102.00%	Class C
Hudson Mezz 06-1	$ 975,061.82	No IC Test					No IC Test
Hudson Mezz 06-2	$ 429,073.51	No IC Test					No IC Test
Anderson Mezz 2007-1	$ 326,517.63	No IC Test					No IC Test
Point Pleasant Funding 2007-1	$ 633,696.28	No IC Test					No IC Test
GSC ABS 2006-3g	$ 370,462.99	Class A/B	$ 6,543,382.22	11.95%	6.29%	102.00%	Class C
Davis Square 7	$ 152,840.78	Class A/B	$ 9,256,600.00	20.86%	19.21%	102.00%	Class C
Adirondack 2005-1	$ 202,355.64	Class A/B	$ 6,278,821.46	17.14%	13.92%	105.00%	Class C/D
Adirondack 2005-2	$ 140,008.33	Class A/B	$ 6,801,440.78	16.49%	14.43%	105.00%	Class C
Davis Square 6	$ 11,750.11	Class A/B	$ 8,963,407.61	8.71%	8.58%	102.00%	Class C
Camber 7	$ 1,402,001.36	Class A/B	$ 3,477,183.33	42.80%	2.48%	102.00%	Class C
Coolidge	$ 72,343.51	Class A/B	$ 4,548,983.58	25.65%	24.06%	112.00%	Class C/D
Timberwolf	$ 924,537.89	No IC Test					No IC Test
Fortius II	$ 120,466.52	Class A/B	$ 1,840,672.96	53.55%	47.01%	114.00%	Class C
Fortius I	$ 477,066.18	Class A/B	$ 2,312,866.26	100.54%	79.91%	101.00%	Class C/D
Altius III	$ 76,393.84	Class A/B	$ 8,009,722.85	35.24%	34.29%	101.00%	Class C
West Coast	$ 537,282.77	Class A/B	$ 12,401,317.50	12.55%	8.22%	102.00%	Class C

Default Swap Collateral
Summary

By Deal

Deal Name	IC Denominator	Cushion (Old)	Cushion (New)	Trigger	Name of Test	IC Denominator	Cushion (Old)	Cushion (New)
Hout Bay	$ 6,990,010.73	8.91%	7.19%	101.50%	Class D	7,349,789.34	4.00%	2.36%
Altius 2005-1	$ 10,079,190.74	6.08%	4.85%	100.00%				
Altius IV	$ 7,654,581.60	26.00%	19.57%	100.00%		8,242,161.01	17.00%	11.03%
Broadwick					No IC Test			
Hudson HG	$ 7,967,267.79	6.42%	4.85%	101.00%	Class D	8,247,886.81	3.77%	2.25%
Hudson Mezz 06-1					No IC Test			
Hudson Mezz 06-2					No IC Test			
Anderson Mezz 2007-1					No IC Test			
Point Pleasant Funding 2007-1					No IC Test			
GSC ABS 2006-3g	$ 6,798,767.11	8.67%	3.22%	101.00%	Class D	6,798,767.11	9.67%	4.22%
Davis Square 7	$ 9,477,242.50	19.00%	17.39%	101.00%	Class D	9,922,741.64	14.61%	13.07%
Adirondack 2005-1	$ 6,998,252.64	7.58%	4.69%	102.00%				
Adirondack 2005-2	$ 7,323,650.78	10.83%	8.92%	102.00%	Class D	7,816,836.39	4.71%	2.92%
Davis Square 6	$ 9,158,532.61	7.35%	7.22%	101.00%	Class D	9,687,533.89	2.43%	2.31%
Camber 7	$ 3,954,813.33	25.11%	-10.34%	101.00%	Class D	4,305,423.33	25.02%	-7.54%
Coolidge	$ 5,213,448.23	14.11%	12.72%	106.00%				
Timberwolf					No IC Test			
Fortius II	$ 1,943,650.74	46.36%	40.16%	100.00%	Class D	2,126,953.52	33.75%	28.09%
Fortius I	$ 3,202,787.11	45.54%	30.64%	100.00%				
Altius III	$ 8,393,247.85	30.01%	29.10%	100.00%	Class D	8,790,909.54	24.13%	23.26%
West Coast	$ 12,747,626.25	10.44%	6.23%	101.00%	Class D	13,456,455.58	5.57%	1.58%

By Issuer

Issuer	Sum of Current Face
GSAA 2007-4	$ 299,034,534.28
PTNM 2002-1A	$ 119,500,000.00
GSAA 2007-5	$ 111,916,060.59
GSAA 2006-18	$ 107,415,920.77
GSAMP 2007-HE1	$ 88,652,073.00
GSMS 2007-EOP	$ 86,212,077.37
CWL 2006-S10	$ 83,962,119.29
CWL 2007-3	$ 78,712,842.37
CBASS 2007-SL1A	$ 78,214,561.28
CWL 2006-20	$ 76,557,920.20
CARR 2005-NC5	$ 75,778,376.71
IMSA 2007-2	$ 74,936,062.26
BSABS 2006-HE10	$ 74,154,354.91
CWL 2006-S7	$ 72,490,572.60
CMLTI 2007-AMC2	$ 72,149,302.93
CWALT 2006-OC9	$ 71,698,948.30
BSABS 2007-FS1	$ 68,387,705.10
GSAA 2006-17	$ 68,135,300.40
GSAMP 2007-FM2	$ 62,864,000.00
GSAA 2006-S1	$ 62,598,894.62
CWL 2007-S2	$ 61,789,935.62
CWALT 2006-OC10	$ 60,248,265.00
FFML 2007-FFB5	$ 59,769,700.97
HUDMZ 2006-1A	$ 59,694,526.07
PHHAM 2007-3	$ 58,873,822.58
AMIT 2006-1	$ 57,232,000.00
FHLT 2006-D	$ 55,205,997.00
GPMF 2007-HE1	$ 52,741,723.77
GSAMP 2006-SD3	$ 52,412,822.48
NHELI 2006-FM2	$ 51,447,242.88
BSMF 2007-SL2	$ 50,253,329.87
HEAT 2006-7	$ 50,000,000.00
MABS 2007-WMC1	$ 48,850,000.00
AHMA 2007-3	$ 47,044,322.88
FFML 2007-FF2	$ 46,500,000.00
CARR 2006-NC5	$ 45,298,622.44
FMIC 2006-1	$ 45,000,000.00
NHEL 2006-6	$ 45,000,000.00
CARR 2006-FRE2	$ 43,754,000.00
FMIC 2006-S1	$ 41,850,274.23
NCAMT 2006-ALT2	$ 41,763,396.93
GSRPM 2006-2	$ 41,495,858.33
GSMS 2006-FL8A	$ 41,360,000.00
INDX 2007-AR7	$ 40,892,792.80
CWL 2006-17	$ 40,000,000.00
GSAA 2006-5	$ 40,000,000.00
MLMI 2006-HE5	$ 40,000,000.00
SABR 2006-WM2	$ 40,000,000.00
GSAA 2007-6	$ 39,803,449.27
ACST 2006-1A	$ 39,581,895.03
CARR 2006-NC1	$ 39,195,000.00
GSTR 2002-2A	$ 37,921,986.75
QUEST 2005-X2	$ 37,542,769.46
LXS 2006-4N	$ 35,964,000.00
FHLT 2006-E	$ 35,810,000.00
BCAP 2006-AA2	$ 35,501,656.00
FHLT 2006-C	$ 35,000,000.00
SWIFT 2003-A8	$ 35,000,000.00
MSAC 2006-HE6	$ 34,000,000.00
GSAA 2007-3	$ 33,474,409.46
GSAA 2006-20	$ 32,621,713.87
MSAC 2006-HE5	$ 32,000,000.00
OWNIT 2005-5	$ 31,727,500.00
FHLT 2006-B	$ 31,645,000.00
ARMT 2006-3	$ 31,244,717.86
ARSI 2006-W4	$ 31,000,000.00
NAA 2007-S1	$ 30,499,856.81
SASC 2007-GEL1	$ 30,306,352.22
CARR 2006-NC3	$ 30,000,000.00
CMLTI 2006-WFH3	$ 30,000,000.00
FORDF 2005-1	$ 30,000,000.00
NCHET 2006-1	$ 30,000,000.00
TMTS 2006-9HGA	$ 30,000,000.00
CCMFC 2007-2A	$ 29,956,024.92
JPALT 2007-S1	$ 27,715,356.81
SACO 2006-9	$ 27,223,906.92
MSC 2007-XLFA	$ 27,000,000.00
SASC 2007-BC2	$ 26,814,000.00
GSAMP 2006-S6	$ 26,672,961.55
HALO 2007-WF1	$ 25,906,852.47
AMSI 2005-R6	$ 25,819,325.68
CGCMT 2006-FL2	$ 25,239,683.15
CWL 2006-18	$ 25,000,000.00
GCCFC 2006-FL4A	$ 25,000,000.00

Issuer	Sum of Current Face
LBMLT 2006-1	$ 25,000,000.00
MLFT 2006-1	$ 25,000,000.00
OOMLT 2006-1	$ 25,000,000.00
RASC 2005-KS10	$ 25,000,000.00
SABR 2006-FR4	$ 25,000,000.00
TMTS 2006-3	$ 25,000,000.00
INDS 2006-A	$ 24,567,475.63
SACO 2007-2	$ 24,423,884.79
CSMS 2006-HC1A	$ 24,005,000.00
CWALT 2006-OA17	$ 23,973,520.17
CWALT 2007-OH1	$ 23,469,617.83
ABSHE 2006-HE7	$ 23,414,000.00
GSAMP 2006-HE1	$ 23,196,000.00
SASC 2006-WF1	$ 22,500,000.00
CSMC 2006-TF2A	$ 22,455,417.64
CWALT 2006-OA22	$ 22,453,719.13
SAMI 2006-AR2	$ 22,429,218.48
BAYV 2006-D	$ 22,137,847.00
CWALT 2006-OC2	$ 21,557,100.84
MSC 2006-XLF	$ 21,385,840.83
CWALT 2005-59	$ 20,931,328.04
LBFRC 2006-LLFA	$ 20,852,402.53
MSAC 2007-HE3	$ 20,829,378.21
HVMLT 2005-2	$ 20,715,173.80
RAMP 2006-NC1	$ 20,519,000.00
NAA 2006-AF2	$ 20,482,315.66
CWL 2006-BC5	$ 20,105,300.67
CARR 2006-NC4	$ 20,000,000.00
CWL 2007-1	$ 20,000,000.00
GSAMP 2006-FM3	$ 20,000,000.00
MMT 2005-2	$ 20,000,000.00
RAMP 2006-RZ2	$ 20,000,000.00
TMTS 2006-5	$ 20,000,000.00
GSAMP 2006-FM2	$ 19,392,000.00
HASC 2006-HE1	$ 19,355,412.75
LABSM 2007-1	$ 19,097,606.60
ABSHE 2006-HE4	$ 19,000,000.00
MABS 2006-WMC4	$ 19,000,000.00
SGMS 2006-OPT2	$ 19,000,000.00
GSAMP 2007-HE2	$ 18,652,517.34
BSABS 2006-PC1	$ 18,000,000.00
MSAC 2006-NC1	$ 18,000,000.00
SARNT 2005-A	$ 18,000,000.00
FORDF 2006-3	$ 17,950,000.00
INDX 2007-FLX1	$ 17,859,011.08
CWL 2007-QH1	$ 17,740,579.34
MSM 2006-6AR	$ 17,695,879.00
NAA 2006-AR2	$ 17,462,688.80
CARR 2005-NC3	$ 17,314,775.15
BSMF 2006-SL2	$ 17,155,739.75
CWHEL 2004-Q	$ 16,884,659.47
GPMF 2005-HE4	$ 16,802,752.23
LBMLT 2005-WL2	$ 16,657,555.96
CWL 2007-8	$ 16,595,853.98
BMAT 2006-1A	$ 16,299,569.02
TMST 2006-5	$ 16,259,673.80
SASC 2006-GEL3	$ 16,056,375.19
SAMI 2006-AR3	$ 15,723,940.72
ACCR 2005-4	$ 15,428,344.74
MSM 2006-9AR	$ 15,314,405.73
DVSQ 2005-5A	$ 15,300,000.00
WAMU 2006-AR4	$ 15,153,289.63
FFML 2006-FF5	$ 15,036,000.00
ABFC 2006-HE1	$ 15,000,000.00
BSABS 2006-AQ1	$ 15,000,000.00
CWL 2007-S	$ 15,000,000.00
RASC 2006-EMX9	$ 15,000,000.00
SABR 2006-WM3	$ 15,000,000.00
SGMS 2006-FRE2	$ 15,000,000.00
WFHET 2006-3	$ 15,000,000.00
COMM 2007-FL14	$ 14,958,153.99
JPMAC 2006-FRE1	$ 14,866,190.66
FFML 2007-FFC	$ 14,700,414.94
INABS 2006-A	$ 14,500,000.00
IXIS 2006-HE1	$ 14,500,000.00
FMIC 2006-2	$ 14,091,133.80
RFMS2 2007-HSA3	$ 13,849,962.92
CWL 2006-SPS1	$ 13,528,019.25
OOMLT 2007-2	$ 13,400,000.00
CWL 2007-BC1	$ 13,284,935.09
AMSI 2005-R9	$ 13,003,591.86
GSAMP 2005-HE4	$ 12,938,451.03
AHM 2006-1	$ 12,793,034.60
ACCR 2007-1	$ 12,474,389.67

Issuer	Sum of Current Face
SAIL 2006-1	$ 12,439,000.00
POPLR 2007-A	$ 12,432,213.19
COMM 2005-F10A	$ 12,335,095.30
NAA 2006-S3	$ 12,097,082.16
ACE 2006-FM2	$ 12,000,000.00
BSABS 2006-HE9	$ 12,000,000.00
CWL 2007-6	$ 12,000,000.00
GPMF 2006-OH1	$ 11,691,689.25
GSAA 2005-11	$ 11,576,526.67
CWALT 2006-OC1	$ 11,574,779.20
ACE 2006-ASP1	$ 11,500,000.00
NCHET 2005-3	$ 11,488,271.57
MSIX 2006-2	$ 11,470,000.00
WMALT 2007-OC2	$ 11,441,397.67
PCHLT 2005-2	$ 11,322,000.00
FORTS 2006-2A	$ 11,028,945.00
RALI 2006-QA3	$ 10,918,921.43
GSAA 2005-6	$ 10,461,792.00
GSAMP 2006-HE4	$ 10,368,000.00
GSAA 2007-7	$ 10,298,303.84
MASL 2006-1	$ 10,271,930.64
SVHE 2006-EQ2	$ 10,270,000.00
ABSHE 2006-HE6	$ 10,000,000.00
CMLTI 2006-HE3	$ 10,000,000.00
CSMC 2007-TFLA	$ 10,000,000.00
HEAT 2006-6	$ 10,000,000.00
RASC 2006-KS3	$ 10,000,000.00
SVHE 2006-OPT1	$ 10,000,000.00
SWIFT 2005-A12	$ 10,000,000.00
FHABS 2007-HE1	$ 9,920,324.32
RFMS2 2006-HSA1	$ 9,793,580.98
NCHET 2005-1	$ 9,763,636.36
ARMT 2006-1	$ 9,520,601.12
CWL 2007-4	$ 9,503,732.65
CWL 2006-6	$ 9,496,244.11
HASC 2006-OPT1	$ 9,300,000.00
FMIC 2007-1	$ 9,218,401.26
PHHAM 2007-2	$ 9,161,319.59
MABS 2006-HE3	$ 9,010,137.78
GSAA 2007-1	$ 8,852,480.11
HFCHC 2006-1	$ 8,835,203.27
FORTS 2006-1A	$ 8,740,000.00
WBCMT 2006-WL7A	$ 8,709,773.22
IRWHE 2006-2	$ 8,435,525.41
SASC 2005-S5	$ 8,415,094.97
BSCMS 2006-BBA7	$ 8,344,294.50
FNR 2006-5	$ 8,301,885.80
AHM 2004-4	$ 8,299,913.76
NHEL 2005-3	$ 8,036,033.16
MLMI 2006-HE1	$ 7,840,861.20
HUDMZ 2006-2A	$ 7,768,333.00
IMSA 2006-3	$ 7,500,000.00
LBFRC 2004-LLFA	$ 7,454,223.78
RFMS2 2006-HSA5	$ 7,432,611.39
IMSA 2006-2	$ 7,307,106.17
GSAA 2005-12	$ 7,196,734.43
SAST 2006-3	$ 7,100,000.00
MABS 2005-NC2	$ 6,971,017.83
TMTS 2006-17HE	$ 6,827,028.12
NHELI 2006-HE3	$ 6,761,000.00
GSAA 2005-7	$ 6,477,066.50
GMACM 2006-HE3	$ 6,463,203.65
BSCMS 2007-BBA8	$ 6,400,000.00
IMM 2005-3	$ 6,259,580.60
CWL 2006-S6	$ 6,169,917.89
BSABS 2005-HE12	$ 6,027,427.40
CBASS 2006-SL1	$ 6,000,000.00
RALI 2006-QO10	$ 5,783,461.52
SVHE 2006-A	$ 5,677,415.50
MSM 2006-10SL	$ 5,663,267.02
MLMI 2006-SL1	$ 5,662,062.11
FFML 2006-FF18	$ 5,500,000.00
CWL 2006-S3	$ 5,472,282.46
GOLDS 2003-A	$ 5,462,431.47
ALTS 2006-3X	$ 5,449,966.53
MHL 2005-2	$ 5,420,474.50
SURF 2006-BC5	$ 5,225,000.00
HUDHG 2006-1A	$ 5,160,526.25
ARSI 2006-M1	$ 5,000,000.00
JPMCC 2006-FL2A	$ 5,000,000.00
LBMLT 2006-10	$ 5,000,000.00
MABS 2005-WMC1	$ 5,000,000.00
MLMI 2006-AR1	$ 5,000,000.00
NCHET 2005-C	$ 5,000,000.00

Issuer	Sum of Current Face
WAMU 2005-AR8	$ 4,984,240.37
HASC 2006-HE2	$ 4,900,000.00
GSAA 2006-10	$ 4,877,170.88
TMTS 2006-7	$ 4,844,081.31
MSM 2006-1AR	$ 4,831,956.32
GSAMP 2006-SD2	$ 4,740,381.37
PFRMS 2006-1	$ 4,661,111.06
TMTS 2006-11	$ 4,631,687.94
NAA 2006-AR3	$ 4,586,057.74
CWL 2006-S5	$ 4,586,041.57
GSAMP 2007-H1	$ 4,555,670.65
ABSHE 2005-HE4	$ 4,507,202.57
IRWHE 2006-1	$ 4,363,210.34
GSAA 2006-3	$ 4,230,388.69
BALL 2005-MIB1	$ 4,219,579.58
WMALT 2006-AR10	$ 4,147,842.81
ARC 2001-BC6	$ 3,919,720.50
NEPTN 2006-3A	$ 3,916,671.00
HASC 2007-NC1	$ 3,860,012.40
RAMP 2006-RZ1	$ 3,778,736.16
MSAC 2006-HE1	$ 3,750,000.00
GSAA 2006-4	$ 3,736,323.49
HOUT 2006-1A	$ 3,652,000.00
SABR 2006-FR3	$ 3,500,000.00
GSAMP 2006-S4	$ 3,411,692.10
CUSH 2005-1A	$ 3,325,000.00
TMST 2006-1	$ 3,295,659.30
CSMC 2006-TFLA	$ 3,052,884.61
LBMLT 2006-4	$ 3,033,244.67
SASC 2005-S6	$ 2,869,877.99
RAMP 2004-RS10	$ 2,766,107.82
GMACM 2005-HE3	$ 2,750,000.00
INDS 2006-1	$ 2,735,849.78
NCHET 2006-S1	$ 2,465,813.78
RASC 2004-KS9	$ 2,251,488.98
MLMI 2005-HE2	$ 2,057,107.27
CWALT 2006-OC11	$ 2,044,774.36
COMM 2005-FL11	$ 2,000,000.00
CWALT 2007-HY6	$ 1,970,991.68
GSAA 2006-7	$ 1,961,422.69
SAIL 2005-10	$ 1,941,362.31
RAMP 2005-EFC7	$ 1,824,379.27
CWL 2006-S2	$ 1,789,069.73
BVMBS 2005-2	$ 1,701,307.90
FHABS 2006-HE2	$ 1,676,114.11
TMST 2005-4	$ 1,506,273.15
GSAA 2006-9	$ 1,422,059.48
LBMLT 2005-WL1	$ 1,409,109.99
ACCR 2002-1	$ 1,355,164.84
BSABS 2005-EC1	$ 1,343,649.62
RAMP 2006-NC3	$ 1,200,000.00
GSRPM 2006-1	$ 1,082,350.62
LBFRC 2005-LLFA	$ 1,042,995.84
CARR 2005-NC1	$ 1,025,805.38
CMLTI 2006-HE2	$ 1,000,000.00
GSAMP 2005-WMC3	$ 1,000,000.00
JPMAC 2005-OPT2	$ 1,000,000.00
SASC 2005-AR1	$ 865,026.87
IXIS 2005-HE4	$ 365,878.97
RAMP 2005-EFC3	$ 219,232.39
JPMCC 2006-FL1A	$ 132,611.97

By CUSIP

CUSIP	Sum of Current Face
3622EBAA6	$ 252,342,534.28
746869AZ9	$ 119,500,000.00
3622ECAA4	$ 111,916,060.59
3622ELAA4	$ 107,415,920.77
1248MKAB1	$ 78,214,561.28
12667HAB7	$ 76,557,920.20
144531DL1	$ 75,778,376.71
452570AA2	$ 74,936,062.26
12668VAA7	$ 72,490,572.60
17311XAA3	$ 72,149,302.93
23245GAA9	$ 71,698,948.30
073855AA6	$ 68,387,705.10
362257AA5	$ 68,135,300.40
3622MHAC0	$ 62,864,000.00
40051CAA5	$ 62,598,894.62
12670BAA7	$ 61,789,935.62
23245FAB9	$ 60,248,265.00
30248EAA6	$ 59,769,700.97
12668YAA1	$ 55,974,746.10
35729VAB3	$ 55,205,997.00
443860AB7	$ 54,290,307.32
36244RAA8	$ 52,412,822.48
65537FAB7	$ 51,447,242.88
07401RAA8	$ 50,253,329.87
07389RAP1	$ 50,000,000.00
43709NAD5	$ 50,000,000.00
55275TAC2	$ 48,850,000.00
026935AC0	$ 47,044,322.88
3622EBAB4	$ 46,692,000.00
32029GAC8	$ 46,500,000.00
39539JAA4	$ 45,467,003.25
31659TEY7	$ 45,000,000.00
66988RAC1	$ 45,000,000.00
3622MDAB1	$ 44,461,073.00
3622MDAC9	$ 44,191,000.00
12668UAE1	$ 43,712,842.37
31659XAA4	$ 41,850,274.23
643529AA8	$ 41,763,396.93
36298UAC2	$ 41,360,000.00
45670CAA5	$ 40,892,792.80
362334GS7	$ 40,000,000.00
59022QAD4	$ 40,000,000.00
12666VAC5	$ 40,000,000.00
81376GAD2	$ 40,000,000.00
00505HAA0	$ 39,581,895.03
36240UAB3	$ 37,921,986.75
748351AF0	$ 37,542,769.46
36228CZS5	$ 37,432,077.37
144539AC7	$ 36,034,000.00
525221KK2	$ 35,964,000.00
35729NAD7	$ 35,810,000.00
05530MAA7	$ 35,501,656.00
86837TAB0	$ 35,000,000.00
35729TAD4	$ 35,000,000.00
61749NAC1	$ 32,000,000.00
69121PBT9	$ 31,727,500.00
36245RAG4	$ 31,254,563.70
00703QAD4	$ 31,244,717.86
69337MAA8	$ 31,073,822.58
040104TF8	$ 31,000,000.00
655374AA4	$ 30,499,856.81
86362QAA1	$ 30,306,352.22
00252GAB5	$ 30,000,000.00
34528PAG1	$ 30,000,000.00
64352VQR5	$ 30,000,000.00
88156TAB9	$ 30,000,000.00
17309QAC8	$ 30,000,000.00
61750FAE0	$ 30,000,000.00
16679BAA9	$ 29,956,024.92
36228CZW6	$ 29,780,000.00
12668YAA1	$ 27,987,373.19

CUSIP	Sum of Current Face
69337MAB6	$ 27,800,000.00
466275AB0	$ 27,715,356.81
00252GAC3	$ 27,232,000.00
78577RAA7	$ 27,223,906.92
61752LAB1	$ 27,000,000.00
86362YAC0	$ 26,814,000.00
36245CAC6	$ 26,672,961.55
030725F91	$ 25,819,325.68
20173RAB5	$ 25,000,000.00
542514RL0	$ 25,000,000.00
59023UAC6	$ 25,000,000.00
75405WAB8	$ 25,000,000.00
81377GAB5	$ 25,000,000.00
881561T61	$ 25,000,000.00
23243WAC2	$ 25,000,000.00
43709UAA5	$ 24,567,475.63
78581NAA0	$ 24,423,884.79
07389RAN6	$ 24,154,354.91
22943NAA1	$ 24,005,000.00
12668PAB8	$ 23,973,520.17
362725AC7	$ 23,901,514.50
14454AAB5	$ 23,754,000.00
3622EAAX8	$ 23,507,655.07
04544QAD9	$ 23,414,000.00
3623414R7	$ 23,196,000.00
863576FF6	$ 22,500,000.00
23245PAC5	$ 22,453,719.13
86359LSP5	$ 22,429,218.48
12668BRE5	$ 21,557,100.84
61745SAB6	$ 21,385,840.83
617538AA1	$ 20,829,378.21
41161PLS0	$ 20,715,173.80
76112BW97	$ 20,519,000.00
12666SAB4	$ 20,105,300.67
144528AC0	$ 20,000,000.00
14453MAB0	$ 20,000,000.00
23245CAC4	$ 20,000,000.00
362351AB4	$ 20,000,000.00
36245TAC9	$ 20,000,000.00
59159UBX5	$ 20,000,000.00
75156UAB3	$ 20,000,000.00
8815612F0	$ 20,000,000.00
14454AAC3	$ 20,000,000.00
144531EW6	$ 19,500,000.00
36245DAD2	$ 19,392,000.00
44328AAB6	$ 19,355,412.75
52521MAB8	$ 19,097,606.60
04544GAF6	$ 19,000,000.00
36228CZU0	$ 19,000,000.00
78420MAE9	$ 19,000,000.00
57645MAE2	$ 19,000,000.00
52521TAC1	$ 18,786,526.20
35729QAC2	$ 18,763,538.00
12668AEW1	$ 18,727,415.70
07387UAV3	$ 18,000,000.00
12668UAF8	$ 18,000,000.00
61744CXZ4	$ 18,000,000.00
80555PAG0	$ 18,000,000.00
34528QAA2	$ 17,950,000.00
45668WAA5	$ 17,859,011.08
12669HAA7	$ 17,740,579.34
61749CAB7	$ 17,695,879.00
362725AA1	$ 17,594,343.83
40431KAA8	$ 17,532,852.47
65535VU55	$ 17,462,688.80
144531CV0	$ 17,314,775.15
07400YAA4	$ 17,155,739.75
12668UAG6	$ 17,000,000.00
126673MY5	$ 16,884,659.47
39538WDC9	$ 16,802,752.23
105667AA7	$ 16,299,569.02

CUSIP	Sum of Current Face
88522RAA2	$ 16,259,673.80
86360XAA8	$ 16,056,375.19
17309XAB5	$ 15,853,000.00
86360KAC2	$ 15,723,940.72
22545RAB2	$ 15,700,000.00
61748JAA5	$ 15,314,405.73
239156AJ1	$ 15,300,000.00
93934FPR7	$ 15,153,289.63
65536XAN3	$ 15,102,149.20
32027EAE1	$ 15,036,000.00
00075WAC3	$ 15,000,000.00
07389PAB6	$ 15,000,000.00
12668KAC7	$ 15,000,000.00
68389FKP8	$ 15,000,000.00
74924VAC3	$ 15,000,000.00
784208AD2	$ 15,000,000.00
81377EAB0	$ 15,000,000.00
9497EBAB5	$ 15,000,000.00
200476AA7	$ 14,958,153.99
46626LFL9	$ 14,866,190.66
07325HAH8	$ 14,712,000.00
32029HAB8	$ 14,700,414.94
45071KDD3	$ 14,500,000.00
456606KH4	$ 14,500,000.00
02150KAB5	$ 14,108,722.72
31659EAB4	$ 14,091,133.80
43710WAA8	$ 13,849,962.92
004375EH0	$ 13,843,000.00
12666MAA9	$ 13,528,019.25
68401TAD0	$ 13,400,000.00
362440AC3	$ 13,347,000.00
12668TAB0	$ 13,284,935.09
03072SP33	$ 13,003,591.86
144531EV8	$ 13,000,000.00
362341KA6	$ 12,938,451.03
02660TJD6	$ 12,793,034.60
362351AD0	$ 12,621,713.87
00438QAA2	$ 12,474,389.67
86358EA89	$ 12,439,000.00
73316NAA3	$ 12,432,213.19
65536WAA3	$ 12,097,082.16
07389MAB3	$ 12,000,000.00
126169BF7	$ 12,000,000.00
12669LAC4	$ 12,000,000.00
00442CAD1	$ 12,000,000.00
542514MZ4	$ 11,887,658.42
39539GAC6	$ 11,691,689.25
362341QH5	$ 11,576,526.67
12668BJE4	$ 11,574,779.20
004421VV2	$ 11,500,000.00
64352VLG4	$ 11,488,271.57
617463AC8	$ 11,470,000.00
93936LAA5	$ 11,441,397.67
71085PBX0	$ 11,322,000.00
34957YAA5	$ 11,028,945.00
75114RAD7	$ 10,918,921.43
36242D3U5	$ 10,461,792.00
362439AD3	$ 10,368,000.00
36249BAA8	$ 10,298,303.84
57644DAR4	$ 10,271,930.64
83611XAC8	$ 10,270,000.00
04544NAD6	$ 10,000,000.00
144528AB2	$ 10,000,000.00
17310VAC4	$ 10,000,000.00
2254ERAC0	$ 10,000,000.00
437097AD0	$ 10,000,000.00
68389FKN3	$ 10,000,000.00
76113ABH3	$ 10,000,000.00
83611MLX4	$ 10,000,000.00
86837YAA1	$ 10,000,000.00
3622EAAD2	$ 9,966,754.39

CUSIP	Sum of Current Face
32053JAA5	$ 9,920,324.32
76110VTC2	$ 9,793,580.98
64352VJY8	$ 9,763,636.36
12669WAC0	$ 9,751,853.98
225470B93	$ 9,520,601.12
12668WAA5	$ 9,503,732.65
126670ZJ0	$ 9,496,244.11
17309XAA7	$ 9,386,683.15
02150KAA7	$ 9,360,895.11
40430HDB1	$ 9,300,000.00
144539AA1	$ 9,264,622.44
31659YAB0	$ 9,218,401.26
69337HAA9	$ 9,161,319.59
57645JAA7	$ 9,010,137.78
3622EQAA3	$ 8,852,480.11
40430WAB1	$ 8,835,203.27
34958CAF1	$ 8,740,000.00
36245RAE9	$ 8,548,885.56
46412QAA5	$ 8,435,525.41
86359DPN1	$ 8,415,094.97
40431KAB6	$ 8,374,000.00
07387KAA1	$ 8,344,294.50
31304VL32	$ 8,301,885.80
02660TCU5	$ 8,299,913.76
66987XGU3	$ 8,036,033.16
35729QAC2	$ 7,850,000.00
59020U3A1	$ 7,840,861.20
44386QAA2	$ 7,768,333.00
45255RAY3	$ 7,500,000.00
52519NJC9	$ 7,454,223.78
437099AA2	$ 7,432,611.39
07325HAK1	$ 7,425,847.00
45256VAA5	$ 7,307,106.17
39539JAA4	$ 7,274,720.52
362341SP5	$ 7,196,734.43
80556AAC1	$ 7,100,000.00
57643LML7	$ 6,971,017.83
12669WAD8	$ 6,844,000.00
88156EAA4	$ 6,827,028.12
65536QAC2	$ 6,761,000.00
22545RAA4	$ 6,755,417.64
144531EV8	$ 6,695,000.00
92976BHK1	$ 6,484,000.00
362341AM1	$ 6,477,066.50
38012TAA0	$ 6,463,203.65
07388TAB9	$ 6,400,000.00
45254NNP8	$ 6,259,580.60
126684AA7	$ 6,169,917.89
14983AAC3	$ 6,000,000.00
751153AB3	$ 5,783,461.52
83612GAA8	$ 5,677,415.50
61749TAA2	$ 5,663,267.02
59020U2N4	$ 5,662,062.11
32029AAD9	$ 5,500,000.00
23242MAA9	$ 5,472,282.46
381175AA6	$ 5,462,431.47
8CC0T8SV3	$ 5,449,966.53
61915RAA4	$ 5,420,474.50
443860AA9	$ 5,404,218.75
65536VAA5	$ 5,380,166.46
362440AB5	$ 5,305,517.34
84751NAE4	$ 5,225,000.00
44379PAF2	$ 5,160,526.25
35729QAC2	$ 5,031,462.00
04012MAQ2	$ 5,000,000.00
46629RAB0	$ 5,000,000.00
54251YAD0	$ 5,000,000.00
57643LGV2	$ 5,000,000.00
59020VAV5	$ 5,000,000.00
64352VNW7	$ 5,000,000.00
92922FS25	$ 4,984,240.37

CUSIP	Sum of Current Face
44328BAD0	$ 4,900,000.00
362375AA5	$ 4,877,170.88
88156PAX9	$ 4,844,081.31
61748HUF6	$ 4,831,956.32
542514MW1	$ 4,769,897.54
362405AA0	$ 4,740,381.37
71103XAA2	$ 4,661,111.06
88156YAB8	$ 4,631,687.94
65537EAA2	$ 4,586,057.74
126683AA9	$ 4,586,041.57
36245YAV6	$ 4,555,670.65
0738795L8	$ 4,543,376.50
04541GRJ3	$ 4,507,202.57
464126CW9	$ 4,363,210.34
362334BQ6	$ 4,230,388.69
06424HBE6	$ 4,219,579.58
93935YAA8	$ 4,147,842.81
61750FAD2	$ 4,000,000.00
86358RMY0	$ 3,919,720.50
64069PAA6	$ 3,916,671.00
40430TAA0	$ 3,860,012.40
76112BY79	$ 3,778,736.16
617451DQ9	$ 3,750,000.00
362334FH2	$ 3,736,323.49
442451AG5	$ 3,652,000.00
813765AB0	$ 3,500,000.00
36244MAA9	$ 3,411,692.10
40166RAF3	$ 3,325,000.00
885220KG7	$ 3,295,659.30
12638CAA6	$ 3,052,884.61
54251MAB0	$ 3,033,244.67
86359DTQ0	$ 2,869,877.99
76112BEB2	$ 2,766,107.82
361856EH6	$ 2,750,000.00
437089AA3	$ 2,735,849.78
64352VQC8	$ 2,465,813.78
76110WF35	$ 2,251,488.98
92976BHJ4	$ 2,225,773.22
1266BAEX9	$ 2,203,912.34
52521TAA5	$ 2,065,876.33
59020UR98	$ 2,057,107.27
23244JAB2	$ 2,044,774.36
126164AN2	$ 2,000,000.00
02151JAA9	$ 1,970,991.68
362334NA8	$ 1,961,422.69
86358EYV2	$ 1,941,362.31
76112BR44	$ 1,824,379.27
126685DV5	$ 1,789,069.73
07820QCC7	$ 1,701,307.90
32052XAA5	$ 1,676,114.11
004375EF4	$ 1,585,344.74
885220JQ7	$ 1,506,273.15
0738795L8	$ 1,484,050.90
362382AD5	$ 1,422,059.48
542514LF9	$ 1,409,109.99
004375AF8	$ 1,355,164.84
0738794Z8	$ 1,343,649.62
76112B4M9	$ 1,200,000.00
362334QF4	$ 1,082,350.62
52519NKS2	$ 1,042,995.84
144531AY6	$ 1,025,805.38
17309LAD7	$ 1,000,000.00
362341L49	$ 1,000,000.00
46626LEJ5	$ 1,000,000.00
86359DVT1	$ 865,026.87
45071KCK8	$ 365,878.97
126169AF8	$ 335,095.30
76112BYP9	$ 219,232.39
46625YF65	$ 132,611.97
362341HA0	$ -
86358EUQ7	$ -

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Default Swap Collateral Listing

Trading Desk will provide Current Mark

	CCUSIP	NAME	Original Face	Factor	Current Face	Sector	Moody	S&P	Fitch	Current Moody	Current S&P	Current Fitch	Current Accrued	Index	Issuer
[redacted]	004375EH0	ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA		Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4
	144528AB2	CARR 2006-NC3 A2	$ 395,000.00	1.000000	$ 395,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3
	12669WAD8	CWL 2007-8 2A2	$ 1,150,000.00	1.000000	$ 1,150,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8
	126670BA7	CWL 2007-S2 A1	$ 750,000.00	0.882713	$ 662,035.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2
	239156AJ1	DVSQ 2005-5A S	$ 4,066,000.00	0.850000	$ 3,473,100.00	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	DVSQ 2005-5A
	34958CAF1	FORT8 2006-1A S	$ 11,500,000.00	0.760000	$ 8,740,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	FORT8 2006-1A
	36240UAB3	GSTR 2002-2A A1MB	$ 958,872.00	0.762941	$ 731,410.28	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A
	36249BAA8	GSAA 2007-7 1A1	$ 1,000,000.00	0.969175	$ 969,175.28	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7
	40051CAA5	GSAA 2006-S1 1A1	$ 380,000.00	0.728538	$ 276,844.42	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-S1
	36244RAA8	GSAMP 2006-SD3 A	$ 37,500,000.00	0.687679	$ 25,037,972.52	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3
	44379PAF2	HUDHG 2006-1A S	$ 1,758,198.00	0.929825	$ 1,634,815.66	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDHG 2006-1A
	443860AA9	HUDMZ 2006-1A S	$ 3,930,000.00	0.953125	$ 3,745,781.25	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-1A
	64069PAA6	NEPTN 2006-3A S	$ 5,000,000.00	0.763334	$ 3,816,671.00	CDO	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	NEPTN 2006-3A
	66988RAC1	NHEL 2006-6 A2B	$ 950,000.00	1.000000	$ 950,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6
	748988AZ9	PTNM 2002-1A A1MH	$ 46,000,000.00	1.000000	$ 46,000,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A
	06424HBE8	BALL 2005-MIB1 A1	$ 4,500,000.00	0.291005	$ 1,309,524.70	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	BALL 2005-MIB1
	17309XAA7	CGCMT 2006-FL2 A1	$ 10,913,750.00	0.316438	$ 3,453,505.14	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2
	17309XAB5	CGCMT 2006-FL2 A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	CGCMT 2006-FL2
	200478AA7	COMM 2007-FL14 A1	$ 5,000,000.00	0.997210	$ 4,986,051.33	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	COMM 2007-FL14
	22545RAA4	CSMC 2006-TF2A A1	$ 7,600,000.00	0.888871	$ 6,755,417.84	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CSMC 2006-TF2A
	36228CZU0	GSMS 2007-EOP A2	$ 4,000,000.00	1.000000	$ 4,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	GSMS 2007-EOP
	39539JAA4	GPMF 2007-HE1 A1	$ 3,000,000.00	0.909340	$ 2,728,020.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GPMF 2007-HE1
	43708BAA3	INDS 2006-1 A1	$ 5,000,000.00	0.547170	$ 2,735,849.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	INDS 2006-1
	45256VAA5	IMSA 2006-2 1A11	$ 7,500,000.00	0.811901	$ 6,089,255.15	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	IMSA 2006-2
	46625YF65	JPMCC 2006-FL1A A1A	$ 2,000,000.00	0.066308	$ 132,611.97	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	JPMCC 2006-FL1A
	59020U2N4	MLMI 2006-SL1 A	$ 12,500,000.00	0.452965	$ 5,662,062.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	MLMI 2006-SL1
	59159UBX5	MMT 2005-2 A	$ 20,000,000.00	1.000000	$ 20,000,000.00	CARDS	Aaa	AAA	AAA	Aaa	AAA	AAA	4	LIBOR01M	MMT 2005-2
	61752LAB1	MSC 2007-XLFA A2	$ 8,000,000.00	1.000000	$ 8,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA
	69337HAA9	PHHAM 2007-2 1A1	$ 10,000,000.00	0.916132	$ 9,161,319.59	CMO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	PHHAM 2007-2
	746868AZ9	PTNM 2002-1A A1MH	$ 35,500,000.00	1.000000	$ 35,500,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A
	88522RAA2	TMST 2008-5 A1	$ 10,000,000.00	0.812984	$ 8,129,836.90	CMO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	TMST 2008-5
	00703QAD4	ARMT 2006-3 4A11	$ 40,350,000.00	0.774342	$ 31,244,717.88	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	ARMT 2006-3
	026935AC0	AHMA 2007-3 12A1	$ 48,000,000.00	0.980090	$ 47,044,322.88	CMO	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M	AHMA 2007-3
	16578BAA9	CCMFC 2007-2A A1	$ 30,000,000.00	0.998534	$ 29,956,024.92	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CCMFC 2007-2A
	17309XAA7	CGCMT 2006-FL2 A1	$ 8,750,000.00	0.316438	$ 2,768,816.40	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2
	2254708B3	ARMT 2006-1 6A1	$ 17,000,000.00	0.560035	$ 9,520,601.12	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	ARMT 2006-1
	32029HAB8	FFML 2007-FFC A2A	$ 15,000,000.00	0.980028	$ 14,700,414.94	CMO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	FFML 2007-FFC
	32053JAA5	FHABS 2007-HE1 A	$ 10,000,000.00	0.992032	$ 9,920,324.32	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	FHABS 2007-HE1
	36228CZS5	GSMS 2007-EOP A1	$ 40,000,000.00	0.935802	$ 37,432,077.37	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	9	LIBOR01M	GSMS 2007-EOP
	36228CZU0	GSMS 2007-EOP A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	GSMS 2007-EOP
	36245RAE9	GSAA 2007-8 3A1B	$ 8,771,000.00	0.974678	$ 8,548,885.58	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAA 2007-8
	36245RAG4	GSAA 2007-8 A5	$ 32,202,000.00	0.970578	$ 31,254,563.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAA 2007-8
	43710WAA8	RFMS2 2007-HSA3 AI1	$ 15,000,000.00	0.923331	$ 13,849,962.92	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	RFMS2 2007-HSA3
	45670CAA5	INDX 2007-AR7 1A1	$ 25,000,000.00	0.950995	$ 23,774,879.54	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	INDX 2007-AR7
	466275AB0	JPALT 2007-S1 A2	$ 28,871,000.00	0.959972	$ 27,715,356.81	CMO	Aaa	AAA	-	Aaa	AAA	-	34	LIBOR01M	JPALT 2007-S1
	46629RAB0	JPMCC 2006-FL2A A2	$ 5,000,000.00	1.000000	$ 5,000,000.00	COMMERCIAL	Aaa	-	AAA	Aaa	-	AAA	13	LIBOR01M	JPMCC 2006-FL2A
	69337MAA8	PHHAM 2007-3 A1	$ 31,822,000.00	0.978489	$ 31,073,622.58	CMO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	PHHAM 2007-3
	69337MAB6	PHHAM 2007-3 A2	$ 27,800,000.00	1.000000	$ 27,800,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	PHHAM 2007-3
	93936LAA5	WMALT 2007-OC2 A1	$ 11,600,000.00	0.969810	$ 11,441,397.67	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	WMALT 2007-OC2
	00252GAB5	AMIT 2006-1 A2	$ 30,000,000.00	1.000000	$ 30,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	AMIT 2006-1
	00252GAC3	AMIT 2006-1 A3	$ 27,232,000.00	1.000000	$ 27,232,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	AMIT 2006-1
	00505HAA0	ACST 2006-1A G1	$ 41,300,000.00	0.958399	$ 39,581,895.03	PLANES	Aaa	AAA	-	Aaa	AAA	-	27	LIBOR01M	ACST 2006-1A
	02660TCU5	AHM 2004-4 7A	$ 40,000,000.00	0.207496	$ 8,299,913.76	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	AHM 2004-4
	04544GAF6	ABSHE 2006-HE4 A5	$ 19,000,000.00	1.000000	$ 19,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE4
	105667AA7	BMAT 2006-1A A1	$ 50,000,000.00	0.325991	$ 16,299,569.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	BMAT 2006-1A
	12668AEX9	CWALT 2005-59 1A3A	$ 31,888,000.00	0.069182	$ 2,203,912.34	CMO	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	CWALT 2005-59
	31859TEY7	FMIC 2006-1 A2	$ 45,000,000.00	1.000000	$ 45,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	FMIC 2006-1
	32027EAE1	FFML 2006-FF5 2A3	$ 15,038,000.00	1.000000	$ 15,038,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	FFML 2006-FF5
	34528QAA2	FORDF 2006-3 A	$ 17,950,000.00	1.000000	$ 17,950,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	FORDF 2006-3
	38117RAA6	GOLDS 2003-A A1	$ 15,000,000.00	0.364182	$ 5,462,431.47	STRUCT NOTE	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	GOLDS 2003-A
	39538WDC8	GPMF 2005-HE4 1A1	$ 63,448,000.00	0.264827	$ 16,802,752.23	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	22	LIBOR01M	GPMF 2005-HE4
	41161PLS0	HVMLT 2005-2 2A1B	$ 60,000,000.00	0.345253	$ 20,715,173.80	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	HVMLT 2005-2
	43709UAA5	INDS 2006-A A	$ 35,000,000.00	0.614187	$ 21,496,541.17	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	INDS 2006-A
	525221KK2	LXS 2006-4N A1B1	$ 35,984,000.00	1.000000	$ 35,984,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	LXS 2006-4N
	542514MZ4	LBMLT 2005-WL2 3A3	$ 21,698,000.00	0.547869	$ 11,887,658.42	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	27	LIBOR01M	LBMLT 2005-WL2
	61749CAB7	MSM 2006-6AR 1A2	$ 50,000,000.00	0.353918	$ 17,695,879.00	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	MSM 2006-6AR
	66987XGU3	NHEL 2005-3 A2B	$ 15,000,000.00	0.535736	$ 8,036,033.16	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	NHEL 2005-3
	748351AF0	QUEST 2006-X2 A2	$ 49,213,000.00	0.762883	$ 37,542,789.46	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	28 5	LIBOR01M	QUEST 2005-X2
	86358EUQ7	SAIL 2005-HE1 A4	$ 13,000,000.00	0.000000	$ -	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	SAIL 2005-HE1
	86359DTC0	SASC 2005-S8 A2	$ 5,000,000.00	0.573978	$ 2,869,877.89	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	23	LIBOR01M	SASC 2005-S8
	86359LSP5	SAMI 2006-AR2 A3	$ 34,238,000.00	0.655097	$ 22,429,218.48	CMO	Aaa	AAA	-	Aaa	AAA	-	33	LIBOR01M	SAMI 2006-AR2
	86360KAC2	SAMI 2006-AR3 11A3	$ 25,411,113.00	0.618782	$ 15,723,940.72	CMO	Aaa	AAA	-	Aaa	AAA	-	34	LIBOR01M	SAMI 2006-AR3
	868377AB0	SWIFT 2003-A8 A	$ 35,000,000.00	1.000000	$ 35,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	SWIFT 2003-A8
	92922FS25	WAMU 2005-AR6 2AB3	$ 14,000,000.00	0.356017	$ 4,984,240.37	CMO	Aaa	AAA	-	Aaa	AAA	-	35	LIBOR01M	WAMU 2005-AR6
	93934FPR7	WAMU 2006-AR4 1AC2	$ 15,337,000.00	0.988022	$ 15,153,289.63	CMO	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	WAMU 2006-AR4
	004375EH0	ACCR 2005-4 A2C	$ 1,600,000.00	1.000000	$ 1,600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4
	126670AA7	CWL 2007-S2 A1	$ 2,650,000.00	0.882713	$ 2,515,733.09	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2
	239156AJ1	DVSQ 2005-5A S	$ 13,914,000.00	0.850000	$ 11,826,900.00	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	DVSQ 2005-5A
	36240UAB3	GSTR 2002-2A A1MB	$ 1,476,328.00	0.762941	$ 1,126,351.29	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A
	36249BAA8	GSAA 2007-7 1A1	$ 1,600,000.00	0.969175	$ 1,562,680.45	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7
	362725AC7	GSRPM 2006-2 A2	$ 30,000,000.00	0.796717	$ 23,901,514.50	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	30	LIBOR01M	GSRPM 2006-2
	40051CAA5	GSAA 2006-S1 1A1	$ 11,675,000.00	0.728538	$ 8,505,680.54	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-S1
	36245DAD2	GSAMP 2006-FM2 A2C	$ 19,392,000.00	1.000000	$ 19,392,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-FM2
	362725AA1	GSRPM 2006-2 A1A	$ 10,238,368.00	0.682374	$ 6,986,401.13	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	GSRPM 2006-2
	362341QH5	GSAA 2005-11 3A3	$ 4,778,000.00	0.385884	$ 1,842,983.05	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11
	442451AG5	HOUT 2006-1A S	$ 4,000,000.00	0.913000	$ 3,652,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	HOUT 2006-1A
	443860AA9	HUDMZ 2006-1A S	$ 1,740,000.00	0.953125	$ 1,658,437.50	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-1A
	64329AA8	NCAMT 2006-ALT2 AV1	$ 17,230,000.00	0.484713	$ 8,351,813.02	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2
	66988RAC1	NHEL 2006-6 A2B	$ 1,500,000.00	1.000000	$ 1,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6
Hudson Mezz 06-1	004375EH0	ACCR 2005-4 A2C	$ 3,843,000.00	1.000000	$ 3,843,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4
Hudson Mezz 06-1	12687HAB7	CWL 2006-20 2A1	$ 100,000,000.00	0.765579	$ 76,557,920.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	CWL 2006-20
Hudson Mezz 06-1	12688PAB8	CWALT 2006-OA17 1A1B	$ 35,903,000.00	0.687730	$ 23,973,520.17	CMO	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	CWALT 2006-OA17
Hudson Mezz 06-1	23245PAC5	CWALT 2006-OA22 A3	$ 25,850,000.00	0.868816	$ 22,453,719.13	CMO	Aaa	AAA	-	Aaa	AAA	-	24	LIBOR01M	CWALT 2006-OA22
Hudson Mezz 06-1	12669HAA7	CWL 2007-QH1 A1	$ 20,000,000.00	0.867029	$ 17,340,579.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	CWL 2007-QH1
Hudson Mezz 06-1	12668VAA7	CWL 2006-S7 A1	$ 100,000,000.00	0.724906	$ 72,490,572.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWL 2006-S7

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GS MBS-E-001992556

Current Mark

Deal	CUSIP	Name	Original Bal	Factor	Current Bal	Collateral	Moody's	S&P	Fitch	Moody's	S&P	Fitch	WAM	Index	Margin
Hudson Mezz 06-1	12670BAA7	CWL 2007-S2 A1	$ 10,350,000.00	0.662713	$ 9,136,083.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2
Hudson Mezz 06-1	144528AB2	CARR 2006-NC3 A2	$ 6,007,715.00	1.000000	$ 6,007,715.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3
Hudson Mezz 06-1	144539AC7	CARR 2006-NC5 A3	$ 9,334,000.00	1.000000	$ 9,334,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5
Hudson Mezz 06-1	23245GAA8	CWALT 2006-OC9 A1	$ 100,000,000.00	0.716989	$ 71,698,948.30	CMO	Aaa	AAA	-	Aaa	AAA	-	7.5	LIBOR01M	CWALT 2006-OC9
Hudson Mezz 06-1	23245FAB9	CWALT 2006-OC10 2A1	$ 75,000,000.00	0.803310	$ 60,248,265.00	CMO	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWALT 2006-OC10
Hudson Mezz 06-1	35729VAB3	FHLT 2006-D 2A1	$ 32,250,877.00	0.736080	$ 23,739,224.25	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D
Hudson Mezz 06-1	40051CAA5	GSAA 2006-S1 1A1	$ 2,945,000.00	0.728538	$ 2,145,544.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1
Hudson Mezz 06-1	36245CAC8	GSAMP 2006-S8 A1C	$ 66,531,000.00	0.389210	$ 25,872,961.55	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAMP 2006-S8
Hudson Mezz 06-1	362257AA5	GSAA 2006-17 A1	$ 94,300,000.00	0.722538	$ 68,135,300.40	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	GSAA 2006-17
Hudson Mezz 06-1	3622ELAA4	GSAA 2006-18 AV1	$ 100,000,000.00	0.700478	$ 70,047,818.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18
Hudson Mezz 06-1	362725AA1	GSRPM 2006-2 A1A	$ 15,545,632.00	0.682374	$ 10,607,942.70	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	GSRPM 2006-2
Hudson Mezz 06-1	3622EAA4	GSAA 2007-5 1AV1	$ 9,108,000.00	0.913772	$ 8,322,635.92	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-5
Hudson Mezz 06-1	44328AAB6	HASC 2006-HE1 2A1	$ 25,000,000.00	0.774217	$ 19,355,412.75	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	5	LIBOR01M	HASC 2006-HE1
Hudson Mezz 06-1	64352VQR5	NCHET 2006-1 A2B	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	NCHET 2006-1
Hudson Mezz 06-1	643529AA8	NCAMT 2006-ALT2 AV1	$ 32,690,000.00	0.484713	$ 15,845,283.20	CMO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	NCAMT 2006-ALT2
Hudson Mezz 06-1	65537FAB7	NHELI 2006-FM2 2A1	$ 72,000,000.00	0.714545	$ 51,447,242.88	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	NHELI 2006-FM2
Hudson Mezz 06-1	66968RAC1	NHEL 2006-6 A2B	$ 33,000,000.00	1.000000	$ 33,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6
Hudson Mezz 06-1	75156UAB3	RAMP 2006-RZ2 A2	$ 13,500,000.00	1.000000	$ 13,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RAMP 2006-RZ2
Hudson Mezz 06-1	362341KA6	GSAMP 2005-HE4 A2B	$ 25,000,000.00	0.517536	$ 12,938,451.03	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	25	LIBOR01M	GSAMP 2005-HE4
Hudson Mezz 06-1	64352VJY8	NCHET 2005-1 A2C	$ 13,757,000.00	0.709721	$ 9,763,636.36	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M	NCHET 2005-1
Hudson Mezz 06-2	00438GAA2	ACCR 2007-1 A1	$ 15,000,000.00	0.831626	$ 12,474,389.87	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	ACCR 2007-1
Hudson Mezz 06-2	004375EH0	ACCR 2005-4 A2C	$ 7,600,000.00	1.000000	$ 7,600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4
Hudson Mezz 06-2	07389RAN8	BSABS 2006-HE10 21A1	$ 4,000,000.00	0.805145	$ 3,220,580.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	BSABS 2006-HE10
Hudson Mezz 06-2	12668AA7	CWL 2006-S8 A1	$ 9,400,000.00	0.656374	$ 6,169,917.89	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S8
Hudson Mezz 06-2	12668MAA9	CWL 2006-SPS1 A	$ 18,500,000.00	0.731240	$ 13,526,019.25	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	[redacted]	11	LIBOR01M	CWL 2006-SPS1
Hudson Mezz 06-2	12668KAC7	CWL 2007-5 2A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-5
Hudson Mezz 06-2	12668YAA1	CWL 2006-S10 A1	$ 30,000,000.00	0.799639	$ 23,989,177.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S10
Hudson Mezz 06-2	12668WAD6	CWL 2007-8 2A2	$ 2,000,000.00	1.000000	$ 2,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8
Hudson Mezz 06-2	12668BRE5	CWALT 2006-OC2 2A1	$ 48,500,000.00	0.444476	$ 21,557,100.84	CMO	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWALT 2006-OC2
Hudson Mezz 06-2	320290AC8	FFML 2007-FF2 A2B	$ 11,800,000.00	1.000000	$ 11,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	FFML 2007-FF2
Hudson Mezz 06-2	35729VAB3	FHLT 2006-D 2A1	$ 14,000,000.00	0.736080	$ 10,305,119.44	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D
Hudson Mezz 06-2	3622ELAA4	GSAA 2006-18 AV1	$ 20,000,000.00	0.700476	$ 14,009,523.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18
Hudson Mezz 06-2	3622EQAA3	GSAA 2007-1 1A1	$ 10,268,000.00	0.882143	$ 8,852,480.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2007-1
Hudson Mezz 06-2	362341QH5	GSAA 2005-11 3A3	$ 3,724,000.00	0.385884	$ 1,437,032.84	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11
Hudson Mezz 06-2	362351AD0	GSAA 2006-20 2A1B	$ 18,076,000.00	0.785128	$ 14,191,713.87	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2006-20
Hudson Mezz 06-2	36245TAC8	GSAMP 2006-FM3 A2B	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSAMP 2006-FM3
Hudson Mezz 06-2	36245YAV6	GSAMP 2007-H1 A2AM	$ 5,157,000.00	0.883398	$ 4,555,870.65	HOME EQTY	Aaa	-	AAA	Aaa	-	AAA	12	LIBOR01M	GSAMP 2007-H1
Hudson Mezz 06-2	3622MDAB1	GSAMP 2007-HE1 A2A	$ 50,000,000.00	0.889221	$ 44,461,073.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAMP 2007-HE1
Hudson Mezz 06-2	3622MDAC9	GSAMP 2007-HE1 A2B	$ 44,191,000.00	1.000000	$ 44,191,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAMP 2007-HE1
Hudson Mezz 06-2	3622MHAC0	GSAMP 2007-FM2 A2B	$ 62,864,000.00	1.000000	$ 62,864,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	GSAMP 2007-FM2
Hudson Mezz 06-2	40431KAA8	HALO 2007-WF1 A1	$ 20,000,000.00	0.876843	$ 17,532,852.47	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	HALO 2007-WF1
Hudson Mezz 06-2	40431KAB6	HALO 2007-WF1 A2	$ 8,374,000.00	1.000000	$ 8,374,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	HALO 2007-WF1
Hudson Mezz 06-2	45668WAA5	INDX 2007-FLX1 A1	$ 20,024,000.00	0.891880	$ 17,859,011.08	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	INDX 2007-FLX1
Hudson Mezz 06-2	36249BAA6	GSAA 2007-7 1A1	$ 7,811,000.00	0.989175	$ 7,726,448.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7
Anderson Mezz 2007-1	G8068XAA6	ALTS 2006-3X A1A	$ 10,000,000.00	0.544997	$ 5,449,966.53	CDO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	ALTS 2006-3X
Anderson Mezz 2007-1	030723FB1	AMSI 2005-R6 A2	$ 14,200,000.00	0.265342	$ 3,767,850.13	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	AMSI 2005-R6
Anderson Mezz 2007-1	14454AAB5	CARR 2006-FRE2 A2	$ 11,000,000.00	1.000000	$ 11,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CARR 2006-FRE2
Anderson Mezz 2007-1	144531EV8	CARR 2006-NC1 A2	$ 8,695,000.00	1.000000	$ 8,695,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	CARR 2006-NC1
Anderson Mezz 2007-1	17309LAD7	CMLTI 2006-HE2 A2C	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CMLTI 2006-HE2
Anderson Mezz 2007-1	126673MY5	CWHEL 2004-Q 2A	$ 42,000,000.00	0.179824	$ 7,544,209.55	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	CWHEL 2004-Q
Anderson Mezz 2007-1	23245CAC4	CWL 2007-1 2A2	$ 9,000,000.00	1.000000	$ 9,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	CWL 2007-1
Anderson Mezz 2007-1	1248MKAB1	CBASS 2007-SL1A A2	$ 45,000,000.00	0.939830	$ 42,292,365.89	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	23	LIBOR01M	CBASS 2007-SL1A
Anderson Mezz 2007-1	34957YAA5	FORTS 2006-2A S	$ 5,135,135.00	0.888421	$ 4,459,458.38	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	FORTS 2006-2A
Anderson Mezz 2007-1	35729VAB3	FHLT 2006-D 2A1	$ 13,000,000.00	0.736080	$ 9,569,039.48	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D
Anderson Mezz 2007-1	35729QAC2	FHLT 2006-B 2A2	$ 2,000,000.00	1.000000	$ 2,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FHLT 2006-B
Anderson Mezz 2007-1	40051CAA5	GSAA 2006-S1 1A1	$ 46,838,319.00	0.728538	$ 34,123,492.80	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-S1
Anderson Mezz 2007-1	362375AA5	GSAA 2006-10 AV1	$ 10,535,000.00	0.482949	$ 4,877,170.88	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-10
Anderson Mezz 2007-1	362334NA8	GSAA 2006-7 AV1	$ 4,495,000.00	0.436357	$ 1,961,422.69	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-7
Anderson Mezz 2007-1	3622ELAA4	GSAA 2006-18 AV1	$ 15,000,000.00	0.700476	$ 10,507,142.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18
Anderson Mezz 2007-1	3622EBAA6	GSAA 2007-4 A1	$ 55,083,000.00	0.864562	$ 48,724,327.54	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4
Anderson Mezz 2007-1	3622EAD2	GSAA 2007-3 2A1B	$ 5,000,000.00	0.896936	$ 4,484,680.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3
Anderson Mezz 2007-1	362439AD3	GSAMP 2006-HE4 A2C	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-HE4
Anderson Mezz 2007-1	44379PAF2	HUDHG 2006-1A S	$ 3,791,802.00	0.929825	$ 3,525,710.59	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDHG 2006-1A
Anderson Mezz 2007-1	443885AA2	HUDMZ 2006-2A S	$ 3,600,000.00	0.963333	$ 3,539,999.85	CDO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	HUDMZ 2006-2A
Anderson Mezz 2007-1	5527STAC2	MABS 2007-WMC1 A3	$ 22,000,000.00	1.000000	$ 22,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	MABS 2007-WMC1
Anderson Mezz 2007-1	59022QAD4	MLMI 2006-HE5 A2C	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	MLMI 2006-HE5
Anderson Mezz 2007-1	61750FAE0	MSAC 2006-HE6 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	MSAC 2006-HE6
Anderson Mezz 2007-1	643529AA8	NCAMT 2006-ALT2 AV1	$ 16,000,000.00	0.484713	$ 7,755,415.45	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2
Anderson Mezz 2007-1	66968RAC1	NHEL 2006-6 A2B	$ 4,000,000.00	1.000000	$ 4,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6
Anderson Mezz 2007-1	71085PBX0	PCHLT 2005-2 A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M	PCHLT 2005-2
Anderson Mezz 2007-1	75156UAB3	RAMP 2006-RZ2 A2	$ 6,500,000.00	1.000000	$ 6,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RAMP 2006-RZ2
Point Pleasant Funding 2007-1	030723FB1	AMSI 2005-R6 A2	$ 83,106,000.00	0.265342	$ 22,051,475.55	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	AMSI 2005-R6
Point Pleasant Funding 2007-1	04544NAD6	ABSHE 2005-HE4 A4	$ 9,000,000.00	1.000000	$ 9,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	ABSHE 2005-HE4
Point Pleasant Funding 2007-1	045410RJ3	ABSHE 2005-HE4 A1	$ 41,000,000.00	0.109932	$ 4,507,202.57	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	ABSHE 2005-HE4
Point Pleasant Funding 2007-1	144528AB2	CARR 2006-NC3 A2	$ 3,597,285.00	1.000000	$ 3,597,285.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	CARR 2006-NC3
Point Pleasant Funding 2007-1	02150KAA7	CWALT 2007-OH1 A1A	$ 10,000,000.00	0.936090	$ 9,360,895.11	CMO	Aaa	AAAe	-	Aaa	AAAe	-	11	LIBOR01M	CWALT 2007-OH1
Point Pleasant Funding 2007-1	02150KAB5	CWALT 2007-OH1 A2A	$ 15,072,000.00	0.936088	$ 14,108,722.72	CMO	Aaa	AAAe	-	Aaa	AAAe	-	11	LIBOR01M	CWALT 2007-OH1
Point Pleasant Funding 2007-1	23242MAA9	CWL 2006-S3 A1	$ 8,970,000.00	0.610065	$ 5,472,282.46	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S3
Point Pleasant Funding 2007-1	12668AA9	CWL 2006-S5 A1	$ 7,060,000.00	0.649581	$ 4,586,041.57	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S5
Point Pleasant Funding 2007-1	12668WAA5	CWL 2007-4 A1A	$ 10,000,000.00	0.950373	$ 9,503,732.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CWL 2007-4
Point Pleasant Funding 2007-1	12669LAC4	CWL 2007-8 2A2	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-8
Point Pleasant Funding 2007-1	12669WAC0	CWL 2007-8 2A1	$ 10,000,000.00	0.975185	$ 9,751,853.98	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	61	LIBOR01M	CWL 2007-8
Point Pleasant Funding 2007-1	12669WAD8	CWL 2007-8 2A2	$ 3,694,000.00	1.000000	$ 3,694,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8
Point Pleasant Funding 2007-1	12670BAA7	CWL 2007-S2 A1	$ 58,050,000.00	0.882713	$ 49,476,084.16	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2
Point Pleasant Funding 2007-1	320290AC8	FFML 2007-FF2 A2B	$ 34,700,000.00	1.000000	$ 34,700,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	FFML 2007-FF2
Point Pleasant Funding 2007-1	30248EAA8	FFML 2007-FFBS A	$ 84,313,000.00	0.708903	$ 59,769,700.97	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	22	LIBOR01M	FFML 2007-FFBS
Point Pleasant Funding 2007-1	3622EAAX8	GSAA 2007-3 1A1B	$ 12,050,000.00	0.857068	$ 10,327,668.75	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3
Point Pleasant Funding 2007-1	3622EBAA8	GSAA 2007-4 A1	$ 150,191,000.00	0.884562	$ 132,853,348.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4
Point Pleasant Funding 2007-1	3622EBAB6	GSAA 2007-4 A2	$ 904,000.00	1.000000	$ 904,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	GSAA 2007-4
Point Pleasant Funding 2007-1	3622ECAA4	GSAA 2007-5 1AV1	$ 113,369,000.00	0.913772	$ 103,593,424.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-5
Point Pleasant Funding 2007-1	362341QH5	GSAA 2005-11 3A3	$ 21,500,000.00	0.385884	$ 8,296,510.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11
Point Pleasant Funding 2007-1	40051CAA5	GSAA 2006-S1 1A1	$ 1,161,681.00	0.728538	$ 846,328.69	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1
Point Pleasant Funding 2007-1	362341AM1	GSAA 2005-7 AV1	$ 50,000,000.00	0.129541	$ 6,477,066.50	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-7
Point Pleasant Funding 2007-1	362440AC3	GSAMP 2007-HE2 A2B	$ 13,347,000.00	1.000000	$ 13,347,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	GSAMP 2007-HE2
Point Pleasant Funding 2007-1	38242D3U5	GSAA 2005-6 A1	$ 50,000,000.00	0.130772	$ 6,538,620.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-6
Point Pleasant Funding 2007-1	57643LGV2	MABS 2005-WMC1 A5	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	MABS 2005-WMC1
Point Pleasant Funding 2007-1	57645JAA7	MABS 2006-HE3 A1	$ 14,000,000.00	0.643581	$ 9,010,137.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	4	LIBOR01M	MABS 2006-HE3
Point Pleasant Funding 2007-1	76112BEB2	RAMP 2004-RS10 AII4	$ 5,000,000.00	0.553222	$ 2,766,107.82	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	49	LIBOR01M	RAMP 2004-RS10

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[redacted]	CUSIP	NAME	Original Face	Factor	Current Face	Security Property	S&P	FICH	Moody's	S&P	FICH	Current	Index	Current Mark
	00075WAC3	ABFC 2006-HE1 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABFC 2006-HE1
	07389RAN6	BSABS 2006-HE10 21A1	$ 26,000,000.00	0.805145	$ 20,933,774.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	BSABS 2006-HE10
	07389MAB3	BSABS 2006-HE9 1A2	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSABS 2006-HE9
	07389PAB6	BSABS 2006-AQ1 1A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSABS 2006-AQ1
	144539AC7	CARR 2006-NC5 A3	$ 17,000,000.00	1.000000	$ 17,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5
	12666SAB4	CWL 2006-BC5 2A1	$ 30,000,000.00	0.670177	$ 20,105,300.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	CWL 2006-BC5
	35729NAD7	FHLT 2006-E 2A3	$ 35,810,000.00	1.000000	$ 35,810,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	FHLT 2006-E
	362440AB5	GSAMP 2007-HE2 A2A	$ 6,000,000.00	0.884253	$ 5,305,517.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAMP 2007-HE2
	40430TAA0	HASC 2007-NC1 A1	$ 4,000,000.00	0.965003	$ 3,860,012.40	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	HASC 2007-NC1
	443860AB7	HUDMZ 2006-1A AF	$ 55,000,000.00	0.967096	$ 54,290,307.32	CDO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	HUDMZ 2006-1A
	542551YAD0	LBMLT 2006-10 2A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	LBMLT 2006-10
	74924VAC3	RASC 2006-EMX9 1A3	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RASC 2006-EMX9
	81377EAB0	SABR 2006-WM3 A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SABR 2006-WM3
	81377GAB5	SABR 2006-FR4 A2B	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	SABR 2006-FR4
	78420MAE9	SGMS 2006-OPT2 A3C	$ 19,000,000.00	1.000000	$ 19,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	SGMS 2006-OPT2
	9497EBAB5	WFHET 2006-3 A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	WFHET 2006-3
	93935YAA8	WMALT 2006-AR10 A1	$ 5,000,000.00	0.829569	$ 4,147,842.81	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	WMALT 2006-AR10
	07325HAH8	BAYV 2006-D 2A2	$ 14,712,000.00	1.000000	$ 14,712,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	24	LIBOR01M	BAYV 2006-D
	07325HAK1	BAYV 2006-D 2A4	$ 10,000,000.00	0.742585	$ 7,425,847.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	28	LIBOR01M	BAYV 2006-D
	144539AA1	CARR 2006-NC5 A1	$ 12,000,000.00	0.772052	$ 9,264,622.44	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	5	LIBOR01M	CARR 2006-NC5
	144539AC7	CARR 2006-NC5 A3	$ 9,700,000.00	1.000000	$ 9,700,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5
	173100AC4	CMLTI 2006-HE3 A2C	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	CMLTI 2006-HE3
	362351AB4	GSAA 2006-20 1A2	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-20
	362382AD5	GSAA 2006-9 A1	$ 1,300,000.00	0.430927	$ 560,205.25	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	GSAA 2006-9
	39539GAC6	GPMF 2006-OH1 A3	$ 12,200,000.00	0.958335	$ 11,691,668.25	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GPMF 2006-OH1
	45071KDD3	IXIS 2006-HE1 A3	$ 2,500,000.00	1.000000	$ 2,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	IXIS 2006-HE1
	751153AB3	RALI 2006-QO10 A2	$ 6,000,000.00	0.963910	$ 5,783,461.52	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	RALI 2006-QO10
	76112B4M9	RAMP 2006-NC3 A2	$ 1,200,000.00	1.000000	$ 1,200,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	RAMP 2006-NC3
	83611XAC6	SVHE 2006-EQ2 A3	$ 10,270,000.00	1.000000	$ 10,270,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SVHE 2006-EQ2
	86358EAB9	SAIL 2006-1 A3	$ 2,439,000.00	1.000000	$ 2,439,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	SAIL 2006-1
	32028MAD9	FFML 2006-FF18 A2C	$ 2,000,000.00	1.000000	$ 2,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	FFML 2006-FF18
	80556AAC1	SAST 2006-3 A3	$ 2,100,000.00	1.000000	$ 2,100,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	SAST 2006-3
	0738794Z8	BSABS 2005-EC1 A1	$ 10,000,000.00	0.044788	$ 447,883.21	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	BSABS 2005-EC1
	0738795L8	BSABS 2005-HE12 1A1	$ 5,000,000.00	0.302892	$ 1,514,458.83	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	BSABS 2005-HE12
	07387KAA1	BSCMS 2006-BBA7 A1	$ 3,300,000.00	0.927144	$ 3,059,574.65	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	BSCMS 2006-BBA7
	07388TAB9	BSCMS 2007-BBA8 A2	$ 3,800,000.00	1.000000	$ 3,800,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSCMS 2007-BBA8
	12638CAA8	CSMC 2006-TFLA A1	$ 14,800,000.00	0.152844	$ 2,259,134.61	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	CSMC 2006-TFLA
	20173RAB5	GCCFC 2006-FL4A A2	$ 13,950,000.00	1.000000	$ 13,950,000.00	COMMERCIAL	-	AAA	AAA	-	AAA	AAA	14	LIBOR01M	GCCFC 2006-FL4A
	22545RAB2	CSMC 2006-TF2A A2	$ 5,400,000.00	1.000000	$ 5,400,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	CSMC 2006-TF2A
	2254ERAC0	CSMC 2007-TFLA A2	$ 5,900,000.00	1.000000	$ 5,900,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CSMC 2007-TFLA
	22943NAA1	CSMS 2006-HC1A A1	$ 17,069,000.00	1.000000	$ 17,069,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	CSMS 2006-HC1A
	36228CZW6	GSMS 2007-EOP A3	$ 17,680,000.00	1.000000	$ 17,680,000.00	COMMERCIAL	NR	AAA	AAA	NR	AAA	AAA	18	LIBOR01M	GSMS 2007-EOP
	38242D3U5	GSAA 2005-6 A1	$ 30,000,000.00	0.130772	$ 3,923,172.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-6
	38244RAA8	GSAMP 2006-SD3 A	$ 4,600,000.00	0.667679	$ 3,071,324.63	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAMP 2006-SD3
	38298UAC2	GSMS 2006-FL8A A2	$ 11,900,000.00	1.000000	$ 11,900,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSMS 2006-FL8A
	40166RAF3	GUGH 2005-1A 5	$ 5,700,000.00	0.583333	$ 3,325,000.00	CDO	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	GUGH 2005-1A
	404309DB1	HASC 2006-OPT1 2A2	$ 6,300,000.00	1.000000	$ 6,300,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	HASC 2006-OPT1
	45071KCK8	IXIS 2005-HE4 A1	$ 4,800,000.00	0.076225	$ 365,878.97	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	IXIS 2005-HE4
	52521TAC1	LBFRC 2006-LLFA A2	$ 13,300,000.00	0.939326	$ 12,493,039.92	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	LBFRC 2006-LLFA
	542514MW1	LBMLT 2005-WL2 3A1	$ 14,250,000.00	0.284994	$ 3,776,168.88	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	LBMLT 2005-WL2
	617455AB6	MSC 2006-XLF A2	$ 7,100,000.00	0.792068	$ 5,623,684.07	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	MSC 2006-XLF
	64352VQC8	NCHET 2006-S1 A1	$ 2,700,000.00	0.618453	$ 1,684,424.30	HOME EQTY	Aaa	AAA	AAA/-	Aa1	AA	AAA/-	17	LIBOR01M	NCHET 2006-S1
	68389FKN3	OOMLT 2006-1 2A2	$ 6,100,000.00	1.000000	$ 6,100,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	OOMLT 2006-1
	68401TAD0	OOMLT 2007-2 3A2	$ 6,800,000.00	1.000000	$ 6,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	OOMLT 2007-2
	76112BR44	RAMP 2005-EFC7 AI1	$ 10,400,000.00	0.152032	$ 1,581,128.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	RAMP 2005-EFC7
	76112BYP9	RAMP 2005-EFC3 AI1	$ 7,100,000.00	0.030878	$ 219,232.39	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	RAMP 2005-EFC3
	83611MLX4	SVHE 2006-OPT1 2A2	$ 7,000,000.00	1.000000	$ 7,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SVHE 2006-OPT1
	86359DPN1	SASC 2005-S5 A2	$ 19,600,000.00	0.429342	$ 8,415,094.97	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	24	LIBOR01M	SASC 2005-S5
	86360XAA8	SASC 2006-GEL3 A1	$ 20,300,000.00	0.617553	$ 12,536,323.71	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SASC 2006-GEL3
	06424HBE6	BALL 2005-MIB1 A1	$ 10,000,000.00	0.291005	$ 2,910,054.88	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	BALL 2005-MIB1
	0738794Z8	BSABS 2005-EC1 A1	$ 20,000,000.00	0.044788	$ 895,766.41	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	BSABS 2005-EC1
	0738795L8	BSABS 2005-HE12 1A1	$ 10,000,000.00	0.302892	$ 3,028,917.66	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	BSABS 2005-HE12
	07387KAA1	BSCMS 2006-BBA7 A1	$ 5,700,000.00	0.927144	$ 5,284,719.85	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	BSCMS 2006-BBA7
	07388TAB9	BSCMS 2007-BBA8 A2	$ 2,600,000.00	1.000000	$ 2,600,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSCMS 2007-BBA8
	07820QCC7	BVMBS 2005-2 1A	$ 17,000,000.00	0.100077	$ 1,701,307.90	CMO	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	BVMBS 2005-2
	126169AF8	COMM 2005-F10A A1	$ 10,000,000.00	0.033510	$ 335,095.30	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	COMM 2005-F10A
	12638CAA8	CSMC 2006-TFLA A1	$ 5,200,000.00	0.152844	$ 793,750.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	CSMC 2006-TFLA
	20173RAB5	GCCFC 2006-FL4A A2	$ 11,050,000.00	1.000000	$ 11,050,000.00	COMMERCIAL	-	AAA	AAA	-	AAA	AAA	14	LIBOR01M	GCCFC 2006-FL4A
	22545RAB2	CSMC 2006-TF2A A2	$ 10,300,000.00	1.000000	$ 10,300,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	AAA	17	LIBOR01M	CSMC 2006-TF2A
	2254ERAC0	CSMC 2007-TFLA A2	$ 4,100,000.00	1.000000	$ 4,100,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CSMC 2007-TFLA
	22943NAA1	CSMS 2006-HC1A A1	$ 6,936,000.00	1.000000	$ 6,936,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	CSMS 2006-HC1A
	36228CZW6	GSMS 2007-EOP A3	$ 12,100,000.00	1.000000	$ 12,100,000.00	COMMERCIAL	NR	AAA	AAA	NR	AAA	AAA	18	LIBOR01M	GSMS 2007-EOP
	36244RAA8	GSAMP 2006-SD3 A	$ 6,400,000.00	0.667879	$ 4,273,147.31	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAMP 2006-SD3
	36298UAC2	GSMS 2006-FL8A A2	$ 14,460,000.00	1.000000	$ 14,460,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSMS 2006-FL8A
	40430HDB1	HASC 2006-OPT1 2A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	HASC 2006-OPT1
	52521TAC1	LBFRC 2006-LLFA A2	$ 6,700,000.00	0.939326	$ 6,293,485.28	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	LBFRC 2006-LLFA
	542514MW1	LBMLT 2005-WL2 3A1	$ 3,750,000.00	0.264994	$ 993,728.65	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	LBMLT 2005-WL2
	57643LML7	MABS 2005-NC2 A1	$ 30,000,000.00	0.232367	$ 6,971,017.83	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	MABS 2005-NC2
	59020UR98	MLMI 2005-HE2 A2A	$ 22,537,000.00	0.091277	$ 2,057,107.27	HOME EQTY	-	AAA	AAA	-	AAA	AAA	11	LIBOR01M	MLMI 2005-HE2
	617455AB6	MSC 2006-XLF A2	$ 4,900,000.00	0.792068	$ 3,881,134.08	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	MSC 2006-XLF
	64352VQC8	NCHET 2006-S1 A1	$ 1,300,000.00	0.618453	$ 801,389.46	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	NCHET 2006-S1
	68389FKN3	OOMLT 2006-1 2A2	$ 3,900,000.00	1.000000	$ 3,900,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	OOMLT 2006-1
	68401TAD0	OOMLT 2007-2 3A2	$ 6,600,000.00	1.000000	$ 6,600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	OOMLT 2007-2
	76112BR44	RAMP 2005-EFC7 AI1	$ 1,600,000.00	0.152032	$ 243,250.57	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	RAMP 2005-EFC7
	83611MLX4	SVHE 2006-OPT1 2A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SVHE 2006-OPT1
	86360XAA8	SASC 2006-GEL3 A1	$ 5,700,000.00	0.617553	$ 3,520,051.48	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SASC 2006-GEL3
	36240UAB3	GSTR 2002-2A A1MB	$ 12,170,000.00	0.762941	$ 9,284,993.03	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A
Camber 7	ACE 2006-FM2 A2C	ACE 2006-FM2 A2C	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	ACE 2006-FM2
Camber 7	BSMF 2007-SL2 1A	BSMF 2007-SL2 1A	$ 55,779,865.34	0.900922	$ 50,253,329.87	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	BSMF 2007-SL2
Camber 7	BCAP 2006-AA2 A1	BCAP 2006-AA2 A1	$ 40,503,661.33	0.876505	$ 35,501,656.00	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	BCAP 2006-AA2
Camber 7	ARSI 2006-W4 A2B	ARSI 2006-W4 A2B	$ 31,000,000.00	1.000000	$ 31,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	ARSI 2006-W4
Camber 7	SASC 2007-GEL1 A1	SASC 2007-GEL1 A1	$ 34,999,999.90	0.865896	$ 30,306,352.22	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	SASC 2007-GEL1
Camber 7	CARR 2006-FRE2 A3	CARR 2006-FRE2 A3	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CARR 2006-FRE2
Camber 7	CMLTI 2006-WFH3 A3	CMLTI 2006-WFH3 A3	$ 30,000,000.00	1.000000	$ 30,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CMLTI 2006-WFH3
Camber 7	CWL 2006-17 2A2	CWL 2006-17 2A2	$ 40,000,000.00	1.000000	$ 40,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CWL 2006-17
Camber 7	CWL 2006-18 2A2	CWL 2006-18 2A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	CWL 2006-18
Camber 7	CWL 2006-S10 A1	CWL 2006-S10 A1	$ 69,999,999.65	0.799639	$ 55,974,746.10	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S10
Camber 7	FHLT 2006-B 2A2	FHLT 2006-B 2A2	$ 18,783,538.00	1.000000	$ 18,783,538.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FHLT 2006-B

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Current Mark

Camber 7	FHLT 2006-C 2A2	FHLT 2006-C 2A2	$	35,000,000.00	1.000000	$	35,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	15	LIBOR01M	FHLT 2006-C
Camber 7	HEAT 2006-7 2A3	HEAT 2006-7 2A3	$	50,000,000.00	1.000000	$	50,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	15	LIBOR01M	HEAT 2006-7
Camber 7	MABS 2006-WMC4 A5	MABS 2006-WMC4 A5	$	19,000,000.00	1.000000	$	19,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	MABS 2006-WMC4
Camber 7	NAA 2007-S1 A1	NAA 2007-S1 A1	$	34,721,781.56	0.878408	$	30,499,858.81	HOME EQTY	Ass	AAA	-	Ass	AAA	-	20	LIBOR01M	NAA 2007-S1
Camber 7	SABR 2006-WM2 A2C	SABR 2006-WM2 A2C	$	40,000,000.00	1.000000	$	40,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	16	LIBOR01M	SABR 2006-WM2
Camber 7	SACO 2007-2 A1	SACO 2007-2 A1	$	27,000,000.27	0.904568	$	24,423,884.79	HOME EQTY	Ass	AAA	-	Ass	AAA	-	16	LIBOR01M	SACO 2007-2
Camber 7	BSABS 2007-FS1 1A1	BSABS 2007-FS1 1A1	$	75,141,244.55	0.910122	$	68,387,705.10	HOME EQTY	Ass	AAA	-	Ass	AAA	-	6	LIBOR01M	BSABS 2007-FS1
Camber 7	MSAC 2007-HE3 A2A	MSAC 2007-HE3 A2A	$	23,964,789.40	0.869166	$	20,829,378.21	HOME EQTY	Ass	AAA	-	Ass	AAA	-	6	LIBOR01M	MSAC 2007-HE3
Camber 7	GPMF 2007-HE1 A1	GPMF 2007-HE1 A1	$	49,999,999.98	0.909340	$	45,467,003.25	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	GPMF 2007-HE1
Camber 7	ABSHE 2006-HE7 A4	ABSHE 2006-HE7 A4	$	23,414,000.00	1.000000	$	23,414,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	14	LIBOR01M	ABSHE 2006-HE7
Camber 7	BSABS 2006-HE10 21A2	BSABS 2006-HE10 21A2	$	50,000,000.00	1.000000	$	50,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	17	LIBOR01M	BSABS 2006-HE10
Camber 7	CMLTI 2007-AMC2 A3A	CMLTI 2007-AMC2 A3A	$	78,854,038.68	0.914973	$	72,149,302.93	HOME EQTY	Ass	AAA	-	Ass	AAA	-	8	LIBOR01M	CMLTI 2007-AMC2
Camber 7	FMIC 2007-1 2A1	FMIC 2007-1 2-A1	$	9,997,326.13	0.922087	$	9,218,401.26	HOME EQTY	Ass	AAA	-	Ass	AAA	-	11	LIBOR01M	FMIC 2007-1
Camber 7	AMSI 2005-R9 A2B	AMSI 2005-R9 A2B	$	21,001,408.05	0.619177	$	13,003,591.89	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	23	LIBOR01M	AMSI 2005-R9
Camber 7	CARR 2006-NC1 A2	CARR 2006-NC1 A2	$	13,000,000.00	1.000000	$	13,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	16	LIBOR01M	CARR 2006-NC1
[redacted]	004375AF8	ACCR 2002-1 A2	$	39,999,999.88	0.033879	$	1,355,164.84	HOME EQTY	Ass	AAA	-	Ass	AAA	-	32	LIBOR01M	ACCR 2002-1
	004375EF4	ACCR 2005-4 A2A	$	19,209,419.23	0.082530	$	1,585,344.74	HOME EQTY	Ass	AAA	-	Ass	AAA	-	8	LIBOR01M	ACCR 2005-4
	0738795L8	BSABS 2005-HE12 1A1	$	4,899,607.93	0.302892	$	1,484,050.90	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	BSABS 2005-HE12
	23244JAB2	CWALT 2006-OC11 2A1	$	2,674,158.78	0.784842	$	2,044,774.36	CMO	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	CWALT 2006-OC11
	35729QAC2	FHLT 2006-B 2A2	$	7,850,000.00	1.000000	$	7,850,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	FHLT 2006-B
	362334BQ8	GSAA 2006-3 A1	$	7,859,796.67	0.538231	$	4,230,388.69	HOME EQTY	Ass	AAA	-	Ass	AAA	-	8	LIBOR01M	GSAA 2006-3
	362334FH2	GSAA 2006-4 4A1	$	6,134,209.66	0.609096	$	3,736,323.49	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	GSAA 2006-4
	362341HA0	FFML 2005-FFA A1	$	-	0.000000	$	-	HOME EQTY	Ass	AAA	-	Ass	AAA	-	20	LIBOR01M	FFML 2005-FFA
	3623418P5	GSAA 2005-12 AV1	$	24,614,330.24	0.292380	$	7,196,734.43	HOME EQTY	Ass	AAA	-	Ass	AAA	-	13	LIBOR01M	GSAA 2005-12
	362405AA0	GSAMP 2006-SD2 A1	$	8,933,156.76	0.530850	$	4,740,381.37	HOME EQTY	Ass	AAA	-	Ass	AAA	-	11	LIBOR01M	GSAMP 2006-SD2
	542514LF9	LBMLT 2005-WL1 2A3	$	44,756,862.52	0.031484	$	1,409,109.99	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	27	LIBOR01M	LBMLT 2005-WL1
	54251MAB0	LBMLT 2006-4 2A1	$	9,828,521.54	0.315027	$	3,033,244.67	HOME EQTY	Ass	AAA	-	Ass	AAA	-	5	LIBOR01M	LBMLT 2006-4
	61750FAD2	MSAC 2006-HE8 A2B	$	4,000,000.00	1.000000	$	4,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	MSAC 2006-HE8
	65536QAC2	NHELI 2006-HE3 2A2	$	6,761,000.00	1.000000	$	6,761,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	NHELI 2006-HE3
	65536VAA5	NAA 2006-AF2 1A1	$	10,389,016.20	0.518870	$	5,380,166.46	CMO	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	NAA 2006-AF2
	71103XAA2	PFRMS 2006-1 1A1	$	8,296,891.03	0.561790	$	4,661,111.06	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	7	LIBOR01M	PFRMS 2006-1
	76112BY79	RAMP 2006-RZ1 A1	$	7,886,826.31	0.479120	$	3,778,736.18	HOME EQTY	Ass	AAA	-	Ass	AAA	-	8	LIBOR01M	RAMP 2006-RZ1
	86358EYV2	SAIL 2005-10 A3	$	7,929,137.72	0.244839	$	1,941,362.31	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	9	LIBOR01M	SAIL 2005-10
	86359DVT1	SASC 2005-AR1 A3	$	10,028,758.09	0.086272	$	865,026.87	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	SASC 2005-AR1
	86156EAA4	TMTS 2006-17HE A2A	$	8,138,196.82	0.538887	$	6,827,028.12	HOME EQTY	Ass	AAA	-	Ass	AAA	-	6	LIBOR01M	TMTS 2006-17HE
	86156PAX9	TMTS 2006-7 2A1	$	9,500,000.00	0.569892	$	4,844,081.31	HOME EQTY	Ass	AAA	-	Ass	AAA	-	8	LIBOR01M	TMTS 2006-7
	86156YAB8	TMTS 2006-11 A2A	$	8,333,232.87	0.731331	$	4,631,687.94	HOME EQTY	Ass	AAA	-	Ass	AAA	-	6	LIBOR01M	TMTS 2006-11
	1445AAAB5	CARR 2006-FRE2 A2	$	12,754,000.00	1.000000	$	12,754,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	12	LIBOR01M	CARR 2006-FRE2
Timberwolf	23245CAC4	CWL 2007-1 2A2	$	11,000,000.00	1.000000	$	11,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	CWL 2007-1
Timberwolf	35729QAC2	FHLT 2006-B 2A2	$	3,031,462.00	1.000000	$	3,031,462.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	FHLT 2006-B
Timberwolf	35729VAB3	FHLT 2006-D 2A1	$	15,749,123.00	0.736080	$	11,592,613.83	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	6	LIBOR01M	FHLT 2006-D
Timberwolf	3622ELAA4	GSAA 2006-18 AV1	$	18,347,000.00	0.700476	$	12,851,638.47	HOME EQTY	Ass	AAA	-	Ass	AAA	-	7	LIBOR01M	GSAA 2006-18
Timberwolf	55275TAC2	MABS 2007-WMC1 A3	$	26,850,000.00	1.000000	$	26,850,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	MABS 2007-WMC1
Timberwolf	59022QAD4	MLMI 2006-HE5 A2C	$	22,000,000.00	1.000000	$	22,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	MLMI 2006-HE5
Timberwolf	61750FAE0	MSAC 2006-HE8 A2C	$	15,000,000.00	1.000000	$	15,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	15	LIBOR01M	MSAC 2006-HE8
Timberwolf	617483AC8	MSIX 2006-2 A3	$	11,470,000.00	1.000000	$	11,470,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	MSIX 2006-2
Timberwolf	643529AA8	NCAMT 2006-ALT2 AV1	$	20,241,000.00	0.484713	$	9,811,085.26	CMO	Ass	AAA	-	Ass	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2
Timberwolf	3622EAAX8	GSAA 2007-3 1A1B	$	15,378,000.00	0.857068	$	13,179,888.32	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	GSAA 2007-3
Timberwolf	3622EAAD2	GSAA 2007-3 2A1B	$	6,112,000.00	0.896936	$	5,482,073.69	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	GSAA 2007-3
Timberwolf	12668YAA1	CWL 2006-S10 A1	$	5,000,000.00	0.799639	$	3,998,196.17	HOME EQTY	Ass	AAA	-	Ass	AAA	-	11	LIBOR01M	CWL 2006-S10
Timberwolf	40051CAA5	GSAA 2006-S1 1A1	$	22,924,000.00	0.728538	$	16,701,003.91	HOME EQTY	Ass	AAA	-	Ass	AAA	-	18	LIBOR01M	GSAA 2006-S1
Timberwolf	66988RAC1	NHEL 2006-6 A2B	$	5,550,000.00	1.000000	$	5,550,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	NHEL 2006-6
Timberwolf	126673MY5	CWHEL 2004-Q 2A	$	52,000,000.00	0.179824	$	9,340,449.92	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	CWHEL 2004-Q
Timberwolf	144531AY8	CARR 2005-NC1 A1C1	$	5,000,000.00	0.205161	$	1,025,805.38	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	38	LIBOR01M	CARR 2005-NC1
Timberwolf	362334QF4	GSRPM 2006-1 A2	$	2,400,000.00	0.450979	$	1,082,350.82	HOME EQTY	Ass	AAA	-	Ass	AAA	-	12	LIBOR01M	GSRPM 2006-1
Timberwolf	76110WF35	RASC 2004-KS9 AI4	$	11,650,000.00	0.193281	$	2,251,486.98	HOME EQTY	Ass	AAA	-	Ass	AAA	-	30	LIBOR01M	RASC 2004-KS9
Timberwolf	46626LEJ5	JPMAC 2005-OPT2 A3	$	1,000,000.00	1.000000	$	1,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	24	LIBOR01M	JPMAC 2005-OPT2
Timberwolf	362341L49	GSAMP 2005-WMC3 A2B	$	1,000,000.00	1.000000	$	1,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	24	LIBOR01M	GSAMP 2005-WMC3
Timberwolf	362439AD3	GSAMP 2006-HE4 A2C	$	5,358,000.00	1.000000	$	5,358,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	GSAMP 2006-HE4
Timberwolf	04544NAD8	ABSHE 2006-HE6 A4	$	1,000,000.00	1.000000	$	1,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE6
Timberwolf	71085PBX0	PCHLT 2005-2 A3	$	8,322,000.00	1.000000	$	8,322,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	15	LIBOR01M	PCHLT 2005-2
Timberwolf	1248MKAB1	CBASS 2007-SL1 A A2	$	38,222,000.00	0.939830	$	35,922,195.59	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	23	LIBOR01M	CBASS 2007-SL1 A
Timberwolf	86362YAC0	SASC 2007-BC2 A3	$	26,814,000.00	1.000000	$	26,814,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	13	LIBOR01M	SASC 2007-BC2
Timberwolf	69121PBT9	OWNIT 2005-5 A2B	$	31,727,500.00	1.000000	$	31,727,500.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	29	LIBOR01M	OWNIT 2005-5
Timberwolf	61749NAC1	MSAC 2006-HE5 A2B	$	32,000,000.00	1.000000	$	32,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	MSAC 2006-HE5
Timberwolf	64352VNW7	NCHET 2005-C A2B	$	5,000,000.00	1.000000	$	5,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	17	LIBOR01M	NCHET 2005-C
Timberwolf	31659XAA4	FMIC 2006-S1 A	$	48,140,000.00	0.907026	$	41,850,274.23	HOME EQTY	Ass	AAA	-	Ass	AAA	-	22	LIBOR01M	FMIC 2006-S1
Timberwolf	07400YAA4	BSMF 2006-SL2 A1	$	25,000,000.00	0.688230	$	17,155,739.75	CMO	Ass	AAA	-	Ass	AAA	-	16	LIBOR01M	BSMF 2006-SL2
Timberwolf	78577RAA7	SACO 2006-9 A1	$	39,000,000.00	0.698049	$	27,223,906.92	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	SACO 2006-9
Timberwolf	76113ABH3	RASC 2006-KS3 AI3	$	10,000,000.00	1.000000	$	10,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	17	LIBOR01M	RASC 2006-KS3
Timberwolf	14453MAB0	CARR 2006-NC4 A2	$	20,000,000.00	1.000000	$	20,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	CARR 2006-NC4
Timberwolf	64352YLG4	NCHET 2005-3 A2C	$	11,570,000.00	0.992938	$	11,488,271.57	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	27	LIBOR01M	NCHET 2005-3
Timberwolf	144531DL1	CARR 2005-NC5 A2	$	48,500,000.00	0.856253	$	41,528,262.94	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	32	LIBOR01M	CARR 2005-NC5
Timberwolf	144531CV0	CARR 2005-NC3 A1C	$	30,000,000.00	0.577159	$	17,314,775.15	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	25	LIBOR01M	CARR 2005-NC3
Timberwolf	12668TAB0	CWL 2007-BC1 2A1	$	16,413,000.00	0.809415	$	13,284,935.09	HOME EQTY	Ass	AAA	-	Ass	AAA	-	6	LIBOR01M	CWL 2007-BC1
Timberwolf	34957YAA5	FORTS 2006-2A S	$	7,564,865.00	0.868421	$	6,569,486.62	CDO	Ass	AAA	-	Ass	AAA	-	20	LIBOR01M	FORTS 2006-2A
Timberwolf	44368QAA2	HUDMZ 2006-2A S	$	4,300,000.00	0.983333	$	4,226,333.15	CDO	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	HUDMZ 2006-2A
Timberwolf	144528AC0	CARR 2006-NC3 A3	$	20,000,000.00	1.000000	$	20,000,000.00	HOME EQTY	Ass	AAA	AAA	Ass	AAA	AAA	15	LIBOR01M	CARR 2006-NC3
Timberwolf	12668UAE1	CWL 2007-3 2A1	$	47,000,000.00	0.930080	$	43,712,842.37	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	CWL 2007-3
Timberwolf	12668UAF8	CWL 2007-3 2A2	$	18,000,000.00	1.000000	$	18,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	17	LIBOR01M	CWL 2007-3
Timberwolf	12668UAG6	CWL 2007-3 2A3	$	17,000,000.00	1.000000	$	17,000,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	21	LIBOR01M	CWL 2007-3
Timberwolf	3622E6AA6	GSAA 2007-4 A1	$	80,000,000.00	0.884562	$	70,764,958.40	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	GSAA 2007-4
Timberwolf	3622E6AB4	GSAA 2007-4 A2	$	45,788,000.00	1.000000	$	45,788,000.00	HOME EQTY	Ass	AAA	-	Ass	AAA	-	20	LIBOR01M	GSAA 2007-4
Timberwolf	452570AA2	IMSA 2007-2 1A1A	$	80,000,000.00	0.936701	$	74,936,082.26	ABS	Ass	AAA	-	Ass	AAA	-	11	LIBOR01M	IMSA 2007-2
Timberwolf	52521MAB8	LABSM 2007-1 2A1	$	20,000,000.00	0.954880	$	19,097,606.80	HOME EQTY	Ass	AAA	-	Ass	AAA	-	9	LIBOR01M	LABSM 2007-1
[redacted]	126685DV5	CWL 2006-S2 A1	$	3,895,000.00	0.459325	$	1,789,059.73	HOME EQTY	Ass	AAA	-	Ass	AAA	-	11	LIBOR01M	CWL 2006-S2
	17309XAA7	CGCMT 2006-FL2 A1	$	5,500,000.00	0.319436	$	1,740,398.88	COMMERCIAL	Ass	AAA	AAA	Ass	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2
	36244RAA8	GSAMP 2006-SD3 A	$	14,850,000.00	0.667879	$	9,915,037.12	HOME EQTY	Ass	AAA	-	Ass	AAA	-	26	LIBOR01M	GSAMP 2006-SD3
	36298UAC2	GSMS 2006-FL8A A2	$	15,000,000.00	1.000000	$	15,000,000.00	COMMERCIAL	Ass	AAA	-	Ass	AAA	-	14	LIBOR01M	GSMS 2006-FL8A
	38012TAA0	GMACM 2006-HE3 A1	$	12,000,000.00	0.538600	$	6,463,203.65	HOME EQTY	Ass	AAA	-	Ass	AAA	-	10	LIBOR01M	GMACM 2006-HE3
	39539JAA4	GPMF 2007-HE1 A1	$	2,000,000.00	0.909340	$	1,818,680.13	HOME EQTY	Ass	AAA	-	Ass	AAA	-	15	LIBOR01M	GPMF 2007-HE1
	437099AA2	RFMS2 2006-HSA5 A	$	10,000,000.00	0.743261	$	7,432,611.39	HOME EQTY	Ass	AAA	-	Ass	AAA	-	14	LIBOR01M	RFMS2 2006-HSA5
	45670CAA5	INDX 2007-AR7 1A1	$	8,000,000.00	0.950995	$	7,607,961.45	CMO	Ass	AAA	-	Ass	AAA	-	30	LIBOR01M	INDX 2007-AR7
	59023UAC6	MLFT 2006-1 A2	$	25,000,000.00	1.000000	$	25,000,000.00	COMMERCIAL	Ass	AAA	AAA	Ass	AAA	AAA	13	LIBOR01M	MLFT 2006-1
	61748JAA5	MSM 2006-9AR A1	$	19,500,000.00	0.785354	$	15,314,405.73	CMO	Ass	AAA	-	Ass	AAA	-	17	LIBOR01M	MSM 2006-9AR
	61749TAA2	MSM 2006-10SL A1	$	9,000,000.00	0.629252	$	5,663,267.02	HOME EQTY	Ass	AAA	-	Ass	AAA	-	13	LIBOR01M	MSM 2006-10SL
	61752LAB1	MSC 2007-XLFA A2	$	10,000,000.00	1.000000	$	10,000,000.00	COMMERCIAL	Ass	AAA	AAA	Ass	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA
	65536WAA3	NAA 2006-S3 A1	$	18,000,000.00	0.672060	$	12,097,082.18	HOME EQTY	Ass	AAA	-	Ass	AAA	-	16	LIBOR01M	NAA 2006-S3

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted]	CUSIP	Deal Name	Original Face	Factor	Current Face	Sector	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Current Mark	Index	Margin	Deal Name
	65536XAN3	NAA 2006-AF2 5A1	$ 20,000,000.00	0.755107	$ 15,102,149.20	CMO	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M		NAA 2006-AF2
	73318NAA3	POPLR 2007-A A1	$ 3,000,000.00	0.956324	$ 2,868,972.28	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M		POPLR 2007-A
	88156TAB9	TMTS 2006-9HGA A2	$ 30,000,000.00	1.000000	$ 30,000,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M		TMTS 2006-9HGA
	88522RAA2	TMST 2006-5 A1	$ 10,000,000.00	0.812864	$ 8,128,636.90	CMO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M		TMST 2006-5
	004421VV2	ACE 2006-ASP1 A2C	$ 11,500,000.00	1.000000	$ 11,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M		ACE 2006-ASP1
	07387UAV3	BSABS 2006-PC1 A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	22	LIBOR01M		BSABS 2006-PC1
	12686BJE4	CWALT 2006-OC1 1A2	$ 15,493,000.00	0.747097	$ 11,574,779.20	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M		CWALT 2006-OC1
	14983AAC3	CBASS 2006-SL1 A3	$ 6,000,000.00	1.000000	$ 6,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	22	LIBOR01M		CBASS 2006-SL1
	144531EW6	CARR 2006-NC1 A3	$ 19,500,000.00	1.000000	$ 19,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	21	LIBOR01M		CARR 2006-NC1
	17309XAA7	CGCMT 2006-FL2 A1	$ 4,000,000.00	0.316436	$ 1,265,744.64	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M		CGCMT 2006-FL2
	17309XAB5	CGCMT 2006-FL2 A2	$ 12,853,000.00	1.000000	$ 12,853,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M		CGCMT 2006-FL2
	126169BF7	COMM 2005-F10A AJ1	$ 12,000,000.00	1.000000	$ 12,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M		COMM 2005-F10A
	126164AN2	COMM 2005-FL11 AJ	$ 2,000,000.00	1.000000	$ 2,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M		COMM 2005-FL11
	200476AA7	COMM 2007-FL14 A1	$ 4,000,000.00	0.997210	$ 3,988,841.06	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M		COMM 2007-FL14
	31394VL32	FNR 2006-5 1A	$ 20,000,000.00	0.415094	$ 8,301,885.80	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M		FNR 2006-5
	34528PAG1	FORDF 2005-1 A	$ 20,000,000.00	1.000000	$ 20,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M		FORDF 2005-1
	395393AA4	GPMF 2007-HE1 A1	$ 3,000,000.00	0.909340	$ 2,728,020.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M		GPMF 2007-HE1
	3623414R7	GSAMP 2006-HE1 A2C	$ 23,196,000.00	1.000000	$ 23,196,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M		GSAMP 2006-HE1
	36244MAA9	GSAMP 2006-S4 A1	$ 10,000,000.00	0.341169	$ 3,411,692.10	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M		GSAMP 2006-S4
	43709UAA5	INDS 2006-A A	$ 5,000,000.00	0.614187	$ 3,070,934.45	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M		INDS 2006-A
	45071KDD3	IXIS 2006-HE1 A3	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M		IXIS 2006-HE1
	45256VAA5	IMSA 2006-2 1A11	$ 1,500,000.00	0.811901	$ 1,217,851.03	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M		IMSA 2006-2
	456606KH4	INABS 2006-A A3	$ 14,500,000.00	1.000000	$ 14,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M		INABS 2006-A
	45670CAA5	INDX 2007-AR7 1A1	$ 10,000,000.00	0.950995	$ 9,509,951.81	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M		INDX 2007-AR7
	464126CW9	IRWHE 2006-1 1A1	$ 10,000,000.00	0.436321	$ 4,363,210.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M		IRWHE 2006-1
	46626LFL8	JPMAC 2006-FRE1 A3	$ 18,000,000.00	0.825899	$ 14,868,190.68	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M		JPMAC 2006-FRE1
	52519NKS2	LBFRC 2005-LLFA A2	$ 4,000,000.00	0.260749	$ 1,042,995.84	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M		LBFRC 2005-LLFA
	52519NJC9	LBFRC 2004-LLFA A2	$ 35,000,000.00	0.186356	$ 6,522,445.81	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M		LBFRC 2004-LLFA
	525217AA5	LBFRC 2006-LLFA A1	$ 10,200,000.00	0.202537	$ 2,065,878.33	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M		LBFRC 2006-LLFA
	542514RL0	LBMLT 2006-1 2A3	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M		LBMLT 2006-1
	57644DAR4	MASL 2006-1 A	$ 24,000,000.00	0.427997	$ 10,271,930.64	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M		MASL 2006-1
	59020U3A1	MLMI 2006-HE1 A2A	$ 20,000,000.00	0.392043	$ 7,840,861.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M		MLMI 2006-HE1
	61744CXZ4	MSAC 2006-NC1 A3	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M		MSAC 2006-NC1
	617453AB6	MSC 2006-XLF A2	$ 15,000,000.00	0.792068	$ 11,881,022.68	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M		MSC 2006-XLF
	61752LAB1	MSC 2007-XLFA A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M		MSC 2007-XLFA
	68389FKP8	OOMLT 2006-1 2A3	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M		OOMLT 2006-1
	73318NAA3	POPLR 2007-A A1	$ 10,000,000.00	0.956324	$ 9,563,240.92	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M		POPLR 2007-A
	746868AZ9	PTNM 2002-1A A1MH	$ 38,000,000.00	1.000000	$ 38,000,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	3	LIBOR01M		PTNM 2002-1A
	76110VTC2	RFMS2 2006-HSA1 A1	$ 25,000,000.00	0.391743	$ 9,793,580.98	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M		RFMS2 2006-HSA1
	76112BW97	RAMP 2006-NC1 A2	$ 20,519,000.00	1.000000	$ 20,519,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M		RAMP 2006-NC1
	80555PAG0	SARNT 2005-A A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	ABS	Aaa	AAA	AAA	Aaa	AAA	AAA	30	LIBOR01M		SARNT 2005-A
	86358EA89	SAIL 2006-1 A3	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M		SAIL 2006-1
	86837YAA1	SWIFT 2005-A12 A	$ 10,000,000.00	1.000000	$ 10,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M		SWIFT 2005-A12
	881561T61	TMTS 2006-3 1A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M		TMTS 2006-3
	92978BHK1	WBCMT 2006-WL7A A2	$ 6,484,000.00	1.000000	$ 6,484,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M		WBCMT 2006-WL7A
	17309XAA7	CGCMT 2006-FL2 A1	$ 500,000.00	0.316436	$ 158,218.08	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M		CGCMT 2006-FL2
	200476AA7	COMM 2007-FL14 A1	$ 6,000,000.00	0.997210	$ 5,983,261.60	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M		COMM 2007-FL14
	34528PAG1	FORDF 2005-1 A	$ 10,000,000.00	1.000000	$ 10,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M		FORDF 2005-1
	31659EAB4	FMIC 2006-2 2A1	$ 20,000,000.00	0.704557	$ 14,091,133.80	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M		FMIC 2006-2
	381656EH6	GMACM 2005-HE3 A2	$ 2,750,000.00	1.000000	$ 2,750,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M		GMACM 2005-HE3
	32052XAA5	FHABS 2006-HE2 A	$ 2,000,000.00	0.838057	$ 1,676,114.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M		FHABS 2006-HE2
	36244RAA8	GSAMP 2005-SD3 A	$ 15,150,000.00	0.667679	$ 10,115,340.90	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M		GSAMP 2005-SD3
	40430WAB1	HFCHC 2006-1 A2	$ 13,000,000.00	0.879631	$ 8,835,203.27	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M		HFCHC 2006-1
	437097AD0	HEAT 2006-6 2A3	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M		HEAT 2006-6
	46412QAA5	IRWHE 2006-2 1A1	$ 13,000,000.00	0.648887	$ 8,435,525.41	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M		IRWHE 2006-2
	52519NJC9	LBFRC 2004-LLFA A2	$ 5,000,000.00	0.186356	$ 931,777.97	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M		LBFRC 2004-LLFA
	61752LAB1	MSC 2007-XLFA A2	$ 6,000,000.00	1.000000	$ 6,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M		MSC 2007-XLFA
	784208AD2	SGMS 2006-FRE2 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M		SGMS 2006-FRE2
	83612GAA8	SVHE 2006-A A	$ 10,000,000.00	0.567742	$ 5,677,415.50	HOME EQTY	Aaa	-	AAA	Aaa	-	AAA	19	LIBOR01M		SVHE 2006-A
	885220JQ7	TMST 2005-4 A3	$ 1,700,000.00	0.886043	$ 1,506,273.15	CMO	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M		TMST 2005-4
	885220KG7	TMST 2006-1 A3	$ 3,700,000.00	0.890719	$ 3,295,659.30	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M		TMST 2006-1
	92978BHJ4	WBCMT 2006-WL7A A1	$ 3,000,000.00	0.741924	$ 2,225,773.22	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	9	LIBOR01M		WBCMT 2006-WL7A
	02660TJD8	AHM 2006-1 1A3	$ 20,000,000.00	0.639652	$ 12,793,034.60	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M		AHM 2006-1
	04012MAQ2	ARSI 2006-M1 A2C	$ 5,000,000.00	1	$ 5,000,000.00	ABS	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M		ARSI 2006-M1
	1266702J0	CWL 2006-8 1A1M	$ 15,703,000.00	0.60474076	$ 9,496,244.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	27	LIBOR01M		CWL 2006-8
	12668AEW1	CWALT 2005-59 1A2A	$ 30,000,000.00	0.62424719	$ 18,727,415.70	CMO	Aaa	AAA	-	Aaa	AAA	-	38	LIBOR01M		CWALT 2005-59
	144531DL1	CARR 2005-NC5 A2	$ 40,000,000.00	0.85625284	$ 34,250,113.77	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	32	LIBOR01M		CARR 2005-NC5
	362334GS7	GSAA 2006-5 2A2	$ 40,000,000.00	1	$ 40,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M		GSAA 2006-5
	362382AD5	GSAA 2006-9 A1	$ 2,000,000.00	0.43092711	$ 861,854.23	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M		GSAA 2006-9
	36240UAB3	GSTR 2002-2A A1MB	$ 35,100,000.00	0.76294109	$ 26,779,232.17	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M		GSTR 2002-2A
	45254NNP8	IMM 2005-3 A1	$ 17,075,000.00	0.3885933	$ 6,259,580.60	CMO	Aaa	AAA	-	Aaa	AAA	-	24	LIBOR01M		IMM 2005-3
	45255RAY3	IMSA 2006-3 A6M	$ 7,500,000.00	1	$ 7,500,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M		IMSA 2006-3
	59020VAV5	MLMI 2006-AR1 A2C	$ 5,000,000.00	1	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M		MLMI 2006-AR1
	617451DQ9	MSAC 2006-HE1 A3	$ 3,750,000.00	1	$ 3,750,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M		MSAC 2006-HE1
	61915RAA4	MHL 2005-2 1A1	$ 10,000,000.00	0.54204745	$ 5,420,474.50	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M		MHL 2005-2
	64352VQR5	NCHET 2006-1 A2B	$ 20,000,000.00	1	$ 20,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M		NCHET 2006-1
	65535VUS5	NAA 2006-AR2 3A1	$ 31,517,000.00	0.55407205	$ 17,462,888.80	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M		NAA 2006-AR2
	65537EAA2	NAA 2006-AR3 A1A	$ 5,500,000.00	0.83382868	$ 4,586,057.74	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M		NAA 2006-AR3
	75114RAD7	RALI 2006-QA3 A1	$ 15,500,000.00	0.70444654	$ 10,918,921.43	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M		RALI 2006-QA3
	75405YAB8	RASC 2005-KS10 1A2	$ 25,000,000.00	1	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M		RASC 2005-KS10
	8137B5AB0	SABR 2006-FR3 A2	$ 3,500,000.00	1	$ 3,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M		SABR 2006-FR3
	863576FF6	SASC 2006-WF1 A4	$ 22,500,000.00	1	$ 22,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M		SASC 2006-WF1
	86358RMY0	ARC 2001-BC6 A	$ 150,000,000.00	0.02613147	$ 3,919,720.50	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M		ARC 2001-BC6
	8815612F0	TMTS 2006-5 1A2B	$ 20,000,000.00	1	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M		TMTS 2006-5
	84751NAE4	SURF 2006-BC5 A2D	$ 5,225,000.00	1	$ 5,225,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M		SURF 2006-BC5
	32029AAD9	FFML 2006-FF18 A2C	$ 3,500,000.00	1	$ 3,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M		FFML 2006-FF18
	61748HUF6	MSM 2006-1AR 1A1	$ 7,400,000.00	0.85296707	$ 4,831,956.32	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M		MSM 2006-1AR
	805564AC1	SAST 2006-3 A3	$ 5,000,000.00	1	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M		SAST 2006-3
	44328BAD0	HASC 2006-HE2 2A2	$ 4,900,000.00	1	$ 4,900,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M		HASC 2006-HE2
	02151JAA9	CWALT 2007-HY8 A1	$ 2,000,000.00	0.98549564	$ 1,970,991.68	CMO	Aaa	AAA	AAAe	Aaa	AAA	AAAe	21	LIBOR01M		CWALT 2007-HY8

From: Ganapathy, Mahesh
Sent: Thursday, August 09, 2007 11:16 AM
To: Lehman, David A.; Bieber, Matthew G.; Egol, Jonathan
Cc: Kang, Connie
Subject: Default Swap Collateral Summary

Attachments: Default Swap Collateral Master File 08.08.07.xls

As discussed , we have updated the default swap collateral file with WALs , WA Mark by Deal and Asset Type (Please note marks on CMOs are yet to be received).



Default Swap
Collateral Master...

Thanks

Mahesh Ganapathy
CDO Structuring,Marketing & Principal Investments
Fixed Income,Currency and Commodities Division
Goldman, Sachs & Co.
Ph: 212-902-6265
Fax:212-256-6570
mahesh.ganapathy@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2641

Default Swap Collateral
Summary

GS MBS-E-001930307

Acc. Days	90.00

By Deal

Deal Name	Face of AAA ratedcollateral	Cash in Acct	WAL	WAS Spread	WA Price	Interest on Cash	LIBOR	Spread to LIBOR	Change (bps)	100% Cash Case ($ difference)
Hout Bay	$ 98,302,805.42	$ 740,306.90	1.90	15.33	$96.98	4.985	5.321	-0.336	15.66	$ 120,306.89
Altius 2005-1	$ 121,643,454.49	$ 2,347,914.01	1.08	7.30	$79.77	4.985	5.321	-0.336	7.64	$ 124,458.85
Altius IV	$ 378,046,168.59	$ 6,496,933.36	2.45	18.42	$32.24	4.985	5.321	-0.336	18.78	$ 491,875.60
Broadwick	$ 492,367,096.06	$ 14,200,713.91	2.05	20.12	$67.60	4.985	5.321	-0.336	20.46	$ 661,601.21
Hudson HG	$ 94,642,294.57	$ 629,293.15	2.75	11.84	$88.37	4.910	5.321	-0.411	12.25	$ 125,318.77
Hudson Mezz 06-1	$ 749,005,576.36	$ 16,199,471.06	0.94	10.95	$70.31	4.910	5.321	-0.411	11.36	$ 975,061.82
Hudson Mezz 06-2	$ 392,129,110.51	$ 1,958,179.78	1.32	10.14	$86.45	4.985	5.321	-0.336	10.48	$ 429,073.51
Anderson Mezz 2007-1	$ 297,777,252.96	$ 1,109,279.81	1.72	10.24	$92.12	4.985	5.321	-0.336	10.57	$ 326,517.63
Point Pleasant Funding 2007-1	$ 551,539,388.07	$ 28,454,270.10	1.24	12.33	$92.22	4.985	5.321	-0.336	12.67	$ 633,696.28
GSC ABS 2006-3g	$ 297,452,754.79	$ 5,116,599.01	2.93	16.19	$86.20	4.985	5.321	-0.336	16.53	$ 370,462.99
Davis Square 7	$ 109,646,825.46	$ 1,829,151.62	2.64	9.63	$80.34	4.860	5.321	-0.461	10.09	$ 152,840.78
Adirondack 2005-1	$ 166,174,523.84	$ 3,887,099.16	1.01	15.08	$86.32	4.985	5.321	-0.336	15.42	$ 202,355.64
Adirondack 2005-2	$ 122,029,924.94	$ 4,386,734.77	0.93	12.27	$94.49	4.985	5.321	-0.336	12.60	$ 140,008.33
Davis Square 6	$ 9,284,993.03	$ 690,622.23	0.80	4.49	$99.75	4.860	5.321	-0.461	4.96	$ 11,750.11
Camber 7	$ 863,192,746.40	$ 5,188,050.77	2.42	25.84	$82.22	4.930	5.321	-0.391	26.23	$ 1,402,001.36
Coolidge	$ 82,355,717.71	$ 9,719,060.40	0.89	1.51	$87.73	4.985	5.321	-0.336	1.85	$ 72,343.51
Timberwolf	$ 861,069,305.20	$ 47,431,452.49	1.93	27.82	$92.39	5.170	5.321	-0.151	27.97	$ 924,537.89
Fortius II	$ 175,942,675.64	$ 3,630,497.29	2.08	6.26	$53.90	5.110	5.321	-0.211	6.47	$ 120,466.52
Fortius I	$ 463,833,055.70	$ 8,178,395.54	2.13	20.02	$87.48	5.110	5.321	-0.211	20.23	$ 477,066.18
Altius III	$ 106,681,696.31	$ 4,316,991.17	2.23	7.52	$91.07	5.110	5.321	-0.211	7.73	$ 76,393.84
West Coast	$ 329,153,286.14	$ 5,634,878.42	2.89	24.17	$70.34	4.910	5.321	-0.411	24.58	$ 537,282.77
Total	$ 6,762,270,652.20	$ 172,145,894.96	1.89	17.43	$79.83	5.000	5.321	-0.321	17.75	$ 8,375,420.48

% of Portfolio Marked		83.5%
Wgt. Avg. Marked Price	$	95.57

Default Swap Collateral
Summary

GS MBS-E-001930307

By Deal

Deal Name	Name of Test	Cushion (New)	Trigger	Name of Test	Cushion (New)	Trigger	Name of Test	Cushion (New)
Hout Bay	Class A/B	9.56%	105.00%	Class C	7.19%	101.50%	Class D	2.36%
Altius 2005-1	Class A/B	17.36%	101.00%	Class C/D	4.85%	100.00%		
Altius IV	Class A/B	29.97%	101.00%	Class C	19.57%	100.00%		11.03%
Broadwick	No IC Test			No IC Test			No IC Test	
Hudson HG	Class A/B	8.79%	102.00%	Class C	4.85%	101.00%	Class D	2.25%
Hudson Mezz 06-1	No IC Test			No IC Test			No IC Test	
Hudson Mezz 06-2	No IC Test			No IC Test			No IC Test	
Anderson Mezz 2007-1	No IC Test			No IC Test			No IC Test	
Point Pleasant Funding 2007-1	No IC Test			No IC Test			No IC Test	
GSC ABS 2006-3g	Class A/B	6.29%	102.00%	Class C	3.22%	101.00%	Class D	4.22%
Davis Square 7	Class A/B	19.21%	102.00%	Class C	17.39%	101.00%	Class D	13.07%
Adirondack 2005-1	Class A/B	13.92%	105.00%	Class C/D	4.69%	102.00%		
Adirondack 2005-2	Class A/B	14.43%	105.00%	Class C	8.92%	102.00%	Class D	2.92%
Davis Square 6	Class A/B	8.58%	102.00%	Class C	7.22%	101.00%	Class D	2.31%
Camber 7	Class A/B	28.02%	102.00%	Class C	13.34%	101.00%	Class D	15.71%
Coolidge	Class A/B	24.06%	112.00%	Class C/D	12.72%	106.00%		
Timberwolf	No IC Test			No IC Test			No IC Test	
Fortius II	Class A/B	48.33%	101.00%	Class C	50.80%	100.00%	Class D	37.68%
Fortius I	Class A/B	79.91%	101.00%	Class C/D	30.64%	100.00%		
Altius III	Class A/B	34.29%	101.00%	Class C	29.10%	100.00%	Class D	23.26%
West Coast	Class A/B	8.22%	102.00%	Class C	6.23%	101.00%	Class D	1.58%
Total								

% of Portfolio Marked
Wgt. Avg. Marked Price

Default Swap Collateral
Summary

GS MBS-E-001930307

By Deal

Deal Name	Interest Proceeds	Interest Reduction as % of I.P.	Tranche Effected	Interest Reduction as % of Equity Payment	Comment
Hout Bay	7,717,448.70	1.56%	Equity, D and E Notes	141%	
Altius 2005-1	10,692,433.96	1.18%	Equity	40%	
Altius IV	9,807,179.35	5.02%	Equity and BBB	126%	Model Projection
Broadwick	5,097,013.63	12.98%	Equity and Sub Mgt Fee	100.0%	
Hudson HG	8,558,702.00	1.46%	Equity	71.5%	
Hudson Mezz 06-1	8,185,419.61	11.91%	Super Snr		AB OC Failure
Hudson Mezz 06-2	2,677,462.76	16.03%	BBB		D OC Failure
Anderson Mezz 2007-1	8,345,765.07	3.91%	Equity	14.5%	
Point Pleasant Funding 2007-1	18,770,655.37	3.38%	Equity	31.3%	Model Projection
GSC ABS 2006-3g	9,206,802.63	4.02%	Equity	91.6%	
Davis Square 7	11,372,912.48	1.34%	Equity	31.7%	
Adirondack 2005-1	7,668,827.27	2.64%	Equity	98.4%	
Adirondack 2005-2	8,152,822.27	1.72%	Equity	54.6%	
Davis Square 6	9,923,190.60	0.12%	Equity	4.1%	
Camber 7	17,875,551.48	7.84%	Equity, Sub Mgt Fee, D & E Turbo	261%	
Coolidge	6,077,061.50	1.19%	Equity	10.2%	
Timberwolf	17,250,148.86	5.36%	Equity	89.1%	Model Projection
Fortius II	3,331,606.57	3.62%	Class E		E OC Failure
Fortius I	4,661,340.39	10.23%	Equity	46.5%	
Altius III	9,916,597.16	0.77%	BBB		D OC Failure
West Coast	14,205,687.05	3.78%	Class E, X, Sub Mgmt fee, and D notes	254.4%	
Total					

% of Portfolio Marked
Wgt. Avg. Marked Price

By Issuer

Issuer	Sum of Current Face
GSAA 2007-4	$ 299,034,534.28
PTNM 2002-1A	$ 119,500,000.00
GSAA 2007-5	$ 111,916,060.59
GSAA 2006-18	$ 107,415,920.77
GSAMP 2007-HE1	$ 88,652,073.00
GSMS 2007-EOP	$ 86,212,077.37
CWL 2006-S10	$ 83,962,119.29
CWL 2007-3	$ 78,712,842.37
CBASS 2007-SL1A	$ 78,214,561.28
CWL 2006-20	$ 76,557,920.20
CARR 2005-NC5	$ 75,778,376.71
IMSA 2007-2	$ 74,936,062.26
BSABS 2006-HE10	$ 74,154,354.91
CWL 2006-S7	$ 72,490,572.60
CMLTI 2007-AMC2	$ 72,149,302.93
CWALT 2006-OC9	$ 71,698,948.30
BSABS 2007-FS1	$ 68,387,705.10
GSAA 2006-17	$ 68,135,300.40
GSAMP 2007-FM2	$ 62,864,000.00
GSAA 2006-S1	$ 62,598,894.62
CWL 2007-S2	$ 61,789,935.62
CWALT 2006-OC10	$ 60,248,265.00
FFML 2007-FFB5	$ 59,769,700.97
HUDMZ 2006-1A	$ 59,694,526.07
PHHAM 2007-3	$ 58,873,822.58
AMIT 2006-1	$ 57,232,000.00
FHLT 2006-D	$ 55,205,997.00
GPMF 2007-HE1	$ 52,741,723.77
GSAMP 2006-SD3	$ 52,412,822.48
NHELI 2006-FM2	$ 51,447,242.88
BSMF 2007-SL2	$ 50,253,329.87
HEAT 2006-7	$ 50,000,000.00
MABS 2007-WMC1	$ 48,850,000.00
AHMA 2007-3	$ 47,044,322.88
FFML 2007-FF2	$ 46,500,000.00
CARR 2006-NC5	$ 45,298,622.44
FMIC 2006-1	$ 45,000,000.00
NHEL 2006-6	$ 45,000,000.00
CARR 2006-FRE2	$ 43,754,000.00
FMIC 2006-S1	$ 41,850,274.23
NCAMT 2006-ALT2	$ 41,763,396.93
GSRPM 2006-2	$ 41,495,858.33
GSMS 2006-FL8A	$ 41,360,000.00
INDX 2007-AR7	$ 40,892,792.80
CWL 2006-17	$ 40,000,000.00
GSAA 2006-5	$ 40,000,000.00
MLMI 2006-HE5	$ 40,000,000.00
SABR 2006-WM2	$ 40,000,000.00
GSAA 2007-6	$ 39,803,449.27
ACST 2006-1A	$ 39,581,895.03
CARR 2006-NC1	$ 39,195,000.00
GSTR 2002-2A	$ 37,921,986.75
QUEST 2005-X2	$ 37,542,769.46
LXS 2006-4N	$ 35,964,000.00
FHLT 2006-E	$ 35,810,000.00
BCAP 2006-AA2	$ 35,501,656.00
FHLT 2006-C	$ 35,000,000.00
SWIFT 2003-A8	$ 35,000,000.00
MSAC 2006-HE6	$ 34,000,000.00
GSAA 2007-3	$ 33,474,409.46
GSAA 2006-20	$ 32,621,713.87
MSAC 2006-HE5	$ 32,000,000.00
OWNIT 2005-5	$ 31,727,500.00
FHLT 2006-B	$ 31,645,000.00
ARMT 2006-3	$ 31,244,717.86
ARSI 2006-W4	$ 31,000,000.00
NAA 2007-S1	$ 30,499,856.81

Issuer	Sum of Current Face
SASC 2007-GEL1	$ 30,306,352.22
CARR 2006-NC3	$ 30,000,000.00
CMLTI 2006-WFH3	$ 30,000,000.00
FORDF 2005-1	$ 30,000,000.00
NCHET 2006-1	$ 30,000,000.00
TMTS 2006-9HGA	$ 30,000,000.00
CCMFC 2007-2A	$ 29,956,024.92
JPALT 2007-S1	$ 27,715,356.81
SACO 2006-9	$ 27,223,906.92
MSC 2007-XLFA	$ 27,000,000.00
SASC 2007-BC2	$ 26,814,000.00
GSAMP 2006-S6	$ 26,672,961.55
HALO 2007-WF1	$ 25,906,852.47
AMSI 2005-R6	$ 25,819,325.68
CGCMT 2006-FL2	$ 25,239,683.15
CWL 2006-18	$ 25,000,000.00
GCCFC 2006-FL4A	$ 25,000,000.00
LBMLT 2006-1	$ 25,000,000.00
MLFT 2006-1	$ 25,000,000.00
OOMLT 2006-1	$ 25,000,000.00
RASC 2005-KS10	$ 25,000,000.00
SABR 2006-FR4	$ 25,000,000.00
TMTS 2006-3	$ 25,000,000.00
INDS 2006-A	$ 24,567,475.63
SACO 2007-2	$ 24,423,884.79
CSMS 2006-HC1A	$ 24,005,000.00
CWALT 2006-OA17	$ 23,973,520.17
CWALT 2007-OH1	$ 23,469,617.83
ABSHE 2006-HE7	$ 23,414,000.00
GSAMP 2006-HE1	$ 23,196,000.00
SASC 2006-WF1	$ 22,500,000.00
CSMC 2006-TF2A	$ 22,455,417.64
CWALT 2006-OA22	$ 22,453,719.13
SAMI 2006-AR2	$ 22,429,218.48
BAYV 2006-D	$ 22,137,847.00
CWALT 2006-OC2	$ 21,557,100.84
MSC 2006-XLF	$ 21,385,840.83
CWALT 2005-59	$ 20,931,328.04
LBFRC 2006-LLFA	$ 20,852,402.53
MSAC 2007-HE3	$ 20,829,378.21
HVMLT 2005-2	$ 20,715,173.80
RAMP 2006-NC1	$ 20,519,000.00
NAA 2006-AF2	$ 20,482,315.66
CWL 2006-BC5	$ 20,105,300.67
CARR 2006-NC4	$ 20,000,000.00
CWL 2007-1	$ 20,000,000.00
GSAMP 2006-FM3	$ 20,000,000.00
MMT 2005-2	$ 20,000,000.00
RAMP 2006-RZ2	$ 20,000,000.00
TMTS 2006-5	$ 20,000,000.00
GSAMP 2006-FM2	$ 19,392,000.00
HASC 2006-HE1	$ 19,355,412.75
LABSM 2007-1	$ 19,097,606.60
ABSHE 2006-HE4	$ 19,000,000.00
MABS 2006-WMC4	$ 19,000,000.00
SGMS 2006-OPT2	$ 19,000,000.00
GSAMP 2007-HE2	$ 18,652,517.34
BSABS 2006-PC1	$ 18,000,000.00
MSAC 2006-NC1	$ 18,000,000.00
SARNT 2005-A	$ 18,000,000.00
FORDF 2006-3	$ 17,950,000.00
INDX 2007-FLX1	$ 17,859,011.08
CWL 2007-QH1	$ 17,740,579.34
MSM 2006-6AR	$ 17,695,879.00
NAA 2006-AR2	$ 17,462,688.80
CARR 2005-NC3	$ 17,314,775.15
BSMF 2006-SL2	$ 17,155,739.75

Issuer	Sum of Current Face
CWHEL 2004-Q	$ 16,884,659.47
GPMF 2005-HE4	$ 16,802,752.23
LBMLT 2005-WL2	$ 16,657,555.96
CWL 2007-8	$ 16,595,853.98
BMAT 2006-1A	$ 16,299,569.02
TMST 2006-5	$ 16,259,673.80
SASC 2006-GEL3	$ 16,056,375.19
SAMI 2006-AR3	$ 15,723,940.72
ACCR 2005-4	$ 15,428,344.74
MSM 2006-9AR	$ 15,314,405.73
DVSQ 2005-SA	$ 15,300,000.00
WAMU 2006-AR4	$ 15,153,289.63
FFML 2006-FF5	$ 15,036,000.00
ABFC 2006-HE1	$ 15,000,000.00
BSABS 2006-AQ1	$ 15,000,000.00
CWL 2007-5	$ 15,000,000.00
RASC 2006-EMX9	$ 15,000,000.00
SABR 2006-WM3	$ 15,000,000.00
SGMS 2006-FRE2	$ 15,000,000.00
WFHET 2006-3	$ 15,000,000.00
COMM 2007-FL14	$ 14,958,153.99
JPMAC 2006-FRE1	$ 14,866,190.66
FFML 2007-FFC	$ 14,700,414.94
INABS 2006-A	$ 14,500,000.00
IXIS 2006-HE1	$ 14,500,000.00
FMIC 2005-2	$ 14,091,133.80
RFMS2 2007-HSA3	$ 13,849,962.92
CWL 2006-SPS1	$ 13,528,019.25
OOMLT 2007-2	$ 13,400,000.00
CWL 2007-BC1	$ 13,284,935.09
AMSI 2005-R9	$ 13,003,591.86
GSAMP 2005-HE4	$ 12,938,451.03
AHM 2006-1	$ 12,793,034.60
ACCR 2007-1	$ 12,474,389.67
SAIL 2006-1	$ 12,439,000.00
POPLR 2007-A	$ 12,432,213.19
COMM 2005-F10A	$ 12,335,095.30
NAA 2006-S3	$ 12,097,082.16
ACE 2006-FM2	$ 12,000,000.00
BSABS 2006-HE9	$ 12,000,000.00
CWL 2007-6	$ 12,000,000.00
GPMF 2006-OH1	$ 11,691,689.25
GSAA 2005-11	$ 11,576,526.67
CWALT 2006-OC1	$ 11,574,779.20
ACE 2006-ASP1	$ 11,500,000.00
NCHET 2005-3	$ 11,488,271.57
MSIX 2006-2	$ 11,470,000.00
WMALT 2007-OC2	$ 11,441,397.67
PCHLT 2005-2	$ 11,322,000.00
FORTS 2006-2A	$ 11,028,945.00
RALI 2006-QA3	$ 10,918,921.43
GSAA 2005-6	$ 10,461,792.00
GSAMP 2006-HE4	$ 10,368,000.00
GSAA 2007-7	$ 10,298,303.84
MASL 2006-1	$ 10,271,930.64
SVHE 2006-EQ2	$ 10,270,000.00
ABSHE 2006-HE6	$ 10,000,000.00
CMLTI 2006-HE3	$ 10,000,000.00
CSMC 2007-TFLA	$ 10,000,000.00
HEAT 2006-6	$ 10,000,000.00
RASC 2006-KS3	$ 10,000,000.00
SVHE 2006-OPT1	$ 10,000,000.00
SWIFT 2005-A12	$ 10,000,000.00
FHABS 2007-HE1	$ 9,920,324.32
RFMS2 2006-HSA1	$ 9,793,580.98
NCHET 2005-1	$ 9,763,636.36
ARMT 2006-1	$ 9,520,601.12

Issuer	Sum of Current Face
CWL 2007-4	$ 9,503,732.65
CWL 2006-6	$ 9,496,244.11
HASC 2006-OPT1	$ 9,300,000.00
FMIC 2007-1	$ 9,218,401.26
PHHAM 2007-2	$ 9,161,319.59
MABS 2006-HE3	$ 9,010,137.78
GSAA 2007-1	$ 8,852,480.11
HFCHC 2006-1	$ 8,835,203.27
FORTS 2006-1A	$ 8,740,000.00
WBCMT 2006-WL7A	$ 8,709,773.22
IRWHE 2006-2	$ 8,435,525.41
SASC 2005-S5	$ 8,415,094.97
BSCMS 2006-BBA7	$ 8,344,294.50
FNR 2006-5	$ 8,301,885.80
AHM 2004-4	$ 8,299,913.76
NHEL 2005-3	$ 8,036,033.16
MLMI 2006-HE1	$ 7,840,861.20
HUDMZ 2006-2A	$ 7,768,333.00
IMSA 2006-3	$ 7,500,000.00
LBFRC 2004-LLFA	$ 7,454,223.78
RFMS2 2006-HSA5	$ 7,432,611.39
IMSA 2006-2	$ 7,307,106.17
GSAA 2005-12	$ 7,196,734.43
SAST 2006-3	$ 7,100,000.00
MABS 2005-NC2	$ 6,971,017.83
TMTS 2006-17HE	$ 6,827,028.12
NHELI 2006-HE3	$ 6,761,000.00
GSAA 2005-7	$ 6,477,066.50
GMACM 2006-HE3	$ 6,463,203.65
BSCMS 2007-BBA8	$ 6,400,000.00
IMM 2005-3	$ 6,259,580.60
CWL 2006-S6	$ 6,169,917.89
BSABS 2005-HE12	$ 6,027,427.40
CBASS 2006-SL1	$ 6,000,000.00
RALI 2006-QO10	$ 5,783,461.52
SVHE 2006-A	$ 5,677,415.50
MSM 2006-10SL	$ 5,663,267.02
MLMI 2006-SL1	$ 5,662,062.11
FFML 2006-FF18	$ 5,500,000.00
CWL 2006-S3	$ 5,472,282.46
GOLDS 2003-A	$ 5,462,431.47
ALTS 2006-3X	$ 5,449,966.53
MHL 2005-2	$ 5,420,474.50
SURF 2006-BC5	$ 5,225,000.00
HUDHG 2006-1A	$ 5,160,526.25
ARSI 2006-M1	$ 5,000,000.00
JPMCC 2006-FL2A	$ 5,000,000.00
LBMLT 2006-10	$ 5,000,000.00
MABS 2005-WMC1	$ 5,000,000.00
MLMI 2006-AR1	$ 5,000,000.00
NCHET 2005-C	$ 5,000,000.00
WAMU 2005-AR8	$ 4,984,240.37
HASC 2006-HE2	$ 4,900,000.00
GSAA 2006-10	$ 4,877,170.88
TMTS 2006-7	$ 4,844,081.31
MSM 2006-1AR	$ 4,831,956.32
GSAMP 2006-SD2	$ 4,740,381.37
PFRMS 2006-1	$ 4,661,111.06
TMTS 2006-11	$ 4,631,687.94
NAA 2006-AR3	$ 4,586,057.74
CWL 2006-S5	$ 4,586,041.57
GSAMP 2007-H1	$ 4,555,670.65
ABSHE 2005-HE4	$ 4,507,202.57
IRWHE 2006-1	$ 4,363,210.34
GSAA 2006-3	$ 4,230,388.69
BALL 2005-MIB1	$ 4,219,579.58
WMALT 2006-AR10	$ 4,147,842.81

Issuer	Sum of Current Face
ARC 2001-BC6	$ 3,919,720.50
NEPTN 2006-3A	$ 3,916,671.00
HASC 2007-NC1	$ 3,860,012.40
RAMP 2006-RZ1	$ 3,778,736.16
MSAC 2006-HE1	$ 3,750,000.00
GSAA 2006-4	$ 3,736,323.49
HOUT 2006-1A	$ 3,652,000.00
SABR 2006-FR3	$ 3,500,000.00
GSAMP 2006-S4	$ 3,411,692.10
GUGH 2005-1A	$ 3,325,000.00
TMST 2006-1	$ 3,295,659.30
CSMC 2006-TFLA	$ 3,052,884.61
LBMLT 2006-4	$ 3,033,244.67
SASC 2005-S6	$ 2,869,877.99
RAMP 2004-RS10	$ 2,766,107.82
GMACM 2005-HE3	$ 2,750,000.00
INDS 2006-1	$ 2,735,849.78
NCHET 2006-S1	$ 2,465,813.78
RASC 2004-KS9	$ 2,251,488.98
RAMP 2005-EFC7	$ 1,824,379.27
CWL 2006-S2	$ 1,789,069.73
BVMBS 2005-2	$ 1,701,307.90
FHABS 2006-HE2	$ 1,676,114.11
TMST 2005-4	$ 1,506,273.15
GSAA 2006-9	$ 1,422,059.48
LBMLT 2005-WL1	$ 1,409,109.99
ACCR 2002-1	$ 1,355,164.84
BSABS 2005-EC1	$ 1,343,649.62
RAMP 2006-NC3	$ 1,200,000.00
GSRPM 2006-1	$ 1,082,350.62
LBFRC 2005-LLFA	$ 1,042,995.84
CARR 2005-NC1	$ 1,025,805.38
CMLTI 2006-HE2	$ 1,000,000.00
GSAMP 2005-WMC3	$ 1,000,000.00
JPMAC 2005-OPT2	$ 1,000,000.00
SASC 2005-AR1	$ 865,026.87
IXIS 2005-HE4	$ 365,878.97
RAMP 2005-EFC3	$ 219,232.39
JPMCC 2006-FL1A	$ 132,611.97

By CUSIP

CUSIP	Sum of Current Face
3622EBAA6	$ 252,342,534.28
746869AZ9	$ 119,500,000.00
3622ECAA4	$ 111,916,060.59
3622ELAA4	$ 107,415,920.77
1248MKAB1	$ 78,214,561.28
12667HAB7	$ 76,557,920.20
144531DL1	$ 75,778,376.71
452570AA2	$ 74,936,062.26
12668VAA7	$ 72,490,572.60
17311XAA3	$ 72,149,302.93
23245GAA9	$ 71,698,948.30
073855AA6	$ 68,387,705.10
362257AA5	$ 68,135,300.40
3622MHAC0	$ 62,864,000.00
40051CAA5	$ 62,598,894.62
12670BAA7	$ 61,789,935.62
23245FAB9	$ 60,248,265.00
30248EAA6	$ 59,769,700.97
12668YAA1	$ 55,974,746.10
35729VAB3	$ 55,205,997.00
443860AB7	$ 54,290,307.32
36244RAA8	$ 52,412,822.48
65537FAB7	$ 51,447,242.88
07401RAA8	$ 50,253,329.87
07389RAP1	$ 50,000,000.00
43709NAD5	$ 50,000,000.00
55275TAC2	$ 48,850,000.00
026935AC0	$ 47,044,322.88
3622EBAB4	$ 46,692,000.00
32029GAC8	$ 46,500,000.00
39539JAA4	$ 45,467,003.25
31659TEY7	$ 45,000,000.00
66988RAC1	$ 45,000,000.00
3622MDAB1	$ 44,461,073.00
3622MDAC9	$ 44,191,000.00
12668UAE1	$ 43,712,842.37
31659XAA4	$ 41,850,274.23
643529AA8	$ 41,763,396.93
36298UAC2	$ 41,360,000.00
45670CAA5	$ 40,892,792.80
362334GS7	$ 40,000,000.00
59022QAD4	$ 40,000,000.00
12666VAC5	$ 40,000,000.00
81376GAD2	$ 40,000,000.00
00505HAA0	$ 39,581,895.03
36240UAB3	$ 37,921,986.75
748351AF0	$ 37,542,769.46
36228CZS5	$ 37,432,077.37
144539AC7	$ 36,034,000.00
525221KK2	$ 35,964,000.00
35729NAD7	$ 35,810,000.00
05530MAA7	$ 35,501,656.00
86837TAB0	$ 35,000,000.00
35729TAD4	$ 35,000,000.00
61749NAC1	$ 32,000,000.00
69121PBT9	$ 31,727,500.00
36245RAG4	$ 31,254,563.70
00703QAD4	$ 31,244,717.86
69337MAA8	$ 31,073,822.58
040104TF8	$ 31,000,000.00
655374AA4	$ 30,499,856.81
86362QAA1	$ 30,306,352.22
00252GAB5	$ 30,000,000.00
34528PAG1	$ 30,000,000.00
64352VQR5	$ 30,000,000.00
88156TAB9	$ 30,000,000.00
17309QAC8	$ 30,000,000.00
61750FAE0	$ 30,000,000.00
166798AA9	$ 29,956,024.92
36228CZW6	$ 29,780,000.00
12668YAA1	$ 27,987,373.19
69337MAB6	$ 27,800,000.00
466275AB0	$ 27,715,356.81
00252GAC3	$ 27,232,000.00
78577RAA7	$ 27,223,906.92
61752LAB1	$ 27,000,000.00
86362YAC0	$ 26,814,000.00
36245CAC6	$ 26,672,961.55
03072SF91	$ 25,819,325.68
20173RAB5	$ 25,000,000.00
542514RL0	$ 25,000,000.00
59023UAC6	$ 25,000,000.00
75405WAB8	$ 25,000,000.00
81377GAB5	$ 25,000,000.00
881561T61	$ 25,000,000.00
23243WAC2	$ 25,000,000.00
43709UAA5	$ 24,567,475.63
78581NAA0	$ 24,423,884.79
07389RAN6	$ 24,154,354.91
22943NAA1	$ 24,005,000.00
12668PAB8	$ 23,973,520.17

CUSIP	Sum of Current Face
362725AC7	$ 23,901,514.50
14454AAB5	$ 23,754,000.00
3622EAAX8	$ 23,507,655.07
04544QAD9	$ 23,414,000.00
3623414R7	$ 23,196,000.00
863576FF6	$ 22,500,000.00
23245PAC5	$ 22,453,719.13
86359LSP5	$ 22,429,218.48
12668BRE5	$ 21,557,100.84
617455AB6	$ 21,385,840.83
617538AA1	$ 20,829,378.21
41161PLS0	$ 20,715,173.80
76112BW97	$ 20,519,000.00
12666SAB4	$ 20,105,300.67
144528AC0	$ 20,000,000.00
14453MAB0	$ 20,000,000.00
23245CAC4	$ 20,000,000.00
362351AB4	$ 20,000,000.00
36245TAC9	$ 20,000,000.00
59159UBX5	$ 20,000,000.00
75156UAB3	$ 20,000,000.00
8815612F0	$ 20,000,000.00
14454AAC3	$ 20,000,000.00
144531EW6	$ 19,500,000.00
36245DAD2	$ 19,392,000.00
44328AAB6	$ 19,355,412.75
52521MAB8	$ 19,097,606.60
04544GAF6	$ 19,000,000.00
36228CZU0	$ 19,000,000.00
78420MAE9	$ 19,000,000.00
57645MAE2	$ 19,000,000.00
52521TAC1	$ 18,786,526.20
35729QAC2	$ 18,763,538.00
12668AEW1	$ 18,727,415.70
07387UAV3	$ 18,000,000.00
12668UAF8	$ 18,000,000.00
61744CXZ4	$ 18,000,000.00
80555PAG0	$ 18,000,000.00
34528QAA2	$ 17,950,000.00
45668WAA5	$ 17,859,011.08
12669HAA7	$ 17,740,579.34
61749CAB7	$ 17,695,879.00
362725AA1	$ 17,594,343.83
40431KAA8	$ 17,532,852.47
65535VU55	$ 17,462,688.80
144531CV0	$ 17,314,775.15
07400YAA4	$ 17,155,739.75
12668UAG6	$ 17,000,000.00
126673MY5	$ 16,884,659.47
39538WDC9	$ 16,802,752.23
105667AA7	$ 16,299,569.02
88522RAA2	$ 16,259,673.80
86360XAA8	$ 16,056,375.19
17309XAB5	$ 15,853,000.00
86360KAC2	$ 15,723,940.72
22545RAB2	$ 15,700,000.00
61748JAA5	$ 15,314,405.73
239156AJ1	$ 15,300,000.00
93934FPR7	$ 15,153,289.63
65536XAN3	$ 15,102,149.20
32027EAE1	$ 15,036,000.00
00075WAC3	$ 15,000,000.00
07389PAB6	$ 15,000,000.00
12668KAC7	$ 15,000,000.00
68389FKP8	$ 15,000,000.00
74924VAC3	$ 15,000,000.00
784208AD2	$ 15,000,000.00
81377EAB0	$ 15,000,000.00
9497EBAB5	$ 15,000,000.00
200476AA7	$ 14,958,153.99
46626LFL9	$ 14,866,190.66
07325HAH8	$ 14,712,000.00
32029HAB8	$ 14,700,414.94
45071KDD3	$ 14,500,000.00
456606KH4	$ 14,500,000.00
02150KAB5	$ 14,108,722.72
31659EAB4	$ 14,091,133.80
43710WAA8	$ 13,849,962.92
004375EH0	$ 13,843,000.00
12666MAA9	$ 13,528,019.25
68401TAD0	$ 13,400,000.00
362440AC3	$ 13,347,000.00
12668TAB0	$ 13,284,935.09
03072SP33	$ 13,003,591.86
144531EV8	$ 13,000,000.00
362341KA6	$ 12,938,451.03
02660TJD6	$ 12,793,034.60
362351AD0	$ 12,621,713.87
00438QAA2	$ 12,474,389.67
86358EA89	$ 12,439,000.00
73316NAA3	$ 12,432,213.19

CUSIP	Sum of Current Face
65536WAA3	$ 12,097,082.16
07389MAB3	$ 12,000,000.00
126169BF7	$ 12,000,000.00
12669LAC4	$ 12,000,000.00
00442CAD1	$ 12,000,000.00
542514MZ4	$ 11,887,658.42
39539GAC6	$ 11,691,689.25
362341QH5	$ 11,576,526.67
12668BJE4	$ 11,574,779.20
004421VV2	$ 11,500,000.00
64352VLG4	$ 11,488,271.57
617463AC8	$ 11,470,000.00
93936LAA5	$ 11,441,397.67
71085PBX0	$ 11,322,000.00
34957YAA5	$ 11,028,945.00
75114RAD7	$ 10,918,921.43
36242D3U5	$ 10,461,792.00
362439AD3	$ 10,368,000.00
36249BAA8	$ 10,298,303.84
57644DAR4	$ 10,271,930.64
83611XAC8	$ 10,270,000.00
04544NAD6	$ 10,000,000.00
144528AB2	$ 10,000,000.00
17310VAC4	$ 10,000,000.00
2254ERAC0	$ 10,000,000.00
437097AD0	$ 10,000,000.00
68389FKN3	$ 10,000,000.00
76113ABH3	$ 10,000,000.00
83611MLX4	$ 10,000,000.00
86837YAA1	$ 10,000,000.00
3622EAAD2	$ 9,966,754.39
32053JAA5	$ 9,920,324.32
76110VTC2	$ 9,793,580.98
64352VJY8	$ 9,763,636.36
12669WAC0	$ 9,751,853.98
225470B93	$ 9,520,601.12
12668WAA5	$ 9,503,732.65
126670ZJ0	$ 9,496,244.11
17309XAA7	$ 9,386,683.15
02150KAA7	$ 9,360,895.11
40430HDB1	$ 9,300,000.00
144539AA1	$ 9,264,622.44
31659YAB0	$ 9,218,401.26
69337HAA9	$ 9,161,319.59
57645JAA7	$ 9,010,137.78
3622EQAA3	$ 8,852,480.11
40430WAB1	$ 8,835,203.27
34958CAF1	$ 8,740,000.00
36245RAE9	$ 8,548,885.56
46412QAA5	$ 8,435,525.41
86359DPN1	$ 8,415,094.97
40431KAB6	$ 8,374,000.00
07387KAA1	$ 8,344,294.50
31394VL32	$ 8,301,885.80
02660TCU5	$ 8,299,913.76
66987XGU3	$ 8,036,033.16
35729QAC2	$ 7,850,000.00
59020U3A1	$ 7,840,861.20
44386QAA2	$ 7,768,333.00
45255RAY3	$ 7,500,000.00
52519NJC9	$ 7,454,223.78
437099AA2	$ 7,432,611.39
07325HAK1	$ 7,425,847.00
45256VAA5	$ 7,307,106.17
39539JAA4	$ 7,274,720.52
362341SP5	$ 7,196,734.43
80556AAC1	$ 7,100,000.00
57643LML7	$ 6,971,017.83
12669WAD8	$ 6,844,000.00
88156EAA4	$ 6,827,028.12
65536QAC2	$ 6,761,000.00
22545RAA4	$ 6,755,417.64
144531EV8	$ 6,695,000.00
92976BHK1	$ 6,484,000.00
362341AM1	$ 6,477,066.50
38012TAA0	$ 6,463,203.65
07388TAB9	$ 6,400,000.00
45254NNP8	$ 6,259,580.60
126684AA7	$ 6,169,917.89
14983AAC3	$ 6,000,000.00
751153AB3	$ 5,783,461.52
83612GAA8	$ 5,677,415.50
61749TAA2	$ 5,663,267.02
59020U2N4	$ 5,662,062.11
32029AAD9	$ 5,500,000.00
23242MAA9	$ 5,472,282.46
381175AA6	$ 5,462,431.47
BCC0T8SV3	$ 5,449,966.53
61915RAA4	$ 5,420,474.50
443860AA9	$ 5,404,218.75
65536VAA5	$ 5,380,166.46

CUSIP	Sum of Current Face
362440AB5	$ 5,305,517.34
84751NAE4	$ 5,225,000.00
44379PAF2	$ 5,160,526.25
35729QAC2	$ 5,031,462.00
04012MAQ2	$ 5,000,000.00
46629RAB0	$ 5,000,000.00
54251YAD0	$ 5,000,000.00
57643LGV2	$ 5,000,000.00
59020VAV5	$ 5,000,000.00
64352VNW7	$ 5,000,000.00
92922FS25	$ 4,984,240.37
44328BAD0	$ 4,900,000.00
362375AA5	$ 4,877,170.88
88156PAX9	$ 4,844,081.31
61748HUF6	$ 4,831,956.32
542514MW1	$ 4,769,897.54
362405AA0	$ 4,740,381.37
71103XAA2	$ 4,661,111.06
88156YAB8	$ 4,631,687.94
65537EAA2	$ 4,586,057.74
126683AA9	$ 4,586,041.57
36245YAV6	$ 4,555,670.65
0738795L8	$ 4,543,376.50
04541GRJ3	$ 4,507,202.57
464126CW9	$ 4,363,210.34
362334BQ6	$ 4,230,388.69
06424HBE6	$ 4,219,579.58
93935YAA8	$ 4,147,842.81
61750FAD2	$ 4,000,000.00
86358RMY0	$ 3,919,720.50
64069PAA6	$ 3,916,671.00
40430TAA0	$ 3,860,012.40
76112BY79	$ 3,778,736.16
617451DQ9	$ 3,750,000.00
362334FH2	$ 3,736,323.49
442451AG5	$ 3,652,000.00
81376SAB0	$ 3,500,000.00
36244MAA9	$ 3,411,692.10
40166RAF3	$ 3,325,000.00
885220KG7	$ 3,295,659.30
12638CAA6	$ 3,052,884.61
54251MAB0	$ 3,033,244.67
86359DTQ0	$ 2,869,877.99
76112BEB2	$ 2,766,107.82
361856EH6	$ 2,750,000.00
437089AA3	$ 2,735,849.78
64352VQC8	$ 2,465,813.78
76110WF35	$ 2,251,488.98
92976BHJ4	$ 2,225,773.22
12668AEX9	$ 2,203,912.34
52521TAA5	$ 2,065,876.33
59020UR98	$ 2,057,107.27
23244JAB2	$ 2,044,774.36
126164AN2	$ 2,000,000.00
02151JAA9	$ 1,970,991.68
362334NA8	$ 1,961,422.69
86358EYV2	$ 1,941,362.31
76112BR44	$ 1,824,379.27
126685DV5	$ 1,789,069.73
07820QCC7	$ 1,701,307.90
32052XAA5	$ 1,676,114.11
004375EF4	$ 1,585,344.74
885220JQ7	$ 1,506,273.15
0738795L8	$ 1,484,050.90
362382AD5	$ 1,422,059.48
542514LF9	$ 1,409,109.99
004375AF8	$ 1,355,164.84
0738794Z8	$ 1,343,649.62
76112B4M9	$ 1,200,000.00
362334QF4	$ 1,082,350.62
52519NKS2	$ 1,042,995.84
144531AY6	$ 1,025,805.38
17309LAD7	$ 1,000,000.00
362341L49	$ 1,000,000.00
46626LEJ5	$ 1,000,000.00
86359DVT1	$ 865,026.87
45071KCK8	$ 365,878.97
126169AF8	$ 335,095.30
76112BYP9	$ 219,232.39
46625YF65	$ 132,611.97
362341HA0	$ -
86358EUQ7	$ -

Asset Type	Notional	WA Mark	
ABS	97,936,062.26	$ 96.90	
AUTOS	92,950,000.00	$ 99.19	
CARDS	20,000,000.00	$ 99.80	
CDO	281,457,954.60	$ 92.83	
CMO	1,113,446,705.59	$ -	*Yet to be marked*
COMMERCIAL	402,160,034.30	$ 100.00	
HOME EQTY	4,709,275,568.94	$ 95.22	
PLANES	39,581,895.03	$ 97.00	
STRUCT NOTE	5,462,431.47	$ 99.00	

Default Swap Collateral Listing

Deal	CUSIP	Name	Original Face	Factor	Current Face	Collateral Type	Moody's	S&P	Fitch	Current Moody's	Current S&P	Current Fitch	Months to Roll	Index	Tranche Name	Trading Desk will provide Current Mark	Deal Type	WAL
[redacted]	004375EH0	ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74
	14452BAB2	CARR 2006-NC3 A2	$ 395,000.00	1.000000	$ 395,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.93
	12669WAD8	CWL 2007-8 2A2	$ 1,150,000.00	1.000000	$ 1,150,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	2.13
	12670BAA7	CWL 2007-S2 A1	$ 750,000.00	0.882713	$ 662,035.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.78
	239156AJ1	DVSQ 2005-5A S	$ 4,086,000.00	0.850000	$ 3,473,100.00	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	DVSQ 2005-5A	99.75	CDO	4.24
	34958CAF1	FORT 8 2006-1A S	$ 11,500,000.00	0.760000	$ 8,740,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	FORT 8 2006-1A	99.75	CDO	0.8
	362400AB3	GSTR 2002-2A A1MB	$ 958,872.00	0.782941	$ 731,410.26	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A	98.50	HOME EQTY	0.93
	362249AA6	GSAA 2007-7 1A1	$ 1,000,000.00	0.969175	$ 969,175.28	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	92.00	HOME EQTY	0.86
	40051CAA5	GSAA 2006-S1 1A1	$ 380,000.00	0.728538	$ 276,844.42	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-S1	90.00	HOME EQTY	3.25
	36244RAA8	GSAMP 2006-SD3 A	$ 37,500,000.00	0.687679	$ 25,037,972.52	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3	99.75	CDO	2.6
	44379PAF2	HUDHG 2006-1A S	$ 1,758,186.00	0.929625	$ 1,634,615.86	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDHG 2006-1A	99.75	CDO	3
	44386DAA9	HUDMZ 2006-1A S	$ 3,950,000.00	0.953125	$ 3,765,781.25	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-1A	99.75	CDO	1.94
	64066PAA6	NEPTN 2006-3A S	$ 5,000,000.00	0.783334	$ 3,916,671.00	CDO	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	NEPTN 2006-3A	97.00	HOME EQTY	1.34
	66988SRAC1	NHEL 2006-6 A2B	$ 950,000.00	1.000000	$ 950,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	99.50	CDO	1
	746869AZ9	PTNM 2002-1A A1MH	$ 48,000,000.00	1.000000	$ 48,000,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A	100.00	COMMERCIAL	0.01
	06424HBE8	BALL 2005-MIB1 A1	$ 4,500,000.00	0.291005	$ 1,309,524.70	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	BALL 2005-MIB1	100.00	COMMERCIAL	0.74
	17309XAA7	CGCMT 2006-FL2 A1	$ 10,813,750.00	0.318436	$ 3,453,505.14	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	1.01
	17309XAB5	CGCMT 2006-FL2 A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.89
	200478AA7	COMM 2007-FL14 A1	$ 5,000,000.00	0.997210	$ 4,986,051.33	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	COMM 2007-FL14	100.00	COMMERCIAL	0.55
	22545RAA4	CSMC 2006-TF2A A1	$ 7,600,000.00	0.888871	$ 6,755,417.64	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CSMC 2006-TF2A	100.00	COMMERCIAL	1.48
	36228CZU0	GSMS 2007-EOP A2	$ 4,000,000.00	1.000000	$ 4,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	4.49
	39539JAA4	GPMF 2007-HE1 A1	$ 3,000,000.00	0.909340	$ 2,728,020.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GPMF 2007-HE1	97.00	HOME EQTY	1.14
	437089AA3	INDS 2006-1 A1	$ 5,000,000.00	0.547170	$ 2,735,849.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	INDS 2006-1	0.00	CMO	2.01
	45256VAA5	IMSA 2006-2 1A11	$ 7,500,000.00	0.811901	$ 6,089,255.15	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	IMSA 2006-2	0.00	CMO	3.3
	46625YF65	JPMCC 2006-FL1A A1A	$ 2,000,000.00	0.066308	$ 132,611.97	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	JPMCC 2006-FL1A	100.00	COMMERCIAL	0.02
	59020U2N4	MLMI 2006-5L1 A	$ 12,500,000.00	0.452965	$ 5,662,062.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	MLMI 2006-5L1	65.10	HOME EQTY	1.17
	59159UBX5	MMT 2005-2 A	$ 20,000,000.00	1.000000	$ 20,000,000.00	CARDS	Aaa	AAA	AAA	Aaa	AAA	AAA	4	LIBOR01M	MMT 2005-2	99.80	CARDS	0.1
	617524AB1	MSC 2007-XLFA A2	$ 8,000,000.00	1.000000	$ 8,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA	100.00	COMMERCIAL	1.59
	69337HAA9	PHHAM 2007-2 1A1	$ 10,000,000.00	0.918132	$ 9,181,319.59	CMO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	PHHAM 2007-2	0.00	CMO	0.82
	746869AZ9	PTNM 2002-1A A1MH	$ 35,500,000.00	1.000000	$ 35,500,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A	99.50	CDO	1
	88522RAA2	TMST 2006-5 A1	$ 10,000,000.00	0.812984	$ 8,129,836.90	CMO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	TMST 2006-5	0.00	CMO	3.82
	00703QAD4	ARMT 2006-3 4A11	$ 40,350,000.00	0.773432	$ 31,244,717.88	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	ARMT 2006-3	0.00	CMO	3.21
	02683SAC0	AHMA 2007-3 12A1	$ 48,000,000.00	0.980090	$ 47,044,322.88	CMO	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M	AHMA 2007-3	0.00	CMO	3.3
	186798AA8	CCMFC 2007-2A A1	$ 30,000,000.00	0.996534	$ 29,956,024.92	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CCMFC 2007-2A	0.00	CMO	3.3
	17305XAA7	CGCMT 2006-FL2 A1	$ 8,750,000.00	0.318436	$ 2,788,816.40	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.74
	225470BS3	ARMT 2006-1 8A1	$ 17,000,000.00	0.560035	$ 9,520,601.12	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	ARMT 2006-1	0.00	CMO	3.08
	32029HAB8	FFML 2007-FFC A2A	$ 15,000,000.00	0.960028	$ 14,700,414.94	CMO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	FFML 2007-FFC	0.00	CMO	1.61
	32053JAA5	FHAB8 2007-HE1 A	$ 10,000,000.00	0.992032	$ 9,920,324.32	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	FHAIS 2007-HE1	97.00	HOME EQTY	2.27
	36228CZS5	GSMS 2007-EOP A1	$ 40,000,000.00	0.935802	$ 37,432,077.37	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	9	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	1.48
	36228CZU0	GSMS 2007-EOP A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	4.49
	36245RAE9	GSAA 2007-8 3A1B	$ 8,771,000.00	0.974678	$ 8,548,665.56	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAA 2007-8	97.00	HOME EQTY	2.59
	36245RAG4	GSAA 2007-8 A5	$ 32,202,000.00	0.970578	$ 31,254,565.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAA 2007-8	97.00	HOME EQTY	2.6
	43710WAA8	RFMS2 2007-HSA3 AI1	$ 15,000,000.00	0.923331	$ 13,849,962.82	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	RFMS2 2007-HSA3	97.00	HOME EQTY	0.88
	45670CAA5	INDX 2007-AR7 1A1	$ 25,000,000.00	0.952995	$ 23,774,879.54	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	INDX 2007-AR7	0.00	CMO	3.3
	46625AB0	JPALT 2007-S1 A2	$ 28,871,000.00	0.959972	$ 27,715,358.81	CMO	Aaa	AAA	-	Aaa	AAA	-	34	LIBOR01M	JPALT 2007-S1	0.00	CMO	3.3
	46629FAB0	JPMCC 2006-FL2A A2	$ 5,000,000.00	1.000000	$ 5,000,000.00	COMMERCIAL	Aaa	-	AAA	Aaa	-	AAA	13	LIBOR01M	JPMCC 2006-FL2A	100.00	COMMERCIAL	1.42
	69337MAA8	PHHAM 2007-3 A1	$ 31,822,000.00	0.976489	$ 31,073,622.58	CMO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	PHHAM 2007-3	0.00	CMO	0.9
	69337MAB6	PHHAM 2007-3 A2	$ 27,800,000.00	1.000000	$ 27,800,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	PHHAM 2007-3	0.00	CMO	2.67
	93936LAA5	WMALT 2007-OC2 A1	$ 11,800,000.00	0.969610	$ 11,441,397.67	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	WMALT 2007-OC2	0.00	CMO	0.9
	002532AB5	AMT 2006-1 A2	$ 30,000,000.00	1.000000	$ 30,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	AMT 2006-1	97.00	HOME EQTY	0.92
	002532AC3	AMT 2006-1 A3	$ 27,232,000.00	1.000000	$ 27,232,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	AMT 2006-1	97.00	HOME EQTY	3.85
	00509HAA0	ACST 2006-1A G1	$ 41,300,000.00	0.958399	$ 39,581,695.03	PLANES	Aaa	AAA	-	Aaa	AAA	-	27	LIBOR01M	ACST 2006-1A	97.00	PLANES	4.5
	02660TCU5	AHM 2004-4 7A	$ 40,000,000.00	0.207498	$ 8,299,913.76	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	AHM 2004-4	0.00	CMO	0.9
	04544QAF8	ABSHE 2006-HE4 A5	$ 19,000,000.00	1.000000	$ 19,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE4	85.00	HOME EQTY	1.48
	105687AA7	BMAT 2006-1A A1	$ 50,000,000.00	0.325991	$ 16,299,569.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	BMAT 2006-1A	95.00	HOME EQTY	0.83
	12688AEX9	CWALT 2005-59 1A3A	$ 31,866,000.00	0.069182	$ 2,203,912.34	CMO	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	CWALT 2005-59	0.00	CMO	0.13
	31659TEY7	FMIC 2006-1 A2	$ 45,000,000.00	1.000000	$ 45,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	FMIC 2006-1	97.00	HOME EQTY	3.77
	32027EAE1	FFML 2006-FF8 2A3	$ 15,036,000.00	1.000000	$ 15,036,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	FFML 2006-FF8	97.00	HOME EQTY	5.31
	345280AA2	FORDF 2008-3 A	$ 17,950,000.00	1.000000	$ 17,950,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	FORDF 2008-3	99.00	AUTOS	1.64
	381175AA8	GOLDS 2003-A A1	$ 15,000,000.00	0.384182	$ 5,462,431.47	STRUCT NOTE	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	GOLDS 2003-A	99.00	STRUCT NOTE	0.45
	39536WDC9	GPMF 2005-HE4 1A1	$ 83,446,000.00	0.284827	$ 16,802,752.23	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	22	LIBOR01M	GPMF 2005-HE4	97.00	HOME EQTY	1.86
	41161PLS0	HVMLT 2005-2 2A1B	$ 60,000,000.00	0.345253	$ 20,715,173.80	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	HVMLT 2005-2	0.00	CMO	1.59
	43709UAA5	INDS 2006-A A	$ 35,000,000.00	0.814187	$ 28,496,541.17	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	INDS 2006-A	80.00	HOME EQTY	0.78
	525221KK2	LXS 2006-4N A1B1	$ 35,964,000.00	1.000000	$ 35,964,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	LXS 2006-4N	0.00	CMO	1.17
	54251MMZ4	LBMLT 2005-WL2 3A3	$ 21,698,000.00	0.547869	$ 11,887,658.42	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	27	LIBOR01M	LBMLT 2005-WL2	95.00	HOME EQTY	3.03
	61749CAB7	MSM 2006-6AR 1A2	$ 50,000,000.00	0.353918	$ 17,695,879.00	CMO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	MSM 2006-6AR	0.00	CMO	0.5
	66987XGU3	NHEL 2005-3 A2B	$ 15,000,000.00	0.535736	$ 8,036,033.16	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	NHEL 2005-3	97.00	HOME EQTY	0.15
	746351AF0	QUEST 2005-X2 A2	$ 49,213,000.00	0.762883	$ 37,542,769.48	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	28.5	LIBOR01M	QUEST 2005-X2	95.00	HOME EQTY	2.02
	86358EUQ7	SAIL 2005-HE1 A4	$ 13,000,000.00	0.000000	$ -	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	SAIL 2005-HE1	90.00	HOME EQTY	2
	86358OTQ0	SASC 2005-S8 A2	$ 5,000,000.00	0.573976	$ 2,869,877.89	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	SASC 2005-S8	97.00	HOME EQTY	0.43
	86359LSP5	SAMI 2006-AR2 A3	$ 34,238,000.00	0.455097	$ 22,429,218.48	CMO	Aaa	AAA	-	Aaa	AAA	-	36	LIBOR01M	SAMI 2006-AR2	0.00	CMO	2.28
	86359KAC2	SAMI 2006-AR3 11A3	$ 25,411,113.00	0.616782	$ 15,723,940.72	CMO	Aaa	AAA	-	Aaa	AAA	-	34	LIBOR01M	SAMI 2006-AR3	0.00	CMO	1.46
	86837TAB0	SWIFT 2003-A8 A	$ 35,000,000.00	1.000000	$ 35,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	SWIFT 2003-A8	99.50	AUTOS	1.09
	92922FS25	WAMU 2005-AR8 2AB3	$ 14,000,000.00	0.356017	$ 4,984,240.37	CMO	Aaa	AAA	-	Aaa	AAA	-	38	LIBOR01M	WAMU 2005-AR8	0.00	CMO	1.65
	93934FPR7	WAMU 2006-AR4 1AC2	$ 15,337,000.00	0.988022	$ 15,153,289.83	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	WAMU 2006-AR4	0.00	CMO	0.39
	004375EH0	ACCR 2005-4 A2C	$ 1,800,000.00	1.000000	$ 1,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74
	12670BAA7	CWL 2007-S2 A1	$ 2,850,000.00	0.882713	$ 2,515,733.09	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.78
	239156AJ1	DVSQ 2005-5A S	$ 13,914,000.00	0.850000	$ 11,826,900.00	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	DVSQ 2005-5A	99.75	CDO	4.24
	362400AB3	GSTR 2002-2A A1MB	$ 1,476,328.00	0.782941	$ 1,126,351.29	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A	99.75	CDO	0.6
	362249AA6	GSAA 2007-7 1A1	$ 1,800,000.00	0.969175	$ 1,562,880.45	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	98.50	HOME EQTY	0.93
	362725AC7	GSRPM 2006-2 A2	$ 30,000,000.00	0.796717	$ 23,901,514.50	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	30	LIBOR01M	GSRPM 2006-2	97.00	HOME EQTY	3
	40051CAA5	GSAA 2006-S1 1A1	$ 11,875,000.00	0.728538	$ 8,505,880.54	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.86
	36245DAD2	GSAMP 2006-FM2 A2C	$ 19,392,000.00	1.000000	$ 19,392,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-FM2	97.00	HOME EQTY	4.95
	362725AA1	GSRPM 2006-2 A1A	$ 10,238,368.00	0.882374	$ 8,986,401.13	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	GSRPM 2006-2	97.00	HOME EQTY	1.1
	36213HJH5	GSAA 2005-11 3A3	$ 4,778,000.00	0.365884	$ 1,842,963.05	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11	95.00	HOME EQTY	1.04
	442451AG5	HOUT 2006-1A S	$ 4,000,000.00	0.913000	$ 3,652,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	HOUT 2006-1A	99.75	CDO	2.23
	44386DAA9	HUDMZ 2006-1A S	$ 1,740,000.00	0.953125	$ 1,658,437.50	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-1A	99.75	CDO	2.6
	64329AA8	NCAMT 2006-ALT2 AV1	$ 17,230,000.00	0.484713	$ 8,351,613.02	CMO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34
	66986RAC1	NHEL 2006-6 A2B	$ 1,500,000.00	1.000000	$ 1,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	97.00	HOME EQTY	1.34
	004375EH0	ACCR 2005-4 A2C	$ 3,843,000.00	1.000000	$ 3,843,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74
Hudson Mezz 06-1	12687HAB7	CWL 2006-20 2A1	$100,000,000.00	0.785579	$ 78,557,920.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	CWL 2006-20	97.00	HOME EQTY	0.72
Hudson Mezz 06-1	12688PAB8	CWALT 2006-OA17 1A1B	$ 35,903,000.00	0.687730	$ 23,973,520.17	CMO	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	CWALT 2006-OA17	0.00	CMO	0.32
Hudson Mezz 06-1	23245PAC5	CWALT 2006-OA22 A3	$ 25,850,000.00	0.868816	$ 22,453,719.13	CMO	Aaa	AAA	-	Aaa	AAA	-	24	LIBOR01M	CWALT 2006-OA22	0.00	CMO	1.19
Hudson Mezz 06-1	12689HAA7	CWL 2007-QH1 A1	$ 20,000,000.00	0.887029	$ 17,740,579.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	CWL 2007-QH1	97.00	HOME EQTY	1
Hudson Mezz 06-1	12688VAA7	CWL 2006-S7 A1	$100,000,000.00	0.724908	$ 72,490,572.80	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWL 2006-S7	90.00	HOME EQTY	0.55
Hudson Mezz 06-1	12670BAA7	CWL 2007-S2 A1	$ 10,350,000.00	0.882713	$ 9,136,083.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.78
Hudson Mezz 06-1	144528AB2	CARR 2006-NC3 A2	$ 6,007,715.00	1.000000	$ 6,007,715.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.93
Hudson Mezz 06-1	144539AC7	CARR 2006-NC3 A3	$ 9,334,000.00	1.000000	$ 9,334,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.68
Hudson Mezz 06-1	23245GAA9	CWALT 2006-OC9 A1	$100,000,000.00	0.716989	$ 71,698,948.30	CMO	Aaa	AAA	-	Aaa	AAA	-	7.5	LIBOR01M	CWALT 2006-OC9	0.00	CMO	0.75
Hudson Mezz 06-1	23245FAB9	CWALT 2006-OC10 2A1	$ 75,000,000.00	0.603310	$ 60,248,285.00	CMO	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWALT 2006-OC10	0.00	CMO	0.78

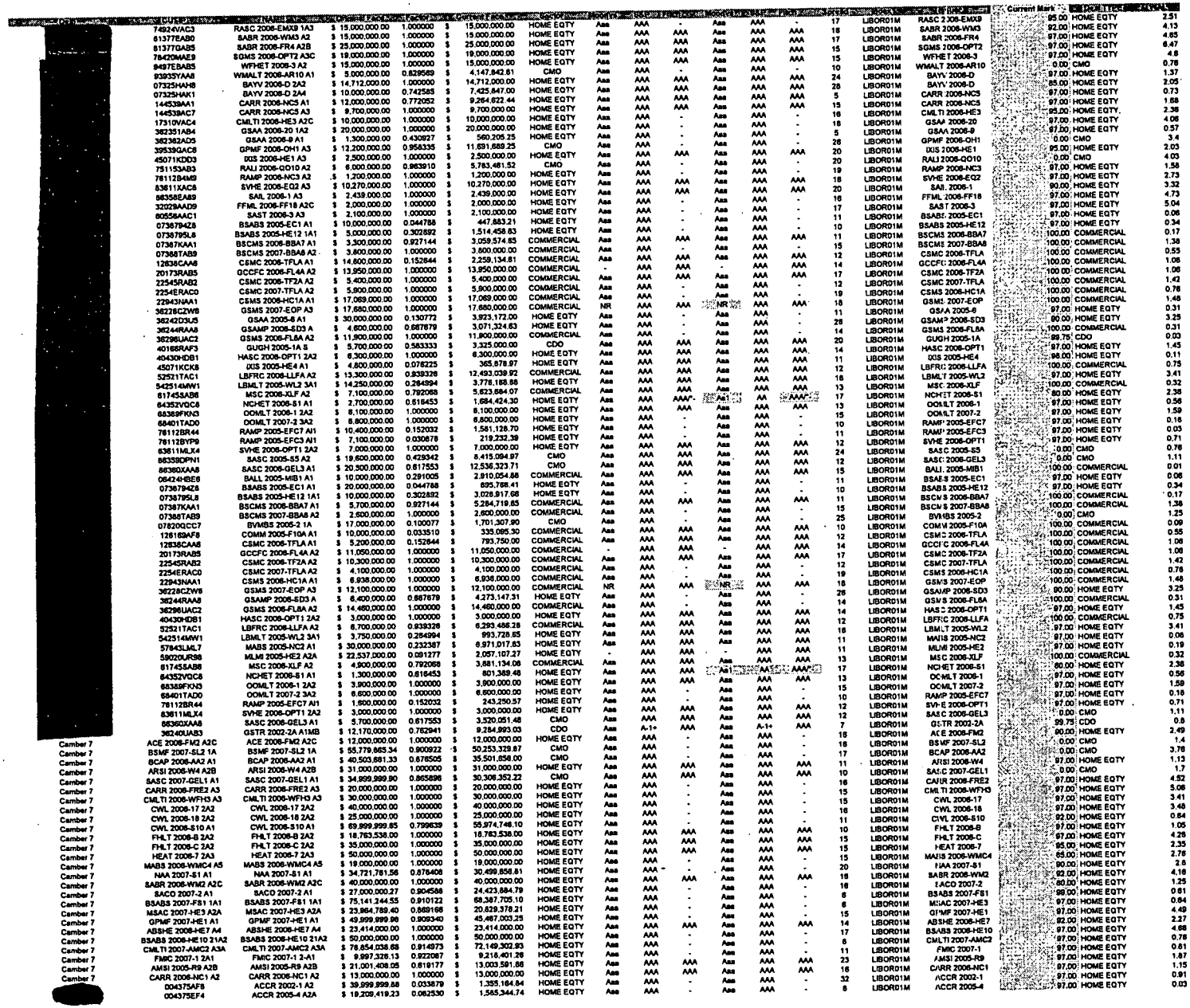
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Deal	CUSIP	Tranche	Original Balance	Factor	Current Balance	Collateral Type	Rating Agency 1	Rating Agency 2	Rating Agency 3	Rating Agency 4	Rating Agency 5	Rating Agency 6	Rating Agency 7	Rating Agency 8	Index	Current Mark	Deal Type	WAL
Hudson Mezz 06-1	35729VAB3	FHLT 2006-D 2A1	$ 32,250,677.00	0.736080	$ 23,739,224.25	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72
Hudson Mezz 06-1	40051CAA5	GSAA 2006-S1 1A1	$ 2,945,000.00	0.728538	$ 2,145,544.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.66
Hudson Mezz 06-1	36245CAC6	GSAMP 2006-S8 A1C	$ 68,531,000.00	0.389210	$ 26,672,961.55	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAMP 2006-S8	75.00	HOME EQTY	0.24
Hudson Mezz 06-1	3622S7AA5	GSAA 2006-17 A1	$ 94,300,000.00	0.722538	$ 68,135,300.40	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	GSAA 2006-17	97.00	HOME EQTY	1.26
Hudson Mezz 06-1	3622ELAA4	GSAA 2006-18 AV1	$100,000,000.00	0.700478	$ 70,047,818.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.69
Hudson Mezz 06-1	3622ECAA4	GSAA 2007-5 1AV1	$ 9,108,000.00	0.913772	$ 8,322,635.92	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	GSRPM 2006-2	97.00	HOME EQTY	1.1
Hudson Mezz 06-1	44328AAB8	HASC 2006-HE1 2A1	$ 25,000,000.00	0.774217	$ 19,355,412.75	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-5	97.00	HOME EQTY	0.82
Hudson Mezz 06-1	64352VQR5	NCHET 2006-1 A2B	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	5	LIBOR01M	HASC 2006-HE1	97.00	HOME EQTY	1.37
Hudson Mezz 06-1	64352VQR5	NCAMT 2006-ALT2 AV1	$ 32,690,000.00	0.484713	$ 15,845,283.20	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	NCHET 2006-1	97.00	HOME EQTY	3.01
Hudson Mezz 06-1	65537FAB7	NHELI 2006-FM2 2A1	$ 72,000,000.00	0.714545	$ 51,447,242.86	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	8	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34
Hudson Mezz 06-1	65888RAC1	NHEL 2006-4 A2B	$ 33,000,000.00	1.000000	$ 33,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NHELI 2006-FM2	97.00	HOME EQTY	0.63
Hudson Mezz 06-1	75156UAB3	RAMP 2006-RZ2 A2	$ 13,500,000.00	1.000000	$ 13,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-4	97.00	HOME EQTY	1.34
Hudson Mezz 06-1	362341KA6	GSAMP 2005-HE4 A2B	$ 25,000,000.00	0.517536	$ 12,938,451.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	RAMP 2006-RZ2	97.00	HOME EQTY	3.31
Hudson Mezz 06-1	64352VJY6	NCHET 2005-1 A2C	$ 13,757,000.00	0.709721	$ 9,763,838.38	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	GSAMP 2005-HE4	97.00	HOME EQTY	1.59
Hudson Mezz 06-2	00438QAA2	ACCR 2007-1 A1	$ 15,000,000.00	0.831826	$ 12,474,389.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	35	LIBOR01M	NCHET 2005-1	97.00	HOME EQTY	1.08
Hudson Mezz 06-2	00437SEH0	ACCR 2005-4 A2C	$ 7,600,000.00	1.000000	$ 7,600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	ACCR 2007-1	97.00	HOME EQTY	0.84
Hudson Mezz 06-2	07389RAN8	BSABS 2006-HE10 21A1	$ 4,000,000.00	0.805145	$ 3,220,580.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74
Hudson Mezz 06-2	126684AA7	CWL 2006-S6 A1	$ 9,400,000.00	0.656374	$ 6,169,917.89	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	BSABS 2006-HE10	97.00	HOME EQTY	0.96
Hudson Mezz 06-2	12685MAA9	CWL 2006-SPS1 A	$ 18,500,000.00	0.731244	$ 13,528,019.25	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S6	92.00	HOME EQTY	0.52
Hudson Mezz 06-2	12688XAC7	CWL 2007-S 2A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	CWL 2006-SPS1	68.00	HOME EQTY	2.2
Hudson Mezz 06-2	12688YAA1	CWL 2006-S10 A1	$ 30,000,000.00	0.799639	$ 23,989,177.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-S	97.00	HOME EQTY	1.63
Hudson Mezz 06-2	12689WAD8	CWL 2007-8 2A2	$ 2,000,000.00	1.000000	$ 2,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S10	92.00	HOME EQTY	0.84
Hudson Mezz 06-2	126888RE5	CWALT 2006-OC2 2A1	$ 48,500,000.00	0.444478	$ 21,557,100.84	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	2.13
Hudson Mezz 06-2	320290AC8	FFML 2007-FF2 A2B	$ 11,800,000.00	1.000000	$ 11,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWALT 2006-OC2	0.00	CMO	0.71
Hudson Mezz 06-2	35729VAB3	FHLT 2006-D 2A1	$ 14,000,000.00	0.736080	$ 10,305,119.44	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FFML 2007-FF2	97.00	HOME EQTY	1.54
Hudson Mezz 06-2	3622ELAA4	GSAA 2006-18 AV1	$ 20,000,000.00	0.700478	$ 14,009,523.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72
Hudson Mezz 06-2	3622EQAA3	GSAA 2007-1 1A1	$ 10,268,000.00	0.862143	$ 8,852,480.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.69
Hudson Mezz 06-2	36241UHH5	GSAA 2005-11 3A3	$ 3,724,000.00	0.385884	$ 1,437,032.84	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2007-1	97.00	HOME EQTY	1
Hudson Mezz 06-2	362351AD0	GSAA 2006-20 2A1B	$ 16,078,000.00	0.785128	$ 12,621,713.87	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11	95.00	HOME EQTY	1.04
Hudson Mezz 06-2	36245TAC9	GSAMP 2006-FM3 A2B	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2006-20	95.00	HOME EQTY	2
Hudson Mezz 06-2	36245YAV6	GSAMP 2007-H1 A2AM	$ 5,157,000.00	0.883396	$ 4,555,670.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSAMP 2006-FM3	97.00	HOME EQTY	2.54
Hudson Mezz 06-2	3622MDAB1	GSAMP 2007-HE1 A2A	$ 50,000,000.00	0.889221	$ 44,461,073.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	GSAMP 2007-H1	92.00	HOME EQTY	0.95
Hudson Mezz 06-2	3622MDAC9	GSAMP 2007-HE1 A2B	$ 44,191,000.00	1.000000	$ 44,191,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	GSAMP 2007-HE1	97.00	HOME EQTY	0.66
Hudson Mezz 06-2	3622MHAC0	GSAMP 2007-FM2 A2B	$ 62,864,000.00	1.000000	$ 62,864,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAMP 2007-HE1	97.00	HOME EQTY	1.58
Hudson Mezz 06-2	404311KA8	HALO 2007-WF1 A1	$ 20,000,000.00	0.876843	$ 17,532,852.47	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	GSAMP 2007-FM2	97.00	HOME EQTY	1.49
Hudson Mezz 06-2	404311KA8	HALO 2007-WF1 A2	$ 8,374,000.00	1.000000	$ 8,374,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	HALO 2007-WF1	97.00	HOME EQTY	1.47
Hudson Mezz 06-2	45668WAA5	INDX 2007-FLX1 A1	$ 20,024,000.00	0.891880	$ 17,859,011.08	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	HALO 2007-WF1	97.00	HOME EQTY	3.38
Hudson Mezz 06-2	36249BAA8	GSAA 2007-7 1A1	$ 7,811,000.00	0.969175	$ 7,728,448.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	INDX 2007-FLX1	0.00	CMO	1
Andersen Mezz 2007-1	G8088XAA6	ALT5 2006-3X A1A	$ 10,000,000.00	0.544997	$ 5,449,968.53	CDO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	96.50	HOME EQTY	0.93
Andersen Mezz 2007-1	030723FB1	AMSI 2005-R8 A2	$ 14,200,000.00	0.955342	$ 13,567,850.13	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	ALT5 2006-3X	94.00	CDO	0.13
Andersen Mezz 2007-1	14545AAB5	CARR 2006-FRE2 A2	$ 11,000,000.00	1.000000	$ 11,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	AMSI 2005-R8	97.00	HOME EQTY	3.3
Andersen Mezz 2007-1	14453IEV8	CARR 2006-NC1 A2	$ 8,695,000.00	1.000000	$ 8,695,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	CARR 2006-FRE2	97.00	HOME EQTY	1.82
Andersen Mezz 2007-1	17309LAD7	CMLTI 2006-HE2 A2C	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	CARR 2006-NC1	97.00	HOME EQTY	1.15
Andersen Mezz 2007-1	126873MY5	CWHEL 2004-Q 2A	$ 42,000,000.00	0.179824	$ 7,544,209.55	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CMLTI 2006-HE2	95.00	HOME EQTY	1.83
Andersen Mezz 2007-1	23245CAC4	CWL 2007-1 2A2	$ 9,000,000.00	1.000000	$ 9,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	CWHEL 2004-Q	98.00	HOME EQTY	2.76
Andersen Mezz 2007-1	1248MKAB1	CBASS 2007-SL1A A2	$ 45,000,000.00	0.939630	$ 42,292,365.69	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CWL 2007-1	97.00	HOME EQTY	2.09
Andersen Mezz 2007-1	34957YAA5	FORTS 2006-2A S	$ 5,135,135.00	0.868421	$ 4,459,458.38	CDO	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M	CBASS 2007-SL1A	85.00	HOME EQTY	1.7
Andersen Mezz 2007-1	35729VAB3	FHLT 2006-D 2A1	$ 13,000,000.00	0.736080	$ 9,569,039.46	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	FORTS 2006-2A	99.75	CDO	2.8
Andersen Mezz 2007-1	35729QAC2	FHLT 2006-B 2A2	$ 2,000,000.00	1.000000	$ 2,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72
Andersen Mezz 2007-1	40051CAA5	GSAA 2006-S1 1A1	$ 48,636,319.00	0.728538	$ 34,123,492.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	FHLT 2006-B	97.00	HOME EQTY	1.05
Andersen Mezz 2007-1	362375AA5	GSAA 2006-10 AV1	$ 10,535,000.00	0.462949	$ 4,877,170.88	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.66
Andersen Mezz 2007-1	362334NA8	GSAA 2006-7 AV1	$ 4,495,000.00	0.435357	$ 1,961,422.68	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-10	97.00	HOME EQTY	0.63
Andersen Mezz 2007-1	3622ELAA4	GSAA 2006-18 AV1	$ 15,000,000.00	0.700478	$ 10,507,142.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-7	97.00	HOME EQTY	0.59
Andersen Mezz 2007-1	3622E8AA6	GSAA 2007-4 A1	$ 55,063,000.00	0.884562	$ 48,724,327.54	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.69
Andersen Mezz 2007-1	3622EAAD2	GSAA 2007-3 2A1B	$ 5,000,000.00	0.896936	$ 4,484,680.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4	97.00	HOME EQTY	2.37
Andersen Mezz 2007-1	362439AD3	GSAMP 2006-HE4 A2C	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3	97.00	HOME EQTY	5.23
Andersen Mezz 2007-1	44379PAF2	HUDHG 2006-1A S	$ 3,791,602.00	0.929825	$ 3,525,710.59	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-HE4	99.75	CDO	2.8
Andersen Mezz 2007-1	443860AA2	HUDMZ 2006-2A S	$ 3,600,000.00	0.963333	$ 3,538,999.65	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDHG 2006-1A	99.75	CDO	2.8
Andersen Mezz 2007-1	35275TAC2	MABS 2007-WMC1 A3	$ 22,000,000.00	1.000000	$ 22,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	HUDMZ 2006-2A	99.75	CDO	2.8
Andersen Mezz 2007-1	59022AAD4	MLMI 2006-HE5 A2C	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	MABS 2007-WMC1	95.00	HOME EQTY	1.6
Andersen Mezz 2007-1	81750FAE0	MSAC 2006-HE8 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	MLMI 2006-HE5	97.00	HOME EQTY	2.8
Andersen Mezz 2007-1	643529AA6	NCAMT 2006-ALT2 AV1	$ 16,000,000.00	0.484713	$ 7,755,415.45	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	MSAC 2006-HE8	97.00	HOME EQTY	4.42
Andersen Mezz 2007-1	68988RAC1	NHEL 2006-8 A2B	$ 4,000,000.00	1.000000	$ 4,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34
Andersen Mezz 2007-1	7106SPBX0	PCHLT 2005-2 A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-8	97.00	HOME EQTY	1.34
Andersen Mezz 2007-1	75156UAB3	RAMP 2006-RZ2 A2	$ 6,500,000.00	1.000000	$ 6,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	35	LIBOR01M	PCHLT 2005-2	97.00	HOME EQTY	2.73
Point Pleasant Funding 2007-1	03072SF91	AMSI 2005-R6 A2	$ 83,106,000.00	0.265342	$ 22,051,475.55	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	RAMP 2006-RZ2	97.00	HOME EQTY	3.31
Point Pleasant Funding 2007-1	04544NAD6	ABSHE 2006-HE8 A4	$ 9,000,000.00	1.000000	$ 9,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	AMSI 2005-R6	97.00	HOME EQTY	3.3
Point Pleasant Funding 2007-1	04541GRJ3	ABSHE 2005-HE4 A1	$ 41,000,000.00	0.109932	$ 4,507,202.57	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE8	97.00	HOME EQTY	2.28
Point Pleasant Funding 2007-1	144528AB2	CARR 2006-NC3 A2	$ 3,597,285.00	1.000000	$ 3,597,285.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2005-HE4	97.00	HOME EQTY	0.37
Point Pleasant Funding 2007-1	02150KAA7	CWALT 2007-OH1 A1A	$ 10,000,000.00	0.936090	$ 9,360,895.11	CMO	Aaa	AAAe	-	Aaa	AAAe	-	16	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.93
Point Pleasant Funding 2007-1	02150KAB5	CWALT 2007-OH1 A2A	$ 15,072,000.00	0.936088	$ 14,108,722.72	CMO	Aaa	AAAe	-	Aaa	AAAe	-	9	LIBOR01M	CWALT 2007-OH1	0.00	CMO	0.61
Point Pleasant Funding 2007-1	23242MAA9	CWL 2006-S3 A1	$ 8,970,000.00	0.810065	$ 5,472,282.46	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWALT 2007-OH1	0.00	CMO	0.61
Point Pleasant Funding 2007-1	12685JAA9	CWL 2006-S5 A1	$ 7,080,000.00	0.849581	$ 4,586,041.57	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S3	92.00	HOME EQTY	0.53
Point Pleasant Funding 2007-1	12688WAA5	CWL 2007-4 A1A	$ 10,000,000.00	0.950373	$ 9,503,732.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S5	92.00	HOME EQTY	0.51
Point Pleasant Funding 2007-1	12689LAC4	CWL 2007-8 2A2	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CWL 2007-4	98.00	HOME EQTY	0.72
Point Pleasant Funding 2007-1	12689WAC0	CWL 2007-8 2A1	$ 10,000,000.00	0.975185	$ 9,751,853.98	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	1.63
Point Pleasant Funding 2007-1	12689WAD8	CWL 2007-8 2A2	$ 3,694,000.00	1.000000	$ 3,694,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	CWL 2007-8	98.00	HOME EQTY	0.82
Point Pleasant Funding 2007-1	12670BAA7	CWL 2007-S2 A1	$ 56,050,000.00	0.882713	$ 49,476,084.16	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	2.13
Point Pleasant Funding 2007-1	320290AC8	FFML 2007-FF2 A2B	$ 34,700,000.00	1.000000	$ 34,700,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.76
Point Pleasant Funding 2007-1	30248EAA6	FFML 2007-FFB5 A	$ 84,313,000.00	0.706903	$ 59,769,700.97	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	FFML 2007-FF2	97.00	HOME EQTY	1.54
Point Pleasant Funding 2007-1	3622EAAX8	GSAA 2007-3 1A1B	$ 12,050,000.00	0.857068	$ 10,327,888.75	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	22	LIBOR01M	FFML 2007-FFB5	97.00	HOME EQTY	2.68
Point Pleasant Funding 2007-1	3622EBA6	GSAA 2007-4 A1	$150,191,000.00	0.884562	$ 132,853,246.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3	97.00	HOME EQTY	1.37
Point Pleasant Funding 2007-1	3622EBAB4	GSAA 2007-4 A2	$ 904,000.00	1.000000	$ 904,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4	97.00	HOME EQTY	0.69
Point Pleasant Funding 2007-1	3622ECAA4	GSAA 2007-5 1AV1	$113,369,000.00	0.913772	$ 103,593,424.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	GSAA 2007-4	96.00	HOME EQTY	2.65
Point Pleasant Funding 2007-1	36241UHH5	GSAA 2005-11 3A3	$ 21,500,000.00	0.385884	$ 8,296,510.76	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-5	97.00	HOME EQTY	0.82
Point Pleasant Funding 2007-1	40051CAA5	GSAA 2006-S1 1A1	$ 1,181,681.00	0.728538	$ 846,326.89	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11	85.00	HOME EQTY	1.04
Point Pleasant Funding 2007-1	362341AM1	GSAA 2005-7 AV1	$ 50,000,000.00	0.129541	$ 6,477,068.50	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.66
Point Pleasant Funding 2007-1	362440AC3	GSAMP 2007-HE2 A2B	$ 13,347,000.00	1.000000	$ 13,347,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2006-20	97.00	HOME EQTY	0.21
Point Pleasant Funding 2007-1	36242D3U5	GSAA 2005-6 A1	$ 50,000,000.00	0.130772	$ 6,538,620.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	97.00	HOME EQTY	1.69
Point Pleasant Funding 2007-1	57643LGV2	MABS 2005-WMC1 A5	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	GSAMP 2007-HE2	97.00	HOME EQTY	0.31
Point Pleasant Funding 2007-1	57645JAA7	MABS 2006-HE3 A1	$ 14,000,000.00	0.643581	$ 9,010,137.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-8	97.00	HOME EQTY	0.45
Point Pleasant Funding 2007-1	76112BEB2	RAMP 2004-RS10 AI4	$ 5,000,000.00	0.553222	$ 2,766,107.82	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	MABS 2005-WMC1	85.00	HOME EQTY	0.49
Point Pleasant Funding 2007-1	00075WAC3	ABFC 2006-HE1 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	4	LIBOR01M	MABS 2006-HE3	97.00	HOME EQTY	0.49
	07389RAN8	BSABS 2006-HE10 21A1	$ 26,000,000.00	0.805145	$ 20,933,774.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	49	LIBOR01M	RAMP 2004-RS10	97.00	HOME EQTY	3.53
	07383MAB3	BSABS 2006-HE9 1A2	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	ABFC 2006-HE1	97.00	HOME EQTY	2.32
	07389PAB8	BSABS 2006-AQ1 1A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	BSABS 2006-HE10	97.00	HOME EQTY	0.96
	144539AC7	CARR 2006-NC5 A3	$ 17,000,000.00	1.000000	$ 17,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	BSI/BS 2006-HE9	97.00	HOME EQTY	2.41
	12686SAB4	CWL 2006-BC5 2A1	$ 30,000,000.00	0.870177	$ 20,105,300.87	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSABS 2006-AQ1	97.00	HOME EQTY	4.48
	35729NAD7	FHLT 2006-E 2A3	$ 35,810,000.00	1.000000	$ 35,810,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5	97.00	HOME EQTY	1.66
	362440AB5	GSAMP 2007-HE2 A2A	$ 6,000,000.00	0.884253	$ 5,305,517.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	CWL 2006-BC5	97.00	HOME EQTY	0.99
	404307AA0	HASC 2007-NC1 A1	$ 4,000,000.00	0.965003	$ 3,860,012.40	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	FHLT 2006-E	94.00	HOME EQTY	1.86
	443860AB7	HUDMZ 2006-1A AF	$ 55,000,000.00	0.987096	$ 54,290,307.32	CDO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAMP 2007-HE2	97.00	HOME EQTY	0.78
	54251YAD0	LBMLT 2006-10 2A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	HASC 2007-NC1	0.00	CMO	1.25
													26	LIBOR01M	HUDMZ 2006-1A	65.00	CDO	2.8
													16	LIBOR01M	LBMLT 2006-10	0.00	CMO	4.54

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CH	CUSIP	Deal Name	Original Face	Factor	Current Face	Deal Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Collateral Type	Current Mark	Collateral Type	WAL
[redacted]	07387B5L8	BSABS 2005-HE12 1A1	$ 4,899,807.93	0.302892	$ 1,484,050.90	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	BSABS 2005-HE12		97.00	HOME EQTY	0.34
	23244JAB2	CWALT 2006-OC11 2A1	$ 2,874,158.78	0.784643	$ 2,044,774.36	CMO	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	CWALT 2006-OC11		0.00	CMO	0.55
	35729QAC2	FHLT 2006-B 2A2	$ 7,850,000.00	1.000000	$ 7,850,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	FHLT 2006-B		97.00	HOME EQTY	1.05
	362334BQ6	GSAA 2006-3 A1	$ 7,859,796.87	0.538231	$ 4,230,388.89	HOME EQTY	Asset	AAA	-	Asset	AAA	-	6	LIBOR01M	GSAA 2006-3		97.00	HOME EQTY	1.14
	362334FH2	GSAA 2006-4 4A1	$ 6,134,209.68	0.609096	$ 3,736,323.49	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	GSAA 2006-4		97.00	HOME EQTY	0.68
	362341HA0	FFML 2005-FFA A1	$ -	0.000000	$ -	HOME EQTY	Asset	AAA	-	Asset	AAA	-	20	LIBOR01M	FFML 2005-FFA		85.00	HOME EQTY	1.4
	362341SP5	GSAA 2005-12 AV1	$ 24,814,330.24	0.292380	$ 7,196,734.43	HOME EQTY	Asset	AAA	-	Asset	AAA	-	13	LIBOR01M	GSAA 2005-12		97.00	HOME EQTY	0.45
	362405AA0	GSAMP 2006-SD2 A1	$ 8,933,158.78	0.530650	$ 4,740,381.37	HOME EQTY	Asset	AAA	-	Asset	AAA	-	11	LIBOR01M	GSAMP 2006-SD2		90.00	HOME EQTY	1.03
	54251HLT9	LBMLT 2005-WL1 2A3	$ 44,756,862.52	0.031484	$ 1,409,109.99	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	27	LIBOR01M	LBMLT 2005-WL1		97.00	HOME EQTY	0.18
	54251MAB0	LBMLT 2006-4 2A1	$ 9,828,521.54	0.315027	$ 3,033,244.67	HOME EQTY	Asset	AAA	-	Asset	AAA	-	5	LIBOR01M	LBMLT 2006-4		97.00	HOME EQTY	0.31
	61750FAD2	MSAC 2006-HE6 A2B	$ 4,000,000.00	1.000000	$ 4,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	MSAC 2006-HE6		97.00	HOME EQTY	2.03
	655360AC2	NHELI 2006-HE3 2A2	$ 6,761,000.00	1.000000	$ 6,761,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	NHELI 2006-HE3		97.00	HOME EQTY	1.21
	65536VAA5	NAA 2006-AF2 1A1	$ 10,369,018.20	0.516870	$ 5,360,166.46	CMO	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	NAA 2006-AF2		0.00	CMO	0.59
	71103XAA2	PFRMS 2006-1 1A1	$ 8,296,891.03	0.561790	$ 4,661,111.06	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	7	LIBOR01M	PFRMS 2006-1		97.00	HOME EQTY	0.59
	78112BY79	RAMP 2006-RZ1 A1	$ 7,886,826.31	0.479120	$ 3,778,736.16	HOME EQTY	Asset	AAA	-	Asset	AAA	-	8	LIBOR01M	RAMP 2006-RZ1		97.00	HOME EQTY	0.61
	86358EYY2	SAIL 2005-10 A3	$ 7,929,137.72	0.244839	$ 1,941,382.31	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	9	LIBOR01M	SAIL 2005-10		92.00	HOME EQTY	0.38
	86359DVT1	SASC 2005-AR1 A3	$ 10,026,758.09	0.066272	$ 665,026.67	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	SASC 2005-AR1		97.00	HOME EQTY	0.21
	88156EAA4	TMTS 2006-17HE A2A	$ 8,138,196.82	0.838887	$ 6,827,029.12	HOME EQTY	Asset	AAA	-	Asset	AAA	-	6	LIBOR01M	TMTS 2006-17HE		97.00	HOME EQTY	1.86
	88156PAX9	TMTS 2006-7 2A1	$ 8,500,000.00	0.569892	$ 4,844,081.31	HOME EQTY	Asset	AAA	-	Asset	AAA	-	8	LIBOR01M	TMTS 2006-7		97.00	HOME EQTY	0.5
	88156YAB8	TMTS 2006-11 A2A	$ 9,333,232.67	0.731331	$ 4,831,687.84	HOME EQTY	Asset	AAA	-	Asset	AAA	-	6	LIBOR01M	TMTS 2006-11		97.00	HOME EQTY	1
	14454AAB5	CARR 2006-FRE2 A2	$ 12,754,000.00	1.000000	$ 12,754,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	12	LIBOR01M	CARR 2006-FRE2		97.00	HOME EQTY	1.82
	23245CAC4	CWL 2007-1 2A2	$ 11,000,000.00	1.000000	$ 11,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	CWL 2007-1		97.00	HOME EQTY	2.09
	357290AC2	FHLT 2006-B 2A2	$ 3,031,462.00	1.000000	$ 3,031,462.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	FHLT 2006-B		97.00	HOME EQTY	1.05
	35729VAB3	FHLT 2006-D 2A1	$ 15,749,123.00	0.736080	$ 11,592,613.83	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	8	LIBOR01M	FHLT 2006-D		97.00	HOME EQTY	0.72
	3622ELAA4	GSAA 2006-18 AV1	$ 18,347,000.00	0.700478	$ 12,851,836.47	HOME EQTY	Asset	AAA	-	Asset	AAA	-	7	LIBOR01M	GSAA 2006-18		97.00	HOME EQTY	0.89
	55275TAC2	MABS 2007-WMC1 A3	$ 26,850,000.00	1.000000	$ 26,850,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	MABS 2007-WMC1		95.00	HOME EQTY	1.6
	59022QAD4	MLMI 2006-HE5 A2C	$ 22,000,000.00	1.000000	$ 22,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	MLMI 2006-HE5		97.00	HOME EQTY	2.8
	61750FAE0	MSAC 2006-HE6 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	15	LIBOR01M	MSAC 2006-HE6		97.00	HOME EQTY	4.42
	61746WAC8	MSIX 2006-2 A3	$ 11,470,000.00	1.000009	$ 11,470,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	MSIX 2006-2		95.00	HOME EQTY	3.05
	643529AA8	NCAMT 2006-ALT2 AV1	$ 20,241,000.00	0.484713	$ 9,811,085.26	CMO	Asset	AAA	-	Asset	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2		0.00	CMO	0.34
	3622EAAX8	GSAA 2007-3 1A1B	$ 15,378,000.00	0.857068	$ 13,179,868.32	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	GSAA 2007-3		97.00	HOME EQTY	1.37
	3622EAAD2	GSAA 2007-3 2A1B	$ 6,112,000.00	0.896938	$ 5,482,073.69	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	GSAA 2007-3		97.00	HOME EQTY	2.37
	12668YAA1	CWL 2006-S10 A1	$ 5,000,000.00	0.799639	$ 3,998,196.17	HOME EQTY	Asset	AAA	-	Asset	AAA	-	11	LIBOR01M	CWL 2006-S10		92.00	HOME EQTY	0.64
	40051CAA5	GSAA 2006-8 1 1A1	$ 22,824,000.00	0.728538	$ 16,701,003.91	HOME EQTY	Asset	AAA	-	Asset	AAA	-	16	LIBOR01M	GSAA 2006-S1		92.00	HOME EQTY	0.86
	68968RAC1	NHEL 2006-6 A2B	$ 5,550,000.00	1.000000	$ 5,550,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	NHEL 2006-6		97.00	HOME EQTY	1.34
	1298733MY5	CWHEL 2004-Q 2A	$ 52,000,000.00	0.179624	$ 9,340,449.92	HOME EQTY	Asset	AAA	-	Asset	AAA	-	30	LIBOR01M	CWHEL 2004-Q		98.00	HOME EQTY	2.78
	144531AY8	CARR 2005-NC1 A1C1	$ 5,000,000.00	0.205161	$ 1,025,805.38	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	38	LIBOR01M	CARR 2005-NC1		97.00	HOME EQTY	0.23
	362334QF4	GSRPM 2006-1 A2	$ 2,400,000.00	0.450979	$ 1,082,350.82	HOME EQTY	Asset	AAA	-	Asset	AAA	-	12	LIBOR01M	GSRPM 2006-1		97.00	HOME EQTY	0.67
	78110WF35	RASC 2004-KS9 AI4	$ 11,650,000.00	0.193261	$ 2,251,468.98	HOME EQTY	Asset	AAA	-	Asset	AAA	-	30	LIBOR01M	RASC 2004-KS9		97.00	HOME EQTY	1.55
	46626LEJ5	JPMAC 2005-OPT2 A3	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	24	LIBOR01M	JPMAC 2005-OPT2		97.00	HOME EQTY	2.53
	362341L49	GSAMP 2005-WMC3 A2B	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	24	LIBOR01M	GSAMP 2005-WMC3		97.00	HOME EQTY	3.45
	362439AD3	GSAMP 2006-HE4 A2C	$ 5,368,000.00	1.000000	$ 5,368,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	GSAMP 2006-HE4		97.00	HOME EQTY	5.23
	04544NAD6	ABSHE 2006-HE6 A4	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	18	LIBOR01M	ABSHE 2006-HE6		97.00	HOME EQTY	2.28
	71085PBX0	PCHLT 2005-2 A3	$ 6,322,000.00	1.000000	$ 6,322,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	35	LIBOR01M	PCHLT 2005-2		97.00	HOME EQTY	2.73
	1248MKAB1	CBASS 2007-SL1A A2	$ 38,222,000.00	0.939830	$ 35,922,195.59	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	23	LIBOR01M	CBASS 2007-SL1A		85.00	HOME EQTY	1.7
	86362YAC0	SASC 2007-BC2 A3	$ 26,814,000.00	1.000000	$ 26,814,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	13	LIBOR01M	SASC 2007-BC2		97.00	HOME EQTY	1.77
	89121PBT9	CWNHT 2005-5 A2B	$ 31,727,500.00	1.000000	$ 31,727,500.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	29	LIBOR01M	CWNHT 2005-5		97.00	HOME EQTY	4.68
	61749NAC1	MSAC 2006-HE5 A2B	$ 32,000,000.00	1.000000	$ 32,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	MSAC 2006-HE5		97.00	HOME EQTY	1.13
	64352VNW7	NCHET 2005-C A2B	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	17	LIBOR01M	NCHET 2005-C		97.00	HOME EQTY	0.74
	31859XAA4	FMIC 2006-S1 A	$ 46,140,000.00	0.907028	$ 41,850,274.23	HOME EQTY	Asset	AAA	-	Asset	AAA	-	22	LIBOR01M	FMIC 2006-S1		92.00	HOME EQTY	2.42
	07400YAA4	BSMF 2006-SL2 A1	$ 25,000,000.00	0.688230	$ 17,155,739.75	CMO	Asset	AAA	-	Asset	AAA	-	16	LIBOR01M	BSMF 2006-SL2		0.00	CMO	2.01
	78577RAA7	SACO 2006-9 A1	$ 39,000,000.00	0.698049	$ 27,223,906.92	HOME EQTY	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	SACO 2006-9		80.00	HOME EQTY	2.22
	78113ABH3	RASC 2006-KS3 A3	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	17	LIBOR01M	RASC 2006-KS3		95.00	HOME EQTY	1.5
	14453MAB0	CARR 2006-NC4 A2	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	CARR 2006-NC4		97.00	HOME EQTY	2.05
	64352VLG4	NCHET 2005-3 A2C	$ 11,570,000.00	0.992936	$ 11,486,271.57	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	27	LIBOR01M	NCHET 2005-3		97.00	HOME EQTY	2.72
	144531DL1	CARR 2005-NC5 A2	$ 48,500,000.00	0.858253	$ 41,628,282.84	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	32	LIBOR01M	CARR 2005-NC5		97.00	HOME EQTY	2.78
	144531CV0	CARR 2005-NC3 A1C	$ 30,000,000.00	0.577159	$ 17,314,775.15	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	25	LIBOR01M	CARR 2005-NC3		97.00	HOME EQTY	1.69
	12688TAB0	CWL 2007-BC1 2A1	$ 16,413,000.00	0.809415	$ 13,284,835.09	HOME EQTY	Asset	AAA	-	Asset	AAA	-	8	LIBOR01M	CWL 2007-BC1		97.00	HOME EQTY	0.73
	34957YAA5	FORTS 2006-2A S	$ 7,564,865.00	0.868421	$ 6,569,488.62	CDO	Asset	AAA	-	Asset	AAA	-	20	LIBOR01M	FORTS 2006-2A		99.75	CDO	3
	44386QAA2	HUDMZ 2006-2A S	$ 4,300,000.00	0.963333	$ 4,228,333.15	CDO	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	HUDMZ 2006-2A		99.75	CDO	3
	144528AC0	CARR 2006-NC3 A3	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	15	LIBOR01M	CARR 2006-NC3		95.00	HOME EQTY	5.61
	12688UAE1	CWL 2007-3 2A1	$ 47,000,000.00	0.930060	$ 43,712,842.37	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	CWL 2007-3		97.00	HOME EQTY	0.74
	12688UAF8	CWL 2007-3 2A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	17	LIBOR01M	CWL 2007-3		97.00	HOME EQTY	1.65
	12688UAG6	CWL 2007-3 2A3	$ 17,000,000.00	1.000000	$ 17,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	21	LIBOR01M	CWL 2007-3		97.00	HOME EQTY	2.79
	3622EBAA6	GSAA 2007-4 A1	$ 80,000,000.00	0.884562	$ 70,764,958.40	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	GSAA 2007-4		97.00	HOME EQTY	0.89
	3622EBAB4	GSAA 2007-4 A2	$ 45,788,000.00	1.000000	$ 45,788,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	20	LIBOR01M	GSAA 2007-4		96.00	HOME EQTY	2.65
	452570AA2	IMSA 2007-2 1A1A	$ 80,000,000.00	0.936701	$ 74,936,082.26	ABS	Asset	AAA	-	Asset	AAA	-	11	LIBOR01M	IMSA 2007-2		97.00	ABS	0.82
	52521MAB8	LABSM 2007-1 2A1	$ 20,000,000.00	0.954880	$ 19,097,606.60	HOME EQTY	Asset	AAA	-	Asset	AAA	-	9	LIBOR01M	LABSM 2007-1		97.00	HOME EQTY	0.84
[redacted]	12688SDV5	CWL 2006-S2 A1	$ 3,895,000.00	0.459325	$ 1,789,069.73	HOME EQTY	Asset	AAA	-	Asset	AAA	-	11	LIBOR01M	CWL 2006-S2		92.00	HOME EQTY	0.37
	17305XAA7	CGCMT 2006-FL2 A1	$ 5,500,000.00	0.316438	$ 1,740,396.66	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2		100.00	COMMERCIAL	0.74
	36244RAA8	GSAMP 2006-SD3 A	$ 14,650,000.00	0.687679	$ 9,915,037.12	HOME EQTY	Asset	AAA	-	Asset	AAA	-	26	LIBOR01M	GSAMP 2006-SD3		90.00	HOME EQTY	3.25
	36296UAC2	GSMS 2006-FL8A A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	COMMERCIAL	Asset	AAA	-	Asset	AAA	-	14	LIBOR01M	GSMS 2006-FL8A		100.00	COMMERCIAL	0.31
	38013TAA0	GMACM 2006-HE3 A1	$ 12,000,000.00	0.538600	$ 6,463,203.65	HOME EQTY	Asset	AAA	-	Asset	AAA	-	10	LIBOR01M	GMACM 2006-HE3		97.00	HOME EQTY	0.84
	39539JAA4	GPMF 2007-HE1 A1	$ 2,000,000.00	0.909340	$ 1,818,680.13	HOME EQTY	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	GPMF 2007-HE1		97.00	HOME EQTY	4.49
	437099AA2	RFMS2 2006-HSA5 A	$ 10,000,000.00	0.743281	$ 7,432,811.39	HOME EQTY	Asset	AAA	-	Asset	AAA	-	14	LIBOR01M	RFMS2 2006-HSA5		97.00	HOME EQTY	2.04
	45670CAA5	INDX 2007-AR7 1A1	$ 8,000,000.00	0.950995	$ 7,607,961.45	CMO	Asset	AAA	-	Asset	AAA	-	30	LIBOR01M	INDX 2007-AR7		0.00	CMO	3.19
	59023UAC6	MLFT 2006-1 A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	13	LIBOR01M	MLFT 2006-1		100.00	COMMERCIAL	1.17
	61748JAA5	MSM 2006-8AR A1	$ 19,500,000.00	0.785354	$ 15,314,405.73	CMO	Asset	AAA	-	Asset	AAA	-	17	LIBOR01M	MSM 2006-8AR		0.00	CMO	3.71
	61749TAA3	MSM 2006-10SL A1	$ 9,000,000.00	0.629252	$ 5,663,267.02	HOME EQTY	Asset	AAA	-	Asset	AAA	-	13	LIBOR01M	MSM 2006-10SL		85.00	HOME EQTY	2
	61752LAB1	MSC 2007-XLFA A2	$ 10,000,000.00	1.000000	$ 10,000,000.00	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA		100.00	COMMERCIAL	1.59
	65536WAA3	NAA 2006-S3 A1	$ 18,000,000.00	0.672060	$ 12,097,082.16	HOME EQTY	Asset	AAA	-	Asset	AAA	-	18	LIBOR01M	NAA 2006-S3		80.00	HOME EQTY	2.96
	65536XAN3	NAA 2006-AF2 5A1	$ 20,000,000.00	0.755107	$ 15,102,149.20	CMO	Asset	AAA	-	Asset	AAA	-	19	LIBOR01M	NAA 2006-AF2		0.00	CMO	3.68
	73316NAA3	POPLR 2007-A A1	$ 3,000,000.00	0.956324	$ 2,868,972.28	HOME EQTY	Asset	AAA	-	Asset	AAA	-	9	LIBOR01M	POPLR 2007-A		97.00	HOME EQTY	1.13
	88158TAB9	TMTS 2006-9HGA A2	$ 30,000,000.00	1.000000	$ 30,000,000.00	CMO	Asset	AAA	-	Asset	AAA	-	20	LIBOR01M	TMTS 2006-9HGA		0.00	CMO	1.52
	88522RAA2	TMST 2006-S A1	$ 10,000,000.00	0.812984	$ 8,129,836.90	CMO	Asset	AAA	-	Asset	AAA	-	12	LIBOR01M	TMST 2006-S		0.00	CMO	2.49
	004421VY2	ACE 2006-ASP1 A2C	$ 11,500,000.00	1.000000	$ 11,500,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	20	LIBOR01M	ACE 2006-ASP1		95.00	HOME EQTY	2.18
	07387UAV0	BSABS 2006-PC1 A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	22	LIBOR01M	BSABS 2006-PC1		97.00	HOME EQTY	1.47
	12668BJE4	CWALT 2006-OC1 1A2	$ 15,493,000.00	0.747097	$ 11,574,779.20	CMO	Asset	AAA	-	Asset	AAA	-	29	LIBOR01M	CWALT 2006-OC1		0.00	CMO	2.9
	14983AAC3	CBASS 2006-SL1 A3	$ 6,000,000.00	1.000000	$ 6,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	21	LIBOR01M	CBASS 2006-SL1		55.00	HOME EQTY	2.31
	144531EW6	CARR 2006-NC1 A3	$ 19,500,000.00	1.000000	$ 19,500,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	21	LIBOR01M	CARR 2006-NC1		97.00	HOME EQTY	4.34
	17309XAA7	CGCMT 2006-FL2 A1	$ 4,000,000.00	0.316438	$ 1,265,744.64	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2		100.00	COMMERCIAL	0.74
	17309XAB5	CGCMT 2006-FL2 A2	$ 12,853,000.00	1.000000	$ 12,853,000.00	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	11	LIBOR01M	CGCMT 2006-FL2		100.00	COMMERCIAL	1.01
	1281898F7	COMM 2005-F10A AJ1	$ 12,000,000.00	1.000000	$ 12,000,000.00	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	15	LIBOR01M	COMM 2005-F10A		100.00	COMMERCIAL	0.48
	126164AN2	COMM 2005-FL11 AJ	$ 2,000,000.00	1.000000	$ 2,000,000.00	COMMERCIAL	Asset	AAA	AAA	Asset	AAA	AAA	20	LIBOR01M	COMM 2005-FL11		100.00	COMMERCIAL	0.38
	200478AA7	COMM 2007-FL14 A1	$ 4,000,000.00	0.997210	$ 3,988,841.08	COMMERCIAL	Asset	AAA	-	Asset	AAA	-	9	LIBOR01M	COMM 2007-FL14		100.00	COMMERCIAL	0.69
	31394VL32	FNR 2006-5 1A	$ 20,000,000.00	0.415094	$ 8,301,885.80	CMO	Asset	AAA	AAA	Asset	AAA	AAA	13	LIBOR01M	FNR 2006-5		0.00	CMO	1.23
	34528PAG1	FORDF 2005-1 A	$ 20,000,000.00	1.000000	$ 20,000,000.00	AUTOS	Asset	AAA	AAA	Asset	AAA	AAA	15	LIBOR01M	FORDF 2005-1		99.00	AUTOS	0.76
	39539JAA4	GPMF 2007-HE1 A1	$ 3,000,000.00	0.909340	$ 2,728,020.20	HOME EQTY	Asset	AAA	-	Asset	AAA	-	15	LIBOR01M	GPMF 2007-HE1		97.00	HOME EQTY	4.49
	362341KR7	GSAMP 2006-HE1 A2C	$ 23,198,000.00	1.000000	$ 23,198,000.00	HOME EQTY	Asset	AAA	-	Asset	AAA	-	21	LIBOR01M	GSAMP 2006-HE1		97.00	HOME EQTY	5.13
	36244MAA9	GSAMP 2006-S4 A1	$ 10,000,000.00	0.341169	$ 3,411,692.10	HOME EQTY	Asset	AAA	-	Asset	AAA	-	9	LIBOR01M	GSAMP 2006-S4		97.00	HOME EQTY	0.29
	43708UAA5	INDS 2006-A A	$ 5,000,000.00	0.614187	$ 3,070,934.45	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	13	LIBOR01M	INDS 2006-A		80.00	HOME EQTY	0.78
	45071KDD3	DDS 2006-HE1 A3	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	20	LIBOR01M	DDS 2006-HE1		95.00	HOME EQTY	2.03
	45256VAA5	IMSA 2006-2 1A11	$ 1,500,000.00	0.611901	$ 1,217,851.03	CMO	Asset	AAA	-	Asset	AAA	-	18	LIBOR01M	IMSA 2006-2		0.00	CMO	2.01
	456806XH4	INABS 2006-A A3	$ 14,500,000.00	1.000000	$ 14,500,000.00	HOME EQTY	Asset	AAA	AAA	Asset	AAA	AAA	20	LIBOR01M	INABS 2006-A		95.00	HOME EQTY	4.61

0.00%

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted]

| | | |

From: Ganapathy, Mahesh
Sent: Sunday, August 12, 2007 5:59 PM
To: Lehman, David A.; Bieber, Matthew G.
Cc: Egol, Jonathan
Subject: RE: Default Swap Collateral

Attachments: Default Swap Collateral Master File 08.12.07.zip

Please find attached- Have included WA CDS spread (trader marked on TAP), WA CDS NPV and Total CDS NPV. Please let me know if there are any questions. Reachable on cell also 909 [redacted]



Default Swap Collateral Master...

Thanks
Mahesh

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Lehman, David A.
Sent: Sunday, August 12, 2007 4:56 PM
To: Ganapathy, Mahesh; Bieber, Matthew G.
Cc: Egol, Jonathan
Subject: RE: Default Swap Collateral

Send over what you have

From: Ganapathy, Mahesh
Sent: Sunday, August 12, 2007 4:26 PM
To: Lehman, David A.; Bieber, Matthew G.
Subject: Default Swap Collateral

David /Matt,

I have added these fields - WA spread on the CDS facing the deals and NPV(WA and total) as discussed on Friday. I can send over what I have done so far if you prefer; if not I can add in the remaining marks on tomorrow morning and send in a completed version. Please let me know.

Thanks

Mahesh Ganapathy
CDO Structuring,Marketing & Principal Investments
Fixed Income,Currency and Commodities Division
Goldman, Sachs & Co.
Ph: 212-902-6265
Fax:212-256-6570
mahesh.ganapathy@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2641

Default Swap Collateral
Summary

By Deal

**Source: MTGE TAP as of Friday 08.10.07*

Will be updated on Monday with marks

Deal Name	Face of AAA rated collateral	Cash in Acct	WA CDS Spread*	WA CDS NPV*	Total CDS NPV*	WAL	WAS Def Swap Spread	WA Def Swap Price*	WA Price (CMO not incl)	Interest on Cash	LIBOR
Hout Bay	$ 98,302,805.42	$ 1,697,194.58	644.63	$ 1,628,568.10	$ 16,285,681.00	1.90	15.33	$96.98	$96.98	4.985	5.321
Altius 2005-1	$ 121,643,454.49	$ 3,356,545.50	69.13	$ 115,394.24	$ 1,013,124.00	1.08	7.30	$79.77	$98.75	4.985	5.321
Altius IV	$ 378,046,168.59	$ 11,617,984.41	521.31	$ 1,913,280.68	$ 55,342,311.00	2.45	18.42	$32.24	$98.46	4.985	5.321
Broadwick	$ 492,367,096.06	$ 2,966,942.94	1,026.52	$ 850,486.33	$ 43,365,098.00	2.05	20.12	$37.60	$95.31	4.985	5.321
Hudson HG	$ 94,642,294.57	$ 2,804,119.43	1,351.78	$ 8,406,836.15	$ 46,135,420.00	2.75	11.84	$88.37	$96.93	4.910	5.321
Hudson Mezz 06-1	$ 749,005,576.36	$ 49,396,594.64	1,889.90	$ 5,820,836.09	$ 800,083,041.00	0.94	10.95	$70.31	$94.93	4.910	5.321
Hudson Mezz 06-2	$ 392,129,110.51	$ 7,870,889.49	2,245.58	$ 2,285,105.25	$ 182,808,420.00	1.32	10.14	$86.45	$96.12	4.985	5.321
Anderson Mezz 2007-1	$ 297,777,252.96	$ 7,222,747.04	1,537.27	$ 1,746,669.43	$ 106,546,835.00	1.72	10.24	$92.12	$94.58	4.985	5.321
Point Pleasant Funding 2007-1	$ 551,539,388.07	$ 53,560,611.93	1,764.25	$ 5,287,113.18	$ 381,130,068.00	1.24	12.33	$92.22	$96.32	4.985	5.321
GSC ABS 2006-3g	$ 297,452,754.79	$ 5,632,155.20	1,357.45	$ 5,599,111.03	$ 133,671,055.00	2.93	16.19	$86.20	$90.15	4.985	5.321
Davis Square 7	$ 109,646,825.46	$ 2,379,457.54	1,724.84	$ 4,679,279.74	$ 70,444,162.00	2.64	9.63	$80.34	$95.58	4.660	5.321
Adirondack 2005-1	$ 166,174,523.84	$ 9,537,393.16	493.04	$ 1,537,529.60	$ 28,021,649.00	1.01	15.08	$86.32	$98.77	4.985	5.321
Adirondack 2005-2	$ 122,029,924.94	$ 7,970,075.06	474.35	$ 698,183.69	$ 9,076,388.00	0.93	12.27	$94.49	$98.71	4.985	5.321
Davis Square 6	$ 9,284,993.03	$ 715,006.97	1,755.70	$ 6,007,157.00	$ 6,007,157.00	0.80	4.49	$99.75	$99.75	4.860	5.321
Camber 7	$ 863,192,746.40	$ 5,557,253.60	1,468.52	$ 2,047,217.02	$ 277,161,409.00	2.42	25.84	$82.22	$94.99	4.930	5.321
Coolidge	$ 79,327,019.26	$ 9,437,673.74	160.10	$ 62,565.79	$ 959,932.00	0.91	1.41	$87.81	$96.44	4.985	5.321
Timberwolf	$ 861,069,305.20	$ 67,525,974.80	1,789.38	$ 7,245,314.67	$ 512,082,574.00	1.93	27.94	$92.39	$95.38	5.170	5.321
Fortius II	$ 175,942,675.64	$ 6,057,324.36	1,200.76	$ 1,811,118.62	$ 45,925,674.00	2.08	6.26	$53.90	$95.03	5.110	5.321
Fortius I	$ 463,833,055.70	$ 3,849,293.30	921.35	$ 724,860.54	$ 59,731,244.00	2.13	20.02	$87.48	$95.93	5.110	5.321
Altius III	$ 106,681,696.31	$ 4,318,303.68	373.78	$ 981,624.69	$ 12,393,918.00	2.23	7.52	$91.07	$95.37	5.110	5.321
West Coast	$ 329,153,286.14	$ 5,344,517.86	630.33	$ 2,449,404.51	$ 46,201,792.00	2.89	24.17	$70.34	$97.01	4.910	5.321
Total	$ 6,759,241,953.75	$ 268,818,059.23	1,431.58	$ 3,806,525.76	$ 2,834,386,952.00	1.89	17.45	$79.83	$95.68	5.000	5.321

% of Portfolio Marked		83.5%
Wgt. Avg. Marked Price	$	95.57

Default Swap Collateral Summary

Acc. Days	90.00

By Deal

Deal Name	Spread to LIBOR	Model CDS Collateral Spread	Cash %	Rating Agency %	Change (bps)	Drag Caused by 100% Cash In Default Swap Collateral Account 100% Cash Case ($ difference)
Hout Bay	-0.336	L	L-0.25	L-0.25	15.66	$ 120,306.89
Altius 2005-1	-0.336	L	L-0.25	L-1	7.64	$ 124,458.85
Altius IV	-0.336		L-0.25		18.76	$ 491,875.60
Broadwick	-0.336				20.46	$ 661,601.21
Hudson HG	-0.411				12.25	$ 125,318.77
Hudson Mezz 06-1	-0.411				11.36	$ 975,061.82
Hudson Mezz 06-2	-0.336				10.48	$ 429,073.51
Anderson Mezz 2007-1	-0.336				10.57	$ 326,517.63
Point Pleasant Funding 2007-1	-0.336				12.67	$ 633,696.28
GSC ABS 2006-3g	-0.336				16.53	$ 370,462.99
Davis Square 7	-0.461				10.09	$ 152,840.78
Adirondack 2005-1	-0.336				15.42	$ 202,355.64
Adirondack 2005-2	-0.336				12.60	$ 140,008.33
Davis Square 6	-0.461				4.96	$ 11,750.11
Camber 7	-0.391				26.23	$ 1,402,001.36
Coolidge	-0.336				1.76	$ 69,481.97
Timberwolf	-0.151				28.09	$ 927,125.39
Fortius II	-0.211				6.47	$ 120,466.52
Fortius I	-0.211				20.23	$ 477,066.18
Altius III	-0.211				7.73	$ 76,393.84
West Coast	-0.411				24.58	$ 537,282.77
Total	-0.321				17.77	$ 8,375,146.45

% of Portfolio Marked
Wgt. Avg. Marked Price

Default Swap Collateral
Summary

By Deal

Deal Name	Name of Test	IC Denominator	Cushion (Old)	Cushion (New)	Trigger	Name of Test	IC Denominator	Cushion (Old)	Cushion (New)	Trigger	Name of Test	IC Denominator
Hout Bay	Class A/B	$ 6,631,698.23	11.37%	9.56%	105.00%	Class C	$ 6,990,010.73	8.91%	7.19%	101.50%	Class D	7,349,789.34
Altius 2005-1	Class A/B	$ 8,929,071.98	18.75%	17.36%	101.00%	Class C/D	$ 10,079,190.74	6.08%	4.85%	100.00%		
Altius IV	Class A/B	$ 6,993,619.22	37.00%	29.97%	101.00%	Class C	$ 7,654,581.60	26.00%	19.57%	100.00%		8,242,161.01
Broadwick	No IC Test					No IC Test					No IC Test	
Hudson HG	Class A/B	$ 7,612,008.34	10.44%	8.79%	102.00%	Class C	$ 7,967,267.79	6.42%	4.85%	101.00%	Class D	8,247,886.81
Hudson Mezz 06-1	No IC Test					No IC Test					No IC Test	
Hudson Mezz 06-2	No IC Test					No IC Test					No IC Test	
Anderson Mezz 2007-1	No IC Test					No IC Test					No IC Test	
Point Pleasant Funding 2007-1	No IC Test					No IC Test						
GSC ABS 2006-3g	Class A/B	$ 6,543,382.22	11.95%	6.29%	102.00%	Class C	$ 6,798,767.11	8.67%	3.22%	101.00%	Class D	6,798,767.11
Davis Square 7	Class A/B	$ 9,256,600.00	20.86%	19.21%	102.00%	Class C	$ 9,477,242.50	19.00%	17.39%	101.00%	Class D	9,922,741.64
Adirondack 2005-1	Class A/B	$ 6,278,821.46	17.14%	13.92%	105.00%	Class C/D	$ 6,998,252.64	7.58%	4.69%	102.00%		
Adirondack 2005-2	Class A/B	$ 6,801,440.78	16.49%	14.43%	105.00%	Class C	$ 7,323,650.78	10.83%	8.92%	102.00%	Class D	7,816,836.39
Davis Square 6	Class A/B	$ 8,963,407.61	8.71%	8.58%	102.00%	Class C	$ 9,158,532.61	7.35%	7.22%	101.00%	Class D	9,687,533.89
Camber 7	Class A/B	$ 12,149,472.00	39.56%	28.02%	102.00%	Class C	$ 13,815,360.35	23.49%	13.34%	101.00%	Class D	15,044,941.52
Coolidge	Class A/B	$ 4,548,983.58	25.65%	24.12%	112.00%	Class C/D	$ 5,213,448.23	14.11%	12.78%	106.00%		
Timberwolf	No IC Test					No IC Test					No IC Test	
Fortius II	Class A/B	$ 2,015,349.07	54.31%	48.33%	101.00%	Class C	$ 2,129,360.18	56.46%	50.80%	100.00%	Class D	2,332,302.54
Fortius I	Class A/B	$ 2,312,866.26	100.54%	79.91%	101.00%	Class C/D	$ 3,202,787.11	45.54%	30.64%	100.00%		
Altius III	Class A/B	$ 8,009,722.85	35.24%	34.29%	101.00%	Class C	$ 8,393,247.85	30.01%	29.10%	100.00%	Class D	8,790,909.54
West Coast	Class A/B	$ 12,401,317.50	12.55%	8.22%	102.00%	Class C	$ 12,747,626.25	10.44%	6.23%	101.00%	Class D	13,456,455.58
Total												

% of Portfolio Marked
Wgt. Avg. Marked Price

Default Swap Collateral Summary

By Deal

Deal Name	Cushion (Old)	Cushion (New)
Hout Bay	4.00%	2.36%
Altius 2005-1		
Altius IV	17.00%	11.03%
Broadwick		
Hudson HG	3.77%	2.25%
Hudson Mezz 06-1		
Hudson Mezz 06-2		
Anderson Mezz 2007-1		
Point Pleasant Funding 2007-1		
GSC ABS 2006-3g	9.67%	4.22%
Davis Square 7	14.61%	13.07%
Adirondack 2005-1		
Adirondack 2005-2	4.71%	2.92%
Davis Square 6	2.43%	2.31%
Camber 7	25.02%	15.71%
Coolidge		
Timberwolf		
Fortius II	42.85%	37.68%
Fortius I		
Altius III	24.13%	23.26%
West Coast	5.57%	1.58%
Total		

% of Portfolio Marked
Wgt. Avg. Marked Price

Default Swap Collateral
Summary

By Deal

Deal Name	Trigger	Interest Proceeds	Interest Reduction as % of I.P.	Tranche Effected	Interest Reduction as % of Equity Payment	Comment
Hout Bay	101.00%	7,717,448.70	1.56%	Equity, D and E Notes	141%	
Altius 2005-1		10,692,433.96	1.16%	Equity	40%	
Altius IV	100.00%	9,807,179.35	5.02%	Equity and BBB	126%	Model Projection
Broadwick		5,097,013.63	12.98%	Equity and Sub Mgt Fee	100.0%	
Hudson HG	100.00%	8,558,702.00	1.46%	Equity	71.5%	
Hudson Mezz 06-1		8,185,419.61	11.91%	Super Snr		AB OC Failure
Hudson Mezz 06-2		2,677,462.76	16.03%	BBB		D OC Failure
Anderson Mezz 2007-1		8,345,765.07	3.91%	Equity	14.5%	
Point Pleasant Funding 2007-1		18,770,655.37	3.38%	Equity	31.3%	Model Projection
GSC ABS 2006-3g	100.00%	9,206,802.63	4.02%	Equity	91.6%	
Davis Square 7	100.00%	11,372,912.48	1.34%	Equity	31.7%	
Adirondack 2005-1		7,668,827.27	2.64%	Equity	98.4%	
Adirondack 2005-2	101.00%	8,152,822.27	1.72%	Equity	54.6%	
Davis Square 6	100.00%	9,923,190.60	0.12%	Equity	4.1%	
Camber 7	100.00%	17,875,551.48	7.84%	Equity, Sub Mgt Fee, D & E Turbo	261%	
Coolidge		6,077,061.50	1.14%	Equity	9.8%	
Timberwolf		17,250,148.86	5.37%	Equity	89.4%	Model Projection
Fortius II	100.00%	3,331,606.57	3.62%	Class E		E OC Failure
Fortius I		4,661,340.39	10.23%	Equity	46.5%	
Altius III	100.00%	9,916,597.16	0.77%	BBB		D OC Failure
West Coast	100.00%	14,205,687.05	3.78%	Class E, X, Sub Mgmt fee, and D notes	254.41%	
[illegible] Total						

% of Portfolio Marked
Wgt. Avg. Marked Price

Default Swap Collateral

Listing

Deal	CUSIP	NAME	Original Face	Factor	Current Face	Sector	Original Moodys	Original S&P	Original Fitch	Current Moodys	Current S&P	Current Fitch	Spread	Index	Issuer	Trading Desk will provide Current Mark	Deal TYPE	WAL	84% 0.00% 95.57
[redacted]	004375EH0	ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74	
	144528AB2	CARR 2006-NC3 A2	$ 395,000.00	1.000000	$ 395,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.93	
	12669WAD8	CWL 2007-8 2A2	$ 1,150,000.00	1.000000	$ 1,150,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	2.13	
	12670BAA7	CWL 2007-S2 A1	$ 750,000.00	0.882713	$ 662,035.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.76	
	239158AJ1	DVSQ 2005-5A S	$ 4,086,000.00	0.850000	$ 3,473,100.00	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	DVSQ 2005-5A	99.75	CDO	4.24	
	34958CAF1	FORTS 2006-1A S	$ 11,500,000.00	0.760000	$ 8,740,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	FORTS 2006-1A	99.75	CDO	1.58	
	36240UAB3	GSTR 2002-2A A1MB	$ 958,672.00	0.762941	$ 731,410.26	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A	99.75	CDO	0.8	
	36249BAA8	GSAA 2007-7 1A1	$ 1,000,000.00	0.989175	$ 989,175.28	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	98.50	HOME EQTY	0.93	
	40051CAA5	GSAA 2006-S1 1A1	$ 380,000.00	0.728538	$ 276,844.42	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.86	
	36244RAA8	GSAMP 2006-SD3 A	$ 37,500,000.00	0.667679	$ 25,037,972.52	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3	90.00	HOME EQTY	3.25	
	44379PAF2	HUDHG 2006-1A S	$ 1,758,198.00	0.929825	$ 1,634,815.86	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDHG 2006-1A	99.75	CDO	2.8	
	443860AA9	HUDMZ 2006-1A S	$ 3,930,000.00	0.953125	$ 3,745,781.25	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-1A	99.75	CDO	3	
	64069PAA6	NEPTN 2006-3A S	$ 5,000,000.00	0.783334	$ 3,916,671.00	CDO	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	NEPTN 2006-3A	99.75	CDO	1.94	
	66988RAC1	NHEL 2006-6 A2B	$ 950,000.00	1.000000	$ 950,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	97.00	HOME EQTY	1.34	
	746869AZ9	PTNM 2002-1A A1MH	$ 46,000,000.00	1.000000	$ 46,000,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A	99.50	CDO	1	
	06424HBE6	BALL 2005-MIB1 A1	$ 4,500,000.00	0.291005	$ 1,309,524.70	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	BALL 2005-MIB1	100.00	COMMERCIAL	0.01	
	17309XAA7	CGCMT 2006-FL2 A1	$ 10,913,750.00	0.316436	$ 3,453,505.14	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.74	
	17309XAB5	CGCMT 2006-FL2 A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	1.01	
	200476AA7	COMM 2007-FL14 A1	$ 5,000,000.00	0.997210	$ 4,986,051.33	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	COMM 2007-FL14	100.00	COMMERCIAL	0.69	
	22545RAA4	CSMC 2006-TF2A A1	$ 7,600,000.00	0.888871	$ 6,755,417.64	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CSMC 2006-TF2A	100.00	COMMERCIAL	0.55	
	36228CZU0	GSMS 2007-EOP A2	$ 4,000,000.00	1.000000	$ 4,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	1.48	
	39539JAA4	GPMF 2007-HE1 A1	$ 3,000,000.00	0.909340	$ 2,728,020.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GPMF 2007-HE1	97.00	HOME EQTY	4.49	
	437089AA3	INDS 2006-1 A1	$ 5,000,000.00	0.547170	$ 2,735,849.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	INDS 2006-1	97.00	HOME EQTY	1.14	
	45256VAA5	IMSA 2006-2 1A11	$ 7,500,000.00	0.811801	$ 6,089,255.15	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	IMSA 2006-2	0.00	CMO	2.01	
	46625YF65	JPMCC 2006-FL1A A1A	$ 2,000,000.00	0.066306	$ 132,611.97	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	JPMCC 2006-FL1A	100.00	COMMERCIAL	0.02	
	59020U2N4	MLMI 2006-SL1 A	$ 12,500,000.00	0.452965	$ 5,662,062.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	MLMI 2006-SL1	85.00	HOME EQTY	1.17	
	59159UBX5	MMT 2005-2 A	$ 20,000,000.00	1.000000	$ 20,000,000.00	CARDS	Aaa	AAA	AAA	Aaa	AAA	AAA	4	LIBOR01M	MMT 2005-2	99.80	CARDS	0.1	
	61752LAB1	MSC 2007-XLFA A2	$ 8,000,000.00	1.000000	$ 8,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA	100.00	COMMERCIAL	1.59	
	69337HAA9	PHHAM 2007-2 1A1	$ 10,000,000.00	0.916132	$ 9,161,319.59	CMO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	PHHAM 2007-2	0.00	CMO	0.82	
	746869AZ9	PTNM 2002-1A A1MH	$ 35,500,000.00	1.000000	$ 35,500,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A	99.50	CDO	.1	
	88522RAA2	TMST 2006-5 A1	$ 10,000,000.00	0.812984	$ 8,129,836.90	CMO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	TMST 2006-5	0.00	CMO	2.49	
	00703QAD4	ARMT 2006-3 4A11	$ 40,350,000.00	0.774342	$ 31,244,717.86	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	ARMT 2006-3	0.00	CMO	3.62	
	026935AC0	AHMA 2007-3 12A1	$ 48,000,000.00	0.980090	$ 47,044,322.88	CMO	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M	AHMA 2007-3	0.00	CMO	3.21	
	16679BAA9	CCMFC 2007-2A A1	$ 30,000,000.00	0.998534	$ 29,956,024.92	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CCMFC 2007-2A	0.00	CMO	3.3	
	17309XAA7	CGCMT 2006-FL2 A1	$ 8,750,000.00	0.316436	$ 2,768,816.40	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.74	
	225470B93	ARMT 2006-1 6A1	$ 17,000,000.00	0.560035	$ 9,520,601.12	CMO	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	ARMT 2006-1	0.00	CMO	3.06	
	32029HAB8	FFML 2007-FFC A2A	$ 15,000,000.00	0.980028	$ 14,700,414.94	CMO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	FFML 2007-FFC	0.00	CMO	1.81	
	32053JAA5	FHABS 2007-HE1 A	$ 10,000,000.00	0.992032	$ 9,920,324.32	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	FHABS 2007-HE1	97.00	HOME EQTY	2.27	
	36228CZS5	GSMS 2007-EOP A1	$ 40,000,000.00	0.935802	$ 37,432,077.37	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	9	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	1.48	
	36228CZU0	GSMS 2007-EOP A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	1.48	
	36245RAE9	GSAA 2007-8 3A1B	$ 8,771,000.00	0.974676	$ 8,548,885.56	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAA 2007-8	97.00	HOME EQTY	2.59	
	36245RAG4	GSAA 2007-8 A5	$ 32,202,000.00	0.970578	$ 31,254,563.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	GSAA 2007-8	97.00	HOME EQTY	2.6	
	43710WAA8	RFMS2 2007-HSA3 AI1	$ 15,000,000.00	0.923331	$ 13,849,962.92	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	RFMS2 2007-HSA3	97.00	HOME EQTY	0.88	
	45670CAA5	INDX 2007-AR7 1A1	$ 25,000,000.00	0.950995	$ 23,774,879.54	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	INDX 2007-AR7	0.00	CMO	3.19	
	466275AB0	JPALT 2007-S1 A2	$ 28,871,000.00	0.959972	$ 27,715,356.81	CMO	Aaa	AAA	-	Aaa	AAA	-	34	LIBOR01M	JPALT 2007-S1	0.00	CMO	3.3	
	46629RAB0	JPMCC 2006-FL2A A2	$ 5,000,000.00	1.000000	$ 5,000,000.00	COMMERCIAL	Aaa	-	AAA	Aaa	-	AAA	13	LIBOR01M	JPMCC 2006-FL2A	100.00	COMMERCIAL	1.42	
	69337MAA8	PHHAM 2007-3 A1	$ 31,822,000.00	0.978489	$ 31,073,822.58	CMO	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	PHHAM 2007-3	0.00	CMO	0.9	
	69337MAB6	PHHAM 2007-3 A2	$ 27,800,000.00	1.000000	$ 27,800,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	PHHAM 2007-3	0.00	CMO	2.87	
	93936LAA5	WMALT 2007-OC2 A1	$ 11,800,000.00	0.969610	$ 11,441,397.67	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	WMALT 2007-OC2	0.00	CMO	0.9	
	00252GAB5	AMIT 2006-1 A2	$ 30,000,000.00	1.000000	$ 30,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	AMIT 2006-1	97.00	HOME EQTY	0.92	
	00252GAC3	AMIT 2006-1 A3	$ 27,232,000.00	1.000000	$ 27,232,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	AMIT 2006-1	97.00	HOME EQTY	3.65	
	00505HAA0	ACST 2006-1A G1	$ 41,300,000.00	0.958399	$ 39,581,895.03	PLANES	Aaa	AAA	-	Aaa	AAA	-	27	LIBOR01M	ACST 2006-1A	97.00	PLANES	4.5	
	02660TCU5	AHM 2004-4 7A	$ 40,000,000.00	0.207498	$ 8,299,913.76	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	AHM 2004-4	0.00	CMO	0.9	
	04544GAF6	ABSHE 2006-HE4 A5	$ 19,000,000.00	1.000000	$ 19,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE4	85.00	HOME EQTY	1.48	
	105667AA7	BMAT 2006-1A A1	$ 50,000,000.00	0.325991	$ 16,299,569.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	BMAT 2006-1A	95.00	HOME EQTY	0.63	
	12668AEX9	CWALT 2005-59 1A3A	$ 31,866,000.00	0.069162	$ 2,203,912.34	CMO	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	CWALT 2005-59	0.00	CMO	0.13	
	31659TEY7	FMIC 2006-1 A2	$ 45,000,000.00	1.000000	$ 45,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	FMIC 2006-1	97.00	HOME EQTY	3.77	
	32027EAE1	FFML 2006-FF5 2A3	$ 15,036,000.00	1.000000	$ 15,036,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	FFML 2006-FF5	97.00	HOME EQTY	5.31	
	34528QAA2	FORDF 2006-3 A	$ 17,950,000.00	1.000000	$ 17,950,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	FORDF 2006-3	99.00	AUTOS	1.84	
	381175AA6	GOLDS 2003-A A1	$ 15,000,000.00	0.384162	$ 5,462,431.47	STRUCT NOTE	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	GOLDS 2003-A	99.00	STRUCT NOTE	0.45	
	39538WDC9	GPMF 2005-HE4 1A1	$ 63,448,000.00	0.264827	$ 16,802,752.23	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	22	LIBOR01M	GPMF 2005-HE4	97.00	HOME EQTY	1.88	
	41161PLS0	HVMLT 2005-2 2A1B	$ 60,000,000.00	0.345253	$ 20,715,173.80	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	HVMLT 2005-2	0.00	CMO	1.59	
	43709UAA5	INDS 2006-A A	$ 35,000,000.00	0.614187	$ 21,496,541.17	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	INDS 2006-A	80.00	HOME EQTY	0.78	
	525221KK2	LXS 2006-4N A1B1	$ 35,964,000.00	1.000000	$ 35,964,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	LXS 2006-4N	0.00	CMO	1.17	
	542514MZ4	LBMLT 2005-WL2 3A3	$ 21,698,000.00	0.547869	$ 11,887,658.42	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	27	LIBOR01M	LBMLT 2005-WL2	95.00	HOME EQTY	3.03	
	61749CAB7	MSM 2006-8AR 1A2	$ 50,000,000.00	0.353918	$ 17,695,879.00	CMO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	MSM 2006-8AR	0.00	CMO	0.5	
	66987XGU3	NHEL 2005-3 A2B	$ 15,000,000.00	0.535736	$ 8,036,033.18	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	NHEL 2005-3	97.00	HOME EQTY	0.15	
	748351AF0	QUEST 2005-X2 A2	$ 49,213,000.00	0.762863	$ 37,542,769.46	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	28.5	LIBOR01M	QUEST 2005-X2	95.00	HOME EQTY	2.02	
	86358EUQ7	SAIL 2005-HE1 A4	$ 13,000,000.00	0.000000	$ -	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SAIL 2005-HE1	90.00	HOME EQTY	2	
	86359DTQ0	SASC 2005-S6 A2	$ 5,000,000.00	0.573976	$ 2,869,877.99	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	29	LIBOR01M	SASC 2005-S6	97.00	HOME EQTY	0.43	
	86359LSP5	SAMI 2006-AR2 A3	$ 34,238,000.00	0.655097	$ 22,429,218.48	CMO	Aaa	AAA	-	Aaa	AAA	-	36	LIBOR01M	SAMI 2006-AR2	0.00	CMO	2.28	
	86360KAC2	SAMI 2006-AR3 11A3	$ 25,411,113.00	0.618782	$ 15,723,940.72	CMO	Aaa	AAA	-	Aaa	AAA	-	34	LIBOR01M	SAMI 2006-AR3	0.00	CMO	1.46	
	86837TAB0	SWIFT 2003-A6 A	$ 35,000,000.00	1.000000	$ 35,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	SWIFT 2003-A6	99.50	AUTOS	1.09	
	92922FS25	WAMU 2005-AR8 2AB3	$ 14,000,000.00	0.356017	$ 4,984,240.37	CMO	Aaa	AAA	-	Aaa	AAA	-	36	LIBOR01M	WAMU 2005-AR8	0.00	CMO	1.65	
	93934FPR7	WAMU 2006-AR4 1AC2	$ 15,337,000.00	0.988022	$ 15,153,289.63	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	WAMU 2006-AR4	0.00	CMO	0.39	

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Deal	CUSIP	NAME		Original Face	Factor		Current Face	Sector	Moodys	S&P	Fitch	Moodys	S&P	Fitch	Spread	Index	Issue	Current Mark	Deal TYPE	WAL	0.00%
[redacted]	004375EH0	ACCR 2005-4 A2C	$	600,000.00	1.000000	$	600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74	95.57
	004375EH0	ACCR 2005-4 A2C	$	1,800,000.00	1.000000	$	1,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74	
	12670BAA7	CWL 2007-S2 A1	$	2,850,000.00	0.882713	$	2,515,733.09	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.76	
	239158AJ1	DVSQ 2005-5A S	$	13,914,000.00	0.850000	$	11,826,900.00	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	DVSQ 2005-5A	99.75	CDO	4.24	
	36240UAB3	GSTR 2002-2A A1MB	$	1,476,328.00	0.762941	$	1,126,351.29	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A	99.75	CDO	0.6	
	36249BAA8	GSAA 2007-7 1A1	$	1,800,000.00	0.989175	$	1,582,680.45	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	98.50	HOME EQTY	0.93	
	362725AC7	GSRPM 2006-2 A2	$	30,000,000.00	0.796717	$	23,901,514.50	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	30	LIBOR01M	GSRPM 2006-2	97.00	HOME EQTY	3	
	40051CAA5	GSAA 2006-S1 1A1	$	11,675,000.00	0.728538	$	8,505,680.54	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.68	
	36245DAD2	GSAMP 2006-FM2 A2C	$	19,392,000.00	1.000000	$	19,392,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-FM2	97.00	HOME EQTY	4.95	
	362725AA1	GSRPM 2006-2 A1A	$	10,238,388.00	0.682374	$	6,988,401.13	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	GSRPM 2006-2	97.00	HOME EQTY	1.1	
	362341QH5	GSAA 2005-11 3A3	$	4,776,000.00	0.385884	$	1,842,983.05	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11	95.00	HOME EQTY	1.04	
	442451AG5	HOUT 2006-1A S	$	4,000,000.00	0.913000	$	3,652,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	HOUT 2006-1A	99.75	CDO	2.23	
	443860AA9	HUDMZ 2006-1A S	$	1,740,000.00	0.953125	$	1,658,437.50	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-1A	99.75	CDO	2.8	
	643529AA8	NCAMT 2006-ALT2 AV1	$	17,230,000.00	0.484713	$	8,351,613.02	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34	
	66988RAC1	NHEL 2006-6 A2B	$	1,500,000.00	1.000000	$	1,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	97.00	HOME EQTY	1.34	
Hudson Mezz 06-1	004375EH0	ACCR 2005-4 A2C	$	3,843,000.00	1.000000	$	3,843,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74	
Hudson Mezz 06-1	12667HAB7	CWL 2006-20 2A1	$	100,000,000.00	0.765579	$	76,557,920.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	CWL 2006-20	97.00	HOME EQTY	0.72	
Hudson Mezz 06-1	12668PAB8	CWALT 2006-OA17 1A1B	$	35,903,000.00	0.867730	$	23,973,520.17	CMO	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	CWALT 2006-OA17	0.00	CMO	0.32	
Hudson Mezz 06-1	23245PAC5	CWALT 2006-OA22 A3	$	25,850,000.00	0.868616	$	22,453,719.13	CMO	Aaa	AAA	-	Aaa	AAA	-	24	LIBOR01M	CWALT 2006-OA22	0.00	CMO	1.19	
Hudson Mezz 06-1	12669HAA7	CWL 2007-QH1 A1	$	20,000,000.00	0.887029	$	17,740,579.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	CWL 2007-QH1	97.00	HOME EQTY	1	
Hudson Mezz 06-1	12668VAA7	CWL 2006-S7 A1	$	100,000,000.00	0.724906	$	72,490,572.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWL 2006-S7	90.00	HOME EQTY	0.68	
Hudson Mezz 06-1	12670BAA7	CWL 2007-S2 A1	$	10,350,000.00	0.882713	$	9,136,083.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.76	
Hudson Mezz 06-1	144528AB2	CARR 2006-NC3 A2	$	6,007,715.00	1.000000	$	6,007,715.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.93	
Hudson Mezz 06-1	144539AC7	CARR 2006-NC5 A3	$	9,334,000.00	1.000000	$	9,334,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5	97.00	HOME EQTY	1.68	
Hudson Mezz 06-1	23245GAA9	CWALT 2006-OC9 A1	$	100,000,000.00	0.716989	$	71,698,948.30	CMO	Aaa	AAA	-	Aaa	AAA	-	7.5	LIBOR01M	CWALT 2006-OC9	0.00	CMO	0.75	
Hudson Mezz 06-1	23245FAB9	CWALT 2006-OC10 2A1	$	75,000,000.00	0.803310	$	60,248,265.00	CMO	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWALT 2006-OC10	0.00	CMO	0.78	
Hudson Mezz 06-1	35729VAB3	FHLT 2006-D 2A1	$	32,250,877.00	0.736080	$	23,739,224.25	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72	
Hudson Mezz 06-1	40051CAA5	GSAA 2006-S1 1A1	$	2,945,000.00	0.728538	$	2,145,544.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.66	
Hudson Mezz 06-1	36245CAC6	GSAMP 2006-S6 A1C	$	68,531,000.00	0.389210	$	26,672,961.55	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAMP 2006-S6	75.00	HOME EQTY	0.24	
Hudson Mezz 06-1	362257AA5	GSAA 2006-17 A1	$	94,300,000.00	0.722538	$	68,135,300.40	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	GSAA 2006-17	97.00	HOME EQTY	1.26	
Hudson Mezz 06-1	3622ELAA4	GSAA 2006-18 AV1	$	100,000,000.00	0.700476	$	70,047,618.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.89	
Hudson Mezz 06-1	362725AA1	GSRPM 2006-2 A1A	$	15,545,632.00	0.682374	$	10,607,942.70	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	GSRPM 2006-2	97.00	HOME EQTY	1.1	
Hudson Mezz 06-1	3622ECAA4	GSAA 2007-5 1AV1	$	9,108,000.00	0.913772	$	8,322,635.92	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-5	97.00	HOME EQTY	0.82	
Hudson Mezz 06-1	44328AAB6	HASC 2006-HE1 2A1	$	25,000,000.00	0.774217	$	19,355,412.75	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	5	LIBOR01M	HASC 2006-HE1	97.00	HOME EQTY	1.37	
Hudson Mezz 06-1	64352VQR5	NCHET 2006-1 A2B	$	10,000,000.00	1.000000	$	10,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	NCHET 2006-1	97.00	HOME EQTY	3.01	
Hudson Mezz 06-1	643529AA8	NCAMT 2006-ALT2 AV1	$	32,690,000.00	0.484713	$	15,845,283.20	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34	
Hudson Mezz 06-1	65537FAB7	NHELI 2006-FM2 2A1	$	72,000,000.00	0.714545	$	51,447,242.88	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	NHELI 2006-FM2	97.00	HOME EQTY	0.63	
Hudson Mezz 06-1	66988RAC1	NHEL 2006-6 A2B	$	33,000,000.00	1.000000	$	33,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	97.00	HOME EQTY	1.34	
Hudson Mezz 06-1	75156UAB3	RAMP 2006-RZ2 A2	$	13,500,000.00	1.000000	$	13,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RAMP 2006-RZ2	97.00	HOME EQTY	3.31	
Hudson Mezz 06-1	362341KA6	GSAMP 2005-HE4 A2B	$	25,000,000.00	0.517538	$	12,938,451.03	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	25	LIBOR01M	GSAMP 2005-HE4	97.00	HOME EQTY	1.59	
Hudson Mezz 06-1	64352VJY8	NCHET 2005-1 A2C	$	13,757,000.00	0.709721	$	9,763,636.36	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M	NCHET 2005-1	97.00	HOME EQTY	1.06	
Hudson Mezz 06-2	00438QAA2	ACCR 2007-1 A1	$	15,000,000.00	0.831628	$	12,474,389.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	ACCR 2007-1	97.00	HOME EQTY	0.64	
Hudson Mezz 06-2	004375EH0	ACCR 2005-4 A2C	$	7,600,000.00	1.000000	$	7,600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74	
Hudson Mezz 06-2	07389RAN6	BSABS 2006-HE10 21A1	$	4,000,000.00	0.805145	$	3,220,580.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	BSABS 2006-HE10	97.00	HOME EQTY	0.98	
Hudson Mezz 06-2	126684AA7	CWL 2006-S6 A1	$	9,400,000.00	0.656374	$	6,169,917.89	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S6	92.00	HOME EQTY	0.52	
Hudson Mezz 06-2	12666MAA9	CWL 2006-SPS1 A	$	18,500,000.00	0.731244	$	13,528,019.25	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA/-	11	LIBOR01M	CWL 2006-SPS1	88.00	HOME EQTY	2.2	
Hudson Mezz 06-2	12668KAC7	CWL 2007-5 2A2	$	15,000,000.00	1.000000	$	15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-5	97.00	HOME EQTY	1.63	
Hudson Mezz 06-2	12668YAA1	CWL 2006-S10 A1	$	30,000,000.00	0.799639	$	23,989,177.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S10	92.00	HOME EQTY	0.64	
Hudson Mezz 06-2	12669WAD8	CWL 2007-8 2A2	$	2,000,000.00	1.000000	$	2,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	2.13	
Hudson Mezz 06-2	12668BRE5	CWALT 2006-OC2 2A1	$	48,500,000.00	0.444476	$	21,557,100.84	CMO	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	CWALT 2006-OC2	0.00	CMO	0.71	
Hudson Mezz 06-2	32029GAC8	FFML 2007-FF2 A2B	$	11,800,000.00	1.000000	$	11,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	FFML 2007-FF2	97.00	HOME EQTY	1.54	
Hudson Mezz 06-2	35729VAB3	FHLT 2006-D 2A1	$	14,000,000.00	0.736080	$	10,305,119.44	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72	
Hudson Mezz 06-2	3622ELAA4	GSAA 2006-18 AV1	$	20,000,000.00	0.700476	$	14,009,523.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.89	
Hudson Mezz 06-2	3622EQAA3	GSAA 2007-1 1A1	$	10,268,000.00	0.862143	$	8,852,480.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2007-1	97.00	HOME EQTY	1	
Hudson Mezz 06-2	362341QH5	GSAA 2005-11 3A3	$	3,724,000.00	0.385884	$	1,437,032.84	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11	95.00	HOME EQTY	1.04	
Hudson Mezz 06-2	362351AD0	GSAA 2006-20 2A1B	$	16,076,000.00	0.785128	$	12,621,713.87	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2006-20	95.00	HOME EQTY	2	
Hudson Mezz 06-2	36245TAC9	GSAMP 2006-FM3 A2B	$	20,000,000.00	1.000000	$	20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSAMP 2006-FM3	97.00	HOME EQTY	2.54	
Hudson Mezz 06-2	36245YAV6	GSAMP 2007-H1 A2AM	$	5,157,000.00	0.883396	$	4,555,670.85	HOME EQTY	Aaa	-	AAA	Aaa	-	AAA	12	LIBOR01M	GSAMP 2007-H1	92.00	HOME EQTY	0.95	
Hudson Mezz 06-2	3622MDAB1	GSAMP 2007-HE1 A2A	$	50,000,000.00	0.889221	$	44,461,073.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	GSAMP 2007-HE1	97.00	HOME EQTY	0.68	
Hudson Mezz 06-2	3622MDAC9	GSAMP 2007-HE1 A2B	$	44,191,000.00	1.000000	$	44,191,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAMP 2007-HE1	97.00	HOME EQTY	1.58	
Hudson Mezz 06-2	3622MHAC0	GSAMP 2007-FM2 A2B	$	62,864,000.00	1.000000	$	62,864,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	GSAMP 2007-FM2	97.00	HOME EQTY	1.49	
Hudson Mezz 06-2	40431KAA8	HALO 2007-WF1 A1	$	20,000,000.00	0.876643	$	17,532,852.47	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	HALO 2007-WF1	97.00	HOME EQTY	1.47	
Hudson Mezz 06-2	40431KAB6	HALO 2007-WF1 A2	$	8,374,000.00	1.000000	$	8,374,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	HALO 2007-WF1	97.00	HOME EQTY	3.38	
Hudson Mezz 06-2	45668WAA5	INDX 2007-FLX1 A1	$	20,024,000.00	0.891880	$	17,859,011.08	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	INDX 2007-FLX1	0.00	CMO	1	
Hudson Mezz 06-2	36249BAA8	GSAA 2007-7 1A1	$	7,811,000.00	0.989175	$	7,726,448.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2007-7	98.50	HOME EQTY	0.93	
Anderson Mezz 2007-1	G8088XAA6	ALTS 2006-3X A1A	$	10,000,000.00	0.544997	$	5,449,966.53	CDO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	ALTS 2006-3X	94.00	CDO	0.13	
Anderson Mezz 2007-1	03072SF91	AMSI 2005-R6 A2	$	14,200,000.00	0.265342	$	3,767,850.13	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	AMSI 2005-R6	97.00	HOME EQTY	3.3	
Anderson Mezz 2007-1	14454AAB5	CARR 2006-FRE2 A2	$	11,000,000.00	1.000000	$	11,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CARR 2006-FRE2	97.00	HOME EQTY	1.62	
Anderson Mezz 2007-1	144531EV8	CARR 2006-NC1 A2	$	6,695,000.00	1.000000	$	6,695,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	CARR 2006-NC1	97.00	HOME EQTY	1.15	
Anderson Mezz 2007-1	17309LAD7	CMLTI 2006-HE2 A2C	$	1,000,000.00	1.000000	$	1,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CMLTI 2006-HE2	95.00	HOME EQTY	1.83	
Anderson Mezz 2007-1	126673MY5	CWHEL 2004-Q 2A	$	42,000,000.00	0.179624	$	7,544,209.55	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	CWHEL 2004-Q	98.00	HOME EQTY	2.78	
Anderson Mezz 2007-1	23245CAC4	CWL 2007-1 2A2	$	9,000,000.00	1.000000	$	9,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	CWL 2007-1	97.00	HOME EQTY	2.09	
Anderson Mezz 2007-1	1248MKAB1	CBASS 2007-SL1A A2	$	45,000,000.00	0.939830	$	42,292,365.69	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	23	LIBOR01M	CBASS 2007-SL1A	85.00	HOME EQTY	1.7	
Anderson Mezz 2007-1	34957YAA5	FORTS 2006-2A S	$	5,135,135.00	0.868421	$	4,459,458.38	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	FORTS 2006-2A	99.75	CDO	2.8	
Anderson Mezz 2007-1	35729VAB3	FHLT 2006-D 2A1	$	13,000,000.00	0.736080	$	9,569,039.48	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72	
Anderson Mezz 2007-1	35729QAC2	FHLT 2006-B 2A2	$	2,000,000.00	1.000000	$	2,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FHLT 2006-B	97.00	HOME EQTY	1.05	
Anderson Mezz 2007-1	40051CAA5	GSAA 2006-S1 1A1	$	46,838,319.00	0.728538	$	34,123,492.80	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.68	

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Deal	CUSIP	NAME	Original Face	Factor	Current Face	Sector	Moodys	S&P	Fitch	Moodys	S&P	Fitch	Spread	Index	Collateral	Deal Type	WAC
Hout Bay	004375EH0	ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	5.7
Anderson Mezz 2007-1	362375AA5	GSAA 2006-10 AV1	$ 10,535,000.00	0.462849	$ 4,877,170.88	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-10	97.00	HOME EQTY	0.63
Anderson Mezz 2007-1	362334NA8	GSAA 2006-7 AV1	$ 4,495,000.00	0.436357	$ 1,961,422.69	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-7	97.00	HOME EQTY	0.59
Anderson Mezz 2007-1	3622ELAA4	GSAA 2006-18 AV1	$ 15,000,000.00	0.700478	$ 10,507,142.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.89
Anderson Mezz 2007-1	3622EBAA6	GSAA 2007-4 A1	$ 55,083,000.00	0.884562	$ 48,724,327.54	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4	97.00	HOME EQTY	0.89
Anderson Mezz 2007-1	3622EAAD2	GSAA 2007-3 2A1B	$ 5,000,000.00	0.896936	$ 4,484,680.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3	97.00	HOME EQTY	2.37
Anderson Mezz 2007-1	362439AD3	GSAMP 2006-HE4 A2C	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-HE4	97.00	HOME EQTY	5.23
Anderson Mezz 2007-1	44379PAF2	HUDHG 2006-1A S	$ 3,791,802.00	0.929825	$ 3,525,710.59	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDHG 2006-1A	99.75	CDO	2.8
Anderson Mezz 2007-1	44386QAA2	HUDMZ 2006-2A S	$ 3,600,000.00	0.983333	$ 3,539,999.85	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-2A	99.75	CDO	2.8
Anderson Mezz 2007-1	55275TAC2	MABS 2007-WMC1 A3	$ 22,000,000.00	1.000000	$ 22,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	MABS 2007-WMC1	95.00	HOME EQTY	1.6
Anderson Mezz 2007-1	59022QAD4	MLMI 2006-HE5 A2C	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	MLMI 2006-HE5	97.00	HOME EQTY	2.8
Anderson Mezz 2007-1	61750FAE0	MSAC 2006-HE6 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	MSAC 2006-HE6	97.00	HOME EQTY	4.42
Anderson Mezz 2007-1	643529AA8	NCAMT 2006-ALT2 AV1	$ 18,000,000.00	0.484713	$ 7,755,415.45	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34
Anderson Mezz 2007-1	66988RAC1	NHEL 2006-6 A2B	$ 4,000,000.00	1.000000	$ 4,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	97.00	HOME EQTY	1.34
Anderson Mezz 2007-1	71085PBX0	PCHLT 2005-2 A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M	PCHLT 2005-2	97.00	HOME EQTY	2.73
Anderson Mezz 2007-1	75156UAB3	RAMP 2006-RZ2 A2	$ 6,500,000.00	1.000000	$ 6,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RAMP 2006-RZ2	97.00	HOME EQTY	3.31
Anderson Mezz 2007-1	03072SF91	AMSI 2005-R6 A2	$ 83,106,000.00	0.265342	$ 22,051,475.55	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	AMSI 2005-R6	97.00	HOME EQTY	3.3
Point Pleasant Funding 2007-	04544NAD6	ABSHE 2006-HE6 A4	$ 9,000,000.00	1.000000	$ 9,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE6	97.00	HOME EQTY	2.28
Point Pleasant Funding 2007-	04541GRJ3	ABSHE 2005-HE4 A1	$ 41,000,000.00	0.109932	$ 4,507,202.57	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2005-HE4	97.00	HOME EQTY	0.37
Point Pleasant Funding 2007-	144528AB2	CARR 2006-NC3 A2	$ 3,597,285.00	1.000000	$ 3,597,285.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC3	97.00	HOME EQTY	1.93
Point Pleasant Funding 2007-	02150KAA7	CWALT 2007-OH1 A1A	$ 10,000,000.00	0.936090	$ 9,360,895.11	CMO	Aaa	AAAe	-	Aaa	AAAe	-	9	LIBOR01M	CWALT 2007-OH1	0.00	CMO	0.61
Point Pleasant Funding 2007-	02150KAB5	CWALT 2007-OH1 A2A	$ 15,072,000.00	0.936088	$ 14,108,722.72	CMO	Aaa	AAAe	-	Aaa	AAAe	-	11	LIBOR01M	CWALT 2007-OH1	0.00	CMO	0.61
Point Pleasant Funding 2007-	23242MAA9	CWL 2006-S3 A1	$ 8,970,000.00	0.610065	$ 5,472,282.46	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S3	92.00	HOME EQTY	0.53
Point Pleasant Funding 2007-	126683AA9	CWL 2006-S5 A1	$ 7,060,000.00	0.649581	$ 4,586,041.57	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S5	92.00	HOME EQTY	0.51
Point Pleasant Funding 2007-	12668WAA5	CWL 2007-4 A1A	$ 10,000,000.00	0.950373	$ 9,503,732.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CWL 2007-4	98.00	HOME EQTY	0.72
Point Pleasant Funding 2007-	12669LAC4	CWL 2007-6 2A2	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-6	97.00	HOME EQTY	1.63
Point Pleasant Funding 2007-	12669WAC0	CWL 2007-8 2A1	$ 10,000,000.00	0.975185	$ 9,751,853.98	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	CWL 2007-8	98.00	HOME EQTY	0.82
Point Pleasant Funding 2007-	12669WAD8	CWL 2007-8 2A2	$ 3,694,000.00	1.000000	$ 3,694,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	CWL 2007-8	97.00	HOME EQTY	2.13
Point Pleasant Funding 2007-	12670BAA7	CWL 2007-S2 A1	$ 58,050,000.00	0.882713	$ 49,476,084.16	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	CWL 2007-S2	92.00	HOME EQTY	0.76
Point Pleasant Funding 2007-	32029GAC8	FFML 2007-FF2 A2B	$ 34,700,000.00	1.000000	$ 34,700,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	FFML 2007-FF2	97.00	HOME EQTY	1.54
Point Pleasant Funding 2007-	30248EAA6	FFML 2007-FFBS A	$ 84,313,000.00	0.708903	$ 59,769,700.97	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	22	LIBOR01M	FFML 2007-FFBS	97.00	HOME EQTY	2.68
Point Pleasant Funding 2007-	3622EAAX8	GSAA 2007-3 1A1B	$ 12,050,000.00	0.857068	$ 10,327,666.75	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3	97.00	HOME EQTY	1.37
Point Pleasant Funding 2007-	3622EBAA6	GSAA 2007-4 A1	$ 150,191,000.00	0.884562	$ 132,853,248.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4	97.00	HOME EQTY	0.89
Point Pleasant Funding 2007-	3622EBAB4	GSAA 2007-4 A2	$ 904,000.00	1.000000	$ 904,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	GSAA 2007-4	96.00	HOME EQTY	2.85
Point Pleasant Funding 2007-	3622ECAA4	GSAA 2007-5 1AV1	$ 113,389,000.00	0.913772	$ 103,593,424.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-5	97.00	HOME EQTY	0.82
Point Pleasant Funding 2007-	362341QH5	GSAA 2005-11 3A3	$ 21,500,000.00	0.385884	$ 8,296,510.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAA 2005-11	95.00	HOME EQTY	1.04
Point Pleasant Funding 2007-	40051CAA5	GSAA 2006-S1 1A1	$ 1,161,681.00	0.728538	$ 846,328.69	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.86
Point Pleasant Funding 2007-	362341AM1	GSAA 2005-7 AV1	$ 50,000,000.00	0.129541	$ 6,477,066.50	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-7	97.00	HOME EQTY	0.21
Point Pleasant Funding 2007-	362440AC3	GSAMP 2007-HE2 A2B	$ 13,347,000.00	1.000000	$ 13,347,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	GSAMP 2007-HE2	97.00	HOME EQTY	1.69
Point Pleasant Funding 2007-	36242D3U5	GSAA 2005-6 A1	$ 50,000,000.00	0.130772	$ 6,538,620.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-6	97.00	HOME EQTY	0.31
Point Pleasant Funding 2007-	57643LGV2	MABS 2005-WMC1 A5	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	MABS 2005-WMC1	85.00	HOME EQTY	0.45
Point Pleasant Funding 2007-	57645JAA7	MABS 2006-HE3 A1	$ 14,000,000.00	0.643581	$ 9,010,137.78	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	4	LIBOR01M	MABS 2006-HE3	97.00	HOME EQTY	0.49
Point Pleasant Funding 2007-	76112BEB2	RAMP 2004-RS10 AII4	$ 5,000,000.00	0.553222	$ 2,766,107.82	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	49	LIBOR01M	RAMP 2004-RS10	97.00	HOME EQTY	3.53
[redacted]	00075WAC3	ABFC 2006-HE1 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABFC 2006-HE1	97.00	HOME EQTY	2.32
	07389RAN6	BSABS 2006-HE10 21A1	$ 26,000,000.00	0.805145	$ 20,933,774.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	BSABS 2006-HE10	97.00	HOME EQTY	0.98
	07389MAB3	BSABS 2006-HE9 1A2	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSABS 2006-HE9	97.00	HOME EQTY	2.41
	07389PAB6	BSABS 2006-AQ1 1A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSABS 2006-AQ1	97.00	HOME EQTY	4.46
	144539AC7	CARR 2006-NC5 A3	$ 17,000,000.00	1.000000	$ 17,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5	97.00	HOME EQTY	1.68
	12686SAB4	CWL 2006-BC5 2A1	$ 30,000,000.00	0.670177	$ 20,105,300.67	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	CWL 2006-BC5	97.00	HOME EQTY	0.99
	35729NAD7	FHLT 2006-E 2A3	$ 35,810,000.00	1.000000	$ 35,810,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	FHLT 2006-E	94.00	HOME EQTY	1.98
	362440AB5	GSAMP 2007-HE2 A2A	$ 6,000,000.00	0.884253	$ 5,305,517.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSAMP 2007-HE2	97.00	HOME EQTY	0.78
	40430TAA0	HASC 2007-NC1 A1	$ 4,000,000.00	0.965003	$ 3,860,012.40	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	HASC 2007-NC1	0.00	CMO	1.25
	443860AB7	HUDMZ 2006-1A AF	$ 55,000,000.00	0.987096	$ 54,290,307.32	CDO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	HUDMZ 2006-1A	65.00	CDO	2.8
	54251YAD0	LBMLT 2006-10 2A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	LBMLT 2006-10	0.00	CMO	4.54
	74924VAC3	RASC 2006-EMX9 1A3	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RASC 2006-EMX9	95.00	HOME EQTY	2.51
	81377EAB0	SABR 2006-WM3 A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SABR 2006-WM3	92.00	HOME EQTY	4.13
	81377GAB5	SABR 2006-FR4 A2B	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	SABR 2006-FR4	97.00	HOME EQTY	4.85
	78420MAE9	SGMS 2006-OPT2 A3C	$ 19,000,000.00	1.000000	$ 19,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	SGMS 2006-OPT2	97.00	HOME EQTY	6.47
	9497EBAB5	WFHET 2006-3 A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	WFHET 2006-3	97.00	HOME EQTY	4.6
	93935YAA8	WMALT 2006-AR10 A1	$ 5,000,000.00	0.829569	$ 4,147,842.81	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	WMALT 2006-AR10	0.00	CMO	0.76
	07325HAH8	BAYV 2006-D 2A2	$ 14,712,000.00	1.000000	$ 14,712,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	24	LIBOR01M	BAYV 2006-D	97.00	HOME EQTY	1.37
	07325HAK1	BAYV 2006-D 2A4	$ 10,000,000.00	0.742585	$ 7,425,847.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	28	LIBOR01M	BAYV 2006-D	85.00	HOME EQTY	2.05
	144539AA1	CARR 2006-NC5 A1	$ 12,000,000.00	0.772052	$ 9,264,622.44	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	5	LIBOR01M	CARR 2006-NC5	97.00	HOME EQTY	0.73
	144539AC7	CARR 2006-NC5 A3	$ 9,700,000.00	1.000000	$ 9,700,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC5	97.00	HOME EQTY	1.68
	17310VAC4	CMLTI 2006-HE3 A2C	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	CMLTI 2006-HE3	95.00	HOME EQTY	2.38
	362351AB4	GSAA 2006-20 1A2	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-20	97.00	HOME EQTY	4.06
	362382AD5	GSAA 2006-9 A1	$ 1,300,000.00	0.430927	$ 560,205.25	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	GSAA 2006-9	97.00	HOME EQTY	0.57
	39539GAC6	GPMF 2006-OH1 A3	$ 12,200,000.00	0.958335	$ 11,691,689.25	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GPMF 2006-OH1	0.00	CMO	3.4
	45071KDD3	IXIS 2006-HE1 A3	$ 2,500,000.00	1.000000	$ 2,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	IXIS 2006-HE1	95.00	HOME EQTY	2.03
	751153AB3	RALI 2006-QO10 A2	$ 6,000,000.00	0.963910	$ 5,783,461.52	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	RALI 2006-QO10	0.00	CMO	4.03
	76112B4M9	RAMP 2006-NC3 A2	$ 1,200,000.00	1.000000	$ 1,200,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	RAMP 2006-NC3	97.00	HOME EQTY	1.58
	83611XAC8	SVHE 2006-EQ2 A3	$ 10,270,000.00	1.000000	$ 10,270,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SVHE 2006-EQ2	97.00	HOME EQTY	2.73
	86358EA89	SAIL 2006-1 A3	$ 2,439,000.00	1.000000	$ 2,439,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	SAIL 2006-1	90.00	HOME EQTY	3.32
	32029AAD9	FFML 2006-FF18 A2C	$ 2,000,000.00	1.000000	$ 2,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	FFML 2006-FF18	97.00	HOME EQTY	4.73
	80556AAC1	SAST 2006-3 A3	$ 2,100,000.00	1.000000	$ 2,100,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	SAST 2006-3	97.00	HOME EQTY	5.04
	0738794Z8	BSABS 2005-EC1 A1	$ 10,000,000.00	0.044788	$ 447,883.21	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	BSABS 2005-EC1	97.00	HOME EQTY	0.06
	0738795L8	BSABS 2005-HE12 1A1	$ 5,000,000.00	0.302892	$ 1,514,458.83	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	BSABS 2005-HE12	97.00	HOME EQTY	0.34
	07387KAA1	BSCMS 2006-BBA7 A1	$ 3,300,000.00	0.927144	$ 3,059,574.65	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	BSCMS 2006-BBA7	100.00	COMMERCIAL	0.17
	07388TAB9	BSCMS 2007-BBA8 A2	$ 3,800,000.00	1.000000	$ 3,800,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSCMS 2007-BBA8	100.00	COMMERCIAL	1.38
	12638CAA6	CSMC 2006-TFLA A1	$ 14,800,000.00	0.152644	$ 2,259,134.61	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	CSMC 2006-TFLA	100.00	COMMERCIAL	0.55
	20173RAB5	GCCFC 2006-FL4A A2	$ 13,950,000.00	1.000000	$ 13,950,000.00	COMMERCIAL	-	AAA	AAA	-	AAA	AAA	14	LIBOR01M	GCCFC 2006-FL4A	100.00	COMMERCIAL	1.08
	22545RAB2	CSMC 2006-TF2A A2	$ 5,400,000.00	1.000000	$ 5,400,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	CSMC 2006-TF2A	100.00	COMMERCIAL	1.06
	2254ERAC0	CSMC 2007-TFLA A2	$ 5,900,000.00	1.000000	$ 5,900,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CSMC 2007-TFLA	100.00	COMMERCIAL	1.42
	22943NAA1	CSMS 2006-HC1A A1	$ 17,069,000.00	1.000000	$ 17,069,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	CSMS 2006-HC1A	100.00	COMMERCIAL	0.76
	36228CZW6	GSMS 2007-EOP A3	$ 17,680,000.00	1.000000	$ 17,680,000.00	COMMERCIAL	NR	AAA	AAA	NR	AAA	AAA	18	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	1.48
	36242D3U5	GSAA 2005-8 A1	$ 30,000,000.00	0.130772	$ 3,923,172.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAA 2005-8	97.00	HOME EQTY	0.31

[redacted] = Redacted by the Permanent

Footnote Exhibits Page 5362

Deal	CUSIP	Class	NAME	Original Face	Factor	Current Face	Sector	Moodys	S&P	Fitch	Moodys	S&P	Fitch	Spread	Index	Collateral Name	Delay	Deal Bal	WAC
	004375EH0		ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74
	36244RAA8		GSAMP 2006-SD3 A	$ 4,600,000.00	0.667679	$ 3,071,324.83	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3	90.00	HOME EQTY	3.25
	36298UAC2		GSMS 2006-FL8A A2	$ 11,900,000.00	1.000000	$ 11,900,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSMS 2006-FL8A	100.00	COMMERCIAL	0.31
	40166RAF3		GUGH 2005-1A S	$ 5,700,000.00	0.583333	$ 3,325,000.00	CDO	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	GUGH 2005-1A	99.75	CDO	0.03
	40430HDB1		HASC 2006-OPT1 2A2	$ 6,300,000.00	1.000000	$ 6,300,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	HASC 2006-OPT1	97.00	HOME EQTY	1.45
	45071KCK8		IXIS 2005-HE4 A1	$ 4,800,000.00	0.076225	$ 365,878.97	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	IXIS 2005-HE4	98.00	HOME EQTY	0.11
	52521TAC1		LBFRC 2006-LLFA A2	$ 13,300,000.00	0.939326	$ 12,493,039.92	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	LBFRC 2006-LLFA	100.00	COMMERCIAL	0.75
	542514MW1		LBMLT 2005-WL2 3A1	$ 14,250,000.00	0.264994	$ 3,776,168.88	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	LBMLT 2005-WL2	97.00	HOME EQTY	3.41
	61745SAB6		MSC 2006-XLF A2	$ 7,100,000.00	0.792068	$ 5,623,884.07	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	MSC 2006-XLF	100.00	COMMERCIAL	0.32
	64352VQC8		NCHET 2006-S1 A1	$ 2,700,000.00	0.618453	$ 1,684,424.30	HOME EQTY	Aaa	AAA	AAA*	Aa1	AA	AAA*	17	LIBOR01M	NCHET 2006-S1	80.00	HOME EQTY	2.36
	68389FKN3		OOMLT 2006-1 2A2	$ 6,100,000.00	1.000000	$ 6,100,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	OOMLT 2006-1	97.00	HOME EQTY	0.56
	68401TAD0		OOMLT 2007-2 3A2	$ 6,800,000.00	1.000000	$ 6,800,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	OOMLT 2007-2	97.00	HOME EQTY	1.59
	76112BR44		RAMP 2005-EFC7 AI1	$ 10,400,000.00	0.152032	$ 1,581,128.70	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	RAMP 2005-EFC7	97.00	HOME EQTY	0.18
	76112BYP9		RAMP 2005-EFC3 AI1	$ 7,100,000.00	0.030878	$ 219,232.39	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	RAMP 2005-EFC3	97.00	HOME EQTY	0.03
	83611MLX4		SVHE 2006-OPT1 2A2	$ 7,000,000.00	1.000000	$ 7,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SVHE 2006-OPT1	97.00	HOME EQTY	0.71
	86359DPN1		SASC 2005-S5 A2	$ 19,600,000.00	0.429342	$ 8,415,094.97	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	24	LIBOR01M	SASC 2005-S5	0.00	CMO	0.76
	86360XAA8		SASC 2006-GEL3 A1	$ 20,300,000.00	0.617553	$ 12,536,323.71	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SASC 2006-GEL3	0.00	CMO	1.11
	86424HBE8		BALL 2005-MIB1 A1	$ 10,000,000.00	0.291005	$ 2,910,054.88	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	BALL 2005-MIB1	100.00	COMMERCIAL	0.01
	0738794Z8		BSABS 2005-EC1 A1	$ 20,000,000.00	0.044788	$ 895,768.41	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	BSABS 2005-EC1	97.00	HOME EQTY	0.06
	0738795L8		BSABS 2005-HE12 1A1	$ 10,000,000.00	0.302892	$ 3,028,917.66	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	BSABS 2005-HE12	97.00	HOME EQTY	0.34
	07387KAA1		BSCMS 2006-BBA7 A1	$ 5,700,000.00	0.927144	$ 5,284,719.85	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	BSCMS 2006-BBA7	100.00	COMMERCIAL	0.17
	07388TAB9		BSCMS 2007-BBA8 A2	$ 2,600,000.00	1.000000	$ 2,600,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	BSCMS 2007-BBA8	100.00	COMMERCIAL	1.38
	07820QCC7		BVMBS 2005-2 1A	$ 17,000,000.00	0.100077	$ 1,701,307.90	CMO	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	BVMBS 2005-2	0.00	CMO	1.25
	126169AF8		COMM 2005-F10A A1	$ 10,000,000.00	0.033510	$ 335,095.30	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	COMM 2005-F10A	100.00	COMMERCIAL	0.09
	12638CAA6		CSMC 2006-TFLA A1	$ 5,200,000.00	0.152644	$ 793,750.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	CSMC 2006-TFLA	100.00	COMMERCIAL	0.55
	20173RAB5		GCCFC 2006-FL4A A2	$ 11,050,000.00	1.000000	$ 11,050,000.00	COMMERCIAL	-	AAA	AAA	-	AAA	AAA	14	LIBOR01M	GCCFC 2006-FL4A	100.00	COMMERCIAL	1.08
	22545RAB2		CSMC 2006-TF2A A2	$ 10,300,000.00	1.000000	$ 10,300,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	CSMC 2006-TF2A	100.00	COMMERCIAL	1.06
	2254ERAC0		CSMC 2007-TFLA A2	$ 4,100,000.00	1.000000	$ 4,100,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CSMC 2007-TFLA	100.00	COMMERCIAL	1.42
	22943NAA1		CSMS 2006-HC1A A1	$ 6,936,000.00	1.000000	$ 6,936,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	CSMS 2006-HC1A	100.00	COMMERCIAL	0.76
	36228CZW6		GSMS 2007-EOP A3	$ 12,100,000.00	1.000000	$ 12,100,000.00	COMMERCIAL	NR	AAA	AAA	NR	AAA	AAA	18	LIBOR01M	GSMS 2007-EOP	100.00	COMMERCIAL	1.48
	36244RAA8		GSAMP 2006-SD3 A	$ 6,400,000.00	0.667679	$ 4,273,147.31	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3	90.00	HOME EQTY	3.25
	36298UAC2		GSMS 2006-FL8A A2	$ 14,460,000.00	1.000000	$ 14,460,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSMS 2006-FL8A	100.00	COMMERCIAL	0.31
	40430HDB1		HASC 2006-OPT1 2A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	HASC 2006-OPT1	97.00	HOME EQTY	1.45
	52521TAC1		LBFRC 2006-LLFA A2	$ 6,700,000.00	0.939326	$ 6,293,486.28	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	LBFRC 2006-LLFA	100.00	COMMERCIAL	0.75
	542514MW1		LBMLT 2005-WL2 3A1	$ 3,750,000.00	0.264994	$ 993,728.65	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	LBMLT 2005-WL2	97.00	HOME EQTY	3.41
	57643LML7		MABS 2005-NC2 A1	$ 30,000,000.00	0.232367	$ 6,971,017.83	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	MABS 2005-NC2	97.00	HOME EQTY	0.08
	59020UR98		MLMI 2005-HE2 A2A	$ 22,537,000.00	0.091277	$ 2,057,107.27	HOME EQTY	-	AAA	AAA	-	AAA	AAA	11	LIBOR01M	MLMI 2005-HE2	97.00	HOME EQTY	0.19
	61745SAB6		MSC 2006-XLF A2	$ 4,900,000.00	0.792068	$ 3,881,134.08	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	MSC 2006-XLF	100.00	COMMERCIAL	0.32
	64352VQC8		NCHET 2006-S1 A1	$ 1,300,000.00	0.616453	$ 801,389.48	HOME EQTY	Aaa	AAA	AAA	Aa1	AA	AAA*	17	LIBOR01M	NCHET 2006-S1	80.00	HOME EQTY	2.36
	68389FKN3		OOMLT 2006-1 2A2	$ 3,900,000.00	1.000000	$ 3,900,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	OOMLT 2006-1	97.00	HOME EQTY	0.56
	68401TAD0		OOMLT 2007-2 3A2	$ 6,600,000.00	1.000000	$ 6,600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	OOMLT 2007-2	97.00	HOME EQTY	1.59
	76112BR44		RAMP 2005-EFC7 AI1	$ 1,600,000.00	0.152032	$ 243,250.57	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	RAMP 2005-EFC7	97.00	HOME EQTY	0.18
	83611MLX4		SVHE 2006-OPT1 2A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SVHE 2006-OPT1	97.00	HOME EQTY	0.71
	86360XAA8		SASC 2006-GEL3 A1	$ 5,700,000.00	0.617553	$ 3,520,051.48	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	SASC 2006-GEL3	0.00	CMO	1.11
	36240UAB3		GSTR 2002-2A A1MB	$ 12,170,000.00	0.762941	$ 9,284,993.03	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A	99.75	CDO	0.8
Camber 7	ACE 2006-FM2 A2C		ACE 2006-FM2 A2C	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	ACE 2006-FM2	90.00	HOME EQTY	2.49
Camber 7	BSMF 2007-SL2 1A		BSMF 2007-SL2 1A	$ 55,779,865.34	0.900922	$ 50,253,329.87	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	BSMF 2007-SL2	0.00	CMO	1.4
Camber 7	BCAP 2006-AA2 A1		BCAP 2006-AA2 A1	$ 40,503,661.33	0.876505	$ 35,501,656.00	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	BCAP 2006-AA2	0.00	CMO	3.76
Camber 7	ARSI 2006-W4 A2B		ARSI 2006-W4 A2B	$ 31,000,000.00	1.000000	$ 31,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	ARSI 2006-W4	97.00	HOME EQTY	1.13
Camber 7	SASC 2007-GEL1 A		SASC 2007-GEL1 A1	$ 34,999,999.90	0.865896	$ 30,308,352.22	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	SASC 2007-GEL1	0.00	CMO	1.7
Camber 7	CARR 2006-FRE2 A		CARR 2006-FRE2 A3	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	CARR 2006-FRE2	97.00	HOME EQTY	4.52
Camber 7	CMLTI 2006-WFH3 A		CMLTI 2006-WFH3 A3	$ 30,000,000.00	1.000000	$ 30,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CMLTI 2006-WFH3	97.00	HOME EQTY	5.08
Camber 7	CWL 2006-17 2A2		CWL 2006-17 2A2	$ 40,000,000.00	1.000000	$ 40,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	CWL 2006-17	97.00	HOME EQTY	3.41
Camber 7	CWL 2006-18 2A2		CWL 2006-18 2A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	CWL 2006-18	97.00	HOME EQTY	3.48
Camber 7	CWL 2006-S10 A1		CWL 2006-S10 A1	$ 69,999,999.65	0.799639	$ 55,974,748.10	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S10	92.00	HOME EQTY	0.64
Camber 7	FHLT 2006-B 2A2		FHLT 2006-B 2A2	$ 18,763,538.00	1.000000	$ 18,763,538.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FHLT 2006-B	97.00	HOME EQTY	1.05
Camber 7	FHLT 2006-C 2A2		FHLT 2006-C 2A2	$ 35,000,000.00	1.000000	$ 35,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	FHLT 2006-C	97.00	HOME EQTY	4.26
Camber 7	HEAT 2006-7 2A3		HEAT 2006-7 2A3	$ 50,000,000.00	1.000000	$ 50,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	HEAT 2006-7	95.00	HOME EQTY	2.35
Camber 7	MABS 2006-WMC4 A5		MABS 2006-WMC4 A5	$ 19,000,000.00	1.000000	$ 19,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	MABS 2006-WMC4	85.00	HOME EQTY	2.76
Camber 7	NAA 2007-S1 A1		NAA 2007-S1 A1	$ 34,721,761.56	0.878408	$ 30,499,858.81	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	NAA 2007-S1	90.00	HOME EQTY	2.8
Camber 7	SABR 2006-WM2 A2C		SABR 2006-WM2 A2C	$ 40,000,000.00	1.000000	$ 40,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SABR 2006-WM2	92.00	HOME EQTY	4.16
Camber 7	SACO 2007-2 A1		SACO 2007-2 A1	$ 27,000,000.27	0.904588	$ 24,423,884.79	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	SACO 2007-2	80.00	HOME EQTY	1.25
Camber 7	BSABS 2007-FS1 1A		BSABS 2007-FS1 1A1	$ 75,141,244.55	0.910122	$ 68,387,705.10	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	BSABS 2007-FS1	99.00	HOME EQTY	0.61
Camber 7	MSAC 2007-HE3 A2A		MSAC 2007-HE3 A2A	$ 23,964,789.40	0.869166	$ 20,829,378.21	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	MSAC 2007-HE3	97.00	HOME EQTY	0.64
Camber 7	GPMF 2007-HE1 A1		GPMF 2007-HE1 A1	$ 49,999,999.98	0.909340	$ 45,467,003.25	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GPMF 2007-HE1	97.00	HOME EQTY	4.49
Camber 7	ABSHE 2006-HE7 A4		ABSHE 2006-HE7 A4	$ 23,414,000.00	1.000000	$ 23,414,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	ABSHE 2006-HE7	92.00	HOME EQTY	2.27
Camber 7	BABS 2006-HE10 21A2		BSABS 2006-HE10 21A2	$ 50,000,000.00	1.000000	$ 50,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	BSABS 2006-HE10	97.00	HOME EQTY	4.66
Camber 7	CMLTI 2007-AMC2 A3A		CMLTI 2007-AMC2 A3A	$ 78,854,038.68	0.914973	$ 72,149,302.93	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	CMLTI 2007-AMC2	97.00	HOME EQTY	0.76
Camber 7	FMIC 2007-1 2A1		FMIC 2007-1 2-A1	$ 9,997,326.13	0.922087	$ 9,218,401.28	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	FMIC 2007-1	97.00	HOME EQTY	0.81
Camber 7	AMSI 2005-R9 A2B		AMSI 2005-R9 A2B	$ 21,001,408.05	0.619177	$ 13,003,591.86	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	23	LIBOR01M	AMSI 2005-R9	97.00	HOME EQTY	1.87
Camber 7	CARR 2006-NC1 A2		CARR 2006-NC1 A2	$ 13,000,000.00	1.000000	$ 13,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	CARR 2006-NC1	97.00	HOME EQTY	1.15
	004375AF8		ACCR 2002-1 A2	$ 40,000,000.00	0.030564	$ 1,222,553.44	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	32	LIBOR01M	ACCR 2002-1	97.00	HOME EQTY	0.91
	004375EF4		ACCR 2005-4 A2A	$ 15,000,000.00	0.082530	$ 1,237,943.26	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	0.03
	0738795L8		BSABS 2005-HE12 1A1	$ 4,350,000.00	0.302892	$ 1,317,579.18	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	BSABS 2005-HE12	97.00	HOME EQTY	0.34
	23244JAB2		CWALT 2006-OC11 2A1	$ 2,575,000.00	0.764642	$ 1,968,953.40	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	CWALT 2006-OC11	0.00	CMO	0.55
	35729QAC2		FHLT 2006-B 2A2	$ 7,850,000.00	1.000000	$ 7,850,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FHLT 2006-B	97.00	HOME EQTY	1.05
	362334BQ6		GSAA 2006-3 A1	$ 7,500,000.00	0.538231	$ 4,036,734.86	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	GSAA 2006-3	97.00	HOME EQTY	1.14
	362334FH2		GSAA 2006-4 4A1	$ 5,900,000.00	0.609096	$ 3,593,667.29	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2006-4	97.00	HOME EQTY	0.68
	362341HA0		FFML 2005-FFA A1	$ 4,750,000.00	0.000000	$ -	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	FFML 2005-FFA	95.00	HOME EQTY	1.4
	362341SP5		GSAA 2005-12 AV1	$ 22,787,000.00	0.292380	$ 6,662,459.87	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	GSAA 2005-12	97.00	HOME EQTY	0.45
	362405AA0		GSAMP 2006-SD2 A1	$ 8,500,000.00	0.530650	$ 4,510,525.64	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	GSAMP 2006-SD2	90.00	HOME EQTY	1.03
	542514LF9		LBMLT 2005-WL1 2A3	$ 9,340,000.00	0.031484	$ 294,057.42	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	27	LIBOR01M	LBMLT 2005-WL1	97.00	HOME EQTY	0.18
	54251MAB0		LBMLT 2006-4 2A1	$ 9,000,000.00	0.315027	$ 2,835,243.39	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	LBMLT 2006-4	97.00	HOME EQTY	0.31
	61750FAD2		MSAC 2006-HE6 A2B	$ 4,000,000.00	1.000000	$ 4,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSAC 2006-HE6	97.00	HOME EQTY	2.03
	65535CAC2		NHELI 2006-HE3 2A3	$ 6,761,000.00	1.000000	$ 6,761,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	NHELI 2006-HE3	97.00	HOME EQTY	1.21
	65535VAA5		NAA 2006-AF2 1A1	$ 9,900,000.00	0.518870	$ 5,136,808.25	CMO	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NAA 2006-AF2	0.00	CMO	0.59

Redacted by the Permanent Subcommittee on Investigations

Deal	CUSIP	NAME	Original Face	Factor	Current Face	Sector	Moodys	S&P	Fitch	Moodys	S&P	Fitch	Spread	Index	Issuer	Current Mark	Deal Type	WAC	0.000%
[redacted]	004375EH0	ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	1.74	95.57
	71103XAA2	PFRMS 2006-1 1A1	$ 7,855,000.00	0.561790	$ 4,412,861.06	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	PFRMS 2006-1	97.00	HOME EQTY	0.59	
	76112BY79	RAMP 2006-RZ1 A1	$ 7,500,000.00	0.479120	$ 3,593,399.94	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	RAMP 2006-RZ1	97.00	HOME EQTY	0.61	
	86358EYV2	SAIL 2005-10 A3	$ 7,000,000.00	0.244839	$ 1,713,873.14	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	9	LIBOR01M	SAIL 2005-10	92.00	HOME EQTY	0.38	
	88359DVT1	SASC 2005-AR1 A3	$ 7,000,000.00	0.086272	$ 603,902.88	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	SASC 2005-AR1	97.00	HOME EQTY	0.21	
	88158EAA4	TMTS 2006-17HE A2A	$ 8,000,000.00	0.838887	$ 6,711,096.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	TMTS 2006-17HE	97.00	HOME EQTY	1.88	
	88156PAX9	TMTS 2006-7 2A1	$ 8,500,000.00	0.569892	$ 4,844,081.31	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	TMTS 2006-7	97.00	HOME EQTY	0.5	
	88156YAB8	TMTS 2006-11 A2A	$ 8,350,000.00	0.720991	$ 6,020,278.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	TMTS 2006-11	97.00	HOME EQTY	1	
Timberwolf	14454AAB5	CARR 2006-FRE2 A2	$ 12,754,000.00	1.000000	$ 12,754,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	CARR 2006-FRE2	97.00	HOME EQTY	1.62	
Timberwolf	23245CAC4	CWL 2007-1 2A2	$ 11,000,000.00	1.000000	$ 11,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	CWL 2007-1	97.00	HOME EQTY	2.09	
Timberwolf	35729QAC2	FHLT 2006-B 2A2	$ 3,031,462.00	1.000000	$ 3,031,462.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	FHLT 2006-B	97.00	HOME EQTY	1.05	
Timberwolf	35729VAB3	FHLT 2006-D 2A1	$ 15,749,123.00	0.736080	$ 11,592,613.83	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	6	LIBOR01M	FHLT 2006-D	97.00	HOME EQTY	0.72	
Timberwolf	3622ELAA4	GSAA 2006-18 AV1	$ 18,347,000.00	0.700476	$ 12,851,636.47	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	7	LIBOR01M	GSAA 2006-18	97.00	HOME EQTY	0.89	
Timberwolf	55275TAC2	MABS 2007-WMC1 A3	$ 26,850,000.00	1.000000	$ 26,850,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	MABS 2007-WMC1	95.00	HOME EQTY	1.6	
Timberwolf	59022QAD4	MLMI 2006-HE5 A2C	$ 22,000,000.00	1.000000	$ 22,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	MLMI 2006-HE5	97.00	HOME EQTY	2.8	
Timberwolf	61750FAE0	MSAC 2006-HE6 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	MSAC 2006-HE6	97.00	HOME EQTY	4.42	
Timberwolf	617463AC8	MSIX 2006-2 A3	$ 11,470,000.00	1.000000	$ 11,470,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	MSIX 2006-2	95.00	HOME EQTY	3.05	
Timberwolf	643529AA8	NCAMT 2006-ALT2 AV1	$ 20,241,000.00	0.484713	$ 9,811,085.26	CMO	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	NCAMT 2006-ALT2	0.00	CMO	0.34	
Timberwolf	3622EAAX8	GSAA 2007-3 1A1B	$ 15,378,000.00	0.857068	$ 13,179,988.32	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3	97.00	HOME EQTY	1.37	
Timberwolf	3622EAAD2	GSAA 2007-3 2A1B	$ 6,112,000.00	0.896936	$ 5,482,073.69	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-3	97.00	HOME EQTY	2.37	
Timberwolf	12668YAA1	CWL 2006-S10 A1	$ 5,000,000.00	0.799639	$ 3,998,196.17	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S10	92.00	HOME EQTY	0.84	
Timberwolf	40051CAA5	GSAA 2006-S1 1A1	$ 22,924,000.00	0.728538	$ 16,701,003.91	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	GSAA 2006-S1	92.00	HOME EQTY	0.86	
Timberwolf	66988RAC1	NHEL 2006-6 A2B	$ 5,550,000.00	1.000000	$ 5,550,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	NHEL 2006-6	97.00	HOME EQTY	1.34	
Timberwolf	126673MY5	CWHEL 2004-Q 2A	$ 52,000,000.00	0.179624	$ 9,340,449.92	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	CWHEL 2004-Q	98.00	HOME EQTY	2.78	
Timberwolf	144531AY6	CARR 2005-NC1 A1C1	$ 5,000,000.00	0.205161	$ 1,025,805.38	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	38	LIBOR01M	CARR 2005-NC1	97.00	HOME EQTY	0.23	
Timberwolf	362334QF4	GSRPM 2006-1 A2	$ 2,400,000.00	0.450979	$ 1,082,350.62	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	GSRPM 2006-1	97.00	HOME EQTY	0.67	
Timberwolf	76110WF35	RASC 2004-KS9 AII4	$ 11,850,000.00	0.193261	$ 2,251,488.98	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	RASC 2004-KS9	97.00	HOME EQTY	1.55	
Timberwolf	46626LEJ5	JPMAC 2005-OPT2 A3	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	24	LIBOR01M	JPMAC 2005-OPT2	97.00	HOME EQTY	2.55	
Timberwolf	362341L49	GSAMP 2005-WMC3 A2B	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	24	LIBOR01M	GSAMP 2005-WMC3	97.00	HOME EQTY	3.45	
Timberwolf	362439AD3	GSAMP 2006-HE4 A2C	$ 5,368,000.00	1.000000	$ 5,368,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GSAMP 2006-HE4	97.00	HOME EQTY	5.23	
Timberwolf	04544NAD6	ABSHE 2006-HE6 A4	$ 1,000,000.00	1.000000	$ 1,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	ABSHE 2006-HE6	97.00	HOME EQTY	2.28	
Timberwolf	71085PBX0	PCHLT 2005-2 A3	$ 6,322,000.00	1.000000	$ 6,322,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M	PCHLT 2005-2	97.00	HOME EQTY	2.73	
Timberwolf	1248MKAB1	CBASS 2007-SL1A A2	$ 38,222,000.00	0.939830	$ 35,922,195.59	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	23	LIBOR01M	CBASS 2007-SL1A	85.00	HOME EQTY	1.7	
Timberwolf	86362YAC0	SASC 2007-BC2 A3	$ 26,814,000.00	1.000000	$ 26,814,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	SASC 2007-BC2	97.00	HOME EQTY	1.77	
Timberwolf	69121PBT9	OWNIT 2005-5 A2B	$ 31,727,500.00	1.000000	$ 31,727,500.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	OWNIT 2005-5	97.00	HOME EQTY	4.66	
Timberwolf	61749NAC1	MSAC 2006-HE5 A2B	$ 32,000,000.00	1.000000	$ 32,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSAC 2006-HE5	97.00	HOME EQTY	1.13	
Timberwolf	64352VNW7	NCHET 2005-C A2B	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	NCHET 2005-C	97.00	HOME EQTY	0.74	
Timberwolf	31659XAA4	FMIC 2006-S1 A	$ 46,140,000.00	0.907028	$ 41,850,274.23	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	22	LIBOR01M	FMIC 2006-S1	92.00	HOME EQTY	2.42	
Timberwolf	07400YAA4	BSMF 2006-SL2 A1	$ 25,000,000.00	0.686230	$ 17,155,739.75	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	BSMF 2006-SL2	0.00	CMO	2.01	
Timberwolf	78577RAA7	SACO 2006-9 A1	$ 39,000,000.00	0.698049	$ 27,223,906.92	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	SACO 2006-9	80.00	HOME EQTY	2.22	
Timberwolf	76113ABH3	RASC 2006-KS3 AI3	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	RASC 2006-KS3	95.00	HOME EQTY	1.5	
Timberwolf	14453MAB0	CARR 2006-NC4 A2	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	CARR 2006-NC4	97.00	HOME EQTY	2.05	
Timberwolf	64352VLG4	NCHET 2005-3 A2C	$ 11,570,000.00	0.992936	$ 11,488,271.57	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	27	LIBOR01M	NCHET 2005-3	97.00	HOME EQTY	2.72	
Timberwolf	144531DL1	CARR 2005-NC5 A2	$ 48,500,000.00	0.856253	$ 41,528,262.94	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	32	LIBOR01M	CARR 2005-NC5	97.00	HOME EQTY	2.76	
Timberwolf	144531CV0	CARR 2005-NC3 A1C	$ 30,000,000.00	0.577159	$ 17,314,775.15	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	25	LIBOR01M	CARR 2005-NC3	97.00	HOME EQTY	1.69	
Timberwolf	12668TAB0	CWL 2007-BC1 2A1	$ 16,413,000.00	0.809415	$ 13,284,935.09	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	6	LIBOR01M	CWL 2007-BC1	97.00	HOME EQTY	0.73	
Timberwolf	34957YAA5	FORTS 2006-2A S	$ 7,584,865.00	0.868421	$ 6,589,486.62	CDO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	FORTS 2006-2A	99.75	CDO	3	
Timberwolf	44386QAA2	HUDMZ 2006-2A S	$ 4,300,000.00	0.983333	$ 4,228,333.15	CDO	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	HUDMZ 2006-2A	99.75	CDO	3	
Timberwolf	144528AC0	CARR 2006-NC3 A3	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	CARR 2006-NC3	95.00	HOME EQTY	5.61	
Timberwolf	12668UAE1	CWL 2007-3 2A1	$ 47,000,000.00	0.930060	$ 43,712,842.37	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	CWL 2007-3	97.00	HOME EQTY	0.74	
Timberwolf	12668UAF8	CWL 2007-3 2A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	CWL 2007-3	97.00	HOME EQTY	1.85	
Timberwolf	12668UAG6	CWL 2007-3 2A3	$ 17,000,000.00	1.000000	$ 17,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	CWL 2007-3	97.00	HOME EQTY	2.79	
Timberwolf	3622EBAA6	GSAA 2007-4 A1	$ 80,000,000.00	0.884562	$ 70,764,958.40	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GSAA 2007-4	97.00	HOME EQTY	0.89	
Timberwolf	3622EBAB4	GSAA 2007-4 A2	$ 45,788,000.00	1.000000	$ 45,788,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	GSAA 2007-4	96.00	HOME EQTY	2.65	
Timberwolf	452570AA2	IMSA 2007-2 1A1A	$ 80,000,000.00	0.936701	$ 74,936,062.26	ABS	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	IMSA 2007-2	97.00	ABS	0.82	
Timberwolf	52521MAB8	LABSM 2007-1 2A1	$ 20,000,000.00	0.954880	$ 19,097,606.60	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	LABSM 2007-1	97.00	HOME EQTY	0.84	
[redacted]	126685DV5	CWL 2006-S2 A1	$ 3,895,000.00	0.459325	$ 1,789,069.73	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	CWL 2006-S2	92.00	HOME EQTY	0.37	
	17309XAA7	CGCMT 2006-FL2 A1	$ 5,500,000.00	0.316436	$ 1,740,398.88	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.74	
	36244RAA8	GSAMP 2006-SD3 A	$ 14,850,000.00	0.667679	$ 9,915,037.12	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3	90.00	HOME EQTY	3.25	
	36298UAC2	GSMS 2006-FL8A A2	$ 15,000,000.00	1.000000	$ 15,000,000.00	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	GSMS 2006-FL8A	100.00	COMMERCIAL	0.31	
	38012TAA0	GMACM 2006-HE3 A1	$ 12,000,000.00	0.538600	$ 6,463,203.65	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	10	LIBOR01M	GMACM 2006-HE3	97.00	HOME EQTY	0.84	
	39539JAA4	GPMF 2007-HE1 A1	$ 2,000,000.00	0.909340	$ 1,818,680.13	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GPMF 2007-HE1	97.00	HOME EQTY	4.49	
	437099AA2	RFMS2 2006-HSA5 A	$ 10,000,000.00	0.743281	$ 7,432,611.39	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	14	LIBOR01M	RFMS2 2006-HSA5	97.00	HOME EQTY	2.04	
	45670CAA5	INDX 2007-AR7 1A1	$ 8,000,000.00	0.950995	$ 7,607,961.45	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	INDX 2007-AR7	0.00	CMO	3.19	
	59023UAC6	MLFT 2006-1 A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	MLFT 2006-1	100.00	COMMERCIAL	1.17	
	61748JAA5	MSM 2006-9AR A1	$ 19,500,000.00	0.785354	$ 15,314,405.73	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	MSM 2006-9AR	0.00	CMO	3.71	
	61749TAA2	MSM 2006-10SL A1	$ 9,000,000.00	0.629252	$ 5,663,267.02	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	MSM 2006-10SL	85.00	HOME EQTY	2	
	61752LAB1	MSC 2007-XLFA A2	$ 10,000,000.00	1.000000	$ 10,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA	100.00	COMMERCIAL	1.59	
	65536WAA3	NAA 2006-S3 A1	$ 18,000,000.00	0.672060	$ 12,097,082.16	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	NAA 2006-S3	80.00	HOME EQTY	2.96	
	65536XAN3	NAA 2006-AF2 5A1	$ 20,000,000.00	0.755107	$ 15,102,149.20	CMO	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	NAA 2006-AF2	0.00	CMO	3.68	
	73316NAA3	POPLR 2007-A A1	$ 3,000,000.00	0.956324	$ 2,868,972.28	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	POPLR 2007-A	97.00	HOME EQTY	1.13	
	88156TAB9	TMTS 2006-9HGA A2	$ 30,000,000.00	1.000000	$ 30,000,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	TMTS 2006-9HGA	0.00	CMO	1.52	
	88522RAA2	TMST 2006-5 A1	$ 10,000,000.00	0.812984	$ 8,129,836.90	CMO	Aaa	AAA	-	Aaa	AAA	-	12	LIBOR01M	TMST 2006-5	0.00	CMO	2.49	
	004421VV2	ACE 2006-ASP1 A2C	$ 11,500,000.00	1.000000	$ 11,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	ACE 2006-ASP1	95.00	HOME EQTY	2.16	
	07387UAV3	BSABS 2006-PC1 A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	22	LIBOR01M	BSABS 2006-PC1	97.00	HOME EQTY	1.47	
	12668BJE4	CWALT 2006-OC1 1A2	$ 15,493,000.00	0.747097	$ 11,574,779.20	CMO	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	CWALT 2006-OC1	0.00	CMO	2.9	
	14983AAC3	CBASS 2006-SL1 A3	$ 6,000,000.00	1.000000	$ 6,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	22	LIBOR01M	CBASS 2006-SL1	55.00	HOME EQTY	2.31	
	144531EW8	CARR 2006-NC1 A3	$ 19,500,000.00	1.000000	$ 19,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	21	LIBOR01M	CARR 2006-NC1	97.00	HOME EQTY	4.34	
	17309XAA7	CGCMT 2006-FL2 A1	$ 4,000,000.00	0.316436	$ 1,265,744.64	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.74	
	17309XAB5	CGCMT 2006-FL2 A2	$ 12,853,000.00	1.000000	$ 12,853,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	1.01	
	126169BF7	COMM 2005-F10A AJ1	$ 12,000,000.00	1.000000	$ 12,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	COMM 2005-F10A	100.00	COMMERCIAL	0.48	
	126184AN2	COMM 2005-FL11 AJ	$ 2,000,000.00	1.000000	$ 2,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	COMM 2005-FL11	100.00	COMMERCIAL	0.38	
	20078GAA1	COMM 2007-FL14 A1	$ 4,000,000.00	0.997210	$ 3,988,841.06	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	COMM 2007-FL14	100.00	COMMERCIAL	0.69	
	31394VL32	FNR 2006-5 1A	$ 20,000,000.00	0.411684	$ 8,301,885.80	CMO	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	FNR 2006-5	0.00	CMO	1.23	
	34528PAG1	FORDF 2005-1 A	$ 20,000,000.00	1.000000	$ 20,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	FORDF 2005-1	99.00	AUTOS	0.76	

[redacted] = Released by the Permanent Subcommittee on Investigations

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0.00%
95.57

Deal	CUSIP	NAME	Original Face	Factor	Current Face	Sector	Moody's	S&P	Fitch	Moody's	S&P	Fitch	Spread	Index	Issuer	Current Mark	Deal TYPE	WAL
[redacted]	004375EH0	ACCR 2005-4 A2C	$ 600,000.00	1.000000	$ 600,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	ACCR 2005-4	97.00	HOME EQTY	5.71
	39539JAA4	GPMF 2007-HE1 A1	$ 3,000,000.00	0.909340	$ 2,728,020.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GPMF 2007-HE1	97.00	HOME EQTY	4.49
	3623414R7	GSAMP 2006-HE1 A2C	$ 23,196,000.00	1.000000	$ 23,196,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	GSAMP 2006-HE1	97.00	HOME EQTY	5.13
	36244MAA9	GSAMP 2006-S4 A1	$ 10,000,000.00	0.341169	$ 3,411,692.10	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	GSAMP 2006-S4	97.00	HOME EQTY	0.29
	43709UAA5	INDS 2006-A A	$ 5,000,000.00	0.614187	$ 3,070,934.45	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	INDS 2006-A	80.00	HOME EQTY	0.76
	45071KDD3	IXIS 2006-HE1 A3	$ 12,000,000.00	1.000000	$ 12,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	IXIS 2006-HE1	95.00	HOME EQTY	2.03
	45256VAA5	IMSA 2006-2 1A11	$ 1,500,000.00	0.811901	$ 1,217,851.03	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	IMSA 2006-2	0.00	CMO	2.01
	456606KH4	INABS 2006-A A3	$ 14,500,000.00	1.000000	$ 14,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	INABS 2006-A	95.00	HOME EQTY	4.81
	45670CAA5	INDX 2007-AR7 1A1	$ 10,000,000.00	0.950995	$ 9,509,951.81	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	INDX 2007-AR7	0.00	CMO	3.19
	464126CW9	IRWHE 2006-1 1A1	$ 10,000,000.00	0.436321	$ 4,363,210.34	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	IRWHE 2006-1	97.00	HOME EQTY	3.36
	46626LFL9	JPMAC 2006-FRE1 A3	$ 18,000,000.00	0.825899	$ 14,866,190.66	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	JPMAC 2006-FRE1	95.00	HOME EQTY	2.34
	52519NKS2	LBFRC 2005-LLFA A2	$ 4,000,000.00	0.260749	$ 1,042,995.84	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	LBFRC 2005-LLFA	100.00	COMMERCIAL	0.16
	52519NJC9	LBFRC 2004-LLFA A2	$ 35,000,000.00	0.186356	$ 6,522,445.81	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	LBFRC 2004-LLFA	100.00	COMMERCIAL	0.01
	52521TAA5	LBFRC 2006-LLFA A1	$ 10,200,000.00	0.202537	$ 2,065,876.33	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	8	LIBOR01M	LBFRC 2006-LLFA	100.00	COMMERCIAL	0.2
	542514RL0	LBMLT 2006-1 2A3	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	LBMLT 2006-1	92.00	HOME EQTY	4
	57644DAR4	MASL 2006-1 A	$ 24,000,000.00	0.427997	$ 10,271,930.64	CMO	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	MASL 2006-1	0.00	CMO	0.68
	59020U3A1	MLMI 2006-HE1 A2A	$ 20,000,000.00	0.392043	$ 7,840,861.20	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	MLMI 2006-HE1	97.00	HOME EQTY	0.22
	61744CXZ4	MSAC 2006-NC1 A3	$ 18,000,000.00	1.000000	$ 18,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	MSAC 2006-NC1	97.00	HOME EQTY	1.87
	61745SAB6	MSC 2006-XLF A2	$ 15,000,000.00	0.792068	$ 11,881,022.68	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	13	LIBOR01M	MSC 2006-XLF	100.00	COMMERCIAL	0.32
	61752LAB1	MSC 2007-XLFA A2	$ 3,000,000.00	1.000000	$ 3,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA	100.00	COMMERCIAL	1.59
	68389FKP8	OOMLT 2006-1 2A3	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	19	LIBOR01M	OOMLT 2006-1	96.00	HOME EQTY	2.33
	73316NAA3	POPLR 2007-A A1	$ 10,000,000.00	0.956324	$ 9,563,240.92	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	POPLR 2007-A	97.00	HOME EQTY	1.13
	746869AZ9	PTNM 2002-1A A1MH	$ 38,000,000.00	1.000000	$ 38,000,000.00	CDO	Aaa	AAA	-	Aaa	AAA	-	8	LIBOR01M	PTNM 2002-1A	99.50	CDO	2
	78110VTC2	RFMS2 2006-HSA1 A1	$ 25,000,000.00	0.391743	$ 9,793,580.98	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	11	LIBOR01M	RFMS2 2006-HSA1	97.00	HOME EQTY	0.54
	78112BW97	RAMP 2006-NC1 A2	$ 20,519,000.00	1.000000	$ 20,519,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	19	LIBOR01M	RAMP 2006-NC1	97.00	HOME EQTY	1.23
	80555PAG0	SARNT 2005-A A2	$ 18,000,000.00	1.000000	$ 18,000,000.00	ABS	Aaa	AAA	AAA	Aaa	AAA	AAA	30	LIBOR01M	SARNT 2005-A	97.00	ABS	3.3
	86358EA89	SAIL 2006-1 A3	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	20	LIBOR01M	SAIL 2006-1	90.00	HOME EQTY	3.32
	86837YAA1	SWIFT 2005-A12 A	$ 10,000,000.00	1.000000	$ 10,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	SWIFT 2005-A12	99.00	AUTOS	0.84
	881561T61	TMTS 2006-3 1A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M	TMTS 2006-3	90.00	HOME EQTY	1.42
	92976BHK1	WBCMT 2006-WL7A A2	$ 6,484,000.00	1.000000	$ 6,484,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	12	LIBOR01M	WBCMT 2006-WL7A	100.00	COMMERCIAL	0.98
	17309XAA7	CGCMT 2006-FL2 A1	$ 500,000.00	0.316436	$ 158,218.08	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	7	LIBOR01M	CGCMT 2006-FL2	100.00	COMMERCIAL	0.74
	200476AA7	COMM 2007-FL14 A1	$ 6,000,000.00	0.997210	$ 5,983,261.60	COMMERCIAL	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	COMM 2007-FL14	100.00	COMMERCIAL	0.69
	34528PAG1	FORDF 2005-1 A	$ 10,000,000.00	1.000000	$ 10,000,000.00	AUTOS	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	FORDF 2005-1	99.00	AUTOS	0.76
	31659EAB4	FMIC 2006-2 2A1	$ 20,000,000.00	0.704557	$ 14,091,133.80	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	9	LIBOR01M	FMIC 2006-2	97.00	HOME EQTY	0.76
	361856EH6	GMACM 2005-HE3 A2	$ 2,750,000.00	1.000000	$ 2,750,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	GMACM 2005-HE3	97.00	HOME EQTY	1.12
	32052XAA5	FHABS 2006-HE2 A	$ 2,000,000.00	0.838057	$ 1,676,114.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	13	LIBOR01M	FHABS 2006-HE2	97.00	HOME EQTY	4.76
	36244RAA8	GSAMP 2006-SD3 A	$ 15,150,000.00	0.667679	$ 10,115,340.90	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	GSAMP 2006-SD3	90.00	HOME EQTY	3.25
	40430WAB1	HFCHC 2006-1 A2	$ 13,000,000.00	0.679631	$ 8,835,203.27	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	HFCHC 2006-1	97.00	HOME EQTY	2.23
	437097AD0	HEAT 2006-6 2A3	$ 10,000,000.00	1.000000	$ 10,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	HEAT 2006-6	95.00	HOME EQTY	2.43
	46412QAA5	IRWHE 2006-2 1A1	$ 13,000,000.00	0.648887	$ 8,435,525.41	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	IRWHE 2006-2	97.00	HOME EQTY	3.51
	52519NJC9	LBFRC 2004-LLFA A2	$ 5,000,000.00	0.186356	$ 931,777.97	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	LBFRC 2004-LLFA	100.00	COMMERCIAL	0.01
	61752LAB1	MSC 2007-XLFA A2	$ 6,000,000.00	1.000000	$ 6,000,000.00	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	10	LIBOR01M	MSC 2007-XLFA	100.00	COMMERCIAL	1.59
	784208AD2	SGMS 2006-FRE2 A2C	$ 15,000,000.00	1.000000	$ 15,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	16	LIBOR01M	SGMS 2006-FRE2	94.00	HOME EQTY	4.63
	83612GAA8	SVHE 2006-A A	$ 10,000,000.00	0.567742	$ 5,677,415.50	HOME EQTY	Aaa	-	AAA	Aaa	-	AAA	19	LIBOR01M	SVHE 2006-A	80.00	HOME EQTY	1.9
	885220JQ7	TMST 2005-4 A3	$ 1,700,000.00	0.888043	$ 1,508,273.15	CMO	Aaa	AAA	-	Aaa	AAA	-	23	LIBOR01M	TMST 2005-4	0.00	CMO	1.3
	885220KG7	TMST 2006-1 A3	$ 3,700,000.00	0.890719	$ 3,295,659.30	CMO	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	TMST 2006-1	0.00	CMO	1.34
	92976BHJ4	WBCMT 2006-WL7A A1	$ 3,000,000.00	0.741924	$ 2,225,773.22	COMMERCIAL	Aaa	AAA	AAA	Aaa	AAA	AAA	9	LIBOR01M	WBCMT 2006-WL7A	100.00	COMMERCIAL	0.71
	02660TJD6	AHM 2006-1 1A3	$ 20,000,000.00	0.639652	$ 12,793,034.60	CMO	Aaa	AAA	-	Aaa	AAA	-	30	LIBOR01M	AHM 2006-1	0.00	CMO	2.19
	04012MAQ2	ARSI 2006-M1 A2C	$ 5,000,000.00	1.000000	$ 5,000,000.00	ABS	Aaa	AAA	AAA	Aaa	AAA	AAA	15	LIBOR01M	ARSI 2006-M1	95.00	ABS	4.37
	126670ZJ0	CWL 2006-6 1A1M	$ 15,703,000.00	0.604741	$ 9,498,244.11	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	27	LIBOR01M	CWL 2006-6	97.00	HOME EQTY	3.21
	12668AEW1	CWALT 2005-59 1A2A	$ 30,000,000.00	0.624247	$ 18,727,415.70	CMO	Aaa	AAA	-	Aaa	AAA	-	38	LIBOR01M	CWALT 2005-59	0.00	CMO	3.77
	144531DL1	CARR 2005-NC5 A2	$ 40,000,000.00	0.856253	$ 34,250,113.77	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	32	LIBOR01M	CARR 2005-NC5	97.00	HOME EQTY	2.76
	362334GS7	GSAA 2006-5 2A2	$ 40,000,000.00	1.000000	$ 40,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	GSAA 2006-5	97.00	HOME EQTY	3.49
	362382AD5	GSAA 2006-9 A1	$ 2,000,000.00	0.430927	$ 861,854.23	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	5	LIBOR01M	GSAA 2006-9	97.00	HOME EQTY	0.57
	36240UAB3	GSTR 2002-2A A1MB	$ 35,100,000.00	0.762941	$ 26,779,232.17	CDO	Aaa	A-1+	AAA	Aaa	A-1+	AAA	7	LIBOR01M	GSTR 2002-2A	99.75	CDO	0.8
	45254NNP8	IMM 2005-3 A1	$ 17,075,000.00	0.366593	$ 6,259,580.60	CMO	Aaa	AAA	-	Aaa	AAA	-	24	LIBOR01M	IMM 2005-3	0.00	CMO	1.32
	45255RAY3	IMSA 2006-3 A6M	$ 7,500,000.00	1.000000	$ 7,500,000.00	CMO	Aaa	AAA	-	Aaa	AAA	-	29	LIBOR01M	IMSA 2006-3	0.00	CMO	4.82
	59020VAV5	MLMI 2006-AR1 A2C	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	MLMI 2006-AR1	95.00	HOME EQTY	1.38
	617451DQ9	MSAC 2006-HE1 A3	$ 3,750,000.00	1.000000	$ 3,750,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	MSAC 2006-HE1	97.00	HOME EQTY	2.2
	61915RAA4	MHL 2005-2 1A1	$ 10,000,000.00	0.542047	$ 5,420,474.50	CMO	Aaa	AAA	-	Aaa	AAA	-	26	LIBOR01M	MHL 2005-2	0.00	CMO	2.84
	64352VQR5	NCHET 2006-1 A2B	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	18	LIBOR01M	NCHET 2006-1	97.00	HOME EQTY	3.01
	65535VUS5	NAA 2006-AR2 3A1	$ 31,517,000.00	0.554072	$ 17,462,688.80	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	NAA 2006-AR2	0.00	CMO	2.78
	65537EAA2	NAA 2006-AR3 A1A	$ 5,500,000.00	0.833829	$ 4,586,057.74	CMO	Aaa	AAA	-	Aaa	AAA	-	18	LIBOR01M	NAA 2006-AR3	0.00	CMO	3.74
	75114RAD7	RALI 2006-QA3 A1	$ 15,500,000.00	0.704447	$ 10,918,921.43	CMO	Aaa	AAA	-	Aaa	AAA	-	20	LIBOR01M	RALI 2006-QA3	0.00	CMO	2.59
	75405WAB8	RASC 2005-KS10 1A2	$ 25,000,000.00	1.000000	$ 25,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	25	LIBOR01M	RASC 2005-KS10	97.00	HOME EQTY	1.22
	813765AB0	SABR 2006-FR3 A2	$ 3,500,000.00	1.000000	$ 3,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	14	LIBOR01M	SABR 2006-FR3	95.00	HOME EQTY	2.18
	863576FF6	SASC 2006-WF1 A4	$ 22,500,000.00	1.000000	$ 22,500,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	17	LIBOR01M	SASC 2006-WF1	97.00	HOME EQTY	4.2
	86358RMY0	ARC 2001-BC8 A	$ 150,000,000.00	0.026131	$ 3,919,720.50	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	35	LIBOR01M	ARC 2001-BC8	97.00	HOME EQTY	0.03
	8815612F0	TMTS 2006-5 1A2B	$ 20,000,000.00	1.000000	$ 20,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	21	LIBOR01M	TMTS 2006-5	95.00	HOME EQTY	3.8
	84751NAE4	SURF 2006-BC5 A2D	$ 5,225,000.00	1.000000	$ 5,225,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	15	LIBOR01M	SURF 2006-BC5	97.00	HOME EQTY	5.44
	32029AAD9	FFML 2006-FF18 A2C	$ 3,500,000.00	1.000000	$ 3,500,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	16	LIBOR01M	FFML 2006-FF18	97.00	HOME EQTY	4.73
	61748HUF6	MSM 2006-1AR 1A1	$ 7,400,000.00	0.652967	$ 4,831,956.32	CMO	Aaa	AAA	-	Aaa	AAA	-	28	LIBOR01M	MSM 2006-1AR	0.00	CMO	3.6
	80556AAC1	SAST 2006-3 A3	$ 5,000,000.00	1.000000	$ 5,000,000.00	HOME EQTY	Aaa	AAA	-	Aaa	AAA	-	17	LIBOR01M	SAST 2006-3	97.00	HOME EQTY	5.04
	44328BAD0	HASC 2006-HE2 2A2	$ 4,900,000.00	1.000000	$ 4,900,000.00	HOME EQTY	Aaa	AAA	AAA	Aaa	AAA	AAA	11	LIBOR01M	HASC 2006-HE2	96.00	HOME EQTY	2.57
	02151JAA9	CWALT 2007-HY6 A1	$ 2,000,000.00	0.985496	$ 1,970,991.68	CMO	Aaa	AAA	AAAe	Aaa	AAA	AAAe	21	LIBOR01M	CWALT 2007-HY6	0.00	CMO	3.8

Marks Provided By

ABS	Edwin Chin
AUTOS	Edwin Chin
CARDS	Edwin Chin
CDO	Chris Creed/ Matt Salem
CMO	ARMs(Prime/ALTA)- Jonathan Margolis ABS and others Edwin Chin
COMMERCIAL	Domenico Acrigarofalo
HOME EQTY	Edwin Chin
PLANES	Edwin Chin
STRUCT NOTE	Edwin Chin

[redacted] = Redacted by the Permanent Subcommittee on Investigations

CMO Marks

Source : Edwin Chin

525221KK2	LXS 2006-4N A1B1	RES B/C	90.00
86362QAA1	SASC 2007-GEL1 A1	RES B/C	97.00
86360XAA8	SASC 2006-GEL3 A1	RES B/C	97.00
32029HAB8	FFML 2007-FFC A2A	RES B/C	90.00
54251YAD0	LBMLT 2006-10 2A3	RES B/C	92.00
40430TAA0	HASC 2007-NC1 A1	RES B/C	97.00
57644DAR4	MASL 2006-1 A	ABS	60.00
86359DPN1	SASC 2005-S5 A2	ABS	85.00
02660TCU5	AHM 2004-4 7A	ABS	95.00
57644DAR4	MASL 2006-1 A	HOMEQ	60.00
07401RAA8	BSMF 2007-SL2 1A	30yr	70.00
643529AA8	NCAMT 2006-ALT2 AV	30yr	97.50
69337MAA8	PHHAM 2007-3 A1	30YR	95.00
69337MAB6	PHHAM 2007-3 A2	30yr	90.00
466275AB0	JPALT 2007-S1 A2	30yr	70.00
07400YAA4	BSMF 2006-SL2 A1	30YR	70.00

Counterparty on TAP	Deal Name	WA CDS Spread	WA NPV	Total NPV
ADIRONDACK 2005-1 LT (GSI, GEORGETOWN, ADIRONDACK 2005 1 LTD.)	Adirondack 2005-1	493.0391412	1,537,529.60	28,021,649.00
ADIRONDACK 2005-2 LT (GSI, GEORGE TOWN, ADIRONDACK 2005-2 LTD)	Adirondack 2005-2	474.3538462	698,183.69	9,076,388.00
ALTIUS I FUNDING LTD (GSI, GEORGETOWN, ALTIUS I FUNDING LTD)	Altius 2005-1	59.128	115,394.24	1,013,124.00
ALTIUS III FUNDING L (GSI, GEORGETOWN, ALTIUS III FUNDING LTD)	Altius III	373.7801802	981,624.69	12,393,918.00
ANDERSON MEZZ 2007-1 (GSI, GEORGE TOWN, ANDERSON MEZZANINE FUNDING2007-1 LTD)	Anderson Mezz 2007-1	1537.272131	1,746,669.43	106,546,835.00
BROADWICK FUNDING LT (GSI, GEORGE TOWN, BROADWICK FUNDING LTD)	Broadwick	1026.520044	850,486.33	43,365,098.00
CAMBER 7 PUBLIC LTD (GSI, DUBLIN, CAMBER 7 PUBLIC LIMITED CO)	Camber 7	1468.522647	2,047,217.02	277,161,409.00
COOLIDGE FUNDING LTD (GSI, CHICAGO, COOLIDGE FUNDING LTD)	Coolidge	160.0964184	62,565.79	959,932.00
DAVIS SQ FNDG VII CR (GSI, GEORGE TOWN, DAVIS SQUARE FUNDING VII LTD)	Davis Square 7	1724.839363	4,679,279.74	70,444,162.00
DAVIS SQUARE FUNDING (GSI, GEORGE TOWN, DAVIS SQUARE FUNDING VI LTD.)	Davis Square 6	1755.7	6,007,157.00	6,007,157.00
FORTIUS I FUNDING LT (GSI, GEORGE TOWN, FORTIUS I FUNDING LTD)	Fortius I	921.3467492	724,860.54	59,731,244.00
FORTIUS II FUNDING L (GSI, GEORGE TOWN, FORTIUS II FUNDING LTD)	Fortius II	1200.763736	1,811,118.62	45,925,674.00
GSC ABS CDO 2006-3G (GSI, GEORGE TOWN, GSC ABS CDO 2006-3G LTD.)	GSC ABS 2006-3g	1357.452469	5,599,111.03	133,671,055.00
HOUT BAY 2006-1 LTD (GSI, GEORGE TOWN, HOUT BAY 2006-1 LTD)	Hout Bay	644.63	1,628,568.10	16,285,681.00
HUDSON HG 06-1 (GSI, GEORGE TOWN, HUDSON HIGH GRADE FUNDING2006-1 LTD)	Hudson HG	1351.781725	8,406,836.15	46,135,420.00
HUDSON MEZ 06-1 (GSI, GEORGE TOWN, HUDSON MEZZANINE FUNDING2006-1 LTD)	Hudson Mezz 06-1	1889.903943	5,820,836.09	800,083,041.00
TIMBERWOLF I LTD GSI (GSI, GEORGE TOWN, TIMBERWOLF I LTD)	Timberwolf	1789.383946	7,245,314.67	512,082,574.00
WEST COAST FUNDING I (GSI, GEORGE TOWN, WEST COAST FUNDING I LTD.)	West Coast	630.3268087	2,449,404.51	46,201,792.00
ALTIUS IV FUNDING LT (GSI, GEORGE TOWN, ALTIUS IV FUNDING LTD)	Altius IV	521.3067751	1,913,280.68	55,342,311.00
Marine Serres (MTG Sales Book)	Point Pleasant Funding 2007-1	1764.245299	5,287,113.18	381,130,068.00
HUDSON MEZ 06-2 (GSI, GEORGE TOWN, HUDSON MEZZANINE FUNDING2006-2, LTD)	Hudson Mezz 06-2	2245.58375	2,285,105.25	182,808,420.00
		1,431.58	3,806,525.76	2,834,386,952.00

From: Ganapathy, Mahesh
Sent: Monday, August 13, 2007 4:52 PM
To: Bieber, Matthew G.; Lehman, David A.; Egol, Jonathan
Cc: Kang, Connie
Subject: Default Swap Collateral File with Marks updated

Attachments: Default Swap Collateral Master File 08.13.07v3.xls

Have added Total Notional of the CDS trades as well. Also , just to clarify, Hudson Mezz 1 and Point Pleasant had Unfunded Super Seniors. In the case of Point Pleasant , we face IXIS on 700mm approx of CDS trades(the rest were shorted to the deal directly by IXIS) and the default Swap collateral par at closing = $1.0085b- 403.4mm = 605.1mm.



Default Swap Collateral Master...

Thanks

From: Ganapathy, Mahesh
Sent: Monday, August 13, 2007 12:53 PM
To: Lehman, David A.; Bieber, Matthew G.; Egol, Jonathan
Cc: Kang, Connie
Subject: Default Swap Collateral File with Marks updated

David/Matt/Jon

Please find attached-I have updated the marks on the underlying bonds. Please let me know if there are any questions.
<< File: Default Swap Collateral Master File 08.13.07v2.xls >>

Thanks ,

Mahesh Ganapathy
CDO Structuring,Marketing & Principal Investments
Fixed Income,Currency and Commodities Division
Goldman, Sachs & Co.
Ph: 212-902-6265
Fax:212-256-6570
mahesh.ganapathy@gs.com

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2641

Acc. Days	90.00

Default Swap Collateral
Deal Summary

GS MBS-E-001930572

Drag Caused by 100% Cash in Default Swap Collateral Account

By Deal

Source: MTGE TAP as of Friday 08.10.07

Will be updated on Monday with marks

Deal Name	Face of AAA ratedcollateral	Cash in Acct	CDS Notional	WA CDS Spread*	Total CDS NPV*	WAL	WAS Def Swap Coll	WA Def Swap Price*	Interest on Cash	LIBOR	Spread to LIBOR	Change (bps)	100% Cash Case ($ difference)	Name of Test	Cushion (New)
Hout Bay	$ 98,302,805.42	$ 1,697,194.58	$ 100,000,000.00	644.63	$ 16,285,681.00	1.90	15.33	$96.96	4.985	5.321	-0.336	16.65	$ 120,306.89	Class A/B	9.56%
Altius 2005-1	$ 121,643,454.49	$ 3,356,545.50	$ 125,000,000.00	59.13	$ 1,013,124.00	1.05	7.30	$98.60	4.985	5.321	-0.336	-7.64	$ 124,458.85	Class A/B	17.36%
Altius IV	$ 378,046,168.59	$ 11,617,984.41	$ 389,664,153.00	521.31	$ 55,342,311.00	2.45	18.42	$94.72	4.985	5.321	-0.336	18.76	$ 491,875.60	Class A/B	29.97%
Broadwick	$ 492,367,096.06	$ 2,966,942.94	$ 495,334,039.00	1,026.52	$ 43,365,098.00	2.05	20.12	$94.84	4.985	5.321	-0.336	20.46	$ 861,601.21	No IC Test	
Hudson HG	$ 94,842,294.57	$ 2,804,119.43	$ 97,446,414.00	1,351.78	$ 46,135,420.00	2.75	11.84	$96.96	4.910	5.321	-0.411	12.25	$ 125,318.77	Class A/B	6.79%
Hudson Mezz 06-1	$ 749,005,576.36	$ 49,396,594.64	$ 1,990,996,682.00	1,889.90	$ 800,063,041.00	0.94	10.85	$95.50	4.910	5.321	-0.411	11.36	$ 875,061.82	No IC Test	
Hudson Mezz 06-2	$ 392,129,110.51	$ 7,870,889.49	$ 400,000,000.00	2,245.56	$ 182,808,420.00	1.32	10.14	$96.31	4.985	5.321	-0.336	10.48	$ 428,073.51	No IC Test	
Anderson Mezz 2007-1	$ 297,777,252.96	$ 7,222,747.04	$ 305,000,000.00	1,537.27	$ 106,546,835.00	1.72	10.24	$94.66	4.985	5.321	-0.336	10.67	$ 328,517.63	No IC Test	
Point Pleasant Funding 2007-1	$ 551,539,388.07	$ 53,560,611.93	$ 701,276,167.00	1,764.25	$ 381,130,068.00	1.24	12.33	$96.39	4.985	5.321	-0.336	12.87	$ 633,696.26	No IC Test	
GSC ABS 2006-3g	$ 297,452,754.79	$ 5,632,155.20	$ 303,084,910.00	1,357.45	$ 133,671,055.00	2.93	16.19	$90.29	4.985	5.321	-0.336	16.53	$ 370,482.89	Class A/B	6.29%
Davis Square 7	$ 109,646,825.48	$ 2,379,457.54	$ 112,026,283.00	1,724.84	$ 70,444,162.00	2.64	9.63	$95.38	4.860	5.321	-0.461	10.09	$ 152,840.78	Class A/B	19.21%
Adirondack 2005-1	$ 166,174,523.84	$ 9,537,393.16	$ 175,711,917.00	493.04	$ 28,021,849.00	1.01	15.08	$97.84	4.985	5.321	-0.336	15.42	$ 202,355.84	Class A/B	13.92%
Adirondack 2005-2	$ 122,029,924.94	$ 7,970,075.06	$ 130,000,000.00	474.35	$ 9,076,388.00	0.93	12.27	$98.66	4.985	5.321	-0.336	12.60	$ 140,006.33	Class A/B	8.58%
Davis Square 6	$ 9,284,993.03	$ 715,006.97	$ 10,000,000.00	1,755.70	$ 6,007,157.00	0.80	4.49	$99.75	4.860	5.321	-0.461	4.96	$ 11,750.11	Class A/B	26.02%
Camber 7	$ 863,192,746.40	$ 5,557,253.60	$ 868,750,000.00	1,466.52	$ 277,161,409.00	2.40	25.84	$93.73	4.930	5.321	-0.391	26.23	$ 1,402,001.36	Class A/B	24.12%
Coolidge	$ 79,327,019.26	$ 9,437,873.74	$ 88,764,893.00	180.10	$ 959,932.00	0.91	1.41	$96.58	4.985	5.321	-0.336	1.76	$ 89,481.97	Class A/B	
Timberwolf	$ 861,069,305.20	$ 67,525,974.80	$ 928,595,280.00	1,789.38	$ 512,082,574.00	1.93	27.94	$94.90	5.170	5.321	-0.151	28.09	$ 927,125.39	No IC Test	
Fortius II	$ 175,942,875.64	$ 6,057,324.36	$ 182,000,000.00	1,200.76	$ 45,925,674.00	2.08	6.26	$95.25	5.110	5.321	-0.211	6.47	$ 120,466.52	Class A/B	48.33%
Fortius I	$ 463,833,055.70	$ 3,849,293.30	$ 467,682,349.00	921.35	$ 59,731,244.00	2.13	20.02	$95.27	5.110	5.321	-0.211	20.23	$ 477,088.18	Class A/B	79.91%
Altius III	$ 106,681,696.31	$ 4,318,303.68	$ 111,000,000.00	373.78	$ 12,393,918.00	2.23	7.52	$95.51	5.110	5.321	-0.211	7.73	$ 76,393.84	Class A/B	34.29%
West Coast	$ 329,153,286.14	$ 5,344,517.86	$ 334,497,804.00	630.33	$ 46,201,782.00	2.89	24.17	$96.62	4.910	5.321	-0.411	24.58	$ 537,282.77	Class A/B	8.22%
Total/Average	$ 6,159,241,853.79	$ 269,819,099.21	$ 6,916,930,891.00	1,491.58	$ 2,834,386,952.00	1.69	17.45	$95.22	5.000	5.321	-0.321	17.77	$ 6,376,144.45		

% of Portfolio Marked	100.0%
Wt. Avg. Marked Price	$ 95.22

Default Swap Collateral
Deal Summary

GS MBS-E-001930572

By Deal

Deal Name	Trigger	Name of Test	Cushion (New)	Trigger	Name of Test	Cushion (New)
Hout Bay	105.00%	Class C	7.19%	101.50%	Class D	2.36%
Altius 2005-1	101.00%	Class C/D	4.65%	100.00%		
Altius IV	101.00%	Class C	19.57%	100.00%		11.03%
Broadwick		No IC Test			No IC Test	
Hudson HG	102.00%	Class C	4.85%	101.00%	Class D	2.25%
Hudson Mezz 06-1		No IC Test			No IC Test	
Hudson Mezz 06-2		No IC Test			No IC Test	
Anderson Mezz 2007-1		No IC Test			No IC Test	
Point Pleasant Funding 2007-1		No IC Test			No IC Test	
GSC ABS 2006-3g	102.00%	Class C	3.22%	101.00%	Class D	4.22%
Davis Square 7	102.00%	Class C	17.39%	101.00%	Class D	13.07%
Adirondack 2005-1	105.00%	Class C/D	4.69%	102.00%		
Adirondack 2005-2	105.00%	Class C	8.92%	102.00%	Class D	2.92%
Davis Square 6	102.00%	Class C	7.22%	101.00%	Class D	2.31%
Camber 7	102.00%	Class C	13.34%	101.00%	Class D	15.71%
Coolidge	112.00%	Class C/D	12.78%	106.00%		
Timberwolf		No IC Test			No IC Test	
Fortius II	101.00%	Class C	50.80%	100.00%	Class D	37.68%
Fortius I	101.00%	Class C/D	30.64%	100.00%		
Altius III	101.00%	Class C	29.10%	100.00%	Class D	23.26%
West Coast	102.00%	Class C	6.23%	101.00%	Class D	1.58%
Total/Waverage						

% of Portfolio Marked
Wt. Avg. Marked Price

Default Swap Collateral
Deal Summary

GS MBS-E-001930572

By Deal

Deal Name	Interest Proceeds	Interest Reduction as % of I.P.	Tranche Effected	Interest Reduction as % of Equity Payment	Comment
Hout Bay	7,717,448.70	1.56%	Equity, D and E Notes	141%	
Altius 2005-1	10,692,433.96	1.16%	Equity	40%	
Altius IV	9,807,179.35	5.02%	Equity and BBB	126%	Model Projection
Broadwick	5,097,013.63	12.98%	Equity and Sub Mgt Fee	100.0%	
Hudson HG	8,558,702.00	1.46%	Equity	71.5%	
Hudson Mezz 06-1	8,185,419.61	11.91%	Super Snr		AB OC Failure
Hudson Mezz 06-2	2,677,462.76	16.03%	BBB		D OC Failure
Anderson Mezz 2007-1	8,345,765.07	3.91%	Equity	14.5%	
Point Pleasant Funding 2007-1	18,770,655.37	3.38%	Equity	31.3%	Model Projection
GSC ABS 2006-3g	9,206,802.63	4.02%	Equity	91.6%	
Davis Square 7	11,372,912.48	1.34%	Equity	31.7%	
Adirondack 2005-1	7,668,827.27	2.64%	Equity	98.4%	
Adirondack 2005-2	8,152,822.27	1.72%	Equity	54.6%	
Davis Square 6	9,923,190.60	0.12%	Equity	4.1%	
Camber 7	17,875,551.48	7.84%	Equity, Sub Mgt Fee, D & E Turbo	261%	
Coolidge	6,077,061.50	1.14%	Equity	9.8%	
Timberwolf	17,250,148.86	5.37%	Equity	89.4%	Model Projection
Fortius II	3,331,606.57	3.62%	Class E		E OC Failure
Fortius I	4,661,340.39	10.23%	Equity	46.5%	
Altius III	9,916,597.16	0.77%	BBB		D OC Failure
West Coast	14,205,687.05	3.78%	Class E, X, Sub Mgmt fee, and D note	254.41%	
Total/Waverage					

% of Portfolio Marked
Wt. Avg. Marked Price

Default Swap Collateral
Summary

Acc. Days	90.00

Drag Caused by 100% Cash in Default Swap Collateral Account

By Deal

"Source: MTGE TAF as of Friday 08.10.07 *Will be updated on Monday with marks*

Deal Name	Face of AAA rated collateral	Cash in Acct	WA CDS Spread*	WA CDS NPV*	Total CDS NPV*	WAL	WAS Def Swap Coll	WA Def Swap Price*	Interest on Cash	LIBOR	Spread to LIBOR	Model CDS Collateral Spread	Cash %	Rating Agency %	Change (bps)	100% Cash Case ($ difference)	Name of Test
Hout Bay	$ 98,302,605.42	$ 1,697,194.56	644.63	$ 1,628,568.10	$ 16,285,681.00	1.90	15.33	$96.96	4.965	5.321	-0.336	L	L-0.25	L-0.25	16.66	$ 120,308.89	Class A/B
Altius 2005-1	$ 121,643,454.49	$ 3,356,545.50	59.13	$ 115,394.24	$ 1,013,124.00	1.08	7.30	$96.60	4.985	5.321	-0.336	L	L-0.25	L-1	7.84	$ 124,458.85	Class A/B
Altius IV	$ 376,046,188.59	$ 11,817,964.41	521.31	$ 1,913,280.68	$ 55,342,311.00	2.45	16.42	$94.72	4.985	5.321	-0.336			L-0.25	18.76	$ 491,875.60	Class A/B
Broadwick	$ 492,367,096.06	$ 2,966,942.94	1,026.52	$ 850,486.33	$ 43,365,096.00	2.05	20.12	$94.84	4.985	5.321	-0.336				20.48	$ 681,801.21	No IC Test
Hudson HG	$ 94,642,294.57	$ 2,804,119.43	1,351.76	$ 8,406,836.15	$ 46,135,420.00	2.75	11.84	$96.96	4.910	5.321	-0.411				12.26	$ 125,318.77	Class A/B
Hudson Mezz 06-1	$ 749,005,578.36	$ 49,396,594.64	1,889.90	$ 5,820,836.09	$ 800,083,041.00	0.94	10.95	$95.50	4.910	5.321	-0.411				11.36	$ 975,061.82	No IC Test
Hudson Mezz 06-2	$ 392,129,110.51	$ 7,870,889.49	2,245.58	$ 2,265,105.25	$ 182,808,420.00	1.32	10.14	$96.31	4.985	5.321	-0.336				10.57	$ 326,517.63	No IC Test
Anderson Mezz 2007-1	$ 297,777,252.96	$ 7,222,747.04	1,537.27	$ 1,746,969.43	$ 106,546,835.00	1.72	10.24	$94.86	4.985	5.321	-0.336				12.87	$ 633,696.28	No IC Test
Point Pleasant Funding 2007-1	$ 551,539,388.07	$ 53,560,611.93	1,764.25	$ 5,287,113.18	$ 361,130,068.00	1.24	12.33	$96.39	4.985	5.321	-0.336				16.63	$ 370,462.99	Class A/B
GSC ABS 2006-3g	$ 297,452,754.78	$ 5,632,155.20	1,357.45	$ 5,599,111.03	$ 133,671,055.00	2.93	16.19	$90.29	4.985	5.321	-0.336				10.09	$ 152,840.76	Class A/B
Davis Square 7	$ 109,646,625.46	$ 2,379,457.54	1,724.84	$ 4,879,279.74	$ 70,444,182.00	2.64	9.63	$95.36	4.860	5.321	-0.461				15.42	$ 202,358.64	Class A/B
Adirondack 2005-1	$ 166,174,523.64	$ 9,537,393.16	493.04	$ 1,537,529.60	$ 28,021,649.00	1.01	15.06	$97.94	4.985	5.321	-0.336				12.60	$ 140,008.33	Class A/B
Adirondack 2006-2	$ 122,029,924.94	$ 7,970,075.06	474.35	$ 696,183.69	$ 9,076,386.00	0.93	12.27	$98.66	4.985	5.321	-0.336				4.86	$ 11,750.11	Class A/B
Davis Square 6	$ 9,284,993.03	$ 715,006.97	1,755.70	$ 6,007,157.00	$ 6,007,157.00	0.80	4.49	$99.75	4.860	5.321	-0.461				28.23	$ 1,402,001.36	Class A/B
Camber 7	$ 863,192,746.40	$ 5,557,253.60	1,468.52	$ 2,047,217.02	$ 277,161,409.00	2.40	25.84	$93.73	4.930	5.321	-0.391				1.75	$ 69,481.97	Class A/B
Coolidge	$ 79,327,019.26	$ 9,437,673.74	160.10	$ 62,565.79	$ 959,932.00	0.91	1.41	$96.56	4.985	5.321	-0.336				28.09	$ 927,125.39	No IC Test
Timberwolf	$ 861,069,305.20	$ 67,525,874.80	1,769.38	$ 7,245,314.67	$ 512,082,574.00	1.83	27.94	$94.90	5.170	5.321	-0.151				6.47	$ 120,486.52	Class A/B
Fortius II	$ 175,942,675.64	$ 6,057,324.36	1,200.76	$ 1,811,118.62	$ 45,625,674.00	2.08	6.26	$95.25	5.110	5.321	-0.211				20.23	$ 477,066.18	Class A/B
Fortius I	$ 463,833,055.70	$ 3,849,293.30	921.35	$ 724,660.54	$ 59,731,244.00	2.13	20.02	$95.27	5.110	5.321	-0.211				7.73	$ 70,393.64	Class A/B
Altius III	$ 105,681,696.31	$ 4,318,303.68	373.78	$ 981,624.69	$ 12,393,816.00	2.23	7.52	$95.51	5.110	5.321	-0.211				24.68	$ 537,282.77	Class A/B
West Coast	$ 329,153,288.14	$ 5,344,517.86	630.33	$ 2,449,404.51	$ 46,201,792.00	2.69	24.17	$96.82	4.910	5.321	-0.411				17.77	$ 6,978,146.49	
Total/Weverage	$ 6,759,241,955.75	$ 269,619,069.23	1,491.64	$ 8,006,829.78	$ 2,834,886,882.00	1.94	17.45	$95.22	5.000	5.321	-0.321				17.77	$ 6,978,146.49	

% of Portfolio Marked	100.0%
Wt. Ave. Marked Price	$ 96.22

Default Swap Collateral
Summary

By Deal

Deal Name	IC Denominator	Cushion (Old)	Cushion (New)	Trigger	Name of Test	IC Denominator	Cushion (Old)	Cushion (New)	Trigger	Name of Test	IC Denominator	Cushion (Old)	Cushion (New)
Hout Bay	$ 6,631,696.23	11.37%	9.56%	105.00%	Class C	$ 6,990,010.73	8.91%	7.18%	101.50%	Class D	7,349,789.34	4.00%	2.36%
Altius 2005-1	$ 8,929,071.98	18.75%	17.36%	101.00%	Class C/D	###########	6.08%	4.85%	100.00%				
Altius IV	$ 6,993,619.22	37.00%	29.97%	101.00%	Class C	$ 7,654,561.60	26.00%	19.57%	100.00%		8,242,161.01	17.00%	11.03%
Broadwick					No IC Test					No IC Test			
Hudson HG	$ 7,612,008.34	10.44%	8.79%	102.00%	Class C	$ 7,967,267.79	6.42%	4.85%	101.00%	Class D	8,247,886.81	3.77%	2.25%
Hudson Mezz 06-1					No IC Test					No IC Test			
Hudson Mezz 06-2					No IC Test					No IC Test			
Anderson Mezz 2007-1					No IC Test					No IC Test			
Point Pleasant Funding 2007-1					No IC Test					Class D	6,798,767.11	9.67%	4.22%
GSC ABS 2006-3g	$ 6,543,382.22	11.95%	6.29%	102.00%	Class C	$ 6,798,767.11	8.67%	3.22%	101.00%	Class D	9,922,741.64	14.61%	13.07%
Davis Square 7	$ 9,256,600.00	20.66%	19.21%	102.00%	Class C	$ 9,477,242.50	19.00%	17.39%	101.00%				
Adirondack 2005-1	$ 6,278,821.46	17.14%	13.92%	105.00%	Class C/D	$ 6,996,252.64	7.58%	4.69%	102.00%	Class D	7,816,836.39	4.71%	2.92%
Adirondack 2005-2	$ 6,801,440.78	16.49%	14.43%	105.00%	Class C	$ 7,323,650.78	10.83%	8.92%	102.00%	Class D	9,687,533.89	2.43%	2.31%
Davis Square 6	$ 6,963,407.61	8.71%	6.58%	102.00%	Class C	$ 9,156,532.61	7.35%	7.22%	101.00%	Class D	15,044,941.52	25.02%	15.71%
Camber 7	$ 12,149,472.00	39.56%	28.02%	102.00%	Class C	###########	23.49%	13.34%	101.00%				
Coolidge	$ 4,548,963.58	25.65%	24.12%	112.00%	Class C/D	$ 5,213,448.23	14.11%	12.78%	106.00%				
Timberwolf					No IC Test					No IC Test			
Fortius II	$ 2,015,349.07	54.31%	48.33%	101.00%	Class C	$ 2,129,360.18	56.46%	50.80%	100.00%	Class D	2,332,302.54	42.85%	37.68%
Fortius I	$ 2,312,866.26	100.54%	79.91%	101.00%	Class C/D	$ 3,202,787.11	45.54%	30.64%	100.00%				
Altius III	$ 8,009,722.85	35.24%	34.29%	101.00%	Class C	$ 6,393,247.85	30.01%	29.10%	100.00%	Class D	8,790,909.54	24.13%	23.26%
West Coast	$ 12,401,317.50	12.55%	8.22%	102.00%	Class C	###########	10.44%	6.23%	101.00%	Class D	13,456,455.58	5.57%	1.58%
Total/Weverage													

% of Portfolio Marked
Wt. Avg. Marked Price

Default Swap Collateral
Summary

By Deal

Deal Name	Trigger	Interest Proceeds	Interest Reduction as % of I.P.	Tranche Effected	Interest Reduction as % of Equity Payment	Comment
Hout Bay	101.00%	7,717,448.70	1.66%	Equity, D and E Notes	141%	
Altius 2005-1		10,692,433.96	1.16%	Equity	40%	
Altius IV	100.00%	9,807,179.35	6.02%	Equity and BBB	126%	Model Projection
Broadwick		5,097,013.63	12.98%	Equity and Sub Mgt Fee	100.0%	
Hudson HG	100.00%	8,558,702.00	1.46%	Equity	71.5%	
Hudson Mezz 06-1		8,185,419.61	11.91%	Super Snr		AB OC Failure
Hudson Mezz 06-2		2,677,462.76	16.03%	BBB		D OC Failure
Anderson Mezz 2007-1		8,345,765.07	3.91%	Equity	14.5%	
Point Pleasant Funding 2007-1		18,770,655.37	3.38%	Equity	31.3%	Model Projection
GSC ABS 2006-3g	100.00%	9,206,802.63	4.02%	Equity	91.6%	
Davis Square 7	100.00%	11,372,912.48	1.34%	Equity	31.7%	
Adirondack 2005-1		7,668,827.27	2.64%	Equity	98.4%	
Adirondack 2005-2	101.00%	8,152,822.27	1.72%	Equity	54.6%	
Davis Square 6	100.00%	9,923,190.60	0.12%	Equity	4.1%	
Camber 7	100.00%	17,875,551.48	7.84%	Equity, Sub Mgt Fee, D & E Turbo	261%	
Coolidge		6,077,061.50	1.14%	Equity	9.8%	
Timberwolf		17,250,148.86	5.37%	Equity	89.4%	Model Projection
Fortius II	100.00%	3,331,606.57	3.62%	Class E		E OC Failure
Fortius I		4,661,340.39	10.23%	Equity	46.5%	
Altius III	100.00%	9,916,597.16	0.77%	BBB		D OC Failure
West Coast	100.00%	14,205,687.05	3.78%	Class E, X, Sub Mgmt fee, and D notes	254.41%	
Total/Waverage						

% of Portfolio Marked
Wt. Avg. Marked Price

From: Lehman, David A.
Sent: Tuesday, August 21, 2007 9:30 PM
To: Bieber, Matthew G.
Subject: RE: Default Swap Collateral Reinvestment

ok

From: Bieber, Matthew G.
Sent: Tuesday, August 21, 2007 9:30 PM
To: Lehman, David A.
Subject: RE: Default Swap Collateral Reinvestment

Ok. I think we should be proactive in letting mangers know, then, rather than waiting for them to come to us for approval and then denying. There are a couple of one off situations which we should go through tomorrow morning.

From: Lehman, David A.
Sent: Tuesday, August 21, 2007 9:19 PM
To: Bieber, Matthew G.
Subject: RE: Default Swap Collateral Reinvestment

Nothing further - I think our gameplan remains to build cash for now

---

From: Bieber, Matthew G.
Sent: Tuesday, August 21, 2007 8:31 AM
To: Lehman, David A.
Subject: Default Swap Collateral Reinvestment

Was there any further discussion over the past few days on what we're going to be doing? With the 25th coming up, I suspect a bunch of mangers are going to be looking to put cash to work....

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2643

Confidential Treatment Requested by Goldma

From: Case, Benjamin
Sent: Monday, September 24, 2007 2:59 PM
To: Bieber, Matthew G.; Lehman, David A.
Subject: FW: CDS Collateral re-investment

Any thoughts on CMBS floaters?

From: Marty Devito [mailto:Mdevito@aladdincapital.com]
Sent: Monday, September 24, 2007 5:45 PM
To: Case, Benjamin
Cc: Anatoly Burman; Nunzio Masone
Subject: RE: CDS Collateral re-investment

Ben - While I agree the ability for a fair amount of the floating rate loans in CMBS to refi in here is limited, are there any other reasons you left CMBS off the list??

MD
CMBS Guy

From: Case, Benjamin [mailto:Benjamin.Case@gs.com]
Sent: Monday, September 24, 2007 4:17 PM
To: Marty Devito
Cc: Pinkos, Steve; Anatoly Burman; Nunzio Masone; Shirley Cho; Bieber, Matthew G.; Lehman, David A.; Shimonov, Roman; Mishra, Deva R.; Kang, Connie
Subject: RE: CDS Collateral re-investment

Marty,

Good speaking to you today. As discussed -

RMBS: CBASS, GSAMP, JPMAC, WFHET
CARDS: AMXCA, BACCT, BOIT, MBNAS, CCCIT, CHAIT, DCMT
AUTOS: COPAR, DCMOT, FORDO, HAROT, HDMOT, NALT, USAOT
STUDENT LOANS: ACCSS, GCOE, KSLT, NCSLT, SLMA (FFELP)

Generally speaking, looking at securities that are currently amortizing with average lives of less than 2 years.

Also, please make sure Matt Bieber is included in trade-by-trade approval requests.

Regards,
Ben

From: Marty Devito [mailto:Mdevito@aladdincapital.com]
Sent: Friday, September 21, 2007 2:12 PM
To: Case, Benjamin
Cc: Pinkos, Steve; Anatoly Burman; Nunzio Masone; Shirley Cho
Subject: CDS Collateral re-investment

Ben -

We, at the direction of Connie and Roman, have not been reinvesting CDS collateral as it matures.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2644

We've brought the topic up a few times over the past few months with your team. Last I heard, you were re-evaluating the market, and would come back to us with a breakdown of acceptable replacements. As the cash balances continue to grow, I'd like to address this issue, as the amount of cash drag is beginning to become meaningful.

Thank you in advance.

MD

Martin DeVito
Senior Managing Director
Aladdin Capital Management
Six Landmark Square
Stamford, Connecticut 06901
(203) 487-6731

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From: Shimonov, Roman
Sent: Thursday, September 06, 2007 8:26 AM
To: Bieber, Matthew G.
Subject: Re: Timberwolf II -- Default Swap Collateral

Just got it. Thanks. Can you pls help with Adrock 05-2 cp rolls today. Really appreciate it.

Roman Shimonov, CFA
Goldman, Sachs & Co.
Tel: 212-902-6964
Roman.Shimonov@gs.com

Sent from my Blackberry device

----- Original Message -----
From: Bieber, Matthew G.
To: Shimonov, Roman
Sent: Thu Sep 06 08:24:31 2007
Subject: RE: Timberwolf II -- Default Swap Collateral

See my previous email.

-----Original Message-----
From: Shimonov, Roman
Sent: Thursday, September 06, 2007 8:17 AM
To: Bieber, Matthew G.
Subject: Fw: Timberwolf II -- Default Swap Collateral

Guess we can't delay talking to him anymore...

Roman Shimonov, CFA
Goldman, Sachs & Co.
Tel: 212-902-6964
Roman.Shimonov@gs.com

Sent from my Blackberry device

----- Original Message -----
From: Joe Marconi <joe.marconi@greywolfcapital.com>
To: Shimonov, Roman
Cc: Joe Marconi <joe.marconi@greywolfcapital.com>; Bieber, Matthew G.; Martin, Nicole
Sent: Thu Sep 06 08:18:27 2007
Subject: Timberwolf II -- Default Swap Collateral

Roman:

We are doing our credit work on these 3 bonds which are shown on the GS inventory sheet. If we get comfortable with these positions, would GS be ok adding them to Timberwolf as Default Swap Collateral? We should be done with our credit work today.

Thanks. Joe.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2645

Confidential Treatment Requested by Gold

FLOATING Home Equity			AVL	DM	Ppy	App Prc	Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC

From: Bruns, William [mailto:William.Bruns@gs.com]
Sent: Thursday, September 06, 2007 7:48 AM
To: undisclosed-recipients
Subject: Goldman Sachs ABS Inventory (External)

ABS Cash Trading: Mike Swenson Deeb Salem Edwin Chin Jordan Kaufman Will Bruns +1 (212)902-5090

In autos:
- CARMX announced a $500mm deal.

In cards:
- CCCIT announced a $750mm deal.

<<Inventory.xls>>

Amt ($mm)	Issue	CUSIP	AVL	Sprd	Ppy	Approx Price	Fctr/Notes
FIXED Credit Cards/Dealer Floorplan/Student Loans							
3.750	MBNAS 2003-A11 A11	55264TCH2	1.1	E+24		98-	1.00/YTC/Aaa/AAA/AAA
3.750	BOIT 2003-A9 A9	06423RBE5	1.1	E+24		SOLD	1.00/YTC/Aaa/AAA/AAA
10.000	MBNAM 1999-J B	55262TEV1	2.0	N+50		104-	1.00/YTC/A2/A+/A+
FLOATING Credit Cards/Dealer Floorplan/Autos/UK & Aussie RMBS/Equipment/Stranded Cost							
3.300	CNHMT 2005-1 A	12615SAE0	0.8	+20		99-297	1.00/YTC/Aaa/AAA/AAA
1.500	CCCIT 2007-A2 A2	17305EDS1	2.7	+28		99-072	1.00/YTC/Aaa/AAA/AAA
12.500	COMET 2004-C2 C2	14041NBH3	6.4	+125		98-305	
1.00/YTC/Baa2/BBB/BBB							
3.000	GEBL 2006-2A D	36159EAG7	#N/A	N+300		90-101	
0.98/YTC/Baa2/BBB+/BBB							

FIXED Auto & Equipment Loans			AVL	Sprd	Ppy	Handle	Fctr/Notes
41.780	GSALT 2004-1 A4	36292RAM3	0.0	E+35	1.25	SOLD	0.47/YTC
8.555	NAVOT 2003-B A4	63936XAD6	0.3	E+50	0.75	99-	0.71/YTC
3.000	AESOP 2003-3A A3	00103RAX4	0.7	E+25	0.00	98-	1.00/YTC
7.000	GSALT 2005-1 A4	36292RAV3	1.3	E+40	1.35	98-	1.00/YTC
2.150	HDMOT 2005-2 A2	41283ABV0	1.2	E+30	1.45	98-	1.00/YTC
3.750	TAROT 2006-C A3	89578PAC3	1.4	E+55	1.45	99-	1.00/YTC
17.210	HERTZ 2004-1A A3	42805RAC3	0.5	E+25	0.00	98-	1.00/YTC

FIXED Stranded Cost			AVL	Sprd	Ppy	Handle	Fctr/Notes
15.000	CNP 2001-1 A3	75953MAC4	1.3	E+20	0	99-	1.00/YTC
5.000	CPL 2002-1 A3	12617AAC1	1.7	E+20	0	100-	1.00/YTC
4.000	CONFD 2001-1 A4	210523AD8	1.3	E+20	S1	99-	0.90/YTC
5.060	CONFD 2001-1 A5	210523AE6	4.2	N+28	S1	101-	1.00/YTC

Student Loans			AVL	DM	Ppy	App Prc	Fctr/Notes
4.650	SLMA 2006-9 A2	78443KAB2	1.5	+20	100	99-214	1.00/YTC
50.025	SLMA 2006-6 A1	83149FAA2	1.5	+20	150	99-205	0.68/YTC
13.675	SLMA 2007-3 A1	78443YAA4	0.8	+20	20	99-253	0.81/YTC

Confidential Treatment Requested by Goldman Sachs

			AVL	Sprd	Ppy	Handle	Fctr/Notes
FIXED Home Equity							
12.000	CWL 2002-S4 A5	126671UD6	0.2	E+50	25	99-	0.87/YTC
5.000	POPLR 2005-1 AF3	73316PBK5	1.0	E+45	15	98-	0.57/YTC
24.456	CBASS 2004-CB1 AF1	04542BFH0	1.4	E+55	30	97-	0.03/YTC
7.585	ACCR 2003-2 A1	004375AN1	2.8	N+100	100	95-	0.31/YTC
5.273	SAIL 2005-8 M7	86358EXW1	3.8			55-	1.00/YTC/Ba3/BBB/
10.000	SAIL 2005-8 M8	86358EXX9	3.8			45-	1.00/YTC/B3/B/
4.220	CWL 2005-11 MF8	126670CU0	4.0	N+500	S3	87-	1.00/YTC/Baa2/BBB/
4.364	GSAMP 2004-AR2 B4	36242DDY6	0.8	E+1500	45	89-	0.36/YTC/Ba1//BB+
			AVL	DM	Ppy	App Prc	Fctr/Notes
FLOATING Home Equity							
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC
20.000	MSAC 2004-HE8 A4	61744CGW0	0.1	+45	35	99-317	0.04/YTC
5.000	CMLTI 2007-WFH2 A3	17312BAC6	2.3	+150	100	97-053	1.00/YTC
2.000	OWNIT 2006-5 A2C	69121EAE8	2.8	+140	S3	96-262	1.00/YTC
12.000	GSAMP 2005-WMC3 A1B	362341L23	3.0	+65	20	99-064	0.54/YTC
10.000	JPMAC 2006-NC1 A5	46626LJQ4	4.7	+175	100	94-025	1.00/YTC
11.000	GSAMP 2005-WMC2 A2C	362341UZ0	5.0	+95	100	97-141	1.00/YTC
9.437	TMTS 2006-3 2A3	881561W26	3.9	+375	S3	88-186	1.00/YTC
10.000	AMSI 2005-R3 M2	03072SZY4	1.9	+450	30	93-067	YTC/Aa2/AA/AA
2.000	RASC 2005-AHL3 M2	76110W6P6	2.9	+750	30	83-164	YTC/Aa2/AA/
7.000	SURF 2006-BC2 M2	84751PLR8	3.2	+550	S3	86-098	YTC/Aa2/AA/
7.115	BAYV 2004-C M1	073247BL1	0.1	+200	21	97-097	YTM/Aa2/AA/AA
3.050	HEAT 2006-6 M3	437097AJ7	3.3	+1000	100	75-093	YTC/Aa3/AA/AA+
15.836	OWNIT 2006-6 M1	69121TAF2	4.1	+450	S3	86-044	YTC/Aa1/AA+/
12.376	GSAMP 2007-FM1 M3	3622MAAH4	5.6	+600	100	76-143	YTC/Aa3/AA-/
15.992	HASC 2006-WMC1 M3	40430MAJ6	5.7	+900	30	66-075	YTC/Aa3/AA/BBB-
16.000	ABFC 2003-OPT1 M2	04542BDJ8	0.4	+800	S4	97-248	YTC/A2/AA/A+
3.000	ACE 2005-RM1 M6	004421LR2	0.7	+900	30	92-208	YTM/A3/A/A-
7.810	GSAMP 2004-NC2 M3	36242DHC0	1.3	+550	100	95-102	YTC//A-/A-
2.341	BSABS 2005-1 M3	073877AX0	1.2	+1500	35	85-244	YTC//A-/A-
10.554	HEAT 2005-1 M5	437084HU3	1.5	+1600	100	80-223	YTC/A2/A+/
2.500	AMSI 2005-R6 M2	03072SG33	2.0	+700	40	88-300	YTC/NR/AA/AA
2.500	AMSI 2005-R6 M3	03072SG41	1.8	+700	40	89-266	YTC/NR/AA-/AA-
2.000	CWL 2005-6 M5	126673W65	2.2	+355	30	94-134	YTC/A2/A/
1.000	CBASS 2005-CB7 M6	12489WPR9	2.6	+600	S3	88-125	YTC/A3/AA/A+
8.218	FFML 2006-FF11 M6	32028PAM7	3.3	+1300	100	69-291	YTC/A3/A/BBB+
8.733	ABFC 2006-OPT1 M6	00075QAK8	3.1	+600	S4	85-158	YTC/A3/A-/A-
1.029	CARR 2005-FRE1 M5	144531EK2	3.2	+500	25	88-151	YTC/A2/A/
10.378	LBMLT 2006-7 M6	54251TAL3	3.4	+2500	100	50-032	YTC/A3/A+/BBB
3.902	JPMAC 2006-NC2 M6	46629FAK6	3.4	+1200	100	71-067	YTC/A3/A-/A-
7.000	JPMAC 2006-CW2 MV6	46629BAY5	3.4	+1200	100	71-052	YTC/A3/A-/A-
2.400	MABS 2006-NC2 M6	55275BAL1	3.4	+1600	100	63-125	YTC/A2/A-/A-
3.330	LBMLT 2006-8 M6	54251UAL0	3.5	+2500	100	49-071	YTC/A3/A+/
2.500	SASC 2006-BC5 M6	86359SAL8	3.8	+800	30	77-293	YTC/A2/A-/A
3.000	SASC 2006-WF3 M6	86361EAL5	3.9	+800	30	77-304	YTC/A2/A-/A-
2.000	SABR 2006-NC3 M5	81377CAH1	3.5	+1400	100	66-102	YTC/A2/A-/A-
4.000	SAST 2006-3 M6	80556AAK3	3.5	+1300	S4	68-107	YTC/A3/A/
2.320	CARR 2006-NC5 M6	144539AL7	3.6	+850	100	77-136	YTC/A2/A-/A-
4.000	MLMI 2006-MLN1 M6	59023AAL0	3.6	+1300	S3	68-005	YTC/A3/A/
6.000	LBMLT 2006-9 M6	54251WAL6	3.6	+2500	100	48-112	YTC/A3/A-/
2.423	MSAC 2006-HE3 M5	61749HAK6	3.7	+1100	S3	71-280	YTC/A2/A/BBB+
2.436	CMLTI 2006-NC2 M6	17309TAL2	3.4	+1400	100	67-112	YTC/A3/A-/
6.802	MABS 2006-WMC3 M6	55291KAL1	3.6	+1600	100	62-121	YTC/A3/A/
7.278	JPMAC 2006-RM1 M6	46629NAM5	3.7	+1500	100	63-215	YTC/A3/A-/BBB
9.833	NHEL 2007-1 M6	669971AL7	3.8	+900	100	76-134	YTC/A3/A-/
5.007	GSAMP 2007-H1 M6	36245YAK0	3.9	+1600	S3	60-272	YTC/A3//A-
3.000	ACCR 2007-1 M6	00438QAK0	4.1	+1000	100	71-241	YTC/A3/A/

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1.000	ACE 2003-HE1 M4	004421DD2	0.2	+2200	45	96-114	YTC/Baa1/BBB+/BBB+
1.000	SURF 2003-BC4 B2	84751PBP3	0.4	+1500	50	94-265	YTC/Baa2/BBB/
1.000	ACE 2003-HE1 M5	004421DE0	0.2	+2000	45	96-246	YTC/Baa2/BBB/BBB
1.500	SACO 2006-6 B1	785779AH2	2.6			20-000	YTC/C/CCC/
3.000	SACO 2006-6 B2	785779AJ8	2.6			10-000	YTC/C/CCC/
7.550	CWL 2005-13 MV8	126670HR2	2.2	+800	40	88-301	YTC/Baa2/BBB+/
1.250	WFHET 2006-1 M7	9497EUAP2	2.8	+2000	100	62-301	YTC/Baa1/A/
3.650	MLMI 2006-HE2 B1	59020VAL7	2.9	+1500	S3	70-266	YTC/Baa1/A-/
3.600	SVHE 2006-OPT4 M7	83611YAM4	2.9	+2250	S3	59-096	YTC/Baa2/BBB+/
3.243	GSAMP 2006-HE4 M7	362439AM3	3.1	+1400	100	70-136	YTC/Baa1/A/
3.825	HEAT 2006-6 M7	437097AN8	3.2	+2500	100	53-024	YTC/Baa1/A/BBB+
11.250	FFML 2006-FF13 M7	30247DAM3	3.4	+1550	100	65-007	YTC/Baa1/A/
3.275	SURF 2006-BC3 B1	84751WAM6	3.3	+1200	S3	72-293	YTC/Baa1/A-/
4.125	HEAT 2006-7 M7	43709NAN3	3.4	+2200	100	54-297	YTC/Baa1/A-/BBB
12.000	CWL 2006-8 M7	045427AL5	3.7	+1600	S3	63-198	YTC/Baa1/BBB+/
2.837	GSAMP 2006-HE8 M7	3622M8AM8	3.6	+1400	100	66-293	YTC/Baa1/BBB+/
3.000	LBMLT 2006-10 M7	54251YAM0	3.7	+3000	100	42-155	YTC/Baa1/BBB+/
2.000	WMABS 2006-HE3 M7	93934MAM9	3.4	+1200	100	71-296	YTC/Baa1/BBB+/
4.000	LBMLT 2006-9 M7	54251WAM4	3.6	+3000	100	43-063	YTC/Baa1/A-/
7.000	GSAMP 2007-NC1 M7	3622MGAM0	3.8	+1200	100	69-261	YTC/Baa1/BBB+/
5.000	WMHE 2007-HE1 M7	933631AM5	3.9	+2000	100	54-103	YTC/Baa1/BBB+/
5.862	SURF 2007-BC1 B1	84752BAP4	4.0	+1400	S3	64-198	YTC/Baa1/BBB+/
7.000	MSAC 2007-NC1 B1	617505AM4	4.7	+1400	S3	61-304	YTC/Baa1/BBB+/
2.000	MSAC 2005-WMC1 B3	61744CMC7	0.6	+2500	S3	88-108	YTC/Baa3/BBB-/BBB-
5.000	FHLT 2005-B M10	35729PKE9	1.2	+3650	S4	69-292	YTC/Baa3/BBB-/
10.218	PPSI 2004-WCW1 M7	70069FAJ6	1.3	+2000	S4	82-191	YTC/Baa2//BBB
4.500	ECR 2005-4 M9	29256PBE3	1.9	+2000	40	73-151	YTC/Baa3/BBB-/
3.000	INABS 2005-B M9	456606HB1	2.1	+2050	100	71-267	YTC/Baa3/BBB/BBB-
3.150	RASC 2005-KS12 M9	753910AM0	2.7	+1700	S4	71-276	YTC/Baa3/BBB+/
2.400	SVHE 2006-OPT4 M8	83611YAN2	2.8	+3200	S3	50-042	YTC/Baa3/BBB/
7.156	GSAMP 2006-HE3 M9	36244KAP0	2.9	+3000	100	50-281	YTC/Baa3/BBB+/
1.500	FHLT 2006-A M8	35729RAP1	2.9	+2600	100	55-214	YTC/Ba3/BB/BB
5.000	NCHET 2006-1 M9	64352VRB9	3.0	+3300	100	48-137	YTC/B3/B/BB
8.410	GSAMP 2006-HE5 M9	362437AP0	3.3	+3000	100	47-293	YTC/Baa3/BBB/
3.131	FHLT 2006-D M9	35729VAP2	3.6	+2700	100	49-225	YTC/Baa3/BBB-/BB
4.000	SASC 2006-EQ1A M9	86360RAP8	3.7	+1300	30	72-127	YTC/Baa3/BBB-/
7.100	RAMP 2006-RZ3 M9	75156MAM7	3.9	+2000	100	59-037	YTC/Baa3//BBB-
1.421	MSAC 2006-HE7 B3	61750MAQ8	4.1	+2500	S3	48-252	YTC/Ba2/BBB-/
FIXED Alt-A			AVL	Sprd	Ppy	App Prc	Fctr/Notes
FLOATING Alt-A			AVL	DM	Ppy	App Prc	Fctr/Notes
4.000	GSAA 2006-10 AV1	362375AA5	0.6	+75	20	99-196	0.44/YTC/Aaa/AAA/
7.300	GSAA 2006-3 A1	362334BQ6	1.0	+75	20	99-111	0.52/YTC/Aaa/AAA/
4.300	GSAA 2006-12 A1	362381AA3	1.2	+75	20	99-066	0.65/YTC/Aaa/AAA/
20.000	GSAA 2006-19 A1	362244AA3	1.2	+75	20	99-074	0.69/YTC/Aaa/AAA/
25.000	GSAA 2004-6 A2	36228F7E0	1.2	+50	40	99-280	0.14/YTC/Aaa/AAA/
21.500	IMM 2005-4 1A2	45254NPC5	1.9	+75	20	99-091	0.33/YTC/Aaa/AAA/
3.000	GSAA 2006-20 1A1	362351AA6	1.3	+75	20	99-046	0.76/YTC/Aaa/AAA/
20.000	GSAA 2005-15 2A2	362341D71	3.2	+95	20	97-298	1.00/YTC/Aaa/AAA/
15.000	IMM 2004-11 2M2	45254NME4	0.9	+300	20	97-256	0.24/YTC/Aa2/AA/
10.255	BSABS 2007-AC1 M1	07389XAE3	6.0	+400	20	83-188	1.00/YTC/Aa2/AA/
5.000	BSABS 2007-AC2 M1	073854AD3	6.2	+400	20	83-056	1.00/YTC/Aa2/AA/
1.000	GSAA 2005-5 B2	36242DS38	1.0	+3000	20	76-233	
1.00/YTC/Baa2/BBB/BBB							
0.700	GSAA 2005-9 B3	362341GT0	3.1	+2500	20	55-253	1.00/YTC/Baa3/BBB-/
0.730	GSAA 2005-6 M3	36242D3Z4	3.7	+2500	20	52-283	1.00/YTC/A2/A/
1.000	GSAA 2006-9 B1	362382AP8	4.8	+1900	20	51-284	1.00/YTC/Baa2/A/
4.551	GSAA 2005-11 M4	362341PE3	4.6	+800	20	76-095	1.00/YTC/A3/A-/
6.552	CWALT 2005-AR1 M5	12668A4X0	5.3	+1350	20	60-097	1.00/YTC/A2/*-/A+/

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William Street Funding	AVL	DM	Ppy	App Prc	Fctr/Notes
Small Business Administration	AVL	Sprd	Ppy	Handle	Fctr/Notes
SP CDOs	AVL	DM	Ppy	App Prc	Fctr/Notes
NIMs	AVL	Yield	Ppy	App Prc	Fctr/Notes

	Floating Cards	Fixed Cards	Autos	RRB	HomeEq Fxd	HomeEq Flt	Student Loan FFELP	Student Loan Private
1	-2/-3	-3/-4	-1/-2	-4/-5	30/25	10/8	0/-1	2/1
2	-1/-2	-2/-3	0/-1	-3/-4	42/37	16/13	1/0	3/2
3	0/-1	-1/-2	4/3	-2/-3	52/47	25/20	3/2	4/3
5	4/3	2/1		1/0	85/80	29/24	7/6	6/5
7	6/5	5/4		6/5	105/95	35/30	11/10	14/13
10	9/7	8/7		9/8	112/107		13/12	18/17

HomeEq Flt Mezz/Sub	
AA	70/55
A	145/125
BBB+	375/300
BBB	575/450
BBB-	800/625

ABX.HE.07-2 Closes

	Price	Spread	Change
AAA	96-00	141	-25bp
AA	85-00	588	-154bp
A	61-00	1470	-105bp
BBB	42-00	2213	-4bp
BBB-	39-00	2318	-33bp

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From: Joe Marconi <joe.marconi@greywolfcapital.com>
Sent: Friday, September 7, 2007 7:23 AM
To: david.lehman@gs.com
Cc: Joe Marconi <joe.marconi@greywolfcapital.com>; Greg Mount <greg.mount@greywolfcapital.com>; Bieber, Matthew G. <Matthew.Bieber@gs.com>; Swenson, Michael <Michael.Swenson@gs.com>
Subject: FW: Timberwolf -- Default Swap Collateral
Attach: Inventory.xls

David: As we discussed yesterday, I believe that your refusal to approve the purchase of any additional Default Swap Collateral into Timberwolf is unreasonable and inconsistent with the way the transaction structure was originally presented to us. We were told that the purpose of the approval rights was to permit GS to review specific assets and approve or disapprove specific assets based on their relative credit merits. If we thought for a second that you had the right to prohibit all new purchases indefinitely, we would have implemented the much simpler GIC structure that is used in most other synthetic CDOs and CDO^2 transactions and thereby locked in a fixed spread to LIBOR for the term of our transaction. Also, the Timberwolf CDS economics include an ongoing fee to GS for the put swap component of the trade; we would not have agreed to those terms if we thought you had this option. Finally, I believe that if anyone on the deal team thought you had this option, it would have been clearly disclosed in the OM. Especially given current market conditions, I am surprised that you are taking a position that will directly result in less cash flow being available to debt and equity investors. As I said yesterday, we recognize the impact of current market conditions and, even before I spoke with Matt, I was suggesting we collectively focus on shorter average life AAA RMBS for the deal and I specifically solicited feedback on securities where GS would be comfortable. I continue to be surprised by your response. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914[redacted]
E) joe.marconi@greywolfcapital.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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From: Joe Marconi
Sent: Thursday, September 06, 2007 9:19 AM
To: 'david.lehman@gs.com'
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: I would like to have a call with you to discuss the purchase of Default Swap Collateral into Timberwolf. I understand you are traveling this week. Let me know when you will have some time to talk. In response to the attached message, Matt told me that GS will not approve the purchase of any additional Default Swap Collateral into Timberwolf. While GS does have consent rights regarding the purchase of Default Swap Collateral, a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf. Give me a call when you can. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914[redacted]

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Requested by Greywolf Capital Manager
Pursuant to 17 C.F.R § 200.83

E) joe.marconi@greywolfcapital.com

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From: Joe Marconi
Sent: Thursday, September 06, 2007 8:18 AM
To: 'Shimonov, Roman'
Cc: Joe Marconi; Bieber, Matthew G.; 'Martin, Nicole'
Subject: Timberwolf -- Default Swap Collateral

Roman:

We are doing our credit work on these 3 bonds which are shown on the GS inventory sheet. If we get comfortable with these positions, would GS be ok adding them to Timberwolf as Default Swap Collateral? We should be done with our credit work today.

Thanks. Joe.

FLOATING	Home Equity		AVL	DM	Ppy	App Prc	Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC

From: Bruns, William [mailto:William.Bruns@gs.com]
Sent: Thursday, September 06, 2007 7:48 AM
To: undisclosed-recipients
Subject: Goldman Sachs ABS Inventory (External)

ABS Cash Trading: Mike Swenson Deeb Salem Edwin Chin Jordan Kaufman Will Bruns +1 (212)902-5090

In autos:
- **CARMX** announced a $500mm deal.

In cards:
- **CCCIT** announced a $750mm deal.

<<Inventory.xls>>

Amt ($mm)	Issue	CUSIP	AVL	Sprd	Ppy	Approx Price	Fctr/Notes
FIXED Credit Cards/Dealer Floorplan/Student Loans							
3.750	MBNAS 2003-A11 A11	55264TCH2	1.1	E+24		98-	1.00/YTC/Aaa/AAA/AAA
3.750	BOIT 2003-A9 A9	06423RBE5	1.1	E+24		SOLD	1.00/YTC/Aaa/AAA/AAA
10.000	MBNAM 1999-J B	55262TEV1	2.0	N+50		104-	1.00/YTC/A2/A+/A+

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FLOATING Credit Cards/Dealer Floorplan/Autos/UK & Aussie RMBS/Equipment/Stranded Cost							
3.300	CNHMT 2005-1 A	12615SAE0	0.8	+20		99-297	
1.00/YTC/Aaa/AAA/AAA							
1.500	CCCIT 2007-A2 A2	17305EDS1	2.7	+28		99-072	
1.00/YTC/Aaa/AAA/AAA							
12.500	COMET 2004-C2 C2	14041NBH3	6.4	+125		98-305	
1.00/YTC/Baa2/BBB/BBB							
3.000	GEBL 2006-2A D	36159EAG7	#N/A	N+300		90-101	
0.98/YTC/Baa2/BBB+/BBB							
FIXED Auto & Equipment Loans			AVL	Sprd	Ppy	Handle	Fctr/Notes
41.780	GSALT 2004-1 A4	36292RAM3	0.0	E+35	1.25	SOLD	0.47/YTC
8.555	NAVOT 2003-B A4	63936XAD6	0.3	E+50	0.75	99-	0.71/YTC
3.000	AESOP 2003-3A A3	00103RAX4	0.7	E+25	0.00	98-	1.00/YTC
7.000	GSALT 2005-1 A4	36292RAV3	1.3	E+40	1.35	98-	1.00/YTC
2.150	HDMOT 2005-2 A2	41283ABV0	1.2	E+30	1.45	98-	1.00/YTC
3.750	TAROT 2006-C A3	89578PAC3	1.4	E+55	1.45	99-	1.00/YTC
17.210	HERTZ 2004-1A A3	42805RAC3	0.5	E+25	0.00	98-	1.00/YTC
FIXED Stranded Cost			AVL	Sprd	Ppy	Handle	Fctr/Notes
15.000	CNP 2001-1 A3	75953MAC4	1.3	E+20	0	99-	1.00/YTC
5.000	CPL 2002-1 A3	12617AAC1	1.7	E+20	0	100-	1.00/YTC
4.000	CONFD 2001-1 A4	210523AD8	1.3	E+20	S1	99-	0.90/YTC
5.060	CONFD 2001-1 A5	210523AE6	4.2	N+28	S1	101-	1.00/YTC
Student Loans			AVL	DM	Ppy	App Prc	Fctr/Notes
4.650	SLMA 2006-9 A2	78443KAB2	1.5	+20	100	99-214	1.00/YTC
50.025	SLMA 2006-6 A1	83149FAA2	1.5	+20	150	99-205	0.68/YTC
13.675	SLMA 2007-3 A1	78443YAA4	0.8	+20	20	99-253	0.81/YTC
FIXED Home Equity			AVL	Sprd	Ppy	Handle	Fctr/Notes
12.000	CWL 2002-S4 A5	126671UD6	0.2	E+50	25	99-	0.87/YTC
5.000	POPLR 2005-1 AF3	73316PBK5	1.0	E+45	15	98-	0.57/YTC
24.456	CBASS 2004-CB1 AF1	04542BFH0	1.4	E+55	30	97-	0.03/YTC
7.585	ACCR 2003-2 A1	004375AN1	2.8	N+100	100	95-	0.31/YTC
5.273	SAIL 2005-8 M7	86358EXW1	3.8			55-	1.00/YTC/Ba3/BBB/
10.000	SAIL 2005-8 M8	86358EXX9	3.8			45-	1.00/YTC/B3/B/
4.220	CWL 2005-11 MF8	126670CU0	4.0	N+500	S3	87-	1.00/YTC/Baa2/BBB/
4.364	GSAMP 2004-AR2 B4	36242DDY6	0.8	E+1500	45	89-	0.36/YTC/Ba1//BB+
FLOATING Home Equity			AVL	DM	Ppy	App Prc	Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC
20.000	MSAC 2004-HE8 A4	61744CGW0	0.1	+45	35	99-317	0.04/YTC
5.000	CMLTI 2007-WFH2 A3	17312BAC6	2.3	+150	100	97-053	1.00/YTC
2.000	OWNIT 2006-5 A2C	69121EAE8	2.8	+140	S3	96-262	1.00/YTC
12.000	GSAMP 2005-WMC3 A1B	362341L23	3.0	+65	20	99-064	0.54/YTC
10.000	JPMAC 2006-NC1 A5	46626LJQ4	4.7	+175	100	94-025	1.00/YTC

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11.000	GSAMP 2005-WMC2 A2C	362341UZ0	5.0	+95	100	97-141	1.00/YTC
9.437	TMTS 2006-3 2A3	881561W26	3.9	+375	S3	88-186	1.00/YTC
10.000	AMSI 2005-R3 M2	03072SZY4	1.9	+450	30	93-067	YTC/Aa2/AA/AA
2.000	RASC 2005-AHL3 M2	76110W6P6	2.9	+750	30	83-164	YTC/Aa2/AA/
7.000	SURF 2006-BC2 M2	84751PLR8	3.2	+550	S3	86-098	YTC/Aa2/AA/
7.115	BAYV 2004-C M1	073247BL1	0.1	+200	21	97-097	YTM/Aa2/AA/AA
3.050	HEAT 2006-6 M3	437097AJ7	3.3	+1000	100	75-093	YTC/Aa3/AA/AA+
15.836	OWNIT 2006-6 M1	69121TAF2	4.1	+450	S3	86-044	YTC/Aa1/AA+/
12.376	GSAMP 2007-FM1 M3	3622MAAH4	5.6	+600	100	76-143	YTC/Aa3/AA-/
15.992	HASC 2006-WMC1 M3	40430MAJ6	5.7	+900	30	66-075	YTC/Aa3/AA/BBB-
16.000	ABFC 2003-OPT1 M2	04542BDJ8	0.4	+800	S4	97-248	YTC/A2/AA/A+
3.000	ACE 2005-RM1 M6	004421LR2	0.7	+900	30	92-208	YTM/A3/A/A-
7.810	GSAMP 2004-NC2 M3	36242DHC0	1.3	+550	100	95-102	YTC//A-/A-
2.341	BSABS 2005-1 M3	073877AX0	1.2	+1500	35	85-244	YTC//A-/A-
10.554	HEAT 2005-1 M5	437084HU3	1.5	+1600	100	80-223	YTC/A2/A+/
2.500	AMSI 2005-R6 M2	03072SG33	2.0	+700	40	88-300	YTC/NR/AA/AA
2.500	AMSI 2005-R6 M3	03072SG41	1.8	+700	40	89-266	YTC/NR/AA-/AA-
2.000	CWL 2005-6 M5	126673W65	2.2	+355	30	94-134	YTC/A2/A/
1.000	CBASS 2005-CB7 M6	12489WPR9	2.6	+600	S3	88-125	YTC/A3/AA/A+
8.218	FFML 2006-FF11 M6	32028PAM7	3.3	+1300	100	69-291	YTC/A3/A/BBB+
8.733	ABFC 2006-OPT1 M6	00075QAK8	3.1	+600	S4	85-158	YTC/A3/A-/A-
1.029	CARR 2005-FRE1 M5	144531EK2	3.2	+500	25	88-151	YTC/A2/A/
10.378	LBMLT 2006-7 M6	54251TAL3	3.4	+2500	100	50-032	YTC/A3/A+/BBB
3.902	JPMAC 2006-NC2 M6	46629FAK6	3.4	+1200	100	71-067	YTC/A3/A-/A-
7.000	JPMAC 2006-CW2 MV6	46629BAY5	3.4	+1200	100	71-052	YTC/A3/A-/A-
2.400	MABS 2006-NC2 M6	55275BAL1	3.4	+1600	100	63-125	YTC/A2/A-/A-
3.330	LBMLT 2006-8 M6	54251UAL0	3.5	+2500	100	49-071	YTC/A3/A+/
2.500	SASC 2006-BC5 M6	86359SAL8	3.8	+800	30	77-293	YTC/A2/A-/A
3.000	SASC 2006-WF3 M6	86361EAL5	3.9	+800	30	77-304	YTC/A2/A-/A-
2.000	SABR 2006-NC3 M5	81377CAH1	3.5	+1400	100	66-102	YTC/A2/A-/A-
4.000	SAST 2006-3 M6	80556AAK3	3.5	+1300	S4	68-107	YTC/A3/A/
2.320	CARR 2006-NC5 M6	144539AL7	3.6	+850	100	77-136	YTC/A2/A-/A-
4.000	MLMI 2006-MLN1 M6	59023AAL0	3.6	+1300	S3	68-005	YTC/A3/A/
6.000	LBMLT 2006-9 M6	54251WAL6	3.6	+2500	100	48-112	YTC/A3/A-/
2.423	MSAC 2006-HE3 M5	61749HAK6	3.7	+1100	S3	71-280	YTC/A2/A/BBB+
2.436	CMLTI 2006-NC2 M6	17309TAL2	3.4	+1400	100	67-112	YTC/A3/A-/
6.802	MABS 2006-WMC3 M6	55291KAL1	3.6	+1600	100	62-121	YTC/A3/A/
7.278	JPMAC 2006-RM1 M6	46629NAM5	3.7	+1500	100	63-215	YTC/A3/A-/BBB
9.833	NHEL 2007-1 M6	669971AL7	3.8	+900	100	76-134	YTC/A3/A-/
5.007	GSAMP 2007-H1 M6	36245YAK0	3.9	+1600	S3	60-272	YTC/A3//A-
3.000	ACCR 2007-1 M6	00438QAK0	4.1	+1000	100	71-241	YTC/A3/A/
1.000	ACE 2003-HE1 M4	004421DD2	0.2	+2200	45	96-114	YTC/Baa1/BBB+/BBB+
1.000	SURF 2003-BC4 B2	84751PBP3	0.4	+1500	50	94-265	YTC/Baa2/BBB/
1.000	ACE 2003-HE1 M5	004421DE0	0.2	+2000	45	96-246	YTC/Baa2/BBB/BBB
1.500	SACO 2006-6 B1	785779AH2	2.6			20-000	YTC/C/CCC/
3.000	SACO 2006-6 B2	785779AJ8	2.6			10-000	YTC/C/CCC/
7.550	CWL 2005-13 MV8	126670HR2	2.2	+800	40	88-301	YTC/Baa2/BBB+/
1.250	WFHET 2006-1 M7	9497EUAP2	2.8	+2000	100	62-301	YTC/Baa1/A/
3.650	MLMI 2006-HE2 B1	59020VAL7	2.9	+1500	S3	70-266	YTC/Baa1/A-/

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3.600	SVHE 2006-OPT4 M7	83611YAM4	2.9	+2250	S3	59-096	YTC/Baa2/BBB+/
3.243	GSAMP 2006-HE4 M7	362439AM3	3.1	+1400	100	70-136	YTC/Baa1/A/
3.825	HEAT 2006-6 M7	437097AN8	3.2	+2500	100	53-024	YTC/Baa1/A/BBB+
11.250	FFML 2006-FF13 M7	30247DAM3	3.4	+1550	100	65-007	YTC/Baa1/A/
3.275	SURF 2006-BC3 B1	84751WAM6	3.3	+1200	S3	72-293	YTC/Baa1/A-/
4.125	HEAT 2006-7 M7	43709NAN3	3.4	+2200	100	54-297	YTC/Baa1/A-/BBB
12.000	CWL 2006-8 M7	045427AL5	3.7	+1600	S3	63-198	YTC/Baa1/BBB+/
2.837	GSAMP 2006-HE8 M7	3622M8AM8	3.6	+1400	100	66-293	YTC/Baa1/BBB+/
3.000	LBMLT 2006-10 M7	54251YAM0	3.7	+3000	100	42-155	YTC/Baa1/BBB+/
2.000	WMABS 2006-HE3 M7	93934MAM9	3.4	+1200	100	71-296	YTC/Baa1/BBB+/
4.000	LBMLT 2006-9 M7	54251WAM4	3.6	+3000	100	43-063	YTC/Baa1/A-/
7.000	GSAMP 2007-NC1 M7	3622MGAM0	3.8	+1200	100	69-261	YTC/Baa1/BBB+/
5.000	WMHE 2007-HE1 M7	933631AM5	3.9	+2000	100	54-103	YTC/Baa1/BBB+/
5.862	SURF 2007-BC1 B1	84752BAP4	4.0	+1400	S3	64-198	YTC/Baa1/BBB+/
7.000	MSAC 2007-NC1 B1	617505AM4	4.7	+1400	S3	61-304	YTC/Baa1/BBB+/
2.000	MSAC 2005-WMC1 B3	61744CMC7	0.6	+2500	S3	88-108	YTC/Baa3/BBB-/BBB-
5.000	FHLT 2005-B M10	35729PKE9	1.2	+3650	S4	69-292	YTC/Baa3/BBB-/
10.218	PPSI 2004-WCW1 M7	70069FAJ6	1.3	+2000	S4	82-191	YTC/Baa2//BBB
4.500	ECR 2005-4 M9	29256PBE3	1.9	+2000	40	73-151	YTC/Baa3/BBB-/
3.000	INABS 2005-B M9	456606HB1	2.1	+2050	100	71-267	YTC/Baa3/BBB/BBB-
3.150	RASC 2005-KS12 M9	753910AM0	2.7	+1700	S4	71-276	YTC/Baa3/BBB+/
2.400	SVHE 2006-OPT4 M8	83611YAN2	2.8	+3200	S3	50-042	YTC/Baa3/BBB/
7.156	GSAMP 2006-HE3 M9	36244KAP0	2.9	+3000	100	50-281	YTC/Baa3/BBB+/
1.500	FHLT 2006-A M8	35729RAP1	2.9	+2600	100	55-214	YTC/Ba3/BB/BB
5.000	NCHET 2006-1 M9	64352VRB9	3.0	+3300	100	48-137	YTC/B3/B/BB
8.410	GSAMP 2006-HE5 M9	362437AP0	3.3	+3000	100	47-293	YTC/Baa3/BBB/
3.131	FHLT 2006-D M9	35729VAP2	3.6	+2700	100	49-225	YTC/Baa3/BBB-/BB
4.000	SASC 2006-EQ1A M9	86360RAP8	3.7	+1300	30	72-127	YTC/Baa3/BBB-/
7.100	RAMP 2006-RZ3 M9	75156MAM7	3.9	+2000	100	59-037	YTC/Baa3//BBB-
1.421	MSAC 2006-HE7 B3	61750MAQ8	4.1	+2500	S3	48-252	YTC/Ba2/BBB-/

FIXED Alt-A			AVL	Sprd	Ppy	App Prc	Fctr/Notes
FLOATING	Alt-A		AVL	DM	Ppy	App Prc	Fctr/Notes
4.000	GSAA 2006-10 AV1	362375AA5	0.6	+75	20	99-196	0.44/YTC/Aaa/AAA/
7.300	GSAA 2006-3 A1	362334BQ6	1.0	+75	20	99-111	0.52/YTC/Aaa/AAA/
4.300	GSAA 2006-12 A1	362381AA3	1.2	+75	20	99-066	0.65/YTC/Aaa/AAA/
20.000	GSAA 2006-19 A1	362244AA3	1.2	+75	20	99-074	0.69/YTC/Aaa/AAA/
25.000	GSAA 2004-6 A2	36228F7E0	1.2	+50	40	99-280	0.14/YTC/Aaa/AAA/
21.500	IMM 2005-4 1A2	45254NPC5	1.9	+75	20	99-091	0.33/YTC/Aaa/AAA/
3.000	GSAA 2006-20 1A1	362351AA6	1.3	+75	20	99-046	0.76/YTC/Aaa/AAA/
20.000	GSAA 2005-15 2A2	362341D71	3.2	+95	20	97-298	1.00/YTC/Aaa/AAA/
15.000	IMM 2004-11 2M2	45254NME4	0.9	+300	20	97-256	0.24/YTC/Aa2/AA/
10.255	BSABS 2007-AC1 M1	07389XAE3	6.0	+400	20	83-188	1.00/YTC/Aa2/AA/
5.000	BSABS 2007-AC2 M1	073854AD3	6.2	+400	20	83-056	1.00/YTC/Aa2/AA/
1.000	GSAA 2005-5 B2	36242DS38	1.0	+3000	20	76-233	
1.00/YTC/Baa2/BBB/BBB							
0.700	GSAA 2005-9 B3	362341GT0	3.1	+2500	20	55-253	1.00/YTC/Baa3/BBB-/
0.730	GSAA 2005-6 M3	36242D3Z4	3.7	+2500	20	52-283	1.00/YTC/A2/A/

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1.000	GSAA 2006-9 B1	362382AP8	4.8	+1900	20	51-284	1.00/YTC/Baa2/A/
4.551	GSAA 2005-11 M4	362341PE3	4.6	+800	20	76-095	1.00/YTC/A3/A-/
6.552	CWALT 2005-AR1 M5	12668A4X0	5.3	+1350	20	60-097	1.00/YTC/A2/*-/A+/

William Street Funding	AVL	DM	Ppy	App Prc	Fctr/Notes
Small Business Administration	AVL	Sprd	Ppy	Handle	Fctr/Notes
SP CDOs	AVL	DM	Ppy	App Prc	Fctr/Notes
NIMs	AVL	Yield	Ppy	App Prc	Fctr/Notes

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	Floating Cards	Fixed Cards	Autos	RRB	HomeEq Fxd	HomeEq Flt	Student Loan FFELP	Student Loan Private
1	-2/-3	-3/-4	-1/-2	-4/-5	30/25	10/8	0/-1	2/1
2	-1/-2	-2/-3	0/-1	-3/-4	42/37	16/13	1/0	3/2
3	0/-1	-1/-2	4/3	-2/-3	52/47	25/20	3/2	4/3
5	4/3	2/1		1/0	85/80	29/24	7/6	6/5
7	6/5	5/4		6/5	105/95	35/30	11/10	14/13
10	9/7	8/7		9/8	112/107		13/12	18/17

HomeEq Flt Mezz/Sub	
AA	70/55
A	145/125
BBB+	375/300
BBB	575/450
BBB-	800/625

ABX.HE.07-2 Closes

	Price	Spread	Change
AAA	96-00	141	-25bp
AA	85-00	588	-154bp
A	61-00	1470	-105bp
BBB	42-00	2213	-4bp
BBB-	39-00	2318	-33bp

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[redacted]

From: Blalack, K. Lee [redacted]
Sent: Friday, January 07, 2011 3:20 PM
To: Roach, Bob (HSGAC)
Cc: [redacted]

Subject: RE: Follow up

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Bob,

[redacted]

With respect to your second question below, as noted in my letter of December 21, 2010, Section 12.5 of the Indenture for the Timberwolf CDO confers on the Secured Party the right to consent to the selection and reinvestment of default swap collateral. It is the position of Goldman Sachs that neither Section 12.5 of the Indenture nor any other relevant deal documents impose any obligation on the Secured Party to consent to reinvestment of default swap collateral, either on a case-by-case basis or generally. Of course, as you know, with respect to Timberwolf, reinvestment of default swap collateral did occur.

Thanks. Lee

From: Roach, Bob (HSGAC) [redacted]
Sent: Thursday, December 23, 2010 4:09 PM
To: Blalack, K. Lee
[redacted]
Subject: RE: Follow up

Hi Lee – [redacted] There are two items I wanted to follow up on with you:

1. [redacted]

2. I have read Goldman's answer regarding its current views with respect to its right to object to reinvestment of collateral in the Timberwolf CDO. I realize that Section 12.5 of the Indenture provides consent rights to the Secured Party (GSI) and no default swap collateral may be purchased by the issuer if it is objected to by the Secured Party. What I would like Goldman's view on is whether that right can extend to and permit objecting to the purchase of <u>any</u> proposed default swap collateral (either on a case by case basis or via a blanket refusal to consent to the purchase of any default swap collateral0, so that the issuer is unable to purchase any new or additional purchases of default swap collateral. In other words, would the rights given to Goldman as the Secured Party under Section 12.5 enable Goldman to prevent the issuer from purchasing any new or additional default swap collateral, so that as existing default swap collateral yields interest or dividends or pays down, all the income remains in cash and is not used to purchase new or additional default swap collateral?

Thanks.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2653

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Pages 2-8 of email chain redacted by the Permanent Subcommittee on Investigations.

From: Horvath, Jordan
Sent: Friday, September 07, 2007 8:42 AM
To: Saunders, Tim; Bieber, Matthew G.; Helfrick, Susan
Cc: Lehman, David A.
Subject: RE: Timberwolf -- Default Swap Collateral

I can do 1:15 -- I will send around an invite to mark it off on our calendars.

-----Original Message-----
From: Saunders, Tim
Sent: Friday, September 07, 2007 8:14 AM
To: Bieber, Matthew G.; Helfrick, Susan; Horvath, Jordan
Cc: Lehman, David A.
Subject: Re: Timberwolf -- Default Swap Collateral

Perfect. You want to say 1pm? Susan and Jordan does that work for u all?

----- Original Message -----
From: Bieber, Matthew G.
To: Saunders, Tim; Helfrick, Susan; Horvath, Jordan
Cc: Lehman, David A.
Sent: Fri Sep 07 08:11:46 2007
Subject: RE: Timberwolf -- Default Swap Collateral

I am as well...this afternoon works for me, though.

-----Original Message-----
From: Saunders, Tim
Sent: Friday, September 07, 2007 8:11 AM
To: Bieber, Matthew G.; Helfrick, Susan; Horvath, Jordan
Cc: Lehman, David A.
Subject: Re: Timberwolf -- Default Swap Collateral

Let's discuss live. I'm pretty tied up this morning but will try to break away.

----- Original Message -----
From: Bieber, Matthew G.
To: Saunders, Tim; Helfrick, Susan; Horvath, Jordan
Cc: Lehman, David A.
Sent: Fri Sep 07 07:46:29 2007
Subject: FW: Timberwolf -- Default Swap Collateral

Pls see email we received below - wanted to get your take on what response (if any) we should craft. This is related to the default swap collateral account in Timberwolf used to collateralize the exposure we have to the CDO on the CDS contracts that are the assets in TWOLF.

From: Joe Marconi [mailto:joe.marconi@greywolfcapital.com]
Sent: Friday, September 07, 2007 7:23 AM
To: Lehman, David A.
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2654

David: As we discussed yesterday, I believe that your refusal to approve the purchase of any additional Default Swap Collateral into Timberwolf is unreasonable and inconsistent with the way the transaction structure was originally presented to us. We were told that the purpose of the approval rights was to permit GS to review specific assets and approve or disapprove specific assets based on their relative credit merits. If we thought for a second that you had the right to prohibit all new purchases indefinitely, we would have implemented the much simpler GIC structure that is used in most other synthetic CDOs and CDO^2 transactions and thereby locked in a fixed spread to LIBOR for the term of our transaction. Also, the Timberwolf CDS economics include an ongoing fee to GS for the put swap component of the trade; we would not have agreed to those terms if we thought you had this option. Finally, I believe that if anyone on the deal team thought you had this option, it would have been clearly disclosed in the OM. Especially given current market conditions, I am surprised that you are taking a position that will directly result in less cash flow being available to debt and equity investors. As I said yesterday, we recognize the impact of current market conditions and, even before I spoke with Matt, I was suggesting we collectively focus on shorter average life AAA RMBS for the deal and I specifically solicited feedback on securities where GS would be comfortable. I continue to be surprised by your response. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201

Purchase, NY 10577

P) 914.251.8249
F) 914.251.8244
M) 914[redacted]
E) joe.marconi@greywolfcapital.com <mailto:s@greywolfcapital.com>

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Joe Marconi
Sent: Thursday, September 06, 2007 9:19 AM
To: 'david.lehman@gs.com'
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: I would like to have a call with you to discuss the purchase of Default Swap Collateral into Timberwolf. I understand you are traveling this week. Let me know when you will have some time to talk. In response to the attached message, Matt told me that GS will not approve the purchase of any additional Default Swap Collateral into Timberwolf. While GS does have consent rights regarding the purchase of Default Swap Collateral, a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf. Give me a call when you can. Joe.

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Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201

Purchase, NY 10577

P) 914.251.8249
F) 914.251.8244
M) 914.[redacted]
E) joe.marconi@greywolfcapital.com <mailto:s@greywolfcapital.com>

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From: Joe Marconi
Sent: Thursday, September 06, 2007 8:18 AM
To: 'Shimonov, Roman'
Cc: Joe Marconi; Bieber, Matthew G.; 'Martin, Nicole'
Subject: Timberwolf -- Default Swap Collateral

Roman:

We are doing our credit work on these 3 bonds which are shown on the GS inventory sheet. If we get comfortable with these positions, would GS be ok adding them to Timberwolf as Default Swap Collateral? We should be done with our credit work today.

Thanks. Joe.

			AVL	DM	Ppy	App Prc	Fctr/Notes
FLOATING	Home Equity						
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC

From: Bruns, William [mailto:William.Bruns@gs.com]
Sent: Thursday, September 06, 2007 7:48 AM
To: undisclosed-recipients
Subject: Goldman Sachs ABS Inventory (External)

ABS Cash Trading: Mike Swenson Deeb Salem Edwin Chin Jordan Kaufman Will Bruns +1 (212)902-5090

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In autos:
- CARMX announced a $500mm deal.

In cards:
- CCCIT announced a $750mm deal.

<<Inventory.xls>>

Amt ($mm)	Issue	CUSIP	AVL	Sprd	Ppy	Approx Price	Fctr/Notes
FIXED Credit Cards/Dealer Floorplan/Student Loans							
3.750	MBNAS 2003-A11 A11	55264TCH2	1.1	E+24		98-	1.00/YTC/Aaa/AAA/AAA
3.750	BOIT 2003-A9 A9	06423RBE5	1.1	E+24		SOLD	1.00/YTC/Aaa/AAA/AAA
10.000	MBNAM 1999-J B	55262TEV1	2.0	N+50		104-	1.00/YTC/A2/A+/A+
FLOATING Credit Cards/Dealer Floorplan/Autos/UK & Aussie RMBS/Equipment/Stranded Cost							
3.300	CNHMT 2005-1 A	12615SAE0	0.8	+20		99-297	1.00/YTC/Aaa/AAA/AAA
1.500	CCCIT 2007-A2 A2	17305EDS1	2.7	+28		99-072	1.00/YTC/Aaa/AAA/AAA
12.500	COMET 2004-C2 C2	14041NBH3	6.4	+125		98-305	
1.00/YTC/Baa2/BBB/BBB							
3.000	GEBL 2006-2A D	36159EAG7	#N/A	N+300		90-101	
0.98/YTC/Baa2/BBB+/BBB							

			AVL	Sprd	Ppy	Handle	Fctr/Notes
FIXED Auto & Equipment Loans							
41.780	GSALT 2004-1 A4	36292RAM3	0.0	E+35	1.25	SOLD	0.47/YTC
8.555	NAVOT 2003-B A4	63936XAD6	0.3	E+50	0.75	99-	0.71/YTC
3.000	AESOP 2003-3A A3	00103RAX4	0.7	E+25	0.00	98-	1.00/YTC
7.000	GSALT 2005-1 A4	36292RAV3	1.3	E+40	1.35	98-	1.00/YTC
2.150	HDMOT 2005-2 A2	41283ABV0	1.2	E+30	1.45	98-	1.00/YTC
3.750	TAROT 2006-C A3	89578PAC3	1.4	E+55	1.45	99-	1.00/YTC
17.210	HERTZ 2004-1A A3	42805RAC3	0.5	E+25	0.00	98-	1.00/YTC
FIXED Stranded Cost			AVL	Sprd	Ppy	Handle	Fctr/Notes
15.000	CNP 2001-1 A3	75953MAC4	1.3	E+20	0	99-	1.00/YTC
5.000	CPL 2002-1 A3	12617AAC1	1.7	E+20	0	100-	1.00/YTC
4.000	CONFD 2001-1 A4	210523AD8	1.3	E+20	S1	99-	0.90/YTC
5.060	CONFD 2001-1 A5	210523AE6	4.2	N+28	S1	101-	1.00/YTC
Student Loans			AVL	DM	Ppy	App Prc	Fctr/Notes
4.650	SLMA 2006-9 A2	78443KAB2	1.5	+20	100	99-214	1.00/YTC
50.025	SLMA 2006-6 A1	83149FAA2	1.5	+20	150	99-205	0.68/YTC
13.675	SLMA 2007-3 A1	78443YAA4	0.8	+20	20	99-253	0.81/YTC
FIXED Home Equity			AVL	Sprd	Ppy	Handle	Fctr/Notes
12.000	CWL 2002-S4 A5	126671UD6	0.2	E+50	25	99-	0.87/YTC
5.000	POPLR 2005-1 AF3	73316PBK5	1.0	E+45	15	98-	0.57/YTC
24.456	CBASS 2004-CB1 AF1	04542BFH0	1.4	E+55	30	97-	0.03/YTC
7.585	ACCR 2003-2 A1	004375AN1	2.8	N+100	100	95-	0.31/YTC
5.273	SAIL 2005-8 M7	86358EXW1	3.8			55-	1.00/YTC/Ba3/BBB/
10.000	SAIL 2005-8 M8	86358EXX9	3.8			45-	1.00/YTC/B3/B/
4.220	CWL 2005-11 MF8	126670CU0	4.0	N+500	S3	87-	1.00/YTC/Baa2/BBB/
4.364	GSAMP 2004-AR2 B4	36242DDY6	0.8	E+1500	45	89-	0.36/YTC/Ba1//BB+
FLOATING Home Equity			AVL	DM	Ppy	App Prc	Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC
20.000	MSAC 2004-HE8 A4	61744CGW0	0.1	+45	35	99-317	0.04/YTC

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5.000	CMLTI 2007-WFH2 A3	17312BAC6	2.3	+150	100	97-053	1.00/YTC
2.000	OWNIT 2006-5 A2C	69121EAE8	2.8	+140	S3	96-262	1.00/YTC
12.000	GSAMP 2005-WMC3 A1B	362341L23	3.0	+65	20	99-064	0.54/YTC
10.000	JPMAC 2006-NC1 A5	46626LJQ4	4.7	+175	100	94-025	1.00/YTC
11.000	GSAMP 2005-WMC2 A2C	362341UZ0	5.0	+95	100	97-141	1.00/YTC
9.437	TMTS 2006-3 2A3	881561W26	3.9	+375	S3	88-186	1.00/YTC
10.000	AMSI 2005-R3 M2	03072SZY4	1.9	+450	30	93-067	YTC/Aa2/AA/AA
2.000	RASC 2005-AHL3 M2	76110W6P6	2.9	+750	30	83-164	YTC/Aa2/AA/
7.000	SURF 2006-BC2 M2	84751PLR8	3.2	+550	S3	86-098	YTC/Aa2/AA/
7.115	BAYV 2004-C M1	073247BL1	0.1	+200	21	97-097	YTM/Aa2/AA/AA
3.050	HEAT 2006-6 M3	437097AJ7	3.3	+1000	100	75-093	YTC/Aa3/AA/AA+
15.836	OWNIT 2006-6 M1	69121TAF2	4.1	+450	S3	86-044	YTC/Aa1/AA+/
12.376	GSAMP 2007-FM1 M3	3622MAAH4	5.6	+600	100	76-143	YTC/Aa3/AA-/
15.992	HASC 2006-WMC1 M3	40430MAJ6	5.7	+900	30	66-075	YTC/Aa3/AA/BBB-
16.000	ABFC 2003-OPT1 M2	04542BDJ8	0.4	+800	S4	97-248	YTC/A2/AA/A+
3.000	ACE 2005-RM1 M6	004421LR2	0.7	+900	30	92-208	YTM/A3/A/A-
7.810	GSAMP 2004-NC2 M3	36242DHC0	1.3	+550	100	95-102	YTC//A-/A-
2.341	BSABS 2005-1 M3	073877AX0	1.2	+1500	35	85-244	YTC//A-/A-
10.554	HEAT 2005-1 M5	437084HU3	1.5	+1600	100	80-223	YTC/A2/A+/
2.500	AMSI 2005-R6 M2	03072SG33	2.0	+700	40	88-300	YTC/NR/AA/AA
2.500	AMSI 2005-R6 M3	03072SG41	1.8	+700	40	89-266	YTC/NR/AA-/AA-
2.000	CWL 2005-6 M5	126673W65	2.2	+355	30	94-134	YTC/A2/A/
1.000	CBASS 2005-CB7 M6	12489WPR9	2.6	+600	S3	88-125	YTC/A3/AA/A+
8.218	FFML 2006-FF11 M6	32028PAM7	3.3	+1300	100	69-291	YTC/A3/A/BBB+
8.733	ABFC 2006-OPT1 M6	00075QAK8	3.1	+600	S4	85-158	YTC/A3/A-/A-
1.029	CARR 2005-FRE1 M5	144531EK2	3.2	+500	25	88-151	YTC/A2/A/
10.378	LBMLT 2006-7 M6	54251TAL3	3.4	+2500	100	50-032	YTC/A3/A+/BBB
3.902	JPMAC 2006-NC2 M6	46629FAK6	3.4	+1200	100	71-067	YTC/A3/A-/A-
7.000	JPMAC 2006-CW2 MV6	46629BAY5	3.4	+1200	100	71-052	YTC/A3/A-/A-
2.400	MABS 2006-NC2 M6	55275BAL1	3.4	+1600	100	63-125	YTC/A2/A-/A-
3.330	LBMLT 2006-8 M6	54251UAL0	3.5	+2500	100	49-071	YTC/A3/A+/
2.500	SASC 2006-BC5 M6	86359SAL8	3.8	+800	30	77-293	YTC/A2/A-/A
3.000	SASC 2006-WF3 M6	86361EAL5	3.9	+800	30	77-304	YTC/A2/A-/A-
2.000	SABR 2006-NC3 M5	81377CAH1	3.5	+1400	100	66-102	YTC/A2/A-/A-
4.000	SAST 2006-3 M6	80556AAK3	3.5	+1300	S4	68-107	YTC/A3/A/
2.320	CARR 2006-NC5 M6	144539AL7	3.6	+850	100	77-136	YTC/A2/A-/A-
4.000	MLMI 2006-MLN1 M6	59023AAL0	3.6	+1300	S3	68-005	YTC/A3/A/
6.000	LBMLT 2006-9 M6	54251WAL6	3.6	+2500	100	48-112	YTC/A3/A-/
2.423	MSAC 2006-HE3 M5	61749HAK6	3.7	+1100	S3	71-280	YTC/A2/A/BBB+
2.436	CMLTI 2006-NC2 M6	17309TAL2	3.4	+1400	100	67-112	YTC/A3/A-/
6.802	MABS 2006-WMC3 M6	55291KAL1	3.6	+1600	100	62-121	YTC/A3/A/
7.278	JPMAC 2006-RM1 M6	46629NAM5	3.7	+1500	100	63-215	YTC/A3/A-/BBB
9.833	NHEL 2007-1 M6	669971AL7	3.8	+900	100	76-134	YTC/A3/A-/
5.007	GSAMP 2007-H1 M6	36245YAK0	3.9	+1600	S3	60-272	YTC/A3//A-
3.000	ACCR 2007-1 M6	00438QAK0	4.1	+1000	100	71-241	YTC/A3/A/
1.000	ACE 2003-HE1 M4	004421DD2	0.2	+2200	45	96-114	YTC/Baa1/BBB+/BBB+
1.000	SURF 2003-BC4 B2	84751PBP3	0.4	+1500	50	94-265	YTC/Baa2/BBB/
1.000	ACE 2003-HE1 M5	004421DE0	0.2	+2000	45	96-246	YTC/Baa2/BBB/BBB
1.500	SACO 2006-6 B1	785779AH2	2.6			20-000	YTC/C/CCC/
3.000	SACO 2006-6 B2	785779AJ8	2.6			10-000	YTC/C/CCC/
7.550	CWL 2005-13 MV8	126670HR2	2.2	+800	40	88-301	YTC/Baa2/BBB+/
1.250	WFHET 2006-1 M7	9497EUAP2	2.8	+2000	100	62-301	YTC/Baa1/A/
3.650	MLMI 2006-HE2 B1	59020VAL7	2.9	+1500	S3	70-266	YTC/Baa1/A-/
3.600	SVHE 2006-OPT4 M7	83611YAM4	2.9	+2250	S3	59-096	YTC/Baa2/BBB+/
3.243	GSAMP 2006-HE4 M7	362439AM3	3.1	+1400	100	70-136	YTC/Baa1/A/
3.825	HEAT 2006-6 M7	437097AN8	3.2	+2500	100	53-024	YTC/Baa1/A/BBB+
11.250	FFML 2006-FF13 M7	30247DAM3	3.4	+1550	100	65-007	YTC/Baa1/A/
3.275	SURF 2006-BC3 B1	84751WAM6	3.3	+1200	S3	72-293	YTC/Baa1/A-/
4.125	HEAT 2006-7 M7	43709NAN3	3.4	+2200	100	54-297	YTC/Baa1/A-/BBB
12.000	CWL 2006-8 M7	045427AL5	3.7	+1600	S3	63-198	YTC/Baa1/BBB+/
2.837	GSAMP 2006-HE8 M7	3622M8AM8	3.6	+1400	100	66-293	YTC/Baa1/BBB+/
3.000	LBMLT 2006-10 M7	54251YAM0	3.7	+3000	100	42-155	YTC/Baa1/BBB+/

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2.000	WMABS 2006-HE3 M7	93934MAM9	3.4	+1200	100	71-296	YTC/Baa1/BBB+/
4.000	LBMLT 2006-9 M7	54251WAM4	3.6	+3000	100	43-063	YTC/Baa1/A-/
7.000	GSAMP 2007-NC1 M7	3622MGAM0	3.8	+1200	100	69-261	YTC/Baa1/BBB+/
5.000	WMHE 2007-HE1 M7	933631AM5	3.9	+2000	100	54-103	YTC/Baa1/BBB+/
5.862	SURF 2007-BC1 B1	84752BAP4	4.0	+1400	S3	64-198	YTC/Baa1/BBB+/
7.000	MSAC 2007-NC1 B1	617505AM4	4.7	+1400	S3	61-304	YTC/Baa1/BBB+/
2.000	MSAC 2005-WMC1 B3	61744CMC7	0.6	+2500	S3	88-108	YTC/Baa3/BBB-/BBB-
5.000	FHLT 2005-B M10	35729PKE9	1.2	+3650	S4	69-292	YTC/Baa3/BBB-/
10.218	PPSI 2004-WCW1 M7	70069FAJ6	1.3	+2000	S4	82-191	YTC/Baa2//BBB
4.500	ECR 2005-4 M9	29256PBE3	1.9	+2000	40	73-151	YTC/Baa3/BBB-/
3.000	INABS 2005-B M9	456606HB1	2.1	+2050	100	71-267	YTC/Baa3/BBB/BBB-
3.150	RASC 2005-KS12 M9	753910AM0	2.7	+1700	S4	71-276	YTC/Baa3/BBB+/
2.400	SVHE 2006-OPT4 M8	83611YAN2	2.8	+3200	S3	50-042	YTC/Baa3/BBB/
7.156	GSAMP 2006-HE3 M9	36244KAP0	2.9	+3000	100	50-281	YTC/Baa3/BBB+/
1.500	FHLT 2006-A M8	35729RAP1	2.9	+2600	100	55-214	YTC/Ba3/BB/BB
5.000	NCHET 2006-1 M9	64352VRB9	3.0	+3300	100	48-137	YTC/B3/B/BB
8.410	GSAMP 2006-HE5 M9	362437AP0	3.3	+3000	100	47-293	YTC/Baa3/BBB/
3.131	FHLT 2006-D M9	35729VAP2	3.6	+2700	100	49-225	YTC/Baa3/BBB-/BB
4.000	SASC 2006-EQ1A M9	86360RAP8	3.7	+1300	30	72-127	YTC/Baa3/BBB-/
7.100	RAMP 2006-RZ3 M9	75156MAM7	3.9	+2000	100	59-037	YTC/Baa3//BBB-
1.421	MSAC 2006-HE7 B3	61750MAQ8	4.1	+2500	S3	48-252	YTC/Ba2/BBB-/

FIXED Alt-A		AVL	Sprd	Ppy	App Prc	Fctr/Notes
FLOATING Alt-A		**AVL**	**DM**	**Ppy**	**App Prc**	**Fctr/Notes**
4.000	GSAA 2006-10 AV1	362375AA5	0.6	+75	20	99-196	0.44/YTC/Aaa/AAA/
7.300	GSAA 2006-3 A1	362334BQ6	1.0	+75	20	99-111	0.52/YTC/Aaa/AAA/
4.300	GSAA 2006-12 A1	362381AA3	1.2	+75	20	99-066	0.65/YTC/Aaa/AAA/
20.000	GSAA 2006-19 A1	362244AA3	1.2	+75	20	99-074	0.69/YTC/Aaa/AAA/
25.000	GSAA 2004-6 A2	36228F7E0	1.2	+50	40	99-280	0.14/YTC/Aaa/AAA/
21.500	IMM 2005-4 1A2	45254NPC5	1.9	+75	20	99-091	0.33/YTC/Aaa/AAA/
3.000	GSAA 2006-20 1A1	362351AA6	1.3	+75	20	99-046	0.76/YTC/Aaa/AAA/
20.000	GSAA 2005-15 2A2	362341D71	3.2	+95	20	97-298	1.00/YTC/Aaa/AAA/
15.000	IMM 2004-11 2M2	45254NME4	0.9	+300	20	97-256	0.24/YTC/Aa2/AA/
10.255	BSABS 2007-AC1 M1	07389XAE3	6.0	+400	20	83-188	1.00/YTC/Aa2/AA/
5.000	BSABS 2007-AC2 M1	073854AD3	6.2	+400	20	83-056	1.00/YTC/Aa2/AA/
1.000	GSAA 2005-5 B2	36242DS38	1.0	+3000	20	76-233	
1.00/YTC/Baa2/BBB/BBB							
0.700	GSAA 2005-9 B3	362341GT0	3.1	+2500	20	55-253	1.00/YTC/Baa3/BBB-/
0.730	GSAA 2005-6 M3	36242D3Z4	3.7	+2500	20	52-283	1.00/YTC/A2/A/
1.000	GSAA 2006-9 B1	362382AP8	4.8	+1900	20	51-284	1.00/YTC/Baa2/A/
4.551	GSAA 2005-11 M4	362341PE3	4.6	+800	20	76-095	1.00/YTC/A3/A-/
6.552	CWALT 2005-AR1 M5	12668A4X0	5.3	+1350	20	60-097	1.00/YTC/A2/*-/A+/

William Street Funding	AVL	DM	Ppy	App Prc	Fctr/Notes
Small Business Administration	AVL	Sprd	Ppy	Handle	Fctr/Notes
SP CDOs	AVL	DM	Ppy	App Prc	Fctr/Notes
NIMs	AVL	Yield	Ppy	App Prc	Fctr/Notes

	Floating Cards	Fixed Cards	Autos	RRB	HomeEq Fxd	HomeEq Flt	Student Loan FFELP	Student Loan Private
1	-2/-3	-3/-4	-1/-2	-4/-5	30/25	10/8	0/-1	2/1
2	-1/-2	-2/-3	0/-1	-3/-4	42/37	16/13	1/0	3/2
3	0/-1	-1/-2	4/3	-2/-3	52/47	25/20	3/2	4/3
5	4/3	2/1		1/0	85/80	29/24	7/6	6/5
7	6/5	5/4		6/5	105/95	35/30	11/10	14/13
10	9/7	8/7		9/8	112/107		13/12	18/17

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HomeEq Flt Mezz/Sub
AA 70/55
A 145/125
BBB+ 375/300
BBB 575/450
BBB- 800/625

ABX.HE.07-2 Closes

	Price	Spread	Change
AAA	96-00	141	-25bp
AA	85-00	588	-154bp
A	61-00	1470	-105bp
BBB	42-00	2213	-4bp
BBB-	39-00	2318	-33bp

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From: Bieber, Matthew G.
Sent: Friday, September 07, 2007 9:05 AM
To: Helfrick, Susan; Saunders, Tim; Horvath, Jordan
Cc: Lehman, David A.
Subject: RE: Timberwolf -- Default Swap Collateral
Attachments: Timberwolf - CDS Confirm (executed).pdf; Timberwolf - Indenture (executed).pdf; Final Offering Circular (disclaimed).pdf

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From: Helfrick, Susan
Sent: Friday, September 07, 2007 8:59 AM
To: Bieber, Matthew G.; Saunders, Tim; Horvath, Jordan
Cc: Lehman, David A.
Subject: RE: Timberwolf -- Default Swap Collateral

Matt:

Could you send me a copy of the OM and the operative doc that contains our rights/obligations with respect to the collateral?
Thanks.

Susan Helfrick
Vice President & Assistant General Counsel
Goldman, Sachs & Co.
One New York Plaza, 38th Floor
New York, New York 10004
Tel: (212) 902-9612
Fax: (917) 977-3540
susan.helfrick@gs.com

From: Bieber, Matthew G.
Sent: Friday, September 07, 2007 7:46 AM
To: Saunders, Tim; Helfrick, Susan; Horvath, Jordan
Cc: Lehman, David A.
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

Pls see email we received below - wanted to get your take on what response (if any) we should craft. This is related to the default swap collateral account in Timberwolf used to collateralize the exposure we have to the CDO on the CDS contracts that are the assets in TWOLF.

From: Joe Marconi [mailto:joe.marconi@greywolfcapital.com]
Sent: Friday, September 07, 2007 7:23 AM
To: Lehman, David A.
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2656

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Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: As we discussed yesterday, I believe that your refusal to approve the purchase of any additional Default Swap Collateral into Timberwolf is unreasonable and inconsistent with the way the transaction structure was originally presented to us. We were told that the purpose of the approval rights was to permit GS to review specific assets and approve or disapprove specific assets based on their relative credit merits. If we thought for a second that you had the right to prohibit all new purchases indefinitely, we would have implemented the much simpler GIC structure that is used in most other synthetic CDOs and CDO^2 transactions and thereby locked in a fixed spread to LIBOR for the term of our transaction. Also, the Timberwolf CDS economics include an ongoing fee to GS for the put swap component of the trade; we would not have agreed to those terms if we thought you had this option. Finally, I believe that if anyone on the deal team thought you had this option, it would have been clearly disclosed in the OM. Especially given current market conditions, I am surprised that you are taking a position that will directly result in less cash flow being available to debt and equity investors. As I said yesterday, we recognize the impact of current market conditions and, even before I spoke with Matt, I was suggesting we collectively focus on shorter average life AAA RMBS for the deal and I specifically solicited feedback on securities where GS would be comfortable. I continue to be surprised by your response. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914[redacted]
E) joe.marconi@greywolfcapital.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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From: Joe Marconi
Sent: Thursday, September 06, 2007 9:19 AM
To: 'david.lehman@gs.com'
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: I would like to have a call with you to discuss the purchase of Default Swap Collateral into Timberwolf. I understand you are traveling this week. Let me know when you will have some time to talk. In response to the attached message, Matt told me that GS will not approve the purchase of any additional Default Swap Collateral into Timberwolf. While GS does have consent rights regarding the purchase of Default Swap Collateral, a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf. Give me a call when you can. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914[redacted]
E) joe.marconi@greywolfcapital.com

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From: Joe Marconi

Sent: Thursday, September 06, 2007 8:18 AM
To: 'Shimonov, Roman'
Cc: Joe Marconi; Bieber, Matthew G.; 'Martin, Nicole'
Subject: Timberwolf -- Default Swap Collateral

Roman:

We are doing our credit work on these 3 bonds which are shown on the GS inventory sheet. If we get comfortable with these positions, would GS be ok adding them to Timberwolf as Default Swap Collateral? We should be done with our credit work today.

Thanks. Joe.

			AVL	DM	Ppy	App Prc	Fctr/Notes
FLOATING	Home Equity						
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC

From: Bruns, William [mailto:William.Bruns@gs.com]
Sent: Thursday, September 06, 2007 7:48 AM
To: undisclosed-recipients
Subject: Goldman Sachs ABS Inventory (External)

ABS Cash Trading: Mike Swenson Deeb Salem Edwin Chin Jordan Kaufman Will Bruns
+1 (212)902-5090

In autos:
- **CARMX** announced a $500mm deal.

In cards:
- **CCCIT** announced a $750mm deal.

<<Inventory.xls>>

Amt ($mm)	Issue	CUSIP	AVL	Sprd	Ppy	Approx Price	Fctr/Notes
FIXED Credit Cards/Dealer Floorplan/Student Loans							
3.750	MBNAS 2003-A11 A11	55264TCH2	1.1	E+24		98-	1.00/YTC/Aaa/AAA/AAA
3.750	BOIT 2003-A9 A9	06423RBE5	1.1	E+24		SOLD	1.00/YTC/Aaa/AAA/AAA
10.000	MBNAM 1999-J B	55262TEV1	2.0	N+50		104-	1.00/YTC/A2/A+/A+
FLOATING Credit Cards/Dealer Floorplan/Autos/UK & Aussie RMBS/Equipment/Stranded Cost							
3.300	CNHMT 2005-1 A	12615SAE0	0.8	+20		99-297	1.00/YTC/Aaa/AAA/AAA
1.500	CCCIT 2007-A2 A2	17305EDS1	2.7	+28		99-072	1.00/YTC/Aaa/AAA/AAA

12.500	COMET 2004-C2 C2	14041NBH3	6.4	+125		98-305	
1.00/YTC/Baa2/BBB/BBB							
3.000	GEBL 2006-2A D	36159EAG7	#N/A	N+300		90-101	
0.98/YTC/Baa2/BBB+/BBB							
FIXED Auto & Equipment Loans			AVL	Sprd	Ppy	Handle	Fctr/Notes
41.780	GSALT 2004-1 A4	36292RAM3	0.0	E+35	1.25	SOLD	0.47/YTC
8.555	NAVOT 2003-B A4	63936XAD6	0.3	E+50	0.75	99-	0.71/YTC
3.000	AESOP 2003-3A A3	00103RAX4	0.7	E+25	0.00	98-	1.00/YTC
7.000	GSALT 2005-1 A4	36292RAV3	1.3	E+40	1.35	98-	1.00/YTC
2.150	HDMOT 2005-2 A2	41283ABV0	1.2	E+30	1.45	98-	1.00/YTC
3.750	TAROT 2006-C A3	89578PAC3	1.4	E+55	1.45	99-	1.00/YTC
17.210	HERTZ 2004-1A A3	42805RAC3	0.5	E+25	0.00	98-	1.00/YTC
FIXED Stranded Cost			AVL	Sprd	Ppy	Handle	Fctr/Notes
15.000	CNP 2001-1 A3	75953MAC4	1.3	E+20	0	99-	1.00/YTC
5.000	CPL 2002-1 A3	12617AAC1	1.7	E+20	0	100-	1.00/YTC
4.000	CONFD 2001-1 A4	210523AD8	1.3	E+20	S1	99-	0.90/YTC
5.060	CONFD 2001-1 A5	210523AE6	4.2	N+28	S1	101-	1.00/YTC
Student Loans			AVL	DM	Ppy	App Prc	Fctr/Notes
4.650	SLMA 2006-9 A2	78443KAB2	1.5	+20	100	99-214	1.00/YTC
50.025	SLMA 2006-6 A1	83149FAA2	1.5	+20	150	99-205	0.68/YTC
13.675	SLMA 2007-3 A1	78443YAA4	0.8	+20	20	99-253	0.81/YTC
FIXED Home Equity			AVL	Sprd	Ppy	Handle	Fctr/Notes
12.000	CWL 2002-S4 A5	126671UD6	0.2	E+50	25	99-	0.87/YTC
5.000	POPLR 2005-1 AF3	73316PBK5	1.0	E+45	15	98-	0.57/YTC
24.456	CBASS 2004-CB1 AF1	04542BFH0	1.4	E+55	30	97-	0.03/YTC
7.585	ACCR 2003-2 A1	004375AN1	2.8	N+100	100	95-	0.31/YTC
5.273	SAIL 2005-8 M7	86358EXW1	3.8			55-	
1.00/YTC/Ba3/BBB/							
10.000	SAIL 2005-8 M8	86358EXX9	3.8			45-	1.00/YTC/B3/B/
4.220	CWL 2005-11 MF8	126670CU0	4.0	N+500	S3	87-	
1.00/YTC/Baa2/BBB/							
4.364	GSAMP 2004-AR2 B4	36242DDY6	0.8	E+1500	45	89-	
0.36/YTC/Ba1//BB+							
FLOATING Home Equity			AVL	DM	Ppy	App Prc	Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC
20.000	MSAC 2004-HE8 A4	61744CGW0	0.1	+45	35	99-317	0.04/YTC
5.000	CMLTI 2007-WFH2 A3	17312BAC6	2.3	+150	100	97-053	1.00/YTC
2.000	OWNIT 2006-5 A2C	69121EAE8	2.8	+140	S3	96-262	1.00/YTC
12.000	GSAMP 2005-WMC3 A1B	362341L23	3.0	+65	20	99-064	0.54/YTC
10.000	JPMAC 2006-NC1 A5	46626LJQ4	4.7	+175	100	94-025	1.00/YTC
11.000	GSAMP 2005-WMC2 A2C	362341UZ0	5.0	+95	100	97-141	1.00/YTC
9.437	TMTS 2006-3 2A3	881561W26	3.9	+375	S3	88-186	1.00/YTC
10.000	AMSI 2005-R3 M2	03072SZY4	1.9	+450	30	93-067	YTC/Aa2/AA/AA

2.000	RASC 2005-AHL3 M2	76110W6P6	2.9	+750	30	83-164	YTC/Aa2/AA/
7.000	SURF 2006-BC2 M2	84751PLR8	3.2	+550	S3	86-098	YTC/Aa2/AA/
7.115	BAYV 2004-C M1	073247BL1	0.1	+200	21	97-097	YTM/Aa2/AA/AA
3.050	HEAT 2006-6 M3	437097AJ7	3.3	+1000	100	75-093	YTC/Aa3/AA/AA+
15.836	OWNIT 2006-6 M1	69121TAF2	4.1	+450	S3	86-044	YTC/Aa1/AA+/
12.376	GSAMP 2007-FM1 M3	3622MAAH4	5.6	+600	100	76-143	YTC/Aa3/AA-/
15.992	HASC 2006-WMC1 M3	40430MAJ6	5.7	+900	30	66-075	
YTC/Aa3/AA/BBB-							
16.000	ABFC 2003-OPT1 M2	04542BDJ8	0.4	+800	S4	97-248	YTC/A2/AA/A+
3.000	ACE 2005-RM1 M6	004421LR2	0.7	+900	30	92-208	YTM/A3/A/A-
7.810	GSAMP 2004-NC2 M3	36242DHC0	1.3	+550	100	95-102	YTC//A-/A-
2.341	BSABS 2005-1 M3	073877AX0	1.2	+1500	35	85-244	YTC//A-/A-
10.554	HEAT 2005-1 M5	437084HU3	1.5	+1600	100	80-223	YTC/A2/A+/
2.500	AMSI 2005-R6 M2	03072SG33	2.0	+700	40	88-300	YTC/NR/AA/AA
2.500	AMSI 2005-R6 M3	03072SG41	1.8	+700	40	89-266	YTC/NR/AA-/AA-
2.000	CWL 2005-6 M5	126673W65	2.2	+355	30	94-134	YTC/A2/A/
1.000	CBASS 2005-CB7 M6	12489WPR9	2.6	+600	S3	88-125	YTC/A3/AA/A+
8.218	FFML 2006-FF11 M6	32028PAM7	3.3	+1300	100	69-291	YTC/A3/A/BBB+
8.733	ABFC 2006-OPT1 M6	00075QAK8	3.1	+600	S4	85-158	YTC/A3/A-/A-
1.029	CARR 2005-FRE1 M5	144531EK2	3.2	+500	25	88-151	YTC/A2/A/
10.378	LBMLT 2006-7 M6	54251TAL3	3.4	+2500	100	50-032	YTC/A3/A+/BBB
3.902	JPMAC 2006-NC2 M6	46629FAK6	3.4	+1200	100	71-067	YTC/A3/A-/A-
7.000	JPMAC 2006-CW2 MV6	46629BAY5	3.4	+1200	100	71-052	YTC/A3/A-/A-
2.400	MABS 2006-NC2 M6	55275BAL1	3.4	+1600	100	63-125	YTC/A2/A-/A-
3.330	LBMLT 2006-8 M6	54251UAL0	3.5	+2500	100	49-071	YTC/A3/A+/
2.500	SASC 2006-BC5 M6	86359SAL8	3.8	+800	30	77-293	YTC/A2/A-/A
3.000	SASC 2006-WF3 M6	86361EAL5	3.9	+800	30	77-304	YTC/A2/A-/A-
2.000	SABR 2006-NC3 M5	81377CAH1	3.5	+1400	100	66-102	YTC/A2/A-/A-
4.000	SAST 2006-3 M6	80556AAK3	3.5	+1300	S4	68-107	YTC/A3/A/
2.320	CARR 2006-NC5 M6	144539AL7	3.6	+850	100	77-136	YTC/A2/A-/A-
4.000	MLMI 2006-MLN1 M6	59023AAL0	3.6	+1300	S3	68-005	YTC/A3/A/
6.000	LBMLT 2006-9 M6	54251WAL6	3.6	+2500	100	48-112	YTC/A3/A-/
2.423	MSAC 2006-HE3 M5	61749HAK6	3.7	+1100	S3	71-280	YTC/A2/A/BBB+
2.436	CMLTI 2006-NC2 M6	17309TAL2	3.4	+1400	100	67-112	YTC/A3/A-/
6.802	MABS 2006-WMC3 M6	55291KAL1	3.6	+1600	100	62-121	YTC/A3/A/
7.278	JPMAC 2006-RM1 M6	46629NAM5	3.7	+1500	100	63-215	YTC/A3/A-/BBB
9.833	NHEL 2007-1 M6	669971AL7	3.8	+900	100	76-134	YTC/A3/A-/
5.007	GSAMP 2007-H1 M6	36245YAK0	3.9	+1600	S3	60-272	YTC/A3//A-
3.000	ACCR 2007-1 M6	00438QAK0	4.1	+1000	100	71-241	YTC/A3/A/
1.000	ACE 2003-HE1 M4	004421DD2	0.2	+2200	45	96-114	
YTC/Baa1/BBB+/BBB+							
1.000	SURF 2003-BC4 B2	84751PBP3	0.4	+1500	50	94-265	YTC/Baa2/BBB/
1.000	ACE 2003-HE1 M5	004421DE0	0.2	+2000	45	96-246	
YTC/Baa2/BBB/BBB							
1.500	SACO 2006-6 B1	785779AH2	2.6			20-000	YTC/C/CCC/
3.000	SACO 2006-6 B2	785779AJ8	2.6			10-000	YTC/C/CCC/
7.550	CWL 2005-13 MV8	126670HR2	2.2	+800	40	88-301	YTC/Baa2/BBB+/
1.250	WFHET 2006-1 M7	9497EUAP2	2.8	+2000	100	62-301	YTC/Baa1/A/
3.650	MLMI 2006-HE2 B1	59020VAL7	2.9	+1500	S3	70-266	YTC/Baa1/A-/
3.600	SVHE 2006-OPT4 M7	83611YAM4	2.9	+2250	S3	59-096	YTC/Baa2/BBB+/
3.243	GSAMP 2006-HE4 M7	362439AM3	3.1	+1400	100	70-136	YTC/Baa1/A/

3.825	HEAT 2006-6 M7	437097AN8	3.2	+2500	100	53-024	
YTC/Baa1/A/BBB+							
11.250	FFML 2006-FF13 M7	30247DAM3	3.4	+1550	100	65-007	YTC/Baa1/A/
3.275	SURF 2006-BC3 B1	84751WAM6	3.3	+1200	S3	72-293	YTC/Baa1/A-/
4.125	HEAT 2006-7 M7	43709NAN3	3.4	+2200	100	54-297	YTC/Baa1/A-
/BBB							
12.000	CWL 2006-8 M7	045427AL5	3.7	+1600	S3	63-198	YTC/Baa1/BBB+/
2.837	GSAMP 2006-HE8 M7	3622M8AM8	3.6	+1400	100	66-293	YTC/Baa1/BBB+/
3.000	LBMLT 2006-10 M7	54251YAM0	3.7	+3000	100	42-155	YTC/Baa1/BBB+/
2.000	WMABS 2006-HE3 M7	93934MAM9	3.4	+1200	100	71-296	YTC/Baa1/BBB+/
4.000	LBMLT 2006-9 M7	54251WAM4	3.6	+3000	100	43-063	YTC/Baa1/A-/
7.000	GSAMP 2007-NC1 M7	3622MGAM0	3.8	+1200	100	69-261	YTC/Baa1/BBB+/
5.000	WMHE 2007-HE1 M7	933631AM5	3.9	+2000	100	54-103	YTC/Baa1/BBB+/
5.862	SURF 2007-BC1 B1	84752BAP4	4.0	+1400	S3	64-198	YTC/Baa1/BBB+/
7.000	MSAC 2007-NC1 B1	617505AM4	4.7	+1400	S3	61-304	YTC/Baa1/BBB+/
2.000	MSAC 2005-WMC1 B3	61744CMC7	0.6	+2500	S3	88-108	YTC/Baa3/BBB-
/BBB-							
5.000	FHLT 2005-B M10	35729PKE9	1.2	+3650	S4	69-292	YTC/Baa3/BBB-/
10.218	PPSI 2004-WCW1 M7	70069FAJ6	1.3	+2000	S4	82-191	YTC/Baa2//BBB
4.500	ECR 2005-4 M9	29256PBE3	1.9	+2000	40	73-151	YTC/Baa3/BBB-/
3.000	INABS 2005-B M9	456606HB1	2.1	+2050	100	71-267	
YTC/Baa3/BBB/BBB-							
3.150	RASC 2005-KS12 M9	753910AM0	2.7	+1700	S4	71-276	YTC/Baa3/BBB+/
2.400	SVHE 2006-OPT4 M8	83611YAN2	2.8	+3200	S3	50-042	YTC/Baa3/BBB/
7.156	GSAMP 2006-HE3 M9	36244KAP0	2.9	+3000	100	50-281	YTC/Baa3/BBB+/
1.500	FHLT 2006-A M8	35729RAP1	2.9	+2600	100	55-214	YTC/Ba3/BB/BB
5.000	NCHET 2006-1 M9	64352VRB9	3.0	+3300	100	48-137	YTC/B3/B/BB
8.410	GSAMP 2006-HE5 M9	362437AP0	3.3	+3000	100	47-293	YTC/Baa3/BBB/
3.131	FHLT 2006-D M9	35729VAP2	3.6	+2700	100	49-225	YTC/Baa3/BBB-
/BB							
4.000	SASC 2006-EQ1A M9	86360RAP8	3.7	+1300	30	72-127	YTC/Baa3/BBB-/
7.100	RAMP 2006-RZ3 M9	75156MAM7	3.9	+2000	100	59-037	YTC/Baa3//BBB-
1.421	MSAC 2006-HE7 B3	61750MAQ8	4.1	+2500	S3	48-252	YTC/Ba2/BBB-/
FIXED Alt-A			AVL	Sprd	Ppy	App Prc	Fctr/Notes
FLOATING Alt-A			AVL	DM	Ppy	App Prc	Fctr/Notes
4.000	GSAA 2006-10 AV1	362375AA5	0.6	+75	20	99-196	
0.44/YTC/Aaa/AAA/							
7.300	GSAA 2006-3 A1	362334BQ6	1.0	+75	20	99-111	
0.52/YTC/Aaa/AAA/							
4.300	GSAA 2006-12 A1	362381AA3	1.2	+75	20	99-066	
0.65/YTC/Aaa/AAA/							
20.000	GSAA 2006-19 A1	362244AA3	1.2	+75	20	99-074	
0.69/YTC/Aaa/AAA/							
25.000	GSAA 2004-6 A2	36228F7E0	1.2	+50	40	99-280	
0.14/YTC/Aaa/AAA/							
21.500	IMM 2005-4 1A2	45254NPC5	1.9	+75	20	99-091	
0.33/YTC/Aaa/AAA/							
3.000	GSAA 2006-20 1A1	362351AA6	1.3	+75	20	99-046	
0.76/YTC/Aaa/AAA/							
20.000	GSAA 2005-15 2A2	362341D71	3.2	+95	20	97-298	
1.00/YTC/Aaa/AAA/							

15.000	IMM 2004-11 2M2	45254NME4	0.9	+300	20	97-256	
0.24/YTC/Aa2/AA/							
10.255	BSABS 2007-AC1 M1	07389XAE3	6.0	+400	20	83-188	
1.00/YTC/Aa2/AA/							
5.000	BSABS 2007-AC2 M1	073854AD3	6.2	+400	20	83-056	
1.00/YTC/Aa2/AA/							
1.000	GSAA 2005-5 B2	36242DS38	1.0	+3000	20	76-233	
1.00/YTC/Baa2/BBB/BBB							
0.700	GSAA 2005-9 B3	362341GT0	3.1	+2500	20	55-253	
1.00/YTC/Baa3/BBB-/							
0.730	GSAA 2005-6 M3	36242D3Z4	3.7	+2500	20	52-283	1.00/YTC/A2/A/
1.000	GSAA 2006-9 B1	362382AP8	4.8	+1900	20	51-284	
1.00/YTC/Baa2/A/							
4.551	GSAA 2005-11 M4	362341PE3	4.6	+800	20	76-095	1.00/YTC/A3/A-
/							
6.552	CWALT 2005-AR1 M5	12668A4X0	5.3	+1350	20	60-097	1.00/YTC/A2/*-
/A+/							

William Street Funding	AVL	DM	Ppy	App Prc	Fctr/Notes
Small Business Administration	AVL	Sprd	Ppy	Handle	Fctr/Notes
SP CDOs	AVL	DM	Ppy	App Prc	Fctr/Notes
NIMs	AVL	Yield	Ppy	App Prc	Fctr/Notes

	Floating Cards	Fixed Cards	Autos	RRB	HomeEq Fxd	HomeEq Flt	Student Loan FFELP	Student Loan Private
1	-2/-3	-3/-4	-1/-2	-4/-5	30/25	10/8	0/-1	2/1
2	-1/-2	-2/-3	0/-1	-3/-4	42/37	16/13	1/0	3/2
3	0/-1	-1/-2	4/3	-2/-3	52/47	25/20	3/2	4/3
5	4/3	2/1		1/0	85/80	29/24	7/6	6/5
7	6/5	5/4		6/5	105/95	35/30	11/10	14/13
10	9/7	8/7		9/8	112/107		13/12	18/17

HomeEq Flt Mezz/Sub	
AA	70/55
A	145/125
BBB+	375/300
BBB	575/450
BBB-	800/625

ABX.HE.07-2 Closes

	Price	Spread	Change
AAA	96-00	141	-25bp
AA	85-00	588	-154bp
A	61-00	1470	-105bp
BBB	42-00	2213	-4bp
BBB-	39-00	2318	-33bp

I am an attorney employed by Goldman, Sachs & Co. ("Goldman Sachs") and, during 2007, my coverage responsibilities included, among other things, providing advice to the firm's Mortgages Department. I have no present recollection of the circumstances surrounding any disagreement between Goldman Sachs and Greywolf Capital Management LP regarding Goldman Sachs' right to consent to reinvestment of default swap collateral in Timberwolf I. I am aware that certain documents from that period appear to reflect that I may have been consulted in connection with the firm's dealings with Greywolf on this issue in September 2007, but reviewing these documents has not refreshed my present recollection.

Timothy K. Saunders, Jr.
Managing Director & Associate General Counsel
Goldman, Sachs & Co.

December 22, 2010
Date

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2657

From August 27, 2007 through November 2008, I was employed by Goldman, Sachs & Co. ("Goldman Sachs" or the "Firm") as an attorney in its legal department, reporting to Tim Saunders. Throughout this time, my responsibilities included, among other things, providing advice to the Firm's Mortgages Department. Although I recall that a party raised issues concerning Goldman Sachs' right to consent to certain actions related to collateralized debt obligations, I have no recollection of any additional circumstances surrounding these issues, including the identity of the party that raised them, what the consent rights related to or any discussions concerning these issues. Although I understand that there are emails that suggest that a meeting was held to discuss these issues, I have no recollection of such a meeting, or whether a meeting even occurred. I have reviewed the documents identified by the Subcommittee staff that appear to reflect that I may have been asked to attend a meeting to discuss the Firm's dealings with Greywolf Capital Management LP on this issue in September 2007, but reviewing these documents has not refreshed my present recollection.

Susan Helfrick

1/7/11
Date

From November 2005 through November 2008, I was employed by Goldman, Sachs & Co. ("Goldman Sachs" or the "Firm") in its Compliance department. During this time, I was assigned to provide coverage to the Firm's Mortgages Department. I have no present recollection of the circumstances surrounding any disagreement between Goldman Sachs and Greywolf Capital Management LP ("Greywolf") regarding Goldman Sachs' right to consent to reinvestment of default swap collateral in Timberwolf I. I have reviewed the documents identified by the Subcommittee staff that appear to reflect that I was invited to a meeting to discuss the Firm's dealings with Greywolf on this issue in September 2007, but reviewing these documents has not refreshed my present recollection. I would also note that my job responsibilities at the time did not include reviewing or interpreting transactional documents such as indentures, and it was not my practice to do so.

Jordan Horvath

7/2011
Date

I am a Managing Director at Goldman, Sachs & Co. ("Goldman Sachs" or "the Firm") and the co-head of the Structured Products Group Trading Desk, a position I have held since 2006.

As I discussed during my interview with the Subcommittee staff on September 27, 2010, my understanding is that on deals in which there was a collateral manager, such as the Timberwolf I CDO, the collateral manager would source collateral investments subject to the terms specified in the offering documents. Although I do not recall the specific rights that Goldman Sachs had under the agreements for each deal, my understanding is that Goldman Sachs generally retained the right to consent to the selection of collateral in order to protect its interests in the transaction. As I also explained in my Subcommittee interview, I do not recall any formal agreements, other than the operative agreement for the deals, limiting the assets the collateral manager could select as default swap collateral. Further, as I stated in my interview, although I recall that counsel was consulted on the issue of contractual provisions relating to collateral reinvestment, I do not recall any advice counsel gave. I also recall informal discussions concerning the extent of Goldman Sachs' exposure related to collateral in CDOs, but do not recall any resolution of this issue. I do not recall there being a significant debate with collateral managers on this subject.

More specifically, I have no present recollection of the circumstances surrounding any discussions between Goldman Sachs and Greywolf Capital Management LP ("Greywolf") regarding Goldman Sachs' right to consent to reinvestment of default swap collateral in Timberwolf I. I have reviewed documents showing that I was emailed in September 2007 by Joe Marconi of Greywolf in connection with the Firm's dealings with Greywolf on this issue and was carbon copied on emails proposing an internal meeting regarding the subject, but reviewing these documents has not refreshed my present recollection. I have no present recollection of what might have been discussed in such a meeting or even if such a meeting ever occurred.

David Lehman
Managing Director
Goldman, Sachs & Co.

1/26/11
Date

From: Bieber, Matthew G.
Sent: Friday, September 07, 2007 6:16 PM
To: Lehman, David A.
Subject: RE: Timberwolf -- Default Swap Collateral

Spoke with legal/compliance. Not doing anything w/o discussing with dan first. Agree with the point on consistency.

-----Original Message-----
From: Lehman, David A.
Sent: Friday, September 07, 2007 6:13 PM
To: Bieber, Matthew G.
Subject: Re: Timberwolf -- Default Swap Collateral

U spoke w egol?

What abt legal/compliance

Just make sure Dan is ok w it

Also I do thk we shd be consistent across deals...so if slmas and credit cards are "ok" I thk we tell our mgrs that...maybe 2yrs and shorter

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Bieber, Matthew G.
To: Lehman, David A.
Sent: Fri Sep 07 18:08:35 2007
Subject: RE: Timberwolf -- Default Swap Collateral

Yeah - I need to speak with dan...we're thinking about offering some 1-3 yr SLMAs

-----Original Message-----
From: Lehman, David A.
Sent: Friday, September 07, 2007 6:07 PM
To: Bieber, Matthew G.
Subject: Fw: Timberwolf -- Default Swap Collateral
Importance: High

Any action steps on this?

David A. Lehman

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2659

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Joe Marconi <joe.marconi@greywolfcapital.com>
To: Lehman, David A.
Cc: Joe Marconi <joe.marconi@greywolfcapital.com>; Greg Mount <greg.mount@greywolfcapital.com>; Bieber, Matthew G.; Swenson, Michael
Sent: Fri Sep 07 07:22:49 2007
Subject: FW: Timberwolf -- Default Swap Collateral

David: As we discussed yesterday, I believe that your refusal to approve the purchase of any additional Default Swap Collateral into Timberwolf is unreasonable and inconsistent with the way the transaction structure was originally presented to us. We were told that the purpose of the approval rights was to permit GS to review specific assets and approve or disapprove specific assets based on their relative credit merits. If we thought for a second that you had the right to prohibit all new purchases indefinitely, we would have implemented the much simpler GIC structure that is used in most other synthetic CDOs and CDO^2 transactions and thereby locked in a fixed spread to LIBOR for the term of our transaction. Also, the Timberwolf CDS economics include an ongoing fee to GS for the put swap component of the trade; we would not have agreed to those terms if we thought you had this option. Finally, I believe that if anyone on the deal team thought you had this option, it would have been clearly disclosed in the OM. Especially given current market conditions, I am surprised that you are taking a position that will directly result in less cash flow being available to debt and equity investors. As I said yesterday, we recognize the impact of current market conditions and, even before I spoke with Matt, I was suggesting we collectively focus on shorter average life AAA RMBS for the deal and I specifically solicited feedback on securities where GS would be comfortable. I continue to be surprised by your response. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201

Purchase, NY 10577

P) 914.251.8249
F) 914.251.8244
M) 914.[redacted]
E) joe.marconi@greywolfcapital.com <mailto:s@greywolfcapital.com>

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Joe Marconi
Sent: Thursday, September 06, 2007 9:19 AM
To: 'david.lehman@gs.com'
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael

Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: I would like to have a call with you to discuss the purchase of Default Swap Collateral into Timberwolf. I understand you are traveling this week. Let me know when you will have some time to talk. In response to the attached message, Matt told me that GS will not approve the purchase of any additional Default Swap Collateral into Timberwolf. While GS does have consent rights regarding the purchase of Default Swap Collateral, a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf. Give me a call when you can. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201

Purchase, NY 10577

P) 914.251.8249
F) 914.251.8244
M) 914.[redacted]
E) joe.marconi@greywolfcapital.com <mailto:s@greywolfcapital.com>

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From: Joe Marconi
Sent: Thursday, September 06, 2007 8:18 AM
To: 'Shimonov, Roman'
Cc: Joe Marconi; Bieber, Matthew G.; 'Martin, Nicole'
Subject: Timberwolf -- Default Swap Collateral

Roman:

We are doing our credit work on these 3 bonds which are shown on the GS inventory sheet. If we get comfortable with these positions, would GS be ok adding them to Timberwolf as Default Swap Collateral? We should be done with our credit work today.

Thanks. Joe.

			AVL	DM	Ppy	App Prc	Fctr/Notes
FLOATING	Home Equity						
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC

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5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC

From: Bruns, William [mailto:William.Bruns@gs.com]
Sent: Thursday, September 06, 2007 7:48 AM
To: undisclosed-recipients
Subject: Goldman Sachs ABS Inventory (External)

ABS Cash Trading: Mike Swenson Deeb Salem Edwin Chin Jordan Kaufman Will Bruns +1 (212)902-5090

In autos:
- CARMX announced a $500mm deal.

In cards:
- CCCIT announced a $750mm deal.

<<Inventory.xls>>

Amt ($mm)	Issue	CUSIP	AVL	Sprd	Ppy	Approx Price	Fctr/Notes
FIXED Credit Cards/Dealer Floorplan/Student Loans							
3.750	MBNAS 2003-A11 A11	55264TCH2	1.1	E+24		98-	1.00/YTC/Aaa/AAA/AAA
3.750	BOIT 2003-A9 A9	06423RBE5	1.1	E+24		SOLD	1.00/YTC/Aaa/AAA/AAA
10.000	MBNAM 1999-J B	55262TEV1	2.0	N+50		104-	1.00/YTC/A2/A+/A+
FLOATING Credit Cards/Dealer Floorplan/Autos/UK & Aussie RMBS/Equipment/Stranded Cost							
3.300	CNHMT 2005-1 A	12615SAE0	0.8	+20		99-297	1.00/YTC/Aaa/AAA/AAA
1.500	CCCIT 2007-A2 A2	17305EDS1	2.7	+28		99-072	1.00/YTC/Aaa/AAA/AAA
12.500	COMET 2004-C2 C2	14041NBH3	6.4	+125		98-305	
1.00/YTC/Baa2/BBB/BBB							
3.000	GEBL 2006-2A D	36159EAG7	#N/A	N+300		90-101	
0.98/YTC/Baa2/BBB+/BBB							

			AVL	Sprd	Ppy	Handle	Fctr/Notes
FIXED Auto & Equipment Loans							
41.780	GSALT 2004-1 A4	36292RAM3	0.0	E+35	1.25	SOLD	0.47/YTC
8.555	NAVOT 2003-B A4	63936XAD6	0.3	E+50	0.75	99-	0.71/YTC
3.000	AESOP 2003-3A A3	00103RAX4	0.7	E+25	0.00	98-	1.00/YTC
7.000	GSALT 2005-1 A4	36292RAV3	1.3	E+40	1.35	98-	1.00/YTC
2.150	HDMOT 2005-2 A2	41283ABV0	1.2	E+30	1.45	98-	1.00/YTC
3.750	TAROT 2006-C A3	89578PAC3	1.4	E+55	1.45	99-	1.00/YTC
17.210	HERTZ 2004-1A A3	42805RAC3	0.5	E+25	0.00	98-	1.00/YTC

			AVL	Sprd	Ppy	Handle	Fctr/Notes
FIXED Stranded Cost							
15.000	CNP 2001-1 A3	75953MAC4	1.3	E+20	0	99-	1.00/YTC
5.000	CPL 2002-1 A3	12617AAC1	1.7	E+20	0	100-	1.00/YTC
4.000	CONFD 2001-1 A4	210523AD8	1.3	E+20	S1	99-	0.90/YTC
5.060	CONFD 2001-1 A5	210523AE6	4.2	N+28	S1	101-	1.00/YTC

			AVL	DM	Ppy	App Prc	Fctr/Notes
Student Loans							
4.650	SLMA 2006-9 A2	78443KAB2	1.5	+20	100	99-214	1.00/YTC
50.025	SLMA 2006-6 A1	83149FAA2	1.5	+20	150	99-205	0.68/YTC
13.675	SLMA 2007-3 A1	78443YAA4	0.8	+20	20	99-253	0.81/YTC

			AVL	Sprd	Ppy	Handle	Fctr/Notes
FIXED Home Equity							
12.000	CWL 2002-S4 A5	126671UD6	0.2	E+50	25	99-	0.87/YTC

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5.000	POPLR 2005-1 AF3	73316PBK5	1.0	E+45	15	98-	0.57/YTC
24.456	CBASS 2004-CB1 AF1	04542BFH0	1.4	E+55	30	97-	0.03/YTC
7.585	ACCR 2003-2 A1	004375AN1	2.8	N+100	100	95-	0.31/YTC
5.273	SAIL 2005-8 M7	86358EXW1	3.8			55-	1.00/YTC/Ba3/BBB/
10.000	SAIL 2005-8 M8	86358EXX9	3.8			45-	1.00/YTC/B3/B/
4.220	CWL 2005-11 MF8	126670CU0	4.0	N+500	S3	87-	1.00/YTC/Baa2/BBB/
4.364	GSAMP 2004-AR2 B4	36242DDY6	0.8	E+1500	45	89-	0.36/YTC/Ba1//BB+
FLOATING	Home Equity		AVL	DM	Ppy	App Prc	Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191	1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195	0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161	0.68/YTC
20.000	MSAC 2004-HE8 A4	61744CGW0	0.1	+45	35	99-317	0.04/YTC
5.000	CMLTI 2007-WFH2 A3	17312BAC6	2.3	+150	100	97-053	1.00/YTC
2.000	OWNIT 2006-5 A2C	69121EAE8	2.8	+140	S3	96-262	1.00/YTC
12.000	GSAMP 2005-WMC3 A1B	362341L23	3.0	+65	20	99-064	0.54/YTC
10.000	JPMAC 2006-NC1 A5	46626LJQ4	4.7	+175	100	94-025	1.00/YTC
11.000	GSAMP 2005-WMC2 A2C	362341UZ0	5.0	+95	100	97-141	1.00/YTC
9.437	TMTS 2006-3 2A3	881561W26	3.9	+375	S3	88-186	1.00/YTC
10.000	AMSI 2005-R3 M2	03072SZY4	1.9	+450	30	93-067	YTC/Aa2/AA/AA
2.000	RASC 2005-AHL3 M2	76110W6P6	2.9	+750	30	83-164	YTC/Aa2/AA/
7.000	SURF 2006-BC2 M2	84751PLR8	3.2	+550	S3	86-098	YTC/Aa2/AA/
7.115	BAYV 2004-C M1	073247BL1	0.1	+200	21	97-097	YTM/Aa2/AA/AA
3.050	HEAT 2006-6 M3	437097AJ7	3.3	+1000	100	75-093	YTC/Aa3/AA/AA+
15.836	OWNIT 2006-6 M1	69121TAF2	4.1	+450	S3	86-044	YTC/Aa1/AA+/
12.376	GSAMP 2007-FM1 M3	3622MAAH4	5.6	+600	100	76-143	YTC/Aa3/AA-/
15.992	HASC 2006-WMC1 M3	40430MAJ6	5.7	+900	30	66-075	YTC/Aa3/AA/BBB-
16.000	ABFC 2003-OPT1 M2	04542BDJ8	0.4	+800	S4	97-248	YTC/A2/AA/A+
3.000	ACE 2005-RM1 M6	004421LR2	0.7	+900	30	92-208	YTM/A3/A/A-
7.810	GSAMP 2004-NC2 M3	36242DHC0	1.3	+550	100	95-102	YTC//A-/A-
2.341	BSABS 2005-1 M3	073877AX0	1.2	+1500	35	85-244	YTC//A-/A-
10.554	HEAT 2005-1 M5	437084HU3	1.5	+1600	100	80-223	YTC/A2/A+/
2.500	AMSI 2005-R6 M2	03072SG33	2.0	+700	40	88-300	YTC/NR/AA/AA
2.500	AMSI 2005-R6 M3	03072SG41	1.8	+700	40	89-266	YTC/NR/AA-/AA-
2.000	CWL 2005-6 M5	126673W65	2.2	+355	30	94-134	YTC/A2/A/
1.000	CBASS 2005-CB7 M6	12489WPR9	2.6	+600	S3	88-125	YTC/A3/AA/A+
8.218	FFML 2006-FF11 M6	32028PAM7	3.3	+1300	100	69-291	YTC/A3/A/BBB+
8.733	ABFC 2006-OPT1 M6	00075QAK8	3.1	+600	S4	85-158	YTC/A3/A-/A-
1.029	CARR 2005-FRE1 M5	144531EK2	3.2	+500	25	88-151	YTC/A2/A/
10.378	LBMLT 2006-7 M6	54251TAL3	3.4	+2500	100	50-032	YTC/A3/A+/BBB
3.902	JPMAC 2006-NC2 M6	46629FAK6	3.4	+1200	100	71-067	YTC/A3/A-/A-
7.000	JPMAC 2006-CW2 MV6	46629BAY5	3.4	+1200	100	71-052	YTC/A3/A-/A-
2.400	MABS 2006-NC2 M6	55275BAL1	3.4	+1600	100	63-125	YTC/A2/A-/A-
3.330	LBMLT 2006-8 M6	54251UAL0	3.5	+2500	100	49-071	YTC/A3/A+/
2.500	SASC 2006-BC5 M6	86359SAL8	3.8	+800	30	77-293	YTC/A2/A-/A
3.000	SASC 2006-WF3 M6	86361EAL5	3.9	+800	30	77-304	YTC/A2/A-/A-
2.000	SABR 2006-NC3 M5	81377CAH1	3.5	+1400	100	66-102	YTC/A2/A-/A-
4.000	SAST 2006-3 M6	80556AAK3	3.5	+1300	S4	68-107	YTC/A3/A/
2.320	CARR 2006-NC5 M6	144539AL7	3.6	+850	100	77-136	YTC/A2/A-/A-
4.000	MLMI 2006-MLN1 M6	59023AAL0	3.6	+1300	S3	68-005	YTC/A3/A/
6.000	LBMLT 2006-9 M6	54251WAL6	3.6	+2500	100	48-112	YTC/A3/A-/
2.423	MSAC 2006-HE3 M5	61749HAK6	3.7	+1100	S3	71-280	YTC/A2/A/BBB+
2.436	CMLTI 2006-NC2 M6	17309TAL2	3.4	+1400	100	67-112	YTC/A3/A-/
6.802	MABS 2006-WMC3 M6	55291KAL1	3.6	+1600	100	62-121	YTC/A3/A/
7.278	JPMAC 2006-RM1 M6	46629NAM5	3.7	+1500	100	63-215	YTC/A3/A-/BBB
9.833	NHEL 2007-1 M6	669971AL7	3.8	+900	100	76-134	YTC/A3/A-/
5.007	GSAMP 2007-H1 M6	36245YAK0	3.9	+1600	S3	60-272	YTC/A3//A-
3.000	ACCR 2007-1 M6	00438QAK0	4.1	+1000	100	71-241	YTC/A3/A/
1.000	ACE 2003-HE1 M4	004421DD2	0.2	+2200	45	96-114	YTC/Baa1/BBB+/BBB+
1.000	SURF 2003-BC4 B2	84751PBP3	0.4	+1500	50	94-265	YTC/Baa2/BBB/

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1.000	ACE 2003-HE1 M5	004421DE0	0.2	+2000	45	96-246	YTC/Baa2/BBB/BBB
1.500	SACO 2006-6 B1	785779AH2	2.6			20-000	YTC/C/CCC/
3.000	SACO 2006-6 B2	785779AJ8	2.6			10-000	YTC/C/CCC/
7.550	CWL 2005-13 MV8	126670HR2	2.2	+800	40	88-301	YTC/Baa2/BBB+/
1.250	WFHET 2006-1 M7	9497EUAP2	2.8	+2000	100	62-301	YTC/Baa1/A/
3.650	MLMI 2006-HE2 B1	59020VAL7	2.9	+1500	S3	70-266	YTC/Baa1/A-/
3.600	SVHE 2006-OPT4 M7	83611YAM4	2.9	+2250	S3	59-096	YTC/Baa2/BBB+/
3.243	GSAMP 2006-HE4 M7	362439AM3	3.1	+1400	100	70-136	YTC/Baa1/A/
3.825	HEAT 2006-6 M7	437097AN8	3.2	+2500	100	53-024	YTC/Baa1/A/BBB+
11.250	FFML 2006-FF13 M7	30247DAM3	3.4	+1550	100	65-007	YTC/Baa1/A/
3.275	SURF 2006-BC3 B1	84751WAM6	3.3	+1200	S3	72-293	YTC/Baa1/A-/
4.125	HEAT 2006-7 M7	43709NAN3	3.4	+2200	100	54-297	YTC/Baa1/A-/BBB
12.000	CWL 2006-8 M7	045427AL5	3.7	+1600	S3	63-198	YTC/Baa1/BBB+/
2.837	GSAMP 2006-HE8 M7	3622M8AM8	3.6	+1400	100	66-293	YTC/Baa1/BBB+/
3.000	LBMLT 2006-10 M7	54251YAM0	3.7	+3000	100	42-155	YTC/Baa1/BBB+/
2.000	WMABS 2006-HE3 M7	93934MAM9	3.4	+1200	100	71-296	YTC/Baa1/BBB+/
4.000	LBMLT 2006-9 M7	54251WAM4	3.6	+3000	100	43-063	YTC/Baa1/A-/
7.000	GSAMP 2007-NC1 M7	3622MGAM0	3.8	+1200	100	69-261	YTC/Baa1/BBB+/
5.000	WMHE 2007-HE1 M7	933631AM5	3.9	+2000	100	54-103	YTC/Baa1/BBB+/
5.862	SURF 2007-BC1 B1	84752BAP4	4.0	+1400	S3	64-198	YTC/Baa1/BBB+/
7.000	MSAC 2007-NC1 B1	617505AM4	4.7	+1400	S3	61-304	YTC/Baa1/BBB+/
2.000	MSAC 2005-WMC1 B3	61744CMC7	0.6	+2500	S3	88-108	YTC/Baa3/BBB-/BBB-
5.000	FHLT 2005-B M10	35729PKE9	1.2	+3650	S4	69-292	YTC/Baa3/BBB-/
10.218	PPSI 2004-WCW1 M7	70069FAJ6	1.3	+2000	S4	82-191	YTC/Baa2//BBB
4.500	ECR 2005-4 M9	29256PBE3	1.9	+2000	40	73-151	YTC/Baa3/BBB-/
3.000	INABS 2005-B M9	456606HB1	2.1	+2050	100	71-267	YTC/Baa3/BBB/BBB-
3.150	RASC 2005-KS12 M9	753910AM0	2.7	+1700	S4	71-276	YTC/Baa3/BBB+/
2.400	SVHE 2006-OPT4 M8	83611YAN2	2.8	+3200	S3	50-042	YTC/Baa3/BBB/
7.156	GSAMP 2006-HE3 M9	36244KAP0	2.9	+3000	100	50-281	YTC/Baa3/BBB+/
1.500	FHLT 2006-A M8	35729RAP1	2.9	+2600	100	55-214	YTC/Ba3/BB/BB
5.000	NCHET 2006-1 M9	64352VRB9	3.0	+3300	100	48-137	YTC/B3/B/BB
8.410	GSAMP 2006-HE5 M9	362437AP0	3.3	+3000	100	47-293	YTC/Baa3/BBB/
3.131	FHLT 2006-D M9	35729VAP2	3.6	+2700	100	49-225	YTC/Baa3/BBB-/BB
4.000	SASC 2006-EQ1A M9	86360RAP8	3.7	+1300	30	72-127	YTC/Baa3/BBB-/
7.100	RAMP 2006-RZ3 M9	75156MAM7	3.9	+2000	100	59-037	YTC/Baa3//BBB-
1.421	MSAC 2006-HE7 B3	61750MAQ8	4.1	+2500	S3	48-252	YTC/Ba2/BBB-/
FIXED Alt-A			AVL	Sprd	Ppy	App Prc	Fctr/Notes
FLOATING Alt-A			AVL	DM	Ppy	App Prc	Fctr/Notes
4.000	GSAA 2006-10 AV1	362375AA5	0.6	+75	20	99-196	0.44/YTC/Aaa/AAA/
7.300	GSAA 2006-3 A1	362334BQ6	1.0	+75	20	99-111	0.52/YTC/Aaa/AAA/
4.300	GSAA 2006-12 A1	362381AA3	1.2	+75	20	99-066	0.65/YTC/Aaa/AAA/
20.000	GSAA 2006-19 A1	362244AA3	1.2	+75	20	99-074	0.69/YTC/Aaa/AAA/
25.000	GSAA 2004-6 A2	36228F7E0	1.2	+50	40	99-280	0.14/YTC/Aaa/AAA/
21.500	IMM 2005-4 1A2	45254NPC5	1.9	+75	20	99-091	0.33/YTC/Aaa/AAA/
3.000	GSAA 2006-20 1A1	362351AA6	1.3	+75	20	99-046	0.76/YTC/Aaa/AAA/
20.000	GSAA 2005-15 2A2	362341D71	3.2	+95	20	97-298	1.00/YTC/Aaa/AAA/
15.000	IMM 2004-11 2M2	45254NME4	0.9	+300	20	97-256	0.24/YTC/Aa2/AA/
10.255	BSABS 2007-AC1 M1	07389XAE3	6.0	+400	20	83-188	1.00/YTC/Aa2/AA/
5.000	BSABS 2007-AC2 M1	073854AD3	6.2	+400	20	83-056	1.00/YTC/Aa2/AA/
1.000	GSAA 2005-5 B2	36242DS38	1.0	+3000	20	76-233	
1.00/YTC/Baa2/BBB/BBB							
0.700	GSAA 2005-9 B3	362341GT0	3.1	+2500	20	55-253	1.00/YTC/Baa3/BBB-/
0.730	GSAA 2005-6 M3	36242D3Z4	3.7	+2500	20	52-283	1.00/YTC/A2/A/
1.000	GSAA 2006-9 B1	362382AP8	4.8	+1900	20	51-284	1.00/YTC/Baa2/A/
4.551	GSAA 2005-11 M4	362341PE3	4.6	+800	20	76-095	1.00/YTC/A3/A-/
6.552	CWALT 2005-AR1 M5	12668A4X0	5.3	+1350	20	60-097	1.00/YTC/A2/*-/A+/
William Street Funding			AVL	DM	Ppy	App Prc	Fctr/Notes
Small Business Administration			AVL	Sprd	Ppy	Handle	Fctr/Notes

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SP CDOs AVL DM Ppy App Prc Fctr/Notes

NIMs AVL Yield Ppy App Prc Fctr/Notes

	Floating Cards	Fixed Cards	Autos	RRB	HomeEq Fxd	HomeEq Flt	Student Loan FFELP	Student Loan Private
1	-2/-3	-3/-4	-1/-2	-4/-5	30/25	10/8	0/-1	2/1
2	-1/-2	-2/-3	0/-1	-3/-4	42/37	16/13	1/0	3/2
3	0/-1	-1/-2	4/3	-2/-3	52/47	25/20	3/2	4/3
5	4/3	2/1		1/0	85/80	29/24	7/6	6/5
7	6/5	5/4		6/5	105/95	35/30	11/10	14/13
10	9/7	8/7		9/8	112/107		13/12	18/17

HomeEq Flt Mezz/Sub	
AA	70/55
A	145/125
BBB+	375/300
BBB	575/450
BBB-	800/625

ABX.HE.07-2 Closes

	Price	Spread	Change
AAA	96-00	141	-25bp
AA	85-00	588	-154bp
A	61-00	1470	-105bp
BBB	42-00	2213	-4bp
BBB-	39-00	2318	-33bp

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Confidential Treatment Requested by Goldman Sachs GS MBS-E-000766420

From: Egol, Jonathan
Sent: Friday, September 07, 2007 2:18 PM
To: Bieber, Matthew G.
Subject: FW: Timberwolf -- Default Swap Collateral

FYI

From: Swenson, Michael
Sent: Friday, September 07, 2007 2:02 PM
To: Egol, Jonathan; Lehman, David A.
Subject: RE: Timberwolf -- Default Swap Collateral

agreed

From: Egol, Jonathan
Sent: Friday, September 07, 2007 2:00 PM
To: Swenson, Michael; Lehman, David A.
Subject: RE: Timberwolf -- Default Swap Collateral

I suggest we round up some AAA cards/slabs to propose

From: Swenson, Michael
Sent: Friday, September 07, 2007 7:22 AM
To: Egol, Jonathan
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

From: Joe Marconi [mailto:joe.marconi@greywolfcapital.com]
Sent: Friday, September 07, 2007 7:23 AM
To: Lehman, David A.
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: As we discussed yesterday, I believe that your refusal to approve the purchase of any additional Default Swap Collateral into Timberwolf is unreasonable and inconsistent with the way the transaction structure was originally presented to us. We were told that the purpose of the approval rights was to permit GS to review specific assets and approve or disapprove specific assets based on their relative credit merits. If we thought for a second that you had the right to prohibit all new purchases indefinitely, we would have implemented the much simpler GIC structure that is used in most other synthetic CDOs and CDO^2 transactions and thereby locked in a fixed spread to LIBOR for the term of our transaction. Also, the Timberwolf CDS economics include an ongoing fee to GS for the put swap component of the trade; we would not have agreed to those terms if we thought you had this option. Finally, I believe that if anyone on the deal team thought you had this option, it would have been clearly disclosed in the OM. Especially given current market conditions, I am surprised that you are taking a position that will directly result in less cash flow being available to debt and equity investors. As I said yesterday, we recognize the impact of current market conditions and, even before I spoke with Matt, I was suggesting we collectively focus on shorter average life AAA RMBS for

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2661

the deal and I specifically solicited feedback on securities where GS would be comfortable. I continue to be surprised by your response. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914[redacted]
E) joe.marconi@greywolfcapital.com

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

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From: Joe Marconi
Sent: Thursday, September 06, 2007 9:19 AM
To: 'david.lehman@gs.com'
Cc: Joe Marconi; Greg Mount; Bieber, Matthew G.; Swenson, Michael
Subject: FW: Timberwolf -- Default Swap Collateral
Importance: High

David: I would like to have a call with you to discuss the purchase of Default Swap Collateral into Timberwolf. I understand you are traveling this week. Let me know when you will have some time to talk. In response to the attached message, Matt told me that GS will not approve the purchase of any additional Default Swap Collateral into Timberwolf. While GS does have consent rights regarding the purchase of Default Swap Collateral, a blanket refusal to approve any assets is inappropriate, inconsistent with the parties' original expectations and will negatively impact the performance of both the debt and equity issued by Timberwolf. Give me a call when you can. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914[redacted]
E) joe.marconi@greywolfcapital.com

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From: Joe Marconi
Sent: Thursday, September 06, 2007 8:18 AM
To: 'Shimonov, Roman'
Cc: Joe Marconi; Bieber, Matthew G.; 'Martin, Nicole'
Subject: Timberwolf -- Default Swap Collateral

Roman:

We are doing our credit work on these 3 bonds which are shown on the GS inventory sheet. If we get comfortable with these positions, would GS be ok adding them to Timberwolf as Default Swap Collateral? We should be done with our credit work today.

Thanks. Joe.

FLOATING Home Equity			AVL	DM	Ppy	App Prc Fctr/Notes
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191 1.00/YTC
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195 0.76/YTC
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161 0.68/YTC

From: Bruns, William [mailto:William.Bruns@gs.com]
Sent: Thursday, September 06, 2007 7:48 AM
To: undisclosed-recipients
Subject: Goldman Sachs ABS Inventory (External)

ABS Cash Trading: Mike Swenson Deeb Salem Edwin Chin Jordan Kaufman Will Bruns +1 (212)902-5090

In autos:
- **CARMX** announced a $500mm deal.

In cards:
- **CCCIT** announced a $750mm deal.

<<Inventory.xls>>

Amt ($mm)	Issue	CUSIP	AVL	Sprd	Ppy	Approx Price	Fctr/Notes
FIXED Credit Cards/Dealer Floorplan/Student Loans							
3.750	MBNAS 2003-A11 A11	55264TCH2	1.1	E+24		98-	1.00/YTC/Aaa/AAA/AAA
3.750	BOIT 2003-A9 A9	06423RBE5	1.1	E+24		SOLD	1.00/YTC/Aaa/AAA/AAA
10.000	MBNAM 1999-J B	55262TEV1	2.0	N+50		104-	1.00/YTC/A2/A+/A+
FLOATING Credit Cards/Dealer Floorplan/Autos/UK & Aussie RMBS/Equipment/Stranded Cost							
3.300	CNHMT 2005-1 A	12615SAE0	0.8	+20		99-297	1.00/YTC/Aaa/AAA/AAA
1.500	CCCIT 2007-A2 A2	17305EDS1	2.7	+28		99-072	1.00/YTC/Aaa/AAA/AAA
12.500	COMET 2004-C2 C2	14041NBH3	6.4	+125		98-305	1.00/YTC/Baa2/BBB/BBB

3.000	GEBL 2006-2A D	36159EAG7	#N/A	N+300		90-101
0.98/YTC/Baa2/BBB+/BBB						

FIXED Auto & Equipment Loans			AVL	Sprd	Ppy	Handle
Fctr/Notes						
41.780	GSALT 2004-1 A4	36292RAM3	0.0	E+35	1.25	SOLD
0.47/YTC						
8.555	NAVOT 2003-B A4	63936XAD6	0.3	E+50	0.75	99-
0.71/YTC						
3.000	AESOP 2003-3A A3	00103RAX4	0.7	E+25	0.00	98-
1.00/YTC						
7.000	GSALT 2005-1 A4	36292RAV3	1.3	E+40	1.35	98-
1.00/YTC						
2.150	HDMOT 2005-2 A2	41283ABV0	1.2	E+30	1.45	98-
1.00/YTC						
3.750	TAROT 2006-C A3	89578PAC3	1.4	E+55	1.45	99-
1.00/YTC						
17.210	HERTZ 2004-1A A3	42805RAC3	0.5	E+25	0.00	98-
1.00/YTC						

FIXED Stranded Cost			AVL	Sprd	Ppy	Handle
Fctr/Notes						
15.000	CNP 2001-1 A3	75953MAC4	1.3	E+20	0	99-
1.00/YTC						
5.000	CPL 2002-1 A3	12617AAC1	1.7	E+20	0	100-
1.00/YTC						
4.000	CONFD 2001-1 A4	210523AD8	1.3	E+20	S1	99-
0.90/YTC						
5.060	CONFD 2001-1 A5	210523AE6	4.2	N+28	S1	101-
1.00/YTC						

Student Loans			AVL	DM	Ppy	App Prc
Fctr/Notes						
4.650	SLMA 2006-9 A2	78443KAB2	1.5	+20	100	99-214
1.00/YTC						
50.025	SLMA 2006-6 A1	83149FAA2	1.5	+20	150	99-205
0.68/YTC						
13.675	SLMA 2007-3 A1	78443YAA4	0.8	+20	20	99-253
0.81/YTC						

FIXED Home Equity			AVL	Sprd	Ppy	Handle
Fctr/Notes						
12.000	CWL 2002-S4 A5	126671UD6	0.2	E+50	25	99-
0.87/YTC						
5.000	POPLR 2005-1 AF3	73316PBK5	1.0	E+45	15	98-
0.57/YTC						
24.456	CBASS 2004-CB1 AF1	04542BFH0	1.4	E+55	30	97-
0.03/YTC						
7.585	ACCR 2003-2 A1	004375AN1	2.8	N+100	100	95-
0.31/YTC						
5.273	SAIL 2005-8 M7	86358EXW1	3.8			55-
1.00/YTC/Ba3/BBB/						
10.000	SAIL 2005-8 M8	86358EXX9	3.8			45-
1.00/YTC/B3/B/						
4.220	CWL 2005-11 MF8	126670CU0	4.0	N+500	S3	87-

1.00/YTC/Baa2/BBB/						
4.364	GSAMP 2004-AR2 B4	36242DDY6	0.8	E+1500	45	89-
0.36/YTC/Ba1//BB+						
FLOATING	Home Equity		AVL	DM	Ppy	App Prc
Fctr/Notes						
75.247	SVHE 2005-4 2A3	83611MKB3	0.6	+90	35	99-191
1.00/YTC						
5.000	CWL 2005-BC5 3A2	126670NC8	0.6	+90	35	99-195
0.76/YTC						
13.335	ABFC 2006-HE1 A2A	00075WAB5	0.8	+70	20	99-161
0.68/YTC						
20.000	MSAC 2004-HE8 A4	61744CGW0	0.1	+45	35	99-317
0.04/YTC						
5.000	CMLTI 2007-WFH2 A3	17312BAC6	2.3	+150	100	97-053
1.00/YTC						
2.000	OWNIT 2006-5 A2C	69121EAE8	2.8	+140	S3	96-262
1.00/YTC						
12.000	GSAMP 2005-WMC3 A1B	362341L23	3.0	+65	20	99-064
0.54/YTC						
10.000	JPMAC 2006-NC1 A5	46626LJQ4	4.7	+175	100	94-025
1.00/YTC						
11.000	GSAMP 2005-WMC2 A2C	362341UZ0	5.0	+95	100	97-141
1.00/YTC						
9.437	TMTS 2006-3 2A3	881561W26	3.9	+375	S3	88-186
1.00/YTC						
10.000	AMSI 2005-R3 M2	03072SZY4	1.9	+450	30	93-067
YTC/Aa2/AA/AA						
2.000	RASC 2005-AHL3 M2	76110W6P6	2.9	+750	30	83-164
YTC/Aa2/AA/						
7.000	SURF 2006-BC2 M2	84751PLR8	3.2	+550	S3	86-098
YTC/Aa2/AA/						
7.115	BAYV 2004-C M1	073247BL1	0.1	+200	21	97-097
YTM/Aa2/AA/AA						
3.050	HEAT 2006-6 M3	437097AJ7	3.3	+1000	100	75-093
YTC/Aa3/AA/AA+						
15.836	OWNIT 2006-6 M1	69121TAF2	4.1	+450	S3	86-044
YTC/Aa1/AA+/						
12.376	GSAMP 2007-FM1 M3	3622MAAH4	5.6	+600	100	76-143
YTC/Aa3/AA-/						
15.992	HASC 2006-WMC1 M3	40430MAJ6	5.7	+900	30	66-075
YTC/Aa3/AA/BBB-						
16.000	ABFC 2003-OPT1 M2	04542BDJ8	0.4	+800	S4	97-248
YTC/A2/AA/A+						
3.000	ACE 2005-RM1 M6	004421LR2	0.7	+900	30	92-208
YTM/A3/A/A-						
7.810	GSAMP 2004-NC2 M3	36242DHC0	1.3	+550	100	95-102
YTC//A-/A-						
2.341	BSABS 2005-1 M3	073877AX0	1.2	+1500	35	85-244
YTC//A-/A-						
10.554	HEAT 2005-1 M5	437084HU3	1.5	+1600	100	80-223
YTC/A2/A+/						
2.500	AMSI 2005-R6 M2	03072SG33	2.0	+700	40	88-300

YTC/NR/AA/AA							
2.500	AMSI 2005-R6 M3	03072SG41	1.8	+700	40	89-266	
YTC/NR/AA-/AA-							
2.000	CWL 2005-6 M5	126673W65	2.2	+355	30	94-134	
YTC/A2/A/							
1.000	CBASS 2005-CB7 M6	12489WPR9	2.6	+600	S3	88-125	
YTC/A3/AA/A+							
8.218	FFML 2006-FF11 M6	32028PAM7	3.3	+1300	100	69-291	
YTC/A3/A/BBB+							
8.733	ABFC 2006-OPT1 M6	00075QAK8	3.1	+600	S4	85-158	
YTC/A3/A-/A-							
1.029	CARR 2005-FRE1 M5	144531EK2	3.2	+500	25	88-151	
YTC/A2/A/							
10.378	LBMLT 2006-7 M6	54251TAL3	3.4	+2500	100	50-032	
YTC/A3/A+/BBB							
3.902	JPMAC 2006-NC2 M6	46629FAK6	3.4	+1200	100	71-067	
YTC/A3/A-/A-							
7.000	JPMAC 2006-CW2 MV6	46629BAY5	3.4	+1200	100	71-052	
YTC/A3/A-/A-							
2.400	MABS 2006-NC2 M6	55275BAL1	3.4	+1600	100	63-125	
YTC/A2/A-/A-							
3.330	LBMLT 2006-8 M6	54251UAL0	3.5	+2500	100	49-071	
YTC/A3/A+/							
2.500	SASC 2006-BC5 M6	86359SAL8	3.8	+800	30	77-293	
YTC/A2/A-/A							
3.000	SASC 2006-WF3 M6	86361EAL5	3.9	+800	30	77-304	
YTC/A2/A-/A-							
2.000	SABR 2006-NC3 M5	81377CAH1	3.5	+1400	100	66-102	
YTC/A2/A-/A-							
4.000	SAST 2006-3 M6	80556AAK3	3.5	+1300	S4	68-107	
YTC/A3/A/							
2.320	CARR 2006-NC5 M6	144539AL7	3.6	+850	100	77-136	
YTC/A2/A-/A-							
4.000	MLMI 2006-MLN1 M6	59023AAL0	3.6	+1300	S3	68-005	
YTC/A3/A/							
6.000	LBMLT 2006-9 M6	54251WAL6	3.6	+2500	100	48-112	
YTC/A3/A-/							
2.423	MSAC 2006-HE3 M5	61749HAK6	3.7	+1100	S3	71-280	
YTC/A2/A/BBB+							
2.436	CMLTI 2006-NC2 M6	17309TAL2	3.4	+1400	100	67-112	
YTC/A3/A-/							
6.802	MABS 2006-WMC3 M6	55291KAL1	3.6	+1600	100	62-121	
YTC/A3/A/							
7.278	JPMAC 2006-RM1 M6	46629NAM5	3.7	+1500	100	63-215	
YTC/A3/A-/BBB							
9.833	NHEL 2007-1 M6	669971AL7	3.8	+900	100	76-134	
YTC/A3/A-/							
5.007	GSAMP 2007-H1 M6	36245YAK0	3.9	+1600	S3	60-272	
YTC/A3//A-							
3.000	ACCR 2007-1 M6	00438QAK0	4.1	+1000	100	71-241	
YTC/A3/A/							
1.000	ACE 2003-HE1 M4	004421DD2	0.2	+2200	45	96-114	
YTC/Baa1/BBB+/BBB+							
1.000	SURF 2003-BC4 B2	84751PBP3	0.4	+1500	50	94-265	
YTC/Baa2/BBB/							
1.000	ACE 2003-HE1 M5	004421DE0	0.2	+2000	45	96-246	

YTC/Baa2/BBB/BBB						
1.500	SACO 2006-6 B1	785779AH2	2.6			20-000
YTC/C/CCC/						
3.000	SACO 2006-6 B2	785779AJ8	2.6			10-000
YTC/C/CCC/						
7.550	CWL 2005-13 MV8	126670HR2	2.2	+800	40	88-301
YTC/Baa2/BBB+/						
1.250	WFHET 2006-1 M7	9497EUAP2	2.8	+2000	100	62-301
YTC/Baa1/A/						
3.650	MLMI 2006-HE2 B1	59020VAL7	2.9	+1500	S3	70-266
YTC/Baa1/A-/						
3.600	SVHE 2006-OPT4 M7	83611YAM4	2.9	+2250	S3	59-096
YTC/Baa2/BBB+/						
3.243	GSAMP 2006-HE4 M7	362439AM3	3.1	+1400	100	70-136
YTC/Baa1/A/						
3.825	HEAT 2006-6 M7	437097AN8	3.2	+2500	100	53-024
YTC/Baa1/A/BBB+						
11.250	FFML 2006-FF13 M7	30247DAM3	3.4	+1550	100	65-007
YTC/Baa1/A/						
3.275	SURF 2006-BC3 B1	84751WAM6	3.3	+1200	S3	72-293
YTC/Baa1/A-/						
4.125	HEAT 2006-7 M7	43709NAN3	3.4	+2200	100	54-297
YTC/Baa1/A-/BBB						
12.000	CWL 2006-8 M7	045427AL5	3.7	+1600	S3	63-198
YTC/Baa1/BBB+/						
2.837	GSAMP 2006-HE8 M7	3622M8AM8	3.6	+1400	100	66-293
YTC/Baa1/BBB+/						
3.000	LBMLT 2006-10 M7	54251YAM0	3.7	+3000	100	42-155
YTC/Baa1/BBB+/						
2.000	WMABS 2006-HE3 M7	93934MAM9	3.4	+1200	100	71-296
YTC/Baa1/BBB+/						
4.000	LBMLT 2006-9 M7	54251WAM4	3.6	+3000	100	43-063
YTC/Baa1/A-/						
7.000	GSAMP 2007-NC1 M7	3622MGAM0	3.8	+1200	100	69-261
YTC/Baa1/BBB+/						
5.000	WMHE 2007-HE1 M7	933631AM5	3.9	+2000	100	54-103
YTC/Baa1/BBB+/						
5.862	SURF 2007-BC1 B1	84752BAP4	4.0	+1400	S3	64-198
YTC/Baa1/BBB+/						
7.000	MSAC 2007-NC1 B1	617505AM4	4.7	+1400	S3	61-304
YTC/Baa1/BBB+/						
2.000	MSAC 2005-WMC1 B3	61744CMC7	0.6	+2500	S3	88-108
YTC/Baa3/BBB-/BBB-						
5.000	FHLT 2005-B M10	35729PKE9	1.2	+3650	S4	69-292
YTC/Baa3/BBB-/						
10.218	PPSI 2004-WCW1 M7	70069FAJ6	1.3	+2000	S4	82-191
YTC/Baa2//BBB						
4.500	ECR 2005-4 M9	29256PBE3	1.9	+2000	40	73-151
YTC/Baa3/BBB-/						
3.000	INABS 2005-B M9	456606HB1	2.1	+2050	100	71-267
YTC/Baa3/BBB/BBB-						
3.150	RASC 2005-KS12 M9	753910AM0	2.7	+1700	S4	71-276
YTC/Baa3/BBB+/						
2.400	SVHE 2006-OPT4 M8	83611YAN2	2.8	+3200	S3	50-042
YTC/Baa3/BBB/						
7.156	GSAMP 2006-HE3 M9	36244KAP0	2.9	+3000	100	50-281

YTC/Baa3/BBB+/						
1.500	FHLT 2006-A M8	35729RAP1	2.9	+2600	100	55-214
YTC/Ba3/BB/BB						
5.000	NCHET 2006-1 M9	64352VRB9	3.0	+3300	100	48-137
YTC/B3/B/BB						
8.410	GSAMP 2006-HE5 M9	362437AP0	3.3	+3000	100	47-293
YTC/Baa3/BBB/						
3.131	FHLT 2006-D M9	35729VAP2	3.6	+2700	100	49-225
YTC/Baa3/BBB-/BB						
4.000	SASC 2006-EQ1A M9	86360RAP8	3.7	+1300	30	72-127
YTC/Baa3/BBB-/						
7.100	RAMP 2006-RZ3 M9	75156MAM7	3.9	+2000	100	59-037
YTC/Baa3//BBB-						
1.421	MSAC 2006-HE7 B3	61750MAQ8	4.1	+2500	S3	48-252
YTC/Ba2/BBB-/						
FIXED Alt-A			AVL	Sprd	Ppy	App Prc
Fctr/Notes						
FLOATING Alt-A			AVL	DM	Ppy	App Prc
Fctr/Notes						
4.000	GSAA 2006-10 AV1	362375AA5	0.6	+75	20	99-196
0.44/YTC/Aaa/AAA/						
7.300	GSAA 2006-3 A1	362334BQ6	1.0	+75	20	99-111
0.52/YTC/Aaa/AAA/						
4.300	GSAA 2006-12 A1	362381AA3	1.2	+75	20	99-066
0.65/YTC/Aaa/AAA/						
20.000	GSAA 2006-19 A1	362244AA3	1.2	+75	20	99-074
0.69/YTC/Aaa/AAA/						
25.000	GSAA 2004-6 A2	36228F7E0	1.2	+50	40	99-280
0.14/YTC/Aaa/AAA/						
21.500	IMM 2005-4 1A2	45254NPC5	1.9	+75	20	99-091
0.33/YTC/Aaa/AAA/						
3.000	GSAA 2006-20 1A1	362351AA6	1.3	+75	20	99-046
0.76/YTC/Aaa/AAA/						
20.000	GSAA 2005-15 2A2	362341D71	3.2	+95	20	97-298
1.00/YTC/Aaa/AAA/						
15.000	IMM 2004-11 2M2	45254NME4	0.9	+300	20	97-256
0.24/YTC/Aa2/AA/						
10.255	BSABS 2007-AC1 M1	07389XAE3	6.0	+400	20	83-188
1.00/YTC/Aa2/AA/						
5.000	BSABS 2007-AC2 M1	073854AD3	6.2	+400	20	83-056
1.00/YTC/Aa2/AA/						
1.000	GSAA 2005-5 B2	36242DS38	1.0	+3000	20	76-233
1.00/YTC/Baa2/BBB/BBB						
0.700	GSAA 2005-9 B3	362341GT0	3.1	+2500	20	55-253
1.00/YTC/Baa3/BBB-/						
0.730	GSAA 2005-6 M3	36242D3Z4	3.7	+2500	20	52-283
1.00/YTC/A2/A/						
1.000	GSAA 2006-9 B1	362382AP8	4.8	+1900	20	51-284
1.00/YTC/Baa2/A/						
4.551	GSAA 2005-11 M4	362341PE3	4.6	+800	20	76-095
1.00/YTC/A3/A-/						
6.552	CWALT 2005-AR1 M5	12668A4X0	5.3	+1350	20	60-097

1.00/YTC/A2/*-/A+/

William Street Funding	AVL	DM	Ppy	App Prc
Fctr/Notes				
Small Business Administration	AVL	Sprd	Ppy	Handle
Fctr/Notes				
SP CDOs	AVL	DM	Ppy	App Prc
Fctr/Notes				
NIMs	AVL	Yield	Ppy	App Prc
Fctr/Notes				

==========

	Student Floating Cards	Student Fixed Cards	Autos	RRB	HomeEq Fxd	HomeEq Flt	Student Loan FFELP	Student Loan
Private								
1	-2/-3	-3/-4	-1/-2	-4/-5	30/25	10/8	0/-1	2/1
2	-1/-2	-2/-3	0/-1	-3/-4	42/37	16/13	1/0	3/2
3	0/-1	-1/-2	4/3	-2/-3	52/47	25/20	3/2	4/3
5	4/3	2/1		1/0	85/80	29/24	7/6	6/5
7	6/5	5/4		6/5	105/95	35/30	11/10	14/13
10	9/7	8/7		9/8	112/107		13/12	18/17

HomeEq Flt Mezz/Sub	
AA	70/55
A	145/125
BBB+	375/300
BBB	575/450
BBB-	800/625

ABX.HE.07-2 Closes

	Price	Spread	Change
AAA	96-00	141	-25bp
AA	85-00	588	-154bp
A	61-00	1470	-105bp
BBB	42-00	2213	-4bp
BBB-	39-00	2318	-33bp

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From: Lehman, David A.
Sent: Tuesday, September 11, 2007 2:56 AM
To: Bieber, Matthew G.; Egol, Jonathan
Subject: Re: TWOLF default swap collateral

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Ok

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Bieber, Matthew G.
To: Lehman, David A.; Egol, Jonathan
Sent: Mon Sep 10 14:32:15 2007
Subject: TWOLF default swap collateral

Managed to catch up with Dan just now..we're going to put together a list of SLMA floaters in our inventory to show Joe. Going over w/ Dan tomorrow before sending anything externally

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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2663

From: Bieber, Matthew G.
Sent: Tuesday, September 25, 2007 11:18 AM
To: 'Joe Marconi'
Subject: RE: CMBS Candidates for TWOLF Default Swap Collateral

great. our eyes are open for this paper as well.

From: Joe Marconi [mailto:joe.marconi@greywolfcapital.com]
Sent: Tuesday, September 25, 2007 10:37 AM
To: Bieber, Matthew G.
Cc: Joe Marconi
Subject: RE: CMBS Candidates for TWOLF Default Swap Collateral

Matt: Thank you. We are looking at these and will get back to the desk. Also, we are trying to find some short credit card ABS from the programs you have approved. We will let you know what we find. Joe.

Joe Marconi
GREYWOLF CAPITAL
4 Manhattanville Road, Suite 201
Purchase, NY 10577
P) 914.251.8249
F) 914.251.8244
M) 914.[redacted]
E) joe.marconi@greywolfcapital.com

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From: Bieber, Matthew G. [mailto:Matthew.Bieber@gs.com]
Sent: Tuesday, September 25, 2007 10:02 AM
To: Joe Marconi
Cc: Solomon, Benjamin; AcriGarofalo, Domenico; Lehman, David A.
Subject: CMBS Candidates for TWOLF Default Swap Collateral

Joe -

Had a look through our CMBS inventory and found some suitable candidates for default swap collateral. If you are interested in these positions pls contact Ben or Dom (cc'd on this email). They can also be reached at 212-902-2927.

Orig Face	Curr Face	Name	Avg Life	Indicative Level	S&P	Moody's	Fitch
7.6	6.018	CSMC 06TF2A A1	0.5	99-24	AAA	Aaa	AAA
13.9	10.119	WBCMT 06WL7A A1	0.6	99-20	AAA	Aaa	AAA
5	5	CSMS 06HC1A A1	0.6	99-00	AAA	Aaa	

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Wall Street & The Financial Crisis
Report Footnote #2664

From: Sparks, Daniel L
Sent: Tuesday, November 20, 2007 1:27 PM
To: Saunders, Tim; Bieber, Matthew G.; Lehman, David A.
Subject: FW: Funded Collateral for Synthetics

From: Ron Beller [mailto:Ron.Beller@pelotonpartners.com]
Sent: Tuesday, November 20, 2007 1:00 PM
To: Sparks, Daniel L
Subject: FW: Funded Collateral for Synthetics

One of the examples of the emails I mentioned below. There are others as well as contemporaneous notes of our conversation with peter ostrem when he presented the idea to us, and contemporaneous notes taken from other calls and meetings with your team. In case I wasn't clear on the call, our three main points would be:

1. The aim of the collateral account was to provide LIBOR and not add additional risk to the deal.
2. GS said they would take market risk and clearly represented that to us and to the ratings agencies.
3. The only way the deal works, and the way the deal was marketed and explained to us, is that paydowns are equivalent to partial terminations. We do not believe you have any right to refuse to release excess cash that is no longer needed as collateral, and we do not believe you have the right to release bonds into the waterfall ever, and certainly not when cash exists.

Perhaps the way you did these deals changed over time and you are comparing our deal to ones which you marketed or structured later/differently?

I look forward to hearing from you.

Ron

From: Peter Howard
Sent: 08 November 2007 13:38
To: Ron Beller
Cc: David Watson
Subject: FW: Funded Collateral for Synthetics

From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: 13 March 2006 17:23
To: Peter Howard
Subject: RE: Funded Collateral for Synthetics

GS has exposure to 100% of the funded collateral backing the synthetic positions. if the liquidation proceeds of an asset (gs as swap counterparty gets to choose which assets are liquidated) are less than the writedown amt owed to goldman - goldman has mv risk. Deal retains upside (collateral liquidated at a premium).

From: Peter Howard [mailto:Peter.Howard@pelotonpartners.com]
Sent: Monday, March 13, 2006 12:20 PM
To: Bieber, Matthew G.

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Wall Street & The Financial Crisis
Report Footnote #2664

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Subject: RE: Funded Collateral for Synthetics

Doesn't 100% of the facility have exposure to GS put?

From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: 13 March 2006 15:51
To: Peter Howard
Subject: Funded Collateral for Synthetics

Here's an overview of the asset criteria we used in our last transaction:

(i) rated "P-1" and, if such asset has a long-term rating from Moody's, "Aaa" by Moody's and "A-1+" and, if such asset has a long-term rating from S&P

(ii) expected to have an outstanding principal balance of less than $1,000 after stated maturity of class A-1 notes, assuming a constant prepayment rate since the date of purchase equal to the lesser of (a) 5% per annum and (b) the constant prepayment rate reasonably expected by the collateral manager as of the date of purchase

(iii) after taking into consideration the addition of any such security (a) at least 20% of the default swap collateral by principal balance has an expected average life of less than or equal to 1 year, (b) at least 80% of the Default Swap Collateral by principal balance has an expected average life of less than or equal to 3.25 years and (c) all default swap collateral has an expected average life of less than or equal to 4 years

(iv) with the inclusion of such security, no more than 30% of the Default Swap Collateral by principal balance has single counterparty exposure including servicer, issuer and put swap counterparty exposure

(v) provides for payments of periodic interest and for a payment of principal in full at its final maturity and

(vi) each such security satisfies the definition of an "Eligible Investment" or is a residential mortgage backed security, a commercial mortgage backed security, an asset backed security or a collateralized debt obligation.

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From: Trinh, Kristina [Kristina.Trinh@tcw.com]
Sent: Tuesday, November 27, 2007 5:38 PM
To: Bieber, Matthew G.; Lin, Shelly
Cc: Nichols, Susan; Fiorillo, Vincent; Shinoda, Ken
Subject: FW: AAA Default swap collateral

Hi Matt,

As of today we have $5.5mm and $11.7mm in synthetic collateral cash in DSVII and WCI respectively from paydowns of synthetic collateral securities. We were able to find bonds from the September approved list below. Please let us know if you approve these names – or would like to keep the cash in the overnight account. Also let us know if you have a preferred allocation.

BOIT 02-A6 A
GSAMP 2005-WMC3 A1B
CHAIT 2005-A9 A9
BACCT 2007-A13 A13

Thank you.

Kristina

865 S. Figueroa Street, Suite 1800
Los Angeles, CA 90017
Tel: 213-244-0177 | Fax: 213-244-0506
kristina.trinh@tcw.com

From: Bieber, Matthew G. [mailto:Matthew.Bieber@gs.com]
Sent: Tuesday, October 23, 2007 5:32 PM
To: Trinh, Kristina; Lin, Shelly
Cc: Nichols, Susan; Fiorillo, Vincent; Shinoda, Ken; Lee, Michael; Case, Benjamin
Subject: RE: AAA Default swap collateral

Hi Kristina -

Lets keep in cash in the overnight account - until collateral can be found.

Regards,
Matt

From: Trinh, Kristina [mailto:Kristina.Trinh@tcw.com]
Sent: Tuesday, October 23, 2007 7:13 PM
To: Lin, Shelly; Bieber, Matthew G.
Cc: Nichols, Susan; Fiorillo, Vincent; Shinoda, Ken; Lee, Michael
Subject: FW: AAA Default swap collateral

Hi Matt and Shelly,

Tomorrow the CP in DSVII's synthetic collateral account rolls, leaving $4.6mm in synthetic collateral cash. So we will try to look for bonds per the email below. If we are unable to find one under the following parameters, would you still want to keep the cash in the overnight account or did you want to take a look at corp CP again? Thanks.

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Wall Street & The Financial Crisis
Report Footnote #2665

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Kristina

From: Bieber, Matthew G. [mailto:Matthew.Bieber@gs.com]
Sent: Thursday, September 20, 2007 11:47 AM
To: Fiorillo, Vincent
Cc: Lin, Shelly
Subject: AAA Default swap collateral

Per our discussion earlier today -

RMBS: CBASS, GSAMP, JPMAC, WFHET
CARDS: AMXCA, BACCT, BOIT, MBNAS, CCCIT, CHAIT, DCMT
AUTOS: COPAR, DCMOT, FORDO, HAROT, HDMOT, NALT, USAOT
STUDENT LOANS: ACCSS, GCOE, KSLT, NCSLT, SLMA (FFELP)

Generally speaking, looking at avg life less than 2 years on securities that are open window (currently amortizing). Pls include shelly lin and I on any proposed securities for approval.

Regards,
Matt

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From: Bieber, Matthew G.
Sent: Monday, October 15, 2007 3:23 PM
To: Verrochi, Matthew P.
Cc: Lehman, David A.; Case, Benjamin
Subject: Default Swap Collateral Reinvestment

Here are the shelves we'd like to use for default swap collateral reinvestment.

RMBS: CBASS, GSAA, GSAMP, JPMAC, WFHET
CARDS: AMXCA, BACCT, BOIT, MBNAS, CCCIT, CHAIT, DCMT
AUTOS: COPAR, DCMOT, FORDO, HAROT, HDMOT, NALT, USAOT
STUDENT LOANS: ACCSS, GCOE, KSLT, NCSLT, SLMA (FFELP)

In addition to the default swap collateral constraints in the docs for each transaction, also looking to securities that are (a) floating rate (b) monthly pay (c) senior-most bond in capital structure (d) avg life of less than or equal to 2 yrs (e) currently amortizing .

Please let me know if you have any questions.

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Wall Street & The Financial Crisis
Report Footnote #2666

From: Bieber, Matthew G. <Matthew.Bieber@gs.com>
Sent: Thursday, September 27, 2007 9:57 AM
To: Joe Marconi <joe.marconi@greywolfcapital.com>
Cc: Shimonov, Roman <Roman.Shimonov@gs.com>
Subject: RE: Timberwolf Default Swap Collateral

No - we need to give approval on a security by security basis.

-----Original Message-----
From: Joe Marconi [mailto:joe.marconi@greywolfcapital.com]
Sent: Thursday, September 27, 2007 9:51 AM
To: Bieber, Matthew G.
Cc: Joe Marconi; Shimonov, Roman
Subject: Timberwolf Default Swap Collateral

Matt: I am seeing this list from another dealer. Can I assume that I can buy any name on your approved list? I'd like to bid on a couple of these at 10:30am. Thanks. Joe.

-----Original Message-----
From: JOE MARCONI, GREYWOLF CAPITAL MAN
[mailto:joemarconi@bloomberg.net]
Sent: Thursday, September 27, 2007 9:49 AM
To: Joe Marconi
Subject: joe - card list @ 10:30 ...

joe - card list @ 10:30 ...

5.125M AMXCA 03-3 A	0.54yr
27,500M CCCIT 03-A9 A9	1.13yr
10.000M CCCIT 02-A8 A8	2.10yr
10.930M CHAIT 05-A1 A1	0.54yr
11.305M CHAMT 03-3 A	0.70yr
12.660M MBNAS 03-A9 A9	0.95yr
20.700M MBNAS 04-A10 A	2.04yr

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United States
Policies for the Preparation, Supervision, Distribution and Retention of Written And Electronic Communications



GOLDMAN, SACHS & CO.

February 1, 2001

Confidential Treatment
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Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2684

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I. Introduction

Goldman Sachs communicates with its customers (including private individuals, institutions and other broker/dealers), counterparties, and the general public in many ways. The integrity of these communications is essential to the firm's reputation and success. Therefore, with this manual, the firm is setting forth its policies regarding the preparation, supervision, distribution and retention of all written and electronic communications relating to our business.

For the purposes of these policies, *"communication"* is defined very broadly. It includes any and all written or electronic communication — from formal recommendations to casual opinions and thoughts relating to our business. It includes words, diagrams, pictures, graphs, and images. And it does not matter whether these be conveyed by note, letter, prospectus, advertisement, e-mail, television or radio broadcast, or any other means or media. Although these policies do not specifically cover oral communications, the same content guidelines apply to oral communications.

The policies stated in this memorandum outline the firm's expectations and requirements with respect to communications with the public relating to any business of the firm. Individual divisions or business units may establish policies that supplement or supercede parts of the policies outlined here. In addition, the section entitled "*Firm Expectations of Employee Conduct*" in the firm's Employee Handbook contains standards and guidelines that apply to the communications covered here.

Therefore, this manual must be read and implemented in conjunction with the applicable Divisional Compliance policies and the requirements of the Employee Handbook. You are responsible to know the additional requirements of the Handbook and those of your division and business unit.

Business units and **Divisional Compliance** will be responsible for communicating the contents of these policies and any related divisional or regional policies by distributing them to all appropriate personnel, by distributing any periodic updates or revisions to them, and through both new employee and on-going training programs.

While business units and **Divisional Compliance** are responsible for communicating policies, it is the responsibility of each individual to understand the rules of the firm and of the businesses in which s/he works. **Failure to comply with the policies may result in disciplinary action, including potential separation from the firm.**

As with any compliance issues, the most important thing is that you be aware of your responsibilities and seek clarification and help if you have any questions. If you have any questions about the application or interpretation of these standards and requirements or about possible exceptions to them, speak with your **Divisional Compliance** officers, to Central Compliance or the Legal Department.

II. Categorization of Communications

While these policies apply to all written and electronic communication, there are three categories of communications for which there are specific rules. These categories are **advertisements, sales literature,** and **sales correspondence**. There are two types of content that merit special attention, as well. These are **research** and **recommendations.** These categories of communication and types of content are defined below.

A. Categories of Communication

Advertisements

An advertisement is any written or electronic communication relating to the firm's securities business that is made publicly available in such a way that the individual recipients are not known to and cannot be limited by the firm. In other words, the firm does not have control over who receives, sees, or hears an advertisement.

An advertisement may include material published or designed for use in a newspaper, magazine or other periodical, radio, television, telephone or tape recording, on a generally accessible website or in or on another publicly available medium.

Advertisements must conform to standards established by Corporate Communications and must be approved before use (as described later in this manual).

Sales Literature

Sales literature is any written or electronic communication relating to the firm's securities business that is sent or made available to multiple public recipients who are known or directly targeted by the firm.

Sales literature may include, but is not limited to, circulars, research reports (including most of the publications of the firm's Investment Research Department), market letters, performance reports or summaries, and form letters. Sales literature also includes the written text of any communication delivered orally to a broad audience, such as a telemarketing script or a seminar text and material posted on password-protected websites available to clients.

The key characteristic of sales literature is that it is addressed to multiple recipients specifically targeted by the firm.

As is the case with advertisements, sales literature must be approved before use (as described later in this manual).

Sales Correspondence

Sales correspondence is any written or electronic communication (other than that classified as advertising or sale literature) that is sent or made available to a current or prospective customer by a salesperson involved in the firm's securities business or by a person who is soliciting fee-based investment advisory or management services.

The key characteristic of sales correspondence is that it is directed to a specific recipient. It may or may not need to be approved prior to use.

B. Research and Recommendations

Sales literature and sales correspondence may include a ***recommendation to a customer*** and, in certain contexts, may constitute ***research***. Recommendations and research each has its own approval process, and research requires specialized legends, which are discussed later in this manual. For the purposes of this manual:

- ***Research*** is an analysis of individual companies, industries, market conditions, or securities or other investment vehicles that provides information reasonably sufficient upon which to base an investment decision. While reports prepared by one of the firm's investment research departments generally fall into the category of research, materials prepared by other personnel also may constitute research under applicable regulations. Research does **not** include publicly available information, consensus data, or data attributable to management of the company being discussed.

- A ***recommendation*** to a customer is the promotion or endorsement of a transaction involving a security.

Note that there are significant restrictions on including any research or recommendations in marketing materials for asset management services. Consult **Divisional Compliance** policies for further guidance.

C. General Communication

As stated above, although these particular categories and types of communication require special attention, except where otherwise noted, this manual covers all written or electronic communication with the public relating to any business of the firm.

III. Content Standards

A. General Standards

No matter what you are communicating to the public, your words reflect on the reputation of the firm. Furthermore, the firm can be held accountable for what you communicate. The firm, therefore, requires that your communication reflect the high standards of the firm, not only in what you say, but also in the way you say it.

The following are general standards and requirements that the firm expects all of its employees to understand and follow in all of their communications.

Truthfulness and Completeness

Communications may not omit material facts or include untrue or misleading statements. Keep in mind that the level of detail or explanation necessary to make a communication clear, accurate, and understandable will depend, in part, on the breadth and sophistication of the intended audience and the complexity of the subject matter. For example, communicating complicated material or the lack of financial sophistication of the recipient will often warrant a more detailed presentation.

Professionalism and Good Taste

- All communications should be professional and in good taste. Of course, your communications should never contain obscene, offensive, or otherwise inappropriate, unprofessional, or unlawful language. Remember, that you do not control and you cannot always predict who the reader will be.
- Write using standard, formal written language. Pay attention to proper grammar and accurate word usage.
- Avoid superlatives and exaggerations.
- Communicate succinctly. Stay strictly to the topic of your communication. Do not include any gratuitous comments.
- Remember, your business communications become part of the official records of the firm. Regulators and other third parties may have access to these communications in the case of dispute, litigation, or criminal action.

Records of Past Performance

Any communication that portrays past performance of recommendations or actual transactions must be balanced and not misleading. In particular:

- Past performance may not be used to promise or suggest, directly or indirectly, future profits or income, nor may it be presented as indicative of future performance.
- Records or statistics must:
  - disclose the existence of any relevant costs (*e.g.*, commissions and interest charges, if applicable).
  - be clearly defined as to scope (i.e., the universe of securities or transaction types covered) and context.
  - cover at least the most recent 12-month period, if available.
- Whenever annualized rates of return are used:
  - All material assumptions used in the process of annualization must be disclosed.
  - The date and price of each initial recommendation or transaction and the date and price at the earlier of when liquidation was suggested or effected must be included.
  - Summaries or averages may be presented so long as they include the total number of items recommended or transacted, the number that advanced and declined, and an offer to provide the complete record upon request.

Finally, the communication should include an indication of general market conditions during the relevant period (*e.g.*, the performance of the S&P 500). Any such comparison should be reasonable.

Note that there are special requirements for showing past performance of mutual funds and separate account composites, and for certain other investments (*e.g.*, options). Consult **Divisional Compliance** policies for further guidance.

Speculating on Litigation Results

Do not speculate on or predict the outcome of any litigation involving the issuer of a security.

Guarantees

Do not make any guarantee of profit or against loss, or offer any promise of specific results.

Projections and Predictions

Communications may include projections and predictions (including forecasts of financial performance), but those projections and predictions must:

- Be based on reasonable assumptions.
- Be clearly labeled as opinion.
- Include a description of the assumptions and information upon which projections and predictions are based or indicate that the underlying assumptions and information are available upon request.

Hypotheticals that look backwards in time and recalculate performance based on stated assumptions are not necessarily subject to the same standard of reasonableness as forward-looking projections or predictions. This is because with backward-looking projections evidence of what actually occurred is always available for consideration. The availability of actual data limits the danger of acting on an unreasonable assumption. Forward-looking projections, on the other hand, require more care.

Note that significantly stricter standards apply to the use of forward-looking or backward-looking projections in connection with asset management services. Consult **Divisional Compliance** policies for further guidance.

Balance of Risks and Potential Rewards

Any discussion of the merits of a potential investment should be balanced with a discussion of its risks. The discussion must also provide enough information to allow the recipient to understand the full nature of the investment and of its potential risks and rewards.

Suitability of Investments

Communications may not state or imply that any particular investment is suitable for **all** investors.

Subject to otherwise applicable firm policies on suitability and requirements to "know your customer," communications may state that an investment is suitable for a particular customer or class of similarly-situated customers.

Rumors

Communications may not circulate or encourage dissemination of unsubstantiated rumors. Therefore, it is the policy of the firm to make no comment on rumors whatsoever, even to deny rumors you believe to be untrue.

Dating Communications

All communications should be appropriately dated. Any significant information that is more than six months old or otherwise is not reasonably current must be noted.

Identifying Sources

All communications should include the firm's name and, when appropriate, the name of the person who prepared the communication.

Disclosure of Client Names and Positions

Names of clients of the firm and their assets, objectives, and positions are confidential and may not be disclosed outside of the firm, or to anyone within the firm without a "need to know". Despite this general rule, the name of a client may be disclosed with the client's consent, if permitted by applicable **Divisional Compliance** policies.

B. Providing Customers with Valuations of Their Positions

Because valuations of positions can be used for a variety of reasons (risk management, accounting, as the basis of trading decisions, margining, etc.) it is imperative that valuations are carefully prepared and that both the valuations themselves and the basis on which they have been calculated are communicated clearly and completely.

Check individual divisional policies for requirements as to the form and content of valuations and as to any disclosure statements (hedge clauses) that may be required to be used.

C. Third Party Material and Testimonials

Attribution of Sources

Using outside sources without attribution is plagiarism. Plagiarism is a serious breach of the firm's standards and exposes the firm to significant legal and reputational risk. Therefore:

- All material --- whether words, graphs, charts, analyses, or other matter taken from outside sources, and whether directly quoted or simply referred to --- **must be** properly attributed. This includes paraphrases and summaries of discussions.
- Attribution may appear in footnotes or in the text.
- The attribution must be specific. Generic phrases such as "experts claim" or "market sources agree" are not sufficient or acceptable.

- Any market letter or research report prepared by an outside organization must identify the preparer and not give the impression that it was prepared by Goldman Sachs. See divisional policies regarding the use of such third-party material.

Testimonials

A testimonial is a quotation from a customer or outside expert expressing support for a Goldman Sachs product or activity. Any testimonial must be accompanied by a disclaimer, the substance of which includes the following:

- That the testimonial may not be representative of the experience of other customers.
- That the testimonial is not indicative of future performance or success.
- That it is a paid testimonial (if more than a nominal sum was paid for the testimonial).
- That the person making the testimonial has the knowledge and experience to form a valid opinion (if the testimonial concerns a technical aspect of investing).
- That the person making the testimonial has a relationship with the firm (if such a relationship exists).

If a testimonial is used in an advertisement, the Corporate Communications Department must also be consulted. **Testimonials are <u>prohibited</u> in any communication related to asset management services.**

D. Copyright Issues

Using published material from sources outside of the firm, with or without attribution, may constitute a copyright infringement. Copyright rules differ from situation to situation and from jurisdiction to jurisdiction.

Note that copyright rules are not restricted to printed material. They extend to material published in other media, including the Internet.

You should consult the section entitled "*Copyrighted Materials*" in the Employee Handbook.

E. Recommendations of Securities Transactions by Securities Salespeople*

Suitability of Recommendations Made to Customers

Prior to recommending that a customer purchase, sell or exchange any security, salespeople must have reasonable grounds for believing that the recommendation is suitable for that particular customer upon the basis of the facts disclosed by the customer as to his/her other security holdings, investment objectives and financial situation.

Know the Security Being Recommended

The suitability concept also requires a salesperson to have an adequate and reasonable basis for his/her recommendation of a particular security. This requires familiarity with the characteristics (including potential risks and rewards) of the security being recommended. Therefore, salespeople must "know their security", as well as their customer.

Determining Whether a Recommendation is Made

A broad range of circumstances may cause a transaction to be considered recommended, and this determination does not depend on the classification of the transaction by divisional policies as "solicited" or "unsolicited." In particular, a transaction will be considered to be recommended when a representative of the firm brings a *specific* security to the attention of a *particular* customer (or group of customers) through any means, including telephone, mail, e-mail or fax.

Trade Ideas

Firm employees frequently provide so-called "trade ideas" to multiple recipients. Such trade ideas are designed to help clients take advantage of market conditions and intelligence, but are not intended to be specific buy/sell recommendations for specific clients or customers. Characteristics of trade ideas frequently include:

- Market situations to watch closely.
- "If/then" suggestions, such as: "If your position is X, consider taking advantage of Y"; "if a security begins to do A, consider taking action B."
- Delivery to multiple recipients, rather than to specific clients.
- Suggestions about a range of actions rather than a specific transaction.

* Note that the requirements of this section apply to securities brokerage (including discretionary brokerage) accounts. For advisory account requirements, consult Divisional Compliance policies.

- Common distribution via e-mail.

Such trade ideas are not considered to fall within the definition of a recommendation.

Seeking Additional Guidance

In sum, whether a particular transaction is in fact recommended depends on an analysis of all the relevant facts and circumstances. Therefore, employees are required to be familiar with divisional policies on recommendations and suitability, and are encouraged to consult their Divisional Compliance personnel or the Legal Department for assistance in answering any questions.

F. Recommendations Contained in Research Reports*

When a recommendation to a customer is made in advertisements or sales literature (including the firm's published research), the market price of the security at the time of the recommendation must be indicated and the following information must be disclosed:

- Whether the firm makes a market in the security or will buy or sell the security on a principal basis
- Whether the firm was a manager or co-manager of any public offering by the issuer within the past three years
- Whether the firm, its officers, or any personnel involved in preparing the communication may have positions in the securities or options of the issuer
- Whether the firm or any of its employees is a director of the issuer.

The publication of all research reports must be approved by one of the firm's investment research departments, which will add any additional required disclosures.

G. Restricted Trading List Securities

Sales correspondence may not include discussion of, nor may a salesperson recommend transactions in, any security on the firm's Restricted Trading List without the **prior approval** of the Central Compliance Control Room.

Asset management personnel should refer to their Divisional Compliance policies which, in some instances, may differ from the foregoing.

* Note that the requirements of this section apply to securities brokerage (including discretionary brokerage) accounts. For advisory account requirements, consult Divisional Compliance policies.

H. Hedge Clauses

The proper hedge clauses must accompany all advertisements and sales literature. The hedge clauses may not be misleading or inconsistent with the content of the communication.

The required hedge clauses vary based upon product, country, recipient and a number of other factors. Therefore, contact Divisional Compliance to determine the proper hedge clauses to use on any material sent to third parties on behalf of the firm.

I. Internal-Use-Only Documents

No written or electronic communication marked (or customarily handled as) "for internal use only" or "for broker use only" may be distributed, in whole or in part, to anyone outside of the firm. This includes e-mail and material on the internal website.

If a particular business unit determines that material originally prepared for internal or broker-only use becomes appropriate for dissemination to the public, any internal use designation must be removed and all appropriate approval procedures and standards governing outside written communications, as detailed in this document, must be satisfied.

J. Distributing "To All" Memoranda

"To All" memos, whether distributed by memo, e-mail or other means, must be approved as described in the section entitled "*Firmwide Memoranda*" in the Employee Handbook.

K. Dissemination of Information Concerning The Goldman Sachs Group, Inc.

The NYSE prohibits any recommendation or solicitation with respect to the common stock of The Goldman Sachs Group, Inc. Accordingly, only the Investor Relations or Corporate Communications Departments are authorized to make any comments regarding The Goldman Sachs Group, Inc.

L. Registered, Publicly-Offered Securities (other than GSAM Mutual Funds)

The U.S. securities laws impose severe restrictions on the distribution of any written materials in the United States by participants in a U.S. registered public offering (including both IPOs and follow-on offerings) in connection with such offering other than the most

recent "red herring" prospectus and, after the offering is priced, the final prospectus. It has always been the firm's policy to adhere strictly to these requirements. In addition, it is the firm's policy to apply these requirements in a variety of other circumstances.

These restrictions are as follows:

- No written materials may be distributed outside the firm in the United States in connection with any U.S. registered public offering (both IPOs and follow-on offerings) other than the "red herring" prospectus and, after pricing of the offering, the final prospectus. This includes e-mails (including responses to clients' e-mails to us), faxes, and any other method of written communication. For example, neither the sales memorandum for the offering nor any portion thereof (nor any summary thereof) may be distributed outside the firm. In addition, only the entire "red herring" or final prospectus may be distributed; employees must not distribute selected pages from a prospectus, nor highlight or draw attention to selected portions of the prospectus. These restrictions continue in effect for the first 25 days after the pricing of a U.S. registered IPO.

- It is firm policy, in connection with U. S. registered public offerings, to observe the foregoing restrictions with respect to the distribution of written materials outside the U. S.

- It is also firm policy to observe the foregoing restrictions with respect to the distribution of written materials, both inside and outside the U. S., in connection with Regulation S and Rule 144A offerings.

Any exceptions to the first of the foregoing restrictions must be approved by the Legal Department or a senior member of the Special Execution Group. Any exceptions to the second or third of the foregoing restrictions must be approved by a member of the Commitments Committee in consultation with a senior member of the Special Execution Group.

IV. Reviews and Approvals

A. General

Responsibility for obtaining reviews

In general, the employee preparing and sending a communication is responsible for obtaining any necessary approvals and for following the appropriate procedures for retention and review.

Documents previously approved

In certain instances, divisional policies may designate certain material sent to specified recipients as "pre-approved", in which case the pre-approved documents do not have to be re-approved each time they are sent.

Any additional correspondence accompanying the approved documents, such as a cover letter or note, may have to be approved, depending on the substance contained in it. For instance, casual correspondence, thank you notes, confirmations or schedules for meetings, invitations, and other correspondence that does not relate to business does not require approval.

Reviewer's Signature

When approval is required, the reviewer must initial or sign and date the firm's retained copy of any written communication (or, for certain business units, *a "Compliance Cover Sheet"*) to indicate and record his/her review and approval or maintain a comparable record.

In cases where electronic correspondence requires approval, a record of the review and approval must be maintained. The nature of that record --- an addition to the electronic file, a log file of reviews, a physical record on a hard copy, or other means --- can be determined by the business unit. Whatever the nature of the record, it must clearly indicate the reviewer's approval and maintain a clear audit trail to the reviewed communication.

Advertisements and Sales Literature

In general, advertisements must be approved in advance by the Corporate Communications Department in order to assure compliance with firm-wide identity, branding, logo and other standards. In some divisions, this approval process may be handled by Divisional Compliance. In addition, advertisements related to the firm's sales and trading of securities must be approved prior to first use or first availability by a registered principal in the relevant business unit.

All sales literature must also comply with firm-wide design and content standards established by Corporate Communications. In addition, sales literature related to the firm's sales and trading of securities must be approved, prior to first use or availability, by a registered principal in the relevant business unit.

For any options-related sales literature, the approving registered principal must be the Compliance Registered Options Principal (CROP) or the CROP's designee.

Research reports must be approved by a supervisory analyst prior to issuance.

SRO Filing Requirements

Certain product-specific sales literature and advertisements (e.g., certain investment company-related materials, CMO-related advertisements, and options-related educational materials) must be filed with an appropriate SRO (NASD, CBOE, etc.) at least 10 days prior to first use or first availability. Approvals must be sought from the appropriate registered principal or Corporate Communications early enough to meet the 10-day filing requirement.

B. Review of Certain Outgoing Correspondence

Outgoing correspondence with the public by registered representatives and associated persons involved in the sale of securities, whether in hard-copy, fax, e-mail or other electronic format, will be subject to review by a registered principal or his/her designee.

Each division or business unit involved in the firm's broker/dealer business may approach the review of outgoing correspondence in one of two ways:

- Review **all** outgoing sales correspondence **before** it is sent; or
- Review a **sample** of outgoing sales correspondence **after** it is sent.

Guidelines for developing a sampling program appear in the Appendix at the end of this manual. Check your Divisional Compliance policies for the procedures applicable to you.

A copy of all such correspondence, no matter the medium in which it is delivered, must be retained in accordance with procedures established by the applicable division and must be readily available for review. The person who reviewed the correspondence must be easily ascertainable. Finally, the outgoing communications file will be subject to periodic review to assure compliance with these requirements.

Compliance with the requirements of these policies will be a subject of discussion at annual or other periodic performance reviews and will be the subject of remedial action, if required.

Compliance with the requirements for review of communications (including appropriate monitoring, testing, and documenting of results and evaluation of effectiveness) are subject to annual Central Compliance review and will be included in the Management Controls Department's periodic audits.

C. Review of Incoming Correspondence

All incoming written and electronic correspondence from the public directed to registered representatives and associated persons involved in the sale of securities are also subject to the firm's supervision and review in accordance with divisional procedures. Except for written correspondence (i.e., material in paper form) sent to registered representatives (all of which must be reviewed as described below), divisional policies may provide for either review of all such correspondence or a sample selected in substantially the same manner as outgoing correspondence.

Review of Incoming Written Correspondence Sent to Sales Representatives

In order to provide early notice of potential sales practice issues and customer complaints, and to help ensure proper handling of customer funds and securities, a registered principal or his/her designee will review all incoming written correspondence (i.e., correspondence in paper form) that is directed to registered representatives involved in the sale of securities. To facilitate this review:

- The correspondence will be opened by, or in the presence of, an authorized individual (a principal or his/her designee) to identify any possible complaints and to remove customer funds and securities.
- The individual reviewing the correspondence will, after the review is completed, forward the material as appropriate for proper retention.
- Funds and securities will be forwarded to the personnel responsible for custody of funds and securities in the office in which the funds or securities were received. These items should be delivered by hand, if possible, or by an alternative delivery method approved by the firm's operations officials.
- Any correspondence containing a possible customer complaint must be handled as described in the following section.

Correspondence that can be readily identified as regulatory bulletins, research or promotional material, advertising, periodicals, fund raising appeals or similar non-customer material need not be subject to this procedure.

Treatment of Customer Inquiries and Complaints

As a matter of good business practice, it is the firm's policy to handle and resolve any customer or client inquiry expeditiously, especially when it regards proper handling of business solicitations, transactions, and customer securities or funds. In addition, the Legal Department and Central Compliance will designate certain types of inquiries as "customer complaints," which require specific handling and regulatory reporting.

To make sure that all inquiries and potential "customer complaints" are handled expeditiously and properly, both from the business and regulatory points of view, employees must observe the following procedure.

Any employee who receives a written, electronic, or oral communication from a customer or any person acting on behalf of a customer alleging a grievance involving the solicitation or execution of any transaction or the disposition of securities or funds of that customer must report it to his or her supervisor immediately. A copy of the communication (unless it is oral) must be sent immediately to the supervisor.

The supervisor will first determine whether the communication **might** be classified as a "customer complaint". If the supervisor considers the communication to be a possible complaint, the supervisor will notify and forward copies of the communication to the Director of Central Compliance, the Legal Department and Divisional Compliance.

The Legal Department or Central Compliance will determine whether the inquiry actually constitutes a "customer complaint." If it does, Central Compliance will be responsible for reporting the complaint as required by regulation. The Legal Department will coordinate the firm's response to the communication and advise the Central Compliance Department and Divisional Compliance of the resolution.

Regulatory Inquiries and Litigation

Any complaint, notice, subpoena, interrogatories or other document relating to a litigation matter, an arbitration proceeding, or a regulatory investigation should be forwarded immediately to the Legal Department. See the section entitled "*Legal Matters*" in the Employee Handbook.

D. Handling of Sales Literature and Correspondence Off Firm Premises

Written Material

All sales literature and sales correspondence must be sent to and from the premises of the firm to facilitate proper supervision.

E-mail and FAX Communications

All electronic communications, including e-mail and fax traffic, concerning firm business that is to or from customers must be sent and received from or to a firm e-mail address or firm fax machine or from and to a firm-approved third-party computer system .

Therefore:

- All e-mail traffic concerning firm business that is to and from the public **must** take place at the firm's premises or be routed through firm-provided, secure equipment.

- Faxes containing sales literature or sales correspondence must be sent from and to the premises of the firm. Personnel who are out of town on business should route faxes to the firm where they will be forwarded to the appropriate recipients.

Additional policies concerning e-mail and other electronic communications are contained in the Employee Handbook.

Employees working from home offices

All sales correspondence from or to employees working from home offices must be routed through regional offices for purposes of review, approval, distribution and retention.

Employees working from home offices **may not** direct customers to send correspondence to the home office.

Employees may not send faxes containing sales literature or sales correspondence to customers or potential customers from home fax machines unless Divisional Compliance has approved such communication and established procedures for its supervision and retention.

V. Retention

A. Material Relating to Securities Business

All written or electronic advertisements, sales literature, sales correspondence and other communications related to the firm's broker/dealer business must be retained for a minimum period of three years, except that:

- Communications relating to commodities or futures or options on commodities or futures must be retained for a minimum of five years.
- Communications relating to customer complaints must be retained for eight years.
- Communications relating to asset management services must be retained for six years.

Supervisors must retain evidence of supervisory reviews and approvals for the same periods.

B. Other Material

Retention of all other material will be in accordance with requirements established by individual divisions or business units.

VI. Other Issues

A. Education and Training

The firm's policies and procedures regarding written and electronic communications may be included in the firm's required annual compliance meeting and will otherwise be a part of the firm's continuing education program.

B. Monitoring

The policies set forth above will be subject to periodic review by the firm's Management Controls Department.

VII. Appendix

Appendix 1. Guidelines for Sampling Correspondence

Divisions or business units may set up a system of reviewing appropriate samples of outgoing sales correspondence after they have been distributed.

If the division or business unit selects a sampling approach, regulations require that:

- Specific procedures must be designed and documented to provide reasonable supervision of each representative who conducts business with the public.

- The sampling techniques must be designed so that they can reasonably detect any potential violation of regulations under which the firm and its individual business units and divisions do business. Sampling levels must be set to provide statistically acceptable results. These levels must be determined in consultation with technology experts, business people, and the Legal and Compliance Departments. They will be reviewed periodically to assure reasonable accuracy and effectiveness.

In developing a sampling system, a number of additional factors should be taken into account:

- In determining the level of supervision appropriate for each sales representative, supervisors should consider the representative's overall complaint and disciplinary history, with particular emphasis on previous incidents involving communication with customers.

- Samples should be designed to reflect the breadth of an individual's communications, but need not be strictly random; samples may be concentrated on, for example, very active periods of time or very complicated or sensitive transactions.

- Electronic communications must be covered by the sample. Therefore, a selection of e-mails (and other electronic communications, if any) must also be reviewed. Where e-mail systems automatically save copies of outgoing e-mails, procedures should be adopted for the periodic review of saved e-mail folders for each person subject to review.

- The selection of specific electronic communications to be reviewed may be made by an automated system that selects individual communications for review based on key words or phrases.

- Individual supervisors are generally in the best position to determine the transactions or activities most likely to give rise to deviations from firm policies or risk to customers. Input will be sought from line-of-business supervisors in setting sampling guidelines.

- Reviews are required to confirm the appropriateness of a representative's recommendations to customers. Therefore, sample selection criteria should assure that recommendations are included in the material reviewed for all representatives.

- Frequency of reviews should follow these guidelines:

  - Each individual's correspondence must be sampled no less often than annually.

  - Supervisors may wish to review the correspondence of junior employees (e.g., second- and third-year salespersons, certain lateral hires from other firms, etc.) more frequently than annually.

  - For the least-experienced employees (e.g., new hires, recent graduates of training programs, etc.), supervisors may find it advisable to review all correspondence prior to use or distribution until a level of confidence is reached as to the individual's work product.

- Records must be kept of the reviews.

- Divisions, business units, or supervisors may choose to review material more frequently or to increase the size of any sample.

- In conjunction with the sampling program, a program of periodic training must be established to educate employees as to the regulatory requirements applicable to their communications. Records showing when programs were conducted and who attended or otherwise participated must be maintained and be available for audit.

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GOLDMAN SACHS CEO LLOYD BLANKFEIN IS INTERVIEWED ON CNBC

May 7, 2010 Friday

EVENT DATE: May 7, 2010

TYPE: NEWS PROGRAM

SPEAKER: GOLDMAN SACHS CEO LLOYD BLANKFEIN

WITNESSES:
DAVID FABER, CNBC ANCHOR
GOLDMAN SACHS CEO LLOYD BLANKFEIN

TEXT:

FABER: We're with Lloyd Blankfein, chairman and CEO of Goldman Sachs after the company's annual meeting.

You mentioned introspection in answer to one of those questions that you received today, in terms of your own introspection when you looked back at this recent period. I'm curious, given that you've been introspective - not that you aren't always, what are you finding? What are you thinking about? What conclusions, if any, have you come to as a result of that?

BLANKFEIN: In connection with what's - in connection with what's going on, there's been - everybody is aware of the intense focus on us and how we've had to respond in the conditions in which we've been responding. If there is a silver lining to this for us, it causes us to have to be thoughtful about the context in which people are saying what they're saying.

In other words, we can say this particular lawsuit that we don't think - we may not think it has merit, or this activity - defend this activity against what somebody says is a poor activity. But we have to look at it and be honest and say, somehow there's a context here in which there is a gap between the way we think about ourselves and the way the general public has thought about us and thinks about us. And we have to respond to it.

Now, a lot of our attention is going to still be, how do we work out some of the things and some of the things that people thought and defend certain aspects of behavior. But let me tell you, it is our nature, always, to be self critical and want to improve.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2706

And the silver lining here is this causes me, the entire organization and I think ultimately the industry to be self critical about how they did things with a view to take standards which we may believe to be fine, and in our case, maybe we think we're already at the highest standards - we think we are. But to say, where do we need to go? Can we take it even higher.

FABER: Well, all right. Give me some specifics. I mean, you and I talked only a couple of weeks ago about synthetic CDO transactions. I asked you then whether they were appropriate. You at least gave an indication a couple of weeks ago, by a lot of introspection since then, that perhaps there are things that could have been done differently. Can you build on that?

BLANKFEIN: No, I think - well, in that case - and again, this is work we're going to do. And we're going to be quite focused on this. We'll come up, I'm sure, with a lot of different points.

The question you had asked is about the social purpose. And I explained what the purpose of CDO's are, and allowing people with portfolios of exposure to the mortgage markets to be able to reshape their portfolio in an efficient way, which is what a lot of people use derivatives for across the spectrum.

I then said there may be another side, like complexity and a liquidity, which might mean that not withstanding that purpose, we may decide not to do that.

That's an inquiry we would ask ourselves.

FABER: And it's one that continue - because I'm trying to get to the point - if you're being introspective, have you come to any conclusions? Or when will you? Or when will we see?

BLANKFEIN: I'll give you categories of things - transparency, how we show ourselves. I know we have been criticized in the past for not being transparent about what we show about our business - you know, our business mix. There's always concerns.

You know, there's a reason why you get to any place you are. There's investors - or someone who need to know versus your own competitive advantage about not wanting to disclose to much. We're going to analyze these things and look at this. And maybe we'll come out with a different conclusion with respect to various trade-offs. How we manage business selection, who we represent

You know, it can be very frequently the case that there's a property in the world for sale, and maybe five of the potential buyers might be clients of Goldman Sachs. How do we pick among them?

FABER: Right. But I mean, those are always challenges.

BLANKFEIN: They are.

FABER: Things that you deal with in your business. That's no different, I would think, then the way you've thought about those challenges in the past.

BLANKFEIN: No.

Listen, we are not going to originate some new issue that hasn't come across before. But how these things are resolved, how analytic, what kind of weight you give to one consideration versus another, most of these things are trade-offs in activities. And we're going to approach that, in, you know, frankly in a way that's

informed by the current context in which we're operating.

FABER: There are reports that you're in settlement talks with the SEC. Is that true?

BLANKFEIN: There must be true that there are reports, because I saw things in the paper.

The fact is, that we - we're in a litigation with the SEC, but the SEC is not an ordinary litigant, it's someone who regulates us with whom we interact all the time on a lot of different bases in a normal course of activity. And so we're interacting with them regularly. And people...

FABER: Should there be an expectation in some way, though, that the fraud charges will be resolved prior to going to court?

BLANKFEIN: I can't - I can't comment on that.

FABER: Do you continue to maintain as you did vociferously when the charges first were made that you did nothing wrong? That Goldman Sachs has done nothing wrong?

BLANKFEIN: Yes. We maintain our belief that on the facts and on the law we think we were right and acted appropriately.

FABER: You said during the annual meeting as well that this period has been a strain on Goldman Sachs and on its clients.

BLANKFEIN: Yes.

FABER: Why?

BLANKFEIN: Well, when you retain Goldman Sachs, you're retaining us for our capability, our competence, our discretion, our ability to get things done cleanly - again, it's about the client. It puts a - you know, you can't deny that with Goldman so much in the forefront and so much in the news, people have to overcome a certain reticence to be to potentially join the, you know, the public scrutiny, if that's there.

Not withstanding that, and I don't take this for granted, and believe me I'm very grateful, our clients have been tremendously loyal to us. They've supported us in every way beyond my expectations. At the same time I say that, I acknowledge I regret that we're in a position where showing our - showing support for us, you know, is not being made easy for them.

FABER: Right. Well, you said during the meeting that they were enthusiastic. Can you give me any evidence in terms of what you're talking about when you say that you've been shown support?

BLANKFEIN: I think our clients have, you know, have stuck with us. And you'll see - the proof is in the pudding.

FABER: Right. I mean, again, I know you don't like to comment quarter to quarter. I asked you this 10 days ago. Are you seeing any diminution in your business that you believe is a result of the reputational issues that are at stake for Goldman Sachs?

BLANKFEIN: You know, it's hard to know because of the cyclical aspects in the market as a whole is doing things differently today than it was doing before. And it's hard to know. And we'll know when we look back and we'll be able to see market shares.

But I believe we've been shown - and I know we've been shown, great, great support for our clients uniformly. And I even think some of our clients are, frankly, do more with us especially to show that kind of support.

FABER: You believe that they actually may be saying...

(CROSSTALK)

BLANKFEIN: Some people have had that conversation. I don't take it for granted. I appreciate it.

FABER: You're not going to do this again just to...

BLANKFEIN: I would say that it's not - it hasn't been worth it.

FABER: You and I spoke after you came out of a very long day of hearings not that long ago. When you look back on that interaction, particularly with you and Senator Levin, do you think that there's an understanding of what you're talking about when you speak to member of Congress?

BLANKFEIN: You know, I do largely. I think when you are a generalist - like a very smart generalist like a senator who has to have a sense and legislate and balance different elements - you know, like just like we were talking a few minutes ago, it's not a question is this good or is this bad, it's how good is this versus how bad is that? What should the trade-offs be. I think they are informed enough to make those kind of judgments.

Do they know the technicalities of the market? Is it...

FABER: Well, do they want to acknowledge the difference between an underwriter and a market maker? Because they certainly didn't seem to or...

BLANKFEIN: No, but I think they had an intuition that this didn't feel right. And to some extent, maybe I was inadequate to my purpose.

Let me tell you, in all our businesses, we put our clients first and we support our clients. That means different things in different parts of the business. So, for example, in an advisory business like banking, it's obvious we have a duty, a relationship to make sure they do the right thing. If they want to do X and we think it'll be right to do Y, we say, don't do X. We think you should do Y.

On the market making side, our duty to clients is served by us - whatever market conditions, whatever chaos prevails, using our capital to help our clients accomplish what they want to accomplish - we make hundreds of thousands, maybe millions of markets a day. Think of somebody going to the New York Stock Exchange, which is another kind of market.

No one is saying, I wouldn't sell that security here. No, you should buy this and not that. Client service and dedication to client in that case is standing there and being able to provide liquidature (ph) client no matter how tough the market is.

FABER: Before we wrap up, you mentioned the market, you mentioned the NYSE. Have you ever seen anything quite like that five minutes we saw yesterday in the equity markets?

BLANKFEIN: It was very unusual in the market.

FABER: Have you been told? Do you know? I mean, obviously Goldman has a pretty good feel for what's going on. Do you have an understanding of what happened yesterday?

BLANKFEIN: I've been - nobody has told me explicitly. I've been given several theories, because I have several theories - because I have several theories, I realize I have no theory. I think we're still examining some of these things.

FABER: So you don't feel as though you even understand at this point what actually - I mean, stocks traded at a penny. I mean, something went very wrong.

BLANKFEIN: But you know what I've been doing for the last few hours? Because I can't tell you, doesn't mean that people don't know it, or it's not understandable. It's just that, you know where I'd been....

FABER: High frequency trading may be blamed, in part, for what went on. Goldman conducts that business.

BLANKFEIN: I can't - I'm just not familiar with this theory. I just don't know.

FABER: But what about that business in and of itself?

BLANKFEIN: I think that business in and of itself is a good business at Goldman Sachs. And I think it's an important liquidity generator for the market. I have no opinion, because I haven't heard any connection made to me.

FABER: And finally Europe. We're dealing with, of course, a crisis there. I'm curious - you know, there's not a lot of business going on in Europe right now. And everybody is worrying about what's happening with sovereign debt and the issues that these countries - are you seeing a slow down in Europe? Are you concerned about Goldman's business in Europe? You have 5,000 people alone in London.

BLANKFEIN: Well, of course I'm concerned about the economy in Europe. And frankly - you know, the whole political and social environment reaches back to the European community. I'm pretty confident that the European sovereigns will do what's necessary to restore confidence.

A lot of what's going on, not that dissimilar to what happened a couple of years ago in the market has to do with confidence and sentiment and less to do with the actualities of someone's ability to make payments.

But confidence matters, sentiment matters. And I think that...

FABER: Matters, it's the most important thing.

BLANKFEIN: It's the most important thing. And I think that the governments have - in Europe, have the motive and the wherewithal to restore that confidence. And I believe they will.

FABER: And business in Europe, you seen a slow down?

BLANKFEIN: I think generally in business, but for this interlude which is just sort of recent, I think business around the world is correlating with, you know, renewed optimism about growth. And that's occurring in Europe as well as the United States and Asia.

FABER: Lloyd Blankfein, thank you.

BLANKFEIN: Thank you very much, David.

CONFIDENTIAL

TIMBERWOLF I, LTD.
TIMBERWOLF I (DELAWARE) CORP.

U.S.$ 9,000,000 Class S-1 Floating Rate Notes Due 2011
U.S.$ 8,300,000 Class S-2 Floating Rate Notes Due 2011
U.S.$ 100,000,000 Class A-1a Floating Rate Notes Due 2039
U.S.$ 200,000,000 Class A-1b Floating Rate Notes Due 2039
U.S.$ 100,000,000 Class A-1c Floating Rate Notes Due 2044
U.S.$ 100,000,000 Class A-1d Floating Rate Notes Due 2044
U.S.$ 305,000,000 Class A-2 Floating Rate Notes Due 2047
U.S.$ 107,000,000 Class B Floating Rate Notes Due 2047
U.S.$ 36,000,000 Class C Deferrable Floating Rate Notes Due 2047
U.S.$ 30,000,000 Class D Deferrable Floating Rate Notes Due 2047
U.S.$ 22,000,000 Income Notes Due 2047

Secured (with Respect to the Notes) Primarily by a Portfolio of CDO Securities and Synthetic Securities (referencing CDO Securities)

The Notes (as defined herein) and the Income Notes (as defined herein) (collectively, the "Securities") are being offered hereby in the United States to qualified institutional buyers (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in reliance on Rule 144A under the Securities Act, and, solely in the case of the Income Notes, to accredited investors (as defined in Rule 501(a) under the Securities Act) who have a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act. The Securities are being offered hereby in the United States only to persons that are also "qualified purchasers" for purposes of Section 3(c)(7) under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). The Securities are being offered hereby outside the United States to non U.S. Persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. See "Underwriting."

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Securities.

There is no established trading market for the Securities. Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained.

It is a condition of the issuance of the Securities that the Class S-1 Notes, the Class S-2 Notes, the Class A-1a Notes, the Class A-1b Notes, the Class A-1c Notes, the Class A-1d Notes and the Class A-2 Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P," and together with Moody's, the "Rating Agencies"), that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A2" by Moody's and at least "A" by S&P and that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P. The Income Notes will not be rated. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings of the Notes."

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Securities by the Initial Purchaser.

THE ASSETS OF THE ISSUER (AS DEFINED HEREIN) ARE THE SOLE SOURCE OF PAYMENTS ON THE SECURITIES. THE SECURITIES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE SECURITIES, THE COLLATERAL MANAGER (AS DEFINED HEREIN), THE CASHFLOW SWAP COUNTERPARTY (AS DEFINED HEREIN), GOLDMAN, SACHS & CO. (AS INITIAL PURCHASER (AS DEFINED HEREIN)), THE ISSUER ADMINISTRATOR (AS DEFINED HEREIN), THE AGENTS (AS DEFINED HEREIN), THE TRUSTEE (AS DEFINED HEREIN), THE SHARE TRUSTEE (AS DEFINED HEREIN) OR ANY OF THEIR RESPECTIVE AFFILIATES.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND NEITHER OF THE ISSUERS (AS DEFINED HEREIN) WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE SECURITIES ARE BEING OFFERED HEREBY ONLY TO (A) (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND, SOLELY IN THE CASE OF THE INCOME NOTES, ACCREDITED INVESTORS (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) THAT HAVE A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND, WHO ARE (2) QUALIFIED PURCHASERS FOR PURPOSES OF SECTION 3(c)(7) UNDER THE INVESTMENT COMPANY ACT AND (B) CERTAIN NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PURCHASERS AND SUBSEQUENT TRANSFEREES OF CLASS D NOTES AND INCOME NOTES (OTHER THAN REGULATION S CLASS D NOTES AND REGULATION S INCOME NOTES) WILL BE REQUIRED TO EXECUTE AND DELIVER A LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS, AND PURCHASERS AND SUBSEQUENT TRANSFEREES OF CLASS S NOTES, CLASS A-1a NOTES, CLASS A-1b NOTES, CLASS A-1c NOTES, CLASS A-1d NOTES, CLASS A-2 NOTES, CLASS B NOTES, CLASS C NOTES AND CLASS D NOTES AND REGULATION S INCOME NOTES WILL BE DEEMED TO HAVE MADE SUCH REPRESENTATIONS AND AGREEMENTS, AS SET FORTH UNDER "NOTICE TO INVESTORS." THE SECURITIES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Securities are being offered by Goldman, Sachs & Co. (in the case of the Securities offered outside the United States, selling through its selling agent) (the "Initial Purchaser"), in each case, as specified herein, subject to its right to reject any order in whole or in part, in one or more negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date (as defined herein). It is expected that the Class S-1 Notes, Class S-2 Notes, Class A-1a Notes, Class A-1b Notes, Class A-1c Notes, Class A-1d Notes, Class A-2 Notes, Class B Notes, Class C Notes, Regulation S Class D Notes and the Regulation S Income Notes will be ready for delivery in book entry form only in New York, New York, on or about March 27, 2007 (the "Closing Date"), through the facilities of DTC and in the case of the Securities sold outside the United States, for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), against payment therefor in immediately available funds. It is expected that the Class D Notes (other than the Regulation S Class D Notes) the Income Notes (other than the Regulation S Income Notes) will be ready for delivery in definitive form in New York, New York on the Closing Date, against payment therefor in immediately available funds. The Notes sold in reliance on Rule 144A will be issued in minimum denominations of U.S.$250,000 and integral multiples of U.S.$1 in excess thereof. The Notes sold in reliance on Regulation S will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof. The Income Notes will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof.

Goldman, Sachs & Co.

Offering Circular dated March 23, 2007.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2724

Timberwolf I, Ltd., an exempted company incorporated with limited liability under the laws of the Cayman Islands (the "Issuer"), and Timberwolf I (Delaware) Corp., a Delaware corporation (the "Co-Issuer" and, together with the Issuer, the "Issuers"), will issue U.S.$9,000,000 principal amount of Class S-1 Floating Rate Notes Due September 2011 (the "Class S-1 Notes"), U.S.$8,300,000 principal amount of Class S-2 Floating Rate Notes Due September 2011, (the "Class S-2 Notes" and, together with the Class S-1 Notes, the "Class S Notes"), U.S.$ 100,000,000 principal amount of Class A-1a Floating Rate Notes Due 2039 (the "Class A-1a Notes"), U.S.$ 200,000,000 principal amount of Class A-1b Floating Rate Notes Due 2039 (the "Class A-1b Notes"), U.S.$ 100,000,000 principal amount of Class A-1c Floating Rate Notes Due 2044 (the "Class A-1c Notes"), U.S.$ 100,000,000 principal amount of Class A-1d Floating Rate Notes Due 2044 (the "Class A-1d Notes" and, together with the Class A-1a Notes, Class A-1b Notes and Class A-1c Notes, the "Class A-1 Notes"), U.S.$ 305,000,000 principal amount of Class A-2 Floating Rate Notes Due 2047 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$ 107,000,000 principal amount of Class B Floating Rate Notes Due 2047 (the "Class B Notes") and U.S.$ 36,000,000 principal amount of Class C Deferrable Floating Rate Notes Due 2047 (the "Class C Notes"), and the Issuer will issue U.S.$ 30,000,000 principal amount of Class D Deferrable Floating Rate Notes Due 2047 (the "Class D Notes" and, together with the Class S Notes, Class A Notes, Class B Notes and Class C Notes, the "Notes") pursuant to an Indenture (the "Indenture") dated on or about March 27, 2007 among the Issuers and The Bank of New York, as trustee and securities intermediary (the "Trustee" and the "Securities Intermediary," respectively).

In addition, the Issuer will issue U.S.$ 22,000,000 notional principal amount of Income Notes (the "Income Notes" and, together with the Notes, the "Securities") constituted by the deed of covenant executed by the Issuer on March 27, 2007 (the "Deed of Covenant") and subject to the terms and conditions thereof (the "Terms and Conditions") and issued pursuant to a fiscal agency agreement (the "Fiscal Agency Agreement") dated on or about March 27, 2007 between the Issuer and The Bank of New York, London Branch, as fiscal agent (the "Fiscal Agent").

The net proceeds received from the offering of the Securities will be applied by the Issuer to purchase a portfolio of CDO Securities and Synthetic Securities (the Reference Obligations of which are CDO Securities) as described herein (collectively, together with Deliverable Obligations and any Default Swap Collateral that has been released from the lien of the Synthetic Security Counterparty and credited to the Collateral Account as described herein, "Collateral Assets"), Default Swap Collateral and Eligible Investments. Certain summary information about the Collateral Assets and the Reference Obligations is set forth in Appendix B to this Offering Circular. On the Closing Date, the Issuer will enter into the Cashflow Swap Agreement. The Collateral Assets, the Eligible Investments and certain other assets of the Issuer will be pledged under the Indenture to the Trustee, for the benefit of the Secured Parties, as security for, among other obligations, the Issuers' obligations under the Notes (but not the Income Notes) and to certain service providers. The Income Notes will be unsecured obligations of the Issuer.

Interest will be payable on the Class S-1 Notes, the Class S-2 Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes in arrears on the 3rd day of March, June, September and December of each year, or if any such date is not a Business Day, the immediately following Business Day (each such date, a "Payment Date") commencing on September 4, 2007. The Class S-1 Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 0.20% for each Interest Accrual Period (as defined herein). The Class S-2 Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 0.35% for each Interest Accrual Period. The Class A-1a Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 0.05% for each Interest Accrual Period. The Class A-1b Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 0.50% for each Interest Accrual Period. The Class A-1c Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 0.80% for each Interest Accrual Period. The Class A-1d Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 1.30% for each Interest Accrual Period. The Class A-2 Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 0.90% for each Interest Accrual Period. The Class B Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 1.40% for each Interest Accrual Period. The Class C Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 4.00% for each Interest Accrual Period. The Class D Notes will bear interest at a *per annum* rate equal to LIBOR *plus* 10.00% for each Interest Accrual Period. Payments will be payable on the Income Notes from funds available in accordance with the Priority of Payments.

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All payments on the Securities will be made from Proceeds available in accordance with the Priority of Payments. On each Payment Date, except as otherwise provided in the Priority of Payments, payments on the Class S-1 Notes will be senior to payments on the Class S-2 Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; payments on the Class S-2 Notes will be senior to payments on the Class A-2 Notes (*provided*, that payments of interest on the Class S-2 Notes and the Class A Notes will be paid pro rata), the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; payments on the Class A-1 Notes will be senior to payments on the Class A-2 Notes (*provided*, that payments of interest on the Class A Notes will be paid pro rata), the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; payments on the Class A-2 Notes will be senior to payments on the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; payments on the Class B Notes will be senior to payments on the Class C Notes, the Class D Notes and the Income Notes; payments on the Class C Notes will be senior to payments on the Class D Notes and the Income Notes; and payments on the Class D Notes will be senior to payments on the Income Notes, in accordance with the Priority of Payments as described herein. The Notes (other than the Class S-1 Notes) are subject to mandatory redemption if a Coverage Test is not satisfied on any date of determination which may result in variations to the seniorities of distributions described above and as more fully described in the Priority of Payments. Payments of principal on the Class A-1 Notes will be paid in accordance with the Class A-1 Note Payment Sequence.

The Notes and, to the extent described herein, the Income Notes, are subject to redemption, (i) at any time as a result of a Tax Redemption, (ii) on an Auction Payment Date as a result of a successful Auction or (iii) as a result of an Optional Redemption by Refinancing or an Optional Redemption by Liquidation on or after the March 2010 Payment Date. The Income Notes will not be redeemed in full, or in part, in connection with an Optional Redemption by Refinancing. The stated maturity of the Notes and the Income Notes (other than the Class S Notes and the Class A-1 Notes) is the Payment Date in December 2047. The stated maturity of the Class S Notes is the Payment Date in September 2011. The stated maturity of the Class A-1a Notes and the Class A-1b Notes is the Payment Date in December 2039. The stated maturity of the Class A-1c Notes and the Class A-1d Notes is the Payment Date in September 2044. The actual final distribution on the Securities (other than the Class S Notes) is expected to occur substantially earlier than their respective stated maturities. See "Risk Factors—Securities—Average Lives, Duration and Prepayment Considerations."

Notes sold in reliance on Rule 144A under the Securities Act ("Rule 144A") will be evidenced by one or more global notes (the "Rule 144A Global Notes") in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("DTC"). Beneficial interests in the Rule 144A Global Notes will trade in DTC's Same Day Funds Settlement System, and secondary market trading activity in such interests will therefore settle in immediately available funds. Except as described herein, beneficial interests in the Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Income Notes sold in reliance on Rule 144A under the Securities Act will be evidenced by one or more Definitive Notes in fully registered form.

The Securities that are being offered hereby in reliance on the exemption from registration under Regulation S (the "Regulation S Securities") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Securities may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser") or, solely in the case of the Income Notes, that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act (an "Accredited Investor") who has a net worth of not less than U.S. $10 million and a Qualified Purchaser. See "Description of the Securities" and "Underwriting."

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The Income Notes (other than the Regulation S Income Notes) will be evidenced by one or more definitive notes in fully registered form (each, an "Income Note Certificate"). See "Description of the Securities."

This Offering Circular is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Securities described herein. The information contained in this Offering Circular has been provided by the Issuers and other sources identified herein. Except in respect of the information contained under the heading "The Collateral Manager," (other than the information contained under the subheading "General") for which the Collateral Manager accepts sole responsibility, to the extent described in such section, no representation or warranty, express or implied, is made by the Initial Purchaser, the Collateral Manager, the Cashflow Swap Counterparty (or any guarantor thereof), the Trustee, the Collateral Administrator, the Note Agents (as defined herein) or the Fiscal Agent (the Note Agents, the Collateral Administrator and the Fiscal Agent together, the "Agents") as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser, the Trustee, the Collateral Manager, the Cashflow Swap Counterparty (or any guarantor thereof) or the Agents. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Securities is prohibited. Each offeree of the Securities, by accepting delivery of this Offering Circular, agrees to the foregoing.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this Offering Circular and the offering and sale of the Securities in certain jurisdictions may be restricted by law. The Issuers and the Initial Purchaser require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Securities, see "Underwriting." This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Securities in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Confidential Treatment Requested by Goldman Sachs

No invitation may be made to the public in the Cayman Islands to subscribe for the Securities.

The Initial Purchaser has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom. See "Underwriting."

The Securities may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Securities may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Securities to the public in Singapore.

The Securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and the Initial Purchaser has agreed that it will not offer or sell any Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

NOTICE TO RESIDENTS OF THE REPUBLIC OF IRELAND

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS AND DOES NOT CONSTITUTE AN INVITATION TO THE PUBLIC TO PURCHASE OR SUBSCRIBE FOR ANY SECURITIES AND NEITHER IT NOR ANY FORM OF APPLICATION WILL BE ISSUED, CIRCULATED OR DISTRIBUTED TO THE PUBLIC.

THIS OFFERING CIRCULAR AND THE INFORMATION CONTAINED HEREIN IS CONFIDENTIAL AND IS FOR THE USE SOLELY OF THE PERSON TO WHOM IT IS ADDRESSED. ACCORDINGLY, IT MAY NOT BE REPRODUCED IN WHOLE OR IN PART, NOR MAY ITS CONTENTS BE DISTRIBUTED IN WRITING OR ORALLY TO ANY THIRD PARTY AND IT MAY BE READ SOLELY BY THE PERSON TO WHOM IT IS ADDRESSED AND HIS/HER PROFESSIONAL ADVISERS.

Confidential Treatment Requested by Goldman Sachs GS MBS-E-021825375

In this offering circular, references to "U.S. Dollars," "$" and "U.S.$" are to United States dollars.

The Issuers (and, with respect to the information contained in this offering circular under the heading "The Collateral Manager" (other than the information contained under the subheading "General"), the Collateral Manager to the extent described in such section), having made all reasonable inquiries, confirm that the information contained in this offering circular is true and correct in all material respects and is not misleading, that the opinions and intentions expressed in this offering circular are honestly held and that there are no other facts the omission of which would make any such information or the expression of any such opinions or intentions misleading. The Issuers (and, with respect to the information in this offering circular under the heading "The Collateral Manager" (other than the information contained under the subheading "General"), the Collateral Manager, to the extent described in such section) take responsibility accordingly.

No person has been authorized to give any information or to make any representation other than those contained in this offering circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering circular nor any sale hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date of this offering circular.

NOTWITHSTANDING ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, EACH RECIPIENT OF THIS OFFERING CIRCULAR AGREES AND ACKNOWLEDGES THAT THE ISSUERS HAVE AGREED THAT EACH OF THEM AND THEIR EMPLOYEES, REPRESENTATIVES AND OTHER AGENTS MAY DISCLOSE, IMMEDIATELY UPON COMMENCEMENT OF DISCUSSIONS, TO ANY AND ALL PERSONS THE TAX TREATMENT AND TAX STRUCTURE OF THE SECURITIES, THE TRANSACTIONS DESCRIBED HEREIN AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO ANY OF THEM RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE EXCEPT WHERE CONFIDENTIALITY IS REASONABLY NECESSARY TO COMPLY WITH THE SECURITIES LAWS OF ANY APPLICABLE JURISDICTION.

PROSPECTIVE INVESTORS SHOULD READ THIS OFFERING CIRCULAR CAREFULLY BEFORE DECIDING WHETHER TO INVEST IN THE SECURITIES AND SHOULD PAY PARTICULAR ATTENTION TO THE INFORMATION SET FORTH UNDER THE HEADING "RISK FACTORS". INVESTMENT IN THE SECURITIES IS SPECULATIVE AND INVOLVES SIGNIFICANT RISK. INVESTORS SHOULD UNDERSTAND SUCH RISKS AND HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THEM FOR AN EXTENDED PERIOD OF TIME.

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NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes or the Income Notes offered hereby.

Each purchaser who has purchased Class S Notes, Class A Notes, Class B Notes, Class C Notes, Regulation S Class D Notes and Regulation S Income Notes will be deemed to have represented and agreed, and each purchaser of a Class D Note that is a Definitive Note and an Income Note Certificate will be required to represent and agree, in each case with respect to such Securities, as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. (a) In the case of Notes sold in reliance on Rule 144A (the "Rule 144A Notes"), the purchaser of such Rule 144A Notes (i) is a qualified institutional buyer (as defined in Rule 144A) (a "Qualified Institutional Buyer"), (ii) is aware that the sale of Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Rule 144A Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and in a principal amount of not less than U.S.$250,000 and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

(b) In the case of the Income Notes, other than any Income Notes sold in reliance on Regulation S, the purchaser of such Income Notes (i) is a Qualified Institutional Buyer, (ii) is aware that the sale of the Income Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Income Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and, unless otherwise permitted by the Fiscal Agency Agreement, is purchasing an aggregate notional principal amount of not less than U.S.$100,000 Income Notes for the purchaser and for each such account and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees; or, if the purchaser is not a Qualified Institutional Buyer, such purchaser (w) is a person who is an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than U.S.$10 million that is purchasing the Income Notes for its own account, (x) is not acquiring the Income Notes with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below, (y) is purchasing an aggregate notional principal amount of not less than U.S.$100,000 Income Notes (unless otherwise permitted by the Fiscal Agency Agreement) and (z) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

2. The purchaser understands that the Securities have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a Qualified Institutional Buyer and is purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A, (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) solely in the case of the Income Notes, to an Accredited Investor who has a net worth of not less than U.S.$10 million, and who shall have satisfied, and shall have represented, warranted, covenanted and agreed in the case of the Class D Notes and the Income Notes (other than the Regulation S Class D Notes and Regulation S Income Notes), or shall be deemed to have satisfied, and shall otherwise be deemed to have represented, warranted, covenanted and agreed that it will continue to comply with, all requirements for transfer of the Securities specified in this offering circular, the Indenture, and, in the case of the Class D Notes and the Income Notes (other than the Regulation S Class D Notes and Regulation S Income Notes), in the Income Notes Purchase and Transfer Letter and the Fiscal Agency Agreement, and, in the case of the Regulation S Income Notes, in the Fiscal Agency Agreement, and all other requirements for it to qualify for an exemption from registration under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States. Before any interest in a Rule 144A Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the Note Transfer Agent with a written certification (in the form provided in the Indenture) as to compliance with the transfer restrictions

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described herein. Before any interest in an Income Note Certificate or a Class D Note that is a Definitive Note may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Issuer and the Fiscal Agent with a letter substantially in the form attached to this Offering Circular as Annex A-1 (the "Income Notes Purchase and Transfer Letter"). The purchaser understands and agrees that any purported transfer of Securities to a purchaser that does not comply with the requirements of this paragraph (2) will, in the case of the Class S Notes, Class A Notes, Class B Notes, Class C Notes, the Regulation S Class D Notes and the Regulation S Income Notes, be null and void *ab initio* and, in the case of the Class D Notes (other than the Regulation S Class D Notes) and Income Notes (other than the Regulation S Income Notes), not be permitted or registered by the Trustee or the Registrar or the Fiscal Agent or the Income Note Registrar, as applicable. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Securities that is a U.S. Person and is not a Qualified Institutional Buyer or, in the case of the Income Notes, an Accredited Investor to sell its interest in such Securities, or the Issuers may sell such Securities on behalf of such owner.

3. The purchaser of such Securities also understands that neither of the Issuers has been registered under the Investment Company Act. In the case of the Rule 144A Notes and the Income Notes described in paragraph (1) above, the purchaser and each account for which the purchaser is acquiring such Securities is a qualified purchaser for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser"). The purchaser is acquiring Notes in a principal amount, in the case of Rule 144A Notes, of not less than U.S.$250,000, or, in the case of Notes sold in reliance on Regulation S ("Regulation S Notes"), of not less than U.S.$100,000, or is purchasing Income Notes in the aggregate notional principal amount of not less than U.S.$100,000. The purchaser (or if the purchaser is acquiring Securities for any account, each such account) is acquiring the Securities as principal for its own account for investment and not for sale in connection with any distribution thereof. The purchaser and each such account: (a) was not formed for the specific purpose of investing in the Securities (except when each beneficial owner of the purchaser and each such account is a Qualified Purchaser), (b) to the extent the purchaser is a private investment company formed before April 30, 1996, the purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (d) is not a broker dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the purchaser agrees with respect to itself and each such account: (i) that it shall not hold such Securities for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes and (ii) that it shall not sell participation interests in the Securities or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Securities. The purchaser understands and agrees that any purported transfer of Securities to a purchaser that does not comply with the requirements of this paragraph (3) will, in the case of the Class S Notes, Class A Notes, Class B Notes, Class C Notes, the Regulation S Class D Notes and Regulation S Income Notes, be null and void *ab initio* and, in the case of the Class D Notes (other than the Regulation S Class D Notes) and the Income Notes (other than the Regulation S Income Notes), not be permitted or registered by the Trustee or the Note Registrar or the Fiscal Agent or the Income Note Registrar, as applicable. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Securities that is a U.S. Person and is not a Qualified Purchaser to sell its interest in such Securities, or the Issuers may sell such Securities on behalf of such owner.

4. (a) With respect to the Class S Notes, Class A Notes, Class B Notes and Class C Notes, each purchaser will be deemed, by its purchase, to have represented and warranted that either (i) the purchaser is not and will not be an ERISA Plan (as defined herein), a plan that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity ("Plan Assets") or (ii) the purchaser's purchase and holding of a Class S Note, Class A Note, Class B Note or Class C Note does not and will not constitute or result in a prohibited transaction under Section 406 of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or Section 4975 of the Code for which an exemption is not available. The purchaser understands and agrees that any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph (4)(a) shall be null and void *ab initio*.

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(b) With respect to each of the Income Notes and Class D Notes (other than Regulation S Income Notes and Regulation S Class D Notes) purchased or transferred on or after the Closing Date, the purchaser or transferee must disclose in writing in advance to the Trustee or the Fiscal Agent, as applicable, (i) whether or not it is (A) an "employee benefit plan" (as defined in Section 3(3) of ERISA), that is subject to Title I of ERISA, (B) a "plan" described in and subject to Section 4975 of the Code, or (C) an entity whose underlying assets include "plan assets" within the meaning of ERISA by reason of any such plan's investment in the entity (all such persons and entities described in clauses (A) through (C) being referred to herein as "Benefit Plan Investors"); (ii) if the purchaser is a Benefit Plan Investor, either (x) the purchase and holding of Income Notes or Class D Notes (other than Regulation S Income Notes and Regulation S Class D Notes), as applicable, do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available or (y) the purchase and holding of Income Notes or Class D Notes (other than Regulation S Income Notes and Regulation S Class D Notes), as applicable, is exempt under an identified Prohibited Transaction Class Exemption or individual exemption, based on the assumption that less than 25% of each of the outstanding Income Notes or Class D Notes, as applicable, are owned by Benefit Plan Investors; and (iii) whether or not it is the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (each, a "Controlling Person"). If a purchaser is an entity described in (i)(C) above, or an insurance company acting on behalf of its general account, it may be required to so indicate, and to identify a maximum percentage of its assets or the assets in its general account, as applicable, that may be or become plan assets, in which case it will be required to make certain further agreements that would apply in the event that such maximum percentage would thereafter be exceeded. The purchaser agrees that, before any interest in an Income Note or a Class D Note (other than a Regulation S Income Note or a Regulation S Class D Note) may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Trustee or Fiscal Agent, as applicable, with an Income Notes Purchase and Transfer Letter or a Class D Notes Purchase and Transfer Letter stating, among other things, whether the transferee is a Benefit Plan Investor. The purchaser acknowledges and agrees that no purchase or transfer will be permitted, and the Trustee or Fiscal Agent will not register any such transfer, to the extent that the purchase or transfer would result in Benefit Plan Investors owning 25% or more of either of the outstanding Income Notes or Class D Notes, immediately after such purchase or transfer (determined in accordance with the Fiscal Agency Agreement). The foregoing procedures are intended to enable Income Notes and Class D Notes (other than Regulation S Income Notes and Regulation S Class D Notes) to be purchased by or transferred to Benefit Plan Investors at any time, although no assurance can be given that there will not be circumstances in which purchases or transfers of Income Notes or Class D Notes will be required to be restricted in order to comply with the aforementioned 25% limitation. No Benefit Plan Investor or Controlling Person may purchase a Regulation S Income Note or Regulation S Class D Note. Purchasers of Regulation S Income Notes or Regulation S Class D Note are deemed to represent that they are not Benefit Plan Investors or Controlling Persons. See "ERISA Considerations."

5. The purchaser is not purchasing the Securities with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands that an investment in the Securities involves certain risks, including the risk of loss of its entire investment in the Securities under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuers and the Securities as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Securities, including an opportunity to ask questions of, and request information from, the Issuer.

6. In connection with the purchase of the Securities: (i) none of the Issuers, the Initial Purchaser, the Collateral Manager, the Trustee, the Agents, the Cashflow Swap Counterparty (or any guarantor thereof), the Issuer Administrator or the Share Trustee (as defined herein) is acting as a fiduciary or financial or investment adviser for the purchaser; (ii) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Collateral Manager, the Trustee, the Agents, the Cashflow Swap Counterparty (or any guarantor thereof), the Issuer Administrator or the Share Trustee

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other than in this offering circular for such Securities and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Collateral Manager, the Trustee, the Agents, the Cashflow Swap Counterparty (or any guarantor thereof), the Issuer Administrator or the Share Trustee has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, results, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Securities; (iv) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by Issuers, the Initial Purchaser, the Collateral Manager, the Trustee, the Agents, the Cashflow Swap Counterparty (or any guarantor thereof), the Issuer Administrator or the Share Trustee; (v) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Securities with a full understanding of all of the risks thereof (economic and otherwise), and is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the purchaser is a sophisticated investor.

7. Pursuant to the terms of the Indenture, unless otherwise determined by the Issuers in accordance with the Indenture, the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes sold to non-U.S. Persons in offshore transactions (the "Regulation S Class D Notes") will bear a legend to the following effect:

> THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS, IN THE CASE OF THE NOTES OTHER THAN THE CLASS D NOTES, AND THE ISSUER, IN THE CASE OF THE CLASS D NOTES, THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A

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BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE (AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE TRANSFER AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

THE PURCHASER OR TRANSFEREE OF A CLASS D NOTE IS DEEMED REPRESENT (i) THAT IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) THAT IT IS NOT THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. NO PURCHASE OR TRANSFER OF CLASS D NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING CLASS D NOTES (OTHER THAN THE CLASS D NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE INDENTURE).

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

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TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

[CLASS C NOTES AND CLASS D NOTES ONLY] THE FOLLOWING INFORMATION IS PROVIDED PURSUANT TO UNITED STATES TREASURY REGULATION SECTION 1.1275-3(b). THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE HOLDER OF THIS NOTE MAY OBTAIN THE INFORMATION DESCRIBED IN UNITED STATES TREASURY REGULATION SECTION 1. 1275-3(b)(1)(i) FROM THE ADMINISTRATOR, AT THE FOLLOWING ADDRESS: P.O. BOX 1093 GT, GRAND CAYMAN, CAYMAN ISLANDS.

8. Pursuant to the terms of the Indenture, unless otherwise determined by the Issuer in accordance with the Indenture, the Class D Notes (other than the Regulation S Class D Notes) will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER

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IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE NOTE TRANSFER AGENT. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE.

IF THE TRANSFER OF CLASS D NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS D NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE NOTE TRANSFER AGENT A CLASS D NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (1) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

THE PURCHASER OR TRANSFEREE OF THIS NOTE MUST DISCLOSE IN WRITING IN ADVANCE TO THE TRUSTEE (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR, THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF CLASS D NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN ENTITY AS DESCRIBED IN (i)(C) ABOVE, OR AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF ITS ASSETS OR THE ASSETS IN ITS GENERAL ACCOUNT, AS APPLICABLE, THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE IT WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN A CLASS D NOTE MAY BE OFFERED, SOLD,

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PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE NOTE TRANSFER AGENT WITH A CLASS D NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. NO PURCHASE OR TRANSFER OF CLASS D NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING CLASS D NOTES (OTHER THAN THE CLASS D NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE INDENTURE).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

THE FOLLOWING INFORMATION IS PROVIDED PURSUANT TO UNITED STATES TREASURY REGULATION SECTION 1.1275-3(b). THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE HOLDER OF THIS NOTE MAY OBTAIN THE INFORMATION DESCRIBED IN UNITED STATES TREASURY REGULATION SECTION 1. 1275-3(b)(1)(i) FROM THE ADMINISTRATOR, AT THE FOLLOWING ADDRESS: P.O. BOX 1093 GT, GRAND CAYMAN, CAYMAN ISLANDS.

9. The purchaser acknowledges that it is its intent and that it understands it is the intent of the Issuer that, for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, the Issuer will be treated as a non-U.S. corporation; the Notes will be treated as indebtedness of the Issuer; and the Income Notes will be treated as equity in the Issuer. The purchaser agrees to such treatment and agrees to take no action inconsistent with such treatment.

10. If the purchaser or beneficial owner is a Non-U.S. Holder, such purchaser or beneficial owner represents that (x) either (i) its purchase of the Note is not, directly or indirectly, an extension of credit made by a bank pursuant to a loan agreement entered into in the ordinary course of its trade or business, (ii) it is a person that is eligible for benefits under an income tax treaty with the United States that eliminates United States federal income taxation of United States source interest not attributable to a permanent establishment in the United States or (iii) all income from the Note is effectively connected with a trade or business within the United States (as such terms are used in Section 882(a)(1) of the Code) conducted by such Holder and (y) it is not purchasing the Note in order to reduce its United States federal income tax liability or pursuant to a tax avoidance plan.

11. The purchaser agrees not to treat the Issuer as being engaged in the active conduct of a banking, financing, insurance, or other similar business for purposes of Section 954(h)(2) of the Code.

12. The purchaser agrees to timely furnish the Issuer or its agents any U.S. federal income tax form or certification (such as IRS Form W-8BEN (Certification of Foreign Status), Form W-8IMY (Certification of Foreign Intermediary Status), Form W-9 (Request for Taxpayer Identification Number and Certification) or Form W-8ECI (Certification of Foreign Person's Claim for Exemption from Withholding on Income Effectively Connected with Conduct of a U.S. Trade or Business) or any successors to such IRS forms) that the Issuer or its agents may reasonably request and to update or replace such form or certification in accordance with its terms or its subsequent amendments.

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13. The purchaser agrees to timely furnish the Issuer, upon request, with such information as may reasonably be requested by the Issuer (including but not limited to information relating to the beneficial owner of the Note) in connection with the Issuer's fulfillment of its tax reporting, notification, withholding and similar obligations arising under the Code (as amended from time to time) or the Transaction Documents.

14. The purchaser understands that the Issuers, the Trustee, the Initial Purchaser and the Collateral Manager and their counsel will rely upon the accuracy and truth of the foregoing representations, and the purchaser hereby consents to such reliance.

15. Pursuant to the terms of the Fiscal Agency Agreement, unless otherwise determined by the Issuer in accordance with the Fiscal Agency Agreement, the Income Notes (other than the Regulation S Income Notes) will bear a legend to the following effect:

> THE INCOME NOTES ARE CONSTITUTED BY THE DEED OF COVENANT EXECUTED BY THE ISSUER ON OR ABOUT MARCH 27, 2007 AND ARE SUBJECT TO THE TERMS AND CONDITIONS THEREOF AND CERTAIN CONDITIONS OF THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 27, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND AMONG THE ISSUER AND THE BANK OF NEW YORK, LONDON BRANCH, AS FISCAL AGENT AND TRANSFER AGENT. COPIES OF THE DEED OF COVENANT, THE TERMS AND CONDITIONS OF THE INCOME NOTES AND THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.
>
> THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND IN EACH CASE IN A MINIMUM DENOMINATION OF U.S.$100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A

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TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE FISCAL AGENT OR THE INCOME NOTE REGISTRAR. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE FISCAL AGENT. AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE FISCAL AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR, THAT THE PURCHASE AND HOLDING OR TRANSFER OF INCOME NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN ENTITY AS DESCRIBED IN (i)(C) ABOVE, OR AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF ITS ASSETS OR THE ASSETS IN ITS GENERAL ACCOUNT, AS APPLICABLE, THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE IT WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE FISCAL AGENT WITH AN INCOME NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS

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A BENEFIT PLAN INVESTOR. NO PURCHASE OR TRANSFER OF INCOME NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE FISCAL AGENCY AGREEMENT).

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE NOTES OF THE ISSUERS AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE FISCAL AGENCY AGREEMENT.

16. Pursuant to the terms of the Fiscal Agency Agreement, unless otherwise determined by the Issuer in accordance with the Fiscal Agency Agreement, the certificates in respect of the Regulation S Income Notes will bear a legend to the following effect:

THE INCOME NOTES ARE CONSTITUTED BY THE DEED OF COVENANT EXECUTED BY THE ISSUER ON OR ABOUT MARCH 27, 2007 AND ARE SUBJECT TO THE TERMS AND CONDITIONS THEREOF AND CERTAIN CONDITIONS OF THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 27, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND AMONG THE ISSUER AND THE BANK OF NEW YORK, LONDON BRANCH, AS FISCAL AGENT AND INCOME NOTE TRANSFER AGENT. COPIES OF THE DEED OF COVENANT, THE TERMS AND CONDITIONS OF THE INCOME NOTES AND THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND IN EACH CASE IN A MINIMUM DENOMINATION OF U.S.$100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY

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CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE FISCAL AGENT OR THE INCOME NOTE REGISTRAR. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE.

THE TRANSFEREE OF THIS SECURITY WILL BE DEEMED TO HAVE REPRESENTED THAT THE TRANSFEREE IS NOT A U.S. PERSON.

THE PURCHASER OR TRANSFEREE OF THIS INCOME NOTE IS DEEMED TO REPRESENT (i) THAT IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) THAT IT IS NOT THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. NO PURCHASE OR TRANSFER OF INCOME NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE FISCAL AGENCY AGREEMENT).

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS INCOME NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS INCOME NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY INCOME NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS INCOME NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS

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OF THIS INCOME NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE FISCAL AGENCY AGREEMENT.

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE NOTES OF THE ISSUERS AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

The Securities that are being offered hereby in reliance on the exemption from registration under Regulation S (the "Regulation S Notes"; the "Regulation S Income Notes"; and collectively, the "Regulation S Securities") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Securities may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser") or, solely in the case of the Income Notes, that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act (an "Accredited Investor") who has a net worth of not less than U.S.$10 million and a Qualified Purchaser, and takes delivery in the form of (i) an interest in a Rule 144A Global Note or a definitive Class D Note in an amount at least equal to the minimum denomination applicable to the Rule 144A Notes or (ii) an Income Note in a notional principal amount of not less than U.S.$100,000. See "Description of the Securities" and "Underwriting."

The requirements set forth under "Notice to Investors" above apply only to Securities offered in the United States, except for the requirements set forth in Paragraphs (4), (5), (6), (9), (10), (11), (12), (13) and (14) and except that the Regulation S Securities will bear the legends set forth in Paragraphs (7) and (16) under "Notice to Investors" above.

THE ISSUERS ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OTHER THAN INFORMATION PROVIDED IN THE SECTION ENTITLED "THE COLLATERAL MANAGER." THE COLLATERAL MANAGER ACCEPTS RESPONSIBILITY FOR THE INFORMATION PROVIDED IN "THE COLLATERAL MANAGER" SECTION (OTHER THAN THE INFORMATION CONTAINED UNDER THE SUBHEADING "GENERAL"). TO THE BEST OF THE KNOWLEDGE AND THE BELIEF OF THE ISSUERS, THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

EACH PURCHASER OF THE SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH SECURITIES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE ISSUERS, THE INITIAL PURCHASER, THE COLLATERAL MANAGER, THE CASHFLOW SWAP COUNTERPARTY (OR ITS GUARANTOR) OR THEIR AGENTS SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.

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AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with the resale of the Securities, the Issuers will be required under the Indenture and the Fiscal Agency Agreement, to furnish upon request to a holder or beneficial owner of a Security and to a prospective investor who is a Qualified Institutional Buyer designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) if, at the time of the request neither the Issuer nor the Co-Issuer, as applicable, is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

To the extent the Trustee delivers any annual or other periodic report to the Holders of the Notes, the Trustee will include in such report a reminder that (1) each holder (other than those holders who are not U.S. Persons and have purchased their Notes outside the United States pursuant to Regulation S) is required to be (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, in each case that can make all of the representations in the Indenture applicable to a holder that is a U.S. Person; (2) the Notes can only be transferred (i) to a transferee that is (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser that can make all of the representations in the Indenture applicable to a holder who is a U.S. Person or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or 904 under Regulation S; and (3) the Issuers have the right to compel any holder who does not meet the transfer restrictions set forth in the Indenture to transfer its interest in the Notes to a person designated by the Issuers or sell such interests on behalf of the holder.

To the extent the Fiscal Agent delivers any annual or periodic reports to the Holders of the Income Notes, the Fiscal Agent will include in such report a reminder that (1) each holder (other than those holders who are not U.S. Persons and have purchased their Income Notes outside the United States pursuant to Regulation S) is required to be (a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth of not less than U.S.$10 million and (b) a Qualified Purchaser that can make all of the representations in the Income Notes Purchase and Transfer Letter applicable to a holder who is a U.S. Person; (2) the Income Notes can only be transferred to a transferee that is (i)(a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth not less than U.S.$10 million and (b) a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 under Regulation S; and (3) the Issuer has the right to compel any holder who does not meet the transfer restrictions set forth in the Fiscal Agency Agreement to transfer its Income Notes to a person designated by the Issuer or sell such Income Notes on behalf of the holder.

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SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For definitions of certain terms used in this Offering Circular see "Appendix A — Certain Definitions" and for the location of the definitions of those and other terms, see "Index of Defined Terms." For a discussion of certain factors to be considered in connection with an investment in the Securities, see "Risk Factors."

The Issuers .....

Timberwolf I, Ltd. (the "Issuer") is an exempted company incorporated with limited liability under the laws of the Cayman Islands for the sole purpose of acquiring the Collateral Assets, Default Swap Collateral and the Eligible Investments, entering into, and performing its obligations under, the Collateral Management Agreement and Cashflow Swap Agreement, co-issuing the Notes and the Income Notes and engaging in certain related transactions.

The Issuer will not have any material assets other than the portfolio consisting of CDO Securities and Synthetic Securities (the Reference Obligations of which are CDO Securities) as described herein (collectively, together with Deliverable Obligations and any Default Swap Collateral that has been released from the lien of the Synthetic Security Counterparty and credited to the Collateral Account as described herein, "Collateral Assets"), the Default Swap Collateral Account, Eligible Investments and the cashflow swap agreement (the "Cashflow Swap Agreement"), the Collateral Management Agreement and certain other assets. The Collateral Assets, the Eligible Investments and certain other assets of the Issuer will be pledged by the Issuer to the Trustee under the Indenture, for the benefit of the Secured Parties, as security for, among other obligations, the Issuers' obligations under the Notes. The Default Swap Collateral Account will be pledged by the Issuer to the Trustee under the Indenture for the benefit of the Synthetic Security Counterparty as security for the Issuer's obligations under the Synthetic Securities.

Timberwolf I (Delaware) Corp. (the "Co-Issuer" and, together with the Issuer, the "Issuers") is a corporation formed under the laws of the State of Delaware for the sole purpose of co-issuing the Notes (other than the Class D Notes).

The Co-Issuer will not have any assets (other than U.S.$10 of equity capital) and will not pledge any assets to secure the Notes. The Co-Issuer will have no claim against the Issuer in respect of the Collateral Assets or otherwise.

The authorized share capital of the Issuer is U.S.$50,000 which consists of 50,000 ordinary shares, par value U.S.$1.00 per share, ("Issuer Ordinary Shares"), 250 of which have been issued. The Issuer Ordinary Shares will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands (the "Issuer Administrator") as the trustee pursuant to the terms of a charitable trust (the "Share Trustee") and all of the outstanding common equity of the Co-Issuer will be held by the Issuer.

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The Collateral Manager	Greywolf Capital Management LP, a Delaware limited liability company ("Greywolf") or any successor thereto (the "Collateral Manager"), will perform certain monitoring functions with respect to the Collateral Assets pursuant to a collateral management agreement to be dated as of the Closing Date (the "Collateral Management Agreement") between the Issuer and Greywolf, as Collateral Manager. Greywolf is a registered investment adviser under the United States Investment Advisers Act of 1940, as amended. See "The Collateral Manager."
Securities Offered	On the Closing Date, the Issuer and the Co-Issuer will issue U.S.$9,000,000 principal amount of Class S-1 Floating Rate Notes Due September 2011 (the "Class S-1 Notes"), U.S.$8,300,000 principal amount of Class S-2 Floating Rate Notes Due September 2011 (the "Class S-2 Notes" and, together with the Class S-1 Notes, the "Class S Notes"), U.S.$ 100,000,000 principal amount of Class A-1a Floating Rate Notes Due 2039 (the "Class A-1a Notes"), U.S.$ 200,000,000 principal amount of Class A-1b Floating Rate Notes Due 2039 (the "Class A-1b Notes"), U.S.$ 100,000,000 principal amount of Class A-1c Floating Rate Notes Due 2044 (the "Class A-1c Notes"), U.S.$ 100,000,000 principal amount of Class A-1d Floating Rate Notes Due 2044 (the "Class A-1d Notes" and, together with the Class A-1a Notes, Class A-1b Notes and Class A-1c Notes, the "Class A-1 Notes"), U.S.$ 305,000,000 principal amount of Class A-2 Floating Rate Notes Due 2047 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$ 107,000,000 principal amount of Class B Floating Rate Notes Due 2047 (the "Class B Notes") and U.S.$ 36,000,000 principal amount of Class C Deferrable Floating Rate Notes Due 2047 (the "Class C Notes"), and the Issuer will issue U.S.$ 30,000,000 principal amount of Class D Deferrable Floating Rate Notes Due 2047 (the "Class D Notes" and, together with the Class S Notes, Class A Notes, Class B Notes and Class C Notes, the "Notes") pursuant to an Indenture (the "Indenture") dated on or about March 27, 2007 among the Issuers and The Bank of New York, as trustee and as securities intermediary (the "Trustee" and the "Securities Intermediary," respectively). Under the Indenture, The Bank of New York will also act as principal paying agent for the Notes (the "Principal Note Paying Agent"), as registrar (the "Note Registrar"), as calculation agent (the "Note Calculation Agent"), as transfer agent (the "Note Transfer Agent") and as paying agent for the Notes (the "Note Paying Agent" and, together with the Principal Note Paying Agent, the Note Registrar, the Note Calculation Agent, the Note Transfer Agent and the Listing and Paying Agent, the "Note Agents"). On the Closing Date, the Issuer will also issue U.S.$ 22,000,000 notional principal amount of Income Notes Due 2047 (the "Income Notes" and, together with the Notes, the "Securities"), pursuant to a deed of covenant (the "Deed of Covenant"), dated on or about the Closing Date, executed by

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the Issuer and subject to the terms and conditions of the Income Notes (the "Terms and Conditions") appended thereto and a fiscal agency agreement (the "Fiscal Agency Agreement") dated on or about the Closing Date between the Issuer and The Bank of New York, London Branch, as fiscal agent and transfer agent for the Income Notes (in such capacities, the "Fiscal Agent" and, together with the Note Agents and the Collateral Administrator, the "Agents"). Only the Notes and the Income Notes (collectively, the "Securities") are offered hereby.

The Note Paying Agent, the Principal Note Paying Agent and any other Note paying agents appointed from time to time under the Indenture are collectively referred to as the "Note Paying Agents." The Note Paying Agents and the Fiscal Agent are collectively referred to as the "Paying Agents." The Note Transfer Agent and the Fiscal Agent are collectively referred to as the "Transfer Agents." The Indenture, the Collateral Management Agreement, the Cashflow Swap Agreement, the Collateral Administration Agreement, the Administration Agreement, the Deed of Covenant and the Fiscal Agency Agreement are collectively referred to as the "Transaction Documents."

Closing Date ..... The Issuer will issue the Income Notes and the Issuers will issue the other Notes on or about March 27, 2007 (the "Closing Date").

Status of the Securities ..... The Notes (other than the Class D Notes) will be limited recourse obligations of the Issuers and the Class D Notes and the Income Notes will be limited recourse obligations of the Issuer. The Income Notes will not be secured obligations of the Issuer and will only be entitled to receive amounts available for distribution on any Payment Date after payment of all amounts payable prior thereto under the Priority of Payments. The Class S-1 Notes will be senior in right of payment on each Payment Date to the Class S-2 Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; the Class S-2 Notes will be senior in right of payment on each Payment Date to the Class A-2 Notes (*provided*, that payments of interest on the Class S-2 Notes and the Class A Notes will be paid pro rata), the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; the Class A-1 Notes will be senior in right of payment on each Payment Date to the Class A-2 Notes (*provided*, that payments of interest on the Class A Notes will be paid pro rata), the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; the Class A-2 Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; the Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes and the Income Notes; the Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes and the Income Notes and the Class D Notes will be senior in right of payment on each Payment Date to the Income Notes,

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	each to the extent provided in the Priority of Payments. Payments of principal on the Class A-1 Notes will be paid in accordance with the Class A-1 Note Payment Sequence. See "Description of the Securities—Status and Security" and "—Priority of Payments."
Use of Proceeds	The net proceeds associated with the offering of the Securities issued on the Closing Date are expected to equal approximately U.S.$1,005,119,000. The net proceeds will be used by the Issuer to purchase on the Closing Date or within 90 days thereafter pursuant to agreements to purchase entered into on or prior to the Closing Date, the portfolio of Collateral Assets described herein having an aggregate Principal Balance of approximately U.S.$1,000,000,000 and to purchase the Default Swap Collateral. See "Security for the Notes—Disposition of Collateral Assets" and "Use of Proceeds."
The Collateral Assets	The Collateral Assets (or, in the case of the Synthetic Securities, the Reference Obligations related thereto) are initially expected to be comprised of 55 issues of CDO Securities. Approximately 93.00% of the Collateral Assets (by Principal Balance) on the Closing Date are expected to be Synthetic Securities. All of the Reference Obligations referenced in the Synthetic Securities are expected to be CDO Securities. See "Security for the Notes—The Collateral Assets." Certain summary information about the Collateral Assets is set forth in Appendix B to this Offering Circular.
Synthetic Security Counterparty	The initial Synthetic Security Counterparty under the Synthetic Securities is Goldman Sachs International. The swap guarantor with respect to the initial Synthetic Securities is The Goldman Sachs Group, Inc., a Delaware corporation, which is an affiliate of the Synthetic Security Counterparty.
Synthetic Securities	Each of the Synthetic Securities to be entered into by the Issuer and the Synthetic Security Counterparty on or before the Closing Date will be structured as "pay-as-you-go" credit default swaps related to single Reference Obligations. Pursuant to each Synthetic Security, the Issuer will receive the Fixed Amount in exchange for providing credit protection to the Synthetic Security Counterparty in connection with certain Credit Events and Floating Amount Events that may occur with respect to the related Reference Obligations. To support any payments which may become due by the Issuer to the Synthetic Security Counterparty under the Synthetic Securities, the Issuer will be required to purchase Default Swap Collateral with a face value equal to the initial Aggregate Reference Obligation Notional Amount of the Synthetic Securities and pledge to the Synthetic Security Counterparty a first priority security interest in such Default Swap Collateral. It is expected that all of the Reference Obligations referenced under the Synthetic Securities will be CDO Securities. For a detailed description of the Synthetic Securities, see "Security for the Notes—Synthetic Securities".

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Interest Payments and Certain Distributions .....

The Notes will accrue interest from the Closing Date and such interest will be payable on the 3rd day of March, June, September and December of each year, or if any such date is not a Business Day, the immediately following Business Day (each such date, a "Payment Date") commencing on September 4, 2007. Payments on the Income Notes will be payable in arrears on each Payment Date, commencing on September 4, 2007. All payments on the Securities will be made from Proceeds in accordance with the Priority of Payments.

The Class S-1 Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class S-1 Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 0.20%.

The Class S-2 Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class S-2 Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 0.35%.

The Class A-1a Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class A-1a Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 0.05%.

The Class A-1b Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class A-1b Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 0.50%.

The Class A-1c Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class A-1c Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 0.80%.

The Class A-1d Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class A-1d Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 1.30%.

The Class A-2 Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class A-2 Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 0.90%.

The Class B Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class B Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 1.40%.

The Class C Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class C Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 4.00%.

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The Class D Notes will bear interest during each Interest Accrual Period at a *per annum* rate (the "Class D Note Interest Rate") equal to LIBOR for such Interest Accrual Period *plus* 10.00%.

The Class S-1 Note Interest Rate, the Class S-2 Note Interest Rate, the Class A-1a Note Interest Rate, the Class A-1b Note Interest Rate, the Class A-1c Note Interest Rate, the Class A-1d Note Interest Rate, the Class A-2 Note Interest Rate, the Class B Note Interest Rate, the Class C Note Interest Rate and the Class D Note Interest Rate are collectively referred to herein as the "Note Interest Rates."

To the extent interest that is due is not paid on the Class C Notes on any Payment Date ("Class C Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class C Notes, and shall accrue interest at the Class C Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes or Class B Notes are outstanding, the failure to pay any interest on the Class C Notes on any Payment Date will not be an Event of Default under the Indenture. To the extent interest that is due is not paid on the Class D Notes on any Payment Date ("Class D Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class D Notes, and shall accrue interest at the Class D Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, the failure to pay any interest on the Class D Notes on any Payment Date will not be an Event of Default under the Indenture.

See "Description of the Securities – Interest and Distributions" and "—Priority of Payments."

LIBOR for the first Interest Accrual Period with respect to each Class of Notes will be determined as of the second Business Day preceding the Closing Date. Calculations of interest on each Class of the Notes will be made on the basis of a 360-day year and the actual number of days in each Interest Accrual Period.

The "Interest Accrual Period" with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes and any Payment Date, is the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date.

The Holders of the Income Notes will be entitled to receive, on each Payment Date, all cash remaining after the payment of all other amounts required to be paid in accordance with the Priority of Payments.

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Principal Payments .....

The Notes (other than the Class S Notes and the Class A-1 Notes) and the Income Notes will mature on the Payment Date in December 2047 (such date the "Stated Maturity" with respect to each Class of Notes (other than the Class S Notes and the Class A-1 Notes) and Income Notes), the Class S Notes will mature on the Payment Date in September 2011 (the "Stated Maturity" with respect to the Class S Notes), the Class A-1a Notes and the Class A-1b Notes will mature on the Payment Date in December 2039 (the "Stated Maturity" with respect to the Class A-1a Notes and the Class A-1b Notes) and the Class A-1c Notes and the Class A-1d Notes will mature on the Payment Date in September 2044 (the "Stated Maturity" with respect to the Class A-1c Notes and the Class A-1d Notes) unless redeemed or retired prior thereto. The average life of the Notes (other than the Class S Notes) and the duration of the Income Notes is expected to be substantially shorter than the number of years from issuance until Stated Maturity for each Class of Notes and the Income Notes. See "Description of the Securities—Principal" and "Risk Factors—Securities—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class S-1 Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in December 2007 in an amount equal to the Class S-1 Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption by Liquidation or successful Auction has occurred and the Collateral is being liquidated pursuant to the terms of the Indenture, the Class S-1 Notes will be paid in full prior to any distributions to any other Securities. Principal will be payable on the Class S-2 Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in December 2007 in an amount equal to the Class S-2 Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption by Liquidation or successful Auction has occurred and the Collateral is being liquidated pursuant to the terms of the Indenture, the Class S-2 Notes will be paid in full prior to any distributions to any other Securities (other than the Class S-1 Notes and the Class A-1 Notes). The Class S-2 Notes are subject to mandatory redemption if the Class A/B Overcollateralization Test is not satisfied on any date of determination. "Shifting principal" will be payable on the Notes (other than the Class S Notes) in accordance with clause (xii) of the Priority of Payments on each Payment Date in accordance with the Priority of Payments.

As a result of the Priority of Payments, notwithstanding the subordination of the Notes described under "Status of the Securities" above, the Class S-2 Notes may be entitled to receive certain payments of principal while the Class S-1 Notes and the Class A-1 Notes are outstanding, the Class A-

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1 Notes may be entitled to receive certain payments of principal while the Class S Notes are outstanding, the Class A-2 Notes may be entitled to receive certain payments of principal while the Class S Notes and the Class A-1 Notes are outstanding, the Class B Notes may be entitled to receive certain payments of principal while the Class S Notes and the Class A Notes are outstanding, the Class C Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes and the Class B Notes are outstanding and the Class D Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes are outstanding. In addition, the Income Notes may be entitled to receive certain payments while the Notes are outstanding. See "Description of the Securities—Priority of Payments."

In addition, to the extent funds are available therefor in accordance with the Priority of Payments, the Notes (other than the Class S-1 Notes) will be subject to mandatory redemption on any Payment Date if the Coverage Tests are not satisfied as described herein. See "Description of the Securities—Principal" and "—Mandatory Redemption."

Tax Redemption ..... Subject to certain conditions described herein, the Notes will be redeemed from Liquidation Proceeds, in whole but not in part, on any Payment Date upon the occurrence of a Tax Event, at the written direction of, or with the written consent of, Holders of at least 66-2/3% of the aggregate outstanding notional principal amount of the affected Income Notes or Holders of at least a Majority of any Class of Notes which, as a result of the occurrence of such Tax Event, have not received 100% of the aggregate amount of principal and interest or other amounts due and payable to such Holders (such redemption, a "Tax Redemption"). No such Tax Redemption will occur unless the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. Upon the occurrence of a Tax Redemption, the Income Notes will be simultaneously redeemed.

With respect to a Tax Redemption as described above, the Notes will be redeemed at their Redemption Prices, respectively, as described herein. The amount payable as the final payment to the Income Notes following any Tax Redemption will be the Liquidation Proceeds remaining after the payment of the Total Redemption Amount in accordance with the Priority of Payments.

See "Description of the Securities—Tax Redemption."

Auction ..... Sixty days prior to the Payment Date occurring in September of each year (the "Auction Date"), commencing on the September 2015 Payment Date, the Collateral Manager shall take steps to conduct an auction (the "Auction") of the Collateral in accordance with the procedures specified in the Indenture. If the Collateral Manager receives one or more bids from Eligible Bidders not later than ten Business Days prior to the Auction Date equal to or greater than the

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Minimum Bid Amount, it will sell the Collateral for settlement on or before the fifth Business Day prior to such Auction Date and the Notes will be redeemed in whole on such Auction Date (any such date, the "Auction Payment Date"). If a successful Auction occurs, the Income Notes will also be redeemed in full. The Collateral Manager and its affiliates shall be considered Eligible Bidders. If the highest single bid on the entire portfolio of Collateral, or the aggregate amount of multiple bids with respect to individual items of Collateral, does not equal or exceed the aggregate Minimum Bid Amount or if there is a failure at settlement, the Collateral will not be sold and no redemption of Notes or Income Notes on the related Auction Date will be made.

Optional Redemption by Liquidation.....

The Notes may be redeemed by the Issuers from Liquidation Proceeds, in whole but not in part, on any Payment Date on or after the Payment Date occurring in March 2010 (the "Optional Redemption Date"), at the written direction of, or with the written consent of the Holders of at least a Majority of the Income Notes (an "Optional Redemption" or an "Optional Redemption by Liquidation"). If the Holders of the Income Notes so elect to cause an Optional Redemption by Liquidation, the Income Notes will also be redeemed in full.

In the event of an Optional Redemption by Liquidation, the Notes will be redeemed at their Redemption Prices as described herein.

No Securities shall be redeemed pursuant to an Optional Redemption by Liquidation and a final payment to the Income Notes shall not be made unless the Collateral Manager furnishes certain assurances that the Total Redemption Amount will be available for distribution on the related Optional Redemption Date.

See "Description of the Securities–Optional Redemption by Liquidation."

Optional Redemption by Refinancing.....

Any Class or Classes of Notes may be redeemed by the Issuers from the net cash proceeds (the "Refinancing Proceeds") of a loan, credit or similar facility or an issuance of replacement notes, from or to one or more financial institutions or purchasers, in whole but not in part, on any Payment Date on or after the Optional Redemption Date, at the written direction of, or with the written consent of the Holders of at least a Majority of the Income Notes (an "Optional Redemption" or an "Optional Redemption by Refinancing") subject to the satisfaction of the Rating Agency Condition (other than with respect to the Notes being redeemed) and the other restrictions described herein.

In the event of an Optional Redemption by Refinancing, the Class or Classes of Notes subject to such redemption will be redeemed at their Redemption Prices as described herein.

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If the Holders of the Income Notes so elect to cause an Optional Redemption by Refinancing, the Income Notes will not be redeemed in full and will remain outstanding.

See "Description of the Notes and the Income Notes—Optional Redemption by Refinancing."

Mandatory Redemption ..... On any Payment Date on which the Class A/B Overcollateralization Test, the Class C Overcollateralization Test or the Class D Overcollateralization Test is not satisfied as of the preceding Determination Date, certain of the Notes (other than the Class S-1 Notes) will be subject to mandatory redemption in accordance with the Priority of Payments, until the applicable Notes have been paid in full (a "Mandatory Redemption"). The Collateral Manager is not permitted to sell Collateral Assets to generate additional Proceeds to be applied to redeem the Notes except to the extent such Collateral Assets may, at the discretion of the Collateral Manager, be otherwise sold as Credit Risk Obligations, equity securities or Defaulted Obligations. The Class S-1 Notes and the Income Notes are not subject to mandatory redemption as a result of the failure of any Coverage Test. See "Description of the Securities—Mandatory Redemption" and "—Priority of Payments."

Security for the Notes..... Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit and security of the Trustee, for itself and on behalf of the Noteholders, the Fiscal Agent, the Collateral Administrator, the Collateral Manager, the Cashflow Swap Counterparty and the Synthetic Security Counterparty (together the "Secured Parties"), to secure the Issuer's obligations under the Notes, the Indenture, the Cashflow Swap Agreement, the Collateral Management Agreement and the Synthetic Securities (the "Secured Obligations"), a first priority security interest in the Collateral. The Income Notes will not be secured.

Reports..... A report will be made available to the Holders of the Notes and Holders of the Income Notes and will provide information on the Collateral Assets and payments to be made in accordance with the Priority of Payments (each, a "Payment Report") beginning in September 2007. See "Security for the Notes—Reports."

Coverage Tests ..... The following table identifies the Coverage Tests and the value at which such tests will be satisfied. See "Security for the Notes—The Coverage Tests."

Coverage Test	Value at Which Test is Satisfied
Class A/B Overcollateralization Test	Class A/B Overcollateralization Ratio is equal to or greater than 106.4%

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Class C Overcollateralization Test	Overcollateralization	Class C Overcollateralization Ratio is equal to or greater than 103.3%
Class D Overcollateralization Test	Overcollateralization	Class D Overcollateralization Ratio is equal to or greater than 101.1%

On the Closing Date, the Class A/B Overcollateralization Ratio is expected to be 109.6%, the Class C Overcollateralization Ratio is expected to be 105.5% and the Class D Overcollateralization Ratio is expected to be 102.2%.

The Offering ..... The Securities are being offered to non-U.S. Persons in offshore transactions in reliance on Regulation S, and in the United States to persons who are Qualified Institutional Buyers purchasing in reliance on the exemption from registration under Rule 144A or, with respect to Income Notes only, Accredited Investors purchasing in transactions exempt from registration under the Securities Act. Each purchaser who is a U.S. Person must also be a Qualified Purchaser. Each Accredited Investor must have a net worth of at least U.S.$10 million. See "Description of the Securities—Form of the Securities," "Underwriting" and "Notice to Investors."

Minimum Denominations ..... The Notes will be issued in minimum denominations of U.S.$250,000 (in the case of the Rule 144A Notes) and U.S.$100,000 (in the case of the Regulation S Notes) and integral multiples of U.S.$1 in excess thereof for each Class of Notes. The Income Notes will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof.

Form of the Securities ..... Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by one or more temporary global notes (each, a "Temporary Regulation S Global Note"). Each Temporary Regulation S Global Note will be deposited on the Closing Date with The Bank of New York as custodian for, and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), for the respective accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"). Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream and may not be held at any time by a U.S. Person ("U.S. Person") (as such term is defined in Regulation S under the Securities Act).

Each Class of Rule 144A Notes will be issued in the form of one or more global notes in fully registered form (the "Rule 144A Global Notes" and, together with the Temporary Regulation S Global Notes and the Regulation S Global Notes, the "Global Notes"), deposited with The Bank of New York as custodian for, and registered in the name of Cede & Co. as nominee of, DTC, which will credit the account of each of its participants with the principal amount of Notes being

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purchased by or through such participant. Beneficial interests in the Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

The Class D Notes (other than the Regulation S Class D Notes) will be evidenced by one or more notes in definitive, fully registered form, registered in the name of the owner thereof (each, a "Definitive Note").

Beneficial interests in the Global Notes and the Definitive Notes may not be transferred except in compliance with the transfer restrictions described herein. See "Description of the Securities—Form of the Securities" and "Notice to Investors."

The Income Notes (other than the Regulation S Income Notes) will be evidenced by one or more notes in definitive, fully registered form, registered in the name of the owner thereof (each, an "Income Note Certificate"). The Regulation S Income Notes will be evidenced by a global note in fully registered form. The Income Notes may not be transferred except in compliance with the transfer restrictions described herein. See "Description of the Securities—Form of the Securities" and "Notice to Investors."

Governing Law ..... The Indenture, the Notes, the Cashflow Swap Agreement, the Synthetic Securities, the Collateral Administration Agreement and the Collateral Management Agreement will be governed by the laws of the State of New York. The Deed of Covenant, including the Terms and Conditions of the Income Notes and the Income Notes, the Fiscal Agency Agreement will be governed by the laws of the Cayman Islands.

Listing and Trading ..... There is currently no market for the Notes or Income Notes and there can be no assurance that such a market will develop. See "Risk Factors—Securities—Limited Liquidity and Restrictions on Transfer." Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained. See "Listing and General Information."

Ratings ..... It is a condition of the issuance of the Securities that the Class S Notes, the Class A-1 Notes and the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by S&P, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be rated at least "A2" by Moody's and at least "A" by S&P and that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by S&P. The Income Notes will not be rated. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings of the Notes."

Tax Status ..... See "Income Tax Considerations."

ERISA Considerations ..... See "ERISA Considerations."

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The Offering											
Securities Issued											
Class Designation	**S-1**	**S-2**	**A-1a**	**A-1b**	**A-1c**	**A-1d**	**A-2**	**B**	**C**	**D**	**Income Notes**
Original Principal Amount	U.S.$9,000,000	U.S.$8,300,000	U.S.$100,000,000	U.S.$200,000,000	U.S.$100,000,000	U.S.$100,000,000	U.S.$305,000,000	U.S.$107,000,000	U.S.$36,000,000	U.S.$30,000,000	U.S.$22,000,000
Stated Maturity	September 5, 2011		December 3, 2039		September 3, 2044		December 3, 2047				
Minimum Denomination (Integral Multiples):											
Rule 144A	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$100,000 ($1)
Reg S	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)
Reg D	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Applicable Investment Company Act of 1940 Exemption	3(c)(7)										
Initial Ratings:											
Moody's	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aa2	A2	Baa2	N/A
S&P	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA	A	BBB	N/A
Deferred Interest	No	No	No	No	No	No	No	No	Yes	Yes	N/A
Pricing Date	March 13, 2007										
Closing Date	March 27, 2007										
Interest Rate);	3 Month LIBOR + 0.20%	3 Month LIBOR + 0.35%	3 Month LIBOR + 0.05%	3 Month LIBOR + 0.50%	3 Month LIBOR + 0.60%	3 Month LIBOR + 1.30%	3 Month LIBOR + 0.90%	3 Month LIBOR +1.40%	3 Month LIBOR + 4.00%	3 Month LIBOR + 10.00%	N/A
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Floating	N/A
Interest Accrual Period[1]	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	N/A
Dates of Payment	(i) the third day of each March, June, September and December (or if such day is not a Business Day, the next succeeding Business Day) and at Stated Maturity (each, a "Scheduled Payment Date") and (ii) any Redemption Date										
First Payment Date	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007	September 4, 2007
Record Date	Business Day prior to the applicable Payment Date (or the 10th Business Day prior to the applicable Payment Date for Securities issued in definitive form)										
Frequency of Payments	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/ 360	Actual/360	N/A
Form of Securities:											
Global	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Certificated	No	No	No	No	No	No	No	No	No	Yes	Yes
CUSIPS Rule 144A	88714PAA4	88714PAK2	88714PAB2	88714PAC0	88714PAD8	88714PAE6	88714PAF3	88714PAG1	88714PAH9	88714PAJ5	88714NAA9
CUSIPS Reg S	G8878YAA8	G8878YAL4	G8878YAB6	G8878YAC4	G8878YAD2	G8878YAE0	G8878YAF7	G8878YAG5	G8878YAH3	G8878YAK6	G8878DAA4
ISIN Reg S	USG8878YAA85	USG8878YAL41	USG8878YAB68	USG8878YAC42	USG8878YAD25	USG8878YAE08	USG8878YAF72	USG8878YAG55	USG8878YAH39	USG8878YAK67	USG8878DAA49
CUSIPS REG D	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	88714NAB7
Clearing Method:											
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	DTC	DTC	DTC	Physical	Physical
Reg S	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear	Euroclear

1. "Floating Period" means, with respect to the Class S Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes and any Payment Date, the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date.

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RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Securities

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Securities. Although the Initial Purchaser has advised the Issuers that it intends to make a market in the Securities, the Initial Purchaser is not obligated to do so, and any such market making with respect to the Securities may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop or, if a secondary market does develop, that it will provide the Holders of the Notes with liquidity of investment or that it will continue for the life of such Notes and consequently a purchaser must be prepared to hold the Notes until maturity. Consequently, a purchaser must be prepared to hold the Notes for an indefinite period of time or until Stated Maturity. Since it is likely that there will never be a secondary market for the Income Notes, a purchaser must be prepared to hold its Income Notes until the Stated Maturity.

In addition, no sale, assignment, participation, pledge or transfer of the Securities may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Securities will not be registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, and the Issuer has no plans, and is under no obligation, to register the Securities under the Securities Act or any state securities laws or under the laws of any other jurisdiction. The Securities are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Description of the Securities—Form of the Securities" and "Notice to Investors." Such restrictions on the transfer of the Securities may further limit their liquidity. See "Description of the Securities—Form of the Securities." Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained.

Limited Recourse Obligations. The Income Notes and the Class D Notes will be limited recourse obligations of the Issuer and the Notes (other than the Class D Notes) will be limited recourse obligations of the Issuers payable solely from the Collateral pledged by the Issuer to secure the Notes. The Income Notes are denominated as debt of the Issuer and are not secured by the Collateral Assets or the other collateral securing the Notes. None of the Collateral Manager, the Holders of the Notes, the Holders of the Income Notes, the Initial Purchaser, the Trustee, the Issuer Administrator, the Agents, the Cashflow Swap Counterparty or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Notes or the Income Notes. Consequently, Holders of the Notes and Income Notes must rely solely on distributions on the Collateral pledged to secure the Notes for the payment of principal, interest and premium, if any, thereon. If distributions on the Collateral are insufficient to make payments on the Notes and Income Notes, no other assets (and, in particular, no assets of the Collateral Manager, the Holders of the Notes, the Holders of the Income Notes, the Initial Purchaser, the Trustee, the Issuer Administrator, the Agents, the Cashflow Swap Counterparty or any affiliates of any of the foregoing) will be available for payment of the deficiency, and following realization of the Collateral pledged to secure the Notes, the obligations of the Issuers to pay such deficiency shall be extinguished.

Subordination of the Securities. Payments of principal on the Class S-1 Notes will be senior to payments of principal of the Class S-2 Notes, the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on each Payment Date. Payments of principal on the Class S-2 Notes will be senior to payments of principal of the Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on each Payment Date. Payments of principal on the Class A-1 Notes will be senior to payments of principal of the Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on each Payment Date. Payments of principal on the Class S-2 Notes and the Class A-1

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Notes will be paid as described in the Priority of Payments. Payments of principal on the Class A-2 Notes will be senior to payments of principal of the Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on each Payment Date. Payments of principal on the Class B Notes will be senior to payments of principal on the Class C Notes and the Class D Notes and senior to payments on the Income Notes on each Payment Date. Payments of principal on the Class C Notes will be senior to payments of principal on the Class D Notes and senior to payments on the Income Notes on each Payment Date. Payments of principal on the Class D Notes due on any Payment Date will be senior to payments on the Income Notes on such Payment Date. As a result of the Priority of Payments, notwithstanding the subordination of the Notes described under "Description of the Securities—Status and Security," the Class S-2 Notes will be entitled to receive certain payments of principal while the Class S-1 Notes are outstanding, the Class A-1 Notes will be entitled to receive certain payments of principal while the Class S Notes are outstanding, the Class A-2 Notes will be entitled to receive certain payments of principal while the Class S Notes and the Class A-1 Notes are outstanding, the Class B Notes will be entitled to receive certain payments of principal while the Class S Notes and the Class A Notes are outstanding, the Class C Notes will be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes and the Class B Notes are outstanding and the Class D Notes will be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes are outstanding. In addition, the Income Notes will be entitled to receive certain payments while the Notes are outstanding. See "Description of the Securities—Priority of Payments." To the extent that any losses are incurred by the Issuer in respect of any Collateral, such losses will be borne first by Holders of the Income Notes; then, by Holders of the Class D Notes; then, by Holders of the Class C Notes; then, by Holders of the Class B Notes; then, by Holders of the Class A-2 Notes; then, by Holders of the Class S-2 Notes; then, by the Holders of the Class A-1d Notes; then, by the Holders of the Class A-1c Notes; then, by the Holders of the Class A-1b Notes; then, by the Holders of the Class A-1a Notes and finally, by Holders of the Class S-1 Notes.

Payments of interest on the Class S-1 Notes due on any Payment Date will be senior to payments of interest on the Class S-2 Notes, the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on such Payment Date. Payments of interest on the Class S-2 Notes due on any Payment Date will be paid pro rata with payments of interest on the Class A-1 Notes and the Class A-2 Notes and will be senior to payments of interest on the Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on such Payment Date. Payments of interest on the Class A-1 Notes due on any Payment Date will be paid pro rata with payments of interest on the Class S-2 Notes and the Class A-2 Notes and will be senior to payments of interest on the Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on such Payment Date. Payments of interest on the Class A-2 Notes due on any Payment Date will be paid pro rata with payments of interest on the Class S-2 Notes and the Class A-1 Notes and will be senior to payments of interest on the Class B Notes, Class C Notes and Class D Notes and senior to payments on the Income Notes on such Payment Date. Payments of interest on the Class B Notes due on any Payment Date will be senior to payments of interest on the Class C Notes and the Class D Notes and senior to payments on the Income Notes on such Payment Date. Payments of interest on the Class C Notes due on any Payment Date will be senior to payments of interest on the Class D Notes and senior to payments on the Income Notes on such Payment Date. Payments of interest on the Class D Notes due on any Payment Date will be senior to payments on the Income Notes on such Payment Date. See "Description of the Securities."

On any Payment Date on which certain conditions are satisfied and funds are available therefor, the "shifting principal" method in clause (xii) of the Priority of Payments may permit Holders of the Class A Notes, the Class B Notes, Class C Notes and Class D Notes to receive payments of principal in accordance with the Priority of Payments while more senior Classes of Notes remain outstanding and may permit distributions of Principal Proceeds to the Holders of the Income Notes, to the extent funds are available in accordance with the Priority of Payments, while the Notes are outstanding. Amounts properly paid pursuant to the Priority of Payments to a junior Class of Notes or to the Income Notes will not be recoverable in the event of a subsequent shortfall in the amount required to pay a more senior Class of Notes.

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Holders of the Controlling Class may not be able to effect a liquidation of the Collateral in an Event of Default; Holders of other Classes of Notes and the Income Notes may be Adversely Affected by Actions of the Controlling Class. If an Event of Default occurs and is continuing, a Majority of the Controlling Class will be entitled to determine the remedies to be exercised under the Indenture; however, the Majority of the Controlling Class will not be able to direct a sale or liquidation of the Collateral unless, among other things, the Trustee determines that the anticipated proceeds of such sale or liquidation (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to pay in full the sum of (A) the principal (including any Class C Deferred Interest and Class D Deferred Interest) and accrued interest (including all Defaulted Interest, and interest thereon) and any other amounts due with respect to all the outstanding Notes, (B) unpaid Administrative Expenses, (C) all amounts payable by the Issuer to the Synthetic Security Counterparty or an assignee of a Synthetic Security (other than Defaulted Synthetic Security Termination Payments) net of all amounts payable to the Issuer by any Synthetic Security Counterparty or an assignee of a Synthetic Security, (D) all amounts payable by the Issuer to any Cashflow Swap Counterparty (including any applicable termination payments other than Defaulted Cashflow Swap Termination Payments) net of all amounts payable to the Issuer by any Cashflow Swap Counterparty, (E) accrued and unpaid Deferred Structuring Expenses, (F) accrued and unpaid Collateral Management Fees, including any Cumulative Deferred Management Fees and (G) all other items in the Priority of Payments ranking prior to payments on the Notes. There can be no assurance that proceeds of a sale and liquidation, together with all other available funds, will be sufficient to pay in full such amount. In addition, even if the anticipated proceeds of such sale or liquidation would not be sufficient to pay in full such amount, the Holders of a SupraMajority of the Controlling Class and any Cashflow Swap Counterparty (unless any such Cashflow Swap Counterparty will be paid in full the amounts due to it other than any Defaulted Cashflow Swap Termination Payments at the time of distribution of the proceeds of any sale or liquidation of the Collateral) may direct the sale and liquidation of the Collateral.

Remedies pursued by the Holders of the Class S-1 Notes and the Class A-1 Notes could be adverse to the interests of the Holders of the Class S-2 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes. After the Class S-1 Notes and the Class A-1 Notes are no longer outstanding, the Holders of the Class S-2 Notes and Class A-2 Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes and the Class A Notes are no longer outstanding, the Holders of the Class B Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Class A Notes and the Class B Notes are no longer outstanding, the Holders of the Class C Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes are no longer outstanding, the Holders of the Class D Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. See "Description of the Securities—The Indenture and the Fiscal Agency Agreement—Events of Default."

CDO Securities May Defer Interest. Certain of the CDO Securities and Synthetic Securities the Reference Obligations of which are CDO Securities as of the Closing Date consists of or references PIK Bonds. While the Cashflow Swap Counterparty will make advances to the Issuer to cover certain Cashflow Swap Shortfall Amounts that could result in a shortfall of current interest payments on the Class S Notes, the Class A Notes and the Class B Notes, the Issuer may have insufficient funds as a result of such deferrals or payments "in-kind" to make payments on the Notes or distributions in respect of the Income Notes.

Status of the Income Notes. The Income Notes are unsecured debt obligations of the Issuer and are not secured by the Collateral Assets or the other Collateral securing the Notes. As such, the Holders of the Income Notes will rank behind the Holders of the Notes and any other secured creditors as set forth in the Indenture and *pari passu* with the unsecured creditors, whether secured or unsecured and known or unknown, of the Issuer. No person or entity other than the Issuer will be required to make any payments on the Income Notes. Except with respect to the obligations of the Issuer to make payments pursuant to the Priority of Payments (and outside of the Priority of Payments with respect to the Synthetic

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Security Counterparties), the Issuer does not expect to have any creditors. The funds available to be paid to the Fiscal Agent for the benefit of the Holders of the Income Notes will depend in part on the weighted average of the Note Interest Rates.

Amounts on deposit in the Income Note Payment Account (as defined herein) will not be available to pay amounts due to the Holders of the Notes, the Trustee, the Collateral Manager, the Cashflow Swap Counterparty, the Synthetic Security Counterparty or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, amounts on deposit in the Income Note Payment Account (as defined herein) may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral. The Indenture and the Fiscal Agency Agreement will limit the Issuer's activities to the issuance and sale of the Securities, the acquisition and disposition of the Collateral Assets, the acquisition and disposition of, and investment and reinvestment in, the Eligible Investments and the other activities related to the issuance and the sale of the Securities described under "The Issuers". The Issuer does not expect to have any significant full recourse liabilities that would be payable out of amounts on deposit in the Income Note Payment Account (as defined herein).

Leveraged Investment. The Income Notes represent a leveraged investment in the underlying Collateral Assets. The use of leverage generally magnifies an investor's opportunities for gain and risk of loss. Therefore, changes in the market value of the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the Collateral Assets, which are also subject to credit, liquidity and interest rate risk.

Optional Redemption and Tax Redemption of Securities. Subject to the satisfaction of certain conditions, the Securities may be optionally redeemed in whole and not in part (i) on any Payment Date on or after the March 2010 Payment Date in connection with an Optional Redemption by Liquidation at the written direction of, or with the written consent of, Holders of at least a Majority of the Income Notes or (ii) on any Payment Date upon the occurrence of a Tax Event, at the written direction of, or with the written consent of, Holders of at least 66-2/3% of the aggregate outstanding notional principal amount of the affected Income Notes or the Holders of at least a Majority of any Class of Notes, if as a result of an occurrence of a Tax Event, such Class of Notes has not received 100% of the aggregate amount of principal and interest due and payable on such Class of Notes. Subject to the satisfaction of certain conditions, any Class or Classes of Notes may be optionally redeemed in whole and not in part on any Payment Date on or after the March 2010 Payment Date in connection with an Optional Redemption by Refinancing at the written direction of, or with the written consent of, Holders of at least a Majority of the Income Notes. If an Optional Redemption by Liquidation or Tax Redemption occurs, the Income Notes will be redeemed simultaneously.

There can be no assurance that after payment of the Redemption Prices for the Securities and all other amounts payable in accordance with the Priority of Payments, any additional Proceeds will remain to distribute to the Holders of the Income Notes upon redemption. See "Description of the Securities—Optional Redemption" and "—Tax Redemption." An Optional Redemption by Liquidation or Tax Redemption of the Securities could require the Collateral Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the Collateral Assets sold. In addition, the redemption procedures in the Indenture may require the Collateral Manager to aggregate securities to be sold together in one block transaction, thereby possibly resulting in a lower aggregate realized value for the Collateral Assets sold. In any event, there can be no assurance that the market value of the Collateral Assets will be sufficient for the Holders of the Income Notes to direct an Optional Redemption or, in the case of a Tax Redemption, for the Holders of the affected Class of Notes or Income Notes to direct a Tax Redemption. A decrease in the market value of the Collateral Assets would adversely affect the proceeds that could be obtained upon a sale of the Collateral Assets; consequently, the conditions precedent to the exercise of an Optional Redemption by Liquidation or a Tax Redemption may not be met. The interests of the Holders of the Income Notes in determining whether to elect to effect an Optional Redemption and the interests of the Holders of the affected Class of Notes and the Income Notes with respect to a Tax Redemption may be different from the interests of the Holders of the other Classes of Securities in such respect. The Holders of the Securities also may not be able to invest the proceeds of the redemption of the Securities in one or more investments providing a return

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equal to or greater than the Holders of the Securities expected to obtain from their investment in the Securities. An Optional Redemption or a Tax Redemption will shorten the average lives of the Securities and the duration of the Securities and may reduce the yield to maturity of the Notes.

Refinancing. Subject to the satisfaction of certain conditions, the Issuer (at the direction of or with the written consent of the Holders of a Majority of the Income Notes) may effect an Optional Redemption through an Optional Redemption by Refinancing. Among other reasons, the Holders of the Income Notes may elect to direct the Issuer to effect an Optional Redemption by Refinancing if interest rates on investments similar to any Class or Classes of Notes fall below current levels or if such Holders otherwise expect the Issuer to be able to achieve improved pricing. If exercised, such Optional Redemption by Refinancing would result in each such Class of Notes being redeemed at the Redemption Price in respect thereof at a time when they may be trading in the market at a premium and when other investments bearing the same rate of interest relative to the level of risk assumed may be difficult or expensive to acquire. In addition, if any Class or Classes of Notes are redeemed in connection with an Optional Redemption by Refinancing in which additional notes are issued or borrowings under secured loans are made, the Income Notes will be, and certain Classes of Notes may be, subordinate to payments on such additional notes or secured loans. The additional notes issued, or secured loans obtained, as the case may be, in connection with an Optional Redemption by Refinancing would have such terms and priorities as are negotiated at the time and that are set forth in a supplemental indenture.

Auction. There can be no assurance that an Auction of the Collateral on any Auction Date will be successful. The failure of an Auction may lengthen the expected average lives of the Notes and the duration of the Income Notes, may reduce the yield to maturity of the Notes and may adversely affect the yield on the Income Notes. A successful Auction of the Collateral is not required to result in any proceeds for distribution to the Holders of the Income Notes. Accordingly, in the event of an Auction, Holders of Income Notes may have their Income Notes redeemed without receiving any additional distributions on such Income Notes. In addition, the success of an Auction will shorten the average lives of the Notes and the duration of the Securities and may reduce the yield to maturity of the Notes.

Mandatory Redemption of Notes. If the Class A/B Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class C Notes, the Class D Notes and the Income Notes will be used to redeem, first, the Class A-1 Notes until paid in full (in accordance with the Class A-1 Note Payment Sequence), second, the Class S-2 Notes until paid in full, third, the Class A-2 Notes until paid in full and fourth, the Class B Notes until paid in full. If the Class C Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class D Notes and/or the Holders of the Income Notes will be used (a) to redeem, from Principal Proceeds only, pro rata, the Class A Notes until paid in full (*provided,* that the Class A-1 Notes will be paid in accordance with the Class A-1 Note Payment Sequence), the Class B Notes until paid in full and the Class C Notes until paid in full; *provided, however,* that if the Net Outstanding Portfolio Collateral Balance is less than U.S.$500,000,000, then such amount shall be paid first, to the payment of principal of all outstanding Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence until the Class A-1 Notes are paid in full, second, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, third, to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full, and fourth, to the payment of principal of all outstanding Class C Notes, until the Class C Notes are paid in full and (b) to pay, with any remaining Proceeds, the principal of all outstanding Class C Notes until the Class C Notes are paid in full. If the Class D Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class C Notes and the Income Notes will be used to redeem the Class D Notes until paid in full. The foregoing redemptions could result in an elimination, deferral or reduction in the amounts available to make payments to the Holders of the Class C Notes, the Class D Notes and the Income Notes. See "Security for the Notes—The Coverage Tests." Any such redemptions will shorten the average life of the redeemed Notes, may lower the yield to maturity of the Notes and may adversely affect the yield on the Income Notes.

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Collateral Accumulation. In anticipation of the issuance of the Securities, an affiliate of Goldman, Sachs & Co. has agreed to "warehouse" up to approximately U.S.$1,000,000,000 aggregate Principal Balance (or, in the case of Synthetic Securities, Reference Obligation Notional Amount) of Collateral Assets and up to U.S.$930,000,000 aggregate principal amount of Default Swap Collateral selected by the Collateral Manager for resale to the Issuer pursuant to the terms of a forward purchase agreement. As part of the warehouse arrangement, such affiliate of Goldman, Sachs & Co., the Issuer and third parties may enter into certain ancillary arrangements under which the risk of loss of the value of the Collateral Assets during the accumulation period will be shared. Of such amount of Collateral Assets to be "warehoused", it is expected that a portion will be purchased from affiliates of Goldman, Sachs & Co. and a portion will be purchased from third parties. It is also expected that a portion of such amount will be represented by one or more Synthetic Securities entered into between the Issuer and Goldman, Sachs & Co. or an affiliate thereof wherein the Issuer will be selling credit protection. Pursuant to the terms of the forward purchase agreement, the Issuer will be obligated to purchase the "warehoused" assets *provided* such Collateral Assets satisfy certain eligibility criteria on the Closing Date for a formula purchase price designed to reflect the yields or spreads (or premiums in the case of Synthetic Securities) at which the Collateral Assets were purchased (using the prepayment speed and other assumptions used to set the initial price of each individual asset), as adjusted for any hedging gain or loss and any loss or gain on any Collateral Assets sold to a party other than the Issuer during the warehousing period. Consequently, the market values of "warehoused" Collateral Assets at the Closing Date may be less than or greater than the formula purchase price paid by the Issuer. In addition, if a Collateral Asset becomes ineligible during the warehousing period and is not purchased by the Issuer on the Closing Date, or if a Collateral Asset is otherwise sold at the direction of the Collateral Manager or Goldman, Sachs & Co. (which sale may only occur with the consent of Goldman, Sachs & Co.'s), the Issuer will bear the loss or receive the gain on the sale of such Collateral Asset to a third party.

Disposition of Collateral Assets by the Collateral Manager Under Certain Circumstances. Under the Indenture, the Collateral Manager has the right, but is not obligated, to direct the Issuer to sell, at a price equal to the fair market value, Collateral Assets meeting the definition of Credit Risk Obligations, Defaulted Obligations or equity securities subject to satisfaction of the conditions described herein. Such sales of Collateral Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. On the other hand, circumstances may exist under which it is in the best interests of the Issuer or the Holders of the Securities to dispose of Collateral Assets, but the Collateral Manager does not direct the Issuer or the Issuer does not otherwise sell such Collateral Assets.

Average Lives, Duration and Prepayment Considerations. The average lives of the Notes (other than the Class S Notes) and the duration of the Securities is expected to be shorter than the number of years until their Stated Maturity. See "Weighted Average Life and Yield Considerations."

The average lives of the Notes and the duration of the Securities will be affected by the financial condition of the obligors on or issuers of the Collateral Assets and the characteristics of the Collateral Assets, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prepayment speed, the occurrence of any early amortization events, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries in respect of any Defaulted Obligations, the frequency of tender or exchange offers for the Collateral Assets and the tenor of any sales of Collateral Assets.

Some or all of the securities underlying the CDO Securities may be prepaid at any time (although certain of such securities may have "lockout" periods, defeasance provisions, prepayment penalties or other disincentives to prepayment). Defaults on and liquidations of the securities and other collateral underlying the CDO Securities may also lead to early repayment thereof. The existence and frequency of such prepayments, optional redemptions, defaults and liquidations will affect the average lives of, and credit support for, the Notes and the duration of the Securities. See "—Collateral Assets," "Weighted Average Life and Yield Considerations" and "Security for the Notes."

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Projections, Forecasts and Estimates. Estimates of the weighted average lives of, and returns on, the Notes included herein, together with any other projections, forecasts and estimates provided to prospective purchasers of the Securities, are forward looking statements. Such statements are necessarily speculative in nature, as they are based on certain assumptions. It can be expected that some or all of the assumptions underlying such statements will not reflect actual conditions. Accordingly, there can be no assurance that any estimated projections, forecasts or estimates will be realized or that the forward looking statements will materialize, and actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, levels of default, liquidation and prepayments of the underlying assets, mismatches between the timing of accrual and receipt of Proceeds from the Collateral Assets and the effectiveness of the Cashflow Swap Agreement, among others.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Initial Purchaser or any of their respective affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Dependence of the Issuer on the Collateral Manager. The Issuer has no employees and is dependent on the employees of the Collateral Manager to advise the Issuer in accordance with the terms of the Indenture and the Collateral Management Agreement. Consequently, the loss of one or more of the individuals employed by the Collateral Manager to administer the Collateral Assets or to provide disposition related services in respect of the Collateral Assets could have an adverse effect, which effect may be material, on the performance of the Issuer. See "The Collateral Manager" and "The Collateral Management Agreement."

Collateral Assets

General. The following description of the Collateral Assets, the Default Swap Collateral and the Reference Obligations and the underlying documents and the risks related thereto is general in nature. Prospective purchasers of the Securities should review the summaries of the initial Collateral Assets and Reference Obligations set forth in Appendix B to this Offering Circular.

Nature of Collateral. The Collateral is subject to credit, liquidity, prepayment and interest rate risks. The amount and nature of collateral securing the Notes has been established to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the Collateral Assets and the Reference Obligations. See "Ratings of the Notes." If any deficiencies exceed such assumed levels, however, payment of the Notes could be adversely affected. To the extent that a default or credit event occurs with respect to any Collateral Asset securing the Notes and the Collateral Manager exercises its right to cause the sale or other disposition of such Collateral Asset, it is not likely that the proceeds of such sale or other disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Collateral Asset.

The market value of the Collateral Assets and the Reference Obligations generally will fluctuate with, among other things, the financial condition of the Reference Obligations and obligors on or issuers of the Collateral Assets and the Reference Obligations, the credit quality of the underlying pool of assets in any Collateral Asset or Reference Obligation, the Synthetic Security Counterparty, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. None of the Issuer, the Co-Issuer, the Initial Purchaser, the Collateral Manager, the Collateral Administrator or the Trustee has any liability or obligation to the Holders of Securities as to the amount or value of, or decrease in the value of, the Collateral Assets from time to time.

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If a Collateral Asset becomes a Credit Risk Obligation or a Defaulted Obligation, the Collateral Manager may direct the Issuer to sell, terminate or assign the affected Collateral Asset. There can be no assurance as to the timing of the Issuer's sale, termination or assignment of the affected Collateral Asset, or as to the rates of recovery on such affected Collateral Asset. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes and may adversely affect the yield on the Income Notes.

Synthetic Securities. Approximately 93.00% of the Collateral Assets (by Principal Balance) as of the Closing Date are expected to consist of Synthetic Securities. All of the Reference Obligations referenced in the Synthetic Securities are expected to be CDO Securities.

The economic return on a Synthetic Security depends substantially upon the performance of the related Reference Obligation and partially upon the performance of the collateral posted by the Issuer to secure its obligations to the Synthetic Security Counterparty on deposit in the Default Swap Collateral Account. Synthetic Securities generally have probability of default, recovery upon default and expected loss characteristics, which are closely correlated to the corresponding Reference Obligation, but may have different maturity dates, coupons, payment dates or other non credit characteristics than the corresponding Reference Obligation. In addition to the credit risks associated with holding the Reference Obligation, with respect to Synthetic Securities, the Issuer will usually have a contractual relationship only with the related Synthetic Security Counterparty, and not with the Reference Obligor of the Reference Obligation. Due to the fact that a Synthetic Security may be illiquid or may not be terminable on demand (or terminable on demand only upon payment of a substantial fee by the Issuer), the Issuer's ability to dispose of a Synthetic Security, if circumstances arise permitting such disposal, may be limited. Any settlement payments and termination payments payable by the Issuer (net of any termination payments owing by the Synthetic Security Counterparty) to the Synthetic Security Counterparty will reduce the amount available to pay the Holders of the Income Notes and the Notes in inverse order of seniority. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set off against the Reference Obligor, nor have any voting rights with respect to the Reference Obligation. The Issuer will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

Because neither the Synthetic Security Counterparty nor the Issuer is required to hold any Reference Obligation, the Issuer will not have any right to obtain from either the Synthetic Security Counterparty or the Reference Obligor information on the Reference Obligations or information regarding any Reference Obligor. The Synthetic Security Counterparty will have no obligation to keep the Issuer, the Trustee, the Collateral Manager, the Collateral Administrator, the Holders of the Notes or the Holders of the Income Notes informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event of a Floating Amount Event.

In addition, in the event of the insolvency of the Synthetic Security Counterparty, the Issuer will be treated as a general creditor of such Synthetic Security Counterparty, and will not have any claim with respect to the Reference Obligor or the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the Synthetic Security Counterparty as well as that of the Reference Obligor and the Reference Obligation. As a result, concentrations of Synthetic Securities in any one Synthetic Security Counterparty subject the Notes and the Income Notes to an additional degree of risk with respect to defaults by such Synthetic Security Counterparty. It is expected that Goldman Sachs International, an affiliate of Goldman, Sachs & Co., will act as the sole Synthetic Security Counterparty with respect to the Synthetic Securities, which creates concentration risk and may create certain conflicts of interest. In addition, neither the Synthetic Security Counterparty nor its affiliates will be (or will be deemed to be acting as) the agent or trustee of the Issuer, the Holders of the Notes or the Holders of the Income Notes in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Synthetic Security Counterparty and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. The Synthetic Security Counterparty and its affiliates (i) may deal in any Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other

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business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if the Synthetic Securities and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Holders of the Notes or the Holders of the Income Notes.

All of the Synthetic Securities are expected to be structured as "pay-as-you-go" credit default swaps. The obligation of the Issuer to make payments to the Synthetic Security Counterparty under the Synthetic Securities creates credit exposure to the related Reference Obligations (as well as to the default risk of the related Synthetic Security Counterparty). Following the occurrence of a Credit Event, the Issuer may be required to pay to the Synthetic Security Counterparty a "physical settlement payment". In addition, each Synthetic Security may require the Issuer, in its capacity as protection seller, to pay certain Floating Amounts to the Synthetic Security Counterparty equal to certain principal shortfall amounts, writedown payments and interest shortfalls with respect to the Reference Obligation upon the occurrence thereof. The payment of any such Credit Protection Amounts and Floating Amounts will be funded by the Issuer, through the liquidation Default Swap Collateral as described herein. The Synthetic Security Counterparty will be obligated to reimburse all or part of such payments to the Issuer if the writedown payments of the related shortfalls are ultimately paid to holders of the Reference Obligations or if the related Reference Obligations are written up, the amounts available to the Issuer to make payments in respect of the Notes and the Income Notes may be reduced after payment by the Issuer of the relevant payment to the Synthetic Security Counterparty until the Issuer receives such reimbursement, if any, from the Synthetic Security Counterparty. Any Floating Amounts or Credit Protection Amounts payable by the Issuer, may result in a reduction of the Reference Obligation Notional Amount of the related Synthetic Security, and therefore reduce the amounts payable by the Synthetic Security Counterparty and the amount of interest collections available to pay interest on the Notes and distributions to Income Notes. In addition, any Floating Amounts or Credit Protection Amounts would reduce the Default Swap Collateral on deposit in the Default Swap Collateral Account that is available to pay the principal of the Notes and may reduce the interest collections available to pay interest on the Notes.

Determination of the Floating Amounts and Additional Fixed Amounts (as described in the Master Confirmation) will depend on the relevant servicer reports being available and on such reports containing adequate information to enable the required calculations to be made. Current private industry investigations of the market practices show that such reports can vary and that not all reports contain adequate information. In addition, access to servicer reports may be limited if such reports are confidential and neither counterparty holds the related Reference Obligation.

The Issuer will be required to purchase Default Swap Collateral and pledge to the Synthetic Security Counterparty a first priority security interest in such Default Swap Collateral. In the event a Credit Event or Floating Amount Event occurs under a Synthetic Security, the item of Default Swap Collateral chosen by the Synthetic Security Counterparty after the application of any cash on deposit in the Default Swap Collateral Account will be sold by the Trustee at the direction of the Collateral Manager and the amount owed to the Synthetic Security Counterparty will be paid by the Issuer from the liquidation proceeds of such Default Swap Collateral. In the event such liquidation proceeds are less than par, the Synthetic Security Counterparty will accept the liquidation proceeds applicable to the face amount of Synthetic Security Collateral sold which is equal to the amount due to the Synthetic Security Counterparty. In addition, under certain circumstances upon the occurrence of a Credit Event, the Default Swap Collateral chosen by the Synthetic Security Counterparty will instead be delivered to the Synthetic Security Counterparty in exchange for a Deliverable Obligation. Any Deliverable Obligation delivered to the Issuer will be treated as a Collateral Asset, *provided* that, notwithstanding the foregoing, each such Deliverable Obligation may be retained by the Collateral Manager or sold by the Collateral Manager at the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation or a Credit Risk Obligation. *Provided* that no Event of Default has occurred and is continuing in the event that no Credit Event under a Synthetic Security occurs prior to the termination or scheduled maturity of such Synthetic Security, upon the termination or scheduled maturity of such Synthetic Security, the related Default Swap Collateral will be released from the lien of the Synthetic Security Counterparty and be treated as a Collateral Asset. If the Collateral Manager elects to

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sell or terminate a portion of a Synthetic Security prior to its scheduled maturity, the Synthetic Security Counterparty will choose the Default Swap Collateral to be liquidated to make any termination payments due to the Synthetic Security Counterparty after the application of cash available in the Default Swap Collateral Account and the Collateral Manager will cause such portion of the Default Swap Collateral to be sold and the liquidation proceeds equaling any such termination payment to be paid to the Synthetic Security Counterparty. The remaining portion of Default Swap Collateral not required to be pledged to such Synthetic Security Counterparty will be delivered to the Trustee free of such lien. The Collateral Manager, in accordance with the terms of the related Synthetic Security and the Indenture and with the consent of the Synthetic Security Counterparty, may be able to reinvest the proceeds of Default Swap Collateral in substitute Default Swap Collateral prior to the termination or maturity of the related Synthetic Security. The Issuer may realize a loss upon any sale of any Default Swap Collateral.

Termination payments due to the Synthetic Security Counterparty, other than Defaulted Synthetic Termination Payments, will be paid by the Issuer directly through the liquidation of Default Swap Collateral outside of the Priority of Payments. In addition, Liquidation Proceeds needed to conduct an Auction, an Optional Redemption by Liquidation or a Tax Redemption or to liquidate the Collateral in connection with an Event of Default and acceleration under the Indenture, will be calculated after taking into account any termination payments (other than Defaulted Synthetic Security Termination Payments) that may be due to the Synthetic Security Counterparty upon the termination of the Synthetic Securities or any assignment payments due to an assignee of the Synthetic Securities. Any termination or assignment payments paid directly to the Synthetic Security Counterparty or any assignee of a Synthetic Security and not through the Priority of Payments may reduce amounts available for payments on the Securities.

"Pay-as-you-go" credit default swaps are a type of credit default swap developed to incorporate the unique structures of asset-backed securities. The International Swaps and Derivatives Association, Inc. ("ISDA") has published a form confirmation for "pay-as-you-go" credit default swaps referencing CDO Securities. The form confirmation expected to be used to document the Synthetic Securities is expected to be similar, but may differ substantially from the ISDA "pay-as-you-go" form. While ISDA has published its form confirmations and has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the "pay-as-you-go" credit default swap forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. ISDA is currently preparing forms for other types of asset-backed securities. There can be no assurance that such forms will be substantially similar to the form confirmation expected to be used for the Synthetic Securities. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the ISDA "pay-as-you-go" credit default swap forms, the confirmations used to document the Synthetic Securities may differ from the future market standard. Such a result may have a negative impact on the liquidity and market value of the Synthetic Securities.

There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Amendments or supplements to the "pay-as-you-go" credit default swap forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will only apply to the Synthetic Securities executed prior to such amendment or supplement if the Issuer and the Synthetic Security Counterparty agree to amend the Synthetic Securities to incorporate such amendments or supplements and the Rating Agency Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the Synthetic Security Counterparty, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

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PROSPECTIVE PURCHASERS OF THE NOTES AND THE INCOME NOTES SHOULD CONSIDER AND ASSESS FOR THEMSELVES THE LIKELY LEVEL OF DEFAULTS ON THE COLLATERAL ASSETS, AS WELL AS THE LIKELY LEVEL AND TIMING OF RECOVERIES ON THE COLLATERAL ASSETS.

CDO Securities.

On the Closing Date, all of the Collateral Assets are expected to be CDO Securities and Synthetic Securities the Reference Obligations of which are CDO Securities, including without limitation high grade and mezzanine structured finance CDO Securities and CDOs of CDOs. A portion of the Default Swap Collateral could consist of CDO Securities.

CDO Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer ("CDO Collateral") or proceeds thereof. Consequently, holders of CDO Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer to pay such deficiency shall be extinguished. Many subordinate classes of CDO Securities provide that a deferral of interest thereon or a write-down does not constitute an event of default and the holders of such securities will not have available to them any associated default remedies. During such periods of non payment or partial non-payment, such non-paid interest will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the amount of current payments made on such CDO Securities.

CDO Securities are subject to credit, liquidity and interest rate risks. The assets backing CDO Securities may consist of high yield debt securities, loans, structured finance securities, other debt instruments and Synthetic Securities referencing debt instruments. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. An increase in the default rates of high yield corporate debt securities or loans could increase the likelihood that payments may not be made to holders of CDO Securities which are secured by high yield corporate debt securities and loans. The risks associated with structured finance securities can vary widely depending on the type of collateral, use of credit enhancements, the relative seniority or subordination of the class of securities, the relative allocation of principal and interest payments in the priorities, credit losses and defaults and whether the collateral represents a fixed pool or allows for reinvestment. In addition, CDO Securities backed by Synthetic Securities will be subject to risks similar to those described in respect of Synthetic Securities herein.

Issuers of CDO Securities may acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

In purchasing participations, an issuer of CDO Securities will usually have a contractual relationship only with the selling institution, and not the borrower. The issuer generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The issuer may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States of America and the states thereof, the issuer may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the issuer may be subject to the credit risk of the selling institution as well as of the borrower.

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CDO Securities are subject to interest rate risk and day count basis risk. The CDO Collateral of an issuer of CDO Securities may bear interest at a fixed (floating) rate while the CDO Securities issued by such issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Securities and CDO Collateral which bears interest at a fixed rate and there may be a timing mismatch between the CDO Securities and assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Securities. In addition, hedges may have been acquired to manage the interest rate risk of such CDO Securities, making such CDO Securities also subject to the credit risk of the applicable hedge counterparty.

Subordination of CDO Securities. 100% of the CDO Securities representing 100% of the Collateral Assets (by Principal Balance) to be acquired by the Issuer are expected to be investment grade, each as of the Closing Date. Certain of the CDO Securities will be subordinated to one or more other classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans or assets. The subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

Commercial Mortgage-Backed Securities.

A portion of the Default Swap Collateral may consist of Commercial Mortgage-Backed Securities ("CMBS") that satisfy the Default Swap Eligibility Criteria.

Holders of CMBS bear various risks, including credit, market, interest rate, structural and legal risks. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. CMBS have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Risks affecting real estate investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicality and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. In addition, commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements. All of these factors increase the risks involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real

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estate. Furthermore, the net operating income from and value of any commercial property may be adversely affected by risks generally incident to interests in real property, including events which the borrower or manager of the property, or the issuer or servicer of the related issuance of commercial mortgage-backed securities, may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; and social unrest and civil disturbances. The value of commercial real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS.

A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds may be highly dependent on the performance of CMBS servicers or special servicers, of which there may be a limited number and which may have conflicts of interest in any given situation. The failure of the performance of such CMBS servicers or special servicers could result in cash flow delays and losses on the related issue of CMBS.

Mortgage loans underlying a CMBS issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of CMBS could experience delays in cash flow and losses.

In addition, structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer or could be substantively consolidated with those of the originator or the servicer, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of CMBS.

It is expected that none of the CMBS included (or to be included) in the Default Swap Collateral will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on CMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Realized losses and trust expenses generally will be allocated to the most subordinated class of securities of the related series. Accordingly, to the extent any CMBS becomes the most subordinated class of securities of the related series, any delinquency or default on any underlying mortgage loan may result in shortfalls, realized loss allocations or extensions of its weighted average life and will have a more immediate and disproportionate effect on the related CMBS than on the related more senior securities. Certain of the Underlying CMBS Series have experienced delinquencies, defaults and losses on the underlying commercial mortgage loans.

In addition, in the case of certain CMBS, no distributions of principal will generally be made until the aggregate principal balance of the corresponding more senior securities has been reduced to zero and, in other cases, all or a disproportionate amount of principal distributions will be made to the holders of the more senior securities for a specified period of time. The holders of classes of securities that are

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subordinate to the classes of CMBS owned by the Issuer will generally control the exercise of remedies in connection with such CMBS. Such exercise of remedies by a holder of subordinate classes may be in conflict with the interests of the more senior securities. See "—Other Considerations—Certain Conflicts of Interest."

Residential Mortgage-Backed Securities.

A portion of the Default Swap Collateral may consist of Residential Mortgage-Backed Securities ("RMBS") that satisfy the Default Swap Eligibility Criteria.

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS.

Structural and Legal Risks of RMBS. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer

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credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

RMBS may have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves. As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Servicemembers' Civil Relief Act of 2003 (the "Relief Act") provides relief for soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% *per annum*. Certain RMBS may provide for the payment of only interest for a stated period of time.

In addition, structural and legal risks of RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer or could be substantively consolidated with those of the originator or the servicer, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of RMBS.

It is not expected that the RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Recent Developments in RMBS May Adversely Affect the Performance and Market Value of RMBS. Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of RMBS. Delinquencies and losses with respect to residential mortgage loans generally have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, in recent months housing prices and appraisal values in many states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on RMBS generally.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have recently experienced serious financial difficulties and, in some cases, bankruptcy. According to published reports, those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may affect the performance and market value of RMBS.

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Asset-Backed Securities.

A portion of the Default Swap Collateral may consist of Asset-Backed Securities that satisfy the Default Swap Eligibility Criteria.

The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding Asset-Backed Securities include the relative seniority or subordination of the class of Asset-Backed Securities held by an investor, the relative allocation of principal and interest payments in the priorities by which such payments are made under the governing documents, how credit losses affect the issuing vehicle and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed end, under what terms (including maturity of the asset backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors. With respect to some types of Asset-Backed Securities, the risk is more closely correlated with the default risk on corporate bonds of similar terms and maturities than with the performance of a pool of receivables. In addition, certain Asset-Backed Securities (particularly subordinated Asset-Backed Securities) provide that the non payment of interest in cash on such securities will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies. Interest not paid in cash will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the yield on such Asset-Backed Securities.

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the issuer's or servicer's failure to perform. These two elements may be related, as, for example, in the case of a servicer which does not provide adequate credit review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Market risk arises from the cash flow characteristics of the security, which for most Asset-Backed Securities tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to holders of securities and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. For the holder of the security, interest rate risk depends on the expected life of the Asset-Backed Securities which may depend on prepayments on the underlying assets or the occurrence of wind down or termination events.

If the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its functions, it may be difficult to find other acceptable substitute servicers and cash flow disruptions or losses may occur, particularly with non standard receivables or receivables originated by private retailers who collect many of the payments at their stores. Structural and legal risks include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator or the servicer, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions. Other similar risks relate to the degree to which cash flows on the assets of the Issuer may be commingled with those on the originator's or the servicer's other assets.

Insolvency Considerations with Respect to Issuers of Collateral Assets. Various laws enacted for the protection of creditors may apply to the Collateral Assets. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a Collateral Asset, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring

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the indebtedness constituting the Collateral Asset or for granting a lien securing the Collateral Asset, and, after giving effect to such indebtedness or such lien, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness or such lien as a fraudulent conveyance, to subordinate such indebtedness or such lien to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation, or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was "insolvent" after giving effect to the incurrence of the indebtedness constituting the Collateral Asset or the grant of a lien securing the Collateral Asset or that, regardless of the method of valuation, a court would not determine that the issuer was "insolvent" upon giving effect to such incurrence or grant. In addition, in the event of the insolvency of an issuer of a Collateral Asset, payments made on such Collateral Asset or a lien securing such Collateral Asset could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year or longer) before insolvency. Payments made under loans underlying Collateral Assets may also be subject to avoidance in the event of the bankruptcy of the borrower.

In general, if payments on a Collateral Asset are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured. To the extent that any such payments are recaptured, the resulting loss will be borne first by the Holders of the Income Notes, then by the Holders of the Class D Notes, then by the Holders of the Class C Notes, then by the Holders of the Class B Notes, then by the Holders of the Class A-2 Notes, then by the Holders of the Class S-2 Notes, then by the Holders of the Class A-1d Notes, then by the Holders of the Class A-1c Notes, then by the Holders of the Class A-1b Notes, then by the Holders of the Class A-1a Notes and, finally, by the Holders of the Class S-1 Notes.

Illiquidity of Collateral Assets; Certain Restrictions on Transfer. There may be a limited trading market for many of the Collateral Assets purchased by the Issuer, and in certain instances there may be effectively no trading market therefor.

In addition, it is expected that substantially all of the Collateral Assets will generally not have been registered or qualified under the Securities Act, or the securities laws of any other jurisdiction, and no person or entity will be obligated to register or qualify any such Collateral Assets under the Securities Act or any other securities law. Consequently, the Issuer's transfer of such Collateral Assets will be subject to satisfaction of legal requirements applicable to transfers that do not require registration or qualification under the Securities Act or any applicable state securities laws and upon satisfaction of certain other provisions of the respective agreements pursuant to which the Collateral Assets were issued. It is expected that such transfers will also be subject to satisfaction of certain other restrictions regarding the transfer thereof to, for the benefit of or with assets of, a Plan, as well as certain other transfer restrictions. The existence of such transfer restrictions will negatively affect the liquidity of, and consequently the price that may be realized upon a sale of, such securities.

The Issuer's investment in illiquid Collateral Assets may affect the Issuer's right to sell such investments if they become Credit Risk Obligations or Defaulted Obligations and the timing and price thereof. The value of illiquid Collateral Assets may be less than comparable, more liquid investments. The illiquidity of Collateral Assets and the restrictions on transfer of Collateral Assets, in each case as described above, may also affect the ability of the Issuer to conduct a successful Auction, to exercise redemptions and may also affect the amount and timing of receipt of proceeds from the sale of Collateral Assets in connection with the exercise of remedies following an Event of Default.

Volatility of Market Value of Collateral Assets. The market value of the Collateral Assets and the Reference Obligations will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in

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any particular industry and the financial condition of the issuers of the Collateral Assets and the Reference Obligations. A decrease in the market value of the Collateral Assets and the Reference Obligations would adversely affect the proceeds that could be obtained upon the sale of the Collateral Assets and could ultimately affect the ability of the Issuer to effect an Auction, an Optional Redemption by Liquidation or a Tax Redemption, or to pay the principal of the Notes, or make distributions on the Income Notes, upon a liquidation of the Collateral Assets following the occurrence of an Event of Default.

Interest Rate Risk; Cashflow Swap Agreement. There will be a basis and timing mismatch between such Notes and the Collateral Assets which bear interest at a floating rate, since the interest rates on such Collateral Assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rate on the Notes. The fixed rates and the margins over LIBOR or other floating rates borne by Collateral Assets may be lower than those on sold or amortized Collateral Assets which could cause a significant decline in interest coverage for the Notes.

On the Closing Date, the Issuer will enter into a Cashflow Swap Agreement to reduce the impact of the timing mismatches between payments of interest on the Class S Notes, the Class A Notes and the Class B Notes and the receipt of payments on the Collateral Assets that are PIK Bonds. After the Closing Date, even if the Collateral Manager believes that engaging in a hedging technique (other than replacing an existing Cashflow Swap Agreement that is terminated) would be beneficial, the Collateral Manager will be unable to do so. Despite the Issuer having the benefit of a Cashflow Swap Agreement, there can be no assurance that the Collateral Assets and the Eligible Investments will in all circumstances generate sufficient Proceeds to make timely payments of stated interest on the Notes or amounts subordinated thereto. There is no assurance that the Cashflow Swap Agreement will solve all cashflow deferral mismatches.

The Issuer may only terminate the Cashflow Swap Agreement if the Rating Agency Condition is satisfied. In the event the Cashflow Swap Agreement is terminated other than from termination events described in the Cashflow Swap Agreement, the Issuer has agreed to use reasonable efforts to enter into a substitute Cashflow Swap Agreement unless the Rating Agency Condition would not be satisfied by a substitute Cashflow Swap Agreement, but there is no assurance that a substitute will be found or that the Rating Agency Condition will be satisfied. Any termination of the Cashflow Swap Agreement, whether in whole or in part, may require the Issuer to pay termination payments to the Cashflow Swap Counterparty, which amounts are payable in accordance with the Priority of Payments prior to any payments on the Notes unless such payments are Defaulted Cashflow Swap Termination Payments.

The Issuer's ability to meet its obligations on the Notes will largely depend on the ability of the Cashflow Swap Counterparty to meet its obligations under the Cashflow Swap Agreement. In the event the Cashflow Swap Counterparty defaults or the Cashflow Swap Agreement is terminated, there can be no assurance that the amounts received from the Collateral Assets will be sufficient to provide for full payments due and payable on the Notes, or that amounts otherwise distributable to the Holders of the Income Notes will not be reduced.

In the event of the insolvency of the Cashflow Swap Counterparty, the Issuer will be treated as a general creditor of such Cashflow Swap Counterparty. Consequently, the Issuer will be subject to the credit risk of the Cashflow Swap Counterparty. As a result, concentrations of Cashflow Swap Agreements in any one Cashflow Swap Counterparty subject the Notes to an additional degree of risk with respect to defaults by such Cashflow Swap Counterparty.

Goldman Sachs International will be the initial Cashflow Swap Counterparty.

Prospective purchasers of the Notes and the Income Notes should consider and assess for themselves the likelihood of a default by the Cashflow Swap Counterparty or a guarantor of its obligations, as well as the obligations of the Issuer under the Cashflow Swap Agreement, including the obligation to make termination payments to the Cashflow Swap Counterparty, and the likely ability of the Issuer to terminate or reduce the Cashflow Swap Agreement or enter into additional Cashflow Swap Agreements.

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Concentration Risk. The Issuer will invest in a pool of Collateral Assets consisting of U.S. Dollar denominated CDO Securities and Synthetic Securities referencing CDO Securities. With regard to the Collateral Assets or the securities underlying the CDO Securities with respect to any particular obligor, industry or country (other than the United States), the concentration of the Collateral Assets (or the portfolios of securities underlying certain Collateral Assets) in any one obligor would subject the Securities to a greater degree of risk with respect to defaults by such obligor, and the concentration of the Collateral Assets (or the portfolios of securities underlying certain Collateral Assets) in any one industry would subject the Securities to a greater degree of risk with respect to economic downturns relating to such industry. In addition, the concentration of the Collateral Assets (or the portfolios of securities underlying certain Collateral Assets) in any one country (other than the United States) would subject the Securities to special risks related to regional economic conditions and sovereign risks. Further, the concentration of the Collateral Assets will change after the Closing Date as the underlying securities backing the CDO Securities or Reference Obligations are sold, paid or redeemed.

No single issuer (or, with respect to Synthetic Securities, no single issuer of the related Reference Obligation) will represent as of the Closing Date more than approximately 2.0% of the Collateral Assets by outstanding Principal Balance. See "Security for the Notes—The Collateral Assets."

Other Considerations

Changes in Tax Law; No Gross-Up. Payments on the Collateral Assets generally are expected to be exempt under current United States tax law from the imposition of United States withholding tax. See "Income Tax Considerations—United States Tax Considerations—Tax Treatment of Issuer." However, the Issuer will not be making any independent investigation of the circumstances surrounding the individual assets comprising the Collateral Assets and, as a result, there can be no assurance that the payments on the Collateral Assets may not be subject to withholding taxes imposed by the United States of America or another jurisdiction. In that event, if the obligors of such Collateral Assets were not then required to make "gross-up" payments that cover the full amount of any such withholding taxes, the amounts available to make payments on, or distributions to, the Holders of the Securities would accordingly be reduced. There can be no assurance that remaining payments on the Collateral would be sufficient to make timely payments of interest on and payment of principal at the Stated Maturity of each Class of the Notes and, consequently, to make any payments on the Income Notes on the Stated Maturity.

In the event that any withholding tax is imposed on payments on the Securities, the Holders of such Securities will not be entitled to receive "grossed-up" amounts to compensate for such withholding tax. In addition, upon the occurrence of a Tax Event, the Issuer will redeem in whole but not in part, at applicable Redemption Prices specified herein, the Notes in accordance with the procedures described under "Description of the Securities—Tax Redemption," "—Optional Redemption by Liquidation," "—Optional Redemption by Refinancing—Optional Redemption/Tax Redemption Procedures" herein.

Lack of Operating History. Each of the Issuers is a recently incorporated entity and has no substantial prior operating history. Accordingly, neither of the Issuers has a performance history for a prospective investor to consider.

Investment Company Act. Neither of the Issuers has registered with the United States Securities and Exchange Commission (the "SEC") as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States whose investors resident in the United States are solely Qualified Purchasers and which do not make a public offering of their securities in the United States. Counsel for the Issuers will opine, in connection with the sale of the Securities by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, that the Securities are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.

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If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (iii) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

The Securities are only permitted to be transferred to Qualified Institutional Buyers in transactions meeting the requirements of Rule 144A and, solely in the case of the Income Notes, to Accredited Investors having a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act, or in an offshore transaction, to a non-U.S. Person, complying with Rule 903 or Rule 904 of Regulation S. The Securities being offered in the United States are being offered only to persons that are also Qualified Purchasers. Any non-permitted transfer will be voided and the Issuers can require the transferee to sell its Securities to a permitted transferee, with such sale to be effected within 30 days after notice of such sale requirement is given. If such sale is not effected within such 30 day period, upon written direction from the Issuer, the Trustee will be authorized to conduct a commercially reasonable sale of such Securities to a permitted transferee and pending such transfer, no further payments will be made in respect of such Securities or any beneficial interest therein. See "Description of the Securities—Form of the Securities" and "Notice to Investors."

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Credit ratings of non-investment grade and comparable unrated obligations included in the Collateral Assets and Reference Obligations may be less reliable indicators of investment quality than would be the case with investments in investment-grade debt obligations.

Implementation of Securities Regulation in Europe. As part of a coordinated action plan for harmonization of securities markets in Europe, the European Parliament and the Council of the European Union has adopted a series of directives, including the Prospectus Directive (2003/71/EC) the Transparency Directive (2004/109/EC) and the Market Abuse Directive (2003/6/EC) which aim to ensure investor protection and market efficiency in accordance with high regulatory standards across the European community. Pursuant to such directives member states have introduced, or are in the process of introducing, legislation into their domestic markets to implement the requirements of these directives. The introduction of such legislation has effected and will effect the regulation of issuers of securities that are offered to the public or admitted to trading on a European Union regulated market and the nature and content of disclosure required to be made in respect of such issuers and their related securities. The listing of Notes or Income Notes on any European Union stock exchange would subject the Issuer to regulation under these directives, although the requirements applicable to the Issuer are not yet fully clarified. The Indenture will not require the Issuer to apply for, list or maintain a listing for any Class of Notes or Income Notes on a European Union stock exchange if compliance with these directives (or other requirements adopted by the European Parliament and Council of the European Union or a relevant member state) becomes burdensome. Should the Notes or Income Notes be delisted from any exchange, the ability of the holders of such Securities to sell such Securities in the secondary market may be negatively impacted.

EU Savings Directive. If, following implementation of European Council Directive 2003/48/EC, a payment were to be made or collected through a member state that opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the issuer nor the paying

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agent nor any other person would be obliged to pay additional amounts as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a paying agent following implementation of this Directive, the issuer will be required to maintain a paying agent in a member state that will not be obliged to withhold or deduct tax pursuant to the Directive.

Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, its affiliates and their respective clients and employees and from the overall investment activity of the Initial Purchaser, including in other transactions with the Issuer, including, without limitation, acting as counterparty with respect to any Cashflow Swap Agreement. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Collateral Manager Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, its affiliates and their respective clients and employees. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Collateral Manager and/or its affiliates have ongoing relationships with, render service to, finance and engage in transactions with, and may own debt or equity securities issued by issuers of certain of the Collateral Assets. The Collateral Manager and its affiliates may invest on behalf of themselves and other clients in securities that are senior or subordinated to, or have interests different from or adverse to, the Collateral Assets. The interests of such parties may be different than or adverse to the interests of the Holders of the Securities. In addition, such persons may possess information relating to the Collateral Assets which is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral Assets and performing the other obligations under the Collateral Management Agreement. Such persons will not be required (and may not be permitted) to share such information or pass it along to the Issuer, the Collateral Manager or any Holder of any Security. Neither the Collateral Manager nor any of such person will have liability to the Issuer or any Holder of any Security for failure to disclose such information or for taking, or failing to take, any action based upon such information.

In addition, the Collateral Manager and/or any of its affiliates may engage in any other business and furnish investment management and advisory services to others which may include, without limitation, serving as consultant or servicer for, investing in, lending to, being affiliated with or have other ongoing relationships with, other entities organized to issue collateralized debt obligations secured by assets similar to the Collateral Assets, and other trusts and pooled investments vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. In the course of monitoring the Collateral Assets held by the Issuer, the Collateral Manager may consider its relationships with other clients (including entities whose securities (or those of its affiliates) are pledged to secure the Notes) and its affiliates. In providing services to other clients, the Collateral Manager and its affiliates may recommend activities that would compete with or otherwise adversely affect the Issuer. In addition, the Collateral Manager will be free, in its sole discretion, to make recommendations to others, or effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Collateral Manager may furnish advisory services to others who may have investment policies similar to those followed by the Issuer and who may own securities of the same class, or which are the same type as, the Collateral Assets. Under the terms of the Collateral Management Agreement, the Collateral Manager will be permitted to take whatever action is in the Collateral Manager's best interest regardless of the impact on the Collateral Assets. In addition, under certain circumstances the Collateral Manager may direct the Issuer to sell certain Collateral Assets. Such sales of Collateral Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Securities by any of the Rating Agencies. In determining whether to exercise such right, the Collateral Manager need not take into account the interests of the Issuers, the Noteholders, the Income Noteholders or any other party.

The Collateral Manager and/or its affiliates may at certain times be simultaneously seeking to purchase or dispose of investments for their respective accounts or for another entity, including other collateralized debt obligation vehicles, at the same time as it is purchasing or disposing of investments for the Issuer. Accordingly, conflicts may arise regarding the allocation of sale opportunities.

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The Collateral Manager may aggregate sales of securities placed with respect to the Collateral Assets with similar sales being made simultaneously for other clients or other accounts managed by the Collateral Manager or with accounts of the affiliates of the Collateral Manager, if in the Collateral Manager's reasonable business judgment such aggregation will result in an overall economic benefit to the Issuer, taking into consideration the advantageous selling price, brokerage commission and other expenses. However, no provision of the Collateral Management Agreement requires the Collateral Manager or its affiliates to execute orders as part of concurrent authorizations or to aggregate sales. Nevertheless, the Collateral Manager may, in the allocation of business, take into consideration research and other brokerage services furnished to the Collateral Manager or its affiliates by brokers and dealers. Such services may be used by the Collateral Manager in connection with the Collateral Manager's other advisory services or investment operations.

No provision in the Collateral Management Agreement prevents the Collateral Manager or any of its affiliates from rendering services of any kind to the issuer of any Collateral Assets and its affiliates, the Trustee, the Holders of the Securities, the Cashflow Swap Counterparty or any other entity. Without prejudice to the generality of the foregoing, the Collateral Manager and its affiliates, directors, officers, employees and agents may, among other things: (a) serve as general partner, adviser, sponsor or manager of partnerships or companies organized to issue collateralized bond or loan obligations secured by assets similar to the Collateral Assets, directors (whether supervisory or managing), partners, officers, employees, agents, nominees or signatories for an issuer of any Collateral Assets; (b) receive fees for services rendered to the issuer of any Collateral Assets or any affiliate thereof; (c) be retained to provide services unrelated to the Collateral Management Agreement to the Issuer or its Affiliates and be paid therefor; (d) a secured or unsecured creditor of, or hold an equity interest in, any issuer of any Collateral Assets; (e) serve as a member of any "creditors' board" or "creditors' committee" with respect to any Collateral Assets which has become or may become a Defaulted Obligation or with respect to any commercial mortgage loan securing any Collateral Assets or the respective borrower for any such commercial mortgage loan; (f) own or make loans to any borrower or affiliate of any borrower on any of the commercial mortgage loans securing the Collateral Assets; (g) invest, or have already invested, in obligations and/or other securities that are identical to or senior to, or have interests different from or adverse to, the Collateral Assets; (h) make investments on their own behalf without offering such investment opportunities to the Issuer or informing the Issuer of any investments before engaging in any investment for themselves; (i) recommend or effect direct trades between the Issuer and the Collateral Manager or a Collateral Manager Affiliate or funds or accounts for which the Collateral Manager or an Affiliate serve as Collateral Manager, acting as principal or agent, subject to applicable legal requirements; (j) invest in obligations that would be appropriate as Collateral and have ongoing relationships with, render services to or engage in transaction with, companies whose obligations are included in the Collateral and may own equity or debt securities by issuers of and other obligors of Collateral Assets; and (k) enter into agency cross-transactions where the Collateral Manager and/or the Collateral Manage Affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted under applicable law. Under the terms of the Collateral Management Agreement, the Collateral Manager will be permitted to take whatever action is in the Collateral Manager's best interest regardless of the impact on the Collateral Assets.

On the Closing Date it is expected that the Collateral Manager or one or more clients or affiliates of the Collateral Manager will purchase approximately 50% of the aggregate notional amount of the Income Notes and 100% of the Aggregate Outstanding Amount of the Class D Notes and may purchase Notes and/or Income Notes on or after the Closing Date. The Collateral Manager or such clients or affiliates may at times also own other Securities. There is no assurance that the Collateral Manager or any of such clients or affiliates will continue to hold any or all of the Notes or the Income Notes (including the Income Notes and the Class D Notes purchased on the Closing Date) or that they will continue to hold interests in any securities related to the Collateral Assets. For so long as Greywolf is the Collateral Manager and any funds managed by Greywolf continue to hold any Income Notes, any Collateral Management Fees otherwise payable to the Collateral Manager hereunder shall be paid by the Issuer in the following order: (i) first, to such funds managed by Greywolf (on a *pro rata* basis among such funds), in an amount equal to the product of (x) such Collateral Management Fees and (y) a fraction the

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numerator of which is the notional amount of the Income Notes held by such funds managed by Greywolf and the denominator of which is the aggregate notional amount of all the Income Notes and (ii) second, the remainder, if any, to Greywolf.

Greywolf or any of its affiliates or subsidiaries will be permitted to exercise all voting rights with respect to any Securities that they may acquire (other than with respect to a vote regarding the removal of the Collateral Manager or the termination or assignment of the Collateral Management Agreement). The interests of such persons may be different from or adverse to the interests of the other Holders of Securities.

The Collateral Manager, in its sole discretion, may, from time to time, waive all or any portion of the Collateral Management Fee, and may defer all or any portion of the Collateral Management Fee. Any deferred Collateral Management Fees will become payable on the next Payment Date (and, if not paid on such Payment Date, on one or more subsequent Payment Dates) in accordance with the Priority of Payments.

Members of the board of directors of the Issuer who are not affiliated with the Collateral Manager or their delegates or other authorized representatives of the Issuer will have the responsibility for approving any transactions between the Issuer and the Collateral Manager or its affiliates involving significant conflicts of interest (including principal trades). More particularly, directors unaffiliated with the Collateral Manager or any delegate designated by such directors will be responsible for approving any principal transactions for which Issuer consent is required pursuant to Section 206(3) of the Advisers Act.

In addition, with the prior authorization of the Issuer, which has been given and can be revoked at any time, the Collateral Manager and/or its affiliates may enter into agency cross-transactions where the Collateral Manager and/or its affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted under applicable law, in which case the Collateral Manager or any such affiliate will receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to the transaction.

The Initial Purchaser. Various potential and actual conflicts of interest may arise from the conduct by the Initial Purchaser and its affiliates in other transactions with the Issuer, including, without limitation, acting as counterparty with respect to any Cashflow Swap Agreement and Synthetic Securities. The Initial Purchaser and/or its affiliates will act as an initial Synthetic Security Counterparty and an affiliate of the Initial Purchaser will act as the initial Cashflow Swap Counterparty. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

It is expected that Goldman, Sachs & Co. and/or its affiliates and selling agent will have placed or underwritten certain of the Collateral Assets at original issuance, will own equity or other securities of issuers of or obligors on Collateral Assets and will have provided investment banking services, advisory, banking and other services to issuers of Collateral Assets. The Issuer may invest in the securities of companies affiliated with Goldman, Sachs & Co. and/or any of its affiliates or in which Goldman, Sachs & Co. and/or any of its affiliates have an equity or participation interest. The purchase, holding and sale of such investments by the Issuer may enhance the profitability of Goldman, Sachs & Co.'s and/or any of its affiliates' own investments in such companies. In addition, it is expected that one or more affiliates of Goldman, Sachs & Co. may also act as counterparty with respect to one or more Synthetic Securities and may act as a counterparty with respect to total return swaps with certain investors in the Notes or the Income Notes. The Issuer may invest in money market funds that are managed by Greywolf or Goldman, Sachs & Co. or any of their affiliates; *provided* that such money market funds otherwise qualify as Eligible Investments. Goldman, Sachs & Co. and/or a consolidated entity controlled by Goldman, Sachs & Co. or an affiliate thereof intends to provide "warehouse" financing to the Issuer prior to the Closing Date. See "—Collateral Accumulation."

There is no limitation or restriction on the Initial Purchaser or any of its affiliates with regard to acting as investment advisor, initial purchaser or placement agent (or in a similar role) to other parties or persons. This and other future activities of the Initial Purchaser and/or its respective affiliates may give rise to additional conflicts of interest.

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Anti Money Laundering Provisions. Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), signed into law on and effective as of October 26, 2001, imposes anti money laundering obligations on different types of financial institutions, including banks, broker dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "Treasury") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti money laundering obligations. It is not clear whether Treasury will require entities such as the Issuer to enact anti money laundering policies. It is possible that Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service providers to the Issuers, in connection with the establishment of anti money laundering procedures, to share information with governmental authorities with respect to investors in the Notes and/or the Income Notes. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Notes and/or the Income Notes. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.

The Issuer. The Issuer is a recently incorporated Cayman Islands exempted limited liability company and has no substantial prior operating history. The Issuer will have no significant assets other than the Collateral Assets, the Default Swap Collateral Account, Eligible Investments, rights under the Cashflow Swap Agreement and certain other accounts and agreements entered into as described herein, and proceeds thereof, all of which have been pledged to the Trustee to secure the Issuer's obligations to the Holders of the Notes and the Cashflow Swap Counterparty. The Issuer will not engage in any business activity other than the issuance and sale of the Notes and the Income Notes as described herein, the issuance of the Ordinary Shares, the acquisition and disposition of the Collateral Assets and Eligible Investments as described herein, the entering into of, and the performance of its obligations under, the Indenture, the Cashflow Swap Agreement, the Account Control Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Fiscal Agency Agreement, the Deed of Covenant, any other applicable Transaction Document, the pledge of the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, certain activities conducted in connection with the payment of amounts in respect of the Notes and the Income Notes and the management of the Collateral and other activities incidental to the foregoing. Income derived from the Collateral Assets and other Collateral will be the Issuer's only source of cash.

The Co-Issuer. The Co-Issuer is a newly incorporated Delaware corporation and has no prior operating history. The Co-Issuer does not have and will not have any significant assets. The Co-Issuer will not engage in any business activity other than the co-issuance of the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes.

Tax. See "Income Tax Considerations."

ERISA. See "ERISA Considerations."

DESCRIPTION OF THE SECURITIES

The Income Notes will be constituted by the deed of covenant executed by the Issuer on March 27, 2007 (the "Deed of Covenant") and subject to the terms and conditions thereof (the "Terms and Conditions") and the Income Notes will be issued pursuant to the Fiscal Agency Agreement. The following summary describes certain provisions of the Securities, the Indenture, the Fiscal Agency Agreement and the Deed of Covenant. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Securities, the Indenture, the Fiscal Agency Agreement and the Deed of Covenant. Copies of the Indenture may be obtained by prospective purchasers of the Notes upon request in writing to the Trustee at The Bank of New York, 101 Barclay Street, Floor 8E, New York, New York, 10286, Attention: CDO Transaction Management Group – Timberwolf I, fax (212) 815-3115, and, so long as any Notes and/or Income Notes are listed on a stock exchange, the Indenture will be available for inspection free of charge from the office of the Listing and Paying Agent. Copies of the Fiscal Agency Agreement and the Issuer's Memorandum and Articles of Association may be obtained by prospective purchasers of Notes and Income Notes upon request in

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writing to the Fiscal Agent at The Bank of New York, London Branch, One Canada Square, London E14 5AL, the United Kingdom, fax +44 20 7964 6399, phone +44 20 7961 7073-Attention: Corporate Trust Administration.

Status and Security

The Notes (other than the Class D Notes) will be limited recourse obligations of the Issuers and the Class D Notes and the Income Notes will be limited recourse obligations of the Issuer, secured as described below. The Income Notes will be debt obligations of the Issuer, and will not be secured under the terms of the Indenture and will only be entitled to receive amounts available for payment to the Holders of the Income Notes after payment of all amounts payable prior thereto under the Priority of Payments. The Class S-1 Notes will be senior in right of payment on each Payment Date to the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. The Class S-2 Notes will be senior in right of payment on each Payment Date to the Class A-2 Notes (*provided*, that payments of interest on the Class S-2 Notes and the Class A Notes will be paid pro rata), the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. The Class A-1 Notes will be senior in right of payment on each Payment Date to the Class A-2 Notes (*provided*, that payments of interest on the Class A Notes will be paid pro rata), the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. Payments of principal on the Class S-2 Notes and the Class A-1 Notes will be paid as described in the Priority of Payments. The Class A-2 Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. The Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. The Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. The Class D Notes will be senior in right of payment on each Payment Date to the Income Notes to the extent provided in the Priority of Payments. Payments of principal on the Class A-1 Notes will be paid in accordance with the Class A-1 Note Payment Sequence. See "—Priority of Payments."

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit and security of the Trustee for itself and on behalf of the Noteholders, the Fiscal Agent, the Collateral Administrator, the Collateral Manager, the Cashflow Swap Counterparty and the Synthetic Security Counterparty (collectively, the "Secured Parties"), a first priority security interest in (i) the Collateral Assets; (ii) the Collection Account; (iii) the Payment Account; (iv) the Cashflow Swap Termination Receipts Account, the Cashflow Swap Replacement Account and the Cashflow Swap Collateral Account (subject, in each case, to the rights of the Cashflow Swap Counterparty); (v) the Expense Reserve Account; (vi) the Collateral Account; (vii) the Synthetic Security Collateral Account and the Default Swap Collateral Account (subject, in each case, to the rights of the Synthetic Security Counterparty) (items (ii) through (vii), the "Accounts"); (viii) Eligible Investments; (ix) the Issuer's rights under the Cashflow Swap Agreement; (x) the Issuer's rights under the Collateral Management Agreement and (xi) certain other property (collectively, the "Collateral").

Payments of interest on and principal of the Notes and payments on the Income Notes will be made solely from the proceeds of the Collateral in accordance with the Priority of Payments.

The aggregate amount that will be available for payments required or permitted to be made on the Notes and of certain expenses of the Issuers, the Trustee and the Agents on any Payment Date will be the total amount of payments and collections in respect of the Collateral (including the proceeds of the sale of any Collateral) received during the period (a "Due Period") ending on (and including) the fourth Business Day prior to such Payment Date (or, in the case of a Due Period that is applicable to the Payment Date relating to the Stated Maturity of any Note, ending on (and including) the day preceding such Payment Date) (*provided*, that if the fourth Business Day prior to such Payment Date occurs before the 25th day of any calendar month, such Due Period shall end on, and include, the 25th day of such calendar month (or if the 25th day is not a Business Day, the immediately following Business Day)), and

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commencing immediately following the fourth Business Day prior to the preceding Payment Date (or, in the case of the Due Period relating to the first Payment Date, on the Closing Date) (*provided*, that if a Due Period ends on the 25th day of a calendar month, the next succeeding Due Period shall commence immediately following the 25th day of such calendar month (or if such day is not a Business Day, the immediately following Business Day)) and any such amounts received in prior Due Periods that were not disbursed on a previous Payment Date.

Interest and Distributions

The Class S-1 Notes will bear interest during each Interest Accrual Period at the Class S-1 Note Interest Rate for such Interest Accrual Period. The Class S-2 Notes will bear interest during each Interest Accrual Period at the Class S-2 Note Interest Rate for such Interest Accrual Period. The Class A-1a Notes will bear interest during each Interest Accrual Period at the Class A-1a Note Interest Rate for such Interest Accrual Period. The Class A-1b Notes will bear interest during each Interest Accrual Period at the Class A-1b Note Interest Rate for such Interest Accrual Period. The Class A-1c Notes will bear interest during each Interest Accrual Period at the Class A-1c Note Interest Rate for such Interest Accrual Period. The Class A-1d Notes will bear interest during each Interest Accrual Period at the Class A-1d Note Interest Rate for such Interest Accrual Period. The Class A-2 Notes will bear interest during each Interest Accrual Period at the Class A-2 Note Interest Rate for such Interest Accrual Period. The Class B Notes will bear interest during each Interest Accrual Period at the Class B Note Interest Rate for such Interest Accrual Period. The Class C Notes will bear interest during each Interest Accrual Period at the Class C Note Interest Rate for such interest Accrual Period. The Class D Notes will bear interest during each Interest Accrual Period at the Class D Note Interest Rate for such Interest Accrual Period. Interest with respect to the Class S Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes will be payable quarterly in arrears, commencing on the September 2007 Payment Date. LIBOR for the first Interest Accrual Period with respect to the Notes will be determined as of the second Business Day preceding the Closing Date. Calculations of interest on the Notes will be made based on a 360-day year and the actual number of days in each Interest Accrual Period. The Holders of the Income Notes will receive on each Payment Date any amount of Proceeds that are available for distribution thereon in accordance with the Priority of Payments on such Payment Date. The "Interest Accrual Period," is with respect to the Notes and any Payment Date, the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date.

If funds are not available on any Payment Date to pay the full amount of interest on the Class C Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class C Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of the Class C Notes and, to the extent lawful and enforceable, thereafter shall accrue interest at the Class C Note Interest Rate. If funds are not available on any Payment Date to pay the full amount of interest on the Class D Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class D Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of the Class D Notes and, to the extent lawful and enforceable, thereafter shall accrue interest at the Class D Note Interest Rate. So long as any Class S Notes, Class A Notes or Class B Notes are outstanding, the failure to pay interest to the Holders of the Class C Notes will not be an Event of Default under the Indenture and so long as any Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, the failure to pay interest to the Holders of the Class D Notes will not be an Event of Default under the Indenture. See "—Priority of Payments" and "—The Indenture and the Fiscal Agency Agreement—Events of Default."

Interest will cease to accrue on each Note from the date of repayment in full or Stated Maturity, or in the case of partial repayment, on such part, unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments of principal. See "—Principal." To the extent lawful and enforceable, interest on any Defaulted Interest on each Class of Notes entitled thereto will accrue at the interest rate applicable to such Class of Notes, until paid as provided herein. "Defaulted Interest" means any interest due and payable in respect of (i) any Class S Note, Class A Note or Class B

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Note or (ii) if there are no Class S Notes, Class A Notes or Class B Notes outstanding, any Class C Note or if there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Note which, in any such case, is not punctually paid or duly provided for on the applicable Payment Date or at Stated Maturity, as the case may be.

Determination of LIBOR

For purposes of calculating each of the Note Interest Rates, the Issuers will appoint as agent The Bank of New York (in such capacity, the "Note Calculation Agent"). LIBOR shall be determined by the Note Calculation Agent in accordance with the following provisions:

(i) On the second Business Day prior to the commencement of an Interest Accrual Period (each such day, a "LIBOR Determination Date"), LIBOR ("LIBOR") shall equal the rate, as obtained by the Note Calculation Agent, for Eurodollar deposits for, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, a three-month period (or, in the case of a designated initial payment period of less than 25 days or, in the case of the first Interest Accrual Period, the linear interpolation thereof, calculated in accordance with generally acceptable methodology) which appears on Bridge Telerate Page 3750 (as Telerate is defined in the International Swaps and Derivatives Association, Inc. Annex to the 2000 ISDA Definitions (June 2000 version)), or such page as may replace Bridge Telerate Page 3750, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Bridge Telerate Page 3750, or such page as may replace Bridge Telerate Page 3750, the Note Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for Eurodollar deposits for, with respect to Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, a three month period (or, in the case of a designated initial payment period of less than 25 days, or, in the case of the first Interest Accrual Period, the linear interpolation thereof, calculated in accordance with generally acceptable methodology) in an amount determined by the Note Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Note Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Note Calculation Agent (after consultation with the Issuer or the Collateral Manager on behalf of the Issuer) are quoting on the relevant LIBOR Determination Date for Eurodollar deposits for the applicable period in an amount determined by the Note Calculation Agent (after consultation with the Issuer or the Collateral Manager on behalf of the Issuer) by reference to the principal London offices of leading banks in the London interbank market; *provided, however*, that if the Note Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be LIBOR as determined on the most recent date LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Note Calculation Agent (after consultation with the Issuer or the Collateral Manager on behalf of the Issuer).

As soon as possible after 11:00 a.m. (New York time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Note Calculation Agent will cause notice of each of the Note Interest Rates for the next Interest Accrual Period and the amount of interest for such Interest Accrual Period payable in respect of each U.S.$1,000 principal amount of the Class S-1 Notes (the "Class S-1 Note Interest Amount"), of the Class S-2 Notes (the "Class S-2 Note Interest Amount"), of the Class A-1a Notes (the "Class A-1a Note Interest Amount"), of the Class A-1b Notes (the "Class A-1b Note Interest Amount"), of the Class A-1c Notes (the "Class A-1c Note Interest Amount"), of the Class A-1d Notes (the "Class A-1d Note Interest Amount"), of the Class A-2 Notes (the "Class A-2 Note Interest Amount"), of the Class B Notes (the "Class B Note Interest Amount"), of the Class C Notes (the "Class C Note Interest Amount") and of the Class D Notes (the "Class D Note Interest Amount") (collectively, the "Note Interest Amounts") (each rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date,

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to be communicated to the Issuers, DTC, Euroclear, Clearstream, the Note Paying Agents, the Trustee, the Collateral Manager, the Securities Intermediary and the Listing and Paying Agent for further delivery to any stock exchange so long as any of the Notes are listed thereon. In the last case, the Note Calculation Agent will furnish such information as soon as possible after its determination to the Listing and Paying Agent as long as any Notes are listed on any stock exchange. The Note Calculation Agent will also specify to the Issuers and the Collateral Manager the quotations upon which each of the Note Interest Rates are based. The Note Calculation Agent shall notify the Issuers and the Collateral Manager before 12:00 p.m. (New York time) on any LIBOR Determination Date if it has not determined and is not in the process of determining the applicable Note Interest Rates and Note Interest Amounts (collectively, the "Interest Calculations"), together with its reasons therefor. With respect to the Notes, "Business Day" means any day other than (x) Saturday or Sunday or (y) a day on which commercial banking institutions are authorized or obligated by law, regulation or executive order to close in New York, New York, London, England or in the city of the Trustee's corporate trust office (initially, The Bank of New York, 101 Barclay Street, Floor 8E, New York, New York, 10286, Attention: CDO Transaction Management Group); *provided, however*, that for the sole purpose of determining LIBOR, "Business Day" shall be defined as any day on which dealings in deposits in U.S. Dollars are transacted in the London interbank market and *provided further*, that to the extent action is required of the Listing and Paying Agent, the location of the Listing and Paying Agent shall be considered in determining the "Business Day" for purposes of determining when such Listing and Paying Agent action is required.

The Note Calculation Agent may be removed by the Issuers at the direction of the Collateral Manager at any time. If the Note Calculation Agent is unable or unwilling to act as such or is removed by the Issuers, or if the Note Calculation Agent fails to determine the applicable Interest Calculations for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market and which does not control or is not controlled by or under common control with the Issuers or their affiliates. The Note Calculation Agent may not resign its duties without a successor having been duly appointed. In addition, for so long as any Notes are listed on any stock exchange and the rules of such exchange so require, notice of the appointment of any Note Calculation Agent will be furnished to such stock exchange. For so long as any of the Notes remain outstanding, there will at all times be a Note Calculation Agent for the purpose of calculating the applicable Interest Calculations. The determination of the applicable Interest Calculations by the Note Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Payments on Income Notes

On each Payment Date, the Holders of the Income Notes will be entitled to receive, as interest on the Income Notes, after payment of items ranking higher in accordance with the Priority of Payments, payments (if available) equal to amounts remaining after payment of all other senior amounts payable in accordance with the Priority of Payments. Upon a Tax Redemption, Optional Redemption by Liquidation or successful Auction, the Holders of the Income Notes will be entitled to receive any amounts remaining after distribution of the Liquidation Proceeds in accordance with the Priority of Payments. Upon an Optional Redemption by Refinancing, any Refinancing Proceeds remaining after the redemption of the Class or Classes of Notes to be redeemed in respect of such Optional Redemption and the payment of any expense or fees in connection therewith will be characterized as Principal Proceeds and will be applied on the related Optional Redemption Date in accordance with the Priority of Payments.

Principal

The Notes (other than the Class S Notes and the Class A-1 Notes) and the Income Notes will mature on the Payment Date in December 2047 (the "Stated Maturity" with respect to the Notes (other than the Class S Notes and the Class A-1 Notes) and the Income Notes), the Class S Notes will mature on the Payment Date in September 2011 (the "Stated Maturity" with respect to the Class S Notes), the Class A-1a Notes and the Class A-1b Notes will mature on the Payment Date in December 2039 (the "Stated Maturity" with respect to the Class A-1a Notes and the Class A-1b Notes) and the Class A-1c Notes and the Class A-1d Notes will mature on the Payment Date in September 2044 (the "Stated

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Maturity" with respect to the Class A-1c Notes and the Class A-1d Notes). The average life of each Class of Notes (other than the Class S Notes) and duration of the Income Notes is expected to be substantially shorter than the number of years from issuance until the Stated Maturity for such Class of Notes or Income Notes. See "Risk Factors—Securities—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class S-1 Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in December 2007 in an amount equal to the Class S-1 Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption by Liquidation or successful Auction has occurred and the Collateral is being liquidated pursuant to the terms of the Indenture, the Class S-1 Notes will be paid in full prior to any distributions to any other Notes. Principal will be payable on the Class S-2 Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in December 2007 in an amount equal to the Class S-2 Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption by Liquidation or successful Auction has occurred and the Collateral is being liquidated pursuant to the terms of the Indenture, the Class S-2 Notes will be paid in full prior to any distributions to any other Notes (other than the Class S-1 Notes and the Class A-1 Notes). The Class S-2 Notes are subject to mandatory redemption if the Class A/B Overcollateralization Test is not satisfied on any date of determination. Principal will be payable on certain of the Securities on each Payment Date in accordance with the Priority of Payments.

On any Payment Date on which certain conditions are satisfied, principal will be paid to the Holders of the Class A Notes (pro rata between the Class A-1 Notes and the Class A-2 Notes; *provided* that principal on the Class A-1 Notes will be paid in accordance with the Class A-1 Note Payment Sequence), only in an amount required to increase (or maintain) the Class A Adjusted Overcollateralization Ratio to a specified target of 126.7%. After achieving and maintaining such target and minimum, the payment of remaining principal will shift to the Holders of the Class B Notes until such Holders have been paid an amount required to increase (or maintain) the Class B Adjusted Overcollateralization Ratio to the specified target of 110.6%. After achieving and maintaining such target level, the payment of remaining principal shifts to the Holders of the Class C Notes which will receive principal only in an amount required to increase (or maintain) the Class C Adjusted Overcollateralization Ratio to a specified target of 106.0%. After achieving and maintaining such target level, the payment of remaining principal shifts to the Holders of the Class D Notes which will receive principal only in an amount required to increase (or maintain) the Class D Adjusted Overcollateralization Ratio to a specified target of 102.7%. However, if the Net Outstanding Portfolio Collateral Balance is less than U.S.$300,000,000, then only Principal Proceeds received or held during the related Due Period will be paid, first, to the Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence and then sequentially through the Class D Notes. The foregoing "shifting principal" method permits Holders of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes to receive payments of principal in accordance with the Priority of Payments while more senior Classes of Notes remain outstanding and permits distributions of Principal Proceeds to the Holders the Income Notes, to the extent funds are available in accordance with the Priority of Payments, while Notes are outstanding.

Subject to the availability of funds therefor in accordance with the Priority of Payments, if any of the Coverage Tests are not satisfied on any Determination Date, the Notes (other than the Class S-1 Notes) will be subject to mandatory redemption on the related Payment Date until paid in full. See "—Mandatory Redemption" and the Priority of Payments for a description of the order in which such Notes are paid in connection with the failure of a Coverage Test.

Stated Maturity of the Income Notes

On or prior to the date that is one Business Day prior to the end of the Due Period applicable to the Stated Maturity of the Income Notes, the Collateral Manager will sell all remaining Collateral. The settlement dates for any such sales shall be no later than one Business Day prior to the end of such Due

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Period. The proceeds of such sales will be paid to the Fiscal Agent after the payment of amounts senior to the Holders of the Income Notes in the Priority of Payments for deposit into the account maintained therefor by the Fiscal Agent (the "Income Note Payment Account") and payment to the Holders of the Income Notes as the redemption price for the Income Notes upon such payment (the "Income Notes Redemption Price"). Upon such payment, the Issuer shall redeem the Income Notes.

Auction

Sixty days prior to the Payment Date occurring in September of each year (each, an "Auction Date") commencing on the September 2015 Payment Date, the Collateral Manager will take steps to conduct an auction (the "Auction") of the Collateral in accordance with procedures specified in the Indenture. If the Collateral Manager receives one or more bids from Eligible Bidders not later than ten Business Days prior to the Auction Date equal to or greater than the Minimum Bid Amount, the Issuer will sell the Collateral for settlement on or before the fifth Business Day prior to such Auction Date and the Notes will be redeemed in whole on such Auction Date (any such date, an "Auction Payment Date"). If a successful Auction occurs, the Income Notes will also be redeemed in full. The Collateral Manager and its affiliates shall be considered Eligible Bidders. If the highest single bid on the entire portfolio of Collateral, or the aggregate amount of multiple bids with respect to individual items of Collateral, does not equal or exceed the Minimum Bid Amount or if there is a failure at settlement, then the redemption of Notes and the Income Notes on the related Auction Date will not occur.

The Notes will be redeemed following a successful Auction in accordance with the Priority of Payments at the applicable Redemption Price. The amount distributable as the final payment on the Income Notes following any such redemption will equal any amount remaining after the redemption of the Notes, the payment of any amounts due in connection with the termination of the Cashflow Swap Agreement and Synthetic Securities and the payment of all expenses in accordance with the Priority of Payments.

Tax Redemption

Subject to certain conditions described herein, the Securities may be redeemed by the Issuers at any time, in whole but not in part upon the occurrence of a Tax Event at their Redemption Prices at the written direction of, or with the written consent of, (i) the Holders of at least 66-2/3% of the aggregate outstanding notional principal amount of the affected Income Notes or (ii) the Holders of a Majority of any Class of Notes which, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest or other amounts then due and payable on such Notes on any Payment Date (such redemption, a "Tax Redemption"); *provided* that no such redemption shall be effected unless the expected Liquidation Proceeds equal or exceed the sum of all amounts due as of the Redemption Date pursuant to clauses (i) through (ix) of the Priority of Payments for Final Payment Dates (the "Total Redemption Amount"), which includes the Redemption Prices of the Notes. If a Tax Redemption occurs, the Income Notes will be redeemed simultaneously.

In connection with a Tax Redemption, the Issuers (in the case of the Notes) and the Issuer (in the case of the Income Notes) shall notify the Trustee of such Tax Redemption and the Payment Date which is the date for redemption (the "Tax Redemption Date") and direct the Trustee, in writing, to sell, in the manner determined by the Collateral Manager, and in accordance with the Indenture, any Collateral and upon any such sale the Trustee shall release the lien upon such Collateral pursuant to the Indenture; *provided, however*, that the Issuer may not direct the Trustee to sell (and the Trustee shall not be obligated to release the lien upon) any Collateral except in accordance with the procedures set forth in the Indenture including, without limitation, the requirement that the Collateral Manager shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the disposition of the Collateral and other assets of the Issuer will equal or exceed the Total Redemption Amount. Liquidation Proceeds available for distribution in connection with a Tax Redemption will be reduced by the amount of expected termination payments (other than Defaulted Synthetic Security Termination Payments) due to the Synthetic Security Counterparty.

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The amount payable in connection with any Tax Redemption of the Notes will equal the Total Redemption Amount. The amount payable as a final payment on the Income Notes following any Tax Redemption will equal the Liquidation Proceeds, if any, remaining after the distribution of the Total Redemption Amount by the Issuer in accordance with the Priority of Payments.

Optional Redemption by Liquidation

Subject to certain conditions described herein, the Notes may be redeemed by the Issuers and the Income Notes may be redeemed by the Issuer, in whole but not in part at their Redemption Prices on any Payment Date on or after the March 2010 Payment Date, at the written direction of, or with the written consent of, the Holders of at least a Majority of the aggregate outstanding notional principal amount of Income Notes (including Income Notes held by the Collateral Manager or any affiliate thereof) (such redemption, an "Optional Redemption" or an "Optional Redemption by Liquidation"); *provided* that no Optional Redemption by Liquidation shall be effected unless the expected Liquidation Proceeds will equal or exceed the Total Redemption Amount. If the Holders of the Income Notes so elect to cause an Optional Redemption by Liquidation, the Income Notes will be redeemed simultaneously.

In connection with an Optional Redemption by Liquidation, the Issuers (in the case of the Notes) and the Issuer (in the case the Income Notes) shall notify the Trustee of such Optional Redemption by Liquidation and the Optional Redemption Date and direct the Trustee, in writing, to sell, in the manner determined by the Collateral Manager, and in accordance with the Indenture, any Collateral Asset and upon any such sale the Trustee shall release the lien upon such Collateral Assets pursuant to the Indenture; *provided, however*, that the Issuer may not direct the Trustee to sell (and the Trustee shall not be obligated to release the lien upon) any Collateral except in accordance with the procedures set forth in the Indenture including, without limitation, the requirement that the Collateral Manager shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the disposition of the Collateral Assets and other assets of the Issuer will equal or exceed the Total Redemption Amount. Amounts available for distribution in connection with an Optional Redemption by Liquidation will be reduced by the amount of expected termination payments (other than Defaulted Synthetic Security Termination Payments) due to the Synthetic Security Counterparty.

The amount payable in connection with any Optional Redemption by Liquidation of the Notes will equal the Total Redemption Amount. The amount payable as the final payment on the Income Notes following any Optional Redemption by Liquidation will equal the Liquidation Proceeds, if any, remaining after the distribution of the Total Redemption Amount by the Issuer in accordance with the Priority of Payments.

Optional Redemption by Refinancing

Subject to certain conditions described herein, any Class or Classes of Notes may be redeemed by the Issuers from the net cash proceeds (the "Refinancing Proceeds") of a loan, credit or similar facility or an issuance of replacement notes, from or to one or more financial institutions or purchasers, in whole but not in part, on any Payment Date on or after the Optional Redemption Date, at the written direction of, or with the written consent of, the Holders of at least a Majority of the Income Notes (an "Optional Redemption" or an "Optional Redemption by Refinancing"). The Issuer will conduct an Optional Redemption by Refinancing only if the Collateral Manager determines that: (i) the principal amount of any obligations providing the funds to be applied in respect of such Optional Redemption by Refinancing is no greater than the principal amount of the Notes being redeemed; (ii) the stated maturity of the obligations providing the funds to be applied in respect of such Optional Redemption by Refinancing is no earlier than the Stated Maturity of the Notes being redeemed; (iii) the agreements relating to the Optional Redemption by Refinancing contain limited-recourse and non-petition provisions equivalent to those set forth in the Indenture; (iv) the proceeds from the Optional Redemption by Refinancing will be at least sufficient to pay in full the Aggregate Outstanding Amount of the applicable Notes); (v) amounts are expected to be available in accordance with the Priority of Payments on the Payment Date related to such Optional Redemption by Refinancing (a) to pay any fees and administrative expenses of the Issuer related to the Optional Redemption by Refinancing, (b) to pay any accrued and unpaid interest on the Notes being

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redeemed (including Defaulted Interest and interest on Defaulted Interest) and (c) to pay any "Cashflow Swap Shortfall Amounts" (as such term is defined in the Cashflow Swap Agreement) that have been paid by the Cashflow Swap Counterparty under the Cashflow Swap Agreement but that have not been repaid to the Cashflow Swap Counterparty (*plus* any accrued and unpaid interest thereon) pursuant to the Priority of Payments; (vi) the Refinancing Proceeds will be used (to the extent necessary) to redeem the applicable Notes; (vii) such Optional Redemption by Refinancing will not cause an Event of Default; and (viii) the Rating Agency Condition for each Rating Agency shall be satisfied (other than with respect to the Notes being redeemed). If any Holder of an Income Note so elects, such Holder may pay all or a portion (pro rata with any other electing Holder of an Income Note) of the amounts required under clause (v) above directly as opposed to requiring that such amounts be paid through funds available in accordance with the Priority of Payments on the Payment Date related to the Optional Redemption by Refinancing. If any Holder of an Income Note so elects, the amounts due shall be remitted to the Trustee at least two days prior to the related Payment Date. Any such amounts paid by the Holders of the Income Notes will not be reimbursed by the Issuer. Any Refinancing Proceeds will be applied directly on the related Optional Redemption Date pursuant to the Indenture to redeem the Notes being refinanced without regard to the Priority of Payments described herein. Any Refinancing Proceeds that are not used to redeem the applicable Notes and to pay any administrative expenses of the Issuer will be treated as Principal Proceeds and will be applied in accordance with the Priority of Payments. None of the Issuers, the Trustee or any other Person will be liable to the Holders of the Income Notes for the failure to issue additional notes or to obtain secured loans.

Optional Redemption/Tax Redemption Procedures. To conduct an Optional Redemption or a Tax Redemption, the procedures set forth in the Indenture must be followed and any conditions precedent thereto must be satisfied.

Upon the occurrence of a Tax Redemption or an Optional Redemption, the Collateral Manager shall notify the Principal Note Paying Agent, in the case of the Holders of Notes or the Fiscal Agent, in the case of Holders of Income Notes, which in each case, shall notify the Trustee (with a copy to the Issuer) in writing no less than thirty (30) Business Days prior to the Redemption Date. Such notice shall be irrevocable. The Fiscal Agent shall, within three (3) Business Days after receiving such notice, notify the other Holders of the Income Notes of the receipt of such notice.

The Trustee will provide notice of any Optional Redemption or Tax Redemption by first-class mail, postage prepaid, mailed not less than ten (10) Business Days prior to the scheduled Tax Redemption Date or Optional Redemption Date, as applicable, to the Principal Note Paying Agent, to the Fiscal Agent, to each Cashflow Swap Counterparty, to each Noteholder at such Holder's address in the register maintained by the Note Registrar under the Indenture and to each Holder of an Income Note at such Holder's address in the income note register maintained pursuant to the Fiscal Agency Agreement and, as long as any Notes or Income Notes are listed on any stock exchange, the Trustee will also give notice to the Listing and Paying Agent.

Notes called for redemption must be surrendered at the office of any paying agent appointed under the Indenture in order to receive the Redemption Price. The initial paying agents for the Notes are The Bank of New York, as Principal Note Paying Agent, and, so long as any Notes are listed on a stock exchange, the Listing and Paying Agent.

Income Notes called for redemption must be surrendered at the office of any paying agent appointed under the Fiscal Agency Agreement in order to receive final payments, if any, thereon. The initial paying agent for the Income Notes is The Bank of New York, London Branch.

Any such notice of redemption may be withdrawn by the Issuers (with respect to the Notes) and the Issuer (with respect to the Income Notes) on or prior to the seventh Business Day prior to the scheduled redemption date by written notice from the Issuers to the Collateral Manager, the Trustee, each Cashflow Swap Counterparty, the Rating Agencies, the Holders of the Notes and the Holders of the Income Notes, but only if the Collateral Manager shall be unable to deliver the sale agreement or agreements or certifications or, in the case of an Optional Redemption by Refinancing, the loan, credit or

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similar facility, required by the Indenture, in form satisfactory to the Trustee. The Cashflow Swap Agreement will not terminate upon notice to the respective counterparties of redemption until the time for withdrawal of notice has expired. The Collateral Manager shall be liable only for the failure to effect an Optional Redemption or Tax Redemption due to the Collateral Manager's gross negligence or willful misconduct. Notice of any such withdrawal shall be given at the Issuer's expense by the Trustee to each Holder of a Security at the address appearing in the applicable register maintained by the Note Transfer Agent under the Indenture or the Income Note Registrar under the Fiscal Agency Agreement, as applicable, by overnight courier guaranteeing next day delivery sent not later than the third Business Day prior to the scheduled redemption date. The Trustee or the Fiscal Agent will also give notice to the Listing and Paying Agent of the stock exchange if any Securities are then listed on a stock exchange.

Mandatory Redemption

On any Payment Date on which the Class A/B Overcollateralization Test was not satisfied on the last Business Day of the immediately preceding Due Period (such Business Day, the "Determination Date"), without giving effect to amounts payable under clauses (vii), (x) and (xii) of the Priority of Payments, Proceeds will be used to redeem the Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence until the Class A-1 Notes have been paid in full, then to redeem the Class S-2 Notes until the Class S-2 Notes have been paid in full, then to redeem the Class A-2 Notes until the Class A-2 Notes have been paid in full and then to redeem the Class B Notes until the Class B Notes have been paid in full.

On any Payment Date on which the Class C Overcollateralization Test was not satisfied on the related Determination Date, without giving effect to amounts payable under clauses (x) and (xii) of the Priority of Payments, Principal Proceeds will be used to redeem the Class A Notes (in accordance with the Class A-1 Note Payment Sequence), the Class B Notes and the Class C Notes, pro rata, until paid in full *provided, however*, that if the Net Outstanding Portfolio Collateral Balance is less than U.S.$500,000,000, then such amount shall be paid first, to the payment of principal of all outstanding Class A-1 Notes (pursuant to the Class A-1 Note Payment Sequence), second, to the payment of principal of all outstanding Class A-2 Notes, third, to the payment of principal of all outstanding Class B Notes and fourth, to the payment of principal of all outstanding Class C Notes, and any remaining Proceeds will be used to redeem the Class C Notes until the Class C Notes have been paid in full.

On any Payment Date on which the Class D Overcollateralization Test (together with the Class A/B Overcollateralization Test and the Class C Overcollateralization Test the "Coverage Tests") was not satisfied on the related Determination Date, Proceeds net of amounts payable under clauses (i) through (xii) of the Priority of Payments will be used to redeem the Class D Notes until the Class D Notes have been paid in full.

The Class S-1 Notes, the Class C Notes, the Class D Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Class A/B Overcollateralization Test. The Class S Notes, the Class D Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of any Class C Overcollateralization Test. The Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of any Class D Overcollateralization Test.

Cancellation

All Notes and Income Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Payments

Payments on any Payment Date in respect of principal of and interest on the Notes issued as Global Notes will be made to the person in whose name the relevant Global Note is registered at the close of business on the Business Day prior to such Payment Date. For the Securities issued in definitive

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form, payments on any Payment Date in respect of principal, interest and other distributions will be made to the person in whose name the relevant Security is registered as of the close of business 10 Business Days prior to such Payment Date. Payments on the Global Notes will be payable by wire transfer in immediately available funds to a U.S. Dollar account maintained by DTC or its nominee (in the case of the Global Notes) or each Holder (in the case of individual Definitive Notes) to the extent practicable or otherwise by U.S. Dollar check drawn on a bank in the United States sent by mail either to DTC or its nominee (in the case of the Global Notes), or to each Holder at its address appearing in the applicable register. Final payments in respect of principal on the Notes will be made only against surrender of the Notes at the office of any paying agent. None of the Issuers, the Securities Intermediary, the Trustee, the Collateral Manager, the Cashflow Swap Counterparty or any paying agent will have any responsibility or liability for any aspects of the records maintained by DTC or its nominee or any of its participants relating to, or for payments made thereby on account of beneficial interests in, a Global Note.

The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note held by DTC or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

If any payment on a Security is due on a day that is not a Business Day, then payment will not be made until the next succeeding Business Day.

For so long as the Securities are listed on any stock exchange and the rules of such exchange so require, the Issuers will have a paying agent and a transfer agent (which shall be the Listing and Paying Agent) for such Securities and payments on and transfers or exchanges of interest in such Securities may be effected through the Listing and Paying Agent. In the event that the Listing and Paying Agent is replaced at any time during such period, notice of the appointment of any replacement will be given to the applicable stock exchange as long as any Securities are listed thereon.

Priority of Payments

With respect to any Payment Date, all Proceeds received on the Collateral during the related Due Period will be applied by the Trustee in the priority set forth below (the "Priority of Payments"). For purposes of the Priority of Payments, amounts paid as interest, fees or distributions on the Notes on a "*pro rata*" basis shall be *pro rata* based on the amount of interest due on such Class or subclass of Notes or fees, amounts paid as principal shall be paid *pro rata* based on the amount of principal then outstanding on such Class or subclass of Notes and unless stated otherwise, Proceeds not constituting Principal Proceeds will be assumed to be applied prior to any Principal Proceeds.

Two Business Days prior to each Payment Date, to the extent there is a positive Aggregate Amortization Amount determined as of the related Determination Date, an amount (in cash or par amount, as applicable) equal to the Aggregate Amortization Amount shall be withdrawn by the Trustee from the Default Swap Collateral Account (first, by applying cash on deposit in the Default Swap Collateral Account received as principal, second, by liquidating Eligible Investments in the Default Swap Collateral Account and third, by releasing Default Swap Collateral from the Default Swap Collateral Account and from the lien of the Synthetic Security Counterparty and depositing it to the Collateral Account) and deposited to the Payment Account for application as Principal Proceeds in accordance with the Priority of Payments on the related Payment Date or in the case of the release of Default Swap Collateral, for deposit to the Collateral Account.

On the Business Day prior to each Payment Date (other than a Final Payment Date), the Trustee will transfer all funds then on deposit in the Collection Account (other than amounts received after the end of the related Due Period) into the Payment Account. On each Payment Date (other than a Final

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Payment Date), amounts in the Payment Account and any payments received from the Cashflow Swap Counterparty since the previous Payment Date will be applied by the Trustee in the manner and order of priority set forth below:

i. to the payment of taxes and filing and registration fees (including, without limitation, annual return fees) owed by the Issuers, if any;

ii. to the payment of accrued and unpaid fees of the Trustee up to a maximum amount on any Payment Date equal to the greater of U.S.$12,062.50 and 0.0018125% of the Quarterly Asset Amount for the related Due Period (or, in the case of the first Due Period, as such amounts are adjusted based on the number of days in such Due Period);

iii. (a) first, to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers, excluding any indemnities (and legal expenses related thereto) payable by the Issuers first, to the Trustee, the Collateral Administrator and the Fiscal Agent and second, pro rata, to any other parties entitled thereto; (b) second, to the payment of any indemnities (and legal expenses related thereto) payable by the Issuers first, to the Trustee, the Collateral Administrator, the Fiscal Agent and second, pro rata, to any other parties entitled thereto; and (c) third, to the Expense Reserve Account the lesser of U.S.$50,000 and the amount necessary to bring the balance of such account to U.S.$200,000; *provided, however*, that the aggregate payments pursuant to subclauses (a) through (c) of this clause (iii) on any Payment Date shall not exceed U.S.$250,000 and the aggregate payments pursuant to subclauses (a) and (b) of this clause (iii) on the current and prior three Payment Dates shall not exceed U.S.$300,000;

iv. to the payment of (a) first, pro rata (based on amounts due) (i) amounts, if any, to be paid to the Cashflow Swap Counterparty pursuant to the Cashflow Swap Agreement including termination and partial termination payments (other than Defaulted Cashflow Swap Termination Payments payable under clause (xviii) below) and including on any Payment Date related to an Optional Redemption by Refinancing all "Cashflow Swap Amounts" that have been advanced by the Cashflow Swap Counterparty under the Cashflow Swap Agreement but that have not been repaid *plus* accrued and unpaid interest thereon, (ii) accrued and unpaid interest on the Class S-1 Notes (including Defaulted Interest and interest thereon) and (iii) beginning with the Payment Date occurring in December 2007, principal of the Class S-1 Notes in an amount equal to the Class S-1 Notes Amortizing Principal Amount until the Class S-1 Notes are paid in full and (b) second, if an Event of Default or a Tax Event shall have occurred and is continuing or an Optional Redemption by Liquidation or a successful Auction has occurred and the Collateral Assets are being liquidated pursuant to the terms of the Indenture, to the payment of principal of the Class S-1 Notes until the Class S-1 Notes are paid in full;

v. to the payment, *pro rata* based on the amount due (a), to the Collateral Manager of the accrued and unpaid Collateral Management Fee, *plus* interest due on any portion of such Collateral Management Fee not paid on a prior Payment Date at a rate equal to LIBOR (excluding any portion thereof included in any Cumulative Deferred Management Fees that were not paid on a previous Payment Date); *provided, however*, the Collateral Manager may at its option defer all or a portion of such Collateral Management Fee (the amount, if any, so deferred on such Payment Date to be included in the Current Deferred Management Fee on such date) and (b) to the payment to the Initial Purchaser of any unpaid Deferred Structuring Expense, *plus* interest due on any portion of the Deferred Structuring Expense not paid on the prior Payment Date at a rate equal to LIBOR;

vi. to the payment of (a) first, *pro rata*, (i) accrued and unpaid interest on the Class A-1 Notes (including any Defaulted Interest and interest thereon), (ii) accrued and unpaid interest on the Class A-2 Notes (including any Defaulted Interest and interest thereon),

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and (iii) accrued and unpaid interest on the Class S-2 Notes (including any Defaulted Interest and any interest thereon), and (b) second, accrued and unpaid interest on the Class B Notes (including any Defaulted Interest and any interest thereon);

vii. if the Class A/B Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to this clause (vii) or clauses (x) and (xii) below), *first*, to the payment of principal of all outstanding Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence until the Class A-1 Notes are paid in full, *second*, to the payment of principal of all outstanding Class S-2 Notes until the Class S-2 Notes are paid in full, *third*, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, and *fourth*, to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full;

viii. to the payment of (a) beginning with the Payment Date occurring in December 2007, principal of the Class S-2 Notes in an amount equal to the Class S-2 Notes Amortizing Principal Amount until the Class S-2 Notes are paid in full, and (b) if an Event of Default or a Tax Event shall have occurred and is continuing or an Optional Redemption by Liquidation or successful Auction has occurred and the Collateral Assets are being liquidated pursuant to the terms of the Indenture, principal of the Class S-2 Notes until the Class S-2 Notes are paid in full;

ix. to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon but not including Class C Deferred Interest);

x. if the Class C Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to this clause (x) or clause (xii) below), then, (a) pro rata, Principal Proceeds only (i) to the payment of principal of all outstanding Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence, (ii) to the payment of principal of all outstanding Class A-2 Notes, (iii) to the payment of principal of all outstanding Class B Notes and (iv) to the payment of principal of all outstanding Class C Notes, until the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, and the Class C Notes are paid in full; *provided, however*, that if the Net Outstanding Portfolio Collateral Balance is less than U.S.$500,000,000, then such amount shall be paid *first*, to the payment of principal of all outstanding Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence until the Class A-1 Notes are paid in full, *second*, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, *third*, to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full and *fourth*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full; and (b) any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full;

xi. to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon but not including Class D Deferred Interest);

xii. to the payment of principal of *first*, pro rata, the Class A Notes up to the amount specified in clause (b)(1) below (*provided*, that the Class A-1 Notes shall be paid in accordance with the Class A-1 Note Payment Sequence), *second*, the Class B Notes up to the amount specified in clause (b)(2) below, *third*, the Class C Notes up to the amount specified in clause (b)(3) below and *fourth*, the Class D Notes up to the amount specified in clause (b)(4) below in an aggregate amount equal to the lesser of (a) Principal Proceeds received or held during the related Due Period, and (b) the sum of (1) the amount necessary to increase the Class A Adjusted Overcollateralization Ratio to or

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maintain it at 126.7%, *plus* (2) the amount necessary to increase the Class B Adjusted Overcollateralization Ratio to or maintain it at 110.6%, *plus* (3) the amount necessary to increase the Class C Adjusted Overcollateralization Ratio to or maintain it at 106.0%, *plus* (4) the amount necessary to increase the Class D Adjusted Overcollateralization Ratio to or maintain it at 102.7%; *provided, however,* that if the Net Outstanding Portfolio Collateral Balance is less than U.S.$300,000,000, then only the amount described in sub-clause (a) of this clause (xii) will be paid, such amount to be allocated, *first*, to the payment of principal of all outstanding Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence, *second*, to the payment of principal of all outstanding Class A-2 Notes, *third*, to the payment of principal of all outstanding Class B Notes, *fourth*, to the payment of principal of all outstanding Class C Notes, and *fifth*, to the payment of principal of all outstanding Class D Notes, until the Class A Notes, the Class B Notes, the Class C Notes, and the Class D Notes are paid in full;

xiii. if the Class D Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to this clause (xiii)) then to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xiv. to the payment to the Collateral Manager of the Cumulative Deferred Management Fee (or any portion thereof as directed by the Collateral Manager);

xv. *first*, to the payment of principal of the Class C Notes in an amount equal to that portion of the principal of the Class C Notes comprised of Class C Deferred Interest unpaid after giving effect to payments under clauses (x) and (xii) above (amounts will be considered unpaid for this purpose if the principal balance of the Class C Notes after giving effect to clauses (x) and (xii) above exceeds any previous lowest amount outstanding) and *second*, to the payment of principal of the Class D Notes in an amount equal to that portion of the principal of the Class D Notes comprised of Class D Deferred Interest unpaid after giving effect to payments under clauses (xii) and (xiii) above (amounts will be considered unpaid for this purpose if the principal balance of the Class D Notes after giving effect to clauses (xii) and (xiii) above exceeds any previous lowest amount outstanding);

xvi. after the Payment Date occurring in September 2015, *first*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full, and *second*, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xvii. to the payment of principal of the Class D Notes in an amount equal to the Class D Notes Amortizing Principal Amount;

xviii. to the payment of, pro rata, any Defaulted Cashflow Swap Termination Payments, with respect to the Cashflow Swap Agreement, pro rata, based on the amount owed and Defaulted Synthetic Security Termination Payments, with respect to the Synthetic Securities, pro rata, based on the amount owed;

xix. *first* (a) to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers not paid pursuant to clauses (ii) and (iii) above (as the result of the limitations on amounts set forth therein) in the same order of priority set forth above in clause (iii) excluding any indemnities (and legal expenses related thereto) payable by the Issuers; *second*, (b) to the payment, pro rata, of any indemnities (and legal expenses related thereto) payable by the Issuers not paid pursuant to clause (iii) above (as the result of the limitation on amounts set forth therein) in the same order of priority set forth above in clause (iii); and *third*, (c) to the Expense Reserve Account until the balance of such

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account reaches U.S.$200,000 (after giving effect to any deposits made therein on such Payment Date under clause (iii) above); *provided, however*, that the aggregate payments pursuant to subclause (c) of this clause (xix) and subclause (c) of clause (iii) on any Payment Date shall not exceed U.S.$50,000; and

xx. any remaining amount to the payment to the Fiscal Agent for deposit into the Income Note Payment Account for payment to the Holders of the Income Notes as additional distributions (subject to certain restrictions imposed under Cayman Islands law and to the extent of funds legally available therefor).

On the Business Day prior to the Final Payment Date, the Trustee will transfer all funds then on deposit in the Collection Account into the Payment Account. On the Final Payment Date, amounts in the Payment Account will be applied by the Trustee in the manner and order of priority set forth below:

i. to the payment of the amounts referred to in clauses (i) through (vi) of the Priority of Payments for Payment Dates which are not Final Payment Dates, in that order (without regard to the limitations in clause (iii) except for any Final Payment Date which is the Stated Maturity of a Note (other than the Class S Notes)); *provided* that no deposit shall be made to the Expense Reserve Account pursuant to subclause (iii);

ii. to the payment to the Class A-1 Notes in accordance with the Class A-1 Note Payment Sequence of the amount necessary to pay the outstanding principal amount of such Notes;

iii. to the payment to the Class S-2 Notes of the amount necessary to pay the outstanding principal amount of such Notes;

iv. to the payment to the Class A-2 Notes of the amount necessary to pay the outstanding principal amount of such Notes;

v. to the payment to the Class B Notes of the amount necessary to pay the outstanding principal amount of such Notes in full;

vi. to the payment to the Class C Notes of the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Class C Deferred Interest and Defaulted Interest and any interest thereon) in full;

vii. to the payment to the Class D Notes of the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Class D Deferred Interest and Defaulted Interest and any interest thereon) in full;

viii. to the payment of the amounts referred to in clause (xiv) of the Priority of Payments for Payment Dates that are not Final Payment Dates;

ix. to the payment of the amounts referred to in clause (xviii) of the Priority of Payments for Payment Dates that are not Final Payment Dates;

x. to the payment of the amounts referred to in subclause (a) and subclause (b) of clause (xix) of the Priority of Payments on any Final Payment Date that is the Stated Maturity of any Notes (other than the Class S Notes); and

xi. to the payment of the amounts referred to in clause (xx) of the Priority of Payments for Payment Dates which are not Final Payment Dates in accordance with the Fiscal Agency Agreement.

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Upon payment in full of the last outstanding Note, the Issuer (or the Collateral Manager acting pursuant to the Collateral Management Agreement on behalf of the Issuer) will liquidate any remaining Collateral Assets, Eligible Investments, the Cashflow Swap Agreement and any other items comprising the Collateral and deposit the proceeds thereof in the Collection Account. The net proceeds of such liquidation and all available cash (other than the U.S.$250 of capital contributed by the owners of the Issuer Ordinary Shares in accordance with the Issuer's Memorandum and Articles of Association and U.S.$250 representing a transaction fee to the Issuer (the "Excepted Property") will be distributed in accordance with the Priority of Payments for Final Payment Dates and all amounts remaining thereafter will be paid to the Holders of the Income Notes as a redemption payment, whereupon all of the Notes and the Income Notes will be canceled.

Income Notes

The final payment on the Income Notes will be made by the Issuer on the Stated Maturity of the Income Notes, unless redeemed or retired prior thereto in accordance with the Priority of Payments.

The Indenture and the Fiscal Agency Agreement

The following summary describes certain provisions of the Indenture and the Fiscal Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Fiscal Agency Agreement.

Indenture

Events of Default. An "Event of Default" under the Indenture includes:

i. a default in the payment, when due and payable, of any interest on any Class S Note, Class A Note or Class B Note or, if there are no Class S Notes, Class A Notes or Class B Notes outstanding, any Class C Note or, if there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Note and a continuation of such default, in each case, for a period of 7 days (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made aware of such administrative error or omission);

ii. a default in the payment of principal due on any Note at its Stated Maturity or on any Redemption Date (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made aware of such administrative error or omission);

iii. the failure on any Payment Date to disburse amounts (other than in payment of interest on any Note or principal of any Note at its Stated Maturity or any date set for redemption as described in (i) and (ii) above) available in the Payment Account in excess of U.S.$500 in accordance with the Priority of Payments and a continuation of such failure for a period of 7 days after such failure has been recognized;

iv. a circumstance in which either of the Issuers or the Collateral or any portion thereof becomes an investment company required to be registered under the Investment Company Act;

v. a default, which has a material adverse effect on the Holders of the Notes (as determined by at least 50% in aggregate principal amount of the Controlling Class), in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuers in the Indenture (it being understood that a failure to satisfy a Coverage Test is not a default or breach) or in any certificate or writing delivered pursuant to the

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Indenture, or if any representation or warranty of the Issuers made in the Indenture or in any certificate or writing delivered pursuant thereto proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days after notice thereof shall have been given to the Issuers and the Collateral Manager by the Trustee or to the Issuers, the Collateral Manager and the Trustee by the Holders of at least 50% in Aggregate Outstanding Amount of the Controlling Class; and

vi. certain events of bankruptcy, insolvency, receivership or reorganization of either of the Issuers.

If an Event of Default should occur and be continuing, the Trustee may, with the consent of the Holders of at least a Majority of the Controlling Class, and will at the direction of the Holders of at least a Majority of the Controlling Class, declare the principal of and accrued and unpaid interest on all Notes to be immediately due and payable (except that in the case of an Event of Default described in clause (vi) above, such an acceleration will occur automatically and shall not require any action by the Trustee or any Noteholder).

If an Event of Default should occur and be continuing, the Trustee is required to retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under Priority of Payments unless (a) the Trustee determines (which determination will be based upon a certificate from the Collateral Manager) that the anticipated proceeds of a sale or liquidation of the Collateral based on an estimate obtained from a nationally recognized investment banking firm (which estimate takes into account the time elapsed between such estimate and the anticipated sale of the Collateral) would equal the amount necessary to pay in full (after deducting the reasonable expenses of such sale or liquidation) the sum of (i) the principal (including any Class C Deferred Interest and Class D Deferred Interest) and accrued interest (including all Defaulted Interest, and interest thereon) and any other amounts due with respect to all the outstanding Notes; (ii) all Administrative Expenses; (iii) all amounts payable by the Issuer to the Synthetic Security Counterparty or an assignee of a Synthetic Security (other than Defaulted Synthetic Security Termination Payments) net of all amounts payable to the Issuer by any Synthetic Security Counterparty or an assignee of a Synthetic Security; (iv) all amounts payable by the Issuer to the Cashflow Swap Counterparty (other than Defaulted Cashflow Swap Termination Payments) net of all amounts payable to the Issuer by any Cashflow Swap Counterparty; (v) accrued and unpaid Deferred Structuring Expenses; (vi) accrued and unpaid Collateral Management Fees, including any Cumulative Deferred Management Fees; and (vii) all other items in the Priority of Payments ranking prior to payments on the Notes, and, in any case, the Holders of a Majority of the Controlling Class agree with such determination or (b) the Holders of at least 66-2/3% of the Aggregate Outstanding Amount of the Controlling Class and any Cashflow Swap Counterparty (other than any Cashflow Swap Counterparty which will be paid in full the amounts due to it, including in any applicable termination payments other than Defaulted Cashflow Swap Termination Payments at the time of distribution of the proceeds of any sale or liquidation of the Collateral) direct, subject to the provisions of the Indenture, the sale and liquidation of the Collateral.

The Holders of a Majority of the Controlling Class will have the right to direct the Trustee in writing in the conduct of any proceedings or in the sale of any or all of the Collateral, but only if (i) such direction will not conflict with any rule of law or the Indenture (including the limitations described in the paragraph above) and (ii) the Trustee determines that such action will not involve it in liability (unless the Trustee has received an indemnity which is reasonably acceptable to the Trustee against any such liability).

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default with respect to the Notes occurs and is continuing, the Trustee is under no obligation to exercise any of the rights or powers under the Indenture at the request of any Holders of Notes, unless such Holders have offered to the Trustee reasonable security or an indemnity which is reasonably acceptable to the Trustee. The Holders of a Majority of the Controlling Class may waive any default with respect to the Notes, except (a) a default in the payment of principal or interest on any Note; (b) failure on any Payment Date to disburse amounts available in the Payment Account in accordance with the Priority of Payments and continuation of such failure for a period of five days; (c) certain events of bankruptcy or

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insolvency with respect to the Issuers; or (d) a default in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of Holder of each outstanding Note adversely affected thereby.

Furthermore, any declaration of acceleration of maturity of the Notes may be revoked and annulled by the Holders of a Majority of the Controlling Class before a judgment or decree for the payment of money has been obtained by the Trustee or the Collateral has been sold or foreclosed in whole or in part, by notice to the Issuers, the Trustee and any Cashflow Swap Counterparty, if (a) the Issuer has paid or deposited with the Trustee a sum sufficient to pay, in accordance with the Priority of Payments, the principal and accrued interest (including all Defaulted Interest and the interest thereon), discount or other unpaid amounts with respect to the outstanding Notes and any other administrative expenses, fees or other amounts that, under the Transaction Documents and pursuant to the Priority of Payments, are payable prior to the payment of the principal of and interest on the outstanding Notes, and (b) the Trustee has determined that all Events of Default, other than the non-payment of the interest on or principal of the outstanding Notes that have become due solely by such acceleration, have been cured and the Holders of a Majority of the Controlling Class by notice to the Trustee have agreed with such determination (which agreement shall not be unreasonably withheld) or waived such Event of Default in accordance with the provisions set forth in the Indenture.

Only the Trustee may pursue the remedies available under the Indenture and the Notes and no Holder of a Note will have the right to institute any proceeding with respect to the Indenture, its Note or otherwise unless (i) such Holder previously has given to the Trustee written notice of a continuing Event of Default; (ii) except in the case of a default in the payment of principal or interest, the Holders of at least 25%, by Aggregate Outstanding Amount, of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such Holders have offered the Trustee an indemnity which is reasonably acceptable to the Trustee; (iii) the Trustee has for 30 days failed to institute any such proceeding; and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the Holders of a Majority of the Controlling Class.

In determining whether the Holders of the requisite percentage of Notes have given any direction, notice or consent, Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding. In addition, Holders of Income Notes will not be considered to be affiliates of the Issuer or Co-Issuer by virtue of such ownership of Income Notes.

Notices. Notices to the Holders of the Notes shall be given by first-class mail, postage prepaid, to each Noteholder at the address appearing in the applicable note register. In addition, for so long as any of the Notes are listed on any stock exchange and so long as the rules of such exchange so require, notices to the Holders of such Notes shall also be published by the Listing and Paying Agent in the official list thereof.

Modification of the Indenture. Except as provided below, with the consent of the Holders of a Majority, by Aggregate Outstanding Amount, of the Notes materially adversely affected thereby, voting together as a single class, and a Majority of the Income Notes materially and adversely affected thereby, the Trustee and the Issuers, with respect to the Notes, may execute a supplemental Indenture to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the Holders of the Notes of such Class or the Income Notes; *provided* that the Rating Agency Condition would be satisfied after such addition, change or elimination. The Trustee may, consistent with the written advice of legal counsel or an officer's certificate, at the expense of the Issuer, determine whether or not the Holders of the Notes or Income Notes would be materially and adversely affected by such change. Such determination shall be conclusive and binding on all present and future Holders.

Without the consent of the Holders of each adversely affected Note and each adversely affected Income Note, and unless the Rating Agency Condition is satisfied, no supplemental indenture may be entered into which would (i) change the Stated Maturity of the principal of or the due date of any installment of interest or discount on a Note; reduce the principal amount thereof or the rate of interest thereon, or the applicable Redemption Price with respect thereto; change the earliest date on which a

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Note may be redeemed; change the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest or discount on Notes or change any place where, or the coin or currency in which, Notes or the principal thereof or interest or discount thereon are payable; or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date); (ii) reduce the percentage in aggregate principal amount of Holders of the Notes of each Class and Holders of the Income Notes whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences; (iii) impair or adversely affect the Collateral except as otherwise permitted by the Indenture; (iv) permit the creation of any security interest ranking prior to or on a parity with the security interest created by the Indenture with respect to any part of the Collateral (it being understood that the addition of the Cashflow Swap Counterparty having the benefit of the Indenture pursuant to its terms does not require consent under this clause) or terminate such security interest on any property at any time subject thereto or deprive the Holder of any Note, the Trustee or any other Secured Party of the security afforded by the Indenture; (v) reduce the percentage of Holders of the Notes of each Class whose consent is required to request the Trustee to preserve the Collateral or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture; (vi) modify any of the provisions of the Indenture with respect to supplemental indentures, except to increase the percentage of outstanding Notes whose Holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each outstanding Note adversely affected thereby; (vii) modify the definition of the term "Outstanding" or the Priority of Payments set forth in the Indenture; (viii) modify any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest or discount on or principal of any Note or modify any amount distributable to the Fiscal Agent for payment to the Holders of the Income Notes on any Payment Date or to affect the right of the Holders of the Notes or the Trustee to the benefit of any provisions for the redemption of such Notes contained therein; (ix) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated by the Indenture relating to the institution of proceedings for the Issuer or the Co-Issuer to be adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing with respect to the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under the United States Bankruptcy Code or any similar laws, or the consent of the Issuer or the Co-Issuer to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or any substantial part of its property, respectively; (x) increase the amount of the Collateral Management Fees payable to the Collateral Manager beyond the amount provided for in the original Collateral Management Agreement; (xi) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated thereby that provides that the obligations of the Issuers or the Issuer, as the case may be, are limited recourse obligations of the Issuers or the Issuer, respectively, payable solely from the Collateral in accordance with the terms of the Indenture; (xii) at the time of execution of such supplemental indenture, cause the Issuer, any Cashflow Swap Counterparty, the Collateral Manager or any Paying Agents to become subject to withholding or other taxes, fees or assessments or cause the Issuer to be treated as engaged in a United States trade or business or otherwise be subject to United States federal, state or local income tax on a net income basis; or (xiii) at the time of execution of such supplemental indenture, result in a deemed sale or exchange of any of the Notes under Section 1001 of the Code (items (i) through (xiii) above collectively, the "Reserved Matters").

Except as provided above, the Issuers and the Trustee may also enter into one or more supplemental indentures, without obtaining the consent of Holders of the Notes or the Income Notes but with satisfaction of the Rating Agency Condition, (i) if such supplemental indentures would have no material adverse effect on any of the Noteholders (as evidenced by an officer's certificate delivered by the Issuer, or the Collateral Manager on behalf of the Issuer, to the Trustee) or (ii) for any of the following purposes: (a) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Notes, the Fiscal Agency Agreement and the Indenture; (b) to add to the covenants of the Issuers or the Trustee for the benefit of the Holders of the Notes or the Income Notes or to surrender any right or power conferred upon

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the Issuers; (c) to convey, transfer, assign, mortgage or pledge any property to the Trustee, or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Notes or the Income Notes; (d) to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee; (e) to correct or amplify the description of any property at any time subject to the security interest created by the Indenture, or to better assure, convey, and confirm unto the Trustee any property subject or required to be subject to the security interest created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or subject to the security interest created by the Indenture any additional property; (f) to otherwise correct any inconsistency or cure any ambiguity or manifest error or correct or supplement any provisions contained herein which may be defective or inconsistent with any provision contained herein or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error; (g) to take any action necessary or advisable to prevent the Issuer, the Trustee or any Paying Agents from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis; (h) to conform the Indenture to the descriptions thereof in the final Offering Circular; (i) to comply with any reasonable requests made by any stock exchange in order to list or maintain the listing of any Notes or Income Notes on such stock exchange; (j) to reflect the terms of an Optional Redemption by Refinancing (including the grant of a security interest in the Collateral); or (k) to enter into any additional agreements not expressly prohibited by any of the Indenture or the other Transaction Documents, as well as any amendment, modification or waiver if the Issuer determines that entering into such an agreement or such amendment, modification or waiver thereof would not, upon or after becoming effective, materially and adversely affect the rights or interests of Holders of any Class of Notes or Income Notes. The Issuers and the Trustee shall not enter into any supplemental indenture, amendment or modification of the Indenture which would require the consent of any of the Holders of the Notes or Income Notes, any Cashflow Swap Counterparty or any Synthetic Security Counterparty due to an adverse effect or a material adverse effect, as applicable, on such person as a result of such supplemental indenture, amendment or modification without any such person's consent (except as provided below) if any such person could be reasonably determined to be adversely affected or materially adversely affected, as applicable, by any supplemental indenture, amendment or modification to this Indenture. The Issuer may give at least five (5) Business Days' prior notice of any such supplemental indenture, amendment or modification which could reasonably be determined to give rise to an adverse effect or a material adverse effect to the Holders of the Notes and of the Income Notes, the Cashflow Swap Counterparty and the Synthetic Security Counterparty. All Classes and counterparties that fail to respond to any such notice on or before the return date indicated on such notice shall be deemed to be not adversely affected or materially adversely affected by such change and the Issuers, the Trustee and any opinion of counsel may rely on the results of any such notice or on a certificate from the Issuer or the Collateral Manager. The Trustee may require the delivery of an opinion of counsel or an officer's certificate delivered by the Issuer (or the Collateral Manager on behalf of the Issuer) to the Trustee, reasonably satisfactory to it, at the expense of the Issuer, that the execution of such amendment or modification is authorized or permitted under the terms of the Indenture. Such determination shall be conclusive and binding on all present and future Holders of Notes or Income Notes, any Synthetic Security Counterparty, the Collateral Manager and any Cashflow Swap Counterparty.

Notwithstanding anything to the contrary herein, (i) the Issuer will not consent to enter into any supplemental indenture or any supplement or amendment to any other document related thereto unless and until the Collateral Manager has received written notice of such proposed amendment or supplement and has consented in writing thereto and has received a final copy thereof from the Issuer or the Trustee and, if any such supplement or amendment could reasonably be expected to have a material adverse effect on any Synthetic Security Counterparty, such Synthetic Security Counterparty has received written notice of such amendment or supplement and has consented thereto in writing (which consent shall not be unreasonably withheld) and (ii) no amendment to the Indenture will be effective until the consent of each Cashflow Swap Counterparty (which shall not be unreasonably withheld) has been obtained to the extent required under the Cashflow Swap Agreement.

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Under the Indenture, the Trustee will, for so long as any of the Securities are outstanding and rated by the Rating Agencies, deliver a copy of any proposed supplemental indenture (whether or not required to be approved by the Holders of any Notes or Income Notes) to the Rating Agencies, each Cashflow Swap Counterparty and each Synthetic Security Counterparty not later than 20 Business Days prior to the execution of such proposed supplemental indenture, and no such supplemental indenture shall be entered into unless the Rating Agency Condition is met; *provided* that the Trustee shall, with the consent of the Holders of 100% of the Aggregate Outstanding Amount of Notes of each Class and Income Notes, each Synthetic Security Counterparty and each Cashflow Swap Counterparty, enter into any such supplemental indenture notwithstanding any potential reduction or withdrawal of the ratings of any outstanding Class of Notes. In addition, the Trustee will deliver a copy of any proposed supplemental indenture with respect to which a determination must be made pursuant to the terms of the Indenture as to whether the Controlling Class would be materially adversely affected thereby to the Controlling Class not later than five (5) Business Days prior to the execution of such proposed supplemental indenture (or such shorter period prior to the execution of such proposed supplemental indenture as a Majority of the Controlling Class shall consent to, or otherwise agree is sufficient). The Trustee must provide notice of any amendment or modification of the Indenture (whether or not required to be approved by the Holders of any Notes or Income Notes) to the Holders of the Notes and Income Notes, each Cashflow Swap Counterparty, each Synthetic Security Counterparty and, for so long as any Notes or Income Notes are listed on any stock exchange, the Listing and Paying Agent, promptly upon the execution of such supplemental indenture.

In connection with any amendment, the Trustee may require the delivery of an opinion of counsel satisfactory to it, at the expense of the Issuer, that such amendment is permitted under the terms of the Indenture.

Jurisdictions of Incorporation and Formation. Under the Indenture, the Issuer and the Co-Issuer will be required to maintain their rights and franchises as a company incorporated under the laws of the Cayman Islands and a corporation formed under laws of the State of Delaware, respectively, to comply with the provisions of their respective organizational documents and to obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validation and enforceability of the Indenture, the Notes or any of the Collateral; *provided, however*, that the Issuers shall be entitled to change their jurisdictions of incorporation from the Cayman Islands or Delaware, as applicable, to any other jurisdiction reasonably selected by such Issuer or Co-Issuer, as applicable, and approved by its common shareholders, so long as (i) the Issuer or Co-Issuer, as applicable, does not believe such change is disadvantageous in any material respect to such entity, the Holders of any Class of Notes, the Cashflow Swap Counterparty or any Synthetic Security Counterparty; (ii) written notice of such change shall have been given by the Issuer or Co-Issuer, as applicable to the other of the Issuer or Co-Issuer, as applicable, the Trustee, the Agents, the Collateral Manager, the Cashflow Swap Counterparty, each Synthetic Security Counterparty, the Holders of each Class of Notes and each of the Rating Agencies at least thirty (30) Business Days prior to such change of jurisdiction; and (iii) on or prior to the 25th Business Day following such notice the Trustee shall not have received written notice from Holders of a Majority of the Controlling Class, the Collateral Manager, the Cashflow Swap Counterparty, any Synthetic Security Counterparty or, so long as any Notes or Income Notes are listed thereon, any stock exchange objecting to such change.

Petitions for Bankruptcy. The Indenture will provide that no Secured Party may, prior to the date which is one year and one day (or, if longer, the applicable preference period then in effect) after the payment in full of all Securities, institute against, or join any other person in instituting against, the Issuer or Co-Issuer any bankruptcy, reorganization, arrangement, moratorium, liquidation or similar proceedings under the laws of any jurisdiction.

Satisfaction and Discharge of the Indenture. The Indenture will be discharged with respect to the Collateral securing the Notes upon delivery to the Note Paying Agent for cancellation all of the Notes, or, within certain limitations (including the obligation to pay principal and interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Indenture.

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Trustee. The Bank of New York will be the Trustee under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee relating to the Notes is solely the obligation of the Issuers. The Trustee and/or its affiliates may receive compensation in connection with the Trustee's investment of trust assets in certain Eligible Investments as provided in the Indenture and in connection with the Trustee's administration of any securities lending activities of the Issuer.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. The Trustee will not be bound to take any action unless indemnified for such action. The Noteholders shall together have the power, exercisable by a Majority of the Controlling Class, to remove the Trustee as set forth in the Indenture. The removal of the Trustee shall not become effective until the later of the effective date of the appointment of a successor trustee and the acceptance of appointment by a successor trustee. If the Trustee is removed without cause, costs and expenses of the Trustee incurred in connection with the transfer to the successor Trustee shall be paid by the successor Trustee or the Issuer.

Agents. The Bank of New York will be the Note Paying Agent, the Note Registrar, the Note Calculation Agent and the Note Transfer Agent under the Indenture. The Bank of New York will also be the Collateral Administrator pursuant to the Collateral Administration Agreement. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with The Bank of New York. The payment of the fees and expenses of The Bank of New York relating to the Notes is solely the obligation of the Issuers. The Indenture contains provisions for the indemnification of The Bank of New York for any loss, liability or expense incurred without gross negligence, willful misconduct, default or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture.

Listing and Paying Agent. For so long as any of the Notes or the Income Notes are listed on any stock exchange and the rules of such exchange shall so require, the Issuers will have a Listing and Paying Agent and a paying agent (which shall be the "Listing and Paying Agent") for the Securities. The Issuers and their affiliates may maintain other relationships in the ordinary course of business with the Listing and Paying Agent. The payment of the fees and expenses of the Listing and Paying Agent relating to the Securities is solely the obligation of the Issuers. The Indenture contains provisions for the indemnification of the Listing and Paying Agent for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on their respective parts arising out of or in connection with the acceptance or administration of the Indenture.

Status of the Income Notes. The Holders of the Income Notes will have certain rights to vote with respect to limited matters arising under the Indenture and the Collateral Management Agreement including, without limitation, in connection with certain modifications to the Indenture. However, the Holders of the Income Notes will have no right to vote in connection with the realization of the Collateral or certain other matters under the Indenture.

Consolidation, Merger or Transfer of Assets. Except under the limited circumstances set forth in the Indenture, the Issuer will not be permitted to consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other corporation, partnership, trust or other person or other entity. Except under the limited circumstances set forth in the Indenture, the Co-Issuer will not be permitted to consolidate with, merge into, or transfer or convey all or substantially all of its assets to, any other limited liability company, corporation, partnership, trust or other person or entity.

Fiscal Agency Agreement

Pursuant to the Fiscal Agency Agreement, the Fiscal Agent will perform various fiscal services on behalf of the Holders of the Income Notes. The payment of the fees and expenses of the Fiscal Agent is solely the obligation of the Issuer. The Fiscal Agency Agreement contains provisions for the

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indemnification of the Fiscal Agent for any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Fiscal Agency Agreement.

Governing Law of the Indenture, the Notes, the Fiscal Agency Agreement, the Cashflow Swap Agreement, the Synthetic Securities, the Deed of Covenant, the Income Notes, the Collateral Management Agreement and the Collateral Administration Agreement

The Indenture, the Notes, the Cashflow Swap Agreement, the Collateral Management Agreement and the Collateral Administration Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein without regard to the conflict of laws principles thereof. Under the Indenture, the Fiscal Agency Agreement, the Cashflow Swap Agreement, the Collateral Management Agreement and the Collateral Administration Agreement the Issuers, as applicable, have submitted irrevocably to the non-exclusive jurisdiction of the courts of the State of New York and the courts of the United States of America in the State of New York (in each case sitting in the County of New York) for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Indenture, the Notes, the Fiscal Agency Agreement, the Cashflow Swap Agreement, the Collateral Management Agreement and the Collateral Administration Agreement. The Fiscal Agency Agreement, the Deed of Covenant and the Income Notes will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Form of the Securities

The Notes. Each Class of Notes (other than the Class D Notes) sold in reliance on Rule 144A under the Securities Act will be represented by one or more Rule 144A Global Notes and will be deposited with The Bank of New York as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC. The Rule 144A Notes which are Class D Notes will be issued in definitive, fully registered form, registered in the name of the owner thereof ("Definitive Notes"). The Rule 144A Global Notes and the Definitive Notes (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by a Temporary Regulation S Global Note deposited on the Closing Date with The Bank of New York as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream. Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream. Beneficial interests in a Temporary Regulation S Global Note will be exchanged for beneficial interests in a permanent Regulation S Global Note for the related Class of Notes in definitive, fully registered form upon the later of (i) the expiration of the Distribution Compliance Period and (ii) the first date on which the requisite certifications (in the form provided in the Indenture) are provided to the Trustee. The Regulation S Global Note will be registered in the name of Cede & Co., a nominee of DTC, and deposited with The Bank of New York as custodian for DTC for credit to the accounts of Euroclear and Clearstream for the respective accounts of the Holders of such Notes. Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

A beneficial interest in a Regulation S Global Note, a Temporary Regulation S Global Note or a Regulation S Income Note may be transferred, whether before or after the expiration of the Distribution Compliance Period, to a U.S. person only, with respect to the Class S Notes, the Class A Notes, the Class B Notes or the Class C Notes, in the form of a beneficial interest in a Rule 144A Global Note and, with respect to a Regulation S Class D Note or a Regulation S Income Note, in the form of a Definitive Note or an Income Note Certificate, as applicable, and only upon receipt by the Note Transfer Agent, in the case of the Notes, or Fiscal Agent, in the case of the Income Notes, of a written certification from the transferor (in the form provided in the Indenture, in the case of the Notes, or in the form provided in the Fiscal Agency Agreement, in the case of the Income Notes) to the effect that the transfer is being made to a person the transferor reasonably believes is a Qualified Institutional Buyer and a Qualified Purchaser.

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In addition, transfers of a beneficial interest in a Regulation S Global Note or Temporary Regulation S Global Note to a person who takes delivery in the form of an interest in a Rule 144A Global Note may occur only in denominations greater than or equal to the minimum denominations applicable to the Rule 144A Global Notes.

A beneficial interest in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Temporary Regulation S Global Note or a Regulation S Global Note, as the case may be, whether during or after the expiration of the Distribution Compliance Period, only upon receipt by the Note Registrar of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a non U.S. Person in accordance with Rule 903 or 904 of Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to the person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such interest.

Except in the limited circumstances described below, owners of beneficial interests in any Global Note will not be entitled to receive a Definitive Note. The Notes are not issuable in bearer form.

Each Note will be issued in minimum denominations of U.S.$250,000 (in the case of Rule 144A Notes) and U.S.$100,000 (in the case of Regulation S Notes) and integral multiples of U.S.$1 in excess thereof.

The Income Notes will be issued in minimum denominations of U.S.$100,000 notional principal amount of Income Notes and integral multiples of U.S.$1 in excess thereof.

Global Notes. Upon the issuance of the Global Notes, DTC or its custodian will credit, on its internal system, the respective aggregate original principal amount of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in Global Notes will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or Holder of the Global Notes, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Notes represented by such Global Notes for all purposes under the Indenture and such Notes. Unless DTC notifies the Issuers that it is unwilling or unable to continue as depositary for a global note or ceases to be a "Clearing Agency" registered under the Exchange Act, owners of the beneficial interests in the Global Notes will not be entitled to have any portion of such Global Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered to be the owners or Holders of any Notes under the Indenture. In addition, no beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in a Regulation S Global Note or a Temporary Regulation S Global Note directly through Clearstream or Euroclear, if they are participants in these systems, or indirectly through organizations which are participants in these systems. Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Notes and Temporary

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Regulation S Global Notes in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in a Rule 144A Global Note directly through DTC if they are participants in the system, or indirectly through organizations which are participants in the system.

Payments of the principal of and interest on the Global Notes will be made to DTC or its nominee, as the registered owner thereof. Neither the Issuers, the Trustee, the Note Registrar, the Income Note Registrar nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for any notice permitted or required to be given to Holders of Notes or any consent given or actions taken by DTC as Holder of Notes. The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note representing any Notes held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective interests in the principal amount of such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Global Notes to these persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in Global Notes to pledge its interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of its interest, may be affected by the lack of a physical certificate of the interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC participants, on the one hand, and, directly or indirectly through Euroclear or Clearstream account holders, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Temporary Regulation S Global Note or a Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for a same-day funds settlement applicable to DTC. Clearstream and Euroclear account holders may not deliver instructions directly to the depositaries for Clearstream or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and the credit of any transactions in interests in a Global Note settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of the Notes (including the presentation of the applicable Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in a Global Note are credited and only in respect of that portion of the aggregate principal amount of the Notes as to which the participant or participants has or have given direction.

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The giving of notices and other communications by DTC to participants, by participants to persons who hold accounts with them and by such persons to Holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised the Issuers as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Clearstream. Clearstream Banking, société anonyme, was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of the Euroclear System, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks and may include the Initial Purchaser. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

The Euroclear System. The Euroclear System was created in 1968 to hold securities for participants of the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including U.S. Dollars and Japanese Yen. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above.

The Euroclear System is operated by Euroclear Bank S.A./N.V. (the "Euroclear Operator"), under contract with Euroclear Clearance System plc, a U.K. corporation (the "Euroclear Clearance System"). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Euroclear Clearance System. The Euroclear Clearance System establishes policy for the Euroclear System on behalf of Euroclear

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participating organizations. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchaser. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Euroclear Operator is a Belgian bank. The Belgian Banking Commission regulates and examines the Euroclear Operator.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

(a) transfers of securities and cash within the Euroclear System;

(b) withdrawal of securities and cash from the Euroclear System; and

(c) receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participating organizations in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Operator and by Euroclear.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Notes and in the Rule 144A Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. Neither the Issuers nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Payments; Certifications by Holders of Temporary Regulation S Global Notes. A Holder of a beneficial interest in a Temporary Regulation S Global Note must provide Clearstream or Euroclear, as the case may be, with a certificate in the form required by the Indenture certifying that the beneficial owner of the interest in such Global Note is not a U.S. Person (as defined in Regulation S), and Clearstream or Euroclear, as the case may be, must provide to the Trustee a certificate in the form required by the Indenture prior to (i) the payment of interest or principal with respect to such Holder's beneficial interest in the Temporary Regulation S Global Note and (ii) any exchange of such beneficial interest for a beneficial interest in a Regulation S Global Note.

Individual Definitive Notes. The Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes will be initially issued in global form. The Class D Notes (other than Regulation S Class D Notes) will be represented by one or more Definitive Notes and will be subject to certain transfer restrictions as set forth under "Notice to Investors". If DTC or any successor to DTC advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Notes" and a successor depositary is not appointed by the Issuers within ninety (90) days or as a result of any amendment to or change in, the laws or regulations of the Cayman Islands or the State of Delaware, as applicable, or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after the Closing Date, the Issuers or the Note Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive form and the

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Issuers will issue Definitive Notes in registered form in exchange for the Regulation S Global Notes and the Rule 144A Global Notes, as the case may be. Upon receipt of such notice from DTC, the Issuers will use their best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for individual Definitive Notes and cause the requested individual Definitive Notes to be executed and delivered to the Note Registrar in sufficient quantities and authenticated by or on behalf of the Note Transfer Agent for delivery to Holders of the Notes. Persons exchanging interests in a Global Note for individual Definitive Notes will be required to provide to the Note Transfer Agent, through DTC, Clearstream or Euroclear, (i) written instructions and other information required by the Issuers and the Note Transfer Agent to complete, execute and deliver such individual Definitive Notes, (ii) in the case of an exchange of an interest in a Rule 144A Global Note, such certification as to Qualified Institutional Buyer status and that such Holder is a Qualified Purchaser, as the Issuers shall require and (iii) in the case of an exchange of an interest in a Regulation S Global Note, such certification as the Issuers shall require as to non-U.S. Person status. In all cases, individual Definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in denominations in compliance with the minimum denominations specified for the applicable Global Notes, requested by DTC.

Individual Definitive Notes will bear, and be subject to, such legend as the Issuers require in order to assure compliance with any applicable law. Individual Definitive Notes will be transferable subject to the minimum denomination applicable to the Rule 144A Global Notes and Regulation S Global Notes, in whole or in part, and exchangeable for individual Definitive Notes of the same Class at the office of the Note Paying Agent, Note Transfer Agent or the office of any transfer agent, upon compliance with the requirements set forth in the Indenture. Individual Definitive Notes may be transferred through any transfer agent upon the delivery and duly completed assignment of such Notes. Upon transfer of any individual Definitive Note in part, the Note Transfer Agent will issue in exchange therefor to the transferee one or more individual Definitive Notes in the amount being so transferred and will issue to the transferor one or more individual Definitive Notes in the remaining amount not being transferred. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge may be required. The Holder of a restricted individual Definitive Note may transfer such Note, subject to compliance with the provisions of the legend thereon. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, the Issuer will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Payments of principal and interest on individual Definitive Notes shall be payable by the Note Paying Agents by U.S. Dollar check drawn on a bank in the United States of America and sent by mail to the registered Holder thereof, by wire transfer in immediately available funds. In addition, for so long as any Notes are listed on any stock exchange and the rules of such exchange shall so require, in the case of a transfer or exchange of individual Definitive Notes, a Holder thereof may effect such transfer or exchange by presenting such Notes at, and obtaining a new individual Definitive Note from the office of the Listing and Paying Agent, in the case of a transfer of only a part of an individual Definitive Note, a new individual Definitive Note in respect of the balance of the principal amount of the individual Definitive Note not transferred will be delivered at the office of applicable stock exchange, and in the case of a replacement of any lost, stolen, mutilated or destroyed individual Definitive Notes, a Holder thereof may obtain a new individual Definitive Note from the Listing and Paying Agent.

The Class D Notes (other than Regulation S Class D Notes). The Class D Notes (other than Regulation S Class D Notes) will be represented by one or more notes in definitive form and will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

The Class D Notes (other than Regulation S Class D Notes) may be transferred only upon receipt by the Issuer and the Note Transfer Agent of a Class D Notes Purchase and Transfer Letter to the effect that the transfer is being made (i) to a Qualified Institutional Buyer that has acquired an interest in the Class D Notes in a transaction meeting the requirements of Rule 144A who is also a Qualified Purchaser

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or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S. The transferee must also make certain other representations applicable to such transferee, as set forth in the Class D Notes Purchase and Transfer Letter.

Payments on the Class D Notes (other than Regulation S Class D Notes) on any Payment Date will be made to the person in whose name the relevant Note is registered as of the close of business 10 Business Days prior to such Payment Date.

The Income Notes (other than the Regulation S Income Notes). The Income Notes (other than the Regulation S Income Notes) will be represented by one or more Income Note Certificates in definitive form and the Income Notes will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Income Notes (other than Regulation S Income Notes) may be transferred only upon receipt by the Issuer and the Fiscal Agent of an Income Notes Purchase and Transfer Letter to the effect that the transfer is being made (i)(a) to a Qualified Institutional Buyer that has acquired an interest in the Income Notes in a transaction meeting the requirements of Rule 144A, or (b) to an Accredited Investor having a net worth of not less than U.S.$10 million in a transaction exempt from registration under the Securities Act, who is a Qualified Purchaser, or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S. The transferee must also make certain other representations applicable to such transferee, as set forth in the Income Notes Purchase and Transfer Letter.

The Income Notes will be issued in minimum denominations of U.S.$100,000 notional principal amount of Income Notes and integral multiples of U.S.$1 in excess thereof. Payments on the Income Notes (other than Regulation S Income Notes) on any Payment Date will be made to the person in whose name the relevant Income Note is registered in the income note register as of the close of business on the first calendar day of the month in which such Payment Date occurs (or if such day is not a Business Day, the next succeeding Business Day).

USE OF PROCEEDS

The gross proceeds associated with the offering of the Securities are expected to equal approximately U.S.$1,007,169,000. Approximately U.S.$1,850,000 of such gross proceeds will be applied by the Issuer to pay upfront fees and expenses associated with the offering of the Securities. In addition, on the Closing Date, approximately U.S.$200,000 of the proceeds from the issuance of the Securities will be deposited into the Expense Reserve Account. On the Closing Date or promptly thereafter as is consistent with customary settlement procedures, pursuant to agreements to purchase entered into on or before the Closing Date, the Issuer will apply the net proceeds to purchase the Collateral Assets which are cash assets described herein having an aggregate Principal Balance of approximately U.S.$70,000,000 and to purchase the Default Swap Collateral and Eligible Investments of approximately U.S.$930,000,000 and will have entered into the Cashflow Swap Agreement.

RATINGS OF THE NOTES

It is a condition to the issuance of the Notes that the Class S Notes, the Class A-1 Notes and the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by S&P, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be rated at least "A2" by Moody's and at least "A" by S&P and that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by S&P. The Income Notes will not be rated. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Moody's Ratings

The ratings assigned to the Notes by Moody's are based upon its assessment of the probability that the Collateral Assets will provide sufficient funds to pay such Securities, based largely upon Moody's statistical analysis of historical default rates on debt obligations with various ratings, expected recovery

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rates on the Collateral Assets and the asset and interest coverage required for such Securities (which is achieved through the subordination of more junior Notes), and the diversification requirements that the Collateral Assets must satisfy.

Moody's rating of (i) the Class S Notes, the Class A Notes and the Class B Notes addresses the ultimate cash receipt of all required principal payments and the timely cash receipt of all interest payments as provided in the governing documents and (ii) the Class C Notes and the Class D Notes addresses the ultimate cash receipt of all required interest and principal payments as provided in the governing documents. Moody's ratings are based on the expected loss posed to the Holders of the Notes relative to the promise of receiving the present value, calculated using a discounted rate equal to the promised interest rate of such payments. Moody's analyzes the likelihood that each debt obligation included in the portfolio will default, based on historical default rates for similar debt obligations, the historical volatility of such default rates (which increases as securities with lower ratings are added to the portfolio) and an additional default assumption to account for future fluctuations in defaults. Moody's then determines the level of credit protection necessary to achieve the expected loss associated with the rating of the structured securities, taking into account the potential recovery value of the Collateral Assets and the expected volatility of the default rate of the portfolio based on the level of diversification by issuer and industry.

In addition to these quantitative tests, Moody's ratings take into account qualitative features of a transaction, including the experience of the Collateral Manager, the legal structure and the risks associated with such structure, its view as to the quality of the participants in the transaction and other factors that it deems relevant.

S&P Ratings

S&P will rate the Notes in a manner similar to the manner in which it rates other structured issues. The ratings assigned to the Class S Notes, the Class A Notes and the Class B Notes by S&P address the likelihood of the timely payment of interest and the ultimate payment of principal on such Notes. The ratings assigned to the Class C Notes and the Class D Notes by S&P address the likelihood of the ultimate payment of interest and principal on such Notes. This requires an analysis of the following: (i) credit quality of the Collateral Assets securing the Notes; (ii) cash flow used to pay liabilities and the priorities of these payments; and (iii) legal considerations. Based on these analyses, S&P determines the necessary level of credit enhancement needed to achieve a desired rating.

S&P's analysis includes the application of its proprietary default expectation computer model, the Standard & Poor's CDO Monitor (which will be provided to the Collateral Manager), which is used to estimate the default rate the portfolio is likely to experience. The Standard & Poor's CDO Monitor calculates the projected cumulative default rate of a pool of Collateral Assets consistent with a specified benchmark rating level based upon S&P's proprietary corporate debt default studies. The Standard & Poor's CDO Monitor takes into consideration the rating of each issuer or obligor, the number of issuers or obligors, the issuer or obligor industry concentration and the remaining weighted average maturity of each of the Collateral Assets and Eligible Investments included in the portfolio. The risks posed by these variables are accounted for by effectively adjusting the necessary default level needed to achieve a desired rating. The higher the desired rating, the higher the level of defaults the portfolio must withstand.

Credit enhancement to support a particular rating is then provided based, in part, on the results of the Standard & Poor's CDO Monitor, as well as other more qualitative considerations such as legal issues and management capabilities. Credit enhancement is typically provided by a combination of overcollateralization/subordination, cash collateral/reserve account, excess spread/interest and amortization. A transaction-specific cash flow model (the "Transaction-Specific Cash Flow Model") is used to evaluate the portfolio and determine whether it can withstand an estimated level of default while fully repaying the class of debt under consideration.

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There can be no assurance that actual loss on the Collateral Assets will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates and the timing of recovery with respect thereto will not differ from those assumed in the Transaction-Specific Cash Flow Model. The Issuers make no representation as to the expected rate of defaults on the portfolio or as to the expected timing of any defaults that may occur.

S&P's rating of the Notes will be established under various assumptions and scenario analyses. There can be no assurance, and no representation is made, that actual defaults on the Collateral Assets will not exceed those in S&P's analysis, or that recovery rates with respect thereto (and, consequently, loss rates) will not differ from those in S&P's analysis.

SECURITY FOR THE NOTES

Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit of the Secured Parties (but not the Holders of the Income Notes), a first priority perfected security interest in the Collateral (subject to the Synthetic Security Counterparty's interest in the Default Swap Collateral), including the Collateral Assets, that is free of any adverse claim, to secure the Issuers' obligations under the Indenture, the Notes and the Cashflow Swap Agreement.

On the Closing Date, the Issuer expects to acquire approximately U.S.$1,000,000,000 in aggregate Principal Balance of Collateral Assets. The Collateral Assets are expected to consist of CDO Securities and Synthetic Securities (the Reference Obligations of which are CDO Securities). Certain information with respect to the Collateral Assets and the Reference Obligations is included in Appendix B herein. This information was provided by or derived from information provided by the issuers, underwriters and/or the servicers for each underlying Collateral Asset. None of the Issuers, the Initial Purchaser, the Collateral Manager, the Collateral Administrator, the Cashflow Swap Counterparty, the Synthetic Security Counterparty (or any guarantor thereof), the Trustee, any of their affiliates or any party on their behalf has made any independent review or verification as to the accuracy and completeness of the information contained below. Accordingly, prospective purchasers must make their own evaluation regarding the extent to which they will rely on such information in making an investment decision.

The Collateral Assets

The Collateral Assets had an aggregate Principal Balance of approximately U.S.$1,000,000,000 (an aggregate "Collateral Asset Principal Balance") on or about March 21, 2007 (the "Reference Date"). The Reference Date balances of the Collateral Assets reflect their Principal Balances after giving effect to distributions received on March 21, 2007 and (without duplication) after application of all payments due on the Collateral Assets before the Reference Date, whether or not received. However, the first distributions on the Collateral Assets available to make payments on the Notes will be those made from March 27, 2007 through the end of the first Due Period. The use of a later Reference Date would result in a lower Reference Date balance for certain Collateral Assets and, consequently, a lower aggregate Collateral Asset Principal Balance. Unless otherwise stated herein, statistical information relating to the Collateral Assets is calculated on the basis of the Principal Balances of such Collateral Assets.

For purposes of the information set forth herein, unless otherwise specified, Synthetic Securities included in the Collateral Assets are treated in the category in which the related Reference Obligation would be treated. All of the Synthetic Securities, constituting approximately 93.00% of the Collateral Assets (by Principal Balance) on the Closing Date will reference Reference Obligations which are CDO Securities.

On the Closing Date, the CDO Securities and the Reference Obligations which are CDO Securities include 56 whole and partial classes of CDO Securities, representing 100% of the Principal Balance of the Collateral Assets as of the Closing Date. The following is a list of the respective classes and series of CDO Securities included in the Collateral Assets:

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Collateral Asset	Principal Balance as of Closing Date	Percentage of Collateral Assets (by Principal Balance)	Ratings (Moody's/S&P)	Coupon Types	Weighted Average Life*
LOCH 2006-1A C	12,000,000	1.20%	A2/A	LIBOR01M	6.2
SMSTR 2005-1A B	10,000,000	1.00%	A3/A-	synthetic spread	7.1
TABS 2006-5A A3	20,000,000	2.00%	A2/A	LIBOR01M	6.8
TOPG 2005-1A B	15,000,000	1.50%	A3/A-	synthetic spread	7.5
VRGO 2006-1A A3	15,000,000	1.50%	A2/A	synthetic spread	6.8
ACABS 2005-2A A3	18,240,508	1.82%	A3/A-	synthetic spread	9.6
DUKEF 2006-10A A3	20,000,000	2.00%	A2/A	synthetic spread	6.8
GSCSF 2006-2A D	20,000,000	2.00%	A2/A	synthetic spread	5.3
GEMST 2005-4A C	20,000,000	2.00%	A2/A	synthetic spread	5.3
PINEM 2005-A C	20,000,000	2.00%	A2/A	synthetic spread	4.1
RIVER 2005-1A C	15,000,000	1.50%	A2/A	synthetic spread	6.0
STAK 2006-1A 5	20,000,000	2.00%	A2/A	synthetic spread	8.0
VERT 2006-1A A3	20,000,000	2.00%	A2/A	synthetic spread	6.4
DVSQ 2005-5A C	15,000,000	1.50%	A2/A	synthetic spread	7.9
CAMBR 5A B	15,000,000	1.50%	A3/A-	synthetic spread	7.6
CRNMZ 2006-2A C	3,000,000	0.30%	A2/A	LIBOR03M	6.9
BLHV 2005-1A C	15,000,000	1.50%	A2/A	synthetic spread	6.3
FTDRB 2005-1A A3L	15,000,000	1.50%	A2/A	synthetic spread	6.5
ICM 2005-2A C	15,000,000	1.50%	A2/A	synthetic spread	6.2
SCF 8A C	14,782,894	1.48%	A2/A	synthetic spread	6.0
ABAC 2006-HG1A C	6,000,000	0.60%	A2/A	LIBOR01M	6.8
ABAC 2006-HG1A D	9,000,000	0.90%	A3/A-	LIBOR01M	6.8
TOPG 2006-2A B	10,000,000	1.00%	A2/A	LIBOR01M	7.2
CRNMZ 2006-2A C	17,000,000	1.70%	A2/A	synthetic spread	6.5
FORTS 2006-2A C	20,000,000	2.00%	A2/A	synthetic spread	5.4
ICM 2006-3A C	20,000,000	2.00%	A2/A	synthetic spread	6.7
ACABS 2006-1A A3L	19,939,607	1.99%	A2/A	synthetic spread	7.0
CACDO 2006-1A C1	20,000,000	2.00%	A2/A	synthetic spread	7.5
GSCSF 2006-4A A3	20,000,000	2.00%	A2/A	synthetic spread	6.9
INDE7 7A D	20,000,000	2.00%	A3/A-	synthetic spread	5.1
LSTRT 2006-1A D	20,000,000	2.00%	A2/A	synthetic spread	6.2
TABS 2005-4A D	20,000,000	2.00%	A2/A	synthetic spread	6.7
BFCSL 2006-1A D	20,000,000	2.00%	A2/A	synthetic spread	7.6
ICM 2006-S2A A3L	10,000,000	1.00%	A2/A	LIBOR03M	6.0
SHERW 2005-2A C	20,000,000	2.00%	A2/A	synthetic spread	6.0
ADROC 2005-2A C	20,000,000	2.00%	A2/A	synthetic spread	5.3
GRAND 2005-1A C	20,000,000	2.00%	A2/A	synthetic spread	7.3
STAK 2006-2A 5	20,000,000	2.00%	A2/A	synthetic spread	7.0
NEPTN 2006-3A B	20,000,000	2.00%	A2/A	synthetic spread	5.7
DGCDO 2006-2A C	20,000,000	2.00%	A2/A	synthetic spread	6.2
ADMSQ 2006-1A C	20,000,000	2.00%	A2/A	synthetic spread	6.5
MNTRS 2006-1A C	20,000,000	2.00%	A2/A	synthetic spread	6.8
CETUS 2006-1A B	20,000,000	2.00%	A2/A	synthetic spread	6.7
CETUS 2006-2A B	20,000,000	2.00%	A2/A	synthetic spread	6.6
GSCSF 2006-1A B	20,000,000	2.00%	A2/A	synthetic spread	6.4
MKP 6A C	20,000,000	2.00%	A2/A	synthetic spread	6.6
SHERW 2006-3A A3	20,000,000	2.00%	A2/A	synthetic spread	6.6
PYXIS 2006-1A C	20,000,000	2.00%	A2/A	synthetic spread	6.8
GLCR 2006-4A C	9,936,305	0.99%	A2/A	synthetic spread	4.8
MAYF 2006-1A A3L	20,000,000	2.00%	A2/A	synthetic spread	6.4
TRNTY 2005-1A B	20,000,000	2.00%	A3/A-	synthetic spread	8.8
TOPG 2006-2A B	10,000,000	1.00%	A2/A	synthetic spread	7.2

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Collateral Asset	Principal Balance as of Closing Date	Percentage of Collateral Assets (by Principal Balance)	Ratings (Moody's/S&P)	Coupon Types	Weighted Average Life*
DVSQ 2006-6A C	15,000,000	1.50%	A2/A	synthetic spread	8.2
GSCSF 2005-1A A3	20,000,000	2.00%	A2/A	synthetic spread	5.3
BFCGE 2006-1A A3L	19,852,320	1.99%	A2/A	synthetic spread	7.0
CAMBR 7A C	20,248,366	2.02%	A2/A	synthetic spread	7.9
CRNMZ 2006-1A 5	15,000,000	1.50%	A2/A	synthetic spread	7.2
VERT 2006-2A A3	20,000,000	2.00%	A2/A	synthetic spread	5.8

* For purposes hereof, the Weighted Average Life of each Collateral Asset has been calculated individually in accordance with market convention. Such methodology may differ as between each Collateral Asset and may not reflect the actual Weighted Average Life of such Collateral Asset.

Each of the CDO Securities are debt securities issued by a special purpose issuer, all of the assets of which are pledged to repay the CDO Securities and other classes of securities issued by such issuer. Certain of the CDO Securities provide for a revolving period during which certain proceeds of the underlying assets are reinvested in additional assets, and for a lockout period during which the CDO Securities will be redeemed or receive principal payments only in limited circumstances. While the classes of CDO Securities included in the Collateral Assets are each rated investment grade as of the date hereof, certain of the CDO Securities are subordinate in right of payment and rank junior to other securities in the same issuance, and all of the CDO Securities are senior to other more subordinate securities of the same issuance. Certain CDO Securities included in the Collateral Assets provide for the deferral of interest under certain circumstances and the failure to pay current interest on such classes of CDO Securities generally will not be an event of default so long as any more senior classes of securities are outstanding. The deferral of interest payments, if it occurs, would adversely affect the cash flow available to the Issuer.

Appendix B. The information included in Appendix B to this Offering Circular and elsewhere herein does not purport to be complete and is subject to and qualified in its entirety by reference to, the provisions of the various agreements pursuant to which each of the Collateral Assets and the Reference Obligations were issued as to the other documents referred to herein pursuant to which certain classes of the Collateral Assets and the Reference Obligations were originally offered. Prospective investors are strongly urged to read them in their entirety to obtain material information concerning the Collateral Assets and the Reference Obligations. Investors should note, however, that, although they are substantially consistent in their overall presentation of information, this Offering Circular and such Disclosure Documents may vary in their use of defined terms, and any particular defined term should be read in the context of the document in which it is contained. Notwithstanding the foregoing, none of the respective issuers of the Collateral Assets or the Reference Obligations has passed on the accuracy or completeness of this Offering Circular or is in any way associated with the offering of the Securities, nor does any such issuer make any representation or warranty as to the appropriateness of any document for use in connection with the offering of the Securities or take any responsibility for such use. None of the Issuers, the Initial Purchaser, the Collateral Manager, the Collateral Administrator, or the Trustee takes any responsibility for, or makes any representation or warranty as to the accuracy or completeness of, any of the Disclosure Documents used in connection with the original offerings of the Collateral Assets.

All numerical information provided herein with respect to the Collateral Assets and the Reference Obligations is provided on an approximate basis as of, unless otherwise specified, the Reference Date. All weighted average information provided herein with respect to the Collateral Assets and the Reference Obligations reflects weighting by the related Reference Date Balance.

The information contained herein with respect to the Collateral Assets and the Reference Obligations has been derived from a variety of sources including the disclosure documents, and reports from and communications with the related trustee, servicer, master servicer or special servicer. The Issuers, the Collateral Manager, the Collateral Administrator, the Initial Purchaser and the Trustee are limited in their ability to independently verify the information obtained from the above-referenced sources.

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The Coverage Tests

The Coverage Tests will be used primarily to determine whether interest may be paid on the Class C Notes and the Class D Notes and whether Proceeds will be paid to the Holders of the Income Notes, and whether Proceeds must be used to make mandatory redemptions of the Class S-2 Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes. See "Description of the Securities—Principal" and "—Priority of Payments." The Coverage Tests will consist of the Class A/B Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test. For purposes of the Coverage Tests, the Class A Adjusted Overcollateralization Ratio, the Class B Adjusted Overcollateralization Ratio, the Class C Adjusted Overcollateralization Ratio and the Class D Adjusted Overcollateralization Ratio, (i) unless otherwise specified, a Synthetic Security shall be included as a Collateral Asset having the characteristics of the Reference Obligation (including, for the purposes of determining whether such Synthetic Security is a Defaulted Obligation) and not of the Synthetic Security; *provided*, that if such Synthetic Security Counterparty is in default under the related Synthetic Security, such Synthetic Security shall not be included in the Coverage Tests or such Synthetic Security will be treated in such a way that will satisfy the Rating Agency Condition and (ii) the calculation of the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio and the Class D Overcollateralization Ratio on any Determination Date that such Coverage Test is applicable shall be made by giving effect to all payments scheduled or expected to be made pursuant to the Priority of Payments on the Payment Date following such Determination Date with certain exceptions. See "Description of the Securities—Principal" and "—Priority of Payments." For purposes of each of the Class A/B Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test, notwithstanding the definition of Principal Balance contained herein, the Principal Balance of any security that is not currently paying cash interest (excluding any security that is, in accordance with its terms, making payments due thereon "in kind") shall be the accreted value of such security as of the date on which it was purchased by the Issuer; *provided,* that such accreted value shall not exceed the par amount of such security.

The Class A/B Overcollateralization Test

The "Class A/B Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date (for the purposes of such calculation, the Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) by (ii) the sum of the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes *minus* Principal Proceeds expected to be available prior to clause (xii) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class A/B Overcollateralization Test" will be satisfied on any Determination Date on which any Class A Notes or Class B Notes remain outstanding if the Class A/B Overcollateralization Ratio on such Determination Date is equal to or greater than 106.4%. As of the Closing Date, the Class A/B Overcollateralization Ratio is expected to be equal to 109.6%.

The Class C Overcollateralization Test

The "Class C Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date (for the purposes of such calculation, the Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) by (ii) the sum of the Aggregate Outstanding Amount of the Notes (other than the Class S Notes and the Class D Notes and including Class C Deferred Interest), *minus* Principal Proceeds expected to be available prior to clause (xii) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class C Overcollateralization Test" will be satisfied on any Determination Date on which any Class C Notes remain outstanding if the Class C Overcollateralization Ratio on such Determination Date is equal to or greater than 103.3%. As of the Closing Date, the Class C Overcollateralization Ratio is expected to be equal to 105.5%.

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The Class D Overcollateralization Test

The "Class D Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date (for the purposes of such calculation, the Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) by (ii) the sum of the Aggregate Outstanding Amount of the Notes (other than the Class S Notes and including Class C Deferred Interest and Class D Deferred Interest), *minus* Principal Proceeds expected to be available prior to clause (xii) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class D Overcollateralization Test" will be satisfied on any Determination Date on which any Class D Notes remain outstanding if the Class D Overcollateralization Ratio on such Determination Date is equal to or greater than 101.1%. As of the Closing Date, the Class D Overcollateralization Ratio is expected to be equal to 102.2%.

Disposition of CDO Securities and Removal of Reference Obligations

The Collateral Assets may be retired, or in the case of a Synthetic Security, removed from the reference portfolio, prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Assets and the Reference Obligations related thereto. In addition, pursuant to the Indenture and subject to the restrictions contained therein, so long as no Event of Default has occurred and is continuing, the Collateral Manager may direct the Issuer to sell Credit Risk Obligations, Defaulted Obligations or equity securities or assign or terminate Synthetic Securities the Reference Obligations of which are Credit Risk Obligations, Defaulted Obligations or equity securities. The assignment, termination or disposition price for any such sale or removal of a Collateral Asset will equal the fair market value of such Collateral Asset. The fair market value of any such Collateral Asset will be the highest bid received by the Collateral Manager after attempting to solicit a bid from up to three independent third parties making a market in such Collateral Asset, at least one of which is not from the Collateral Manager; *provided* that, if upon commercially reasonable efforts of the Collateral Manager, bids from three independent third parties making a market in such Collateral Asset are not available, the higher of the bids from two such third parties may be used; *provided, further* that, if upon commercially reasonable efforts of the Collateral Manager, bids from two independent third parties making a market in such Collateral Asset are not available, one such bid may be used so long as it is not from the Collateral Manager. The proceeds from any such sale of Collateral Asset will be applied as Principal Proceeds on the next succeeding Payment Date. A "Credit Risk Obligation" is a Collateral Asset and, in the case of Synthetic Securities, a Reference Obligation (i) the rating of which has been downgraded, qualified or withdrawn by any Rating Agency or has been put on "negative credit watch" or similar status for possible downgrading, qualification or withdrawal from the ratings that were in place as of the date the Issuer purchased such Collateral Asset or entered into such Synthetic Security and in respect of which the Collateral Manager believes that, since such Collateral Asset was purchased or such Synthetic Security was entered into by the Issuer, it has a material risk of declining in credit quality or, with a lapse of time, a risk of becoming a Defaulted Obligation or (ii) in respect of which the Collateral Manager believes that, since such Collateral Asset was purchased or such Synthetic Security was entered into by the Issuer, it has a material risk of declining in credit quality or, with a lapse of time, a risk of becoming a Defaulted Obligation; *provided* that, if Moody's has withdrawn or reduced its long-term ratings on any of the Class S Notes, the Class A Notes or the Class B Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings to at least one subcategory below the initial long-term rating) or if Moody's has withdrawn or reduced its long-term ratings on any of the Class C Notes or the Class D Notes by three or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings to at least two subcategories below the initial long-term rating), (a) such Reference Obligation or Collateral Asset has been downgraded by Moody's at least one or more rating subcategories since it was acquired by the

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Issuer or placed by Moody's on a watch list with negative implications since the date on which such Reference Obligation or Collateral Asset was purchased by the Issuer, (b) the Holders of a Majority of the Controlling Class vote to waive the requirement of subclause (a) of this proviso or (c) such Reference Obligation or Collateral Asset has experienced an increase in credit spread of 10% or more compared to the credit spread at which such Reference Obligation or Collateral Asset was purchased by the Issuer, determined by reference to an applicable index selected by the Collateral Manager (subject to the satisfaction of the Rating Agency Condition with respect to Moody's). The proceeds from the disposition of a Collateral Asset may not be reinvested in other Collateral Asset.

The Issuer may also (i) in the case of an Auction, at the direction of the Collateral Manager, direct the Trustee to sell, terminate or assign and the Trustee shall sell, terminate or assign in the manner directed by the Collateral Manager in writing, the Collateral Assets and liquidate the remaining Collateral in connection with an Auction; *provided,* that the criteria for an Auction can be demonstrably met prior to any such sale and that the expected Liquidation Proceeds equal or exceed the Minimum Bid Amount; (ii) in the case of a Tax Redemption, at the direction, or with the consent, of the Collateral Manager on any Payment Date, direct the Trustee to sell, terminate or assign, and the Trustee shall sell, terminate or assign in the manner directed by the Collateral Manager in writing, the Collateral Assets and liquidate the remaining Collateral in connection with a Tax Redemption; *provided* that the criteria for a Tax Redemption can be demonstrably met prior to any such sale and that the expected Liquidation Proceeds equal or exceed the Total Redemption Amount; and (iii) in the case of an Optional Redemption by Liquidation, at the direction of the Collateral Manager, direct the Trustee to sell, terminate or assign and the Trustee shall sell, terminate or assign in the manner directed by the Collateral Manager in writing, the Collateral Assets and liquidate the remaining Collateral in connection with an Optional Redemption by Liquidation; *provided* that the criteria for an Optional Redemption by Liquidation can be demonstrably met prior to any such sale and that the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. See "Description of the Securities—Auction," "—Tax Redemption" and "—Optional Redemption by Liquidation."

Accounts

Pursuant to the Indenture, the Issuer shall cause there to be opened and at all times maintained the Collection Account, the Payment Account, the Expense Reserve Account, the Collateral Account, the Cashflow Swap Termination Receipts Account, the Cashflow Swap Replacement Account, the Cashflow Swap Collateral Account, the Default Swap Collateral Account and the Synthetic Security Collateral Account (each as hereinafter defined), each of which shall be a segregated account or sub-account established with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties as further described in the Indenture. Each Account is required to be maintained by the Trustee or by another financial institution that is an Eligible Depositary.

All distributions on the Collateral Assets and any proceeds received from the disposition of any Collateral Assets, all net proceeds from, and associated with the issuance of the Notes and the Income Notes not used on the Closing Date to purchase Collateral Assets or Default Swap Collateral or to enter into Cashflow Swap Agreement or to be deposited to the Default Swap Collateral Account, the initial payment, if any, pursuant to the Cashflow Swap Agreement, any Cashflow Swap Receipt Amounts received prior to a Payment Date and any other amounts transferred to the Collection Account from other Accounts as provided for in the Indenture will be remitted to an account (the "Collection Account") and will be available, together with reinvestment earnings thereon, for application in accordance with the Priority of Payments.

On the Business Day prior to each Payment Date other than a Final Payment Date (the "Transfer Date"), the Trustee will deposit into a separate account (the "Payment Account") all funds (including any reinvestment income) in the Collection Account (to the extent received prior to the end of the related Due Period) and any Cashflow Swap Receipt Amount received on the Transfer Date related to such Payment Date for application in accordance with the Priority of Payments.

Principal Proceeds shall be deposited in the Collection Account and applied in accordance with the Priority of Payments except as otherwise provided herein.

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On the Closing Date, U.S.$200,000 from the net proceeds of the offering of the Securities will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Reserve Account"). On each Payment Date, to the extent that funds are available for such purpose in accordance with and subject to the limitations of the Priority of Payments, the Trustee will deposit into the Expense Reserve Account an amount from Proceeds such that the amount on deposit in the Expense Reserve Account (after giving effect to such deposit) will equal U.S.$200,000. Amounts on deposit in the Expense Reserve Account may be withdrawn from time to time to pay accrued and unpaid Administrative Expenses of the Issuers. With respect to the first Payment Date, funds on deposit in the Expense Reserve Account in excess of U.S.$200,000 will be transferred by the Trustee to the Payment Account for application as interest proceeds. All funds on deposit in the Expense Reserve Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of will be transferred by the Trustee to the Payment Account for application as Proceeds on the immediately succeeding Payment Date.

The Synthetic Securities will require that the Issuer purchase or post Default Swap Collateral as security for its obligations under such Synthetic Security which complies with the criteria set forth in the Indenture and the Synthetic Securities. The Default Swap Collateral shall be deposited in a segregated trust account (the "Default Swap Collateral Account"). The Default Swap Collateral Account shall be established in the name of the Trustee.

Any Cashflow Swap Collateral pledged by the Cashflow Swap Counterparty will be deposited by the Trustee into a segregated account (the "Cashflow Swap Collateral Account") established in the name of the Trustee and held therein pursuant to the terms of the Cashflow Swap Agreement.

Under certain conditions described in the Synthetic Securities, the Synthetic Security Counterparty may be required to post collateral ("Synthetic Security Collateral") under the terms of the related Synthetic Security. The Synthetic Security Collateral pledged by such Synthetic Security Counterparty will be deposited by the Trustee into a segregated account (the "Synthetic Security Collateral Account") established in the name of the Trustee and held therein pursuant to the terms of the related Synthetic Security. A separate sub-account of the Synthetic Security Collateral Account shall be established for each Synthetic Security Counterparty.

Amounts retained in the Accounts during a Due Period will be invested in Eligible Investments.

Synthetic Securities

The following description of the Synthetic Securities is a summary of certain provisions of the Synthetic Securities but does not purport to be complete and prospective investors must refer to the Synthetic Securities for more detailed information. Copies of the Master Agreement and the Master Confirmation will be available to investors from the Trustee. Capitalized terms not otherwise defined in this section will have the meanings set forth in the Master Agreement or Master Confirmation.

The Synthetic Securities will be structured as "pay-as-you-go" credit default swaps and will be documented pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the Schedule thereto (the "Master Agreement"), between the Issuer and the Synthetic Security Counterparty, along with a confirmation (the "Master Confirmation") evidencing a transaction with respect to each Reference Obligation referenced thereunder.

Each Synthetic Security will have a specified Reference Obligation Notional Amount that represents the dollar amount of the credit exposure which the Issuer is assuming thereunder with respect to the Reference Obligation related to such Synthetic Security. The "Aggregate Reference Obligation Notional Amount" is the sum of the Reference Obligation Notional Amounts of all Synthetic Securities. On or before the Closing Date, the Issuer expects to enter into Synthetic Securities with an Aggregate Reference Obligation Notional Amount of approximately U.S.$930,000,000. After the Closing Date, in accordance with the terms of the Master Confirmation, the Reference Obligation Notional Amount of each Synthetic Security will be: (i) decreased on each day on which a Reference Obligation Principal Payment is made by an amount equal to the relevant Reference Obligation Principal Amortization Amount; (ii) decreased on each day on which a Failure to Pay Principal occurs by an amount equal to the relevant

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Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by an amount equal to the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by an amount equal to any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount *minus* the relevant amount determined pursuant to paragraph (b) under the heading, "Settlement Terms—Physical Settlement Amount" in the Master Confirmation; *provided* that, in accordance with the Master Confirmation, if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date.

The effective date of the Synthetic Securities will be the Closing Date and the Synthetic Securities will terminate by their terms on the scheduled termination date thereof referenced in the Master Confirmation (the "Scheduled Termination Date") unless a Credit Event occurs with respect to a Synthetic Security and the final physical settlement date is scheduled to occur after such date.

For purposes of the Coverage Tests and for purposes of determining whether a Synthetic Security is a Defaulted Obligation or a Credit Risk Obligation, a Synthetic Security shall be included as a Collateral Asset having the characteristics of the Reference Obligation and not of the Synthetic Security; *provided*, that if such Synthetic Security Counterparty is in default under the related Synthetic Security, such Synthetic Security shall not be included in the Coverage Tests or such Synthetic Security will be treated in such a way that will satisfy the Rating Agency Condition.

All principal payments on the Default Swap Collateral in the Default Swap Collateral Account will be invested in Eligible Investments at the direction of the Trustee until invested in Default Swap Collateral satisfying the Default Swap Collateral Eligibility Criteria at the direction of the Collateral Manager with the consent of the Synthetic Security Counterparty. Notwithstanding the foregoing, if and so long as the unsecured, unsubordinated debt rating of the Synthetic Security Counterparty or the credit support provider for the Synthetic Security Counterparty, whichever is higher, assigned by Moody's is below "A1", all principal payments on the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account will be maintained in Cash and Eligible Investments (unless otherwise required to be applied, in accordance with the terms of the Indenture, to either (i) payment of the Notes or other amounts in accordance with the Priority of Payments or (ii) the payment of Credit Protection Amounts) until such time as the Balance of the Cash and Eligible Investments in the Default Swap Collateral Account is equal to the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes. Furthermore, all principal payments on the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account will be maintained in Cash and Eligible Investments (unless otherwise required to be applied, in accordance with the terms of the Indenture, to either (i) the payment of the Notes or other amounts in accordance with the Priority of Payments or (ii) the payment of Credit Protection Amounts) such that the Balance of the Cash and Eligible Investments in the Default Swap Collateral Account is at least equal to 120% of the projected amortization of the Aggregate Reference Obligation Notional Amount for the following six month period (recalculated on each Determination Date). Principal Shortfall Reimbursement Payment Amounts and Writedown Reimbursement Payment Amounts received by the Issuer from the Synthetic Security Counterparty will be deposited to the Default Swap Collateral Account.

Payments by the Synthetic Security Counterparty

Pursuant to the Synthetic Securities, on each Fixed Rate Payer Payment Date the Synthetic Security Counterparty will make a fixed rate payment (net of any related Interest Shortfall Amounts as described below and in the Master Confirmation) (the "Fixed Amount") to the Issuer, representing the aggregate Fixed Amounts payable with respect to the Reference Obligation Payment Date for the related Fixed Rate Payer Calculation Period. The Synthetic Security Counterparty will make certain other payments under the Synthetic Securities to the Issuer at the times and in the amounts described herein, including any Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and any Principal Shortfall Reimbursement Payment Amounts (together "Additional Fixed Amounts"). In connection with any termination or assignment of a Synthetic Securities, proceeds, if any, from such termination or assignment will be deposited into the Default Swap Collateral Account.

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Upon the occurrence of any Interest Shortfall with respect to any Reference Obligation, the Fixed Amount payable under the related Synthetic Security by the Synthetic Security Counterparty to the Issuer will be reduced by an amount equal to the related Interest Shortfall Payment Amount, such reduction amount not to exceed the Fixed Amount, if "fixed cap" is applicable, or such reduction amount not to exceed the applicable floating cap, if "variable cap" is applicable, as described in each Synthetic Security. Interest may accrue on any Interest Shortfall Payment Amount at a rate equal to LIBOR *plus* the fixed rate as specified in the applicable Synthetic Security. If any amount in satisfaction of the Interest Shortfall which gave rise to any Interest Shortfall Payment Amount, including interest accrued thereon, is later paid with respect to a Reference Obligation, the Synthetic Security Counterparty will pay such amount, or in certain circumstances a portion of such amount to the Issuer as an Interest Shortfall Reimbursement. Interest Shortfall Reimbursement Amounts will not exceed the cumulative Interest Shortfall Amounts (including any interest thereon) previously determined in relation to such Reference Obligation.

So long as the long-term ratings of the Synthetic Security Counterparty or any guarantor of the Synthetic Security Counterparty's obligation under a Synthetic Security are equal to or higher than (i) "Aa3" by Moody's (and, if rated "Aa3" by Moody's, is not on watch for possible downgrade) and (ii) "AA-" by S&P (and, if rated "AA-" by S&P, is not on watch for possible downgrade), the Fixed Amount due by the Synthetic Security Counterparty will be payable in arrears. However, if the long-term ratings of the Synthetic Security Counterparty or any guarantor fall below any such levels, the Synthetic Security Counterparty will be required to pay the Fixed Amount due under the Synthetic Securities in advance. The failure of the Synthetic Security Counterparty to pay the Fixed Amount in advance if such rating levels are no longer satisfied will constitute an "event of default" under the terms of the Synthetic Securities with the Synthetic Security Counterparty as the sole "Defaulting Party" under such Synthetic Security.

With respect to any Writedown Amount or Interest Shortfall Amounts received after the long-term rating of the Synthetic Security Counterparty is below "AA-" by S&P, the Synthetic Security Counterparty will be required to reserve the related Writedown Reserve Amount and Interest Shortfall Reserve Amount in the Synthetic Security Counterparty Collateral Account in accordance with the terms of the Synthetic Securities.

Payments by the Issuer

Under the Synthetic Securities, the Issuer will be required to pay certain Floating Amounts to the Synthetic Security Counterparty following the occurrence of a Floating Amount Event with respect to a Reference Obligation as described herein. The Issuer will pay Floating Amounts to the Synthetic Security Counterparty on the Floating Rate Payer Payment Date following the occurrence of a Floating Amount Event with respect to the related Reference Obligation.

Following the occurrence of a Credit Event with respect to a Reference Obligation, the Synthetic Security Counterparty may deliver such Reference Obligation as a Deliverable Obligation to the Issuer, in exchange for which the Issuer will pay to the Synthetic Security Counterparty an amount (a "Physical Settlement Amount"), which amount shall be calculated in accordance with the related Synthetic Security and paid on the related Physical Settlement Date. The Synthetic Security Counterparty may elect to physically settle a Synthetic Security only in part, in which case, there may be more than one Physical Settlement Amount payable by the Issuer with respect to such Synthetic Security.

Any Deliverable Obligation delivered to the Issuer will be deemed to be a Collateral Asset and may be retained or sold by the Issuer at the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation or a Credit Risk Obligation. The proceeds of such sale will be deposited by the Trustee into the Default Swap Collateral Account net of purchased accrued interest or interest payments thereon. In addition, any principal proceeds or interest received on such Deliverable Obligations prior to such sale, will be deposited by the Trustee into the Collateral Account.

In connection with any early termination or assignment of a Synthetic Security, the Issuer may owe a Synthetic Security Termination Payment. Synthetic Security Termination Payments will generally be paid directly and outside of the Priority of Payment; *provided* that Defaulted Synthetic Security Termination Payments will be paid in accordance with the Priority of Payments.

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The obligations of the Issuer to make payments under a Synthetic Security will exist irrespective of whether the Synthetic Security Counterparty suffers a loss on the related Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the Synthetic Securities.

Credit Events and Floating Amount Events

A Credit Event with respect to any Synthetic Security and a Reference Obligation means the occurrence of any of the events specified in the Master Confirmation as a Credit Event on or before the scheduled termination date for such Synthetic Security. The Credit Events are expected to be Failure to Pay Principal, Writedown, Distressed Ratings Downgrade and Failure to Pay Interest. In addition to Credit Events which may trigger physical settlement, the Synthetic Securities will require the Issuer to pay to the Synthetic Security Counterparty Floating Amounts in connection with the occurrence of Floating Amount Events, which are expected to be Failure to Pay Principal, Writedown and Interest Shortfall. Failure to Pay Principal and Writedown are Floating Amount Events as well as Credit Events. Interest Shortfall is only a Floating Amount Event. The Master Confirmation may alter the standard definitions of such terms and the actual Synthetic Securities should be consulted for the details of the Credit Events applicable thereto. The capitalized terms used in this section and not otherwise defined, have the meanings set forth in the related Synthetic Securities.

A "Credit Event" is the occurrence of any of the following (however caused, directly or indirectly), as applicable:

(i) Failure to Pay Principal

"Failure to Pay Principal" means (i) a failure by the Reference Obligor (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; *provided* that the failure by the Reference Obligor (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the underlying instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

(ii) Writedown

"Writedown" means the occurrence at any time on or after the Effective Date of: (i)(A) a writedown or applied loss (however described in the underlying instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the underlying instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the underlying instruments resulting in a reduction in the Outstanding Principal Amount; or (iii) if the underlying instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount (if Implied Writedown Amounts are applicable to the related Synthetic Security) being determined in respect of the Reference Obligation by the Calculation Agent.

(iii) Distressed Ratings Downgrade:

"Distressed Ratings Downgrade" means, with respect to a Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

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(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC") or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

(iv) Failure to Pay Interest:

"Failure to Pay Interest" means, with respect to a Reference Obligation, the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

Implied Writedown will be applicable with respect to certain Reference Obligations where "Fixed Cap" is applicable under the Master Confirmation. Because most CDO Securities do not experience actual writedowns, the Master Confirmation has a modified form of Implied Writedown applicable to CDO Securities, whereby the Synthetic Security Counterparty, acting in its role as calculation agent thereunder, will be required to determine the Implied Writedown Amount by reference to the reported overcollateralization ratio in the servicer report for the Reference Obligation; *provided, however*, that if the overcollateralization ratio for the Reference Obligation is not reported there, the Synthetic Security Counterparty in its capacity as calculation agent may use other amounts, to the extent set forth in the servicer report, to determine an overcollateralization ratio. The overcollateralization ratio in the servicer report generally will take into account the "haircuts" on assets provided in the Underlying Instruments for the Reference Obligation (for example, on assets that have been downgraded, have "PIKed," have defaulted or were purchased at a discount), which will make an Implied Writedown more likely to occur on the Reference Obligation.

Credit Events must be physically settled with respect to a Distressed Ratings Downgrade and Failure to Pay Interest; *provided, however*, that if the Reference Obligation is a PIKable Reference Obligation, it will be a condition to physical settlement that a period of at least 360 calendar days have elapsed since the occurrence of the Failure to Pay Interest without reimbursement in full of the relevant Interest Shortfall. In the case of a Writedown or a Failure to Pay Principal, the Synthetic Security Counterparty may elect to receive a Floating Amount Payment from the Issuer rather than physical settlement. Multiple Credit Event notices may be delivered with respect to each Synthetic Security.

The Synthetic Security Counterparty will be required to reimburse the Issuer for all or part of any Floating Amount Payment if a corresponding payment has been made by the Reference Obligor to holders of the related Reference Obligation within one year after the earlier of (i) the legal final maturity date of the Reference Obligation underlying such Synthetic Security, as set forth in such Synthetic Security, and (ii) the related Final Amortization Date. However, in the case of an Interest Shortfall Reimbursement with respect to a Synthetic Security, the Synthetic Security Counterparty generally will be entitled to receive recovery of any portion of an Interest Shortfall under such Synthetic Security for which it was not compensated by the Issuer before it makes any payment to the Issuer in respect of an Interest Shortfall Reimbursement.

Synthetic Security Early Termination

The Issuer will have the right to terminate the Synthetic Securities upon the occurrence of an "Event of Default" or "Termination Event," including, but not limited to, (a) payment defaults by the Synthetic Security Counterparty and any guarantor lasting a period of at least three local business days,

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(b) a default by the Synthetic Security Counterparty or any guarantor on specific financial transactions as specified in the Synthetic Security, (c) bankruptcy-related events applicable to the Synthetic Security Counterparty or any guarantor, (d) any redemption of the Notes in whole, (e) a liquidation of the Collateral following the occurrence of an Event of Default under the Indenture, (f) it becomes unlawful for the Issuer to perform its obligations under the Synthetic Securities and the Issuer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, (g) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Issuer will be required to (1) make a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment or (h) the unsecured, unsubordinated debt rating of the Synthetic Security Counterparty or any guarantor of the Synthetic Security Counterparty, whichever is higher, assigned by S&P or Moody's at any time falls below "AA-" (or is on downgrade watch at "AA-") or "Aa3" (or is on downgrade watch at "Aa3"), the Synthetic Security Counterparty fails to make an Expected Fixed Amount as set forth in the Synthetic Securities and the Synthetic Security Counterparty, or its guarantor, fails to either (a) transfer all of its rights and obligations under the Synthetic Securities to another entity which has such ratings or (b) cause an entity which has such ratings to guarantee or to provide an indemnity in respect of the Synthetic Security Counterparty's or its guarantor's, obligations under the Synthetic Securities which satisfies the Rating Agency Condition.

The Synthetic Security Counterparty will have the right to terminate the Synthetic Securities upon the occurrence of an "Event of Default" or "Termination Event" under the Synthetic Securities, including, but not limited to (a) an Event of Default under the Indenture caused by a payment default by the Issuer lasting a period of at least three local business days, (b) any redemption of the Notes in whole, (c) bankruptcy-related events applicable to the Issuer, (d) an Event of Default under the Indenture that occurs and is continuing and there has been a liquidation (in whole), or the commencement of a liquidation (in whole) of the assets of the Issuer, (e) the Indenture is supplemented or amended without the consent of the Synthetic Security Counterparty as described therein, (f) the Synthetic Security Counterparty is no longer a Secured Party under the Indenture or the Trustee's security interest in the Default Swap Collateral or the Default Swap Collateral Account is impaired or no longer existing, (g) it becomes unlawful for the Synthetic Security Counterparty to perform its obligations under the Synthetic Securities and the Synthetic Security Counterparty is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, or (h) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Synthetic Security Counterparty will be required to make (1) a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment. If the Synthetic Securities are terminated, the Issuer will no longer receive payments from the Synthetic Security Counterparty and will likely not have sufficient funds to make payments when due on the Notes and may not have sufficient funds to redeem the Notes in full.

The Issuer is required to satisfy the Rating Agency Condition prior to any (i) replacement of the Synthetic Security Counterparty or (ii) assignment of the Synthetic Securities.

If an Event of Default or a Termination Event occurs under the Synthetic Securities "Market Quotation" and "Second Method" will apply as set forth in the Synthetic Securities.

Payments on Synthetic Security Early Termination

Payments by the Issuer. Upon the occurrence of an early termination of a Synthetic Security, the Issuer will be required to pay to the Synthetic Security Counterparty the following amounts:

(i) any Physical Settlement Amounts owed by the Issuer to the Synthetic Security Counterparty for any Credit Events that occur on or prior to the termination date of the Synthetic Securities for which the Conditions to Settlement have been satisfied; and

(ii) any Synthetic Security Termination Payment due to the Synthetic Security Counterparty.

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Payments by the Synthetic Security Counterparty. Upon the occurrence of an early termination of a Synthetic Security, the Synthetic Security Counterparty will be required to pay to the Issuer the following amounts:

(i) any accrued but unpaid Fixed Amounts and Additional Fixed Amounts; and

(ii) any Synthetic Security Termination Payment due to the Issuer.

There can be no assurance that, upon early termination by the Issuer or the Synthetic Security Counterparty, either the Synthetic Security Counterparty would be required to make any termination payment to the Issuer or, if it did make such a payment, the amount of the termination payment made by the Synthetic Security Counterparty would be sufficient to pay any amounts due in respect of the Notes. If the Issuer is required to make a Synthetic Security Termination Payment, such termination payment may be substantial and may result in losses to the holders of the Notes.

Amendment

The Synthetic Securities may be amended only with (i) the satisfaction of the Rating Agency Condition and (ii) the consent of the Collateral Manager (which consent shall not be unreasonably withheld); *provided however*, that with respect to (i), such condition need not be satisfied with respect to any amendment that corrects a manifest error.

Guarantee

The GS Group will guarantee the obligations of the Synthetic Security Counterparty under the Synthetic Security.

The Synthetic Security Counterparty

The initial Synthetic Security Counterparty under the Synthetic Security will be Goldman Sachs International. The swap guarantor with respect to the Synthetic Security is The Goldman Sachs Group, Inc., a Delaware corporation (the "GS Group"), which is an affiliate of the Synthetic Security Counterparty. Goldman Sachs International is located at Peterborough Court 133 Fleet Street, London EC4A 2BB.

The Annual Report on Form 10-K for the fiscal year ended November 30, 2006 filed by GS Group with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules) will not form part of a prospectus prepared for the purposes of admission to the official list of the Irish Stock Exchange and to trading on its regulated market should any Notes be listed on such exchange.

GS Group, together with its subsidiaries, is a global investment banking, securities and investment management firm that provides financial services worldwide to clients that include corporations, financial institutions, governments and high net-worth individuals.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this Offering Circular, or contained in this Offering Circular, will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. GS Group's filings with the SEC are available to the public through the SEC's Internet site at http://www.sec.gov, and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which GS Group's common stock is listed.

The Notes do not represent an obligation of, and will not be insured or guaranteed by, GS Group or any of its subsidiaries and investors will have no rights or recourse against GS Group or any of its subsidiaries.

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The Default Swap Collateral

Pursuant to the Synthetic Securities, the Issuer will use the net proceeds from the offering of the Notes to purchase Default Swap Collateral and Eligible Investments which, in the aggregate, will have an initial principal amount as of the Closing Date of approximately U.S.$930,000,000, which shall be deposited to the Default Swap Collateral Account.

The Default Swap Collateral is required to satisfy the following "Default Swap Collateral Eligibility Criteria":

(i) it (a) is rated "Aaa" by Moody's and, if such asset has a short-term rating from Moody's, "P-1", and "AAA" by S&P, and, if such asset has a short-term rating from S&P, it must be "A-1+" and (b) does not have a "t", "q", "pi" or "r" subscript;

(ii) (a) in all cases, the payments with respect to which are not payable in a currency other than U.S. Dollars and (b) it is expected to have an outstanding principal balance of less than U.S.$1,000 after the Stated Maturity of the Class B Notes, assuming a constant prepayment rate since the date of purchase equal to the constant prepayment rate reasonably expected by the Collateral Manager as of the date of purchase;

(iii) it is eligible to be entered into by, sold or assigned to, the Issuer;

(iv) it is not subject to an offer;

(v) it is an obligation upon which no payments are subject to withholding tax imposed by any jurisdiction unless the obligor thereof is required to make "gross-up" payments that cover the full amount of any such withholding taxes on an after-tax basis;

(vi) after taking into consideration the addition of any such security (a) at least 40% of the Default Swap Collateral acquired after the Closing Date and Eligible Investments in the Default Swap Collateral Account by principal balance have an expected average life (calculated by the Collateral Manager (1) based on market prepayment assumptions and (2) assuming that Eligible Investments have a weighted average life of zero) of less than or equal to 1.0 year, (b) 100% of the Default Swap Collateral acquired after the Closing Date and Eligible Investments in the Default Swap Collateral Account by principal balance has an expected average life (calculated by the Collateral Manager (1) based on market prepayment assumptions and (2) assuming that Eligible Investments have a weighted average life of zero) of less than or equal to 2.0 years, and (c) after Closing Date, the expected weighted average life (calculated by the Collateral Manager (1) based on market pre payment assumptions and (2) assuming that Eligible Investments have a weighted average life of zero) of the Default Swap Collateral acquired after the Closing Date and Eligible Investments in the Default Swap Collateral Account does not exceed the expected weighted average life of the portfolio of Reference Obligations at such time;

(vii) after taking into consideration the addition of any such security, the aggregate of the weighted average spread and the rate of the related index of the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account, in the aggregate, is at least equal to LIBOR *plus* 0.05% *per annum* or if prior to acquisition of such item of Default Swap Collateral or Eligible Investment, the spread and the rate of the related index of the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account was less than LIBOR *plus* 0.05% *per annum*, such acquisition would maintain or improve the aggregate of the weighted average spread and the rate of the related index of the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account;

(viii) after taking into consideration the addition of any such security, no more than 50% of the Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account by principal balance has single counterparty exposure including servicer, issuer and swap counterparty exposure;

(ix) it provides for payments of monthly periodic interest in cash at a floating rate and for a payment of principal in full and in cash at its final maturity;

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(x) (A) either (1) constitutes a Residential Mortgage-Backed Security, a Commercial Mortgage-Backed Security, an Asset-Backed Security or a CDO Security which in each instance was either (a) offered by an underwriter, a placement agent or any person acting in a similar capacity through a public prospectus, a private placement memorandum or any other similar document, as to which neither the Collateral Manager nor any affiliate thereof was either the underwriter, collateral manager, placement agent or otherwise involved in the negotiation of the terms or the conditions thereof and as to which a substantial amount of the security was acquired by one or more persons unrelated to the Issuer, the Collateral Manager or any other structured finance vehicle managed or controlled by the Collateral Manager substantially contemporaneously with, and on substantially the same terms as, the securities acquired by the Issuer or (b) (i) acquired on the secondary market, (ii) not acquired directly or indirectly from the issuer of such security pursuant to a legally binding agreement made prior to the second business day after the issuance of such security, (iii) not acquired from the Collateral Manager, its Affiliates or any other structured finance vehicle managed or controlled by the Collateral Manager unless such entity regularly acquires securities of the same type for its own account, could have held the security for its own account consistent with its investment policies, did not identify the security as intended for sale to the Issuer within 90 days of its issuance and held the security, without any hedge with the Issuer, for at least 90 days and (iv) as to which neither the Collateral Manager nor any Affiliate thereof was involved in the negotiation of the terms or conditions of the security or (2) satisfies the definition of an "Eligible Investment"; (B) is not a United States real property interest within the meaning of Section 897 of the Code and (C) is treated as debt for U.S. federal income tax purposes,

(xi) if it is a CDO Security, such CDO Security must (a) be a CDO S Note Security and (b) as of the time of purchase by the Issuer, be in compliance with the applicable eligibility criteria, profile tests and quality tests set forth in the related underlying instruments;

(xii) at least 87.5% of the Default Swap Collateral by principal balance consists of Asset-Backed Securities, Residential Mortgage-Backed Securities or Commercial Mortgage-Backed Securities;

(xiii) the purchase price thereof is equal to at least 98% of the par value of such security and

(xiv) it is a security the acquisition (including the manner of acquisition), ownership or disposition of which will not cause the Issuer to be treated as engaged in a trade or business within the United States for United States federal income tax purposes.

The Default Swap Collateral is expected to be purchased in a face amount equal to the initial Aggregate Notional Amount of the Synthetic Securities. Under the terms of the Indenture, all Default Swap Collateral is required to be deposited in the Default Swap Collateral Account for the benefit of the Synthetic Security Counterparty. The Issuer will also grant to the Trustee for the benefit of the Secured Parties, a security interest in the Default Swap Collateral, subject to the lien of the Synthetic Security Counterparty, and shall notify the Synthetic Security Counterparty of such security interest. The Issuer must obtain the consent of the Synthetic Security Counterparty with respect to any initial Default Swap Collateral purchased by the Issuer and any Default Swap Collateral purchased thereafter.

Interest payments, redemption premiums, dividend distributions, investment earnings on and any fees paid with respect to any Default Swap Collateral will constitute property of the Issuer and will be paid to the Trustee and deposited into the Collection Account and treated as Proceeds unless such amounts are required to be paid to the related Synthetic Security Counterparty under the terms of the related Synthetic Security. Principal payments on the Default Swap Collateral prior to the termination of the Synthetic Securities shall be held in accordance with the Synthetic Securities in the Default Swap Collateral Account and invested in Eligible Investments until reinvested in Default Swap Collateral which satisfy the Default Swap Collateral Eligibility Criteria with the consent of the Synthetic Security Counterparty.

In the event a Synthetic Security is terminated prior to its scheduled maturity without the occurrence of a Credit Event or a Floating Amount Event, the Collateral Manager on behalf of the Issuer shall cause such portion of the related Default Swap Collateral chosen by the Synthetic Security Counterparty as may be required to make any Synthetic Security Termination Payments, to be liquidated

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and any such Synthetic Security Termination Payments to be paid directly to the Synthetic Security Counterparty; *provided* that, in the case of Defaulted Synthetic Security Termination Payments, such amounts will be deposited to the Collection Account and paid in accordance with the Priority of Payments. The remaining related Default Swap Collateral to the extent not required to be pledged to the related Synthetic Security Counterparty shall be released from the lien of the Synthetic Security Counterparty and delivered to the Trustee free of such lien. In the event that no Credit Event or Floating Amount Event under a Synthetic Security has occurred prior to the scheduled maturity of the Synthetic Security, upon the scheduled maturity of the Synthetic Security, the Synthetic Security Counterparty's lien on the Default Swap Collateral shall be released and the Collateral Manager on behalf of the Issuer shall cause such Default Swap Collateral to be delivered to the Trustee free of such lien. Upon release of the lien of the Synthetic Security Counterparty, the Issuer shall direct the Trustee to take any specific actions necessary to create in favor of the Trustee a valid, perfected, first priority security interest in such Default Swap Collateral under applicable law and regulations for the benefit of the Secured Parties. Any Default Swap Collateral released from the lien of the Synthetic Security Counterparty shall be treated as a Collateral Asset and may be retained by the Trustee or sold by the Collateral Manager in the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation or a Credit Risk Obligation; *provided* that no Event of Default has occurred and is continuing. Any Proceeds net of purchase accrued interest or interest payments received upon the maturity or liquidation of the Default Swap Collateral released from the lien of the Synthetic Security Counterparty shall be deposited to the Default Swap Collateral Account.

Upon the occurrence of a Credit Event or Floating Amount Event under a Synthetic Security, the Default Swap Collateral chosen by the Synthetic Security Counterparty after the application of any cash and Eligible Investments on deposit in the Default Swap Collateral Account will be sold by the Collateral Manager in a sale arranged by the Collateral Manager and any amounts owed to the Synthetic Security Counterparty will be paid by the Issuer from the liquidation proceeds of such Default Swap Collateral. In the event such liquidation proceeds are less than par, the Synthetic Security Counterparty will accept the liquidation proceeds applicable to the face amount of Default Swap Collateral sold which is equal to the amount due to the Synthetic Security Counterparty. In addition, under certain circumstances upon the occurrence of a Credit Event, the Default Swap Collateral chosen by the Synthetic Security Counterparty will instead be delivered to the Synthetic Security Counterparty in exchange for a Deliverable Obligation. Any Deliverable Obligation delivered to the Issuer will be deemed to be a Collateral Asset and may be retained or sold by the Issuer at the sole discretion of the Collateral Manager without regard to whether such sale would be permitted as a sale of a Defaulted Obligation or a Credit Risk Obligation. Any Proceeds net of purchased accrued interest or interest payments received upon the maturity or liquidation of a Deliverable Obligation shall be deposited to the Default Swap Collateral Account. In the event a Credit Event has occurred and the Issuer is required to liquidate Default Swap Collateral and deliver cash to the Synthetic Security Counterparty, the Synthetic Security Counterparty will bear any market risk on the liquidation of the Default Swap Collateral.

The Synthetic Security Counterparty has the right to purchase any Default Swap Collateral being sold for less than its par amount at a price equal to the highest bid received for such Default Swap Collateral. The Collateral Manager shall provide the Synthetic Security Counterparty prior notice of the price at which any Default Swap Collateral is being sold prior to such sale.

Reports

A report will be made available to the Holders of the Notes and Holders of the Income Notes and will provide information on the Collateral Assets as well as information with respect to payments made on the related Payment Date (each, a "Payment Report"), beginning in September 2007.

The information in each Payment Report will be prepared as of the Determination Date preceding the related Payment Date and will set out, among other things, the amounts payable in accordance with the Priority of Payments on such Payment Date. The Issuer will instruct the Trustee to transfer the amounts set forth in such Payment Report in the manner specified in, and in accordance with, the Priority of Payments. As long as any Notes are listed on any stock exchange, the Payment Reports will be obtainable at the office of the Listing and Paying Agent.

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Cashflow Swap Agreement

General. On the Closing Date, the Issuer will enter into a Cashflow Swap Agreement with Goldman Sachs International ("GSI") as initial Cashflow Swap Counterparty. The Issuer may replace the Cashflow Swap Agreement but shall not enter into any additional hedge agreements after the Closing Date.

Pursuant to the Cashflow Swap Agreement, on each Payment Date occurring through the termination of the Cashflow Swap Agreement in accordance with the Priority of Payments, the Issuer will pay certain amounts to the Cashflow Swap Counterparty and the Cashflow Swap Counterparty will make advances to the Issuer in an amount equal to certain Cashflow Swap Shortfall Amount as described in the Cashflow Swap Agreement. Any Cashflow Swap Shortfall Amounts paid under the Cashflow Swap Agreement by the Cashflow Swap Counterparty to the Issuer will accrue interest and be repaid to the Cashflow Swap Counterparty in accordance with the Priority of Payments. See "Description of the Notes – Payments on the Notes – Priority of Payments." To the extent the Issuers would have insufficient funds available to pay interest on the Class S Notes, the Class A Notes or the Class B Notes on a Payment Date as a result of any of the Collateral Assets deferring the payment of interest due thereon in accordance with its terms, interest on the Class S Notes, the Class A Notes and the Class B Notes will be payable by the Issuer from the amounts advanced by the Cashflow Swap Counterparty to the Issuer under the Cashflow Swap Agreement up to U.S.$50,000,000 (as reduced in accordance with the Cashflow Swap Agreement); *provided* that the Cashflow Swap Counterparty will not make advances to cover any shortfall resulting from any Collateral Asset deferring interest beyond the second year.

The Issuer shall ensure that the Cashflow Swap Agreement shall provide that the Cashflow Swap Counterparty will agree (a) that the Issuer's obligations under the Cashflow Swap Agreement are limited recourse obligations of the Issuer payable solely from the Collateral and subordinated as set forth in the Priority of Payments and (b) to a standard non-petition clause, and (c) that such Cashflow Swap Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

Payments (other than Defaulted Cashflow Swap Termination Payments) due to the Cashflow Swap Counterparty under the Cashflow Swap Agreement shall be paid, in accordance with the Priority of Payments, prior to any payments on the Securities, from Proceeds available therefor on each Payment Date. The claims of the Cashflow Swap Counterparty shall rank pari passu with the claims of other Cashflow Swap Counterparties entitled to receive payments at the same level of priority within the Priority of Payments. Defaulted Cashflow Swap Termination Payments shall be paid after payment of Principal Proceeds to the Notes in accordance with the Priority of Payments.

Pursuant to the initial Cashflow Swap Agreement, the Issuer may terminate the initial Cashflow Swap Agreement if (A) the Moody's First Rating Trigger Requirements apply and 30 or more local business days have elapsed since the last time the Moody's First Rating Trigger Requirements did not apply and GSI has failed to comply with or perform any obligation to be complied with or performed under the Credit Support Annex, and (B) (x) the Moody's Second Rating Trigger Requirements apply and 30 or more local business days have elapsed since the last time the Moody's Second Rating Trigger Requirements did not apply and (y) (i) an Eligible Replacement has not become the transferee of a transfer made in accordance with Part 5(b)(i) of the Cashflow Swap Agreement, subject to satisfaction of the Rating Agency Condition and/or (ii) an entity with the Moody's First Trigger Required Ratings has not provided an Eligible Guarantee in respect of all of the initial Cashflow Swap Counterparty's present and future obligations under the Cashflow Swap Agreement.

The Cashflow Swap Agreement may be terminated, whether or not the Notes have been paid in full on or prior to such termination, upon, among other things, (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer or the related Cashflow Swap Counterparty, (ii) failure on the part of the Issuer or the related Cashflow Swap Counterparty to make any payment under the Cashflow Swap Agreement within the applicable grace period, (iii) certain withholding or other taxes being imposed on payments to be made under the Cashflow Swap Agreement as set forth in Sections 5(b)(ii) and (iii) of the ISDA Master Agreement incorporated in the Cashflow Swap Agreement, (iv) a change in law making it illegal for either the Issuer or the related Cashflow Swap Counterparty to be

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a party to, or perform an obligation under, the Cashflow Swap Agreement, (v) an Event of Default under the Indenture occurs and is continuing and there has been a liquidation (in whole), or the commencement of a liquidation (in whole) of the assets of the Issuer, (vi) the Indenture is supplemented or amended without the consent of the Cashflow Swap Counterparty as described therein, (vii) the Cashflow Swap Counterparty is no longer a Secured Party under the Indenture or (viii) the aggregate Principal Balance of the Collateral Assets is less than U.S.$50,000,000. Notwithstanding the foregoing, the Issuer will not optionally terminate any Cashflow Swap Agreement unless the Rating Agency Condition is satisfied in connection with such termination.

A termination of a Cashflow Swap Agreement will not constitute an Event of Default under the Indenture. Although the Issuer believes that any such termination is unlikely, the Issuer has agreed to use reasonable efforts to enter into a substitute Cashflow Swap Agreement on similar terms to the extent that the Issuer is able to enter into such an agreement, and shall apply any termination receipts to the purchase of a new Cashflow Swap Agreement. If the Issuer is unable to obtain a substitute Cashflow Swap Agreement, interest due on the Notes will be paid from amounts received on the Collateral Assets and Default Swap Collateral without the benefit of any Cashflow Swap Agreement. There can be no assurance that such amounts will be sufficient to provide for the full payment of interest on the Notes, or that amounts that would otherwise be distributable to the Holders of the Income Notes will not be reduced.

In the event of any early termination of a Cashflow Swap Agreement (i) any Cashflow Swap Termination Receipts paid to the Issuer and not concurrently applied in connection with the Issuer's entering into a replacement Cashflow Swap Agreement will be deposited in a single, segregated trust account held in the name of the Trustee (the "Cashflow Swap Termination Receipts Account") for the benefit of the Secured Parties and (ii) any amounts received by the Issuer from a replacement counterparty in consideration for entering into a substantially similar replacement agreement that preserves for the Issuer the economic equivalent of the terminated Cashflow Swap Agreement ("Cashflow Swap Replacement Proceeds") will be deposited in a single, segregated trust account held in the United States in the name of the Trustee (the "Cashflow Swap Replacement Account") for the benefit of the Secured Parties.

The Collateral Manager may cause the Issuer, promptly following the early termination of a Cashflow Swap Agreement (other than with respect to a Final Payment Date) and to the extent possible through application of funds available in the Cashflow Swap Termination Receipts Account, to enter into a replacement Cashflow Swap Agreement (a "Replacement Cashflow Swap Agreement") which may have different terms, including different notional amounts, *provided* that the Rating Agency Condition is satisfied.

If (i) the funds available in the Cashflow Swap Termination Receipts Account exceed the costs of entering into a Replacement Cashflow Swap Agreement, (ii) the Collateral Manager determines not to replace the terminated Cashflow Swap Agreement and the Rating Agency Condition is satisfied, or (iii) the termination is occurring with respect to a Final Payment Date, then amounts in the Cashflow Swap Termination Receipts Account (after providing for the costs of entering into a Replacement Cashflow Swap Agreement, if any) will be transferred to the Collection Account on the next following Transfer Date and will be treated as Principal Proceeds and distributed in accordance with the Priority of Payments on the next Payment Date (or on such Final Payment Date, in the event the Notes are redeemed in full thereon).

If a Cashflow Swap Agreement is terminated and the costs of entering into a Replacement Cashflow Swap Agreement exceed the funds on deposit and available therefor in the Cashflow Swap Termination Receipts Account, then, after using the funds in the Cashflow Swap Termination Receipts Account, the Issuer may enter into a Replacement Cashflow Swap Agreement with the amount of such shortfall payable to the replacement Cashflow Swap Counterparty in accordance with the Priority of Payments on following Payment Dates.

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The amounts in the Cashflow Swap Replacement Account will be applied directly to the payment of termination amounts owing to the Cashflow Swap Counterparty, if any. To the extent not fully paid from Cashflow Swap Replacement Proceeds, such amounts will be payable to the Cashflow Swap Counterparty on subsequent Payment Dates in accordance with the Priority of Payments. To the extent that the funds available in the Cashflow Swap Replacement Account exceed any such termination amounts (or if there are no termination amounts), the excess amounts in the Cashflow Swap Replacement Account will be transferred to the Collection Account on the next Transfer Date and will be treated as Principal Proceeds and distributed in accordance with the Priority of Payments on the next Payment Date. If the termination amounts owing to the Cashflow Swap Counterparty exceed the Cashflow Swap Replacement Proceeds for such agreements, then, unless such amounts represent Defaulted Cashflow Swap Termination Payments, they will be paid before funds are applied to pay principal or interest on any Notes (except for the Class S-1 Notes) in accordance with the Priority of Payments.

In order to effect an Optional Redemption by Liquidation, Tax Redemption or Auction, the Cashflow Swap Agreement must be terminated and the proceeds from such termination and from the liquidation of the remaining Collateral must be sufficient to pay any termination payment owing to the Cashflow Swap Counterparty (other than any Defaulted Cashflow Swap Termination Payments) in addition to any amounts owing under the Notes and certain other expenses.

Each Cashflow Swap Agreement will provide that the related Cashflow Swap Counterparty may assign its obligations under a Cashflow Swap Agreement to any institution which satisfies the Rating Agency Condition with respect to such assignment.

The initial Cashflow Swap Counterparty is GSI. GSI is an affiliate of the Initial Purchaser, and other affiliates of the Initial Purchaser or the Collateral Manager may also act as Cashflow Swap Counterparties from time to time, which may create certain conflicts of interest. See "Risk Factors—Other Considerations—Certain Conflicts of Interest."

The Cashflow Swap Counterparty ratings requirements, termination events and the required consents and actions described herein are subject to modification prior to the Closing Date, and may be revised thereafter upon satisfaction of the Rating Agency Condition. The description of the provisions of the Cashflow Swap Agreement herein may vary from the actual Cashflow Swap Agreement to be entered into by the Issuer and GSI on the Closing Date.

Cashflow Swap Agreement. As of the Closing Date, the Issuer will enter into a Cashflow Swap Agreement with GSI and may from time to time enter into additional Cashflow Swap Agreements (each, a "Cashflow Swap Agreement") with GSI or other counterparties (each, a "Cashflow Swap Counterparty").

WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes (other than the Class S Notes and the Class A-1 Notes) and the Income Notes is the Payment Date in December 2047, the Stated Maturity of the Class S Notes is the Payment Date in September 2011, the Stated Maturity of the Class A-1a Notes and the Class A-1b Notes is the Payment Date in December 2039 and the Stated Maturity of the Class A-1c Notes and the Class A-1d Notes is the Payment Date in September 2044. However, the principal of the Notes (other than the Class S Notes) is expected to be paid in full prior to the Stated Maturity. Average life refers to the average amount of time that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor. The average lives of the Notes will be determined by the amount of principal payments which are dependent on a number of factors, including when the Collateral Assets are repaid.

Weighted Average Life. Weighted average life refers to the average amount of time that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor. The weighted average lives of the Notes of each Class will be determined by the amount and frequency of principal payments, which are dependent upon, among other things, the amount of

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payments received at or in advance of the scheduled maturity of the Collateral Assets (whether through sale, maturity, redemption, prepayment, default or other liquidation or disposition). The actual weighted average lives and actual maturities of the Notes will be affected by the financial conditions of the obligors on or the issuers of the Collateral Assets or the obligors on the underlying assets, and the characteristics of such securities and assets, including the existence and frequency of exercise of any optional or mandatory redemption features, the prevailing level of interest rates, the redemption price, prepayment rates, any lockout periods or prepayment premiums or penalties, the actual default rate and the actual level of recoveries on any Defaulted Obligations, and the frequency of tender or exchange offers for such Collateral Assets. Any disposition of a Collateral Asset will change the composition and characteristics of the Collateral Assets and the scheduled payments and payment characteristics thereon, and, accordingly, may affect the actual weighted average lives of the Notes. The rate of future defaults and the amount and timing of any cash realization from Defaulted Obligations and Credit Risk Obligations also will affect the maturity and weighted average lives of the Notes. The weighted average life of the Notes of each Class may also vary depending on whether or not the Notes are redeemed. The weighted average lives of the Notes are expected to be shorter, and may be substantially shorter, than the Stated Maturity of the Notes.

The table set forth below indicates the percentage of the initial balance of each Class of Notes that would be outstanding on each Payment Date assuming no prepayments or losses and the weighted average life of each Class of Notes and principal window of each Class based on the following assumptions (the "Collateral Assets Assumptions"):

i. Forward three month LIBOR curve as of March 20, 2007 are assumed;

ii. the Closing Date is March 27, 2007, the first Payment Date is September 4, 2007, and Payment Dates are the third day of every March, June, September and December, not adjusting for Business Days;

iii. all of the net proceeds of the offering of the Securities are invested as of the Closing Date in the Collateral Assets and Default Swap Collateral;

iv. the Coverage Tests are satisfied as of the Closing Date;

v. expenses due under clauses (i), (ii) and (iii) of the Priority of Payments are paid on each Payment Date and will be $35,500 *plus* the greater of U.S.$12,062.50 and 0.0018125% of the Quarterly Asset Amount for the related Due Period (or, with respect to the first Payment Date, as such amounts are adjusted based on the number of days in such Due Period);

vi. the Collateral Management Fee is 0.04% *per annum* of the outstanding Principal Balance of the Collateral Assets;

vii. there are no Current Deferred Management Fees;

viii. the Deferred Structuring Expense is 0.04% *per annum* of the outstanding Principal Balance of the Collateral Assets;

ix. Prior to distribution on each Payment Date, interest collections are assumed to be deposited in the Collection Account for 30 days, and principal collections are assumed to be deposited in the Collection Account for 50 days, each earning a rate equal to three month LIBOR *minus* 0.30% *per annum*;

x. Default Swap Collateral and Eligible Investments in the Default Swap Collateral Account are assumed to accrue interest at three month LIBOR *plus* 0.10%;

xi. each Collateral Asset will pay principal and interest in accordance with its terms and scheduled payments will be timely received, unless otherwise specified;

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xii. failure to pay interest to the Holders of the Class A Notes and the Class B Notes is not an Event of Default;

xiii. all unpaid Class C Note and Class D Note interest is Deferred Interest;

xiv. there are no sales;

xv. no rating change occurs on any Collateral Asset or the Notes;

xvi. there is no Optional Redemption, Tax Redemption or, except with respect to the table setting forth the Percentages of Initial Principal Balance of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes and the table setting forth the Sensitivity of Principal Payments to CDR, Auction Call;

xvii. defaults are incurred at the constant annual default rates and are applied on each Payment Date to the outstanding Principal Balance of the Collateral Assets as of such Payment Date commencing on the Payment Date in September 2008; and

xviii. there is no PIK interest on the Collateral Assets.

Percentages of Initial Principal Balance of the Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes

	Class A-1a	Class A-1b	Class A-1c	Class A-1d	Class A-2	Class B	Class C	Class D
Closing Date	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
September 4, 2007	93.17%	100.00%	100.00%	100.00%	98.63%	100.00%	100.00%	99.33%
September 3, 2008	83.89%	100.00%	100.00%	100.00%	96.78%	100.00%	100.00%	98.00%
September 3, 2009	68.69%	100.00%	100.00%	100.00%	93.74%	100.00%	100.00%	96.67%
September 3, 2010	43.13%	100.00%	100.00%	100.00%	88.63%	97.06%	98.52%	92.55%
September 3, 2011	0.00%	95.95%	100.00%	100.00%	78.38%	85.84%	87.13%	80.44%
September 3, 2012	0.00%	68.64%	100.00%	100.00%	67.46%	73.88%	74.99%	69.19%
September 3, 2013	0.00%	23.80%	100.00%	100.00%	49.52%	54.23%	55.05%	50.70%
September 3, 2014	0.00%	0.00%	0.00%	25.22%	36.80%	40.30%	40.90%	37.59%
September 3, 2015	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Principal Window(1)	September 4, 2007 to September 3, 2011	September 3, 2011 to March 3, 2014	March 3, 2014 to June 3, 2014	June 3, 2014 to December 3, 2014	September 4, 2007 to September 3, 2015	June 3, 2010 to September 3, 2015	September 3, 2010 to September 3, 2015	September 4, 2007 to September 3, 2015
Expected Weighted Average Life(2)	2.99 years	5.96 years	7.14 years	7.49 years	6.11 years	6.73 years	6.79 years	6.45 years

(1) The "Expected Principal Window" for a Class of Notes is the period in which (a) the initial principal payment of the Class is expected to be made and (b) the final payment of principal of the Class is expected to be made under the Collateral Assets Assumptions (assuming no defaults).

(2) The "Expected Weighted Average Life" of each Class of Notes is determined by (i) multiplying the amount of each principal distribution on such Class that would result under the Collateral Assets Assumptions (assuming no defaults) by the number of years from the date of determination to the related Payment Date (assuming 30 days in each month and a 360-day year), (ii) adding the results and (iii) dividing the sum by the aggregated principal distributions referred to in clause (i).

The following table shows the "Expected Weighted Average Life" and the "Expected Principal Window" for each Class of Notes under various constant default rates. The "Expected Weighted Average Life" of each Class of Notes is determined by (i) multiplying the amount of each principal distribution on such Class that would result under the Collateral Assets Assumptions by the number of years from the

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date of determination to the related Payment Date (assuming 30 days in each month and a 360-day year), (ii) adding the results and (iii) dividing the sum by the aggregated principal distributions referred to in clause (i). The "Expected Principal Window" for a Class of Notes is when the first and last payments of principal are expected to be made under the Collateral Assets Assumptions. The loss severity is assumed to be 80%.

Sensitivity of Principal Payments to CDR

	0.0% CDR		0.1% CDR		0.25% CDR		0.5% CDR	
Class	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window
A-1a	2.99 years	September 4, 2007 to September 3, 2011	2.97 years	September 4, 2007 to September 3, 2011	2.95 years	September 4, 2007 to September 3, 2011	2.93 years	September 4, 2007 to September 3, 2011
A-1b	5.96 years	September 3, 2011 to March 3, 2014	5.94 years	September 3, 2011 to March 3, 2014	5.92 years	September 3, 2011 to March 3, 2014	5.88 years	September 3, 2011 to March 3, 2014
A-1c	7.14 years	March 3, 2014 to June 3, 2014	7.14 years	March 3, 2014 to June 3, 2014	7.14 years	March 3, 2014 to June 3, 2014	7.13 years	March 3, 2014 to June 3, 2014
A-1d	7.49 years	June 3, 2014 to December 3, 2014	7.49 years	June 3, 2014 to December 3, 2014	7.49 years	June 3, 2014 to December 3, 2014	7.49 years	June 3, 2014 to December 3, 2014
A-2	6.11 years	September 4, 2007 to September 3, 2015	6.10 years	September 4, 2007 to September 3, 2015	6.08 years	September 4, 2007 to September 3, 2015	6.05 years	September 4, 2007 to September 3, 2015
B	6.73 years	June 3, 2010 to September 3, 2015	6.72 years	June 3, 2010 to September 3, 2015	6.71 years	September 3, 2010 to September 3, 2015	6.70 years	December 3, 2010 to September 3, 2015
C	6.79 years	September 3, 2010 to September 3, 2015	6.78 years	December 3, 2010 to September 3, 2015	6.78 years	March 3, 2011 to September 3, 2015	6.87 years	September 3, 2011 to September 3, 2015
D	6.45 years	September 4, 2007 to September 3, 2015	6.47 years	September 4, 2007 to September 3, 2015	6.59 years	September 4, 2007 to September 3, 2015	7.12 years	September 4, 2007 to September 3, 2015

The table set forth below entitled "Class A-1, A-2, B, C and D Note Constant Default Rate Stress Tests" shows the Constant Default Rate ("CDR") and Cumulative Defaults for each Class of Notes under three stress scenarios, assuming a 80% loss severity on defaulted Collateral Assets. In column one ("First Dollar of Loss"), CDR represents the CDR starting on the September 2008 Payment Date that would result in the first dollar of principal loss to the respective Class of Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate principal balance of the Collateral Assets as of the Closing Date. In column two ("Flat Return"), CDR represents the CDR starting on the September

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2008 Payment Date that would result in a yield equivalent to a zero discount margin over three-month LIBOR for the Class A-1a Notes, Class A-1b Notes, Class A-1c Notes, Class A-1d Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate principal balance of the Collateral Assets as of the Closing Date. In column three ("Return of Investment, (0% return)"), the CDR represents the CDR starting on the September 2008 Payment Date that would result in an approximate 0.0% return for the Class A-1a Notes, Class A-1b Notes, Class A-1c Notes, Class A-1d Notes, Class A-2 Notes, Class B Notes, Class C Notes and Class D Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate principal balance of the Collateral Assets as of the Closing Date.

Class A-1, A-2, B, C and D Notes Constant Default Rate Stress Tests

	First Dollar of Loss		Flat Return		Return of Investment (0% return)	
Constant Annual Default Rate at 80% Loss Severity	CDR	Cumulative Defaults	CDR	Cumulative Defaults	CDR	Cumulative Defaults
Class A-1a*	NA	NA	NA	NA	NA	NA
Class A-1b	24.4%	70.199%	24.8%	70.785%	28.4%	75.541%
Class A-1c	18.8%	60.597%	19.2%	61.377%	21.2%	65.050%
Class A-1d	14.6%	51.387%	15.1%	52.587%	16.6%	56.013%
Class A-2	5.9%	25.085%	6.5%	27.271%	9.7%	37.934%
Class B	3.5%	15.700%	3.9%	17.338%	5.0%	21.689%
Class C	2.3%	10.600%	2.6%	11.901%	2.9%	13.185%
Class D	0.9%	4.281%	1.7%	7.941%	1.9%	8.836%

* Under the given default and modeling assumptions, the Class A-1a Notes do not take a loss.

Yield. The yield to maturity of the Notes of each Class will also be affected by the rate of repayment of the Collateral Assets, as well as by the redemption of the Notes in an Auction, an Optional Redemption or Tax Redemption (and upon the Redemption Price then payable). The Issuer is not required to repay the Notes on any date prior to their Stated Maturity. The receipt of principal payments on the Notes at a rate slower than the rate anticipated by investors purchasing the Notes at a discount will result in an actual yield that is lower than anticipated by such investors.

The yield to maturity of the Notes may also be affected by the rate of delinquencies and defaults on and liquidations of the Collateral Assets, to the extent not absorbed by the Income Notes; sales of Collateral Assets; and/or purchases of Collateral Assets having different scheduled payments and payment characteristics and the effect of the Coverage Tests on payments under the Priority of Payments. The yield to investors in the Notes will also be adversely affected to the extent that the Issuers incur certain expenses that are not absorbed by the Income Notes.

THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the subheading "General") has been prepared by the Collateral Manager and has not been independently verified by the Initial Purchaser or either of the Issuers. Neither the Initial Purchaser nor the Issuers assume any responsibility for the accuracy, completeness or applicability of such information.

General

Certain management, administrative and advisory functions with respect to the Collateral Assets will be performed by Greywolf Capital Management LP, a Delaware limited partnership ("Greywolf"), as the Collateral Manager under a Collateral Management Agreement between the Issuer and Greywolf dated as of the Closing Date (the "Collateral Management Agreement"). Pursuant to the terms of the Collateral Management Agreement, the Collateral Manager will (i) monitor the Collateral Assets and

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provide certain information with respect to the Collateral Assets to the Trustee, (ii) direct the disposition of the Collateral Assets under the limited circumstances described herein, (iii) direct the reinvestment of the proceeds therefrom in Eligible Investments, (iv) monitor the Cashflow Swap Agreement and determine whether and when the Issuer should exercise any rights available under any Cashflow Swap Agreement, and (v) direct the reinvestment of Default Swap Collateral with the consent of the Synthetic Security Counterparty. The Collateral Manager will perform its duties in accordance with the requirements set forth in the Indenture and in accordance with the provisions of the Collateral Management Agreement. The Collateral Manager is also subject to certain other conflicts of interest. See "Risk Factors–Other Considerations–Certain Conflicts of Interest" and "Risk Factors–Other Considerations–The Collateral Manager."

Greywolf Capital Management LP

Greywolf is an SEC- registered investment adviser and currently manages over $2,000,000,000 in capital. Greywolf was founded in 2003 by a team of former employees of Goldman Sachs fixed income trading division and now has 29 investment professionals with extensive experience in distressed, high yield and structured product investing. A copy of the Collateral Manager's Form ADV is being delivered to investors in connection with the delivery of this offering circular as Appendix B hereto.

Key Personnel

Set forth below is information regarding the background, principal responsibilities and other affiliations of certain of the principal officers and other employees of the Collateral Manager, including those personnel who will be primarily responsible for managing the Collateral Assets and for performing the advisory and administrative functions related thereto. Although these individuals are currently employed by the Collateral Manager and hold the offices indicated below with the Collateral Manager, such persons will not be engaged full time in the management of the Collateral. In addition, such persons may not necessarily continue to be so employed during the entire term of the Collateral Management Agreement or may not continue to perform services for the Collateral Manager under the Collateral Management Agreement.

Collateral Management Team

Gregory Mount, Partner. Mr. Mount joined Greywolf in September 2005 as a Partner and is responsible for structured product investments. Mr. Mount will be the co-portfolio manager of Timberwolf I, Ltd. with Joe Marconi. Prior to joining Greywolf, Mr. Mount worked at Goldman Sachs for 9 years from which he retired as a Partner of the firm in 2005. Mr. Mount founded Goldman's CDO business in 1996 and later held numerous senior positions in credit derivatives and structured products, including co-head of the Structured Products Group, which consisted of the CMBS, RMBS, ABS and CDO businesses and head of Portfolio Credit Derivatives which encompassed cash and synthetic CDOs. Mr. Mount also initiated Goldman's proprietary CDO investment activity in 2003 and was the primary decision-maker for that portfolio at its inception. Mr. Mount received a B.S. in Electrical Engineering from M.I.T. in 1987, and an M.B.A., with high honors, from The University of Chicago Graduate School of Business in 1992.

Joe Marconi, Vice President. Mr. Marconi joined Greywolf in April 2006 and is responsible for structured product investments. Mr. Marconi will be the co-portfolio manager of Timberwolf I, Ltd. with Mr. Mount. Prior to joining Greywolf, Mr. Marconi was a Managing Director in the Structured Products Group at Goldman Sachs where he was co-head of ABS Finance and a member of the Mortgage Capital Committee (which is responsible for approving capital commitments across the CMBS, RMBS, ABS and CDO businesses). Mr. Marconi joined Goldman Sachs in 1993 and became a Managing Director in 2003. Prior to joining Goldman Sachs, from 1984 to 1993, Mr. Marconi was an attorney with Cravath, Swaine & Moore in New York and London. Mr. Marconi received a B.A. in Economics, *summa cum laude*, from Columbia College in 1983 and was elected to Phi Beta Kappa. Mr. Marconi also received a J.D. from Columbia Law School in 1984 and was a Harlan Fiske Stone Scholar each of his three years.

Jonathan Savitz, Partner. Mr. Savitz co-founded Greywolf in February 2003 and is the Firm's Chief Executive Officer and the Funds' Chief Investment Officer. Prior to co-founding Greywolf, Mr. Savitz worked at Goldman Sachs for over 15 years from which he retired as a Partner of the firm in 2002.

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From 1998 – 2002, Mr. Savitz led Goldman's global distressed trading, sales and research effort and was a primary decision maker and risk manager in Goldman's proprietary investing activities across the fixed income markets. From 1995 - 1998, Mr. Savitz managed the high yield trading desk and prior thereto held positions in distressed proprietary investing and corporate bond trading. Mr. Savitz joined Goldman in 1987 after graduating with a B.A., with honors, from The Johns Hopkins University.

James Gillespie, Partner. Mr. Gillespie is a co-founder of Greywolf and is a Portfolio Manager of the Special Situations Funds. Prior to founding Greywolf, Mr. Gillespie worked at Goldman Sachs for six years. Mr. Gillespie was head of Distressed Bond Investing where he ran Goldman's proprietary distressed bond portfolio on the trading desk. Prior thereto, Mr. Gillespie was director of distressed bond research after having been a distressed analyst for Goldman's bank loan and bond desks. Mr. Gillespie has significant experience in analyzing, valuing and investing in distressed securities as well as managing a large portfolio of distressed investments. He also has experience actively participating in the workout process as both a committee member and large creditor. Prior to Goldman, Mr. Gillespie worked at Salomon Brothers in high yield capital markets. Mr. Gillespie received a Bachelor of Commerce degree, with honors, from the University of British Columbia in 1995 and is a Leslie Wong Fellow. Mr. Gillespie is a CFA charterholder.

Robert Miller, Partner. Mr. Miller is a co-founder of Greywolf and a Portfolio Manager for the Greywolf High Yield Funds. Prior to founding Greywolf, Mr. Miller worked at Goldman Sachs for 10 years and ran Goldman's high yield trading desks in New York and London from 1998 – 2000. After retiring from Goldman, Mr. Miller was retained by the firm for almost two years as a consultant on electronic bond trading platforms. Prior to heading the high yield trading desk, Mr. Miller was a high yield and corporate bond trader for Goldman and prior thereto was a credit analyst for PNC Bank. During his career, Mr. Miller has traded and analyzed most major industry sectors and held proprietary positions in straight debt, common and preferred stock, futures, convertibles, trust preferred, and credit derivatives. Mr. Miller received a B.A. *magna cum laude* from Franklin and Marshall College in 1983 and an M.B.A., with honors, from UNC-Chapel Hill in 1989.

Cevdet Samikoglu, Partner. Mr. Samikoglu is a co-founder of Greywolf and a Portfolio Manager of the Special Situations Funds. Prior to founding Greywolf, Mr. Samikoglu worked at Goldman Sachs for ten years where he was one of three portfolio managers in the Special Situations Investing Group, a Goldman Sachs' proprietary internal hedge fund. Prior to assuming his portfolio management role in 2000, Mr. Samikoglu held numerous positions in distressed investing at Goldman including director of research in both the US and Europe. Mr. Samikoglu joined Goldman in 1992 as a corporate finance generalist before moving to the distressed investing business as a credit analyst in 1998 after returning from business school. Mr. Samikoglu has extensive experience investing in all layers of levered capital structures both on the long and short side and, at times, participating actively in steering and creditors' committees. Mr. Samikoglu received a B.A. *cum laude* from Hamilton College in 1992 and an M.B.A. from Harvard Business School in 1997.

William Troy, Partner. Mr. Troy is a co-founder of Greywolf and a Portfolio Manager of the High Yield Funds, as well has having responsibility for firmwide risk management. Prior to founding Greywolf, Mr. Troy was the key manager for JP Morgan's High Yield business, which he joined following the merger of Smith Barney with Salomon Brothers. At JP Morgan, Mr. Troy was a member of the Senior Trader's Committee, the Underwriting Committee, the Risk Committee and the Credit Committee. Prior to JP Morgan, Mr. Troy joined Smith Barney in 1996 as a Managing Director to co-head the High Yield business, overseeing sales, trading, research and syndicate. Prior to Smith Barney, Mr. Troy joined Goldman Sachs in 1986 as a senior corporate bond trader where he was responsible for risk taking activities with a further mandate to expand the business and develop new trading personnel. He was later asked to join the High Yield department in 1991 as the senior trader. Prior to Goldman Sachs, Mr. Troy joined Salomon Brothers in 1978 as a manager for the international business in cashiering operations and subsequently as a trader on the corporate bond trading desk. Mr. Troy began his 37-year Wall Street career in 1969 at Dean Witter.

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Conflicts of Interest

Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Collateral Manager, affiliates and their respective clients and employees. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Collateral Manager and/or its affiliates have ongoing relationships with, render service to, finance and engage in transactions with, and may own debt or equity securities issued by issuers of certain of the Collateral Assets. The Collateral Manager and its affiliates may invest on behalf of themselves and other clients in securities that are senior or subordinated to, or have interests different from or adverse to, the Collateral Assets. The interests of such parties may be different than or adverse to the interest of the Holders of the Securities. In addition, such persons may possess information relating to the Collateral Assets that is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral Assets and performing the other obligations under the Collateral Management Agreement. Such persons will not be required (and may not be permitted) to share such information or pass it along to the Issuer, the Collateral Manager or any holder of any Security. Neither the Collateral Manager nor any of such persons will have liability to the Issuer or any Holder of any Security for failure to disclose such information or for taking, or failing to take, any action based upon such information.

In addition, the Collateral Manager and/or any of its affiliates may engage in any other business and furnish investment management and advisory services to others which may include, without limitation, serving as consultant or servicer for, investing in, lending to, being affiliated with or have other ongoing relationships with, other entities organized to issue collateralized debt obligations secured by assets similar to the Collateral Assets, and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. In the course of monitoring the Collateral Assets held by the Issuer, the Collateral Manager may consider its relationships with other clients (including entities whose securities (or those of its affiliates) are pledged to secure the Notes) and its affiliates. In providing services to other clients, the Collateral Manager and its affiliates may recommend activities that would compete with or otherwise adversely affect the Issuer. In addition, the Collateral Manager will be free, in its sole discretion, to make recommendations to others, or effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Collateral Manager may furnish advisory services to others who may have investment policies similar to those followed by the Issuer and who may own securities of the same class, or which are the same type as, the Collateral Assets. Under the terms of the Collateral Management Agreement, the Collateral Manager will be permitted to take whatever action is in the Collateral Manager's best interest regardless of the impact on the Collateral Assets. In addition, under certain circumstances the Collateral Manager may direct the Issuer to sell certain Collateral Assets. Such sales of Collateral Assets may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Securities by any of the Rating Agencies. In determining whether to exercise such right, the Collateral Manager need not take into account the interests of the Issuers, the Noteholders, the Income Noteholders or any other party.

The Collateral Manager and/or its affiliates may at certain times be simultaneously seeking to purchase or dispose of investments for their respective accounts or for another entity, including other collateralized debt obligation vehicles, at the same time as it is disposing of investments for the Issuer. Accordingly, conflicts may arise regarding the allocation of sale opportunities.

The Collateral Manager may aggregate sales of securities placed with respect to the Collateral Assets with similar sales being made simultaneously for other clients or other accounts managed by the Collateral Manager or with accounts of the affiliates of the Collateral Manager, if in the Collateral Manager's reasonable business judgment such aggregation will result in an overall economic benefit to the Issuer, taking into consideration the advantageous selling price, brokerage commission and other expenses. However, no provision of the Collateral Management Agreement requires the Collateral Manager or its affiliates to execute orders as part of concurrent authorizations or to aggregate sales.

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Nevertheless, the Collateral Manager may, in the allocation of business, take into consideration research and other brokerage services furnished to the Collateral Manager or its affiliates by brokers and dealers. Such services may be used by the Collateral Manager in connection with the Collateral Manager's other advisory services or investment operations.

No provision in the Collateral Management Agreement prevents the Collateral Manager or any of its affiliates from rendering services of any kind to the issuer of any Collateral Assets and its affiliates, the Trustee, the Holders of the Securities, the Cashflow Swap Counterparty or any other entity. Without prejudice to the generality of the foregoing, the Collateral Manager and its affiliates, directors, officers, employees and agents may, among other things: (a) serve as general partner, adviser, sponsor or manager of partnerships or companies organized to issue collateralized bond or loan obligations secured by assets similar to the Collateral Assets, directors (whether supervisory or managing), partners, officers, employees, agents, nominees or signatories for an issuer of any Collateral Assets; (b) receive fees for services rendered to the issuer of any Collateral Assets or any affiliate thereof; (c) be retained to provide services unrelated to the Collateral Management Agreement to the Issuer or its Affiliates and be paid therefor; (d) a secured or unsecured creditor of, or hold an equity interest in, any issuer of any Collateral Assets; (e) serve as a member of any "creditors' board" or "creditors' committee" with respect to any Collateral Assets which has become or may become a Defaulted Obligation or with respect to any commercial mortgage loan securing any Collateral Assets or the respective borrower for any such commercial mortgage loan; (f) own or make loans to any borrower or affiliate of any borrower on any of the commercial mortgage loans securing the Collateral Assets; (g) invest, or have already invested, in obligations and/or other securities that are identical to or senior to, or have interests different from or adverse to, the Collateral Assets; (h) make investments on their own behalf without offering such investment opportunities to the Issuer or informing the Issuer of any investments before engaging in any investment for themselves; (i) recommend or effect direct trades between the Issuer and the Collateral Manager or a Collateral Manager Affiliate or funds or accounts for which the Collateral Manager or an Affiliate serve as Collateral Manager, acting as principal or agent, subject to applicable legal requirements; (j) invest in obligations that would be appropriate as Collateral and have ongoing relationships with, render services to or engage in transaction with, companies whose obligations are included in the Collateral and may own equity or debt securities by issuers of and other obligors of Collateral Assets; and (k) enter into agency cross-transactions where the Collateral Manager and/or the Collateral Manage Affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted under applicable law. Under the terms of the Collateral Management Agreement, the Collateral Manager will be permitted to take whatever action is in the Collateral Manager's best interest regardless of the impact on the Collateral Assets.

Members of the board of directors of the Issuer who are not affiliated with the Collateral Manager or their delegates or other authorized representatives of the Issuer will have the responsibility for approving any transactions between the Issuer and the Collateral Manager or its affiliates involving significant conflicts of interest (including principal trades). More particularly, directors unaffiliated with the Collateral Manager or any delegate designated by such directors will be responsible for approving any principal transactions for which Issuer consent is required pursuant to Section 206(3) of the Advisers Act.

In addition, with the prior authorization of the Issuer, which has been given and can be revoked at any time, the Collateral Manager and/or its affiliates may enter into agency cross-transactions where the Collateral Manager and/or its affiliates acts as broker for the Issuer and for the other party to the transaction, to the extent permitted under applicable law, in which case the Collateral Manager or any such affiliate will receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to the transaction.

On the Closing Date it is expected that the Collateral Manager or one or more clients or affiliates of the Collateral Manager will purchase approximately 50% of the aggregate notional amount of the Income Notes, 100% of the Aggregate Outstanding Amount of the Class D Notes and may purchase Notes and/or Income Notes on or after the Closing Date. The Collateral Manager and/or one or more of its affiliates or employees, or funds managed by Greywolf may own from time to time additional Securities of one or more types. There can be no assurance that any of the foregoing persons will continue to hold

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any or all of such Securities. As a Holder of Income Notes or any other Securities, such persons may have interests adverse to the other Holders of Securities. For so long as Greywolf is the Collateral Manager and any funds managed by Greywolf continue to hold any Income Notes, any Collateral management Fees otherwise payable to the Collateral Manager hereunder shall be paid by the Issuer in the following order: (i) first, to such funds managed by Greywolf (on a *pro rata* basis among such funds), in an amount equal to the product of (x) such Collateral Management Fees and (y) a fraction the numerator of which is the notional amount of the Income Notes held by such funds managed by Greywolf and the denominator of which is the aggregate notional amount of all the Income Notes and (ii) second, the remainder, if any, to Greywolf.

Greywolf or any of its clients, affiliates or subsidiaries will be permitted to exercise all voting rights with respect to any Securities which they may acquire (other than with respect to a vote regarding the removal of the Collateral Manager or the termination or assignment of the Collateral Management Agreement). The interests of such persons may be different from or adverse to the interests of the other holders of Notes.

THE COLLATERAL MANAGEMENT AGREEMENT

General

The Collateral Manager will perform certain investment management and administrative functions with respect to the Issuer and Collateral Assets on behalf of the Issuer in accordance with the applicable provisions of the Indenture and the Collateral Management Agreement.

The Collateral Manager agrees to exercise that degree of skill and care consistent with the practices and procedures and attention no less than that which the Collateral Manager exercises with respect to comparable assets that it manages for clients in substantially similar transactions in accordance with its practices and procedures and which is consistent with those followed by reasonable and prudent institutional managers of national standing relating to assets of the nature and character of the Collateral Assets.

Neither the Collateral Manager nor its partners, directors, officers, stockholders or employees (collectively, the "Collateral Manager Affiliates") will be liable to the Issuer, the Trustee, the Holders of the Securities, or any other person for any loss incurred as a result of the actions taken by or recommended by the Collateral Manager under the Collateral Management Agreement or the Indenture, except by reason of acts or omissions constituting bad faith, willful misconduct, gross negligence or reckless disregard, of its obligations thereunder. Subject to the above mentioned standard of liability, the Collateral Manager and its affiliates, and each of their respective partners, shareholders, members, officers, directors, managers, employees, agents, accountants and attorneys will be entitled to indemnification by the Issuer for any losses or liabilities, including legal or other expenses, relating to the issuance of the Securities, the transactions contemplated by the Indenture or the performance of the Collateral Manager's obligations under the Collateral Management Agreement.

The Collateral Manager may assign its rights or responsibilities under the Collateral Management Agreement *provided* that (i) such assignment satisfies the Rating Agency Condition, and (ii) the Collateral Manager obtains the consent of the Issuer as directed by a Majority of the Controlling Class and a Majority-in-Interest of Income Notes (unless such assignment would be deemed as "assignment" for purposes of Section 205(a)(2) of the Advisers Act, in which case such consent shall not be required). The Collateral Manager may delegate to an agent selected with reasonable care any or all of the duties (other than its asset selection or trade execution duties) assigned to the Collateral Manager under the Collateral Management Agreement, *provided* that no delegation by the Collateral Manager of any of its duties under the Collateral Management Agreement shall relieve the Collateral Manager of any of its duties under the Collateral Management Agreement nor relieve the Collateral Manager of any liability with respect to the performance of such duties.

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The Collateral Management Agreement may not be amended or modified (other than an amendment or modification of the type that may be made to the Indenture without the consent of the Holders of the Notes) without satisfaction of the Rating Agency Condition and the prior written consent of the Noteholders and any Cashflow Swap Counterparty, if the consent of such parties would be required were such an amendment made pursuant to the Indenture.

The Collateral Manager may be removed for cause by the Holders of at least 66-2/3% of the Controlling Class or a Special-Majority-in-Interest of Income Noteholders (as such term is defined in the Collateral Management Agreement) upon 20 calendar days' prior written notice; *provided, however*, that any such vote will exclude any Securities held by the Collateral Manager, any affiliate of the Collateral Manager or any Securities over which the Collateral Manager or any of its affiliates has discretionary voting authority (the "Collateral Manager Securities"). For purposes of the Collateral Management Agreement, "cause" will mean (i) willful violation by the Collateral Manager of any provision of the Collateral Management Agreement or the Indenture applicable to it, (ii) certain events of bankruptcy or insolvency in respect of the Collateral Manager, (iii) the occurrence and continuation of an Event of Default under the Indenture which directly results from any breach by the Collateral Manager of its duties under the Indenture or the Collateral Management Agreement, (iv) the occurrence of an act by the Collateral Manager which constitutes fraud or criminal activity in the performance of its obligations under the Collateral Management Agreement or the indictment of the Collateral Manager or any of its officers or directors for a criminal offense materially related to its business of providing investment advisory services and (v) the failure of any representation, warranty, certification or statement made or delivered by the Collateral Manager in or pursuant to the Collateral Management Agreement or the Indenture to be correct when made if such failure (a) has a material adverse effect on either of the Issuers, the Noteholders or the Holders of the Income Notes and (b) if such failure can be cured, such failure is not cured within 60 days after the Collateral Manager acquires actual knowledge of or receives notice from the Trustee of such failure.

The Collateral Manager may resign upon 60 days' written notice to the Issuer, the Trustee, the Cashflow Swap Counterparty and the Rating Agencies or such shorter notice as is acceptable to the Issuer, the Trustee and the Rating Agencies; *provided* that the Collateral Manager shall have the right to resign immediately upon the effectiveness of any material change in applicable laws or regulations which renders the performance by the Collateral Manager of its duties under the Collateral Management Agreement or the Indenture to be a violation of such laws or regulations. The Collateral Management Agreement will terminate automatically in the event the Notes and the Income Notes are redeemed or cancelled in their entirety, or in the event of its assignment by the Collateral Manager in violation of the Collateral Management Agreement or if it is determined in good faith that the Issuer or the Co-Issuer or the pool of Collateral Assets has become required to register under the Investment Company Act, and the Issuer so notifies the Collateral Manager.

No removal, termination or resignation of the Collateral Manager or termination of the Collateral Management Agreement will be effective unless (i) a successor Collateral Manager is appointed by the Issuer and agrees in writing to assume all of the Collateral Manager's duties and obligations pursuant to the Collateral Management Agreement, (ii) the successor Collateral Manager is not objected to by a Special-Majority-in-Interest of Income Noteholders (as such term is defined in the Collateral Management Agreement) or a Majority of the Controlling Class (including, except with respect to a termination for cause of the Collateral Manager, any Collateral Manager Securities) within 30 days after notice and (iii) the Rating Agency Condition has been satisfied with respect to the appointment of such successor Collateral Manager. Such successor Collateral Manager must, in addition, meet certain qualifications specified in the Collateral Management Agreement (the "Replacement Manager Conditions").

In the event that the Collateral Manager has been removed, terminated or resigned and a successor Collateral Manager meeting the Replacement Manager Conditions has not been appointed on or prior to (i) in the case of removal of the Collateral Manager "for cause," the date that is 60 days following the date of notice of removal delivered in accordance with the Collateral Management Agreement and (ii) in the case of any other removal or resignation of the Collateral Manager, the date of removal or resignation specified in the relevant notice, the resigning or removed Collateral Manager shall

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be entitled to appoint a successor Collateral Manager and shall so appoint a replacement manager satisfying the Replacement Manager Conditions within 60 days thereafter, *provided* that such successor Collateral Manager is not objected to by a Majority-in-Interest of Income Noteholders (as such term in defined in the Collateral Management Agreement) (excluding any Collateral Manager Securities) or a Majority of the Controlling Class (excluding any Collateral Manager Securities) within 15 days after such appointment. In lieu thereof, or if the successor Collateral Manager appointed by the resigning or removed Collateral Manager is not approved, the resigning or removed Collateral Manager may petition any court of competent jurisdiction for the appointment of a replacement manager satisfying the successor Collateral Manager Conditions, but such appointment shall not require the consent of, nor be subject to the disapproval of, the Issuer or any Noteholder or Income Noteholder. Upon the appointment of a successor Collateral Manager satisfying the Replacement Manager Conditions and the written acceptance of such appointment by the successor Collateral Manager, all authority and power of the Collateral Manager under the Collateral Management Agreement will be automatically vested in the successor Collateral Manager. No compensation payable to a successor Collateral Manager from the Collateral Assets shall be greater than that paid to the Collateral Manager without (i) the prior written consent of (a) a Majority-in-Interest of Income Noteholders (as such term is defined in the Collateral Management Agreement) and (b) in the case of any increase or any Collateral Management Fee, the prior written consent of a Majority of the Notes (each voting as a separate Class) and (ii) the satisfaction of the Rating Agency Condition.

There is no limitation or restriction on the Collateral Manager or any Collateral Manager Affiliate with regard to acting as collateral manager (or in a similar role) to other parties or persons. This and other future activities of the Collateral Manager and/or the Collateral Manager Affiliates may give rise to additional conflicts of interest. The Collateral Manager and the Collateral Manager Affiliates currently serve, and will continue to serve, as Collateral Manager for, invest in or be affiliated with, other entities organized to issue collateralized debt obligations secured by high yield loans and bonds.

Funds managed by Greywolf will commit to purchase on the Closing Date 100% of the initial Aggregate Outstanding Amount of the Class D Notes and approximately 50% of the initial notional amount of the Income Notes and may purchase other Securities after the Closing Date. In addition, Greywolf and/or one or more of its affiliates or employees, or funds managed by Greywolf may own from time to time additional Securities of one or more types. There can be no assurance that any of the foregoing persons will continue to hold any or all of such Securities. As a Holder of the Class D Notes and the Income Notes or any other Securities, such persons may have interests adverse to the other Holders of Securities.

The Collateral Manager may only assign its rights or responsibilities under the Collateral Management Agreement in accordance with the terms of the Collateral Management Agreement.

Compensation

As compensation for the performance of its obligations under the Collateral Management Agreement, the Collateral Manager will be entitled to receive a fee in accordance with the Priority of Payments, payable in arrears on each Payment Date, of 0.04% *per annum* (the "Collateral Management Fee") times the Aggregate Principal Amount, measured as of the beginning of the Due Period preceding such Payment Date. If amounts distributable on any Payment Date in accordance with the Priority of Payments are insufficient to pay the Collateral Management Fee in full, then the shortfall will be deferred and will be payable on subsequent Payment Dates on which funds are available therefor according to the Priority of Payments. Any interest due on the amounts so deferred will be payable in the same order of priority as the Collateral Management Fee and will accrue interest at a rate equal to LIBOR.

The Collateral Management Fee will be calculated on the basis of a 360 day year consisting of twelve 30-day months. All fees payable to the Collateral Manager on a Payment Date are subject to payment only in accordance with the Priority of Payments.

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In its sole discretion, the Collateral Manager may on any Payment Date, other than the Final Payment Date, elect to defer its receipt of all or any portion of the Collateral Management Fee payable to it (the aggregate of amounts so deferred on such Payment Date being the "Current Deferred Management Fee") by providing written notice to the Trustee of such election at least five Business Days prior to such Payment Date. After such Payment Date, the Current Deferred Management Fee will accrue interest with respect to each Interest Accrual Period at a rate equal to LIBOR, compounded monthly and calculated on the basis of a year of 360 days and the actual number of days elapsed and be added to the cumulative amount of the Current Deferred Management Fees from prior Payment Dates, if any (the aggregate amount of such Current Deferred Management Fees being the "Cumulative Deferred Management Fee") and will be payable on subsequent Payment Dates on which funds are available therefor according to the Priority of Payments. The Collateral Manager may elect to receive payment of all or any portion of the Cumulative Deferred Management Fee on any Payment Date to the extent of funds available in accordance with the Priority of Payments by providing notice to the Trustee of such election and the amount of such fees to be paid on or before five Business Days preceding such Payment Date.

For so long as Greywolf is the Collateral Manager and any funds managed by Greywolf continue to hold any Income Notes, any Collateral Management Fees otherwise payable to the Collateral Manager hereunder shall be paid by the Issuer in the following order: (i) first, to such funds managed by Greywolf (on a pro rata basis among such funds), in an amount equal to the product of (x) such Collateral Management Fees and (y) a fraction the numerator of which is the notional amount of the Income Notes held by such funds managed by Greywolf and the denominator of which is the aggregate notional amount of all the Income Notes and (ii) second, the remainder, if any, to Greywolf.

THE ISSUERS

General

The Issuer was incorporated on March 5, 2007 in the Cayman Islands with the registered number 183317. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Issuer has no substantial prior operating history. The Issuer's Memorandum of Association sets out the objects of the Issuer, which are unrestricted and therefore include the business to be carried out by the Issuer in connection with the Securities.

The Co-Issuer was incorporated on March 7, 2007 under the laws of the State of Delaware with the registered number 4312941. The registered office of the Co-Issuer is at Donald J. Puglisi, Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711. The Co-Issuer has no prior operating history. Article 3 of the Co-Issuer's Certificate of Incorporation sets out the purposes of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the issuance of the Notes.

The Notes are obligations only of the Issuers and not of the Trustee, the Fiscal Agent, the Collateral Manager, the Initial Purchaser, the Issuer Administrator, the Collateral Manager, the Holders of the Income Notes, the Agents, the Share Trustee or any directors, managers or officers of the Issuers or any of their respective affiliates.

The authorized share capital of the Issuer consists of 50,000 ordinary shares, U.S.$1.00 par value per share (the "Issuer Ordinary Shares"). 250 of the Issuer Ordinary Shares have been issued and will be held by the Share Trustee under the terms of a charitable trust. All of the outstanding common equity of the Co-Issuer will be held by the Issuer. For so long as any of the Notes are outstanding, no beneficial interest in the ordinary shares of the Issuer or of the common equity of the Co-Issuer shall be registered to a U.S. Person.

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Capitalization of the Issuer

The initial proposed capitalization of the Issuer as of the Closing Date after giving effect to the issuance of the Securities and the Issuer Ordinary Shares and entry into the Cashflow Swap Agreement before deducting expenses of the offering of the Securities is as set forth below.

Amount	
Class S-1 Notes	$9,000,000
Class S-2 Notes	$8,300,000
Class A-1a Notes	$100,000,000
Class A-1b Notes	$200,000,000
Class A-1c Notes	$100,000,000
Class A-1d Notes	$100,000,000
Class A-2 Notes	$305,000,000
Class B Notes	$107,000,000
Class C Notes	$36,000,000
Class D Notes	$30,000,000
Income Notes	$22,000,000
Total Debt	$1,017,300,000
Issuer Ordinary Shares	250
Total Equity	$250
Total Capitalization	$1,017,300,250

Capitalization of the Co-Issuer

The Co-Issuer will be capitalized only to the extent of its common equity of U.S.$10, will have no assets other than its equity capital and will have no debt other than as Co-Issuer of the Notes (other than the Class D Notes). The Co-Issuer has agreed to co-issue the Notes (other than the Class D Notes) as an accommodation to the Issuer, and the Co-Issuer is receiving no remuneration for so acting. Because the Co-Issuer has no assets, and is not permitted to have any assets, Holders of Securities will not be able to exercise their rights against any assets of the Co-Issuer. Holders of Notes must rely on the Collateral held by the Issuer and pledged to the Trustee for payment on their respective Notes, in accordance with the Priority of Payments.

Flow of funds

The approximate flow of funds of the Issuer from the gross proceeds of the offering of the Securities on the Closing Date is as set forth below:

Gross Proceeds*	
Class S-1 Notes	$9,000,000
Class S-2 Notes	$8,300,000
Class A-1a Notes	$99,450,000
Class A-1b Notes	$200,000,000
Class A-1c Notes	$99,710,000
Class A-1d Notes	$99,700,000
Class A-2 Notes	$303,445,000
Class B Notes	$103,587,000
Class C Notes	$34,254,000
Class D Notes	$27,723,000
Income Notes	$22,000,000
Total:	$1,007,169,000

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Expenses*

Third Party Expenses	$1,850,000
Expense Reserve Account	$200,000
Total:	$2,050,000

Collateral Assets

Net Proceeds	$1,005,119,000
Principal Balance of Collateral Assets	$1,000,000,000
Clean Price of cash Collateral Assets and Default Swap Collateral	$910,810,000
Purchase Accrued Interest on cash Collateral Assets and Default Swap Collateral	$610,000
Cash and Eligible Investments deposited in Default Swap Collateral Account	$88,878,000
First Period Interest Reserve	$4,821,000

*Figures are approximate.

Business

The Issuers will not undertake any business other than the issuance of the Notes and, in the case of the Issuer, the issuance of the Income Notes, the acquisition and management of the Collateral and, in each case, other related transactions. Neither of the Issuers will have any subsidiaries.

The Issuer Administrator will act as the administrator of the Issuer. The office of the Issuer Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement to be dated March 16, 2007 by and between the Issuer Administrator and the Issuer (the "Administration Agreement"), the Issuer Administrator will perform various administrative functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Issuer Administrator will receive various fees and other charges payable by the Issuer at rates agreed upon from time to time *plus* expenses. The directors of the Issuer listed below are also officers and/or employees of the Issuer Administrator and may be contacted at the address of the Issuer Administrator.

The activities of the Issuer Administrator under the Administration Agreement will be subject to the overview of the Issuer's Board of Directors. The Administration Agreement may be terminated by either the Issuer or the Issuer Administrator upon 3 months' written notice (or, upon the occurrence of certain events, 14 days' written notice).

The Issuer Administrator's principal office is: Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Directors

The Directors of the Issuer are: Guy Major and Carrie Bunton, each having an address at Maples Finance Limited, P.O. Box 1093 GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The director of the Co-Issuer is Donald Puglisi who may be contacted at the address of the Co-Issuer.

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INCOME TAX CONSIDERATIONS

United States Tax Considerations

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes and the Income Notes by purchasers that acquire their Notes or Income Notes in the initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the United States Internal Revenue Service (the "IRS") with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor, nor does it address the United States federal income tax considerations applicable to categories of investors subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain United States expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, natural persons, cash method taxpayers, S corporations, estates and trusts, investors that hold their Notes or Income Notes as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences, or the indirect effects on persons who hold equity interests in either a U.S. Holder or a Non-U.S. Holder (as these terms are defined below). In addition, this summary is generally limited to investors that acquire their Notes or Income Notes on the Closing Date (and, in the case of Notes, acquire their Notes for the issue price applicable to such Notes) and who will hold their Notes or Income Notes as "capital assets" within the meaning of Section 1221 of the Code. Investors should consult their own tax advisors to determine the United States federal, state, local, and other tax consequences of the purchase, ownership, and disposition of the Notes and the Income Notes.

As used herein, "U.S. Holder" means a beneficial owner of a Note or Income Note that is an individual citizen or resident of the United States for United States federal income tax purposes, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). "Non-U.S. Holder" generally means any owner (or beneficial owner) of a Note or Income Note that is not a U.S. Holder (other than a partnership). If a partnership holds Notes or Income Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partnerships and partners of partnerships holding Notes or Income Notes should consult their own tax advisors regarding the tax consequences of an investment in the Notes or Income Notes (including their status as U.S. Holders or Non-U.S. Holders).

Tax Treatment of Issuer

Upon the issuance of the Notes, Orrick, Herrington & Sutcliffe LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer, although the matter is not free from doubt, the Issuer's permitted activities will not result in the Issuer being engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and the IRS might seek to treat the Issuer as engaged in a United States trade or business, in which event the Issuer would be subject, inter alia, to a 35% tax on such of its income as was effectively connected to the U.S. trade or business as well as a 30% "branch profits" tax when such income is viewed as having been repatriated to the Cayman Islands (thereby materially adversely effecting the Issuer's ability to make payments on the Securities).

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The opinion of special U.S. tax counsel is subject to several considerations. For example, the United States Treasury Department and the IRS recently announced that they are considering taxpayer requests for specific guidance on, among other things, whether a foreign person may be treated as engaged in a trade or business in the United States by virtue of entering into credit default swaps. No guidance has been issued to date. If any future guidance concludes that foreign persons entering into certain credit default swaps will be treated as engaged in a trade or business in the United States, such guidance would adversely impact the Issuer's ability to pay principal and interest on the Notes. Additionally, it should be noted that gain or loss on a disposition by a foreign person of a United States real property interest may be subject to United States federal income tax as if the foreign person were engaged in a United States trade or business (even if the foreign person is not, in fact, so engaged). The determination of whether an asset constitutes a United States real property interest is made periodically and, therefore, it is possible that an asset that was not a United States real property interest at the time it was acquired by the Issuer could, thereafter, become a United States real property interest. Similarly, if the Issuer accepted a new security in exchange for an existing security or if the terms of an existing security were modified, the new or modified security might cause the Issuer to become engaged in a United States trade or business for United States federal income tax purposes.

It is not expected that the Issuer will derive material amounts of any other items of income that will be subject to United States withholding taxes. Notwithstanding the foregoing, any commitment fee, facility fee and similar fee that the Issuer earns may be subject to a 30% withholding tax. Additionally, if the Issuer is a CFC (defined below), the Issuer would incur United States withholding tax on interest received from a related United States person. The Issuer will not make any independent investigation of the circumstances surrounding the individual assets comprising the Collateral Assets and, thus, there can be no assurance that payments of interest on and gain from the sale or disposition of the Collateral Assets will in all cases be received free of withholding tax.

The Issuer will not be required to pay additional amounts to any Holder of Income Notes or any Class of Notes if taxes or related amounts are withheld from payments on the Income Notes or Notes or from payments on any Collateral Asset. However, withholding on the Collateral Assets could result in the Securities being redeemed by the Issuer. See "—Tax Redemption."

Tax Treatment of U.S. Holders of Notes

The Issuer has agreed and, by its acceptance of a Note, each Holder of a Note will be deemed to have agreed, to treat its Notes as debt of the Issuer for United States federal income tax purposes (although this shall not prevent a U.S. Holder from making a QEF election, as defined below, on a protective basis or from making protective filings under Section 6038, 6038B or 6046 of the Code). Upon the issuance of the Notes, Orrick, Herrington & Sutcliffe LLP will deliver an opinion generally to the effect that, assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer, the Class S Notes, Class A Notes, Class B Notes and Class C Notes will, and the Class D Notes should, be characterized as debt for United States federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS, and there can be no assurance that the IRS will not seek to characterize any Class of Notes as other than indebtedness. Except as provided under "—Alternative Characterization of the Notes" below, the balance of this discussion assumes that the Notes will be characterized as debt of the Issuer for United States federal income tax purposes.

Each U.S. Holder will include interest on the Notes in income in accordance with its regular method of accounting for United States federal income tax purposes unless the Notes are viewed as having being issued with original issue discount ("OID") in which case, generally, each U.S. Holder would be required to accrue interest on the Note on an accrual basis under a constant yield methodology, based on the original yield to maturity of the Note. Because interest on the Class C Notes and Class D Notes may be deferred without giving rise to an Event of Default, all interest (including interest on accrued but unpaid interest) will be treated as OID unless the likelihood of deferral is remote. The Issuer has not determined whether the likelihood of interest being deferred is remote for this purpose and, hence, will treat the interest on the Class C Notes and Class D Notes as OID. Additionally, the Issuer will treat any

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Class of Notes as having been issued with OID if (A) such Class is issued at a discount equal to or in excess of the product of 0.25% of the stated redemption price at maturity of such Class and the anticipated weighted average life of such Class or (B) the issue price of such Class exceeds the principal amount thereof by more than the lesser of (i) 15% or (ii) 0.015 multiplied by the anticipated weighted average life of the Class. Any accrued but unpaid OID included in income by a U.S. Holder will increase the U.S. Holder's basis in its Note and thereby reduce the amount of gain or increase the amount of loss recognized by the U.S. Holder on a subsequent sale or other disposition of the Note.

Any OID on the Notes will likely be accruable under the special rules set forth in Section 1272(a)(6) of the Code (which apply to debt instruments that may be accelerated by reason of the prepayment of other debt obligations securing such debt instruments). If Section 1272(a)(6) does not apply, the Notes might be treated as "contingent payment debt instruments" ("CPDIs") within the meaning of Treasury Regulation Section 1.1275-4. If any such Class of Notes were considered CPDIs, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Prospective investors should consult their own tax advisors regarding the potential application of Section 1272(a)(6) of the Code to the Notes and the rules governing CPDIs.

In general, a U.S. Holder of a Note will have a tax basis in such Note equal to the cost of such Note increased by any OID and any market discount that the U.S. Holder has elected to include in income on a current basis and reduced by any amortized premium and payments of principal and OID. Upon a sale, exchange or other disposition of such a Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or other disposition (less any accrued and unpaid interest, which would be taxable as such) and the U.S. Holder's tax basis in such Note (as reduced by any accrued and unpaid interest). Such gain or loss generally will be long term capital gain or loss (other than accrued market discount if the U.S. Holder has not elected to include such discount in income on a current basis) assuming that the U.S. Holder has held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Alternative Characterization of the Notes. Notwithstanding special U.S. tax counsel's opinion, U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Notes. It is possible, for example, that the IRS may contend that the Class D Notes and possibly other Classes of Notes should be treated as equity interests (or as part-debt, part-equity) in the Issuer. Such a recharacterization might result in materially adverse tax consequences to U.S. Holders. As a result, U.S. Holders of Notes may wish to consider the advisability of making "QEF election" provided in Section 1295 of the Code on a "protective" basis (although this election may not be respected since the current QEF regulations do not authorize protective QEF elections for debt that may be recharacterized as equity). Additionally, any such characterization might necessitate those U.S. Holders of a Class of Notes that is characterized as equity to file information returns with the IRS with respect to their acquisition of the Notes (and be subject to significant penalties for failure to do so). For the consequences that would apply if any Class of Notes were characterized as equity for United States federal income tax purposes, see below under " – Tax Treatment of U.S. Holders of Income Notes."

Tax Treatment of U.S. Holders of Income Notes

The Income Notes, although in the form of debt, will likely be characterized as equity for U.S. federal income tax purposes. Additionally, the Issuer has agreed, and, by its acceptance of an Income Note, each Holder of an Income Note will be deemed to have agreed, to treat the Income Notes as equity for U.S. federal income tax purposes. For purposes of this discussion, it is assumed that the Income Notes will be so characterized. It is noted, however, that in the event that the Income Notes were characterized as debt for United States federal income tax purposes, they would constitute contingent payment debt instruments; among the consequences that would result from an application of the rules applicable to contingent payment debt instruments of the Income Notes is that gain on the sale of the Income Notes that might otherwise be capital gain would constitute ordinary income.

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Subject to the rules discussed below relating to "passive foreign investment companies" ("PFICs") and "controlled foreign corporation" ("CFCs"), payments on the Income Notes should be treated as dividends to the extent of the current or accumulated earnings and profits of the Issuer. Payments characterized as dividends would be taxable at regular marginal income tax rates applicable to ordinary income, and would not be entitled to the benefit of the dividends received deduction or any reduction in tax rates that may be available for certain dividends. Distributions in excess of the Issuer's earnings and profits would be non-taxable to the extent of, and would be applied against and reduce, the U.S. Holder's adjusted tax basis in the Income Notes and, to the extent in excess of such basis, would be taxable as gain from the sale or exchange of property.

The tax consequences discussed in the preceding paragraph are likely to be significantly modified as a result of the application of the PFIC and CFC rules discussed below. Thus, U.S. Holders of the Income Notes will be viewed as owning stock in a PFIC and, possibly, in a CFC (depending, in the latter instance, on the percentage of voting equity that is acquired and held by certain U.S. Holders). If applicable, the rules pertaining to CFCs would generally override those pertaining to PFICs, although in certain circumstances both set of rules could apply simultaneously.

Under the PFIC rules, U.S. Holders of the Income Notes (other than U.S. Holders that make a timely "QEF election", as described below) will be subject to special rules relating to the taxation of "excess distributions" – with excess distributions being defined to include certain distributions made by a PFIC on its stock as well as gain recognized on a disposition of PFIC stock. For this purpose, a U.S. Holder that uses its Income Notes as security for an obligation will be treated as having made a disposition of PFIC stock. In general, Section 1291 of the Code provides that the amount of any "excess distribution" will be allocated to each day of the U.S. Holder's holding period for its PFIC stock. The amount allocated to the current year will be included in the U.S. Holder's gross income for the current year as ordinary income. With respect to amounts allocated to prior years, the tax imposed for the current year will be increased by the "deferred tax amount," which is an amount calculated with respect to each prior year by multiplying the amount allocated to such year by the highest rate of tax in effect for such year, together with an interest charge as though the amounts of tax were overdue.

In order to avoid the application of the PFIC rules, U.S. Holders of Income Notes may wish to consider making the QEF election provided in Section 1295 of the Code. In lieu of the PFIC rules discussed above, a U.S. Holder of Income Notes that makes a valid QEF election will, in very general terms, be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains, unreduced by any prior year losses, in income for each taxable year (as ordinary income and long-term capital gain, respectively) and to pay tax thereon, even if the amount of that income is not the same as the dividends paid on the Income Notes during the year. If the Issuer later distributes the income or gain on which the U.S. Holder has already paid taxes under the QEF rules, the amounts so distributed will not again be subject to tax in the hands of the U.S. Holder. A U.S. Holder's tax basis in any Income Notes as to which a QEF election has been validly made will be increased by the amount included in such U.S. Holder's income as a result of the QEF election and decreased by the amount of nontaxable distributions received by the U.S. Holder. On the disposition (including redemption or retirement) of an Income Note, a U.S. Holder making the QEF election generally will recognize capital gain or loss equal to the difference, if any, between the amount realized upon such disposition and its adjusted tax basis in the Income Note. In general, a protective QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which the U.S. Holder has held its Income Notes. In this regard, a QEF election is effective only if certain required information is made available by the Issuer. Upon request, the Issuer will provide any U.S. Holder of Income Notes and any U.S. Holder of a Class of Notes that may reasonably be characterized as equity in the Issuer for United States federal income tax purposes with the information necessary for such U.S. Holder to make the QEF election. Nonetheless, there can be no assurance that such information will always be available.

The Issuer may be treated as holding securities issued by non-U.S. corporations that are characterized as equity in one or more PFICs for United States federal income tax purposes, such as CDO Securities. In that event, U.S. Holders of the Income Notes would be treated as holding an interest in these indirectly-owned PFICs. Because the U.S. Holder – and not the Issuer – would be required to make any QEF election with respect any such indirectly-owned PFIC, and because PFIC information

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statements necessary for any such election may not be made available by the PFIC, there can be no assurance that a U.S. Holder would be able to make a QEF election with respect to any particular indirectly-held PFIC. If the U.S. Holder of any Income Notes has not made a QEF election with respect to an indirectly-owned PFIC, the U.S. Holder would be subject to the consequences described above with respect to the excess distributions of such PFIC (including gain indirectly realized with respect to such PFIC on the sale of the Issuer's interest in the PFIC and with respect to the sale by the U.S. Holder of its Income Notes). Alternatively, if the U.S. Holder has made a QEF election with respect to the indirectly-owned PFIC, the U.S. Holder would be required to include in income its share of the indirectly-owned PFIC's ordinary earnings and net capital gain.

U.S. tax law also contains special provisions relating to CFCs. A foreign corporation is a CFC if "U.S. Shareholders" in the aggregate own, directly or indirectly, more than 50% of the voting power or value of the stock of such corporation. For this purpose, a United States person that owns, directly or indirectly, ten percent or more of the voting stock of a CFC is considered a "U.S. Shareholder" with respect to the CFC. If any U.S. Holder of Income Notes were properly viewed as a U.S. Shareholder of the Issuer under the CFC rules, the U.S. Holder would be subject each year to U.S. income tax (at ordinary income rates) on its pro rata share of the income of the Issuer (assuming that the Issuer is properly classified as a CFC for the year and that the U.S. Holder holds its Income Notes as of the end of the year), regardless of the amount of cash distributions received by the U.S. Holder with respect to its Income Notes during the year. Earnings subject to tax to a U.S. Holder under the CFC rules would generally not be taxed again when distributed to the U.S. Holder. In addition, if the Issuer is a CFC and a U.S. Holder is a U.S. Shareholder with respect to the Issuer, all or a portion of the income that otherwise would be characterized as capital gain upon a sale of U.S. Holder's Income Notes may be classified as ordinary income.

Prospective investors should be aware that in computing the Issuer's earnings for purposes of the CFC rules, losses on dispositions of securities in bearer form may not be allowed, while in computing the Issuer's ordinary earnings and net capital gains for purposes of the PFIC rules, losses on dispositions of securities in bearer form may not be allowed and any gain on such securities may be ordinary rather than capital. Further, prospective investors should be aware that in the event that any of the Notes is not fully paid upon maturity, the Issuer may recognize cancellation of indebtedness income for United States federal income tax purposes, without any corresponding offsetting loss (due to tax character differences or otherwise). In such a case, U.S. Holders of the Income Notes (and U.S. Holders of any Class of Notes treated as equity for United States federal income tax purposes) may also have phantom income as a result of such recognition by the Issuer (pursuant to the QEF and CFC rules discussed above), as to which an offsetting loss may not be available to the U.S. Holders.

Tax Treatment of Non-U.S. Holders

A Non-U.S. Holder of Notes or Income Notes that has no connection with the United States generally should not be subject to United States withholding tax on payments in respect of the Notes or Income Notes, and also should not be subject to United States federal income tax on any gains recognized in connection with the sale or other disposition of the Notes or Income Notes, *provided* that the Non U.S. Holder makes certain tax representations regarding the identity of the beneficial owner of the Notes or Income Notes (and, with respect to any gain recognized in connection with the sale or other disposition of the Notes or Income Notes by a non resident alien individual, such individual is not present in the United States for 183 days or more in the taxable year of the sale or other disposition and certain other conditions are met).

Information Reporting Requirements

Information reporting to the IRS may be required with respect to payments on the Notes or Income Notes and with respect to proceeds from the sale of the Notes and Income Notes to Holders other than corporations and certain other exempt recipients. A "backup" withholding tax may also apply to those payments if a Holder fails to provide certain identifying information (such as the Holder's taxpayer identification number or an attestation to the status of the Holder as a Non-U.S. Holder). Backup

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withholding is not an additional tax and may be refunded (or credited against the Holder's United States federal income tax liability, if any) *provided* that certain required information is furnished to the IRS in a timely manner.

Prospective investors should consult with their own tax advisors regarding whether they are required to file an IRS Form 8886 in respect of this transaction (relating to certain "reportable transactions"). Thus, for example, if a U.S. Holder were to sell its Notes or Income Notes at a loss, it is possible that this loss could constitute a reportable transaction and need to be reported on Form 8886 As another example, a transaction may be reportable if it is offered under conditions of confidentiality. In this regard, each Holder and beneficial holder of a Note and Income Note (and each of their respective employees, representatives or other agents) is hereby advised that it is permitted to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described herein (including the ownership and disposition of the Notes or Income Notes) except where confidentiality is reasonably necessary to comply with the securities laws of any applicable jurisdiction. Significant penalties apply for failure to file Form 8886 when required, and U.S. Holders are therefore urged to consult their own tax advisors.

U.S. Holders of Income Notes and of any Class of Notes classified as equity for United States federal income tax purposes may be required to file Forms with the IRS under the applicable reporting provisions of the Code. For example, such U.S. Holders may be required, under Sections 6038, 6038B and/or 6046 of the Code, to supply the IRS with certain information regarding the U.S. Holder, other U.S. Holders and the Issuer if (i) such person owns at least 10% of the total value or 10% of the total combined voting power of all classes of stock entitled to vote or (ii) the acquisition, when aggregated with certain other acquisitions that may be treated as related under applicable regulations, exceeds $100,000. Upon request, the Issuer will provide U.S. Holders of Income Notes and of any Class of Notes that may reasonably be recharacterized as equity for United States federal income tax purposes with information about the Issuer and its shareholders that the Issuer possesses and that may be needed to complete any Form that is so required. In the event a U.S. Holder fails to file a form when required to do so, the U.S. Holder could be subject to substantial tax penalties.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Issuer and its tax advisors are (or may be) required to inform prospective investors that:

i. Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;

ii. Any such advice is written to support the promotion or marketing of the Securities and the transactions described herein (or in such opinion or other advice); and

iii. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

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Under existing Cayman Islands laws:

(i) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(ii) the Holder of any Note (or the legal personal representative of such Holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note. In addition, an instrument transferring title to a Note, if bought or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor In Cabinet of the Cayman Islands in the following form:

THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Timberwolf I, Ltd. (the "Company"):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the date of the undertaking.

ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing such ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Securities.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" under ERISA or "disqualified persons" under the

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Code (collectively, "Parties in Interest")) having certain relationships to such Plans, unless a statutory, regulatory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

The United States Department of Labor ("DOL") has promulgated a regulation, 29 C.F.R. Section 2510.3-101, describing what constitutes the assets of a Plan ("Plan Assets") with respect to the Plan's investment in an entity for purposes of applying ERISA and Section 4975 of the Code. Section 3(42) of ERISA also describes what constitutes Plan Assets. Section 3(42) of ERISA and 29 C.F.R. Section 2510.3-101 are collectively the "Plan Asset Regulation." Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by Benefit Plan Investors is not "significant." Section 3(42) of ERISA modified 29 C.F.R. Section 2510.3-101 to exclude plans not subject to Title I of ERISA or Section 4975 of the Code from the Benefit Plan Investor definition.

Prohibited transactions may arise under Section 406 of ERISA or Section 4975 of the Code if Securities are acquired with Plan Assets with respect to which the Issuer, the Initial Purchaser, the Collateral Manager or any of their respective affiliates, is a Party in Interest. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, including a statutory exemption under Section 408(b)(17) of ERISA for transactions involving "adequate consideration" with persons who are Parties in Interest solely by reason of their (or their affiliate's) status as a service provider to the Plan involved and none of whom is a fiduciary with respect to the Plan Assets involved (or an affiliate of such a fiduciary). In addition, an administrative exemption may be available depending in part on the type of Plan fiduciary making the decision to acquire a Security and the circumstances under which such decision is made. Included among these exemptions are: DOL Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by certain "in-house asset managers"; PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by independent "qualified professional asset managers." There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Securities, or that, if available, the exemption would cover all possible prohibited transactions.

Governmental plans and certain church and other plans, while not necessarily subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Securities.

Any insurance company proposing to invest assets of its general account in the Securities should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the DOL for transactions involving insurance company general accounts in PTCE 95-60 and the regulations issued by the DOL, 29 C.F.R. Section 2550.401c-1 (January 5, 2000). Certain additional information regarding general accounts is set forth below.

Any Plan fiduciary or other person who proposes to use Plan Assets to purchase any Securities should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

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The sale of any Security to a Plan, or to a person using Plan Assets to effect its purchase of any Security, is in no respect a representation by the Issuers, the Initial Purchaser or the Collateral Manager that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Class S Notes, Class A Notes, Class B Notes and Class C Notes

For purposes of the Plan Asset Regulation, an equity interest includes any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Because the Notes (a) are expected to be treated as indebtedness under local law and for federal tax purposes (see "Income Tax Considerations" herein), and (b) should not be deemed to have any "substantial equity features," purchases of the Notes with Plan Assets should not be treated as equity investments and, therefore, the Collateral Assets should not be deemed to be Plan Assets of the investing Plans. Those conclusions are based, in part, upon the traditional debt features of the Notes, including the reasonable expectation of purchasers of the Notes that the Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. However, if the Notes were nevertheless treated as equity interests for purposes of the Plan Asset Regulation and if the assets of the Issuer were deemed to constitute Plan Assets of an investing Plan, (i) transactions involving the assets of the Issuer could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an investment in the Notes could be deemed to have delegated its responsibility to manage Plan Assets.

By its purchase of any Class S Note, Class A Note, Class B Note or Class C Note, the purchaser thereof will be deemed to have represented and warranted either that (i) it is not and will not be a Plan or an entity whose underlying assets include Plan Assets by reason of any Plan's investment in the entity; or (ii) its purchase and holding of a Class S Note, Class A Note, Class B Note or Class C Note are eligible for the exemptive relief available under any of Section 408(b)(17) of ERISA or PTCE 84-14, 90-1, 91-38, 95-60, 96-23 or a similar exemption.

Class D Notes and Income Notes

Equity participation in an entity by Benefit Plan Investors is "significant" under the Plan Asset Regulation (see above) if 25% or more of the value of any class of equity interest in the entity is held by Benefit Plan Investors. If equity participation in the Issuer by Benefit Plan Investors is "significant," the assets of the Issuer could be deemed to be Plan Assets of Plans investing in the equity. If the assets of the Issuer were deemed to constitute Plan Assets of an investing Plan, (i) transactions involving the assets of the Issuer could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an equity investment in the Issuer could be deemed to have delegated its responsibility to manage Plan Assets. The term "Benefit Plan Investor" includes (i) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to the provisions of Title I of ERISA, (ii) a plan described in and subject to Section 4975(e)(1) of the Code and (iii) any entity whose underlying assets include Plan Assets by reason of any such plan's investment in the entity. An entity described in (iii) above will be asked (i) to identify the maximum percentage of its assets that may be or become Plan Assets and (ii) without limiting the remedies that may be available, in the event the maximum percentage is thereafter exceeded, to agree to notify the Issuer, and dispose of Income Notes as instructed by the Issuer, before the specified maximum percentage is exceeded. For purposes of making the 25% determination, the value of any equity interests in the Issuer held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the Issuer, any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person (any of the foregoing, a "Controlling Person"), are disregarded. Under the Plan Asset Regulation, an "affiliate" of a person includes any person, directly or

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indirectly through one or more intermediaries, controlling, controlled by or under common control with the person, and "control" with respect to a person, other than an individual, means the power to exercise a controlling influence over the management or policies of such person.

The Income Notes are not indebtedness under applicable local law and will be equity interests for purposes of applying ERISA and Section 4975 of the Code. The Class D Notes may also be treated as equity interests for purposes of applying ERISA and Section 4975 of the Code. Accordingly, purchases and transfers of Income Notes will be limited, so that less than 25% of the value of each of the Class D Notes and Income Notes will be held by Benefit Plan Investors, by requiring each purchaser or transferee of a Class D Note and an Income Note to make certain representations and agree to additional transfer restrictions described under "Notice to Investors." Benefit Plan Investors and Controlling Persons will not be permitted to purchase Regulation S Income Notes or Regulation S Class D Notes. No purchase of a Class D Note or an Income Note (other than a Regulation S Income Note and a Regulation S Class D Note) by, or proposed transfer to, a person that has represented that it is a Benefit Plan Investor or a Controlling Person will be permitted to the extent that such purchase or transfer would result in persons that have represented that they are Benefit Plan Investors owning 25% or more of any of the outstanding Class D Notes and Income Notes immediately after such purchase or proposed transfer (determined in accordance with the Plan Asset Regulation and the Indenture and the Fiscal Agency Agreement), based upon the representations made by investors. In addition, the Initial Purchaser, the Collateral Manager and the Trustee agree that neither they nor any of their respective affiliates will acquire any Class D Notes or Income Notes unless such acquisition would not, as determined by the Trustee, result in persons that have acquired Class D Notes or Income Notes and represented that they are Benefit Plan Investors owning 25% or more of the outstanding Class D Notes or Income Notes immediately after such acquisition by the Initial Purchaser, the Collateral Manager or the Trustee. Class D Notes or Income Notes held as principal by the Initial Purchaser, the Collateral Manager, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding for purposes of determining compliance with the 25% limitation to the extent that such a Controlling Person is not a Benefit Plan Investor. Any Benefit Plan Investor that acquires Class D Notes or Income Notes (other than Regulation S Income Notes or Regulation S Class D Notes) will be required to represent and agree that the acquisition and holding of the Class D Notes or Income Notes (other than Regulation S Income Notes or Regulation S Class D Notes) do not and will not constitute a prohibited transaction under ERISA or Section 4975 of the Code for which an exemption is not available.

The U.S. Supreme Court, in *John Hancock* (noted above), held that those funds allocated to the general account of an insurance company pursuant to a contract with an employee benefit plan which vary with the investment experience of the insurance company are "plan assets." In the preamble to PTCE 95-60 (also noted above), the DOL noted that, for purposes of calculating the 25% threshold under the significant participation test of the Plan Asset Regulation, only the proportion of an insurance company general account's equity investment in the entity that represents Plan Assets should be taken into account in calculating that portion of the general account that is a Benefit Plan Investor. Any insurance company using general account assets to purchase Class D Notes or Income Notes (other than Regulation S Income Notes or Regulation S Class D Notes) will be asked (i) to identify the maximum percentage of the assets of the general account that may be or become Plan Assets, (ii) whether it is a "Controlling Person" (defined above), and (iii) without limiting the remedies that may be available, in the event that the maximum percentage is thereafter exceeded, to agree to notify the Issuer, and dispose of Class D Notes or Income Notes as instructed by the Issuer, before the specified maximum percentage is exceeded. Insurance companies using general account assets that are Plan Assets may not purchase Regulation S Income Notes or Regulation S Class D Notes.

CERTAIN LEGAL INVESTMENT CONSIDERATIONS

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investments in the Notes or the Income Notes. Any such institution should consult its legal advisors in determining whether and to what

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extent there may be restrictions on its ability to invest in the Notes and the Income Notes. Without limiting the foregoing, any financial institution that is subject to the jurisdiction of the Comptroller of Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, any state insurance commission, or any other federal or state agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing the Notes or the Income Notes. Depository institutions should review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities, which has been adopted by the respective federal regulators.

None of the Issuers or the Initial Purchaser make any representation as to the proper characterization of the Notes or Income Notes for legal investment or other purposes, or as to the ability of particular investors to purchase the Notes or Income Notes for legal investment or other purposes, or as to the ability of particular investors to purchase the Notes or Income Notes under applicable investment restrictions. The Issuers understand that certain state insurance regulators, in response to a request for guidance, may be considering the characterization (as U.S. domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any guidance or other action that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Notes or Income Notes) may affect the liquidity of the Notes or Income Notes. Accordingly, all institutions whose activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Notes or Income Notes are subject to investment, capital or other restrictions.

LISTING AND GENERAL INFORMATION

1. Application may be made to admit some or all of the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained. Copies of this offering circular, the Memorandum and Articles of Association of the Issuer and the organization documents of the Co-Issuer, the Indenture, the Collateral Management Agreement, the Fiscal Agency Agreement and the Cashflow Swap Agreement will be deposited with the Note Paying Agents, the Listing and Paying Agent and at the registered office of the Issuer, where copies thereof may be obtained, free of charge, upon request within fourteen days of the date of the Listing Particulars.

2. Copies of the Memorandum and Articles of Association of the Issuer, the organizational documents of the Co-Issuer, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Securities, and the execution of the Indenture, the Deed of Covenant, the Fiscal Agency Agreement, the Collateral Management Agreement and the Cashflow Swap Agreement and the resolutions of the sole member of the Co-Issuer authorizing the issuance of the Notes, and the execution of the Indenture may be obtained free of charge upon request within thirty days of the date of this offering circular at the office of a Paying Agent on behalf of the Issuer.

3. Each of the Issuers represents that there has been no material adverse change in its financial position since its date of creation.

4. The Issuer is not required by Cayman Islands law, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to deliver to the Trustee a Director's Certificate stating, as to each signatory thereof, that (a) a review of the activities of the Issuer during the prior year and of the Issuer's performance under the Indenture has been made under his supervision; and (b) to the best of his knowledge, based on such review, the Issuer has fulfilled all of its obligations under the Indenture throughout the prior year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to him and the nature and status thereof.

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5. The Issuers are not, and have not since incorporation or formation, as applicable, been, involved in any litigation or arbitration proceedings relating to claims in amounts which may have or have had a material effect on the Issuers in the context of the issue of the Notes nor, so far as each of the Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

6. The issuance of the Securities will be authorized by the Board of Directors of the Issuer by resolutions passed on or about the Closing Date. The issuance of the Notes will be authorized by the sole member of the Co-Issuer by action by written consent of the sole member passed on or about the Closing Date. Since incorporation or formation, as applicable, neither the Issuer nor the Co-Issuer has commenced trading or established any accounts, except as disclosed herein or accounts used to hold amounts received with respect to share capital and fees.

7. The Notes sold in offshore transactions in reliance on Regulation S and represented by the Regulation S Global Notes have been accepted for clearance through Clearstream and Euroclear under the Common Codes indicated below. The CUSIP Numbers and International Securities Identification Numbers ("ISIN") for the Notes represented by Regulation S Global Notes and Rule 144A Global Notes are as indicated below:

	Regulation S Global Notes		Rule 144A Global Notes
	CUSIP	ISIN	CUSIP
Class S-1 Notes	G8878YAA8	USG8878YAA85	88714PAA4
Class S-2 Notes	G8878YAL4	USG8878YAL41	88714PAK2
Class A-1a Notes	G8878YAB6	USG8878YAB68	88714PAB2
Class A-1b Notes	G8878YAC4	USG8878YAC42	88714PAC0
Class A-1c Notes	G8878YAD2	USG8878YAD25	88714PAD8
Class A-1d Notes	G8878YAE0	USG8878YAE08	88714PAE6
Class A-2 Notes	G8878YAF7	USG8878YAF72	88714PAF3
Class B Notes	G8878YAG5	USG8878YAG55	88714PAG1
Class C Notes	G8878YAH3	USG8878YAH39	88714PAH9
Class D Notes	G8878YAK6	USG8878YAK67	88714PAJ5
Income Notes	G8878DAA4	USG8878DAA49	88714NAA9

LEGAL MATTERS

Certain legal matters will be passed upon for the Collateral Manager by Sidley Austin LLP, New York, New York. Certain matters with respect to Cayman Islands law will be passed upon for the Issuer by Maples and Calder. Certain legal matters will be passed upon for the Issuer and Goldman, Sachs & Co. by Orrick, Herrington & Sutcliffe LLP, New York, New York.

UNDERWRITING

The Securities will be offered by Goldman, Sachs & Co. (the "Initial Purchaser"), from time to time at varying prices in negotiated transactions subject to prior sale, when, as and if issued. Subject to the terms and conditions set forth in the Purchase Agreement (the "Purchase Agreement") dated as of March 27, 2007 among Goldman, Sachs & Co. and the Issuers, the Issuers have agreed to sell to Goldman, Sachs & Co. and Goldman, Sachs & Co. has agreed to purchase all of the Notes and the Income Notes.

Under the terms and conditions of the Purchase Agreement, Goldman, Sachs & Co. is committed to take and pay for all the Securities to be offered by it, if any are taken. Furthermore, under the terms and conditions of the Purchase Agreement, Goldman, Sachs & Co. may be entitled to an underwriting discount on the Securities purchased by it and will be entitled to the Deferred Structuring Expense on each Payment Date in accordance with the Priority of Payments.

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The Securities purchased from the Issuers by the Initial Purchaser will be offered by it from time to time for sale in negotiated transactions or otherwise at varying prices to be determined at the time of sale *plus* accrued interest, if any, from the Closing Date.

The Securities have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. Person or a U.S. resident (as determined for purposes of the Investment Company Act, a "U.S. Resident") except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuers have been advised by the Initial Purchaser that (a) it proposes to resell the Securities outside the United States (in part, by Goldman, Sachs & Co., through its selling agent) in offshore transactions in reliance on Regulation S and in accordance with applicable law and (b) it proposes to resell the Securities in the United States only to (1) Qualified Institutional Buyers in reliance on Rule 144A purchasing for their own accounts or for the accounts of Qualified Institutional Buyers or (2) in the case of the Income Notes only, Accredited Investors, which have a net worth of not less than U.S.$10 million each of which purchasers or accounts is a Qualified Purchaser. The Initial Purchaser's discount will be the same for the Regulation S Notes and the Rule 144A Notes offered hereby and for the Income Notes within each Class of Securities.

The Initial Purchaser has acknowledged and agreed that it will not offer, sell or deliver any Regulation S Notes or Regulation S Income Notes purchased by it to, or for the account or benefit of, any U.S. Person or U.S. Resident (as determined for purposes of the Investment Company Act) as part of its distribution at any time and that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Regulation S Notes or Regulation S Income Notes purchased by it a confirmation or other notice setting forth the prohibition on offers and sales of the Regulation S Notes or Regulation S Income Notes within the United States or to, or for the account or benefit of, any U.S. Person or U.S. Resident.

With respect to the Securities initially sold pursuant to Regulation S, until the expiration of (x) 40 days after the commencement of the distribution of the offering of the Notes by the Initial Purchaser, with respect to offers or sales of the Notes and (y) one year after the commencement of the distribution of the Income Notes, with respect to offers or sales of the Income Notes purchased by Goldman, Sachs & Co., an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Initial Purchaser has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom. See "Underwriting."

The Securities may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Securities may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

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This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Securities under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The Securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and the Initial Purchaser has agreed that it will not offer or sell any Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The Initial Purchaser has agreed that it has not made and will not make any invitation to the public in the Cayman Islands to purchase any of the Securities.

Buyers of Regulation S Securities sold by the selling agent of Goldman, Sachs & Co. may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the purchase price.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuers or the Securities, in any jurisdiction where action for such purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Securities may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Securities are a new issue of securities with no established trading market. The Issuers have been advised by the Initial Purchaser that it may make a market in the Securities it is offering but is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Securities. There can be no assurance that any secondary market for any of the Securities will develop, or, if a secondary market does develop, that it will provide the Holders of the Securities with liquidity of investment or that it will continue for the life of the Securities.

Application may be made to admit the Securities on a stock exchange of the Issuer's choice, if practicable. There can be no assurance that such admission will be sought, granted or maintained.

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The Issuers have agreed to indemnify the Initial Purchaser, the Collateral Manager, the Issuer Administrator, the Collateral Administrator and the Trustee against certain liabilities, including in the case of the Initial Purchaser, liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof. In addition, the Issuers have made certain representations and warranties to the Initial Purchaser and have agreed to reimburse the Initial Purchaser for certain of their expenses.

The Initial Purchaser may, from time to time as principal or through one or more investment funds that it manages, make investments in the equity securities of one or more of the issuers of Collateral Assets with the result that one or more of such issuers may be or may become controlled by the Initial Purchaser

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APPENDIX A

Certain Definitions

"Accounts" means collectively, the Collection Account, the Payment Account, the Expense Reserve Account, the Cashflow Swap Termination Receipts Account, the Cashflow Swap Replacement Account, the Cashflow Swap Collateral Account, the Default Swap Collateral Account, the Synthetic Security Collateral Account and the Collateral Account.

"Actual Interest Amount" means with respect to any Reference Obligation Payment Date, payment by or on behalf of the Reference Entity of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the Synthetic Security but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Principal Amount" means, with respect to the Final Amortization Date or the legal final maturity date of any Reference Obligation, the amount paid on such day by or on behalf of the Reference Entity in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Rating" means with respect to any Collateral Asset or Eligible Investment, the actual expressly monitored outstanding public rating assigned by a Rating Agency without reference to any other rating by another Rating Agency, and which rating by its terms addresses the full scope of the payment promise of the obligor on such Collateral Asset or Eligible Investment, after taking into account any applicable guarantee or insurance policy or if no such rating is available from a Rating Agency, any "credit estimate" or "shadow rating" assigned by such Rating Agency. For purposes of this definition, (i) the rating of "Aaa" assigned by Moody's to a Collateral Asset or an Eligible Investment placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by Moody's by one subcategory and any other rating assigned by Moody's to a Collateral Asset or an Eligible Investment placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by Moody's by two subcategories, (ii) the rating assigned by S&P to a Collateral Asset or an Eligible Investment placed on watch for possible downgrade by S&P will be deemed to have been downgraded by S&P by one subcategory, and (iii) the rating assigned by Moody's or S&P to a Collateral Asset or Eligible Investment placed on watch for possible upgrade by such Rating Agency will be deemed to have been upgraded by such Rating Agency by one subcategory.

"Adjusted Net Outstanding Portfolio Collateral Balance" means, on any Determination Date, the Net Outstanding Portfolio Collateral Balance reduced by the excess, if any, of (i) the product of (a) the Statistical Loss Amount and (b) the lesser of 1 and a fraction the numerator of which is U.S.$1,000,000,000 and the denominator of which is the Net Outstanding Portfolio Collateral Balance as of such Determination Date over (ii) the product of (a) U.S.$ 3,750,000 and (b) the lesser of 1 and a fraction the numerator of which is the Net Outstanding Portfolio Collateral Balance as of such Determination Date and the denominator of which is U.S.$ 1,000,000,000.

"Administrative Expenses" means amounts (including indemnities) due or accrued with respect to any Payment Date and payable by the Issuer and/or the Co-Issuer to (i) the Trustee pursuant to the Indenture or any co-trustee appointed pursuant to the Indenture, the Collateral Administrator pursuant to the Collateral Administration Agreement and the Fiscal Agent pursuant to the Fiscal Agency Agreement; (ii) the Issuer Administrator pursuant to the Administration Agreement; (iii) the independent accountants, agents (including the Note Agents under the Indenture and the Income Note Registrar) and counsel of the Issuer for fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Issuers); (iv) the Collateral Manager pursuant to the Collateral Management Agreement (other than the Collateral Management Fee); (v) the Rating Agencies for fees and expenses in connection with any rating or credit estimate (including the fees payable to the Rating Agencies for the monitoring of

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any rating or credit estimate) of the Notes, including fees and expenses, if any, due or accrued in connection with any rating of the Collateral Assets; (vi) any other person in respect of any governmental fee, charge or tax in relation to the Issuer or the Co-Issuer; (vii) to the liquidator(s) of the Issuer for the fees and expenses of liquidating the Issuer following the redemption of all of the Notes; (viii) any stock exchange listing any Securities at the request of the Issuer; and (ix) any other person in respect of any other fees or expenses (including indemnities and fees relating to the provision of the Issuer's registered office) permitted under the Transaction Documents; *provided* that Administrative Expenses shall not include (a) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (b) amounts payable in respect of the Notes and the Income Notes, (c) amounts payable under any Cashflow Swap Agreement and (d) any Collateral Management Fee payable pursuant to the Collateral Management Agreement.

"Aggregate Amortization Amount" means, with respect to any Determination Date, the excess, if any, of (i) the par amount of Default Swap Collateral and Eligible Investments and cash from principal payments received thereon, on deposit in the Default Swap Collateral Account over (ii) the sum of (a) the Reference Obligation Notional Amount and (b) the par value of any Deliverable Obligations.

"Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds" means the least of (a) the Aggregate Moody's Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, (b) the Aggregate S&P Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, and (c) the aggregate of the Market Values of all Defaulted Obligations and Deferred Interest PIK Bonds.

"Aggregate Moody's Recovery Value" means, with respect to Defaulted Obligations and Deferred Interest PIK Bonds, the aggregate of (a) the Moody's Recovery Rate for each such asset multiplied by (b) the Principal Balance of such asset.

"Aggregate Outstanding Amount" means, with respect to any of the Notes or Income Notes, the aggregate principal amount of such Notes or Income Notes at the date of determination.

"Aggregate Principal Amount" means the aggregate of the Principal Balances of all Collateral Assets and Eligible Investments purchased with Principal Proceeds and the amount of any cash which constitutes Principal Proceeds.

"Aggregate S&P Recovery Value" means the sum of, with respect to each Defaulted Obligation and each Deferred Interest PIK Bond of the lesser of (a) the Market Value for such Defaulted Obligation or Deferred Interest PIK Bond, as applicable, and (b) the S&P Recovery Rate for such Collateral Asset multiplied by the Principal Balance of such Collateral Asset.

"Applicable Percentage" means, on any day, a percentage equal to A divided by B, where "A" means the product of the Initial Face Amount (as such term is defined in the Master Confirmation) and the Initial Factor (as such term is defined in the Master Confirmation) as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Delivered Obligations delivered to the Issuer (as adjusted by the Relevant Amount, if any) divided by the Current Factor (as such term is defined in the Master Confirmation) on such day multiplied by (b) the Initial Factor (as such term is defined in the Master Confirmation) and where "B" means the product of the Original Principal Amount (as such term is defined in the Master Agreement) of the related Reference Obligation and the Initial Factor (as such term is defined in the Master Confirmation); (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the outstanding principal amount of the related Reference Obligation resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.

"Applicable Recovery Rate" means, with respect to any Collateral Asset on any Determination Date, the lesser of the Moody's Recovery Rate and the S&P Recovery Rate.

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"Asset-Backed Securities" or "ABS Securities" means any obligation that is a security that is primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving and that, by its terms, converts to cash within a finite time period.

"Auction Payment Date" means the Auction Date on which the Notes and Income Notes are redeemed in whole in connection with a successful Auction.

"Board of Directors" means, with respect to the Issuer or the Co-Issuer, the directors of the Issuer or the Co-Issuer, as applicable, duly appointed by the shareholders or the directors of the Issuer or the Co-Issuer, as applicable.

"Calculation Amount" means, (I) with respect to any Defaulted Obligation or Deferred Interest PIK Bond not related to a Synthetic Security, the lesser of (a) the Market Value of such Defaulted Obligation or Deferred Interest PIK Bond or (b) the Applicable Recovery Rate multiplied by the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond and (II) with respect to any Defaulted Obligation or Deferred Interest PIK Bond related to a Synthetic Security, the lesser of (a) the lesser of (x) the Market Value of the related Reference Obligation and (y) the Market Value of the Synthetic Security and (b) the Applicable Recovery Rate multiplied by the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond. For purposes of determining the Calculation Amount, the Principal Balance of a Defaulted Obligation shall be deemed to be its outstanding principal amount and the Principal Balance of a Deferred Interest PIK Bond shall be deemed to be its outstanding principal amount without regard to any deferred or capitalized interest.

"Cashflow Swap Collateral" means, any cash, securities or other collateral delivered and/or pledged by the Cashflow Swap Counterparty to or for the benefit of the Issuer, including, without limitation, any upfront payment of cash or delivery of securities made by the Cashflow Swap Counterparty to satisfy or secure its payment obligations pursuant to the terms of the related Cashflow Swap Agreement.

"Cashflow Swap Receipt Amount" means, with respect to the Cashflow Swap Agreement and any Payment Date, any Cashflow Swap Agreement receipts, including any other amounts so payable in respect of a termination of any Cashflow Swap Agreement.

"Cashflow Swap Shortfall Replacement Amount" means the amount by which the costs of entering into a Replacement Cashflow Swap Agreement exceed the funds available therefor in the Cashflow Swap Termination Receipts Account.

"Cashflow Swap Shortfall Amount" has the meaning set forth in the Cashflow Swap Agreement.

"Cashflow Swap Termination Receipts" means any amount payable by a Cashflow Swap Counterparty to the Issuer upon termination of a Cashflow Swap Agreement.

"CDO Securities" means the collateralized debt obligations (including, without limitation, any synthetic collateralized debt obligations) at any time on deposit in the Collateral Account that are not subject to withholding or similar taxes unless the relevant issuer is required to make "gross up" payments that cover the full amount of any such taxes.

"CDO S Note Securities" means CDO Securities that, pursuant to the terms of the related underlying instruments, are senior to all other securities issued in the related transaction and are entitled to principal payments in accordance with a fixed payment schedule, which principal payments are paid by applying, first, interest proceeds available, and second, principal proceeds available.

"Class" means each class of Notes having the same Stated Maturity and same alphabetical (but not necessarily numerical) designation of any of "S-1", "S-2", "S", "A-1a", "A-1b", "A-1c", A-1d", "A-1", "A", "B", "C" or "D" as a single class, and the Income Notes as a single class.

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"Class A Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance (for the purposes of such calculation, the Adjusted Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) *divided* by the Aggregate Outstanding Amount of the Class A-1 Notes and the Class A-2 Notes, after giving effect to payments to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class A-1 Note Payment Sequence" shall mean the application of funds in respect of the Class A-1 Notes, *first*, to the payment of principal in respect of the Class A-1a Notes until the Aggregate Outstanding Amount thereof is paid in full, *second*, to the payment of principal in respect of the Class A-1b Notes until the Aggregate Outstanding Amount thereof is paid in full, *third*, to the payment of principal in respect of the Class A-1c Notes until the Aggregate Outstanding Amount thereof is paid in full and, *fourth*, to the payment of principal in respect of the Class A-1d Notes until the Aggregate Outstanding Amount thereof is paid in full.

"Class A-1a Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class A-1a Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class A-1b Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class A-1b Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class A-1c Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class A-1c Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class A-1d Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class A-1d Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class A-2 Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class A-2 Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class B Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance (for the purposes of such calculation, the Adjusted Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) *divided* by the sum of the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes, after giving effect to payments, as applicable to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class B Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class B Notes, *plus* (ii) accrued interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to, but excluding, the Redemption Date.

"Class C Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance (for the purposes of such calculation, the Adjusted Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) *divided by* the sum of the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes and the Class C Notes, including Class C Deferred Interest, after giving effect to payments, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class C Note Redemption Price" shall equal the sum of (i) Aggregate Outstanding Amount of the Class C Notes (including any Class C Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date.

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"Class D Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance (for the purposes of such calculation, the Adjusted Net Outstanding Portfolio Collateral Balance will not include Principal Proceeds held as cash and Eligible Investments) *divided by* the sum of the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, including Class C Deferred Interest and Class D Deferred Interest, after giving effect to payments, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class D Note Redemption Price" shall equal the sum of (i) the Aggregate Outstanding Amount of the Class D Notes (including any Class D Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class D Notes Amortizing Principal Amount" means an amount equal to the lesser of (a) with respect to the first Payment Date U.S. $200,000, and with respect to any other Payment Date up to and including the Payment Date in March 2014, U.S.$100,000 and (b) the remaining principal balance of the Class D Notes (including any Deferred Interest and any Defaulted Interest and interest thereon).

"Class S-1 Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class S-1 Notes, *plus* (ii) accrued interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to, but excluding, the Redemption Date.

"Class S-1 Notes Amortizing Principal Amount" means, with respect to any Payment Date commencing with the Payment Date in December 2007, the lesser of (a) U.S.$ 562,500.00, *plus* the aggregate amount of any Class S-1 Notes Amortizing Principal Amounts that were due on any prior Payment Date and not paid on one or more prior Payment Dates, *plus* accrued interest at the Class S-1 Note Interest Rate on any such unpaid amount from the prior Payment Date and (b) the Aggregate Outstanding Amount of the Class S-1 Notes.

"Class S-2 Note Redemption Price" shall equal (i) the Aggregate Outstanding Amount of the Class S-2 Notes, *plus* (ii) accrued interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to, but excluding, the Redemption Date.

"Class S-2 Notes Amortizing Principal Amount" means, with respect to any Payment Date commencing with the Payment Date in December 2007, the lesser of (a) U.S.$ 518,750.00, *plus* the aggregate amount of any Class S-2 Notes Amortizing Principal Amounts that were due on any prior Payment Date and not paid on one or more prior Payment Dates, *plus* accrued interest at the Class S-2 Note Interest Rate on any such unpaid amount from the prior Payment Date and (b) the Aggregate Outstanding Amount of the Class S-2 Notes.

"Collateral Account" means a segregated non-interest bearing trust account, including all sub-accounts thereof, held in the name of the Trustee into which Collateral will be deposited from time to time.

"Collateral Administration Agreement" means the Collateral Administration Agreement, dated as of the Closing Date, among the Issuer, the Collateral Administrator and the Collateral Manager, as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms.

"Collateral Administrator" means The Bank of New York, or any successor Collateral Administrator under the Collateral Administration Agreement.

"Collateral Asset" means a Synthetic Security, a CDO Security, a Deliverable Obligation or an item of Default Swap Collateral that has been released from the lien of the Synthetic Security Counterparty and credited to the Collateral Account as described herein.

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"Commercial Mortgage-Backed Securities" or "CMBS" means securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers.

"Controlling Class" will be the Class S-1 Notes and the Class A-1 Notes for so long as any Class S-1 Notes and Class A-1 Notes are outstanding; if no Class S-1 Notes are outstanding but Class A-1 Notes are outstanding, then the Class A-1 Notes; if no Class S-1 Notes or Class A-1 Notes are outstanding, then the Class S-2 Notes and the Class A-2 Notes, for so long as any Class S-2 Notes and Class A-2 Notes are outstanding; if no Class S-2 Notes are outstanding but Class A-2 Notes are outstanding, then the Class A-2 Notes; if no Class S Notes or Class A Notes are outstanding, then the Class B Notes, so long as any Class B Notes are outstanding; if no Class S Notes, Class A Notes or Class B Notes are outstanding, then the Class C Notes, so long as any Class C Notes are outstanding, and if no Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, then the Class D Notes, so long any Class D Notes are outstanding.

"Credit Derivatives Definitions" means the 2003 ISDA Credit Derivatives Definitions

"Credit Protection Amounts" means Physical Settlement Amounts, Writedown Amounts, Principal Shortfall Amounts, Interest Shortfall Amounts and Synthetic Security Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) payable by the Issuer to the Synthetic Security Counterparty.

"Credit Support Annex" means the ISDA Credit Support Annex entered into by the Issuer and the Cashflow Swap Counterparty on the Closing Date.

"Deed of Covenant" means the deed of covenant executed by the Issuer on or about the Closing Date constituting the Income Notes.

"Default Swap Collateral" means the securities on deposit in the Default Swap Collateral Account which satisfy the Default Swap Collateral Eligibility Criteria.

"Defaulted Cashflow Swap Termination Payments" means any termination payment required to be made by the Issuer to the Cashflow Swap Counterparty pursuant to a Cashflow Swap Agreement in the event of a termination of a Cashflow Swap Agreement in respect of which such Cashflow Swap Counterparty is the sole Defaulting Party or the sole Affected Party (as defined in the Cashflow Swap Agreement), other than with respect to "Illegality" or "Tax Event" (as defined in the Cashflow Swap Agreement).

"Defaulted Obligation" means any Reference Obligation or CDO Security with respect to which:

(i) the issuer thereof has defaulted in the payment of principal or interest without regard to any applicable grace period or waiver; *provided* that a Collateral Asset will not constitute a Defaulted Obligation under this clause (i) if (a) the Collateral Manager certifies in writing to the Trustee, in its reasonable business judgment, that such payment default is due to non-credit and non-fraud related reasons and such default does not continue for more than five Business Days (or, if earlier, until the next succeeding Determination Date) or (ii) such payment default has been cured by the payment of all amounts that were originally scheduled to have been paid; *provided, further, however*, that, notwithstanding the foregoing, any Collateral Asset that is in default with respect to the payment of interest or principal as of a Determination Date shall not be a Defaulted Obligation if such default is cured through the payment of all past due interest and principal within three Business Days after such Determination Date (and the Collateral Manager shall determine whether a default has occurred and is continuing on or prior to the second Business Day prior to the Payment Date) or such Collateral Asset shall not be treated as a Defaulted Obligation if the Collateral Manager believes the default on such Collateral Asset will be cured as of the next Determination Date, such Collateral Asset does not have an S&P Rating of "CC" or lower, "D" or "SD" and the Rating Agency Condition has been satisfied relative to such treatment;

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(ii) the principal amount of such Collateral Asset has been written down;

(iii) any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer of such Collateral Asset and is unstayed and undismissed; *provided*, that, if such proceeding is an involuntary proceeding, the condition of this clause (iii) will not be satisfied until the earliest of the following: (I) the issuer consents to such proceeding, (II) an order for relief under the United States Bankruptcy Code, or any similar order under a proceeding not taking place under the United States Bankruptcy Code, has been entered, and (III) such proceeding remains unstayed and undismissed for 60 days;

(iv) such Collateral Asset has an S&P Rating of "CC" or lower, "D" or "SD" or, if S&P withdraws its rating and the S&P Rating at the time of withdrawal is "CCC" or below or such Collateral Asset has a Moody's Rating of "C" or lower or "Ca";

(v) in the case of a Synthetic Security, the related Synthetic Security Counterparty is in default pursuant to the terms of such Synthetic Security; or

(vi) the Collateral Manager believes that such Collateral Asset will default on or before the next Determination Date.

"Defaulted Synthetic Security Termination Payments" means any termination payment required to be made by the Issuer to the Synthetic Security Counterparty pursuant to a Synthetic Security in the event of a termination of a Synthetic Security in respect of which such Synthetic Security Counterparty is the sole Defaulting Party or the sole Affected Party (as defined in the Synthetic Security), other than with respect to "Illegality" or "Tax Event" (as defined in the Synthetic Security).

"Deferred Interest PIK Bond" means a PIK Bond that (1) has an Actual Rating of "Baa3" or above by Moody's and makes payments less frequently than monthly and has deferred interest in an amount equal to the amount of interest that would accrue over the shorter of two payment periods or one year, or (2) has an Actual Rating of "Baa3" or above by Moody's and makes payments on a monthly basis and has deferred interest in an amount equal to the amount of interest that would accrue over the shorter of (i) one year and (ii) the longer of (A) the number of months between any two consecutive deferrals of interest and (B) six months or (3) has an Actual Rating of "Ba1" or below by Moody's and makes payments less frequently than monthly and has deferred interest in an amount equal to the amount of interest that would accrue over the shorter of one payment period or six months, or (4) has an Actual Rating of "Ba1" or below by Moody's and makes payments on a monthly basis and has deferred interest in an amount equal to the amount of interest that would accrue over three months,; *provided* that such PIK Bond would no longer be a Deferred Interest PIK Bond once payment of interest has resumed and all capitalized or deferred interest has been paid in full in accordance with the underlying documents.

"Deferred Structuring Expense" means a fee payable to the Initial Purchaser in accordance with the Priority of Payments, payable in arrears on each Payment Date, of 0.04% *per annum* times the Aggregate Principal Amount, measured as of the beginning of the Due Period preceding such Payment Date. The Deferred Structuring Expense will be calculated on the basis of a 360 day year consisting of twelve 30-day months.

"Definitive Notes" means Notes or Income Notes issued in definitive, fully registered form, registered in the name of the owner thereof.

"Deliverable Obligation" means an obligation which, pursuant to the terms of the Synthetic Security, may be delivered to the Issuer as a result of a Credit Event.

"Delivery Date" means the date on which a Deliverable Obligation is delivered to the Issuer pursuant to the Synthetic Security.

"Distribution Compliance Period" means, with respect to the Notes, the period that ends 40 days after the later of (i) the commencement of the offering of the Notes and (ii) the Closing Date.

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"Double B Calculation Amount" means the sum of the products of (i) the Principal Balance of each Double B Rated Asset and (ii) 90%.

"Double B Rated Asset" means any Collateral Asset that is not a Single B Rated Asset or Triple C Rated Asset with an Actual Rating from S&P less than "BBB-" or with an Actual Rating from Moody's less than "Baa3".

"Effective Date" means March 27, 2007.

"Eligible Bidders" are (i) any institutions, which may include affiliates of the Initial Purchaser, the Collateral Manager and Holders of the Notes and the Income Notes, whose short-term unsecured debt obligations have a rating of at least "P-1" by Moody's or "A-1+" by S&P and (ii) the Collateral Manager.

"Eligible Depositary" shall be a financial institution organized under the laws of the United States or any state thereof, authorized to accept deposits, having a combined capital and surplus of at least U.S.$200,000,000, and having (or if its obligations are guaranteed by its parent company, its parent having), a long term debt rating of at least "Baa1" by Moody's (and if rated "Baa1", such rating is not on watch for downgrade) and "BBB+" by S&P and a short term debt rating of "P-1" by Moody's (and not on watch for downgrade) and at least "A-1" by S&P.

"Eligible Guarantee" means an unconditional and irrevocable guarantee that is provided by a guarantor as principal debtor rather than surety and is directly enforceable by the Issuer, where either (A) a law firm has given a legal opinion confirming that none of the guarantor's payments to Issuer under such guarantee will be subject to withholding for tax or (B) such guarantee provides that, in the event that any of such guarantor's payments to Issuer are subject to withholding for Tax, such guarantor is required to pay such additional amount as is necessary to ensure that the net amount actually received by Issuer (free and clear of any withholding tax) will equal the full amount Issuer would have received has no such withholding been required.

"Eligible Investment" means any U.S. Dollar-denominated investment that, at the time it is delivered to the Trustee, is one or more of the following obligations or securities (including security entitlements with respect thereto): (i) direct Registered obligations of, and Registered obligations fully guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States; (ii) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by, any depository institution or trust company incorporated in the United States or any state thereof, which depository institution or trust company is subject to supervision and examination by federal or state authorities, with a maturity not in excess of 183 days; and with a credit rating by S&P of at least "A-1+" or at least "AA-", as applicable, a credit rating by Moody's of at least "P-1" or at least "Aa3" (and if rated "Aa3", not on watch for downgrade), as applicable, in the case of a maturity in excess of 30 days, or a credit rating by S&P of at least "A-1" and a credit rating by Moody's of at least "P-1" (and not on watch for downgrade) in the case of a maturity of less than 30 days; (iii) repurchase obligations with respect to (a) any security described in clause (i) above or (b) any other security issued or guaranteed by an agency or instrumentality of the United States, entered into with a depository institution or trust company described in clause (ii) above or entered into with a corporation whose long-term senior unsecured rating is at least "A1" (and if rated "A1", not on watch for downgrade) by Moody's and "A+" by S&P and whose short-term credit rating is "P-1" (and not on watch for downgrade) by Moody's and "A-1" by S&P at the time of such investment, with a term not in excess of 91 days; (iv) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of at least "Aa3" (and if rated "Aa3", not on watch for downgrade) or "P-1" (and not on watch for downgrade) by Moody's and "A+" or "A-1" by S&P; (v) commercial paper or other short-term obligations of a corporation, partnership, limited liability company or trust, or any branch or agency thereof located in the United States or any of its territories, such commercial paper or other short-term obligations having a credit rating of "P-1" (and not on watch for downgrade) by Moody's and "A-1" by S&P, and that are Registered and either are interest bearing or are sold at a discount from the face amount thereof and

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have a maturity of not more than 91 days from their date of issuance; and (vi) offshore money market funds which have a credit rating of not less than "Aaa/MR1+" by Moody's and "AAAm" or "AAAm-G" by S&P, *provided however*, that each rating in clauses (iii) through (vi) above by Moody's or S&P shall be an Actual Rating and *provided further*, that any such investment purchased on the basis of S&P's short-term rating of "A-1" shall mature no later than 30 days after the date of purchase and may not, other than overnight investments from The Bank of New York (so long as The Bank of New York is the Trustee under the Indenture), exceed 20% of the Aggregate Outstanding Amount of the Notes rated by S&P. Eligible Investments shall not include any RMBS, CMBS, any inverse floater, any security subject to withholding tax if owned by the Issuer, any security subject to an offer, any interest only security, any principal only security (other than treasury bills or commercial paper), any security with a price in excess of 100% of par or any security the repayment of which is dependent on substantial non-credit related risk as determined by the Collateral Manager or any security the acquisition (including the manner of acquisition), ownership or disposition of which would cause the Issuer to be treated as engaged in a trade or business within the United States for United States federal income tax purposes. Each such Eligible Investment shall mature no later than the second Business Day immediately preceding the Payment Date next following the Due Period in which the date of investment occurs, unless such Eligible Investment is issued by the institution acting as Securities Intermediary, in which event such Eligible Investment may mature on the Business Day preceding such Payment Date. Eligible Investments may include those investments with respect to which the Securities Intermediary, the Trustee, the Collateral Manager or the Initial Purchaser or an affiliate of the Trustee, the Collateral Manager or the Initial Purchaser provides services. As used in this definition, ratings may not include ratings with an "r", "p", "q", "pi" or "t" subscript.

"Eligible Replacement" means an entity (I) (A) with the Moody's First Trigger Required Ratings or (B) whose present and future obligations owing to Issuer are guaranteed pursuant to an Eligible Guarantee provided by a guarantor with the Moody's First Trigger Required Ratings, subject to satisfaction of the Rating Agency Condition and (II) that is either a Qualified Purchaser or a person that is not a "U.S. Person" as defined in Regulation S under the Securities Act of 1933.

"Exercise Amount" means the amount determined in connection with a Credit Event in accordance with the related Synthetic Security.

"Expected Fixed Amount" has the meaning set forth in the Master Confirmation.

"Expected Interest Amount" means with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to the outstanding principal amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the underlying instruments) that are attributable to the Reference Obligation, and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the underlying instruments, calculated in accordance with the related Synthetic Security.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the legal final maturity date of the related Reference Obligation, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the underlying instruments, *minus* (ii) the sum of (A) the "Aggregate Implied Writedown Amount" (as such term is defined in the related Synthetic Security) (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the underlying instruments) that are attributable to the Reference Obligation. For purposes hereof, the Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the underlying instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

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"Failure to Pay Interest" means, with respect to any Synthetic Security, the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Final Payment Date" means a Payment Date with respect to an Optional Redemption by Liquidation, a Payment Date in connection with the Stated Maturity (other than with respect to the Class S Notes), Tax Redemption, an Auction or redemption due to an Event of Default resulting in acceleration of the Notes and liquidation of the Collateral in full.

"Fixed Rate" means the relevant fixed rate (expressed on a *per annum* basis) set forth in the Master Confirmation, subject to adjustment in accordance with the Master Confirmation.

"Fixed Rate Payer Calculation Period" has the meaning set forth in the Credit Derivatives Definitions.

"Fixed Rate Payer Payment Date" means each day falling five Business Days after a Reference Obligation Payment Date; *provided, however*, that the final Fixed Rate Payer Payment Date shall fall on the fifth Business Day following the Effective Maturity Date (as set forth in the Master Confirmation).

"Floating Amounts" means with respect to any Synthetic Security, an amount equal to the sum of (a) the relevant Writedown Amount (if any), (b) the relevant Principal Shortfall Amount (if any), (c) the relevant Interest Shortfall Payment Amount (if any) and (d) the relevant Physical Settlement Amount (if any).

"Floating Amount Event" means with respect to any Synthetic Security, the occurrence of a Writedown, a Failure to Pay Principal or an Interest Shortfall (as each such term is defined in the related Synthetic Security) with respect to the Reference Obligation thereunder.

"Floating Amount Payment" means payment of a Floating Amount.

"Floating Rate Payer Payment Date" means, in relation to a Floating Amount Event, the first Fixed Rate Payer Payment Date falling at least two Business Days (or, in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date (as set forth in the Master Confirmation) or the Final Amortization Date, the fifth Business Day) after delivery of a notice by the Calculation Agent to the parties or a notice by Goldman Sachs International to the Synthetic Security Counterparty that the related Floating Amount is due and showing in reasonable detail how such Floating Amount was determined; *provided, however*, that in the case of a Floating Amount Event that occurs on the Legal Final Maturity Date or the Final Amortization Date, such notice must be given on or prior to the fifth Business Day following the Legal Final Maturity Date or the Final Amortization Date, as applicable.

"Holder" or "Noteholder" means, with respect to any Note the person in whose name such Note is registered, or, for purposes of voting, the granting of consents and other similar determinations under the Indenture, with respect to any Notes in global form, a beneficial owner thereof and, with respect to any Income Note, the person in whose name such Income Note is registered in the income note register of the Issuer.

"Implied Rating" means, in the case of a rating on a Collateral Asset, a rating that is determined by reference to any publicly available, fully monitored rating by another rating agency that, by its terms, addresses the full scope of the payment promise of the obligor. As used in this definition, ratings may not include ratings with a "p", "pi", "q", "r" or "t" subscript or any other qualifiers.

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"Implied Writedown Amount" means (a) if the Underlying Instruments relating to the Reference Obligation do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in clause (i) of the definition of "Writedown" above in respect of the Reference Obligation, on any Reference Obligation Payment Date, an amount determined by the Synthetic Security Counterparty in its capacity as calculation agent and equal to the excess, if any, of the Implied Writedown Amount for the interest accrual period relating to the current Reference Obligation Payment Date over the Implied Writedown Amount for the immediately preceding interest accrual period and (b) in any other case, zero.

"Income Note Registrar" means The Bank of New York, as income note registrar for the Income Notes.

"Interest Proceeds" means, in respect of any Payment Date, all investment income received on the Collateral Assets and Eligible Investments that are on deposit in the Collateral Account and the Fixed Amounts received from the Synthetic Security Counterparty under the Synthetic Securities in the related Due Period.

"Interest Shortfall" means with respect to any Reference Obligation Payment Date and any Reference Obligation, either (a) the nonpayment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount, as described in the related Synthetic Security.

"Interest Shortfall Amount" means with respect to any Reference Obligation Payment Date, an amount equal to the greater of: (a) zero; and (b) the amount equal to the product of: (i)(A) the Expected Interest Amount; *minus* (B) the Actual Interest Amount; and (ii) the Applicable Percentage.

"Interest Shortfall Cap" means the cap, if any, on Interest Shortfalls as set forth in the related Master Confirmation.

"Interest Shortfall Cap Amount" means the amount of any Interest Shortfall Cap as set forth in the related Master Confirmation .

"Interest Shortfall Payment Amount" means in respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided, however*, that if the Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

"Interest Shortfall Reimbursement" means with respect to any Reference Obligation Payment Date, the payment by or on behalf of the Reference Entity of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.

"Interest Shortfall Reimbursement Payment" means with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

"Interest Shortfall Reimbursement Payment Amount" means (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the related Synthetic Security; *provided*, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that "Interest Shortfall Compounding" is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by the Issuer in respect of Interest Shortfalls occurring prior to the date of payment of any such Additional Fixed Amount.

"Interest Shortfall Reserve Amount" has the meaning set forth in the Master Confirmation.

"Issue" of a Collateral Asset means any such Collateral Asset issued by the same issuer, having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination) and otherwise being fungible with one another.

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"Liquidation Proceeds" means, without duplication, (i) all Sale Proceeds from Collateral Assets and Default Swap Collateral sold in connection with such redemption *minus* any termination payments (other than Defaulted Synthetic Security Termination Payments) due to the Synthetic Security Counterparty or payments due to any assignee of a Synthetic Security from the Default Swap Collateral Account in connection with the termination or assignment of the Synthetic Securities, (ii) the aggregate amount received by the Issuer net of any amount required to be paid by the Issuer on or prior to the Business Day immediately preceding the relevant Payment Date from the termination of any Cashflow Swap Agreement in connection with such redemption, and (iii) cash and Eligible Investments on deposit in the Accounts, to the extent available therefor, including any amounts designated by the Collateral Manager as retained for reinvestment in Eligible Investments (and also including any payments received under any Cashflow Swap Agreement on or prior to the day preceding the Payment Date, but only to the extent that such payments are required to be paid as a result of an Optional Redemption by Liquidation or Tax Redemption of Notes), in each case as determined by the Collateral Manager.

"Majority" means (a) with respect to any Class or Classes of Notes, the Holders of more than 50% of the Aggregate Outstanding Amount of such Class or Classes of Notes and (b) with respect to the Income Notes, the Holders of more than 50% of the notional principal amount of Income Notes.

"Market Value" means, with respect to the Collateral Assets and/or Eligible Investments, (i) the average of three bona fide bids for such Collateral Asset or Eligible Investment obtained by the Collateral Manager at such time from any three nationally recognized dealers, which dealers are independent from one another and from the Collateral Manager, or (ii) if the Collateral Manager is unable to obtain three such bids, the lesser of two bona fide bids for such Collateral Asset or Eligible Investment obtained by the Collateral Manager at such time from any two nationally recognized dealers acceptable to the Collateral Manager, which dealers are independent from one another and from the Collateral Manager, or (iii) in the event the Collateral Manager is unable to obtain two such bids, the price on such date provided to the Collateral Manager by an independent pricing service reasonably selected by the Collateral Manager, or (iv) in the event the Collateral Manager cannot in good faith determine the market value of such Collateral Asset or Eligible Investment using commercially reasonable efforts to apply the methods specified in clauses (i) through (iii) above, as determined in good faith by the Collateral Manager using commercially reasonable efforts to apply its reasonable business judgment. If the method of determining Market Value is based solely on the Collateral Manager's determination, such Market Value shall not exceed the S&P Recovery Rate, multiplied by the Principal Balance of the Collateral Asset and/or Eligible Investment, and shall be considered zero after 30 days or until such time as the Collateral Manager obtains a bid for such Collateral Asset or Eligible investment. For purposes of clause (II)(a)(y) of the definition of Calculation Amount, "Market Value" means the sum of (i) the notional amount of any such Synthetic Security and (ii) the "Market Value" (which represents a trading termination payment or up-front payment in respect of a termination or assignment of such Synthetic Security and which amount, if payable by the Issuer in respect of such termination or assignment, will be a negative number) of such Synthetic Security otherwise determined pursuant to this definition of Market Value.

"Minimum Bid Amount" is an amount equal to the sum of (a) the Redemption Price with respect to the Auction Payment Date, (b) any amount payable by the Issuer to the Cashflow Swap Counterparty upon termination of the Cashflow Swap Agreement less any amounts payable by the Cashflow Swap Counterparty to the Issuer upon the termination of the Cashflow Swap Agreement, (c) unpaid Defaulted Synthetic Security Termination Payments, (d) accrued and unpaid Collateral Management Fees, (e) accrued and unpaid Deferred Structuring Expenses and (f) 101% of all unpaid expenses of the Issuer, less amounts on deposit in the Accounts which are available to redeem the Notes or pay amounts provided in clauses (b) through (e) above which would not include amounts on deposit in the Default Swap Collateral Account due to the Synthetic Security Counterparty or any assignee of a Synthetic Security including termination payments (other than Defaulted Synthetic Security Termination Payments).

"Moody's First Rating Trigger Requirements" shall apply so long as no relevant entity has the Moody's First Trigger Required ratings.

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"Moody's First Trigger Required Ratings" shall apply to an entity if such entity has a long-term, unsecured and unsubordinated debt or counterparty obligation rating of "Aa3" (and not on watch for downgrade) or above by Moody's.

"Moody's "Idealized" Cumulative Expected Loss Rate" as defined in Schedule G to the Indenture.

"Moody's Rating" means the rating determined in accordance with the methodology described in the Indenture.

"Moody's Recovery Rate" means, with respect to a Collateral Asset (or in the case of a Synthetic Security, the related Reference Obligation), an amount equal to the percentage for such Collateral Asset set forth in the recovery rate assumptions for Moody's attached as Part I of Schedule D to the Indenture; *provided, however*, that (A) Defaulted Obligations which exceed 2.5% of the Aggregate Principal Amount and have been defaulted for more than one year will be deemed to have a Moody's Recovery Rate of 0%, (B) Defaulted Obligations which exceed 1.00% of the Aggregate Principal Amount and have been defaulted for more than 2 years shall be deemed to have a Moody's Recovery Rate of 0%; and (C) Defaulted Obligations which have been defaulted for more than 3 years shall be deemed to have a Moody's Recovery Rate of 0%.

"Moody's Second Rating Trigger Requirements" means a requirement that shall apply so long as no Relevant Entity has the Moody's Second Trigger Required Ratings.

"Moody's Second Trigger Required Ratings" means an entity shall have the Moody's Second Trigger Required Ratings if such an entity has a long-term, unsecured and unsubordinated debt or counterparty obligation rating of "A2" (and not on watch for downgrade) or above by Moody's; the "Moody's Second Rating Trigger Requirements" shall apply so long as no Relevant Entity has the Moody's Second Trigger Required Ratings.

"Net Outstanding Portfolio Collateral Balance" means, on any Determination Date, an amount equal to (i) the aggregate Principal Balance on such Determination Date of all Collateral Assets, *plus* (ii) the aggregate Principal Balance of all Principal Proceeds held as cash and Eligible Investments purchased with Principal Proceeds, *minus* (iii) the aggregate Principal Balance on such date of determination of all Collateral Assets that are (A) Defaulted Obligations, (B) Deferred Interest PIK Bonds, (C) Double B Rated Assets, (D) Single B Rated Assets and (E) Triple C Rated Assets, *plus* (iv) the Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds, the Double B Calculation Amount, the Single B Calculation Amount and the Triple C Calculation Amount, *minus* (v) 25% of the projected Principal Balance of each Collateral Asset other than a Defaulted Obligation, Deferred Interest PIK Bond, Double B Rated Asset, Single B Rated Asset or Triple C Rated Asset that is expected to be paid after the Stated Maturity of the Class B Notes.

"Outstanding Principal Amount" means, as of any date of determination with respect to the Reference Obligation, the outstanding principal balance of the Reference Obligation as of such date, which shall take into account:

(i) all payments of principal;

(ii) all writedowns or applied losses (however described in the underlying instruments (as set forth in the Master Confirmation)) resulting in a reduction in the outstanding principal balance of the Reference Obligation (other than as a result of a scheduled or unscheduled payment of principal);

(iii) forgiveness of any amount by the holders of the Reference Obligation pursuant to an amendment to the underlying instruments resulting in a reduction in the outstanding principal balance of the Reference Obligation;

(iv) any payments reducing the amount of any reductions described in (ii) and (iii) of this definition; and

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(v) any increase in the outstanding principal balance of the Reference Obligation that reflects a reversal of any prior reductions described in (ii) and (iii) of this definition.

For the avoidance of doubt, the Outstanding Principal Amount shall not include any portion of the outstanding principal balance of the Reference Obligation that is attributable to the deferral or capitalization of interest during the Term (as set forth in the Credit Derivatives Definitions) of the Component Transaction (as set forth in the Master Confirmation).

"Overcollateralization Ratios" means the Class A/B Overcollateralization Ratio, the Class A Adjusted Overcollateralization Ratio, the Class B Adjusted Overcollateralization Ratio, the Class C Overcollateralization Ratio, the Class C Adjusted Overcollateralization Ratio, the Class D Overcollateralization Ratio and the Class D Adjusted Overcollateralization Ratio.

"Payment Date" means the third day of every March, June, September and December, or if any such date is not a Business Day, the immediately following Business Day, commencing on September 4, 2007.

"Payment Requirement" means the amount specified as such, in U.S. Dollars, in the related Master Confirmation.

"Physical Settlement Amount" means, following the occurrence of a Credit Event with respect to a Reference Obligation, an amount paid by the Issuer to the Synthetic Security Counterparty, calculated in accordance with the related Synthetic Security and paid on the related Physical Settlement Date, in exchange for the delivery of a Reference Obligation as a Deliverable Obligation by the Synthetic Security Counterparty to the Issuer.

"Physical Settlement Date" has the meaning set forth in the Master Confirmation.

"PIK Bond" means a Collateral Asset on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

"Principal Balance" means, with respect to any Collateral Asset or Eligible Investment, as of any date of determination, the outstanding principal amount of such Collateral Asset or Eligible Investment; subject to the following exceptions: (i) the Principal Balance of a Collateral Asset received upon acceptance of an offer to exchange a Collateral Asset for such Collateral Asset shall be deemed to be the percentage of the outstanding principal amount equal to the least of (a) the Moody's Recovery Rate and (b) the S&P Recovery Rate for such Collateral Asset until such time as Proceeds are first received when due with respect to such Collateral Asset; (ii) the Principal Balance of each Defaulted Obligation shall be deemed to be zero, except (A) for purposes of the calculation of the Coverage Tests, in which case, the Principal Balance of Defaulted Obligations shall equal their respective outstanding principal amount (unless otherwise indicated in such tests), (B) for purposes of calculating any trustee fees and the Collateral Management Fee, the Principal Balance of each Defaulted Obligation shall equal the Calculation Amount for such Defaulted Obligations and (C) as otherwise expressly indicated; (iii) the Principal Balance of any cash shall be the amount of such cash; (iv) the Principal Balance of any Collateral Assets and any Eligible Investments in which the Trustee does not have a perfected security interest shall be deemed to be zero; (v) the Principal Balance of any Collateral Asset that is an equity security shall be deemed to be zero; (vi) the Principal Balance of a Synthetic Security shall be the Reference Obligation Notional Amount of such Synthetic Security *minus* any Implied Writedown Amounts; and (vii) the Principal Balance of any Default Swap Collateral shall be deemed to be zero as long as the related Synthetic Security is outstanding.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (i) all payments of principal on the Collateral Assets and Eligible Investments received in cash by the Issuer during such Due Period (including, without duplication, principal payments received on any Default Swap Collateral released from the lien of the Synthetic Security Counterparty), prepayments or mandatory

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sinking fund payments, or payments in respect of optional redemptions, exchange offers, tender offers (other than payments of principal of Eligible Investments acquired with Proceeds other than Principal Proceeds) and recoveries and interest on Defaulted Obligations up to the par amount of such Defaulted Obligation; (ii) any termination payments received from a Synthetic Security Counterparty; (iii) any Additional Fixed Amounts (other than Interest Shortfall Reimbursement Payment Amounts in respect of Interest Shortfall Payments satisfied by offsetting Fixed Payments) received from a Synthetic Security Counterparty; (iv) Sale Proceeds received by the Issuer during such Due Period (excluding accrued interest on sold or disposed Collateral Assets or Eligible Investments); (v) all amendment, waiver, late payment fees, restructuring and other fees and commissions collected during the related Due Period in respect of Defaulted Obligations up to the par amount; (vi) any proceeds resulting from the termination, replacement and liquidation of any Cashflow Swap Agreement to the extent such proceeds exceed the cost of entering into a replacement Cashflow Swap Agreement received during the period commencing on the day after the first Payment Date following the commencement of such Due Period (or the Closing Date, in the case of the first Due Period) and ending on and including the first Payment Date following the end of such Due Period; (vii) all payments received in cash by the Issuer during such Due Period that represent call, prepayment or redemption premiums but not in excess of the purchase premium paid thereon and (viii) any Proceeds other than Interest Proceeds; *provided, however*, that Principal Proceeds shall not include any accrued interest or any funds from the Income Note Payment Account and any Excepted Property.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of: (i) zero; and (ii) the amount equal to the product of: (A) the Expected Principal Amount *minus* the Actual Principal Amount; (B) the Applicable Percentage; and (C) the Reference Price. For purposes of clause (1) of the preceding sentence, if the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Reference Entity of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Payment" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, as of any date of determination, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such date, *provided* that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal prior to such date.

"Proceeds" means, with respect to any Due Period, without duplication, (i) all amounts received by the Trustee with respect to the Collateral Assets (excluding principal payments received on any related Default Swap Collateral on deposit in the Default Swap Collateral Account unless otherwise provided in the Indenture but including all investment income on Default Swap Collateral), (ii) all amounts received as amendment, waiver, late payment fees and commissions collected during the Due Period on Collateral Assets, (iii) all amounts received with respect to Eligible Investments in the Accounts, (iv) any amounts to be released or withdrawn on the related Payment Date from the Expense Reserve Account and (v) all amounts received under any Cashflow Swap Agreement relating to the Due Period, including Principal Proceeds.

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"Quarterly Asset Amount" means, with respect to any Payment Date, the Aggregate Principal Amount on the first day of the related Due Period.

"Rating Agency Condition" means, with respect to any action taken or to be taken under the Transaction Documents, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer and the Collateral Manager that such action will not result in the immediate withdrawal, reduction or other adverse action with respect to any then-current rating of any Class of Notes or the Income Notes.

"Redemption Date" means any Tax Redemption Date or Optional Redemption Date.

"Redemption Price" is the Class S-1 Note Redemption Price, the Class S-2 Note Redemption Price, the Class A-1a Note Redemption Price, the Class A-1b Note Redemption Price, the Class A-1c Note Redemption Price, the Class A-1d Note Redemption Price, the Class A-2 Note Redemption Price, the Class B Note Redemption Price, the Class C Note Redemption Price and the Class D Note Redemption Price, as applicable.

"Reference Entity" means the issuer of, or the obligor on, a Reference Obligation.

"Reference Obligation" means a CDO Security referenced under the Synthetic Security.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to its "Underlying Instruments", as defined in accordance with the Master Confirmation. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Closing Date.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the underlying instruments as at the Closing Date, without regard to any subsequent amendment.

"Reference Obligation Notional Amount" means, with respect to each Synthetic Security, the notional amount specified therein, which will be reduced or increased pursuant to the terms of such Synthetic Security.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for a Reference Obligation occurring on or after the Closing Date and on or prior to such Reference Obligation's "Legal Final Maturity Date" (as set forth in the Synthetic Security), determined in accordance with the Underlying Instruments and (ii) any day after such Reference Obligation's "Effective Maturity Date" (as set forth in the Master Confirmation) on which a payment is made in respect of such Reference Obligation.

"Reference Obligation Principal Amortization Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Reference Obligation Principal Payment on such date and (ii) the Applicable Percentage.

"Reference Obligation Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Reference Obligor" means the obligor on a Reference Obligation.

"Reference Price" means the reference price (expressed as a percentage) specified in the related Synthetic Security.

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"Registered" means, with respect to any debt obligation or debt security, a debt obligation or debt security that is issued after July 18, 1984, and that is in registered form within the meaning of Section 881(c)(2)(B)(i) of the Code and the Treasury regulations promulgated thereunder.

"Relevant Amount" means with respect to the related Reference Obligation, if a servicer report that describes a Reference Obligation Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest accruing principal balance of such Reference Obligation as of a date prior to a Delivery Date but such servicer report is delivered to holders of such Reference Obligation or to the calculation agent under the related Synthetic Security on or after the related Delivery Date, an amount equal to the product of (i) the sum of any such Reference Obligation Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage (as defined in such Master Confirmation).

"Residential Mortgage-Backed Securities" or "RMBS" means securities that represent interests in pools of residential mortgage loans secured by 1 to 4 family residential mortgage loans.

"S&P Rating" means the rating determined in accordance with the methodology described in the Indenture.

"S&P Recovery Rate" means, with respect to a Collateral Asset (or in the case of a Synthetic Security, the related Reference Obligation) on any Determination Date, an amount equal to the percentage for such Collateral Asset set forth in the S&P Recovery Rate Matrix attached as Part II of Schedule D to the Indenture in (x) the applicable table set forth therein and (y) the row in such table opposite the S&P Rating (determined in accordance with procedures prescribed by S&P for such Collateral Asset on the date of its purchase by the Issuer or, in the case of a Defaulted Obligation, the S&P Rating immediately prior to default).

"Sale Proceeds" means all amounts representing Proceeds (including accrued interest) from the sale or other disposition of any Collateral Asset or Eligible Investment received during such Due Period, net of any reasonable amounts expended by the Collateral Manager or the Trustee in connection with such sale or other disposition.

"Single B Calculation Amount" means the sum of the products of (i) the Principal Balance of each Single B Rated Asset and (ii) 70%.

"Single B Rated Asset" means any Collateral Asset, that is not a Triple C Rated Asset, with an Actual Rating from S&P less than "BB-" or with an Actual Rating from Moody's less than "Ba3".

"Statistical Loss Amount" means, as of any Determination Date, the sum of, for each Collateral Asset, the product of (i) the Principal Balance of such Collateral Asset and (ii) the Moody's Expected Loss Rate as set forth in the Indenture for such Collateral Asset. For purposes of the calculation of the Statistical Loss Amount on any Determination Date with respect to Single B Rated Assets, Deferred Interest PIK Bonds, Double B Rated Assets, Triple C Rated Assets, Defaulted Obligations and the principal amount of any Collateral Assets expected to be paid in full after the December 2047 Payment Date, the principal amount thereof expected to be paid after the Payment Date related to such Determination Date shall be excluded.

"SupraMajority" means (a) with respect to any Class of Notes, the Holders of more than 66-2/3% of the Aggregate Outstanding Amount of such Class of Notes and (b) with respect to the Income Notes, more than 66-2/3% of the aggregate outstanding notional principal amount of the Income Notes.

"Synthetic Security" means the credit default swaps entered into by the Issuer and Goldman Sachs International on March 21, 2007, effective as of the Closing Date, evidenced by an ISDA Master Agreement (Multicurrency Cross Border) and the Master Confirmation.

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"Synthetic Security Counterparty" means Goldman Sachs International and, if Goldman Sachs International is no longer the Synthetic Security Counterparty, any entity required to make payments on a Synthetic Security pursuant to the terms of such Synthetic Security or any guarantee thereof.

"Synthetic Security Termination Payment" means any termination or assignment payment required to be paid by the Issuer in the event of a termination or assignment of the Synthetic Securities.

"Tax Event" means (i) the adoption of, or a change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in withholding tax payments representing in excess of 3% of the aggregate interest due and payable on the Collateral Assets during the Due Period in which such event occurs as a result of the imposition of U.S. or other withholding tax with respect to which the obligors are not required to make gross-up payments that cover the full amount of such withholding taxes on an after-tax basis or (ii) the adoption of, or change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in taxation of the Issuer's net income in an amount equal to 3% or more of the net income of the Issuer during any Due Period in which such event occurs.

"Total Redemption Amount" means the sum of all amounts due as of the Redemption Date pursuant to clauses (i) through (ix) of the Priority of Payments for Final Payment Dates.

"Treasury" means the United States Department of the Treasury.

"Triple C Calculation Amount" means the sum of the products of (i) the Principal Balance of each Triple C Rated Asset and (ii) 50%.

"Triple C Rated Asset" means any Collateral Asset (other than a Defaulted Obligation) with an Actual Rating from S&P of less than "B-" or with an Actual Rating from Moody's of less than "B3".

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Writedown Reimbursement" means, with respect to any day, the occurrence of: (i) a payment by or on behalf of the Reference Entity of an amount in respect of the Reference Obligation in reduction of any prior Writedowns; (ii)(A) an increase by or on behalf of the Reference Entity of the outstanding principal amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or (B) a decrease in the principal deficiency balance or realized loss amounts (however described in the underlying instruments) attributable to the Reference Obligation; or (iii) if "Implied Writedown" (as defined in the related Synthetic Security) is applicable and the underlying instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an "Implied Writedown Reimbursement Amount" (as defined in the related Synthetic Security) being determined in respect of the Reference Obligation by the calculation agent thereunder.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of: (i) the sum of all Writedown Reimbursements on that day; (ii) the Applicable Percentage; and (iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to any date of determination, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such date; *provided* that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns occurring prior to such date.

"Writedown Reserve Amount" has the meaning set forth in the Master Confirmation.

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APPENDIX B

Collateral Asset Descriptions and Transaction Summaries

CUSIP	Name	Pool	Original Face	Factor	Current Face	Tranche Par	Total Deal Par	Issue Date	Coupon Index	Margin / Premium	Maturity	Asset Type	Moody's Model	Moody's Notch	S&P Rating	S&P Notch	Fitch Rating	Fitch Notch	Collateral Manager
53959PAD6	LOCH 2006-1A C	LOCH 2006-1A	$12,000,000	1.0000	$12,000,000	$24,000,000	$1,200,000,000	10/4/06	LIBOR01M	1.40%	12/12/2046	CDO	A2	A2	A	A	-	6.2	Winchester Principal Finance
86565MAD9	SMSTR 2005-1A B	SMSTR 2005-1A	$10,000,000	1.0000	$10,000,000	$12,000,000	$400,000,000	10/20/05	synthetic spread	1.35%	12/6/2045	CDO	A3	A3	A-	A-	A-	7.1	GE Asset Management Incorporated
87337WAD2	TABS 2006-5A A3	TABS 2006-5A	$20,000,000	1.0000	$20,000,000	$60,000,000	$1,500,000,000	10/5/06	LIBOR01M	1.45%	10/8/2046	CDO	A2	A2	A	A	-	6.8	Tricadia CDO Management, LLC
89053XAE6	TOPG 2005-1A B	TOPG 2005-1A	$15,000,000	1.0000	$15,000,000	$26,000,000	$500,000,000	1/18/06	synthetic spread	1.35%	1/10/2045	CDO	A3	A3	A-	A-	-	7.5	Metropolitan West Asset Management, LLC,
92534FAD0	VRGO 2006-1A A3	VRGO 2006-1A	$15,000,000	1.0000	$15,000,000	$60,000,000	$2,095,000,000	10/31/06	synthetic spread	1.40%	11/9/2046	CDO	A2	A2	A	A	-	6.8	Vertical Capital, LLC
00082NAE0	ACABS 2005-2A A3	ACABS 2005-2A	$20,000,000	0.9120	$18,240,508	$22,500,000	$450,000,000	8/30/05	synthetic spread	1.42%	12/6/2044	CDO	A3	A3	A-	A-	-	9.6	ACA Management
26441NAD3	DUKEF 2006-10A A3	DUKEF 2006-10A	$20,000,000	1.0000	$20,000,000	$78,000,000	$1,200,000,000	4/12/06	synthetic spread	1.41%	4/9/2046	CDO	A2	A2	A	A	A	6.8	Ellington Capital Management
3622X4AH6	GSCSF 2006-2A D	GSCSF 2006-2A	$20,000,000	1.0000	$20,000,000	$22,500,000	$504,000,000	5/31/06	synthetic spread	1.55%	6/8/2045	CDO	A2	A2	A	A	A	5.3	GSCP (NJ), L.P.
36868BAE0	GEMST 2005-4A C	GEMST 2005-4A	$20,000,000	1.0000	$20,000,000	$21,000,000	$600,000,000	1/20/06	synthetic spread	1.33%	2/12/2041	CDO	A2	A2	A	A	-	5.3	HBK Investments
722684AD8	PINEM 2005-A C	PINEM 2005-A	$20,000,000	1.0000	$20,000,000	$12,000,000	$401,000,000	11/8/05	synthetic spread	1.47%	11/16/2045	CDO	A2	A2	A	A	-	4.1	Smith Breeden Associates
768277AD7	RIVER 2005-1A C	RIVER 2005-1A	$15,000,000	1.0000	$15,000,000	$5,250,000	$300,000,000	1/19/05	synthetic spread	1.40%	2/6/2040	CDO	A2	A2	A	A	-	6.0	Deerfield Capital Management
85233TAD8	STAK 2006-1A 5	STAK 2006-1A	$20,000,000	1.0000	$20,000,000	$11,500,000	$500,000,000	7/27/06	synthetic spread	1.60%	8/10/2046	CDO	A2	A2	A	A	-	8.0	TCW Asset management Company
925345AE0	VERT 2006-1A A3	VERT 2006-1A	$20,000,000	1.0000	$20,000,000	$31,000,000	$775,000,000	4/25/06	synthetic spread	1.41%	2/9/2046	CDO	A2	A2	A	A	A	6.4	Vertical Capital, LLC
239156AD4	DVSQ 2005-5A C	DVSQ 2005-5A	$15,000,000	1.0000	$15,000,000	$40,000,000	$2,018,000,000	9/30/05	synthetic spread	1.46%	10/8/2040	CDO	A2	A2	A	A	-	7.9	TCW Asset Management Company
13189LAD1	CAMBR 5A B	CAMBR 5A	$15,000,000	1.0000	$15,000,000	$19,000,000	$502,250,000	12/20/05	synthetic spread	1.43%	12/6/2045	CDO	A3	A3	A-	A-	-	7.6	Cambridge Place Investment Management, LLP
12777CAE9	CRNMZ 2006-2A C	CRNMZ 2006-2A	$3,000,000	1.0000	$3,000,000	$33,750,000	$773,375,000	11/9/06	LIBOR03M	1.35%	2/13/2047	CDO	A2	A2	A	A	-	6.9	Calm Financial Products Limited
078451AD3	BLHV 2005-1A C	BLHV 2005-1A	$15,000,000	1.0000	$15,000,000	$26,250,000	$750,000,000	6/23/05	synthetic spread	1.50%	8/8/2045	CDO	A2	A2	A	A	-	6.3	NIBC Credit Management Inc.
347199AC5	FTDRB 2005-1A A3L	FTDRB 2005-1A	$15,000,000	1.0000	$15,000,000	$22,000,000	$484,500,000	8/4/05	synthetic spread	1.55%	9/12/2040	CDO	A2	A2	A	A	-	6.5	Vanderbilt Capital Advisors, LLC
46426RAE9	ICM 2005-2A C	ICM 2005-2A	$15,000,000	1.0000	$15,000,000	$11,000,000	$403,000,000	7/27/05	synthetic spread	1.68%	8/6/2040	CDO	A2	A2	A	A	A	6.2	Ischus Capital Management, LLC
83743LAJ0	SCF 8A C	SCF 8A	$15,000,000	0.9855	$14,782,894	$12,000,000	$506,500,000	1/25/06	synthetic spread	1.71%	10/6/2043	CDO	A2	A2	A	A	-	6.0	TCW Asset Management Company

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CUSIP	Name	Issuer	Original Par	Factor	Current Par	Tranche Par	Total Deal Par	Issuer Date	Coupon Index	Margin/ Premium	Maturity	Asset Type	Moody's Rating	Moody's Rating	S&P Rating	S&P Rating	Fitch Rating	Avg Life	Collateral Manager
002561AD0	ABAC 2006-HG1A C	ABAC 2006-HG1A	$6,000,000	1.0000	$6,000,000	$20,250,000	$900,000,000	11/30/06	LIBOR01M	1.80%	11/28/2046	CDO	A2	A2	A	A	-	6.8	Bear Stearns Asset Management, Inc
002561AE8	ABAC 2006-HG1A D	ABAC 2006-HG1A	$9,000,000	1.0000	$9,000,000	$9,000,000	$900,000,000	11/30/06	LIBOR01M	2.20%	11/28/2046	CDO	A3	A3	A-	A-	-	6.8	Bear Stearns Asset Management, Inc
89054BAE3	TOPG 2006-2A B	TOPG 2006-2A	$10,000,000	1.0000	$10,000,000	$45,000,000	$1,015,000,000	12/14/06	LIBOR01M	1.45%	12/10/2046	CDO	A2	A2	A	A	-	7.2	Metropolitan West Asset Management
12777CAE9	CRNMZ 2006-2A C	CRNMZ 2006-2A	$17,000,000	1.0000	$17,000,000	$33,750,000	$773,375,000	11/9/06	synthetic spread	1.95%	2/13/2047	CDO	A2	A2	A	A	-	6.5	Cairn Financial Products Limited
34957YAE7	FORTS 2006-2A C	FORTS 2006-2A	$20,000,000	1.0000	$20,000,000	$20,000,000	$512,700,000	12/7/06	synthetic spread	2.27%	2/3/2042	CDO	A2	A2	A	A	-	5.4	Aladdin Capital Management LLC
46426XAE6	ICM 2006-3A C	ICM 2006-3A	$20,000,000	1.0000	$20,000,000	$19,000,000	$605,000,000	6/29/06	synthetic spread	1.81%	7/3/2046	CDO	A2	A2	A	A	-	6.7	Ischus Capital Management, LLC
00082WAD2	ACABS 2006-1A A3L	ACABS 2006-1A	$20,000,000	0.9970	$19,939,607	$40,000,000	$750,000,000	4/27/06	synthetic spread	2.23%	6/10/2041	CDO	A2	A2	A	A	-	7.0	ACA Management
142146AE9	CACDO 2006-1A C1	CACDO 2006-1A	$20,000,000	1.0000	$20,000,000	$60,000,000	$1,565,680,000	11/1/06	synthetic spread	2.18%	11/10/2046	CDO	A2	A2	A	A	-	7.5	State Street Global Advisors
362479AD9	GSCSF 2006-4A A3	GSCSF 2006-4A	$20,000,000	1.0000	$20,000,000	$45,000,000	$750,000,000	10/6/06	synthetic spread	2.00%	11/6/2046	CDO	A2	A2	A	A	A	6.9	GSCP (NJ), L.P.
45377MAL5	INDE7 7A D	INDE7 7A	$20,000,000	1.0000	$20,000,000	$15,000,000	$607,206,000	3/28/06	synthetic spread	2.40%	1/10/2045	CDO	A3	A3	A-	A-	A-	5.1	Declaration Management & Research LLC
543175AJ2	LSTRT 2006-1A D	LSTRT 2006-1A	$20,000,000	1.0000	$20,000,000	$20,000,000	$500,000,000	6/3/06	synthetic spread	2.25%	11/6/2046	CDO	A2	A2	A	A	-	6.2	JP Morgan Asset Management
87337UAD6	TABS 2005-4A D	TABS 2005-4A	$20,000,000	1.0000	$20,000,000	$10,000,000	$402,000,000	1/26/06	synthetic spread	1.86%	6/30/2045	CDO	A2	A2	A	A	-	6.7	Tricadia CDO Management, LLC
08861KAC0	BFCSL 2006-1A D	BFCSL 2006-1A	$20,000,000	1.0000	$20,000,000	$30,000,000	$750,000,000	10/31/06	synthetic spread	2.00%	11/14/2046	CDO	A2	A2	A	A	-	7.6	Braddock Financial Corporation
46426YAC8	ICM 2006-S2A A3L	ICM 2006-S2A	$10,000,000	1.0000	$10,000,000	$60,000,000	$1,004,000,000	12/21/06	LIBOR03M	1.90%	10/12/2045	CDO	A2	A2	A	A	-	6.0	Ischus Capital Management, LLC
82437XAD0	SHERW 2005-2A C	SHERW 2005-2A	$20,000,000	1.0000	$20,000,000	$10,000,000	$500,000,000	12/15/05	synthetic spread	1.65%	10/5/2045	CDO	A2	A2	A	A	-	6.0	Church Tavern Advisors
007022AD8	ADROC 2005-2A C	ADROC 2005-2A	$20,000,000	1.0000	$20,000,000	$30,900,000	$1,545,000,000	11/15/05	synthetic spread	1.75%	2/6/2041	CDO	A2	A2	A	A	-	5.3	Clinton Group Inc.
38521PAE4	GRAND 2005-1A C	GRAND 2005-1A	$20,000,000	1.0000	$20,000,000	$47,000,000	$1,190,010,000	12/28/05	synthetic spread	1.75%	4/5/2046	CDO	A2	A2	A	A	-	7.3	TCW Asset Management Company
85234AAG1	STAK 2006-2A 5	STAK 2006-2A	$20,000,000	1.0000	$20,000,000	$27,000,000	$900,000,000	2/8/07	synthetic spread	2.15%	3/10/2047	CDO	A2	A2	A	A	-	7.0	TCW Asset management Company
64069PAJ7	NEPTN 2006-3A B	NEPTN 2006-3A	$20,000,000	1.0000	$20,000,000	$14,000,000	$406,000,000	3/9/06	synthetic spread	1.51%	3/5/2046	CDO	A2	A2	A	A	-	5.7	Fund America Management Corporation
25454XAD7	DGCDO 2006-2A C	DGCDO 2006-2A	$20,000,000	1.0000	$20,000,000	$22,800,000	$600,000,000	6/29/06	synthetic spread	2.20%	8/15/2049	CDO	A2	A2	A	A	-	6.2	State Street Global Advisors
006368AC8	ADMSQ 2006-1A C	ADMSQ 2006-1A	$20,000,000	1.0000	$20,000,000	$15,250,000	$507,250,000	12/15/06	synthetic spread	2.45%	12/15/2051	CDO	A2	A2	A	A	-	6.5	Credit Suisse Alternative Capital

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CUSIP	Name	Tranche	Original Face	Factor	Current Face	Tranche Par	Total Deal	Issuance Date	Coupon	Margin	Maturity	Asset Type	Moody's Rating	Moody's Outlook	S&P Rating	S&P Outlook	Fitch Rating	Avg Life	Collateral Manager
615120AE2	MNTRS 2006-1A C	MNTRS 2006-1A	$20,000,000	1.0000	$20,000,000	$14,500,000	$505,000,000	7/31/06	synthetic spread	2.00%	12/5/2051	CDO	A2	A2	A	A	-	6.8	Vanderbilt Capital Advisors, LLC
157197AC8	CETUS 2006-1A B	CETUS 2006-1A	$20,000,000	1.0000	$20,000,000	$55,000,000	$1,000,000,000	7/20/06	synthetic spread	2.40%	10/18/2046	CDO	A2	A2	A	A	-	6.7	GSCP (NJ), L.P.
15719MAC5	CETUS 2006-2A B	CETUS 2006-2A	$20,000,000	1.0000	$20,000,000	$55,000,000	$1,000,000,000	9/27/06	synthetic spread	2.46%	12/20/2046	CDO	A2	A2	A	A	-	6.6	GSCP (NJ), L.P.
3622X0AC5	GSCSF 2006-1A B	GSCSF 2006-1A	$20,000,000	1.0000	$20,000,000	$26,000,000	$550,000,000	3/31/06	synthetic spread	2.05%	7/16/2046	CDO	A2	A2	A	A	A	6.4	GSCP (NJ), L.P.
553129AD9	MKP 6A C	MKP 6A	$20,000,000	1.0000	$20,000,000	$4,000,000	$300,750,000	8/31/06	synthetic spread	2.15%	6/15/2051	CDO	A2	A2	A	A	-	6.6	MKP Capital Management, L.L.C.,
82442VAD7	SHERW 2006-3A A3	SHERW 2006-3A	$20,000,000	1.0000	$20,000,000	$18,000,000	$500,000,000	1/10/07	synthetic spread	2.30%	2/9/2047	CDO	A2	A2	A	A	-	6.6	Church Tavern Advisors
74732AAD9	PYXIS 2006-1A C	PYXIS 2006-1A	$20,000,000	1.0000	$20,000,000	$89,000,000	$1,500,000,000	10/3/06	synthetic spread	2.45%	11/10/2046	CDO	A2	A2	A	A	A	6.8	The Putnam Advisory Company, LLC
37638NAD3	GLCR 2006-4A C	GLCR 2006-4A	$10,000,000	0.9936	$9,936,305	$14,000,000	$401,250,000	4/12/06	synthetic spread	1.90%	10/12/2045	CDO	A2	A2	A	A	-	4.8	Terwin Money Management LLC
578325AD4	MAYF 2006-1A A3L	MAYF 2006-1A	$20,000,000	1.0000	$20,000,000	$46,000,000	$1,010,200,000	8/22/06	synthetic spread	2.28%	9/12/2046	CDO	A2	A2	A	A	-	6.4	Vanderbilt Capital Advisors, LLC
89643PAD2	TRNTY 2005-1A B	TRNTY 2005-1A	$20,000,000	1.0000	$20,000,000	$8,000,000	$300,000,000	4/14/05	synthetic spread	1.50%	3/8/2040	CDO	A3	A3	A-	A-	-	8.8	Centre Pacific, LLC
89054BAE3	TOPG 2006-2A B	TOPG 2006-2A	$10,000,000	1.0000	$10,000,000	$45,000,000	$1,015,000,000	12/14/06	synthetic spread	1.85%	12/10/2046	CDO	A2	A2	A	A	-	7.2	Metropolitan West Asset Management
23910VAH5	DVSQ 2006-6A C	DVSQ 2006-6A	$15,000,000	1.0000	$15,000,000	$35,000,000	$2,000,000,000	3/30/06	synthetic spread	2.60%	9/7/2041	CDO	A2	A2	A	A	-	8.2	TCW Asset Management Company
362470AC0	GSCSF 2005-1A A3	GSCSF 2005-1A	$20,000,000	1.0000	$20,000,000	$26,000,000	$500,000,000	1/12/06	synthetic spread	1.84%	11/12/2045	CDO	A2	A2	A	A	A	5.3	GSCP (NJ), L.P.
05539MAD2	BFCGE 2006-1A A3L	BFCGE 2006-1A	$20,000,000	0.9926	$19,852,320	$16,000,000	$301,200,000	2/28/06	synthetic spread	3.68%	1/10/2041	CDO	A2	A2	A	A	-	7.0	Braddock Financial Corporation
13189BAF8	CAMBR 7A C	CAMBR 7A	$20,248,366	1.0000	$20,248,366	$78,300,000	$915,500,000	2/28/07	synthetic spread	6.55%	6/12/2042	CDO	A2	A2	A	A	-	7.9	Cambridge Place Investment Management, LLP
12776YAD4	CRNMZ 2006-1A 5	CRNMZ 2006-1A	$15,000,000	1.0000	$15,000,000	$13,000,000	$500,000,000	9/6/06	synthetic spread	5.45%	12/9/2046	CDO	A2	A2	A	A	-	7.2	Calm Financial Products Limited
925338AD7	VERT 2006-2A A3	VERT 2006-2A	$20,000,000	1.0000	$20,000,000	$26,000,000	$500,000,000	6/20/06	synthetic spread	2.64%	5/9/2046	CDO	A2	A2	A	A	A	5.8	Vertical Capital, LLC

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ANNEX A-1

FORM OF INCOME NOTES PURCHASE AND TRANSFER LETTER

The Bank of New York, London Branch
One Canada Square
London E14 5AL
United Kingdom
fax +44 20 7964 6399
phone +44 20 7964 7073
Attention: Corporate Trust Administration

Re: Timberwolf I, Ltd.
Income Notes

Dear Sirs:

Reference is hereby made to the Income Notes (the "Income Notes") issued by Timberwolf I, Ltd. (the "Issuer"), described in the Issuer's Offering Circular dated March 23, 2007 ("Offering Circular") to be purchased and held by us. We (the "Purchaser") are purchasing U.S.$ [ ] aggregate notional amount of Income Notes (the "Purchaser's Income Notes"). Terms defined or referenced in the Offering Circular and not otherwise defined or referenced herein shall have the meanings set forth in the Offering Circular.

The Purchaser hereby represents, warrants and covenants for the benefit of the Issuer that:

(a) (i) The Purchaser is (check one) (x) __ a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) (a "Qualified Institutional Buyer"), (y) __ a non-U.S. Person (as defined in Regulation S under the Securities Act) that is acquiring the Purchaser's Income Notes in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S of the Securities Act or (z) __ an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than U.S.$10 million that is purchasing the Income Notes for its own account; (ii) The Purchaser, in the case of clauses (x) or (z) above, is a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act") (a "Qualified Purchaser"); (iii) The Purchaser, in the case of clause (z) above, is not acquiring the Income Notes with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below; (iv) The Purchaser is aware that the sale of the Purchaser's Income Notes to the Purchaser is being made in reliance on an exemption from registration under the Securities Act; (v) The Purchaser (unless otherwise permitted under the Fiscal Agency Agreement) is acquiring Income Notes in the aggregate notional principal amount of not less than U.S.$100,000 with integral multiples of U.S.$1 in excess thereof; (vi) With respect to any transferee, the Purchaser also understands that, in conjunction with any transfer of the Purchaser's ownership of any Purchaser's Income Notes purchased hereunder, it will not transfer or cause the transfer of such Purchaser's Income Notes without obtaining from the transferee a certificate substantially in the form of this Income Notes Purchase and Transfer Letter; (vii) The Purchaser will provide notice of the transfer restrictions described to any subsequent transferees.

(b) The Purchaser is purchasing the Purchaser's Income Notes in an amount equal to or exceeding the minimum denominations thereof for its own account (or, if the Purchaser is a Qualified Institutional Buyer, for the account of another Qualified Institutional Buyer with respect to which the Purchaser exercises sole investment discretion) for investment purposes only and not for sale in connection with any distribution thereof, but nevertheless subject to the understanding that the

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disposition of its property shall at all times be and remain within its control (subject to the restrictions set forth in the Offering Circular, the note in respect of the Purchaser's Income Notes and the Fiscal Agency Agreement).

(c) The Purchaser understands that the Purchaser's Income Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only in accordance with the restrictions on transfer set forth herein and in the Fiscal Agency Agreement. The Purchaser understands and agrees that any purported transfer of Income Notes to a purchaser that does not comply with the requirements herein will not be permitted or registered by the Fiscal Agent. The Purchaser further understands that the Issuer has the right to compel any beneficial owner of Income Notes that is a U.S. Person and is not (a) either a Qualified Institutional Buyer or an Accredited Investor with a net worth of U.S.$10 million or more and (b) a Qualified Purchaser, to sell its interest in such Income Notes, or the Issuer may sell such Income Notes on behalf of such owner.

(d) If the Purchaser or any account for which the Purchaser is purchasing the Purchaser's Income Notes is a U.S. Person (as defined in Regulation S under the Securities Act) the following representations shall be true and correct: The Purchaser (or if the Purchaser is acquiring the Purchaser's Income Notes for any account, each such account) is acquiring the Purchaser's Income Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The Purchaser and each such account: (a) was not formed for the specific purpose of investing in the Income Notes (except when each beneficial owner of the Purchaser and each such account is a Qualified Purchaser), (b) to the extent the Purchaser is a private investment company formed before April 30, 1996, the Purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made; and (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the Purchaser agrees: (i) that neither it nor such account shall hold the Purchaser's Income Notes for the benefit of any other person and such purchaser of such account shall be the sole beneficial owner thereof for all purposes; and (ii) that neither it nor such account shall sell participation interests in the Purchaser's Income Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Purchaser's Income Notes. The Purchaser understands and agrees that any purported transfer of the Purchaser's Income Notes to a Purchaser that does not comply with the requirements of this clause (d) will not be permitted or registered by the Fiscal Agent or the Income Note Registrar, as applicable.

(e) In connection with the purchase of the Purchaser's Income Notes: (i) none of the Issuers, the Initial Purchaser, the Collateral Manager, the Issuer Administrator or the Income Note Registrar is acting as a fiduciary or financial or investment adviser for the Purchaser; (ii) the Purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Collateral Manager, the Issuer Administrator or the Income Note Registrar, other than in the Offering Circular and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, any Cashflow Swap Counterparty, the Collateral Manager, the Administrator or the Income Note Registrar has given to the Purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Purchaser's Income Notes; (iv) the Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding

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the suitability of any transaction pursuant to the Indenture and the Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, any Cashflow Swap Counterparty, the Collateral Manager, the Issuer Administrator or the Income Note Registrar; (v) the Purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Purchaser's Income Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the Purchaser is a sophisticated investor.

(f) The certificates in respect of the Income Notes (other than the Regulation S Income Notes) will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Fiscal Agency Agreement and applicable law:

THE INCOME NOTES ARE CONSTITUTED BY THE DEED OF COVENANT EXECUTED BY THE ISSUER ON OR ABOUT MARCH 27, 2007 AND ARE SUBJECT TO THE TERMS AND CONDITIONS THEREOF AND CERTAIN CONDITIONS OF THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 27, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND AMONG THE ISSUER AND THE BANK OF NEW YORK, LONDON BRANCH, AS FISCAL AGENT AND TRANSFER AGENT. COPIES OF THE DEED OF COVENANT, THE TERMS AND CONDITIONS OF THE INCOME NOTES AND THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND IN EACH CASE IN A MINIMUM DENOMINATION OF U.S.$100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE

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INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE FISCAL AGENT OR THE INCOME NOTE REGISTRAR. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE FISCAL AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR, THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF INCOME NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN ENTITY DESCRIBED IN (i)(C) ABOVE, OR AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF ITS ASSETS OR THE ASSETS IN ITS GENERAL ACCOUNT, AS APPLICABLE, THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE IT WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE FISCAL AGENT WITH AN INCOME NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. NO PURCHASE OR TRANSFER OF INCOME NOTES

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WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE FISCAL AGENCY AGREEMENT).

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE NOTES OF THE ISSUERS AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE FISCAL AGENCY AGREEMENT.

(g) The certificates in respect of the Regulation S Income Notes will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Fiscal Agency Agreement and applicable law:

THE INCOME NOTES ARE CONSTITUTED BY THE DEED OF COVENANT EXECUTED BY THE ISSUER ON OR ABOUT MARCH 27, 2007 AND ARE SUBJECT TO THE TERMS AND CONDITIONS THEREOF AND CERTAIN CONDITIONS OF THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 27, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND AMONG THE ISSUER AND THE BANK OF NEW YORK, LONDON BRANCH, AS FISCAL AGENT AND INCOME NOTE TRANSFER AGENT. COPIES OF THE DEED OF COVENANT, THE TERMS AND CONDITIONS OF THE INCOME NOTES AND THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND IN EACH CASE IN A MINIMUM DENOMINATION OF U.S.$100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY

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CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE FISCAL AGENT OR THE INCOME NOTE REGISTRAR. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE.

THE TRANSFEREE OF THIS SECURITY WILL BE DEEMED TO HAVE REPRESENTED THAT THE TRANSFEREE IS NOT A U.S. PERSON.

THE PURCHASER OR TRANSFEREE OF THIS INCOME NOTE IS DEEMED TO REPRESENT (i) THAT IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) THAT IT IS NOT THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. NO PURCHASE OR TRANSFER OF INCOME NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE FISCAL AGENCY AGREEMENT).

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS INCOME NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS INCOME NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY INCOME NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS INCOME NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS

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OF THIS INCOME NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE FISCAL AGENCY AGREEMENT.

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE NOTES OF THE ISSUERS AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(h) With respect to Income Notes (other than Regulation S Income Notes) transferred or purchased on or after the Closing Date, the Purchaser understands and agrees that the representations and agreements made in this paragraph (h) will be deemed made on each day from the date hereof through and including the date on which the Purchaser disposes of the Income Notes (other than the Regulation S Income Notes).

(x) The Purchaser is __ is not __ [check one] (i) an "employee benefit plan" (as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA")), that is subject to the provisions of Title I of ERISA, (ii) a "plan" described in and subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or (iii) an entity whose underlying assets include assets of any such plan (for purposes of ERISA or Section 4975 of the Code) by reason of any such plan's investment in the entity (such persons and entities described in clauses (i) through (iii) being referred to herein as "Benefit Plan Investors"); and (y) if the Purchaser is a Benefit Plan Investor, the Purchaser's purchase and holding of an Income Note do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available.

The Purchaser is _____ is not _____ [check one] the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (any such person described in this paragraph being referred to as a "Controlling Person").

If the Purchaser is A Benefit Plan Investor described in (iii) above, or an insurance company acting on behalf of its general account ____ [check if true], then (i) not more than ____% [complete by entering a percentage], (the "Maximum Percentage") of its assets or the assets of such general account, as applicable, constitutes assets of Benefit Plan Investors for purposes of Section 3(42) and the "plan assets" regulations under ERISA, and (ii) without limiting the remedies that may otherwise be available, the Purchaser agrees that it shall (x) immediately notify the Issuer if the Maximum Percentage is exceeded, and (y) dispose of all or a portion of its Income Notes as may be instructed by the Issuer (including, in the discretion of the Issuer, a disposition back to the Issuer or an affiliate thereof (or other person designated by the Issuer) for the then value of the Income Notes as reasonably determined by the Issuer, in any case in which the Purchaser cannot otherwise make a disposition it has been instructed by the Issuer to make).

(i) The Purchaser understands and acknowledges that neither the Fiscal Agent nor the Income Note Registrar will register any purchase or transfer of Income Notes either to a proposed initial purchaser or to a proposed subsequent transferee of Income Notes that has, in either case, represented that it is a Benefit Plan Investor or a Controlling Person if, after giving effect to such proposed transfer, persons that have represented that they are Benefit Plan Investors would own 25% or more of the outstanding Income Notes. For purposes of this determination, Income Notes held by the Collateral Manager, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding. The Purchaser understands and agrees that any purported purchase or transfer of the Purchaser's Income Notes to a Purchaser that does not comply with the requirements of this clause (h) will not be permitted or registered by the Fiscal Agent or the Income Note Registrar.

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(j) The Purchaser is not purchasing the Purchaser's Income Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The Purchaser understands that an investment in the Purchaser's Income Notes involves certain risks, including the risk of loss of its entire investment in the Purchaser's Income Notes under certain circumstances. The Purchaser has had access to such financial and other information concerning the Issuers and the Purchaser's Income Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Purchaser's Income Notes, including an opportunity to ask questions of, and request information from, the Issuer.

(k) If the purchaser or beneficial owner is a Non-U.S. Holder, such purchaser or beneficial owner represents that (x) either (i) its purchase of the Income Note is not, directly or indirectly, an extension of credit made by a bank pursuant to a loan agreement entered into in the ordinary course of its trade or business, (ii) it is a person that is eligible for benefits under an income tax treaty with the United States that eliminates United States federal income taxation of United States source interest not attributable to a permanent establishment in the United States or (iii) all income from the Income Note is effectively connected with a trade or business within the United States (as such terms are used in Section 882(a)(1) of the Code) conducted by such Holder and (y) it is not purchasing the Income Note in order to reduce its United States federal income tax liability or pursuant to a tax avoidance plan.

(l) The Purchaser agrees to treat the Purchaser's Income Notes as equity in the Issuer for United States federal, state and local income tax purposes.

(m) The Purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Fiscal Agent may require further identification of the Purchaser before the purchase application can proceed. The Issuer and the Fiscal Agent shall be held harmless and indemnified by the Purchaser against any loss arising from the failure to process the application if such information as has been required from the Purchaser has not been provided by the Purchaser.

(n) The Purchaser agrees to complete any other instrument of transfer as required under Cayman Islands law.

(o) The Purchaser is not a member of the public in the Cayman Islands.

(p) The purchaser agrees not to treat the Issuer as being engaged in the active conduct of a banking, financing, insurance, or other similar business for purposes of Section 954(h)(2) of the Code.

(q) The purchaser agrees to timely furnish the Issuer or its agents any U.S. federal income tax form or certification (such as IRS Form W-8BEN (Certification of Foreign Status), Form W-8IMY (Certification of Foreign Intermediary Status), Form W-9 (Request for Taxpayer Identification Number and Certification) or Form W-8ECI (Certification of Foreign Person's Claim for Exemption from Withholding on Income Effectively Connected with Conduct of a U.S. Trade or Business) or any successors to such IRS forms) that the Issuer or its agents may reasonably request and to update or replace such form or certification in accordance with its terms or its subsequent amendments.

(r) The purchaser agrees to timely furnish the Issuer, upon request, with such information as may reasonably be requested by the Issuer (including but not limited to information relating to the beneficial owner of the Note) in connection with the Issuer's fulfillment of its tax reporting, notification, withholding and similar obligations arising under the Code (as amended from time to time) or the Transaction Documents.

(s) The purchaser agrees to treat the Issuer as a non-U.S. corporation for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes.

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We acknowledge that you and other persons will rely upon our confirmation, acknowledgments, representations, warranties, covenants and agreements set forth herein, and we hereby irrevocably authorize you and such other persons to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Very truly yours,
[ ]
By:_____
Name:
Title:

Receipt acknowledged as of date set forth above,

_____
(Signature and Addresses)

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ANNEX A-2

FORM OF CLASS D NOTES PURCHASE AND TRANSFER LETTER

The Bank of New York
101 Barclay Street, 8th Floor East
New York, New York 10286
Attention: CDO Transaction Management Group – Timberwolf I, Ltd.

Re: Timberwolf I, Ltd.
Class D Notes

Dear Sirs:

Reference is hereby made to the Class D Notes (the "Class D Notes") issued by Timberwolf I, Ltd. (the "Issuer"), described in the Issuer's Offering Circular dated March 23, 2007 ("Offering Circular") to be purchased and held by us. We (the "Purchaser") are purchasing U.S.$[_____] Class D Notes (the "Purchaser's Class D Notes"). Terms defined or referenced in the Offering Circular and not otherwise defined or referenced herein shall have the meanings set forth in the Offering Circular.

The Purchaser hereby represents, warrants and covenants for the benefit of the Issuer that:

(a) (i) The Purchaser is (check one) (x) __ a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) (a "Qualified Institutional Buyer") or (y) __ a non-U.S. Person (as defined in Regulation S under the Securities Act) that is acquiring the Purchaser's Class D Notes in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S of the Securities Act; (ii) The Purchaser, in the case of clause (x) above, is a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act") (a "Qualified Purchaser"); (iii) The Purchaser is aware that the sale of the Purchaser's Class D Notes to the Purchaser is being made in reliance on an exemption from registration under the Securities Act; (iv) The Purchaser is acquiring not less than U.S.$250,000 of Purchased Notes; (v) With respect to any transferee, the Purchaser also understands that, in conjunction with any transfer of the Purchaser's ownership of any Purchaser's Class D Notes purchased hereunder, it will not transfer or cause the transfer of such Purchaser's Class D Notes without obtaining from the transferee a certificate substantially in the form of this Class D Notes Purchase and Transfer Letter; (vi) The Purchaser will provide notice of the transfer restrictions described to any subsequent transferees.

(b) The Purchaser is purchasing the Purchaser's Class D Notes in an amount equal to or exceeding the minimum permitted amount thereof for its own account (or, if the Purchaser is a Qualified Institutional Buyer, for the account of another Qualified Institutional Buyer with respect to which the Purchaser exercises sole investment discretion) for investment purposes only and not for sale in connection with any distribution thereof, but nevertheless subject to the understanding that the disposition of its property shall at all times be and remain within its control (subject to the restrictions set forth in the Offering Circular and the Indenture).

(c) The Purchaser understands that the Purchaser's Class D Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred

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only in accordance with the restrictions on transfer set forth herein and in the Indenture. The Purchaser understands and agrees that any purported transfer of Class D Notes to a purchaser that does not comply with the requirements herein will not be permitted or registered by the Note Transfer Agent. The Purchaser further understands that the Issuer has the right to compel any beneficial owner of Class D Notes that is a U.S. Person and is not (a) either a Qualified Institutional Buyer and (b) a Qualified Purchaser, to sell its interest in such Class D Notes, or the Issuer may sell such Class D Notes on behalf of such owner.

(d) If the Purchaser or any account for which the Purchaser is purchasing the Purchaser's Class D Notes is a U.S. Person (as defined in Regulation S under the Securities Act) the following representations shall be true and correct: The Purchaser (or if the Purchaser is acquiring the Purchaser's Class D Notes for any account, each such account) is acquiring the Purchaser's Class D Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The Purchaser and each such account: (a) was not formed for the specific purpose of investing in the Class D Notes (except when each beneficial owner of the Purchaser and each such account is a Qualified Purchaser), (b) to the extent the Purchaser is a private investment company formed before April 30, 1996, the Purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made; and (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the Purchaser agrees: (i) that neither it nor such account shall hold the Purchaser's Class D Notes for the benefit of any other person and such purchaser of such account shall be the sole beneficial owner thereof for all purposes; and (ii) that neither it nor such account shall sell participation interests in the Purchaser's Class D Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Purchaser's Class D Notes. The Purchaser understands and agrees that any purported transfer of the Purchaser's Class D Notes to a Purchaser that does not comply with the requirements of this clause (d) will not be permitted or registered by the Note Transfer Agent.

(e) In connection with the purchase of the Purchaser's Class D Notes: (i) none of the Issuers, the Initial Purchaser, the Collateral Manager or the Administrator is acting as a fiduciary or financial or investment adviser for the Purchaser; (ii) the Purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Collateral Manager or the Administrator other than in the Offering Circular and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Cashflow Swap Counterparty, the Collateral Manager or the Administrator has given to the Purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Purchaser's Class D Notes; (iv) the Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Cashflow Swap Counterparty, the Collateral Manager or the Administrator; (v) the Purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Purchaser's Class D Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the Purchaser is a sophisticated investor.

(f) The certificates in respect of the Class D Notes (other than the Regulation S Class D Notes) will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Indenture and applicable law:

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THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE NOTE TRANSFER AGENT. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE.

IF THE TRANSFER OF CLASS D NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE CLASS D NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE NOTE TRANSFER AGENT A CLASS D NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE, STATING THAT AMONG OTHER THINGS,

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THE TRANSFEREE IS (1) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT.

THE PURCHASER OR TRANSFEREE OF THIS NOTE MUST DISCLOSE IN WRITING IN ADVANCE TO THE TRUSTEE (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR, THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF CLASS D NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN ENTITY AS DESCRIBED IN (i)(C) ABOVE, OR AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF ITS ASSETS OR THE ASSETS IN ITS GENERAL ACCOUNT, AS APPLICABLE, THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE IT WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN A CLASS D NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE NOTE TRANSFER AGENT WITH A CLASS D NOTES PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE INDENTURE) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. NO PURCHASE OR TRANSFER OF CLASS D NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING CLASS D NOTES (OTHER THAN THE CLASS D NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE INDENTURE).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

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PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

(g) The certificates in respect of the Regulation S Class D Notes will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Indenture and applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN U.S.$100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE

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(AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE TRANSFER AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

THE PURCHASER OR TRANSFEREE OF A CLASS D NOTE IS DEEMED TO REPRESENT TO THE NOTE TRANSFER AGENT (i) THAT IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF ERISA), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF ANY SUCH PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) THAT IT IS NOT THE COLLATERAL MANAGER OR ANY OTHER PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. NO PURCHASE OR TRANSFER OF CLASS D NOTES WILL BE PERMITTED OR REGISTERED TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE OUTSTANDING CLASS D NOTES (OTHER THAN THE CLASS D NOTES OWNED BY THE COLLATERAL MANAGER, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 AND THE INDENTURE).

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUER OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF

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PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

THE FOLLOWING INFORMATION IS PROVIDED PURSUANT TO UNITED STATES TREASURY REGULATION SECTION 1.1275-3(b). THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE HOLDER OF THIS NOTE MAY OBTAIN THE INFORMATION DESCRIBED IN UNITED STATES TREASURY REGULATION SECTION 1. 1275-3(b)(1)(i) FROM THE ADMINISTRATOR, AT THE FOLLOWING ADDRESS: P.O. BOX 1093 GT, GRAND CAYMAN, CAYMAN ISLANDS.

(h) With respect to Class D Notes (other than the Regulation S Class D Notes) transferred or purchased on or after the Closing Date, the Purchaser understands and agrees that the representations and agreements made in this paragraph (h) will be deemed made on each day from the date hereof through and including the date on which the Purchaser disposes of the Class D Notes (other than the Regulation S Class D Notes).

(x) The Purchaser is __ is not __ [check one] (i) an "employee benefit plan" (as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA")), that is subject to the provisions of Title I of ERISA, (ii) a "plan" described in and subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or (iii) an entity whose underlying assets include assets of any such plan (for purposes of ERISA or Section 4975 of the Code) by reason of any such plan's investment in the entity (such persons and entities described in clauses (i) through (iii) being referred to herein as "Benefit Plan Investors"); and (y) if the Purchaser is a Benefit Plan Investor, the Purchaser's purchase and holding of a Class D Note do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of an employee benefit plan not subject to ERISA or Section 4975 of the Code, any federal, state, local or foreign law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code) for which an exemption is not available.

The Purchaser is _____ is not _____ [check one] the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (any such person described in this paragraph being referred to as a "Controlling Person").

If the Purchaser is a Benefit Plan Investor described in (iii) above, or an insurance company acting on behalf of its general account ____ [check if true], then (i) not more than ____% [complete by entering a percentage], (the "Maximum Percentage") of its assets or the assets of such general account, as applicable, constitutes assets of Benefit Plan Investors for purposes of Section 3(42) of ERISA and the "plan assets" regulations under ERISA, and (ii) without limiting the remedies that may otherwise be available, the Purchaser agrees that it shall (x) immediately notify the Issuer if the Maximum Percentage is exceeded, and (y) dispose of all or a portion of its Class D Notes as may be instructed by the Issuer (including, in the discretion of the Issuer, a disposition back to the Issuer or an affiliate thereof (or other person designated by the Issuer) for the then value of the Class D Notes as reasonably determined by the Issuer, in any case in which the Purchaser cannot otherwise make a disposition it has been instructed by the Issuer to make).

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(i) The Purchaser understands and acknowledges that the Trustee will not register any purchase or transfer of Class D Notes either to a proposed initial purchaser or to a proposed subsequent transferee of Class D Notes that has, in either case, represented that it is a Benefit Plan Investor or a Controlling Person if, after giving effect to such proposed transfer, persons that have represented that they are Benefit Plan Investors would own 25% or more of the outstanding Class D Notes. For purposes of this determination, Class D Notes held by the Collateral Manager, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding. The Purchaser understands and agrees that any purported purchase or transfer of the Purchaser's Class D Notes to a Purchaser that does not comply with the requirements of this clause (i) will not be permitted or registered by the Note Transfer Agent.

(j) The purchaser is not purchasing the Purchaser's Class D Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The Purchaser understands that an investment in the Purchaser's Class D Notes involves certain risks, including the risk of loss of its entire investment in the Purchaser's Class D Notes under certain circumstances. The Purchaser has had access to such financial and other information concerning the Issuers and the Purchaser's Class D Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Purchaser's Class D Notes, including an opportunity to ask questions of, and request information from, the Issuer.

(k) If the purchaser or beneficial owner is a Non-U.S. Holder, such purchaser or beneficial owner represents that (x) either (i) its purchase of the Class D Note is not, directly or indirectly, an extension of credit made by a bank pursuant to a loan agreement entered into in the ordinary course of its trade or business, (ii) it is a person that is eligible for benefits under an income tax treaty with the United States that eliminates United States federal income taxation of United States source interest not attributable to a permanent establishment in the United States or (iii) all income from the Class D Note is effectively connected with a trade or business within the United States (as such terms are used in Section 882(a)(1) of the Code) conducted by such Holder and (y) it is not purchasing the Class D Note in order to reduce its United States federal income tax liability or pursuant to a tax avoidance plan.

(l) The Purchaser agrees to treat the Purchaser's Class D Notes as debt for U.S. federal income tax purposes.

(m) The Purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and Note Transfer Agent may require further identification of the Purchaser before the purchase application can proceed. The Issuer and the Note Transfer Agent shall be held harmless and indemnified by the Purchaser against any loss arising from the failure to process the application if such information as has been required from the Purchaser has not been provided by the Purchaser.

(n) The Purchaser agrees to complete any other instrument of transfer as required under Cayman Islands law.

(o) The Purchaser is not a member of the public in the Cayman Islands.

We acknowledge that you and other persons will rely upon our confirmation, acknowledgments, representations, warranties, covenants and agreements set forth herein, and we hereby irrevocably authorize you and such other persons to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Very truly yours,
[ ]
By:_____
Name:
Title:

Receipt acknowledged as of date set forth above,

_____
(Signature and Addresses)

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ANNEX B

PART II OF GREYWOLF CAPITAL MANAGEMENT LP'S FORM ADV

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OMB APPROVAL	
OMB Number	3235-0049
Expires:	September 30, 2005
Estimated average burden hours per response:	9.402

FORM ADV
Part II - Page 1

Uniform Application for Investment Adviser Registration

Name of Investment Adviser:
Greywolf Capital Management LP

Address:	(Number and Street)	(City)	(State)	(Zip Code)	Area Code:	Telephone Number:
	4 Manhattanville Road	Purchase	NY	10577	(914)	251-8200

This part of Form ADV gives information about the investment adviser and its business for the use of clients. The information has not been approved or verified by any governmental authority.

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	Continuation Sheet	Schedule F
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(Schedules A, B, C, D, and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

FORM ADV Part II – Page 2	Applicant: Greywolf Capital Management LP	SEC File Number: 801- 65669	Date: March 12, 2007

1. A. **Advisory Services and Fees.** (check the applicable boxes)

For each type of service provided, state the approximate % of total advisory billings from that service. (See instruction below.)

Applicant:

☒	(1) Provides investment supervisory services	100 %
☐	(2) Manages investment advisory accounts not involving investment supervisory services	%
☐	(3) Furnishes investment advice through consultations not included in either service described above	%
☐	(4) Issues periodicals about securities by subscription	%
☐	(5) Issues special reports about securities not included in any service described above	%
☐	(6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities	%
☐	(7) On more than an occasional basis, furnishes advice to clients on matters not involving securities	%
☐	(8) Provides a timing service	%
☐	(9) Furnishes advice about securities in any manner not described above	%

(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)

B. Does applicant call any of the services it checked above financial planning or some similar term? Yes ☐ No ☒

C. Applicant offers investment advisory services for: (check all that apply)

☒	(1) A percentage of assets under management	☐	(4) Subscription fees
☐	(2) Hourly charges	☐	(5) Commissions
☐	(3) Fixed fees (not including subscription fees)	☒	(6) Other

D. For each checked box in A above, describe on Schedule F:

- the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee
- applicant's basic fee schedule, how fees are charged and whether its fees are negotiable
- when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date

2. **Types of Clients** – Applicant generally provides investment advice to (check those that apply)

☐	A. Individuals	☐	E. Trusts, estates, or charitable organizations
☐	B. Banks or thrift institutions	☐	F. Corporations or business entities other than those listed above
☐	C. Investment companies	☒	G. Other (describe on Schedule F)
☐	D. Pension and profit sharing plans		

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

FORM ADV Part II – Page 3	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

3. Types of Investments. Applicant offers advice on the following: (check those that apply)

A. Equity Securities
- ☒ (1) exchange–listed securities
- ☒ (2) securities traded over–the–counter
- ☒ (3) foreign issuers

☒ B. Warrants

☒ C. Corporate debt securities (other than commercial paper)

☒ D. Commercial paper

☒ E. Certificates of deposit

☒ F. Municipal securities

G. Investment company securities:
- ☐ (1) variable life insurance
- ☐ (2) variable annuities
- ☒ (3) mutual fund shares

☒ H. United States government securities

I. Options contracts on:
- ☒ (1) securities
- ☒ (2) commodities

J. Futures contracts on:
- ☒ (1) tangibles
- ☒ (2) intangibles

K. Interests in partnerships investing in:
- ☒ (1) real estate
- ☒ (2) oil and gas interests
- ☐ (3) other (explain on Schedule F)

☒ L. Other (explain on Schedule F)

4. Methods of Analysis, Sources of Information, and Investment Strategies.

A. Applicant's security analysis methods include: (check those that apply)
- (1) ☒ Charting
- (2) ☒ Fundamental
- (3) ☒ Technical
- (4) ☒ Cyclical
- (5) ☒ Other (explain on Schedule F)

B. The main sources of information applicant uses include: (check those that apply)
- (1) ☒ Financial newspapers and magazines
- (2) ☒ Inspections of corporate activities
- (3) ☒ Research materials prepared by others
- (4) ☒ Corporate rating services
- (5) ☐ Timing services
- (6) ☒ Annual reports, prospectuses, filings with the Securities and Exchange Commission
- (7) ☒ Company press releases
- (8) ☒ Other (explain on Schedule F)

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)
- (1) ☒ Long term purchases (securities held at least a year)
- (2) ☒ Short term purchases (securities sold within a year)
- (3) ☒ Trading (securities sold within 30 days)
- (4) ☒ Short sales
- (5) ☒ Margin transactions
- (6) ☒ Option writing, including covered options, uncovered options or spreading strategies
- (7) ☒ Other (explain on Schedule F)

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

FORM ADV Part II – Page 4	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

5. Education and Business Standards.

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients? ..... Yes ☒ No ☐

(If yes, describe these standards on Schedule F.)

6. Education and Business Background.

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

- name
- year of birth
- formal education after high school
- business background for the preceding five years

7. Other Business Activities. (check those that apply)

☐ A. Applicant is actively engaged in a business other than giving investment advice.

☐ B. Applicant sells products or services other than investment advice to clients.

☐ C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

8. Other Financial Industry Activities or Affiliations. (check those that apply)

☐ A. Applicant is registered (or has an application pending) as a securities broker–dealer.

☐ B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.

C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:

☐	(1) broker–dealer	☐	(7) accounting firm
☐	(2) investment company	☐	(8) law firm
☒	(3) other investment adviser	☐	(9) insurance company or agency
☐	(4) financial planning firm	☐	(10) pension consultant
☐	(5) commodity pool operator, commodity trading adviser or futures commission merchant	☐	(11) real estate broker or dealer
☐	(6) banking or thrift institution	☐	(12) entity that creates or packages limited partnerships

(For each checked box in C, on Schedule F identify the related person and describe the relationship and the arrangements.)

D. Is applicant or a related person a general partner in any partnership in which clients are solicited to invest? ..... Yes ☐ No ☒

(If yes, describe on Schedule F the partnerships and what they invest in.)

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

FORM ADV Part II – Page 5	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

9. Participation or Interest in Client Transactions.

Applicant or a related person: (check those that apply)

☒ A. As principal, buys securities for itself from or sells securities it owns to any client.

☐ B. As broker or agent effects securities transactions for compensation for any client.

☐ C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.

☒ D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.

☒ E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe on Schedule F when the applicant or a related person engages in these transactions and what restrictions, internal procedures, or disclosures are used for conflicts of interests in those transactions.)

10. Conditions for Managing Accounts. Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services *and* impose a minimum dollar value of assets or other conditions for starting or maintaining an account?..... Yes ☒ No ☐

(If yes, describe on Schedule F.)

11. Review of Accounts. If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

A. Describe below the reviews and reviewers of the accounts. **For reviews**, include their frequency, different levels, and triggering factors. **For reviewers**, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

See Schedule F.

B. Describe below the nature and frequency of regular reports to clients on their accounts.

See Schedule F.

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

FORM ADV Part II – Page 6	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

12. Investment or Brokerage Discretion.

A. Does applicant or any related person have authority to determine, without obtaining specific client consent, the:

	Yes	No
(1) securities to be bought or sold?	☒	☐
(2) amount of the securities to be bought or sold?	☒	☐
(3) broker or dealer to be used?	☒	☐
(4) commission rates paid?	☒	☐

B. Does applicant or a related person suggest brokers to clients? Yes ☐ No ☒

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for products and research services received.

13. Additional Compensation.

Does the applicant or a related person have any arrangements, oral or in writing, where it:

	Yes	No
A. is paid cash by or receives some economic benefit (including commissions, equipment or non–research services) from a non–client in connection with giving advice to clients?	☐	☒
B. Directly or indirectly compensates any person for client referrals?	☐	☒

(For each yes, describe the arrangements on Schedule F.)

14. Balance Sheet. Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities (unless applicant is registered or registering only with the Securities and Exchange Commission); or
- requires prepayment of more than $500 in fees per client and 6 or more months in advance

	Yes	No
Has applicant provided a Schedule G balance sheet?	☐	☒

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
Item 1	**Introduction** Greywolf Capital Management LP ("GCM") provides investment management services to private pooled investment vehicles that are offered to investors on a private placement basis. In connection with providing these investment management services, GCM (and its affiliates) have discretionary trading authorization with respect to Greywolf Capital Partners II LP ("**GCP II**"), Greywolf High Yield Partners LP ("**GHYP**"), Greywolf Structured Products Fund I LP ("**GSPF I**"), Greywolf Capital Overseas Fund ("**GCOF**"), Greywolf High Yield Overseas Fund ("**GHYO**"), Greywolf High Yield Master Fund ("**GHYM**"), Greywolf Structured Products Fund Offshore I, Ltd. ("**GSPFO I**"), Greywolf Structured Products Master Fund ("**GSPM**") and Greywolf CLO I, Ltd. ("**GCLO I**") (collectively, the "**Funds**" and each individually as a "**Fund**"). Additional detailed information about GCM (and such affiliates) is provided below, including information about GCM's advisory services, investment approach, personnel, affiliations and brokerage practices. **Advisory Services** GCM serves as the management company to the GCP II and GHYP and serves as the general partner to GSPF I, each a private investment fund organized under the laws of the State of Delaware. Greywolf Advisors LLC ("GA" or the "**General Partner**"), a Delaware limited liability company affiliated with GCM, serves as the general partner to GCP II and GHYP. The interests in GCP II, GHYP and GSPF I are offered on a private placement basis, and in reliance on Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "**Company Act**") and are offered to persons who are "accredited investors" as defined under the Securities Act of 1933, as amended (the "**Securities Act**"), and "qualified purchasers" as defined under the Company Act and the regulations thereunder, and subject to certain other conditions, which are set forth in the offering documents for each respective fund. GCM also serves as the investment manager to GCOF, GHYO, GHYM, GSPFO I, and GSPM, each a private investment fund organized under the laws of the Cayman Islands. GHYP and GHYOF invest substantially all of their capital in the GHYM. GSPF I and GSPFO I invest substantially all of their capital in GSPM. Shares in the GCOF, GHYO and GSPFO I are offered on a private placement basis, and with respect to U.S. tax-exempt investors, in reliance on Section 3(c)(1) (for GCOF) and Section 3(c)(7) (for GHYO and GSPFO I) of the Company Act. Shares are offered to persons who are either not "U.S. Persons" (as such term is defined in Regulation S of the Securities Act) or U.S. tax-exempt investors. U.S. tax-exempt investors in GCOF must be "accredited investors" as defined in Regulation D under the Securities Act. U.S. tax-exempt investors in Greywolf GHYO and GSPFO must be: (i) "accredited investors" as defined in Regulation D under the Securities Act and (ii) "qualified purchasers" as defined in the Company Act and the regulations thereunder. Additionally, investors in GSPFO, GHYO and GSPFO I are subject to certain other conditions, which are set forth in the respective offering documents of each respective fund. GCM also serves as collateral manager of the portfolio of collateral, consisting primarily of loans, held by GCLO I, a special purpose vehicle organized under the laws of the Cayman Islands. The secured notes and subordinated securities issued by GCLO I are offered on a private placement basis and in reliance on Section 3(c)(7) of the Company Act. The secured notes are offered in the United States to persons who are "qualified institutional buyers" as defined in Rule 144A under the Securities Act and "qualified purchasers" as defined in the Company Act and the regulations thereunder. The subordinated securities are offered in the United States to persons who are either (i) "qualified institutional buyers" as defined in Rule 144A under the Securities Act or "accredited investors" as defined in Regulation D under the Securities Act and (ii) "qualified purchasers" as defined in the Company Act and the regulations thereunder or "knowledgeable employees" within the meaning of Rule 3c-5 of the Company Act. The secured notes and the subordinated securities are offered and sold outside the United States to persons who are not "U.S. persons" (as such term is defined in Regulation S of the Securities Act). Additionally, investors in GCLO I are subject to certain other conditions, which are set forth in the offering documents for the fund.

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	GCM (including, for these purposes, GA) has full discretionary authority with respect to investment decisions, and its advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in each Fund's respective offering memorandum and, with respect to GCLO I, in accordance with the collateral management agreement between GCM and GCLO I and the indenture between GCLO I and the trustee. Fees The fees applicable to each Fund are set forth in detail in each of the Fund's respective offering memorandum. A brief summary of those fees is provided below.
	Fees for GCP II and GHYP *Management Fees* With respect to GCP II and GHYP, GCM generally is paid a quarterly management fee equal to 0.375% (1.50% annualized) of each capital account's opening balance for the quarter, calculated and paid in advance of each quarter but amortized over the respective quarter. "Special Investments" (also known as "side pocket" investments), held in GCP II will be carried at fair value (which may be cost). (See Item 4.C. – "Special Situations Investing") In addition, a *pro rata* portion of the management fee will be paid to GCM out of any capital contributions made to GCP II and GHYP by new or existing limited partners on any date that does not fall on the first business day of a quarter, based on the actual number of months remaining in such partial quarter. For these purposes, a "business day" is any day on which commercial banks in New York City are open for business. In the case of a withdrawal from a capital account other than as of the last business day of a fiscal quarter, a *pro rata* portion of the management fee (based on the actual number of months remaining in such partial quarter) will be repaid by GCM to the applicable Fund and distributed to the withdrawing investor. The General Partner's capital accounts in GCP II and GHYP are not subject to the management fee. The General Partner, in its discretion, may elect to reduce, waive or calculate differently the management fee with respect to certain limited partners, including, without limitation, limited partners that are affiliates or employees of GCM, members of the immediate families of such persons, and trusts and other entities for their benefit. Each Fund reserves the right to impose different fees on future investments. *Incentive Allocation* Generally, at the end of each fiscal year, 20% of the excess of any realized and unrealized net capital appreciation (taking into account, with respect to GCP II gains and losses relating to applicable realized or deemed realized Special Investments) allocated to each capital account for such year over the management fee debited to such capital account for such year will be reallocated to the capital account of the General Partner. Generally, any realized and unrealized net loss in a fiscal year allocated to any capital account is carried forward (the "high water mark") so that no incentive allocation is charged to such capital account unless prior losses have been recouped, subject to certain adjustments. The General Partner, in its discretion, may elect to reduce, waive or calculate differently the incentive allocation with respect to certain limited partners, including, without limitation, limited partners that are affiliates or employees of Greywolf Capital, members of the immediate families of such persons, and trusts and other entities for their benefit. Each U.S. Fund reserves the right to impose different fees on future investments. In the event GCP II or GHYP is dissolved, or a withdrawal is made from a capital account, in either case, other than at the end of a fiscal year, net capital appreciation or net capital depreciation, as the case may be, shall be determined through the date of termination or withdrawal, and the incentive allocation, if any, from all capital

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	accounts (in the case of a termination) or from the capital accounts from which a withdrawal is made (in the case of a withdrawal) will be reallocated to the General Partner as set forth above. The incentive allocation with respect to capital accounts of partners in GCP II that have fully withdrawn except for interests in one or more "special investment accounts" (*i.e.*, "side pockets"), will be reallocated to the General Partner upon "realization" or "deemed realization" (as further detailed in the U.S. Funds' respective offering documents) of the applicable side pocket investment.
	Fees for GCOF and GHYO *Management Fees* GCM generally is paid a quarterly management fee equal to 0.375% (1.50% annualized) of the net asset value ("NAV") of each series of shares for GCOF and GHYO, calculated and paid in advance at the beginning of each quarter but amortized monthly over the respective quarter. A *pro rata* portion of the management fee will be paid to GCM out of any subscriptions for shares made to GCOF or GHYO by new or existing shareholders on any date that does not fall on the first day of a quarter, based on the actual number of months remaining in such partial quarter. If shares are redeemed at any time other than at the end of a quarter from GCOF or GHYO, a *pro rata* portion of the management fee (based on the actual number of days remaining in such partial quarter) will be repaid by GCM to the appropriate Fund and distributed to the redeeming shareholder. *Incentive Fees* At the end of each Fund's fiscal year, GCM is entitled to receive an incentive fee equal to 20% of the net realized and net unrealized appreciation in the NAV of each series of "ordinary" shares (*i.e.*, not the class S shares) of each Fund during the respective year (adjusted for any redemptions and any accruals of the incentive fees made during the year (the "Adjusted NAV")); provided, however, that an incentive fee will only be paid with respect to the portion of the Adjusted NAV of a series of shares that is in excess of the "Prior High NAV" of such series of shares. With respect to GCOF, Adjusted NAV also includes adjustments for the issuance of additional "ordinary" shares of an existing series following the realization or deemed realization of a "special" or "side pocket" investment (which will be recorded as "class S shares") and the subsequent exchange of class S shares relating thereto, in either case, occurring during such year. The Prior High NAV of a series of shares is the NAV of that series immediately following the date as of which the last year-end incentive fee was determined with respect to such series (or, if no incentive fee has yet been determined with respect to such series, the NAV of that series immediately following its initial offering). The Prior High NAV of a series of shares will be adjusted for redemption from such series. The Prior High NAV of a series of shares in GCOF will also be adjusted for redemptions of "ordinary" shares of a series exchanged for class S shares (*i.e.*, upon the making of a Special Investment) and the issuance of additional "ordinary" shares following the realization or deemed realization of a Special Investment. The Funds reserve the right to reduce, waive or calculate differently the management fee and/or the incentive fee with respect to any shareholder. In addition, the Funds reserve the right to impose different fees on future investments. GHYM does not charge directly any management, incentive or other fees for the benefit of GCM. GCM may elect to receive all or a portion of the incentive fees and/or management fees from the Funds currently or on a deferred basis, subject to a deferred compensation arrangement. Finally, any performance-based fees will be charged in accordance with Section 205 of the Advisers Act and Rule

Complete amended pages in full. circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	205-3 thereunder. ***GSPM Fees*** *Management Fees* GSPM will pay to GCM generally a quarterly management fee in advance as of the beginning of each fiscal quarter equal to 0.1875% (0.75% annualized) of the lower of (i) the NAV allocable to each investor's investment in either GSPF I and GSPFO I and (ii) total capital contributions, i.e. drawn capital. *Incentive Allocation (Reinvestment Period and Distribution)* Distributions will be made by GSPM to GSPF I and GSPFO I and GCM in respect of its Carried Interest, and by GSPF I and GSPFO I to their investors, as follows: - 8% IRR Hurdle: First to the investor until the investor has received cash distributions resulting in (i) 100% return of the respective investor's total capital contributions and (ii) an 8% internal rate of return (**"IRR"**) thereon; and - 70/30 Split: Thereafter, 70% to the investor and 30% to GCM (as **"Carried Interest"**). Notwithstanding the foregoing, the Carried Interest will be calculated and distributed to GCM only after the earlier of (i) the date on which all commitments have been drawn down and (ii) the end of the drawdown period. Prior to such time all distributions will be made to the investors. *Fee Offset* GSPM may invest in securities vehicles sponsored and/or managed by Greywolf, such as CDO products (**"Sponsored Products"**), in connection with which GCM may be entitled to receive fees or other forms of remuneration (**"Sponsored Product Fees"**). To the extent GCM or its affiliates receive any Sponsored Product Fees, GCM will (i) waive the Sponsored Product Fees in respect of the GSPM's interest (direct or indirect) in the Sponsored Products or (ii) reduce pro-rata, but not below zero, the amount of management fees, Carried Interest or expenses of the Funds that are paid by GCM on behalf of GSPM and for which GCM is entitled to reimbursement (together with Management Fees and carried interest, **"Greywolf Capital Compensation"**) that would otherwise be payable by GSPM to GCM by the Sponsored Products Fees received by GCM in respect of the GSPM's interest (direct or indirect) in the Sponsored Products (such amount, the **"Fee Offset Amount"**) or (iii) effect any other transaction such that the Funds are not charged Sponsored Products Fees in respect of the Funds' interest (direct or indirect) in the Sponsored Products. GCM will continue to earn fees on the percentage of Sponsored Products owned by non-GSPM investors.

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

I. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	Fees for GCLO I As compensation for the performance of its obligations as collateral manager, GCM is entitled to receive senior and subordinated management fees and, if certain conditions are met, an incentive collateral management fee (the **"Collateral Management Fees"**). The Collateral Management Fees will be payable from interest proceeds and, if interest proceeds are not sufficient, from principal proceeds from the portfolio of collateral that services the debt and other obligations of GCLO I (the "Collateral Portfolio"), in accordance with the priority of payments schedule, as described in the offering documents of GCLO I. GCM, in its sole discretion, may, from time to time, defer or waive all or any portion of the Collateral Management Fees. *Senior and Subordinated Management Fees* GCLO I will pay to GCM generally a quarterly senior collateral management fee in arrears (subject to the availability of funds and the priority of payments schedule) equal to 0.15% per annum of the aggregate principal amount of the Collateral Portfolio. The senior collateral management fee will be payable before any interest payments or distributions of interest proceeds on the securities issued by GCLO I. If on any payment date there are insufficient funds to pay the senior collateral management fee then due in full (or if GCM elects to defer any portion of the fees), the amount not paid will be deferred and will be payable on the first succeeding payment date specified by GCM on which funds are available. The issuer also will pay to GCM generally a quarterly subordinated collateral management fee in arrears (subject to the availability of funds and the priority of payments schedule) equal to 0.35% per annum of the aggregate principal amount of the Collateral Portfolio. The subordinated collateral management fee will be payable before any payments of distributions on the junior most subordinated securities issued by GCLO I. If on any payment date any part of the subordinated collateral management fee is not paid, the amount not paid will be carried over and will accrue interest at a rate of LIBOR plus 3.00% per annum. *Incentive Collateral Management Fee* GCM will be entitled to receive generally a quarterly incentive collateral management fee, with respect to each subclass of the junior most subordinated securities of GCLO I designated as being included for purposes of calculating the incentive collateral management fee, equal to 20% of the interest proceeds and principal proceeds remaining available for distribution to the subclass, according to the priority of payments schedule. The incentive collateral management fee will be payable only if the holders of the subclass have received an annualized internal rate of return of at least 12.0% for the period from the date of issuance of such subclass to the relevant payment date. *Fee Pay-Over Arrangement* GSPM has purchased 100% of the initial notional amount of the subordinated securities. For so long as GSPM or any other funds managed by GCM continue to hold any subordinated securities, any Collateral Management Fees otherwise payable to GCM will be paid by the issuer in the following order: • first, to GSPM or such other funds (on a *pro rata* basis among such funds) according to the proportion of the aggregate notional amount of all the subordinated securities that are held by the funds; and • the remainder, if any, to GCM.
	Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
Item 2	Expenses The Funds bear certain expenses in connection with their operations, including, but not limited to, investment-related expenses (*e.g.*, brokerage commissions, clearing and settlement charges, custodial fees, interest expense, consulting and other professional fees relating to particular investments or contemplated investments, investment-related travel and lodging expenses, and research-related expenses, including, without limitation, news and quotation equipment and services and the cost of certain investment management related software), legal expenses, accounting, audit and tax preparation expenses, organizational expenses, expenses relating to the offer and sale of interests and shares, as the case may be, management fees, fees to the administrator, extraordinary expenses and other similar expenses related to the Funds. GHYO, GHYM, GSPFO I and GSPM also bear other expenses, including premiums for directors' and officers' liability insurance (if any), remuneration to members of the respective Fund's board of directors and advisory boards, expenses related to the maintenance of each Fund's registered office and corporate licensing. GHYP and GHYO also bear their pro rata share of GHYM's expenses as well as expenses related to risk management services provided by third parties. GSPFO I and GSPF I also bear their pro rata share of GSPM's expenses. **Types of Clients** As noted above, GCM provides investment advice to the Funds, which are formed for the purpose of investment and are excluded from registration under Section 3(c)(7) and/or Section 3(c)(1) of the Company Act. Investors in the Funds generally include individuals, investment companies, pension and profit sharing plans, insurance companies, trusts, estates, charitable organizations, corporations, partnerships and limited liability companies.
Item 3	**Types of Investments** GCM has a broad mandate to invest the Funds' assets, on margin or otherwise, in securities and financial instruments of U.S. and foreign entities, including, without limitation, capital stock; all manner of equity securities (whether registered or unregistered, traded or privately offered); shares of beneficial interest; partnership interests and similar financial instruments; bonds, notes and debentures (whether subordinated, convertible or otherwise); currencies; interest rate, currency, equity and other derivative products, including, without limitation, (i) futures contracts (and options thereon) relating to stock indices, currencies, United States Government securities, securities of non-U.S. government and other financial instruments and all other commodities, (ii) swaps, options, rights, warrants, when-issued securities, caps, collars, floors, forward rate agreements, and repurchase and reverse repurchase agreements and other cash equivalents, (iii) spot and forward currency transactions, and (iv) agreements relating to or securing such transactions; leases, including, without limitation, equipment lease certificates; equipment trust certificate; loans; DIP financings; accounts and notes receivable and payable held by trade or other creditors; trade acceptances and claims; contract and other claims; executory contracts; participations; mutual funds; U.S. and non-U.S. money market funds and instruments; obligations of the United States, any state thereof, non-U.S. governments and instrumentalities of any of them; commercial paper, certificates of deposit; bankers' acceptances, trust receipts; letters of credit; money market instruments; accounts payable; puts; other bankruptcy claims and bank debt; and other obligations and instruments or evidences of indebtedness of whatever kind or nature; in each case, of any person, corporation, government or other entity whatsoever, whether or not publicly traded or readily marketable. Investments are made in accordance with the investment objectives and guidelines as set forth in each Fund's respective offering memorandum and investment management or collateral management agreement, as applicable, and, in the case of GCLO I, in accordance with the indenture between GCLO I and the trustee.

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
Item 4.A. and B.	For a more comprehensive description of the securities and financial instruments that each Fund may invest in, see the respective offering documents of each such Fund. From time to time, the Funds may get exposure to investments through their participation in special purpose vehicles (which may include domestic and offshore limited partnerships, limited liability companies and corporations) managed, held or sponsored by GCM, its affiliates and/or by unaffiliated parties. GCM is generally not entitled to any compensation in connection with investments through such special purpose vehicles. **Methods of Analysis, Sources of Information and Investment Strategies** GCM uses charting, economic, fundamental, cyclical, technical and quantitative analyses. In addition, the principals and members of the investment team of GCM have developed their own methodology and resources to assist in the identification of opportunities in the relevant markets. GCM utilizes the key relationships that its principals and other members of the investment team have developed during their careers to expeditiously identify and analyze investment opportunities.
Item 4.C.	The collateral management functions performed by GCM with respect to the Collateral Portfolio held by GCLO I include (i) selecting the collateral to be acquired and sold, (ii) monitoring the Collateral Portfolio on an ongoing basis and advising GCLO I as to which collateral to acquire and which to sell, (iii) instructing the trustee with respect to any disposition or tender of collateral by GCLO I and (iv) advising GCLO I with respect to interest rate risk, cash flow timing and hedging strategies. With respect to the Funds other than GCLO I, GCM focuses on three principal investment strategies, as described below. For a more detailed description of the strategies to be utilized by each Fund, investors should review each Fund's offering documents. The descriptions contained herein of specific strategies that GCM is or may be engaged in should not be understood as in any way limiting its investment activities. Special Situations Investing Special situations investing includes a variety of tactics aimed at capitalizing on market opportunities resulting from catalyst driven events and/or value propositions created by market inefficiencies. GCM's main focus in this respect is credit-specific with a focus on distressed securities, special situations and capital structure arbitrage opportunities, where GCM believes that the market is either over- or under-pricing asset value. In order to identify opportunities, GCM focuses on markets or issuers undergoing periods of volatility. Volatility may be caused by operational problems, legislative or regulatory changes, legal actions, management issues, fraud or severe market demand shifts. Significant price fluctuations often occur in securities whose issuers are the subject of corporate reorganizations or restructurings, liquidity crises, mergers, spin-offs or credit rating changes. The volatility of the markets for these securities often results in their being mispriced. GCM intends to utilize long and short strategies based on relative value assessments. High Yield Investing In pursuing high yield investing, portfolio investments will be concentrated in long and short positions in high-yield bonds, credit default swaps and bank loans to leveraged companies. Smaller allocations in investment-grade bonds and other corporate obligations may also be made. GCM's high yield investing approach focuses by making long and short investments using fundamental analysis, as well as by exploiting inefficiencies and trading opportunities in the credit markets. In carrying out this investment strategy, GCM attempts to maintain portfolio liquidity and to preserve capital. The investment process focuses on credit analysis of individual companies, but industry dynamics and macro-economic conditions are also considered. Once a company is targeted for investment, a relative value matrix of such company's capital structure is constructed, and capital structure arbitrage positions may be established. GCM may also seek to lessen industry or commodity risk by shorting a security closely correlated with that risk (*i.e.*, a paired trade).

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	Structured Products The structured transactions are expected to consist substantially of cash and synthetic collateralized debt obligations ("**CDOs**") and the equity securities of CDO issuers ("**CDO Equity Securities**"), including CDO's collateralized primarily by other CDOs ("**CDO's**"; together with CDO Equity Securities and CDOs, "**CDO Products**"), but may also include commercial mortgage-backed securities ("**CMBS**"), residential mortgage-backed securities ("**RMBS**"), asset-backed securities ("**ABS**"), credit default swaps ("**CDS**") and other derivative instruments, and other types of structured products. The CDOs may consist of or reference corporate debt instruments, ABS, RMBS, CMBS, other CDOs or other assets. GCM will invest primarily in tranched portfolio risk in both the cash and synthetic markets. This will include investments in cash and synthetic CDO Products, as well as cash and synthetic investments in the CMBS, RMBS, and ABS markets. GCM may invest in all parts of the portfolio capital structure from equity risk to senior/super-senior risk. GCM may take long or short positions in tranched risk. GCM will invest primarily in portfolio risk, it may also take long or short positions in single name or index risk to hedge or take outright exposure, including common stock, preferred stock, corporate and/or consumer loans on an individual or portfolio basis. It is expected that a significant portion of the positions in this strategy will be invested in portfolio risk sourced from the non-investment grade corporate bond, loan, CDO and CDS markets. GCM may also invest in portfolio risk sourced from the investment grade corporate market, the emerging debt markets, the corporate and residential real estate markets, the consumer market, and other types of structured products.
Item 5	**Education and Business Standards** Generally, individuals engaged in determining and implementing investment strategies will have, at a minimum, a four year college degree. In addition, most of these individuals will have significant experience in the financial industry. GCM expects that additional persons employed by GCM in the future will have qualifications and backgrounds consistent with those of its current employees.
Item 6	**Education and Business Background** The following information is provided for GCM's principal executive officers:

Name	Year of Birth	Formal Education	Business Background (past 5 years)
Jonathan Savitz	1965	BA, *honors*, The Johns Hopkins University (1987)	Greywolf Capital Management LP, Chief Executive Officer, Chief Investment Officer and Managing Partner (February 2003 - present) Goldman, Sachs & Co., General Partner (1998-2002), Managing Director (1996-1998)

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Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

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1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer			
	William Troy	1951		Greywolf Capital Management LP, Portfolio Manager of High Yield Funds, Risk Management and Investor Relations (February 2003 - present), Chief Operating Officer (February 2003 - May 2005) JP Morgan, Managing Director (1998-2001) Smith Barney, Managing Director (1996 - 1998)
	James Gillespie	1972	Chartered Financial Analyst Bachelor of Commerce (with honors), University of British Columbia, (1995); Leslie Wong Fellow (1995)	Greywolf Capital Management LP, Portfolio Manager of Greywolf Capital Partners II and Greywolf Capital Overseas Fund (collectively, the "Special Situation Funds") (February 2003 - present) Goldman, Sachs & Co., Head of Distressed Bond Investing (2002), Director of Distressed Bond Research (2001- 2002), Credit Analyst, Distressed Bond and Distressed Bank Loan Groups (1996 - 2001)
	Robert Miller	1961	MBA (with honors), UNC-Chapel Hill (1989) BA, *magna cum laude*, Franklin and Marshall College (1983)	Greywolf Capital Management LP, Portfolio Manager of High Yield Funds (2004 - present), Principal/ Head Trader (February 2003 –February 2004) Consultant to Goldman, Sachs & Co. (2000-2001) Goldman, Sachs & Co. Manager of High Yield trading desk (1998-2000), Senior Trader, High Yield desk (1995 - 1998), Trader, Corporate Bond department (1989 - 1995)
	Gregory Mount	1964	MBA (with honors) The University of Chicago Graduate School of Business (1992) BS, in Electrical Engineering, M.I.T. (1987)	Greywolf Capital Management LP, Partner (September 2005 - present) Goldman, Sachs & Co., Partner (2002-2005); Managing Director (2000-2002); Vice President (1996-2000)
	Cevdet Samikoglu	1971	MBA, Harvard Business School (1997) BA, Hamilton College (1992)	Greywolf Capital Management LP, Portfolio Manager of Special Situation Funds (February 2003 - present) Goldman, Sachs & Co., Director of Research for the Special Situations Investing Group ("SSIG") (2001 -2003); Portfolio Manager of SSIG (2000 - 2003); Senior Credit Analyst (1999); Credit Analyst (1998)

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I. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	Brett Bush; 1968; Chartered Financial Analyst; Certified Public Accountant (inactive); B.S., *magna cum laude*, in Accounting and Finance, Boston College (1990); Greywolf Capital Management LP, Chief Operating Officer (May 2005 - present); Watershed Asset Management, Chief Financial Officer and Managing Director, (2002 - 2004); Fox Paine, Chief Financial Officer (1998-1999)
	Michelle Lynd; 1973; JD, Northwestern University School of Law (1998); BA, *magna cum laude*, University of Pennsylvania (1995); Greywolf Capital Management LP, General Counsel (February 2006- Present) Chief Compliance Officer (February 2006-August 2006); Counsel (November 2005-February 2006); Farallon Capital Management, LLC, Managing Director 2005; Associate General Counsel (2001-2005); Davis Polk & Wardwell Corporate Associate (1998-2001)
	Stephen Ellwood; 1970; JD, St. John's University School of Law (1997) BS, Loyola College in Maryland (1993); Greywolf Capital Management LP, Chief Compliance Officer (August 2006 – Present); Compliance Officer (May 2006 – August 2006); Forest Investment Management LLC, Chief Compliance Officer & Counsel (July 2004 – May 2006); MacKay Shields LLC, Director (2003); Associate Director (2001 – 2003); Associate (1999 – 2001)
Item 8.C.	**Other Financial Industry Activities and Affiliations** As noted previously, Greywolf Advisors LLC, serves as the general partner of the U.S. Funds. Mr. Jonathan Savitz, GCM's Chief Executive Officer and Chief Investment Officer, the managing member of GCM's general partner, and is also the senior managing member of Greywolf Advisors LLC and Messrs. William Troy, James Gillespie, Robert Miller, Gregory Mount and Cevdet Samikoglu are its managing members (collectively, with Mr. Savitz, the "Principals").
Item 8.D.	GCM does not provide investment advisory services to persons with individually managed accounts and therefore generally does not solicit clients to invest in the Funds. GSPM has purchased 100% of the initial notional amount of the subordinated securities of GCLO I. Under this arrangement, the Collateral Management Fees otherwise payable by GCLO I to GCM are paid to GSPM.
Item 9	**Participation or Interest in Client Transactions and Conflicts of Interest** Participation or Interest in Client Transactions

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I. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	GCM and its personnel do not purchase or sell any securities for their own accounts to or from the Funds. However, from time to time, subject to Fund investment guidelines and restrictions, GCM may direct one Fund to sell securities to another Fund through an internal cross transaction in which neither GCM nor a related person will receive compensation. Any such transaction will be effected based on the then current independent market price and consistent with valuation procedures established by GCM. To the extent that any such cross transaction may be viewed as a principal transaction due to the ownership interest in the Fund by GCM and its personnel, GCM will comply with the requirements of Section 206(3) of the Advisers Act, including that GCM will notify the Fund (or an independent representative of the Fund).
	Conflicts of Interest The Funds are subject to a number of actual and potential conflicts of interest. Certain inherent conflicts of interest arise from the fact that GCM and its affiliates (including the General Partner, the "Greywolf Group") provide investment management services to the Funds and may, in the future, provide management services to additional funds or other accounts and proprietary accounts in which the Funds will have no interest (collectively, "Other Accounts"). The respective investment programs of the Funds and Other Accounts may or may not be substantially similar. The portfolio strategies employed by the Greywolf Group for Other Accounts could conflict with the transactions and strategies employed by the Greywolf Group in managing the Funds and affect the prices and availability of the securities and instruments in which the Funds invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for one or more of the Funds and Other Accounts. In such case, participation in such opportunities will be allocated on an equitable basis, as more fully described under "Investment or Brokerage Discretion – Trade Allocation and Aggregation Policies and Procedures" below. Such considerations are likely to result in allocations of certain investments among the Funds and Other Accounts on other than a *pari passu* basis. From time to time, GCM may acquire securities or other financial instruments of an issuer for a Fund (or Other Account) which are senior or junior to securities or financial instruments of the same issuer that are held by, or acquired for, another Fund (or Other Account) (*e.g.*, one Fund (or Other Account) may acquire senior debt while another Fund (or Other Account) may acquire subordinated debt). GCM recognizes that conflicts may arise under such circumstances. When this occurs, the portfolio managers will attempt to determine which of the "conflicting investments" has the highest profitability potential (such investment, the "Preferred Investment"), taking into account such considerations as size of positions, the risk/reward profile and likelihood of success of a particular course of action (*i.e.*, exercising remedies under loan, note or security agreements, proposing or opposing DIP financing or other motions in a bankruptcy court, pursuing litigation or proposing or supporting a plan of reorganization in bankruptcy), control and costs and demands on GCM's resources and personnel. In the absence of an agreement among the portfolio managers as to the Preferred Investment, Mr. Savitz, or in his absence, Mr. Troy, may make such determination. Applicable tax, regulatory and other considerations may sometimes lead to certain equity and real estate investments being structured in a manner such that a Fund (or the entity through which a Fund makes an investment) will lend capital to (or enters into a similar transaction with) U.S. funds affiliated with a Fund. The debt interest of such Fund, while senior to the equity interest held by the affiliated U.S. funds, is often structured to yield a debt-like return (and accordingly a lower rate of return) than the U.S. funds' investment in the equity. As in all allocation decisions, GCM must weigh the conflicting interests of the different investors and funds in determining the amount to allocate to debt and equity and the terms of these loans. GCM will attempt to deal with such conflicting interests in a manner similar to that of Preferred Investments. Additionally, the equity and debt holders with respect to an investment may have conflicting interests during the term of a particular investment, especially if the investment is not performing well. Once the Preferred Investment is determined, the portfolio managers will take actions which seek to maximize value. Such actions could possibly be adverse to other investments held by the Funds or Other Accounts. To lessen any adverse impact resulting from such action, GCM may seek to sell in a commercially reasonable manner the non-Preferred Investments. Alternatively, a determination may be made that an immediate sale would result in a lower return on the non-Preferred Investment than would be the case if the investment remained in the portfolio, in which case GCM would maintain the position. There can be no guarantee, however, that continuing to hold a non-Preferred Investment will not result in greater losses than would have resulted had the investment been sold.

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	In addition, the Greywolf Group may give advice or take action with respect to the investments of one or more Funds (or Other Accounts) that may not be given or taken with respect to other Funds with similar investment programs, objectives, and strategies. Accordingly, Funds having similar strategies may not hold the same securities or instruments or achieve the same performance. The Greywolf Group also may advise Funds (or Other Accounts) with conflicting programs, objectives or strategies. These activities also may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Funds. Finally, GCM, its principals and other personnel may have conflicts in allocating their time and services among the Funds (and/or Other Accounts). GCM and its principals, officers and employees will devote as much of their time to the activities of the Funds as GCM deems necessary and appropriate. From time to time one Fund managed by GCM (the **"Selling Fund"**) may offer to another Fund managed or advised by GCM (the **"Purchasing Fund"**) assignments or sales of, loans (or interests therein) that the Selling Fund has originated or purchased. Such offers will usually be made after the Selling Fund has already held such investment (including the portion offered) for a period of time. The price of the participation, assigned or sold interest (as the case may be) will be established based on third-party valuations. Further, the decision by the Purchasing Fund to accept or reject the offer made by the Selling Fund will be made by parties or individuals not involved in the origination or purchase decision on behalf of the Selling Fund. In determining the target amount of a particular loan originated or purchased by the Selling Fund, the Selling Fund may take into consideration the fact that it anticipates offering participations or assigning or selling a portion of such loan as described above. If the offered funds and accounts decide not to purchase such participations, assignments or interests in such investments, the Selling Fund will be forced to hold that portion of the investment until such time as it can be disposed of. This may result in the Selling Fund being "overweighted" with respect to a particular investment for a significant period of time.

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I. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer

GCM and its affiliates are not restricted from forming additional investment funds, entering into other investment advisory relationships, exercising investment responsibility, engaging in other business (or non-business) activities or directly or indirectly purchasing, selling, holding or otherwise dealing with any securities for the account of any such other business or for other clients (including, without limitation, for or on behalf of clients that invest or may invest in the Funds or Other Accounts), even though such activities may be in competition with the Funds and/or may involve substantial time and resources of GCM and its affiliates; provided that (i) GCM has agreed not to begin investment allocations to any fund with investment parameters substantially similar to the GSPM until 75% or more of the Fund's aggregate Commitments have been drawn and invested, unless GSPM's Advisory Committee approves investment allocations prior to such time and (ii) GSPM will receive Priority Allocations of equity in GCM sponsored products that are CDOs (**"Sponsored CDOs"**) in accordance with the following:

(a) **"Priority Allocation"** shall mean the allocation of the equity of any Sponsored CDOs to GSPM in an amount equal to the lesser of (x) $30 million and (y) 80% of the aggregate equity of such Sponsored CDO, where such allocation is controlled by GCM.

(b) The Priority Allocation will terminate on the earlier of:

(i) the date during GSPM's drawdown period on which GSPM has invested $90 million in Sponsored CDO equity or, if GSPM has not invested such amount by the end of the drawdown period, the date thereafter on which GSPM has invested the lesser of (x) $90 million and (y) 30% of the Net Asset Value of GSPM in Sponsored CDO equity, in each case calculated on the basis of cost or, in GCM's sole discretion, a premium that results from additional value in such Sponsored CDO equity created by GCM (for example, by the waiver of the applicable management fees), and

(ii) the third anniversary of GSPM's final Closing Date

GCM may from time to time invest its excess funds in one or more Funds or in securities or instruments in which it may invest the Funds' assets. Similarly, GCM, its principals, officers and employees may from time to time make personal investments in securities or instruments in which GCM may invest the Funds' assets. GCM and its personnel may buy, sell, or hold securities or other instruments for its or their own account(s) while entering into different investment decisions for one or more Funds. In addition, certain GCM's principals and employees have substantial personal investments in one or more Funds. The amount of each principal or employee personal investment in a Fund (if any) may change over time. A principal or employee may decide to invest only in certain Fund(s) and not in other(s). Investors will not be provided with notice of principals' or employees' investment in, or withdrawal from, a Fund (except to the extent such notice is required under a Fund's offering document).

The above list is not a complete description of every conflict of interest that could be deemed to exist.

Certain of GCM's principals, officers and employees are former employees of Goldman, Sachs & Co., which acts as prime broker and often as a counterparty to the Funds. Such former Goldman, Sachs & Co. employees may still have an interest in, or other business dealings with, Goldman, Sachs & Co. Such continuing relationships with Goldman, Sachs & Co. may be deemed to create a conflict of interest for GCM with respect to its choosing or maintaining the Funds' relationships with Goldman, Sachs & Co.

Code of Ethics

GCM strives to foster and maintain a reputation for honesty, integrity and professionalism. In seeking to meet these standards, GCM has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Funds, including the Funds' investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times. The

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1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

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	Code also places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to GCM on a periodic basis. GCM discourages employees from engaging in personal securities transactions and requires that employees preclear all personal securities transactions (except for a limited number of exempt transactions (*e.g.*, shares issued by open-ended mutual funds, money market funds, U.S. Treasury bonds, commercial paper, etc.)) before effecting a personal transaction in securities. Investors may request a copy of the Code by contacting GCM at the address or telephone number listed on the first page of this document. GCM also maintains insider trading policies and procedures (the **"Insider Trading Policies"**) that are designed to prevent the misuse of material, non-public information. GCM's personnel are required to certify to their compliance with the Code, including the Insider Trading Policies, on a periodic basis.
Item 10	Restrictions Due to Insider Information GCM's Insider Trading Policies prohibit GCM and its personnel (to the extent prohibited by law) from trading for the Funds or themselves, or recommending trading, in securities of an issuer on the basis of material, non-public information ("Inside Information") about the issuer, from disclosing such information to any person not entitled to receive it, and from assisting anyone in transacting business on the basis of Inside Information through a third party. By reason of its various activities, GCM may become privy to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated. GCM has designed and implemented policies and procedures designed to comply with the requirements of the federal securities laws relating to insider trading. Among other things, such policies and procedures seek to control and monitor the flow of Inside Information to and within GCM, as well as prevent trading on the basis of Inside Information. Companies about which GCM has Inside Information will be placed on GCM's restricted list. GCM's ability to trade public securities the issuers of which are placed on the restricted list is extremely limited. **Conditions for Managing Accounts** Investors in the Special Situation Funds and the High Yield Funds are generally required to make minimum initial investments of at least US$2,000,000 and investors in the Structured Products Funds are generally require to make minimum initial investments of at least US$25,000,000. Thereafter, additional investments may be accepted in US$250,000 increments with respect to the Special Situation Funds and the High Yield Funds. No additional investments will be accepted after the final closing for the Structured Products Funds. The minimum investments may be waived by the General Partner (in the case of the U.S. Funds) or by the board of directors (in the case of the Offshore Funds), provided that the Offshore Funds may not accept minimum initial investments of less than US$50,000. Investments in the Funds are not freely transferable and subject to limitations on their liquidity, including, without limitation, "lock up" or "commitment" periods, gates, limited liquidity dates and potentially periods in which withdrawals of capital/redemption of shares may be suspended. Such limitations must be considered significant. To review the specific liquidity terms of each Fund, investors should review the Funds' respective offering documents.
Item 11	**Review of Accounts**

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	GCM performs various reviews of the Funds' portfolios on an ongoing basis. Portfolio managers and the Chief Executive Officer are responsible for overseeing the reviews. Research analysts and other investment professionals also monitor existing holdings and research new ideas. Accounts are regularly reviewed in light of their established objectives and policies. The Funds' administrator also reviews the accounts regularly. Investors in Funds other than GCLO I, receive monthly reports and annual audited financial statements prepared by the Funds' independent auditor after completion of each year's audit (or as soon as reasonably practicable thereafter), as well as certain tax information for preparation of investors' tax returns. Monthly reports and certain other reports prepared by or on behalf of GCLO I in accordance with the indenture are available upon request to holders of securities issued by GCLO I.
Item 12	**Investment or Brokerage Discretion** As noted previously, GCM has full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. GCM's authority in this regard is limited by its own internal policies and procedures and each Fund's investment guidelines and, in the case of GCLO I, in accordance with the indenture between GCLO I and the trustee. In selecting an appropriate broker-dealer to effect a client trade, GCM seeks to obtain best execution, taking relevant factors into consideration, including, but not limited to: price quotes; the size of the transaction; the nature of the market for the security; the timing of the transaction; difficulty of execution; the broker-dealer's expertise in the specific security or sector in which the client seeks to trade; the extent to which the broker-dealer makes a market in the security involved or has access to such markets; availability of accurate information regarding the market for the security; the broker-dealer's skill in positioning the securities involved; the broker-dealer's promptness of execution; the broker-dealer's financial stability; adequacy of the broker-dealer's trading infrastructure, technology and capital; the broker-dealer's reputation for diligence, fairness and integrity; quality of service rendered by the broker-dealer in other transactions for GCM; confidentiality considerations; the quality and usefulness of research services and investment ideas presented by the broker-dealer; the broker-dealer's ability and willingness to correct errors; the broker-dealer's ability to accommodate any special execution or order handling requirements that may surround the particular transaction; and other factors affecting the services obtained. GCM need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. GCM maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals. Soft Dollar Usage From time to time, GCM may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting Fund transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. GCM will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 and subject to prevailing interpretations of Section 28(e) provided by the SEC. GCM believes it is important to its investment decision-making processes to have access to independent research. If GCM concludes that the commissions charged by a broker or the spreads applied by a dealer are reasonable in relation to the value of the brokerage and research products or services provided by such broker or dealer, the Funds may pay commissions or be subject to spreads to such broker-dealer in an amount greater than the amount another broker-dealer might charge or apply.

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Item of Form (identify)	Answer
	Generally, research services provided by broker-dealers may include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts, and personal meetings with securities analysts. In addition, such research services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives. In many cases, research services and products provided by the broker-dealer are generated by third parties. Currently, Greywolf does not have, and does not anticipate having, any such third-party soft dollar arrangements.
	Also, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one or more Fund may be used by GCM to service one or more other Funds. Nonetheless, GCM believes that such investment information provides the Funds with benefits by supplementing the research otherwise available to the Funds. On a periodic basis, GCM considers the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its Funds on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will GCM make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker is not excluded from receiving business because it has not been identified as providing research products or services. GCM may open "average price" accounts with brokers. In an "average price" account, purchase and sale orders placed during a trading day on behalf of the Funds, Other Accounts or affiliates of GCM are combined, and securities bought and sold pursuant to such orders are allocated among such accounts on an average price basis. <u>Additional Brokerage Considerations</u> From time to time, GCM may execute over-the-counter trades on an agency basis rather than on a principal basis. In these situations, the broker used by GCM may acquire or dispose of a security through a market-maker (a practice known as "interpositioning"). The transaction may thus be subject to both a commission and a markup or markdown. GCM believes that the use of a broker in such instances is consistent with its duty of obtaining best execution for the Funds. The use of a broker can provide anonymity in connection with a transaction. In addition, a broker may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction. GCM has entered into agreements on behalf of its Funds with certain brokers-dealers that act as prime brokers and/or custodians on behalf of the Funds. The Funds are not committed to continue their relationship with such prime brokers and custodians for any minimum period, and GCM, in its discretion, may select other or additional brokers to act as prime broker(s) or custodian(s) for the Funds. Goldman Sachs & Co., 1 New York Plaza, 44th Floor, NY, NY 10004 serves as the primary prime broker to the Funds and custodies the Funds' assets. In addition, Citigroup Global Markets Inc., 390 Greenwich Street, 3rd Floor, NY, NY 10013, BMO Nesbitt Burns Inc. Prime Brokerage Services, 1 First Canadian Place, 36th Floor, Toronto, ON M5X 1H3 Canada, Banc of America Securities LLC, 9 West 57th Street, New York, NY 10019, Morgan Stanley & Co. Incorporated, 1221 Avenue of Americas, New York, New York 10020, and Lehman Brothers Inc., 745 Seventh Avenue, 19th Floor, New York, New York 10019 also serve as custodians to the Funds. From time to time, GCM's personnel may speak at conferences and programs for potential investors interested in investing in hedge funds which are sponsored by the Funds' prime brokers. Through such "capital introduction" events, prospective investors in the Funds have the opportunity to meet with GCM. Neither GCM nor the Funds

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	compensate the prime brokers for organizing such events or for investments ultimately made by prospective investors attending such events. However, such events and other services (including, without limitation, capital introduction services) provided by a prime broker may influence GCM in deciding whether to use such prime broker in connection with brokerage, financing and other activities of the Funds.
	Trade Allocation and Aggregation Policies and Procedures It is the policy of GCM to allocate investment opportunities for the Funds fairly and equitably. To address trade allocations, GCM has adopted a written "Trade Allocation Policy and Procedure" setting forth general principles of allocation designed to result in the fair and equitable distribution of aggregated investment opportunities among investment advisory accounts. The Trade Allocation Policy and Procedure is summarized as follows. Before entering an aggregated order, a statement which specifies the Funds that will be participating in such order and how the order will be allocated among such Funds will be noted in the Firm's trade blotter. When the Funds that participate in an aggregated order have different investment programs, the allocation plan will take into account, among other considerations (a) whether the risk-return profile of the proposed investment is consistent with the Fund's objectives, whether such objectives are considered (i) solely in light of the specific investment under consideration or (ii) in the context of the portfolio's overall holdings; (b) the potential for the proposed investment to create an imbalance in the Fund's portfolio; (c) liquidity requirements of the Funds; (d) potentially adverse tax consequences (e.g. UBTI, ECI issues); (e) regulatory restrictions that would or could limit a Fund's ability to participate in a proposed investment; (f) the need to re-size risk in the Fund's portfolio; and (g) such other factors consider relevant by GCM. If the aggregated order is filled in its entirety, such order will be allocated among the relevant Funds in accordance with the Allocation Statement. From time to time, certain client accounts may receive priority allocations consistent with specified terms in their respective client account documents or in connection with launching one or more new products, such as CDO or CLO funds- which may be given allocation priority during their initial investment (or "ramp up") period. New products will receive this priority because they have significant amounts of investable cash on hand and limited time to close. The ramp up period typically will be determined in advance by agreement between GCM and the underwriter for the product. Such allocations will be subject to GCM's duty to act in good faith. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Fund will receive the average price with transaction costs allocated pro rata based on the size of each Fund's participation in the order (or allocation in the event of a partial fill) as determined by GCM. On occasion, GCM will not be able to purchase or sell all the securities ordered as part of an aggregated order in a single day. If the order is partially filled, it will generally be allocated pro rata in proportion to the size of the orders placed for each Fund based on the Allocation Statement. Notwithstanding the foregoing, if an order is partially filled, it may be allocated on a basis different from that specified in the Allocation Statement, provided that all Funds receive fair and equitable treatment. Reasons for allocating on a basis different from that specified in the Allocation Statement include, in addition to the reasons mentioned above, avoiding odd-lots or a de minimis allocation to one or more Funds. On occasion, transactions for the same instruments may be placed for different Funds at different times on the same day. Subject to GCM's discretion, such trades may not be aggregated and the order placed first will be given priority. Trade Errors GCM may on occasion experience errors with respect to trades executed on behalf of its clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, a security is sold when it should have been purchased or vice-versa, a security is sold or purchased contrary to regulatory restrictions or a Fund's investment guidelines or restrictions, the correct security is purchased or sold but for the wrong account, or the wrong quantity is purchased or sold (*e.g.*, 1,000 shares instead of 10,000 shares are traded). Trade errors may result in losses or gains. GCM will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. Any gains resulting from a trade error shall be for the benefit of the affected Fund(s). To the extent trade errors resulted from GCM's error in the course

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Greywolf Capital Management LP	SEC File Number: 801-65669	Date: March 12, 2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

I. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No: 54-2104223

Item of Form (identify)	Answer
	of the trading of the Funds' assets, GCM will be responsible for making the affected Fund whole with respect to such errors that result from GCM's gross negligence or reckless or intentional misconduct. Given the volume of transactions executed on behalf of the Funds, investors should assume that trading errors will occur and that the Fund will be responsible for any resulting losses, even if such losses result from GCM's negligence (but not gross negligence). To the extent an error is caused by a counterparty, such as a broker-dealer, GCM will not be responsible for such errors and will strive to recover losses associated with such error from the counterparty.
Miscellaneous	Proxy Voting Policies and Procedures The Securities and Exchange Commission adopted Rule 206(4)-6 under the Advisers Act, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, GCM has adopted proxy voting policies and procedures (the "Policies"). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of the Funds, as determined by GCM in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. In limited circumstances, GCM may refrain from voting proxies where GCM believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to the Funds. Finally, GCM has developed detailed procedures to address potential circumstances in which it may have a conflict between its own interests and those of the Funds. A copy of the Policies and information regarding any proxies actually voted by GCM may be obtained by contacting the Chief Compliance Officer, Greywolf Capital Management LP, 4 Manhattanville Road Suite 201, Purchase, New York 10577. Class Action Law Suits From time to time, GCM may receive notices regarding class action lawsuits involving securities that are or were held by the Funds. As a matter of policy, GCM refrains from serving as the lead plaintiff in class action matters and also refrains from submitting proofs of claim where GCM believes that either the recovery amounts are likely to be negligible or GCM cannot be assured of confidential treatment of the data submitted in connection with the proof of claim. As a result, GCM, in most cases, does not participate in class action law suits.

Complete amended pages in full, circle amended items and file with execution page (page 1).

REGISTERED OFFICES OF THE ISSUERS

Timberwolf I, Ltd.
c/o Maples Finance Limited
P.O. Box 1093 GT
Queensgate House, South Church Street
George Town
Grand Cayman, Cayman Islands

Timberwolf I (Delaware) Corp.
850 Library Avenue, Suite 204
Newark, Delaware 19711

TRUSTEE, PRINCIPAL NOTE PAYING AGENT, COLLATERAL ADMINISTRATOR, NOTE PAYING AGENT, NOTE TRANSFER AGENT, NOTE REGISTRAR AND INCOME NOTE REGISTRAR
The Bank of New York
101 Barclay Street, Floor 8E,
New York, New York, 10286, U.S.A.

FISCAL AGENT
The Bank of New York, London Branch
One Canada Square
London E14 5AL
United Kingdom

COLLATERAL MANAGER
Greywolf Capital Management LP
4 Manhattanville Road, Suite 201
Purchase, New York 10577

LEGAL ADVISORS

To the Collateral Manager

Sidley Austin LLP
787 Seventh Avenue
New York, New York 10019

To the Initial Purchaser

Orrick, Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, New York 10103

To the Issuers
As to matters of United States Law

Orrick, Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, New York 10103

To the Trustee, Principal Note Paying Agent, Collateral Administrator, Note Paying Agent, Note Transfer Agent, Note Registrar and Fiscal Agent
As to matters of United States Law

Dorsey & Whitney LLP
250 Park Avenue
New York, New York, 10177, U.S.A.

To the Issuer
As to matters of Cayman Islands Law

Maples and Calder
P.O. Box 309GT
Ugland House, South Church Street
George Town, Grand Cayman, Cayman Islands

No dealer, salesperson or other person has been authorized to give any information or to represent anything not contained in this Offering Circular. You must not rely on any unauthorized information or representation. This Offering Circular is an offer to sell only the Securities offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Offering Circular is current only as of its date.

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TIMBERWOLF I, LTD.

TIMBERWOLF I (DELAWARE) CORP.

U.S.$9,000,000
Class S-1 Floating Rate Notes
Due 2011

U.S.$8,300,000
Class S-2 Floating Rate Notes
Due 2011

U.S.$ 100,000,000
Class A-1a Floating Rate Notes
Due 2039

U.S.$ 200,000,000
Class A-1b Floating Rate Notes
Due 2039

U.S.$ 100,000,000
Class A-1c Floating Rate Notes
Due 2044

U.S.$ 100,000,000
Class A-1d Floating Rate Notes
Due 2044

U.S.$ 305,000,000
Class A-2 Floating Rate Notes
Due 2047

U.S.$ 107,000,000
Class B Floating Rate Notes
Due 2047

U.S.$ 36,000,000
Class C Deferrable Floating Rate Notes
Due 2047

U.S.$ 30,000,000
Class D Deferrable Floating Rate Notes
Due 2047

U.S.$ 22,000,000
Income Notes
Due 2047

OFFERING CIRCULAR

Goldman, Sachs & Co.

IMPORTANT NOTICE

Attached is an electronic copy of the Confidential Offering Circular (the "Offering Circular"), dated March 16, 2007, relating to the offering by Anderson Mezzanine Funding 2007-1, Ltd.(the "Issuer") and Anderson Mezzanine Funding 2007-1, Corp. (the "Co-Issuer" and, together with the Issuer, the "Issuers") of the Notes described therein.

No registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities are being offered pursuant to an exemption from the registration requirements of the United States Securities Act of 1933, as amended. This Offering Circular is confidential and will not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction where such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any jurisdiction.

No purchase of these securities may be made except pursuant to the Offering Circular. This Offering Circular may be transmitted electronically, but each investor in the securities should receive a printed version thereof prior to purchase. If you do not receive a printed version of this Offering Circular, please contact your Initial Purchaser representative at the address provided herein.

Distribution of this electronic transmission of the Offering Circular to any person other than (a) the person receiving this electronic transmission from the Initial Purchaser on behalf of the Issuer and/or the Co-Issuer and (b) any person retained to advise the person receiving this electronic transmission with respect to the offering contemplated by the Offering Circular (each, an "Authorized Recipient") is unauthorized. Any photocopying, disclosure or alteration of the contents of the Offering Circular, and any forwarding of a copy of the Offering Circular or any portion thereof by electronic mail or any other means to any person other than an Authorized Recipient, is prohibited. By accepting delivery of this Offering Circular, each recipient hereof agrees to the foregoing.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2724

CONFIDENTIAL

ANDERSON MEZZANINE FUNDING 2007-1, LTD.
ANDERSON MEZZANINE FUNDING 2007-1, CORP.
U.S.$2,490,000 Class S Floating Rate Notes Due 2013
U.S.$130,000,000 Class A-1a Floating Rate Notes Due 2042
U.S.$53,000,000 Class A-1b Floating Rate Notes Due 2042
U.S.$30,500,000 Class A-2 Floating Rate Notes Due 2042
U.S.$42,700,000 Class B Floating Rate Notes Due 2042
U.S.$16,775,000 Class C Deferrable Floating Rate Notes Due 2042
U.S.$11,090,000 Class D Deferrable Floating Rate Notes Due 2042
U.S.$20,935,000 Income Notes Due 2042

Secured primarily by (i) the Collateral and (ii) the Issuer's rights under the Credit Default Swap referencing a portfolio of Residential Mortgage-Backed Securities and CDO RMBS Securities

The Secured Notes (as defined herein) and the Income Notes (as defined herein) (collectively, the "Offered Notes") are being offered hereby by Goldman, Sachs & Co. in the United States to qualified institutional buyers (as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act")), in reliance on Rule 144A under the Securities Act, and, solely in the case of the Income Notes, to accredited investors (as defined in Rule 501(a) under the Securities Act) who have a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act. The Offered Notes are being offered hereby in the United States only to persons that are also "qualified purchasers" for purposes of Section 3(c)(7) under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition, the Offered Notes are being offered hereby by Goldman, Sachs & Co., selling through its agents, outside the United States to non U.S. Persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. See "Underwriting."

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

It is a condition of the issuance of the Notes that the Class S Notes, the Class A-1a Notes, the Class A-1b Notes and the Class A-2 Notes be issued with a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P" and, together with Moody's, the "Rating Agencies"), that the Class B Notes be issued with a rating of at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be issued with a rating of at least "A2" by Moody's and at least "A" by S&P and that the Class D Notes be issued with a rating of at least "Baa2" by Moody's and at least "BBB" by S&P. The Income Notes will not be rated by either Rating Agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. See "Ratings of the Notes."

Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained or maintained. No application will be made to list the Notes to any other exchange.

See "Underwriting" for a discussion of the terms and conditions of the purchase of the Offered Notes by the Initial Purchaser.

THE PLEDGED ASSETS ARE THE SOLE SOURCE OF PAYMENTS IN RESPECT OF THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, THE HOLDERS OF THE NOTES, THE LIQUIDATION AGENT, THE INITIAL PURCHASER, THE CREDIT PROTECTION BUYER, THE ADMINISTRATOR, THE AGENTS, THE TRUSTEE, THE SHARE TRUSTEE (EACH, AS DEFINED HEREIN) OR ANY OF THEIR RESPECTIVE AFFILIATES.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND NEITHER OF THE ISSUERS (AS DEFINED HEREIN) WILL BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE OFFERED NOTES ARE BEING OFFERED HEREBY ONLY TO (A) (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND, SOLELY IN THE CASE OF THE INCOME NOTES, ACCREDITED INVESTORS (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) THAT HAVE A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND, WHO ARE (2) QUALIFIED PURCHASERS FOR PURPOSES OF SECTION 3(c)(7) UNDER THE INVESTMENT COMPANY ACT AND (B) CERTAIN NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PURCHASERS AND SUBSEQUENT TRANSFEREES OF THE INCOME NOTES (OTHER THAN THE REGULATIONS S INCOME NOTES) WILL BE REQUIRED TO EXECUTE AND DELIVER A LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS, AND PURCHASERS AND SUBSEQUENT TRANSFEREES OF THE CLASS S NOTES, THE CLASS A NOTES, THE CLASS B NOTES, THE CLASS C NOTES, THE CLASS D NOTES AND THE REGULATION S INCOME NOTES WILL BE DEEMED TO HAVE MADE SUCH REPRESENTATIONS AND AGREEMENTS, AS SET FORTH UNDER "NOTICE TO INVESTORS." THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS."

The Offered Notes are being offered by Goldman, Sachs & Co. (in the case of the Notes offered outside the United States, selling through its selling agent) (the "Initial Purchaser"), subject to the Initial Purchaser's right to reject any order in whole or in part, in one or more negotiated transactions or otherwise at varying prices to be determined at the time of sale plus accrued interest, if any, from the Closing Date (as defined herein). It is expected that the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Regulation S Income Notes will be ready for delivery in book entry form only in New York, New York, on or about March 20, 2007 (the "Closing Date"), through the facilities of DTC and in the case of the Notes sold outside the United States, for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), against payment therefor in immediately available funds. It is expected that the Income Notes (other than the Regulation S Income Notes) will be ready for delivery in definitive form in New York, New York on the Closing Date, against payment therefor in immediately available funds. The Notes sold in reliance on Rule 144A and, solely in the case of the Income Notes, to Accredited Investors, will be issued in minimum denominations of U.S.$250,000 and integral multiples of U.S.$1 in excess thereof. The Notes sold in reliance on Regulation S will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1 in excess thereof.

Goldman, Sachs & Co.

Offering Circular dated March 16, 2007.

Anderson Mezzanine Funding 2007-1, Ltd., an exempted company incorporated with limited liability under the laws of the Cayman Islands (the "Issuer"), and Anderson Mezzanine Funding 2007-1, Corp., a Delaware corporation (the "Co-Issuer" and, together with the Issuer, the "Issuers"), will issue U.S.$2,490,000 principal amount of Class S Floating Rate Notes Due 2013 (the "Class S Notes"), U.S.$130,000,000 principal amount of Class A-1a Floating Rate Notes Due 2042 (the "Class A-1a Notes"), U.S.$53,000,000 principal amount of Class A-1b Floating Rate Notes Due 2042 (the "Class A-1b Notes" and, together with the Class A-1a Notes, the "Class A-1 Notes"), U.S.$30,500,000 principal amount of Class A-2 Floating Rate Notes Due 2042 (the "Class A-2 Notes") and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$42,700,000 principal amount of Class B Floating Rate Notes Due 2042 (the "Class B Notes"), U.S.$16,775,000 principal amount of Class C Deferrable Floating Rate Notes Due 2042 (the "Class C Notes") and U.S.$11,090,000 principal amount of Class D Deferrable Floating Rate Notes Due 2042 (the "Class D Notes" and, together with the Class S Notes, Class A Notes, the Class B Notes and the Class C Notes, the "Co-Issued Notes" or the "Secured Notes") pursuant to an Indenture (the "Indenture") dated on or about March 20, 2007 among the Issuers and LaSalle Bank National Association, as trustee and securities intermediary (in such capacity, the "Trustee" and the "Securities Intermediary," respectively).

In addition, the Issuer will issue U.S.$20,935,000 principal amount of Income Notes Due 2042 (the "Income Notes" and, together with the Secured Notes, the "Notes") pursuant to a Fiscal Agency Agreement dated on or about March 20, 2007 (the "Fiscal Agency Agreement") between the Issuer and LaSalle Bank National Association, as fiscal agent (in such capacity, the "Fiscal Agent").

The net proceeds received from the offering of the Notes will be applied by the Issuer to purchase the initial Collateral Securities (as defined herein) and certain Eligible Investments (as defined herein) selected by the Credit Protection Buyer (as defined herein). The Collateral Securities and Eligible Investments (collectively, the "Collateral"), together with the Delivered Obligations (as defined herein), if any, delivered to the Issuer will secure the Issuer's obligations under a default swap transaction (the "Credit Default Swap") to be entered into on the Closing Date by the Issuer and Goldman Sachs International (in such capacity, the "Credit Protection Buyer") pursuant to which the Issuer (in such capacity, the "Credit Protection Seller") will sell credit protection to the Credit Protection Buyer with respect to a portfolio (the "Reference Portfolio") of Reference Obligations (as defined herein) consisting of Residential Mortgage-Backed Securities (as defined herein) and CDO RMBS Securities (as defined herein). Certain summary information about the Reference Portfolio is set forth in Appendix B to this Offering Circular. The Collateral Securities, the Eligible Investments, the Delivered Obligations, the Issuer's rights under the Liquidation Agency Agreement and certain other assets of the Issuer (collectively, the "Pledged Assets") will be pledged under the Indenture to the Trustee, for the benefit of the Secured Parties (as defined herein), as security for, among other obligations, the Issuers' obligations under the Secured Notes and to certain service providers. The Income Notes will be unsecured obligations of the Issuer.

Interest will be payable on the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes in arrears on the 12th day of each calendar month, or if any such date is not a Business Day (as defined herein), the immediately following Business Day (each date, a "Monthly Payment Date") commencing July 12, 2007. The Class S Notes will bear interest at a per annum rate equal to LIBOR (as defined herein) *plus* 0.20% for each Interest Accrual Period (as defined herein). The Class A-1a Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.32% for each Interest Accrual Period. The Class A-1b Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.65% for each Interest Accrual Period. The Class A-2 Notes will bear interest at a per annum rate equal to LIBOR *plus* 0.90% for each Interest Accrual Period. The Class B Notes will bear interest at a per annum rate equal to LIBOR *plus* 1.75% for each Interest Accrual Period. The Class C Notes will bear interest at a per annum rate equal to LIBOR *plus* 5.50% for each Interest Accrual Period. The Class D Notes will bear interest at a per annum rate equal to LIBOR *plus* 4.00% for each Interest Accrual Period. Payments will be made on the Income Notes on the 12th day of each January, April, July and October of each year, or if any such day is not a Business Day, the immediately following Business Day (each such date, a "Quarterly Payment Date") commencing July 12, 2007, to the extent amounts are available therefor, as described herein. "Payment Date" means (i) with respect to each Class of Notes other than the Income Notes, each Monthly Payment Date, and (ii) with respect to the Income Notes, each Quarterly Payment Date.

All payments on the Notes will be made from Proceeds available in accordance with the Priority of Payments. On each Payment Date, except as otherwise provided in the Priority of Payments, payments on the Class

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S Notes will be senior to payments on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; payments on the Class A Notes will be made in accordance with the Priority of Payments either *pro rata* or sequentially and will be senior to payments on the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; payments on the Class B Notes will be senior to payments on the Class C Notes, the Class D Notes and the Income Notes; and payments on the Class C Notes will be senior to payments on the Class D Notes and the Income Notes; and payments on the Class D Notes will be senior to payments on the Income Notes, in each case in accordance with the Priority of Payments as described herein. Certain of the Secured Notes (other than the Class S Notes) are subject to mandatory redemption and are subject to reduction, in whole or in part, if a Coverage Test is not satisfied on any date of determination which may result in variations to the order of distributions described above and as more fully described in the Priority of Payments.

The Notes are subject to redemption, in each case, in whole and not in part, (i) at any time as a result of a Tax Redemption (as defined herein), (ii) on an Auction Payment Date (as defined herein) as a result of a successful Auction (as defined herein) or (iii) as a result of an Optional Redemption (as defined herein) on or after the July 2010 Payment Date. The stated maturity of the Notes (other than the Class S Notes) is the Payment Date in July 2042. The actual final distribution on the Notes (other than the Class S Notes) is expected to occur substantially earlier. The stated maturity of the Class S Notes is the Payment Date in July 2013. See "Risk Factors—Notes—Average Lives, Duration and Prepayment Considerations."

The Notes (other than the Income Notes) sold in reliance on Rule 144A under the Securities Act ("Rule 144A") will be evidenced by one or more global notes (the "Rule 144A Global Notes") in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("DTC"). Beneficial interests in the Rule 144A Global Notes will trade in DTC's Same Day Funds Settlement System, and secondary market trading activity in such interests will therefore settle in immediately available funds. Except as described herein, beneficial interests in the Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Income Notes sold in reliance on Rule 144A under the Securities Act and, in the case of the Income Notes only, to Accredited Investors who have a net worth of not less than U.S. $10 million, will be evidenced by one or more Definitive Notes in fully registered form.

The Notes that are being offered hereby in reliance on the exemption from registration under Regulation S (collectively, the "Regulation S Notes"; and in the case of the Income Notes, the "Regulation S Income Notes") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Notes may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser"), and takes delivery in the form of an interest in a Rule 144A Global Note or a definitive Income Note, in an amount equal to at least U.S.$250,000. See "Description of the Notes" and "Underwriting."

This Offering Circular (the "Offering Circular") is confidential and is being furnished by the Issuers in connection with an offering exempt from registration under the Securities Act, solely for the purpose of enabling a prospective investor to consider the purchase of the Offered Notes described herein. The information contained in this Offering Circular has been provided by the Issuers and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchaser, the Liquidation Agent, the Credit Protection Buyer, the Trustee, the Note Agents, the Fiscal Agent, or the Income Note Transfer Agent (the Note Agents, the Fiscal Agent and the Income Note Transfer Agent, together, the "Agents") as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchaser, the Trustee, the Liquidation Agent, the Credit Protection Buyer or the Agents. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offered Notes is prohibited. Each offeree of the Offered Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

THE NOTES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY.

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FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this Offering Circular and the offering and sale of the Offered Notes in certain jurisdictions may be restricted by law. The Issuers and the Initial Purchaser require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Offered Notes, see "Underwriting." This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Offered Notes in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

No invitation may be made to the public in the Cayman Islands to subscribe for the Notes.

NOTICE TO RESIDENTS OF THE REPUBLIC OF IRELAND

THIS OFFERING CIRCULAR IS NOT A PROSPECTUS AND DOES NOT CONSTITUTE AN INVITATION TO THE PUBLIC TO PURCHASE OR SUBSCRIBE FOR ANY SECURITIES AND NEITHER IT NOR ANY FORM OF APPLICATION WILL BE ISSUED, CIRCULATED OR DISTRIBUTED TO THE PUBLIC.

THIS OFFERING CIRCULAR AND THE INFORMATION CONTAINED HEREIN IS CONFIDENTIAL AND IS FOR THE USE SOLELY OF THE PERSON TO WHOM IT IS ADDRESSED. ACCORDINGLY, IT MAY NOT BE REPRODUCED IN WHOLE OR IN PART, NOR MAY ITS CONTENTS BE DISTRIBUTED IN WRITING OR ORALLY TO ANY THIRD PARTY AND IT MAY BE READ SOLELY BY THE PERSON TO WHOM IT IS ADDRESSED AND HIS/HER PROFESSIONAL ADVISERS.

In this Offering Circular, references to "U.S. Dollars," "$" and "U.S.$" are to United States dollars.

The Issuers having made all reasonable inquiries, confirm that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make any such information or the expression of any such opinions or intentions misleading and, as applicable, take responsibility accordingly.

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No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular nor any sale hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date of this Offering Circular.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, A PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF A PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED IN THIS OFFERING CIRCULAR AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH PROSPECTIVE INVESTORS REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.

PROSPECTIVE INVESTORS SHOULD READ THIS OFFERING CIRCULAR CAREFULLY BEFORE DECIDING WHETHER TO INVEST IN THE SECURITIES AND SHOULD PAY PARTICULAR ATTENTION TO THE INFORMATION SET FORTH UNDER THE HEADING "RISK FACTORS." INVESTMENT IN THE SECURITIES IS SPECULATIVE AND INVOLVES SIGNIFICANT RISK. INVESTORS SHOULD UNDERSTAND SUCH RISKS AND HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THEM FOR AN EXTENDED PERIOD OF TIME.

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NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

Each purchaser who has purchased Class S Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes and Regulation S Income Notes, will be deemed to have represented and agreed, and each purchaser of Income Notes (other than the Regulation S Income Notes) will be required to represent and agree, in each case with respect to such Notes, as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. (a) In the case of Secured Notes sold in reliance on Rule 144A (the "Rule 144A Notes"), the purchaser of such Rule 144A Notes (i) is a qualified institutional buyer (as defined in Rule 144A) (a "Qualified Institutional Buyer"), (ii) is aware that the sale of Secured Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Rule 144A Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and in a principal amount of not less than U.S.$250,000 and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

(b) In the case of the Income Notes (other than the Regulation S Income Notes), the purchaser of such Income Notes (i) is a Qualified Institutional Buyer, (ii) is aware that the sale of the Income Notes to it is being made in reliance on Rule 144A, (iii) is acquiring the Income Notes for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and, unless otherwise permitted by the Fiscal Agency Agreement is purchasing a principal amount of not less than $250,000 for the purchaser and for each such account and (iv) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees; or, if the purchaser is not a Qualified Institutional Buyer, such purchaser (w) is a person who is an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than U.S.$10 million that is purchasing the Income Notes for its own account, (x) is not acquiring the Income Notes with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below, (y) is purchasing a principal amount of not less than $250,000 (unless otherwise permitted by the Fiscal Agency Agreement) and (z) will provide notice of the transfer restrictions described in this "Notice to Investors" to any subsequent transferees.

2. The purchaser understands that the Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a Qualified Institutional Buyer and is purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A, (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) solely in the case of the Income Notes, to an Accredited Investor who has a net worth of not less than U.S.$10 million, and, in each case, who shall have satisfied, and in the case of Income Notes (other than the Regulation S Income Notes) shall have represented, warranted, covenanted and agreed, or, in all other cases, shall be deemed to have satisfied, and shall be deemed to have represented, warranted, covenanted and agreed that it will continue to comply with, all requirements for transfer of the Notes specified in this Offering Circular, in the case of the Secured Notes, the Indenture, and, in the case of the Income Notes, the Fiscal Agency Agreement, and all other requirements for it to qualify for an exemption from registration under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States. Before any interest in a Rule 144A Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the Note Transfer Agent with a written certification (in the form provided in the Indenture) as to compliance with the transfer restrictions described herein. Before any interest in an Income Note (other than a Regulation S Income Note) may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Issuer, and, in the case of an Income Note, the Income Notes Transfer Agent, with a letter substantially in the form attached to this Offering Circular as Annex A-1 (the "Income Note Purchase and Transfer Letter"). The purchaser understands and agrees that any purported transfer of Notes to a purchaser that does not comply with the requirements of this paragraph (2) will, in the case of the Class S Notes, Class A Notes, Class B Notes, Class C Notes, Class D Notes and Regulation S Income Notes, be null and void *ab*

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initio, and, in the case of the Income Notes (other than the Regulation S Income Notes), not be permitted or registered by the Income Notes Transfer Agent. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Notes that is a U.S. Person and is not a Qualified Institutional Buyer or, in the case of the Income Notes, not an Accredited Investor, to sell its interest in such Notes, or the Issuers may sell such Notes on behalf of such owner.

3. The purchaser of such Notes also understands that neither of the Issuers has been registered under the Investment Company Act. In the case of the Rule 144A Notes and the Income Notes (other than the Regulation S Income Notes) described in paragraph (1) above, the purchaser and each account for which the purchaser is acquiring such Notes is a qualified purchaser for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser"). The purchaser is acquiring Notes in a principal amount, in the case of Rule 144A Notes and, in the case of Income Notes sold to Accredited Investors, of not less than U.S.$250,000, or, in the case of Notes sold in reliance on Regulation S ("Regulation S Notes"), of not less than U.S.$100,000, in each case for the purchaser and for each such account. The purchaser (or if the purchaser is acquiring Notes for any account, each such account) is acquiring the Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The purchaser and each such account: (a) was not formed for the specific purpose of investing in the Notes (except when each beneficial owner of the purchaser and each such account is a Qualified Purchaser), (b) to the extent the purchaser is a private investment company formed before April 30, 1996, the purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (d) is not a broker dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the purchaser agrees with respect to itself and each such account: (i) that it shall not hold such Notes for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes and (ii) that it shall not sell participation interests in the Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Notes. The purchaser understands and agrees that any purported transfer of Notes to a purchaser that does not comply with the requirements of this paragraph (3) will, in the case of the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Regulation S Income Notes, be null and void *ab initio*, and, in the case of the Income Notes (other than the Regulation S Income Notes), not be permitted or registered by the Income Notes Transfer Agent. The purchaser further understands that the Issuers have the right to compel any beneficial owner of Notes that is a U.S. Person and is not a Qualified Purchaser to sell its interest in such Notes, or the Issuers may sell such Notes on behalf of such owner.

4. (a) With respect to the Class S Notes, Class A Notes, Class B Notes, Class C Notes and Class D Notes, each purchaser will be deemed, by its purchase, to have represented and warranted that either (i) the purchaser is not and will not be an "employee benefit plan" as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), a plan as defined in and subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"), any entity whose underlying assets include "plan assets" by reason of an employee benefit plan's or other plan's investment in the entity, or another employee benefit plan subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA, or Section 4975 of the Code ("Similar Law") or (ii) the purchaser's purchase and holding of a Note does not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such another plan, any Similar Law) for which an exemption is not available. The purchaser understands and agrees that any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph (4)(a) shall be null and void *ab initio*.

(b) With respect to the Income Notes (other than the Regulation S Income Notes) purchased or transferred on or after the Closing Date, the purchaser or transferee must disclose in writing in advance to the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, (i) whether or not it is (A) an "employee benefit plan" as defined in and subject to Title I of ERISA, (B) a "plan" as described in and subject to Section 4975 of the Code, or (C) an entity whose underlying assets include "plan assets" within the meaning of ERISA by reason of an employee benefit or other plan's investment in the entity (all such persons and entities described in clauses (A) through (C) being referred to herein as "Benefit Plan Investors"); (ii) if the purchaser is a Benefit Plan Investor (or other employee benefit plan subject to Similar Law), then (x) the purchase and holding of the Income Notes will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to Similar Law, any Similar Law) for which an exemption is not

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available or (y) solely in the case of Benefit Plan Investors, the purchase and holding of Income Notes is exempt under an identified Prohibited Transaction Class Exemption or individual exemption, based on the assumption that less than 25% of the Outstanding Income Notes are owned by Benefit Plan Investors; and (iii) whether or not it is the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (a "Controlling Person"). If a purchaser is an insurance company acting on behalf of its general account or another entity deemed to be holding plan assets, it may be required to so indicate, and to identify a maximum percentage of the assets in such general account or entity that may be or become plan assets, in which case the purchaser will be required to make certain further agreements that would apply in the event that such maximum percentage would thereafter be exceeded. The purchaser agrees that, before any interest in an Income Note (other than a Regulation S Income Note) may be offered, sold, pledged or otherwise transferred, the transferee will be required to provide the Income Notes Transfer Agent with an Income Notes Purchase and Transfer Letter, as applicable, stating, among other things, whether the transferee is a Benefit Plan Investor. The purchaser acknowledges and agrees that no purchase or transfer will be permitted, and the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, will not register any such transfer, to the extent that the purchase or transfer would result in Benefit Plan Investors owning 25% or more of the total value of the Outstanding Income Notes immediately after such purchase or transfer (determined in accordance with the Indenture or Fiscal Agency Agreement, as applicable). The foregoing procedures are intended to enable the Income Notes (other than the Regulation S Income Notes) to be purchased by or transferred to Benefit Plan Investors at any time, although no assurance can be given that there will not be circumstances in which purchases or transfers of Income Notes will be required to be restricted in order to comply with the aforementioned 25% limitation. See "ERISA Considerations."

(c) With respect to the Regulation S Income Notes, each purchaser will be deemed, by its purchase, to have represented and warranted that it is not a Benefit Plan Investor or a Controlling Person. Each purchaser also will be deemed, by its purchase, to have represented and warranted that if it is an employee benefit plan subject to Similar Law, then its purchase and holding of Income Notes do not and will not constitute or result in a violation of any Similar Law for which an exemption is not available. The purchaser understands and agrees that any purported transfer of a Note to a purchaser that does not comply with the requirements of this paragraph 4(c) shall be null and void *ab initio*.

5. The purchaser is not purchasing the Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands that an investment in the Notes involves certain risks, including the risk of loss of its entire investment in the Notes under certain circumstances. The purchaser has had access to such financial and other information concerning the Issuers and the Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Notes, including an opportunity to ask questions of, and request information from, the Issuer.

6. In connection with the purchase of the Notes: (i) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Administrator or the Share Trustee (as defined herein) is acting as a fiduciary or financial or investment adviser for the purchaser; (ii) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Administrator or the Share Trustee other than in this Offering Circular for such Notes and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Credit Protection Buyer, the Administrator or the Share Trustee has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, results, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Notes; (iv) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Agents, the Credit Protection Buyer, the Administrator or the Share Trustee; (v) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Notes with a full understanding of all of the risks thereof (economic and otherwise), and is

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capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the purchaser is a sophisticated investor.

7. Pursuant to the terms of the Indenture, unless otherwise determined by the Issuers in accordance with the Indenture, the Class S Notes, Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will bear a legend to the following effect:

> THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUERS HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25 MILLION IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE INITIAL PURCHASER AND IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT OR (2) TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN THE CASE OF CLAUSE (1), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (2), IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000, FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER THAT, OTHER THAN IN THE CASE OF CLAUSE (2), (V) IS A QUALIFIED PURCHASER FOR PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. EACH HOLDER HEREOF SHALL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN THE INDENTURE (AS DEFINED HEREIN). ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE NOTE TRANSFER AGENT OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUERS HAVE THE RIGHT, UNDER THE INDENTURE (AS DEFINED HEREIN), TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A RULE 144A GLOBAL NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT BOTH A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE NOTES, OR MAY SELL SUCH INTERESTS ON BEHALF OF SUCH OWNER.

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THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS NOTE HAS BEEN ISSUED, AGREES FOR THE BENEFIT OF THE ISSUERS THAT EITHER (I) THE HOLDER IS NOT AND WILL NOT BE AN EMPLOYEE BENEFIT PLAN AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), A PLAN DEFINED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY, OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (II) THE HOLDER'S PURCHASE AND HOLDING OF A NOTE DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH ANOTHER PLAN, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF A NOTE TO A HOLDER THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

ANY TRANSFER, PLEDGE OR OTHER USE OF THIS NOTE FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN, UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), NEW YORK, NEW YORK, TO THE ISSUERS OR THEIR AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR OF SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO.).

TRANSFERS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE NOTE PAYING AGENT.

8. The purchaser acknowledges that it is its intent and that it understands it is the intent of the Issuer that, for purposes of U.S. federal income, state and local income and franchise tax and any other income taxes, the Issuer will be treated as a corporation, the Secured Notes will be treated as indebtedness of the Issuer and the Income Notes will be treated as equity in the Issuer; the purchaser agrees to such treatment and agrees to take no action inconsistent with such treatment.

9. The purchaser understands that the Issuers, the Trustee, the Initial Purchaser, the Liquidation Agent and their counsel will rely upon the accuracy and truth of the foregoing representations, and the purchaser hereby consents to such reliance.

10. Pursuant to the terms of the Fiscal Agency Agreement, unless otherwise determined by the Issuer in accordance with the Fiscal Agency Agreement, the Income Notes sold to non-U.S. Persons in offshore transactions (the "Regulation S Income Notes") will bear a legend to the following effect:

THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE TERMS AND CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 20, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND BETWEEN THE ISSUER OF THE INCOME

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NOTES AND LASALLE BANK NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE, THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, IN EACH CASE AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES

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OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE IS DEEMED TO REPRESENT AND WARRANT), THAT (i) IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" AS DESCRIBED IN SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) IT IS NOT A PERSON WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF THE PURCHASER OR TRANSFEREE IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), SUCH PURCHASER OR TRANSFEREE ALSO IS DEEMED TO REPRESENT AND WARRANT THAT ITS PURCHASE AND HOLDING OF THE INCOME NOTES WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SIMILAR LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF AN INCOME NOTE THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH QUARTERLY PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

11. Pursuant to the terms of the Fiscal Agency Agreement, unless otherwise determined by the Issuer in accordance with the Fiscal Agency Agreement, the Income Notes (other than the Regulation S Income Notes) will bear a legend to the following effect:

THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE TERMS AND CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 20, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND LASALLE BANK NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY

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BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE, THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND, IN EACH CASE, IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

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WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE FISCAL AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF INCOME NOTES WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE INCOME NOTES TRANSFER AGENT WITH AN INCOME NOTE PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE TRUSTEE OR INCOME NOTES TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF INCOME NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING INCOME NOTES (OTHER THAN THE INCOME NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE FISCAL AGENCY AGREEMENT).

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH QUARTERLY PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

12. The purchaser is not purchasing the Notes in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan with respect to United States federal income taxes within the meaning of U.S. Treasury Regulation Section 1.881-3(a)(4).

13. The purchaser agrees, in the case of the Secured Notes, to treat the Notes as debt for United States federal, state and local income taxes and, in the case of the Income Notes, to treat such Income Notes as equity for United States federal, state and local income tax purposes.

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14. The purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, may require further identification of the purchaser before the purchase application can proceed. The Issuer and the Note Transfer Agent or the Income Notes Transfer Agent shall be held harmless and indemnified by the purchaser against any loss arising from the failure to process the application if such information as has been required from the purchaser has not been provided by the purchaser.

The Notes that are being offered hereby in reliance on the exemption from registration under Regulation S (such Notes, respectively, the "Regulation S Co-Issued Notes"; the "Regulation S Income Notes"; and, collectively, the "Regulation S Notes") have not been and will not be registered under the Securities Act and neither of the Issuers will be registered under the Investment Company Act. The Regulation S Notes may not be offered or sold within the United States or to U.S. Persons (as defined in Regulation S) unless the purchaser certifies or is deemed to have certified that it is a qualified institutional buyer as defined in Rule 144A (a "Qualified Institutional Buyer") and a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act (a "Qualified Purchaser") or, solely in the case of the Income Notes, that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act (an "Accredited Investor") who has a net worth of not less than $10 million and a Qualified Purchaser, and takes delivery in the form of (i) an interest in a Rule 144A Global Note in an amount at least equal to the minimum denomination applicable to the Rule 144A Notes or (ii) an Income Note in a principal amount at least equal to $250,000. See "Description of the Notes" and "Underwriting."

The requirements set forth under "Notice to Investors" above apply only to Notes offered in the United States, except for the requirements set forth in Paragraphs (4), (5), (6), (8), (9), (12) and (13) and except that the Regulation S Notes will bear the legends set forth in Paragraphs (7) and (10) under "Notice to Investors" above.

THE ISSUERS ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OTHER THAN INFORMATION PROVIDED IN THE SECTIONS ENTITLED "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT". TO THE BEST OF THE KNOWLEDGE AND THE BELIEF OF THE ISSUERS, THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OTHER THAN INFORMATION PROVIDED IN THE SECTION ENTITLED "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT", IS ACCURATE IN ALL MATERIAL RESPECTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE LIQUIDATION AGENT ACCEPTS RESPONSIBILITY FOR THE INFORMATION PROVIDED IN "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT" SECTION. TO THE BEST OF THE KNOWLEDGE AND THE BELIEF OF THE LIQUIDATION AGENT, THE INFORMATION CONTAINED IN THE SECTION ENTITLED "THE LIQUIDATION AGENCY AGREEMENT—THE LIQUIDATION AGENT" IS ACCURATE IN ALL MATERIAL RESPECTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

EACH PURCHASER OF THE NOTES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH NOTES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH NOTES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE ISSUERS, THE INITIAL PURCHASER, THE LIQUIDATION AGENT, THE CREDIT PROTECTION BUYER OR THEIR AGENTS SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.

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AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with the resale of the Notes, the Issuers will be required under the Indenture and the Fiscal Agency Agreement, to furnish upon request to a Holder or beneficial owner of a Note and to a prospective investor who is a Qualified Institutional Buyer designated by such Holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) if, at the time of the request neither the Issuer nor the Co-Issuer, as applicable, is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

To the extent the Issuer or the Trustee delivers any annual or other periodic report to the Holders of the Secured Notes, the Issuer or the Trustee will include in such report a reminder that (1) each Holder (other than those Holders who are not U.S. Persons and have purchased their Notes outside the United States pursuant to Regulation S) is required to be (i) a Qualified Institutional Buyer and (ii) a Qualified Purchaser, in each case that can make all of the representations in the Indenture applicable to a Holder that is a U.S. Person; (2) the Notes can only be transferred (i) to a transferee that is (a) a Qualified Institutional Buyer and (b) a Qualified Purchaser that can make all of the representations in the Indenture applicable to a Holder who is a U.S. Person or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or 904 under Regulation S; and (3) the Issuers have the right to compel any Holder who does not meet the transfer restrictions set forth in the Indenture to transfer its interest in the Notes to a person designated by the Issuers or sell such interests on behalf of the Holder.

To the extent the Issuer or the Fiscal Agent delivers any annual or periodic reports to the Holders of the Income Notes, the Issuer or the Fiscal Agent, as applicable, will include in such report a reminder that (1) each Holder (other than those Holders who are not U.S. Persons and have purchased their Income Notes outside the United States pursuant to Regulation S) is required to be (a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth of not less than U.S.$10 million and (b) a Qualified Purchaser that can make all of the representations in the Income Notes Purchase and Transfer Letter applicable to a Holder who is a U.S. Person; (2) the Income Notes can only be transferred to a transferee that is (i)(a) a Qualified Institutional Buyer or an Accredited Investor who has a net worth not less than U.S.$10 million and (b) a Qualified Purchaser or (ii) a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 under Regulation S; and (3) the Issuer has the right to compel any Holder who does not meet the transfer restrictions set forth in the Fiscal Agency Agreement to transfer its Income Notes to a person designated by the Issuer or sell such Income Notes on behalf of the Holder.

In addition, notwithstanding the foregoing, any prospective purchaser (and each employee, representative, or other agent of a prospective purchaser) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this Offering Circular and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective purchaser relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with the prospective purchaser regarding the transactions contemplated herein.

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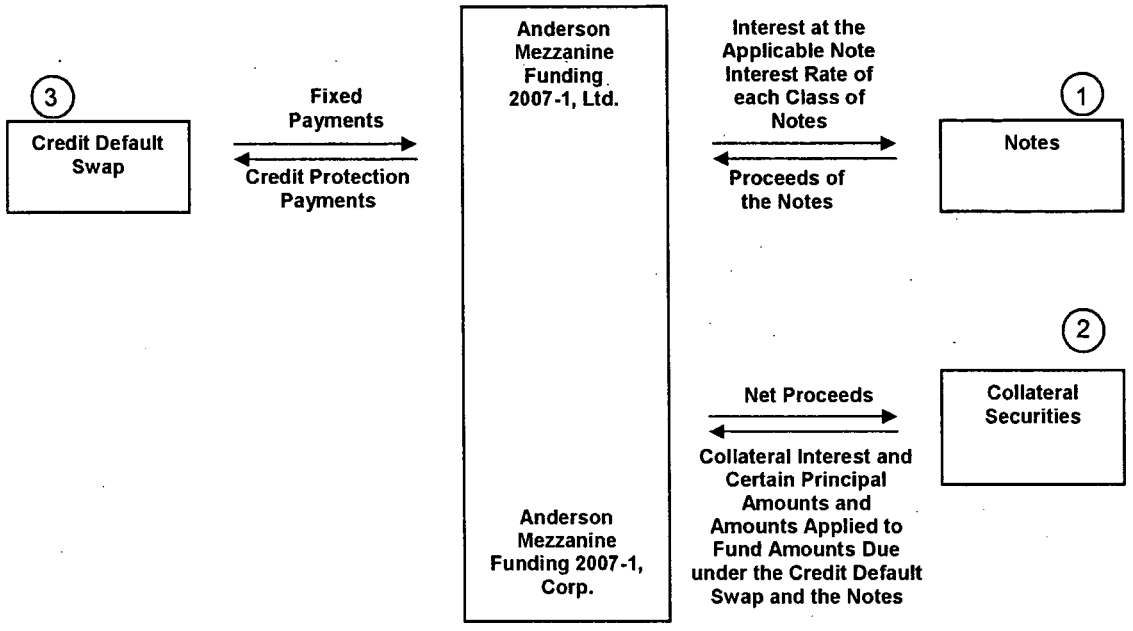
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TRANSACTION OVERVIEW

This overview is not complete and is qualified in its entirety by reference to (i) the detailed information appearing elsewhere in this Offering Circular, (ii) the terms and conditions of the Notes and (iii) the provisions of the documents referred to in this Offering Circular.



(1) On the Closing Date, the Notes will be issued in the Aggregate Outstanding Amount set forth in the "Summary—The Notes".

(2) The Issuer will use the net proceeds of the offering of the Notes to purchase the initial Collateral Securities and Eligible Investments selected by the Credit Protection Buyer.

(3) On the Closing Date, the Issuer and Goldman Sachs International, as the Credit Protection Buyer, will enter into the Credit Default Swap whereby the Issuer (a) sells credit protection to the Credit Protection Buyer with respect to a Reference Portfolio of RMBS Securities and CDO RMBS Securities and (b) receives from the Credit Protection Buyer (i) a Fixed Payment on each Payment Date and (ii) certain Additional Fixed Payments. The Issuer will pay to the Credit Protection Buyer (i) certain Additional Floating Amounts and (ii) following the occurrence of a Credit Event and the satisfaction of the Conditions to Settlement, an amount equal to the Physical Settlement Amount. For a description of all payments to be made under the Credit Default Swap, see "The Credit Default Swap—Credit Protection Buyer Payments" and "—Credit Protection Seller Payments".

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SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular. For definitions of certain terms used in this Offering Circular see "Appendix A — Certain Defined Terms" and for the location of the definitions of those and other terms, see "Index of Defined Terms." For a discussion of certain factors to be considered in connection with an investment in the Notes, see "Risk Factors."

The Notes

The Issuers..... Anderson Mezzanine Funding 2007-1, Ltd. (the "Issuer") is an exempted company incorporated under the laws of the Cayman Islands for the sole purpose of (i) entering into and performing its obligations under, the Credit Default Swap, (ii) acquiring the Collateral Securities and the Eligible Investments, (iii) entering into and performing its obligations under the Liquidation Agency Agreement, (iv) co-issuing the Co-Issued Notes, (v) issuing Income Notes and (vi) engaging in certain related transactions.

The Issuer will not have any assets other than (i) the Collateral Securities and the Eligible Investments (collectively, the "Collateral"), (ii) the Delivered Obligations, if any, and any principal payments received thereon, if any, delivered to the Issuer, (iii) the Issuer's rights under the Credit Default Swap and the Liquidation Agency Agreement and (iv) certain other assets that will be pledged by the Issuer to the Trustee under the Indenture (the "Pledged Assets"), for the benefit of the Secured Parties, as security for, among other obligations, the Issuers' obligations under the Secured Notes.

Anderson Mezzanine Funding 2007-1, Corp. (the "Co-Issuer" and, together with the Issuer, the "Issuers") is a corporation formed under the laws of the State of Delaware for the sole purpose of co-issuing the Secured Notes.

The Co-Issuer will not have any assets (other than U.S.$10 of equity capital) and will not pledge any assets to secure the Secured Notes. The Co-Issuer will have no claim against the Issuer in respect of the Pledged Assets or otherwise.

The authorized share capital of the Issuer consists of 250 ordinary shares, par value U.S.$1.00 per share ("Issuer Ordinary Shares"), which have been issued. The Issuer Ordinary Shares and all of the outstanding common equity of the Co-Issuer will be held by Maples Finance Limited, a licensed trust company incorporated in the Cayman Islands (the "Administrator") as the trustee pursuant to the terms of a declaration of trust for the benefit of charitable and similar purposes (the "Share Trustee").

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The Notes								
Class Designation	S	A-1a	A-1b	A-2	B	C	D	Income Notes
Original Principal Amount	$2,490,000	$130,000,000	$53,000,000	$30,500,000	$42,700,000	$16,775,000	$11,090,000	$20,935,000
Stated Maturity	July 12, 2013	July 12, 2042						
Minimum Denomination (Integral Multiples):								
Rule 144A	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)	$250,000 ($1)
Reg S	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)	$100,000 ($1)
Accredited Investors	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$250,000 ($1)
Applicable Investment Company Act of 1940 Exemption	3(c)(7)							
Initial Ratings:								
Moody's	Aaa	Aaa	Aaa	Aaa	Aa2	A2	Baa2	N/A
S&P	AAA	AAA	AAA	AAA	AA	A	BBB	N/A
Deferred Interest	No	No	No	No	No	Yes	Yes	N/A
Pricing Date	March 12, 2007							
Closing Date	March 20, 2007							
Interest Rate	1 Month LIBOR + 0.20%	1 Month LIBOR + 0.32%	1 Month LIBOR + 0.65%	1 Month LIBOR + 0.90%	1 Month LIBOR + 1.75%	1 Month LIBOR + 5.50%	1 Month LIBOR + 4.00%	N/A
Fixed or Floating Rate	Floating	Floating	Floating	Floating	Floating	Floating	Floating	N/A
Interest Accrual Period[1]	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	Floating Period	N/A
Dates of Payment	(i) the 12th day of each month (or if such day is not a Business Day, the next succeeding Business Day) beginning in July 2007 and at Stated Maturity (each, a "Scheduled Payment Date") and (ii) any Redemption Date							(i) the 12th day of each of January, April, July and October (or if such day is not a Business Day, the next succeeding Business Day) beginning in July 2007 and at Stated Maturity (each, a "Scheduled Payment Date") and any Redemption Date
First Payment Date	July 12, 2007	July 12, 2007	July 12, 2007	July 12, 2007	July 12, 2007	July 12, 2007	July 12, 2007	July 12, 2007
Record Date	Business Day prior to the applicable Payment Date (or the 10th Business Day prior to the applicable Payment Date for Notes issued in definitive form)							
Frequency of Payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly
Day Count	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	N/A
Form of Notes:								
Global	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes (Reg S only)
Certificated	No	No	No	No	No	No	No	Yes (other than Reg S)
CUSIPS Rule 144A	034050AA2	034050AB0	034050AC8	034050AD6	034050AE4	034050AF1	034050AG9	03404PAA8
CUSIPS Reg S	G03652AA5	G03652AB3	G03652AC1	G03652AD9	G03652AE7	G03652AF4	G03652AG2	G03651AA7
ISIN Reg S	USG03652AA54	USG03652AB38	USG03652AC11	USG03652AD93	USG03652AE76	USG03652AF42	USG03652AG25	USG03651AA71
CUSIPS REG D	N/A	N/A	N/A	N/A	N/A	N/A	N/A	03404PAB6
Clearing Method:								
Rule 144A	DTC	DTC	DTC	DTC	DTC	DTC	DTC	Physical
Reg S	EuroClear	EuroClear	EuroClear	EuroClear	EuroClear	EuroClear	EuroClear	Euroclear

[1] **"Floating Period"** means, with respect to the Secured Notes and any Payment Date, the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date.

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The Indenture.....	On the Closing Date, the Issuer and the Co-Issuer will co-issue U.S.$2,490,000 principal amount of Class S Floating Rate Notes Due 2013 (the "Class S Notes"), U.S.$130,000,000 principal amount of Class A-1a Floating Rate Notes Due 2042 (the "Class A-1a Notes"), U.S.$53,000,000 principal amount of Class A-1b Floating Rate Notes Due 2042 (the "Class A-1b Notes" and, together with the Class A-1a Notes, the "Class A-1 Notes"), U.S.$30,500,000 principal amount of Class A-2 Floating Rate Notes Due 2042 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$42,700,000 principal amount of Class B Floating Rate Notes Due 2042 (the "Class B Notes"), U.S.$16,775,000 principal amount of Class C Deferrable Floating Rate Notes Due 2042 (the "Class C Notes") and U.S.$11,090,000 principal amount of Class D Deferrable Floating Rate Notes Due 2042 (the "Class D Notes" and, together with the Class S Notes, Class A Notes, the Class B Notes and the Class C Notes, the "Co-Issued Notes" or the "Secured Notes") pursuant to an Indenture (the "Indenture") dated on or about March 20, 2007, among the Issuers and LaSalle Bank National Association, as trustee and as securities intermediary (in such capacity, the "Trustee" and the "Securities Intermediary", respectively). Under the Indenture, LaSalle Bank National Association will also act as principal paying agent for the Notes (the "Principal Note Paying Agent"), as registrar (the "Note Registrar"), as calculation agent (the "Note Calculation Agent"), as transfer agent (the "Note Transfer Agent") and as paying agent for the Notes (the "Note Paying Agent" and, together with the Principal Note Paying Agent, the Note Registrar, the Note Calculation Agent, the Note Transfer Agent and the Irish Paying Agent (if any), the "Note Agents").
The Fiscal Agency Agreement.....	On the Closing Date, the Issuer will also issue U.S.$20,935,000 principal amount of Income Notes Due 2042 (the "Income Notes" and, together with the Secured Notes, the "Notes") pursuant to a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated on or about the Closing Date between the Issuer and LaSalle Bank National Association, as fiscal agent (in such capacity, the "Fiscal Agent"). The Fiscal Agent will initially be appointed as the Income Notes transfer agent (in such capacity, the "Income Notes Transfer Agent" and, together with the Fiscal Agent and the Note Agents, the "Agents") under the Fiscal Agency Agreement. The Note Paying Agent, the Principal Note Paying Agent and any other paying agents appointed from time to time under the Indenture are collectively referred to as the "Note Paying Agents." The Note Paying Agents and the Fiscal Paying Agent are collectively referred to as the "Paying Agents." The Note Transfer Agent and the Income Notes Transfer Agent are collectively referred to as the "Transfer Agents." The Indenture, the Credit Default Swap, the Liquidation Agency Agreement, the Collateral Administration Agreement, the Administration Agreement and the Fiscal Agency Agreement are collectively referred to as the "Transaction Documents." Only the Secured Notes and the Income Notes (collectively, the "Offered Notes") are offered hereby.
Status of the Notes.....	The Co-Issued Notes will be limited recourse obligations of the Issuers. The Income Notes will be limited recourse obligations of the Issuer, will not be secured obligations of the Issuer and will only be entitled to receive amounts available for payment on any Quarterly Payment Date after payment of all amounts payable prior thereto under the Priority of Payments and only out of funds legally available therefor. Interest on the Class A-1a Notes, Class A-1b Notes and Class A-2 Notes will be paid *pro rata*. Principal on the Class A-1a Notes and Class A-1b Notes will be paid

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	either *pro rata* or first to the Class A-1a Notes and second to the Class A-1b Notes and depending on the circumstances as more fully described in the Priority of Payments. Principal on the Class A Notes will be paid either *pro rata* or first to the Class A-1 Notes and second to the Class A-2 Notes depending on the circumstances as more fully described in the Priority of Payments. The Class S Notes will be senior in right of payment on each Payment Date to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes; the Class A Notes will be paid in accordance with the Priority of Payments either *pro rata* or sequentially and the Class A Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes the Class D Notes and the Income Notes; the Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes and the Income Notes; the Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes and the Income Notes; and the Class D Notes will be senior in right of payment on each Payment Date to the Income Notes, each to the extent provided in the Priority of Payments. Payments on the Income Notes will be paid on each Quarterly Payment Date solely from and to the extent of the available proceeds from distributions on the Pledged Assets after payment of all of the liabilities of the Issuer that rank ahead of the Income Notes pursuant to the Indenture or applicable law. See "Description of the Notes—Status and Security" and "—Priority of Payments."
Security for the Secured Notes.....	Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit and security of the Trustee on behalf of the Holders of the Secured Notes, the Fiscal Agent, the Liquidation Agent and the Credit Protection Buyer (together the "Secured Parties"), to secure the Issuer's obligations under the Secured Notes, the Indenture, the Liquidation Agency Agreement and the Credit Default Swap (the "Secured Obligations"), a first priority security interest in the Pledged Assets. The Income Notes will not be secured.
Use of Proceeds.....	The net proceeds associated with the offering of the Notes issued on the Closing Date, after the payment of applicable fees and expenses and deposit into the Expense Reserve Account, are expected to equal approximately U.S.$306,545,000. The net proceeds will be used by the Issuer to purchase on the Closing Date the Collateral Securities and Eligible Investments having an aggregate Principal Balance on the Closing Date of approximately U.S.$305,000,000. See "The Collateral Securities" and "Use of Proceeds."
Interest and Other Payments on the Notes.....	The Secured Notes will accrue interest from the Closing Date and such interest will be payable, on the 12th day of each calendar month, or if any such date is not a Business Day, the immediately following Business Day (each such date, a "Monthly Payment Date") commencing on July 12, 2007. Payments on the Income Notes will be payable in arrears on January, April, July and October of each year, or if any such date is not a Business Day, the immediately following Business Day (each such date, a "Quarterly Payment Date") commencing on July 12, 2007, out of Excess Amounts (as defined below). "Payment Date" means (i) with respect to each Class of Notes other than the Income Notes, each Monthly Payment Date, and (ii) with respect to the Income Notes, each Quarterly Payment Date. All payments on the Notes will be made from Proceeds in accordance with the Priority of Payments.

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To the extent interest that is due is not paid on the Class C Notes on any Payment Date ("Class C Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class C Notes, and shall accrue interest at the Class C Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes or Class B Notes are outstanding, the failure to pay any interest on the Class C Notes on any Payment Date will not be an Event of Default under the Indenture. To the extent interest that is due is not paid on the Class D Notes on any Payment Date ("Class D Deferred Interest"), such unpaid amounts will be added to the principal amount of the Class D Notes, and shall accrue interest at the Class D Note Interest Rate to the extent lawful and enforceable. So long as any Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, the failure to pay any interest on the Class D Notes on any Payment Date will not be an Event of Default under the Indenture.

See "Description of the Notes—Interest on the Secured Notes" and "—Priority of Payments."

The Income Notes will not bear interest based upon any fixed or floating rate. The Fiscal Agent will make payments to the Holders of the Income Notes out of the Proceeds, if any, available pursuant to clause (xviii) on each Quarterly Payment Date (or pursuant to clause (viii) in the case of the Final Payment Date) under "Description of the Notes—Priority of Payments." Such payments will be made on the Income Notes only after all interest and other payments due on the Secured Notes have been made and all expenses of the Issuers have been paid (with such remaining Proceeds referred to as "Excess Amounts"). See "Risk Factors—Notes—Subordination of the Income Notes; Unsecured Obligations."

Principal Payments ..... The Notes (other than the Class S Notes) will mature on the Payment Date in July 2042 (each such date the "Stated Maturity" with respect to such Notes), and the Class S Notes will mature on the Payment Date in July 2013 (the "Stated Maturity" with respect to the Class S Notes), unless redeemed or retired prior thereto. The average life of the Secured Notes (other than the Class S Notes) is expected to be substantially shorter than the number of years from issuance until Stated Maturity for each Class of Notes. See "Description of the Notes—Principal" and "Risk Factors—Notes—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class S Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in August 2007 in an amount equal to the Class S Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, the Class S Notes will be paid in full prior to any distributions to any other Notes. Shifting principal will be payable (pursuant to clause (xi) of the Priority of Payments) on the Secured Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in July 2007 as described in the Priority of Payments.

As a result of the Priority of Payments, notwithstanding the subordination of the Notes described under "Status of the Notes" above, the Class A Notes may be entitled to receive certain payments of principal while the Class S Notes are outstanding, the Class B Notes may be entitled to receive certain

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	payments of principal while the Class S Notes and the Class A Notes are outstanding, the Class C Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes and the Class B Notes are outstanding and the Class D Notes may be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes are outstanding. In addition, the Income Notes may be entitled to receive certain payments on each Quarterly Payment Date while the Secured Notes are outstanding. See "Description of the Notes—Priority of Payments." In addition, to the extent funds are available therefor in accordance with the Priority of Payments, certain of the Secured Notes (other than the Class S Notes) will be subject to mandatory redemption on any Payment Date if the Coverage Tests are not satisfied as described herein. See "Description of the Notes—Principal", "—Mandatory Redemption" and "—Priority of Payments."
Tax Redemption	Subject to certain conditions described herein, the Secured Notes will be redeemed from Liquidation Proceeds, in whole but not in part, on the 90th day (which 90-day period may be extended an additional 90 days, as described under "Description of the Notes—Tax Redemption") following the Issuers becoming aware of the occurrence of a Tax Event, at the written direction of, or with the written consent of, Holders of at least 66-2/3% of the Income Notes or Holders of at least a Majority of any Class of Secured Notes which, as a result of the occurrence of such Tax Event, have not received 100% of the aggregate amount of principal and interest or other amounts due and payable to such Holders (such redemption, a "Tax Redemption"). No such Tax Redemption will occur unless the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. Upon the occurrence of a Tax Redemption, the Income Notes will be simultaneously redeemed. No such Tax Redemption will occur unless all amounts payable to the Credit Protection Buyer or any assignee of the Credit Protection Buyer (including all Credit Default Swap Termination Payments) will have been paid in full, in each case, on the related redemption date. With respect to a Tax Redemption as described above, the Secured Notes will be redeemed at their Secured Note Redemption Prices, respectively, as described herein. The amount distributable as the final payment on the Income Notes following any Tax Redemption will equal the amount of the Liquidation Proceeds remaining after the redemption of the Secured Notes in full together with the payment of all other amounts required to be paid in accordance with the Priority of Payments. See "Description of the Notes—Tax Redemption."
Auction	Sixty (60) days prior to the Payment Date occurring in July of each year (the "Auction Date"), commencing on the July 2015 Payment Date, the Liquidation Agent, on behalf of the Issuer, shall take steps to conduct an auction (the "Auction") of the Credit Default Swap, the Eligible Investments (other than cash), the Delivered Obligations, if any, and the Collateral Securities in accordance with the procedures specified in the Indenture. If the Liquidation Agent receives one or more bids from Eligible Bidders not later than ten (10) Business Days prior to the Auction Date, which, when added to the cash on deposit in the Collateral Account, equal to or exceed the Minimum Bid Amount, it will sell, assign, terminate

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	or otherwise dispose of the Credit Default Swap, the Eligible Investments (other than cash), the Delivered Obligations, if any, and the Collateral Securities on or before the fifth Business Day prior to such Auction Date. The Secured Notes will be redeemed in whole on such Auction Date (any such date, the "Auction Payment Date"). If a successful Auction occurs, the Income Notes will also be redeemed in full. If the highest single bid on the entire portfolio, or the aggregate amount of multiple bids with respect to individual Collateral Securities, Eligible Investments (other than cash) and Delivered Obligations when added with the other Liquidation Proceeds and cash on deposit in the Collateral Account, does not equal or exceed the Minimum Bid Amount or if there is a failure at settlement, the Credit Default Swap will not be terminated or assigned, the Eligible Investments (other than cash), Collateral Securities and the Delivered Obligations, if any, will not be sold and no redemption of Notes on the related Auction Date will occur.
Optional Redemption.....	The Secured Notes may be redeemed by the Issuers from Liquidation Proceeds, in whole but not in part, on any Payment Date on or after the Payment Date occurring in July 2010 (the "Optional Redemption Date"), at the written direction of, or with the written consent of the Holders of a Majority of the Income Notes (an "Optional Redemption"). If the Holders of the Income Notes so elect to cause an Optional Redemption of the Secured Notes, the Income Notes will also be redeemed. In the event of an Optional Redemption, the Secured Notes will be redeemed at their Secured Note Redemption Prices as described herein. No Secured Notes shall be redeemed pursuant to an Optional Redemption and a final payment to the Income Notes shall not be made unless the Aggregate Reference Obligation Notional Amount of the Credit Default Swap will be reduced to zero and the Liquidation Agent furnishes certain assurances that the Total Redemption Amount will be available for payment on the related Optional Redemption Date. In the event of any redemption of the Secured Notes, the Fiscal Agent will receive for payment to the Holders of the Income Notes the remaining balance, if any, of funds in the Payment Account (net of all expenses of the Issuers after payment of the Secured Note Redemption Prices of the Secured Notes and the payment of all other amounts payable prior to payments to the Fiscal Agent) for payment to the Holders of the Income Notes pursuant to the Priority of Payments (the "Income Note Redemption Price"). See "Description of the Notes—Optional Redemption."
Mandatory Redemption.....	On any Payment Date on which any Overcollateralization Test is not satisfied as of the preceding Determination Date certain of the Secured Notes (other than the Class S Notes) will be subject to mandatory redemption in accordance with the Priority of Payments, until the applicable Secured Notes have been paid in full (a "Mandatory Redemption"). The Class S Notes and the Income Notes are not subject to mandatory redemption as a result of the failure of any Coverage Test. See "Description of the Notes—Principal", "—Mandatory Redemption" and "—Priority of Payments."

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Coverage Tests..... The following table identifies the Coverage Tests and the value at which such tests will be satisfied. See "Description of The Notes—Mandatory Redemption".

Coverage Test	Ratio at Which Test is Satisfied
Class A/B Overcollateralization Test	equal to or greater than 116.0%
Class C Overcollateralization Test	equal to or greater than 109.9%
Class D Overcollateralization Test	equal to or greater than 105.9%

On the Closing Date, the Class A/B Overcollateralization Ratio is expected to be 119.0%, the Class C Overcollateralization Ratio is expected to be 111.7% and the Class D Overcollateralization Ratio is expected to be 107.4%.

The Credit Default Swap

Documentation ..... The Credit Default Swap will be structured as a "pay-as-you-go" credit default swap and will be documented pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the Schedule thereto (the "Master Agreement"), along with two confirmations (each a "Master Confirmation") between the Issuer, as Credit Protection Seller, and Goldman Sachs International ("GSI"), as the Credit Protection Buyer, evidencing a transaction with respect to each Reference Obligation in the Reference Portfolio thereunder (each such transaction, a "CDS Transaction").

Reference Obligation Notional Amount..... Each CDS Transaction is expected to have a specified notional amount (the "Reference Obligation Notional Amount") which represents the dollar amount of the credit exposure which the Issuer is assuming thereunder with respect to the Reference Obligation related to such CDS Transaction. The "Aggregate Reference Obligation Notional Amount" is the sum of the aggregate Reference Obligation Notional Amounts of all CDS Transactions comprising the Reference Portfolio. On the Closing Date, the Issuer expects to enter into CDS Transactions with the Credit Protection Buyer referencing the Reference Obligations described herein and having an Aggregate Reference Obligation Notional Amount of approximately U.S.$305,000,000. In accordance with the terms of the Credit Default Swap, the Reference Obligation Notional Amount of a CDS Transaction is expected after the Closing Date to be:

(i) decreased on each day on which a Reference Obligation Principal Payment is made by the relevant Reference Obligation Principal Amortization Amount;

(ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount;

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	(iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount minus the relevant amount determined pursuant to paragraph (b) under the heading "Physical Settlement Amount" in the related Master Confirmation; provided that, if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date. Each CDS Transaction will terminate by its terms no later than the scheduled legal final maturity of the related Reference Obligation unless a Credit Event occurs or a Floating Amount becomes due with respect to such CDS Transaction and the physical settlement date is scheduled to occur after such date. For a more detailed description of the Credit Default Swap, see "The Credit Default Swap". Copies of the Master Agreement and the Master Confirmations are available to investors from the Trustee.
The Reference Portfolio.....	On the Closing Date, the Credit Default Swap will reference 61 Reference Obligations (collectively, the "Reference Portfolio"). See Appendix B to this Offering Circular for certain summary information about the Reference Portfolio. The types of (i) Residential Mortgage-Backed Securities that constitute Reference Obligations in the Reference Portfolio will include RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities and (ii) CDO Securities that constitute Reference Obligations in the Reference Portfolio will include CDO RMBS Securities.
Credit Events.....	The following Credit Events (each a "Credit Event") shall apply with respect to each Reference Obligation: (i) Failure to Pay Principal; (ii) Writedown; (iii) Distressed Ratings Downgrade; or (iv) Failure to Pay Interest (in the case of CDO RMBS Security Reference Obligations only). See "The Credit Default Swap—Credit Events."
Conditions to Settlement.....	The "Conditions to Settlement" will be satisfied upon delivery to the Credit Protection Seller and the Trustee of a Credit Event Notice and a Notice of Publicly Available Information.

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Notifying Party	The Credit Protection Buyer.
Credit Default Swap Calculation Agent	GSI will be the calculation agent (in this capacity the "Credit Default Swap Calculation Agent") under the Credit Default Swap.
Settlement Method	Physical.
Credit Default Swap Early Termination	The Credit Default Swap may be terminated by the Issuer or by the Credit Protection Buyer (a "Credit Default Swap Early Termination") at the option of the non-defaulting or non-affected party, as applicable, upon the occurrence of an "Event of Default" or "Termination Event" (each, as defined in the Master Agreement). Upon the Trustee having actual knowledge of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Trustee or the Fiscal Agent, as applicable, will as promptly as practicable notify the Noteholders of such event but will only terminate any such agreement on behalf of the Issuer (i) at the direction of a Majority of the Income Notes or (ii) (a) upon the redemption of the Secured Notes in full, (b) if the principal balance of the Secured Notes is reduced to zero or (c) upon the acceleration of the maturity of the Secured Notes pursuant to the terms of the Indenture. The Issuer is required to satisfy the Rating Agency Condition prior to any (i) replacement of the Credit Protection Buyer or (ii) assignment of the Credit Default Swap.
The Collateral Securities	The Issuer will use the net proceeds from the offering of the Notes to purchase Collateral Securities and Eligible Investments having an initial principal amount as of the Closing Date of approximately U.S.$305,000,000. The Collateral Securities are required to have the characteristics and satisfy the criteria described herein under "The Collateral Securities." The Liquidation Agent, on behalf of the Issuer, will obtain the funds to pay Credit Protection Amounts (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) by applying the Collateral Liquidation Procedure. If the Notes become due in connection with an Optional Redemption, Tax Redemption or Auction, (i) the Liquidation Agent, on behalf of the Issuer, will assign or terminate the Credit Default Swap and will liquidate all of the Collateral Securities and Eligible Investments in the Collateral Account and all Delivered Obligations in the Delivered Obligations Account and (ii) the Issuer will pay to the Credit Protection Buyer any Credit Protection Amounts and Credit Default Swap Termination Payments the Issuer is required to pay to the Credit Protection Buyer or any assignee in connection with any assignment or termination of the CDS Transactions. Certain amounts will be held back if one or more outstanding Credit Events remain due as of the Redemption Date. If the Credit Default Swap is terminated in connection with the occurrence of an Event of Default or Termination Event (each, as defined in the Master Agreement), the Liquidation Agent, on behalf of the Issuer, will pay to the

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	Credit Protection Buyer or any assignee any Credit Default Swap Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) owed by the Issuer to the Credit Protection Buyer by applying the Collateral Liquidation Procedure. Certain amounts will be held back if one or more outstanding Credit Events exist or Floating Amounts remain due as of any termination date. If a CDS Transaction terminates on its scheduled termination date without a Credit Event occurring, following the reduction of the Aggregate Reference Obligation Notional Amount, an amount equal to the Aggregate Amortization Amount shall be drawn from the Collateral Account pursuant to the Amortization Liquidation Procedure and deposited into the Payment Account to be applied to, among other things, reduce the amounts of the Notes in accordance with the Priority of Payments on the immediately following Payment Date. See "The Collateral Securities"
Liquidation of Collateral	On or immediately prior to the final maturity date of the Notes or in connection with any Optional Redemption, Auction, Tax Redemption or Event of Default, the Liquidation Agent, on behalf of the Issuer, will (i) assign or terminate or cause to be assigned or terminated the Credit Default Swap, (ii) liquidate all of the Collateral Securities, Delivered Obligations and Eligible Investments, (iii) demand payment for any termination or assignment payments due to the Issuer and (iv) pay any Credit Protection Amounts due to the Credit Protection Buyer or any assignee under the Credit Default Swap.
The Liquidation Agent.....	Goldman, Sachs & Co. ("GS&Co.") as Liquidation Agent (in such capacity, the "Liquidation Agent") under the Liquidation Agency Agreement dated as of the Closing Date (the "Liquidation Agency Agreement") between GS&Co. and the Issuer will, on behalf of the Issuer, (i) assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer to be Credit Risk Obligations and (b) Delivered Obligations, (ii) sell, assign, terminate or otherwise dispose of the Credit Default Swap, Delivered Obligations, Collateral Securities and Eligible Investments of the Issuer in connection with (a) a redemption of the Notes as a result of an Optional Redemption, a Tax Redemption, an Auction or as otherwise required under the Indenture as described therein and (b) an acceleration of Notes as a result of an Event of Default as required under the Indenture as described therein, and (iii) perform certain other functions, as described herein. The Liquidation Agent will have twelve (12) months to assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be Credit Risk Obligations and (b) Delivered Obligations in accordance with the terms of the Liquidation Agency Agreement (such twelve months measured from the date the Liquidation Agent is notified of either (1) such determination by the Collateral Administrator or (2) the receipt of such Delivered Obligation by the Issuer, as applicable). The proceeds of any such sale of Delivered Obligations will be deposited by the Trustee into the Collateral Account and invested in Eligible Investments and Collateral Securities selected at the direction of the Liquidation Agent. In addition, any principal proceeds received on such Delivered Obligations

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	prior to such sale, will be deposited by the Trustee into the Collateral Account. The Liquidation Agent will not have the right, or the obligation, to exercise any discretion with respect to the method or the price of any assignment, termination or disposition of a CDS Transaction; the sole obligation of the Liquidation Agent will be to execute such assignment or termination of a CDS Transaction in accordance with the terms of the Liquidation Agency Agreement. Notwithstanding the appointment of the Liquidation Agent, the Liquidation Agent shall have no responsibility for, or liability relating to, the performance of the Issuer or any CDS Transaction, Reference Obligation, Collateral Security or Eligible Investment. See "The Liquidation Agency Agreement."
Reports	A report will be made available to the Holders of the Notes and will provide information on the Reference Portfolio, Collateral Securities and payments to be made in accordance with the Priority of Payments (each, a "Note Valuation Report") beginning in July, 2007. See "Reports."
The Offering	The Offered Notes are being offered to non-U.S. Persons in offshore transactions in reliance on Regulation S, and in the United States to persons who are Qualified Institutional Buyers purchasing in reliance on the exemption from registration under Rule 144A or, with respect to Income Notes only, Accredited Investors purchasing in transactions exempt from registration under the Securities Act. Each purchaser who is a U.S. Person must also be a Qualified Purchaser. Each Accredited Investor must have a net worth of at least U.S.$10 million. See "Description of the Notes—Form of the Notes," "Underwriting" and "Notice to Investors."
Minimum Denominations	The Notes will be issued in minimum denominations of U.S.$250,000 (in the case of the Rule 144A Notes and the Income Notes sold to Accredited Investors) and U.S.$100,000 (in the case of the Regulation S Notes) and integral multiples of U.S.$1 in excess thereof for each Class of Notes.
Form of the Notes	Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by one or more temporary global notes (each, a "Temporary Regulation S Global Note"). Each Temporary Regulation S Global Note will be deposited on the Closing Date with LaSalle Bank National Association as custodian for, and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), for the respective accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"). Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream and may not be held at any time by a U.S. Person ("U.S. Person") (as such term is defined in Regulation S under the Securities Act). Each Class of Rule 144A Notes (other than the Income Notes) will be issued in the form of one or more global notes in fully registered form (the "Rule 144A Global Notes" and, together with the Temporary Regulation S Global Notes and the Regulation S Global Notes, the "Global Notes"), deposited with LaSalle Bank National Association as custodian for, and registered in the name of Cede & Co. as nominee of, DTC, which will credit the account of each of its participants with the principal amount of Notes being purchased by or through such participant. Beneficial interests in the

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	Rule 144A Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. The Income Notes (other than the Regulation S Income Notes) will be evidenced by one or more notes in definitive, fully registered form, registered in the name of the owner thereof (each, a "Definitive Note"). Beneficial interests in the Global Notes and the Definitive Notes may not be transferred except in compliance with the transfer restrictions described herein. See "Description of the Notes—Form of the Notes" and "Notice to Investors."
Governing Law	The Indenture, the Collateral Administration Agreement, the Credit Default Swap, the Notes, the Liquidation Agency Agreement, and the Fiscal Agency Agreement will be governed by the laws of the State of New York.
Listing and Trading	There is currently no market for the Notes and there can be no assurance that such a market will develop. See "Risk Factors—Notes—Limited Liquidity and Restrictions on Transfer." Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained or maintained.
Irish Listing Agent; Irish Paying Agent (if any)	If application is made to list the Notes on the Irish Stock Exchange, (i) Maples and Calder Listing Services Limited will be the Irish Listing Agent for the Notes (the "Irish Listing Agent") and (ii) Maples Finance Dublin will be the Irish Paying Agent for the Notes (the "Irish Paying Agent").
Tax Status	See "Income Tax Considerations."
ERISA Considerations	See "ERISA Considerations."

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RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider, in addition to the matters set forth elsewhere in this Offering Circular, the following factors:

Notes

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Notes. Although GS&Co. has advised the Issuers that it intends to make a market in the Offered Notes, GS&Co. is not obligated to do so, and any such market making with respect to the Offered Notes may be discontinued at any time without notice. There can be no assurance that any secondary market for any of the Notes will develop or, if a secondary market does develop, that it will provide the Holders of the Notes with liquidity of investment or that it will continue for the life of such Notes and consequently a purchaser must be prepared to hold the Notes until the Stated Maturity.

In addition, no sale, assignment, participation, pledge or transfer of the Notes may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Notes will not be registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, and the Issuer has no plans, and is under no obligation, to register the Notes under the Securities Act or any state securities laws or under the laws of any other jurisdiction. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees as described herein under "Description of the Notes—Form of the Notes" and "Notice to Investors." Such restrictions on the transfer of the Notes may further limit their liquidity. See "Description of the Notes—Form of the Notes." Application may be made for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained.

Limited Recourse Obligations. The Class A Notes, Class B Notes, Class C Notes and Class D Notes will be limited recourse obligations of the Issuers, in each case, payable solely from the Pledged Assets pledged by the Issuer to secure the Secured Notes. The Income Notes will be limited recourse obligations of the Issuer and will not be secured by the Pledged Assets securing the Secured Notes. None of the Liquidation Agent, the Holders of the Notes, the Initial Purchaser, the Trustee, the Administrator, the Share Trustee, the Agents, the Credit Protection Buyer or any affiliates of any of the foregoing or the Issuers' affiliates or any other person or entity will be obligated to make payments on the Secured Notes or the Income Notes. Consequently, the Holders of the Secured Notes must rely solely on distributions on the Pledged Assets pledged to secure the Secured Notes for the payment of principal, interest, premium and other distributions thereon. If distributions on the Pledged Assets are insufficient to make payments in respect of the Secured Notes, no other assets (and, in particular, no assets of the Liquidation Agent, the Holders of the Secured Notes, the Holders of the Income Notes, the Initial Purchaser, the Trustee, the Administrator, the Share Trustee, the Agents, the Credit Protection Buyer or any affiliates of any of the foregoing) will be available for payment of the deficiency, and following realization of the Pledged Assets pledged to secure the Secured Notes, the obligations of the Issuers to pay such deficiency shall be extinguished and shall not revive.

Subordination of the Notes. Payments of principal on the Class S Notes will be senior to payments of principal on the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes and to the distribution of Proceeds to the Holders of the Income Notes on each Payment Date to the extent set forth in the Priority of Payments. Payments of principal of the Class A-1a Notes and the Class A-1b Notes will be either *pro rata* or first to the Class A-1a Notes and second to the Class A-1b Notes as described herein. Payments of principal on the Class A-1 Notes will be either *pro rata* with principal payments on the Class A-2 Notes or senior to payments of principal to the Class A-2 Notes as described herein. Payments of principal on the Class A Notes due on any Payment Date will be senior to payments of principal of the Class B Notes, the Class C Notes and the Class D Notes and to the distribution of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class B Notes due on any Payment Date will be senior to payments of principal on the Class C Notes and the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class C Notes due on any Payment Date will be senior to payments of principal on the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. Payments of principal on the Class D Notes due on any Payment Date

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will be senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date to the extent set forth in the Priority of Payments. As a result of the Priority of Payments, notwithstanding the subordination of the Notes described under "Description of the Notes—Status and Security," the Class A Notes will be entitled to receive certain payments of principal while the Class S Notes are outstanding, the Class B Notes will be entitled to receive certain payments of principal while the Class S Notes and the Class A Notes are outstanding, the Class C Notes will be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes and the Class B Notes are outstanding and the Class D Notes will be entitled to receive certain payments of principal while the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes are outstanding. In addition, the Income Notes will be entitled to receive certain payments on each Quarterly Payment Date while the Secured Notes are outstanding. See "Description of the Notes—Priority of Payments." To the extent that any losses are incurred by the Issuer in respect of any Pledged Assets, such losses will be borne first by Holders of the Income Notes, then, by Holders of the Class D Notes, then, by Holders of the Class C Notes, then, by Holders of the Class B Notes, then, by Holders of the Class A-2 Notes, then, *pro rata*, by Holders of the Class A-1 Notes and finally, by Holders of the Class S Notes.

Payments of interest on the Class S Notes due on any Payment Date will be senior to payments of interest on the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class A Notes due on any Payment Date will be senior to payments of interest on the Class B Notes, the Class C Notes and the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class B Notes due on any Payment Date will be senior to payments of interest on the Class C Notes and the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class C Notes due on any Payment Date will be senior to payments of interest on the Class D Notes and senior to the distributions of Proceeds to the Holders of the Income Notes on such Payment Date. Payments of interest on the Class D Notes due on any Payment Date will be senior to distributions of Proceeds to the Holders of the Income Notes on such Payment Date. See "Description of the Notes."

On any Payment Date on which certain conditions are satisfied and funds are available therefor, the "shifting principal" method in clause (xi) of the Priority of Payments may permit the Holders of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes to receive payments of principal in accordance with the Priority of Payments while more senior Classes of Notes remain outstanding and may permit distributions of Amortization Proceeds to the Holders of the Income Notes, to the extent funds are available in accordance with the Priority of Payments, while the more senior Notes are outstanding. Amounts properly paid pursuant to the Priority of Payments to a junior Class of Notes will not be recoverable in the event of a subsequent shortfall in the amount required to pay a more senior Class of Secured Notes.

Holders of the Controlling Class may not be able to effect a liquidation of the Pledged Assets in an Event of Default; Holders of other Classes of Notes may be Adversely Affected by Actions of the Controlling Class. If an Event of Default occurs and is continuing, a Majority of the Controlling Class will be entitled to determine the remedies to be exercised under the Indenture; however, the Majority of the Controlling Class will not be able to direct a sale or liquidation of the Pledged Assets unless, among other things, the Trustee determines (which determination will be based upon a certificate of the Liquidation Agent as to the estimated proceeds) that the anticipated proceeds of such sale or liquidation (after deducting the reasonable expenses of such sale or liquidation) would be sufficient to pay in full the sum of (A) the principal (including any Class C Deferred Interest and Class D Deferred Interest) and accrued interest (including all Defaulted Interest, and interest thereon) and any other amounts due with respect to all the outstanding Notes, (B) unpaid Administrative Expenses, (C) all amounts, including Credit Default Swap Termination Payments, due to the Credit Protection Buyer or any assignee upon termination or assignment of the Credit Default Swap, net of termination or assignment payments payable to the Issuer by the Credit Protection Buyer or any assignee and (D) all other items in the Priority of Payments ranking prior to payments on the Notes and a Majority of the Controlling Class agrees with such determination. There can be no assurance that proceeds of a sale and liquidation, together with all other available funds, will be sufficient to pay in full such amount. Notwithstanding the foregoing, even if the anticipated proceeds of such sale or liquidation would not be sufficient to pay in full such amount, the requisite Holders of Notes as determined pursuant to the Indenture or the Holders of a Super Majority of the Controlling Class may direct the sale and liquidation of the Pledged Assets.

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Remedies pursued by the Holders of the Class S Notes and Class A Notes could be adverse to the interests of the Holders of the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes. After the Class S Notes and the Class A Notes are no longer outstanding, the Holders of the Class B Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Class A Notes, and the Class B Notes are no longer outstanding, the Holders of the Class C Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. After the Class S Notes, the Class A Notes, the Class B Notes and the Class C Notes are no longer outstanding, the Holders of the Class D Notes will be entitled to determine the remedies to be exercised under the Indenture (except as noted above) if an Event of Default occurs. See "Description of the Notes—The Indenture—Events of Default."

Subordination of the Income Notes; Unsecured Obligations. The Income Notes are limited recourse obligations of the Issuer and are not secured by the Pledged Assets securing the Secured Notes. As such, the Holders of the Income Notes will rank behind all of the secured creditors and pari passu with all unsecured creditors, whether known or unknown, of the Issuer. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Secured Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Income Notes as and when such proceeds are released from the lien of the Indenture in accordance with the Priority of Payments. There can be no assurance that, after payment of principal and interest on the Secured Notes and other fees and expenses of the Issuer in accordance with the Priority of Payments, the Issuer will have funds remaining to make payments in respect of the Income Notes. Failure to pay the full principal amount of the Income Notes will in no event constitute an Event of Default. No person or entity other than the Issuer will be required to make any payments on the Income Notes. Except with respect to the obligations of the Issuer to make payments pursuant to the Priority of Payments, the Issuer does not expect to have any creditors. The funds available to be paid to the Fiscal Agent will depend in part on the weighted average of the Note Interest Rates.

Any amounts that are released from the lien of the Indenture for payment to the Holders of the Income Notes in accordance with the Priority of Payments on any Quarterly Payment Date will not be available to make payments in respect of the Secured Notes on any subsequent Payment Date.

Leveraged Investment. The Income Notes represent a leveraged investment in the underlying Pledged Assets. The use of leverage generally magnifies an investor's opportunities for gain and risk of loss. Therefore, changes in the market value of the Income Notes can be expected to be greater than changes in the market value of the underlying assets included in the Pledged Assets, which are also subject to credit, liquidity and interest rate risk. The cash flow to and the market value of the Income Notes may fluctuate, potentially in a material manner, as a result of fluctuations in the investment income earned by the Issuer on the Pledged Assets (including the Collateral Securities and Eligible Investments held in the Collateral Account).

Supplemental Indentures May Modify the Indenture, and Some Supplemental Indentures Do Not Require Consent of Holders of Notes. The Indenture provides that the Issuers and the Trustee may enter into supplemental indentures to modify various provisions of the Indenture. The execution of supplemental indentures is subject to various conditions precedent. In certain cases, the consent of the Holders of the Notes is required, but in certain cases, such consent is not required. Furthermore, if no Holder of a Note of a Class responds to notice of a proposed amendment within the prescribed time period, all Notes of such Class may be deemed not to be adversely or materially adversely affected by the proposed supplemental indenture. See "Description of the Notes—The Indenture—Modification of the Indenture."

Optional Redemption and Tax Redemption of Notes. Subject to the satisfaction of certain conditions, the Secured Notes may be optionally redeemed in whole and not in part (i) on any Payment Date on or after the July 2010 Payment Date at the written direction of, or with the written consent of, Holders of at least a Majority of the Income Notes or (ii) on the date that is 90 days from the date on which the Issuers first become aware of the occurrence of a Tax Event (*provided* that such 90-day period shall be extended by another 90 days if, during the initial 90-day period, the Issuers have notified the Holders of the Notes that the related Issuer expects that it shall have changed its place of residence by the end of the later 90-day period), at the written direction of, or with the written consent of, Holders of at least 66-2/3% of the Income Notes or the Holders of at least a Majority of any Class of Notes, if as a result of an occurrence of a Tax Event, such Class of Notes has not received 100% of the

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aggregate amount of principal and interest due and payable on such Class of Notes. If an Optional Redemption or Tax Redemption of the Secured Notes occurs, the Income Notes will be redeemed simultaneously.

There can be no assurance that after payment of the Secured Note Redemption Prices for the Secured Notes, amounts payable in connection with the termination of the Credit Default Swap and all other amounts payable in accordance with the Priority of Payments, any Proceeds will remain to distribute to the Holders of the Income Notes upon redemption. See "Description of the Notes—Optional Redemption" and "—Tax Redemption." An Optional Redemption or Tax Redemption of the Notes could require the Liquidation Agent to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the CDS Transactions, the Eligible Investments, the Collateral Securities or the Delivered Obligations. In addition, the redemption procedures in the Indenture may require the Liquidation Agent to aggregate securities to be sold together in one block transaction, thereby possibly resulting in a lower aggregate realized value for the CDS Transactions, the Collateral Securities, the Eligible Investments or the Delivered Obligations. In any event, there can be no assurance that the market value of the CDS Transactions, the Collateral Securities, the Eligible Investments or the Delivered Obligations will be sufficient for the Holders of the Income Notes to direct an Optional Redemption or, in the case of a Tax Redemption, for the Holders of the affected Class of Secured Notes or Income Notes to direct a Tax Redemption. A decrease in the market value of the CDS Transactions, the Eligible Investments, the Collateral Securities or the Delivered Obligations would adversely affect the proceeds that could be obtained upon a disposition of the CDS Transactions, the Eligible Investments or the Delivered Obligations; consequently, the conditions precedent to the exercise of an Optional Redemption or a Tax Redemption may not be met. The interests of the Holders of the Income Notes in determining whether to elect to effect an Optional Redemption and the interests of the Holders of the affected Class of Secured Notes and the Income Notes with respect to a Tax Redemption may be different from the interests of the Holders of the other Classes of Notes in such respect. The Holders of the Notes also may not be able to invest the proceeds of the redemption of the Notes in one or more investments providing a return equal to or greater than the Holders of the Notes expected to obtain from their investment in the Notes. An Optional Redemption or a Tax Redemption will shorten the average lives of the Secured Notes and the duration of the Notes and may reduce the yield to maturity of the Notes.

Auction. There can be no assurance that an Auction of the Pledged Assets on any Auction Date will be successful. The failure of an Auction may lengthen the expected average lives of the Secured Notes and may reduce the yield to maturity of the Secured Notes. In the event of an Auction, Holders of Income Notes may have their Income Notes redeemed without receiving any payments on such Income Notes. In addition, the success of an Auction will shorten the average lives of the Notes and may reduce the yield to maturity of the Secured Notes.

Mandatory Redemption of Notes. If the Class A/B Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class C Notes, the Class D Notes and the Income Notes will be used to redeem the Class A Notes and the Class B Notes in full in the order described in the Priority of Payments. If the Class C Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Class D Notes and the Income Notes will be used to redeem the Class A Notes, the Class B Notes and the Class C Notes in full in the order described in the Priority of Payments. If the Class D Overcollateralization Test is not met on the Determination Date immediately preceding a Payment Date, Proceeds that otherwise might have been distributed to the Holders of the Income Notes will be used to redeem the Class D Notes in full. The foregoing redemptions could result in an elimination, deferral or reduction in the amounts available to make payments to the Holders of the Class C Notes, the Class D Notes and payments to Holders of the Income Notes. See "Description of the Notes—Mandatory Redemption". Any such redemptions will shorten the average life of the redeemed Notes, may lower the yield to maturity of the Notes.

Collateral Accumulation. In anticipation of the issuance of the Notes, GSI has agreed to "warehouse" up to U.S.$305,000,000 aggregate notional amount of CDS Transactions and up to U.S.$305,000,000 aggregate principal amount of Collateral Securities and Eligible Investments, for assumption by the Issuer or resale to the Issuer, as applicable, pursuant to the terms of a forward purchase agreement (the "Forward Purchase Agreement"). No collateral manager or other person acting on behalf of the Issuer has reviewed the prices established pursuant to such Forward Purchase Agreement (nor has there been any third party verification of such prices). All of such notional amount will be represented by one or more CDS Transactions entered into between the Issuer and GSI or an affiliate thereof, wherein the Issuer will be selling credit protection. Pursuant to the terms of the Forward Purchase

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Agreement, the Issuer will be obligated to assume or purchase, as applicable, the "warehoused" assets, *provided* that with respect to the Collateral Securities, such securities satisfy certain eligibility criteria on the Closing Date, for a formula purchase price designed to reflect the premiums at which such "warehoused" assets were assumed or purchased, as applicable (using, as applicable, the prepayment speed and other assumptions used to set the initial price of each individual asset), as adjusted for any hedging gain or loss and any loss or gain on any "warehoused" asset assigned or sold, as applicable, to a party other than the Issuer during the warehousing period. Consequently, the market values of "warehoused" assets at the Closing Date may be less than or greater than the formula purchase price paid by the Issuer. In addition, if a CDS Transaction, Collateral Security or Eligible Investment becomes ineligible during the warehousing period and is not assumed or purchased, as applicable, by the Issuer on the Closing Date, or if a CDS Transaction, Collateral Security or Eligible Investment is otherwise disposed at the direction of GSI (which disposition may only occur with the consent of GSI's affiliate), the Issuer will bear the loss or receive the gain on the disposition of such CDS Transaction, Collateral Security or Eligible Investment to a third party.

Disposition of CDS Transactions by the Liquidation Agent Under Certain Circumstances. Under the Indenture, the Liquidation Agent will be required to assign, terminate or otherwise dispose of, on behalf of the Issuer, all CDS Transactions that reference Reference Obligations that are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to meet the definition of Credit Risk Obligations subject to satisfaction of the conditions described herein. The Liquidation Agent will have twelve (12) months (from the date it is notified of the determination of the Collateral Administrator) to assign, terminate or otherwise dispose of such CDS Transactions. The Liquidation Agent will not have the right, or the obligation, to exercise any discretion with respect to the method or the price of any assignment, termination or disposition of a CDS Transaction that references a Reference Obligation that is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation; the sole obligation of the Liquidation Agent will be to execute the assignment, termination or disposition of such CDS Transaction in accordance with the terms of the Liquidation Agency Agreement. There can be no assurance that the Liquidation Agent will be able to dispose any such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation. Any such sale of a CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Secured Notes by any of the Rating Agencies. See "—No Collateral Manager."

Average Lives, Duration and Prepayment Considerations. The average lives of the Secured Notes (other than the Class S Notes) are expected to be shorter than the number of years until their Stated Maturity. See "Weighted Average Life and Yield Considerations."

The average lives of the Secured Notes will be affected by the financial condition of the obligors on or issuers of the Reference Obligations and the characteristics of the Reference Obligations, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prepayment speed, the occurrence of any early amortization events, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries in respect of any Defaulted Obligations, the frequency of tender or exchange offers for the Reference Obligations and the tenor of any sales of CDS Transactions.

Some or all of the loans underlying the RMBS may be prepaid at any time (although certain of such mortgage loans may have "lockout" periods, defeasance provisions, prepayment penalties or other disincentives to prepayment). Defaults on and liquidations of the loans and other collateral underlying the RMBS may also lead to early repayment thereof. Prepayments on loans are affected by a number of factors. If prevailing rates for similar loans fall below the interest rates on such loans, prepayment rates would generally be expected to increase. Conversely, if prevailing rates for similar loans rise above the interest rates on such loans, prepayment rates would generally be expected to decrease. The existence and frequency of such prepayments, optional redemptions, defaults and liquidations will affect the average lives of, and credit support for, the Notes. See "Weighted Average Life and Yield Considerations."

Projections, Forecasts and Estimates. Estimates of the weighted average lives of, and returns on, the Secured Notes included herein, together with any other projections, forecasts and estimates provided to prospective purchasers of the Secured Notes, are forward looking statements. Such statements are necessarily speculative in

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nature, as they are based on certain assumptions. It can be expected that some or all of the assumptions underlying such statements will not reflect actual conditions. Accordingly, there can be no assurance that any estimated projections, forecasts or estimates will be realized or that the forward looking statements will materialize, and actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of the Reference Obligations, differences in the actual allocation of the Reference Obligations among asset categories from those assumed and mismatches between the timing of accrual and receipt of Proceeds from the Reference Obligations, among others.

None of the Issuer, the Co-Issuer, the Liquidation Agent, the Initial Purchaser or any of their respective affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Dependence of the Issuer on the Liquidation Agent. The Issuer has no employees and is dependent on the employees of the Liquidation Agent to perform its obligations under the Liquidation Agency Agreement in accordance with the terms of the Indenture and the Liquidation Agency Agreement. Consequently, the loss of one or more of the individuals employed by the Liquidation Agent to perform its obligations under the Liquidation Agency Agreement could have an adverse effect, which effect may be material, on the performance of the Issuer.

Static Transaction. The Anderson Mezzanine Funding 2007-1, Ltd. transaction is a static collateralized debt obligation transaction. As a result, the CDS Transactions held by the Issuer on the Closing Date will be retained by the Issuer even if it would be in the best interests of the Issuer and the Holders of the Notes to assign, terminate or dispose of certain CDS Transactions unless Reference Obligations referenced by those CDS Transactions are designated as Credit Risk Obligations and are required to be assigned, terminated or disposed by the Liquidation Agent pursuant to the terms of the Indenture and the Liquidation Agency Agreement. See "The Credit Default Swap—Removal of Reference Obligations from the Reference Portfolio". In addition, circumstances may exist under which it is in the best interests of the Issuer or the Holders of the Notes to assign, terminate or otherwise dispose of a CDS Transaction, but (a) pursuant to the Collateral Administration Agreement, the Collateral Administrator, on behalf of the Issuer, does not determine that the Reference Obligation referenced by such CDS Transaction is a Credit Risk Obligation or (b) the Liquidation Agent is not able to assign, terminate or otherwise dispose, on behalf of the Issuer, such CDS Transaction in accordance with the terms of the Liquidation Agency Agreement.

Substitution of Collateral Securities. From time to time following the Closing Date, any Holder of any Note may submit to the Trustee or the Fiscal Agent, as applicable, a request to substitute one or more BIE Collateral Securities for one or more existing Collateral Securities, in whole or in part. Such substitution will be subject to the affirmative approval of the Holders of a Majority of each Class of Notes. Any such substitution could (i) adversely affect the Issuer and the Issuer's ability to make payments on the Notes, (ii) affect the weighted average lives of the Secured Notes, (iii) adversely affect the returns on the Notes and (iv) increase the frequency of defaults on the Collateral Securities or reduce the proceeds following the liquidation of any Collateral Securities. On the other hand, it is also possible that a Holder of a Note could propose a substitution which would be beneficial to the Issuer and the Holders of the Notes but such substitution is not permitted because such proposal is not affirmatively approved by the Holders of a Majority of each Class of Notes.

No Collateral Manager. The Issuer has not engaged and will not engage, a collateral manager to select the Pledged Assets (or to verify their prices), to monitor the Pledged Assets on a regular basis or to consult with the Issuer with respect to the Pledged Assets, including the advisability, timing or terms of any disposition thereof. None of the Liquidation Agent or any of their affiliates will provide investment advisory services to or act as an advisor to or an agent for the Issuer or the Holders of the Notes, and they will not have any fiduciary duties to, nor be obligated to consider the interests of the Issuer or the Holders of the Notes. As a result, the Issuer and the Holders of the Notes will not have the benefit of the provisions of the Investment Advisers Act of 1940 which afford certain protections to clients of investment advisors. Furthermore, because there is no collateral manager in the Anderson Mezzanine Funding 2007-1, Ltd. transaction, the Indenture eliminates the ability of the Issuer to exercise

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discretion in contexts where a collateral manager in a managed, or static, collateralized debt obligation transaction customarily has discretion to act on behalf of the Issuer. For example, the Indenture provides, among other things, that (i) where the Issuer, as the beneficial owner of a Collateral Security or Delivered Obligation, or the Trustee, as the registered owner of a Collateral Security, has the right to exercise a vote or consent to (or otherwise approve of) (a) any action, or inaction, pursuant to the terms of such Collateral Security or Delivered Obligation and its related underlying documentation or (b) an offer by the issuer of such Collateral Security or Delivered Obligation or by any other person to purchase or otherwise acquire such Collateral Security or Delivered Obligation or to convert or exchange such Collateral Security or Delivered Obligation for cash or any other consideration, the Trustee, as directed by the applicable holders, acting in its capacity as registered owner of such Collateral Security or Delivered Obligation, shall direct the Issuer's vote be cast in the following manner: (x) if other holders of the class of which such Collateral Security or Delivered Obligation is a part respond to such solicitation for vote or consent, in the same manner as the votes of a plurality of the other voting holders of such class (based on the Principal Balance of such Collateral Security or Delivered Obligation), (y) if no other holders of such class exercise a vote or if there are no other holders of such class, but holders of different classes issued under the same governing instrument respond, in the same manner as the votes of a plurality of the voting holders of all classes issued under the governing instrument pursuant to which such Collateral Security or Delivered Obligation was issued (based on the Principal Balance of all such classes and treated as a single class) or (z) if no holders of any class issued under the same governing instrument respond or if there are no other holders, the Issuer's vote shall be exercised against such action or inaction and (ii) the Issuer will have no discretion with respect to the temporary investment of funds held pending application thereof in accordance with the terms of the Indenture. The inability of the Issuer to exercise discretion in these contexts could adversely affect the Issuer and the Holders of the Notes, and it is impossible to quantify the potential magnitude of this impact. Potential investors in the Notes are urged to (a) review carefully this Offering Circular and the related terms of the Indenture, the Fiscal Agency Agreement and other operative documents and (b) take the inability of the Issuer to exercise discretion into account before investing in any of the Notes.

Scheduled Maturity of CDS Transactions. From time to time, the scheduled maturity or termination of one or more CDS Transactions is likely to occur without a Credit Event occurring. Any such maturity or termination of a CDS Transaction will result in a decrease in the Aggregate Reference Obligation Notional Amount and may result in a required redemption of the Notes in accordance with the Priority of Payments. The Issuer anticipates that payments of principal of the Collateral Securities and Eligible Investments in the Collateral Account will be applied to so redeem the Notes, but it is possible that such payments of principal will not be sufficient to permit such redemption.

The Credit Default Swap and Reference Obligations

General. The following description of the Credit Default Swap and Reference Obligations and the underlying documents and the risks related thereto is general in nature. The attributes and risks related to any individual Reference Obligation may differ in significant and material manners from the general description of the Reference Obligations and the underlying documents and the risks related thereto.

Nature of Reference Portfolio. The Reference Portfolio is subject to credit, liquidity, prepayment and interest rate risks. The amount and nature of collateral securing the Secured Notes has been established to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the Reference Obligations and the Eligible Investments. See "Ratings of the Notes." If any deficiencies exceed such assumed levels, however, payment of the Notes could be adversely affected. To the extent that any Reference Obligation referenced by a CDS Transaction is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation and the Liquidation Agent, on behalf of the Issuer, assigns, terminates or otherwise disposes of such Credit Default Swap Disposition Transaction, it is not likely that the proceeds of such assignment, termination or other disposition will be equal to the amounts owing to the Issuer in respect of such CDS Transaction.

The market value of the CDS Transactions and the Reference Obligations generally will fluctuate with, among other things, the financial condition of the related Reference Obligations and obligors on or issuers of the Reference Obligations, the credit quality of the underlying pool of assets in any Reference Obligation, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. None of the Issuer, the Co-Issuer, the Initial Purchaser,

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the Liquidation Agent, the Collateral Administrator, the Credit Protection Buyer or the Trustee has any liability or obligation to the Holders of Notes as to the amount or value of, or decrease in the value of, the Reference Obligations from time to time, or makes any representation or warranty as to the performance of the Reference Obligations.

If any Reference Obligation referenced by a CDS Transaction is determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be a Credit Risk Obligation, the Liquidation Agent is required, subject to the terms of the Liquidation Agency Agreement, to assign, terminate or otherwise dispose on behalf of the Issuer the affected CDS Transaction. There can be no assurance as to the timing of the Issuer's disposition of the affected CDS Transaction, or as to the termination costs associated with such affected CDS Transaction. The inability to realize immediate recoveries at the recovery levels assumed herein may result in lower cash flow and a lower yield to maturity of the Notes.

CDS Transactions. As of the Closing Date, (i) 98.4% of the CDS Transactions (by Reference Obligation Notional Amount) will consist of CDS Transactions the Reference Obligations of which are RMBS Securities and (ii) 1.6% of the CDS Transactions (by Reference Obligation Notional Amount) will consist of CDS Transactions the Reference Obligations of which are CDO RMBS Securities.

The economic return on a CDS Transaction depends substantially upon the performance of the related Reference Obligation and partially upon the performance of the collateral posted by the Issuer to secure its obligations to the Credit Protection Buyer on deposit in the Collateral Account. CDS Transactions generally have probability of default, recovery upon default and expected loss characteristics, which are closely correlated to the corresponding Reference Obligation, but may have different maturity dates, coupons, payment dates or other non credit characteristics than the corresponding Reference Obligation. In addition to the credit risks associated with holding the Reference Obligation, with respect to CDS Transactions, the Issuer will usually have a contractual relationship only with the related Credit Protection Buyer, and not with the Reference Obligor of the Reference Obligation. Due to the fact that a CDS Transaction may be illiquid or may not be terminable on demand (or terminable on demand only upon payment of a substantial fee by the Issuer), the Issuer's ability to dispose of a CDS Transaction, if circumstances arise permitting such disposal, may be limited. Any settlement payments and termination payments payable by the Issuer (net of any termination payments owing by the Credit Protection Buyer) to the Credit Protection Buyer will reduce the amount available to pay the Holders of the Income Notes and the Secured Notes in inverse order of seniority. The Issuer generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set off against the Reference Obligor, nor have any voting rights with respect to the Reference Obligation. The Issuer will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

Because neither the Credit Protection Buyer nor the Issuer is required to hold any Reference Obligation, the Issuer will not have any right to obtain from either the Credit Protection Buyer or the Reference Obligor information on the Reference Obligations or information regarding any Reference Obligor. The Credit Protection Buyer will have no obligation to keep the Issuer, the Trustee, the Liquidation Agent, the Holders of the Secured Notes or the Holders of the Income Notes informed as to matters arising in relation to any Reference Obligation including whether or not circumstances exist under which there is a possibility of the occurrence of a credit event.

In addition, in the event of the insolvency of the Credit Protection Buyer, the Issuer will be treated as a general creditor of such Credit Protection Buyer, and will not have any claim with respect to the Reference Obligor or the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the Credit Protection Buyer as well as that of the Reference Obligor and the Reference Obligation. As a result, concentrations of CDS Transactions in any one Credit Protection Buyer subject the Notes to an additional degree of risk with respect to defaults by such Credit Protection Buyer. It is expected that Goldman Sachs International, an affiliate of Goldman, Sachs & Co., will act as the sole Credit Protection Buyer with respect to the Credit Default Swap, which creates concentration risk and may create certain conflicts of interest. In addition, neither the Credit Protection Buyer nor its affiliates will be (or will be deemed to be acting as) the agent or trustee of the Issuer, the Holders of the Secured Notes or the Holders of the Income Notes in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Credit Protection Buyer and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation. The Credit Protection Buyer and its affiliates (i) may deal in any

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Reference Obligation, (ii) may generally engage in any kind of commercial or investment banking or other business transactions with any issuer of a Reference Obligation, and (iii) may act with respect to transactions described in the preceding clauses (i) and (ii) in the same manner as if the Credit Default Swap and the Notes did not exist and without regard to whether any such action might have an adverse affect on such Reference Obligation, the Issuer, the Holders of the Secured Notes or the Holders of the Income Notes.

All of the CDS Transactions are expected to be structured as "pay-as-you-go" credit default swaps. The obligation of the Issuer to make payments to the Credit Protection Buyer under the Credit Default Swap creates credit exposure to the related Reference Obligations (as well as to the default risk of the related Credit Protection Buyer). Following the occurrence of a "credit event", the Issuer may be required to pay to the Credit Protection Buyer a "physical settlement payment". In addition, each Credit Default Swap Disposition Transaction may require the Issuer, in its capacity as protection seller, to pay certain "floating amounts" to the Credit Protection Buyer equal to certain principal shortfall amounts, writedown payments and interest shortfalls under the Reference Obligation upon the occurrence thereof. The payment of any such credit protection payments and floating amounts will be funded by the Issuer, or the Liquidation Agent (on behalf of the Issuer), by applying the Collateral Liquidation Procedure. The Credit Protection Buyer will be obligated to reimburse all or part of such payments to the Issuer if the writedown payments of the related shortfalls are ultimately paid to Holders of the Reference Obligations or if the related Reference Obligations are written up, the amounts available to the Issuer to make payments in respect of the Secured Notes and Income Notes may be reduced after payment by the Issuer of the relevant payment to the Credit Protection Buyer until the Issuer receives such reimbursement, if any, from the Credit Protection Buyer. Any "floating payments" or credit protection payments payable by the Issuer, may result in a reduction of the notional amount of the Credit Default Swap, and therefore reduce the amounts payable by the Credit Protection Buyer and the amount of interest collections available to pay interest on the Notes. In addition, any "floating payment" or "physical settlement payment" would reduce the Collateral Securities on deposit in the Collateral Account that is available to pay the principal of the Notes and may reduce the interest collections available to pay interest on the Notes.

Determination of the floating amounts and additional fixed amounts (as described in the related Master Confirmation) will depend on the relevant servicer reports being available and on such reports containing adequate information to enable the required calculations to be made. Current private industry investigations of the market practices show that such reports can vary and that not all reports contain adequate information. In addition, access to servicer reports may be limited if such reports are confidential and neither counterparty holds the related Reference Obligation.

In the event a "credit event" occurs under the Credit Default Swap, the Liquidation Agent, on behalf of the Issuer, will obtain funds to pay Credit Protection Amounts (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) owed by the Issuer to the Credit Protection Buyer by applying the Collateral Liquidation Procedure. In addition, under certain circumstances upon the occurrence of a "credit event", the Liquidation Agent, on behalf of the Issuer will pay any related Physical Settlement Amount owed by the Issuer to the Credit Protection Buyer in exchange for a Delivered Obligation by applying the Collateral Liquidation Procedure. Any Delivered Obligation delivered to the Issuer will be sold by the Liquidation Agent, on behalf of the Issuer, pursuant to the terms of the Liquidation Agency Agreement. If a CDS Transaction is terminated or partially terminated prior to its scheduled maturity, the Liquidation Agent, on behalf of the Issuer, will make any termination payments (which, for the avoidance of doubt, shall not include Defaulted Swap Termination Payments) due to the Credit Protection Buyer by applying the Collateral Liquidation Procedure.

"Pay-as-you-go" credit default swaps are a type of credit default swap developed to incorporate the unique structures of asset-backed securities. The International Swaps and Derivatives Association, Inc. ("ISDA") has published one form confirmation for "pay-as-you-go" credit default swaps referencing RMBS Securities and a second form of confirmation for "pay-as-you-go" credit default swaps referencing CDO Securities. The form confirmations expected to be used to document the Credit Default Swap are expected to be similar to the RMBS Securities "pay-as-you-go" form and the CDO Securities "pay-as-you-go" form, but may differ in significant ways. While ISDA has published its form confirmations and has published and supplemented the Credit Derivatives Definitions in order to facilitate transactions and promote uniformity in the credit default swap market, the credit default swap market is expected to change and the "pay-as-you-go" credit default swap forms and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution.

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ISDA is currently preparing forms for other types of asset-backed securities. There can be no assurance that such forms will be substantially similar to the form confirmations expected to be used for the Credit Default Swap. Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. As a result of the continued evolution of the ISDA "pay-as-you-go" credit default swap forms, the confirmations used to document the Credit Default Swap may differ from the future market standard. Such a result may have a negative impact on the liquidity and market value of the Credit Default Swap.

There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be favorable to the Issuer. Amendments or supplements to the "pay-as-you-go" credit default swap forms and amendments and supplements to the Credit Derivatives Definitions that are published by ISDA will only apply to the Credit Default Swap executed prior to such amendment or supplement if the Issuer and the Credit Protection Buyer agree to amend the Credit Default Swap to incorporate such amendments or supplements and the Rating Agency Condition has been satisfied. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivatives Definitions. Furthermore, the Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. In addition to the credit risk of the Reference Obligations and the credit risk of the Credit Protection Buyer, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

Residential Mortgage Backed Securities. 98.4% of the Aggregate Reference Obligation Notional Amount will consist of Residential Mortgage Backed Securities ("RMBS") as of the Closing Date. The types of Residential Mortgage Backed Securities that constitute the Reference Obligations related to the CDS Transactions the Issuer will enter into on the Closing Date will consist of RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities.

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one-to-four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

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Prepayments on the underlying residential mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS.

Structural and Legal Risks of RMBS. Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issue of RMBS.

RMBS may have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves or a cap based on an asset's designated floating rate index. As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Servicemembers' Civil Relief Act of 2003 (the "Relief Act") provides relief for certain soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% per annum. In addition, pursuant to the laws of various states, under certain circumstances, payments on the underlying mortgage loans by residents in such states who are called into active duty with the National Guard or the reserves will be deferred. These state laws may also limit the ability of the servicer to foreclose on the related mortgaged property. This could result in delays or reductions in payment and increased losses on the underlying mortgage loans which impact the return to investors. Certain RMBS may provide for the payment of only interest for a stated period of time.

In addition, structural and legal risks of RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer or could be substantively consolidated with those of the originator or the servicer, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and losses on the related issue of RMBS.

It is not expected that the RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Recent Development in RMBS May Adversely Affect the Performance and Market Value of RMBS. According to published reports, recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of RMBS. Delinquencies and losses with respect to residential mortgage loans generally reportedly have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, in recent months published reports have indicated that housing prices and appraisal values in many states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on RMBS generally.

Another factor that may result in higher delinquency rates is the reported increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased

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monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have reportedly recently experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties may have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may affect the performance and market value of RMBS.

CDO Securities. 1.6% of the Aggregate Reference Obligation Notional Amount will consist of CDO Securities as of the Closing Date. CDO Securities generally are limited recourse obligations of the issuer thereof payable solely from the underlying assets of the issuer ("CDO Collateral") or proceeds thereof. Consequently, holders of CDO Securities must rely solely on distributions on the underlying CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the underlying CDO Collateral are insufficient to make payments on the CDO Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer to pay such deficiency shall be extinguished. Many subordinate classes of CDO Securities provide that a deferral of interest thereon or a write-down does not constitute an event of default and the holders of such securities will not have available to them any associated default remedies. During such periods of non payment or partial non-payment, such non-paid interest will generally be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the amount of current payments made on such CDO Securities.

CDO Securities are subject to credit, liquidity and interest rate risks. The assets backing CDO Securities may consist of high-yield debt securities, loans, trust preferred securities, structured finance securities and other debt instruments. High-yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. An increase in the default rates of high-yield corporate debt securities or loans could increase the likelihood that payments may not be made to holders of CDO Securities which are secured by high-yield corporate debt securities and loans.

Issuers of CDO Securities may acquire interests in loans and other debt obligations by way of assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

In purchasing participations, an issuer of CDO Securities will usually have a contractual relationship only with the selling institution, and not the borrower. The issuer generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The issuer may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States of America and the states thereof, the issuer may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the issuer may be subject to the credit risk of the selling institution as well as of the borrower.

CDO Securities are subject to interest rate risk and day count basis risk. The CDO Collateral of an issuer of CDO Securities may bear interest at a fixed (floating) rate while the CDO Securities issued by such issuer may bear interest at a floating (fixed) rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Securities and CDO Collateral which bears interest at a fixed rate and there may be a timing mismatch

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between the CDO Securities and assets that bear interest at a floating rate as the interest rate on such assets bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the CDO Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Securities. In addition, hedges may have been acquired to manage the interest rate risk of such CDO Securities, making such CDO Securities also subject to the credit risk of the applicable hedge counterparty.

Subordination of Reference Obligations. All of the Reference Obligations are mezzanine grade as of the Closing Date. Some of the Reference Obligations will be subordinated to one or more other classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. The subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

PROSPECTIVE PURCHASERS OF THE SECURED NOTES AND THE INCOME NOTES SHOULD CONSIDER AND ASSESS FOR THEMSELVES THE LIKELY LEVEL OF DEFAULTS ON THE REFERENCE OBLIGATIONS, AS WELL AS THE LIKELY LEVEL AND TIMING OF RECOVERIES ON THE REFERENCE OBLIGATIONS.

Insolvency Considerations with Respect to Issuers of Reference Obligations. Various laws enacted for the protection of creditors may apply to the Reference Obligations. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a Reference Obligation, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the Reference Obligation or for granting a lien securing the Reference Obligation and, after giving effect to such indebtedness or such lien, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness or such lien as a fraudulent conveyance, to subordinate such indebtedness or such lien to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation, or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was "insolvent" after giving effect to the incurrence of the indebtedness constituting the Reference Obligation or the grant of a lien securing the Reference Obligation or that, regardless of the method of valuation, a court would not determine that the issuer was "insolvent" upon giving effect to such incurrence or grant. In addition, in the event of the insolvency of an issuer of a Reference Obligation, payments made on such Reference Obligation or a lien securing such Reference Obligation could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year or longer) before insolvency. Payments made under loans underlying Reference Obligations may also be subject to avoidance in the event of the bankruptcy of the borrower.

In general, if payments on a Reference Obligation are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured. To the extent that any such payments are recaptured, the resulting loss will be borne first by the Holders of the Income Notes, then by the Holders of the Class D Notes, then by the Holders of the Class C Notes, then by the Holders of the Class B Notes, then by the Holders of the Class A-2 Notes, then, *pro rata*, by the Holders of the Class A Notes and finally, by the Holders of the Class S Notes.

Illiquidity of CDS Transactions; Certain Restrictions on Transfer. There may be a limited trading market for many of the CDS Transactions entered into by the Issuer, and in certain instances there may be effectively no trading market therefor. The illiquidity of CDS Transactions may also affect the ability of the Issuer to conduct a successful Optional Redemption, Tax Redemption or Auction, to exercise redemptions and may also affect the amount and timing of receipt of proceeds from the disposition of CDS Transactions in connection with the exercise of remedies following an Event of Default.

Volatility of Market Value of Collateral Securities, CDS Transactions and the related Reference Obligations. The market value of the Collateral Securities, CDS Transactions and the related Reference Obligations

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will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the parties to, or issuers of, the Collateral Securities, CDS Transactions and the related Reference Obligations. A decrease in the market value of the Collateral Securities, CDS Transactions and the related Reference Obligations would adversely affect the proceeds that could be obtained upon the assignment, termination or other disposition of the Collateral Securities, CDS Transactions and the related Delivered Obligations and could ultimately affect the ability of the Issuer to effect an Auction, an Optional Redemption or a Tax Redemption, or to pay the principal of the Notes upon a liquidation of the Collateral Securities, CDS Transactions and the related Delivered Obligations following the occurrence of an Event of Default.

Interest Rate Risk. There will be a basis and timing mismatch between such Notes and the Collateral Securities which bear interest at a floating rate, since the interest rates on such Collateral Securities bearing interest at a floating rate may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rate on the Notes.

Concentration Risk. The Issuer will invest in CDS Transactions which relate to the portfolio of Reference Obligations described in Appendix B hereto. Payments on the Notes could be adversely affected by the concentration in the portfolio of any one issuer or any one servicer if such issuer or servicer were to default. No single issuer will represent as of the Closing Date more than approximately 1.64% of the Aggregate Reference Obligation Notional Amount. See "The Credit Default Swap—The Reference Portfolio."

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSIDER AND ASSESS FOR THEMSELVES THE LIKELIHOOD OF A DEFAULT BY EITHER THE CREDIT PROTECTION BUYER, AS WELL AS THE OBLIGATIONS OF THE ISSUER UNDER EITHER THE CREDIT PROTECTION BUYER, INCLUDING THE OBLIGATION TO MAKE TERMINATION PAYMENTS TO EITHER THE CREDIT PROTECTION BUYER.

Other Considerations

Changes in Tax Law; No Gross-Up. Under current tax law of the United States and other jurisdictions, payments made by the Credit Protection Buyer under the Credit Default Swap and obligors on any Eligible Investments are not expected to be subject to the imposition of U.S. federal or other withholding tax. There can be no assurance, however, that as a result of a change in any applicable law, treaty, rule or regulation or interpretation thereof or other causes, such payments might not in the future become subject to U.S. federal or other withholding tax. In the event that any withholding tax should be determined to be applicable to payments on any Eligible Investments and the obligors thereon were not then required to make "gross-up" payments that cover the full amount of any such withholding taxes, such tax would reduce the amounts available to make payments on the Notes.

In the event that any withholding tax is imposed on payments on the Notes, the Holders of such Notes will not be entitled to receive "grossed-up" amounts to compensate for such withholding tax. In addition, 90 days following the Issuers becoming aware of the occurrence of a Tax Event (which 90-day period may be extended by 90 days), the Issuer will redeem in whole but not in part, at applicable Secured Note Redemption Prices or the Income Note Redemption Price, as applicable, specified herein, the Notes in accordance with the procedures described under "Description of the Notes—Tax Redemption," "—Optional Redemption—Optional Redemption/Tax Redemption Procedures" herein.

Lack of Operating History. Each of the Issuers is a newly organized entity and has no prior operating history. Accordingly, neither of the Issuers has a performance history for a prospective investor to consider.

Investment Company Act. Neither of the Issuers has registered with the United States Securities and Exchange Commission (the "SEC") as an investment company pursuant to the Investment Company Act. The Issuer has not so registered in reliance on an exception for investment companies organized under the laws of a jurisdiction other than the United States whose investors resident in the United States are solely Qualified Purchasers and which do not make a public offering of their securities in the United States. Counsel for the Issuers will opine, in connection with the sale of the Notes by the Initial Purchaser, that neither the Issuer nor the Co-Issuer is on the Closing Date an investment company required to be registered under the Investment Company Act

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(assuming, for the purposes of such opinion, that the Notes are sold by the Initial Purchaser in accordance with the terms of the Purchase Agreement). No opinion or no-action position has been requested of the SEC.

If the SEC or a court of competent jurisdiction were to find that the Issuer or the Co-Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors in the Issuer or the Co-Issuer could sue the Issuer or the Co-Issuer, as the case may be, and recover any damages caused by the violation; and (iii) any contract to which the Issuer or the Co-Issuer, as the case may be, is a party that is made in, or whose performance involves a violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer or the Co-Issuer be subjected to any or all of the foregoing, the Issuer or the Co-Issuer, as the case may be, would be materially and adversely affected.

The Notes are only permitted to be transferred to Qualified Institutional Buyers in transactions meeting the requirements of Rule 144A and, solely in the case of the Income Notes, to Accredited Investors having a net worth of not less than U.S.$10 million in transactions exempt from registration under the Securities Act, or in an offshore transaction, to a non-U.S. Person, complying with Rule 903 or Rule 904 of Regulation S. The Notes being offered in the United States are being offered only to persons that are also Qualified Purchasers. Any non-permitted transfer will be voided and the Issuers can require the transferee to sell its Notes to a permitted transferee, with such sale to be effected within 30 days after notice of such sale requirement is given. If such sale is not effected within such 30 day period, upon written direction from the Issuer or the Liquidation Agent, on behalf of the Issuer, will be authorized to conduct a commercially reasonable sale of such Notes to a permitted transferee and pending such transfer, no further payments will be made in respect of such Notes or any beneficial interest therein. See "Description of the Notes—Form of the Notes" and "Notice to Investors."

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates.

Document Repository. Pursuant to the Indenture, the Issuer will consent to the posting of this Offering Circular, the Indenture and certain periodic reports required to be delivered pursuant to the Transaction Documents, together with any amendments or modifications thereto, to the internet-based password protected electronic repository of transaction documents relating to privately offered and sold collateralized debt obligation securities located at "www.cdolibrary.com."

Implementation of Securities Regulation in Europe. As part of a coordinated action plan for harmonization of securities markets in Europe, the European Parliament and the Council of the European Union has adopted a series of directives, including the Prospectus Directive (2003/71/EC) the Transparency Directive (2004/109/EC) and the Market Abuse Directive (2003/6/EC) which aim to ensure investor protection and market efficiency in accordance with high regulatory standards across the European community. Pursuant to such directives member states have introduced, or are in the process of introducing, legislation into their domestic markets to implement the requirements of these directives. The introduction of such legislation has effected and will effect the regulation of issuers of securities that are offered to the public or admitted to trading on a European Union regulated market and the nature and content of disclosure required to be made in respect of such issuers and their related securities. The listing of Notes on any European Union stock exchange would subject the Issuers to regulation under these directives, although the requirements applicable to the Issuer are not yet fully clarified. The Indenture will not require the Issuer to apply for, list or maintain a listing for any Class of Notes on a European Union stock exchange if compliance with these directives (or other requirements adopted by the European Parliament and Council of the European Union or a relevant member state) becomes burdensome. Should the Notes be delisted from any exchange, the ability of the holders of such Notes to sell such Notes in the secondary market may be negatively impacted.

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EU Savings Directive. If, following implementation of European Council Directive 2003/48/EC, a payment were to be made or collected through a member state that opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor the Paying Agent nor any other person would be obliged to pay additional amounts as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a paying agent following implementation of this Directive, the Issuer will be required to maintain a paying agent in a member state that will not be obliged to withhold or deduct tax pursuant to the Directive.

Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall activities of the Credit Protection Buyer, the overall underwriting, investment and other activities of the Liquidation Agent, their respective affiliates and its clients and employees and from the overall investment activity of the Initial Purchaser, including in other transactions with the Issuer. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Credit Protection Buyer. GSI will be the initial Credit Protection Buyer. The following briefly summarizes some potential and actual conflicts of interests related to the Credit Protection Buyer, but the following isn't intended to be an exhaustive list of all such conflicts.

GSI and/or its affiliates may be in possession of information in relation to a Reference Entity or otherwise that is or may be material in the context of the Notes and may or may not be publicly available to Holders. None of GSI or any of its affiliates has any obligation to disclose to Holders any such information.

GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts for which they have investment discretion, in securities or in other interests in the Reference Entities, in obligations of the Reference Entities or in the obligors in respect of any Reference Obligations or Collateral Securities (the "Investments") or in credit default swaps (whether as protection buyer or seller), total return swaps or other instruments enabling credit and/or other risks to be traded that are linked to one or more Investments. Such investments, credit derivatives and/or instruments may have the same or different terms from any of the credit derivatives referred to in the terms of the Notes. In addition, GSI and/or any of its affiliates may invest and/or deal, for their own respective accounts or for accounts for which they have investment discretion, in securities (or make loans or have other rights) that are senior to, or have interests different from or adverse to, any of the Investments and may act as adviser to, may be lenders to, and may have other ongoing relationships with, the issuers or obligors of Investments and obligations of any Reference Entities. GSI may at certain times be simultaneously seeking to purchase or sell investments and/or protection under credit derivatives or other instruments enabling and/or other risks to be traded for any entity for which it serves as manager in the future.

Various potential and actual conflicts of interest may arise from the overall activities of GSI and/or any of its affiliates. GSI, its respective affiliates and the directors, officers, employees and agents of GSI and its respective affiliates may, among other things: (a) serve as directors, officers, partners, employees, agents, nominees or signatories for any Investment, any originator and/or servicer of or any other party interested in an Investment or the obligors in respect of the Investments; (b) receive fees for services of any nature rendered to any obligor in respect of the Investments or any originator and/or servicer of or any other party interested in the Investments; (c) be a secured or unsecured creditor of, or hold an equity interest in any obligor in respect of the Investments, any originator and/or servicer of or any other party interested in the Investments; (d) underwrite, act as a distributor of, or make a market in any Investments, or in the securities of any originator and/or servicer of or any other party interest in the Investments; (e) invest for its own account in the Investments or any other securities issued by any originator and/or servicer of or any other party interested in the Investments; (f) serve as a member of any "creditors' committee" with respect to any formal or informal workout group with respect to any obligor in respect of the Investments, any originator and/or servicer of or any other party interest in the Investments; (g) act as the adviser or investment adviser to any other person, entity or fund; and (h) maintain other relationships with any obligor in respect of the Investments, any originator and/or servicer of or any other party interested in the Investments.

Any Floating Amounts owed by the Issuer may be greater or less than the actual loss, if any, incurred by the Credit Protection Buyer with respect to the related Reference Obligation. The Credit Protection Buyer has no obligation to hold the Reference Obligations or to incur a loss in order to receive a credit protection payment. To

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the extent it holds a Reference Obligation, the Credit Protection Buyer or their respective affiliates, as the case may be, will have the right to exercise of all the voting and consent rights of a holder of such Reference Obligation and it will exercise those rights in such manner as it determines to be in its own commercial interests without regard to the Holders of the Notes.

The Liquidation Agent. GS&Co. will be the initial Liquidation Agent. Although the Liquidation Agent will exercise no discretion with respect to the Pledged Assets and the Liquidation Agent is not providing investment advisory services or acting as an advisor to, the Issuers or the Holders of the Notes, various potential and actual conflicts of interest may arise from the overall underwriting, investment and other activities of the Liquidation Agent, its affiliates and its clients. The Liquidation Agent is also the Initial Purchaser. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

The Liquidation Agent and/or its affiliates have ongoing relationships with, render services to, finance and engage in transactions with, and may own debt or equity securities issued by issuers of certain of the Reference Obligations and Collateral Securities. The Liquidation Agent, its affiliates and/or its clients may invest in securities that are senior or subordinated to, or have interests different from or adverse to, the Reference Obligations and Collateral Securities. The interests of such parties may be different than or adverse to the interests of the holders of the Notes. In addition, such persons may possess information relating to the Reference Obligations and Collateral Securities which is not known to the individuals at the Liquidation Agent responsible for performing its obligations under the Liquidation Agency Agreement. Such persons will not be required (and may not be permitted) to share such information or pass it along to the Issuer, the Liquidation Agent or any holder of any Notes. Neither the Liquidation Agent nor any of such person will have liability to the Issuer or any holder of any Notes for failure to disclose such information or for taking, or failing to take, any action based upon such information.

In addition, the Liquidation Agent and/or any of its affiliates may engage in any other business and furnish investment banking and other services to others which may include, without limitation, investing in, lending to, being affiliated with or have other ongoing relationships with, other entities organized to issue collateralized debt obligations secured by assets similar to the Reference Obligations, and the Collateral Securities and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. In providing services to other clients, the Liquidation Agent and its affiliates may engage in activities that would compete with or otherwise adversely affect the Issuer. In addition, the Liquidation Agent will be free, in its sole discretion, to effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Liquidation Agent and/or its affiliates may furnish investment banking or other services to others who may have investment policies similar to those followed by the Issuer and who may own securities of the same class, or which are the same type as, the Reference Obligations and the Collateral Securities on behalf of the Issuer. In addition, under certain circumstances the Liquidation Agent will be required to dispose of certain CDS Transactions which reference Reference Obligations in accordance with the procedures set forth in the Liquidation Agency Agreement. Such disposition of CDS Transactions which reference Reference Obligations may result in losses by the Issuer, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes by any of the Rating Agencies. In making any such sale, the Liquidation Agent need not take into account the interests of the Issuers, the Holders of the Notes or any other party. The Liquidation Agent and/or its affiliates may at certain times be simultaneously seeking to purchase or dispose of investments for their respective accounts or for another entity at the same time as it is disposing of investments for the Issuer. Accordingly, conflicts may arise regarding the allocation of sale opportunities.

No provision in the Liquidation Agency Agreement prevents the Liquidation Agent or any of its affiliates from rendering services of any kind to the issuer of any Reference Obligations or Collateral Securities and their respective affiliates, the Trustee, the holders of the Notes or any other entity. Without prejudice to the generality of the foregoing, the Liquidation Agent and its affiliates, directors, officers, employees and agents may, among other things: (a) serve as directors, partners, officers, employees, agents, nominees or signatories for an issuer of any Reference Obligations or Collateral Securities; (b) receive fees for services rendered to the issuer of any Reference Obligations or any affiliate thereof; (c) be a secured or unsecured creditor of, or hold an equity interest in, any issuer of any Reference Obligations or Collateral Securities; and (d) serve as a member of any "creditors' board" or "creditors' committee" with respect to any Reference Obligations or Collateral Securities which has become or may become a Defaulted Obligation.

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The Liquidation Agent or any of its affiliates or subsidiaries will be permitted to exercise all voting rights with respect to any Notes which they may acquire (other than with respect to a vote regarding the removal of the Liquidation Agent or the termination or assignment of the Liquidation Agency Agreement).

The Initial Purchaser. GS&Co. will be the Initial Purchaser. Various potential and actual conflicts of interest may arise from the conduct by the Initial Purchaser and its affiliates in other transactions with the Issuer, including, without limitation, acting as counterparty with respect to the Credit Default Swap. GS&Co. will also initially act as the Liquidation Agent under the Liquidation Agency Agreement. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

It is expected that the Initial Purchaser and/or its affiliates and selling agent will have placed or underwritten certain of the Reference Obligations and Collateral Securities at original issuance, will own equity or other securities of issuers of or obligors on Reference Obligations and Collateral Securities and will have provided investment banking services, advisory, banking and other services to issuers of Reference Obligations and Collateral Securities. The Issuer may invest in the securities of companies affiliated with the Initial Purchaser and/or any of its affiliates or in which the Initial Purchaser and/or any of its affiliates have an equity or participation interest. The purchase, holding and sale of such investments by the Issuer may enhance the profitability of the Initial Purchaser's and/or any of its affiliates' own investments in such companies. In addition, it is expected that one or more affiliates of the Initial Purchaser will also act as counterparty with respect to all of the CDS Transactions. The Issuer may invest in money market funds that are managed by the Initial Purchaser or its affiliates; provided that such money market funds otherwise qualify as Eligible Investments. GS&Co. and/or a consolidated entity controlled by GS&Co. or an affiliate thereof is providing "warehouse" financing to the Issuer prior to the Closing Date and GS&Co. selected the warehoused Credit Default Swap and Collateral Securities which will be sold to the Issuer on the Closing Date pursuant to the terms of the Forward Purchase Agreement. No collateral manager or other person acting on behalf of the Issuer has reviewed the prices established pursuant to such Forward Purchase agreement (nor has there been any third party verification of such prices). See "—Notes—Collateral Accumulation."

There is no limitation or restriction on the Initial Purchaser or any of its affiliates with regard to acting as investment advisor, initial purchaser or placement agent (or in a similar role) to other parties or persons. This and other future activities of the Initial Purchaser and/or its affiliates may give rise to additional conflicts of interest.

Anti-Money Laundering Provisions. The Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), signed into law on and effective as of October 26, 2001, imposes anti money laundering obligations on different types of financial institutions, including banks, broker dealers and investment companies. The USA PATRIOT Act requires the Secretary of the United States Department of the Treasury (the "Treasury") to prescribe regulations to define the types of investment companies subject to the USA PATRIOT Act and the related anti money laundering obligations. It is not clear whether the Treasury will require entities such as the Issuer to enact anti money laundering policies. It is possible that the Treasury will promulgate regulations requiring the Issuers or the Initial Purchaser or other service providers to the Issuers, in connection with the establishment of anti money laundering procedures, to share information with governmental authorities with respect to investors in the Secured Notes and/or the Income Notes. Such legislation and/or regulations could require the Issuers to implement additional restrictions on the transfer of the Secured Notes and/or the Income Notes. As may be required, the Issuer reserves the right to request such information and take such actions as are necessary to enable it to comply with the USA PATRIOT Act.

The Issuer. The Issuer is a recently incorporated Cayman Islands exempted company and has no substantial prior operating history. The Issuer will have no significant assets other than the CDS Transactions, the Collateral Securities, Eligible Investments, rights under the Credit Default Swap, rights under the Liquidation Agency Agreement, and certain other accounts and agreements entered into as described herein, and proceeds thereof, all of which have been pledged to the Trustee to secure the Issuer's obligations to the Holders of the Secured Notes and the Credit Protection Buyer. The Issuer will not engage in any business activity other than the issuance and sale of the Secured Notes and the Income Notes as described herein, the issuance of the Ordinary Shares, the entering into and performance of its obligations under the Credit Default Swap, the acquisition and disposition of Collateral Securities and Eligible Investments as described herein, the entering into of, and the performance of its obligations under, the Indenture, the Account Control Agreement, the Liquidation Agency Agreement, the Collateral Administration Agreement, any other applicable Transaction Document, the pledge of the

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Pledged Assets as security for its obligations in respect of the Secured Notes and otherwise for the benefit of the Secured Parties, certain activities conducted in connection with the payment of amounts in respect of the Secured Notes and the Income Notes and the management of the Pledged Assets and other activities incidental to the foregoing. Income derived from the Pledged Assets will be the Issuer's only source of cash.

The Co-Issuer. The Co-Issuer is a newly incorporated Delaware corporation and has no prior operating history. The Co-Issuer does not have and will not have any significant assets. The Co-Issuer will not engage in any business activity other than the co-issuance of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes.

Tax. See "Income Tax Considerations."

ERISA. See "ERISA Considerations."

Listing. Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any application will be made, that any such listing will be obtained or that, if it is obtained, that it will be maintained by the Issuer. If any Class or Classes of Notes are admitted to the official list of the Irish Stock Exchange, the Issuer may at any time terminate the listing of such Notes. If the Issuer terminates the listing, it may, but is under no obligation to, seek a replacement listing on another stock exchange.

DESCRIPTION OF THE NOTES

The Secured Notes will be issued by the Issuers pursuant to the Indenture. The Income Notes will be issued by the Issuer pursuant to the Fiscal Agency Agreement. The following summary describes certain provisions of the Notes, the Indenture and the Fiscal Agency Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Notes, the Indenture and the Fiscal Agency Agreement. Copies of the Indenture may be obtained by prospective purchasers of the Secured Notes upon request in writing to the Trustee at LaSalle Bank National Association, 181 W. Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group —Anderson Mezzanine Funding 2007-1, Ltd. (telephone number (312) 992-5312). Copies of the Fiscal Agency Agreement may be obtained by prospective purchasers of Income Notes upon request in writing to the Fiscal Agent at LaSalle Bank National Association, 181 W. Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group —Anderson Mezzanine Funding 2007-1, Ltd. (telephone number (312) 992-5312).

Status and Security

The Co-Issued Notes will be limited recourse obligations of the Issuers, secured as described below. The Income Notes will be limited recourse obligations of the Issuer, will not be secured obligations of the Issuer and will only be entitled to receive amounts available for payment to the Holders of the Income Notes after payment of all amounts payable prior thereto under the Priority of Payments. The Class S Notes will be senior in right of payment on each Payment Date to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes to the extent provided in the Priority of Payments. The Class A Notes will be senior in right of payment on each Payment Date to the Class B Notes, the Class C Notes, the Class D Notes and the Income Notes. Interest on the Class A-1a Notes, Class A-1b Notes and Class A-2 Notes will be paid *pro rata* (based upon amounts due). Payments of principal of the Class A-1 Notes will be either senior to or *pro rata* with payments of principal of the Class A-2 Notes as more fully described in the Priority of Payments. All principal allocated to the Class A-1 Notes will be allocated either (i) first to the Class A-1a Notes until the Class A-1a Notes are paid in full and then to the Class A-1b Notes until the Class A-1b Notes are paid in full) or (ii) *pro rata* to the Class A-1 Notes as more fully described in the Priority of Payments. The Class B Notes will be senior in right of payment on each Payment Date to the Class C Notes, the Class D Notes and the Income Notes. The Class C Notes will be senior in right of payment on each Payment Date to the Class D Notes and the Income Notes. The Class D Notes will be senior in right of payment on each Payment Date to the Income Notes. See "—Priority of Payments."

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Under the terms of the Indenture, the Issuer will grant to the Trustee, for the benefit and security of the Trustee on behalf of the Secured Notes, the Fiscal Agent, the Liquidation Agent and the Credit Protection Buyer (but only to the extent of (a) the Collateral Securities and Eligible Investments in the Collateral Account and (b) the Delivered Obligations in the Delivered Obligations Account) (collectively, the "Secured Parties"), a first-priority security interest in (i) the Credit Default Swap; (ii) the Interest Collection Account; (iii) the Payment Account; (iv) the Expense Reserve Account; (v) the Delivered Obligations Account; (vi) the Amortization Shortfall Account, (vii) the CDS Counterparty Collateral Account and (viii) the Collateral Account (including the Cash Collateral Account) (items (ii) through (viii), the "Accounts"); (ix) Eligible Investments; (x) the Issuer's rights under the Credit Default Swap; (xi) the Issuer's rights under the Collateral Administration Agreement, (xii) the Issuer's rights under the Liquidation Agency Agreement and (xiii) certain other property (collectively, the "Pledged Assets").

Payments of interest on and principal of the Secured Notes and payments to the Holders of the Income Notes, will be made solely from the proceeds of the Pledged Assets in accordance with the Priority of Payments.

The aggregate amount that will be available for payments required or permitted to be made on the Notes and of certain expenses of the Issuers, the Trustee and the Agents on any Payment Date will be the total amount of Proceeds received during the period (a "Due Period") ending on (and including) the fourth Business Day prior to such Payment Date (or, in the case of a Due Period that is applicable to the Payment Date relating to the Stated Maturity of any Note, ending on (and including) the day preceding such Payment Date), and commencing immediately following the fourth Business Day prior to the preceding Payment Date (or, in the case of the Due Period relating to the first Payment Date, on the Closing Date).

Interest on the Secured Notes

The Class S Notes will bear interest during each Interest Accrual Period at the Class S Note Interest Rate for such Interest Accrual Period. The Class A-1a Notes will bear interest during each Interest Accrual Period at the Class A-1a Note Interest Rate for such Interest Accrual Period. The Class A-1b Notes will bear interest during each Interest Accrual Period at the Class A-1b Note Interest Rate for such Interest Accrual Period. The Class A-2 Notes will bear interest during each Interest Accrual Period at the Class A-2 Note Interest Rate for such Interest Accrual Period. The Class B Notes will bear interest during each Interest Accrual Period at the Class B Note Interest Rate for such Interest Accrual Period. The Class C Notes will bear interest during each Interest Accrual Period at the Class C Note Interest Rate for such Interest Accrual Period. The Class D Notes will bear interest during each Interest Accrual Period at the Class D Note Interest Rate for such Interest Accrual Period. Interest with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will be payable monthly in arrears on each Payment Date, commencing on the July 2007 Payment Date. LIBOR for the first Interest Accrual Period with respect to the Secured Notes will be determined as of the second Business Day preceding the Closing Date. Calculations of interest on the Secured Notes will be made based on a 360-day year and the actual number of days in each Interest Accrual Period. The Holders of the Income Notes will receive on each Quarterly Payment Date any amount of Proceeds that are available for distribution thereon in accordance with the Priority of Payments on such Payment Date. The "Interest Accrual Period," is with respect to the Class S Notes, the Class A-1a Notes, the Class A-1b Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes and any Payment Date, the period commencing on and including the immediately preceding Payment Date (or the Closing Date in the case of the first Interest Accrual Period) and ending on and including the day immediately preceding such Payment Date.

If funds are not available on any Payment Date to pay the full amount of interest on the Class C Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class C Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of the Class C Notes and, to the extent lawful and enforceable, thereafter shall accrue interest at the Class C Note Interest Rate. If funds are not available on any Payment Date to pay the full amount of interest on the Class D Notes, or to the extent interest that is due on such Notes is not paid in order to satisfy certain Coverage Tests, the interest not paid (the "Class D Deferred Interest"), will not be due and payable on such Payment Date, but will be added to the principal amount of the Class D Notes and, to the extent lawful and enforceable, thereafter shall accrue interest at the Class D Note Interest Rate. So long as any Class S Notes, Class A Notes or Class B Notes are outstanding, the failure to pay interest to the Holders of the Class C Notes will not be an Event of Default under the Indenture. So long as any Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, the failure

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to pay interest to the Holders of the Class D Notes will not be an Event of Default under the Indenture. See "—Priority of Payments" and "—The Indenture—Events of Default."

Interest will cease to accrue on each Secured Note from the date of repayment in full or Stated Maturity, or in the case of partial repayment, on such part, unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments of principal. See "—Principal." To the extent lawful and enforceable, interest on any Defaulted Interest on each Class of Secured Notes entitled thereto will accrue at the interest rate applicable to such Class of Notes, until paid as provided herein. "Defaulted Interest" means any interest due and payable in respect of any Class S Note, Class A Note or Class B Note or if there are no Class S Notes, Class A Notes or Class B Notes outstanding, any Class C Note or if there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Note which, in any such case, is not punctually paid or duly provided for on the applicable Payment Date or at Stated Maturity, as the case may be.

Determination of LIBOR

For purposes of calculating each of the Note Interest Rates, the Issuers will appoint as agent LaSalle Bank National Association (in such capacity, the "Note Calculation Agent"). LIBOR shall be determined by the Note Calculation Agent in accordance with the following provisions:

(i) On the second Business Day prior to the commencement of an Interest Accrual Period (each such day, a "LIBOR Determination Date"), LIBOR ("LIBOR") shall equal the rate, as obtained by the Note Calculation Agent, for Eurodollar deposits for, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, a one-month period (or, in the case of a designated initial payment period of less than 25 days or, in the case of the first Interest Accrual Period, the linear interpolation thereof, calculated in accordance with generally acceptable methodology, which appears on Bridge Telerate Page 3750 (as Telerate is defined in the International Swaps and Derivatives Association, Inc. Annex to the 2000 ISDA Definitions (June 2000 version)), or such page as may replace Bridge Telerate Page 3750, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Bridge Telerate Page 3750, or such page as may replace Bridge Telerate Page 3750, the Note Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for Eurodollar deposits for, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, a one month period (or, in the case of a designated initial payment period of less than 25 days or, in the case of the first Interest Accrual Period, the linear interpolation thereof, calculated in accordance with generally acceptable methodology, in an amount determined by the Note Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Note Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in the City of New York selected by the Note Calculation Agent (after consultation with the Issuer or the Liquidation Agent on behalf of the Issuer) are quoting on the relevant LIBOR Determination Date for Eurodollar deposits for the applicable period in an amount determined by the Note Calculation Agent (after consultation with the Issuer or the Liquidation Agent on behalf of the Issuer) by reference to the principal London offices of leading banks in the London interbank market; *provided, however*, that if the Note Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be LIBOR as determined on the most recent date LIBOR was available. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Note Calculation Agent (after consultation with the Issuer or the Liquidation Agent on behalf of the Issuer).

As soon as possible after 11:00 a.m. (New York time) on each LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Note Calculation Agent will cause notice of each of the Note Interest Rates for the next Interest Accrual Period and the amount of interest for such Interest Accrual Period payable in respect of each U.S.$1,000 principal amount of the Class S Notes (the "Class S Note Interest Amount"), of the Class A-1a Notes (the "Class A-1a Note Interest Amount"), of the Class A-1b Notes (the "Class A-1b Note Interest Amount"), of the Class A-2 Notes (the

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"Class A-2 Note Interest Amount") of the Class B Notes (the "Class B Note Interest Amount"), of the Class C Notes (the "Class C Note Interest Amount"), and of the Class D Notes (the "Class D Note Interest Amount") (collectively, the "Note Interest Amounts") (each rounded to the nearest cent, with half a cent being rounded upward) on the related Payment Date, to be communicated to the Issuers, DTC, Euroclear, Clearstream, the Note Paying Agents, the Trustee, the Liquidation Agent, the Securities Intermediary and the Irish Paying Agent (if any) for further delivery to the Irish Stock Exchange (so long as any Class of Notes is listed on such exchange). In the last case, the Note Calculation Agent will furnish such information as soon as possible after its determination to the Irish Paying Agent (if any) as long as any Notes are listed on the Irish Stock Exchange. The Note Interest Amount on any Payment Date of any Class of Notes shall be calculated based on the Outstanding principal balance of such Class prior to the payment of any Amortization Shortfall Amounts. The Note Calculation Agent will also specify to the Issuers and the Liquidation Agent the quotations upon which each of the Note Interest Rates are based. The Note Calculation Agent shall notify the Issuers and the Liquidation Agent before 12:00 p.m. (New York time) on any LIBOR Determination Date if it has not determined and is not in the process of determining the applicable Note Interest Rates and Note Interest Amounts (collectively, the "Interest Calculations"), together with its reasons therefor. "Business Day" means any day other than (x) Saturday or Sunday or (y) a day on which commercial banking institutions are authorized or obligated by law, regulation or executive order to close in New York, New York, Chicago, Illinois, the city of the Corporate Trust Office or, for the purposes of the Credit Default Swap only, London; provided, however, that for the sole purpose of determining LIBOR, "Business Day" shall be defined as any day on which dealings in deposits in U.S. Dollars are transacted in the London interbank market and provided further, that to the extent action is required of the Irish Paying Agent (if any), the location of such Irish Paying Agent shall be considered in determining the "Business Day" for purposes of determining when such Irish Paying Agent action is required.

The Note Calculation Agent may not be removed by the Issuers unless the entity that is serving as Trustee is removed as Trustee. If the Note Calculation Agent is unable or unwilling to act as such or, in accordance with the preceding sentence, is removed by the Issuers, or if the Note Calculation Agent fails to determine the applicable Interest Calculations for any Interest Accrual Period, the Issuers will promptly appoint as a replacement Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market and which does not control or is not controlled by or under common control with the Issuers or their affiliates. The Note Calculation Agent may not resign its duties without a successor having been duly appointed. In addition, if and for so long as any Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, notice of the appointment of any Note Calculation Agent will be furnished to such stock exchange. For so long as any of the Notes remain outstanding, there will at all times be a Note Calculation Agent for the purpose of calculating the applicable Interest Calculations. The determination of the applicable Interest Calculations by the Note Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

Payments on the Income Notes

The Income Notes will not bear interest based upon any fixed or floating rate.

The Fiscal Agent will receive Proceeds on each Quarterly Payment Date (and make payments to the Holders of the Income Notes) to the extent provided in the Indenture, if any, such Proceeds are available pursuant to clause (xviii) (or pursuant to clause (viii) in the case of the Final Payment Date) under "—Priority of Payments." Such payments will be made on the Income Notes only after all interest and other payments due on the Secured Notes have been made and all expenses of the Issuers have been paid (with such remaining Proceeds referred to as "Excess Amounts"). See "Risk Factors—Notes——Subordination of the Income Notes; Unsecured Obligations."

Except as indicated in the Priority of Payments, no principal payments will be made on the Income Notes until principal of, and accrued and unpaid interest on, the Secured Notes, and all other payments, certain fees and expenses, have been paid in full in accordance with the Priority of Payments.

Principal

The Notes (other than the Class S Notes) will mature on the Payment Date in July 2042 (each such date the "Stated Maturity" with respect to such Notes) and the Class S Notes will mature on the Payment Date in July 2013

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(the "Stated Maturity" with respect to the Class S Notes). The average life of each Class of Secured Notes (other than the Class S Notes) is expected to be substantially shorter than the number of years from issuance until the Stated Maturity for such Class of Notes. See "Risk Factors—Notes—Average Lives, Duration and Prepayment Considerations."

Principal will be payable on the Class S Notes in accordance with the Priority of Payments on each Payment Date commencing on the Payment Date occurring in August 2007 in an amount equal to the Class S Notes Amortizing Principal Amount with respect to such Payment Date and, if an Event of Default or Tax Event has occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, the Class S Notes will be paid in full prior to any distributions to any other Notes. Principal will be payable on certain of the Notes on each Payment Date, in accordance with the Priority of Payments. On any Payment Date, on which certain conditions are satisfied, principal will be paid to the Holders of the Class A Notes pursuant to the Priority of Payments, only in an amount required to increase (or maintain) the Class A Adjusted Overcollateralization Ratio to a specified target of 147.1%. After achieving and maintaining such target and minimum, the payment of remaining principal will shift to the Holders of the Class B Notes until such Holders have been paid an amount required to increase (or maintain) the Class B Adjusted Overcollateralization Ratio to the specified target of 121.0%. After achieving and maintaining such target level, the payment of remaining principal shifts to the Holders of the Class C Notes which will receive principal only in an amount required to increase (or maintain) the Class C Adjusted Overcollateralization Ratio to a specified target of 114.7%. After achieving and maintaining such target level, the payment of remaining principal shifts to the Holders of the Class D Notes which will receive principal only in an amount required to increase (or maintain) the Class D Adjusted Overcollateralization Ratio to a specified target of 108.1%. However, if the Net Outstanding Portfolio Collateral Balance is less than U.S.$122,000,000 on the Determination Date with respect to the related Payment Date, then only the amount described above to be paid to the Class A Notes will be allocated or paid, such amount to be allocated, *first*, to the payment pro rata of principal of all outstanding Class A Notes (*provided, however*, that all principal allocated to the Class A-1 Notes will first be allocated to the Class A-1a Notes until the Class A-1a Notes are paid in full and then to the Class A-1b Notes until the Class A-1b Notes are paid in full) until the Class A Notes have been paid in full, *second*, to the payment of principal of all outstanding Class B Notes until the Class B Notes have been paid in full, *third*, to the payment of principal of all outstanding Class C Notes until the Class C Notes have been paid in full and *fourth*, to the payment of all outstanding Class D Notes until the Class D Notes have been paid in full. The foregoing "shifting principal" method permits Holders of the Class B Notes, the Class C Notes and the Class D Notes to receive payments of principal in accordance with the Priority of Payments while more senior Classes of Notes remain outstanding and permits distributions of Proceeds to the Holders of the Income Notes, to the extent funds are available in accordance with the Priority of Payments, while more senior Notes are outstanding. Amounts properly paid pursuant to the Priority of Payments to a junior Class of Secured Notes or to the Income Notes will not be recoverable in the event of a subsequent shortfall in the amount required to pay a more senior Class of Secured Notes.

Subject to the availability of funds therefor in accordance with the Priority of Payments, if any of the Coverage Tests are not satisfied on any applicable Determination Date, certain of the Secured Notes (other than the Class S Notes) will be subject to mandatory redemption on the related Payment Date until paid in full. See "—Mandatory Redemption" and the "—Priority of Payments" for a description of the order in which such Notes are paid in connection with the failure of a Coverage Test.

Scheduled Redemption of Income Notes

On or prior to the date that is one (1) Business Day prior to the end of the Due Period applicable to the Maturity Date, the Liquidation Agent will sell, assign, terminate or otherwise dispose of all remaining Pledged Assets. The settlement dates for any such sales or other dispositions shall be no later than one (1) Business Day prior to the end of such Due Period. The proceeds of such sales or other dispositions will be paid to the Fiscal Agent after the payment of amounts senior to the Holders of the Income Notes in the Priority of Payments for deposit into the account maintained therefore by the Fiscal Agent (the "Income Note Payment Account") and payment to the Holders of the Income Notes as the redemption price for the Income Notes upon such payment. Upon such payment, the Issuer shall redeem the Income Notes.

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Auction

Sixty (60) days prior to the Payment Date occurring in July of each year (each, an "Auction Date") commencing on the July 2015 Payment Date, the Liquidation Agent, on behalf of the Issuer, will take steps to conduct an auction (the "Auction") of the Credit Default Swap, the Eligible Investments (other than cash), the Delivered Obligations and the Collateral Securities in accordance with procedures specified in the Indenture. If the Liquidation Agent receives one or more bids from Eligible Bidders not later than ten (10) Business Days prior to the Auction Date, which, when added to the cash on deposit in the Collateral Account, equals or exceeds the Minimum Bid Amount, it will sell, assign, terminate or otherwise dispose of the Credit Default Swap, Eligible Investments (other than cash), the Delivered Obligations and the Collateral Securities for settlement on or before the fifth Business Day prior to such Auction Date and the Notes and the Income Notes will be redeemed in whole on such Auction Date (any such date, an "Auction Payment Date"). The Liquidation Agent and its affiliates shall be considered Eligible Bidders. If the highest single bid on the entire portfolio, or the aggregate amount of multiple bids with respect to individual Collateral Securities, Eligible Investments (other than cash) and Delivered Obligations, when added to the other Liquidation Proceeds and cash on deposit in the Collateral Account, does not equal or exceed the Minimum Bid Amount or if there is a failure at settlement, the Credit Default Swap will not be terminated or assigned, the Eligible Investments (other than cash), Collateral Securities and the Delivered Obligations will not be sold and the redemption of the Notes on the related Auction Date will not occur.

The Secured Notes will be redeemed in whole at the applicable Secured Note Redemption Price following a successful Auction in accordance with the Priority of Payments. The amount distributable as the final payment on the Income Notes following any such redemption will equal the Income Note Redemption Price, which may be less than the then current Aggregate Outstanding Amount of the Income Notes).

Tax Redemption

Subject to certain conditions described herein, the Secured Notes may be redeemed by the Issuers at any time, in whole but not in part, 90 days following the Issuers becoming aware of the occurrence of a Tax Event (*provided* that such 90-day period shall be extended by another 90 days if, during the initial 90-day period, the Issuers have notified the Holders of the Notes that the related Issuer expects that it shall have changed its place of residence by the end of the later 90-day period) at their Secured Note Redemption Prices or the Income Note Redemption Price, as applicable, at the written direction of, or with the written consent of, (i) the Holders of at least a Super Majority of the Income Notes or (ii) the Holders of a Majority of any Class of Secured Notes which, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest or other amounts then due and payable on such Notes on any Payment Date (such redemption, a "Tax Redemption"); *provided* that no such redemption shall be effected unless the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. If a Tax Redemption occurs, the Income Notes will be redeemed simultaneously. No such Tax Redemption will occur unless all amounts payable to the Credit Protection Buyer or any assignee (including all Credit Default Swap Termination Payments) will have been paid in full, in each case, on the related redemption date.

In connection with a Tax Redemption, the Issuers shall notify the Trustee and the Fiscal Agent, of such Tax Redemption and the Payment Date which is the date for redemption (the "Tax Redemption Date") and direct the Trustee, in writing, to assign, terminate or otherwise dispose of, in the manner determined by the Liquidation Agent, and in accordance with the Indenture, the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations and upon any such assignment, termination or other disposition, the Trustee shall release the lien upon the Credit Default Swap or any such Collateral Security, Eligible Investment and Delivered Obligation pursuant to the Indenture; *provided, however*, that the Issuer may not direct the Trustee to assign, terminate or otherwise dispose of (and the Trustee shall not be obligated to release the lien upon) the Credit Default Swap or any such Collateral Security, Eligible Investment or Delivered Obligation except in accordance with the procedures set forth in the Indenture including, without limitation, the requirement that the Liquidation Agent shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the disposition of the Pledged Assets will equal or exceed the Total Redemption Amount. The proceeds available for distribution in connection with a Tax Redemption will be reduced by the amount of expected Credit Default Swap Termination Payments due to the Credit Protection Buyer or any assignee.

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The amount payable to the Holders of the Secured Notes in connection with any Tax Redemption of the Secured Notes will equal the Secured Note Redemption Prices thereof. The amount distributable as a final redemption payment on the Income Notes following any redemption of the Secured Notes will equal the Income Note Redemption Price.

Optional Redemption

Subject to certain conditions described herein, the Secured Notes may be redeemed by the Issuers and the Income Notes may be redeemed by the Issuer, in whole but not in part at their Secured Note Redemption Prices or the Income Note Redemption Price, as applicable, on any Payment Date on or after the July 2010 Payment Date, at the written direction of, or with the written consent of, the Holders of a Majority of the Income Notes (including Income Notes held by the Liquidation Agent or any affiliate thereof) (such redemption, an "Optional Redemption"); *provided* that no Optional Redemption shall be effected unless the expected Liquidation Proceeds will equal or exceed the Total Redemption Amount. If the Holders of the Income Notes so elect to cause an Optional Redemption, the Income Notes will be redeemed simultaneously.

In connection with an Optional Redemption, the Issuers shall notify the Trustee and the Fiscal Agent, as applicable, of such Optional Redemption and the Optional Redemption Date and direct the Trustee, in writing, to sell, assign, terminate or otherwise dispose of, in the manner determined by the Liquidation Agent, and in accordance with the Indenture, the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations and upon any such sale, assignment, termination or other disposition, the Trustee shall release the lien upon the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations pursuant to the Indenture; *provided, however*, that the Issuer may not direct the Trustee to assign, terminate or otherwise dispose of (and the Trustee shall not be obligated to release the lien upon) the Credit Default Swap or any Collateral Security, Eligible Investment or Delivered Obligation except in accordance with the procedures set forth in the Indenture including, without limitation, the requirement that the Liquidation Agent shall have forwarded to the Trustee binding agreements or certificates evidencing that the Liquidation Proceeds anticipated from the assignment, termination or other disposition of the Credit Default Swap, Collateral Securities, Eligible Investments and Delivered Obligations and other assets of the Issuer will equal or exceed the Total Redemption Amount.

The amount payable to the Holders of the Secured Notes in connection with any Optional Redemption of the Secured Notes will equal the Secured Note Redemption Prices thereof. The amount distributable as a final redemption payment on the Income Notes following any redemption of the Secured Notes will equal the Income Note Redemption Price.

Optional Redemption/Tax Redemption Procedures. To conduct an Optional Redemption or a Tax Redemption, the procedures set forth in the Indenture must be followed and any conditions precedent thereto must be satisfied.

If in the case of a Tax Redemption or an Optional Redemption of the Secured Notes and the Income Notes, any Holder of an Income Note or, in the case of a Tax Redemption, any Holder of a Secured Note affected by a Tax Event, desires to direct the Issuers with respect to the Secured Notes and the Issuer with respect to the Income Notes to redeem the Secured Notes and the Income Notes, such person shall notify the Principal Note Paying Agent, in the case of a Holder of Secured Notes or the Fiscal Agent, in the case of a Holder of Income Notes, which in each case will in turn notify the Trustee (with a copy to the Issuer, the Liquidation Agent and the Credit Protection Buyer) of such desire in writing no less than thirty (30) Business Days prior to such Payment Date. Such notice shall be irrevocable.

The Trustee will provide notice of any Optional Redemption or Tax Redemption by first-class mail, postage prepaid, mailed not less than ten (10) Business Days prior to the scheduled Tax Redemption Date or Optional Redemption Date, as applicable, to the Principal Note Paying Agent, to the Fiscal Agent, to the Credit Protection Buyer, the Rating Agencies and to each Holder of a Secured Note at such Holder's address in the register maintained by the Note Registrar under the Indenture. The Fiscal Agent will provide the same notice to each Holder of an Income Note at such Holder's address in the Income Notes Register maintained by the Income Notes Transfer Agent pursuant to the Fiscal Agency Agreement. In addition, the Trustee or the Fiscal Agent will, if and for so long as any Class of Secured Notes or the Income Notes to be redeemed is listed on the Irish Stock Exchange, direct the

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Irish Paying Agent to (i) cause notice of such Optional Redemption or Tax Redemption to be delivered to the Company Announcements Office of the Irish Stock Exchange not less than ten (10) Business Days prior to the Redemption Date and (ii) promptly notify the Irish Stock Exchange of such Optional Redemption or Tax Redemption.

The initial paying agents for the Notes are LaSalle Bank National Association, as Principal Note Paying Agent, and, if and so long as any Notes are listed on the Irish Stock Exchange, the Irish Paying Agent.

Secured Notes or Income Notes called for redemption (other than in the case of an Auction) must be surrendered at the office of any paying agent appointed under the Indenture or the Fiscal Agency Agreement, respectively, in order to receive any final payments on the Notes. The initial paying agent for the Secured Notes and Income Notes is LaSalle Bank National Association and if and for so long as any Notes are listed on the Irish Stock Exchange, the Irish Paying Agent.

Any such notice of redemption will be deemed to be withdrawn in its entirety by the Issuers on the seventh Business Day prior to the scheduled redemption date if the Liquidation Agent shall not have delivered the sale agreement or agreements or certifications, required by the Indenture by such date. In such event, the Trustee shall notify the Fiscal Agent that the notice of redemption has been withdrawn by overnight courier guaranteeing next day delivery sent not later than the sixth Business Day prior to such scheduled redemption date with a copy by facsimile transmission. The Liquidation Agent shall be liable only for the failure to effect an Optional Redemption or Tax Redemption due to the Liquidation Agent's gross negligence or willful misconduct. Notice of any such withdrawal shall be given at the Issuer's expense by the Trustee or the Fiscal Agent, as applicable, to each Holder of a Note at the address appearing in the applicable register maintained by the Note Transfer Agent under the Indenture or the Income Notes Transfer Agent under the Fiscal Agency Agreement, as applicable, by overnight courier guaranteeing next day delivery sent not later than the third Business Day prior to the scheduled redemption date, with a copy by facsimile transmission to the Credit Protection Buyer, the Liquidation Agent and the Rating Agencies (so long as any of the Notes are rated). The Trustee or the Fiscal Agent will also give notice to the Irish Paying Agent if any Notes are then listed on the Irish Stock Exchange.

Mandatory Redemption

On any Payment Date on which the Class A/B Overcollateralization Test was not satisfied on the last Business Day of the immediately preceding Due Period (such Business Day, the "Determination Date"), the Class A Notes and the Class B Notes will be redeemed at par plus accrued interest as follows:

If the Class A/B Overcollateralization Test is not satisfied on any Determination Date related to a Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to clause (vii) or clauses (ix) and (xi) of the Priority of Payments), all Proceeds net of amounts payable under clauses (i) through (vi) of the Priority of Payments will be used, *first, pro rata,* to the payment of principal of the Class A-1a Notes and the Class A-1b Notes until the Class A-1a Notes and the Class A-1b Notes are paid in full, *second,* to the payment of principal of the Class A-2 Notes until the Class A-2 Notes are paid in full, and *third,* to the payment of principal of the Class B Notes until the Class B Notes are paid in full. The Class S Notes, the Class C Notes, the Class D Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Class A/B Overcollateralization Test.

If the Class C Overcollateralization Test is not satisfied on any Determination Date related to a Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to clause (ix) or clause (xi) of the Priority of Payments), (a) Amortization Proceeds only net of amounts payable under clauses (i) through (viii) of the Priority of Payments will be applied *pro rata* (i) to the payment of principal of all outstanding Class A Notes, (ii) to the payment of principal of all outstanding Class B Notes and (iii) to the payment of principal of all outstanding Class C Notes, until the Class A Notes, the Class B Notes and the Class C Notes are paid in full; *provided* that, if the Net Outstanding Portfolio Collateral Balance is less than U.S.$152,500,000 on the Determination Date with respect to the related Payment Date, then such amount will be applied *first, pro rata* (i) to the payment of principal of the Class A-1a Notes and the Class A-1b Notes until the Class A-1a Notes and the Class A-1b Notes are paid in full, *second* (ii) to the payment of principal of the Class A-2 Notes until the Class A-2 Notes are paid in full, *third* (iii) to the payment of principal of the Class B Notes until the

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Class B Notes are paid in full and *fourth* (iv) to the payment of principal of the Class C Notes until the Class C Notes are paid in full, and (b) any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full. The Class S Notes, the Class D Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Class C Overcollateralization Test.

If the Class D Overcollateralization Test is not satisfied on any Determination Date related to a Payment Date (together with the Class A/B Overcollateralization Test and the Class C Overcollateralization Test, the "Coverage Tests"), amounts available pursuant to clause (xii) of the Priority of Payments, will be applied to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full. The Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Income Notes will not be subject to mandatory redemption as a result of the failure of the Class D Overcollateralization Test.

The Coverage Tests will be used primarily to determine whether interest may be paid on the Class C Notes and the Class D Notes and whether Proceeds will be distributed to the Holders of the Income Notes, and whether Proceeds must be used to make mandatory redemptions of the Class A-1a Notes, the Class A-1b Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes. See "Description of the Notes—Principal" and "—Priority of Payments." The Coverage Tests will consist of the Class A/B Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test. For purposes of the Coverage Tests, (i) unless otherwise specified, a CDS Transaction shall be included as a Pledged Asset having the characteristics of the Reference Obligation and not of the CDS Transaction; *provided*, that if such Credit Protection Buyer is in default under the related CDS Transaction, such CDS Transaction shall not be included as a Collateral Asset for purposes of the Coverage Tests or such CDS Transaction will be treated in such a way that will satisfy the Rating Agency Condition and (ii) the calculation of the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio and the Class D Overcollateralization Ratio on any Determination Date that such Coverage Test is applicable shall be made by giving effect to all payments scheduled or expected to be made pursuant to the Priority of Payments on the Payment Date following such Determination Date. For purposes of each of the Class A/B Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test, notwithstanding the definition of Principal Balance contained herein, the Principal Balance of any security that is not currently paying cash interest (excluding any security that is, in accordance with its terms, making payments due thereon "in kind") shall be the accreted value of such security as of the date on which it was purchased by the Issuer; *provided*, that such accreted value shall not exceed the par amount of such security.

The Class A/B Overcollateralization Test

The "Class A/B Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes, *minus* the Amortization Proceeds expected to be available prior to clause (xi) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class A/B Overcollateralization Test" will be satisfied on any Determination Date on which any Class A Notes or Class B Notes remain outstanding if the Class A/B Overcollateralization Ratio on such Determination Date is equal to or greater than 116.0%. As of the Closing Date, the Class A/B Overcollateralization Ratio is expected to be equal to 119.0%.

The Class C Overcollateralization Test

The "Class C Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the Aggregate Outstanding Amount of the Notes (other than the Class S Notes, the Class D Notes and the Income Notes and including Class C Deferred Interest), *minus* the Amortization Proceeds expected to be available prior to clause (xi) of the Priority of Payments on the related Payment Date assuming that the Coverage Tests are satisfied.

The "Class C Overcollateralization Test" will be satisfied on any Determination Date on which any Class C Notes remain outstanding if the Class C Overcollateralization Ratio on such Determination Date is equal to or

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greater than 109.9%. As of the Closing Date, the Class C Overcollateralization Ratio is expected to be equal to 111.7%.

The Class D Overcollateralization Test

The "Class D Overcollateralization Ratio" as of any Determination Date will equal the ratio (expressed as a percentage) obtained by dividing (i) the Net Outstanding Portfolio Collateral Balance on such Determination Date by (ii) the Aggregate Outstanding Amount of the Notes (other than the Class S Notes and Income Notes and including Class C Deferred Interest and Class D Deferred Interest), (after giving effect to the application of funds pursuant to clause (xi) of the Priority of Payments on the related Payment Date), assuming that the Coverage Tests are satisfied.

The "Class D Overcollateralization Test" will be satisfied on any Determination Date on which any Class D Notes remain outstanding if the Class D Overcollateralization Ratio on such Determination Date is equal to or greater than 105.9%. As of the Closing Date, the Class D Overcollateralization Ratio is expected to be equal to 107.4%.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Payments

Payments on any Payment Date in respect of principal of and interest on the Notes issued as Global Notes will be made to the person in whose name the relevant Global Note is registered at the close of business on the Business Day prior to such Payment Date. For the Notes issued in definitive form, payments on any Payment Date in respect of principal, interest and other distributions will be made to the person in whose name the relevant Security is registered as of the close of business 10 Business Days prior to such Payment Date. Payments on the Global Notes will be payable by wire transfer in immediately available funds to a U.S. Dollar account maintained by DTC or its nominee (in the case of the Global Notes) or each Holder (in the case of individual Definitive Notes) to the extent practicable or otherwise by U.S. Dollar check drawn on a bank in the United States sent by mail either to DTC or its nominee (in the case of the Global Notes), or to each Holder at its address appearing in the applicable register. Final payments in respect of principal on the Notes will be made only against surrender of the Notes at the office of any paying agent. None of the Issuers, the Securities Intermediary, the Trustee, the Liquidation Agent, the Credit Protection Buyer or any paying agent will have any responsibility or liability for any aspects of the records maintained by DTC or its nominee or any of its participants relating to, or for payments made thereby on account of beneficial interests in, a Global Note.

The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note held by DTC or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

If any payment on a Note is due on a day that is not a Business Day, then payment will not be made until the next succeeding Business Day.

If and for so long as the Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, the Issuers will have a paying agent and a transfer agent in accordance with the requirements of the rules of such exchange for such Notes and payments on and transfers or exchanges of interest in such Notes may be effected through the Irish Paying Agent. In the event that the Irish Paying Agent (if any) is replaced at any time during such

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period, notice of the appointment of any replacement will be given to the Irish Stock Exchange if and as long as any Notes are listed thereon.

Amortization Amounts

Two Business Days prior to each Payment Date, to the extent there is a positive Aggregate Amortization Amount for such Payment Date determined as of the related Determination Date, pursuant to the Amortization Liquidation Procedure, an amount (such amount, the "Amortization Proceeds" with respect to such Payment Date) equal to up to the Aggregate Amortization Amount shall be withdrawn by the Trustee and deposited in the Payment Account for application in accordance with the Priority of Payments on such Payment Date.

If on any Payment Date there exists an Amortization Shortfall Amount, the Collateral Account Amount shall be deemed to be reduced by the full Aggregate Amortization Amount and the Trustee shall calculate, and maintain a record of, how such Amortization Shortfall Amount would have been paid out on a pro forma basis on such Payment Date in accordance with the Priority of Payments had the amount available pursuant to the Amortization Liquidation Procedure from the Collateral Account on such Payment Date been equal to the full Aggregate Amortization Amount. In each Due Period relating to the Payment Date or Payment Dates immediately following any Payment Date on which an Amortization Shortfall Amount occurred, all principal payments received by the Issuer on the Collateral Securities and the Eligible Investments in the Collateral Account up to an amount equal to such Amortization Shortfall Amount shall be deposited by the Trustee in the Amortization Shortfall Account. Amounts on deposit in the Amortization Shortfall Account shall be applied by the Trustee on the immediately following Payment Date for the purposes and to the Persons that would have otherwise received such amounts in accordance with the calculations (and records) of the Trustee maintained pursuant to the first sentence of this paragraph. To the extent there remains any unsatisfied Amortization Shortfall Amount on the next Payment Date, for purposes of calculating the Amortization Proceeds on such Payment Date the Principal Balance of the Collateral Securities and Eligible Investments on deposit in the Collateral Account shall be reduced by the amount of any unsatisfied Amortization Shortfall Amount from any prior Payment Date.

Priority of Payments

With respect to any Payment Date, all Proceeds received on the Pledged Assets during the related Due Period in the Interest Collection Account will be applied by the Trustee in the priority set forth below (the "Priority of Payments"). For purposes of the Priority of Payments, amounts paid as interest, fees or distributions on the Notes on a "*pro rata*" basis shall be *pro rata* based on the amount due on such Class or subclass of Notes, amounts paid as principal shall be made *pro rata* based on the amount of principal then outstanding on such Class or subclass of Notes and unless stated otherwise, Proceeds not constituting Amortization Proceeds will be assumed to be applied prior to any Amortization Proceeds.

Amounts due in respect of Defaulted Credit Default Swap Termination Payments shall be deposited into the Payment Account and paid in accordance with the Priority of Payments on each Payment Date. Credit Protection Amounts due to the Credit Protection Buyer (or any assignee thereof) will be paid when due pursuant to the terms of the Credit Default Swap.

On the Business Day prior to each Payment Date (other than a Final Payment Date), the Trustee will transfer all funds then on deposit in the Interest Collection Account (other than amounts received after the end of the related Due Period) into the Payment Account. On each Payment Date (other than a Final Payment Date), amounts in the Payment Account will be applied by the Trustee pursuant to the Note Valuation Report in the manner and order of priority set forth below:

i. to the payment of taxes and filing and registration fees (including, without limitation, annual return fees) owed by the Issuers, if any;

ii. to the payment of accrued and unpaid fees of the Trustee up to a maximum amount on any Payment Date equal to the greater of U.S.$2,083 and 0.00208% of the Monthly Asset Amount for

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the related Due Period (or, in the case of the first Due Period, as such amounts are adjusted based on the number of days in such Due Period);

iii. (a) *first*, to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers, excluding any indemnities (and legal expenses related thereto) payable by the Issuers *first*, to the Trustee, the Collateral Administrator, the Fiscal Agent and the Income Notes Transfer Agent and *second*, *pro rata*, to any other parties entitled thereto; (b) second, to the payment of any indemnities (and legal expenses related thereto) payable by the Issuers *first*, to the Trustee, the Collateral Administrator and the Fiscal Agent and *second*, *pro rata*, to any other parties entitled thereto; and (c) third, to the Expense Reserve Account the lesser of U.S.$50,000 and the amount necessary to bring the balance of such account to U.S.$200,000; *provided*, *however*, that the aggregate payments pursuant to subclauses (a) through (c) of this clause (iii) on any Payment Date shall not exceed U.S.$250,000 and the aggregate payments pursuant to subclauses (a) and (b) of this clause (iii) and the prior 11 Payment Dates shall not exceed U.S.$300,000;

iv. to the payment of, (a) *first*, accrued and unpaid interest on the Class S Notes (including Defaulted Interest and interest thereon) and beginning with the Payment Date occurring in August 2007, principal of the Class S Notes in an amount equal to the Class S Notes Amortizing Principal Amount until the Class S Notes are paid in full, and (b) *second*, if an Event of Default or Tax Event shall have occurred and is continuing or an Optional Redemption or Auction has occurred and the Pledged Assets are being liquidated pursuant to the terms of the Indenture, to the payment of principal to the Class S Notes until the Class S Notes are paid in full;

v. to the payment to the Liquidation Agent of the accrued and unpaid Liquidation Agent Fee;

vi. to the payment of, (a) first, *pro rata*, accrued and unpaid interest on the Class A Notes (including any Defaulted Interest and interest thereon) and (b) second, accrued and unpaid interest on the Class B Notes (including any Defaulted Interest and any interest thereon);

vii. if the Class A/B Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to this clause (vii) or clauses (ix) and (xi) below), then *first*, *pro rata*, to the payment of principal of all outstanding Class A-1a Notes and Class A-1b Notes until the Class A-1a Notes and the Class A-1b Notes are paid in full, *second*, to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, and *third*, to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full;

viii. to the payment of accrued and unpaid interest on the Class C Notes (including Defaulted Interest and any interest thereon but not including Class C Deferred Interest);

ix. if the Class C Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to this clause (ix) or clause (xi) below), then (a) *pro rata*, Amortization Proceeds only (i) to the payment of principal of all outstanding Class A Notes, (ii) to the payment of principal of all outstanding Class B Notes and (iii) to the payment of principal of all outstanding Class C Notes, until the Class A Notes, the Class B Notes and the Class C Notes are paid in full; *provided*, *however*, that if the Net Outstanding Portfolio Collateral Balance is less than U.S.$152,500,000 on the Determination Date with respect to the related Payment Date then such amount will be paid *first* (i) *pro rata*, to the payment of principal of all outstanding Class A-1 Notes until the Class A-1 Notes are paid in full, *second* (ii) to the payment of principal of all outstanding Class A-2 Notes until the Class A-2 Notes are paid in full, *third* (iii) to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full and *fourth* (iv) to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full, and (b) any remaining Proceeds to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full;

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x. to the payment of accrued and unpaid interest on the Class D Notes (including Defaulted Interest and any interest thereon but not including Class D Deferred Interest);

xi. to the payment of principal of *first*, *pro rata*, the Class A Notes up to the amount specified in clause (b)(1) below, *provided, however*, that all principal allocated to the Class A-1 Notes will first be allocated to the Class A-1a Notes until the Class A-1a Notes are paid in full and then to the Class A-1b Notes until the Class A-1b Notes are paid in full, *second*, to the payment of principal of the Class B Notes up to the amount specified in clause (b)(2) below, *third*, to the payment of principal of the Class C Notes up to the amount specified in clause (b)(3) below, and *fourth*, to the payment of principal of the Class D Notes up to the amount specified in clause (b)(4) below, in an aggregate amount equal to the lesser of (a) the Amortization Proceeds received or held during the related Due Period, and (b) the sum of (1) the amount necessary to increase the Class A Adjusted Overcollateralization Ratio to or maintain it at 147.1%, plus (2) the amount necessary to increase the Class B Adjusted Overcollateralization Ratio to or maintain it at 121.0%, plus (3) the amount necessary to increase the Class C Adjusted Overcollateralization Ratio to or maintain it at 114.7%, plus (4) the amount necessary to increase the Class D Adjusted Overcollateralization Ratio to or maintain it at 108.1%; provided that, if the Net Outstanding Portfolio Collateral Balance is less than U.S.$122,000,000 on the Determination Date with respect to the related Payment Date, then only the amount described in sub-clause (a) of this clause (xi) will be applied, *first*, *pro rata*, to the payment of principal of all outstanding Class A-1 Notes and Class A-2 Notes until the Class A-1 Notes and Class A-2 Notes are paid in full, *provided, however*, that all principal allocated to the Class A-1 Notes will first be allocated to the Class A-1a Notes until the Class A-1a Notes are paid in full and then to the Class A-1b Notes until the Class A-1b Notes are paid in full, *second*, to the payment of principal of all outstanding Class B Notes until the Class B Notes are paid in full, *third*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full and *fourth*, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xii. if the Class D Overcollateralization Test is not satisfied on the Determination Date with respect to the related Payment Date after giving effect to all payments of principal on such Payment Date (without giving effect to any payments pursuant to this clause (xii)), then, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xiii. *first*, to the payment of principal of the Class C Notes in an amount equal to that portion of the principal of the Class C Notes comprised of Class C Deferred Interest unpaid after giving effect to payments under clauses (ix) and (xi) above (amounts will be considered unpaid for this purpose if the principal balance of the Class C Notes after giving effect to clauses (ix) and (xi) above exceeds any previous lowest amount outstanding) and *second*, to the payment of principal of the Class D Notes in an amount equal to that portion of the principal of the Class D Notes comprised of Class D Deferred Interest unpaid after giving effect to payments under clauses (xi) and (xii) above (amounts will be considered unpaid for this purpose if the principal balance of the Class D Notes after giving effect to clauses (xi) and (xii) above exceeds any previous lowest amount outstanding);

xiv. after the Payment Date occurring in July 2015, *first*, to the payment of principal of all outstanding Class C Notes until the Class C Notes are paid in full and *second*, to the payment of principal of all outstanding Class D Notes until the Class D Notes are paid in full;

xv. to the payment of any unpaid Defaulted Swap Termination Payments;

xvi. *first* (a) to the payment of any remaining accrued and unpaid Administrative Expenses of the Issuers not paid pursuant to clauses (ii) and (iii) above (as the result of the limitations on amounts set forth therein) in the same order of priority set forth above in clause (iii) excluding any indemnities (and legal expenses related thereto) payable by the Issuers; *second*, (b) to the payment, *pro rata*, of any indemnities (and legal expenses related thereto) payable by the Issuers not paid pursuant to clause (iii) above (as the result of the limitation on amounts set forth therein) in the

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same order of priority set forth above in clause (iii); and *third*, (c) to the Expense Reserve Account until the balance of such account reaches U.S.$200,000 (after giving effect to any deposits made therein on such Payment Date under clause (iii) above); *provided, however*, that the aggregate payments pursuant to subclause (c) of this clause (xvi) and subclause (c) of clause (iii) on any Payment Date shall not exceed U.S.$250,000;

xvii. the payment of the Class D Notes Amortizing Principal Amount;

xviii. on Quarterly Payment Dates only, any remaining amount to the Fiscal Agent for deposit into the Income Note Payment Account for payment to the Holders of the Income Notes; and

xix. on each Payment Date, any remaining amount to be deposited to the Interest Collection Account for distribution on the next Payment Date.

On the Business Day prior to the Final Payment Date, the Trustee will transfer all funds then on deposit in the Interest Collection Account into the Payment Account and, after the liquidation of (i) the Credit Default Swap, (ii) the Collateral Securities and Eligible Investments in the Collateral Account, (iii) the Amortization Proceeds drawn from the Collateral Account to the Payment Account and (iv) the Delivered Obligations and Eligible Investments in the Delivered Obligation Account, the Trustee will deposit all proceeds therefrom, into the Payment Account. On the Final Payment Date, amounts in the Payment Account will be applied by the Trustee pursuant to the Note Valuation Report in the manner and order of priority set forth below:

i. to the payment of the amounts referred to in clauses (i) through (vi) of the Priority of Payments for Payment Dates which are not Final Payment Dates, in that order (without regard to the limitations in clause (iii)); *provided* that no deposit shall be made to the Expense Reserve Account pursuant to subclause (iii);

ii. first, *pro rata*, to the payment of the Class A-1a Notes and the Class A-1b Notes, in each case, the amount necessary to pay the outstanding principal amount of such Notes in full;

iii. to the payment to the Class A-2 Notes, the amount necessary to pay the outstanding principal amounts of such Notes, in full;

iv. to the payment to the Class B Notes, the amount necessary to pay the outstanding principal amount of such Notes in full;

v. to the payment to the Class C Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

vi. to the payment to the Class D Notes, the amount necessary to pay accrued and unpaid interest on and the outstanding principal amount of such Notes (including any Deferred Interest and Defaulted Interest and any interest thereon) in full;

vii. to the payment of the amounts referred to in clause (xv) of the Priority of Payments for Payment Dates that are not Final Payment Dates; and

viii. any remaining amount to the Fiscal Agent for deposit in the Income Note Payment Account for payment to the Holders of the Income Notes.

Upon payment in full of the last outstanding Secured Note, the Issuer (or the Liquidation Agent acting pursuant to the Liquidation Agency Agreement on behalf of the Issuer) will liquidate any remaining Pledged Assets, including the Credit Default Swap, the Eligible Investments, the Collateral Securities, the Delivered Obligations and any other items comprising the Pledged Assets and deposit the proceeds thereof in the Interest Collection Account. The net proceeds of such liquidation and all available cash (other than the U.S.$250 of capital contributed by the

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owners of the Issuer Ordinary Shares in accordance with the Issuer's Memorandum and Articles of Association and U.S.$250 representing a transaction fee to the Issuer and any interest income earned on such amounts) will be distributed in accordance with the Priority of Payments for Final Payment Dates and all amounts remaining thereafter will be distributed to the Holders of the Income Notes as a redemption payment whereupon all of the Notes and the Income Notes will be canceled.

Income Notes

The final payment on the Income Notes will be made by the Issuer on the Maturity Date, unless redeemed or retired prior thereto in accordance with the Priority of Payments.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default. An "Event of Default" under the Indenture includes:

i. a default in the payment, when due and payable, of any interest on any Class S Note, Class A Note or Class B Note or, if there are no Class S Notes, Class A Notes or Class B Notes outstanding, any Class C Note or, if there are no Class S Notes, Class A Notes, Class B Notes or Class C Notes outstanding, any Class D Note and a continuation of such default, in each case, for a period of 7 days (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made actually aware of such administrative error or omission);

ii. a default in the payment of principal due on any Secured Note at its Stated Maturity or on any Redemption Date (or, in the case of a default in payment resulting solely from an administrative error or omission by the Trustee, any Note Paying Agent or the Note Registrar, such default continues for a period of 7 days after the Trustee is made actually aware of such administrative error or omission);

iii. the failure on any Payment Date to disburse amounts (other than in payment of interest on any Secured Note or principal of any Secured Note at its Stated Maturity or any date set for redemption as described in (i) and (ii) above) available in the Payment Account in excess of $500 in accordance with the Priority of Payments and a continuation of such failure for a period of 7 days after such failure has been recognized by the Trustee;

iv. a circumstance in which either of the Issuers becomes an investment company required to be registered or the Pledged Assets or any portion thereof becomes subject to regulation under the Investment Company Act;

v. a default, which has a material adverse effect on the Holders of the Secured Notes (as determined by at least a Majority, by interest, of the Controlling Class), in the performance, or breach, of any covenant, representation, warranty or other agreement of the Issuers in the Indenture (it being understood that a failure to satisfy a Coverage Test is not a default or breach) or in any certificate or writing delivered pursuant to the Indenture, or if any representation or warranty of the Issuers made in the Indenture or in any certificate or writing delivered pursuant thereto proves to be incorrect in any material respect when made, and the continuation of such default or breach for a period of 30 days after notice thereof shall have been given to the Issuers and the Liquidation Agent by the Trustee or to the Issuers, the Liquidation Agent and the Trustee by at least a Majority, by interest, of the Controlling Class;

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vi the Credit Default Swap is terminated (without replacement) (excluding a termination, in part, in connection with the assignment, termination or novation of a CDS Transaction); and

vii. certain events of bankruptcy, insolvency, receivership or reorganization of either of the Issuers.

If an Event of Default should occur and be continuing, the Trustee may and will (i) if the Credit Protection Buyer is in default under the Credit Default Swap, at the direction of not less than a Majority of the Class S Notes, the Class A Notes and the Class B Notes (the Class S Notes, the Class A Notes and the Class B Notes voting as a single class), for so long as any Class S Notes, Class A Notes or Class B Notes are Outstanding; if no Class S Notes, Class A Notes or Class B Notes are Outstanding, then the Class C Notes, for so long as any Class C Notes are Outstanding; and if no Class S Notes, Class A Notes, Class B Notes or Class C Notes are Outstanding, the Class D Notes, for so long as any Class D Notes are Outstanding; and otherwise (ii) at the direction of the Holders of at least a Majority of the Controlling Class, declare the principal of and accrued and unpaid interest on all Secured Notes to be immediately due and payable (except that in the case of an Event of Default described in clause (vi) or (vii) above, such an acceleration will occur automatically and shall not require any action by the Trustee or any Secured Noteholder).

If an Event of Default should occur and be continuing, the Trustee is required to retain the Pledged Assets intact and collect all payments in respect of the Pledged Assets and continue making payments in the manner described under Priority of Payments unless (a) the Trustee determines (which determination will be based upon a certificate from the Liquidation Agent) that the anticipated proceeds of a sale or liquidation of the Pledged Assets based on an estimate obtained from a nationally recognized investment banking firm (which estimate takes into account the time elapsed between such estimate and the anticipated sale of the Pledged Assets) would equal the amount necessary to pay in full (after deducting the reasonable expenses of such sale or liquidation) the sum of (i) the principal (including any Class C Deferred Interest and Class D Deferred Interest) and accrued interest (including all Defaulted Interest, and interest thereon) and any other amounts due with respect to all the outstanding Secured Notes; (ii) all Administrative Expenses; (iii) any unpaid amounts due the Credit Protection Buyer and any unpaid amounts due any assignee of a CDS Transaction net of amounts payable to the Issuer by the Credit Protection Buyer or assignee of a CDS Transaction; and (iv) all other items in the Priority of Payments ranking prior to payments on the Secured Notes, and, in any case, the Holders of a Majority of the Controlling Class agree with such determination or (b) the requisite Holders of Notes as determined pursuant to the Indenture or the Holders of a Super Majority of the Controlling Class (whichever directed the acceleration of the Secured Notes pursuant to the preceding paragraph) direct, subject to the provisions of the Indenture, the sale and liquidation of the Pledged Assets.

The Holders of a Majority of the Controlling Class will have the right to direct the Trustee in writing in the conduct of any proceedings or in the sale of any or all of the Pledged Assets, but only if (i) such direction will not conflict with any rule of law or the Indenture (including the limitations described in the paragraph above) and (ii) the Trustee determines that such action will not involve it in liability (unless the Trustee has received an indemnity which is reasonably acceptable to the Trustee against any such liability).

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default with respect to the Secured Notes occurs and is continuing, the Trustee is under no obligation to exercise any of the rights or powers under the Indenture at the request of any Holders of Secured Notes, unless such Holders have offered to the Trustee reasonable security or an indemnity which is reasonably acceptable to the Trustee. The Holders of a Majority of the Controlling Class may waive any default with respect to the Secured Notes, except (a) a default in the payment of principal or interest on any Secured Note; (b) failure on any Payment Date to disburse amounts available in the Payment Account in accordance with the Priority of Payments and continuation of such failure for a period of seven (7) days; (c) certain events of bankruptcy or insolvency with respect to the Issuers; or (d) a default in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the Holder of each outstanding Note adversely affected thereby.

Furthermore, any declaration of acceleration of maturity of the Secured Notes may be revoked and annulled by the requisite Holders of Notes as determined pursuant to the Indenture or the Holders of a Majority of the Controlling Class, as applicable, before a judgment or decree for the payment of money has been obtained by the Trustee or the Pledged Assets have been sold or foreclosed in whole or in part, by notice to the Issuers and the

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Trustee, if (a) the Issuer has paid or deposited with the Trustee a sum sufficient to pay, in accordance with the Priority of Payments, the principal and accrued interest (including all Defaulted Interest and the interest thereon), discount or other unpaid amounts with respect to the outstanding Secured Notes and any other administrative expenses, fees or other amounts that, under the Transaction Documents and pursuant to the Priority of Payments, are payable prior to the payment of the principal of and interest on the outstanding Secured Notes, and (b) the Trustee has determined that all Events of Default, other than the non-payment of the interest on or principal of the outstanding Secured Notes that have become due solely by such acceleration, have been cured and the Holders of a Majority of the Controlling Class by notice to the Trustee have agreed with such determination (which agreement shall not be unreasonably withheld) or waived such Event of Default in accordance with the provisions set forth in the Indenture.

Only the Trustee may pursue the remedies available under the Indenture or the Secured Notes and no Holder of a Secured Note will have the right to institute any proceeding with respect to the Indenture, its Note, or otherwise unless (i) such Holder previously has given to the Trustee written notice of a continuing Event of Default; (ii) except in the case of a default in the payment of principal or interest, the Holders of at least 25%, by Aggregate Outstanding Amount, of the Controlling Class have made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such Holders have offered the Trustee an indemnity which is reasonably acceptable to the Trustee; (iii) the Trustee has for 30 days failed to institute any such proceeding; and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by the Holders of a Majority of the Controlling Class.

In determining whether the Holders of the requisite percentage of Secured Notes have given any direction, notice or consent, Secured Notes owned by the Issuer, the Co-Issuer or any affiliate thereof shall be disregarded and deemed not to be outstanding. In addition, Holders of Income Notes will not be considered to be affiliates of the Issuer or Co-Issuer by virtue of such ownership of Income Notes.

Notices. Notices to the Holders of the Secured Notes shall be given by first-class mail, postage prepaid, to each Noteholder at the address appearing in the applicable note register. In addition, if and for so long as any of the Secured Notes are listed on the Irish Stock Exchange and so long as the rules of such exchange so require, notices to the Holders of such Secured Notes shall also be published by the Irish Listing Agent in the official list thereof or as otherwise required by the rules of such exchange.

Modification of the Indenture. Without obtaining the consent of Holders of the Notes, the Issuers and the Trustee may enter into one or more supplemental indentures for any of the following purposes:

(i) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Notes, the Fiscal Agency Agreement and under the Indenture;

(ii) to add to the covenants of the Issuers or the Trustee for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuers;

(iii) to convey, transfer, assign, mortgage or pledge any property to the Trustee, or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Notes;

(iv) to evidence and provide for the acceptance of appointment by a successor trustee and to add to or change any of the provisions of the Indenture as shall be necessary to facilitate the administration of the trusts under the Indenture by more than one Trustee;

(v) to correct or amplify the description of any property at any time subject to the security interest created by the Indenture, or to better assure, convey, and confirm unto the Trustee any property subject or required to be subject to the security interest created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or subject to the security interest created by the Indenture any additional property;

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(vi) to otherwise correct any inconsistency or cure any ambiguity or manifest error or correct or supplement any provisions contained in the Indenture which may be defective or inconsistent with any provision contained in the Indenture or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error;

(vii) to take any action necessary or advisable to prevent the Issuer, the Trustee, any Note Paying Agents or the Fiscal Agent from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis;

(viii) to conform the Indenture to the descriptions contained in this Offering Circular;

(ix) to comply with any reasonable requests made by the Irish Stock Exchange in order to list or maintain the listing of any Notes on such stock exchange; or

(x) to make any other change for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or any other Transaction Document; *provided* however that such changes would have no material adverse effect on any of the Notes (which may be evidenced by an opinion of counsel or a Noteholder Poll (as hereinafter defined)).

With the written consent of the Holders of (a) at least a Majority, by Aggregate Outstanding Amount, of the Secured Notes materially adversely affected thereby (voting together as a single class) and (b) at least a Majority of the Income Notes materially adversely affected thereby, the Trustee and the Issuers may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the Holders of the Notes.

Notwithstanding anything in the Indenture to the contrary, without the written consent of each Noteholder of each Class adversely affected thereby no supplemental indenture may:

(i) change the Stated Maturity of the principal of or the due date of any installment of interest or discount on a Note; reduce the principal amount thereof or the rate of interest thereon, or the applicable Secured Note Redemption Price with respect thereto; change the earliest date on which a Note may be redeemed; change the provisions of the Indenture relating to the application of proceeds of any Pledged Asset to the payment of principal of or interest on Notes or change any place where, or the coin or currency in which, Notes or the principal thereof or interest thereon are payable; or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof or other due date thereof (or, in the case of redemption, on or after the Redemption Date);

(ii) reduce the percentage in aggregate principal amount of Holders of the Notes of each Class whose consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture or their consequences;

(iii) impair or adversely affect the Pledged Assets except as otherwise permitted by the Indenture;

(iv) permit the creation of any security interest ranking prior to or on a parity with the security interest created by the Indenture with respect to any part of the Pledged Assets or terminate such security interest on any property at any time subject thereto or deprive the Holder of any Note, the Trustee or any other Secured Party of the security afforded by the lien of the Indenture;

(v) reduce the percentage of Holders of the Notes of each Class whose consent is required to request the Trustee to preserve the Collateral Assets or rescind the Trustee's election to preserve the Collateral Assets or to sell or liquidate the Collateral Assets pursuant to the Indenture;

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(vi) modify any of the provisions of the Indenture with respect to supplemental indentures, except to increase the percentage of Outstanding Notes whose Holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each outstanding Note adversely affected thereby;

(vii) modify the definition of the term "Outstanding," or the Priority of Payments set forth in the Indenture;

(viii) modify any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest on or principal of any Secured Note or modify any amount distributable to the Fiscal Agent for payment to the Holders of the Income Notes on any Quarterly Payment Date or to affect the right of the Holders of the Notes or the Trustee to the benefit of any provisions for the redemption of such Notes contained therein;

(ix) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated by the Indenture relating to the institution of proceedings for the Issuer or the Co-Issuer to be adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency proceedings against it, or the filing with respect to the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization, arrangement, moratorium or liquidation proceedings, or other proceedings under the United States Bankruptcy Code or any similar laws, or the consent of the Issuer or the Co-Issuer to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or any substantial part of its property, respectively;

(x) increase the amount of the Liquidation Agent Fees payable to the Liquidation Agent beyond the amount provided for in the original Liquidation Agency Agreement;

(xi) amend any provision of the Indenture or any other agreement entered into by the Issuer with respect to the transactions contemplated thereby that provides that the obligations of the Issuers or the Issuer, as the case may be, are limited recourse obligations of the Issuers or the Issuer, respectively, payable solely from the Pledged Assets in accordance with the terms of the Indenture;

(xii) at the time of execution of such supplemental indenture, cause payments made by or to the Issuer, the Credit Protection Buyer, the Liquidation Agent or any Paying Agents to become subject to withholding or other taxes, fees or assessments or cause the Issuer to be treated as engaged in a United States trade or business or otherwise be subject to United States federal, state or local income tax on a net income basis; or

(xiii) at the time of the execution of such supplemental indenture, result in a deemed sale or exchange of any of the Notes under Section 1001 of the Code (items (i) through (xiii) above collectively, the "Reserved Matters").

Notwithstanding anything to the contrary herein, no supplement or amendment to the Indenture will be effective until the consent of each of the Credit Protection Buyer (which shall not be unreasonably withheld) and the Liquidation Agent (which consent shall not be unreasonably withheld) has been obtained.

Under the Indenture, in making the determination of whether a proposed amendment has or would have no material adverse effect on any of the Notes, which Notes are materially adversely affected by a proposed amendment or which Classes of Notes are adversely affected by any Reserved Matter (each such determination, an "Amendment Determination"), the Trustee may rely on an opinion of counsel. If no opinion of counsel is provided with respect to a proposed amendment, a Noteholder Poll shall be conclusively determinative of such Amendment Determination and the Trustee shall be entitled to conclusively rely on such Noteholder Poll. The results of such Noteholder Poll shall be conclusive and binding on the Issuer and all present and future Noteholders.

"Noteholder Poll" with respect to a proposed supplemental indenture means the following:

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The Trustee will (at the expense of the Issuer) give written notice of such proposed supplemental indenture to the Holders of the Secured Notes and to the Fiscal Agent for notification by the Fiscal Agent to the Holders of the Income Notes. If any Holder of a Note of a Class delivers a written objection to any portion of such supplemental indenture to the Trustee, in the case of the Secured Notes, and the Fiscal Agent, in the case of the Income Notes, within 20 Business Days after the date on which such notice was given by the Trustee or the Fiscal Agent, as applicable, each Note of such Class will be deemed to be both adversely affected and materially and adversely affected. If no Holder of a Note of a Class delivers a written objection to the Trustee or the Fiscal Agent, as applicable, within such period, all Notes of such Class shall be deemed not to be materially and adversely affected and not to be adversely affected by such supplemental indenture. The Fiscal Agent will promptly communicate to the Trustee the receipt of any such written objection from a Holder of an Income Note or if no such written objection is received within the prescribed time period, that no written objections were received from any Income Noteholder.

Under the Indenture, the Trustee will deliver a copy of any proposed supplemental indenture to the Holders of the Secured Notes, the Fiscal Agent, the Rating Agencies (for so long as any of the Notes are outstanding and rated by the Rating Agencies), the Credit Protection Buyer and the Liquidation Agent not later than 20 Business Days prior to execution of a proposed supplemental indenture. The Fiscal Agent will deliver a copy of the same to the Holders of the Income Notes. For so long as any of the Notes are outstanding and rated by the Rating Agencies, no supplemental indenture shall be entered into unless the Rating Agency Condition is met; *provided* that the Trustee shall, with the consent of the Holders of 100% of the Aggregate Outstanding Amount of Secured Notes of each Class and the Income Notes, whose consent, in the case of the Income Notes, will be communicated to the Fiscal Agent for notice to the Trustee, the Liquidation Agent and the Credit Protection Buyer, enter into any such supplemental indenture notwithstanding any potential reduction or withdrawal of the ratings of any outstanding Class of Notes. The Trustee must provide notice of any amendment or modification of the Indenture (whether or not required to be approved by such parties) to the Holders of the Secured Notes, the Fiscal Agent, the Liquidation Agent, the Credit Protection Buyer and if and for so long as any Secured Notes are listed on the Irish Stock Exchange, the Irish Paying Agent promptly upon the execution of such supplemental indenture. The Fiscal Agent will provide notice of any such amendment or modification of the Indenture to the Holders of the Income Notes and if and for so long as any Income Notes are listed on the Irish Stock Exchange, the Irish Paying Agent promptly upon the execution of such supplemental indenture.

In connection with any amendment, the Trustee may require the delivery of an opinion of counsel satisfactory to it (which opinion of counsel may rely on an officer's certificate from the Liquidation Agent), at the expense of the Issuer, that such amendment is permitted under the terms of the Indenture.

In addition, the Issuers and the Trustee may enter into any additional agreements not expressly prohibited by the Indenture or any other Transaction Document.

Jurisdictions of Incorporation and Formation. Under the Indenture, the Issuer and the Co-Issuer will be required to maintain their rights and franchises as a company incorporated under the laws of the Cayman Islands and a corporation formed under laws of the State of Delaware, respectively, to comply with the provisions of their respective organizational documents and to obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validation and enforceability of the Indenture, the Secured Notes, or any of the Pledged Assets; *provided, however*, that the Issuers shall be entitled to change their jurisdictions of incorporation from the Cayman Islands or Delaware, as applicable, to any other jurisdiction reasonably selected by such Issuer or Co-Issuer, as applicable, and approved by its common shareholders, so long as (i) the Issuer or Co-Issuer, as applicable, does not believe such change is disadvantageous in any material respect to such entity or the Holders of any Class of Secured Notes; (ii) written notice of such change shall have been given by the Issuer or Co-Issuer, as applicable to the other of the Issuer or Co-Issuer, as applicable, the Trustee, the Note Paying Agent, the Liquidation Agent, the Credit Protection Buyer, the Holders of each Class of Notes, and each of the Rating Agencies at least thirty (30) Business Days prior to such change of jurisdiction and the Rating Agency Condition with respect to S&P shall have been satisfied with respect to such change; and (iii) on or prior to the 25th Business Day following such notice the Trustee shall not have received written notice from Holders of a Majority of the Controlling Class, the Liquidation Agent or the Credit Protection Buyer or, if and so long as any Notes are listed thereon, the Irish Stock Exchange objecting to such change.

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Petitions for Bankruptcy. The Indenture will provide that neither (i) the Paying Agents, the Liquidation Agent, the Note Registrar, or the Trustee, in its own capacity, or on behalf of any Secured Noteholder, nor (ii) the Secured Noteholders may, prior to the date which is one year and one day (or, if longer, the applicable preference period then in effect) after the payment in full of all Notes, institute against, or join any other person in instituting against, the Issuer or Co-Issuer any bankruptcy, reorganization, arrangement, moratorium, liquidation or similar proceedings under the laws of any jurisdiction.

Satisfaction and Discharge of the Indenture. The Indenture will be discharged with respect to the Pledged Assets securing the Secured Notes upon delivery to the Note Paying Agent for cancellation all of the Secured Notes and the payment in full of the Secured Notes, or, within certain limitations (including the obligation to pay principal and interest), upon deposit with the Trustee of funds sufficient for the payment or redemption thereof and the payment by the Issuers of all other amounts due under the Indenture.

Trustee. LaSalle Bank National Association will be the Trustee under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee relating to the Secured Notes is solely the obligation of the Issuers. The Trustee and/or its affiliates may receive compensation in connection with the Trustee's investment of trust assets in certain Eligible Investments as provided in the Indenture and in connection with the Trustee's administration of any securities lending activities of the Issuer.

The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. The Trustee will not be bound to take any action unless indemnified for such action. The Secured Noteholders shall together have the power, exercisable by the Controlling Class, to remove the Trustee as set forth in the Indenture. The removal of the Trustee shall not become effective until the later of the effective date of the appointment of a successor trustee and the acceptance of appointment by a successor trustee. If the Trustee is removed without cause, costs and expenses of the Trustee incurred in connection with the transfer to the successor Trustee shall be paid by the successor Trustee or the Issuer.

Agents. LaSalle Bank National Association will be the Note Paying Agent, the Note Registrar, the Note Calculation Agent and the Note Transfer Agent under the Indenture. The Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with LaSalle Bank National Association. The payment of the fees and expenses of LaSalle Bank National Association, as the Paying Agent, the Note Registrar, the Note Calculation Agent and the Note Transfer Agent relating to the Notes is solely the obligation of the Issuers. The Indenture contains provisions for the indemnification of LaSalle Bank National Association for any loss, liability or expense incurred without gross negligence, willful misconduct, default or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture.

Irish Paying Agent. If and for so long as any of the Secured Notes or the Income Notes are listed on the Irish Stock Exchange, and the rules of such exchange shall so require, the Issuers will have an Irish Paying Agent in accordance with the requirements of the rules of such exchange for the Notes. The Issuers and their affiliates may maintain other relationships in the ordinary course of business with the Irish Paying Agent. The payment of the fees and expenses of the Irish Paying Agent relating to the Notes is solely the obligation of the Issuers.

Status of the Income Notes. The Holders of the Income Notes will have certain rights to vote with respect to limited matters arising under the Indenture and the Liquidation Agency Agreement including, without limitation, in connection with certain modifications to the Indenture. However, the Holders of the Income Notes will have no right to vote in connection with the realization of the Pledged Assets or certain other matters under the Indenture.

Fiscal Agency Agreement

The Income Notes will be issued by the Issuer and administered in accordance with a Fiscal Agency Agreement (the "Fiscal Agency Agreement") between LaSalle Bank National Association as fiscal agent (in such capacity, the "Fiscal Agent"). The following summary describes certain provisions of the Income Notes and the Fiscal Agency Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Fiscal Agency Agreement. After the closing, copies of the Fiscal

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Agency Agreement may be obtained by prospective investors upon request in writing to the Fiscal Agent at LaSalle Bank National Association, 181 W. Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group —Anderson Mezzanine Funding 2007-1, Ltd. (telephone number (312) 992-5312).

Pursuant to the Fiscal Agency Agreement, the Fiscal Agent and the Income Notes Transfer Agent will perform various fiscal services on behalf of the Holders of the Income Notes. The payment of the fees and expenses of the Fiscal Agent and Income Notes Transfer Agent is solely the obligation of the Issuer. The Fiscal Agency Agreement contains provisions for the indemnification of the Fiscal Agent and Income Notes Transfer Agent for any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Fiscal Agency Agreement.

Status. The Income Notes are not secured by the Pledged Assets securing the Secured Notes. There can be no assurance that, after payment of principal and interest on the Secured Notes and other fees and expenses of the Issuers in accordance with the Priority of Payments, the Issuer will have funds remaining to make payments in respect of the Income Notes. As a result, the rights of the Income Note holders to receive payments will rank (i) behind the rights of all secured creditors of the Issuer, whether known or unknown, including the Holders of the Secured Notes, the Liquidation Agent and the Credit Protection Buyer and (ii) pari passu with all unsecured creditors of the Issuer, whether known or unknown. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure the Secured Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Income Notes as and when such proceeds are released from the lien of the Indenture in accordance with the Priority of Payments. See "—Priority of Payments."

Payment. On each Quarterly Payment Date, to the extent funds are available therefor, and after the Secured Notes and certain other amounts due and payable on such Quarterly Payment Date that rank senior to payments on the Income Notes have been paid in full, Proceeds will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Fiscal Agent on such Quarterly Payment Date for payment to the Holders of the Income Notes. See "—Status and Security", "—Interest on the Secured Notes" and "—Principal."

Payments on any Income Note will be made to the person in whose name such Income Note is registered 10 Business Days' prior to the applicable Quarterly Payment Date. Payments will be made by wire transfer in immediately available funds to a U.S. Dollar account maintained by the Holder thereof appearing in the Income Notes Register in accordance with wire transfer instructions received from such Holder by the Fiscal Agent on or before the Record Date or, if no wire transfer instructions are received by the Fiscal Agent, by a U.S. Dollar check drawn on a bank in the United States. Final distributions or payments made in the course of a winding up of the Issuer will be made only against surrender of the certificate representing such Income Notes at the office of the Income Notes Transfer Agent. The Income Notes Transfer Agent will communicate or cause communications of such distributions and payments and the related Payment Date to the Issuer, the Fiscal Agent, Euroclear and Clearstream.

Modification of the Fiscal Agency Agreement. The Fiscal Agency Agreement may be amended by the Issuer and the Fiscal Agent without the consent of any of the Income Noteholders for any of the following purposes: (i) to evidence the succession of any person to either the Issuer or Co-Issuer and the assumption by any such successor of the covenants of the Issuer or Co-Issuer in the Notes, the Fiscal Agency Agreement and the Indenture; (ii) to add to the covenants of the Issuers or the Fiscal Agent for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuers; (iii) to cure any ambiguity or manifest error or correct or supplement any provisions contained herein which may be defective or inconsistent with any provision contained herein or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error; (iv) to take any action necessary or advisable to prevent the Issuer, the Trustee, any Note Paying Agents or the Fiscal Agent from becoming subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business or otherwise being subject to United States federal, state or local income tax on a net income basis; (v) to conform the Fiscal Agency Agreement to the descriptions contained in this Offering Circular; (vi) to comply with any reasonable requests made by the Irish Stock Exchange in order to list or maintain the listing of any Notes on such stock exchange; or (vii) to make any other change for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Fiscal Agency Agreement; *provided, however* that such changes would have no material adverse effect on any of the Notes.

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The Fiscal Agency Agreement may also be amended from time to time by the Issuer and the Fiscal Agent with the consent of a Majority of Income Noteholders for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Fiscal Agency Agreement, or of modifying in any manner the rights of the Income Noteholders; *provided*, that no such amendment shall (i) reduce in any manner the amount of, or delay the timing of, or change the allocation of, the payments on the Income Notes or (ii) reduce the voting percentage of the Income Noteholders required to consent to any amendment to the Fiscal Agency Agreement, in each case without the consent of the Income Noteholders of all of the Income Notes.

Income Notes Register. The Fiscal Agent will initially be appointed as Income Notes Transfer Agent (in such capacity, the "Income Notes Transfer Agent") for the purpose of registering and administrating the transfer of Income Notes. The Income Notes Transfer Agent shall maintain at its offices, a register (the "Income Notes Register") in which it shall provide for the registration of Income Notes and the registration of transfers of Income Notes in accordance with the Fiscal Agency Agreement.

Notices. Notices to the Income Note holders will be given by first class mail, postage prepaid, to the registered holders of the Income Notes at their addresses appearing in the Income Notes Register. In addition, if and for so long as any of the Income Notes are listed on the Irish Stock Exchange and so long as the rules of such exchange so require, notices to the Holders of such Income Notes shall also be published by the Irish Listing Agent in the official list thereof as otherwise required by the rules of such exchange.

Governing Law of the Transaction Documents

The Indenture, the Fiscal Agency Agreement, the Notes, the Credit Default Swap and the Liquidation Agency Agreement will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made and to be performed therein without regard to the conflict of laws principles thereof. Under the Indenture, the Fiscal Agency Agreement and the Liquidation Agency Agreement, the Issuers have submitted irrevocably to the non-exclusive jurisdiction of the courts of the State of New York and the courts of the United States of America in the State of New York (in each case sitting in the County of New York) for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Indenture, the Notes, the Fiscal Agency Agreement and the Liquidation Agency Agreement.

Form of the Notes

The Notes. Each Class of Notes (other than the Income Notes) sold in reliance on Rule 144A under the Securities Act will be represented by one or more Rule 144A Global Notes and will be deposited with LaSalle Bank National Association as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC. Each of the Income Notes which are sold either to (1) a qualified institutional buyer as defined in Rule 144A under the Securities Act purchasing for its own account or for the account of a Qualified Institution Buyer or (2) in the case of the Income Notes only, an Accredited Investor who has a net worth of not less than U.S. $10 million will be issued in definitive, fully registered form, registered in the name of the owner thereof ("Definitive Notes"). The Rule 144A Global Notes and the Definitive Notes (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Each Class of Notes sold in offshore transactions in reliance on Regulation S will initially be represented by a Temporary Regulation S Global Note deposited on the Closing Date with LaSalle Bank National Association as custodian for DTC and registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream. Beneficial interests in a Temporary Regulation S Global Note may be held only through Euroclear or Clearstream. Beneficial interests in a Temporary Regulation S Global Note will be exchanged for beneficial interests in a permanent Regulation S Global Note (the "Regulation S Global Note") for the related Class of Notes in definitive, fully registered form upon the later of (i) the expiration of the Distribution Compliance Period and (ii) the first date on which the requisite certifications (in the form provided in the Indenture) are provided to the Trustee. The Regulation S Global Note will be registered in the name of Cede & Co., a nominee of DTC, and deposited with LaSalle Bank National Association as custodian for DTC for credit to the accounts of Euroclear and Clearstream for the respective accounts of the Holders of such Notes. Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream.

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A beneficial interest in a Regulation S Global Note or a Temporary Regulation S Global Note may be transferred, whether before or after the expiration of the Distribution Compliance Period, to a U.S. person only, with respect to the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes, in the form of a beneficial interest in a Rule 144A Global Note, and, with respect to any Regulation S Income Notes, in the form of a definitive Income Note, as applicable, and only upon receipt by the Note Transfer Agent or Income Notes Transfer Agent, as applicable, of a written certification from the transferor (in the form provided in the Indenture or the Fiscal Agency Agreement, as applicable) to the effect that the transfer is being made to a person the transferor reasonably believes is (a) a Qualified Institutional Buyer or, solely in the case of the Income Notes, an Accredited Investor who has a net worth of not less than U.S. $10 million and (b) a Qualified Purchaser. In addition, transfers of a beneficial interest in a Regulation S Global Note or Temporary Regulation S Global Note to a person who takes delivery in the form of an interest in a Rule 144A Global Note or, a Definitive Note in the case of the Income Notes, may occur only in denominations greater than or equal to the minimum denominations applicable to the Rule 144A Global Notes or in a principal amount of not less than $250,000.

A beneficial interest in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Temporary Regulation S Global Note or a Regulation S Global Note, as the case may be, whether during or after the expiration of the Distribution Compliance Period, only upon receipt by the Note Registrar or Income Notes Transfer Agent, as applicable, of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a non U.S. Person in accordance with Rule 903 or 904 of Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to the person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such interest.

Except in the limited circumstances described below, owners of beneficial interests in any Global Note will not be entitled to receive a Definitive Note. The Notes are not issuable in bearer form.

Each Note will be issued in minimum denominations of U.S.$250,000 (in the case of Rule 144A Notes and in the case of Income Notes sold to Accredited Investors) and U.S.$100,000 (in the case of Regulation S Notes) and integral multiples of U.S.$1 in excess thereof.

Global Notes. Upon the issuance of the Global Notes, DTC or its custodian will credit, on its internal system, the respective aggregate original principal amount of the individual beneficial interests represented by such Global Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchaser. Ownership of beneficial interests in Global Notes will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or Holder of the Global Notes, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of each Class of the Notes represented by such Global Notes for all purposes under the Indenture and such Notes. Unless DTC notifies the Issuers that it is unwilling or unable to continue as depositary for a global note or ceases to be a "Clearing Agency" registered under the Exchange Act, owners of the beneficial interests in the Global Notes will not be entitled to have any portion of such Global Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered to be the owners or Holders of any Notes under the Indenture. In addition, no beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold their interests in a Regulation S Global Note or a Temporary Regulation S Global Note directly through Clearstream or Euroclear, if they are participants in these systems, or indirectly through organizations which are participants in these systems. Clearstream and Euroclear will hold interests in the

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Regulation S Global Notes on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Notes and Temporary Regulation S Global Notes in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in a Rule 144A Global Note directly through DTC if they are participants in the system, or indirectly through organizations which are participants in the system.

Payments of the principal of and interest on the Global Notes will be made to DTC or its nominee, as the registered owner thereof. Neither the Issuers, the Trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for any notice permitted or required to be given to Holders of Notes or any consent given or actions taken by DTC as Holder of Notes. The Issuers expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note representing any Notes held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective interests in the principal amount of such Global Notes as shown on the records of DTC or its nominee. The Issuers also expect that payments by participants to owners of interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Global Notes to these persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in Global Notes to pledge its interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of its interest, may be affected by the lack of a physical certificate of the interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC participants, on the one hand, and, directly or indirectly through Euroclear or Clearstream account holders; on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in a Temporary Regulation S Global Note or a Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for a same-day funds settlement applicable to DTC. Clearstream and Euroclear account holders may not deliver instructions directly to the depositaries for Clearstream or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and the credit of any transactions in interests in a Global Note settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of the Notes (including the presentation of the applicable Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in a Global Note are credited and only in respect of that portion of the aggregate principal amount of the Notes as to which the participant or participants has or have given direction.

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The giving of notices and other communications by DTC to participants, by participants to persons who hold accounts with them and by such persons to Holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised the Issuers as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Clearstream. Clearstream Banking, société anonyme, was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of the Euroclear System, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks and may include the Initial Purchaser. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

The Euroclear System. The Euroclear System was created in 1968 to hold securities for participants of the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including U.S. Dollars and Japanese Yen. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above.

The Euroclear System is operated by Euroclear Bank S.A./N.V. (the "Euroclear Operator"), under contract with Euroclear Clearance System plc, a U.K. corporation (the "Euroclear Clearance System"). The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Euroclear Clearance System. The Euroclear Clearance System establishes policy for the Euroclear System on behalf of Euroclear participating organizations. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchaser. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

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The Euroclear Operator is a Belgian bank. The Belgian Banking Commission regulates and examines the Euroclear Operator.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

(a) transfers of securities and cash within the Euroclear System;

(b) withdrawal of securities and cash from the Euroclear System; and

(c) receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participating organizations in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Operator and by Euroclear.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Notes and in the Rule 144A Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures, and the procedures may be discontinued at any time. Neither the Issuers nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Payments; Certifications by Holders of Temporary Regulation S Global Notes. A Holder of a beneficial interest in a Temporary Regulation S Global Note must provide Clearstream or Euroclear, as the case may be, with a certificate in the form required by the Indenture certifying that the beneficial owner of the interest in such Global Note is not a U.S. Person (as defined in Regulation S), and Clearstream or Euroclear, as the case may be, must provide to the Trustee a certificate in the form required by the Indenture prior to (i) the payment of interest or principal with respect to such Holder's beneficial interest in the Temporary Regulation S Global Note and (ii) any exchange of such beneficial interest for a beneficial interest in a Regulation S Global Note.

Individual Definitive Notes. The Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Regulation S Income Notes will be initially issued in global form. The Income Notes (other than the Regulation S Income Notes) will not be global and will be represented by one or more Definitive Notes. If DTC or any successor to DTC advises the Issuer in writing that it is at any time unwilling or unable to continue as a depositary for the reasons described in "—Global Notes" and a successor depositary is not appointed by the Issuers within 90 days or as a result of any amendment to or change in, the laws or regulations of the Cayman Islands or the State of Delaware, as applicable, or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after the Closing Date, the Issuers, the Note Paying Agent or the Fiscal Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive form and the Issuers will issue Definitive Notes in registered form in exchange for the Regulation S Global Notes and the Rule 144A Global Notes, as the case may be. Upon receipt of such notice from DTC, the Issuers will use their best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for individual Definitive Notes and cause the requested individual Definitive Notes to be executed and delivered to the Note Registrar or Income Notes Transfer Agent, as applicable, in sufficient quantities and authenticated by or on behalf of the Note Transfer Agent or Income Notes Transfer Agent, as applicable, for delivery to Holders of the Notes. Persons exchanging interests in a Global Note for individual Definitive Notes will be required to provide to the Note Transfer Agent or the Income Notes Transfer Agent, as applicable, through DTC, Clearstream or Euroclear, (i) written instructions and other

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information required by the Issuers, the Note Transfer Agent and the Income Notes Transfer Agent to complete, execute and deliver such individual Definitive Notes, (ii) in the case of an exchange of an interest in a Rule 144A Global Note, such certification as to (a) Qualified Institutional Buyer status or, solely in the case of the Income Notes, as to Accredited Investor status and (b) that such Holder is a Qualified Purchaser, as the Issuers shall require and (iii) in the case of an exchange of an interest in a Regulation S Global Note, such certification as the Issuers shall require as to non-U.S. Person status. In all cases, individual Definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in denominations in compliance with the minimum denominations specified for the applicable Global Notes, requested by DTC.

Individual Definitive Notes will bear, and be subject to, such legend as the Issuers require in order to assure compliance with any applicable law. Individual Definitive Notes will be transferable subject to the minimum denomination applicable to the Rule 144A Global Notes and Regulation S Global Notes, in whole or in part, and exchangeable for individual Definitive Notes of the same Class at the office of the Note Paying Agent, Note Transfer Agent, Income Notes Transfer Agent or the office of any transfer agent, upon compliance with the requirements set forth in the Indenture or the Fiscal Agency Agreement, as applicable. Individual Definitive Notes may be transferred through any transfer agent upon the delivery and duly completed assignment of such Notes. Upon transfer of any individual Definitive Note in part, the Note Transfer Agent or Income Notes Transfer Agent, as applicable, will issue in exchange therefor to the transferee one or more individual Definitive Notes in the amount being so transferred and will issue to the transferor one or more individual Definitive Notes in the remaining amount not being transferred. No service charge will be imposed for any registration of transfer or exchange, but payment of a sum sufficient to cover any tax or other governmental charge may be required. The Holder of a restricted individual Definitive Note may transfer such Note, subject to compliance with the provisions of the legend thereon. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, the Issuer will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Payments of principal and interest on individual Definitive Notes shall be payable by the Note Paying Agents or the Fiscal Agent, as applicable, by U.S. Dollar check drawn on a bank in the United States of America and sent by mail to the registered Holder thereof, by wire transfer in immediately available funds. In addition, if and for so long as any Notes are listed on the Irish Stock Exchange and the rules of such exchange shall so require, in the case of a transfer or exchange of individual Definitive Notes, a Holder thereof may effect such transfer or exchange by presenting such Notes at, and obtaining a new individual Definitive Note from the office of the Irish Paying Agent, in the case of a transfer of only a part of an individual Definitive Note, a new individual Definitive Note in respect of the balance of the principal amount of the individual Definitive Note not transferred will be delivered at the office of the Irish Stock Exchange and in the case of a replacement of any lost, stolen, mutilated or destroyed individual Definitive Notes, a Holder thereof may obtain a new individual Definitive Note from the Irish Paying Agent.

The Income Notes. The Regulation S Income Notes will initially be in global form. The Income Notes (other than Regulation S Income Notes) will not be global and will be represented by one or more Income Note Certificates in definitive form. All Income Notes will be subject to certain restrictions on transfer as set forth under "Notice to Investors."

Income Notes may be transferred only (i) upon receipt by the Issuer and Income Notes Transfer Agent of an Income Notes Purchase and Transfer Letter to the effect that the transfer is being made (a) to a Qualified Institutional Buyer that has acquired an interest in the Income Notes in a transaction meeting the requirements of Rule 144A or (b) to an Accredited Investor having a net worth of not less than U.S.$10 million in a transaction exempt from registration under the Securities Act, who is a Qualified Purchaser or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S. The transferee of an Income Note (other than a Regulation S Income Note) must also make certain other representations applicable to such transferee, as set forth in the Income Notes Purchase and Transfer Letter.

Each Purchaser of a Regulation S Income Note will be deemed by its purchase to have represented and warranted as set forth under "Notice to Investors."

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Payments on the Income Notes on any Payment Date will be made to the person in whose name the relevant Income Note is registered in the Income Notes Register as of the close of business 10 Business Days prior to such Payment Date.

USE OF PROCEEDS

The gross proceeds associated with the offering of the Notes are expected to equal approximately U.S.$308,400,000. Approximately U.S.$1,655,000 of such gross proceeds will be applied by the Issuer to pay upfront fees and expenses associated with the offering of the Notes. On the Closing Date or promptly thereafter as is consistent with customary settlement procedures, pursuant to agreements to purchase entered into on or before the Closing Date, the Issuer will apply the net proceeds to purchase the Collateral Securities and Eligible Investments described herein having an aggregate Principal Balance of approximately U.S.$305,000,000 and will have entered into the Credit Default Swap. In addition, on the Closing Date, approximately U.S.$200,000 of the net proceeds from the issuance of the Notes will be deposited into the Expense Reserve Account.

RATINGS OF THE NOTES

It is a condition to the issuance of the Notes that the Class S Notes, the Class A-1a Notes, the Class A-1b Notes and the Class A-2 Notes be rated "Aaa" by Moody's and "AAA" by S&P, that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by S&P, that the Class C Notes be rated at least "A2" by Moody's and at least "A" by S&P and that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB" by S&P. The Income Notes will not be rated by either Rating Agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

If and for so long as any Class of Notes is listed on the Irish Stock Exchange, the Trustee will inform the Irish Paying Agent if any rating assigned to any Class of Notes is reduced or withdrawn.

Moody's Ratings

The ratings assigned to the Secured Notes by Moody's are based upon its assessment of the probability that the Credit Default Swap and the Collateral Assets will provide sufficient funds to pay such Secured Notes, based largely upon Moody's statistical analysis of historical default rates on debt obligations with various ratings, expected recovery rates on the Reference Obligations and the Collateral Assets, the asset and interest coverage required for such Secured Notes (which is achieved through the subordination of more junior Notes), and the diversification requirements that the Pledged Assets must satisfy.

Moody's rating of (i) the Class S Notes, the Class A Notes and the Class B Notes addresses the ultimate cash receipt of all required principal payments and the timely cash receipt of all interest or premium payments as provided in the governing documents and (ii) the Class C Notes and the Class D Notes addresses the ultimate cash receipt of all required interest and principal payments as provided in the governing documents. Moody's ratings are based on the expected loss posed to the Holders of the Notes relative to the promise of receiving the present value, calculated using a discounted rate equal to the promised interest rate of such payments. Moody's analyzes the likelihood that each debt obligation included in the portfolio will default, based on historical default rates for similar debt obligations, the historical volatility of such default rates (which increases as securities with lower ratings are added to the portfolio) and an additional default assumption to account for future fluctuations in defaults. Moody's then determines the level of credit protection necessary to achieve the expected loss associated with the rating of the structured securities, taking into account the potential recovery value of the Pledged Assets and the expected volatility of the default rate of the portfolio based on the level of diversification by issuer and industry.

In addition to these quantitative tests, Moody's ratings take into account qualitative features of a transaction, including the experience of the Liquidation Agent, the legal structure and the risks associated with such structure, its view as to the quality of the participants in the transaction and other factors that it deems relevant.

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S&P Ratings

S&P will rate the Secured Notes in a manner similar to the manner in which it rates other structured issues. The ratings assigned to the Class S Notes, the Class A Notes and the Class B Notes by S&P address the likelihood of the timely payment of interest and the ultimate payment of principal on such Secured Notes. The ratings assigned to the Class C Notes and the Class D Notes by S&P address the likelihood of the ultimate payment of interest and principal on such Secured Notes. This requires an analysis of the following: (i) credit quality of the Pledged Assets securing the Secured Notes; (ii) cash flow used to pay liabilities and the priorities of these payments; and (iii) legal considerations. Based on these analyses, S&P determines the necessary level of credit enhancement needed to achieve a desired rating.

S&P's analysis includes the application of its proprietary default expectation computer model, the Standard & Poor's CDO Monitor (which will be provided to the Issuer), which is used to estimate the default rate the portfolio is likely to experience. The Standard & Poor's CDO Monitor calculates the projected cumulative default rate of a pool of collateral consistent with a specified benchmark rating level based upon S&P's proprietary corporate debt default studies. The Standard & Poor's CDO Monitor takes into consideration the rating of each issuer or obligor, the number of issuers or obligors, the issuer or obligor industry concentration and the remaining weighted average maturity of each of the Reference Obligations included in the Reference Portfolio. The risks posed by these variables are accounted for by effectively adjusting the necessary default level needed to achieve a desired rating. The higher the desired rating, the higher the level of defaults the portfolio must withstand.

Credit enhancement to support a particular rating is then provided based, in part, on the results of the Standard & Poor's CDO Monitor, as well as other more qualitative considerations such as legal issues and management capabilities. Credit enhancement is typically provided by a combination of overcollateralization/subordination, cash collateral/reserve account, excess spread/interest and amortization. A transaction-specific cash flow model (the "Transaction-Specific Cash Flow Model") is used to evaluate the portfolio and determine whether it can withstand an estimated level of default while fully repaying the class of debt under consideration.

There can be no assurance that actual loss on the Pledged Assets will not exceed those assumed in the application of the Standard & Poor's CDO Monitor or that recovery rates and the timing of recovery with respect thereto will not differ from those assumed in the Transaction-Specific Cash Flow Model. The Issuers make no representation as to the expected rate of defaults on the portfolio or as to the expected timing of any defaults that may occur.

S&P's rating of the Notes will be established under various assumptions and scenario analyses. There can be no assurance, and no representation is made, that actual defaults on the Pledged Assets will not exceed those in S&P's analysis, or that recovery rates with respect thereto (and, consequently, loss rates) will not differ from those in S&P's analysis.

THE CREDIT DEFAULT SWAP

General

The following description of the Credit Default Swap is a summary of certain provisions of the Credit Default Swap but does not purport to be complete and prospective investors must refer to the Credit Default Swap for more detailed information regarding the Credit Default Swap. Copies of the Master Agreement and the Master Confirmations will be available to investors from the Trustee. Capitalized terms not otherwise defined in this section will have the meanings set forth in the Master Agreement and related Master Confirmation.

The Credit Default Swap will be structured as a "pay-as-you-go" credit default swap and will be documented pursuant to a 1992 ISDA Master Agreement (Multicurrency-Cross Border), including the Schedule thereto (the "Master Agreement"), between the Issuer and the Credit Protection Buyer along with two confirmations (each a "Master Confirmation") evidencing a transaction with respect to each Reference Obligation in the Reference Portfolio thereunder (each such transaction, a "CDS Transaction").

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Each CDS Transaction is expected to have a specified Reference Obligation Notional Amount which represents the dollar amount of the credit exposure which the Issuer is assuming thereunder with respect to the Reference Obligation related to such CDS Transaction. The "Aggregate Reference Obligation Notional Amount" is the sum of the Reference Obligation Notional Amounts of all CDS Transactions. On the Closing Date, the Issuer expects to enter into a Credit Default Swap with an Aggregate Reference Obligation Notional Amount of approximately U.S.$305,000,000. In accordance with the terms of the CDS Transactions, the Reference Obligation Notional Amount of each CDS Transaction is expected after the Closing Date to be: (i) decreased on each day on which a Reference Obligation Principal Payment is made by the relevant Reference Obligation Principal Amortization Amount; (ii) decreased on each day on which a Failure to Pay Principal occurs by the relevant Principal Shortfall Amount; (iii) decreased on each day on which a Writedown occurs by the relevant Writedown Amount; (iv) increased on each day on which a Writedown Reimbursement occurs by any Writedown Reimbursement Amount in respect of a Writedown Reimbursement within paragraphs (ii) or (iii) of the definition of "Writedown Reimbursement"; and (v) decreased on each Delivery Date by an amount equal to the relevant Exercise Amount *minus* the relevant amount determined pursuant to paragraph (b) under the heading, "Physical Settlement Amount" in the related Master Confirmation; *provided* that, in accordance with the related Master Confirmation, if any Relevant Amount is applicable, the Exercise Amount will also be deemed to be decreased by such Relevant Amount (or increased by the absolute value of such Relevant Amount if such Relevant Amount is negative) with effect from such Delivery Date.

The effective date of the Credit Default Swap will be the Closing Date and the Credit Default Swap will terminate by its terms on July 12, 2042 (the "Scheduled Termination Date") unless a Credit Event occurs with respect to the Credit Default Swap and the physical settlement date is scheduled to occur after such date.

Credit Protection Buyer Payments

Pursuant to the Credit Default Swap, on each Determination Date, the Credit Protection Buyer will make a fixed rate payment (minus any related Interest Shortfall Amounts as described below and in the related Master Confirmation) (the "Fixed Amount") to the Issuer, representing the aggregate Fixed Amounts which became due with respect to the Reference Obligation Payment Dates during the related Due Period. The Credit Protection Buyer will make certain other payments under the Credit Default Swap to the Issuer at the times and in the amounts described herein, including any Interest Shortfall Reimbursement Payment Amounts, Writedown Reimbursement Payment Amounts and any Principal Shortfall Reimbursement Payment Amounts (together "Additional Fixed Amounts"). In connection with any termination or assignment of a CDS Transaction, proceeds from such termination or assignment, if any, will be deposited into the Interest Collection Account.

Upon the occurrence of any Interest Shortfall with respect to any Reference Obligation, the Fixed Amount payable under a CDS Transaction by the Credit Protection Buyer to the Issuer will be reduced by an amount equal to the related Interest Shortfall Payment Amount, such reduction amount not to exceed the Fixed Amount. Interest will accrue on any Interest Shortfall Payment Amount at a rate equal to LIBOR plus the fixed rate as specified in the applicable CDS Transaction. Interest Shortfall Payment Amounts are subject to the Interest Shortfall Cap as described in the Credit Default Swap. If any amount in satisfaction of the Interest Shortfall which gave rise to any Interest Shortfall Payment Amount, including interest accrued thereon, is later paid with respect to a Reference Obligation, the Credit Protection Buyer will pay such amount, or in certain circumstances a portion of such amount to the Issuer as an Interest Shortfall Reimbursement Payment. Interest Shortfall Reimbursement Payment Amounts will not exceed the cumulative Interest Shortfall Payment Amounts (including any interest thereon) previously withheld from the Issuer relating to such Reference Obligation.

So long as the long-term ratings (or, in the case of clause (ii)(b) of this paragraph only, the short-term rating) of the Credit Protection Buyer or any guarantor of the Credit Protection Buyer's obligation under the Credit Default Swap are equal to or higher than (i) "Aa3" by Moody's (and, if rated "Aa3" by Moody's, is not on watch for possible downgrade) and (ii)(a) "AA-" by S&P (and, if rated "AA-" by S&P, is not on watch for possible downgrade) or (b), if Goldman Sachs International is not the Credit Protection Buyer, "A-1+" by S&P (and, if rated "A-1+" by S&P, is not on watch for possible downgrade), the fixed payment due by the Credit Protection Buyer will be payable in arrears. However, if the long-term ratings (or the short-term rating, as applicable) of the Credit Protection Buyer or any guarantor fall below any such levels, the Credit Protection Buyer will be required to pay the fixed payment due under the Credit Default Swap in advance. The failure of the Credit Protection Buyer to make

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the fixed payment in advance if such rating levels are no longer satisfied will constitute a termination event under the terms of the Credit Default Swap with the Credit Protection Buyer as the sole "Affected Party" under the Credit Default Swap.

Credit Protection Seller Payments

Under the Credit Default Swap, the Issuer will be required to pay certain Floating Amounts to the Credit Protection Buyer following the occurrence of a Floating Amount Event with respect to a Reference Obligation as described herein. The Issuer will pay to the Credit Protection Buyer all Floating Amounts which became due during each Due Period, if any, on the related Determination Date.

Upon the occurrence of a Credit Event with respect to a Reference Obligation, the Credit Protection Buyer may deliver such Reference Obligation to the Issuer, in exchange for which the Issuer will pay to the Credit Protection Buyer an amount (a "Physical Settlement Amount"), which amount shall be calculated in accordance with the related CDS Transaction. The Issuer will pay to the Credit Protection Buyer all Physical Settlement Amounts which became due during the related Due Period, if any, on the related Determination Date.

Delivered Obligations delivered to the Issuer will be credited to the Delivered Obligation Account. Any Delivered Obligation delivered to the Issuer shall be sold by the Liquidation Agent within twelve (12) months of the date on which the Liquidation Agent receives notice of such delivery in accordance with the Liquidation Agency Agreement; *provided* that no Event of Default has occurred and is continuing. The proceeds of such sale will be deposited by the Trustee into the Collateral Account and invested in Eligible Investments and Collateral Securities selected at the direction of the Liquidation Agent. In addition, any principal proceeds or interest received on such Delivered Obligations prior to such sale, will be deposited by the Trustee into the Collateral Account.

In connection with any termination or assignment of a CDS Transaction, the Issuer may owe a Credit Default Swap Termination Payment; *provided however*, that the Issuer will not be obligated to make any Credit Default Swap Termination Payments to the Credit Protection Buyer in the event of a termination or assignment of the Credit Default Swap in respect of which the Credit Protection Buyer is the "Defaulting Party" or the sole "Affected Party" (each as defined in the Credit Default Swap). Credit Default Swap Termination Payments due to the Credit Protection Buyer will be paid directly and outside of the Priority of Payments in accordance with the following paragraph. Defaulted Swap Termination Payments due to the Credit Protection Buyer will be paid in accordance with the Priority of Payments. Credit Default Swap Termination Payments due to an assignee of a CDS Transaction will be paid as and when they become due to the extent of available funds.

The Liquidation Agent, on behalf of the Issuer, will obtain the funds to pay Credit Protection Amounts (which, for the avoidance of doubt, shall not include Defaulted Swap Termination Payments) by withdrawing amounts from the Collateral Account pursuant to the Collateral Liquidation Procedure. In the event the Credit Default Swap is terminated prior to its scheduled maturity without the occurrence of a "credit event" or a "floating amount event," the Liquidation Agent, on behalf of the Issuer, shall apply the Collateral Liquidation Procedure with respect to Collateral having a par amount equal to the amount of the Credit Default Swap Termination Payment, if any, owed to the Credit Protection Buyer and any such termination payment will be paid to the Credit Protection Buyer. The Credit Protection Buyer will bear any market risk on the liquidation of such Collateral. The Credit Default Swap will also provide for cash settlement upon the occurrence of a "floating amount event" or physical settlement upon the occurrence of a "credit event" under such Credit Default Swap upon notice from the Credit Protection Buyer. If the Credit Protection Buyer has chosen cash settlement, the Liquidation Agent, on behalf of the Issuer, shall apply the Collateral Liquidation Procedure with respect to Collateral having a par amount equal to the amount of any related Credit Protection Amounts owed to the Credit Protection Buyer and any such related Credit Protection Amounts owed to the Credit Protection Buyer will be paid by the Liquidation Agent, on behalf of the Issuer, from the liquidation proceeds of such Collateral. In the event such liquidation proceeds are less than par, the Credit Protection Buyer will accept the liquidation proceeds applicable to the face amount of Collateral sold which is equal to the loss or writedown amount. In the event a "credit event" or a "floating amount event" has occurred and the Issuer is required to liquidate Collateral and deliver cash to the Credit Protection Buyer, the Credit Protection Buyer will bear any market risk on the liquidation of such Collateral. If the Credit Protection Buyer has chosen physical settlement, the Collateral chosen by the Credit Protection Buyer will be delivered to the Credit Protection Buyer in exchange for a Delivered Obligation.

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The obligations of the Issuer to make payments under a CDS Transaction will exist irrespective of whether the Credit Protection Buyer suffers a loss on the related Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the Credit Default Swap.

Credit Events

A Credit Event with respect to the Credit Default Swap and any Reference Obligation means the occurrence of any of the events specified in the Credit Default Swap as a Credit Event on or before the scheduled termination date for such CDS Transaction. The Credit Events are expected to be Failure to Pay Principal, Writedown and Distressed Ratings Downgrade. Each Master Confirmation may alter the standard definitions of such terms and the actual CDS Transactions should be consulted for the details of the Credit Events applicable thereto. The capitalized terms used in this section and not otherwise defined, have the meanings set forth in the related CDS Transactions.

A "Credit Event" is the occurrence of any of the following (however caused, directly or indirectly), as applicable:

(i) Failure to Pay Principal

"Failure to Pay Principal" means (i) a failure by the Reference Entity (or any Insurer) to pay an Expected Principal Amount on the Final Amortization Date or the Legal Final Maturity Date, as the case may be or (ii) payment on any such day of an Actual Principal Amount that is less than the Expected Principal Amount; provided that the failure by the Reference Entity (or any Insurer) to pay any such amount in respect of principal in accordance with the foregoing shall not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the underlying instruments or, if no such grace period is applicable, within three Business Days after the day on which the Expected Principal Amount was scheduled to be paid.

(ii) Writedown

"Writedown" means the occurrence at any time on or after the Effective Date of: (i)(A) a writedown or applied loss (however described in the underlying instruments) resulting in a reduction in the Outstanding Principal Amount (other than as a result of a scheduled or unscheduled payment of principal); or (B) the attribution of a principal deficiency or realized loss (howsoever described in the underlying instruments) to the Reference Obligation resulting in a reduction of the current interest payable on the Reference Obligation; (ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the underlying instruments resulting in a reduction in the Outstanding Principal Amount; or (iii) if the underlying instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Calculation Agent.

(iii) Distressed Ratings Downgrade:

"Distressed Ratings Downgrade" means, with respect to a Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal; or

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a

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public rating of at least "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC") or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of at least "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it shall not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

(iv) Failure to Pay Interest

"Failure to Pay Interest" means with respect to any Reference Obligation, the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

In respect of the Failure to Pay Interest, if the Reference Obligation is a PIK Bond, it shall be a Condition to Settlement that a period of at least 360 calendar days has elapsed since the occurrence of the Credit Event without the relevant Interest Shortfall having been reimbursed in full.

The Reference Portfolio

The Aggregate Reference Obligation Notional Amount on the Closing Date is expected to be U.S.$305,000,000. The Reference Obligations will consist of 61 issues across two categories of RMBS Securities and one category of CDO Securities. The Reference Portfolio will include RMBS Midprime Mortgage Securities, RMBS Subprime Mortgage Securities and CDO RMBS Securities.

As of the Closing Date, (i) RMBS Midprime Mortgage Securities are expected to make up approximately 41.0% of the Aggregate Reference Obligation Notional Amount, (iii) RMBS Subprime Mortgage Securities are expected to make up approximately 57.4% of the Aggregate Reference Obligation Notional Amount and (iv) CDO RMBS Securities are expected to make up approximately 1.6% of the Aggregate Reference Obligation Notional Amount. See Appendix B to this Offering Circular for certain summary information with respect to the Reference Portfolio.

Removal of Reference Obligations from the Reference Portfolio

Following a Writedown and the satisfaction of the Conditions to Settlement relating thereto, the Reference Obligation that is the subject of such Credit Event will not be removed from the Reference Portfolio, and such Reference Obligation may experience one or more subsequent Credit Events (including a Writedown).

Following (i) the scheduled maturity, redemption or amortization in full of a Reference Obligation or (ii) a Credit Event other than a Writedown and the satisfaction of the Conditions to Settlement, the Reference Obligation that matured, redeemed or amortized in full or that is the subject of such Credit Event will be removed from the Reference Portfolio. Subject to the foregoing, if the Reference Obligation Notional Amount of a Reference Obligation that suffered one or more Writedowns is reduced to zero at any time on or prior to the Scheduled Termination Date and remains at zero for a period of one calendar year, such Reference Obligation shall be removed from the Reference Portfolio as of the last day of such one calendar year period. The Aggregate Reference Obligation Notional Amount shall be decreased by the Reference Obligation Notional Amount of each Reference Obligation removed from the Reference Portfolio.

The Issuer will not have the authority to assign, terminate or otherwise dispose of any CDS Transaction on a discretionary basis. The only CDS Transactions that shall be assign, terminated or otherwise disposed of by the Issuer are CDS Transactions that reference Reference Obligations that are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be Credit Risk Obligations.

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Pursuant to the terms of the Indenture and subject to the restrictions contained therein and in the Liquidation Agency Agreement, the Liquidation Agent shall assign, terminate or otherwise dispose of, on behalf of the Issuer, any such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation within one (1) year from the date on which the Collateral Administrator, on behalf of the Issuer, pursuant to the Collateral Administration Agreement, identifies to the Liquidation Agent such Reference Obligation as a Credit Risk Obligation. The assignment, termination or disposition price for any such assignment, termination or disposition of a CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation will equal the fair market value of such CDS Transaction. The fair market value of any such CDS Transaction will be the highest bid received by the Liquidation Agent after attempting to solicit a bid from up to three independent third parties making a market in such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation, at least one of which is not from the Liquidation Agent or an affiliate thereof; *provided* that, if upon commercially reasonable efforts of the Liquidation Agent, bids from three independent third parties making a market in such CDS Transaction are not available, the higher of the bids from two such third parties may be used; *provided, further* that, if upon commercially reasonable efforts of the Liquidation Agent, bids from two independent third parties making a market in such CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation are not available, one such bid may be used. See "Risk Factors—Notes—Static Transaction" and "—No Collateral Manager." The proceeds from any such disposition of a CDS Transaction that references a Reference Obligation that is so determined to be a Credit Risk Obligation (exclusive of any accrued interest) will be deposited to the Collateral Account for investment in Eligible Investments or Collateral Securities, and may be applied as Amortization Proceeds pursuant to the calculation of the Aggregate Amortization Amount. In the event the Credit Default Swap is terminated prior to its scheduled maturity without the occurrence of a "credit event" or a "floating amount event," the Liquidation Agent, on behalf of the Issuer, shall apply the Collateral Liquidation Procedure with respect to Collateral having a par amount equal to the amount of the Credit Default Swap Termination Payment, if any, owed to the Credit Protection Buyer and any such termination payment will be paid to the Credit Protection Buyer. The Credit Protection Buyer will bear any market risk on the liquidation of such Collateral. A "Credit Risk Obligation" is a Reference Obligation (i) the rating of which has been (a) downgraded to below "B-" or "B3" by any Rating Agency (but not including any Reference Obligations which are rated "B-" or "B3" and on credit watch for possible downgrade) or (b) withdrawn or, (ii) that is a Defaulted Obligation or (iii) that is a PIK Bond that has been deferring interest for at least twelve consecutive months.

The Liquidation Agent, on behalf of the Issuer, may also (i) in the case of an Auction terminate the Credit Default Swap and liquidate the remaining Pledged Assets; provided, that the criteria for an Auction can be demonstrably met prior to any such disposition and that the expected Liquidation Proceeds equal or exceed the Minimum Bid Amount; (ii) in the case of a Tax Redemption on any Payment Date, dispose of the Credit Default Swap and liquidate the remaining Pledged Assets in connection with a Tax Redemption; provided that the criteria for a Tax Redemption can be demonstrably met prior to any such disposition and that the expected Liquidation Proceeds equal or exceed the Total Redemption Amount; and (iii) in the case of an Optional Redemption, dispose of the Credit Default Swap and liquidate the remaining Pledged Assets in connection with an Optional Redemption; *provided* that the criteria for an Optional Redemption can be demonstrably met prior to any such disposition and that the expected Liquidation Proceeds equal or exceed the Total Redemption Amount. See "Description of the Notes—Auction," "—Tax Redemption" and "—Optional Redemption."

Credit Default Swap Early Termination

The Issuer will have the right to terminate the Credit Default Swap upon the occurrence of an "Event of Default" or "Termination Event," including, but not limited to, (a) payment defaults by the Credit Protection Buyer and any guarantor lasting a period of at least three business days, (b) a default by the Credit Protection Buyer or any guarantor on specific financial transactions as specified in the Credit Default Swap, (c) bankruptcy-related events applicable to the Credit Protection Buyer or any guarantor, (d) any redemption of the Notes in whole, (e) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (f) it becomes unlawful for the Issuer to perform its obligations under the Credit Default Swap and the Issuer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, (g) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Issuer will be required to (1) make a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment or (h) the unsecured, unsubordinated debt rating of the Credit Protection Buyer or any

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guarantor of the Credit Protection Buyer, whichever is higher, assigned by S&P or Moody's at any time falls below "AA-" (or is on downgrade watch at "AA-") or "Aa3" (or is on downgrade watch at "Aa3"), the Credit Protection Buyer fails to make an Expected Fixed Payment as set forth in the Credit Default Swap and the Credit Protection Buyer, or its guarantor, fails to either (a) transfer all of its rights and obligations under the Credit Default Swap to another entity which has such ratings or (b) cause an entity which has such ratings to guarantee or to provide an indemnity in respect of the Credit Protection Buyer's or its guarantor's, obligations under the Credit Default Swap which satisfies the Rating Agency Condition.

The Credit Protection Buyer will have the right to terminate the Credit Default Swap upon the occurrence of an "Event of Default" or "Termination Event" under the Credit Default Swap, including, but not limited to (a) an Event of Default under the Indenture caused by a payment default by the Issuer lasting a period of at least three business days, (b) any redemption of the Notes in whole, (c) bankruptcy-related events applicable to the Issuer, and (d) a liquidation of all the Pledged Assets following the occurrence of an Event of Default under the Indenture, (e) it becomes unlawful for the Credit Protection Buyer to perform its obligations under the Credit Default Swap and the Credit Protection Buyer is not able to transfer its obligations to a different jurisdiction or substitute another entity in its place so that such illegality ceases to apply, or (f) because of (x) any action taken by a taxing authority, or brought in a court, on or after the Closing Date or (y) a change in tax law, there is a substantial likelihood that the Credit Protection Buyer will be required to make (1) a "gross-up" payment or (2) receive a payment subject to withholding for which another party is not required to make a "gross-up" payment. If the Master Agreement and the CDS Transactions made thereunder are terminated, the Issuer will no longer receive payments from the Credit Protection Buyer and will likely not have sufficient funds to make payments when due on the Notes and may not have sufficient funds to redeem the Notes in full.

Upon the Trustee having actual knowledge of the occurrence of any event that gives rise to the right of the Issuer to terminate the Credit Default Swap, the Trustee or the Fiscal Agent, as applicable, will as promptly as practicable notify the Noteholders of such event but will only terminate any such agreement on behalf of the Issuer (i) at the direction of a Majority of the Income Notes or (ii) (a) upon the redemption of the Secured Notes in full, (b) if the principal balance of the Secured Notes is reduced to zero or (c) upon the acceleration of the Secured Notes in accordance with the terms of the Indenture. The Issuer is required to satisfy the Rating Agency Condition prior to any (i) replacement of the Credit Protection Buyer or (ii) assignment of the Credit Default Swap. In connection with any Noteholder vote to terminate the Credit Default Swap, any Notes held by or on behalf of the Credit Protection Buyer or any of their respective Affiliates will have no voting rights and will be deemed not to be outstanding in connection with any such vote.

If an Event of Default or a Termination Event occurs under the Credit Default Swap and (i) the Credit Protection Buyer is the Defaulting Party or Affected Party, "Market Quotation" and "First Method" will apply and otherwise (ii) "Market Quotation" and "Second Method" will apply, in each case as set forth in the Credit Default Swap, to value the CDS Transactions under the Credit Default Swap.

Payments on Credit Default Swap Early Termination

Payments by the Issuer. Upon the occurrence of a Credit Default Swap Early Termination, the Issuer will be required to pay to the Credit Protection Buyer the following amounts:

(i) any Physical Settlement Amounts owed by the Issuer to the Credit Protection Buyer for any Credit Events that occur on or prior to the Credit Default Swap Early Termination Date for which the Conditions to Settlement have been satisfied; and

(ii) any Credit Default Swap Termination Payment due to the Credit Protection Buyer.

Payments by the Credit Protection Buyer. Upon the occurrence of a Credit Default Swap Early Termination, the Credit Protection Buyer will be required to pay to the Issuer the following amounts:

(i) any accrued but unpaid Fixed Amounts and Additional Fixed Amounts; and

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(ii) any Credit Default Swap Termination Payment due to the Issuer.

There can be no assurance that, upon early termination by the Issuer or the Credit Protection Buyer, either the Credit Protection Buyer would be required to make any termination payment to the Issuer or, if it did make such a payment, the amount of the termination payment made by the Credit Protection Buyer would be sufficient to pay any amounts due in respect of the Notes. If the Issuer is required to make a Credit Default Swap Termination Payment to the Credit Protection Buyer, such termination payment may be substantial and may result in losses to the holders of the Notes.

Amendment

The Credit Default Swap may be amended only with (i) the satisfaction of the Rating Agency Condition, (ii) the consent of the Noteholders (in a percentage as would have been required had such amendment been taken pursuant to this Indenture) and (iii) the consent of the Liquidation Agent (which consent shall not be unreasonably withheld); *provided however*, that (A) with respect to (i), such Rating Agency Condition with respect to Moody's need not be satisfied with respect to any amendment that corrects a manifest error and (B) with respect to (ii) and (iii), such consent shall not be required, if, in reliance on an opinion of counsel or an officer's certificate of the Liquidation Agent, the Issuer determines that such amendment would not have a material adverse effect on such party.

Guarantee

The GS Group will guarantee the obligations of the Credit Protection Buyer under the Credit Default Swap.

THE CREDIT PROTECTION BUYER

The initial Credit Protection Buyer under the Credit Default Swap will be Goldman Sachs International. The swap guarantor with respect to the Credit Default Swap is The Goldman Sachs Group, Inc., a Delaware corporation (the "GS Group"), which is an affiliate of the Credit Protection Buyer. Goldman Sachs International is located at Peterborough Court 133 Fleet Street, London EC4A 2BB.

The Annual Report on Form 10-K for the fiscal year ended November 30, 2006 filed by GS Group with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules) will not form part of a prospectus prepared for the purposes of admission to the official list of the Irish Stock Exchange and to trading on its regulated market should any Notes be listed on such exchange.

GS Group, together with its subsidiaries, is a global investment banking, securities and investment management firm that provides financial services worldwide to clients that include corporations, financial institutions, governments and high net-worth individuals.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this Offering Circular, or contained in this Offering Circular, will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. GS Group's filings with the SEC are available to the public through the SEC's Internet site at http://www.sec.gov, and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which GS Group's common stock is listed.

The Notes do not represent an obligation of, and will not be insured or guaranteed by, GS Group or any of its subsidiaries and investors will have no rights or recourse against GS Group or any of its subsidiaries.

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THE COLLATERAL SECURITIES

The Initial Collateral Securities

Pursuant to the Credit Default Swap, the Issuer will use the net proceeds from the offering of the Notes to purchase Collateral Securities and Eligible Investments (having an initial principal amount as of the Closing Date of approximately U.S.$305,000,000).

The Collateral Securities or Eligible Investments for deposit after the Closing Date in the Collateral Account, as applicable, are required to satisfy the following "Collateral Securities Eligibility Criteria":

(i) it (a) is rated "Aaa" by Moody's and, if such asset has a short-term rating from Moody's, "P-1", and "AAA" by S&P, and, if such asset has a short-term rating from S&P, "A-1+" and (b) does not have a "t", "p", "q", "pi" or "r" subscript;

(ii) (a) in all cases, the payments with respect to which are not payable in a currency other than Dollars and (b) it is expected to have an outstanding principal balance of less than U.S.$1,000 after the Stated Maturity of the Class B Notes, assuming a constant prepayment rate since the date of purchase equal to the constant prepayment rate reasonably expected by the Liquidation Agent as of the date of purchase;

(iii) it is eligible to be entered into by, sold or assigned to, the Issuer;

(iv) it is not subject to an Offer;

(v) it is an obligation upon which no payments are subject to withholding tax imposed by any jurisdiction unless the obligor thereof is required to make "gross-up" payments that cover the full amount of any such withholding taxes on an after-tax basis;

(vi) after taking into consideration the addition of any such security (a) at least 40% of the Collateral Securities and Eligible Investments by principal balance have an expected average life (calculated by the Liquidation Agent (1) based on market prepayment assumptions and (2) assuming that Eligible Investments have a weighted average life of zero) of less than or equal to 1.0 year, (b) 100% of the Collateral Securities and Eligible Investments by principal balance has an expected average life (calculated by the Liquidation Agent based on market prepayment assumptions) of less than or equal to 2.0 years, and (c) after Closing Date, the expected weighted average life (calculated by the Liquidation Agent (1) based on market prepayment assumptions and (2) assuming that Eligible Investments have a weighted average life of zero) of the Collateral Securities and Eligible Investments does not exceed the expected weighted average life of the Reference Portfolio at such time;

(vii) after taking into consideration the addition of any such security, the aggregate of the weighted average spread and the rate of the related index of the Collateral, in the aggregate, is at least equal to LIBOR or if prior to the acquisition of such Collateral Security or Eligible Investment the spread and the rate of the related index of the Collateral was less than LIBOR, such acquisition would maintain or improve the aggregate of the weighted average spread and the rate of the related index of the Collateral;

(viii) after taking into consideration the addition of any such security, no more than 50% of the Collateral Securities and Eligible Investments by principal balance has single counterparty exposure including servicer, issuer and put swap counterparty exposure;

(ix) it provides for payments of monthly periodic interest in cash at a floating rate and for a payment of principal in full and in cash at its final maturity;

(x) each such security satisfies the definition of an "Eligible Investment" or is a Residential Mortgage-Backed Security, a Commercial Mortgage-Backed Security, an Asset-Backed Security or a CDO Security;

(xi) shall not have a maturity later than the Stated Maturity of the Notes (other than the Class S Notes)

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(xii) if it is a CDO Security, such CDO Security must (a) be a CDO S Note Security and (b) as of the time of purchase by the Issuer, be in compliance with the applicable eligibility criteria, profile tests and quality tests set forth in the related Underlying Instruments;

(xiii) at least 87.5% of the Collateral Securities by principal balance consists of Asset-Backed Securities, Residential Mortgage-Backed Securities or Commercial Mortgage-Backed Securities; and

(xiv) the purchase price thereof is equal to at least 98% of the par value of such security.

The Collateral Securities are expected to be purchased in a face amount equal to the initial Aggregate Notional Amount of the Credit Default Swap. Under the terms of the Indenture, all Collateral Securities are required to be deposited in the Collateral Account for the benefit of the Credit Protection Buyer. The Issuer will also grant to the Trustee for the benefit of the Secured Parties, a security interest in the Collateral Securities, subject to the lien of the Credit Protection Buyer, and shall notify the Credit Protection Buyer of such security interest. The Issuer must obtain the consent of the Credit Protection Buyer with respect to any initial Collateral Securities purchased by the Issuer and any Collateral Securities purchased thereafter.

Principal payments on the Collateral Securities prior to the termination of the Credit Default Swap shall be held in accordance with the Credit Default Swap in the Collateral Account and invested in Eligible Investments until reinvested in Collateral Securities which satisfy the Collateral Securities Eligibility Criteria with the consent of the Credit Protection Buyer.

The Liquidation Agent, on behalf of the Issuer, will obtain the funds to pay Credit Protection Amounts (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) by applying the Collateral Liquidation Procedure.

If the Notes become due in connection with an Optional Redemption, Tax Redemption or Auction, (i) the Liquidation Agent, on behalf of the Issuer, will assign or terminate the Credit Default Swap and liquidate all of the Collateral Securities and Eligible Investments in the Collateral Account and all Delivered Obligations in the Delivered Obligations Account and (ii) the Issuer will pay to the Credit Protection Buyer (and/or one or more assignees thereof) any Credit Default Swap Termination Payments the Issuer is required to pay to the Credit Protection Buyer (if any) in connection with any assignment or termination of the Credit Default Swap. Certain amounts will be held back if (and/or such assignees) one or more outstanding Credit Events or Floating Amounts remain due as of a Redemption Date.

If the Credit Default Swap is terminated in connection with the occurrence of an Event of Default or Termination Event (each as defined in the Master Agreement), the Liquidation Agent, on behalf of the Issuer, will pay to the Credit Protection Buyer any Credit Default Swap Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) owed by the Issuer to the Credit Protection Buyer by applying the Collateral Liquidation Procedure. Certain amounts will be held back if one or more outstanding Credit Events exist or Floating Amounts remain due as of any termination date.

For purposes of the Coverage Tests and for purposes of determining whether a Credit Default Swap is a Credit Risk Obligation, a Credit Default Swap shall be included as a Pledged Asset having the characteristics of the Reference Obligation and not of the Credit Default Swap; provided, that if such Credit Protection Buyer is in default under the related Credit Default Swap, such Credit Default Swap shall not be included in the Coverage Tests or such Credit Default Swap will be treated in such a way that will satisfy the Rating Agency Condition.

Substitution of Collateral Securities

From time to time following the Closing Date, any Holder of any Note may submit to the Trustee or the Fiscal Agent, as applicable, a Collateral Securities Substitution Request Notice requesting substitution of one or more securities for one or more existing Collateral Securities, in whole or in part. Following receipt of such request, pursuant to the Collateral Administration Agreement, the Collateral Administrator, on behalf of the Issuer, will determine the BIE Transaction Cost. Upon such determination by the Collateral Administrator, the Trustee or the

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Fiscal Agent, as applicable, will deliver a Collateral Securities Substitution Information Notice to the Originating Noteholder.

Within five Business Days of receiving a Collateral Securities Substitution Information Notice, the Originating Noteholder must (i) notify the Trustee or the Fiscal Agent, as applicable, whether it wishes to proceed with the proposed substitution and, if so (ii) agree to pay any BIE Transaction Cost (regardless of whether the Holders of a Majority of the Notes of each Class consent to such proposed substitution) (the occurrence of subclauses (i) and (ii), a "Substitution Confirmation"). If a Substitution Confirmation is not received by the Trustee or the Fiscal Agent, as applicable, within the time period specified above, the related request will be deemed to be void and of no further effect. Upon the receipt of a Substitution Confirmation, the Trustee or the Fiscal Agent, as applicable, will deliver a BIE Consent Solicitation Notice to all Holders of Notes, including the Originating Noteholder with a copy to the Credit Protection Buyer. Upon receipt of such BIE Consent Solicitation Notice, each Holder of a Note may, on or prior to the BIE Notification Date, submit written notice to the Trustee or the Fiscal Agent, as applicable, indicating either (1) approval or (2) disapproval of any proposed BIE Consent Solicitation Notice by the BIE Notification Date. If the BIE Consent Solicitation Notice fails to receive the affirmative approval of the Holders of a Majority of each Class of Notes by the BIE Notification Date, the Trustee or the Fiscal Agent will deliver a Collateral Securities Substitution Noteholder Refusal Notice to the Originating Noteholder and the related Collateral Securities Substitution Request Notice will be deemed void and of no further effect. If the BIE Consent Solicitation Notice receives the approval of the Holders of a Majority of each Class of Notes, the Trustee or the Fiscal Agent, as applicable, will deliver a BIE Acceptance Notice to the Originating Noteholder and the Liquidation Agent.

Upon receipt of the BIE Acceptance Notice and confirmation from the Trustee (1) that the Originating Noteholder has paid the BIE Transaction Cost to the Trustee and (2) that the relevant BIE Collateral Securities have been delivered to the Trustee, and the par amount of such delivered BIE Collateral Securities (which, for the avoidance of doubt, will meet the Collateral Securities Eligibility Criteria at the time of such acquisition by the Issuer) is at least equal to each of the par amount of each of the Collateral Securities to be substituted, the Trustee shall release its lien on the par amount of the relevant existing Collateral Securities to be substituted and deliver the par amount of such substituted Collateral Securities to such Originating Noteholder.

If (i) any BIE Collateral Security is not delivered to the Issuer or (ii) the Issuer is not paid the BIE Transaction Cost, in each case by the end of the BIE Exercise Period identified in the BIE Acceptance Notice, the BIE Acceptance Notice and the Collateral Securities Substitution Request Notice will be deemed void and of no further effect.

Voting and Other Matters Relating to Collateral Securities and Delivered Obligations

Under the Indenture, where the Issuer, as the beneficial owner of a Collateral Security or Delivered Obligation, or the Trustee, as the registered owner of a Collateral Security or Delivered Obligation, has the right to exercise a vote or consent to (or otherwise approve of) (i) any action, or inaction, pursuant to the terms of such Collateral Security or Delivered Obligation and its related underlying documentation or (ii) an offer by the issuer of such Collateral Security or Delivered Obligation or by any other person to purchase or otherwise acquire such Collateral Security or Delivered Obligation or to convert or exchange such Collateral Security or Delivered Obligation for cash or any other consideration, the Trustee, as directed by the applicable holders, acting in its capacity as registered owner of such Collateral Security or Delivered Obligation, shall direct the Issuer's vote be cast in the following manner: (x) if other holders of the class of which such Collateral Security or Delivered Obligation is a part respond to such solicitation for vote or consent, in the same manner as the votes of a plurality of the other voting holders of such class (based on the Principal Balance of such Collateral Security or Delivered Obligation), (y) if no other holders of such class exercise a vote or if there are no other holders of such class, but holders of different classes issued under the same governing instrument respond, in the same manner as the votes of a plurality of the voting holders of all classes issued under the governing instrument pursuant to which such Collateral Security or Delivered Obligation was issued (based on the Principal Balance of all such classes and treated as a single class) or (z) if no holders of any class issued under the same governing instrument respond or if there are no other holders, the Issuer's vote shall be exercised against such action or inaction.

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THE LIQUIDATION AGENCY AGREEMENT

The following summary describes certain provisions of the Liquidation Agency Agreement. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Liquidation Agency Agreement.

General

The Liquidation Agent will, on behalf of the Issuer, pursuant to the Liquidation Agency Agreement, (i) assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined by the Collateral Administrator, on behalf of the Issuer, pursuant to the Collateral Administration Agreement, to be Credit Risk Obligations or (b) Delivered Obligations, (ii) sell, assign, terminate or otherwise dispose of the CDS Transactions, Collateral Securities, Delivered Obligations and Eligible Investments of the Issuer in connection with (a) a redemption of the Notes as a result of an Optional Redemption, a Tax Redemption, an Auction or as otherwise required under the Indenture as described therein and (b) an acceleration of the Notes as a result of an Event of Default as required under the Indenture as described therein, (iii) invest, on behalf of the Issuer, available funds in Collateral Securities and Eligible Investment in accordance with the terms of the Indenture and (iv) perform certain other functions, as described herein. The Liquidation Agent will have twelve (12) months to assign, terminate or otherwise dispose of (a) CDS Transactions the Reference Obligations of which are determined pursuant to the Collateral Administration Agreement by the Collateral Administrator, on behalf of the Issuer, to be Credit Risk Obligations and (b) Delivered Obligations in accordance with the terms of the Liquidation Agency Agreement (such twelve months measured from the date the Liquidation Agent is notified of either (1) such determination by the Collateral Administrator or (2) the receipt of such Delivered Obligation by the Issuer, as applicable). The proceeds of such sale of Delivered Obligations will be deposited into the Collateral Account and invested in Eligible Investments and Collateral Securities selected at the direction of the Liquidation Agent. In addition, any principal proceeds received on such Delivered Obligations prior to such sale, will be deposited into the Collateral Account. The Liquidation Agent will have no ability or authority to direct the assignment, termination or other disposition of any CDS Transactions. The Liquidation Agent will not provide investment advisory services to the Issuer or act as the "collateral manager" for the Credit Default Swap. The Liquidation Agent will not have fiduciary duties to the Issuer or to the holders of the Notes.

The Liquidation Agent

The Liquidation Agent is Goldman, Sachs & Co. ("GS&Co."). GS&Co. is a New York limited partnership and a registered U.S. broker-dealer. The Notes do not represent an obligation of, and will not be insured or guaranteed by GS&Co., its parent or any of its subsidiaries or its affiliates and investors will have no rights or recourse against GS&Co., its parent or any of its subsidiaries or affiliates.

Compensation

As compensation for the performance of its obligations under the Liquidation Agency Agreement, the Liquidation Agent will be entitled to receive a fee in accordance with the Priority of Payments, payable in arrears on each Payment Date, of 0.05% per annum (the "Liquidation Agent Fee") times the Aggregate Outstanding Portfolio Amount, measured as of the beginning of the Due Period preceding such Payment Date.

If amounts distributable on any Payment Date in accordance with the Priority of Payments are insufficient to pay the Liquidation Agent Fee in full, then the shortfall will be deferred and will be payable on subsequent Payment Dates on which funds are available therefor according to the Priority of Payments.

The Liquidation Agent Fee will be calculated on the basis of a 360 day year consisting of twelve 30-day months. All fees payable to the Liquidation Agent on a Payment Date are subject to payment only in accordance with the Priority of Payments.

The Liquidation Agent may, at its election and upon notice to the Issuer and the Trustee, direct for a predetermined period of time that all or a portion of the amount that is due to it as the Liquidation Agent Fee be paid

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directly to a third party; *provided*, that the Liquidation Agent will not (unless it is assigning all of its rights and obligations in accordance with the Liquidation Agency Agreement) be relieved of any of its duties under the Liquidation Agency Agreement or the Indenture as a result of the redirection of its right to receive all or a portion of the Liquidation Agent Fee.

Procedure for Disposition of CDS Transaction, Eligible Investments, Collateral Securities and Delivered Obligations

Pursuant to the Liquidation Agency Agreement, whenever the assignment, termination or other disposition of CDS Transactions, Eligible Investments, Collateral Securities and Delivered Obligations is required under the Indenture, as described under "The Credit Default Swap—Removal of Reference Obligations from the Reference Portfolio", the Liquidation Agent will use commercially reasonable efforts to solicit bids from at least three independent market makers, at least one of which is not the Liquidation Agent or an affiliate thereof. If after such commercially reasonable efforts, bids from three independent market makers are not available, the higher of two such bids may be used and if bids from two such independent market makers are not available, one such bid may be used. Assuming at least one bid is received in accordance with the preceding sentence, the applicable CDS Transactions, Eligible Investments, Collateral Securities and Delivered Obligations shall be disposed of at the highest bid price; *provided, however*, that in the case of a disposition of a CDS Transaction, such CDS Transaction shall only be disposed of if the Market Quotation (as such term is defined in the Credit Default Swap) obtained pursuant to the terms of the Credit Default Swap expressed as a percentage of the related initial Reference Obligation Notional Amount should be equal to or less than 60%. The Liquidation Agent or an affiliate of the Liquidation Agent may purchase a CDS Transaction, Eligible Investment, Collateral Security or Delivered Obligation assigned, terminated or otherwise disposed as described above. Notwithstanding the foregoing, any Auction shall be conducted in accordance with the auction procedures set forth in the Indenture.

Termination, Removal and Resignation

If the Liquidation Agency Agreement is terminated for any reason or the entity then serving as Liquidation Agent resigns or is removed, the Liquidation Agent Fee owing to such entity will be prorated for any partial periods between Payment Dates and such prorated amount will be due and payable on the first Payment Date following the date of such termination, subject to the priority of payments.

The Liquidation Agent may resign, upon 60 days' (or such shorter notice as is acceptable to the Issuer) written notice to the Issuer, the Trustee and the Rating Agencies. If the Liquidation Agent resigns, the Issuer agrees to use its best efforts to appoint a successor Liquidation Agent, and the effectiveness of such resignation will be conditioned upon the appointment of such successor.

The Liquidation Agent may be removed for "cause" (i) by the Issuer or the Trustee; *provided* that written notice thereof shall have been given to the holders of the Notes and each Rating Agency stating that such termination shall be effective only if directed in writing within 30 days after the date of such notice by, the holders of at least a Super Majority of the Income Notes and a Super Majority of the Controlling Class, but excluding in any such calculation any Notes held by the Liquidation Agent or any Notes over which the Liquidation Agent has discretionary voting authority, (ii) in the case of an event described in clause (3) below, by the Issuer or the Trustee upon 10 days' prior written notice to the Liquidation Agent, or (iii) by holders of at least a Super Majority of the Income Notes and a Super Majority of the Controlling Class, but excluding in any such calculation any Income Notes or Notes held by the Liquidation Agent or any Notes over which the Liquidation Agent has discretionary voting authority, upon 10 days' prior written notice to the Liquidation Agent.

For purposes of determining "cause" with respect to any such termination of the Liquidation Agency Agreement, such term shall mean the occurrence and continuation of any one of the following events: (1) the Liquidation Agent willfully violates, or takes any action that it knows breaches, any provision of the Liquidation Agency Agreement or the Indenture applicable to it; (2) the Liquidation Agent breaches in any material respect any provision of the Liquidation Agency Agreement or any terms of the Indenture applicable to it, which breach (i) has a material adverse effect on the holders of the Notes and (ii) within 30 days of its becoming aware (or receiving notice from the Trustee) of such breach, the Liquidation Agent fails to cure such breach; (3) the Liquidation Agent is wound up or dissolved or there is appointed over it or over all or substantially all of its assets a receiver,

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administrator, administrative receiver, trustee or similar officer; or the Liquidation Agent (w) ceases to, or admits in writing its inability to, pay its debts as they become due and payable, or makes a general assignment for the benefit of or enters into any composition or arrangement with, its creditors generally; (x) applies for or consents (by admission of material allegations of a petition or otherwise) to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official) of the Liquidation Agent or of all or substantially all of its properties or assets, or authorizes such an application or consent, or proceedings seeking such appointment are commenced without such authorization, consent or application against the Liquidation Agent and continue undismissed for 60 consecutive days; (y) authorizes or files a voluntary petition in bankruptcy, or applies for or consents (by admission of material allegations of a petition or otherwise) to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency or dissolution, or authorizes such application or consent, or proceedings to such end are instituted against the Liquidation Agent without such authorization, application or consent and are approved as properly instituted and remain undismissed for 60 consecutive days or result in adjudication of bankruptcy or insolvency; or (z) permits or suffers all or substantially all of its properties or assets to be sequestered or attached by court order and the order remains undismissed for 60 consecutive days; or (4) the Issuer, the Co-Issuer or the Pledged Assets have become required to be registered as an investment company under the provisions of the Investment Company Act, as a result of a material breach by the Liquidation Agent in violation of the Liquidation Agency Agreement. The Liquidation Agent shall notify the Trustee, each Rating Agency (to the extent any Secured Notes outstanding are rated by such Rating Agency), the Fiscal Agent and the holders of the Income Notes if a "cause" event, or an event which with the giving of notice or the lapse of time (or both) becomes "cause," occurs.

Any resignation or removal of the Liquidation Agent will be effective only upon (i) the appointment by the holders of a Super Majority of the Income Notes (including any Income Notes owned by the Liquidation Agent, any Affiliate of the Liquidation Agent, and any account over which the Liquidation Agent has discretionary authority) (or if such holders fail to make such appointment within 30 days after any such resignation or removal, by the Issuer, as directed by a Super Majority of the Controlling Class) of a successor Liquidation Agent that is an established institution with experience servicing assets similar to the Pledged Assets that (1) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Liquidation Agent under the Liquidation Agency Agreement, (2) is legally qualified and has the capacity to act as Liquidation Agent under the Liquidation Agency Agreement as successor to the Liquidation Agent under the Liquidation Agency Agreement, (3) has agreed in writing to assume all of the responsibilities, duties and obligations of the Liquidation Agent under the Liquidation Agency Agreement and under the applicable terms of the Indenture, (4) shall not cause the Issuer, the Co-Issuer or the pool of Pledged Assets to become required to register as an investment company under the Investment Company Act and (5) has been approved by the Issuer, upon the direction of a Majority of each Class of Notes and (ii) satisfaction of the Rating Agency Condition with respect to such appointment. Notwithstanding the foregoing, if no successor has been appointed as aforesaid within 120 days after resignation of the Liquidation Agent, the Liquidation Agent may appoint a successor satisfying the requirements of the Liquidation Agency Agreement without consent of any other party or confirmation by the Rating Agencies. The Issuer, the Trustee and the successor Liquidation Agent shall take such action (or cause the outgoing Liquidation Agent to take such action) consistent with the Liquidation Agency Agreement and the terms of the Indenture applicable to the Liquidation Agent as shall be necessary to effectuate any such succession. If the Liquidation Agent shall resign or be removed but a successor Liquidation Agent shall not have assumed all of the Liquidation Agent's duties and obligations under the Liquidation Agency Agreement within 90 days after such resignation or removal, then the Issuer, the Trustee, any holder of Notes or the resigning or terminated Liquidation Agent may petition any court of competent jurisdiction for the appointment of a successor Liquidation Agent. The compensation payable to a successor Liquidation Agent from payments on the Pledged Assets shall not exceed the compensation payable to the Liquidation Agent under the Liquidation Agency Agreement without the approval of the holders of a Majority of the Aggregate Outstanding Amount of each Class of Notes.

Any Notes held by the Liquidation Agent or any Notes over which the Liquidation Agent has discretionary voting authority, in each case will have no voting rights with respect to any vote in connection with the removal of the Liquidation Agent or the disposition of any CDS Transaction or Eligible Investment and will be deemed not to be outstanding in connection with any such vote; provided, however, that any such Notes will have voting rights and will be deemed outstanding with respect to all other matters as to which holders of Notes are entitled to vote.

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The Liquidation Agent may assign the Liquidation Agency Agreement, in whole or in part, to an affiliate of the Liquidation Agent without the consent of the Issuer, any Class of Secured Notes or the Income Notes and without satisfaction of the Rating Agency Condition. In the event of any such assignment, Goldman, Sachs & Co. will have no further obligations to the Issuer.

Except for the assignment to an affiliate, the Liquidation Agency Agreement may not be assigned by the Liquidation Agent, in whole or in part, without (i) the prior written consent of the Issuer, (ii) the prior written consent of or affirmative vote by a Majority of the Controlling Class and the holders of a Majority of the Income Notes and (iii) satisfaction of the Rating Agency Condition with respect to such assignment or delegation.

The Liquidation Agency Agreement will terminate when the earliest of the following occurs: (i) the payment in full of the Notes; (ii) the liquidation of the Pledged Assets and the final distribution of the proceeds of such liquidation to the Holders of the Notes or (iii) the termination thereof due to the resignation or removal of the Liquidation Agent in accordance with the Liquidation Agency Agreement.

The Liquidation Agency Agreement may not be amended or modified or any provision thereof waived (other than in connection with an assignment to an affiliate of the Liquidation Agent) except by (i) an instrument in writing signed by the parties thereto, (ii) the prior written consent of a Majority of the Controlling Class and (iii) written confirmation from each Rating Agency to the effect that such amendment, modification or waiver will not cause a qualification, downgrade or withdrawal of its then current ratings of any Class of Notes rated by such Rating Agency unless the holders of 100% of each Class of Notes that would be qualified, reduced or withdrawn due to an amendment, modification or waiver approves such amendment, modification or waiver.

The Liquidation Agent, its affiliates and their respective members, principals, partners, managers, directors, officers, stockholders, partners, agents and employees will not be liable to the Co-Issuers, the Trustee, the Fiscal Agent, the holders of the Notes or any other Person for any losses, claims, damages, demands, charges, judgments, assessments, costs or other liabilities incurred by the Co-Issuers, the Trustee, the Fiscal Agent, the holders of the Notes or any other Person that arise out of or in connection with the performance by the Liquidation Agent of its duties under the Liquidation Agency Agreement or the Indenture, or for any decrease in the value of the Pledged Assets; *provided* that the Liquidation Agent shall be subject to liability by reason of acts or omissions of the Liquidation Agent constituting bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Liquidation Agent under the Liquidation Agency Agreement and under the terms of the Indenture applicable to the Liquidation Agent; *provided* that in no event shall the Liquidation Agent or any of its affiliates be liable for consequential, special, exemplary or punitive damages. Subject to the priority of payments described herein, the Liquidation Agent will be entitled to indemnification by the Issuer under certain circumstances.

Various potential and actual conflicts of interest may arise from the overall activities of the Liquidation Agent and its affiliates. In certain circumstances, the interests of the Issuer and the holders of the Notes with respect to matters as to which the Liquidation Agent is advising the Issuer may conflict with the interests of the Liquidation Agent or its affiliates. See "Risk Factors—Other Considerations—Certain Conflicts of Interest" and "—The Liquidation Agent."

ACCOUNTS

Pursuant to the Indenture, the Issuer shall cause there to be opened and at all times maintained the Interest Collection Account, the Payment Account, the Expense Reserve Account, the Collateral Account (including the Cash Collateral Account), the Delivered Obligation Account and, to the extent required, the Amortization Shortfall Account and the CDS Counterparty Collateral Account (each as hereinafter defined), each of which shall be a segregated account or sub-account established with the Securities Intermediary in the name of the Trustee for the benefit of the Secured Parties as further described in the Indenture. Each Account is required to be maintained by the Trustee or by another financial institution that is an Eligible Depositary.

Certain distributions on the Pledged Assets, including Fixed Amounts received by the Issuer under the Credit Default Swap will be remitted to a single, segregated account established and maintained under the Indenture (the "Interest Collection Account") and will be available, to the extent described herein, for application in the manner and for the purposes described herein. Funds held in the Interest Collection Account will be invested by the

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Trustee in Eligible Investments in accordance with the terms of the Indenture. All Fixed Amounts and Interest Shortfall Reimbursement Payment Amounts paid by the Credit Protection Buyer to the Issuer under a CDS Transaction and any investment income on the Collateral will be remitted to the Interest Collection Account. If Expected Fixed Amounts (as defined in the related Master Confirmation) are paid by the Credit Protection Buyer to the Issuer in accordance with the Credit Default Swap following a downgrade or placement on watch for downgrade of the Credit Protection Buyer, on the Payment Date immediately thereafter, the Expected Fixed Amount (as defined in the related Master Confirmation) will not be transferred to the Payment Account to be distributed in accordance with the Priority of Payments for such Payment Date but will instead be held in the Interest Collection Account until the next Payment Date.

On the Closing Date, the net proceeds of the offering of the Notes issued on such date will be used to purchase Collateral Securities and Eligible Investments with an initial principal balance of $305,000,000 which will be deposited to a single, segregated account established and maintained under the Indenture (the "Collateral Account"). The "Cash Collateral Account" shall be a subaccount of the Collateral Account. Termination payments paid by the Credit Protection Buyer to the Issuer, any amounts paid by an assignee of a CDS Transaction to the Issuer, Sale Proceeds from Collateral Securities, Delivered Obligations and Eligible Investments (other than (i) proceeds of Collateral Securities and Eligible Investments applied to pay Credit Protection Amounts and (ii) Sale Proceeds from Eligible Investments purchased with principal payments on the Collateral Securities diverted into the Amortization Shortfall Account) received by the Issuer will be remitted by the Trustee to the Collateral Account and invested in Eligible Investments. The Collateral Securities and any Eligible Investments on deposit in the Collateral Account may be used to pay Credit Protection Amounts and to redeem the Notes as described herein. In addition, if an Amortization Shortfall Amount exists in respect of a Payment Date, all principal payments received by the Issuer on Collateral Securities and Eligible Investments (other than cash) on deposit in the Collateral Account shall be deposited by the Trustee in the Amortization Shortfall Account up to the amount required to satisfy all outstanding Amortization Shortfall Amounts. All investment earnings from the Collateral Securities and Eligible Investments in the Collateral Account will be remitted to the Interest Collection Account (and will not be included in the Collateral Account Amount). All principal payments on Collateral Securities in the Collateral Account will be invested in Eligible Investments at the direction of the Liquidation Agent until invested in Collateral Securities satisfying the Collateral Securities Eligibility Criteria at the direction of the Liquidation Agent.

On the Business Day prior to each Payment Date other than a Final Payment Date (each a "Transfer Date"), the Trustee will deposit into a separate account (the "Payment Account") all funds (including any reinvestment income) in the Interest Collection Account (to the extent received prior to the end of the related Due Period) for application in accordance with the Priority of Payments.

Principal Proceeds shall be deposited in the Collateral Account and subject to the calculation of the Aggregate Amortization Amount. On each Transfer Date, the Trustee will deposit all Amortization Proceeds into the Payment Account for the application in accordance with the Priority of Payments.

On the Closing Date, U.S.$200,000 from the net proceeds of the offering of the Notes will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee under the Indenture (the "Expense Reserve Account"). On each Payment Date, to the extent that funds are available for such purpose in accordance with and subject to the limitations of the Priority of Payments, the Trustee will deposit into the Expense Reserve Account an amount from Proceeds such that the amount on deposit in the Expense Reserve Account (after giving effect to such deposit) will equal U.S.$200,000. Amounts on deposit in the Expense Reserve Account may be withdrawn from time to time to pay accrued and unpaid Administrative Expenses of the Issuers. With respect to the first Payment Date, funds on deposit in the Expense Reserve Account in excess of U.S.$200,000 will be transferred by the Trustee to the Payment Account for application as interest proceeds. All funds on deposit in the Expense Reserve Account at the time when substantially all of the Issuer's assets have been sold or otherwise disposed of will be transferred by the Trustee to the Payment Account for application as Proceeds on the immediately succeeding Payment Date.

Under certain conditions described in the Credit Default Swap, the Credit Protection Buyer may be required to post collateral ("CDS Counterparty Collateral") under the terms of the Credit Default Swap. The CDS Counterparty Collateral pledged by the Credit Protection Buyer will be deposited by the Trustee into a segregated

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account (the "CDS Counterparty Collateral Account") established in the name of the Trustee and held therein pursuant to the terms of the Credit Default Swap.

On or before the first date on which there exists an Amortization Shortfall Amount, the Trustee will establish and maintain a single, segregated account established and maintained under the Indenture (the "Amortization Shortfall Account") into which certain principal payments and interest received by the Issuer on Collateral Securities and Eligible Investments in the Collateral Account shall be deposited up to the Amortization Shortfall Amount.

On or before the first date that a Delivered Obligation is received by the Issuer, the Trustee will establish and maintain under the Indenture a segregated collateral account (the "Delivered Obligation Account") into which all Delivered Obligations shall be deposited. Each Delivered Obligation will be held in the Delivered Obligation Account until such Delivered Obligation is sold by the Liquidation Agent, on behalf of the Issuer, pursuant to the terms of the Indenture.

Amounts retained in the Accounts during a Due Period will be invested in Eligible Investments.

REPORTS

A report will be made available to the Holders of the Secured Notes and Holders of the Income Notes and will provide information on the Pledged Assets as well as information with respect to payments made on the related Payment Date (each, a "Note Valuation Report"), beginning in July, 2007.

The information in each Note Valuation Report will be prepared as of the Determination Date preceding the related Payment Date and will set out, among other things, the amounts payable in accordance with the Priority of Payments on such Payment Date. The Issuer will instruct the Trustee to transfer the amounts set forth in such Note Valuation Report in the manner specified in, and in accordance with, the Priority of Payments.

WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS

The Stated Maturity of the Notes (other than the Class S Notes) is the Payment Date in July 2042. However, the principal of the Notes (other than the Class S Notes) is expected to be paid in full prior to the Stated Maturity. Average life refers to the average amount of time that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor. The average lives of the Notes will be determined by the amount of principal payments which are dependent on a number of factors, including when the Reference Obligations are repaid.

Weighted Average Life. Weighted average life refers to the average amount of time that will elapse from the date of delivery of a security until each dollar of the principal of such security will be paid to the investor. The weighted average lives of the Notes of each Class will be determined by the amount and frequency of principal payments, which are dependent upon, among other things, the amount of payments received at or in advance of the scheduled maturity of the Reference Obligations (whether through sale, maturity, redemption, prepayment, default or other liquidation or disposition). The actual weighted average lives and actual maturities of the Notes will be affected by the financial conditions of the obligors on or the issuers of the Reference Obligations or the obligors on the underlying assets, and the characteristics of such securities and assets, including the existence and frequency of exercise of any optional or mandatory redemption features, the prevailing level of interest rates, the redemption price, prepayment rates, any lockout periods or prepayment premiums or penalties, the actual default rate and the actual level of recoveries on any Defaulted Obligations, and the frequency of tender or exchange offers for such Reference Obligations. Any disposition of a CDS Transaction will change the composition and characteristics of the Reference Portfolio and Collateral Securities and the scheduled payments and payment characteristics thereon, and, accordingly, may affect the actual weighted average lives of the Notes. The rate of future defaults and the amount and timing of any cash realization from CDS Transactions the Reference Obligations of which are determined to be Credit Risk Obligations also will affect the maturity and weighted average lives of the Notes. The weighted average life of the Notes of each Class may also vary depending on whether or not the Notes are redeemed. The weighted

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average lives of the Notes are expected to be shorter, and may be substantially shorter, than the Stated Maturity of the Notes.

The table set forth below indicates the percentage of the initial balance of each Class of Notes that would be outstanding on each Payment Date assuming no prepayments or losses and the weighted average life of each Class of Notes and principal window of each Class based on the assumptions (the "Collateral Assumptions") set forth below. The table set forth below is included only for illustrative purposes, and none of the Issuers, the Liquidation Agent, the Trustee or the Initial Purchaser makes any representation as to whether such assumptions will be realized.

i. Forward 1-month LIBOR curve as of March 12, 2007 are assumed;

ii. the Closing Date is March 20, 2007 and the first Payment Date is July 12, 2007 and the first Quarterly Payment Date is July 12, 2007;

iii. all of the net proceeds of the offering of the Notes are invested as of the Closing Date in the Collateral Securities;

iv. the Coverage Tests are satisfied as of the Closing Date;

v. expenses due under clauses (i), (ii) and (iii) of the Priority of Payments are paid on each Payment Date and is equal to 0.06172% per annum of the Aggregate Outstanding Portfolio Amount.

vi. the Liquidation Agent Fee is 0.05% per annum of the Aggregate Outstanding Portfolio Amount;

vii. each CDS Transaction will pay monthly on the 25th day of the month in which such payment is due and receipts will be reinvested for 12 days at a rate equal to one-month LIBOR minus 0.25%;

viii. amounts due on the Collateral Securities are fully paid out in accordance with the Priority of Payments on the 12th day of the month in which they are received (each of which is assumed to be a Business Day) and receipts will be reinvested for 12 days at a rate equal to one-month LIBOR minus 0.25%;

ix. failure to pay interest to the Holders of the Class S Notes, the Class A Notes and the Class B Notes is not an Event of Default;

x. all unpaid Class C Note and Class D Note interest is Deferred Interest;

xi. there are no dispositions of CDS Transactions;

xii. no rating change occurs on any Reference Obligation or the Notes;

xiii. there is no Optional Redemption, Tax Redemption or Auction (except in the computation of the DEC table and Sensitivity of Reference Obligation Principal Payments to CDR table below);

xv. defaults are incurred at the constant annual default rates and are applied on each Payment Date to the outstanding Reference Obligation Notional Amount of the Reference Portfolio as of such Payment Date commencing on the Payment Date in July 2008; and

xvi. the Expense Reserve Account is assumed to stay fully funded at $200,000 on each Payment Date.

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Date	Class A-1a	Class A-1b	Class A-2	Class B	Class C	Class D
Closing Date	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
July 12, 2007	100.0%	100.0%	100.0%	100.0%	100.0%	98.4%
July 12, 2008	100.0%	100.0%	100.0%	100.0%	100.0%	93.5%
July 12, 2009	76.6%	100.0%	83.4%	89.9%	80.0%	88.9%
July 12, 2010	31.0%	100.0%	51.0%	55.0%	43.3%	76.5%
July 12, 2011	0.0%	91.2%	26.4%	44.9%	35.4%	61.5%
July 12, 2012	0.0%	31.3%	9.1%	44.9%	35.4%	58.5%
July 12, 2013	0.0%	0.0%	0.0%	3.0%	35.4%	57.6%
July 12, 2014	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expected Principal Window(1)	November 12, 2008 to June 12, 2011	June 12, 2011 to December 12, 2012	November 12, 2008 to December 12, 2012	January 12, 2009 to August 12, 2013	February 12, 2009 to December 12, 2013	July 12, 2007 to April 12, 2014
Expected Weighted Average Life(2)	3.0 years	5.0 years	3.5 years	4.3 years	4.1 years	5.3 years

(1) The "Expected Principal Window" for a Class of Notes is the period in which (a) the initial principal payment of the Class is expected to be made and (b) the final payment of principal of the Class is expected to be made under the Collateral Assumptions (assuming no defaults).

(2) The "Expected Weighted Average Life" of each Class of Notes is determined by (i) multiplying the amount of each principal distribution on such Class that would result under the Collateral Assumptions (assuming no defaults) by the number of years from the date of determination to the related Payment Date (assuming 30 days in each month and a 360-day year), (ii) adding the results and (iii) dividing the sum by the aggregated principal distributions referred to in clause (i).

The following table shows the "Expected Weighted Average Life" and the "Expected Principal Window" for each Class of Notes under various constant default rates. The "Expected Weighted Average Life" of each Class of Notes is determined by (i) multiplying the amount of each principal distribution on such Class that would result under the Collateral Assumptions by the number of years from the Closing Date to the related Payment Date (assuming 30 days in each month and a 360-day year), (ii) adding the results and (iii) dividing the sum by the aggregated principal distributions referred to in clause (i). The "Expected Principal Window" for a Class of Notes is when the first and last payments of principal are expected to be made under the Collateral Assumptions. The loss severity is assumed to be 65%.

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Sensitivity of Reference Obligation Principal Payments to CDR

	0.0% CDR		0.5% CDR		1.0% CDR		1.5% CDR	
Class	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window	Expected Weighted Average Life	Expected Principal Window
A-1a	3.0 years	November 12, 2008 to June 12, 2011	2.9 years	July 12, 2008 to May 12, 2011	2.9 years	July 12, 2008 to May 12, 2011	2.9 years	July 12, 2008 to May 12, 2011
A-1b	5.0 years	June 12, 2011 to December 12, 2012	5.0 years	May 12, 2011 to December 12, 2012	5.0 years	May 12, 2011 to January 12, 2013	5.0 years	May 12, 2011 to January 12, 2013
A-2	3.5 years	November 12, 2008 to December 12, 2012	3.5 years	July 12, 2008 to December 12, 2012	3.5 years	July 12, 2008 to January 12, 2013	3.5 years	July 12, 2008 to January 12, 2013
B	4.3 years	January 12, 2009 to August 12, 2013	4.3 years	February 12, 2009 to September 12, 2013	4.3 years	February 12, 2009 to September 12, 2013	4.2 years	February 12, 2009 to September 12, 2013
C	4.1 years	February 12, 2009 to December 12, 2013	4.1 years	March 12, 2009 to January 12, 2014	4.1 years	May 12, 2009 to February 12, 2014	4.1 years	June 12, 2009 to February 12, 2014
D	5.3 years	July 12, 2007 to April 12, 2014	5.2 years	July 12, 2007 to May 12, 2014	5.2 years	July 12, 2007 to May 12, 2014	5.2 years	July 12, 2007 to May 12, 2014

The table set forth below entitled "Class A-1a, A-1b, A-2, B, C and D Note Constant Default Rate Stress Tests" shows the Constant Default Rate ("CDR") and Cumulative Defaults for each Class of Notes under three stress scenarios, assuming a 65% loss severity on defaulted Reference Obligations. In column one ("First Dollar of Loss"), CDR represents the CDR starting on the July 2008 Payment Date that would result in the first dollar of principal loss to the respective Class of Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate notional amount of the Reference Obligations as of the Closing Date. In column two ("Flat Return"), CDR represents the CDR starting on the July 2008 Payment Date that would result in a yield equivalent to a zero discount margin over one-month LIBOR for the Class A-1a Notes, the Class A-1b Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate notional amounts of the Reference Obligations as of the Closing Date. In column three ("Return of Investment (0% return)"), the CDR represents the CDR starting on the July 2008 Payment Date that would result in an approximate 0.0% return for the Class A-1a Notes, the Class A-1b Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes. Cumulative Defaults represent the sum of such defaults divided by the aggregate notional amounts of the Reference Obligations as of the Closing Date.

Class A-1a, A-1b A-2, B, C and D Note Constant Default Rate Stress Tests

	First Dollar of Loss		Flat Return		Return of Investment (0% return)	
Constant Annual Default Rate at 65% Loss Severity	CDR	Cumulative Defaults	CDR	Cumulative Defaults	CDR	Cumulative Defaults
Class A-1a	29.35%	54.81%	30.11%	55.76%	42.18%	68.75%
Class A-1b	29.35%	54.81%	30.91%	56.75%	43.24%	69.72%
Class A-2	21.04%	43.14%	21.52%	43.87%	24.08%	47.69%
Class B	12.42%	28.17%	13.52%	30.26%	16.32%	35.34%
Class C	7.91%	18.95%	8.82%	20.90%	9.52%	22.36%
Class D	4.86%	12.09%	5.45%	13.46%	6.06%	14.85%

Yield. The yield to maturity of the Notes of each Class will also be affected by the rate of repayment of the Reference Obligations, as well as by the redemption of the Notes in an Auction, an Optional Redemption or Tax Redemption (and upon the Note Redemption Price or Income Note Redemption Price, as applicable, then payable).

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The Issuer is not required to repay the Notes on any date prior to their Stated Maturity. The receipt of principal payments on the Notes at a rate slower than the rate anticipated by investors purchasing the Notes at a discount will result in an actual yield that is lower than anticipated by such investors.

The yield to maturity of the Notes may also be affected by the rate of delinquencies and defaults on and liquidations of the Reference Obligations and Collateral Securities, to the extent not absorbed by the Income Notes; dispositions of CDS Transactions and the effect of the Coverage Tests on payments under the Priority of Payments. The yield to investors in the Notes will also be adversely affected to the extent that the Issuers incur certain expenses that are not absorbed by the Income Notes.

THE ISSUERS

General

The Issuer was incorporated as Hudson Mezzanine Funding II, Ltd. on September 20, 2006 in the Cayman Islands with the registered number 174363. The Issuer's name was changed to Anderson Mezzanine Funding 2007-1, Ltd. on March 8, 2007. The registered office of the Issuer is at the offices of Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands. Maples Finance Limited's telephone number is (345) 945-7099. The Issuer has no prior operating history. The Issuer's Memorandum of Association sets out the objects of the Issuer, which include the business to be carried out by the Issuer in connection with the Notes.

The Co-Issuer was incorporated on February 22, 2007 under the laws of the State of Delaware with the registered number 4305859. The registered office of the Co-Issuer is at Donald J. Puglisi, Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware, 19711. The Co-Issuer's telephone number is (302) 738-6680. The Co-Issuer has no prior operating history. Article 3 of the Co-Issuer's Certificate of Incorporation sets out the purposes of the Co-Issuer, which include the business to be carried out by the Co-Issuer in connection with the issuance of the Secured Notes.

The Co-Issued Notes are obligations only of the Issuers and the Income Notes are obligations only of the Issuer, and not of the Trustee, the Liquidation Agent, the Initial Purchaser, the Administrator, the Agents, the Share Trustee or any directors, managers or officers of the Issuers or any of their respective affiliates.

The authorized share capital of the Issuer consists of 250 ordinary shares, U.S.$1.00 par value per share (the "Issuer Ordinary Shares"). All of the Issuer Ordinary Shares will be issued on or prior to the Closing Date. All of the outstanding Issuer Ordinary Shares will be held by the Share Trustee pursuant to the terms of a declaration of trust for the benefit of charitable and similar purposes. All of the outstanding common equity of the Co-Issuer will be held by the Share Trustee under the terms of the charitable trust which holds the Issuer Ordinary Shares. For so long as any of the Notes are outstanding, no beneficial interest in the ordinary shares of the Issuer or of the common equity of the Co-Issuer shall be registered to a U.S. Person.

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Capitalization of the Issuer

The initial proposed capitalization of the Issuer as of the Closing Date after giving effect to the issuance of the Notes and the Issuer Ordinary Shares before deducting expenses of the offering of the Notes is as set forth below.

	Amount
Class S Notes	$ 2,490,000
Class A-1a Notes	$ 130,000,000
Class A-1b Notes	$ 53,000,000
Class A-2 Notes	$ 30,500,000
Class B Notes	$ 42,700,000
Class C Notes	$ 16,775,000
Class D Notes	$ 11,090,000
Income Notes	$ 20,935,000
Total Debt	$ 307,490,000
Issuer Ordinary Shares	250
Total Equity	$ 250
Total Capitalization	$ 307,490,250

Capitalization of the Co-Issuer

The Co-Issuer will be capitalized only to the extent of its common equity of U.S.$10, will have no assets other than its equity capital and will have no debt other than as Co-Issuer of the Secured Notes. The Co-Issuer has agreed to co-issue the Secured Notes as an accommodation to the Issuer, and the Co-Issuer is receiving no remuneration for so acting. Because the Co-Issuer has no assets, and is not permitted to have any assets, Holders of Notes will not be able to exercise their rights against any assets of the Co-Issuer. Holders of Secured Notes must rely on the Pledged Assets held by the Issuer and pledged to the Trustee for payment on their respective Secured Notes in accordance with the Priority of Payments.

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Flow of Funds

The approximate flow of funds of the Issuer from the gross proceeds of the offering of the Notes on the Closing Date is as set forth below:

Gross Proceeds		
Class S Notes	$	2,490,000
Class A-1a Notes	$	130,000,000
Class A-1b Notes	$	53,000,000
Class A-2 Notes	$	30,500,000
Class B Notes	$	42,700,000
Class C Notes	$	16,775,000
Class D Notes	$	12,000,000
Income Notes	$	20,935,000
Total:	$	308,400,000
Expenses		
Third Party Expenses	$	1,630,000
Goldman, Sachs & Co.	$	25,000
Expense Reserve Accounts	$	200,000
Total:	$	1,855,000
Collateral Assets		
Net Proceeds	$	306,545,000
Par Value of Collateral	$	305,000,000
Clean Price of Collateral	$	304,973,000
Cash for Purchase of Collateral	$	27,000
Purchase Accrued Interest on Collateral	$	666,000
First Period Interest Reserve	$	879,000

Business

The Issuers will not undertake any business other than the issuance of the Co-Issued Notes and, in the case of the Issuer, the issuance of the Income Notes, the acquisition and management of the Pledged Assets and, in each case, other related transactions. Neither of the Issuers will have any subsidiaries other than the Co-Issuer in the case of the Issuer.

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The Administrator will act as the administrator of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement to be dated on or about the Closing Date by and between the Administrator and the Issuer (as amended, supplemented or otherwise modified from time to time, the "Administration Agreement"), the Administrator will perform various management functions on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The directors of the Issuer listed below are also officers and/or employees of the Administrator and may be contacted at the address of the Administrator.

The Administrator will be subject to the overview of the Issuer's Board of Directors. The Administration Agreement may be terminated by either the Issuer or the Administrator upon 30 days' written notice.

The Administrator's principal office is: Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

Directors

The Directors of the Issuer are Carrie Bunton and Carlos Farjallah, each having an address at Maples Finance Limited, P.O. Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The director of the Co-Issuer is Donald Puglisi who may be contacted at the address of the Co-Issuer.

INCOME TAX CONSIDERATIONS

Circular 230

Any discussion of U.S. federal tax matters set forth in this Offering Circular was written in connection with the promotion and marketing by the Issuer and the Initial Purchaser of the Notes (as defined herein). Such discussion was not intended or written to be legal or tax advice to any person and was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

United States Tax Considerations

The following is a summary of certain of the United States federal income tax consequences of an investment in the Notes by purchasers that acquire their Notes in their initial offering. The discussion and the opinions referenced below are based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (the "IRS") with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following summary does not deal with all United States federal income tax consequences applicable to any given investor, nor does it address (except, in some instances, in very general terms) the United States federal income tax considerations applicable to all categories of investors, some of which may be subject to special rules, such as Non-U.S. Holders (defined below), banks, regulated investment companies, real estate investment trusts, insurance companies, tax-exempt organizations, dealers in securities or currencies, electing large partnerships, natural persons, cash method taxpayers, S corporations, estates and trusts, investors that hold the Notes as part of a hedge, straddle, or an integrated or conversion transaction, or investors whose "functional currency" is not the United States dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the investors of equity interests in either a U.S. Holder (defined below) or a Non-U.S. Holder. In addition, this summary is generally limited to investors that will hold the Notes as "capital assets" within the meaning of section 1221 of the Internal Revenue Code 1986 (the "Code"). Investors should consult their own tax

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advisors to determine the United States federal, state, local and other tax consequences of the purchase, ownership and disposition of the Notes.

As used herein, "U.S. Holder" means any holder (or beneficial holder) of a Note that is an individual citizen or resident of the United States for U.S. federal income tax purposes, a corporation or partnership or other entity treated as a corporation or partnership for U.S. federal income tax purposes created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust for which a court within the United States is able to exercise primary supervision over its administration and for which one or more U.S. persons (as defined in the Code) have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust. If a partnership holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding the Notes should consult their own tax advisors. "Non-U.S. Holder" means any holder (or beneficial holder) of a Security that is not a U.S. Holder.

U.S. Federal Income Tax Consequences to the Issuer

Upon the issuance of the Notes, Sidley Austin LLP, special U.S. tax counsel to the Issuer, will deliver an opinion generally to the effect that under current law, and assuming compliance with the Indenture (and certain other documents) and based on certain factual representations made by the Issuer and/or GS&Co., although the matter is not free from doubt, the Issuer will not be engaged in the conduct of a trade or business in the United States. Accordingly, the Issuer does not expect to be subject to net income taxation in the United States. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no absolute assurance that the IRS will not seek to treat the Issuer as engaged in a United States trade or business. If the IRS were to successfully characterize the Issuer as engaged in such a trade or business, among other consequences, the Issuer would be subject to net income taxation in the United States (as well as the branch profits tax) on its income that is effectively connected to such United States trade or business. The levying of such taxes would materially affect the Issuer's financial ability to pay principal and interest on the Notes.

The Issuer intends to acquire Collateral Assets and enter into certain swap transactions the interest on which, and any gain from the sale or disposition thereof, is expected not to be subject to United States federal withholding tax or withholding tax imposed by other countries (unless subject to being "grossed up"). The Issuer will not, however, make any independent investigation of the circumstances surrounding the issuance of the individual assets comprising the Collateral Assets or Reference Obligations and thus there can be no absolute assurance that in every case payments will be received free of withholding tax. If the Issuer is a CFC (defined below), the Issuer would incur U.S. withholding tax on interest received from a related United States person.

In addition, it is not expected that the Issuer will derive material amounts of any other items of income that would be subject to United States withholding taxes.

If withholding or deduction of any taxes from payments is required by law in any jurisdiction, the Issuer shall be under no obligation to make any additional payments to the holders of any Notes in respect of such withholding or deduction.

Notwithstanding the foregoing, any commitment or facility fee (or other similar fee) that the Issuer earns may be subject to a 30% withholding tax.

Classification and Tax Treatment of the Secured Notes. The Issuer has agreed and, by its acceptance of a Secured Note, each such Noteholder will be deemed to have agreed, to treat each of the Secured Notes as debt of the Issuer for U.S. federal income tax purposes except to the extent such a Noteholder makes a protective QEF election (described below). On the Closing Date, Sidley Austin LLP will deliver an opinion generally to the effect that assuming compliance with Indenture (and certain other documents) and based on certain factual representations made by the Issuer and GS&Co., the Class S Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will be characterized as debt of the Issuer for U.S. federal income tax purposes. Prospective investors should be aware that opinions of counsel are not binding on the IRS and there can be no assurance that the IRS will not seek to characterize any Class of Secured Notes as other than indebtedness. Except as provided under "—

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Alternative Characterization of the Secured Notes" below, the balance of this discussion assumes that the Secured Notes will be characterized as debt of the Issuer for federal income tax purposes.

For U.S. federal income tax purposes, the Issuer of the Secured Notes, and not the Co-Issuer, will be treated as the issuer of the Secured Notes.

Subject to the following paragraph, U.S. Holders of the Secured Notes will include payments of stated interest received on the Secured Notes in income in accordance with their method of tax accounting as ordinary interest income.

While not absolutely certain, it appears that the Class C Notes and the Class D Notes will be issued with original issue discount ("OID", and such a Note, an "OID Note",) because interest payments on such Notes ("OID interest payments",) may not be considered to be unconditionally payable (a requisite for interest to not constitute OID) since they will be deferred in the event that certain overcollateralization tests are not met and failure to pay interest will not, in certain circumstances, be an event of default. A U.S. Holder of an OID Note will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Note. Thus, the U.S. Holder of an OID Note will be required to include original issue discount in income as it accrues, prior to the receipt of the cash attributable to such income. U.S. Holders, however, would be entitled to claim a loss upon maturity or other disposition of an OID Note with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss.

Although there can be no assurance, the Secured Notes should not be "contingent payment debt instruments" ("CPDIs") within the meaning of Treasury Regulation section 1.1275-4, effective for debt instruments issued after August 12, 1996. If any Class of Notes were considered such instruments, among other consequences, gain on the sale of such Notes that might otherwise be capital gain would be ordinary income. Prospective investors should consult their own tax advisors regarding the possible characterization of the Notes as CPDIs.

The Secured Notes may be debt instruments described in section 1272(a)(6) of the Code (debt instruments that may be accelerated by reason of the prepayment of other debt obligations securing such debt instruments). Special tax rules principally relating to the accrual of original issue discount, market discount and bond premium apply to debt instruments described in section 1272(a)(6). Further, those debt instruments may not be part of an integrated transaction with a related hedge under Treasury Regulation § 1.1275-6. Prospective investors should consult with their own tax advisors regarding the effects of section 1272(a)(6).

In general, a U.S. Holder of a Secured Note will have a tax basis in such Note equal to the cost of such Note increased by any market discount includible in income by such U.S. Holder and reduced by any amortized premium and any principal payments and any OID interest payments. Upon a sale, exchange or other disposition of a Secured Note (including redemption or retirement), a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange or other disposition (less any accrued and unpaid interest, which would be taxable as such) and the U.S. Holder's tax basis in such Secured Note. Such gain or loss generally will be long term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Alternative Characterization of the Secured Notes. U.S. Holders should recognize that there is some uncertainty regarding the appropriate classification of instruments such as the Secured Notes. It is possible, for example, that the IRS may contend that a class of Secured Notes should be treated as equity interests (or as part debt, part equity) in the Issuer. Such a recharacterization might result in material adverse tax consequences to U.S. Holders. If U.S. Holders of Secured Notes were treated as owning equity interests in the Issuer, the U.S. federal income tax consequences to U.S. Holders of such recharacterized Notes would be as described under "—United States Tax Treatment of Holders of Income Notes." In addition, in order to avoid one application of the PFIC rules, each U.S. Holder should consider making a qualified electing fund election (the "QEF election") provided in section 1295 of the Code on a "protective" basis (although such protective election may not be respected by the IRS because current regulations do not specifically authorize that particular election). See "—United States Tax Treatment of Holders of Income Notes—Status of the Issuer as a PFIC" and "—QEF Election."

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Information Reporting Requirements. Under United States federal income tax law and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. These reporting requirements apply to both taxable and tax-exempt U.S. Holders. Penalties for failure to file certain of these information returns are severe. Purchasers of the Secured Notes should consult with their own tax advisors regarding the necessity of filing information returns.

If requested by the Issuer, each Holder will be required to provide the Issuer with the name and status of each beneficial owner of a Secured Note that is a U.S. Holder.

Prospective investors should consult with their own tax advisors with respect to whether they are required to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Non-U.S. Holders

A Non-U.S. Holder of a Secured Note that has no connection with the United States will not be subject to U.S. withholding tax on interest payments. Non-U.S. Holders may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes in order to receive payments free of withholding.

United States Tax Treatment of Holders of Income Notes

General. Prospective investors of the Income Notes should not rely on this summary only and should consult their own tax advisors regarding alternative characterizations of the Income Notes and the consequences of their acquiring, holding, and disposing of the Income Notes, including the possibility that the Income Notes will be treated as contingent payment debt instruments. Subject to the anti-deferral rules discussed below, payments on Income Notes paid by the Issuer to a U.S. Holder that is subject to United States federal income tax will be taxable to such U.S. Holder as a payment to the extent of the current and accumulated earnings and profits of the Issuer. Dividends will not be eligible for the dividends received deduction allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the extent of, and will be applied against and reduce, the U.S. Holder's adjusted tax basis in the Income Notes. Distributions in excess of earnings and profits and the U.S. Holder's tax basis will be taxable as gain from the sale or exchange of property.

The tax consequences discussed in the second preceding paragraph are likely to be materially modified by the anti-deferral rules discussed below. In general, each U.S. Holder's investment in the Issuer will be taxed as an investment in a "passive foreign investment company" ("PFIC"). In addition, each U.S. Holder's investment in the Issuer may be taxed as an investment in a CFC, depending (in part) upon the percentage of the Issuer's equity that is acquired and held by certain U.S. Holders. If applicable, the rules pertaining to CFCs generally override those pertaining to PFICs (although, in certain circumstances, more than one set of rules may be applicable simultaneously).

Prospective investors should be aware that in determining what percentage of the equity of the Issuer is held by various categories of investors (for example, for purposes of the CFC and information reporting rules described below) and the Liquidation Agent's interest in certain portions of its fee and certain classes of Secured Notes may be considered equity (and might be considered voting equity).

Prospective investors should be aware that the Issuer's income that is allocated to holders (under the QEF rules as well as under the CFC rules discussed below) will not necessarily bear any particular relationship in any year to the amount of cash that is distributed on the Income Notes and in any given year may be substantially greater. Such an excess will arise, among other circumstances, when Collateral Assets are purchased at a discount, or interest or other income on the Collateral Assets or Credit Default Swap (which is included in gross income) is used to acquire other Collateral Assets or to repay principal on the Secured Notes (which does not give rise to a deduction).

Status of the Issuer as a PFIC. The Issuer will be treated as a "passive foreign investment company" or "PFIC" for United States federal income tax purposes. U.S. Holders in PFICs, other than U.S. Holders that make a timely "qualified electing fund" or "QEF" election described below, are subject to special rules for the taxation of

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"excess distributions" (which include both certain distributions by a PFIC and any gain recognized on a disposition of PFIC stock). In general, section 1291 of the Code provides that the amount of any "excess distribution" will be allocated to each day of the U.S. Holder's holding period for its PFIC stock. The amount allocated to the current year will be included in the U.S. Holder's gross income for the current year as ordinary income. With respect to amounts allocated to prior years, the tax imposed for the current year will be increased by the "deferred tax amount" (an amount calculated with respect to each prior year by multiplying the amount allocated to such year by the highest rate of tax in effect for such year, together with an interest charge, as though the amounts of tax were overdue).

An excess distribution is the amount by which distributions for a taxable year exceed 125 percent of the average distribution in respect of the Income Notes during the three preceding taxable years (or, if shorter, the investor's holding period for the Income Notes). As indicated above, any gain recognized upon disposition (or deemed disposition) of the Income Notes will be treated as an excess distribution and taxed as described above (i.e., not be taxable as capital gain). For this purpose, a U.S. Holder that uses an Income Note as security for an obligation may be treated as having disposed of the Income Note.

QEF Election. If a U.S. Holder (including certain U.S. Holders indirectly owning Income Notes) makes the qualified electing fund election (the "QEF election") provided in section 1295 of the Code, the U.S. Holder will be required to include its *pro rata* share of the Issuer's ordinary income and net capital gains (unreduced by any prior year losses) in income (as ordinary income and long-term capital gain, respectively) for each taxable year and pay tax thereon even if such income and gain is not distributed to the U.S. Holder by the Issuer. In addition, any losses of the Issuer will not be deductible by such U.S. Holder. A U.S. Holder that makes the QEF election, may, however (in general) elect to defer the payment of tax on undistributed income (until such income is distributed or the Income Note is transferred), *provided* it agrees to pay interest on such deferred tax liability. For this purpose, a U.S. Holder that uses an Income Note as security for an obligation may be treated as having transferred such Income Note. If the Issuer later distributes the income or gain on which the U.S. Holder has already paid taxes, amounts so distributed to the U.S. Holder will not be further taxable to the U.S. Holder. A U.S. Holder's tax basis in the Income Notes will be increased by the amount included in such U.S. Holder's income and decreased by the amount of nontaxable distributions. In general, a U.S. Holder making the QEF Election will recognize, on the disposition of the Income Notes, capital gain or loss equal to the difference, if any, between the amount realized upon such disposition (including redemption or retirement) and its adjusted tax basis in such Income Notes. Such gain or loss generally will be long term capital gain or loss if the U.S. Holder held the Income Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

In general, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year for which it held an Income Note.

The QEF election is effective only if certain required information is made available by the Issuer to the IRS. The Issuer will undertake to comply with the IRS information requirements necessary to be a QEF, which will permit U.S. holders to make the QEF election. Nonetheless, there can be no absolute assurance that such information will always be available or presented.

Where a QEF election is not timely made by a U.S. Holder for the year in which it acquired its Income Notes, but is made for a later year, the excess distribution rules can be avoided by making an election to recognize gain from a deemed sale of the Income Notes at the time when the QEF election becomes effective.

A U.S. Holder should consult its own tax advisors regarding whether it should make a QEF election (and, if it failed to make an initial election, whether it should make an election in a subsequent taxable year).

Status of the Issuer as a CFC. U.S. tax law also contains special provisions dealing with controlled foreign corporations ("CFC"). A U.S. holder (or any other holder of an interest treated as voting equity in the foreign corporation that would meet the definition of U.S. Holders but for the fact that such holder does not hold Income Notes) that owns (directly or indirectly) at least 10 percent of the voting stock of a foreign corporation, the U.S. Holder is considered a "U.S. Shareholder" with respect to the foreign corporation. If U.S. Shareholders in the

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aggregate own (directly or indirectly) more than 50% of the voting power or value of the stock of such corporation, the foreign corporation will be classified as a CFC. Complex attribution rules apply for purposes of determining ownership of stock in a foreign corporation such as the Issuer.

If the Issuer is classified as a CFC, a U.S. Shareholder (and possibly any U.S. Holder that is a direct or indirect holder of a grantor trust that is considered to be a U.S. Shareholder) that is a shareholder of the Issuer as of the end of the Issuer's taxable year generally would be subject to current U.S. tax on the income of the Issuer, regardless of cash distributions from the Issuer. Earnings subject to tax generally as income of the U.S. Holder generally will not be taxed again when they are distributed to the U.S. Holder. In addition, income that would otherwise be characterized as capital gain and gain on the sale of the CFC's stock by a U.S. Shareholder (during the period that the corporation is a CFC and thereafter for a five-year period) would be classified in whole or in part as dividend income.

Certain income generated by a corporation conducting a banking, financing, insurance, or other similar business would not be includible in a holder's income under the CFC rules. However, each holder of an Income Note will agree, by its acquisition of the Income Notes, not to take the position that the Issuer is engaged in such a business. Accordingly, if the CFC rules apply, a U.S. Shareholder would generally be subject to tax on its share of all of the Issuer's income.

Information Reporting. In general, U.S. Holders that acquire any Income Notes (or any Class of Notes recharacterized as equity in the Issuer) for cash may be required to file an IRS Form 926 with the IRS and to supply certain additional information to the IRS if (i) such U.S. Holder owns (directly or indirectly) immediately after the transfer, at least 10% by vote or value of the Issuer or (ii) the transfer when aggregated with all related transfers under applicable regulations, exceeds U.S.$100,000. In the event a U.S. Holder that is required to file such form fails to file such form, the U.S. Holder could be subject to a penalty of up to U.S.$100,000 (computed as 10% of the gross amount paid for the Income Notes) or more if the failure to file was due to intentional disregard of its obligation). Other important information reporting requirements apply to persons that acquire 10% or more of a foreign corporation's equity.

Prospective investors should consult with their own tax advisors with respect to whether they are required to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Tax-Exempt Investors. Special considerations apply to pension plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their "unrelated business taxable income" ("UBTI"). A Tax-Exempt Investor's income from an investment in the Issuer generally should not be treated as resulting in UBTI under current law, so long as such investor's acquisition of stock in the Issuer is not debt-financed, and such investor does not own more than 50% of the Issuer's equity (here, the Income Notes and any Class of Secured Notes (if any) that is recharacterized as equity).

Tax-Exempt Investors should consult their own tax advisors regarding an investment in the Issuer.

Taxation of Non-U.S. Holders. Dividends on, and gain from the sale, exchange or redemption of, Income Notes generally should not be subject to United States federal income tax in the hands of a Non-U.S. Holder that has no connection with the United States other than the holding of the Income Notes.

Cayman Islands Tax Considerations

The following discussion of certain Cayman Islands income tax consequences of an investment in the Notes is based on the advice of Maples and Calder as to Cayman Islands law. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It assumes that the Issuer will conduct its affairs in accordance with assumptions made by, and representations made to, counsel. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

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Under existing Cayman Islands laws:

(i) payments of principal and interest in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any Holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax; and

(ii) No stamp duty is payable in respect of the issue of the Notes. The Notes themselves will be stampable if they are executed in or brought into the Cayman Islands. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor In Cabinet of the Cayman Islands in the following form:

THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Anderson Mezzanine Funding 2007-1, Ltd. (the "Company"):

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the 3rd day of October, 2006

ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" as defined in and subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing such ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, "Parties in Interest")) having certain relationships to such Plans, unless a statutory, regulatory or administrative exemption is applicable to

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the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

The United States Department of Labor ("DOL") has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the "Plan Asset Regulation"), as modified by Section 3(42) of ERISA, describing what constitutes the assets of a Plan ("Plan Assets") with respect to the Plan's investment in an entity for purposes of applying ERISA and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by Benefit Plan Investors is not "significant."

Prohibited transactions may arise under Section 406 of ERISA or Section 4975 of the Code if Notes are acquired with Plan Assets with respect to which the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee, the Fiscal Agent or any of their respective affiliates, is a Party in Interest. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire a Security and the circumstances under which such decision is made. Included among these exemptions are: DOL Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers"; PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers;" and the service provider exemption under new Section 408(b)(17) of ERISA and new Section 4975(d)(20) of the Code (the "Service Provider Exemption"). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Notes, or that, if available, the exemption would cover all possible prohibited transactions.

Governmental plans and certain church and other plans, while not necessarily subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Any insurance company proposing to invest assets of its general account in the Notes should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), and the enactment of Section 401(c) of ERISA. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the DOL for transactions involving insurance company general accounts in PTCE 95-60 and the regulations issued by the DOL, 29 C.F.R. Section 2550.401c-1 (January 5, 2000). Certain additional information regarding general accounts is set forth below.

Any Plan fiduciary or other person who proposes to use Plan Assets to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of any Security to a Plan, or to a person using Plan Assets to effect its purchase of any Security, is in no respect a representation by the Issuers, the Initial Purchaser, the Liquidation Agent, the Trustee or the Fiscal Agent that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Class S Notes, Class A Notes, Class B Notes, Class C Notes and Class D Notes

For purposes of the Plan Asset Regulation, an equity interest includes any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Because the Secured Notes (a) are expected to be treated as indebtedness under local law and for federal tax purposes (see "Income Tax Considerations" herein), and (b) should not be deemed to have any "substantial equity

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features," purchases of the Secured Notes with Plan Assets should not be treated as equity investments and, therefore, the Pledged Assets should not be deemed to be Plan Assets of the investing Plans. Those conclusions are based, in part, upon the traditional debt features of the Secured Notes, including the reasonable expectation of purchasers of the Secured Notes that the Secured Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. However, if the Secured Notes were nevertheless treated as equity interests for purposes of the Plan Asset Regulation and if the assets of the Issuers were deemed to constitute Plan Assets of an investing Plan, (i) transactions involving the assets of the Issuers could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuers could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an investment in the Notes could be deemed to have delegated its responsibility to manage Plan Assets.

By its purchase of any Class S Note, Class A Note, Class B Note, Class C Note or Class D Note, the purchaser thereof will be deemed to have represented and warranted either that (i) it is not and will not be a Plan or an entity whose underlying assets include Plan Assets by reason of any Plan's investment in the entity, or an employee benefit plan which is subject to any federal, state, local or foreign law ("Similar Law") that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code; or (ii) its purchase and holding of a Class S Note, Class A Note, Class B Note, Class C Note or Class D Note are eligible for the exemptive relief available under PTCE 84-14, 90-1, 91-38, 95-60, 96-23, the Service Provider Exemption, or a similar exemption or, in the case of a plan subject to Similar Law, do not and will not constitute or result in a prohibited transaction under Similar Law for which an exemption is not available.

Income Notes

Equity participation in an entity by Benefit Plan Investors is "significant" under the Plan Asset Regulation (see above) if 25% or more of the total value of any class of equity interest in the entity is held by Benefit Plan Investors. If equity participation in either Issuer by Benefit Plan Investors is "significant," the assets of such Issuer could be deemed to be Plan Assets of Plans investing in the equity. If the assets of either Issuer were deemed to constitute Plan Assets of an investing Plan, (i) transactions involving the assets of such Issuer could be subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code, (ii) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, and (iii) the fiduciary causing the Plan to make an equity investment in the Issuer could be deemed to have delegated its responsibility to manage Plan Assets. The term "Benefit Plan Investor" includes (i) an employee benefit plan as defined in and subject to the provisions of Title I of ERISA, (ii) a plan as described in and subject to Section 4975(e)(1) of the Code and (iii) any entity whose underlying assets include Plan Assets by reason of any such employee benefit plan's or plan's investment in the entity. For purposes of making the 25% determination, the value of any equity interests in the Issuer held by a person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the Issuer, any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person (any of the foregoing, a "Controlling Person"), are disregarded. Under the Plan Asset Regulation, an "affiliate" of a person includes any person, directly or indirectly through one or more intermediaries, controlling, controlled by or under common control with the person, and "control" with respect to a person, other than an individual, means the power to exercise a controlling influence over the management or policies of such person. If the equity participation in an entity by Benefit Plan Investors is significant, then the entity's assets will be deemed to constitute Plan Assets to the extent of such investor's interest in the entity.

The Income Notes will be equity interests for purposes of applying ERISA and Section 4975 of the Code. Accordingly, purchases and transfers of Income Notes will be limited, so that less than 25% of the total value of all the Income Notes will be held by Benefit Plan Investors, by requiring each purchaser or transferee of an Income Note (other than a Regulation S Income Note) to make (or, in the case of a Regulation S Income Note, to be deemed to have made) certain representations and agree to additional transfer restrictions described under "Notice to Investors." No purchase of an Income Note by, or proposed transfer to, a person that has represented that it is a Benefit Plan Investor or a Controlling Person will be permitted to the extent that such purchase or transfer would result in persons that have represented that they are Benefit Plan Investors owning 25% or more of the total value of the outstanding Income Notes immediately after such purchase or proposed transfer (determined in accordance with the Plan Asset Regulation and the Fiscal Agency Agreement), based upon the representations made by investors. In addition, the Initial Purchaser, the Liquidation Agent, the Trustee and the Fiscal Agent agree that neither they nor

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any of their respective affiliates will acquire any Income Notes unless such acquisition would not, as determined by the Trustee or the Fiscal Agent, result in persons that have acquired Income Notes and represented that they are Benefit Plan Investors owning 25% or more of the total value of the outstanding Income Notes immediately after such acquisition by the Initial Purchaser, the Liquidation Agent, the Trustee or the Fiscal Agent. Income Notes held as principal by the Initial Purchaser, the Liquidation Agent, the Trustee, the Fiscal Agent, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding for purposes of determining compliance with the 25% limitation to the extent that such a Controlling Person is not a Benefit Plan Investor. Any Benefit Plan Investor that acquires Income Notes (other than the Regulation S Income Notes) will be required to represent and agree (or, in the case of the Regulation S Income Notes, will be deemed to have represented and agreed) that the acquisition and holding of the Income Notes will not constitute a prohibited transaction under ERISA or Section 4975 of the Code, for which an exemption is not available. If any purchaser or transferee of Income Notes is an employee benefit plan subject to Similar Law, such purchaser or transferee will be deemed to have represented and warranted that its purchase and holding of the Income Notes will not constitute or result in a violation of any Similar Law for which an exemption is not available.

Any entity using Plan Assets to purchase Notes, including an insurance company using general account assets, may be asked (i) to identify the maximum percentage of the assets of such entity or general account that may be or become Plan Assets, (ii) whether it is a "Controlling Person" (defined above), and (iii) without limiting the remedies that may be available in the event that the maximum percentage is thereafter exceeded, to agree to notify the Issuer, and dispose of certain Notes as instructed by the Issuer, before the specified maximum percentage is exceeded.

CERTAIN LEGAL INVESTMENT CONSIDERATIONS

Institutions whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities may be subject to restrictions on investments in the Secured Notes and the Income Notes. Any such institution should consult its legal advisors in determining whether and to what extent there may be restrictions on its ability to invest in the Secured Notes and the Income Notes. Without limiting the foregoing, any financial institution that is subject to the jurisdiction of the Comptroller of Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, any state insurance commission, or any other federal or state agencies with similar authority should review any applicable rules, guidelines and regulations prior to purchasing the Secured Notes or the Income Notes. Depository institutions should review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities, which has been adopted by the respective federal regulators.

None of the Issuers or the Initial Purchaser make any representation as to the proper characterization of the Secured Notes or Income Notes for legal investment or other purposes, or as to the ability of particular investors to purchase the Secured Notes or Income Notes for legal investment or other purposes, or as to the ability of particular investors to purchase the Secured Notes or Income Notes under applicable investment restrictions. The Issuers understand that certain state insurance regulators, in response to a request for guidance, may be considering the characterization (as U.S. domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any guidance or other action that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Secured Notes or Income Notes) may affect the liquidity of the Secured Notes or Income Notes. Accordingly, all institutions whose activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Secured Notes or Income Notes are subject to investment, capital or other restrictions.

LEGAL MATTERS

Certain legal matters will be passed upon for the Issuer and the Initial Purchaser by Sidley Austin LLP. Certain matters with respect to Cayman Islands law will be passed upon for the Issuer by Maples and Calder, Grand Cayman, Cayman Islands.

Confidential Treatment Requested by Goldman Sachs GS MBS-E-000912687

UNDERWRITING

The Offered Notes will be offered by Goldman, Sachs & Co. (the "Initial Purchaser"), from time to time at varying prices in negotiated transactions subject to prior sale, when, as and if issued. Subject to the terms and conditions set forth in the Purchase Agreement (the "Purchase Agreement") dated as of March 12, 2007 among Goldman, Sachs & Co. and the Issuers, the Issuers have agreed to sell to Goldman, Sachs & Co. and Goldman, Sachs & Co. has agreed to purchase all of the Secured Notes and the Income Notes.

Under the terms and conditions of the Purchase Agreement, the Initial Purchaser is committed to take and pay for all the Offered Notes to be offered by it, if any are taken. Furthermore, under the terms and conditions of the Purchase Agreement, the Initial Purchaser will be entitled to an underwriting discount on the Offered Notes purchased by it and a fixed structuring fee based upon the aggregate principal amount of the Notes.

The Offered Notes purchased from the Issuers by the Initial Purchaser will be offered by it from time to time for sale in negotiated transactions or otherwise at varying prices to be determined at the time of sale plus accrued interest, if any, from the Closing Date.

The Notes have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. Person or a U.S. resident (as determined for purposes of the Investment Company Act, a "U.S. Resident") except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Issuers have been advised by (a) the Initial Purchaser that it proposes to resell the Offered Notes (a) outside the United States (in part, by Goldman, Sachs & Co., through its selling agent) in offshore transactions in reliance on Regulation S and in accordance with applicable law and (b) in the United States only to (1) Qualified Institutional Buyers in reliance on Rule 144A purchasing for their own accounts or for the accounts of Qualified Institutional Buyers or (2) in the case of the Income Notes only, Accredited Investors, which have a net worth of not less than U.S.$10 million, each of which purchasers or accounts is a Qualified Purchaser. The Initial Purchaser's discount will be the same for the Regulation S Notes and the Rule 144A Notes offered hereby and for the Income Notes within each Class of Notes.

The Initial Purchaser has acknowledged and agreed that it will not offer, sell or deliver any Regulation S Notes purchased by it to, or for the account or benefit of, any U.S. Person or U.S. Resident (as determined for purposes of the Investment Company Act) as part of its distribution at any time and that it will send to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Regulation S Notes purchased by it a confirmation or other notice setting forth the prohibition on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, any U.S. Person or U.S. Resident.

With respect to the Notes initially sold pursuant to Regulation S, until the expiration of (x) forty (40) days after the commencement of the distribution of the offering of the Secured Notes by Goldman, Sachs & Co., with respect to offers or sales of the Secured Notes and (y) one year after the commencement of the distribution of the Income Notes, with respect to offers or sales of the Income Notes purchased by the Initial Purchaser, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

The Initial Purchaser has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) ("FSMA") to persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 or in circumstances in which section 21 of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Confidential Treatment Requested by Goldman Sachs GS MBS-E-000912688

The Notes may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Notes may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and the Initial Purchaser has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

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For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The Initial Purchaser has agreed that it has not made and will not make any invitation to the public in the Cayman Islands to purchase any of the Offered Notes.

Buyers of Regulation S Securities sold by the selling agent of Goldman, Sachs & Co. may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the purchase price.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuers or the Notes, in any jurisdiction where action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Notes are a new issue of securities with no established trading market. The Issuers have been advised by Goldman, Sachs & Co. that it may make a market in the Notes it is offering but is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes. There can be no assurance that any secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the Holders of the Notes with liquidity of investment or that it will continue for the life of the Notes.

Application may be made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on its regulated market. There can be no assurance that any such application will be made or that any such listing will be obtained.

The Issuers have agreed to indemnify the Initial Purchaser, the Liquidation Agent, the Administrator and the Trustee and their respective directors, officers, employees and agents against certain liabilities, including in the case of the Initial Purchaser, liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof. In addition, the Issuers have made certain representations and warranties to the Initial Purchaser and have agreed to reimburse the Initial Purchaser for certain of its expenses.

The Initial Purchaser may, from time to time as principal or through one or more investment funds that it manages, make investments in the equity securities of one or more of the issuers of Reference Obligations and Collateral Securities with the result that one or more of such issuers may be or may become controlled by the Initial Purchaser.

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APPENDIX A

Certain Defined Terms

"Accounts" means collectively, the Interest Collection Account, the Payment Account, the Expense Reserve Account, the Collateral Account (including the Cash Collateral Account), the CDS Counterparty Collateral Account, the Amortization Shortfall Account and the Delivered Obligation Account.

"Actual Interest Amount" means with respect to any Reference Obligation Payment Date, payment by or on behalf of the Reference Entity of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest relating to the CDS Transaction but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount shall include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Principal Amount" means, with respect to the Final Amortization Date or the legal final maturity date of any Reference Obligation, the amount paid on such day by or on behalf of the Reference Entity in respect of principal (excluding any capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"Actual Rating" means with respect to any Reference Obligation, Delivered Obligation or Eligible Investment, the actual expressly monitored outstanding public rating assigned by a Rating Agency without reference to any other rating by another Rating Agency, and which rating by its terms addresses the full scope of the payment promise of the obligor on such Reference Obligation, Delivered Obligation or Eligible Investment, after taking into account any applicable guarantee or insurance policy or if no such rating is available from a Rating Agency, any "credit estimate" or "shadow rating" assigned by such Rating Agency. For purposes of this definition, (i) the rating of "Aaa" assigned by Moody's to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by Moody's by one subcategory and any other rating assigned by Moody's to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible downgrade by Moody's will be deemed to have been downgraded by Moody's by two subcategories, (ii) the rating assigned by S&P to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible downgrade by S&P will be deemed to have been downgraded by S&P by one subcategory, (iii) the rating of "Aa1" assigned by Moody's to a Reference Obligation, Delivered Obligation or Eligible Investment placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by Moody's by one subcategory and any other rating assigned by Moody's to a Reference Obligation, Delivered Obligation or an Eligible Investment placed on watch for possible upgrade by Moody's will be deemed to have been upgraded by Moody's by two subcategories and (iv) the rating assigned by S&P to a Reference Obligation, Delivered Obligation or Eligible Investment placed on watch for possible upgrade by S&P will be deemed to have been upgraded by S&P by one subcategory.

"Additional Floating Amount" means any Floating Amount described in clause (a), (b) or (c) of the definition of Floating Amounts.

"Adjusted Net Outstanding Portfolio Collateral Balance" means, on any Determination Date, the Net Outstanding Portfolio Collateral Balance reduced by the excess, if any, of (i) the product of (a) the Statistical Loss Amount and (b) the lesser of 1 and a fraction the numerator of which is U.S.$305,000,000 and the denominator of which is the Net Outstanding Portfolio Collateral Balance as of such Determination Date over (ii) the product of (a) U.S.$3,187,000 and (b) the lesser of 1 and a fraction the numerator of which is the Net Outstanding Portfolio Collateral Balance as of such Determination Date and denominator of which is U.S.$305,000,000.

"Administrative Expenses" means amounts (including indemnities) due or accrued with respect to any Payment Date and payable by the Issuer and/or the Co-Issuer to (i) the Trustee pursuant to the Indenture or any co-trustee appointed pursuant to the Indenture; (ii) the Administrator pursuant to the Administration Agreement; (iii) the independent accountants, agents (including the Note Agents under the Indenture, the Fiscal Agent and Income Notes Transfer Agent as defined under the Fiscal Agency Agreement and the Collateral Administrator under the Collateral Administration Agreement) and counsel of the Issuer for fees and expenses (including amounts payable in

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connection with the preparation of tax forms on behalf of the Issuers); (iv) the Liquidation Agent pursuant to the Liquidation Agency Agreement (other than the Liquidation Agent Fee); (v) the Rating Agencies for fees and expenses in connection with any rating or credit estimate (including the fees payable to the Rating Agencies for the monitoring of any rating or credit estimate) of the Notes, including fees and expenses, if any, due or accrued in connection with any rating of the Reference Obligations; (vi) any other person in respect of any governmental fee, charge or tax in relation to the Issuer or the Co-Issuer; (vii) to the liquidator(s) of the Issuer for the fees and expenses of liquidating the Issuer following the redemption of all of the Notes; (viii) the Irish Stock Exchange listing any Notes at the request of the Issuer; and (ix) any other person in respect of any other fees or expenses (including indemnities and fees relating to the provision of the Issuer's registered office) permitted under the Transaction Documents; *provided* that Administrative Expenses shall not include (a) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (b) amounts payable in respect of the Secured Notes and the Income Notes and (c) any Liquidation Agent Fee payable pursuant to the Liquidation Agency Agreement.

"Aggregate Amortization Amount" means, with respect to any Payment Date calculations, the excess, if any, of (i) the Maximum Principal Amount on such date over (ii) the sum of (a) the Aggregate Reference Obligation Notional Amount and (b) the par value of any Delivered Obligations, Eligible Investments and any such amounts on deposit in the Delivered Obligations Account, which amount will be drawn from the Collateral Account pursuant to the Amortization Liquidation Procedure and deposited in the Payment Account for distribution in accordance with the Priority of Payments on such Payment Date.

"Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds" means the least of (a) the Aggregate Moody's Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, (b) the Aggregate S&P Recovery Value of all Defaulted Obligations and Deferred Interest PIK Bonds, and (c) the aggregate of the Market Values of all Defaulted Obligations and Deferred Interest PIK Bonds.

"Aggregate Moody's Recovery Value" means, with respect to Defaulted Obligations and Deferred Interest PIK Bonds, the aggregate of (a) the Moody's Recovery Rate for each such asset multiplied by (b) the Principal Balance of such asset.

"Aggregate Outstanding Amount" means, with respect to any of the Secured Notes or Income Notes on any date of determination, the aggregate principal amount of such Secured Notes or Income Notes outstanding on such date.

"Aggregate Outstanding Portfolio Amount" means the sum of (i) the Aggregate Reference Obligation Notional Amount and (ii) the Principal Balance of the Delivered Obligations and any Eligible Investments in the Delivered Obligations Account.

"Aggregate S&P Recovery Value" means the sum of, with respect to each Defaulted Obligation and each Deferred Interest PIK Bond of the lesser of (a) the Market Value for such Defaulted Obligation or Deferred Interest PIK Bond, as applicable, and (b) the S&P Recovery Rate for such Defaulted Obligation or Deferred Interest PIK Bond multiplied by the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond.

"Amortization Liquidation Procedure" means, in connection with the payment of any Aggregate Amortization Amount, (i) *first*, by applying each amount on deposit in the Collateral Account received as principal on the Collateral Securities and Eligible Investments and (ii) *second*, once any such cash on deposit in the Collateral Account has been reduced to zero, by liquidating Eligible Investments in the Collateral Account, in each case, up to the lesser of (a) such Aggregate Amortization Amount or (b) amounts available in the Collateral Account pursuant to subclause (i) above and, if necessary, (ii).

"Amortization Shortfall Amount" means, on any Payment Date where sufficient funds cannot be drawn from the Collateral Account pursuant to the Amortization Liquidation Procedure, the difference between the Aggregate Amortization Amount for such Payment Date and the amount available from the Collateral Account on such Payment Date pursuant to the Amortization Liquidation Procedure.

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"Applicable Percentage" means, on any day, a percentage equal to A divided by B, where "A" means the product of the Initial Face Amount (as such term is defined in the related CDS Transaction) and the Initial Factor (as such term is defined in the related CDS Transaction) as decreased on each Delivery Date by an amount equal to (a) the outstanding principal balance of Delivered Obligations delivered to the Issuer (as adjusted by the Relevant Amount, if any) divided by the Current Factor (as such term is defined in the related CDS Transaction) on such day multiplied by (b) the Initial Factor (as such term is defined in the related CDS Transaction) and where "B" means the product of the Original Principal Amount of the related Reference Obligation and the Initial Factor (as such term is defined in the related CDS Transaction); (a) as increased by the outstanding principal balance of any further issues by the Reference Entity that are fungible with and form part of the same legal series as the Reference Obligation; and (b) as decreased by any cancellations of some or all of the outstanding principal amount of the related Reference Obligation resulting from purchases of the Reference Obligation by or on behalf of the Reference Entity.

"Applicable Recovery Rate" means, with respect to any Reference Obligation or Collateral Asset on any Determination Date, the lesser of the Moody's Recovery Rate and the S&P Recovery Rate.

"Asset-Backed Securities" or "ABS Securities" means structured finance securities which have the benefit of a financial guarantee insurance policy, or surety bond or corporate guarantee insuring or guaranteeing the timely payment of interest or the ultimate payment of interest and the ultimate payment of principal.

"Auction Payment Date" means the Auction Date on which the Secured Notes and Income Notes are redeemed in connection with a successful Auction.

"Balance" means, on any date, with respect to cash, Collateral Securities, Delivered Obligations or Eligible Investments in any account, the aggregate of the (i) current balance of cash, demand deposits, time deposits, certificates of deposit and federal funds; (ii) principal amount of interest bearing corporate and government securities, money market accounts and repurchase obligations; and (iii) purchase price or accreted value (but not greater than the face amount) of non-interest bearing government and corporate securities and commercial paper.

"BIE Acceptance Notice" means a notice from the Trustee or the Income Notes Transfer Agent, as applicable, to an Originating Noteholder specifying (i) each BIE Collateral Security that will be substituted for an existing Collateral Security, (ii) each such Collateral Security to be substituted, (iii) the BIE Exercise Period, (iv) the BIE Transaction Cost and (v) account information of the Issuer for such Originating Noteholder to deliver such BIE Collateral Security to the Issuer and to present payment of the BIE Transaction Cost to the Issuer.

"BIE Collateral Security" means any security that any Holder of a Note proposes to substitute for part or all of an existing Collateral Security pursuant to the Indenture.

"BIE Consent Solicitation Notice" means a notice from the Trustee or the Fiscal Agent, as applicable, to each Holder of a Note, including the Originating Noteholder with a copy to the Credit Protection Buyer specifying (i) each proposed BIE Collateral Security and its par amount, (ii) each Collateral Security to be substituted and its par amount and (iii) the BIE Notification Date.

"BIE Exercise Period" means the period from and including the delivery of a BIE Acceptance Notice to but excluding the day that is three Business Days thereafter.

"BIE Notification Date" means the Business Day by which a Holder of a Note must respond to a BIE Consent Solicitation Notice, which date shall be 20 Business Days from the date of such BIE Consent Solicitation Notice.

"BIE Transaction Cost" means an amount, as determined pursuant to the Collateral Administration Agreement, by the Collateral Administrator, on behalf of the Issuer, equal to the aggregate amount of the expenses of the Issuer and the Trustee that would be incurred as a result of the proposed substitution of each BIE Collateral Security for part or all of an existing Collateral Security including the purchase price of any such BIE Collateral Security.

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"Board of Directors" means, with respect to the Issuer or the Co-Issuer, the directors of the Issuer or the Co-Issuer, as applicable, duly appointed by the shareholders or the directors of the Issuer or the Co-Issuer, as applicable.

"Calculation Amount" means, with respect to any Defaulted Obligation or Deferred Interest PIK Bond at any time, the lesser of (a) the Market Value of such Defaulted Obligation or Deferred Interest PIK Bond or (b) the Applicable Recovery Rate multiplied by the Principal Balance of such Defaulted Obligation or Deferred Interest PIK Bond. For purposes of determining the Calculation Amount, the Principal Balance of a Defaulted Obligation shall be deemed to be its outstanding principal amount or Reference Obligation Notional Amount, as applicable, and the Principal Balance of a Deferred Interest PIK Bond shall be deemed to be its outstanding principal amount or Reference Obligation Notional Amount, as applicable, without regard to any deferred or capitalized interest.

"Cash Proceeds" means, with respect to any Due Period, the amount on deposit or expected to be on deposit in the Payment Account on the related Payment Date (as calculated by the Trustee two Business Days prior to such Payment Date); without taking into account any Aggregate Amortization Amount or amounts calculated in relation thereto that may be available on such Payment Date.

"CDO RMBS Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of RMBS Securities.

"CDO S Note Securities" means CDO Securities that, pursuant to the terms of the related Underlying Instruments, are senior to all other securities issued in the related transaction and are entitled to principal payments in accordance with a fixed payment schedule, which principal payments are paid by applying, *first*, interest proceeds available, and *second*, principal proceeds available.

"CDO Securities" means collateralized debt obligations (including, without limitation, any synthetic collateralized debt obligations or collateralized loan obligations) which may be categorized as CDO Structured Product Securities, CDO RMBS Securities, Collateralized Loan Securities and CDO Trust Preferred Securities.

"CDO Structured Product Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from a portfolio diversified among categories of Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities, REIT Debt Securities, Asset-Backed Securities and CDO Securities or any combination of more than one of the foregoing or solely of CDO Securities (and which may include limited amounts of corporate securities), generally having the following characteristics: (i) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium, and (ii) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional loans and/or debt securities.

"CDO Trust Preferred Securities" means CDO Securities that entitle the holder thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CDO Securities) on the cash flow from a portfolio of trust preferred securities issued by bank, thrift, other depository institutions or trust subsidiaries.

"Class" means each class of Secured Notes having the same Stated Maturity and same alphabetical (but not necessarily numerical) designation of any of "S", "A", "B", "C", or "D" as a single class and the Income Notes as a single class.

"Class A Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance divided by the Aggregate Outstanding Amount of the Class

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A Notes after giving effect to payments to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class A Note Redemption Price" shall equal (i) in the case of the Class A-1a Notes, the Class A-1a Note Redemption Price, (ii) in the case of the Class A-1b Notes, Class A-1b Note Redemption Price and (iii) in the case of the Class A-2 Notes, the Class A-2 Note Redemption Price.

"Class A-1 Note Redemption Price" shall equal (i) in the case of the Class A-1a Notes, the Class A-1a Note Redemption Price and (ii) in the case of the Class A-1b Notes, the Class A-1b Note Redemption Price.

"Class A-1a Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.32%.

"Class A-1a Note Redemption Price" shall equal (i) the outstanding principal amount of the Class A-1a Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class A-1b Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.65%.

"Class A-1b Note Redemption Price" shall equal (i) the outstanding principal amount of the Class A-1b Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class A-2 Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.90%.

"Class A-2 Note Redemption Price" shall equal (i) the outstanding principal amount of the Class A-2 Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class B Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance divided by the Aggregate Outstanding Amount of the Class A Notes and the Class B Notes, after giving effect to payments or reductions, as applicable to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class B Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 1.75%.

"Class B Note Redemption Price" shall equal (i) the outstanding principal amount of the Class B Notes, *plus* (ii) accrued interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to, but excluding, the Redemption Date.

"Class C Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes and the Class C Notes, after giving effect to payments or reductions, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class C Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 5.50%.

"Class C Note Redemption Price" shall equal the sum of (i) the outstanding principal amount of the Class C Notes (including any Class C Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date.

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"Class D Adjusted Overcollateralization Ratio" means, with respect to any Determination Date, the Adjusted Net Outstanding Portfolio Collateral Balance *divided by* the Aggregate Outstanding Amount of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, after giving effect to payments or reductions, as applicable, to be made on the succeeding Payment Date in accordance with the Priority of Payments.

"Class D Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period *plus* 4.00%.

"Class D Note Redemption Premium" means on each Payment Date commencing with the Payment date in July 2010, the product of (i) the Aggregate Outstanding Amount of the Class D Notes and (ii) the percentage corresponding to the related Payment Date according to the table below:

July 2010	1.10%
August 2010	1.01%
September 2010	0.92%
October 2010	0.83%
November 2010	0.73%
December 2010	0.64%
January 2011	0.55%
February 2011	0.46%
March 2011	0.37%
April 2011	0.28%
May 2011	0.18%
June 2011	0.09%
Each Payment Date after June 2011	0.00%

"Class D Note Redemption Price" shall equal the sum of (i) the outstanding principal amount of the Class D Notes (including any Class D Deferred Interest) *plus* (ii) accrued interest thereon (including any Defaulted Interest and any interest on Defaulted Interest, if any) to but excluding the Redemption Date *plus* (iii) the Class D Note Redemption Premium (if any).

"Class D Notes Amortizing Principal Amount" means an amount equal to the lesser of (a) with respect to the first Payment Date the excess, if any, of any Proceeds remaining after payment of all amounts payable under clauses (i) through (xvi) of the Priority of Payments and (b) the product of the remaining principal balance of the Class D Notes after giving effect to clauses (i) through (xvi) in the priority of payments, 5% per annum (calculated based upon a 360-day year and the actual number of days in each Interest Accrual Period) with respect to each Interest Accrual Period.

"Class S Note Redemption Price" means (i) the outstanding principal amount of the Class S Notes *plus* (ii) accrued and unpaid interest thereon (including Defaulted Interest and interest on Defaulted Interest, if any) to but excluding the Redemption Date.

"Class S Note Interest Rate" means, for each Interest Accrual Period, a per annum rate equal to LIBOR for such Interest Accrual Period plus 0.20%.

"Class S Notes Amortizing Principal Amount" means an amount equal to the lesser of (a) the sum of (i) with respect to the first Payment Date, U.S.$0 and with respect to each subsequent Payment Date, U.S.$34,583.33 and (ii) the aggregate amount of any Class S Notes Amortizing Principal Amounts that were due on any prior Payment Date and not paid on one or more prior Payment Dates, and (b) the remaining principal balance of the Class S Notes.

"Closing Date" means March 20, 2007.

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"CMBS Conduit Securities" means Commercial Mortgage Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage Backed Securities) on the cash flow from a pool of commercial mortgage loans.

"CMBS Credit Tenant Lease Securities" means Commercial Mortgage Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage Backed Securities) on the cash flow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cash flow from such leases).

"CMBS Large Loan Securities" means Commercial Mortgage Backed Securities (other than CMBS Conduit Securities and CMBS Credit Tenant Lease Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Mortgage Backed Securities) on the cash flow from a commercial mortgage loan or a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties. Generally, five or fewer commercial mortgage loans shall account for more than 20% of the aggregate principal balance of the entire pool of commercial mortgage loans supporting payments on the securities.

"CMBS Repackaging Securities" means a security that entitles the holders thereof to receive payments that depend on the cash flow from a portfolio of all (100%) CMBS Securities, REIT Debt Securities and other interests in commercial mortgage loans or similar commercial real estate interests

"Collateral Account Amount" means, the par amount of Eligible Investments, Collateral Securities, Principal Proceeds and principal payments received thereon on deposit in the Collateral Account; *provided, however*, that the Collateral Account Amount shall not include any Interest Proceeds.

"Collateral Administration Agreement" means the Collateral Administration Agreement, dated as of the Closing Date, between the Issuer and the Collateral Administrator, as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms.

"Collateral Administrator" means LaSalle Bank National Association, or any successor Collateral Administrator under the Collateral Administration Agreement.

"Collateral Asset" means a Collateral Security, Eligible Investment or Delivered Obligation.

"Collateralized Loan Securities" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) on the cash flow from (and not the market value of) a portfolio of at least 80% by principal balance of commercial loans.

"Collateral Liquidation Procedure" means, where specified in connection with the payment of any amount, such amount shall be drawn from the Collateral Account (i) *first*, by applying cash amounts on deposit in the Collateral Account that were received as principal payments on the Collateral Securities and Eligible Investments, (ii) *second*, once the amount of such cash on deposit in the Collateral Account has been reduced to zero, by liquidating Eligible Investments in the Collateral Account and (iii) *third*, once the principal balance of Eligible Investments on deposit in the Collateral Account has been reduced to zero, by liquidating Collateral Securities on deposit in the Collateral Account; in each case, up to the lesser of (a) the amount specified for such payment and (b) the amount and principal balance available in the Collateral Account pursuant to subclause (i) and, to the extent necessary, subclause (ii), then subclause (iii).

"Collateral Securities" means securities or other collateral purchased by the Issuer meeting the Collateral Securities Eligibility Criteria using the proceeds of the Notes and from time to time using the principal payments thereon and securing the Issuer's obligations under the Credit Default Swap and the Indenture.

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"Collateral Securities Substitution Information Notice" means a notice from the Trustee or the Fiscal Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder of the BIE Transaction Cost relating to each proposed BIE Collateral Security.

"Collateral Securities Substitution Noteholder Refusal Notice" means a notice from the Trustee or the Fiscal Agent, as applicable, to an Originating Noteholder notifying such Originating Noteholder that the Holders of a Majority of a Class of Notes did not approve of one or more proposed BIE Collateral Securities by the BIE Notification Date.

"Collateral Securities Substitution Request Notice" means a notice from an Originating Noteholder to the Trustee or the Fiscal Agent, as applicable, (i) requesting the substitution of one or more BIE Collateral Securities for one or more existing Collateral Assets, (ii) identifying each Collateral Security and the par amount to be substituted, (iii) identifying each proposed BIE Collateral Security and the par amount and (iv) any other information that such Originating Noteholder deems relevant.

"Commercial Mortgage-Backed Securities" or "CMBS" means securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers and shall include, without limitation, CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities and CMBS Repackaging Securities.

"Controlling Class" will be the Class S Notes, the Class A-1a Notes, the Class A-1b Notes and the Class A-2 Notes (the Class S Notes, the Class A-1a Notes, the Class A-1b Notes and the Class A-2 Notes voting together as a single class), for so long as any Class S Notes or Class A Notes are outstanding; if no Class S Notes or Class A Notes are outstanding, then the Class B Notes, so long as any Class B Notes are outstanding; if no Class S Notes, Class A Notes or Class B Notes are outstanding, then the Class C Notes, so long as any Class C Notes are outstanding; and if no Class S Notes, Class A Notes, Class B Notes or Class C Notes are outstanding, then the Class D Notes, so long any Class D Notes are outstanding.

"Corporate Trust Office" means the principal corporate trust office of the Trustee, currently located at 181 W. Madison Street, Chicago, Illinois 60602, Attention: CDO Trust Services Group — Anderson Mezzanine Funding 2007-1, Ltd., or such other address as the Trustee may designate may designate from time to time by notice to the Noteholders, the Liquidation Agent and the Issuers or the principal corporate trust office of any successor Trustee.

"Credit Default Swap" means the credit default swap entered into by the Issuer, as Credit Protection Seller, and Goldman Sachs International, as Credit Protection Buyer, on the Closing Date, evidenced by an ISDA Master Agreement (Multicurrency Cross Border) and the Master Confirmations.

"Credit Default Swap Early Termination Date" has the meaning set forth in the Credit Default Swap.

"Credit Default Swap Termination Payment" means any termination or assignment payment required to be paid by the Issuer in the event of a termination or assignment of the Credit Default Swap. For the avoidance of doubt, no termination payments or assignment payments are required to be paid by the Issuer in the event of a termination or assignment of the Credit Default Swap in respect of which the Credit Protection Buyer is the "Defaulting Party" or the sole "Affected Party" (each as defined in the Credit Default Swap).

"Credit Protection Amounts" means Physical Settlement Amounts, Writedown Amounts, Principal Shortfall Amounts and Credit Default Swap Termination Payments (which, for the avoidance of doubt, will not include Defaulted Swap Termination Payments) payable by the Issuer to the Credit Protection Buyer.

"Credit Protection Buyer" means Goldman Sachs International and, if Goldman Sachs International is no longer the Credit Protection Buyer, any entity required to make payments on the Credit Default Swap pursuant to the terms of the Credit Default Swap or any guarantor thereof.

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"Default" means any Event of Default or any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Defaulted Obligation" means any Reference Obligation or Delivered Obligation with respect to which:

(i) there has occurred and is continuing for the lesser of three (3) Business Days and any applicable grace period, a default with respect to the payment of interest or principal on such Reference Obligation or Delivered Obligation in accordance with its terms; *provided* that, the Reference Obligation or Delivered Obligation shall not constitute a Defaulted Obligation if and when such default has been cured through the payment of all past due interest and principal or waived;

(ii) the Principal Balance of such Reference Obligation or Delivered Obligation has been written down;

(iii) the Trustee has received notice of any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the issuer of such Reference Obligation or Delivered Obligation and is unstayed and undismissed; *provided*, that, if such proceeding is an involuntary proceeding, the condition of this clause (iii) will not be satisfied until the earliest of the following: (I) the issuer consents to such proceeding, (II) an order for relief under the United States Bankruptcy Code, or any similar order under a proceeding not taking place under the United States Bankruptcy Code, has been entered, and (III) such proceeding remains unstayed and undismissed for 60 days; or

(iv) such Reference Obligation or Delivered Obligation has an S&P Rating of "CC" or lower, "D" or "SD" or, if S&P withdraws its rating and the S&P Rating at the time of withdrawal is "CCC" or below or such Reference Obligation or Delivered Obligation has a Moody's Rating of "C" or lower or "Ca".

"Defaulted Swap Termination Payment" means any Credit Default Swap Termination Payment required by a bankruptcy court or receiver (in a proceeding at law or in equity) to be paid by the Issuer notwithstanding the terms of the Credit Default Swap in the event of a termination or assignment of the Credit Default Swap in respect of which the Credit Protection Buyer is the "Defaulting Party" or the sole "Affected Party" (each as defined in the Credit Default Swap).

"Deferred Interest PIK Bond" means a PIK Bond that (1) has an Actual Rating of "Baa3" or above by Moody's and makes payments less frequently than monthly and has deferred interest in an amount equal to the amount of interest that would accrue over the shorter of two payment periods or one year, or (2) has an Actual Rating of "Baa3" or above by Moody's and makes payments on a monthly basis and has deferred interest in an amount equal to the amount of interest that would accrue over the shorter of (i) one year and (ii) the longer of (A) the number of months between any two consecutive deferrals of interest and (B) six months or (3) has an Actual Rating of "Ba1" or below by Moody's and makes payments less frequently than monthly and has deferred interest in an amount equal to the amount of interest that would accrue over the shorter of one payment period or six months, or (4) has an Actual Rating of "Ba1" or below by Moody's and makes payments on a monthly basis and has deferred interest in an amount equal to the amount of interest that would accrue over three months; *provided* that such PIK Bond would no longer be a Deferred Interest PIK Bond once payment of interest has resumed and all capitalized or deferred interest has been paid in full in accordance with the underlying documents.

"Deliverable Obligation" means an obligation which, pursuant to the terms of the Credit Default Swap, may be delivered to the Credit Protection Seller as a result of a Credit Event.

"Delivered Obligation" means any Deliverable Obligation delivered to the Issuer pursuant to a Notice of Physical Settlement under the Credit Default Swap.

"Delivery Date" means the date on which a Deliverable Obligation is delivered to the Issuer pursuant to the Credit Default Swap.

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"Distribution Compliance Period" means, with respect to the Notes, the period that ends 40 days after the later of (i) the commencement of the offering of the Notes and (ii) the Closing Date.

"Double B Calculation Amount" means the sum of the products of (a) the Principal Balance of each Double B Rated Asset and (b) 90%.

"Double B Rated Asset" means any Collateral Asset or Reference Obligation with an Actual Rating or Implied Rating from S&P less than "BBB-" but with an Actual Rating greater than "B+" or with an Actual Rating or Implied Rating from Moody's less than "Baa3" but with an Actual Rating greater than "B1."

"Eligible Bidders" are (i) any institutions, which may include affiliates of the Initial Purchaser or the Liquidation Agent and Holders of the Secured Notes and the Income Notes, whose short-term unsecured debt obligations have a rating of at least "P 1" by Moody's or "A-1+" by S&P and (ii) the Liquidation Agent.

"Eligible Depositary" shall be a financial institution organized under the laws of the United States or any state thereof, authorized to accept deposits, having a combined capital and surplus of at least U.S.$200,000,000, and having (or if its obligations are guaranteed by its parent company, its parent having), a long term debt rating of at least "Baa1" by Moody's (and if rated "Baa1", such rating is not on watch for downgrade) and "AA-" by S&P and a short term debt rating of "P 1" by Moody's (and not on watch for downgrade) and at least "A-1+" by S&P.

"Eligible Investment" means any U.S. Dollar-denominated investment that, at the time it is delivered to the Trustee, is one or more of the following obligations or securities (including security entitlements with respect thereto): (i) direct Registered obligations of, and Registered obligations fully guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States; (ii) demand and time deposits in, certificates of deposit of, or banker's acceptances issued by, any depository institution or trust company incorporated in the United States or any state thereof, which depository institution or trust company is subject to supervision and examination by federal or state authorities, with a maturity not in excess of 183 days; and with a credit rating by S&P of at least "A-1+" or at least "AA-", as applicable, a credit rating by Moody's of at least "P 1" or at least "Aa3" (and if rated "Aa3", not on watch for downgrade), as applicable, in the case of a maturity in excess of 30 days, or a credit rating by S&P of at least "A-1" and a credit rating by Moody's of at least "P 1" (and not on watch for downgrade) in the case of a maturity of less than 30 days; (iii) repurchase obligations with respect to (a) any security described in clause (i) above or (b) any other security issued or guaranteed by an agency or instrumentality of the United States, entered into with a depository institution or trust company described in clause (ii) above or entered into with a corporation whose long-term senior unsecured rating is at least "A1" (and if rated "A1", not on watch for downgrade) by Moody's and "AA-" by S&P and whose short-term credit rating is "P 1" (and not on watch for downgrade) by Moody's and "A-1" by S&P at the time of such investment, with a term not in excess of 91 days; (iv) Registered debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of at least "Aa3" (and if rated "Aa3", not on watch for downgrade) or "P 1" (and not on watch for downgrade) by Moody's and "AA-" or "A-1" by S&P; (v) commercial paper or other short-term obligations of a corporation, partnership, limited liability company or trust, or any branch or agency thereof located in the United States or any of its territories, such commercial paper or other short-term obligations having a credit rating of "P 1" (and not on watch for downgrade) by Moody's and "A-1" by S&P, and that are Registered and either are interest bearing or are sold at a discount from the face amount thereof and have a maturity of not more than 91 days from their date of issuance; and (vi) offshore money market funds which have a credit rating of not less than "Aaa/MR1+" by Moody's and "AAA" or "AAAm" or "AAAm-G" by S&P, *provided however*, that each rating in clauses (iii) through (vi) above by Moody's or S&P shall be an Actual Rating and *provided further*, that any such investment purchased on the basis of S&P's short-term rating of "A-1" shall mature no later than 30 days after the date of purchase and may not, other than overnight investments from LaSalle Bank National Association (so long as LaSalle Bank National Association (1) is the Trustee under the Indenture and (2) has a short-term rating from S&P of at least "A-1"), exceed 20% of the Aggregate Outstanding Amount of the Notes rated by S&P. Eligible Investments shall not include any RMBS, CMBS, any inverse floater, any security subject to withholding tax if owned by the Issuer, any security subject to an offer, any interest only security, any principal only security (other than treasury bills or commercial paper) or any security with a price in excess of 100% of par. Each such Eligible Investment shall mature no later than the second Business Day immediately preceding the Payment Date next following the Due Period in which the date of investment occurs, unless such Eligible Investment is issued by the

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institution acting as Securities Intermediary, in which event such Eligible Investment may mature on the Business Day preceding such Payment Date. Eligible Investments may include those investments with respect to which the Securities Intermediary, the Trustee, the Liquidation Agent or the Initial Purchaser or an affiliate of the Trustee, the Liquidation Agent or the Initial Purchaser provides services. As used in this definition, ratings may not include ratings with an "r", "p", "q", "pi" or "t" subscript.

"Exercise Amount" means the amount determined in connection with a Credit Event in accordance with the related CDS Transaction.

"Expected Fixed Payment" shall have the meaning set forth in the Credit Default Swap.

"Expected Interest Amount" means with respect to any Reference Obligation Payment Date, the amount of current interest that would accrue during the related Reference Obligation Calculation Period calculated using the Reference Obligation Coupon on a principal balance of the Reference Obligation equal to: (a) the outstanding principal amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the underlying instruments) that are attributable to the Reference Obligation; minus (b) the "Aggregate Implied Writedown Amount" (as such term is defined in the related CDS Transaction) (if any), and that will be payable on the related Reference Obligation Payment Date assuming for this purpose that sufficient funds are available therefor in accordance with the underlying instruments, calculated in accordance with the related CDS Transaction.

"Expected Principal Amount" means, with respect to the Final Amortization Date or the legal final maturity date of the related Reference Obligation, an amount equal to (i) the Outstanding Principal Amount of the Reference Obligation payable on such day (excluding capitalized interest) assuming for this purpose that sufficient funds are available for such payment, where such amount shall be determined in accordance with the underlying instruments, minus (ii) the sum of (A) the "Aggregate Implied Writedown Amount" (as such term is defined in the related CDS Transaction) (if any) and (B) the net aggregate principal deficiency balance or realized loss amounts (however described in the underlying instruments) that are attributable to the Reference Obligation. For purposes hereof, the Expected Principal Amount shall be determined without regard to the effect of any provisions (however described) of the underlying instruments that permit the limitation of due payments or distributions of funds in accordance with the terms of such Reference Obligation or that provide for the extinguishing or reduction of such payments or distributions.

"Final Amortization Date" means the first to occur of (i) the date on which the Reference Obligation Notional Amount is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

"Final Payment Date" means a Payment Date with respect to an Optional Redemption, a Payment Date in connection with the Stated Maturity, Tax Redemption, an Auction or redemption due to an Event of Default resulting in acceleration of the Secured Notes and liquidation of the Pledged Assets.

"Floating Amounts" means with respect to any CDS Transaction, an amount equal to the sum of (a) the relevant Writedown Amount (if any), (b) the relevant Principal Shortfall Amount (if any), (c) the relevant Interest Shortfall Payment Amount (if any) and (d) the relevant Physical Settlement Amount (if any).

"Floating Amount Event" means with respect to any CDS Transaction, the occurrence of a Writedown, a Failure to Pay Principal or an Interest Shortfall (as each such term is defined in the related CDS Transaction) with respect to the Reference Obligation thereunder.

"Holder" or "Noteholder" means, with respect to any Note the person in whose name such Note is registered, or, for purposes of voting, the granting of consents and other similar determinations under the Indenture or Fiscal Agency Agreement, as applicable, with respect to any Notes in global form, a beneficial owner thereof. "Secured Noteholder" means, with respect to any Secured Note, the Holder of such Secured Note.

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"Implied Rating" means, in the case of a rating on a Collateral Asset or Reference Obligation, a rating that is determined in accordance with the terms set forth for assets not rated by a particular Rating Agency by reference to any publicly available, fully monitored rating by another Rating Agency that, by its terms, addresses the full scope of the payment promise of the obligor.

"Income Notes Documents" means the resolutions of the Board of Directors of the Issuer authorizing the execution and delivery of the Indenture, the Memorandum and Articles of Association and the Fiscal Agency Agreement.

"Interest Proceeds" means, in respect of any Payment Date, all investment income received on the Collateral Securities and the Eligible Investments on deposit in the Collateral Account and the Fixed Amounts received from the Credit Protection Buyer under the Credit Default Swap in the related Due Period, which Interest Proceeds shall be deposited to the Interest Collection Account (and will not be included in the Collateral Account Amount).

"Interest Shortfall" means with respect to any Reference Obligation Payment Date and any Reference Obligation, either (a) the nonpayment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount, as described in the related CDS Transaction.

"Interest Shortfall Amount" means with respect to any Reference Obligation Payment Date, an amount equal to the greater of: (a) zero; and (b) the amount equal to the product of: (i)(A) the Expected Interest Amount; minus (B) the Actual Interest Amount; and (ii) the Applicable Percentage.

"Interest Shortfall Cap" means the cap, if any on Interest Shortfalls as set forth in the related CDS Transaction.

"Interest Shortfall Cap Amount" means the amount of any Interest Shortfall Cap as set forth in the related CDS Transaction.

"Interest Shortfall Payment Amount" means in respect of an Interest Shortfall, the relevant Interest Shortfall Amount; *provided* that, if Interest Shortfall Cap is applicable and the Interest Shortfall Amount exceeds the Interest Shortfall Cap Amount, the Interest Shortfall Payment Amount in respect of such Interest Shortfall shall be the Interest Shortfall Cap Amount.

"Interest Shortfall Reimbursement" means with respect to any Reference Obligation Payment Date, the payment by or on behalf of the Reference Entity of an Actual Interest Amount in respect of the Reference Obligation that is greater than the Expected Interest Amount.

"Interest Shortfall Reimbursement Payment" means with respect to any Reference Obligation Payment Date, the product of (a) the amount of any Interest Shortfall Reimbursement on such day and (b) the Applicable Percentage.

"Interest Shortfall Reimbursement Payment Amount" means, (a) if Interest Shortfall Cap is not applicable, the relevant Interest Shortfall Reimbursement Amount, and (b) if Interest Shortfall Cap is applicable, the amount determined pursuant to the related CDS Transaction; *provided*, in either case, that the aggregate of all Interest Shortfall Reimbursement Payment Amounts (determined for this purpose on the basis that "Interest Shortfall Compounding" is not applicable) at any time shall not exceed the aggregate of Interest Shortfall Payment Amounts paid by the Issuer in respect of Interest Shortfalls occurring prior to the date of payment of any such Additional Fixed Amount.

"Issue" of a Collateral Asset or Reference Obligation means any such Collateral Asset or Reference Obligation issued by the same issuer, having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination) and otherwise being fungible with one another.

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"Liquidation Proceeds" means, with respect to any Optional Redemption, Tax Redemption, Auction or the Final Payment Date, including, without duplication, (i) all proceeds from CDS Transactions, Collateral Securities, Eligible Investments and Delivered Obligations, terminated, assigned or otherwise disposed of in connection with such redemption and payable to the Issuer, including any termination or assignment payments or other amounts payable to the Issuer, (ii) cash on deposit in the Accounts, to the extent available therefor, including any amounts designated by the Credit Protection Buyer as retained for investment in Eligible Investments and Collateral Securities, in each case as determined by the Credit Protection Buyer, (iii) any termination payments or other amounts payable to the Issuer by the Credit Protection Buyer (net of any termination payments or other amounts payable by the Issuer to the Credit Protection Buyer) and (iv) any payments receivable by the Issuer from any assignee of a CDS Transaction (net of any payments payable by the Issuer to any assignee of a CDS Transaction), in each case as determined by the Liquidation Agent.

"Majority" means (i) with respect to any Class or Classes of Secured Notes, the Holders of more than 50% of the Aggregate Outstanding Amount of such Class or Classes of Secured Notes and (ii) with respect to the Income Notes, the Holders of more than 50% of the outstanding Income Notes, calculated on the basis of the Aggregate Outstanding Amount (or, if the Aggregate Outstanding Amount has been paid in full, based on the original Aggregate Outstanding Amount) of the Income Notes held by each Income Noteholder.

"Market Value" means, with respect to any Collateral Asset or Reference Obligation, (i) the average of three bona fide bids for such Collateral Asset or Reference Obligation obtained by the Liquidation Agent at such time from any three nationally recognized dealers, which dealers are independent from one another and from the Liquidation Agent, or (ii) if the Liquidation Agent is unable to obtain three such bids, the lesser of two bona fide bids for such Collateral Asset or Reference Obligation obtained by the Liquidation Agent at such time from any two nationally recognized dealers acceptable to the Liquidation Agent, which dealers are independent from one another and from the Liquidation Agent, or (iii) if the Liquidation Agent is unable to obtain two such bids, the price on such date provided to the Liquidation Agent by an independent pricing service reasonably selected by the Liquidation Agent, or (iv) in the event the Liquidation Agent cannot in good faith determine the market value of such Collateral Asset or Reference Obligation using commercially reasonable efforts to apply the methods specified in clauses (i) through (iii) above, the lesser of (a) the product of (1) the Principal Balance of such Collateral Asset or Reference Obligation and (2) the Applicable Recovery Rate and (b) the Market Value as determined in good faith by the Liquidation Agent using commercially reasonable efforts to apply its reasonable business judgment. If the method of determining Market Value is based solely on clause (v) above, such Market Value shall be considered zero after 30 days until such time as the Market Value for such Collateral Asset or Reference Obligation may be determined applying the methods specified in clauses (i) through (iv) above.

"Maximum Principal Amount" means, as of any date of determination, an amount equal to the Collateral Account Amount.

"Minimum Bid Amount" means an amount equal to the sum of (a) the Secured Note Redemption Price with respect to the Auction Payment Date, (b) unpaid amounts due under the CDS Transactions upon termination or assignment of the CDS Transactions, (c) accrued and unpaid Liquidation Agent Fees and (d) 101% of all unpaid expenses of the Issuer, less amounts on deposit in the Accounts which are available to redeem the Notes.

"Monthly Asset Amount" means, with respect to any Payment Date, the Aggregate Reference Obligation Notional Amount on the first day of the related Due Period.

"Moody's Rating" means the rating determined in accordance with the methodology described in the Indenture.

"Moody's Recovery Rate" means, with respect to a Collateral Asset or Reference Obligation, an amount equal to the percentage for such Collateral Asset or Reference Obligation set forth in the recovery rate assumptions for Moody's attached as Part I of Schedule C to the Indenture; *provided, however*, that (A) Defaulted Obligations which exceed 2.5% of the Aggregate Outstanding Portfolio Amount and have been defaulted for more than one year will be deemed to have a Moody's Recovery Rate of 0%, (B) Defaulted Obligations which exceed 1.00% of the Aggregate Outstanding Portfolio Amount and have been defaulted for more than 2 years shall be deemed to have a

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Moody's Recovery Rate of 0%; and (C) Defaulted Obligations which have been defaulted for more than 3 years shall be deemed to have a Moody's Recovery Rate of 0%.

"Net Outstanding Portfolio Collateral Balance" means, on any Determination Date, an amount equal to (i) the Aggregate Reference Obligation Notional Amount on such Determination Date *plus* the Principal Balance of all Delivered Obligations, *minus* (ii) the aggregate Principal Balance on such date of determination of all Delivered Obligations that are and all CDS Transactions that reference Reference Obligations that are: (A) Defaulted Obligations, (B) Deferred Interest PIK Bonds, (C) Double B Rated Assets, (D) Single B Rated Assets and (E) Triple C Rated Assets, *plus* (iii) the Aggregate Calculation Amount of Defaulted Obligations and Deferred Interest PIK Bonds, the Double B Calculation Amount, the Single B Calculation Amount and the Triple C Calculation Amount plus (iv) the Amortization Shortfall Amount as of such date of determination. For purposes of calculating the Net Outstanding Portfolio Collateral Balance, if a Reference Obligation or a Delivered Obligation could be classified in more than one of the categories set forth in clauses (A) through (E) above, such Reference Obligation or Delivered Obligation will not be discounted multiple times but will be treated in the applicable category that results in the largest discount thereof.

"Non-Call Period" means the period commencing on and including the Closing Date and ending on but excluding the Payment Date in July 2010.

"Note Interest Rates" means, collectively, the Class S Note Interest Rate, the Class A-1a Note Interest Rate, the Class A-1b Note Interest Rate, the Class A-2 Note Interest Rate, the Class B Note Interest Rate, the Class C Note Interest Rate and the Class D Note Interest Rate.

"Noteholder Communication Notice" means a notice from an Originating Noteholder to the Trustee or the Fiscal Agent, as applicable, the contents of which are to be delivered by the Trustee or the Fiscal Agent, as applicable to all other Holders of Notes in accordance with the Indenture or the Fiscal Agency Agreement, as applicable.

"Noteholder" means, with respect to any Note, the person in whose name such Note is registered, or, for purposes of voting, the granting of consents and other similar determinations under the Indenture, with respect to any Notes in global form, a beneficial owner thereof.

"Originating Noteholder" means with respect to (i) any Collateral Securities Substitution Request Notice, the Holder(s) of a Note submitting such Collateral Securities Substitution Request Notice and (ii) any Noteholder Communication Notice, the Holder(s)of a Note submitting such Noteholder Communication Notice.

"Outstanding" or "outstanding" means (i) with respect to each Class of Secured Notes, as of any date of determination, all of such Class of Secured Notes theretofore authenticated and delivered under the Indenture and registered in the Note Register as outstanding except:

(a) Notes theretofore canceled by the Note Registrar or delivered to the Note Registrar for cancellation;

(b) Notes or portions thereof for whose payment or redemption funds in the necessary amount have been theretofore irrevocably deposited with the Trustee or any Paying Agent in trust for the Holders of such Notes; *provided* that, if such Notes or portions thereof are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;

(c) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any such Notes are held by a Holder in due course;

(d) Notes alleged to have been mutilated, destroyed, lost or stolen for which replacement Notes have been issued as provided in the Indenture;

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(e) in connection with any waiver, (i) all Notes (if any) held by the Trustee and its affiliates if the relevant waiver relates to a Default or an Event of Default arising primarily from any act or omission of the Trustee and, (ii) all Notes (if any) held by the Liquidation Agent and its affiliates if the relevant waiver relates to a Default or an Event of Default arising primarily from any act or omission of the Liquidation Agent; and

(f) in connection with the termination of the Trustee or the Liquidation Agent, as applicable, (i) all Notes (if any) held by the Trustee and its affiliates if the termination relates to a Default or an Event of Default arising primarily from any act or omission of the Trustee and (ii) all Notes (if any) held by the Liquidation Agent and its affiliates if the relevant termination relates to a Default or an Event of Default arising primarily from any act or omission of the Liquidation Agent;

(ii) with respect to the Income Notes, as of any date of determination, all of the Income Notes issued pursuant to the Income Notes Documents and indicated in the Income Notes Register as Outstanding except in connection with the termination of the Trustee or the Liquidation Agent, as applicable:

(a) all Income Notes (if any) held by the Trustee and its affiliates if the termination relates to a Default or an Event of Default arising primarily from any act or omission of the Trustee, and

(b) all Income Notes (if any) held by the Liquidation Agent and its affiliates if the relevant termination relates to a Default or an Event of Default arising primarily from any act or omission of the Liquidation Agent and

provided that in determining whether the Holders of the requisite Aggregate Outstanding Amount of the Secured Notes or Income Notes have given any request, demand, authorization, direction, notice, consent or waiver, Secured Notes or Income Notes owned by the Issuer or the Co-Issuer or any other obligor upon the Secured Notes or Income Notes or any affiliate thereof shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Issuer and the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Secured Notes and Income Notes that the Issuer or Trustee knows to be so owned shall be so disregarded. Secured Notes or Income Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Issuer and the Trustee the pledgee's right so to act with respect to such Secured Notes or Income Notes and that the pledgee is not the Issuer, the Co-Issuer, the Liquidation Agent or any other obligor upon the Secured Notes or Income Notes or any affiliate of the Issuer, the Co-Issuer, the Liquidation Agent or such other obligor.

"Outstanding Principal Amount" has the meaning set forth in the related CDS Transaction.

"Overcollateralization Ratios" means the Class A/B Overcollateralization Ratio, the Class C Overcollateralization Ratio and the Class D Overcollateralization Ratio.

"Overcollateralization Tests" means the Class A/B Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test.

"Payment Requirement" has the meaning set forth in the Credit Default Swap.

"PIK Bond" means a Reference Obligation or Delivered Obligation on which the deferral of interest does not constitute an event of default pursuant to the terms of the related underlying instruments (while any other senior debt obligation is outstanding if so provided by the related indenture or other underlying instruments).

"Principal Balance" means, with respect to any Reference Obligation, Collateral Security, Delivered Obligation or Eligible Investment, as of any date of determination, the Reference Obligation Notional Amount of such Reference Obligation and the outstanding principal amount of such Collateral Security, Delivered Obligation or Eligible Investment; subject to the following exceptions: (i) the Principal Balance of each Defaulted Obligation shall be deemed to be zero, except (A) for purposes of the calculation of the Coverage Tests, in which case, the Principal Balance of Defaulted Obligations shall equal their respective outstanding principal amount or Reference

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Obligation Notional Amount, as applicable (unless otherwise indicated in such tests), (B) for purposes of determining whether an Event of Default described in clause (vi) of the definition thereof has occurred, Defaulted Obligations shall be included at their Applicable Recovery Rate, (C) for purposes of calculating any trustee fees and the Liquidation Agent Fee, the Principal Balance of each Defaulted Obligation shall equal the Calculation Amount for such Defaulted Obligations and (D) as otherwise expressly indicated; (ii) the Principal Balance of any cash shall be the amount of such cash; (iii) the Principal Balance of any Delivered Obligation, any Collateral Securities and any Eligible Investments in which the Trustee does not have a perfected security interest shall be deemed to be zero; and (iv) the Principal Balance of any Reference Obligation, Collateral Security or Delivered Obligation that is an equity security shall be deemed to be zero.

"Principal Proceeds" means, with respect to any Due Period, the sum (without duplication) of: (i) all payments of interest and principal on, or liquidation proceeds of, the Delivered Obligations and Eligible Investments on deposit in the Delivered Obligations Account received in cash by the Issuer during such Due Period, (ii) any termination payments received from the Credit Protection Buyer during such Due Period and (iii) any Additional Fixed Amounts (excluding Interest Shortfall Reimbursement Payment Amounts) received from the Credit Protection Buyer during such Due Period; and (iv) any Amortization Proceeds on deposit in the Payment Account on the related Payment Date; *provided, however*, that Principal Proceeds shall not include any accrued interest or any funds from the Income Note Payment Account and all funds deposited in or credited thereto, transaction fees payable to the Issuer and its share capital on account of its ordinary shares held in its account in the Cayman Islands.

"Principal Shortfall Amount" means, in respect of a Failure to Pay Principal, an amount equal to the greater of: (i) zero; and (ii) the amount equal to the product of: (A) the Expected Principal Amount minus the Actual Principal Amount; (B) the Applicable Percentage; and (C) the Reference Price. For purposes hereof, if the Principal Shortfall Amount would be greater than the Reference Obligation Notional Amount immediately prior to the occurrence of such Failure to Pay Principal, then the Principal Shortfall Amount shall be deemed to be equal to the Reference Obligation Notional Amount at such time.

"Principal Shortfall Reimbursement" means, with respect to any day, the payment by or on behalf of the Reference Entity of an amount in respect of the Reference Obligation in or toward the satisfaction of any deferral of or failure to pay principal arising from one or more prior occurrences of a Failure to Pay Principal.

"Principal Shortfall Reimbursement Payment" means, with respect to any day, the product of (i) the amount of any Principal Shortfall Reimbursement on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

"Principal Shortfall Reimbursement Payment Amount" means, as of any date of determination, the sum of the Principal Shortfall Reimbursement Amounts in respect of all Principal Shortfall Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such date, provided that the aggregate of all Principal Shortfall Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of occurrences of Failure to Pay Principal prior to such date.

"Proceeds" means, with respect to any Due Period, without duplication, (i) all Amortization Proceeds with respect to the related Payment Date, (ii) all Interest Proceeds with respect to the related Payment Date and (iii) any amounts to be released or withdrawn on the related Payment Date from the Expense Reserve Account for deposit to the Payment Account.

"Quarterly Payment Date" means the 12th day of every January, April, July and October or if any such date is not a Business Day, the immediately following Business Day, commencing on July 12, 2007.

"Rating Agency Condition" means, with respect to any action taken or to be taken under the Transaction Documents, a condition that is satisfied when each Rating Agency has confirmed in writing to the Issuer and the Trustee that such action will not result in the immediate withdrawal, reduction or other adverse action with respect to any then-current rating of any Class of Notes.

"Record Date" means, (i) with respect to any Payment Date and any Notes issued in book-entry form, the close of business on the Business Day prior to such Payment Date and (ii) with respect to any Payment Date and any

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Notes issued in definitive form, the tenth day prior to such Payment Date (or, if such day is not a Business Day, the next succeeding Business Day).

"Redemption Date" means any Optional Redemption Date, Tax Redemption Date or Auction Payment Date.

"Reference Entity" means the issuer of a Reference Obligation.

"Reference Obligation" means a Residential Mortgage-Backed Security referenced under the Credit Default Swap.

"Reference Obligor" means the obligor on a Reference Obligation.

"Reference Obligation Calculation Period" means, with respect to each Reference Obligation Payment Date, a period corresponding to the interest accrual period relating to such Reference Obligation Payment Date pursuant to its underlying instruments. For the avoidance of doubt, the first Reference Obligation Calculation Period will begin on the Reference Obligation Payment Date falling on or immediately prior to the Closing Date.

"Reference Obligation Coupon" means the periodic interest rate applied in relation to each Reference Obligation Calculation Period on the related Reference Obligation Payment Date, as determined in accordance with the terms of the underlying instruments as at the Closing Date, without regard to any subsequent amendment.

"Reference Obligation Notional Amount" means, with respect to each CDS Transaction, the notional amount specified therein as reduced or increased pursuant to the terms of such CDS Transaction.

"Reference Obligation Payment Date" means (i) each scheduled distribution date for a Reference Obligation occurring on or after the Closing Date and on or prior to the scheduled termination date of the related CDS Transaction, determined in accordance with the underlying instruments and (ii) any day after the effective maturity date on which a payment is made in respect of such Reference Obligation.

"Reference Obligation Principal Amortization Amount" means, with respect to any Reference Obligation Payment Date, an amount equal to the product of (i) the amount of any Reference Obligation Principal Payment on such date and (ii) the Applicable Percentage.

"Reference Obligation Principal Payment" means, with respect to any Reference Obligation Payment Date, the occurrence of a payment of an amount to the holders of the Reference Obligation in respect of principal (scheduled or unscheduled) in respect of the Reference Obligation other than a payment in respect of principal representing capitalized interest, excluding, for the avoidance of doubt, any Writedown Reimbursement or Interest Shortfall Reimbursement.

"Reference Price" means the reference price (expressed as a percentage) specified in the related CDS Transaction.

"Registered" means, with respect to any debt obligation or debt security, a debt obligation or debt security that is issued after July 18, 1984, and that is in registered form within the meaning of Section 881(c)(2)(B)(i) of the Code and the Treasury regulations promulgated thereunder.

"REIT Debt Security" means a security issued by publicly held real estate investment trusts (as defined in Section 856 of the Code or any successor provision).

"Relevant Amount" means with respect to any Reference Obligation, if a servicer report that describes a Reference Obligation Principal Payment, Writedown or Writedown Reimbursement (other than a Writedown Reimbursement within paragraph (i) of "Writedown Reimbursement"), in each case that has the effect of decreasing or increasing the interest-accruing principal balance of such Reference Obligation as of a date prior to a Delivery Date but such servicer report is delivered to holders of such Reference Obligation or to the calculation agent under

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the related CDS Transaction on or after the related Delivery Date, an amount equal to the product of (i) the sum of any such Reference Obligation Principal Payment (expressed as a positive amount), Writedown (expressed as a positive amount) or Writedown Reimbursement (expressed as a negative amount), as applicable; (ii) the Reference Price; (iii) the Applicable Percentage immediately prior to such Delivery Date; and (iv) the Exercise Percentage (as defined in the related CDS Transaction).

"Residential Mortgage-Backed Securities", "RMBS Securities" or "RMBS" means securities that represent interests in pools of residential mortgage loans secured by 1 to 4 family residential mortgage loans and shall include, without limitation, RMBS Prime Mortgage Securities, RMBS Midprime Mortgage Securities and RMBS Subprime Mortgage Securities.

"RMBS Midprime Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Subprime Mortgage Securities and RMBS Prime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Residential Mortgage-Backed Securities) on the cash flow from midprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by 1- to 4-family residential real estate, the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). At issuance, the loans in the portfolio underlying each such RMBS Midprime Mortgage Security will have a weighted average FICO Score greater than 625, but less than 700.

"RMBS Prime Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Subprime Mortgage Securities and RMBS Midprime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Residential Mortgage-Backed Securities) on the cash flow from prime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by 1- to 4-family residential real estate, the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). At issuance, the loans in the portfolio underlying each such RMBS Prime Mortgage Security will have a weighted average FICO Score of at least 700.

"RMBS Subprime Mortgage Securities" means Residential Mortgage-Backed Securities (other than RMBS Prime Mortgage Securities and RMBS Midprime Mortgage Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Residential Mortgage-Backed Securities) on the cash flow from subprime residential mortgage loans secured (on a first priority basis, subject to permitted liens, easements and other encumbrances) by 1- to 4-family residential real estate, the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used). At issuance, the loans in the portfolio underlying RMBS Subprime Mortgage Security will have a weighted average FICO Score of 625 or below.

"S&P Rating" means the rating determined in accordance with the methodology described in the Indenture.

"S&P Recovery Rate" means, with respect to a Collateral Asset or Reference Obligation, on any Determination Date, an amount equal to the percentage for such Collateral Asset or Reference Obligation set forth in the S&P Recovery Rate Matrix attached as a schedule to the Indenture (determined in accordance with procedures prescribed by S&P for such Credit Default Swap, Reference Obligation or Delivered Obligation on the date of its purchase by the Issuer or, in the case of a Defaulted Obligation, the S&P Rating immediately prior to default).

"Sale Proceeds" means all amounts representing Proceeds (including accrued interest) from the sale, assignment, termination or other disposition of any CDS Transaction, Collateral Securities, Delivered Obligation or Eligible Investment received during such Due Period, net of any reasonable amounts expended by the Liquidation Agent or the Trustee in connection with such sale or other disposition.

"Secured Note Redemption Price" means the Class S Note Redemption Price, the Class A-1a Note Redemption Price, the Class A-1b Note Redemption Price, the Class A-2 Note Redemption Price, the Class B Note Redemption Price, the Class C Note Redemption Price and the Class D Note Redemption Price, as applicable.

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"Servicer" means, with respect to any Issue of Reference Obligation or Collateral Asset, the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for monitoring and otherwise administering the cash flows from which payments to investors in such Reference Obligation or Collateral Asset are made.

"Single B Calculation Amount" means the sum of the products of (a) the Principal Balance of each Single B Rated Asset and (b) 70%.

"Single B Rated Asset" means any Collateral Asset or Reference Obligation, that is not a Triple C Rated Asset, with an Actual Rating from S&P less than "BB-" or with an Actual Rating from Moody's less than "Ba3."

"Statistical Loss Amount" means, as of any Determination Date, the sum of, for each Reference Obligation and Collateral Asset, the product of (i) the Principal Balance of such Reference Obligation or Collateral Asset and (ii) the Moody's "Idealized" Cumulative Expected Loss Rate as set forth in the Indenture for such Reference Obligation and Collateral Asset. For purposes of the calculation of the Statistical Loss Amount on any Determination Date with respect to Single B Rated Assets, Deferred Interest PIK Bonds, Double B Rated Assets, Triple C Rated Assets, Defaulted Obligations and the principal amount of any Reference Obligations and Collateral Assets expected to be paid in full after the July 12, 2042 Payment Date, the principal amount thereof expected to be paid after the Payment Date related to such Determination Date shall be excluded.

"Step-Down Bond" means a security which by the terms of the related underlying instrument provides for a decrease, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step-Down Bond shall not include any such security providing for payment of a constant rate of interest at all times after the date of calculation.

"Super Majority" means with respect to any Class of Notes, the Holders of more than 66-2/3% of the Aggregate Outstanding Amount of such Class of Notes.

"Tax Event" means (i) the adoption of, or a change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in withholding tax payments representing in excess of 3% of the aggregate premium and interest due and payable on the Credit Default Swap and Pledged Assets during the Due Period in which such event occurs as a result of the imposition of U.S. or other withholding tax with respect to which the obligors are not required to make gross-up payments that cover the full amount of such withholding taxes on an after-tax basis or (ii) the adoption of, or change in, any tax statute (including the Code), treaty, regulation (whether temporary or final), rule, ruling, practice, procedure or judicial decision or interpretation which results or will result in taxation of the Issuer's net income in an amount equal to 3% or more of the net income of the Issuer during any Due Period in which such event occurs.

"Total Redemption Amount" means the sum of (a) all amounts due as of the Redemption Date pursuant to clauses (i), (ii), (iii), (iv), (v), (xv) and (xvi) of the Priority of Payments and (b) the Secured Note Redemption Prices.

"Treasury" means the United States Department of the Treasury.

"Triple C Calculation Amount" means the sum of the products of (a) the Principal Balance of each Triple C Rated Asset and (b) 50%.

"Triple C Rated Asset" means any Collateral Asset or Reference Obligation (other than a Defaulted Obligation) with an Actual Rating from S&P of less than "B-" or with an Actual Rating from Moody's of less than "B3."

"Writedown Amount" means, with respect to any day, the product of (i) the amount of any Writedown on such day, (ii) the Applicable Percentage and (iii) the Reference Price.

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"Writedown Reimbursement" means, with respect to any day, the occurrence of: (i) a payment by or on behalf of the Reference Entity of an amount in respect of the Reference Obligation in reduction of any prior Writedowns; (ii)(A) an increase by or on behalf of the Reference Entity of the Outstanding Principal Amount of the Reference Obligation to reflect the reversal of any prior Writedowns; or (B) a decrease in the principal deficiency balance or realized loss amounts (however described in the underlying instruments) attributable to the Reference Obligation; or (iii) if "Implied Writedown" (as defined in the related CDS Transaction) is applicable and the underlying instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (ii) above to occur in respect of the Reference Obligation, an "Implied Writedown Reimbursement Amount" (as defined in the related CDS Transaction) being determined in respect of the Reference Obligation by the calculation agent thereunder.

"Writedown Reimbursement Amount" means, with respect to any day, an amount equal to the product of: (i) the sum of all Writedown Reimbursements on that day; (ii) the Applicable Percentage; and (iii) the Reference Price.

"Writedown Reimbursement Payment Amount" means, with respect to any date of determination, the sum of the Writedown Reimbursement Amounts in respect of all Writedown Reimbursements (if any) made during the Reference Obligation Calculation Period relating to such date, provided that the aggregate of all Writedown Reimbursement Payment Amounts at any time shall not exceed the aggregate of all Floating Amounts paid by the Issuer in respect of Writedowns occurring prior to such date.

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APPENDIX B

Reference Portfolio

CDO Reference Obligations

CUSIP	Name	Issuer	Original Face	Factor	Current Face	Tranche Par	Total Deal Par	Issue Date	Coupon Type	Premium	Maturity
92534FAE8	VRGO 2006-1A B1	VRGO 2006-1A	$5,000,000	1.0000	$5,000,000	$17,500,000	$2,095,000,000	10/31/06	synthetic sprd	2.70%	11/9/2046

GS MBS-E-000912715

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CUSIP	Name	Asset Type	Moody's	Moody's Notch	S&P	S&P Notch	Fitch	Avg Life	Collateral Manager
92534FAE8	VRGO 2006-1A B1	CDO RMBS	Baa1	Baa1	BBB+	BBB+	-	6.6	Vertical Capital LLC

GS MBS-E-000912716

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RMBS Reference Obligations

CUSIP	Name	Issuer	Original Face	Factor	Current Face	Tranche Par	Total Deal Par	Issue Date	Coupon Type	Premium	Maturity
004375FE6	ACCR 2006-1 M8	ACCR 2006-1	$5,000,000	1.0000	$5,000,000	$10,539,000	$1,003,750,611	3/28/06	synthetic sprd	1.10%	4/25/2036
40430HEH7	HASC 2006-OPT2 M8	HASC 2006-OPT2	$5,000,000	1.0000	$5,000,000	$19,035,000	$1,410,043,699	2/28/06	synthetic sprd	0.95%	1/25/2036
59020U3N3	MLMI 2006-HE1 B2A	MLMI 2006-HE1	$5,000,000	1.0000	$5,000,000	$6,251,000	$781,325,635	2/7/06	synthetic sprd	1.05%	12/25/2036
61744CMS2	MSAC 2005-NC1 B2	MSAC 2005-NC1	$5,000,000	1.0000	$5,000,000	$12,777,000	$1,503,076,331	2/25/05	synthetic sprd	0.85%	1/25/2035
64352VLA7	NCHET 2005-2 M8	NCHET 2005-2	$5,000,000	1.0000	$5,000,000	$35,879,000	$2,989,436,690	4/22/05	synthetic sprd	1.15%	6/25/2035
004421VC4	ACE 2006-NC1 M9	ACE 2006-NC1	$5,000,000	1.0000	$5,000,000	$13,243,000	$1,324,265,728	1/30/06	synthetic sprd	2.30%	12/25/2035
03072SM85	AMSI 2005-R8 M9	AMSI 2005-R8	$5,000,000	1.0000	$5,000,000	$10,620,000	$1,416,191,359	9/28/05	synthetic sprd	3.05%	10/25/2035
144531BK5	CARR 2005-NC1 M8	CARR 2005-NC1	$5,000,000	1.0000	$5,000,000	$10,300,000	$1,029,909,316	2/3/05	synthetic sprd	1.70%	2/25/2035
22237JAP2	CWL 2006-BC2 M9	CWL 2006-BC2	$5,000,000	1.0000	$5,000,000	$6,825,000	$650,000,442	5/30/06	synthetic sprd	2.47%	1/25/2045
61744CPQ3	MSAC 2005-NC2 B3	MSAC 2005-NC2	$5,000,000	1.0000	$5,000,000	$16,507,000	$1,500,655,452	4/29/05	synthetic sprd	2.27%	3/25/2035
61744CYK6	MSAC 2006-NC1 B3	MSAC 2006-NC1	$5,000,000	1.0000	$5,000,000	$13,609,000	$1,296,091,575	1/27/06	synthetic sprd	2.35%	12/25/2035
64352VKJ9	NCHET 2005-1 M9	NCHET 2005-1	$5,000,000	1.0000	$5,000,000	$35,896,000	$2,991,323,979	2/25/05	synthetic sprd	2.08%	3/25/2035
64352VLS8	NCHET 2005-3 M9	NCHET 2005-3	$5,000,000	1.0000	$5,000,000	$29,010,000	$2,900,967,526	6/24/05	synthetic sprd	2.08%	7/25/2035
76112BL24	RAMP 2005-EFC6 M9	RAMP 2005-EFC6	$5,000,000	1.0000	$5,000,000	$8,327,000	$693,854,460	11/22/05	synthetic sprd	1.80%	11/25/2035
64352VNB3	NCHET 2005-4 M8	NCHET 2005-4	$5,000,000	1.0000	$5,000,000	$22,900,000	$2,080,229,977	8/17/05	synthetic sprd	1.05%	9/25/2035
004421PY3	ACE 2005-HE4 M9	ACE 2005-HE4	$5,000,000	1.0000	$5,000,000	$12,409,000	$1,459,858,597	6/29/05	synthetic sprd	2.31%	7/25/2035
03072ST62	AMSI 2005-R10 M9	AMSI 2005-R10	$5,000,000	1.0000	$5,000,000	$14,045,000	$2,006,425,509	11/23/05	synthetic sprd	2.73%	12/25/2035
03072SV93	AMSI 2005-R11 M9	AMSI 2005-R11	$5,000,000	1.0000	$5,000,000	$14,640,000	$1,830,242,361	12/20/05	synthetic sprd	2.77%	1/25/2036
04541GQH8	ABSHE 2005-HE2 M7	ABSHE 2005-HE2	$5,000,000	1.0000	$5,000,000	$7,887,000	$717,027,010	3/4/05	synthetic sprd	1.75%	2/25/2035
144531FG0	CARR 2006-NC1 M9	CARR 2006-NC1	$5,000,000	1.0000	$5,000,000	$14,410,000	$1,441,051,750	2/8/06	synthetic sprd	2.10%	1/25/2036
17307GSS8	CMLTI 2005-OPT3 M9	CMLTI 2005-OPT3	$5,000,000	1.0000	$5,000,000	$7,422,000	$927,735,831	7/7/05	synthetic sprd	2.40%	5/25/2035
362463AP6	GSAMP 2006-NC2 M9	GSAMP 2006-NC2	$5,000,000	1.0000	$5,000,000	$7,052,000	$881,499,701	6/29/06	synthetic sprd	2.72%	6/25/2036
40430HDN5	HASC 2006-OPT1 M9	HASC 2006-OPT1	$5,000,000	1.0000	$5,000,000	$9,555,000	$955,507,861	2/3/06	synthetic sprd	2.30%	12/25/2035
40430HFA1	HASC 2006-NC1 M9	HASC 2006-NC1	$5,000,000	1.0000	$5,000,000	$2,958,000	$328,689,100	3/7/06	synthetic sprd	2.25%	11/25/2035
46626LGQ7	JPMAC 2006-HE1 M9	JPMAC 2006-HE1	$5,000,000	1.0000	$5,000,000	$6,503,000	$619,359,045	2/28/06	synthetic sprd	2.05%	1/25/2036
46629BBB4	JPMAC 2006-CW2 MV9	JPMAC 2006-CW2	$5,000,000	1.0000	$5,000,000	$8,354,000	$349,984,974	8/8/06	synthetic sprd	2.30%	8/25/2036
61744CKW5	MSAC 2005-HE1 B3	MSAC 2005-HE1	$5,000,000	1.0000	$5,000,000	$17,134,000	$1,713,448,448	1/26/05	synthetic sprd	1.95%	12/25/2034
61744CNK8	MSAC 2005-HE2 B3	MSAC 2005-HE2	$5,000,000	1.0000	$5,000,000	$15,890,000	$1,588,946,277	3/30/05	synthetic sprd	2.35%	1/25/2035
65106AAW3	NCMT 2006-1 M9	NCMT 2006-1	$5,000,000	1.0000	$5,000,000	$15,022,000	$1,502,180,714	4/6/06	synthetic sprd	1.90%	3/25/2036
172983AN8	CMLTI 2006-NC1 M8	CMLTI 2006-NC1	$5,000,000	1.0000	$5,000,000	$6,814,000	$973,489,502	6/29/06	synthetic sprd	1.40%	8/25/2036
35729QAN8	FHLT 2006-B M8	FHLT 2006-B	$5,000,000	1.0000	$5,000,000	$12,544,000	$1,003,598,320	8/3/06	synthetic sprd	1.78%	8/25/2036
813765AH7	SABR 2006-FR3 B2	SABR 2006-FR3	$5,000,000	1.0000	$5,000,000	$12,839,000	$982,497,630	8/3/06	synthetic sprd	1.55%	5/25/2036
93934JAN4	WMABS 2006-HE2 M9	WMABS 2006-HE2	$5,000,000	1.0000	$5,000,000	$4,483,000	$472,002,321	5/25/06	synthetic sprd	2.26%	5/25/2036
83611MMT2	SVHE 2006-OPT2 M7	SVHE 2006-OPT2	$5,000,000	1.0000	$5,000,000	$18,400,000	$1,600,000,000	4/7/06	synthetic sprd	1.42%	5/25/2036
126670NN4	CWL 2005-BC5 B	CWL 2005-BC5	$5,000,000	1.0000	$5,000,000	$11,875,000	$949,999,828	12/28/05	synthetic sprd	2.50%	1/25/2036
14453FAN9	CARR 2006-NC2 M9	CARR 2006-NC2	$5,000,000	1.0000	$5,000,000	$8,473,000	$941,444,817	6/21/06	synthetic sprd	2.15%	6/25/2036
46626LJZ4	JPMAC 2006-NC1 M9	JPMAC 2006-NC1	$5,000,000	1.0000	$5,000,000	$7,909,000	$930,509,120	4/27/06	synthetic sprd	2.75%	4/25/2036
46629FAN0	JPMAC 2006-NC2 M9	JPMAC 2006-NC2	$5,000,000	1.0000	$5,000,000	$15,169,000	$948,076,340	8/23/06	synthetic sprd	2.50%	7/25/2036
57643LMX1	MABS 2005-NC2 M8	MABS 2005-NC2	$5,000,000	1.0000	$5,000,000	$8,576,000	$902,787,580	11/29/05	synthetic sprd	1.35%	11/25/2035
65536MAN7	NHELI 2006-HE2 M9	NHELI 2006-HE2	$5,000,000	1.0000	$5,000,000	$7,805,000	$743,401,087	4/28/06	synthetic sprd	2.45%	3/25/2036
61744CWE2	MSAC 2005-HE6 B2	MSAC 2005-HE6	$5,000,000	1.0000	$5,000,000	$12,929,000	$1,077,406,776	11/29/05	synthetic sprd	1.01%	11/25/2035
00442BAP6	ACE 2006-HE4 M9	ACE 2006-HE4	$5,000,000	1.0000	$5,000,000	$8,078,000	$702,462,276	9/28/06	synthetic sprd	2.70%	10/25/2036
35729TAP7	FHLT 2006-C M9	FHLT 2006-C	$5,000,000	1.0000	$5,000,000	$21,583,000	$1,798,572,976	9/7/06	synthetic sprd	2.75%	10/25/2036
00442PAP5	ACE 2006-OP1 M8	ACE 2006-OP1	$5,000,000	1.0000	$5,000,000	$14,392,000	$1,107,055,226	5/25/06	synthetic sprd	1.30%	4/25/2036
040104TS0	ARSI 2006-W4 M9	ARSI 2006-W4	$5,000,000	1.0000	$5,000,000	$10,659,000	$1,421,187,988	4/25/06	synthetic sprd	2.80%	5/25/2036
04541GWQ1	ABSHE 2006-HE2 M9	ABSHE 2006-HE2	$5,000,000	1.0000	$5,000,000	$5,597,000	$746,271,329	3/24/06	synthetic sprd	2.50%	3/25/2036
46602WAN4	IXIS 2006-HE2 B3	IXIS 2006-HE2	$5,000,000	1.0000	$5,000,000	$10,000,000	$1,000,000,000	5/25/06	synthetic sprd	2.20%	8/25/2036
59021AAM0	MLMI 2006-FM1 B2	MLMI 2006-FM1	$5,000,000	1.0000	$5,000,000	$5,932,000	$439,401,071	6/30/06	synthetic sprd	1.65%	4/25/2037
64352VRB9	NCHET 2006-1 M9	NCHET 2006-1	$5,000,000	1.0000	$5,000,000	$15,030,000	$1,366,333,806	3/30/06	synthetic sprd	2.70%	5/25/2036
83611MEE4	SVHE 2005-DO1 M8	SVHE 2005-DO1	$5,000,000	1.0000	$5,000,000	$5,850,000	$615,829,922	5/13/05	synthetic sprd	1.05%	5/25/2035
86360PAR8	SASC 2006-NC1 M9	SASC 2006-NC1	$5,000,000	1.0000	$5,000,000	$11,070,000	$1,230,035,769	6/22/06	synthetic sprd	2.40%	5/25/2036
126670UD8	CWL 2006-1 MV8	CWL 2006-1	$5,000,000	1.0000	$5,000,000	$5,012,000	$358,000,000	2/10/06	synthetic sprd	1.27%	7/25/2036
57645FAS6	MABS 2006-AM2 M8	MABS 2006-AM2	$5,000,000	1.0000	$5,000,000	$6,205,000	$477,328,508	7/28/06	synthetic sprd	1.27%	6/25/2036
64360YAM7	NCHET 2006-2 M9	NCHET 2006-2	$5,000,000	1.0000	$5,000,000	$14,313,000	$1,192,746,592	6/29/06	synthetic sprd	2.07%	8/25/2036
86361KAM9	SAIL 2006-BNC3 M7	SAIL 2006-BNC3	$5,000,000	1.0000	$5,000,000	$16,500,000	$2,062,458,752	8/25/06	synthetic sprd	1.67%	9/25/2036
126670LW6	CWL 2005-14 M8	CWL 2005-14	$5,000,000	1.0000	$5,000,000	$26,250,000	$2,099,999,537	12/21/05	synthetic sprd	1.15%	4/25/2036
61744CUZ7	MSAC 2005-HE5 B2	MSAC 2005-HE5	$5,000,000	1.0000	$5,000,000	$19,333,000	$1,486,749,917	10/28/05	synthetic sprd	1.15%	9/25/2035
31659EAM0	FMIC 2006-2 M8	FMIC 2006-2	$5,000,000	1.0000	$5,000,000	$10,800,000	$800,000,000	7/6/06	synthetic sprd	1.15%	7/25/2036
437097AP3	HEAT 2006-6 M8	HEAT 2006-6	$5,000,000	1.0000	$5,000,000	$10,200,000	$850,000,100	8/1/06	synthetic sprd	2.10%	11/25/2036
59023AAN6	MLMI 2006-MLN1 B2	MLMI 2006-MLN1	$5,000,000	1.0000	$5,000,000	$11,474,000	$819,593,841	9/29/06	synthetic sprd	1.27%	7/25/2037

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CUSIP	Name	Asset Type	Moody's	Moody's Notch	S&P	S&P Notch	Fitch	Avg Life	Primary Servicer
004375FE6	ACCR 2006-1 M8	RMBS Midprime	Baa2	Baa2	BBB	BBB	-	3.9	Accredited Home Lender, Inc.
40430HEH7	HASC 2006-OPT2 M8	RMBS Subprime	Baa2	Baa2	BBB+	BBB+	BBB+	3.8	Option One Mortgage Corporation
59020U3N3	MLMI 2006-HE1 B2A	RMBS Midprime	Baa2	Baa2	BBB+	BBB+	-	3.6	Wilshire Credit Corporation
61744CMS2	MSAC 2005-NC1 B2	RMBS Subprime	Baa2	Baa2	BBB	BBB	BBB	2.4	HomeEq Servicing Corporation
64352VLA7	NCHET 2005-2 M8	RMBS Subprime	Baa2	Baa2	BBB	BBB	-	2.5	New Century Mortgage Corporation
004421VC4	ACE 2006-NC1 M9	RMBS Midprime	Baa3	Baa3	BBB+	BBB+	-	3.6	Saxon Mortgage Services, Inc.
03072SM85	AMSI 2005-R8 M9	RMBS Subprime	Baa3	Baa3	BBB	BBB	BBB+	3.5	Ameriquest Mortgage Company
144531BK5	CARR 2005-NC1 M8	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.7	New Century Mortgage Corporation
22237JAP2	CWL 2006-BC2 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	-	3.6	Countrywide Home Loans Servicing LP
61744CPQ3	MSAC 2005-NC2 B3	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.6	Countrywide Home Loans Servicing LP
61744CYK6	MSAC 2006-NC1 B3	RMBS Subprime	Baa3	Baa3	BBB	BBB	BBB	3.9	HomeEq Servicing Corporation
64352VKJ9	NCHET 2005-1 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.2	New Century Mortgage Corporation
64352VLS8	NCHET 2005-3 M9	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.8	New Century Mortgage Corporation
76112BL24	RAMP 2005-EFC6 M9	RMBS Midprime	Baa3	Baa3	BBB	BBB	-	4.4	Residential Funding
64352VNB3	NCHET 2005-4 M8	RMBS Midprime	Baa2	Baa2	BBB	BBB	BBB	3.0	New Century Mortgage Corporation
004421PY3	ACE 2005-HE4 M9	RMBS Midprime	Baa3	Baa3	BBB	BBB	BBB	3.1	Countrywide Home Loans Servicing LP
03072ST62	AMSI 2005-R10 M9	RMBS Midprime	Baa3	Baa3	BBB	BBB	BBB	4.0	Ameriquest Mortgage Company
03072SV93	AMSI 2005-R11 M9	RMBS Subprime	Baa3	Baa3	BBB+	BBB+	BBB	4.0	Ameriquest Mortgage Company
04541GQH8	ABSHE 2005-HE2 M7	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.2	Saxon Mortgage Services, Inc.
144531FG0	CARR 2006-NC1 M9	RMBS Midprime	Baa3	Baa3	BBB+	BBB+	BBB-	3.8	New Century Mortgage Corporation
17307GSS8	CMLTI 2005-OPT3 M9	RMBS Subprime	Baa3	Baa3	BBB	BBB	BBB	3.2	Option One Mortgage Corporation
362463AP6	GSAMP 2006-NC2 M9	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	-	3.7	Ocwen Loan Servicing, LLC
40430HDN5	HASC 2006-OPT1 M9	RMBS Midprime	Baa3	Baa3	BBB+	BBB+	BBB+	3.7	Option One Mortgage Corporation
40430HFA1	HASC 2006-NC1 M9	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	-	3.1	JP Morgan Chase Bank, National Association
46626LGQ7	JPMAC 2006-HE1 M9	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	BBB-	4.5	JP Morgan Chase Bank, National Association
46629BBB4	JPMAC 2006-CW2 MV9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	4.1	Countrywide Home Loans Servicing LP
61744CKW5	MSAC 2005-HE1 B3	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.2	HomeEq Servicing Corporation
61744CNK8	MSAC 2005-HE2 B3	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	2.6	Option One Mortgage Corporation
65106AAW3	NCMT 2006-1 M9	RMBS Subprime	Baa3	Baa3	BBB+	BBB+	-	4.3	Centex Home Equity Company,LLC
172983AN8	CMLTI 2006-NC1 M8	RMBS Subprime	Baa2	Baa2	BBB	BBB	-	3.7	Wells Fargo Bank, N.A.
35729QAN8	FHLT 2006-B M8	RMBS Midprime	Baa2	Baa2	BBB	BBB	BBB+	4.2	Fremont Investment & Loan
813765AH7	SABR 2006-FR3 B2	RMBS Subprime	Baa2	Baa2	BBB	BBB	BBB+	4.7	HomeEq Servicing Corporation
93934JAN4	WMABS 2006-HE2 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	-	3.7	Washington Mutual Mortgage Securities Corp.
83611MMT2	SVHE 2006-OPT2 M7	RMBS Subprime	Baa2	Baa2	A-	A-	-	3.4	Option One Mortgage Corporation
126670NN4	CWL 2005-BC5 B	RMBS Subprime	Baa3	Baa3	BBB	BBB	-	3.8	Countrywide Home Loans Servicing LP
14453FAN9	CARR 2006-NC2 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	3.6	New Century Mortgage Corporation
46626LJZ4	JPMAC 2006-NC1 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	4.0	JP Morgan Chase Bank, National Association
46629FAN0	JPMAC 2006-NC2 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	4.0	JP Morgan Chase Bank, National Association
57643LMX1	MABS 2005-NC2 M8	RMBS Midprime	Baa2	Baa2	A+	A+	BBB+	3.0	Ocwen Loan Servicing, LLC
65536MAN7	NHELI 2006-HE2 M9	RMBS Subprime	Baa3	Baa3	BBB	BBB	BBB-	3.5	Ocwen Loan Servicing, LLC
61744CWE2	MSAC 2005-HE6 B2	RMBS Midprime	Baa2	Baa2	BBB+	BBB+	BBB+	3.8	JP Morgan Chase Bank, National Association
00442BAP6	ACE 2006-HE4 M9	RMBS Midprime	Baa3	Baa3	BBB	BBB	-	4.7	Ocwen Loan Servicing, LLC
35729TAP7	FHLT 2006-C M9	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	BBB	4.1	Wells Fargo Bank, N.A.
00442PAP5	ACE 2006-OP1 M8	RMBS Midprime	Baa2	Baa2	BBB+	BBB+	-	3.8	Option One Mortgage Corporation
040104TS0	ARSI 2006-W4 M9	RMBS Subprime	Baa3	Baa3	BBB	BBB	BBB	3.9	Ameriquest Mortgage Company
04541GWQ1	ABSHE 2006-HE2 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	3.5	HomeEq Servicing Corporation
46602WAN4	IXIS 2006-HE2 B3	RMBS Midprime	Baa3	Baa3	BBB	BBB	BBB-	4.2	Saxon Mortgage Services, Inc.
59021AAM0	MLMI 2006-FM1 B2	RMBS Subprime	Baa2	Baa2	BBB	BBB	-	3.7	Wilshire Credit Corporation
64352VRB9	NCHET 2006-1 M9	RMBS Midprime	Baa3	Baa3	BBB-	BBB-	BBB-	3.7	New Century Mortgage Corporation
83611MEE4	SVHE 2005-DO1 M8	RMBS Subprime	Baa2	Baa2	A-	A-	BBB+	3.0	Countrywide Home Loans Servicing LP
86360PAR8	SASC 2006-NC1 M9	RMBS Subprime	Baa3	Baa3	BBB-	BBB-	BBB-	4.1	Wells Fargo Bank, N.A.
126670UD8	CWL 2006-1 MV8	RMBS Subprime	Baa2	Baa2	A-	A-	-	3.7	Countrywide Home Loans Servicing LP
57645FAS6	MABS 2006-AM2 M8	RMBS Subprime	Baa2	Baa2	-	BB	-	3.7	Wells Fargo Bank, N.A.
64360YAM7	NCHET 2006-2 M9	RMBS Subprime	Baa2	Baa2	BBB-	BBB-	-	4.0	New Century Mortgage Corporation
86361KAM9	SAIL 2006-BNC3 M7	RMBS Subprime	Baa2	Baa2	BBB	BBB	BBB	4.4	Wells Fargo Bank, N.A.
126670LW6	CWL 2005-14 M8	RMBS Subprime	Baa2	Baa2	BBB	BBB	-	3.7	Countrywide Home Loans Servicing LP
61744CUZ7	MSAC 2005-HE5 B2	RMBS Midprime	Baa2	Baa2	BBB+	BBB+	BBB+	3.5	Countrywide Home Loans Servicing LP
31659EAM0	FMIC 2006-2 M8	RMBS Midprime	Baa2	Baa2	BBB+	BBB+	-	3.4	Fieldstone Servicing Corp
437097AP3	HEAT 2006-6 M8	RMBS Midprime	Baa2	Baa2	A-	A-	A-	4.1	Select Portfolio Servicing, Inc.
59023AAN6	MLMI 2006-MLN1 B2	RMBS Subprime	Baa2	Baa2	BBB+	BBB+	-	4.2	Wilshire Credit Corporation

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CUSIP	Name	FICO	Avg LTV	% IO	% Fixed	% 2nd Lien	% Hybrid	Avg Loan Balance	% Occupancy	% Refinanced	% Cash Out	% Purchase
004375FE6	ACCR 2006-1 M8	633	78.2%	13.4%	30.4%	0.5%	69.6%	$199,157	92.0%	1.9%	66.2%	32.0%
40430HEH7	HASC 2006-OPT2 M8	625	79.3%	24.4%	25.0%	4.2%	75.0%	$185,871	93.6%	5.2%	61.5%	33.3%
59020U3N3	MLMI 2006-HE1 B2A	630	82.3%	32.0%	22.7%	7.9%	77.3%	$161,947	93.9%	5.0%	48.5%	46.4%
61744CMS2	MSAC 2005-NC1 B2	617	79.8%	11.9%	26.2%	0.0%	73.8%	$184,540	94.8%	4.8%	62.5%	32.6%
64352VLA7	NCHET 2005-2 M8	623	80.4%	17.3%	18.0%	3.0%	82.0%	$183,909	90.3%	8.3%	57.4%	34.4%
004421VC4	ACE 2006-NC1 M9	627	80.9%	27.7%	22.8%	4.2%	77.2%	$192,479	89.8%	6.3%	47.0%	46.8%
03072SM85	AMSI 2005-R8 M9	619	78.2%	20.7%	21.4%	0.0%	78.6%	$176,847	97.7%	93.8%	3.9%	2.3%
144531BK5	CARR 2005-NC1 M8	635	81.6%	47.2%	13.3%	2.2%	86.7%	$213,073	96.5%	5.5%	49.8%	44.6%
22237JAP2	CWL 2006-BC2 M9	625	80.1%	37.3%	7.3%	0.0%	92.7%	$231,166	95.6%	6.7%	57.0%	36.3%
61744CPQ3	MSAC 2005-NC2 B3	618	80.4%	17.7%	18.9%	1.0%	81.1%	$191,410	93.9%	6.2%	61.4%	32.4%
61744CYK6	MSAC 2006-NC1 B3	622	81.0%	26.4%	22.2%	3.7%	77.8%	$230,340	91.5%	7.5%	56.1%	36.3%
64352VKJ9	NCHET 2005-1 M9	623	80.5%	17.0%	18.4%	2.0%	81.6%	$187,239	91.8%	8.2%	59.7%	32.2%
64352VLS8	NCHET 2005-3 M9	630	80.7%	35.5%	18.3%	2.3%	81.7%	$195,338	90.9%	9.4%	51.2%	39.5%
76112BL24	RAMP 2005-EFC6 M9	632	82.5%	28.4%	13.0%	0.1%	87.0%	$176,016	96.9%	6.0%	53.5%	40.5%
64352VNB3	NCHET 2005-4 M8	626	81.0%	39.3%	18.2%	2.3%	81.8%	$205,009	89.7%	7.4%	52.0%	40.6%
004421PY3	ACE 2005-HE4 M9	629	81.0%	27.2%	17.6%	4.3%	82.4%	$170,664	95.0%	5.6%	48.0%	46.5%
03072ST62	AMSI 2005-R10 M9	632	77.8%	21.4%	24.5%	0.6%	75.5%	$185,333	97.0%	3.0%	93.1%	3.9%
03072SV93	AMSI 2005-R11 M9	624	77.7%	20.5%	19.3%	0.0%	80.7%	$179,277	96.7%	3.4%	93.9%	2.7%
04541GQH8	ABSHE 2005-HE2 M7	621	79.7%	17.5%	17.4%	4.0%	82.6%	$181,125	95.2%	8.4%	58.4%	33.2%
144531FG0	CARR 2006-NC1 M9	630	81.2%	52.6%	13.6%	0.6%	86.4%	$212,019	93.2%	9.8%	47.8%	42.4%
17307GSS8	CMLTI 2005-OPT3 M9	613	81.9%	20.8%	16.3%	0.8%	83.7%	$184,118	93.5%	9.2%	62.4%	28.5%
362463AP6	GSAMP 2006-NC2 M9	626	79.3%	4.1%	12.3%	1.3%	87.7%	$223,221	92.8%	12.3%	72.2%	15.5%
40430HDN5	HASC 2006-OPT1 M9	644	79.3%	30.0%	28.4%	2.3%	71.6%	$229,966	89.9%	6.6%	59.5%	33.9%
40430HFA1	HASC 2006-NC1 M9	666	81.7%	100.0%	0.0%	0.0%	100.0%	$276,442	96.9%	8.4%	38.7%	52.9%
46626LGQ7	JPMAC 2006-HE1 M9	641	81.7%	33.0%	17.2%	9.2%	82.8%	$175,605	92.4%	1.7%	39.0%	59.3%
46629BBB4	JPMAC 2006-CW2 MV9	614	79.3%	32.5%	24.3%	1.0%	75.7%	$179,513	96.6%	3.9%	53.4%	42.8%
61744CKW5	MSAC 2005-HE1 B3	614	79.0%	10.5%	22.4%	0.7%	77.6%	$165,727	95.1%	6.7%	62.5%	30.8%
61744CNK8	MSAC 2005-HE2 B3	616	80.2%	9.5%	23.7%	1.7%	76.4%	$164,641	94.3%	8.5%	60.5%	31.0%
65106AAW3	NCMT 2006-1 M9	612	78.3%	26.5%	34.3%	8.2%	65.7%	$133,328	99.5%	13.8%	65.1%	21.1%
172983AN8	CMLTI 2006-NC1 M8	620	81.2%	10.2%	16.6%	5.6%	83.5%	$204,300	89.3%	8.6%	50.2%	41.2%
35729QAN8	FHLT 2006-B M8	627	81.4%	9.3%	19.1%	7.1%	80.9%	$212,959	95.5%	1.3%	49.3%	49.4%
813765AH7	SABR 2006-FR3 B2	619	80.8%	10.0%	10.9%	6.4%	89.1%	$215,493	94.0%	0.4%	55.4%	44.3%
93934JAN4	WMABS 2006-HE2 M9	625	79.8%	21.0%	14.3%	no info	85.7%	$183,018	96.4%	4.1%	45.1%	50.8%
83611MMT2	SVHE 2006-OPT2 M7	614	78.5%	20.8%	15.9%	1.0%	84.1%	$186,072	92.1%	6.9%	63.8%	29.3%
126670NN4	CWL 2005-BC5 B	619	78.6%	30.7%	25.5%	0.0%	74.5%	$189,956	97.6%	9.7%	59.4%	30.9%
14453FAN9	CARR 2006-NC2 M9	623	80.8%	13.9%	11.6%	1.0%	88.4%	$211,255	90.8%	8.3%	48.4%	43.2%
46626LJZ4	JPMAC 2006-NC1 M9	623	80.5%	7.4%	19.2%	2.5%	80.8%	$221,076	88.8%	9.8%	49.5%	40.7%
46629FAN0	JPMAC 2006-NC2 M9	619	81.2%	16.7%	20.5%	5.3%	79.5%	$196,533	90.0%	10.0%	47.7%	42.3%
57643LMX1	MABS 2005-NC2 M8	657	80.2%	100.0%	0.0%	0.0%	100.0%	$267,097	94.9%	4.0%	63.6%	32.4%
65536MAN7	NHELI 2006-HE2 M9	617	80.0%	29.9%	23.5%	1.6%	76.5%	$195,478	95.3%	3.8%	62.4%	33.8%
61744CWE2	MSAC 2005-HE6 B2	633	80.7%	18.8%	24.7%	4.6%	75.3%	$165,577	95.1%	6.8%	48.5%	44.7%
00442BAP6	ACE 2006-HE4 M9	627	81.9%	22.0%	15.0%	6.0%	85.0%	$183,602	94.0%	4.0%	43.9%	52.1%
35729TAP7	FHLT 2006-C M9	628	81.4%	7.5%	23.0%	6.1%	77.1%	$230,409	92.7%	1.7%	57.1%	41.2%
00442PAP5	ACE 2006-OP1 M8	626	79.7%	17.4%	16.0%	4.9%	84.0%	$201,246	90.0%	6.3%	57.3%	36.4%
040104TS0	ARSI 2006-W4 M9	616	81.8%	13.7%	13.5%	1.3%	86.5%	$209,924	90.2%	3.5%	51.6%	45.0%
04541GWQ1	ABSHE 2006-HE2 M9	625	80.7%	5.8%	17.1%	2.6%	82.9%	$187,930	88.7%	8.4%	49.0%	42.6%
46602WAN4	IXIS 2006-HE2 B3	629	80.2%	24.9%	7.6%	3.6%	92.4%	$208,978	94.1%	2.6%	49.5%	48.0%
59021AAM0	MLMI 2006-FM1 B2	618	80.7%	10.2%	10.8%	6.4%	89.2%	$220,694	93.7%	0.8%	56.1%	43.0%
64352VRB9	NCHET 2006-1 M9	627	81.4%	20.3%	19.4%	3.1%	80.6%	$218,404	90.0%	10.6%	48.8%	40.6%
83611MEE4	SVHE 2005-DO1 M8	622	80.2%	2.5%	13.6%	no info	86.4%	$148,286	97.3%	12.5%	54.0%	33.5%
86360PAR8	SASC 2006-NC1 M9	617	81.0%	10.7%	21.3%	3.1%	78.7%	$191,923	91.6%	10.1%	53.1%	36.8%
126670UD8	CWL 2006-1 MV8	618	77.8%	38.0%	0.0%	0.0%	100.0%	$228,573	95.0%	2.0%	64.1%	33.9%
57645FAS6	MABS 2006-AM2 M8	608	76.6%	2.1%	11.3%	2.7%	88.7%	$171,147	96.4%	3.8%	62.0%	34.2%
64360YAM7	NCHET 2006-2 M9	621	80.6%	17.8%	22.7%	2.7%	77.3%	$227,233	89.4%	10.4%	54.8%	34.8%
86361KAM9	SAIL 2006-BNC3 M7	618	79.4%	26.1%	17.7%	6.3%	82.3%	$201,549	90.6%	3.9%	61.1%	35.0%
126670LW6	CWL 2005-14 M8	612	79.3%	27.2%	25.0%	0.0%	75.0%	$186,094	96.3%	3.7%	60.9%	35.4%
61744CUZ7	MSAC 2005-HE5 B2	638	82.3%	25.0%	12.1%	5.7%	87.9%	$167,009	96.0%	7.0%	41.5%	51.5%
31659EAM0	FMIC 2006-2 M8	644	84.1%	42.9%	11.5%	2.1%	88.5%	$191,154	99.1%	0.4%	34.5%	65.1%
437097AP3	HEAT 2006-6 M8	628	79.5%	10.5%	17.2%	3.5%	82.8%	$177,682	94.6%	6.1%	44.6%	49.3%
59023AAN6	MLMI 2006-MLN1 B2	619	81.1%	1.1%	18.6%	5.1%	81.4%	$191,048	94.1%	0.5%	51.9%	47.6%

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CUSIP	Name	Top States	% Full Doc	% Stated Income	% Limited Doc	% Alt Doc	% No Doc	Neg Amort
004375FE6	ACCR 2006-1 M8	CA-18.55% FL-12.0% IL-6.25% NY-5.46% NJ-4.50%	56.6%	37.2%	0.0%	6.2%	0.0%	0.0%
40430HEH7	HASC 2006-OPT2 M8	CA-25.88% FL-9.38% NY-8.98% MA-7.63% NJ-4.80%	57.9%	41.5%	0.6%	0.1%	0.0%	0.0%
59020U3N3	MLMI 2006-HE1 B2A	CA-35.56% FL-11.19% IL-4.84% MD-4.55% AZ-4.54%	46.3%	47.3%	2.4%	1.3%	2.7%	0.0%
61744CMS2	MSAC 2005-NC1 B2	CA-32.62% FL-11.59% NY-11.06% NJ-8.26% TX-8.18%	53.7%	40.8%	5.5%	0.0%	0.0%	0.0%
64352VLA7	NCHET 2005-2 M8	CA-35.93% FL-8.69% NY-6.60% NJ-4.61% TX-4.40%	48.1%	47.4%	4.5%	0.0%	0.0%	0.0%
004421VC4	ACE 2006-NC1 M9	CA-37.47% FL-12.04% AZ-4.74% NY4.46% NJ-3.04%	54.0%	44.4%	1.6%	0.0%	0.0%	0.0%
03072SM85	AMSI 2005-R8 M9	CA-16.20% FL-12.10% NY-8.74% NJ-7.83% MD-6.04%	76.4%	9.7%	13.9%	0.0%	0.0%	0.0%
144531BK5	CARR 2005-NC1 M8	CA-49.80% FL-5.26% NY-4.92% NJ-4.09% IL-3.14%	35.3%	61.3%	3.4%	0.0%	0.0%	0.0%
22237JAP2	CWL 2006-BC2 M9	CA-35.40% FL-7.56% MD-4.87% NY-4.45% AZ-4.35%	53.3%	46.5%	0.0%	0.0%	0.2%	0.0%
61744CPQ3	MSAC 2005-NC2 B3	CA-39.41% FL-8.76% NY-3.74% NV-3.34% IL-3.14%	56.3%	36.3%	7.4%	0.0%	0.0%	0.0%
61744CYK6	MSAC 2006-NC1 B3	CA-38.93% FL-10.49% NY-5.24% AZ-4.76% NJ-3.34%	57.3%	41.5%	1.3%	0.0%	0.0%	0.0%
64352VKJ9	NCHET 2005-1 M9	CA-37.92% FL-7.45% NY-6.18% NJ-4.94% MA-4.61%	49.5%	45.6%	4.9%	0.0%	0.0%	0.0%
64352VLS8	NCHET 2005-3 M9	CA-34.77% FL-9.52% NY-5.96% NJ-4.62% IL-4.25%	57.0%	42.1%	0.9%	0.0%	0.0%	0.0%
76112BL24	RAMP 2005-EFC6 M9	CA-15.15% MD-7.23% VA-7.04% FL-6.87% NJ-6.35%	68.4%	0.0%	31.7%	0.0%	0.0%	0.0%
64352VNB3	NCHET 2005-4 M8	CA-39.35% FL-9.08% NY-6.18% NJ-4.13% MA-3.39%	55.6%	43.3%	1.1%	0.0%	0.0%	0.0%
004421PY3	ACE 2005-HE4 M9	CA-39.67% FL-9.15% NY-4.48% TX-4.19% IL-4.15%	53.8%	45.9%	0.1%	0.0%	0.1%	0.0%
03072ST62	AMSI 2005-R10 M9	CA-17.99% NY-10.55% FL-10.09% NJ-7.94% MD-6.44%	73.5%	10.5%	16.1%	0.0%	0.0%	0.0%
03072SV93	AMSI 2005-R11 M9	CA-15.08% FL-10.46% NY-9.19% NJ-7.39% MD-5.45%	72.5%	9.8%	17.7%	0.0%	0.0%	0.0%
04541GQH8	ABSHE 2005-HE2 M7	CA-38.34% FL-9.21% NY-5.44% IL-3.54% NJ-3.19%	48.2%	46.5%	5.3%	0.0%	0.0%	0.0%
144531FG0	CARR 2006-NC1 M9	CA-33.16% NY-7.59% FL-7.09% NJ-5.91% IL-4.86%	59.2%	38.9%	2.0%	0.0%	0.0%	0.0%
17307GSS8	CMLTI 2005-OPT3 M9	CA-22.01% NY-9.85% FL-8.97% MA-7.14% TX-5.75%	57.9%	40.5%	0.4%	0.1%	1.1%	0.0%
362463AP6	GSAMP 2006-NC2 M9	CA-27.17% FL-11.15% NJ-5.64% AZ-4.71% NY-4.15%	52.0%	46.9%	1.1%	0.0%	0.0%	0.0%
40430HDN5	HASC 2006-OPT1 M9	CA-29.84% NY-10.11% FL-9.49% MA-8.93% NJ-5.45%	46.8%	52.7%	0.3%	0.2%	0.0%	0.0%
40430HFA1	HASC 2006-NC1 M9	CA-42.95% FL-6.53% AZ-5.76% NY-5.58% NV-5.50%	43.9%	44.3%	1.0%	10.7%	0.0%	0.0%
46626LGQ7	JPMAC 2006-HE1 M9	CA-49.98% IL-12.74% TX-8.87% FL-8.38% AZ-2.75%	31.0%	68.1%	0.8%	0.2%	0.0%	0.0%
46629BBB4	JPMAC 2006-CW2 MV9	CA-24.74% FL-11.40% IL-4.91% TX-4.79% AZ-4.70%	61.2%	38.8%	0.0%	0.0%	0.0%	0.0%
61744CKW5	MSAC 2005-HE1 B3	CA-24.69% NY-8.11% FL-6.93% MA-5.54% NJ-4.88%	57.8%	39.1%	3.1%	0.0%	0.0%	0.0%
61744CNK8	MSAC 2005-HE2 B3	CA-22.40% FL-8.65% NY-8.38% MA-5.51% VA-4.10%	57.7%	40.3%	1.3%	0.7%	0.0%	0.0%
65106AAW3	NCMT 2006-1 M9	CA-28.29% FL-11.92% TX-7.30% AZ-5.40% VA-4.45%	78.2%	0.0%	3.2%	18.7%	0.0%	0.0%
172983AN8	CMLTI 2006-NC1 M8	CA-34.98% FL-8.80% NY-8.70% NJ-4.41% MA-3.52%	50.8%	47.7%	1.5%	0.0%	0.0%	0.0%
35729QAN8	FHLT 2006-B M8	CA-25.91% FL-14.71% NY-10.51% MD-7.16% IL-6.10%	56.4%	42.6%	1.0%	0.0%	0.0%	0.0%
813765AH7	SABR 2006-FR3 B2	CA-24.11% FL-15.46% NY-11.14% MD-7.69% NJ-7.40%	53.4%	45.7%	0.8%	0.0%	0.0%	0.0%
93934JAN4	WMABS 2006-HE2 M9	CA-37.04% DC-12.95% AZ-4.85 TX-4.58% IL-3.60%	54.0%	43.2%	2.8%	0.0%	0.0%	0.0%
83611MMT2	SVHE 2006-OPT2 M7	CA-19.99% FL-10.48% NY-9.71% MA-7.43% NJ-5.97%	57.7%	40.8%	0.6%	0.0%	1.0%	0.0%
126670NN4	CWL 2005-BC5 B	CA-28.18% FL-9.37% MD-5.15% AZ-4.72% VA-4.72%	62.8%	37.2%	0.0%	0.0%	0.1%	0.0%
14453FAN9	CARR 2006-NC2 M9	CA-33.97% FL-10.59% NY-6.46% TX-4.35 MA-3.65%	52.0%	46.4%	1.7%	0.0%	0.0%	0.0%
46626LJZ4	JPMAC 2006-NC1 M9	CA-40.56% FL-8.21% NJ-5.62% NY-5.32% MA-4.19%	51.3%	47.0%	1.6%	0.0%	0.0%	0.0%
46629FAN0	JPMAC 2006-NC2 M9	CA-30.34% FL-10.47% NY-7.02% NJ-4.76% TX-4.49%	59.0%	39.4%	1.6%	0.0%	0.0%	0.0%
57643LMX1	MABS 2005-NC2 M8	CA-55.26% FL-6.58% NV-4.85% AZ-4.27% NY-3.65%	40.2%	58.2%	1.6%	0.0%	0.0%	0.0%
65536MAN7	NHELI 2006-HE2 M9	CA-47.35% FL 7.16% NV-5.99% OH-4.86% AZ-3.93	63.4%	35.4%	0.0%	0.0%	1.2%	0.0%
61744CWE2	MSAC 2005-HE6 B2	CA-28.88% FL-11.49% NY-6.76% IL-4.64% TX-4.60%	55.6%	43.8%	0.5%	0.0%	0.0%	0.0%
00442BAP6	ACE 2006-HE4 M9	CA-37.97% FL-13.91% AZ-6.13% IL-4.70% NV-4.34%	40.5%	54.7%	4.5%	0.0%	0.4%	0.0%
35729TAP7	FHLT 2006-C M9	CA-26.51% FL-14.76% NY-10.37% MD-6.11% IL-5.81%	59.0%	39.9%	1.2%	0.0%	0.0%	0.0%
00442PAP5	ACE 2006-OP1 M8	CA-29.43% FL-11.45% NY-11.02% NJ-6.27% MA-4.09%	48.1%	51.0%	0.3%	0.0%	0.6%	0.0%
040104TS0	ARSI 2006-W4 M9	CA-28.68% FL-12.74% IL-8.94% AZ-7.11% NY-5.55%	53.3%	38.8%	7.8%	0.0%	0.0%	0.0%
04541GWQ1	ABSHE 2006-HE2 M9	CA-31.99% FL-12.12% AZ-5.32% TX-4.93% NY-4.57%	55.6%	42.0%	2.4%	0.0%	0.0%	0.0%
46602WAN4	IXIS 2006-HE2 B3	CA-34.82% FL-18.11% IL-4.81% MD-3.95% NJ-3.93%	40.3%	54.8%	5.0%	0.0%	0.0%	0.0%
59021AAM0	MLMI 2006-FM1 B2	CA-24.72% NY-15.03% FL-14.03% NJ-8.86% MD-7.35%	52.3%	46.5%	1.3%	0.0%	0.0%	0.0%
64352VRB9	NCHET 2006-1 M9	CA-37.92% FL-8.47% NY-7.15% MA-5.30% NJ-4.52%	52.8%	44.9%	2.3%	0.0%	0.0%	0.0%
83611MEE4	SVHE 2005-DO1 M8	CA-13.65% FL-9.76% IL-5.52% MA-5.08% VA-4.55%	59.0%	37.5%	3.5%	0.0%	0.1%	0.0%
86360PAR8	SASC 2006-NC1 M9	CA-27.05% FL- 11.14% NY- 6.59% TX- 4.81% NJ- 4.46%	54.6%	44.0%	1.4%	0.0%	0.0%	0.0%
126670UD8	CWL 2006-1 MV8	CA-32.48% FL-16.90% AZ-7.62% VA-5.26% NY-4.98%	55.4%	44.6%	0.0%	0.0%	0.0%	0.0%
57645FAS6	MABS 2006-AM2 M8	FL-29.98% CA-19.76% TX-8.21% NY-7.77% NJ-6.18%	64.5%	35.1%	0.4%	0.0%	0.0%	0.0%
64360YAM7	NCHET 2006-2 M9	CA-30.14% FL-8.75% NY-7.19% MA-4.71% NJ-4.60%	70.1%	27.7%	2.2%	0.0%	0.0%	0.0%
86361KAM9	SAIL 2006-BNC3 M7	CA-42.41% FL- 7.39% AZ- 6.41% IL- 5.21% NY-4.74%	49.2%	48.1%	2.5%	0.0%	0.1%	0.0%
126670LW6	CWL 2005-14 M8	CA-24.93% FL-8.85% AZ-5.51% IL-4.11% TX-4.07%	77.4%	22.6%	0.0%	0.0%	0.0%	0.0%
61744CUZ7	MSAC 2005-HE5 B2	CA-36.70% FL 6.93% MA-4.93% MD-3.62% NJ-3.27%	50.5%	41.4%	8.1%	0.0%	0.0%	0.0%
31659EAM0	FMIC 2006-2 M8	CA-34.01% TX-10.68% IL-7.37% AZ-6.05% WA-5.67%	43.6%	44.7%	0.4%	11.3%	0.0%	0.0%
437097AP3	HEAT 2006-6 M8	CA-30.14% FL-11.13% WA-4.70% AZ-4.13% NV-3.31%	62.6%	19.0%	18.2%	0.0%	0.2%	0.0%
59023AAN6	MLMI 2006-MLN1 B2	FL-18.47% NY-10.65% MD-8.31% MA-5.89% NJ-5.81%	53.6%	0.0%	2.8%	43.6%	0.0%	0.0%

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ANNEX A-1

FORM OF INCOME NOTES PURCHASE AND TRANSFER LETTER

LaSalle Bank National Association
181 W. Madison Street, 32nd Floor
Chicago, Illinois 60602
Attention: CDO Trust Services Group - Anderson Mezzanine Funding 2007-1, Ltd.

Re: Anderson Mezzanine Funding 2007-1, Ltd.
Income Notes

Dear Sirs:

Reference is hereby made to the Income Notes due 2042 (the "Income Notes") issued by Anderson Mezzanine Funding 2007-1, Ltd. (the "Issuer"), described in the Issuer's Offering Circular dated March 16, 2007 ("Offering Circular") to be purchased and held by us in definitive certificated form. We (the "Purchaser") are purchasing U.S. $[ ] principal amount of Income Notes (the "Purchaser's Income Notes"). Terms defined or referenced in the Offering Circular and not otherwise defined or referenced herein shall have the meanings set forth in the Offering Circular.

The Purchaser hereby represents, warrants and covenants for the benefit of the Issuer that:

(a) (i) The Purchaser is (check one) (x) __ a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) (a "Qualified Institutional Buyer") (y) __ an "accredited investor" (as defined in Rule 501(a) under the Securities Act) (an "Accredited Investor") who has a net worth of not less than U.S.$10 million that is purchasing the Income Notes for its own account; (ii) The Purchaser is a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act") (a "Qualified Purchaser"); (iii) The Purchaser, in the case of clause (y) above, is not acquiring the Income Notes with a view to any resale or distribution thereof, other than in accordance with the restrictions set forth below; (iv) The Purchaser is aware that the sale of the Purchaser's Income Notes to the Purchaser is being made in reliance on an exemption from registration under the Securities Act; (v) With respect to any transferee, the Purchaser also understands that, in conjunction with any transfer of the Purchaser's ownership of any Purchaser's Income Notes purchased hereunder, it will not transfer or cause the transfer of such Purchaser's Income Notes without obtaining from the transferee a certificate substantially in the form of this Income Note Purchase and Transfer Letter; (vi) The Purchaser will provide notice of the transfer restrictions described to any subsequent transferees.

(b) The Purchaser is purchasing the Purchaser's Income Notes in an amount equal to or exceeding the minimum permitted number thereof for its own account (or, if the Purchaser is a Qualified Institutional Buyer, for the account of another Qualified Institutional Buyer with respect to which the Purchaser exercises sole investment discretion) for investment purposes only and not for sale in connection with any distribution thereof, but nevertheless subject to the understanding that the disposition of its property shall at all times be and remain within its control (subject to the restrictions set forth in the Offering Circular, the certificate in respect of the Purchaser's Income Notes and the Fiscal Agency Agreement).

(c) The Purchaser understands that the Purchaser's Income Notes have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction and are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only in accordance with the restrictions on transfer set forth herein and in the Fiscal Agency Agreement. The Purchaser understands and agrees that any purported transfer of Income Notes to a purchaser that does not comply with the requirements herein will not be permitted or registered by the Income Notes Transfer Agent. The Purchaser further understands that the Issuer has the right to compel any beneficial owner of Income Notes that is a U.S. Person and is not

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(a) either a Qualified Institutional Buyer or an Accredited Investor with a net worth of U.S.$10 million or more and (b) a Qualified Purchaser, to sell its interest in such Income Notes, or the Issuer may sell such Income Notes on behalf of such owner.

(d) If the Purchaser or any account for which the Purchaser is purchasing the Purchaser's Income Notes is a U.S. Person (as defined in Regulation S under the Securities Act) the following representations shall be true and correct: The Purchaser (or if the Purchaser is acquiring the Purchaser's Income Notes for any account, each such account) is acquiring the Purchaser's Income Notes as principal for its own account for investment and not for sale in connection with any distribution thereof. The Purchaser and each such account: (a) was not formed for the specific purpose of investing in the Income Notes (except when each beneficial owner of the Purchaser and each such account is a Qualified Purchaser), (b) to the extent the Purchaser is a private investment company formed before April 30, 1996, the Purchaser has received the necessary consent from its beneficial owners, (c) is not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made; and (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers. Further, the Purchaser agrees: (i) that neither it nor such account shall hold the Purchaser's Income Notes for the benefit of any other person and such purchaser of such account shall be the sole beneficial owner thereof for all purposes; and (ii) that neither it nor such account shall sell participation interests in the Purchaser's Income Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on the Purchaser's Income Notes. The Purchaser understands and agrees that any purported transfer of the Purchaser's Income Notes to a Purchaser that does not comply with the requirements of this clause (d) will not be permitted or registered by the Income Notes Transfer Agent.

(e) In connection with the purchase of the Purchaser's Income Notes: (i) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Administrator or the Fiscal Agent, is acting as a fiduciary or financial or investment adviser for the Purchaser; (ii) the Purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuers, the Initial Purchaser, the Liquidation Agent, the Administrator or the Fiscal Agent other than in the Offering Circular and any representations expressly set forth in a written agreement with such party; (iii) none of the Issuers, the Initial Purchaser, the Liquidation Agent, the Administrator or the Fiscal Agent has given to the Purchaser (directly or indirectly through any other person) any assurance, guarantee, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Purchaser's Income Notes; (iv) the Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture and the Fiscal Agency Agreement) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuers, the Initial Purchaser, the Liquidation Agent, the Administrator or the Fiscal Agent; (v) the Purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Purchaser's Income Notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; and (vi) the Purchaser is a sophisticated investor.

(f) The certificates in respect of the Income Notes (other than the Regulation S Income Notes) will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Fiscal Agency Agreement and applicable law:

> THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 20, 2007 (THE "FISCAL AGENCY AGREEMENT") BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND LASALLE BANK NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

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THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN EACH CASE IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS

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DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE INCOME NOTES TRANSFER AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED ON OR AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE MUST DISCLOSE IN WRITING IN ADVANCE TO THE FISCAL AGENT (i) WHETHER OR NOT IT IS (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); (ii) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR (OR ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW")), THAT THE PURCHASE AND HOLDING OR TRANSFER AND HOLDING OF INCOME NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, ANY SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; AND (iii) WHETHER OR NOT IT IS A PERSON (OTHER THAN A BENEFIT PLAN INVESTOR) WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF A PURCHASER IS AN INSURANCE COMPANY ACTING ON BEHALF OF ITS GENERAL ACCOUNT OR OTHER ENTITY DEEMED TO BE HOLDING PLAN ASSETS, IT WILL BE PERMITTED TO SO INDICATE, AND REQUIRED TO IDENTIFY A MAXIMUM PERCENTAGE OF THE ASSETS IN SUCH GENERAL ACCOUNT OR ENTITY THAT MAY BE OR BECOME PLAN ASSETS, IN WHICH CASE THE PURCHASER OR TRANSFEREE WILL BE REQUIRED TO MAKE CERTAIN FURTHER AGREEMENTS THAT WOULD APPLY IN THE EVENT THAT SUCH MAXIMUM PERCENTAGE WOULD THEREAFTER BE EXCEEDED. THE PURCHASER AGREES THAT, BEFORE ANY INTEREST IN AN INCOME NOTE MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, THE TRANSFEREE WILL BE REQUIRED TO PROVIDE THE INCOME NOTES TRANSFER AGENT WITH AN INCOME NOTE PURCHASE AND TRANSFER LETTER (SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT) STATING, AMONG OTHER THINGS, WHETHER THE TRANSFEREE IS A BENEFIT PLAN INVESTOR. THE TRUSTEE OR INCOME NOTES TRANSFER AGENT WILL NOT PERMIT OR REGISTER ANY PURCHASE OR TRANSFER OF INCOME NOTES TO THE EXTENT THAT THE PURCHASE OR TRANSFER WOULD RESULT IN BENEFIT PLAN INVESTORS OWNING 25% OR MORE OF THE TOTAL VALUE OF THE OUTSTANDING INCOME NOTES

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(OTHER THAN THE INCOME NOTES OWNED BY THE LIQUIDATION AGENT, THE TRUSTEE AND THEIR AFFILIATES) IMMEDIATELY AFTER SUCH PURCHASE OR TRANSFER (DETERMINED IN ACCORDANCE WITH THE PLAN ASSET REGULATION (AS DEFINED HEREIN) AND IN THE FISCAL AGENCY AGREEMENT).

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(g) The certificates in respect of the Regulation S Income Notes will bear a legend to the following effect unless the Issuer determines otherwise in compliance with the Fiscal Agency Agreement and applicable law:

THE INCOME NOTES ARE THE SUBJECT OF, AND ARE ISSUED SUBJECT TO THE CONDITIONS OF, THE FISCAL AGENCY AGREEMENT, DATED ON OR ABOUT MARCH 20, 2007 (THE "FISCAL AGENCY AGREEMENT) BY AND BETWEEN THE ISSUER OF THE INCOME NOTES AND LASALLE BANK NATIONAL ASSOCIATION, AS FISCAL AGENT. COPIES OF THE FISCAL AGENCY AGREEMENT MAY BE OBTAINED FROM THE FISCAL AGENT.

THE INCOME NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE HOLDER HEREOF, BY PURCHASING THE INCOME NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT SUCH INCOME NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (2) TO AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN THE CASE OF CLAUSE (1) AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $250,000 OR IN THE CASE OF CLAUSE (3) IN A PRINCIPAL AMOUNT OF NOT LESS THAN $100,000. FURTHERMORE THE PURCHASER AND EACH ACCOUNT FOR WHICH IT IS ACTING AS A PURCHASER, OTHER THAN IN THE CASE OF CLAUSE (A)(3) ABOVE, REPRESENTS FOR THE BENEFIT OF THE ISSUER THAT IT (V) IS A QUALIFIED PURCHASER FOR THE PURPOSES OF SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, (W) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER IS A QUALIFIED PURCHASER), (X) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (Y) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (Z) IS NOT A PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION

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AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. ANY PURPORTED TRANSFER IN VIOLATION OF THE FOREGOING WILL NOT BE PERMITTED OR REGISTERED BY THE INCOME NOTES TRANSFER AGENT. EACH TRANSFEROR OF THE INCOME NOTES WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE FISCAL AGENCY AGREEMENT TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER HAS THE RIGHT TO COMPEL ANY BENEFICIAL OWNER OF AN INCOME NOTE THAT IS A U.S. PERSON AND IS NOT (A) A QUALIFIED PURCHASER AND (B) EITHER A QUALIFIED INSTITUTIONAL BUYER OR AN ACCREDITED INVESTOR WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION TO SELL SUCH INCOME NOTES, OR MAY SELL SUCH INCOME NOTES ON BEHALF OF SUCH OWNER.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(1) OR (A)(2) OF THE PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL (1) BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS (X) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, OR (Y) AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT) WHO HAS A NET WORTH OF NOT LESS THAN U.S.$10 MILLION AND (Z) A QUALIFIED PURCHASER FOR THE PURPOSES OF THE INVESTMENT COMPANY ACT AND (2) RECEIVE ONE OR MORE DEFINITIVE INCOME NOTES.

IF THE TRANSFER OF INCOME NOTES IS TO BE MADE PURSUANT TO CLAUSE (A)(3) OF THE SECOND PRECEDING PARAGRAPH, THE TRANSFEREE OF THE INCOME NOTES WILL BE REQUIRED TO DELIVER TO THE ISSUER AND THE FISCAL AGENT AN INCOME NOTES PURCHASE AND TRANSFER LETTER, SUBSTANTIALLY IN THE FORM ATTACHED TO THE FISCAL AGENCY AGREEMENT, STATING THAT AMONG OTHER THINGS, THE TRANSFEREE IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S).

WITH RESPECT TO THE INCOME NOTES PURCHASED OR TRANSFERRED AFTER THE CLOSING DATE, THE PURCHASER OR TRANSFEREE IS DEEMED TO REPRESENT AND WARRANT), THAT (i) IT IS NOT (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" AS DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (C) AN ENTITY WHOSE ASSETS INCLUDE "PLAN ASSETS" WITHIN THE MEANING OF ERISA BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR OTHER PLAN'S INVESTMENT IN THE ENTITY (ALL SUCH PERSONS AND ENTITIES DESCRIBED IN CLAUSES (A) THROUGH (C) BEING REFERRED TO HEREIN AS "BENEFIT PLAN INVESTORS"); AND (ii) IT IS NOT A PERSON WHO HAS DISCRETIONARY AUTHORITY OR CONTROL WITH RESPECT TO THE ASSETS OF THE ISSUER OR A PERSON WHO PROVIDES INVESTMENT ADVICE FOR A FEE (DIRECT OR INDIRECT) WITH RESPECT TO THE ASSETS OF THE ISSUER, OR ANY "AFFILIATE" (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-101(f)(3)) OF ANY SUCH PERSON. IF THE PURCHASER OR TRANSFEREE IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR FOREIGN LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), SUCH PURCHASER OR TRANSFEREE ALSO IS DEEMED TO REPRESENT AND WARRANT THAT ITS PURCHASE AND HOLDING OF THE INCOME NOTES DO NOT AND WILL NOT CONSTITUTE OR RESULT

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IN A VIOLATION OF ANY SIMILAR LAW FOR WHICH AN EXEMPTION IS NOT AVAILABLE. ANY PURPORTED TRANSFER OF AN INCOME NOTE THAT DOES NOT COMPLY WITH THE REQUIREMENTS SET FORTH ABOVE SHALL BE NULL AND VOID *AB INITIO*.

PAYMENTS TO THE HOLDERS OF THE INCOME NOTES ARE SUBORDINATE TO THE PAYMENT ON EACH PAYMENT DATE OF PRINCIPAL OF AND INTEREST ON THE SECURED NOTES OF THE ISSUER OR CO-ISSUER, AS APPLICABLE, AND THE PAYMENT OF CERTAIN OTHER AMOUNTS, TO THE EXTENT AND AS DESCRIBED IN THE INDENTURE.

(h) With respect to Income Notes transferred or purchased on or after the Closing Date, the Purchaser understands and agrees that the representations and agreements made in this paragraph (g) will be deemed made on each day from the date hereof through and including the date on which the Purchaser disposes of the Income Notes.

(x) The Purchaser is __ is not __ [check one] (i) an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) a "plan" as described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or (iii) an entity whose underlying assets include assets of any such employee benefit plan or other plan (for purposes of ERISA or Section 4975 of the Code) by reason of a plan's investment in the entity (such persons and entities described in clauses (i) through (iii) being referred to herein as "Benefit Plan Investors"); and (y) if the Purchaser is a Benefit Plan Investor (or another employee benefit plan subject to any federal, state, local or foreign law substantially similar to Section 406 of ERISA or section 4975 of the Code ("Similar Law")), the Purchaser's purchase and holding of an Income Note do not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of an employee benefit plan subject to Similar Law, any Similar Law) for which an exemption is not available.

The Purchaser is _____ is not _____ [check one] the Issuer or any other person (other than a Benefit Plan Investor) that has discretionary authority or control with respect to the assets of the Issuer, a person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Issuer, or any "affiliate" (within the meaning of 29 C.F.R. Section 2510.3-101(f)(3)) of any such person (any such person described in this paragraph being referred to as a "Controlling Person").

If the Purchaser is an insurance company acting on behalf of its general account or any other entity holding plan assets of Benefit Plan Investors ____ [check if true], then (i) not more than ____% [complete by entering a percentage], (the "Maximum Percentage") of the assets of such general account or entity constitutes assets of Benefit Plan Investors for purposes of the "plan assets" regulations under ERISA, and (ii) without limiting the remedies that may otherwise be available, the Purchaser agrees that it shall (x) immediately notify the Issuer if the Maximum Percentage is exceeded, and (y) dispose of all or a portion of its Income Notes as may be instructed by the Issuer (including, in the discretion of the Issuer, a disposition back to the Issuer or an affiliate thereof (or other person designated by the Issuer) for the then value of the Income Notes as reasonably determined by the Issuer, in any case in which the Purchaser cannot otherwise make a disposition it has been instructed by the Issuer to make).

(i) The Purchaser understands and acknowledges that the Income Notes Transfer Agent will not register any purchase or transfer of Income Notes either to a proposed initial purchaser or to a proposed subsequent transferee of Income Notes that has, in either case, represented that it is a Benefit Plan Investor or a Controlling Person if, after giving effect to such proposed transfer, persons that have represented that they are Benefit Plan Investors would own 25% or more of the total value of the outstanding Income Notes. For purposes of this determination, Income Notes held by the Liquidation Agent, the Trustee, any of their respective affiliates and persons that have represented that they are Controlling Persons will be disregarded and will not be treated as outstanding. The Purchaser understands and agrees that any purported purchase or transfer of the Purchaser's Income Notes to a Purchaser that does not comply with the requirements of this clause (i) will not be permitted or registered by the Income Notes Transfer Agent.

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(j) The purchaser is not purchasing the Purchaser's Income Notes with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The Purchaser understands that an investment in the Purchaser's Income Notes involves certain risks, including the risk of loss of its entire investment in the Purchaser's Income Notes under certain circumstances. The Purchaser has had access to such financial and other information concerning the Issuers and the Purchaser's Income Notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Purchaser's Income Notes, including an opportunity to ask questions of, and request information from, the Issuer.

(k) The Purchaser is not purchasing the Purchaser's Income Notes in order to reduce any United States federal income tax liability or pursuant to a tax avoidance plan.

(l) The Purchaser agrees to treat the Purchaser's Income Notes as equity for United States federal, state and local income tax purposes.

(m) The Purchaser acknowledges that due to money laundering requirements operating in the Cayman Islands, the Issuer and the Income Notes Transfer Agent may require further identification of the Purchaser before the purchase application can proceed. The Issuer and the Income Notes Transfer Agent, as applicable, shall be held harmless and indemnified by the Purchaser against any loss arising from the failure to process the application if such information as has been required from the Purchaser has not been provided by the Purchaser.

(n) The Purchaser agrees to complete any other instrument of transfer as required under Cayman Islands law.

(o) The Purchaser is not a member of the public in the Cayman Islands.

We acknowledge that you and other persons will rely upon our confirmation, acknowledgments, representations, warranties, covenants and agreements set forth herein, and we hereby irrevocably authorize you and such other persons to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

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THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Very truly yours,
[ ]
By: _____
Name:
Title:

Receipt acknowledged as of date set forth above,

_____
(Signature and Addresses)

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REGISTERED OFFICES OF THE ISSUERS

ANDERSON MEZZANINE FUNDING 2007-1, LTD.

P.O. Box 1093GT, Queensgate House
South Church Street
George Town
Grand Cayman, Cayman Islands

ANDERSON MEZZANINE FUNDING 2007-1, CORP.

850 Library Avenue, Suite 204
Newark, Delaware 19711

TRUSTEE, PRINCIPAL NOTE PAYING AGENT, NOTE PAYING AGENT, NOTE TRANSFER AGENT, NOTE REGISTRAR, FISCAL AGENT AND INCOME NOTES TRANSFER AGENT

LaSalle Bank National Association
181 W. Madison Street, 32nd Floor
Chicago, Illinois 60602

LIQUIDATION AGENT
Goldman, Sachs & Co.
85 Broad Street

New York, NY 10004

LEGAL ADVISORS

To the Issuers, the Initial Purchaser and the Liquidation Agent
As to matters of United States Law

Sidley Austin LLP
787 Seventh Avenue
New York, New York 10019

To the Trustee, Principal Note Paying Agent, Note Paying Agent, Note Transfer Agent, Note Registrar, Fiscal Agent and Income Notes Transfer Agent

As to matters of United States Law

Kennedy Covington Lobdell & Hickman, L.L.P.
214 N. Tryon Street, 47th Floor
Charlotte, North Carolina 28202

To the Issuer

As to matters of Cayman Islands Law

Maples and Calder
P.O. Box 309GT, Ugland House
South Church Street,
George Town
Grand Cayman, Cayman Islands

No dealer, salesperson or other person has been authorized to give any information or to represent anything not contained in this Offering Circular. You must not rely on any unauthorized information or representations. This Offering Circular is an offer to sell only the Notes offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Offering Circular is current only as of its date.

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ANDERSON MEZZANINE FUNDING 2007-1, LTD.

ANDERSON MEZZANINE FUNDING 2007-1, CORP.

U.S.$2,490,000
Class S Floating Rate Notes
Due 2013

U.S.$130,000,000
Class A-1a Floating Rate Notes
Due 2042

U.S.$53,000,000
Class A-1b Floating Rate Notes
Due 2042

U.S. $30,500,000
Class A-2 Floating Rate Notes
Due 2042

U.S.$42,70,000
Class B Floating Rate Notes
Due 2042

U.S.$16,775,000
Class C Deferrable Floating Rate Notes
Due 2042

U.S.$11,090,000
Class D Deferrable Floating Rate Notes
Due 2042

U.S.$20,935,000
Income Notes Due 2042

OFFERING CIRCULAR

Goldman, Sachs & Co.

From: DuVally, Michael (EO 85B07)
Sent: Monday, December 17, 2007 7:47 AM
To: Sparks, Daniel L
Subject: WSJ responses

Dan,

Could you please particularly look at the last Q&A. We're not satisfied with this and wondered if you had any suggestions.

Thanks,
Michael

The structured products trading group made $4 billion during this fiscal year.

The structured products trading group and the larger mortgage business, of which it is a part, both were profitable this year. However, the WSJ story greatly overstates the profitability of the SPT group.

A tiny group of traders was responsible for the large profit.

The situation in the mortgage market this year was very severe. Senior management and many different parts of the firm, including legal, controllers and risk management, spent significant amounts of time with the various mortgages desks to help navigate the problems.

The traders in the structured products trading group made $5-$15 billion dollars.

We do not comment on individuals' compensation.

Goldman Sachs rolls the dice with its own money.

The overwhelming majority of Goldman Sachs' trading profits come from transactions where the firm acts as a principal for clients.

Goldman Sachs made money on the backs of people who are being thrown out of their houses.

The profits discussed in the Wall Street Journal story were made in the secondary trading market. Goldman Sachs did not originate the subprime loans that have become problematic. That said, we continue to believe a robust subprime market that boosts homeownership among credit-challenged consumers is a desirable social outcome.

Goldman Sachs sold CDOs to investors and simultaneously had a short trading bet that CDOs would decline in value.

Goldman Sachs stopped ramping up new CDOs at the end of last year in respone to market conditions. Regardless of that, the CDO trading desk can be net long or net short at any point in time, including hedge positions. That process is unrelated to the activity of underwriting securities, which are distributed to highly-qualified institutional investors on market terms and with full disclosure so that customers may make their own investment decisions based on their appetite and risk tolerance.

Goldman Sachs traders deal with clients and also trade their own book.

Clients trade with Goldman Sachs because of our reliable execution and unique trading ideas. In the fixed-income world, the firm takes risk on every trade done for clients. Some traders are allowed to express their own market views using the firm's capital.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2793

From: Sparks, Daniel L
Sent: Thursday, April 13, 2006 8:41 AM
To: Cohn, Gary; Sobel, Jonathan; Mullen, Donald; Roberts, William
Subject: Morgan Super Traders Worry Hedge Funds

Attachments: Picture (Metafile)

I met with some of these Morgan Stanley guys this week. As we merge our secondary structured products trading (CMBS, sub-prime MBS, ABS, correlation, index) business with Will's structured credit trading business, expanding the activities of a prop group covered by the street will make sense and we plan to grow that group. [redacted]. But I think Morgan Stanley is going overboard by taking most of their experienced and known traders out of the franchise. We should keep our franchise leaders in the seats and continue to allow them to take prop views - the customer flows they see make them more effective.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Morgan Super Traders Worry Hedge Funds
New York Post - 13 Apr 2006 - By Roddy Boyd
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April 13, 2006 -- Morgan Stanley has created an all-star team of bond traders to wager its own cash in the market, a move that is raising eyebrows of its crucial hedge-fund clients.

Bond executives at Morgan told The Post the change will put clients' needs first, rather than focus on longer-term trades for the investment bank's own account, which is "kind of opposed to the idea of customer business," according to one trader.

All told, about 30 of Morgan's asset-backed bond traders, analysts and technology specialists are moving to a different floor at the firm's headquarters.

A senior Morgan executive told The Post that feedback from mutual and pension funds "has been excellent. They are always concerned about us being distracted or putting ourselves first."

However, he acknowledged that hedge funds "might have some concerns."

The chief investment officer at a $5 billion Midtown hedge fund called the arrangement "a hedge fund with a lower cost of capital, pure and simple."

Morgan, he said, "will compete with us for product, and their best traders are off the desk."

The move comes as Wall Street's biggest firms have evolved into something close to hedge funds. They are using massive capital bases and access to cheap capital to place huge bets for their own accounts.

Proprietary trading might be the last great gold rush on Wall Street. Morgan's primary competitor, **Goldman Sachs**, earned $16.3 billion in net revenue trading for its own account last year.

The hedge-fund executive said fighting the trend toward greater prop trading was useless.

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2800

"What's the difference between having a separate [prop] group versus a **Goldman** that takes the same kinds of risks on the various trading desks?" the executive asked.

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From: McHugh, John
Sent: Friday, November 16, 2007 5:57 PM
To: Sparks, Daniel L
Subject: FICC 2008 business plan presentation to Firm

Lahey's team is preparing Montag for this presentation on Monday and Tom asked for more color in several areas...here's what I've collected today, let me know if you want me to change anything...thanks.

General market expectations / assumptions built in
We are expecting mortgage delinquencies to continue to increase due to ARM resets and declining HPA, losses will begin to accumulate with increasing severity as foreclosures work through the system causing rating agency downgrades of RMBS and CDOs to continue through 2008. Whole loan trading and securitization market will continue to be dislocated in subprime and Alt A sectors, with Prime AAAs functioning at reduced volumes. CDO origination will be negligible. Cash RMBS and CDO prices continue to decline until distressed investing comes in and creates a bottom. Single name RMBS and ABX prices continue to decline from current levels until the cash market finds a bottom and fundamentals improve.

[redacted]

Banks and broker dealers will continue to report writedowns from declining RMBS and CDO prices/ratings. Competitors will be scaling back mortgage risk taking and operations, giving us a competitive advantage.

[redacted]

Assumptions/Initiatives in ABS p&l:

- Capturing greater cash and synthetic market flows from weakened competitors
- Facilitating SIV/CDO liquidations and portfolio changes
- Good prop opportunity capitalizing on selling pressure, selective distressed asset purchases
- Expect prop flow split to be roughly 50/50

European expansion
Establishing a European origination business focused initially on the UK marketplace. Expected revenues from the opportunity are $25mm in 2008; direct headcount will expand from [redacted]s not expected to make a significant revenue contribution in 2008 as origination volumes will be small until securitization market stabilizes

We are also expanding the secondary trading desk to establish a correlation trading desk. Headcount will increase from 1 person at the beginning of 2007 to 3 people in 2008 with expected revenues of $25mm (up from $5mm in 2007). Initiatives include expanded index synthetics trading, and single tranche synthetic CDO trading

Correlation desk - ABACUS related exit price

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2802

Approximately $150mm exit price valuation adjustment expected to be released in 1st half of 2008 from unwinding Super Senior trades, in addition to bid offer realized on trading.

Prop vs flow

Prop/flow components of SPG Trading will be roughly equal
Majority of CRE Loan Trading, Structured Finance JV will be flow revenue
Residential mortgage business will be more prop oriented due to dislocations in the securitization market:

- Focus will be on establishing SSG JV (i.e., Litton purchase)
- Distressed asset (loan pools, portfolios) purchases

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From: Bhavsar, Avanish R
Sent: Sunday, June 10, 2007 7:06 PM
To: Swenson, Michael; Salem, Deeb; Chin, Edwin
Subject: Re: CDS on CDOs

Ok

----- Original Message -----
From: Swenson, Michael
To: Salem, Deeb; Bhavsar, Avanish R; Chin, Edwin
Sent: Sun Jun 10 15:56:00 2007
Subject: Re: CDS on CDOs

Really don't want to offer any

----- Original Message -----
From: Salem, Deeb
To: Bhavsar, Avanish R; Chin, Edwin; Swenson, Michael
Sent: Sun Jun 10 13:21:03 2007
Subject: Re: CDS on CDOs

Not sure if we have any to offer any more. Let's discuss monday
---
Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Bhavsar, Avanish R
To: Salem, Deeb; Chin, Edwin
Sent: Sun Jun 10 12:07:08 2007
Subject: Fw: CDS on CDOs

Can I get levels gor chad thx

----- Original Message -----
From: C. Klinghoffer <cklinghoffer@glenviewcapital.com>
To: Bhavsar, Avanish R
Sent: Sun Jun 10 12:05:58 2007
Subject: Re: CDS on CDOs

<<Glenview_Disclaimer.txt>>
K thanks

----- Original Message -----
From: Bhavsar, Avanish R <avanish.bhavsar@gs.com>
To: C. Klinghoffer
Sent: Sun Jun 10 12:02:51 2007
Subject: Re: CDS on CDOs

I can get mon, range 6-900 roughly

----- Original Message -----
From: C. Klinghoffer <cklinghoffer@glenviewcapital.com>
To: Bhavsar, Avanish R
Sent: Sat Jun 09 18:59:08 2007
Subject: RE: CDS on CDOs

hey av, what levels are these at?

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2812

From: Bhavsar, Avanish R [mailto:avanish.bhavsar@gs.com]
Sent: Thursday, June 07, 2007 3:10 PM
To: C. Klinghoffer
Subject: CDS on CDOs

Deal Name	Tranche	Rating
BFCGE 2006-1A	A3L	A
BWIC 2006-1A	C	A
CAMBR 6A	D	A
CBCL 15A	C	A
CBCL 16A	C	A
CRNMZ 2006-1A	5	A
CRNMZ 2006-2A	C	A
DUKEF 2006-10A	A3	A
ETRD 2006-5A	A3	A
GEMST 2005-3A	C	A
GLCR 2006-4A	C	A
HGCDO 2006-1A	C	A
HLCDO 2006-1A	C	A
ICM 2005-2A	C	A
IXCBO 2006-2A	C	A
LRDG 2006-1A	C	A
PINEM 2006-AA	C	A
RIVER 2005-1A	C	A
SHERW 2005-2A	C	A
SMSTR 2005-1A	B	A
TOPG 2006-2A	B	A
TOURM 2006-2A	D	A
ALPHA 2007-1A	3	AA
ACCDO 10A	B	AA
CAMBR 5A	A3	AA
CBCL 15A	B	AA
DUKEF 2006-12A	A2	AA
SHERW 2005-2A	B	AA
TOURM 2005-1A	III	AA

Avanish R. Bhavsar
Managing Director
Capital Structure Sales
Securities Divison

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 357-8405 | Cell: 917-379-1426
e-mail: avanish.bhavsar@gs.com

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From: Sparks, Daniel L
Sent: Thursday, August 10, 2006 7:34 PM
To: Ostrem, Peter L
Subject: Re: Leh CDO Fund

Not going to happen

----- Original Message -----
From: Ostrem, Peter L
To: Rosenblum, David J.; Sparks, Daniel L
Sent: Thu Aug 10 19:07:43 2006
Subject: Re: Leh CDO Fund

Let's do our own fund. SP CDO desk. Big time. GS commits to hold proportion of equity outright. This could be big. Of course, after Orca closes! I need orca orders. We are slipping here and I need both your help!

----- Original Message -----
From: Rosenblum, David J.
To: ficc-clo; ficc-spgsyn
Cc: Ostrem, Peter L; Sparks, Daniel L
Sent: Thu Aug 10 19:02:32 2006
Subject: Fw: Leh CDO Fund

Fyi
D

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

----- Original Message -----
From: Hornback, Joseph
To: Wisenbaker, Scott; Rosenblum, David J.
Cc: Raz, Shlomi; Ricciardi, Steven
Sent: Thu Aug 10 18:57:54 2006
Subject: Leh CDO Fund

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David and Scott,

Steve and I wanted to post you on the current status and plans at the LEH CDO fund. In the way of background, the Leh CDO Fund 1 [redacted] consists of [redacted] equity of predominately [redacted] (they have bought equity in a couple of [redacted] deals). Their performance to date has been well received by their investors. They are currently raising their 2nd fund and already have indications north of $300mm without any OC or marketing materials (including [redacted] from the [redacted] that Steve tee'd up before he left). Their initial intentions were to raise another [redacted] fund, but given their success so far they are contemplating a larger fund with a longer drawdown period. The strategy of the 2nd fund will have a slightly different twist. Consistent with the 1st fund, they will be investing heavily in [redacted] But they want to also execute macro hedging and long short structured credit strategies along with exploring MV structures with the appropriate managers.

Below is a list of managers that Leh has multiple commitments with:

[redacted]

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2826

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Goldman, Sachs & Co.
One New York Plaza | 50th Floor | New York, NY 10004
Work: 212-902-7357 | Fax: 212-256-6360
email: joseph.hornback@gs.com

Goldman

Sachs

Joe Hornback
Vice President - Structured Credit
Fixed Income Currency & Commodities Division

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From: Swenson, Michael
Sent: Saturday, March 03, 2007 7:26 PM
To: Birnbaum, Josh; Salem, Deeb; Chin, Edwin
Subject: Re: Another idea...

Love it we will give dan a heart attack

----- Original Message -----
From: Birnbaum, Josh
To: Salem, Deeb; Swenson, Michael; Chin, Edwin
Sent: Sat Mar 03 19:12:27 2007
Subject: Re: Another idea...

I like it.

----- Original Message -----
From: Salem, Deeb
To: Birnbaum, Josh; Swenson, Michael; Chin, Edwin
Sent: Sat Mar 03 17:03:17 2007
Subject: Another idea...

Am I crazy to be thinking we might want to grow the harbinger trade and do our own abs desk cdo. There'll be so much juice in it. It would blow out. We could sell supersenior and maybe some equity. Then the remaining mezz would be a cover of a couple hundred million of our cdo short. Haven't crunched the numbers, but I'm guessing we'd effectively cover well north of 1000 plus own some call rights. Or we also keep equity and own it for free.

To select the portfolio, we look at the underlying rmbs deals in our cdo shorts. And replicate that as best as possible.

Just an idea... I've also compiled a list of 15 or so potential accounts that we could help monetize sn shorts if we don't want harbingers full size. Could probably clip 1-2pts plus own another 5-6pts upside in IO

Sent from my BlackBerry Wireless Device

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2828

From: Salem, Deeb
Sent: Thursday, June 07, 2007 9:35 AM
To: Swenson, Michael
Subject: Re: Fyi

That's fine. My number 1 concern is that its traded by the right people bc the opportunity is huge. Its a product that needs to be traded as a prop product. I would be so upset if the teachers pet has any control over it. That would be a big mistake. U need to be in charge and we need prop minded guys involved
---
Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Swenson, Michael
To: Salem, Deeb
Sent: Thu Jun 07 07:17:06 2007
Subject: Re: Fyi

Talk to me now things are developing - dan wants you to be the epicenter of the subprime universe which is not a bad position to be in

----- Original Message -----
From: Salem, Deeb
To: Swenson, Michael
Sent: Wed Jun 06 22:25:08 2007
Subject: Re: Fyi

he is making the decision to not be part of the process...he is impossible to please. I wouldn't give it another thought. Maybe just shoot him an email evrytime u guys go to sit down and then if he gets the email and its important to him he can join you.

Btw, I want to talk to you about cdos soon too

Sent from my BlackBerry Wireless Device

----- Original Message -----
From: Swenson, Michael
To: Salem, Deeb
Sent: Wed Jun 06 21:58:15 2007
Subject: Fyi

Josh is mildly ipset he is not part of the discussions with cdos but everytime there is a meeting he is off the desk or has not arrved at the office yet - I do not know what to do

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #2831

ADDITIONAL DOCUMENTS RELATED TO DEUTSCHE BANK



GREGLIP@bloomberg.net To IBOGZA@bloomberg.net
cc
02/21/2007 08:05 PM bcc
Subject Re: ** PRICED $1.1BLN GEMSTONE VII **

=====Begin Message=====
Message#: 25000
Message Sent: 02/21/2007 20:05:22
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: IBOGZA@bloomberg.net|ILINCA BOGZA|DEUTSCHE BANK SECURI|1726|328663
Subject: Re: ** PRICED $1.1BLN GEMSTONE VII **

How much of each placed and retained by them don't care (for now) the investors just want to see what portuon of deal was sold.

Sent From Bloomberg Mobile MSG

---- Original Message ----
From: ILINCA BOGZA, DEUTSCHE BANK SECURI <ibogza@bloomberg.net>
At: 2/21/2007 19:40

HBK LONG.. THEY ARE TAKING THEM BACK.. DO YOU WANT A LIST OF THE TRANCHES.. THEY ARE TAKING ALL CLASS A-1. WAITING FOR CIFG TO GET THERE. WHAT IS FINANCING O THAT? HBK WOULD LIKE TO KNOW

=====End Message=====



GREGLIP@bloomberg.net Tomichael.lamont@db.com

cc

02/20/2007 01:33 PM bcc

SubjectRe: Fwd: how is the cdo machine doing these days? can u sti

=====Begin Message=====
Message#: 157151
Message Sent: 02/20/2007 13:33:19
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: michael.lamont@db.com| | | |
Subject: Re: Fwd: how is the cdo machine doing these days? can u sti

thanks for the update...going to get a lot bumpier very soon....lets get the finkel deal out the door...
----- Original Message -----
From: Michael Lamont <michael.lamont@db.com>
At: 2/20 13:30:22

Good color I am out w a fever back tomorrow

After reflection I think the biggest issue for dealers are the cdo2. For the giant magnetar rmbs cdo deals the situation isn't great, but the aa/aaa/ss probably clear at a level, and the dealer can play games w the SS -- sell junior piece, keep 60-top, mark not observable, dealer takes down bbb and a, sticks equity to hedge fund like magnetar at equity floor, maybe loses 5-15 after fees. The bbb/a cdo2 backed by mid/late 2006 vintage are the lose your job problem I think, not sure how any deals will clear. And for hi grade abs cdos. ML did 26bln of hi grade last year, 25-35% cdo mostly aa some a. Say conservatively they have 10bln in ramp up so 3 bln of a/aa cdo, if the mkt starts to price their hi grade like cdo2 in addition to their cdo2 ramping of bbb/a (1bln?2bln? ramped) they will have an even worse problem. Same problem at citi--I think they are relatively ok on mezz abs risk but not on cdo2.

Calyon pulled out of ralph choffee mezz deal, won't do SS, we were next in line, ralph now coming to us. Calyon are rumored to have 12bln of risk on their lines At the same time cifg and mbia still writing tickets (mbia did a magnetar type deal last week, structural change to) get them in was oc test in principal waterfall not interest waterfall.
Sent from my Blackberry Wireless

Mr. Michael Lamont
Managing Director
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor
New York, NY, USA
Telephone: +1(212)250-8708
Mobile: +1 917-821-8843
E-Mail: michael.lamont@db.com

----- Original Message -----
From: "GREG LIPPMANN, DEUTSCHE BANK SECURI" [greglip@bloomberg.net]
Sent: 02/20/2007 01:04 PM
To: undisclosed-recipients:;
Subject: Fwd: how is the cdo machine doing these days? can u still plac

---
Sent From Bloomberg Mobile MSG

---- Original Message ----
From: DAVID HOMAN, MOORE CAPITAL MANAGE
At: 2/20/2007 11:20

how is the cdo machine doing these days? can u still place cdo paper? are they still ramping in this environment?
Reply:
GETTING SLOWER BUT NOT DEAD YET...2-5 RAMPING A DAY INSTEAD OF 10-15...HEARING OF MANY INVESTORS IN ASIA ESPECALLY SHUTTING DOW N POST HSBC NEWS BUT THE WINDOW IS NOT COMPLETELY SHUT YET (THEY MAY BE DEALS THAT WERE LARGELY RAMPED THAT R JUST FINISHING..)
Reply:
i hear rumors that ML, BS, GS, C have asked CDOs less than 50% ramped to basically stop ramping. Have you heard anything along these lines? What are the implications for mkt if this is true?

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=====End Message=====



BURKEJ67@bloomberg.net

02/13/2007 08:52 AM

To ELEANNYP@bloomberg.net,
AMALDONADO1@bloomberg.net
cc
bcc
Subject Shorten up the legal final on GEMSTONE VII and you'll get a

=====Begin Message=====
Message#: 137990
Message Sent: 02/13/2007 08:52:16
[redacted]
To: ELEANNYP@bloomberg.net|ELEANNY PICHARDO|DEUTSCHE BANK SECURI|1726|328663
To: AMALDONADO1@bloomberg.net|ALEXANDER MALDONADO|DEUTSCHE BANK SECURI|1726|328663
Subject: Shorten up the legal final on GEMSTONE VII and you'll get a

Shorten up the legal final on GEMSTONE VII and you'll get a
nice order on the Aa2 and A2 class. Lunch on you....
Reply:
working on it-
Reply:
CDO market is puking right now....

=====End Message=====

From: GREG LIPPMANN (DEUTSCHE BANK SECURI) <GREGLIP@BBOTG>
Sent: Thursday, June 29, 2006 5:21 PM
To: MICHELLE BORRE (OPPENHEIMERFUNDS, IN) <MBORRE1@BBOTG>
Subject:

Message Sent: 06/29/2006 13:21:10
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: MBORRE1@BBOTG|MICHELLE BORRE|OPPENHEIMERFUNDS, IN| |

A CLIENT THAT DID THE SAME TRADE AS U WITH US SENT ME A TSHIRT
"IM SHORT YOUR HOUSE"...I JUST BOUGHT 20 OF EM TO GIVE TO CLIENT
S THAT DO THE TRADE WITH US..DO U WANT 1 OR 2 ?



"Marc Majzner"
<MMajzner@northruncapital.com>

To: Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas
cc: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
Subject: RE: MBS CDS

10/11/2006 01:58 PM

Thanks - would you have a report that shows certain stresses on the market and what bullish assumptions on CDR, loss severity would do? I'm looking at materials that would have been used to pitch bulls/longs on MBS - and not the bears.

Also, is this report, referred to in the Halcyon report, handy?

"SIMULATED HOUSING MARKET DECLINE REVEALS DEFAULTS ONLY IN LOWEST-RATED U.S. RMBS TRANSACTIONS" Standard and Poor's, September 2005

Thanks, Marc

-----Original Message-----
From: Ilinca R Bogza [mailto:ilinca.r.bogza@db.com]
Sent: Wednesday, October 11, 2006 1:26 PM
To: Marc Majzner
Cc: greg.lippmann@db.com
Subject: Fw: MBS CDS

----- Forwarded by Christopher Meany/NewYork/DBNA/DeuBa on 10/11/2006 01:00 PM -----

Greg Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS
10/11/2006 12:59 PM

To
"Marc Majzner" <MMajzner@northruncapital.com>@DEUBAINT
cc
christopher.meany@db.com
Subject
RE: MBS CDS

chris please send abs cdo marketing materials to Marc asap please....

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730

Fax (212) 797-2201
Mobile (917) 601-1916

"Marc Majzner" <MMajzner@northruncapital.com>
10/11/2006 12:50 PM

To
Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc

Subject
RE: MBS CDS

email

Marc Majzner
1 International Place
Suite 2401
Boston, MA 02110
Phone: 617-310-6130
Fax: 617-507-5805
E-Mail: mmajzner@northruncapital.com

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Michael George@DBNA

To: greg.lippmann@db.com
cc:
Subject:

11/03/2005
07:49 PM

Mangiones Baa2 at n+160 4YRS BREAK AT 16% cum loss.....look like a disaster !!
That implies a base loss of 8% .....or about 2.5 loss rate a year.....
Fico is 660, so hardly prime.....card loss rate for this fico about 10, so say cuz the guys home is on the line he only defaults at 5%.....
Base case loss around 17 to 20 then.....
And BBB should have around 35 to 40 beneath it.....
Means that the BBB attachment should be around where paulie has his AA.....
Everything else is CRAP and should be 100s and 1000s back of offer.....
Even though paulie says Winter group can sell this stuff I cannot believe anyone thinks the ratings agencies have the sub levels right.....their loss levels are based on an environment of refis.....bet you sam ranieri owns all the winter group seconds deals mezz paper twerwin cdos

---

Sent from my BlackBerry Handheld.

Jon-Paul Rorech@DBAMERICAS

05/19/2006 01:56 PM

To: Chris Wagner/NewYork/DBNA/DeuBa@DBAmericas, David Bitterman/NewYork/DBNA/DeuBa@DBAmericas, Kevin Finnerty/NewYork/DBNA/DeuBa@DBAmericas, Michael Glick/NewYork/DBNA/DeuBa@DBAmericas, Mark Colm/NewYork/DBNA/DeuBa@DBAmericas, Wight Martindale/NewYork/DBNA/DeuBa@DBAmericas, Marc Lavine/NewYork/DBNA/DeuBa@DBAmericas, Steve Rosen/NewYork/DBNA/DeuBa@DBAmericas, John Bertrand/NewYork/DBNA/DeuBa@DBAmericas, Kevin Finnerty/NewYork/DBNA/DeuBa@DBAmericas, Brian Zucker/NewYork/DBNA/DeuBa@DBAmericas, Robert Leone/NewYork/DBNA/DeuBa@DBAmericas, Gregory Steele/NewYork/DBNA/DeuBa@DBAmericas, Chip Stevens/NewYork/DBNA/DeuBa@DBAmericas, Pak Lui/NewYork/DBNA/DeuBa@DBAmericas, Robert Weintraub/NewYork/DBNA/DeuBa@DBAmericas
cc: Anthony Pawlowski/NewYork/DBNA/DeuBa@DBAmericas, Ilinca R Bogza/NewYork/DBNA/DeuBa@DBAmericas, Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
Subject: TIAA equity / Trade Idea

HY SAles....there's a lot of you who have put people into the sub prime "short" trade with Greg Lippman. I think the following is a great way to express this view while saving considerable carry. (you would also be moving an important axe for the CDO desk.)

In Greg Lippmans trade, your customer is getting short the BBB- tranche (the first tranche after equity) of a pool of Subprime Mtges. The apprx carry is 200bps, currently.

Although many believe we're on the verge of payment stress or so called "housing bubble", none are too sure of the timing. I believe the following is a way to pay for this carry while putting on an implied "correlation" trade on the housing mrkt.. Or even a Sr./Sub trade

The attached is an offer for $9.5mm equity in a HIGH GRADE Cdo, which is made up of 70% RMBS (only 15% of this 70% is "subprime")

Currently, this piece is offerd at a yield of **~17-18%!**

You would have to believe that if your equity piece is experiencing stress, then there would be a high degree of "correlation" on all sub prime mortgages/home equities.

The key is deciding what "delta" you would use. Considering there's only 18% on 9.5mm , you could easily get short 80mm BBB-s (~200bps) and still have a slight positive carry.

Pls speak to Anthony Pawlowski / Ilinca Bogza on the CDO desk, and Greg Lippman on the ABS desk for more details. JP

Attached is the Mount Skylight equity presentation. Price Yield table to follow


Mt Skylight CDO Marketing Book _Equity__051106.pdf


TIAA_Mount Skylight CDO_Current Portfolio_051006.xls


YIELD Calcs.xls

Rajeev Misra@DBEMEA
10/25/2006 12:50 PM

To: Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Richard DAlbert/NewYork/DBNA/DeuBa@DBAmericas, Boaz Weinstein
cc:
Subject: Fw: Deutsche at its best

----- Forwarded by Rajeev Misra/DMGGM/DMG UK/DeuBa on 25/10/2006 17:49 -----

Anshu Jain/DMGGM/DMG UK/DeuBa@DBEMEA
25/10/2006 16:07

To michele.faissola@db.com, philip.weingord@db.com, rajeev.misra@db.com, pablo.calderini@db.com
cc
Subject Fw: Deutsche at its best

fyi

Anshu Jain
Head of Global Markets
Member of Group Executive Committee
Deutsche Bank AG
Tel: +44-20-7545-2863
Fax: +44-20-7545-8371
Mobile: +44-7770-673491
E-mail: Anshu.Jain@db.com

----- Forwarded by Anshu Jain/DMGGM/DMG UK/DeuBa on 25/10/2006 16:06 -----



derek.kaufman@jpmorgan.com
25/10/2006 16:01

To Anshu Jain/DMGGM/DMG UK/DeuBa@DBEMEA
cc
Subject Re: Deutsche at its best

Anshu,

Unlike Greg, I am not in the camp that housing Armageddon is around the corner, although I do think that if home prices decline modestly over a year or two (say a 20-30% probability), the sub-prime borrower will have some real difficulties. My main motivation behind this trade is that I think the correlation risk in sub-prime MBS CDOs is mis-priced, given how similar the borrowers from one deal to another will be in a time of distress. Compared with the popular macro hedge-fund trade of buying single-name protection on BBB- ABS at L+250, this structure seems like a slam dunk. Basically, I think of this protection as a cheap wing option in my overall business that lets me do other profitable interest rate and credit trades without worrying too much about the tail risk of a housing collapse.

Derek

Anshu Jain
<anshu.jain@db.com>
10/25/2006 10:29 AM

To "derek.kaufman" <derek.kaufman@jpmorgan.com>
cc
Subject Re: Deutsche at its best

Derek

Delighted to get your note as you would expect. Smart trade by the way, given we have just acquired a couple of RMBS originators, both prime and sub prime..how concerned should I be?

Anshu Jain
Head of Global Markets
Member of Group Executive Committee
Deutsche Bank AG
Tel: +44-20-7545-2863
Fax: +44-20-7545-8371
Mobile: +44-7770-673491
E-mail: Anshu.Jain@db.com

derek.kaufman@jpmorgan.com

25/10/2006 14:59

To
Anshu Jain/DMGGM/DMG UK/DeuBa@DBEMEA

cc

Subject
Deutsche at its best

Anshu,

I wanted to let you know that last night we closed on a synthetic CDO transaction (IXION 2006-6) where I bought $350mm of mezzanine protection on a bespoke portfolio of BBB and BBB- sub-prime MBS. Deutsche placed all of this risk through structured notes sold to investors, and was an incredible partner through the process of portfolio selection, structuring, pricing and distribution. My long-standing and trusting relationships with Fred Brettschneider and Andy Isaacs, coupled with Greg Lippman's top-tier presence in this market, were the main factors in my choosing Deutsche as a counterparty for this complex transaction. Needless to say, I am quite pleased with what great work these three individuals did during the four months from conception to closing, and hope this transaction could be the start of a series of similar trades in the future.

I hope everything is going well for you, and look forward to catching up when I visit London early next year.

Derek

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GREGLIP@bloomberg.net To MELGOLD@bloomberg.net
cc
05/22/2007 09:22 AM bcc
Subject

=====Begin Message=====
Message#: 232014
Message Sent: 05/22/2007 08:22:51
From: GREGLIP@bloomberg.net|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: MELGOLD@bloomberg.net|MELISSA GOLDSMITH|DEUTSCHE BANK SECURI|1726|328663
Subject:

and what's the deal with this jpmac one--it's on an owic of a
macro guy entering the trade,
or ??
Reply:

ITS A CDO GUY PUKING UP A PIG HE BOUGHT (MAY NOT ACTUALLY SELL)
=====End Message=====

From: Jamiel Akhtar
Sent: Tuesday, February 13, 2007 11:05:11 AM
To: Ken Hirsh
Subject: RE: SC marks

Ken, feel free to call anytime.

From: Ken Hirsh
Sent: Tuesday, February 13, 2007 9:41 AM
To: Jamiel Akhtar; Beau Fournet
Subject: RE: SC marks

Thanks! Let's get on the phone when you have a moment for a few final questions and, more importantly, to say hello!

From: Jamiel Akhtar
Sent: Tuesday, February 13, 2007 10:31 AM
To: Ken Hirsh; Beau Fournet
Cc: 'ken.hirsh@gmail.com'
Subject: SC marks

Ken,

I'm back in town and went through all of the marks yesterday. I feel good about how the book is marked. Here's what we did:

Redacted - not relevant

The wildcard is Gemstone VII, the CDO we are currently marketing. Pricing is set for Tues Feb 20 and I think we will get the deal done at spreads that make the resid a very good investment. If I'm wrong and the deal falls apart, it will be marked down something like $30 - $50mm. I doubt this will happen. If pricing were beyond month end, I would consult with accounting to recommend taking some sort of a reserve on the deal.

Redacted - not relevant

Redacted - NR

I hope this makes things clearer.

Jamiel

From: Ken Hirsh
Sent: Friday, February 09, 2007 5:43 PM
To: Beau Fournet; Jamiel Akhtar
Subject: Redacted - NR

Hey guys,

I am a bit curious about how we are marking our longs in this selloff...

Ken

From: Kevin Jenks
Sent: Friday, February 09, 2007 5:35 PM
To: Portfolio Update
Subject: Redacted - NR

Redacted - not relevant

Redacted - not relevant

We are still moving ahead with our CDO. 1.1b deal, investor interest still looks favorable as we are seen as a very good manager, but unclear how many will be spooked at this point.

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

01/09/2007 05:15 PM

To Jordan Milman/NewYork/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: Fw: HBK - Gemstone 7 BBs

i think you should be very candid about it...give examples of where the bbb- trades if you dont have exact color on the bb...we dont want to faciliate a total position dump

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916
greg.lippmann@db.com

Jordan
Milman/NewYork/DBNA/DeuBa

01/09/2007 04:00
PM

To

Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

Fw: HBK - Gemstone 7
BBs

let me know what you want to do about this, you know where I stand on some of these but it's gpoing to be another headache with kevin
----- Forwarded by Jordan Milman/NewYork/DBNA/DeuBa on 01/09/2007 04:00 PM -----

Abhayad
Kamat/NewYork/DBNA/DeuBa

01/09/2007 03:56
PM

To

Jordan
Milman/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

HBK - Gemstone 7

BBs

Jordan,
pls can you give us some color on how good the BB bonds are in the attached HBK portfolio for Gemstone 7. it seems there are a few fremonts but none have been downgraded. According to kevin, all are reasonably good. he is asking us to do a revolving deal for him with BB reinvestments, and we might want to throw out non-clean BBs.

all BB bonds are highlighted in yellow. somewhat urgent.

thanks,
Abhayad

[attachment "Gemstone VII Portfolio 01.09.07.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) 519-9694 cell
(732) 578-2890 fax

Abhayad Kamat
To: Greg Lippmann/NewYork/DBNA/DeuBa
cc:
Subject: HELD 2006-1 - bad names

08/24/2006
04:30 PM

Jamil's accounts are listing the following as names that are not great:

ABSHE 2005-HE8 M9
BAYV 2005-C B2
CXHE 2005-C B2

GSAMP names -- we have the following in the HELD pool
GSAMP 2005-AHL M6
GSAMP 2005-HE3 B2
GSAMP 2005-HE6 B1
GSAMP 2005-HE4 B3

But separately,
- I had asked Jordan for generic bad shelfs and he listed: SAIL, HEAT, PPSI, INABS, ACE, AMSI and ARSI -- the HELD portfolio has 22% of these names.

Abhayad Kamat
Global CDO Group
Deutsche Bank Securities Inc.
60 Wall Street, 19th Floor,
New York, NY 10005-2858
(212) 250-0526 work
(917) 519-9694 cell
(732) 578-2890 fax



greglip@bbotg To: rokurita@bbotg
cc:
Subject: Re: Fwd: *Here is a preliminary ist for julius baer

06/16/2006
09:18 AM

Message Sent: 06/16/2006 10:18:12
From: GREGLIP@BBOTG|GREG LIPPMANN|DEUTSCHE BANK SECURI|1726|328663
To: ROKURITA@BBOTG|ROCKY KURITA|DEUTSCHE BANK SECURI|1726|328663

AND U R THE MAN !!! OK LETS INCLUDE IT AT A VERY WIDE LEVEL AND GET SOMET=
HING
TOGETHER FOR THESE GUYS...
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 10:14:42

we are short that one. all the cwl are bad.
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 6/16 10:12:26

ok if we r shrt it b/c is that the really crap one or is that the 05-3 /?=
maybe
also an 06 cwl....
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 9:42:49

we have a couple new century. how about a cwl 05-4 bv baa3
----- Original Message -----
From: GREG LIPPMANN, DEUTSCHE BANK SECURI
At: 6/16 9:24:56

lets add one other weakish name i.e. cwl, amsi, nchet,heat want to balanc=
e it
out in spread terms more..also after the analysis they want just 10 2005 =
and 10
06 not more....sales is charlotte mcbride but lets run through me for now=
..
----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 8:54:22

----- Original Message -----
From: ROCKY KURITA, DEUTSCHE BANK SECURI
At: 6/16 8:54:18

Can we run the numbers? What other stats does the accoutn need? who cover=
s the
account?
1 SASC 2005-NC1 M7
2 SASC 2005-NC1 M8
3 SASC 2005-WF1 M8

4 SASC 2005-WF1 M9
5 MSAC 2005-HE1 B2
6 MSAC 2005-HE1 B3
7 MSHEL 2005-1 B2
8 MSHEL 2005-1 B3
9 POPLR 2005-1 B1
10 POPLR 2005-1 B2
11 MLMI 2005-NC1 B2
12 MLMI 2005-NC1 B3
13 CARR 2005-NC1 M7
14 CARR 2005-NC1 M8
15 ACE 2005-RM1 M8
16 ACE 2005-RM1 M9
17 FFML 2005-FF1 B2
18 FFML 2005-FF1 B3
19 MSAC 2005-NC1 B2
20 MSAC 2005-NC1 B3
21 BSABS 2005-HE2 M5
22 BSABS 2005-HE2 M6
23 RASC 2005-EMX1 M5
24 RASC 2005-EMX1 M6
25 EMLT 2005-1 M8
26 EMLT 2005-1 M9
27 RAMP 2006-EFC1 M8
28 RAMP 2006-EFC1 M9
29 OOMLT 2006-1 M8
30 OOMLT 2006-1 M9
31 RASC 2006-EMX2 M8
32 RASC 2006-EMX2 M9
33 HASC 2006-OPT2 M8
34 HASC 2006-OPT2 M9
35 CARR 2006-OPT1 M8
36 CARR 2006-OPT1 M9
37 ACCR 2006-1 M8
38 ACCR 2006-1 M9
39 FMIC 2006-1 M8
40 FMIC 2006-1 M9
41 FFML 2006-FF7 M8
42 FFML 2006-FF7 M9
43 JPMAC 2006-NC1 M8
44 JPMAC 2006-NC1 M9
45 RAMP 2006-EFC1 M8
46 RAMP 2006-EFC1 M9
47 POPLR 2006-A M5
48 POPLR 2006-A M6



OrgSmtpMsg.eml

To: Frederic Jallot/db/dbcom@DBAMERICAS@DEUBAINT
cc: pius.sprenger@db.com
Subject: Re: HBK Equity

Greg Lippmann

06/09/2006
01:16 PM

we need to figure out a better way.....the ppsi bonds are the worst in the pool...they should stay in regardless of what it does to your model...these are 'free money' similarly the cwl is also a weak name.....ok with removing bsabs, gsamp and fmic if necessary...the gsaa bonds are alt a and thus provide diversity which is in theory bad for him.....cna you two think about ways to include these....I think then we can tell him to instead remove say 5 of these (i,.e. keep the ppsis and the cwl) and tell him instead to choose 7 of 15 getting us back to 60 names...let me know and I will send to him....

these are not in the smaller pool

073879RE0	BSABS 2005-HE2 M6
126673XM9	CWL 2005-1 BV
36242DSB0	GSAMP 2005-HE1 B3
70069FER4	PPSI 2004-WHQ2 M9
70069FJC2	PPSI 2005-WHQ2 M9
36242DTW3	GSAA 2005-2 B3
31659TDJ1	FMIC 2005-1 M9
36242DS46	GSAA 2005-5 B3

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916

Frederic Jallot/db/dbcom@DBAMERICAS

06/08/2006 09:31 PM

To greg.lippmann@db.com, pius.sprenger@db.com
cc
Subject HBK Equity

Removed 8 bonds from the 58 name portfolio (7 short WALs, 1 long WAL). There are 22 SPVs to which we've got credit exposure, most of them have got short WAL. Would they take a reduced spread and a discount?

Other solution: get all their Gemstone portfolios and pick 2003-2004 names which match our book. If the all the names have short WALs, and the WALs are not barbelled the spread should be good.

Economics:

203 bps WASpread assumption:

Tranche	Sub	Size	Leverage	DV01	Fair Sp	Spread	PV%	Correl	Rec	Delta	Amort	Cost	Net	Price	Tranche P&L	Book P&L
0-3	0.00%	3.00%	4.6	3.0	12.35%	10.00%	7.0%	-11.6%	- 2.4%	-2.2%	-6.5%	-0.3%	- 15.87%	100.000%	-6.60%	2.66%

244 bps WASpread assumption:

Tranche	Sub	Size	Leverage	DV01	Fair Sp	Spread	PV%	Correl	Rec	Delta	Amort	Cost	Net	Price	Tranche P&L	Book P&L
0-3	0.00%	3.00%	4.2	2.9	14.32%	12.00%	6.7%	-12.1%	- 2.6%	-1.9%	-6.5%	-0.3%	- 16.77%	100.000%	-7.08%	2.60%

Attached below the 50 name portoflio and a list of 15 SPVs out of which he can pick 5:

[attachment "50 Name Portfolio.xls" deleted by Greg Lippmann/NewYork/DBNA/DeuBa]

Pius, the models are in the directory if you wnat to have a look.

Frederic Jallot
Integrated Credit Trading
Tel: +44 (0)207 545 78 00
Fax: +44 (0)207 545 85 10

STRICTLY PRIVATE AND CONFIDENTIAL

Greg Lippmann

To: Sean Whelan/db/dbcom@DBAmericas
cc: "Axel Kunde" <axel.kunde@db.com>, "Pius Sprenger" <pius.sprenger@db.com>
Subject: Re: King Street

09/27/2006
04:58 PM

dont offer it yet, but in theory we would be very happy to sell them the aaa i.e. 40-100 so that they would be long 0-3 and 40-100 and short 3-40.....but that begs the question as to where the 3-40 is in theorgy being taken down and we dont want to go there...

Greg H. Lippmann
Managing Director
Deutsche Bank Securities Inc.
3rd Floor
60 Wall Street
New York, New York 10005
Phone (212) 250-7730
Fax (212) 797-2201
Mobile (917) 601-1916

Sean Whelan/db/dbcom

09/27/2006 02:52 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas
cc "Axel Kunde" <axel.kunde@db.com>, "Pius Sprenger" <pius.sprenger@db.com>
Subject Re: King StreetLink

they want to short the market and are willing to pay the freight. in the correlation trade they are long idiosyncratic risk. they also ran breakevens- which they feel are high- 2 events virtually knock out the equity- for every subsequent event their max benefit is 1.8 mm. crude- but they would need 7 events to break even. (yes- this ignores spread widening on the remainder.)- they think a more efficient short is a bespoke trade. their ideal short would be the belly of the capital structure. when we last spoke about it, we told them the equity and the AAA were the parts we found difficult to place. they are willing to buy the equity and even the AAA's t get an efficient short of the belly-

Greg Lippmann/NewYork/DBNA/DeuBa

09/27/2006 02:31 PM

To Sean Whelan/db/dbcom@DBAmericas, "Pius Sprenger" <pius.sprenger@db.com>, "Axel Kunde" <axel.kunde@db.com>
cc
Subject Re: King Street

Whjat does thaty mean? Will they massively overshort vs 6x coupon??

Sent from my BlackBerry Handheld.

From: Sean Whelan

Sent: 09/27/2006 11:02 AM
To: Greg Lippmann
Subject: Re: King Street

Greg- I was not accurate- do not want to do a fully placed deal . they want to short the entire delta- thanks-

Greg Lippmann/NewYork/DBNA/DeuBa

09/27/2006 10:57 AM

To Sean Whelan/db/dbcom@DBAmericas, Axel Kunde/DMGGM/DMG UK/DeuBa, Pius Sprenger/DMGGM/DMG UK/DeuBa

cc

Subject Re: King Street

Which is it ? Magnetar is fully placed and talk to lamont. If they want to do our trade but short entire delta we can price that too.

Sent from my BlackBerry Handheld.

From: Sean Whelan
Sent: 09/27/2006 10:51 AM
To: Greg Lippmann; Axel Kunde; Pius Sprenger
Subject: King Street

Spoke with King Street this morning. rather than do the carry neutral correlation trade, the would like to pursue a bespoke or Magnatar type trade. They want more leverage and are willing to hold the equity in a 375mm type transaction, and short the rest of the capital structure . the 75 names we have can be used, or we can add if need be-thanks-Sean

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAMERICAS

02/13/2007 08:03 PM

To Warren
Dowd/SanFrancisco/DBNA/DeuBa@DBAmericas
cc
bcc
Subject Re: hey greg. u have a few mins to speak to partner funds?

Warren:
I appreciate you taking a crack at this. Let me know how you do.

Given the market structure as it exists now, who ends up holding the credit risk? Pension funds, foreign treasuries, CMO's, etc.

Mix of CDO investors -- European and Asian Banks and Insurers, Insurance Companies like AIG, CIFG, Radian, Wall Street Commercial Paper Conduits, ABS Hedge Funds

Have the buyers really done the credit work? Do they have the risk appropriately priced or are they just participating to deploy massive liquidity and looking at just relative pricing with the rating agencies looked at as pointing out the big problems?

With 5000 loans per deal and 100 deals per CDO, this would seem to be more of a statistical analysis than a detailed one but invesors may claim otherwise.

Has the ability to lay off credit risk changed? The investment bank "party line" is that they don't take or hold real credit risk, its all sold off. Is this accurate or do they have to hold residual risk to do the business and are they typically also extending warehouse lines? Are there other areas to look at for pressure beyond negative marks on securities, warehouse exposure and credit quality of any loans held directly?

Wharehouse lines are extending to all originators...every firm on wall street own home equit y residuals.

Besides residuals and warehouse lines, what areas can we see performance hits should things continue to worsen?

Would seem to be it.

The MBS themselves are held in trading accounts-this could produce a negative mark to market, correct?

Most are re-securitized into CDOs which do not have to mark to market until downgrades if ever.

What is CDO behavior now? Are they generally as active as they have been historically or is there any sort of a buyer's strike?

Last few days have seen a marked slowdown in CDO activity and there are rumors of dealers losing money on several deals.

Has the ability to lay off credit risk changed recently? Can we tell from the filings really what they hold?

Tough to say, but masssive increase in put back of deliqn loans (EPDs) and probably greater scrutiny / kickouts of initial loans perhaps leading to worsening relative quality of retained loans. I dont know how to read filings so no clue.

How do you treat and address the residual risk/"equity tranche?" Must this always be held or can this be securitized and sold in some way?

In the ABS someone owns it either the dealer, originator or a hedge fund.....

Does either the OC or excess spread in any way insulate the equity tranche or that and immediately vulnerable to any losses.

The residual gets all excess spread so any decline in x/s b/c of losses is a hit. If you mean the equity in the mezz abs cdo, yes the excess spread protects it.

Does the equity piece change based on the structure? Can its size vary in any deal?

Yes...all deals are slightly different given quallity of the loans, mortgage and bond coupons, deserve/abiltiy to sell down cap structure i.e. BB, BB-, B...

How do you look at risk control with respect to residual risk? Who determines what deals you participate in and what residuals are held?

I do not run the trading of residual for whole loans speak to michael commaratto. If you mean CDO equity we look for early commit tment of equity by manager or investors or we feel the manager has a good story.

Is NEW like the 5 companies that have previously failed-in irrelevant issue or does its failure meaningfully degrade the performance of the market or create a buyer's strike in some way. What makes NEW different, if anything?

the continued problems for the originators is relevant b/c these loans MUST be refinanced and as capacity leaves the system the marginal buyer will have trouble getting a neew loan (also as investors / agencies etc are more picky about borrowers many of the weakest borrowers will be trapped in current loans) we need 15-35% of the people to default to make 100 % so we are not betting on a system meltdown but rather a squeeze on the weakest c redits.

Warren
Dowd/SanFrancisco/DBNA/DeuBa

02/13/2007 01:39
PM

To

Greg
Lippmann/NewYork/DBNA/DeuBa@DBAmericas

cc

Subject

hey greg. u have a few mins to speak to partner
funds?

see below. the analyst is looking at potentially adding to current position in CDS and also potentially expressing the bet in some of the equity names. had a few questions before he moved forward tho. do you have time to speak to brock? lemme know. -wd

Warren Dowd
Deutsche Bank Securities Inc.
Institutional Equity Sales
phone: 415-617-2831
mobile: 617-833-3744
warren.dowd@db.com
IM: warrendowddb
----- Forwarded by Warren Dowd/SanFrancisco/DBNA/DeuBa on 02/13/2007 10:37 AM -----

"Brock Vandervliet"
<Brock@partnerfunds.com>

02/12/2007 12:42
PM

To

Warren
Dowd/SanFrancisco/DBNA/DeuBa@DBAmericas

cc

Subject

?'s

Warren:
I appreciate you taking a crack at this. Let me know how you do.

Given the market structure as it exists now, who ends up holding the credit risk? Pension funds, foreign treasuries, CMO's, etc.

Have the buyers really done the credit work? Do they have the risk appropriately priced or are they just participating to deploy massive liquidity and looking at just relative pricing with the rating agencies looked at as pointing out the big problems?

Has the ability to lay off credit risk changed? The investment bank "party line" is that they don't take or hold real credit risk, its all sold off. Is this accurate or do they have to hold residual risk to do the business and are they typically also extending warehouse lines? Are there other areas to look at for pressure beyond negative marks on securities, warehouse exposure and credit quality of any loans held directly?

Besides residuals and warehouse lines, what areas can we see performance hits should things continue to worsen?

The MBS themselves are held in trading accounts-this could produce a negative mark to market, correct?

What is CDO behavior now? Are they generally as active as they have been historically or is there any sort of a buyer's strike?

Has the ability to lay off credit risk changed recently? Can we tell from the filings really what they hold?

How do you treat and address the residual risk/"equity tranche?" Must this always be held or can this be securitized and sold in some way?

Does either the OC or excess spread in any way insulate the equity tranche or that and immediately vulnerable to any losses.

Does the equity piece change based on the structure? Can its size vary in any deal?

How do you look at risk control with respect to residual risk? Who determines what deals you participate in and what residuals are held?

Is NEW like the 5 companies that have previously failed-in irrelevant issue or does its failure meaningfully degrade the performance of the market or create a buyer's strike in some way. What makes NEW different, if anything?

ADDITION TO
Goldman Sachs supplemental response to questions for the record

From: Sandler, David [mailto:dsandler@omm.com]
Sent: Thursday, April 07, 2011 08:37 AM
To: Goshorn, Daniel (HSGAC)
Subject: Goldman Sachs

Dan –

On August 20, 2010, Goldman Sachs provided the wire transfer numbers in conjunction with their testing of the Federal Reserve discount window as requested by the Subcommittee. As highlighted in previous responses, Goldman Sachs only used this access to test that all the necessary policies, procedures and operational capabilities required to access this funding were in place. The amounts borrowed were returned in their entirety the next day.

Goldman Sachs recently discovered that one test transaction was inadvertently omitted from the information previously provided to the Subcommittee due to the test being conducted by Goldman Sachs Bank USA, a Utah Industrial bank, which tested their necessary policies, procedures and operational capabilities with the Federal Reserve discount window.

Below is a chart providing details of the transaction, including the wire transfer number:

Borrow Date	Return Date	Collateral Pledged	Amount Borrowed	Reference Number
09/23/2008	09/24/2008	$ 100,620,000.00	$ 50,000,000.00	20080923QMGOW002000035

With this supplementation, we believe Goldman Sachs' prior production on this issue is complete.

David Sandler
O'Melveny & Myers LLP
1625 Eye Street, NW
Washington, D.C. 20006
(202) 383-5123 (phone)
(202) 383-5414 (fax)
dsandler@omm.com

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From: Birnbaum, Josh
Sent: Sunday, August 19, 2007 11:48 PM
To: Lehman, David A.; Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Finck, Greg
Subject: RE: Mtg Department Weekly Update

On the AAA outperformance question, I think AAAs would have performed similarly without our adding. Given the remote likelihood of loss on "real" RMBS AAAs (i.e. not AAA CDOs), trading around 90 is mostly a liquidity trade and last week's injection of liquidity should have been particularly constructive for AAAs. Of note, we saw AAA buying from relatively conservative accounts not normally involved in outright strategies (III, for example).

-----Original Message-----
From: Lehman, David A.
Sent: Sunday, August 19, 2007 9:23 PM
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Finck, Greg; Birnbaum, Josh
Subject: Re: Mtg Department Weekly Update

Going back to your previous question - Net/net the department is long 600ish mm ABX AAAs (short the seasoned 06-1, long the newer 07-1 index)

Swenny or Birnbaum can speak to your question re: AAA ABX px action

Wrt correlation, just the super senior RMBS trades (40-100% or 50-100% of BBB/BBB- subprime portfolios) were impacted

The desk is currenty evaluating the right parameter for the cmbs super senior shorts but we have not had as much observability as we have had in rmbs

[redacted] = Redacted by the Permanent Subcommittee on Investigations

David A. Lehman
Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-2927 | Fax: 212-902-1691 | Mob: 917-[redacted]
e-mail: david.lehman@gs.com

----- Original Message -----
From: Montag, Tom
To: Lehman, David A.
Sent: Sun Aug 19 20:42:07 2007
Subject: Re: Mtg Department Weekly Update

How much of aaa outperforming was us buying?

What assets were affected by correlation change?

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom
Cc: Mullen, Donald; Sparks, Daniel L; Swenson, Michael; Finck, Greg
Sent: Sun Aug 19 19:20:36 2007

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1805

Subject: RE: Mtg Department Weekly Update

Got it

Of the ~1.6bb AAA ABX bot I believe 900mm was SPG trading getting longer and 700mm was short covering in books (Alt A, Hybrids)

I don't have the current AAA ABX position @ the dept level in front of me but will get it and circle back

-----Original Message-----
From: Montag, Tom
Sent: Sunday, August 19, 2007 7:11 PM
To: Lehman, David A.
Subject: Re: Mtg Department Weekly Update

I saw the change. I wondered if that covewred risk or took us long. Understand net is same we are longer

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom
Cc: Sparks, Daniel L; Mullen, Donald; Swenson, Michael; Finck, Greg
Sent: Sun Aug 19 19:07:36 2007
Subject: RE: Mtg Department Weekly Update

Added Finck, he can speak to your first question re: Fixed Agcy

On your second question, the dept net added subrprime risk via ABX and [redacted] in AAA CMBS [redacted]

The dept net added risk via ABX @ across the curve but predominantly @ the AAA level (below from Swenny)

Mortgage Dept Net ABX Change on the Week

AAA	+1,580mm
AA	+ 115
A	+ 50
BBB	+ 155
BBB-	+ 100
Total	+2,000mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

On the CMBS side [redacted]

-----Original Message-----
From: Montag, Tom
Sent: Sunday, August 19, 2007 6:50 PM
To: Lehman, David A.
Subject: Re: Mtg Department Weekly Update

Fixed agency. Are we trying to get down? What did we buy?

How much did whole dept reduce risk this week? Was it all indices again or did we actually cover aby shorts?

----- Original Message -----
From: Lehman, David A.
To: Montag, Tom; Sparks, Daniel L; Mullen, Donald; Salame, Pablo
Cc: Swenson, Michael; Finck, Greg
Sent: Sun Aug 19 17:03:46 2007
Subject: Mtg Department Weekly Update

Resi Mortgage Update (Finck)

Mortgage Derivatives
---
* Remains most stable and orderly Resi mortgage market
* Flows are healthy: JPMIM selling ~1B Inverse IO, Countrywide selling 600mm PO, otherwise insignificant
* Better demand for levered, non-balance-sheet-intensive positions (IOs, Inverse IOs)
* P&L on week: +$500k
* Hedges: Pass-throughs, Swaps

Fixed Agency/Prime
---
* Spreads continue to widen under selling pressure (AAA super-senior Pass-throughs now 1-24 back from FNMA)
    - Dealers (particularly Countrywide) are overloaded and dumping bonds into any available bid
    - Only 2-3 active street bidders: most dealers are passing on everything
* Decent two-way flows: Sold roughly $1B CMOs on week, and bought approximately $700mm
* P&L on Week: -10mm on spread widening: Making money trading, but losing more money on positions mark-downs in widening
* Position size (Secondary, New issue, and Loans): ~ $6B
* Hedges: Predominantly Agency Pass-throughs, with some swaps

Hybrid Agency/Prime
---
* Very heavy selling. Bid $10B-$15B on the week mostly out of Reits (Thornburg, KKR, FBR)
* Spreads continue to push wider on supply pressure (AAA Libor Floaters now L+100)
* Bought and sold over $2B. Developing good supply/demand balance with large money managers becoming big buyers
* P&L on Week: -$15mm
* Position Size (Secondary / Loans): ~$4B
* Hedges: ~500mm ABX (down from over $1B), Agency Pass-throughs, and Swaps

Alt-A
---
* Very light origination volumes: less than $500mm on week
* Significant widening in AAAs, both Fixed and ARMs
    - Super-Senior AAA pass-throughs widened a point on week from FNMA: now back 3-24 (3pts wider over month)
    - AAA Hybrids also much wider: 25+bps on week
* P&L on week (ex Residual writedown): +10mm on ABX widening
* Position Size: ~500mm loans
* Hedges: Short $1B ABX AAAs. Covered back 500+mm ABX on week, need to cover more

Subprime/Scratch and Dent
---
* Very quiet with essentially no new origination
    - we continue to work on Cbass portfolio for potential buy opportunity
    - also, working on new deal with HSBC loans: weak investor interest
* P&L on Week: 7mm (ABX widening)
* $1.3B ABX short vs $1B Subprime and 600mm S&D position

ABS Summary (Swenson)

1) Closing Price and Changes for the week ended ABX 07-1:

		Weekly Change
AAA	91-00	+1.5pts
AA	67-00	-3.0pts
A	45-00	-3.5pts
BBB	35-00	-3.5pts
BBB-	33-16	-3.5pts

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2) General Color

* Market was up as much as 6 or 7 points post Fed announcement this morning. Market came off the highs as fast money faded the rally with the market closing up 2 points on average

* Further liquidations from real money accounts facing redemptions. Multiple billions of AAA and AA home equity out for bid with roughly two-thirds trading

* Moody's downgraded 84% of the second lien universe including 78 AAA bonds, likely to trigger numerous forced sales

* S&P downgraded 158 Alt-A deals that had been previously on watch

3) Current SPG Trading Desk Position Summary:

* RMBS AAA - long $2.2bb

* RMBS AA - long $1.0bb

* RMBS Single-As - net short $0.8bb 100% in single-name CDS

* RMBS BBB/BBB- - net short $3.5bb (80% in single-name CDS - 60% in 2005 vintage)

4) August 13th - 17th

Total ABX Indices by Rating Bought this week:

AAA	$1,580mm
AA	180
A	175
BBB	180
BBB-	282
Total	$2,397mm

ABS and Correlation Desk Net ABX Risk Change on the Week:

AAA	+ 865mm
AA	+ 115
A	+ 50
BBB	+ 155
BBB-	+ 100
Total	+1,285mm

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Mortgage Dept Net ABX Change on the Week

AAA	+1,580mm
AA	+ 115
A	+ 50
BBB	+ 155
BBB-	+ 100
Total	+2,000mm

CMBS [redacted]

* [redacted]

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CDOs (Lehman)

* Desk was able to short 100+m notional on the week
* Sold one cash "A" and bought protection from two different counterparties @ the "AA" and "A" level
* Flows largely from hedge funds and fast money desks covering short risk positions - we still have not seen a lot of new longs in the market
* First time in 6+ weeks we have seen decent trading activity
* Market continues to be dislocated with few dealers making markets and nobody looking to get long risk

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Michael Lamont/NewYork/DBNA/DeuBa@DBAMERICAS

07/12/2007 07:41 PM

To Greg Lippmann/NewYork/DBNA/DeuBa@DBAmericas, Richard DAlbert/NewYork/DBNA/DeuBa@DBEMEA
cc
bcc
Subject Fw: ABS CDO DB Investor List

fyi, Boaz asking for accounts that hold subprime risk for possible principal short opportunities

----- Forwarded by Michael Lamont/NewYork/DBNA/DeuBa on 07/12/2007 07:40 PM -----

Michael Lamont/NewYork/DBNA/DeuBa
07/12/2007 07:39 PM

To: boaz weinstein
cc: John Pipilis/NewYork/DBNA/DeuBa@DBEMEA, michael herzig
Subject: ABS CDO DB Investor List

This is the raw data with ABS CDO Sales made by DB in past 3 years. This will give you a general sense of where the paper went but is a little hard to decipher. Eg, data shows that Magnetar bought a lot of high quality NR equity in 2006-- but it has no casflow lockout triggers, CIFG wrapped some AAA paper, but is is actually a static, challenged portfolio, many of the buyers listed are CDOs (Cohen, DB Zwirn, Deerfield, Dynamic, Harding, etc). We will send you some more qualitative analysis shortly.

Accounts in my mind with the most risk from our list are Commerzbank, Basis, BSAM (RIP), IKB. This is probably in line with the broader market although we havent done much high grade abs cdo business the last few years, compare ML and Citi, that have placed a tremendous amount of paper into Asia with accounts like SMBC, STAM, UOB, Lyon, etc. These deals arent severely dented as of yet but could get there.

You may also want to follow up with ABS Correlation / Lippmann. In the end most of the ABS CDO cash mezzanine paper went into other ABS CDOs, I think ABS Correlation business across the street has had more of a real money distribution focus.

----- Forwarded by Michael Lamont/NewYork/DBNA/DeuBa on 07/12/2007 07:22 PM -----

Scott Cohen/NewYork/DBNA/DeuBa
07/12/2007 01:42 PM

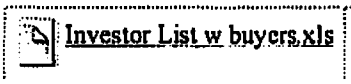
To: Michael Lamont/NewYork/DBNA/DeuBa@DBAmericas
cc
Subject: Updated Investor Buyer list

Permanent Subcommittee on Investigations
Wall Street & The Financial Crisis
Report Footnote #1262

Please find the updated list of buyers.

Thank you,
-Scott
(See attached file: Investor List w buyers.xls)

Scott Cohen
Deutsche Bank | Global Markets
60 Wall Street
New York, NY 10005
scott.cohen@db.com
tel. 212 250 5855
fax 646 257 2401



Securities Division Summary Highlights - Week Ending November 30th, 2007

Financial Performance ($mm)

Equities	WTD	MTD	QTD	YTD	% vs 06 Act	FICC	WTD	MTD	QTD	YTD	% vs 06 Act
Revenues	79	673	3,415	13,406	29%	Revenues	(190)	670	3,294	16,737	15%
Pre-Tax	(83)	(73)	562	4,772		Pre-Tax	(463)	(103)	305	7,858	

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Mortgages

Mortgages Performance ($mm)					
	WTD	MTD	QTD	YTD	% YTD vs. Act
Resi Prime	(26.3)	(71.2)	(101.5)	(175.0)	-436%
Resi Credit	(27.0)	(112.1)	(302.4)	(981.5)	-474%
CDO/CLO	(8.9)	(132.8)	(252.3)	(1,750.3)	N.M.
SPG	54.1	208.2	947.2	3,742.3	N.M.
Other*	(45.7)	(32.6)	1.0	294.8	30%
Revenues:	**(53.7)**	**(140.4)**	**292.0**	**1,130.4**	**26%**
Expenses:	**(10.2)**	**(61.2)**	**(252.6)**	**(775.2)**	
Pretax P&L:	**(63.9)**	**(201.6)**	**39.4**	**355.2**	

* CRE Loan Trading, ABS Loans & Finance, Tax / Warehouse, European Mtgs, Advisory & Other

Indices	This Week	Last Week	Change (wow)
Refi Index	2,200	1,490	(710)
ABX.HE.AAA. 07-1 Spread	705	499	(206)
ABX.HE.BBB-.07-1 Spread	3,229	3,145	(84)
BOA AAA 10YR CMBS paper	110.5	103.2	(7.3)
CMBX 07-2 AAA Spread	105.0	75.0	(30.0)
CMBX 07-2 A Spread	515	440	(75)
CMBX 07-2 BBB- Spread	1,200	1,110	(90)

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Fixed Income, Currencies and Commodities

Business Planning Committee Presentation

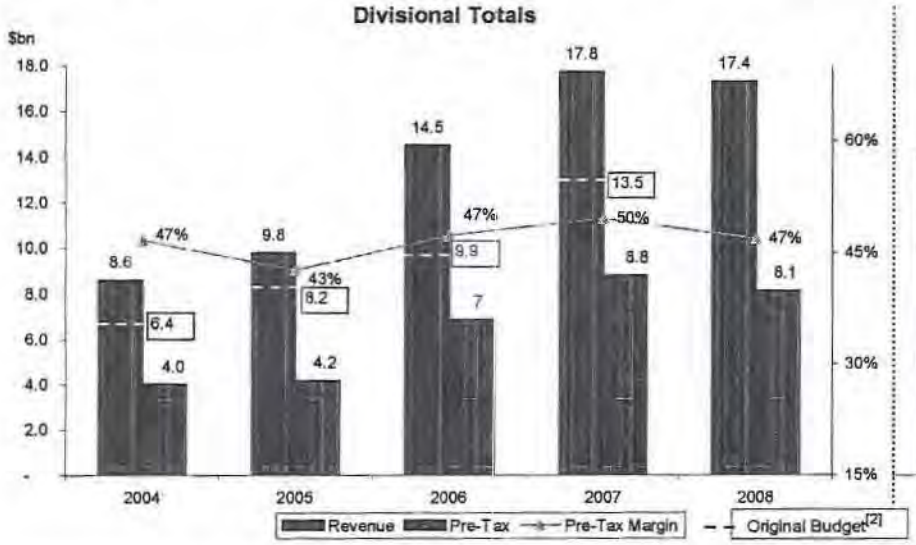
November 19th, 2007

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Financial Highlights

Overview

- 2007 is a record year for FICC with revenues of $17.8bn (+22% vs. 2006 / +32% vs. 2007 Orig Plan) and pre-tax profit of $8.8bn
- 2007 marked full year records for 7 of the 8 business lines within FICC
- 2008 projected revenues of $17.4bn reflect increases across our franchise businesses offset by decreases in principalling





	Americas	Europe	Asia
'07 vs '06	14%	61%	2%
'06 vs '07	-7%	1%	2%

Headcount[1]	2004	2005	2006	2007	2008
	2,059	2,353	2,594	2,972	3,222

	FY 04 - 07 3yr CAGR	FY 04 - 08 4yr CAGR
Revenue	27%	19%
Rev Net of Variable	27%	20%
Pre-Tax Profit	30%	19%
Headcount	13%	12%

Notes:

[1] Headcount includes Consultants & Temps and Subsidiaries

[2] Original Budgets restated for Cost of Power

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2007 Business Overview

Business Revenues ($mm) and Performance Drivers

Business	2007E	% vs. 2006	2007 Performance Highlights
Global IRP	$2,675		
Currencies	$1,725		
Money Mkts	$640		
Emg Markets	$745		
Commodities	$3,500		
Global Credit	$2,950		
Mortgages	$1,225		
Global SSG	$4,225		
FICC Sales	$8,712 (GCs)		
CVA	$300 YT		

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2008 Business Overview

2008 Budget

($ in Millions)	2008	2007	2006	% Chg 08 vs. 07	% Chg 07 vs. 06	2008 Commentary
Revenues	17,350	17,755	14,508	-2%	22%	▪ Increases across franchise are offset by principalling
Variable Expenses	1,295	1,654	1,688	-22%	-2%	▪ Decrease in Cost of Power
Revenues Net of Variable	16,055	16,101	12,820	0%	26%	
Operating Expenses						
Direct Expenses	5,341	4,879	3,980	9%	23%	▪ Increase of Equity Award amortization and new hires
Allocated Expenses	2,581	2,419	1,972	7%	23%	▪ Increase largely driven by Federation allocations
Total Operating Expenses	7,922	7,298	5,952	9%	23%	
Pre-tax Earnings	8,132	8,803	6,868	-8%	28%	
Pre-tax Margin	47%	50%	47%			
Total Staff	3,222	2,972	2,594	8%	15%	

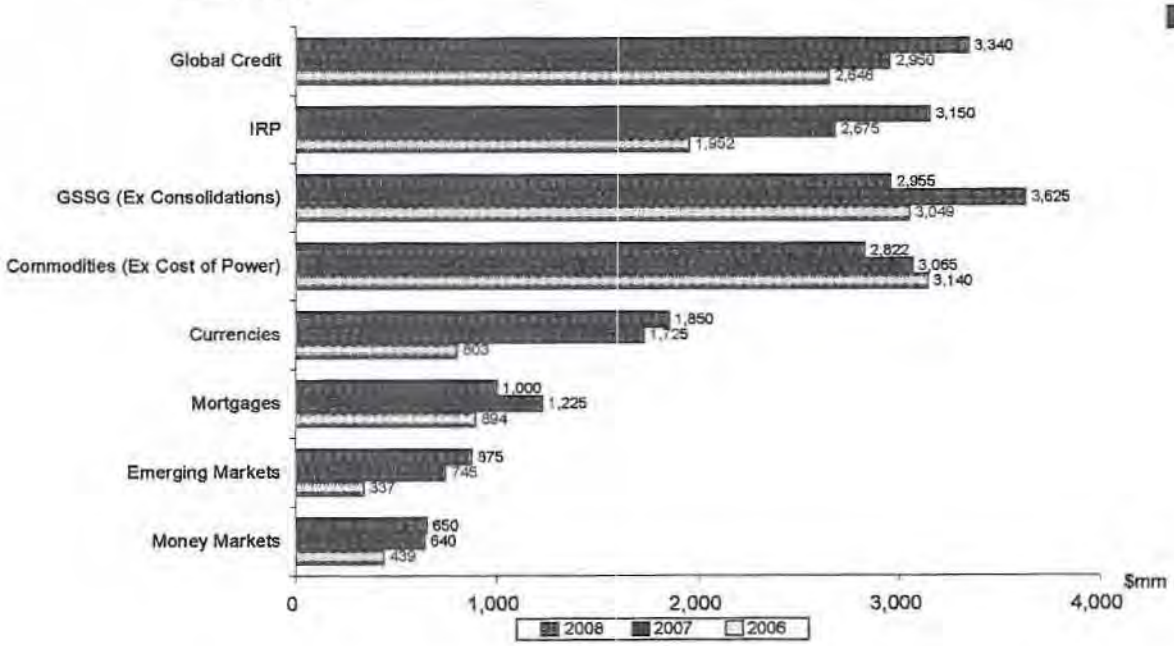
Total Staff includes employees, PMDs, consultants & temps, and subsidiaries.

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2008 Business Overview

2006 – 2008P Revenues by Business Unit

- 2008P revenues of $17.4bn reflects increases across our Franchise businesses, offset by principalling decreases
- Globally diverse portfolio with each region contributing meaningfully to 2007 results (Americas $8.4bn, Europe $5.7bn, Asia $3.6bn)



	08P vs. 07E	07E vs. 06
Global Credit	13%	12%
IRP	18%	37%
GSSG (Ex Consolidations)	-18%	19%
Commodities (Ex Cost of Power)	-8%	-2%
Currencies	7%	115%
Mortgages	-18%	37%
Emerging Markets	17%	121%
Money Markets	2%	46%

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

Expense Overview

Headcount and Compensation

Staff by Business

Dept	2008P	2007E	Amt Δ	% Δ
Money Markets	[redacted]			
Global Interest Rate Products				
Currency				
Emerging Markets				
Commodities				
Mortgages	267	268	(1)	0%
Global Credit	[redacted]			
Global Distribution				
GSSG				
FICC Strategies				
Total Permanent	2,933	2,681	252	9%
Subsidiaries Consultants and Temps	[redacted]			
Total Headcount	3,222	2,972	250	8%
Americas	[redacted]			
Europe				
Asia				
Global	3,222	2,972	250	8%

Note: Avelo / Senderra budgeting 133 adds for a total of 626 headcount in 2008 (included in Archon headcount)

Major Themes

[redacted]

Employee Payroll Analysis

	$mm	Headcount
2007 Beg of Period	[redacted]	
Net Employee Change		
PMD Pool Change		
Round 1 Comp Changes		
Projected FY07		
% Change Payroll		
% Change Steady State		

Payroll analysis includes employees, PMDs, and subsidiaries. Excludes consultants and temps. PMD departs include McGoldrick, Maynard, Tebbe, Grathwohl, Ransom, Christie.

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The Goldman Sachs Group, Inc. | 85 Broad Street | New York, New York 10004

GOLDMAN SACHS REPORTS RECORD EARNINGS PER COMMON SHARE OF $24.73 FOR 2007

FOURTH QUARTER EARNINGS PER COMMON SHARE WERE $7.01

NEW YORK, December 18, 2007 - The Goldman Sachs Group, Inc. (NYSE: GS) today reported net revenues of $45.99 billion and net earnings of $11.60 billion for the year ended November 30, 2007. Diluted earnings per common share were $24.73, an increase of 26% compared with $19.69 for the year ended November 24, 2006. Return on average tangible common shareholders' equity [1] (ROTE) was 38.2% and return on average common shareholders' equity (ROE) was 32.7% for 2007.

Fourth quarter net revenues were $10.74 billion and net earnings were $3.22 billion. Diluted earnings per common share were $7.01 compared with $6.59 for the same 2006 quarter and $6.13 for the third quarter of 2007. Annualized ROTE [1] was 40.1% and annualized ROE was 34.6% for the fourth quarter of 2007.

Annual Business Highlights

- Goldman Sachs achieved record net revenues, net earnings and diluted earnings per common share in 2007.
- Book value per common share increased 25% to $90.43 in 2007. The firm repurchased 41.2 million shares of its common stock for a total cost of $8.96 billion.
- The firm produced record results in the Americas, Europe and Asia, and derived over one-half of its pre-tax earnings outside of the Americas.
- Investment Banking produced net revenues of $7.56 billion, 34% higher than the previous record set in 2006. The firm ranked first in worldwide announced mergers and acquisitions. [2]
- Fixed Income, Currency and Commodities (FICC) generated net revenues of $16.17 billion, 13% higher than the previous record set in 2006, reflecting strong performance in all major businesses.
- Equities produced net revenues of $11.30 billion, 33% above the previous record set in 2006.
- Principal Investments achieved net revenues of $3.76 billion, reflecting records in both corporate and real estate investing.
- Asset Management generated record net revenues of $4.49 billion, as assets under management increased $192 billion, or 28%, to $868 billion. Net inflows were $161 billion in 2007.
- Securities Services achieved record net revenues of $2.72 billion.

"The talent of our people and our focus on teamwork were at the core of our ability to support our clients while delivering strong returns for our shareholders," said Lloyd C. Blankfein, Chairman and Chief Executive Officer. "Inherent in our commitment to our clients is the need to help them execute their transactions in all market conditions and, as a result, we are ever mindful of the importance of effective risk management. Looking forward, we continue to see significant growth opportunities across the global economy."

Media Relations: Lucas van Praag 212-902-5400 | Investor Relations: Dane E. Holmes 212-902-3580

Net Revenues

Investment Banking

Full Year
Net revenues in Investment Banking were $7.56 billion for the year, 34% higher than 2006. Net revenues in Financial Advisory were $4.22 billion, 64% higher than 2006, primarily reflecting growth in industry-wide completed mergers and acquisitions. Net revenues in the firm's Underwriting business were $3.33 billion, 9% higher than 2006, due to higher net revenues in debt underwriting, primarily reflecting strength in leveraged finance during the first half of the year. Net revenues in equity underwriting were also strong, but essentially unchanged from 2006.

Fourth Quarter
Net revenues in Investment Banking were $1.97 billion, 47% higher than the fourth quarter of 2006 and 8% lower than a particularly strong third quarter of 2007. Net revenues in Financial Advisory were $1.24 billion, 98% higher than the fourth quarter of 2006, reflecting increased client activity. Net revenues in the firm's Underwriting business were $733 million, essentially unchanged from the fourth quarter of 2006. Net revenues in equity underwriting were higher, primarily reflecting an increase in initial public offerings. Results in debt underwriting were lower, primarily due to a decrease in leveraged finance and mortgage-related activity, reflecting challenging market conditions, partially offset by an increase in investment-grade activity.

The firm's investment banking transaction backlog decreased during the quarter, but was higher than at the end of 2006.[3]

Trading and Principal Investments

Full Year
Net revenues in Trading and Principal Investments were $31.23 billion for the year, 22% higher than 2006.

Net revenues in FICC were $16.17 billion for the year, 13% higher than 2006, reflecting significantly higher net revenues in currencies and interest rate products. In addition, net revenues in mortgages were higher despite a significant deterioration in the mortgage market throughout the year, while net revenues in credit products were strong, but slightly lower compared with the prior year. Credit products included substantial gains from equity investments, including a gain of approximately $900 million related to the disposition of Horizon Wind Energy L.L.C., as well as a loss of approximately $1 billion, net of hedges, related to non-investment-grade credit origination activities. Net revenues in commodities were also strong but lower compared with 2006. During 2007, FICC operated in an environment generally characterized by strong customer-driven activity and favorable market opportunities. However, during the year, the mortgage market experienced significant deterioration and, in the second half of the year, the broader credit markets were characterized by wider spreads and reduced levels of liquidity.

Net revenues in Equities were $11.30 billion for the year, 33% higher than 2006, reflecting significantly higher net revenues in both the firm's customer franchise businesses and principal strategies. The customer franchise businesses benefited from significantly higher commission volumes. During 2007, Equities operated in an environment characterized by strong customer-driven activity, generally higher equity prices and higher levels of volatility, particularly during the second half of the year.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
SEGMENT NET REVENUES
(UNAUDITED)
$ in millions

	Year Ended		% Change From
	Nov. 30, 2007	Nov. 24, 2006	Nov. 24, 2006
Investment Banking			
Financial Advisory	$ 4,222	$ 2,580	64 %
Equity underwriting	1,382	1,365	1
Debt underwriting	1,951	1,684	16
Total Underwriting	3,333	3,049	9
Total Investment Banking	7,555	5,629	34
Trading and Principal Investments			
FICC	16,165	14,262	13
Equities trading	6,725	4,965	35
Equities commissions	4,579	3,518	30
Total Equities	11,304	8,483	33
SMFG	(129)	527	N.M.
ICBC	495	937	(47)
Other corporate and real estate gains and losses	2,914	949	207
Overrides	477	404	18
Total Principal Investments	3,757	2,817	33
Total Trading and Principal Investments	31,226	25,562	22
Asset Management and Securities Services			
Management and other fees	4,303	3,332	29
Incentive fees	187	962	(81)
Total Asset Management	4,490	4,294	5
Securities Services	2,716	2,180	25
Total Asset Management and Securities Services	7,206	6,474	11
Total net revenues	$ 45,987	$ 37,665	22

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Securities Division

4Q07 Managing Director Meeting
January 10th, 2008

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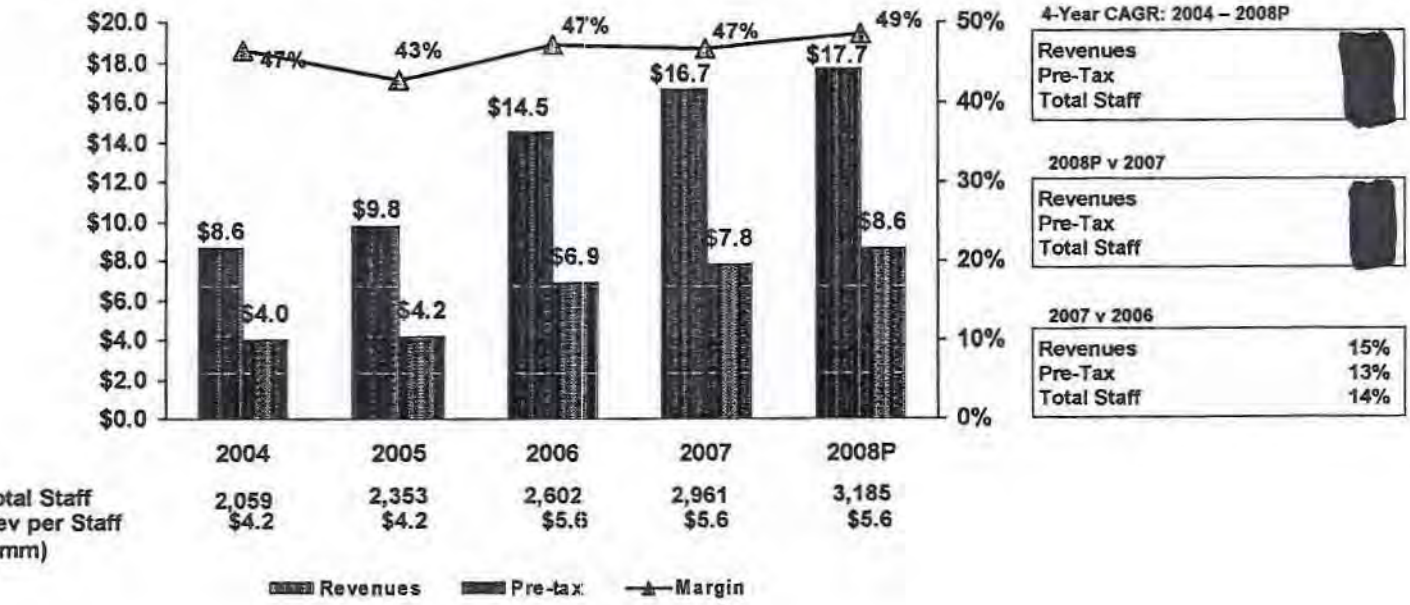
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FICC Financial Highlights

2004-2008P, as internally reported

- 2007 record revenues of $16.7bn (+15% vs. 2006 / +24% vs. 2007 Original Plan) and record pre-tax profits of $7.8bn
- 2008P revenues of $17.7bn (+6% vs. 2007) and pre-tax profits of $8.6bn reflects +22% increase in Franchise offset by reduced Principal Trading revenues



4-Year CAGR: 2004 – 2008P

Revenues	[redacted]
Pre-Tax	
Total Staff	

2008P v 2007

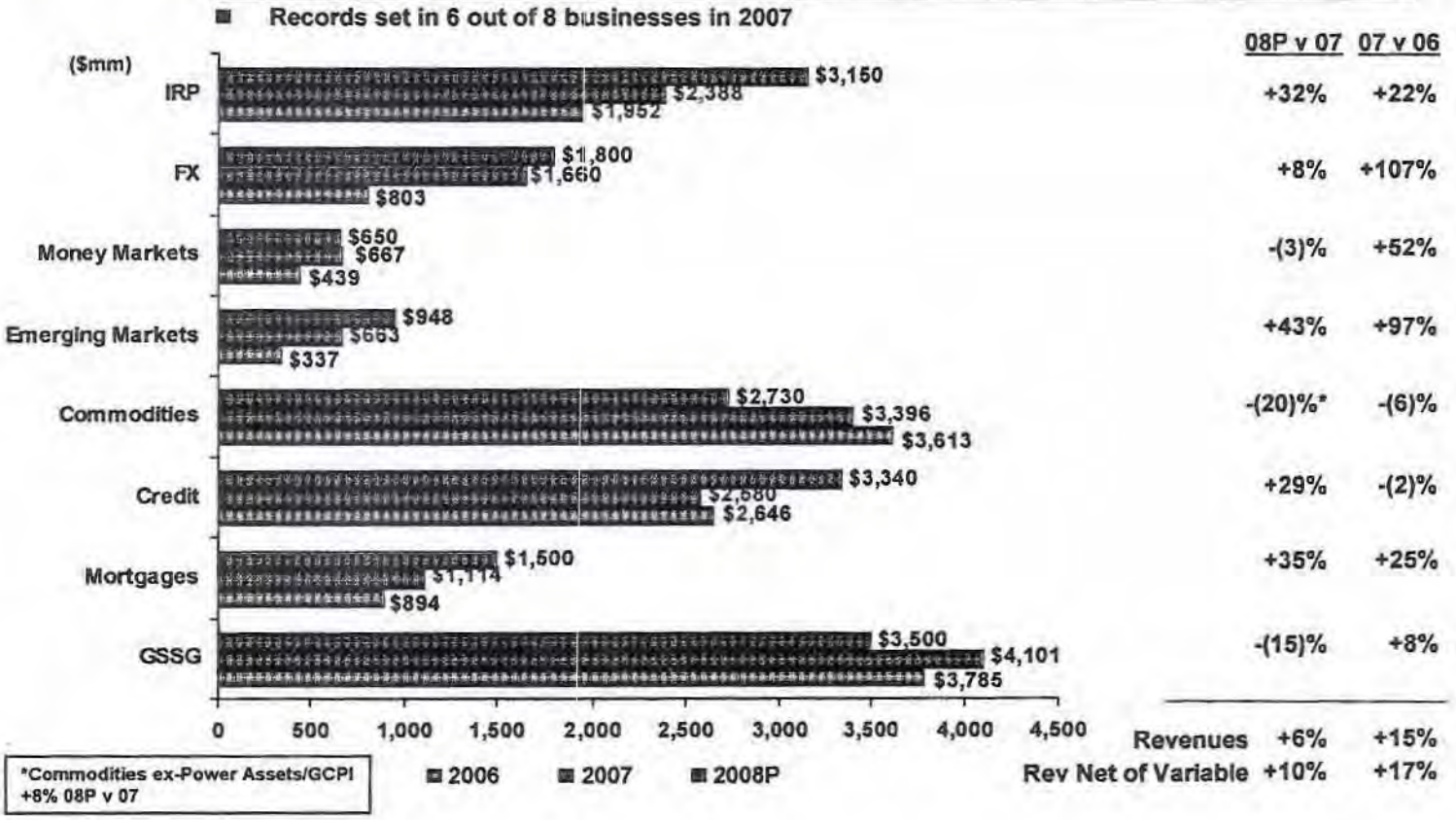
Revenues	[redacted]
Pre-Tax	
Total Staff	

2007 v 2006

Revenues	15%
Pre-Tax	13%
Total Staff	14%

FICC Business Overview

2006-2008P Revenues by Business Unit, as internally reported



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Global Mortgages
Business Unit Townhall
Q4 2007

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Firmwide Full Year Earnings

($ in Millions, Except Per Share Amounts)

	FY07	FY06	% Change
Net Revenues	45,987	37,685	22
Pre-Tax Earnings	17,604	14,560	21
Net Earnings	11,599	9,537	22
Diluted EPS	24.73	19.69	26
ROE	32.7%	32.8%	
ROTE	38.2%	39.8%	

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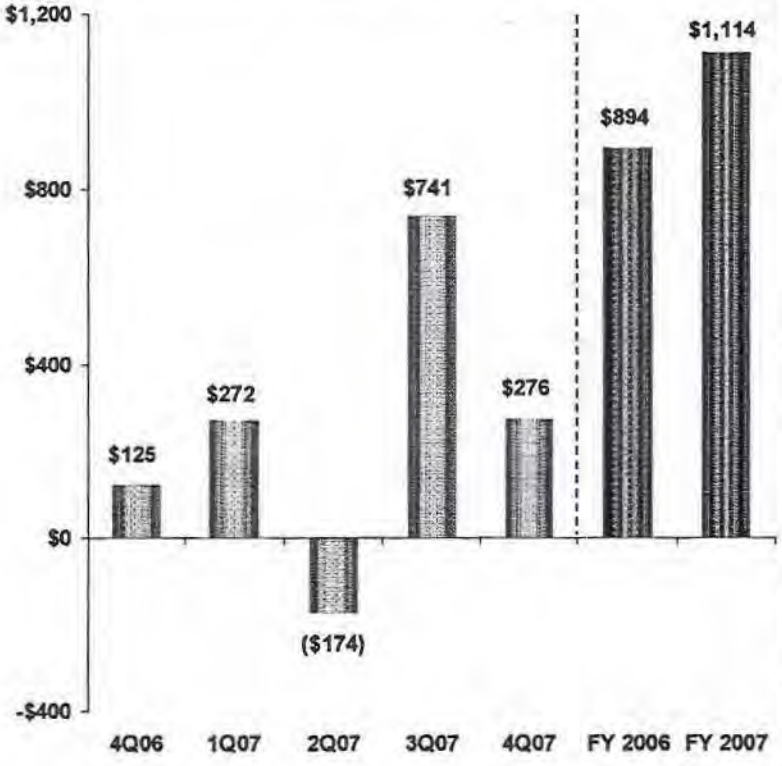
[redacted] = Redacted by the Permanent Subcommittee on Investigations

Q4 2007 Global Mortgages Revenues

(Quarterly Performance)

($ in mm)

Quarterly Revenues



Full Year Revenue Performance

Global Mortgages: ↑ 25% vs. FY 2007

Q407 Performance Drivers

SPG Trading:

- Strong results from capital structure positioning, with an overall short bias

CDO:

- Continued mark-downs on deteriorating performance

Residential Credit:

- Write-downs across Sub Prime and Alt-A, as a result of continued weakness in deal performance

Residential Prime:

- Result of mark-downs of retained positions; lack of investor appetite for RMBS

CRE Loan Trading:

[redacted]

ABS Loans & Finance:

[redacted]